

# **How Do Small Businesses Finance Themselves?**

## **A Look through the Intuit QuickBooks Small Business Index**

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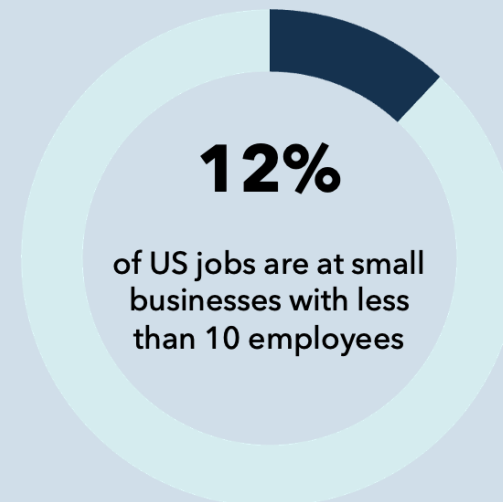
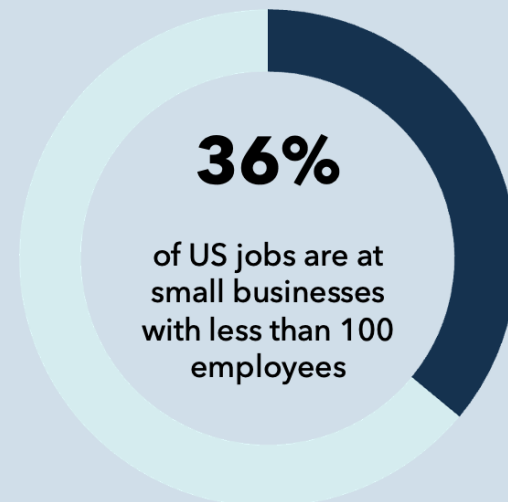
# The Role of Small Businesses in the US Economy



>> Find out how this % has changed over time (from 1992 to 2020) using raw data [here](#) <<



>> Get monthly insights on this segment from the [Intuit QuickBooks Small Business Index](#) <<



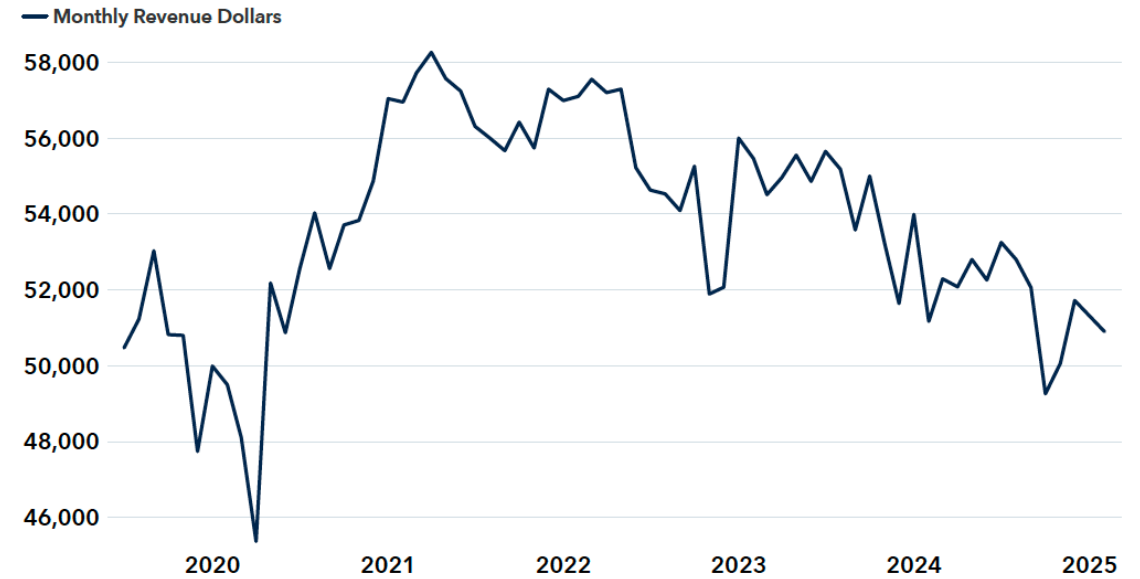
# Intuit QuickBooks Small Business Index

## Employment and Revenue

FIGURE 1: INTUIT QUICKBOOKS SMALL BUSINESS INDEX



(A) EMPLOYMENT INDEX



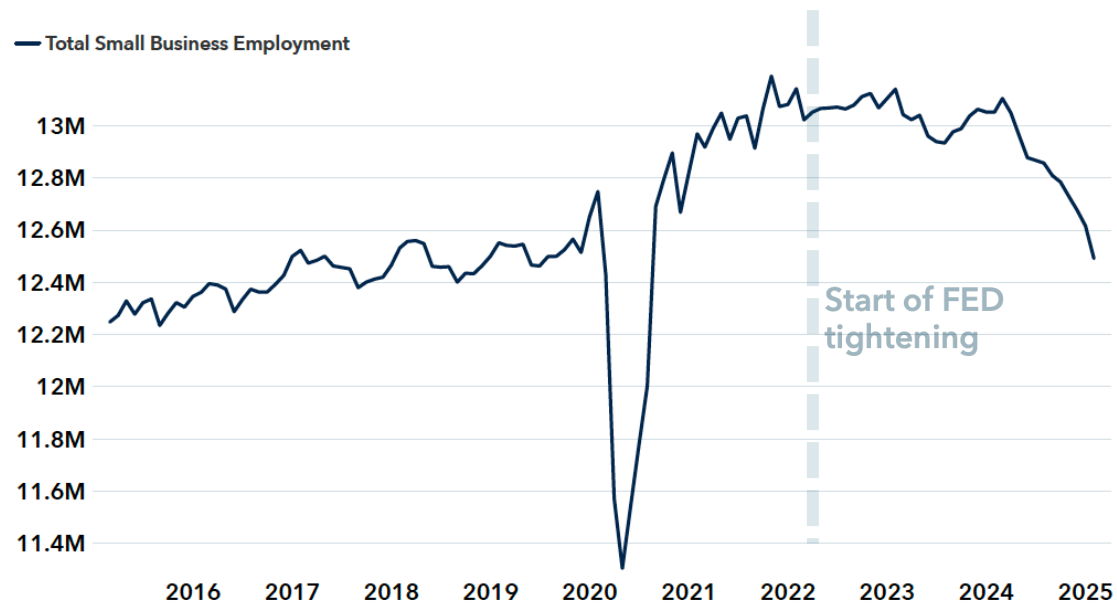
(B) REVENUE INDEX

Source: Intuit QuickBooks Small Business Index (Akcigit et al., 2023). The figures plot the monthly employment and real revenues respectively on the y-axis and month the x-axis.

