



Small Business Outlook

Summer 2019
Business and Economics Insights

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



"While trade uncertainty is causing some concern, small businesses remain positive overall. They continue to invest in their businesses and expand, which supports overall economic growth."

Wayne Best
Chief Economist, Visa Inc

Small businesses continue to expand despite trade uncertainty

Following a quarter of flat growth, small businesses have good news this summer: they are expanding and their revenues are increasing.

- According to the Visa survey conducted in late June, nearly half of small businesses said their revenues have increased in the past three months, up 5 percentage points from the first quarter.
- Almost a quarter hired more employees, up 9 percentage points from the prior quarter.
- Continuing the expansion trend since last summer, over a third of small businesses have expanded, up 7 percentage points from 1Q2019.
- Confidence in the U.S. economy remains high, with more small businesses saying the economy had grown stronger last quarter.
- However, as tariffs continue to make headlines, one in five businesses worry their business will suffer in the years ahead.

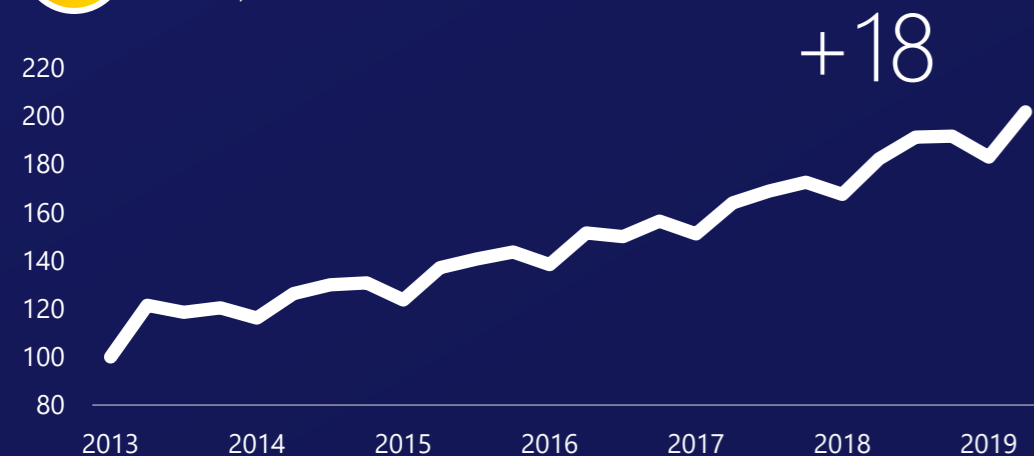
Small Business Health Indexes:

Based on proprietary Visa small business card data

Small Business Spending Index



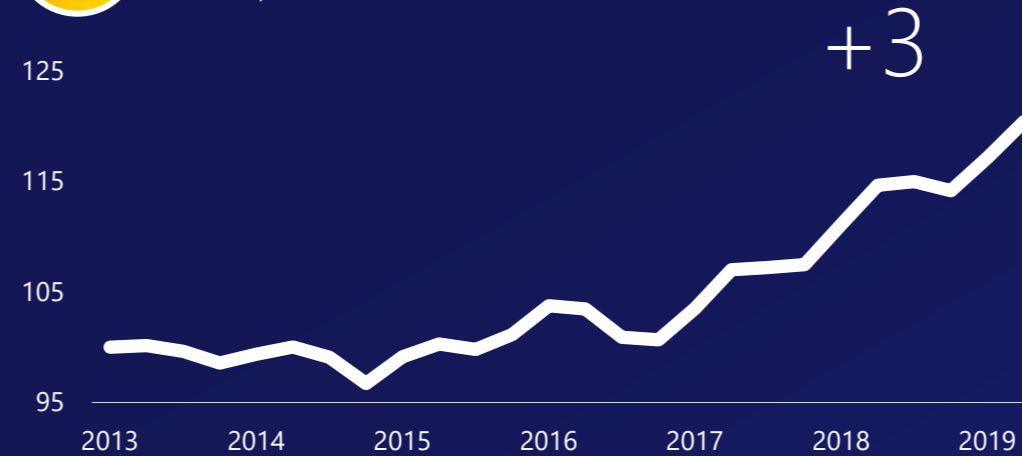
Payment volume on Visa business credit cards,* indexed to 1Q2013



