



Small Business Outlook

Visa's proprietary small business health indexes and a nation-wide survey of small business owners show a bright outlook for small businesses and small business credit cards

Winter 2019
Business and Economics Insights



Robust economic growth lifted small business prospects last year and small businesses helped the economy create more jobs in 2018 than the previous year. Despite a slight slowdown in small business hiring and recent stock market volatility, the outlook for small businesses remains positive.

Wayne Best
Chief Economist, Visa Inc

Key small business economic indicators are relatively strong overall

Visa's second survey of U.S. small business owners shows robust economic growth continues to drive expansion among small business owners:

- 45 percent of small businesses felt the economy improved last quarter and also reported increased revenues.
- About a third of small businesses reported some type of business expansion, with expanding businesses most likely to add new products and services or buy additional equipment.
- However, hiring has slowed, as only 44 percent of expanding businesses reported hiring employees, down 10 percent from the fall report.

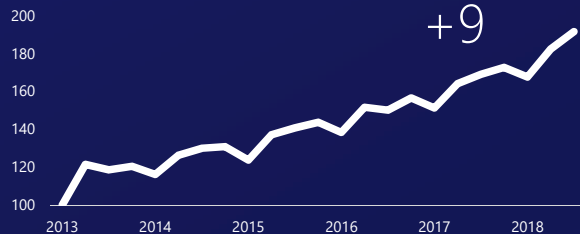
Small Business Health Indexes:

Based on proprietary Visa small business card data

Small Business Spending Index



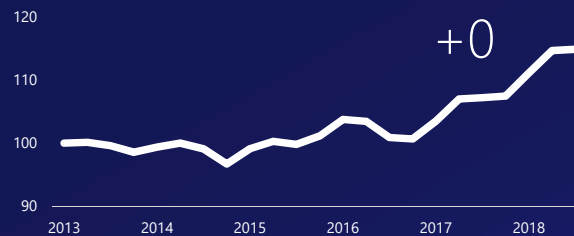
Payment volume on Visa business credit cards* (indexed to 1Q2013)



Small Business Borrowing Index



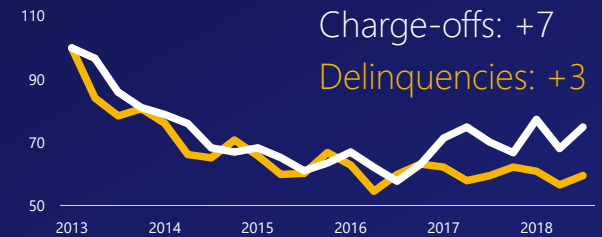
Outstanding balances on Visa business credit cards* (indexed to 1Q2013)



Small Business Risk Index



Delinquencies and charge-offs on Visa business credit cards** (indexed to 1Q2013)



Last actual: Calendar Year 3Q2018

*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:

Disclaimer

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Methodology

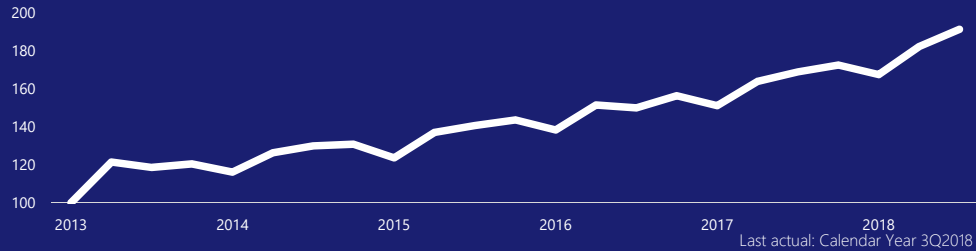
Except where otherwise noted, statements herein are based on:

- 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 winter survey was completed in December 2018.

For questions regarding this report, please contact your Visa Account Executive.

Visa Small Business
Spending Index

Expansion continues to drive spending growth by U.S. small businesses



Visa's Small Business Spending Index continued to rise, increasing by 9 points from the second to the third quarter of last year. **Rising building material prices*** and **increased advertising spending** continued to lift overall spending.

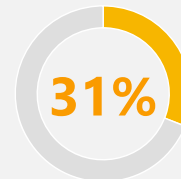
Small business expansion and inflation in key categories continued to drive spending. Nearly one out of three businesses (29 percent) have reported some type of expansion over the past quarter, prompting spending on their credit cards. Advertising spending, a leading spend driver in the fall Small Business Outlook, accelerated further in 3Q2018. Inflation in building materials—partially fueled by escalating tariffs—helped lift spending on construction and industrial supplies and at home improvement stores.

