

SPECIAL EDITION



STATE OF SMALL BUSINESS

and entrepreneurship

AUGUST 2018 EDITION



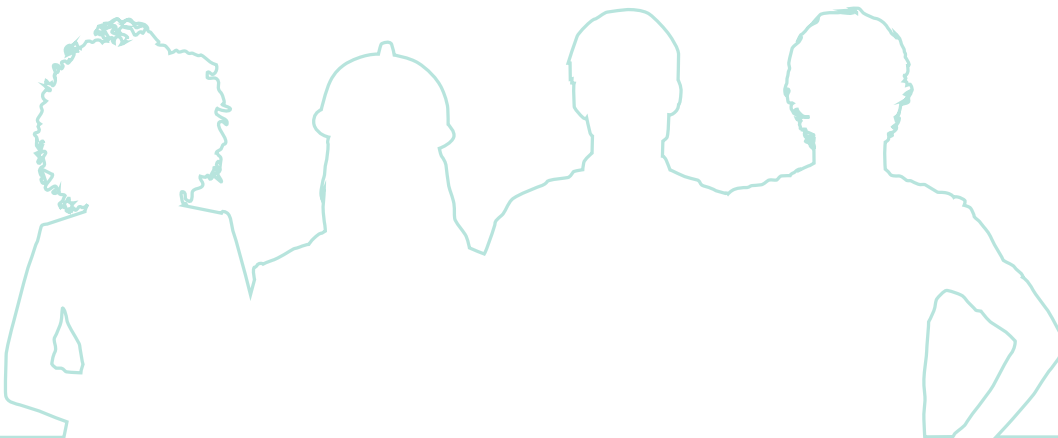
WHERE ARE THE JOBS COMING FROM?

Economist Perspective
North Carolina Economic Facts & Figures

ABOUT THE SBTDC

The SBTDC is a business advisory service of The University of North Carolina System administered by NC State University. Its offices across the state are hosted by the campuses of The University and provide business counseling and educational services for thousands of small to medium-sized businesses each year.

Since 1984, the SBTDC has helped over 130,000 entrepreneurs make their businesses better. Companies that teamed up with the SBTDC increased their revenue at more than three times the rate of growth for the average NC firm.



Room For Improvement in North Carolina

Dr. James Kleckley, Director of East Carolina University's Bureau of Business Research

North Carolina's economy is largely dependent upon national growth and has historically grown more quickly than the nation during periods of expansion. In that light, to adequately assess the health of the state we must first explore the condition of the United States economy.

United States

The national economy experienced solid, but moderate growth in 2017. Real gross domestic product grew by 2.3 percent in 2017. This rate exceeded 2016's growth, but lagged the pace of economic change in 2014 and 2015 (2.6 percent and 2.9 percent, respectively). The establishment survey's count of jobs, which climbed 1.6 percent, grew more slowly in 2017 relative to 2016. Further, this rate of new job creation was at the low end of the range found in the past five years (1.6 percent to 2.1 percent).

The labor force data also suggested moderate growth. Resident employment, which counts the number of working residents as opposed to the establishment survey estimation of industry jobs, grew more slowly in 2017 (relative to the previous three years). On the positive side, the unemployment rate continued its fall from the 2010 peak (9.6 percent). The

4.3 average in 2017 was the lowest annual average since the year 2000.

Inflation adjusted personal income expanded by only 1.0 percent in 2017. This rate was slightly below the 2016 pace and well below the 3.6 percent - 4.8 percent range found in 2014-2015. This slow climb suggests that the average worker is once again struggling to have income keep pace with expenses and inflation.

Consumer Price Index inflation continued to climb in 2017, but the overall price rise remained below the Federal Reserve target. Interest rates rose, as exemplified by Conventional Mortgage Rate (4.0 percent in 2017). Construction activity remained solid in spite of the rise in borrowing costs. As an example, 2017 building permit activity kept pace with its historical average (relative to population growth).

North Carolina

The North Carolina economy continued to expand in 2017, but at a more moderate pace than the past few years. Establishment employment growth was 1.7 percent - the weakest since 2011. The State's industry job growth, which

TABLE I
Major Economic Indicators - United States

	Average Annual Change					
	2012	2013	2014	2015	2016	2017
Real Gross Domestic Product (% change)	2.2	1.7	2.6	2.9	1.5	2.3
Consumer Price Index (% change)	2.1	1.5	1.6	0.1	1.3	2.1
Conventional Mortgage Rate (%)	3.7	4.0	4.2	3.8	3.6	4.0
Population (% change)	0.7	0.7	0.7	0.7	0.7	0.7
Establishment Employment (% change)	1.7	1.6	1.9	2.1	1.8	1.6
Labor Force (% change)	0.9	0.3	0.3	0.8	1.3	0.7
Resident Employment (% change)	1.9	1.0	1.7	1.7	1.7	1.3
Unemployment Rate (%)	8.1	7.4	6.2	5.3	4.9	4.3
Real Personal Income (% change)	2.9	-0.3	3.6	4.8	1.1	1.0
Real Retail and Food Service Sales (% change)	2.2	-1.0	2.8	4.1	0.3	0.3
Building Permits (thousands of units)	828.5	988.3	1,052.3	1,178.1	1,206.0	1,285.5

