



Small Business and Entrepreneurship during an Economic Recovery

Presented by the Federal Reserve Board of Governors,
the Federal Reserve Bank of Atlanta, and
the Ewing Marion Kauffman Foundation

November 9-10, 2011
Washington, D.C.



KAUFFMAN
The Foundation of Entrepreneurship



Small Business and Entrepreneurship
during an Economic Recovery

The Role of Small Business and Entrepreneurship in Job Creation

Moderator: Robin Prager, Board of Governors of the Federal Reserve System

The Small Business Sector in Recent Recoveries

William Dunkelberg, Temple University

The Declining Average Size of Establishments: Evidence and Explanations

Eleanor J. Choi, U.S. Bureau of Labor Statistics

Discussant: John Haltiwanger, University of Maryland—College Park

DR. WILLIAM DUNKELBERG

Chief Economist

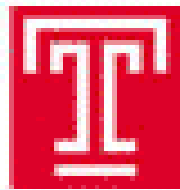
***NATIONAL FEDERATION
OF INDEPENDENT BUSINESS***

ECONOMIC STRATEGIST

BOENNING & SCATTERGOOD
ESTABLISHED 1914

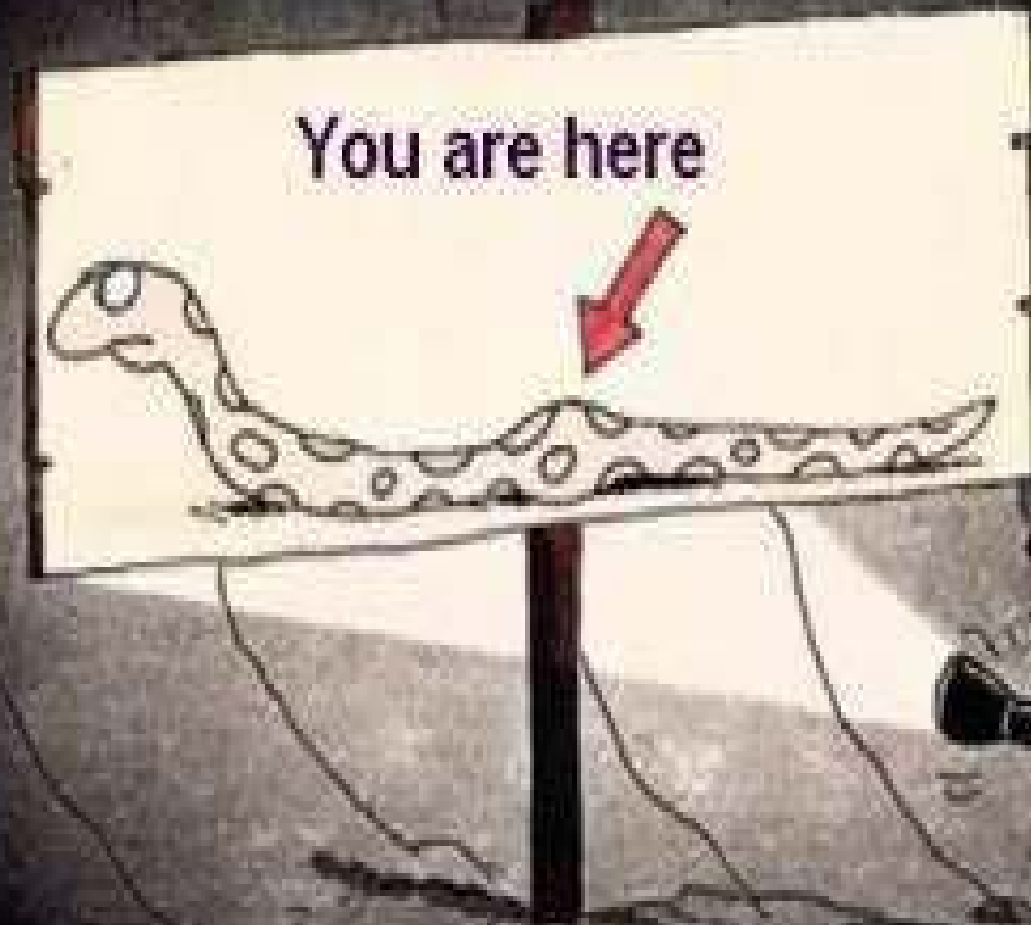
**CHAIRMAN, LIBERTY
BELL BANK, NEW JERSEY**

PROFESSOR OF ECONOMICS

 **TEMPLE**
UNIVERSITY®

**CHAIR, GLOBAL
INTERDEPENDENCE CENTER**

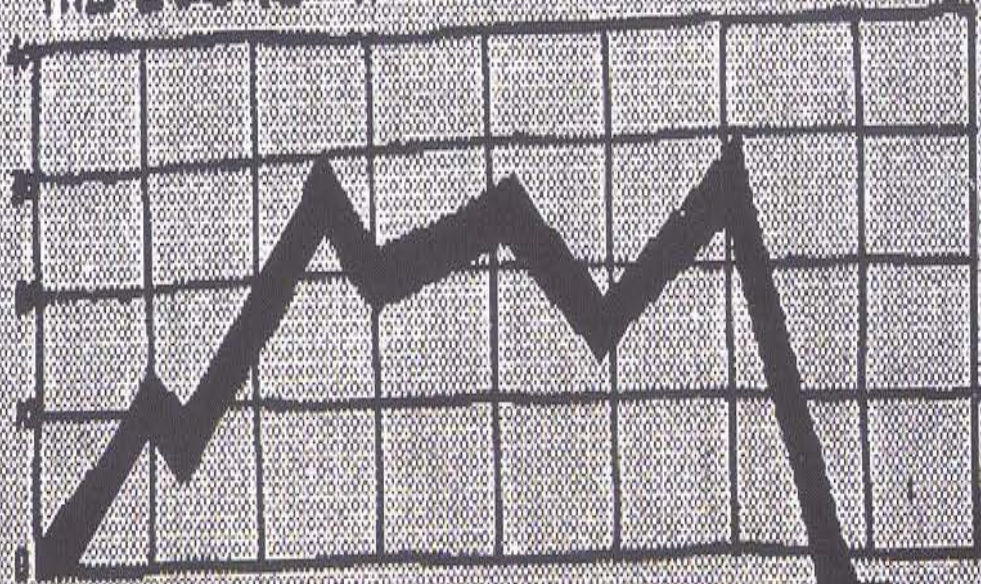




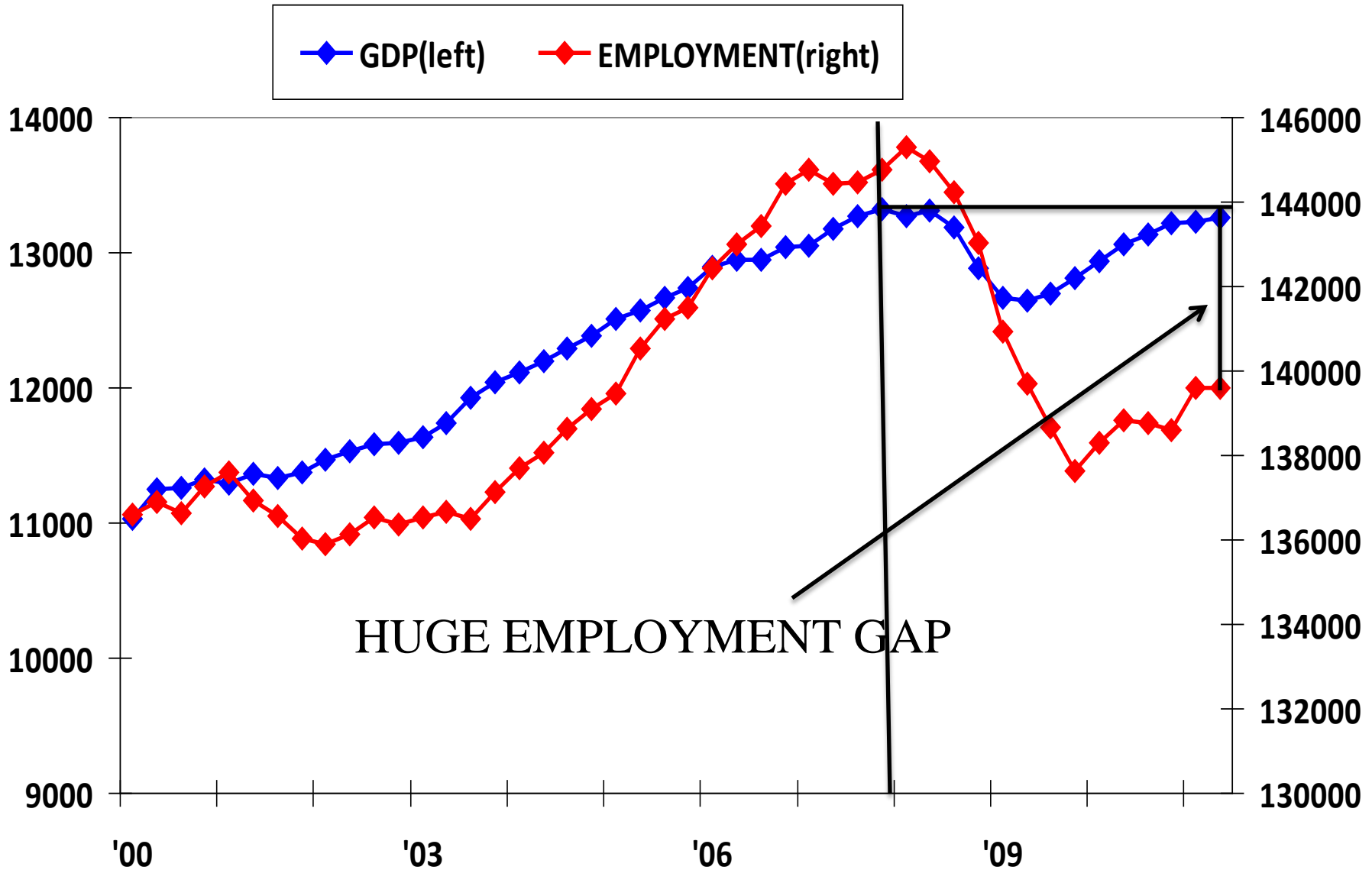
TWO WAYS OUT, NEITHER DESIRABLE

NOW THAT'S
WHAT I CALL
A GRAPHIC
INDICATOR!

