



## 2012 Economic Outlook for Minority, Women and Nonminority Small Businesses



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# 2012 Economic Outlook for Minority, Women and Nonminority Small Businesses

## Executive Summary

### Introduction

The report analyzes the economy and the 2012 outlook for small businesses owned by minority, women and non-minority CEOs. The results are based on the Gazelle Index national random survey of over 600 CEOs who operated businesses with 10 to 100 employees. The survey had a margin of error of 5% or less for each race and gender group. This report is based on survey questions issued in November of 2011. The questions were forward-looking in that they were designed to gauge the outlook and hiring plans of CEOs during 2012.

The latest survey results and perspectives on the US and global economy are available at the website ([www.gazelleindex.com](http://www.gazelleindex.com)). **By registering at the website, visitors will receive the entire 17 page 2012 Economic Outlook report and the latest updates on a regular basis.**

### Economic Situation Summary

- After three years of growth, the private sector has reemployed 3.1 million of the 7.5 million persons who lost jobs during the recession. A big problem is that the expansion has not occurred along a straight upward trend line, but rather in a cyclical, wavelike pattern.
- The cyclical pattern reflects the lack of coordination among different sectors of the economy as they recover. That is, private investment, consumer spending and government spending have not proceeded together. Instead, when one is up, the other has been down.
- Economists are searching for signs that the existing weakness in the economy is a temporary interruption of growth, rather than a long-run trend. However, the economy has not exhibited signs of renewed growth.
- Hiring in small and start-up businesses is the key to a labor-market recovery, but too often small businesses are viewed within a vacuum. They are sustained by a food chain that is comprised of retail spending of consumers, business-to-business purchasing, corporate supply chain operations and government procurement. If there is a gap in one of those links, small business hiring will suffer.
- Government fiscal austerity measures and declining corporate fixed investment are adversely affecting small businesses and particular minority-owned businesses. This is because minority firms depend more heavily on government contracting opportunities than do non-minority-owned businesses.

### **Industry Distribution**

- In 2011, the industry distribution of small businesses in the Gazelle Index survey population differed by race and gender. The largest percentage of Asian firms was concentrated in food, entertainment and hospitality (27.4%).
- For African-Americans; the largest percentage was in professional and technical services (15.5%) followed by business services (13.7%).
- Among Latinos; the greatest percentage was in construction (14.1%) followed by manufacturing (11.9%).
- Among white males; the greatest percentage was in health, education and social services (18.5%) followed by food and entertainment (13.4%).
- Finally; white women were most heavily concentrated in food and entertainment (12.5%) followed by health, education and social services (12.2%).

### **Regional Distribution**

- Regionally, most Asian owned firms were located in the West (46.6%) and the North East (29.9%).
- For blacks; the largest percentage was concentrated in the South (59.1%) followed by the Midwest (17.6%).
- Latinos were most heavily concentrated in the South (47.3%) and in the West (33.7%).
- Firms owned by white females were most heavily concentrated in the South (37.3%) and in the West (23.7%).

### **Importance of Government Contracting and B2B Sales**

- The Gazelle Index survey asked CEOs to indicate the factors that were vital to achieving their overall business objectives. The percentages of each race and gender group which said government procurement opportunities are “very important” were as follows: Black 52.7%; Latino 48.4%; Women 37.4%; Whites 20.8%.
- When asked how important business-to-business sales are, the percentages that said B2B sales are “very important” were as follows: Women 74.7%; Black 64.2%; Latino 57.3%; Whites 54.2%.

### **Outlook and Hiring Plans**

- Businesses owned by Latinos were the hardest hit by the recession. Overall, 55% reduced their workforce and but 26%cut by more than one-half.
- Black CEOs expressed the greatest optimism about the future, and they plan to engage in the most hiring in 2012.
- Latino businesses stood out because only 20% plan to increase hiring in 2012, while 17.6% will decrease employment.

- Overall more small businesses plan to add workers than to cut workers (a net difference of 12.3%).
- The industries where the largest net increase in hiring will occur are information technology (43.2%), management and administrative services (31.3%), health and education (18.3%), wholesale 16.3%), and construction (14.2%).
- Regionally, black business hiring will be strongest in the Northeast, where 43.8% of businesses intend to add workers while only 6.2% will cut payrolls.
- Women CEOs plan to increase hiring in 2012. Based on the national survey, 26.1% of women-owned businesses will increase hiring in 2012 while only 13.3% will decrease hiring. Hiring by women-owned businesses will be strongest in the South.
- According to the Gazelle Index, a majority of small-business owners are now more positive than they are negative about current and future business conditions and will increase hiring over the next three months.
- Although business activity has not fully recovered from the recession, owners' confidence is increasing, and they will increase future hiring.

