

Letter from Robb Hilson



We are pleased to share the spring 2016 Bank of America Small Business Owner Report, a semi-annual study that uncovers the concerns, aspirations and perspectives of small business owners around the country.

This spring, small business owners' optimism that local, national and global economies will improve is significantly down from previous years. At the same time, they are feeling less optimistic about expected revenue growth, while their intent to hire and apply for loans has also declined.

Anxiety is high regarding the impact of the fall elections, the effectiveness of U.S. government leaders and health care costs, possibly explaining why small businesses are taking a wait-and-see approach before making plans for hiring and growth.

Nearly four out of five (79 percent) small business owners express concern over the effectiveness of U.S. government leaders. In addition, 67 percent say the presidential election will affect their business "a lot" or "somewhat," while 53 percent believe the outcome of congressional elections will have an impact. When asked what issues are most important to them in the upcoming elections, business owners cite taxes and health care policy, as well as the economy and job growth.

Interestingly, while anxiety over the U.S. and/or global stock market has also increased since spring of 2015, concern over all other economic factors we surveyed for has declined, including corporate tax rates, the strength of the U.S. dollar, commodities prices, consumer spending, interest rates and credit availability.

Finally, of those planning to hire this year, nearly half (49 percent) report that candidate skill level is the single most important factor in their hiring decision. This is followed by fit with company culture and work experience. Only 3 percent cite education level as the most important factor. Furthermore, of the small business owners who plan to grow their workforce this year, 54 percent plan to add part-time employees – interestingly women business owners are more likely to hire part-time employees than their male counterparts (62 percent vs. 49 percent).

Whether you've been in business for 30 years or are just starting out, facing staffing challenges or creating a strategy for growth, Bank of America is committed to help provide you with the expertise to sustain and grow your small business.

Robb Hilson, Small Business Executive, Bank of America

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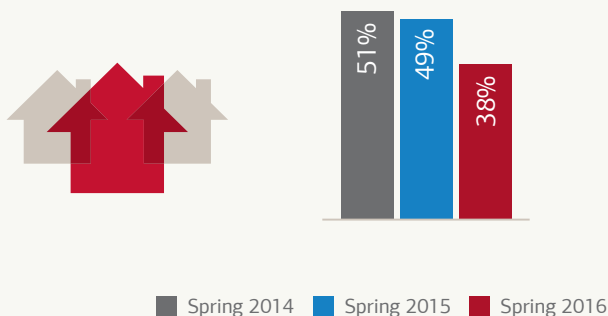
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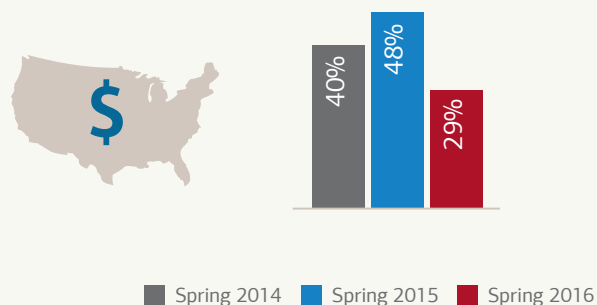
Confidence in the economy declines; SBOs cite anxiety over 2016 elections

Confidence that the national economy will improve has fallen 19 percentage points over the last year, from 48 percent in spring 2015 to 29 percent in spring 2016, while confidence in their local economies is down 11 percentage points, from 49 percent in spring 2015 to 38 percent in spring 2016.

