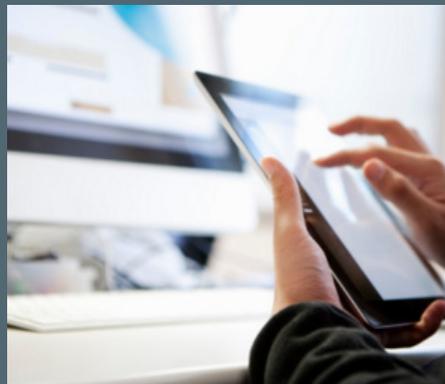


2015 YEAR-END ECONOMIC REPORT



FOREWORD

The National Small Business Association (NSBA) is the nation's first small-business advocacy organization celebrating more than 75 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 our two Economic Reports, which provide both a snapshot of how small businesses are faring and long-term trending data.

The 2015 Year-End Economic Report shows a small-business community with a slightly less optimistic outlook on the overall economy than it held six months ago. Both when comparing today's economy to past years' economy and when projecting economic growth in the coming year, small-business owners expressed greater trepidation today than they did just six months ago.

That said, 75 percent of small-business owners expressed confidence in the future of their own businesses—up from 71 percent six months ago, and the highest this indicator has been in four years. Business growth appeared to stay on track over the last six months with no change in the number of small firms that cited increases in revenues.

It is worth noting that the number of small firms who say they plan to decrease their workforce is at its lowest point in eight years. Unfortunately, those firms that did hire over the last year remained unchanged at 23 percent. On a more positive note, 57 percent of small firms increased employee compensation over the last 12 months—the highest this indicator has been in eight years—and 60 percent said they plan to increase wages in the coming 12 months.

When it comes to financing, small businesses are looking better today than they have in some time. Today, the number of small firms that report being able to access adequate capital is at its eight-year high of 73 percent, up from 69 percent six

months ago. While certainly good news, it is important to remember that more than one-in-four small firms still cannot access adequate financing.

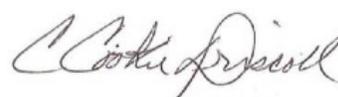
NSBA also asked about cybersecurity issues and found that cyber-attacks cost small businesses on average \$7,115.26. For those firms whose business banking accounts were hacked, the average losses were \$32,020.56.

Finally, we asked a number of policy and politics questions and found that the majority of small-business owners (53 percent) are paying very close attention to the forthcoming presidential elections. Unfortunately, just five percent said that the various presidential candidates understand small business very well while 40 percent said the candidates don't understand small business at all.

The 2015 Year-End Economic Report was conducted on-line Dec. 18, 2015 – January 8, 2016 among 884 small-business owners.

Please contact NSBA's media office for inquiries at press@nsba.biz.

Sincerely,



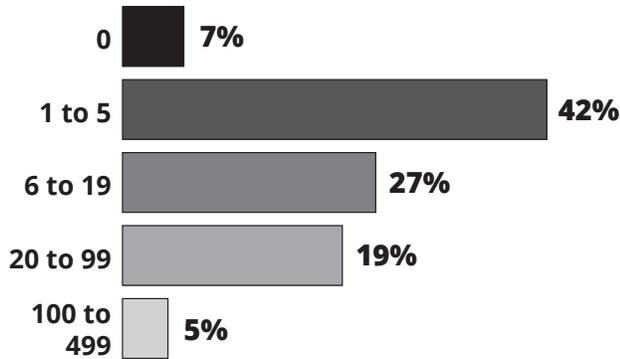
Cookie Driscoll
NSBA Chair
C. Cookie Driscoll, Inc.



Todd McCracken
NSBA President and CEO

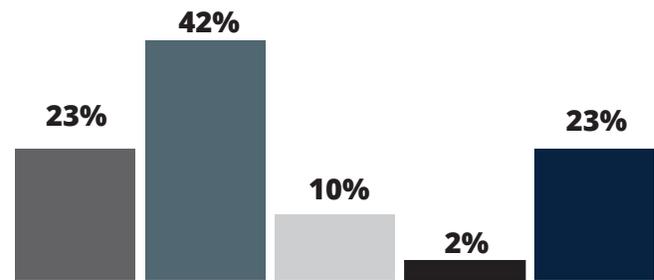
DEMOGRAPHICS

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



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

CORPORATION
 S-CORP
 SOLE PROPRIETORSHIP
 PARTNERSHIP
 LLC



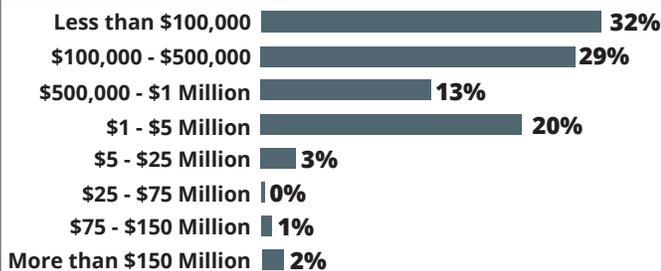
In what region is your business located?

New England	6%
Mid-Atlantic	21%
Great Lakes	18%
Farm Belt	5%
South	25%
Mountain	11%
Pacific	13%

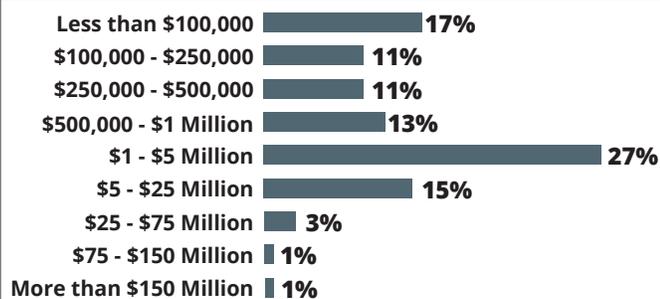
Which of the following best describes the industry or sector in which your business operates?