Get the full report by registering today at [www.gazelleindex.com](http://www.gazelleindex.com).

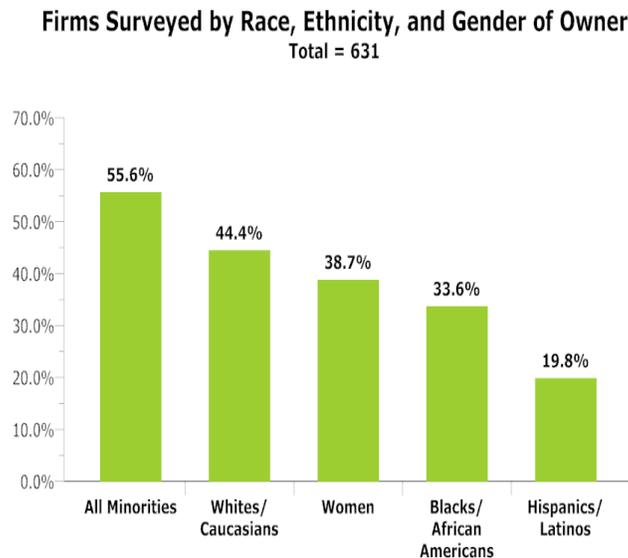
## What is the Gazelle Index?

The Gazelle Index is the first ever national quarterly survey of the outlook and hiring plans of minority, women and nonminority small-business owners. The responses of business owners are broken down by African-Americans, Latinos, women and nonminorities. Future surveys will include Asian Americans.

The survey is based on 631 responses from randomly selected CEOs who operate businesses with 10 to 100 employees. The results have a margin of error of + or -5% for each race and gender group. Minority business owners comprised 55.6% of respondents, women made up 38.7%; blacks accounted for 33.6% and Latinos, 19.8%, see figure 1.

This report is based on survey results that were collected during November of 2011. Questions were forward-looking and designed to gauge the outlook and hiring plans of CEOs during 2012. The website ([www.gazelleindex.com](http://www.gazelleindex.com)) carries the latest survey results, and it also provides perspectives on the US and global economy.

Figure 1



Source: 4th Quarter Gazelle Index Survey 2011

## Economic Outlook for 2012

### A Roller Coaster Economic Recovery

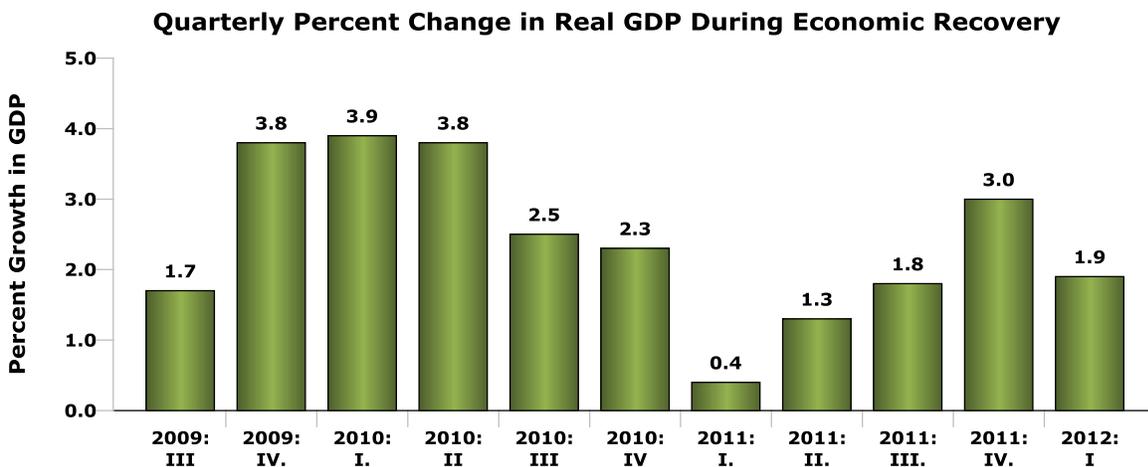
We start by analyzing the economy and the major developments that have implications for small and minority-owned businesses. This is because their performance is influenced by the current status of the economy and the plans, outlook and actions, they take in response thereto.

The "great recession" officially ended three years ago, in June 2009. Since that time, the economy has been going through the stage of economic recovery and expansion of. Unfortunately, the recovery has been so abnormal it seems that it is not happening.

