2012 Economic Forecast: Insights from Small and Mid-Sized Business Owners
January 18th, 2012
John K. Paglia, Ph.D., CFA, CPA
Associate Professor of Finance
This research was conducted in partnership with Dun & Bradstreet Credibility Corp., the leading provider of credit building and credibility solutions for businesses.

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Aaron Stibel, Senior Vice President, Technology
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Outline

- About the respondents
- 2011 economic forecast performance
- 2012 economic forecast
- Impediments to US GDP growth in 2012
- Creating jobs in 2012
- Confidence in business growth prospects
- Business strategies and prospects for raising capital
- Government economic policies to spur job growth
- Presidential candidates and impact on business loan and home equity availability
About the Respondents

- 3,118 U.S. small and medium sized business owners
- Responses collected from January 4 – January 11, 2012
- Median age from 55 to 64
- 80% male respondents
# 2011 Pepperdine Private Capital Markets Project Economic Forecast Performance

<table>
<thead>
<tr>
<th></th>
<th>Whole Sample&lt;sub&gt;1&lt;/sub&gt;</th>
<th>White House&lt;sub&gt;2&lt;/sub&gt;</th>
<th>Federal Reserve&lt;sub&gt;3&lt;/sub&gt;</th>
<th>CBO&lt;sub&gt;4&lt;/sub&gt;</th>
<th>Wall Street Consensus&lt;sub&gt;5&lt;/sub&gt;</th>
<th>NABE&lt;sub&gt;6&lt;/sub&gt;</th>
<th>LAEDC&lt;sub&gt;7&lt;/sub&gt;</th>
<th>Results on 12/31/2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 US GDP</td>
<td>1.98%</td>
<td>3.10%</td>
<td>3.65%</td>
<td>3.10%</td>
<td>3.30%</td>
<td>3.30%</td>
<td>3.10%</td>
<td>1.7%*</td>
</tr>
<tr>
<td>2012 US GDP</td>
<td>2.45%</td>
<td>4.00%</td>
<td>3.85%</td>
<td>2.80%</td>
<td>3.20%</td>
<td>3.40%</td>
<td>3.40%</td>
<td>2.4%*</td>
</tr>
<tr>
<td>US Unemployment Rate (12/31/2011)</td>
<td>9.11%</td>
<td>9.10%</td>
<td>8.90%</td>
<td>9.20%</td>
<td>8.80%</td>
<td>9.00%</td>
<td>9.00%</td>
<td>8.50%</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.12%</td>
<td>1.40%</td>
<td>1.50%</td>
<td>1.30%</td>
<td>1.90%</td>
<td>1.80%</td>
<td>2.50%</td>
<td>3.40%</td>
</tr>
<tr>
<td>US House prices</td>
<td>-1.76%</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>-0.06%</td>
<td>0.40%</td>
<td>n/a</td>
<td>-2.71%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>6.46%</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>10.00%</td>
<td>7.30%</td>
<td>n/a</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

1 - Pepperdine Economic Survey 2011, all respondents  
2 - Economic and Budget Analyses, 2011  
3 - Monetary Policy Report, March 1, 2011  
4 - The Budget and Economic Outlook: Fiscal Years 2011 to 2021  
5 - The Wall Street Journal, Economic Forecasting  
6 - National Association for Business Economics, February 2011  
7 - Los Angeles County Economic Development Corporation, Economic Forecast 2011-2012  
* - estimated by Wall Street Consensus

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## 2012 Economic Forecast

<table>
<thead>
<tr>
<th></th>
<th>Projections in January 2012</th>
<th>Projections in January 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Whole sample&lt;sub&gt;1&lt;/sub&gt;</td>
<td>&lt;$5 million&lt;sub&gt;2&lt;/sub&gt;</td>
</tr>
<tr>
<td>2011 US GDP</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>2012 US GDP</td>
<td>0.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>2013 US GDP</td>
<td>1.9%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Probability of US recession in the next year</td>
<td>32.0%</td>
<td>32.7%</td>
</tr>
<tr>
<td>US Housing Prices</td>
<td>-0.8%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>2.5%</td>
<td>2.3%</td>
</tr>
<tr>
<td>US Unemployment Rate (12/31)</td>
<td>8.7%</td>
<td>8.7%</td>
</tr>
</tbody>
</table>

1 - all 3,118 privately-held businesses that participated in the survey
2 - privately-held businesses with annual revenues less than $5 million
3 - privately-held businesses with annual revenues from $5 million to $100 million

