

ECONOMIC BULLETIN

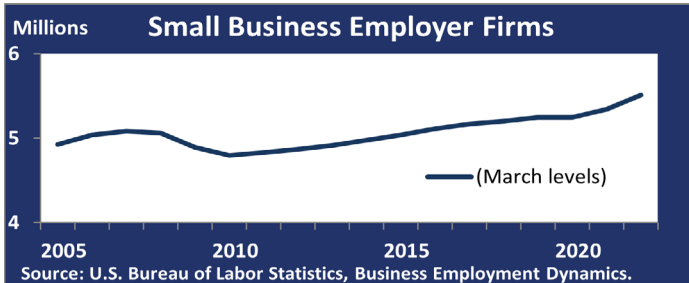
JUNE 2023

SMALL BUSINESS AT A GLANCE

Most small business indicators are trending up, namely the number of firms and job creation. However, instability in the banking sector and increasing interest rates could cause concern for small businesses.

GENERAL

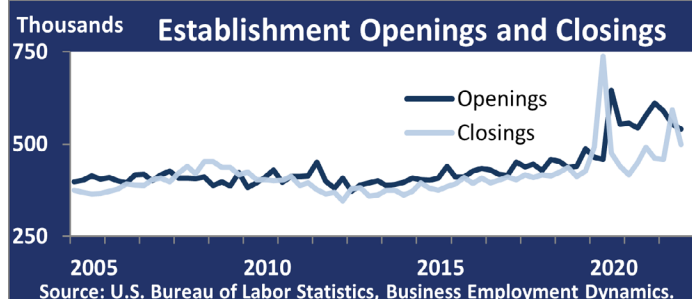
by Brian Headd and Victoria Williams



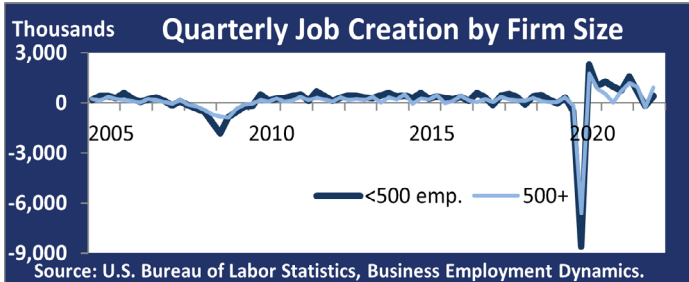
The number of small business employer firms (fewer than 500 employees) is growing after the lull during the early stages of the COVID-19 pandemic. In comparison to the Great Recession, the effects of COVID-19 on small employers were muted.

Establishment (business locations with employees) openings and closings both spiked in 2020. In the last few years, openings have stayed high, and closings are rising.

Quarterly openings and closings could be seasonal locations and should be considered a relatively consistent overcount of actual births and deaths.

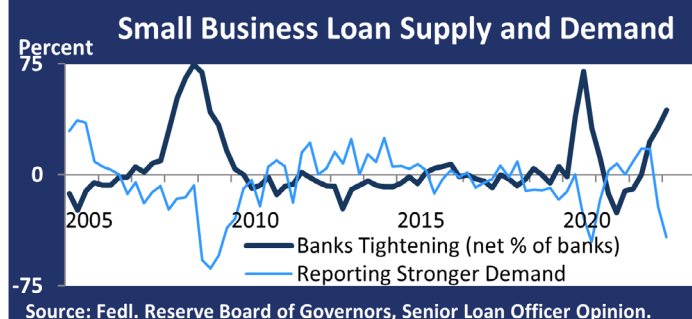


By the third quarter of 2022, both small (<500 employees) and large firms had recovered all the net jobs lost in the second quarter of 2020.