During a normal recovery, the number of jobs created by now would be sufficient for reemploying the 7.5 million workers who lost their jobs because of the recession. Employment growth would have also been strong enough to absorb students and new workers who enter the labor market for the first time.

Things have been different during this expansion. After three years of growth, the private sector has employed only 3.1 million persons that lost their jobs.

A big problem is that the expansion has not occurred along a straight upward trend line, but rather in a cyclical, wavelike pattern. Figure 2 records the percent change in GDP (Gross Domestic Product) on a quarterly basis during the recovery. Notice the distinctive wavelike pattern and keep in mind that employment growth is determined by increases in GDP.



Source: Bureau of Economic Analysis

## Current Economic Situation

The cyclical pattern reflects the lack of coordination among different sectors of the economy as they recover. If the economy were controlled like a puppet on a string, it would be easy to move all of its parts in a coordinated way at one time. Real life, however, is much more complicated.

When the recovery began in 2009, government fiscal stimulus spending was the primary vehicle that drove the economy forward. Businesses and consumers saved and cut back significantly on investing and spending. In fact, corporations sat on the sideline and hoarded cash in record amounts.

The percentage of consumer income that was saved reached the highest level in a generation. Consumers had no choice but to save since they faced the possibility of being laid off and had little or no access to commercial loans.

Government fiscal stimulus spending propelled the economy forward while the low levels of consumer spending and business investment held growth back.

By the fourth quarter of 2011, business and consumer confidence improved. Corporations invested more and consumers spent more. In contrast, fiscal stimulus spending was exhausted and government agencies on all levels implemented tight austerity budgets.

The tightening resulted in significant cuts in public sector jobs and spending. As a result, the government sector served as a drag on growth.

During the first quarter of 2012, consumers continued to spend but corporations reduced business fixed investment significantly. At the same time, the government austerity measures weighed heavily on the economy and subtracted a full percentage point off of the growth of GDP, which dropped to 1.9% during the first quarter 2012, after reaching 3% at the end of 2011.

Economists are searching for signs that the existing weakness in the economy is a temporary interruption of growth, rather than a long-run trend. For that to be true the downturn must bottom out and the economy must show signs of renewed growth.

This has not occurred. In June of 2012, the search to find the bottom of the current slowdown continued. Key economic signals indicate the economy is still weakening, rather than bottoming out. Only three of the indicators in figure 3 imply better economic growth. They are lower oil prices, the lower personal savings rate and higher consumer confidence.

**Figure 3. Key National Economic Indicators for June 2012**

Key indicator	Date	Value	Change
<b>Unemployment Rate</b>	May	8.2%	+
<b>Black Unemployment</b>	May	13.6%	+
<b>Latino Unemployment</b>	May	11.0%	+
<b>White Unemployment</b>	May	7.4%	+
<b>Jobs Created</b>	May	69,000	-
<b>Oils Price per barrel</b>	June	\$84.30	-
<b>Personal Savings Rate</b>	April	3.4%	-
<b>Auto and Truck Sales</b>	May	13.7 mil	-
<b>New Housing Starts</b>	April	717,000	-
<b>Consumer Confidence</b>	May	79.3	+
<b>Durable Goods Orders</b>	April	-.6%	-
<b>Leading Econ. Indicators</b>	April	-.1%	-
<b>Gross Domestic Product</b>	Q1:12	1.9%	-

### Slow Growing Economy Affects Small Businesses

It is well documented that small businesses, and particularly startup enterprises, account for the majority of new jobs in the US economy. Consider the following; in June of 2012, the monthly [ADP Employment Report](#) showed that 132,000 new private-sector jobs were created during May. Of that number, 51% were created by firms with fewer than 49 workers and 42% were attributed to firms with 50 to 499 workers. These are considered to be small businesses. In contrast, only 9,000 jobs (or 7%) were created in firms with 500 or more workers, i.e. large corporations.

While small business hiring is the key to a labor-market recovery, too often analysts approach the issue of small business job creation as if they operate within a vacuum – the opposite is true. Small businesses are sustained by a food chain that is comprised of retail spending of consumers, business-to-business purchasing, corporate supply chain operations and government procurement. If there is a gap in one of those links, small business hiring will suffer.

To understand why employment has been lower recently, we must look behind small businesses to the food chain that sustains them.

Firstly, minority firms depend more heavily on government contracting opportunities than do non-minority-owned businesses. Therefore, when fiscal austerity measures are imposed by federal, state and local governments, small businesses suffer – particularly minority businesses.

