

Annual Report of the Office of Economic Research FY 2014



January 2015

Created by Congress in 1976, the Office of Advocacy of the U.S. Small Business Administration (SBA) is an independent voice for small business within the federal government. Appointed by the President and confirmed by the U.S. Senate, the Chief Counsel for Advocacy directs the office. The Chief Counsel advances the views, concerns, and interests of small business before Congress, the White House, federal agencies, federal courts, and state policy makers. Economic research, policy analyses, and small business outreach help identify issues of concern. Regional Advocates and an office in Washington, DC, support the Chief Counsel's efforts.

For more information on the Office of Advocacy, visit www.sba.gov/advocacy or call (202) 205-6533. Receive email notices of new Office of Advocacy information by signing up on Advocacy's Listservs at https://public.govdelivery.com/accounts/USSBA/subscriber/new?topic_id=USSBA_184.

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Foreword

We are pleased to present this fiscal year 2014 annual report for the Office of Advocacy's Office of Economic Research (OER). Advocacy places a high value on sound economic research, which contributes to better policy for small business, and on providing our small business stakeholders with timely and actionable information about the current economic climate.

Throughout more than 35 years of existence, the Office of Advocacy has conducted economic research as part of its core mission. In 1976, Public Law 94-305 assigned to Advocacy the task of examining "the role of small business in the American economy and the contribution which small business can make in improving competition."

In fiscal year 2014, Advocacy produced 23 contract and internal research reports on a variety of topics including access to capital, employment, environment, minority- and women-owned businesses, procurement, retirement, taxation and veterans.

In addition to these reports, Advocacy economists participated in roundtables and conferences about various small business topics such as small business lending, international trade and entrepreneurship. These outreach efforts are crucial to better understanding and advocating for small business stakeholders nationwide.

We appreciate our stakeholders' contributions in support of the best possible research on small business and we look forward to hearing from you in the year ahead. For more information about the Office of Advocacy, visit our website at www.sba.gov/advocacy.



Winslow Sargeant, Ph.D.
Chief Counsel for Advocacy



Christine Kymn, Ph.D.
Chief Economist/Director,
Office of Economic Research

Introduction

In fiscal year 2014, the Office of Advocacy's Office of Economic Research advanced the mission of providing small business research that is timely and relevant for use by the many stakeholders interested in small business contributions to the U.S. economy.

One of the Office of Advocacy's earliest mandates was "to examine the role of small business in the American economy and the contribution which small business can make in improving competition, encouraging economic and social mobility... and providing an avenue through which new and untested products and services can be brought to the marketplace."¹

In FY 2014, small business was a focus of national debates about economic growth, job creation, and the regulatory environment. The Office of Economic Research responded to the pressing need for new and timely information on small firms by making more information readily available in updated formats and by commissioning research on key topics that included:

- Access to Capital
- Employment
- Environment
- Minority- and Women-owned Businesses
- Procurement
- Retirement
- Taxation
- Veterans

Within these topics was an emphasis on the Great Recession's impact on small businesses. As FY 2014 marked the fifth year of the economic recovery, Advocacy's research focused on factors affecting slow employment growth among small businesses since the recovery began. Other studies examined taxation including internet sales tax and the benefits of federal tax expenditures, as well as issues affecting veterans, minorities and women who own small businesses. In addition, Advocacy continued quarterly updates of its two recurring publications, the Small Business Quarterly Bulletin and the Quarterly Lending Bulletin.

The Office of Advocacy continues to partner with the U.S. Census Bureau to collect and report important data on small business. Advocacy economists process and analyze the data to produce easy-to-understand statistical tables and reports downloadable from Advocacy's website. All of the publications listed in this report can be found at www.sba.gov/advocacy.

To bid on Advocacy contracts for economic research, visit the FedBizOpps website at www.FBO.gov and search for Advocacy.

¹ Public Law 94-305, 1976

Advocacy Research Reports, FY 2014

Access to Capital

Quarterly Lending Bulletin, Fourth Quarter 2013

Author: Steven Nwampka

Released: April 2014

Description: Data for the fourth quarter of 2013 showed signs of improvement in small business lending. For the first time in 15 consecutive quarters, both the value and volume of small business loans increased simultaneously—by 0.4 percent and 1.1 percent respectively.

Quarterly Lending Bulletin, Third Quarter 2013

Author: Victoria Williams

Released: February 2014

Description: Small business loan growth continued to fluctuate in the third quarter of 2013. Total loan values declined slightly, but the actual volume of small business loans increased by 1 percent after being in negative territory for the previous four quarters.

Small Business Finance: Frequently Asked Questions, 2014

Author: Victoria Williams

Released: February 2014

Description: Credit conditions for small businesses were gradually improving, which is portrayed in this frequently asked questions updated for 2014.