Manufacturing	16%
Construction	13%
Professional	11%
Other Services (except Public Administration)	10%
Scientific and Technical Services	9%
Retail Trade	9%
Information (IT)	5%
Wholesale Trade	4%
Real Estate, Rental and Leasing	3%
Agriculture, Forestry, Fishing and Hunting	3%
Health Care and Social Assistance	3%
Transportation and Warehousing	3%
Finance	2%
Arts, Entertainment, and Recreation	2%
Educational Services	2%
Administrative and Support	1%
Insurance	1%
Management of Companies and Enterprises	1%
Accommodation and Food Services	1%
Utilities	1%
Public Administration	1%
Waste Management and Remediation Services	1%
Mining	0%

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



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



ECONOMIC OUTLOOK

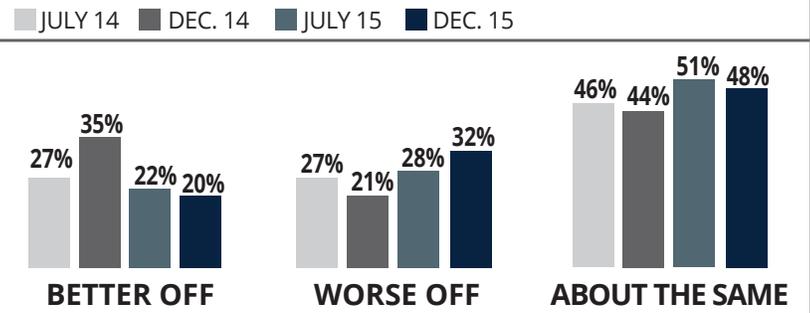
Small-business owners today have a less optimistic outlook on the overall economy than they did six months ago. Today, 32 percent say the economy compared with six months ago is worse off, whereas in July of 2015, that number was 28 percent. When asked to compare today's economy with one year ago, there was a smaller increase among those who said the economy was worse off; and compared with five years ago, there was a small drop in the number of small businesses who said the economy today is better off. Despite these drops in overall economic outlook, all three indicators remain on the more positive end of the long-term spectrum.

The survey also found a majority of small-business owners, 58 percent, are projecting a flat economy in the coming 12 months. While a notable increase from the July 2015 survey, it is worth noting that there was a four percentage point drop among small-businesses who project a recessionary economy.

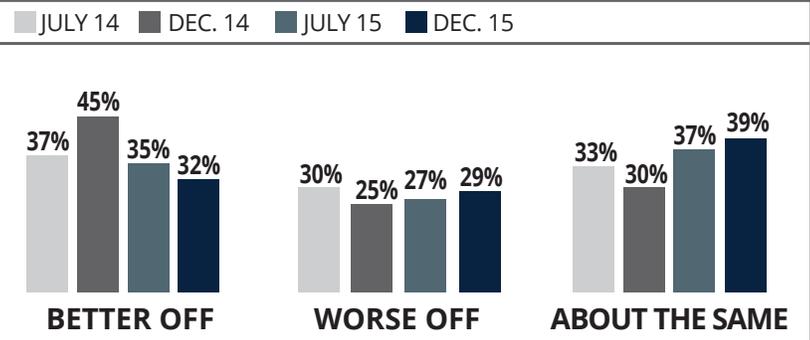
When asked about the most significant challenge to the future growth and survival of their business, 49 percent of small firms cited economic uncertainty, followed by cost of health insurance, decline in customer spending and regulatory burdens.

This slightly more negative outlook is likely driven by the volatile stock market in recent months as well as the growing negative tenor in the presidential campaigns.

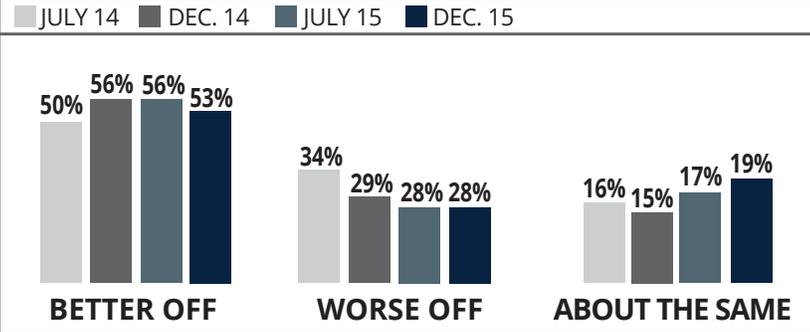
When compared with six months ago, would you say today's national economy is:



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:

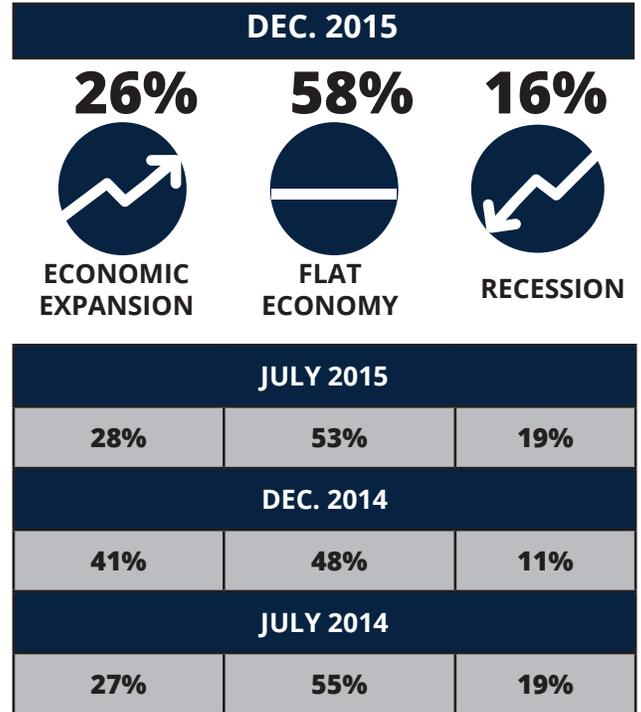


ECONOMIC OUTLOOK

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

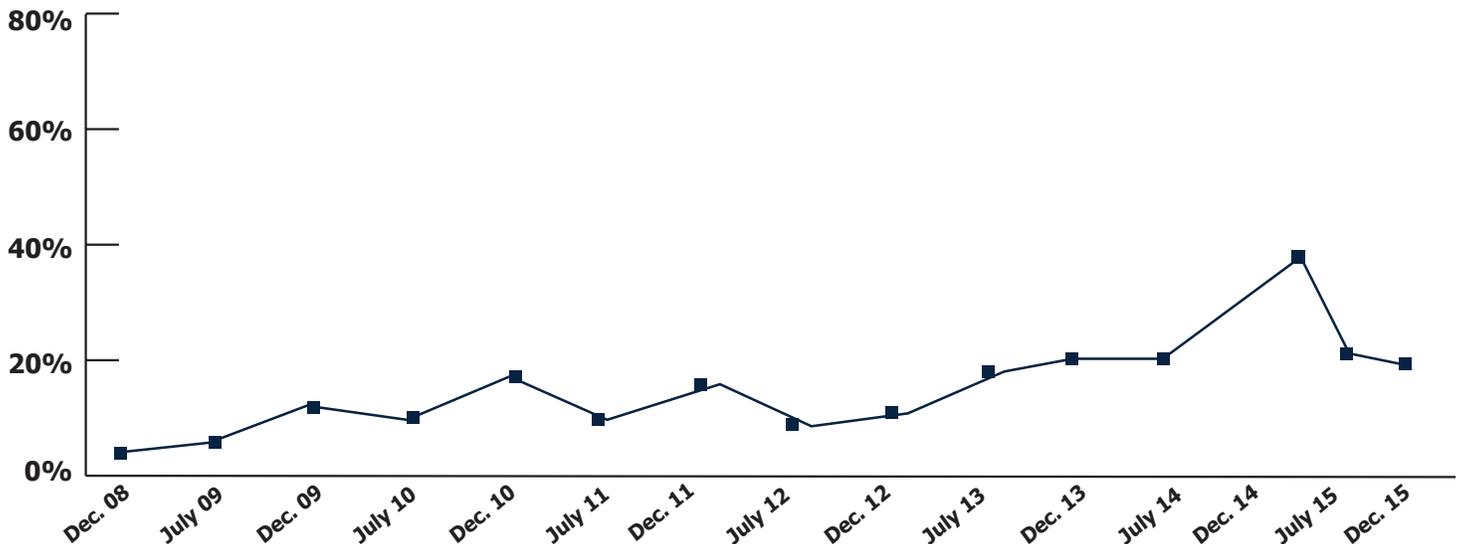
Economic uncertainty	49%
Cost of health insurance benefits	36%
Decline in customer spending	34%
Regulatory burdens	33%
Federal taxes	24%
Lack of qualified workers	21%
Lack of available capital	19%
Cost of employee salaries	15%
Partisan gridlock in D.C.	14%
State and local taxes	12%
Growing national debt	12%
Cost of technology	8%
Cost of employee benefits	6%
Foreign competition	6%
Cost of training workers	5%
No major challenges	3%

Thinking about the next 12 months, do you anticipate:



Thinking about the next 12 months, do you anticipate:

■ Economic Expansion



SMALL BUSINESS CONFIDENCE

The report found a notable increase in the number of small-business owners who say they are confident in the future of their own business, despite the drop in overall economic outlook. Today, 75 percent are confident in their own business—up from 71 percent six months ago, and the highest this indicator has been in four years.

While there were fewer small businesses who reported their business is already growing—down from 20 percent in July 2015 to 17 percent today—there was a commensurate increase among those firms projecting growth opportunities in the coming year.

There was a drop among small-business owners projecting inflation or rising interest rates as a potential problem for their business in the coming year, underscoring the confidence of their own businesses' financial well-being.

Do you believe there will be growth opportunities for your business in the coming year?



Yes



No



Already Growing

DEC. 2015		
50%	33%	17%
JULY 2015		
47%	33%	20%
DEC. 2014		
54%	28%	18%
JULY 2014		
46%	37%	17%

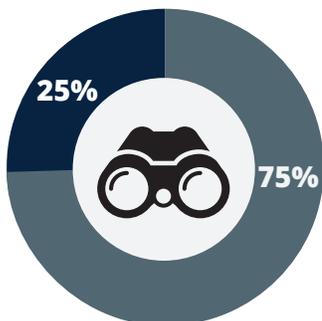
Do you foresee any of the following issues being a problem for your business in the coming 12 months?