For example, the Gazelle Index national random survey asked small business CEOs to indicate the factors that were vital to achieving their overall business objectives.

The percentages of each race and gender group which said government procurement opportunities are “very important” were as follows:

Black CEOs	52.7%
Latino CEOs	48.4%
Women CEOs	37.4%
White CEOs	20.8%

Secondly, small businesses rely heavily on sales to major corporations and sales to other businesses. When corporate investment and business-to-business spending declines (as is currently the case) small businesses will be adversely affected. The Gazelle Index survey asked CEOs, how important are business-to-business sales in achieving their overall objectives? The percentages of each race and gender group that said B2B sales are “very important” were as follows:

Black CEOs	64.2%
Latino CEOs	57.3%
Women CEOs	74.7%
White CEOs	54.2%

**Characteristics of Firms in the Gazelle Index Survey**

The distribution of firms in the survey population differed by race and gender. In particular, the largest percentage of Asian firms was concentrated in food, entertainment and hospitality (27.4%). For African-Americans; the largest percentage was in professional and technical services (15.5%) followed by business services (13.7%).

Among Latinos; the greatest percentage was in construction (14.1%) followed by manufacturing (11.9%). Among white males; the greatest percentage was in health, education and social services (18.5%) followed by food and entertainment (13.4%). Finally; white women were most heavily concentrated in food and entertainment (12.5%) followed by health, education and social services (12.2%).

**Figure 4. Percent Distribution of Small Businesses in the Survey Population by Industry, 2011**

Industry	Asian	Black	Latino	White Male	White Female
<b>Agriculture &amp; Landscape</b>	3.6	10.1	9.8	6.6	5.8
<b>Construction</b>	2.2	7.8	14.1	6.5	7.1
<b>Manufacturing</b>	11.9	6.6	11.9	10.2	10.9
<b>Transportation &amp; Related Services</b>	4.3	8.0	5.0	4.2	4.9
<b>Wholesale Trades</b>	13.4	4.5	8.8	6.3	7.1
<b>Retail Trades</b>	8.7	3.3	6.3	9.0	9.4
<b>Food, Entertainment, Hospitality</b>	27.4	3.6	8.7	13.4	12.5
<b>Finance, Insurance and Real Estate</b>	5.4	5.6	2.8	6.3	4.8
<b>Business Services</b>	5.1	13.7	7.5	3.5	7.9
<b>Information Services</b>	5.1	6.7	3.2	2.1	2.4
<b>Personal &amp; Repair Services</b>	3.2	4.0	5.5	4.1	8.1
<b>Health, Education, Social Services</b>	4.7	10.5	5.4	18.5	12.2
<b>Professional &amp; Technical Services</b>	5.1	15.5	11.0	9.5	6.9
<b>Total</b>	100.0	100.0	100.0	100.0	100.0

Source: Gazelle Index National Survey Population

Regionally, most Asian owned firms were located in the West (46.6%) and the North East (29.9%). For blacks; the largest percentage was concentrated in the South (59.1%) followed by the Midwest (17.6%). Latinos were most heavily concentrated in the South (47.3%) and in the West (33.7%). Finally, firms owned by white females were most heavily concentrated in the South (37.3%) and in the West (23.7%).

**Figure 5. Percent Distribution of Small Businesses in the Survey Population by Region, 2011**

Industry	Asian	Black	Latino	White Male	White Female
<b>Northeast</b>	24.9%	11.2%	11.6%	19.3%	17.7%
<b>Midwest</b>	10.5%	17.6%	7.5%	23.3%	21.3%
<b>South</b>	18.1%	59.1%	47.3%	35.8%	37.3%
<b>West</b>	46.6%	12.1%	33.7%	21.5%	23.7%

Source: Gazelle Index National Survey Population

## Latino Business Owners Were Hit the Hardest by the Economic Downturn

The survey found that the recession had a significant adverse effect on employment small businesses. In particular, 49% of all small businesses had a lower workforce at the beginning of 2012 than they had before the last recession. Surprisingly, 21% of small businesses cut their workforce by more than one-half while 28% reduced it by less than 50%. In comparison, 28% of small-business owners experienced no change in the size of their workforce while 22% increased employment.

Businesses owned by Latinos were the hardest hit by the recession. Overall, 55% reduced their workforce; but 26% did so by more than one-half and 29% by less than one-half. While all groups encountered a substantial reduction in employment, a smaller percentage of white business owners (15%) reduced their workforce by more than 50%. The comparable percentage for black business owners was 24%; for Latino business owners, it was 26% and for male and female business owners respectively it was 22% and 20%.