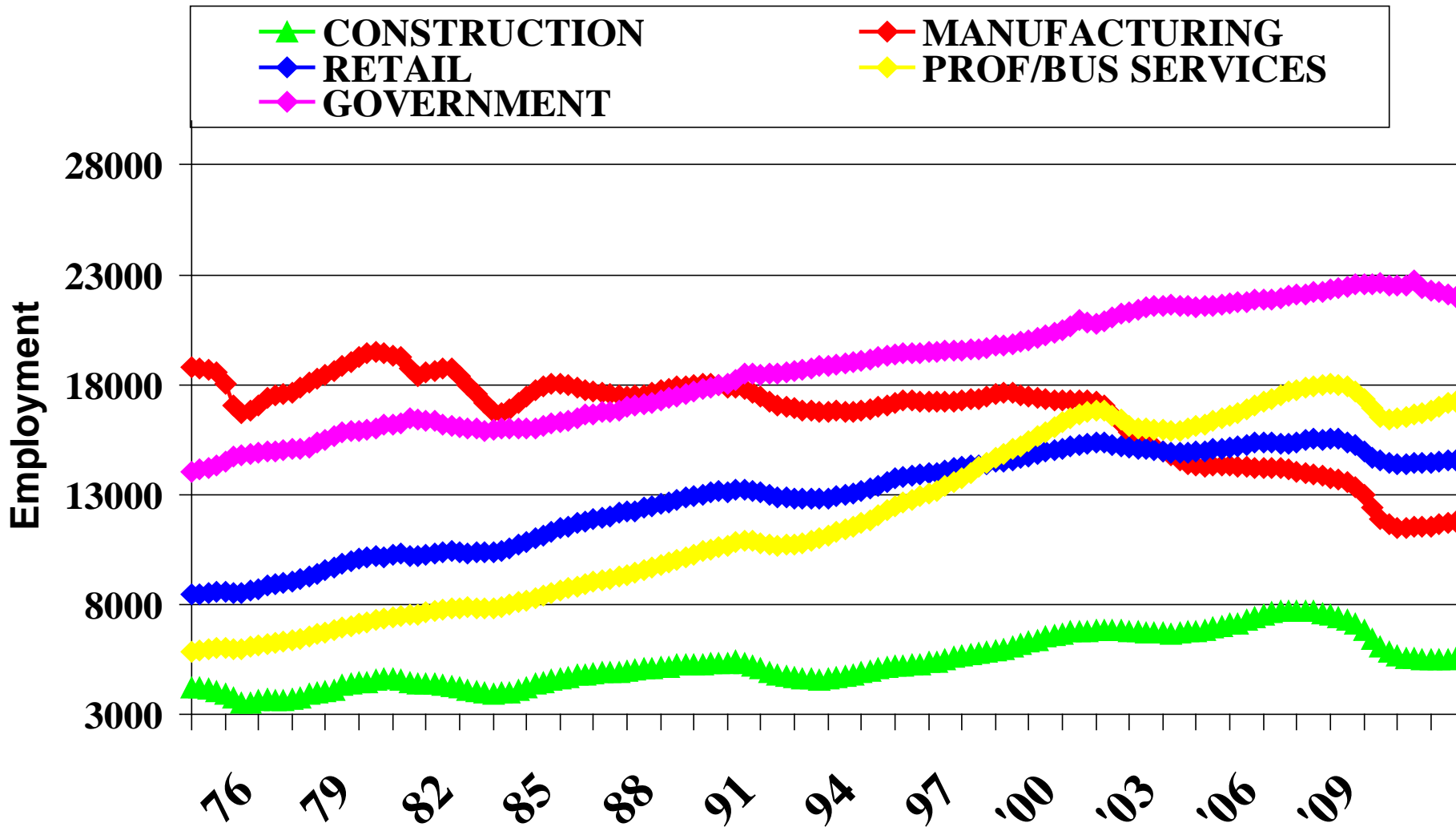
THE ECONOMY



GDP AND EMPLOYMENT



EMPLOYMENT

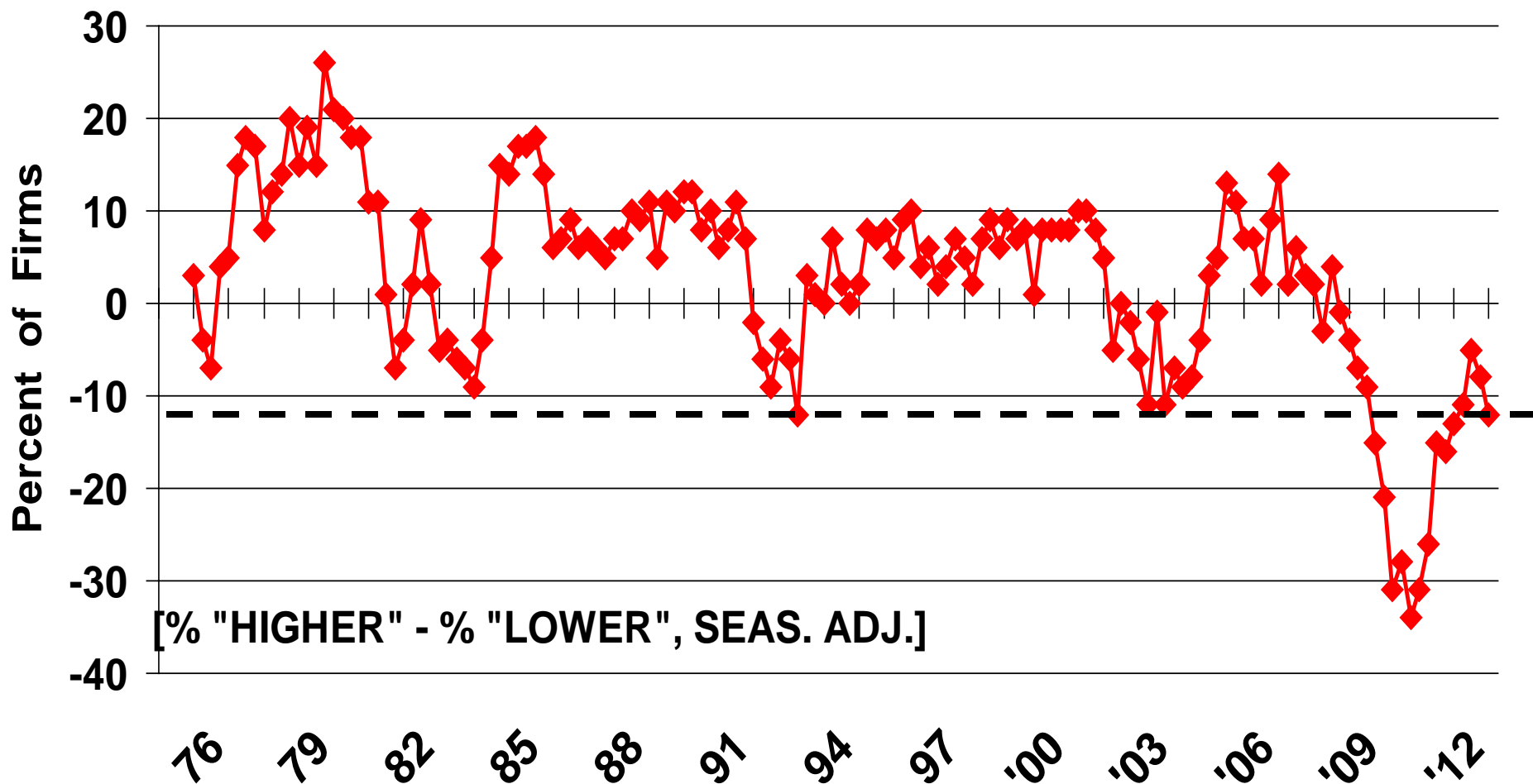


EMPLOYMENT VS JOB CREATION

1. NET JOB CREATION IS A RESULT OF GROWTH IN POPULATION – MORE OF THE SAME FIRMS
2. CURRENT PROBLEM IS MOSTLY CYCLICAL
3. FIRMS HIRE IF EXPECTED CONTRIBUTION IS \geq TO COST OF EMPLOYMENT
4. OWNERS OF SMALL FIRMS (AND CONSUMERS) HAVE A GLUM VIEW OF THE ECONOMY
5. THIS TRANSLATES INTO LOW LEVELS OF INVESTMENT IN WORKERS AND EQUIPMENT
6. CONSUMER CONFIDENCE LOWEST SINCE 1980
7. IF CONSUMERS FEAR MORE DEFICIT/DEBT, LARGE STIMULUS PLAN COULD BACKFIRE

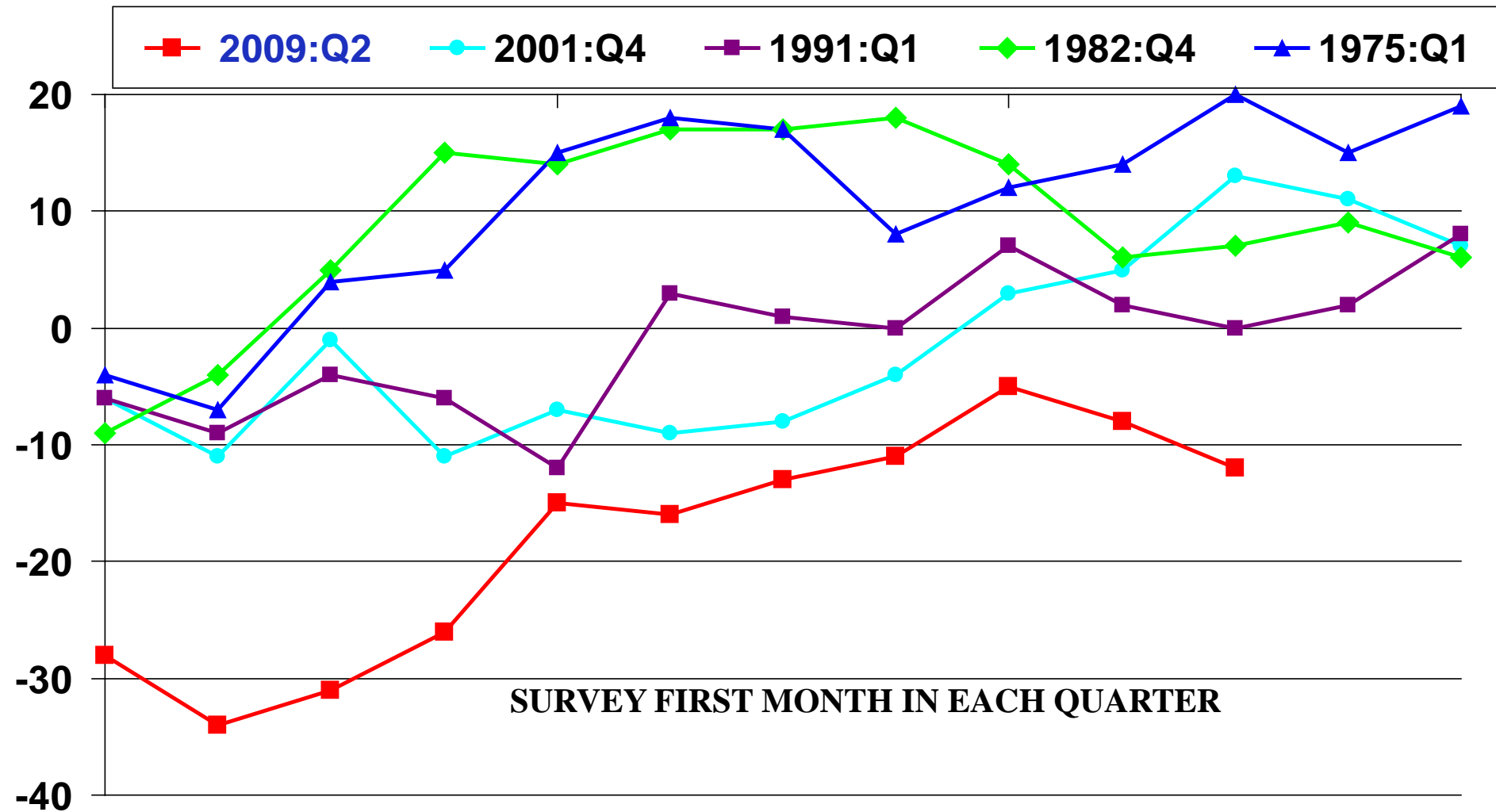
REPORTED CHANGE IN PAST SALES (last 3 months vs prior 3)

◆ QUARTERLY

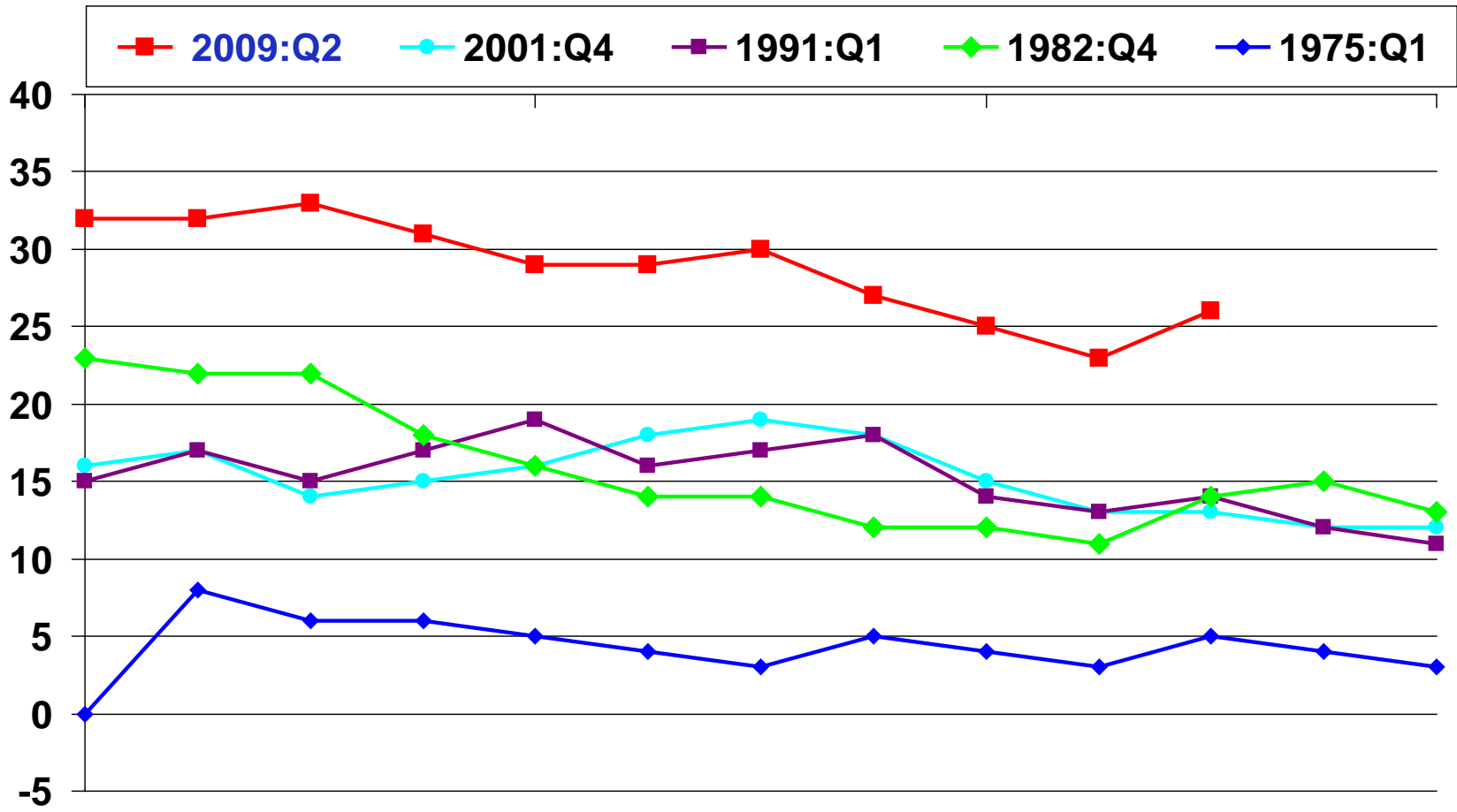


REPORTED CHANGE IN PAST SALES

(LAST 3 MONTHS VS PRIOR 3 MONTHS)
(RECOVERY FROM NBER TROUGH)

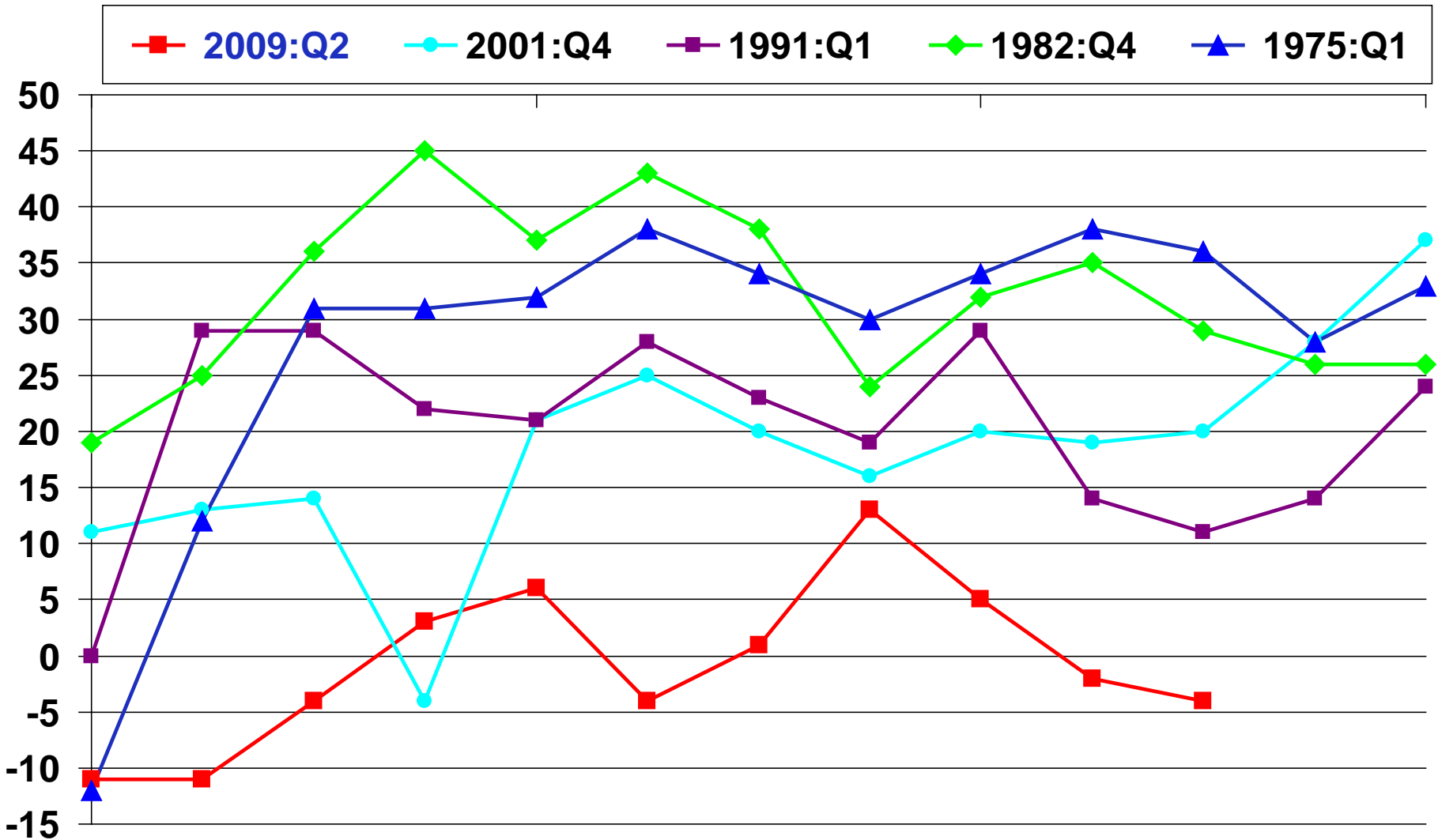


WEAK SALES # 1 PROBLEM (RECOVERY FROM NBER TROUGH)