My **local economy** will improve over the next 12 months

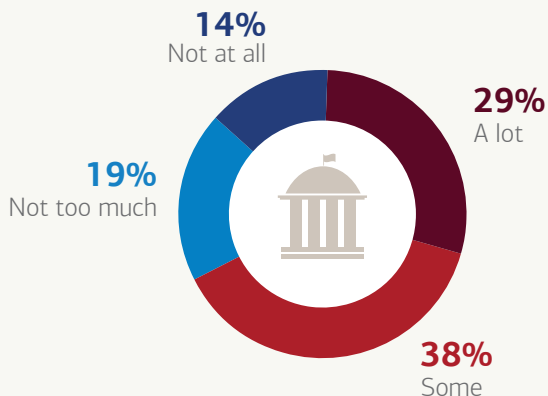


The **national economy** will improve over the next 12 months

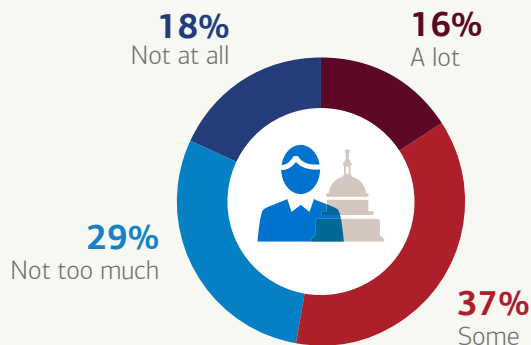


Concurrently, when asked about the 2016 elections, 67 percent reported the presidential elections would affect their business “a lot” or “somewhat,” while 53 said the same about elections for Congress.

Concern over the **presidential election** impacting business



Concern over the **congressional elections** impacting business

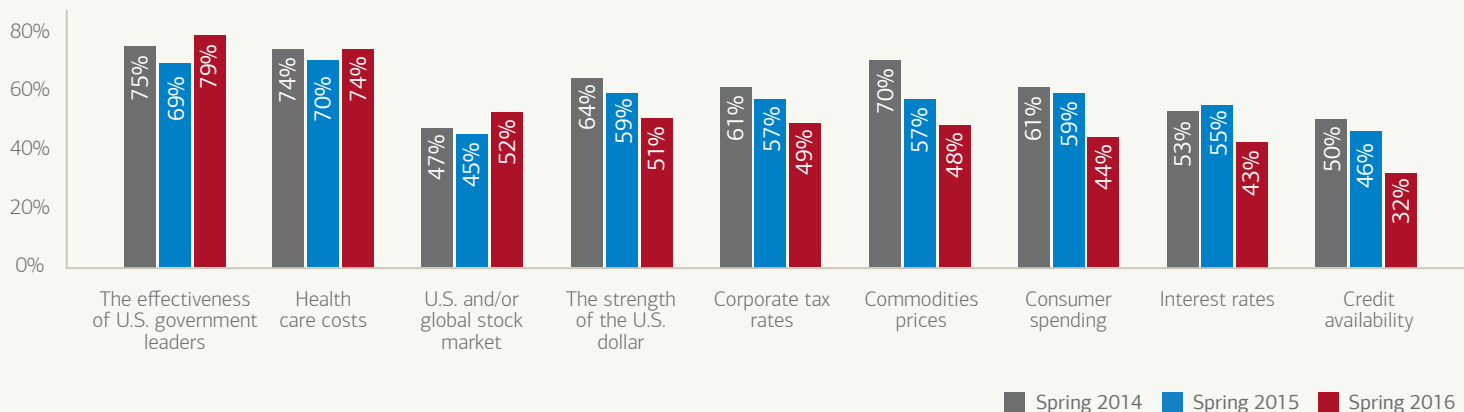


Concern over government leader effectiveness, health care costs spike, as worry over consumer spending, interest rates fall

Concerns around the effectiveness of U.S. government leaders, health care costs and the stock market have all increased since last year. Nearly four-fifths (79 percent) of small business owners expressed concern that the effectiveness of U.S. government leaders will impact their business over the next 12 months. Nearly three-quarters (74 percent) of small business owners are concerned health care costs will impact their business, while 52 percent worry the U.S. and/or global stock market will have an impact.