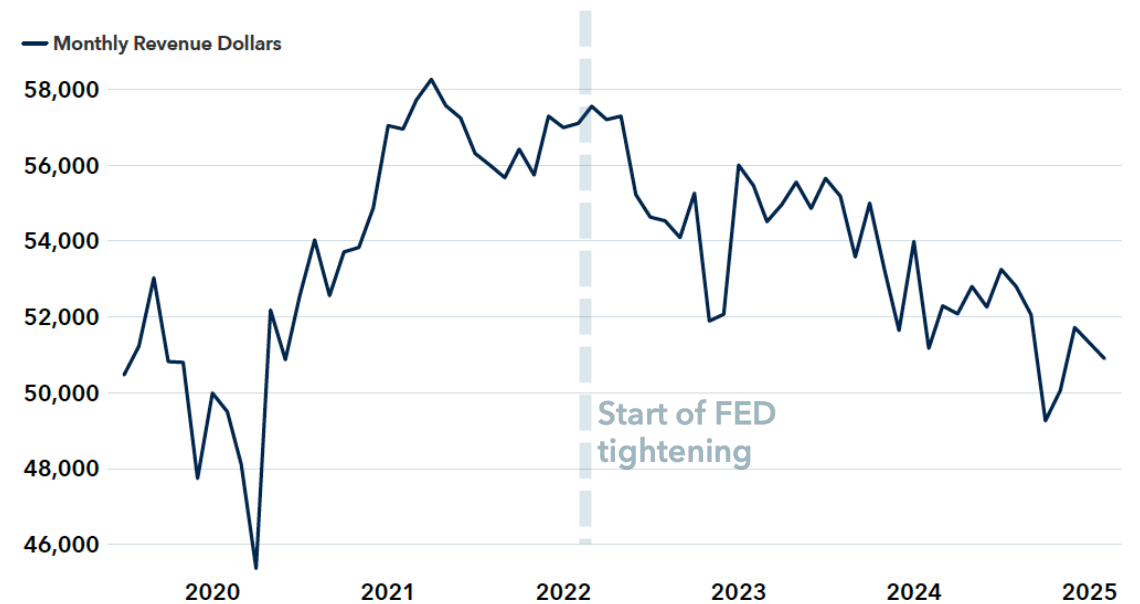
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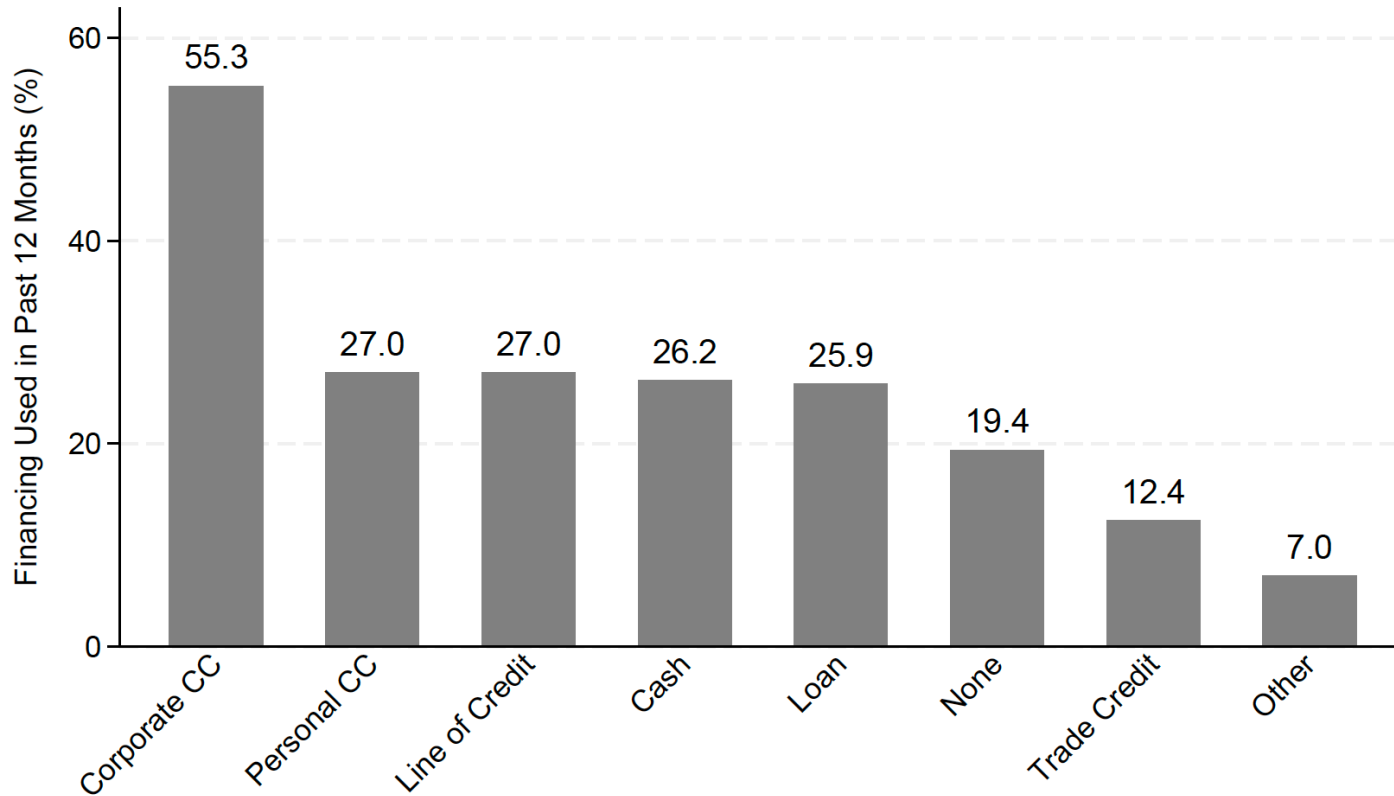
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**The Fed's tightening cycle quickly echoed on Main Street employment and revenue.**