**Figure 6. The Percent of Small Business Owners Who Change Their Workforce since the Recession**

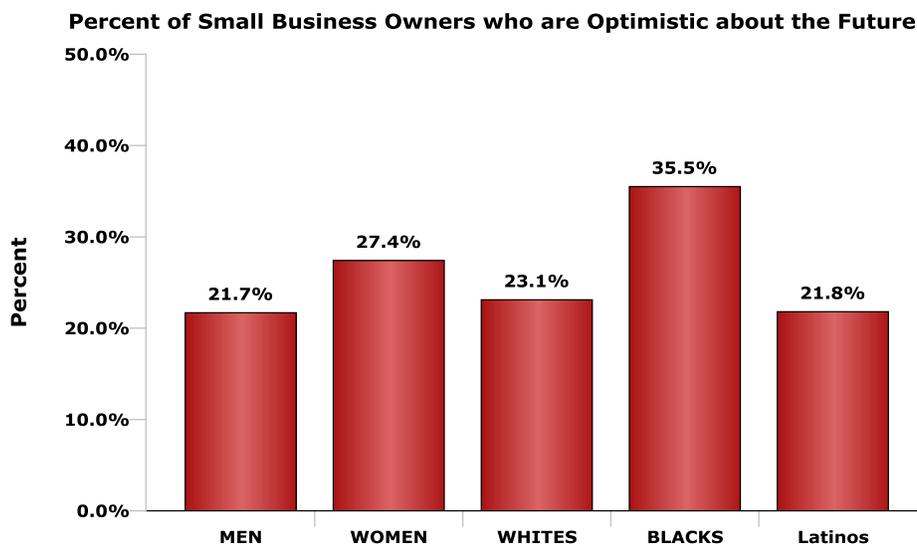
Business Group	Increased	No Change	Decreased by ½ or less	Decreased by More than 1/2
White	23%	31%	32%	15%
Black	25%	28%	22%	24%
Latino	20%	25%	29%	26%
Male	24%	26%	28%	22%
Female	21%	31%	29%	20%
Average	22%	28%	28%	21%

Source: Gazelle Index National Survey

## Black Business Owners are the Most Optimistic about the Future

Black CEOs expressed the greatest optimism about the future, and they plan to engage in the most hiring in 2012. When asked how they felt about the future three months down the road, 36% of blacks indicated that they were more optimistic. In comparison, only 23% of whites and 22% of Latino business owners felt confident about the future. The percentages for men and women CEOs were the same, 27%,

Figure 7



Source: Gazelle Index National Survey

The fact that blacks are more optimistic seems paradoxical, especially since blacks have the highest rate of unemployment among all race and ethnic groups. According to the latest Labor Department report, black unemployment stood at 13.7% in May 2012.

However, the finding regarding the greater optimism among blacks is consistent with other studies. Ellis Cose, cited a recent Washington Post-Kaiser-Harvard Poll which found that 60% of black adults expect their children to have a better living standard than themselves while only 36% of whites do.<sup>1</sup>

### **In 2012, more Small Business will add Workers**

Based on survey results, 27.7% of small businesses will hire in 2012. In comparison, only 14.3% will cut back and 58.0% of firms indicated they do not plan to change the size of the workforce in 2012. Hiring plans varied significantly by race and gender and by industry.

The group with the largest percentage of businesses that will add jobs is African Americans; 37.4% indicated they plan to add workers while only 15.2% plan to cut jobs. Businesses owned by whites were second to those owned by African-Americans in regard to hiring; 23.5% plan to increase hiring and 11.2% will cut.

