

# REPORT FROM MAIN STREET, IDAHO

## *THE STATE OF THE SMALL-BUSINESS ECONOMY*

January 4, 2019

Presentation to the  
Economic Outlook and  
Revenue Assessment  
Committee of the Idaho  
Legislature

By Suzanne Budge  
NFIB Idaho State Director



# From around the world ...

THE WALL STREET JOURNAL.

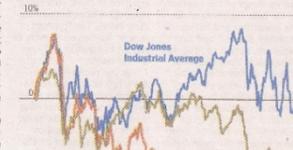
## Global Slowdown Sparks Worries About U.S. Strength

By PAUL HANSON  
AND JONAS ZIMMERMAN

Chinese and European stocks have led a global decline this year.

New evidence that economies in Europe and China are slowing sparked worries that the malaise could spread to the U.S., driving down stocks and sending the Dow Jones Industrial Average into correction territory for the first time in almost three years.

The Dow fell nearly 500 points, or 2%, its third steepest drop in an already volatile



as economies in both regions weaken.



FT

FINANCIAL  
TIMES

# China's woes spook global markets

◆ Retail sales growth slowest in 15 years ◆ Gloom in Europe and Asia ◆ US remains bright spot

GABRIEL WILDAU AND  
YIZHEN JIA — SHANGHAI  
SAM FLEMING — WASHINGTON

A sharp slowdown in Chinese spending growth and manufacturing has added to the gathering gloom around the international economy, sending financial markets lower around the world at the prospect of global loss of momentum.

Retail sales grew at their slowest in 15 years in November in China, while factory output was the weakest in nearly three years, suggesting stimulus measures by Beijing since the summer had failed to revive flagging growth.

The deceleration follows poor third-

quarter growth reports in Europe and Asia, with Germany and Japan recording contractions. Mario Draghi, European Central Bank president, acknowledged on Thursday that risks were "moving to the downside" even as he reined in stimulus measures.

The US has remained the bright spot, with robust growth, but the Federal Reserve has sent signals it is rethinking its pace of rate rises as the faltering global economy weighs on US central bankers before next week's year-end meeting. President Donald Trump, who helped damp markets by launching a trade war, appeared to revel in China's down-

turn, arguing on Twitter that it could force Beijing to the bargaining table.

"China just announced that their economy is growing much slower than anticipated because of our Trade War with them," he wrote. "China wants to make a big and very comprehensive deal. It could happen, and rather soon!"

Markets were less optimistic, with an Asia-led global sell-off sending most big indices lower. The CSI 500 index of mainland Chinese equities finished down 1.7 per cent while Hong Kong's Hang Seng lost 1.6 per cent. The Europe-wide Stoxx 600 was down 0.7 per cent, while on Wall Street the S&P 500 was

'Markets have been slow to recognise that we have seen the best of the global cycle'

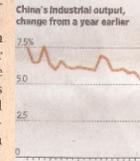
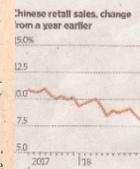
Megan Greene,  
Manulife

1.6 per cent lower in late trading. "Markets have been slow to recognise that we have seen the best of the global cycle," said Megan Greene, chief economist at Manulife Asset Management.

China's exports have been resilient in the face of US tariffs but weak consumer spending and slowing construction are dragging on the economy. Policymakers have injected cash into the banks and fiscal authorities pledged to raise infrastructure spending, but the latest data suggest more measures are likely.

Additional reporting by Hudson Lockett  
China car sales fall page 9

The Long View page 16



THE WALL STREET JOURNAL.

NFIB

**And from Main Street, America ...**

# Small-Business Optimism On Verge of Record

By [Paul Farrell](#) Dec. 14, 2018 8:00 p.m. ET

**BARRON'S**

## Small business optimism dips in Nov., but index still high

Small business optimism slipped a bit in November, but remained at historically lofty levels, as the National Federation of Independent Business' Small Business Optimism index dipped to a reading of 104.8.