# Funding Main Street:

## Small Business Financing Over the Past Year

FIGURE 4: BUSINESS FINANCING USED OVER PAST 12 MONTHS

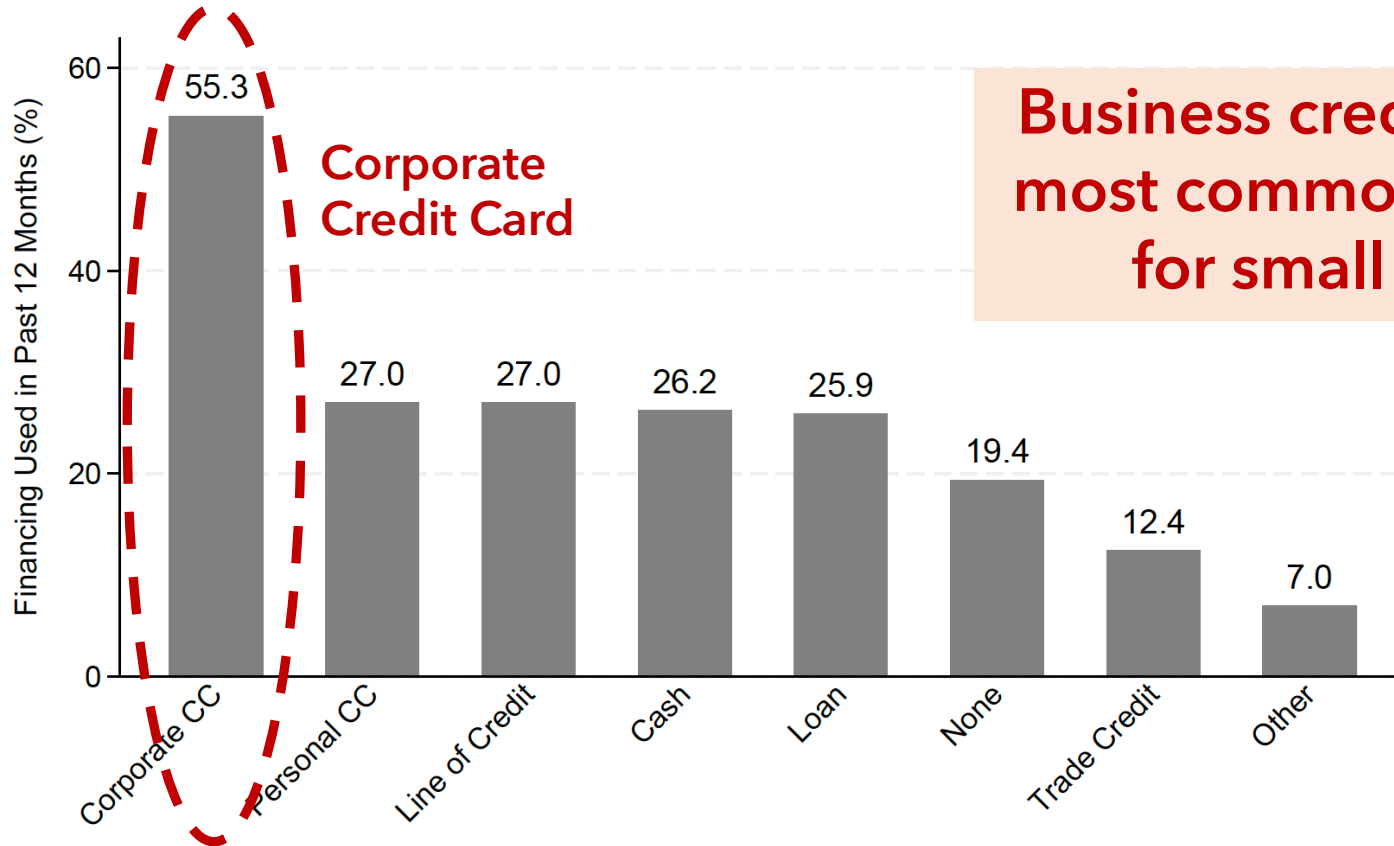


**Notes:** The figure shows the response to the following question, "Which of the following financing options has the business used over the past 12 months?" Sample of US respondents from the Intuit QuickBooks Small Business Insights Survey, fielded to 5602 Intuit QuickBooks business customers at a quarterly frequency between the first quarter of 2023 and the second quarter of 2024.

