

June 8, 2010

# Small Business Sentiment Improving Some

The National Federation of Independent Businesses released its May survey today. The optimism index rose for a second month to 92.2 from 90.6 in April and 86.8 in March. This cycle's low was 81 in March 2009. The NFIB notes of the May index "seven of ten index components increased but job creation and capital expenditure plans barely moved... The duration of recession readings in the NFIB survey is exceptionally long compared to the 1980-82 recession period."

## **NFIB Optimism Index (last obs. May 2010)**

Based on Ten Survey Indicators  
(Seasonally Adjusted 1986=100)



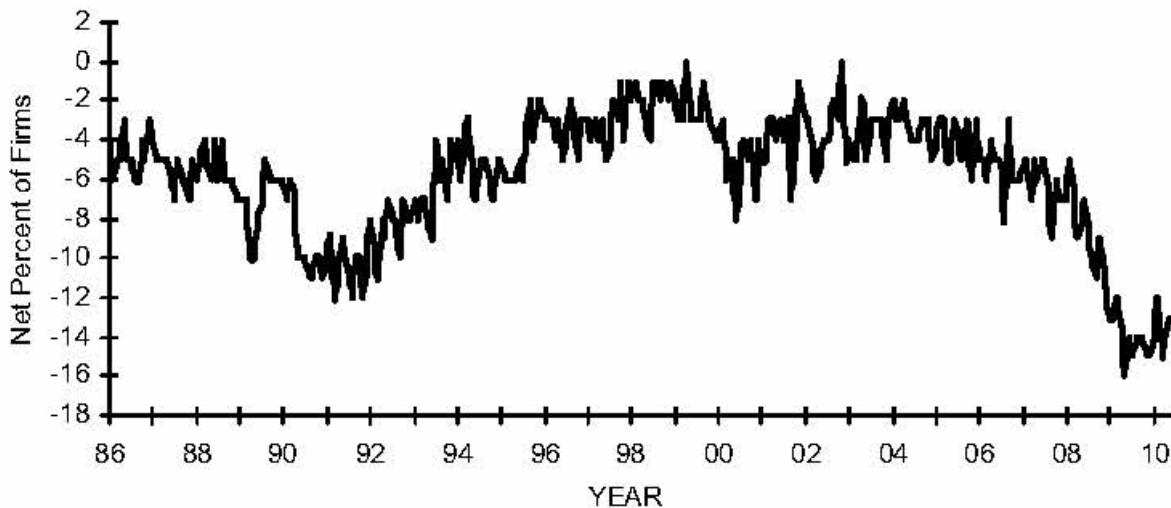
Source: NFIB

In normal recoveries, small businesses often lead in terms of jobs and optimism, but this recovery is still feeling the drag of the post-Lehman credit crunch. While GDP growth is strengthening, it depends more on inventory building, big companies, the run-up in federal debt, and economic strength in Asia than on small business innovation.

- Credit conditions improved slightly to a net negative 13% (companies finding loans easier to get in the last three months minus those find loans harder to get.) The low of this cycle was set in May 2009 at -16%