Small Business Borrowing Index



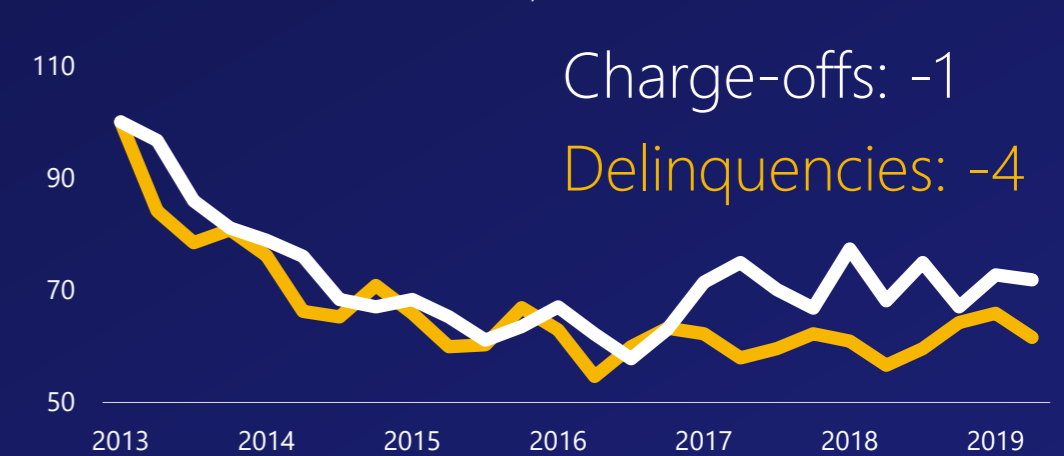
Outstanding balances on Visa business credit cards,* indexed to 1Q2013



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.

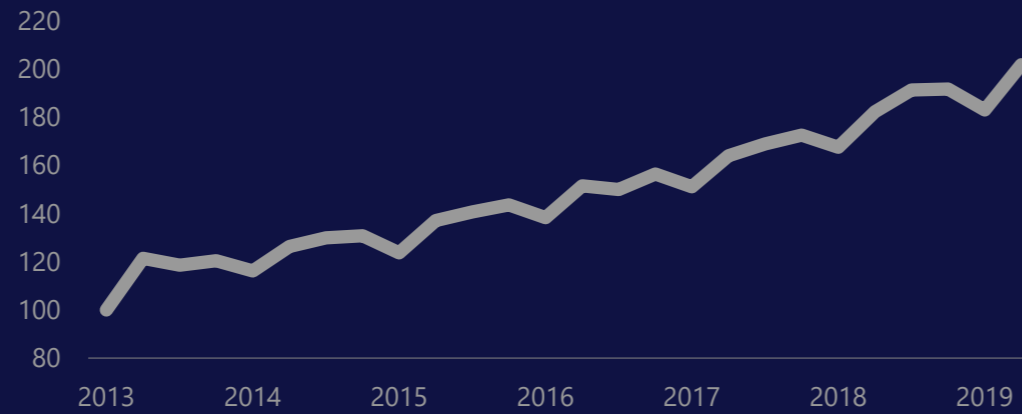
All indexes use 1Q2013 as their base period.

- The national small business survey of approximately 1000 small business owners, administered by Kelton once per quarter. The summer survey was conducted in late June 2019 and completed fielding in early July 2019.
- Differences reported are percentage point differences versus the time period specified.

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

Visa Small Business

Spending Index



Spend may increase to support small business expansion

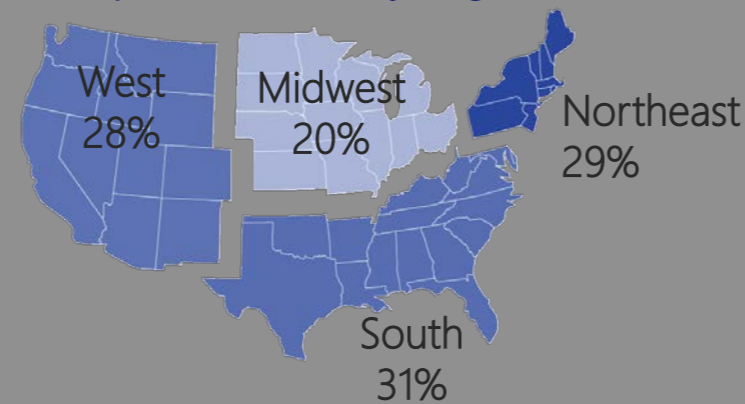


In the first half of 2019, small business spending continued to increase. This uptick is reflected in both the latest **Visa Small Business Spending Index** and continued small business expansion.

Spending intent

Business credit card spending is expected to remain stable throughout 2019. Looking ahead to the next three months, 28 percent of small businesses said they plan to spend more, with the Midwest lagging behind all other regions. Among the small businesses that expect to increase their spending, 64 percent are planning to apply for a new business credit card, up 8 percent since 1Q2019.