# Funding Main Street:

## Small Business Financing Over the Past Year

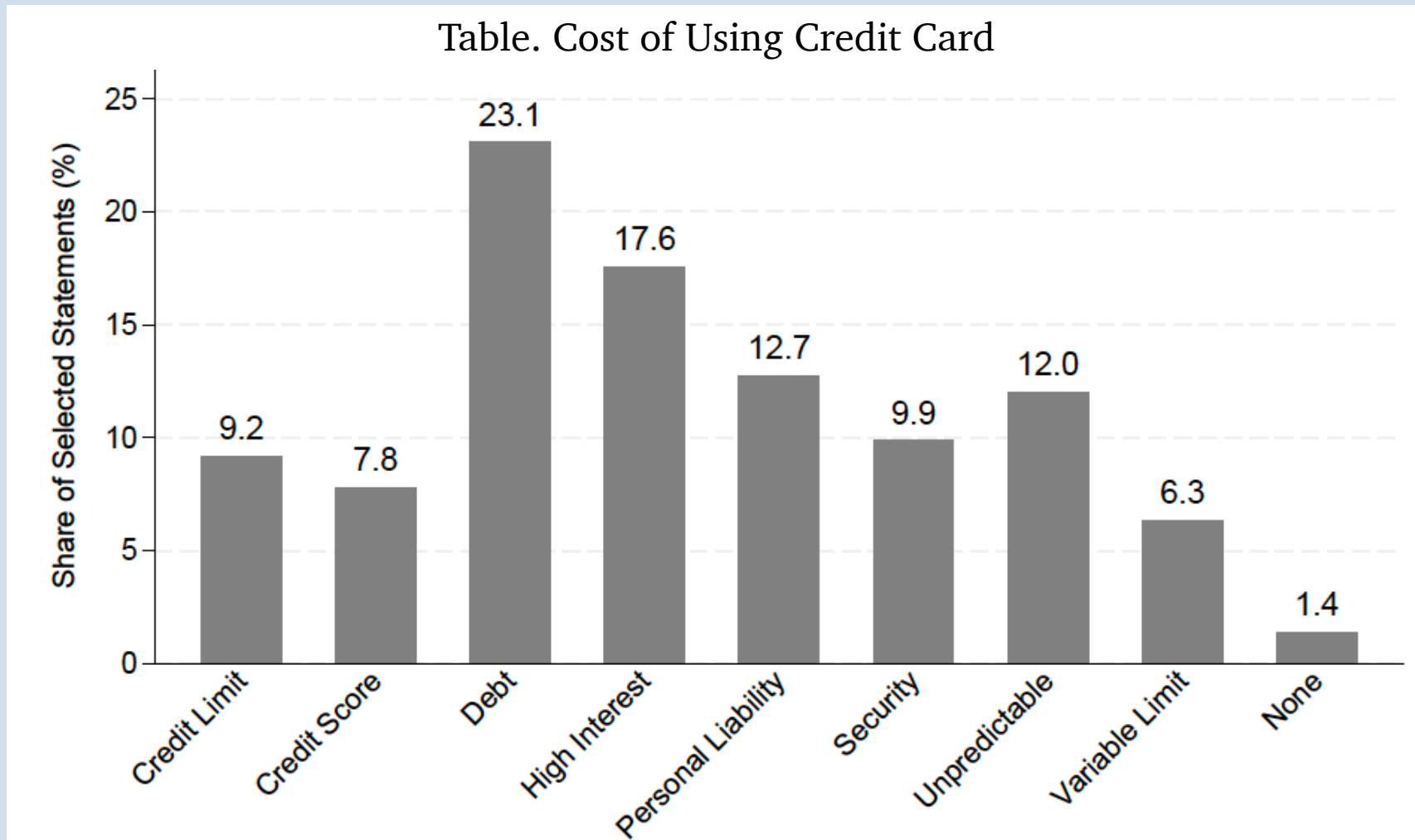
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# Swiping Comes at a Price:

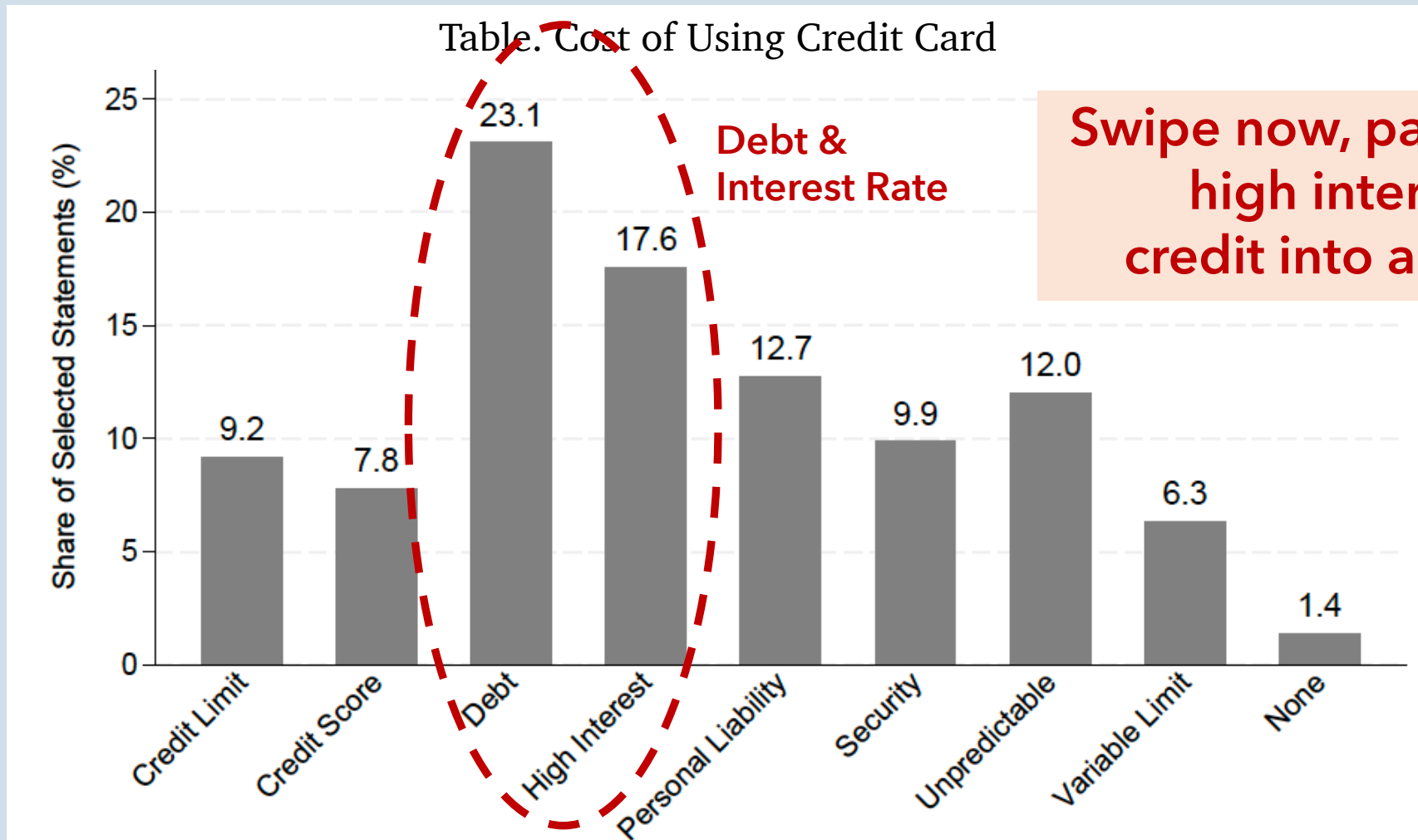
## Perceived Drawbacks of Credit Card Use



