2016 MID-YEAR ECONOMIC REPORT

NSBA
National Small Business Association

FOREWORD

The National Small Business Association (NSBA) is the nation's first small-business advocacy organization, celebrating nearly 80 years of small-business representation in Washington, D.C. Focused on federal advocacy and operating on a staunchly nonpartisan basis, NSBA is a recognized leader of America's small-business community. Throughout the year, we conduct a series of surveys, including two Economic Reports.

The 2016 Mid-Year Economic Report shows a small-business community that is continuing to plug along, with ongoing concerns over the overall economy. While the majority of small-business owners are projecting a flat economy in the coming 12 months, slightly more today are anticipating economic expansion than did just six months ago. Economic uncertainty continues to be the number one challenge to the future growth and survival of America's small businesses.

When it comes to confidence in their own business, small business remains relatively positive, with 72 percent saying they are confident in the future of their own business. Although slightly lower than just six months ago, it is in-line with historic trends whereby small-business owners are much more confident in their own business than the overall economy.

Although there were reported drops in revenues—likely driven by the slightly smaller business size among respondents—there is growth on the horizon. Forty-five percent said they plan to implement new advertising and marketing strategies, 28 percent plan to expand e-commerce, and 25 percent plan to launch a new product line in the coming year.

Job growth continues to linger at just 23 percent of small firms adding new workers over the past year. A silver lining, however, is that the number of small firms who say they plan to decrease their workforce is at its lowest point in more than eight years. Looking forward, it is worth noting that 12 percent of small-business owners said they plan to increase their workforce by more than 10 percent—the highest this indicator has been since we started asking the question.

Capital is the lifeblood of any small business, and this survey saw a drop in bank lending to smaller firms, which has real-world implications: 41 percent said lack of capital is hindering their ability to grow their business or expand operations, and 20 percent said they had to reduce the number of employees as a result of tight credit.

In addition to our general policy questions, we focused on several tax questions to supplement our Taxation Surveys, and found that the administrative burden of federal taxes continues to outpace the financial burden: 56 percent cited administrative burden as their largest issue with federal taxes and 38 percent cited the actual financial cost.

When asked what issue they want Congress and the President to address first, the number one response: reduce the national deficit. That was followed closely by end the partisan gridlock, simplify the tax system and rein-in the cost of health insurance.

The 2016 Mid-Year Economic Report was conducted on-line July 22 through Aug. 3, 2016 among 1,045 small-business owners. We hope you find this report informative and useful. Please contact NSBA's media office for inquiries at press@nsba.biz.

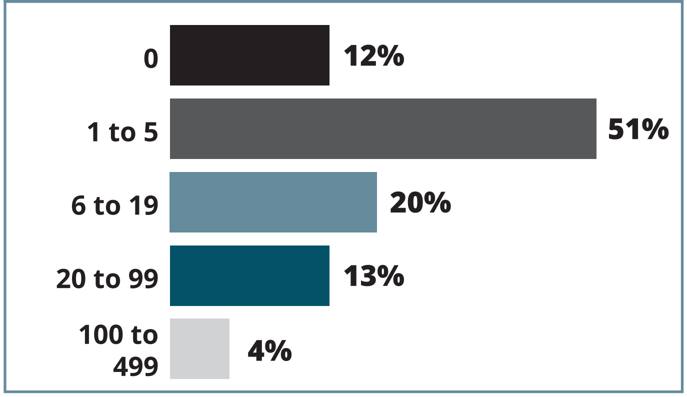
Sincerely,

Cookie Driscoll
NSBA Chair
C. Cookie Driscoll, Inc.

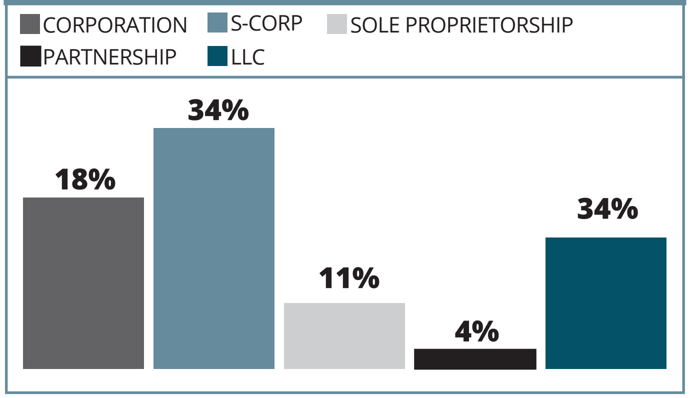
Todd McCracken
NSBA President and CEO

DEMOGRAPHICS

How many total full-time personnel are currently employed by your business?



