

**TESTIMONY BEFORE THE HOUSE COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES**

**HEARING ON ACCESS TO CAPITAL: CAN SMALL BUSINESSES ACCESS
THE CREDIT NECESSARY TO GROW AND CREATE JOBS?**

JUNE 1, 2011

Good afternoon, Chairman Graves, Ranking Member Velazquez, and Members of the Committee. My name is Dennis Jacobe and I am Gallup's Chief Economist. Gallup is the world's best polling company and is strictly non-partisan. In this regard, I'd note that my comments are my own and not those of Gallup.

I am pleased to be here today to discuss the current small business operating environment and whether small businesses can get the credit they need to grow and create jobs. In my few minutes today, I'd like to summarize four key points:

- The U.S. economy is currently in an economic "soft-patch" that may not be transitory;
- Small business owner optimism declined in April from where it was earlier this year;
- Credit availability has improved slightly for small businesses in 2011; and
- There is the potential for an "explosion" in new job creation if the nation's small businesses begin hiring the employees they need.

The U.S. Economy Is in Another "Soft-patch"

At Gallup, we remain extremely concerned about the current condition of the U.S. economy in general and the situation facing small business owners in particular. Gallup's economic measures – based on daily interviews with 1,000 Americans nationwide and posted daily on Gallup.com -- continue to show the current so-called "soft-patch" in the U.S. economy is not only real, but may not be transitory.

- Although Economic Confidence improved in May – possibly due to bin Laden's death and the recent slight decline in gas prices – consumers are no more optimistic now than they were a year ago.
- Similarly, consumer spending remains in the "new normal" range of 2009-2010 and far below the recession spending levels of 2008.
- Gallup's monitoring of unemployment shows the not seasonally adjusted unemployment rate at 9.2% and the underemployment rate at 19.1% -- essentially where Gallup's unemployment measures were a year ago. Although the economy continues to add jobs, the growth has not been sufficient to significantly change the real jobs situation.
- There is a real danger of "stagflation" in the months ahead.

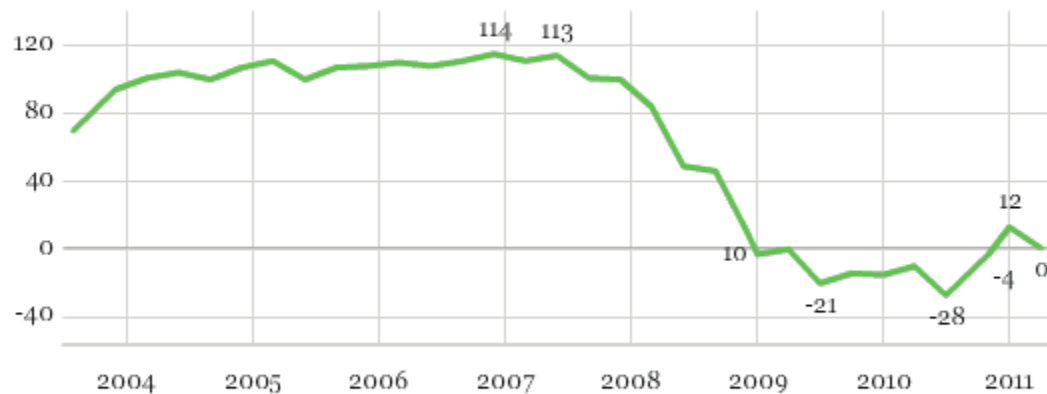
Small Business Owner Optimism is Down from Early 2011

Currently, small business owners tell Gallup that their current operating environment is a lot better than a year ago but down from early this year. One of the ways Gallup monitors the small business operating environment is with the Wells Fargo-Gallup Small Business Index. This is a quarterly survey of small business owner perceptions of their operating environments that was initiated in August 2003. The Index peaked at +114 in December 2006 and reached its low point in July 2010 at -28. By January 2011, the Index had improved to +12 before it fell back to zero in April.

The Small Business Index tends to be a precursor of future economy activity. The latest reading of the index reinforces the idea that the current economic soft-patch will continue in the months ahead.

Wells Fargo/Gallup Small Business Index

The Small Business Index consists of owners' ratings of their businesses' current situations and their expectations for the next 12 months, measured in terms of their overall financial situations, revenue, cash flow, capital spending, number of jobs, and ease of obtaining credit.



Index conducted quarterly August 2003 to April 2011; results for April 2011 are based on 602 interviews conducted with small business owners conducted April 4-8, 2011.