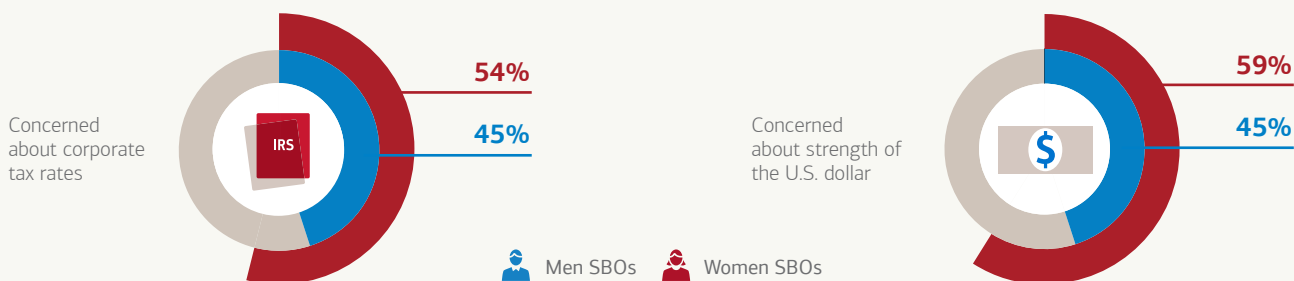
Conversely, anxiety around other economic factors has declined since spring 2015 – with concern levels decreasing on consumer spending, interest rates and the strength of the U.S. dollar. There was also a downward shift in concern around commodities prices and credit availability.

Most economic concerns trend down ... up for government, health care and stock markets



Notably, men and women small business owners differed in opinion around corporate tax rates and the strength of the U.S. dollar, with women being more concerned about both economic factors.

Men and women SBOs vary in concern over certain economic factors

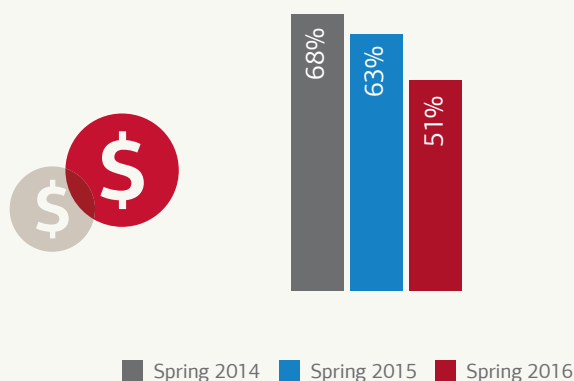


Small business owners less bullish on 2016

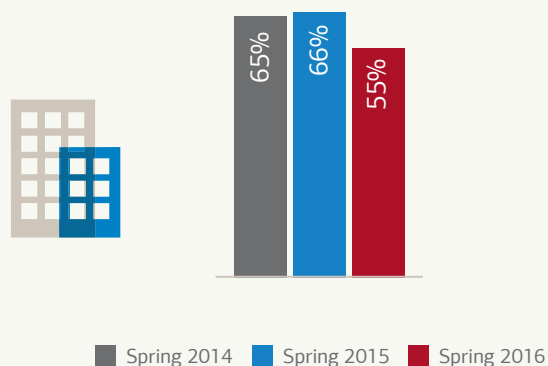
Small business owners are neither aggressively planning for growth nor downsizing, taking a wait-and-see approach during the election year.

They are less bullish on revenue growth and expansion plans, with only half (51 percent) expecting their revenue to grow over the next 12 months, a decrease of 12 percentage points since spring of last year. Forty percent say they expect their revenue to remain flat over the next 12 months, compared with 31 percent in spring 2015.