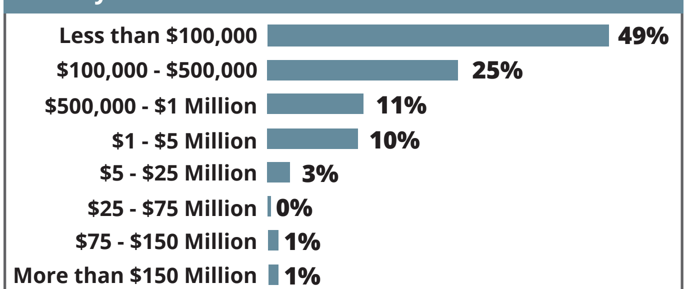
Which of the following best describes the structure of your business?



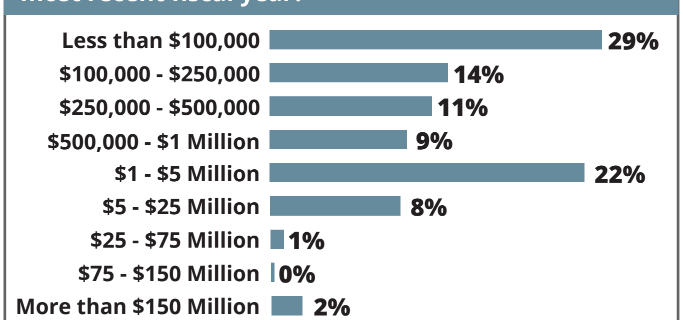
In what region is your business located?

New England	4%
Mid-Atlantic	18%
Great Lakes	16%
Farm Belt	6%
South	27%
Mountain	14%
Pacific	15%

What was your total payroll for the most recent fiscal year?



What were your gross sales or revenues for your most recent fiscal year?



Which of the following best describes the industry or sector in which your business operates?

Manufacturing	13%
Professional	11%
Other Services (except Public Administration)	10%
Scientific and Technical Services	10%
Construction	9%
Agriculture, Forestry, Fishing and Hunting	7%
Health Care and Social Assistance	7%
Information (IT)	6%
Retail Trade	4%
Transportation and Warehousing	4%
Educational Services	4%
Wholesale Trade	3%
Arts, Entertainment, and Recreation	2%
Real Estate, Rental and Leasing	2%
Accommodation and Food Services	1%
Administrative and Support	1%
Management of Companies and Enterprises	1%
Finance	1%
Utilities	1%
Waste Management and Remediation Services	1%
Public Administration	1%

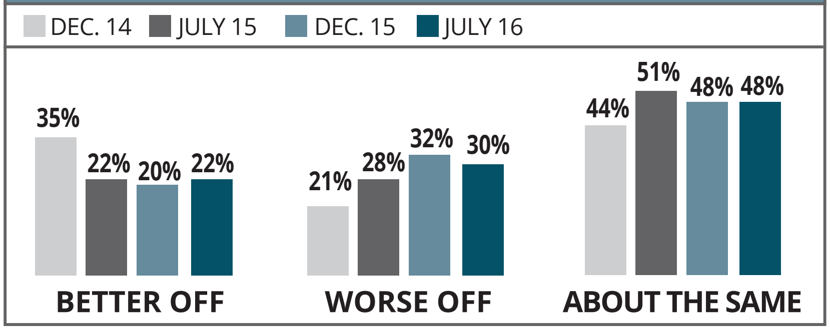
ECONOMIC OUTLOOK

The small-business outlook on the overall economy has largely remained unchanged in the last six months with 22 percent—just slightly up from 20 percent in December 2015—saying they believe today's economy is better than it was six months ago. Interestingly, when asked to compare today's economy with five years ago, there was a notable shift downward among those who said today's economy is better off. The most likely driver of this shift is the negative rhetoric associated with the 2016 elections, given that most other indicators in this survey point to improvements from 2011.

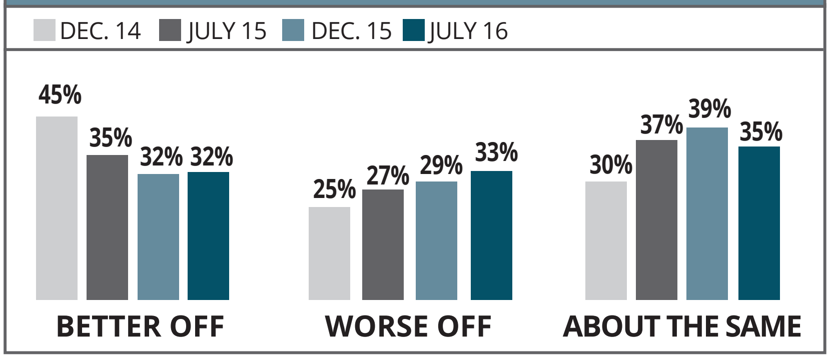
While the majority of small-business owners, 54 percent, are projecting a flat economy in the coming 12 months, slightly more today (29 percent) are anticipating economic expansion than did just six months ago (26 percent).