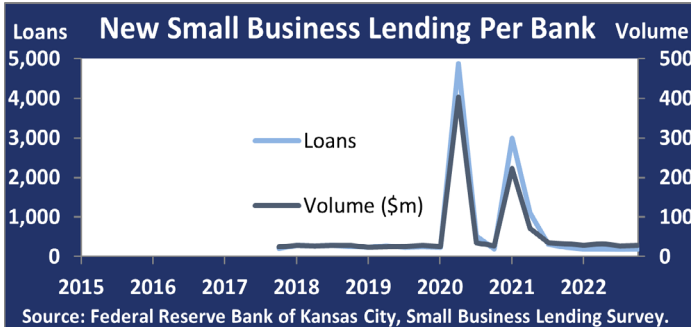
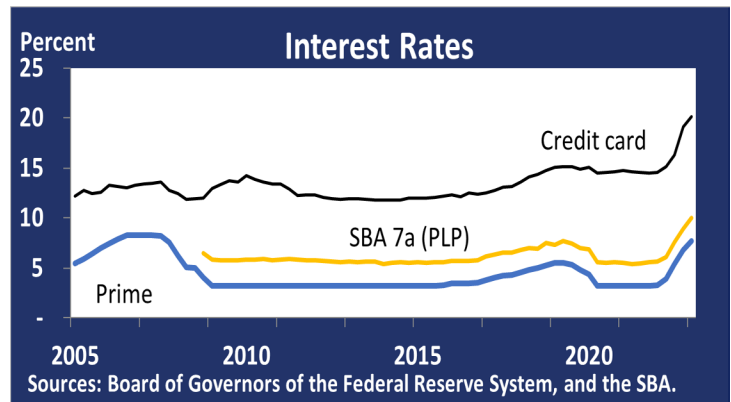


FINANCE

Bankers reported tightening standards for both commercial industrial and commercial real estate loans for the last few quarters. In addition, there has been weaker demand for all loan sizes. Banks have seen small business loan demand drop to the COVID-19 recession levels, nearly approaching the decline seen during the Great Recession.

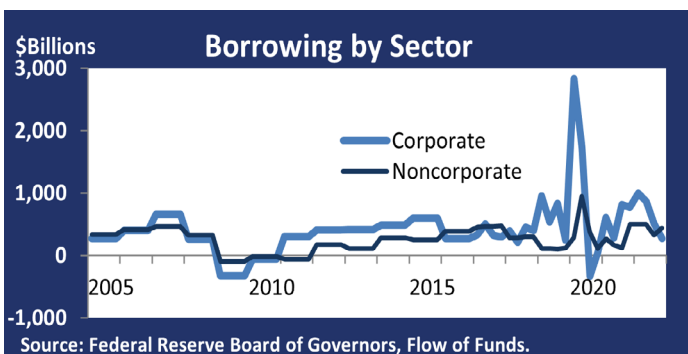
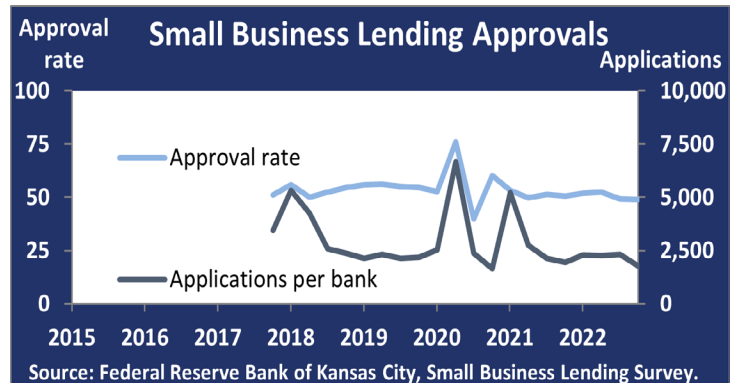


In the last year, borrowing costs have increased. The prime rate, often the base rate for small business loans, has surpassed pre-pandemic levels and has risen quickly in the last year. Trends for the average initial interest rate for SBA 7a loans with 10 years or less of maturity through the Preferred Lender Program (PLP) have mirrored the prime rate. Credit cards, which are often a go-to for the smallest businesses, have historically had high rates which are rising quickly.



Quarterly new small business (annual revenues less than \$5 million) loan volume per bank has been relatively stable in the last 5 years, other than spikes most likely caused by COVID-19 assistance programs around 2020 and 2021. In contrast, the number of loans per bank have declined, leading to higher average dollar loans.

The number of small business loan applications per bank declined slightly in the last quarter of 2022 while approval rates declined slightly in the second half of 2022.



Over the last 5 years, trends in corporate borrowing have been erratic but their total aggregate level was over twice that of noncorporate (consists of mostly small businesses) borrowing.