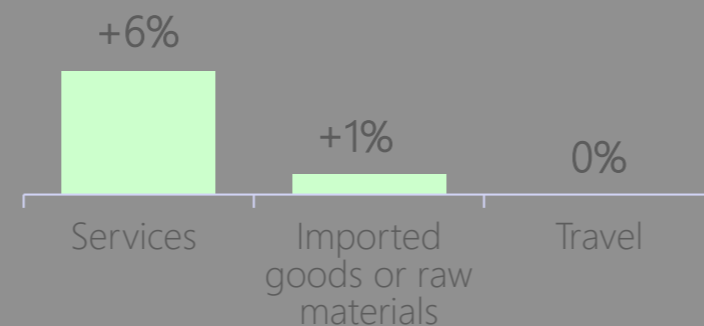
Small businesses planning to spend more (by region)



International spending

Despite recent trade tensions, 25 percent of small businesses report spending internationally in the past quarter, with 42 percent of these businesses saying they spent more compared to the previous quarter. Visa's data shows that tariffs are likely limiting spending on foreign goods, but not on services. In fact, spending on services rendered by international consultants, outsourcers or freelancers has increased relative to 1Q2019.

International spending drivers (Quarter-over-quarter change)



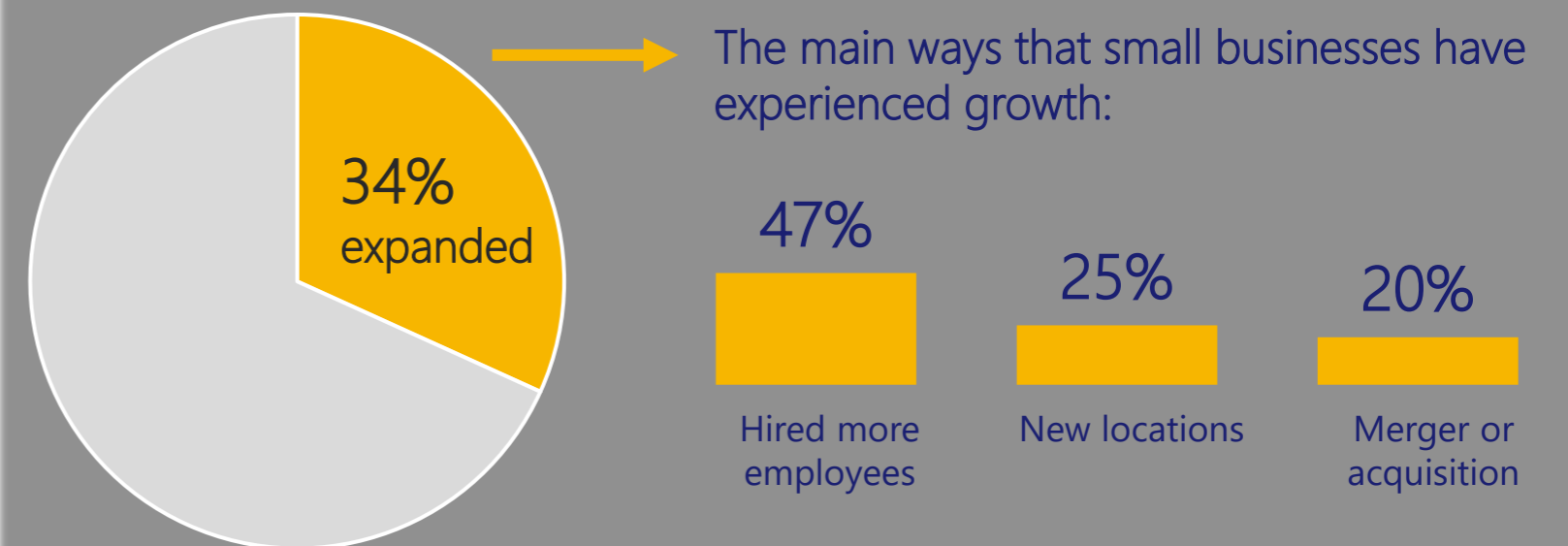
Key spending drivers

| | | |
|--|---------------------------|----------------|
| | Computer systems/software | 27% YoY growth |
| | Advertising services | 22% YoY growth |
| | Commercial equipment | 17% YoY growth |