When asked about the most significant challenge to the future growth and survival of their business, 49 percent of small firms cited economic uncertainty, followed by decline in customer spending, regulatory burdens and the cost of health insurance.

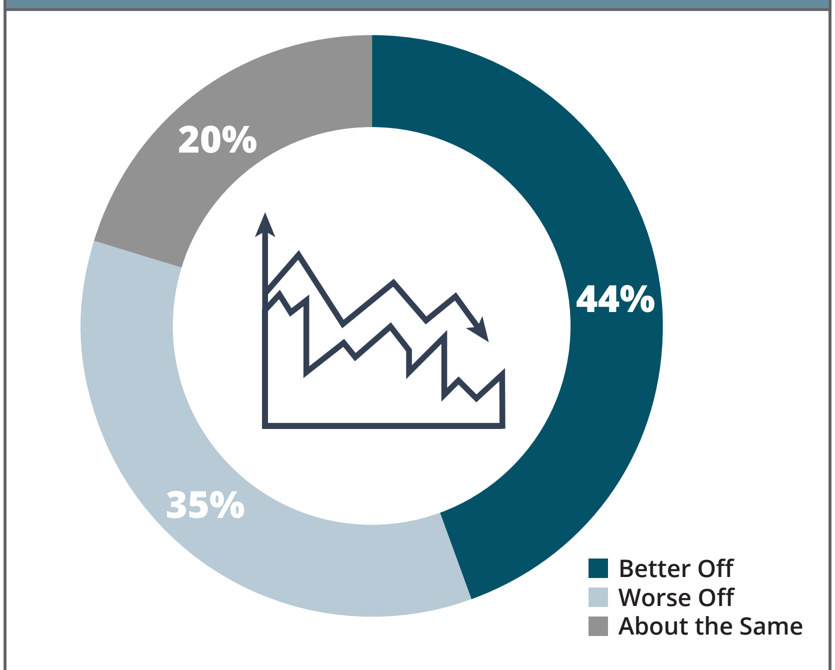
When compared with six months ago, would you say today's national economy is:



When compared with one year ago, would you say today's national economy is:



When compared with five years ago, would you say today's national economy is:

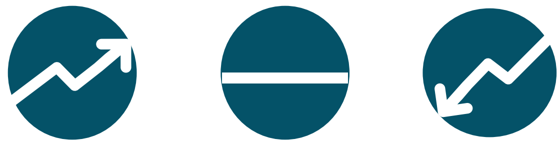


ECONOMIC OUTLOOK

What are the three most significant challenges to the future growth and survival of your business?

Economic uncertainty	49%
Decline in customer spending	29%
Regulatory burdens	29%
Cost of health insurance benefits	28%
Lack of available capital	21%
Federal taxes	19%
Lack of qualified workers	19%
Partisan gridlock in D.C.	15%
Cost of employee salaries	13%
State and local taxes	13%
Growing national debt	9%
Cost of technology	9%
Cost of employee benefits	8%
Cost of training workers	5%
Foreign competition	5%
No major challenges	5%

Thinking about the next 12 months, do you anticipate:



	ECONOMIC EXPANSION	FLAT ECONOMY	RECESSION
JULY 2016	29%	54%	17%
DEC. 2015	26%	58%	16%
JULY 2015	28%	53%	19%
DEC. 2014	41%	48%	11%

{ Economic uncertainty continues to be the biggest challenge small firms face. }

SMALL BUSINESS CONFIDENCE

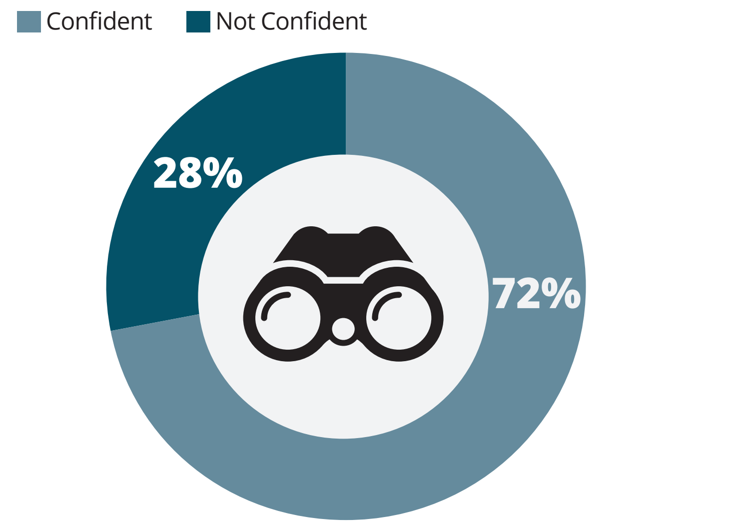
Small-business confidence only experienced minor shifts: today, 72 percent say they are confident in the future of their own business whereas 75 percent expressed such confidence in December 2015. Seventy percent of small businesses expect growth or already are growing this year, up slightly from 67 percent just six months ago.