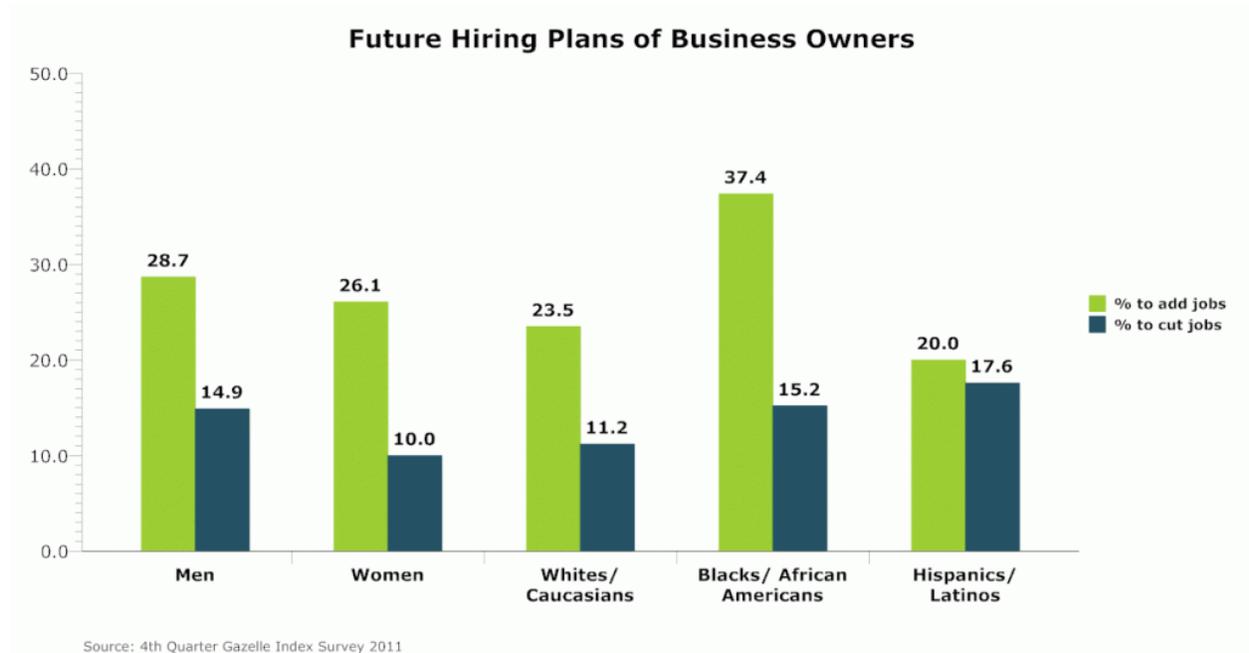
Latino American businesses stood out because only 20% plan to increase hiring, while 17.6% will decrease employment. This suggests there will be very little net change in employment in Latino-owned businesses in 2012.

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<sup>1</sup> [Ellis Cose: http://www.gazelleindex.com/archives/2.%09http://www.thedailybeast.com/articles/2011/05/23/african-americans-are-optimistic-despite-economic-crisis-polls-find.html](http://www.gazelleindex.com/archives/2.%09http://www.thedailybeast.com/articles/2011/05/23/african-americans-are-optimistic-despite-economic-crisis-polls-find.html)

Businesses owned by men as well as those owned by women will increase hiring; 28.7% and 26.1% respectively. In comparison, 14.9% of businesses owned by men and 10.0% of businesses owned by women plan to cut jobs.