## NFIB Credit Conditions (last obs. May 2010)

Loan Availability Compared to Three Months Ago\*  
January 1986 to May 2010

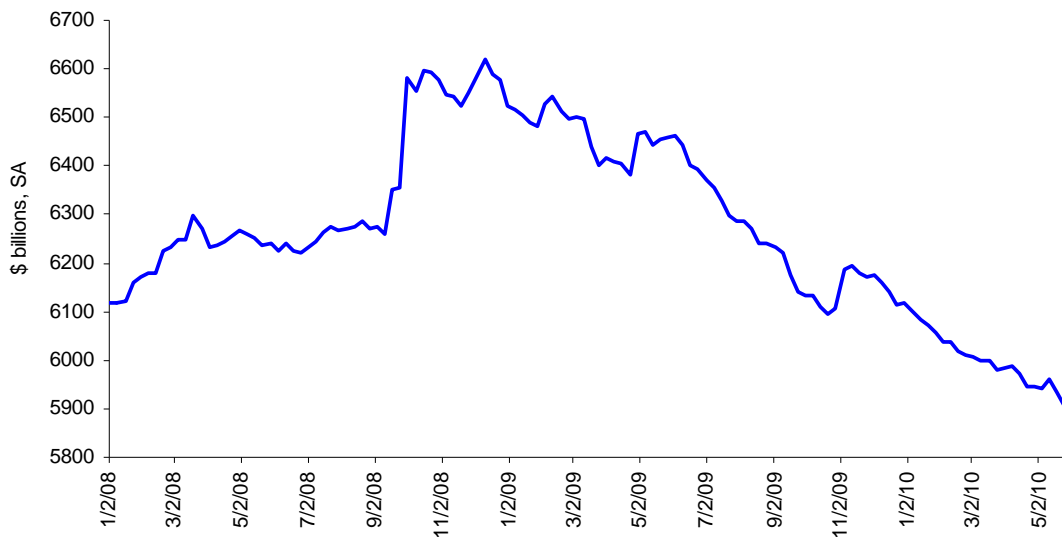


\* For the population borrowing at least once every three months.

Source: NFIB

- Bank loans and leases outstanding have fallen to \$5.9 trillion from a peak of \$6.6 trillion in December 2008. Some versions of this data series show a recent spike, but it is a one-time re-classification of off-balance-sheet vehicles (revolving pools) into loans rather than actual loan growth.

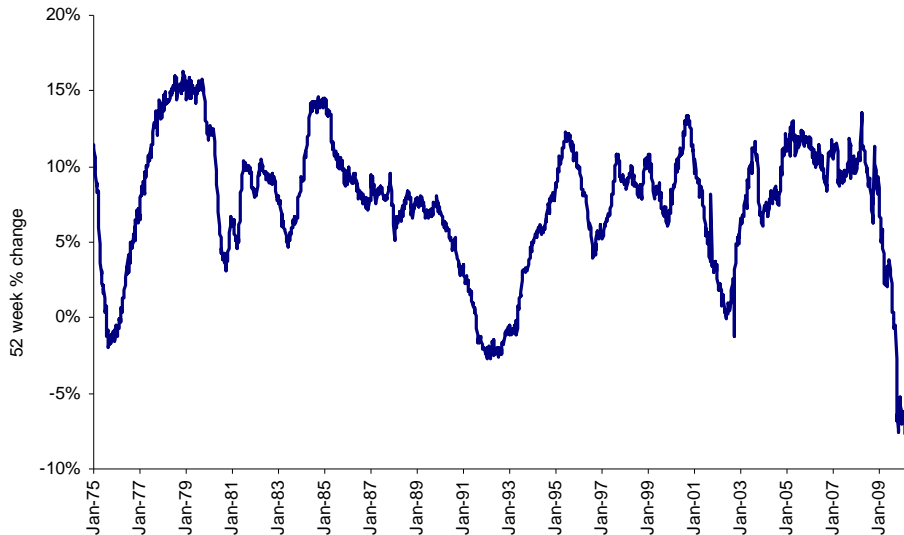
## Loans and Leases at Banks (last obs. May 26, 2010)



Source: Federal Reserve Board; Encima Global

- Loans and leases outstanding contracted over 8% in the last year, the worst year-over-year decline on record. We think Washington's accounting, regulatory and tax policies are contributing to this weakness.

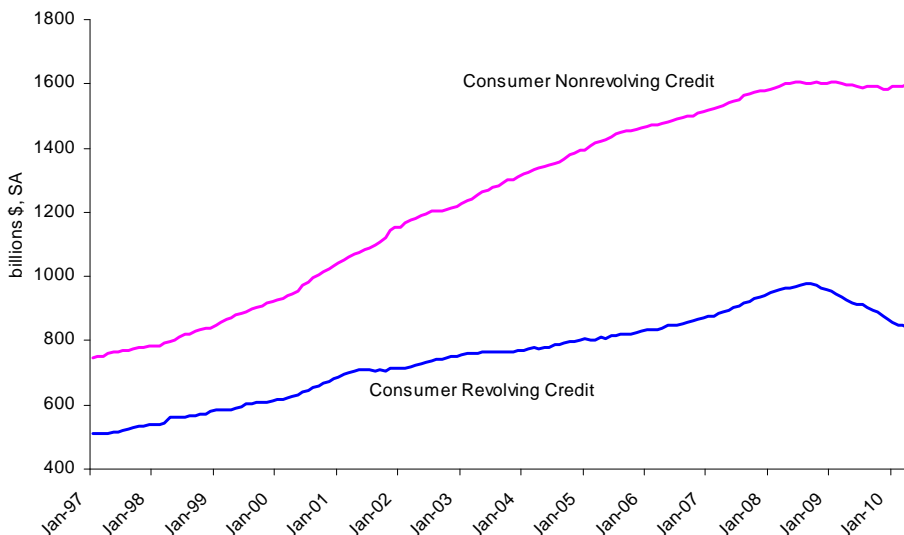
### Loans and Leases at Banks 52 week change (last obs. May 26, 2010)



Source: Federal Reserve Board; Encima Global

- Consumer revolving credit outstanding sometimes used for small business financing fell to \$838.0 billion in April, down \$8.5 billion for the month. It has fallen \$138 billion from the peak in September 2008. Overall, consumer credit rose slightly in April because consumer nonrevolving credit, helped by rising auto sales, rose \$9.5B for the month reaching \$1.6T.