One interesting and notable change was the drop from 36 percent to 24 percent in small-business owners who foresee rising interest rates as a problem for their business, despite this being a more likely possibility now than it was six months ago.

Do you believe there will be growth opportunities for your business...

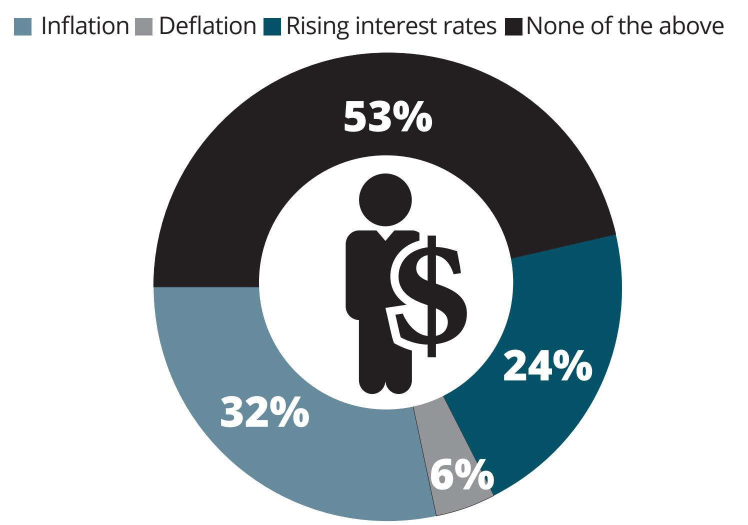
In the next 3 months	7%
In the next 3 to 6 months	14%
In the next 6 to 12 months	33%
None in the coming year	30%
My business is already growing	17%

From a financial perspective, how do you feel right now about the future for your business?



70% of small businesses expect growth or already are growing this year.

Do you foresee any of the following issues being a problem for your business in the coming 12 months?



BUSINESS GROWTH

There was a notable drop among those who cited increases in revenues between the July 2016 and December 2015 surveys, primarily due to the smaller size in responding companies. It is important to note that this shift was mostly over to “no change” in revenues rather than “decreases” in revenues. Looking forward, there was essentially no change in the number of small-business owners projecting revenue growth between the December 2015 survey and July 2016 survey.

When asked about their growth strategies in the coming 12 months, 45 percent said they plan to implement new advertising and marketing strategies, and 28 percent—down from 35 percent six months ago—said they plan to expand e-commerce. One-quarter of small businesses said they plan to launch a new product line in the coming year.

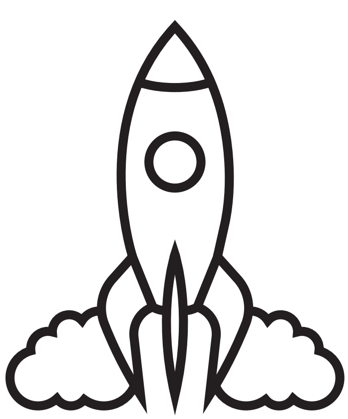
How did your gross sales/revenues change over the last 12 months?

	INCREASE	DECREASE	NO CHANGE
JULY 2016	37%	32%	31%
DEC. 2015	45%	31%	24%
JULY 2015	45%	29%	26%
DEC. 2014	45%	34%	22%

How do you expect gross sales/revenues to change over the next 12 months?

	INCREASE	DECREASE	NO CHANGE
JULY 2016	57%	16%	26%
DEC. 2015	58%	15%	27%
JULY 2015	57%	17%	26%
DEC. 2014	60%	15%	26%

Which of the following growth strategies will you use in the next 12 months?



New advertising and marketing strategies	45%
Strategic alliance	30%
Internet / Expand E-commerce	28%
New product lines	25%
Hire new employees	23%
No growth strategies will be used in the next 12 months	16%
Joint Venture	14%
New territory	12%
Investments in R&D	11%
Expand operations to new facilities/add additional stores	8%
Outsourcing	6%
Acquisition	4%
Exporting	4%
Merger	2%
Other	7%

JOB GROWTH

Although there was minimal change among small-business owners when asked about job growth over the past six months, it is worth noting that the number of small firms who say they plan to decrease their workforce is at its lowest point in more than eight years. Unfortunately, those firms that did hire over the last year remained unchanged at 23 percent. Looking to the coming year, 33 percent said they plan to hire new workers while just eight percent projected decreasing their employment numbers. It is worth noting that 12 percent of small-business owners said they plan to increase their workforce by more than 10 percent—the highest this indicator has been since we started asking the question.