Despite expansion plans for some businesses, most will likely be more fiscally conservative in the near term, according to the survey. Only 31 percent of small businesses intend to increase spending in the next quarter, down from 38 percent in 2Q2018. This is consistent with previous years: on average the Spending Index experiences a 5 point decline heading into the new year. However, some small businesses still plan to increase spending, with 50 percent of expanding businesses expecting to spend more on their credit cards in the next three months.

* Source: Visa Business and Economic Insights analysis of Associated General Contractors Producer Prices Data: <https://www.agc.org/learn/construction-data/construction-data-producer-prices-and-employment-costs>

Key spending drivers

- Advertising 29% YoY growth
- Construction/industrial supplies 27% YoY growth



Only 31% of small businesses intend to increase spending in the next three months

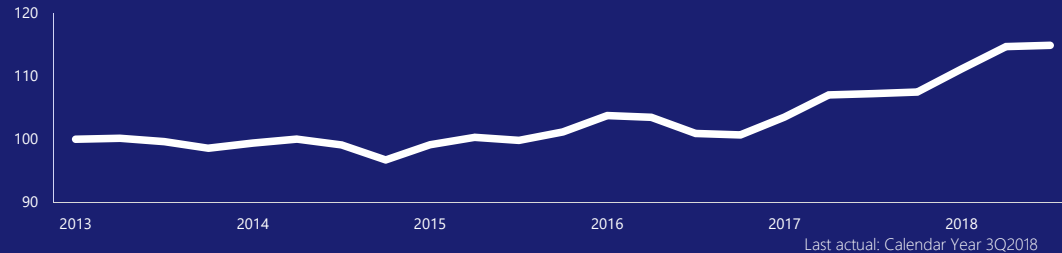
Spend intention in next three months is highest among millennial and Gen X-owned businesses:



Visa Small Business

Borrowing Index

Small business borrowing flatlines



Borrowing growth has leveled off this winter as the number of businesses **reporting revenue growth** and **confidence in the economy dropped**.

Despite a booming consumer market, small businesses suspended new credit card borrowing in the last quarter. Higher interest rates may be curbing demand for new card borrowing.

In the fall Small Business Outlook, about a quarter of small business owners reported they would pay down their balances. They appear to have followed through on that. Visa's small business survey indicated the median revolving balance dropped by \$500 between the fall and the winter. Small businesses likely paid down balances in the face of higher financing costs. Continued Fed rate hikes could cause this trend to accelerate.

Borrowing could either remain flat or potentially tumble over the next three months. According to the Visa survey, the number of small business owners expecting to pay down their revolving balances rose slightly to 25 percent of respondents, while small businesses expecting revolving balances to increase stayed flat at 13 percent. Again, interest rates are likely driving this. However, rising interest rates could also have the opposite effect on some small businesses—25 percent of survey respondents indicated they would seek out a new loan before the Fed raises interest rates again.

Growing businesses are more likely to be transferring balances:

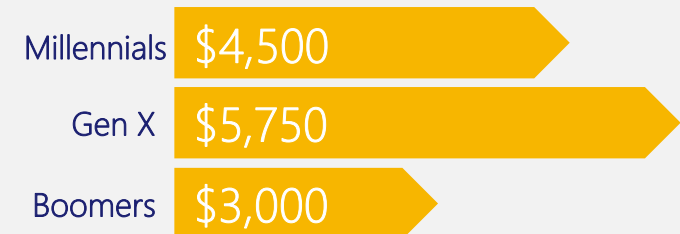


Expanding businesses are nearly **2x more likely to transfer balances** than businesses that have scaled back



Businesses with increasing revenues are nearly **2x more likely to transfer balances** than businesses with decreasing revenues

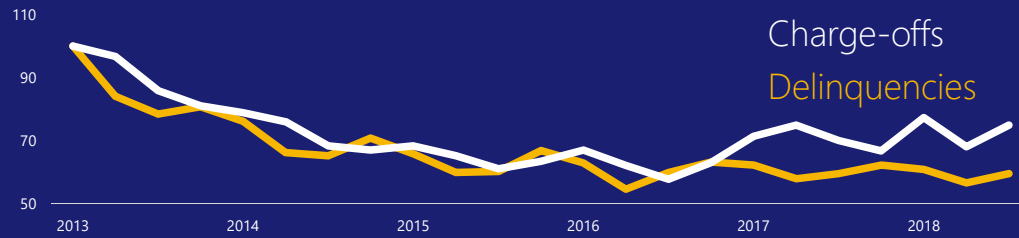
Look to Gen X and millennials for larger revolving balances. Median unpaid balance by generation:



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Risk Index

Risk climbs as interest rates take their toll



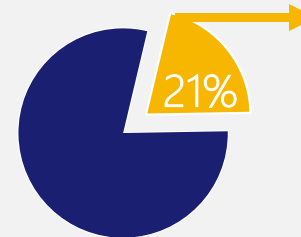
Last actual: Calendar Year 3Q2018

Following a **brief decline in delinquencies and charge-offs** in the fall, both risk **indexes increased** in the third quarter.

