NEWS RELEASE
FEDERAL RESERVE BANK of KANSAS CITY
DENVER • OKLAHOMA CITY • OMAHA

SMALL EMPLOYER FIRMS SAY REVENUES AND HIRING WERE STRONGER FOR 2018, THOUGH 2019 OUTLOOK IS MORE TEMPERED

Federal Reserve Banks' Small Business Report Finds Strong Revenue and Employment Growth with Profitability Similar to Prior Year; Financing Demand Remained Stable, with Requests to Online Lenders Notably Increasing

KANSAS CITY, MO. - The 12 Federal Reserve Banks today issued the *Small Business Credit Survey: 2019 Report on Employer Firms*, which examines the findings of an annual survey of small business owners nationwide. The *Report* focuses on small employer firms, businesses that have between 1 and-499 full- or part-time payroll employees (hereafter "firms"). It is the latest addition to the Reserve Banks' hub for small business research and analysis, *FedSmallBusiness.org*.

Fielded in the third and fourth quarters of 2018, the survey finds that while both revenue and employment growth improved from 2017, the share of firms that is profitable remained the same. The outlook for 2019 is more tempered. While credit demand increased marginally in 2018, the share of firms receiving credit remained essentially flat. Startup firms and firms with high credit risk continued to have financing shortfalls. Online lenders[1] in particular saw applications increase by approximately one-third from the prior year, even though applicants remained dissatisfied with the interest rates and terms offered, relative to traditional lenders.

Key findings can be found in the *2019 Report on Employer Firms'* executive summary. These findings include:

Performance and Expectations

- The share of firms reporting revenue and employment growth increased from 2017, but the share of firms operating at a profit remained flat.
- More than one-third of small firms (37%) added payroll employees in 2018.
- Employment gains were strongest among startups, firms with five or more employees, firms with more than $1M in annual revenues, and firms with younger decision makers (46 years of age or younger).
- A majority of firms (73%) saw input costs increase in the prior 12 months.
- Expectations for 2019 are mixed with a majority of firms (72%) expecting revenues to increase but 44% planning to add employees.

[1] *The survey questionnaire asks about a range of nonbank online providers, including retail/payments processors, peer-to-peer lenders, merchant cash advance lenders, and direct lenders. For purposes of topline findings, nonbank online lenders are grouped into one category, "online lenders."*

Financial Challenges and Reliance on Personal Finances

- Nearly two-thirds of firms (64%) continued to experience financial challenges, including difficulties with managing operating expenses, scarcity of credit, and challenges making debt payments.
- Two-thirds of these firms (66%) relied on personal finances to cover their costs, while 40% of firms took out additional debt.

Financing Demand, Approvals and Sources

- Respondents showed consistent year-over-year demand for new financing, with 43% of firms applying for new capital in 2018, similar to 40% in 2017.
- Nearly half of applicants (47%) received the full amount of funding they requested, similar to the 2017 survey.
- Financing shortfalls were particularly pronounced among firms with weak credit profiles, unprofitable firms, younger firms, and firms in urban areas.
- Applications to online lenders continued their growth trend with 32% of applicant firms turning to such lenders in 2018, up from 24% in 2017, and 19% in 2016. These applicants expected online lenders would make faster funding decisions, would be more likely to provide funding, and would not require collateral.
- Applicants who sought funding at large and small banks cited an existing relationship as the primary factor in their choice of lender.

Additional analyses from the 2018 Small Business Credit Survey will be released throughout 2019 at *FedSmallBusiness.org*. Future releases will take an in-depth look into specific types of small businesses, including nonemployer firms, minority-owned firms, and firms operating in low- and moderate-income communities.

Takeaways Specific to Kansas City Fed's region (Tenth District: western Missouri, Kansas, Nebraska, Oklahoma, Colorado, Wyoming, northern New Mexico):

- Firms in the Tenth District were more likely to be located in rural areas: 32 percent of firms were located in rural areas, compared to 17 percent nationally.
- Across the Kansas City Fed's district, 33 percent of firms reported a "large increase" in their input costs, significantly higher than the 25 percent of firms who reported this nationally.
- Tenth District firms were less likely to rely on personal funds as their primary funding sources. Across the seven states, 12 percent reported using personal funds as the primary funding source, compared to 18 percent who did so nationally.
- Community Developing Financial Institutions (CDFIs) were sought after sources of funding in the Tenth District. Respondents reported applying to CDFIs for loans, lines of credit or cash advances at a significantly higher rate (15 percent) than the national rate (5 percent).
- Tenth District firms were more likely to cite sufficient financing as the primary reason for not applying for credit than the national rate. According to the survey, 58 percent cited this reason for not applying for credit, compared to 49 percent nationally.
- Of the Tenth District firms that did not apply for credit, 56 percent reported having used a small bank to meet their credit needs, compared to 37 percent nationally. In addition, 29 percent used a large bank, compared to 42 percent who reported doing so nationally.

About the Small Business Credit Survey (SBCS)

The SBCS collects information about business performance, financing needs and choices and borrowing experiences of firms with fewer than 500 employees. Responses to the SBCS provide insight into the dynamics behind aggregate lending trends and about noteworthy segments of small businesses. The results are weighted to reflect the full population of small businesses in the United States. The SBCS is not a random sample; therefore, results should be analyzed with awareness of potential methodological biases.

The SBCS includes experiences from firms across all 50 states and the District of Columbia through the joint efforts of the Federal Reserve Banks of New York, Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, Philadelphia, Richmond, San Francisco and St. Louis. The 2018 SBCS collected 12,455 responses in total, 6,614 of which were from employer firms.

# # #