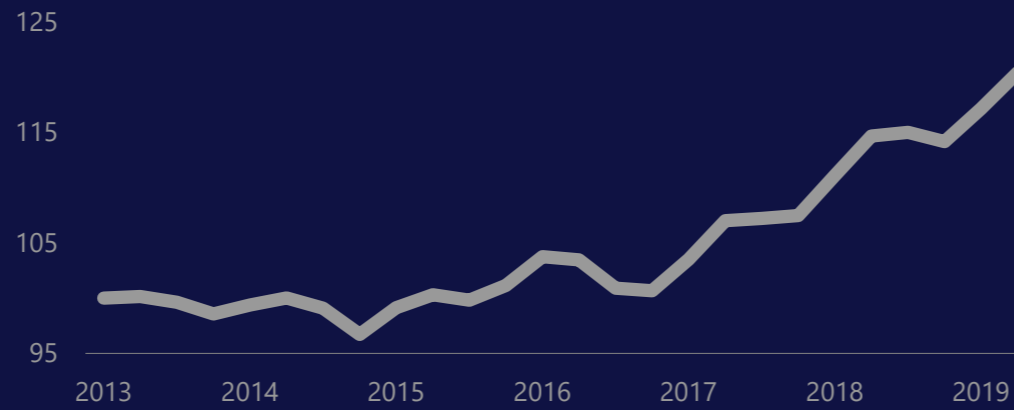
Business expansion

Expansion is up 7 percent, with key drivers being new hires, locations and business mergers or acquisitions.

- Hiring is especially strong among millennial-owned small businesses that are expanding, with more than half (56 percent) increasing headcount.



Borrowing Index



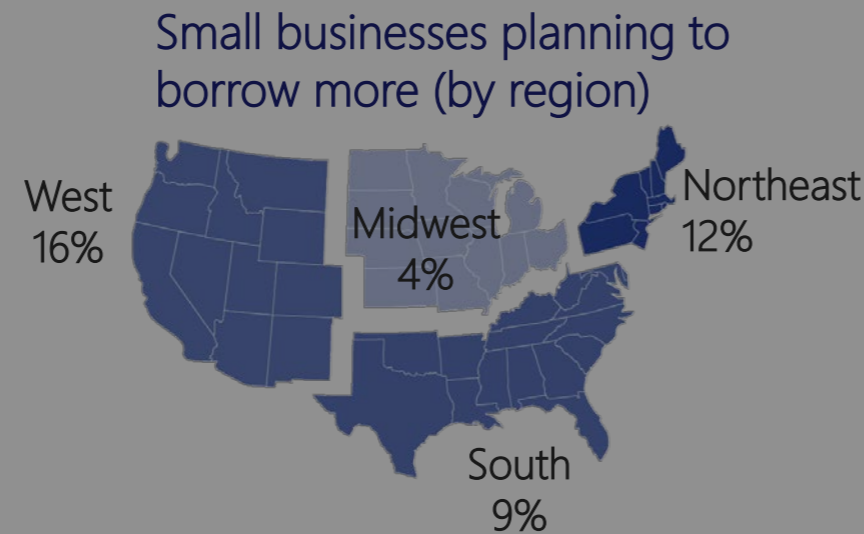
Borrowing may increase in the coming months



Visa's Small Business Borrowing Index shows year-over-year borrowing growth decelerated due to higher interest rates that discouraged borrowing through the first half of 2019. However, with the Federal Reserve's recent rate cut, borrowing growth may pick up.

Borrowing intent

Consistent with the last survey, 60 percent of small businesses intend to borrow the same amount on their business credit cards. One in 10 small businesses plan to borrow more in the next three months. Small businesses in the West expect to borrow more than other regions.



Unpaid balances

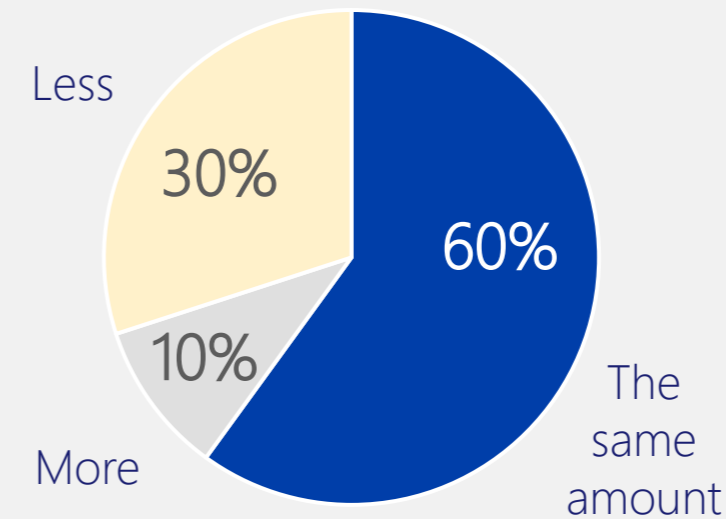
Continuing the trend reported previously, small businesses are paying down their debt. The median unpaid balance decreased by \$150 to \$4,050 in the past quarter. Compared to summer 2018, this median unpaid balance is down almost \$1,000 (from \$5,000 to \$4,050). Looking ahead to the next quarter, almost two-thirds (65 percent) of small businesses expect their unpaid balance to stay the same.