**THE BOND BUYER**



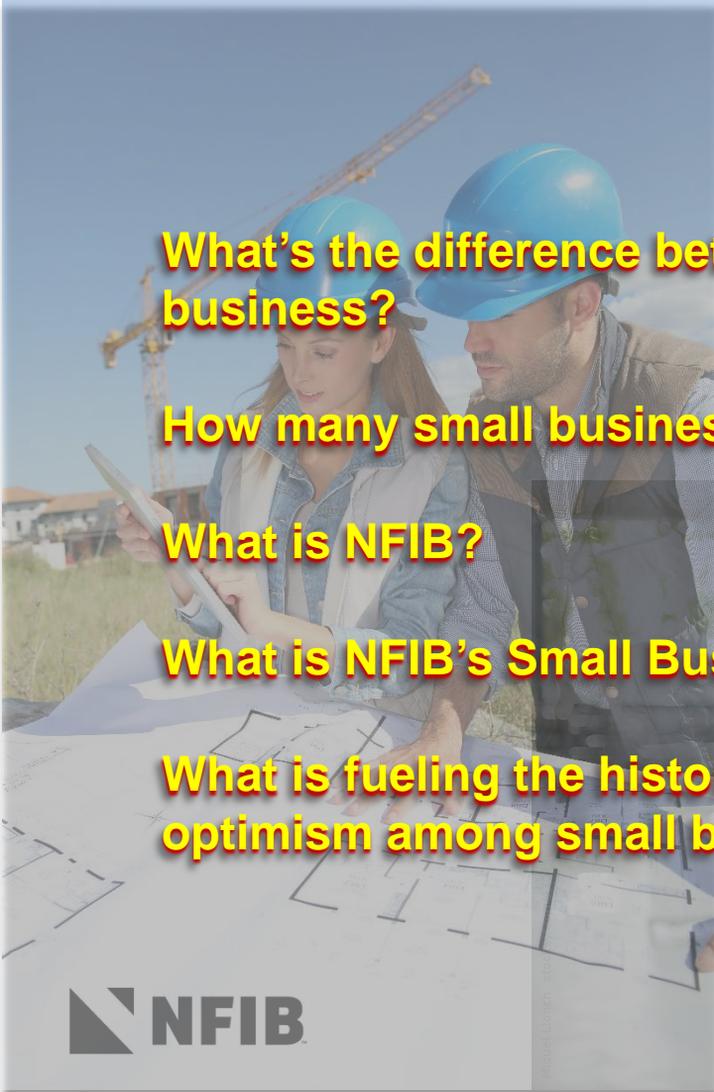
# Small Business is Carrying the Day

“Small business owners are enthusiastic about the economy and have demonstrated their optimism by **raising wages, creating new jobs, and investing in their businesses** throughout 2018.

“Overall, small business owners have shown a historic trend in optimism for their businesses and the economy and continue to be the driving force behind economic growth.”

Juanita Duggan  
NFIB President and CEO





**What's the difference between a small and large business?**

**How many small businesses are there in Idaho?**

**What is NFIB?**

**What is NFIB's Small Business Optimism Index?**

**What is fueling the historically high levels of optimism among small business owners?**



# Small businesses are **NOT** smaller versions of big businesses

## **1. Small businesses pay more per employee in regulatory compliance**

Small businesses (50 employees or less) face an annual regulatory cost of \$11,724 per employee, which is 30 percent higher than the regulatory cost facing large firms (defined as firms with 100 or more employees).

## **2. Small businesses pay three times as much to comply with taxes**

“With respect to tax compliance, the cost per employee is three times higher in small firms than in large firms.” –Nicole V. Crain, W. Mark Crain in study for the U.S. Small Business Administration.

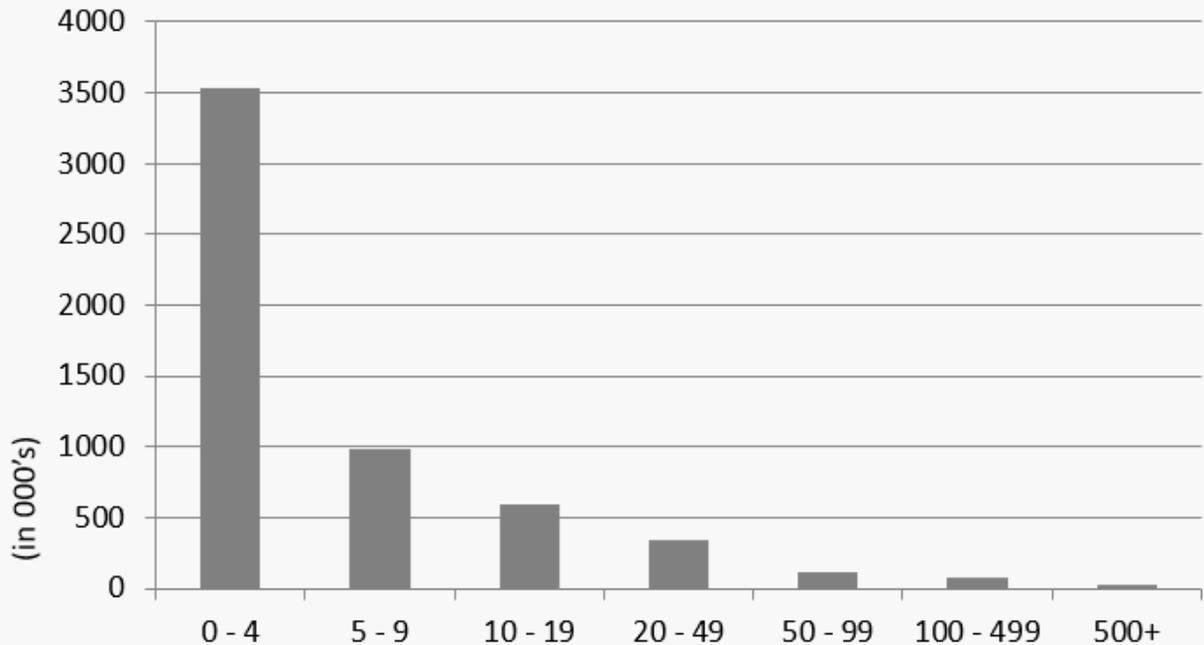
## **3. Personal – not corporate – tax rates are more important to small firms**

Eighty-five (85) percent of small employers, defined as having more than \$100,000 in annual gross receipts, but less than \$50 million, are structured as pass-through entities (S corporations, limited liability companies, sole proprietorships or partnerships) that pay taxes on their business income at the individual rate. Most small businesses do not pay the corporate tax.

