

# U.S. Economic Flash

## Small Business Quarterly, 2Q12

- Funding costs continue to drop for small business**

Small business borrowing costs, proxied for by loans less than 1million, have eased over the past year (4.0% 1Q12). While there is an increasing spread between small and large value loans, we believe this is less reflective of relative risk and more so of market normalization. This market normalization will increase relative costs but should boost overall market liquidity, in our estimation improving market efficiency.

- Our small business leading credit shows tightening in 2Q12**

Although our small business credit index suggests slight tightening in 2Q12, our long-run expectations of small business credit conditions are positive. The Limited change in C&I loan spread, Loan officer expectations, and 3-month libor spread and offsetting downtick and uptick in C&I loans under commitment and nonfinancial noncorporate credit market instruments, respectively, are likely contributors to slight downward bias. Fundamentally, this effect should be transitory assuming global credit markets continue strengthen.

- Consumer Demand(sales), taxes, and government remain key concerns**

Consumer demand, taxes and government regulations continue to weigh on small business owner sentiment according to the NFIB small business survey. Much of the policy-related skepticism is likely a reflection of uncertainty surrounding the fiscal trajectory of the country and subsequent tax policy implications. Consumer sales are also tied to the fate of the fiscal reform. However, increased consumption points to improved consumers optimism and increased spending in 2012 compared to 2011.

- According to the Flow of Funds data, small business activity lags overall rebound**

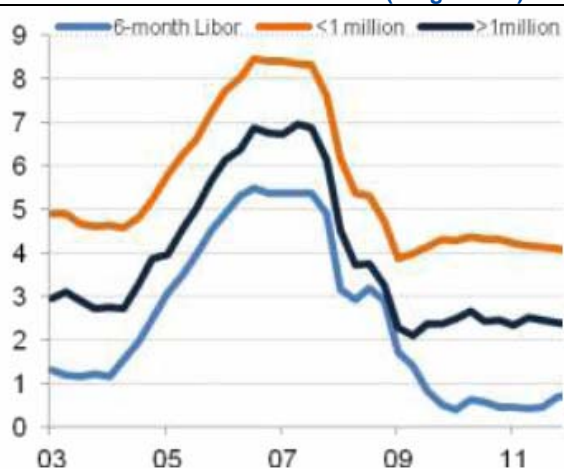
Flows for nonfinancial noncorporate businesses lagged the national level expansion. The decrease in intensity is likely a reflection of the less volatile business cycle (statistically smaller rebound) but also a cyclical down tick given the preemptive recovery of small business relative to the whole economy—possibly a reflection of targeted Fed and fiscal policies. Nevertheless, small business capital expenditures and investments remain strong, while the inventory purge slowed. Assuming the national trend, small business will likely slow in 1Q12 excluding capital expenditures which should remain above historic averages.

- Special Care Clinic construction is booming**

While construction in traditional activities such as multifamily residential dwellings and dining and drinking establishments remains depressed, niche markets have surpassed 2005 levels. For example, special care clinics construction was 1.7 times the level it was in 2005. In addition, nontraditional automobile transportation construction activity which includes parking facilities and sales operations, while below 2005 levels, has rebounded from recession lows.

Chart 1

Effective Loan rate &amp; 6-month Libor (weighted %)



Source: Haver &amp; BBVA Research

Chart 2

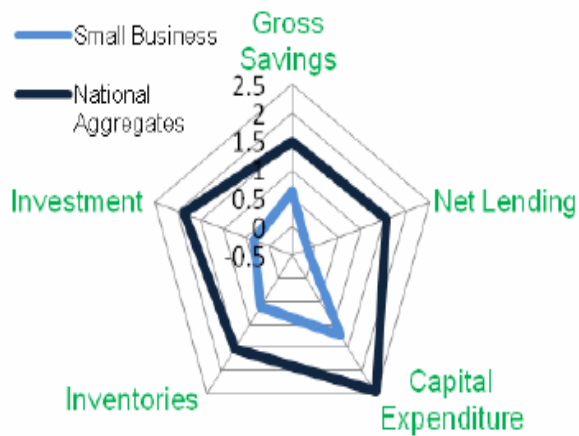
Small Business Leading Credit Index



Source: Bloomberg &amp; BBVA Research

Chart 3

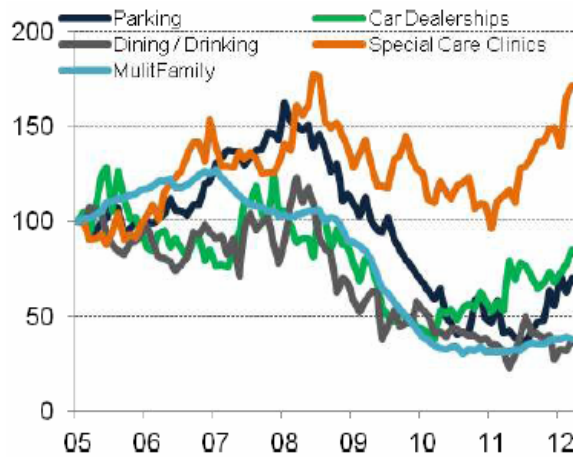
### Standardized levels of Activity (z-stat-QoQ change)