Expect revenue to increase in the next year

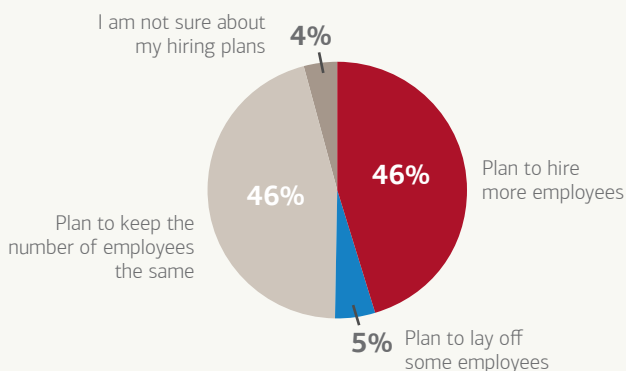


Plan to grow business in the next five years

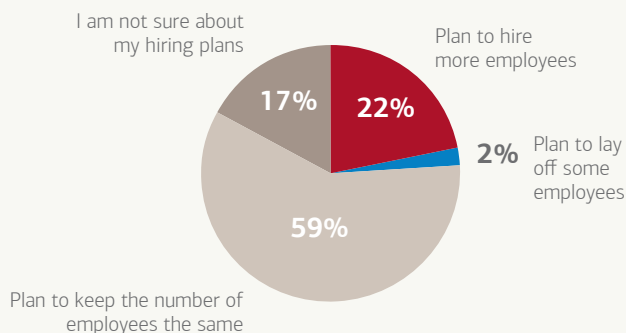


In terms of hiring, just 22 percent of small business owners plan to add employees over the next 12 months, a 24 percentage-point drop from last year. The majority (59 percent) plan to keep the same number of employees over the next 12 months, perhaps suggesting small business owners are waiting until after the election to reassess hiring plans. Additionally, the number of business owners who plan to lay off employees has decreased from spring 2015.

Spring 2015 hiring plans



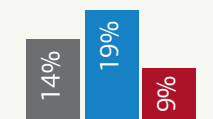
Spring 2016 hiring plans



Loan applications fall

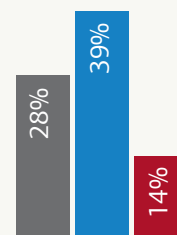
Small business owners' reduced growth expectations are reflected in their intention to apply for a loan in 2016. Only 9 percent reported they intend to apply for a loan in 2016, versus 19 percent in spring 2015. Over the past two years, only 14 percent of small business owners have applied for a loan, a 25 percentage-point decrease from spring 2015.

SBOs who intend to apply for a loan in the next year



■ Spring 2014 ■ Spring 2015 ■ Spring 2016

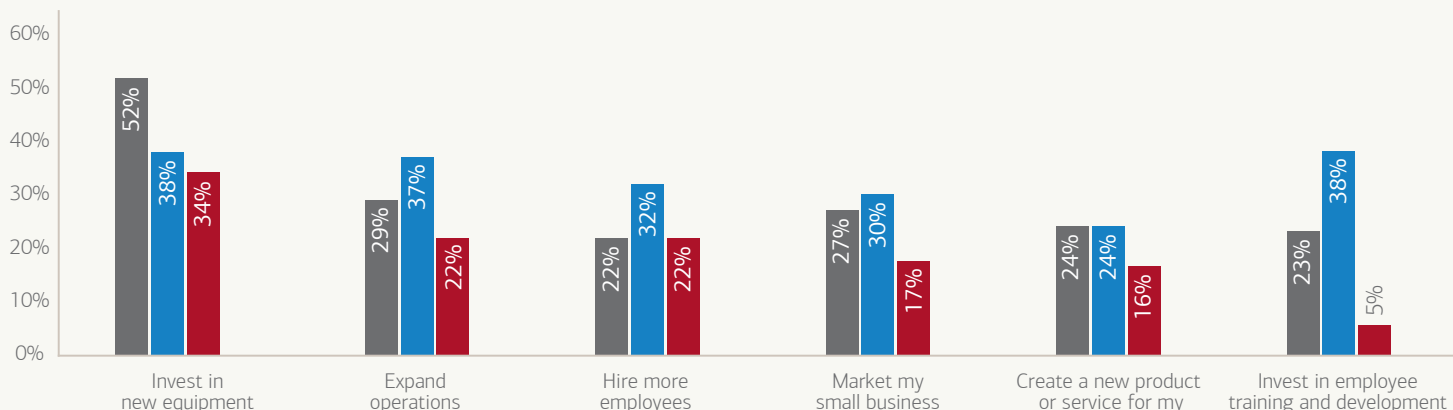
SBOs who applied for loans over the past two years



■ Spring 2014 ■ Spring 2015 ■ Spring 2016

Small business owners who intend to apply for a loan in 2016 plan to use the funds to invest in new equipment, expand operations and hire more employees. A year ago, 38 percent of small business owners cited investment in employee training and development as their top reason to seek funding. This year, only 5 percent of small business owners cited training and development as a reason to apply for a loan.