## **4. Small business health insurance is more expensive than big business**

Small business health insurance must cover abundant state-benefit mandates and a federal list of mandated benefits known as the Essential Health Benefits package.

# Number of employing businesses by employment size of business



Source: Bureau of the Census

# 2018 SMALL BUSINESS PROFILE

## IDAHO



**158,426** Small Businesses  
**99.2%** of Idaho Businesses

**304,700** Small Business Employees  
**55.8%** of Idaho Employees



Table 2: Idaho Small Businesses by Industry and Firm Size, 2015



Industry



1-499 Employees



1-20 Employees

Nonemployer  
Firms

Total Small Firms

Industry	1-499 Employees	1-20 Employees	Nonemployer Firms	Total Small Firms
Construction	6,125	5,782	13,882	20,007
Health Care and Social Assistance	4,237	3,681	9,081	13,318
Professional, Scientific, and Technical Services	4,084	3,848	15,482	19,566
Retail Trade	3,788	3,354	13,088	16,876
Other Services (except Public Administration)	3,135	2,958	17,525	20,660
Accommodation and Food Services	2,801	2,213	1,600	4,401
Administrative, Support, and Waste Management	2,039	1,863	7,930	9,969
Real Estate and Rental and Leasing	1,965	1,897	16,352	18,317
Manufacturing	1,585	1,240	2,807	4,392
Transportation and Warehousing	1,556	1,406	5,209	6,765
Finance and Insurance	1,381	1,272	3,637	5,018
Wholesale Trade	1,368	1,018	2,034	3,402
Arts, Entertainment, and Recreation	731	647	5,732	6,463
Educational Services	440	348	3,462	3,902
Agriculture, Forestry, and Fishing and Hunting	439	405	2,653	3,092
Information	373	297	1,461	1,834
Utilities	105	91	104	209
Mining, Quarrying, and Oil and Gas Extraction	94	75	182	276
<b>Total</b>	<b>36,205</b>	<b>32,473</b>	<b>122,221</b>	<b>158,426</b>

Figure 4 and Tables 1 and 2 display data from the 2015 SUSB. Table 2 includes additional data from the 2015 Nonemployer Statistics (NES). Data for counties shown in white in Figure 4 were withheld by the Census Bureau because they do not meet publication standards or could disclose information regarding individual businesses.

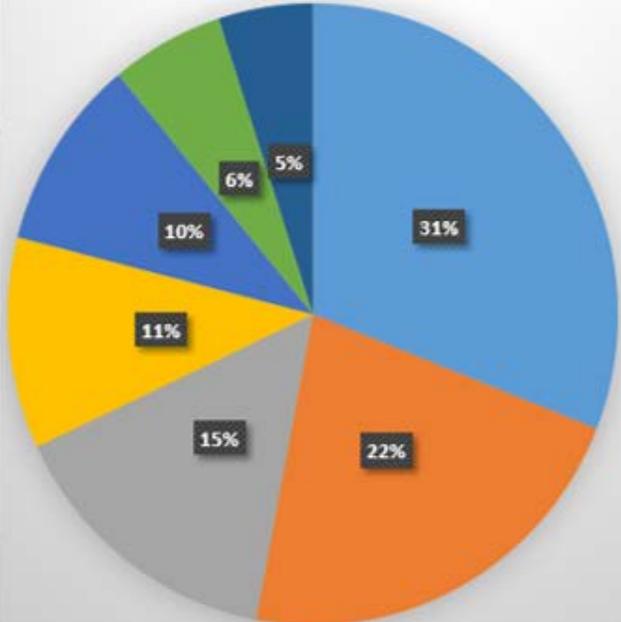
# What is NFIB?