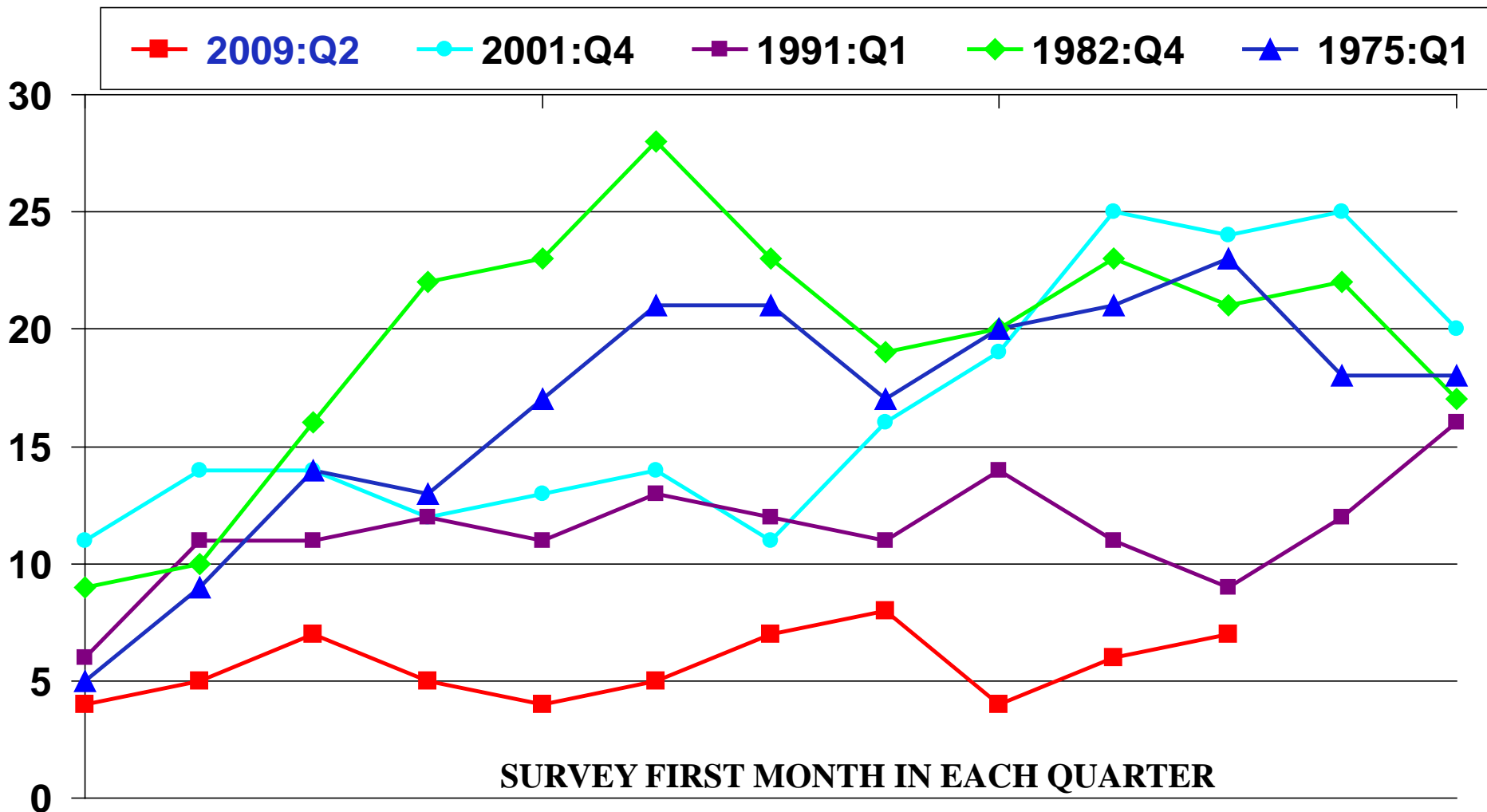
EXPECT REAL SALES GAINS

Net Percent (“Higher” minus “Lower”)

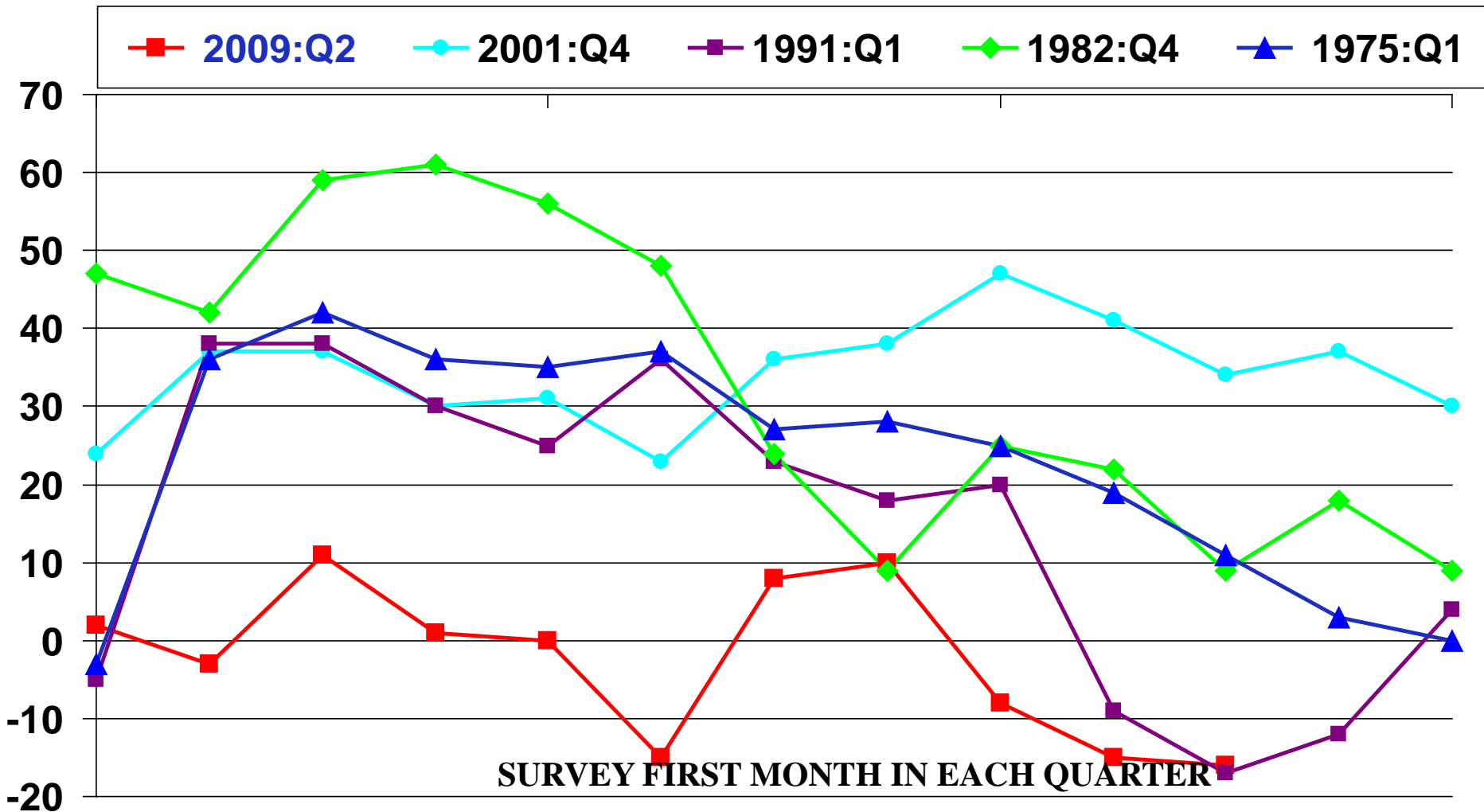


OUTLOOK FOR BUSINESS EXPANSION

(% NOW IS A GOOD TIME)
(RECOVERY FROM NBER TROUGH)



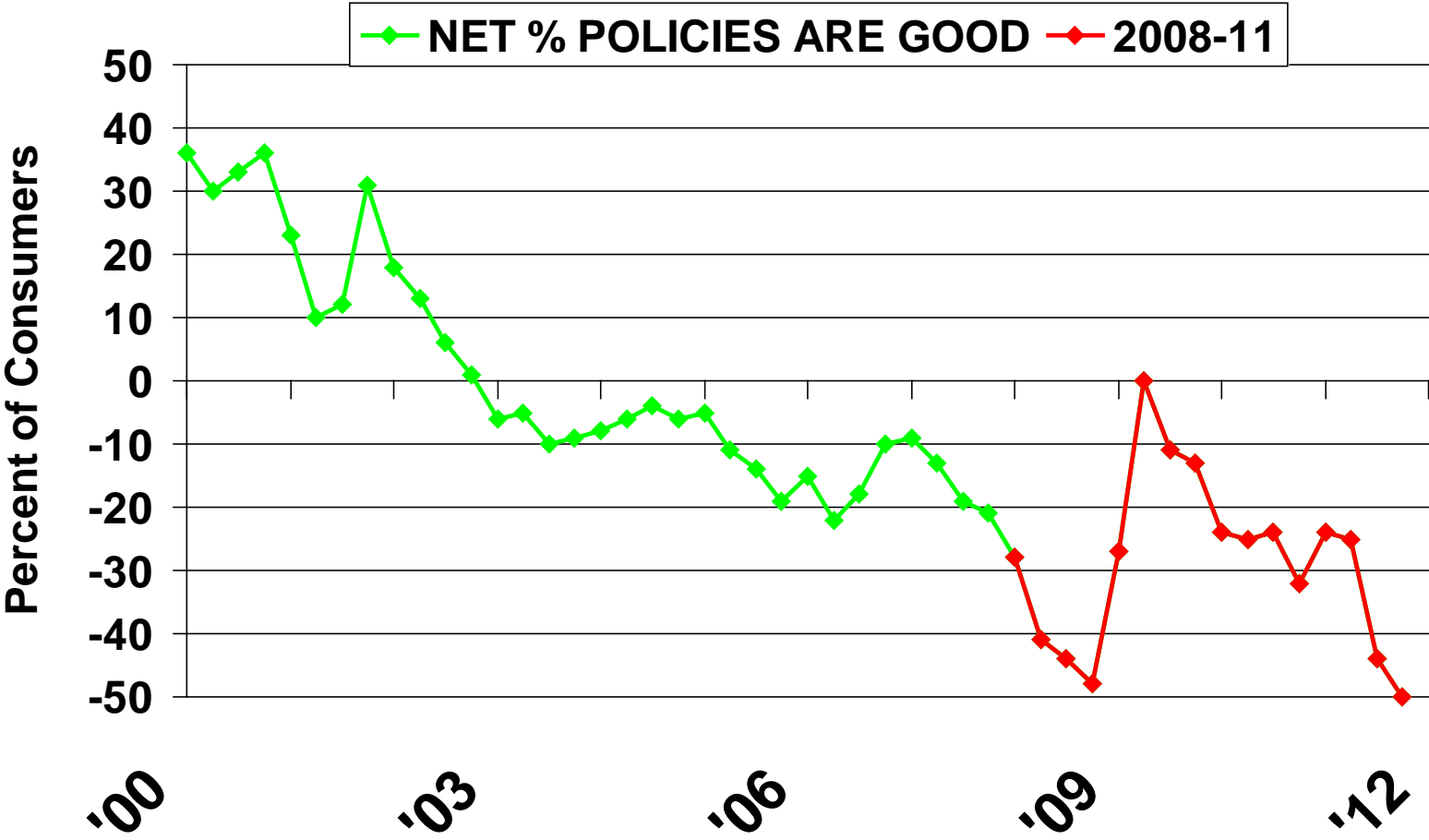
EXPECTATIONS FOR BETTER BUSINESS CONDITIONS IN 6 MONTHS (RECOVERY FROM NBER TROUGH)



CONSUMER IS THE KEY

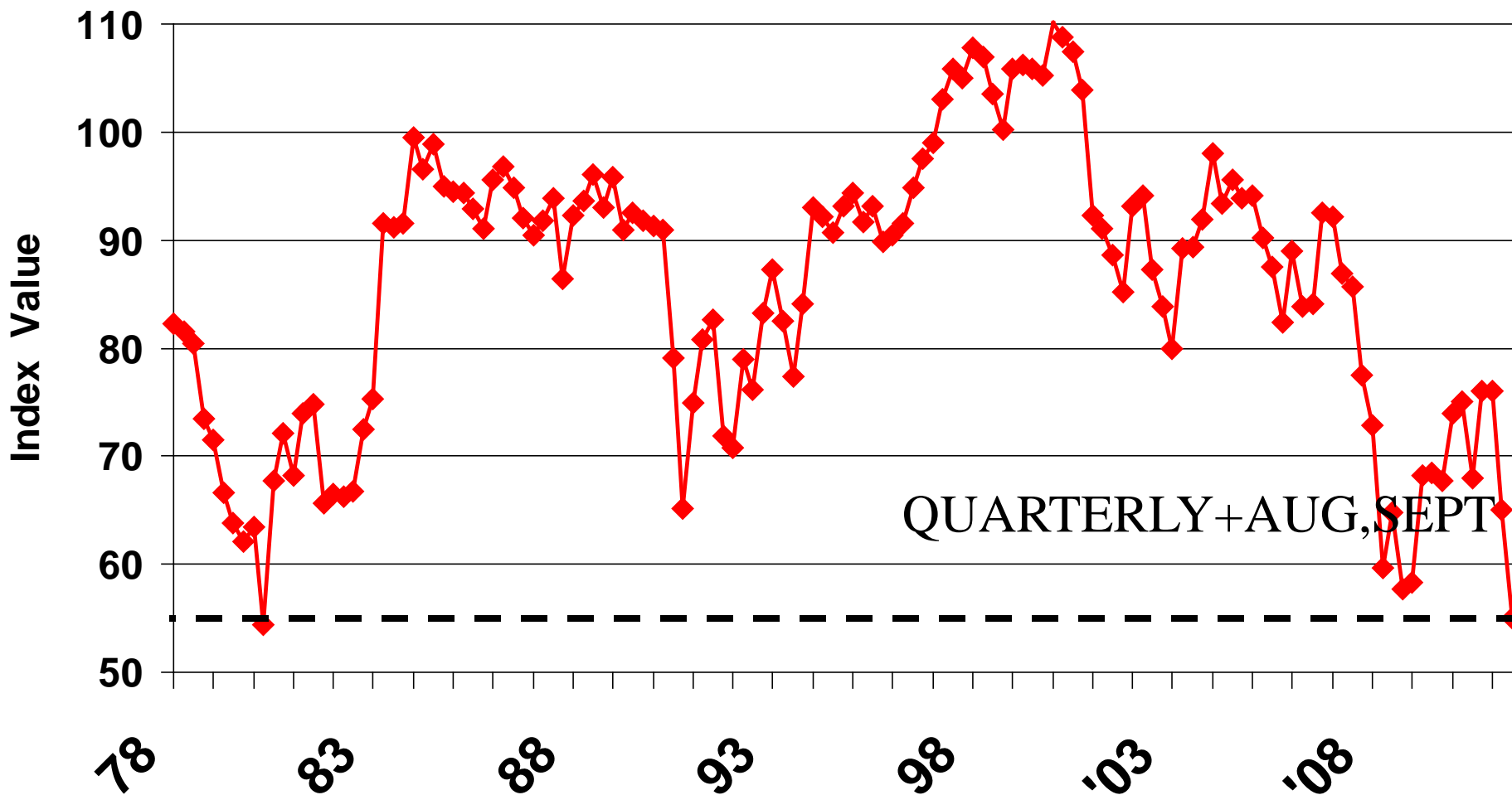
- AS PESSIMISTIC AS IN 1980 (UofM)
- LOWEST SATISFACTION WITH ECONOMIC POLICY IN 50 YEARS
- FEWER THAN 7% FAVOR POLICY
- FEAR SUPPRESSES SPENDING
- TAX CUTS MIGHT NOT BE SPENT
- STIMULUS FUNDED BY DEBT COULD INCREASE UNCERTAINTY, REDUCE SPENDING