When it comes to employee compensation, 44 percent reported they increased employee compensation over the last 12 months and 51 percent said they plan to increase wages in the coming 12 months. Past and future salary increases are down from the previous survey, contributing factors include the smaller firm size of respondents as well as continued growth and hiring resulting in less overtime and pay increases needed for existing employees.

How did the number of employees change over the last 12 months?

INCREASE	DECREASE	NO CHANGE
JULY 2016		
23%	16%	61%
DEC. 2015		
23%	18%	60%
JULY 2015		
23%	21%	56%
DEC. 2014		
22%	19%	60%

How do you expect the number of employees to change over the next 12 months?

INCREASE	DECREASE	NO CHANGE
JULY 2016		
33%	8%	58%
DEC. 2015		
35%	8%	57%
JULY 2015		
33%	10%	58%
DEC. 2014		
35%	8%	57%

How did employee compensation change over the last 12 months?

	JULY 2016	DEC. 2015	JULY 2015	DEC. 2014
Increase	44%	57%	50%	50%
Decrease	12%	10%	11%	15%
No Change	45%	34%	39%	35%

How do you expect employee compensation to change over the next 12 months?

	JULY 2016	DEC. 2015	JULY 2015	DEC. 2014
Increase	51%	60%	52%	55%
Decrease	6%	5%	5%	7%
No Change	44%	35%	43%	38%

SMALL BUSINESS FINANCING

According to NSBA data from as far back as 1993, there is a clear correlation to a small-business owner's ability to hire and his/her ability to get financing. Today, the number of small firms who report they are able to access adequate financing is 69 percent, down from 73 percent six months ago—another indicator driven by the smaller firm size of respondents.

There was a drop among those small firms that relied on bank loans, specifically community bank loans and large bank loans; again driven by the smaller business size of the survey respondents. As expected with a smaller firm size sample set, there was an uptick among respondents who said they relied on private loans (friends/family), something upon which many smaller or newer businesses rely more heavily.

Forty-one percent of small businesses said lack of capital is hindering their ability to grow their business or expand operations, and 20 percent said they had to reduce the number of employees as a result of tight credit.

When asked about credit cards, 28 percent said the terms of the credit cards they use for their business have worsened in the last six months, up from 19 percent one year ago. One-in-five say they have been impacted by credit card fraud—either from their cards being used fraudulently, or customers using fraudulent cards.

Is your business able to obtain adequate financing?

	YES	NO
JULY 2016	69%	31%
DEC. 2015	73%	27%
JULY 2015	69%	31%
DEC. 2014	69%	31%

What types of financing has your company used within the past 12 months to meet your capital needs?

Earnings of the business	33%
Bank Loan (Total of 3 options below)	31%
-- Large Bank Loan	14%
-- Community Bank Loan	14%
-- Credit Union Loan	3%
Credit cards	31%
Used no financing	29%
Private loan (friends or family)	17%
Vendor credit -CAN ALSO SPLIT THIS UP: LONG-TERM PAYABLES (RAYMOND - CALL FOR HELP)	13%
Leasing	5%
Small Business Administration (SBA) loan	3%
Venture capital/Angel investors	3%
State/Regional Loan and Incentive Programs	3%
Online or non-bank lender	2%
Private placement of debt	2%
Selling/pledging accounts receivable	1%
Public issuance of stock	1%
Crowdfunding	1%
Private placement of stock	1%
Other	6%

SMALL BUSINESS FINANCING

If capital availability is a problem for your business, what is the effect on your operations?

Not a problem / No effects	48%
Unable to grow business or expand operations	41%
Reduced the number of employees	20%
Unable to finance increased sales	17%
Reduced benefits to employees	13%
Unable to increase inventory to meet demand	11%
Closed stores or branches	2%
Other (please specify)	4%

How has credit card fraud impacted your business? (Check all that apply)

My credit card has been used fraudulently	16%
Fraudulent credit cards have been used to purchase goods/services from my business	4%
No impact	77%
Other	3%

Do you believe that the terms of the credit cards you use for business have improved or gotten worse over the last SIX MONTHS?

