



# Small Business Outlook

Visa's proprietary small business health indexes and a nation-wide survey of small business owners indicate a bright outlook for small businesses and small business credit cards

Spring 2019  
Business and Economics Insights



*"Small businesses continue to power the economy. While there was some reduction in the number of small businesses expanding, small business conditions remain robust and small businesses continue to forge ahead."*

**Wayne Best**  
Chief Economist, Visa Inc

## Small business owners indicate it's "business as usual"

This year started with the government shutdown, trade wars and other economic concerns making headlines. However, small businesses reported stability across all facets of their businesses in our latest spring survey.

- The overall economic outlook and number of companies reporting revenue increases have remained steady among small business owners.
- The small business work force also remains stable, with four out of five businesses reporting no change to their number of employees.
- Small business expansion remains steady. Two-thirds of small businesses reported their business stayed the same.
- Most small businesses survived the government shutdown unscathed. The majority (85 percent) of small businesses report that they were not impacted by the government shutdown.

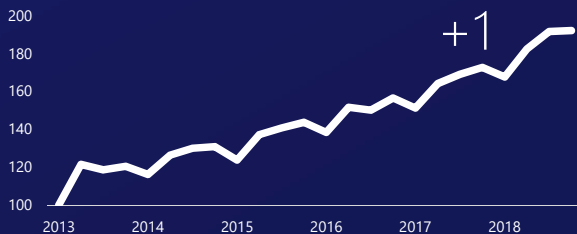
## Small Business Health Indexes:

Based on proprietary Visa small business card data

### Small Business Spending Index



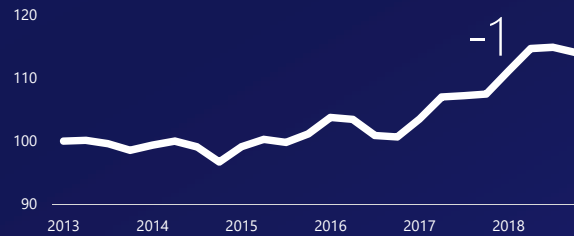
Payment volume on Visa business credit cards,\* indexed to 1Q2013



### Small Business Borrowing Index



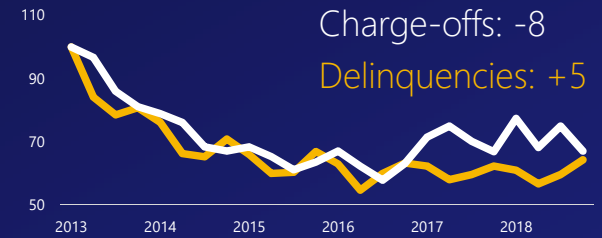
Outstanding balances on Visa business credit cards,\* indexed to 1Q2013



### Small Business Risk Index



Delinquencies and charge-offs on Visa business credit cards,\*\* indexed to 1Q2013



\*Payment volume and balances per active account. See methodology notes on page 2 for more details

\*\*Percent of balances delinquent and charged-off. See methodology notes on page 2 for more details

# Disclosures:

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## Methodology

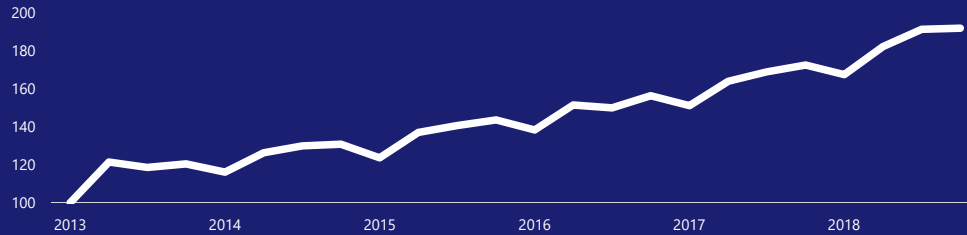
Except where otherwise noted, statements herein are based on:

- Visa Small Business Health Indexes, based on proprietary Visa data and calculated as follows:
  - Spending Index: Changes in spending per spend-active small business credit card account.
  - Borrowing Index: Changes in balances per balance-active small business credit card account.
  - Risk Index: Changes in share of balances delinquent and balances charged-off in a quarter on Visa small business credit cards.All indexes use 1Q2013 as their base period.
- The national small business survey of approximately 1000 small business owners, administered by Kelton once per quarter. The spring survey was completed in March 2019.