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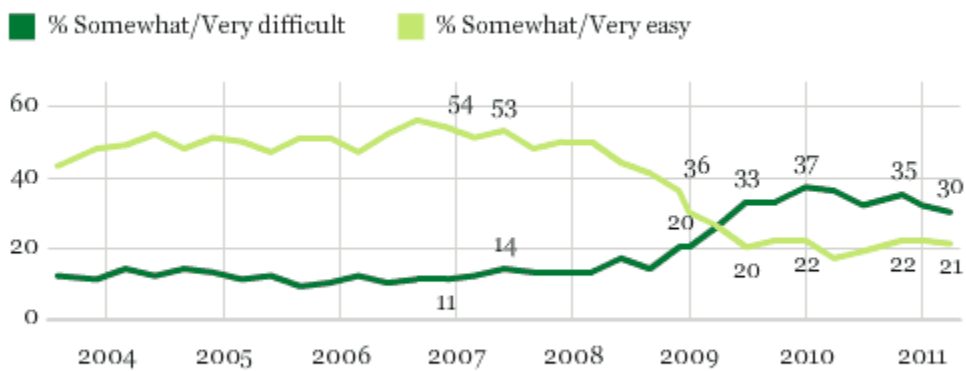
Key drivers of the decline in small business owner optimism in April included a significant decrease in small business cash flows over the past 12 months and an increase in owners' concerns about their financial situation over the next 12 months.

Getting Credit Slightly Less Difficult

Gallup also uses the Index to monitor small business owner perceptions of how difficult or easy it is for them to obtain credit for their business. Right now, 30% of small business owners say it is difficult for them to obtain credit – slightly better than the situation has been over the past year -- but two to three times more difficult than it was in 2006 and 2007. On the other hand, 21% say credit is easy to get – about the same as over the past year but only about half the number who gave us this response in 2006 and 2007.

Wells Fargo/Gallup Small Business Index -- Credit Availability

Over the past 12 months, how difficult or easy was it for your company to obtain credit when you needed it?



August 2003 to April 2011

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Small Business Owners Are Hiring Fewer Employees Than They Need

Half of small-business owners (51%) hired new workers in 2010 – mostly to replace employees, according to the Wells Fargo/Gallup Small Business Index survey. However, of those firms hiring, 42% hired fewer new employees than they needed -- likely a major reason job growth was so anemic last year.

Have you hired as many employees as you need, more than you need immediately, or fewer than you need?

Based on small-business owners who have hired new employees in 2010

	2010
	%
As many as needed	48
More than immediately needed	9
Fewer than needed	42
Don't know/Refused	1

Wells Fargo/Gallup Small Business Index survey November 2010

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The top reason so many of these small business owners hired fewer employees than they needed was that they were worried they wouldn't have the sales or revenues to justify more employees. This was followed by worries about their future cash flows and whether they would have money to make payroll. Third was their concern that they couldn't find employees who were qualified for the positions available. Finally, half of owners say they are worried about the potential cost of healthcare.

Why did you hire fewer than needed? For each of the following, please indicate if it is a reason why you hired fewer than you needed. How about -- ?

Based on small-business owners who hired fewer employees than needed

	2010
	% "Yes, it is a reason"
Worried revenues or sales won't be able to justify more employees	79
Worried about cash flow or ability to make payroll	70
Hard to find qualified employees for positions available	62
Worried about the potential cost of healthcare	51
Some other reason	31

Wells Fargo/Gallup Small Business Index survey November 2010

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There is the Potential for a Small Business Job Explosion

The hiring efforts of small-business owners in 2010 provide some insights into why generating job growth continues to be so difficult. The most important reason for today's anemic job growth among small businesses seems to be that many are hiring fewer employees than they need. They are doing so in part because they are worried about their future revenues and cash flows -- reasonable concerns, given the small-business operating environment of the past couple of years. Significantly, this is something that can turn around quickly if the economy can gain positive momentum.

Importantly, such a change could create a virtual job explosion far exceeding anything currently anticipated. Just imagine if the 42% of small business owners hiring fewer employees than they need decided to meet those needs. It could quickly turn out that the major issue to worry about would involve how to help the large percentage of small-business owners' who are saying they can't find enough qualified employees for the jobs they have available.

Unleashing America's small business is essential to the future of U.S. economy and job growth. Although there is no silver bullet to get small businesses growing and hiring, reducing economic uncertainty and increasing small-business owners' confidence in their future revenues and cash flows is key to unleashing the hiring of the new employees these firms need.

In this regard, there are three areas concerning the future of small businesses that deserve special attention in addition to those commonly mentioned.

- Education: small businesses have the ability to adjust to rapid changes in the U.S. economy more quickly and effectively than their larger counterparts. However, they are being hampered in that process by an inability of our education system to provide the skilled and talented employees they need. Something needs to be done to integrate the needs of small business with the educating of American workers.
- Housing: the value of housing and real estate normally plays a significant role in small business lending. Further, housing involves numerous small businesses. Stabilization and improvement of housing values would significantly enhance small business lending.
- Energy: although many small businesses have found ways to operate within a high energy cost environment, high and volatile gas prices create major uncertainties for small business revenues and cash flows. Something needs to be done to stabilize energy prices.

I want to thank the Committee for this opportunity to testify at today's hearing. I would welcome the opportunity to discuss my testimony further.