10%

IMPROVED

28%

GOTTEN WORSE

40%

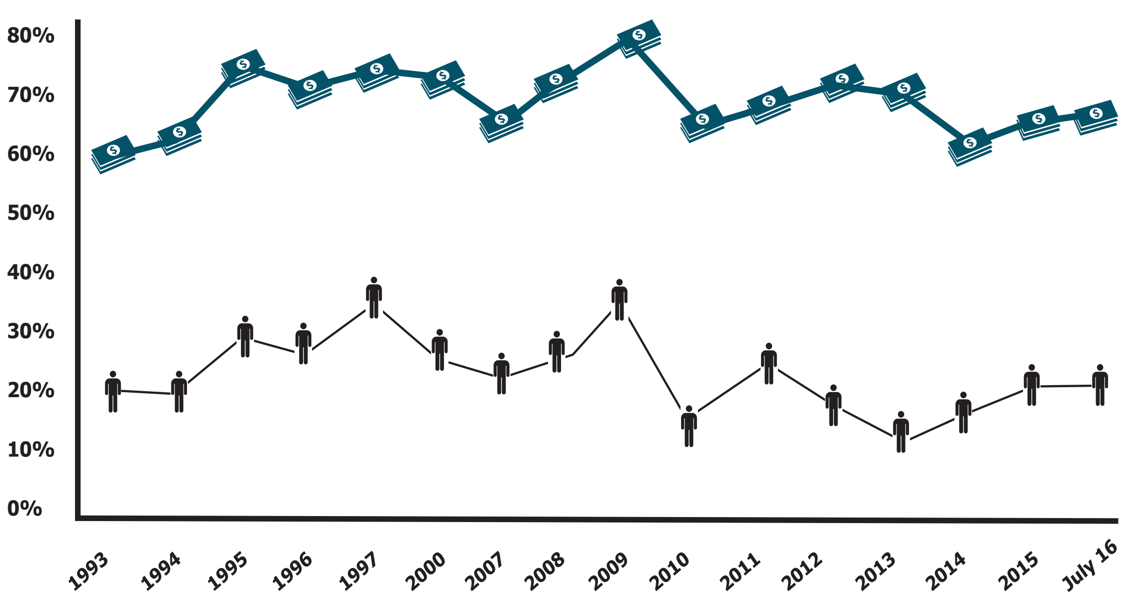
STAYED THE SAME

22%

NOT SURE

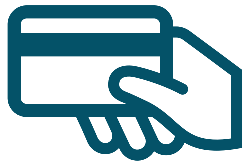
CORRELATION BETWEEN AVAILABILITY OF CAPITAL AND EMPLOYMENT GROWTH

Able to get financing Increased Employment



What is the approximate interest rate you are charged on your primary business-related credit card?

14%



PUBLIC POLICY

The 2016 Mid-Year-End Economic Report asked general questions on policy to determine what small business wants from our elected officials, and focused on several tax questions to supplement our Taxation Surveys.

GENERAL POLICY

When asked what issue they want Congress and the President to address first, the number one response: reduce the national deficit. That was followed closely by end the partisan gridlock, simplify the tax system and rein-in the cost of health insurance.

The number one way small businesses believe we should address the national deficit is to reform and reduce entitlement spending, followed by targeted cuts for certain federal agencies and programs.

Which one of the following issues do you believe Congress and President Obama's administration should address first?

Reduce the national deficit	21%
End the partisan gridlock and work together	19%
Simplify the tax system	14%
Rein-in costs of health care reform	11%
Reducing the tax burden	8%
Other	7%
Increase small business access to capital	5%
Reducing the regulatory burden on businesses	5%
Reform the immigration system	3%
Improving education to provide a qualified domestic workforce	2%
Enact a comprehensive energy policy	1%
Reform the federal contracting system	1%
Credit card reform (that includes SB)	1%
Tort reform	1%
Implement cybersecurity procedures and/or standards	0%
Remove barriers to small-business exporting	0%
Reduce the burden of unfair labor laws	0%

Which of the following deficit-reducing proposals would you support? (Check all that apply)

Reform and reduce entitlement spending	54%
Targeted cuts for certain federal agencies and programs	53%
Greater authority of the administration to reduce Congressionally-approved spending	41%
An across-the-board budget cut for federal agencies	35%
Eliminate all tax credits and deductions in conjunction with dramatically lower income tax rates	34%
A tax increase for those making more than $250,000 annually	32%
Eliminate certain tax credits and deductions—even those which may benefit my business	29%
A combination of tax increases and spending cuts	26%
Other	8%