For any further questions on this report please contact your Visa Account Executive.

# Visa Small Business Spending Index

Spending remains stable, supported by expansion

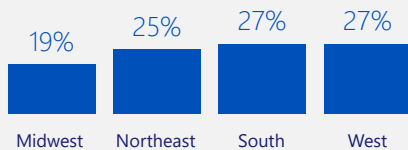


At the end of last year, small businesses showed **more restraint with their spending**. **Visa's Small Business Spending Index** reflects this trend, with **stability** across the last two quarters of 2018.

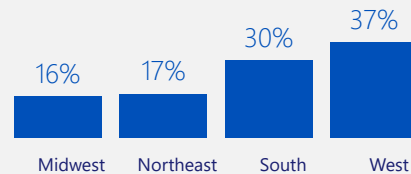
Weak spending growth in late 2018 and early 2019 corresponded with a drop in consumer spending—likely due to volatile economic headlines that shook consumer confidence. Stock market volatility in late 2018 and the longest government shutdown in history in early 2019 were additional factors.

These economic events also negatively impacted the small business spending outlook. Since winter 2018, the number of businesses planning to increase spending on their business credit cards has fallen from 38 percent to 25 percent. Fewer small businesses in the Midwest (19 percent) anticipate spending more on their cards in the next quarter compared to other regions (25 percent in the Northeast, 27 percent in the South, and 27 percent in the West). Visa data also shows the Midwest falling behind in spending growth, contributing 16 percent to spending growth in 4Q2018, compared to 17 percent in the Northeast, 30 percent in the South, and 37 percent in the West.

### Next three month spend intentions



### Contributions to spending growth



### Key spending drivers



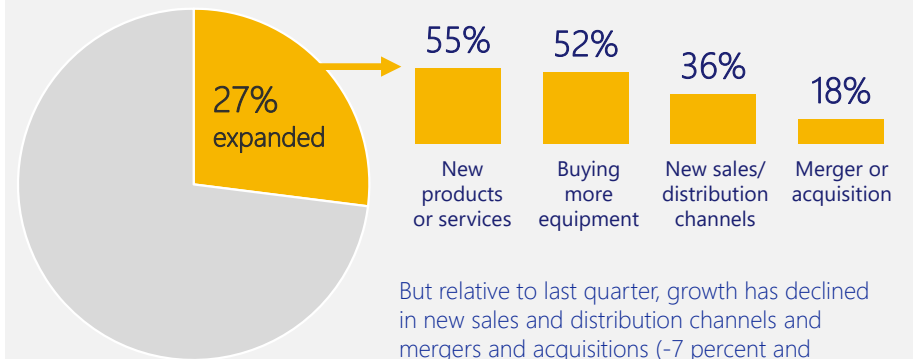
Advertising services 32% YoY growth



Commercial equipment 21% YoY growth

### Business expansion

The main ways that small businesses have experienced growth:

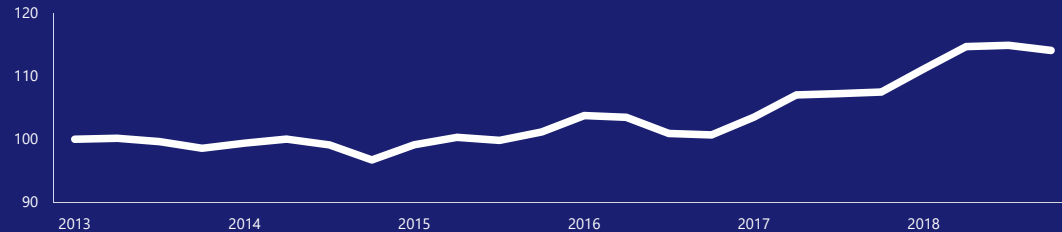


But relative to last quarter, growth has declined in new sales and distribution channels and mergers and acquisitions (-7 percent and -4 percent, respectively)

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# Borrowing Index

*Small business owners working to reduce debt*



## Visa's Small Business Borrowing Index shows borrowing growth dropped slightly at the end of 2018 as businesses worked to pay down their debt.