Credit Scores and Credit Market Outcomes: Evidence from the Survey of Small Business Finances and the Kauffman Firm Survey

Author: Rebel A. Cole, Krahenbuhl Global Consulting

Released: January 2014 **Research Summary No. 419**

Description: Small businesses often struggle to find available credit. This report analyzes what factors, including business credit scores, may explain credit outcomes (approvals or denials) for small businesses. It further asks what role business credit scores might play in the credit outcomes of women- and minority-owned small businesses.

Quarterly Lending Bulletin, Second Quarter 2013

Author: Victoria Williams

Released: October 2013

Description: Borrowing conditions improved for small businesses in the second quarter of 2013. Between April and June, bankers reported stronger demand along with eased bank lending policies for business loans. Total small business commercial and industrial loans experienced growth for the third consecutive quarter.

Employment

Quarterly Employment Bulletin, Fourth Quarter 2013

Author: Brian Headd

Released: February 2014

Description: The labor market showed signs of improvement in the fourth quarter of 2013, but still had areas of concern. Small business-dominated industries started to turn around as interest rates remained at historical lows.

Crossing the Employer Threshold: Determinants of Firms Hiring Their First Employee

Author: Robert W. Fairlie

Released: December 2013 **Research Summary No. 418**

Description: Job creation is paramount to America's full economic recovery. How can job creation be encouraged? Since small businesses have historically created a disproportionately large share of new jobs, this research analyzes the factors that lead new businesses without employees to hire their first employee.

Quarterly Employment Bulletin, Third Quarter 2013

Authors: Janemarie Mulvey and Brian Headd

Released: November 2013

Description: This bulletin showed small business job growth central to overall employment growth, as construction employment continued to recover. Small businesses were estimated to have created 4.0 million of the 6.4 million private-sector net new jobs since the recovery started.

Environment

Small Business Impacts Associated with the 2010 Oil Spill and Drilling Moratorium in the Gulf of Mexico

Author: Impact Assessment, Inc.

Released: November 2013 **Research Summary No. 417**

Description: This study examines the impacts on small business of the April 2010 Deepwater Horizon oil spill in the Gulf of Mexico. The study scope covered three counties and five parishes in Alabama, Louisiana and Mississippi.

General

Small Business Quarterly Bulletin, Second Quarter 2014

Author: Brian Headd

Released: September 2014

Description: This publication included figures and tables of economic indicators to show the status of small business in the second quarter of 2014. It showed promising signs for small businesses and included data about proprietors' income, establishment births and deaths and various small business employment variables.

Small Business Quarterly Bulletin, First Quarter 2014

Author: Brian Headd

Released: July 2014

Description: This publication included charts and tables of economic variables to show the status of small business in the first quarter of 2014. It showed positive indicators for small businesses and included data about establishment birth and death rates, proprietors' income, employment change by size of firm, labor turnover and self-employment.

2013 Small Business Profiles for States and Territories

Author: Brian Headd and Victoria Williams

Released: June 2014

Description: This publication is an annual analysis of each state's small business activities. In a new and improved format, the profiles feature information on small business employment, industry composition, small business borrowing, exporting, and survival rates, as well as business owner demographics. It provides information for the 50 states, the District of Columbia, the U.S. territories and the United States.

Frequently Asked Questions about Small Business

Author: Brian Headd

Released: March 2014

Description: Advocacy's most requested publication, this FAQ gathers dozens of the latest statistics about America's small businesses in one place. Updated annually, it is an important resource that includes the total number of small businesses, their share of employment and net new jobs, plus starts, closures, and overall contribution to the U.S. economy.

Annual Report of the Office of Economic Research, FY 2013

Author: Office of Economic Research

Released: January 2014

Description: In fiscal year 2013, Advocacy produced 22 contract and internal research reports on a variety of topics including access to capital, small business exporters, entrepreneurship, and minority- and women-owned businesses. This document describes the FY 2013 research and provides links to the publications.

Firm Size Data

Author: Office of Economic Research

Released: Updated as data is available

Description: Firm size data on employers are available from the Statistics of U.S. Businesses (SUSB), Business Dynamics Statistics (BDS), and Business Employment Dynamics (BED) programs and data on nonemployers is available from the Nonemployer Statistics (NE) program. The programs are annual and from the U.S. Census Bureau, except the Business Employment Dynamics which is quarterly and from the U.S. Bureau of Labor Statistics.

Minority- and Women-owned Businesses

Issue Brief: Access to Capital for Women-and Minority-owned Businesses – Revisiting Key Variables

Author: Christine Kymn

Released: January 2014 **Issue Brief No. 3**

Description: Small business owners often struggle to find available credit. Empirical evidence indicates this struggle may be compounded for women and minority business owners, yet it is unclear as to what the explanation may be. Greater clarity may arise from a closer inspection of previously noted key variables, such as credit indicators, personal wealth, and social capital. Further, an overview of the available data may help to clarify both data limitations and opportunities for additional data collection.