RATING OF GOVERNMENT POLICY



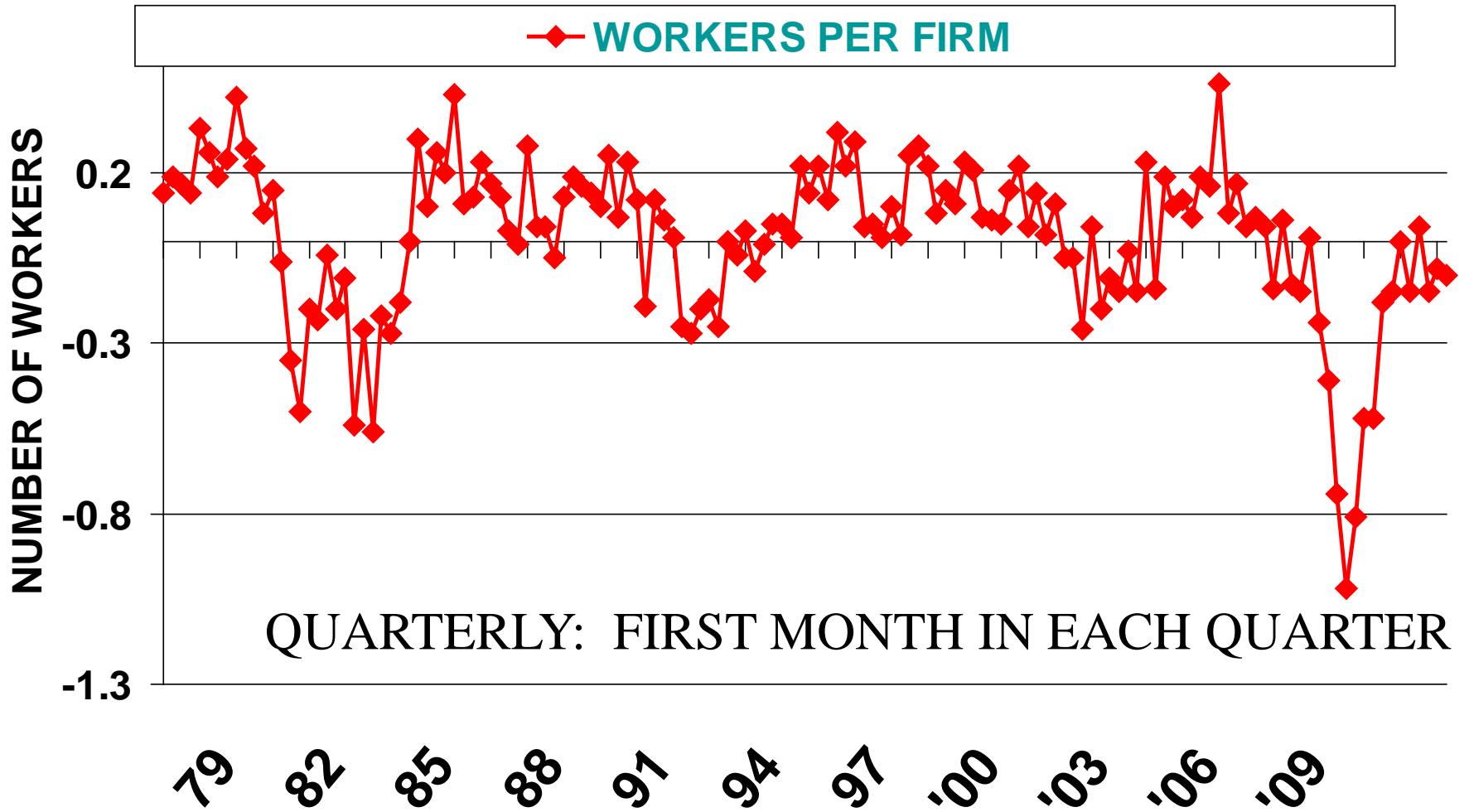
Source: University of Michigan

INDEX OF CONSUMER SENTIMENT

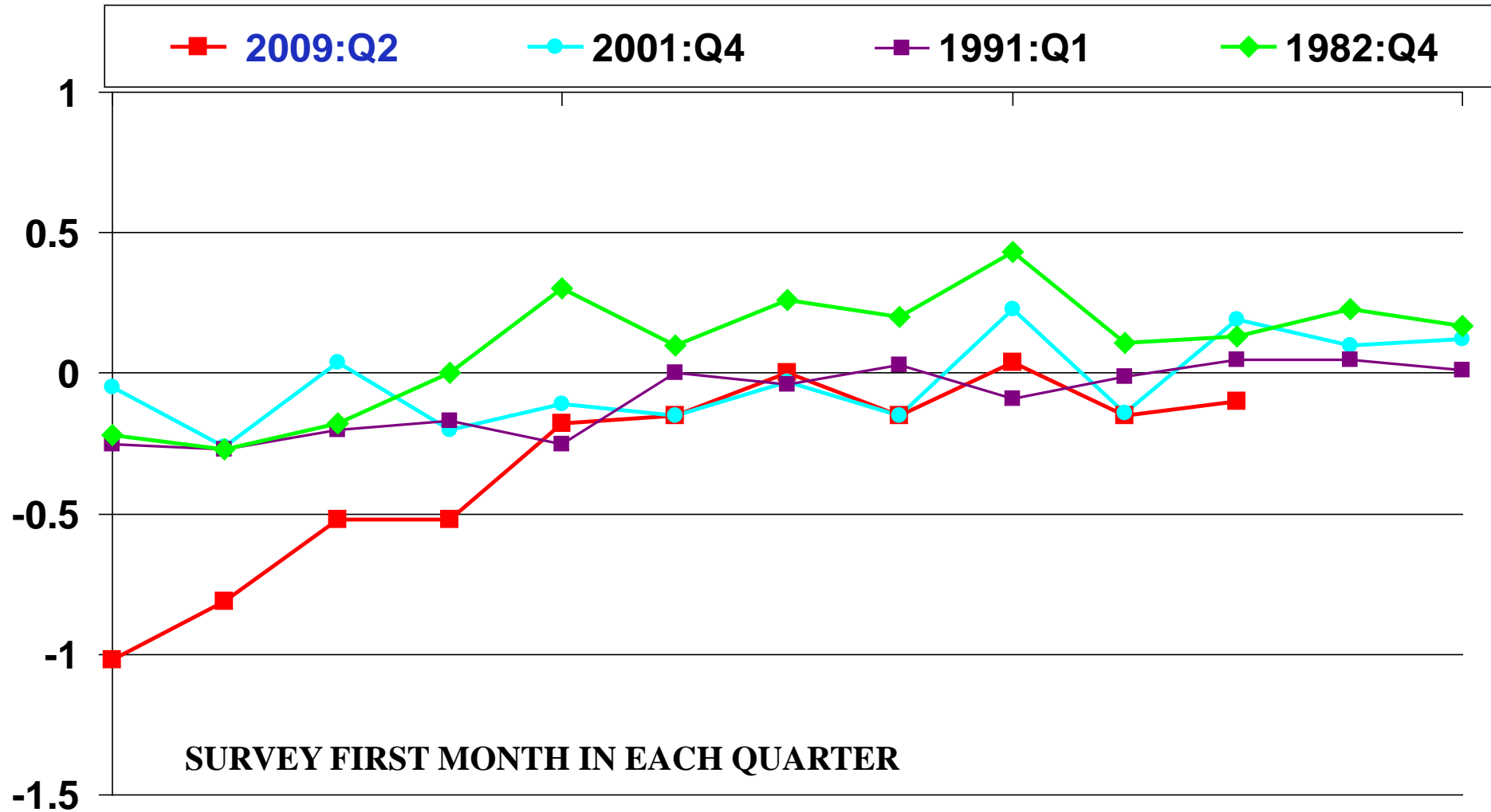


Source: University of Michigan

AVERAGE CHANGE IN EMPLOYMENT PER FIRM

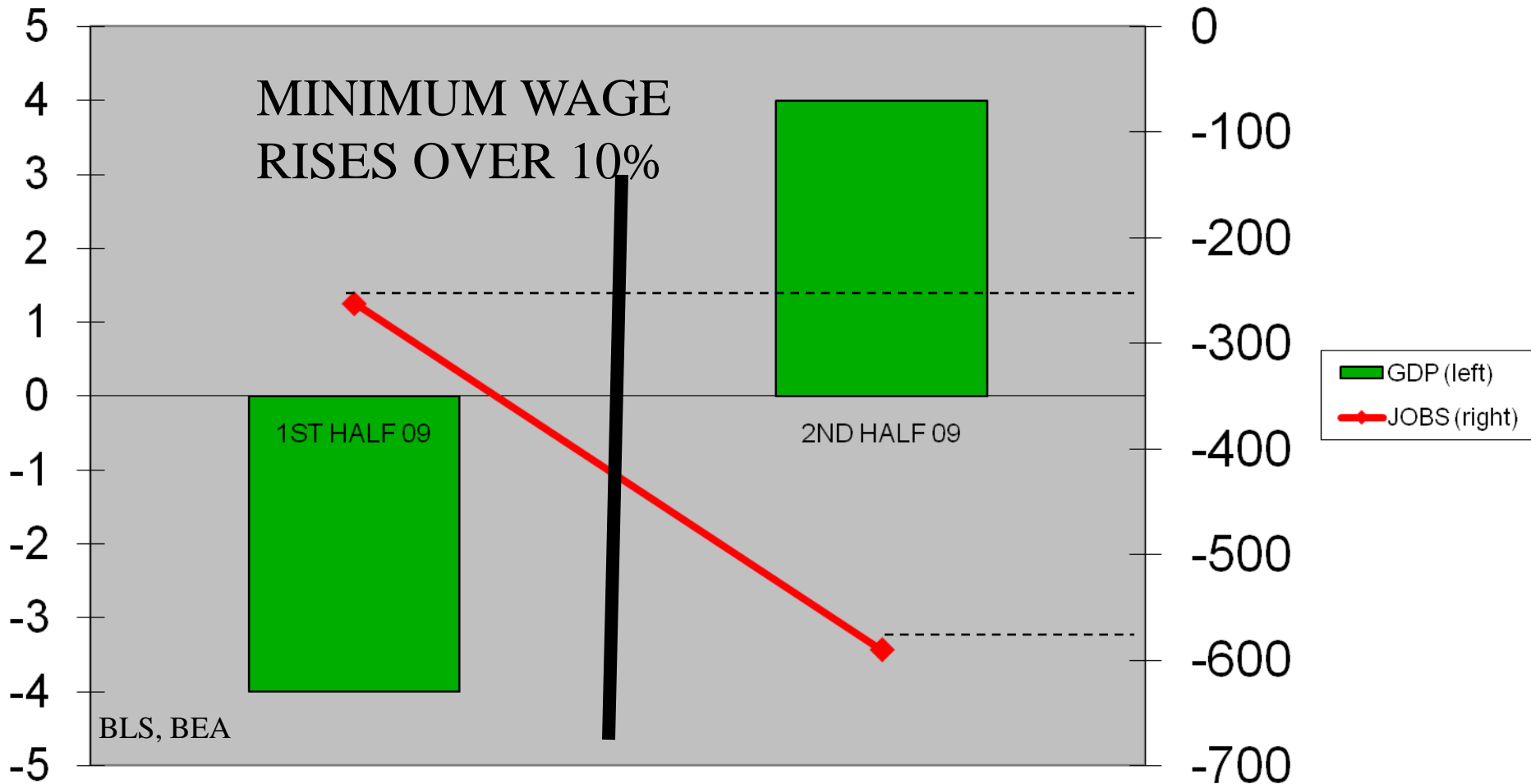


AVERAGE CHANGE IN EMPLOYMENT (PER FIRM) (RECOVERY FROM NBER TROUGH)