- **The Voice of Small Business for 75 years**
- **A nonprofit, nonpartisan association, NFIB's mission is to promote and protect the right of its members to own, operate, and grow their businesses.**
- **With advocates in Washington, D.C., and all 50 state capitals, NFIB members determine its policies through routine polling on state and federal issues.**
- **Every NFIB member has an equal say in the policy positions NFIB takes—regardless of the amount of dues paid.**

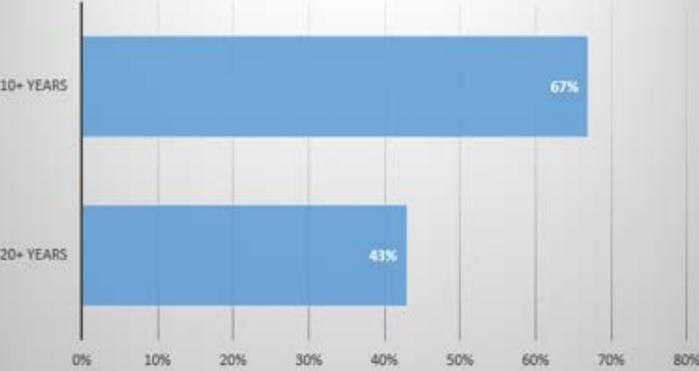


# NFIB Idaho Members by Industry

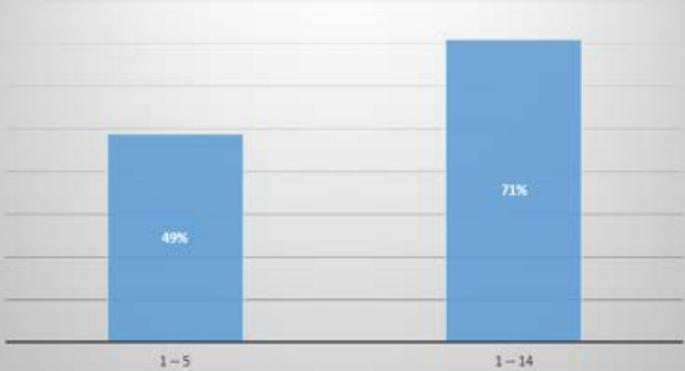
- All Others
- Services
- Retail
- Construction
- Agriculture
- Wholesale
- Manufacturing



### Business Longevity



### Business Size by Number of Employees



# What is NFIB's Small Business Optimism Index?

- For 45 years, NFIB's *Index of Small Business Optimism* has been one of the nation's bellwether economic barometers, **used by the Federal Reserve, congressional leaders, presidential administrations, state legislatures and governors.**
- 10 components of the Small Business Economic Trends (SBET) report make up the Small Business Optimism Index.
- Because small business owners are more sensitive in the short term to economic changes than are the bureaucracies of larger firms, **the SBET's primary value is anticipating short-run fluctuations in economic activity.**
- An additional value of the SBET is its measurement of small business activities and concerns over time. The benefit of a longitudinal data set offers an invaluable perspective on how policies and business cycles impact small businesses over time.
- The SBET is one of the few archival data sets on small business, particularly when research questions address business operations rather than opinions. **Today, it's the largest, longest-running data set on small business economic conditions available.**
- The report is released on the second Tuesday of every month.



# NFIB's Small Business Optimism Index

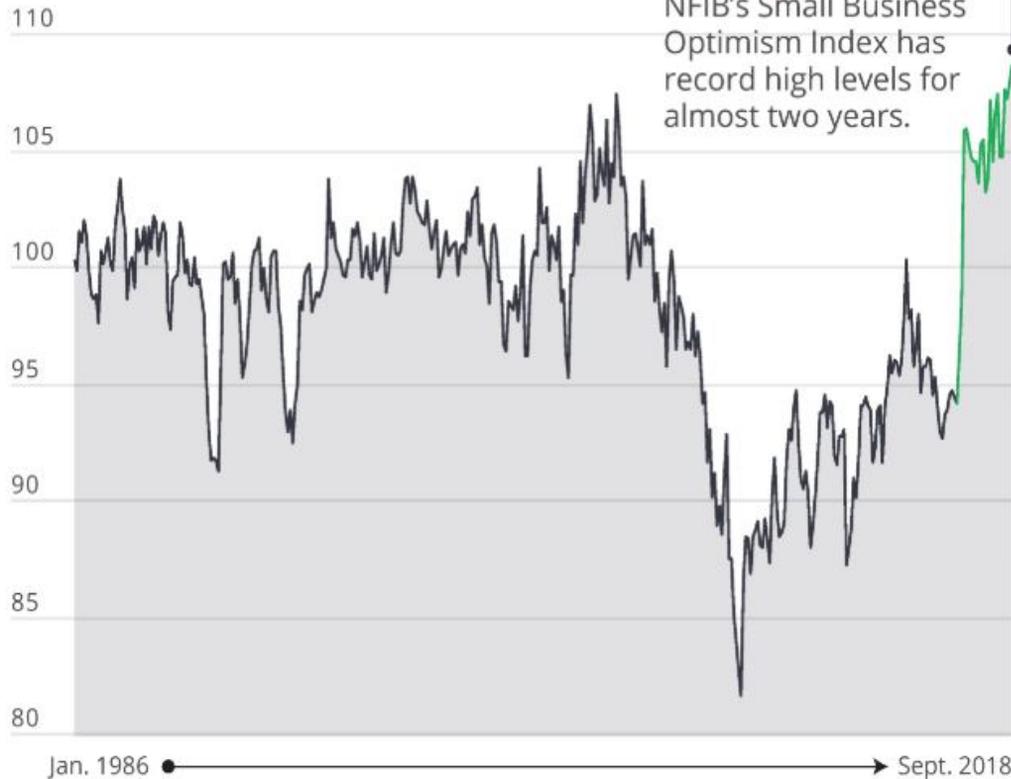
Based on 10 survey indicators, seasonally adjusted

**108.8**

The index reached a record high in August 2018.