Issue Brief: Demographic Characteristics of Business Owners

Author: Jules Lichtenstein

Released: January 2014 **Issue Brief No. 2**

Description: The composition of U.S. business owners shifted slightly between 2007 and 2012. During this five-year period, the share of minority and Hispanic business owners had a moderate increase. These changes largely reflect the growth of Hispanics and minorities in the overall U.S. population and workforce. Meanwhile, women's business ownership rates were stable.

Procurement

Evaluation of the Small Business Procurement Goals Established in Section 15(g) of the Small Business Act: A Report Pursuant to Section 1631(d) of the National Defense Authorization Act of 2013

Author: Henry B. R. Beale, Microeconomic Applications, Inc.

Released: June 2014 **Research Summary No. 423**

Description: This Congressionally mandated report analyzes small business participation in federal procurement at the detailed industry level. It also provides industry procurement rates for all small businesses, as well as those owned by economically and socially disadvantaged individuals, women, 8(a) business owners, veterans, service-disabled veterans, and HUBZone businesses.

Retirement

Understanding Self-Employment Dynamics Among Individuals Nearing Retirement

Author: Bradley T. Heim Consulting

Released: April 2014 **Research Summary No. 422**

Description: Future predictions of baby boomers transitioning to self-employment will be a key catalyst for small business growth in the next decade. However, the rate of self-employment among older workers has been declining according to this study. It explores the various demographic, policy and economic variables that might have influenced this trend.

Taxation

An Analysis of Internet Sales Taxation and the Small Seller Exemption

Authors: Donald Bruce and William F. Fox, University of Tennessee Center for Business and Economic Research

Released: November 2013 **Research Summary No. 416**

Description: As the popularity of online shopping has grown, states have seen their sales tax revenues drop. Federal legislation has been introduced over the past several years to authorize online sales tax collection. This report analyzes the number of firms that would be affected by the small seller exemption (SSE) if legislation that has been considered passes and how much e-commerce is likely to be affected.

Measuring the Benefit of Federal Tax Expenditures Used by Small Business

Authors: John O'Hare, Mary Schmitt and Judy Xanthopoulos, Quantria Strategies

Released: November 2013 **Research Summary No. 415**

Description: Tax expenditures are provisions in the tax law designed to benefit specific groups of taxpayers. They are similar to spending programs but generally do not involve direct federal outlays. Rather, they work through the income tax system, taking the form of special credits, exemptions, deductions, exclusions, and preferential rates. This study estimates the utilization of federal tax expenditure provisions by small and large businesses in 2013.

Veterans

An Exploration of Veteran Business Creation and Management Using the Census Bureau's Survey of Income and Program Participation

Author: Compendium Federal Technology, LLC

Released: February 2014 **Research Summary No. 420**

Description: While many veterans have gained important skills and leadership abilities from their active duty and reserve service that are directly relevant to business ownership, some veterans may have difficulty in starting and growing a business, especially during an economic downturn and slow recovery. The researchers in this study explore 20 years of U.S. Census Bureau data (1984 to 2004) to describe in greater detail the level and nature of veteran involvement in business creation and ownership. A key purpose of this study is to provide important information about any differences in the experience of veterans and non-veterans in business creation and management and to assess whether such differences have changed over time.

Issue Brief: Profile of Veteran Business Owners—More Young Veterans Appear To Be Starting Businesses

Author: Jules Lichtenstein

Released: November 2013 **Issue Brief No. 1**

Description: Veteran business owner demographics and the economic and business environment are changing dramatically and rapidly. This study presents evidence that the proportion of younger veteran business owners (under age 35) increased from 2008 to 2012, as did the share of veteran women business owners. The share of women business owners appears to have increased among both veterans and non-veterans, but at a much greater rate for female veterans.

Data Access

While not a data collection agency, in fiscal year 2014 the Office of Advocacy continued to organize downloadable data related to small businesses and provide links to data on its website at <https://www.sba.gov/advocacy/firm-size-data>. Data cover businesses with and without employees—employer and nonemployer firms. About three-quarters of firms are nonemployer firms; but the larger share of receipts and payroll are in employer firms. The bulk of employer firms are small firms, but data are also provided on large firms for comparison purposes.

Researchers, policymakers, small business trade associations, small businesses and members of the media interested in small business can use the data to investigate the status and role in the economy.

Small Business Data Resources Tool

<https://www.sba.gov/content/small-business-data-resources>

The Office of Advocacy provides a valuable research tool for small business researchers and policymakers—a hyperlinked listing of Small Business Data Resources. The tool lists databases by federal agency or private sector source, hyperlinks the listings to their websites, and keys them to the small-businessrelated topics on which they provide information—all in two one-page summaries. Key topics include demographics, employment, exports, finance, firm size data, firms and establishments, health care, income and sales, pension coverage, taxes, and training.