TABLE 2
Major Economic Indicators - North Carolina

	Average Annual Change					
	2012	2013	2014	2015	2016	2017
Population (% change)	1.0	1.0	1.0	1.1	0.9	1.1
Establishment Employment (% change)	1.7	1.8	2.0	2.4	2.4	1.7
Labor Force (% change)	1.0	0.3	0.1	1.5	1.8	1.8
Resident Employment (% change)	2.1	1.7	2.0	2.1	2.5	2.4
Unemployment Rate (%)	9.3	8.0	6.3	5.7	5.1	4.6
Real Personal Income (% change)	4.7	-2.5	3.9	5.5	1.9	1.6
Real Retail Sales (% change)	3.7	-3.4	2.9	4.4	1.0	0.5
Building Permits (thousands of units)	47.7	50.3	48.6	52.1	54.2	63.1

had clearly outpaced national growth since 2013, barely exceeded the United States average in 2017 (by 0.1 percent). The 1.7 percent rate was also well below the 2.4 percent pace that the state had seen in 2015 and 2016.

The 1.7 percent pace equated to 69,900 net new jobs. The sector with the largest gain was Professional and Business Services. Its component of Professional, Scientific and Technical Services grew by 10,500, while the subsector of Administrative and Waste Management Services grew by 11,400. The former component tends to have jobs requiring more education, while the latter houses individuals who are contracted to other employers (with wide-ranging educational levels). More than five thousand jobs were created in four major areas: Accommodation and Food Services (7,300); Wholesale Trade (6,700); Health Care and Social Services (6,700); and, Transportation, Warehousing, and Utilities (5,800).

All goods producing sectors gained jobs, even if only slightly. Mining and Logging, at 100 jobs, realized the smallest gain. Construction jobs rose by 4,900 and both sectors of manufacturing grew. Durable manufacturing gained 2,400 jobs while the non-durable subsector climbed by 700.

The goods producing sector increase of 7,400 jobs in 2017 is in contrast to its long-term steady decline. Since prior to the last recession (December 2007), construction is down 41,800 jobs while manufacturing workers have decreased by 32,600 in the durable goods sector and by 32,100 in the nondurable component. This means that the North Carolina economy is clearly less dependent upon these types of jobs than it was before the 2007-2009 recession. Moreover, in December 2000 the goods producing workers held 25.2 percent of all jobs. At the end of 2017 its share of workers stood at 15.4 percent.

Only four major areas lost employment over the year. The largest loss in 2017 was in Retail Trade (2,100). Losses totaled less than one thousand in the other three: Other Services dropped by 600; Federal Government contracted by 200; and, the subsector Management of Companies lost 100 employees.

The labor force has continued to expand. Resident employment grew by 2.4 percent, which is at-or-above 2.0 percent for the fourth year in a row. Resident unemployment declined by 8.8 percent. Together these changes pushed the statewide average annual unemployment rate down to 4.6 percent. 2017 marked the seventh consecutive decline in the unemployment rate, but the North Carolina average remained stubbornly above its national counterpart.

North Carolina continues to be one of the fastest growing states in the nation; however, its 1.1 percent rate of population growth in 2017 was well below the 2.0 percent that the state averaged in the 1990s. Inflation adjusted per capita income grew by only 0.5 percent in 2017. This climb slightly surpassed the pace of the nation. Unfortunately, on a longer term basis one finds that North Carolina has continued to lose ground against the national average. At its peak in 1993, for each dollar of per capita income in the nation each North Carolina resident averaged 93 cents. In 2017, it was only 86 cents for every dollar.

Building permits in North Carolina have been increasing for the past four years. While the level of permits in 2017 were well below the historical maximum (93,700 in 2006), the rate of growth in residential permits remains near its historical average when one considers the population growth.

Summary

The data shows that North Carolina had a strong economy in 2017. According to the National Federation of Independent Business (NFIB), small business optimism in April 2018 is near record-high levels. This holds well for the state and nation in 2018. Still, the North Carolina economy has room for improvement. We would once again like to see the statewide unemployment rate at-or-below the national average. We would also like to see a relative upturn in income, indirectly suggesting that many of the new jobs need to be higher-paying. And, importantly, we would like to see these new jobs go to North Carolina residents.