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Confidence in Business Growth Prospects Compared to One Year Ago
2012 versus 2011 Respondents

- More confident: 22% in 2012, 16% in 2011
- Somewhat more confident: 52% in 2012, 32% in 2011
- Neither more nor less confident: 27% in 2012, 18% in 2011
- Somewhat less confident: 12% in 2012, 9% in 2011
- Less confident: 8% in 2012, 5% in 2011
Impediments to U.S. GDP Growth in the Next 12 Months by Size (<$5 million revenues; $5 - $100 million revenues)

- Government regulations and taxes:
  - Whole sample: 31%
  - <$5 million revenues: 31%
  - $5 - $100 million revenues: 32%

- Domestic (U.S.) economic and/or political environment:
  - Whole sample: 30%
  - <$5 million revenues: 31%
  - $5 - $100 million revenues: 26%

- Global economic and/or political environment:
  - Whole sample: 20%
  - <$5 million revenues: 18%
  - $5 - $100 million revenues: 25%

- Limited access to capital:
  - Whole sample: 19%
  - <$5 million revenues: 19%
  - $5 - $100 million revenues: 17%

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The Year When U.S. Unemployment Rate First Reaches 6% or Below

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Number of Employees Businesses Are Planning to Hire in the Next 12 Months by Size

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Whole sample</th>
<th>&lt;$5 million</th>
<th>$5-$100 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>43%</td>
<td>47%</td>
<td>27%</td>
</tr>
<tr>
<td>1-2</td>
<td>31%</td>
<td>34%</td>
<td>21%</td>
</tr>
<tr>
<td>3-5</td>
<td>12%</td>
<td>10%</td>
<td>21%</td>
</tr>
<tr>
<td>6-10</td>
<td>5%</td>
<td>3%</td>
<td>10%</td>
</tr>
<tr>
<td>11-15</td>
<td>2%</td>
<td>1%</td>
<td>5%</td>
</tr>
<tr>
<td>16-20</td>
<td>1%</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td>More than 20</td>
<td>1%</td>
<td>0%</td>
<td>7%</td>
</tr>
<tr>
<td>Unsure</td>
<td>4%</td>
<td>3%</td>
<td>5%</td>
</tr>
</tbody>
</table>
Pay for Employees and Owners

Did you raise pay for your employees in the last 12 months?

- Yes: 43%
- No: 57%
- Unsure: 1%

Do you plan to raise pay for your employees in the next 12 months?

- Yes: 42%
- No: 41%
- Unsure: 17%

Did you personally make more money last year (2011) than in 2010?

- Yes: 38%
- No: 61%
- Unsure: 2%

Do you personally expect to make more money this year (2012) than you did in 2011?

- Yes: 50%
- No: 38%
- Unsure: 13%
Strategy Most Likely to Be Pursued in 2012 to Increase Business Value

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase revenues through sales of existing products/services</td>
<td>46%</td>
</tr>
<tr>
<td>Increase revenues through sales of new products/services</td>
<td>33%</td>
</tr>
<tr>
<td>Reduce operating expenses (excluding labor)</td>
<td>15%</td>
</tr>
<tr>
<td>Reduce labor-related expenses</td>
<td>7%</td>
</tr>
</tbody>
</table>
Best Prospects for Raising External Business Capital in 2012 by Size

<table>
<thead>
<tr>
<th>Source</th>
<th>Whole sample</th>
<th>&lt;$5 million</th>
<th>$5-$100 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loan</td>
<td>43%</td>
<td>39%</td>
<td>64%</td>
</tr>
<tr>
<td>Pers. savings</td>
<td>32%</td>
<td>36%</td>
<td>21%</td>
</tr>
<tr>
<td>Friends and family</td>
<td>17%</td>
<td>19%</td>
<td>8%</td>
</tr>
<tr>
<td>Credit cards</td>
<td>14%</td>
<td>17%</td>
<td>5%</td>
</tr>
<tr>
<td>Selling pers. assets</td>
<td>13%</td>
<td>14%</td>
<td>7%</td>
</tr>
<tr>
<td>Equipment lease</td>
<td>11%</td>
<td>9%</td>
<td>19%</td>
</tr>
<tr>
<td>Home equity</td>
<td>10%</td>
<td>11%</td>
<td>5%</td>
</tr>
<tr>
<td>Angel or venture capital fund</td>
<td>9%</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>Private equity fund</td>
<td>8%</td>
<td>6%</td>
<td>14%</td>
</tr>
<tr>
<td>Factor</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Peer-to-peer lending groups</td>
<td>4%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Pawn loan</td>
<td>1%</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>Hedge fund</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>14%</td>
<td>14%</td>
<td>11%</td>
</tr>
</tbody>
</table>
Importance of Home Equity as a Potential Source When Raising Business Financing