Charged-off balances remained elevated and have kept pace with rising delinquent balances. Coupled with historically high card balances and recent interest rate hikes, this indicates heightened risk. Some small business owners are concerned. According to Visa's survey, more than one in five (21 percent) admitted they were worried about their business's ability to pay its bills, or that their business was at risk of going into debt (16 percent).

Visa's survey revealed early warning signs of businesses that are missing payments. Among businesses that have not paid off their credit card bills every month, almost half (43 percent) have also scaled back in some way (closing locations, eliminating products, etc.). Millennial cardholders were less likely than Gen X and baby boomers to pay off their full statement amount. Surprisingly, businesses in the West—one of the fastest growing regions in the U.S.—were also less likely than other businesses to fully pay off their card statements.

However, demand for new credit remains robust. About 28 percent of small business owners indicated they sought out a new card over the past three months. With another hike in interest rates by the Fed in December and more businesses anticipating an increase in purchases, balances and payments are likely to rise this year.



Businesses that have not paid off their entire credit card bill every month are more likely to have:

Scaled back  43%

79% of businesses pay off their entire balance each month

A decrease in revenue  37%

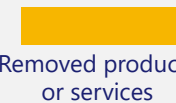
Scaling back signals distress for small businesses, which may precede missed payments:

73%



Cut costs

31%



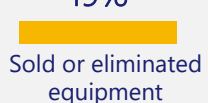
Removed products or services

26%



Laid off employees

19%



Sold or eliminated equipment



Nearly half (**49%**) of businesses that have scaled back **worry about their ability to pay their bills** and **33%** admit they are **at risk of going into debt**

Featured Focus

Female entrepreneurs face unique challenges

Credit cards can help growing female-owned businesses. These firms have a strong customer base but are less likely than male-owned businesses to have the necessary capital

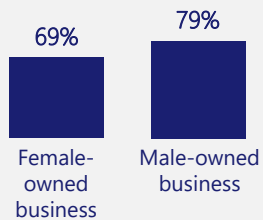


Female-owned businesses have customers but lack funding

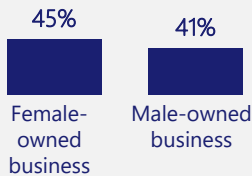
Starting a business is no easy task. Visa's recent survey identified a variety of struggles small businesses face at the onset, including gaining a customer base and lacking sufficient capital or financing.

But these initial challenges aren't equal for everyone. In fact, more male-owned businesses had difficulty building a customer base than their female counterparts (79% vs. 69%). Conversely, more female entrepreneurs found funding to be a problem (45% vs. 41% among men).

Gaining a customer base is a problem



Lack of capital/financing is a problem



Credit cards may help increase financing to support growth

Female-owned businesses are more likely than their male counterparts to seek out new cards. This could help with cash flow, as they are also more likely to use these new cards to support business growth (33%) as compared to male business owners (26%)

Planning to sign up for a new credit card in the next three months



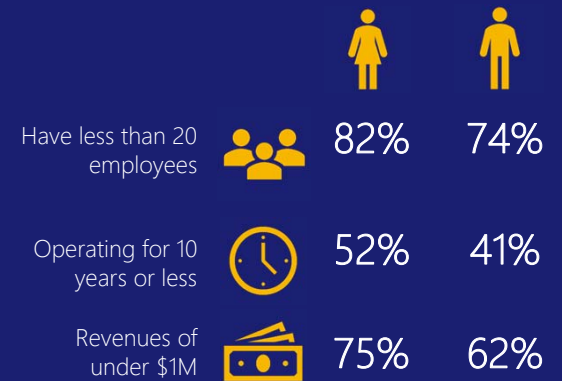
Women-owned businesses are creating new card opportunities: these potentially booming businesses are eager to use credit cards, which gives banks a chance to foster long-term relationships with them. *David Simon, Global Head of Small & Medium Enterprises, Visa Inc.*

Financial institutions have an opportunity to demonstrate a deep understanding for the unique challenges that female entrepreneurs face. *Jacqueline Morgan, Vice President, Small & Medium Enterprises, Visa Inc.*

Female firms are more likely to be emerging businesses

Female-owned firms are generally smaller, newer to market and have low (but growing) revenues. These are key indicators of emerging small businesses.

Characteristics of female- vs. male-owned small businesses:



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