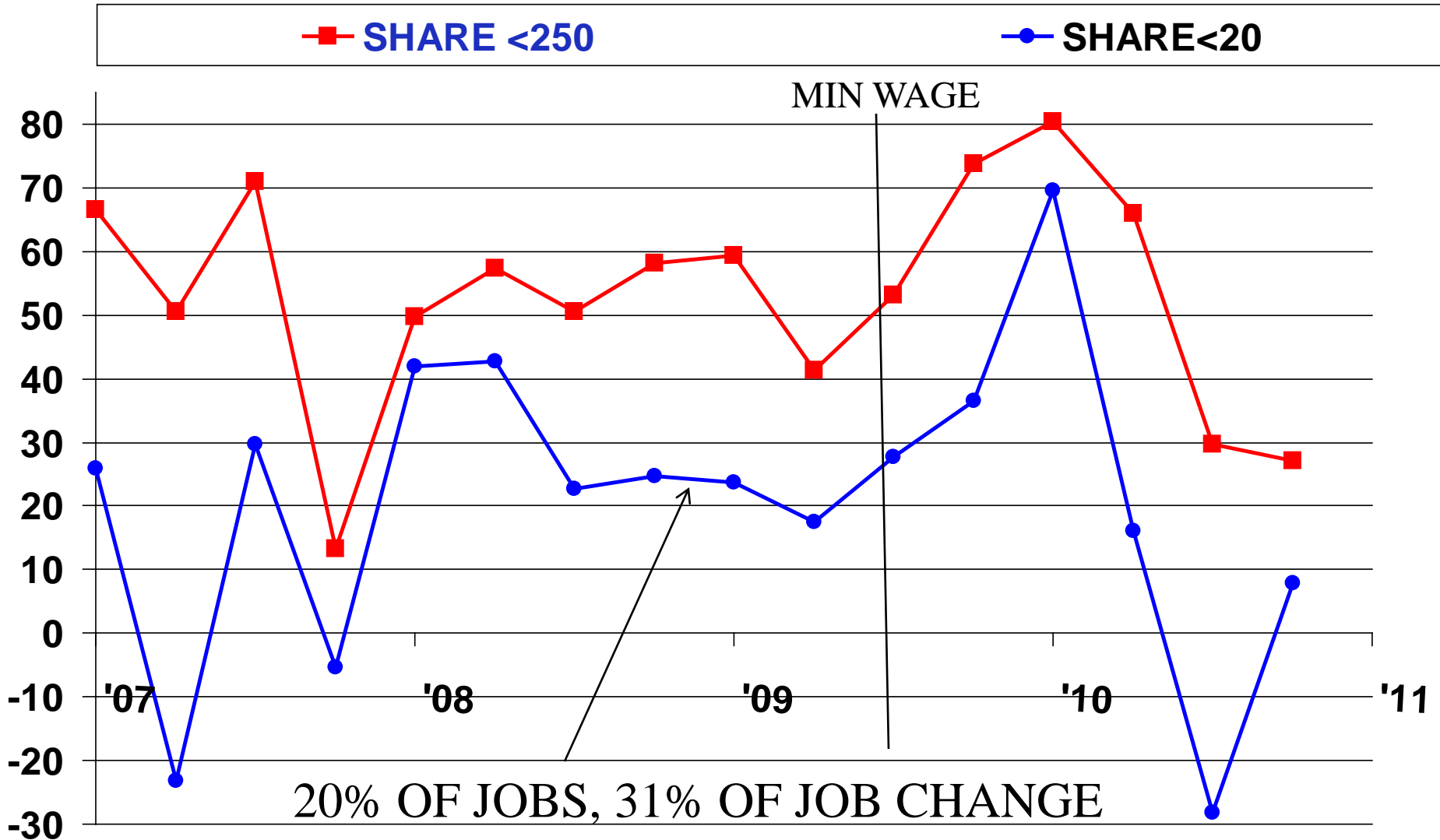


TEEN JOBS AND GDP GROWTH

(BEFORE AND AFTER MINIMUM WAGE HIKE IN 2009)

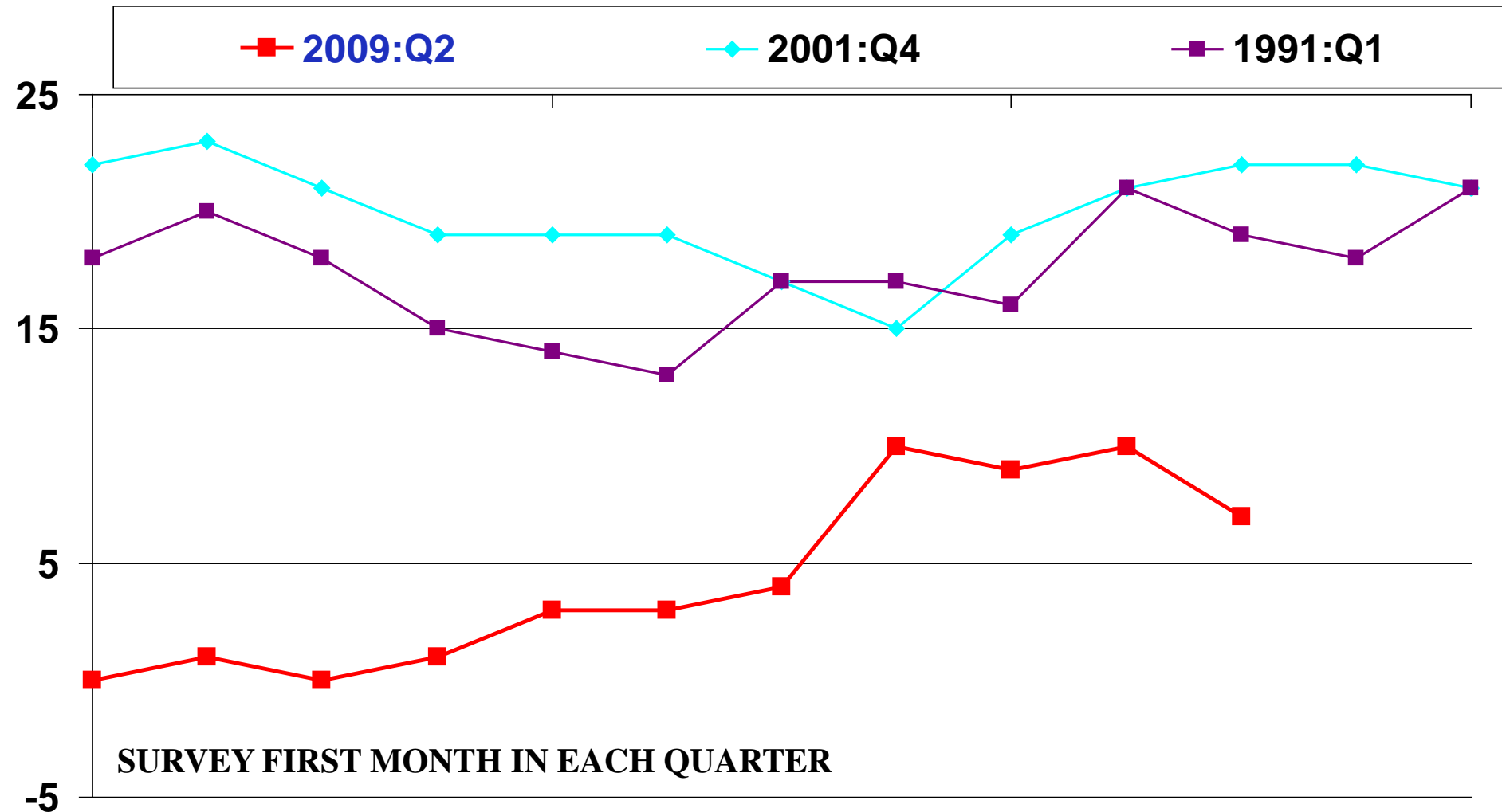


QUARTERLY SHARE OF JOB CHANGE

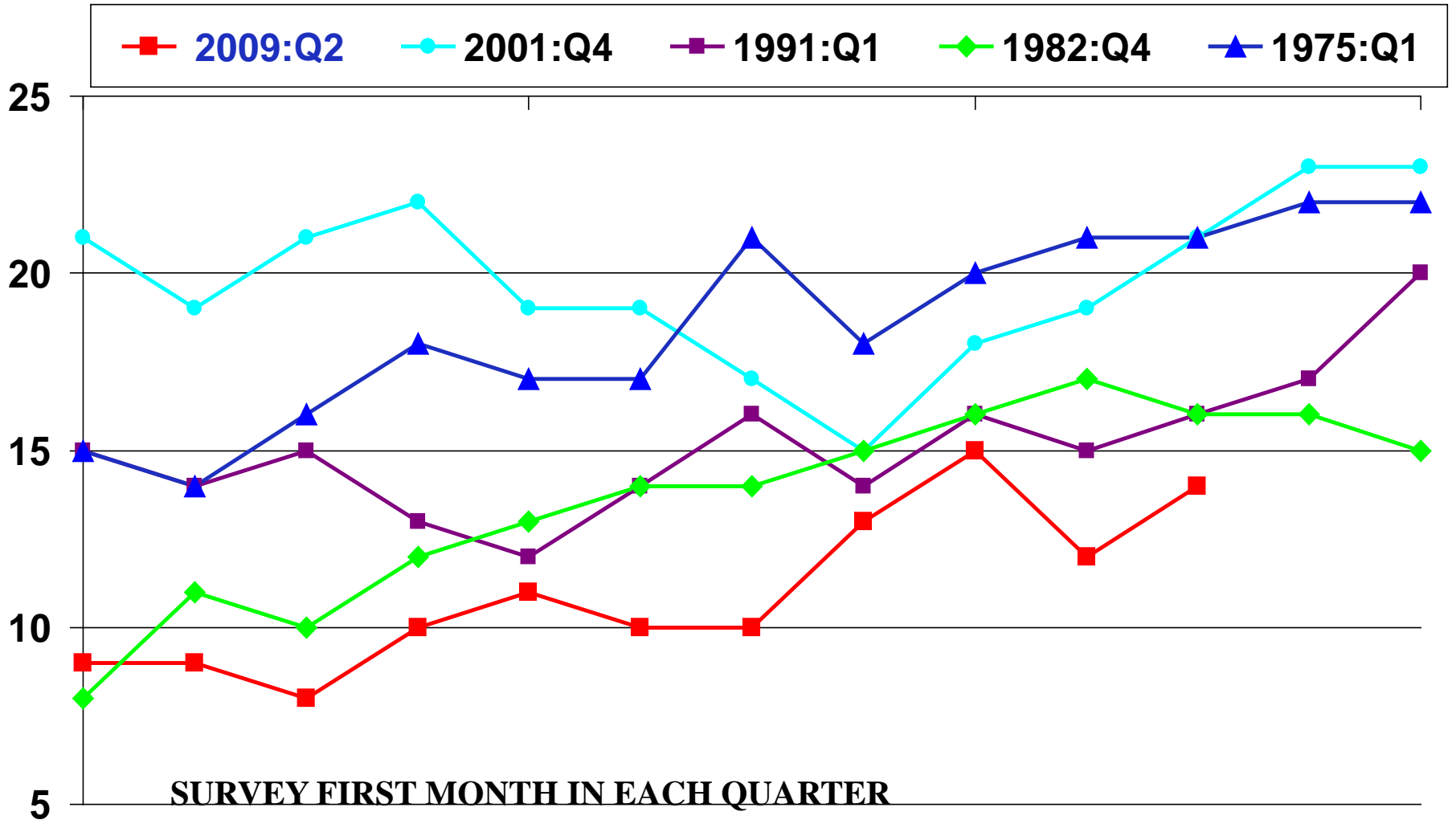


RAISED WORKER COMPENSATION

(NET PERCENT RAISING)
(RECOVERY FROM NBER TROUGH)

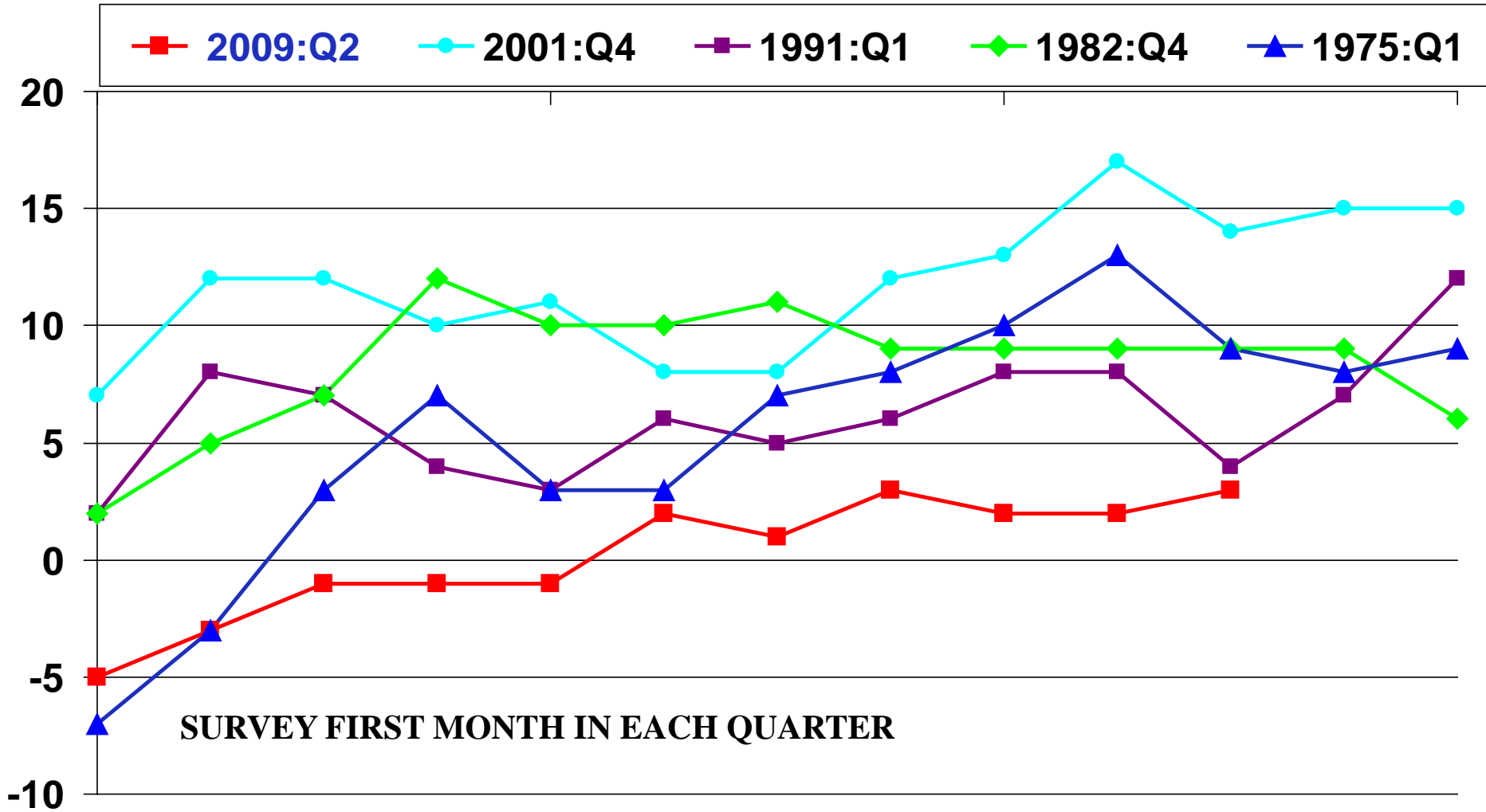


UNFILLED JOB OPENINGS (RECOVERY FROM NBER TROUGH)



JOB CREATION PLANS

(NET PERCENT PLANNING TO INCREASE EMPLOYMENT)
(RECOVERY FROM NBER TROUGH)