Figure 8

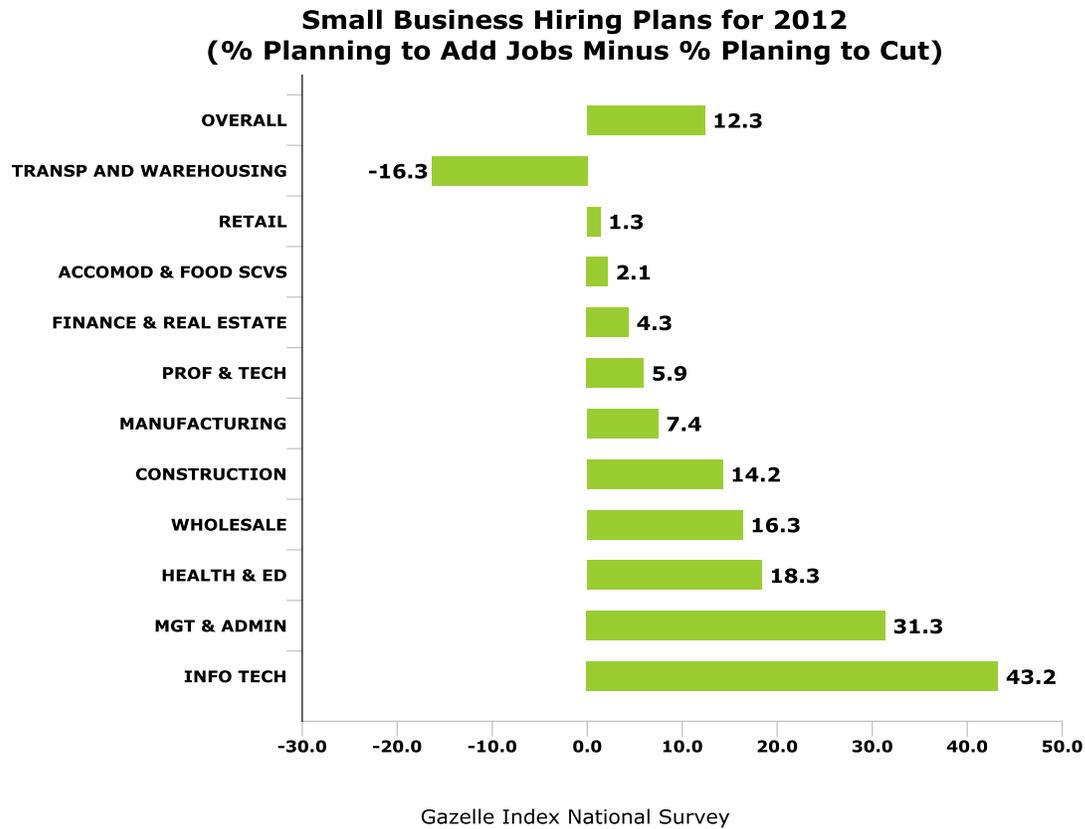


### Net Change in Small Business Hiring Plans by Industry

The industries where the largest net increase in hiring will occur (i.e. job additions minus job cuts) are information technology (43.2%), management and administrative services (31.3%), health and education (18.3%), wholesale (16.3%), and construction (14.2%).

Industries that will do the least hiring are as follows: transportation and warehousing (-16.3% --which means more companies plan to cut back than to add jobs), retail (1.3%), and food and accommodations (2.1%), figure 9.

Figure 9



### Latino Business Hiring by Industry and Region

Latinos CEOs do not plan to increase hiring in 2012. In fact, they are the only group for whom the number of CEOs planning to add jobs in 2012 (20.0%) was not statistically different from the number of CEO who planned to cut jobs (17.6%).

Regionally, hiring by Hispanic/Latino businesses will be strongest in the South, where 28.1% of businesses intend to add workers while only 8.8% will cut payrolls. Secondly, hiring will be strong in the Midwest; 42.9% will add workers while 14.3% will cut.

Strong hiring in the South will be offset by very weak hiring in the West; 10.4% will add workers but 27.1% will cut back. Additionally, hiring will also be very weak in the Northeast; 7.7% will add workers while 23.1% will cut back.

Employment in Latino businesses was hit harder by the recession than employment in businesses among all other groups. In fact, 55.0% of Hispanic/Latino firms cut their workforce as a result of the recession and 25.8% cut employment by 50% or more. Latino firms in the Northeast were hardest hit by the recession; 61.6% cut their work force and 30.8% did so by 50% or more. The second hardest hit region

was the West, where 55.3% cut their workforce and 34% did so by 50% or more. In the South, 54.7% cut workers and 18.9% did so by 50% or more. Finally, in the Midwest, 42.9% cut their workforce and 14.3% did so by more than 50%.

Among Latinos, the industries where hiring will be the strongest are as follows: Retail Trades, 31.6% of businesses will hire while 10.5% will cut back; and Management and Administrative Services, 36.4% of businesses will hire while 18.2% will cut back.

In Construction, the largest industry for Latinos, 17.1% of business owners plan to increase hiring while 20.0% intend to decrease it. Also in construction, 62.9% of business owners do not anticipate changing their current level of employment.

### **Black Business Hiring by Region and Industry**

Regionally, black business hiring will be strongest in the Northeast, where 43.8% of businesses intend to add workers while only 6.2% will cut payrolls. Secondly, in the South, 36.3% will add and 13.7% will cut. Hiring will be weakest in the Midwest, followed by the West.

Black businesses in the West were hit hard by the recession; 34.6% of businesses in the West cut their workforce by 50% or more, while 25.0% in the Northeast, 23.7% in the South, and 17.9% in the Midwest did so.

The industries where hiring will be strongest are as follows: Information Technology, 52.9% of businesses will hire; Construction, 50%; Management and Administrative Services, 42.2%; Health Care and Education, 38.5%; Retail Trades, 33.3%. Industries where businesses will cut the most include Transportation and Warehousing, and Professional and Technical Services.

### **Women Business Hiring by Region and Industry**

Women CEOs plan to increase hiring in 2012. Based on the national survey, 26.1% of women-owned businesses will increase hiring in 2012 while only 13.3% will decrease hiring.

Hiring by women-owned businesses will be strongest in the South, where 29.0% of businesses intend to add workers while only 9.3% will cut payrolls. Secondly, hiring will be strong in the Midwest; 28.6% will add workers while 14.3% will cut.