How small businesses use loan funding

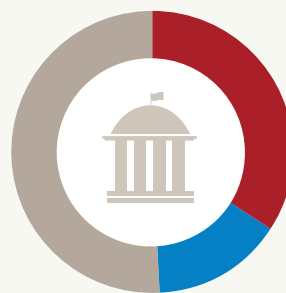


■ Spring 2014 ■ Spring 2015 ■ Spring 2016

On the campaign trail: What matters most?

As they prepare to cast their votes, small business owners are taking into account both personal and business considerations. Approximately one-third (34 percent) give more weight to their personal views, while 15 percent approach voting from more of a business perspective. More than half (51 percent) take both into consideration evenly.

51%
Vote from a balanced SBO and personal perspective

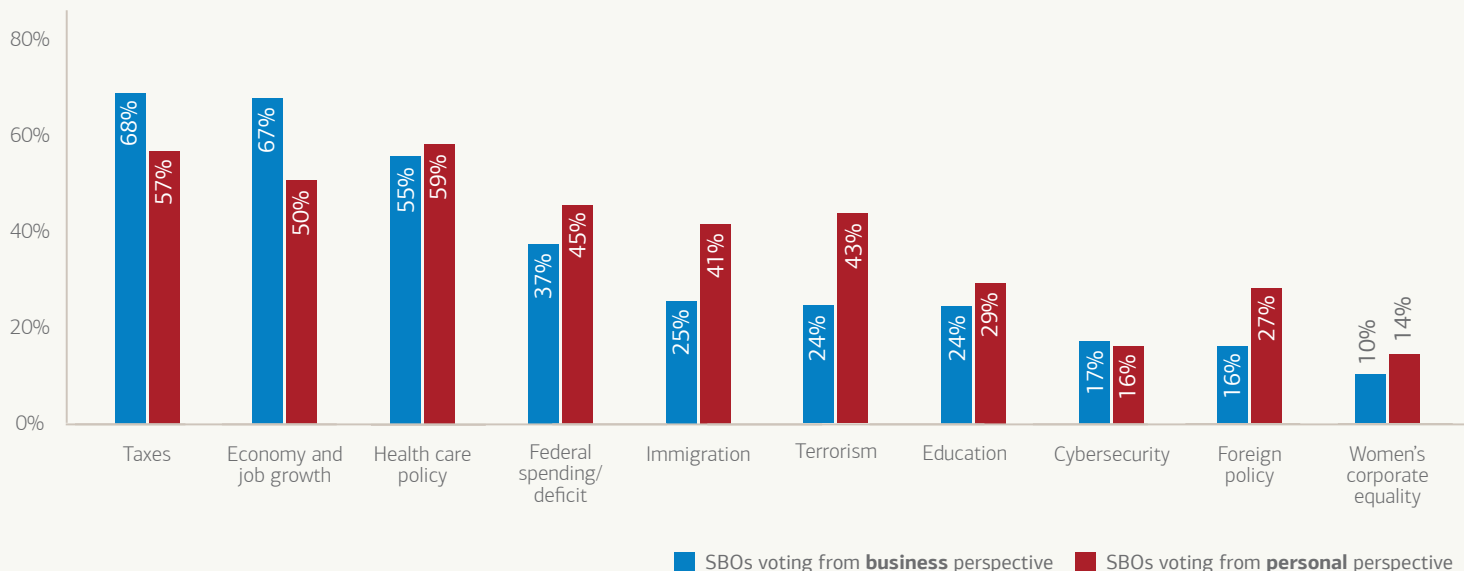


34%
Vote from a personal perspective

15%
Vote from a small business owner perspective

With either approach, small business owners prioritize campaign issues that affect them financially. For small business owners who vote from a personal perspective, taxes, health care policy, the economy and job growth are the most important campaign issues. Similarly, for those who vote with their small business owner “hat” on, taxes, the economy and job growth, and health care policy are their top campaign issues.