**Notes:** The figure presents the response to the following question: “Which of the following, if any, do you see as the main disadvantages of using credit cards for business financing?”. Sample of US respondents from the Intuit QuickBooks Small Business Insights Survey, fielded to 5602 Intuit QuickBooks business customers at a quarterly frequency between the first quarter of 2023 and the second quarter of 2024.

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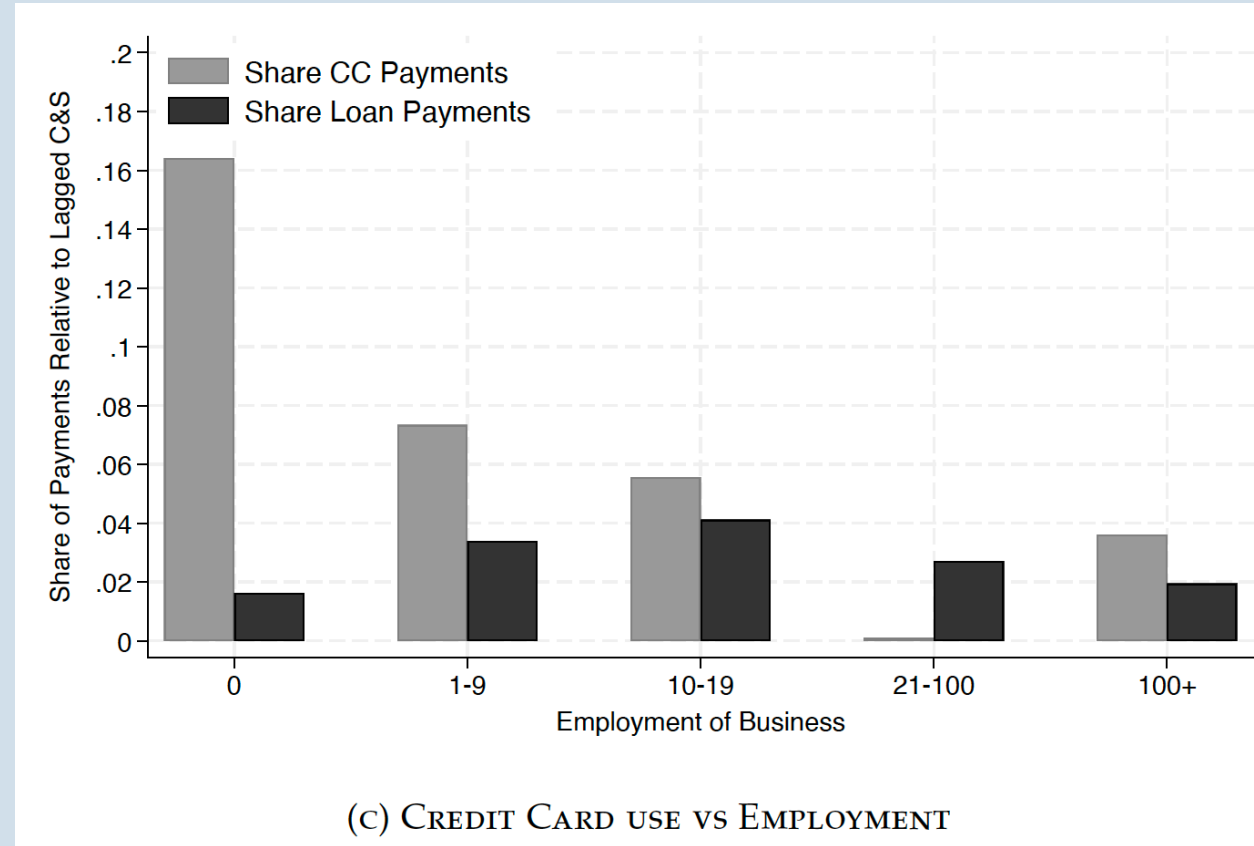
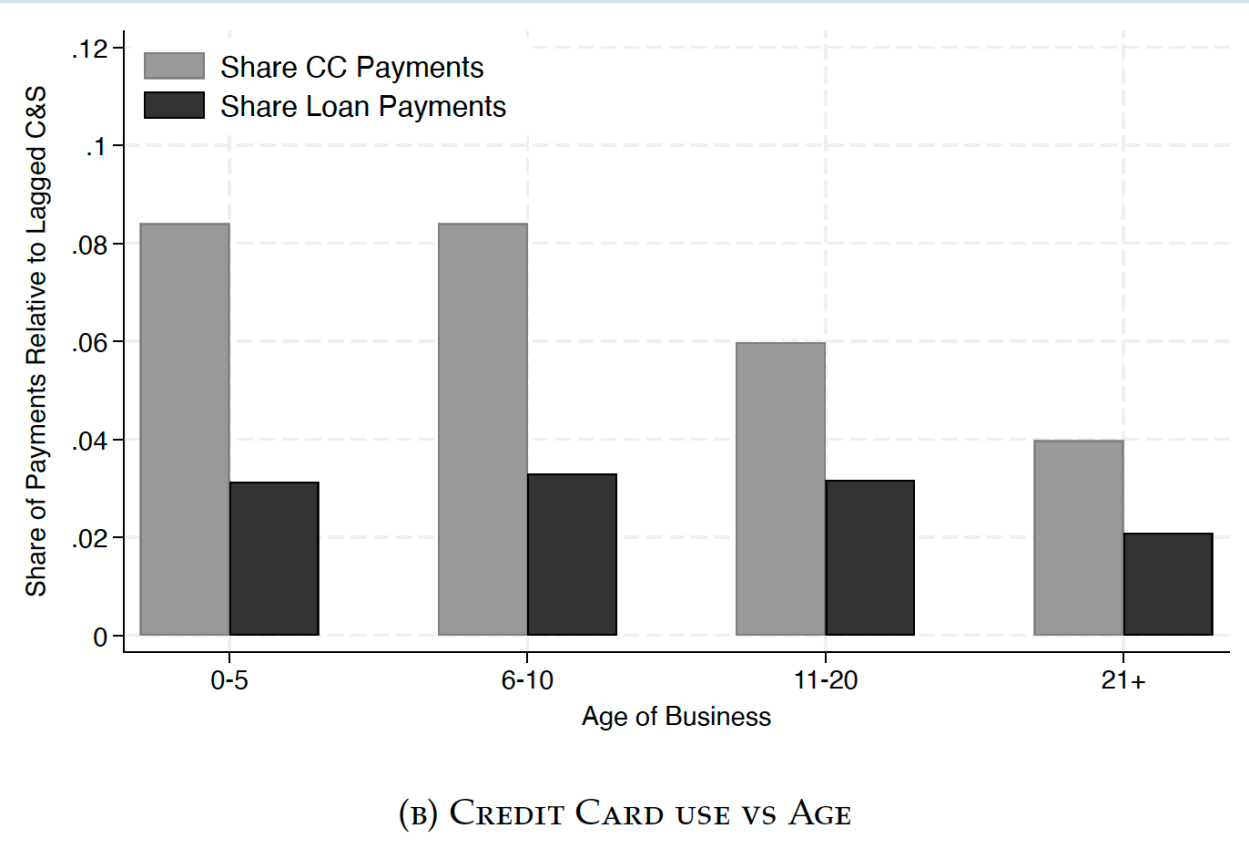