Robust hiring in the South and Midwest will not be complimented by hiring in the Northeast or West. In particular, 20.7% of women-owned businesses in the North East will add workers while 17.2% will cut back. The same is true for businesses in the West; 20.8% will add workers while 18.8% will cut back.

Employment in women-owned businesses was hit hardest by the recession, especially in the South and North East. In the South, 53.9% of businesses cut employees since the recession and 23.1% reduced their workforce by more than 50%. In the Northeast, 48.2% of women-owned businesses cut workers and 24.1% did so by more than 50%.

The cuts in employment in the Midwest and in the West were not as severe. In the Midwest 40.5% of women-owned businesses cut employees and 11.9%, while in the west 44.9% of women-owned businesses reduced their workforce and 18.4% did so by more than 50%.

Future hiring in women-owned businesses will be strong across a wide range of industries, including the following: information technology 63.6% will add and no employees indicated that they will cut back, while 27.3% indicated that employment will remain the same; wholesale trades, 16.7% will add while 5.6% will cut back.

In accommodations and food services, 23.8% will add employees while only 14.3% will cut back; health care and education, 21.2% will add and 12.1% will cut back; management and administrative services, 48.1% will add while 22.2% will cut back, professional and technical services 26.3% will add while 5.3% will cut back; and construction, 28.0% will add while 16% will cut back. Among women-owned businesses, the only industry where CEOs indicated they will cut more workers than they will add is in manufacturing.

### **Gazelle Index Survey of Business Optimism and Outlook**

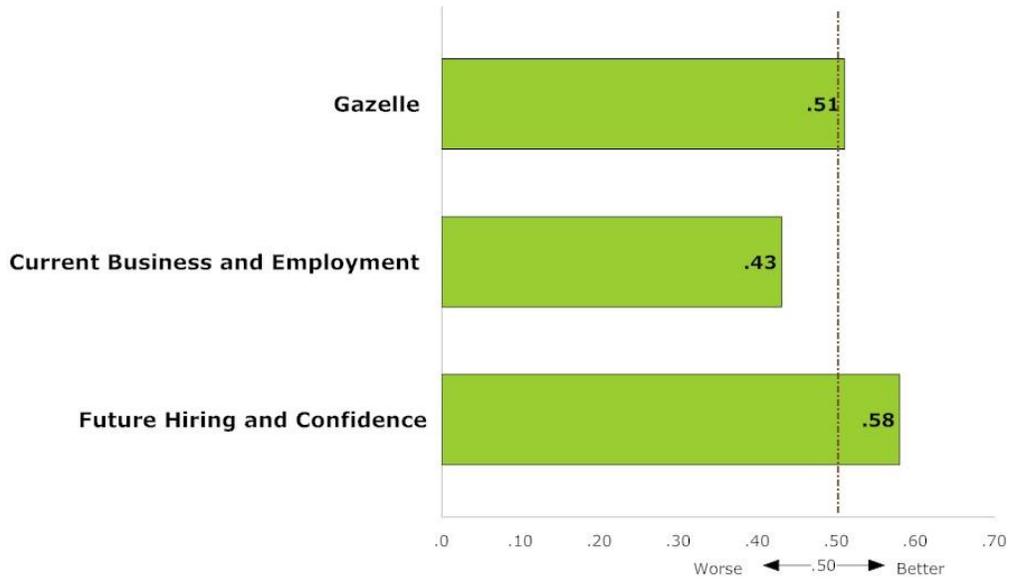
According to the Gazelle Index, small-business owners are now more positive than they are negative about current and future business conditions and will increase hiring in 2012. Although business activity has not fully recovered from the recession, owners' confidence is increasing, and they will increase future hiring.

The Gazelle Index registered .51 based on the 4<sup>th</sup> Quarter 2011. Values higher than .50 imply that owners are more positive than negative. The component of the index that measures current employment and business conditions was .43, which indicates that existing activity is still not good. However, the measure of future hiring and future optimism was .58.

In summary, the survey also showed that black CEOs will increase hiring the most. That is, 37% will increase employment. At the same time, 24% of firms owned by whites indicated they will add new jobs while 20% of firms owned by Latinos will do the same. Hiring plans among firms owned by men were not significantly different than were plans among firms owned by women, 29% and 26% respectively. CEOs of all groups, except Hispanics, plan to add more than twice as many jobs than they plan to cut. Among Hispanics, 20% of CEOs will add jobs, but 18% will reduce employment.

Figure 10

### Gazelle Index Fourth Quarter 2011



Source: Gazelle Index Fourth Quarter Results, 2011