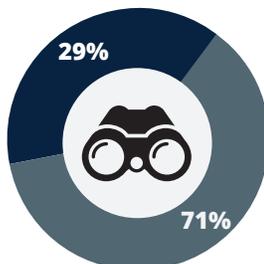
	DEC. 2015	JULY 2015	DEC. 2014	JULY 2014
Inflation	32%	37%	34%	46%
Deflation	6%	5%	8%	4%
Rising interest rates	36%	40%	33%	34%
None of the above	47%	42%	48%	39%

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

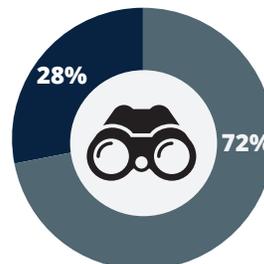
■ Not Confident ■ Confident



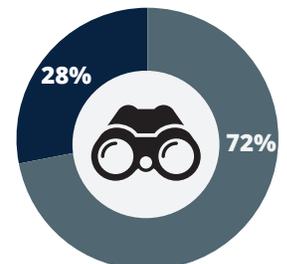
DEC. 15



JULY 15



DEC. 14



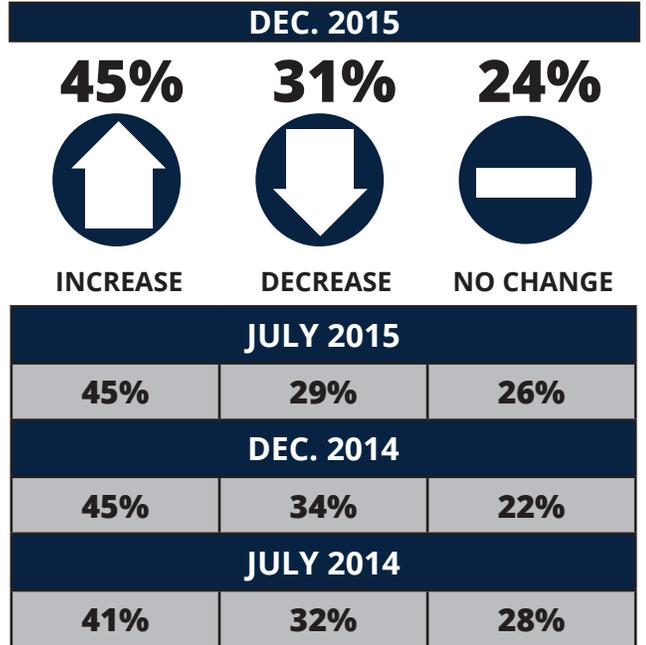
JULY 14

BUSINESS GROWTH

Contrary to the less positive economic outlook, business growth appeared to stay on track over the last six months with no change among small firms who cited increases in revenues. Looking forward to the coming year, the results remained virtually unchanged with 58 percent of small firms projecting revenue growth.

When asked about their growth strategies in the coming 12 months, 50 percent said they plan to implement new advertising and marketing strategies, and 35 percent—up from 30 percent in July 2015—said they plan to expand e-commerce.

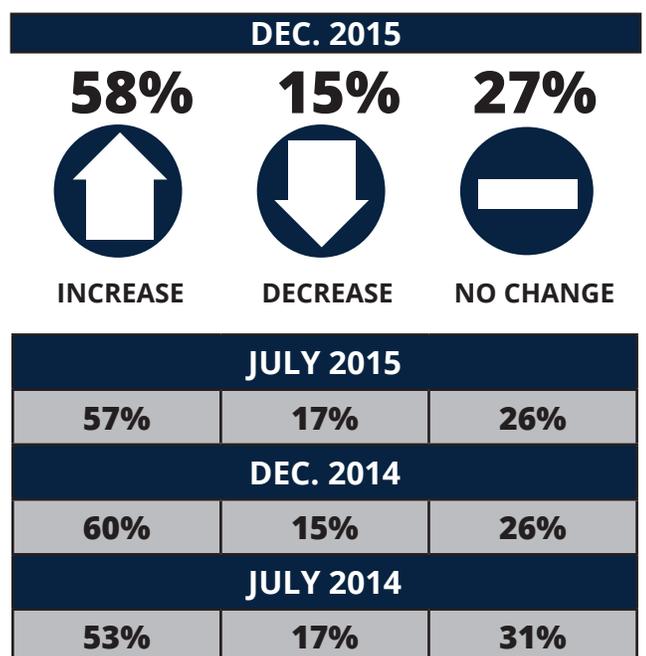
How did your gross sales/revenues change over the last 12 months?



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

New advertising and marketing strategies	50%
Internet / Expand E-commerce	35%
Strategic alliance	33%
Hire new employees	25%
No growth strategies will be used in the next 12 months	18%
Joint Venture	13%
Investments in R&D	11%
Expand operations to new facilities/add additional stores	10%
Other	7%
Outsourcing	7%
Acquisition	6%
Merger	4%