**Swipe now, pay (a lot) later:  
high interest turns  
credit into a costly trap.**

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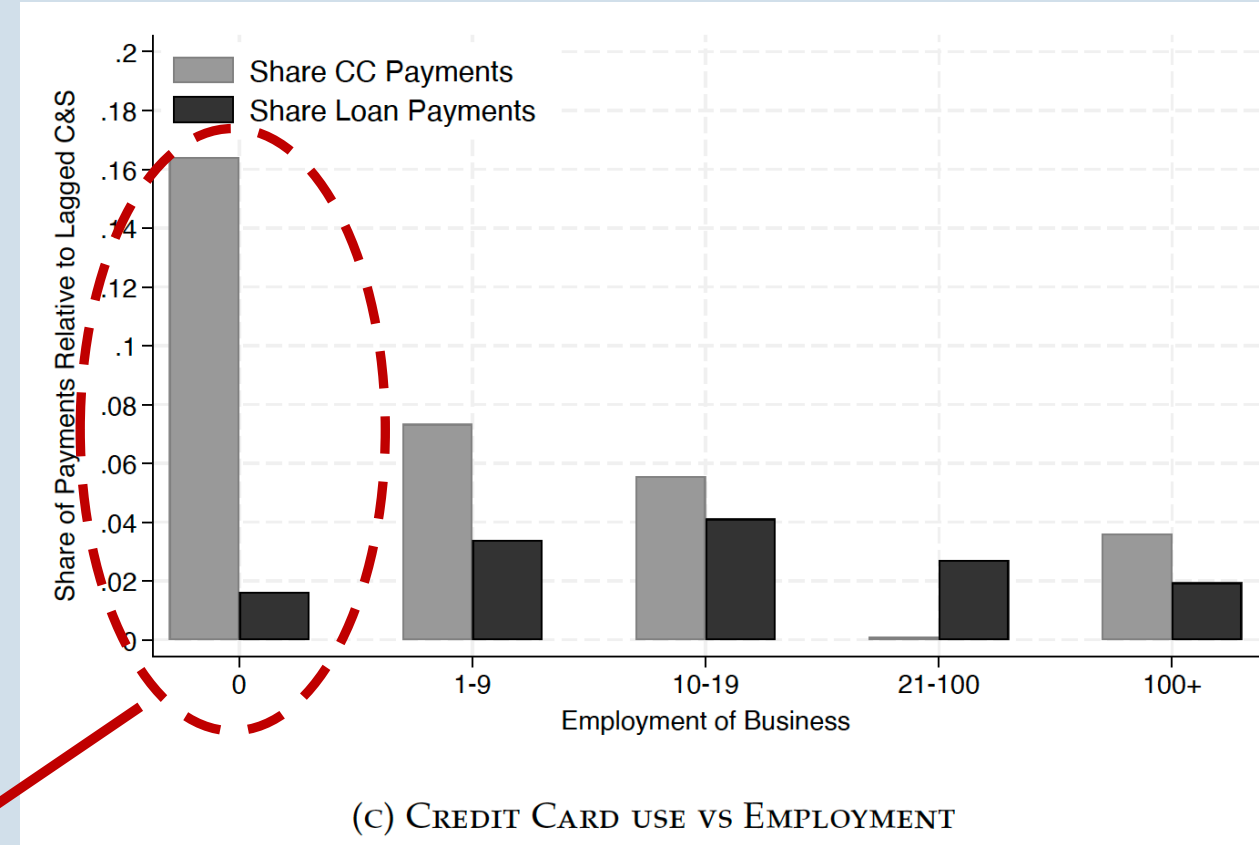
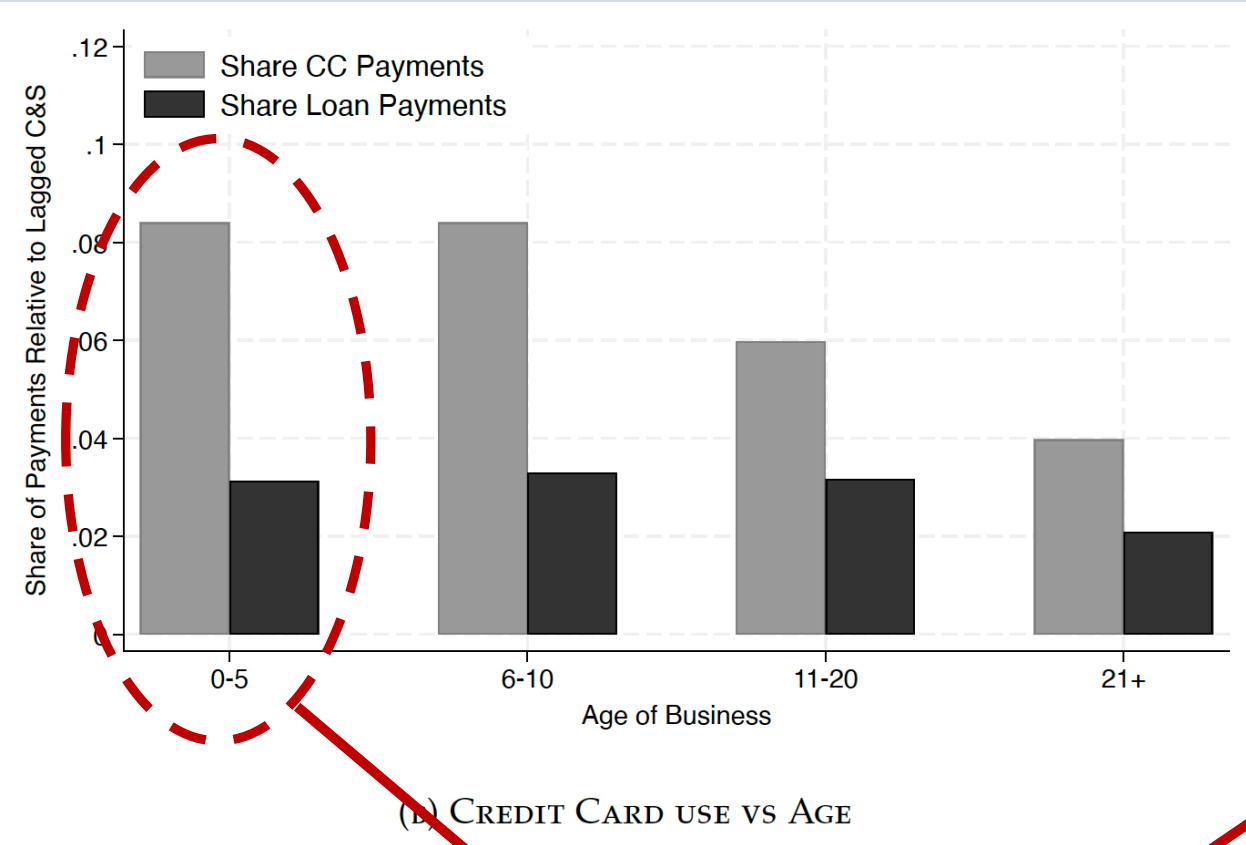
# The Financing Gap:

## Young and Small Businesses Turn to Credit Cards



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## Young and Small Businesses Turn to Credit Cards