This election season, small business owners are most concerned about...



Now hiring: College degree not required

Picking the right candidate for the job – and determining the best criteria for hiring – is an ongoing challenge for small business owners.

Nearly half (49 percent) report that skill level is the single most important factor in hiring, followed by fit with company culture and work experience. Small business owners reported that other factors, such as education, were less critical in hiring decisions. In fact, only 3 percent said education level was the most important factor when evaluating job applicants.

Most important factors when hiring



Skill level

49%



Fit with company culture

24%



Work experience

24%



Education level

3%

In general, small business owners favor candidates who are trustworthy, hardworking and experienced. They are less concerned with sales ability and tech savviness when sizing up prospective hires.

What skills or characteristics do you look for in a potential candidate?



Trustworthy

75%



Hardworking

70%



Experience

57%



Problem solver

51%



Logical thinker

47%



Communication skills

45%



Creative thinker

39%



Sales ability

28%



Tech savviness

27%



Knowledge of STEM

12%

Small business owners indicated a preference for **Gen-X** employees (47 percent) when asked to evaluate job candidates by generation. Twenty-six percent cited **millennials** and 8 percent gravitate toward **baby boomer** candidates.

Generational preferences when hiring



Millennials

26%



Gen-Xers

47%



Baby boomers

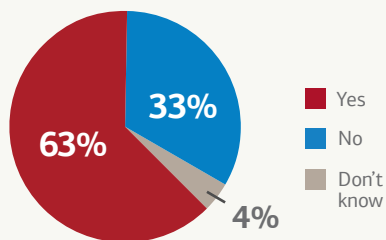
8%

Narrowing the skills gap

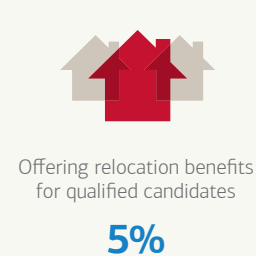
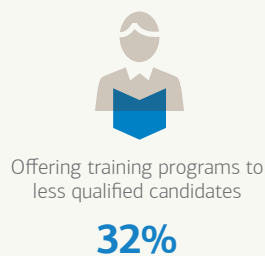
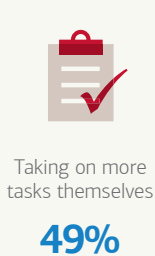
Small business owners don't seem to have the same challenges as large corporations do in finding job candidates with the right science, technology, engineering and mathematics (STEM) skills, but they do see a general skills gap and have struggled to find qualified candidates.

The road to finding and training qualified candidates

Does the "skills gap" affect your ability to find qualified staff?

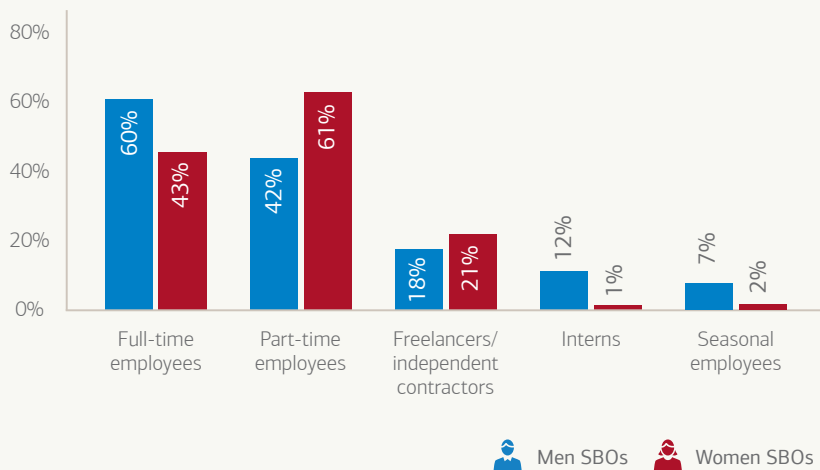


Small business owners aim to narrow the skills gap by...