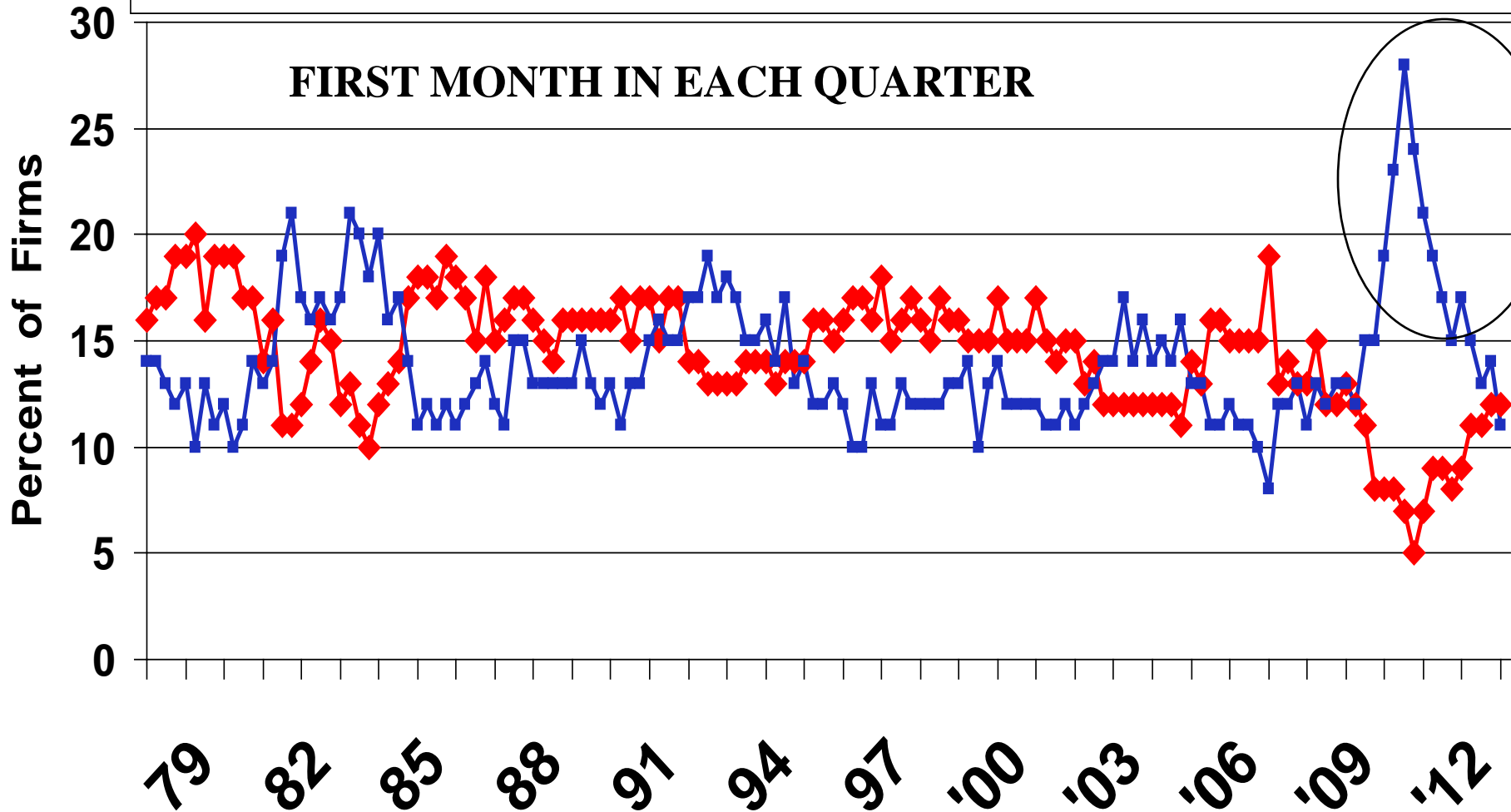


PERCENT OF OWNERS INCREASING OR REDUCING EMPLOYMENT


◆ INCREASED

■ REDUCED

FIRST MONTH IN EACH QUARTER

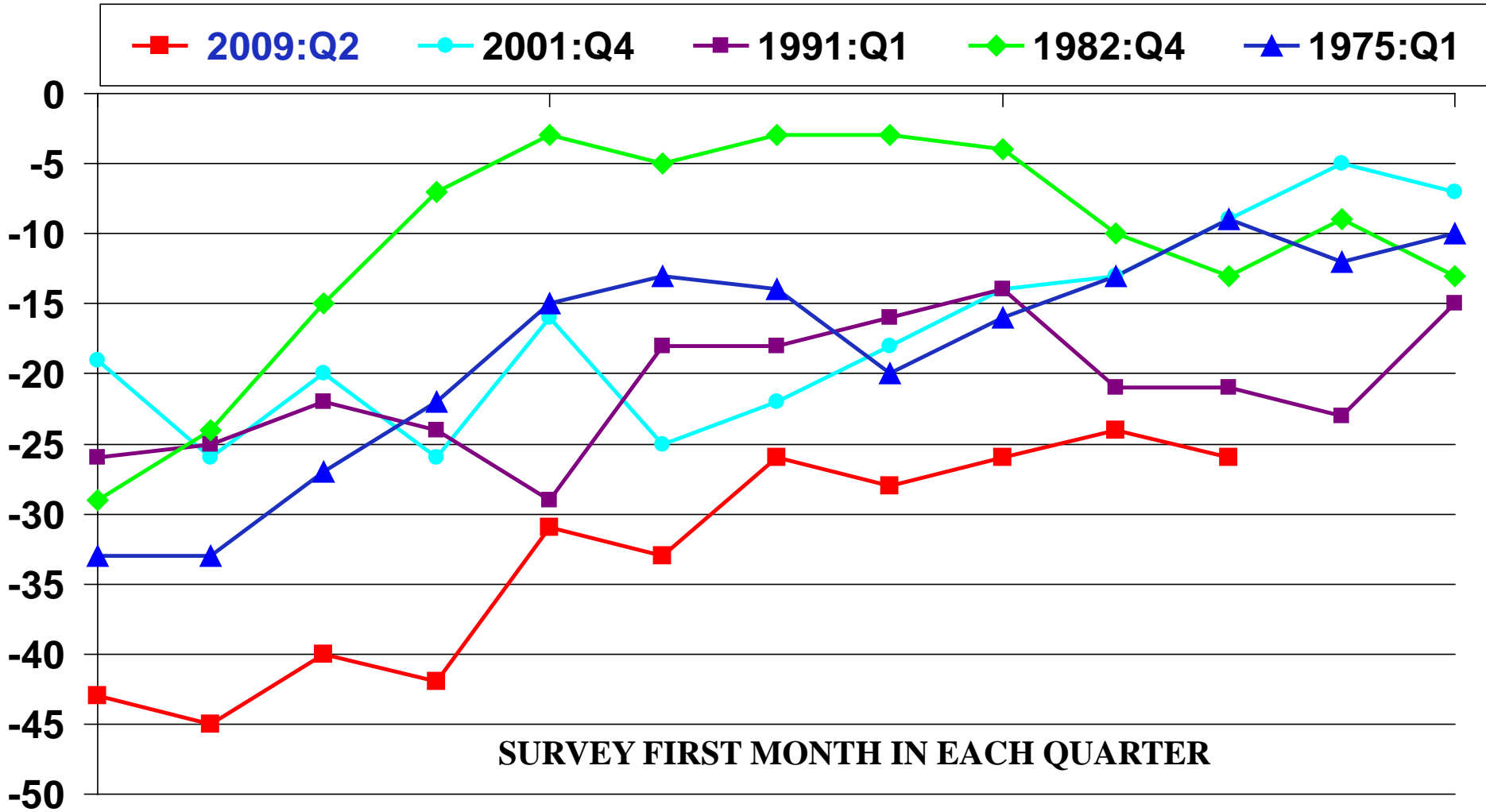


OWNERS ABILITY TO HIRE IMPAIRED

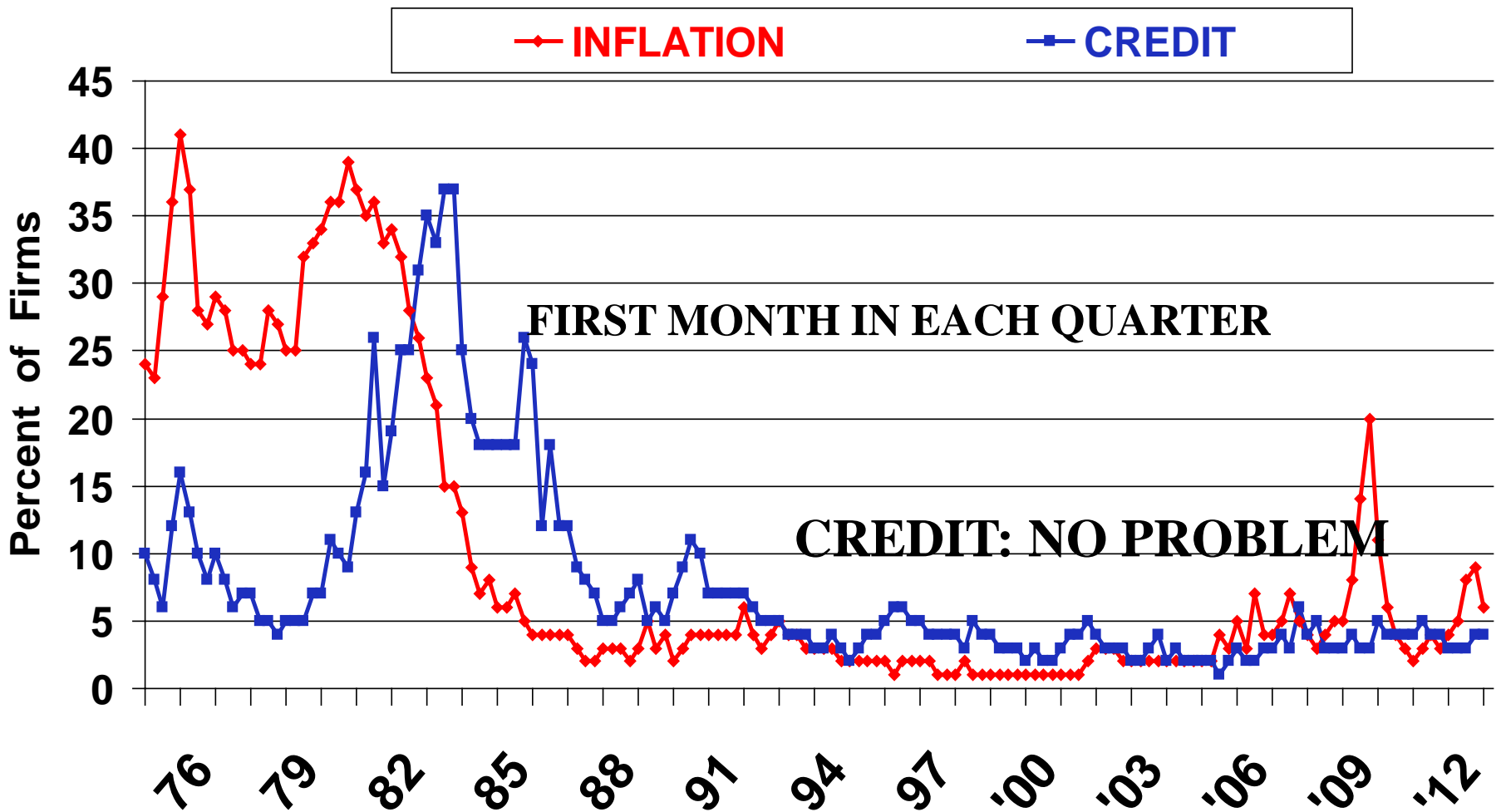
- WEAK SALES IS TOP PROBLEM 26%
 - TAXES AND REGS AND RED TAPE 37%
 - REGULATORY UNCERTAINTY – HEALTH CARE, TAX RATES, FOOD, CLEAN AIR ...
 - “POLITICAL UNCERTAINTY” MAJOR REASON FOR NOT EXPANDING -18%
 - PROFIT TRENDS STILL NEGATIVE 40%
 - SALES EXPECTATIONS SOFT
- 

EARNINGS TRENDS: % "HIGHER" - % "LOWER"

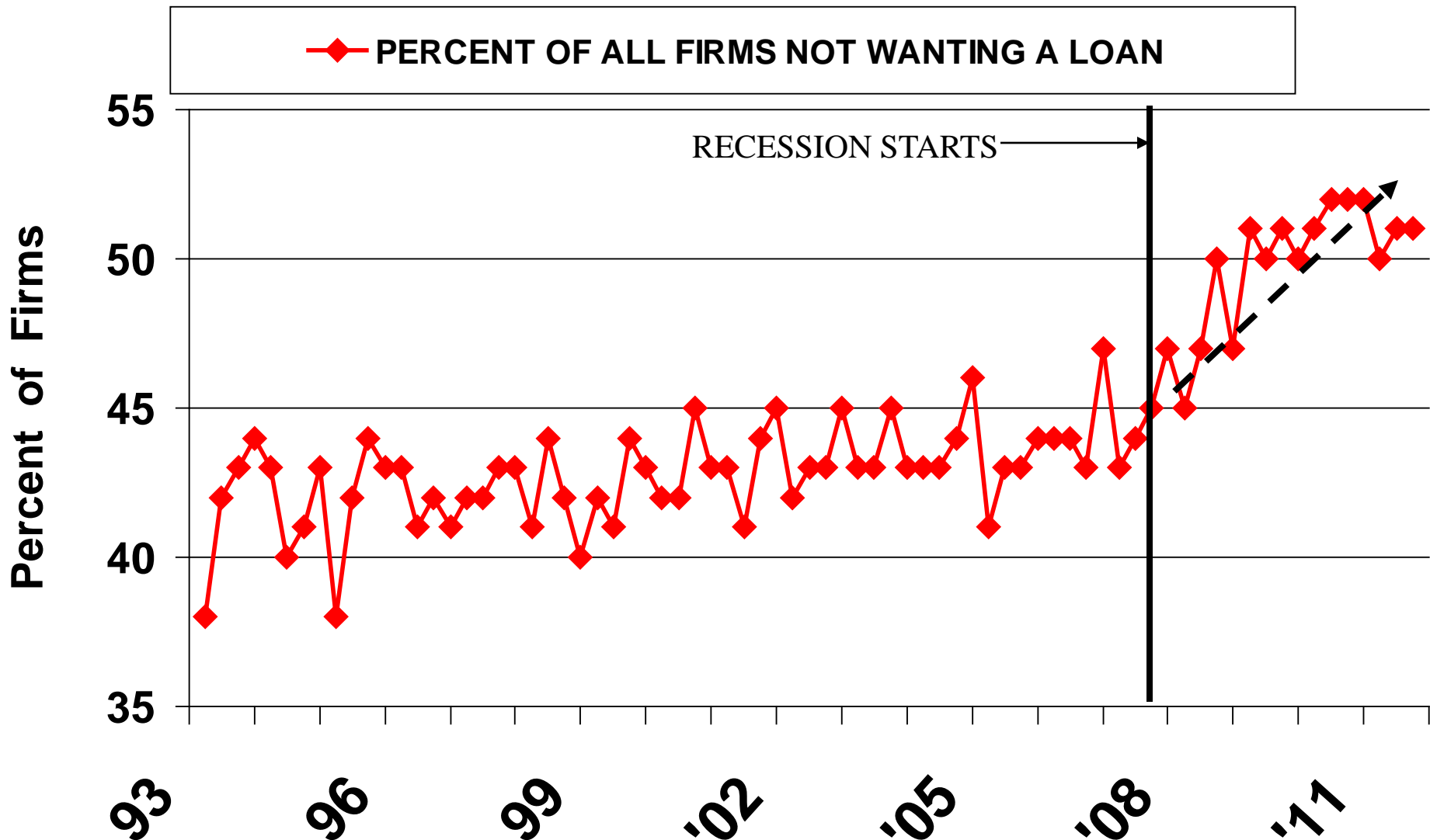
(LAST 3 MONTHS VS PRIOR 3 MONTHS)
(RECOVERY FROM NBER TROUGH)