**24 months**

NFIB's Small Business Optimism Index has record high levels for almost two years.



Source: NFIB

# The 10 Components

Index Component	Seasonally Adjusted Level	Change from Last Month	Contribution to Index Change
Plans to Increase Employment	26%	3	*%
Plans to Make Capital Outlays	33%	3	*%
Plans to Increase Inventories	10%	6	*%
Expect Economy to Improve	34%	-1	*%
Expect Real Sales Higher	26%	-3	*%
Current Inventory	-3%	0	*%
Current Job Openings	38%	1	*%
Expected Credit Conditions	-6%	-2	*%
Now a Good Time to Expand	34%	2	*%
Earnings Trends	1%	2	*%
Total Change		11	100%

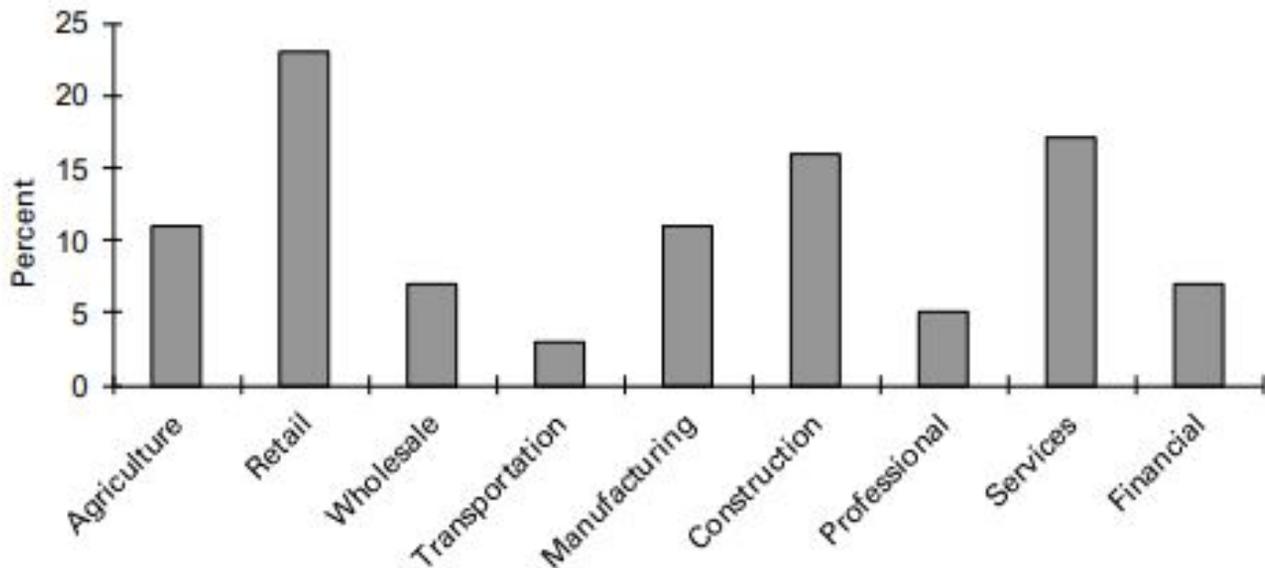
-- From the September 2018, 45-year high Optimism Index

## December 2018 Small Business Optimism Index

Index Component	Seasonally Adjusted Level	Change from Last Month	Contribution to Index Change
Plans to Increase Employment	22%	0	*%
Plans to Make Capital Outlays	29%	-1	*%
Plans to Increase Inventories	2%	-3	*%
Expect Economy to Improve	22%	-11	*%
Expect Real Sales Higher	26%	-4	*%
Current Inventory	-5%	-3	*%
Current Job Openings	34%	-4	*%
Expected Credit Conditions	-5%	0	*%
Now a Good Time to Expand	29%	-1	*%
Earnings Trends	-4%	-1	*%
Total Change		-28	100%