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

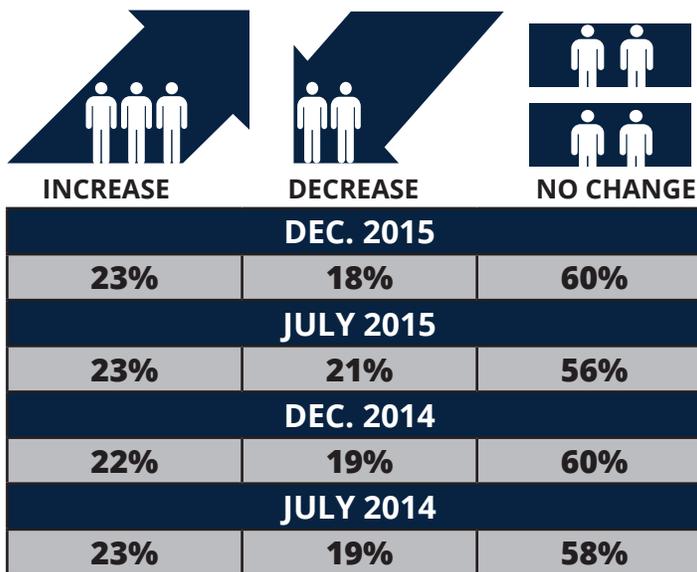


JOB GROWTH

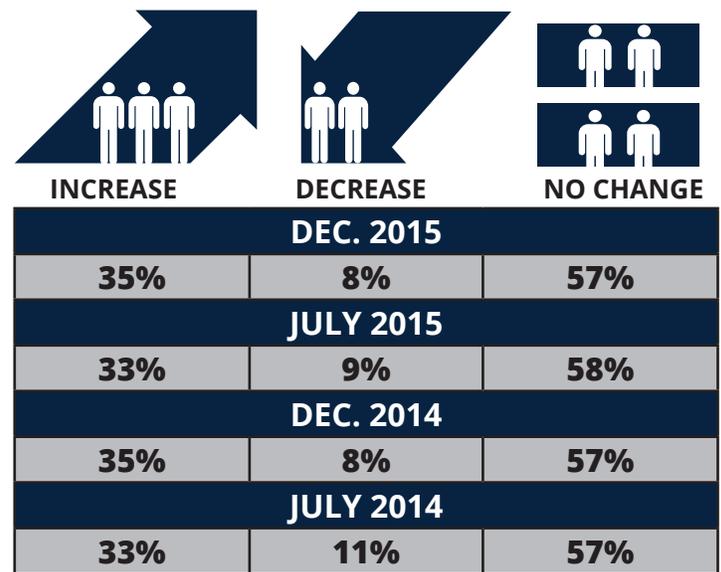
Although there was minimal change among small-business owners when asked about job growth over the past six months, it is worth noting that the number of small firms who say they plan to decrease their workforce is at its lowest point in eight years. Unfortunately, those firms that did hire over the last year remained unchanged at 23 percent. Looking to the coming year, 35 percent said they plan to hire new workers while just eight percent projected decreasing their employment numbers.

When it comes to employee compensation, 57 percent reported they increased employee compensation over the last 12 months—the highest this indicator has been in eight years. Sixty percent said they plan to increase wages in the coming 12 months – up from 52 percent just two years ago. These wage raises underscore the financial confidence small-business owners have expressed.

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



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



How did employee compensation change over the last 12 months?

	DEC. 2015	JULY 2015	DEC. 2014	JULY 2014
Increase	57%	50%	50%	47%
Decrease	10%	11%	15%	11%
No Change	34%	39%	35%	42%

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

	DEC. 2015	JULY 2015	DEC. 2014	JULY 2014
Increase	60%	52%	55%	50%
Decrease	5%	5%	7%	7%
No Change	35%	43%	38%	43%

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 is at its eight-year high of 73 percent, up from 69 percent six months ago. While certainly good news, it is important to remember that more than one-in-four small firms still cannot access adequate financing.

There was little change among small firms when it comes to the kind of financing their company used, with slight drops among those small firms that relied on earnings of the business and credit cards. There was a very minor uptick in loan usage which, coupled with the other lending data, indicates a slight easing in credit and lending for small firms. Yet more must be done to address the 27 percent of small firms who cannot access financing.

Nearly one-in-five small firms experienced an increase to their lines of credit or credit cards, the highest this indicator has been in six years. This indicates both that the financial standing of small business is improving, and that banks and other lenders appear slightly less risk-averse than they were the preceding several years. There also exists the possibility that expected Fed rate increases have positively encouraged lenders to provide more financing to their small-business clients.

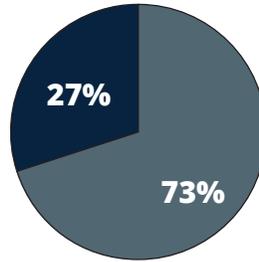
The absence of capital continues to hinder small-business owners' ability to finance increased sales and increase inventory to meet demand. Nearly one-in-five small firms say lack of capital availability has rendered them unable to finance increased sales. On the positive side, however, there was a notable drop, from 18 percent in July 2015 to 14 percent today, in the number of small firms that had to reduce their workforce due to an inability to garner adequate financing.

NSBA asked about the implementation of new Chip credit cards, and found that for the majority of small firms, 73 percent, there has been no impact so far. A total of 13 percent of small firms have had to pay for equipment and software upgrades to be compliant with the new law.

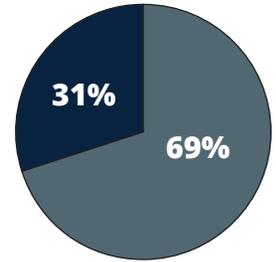
Is your business able to obtain adequate financing?

■ NO ■ YES

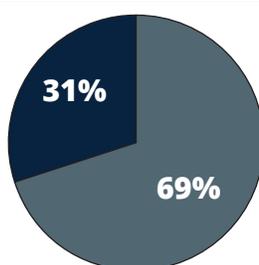
DEC. 2015



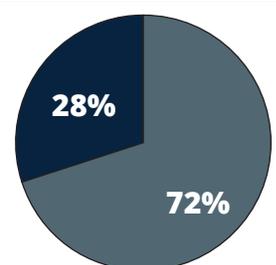
JULY 2015



DEC. 2014



JULY 2014

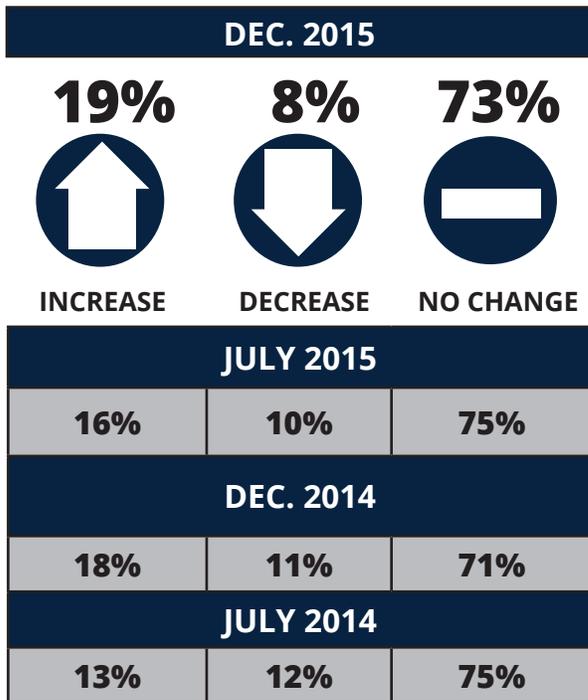


If capital availability is a problem for your business, what is the effect on your operations?