PUBLIC POLICY

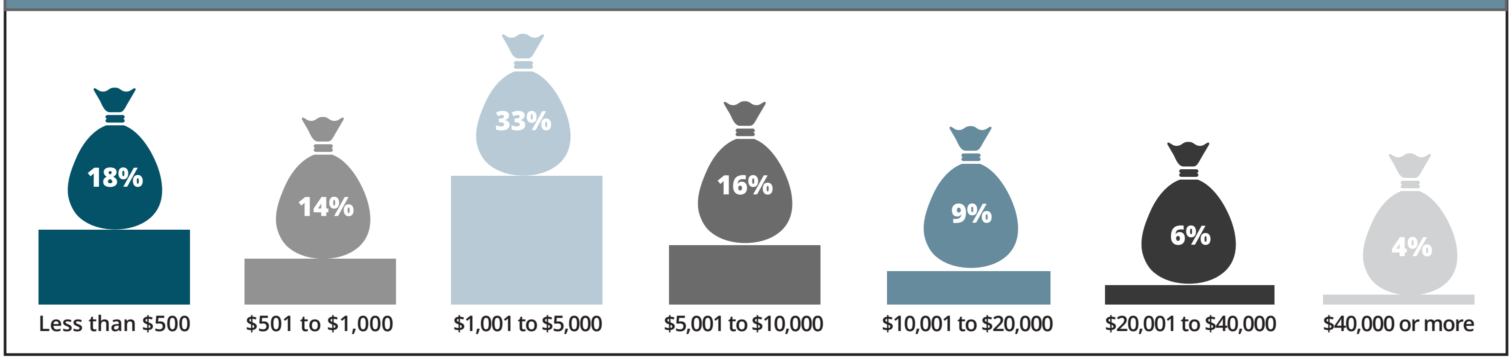
TAX POLICY

Federal taxes are a huge issue facing small business—both the financial and the administrative burden they pose. Over the last several years, we've seen the administrative burden outpace the financial burden, and this year is no different with 56 percent citing administrative burden as their largest issue with federal taxes and 38 percent citing the actual financial cost.

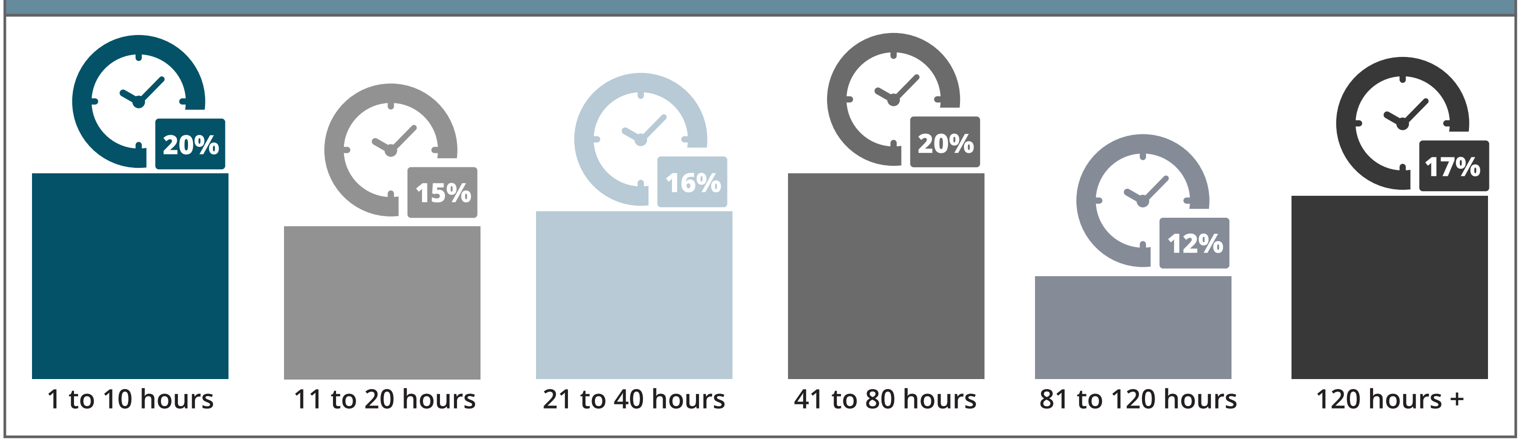
Nearly half of small businesses spend more than 40 hours per year to comply with federal taxes, and nearly one-in-three spend more than 80 hours—two full work weeks each year. The majority of small businesses, 68 percent, spend more than $1,000 per year on the administration alone of federal taxes. More than half say that federal taxes have a significant to moderate impact on the day-to-day operation of their business.

When it comes to which taxes are most burdensome, the payroll tax took the top spot followed by income taxes (83 percent of small businesses are pass-throughs, and therefore pay business taxes at the personal income level). Not surprising, then, that the majority support policy reforms to reduce both corporate and individual tax rates, and reduce both business and individual deductions.

Approximately how much MONEY do you spend each year on the administration of federal taxes NOT including your owed taxes (i.e.: accountant fees, internal costs for administration of taxes, legal fees, etc...)?

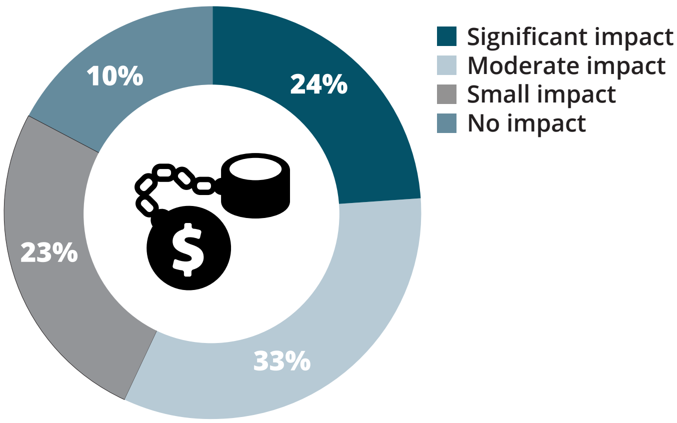


Approximately how much TIME do you spend each year dealing with federal taxes, i.e.: calculating payroll, self-employment or any other business-related tax, filing reports, working with your accountant, estate planning, etc...?