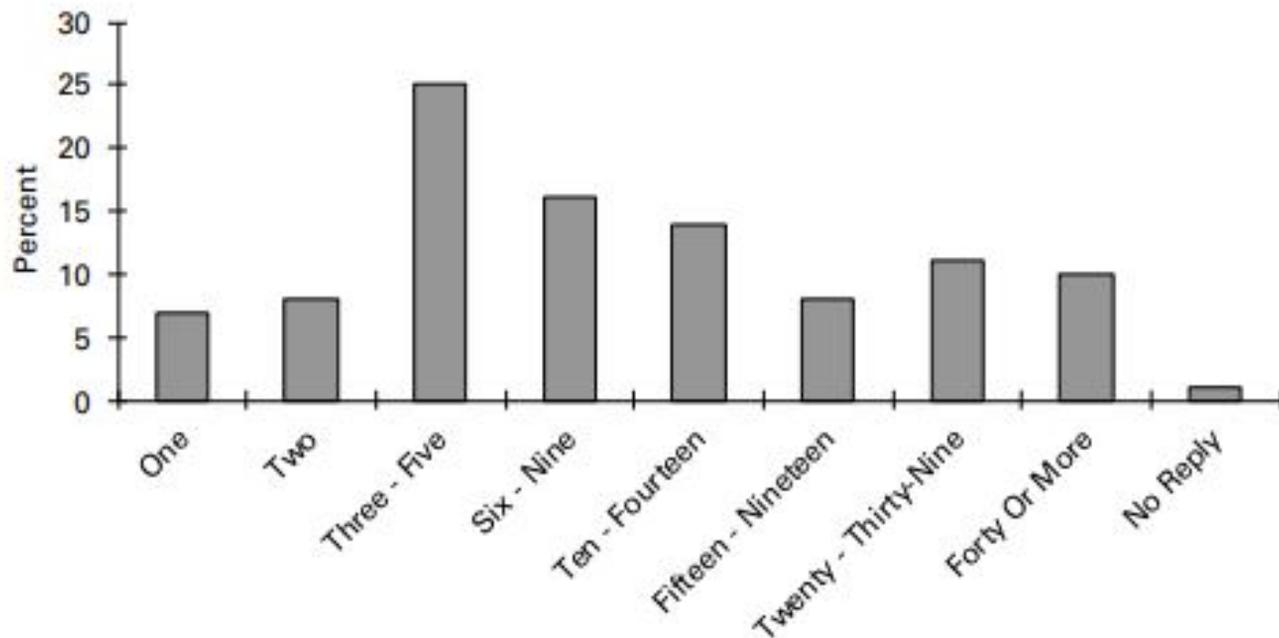
# NFIB OWNER/MEMBERS PARTICIPATING IN ECONOMIC SURVEY

Industry of Small Business



## NFIB OWNER/MEMBERS PARTICIPATING IN ECONOMIC SURVEY

### Number of Full and Part-Time Employees



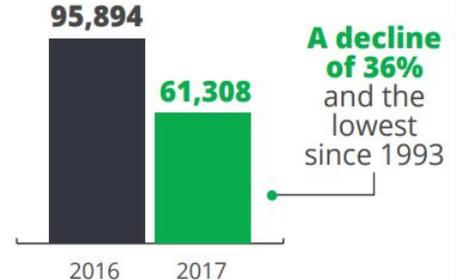
# What is fueling the historically high levels of optimism among small business owners?

1.



## Deregulation Efforts:

The Trump administration cut the total number of pages in the Federal Register, the government's record of regulations.



Source: Investor's Business Daily

2.

## The Tax Cuts and Jobs Act

More than half (55 percent) of small say that the creation of Section 199A, allowing for up to a 20 percent small business income tax deduction, is “very important” with another 29 percent “somewhat important.”

-- Small Business Introduction to the Tax Cuts and Jobs Act, Part 1, May 2018

# Small Business Centerpiece of the Tax Cuts and Jobs Act

## BENEFITS PASS-THROUGH ENTITIES

The act allows for a 20 percent deduction of a pass-through entity's income tax if it earned under \$157,500 in a year.



## PROVIDES A HIGHER STANDARD DEDUCTION

The standard deduction will increase from \$12,000 to \$24,000 for married couples and from \$6,350 to \$12,700 for individuals.

## CHANGES TO SECTION 179 EXPENSING

Small business owners can immediately expense the full cost of equipment up to \$1 million.



And, the results ...

## **Small Business Owners' Plans to Create New Jobs Hit 45-year High**

Date: September 06, 2018

## **Small Business Compensation Increases Sets New Record**

Date: October 04, 2018

## **Small Business Job Creation Rises as Owners Continue to Search for Qualified Workers**

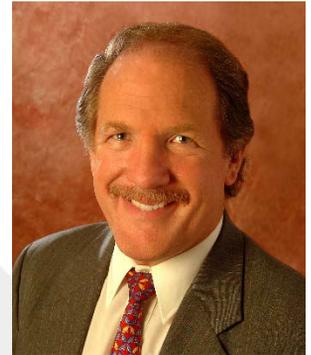
Date: December 06, 2018



# 2019 Small Business Outlook

**“The labor force is not growing quickly enough to satisfy the current demand for workers. A successful hire in this market will likely create a job vacancy elsewhere because of the tight labor market. The unemployment rate will likely go lower since the labor demand is still more than the increases in labor supply.”**

**William Dunkelberg  
NFIB Chief Economist**



# Top 2019 State and Federal Issues

*From the only association that bases its lobbying positions solely on what its members tell it, through regular balloting, are important to them.*



1

## TAX REFORM

Should Congress permanently extend the tax cuts for individuals and small businesses established in the new federal tax law?