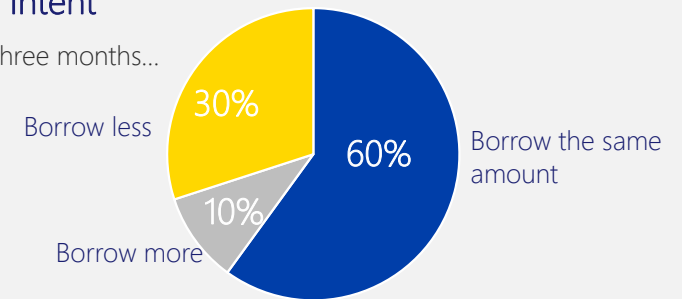
The median unpaid balance decreased \$800 to \$4,200, likely due to several factors. Small business owners appeared to follow through on plans to pay down debt reported in the winter Small Business Outlook. An interest rate hike in December made carrying balances more expensive, while government shutdown fears may have injected some doubt into small business owners' revenue and economic outlook.

Small business borrowing plans remained steady. Consistent with earlier trends, most businesses (60 percent) planned to borrow the same amount in the next three months. However, almost a third (30 percent) expected to borrow less on their business credit cards, a decline of 4 percent compared to last quarter.

It appears the trend to pay down balances will likely continue over the next three months, with more than a quarter of small businesses saying they expect to decrease their unpaid balances. Higher interest rates continue to discourage revolving on credit cards or putting balances on new cards. This is consistent with overall loan demand reported among small businesses, which dropped by six percent to 19 percent. However, with the Federal Reserve likely curtailing further interest rate hikes this year and relatively robust economic conditions expected, borrowing could hold steady in coming quarters.

## Borrowing Intent

In the next three months...



## Balance Transfers

As they continue to pay down their debt, fewer small businesses have transferred a balance or debt from one credit card used for business expenses to another (-7 percent compared to last quarter).

However, businesses that are making balance transfers are more likely to:



Be millennial-owned

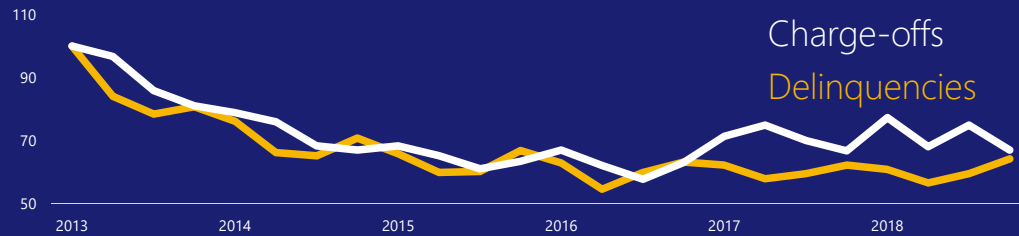


Have expanded

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# Risk Index

*Risk appears under control for now*



As small businesses worked to pay down their debt, the **charge-off index decreased** in the last quarter of 2018. However, delinquencies continued to climb.

For now, risk appears to remain under control. Despite the slight rise in delinquencies, both risk metrics have appeared relatively steady for the past two years. However, delinquencies typically lead charge-offs by approximately one to two quarters, so charge-offs could rise in coming quarters.

There has been little change in small businesses' assessment of their financial health. Slightly fewer small businesses worry about their ability to pay their bills, while a similar number are concerned their businesses may go into debt.

Like last quarter, businesses that scaled back or have declining revenues were more likely to be delinquent in their monthly payments. This is not their only risky behavior, however. These same businesses are also more likely to report having maxed out their credit card limits.

Of businesses that have maxed out their credit lines and are also delinquent ...