Small business owners are hiring part-time workers as another way to solve staffing challenges. Of those who grew their workforce last year, half (51 percent) chose to bring on part-time employees. Female small business owners were more likely to go that route: 61 percent added part-time staff, while 42 percent of male small business owners did so.

Who SBOs hired in the last year



Looking ahead



More than half (54 percent) of all small business owners who plan to hire expect to add part-time workers, while one-quarter (26 percent) expect to add freelancers, independent contractors or skilled specialists to support their business over the next year.

Client profile

For small business owner Jamie Glassman, personality is key when he's interviewing job candidates. A college degree or long resume? Not so much.

"That's not necessarily that important," says Glassman, who owns JAZ Condominium & Property Management in Washington, D.C. His close knit team at JAZ includes property managers, administrative assistants and maintenance engineers. On a daily basis, the staff collaborates to offer full-service management to properties throughout the D.C. area.

When sizing up candidates, like many other small business owners Bank of America surveyed, Glassman values fit with the company over education level and looks for "people who are personable, smart, articulate and customer-service oriented. Those traits take priority."

Glassman looks at geography, too. With strong allegiance to his community in D.C., he prefers to hire locally if he can. That's why he recruits through local channels instead of national listings when a spot opens on his staff. Maintaining close ties to the local community and developing relationships is a core part of his business. Plus, he says, "I really like people!"

Glassman founded JAZ on the idea that close cooperation and communication – both with employees and clients – is critical. And above all, customer service is essential. Glassman previously worked in hospitality, so he brings a service-minded, eager-to-please approach to work every day.

"How many phone messages get left unreturned? How long do the other guys take to email you back? Communication is what clients need, and that is what I have based my business model upon," Glassman says. "I feel like the personal touch is where other management firms fall short."

Lately, business has been good for JAZ. Glassman is hiring and expects growth to continue over the next year. More broadly, Glassman has noticed strong signs in the local economy. He is seeing an increase in new construction, an uptick in condo sales, and fewer foreclosures and delinquencies. He expects to see significant turnover in real estate, depending on how the presidential race shakes out.

That said, the election won't really impact his business, Glassman says. "We are providing a service that folks need – not selling goods. So factors that affect other businesses don't impact us as much." So, what does affect the bottom line? Glassman says it really comes down to keeping clients happy – which, for him, is just a perk of the job.



Bank of America: Commitment to Small Business

Bank of America has a nationwide network of banking centers and professionals that are committed to its more than three million small business clients and their local communities. The personal connection of small business bankers, client managers and practice solutions specialists contribute to the success of small businesses and their communities by making expertise more accessible. The resources of Bank of America help Small Business owners succeed by offering convenient interactions and comprehensive banking, credit and cash management solutions.

In 2015, Bank of America extended nearly \$10.7 billion in new credit to small businesses. Bank of America's combined new and renewal small business lending totaled more than \$25.2 billion.

GfK Public Affairs & Corporate Communications conducted the Bank of America Small Business Owner Report Survey for spring of 2016 online between March 17 and April 19, 2016 using pre-recruited online sample of small business owners. GfK contacted a national sample of 1,000 small business owners in the United States with annual revenue between \$100,000 and \$4,999,999 and employing between 2 and 99 employees. In addition, a total of 300 small business owners were also surveyed in nine target markets: Los Angeles, Dallas, Washington, D.C., New York, Boston, Chicago, San Francisco, Atlanta and Miami. The final results were weighted to national benchmark standards for size, revenue, and region. Previous waves of the Small Business Owner Report Survey were conducted by telephone. Best efforts were made to replicate processes in sample, weighting, and method.