YES  NO  UNDECIDED

**Results: Yes 91% No 4% Undecided 5%**



1

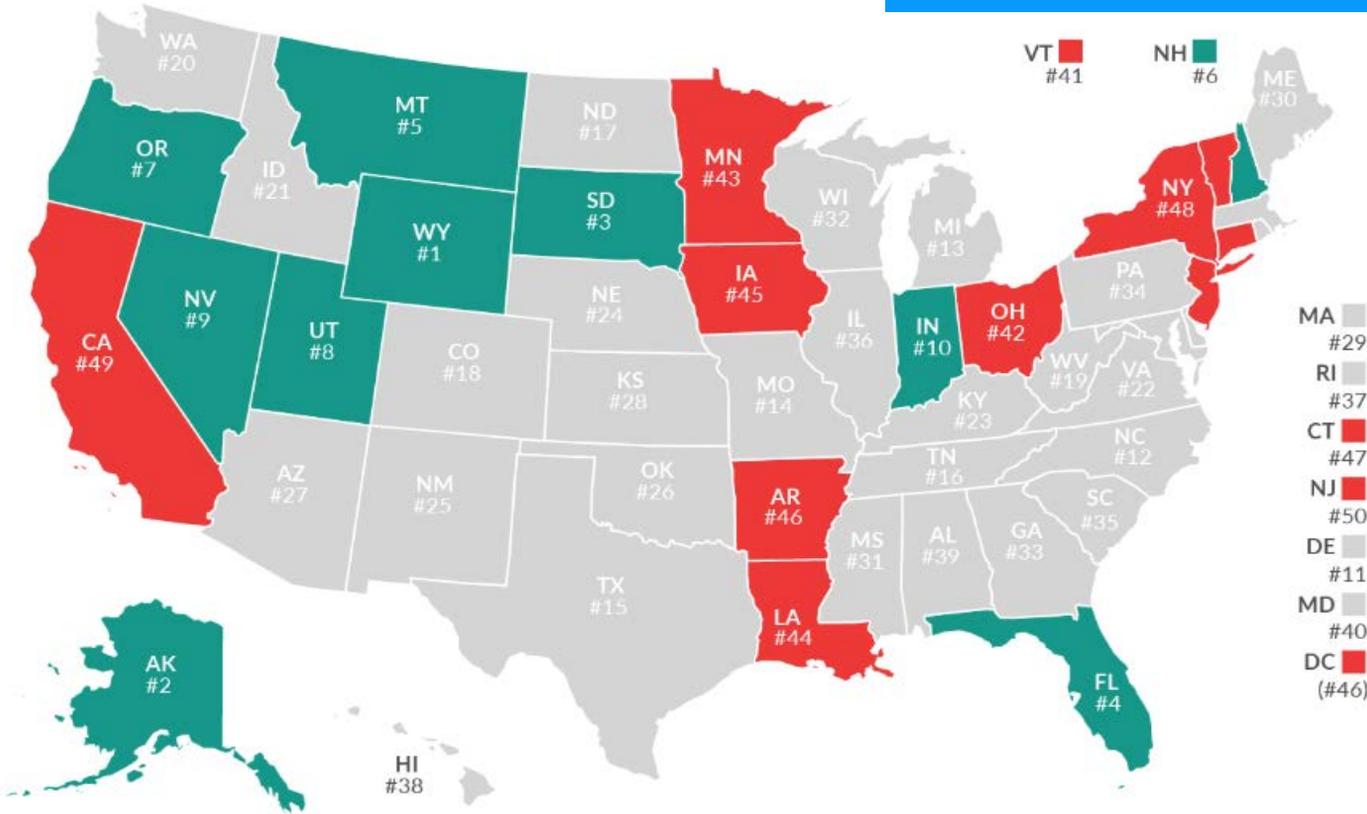
## Local Option Sales Tax

Should the legislature allow local governments to impose their own sales taxes?

YES  NO  UNDECIDED

**Results: Yes 12% No 79% Undecided 9%**

# 2019 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2018 (the beginning of Fiscal Year 2019).  
 Source: Tax Foundation.

- 10 Best Business Tax Climates
- 10 Worst Business Tax Climates



# TAX FOUNDATION

## Center for State Tax Policy

	Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
<b>Idaho</b>	21 (20)	26 (25)	23 (23)	26 (26)	4 (3)	48 (46)
<b>Montana</b>	5	12	22	3	10	21
<b>Nevada</b>	9	33	5	40	8	45
<b>Oregon</b>	7	30	36	4	17	37
<b>Utah</b>	8	5	10	16	3	16
<b>Washington</b>	20	44	6	49	25	19
<b>Wyoming</b>	1	1	1	6	38	36

Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. DC's score and rank do not affect other states. The report shows tax systems as of July 1, 2018 (the beginning of Fiscal Year 2019).