Unpaid credit card balances are down compared to this time last year:



Borrowing intent

In the next three months...



Card balance transfers

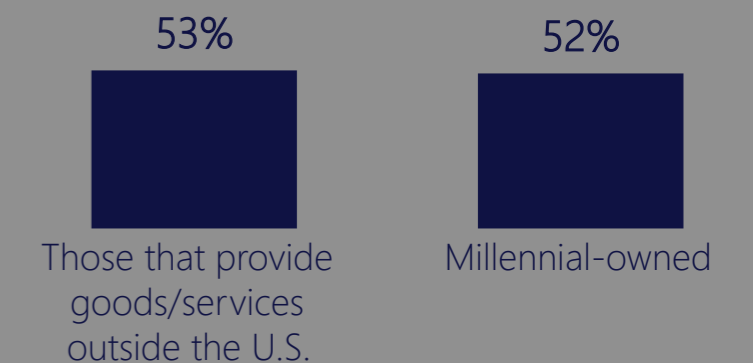
With more small businesses expanding, balance transfers are also increasing: up 7 percent. Twenty percent of small businesses have transferred a balance or debt. This number is even higher—35 percent—among millennial-owned businesses that have expanded.



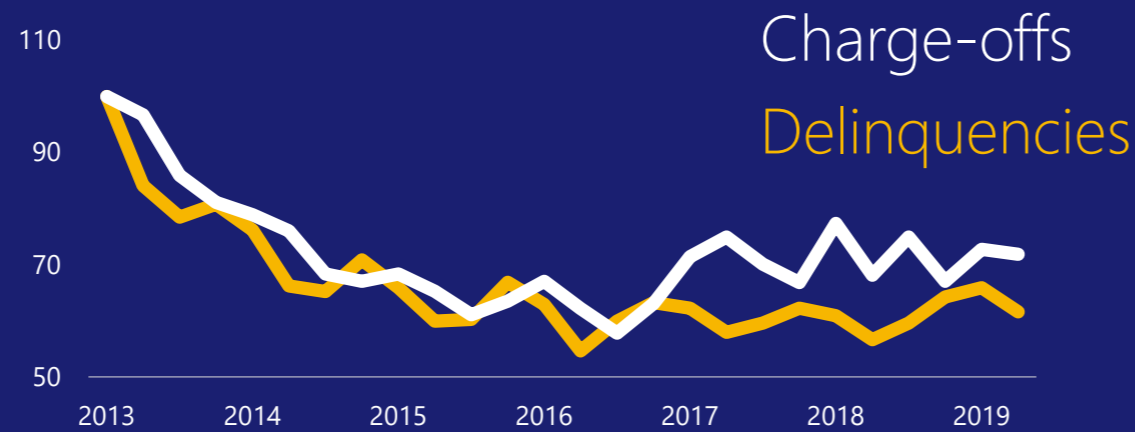
Business loans

Almost a quarter (23 percent) of small businesses have plans to apply for a loan in the next three months. Following the Fed's interest rate cut, small businesses have a greater incentive now to seek out a loan.

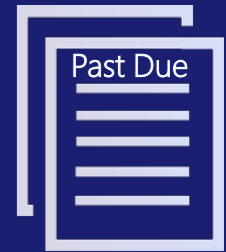
Businesses that are most likely to apply for a loan in the next three months are:



Risk Index



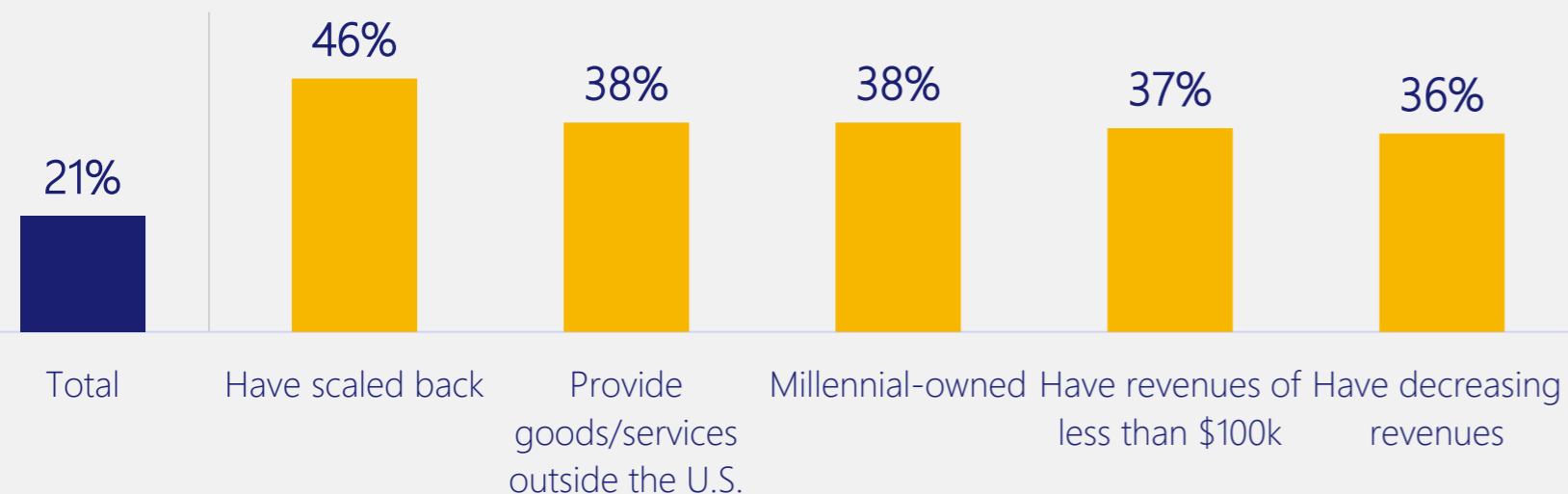
Risk may rise as businesses look to borrow



Risk remains elevated as businesses increase their spending. Despite a drop of one point in the second quarter, the **charge-off index remains at heightened levels.** On the other hand, delinquencies have dropped due to seasonal factors.

Nearly all small businesses (92 percent) report that they feel financially secure. Yet, about a fifth of businesses are concerned about their ability to pay the bills and that they may go into debt (up 5 percentage points versus the previous quarter).

Small businesses that are worried about their business' ability to pay the bills:



Credit limits

Almost a fifth (19 percent) of small businesses admit to hitting the limit on their business cards, an increase of 7 percent versus the previous quarter. Businesses that are most likely to max-out their cards:



37%

Millennial-owned small businesses



34%

businesses earning less than \$100k in revenue

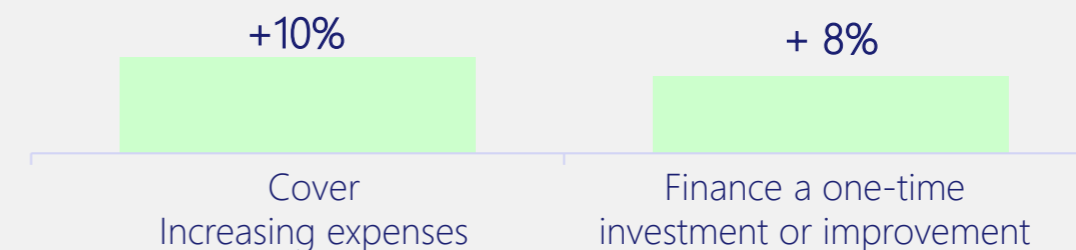
Credit line increases

Following a dip in the first quarter, 37 percent of small businesses received a credit line increase either by request or by the card issuer (an increase of 7 percent).

The number of small businesses requesting a higher limit has increased by 6 percent. For these businesses, the main reasons for the request are to cover increasing expenses (up 10 percent), to finance costly one-time investments or for improvements to the business (up 8 percent). On average, businesses have increased their credit line by \$5,000.