- Very important: 12%, 13%, 8%
- Important: 11%, 12%, 7%
- Moderately important: 14%, 15%, 9%
- Of little importance: 19%, 20%, 18%
- Unimportant: 44%, 41%, 58%

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Percentage Indicating “Yes” to “Is a Lack of Home Equity as a Potential Source of Business Capital Restricting …”

- Growth opportunities:
  - Whole sample: 26%
  - <$5 million: 28%
  - $5-$100 million: 15%

- Ability to hire new employees:
  - Whole sample: 17%
  - <$5 million: 19%
  - $5-$100 million: 11%
Percentage Indicating “Yes” to “Is a Lack of Bank Loans as a Potential Source of Business Capital Restricting …”

- Growth opportunities:
  - Whole sample: 49%
  - <$5 million: 53%
  - $5-$100 million: 34%

- Ability to hire new employees:
  - Whole sample: 37%
  - <$5 million: 42%
  - $5-$100 million: 24%

- Increased access to capital: 30% (2011) vs. 44% (2012)
- Regulatory reform: 28% (2011) vs. 17% (2012)
- Tax incentives: 21% (2011) vs. 19% (2012)
- Increased competitiveness with foreign trade partners: 15% (2011) vs. 14% (2012)
- Education reform: 5% (2011) vs. 0% (2012)

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Best Policy to Help Spur U.S. Job Creation by Size

<table>
<thead>
<tr>
<th>Policy Type</th>
<th>Whole Sample</th>
<th>&lt;$5 million</th>
<th>$5-$100 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased access to capital</td>
<td>30%</td>
<td>32%</td>
<td>25%</td>
</tr>
<tr>
<td>Regulatory reform</td>
<td>28%</td>
<td>27%</td>
<td>32%</td>
</tr>
<tr>
<td>Tax incentives</td>
<td>21%</td>
<td>20%</td>
<td>24%</td>
</tr>
<tr>
<td>Increased competitive position with foreign trade partners</td>
<td>15%</td>
<td>15%</td>
<td>16%</td>
</tr>
<tr>
<td>Education reform</td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
</tr>
</tbody>
</table>

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Support for Various Economic Policies and Actions in 2012

- Balanced U.S. Government budget: 79% Yes, 15% No, 6% Unsure
- Further extensions of reduced payroll tax periods: 64% Yes, 28% No, 8% Unsure
- Policies / actions to lower interest rates: 49% Yes, 10% No, 8% Unsure
- Increase of U.S. Government limit: 65% Yes, 28% No, 8% Unsure
- U.S. Government policies / actions to financially support struggling European economies: 66% Yes, 18% No, 16% Unsure
- Policies / actions to weaken U.S. dollar: 77% Yes, 9% No, 13% Unsure
Percentage Indicating Support for Various Options to Balance U.S. Government Budget

- Decreasing federal expenditures: 96%
- Increasing revenues from personal income taxation: 23%
- Increasing revenues from business income taxation: 19%
- Increasing revenues from payroll taxation: 9%
The Earliest Time to Support an Increase in the U.S. Government Debt Limit

- First half of 2012: 23%
- Second half of 2012: 10%
- 2013: 9%
- 2014: 4%
- 2015: 2%
- 2016 or later: 7%
- Never: 45%

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Which Presidential Candidate, if Elected, Would Likely Have the Most Favorable Impact on Your Business?

