

U.S. Economic Flash

Small Business Quarterly, 1Q14

Rebounding Real Estate Markets Buoy Small Business Balance Sheet

Leverage built-up during the pre-crisis period continues to be unwound. In fact, the ratio of liabilities-to-assets stands at the lowest level since April 2008 (41%). More importantly, the value of residential and non-residential real estate assets, which constitute a non-trivial share of small business assets (~80% in 4Q13), have increased 7.8%QoQa and 9.1%QoQa, respectively. Ultimately, the positive shock to net worth improves the ability of small businesses to borrow. Continued appreciation of real estate prices in 2014 will reinforce this trend.

Tax And Regulatory Uncertainty Continue To Weigh On Small Business

Despite the budget and debt ceiling deals, small firms continue to be burdened by policy uncertainty. The NFIB survey confirms that taxation and regulation remain the most pressing concerns for small business owners, and more importantly, that policy-makers still have work to do to reassure small businesses of the future of U.S. fiscal policy. For small firms, ongoing policy uncertainty will likely weigh on the pace of job openings and employment growth.

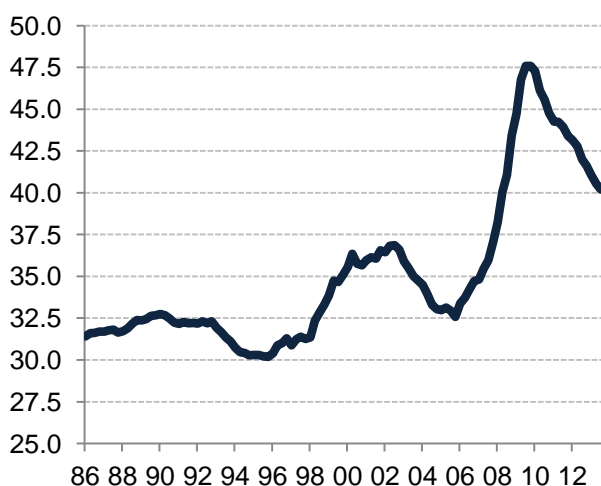
ACA's Impact On Firms With Less Than 50 Employees Still Unclear

On balance, small businesses are projected to be net-beneficiaries of the Affordable Care Act (ACA). Firms with less than 50 employees could see employer insurance costs decline by more than 1.5%, relative to current policy if the Small Business Health Option Programs (SHOP exchanges) improve administrative efficiency, and the exemptions and tax credits ease short-run compliance costs. However, the insurance provider "tax" could cost small businesses \$62.6b over the next 10-years if the incidence is proportionately shared by nongroup and small-group consumers (<50 employees).

Financial Firms Increase Their Willingness To Lend To Small Business in 1Q14

Coinciding with uptick in small business confidence were improvements in the willingness of the financial sector to lend to small businesses. According to Federal Reserve Senior Loan officer survey, both the supply and demand for credit improved in the 1Q14 and a strong uptick in our Small Business Leading Credit Index suggests further improvement in 2Q14. In addition, the incentives for small business to borrow are also likely to improve as the spread between the interest rate offered to the smallest and largest firms continues to narrow—down 21bp from one year ago.

Chart 1
Small Business Leverage Ratio (%)



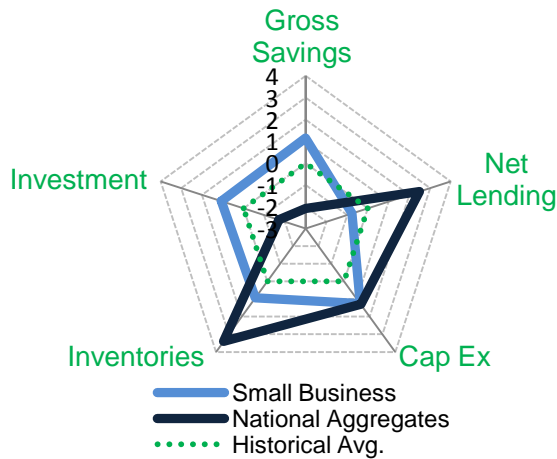
Source: Haver Analytics & BBVA Research

Chart 2
Change in Aggregate Employer Spending from ACA, \$Bn

	Without Reform	With ACA	Difference (%)
All Employers			
Total Employer Spending	553.4	565.8	2.20%
Employer Premium Contributions	553.4	566.2	2.30%
Employer Subsidies	0	-4	-
Employer Assessments	0	3.6	-
Small Firms (<100 employees)			
Total Employer Spending	116.5	114.8	-1.40%
Employer Premium Contributions	116.5	118.5	1.80%
Employer Subsidies	0	-4	-
Employer Assessments	0	0.2	-
Mid-size Firms (101-1,000 employees)			
Total Employer Spending	84.5	92.5	9.50%
Employer Premium Contributions	84.5	89.7	6.20%
Employer Subsidies	0	0	-
Employer Assessments	0	2.8	-
Large Firms (>1000 employees)			
Total Employer Spending	278.6	290.4	4.30%
Employer Premium Contributions	278.5	289.8	4.00%
Employer Subsidies	0	0	-
Employer Assessments	0	0.7	-