Source: Haver & BBVA Research

Chart 5

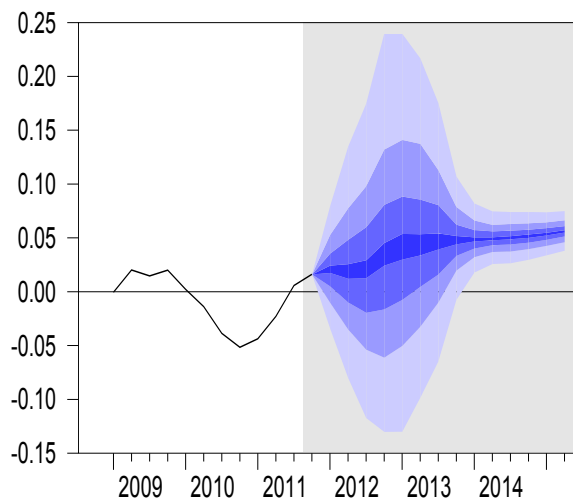
### Construction Index (2005=100)



Source: Haver & BBVA Research

Chart 7

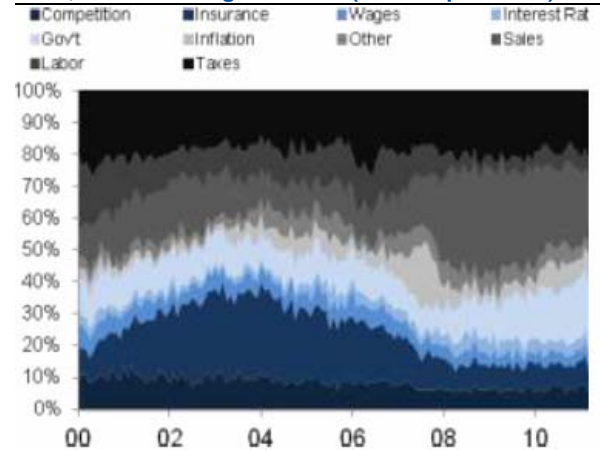
### Trade Credit Forecasts



Source: Haver & BBVA Research

Chart 4

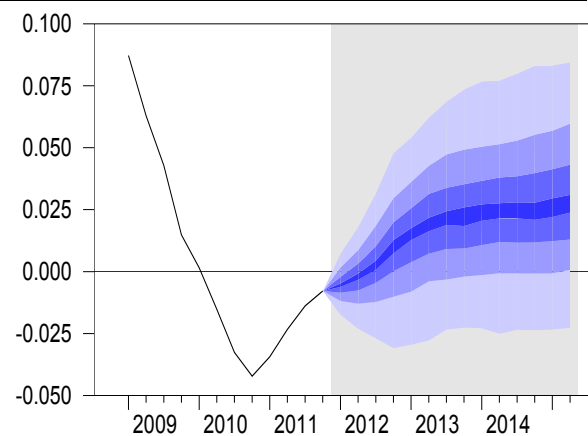
### NFIB, Most Pressing Problems (% of respondents)