	DEC. 2015	JULY 2015	DEC. 2014	JULY 2014
Unable to grow business or expand operations	31%	33%	34%	33%
Unable to finance increased sales	18%	17%	18%	15%
Reduced the number of employees	14%	18%	16%	18%
Unable to increase inventory to meet demand	10%	12%	13%	10%
Reduced benefits to employees	10%	12%	11%	12%
Closed stores or branches	1%	2%	1%	3%
Not a problem / No effects	61%	57%	56%	57%
Other (please specify)	3%	3%	3%	2%

SMALL BUSINESS FINANCING

Have you experienced any of the following changes on any of your lines of credit or on your credit cards in the last six months?



For bank loans that are currently outstanding, which of the following has occurred in the last 12 Months?

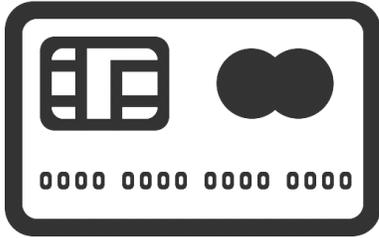
	DEC. 2015	JULY 2015	DEC. 2014	JULY 2014
Terms have become less favorable to your business	11%	11%	9%	10%
Terms have stayed the same	41%	42%	39%	38%
Terms have become more favorable to your business	4%	4%	5%	6%
Do not have outstanding loans	43%	43%	47%	45%

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

	DEC. 2015	JULY 2015	DEC. 2014	JULY 2014
Bank Loan (Total of 3 options below)	43%	42%	41%	40%
--- Large Bank Loan	21%	20%	17%	19%
--- Community Bank Loan	19%	18%	20%	19%
--- Credit Union Loan	3%	5%	4%	2%
Earnings of the business	33%	37%	35%	32%
Credit cards	31%	34%	36%	30%
Used no financing	27%	25%	27%	28%
Vendor credit	16%	18%	19%	15%
Private loan (friends or family)	14%	16%	18%	17%
Leasing	4%	7%	6%	6%
Small Business Administration (SBA) loan	3%	5%	3%	4%
Online or non-bank lender	3%	2%	1%	1%
State/Regional Loan and Incentive Programs	2%	1%	1%	1%
Private placement of debt	1%	2%	2%	2%
Selling/pledging accounts receivable	1%	1%	3%	2%
Venture capital/Angel investors	1%	1%	2%	N/A
Private placement of stock	1%	1%	1%	2%
Other	5%	5%	5%	5%

SMALL BUSINESS FINANCING

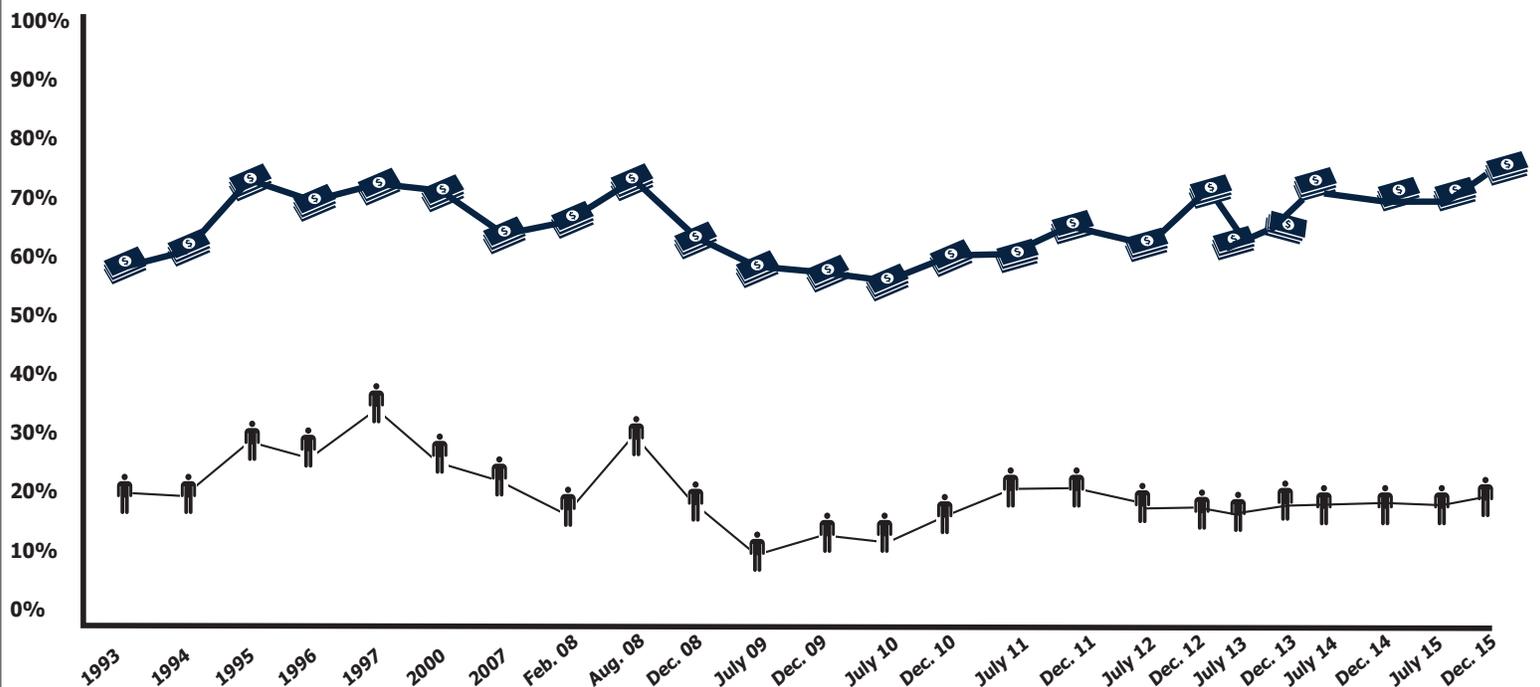
How has the transition to Chip credit cards impacted your business?