Although the list includes many of the most widely used data resources, Advocacy notes that inclusion of any specific database on the list does not constitute an endorsement by the Office of Advocacy or the Small Business Administration.

Downloadable Firm Size Data

<https://www.sba.gov/advocacy/firm-size-data>

The Office of Advocacy posts firm size data from a number of sources on its website. For research purposes, Advocacy defines a small business as an independent business having fewer than 500 employees, but many firm size classes are provided. Firm size data for employer firms are from the Statistics of U.S. Businesses (SUSB), Business Dynamics Statistics (BDS), and Business Employment Dynamics (BED) programs. Data on nonemployers are available from the Nonemployer Statistics (NE) program. The programs are annual and are from the U.S. Census Bureau, except for the Business Employment Dynamics, which is quarterly and from the U.S. Department of Labor, Bureau of Labor Statistics. BDS and BED have an age component. All of the programs are essentially based on the universe of private-sector businesses.

Detailed data on owner and business characteristics are available from the U.S. Census Bureau’s Survey of Business Owners (SBO) in years ending in 2 or 7. The SBO, which is part of the Economic Census, provides data and a microdataset for activity in 2007. With data collection now beginning for economic activity in 2012, data will be available in 2015 (see www.census.gov/econ/sbo/ for details).

Statistics of U.S. Businesses

The Office of Advocacy partially funds the U.S. Census Bureau to produce annual data by employer firm size in the Statistics of U.S. Businesses (SUSB) program. SUSB’s employer data include the number of firms, number of establishments, employment, and annual payroll for employment firm size categories by location and industry. Receipts and data by receipt size class are available in Economic Census years (i.e. years ending in 2 or 7). A firm is defined as an aggregation of all establishments owned by a parent company (within a geographic location and/or industry) with some annual payroll. The data consist of static and dynamic data. Static data provide a “snapshot” of firms at a point in time. Dynamic data follow firms from year to year and report job creation and destruction and business births and deaths. Much of the data is listed in time series format with some data available as far back as 1988, but the latest data available lags a few years.

The industry detail available is at the NAICS 6-digit level, meaning that data is available for over 1,000 industries. Geographic data for some of the data items is also available at the county and metropolitan statistical area level, but data this detailed tends to be aggregated to a relatively high industry level.

Business Dynamics Statistics

Business Dynamics Statistics (BDS) include employer firm data by firm age.² BDS contains annual data for states, major industry, and some metropolitan statistical area data. While a relatively new datasource, Census provides a plethora of historical data for BDS with data going back to 1977, but the most current data lags a few years. BDS provides the number of firms, establishments, and employment, along with some dynamics, so firm and job creation can be analyzed.

Business Employment Dynamics

Business Employment Dynamics (BED) contains employer firm data with a focus on employment changes from establishment entry, growth, decline, and exit. Much of the information dates to mid-1992.³ The data are quarterly and some establishments may close and reopen during the year. Fortunately, BLS presents the data in two ways to capture the seasonal firms by listing establishment openings—establishments that did not exist in the previous quarter—and establishment births—establishments that did not exist in the previous year. Classifications are similar for closings and deaths. Some employment data are by firm size such as job creation and destruction, but much of BED is establishment-based and

² See the background paper, *Business Formation and Dynamics by Business Age: Results from the New Business Dynamics Statistics*, by John Haltiwanger, Ron Jarmin, and Javier Miranda for information on the data program, www.ces.census.gov/docs/bds/bds_paper_CAED_may2008_dec2.pdf.

³ See the background paper *Measuring Job and Establishment Flows with BLS Longitudinal Microdata* by Timothy Pivetz, Michael Searson, and James Spletzer for information about the data program, www.bls.gov/opub/mlr/2001/04/art2full.pdf.

does not contain an establishment or firm size component. Annually, BED provides the number of firms and employment by firm size.

Fortunately, BED quarterly data only lags a few quarters, giving users the best insight into current small business conditions.

Nonemployer Statistics

Nonemployer data provides the number of firms and receipts by state, metropolitan statistical area (MSA), and county with industry detail. A nonemployer firm is defined as one that has no paid employees, has annual business receipts of \$1,000 or more (\$1 or more in the construction industries), and is subject to federal income taxes. Note that nonemployer businesses can have more than one owner and are a business. Thus, referring to the nonemployer data as self-employed data (which is the occupation of someone) is not entirely accurate. Nonemployers account for about three percent of business receipts, and about three-quarters of all businesses. The nonemployer section also contains capital expenditure data for both employers and nonemployers.

With nonemployer and SUSB data in recent years, the U.S. Census Bureau has begun using noise infusion for disclosure avoidance. This allows them to provide more data instead of merely providing a disclosed code for a data cell.