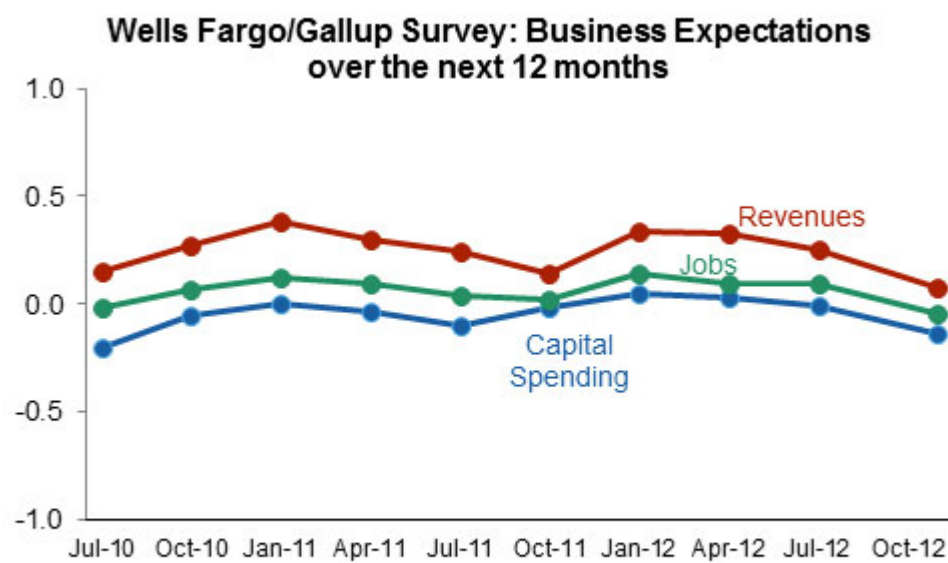


December 12, 2012

Anticipating Growth despite a Slowdown? Results from the Recent Small Business Survey

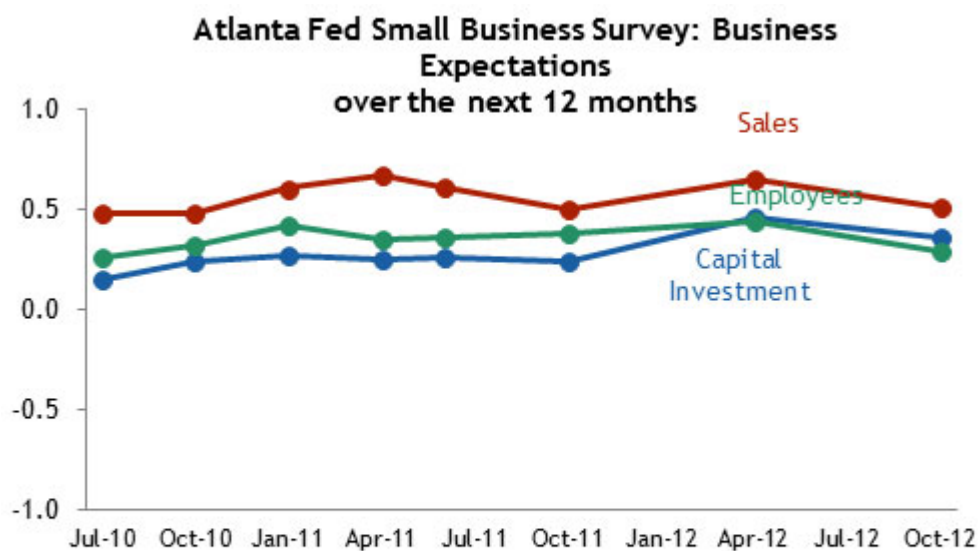
The latest reading on the [Wells Fargo/Gallup's Small Business Index](#) indicated business conditions for small firms dropped to the lowest levels since July 2010 (see the chart), and index also said:

Key drivers of this decline include business owner concerns about their future financial situation, cash flow, capital spending, and hiring over the next 12 months.



Source: Wells Fargo/Gallup Small Business Index/

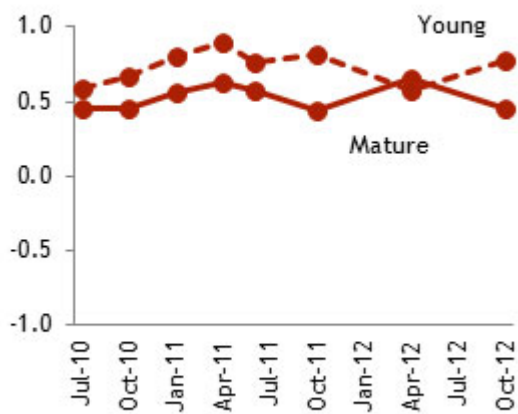
The latest iteration of the Atlanta Fed's small business survey, which was conducted in October, also noted a decline in 12-month-ahead expectations for sales, hiring, and capital spending (see the chart).