	DEC. 2015	JULY 2015
I have, or will have to spend up to \$500 on new processing equipment	6%	6%
I have, or will have to spend up to \$2,000 on new processing equipment	4%	4%
I have, or will have to spend up to \$5,000 on new processing equipment	1%	1%
I have, or will have to spend more than \$5,000 on new processing equipment	2%	2%
There has been no impact	73%	50%
Not sure	11%	36%
Other	0%	2%

CORRELATION BETWEEN AVAILABILITY OF CAPITAL AND EMPLOYMENT GROWTH

■ Able to get financing ■ Increased Employment



CYBERSECURITY

In addition to the various economic, financing and policy questions we asked in this survey, NSBA also dedicated several questions to the issue of cybersecurity and how cyber-crimes impact America's small firms.

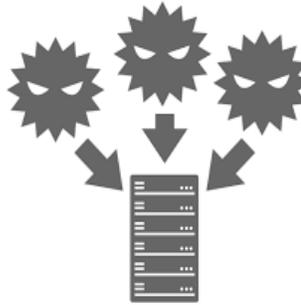
Given the increasingly commonplace occurrence of hacking and cyber-crimes, coupled with the fact that small-business owners are handling more of their firm's IT operations, cybersecurity is a growing concern for small business.

Today, 42 percent of small businesses report they have been the victim of a cyber-attack – down from 50 percent just one year ago. That likely is due to growing media coverage of cyberattacks as well as improved protections against these attacks.

The most common kind of cyber-attack was: general computer hacks, followed by stolen credit card information and website hacks. There was a notable increase over the last year in the amount of time required to resolve a cyber-attack: today, 42 percent say it took them more than three days to resolve the issue, up from 36 percent last year.

Cyber-attacks cost small businesses on average \$7,115.26. For those firms whose business banking accounts were hacked, the average losses were \$32,020.56, up from \$19,948 one year ago. This significant jump is likely due, at least in part, to the increased sophistication in phishing and hacking schemes as well as an improved economy that finds greater funds available in many small firms' bank accounts than was there previously.

Has your business been the victim of a cyber-attack (i.e. computer virus, malware/spyware, website hack, credit card or banking hack or trojan, etc.)?



	DEC. 2015	DEC. 2014
Never	58%	50%
Only once	17%	16%
2 to 5 times	21%	28%
More than 5 times	4%	6%

What was the nature of the cyber-attack? (check all that apply)

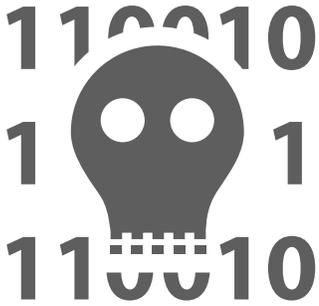
My computers were hacked	34%
My credit card information was stolen	31%
My website was hacked	17%
Our entire network was hacked	13%
My bank account was hacked	10%
My company information was hacked from a third-party (i.e.: insurance company, accounting company, etc...)	7%
Our cloud data was hacked	2%
Other	16%

Has your business been the victim of a cyber-attack (i.e. computer virus, malware/spyware, website hack, credit card or banking hack or trojan, etc.)?

	DEC. 2015	DEC. 2014
In the last 12 months	63%	61%
Between 1 and 2 years ago	22%	27%
Between 3 and 5 years ago	11%	10%
More than 5 years ago	4%	3%

CYBERSECURITY

On average, how long did it take to resolve cyber attacks?



	DEC. 2015	DEC. 2014	AUG. 2013
Less than 1 day	24%	30%	38%
Between 1 - 3 days	34%	34%	40%
Between 3 - 7 days	15%	14%	11%
More than a week	10%	9%	7%
More than two weeks	16%	13%	5%

How have cyber attacks impacted your business? (check all that apply)

I incurred a service interruption	48%
My website was down	25%
Information was falsely sent from my domains or email addresses	22%
The attack enabled hackers to access my business credit card(s)	20%
Sensitive information and data was stolen	8%
The attack enabled hackers to access my business banking account(s)	8%
Information about and/or from my clients was stolen	4%
Other (please specify)	13%

Approximately how much did this cyber-attack cost your business?



Average Estimated Cost

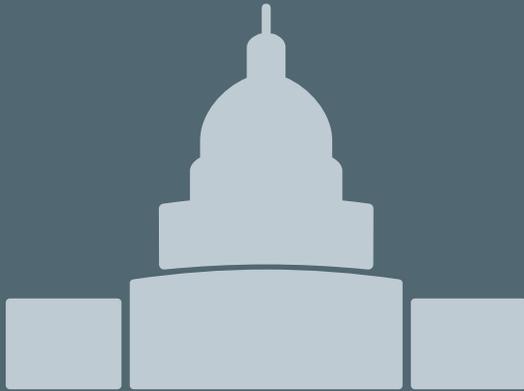
\$7,115.26



Average Money Stolen from Bank Account

\$32,020.56

PUBLIC POLICY



The 2015 Year-End Economic Report asked general questions on policy to determine what small business wants from our elected officials. The number one response: reduce the national deficit. That was followed closely by end the partisan gridlock, simplify the tax system and reduce tax burdens.