NC Small Business Facts

Small Business Employment

In 2015, small business employed 1.6 million people, or 44.0% of the private workforce. There were 167,759 businesses with fewer than 500 employees, an increase of 2.5% from 2012.

Firms with fewer than 100 employees have the largest share of small business employment. See Figure 1 for further details on firms with employees. (Source: SUSB, as cited by SBA Office of Advocacy, Small Business Profile, 2016)

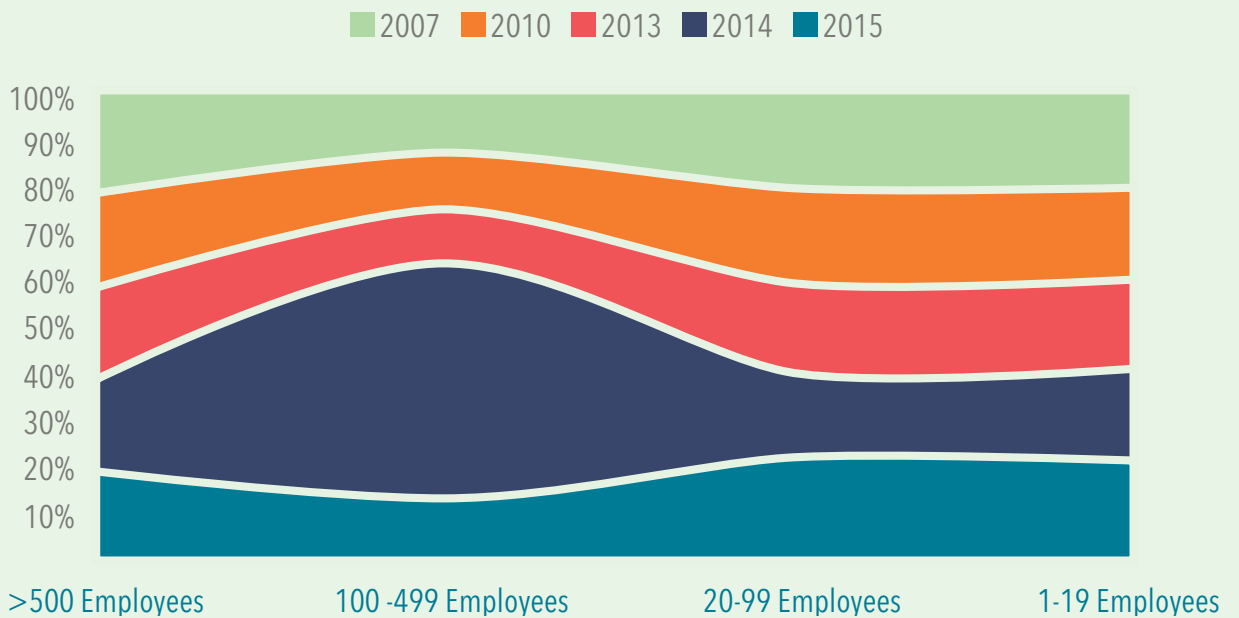
North Carolina small business created 50,881 net jobs between 2014 and 2015. Firms with 1 - 4 employees experienced the largest net gains during that period with 1,539 new firms and 20,204 new jobs. Firms with 10 - 19 employees showed a net loss of 36 firms during the same period.

North Carolina Exports

A total of 10,766 companies exported goods from North Carolina in 2015. Among these, 9,410 or 87% were small or midsize companies; they generated 26% of North Carolina's total known export value. The Charlotte-Concord-Gastonia MSE is the 24th largest metro area reporting exports nationwide with \$11.9 billion in 2016.

Source: International Trade Administration
<https://www.trade.gov/mas/ian/statereports/states/nc.pdf>

NORTH CAROLINA EMPLOYMENT BY FIRM SIZE



Lending

In 2016, the U.S. Small Business Administration (SBA) loan programs placed over three-quarters of a billion dollars into the hands of North Carolina small businesses for the 2016 fiscal year ending September 30, 2016. In total, 1,339 loans for almost \$770 million were guaranteed. This was an increase of about 33% over the previous year when North Carolina crossed the \$500 Million mark for the first time.

Source: SBA

Investment

North Carolina is raising more money than ever before. Companies in technology, life sciences, clean tech, and advanced manufacturing raising \$1.2 billion in equity financing in 2015, more than double what was raised in 2014. This figure includes investments from angel groups and high-net worth individuals. This number represents a 122 percent increase over reported venture capital funding reported in 2014.