22%



Scaled back

19%



Decreased revenues

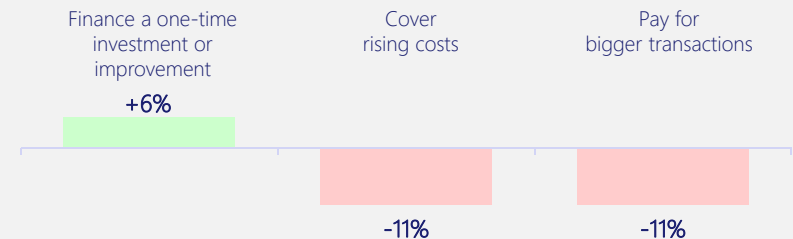
## Credit Lines

Fewer businesses have changed their credit lines in the past three months, consistent with anticipated lower levels of spending. In fact, there has also been a decline in the number of businesses that requested a credit line increase, down 4 percent since the winter.

Not all credit limit increases are due to rising costs or risks. Thirty-three percent of businesses requested a credit increase to finance a one-time investment or an improvement to their business, while conversely fewer businesses requested a line increase to cover rising costs (34 percent) or to pay for bigger transactions (30 percent).

### Reasons for requesting a credit line increase

(Quarter-over-quarter change)



# Acquisitions

New card acquisition likely to slow, in line with more restrained spending

Competitive market tightens with declining new card sign-ups and card seekers want better benefits



While confidence is still high among small business owners, the number of new card prospects is beginning to show signs of decline, down 7 percent from last quarter.

Among those who have recently signed up for a new card, **almost two in five (39 percent)** prioritized better credit card rewards as a top motivator. With fewer active card seekers in the market, issuers may get competitive with rewards and sign-up bonuses to attract acquisitions.



## In the next three months...

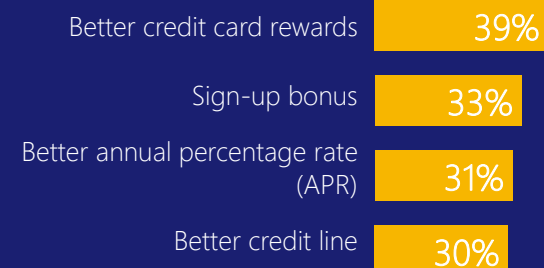
1Q2019



7% decline since last quarter (40% 4Q2018)

plan to sign up for a business credit card

## Top motivators for those who recently signed up for a new card:



# Featured Focus

Spotlight on owners of high-revenue small businesses

Successful small businesses are often associated with an affluent business owner

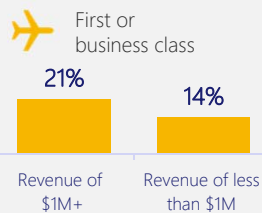


## Small business owners and personal wealth

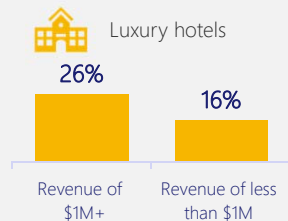
The median annual household income for a small business owner in the U.S. is \$125,000, which is over twice the U.S. census-reported median household income (\$61,000). The majority (61 percent) of small business owners have a six-figure household income. In fact, over a third (35 percent) of small business owners are highly affluent, with an annual household income of \$150,000 or higher.

Nearly one-third (28 percent) of small businesses in the U.S. have annual revenues of more than \$1 million. Business success impacts personal wealth: small business owners whose businesses have an annual revenue of \$1 million or more are nearly twice as likely to be highly affluent (54 percent with a household income \$150,000 or higher vs. 28 percent of consumers overall). More than three-quarters (76 percent) of these high-revenue small business owners are not only wealthy now, but also have savings for the future—nearly half say they have saved the equivalent of over half their annual income.

## High-revenue small business owners and leisure travel preferences



Almost twice as many business owners (21 percent) with at least \$1 million in revenue say they fly business or first class for personal travel compared to other small business owners (14 percent).



Business owners (26 percent) with at least \$1 million in revenue are also twice as likely to stay in luxury hotels for leisure travel than other small business owners (16 percent).

## Profile of small business owners with \$1M+ in business revenues

### Industry



31%

Professional services



14%

Construction and trade



10%

Financial and legal services



73% have been in operation for 11+ years



39% have 11+ employees



49% with revenue growth in past three months



27% plan to increase card spend

**VISA**