Reasons for requesting a credit line increase

(Quarter-over-quarter change)



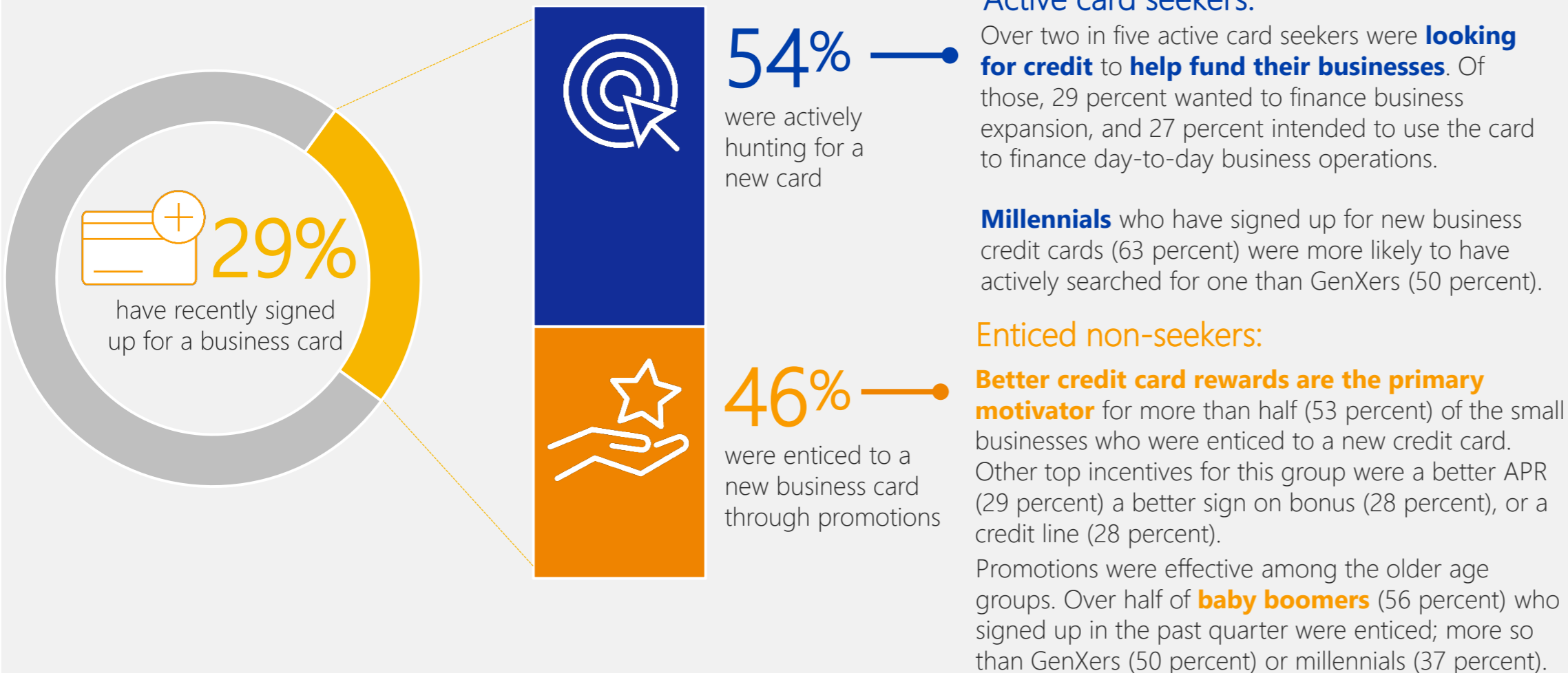
Card sign ups are on the rise, as expansion increases spending

Card seekers want more from their business credit cards



Confidence is still high among small business owners. Almost three in 10 businesses (29 percent) have signed up for a new business card in the last quarter, up 5 percentage points from the prior period. The number of new card prospects is in line with the numbers seen during the second half of 2018.

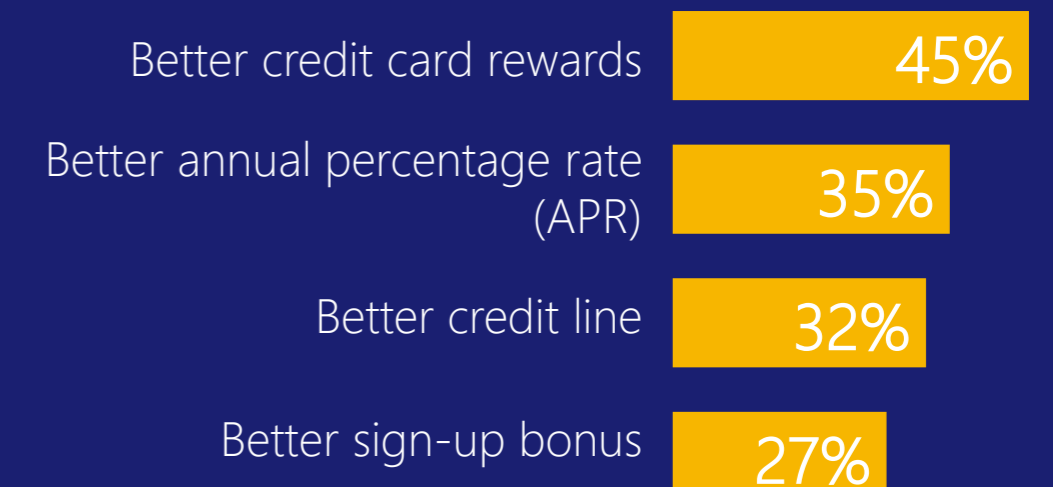
Among those who have recently signed up for a new card, **nearly half (45 percent)** prioritized better credit card rewards as a top motivator. A better ARP remains a top motivator for those who recently signed up for a new card, with a better sign-up bonus becoming less important.