SINGLE MOST IMPORTANT PROBLEM FACING OWNERS



LOAN DEMANDS WEAKEN THROUGH THE RECESSION

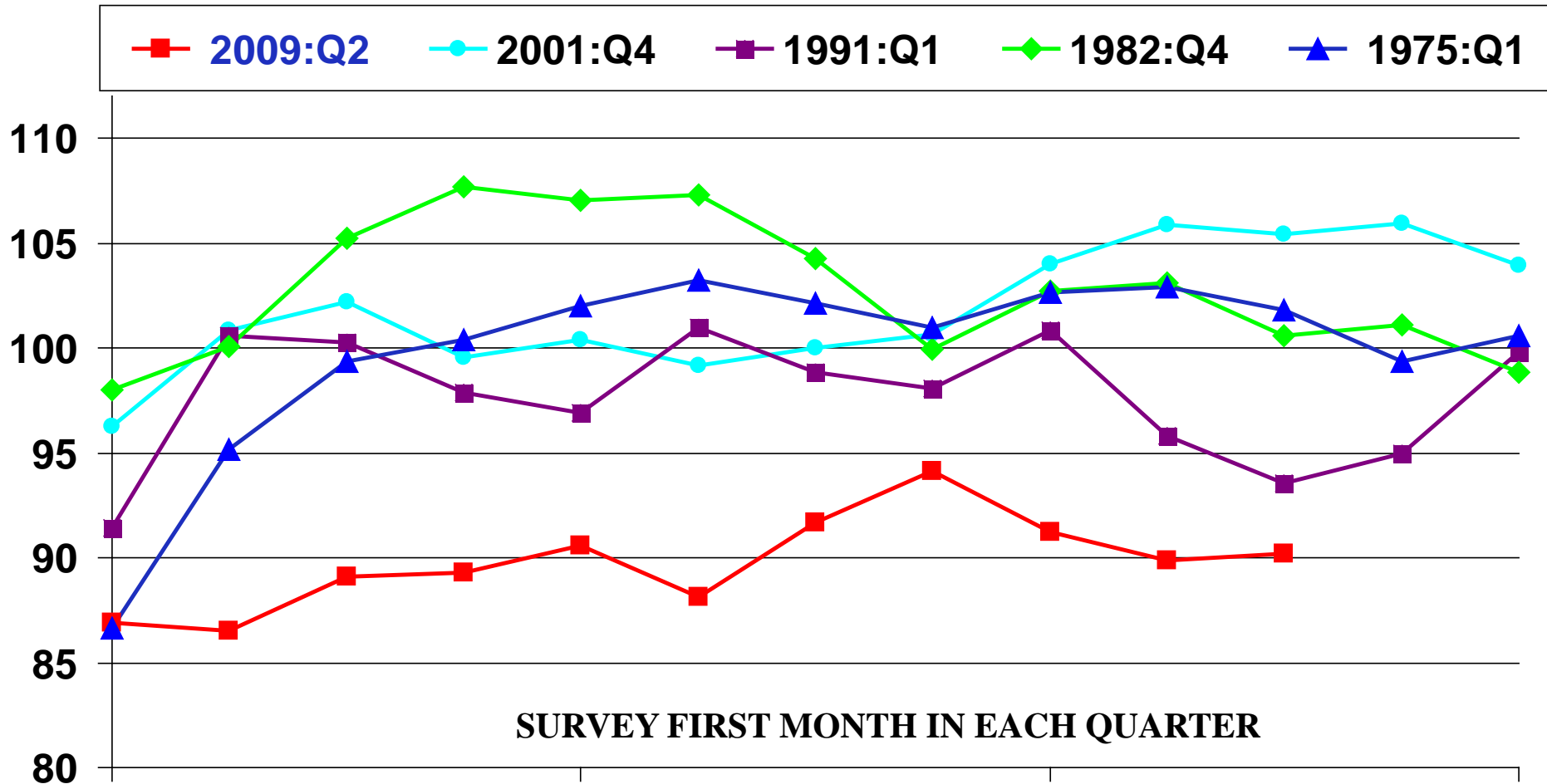


OTHER SPENDING CORRESPONDINGLY WEAK

- CAPITAL SPENDING WEAK
- INVENTORY INVESTMENT WEAK
- LOAN DEMAND WEAK AS A RESULT
- NO PRICING POWER
- TOO MANY FIRMS BUILT 2003-07
COMPETING FOR A SHRINKING LEVEL OF
CONSUMER SPENDING

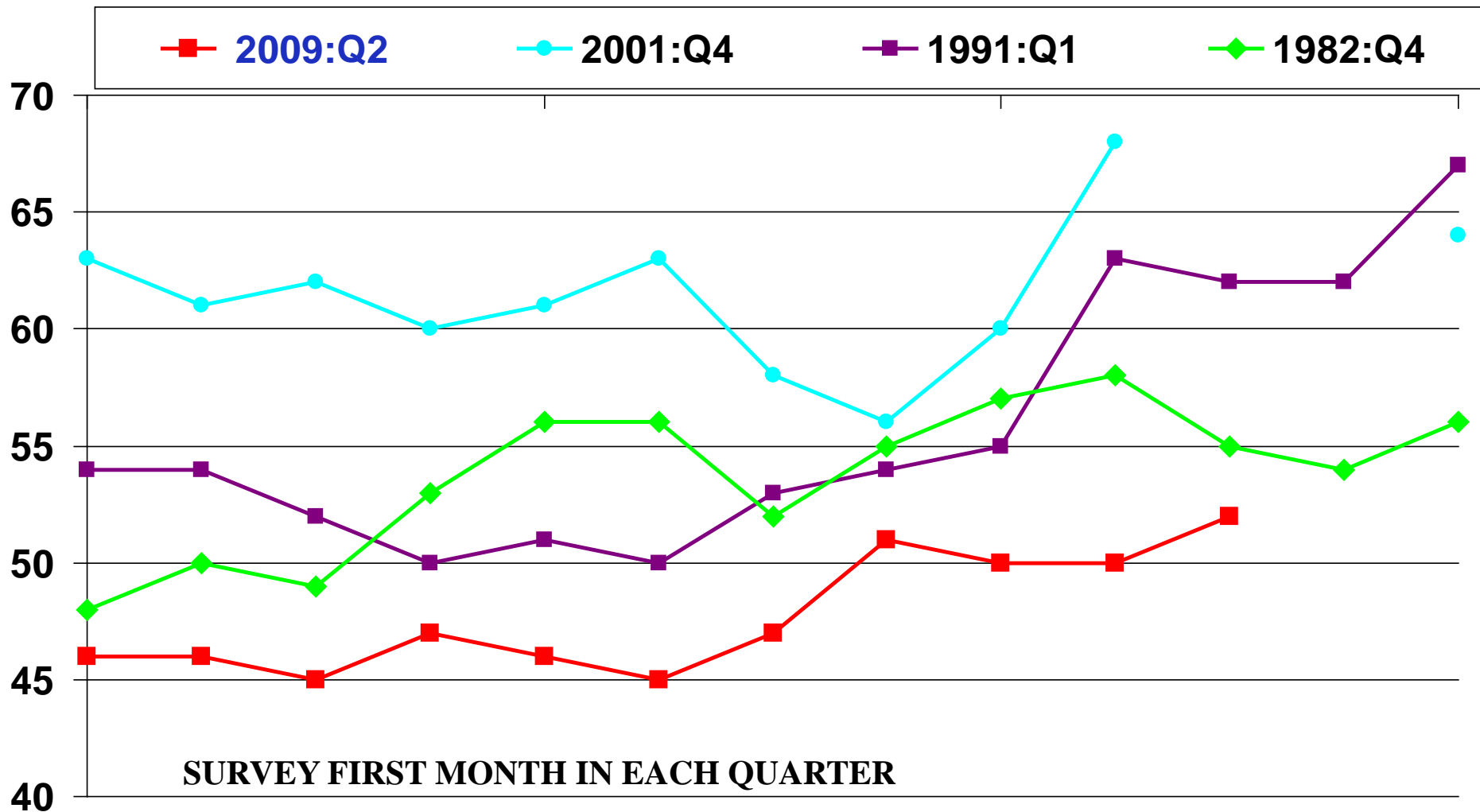


SMALL BUSINESS OPTIMISM INDEX (RECOVERY FROM NBER TROUGH)



PERCENT MAKING CAPITAL OUTLAYS

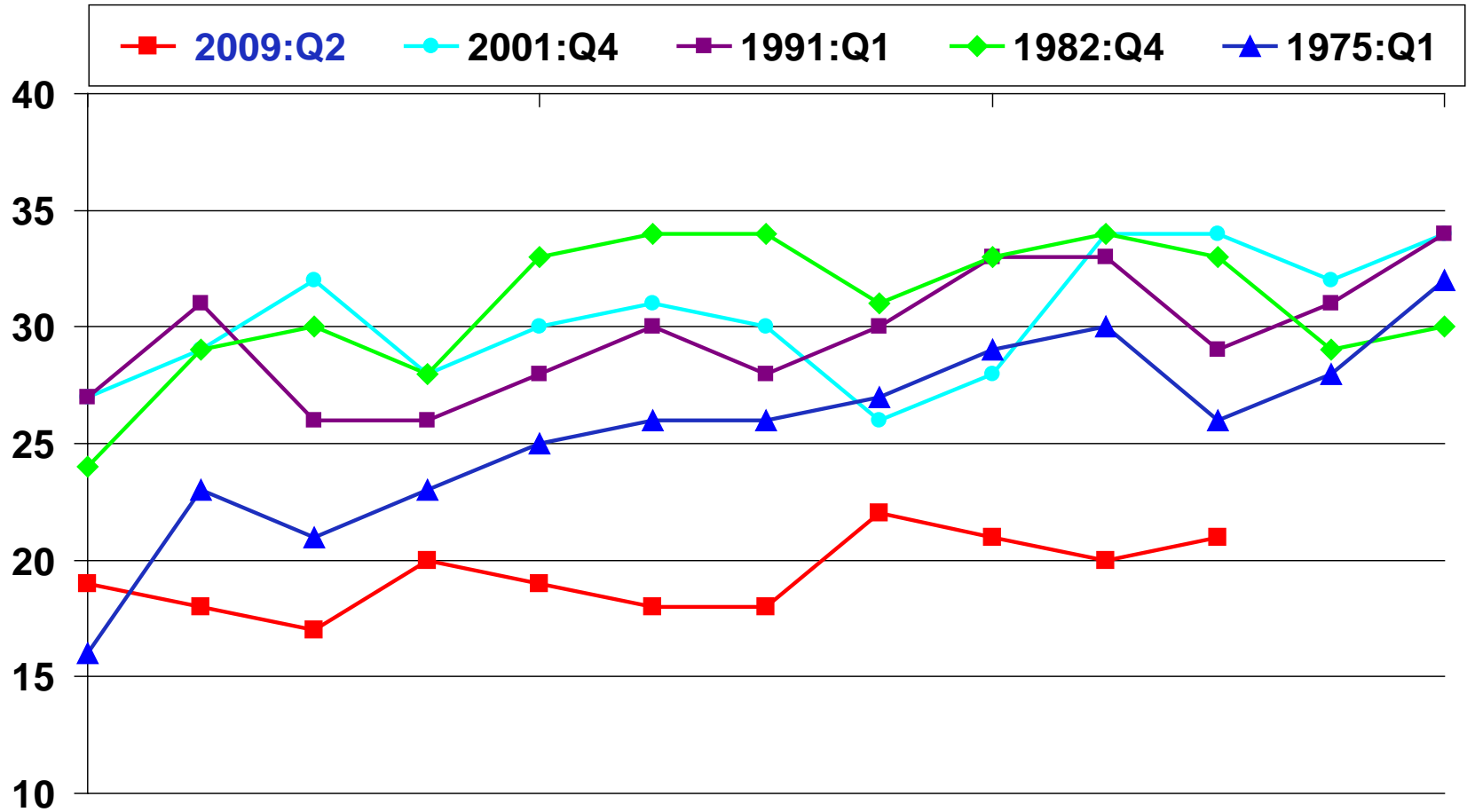
(PREVIOUS 6 MONTHS)
(RECOVERY FROM NBER TROUGH)



PERCENT PLANNING CAPITAL OUTLAYS

(NEXT THREE MONTHS)

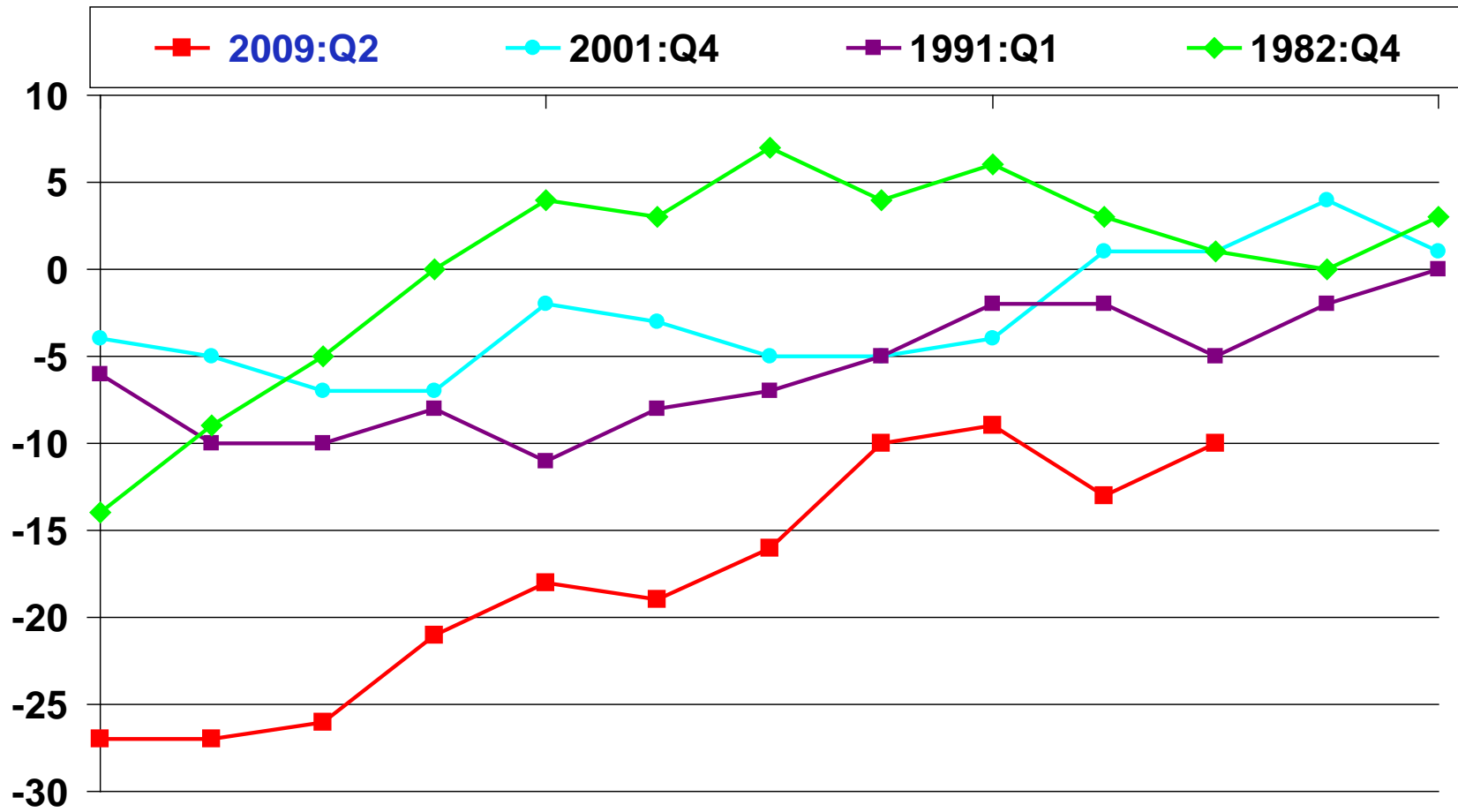
(RECOVERY FROM NBER TROUGH)