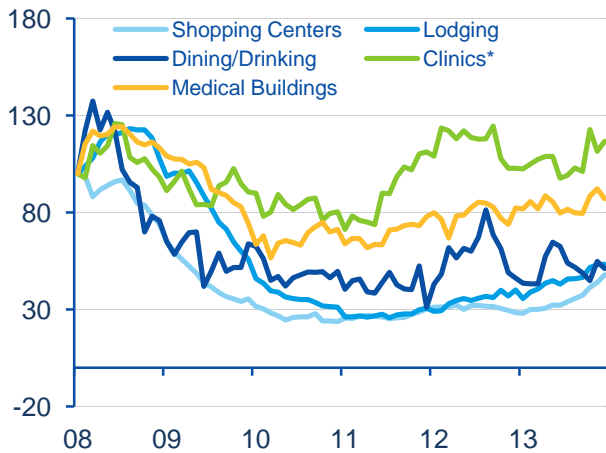
Source: Urban Institute & BBVA Research

Chart 3
Business Activity (QoQ change)



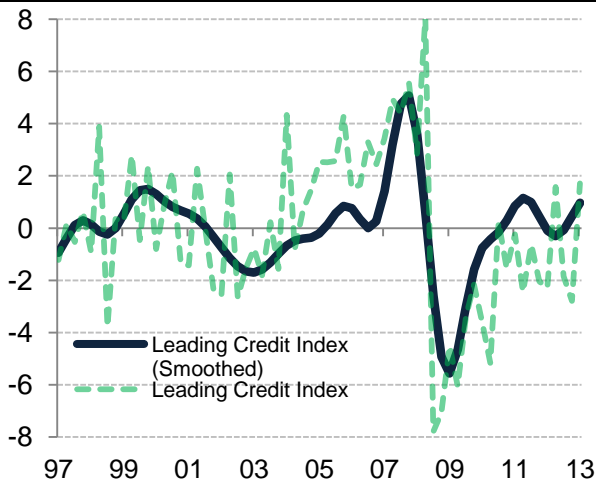
Source: Haver Analytics & BBVA Research

Chart 5
Construction Index (2005=100)



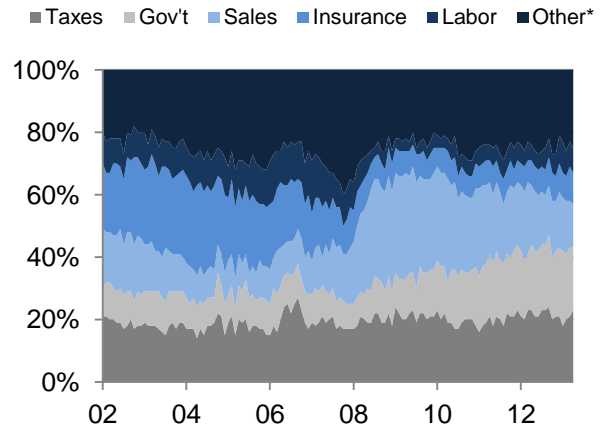
Source: Haver Analytics & BBVA Research
*Special Care Clinics

Chart 7
Small Business Leading Credit Index



Source: Haver Analytics & BBVA Research

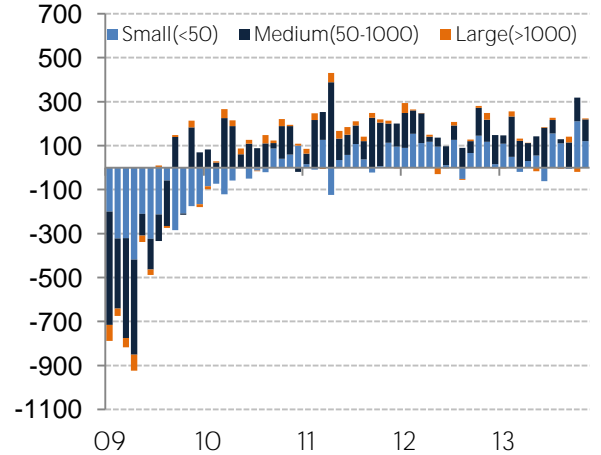
Chart 4
NFIB, Most Pressing Problems (% of respondents)



Source: Haver Analytics & BBVA Research

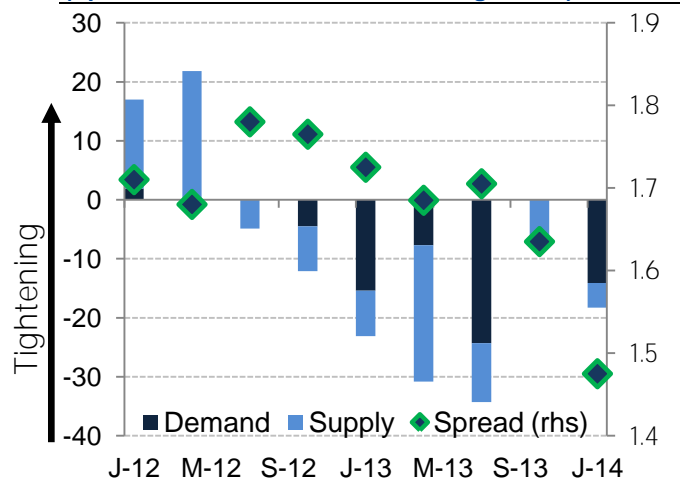
* Includes Large-firm competition, wages, interest rates, inflation and other

Chart 6
Employment Gap Contribution, K



Source: Haver Analytics & BBVA Research

Chart 8
Credit Market Conditions & Small Business Spread (Spread: Small Business rate vs Large firms)



Source: Haver Analytics & BBVA Research

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