Source: Haver & BBVA Research

Chart 6

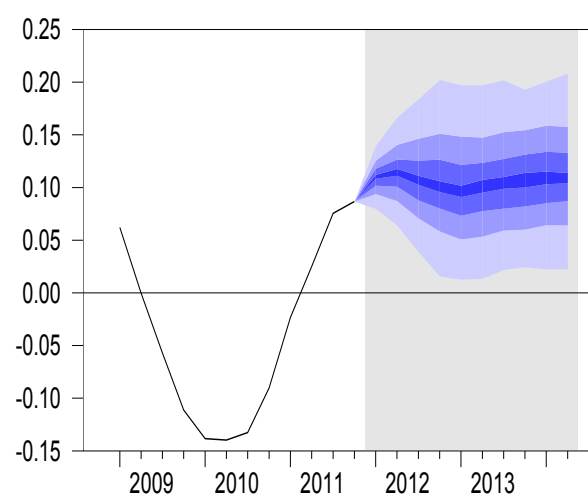
### CRE Loan Forecasts



Source: Haver & BBVA Research

Chart 8

### Commercial and Industrial Loans



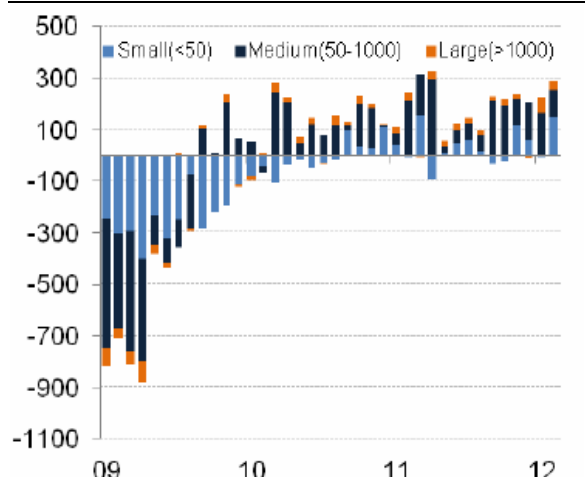
Source: Haver & BBVA Research

## Small Business Employment Dynamics

The employment dynamics for small businesses are bifurcated. On the one hand, small businesses accounted for 52.4% of the reduction in the employment gap in February, by far the largest contribution. Specifically, firms with 10-49 employees added 152k jobs in the aforementioned period. Moreover, compensation levels, according to Intuit, rose 1.5%YoY in April. In terms of structural frictions, however, the small business market is lagging. For example the net job creation rate is 48bp below that of medium to large size firms. In addition, the job openings rate is 92bp less. Thus, while generally positive, the small business labor market does embody some signs of labor market frictions.

Chart 9

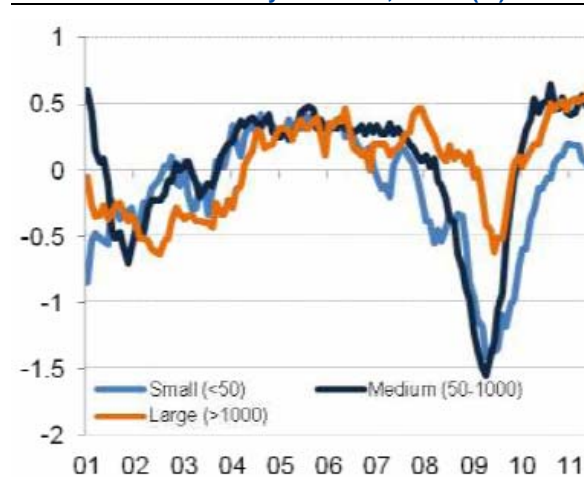
**Employment Gap Contribution, k**



Source: Haver & BBVA Research

Chart 10

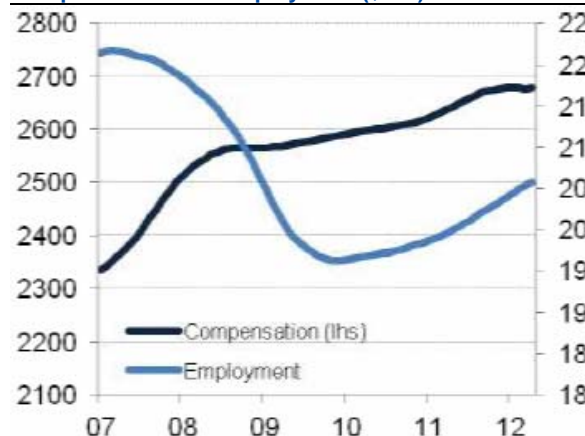
**Net Job Creation Rate by Firm Size, 6mma (%)**



Source: Haver & BBVA Research

Chart 11

**Compensation and Employment (\$&m)\***

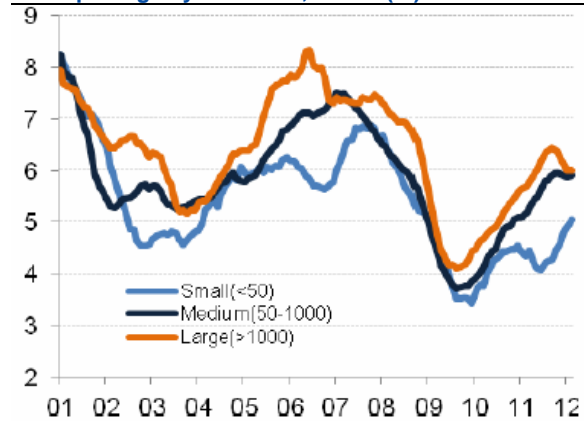


Source: Intuit & BBVA Research

\*Small Business

Chart 12

**Job Openings by Firm Size, 6mma (%)**



Source: Haver & BBVA Research

### DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.