Source: <https://www.xconomy.com/raleigh-durham/2016/02/18/north-carolina-equity-investments-double-topping-1b-in-2015/> and: <https://cednc.org/innovatorsreport/>

NC Small Business Innovation (SBIR) and Small Business Technology Transfer (STTR) Funding

The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs are one of the largest sources of early-stage capital for innovative small companies in the United States. These programs allow US-owned and operated small businesses to engage in federally supported research and development (R & D) that has a strong potential for commercialization.

In 2016, the SBIR/STTR Federal R & D funding program, awarded 132 high-tech businesses in North Carolina a total of \$46.8 million dollars. This included 86 Phase 1 awards and 46 Phase 2 awards in the amounts of \$16.2 million and \$30.1 million respectively.

Source: www.sbir.gov

FIRMS AND EMPLOYMENT IN NC BY INDUSTRY AND FIRM SIZE 2014 (IN THOUSANDS)

Selected NC Industries	Non-Employer Firms	Employer Firms			Employment		
		Total	< 500	% of small firms	Total	<500	% of small firms
Construction	86,591	20744	20,605	99.3%	167,929	142,187	84.7%
Manufacturing	10,673	7,813	7,188	92.0%	408,132	151,597	37.1%
Wholesale Trade	11,693	9,209	8,588	93.3%	174,694	90,319	51.7%
Retail Trade	59,029	19,825	19,329	97.5%	469,243	153,350	32.7%
Finance, Insurance & Real Estate	92,833	14308	13798	96.4%	223342	19063	8.5%
Professional, Scientific & Technical Services	87,403	21,475	20,995	97.8%	203,500	73,397	36.1%
Healthcare / Social Assistance	50,028	16,900	16,629	98.4%	560,309	249,974	44.6%
Accommodation / Food Service	9,457	14,313	14,032	98.0%	379,757	221,232	58.3%
All Other Industries	299,191	43885	43674	99.5%	973,542	492,257	50.6%
TOTAL	706,538	168,472	164,838	97.8%	3,560,448	1,593,376	44.8%

EMPLOYMENT SIZE OF ENTERPRISE
FOR ALL NC INDUSTRIES (2015)

Employment Size	# of Firms	% of Total Firms	Paid Employees	Annual Payrolls (\$1,000)
0-4 employees	101,516	59.2%	163,958	6,373,587
5-9 employees	28,863	16.8%	189,666	6,361,505
10-19 employees	17,706	10.3%	236,459	8,124,175
20-99 employees	15,885	9.3%	583,541	21,253,164
100-499 employees	3,789	2.2%	454,042	18,672,273
500+ employees	3,660	2.1%	2,042,618	104,151,554
All firms	171,419	N/A	3,670,284	\$164,936,258

Source: 2015 SUSB Annual Data Tables, 2015 County Business Patterns
Us_state_totals_2015(2) release date 09/27/2017

DEMOGRAPHICS OF ALL NORTH CAROLINA BUSINESS (2012)



	Number of All Businesses	Share of All Businesses (%)
Male Owned	435,677	54.1%
Woman Owned	287,058	35.6%
Minority Owned	183,380	22.8%
Equally Male and Female Owned	83,250	10.3%
Veteran Owned	86,571	10.7%

Source: US Census Bureau Quick Facts/NC

JOB CREATION BY FIRM SIZE
North Carolina 2010-2014

Year	Total Jobs Created	Employment Size of Firm						
		1-4	5-9	10-19	20-99	100-499	1-499	500+
2012	137,782	19,780	4,070	2,888	5,897	10,062	42,697	95,085
2011	73,022	18,498	920	955	5,708	10,144	36,225	36,797
2010	69,955	21,012	5,335	<321>	12,505	5,260	42,791	27,164
2009	46,890	15,437	110	<6,292>	1,192	<34>	10,113	36,777

Source: U.S. Census Bureau, Business Dynamics Statistics (BDS)



National Data

New businesses create nearly
all net new jobs

New businesses account
for almost
*20% of gross
job creation*

Companies less than one year
old create an average of
*1.5 million jobs
per year*

During the Great Recession,
small businesses created
*positive net
employment growth*

4% of new jobs
are created by recruited
business and industry

7% of new jobs
are created by opening
new branches in a state by
businesses headquartered
out of state

North Carolina Data

Number 1
CNBC Top States for
Business Survey

97.9%
of North Carolina Business
are small businesses

1.6 million
Small Business Employees

*46% of North
Carolina
Employees*
work for small businesses

*24,617 net new
jobs*
are small businesses

*87.3% of
North Carolina
Exporters*
are small businesses

STATE OF SMALL BUSINESS *and entrepreneurship*

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All facts – unless otherwise referenced – are from the U.S. Small Business Administration's Office of Advocacy.

SBA publications used in this report include the 2018 Small Business Profile: North Carolina