In the next three months...



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



Featured Focus

Advertising successes and struggles among small business owners

Local and localizable media are tried and trusted advertising channels for small businesses



Small business owners' preferred advertising channels

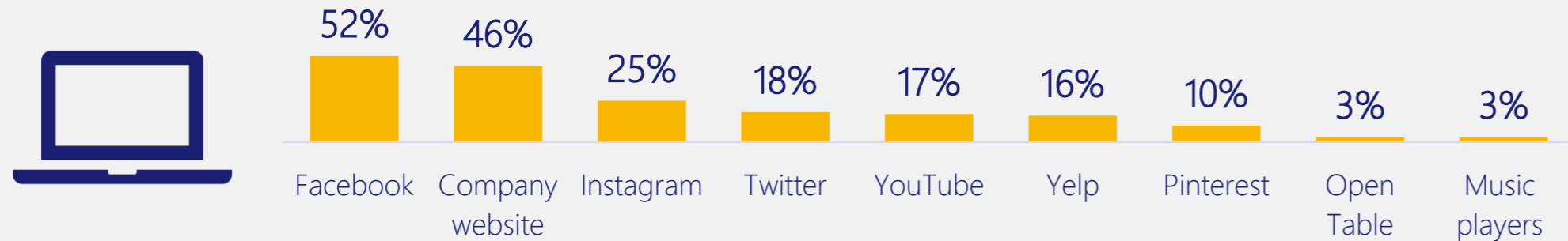
Advertising, which continues to be a key spending driver, has grown year-over-year, with nearly all small businesses (88 percent) advertising. Local print media, such as flyers and newspapers, continue to be a part of the advertising mix for nearly half of small businesses. In fact, small businesses are just as likely to use flyers to advertise their business as they are to use Instagram.



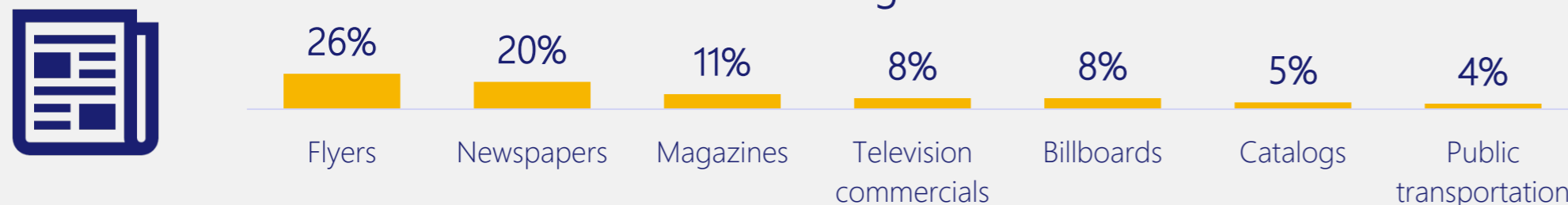
David Simon, Global head of small and medium enterprises, Visa Inc.

"As businesses expand, they look for ways to operate more efficiently and effectively, including how they market their business. Small business advertising is increasingly more digital, but traditional media still plays an important role in the overall mix. Business owners are eager for information on their options—from the best-performing marketing channels, to targeting methodology and messaging."

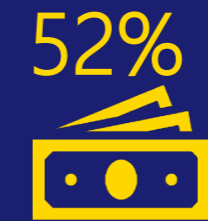
Small business owners advertising digitally:



Small businesses advertising via traditional media:



Advertising challenges



ROI: Owners face performance-related issues such as a low return on investment from advertising and not reaching a large-enough audience.



A lack of knowledge: More than half of business owners struggle with at least one aspect of advertising, such as not knowing the most effective medium, how to target the right audience, or the best strategies for optimizing their advertising.

Measuring advertising success

Small businesses evaluate advertising success based on its ability to increase:



A third of small business owners compare their revenues when advertising versus when not advertising and **calculate the ROI to measure effectiveness.**

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