PUBLIC POLICY

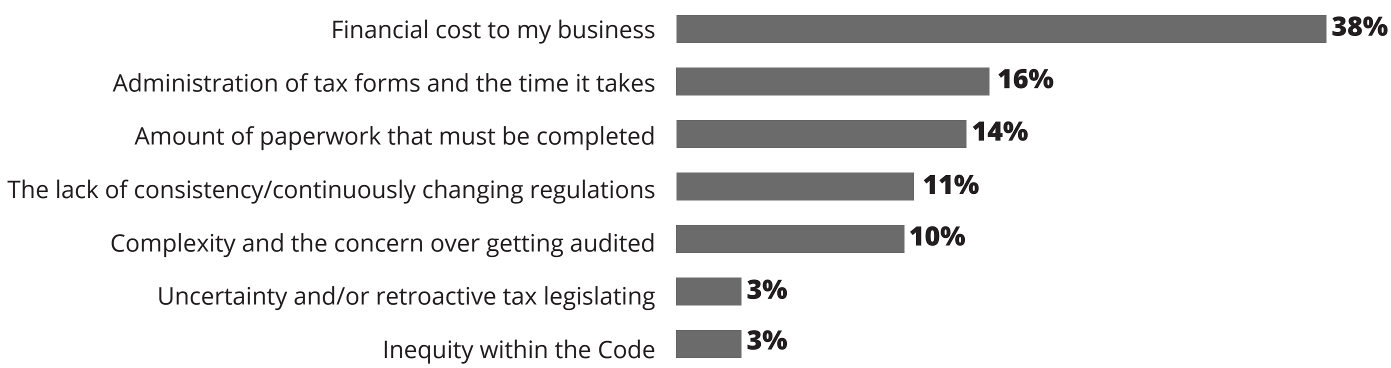
How much of an impact would you say federal taxes have on the day-to-day operation of your business?



Please rank, in order of their ADMINISTRATIVE burden on you and your business, the following taxes. (1 is the most burdensome and 10 is the least burdensome)

1. Payroll taxes
2. Income taxes (I am a pass-through entity)
3. State and local tax compliance
4. Sales tax
5. Property taxes
6. Corporate taxes (I am a c-corp)
7. Alternative Minimum Tax
8. Capital gains taxes
9. Medicare surcharge under Affordable Care Act
10. Changes to deductibility of tangible property repairs
11. Estate tax
12. Excise taxes (i.e.: Medical Device Tax)
13. International taxes (I export)
14. Import taxes (I import)

What is the largest burden posed to you by the federal tax code:



Please indicate your level of support for each of the following tax reform proposals.

	SUPPORT	DON'T SUPPORT	NOT SURE
Reduce the corporate tax rate and eliminate some business deductions	**47%**	**22%**	**30%**
Reduce both corporate and individual tax rates, and reduce both business and individual deductions	**57%**	**19%**	**24%**
A broad reform and simplification of the tax system that eliminates all income, payroll and corporate taxes as well as all deductions, and instead implements a 23 percent tax on the end point-of-sale for all goods (Such as the Fair Tax or Flat Tax)	**46%**	**27%**	**27%**
A European type value added tax	**8%**	**48%**	**45%**
Moving the current U.S. tax system from a "worldwide" tax system, in which all income is taxed regardless of its origin, to a "territorial" system, in which all foreign-source income is exempted from tax	**16%**	**45%**	**39%**

CONCLUSION

Small employers comprise 99.7 percent of all employer firms in the U.S. One in two workers in the private workforce run or work for a small business, and one in four individuals in the total U.S. population is part of the small-business community.

Small businesses simply need the environment to grow and create jobs: economic stability; predictability, fairness and transparency in taxes and health care costs; common-sense regulations that don't unfairly disadvantage small firms; and lawmakers willing to tackle the major issues facing our country, and to do so together.

Please click here for more information on NSBA's priority policies.

For past Economic Reports and other issue-specific surveys from NSBA, please visit our Surveys & Reports page on the NSBA website.

For questions, interviews or to reprint any or all of this report, please contact the NSBA public affairs department at press@nsba.biz or 202-552-2904.

METHODOLOGY

The 2016 Mid-Year Economic Report was conducted on-line July 22 through Aug. 3, 2016 among 1,045 small-business owners—both members and nonmembers of NSBA—representing every industry in every state in the nation.

1156 15th Street, N.W.
Suite 1100
Washington, DC 20005
www.nsba.biz

NSBA
National Small Business Association