# RICH STATES, POOR STATES

ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX



ARTHUR B. LAFFER  
STEPHEN MOORE  
JONATHAN WILLIAMS



**ALEC**  
American  
Legislative  
Exchange  
Council  
UNITED GOVERNMENT • FREE MARKETS • FEDERALISM

Historical Ranking Comparison

2011 2012 2013 2014 2015 2016 2017

ECONOMIC OUTLOOK RANK **5 6 7 5 6 15 10**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.93%	34
Top Marginal Corporate Income Tax Rate	6.93%	27
Personal Income Tax Progressivity (change in tax liability per \$1,000 of income)	\$13.38	35
Property Tax Burden (per \$1,000 of personal income)	\$25.46	16
Sales Tax Burden (per \$1,000 of personal income)	\$23.38	27
Remaining Tax Burden (per \$1,000 of personal income)	\$14.67	13
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2016 & 2017, per \$1,000 of personal income)	-\$0.34	8
Debt Service as a Share of Tax Revenue	4.3%	5
Public Employees Per 10,000 of Population (full-time equivalent)	488.0	12
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	75.0	3
State Minimum Wage (federal floor is \$7.25)	\$7.25	1
Average Workers' Compensation Costs (per \$100 of payroll)	\$1.79	23
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0=least/worst 3=most/best)	1	15

# NFIB Resources

## NFIB Small Business Jobs Report

The NFIB Research Foundation has collected Small Business Economic Trends data with quarterly surveys since 1974 and monthly surveys since 1986. Survey respondents are drawn from NFIB's membership. The survey was conducted in November 2018 and reflects a random sample of 10,000 small-business owners/members.

NFIB's chief economist William C. Dunkelberg, issued the following comments on NFIB's November 2018 Jobs Report:

Small business job creation inched up in November, rising to a net addition of 0.19 workers per firm, according to NFIB's monthly jobs report, released today. Sixteen percent of owners reported increasing employment an average of 2.9 workers per firm, unchanged from October, and 11 percent reported reducing employment and average of 1.9 workers per firm.



NFIB Chief Economist  
William Dunkelberg

"As a banner year comes to an end, small business owners have shown that when taxes and regulations fade as a major concern for their business, they will invest in their business and employees," said NFIB President and CEO Juanita D. Duggan. "The biggest concern facing small businesses going into the holiday season and next year is finding qualified employees for the positions they've created."

Job Components	Seasonally Adjusted Level	Change from Last Month
Job Openings	34%	▼ -4
Hiring Plans	22% (net)	— 0
Qualified Workers "few" or "none"	53%	— 0
Temporary Workers*	14%	— 0
Compensation Plans	25% (net)	▲ 2
Actual Compensation Changes	34% (net)	▼ -3
Average Change in Employment per Firm	0.19	

\*Not seasonally adjusted



NFIB.com/jobs

## NFIB SMALL BUSINESS ECONOMIC TRENDS

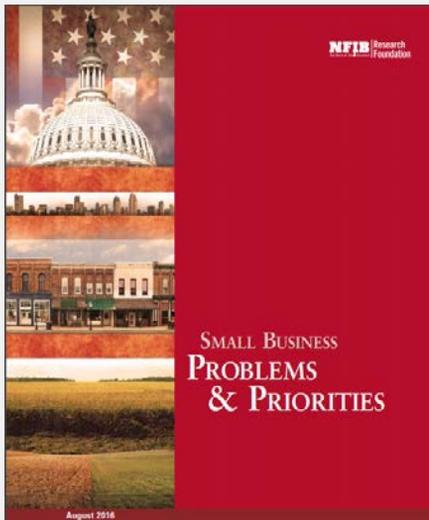
William C. Dunkelberg  
Holly Wade

November 2018

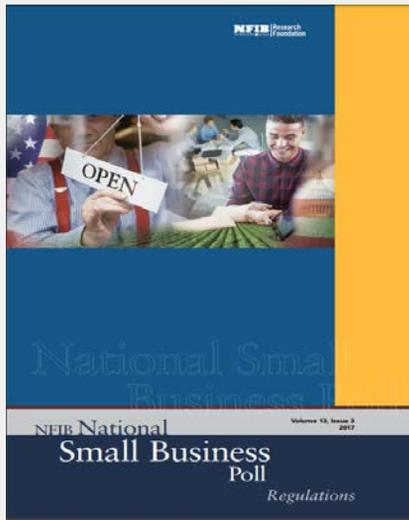
SMALL BUSINESS OPTIMISM INDEX COMPONENTS

Issued first Thursday  
of every month

Issued second Tuesday  
of every month



Quadrennial report ranking the 75 issues of concern to small business. Latest: 2016. Next: 2020



Occasional surveys on a specific small business issue



Small Business Introduction to the Tax Cuts and Jobs Act: Part 1

May 2018

Background papers for Congressional testimony and for member information

[www.nfib.com](http://www.nfib.com)

[www.nfib.com/foundations/research-center](http://www.nfib.com/foundations/research-center)

[www.411sbfacts.com](http://www.411sbfacts.com)

# Thank You

The small-business owners of Idaho and their representative association, NFIB, thank the members of the Economic Outlook and Revenue Assessment Committee for giving Main Street, mom-and-pop enterprises the opportunity to have their voices heard.