INVENTORY INVESTMENT

(NET PERCENT OF FIRMS INCREASING STOCKS)

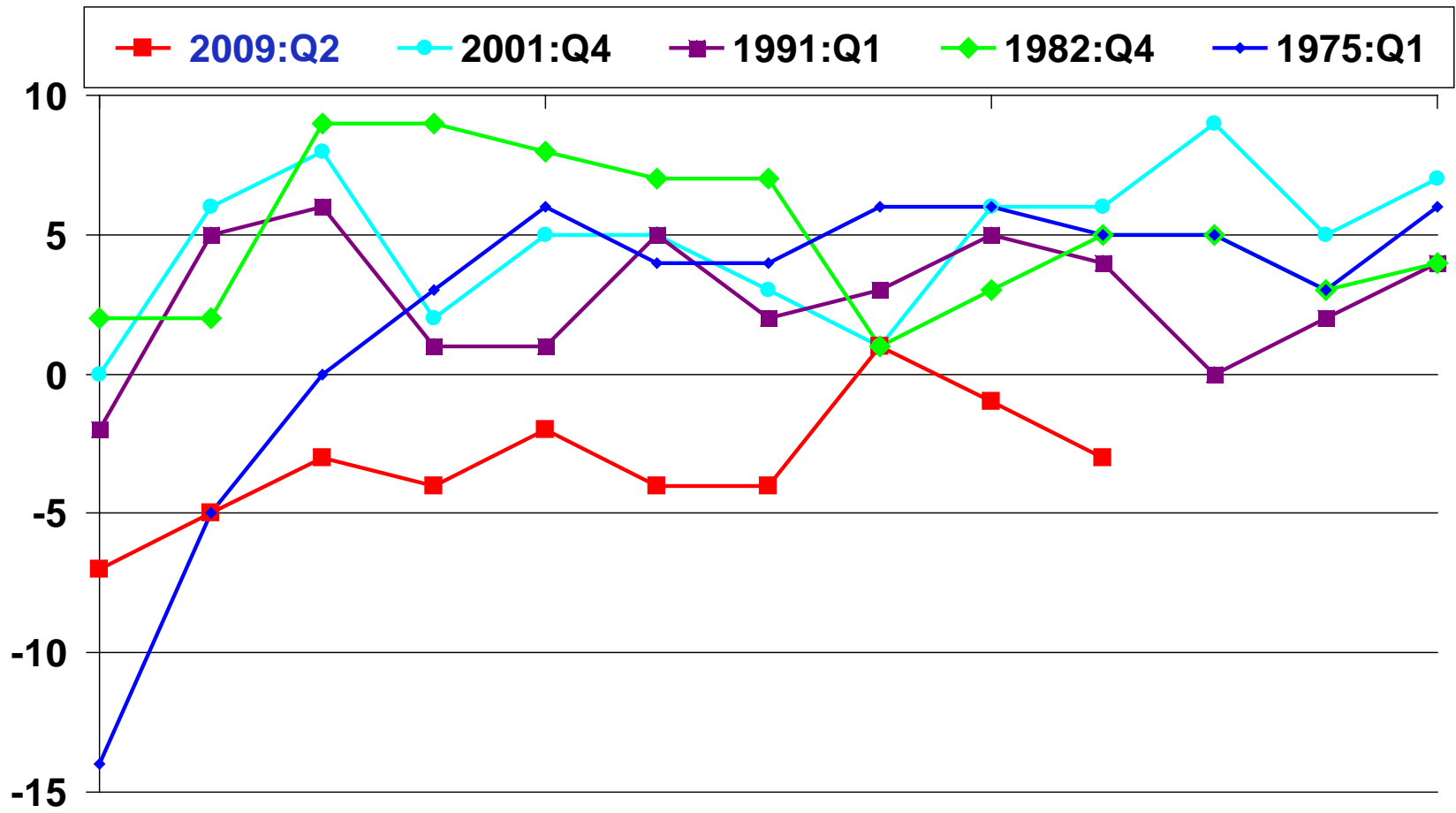
(RECOVERY FROM NBER TROUGH)



INVENTORY INVESTMENT PLANS

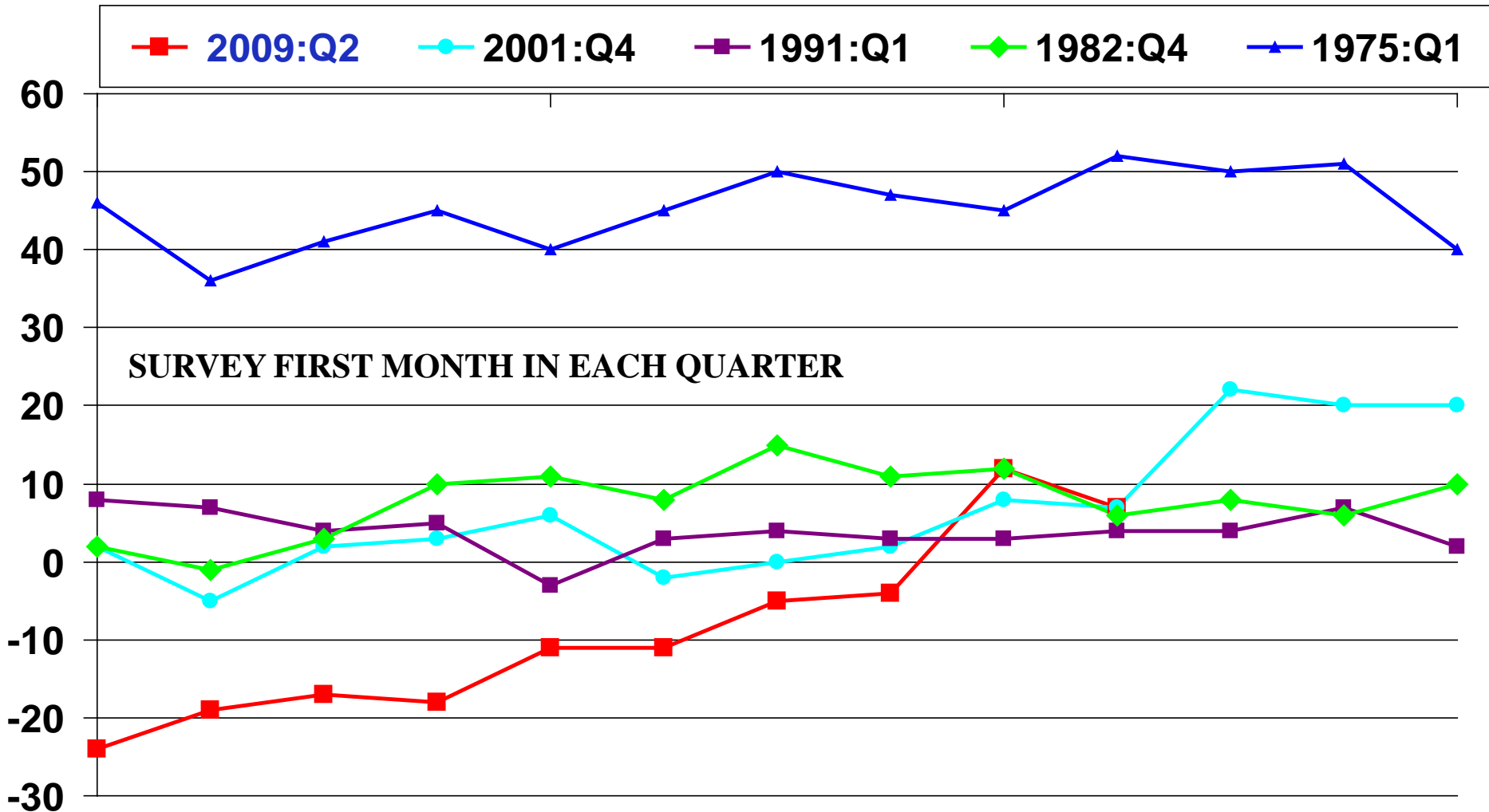
(NET PERCENT OF FIRMS PLANNING TO INCREASE STOCKS)

(RECOVERY FROM NBER TROUGH)



NET PERCENT RAISING SELLING PRICES

(RECOVERY FROM NBER TROUGH)



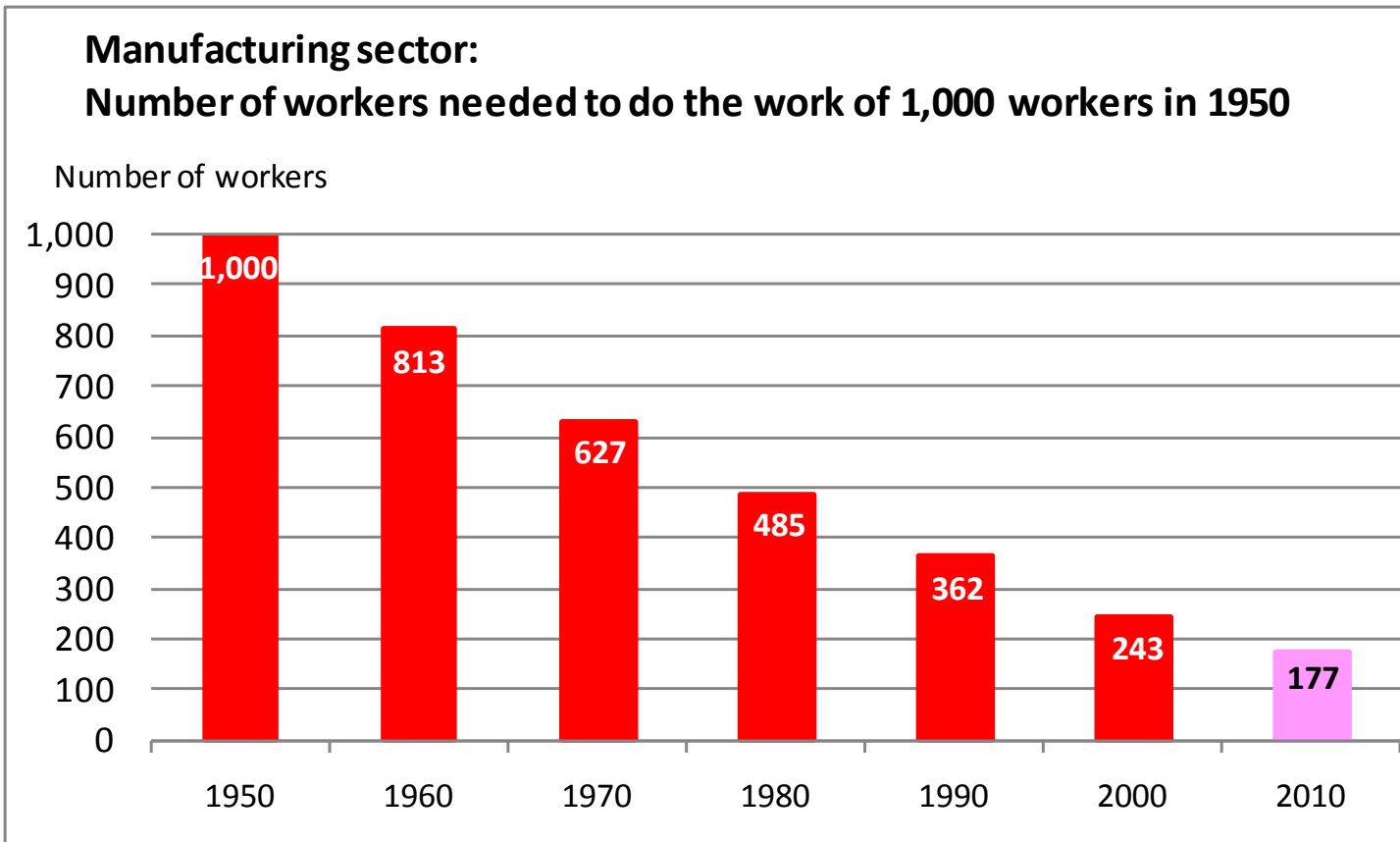
JOBS

- LOST DUE TO DECLINE IN CONSUMPTION
- BANK LENDING IS NOT THE MAIN CAUSE
- BIG BANKS, MAJOR CAPITAL LOSSES, DID CUT BACK ON LENDING TO SME
- EMPLOYMENT AND INVENTORY HAD TO BE ADJUSTED TO LEVEL OF SPENDING
- TOO MANY FIRMS BUILT 2003-07
COMPETING FOR A SHRINKING LEVEL OF
CONSUMER SPENDING ↓
- DON'T NEED TAX CUT, NEED CUSTOMERS

JOBS – LONG TERM

- POPULATION GROWTH -> NEW JOBS
- MOST OF NEW JOBS ARE “LABOR INTENSIVE” , PROVIDED BY SMALL FIRMS
- NEED MORE MFG OUTPUT TOO, DOESN'T REQUIRE MANY NEW JOBS
- CURRENT PROBLEM IS TOO MANY FIRMS, LOW SPENDING, ADJUSTING SUPPLY
- 800,000 STARTS, 700,000 TERMINATIONS
- R&D OF THE ECONOMY, PROVIDES LOTS OF JOBS AND TRAINING

What took 1,000 workers to produce in 1950 takes 177 workers today





UNEMPLOYMENT OFFICE

THE RECESSION'S
OVER - PASS IT
ON ...

UNEMPLOYMENT
COMPENSATION

2009





Politicians

**TRICKLE
DOWN**

Voters