<table>
<thead>
<tr>
<th>Candidate</th>
<th>Whole sample</th>
<th>Less than $100K</th>
<th>$100K - $500K</th>
<th>$500K - $1M</th>
<th>$1M - $5M</th>
<th>$5M - $10M</th>
<th>$10M - $25M</th>
<th>$25+M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barack Obama</td>
<td>29%</td>
<td>40%</td>
<td>33%</td>
<td>28%</td>
<td>25%</td>
<td>20%</td>
<td>21%</td>
<td>22%</td>
</tr>
<tr>
<td>Mitt Romney</td>
<td>24%</td>
<td>17%</td>
<td>23%</td>
<td>22%</td>
<td>27%</td>
<td>25%</td>
<td>32%</td>
<td>35%</td>
</tr>
<tr>
<td>Newt Gingrich</td>
<td>15%</td>
<td>9%</td>
<td>14%</td>
<td>16%</td>
<td>17%</td>
<td>16%</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Ron Paul</td>
<td>12%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td>11%</td>
<td>15%</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>Rick Santorum</td>
<td>10%</td>
<td>10%</td>
<td>8%</td>
<td>9%</td>
<td>10%</td>
<td>12%</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>Others</td>
<td>10%</td>
<td>11%</td>
<td>8%</td>
<td>12%</td>
<td>10%</td>
<td>12%</td>
<td>11%</td>
<td>12%</td>
</tr>
</tbody>
</table>

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### Presidential Candidates: Rated by Level of Expected Impact on Owners’ Businesses (1 = very unfavorable; 7 = very favorable)

<table>
<thead>
<tr>
<th>Candidate</th>
<th>Mitt Romney</th>
<th>Newt Gingrich</th>
<th>Rick Santorum</th>
<th>Jon Huntsman Jr.</th>
<th>Ron Paul</th>
<th>Rick Perry</th>
<th>Barack Obama</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whole Sample</td>
<td>4.7</td>
<td>4.2</td>
<td>4.2</td>
<td>4.2</td>
<td>4.0</td>
<td>4.0</td>
<td>3.1</td>
</tr>
<tr>
<td>Businesses Selecting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obama as Most</td>
<td>3.3</td>
<td>2.4</td>
<td>2.5</td>
<td>3.5</td>
<td>2.7</td>
<td>2.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Favorable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Businesses Selecting</td>
<td>6.1</td>
<td>4.7</td>
<td>4.9</td>
<td>4.6</td>
<td>4.1</td>
<td>4.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Romney as Most</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Favorable</td>
<td>4.7</td>
<td>5.0</td>
<td>4.8</td>
<td>4.4</td>
<td>4.7</td>
<td>4.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Details About the Respondents

Geographic Location

- less than or equal to 10
- 11 - 25
- 26 - 50
- 51 - 75
- 76 - 100
- 101 - 125
- 126 - 150
- more than 150

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Details About the Respondents
Types of Businesses

- Construction & engineering: 30%
- Business services: 14%
- Customer goods & services: 12%
- Manufacturing: 11%
- Wholesale & distribution: 8%
- Information technology: 6%
- Health care & biotech: 6%
- Financial services: 5%
- Media & entertainment: 4%
- Basic materials & energy: 3%
- Other: 1%

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Details About the Respondents

Annual Revenues

- $0
- $1 - $100,000
- $100,001 - $500,000
- $500,001 - $1,000,000
- $1,000,001 - $5,000,000
- $5,000,001 - $10,000,000
- $10,000,001 - $25,000,000
- $25,000,001 - $50,000,000
- $50,000,001 - $100,000,000
- $100,000,001 - $500,000,000
- More than $500,000,000
Details About the Respondents
Number of Employees

- 0: 15%
- 1-2: 22%
- 3-5: 25%
- 6-10: 10%
- 11-20: 13%
- 21-50: 4%
- 51-100: 4%
- 101-500: 5%
- More than 500: 2%
About Pepperdine Private Capital Markets Project
The Pepperdine Private Capital Markets Project at the Graziadio School of Business and Management is the first simultaneous, comprehensive, and on-going investigation of the major private capital market segments. The research seeks to understand the true cost of private capital across market types and the investment expectations of privately-held business owners; providing lenders, investors and the businesses that depend on them with critical data to make optimal investment and financing decisions, and better determine where the opportunities to create lasting economic value may be realized. Download reports and find more information at http://bschool.pepperdine.edu/privatecapital.

About Pepperdine University’s Graziadio School of Business and Management
Founded on the core values of integrity, stewardship, courage, and compassion, Pepperdine University’s Graziadio (GRAT-ZEE-ah-DEE-oh) School of Business and Management has been developing values-centered leaders and advancing responsible business practice since 1969. Student-focused, experience-driven, and globally-oriented, the Graziadio School offers fully accredited top-ranked MBA, Masters of Science, and bachelor’s completion business programs. More information found at http://bschool.pepperdine.edu/newsroom/.
Thank You!

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