### Consumer Credit (last obs. April 2010)



Source: Federal Reserve; Encima Global

- The NFIB's survey of net changes in employment in the last three months (not graphed) stayed at minus 12%, the same as April's reading. However, the net hiring plans for the next three months (thin line in chart below) showed a seasonally adjusted positive 1%, the first positive figure for hiring plans since September 2008.
- Job openings (bold line in the chart below) fell two points to 9% and is now one point above the low of 8% where it had stayed for the August to November 2009 period.

## NFIB Employment (last obs. May 2010)

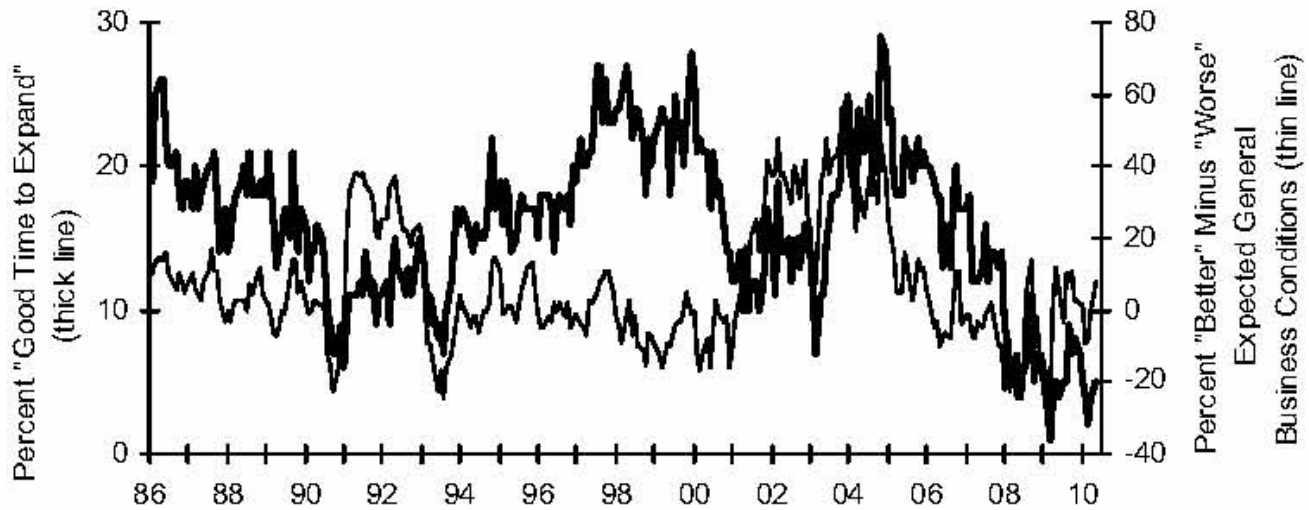


Source: NFIB

- The NFIB survey for May found that the percentage of small businesses who thought the next three months were a “good time to expand” rose to 5% in May from 4% in April (bold line, left scale in graph below). In better times, this survey finds 25% or more responding that it is a good time to expand. NFIB respondents overwhelmingly (45%) cited economic conditions as the reason for their expansion outlook, while the political climate was the second most often cited reason (by 10%).
- The outlook for general business conditions (those who expect conditions to get better minus those who expect conditions to get worse) rose sharply to 8% in May up from 0% in April (thin line, right scale, in graph below). We are finally seeing some improvement in line with the macroeconomic indicators (which are more focused on large companies and the government.)

**NFIB Small Business Outlook (last obs. May 2010)**

Good Time to Expand and Expected General Business Conditions  
*January 1986 to May 2010*  
*(Seasonally Adjusted)*



Source: NFIB

- In the NFIB survey, small businesses were asked “what is the single most important problem facing your business today?” Poor sales ranked first at 30%. Taxes came in second, at 22%, a problem that is expected to get worse by 2011. Government requirements and red tape came in third at 13%.

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