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. When asked what ways they are coping with rising and/or volatile energy costs, nearly one-third said they've raised prices and one-in-ten said they have reduced their workforce.

No surprise given the political acuity of the small-business community, when asked how closely they have been following the presidential primary contests, the majority of small-business owners (53 percent) said very closely. Unfortunately just five percent said that the various presidential candidates understand small business very well while 40 percent said the candidates don't understand small business at all.

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

Reduce the national deficit	20%
End the partisan gridlock and work together	16%
Simplify the tax system	15%
Reduce the tax burden	9%
Rein-in costs of health care reform	9%
Reduce the regulatory burden on businesses	8%
Increase small business access to capital	5%
Reform the immigration system	4%
Improve education to provide a qualified domestic workforce	2%
Reform the federal contracting system	1%
Reduce the burden of unfair labor laws	1%
Tort reform	1%
Remove barriers to small-business exporting	1%
Credit card reform (that includes small business)	1%
Other	6%

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

Reform and reduce entitlement spending	63%
Targeted cuts for certain federal agencies and programs	52%
An across-the-board budget cut for federal agencies	35%
Eliminate all tax credits and deductions in conjunction with dramatically lower income tax rates	32%
Greater authority of the administration to reduce Congressionally-approved spending	32%
A combination of tax increases and spending cuts	24%
Eliminate certain tax credits and deductions—even those which may benefit my business	24%
A tax increase for those making more than \$250,000 annually	21%
Other	10%

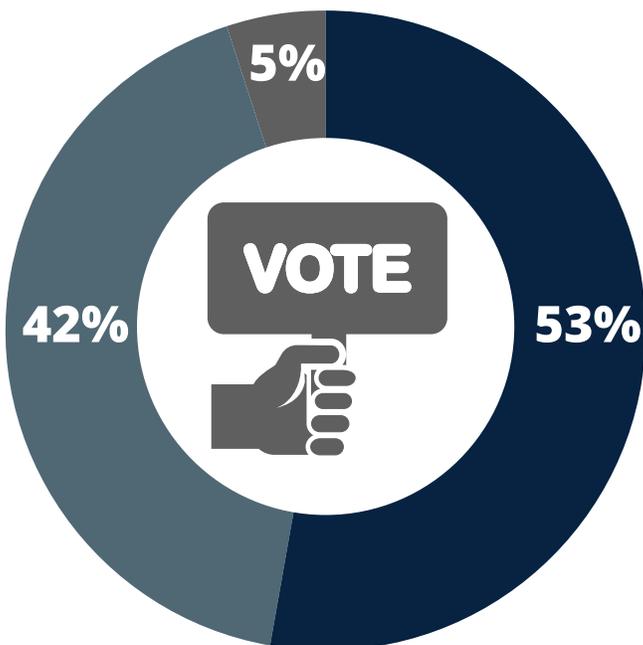
PUBLIC POLICY

In what ways have you coped with rising and/or volatile energy costs in the past five years? (Check all that apply)

I haven't been subject to rising and/or volatile energy costs	36%
Increased prices	29%
Reduced amount of business travel	20%
Purchased new technologies with better efficiency	20%
Reduced energy use through new company policies or programs	16%
Reduced workforce	10%
Reduced employee benefits	8%
Changed or streamlined production process	6%
Limited production schedule	3%
Increased use of public transportation	2%
Other (please specify)	5%

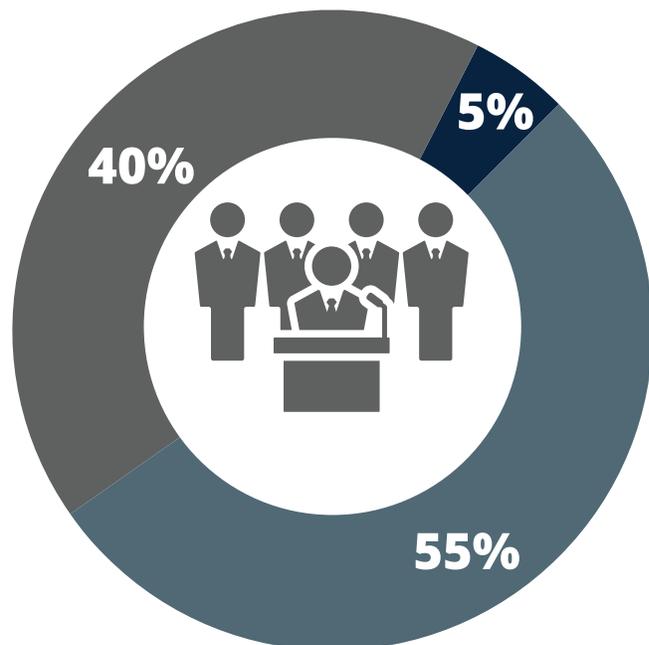
How closely have you been following the Republican and Democratic primary contests?

Very Somewhat Not At All



How well do you think the various presidential candidates understand small business?

Very Somewhat Not At All



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.

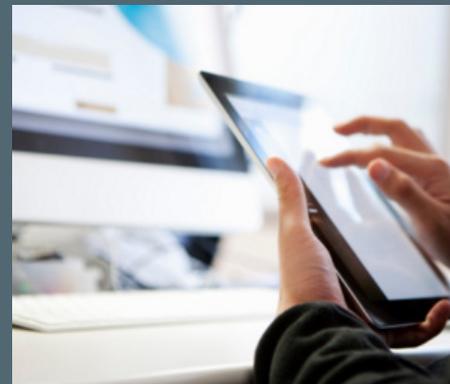
For past Economic Reports and other issue-specific surveys from NSBA, please visit our [Surveys & Reports](#) page on the NSBA website.

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 2015 Year-End Economic Report was conducted on-line Dec. 18, 2015 – January 8, 2016 among 884 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