Note: The business expectations diffusion index is calculated by subtracting the number of firms that said "decrease" from the number of firms that said "increase." The data are weighted by industry and firm age, but are not seasonally adjusted.
Source: Q3 2012 Atlanta Fed Small Business Survey

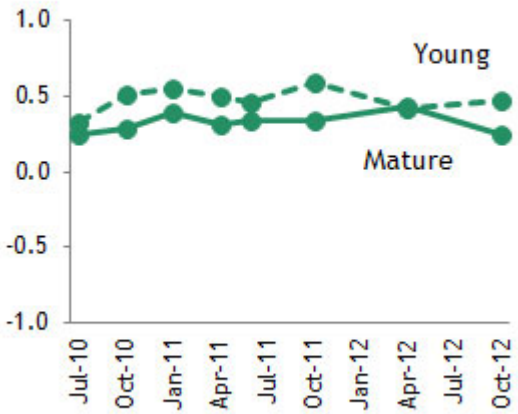
Dissecting this by firm age, the overall decline in expectations stemmed from the firms in our sample that were more than five years old (see the charts).

Sales Expectations Diffusion Index



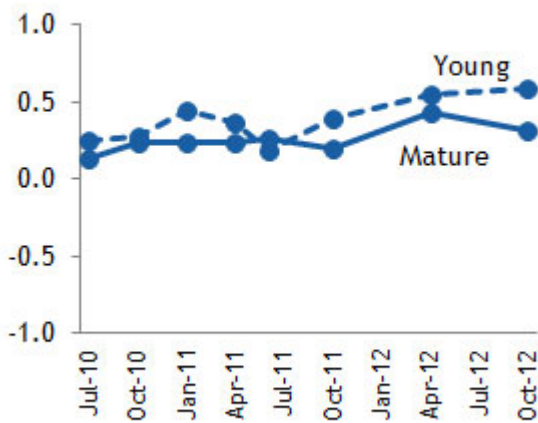
Source: Q3 2012 Atlanta Fed Small Business Survey

Hiring Expectations Diffusion Index



Source: Q3 2012 Atlanta Fed Small Business Survey

Capital Investment Diffusion Index



Source: Q3 2012 Atlanta Fed Small Business Survey

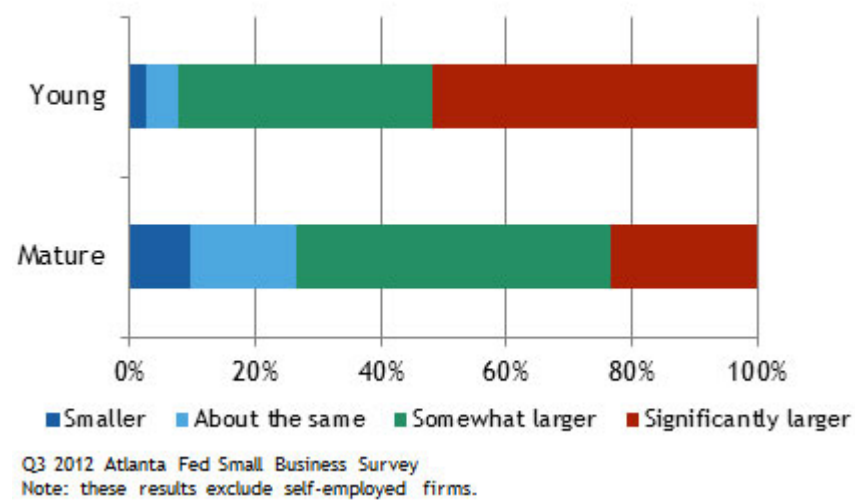
Over the life of the survey, young firms have tended to be more optimistic about changing business conditions. Are these young firms simply naïve about changing economic conditions, or are they anticipating growth despite expectations for a pullback in the broader economy? We asked the following question this time around in an attempt to capture the business owners' aspirations and job-creating "gazelle" potential:

Five years from now, do you anticipate your business will be:

- a) Smaller
- b) About the same
- c) Somewhat larger
- d) Significantly larger

It turns out the group is an optimistic bunch: 30 percent of employer firms said they thought their business would be significantly larger in five years, and firms under six years of age were twice as likely to say so (see the chart). Considering that young firms also tend to have smaller operations than mature firms (the median young firm had from \$100,000 to \$500,000 in annual revenues and the median mature firm had from \$1 million to \$7 million), this difference is not shocking.

Five Year Growth Expectations



What was a little surprising was how few of the young firms said they thought they would be smaller in five years. Research suggests that that only about half of businesses make it past five years, and yet only three young firms identified themselves as shrinking. There is always the chance that these young businesses will become fast-growing, job-creating gazelles. After all, a recent [study](#) of high-growth firms by the Kauffman Foundation found the average age of the fastest-growing firms in 2010 was only seven years old.

Will they achieve their goals? Only time will tell.

The Atlanta Fed's third quarter small business survey, which asks firms questions about business and financing conditions, is available on [our website](#).

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