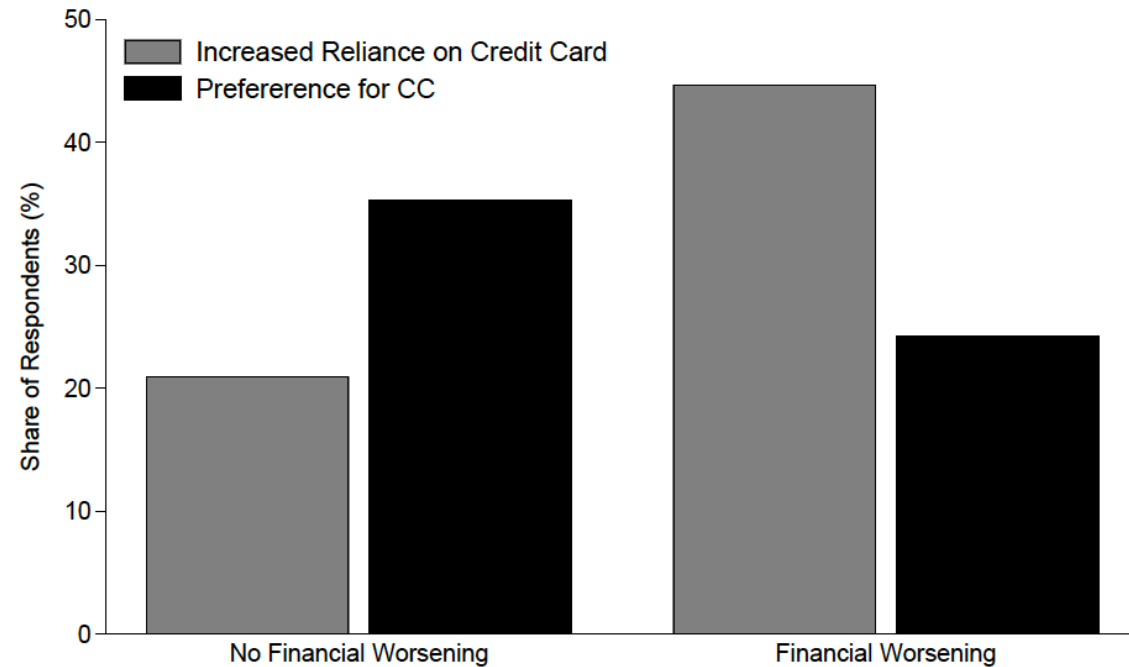


**young & small**

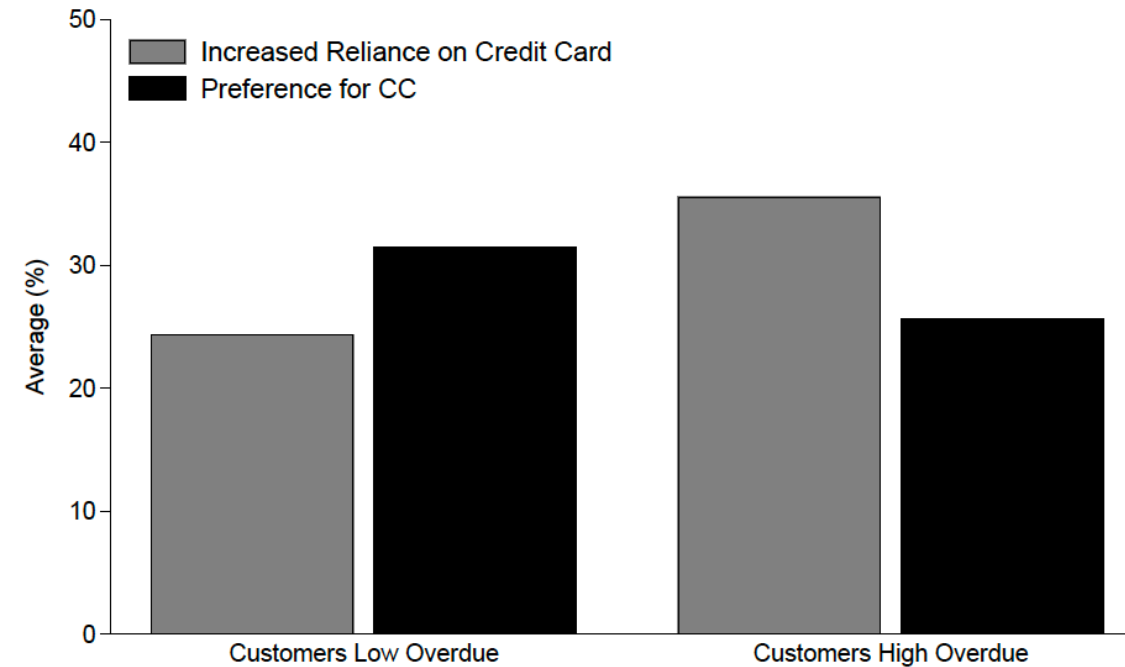
# In Trouble? Swipe More:

## How Financially Worsening Firms Rely on Credit Cards

FIGURE 7: SMALL BUSINESS PREFERENCE VS USAGE OF FINANCING TOOLS



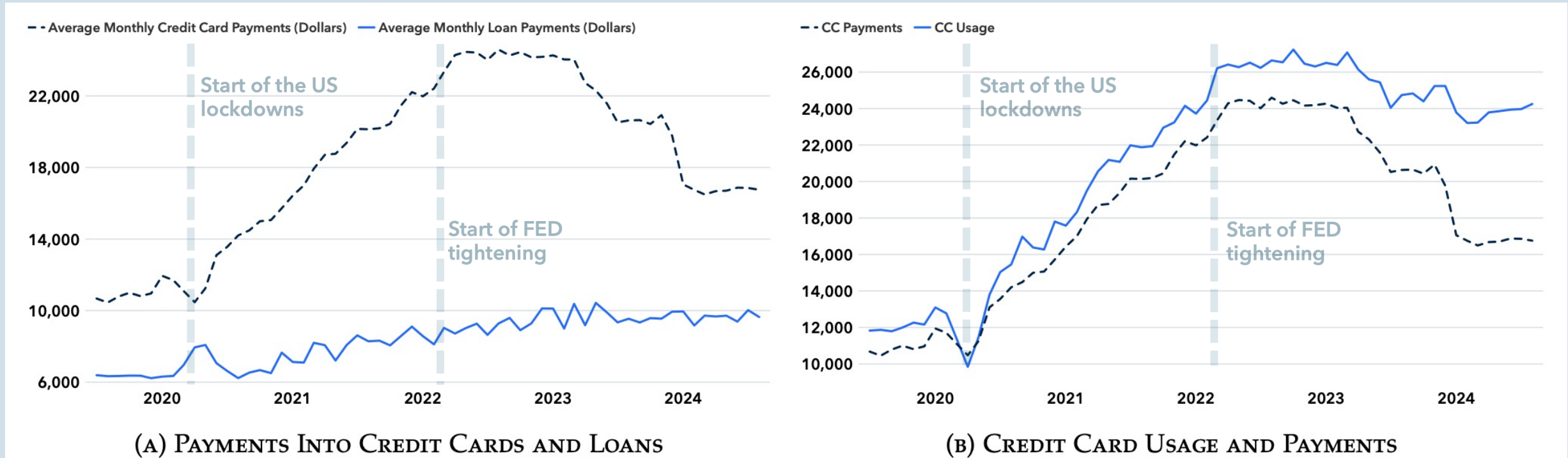
(A) FINANCIAL WORSENING



(B) PERCENT OF INVOICES DUE

**Notes:** Light grey bars indicate the share of businesses that selected "more reliant" in response to the question, "Over the last year, did the business become more or less reliant on credit cards?" Dark grey bars indicate the share of businesses that selected "credit card" as the most preferred option in response to the question, "If your business had equal access to the following financing options, which would you choose first and which would you choose last?" Panel (A) differentiates responses based on whether respondents selected "yes" or "no" to the question, "Looking back over the past 12 months, has the cost and availability of financing got worse?" Panel (B) differentiates responses based on high/low customers overdue, defined as whether more than 20% of invoices were reported as overdue in response to the question, "As an estimate, what percentage of your sales invoices are currently overdue by 30 days or more?"

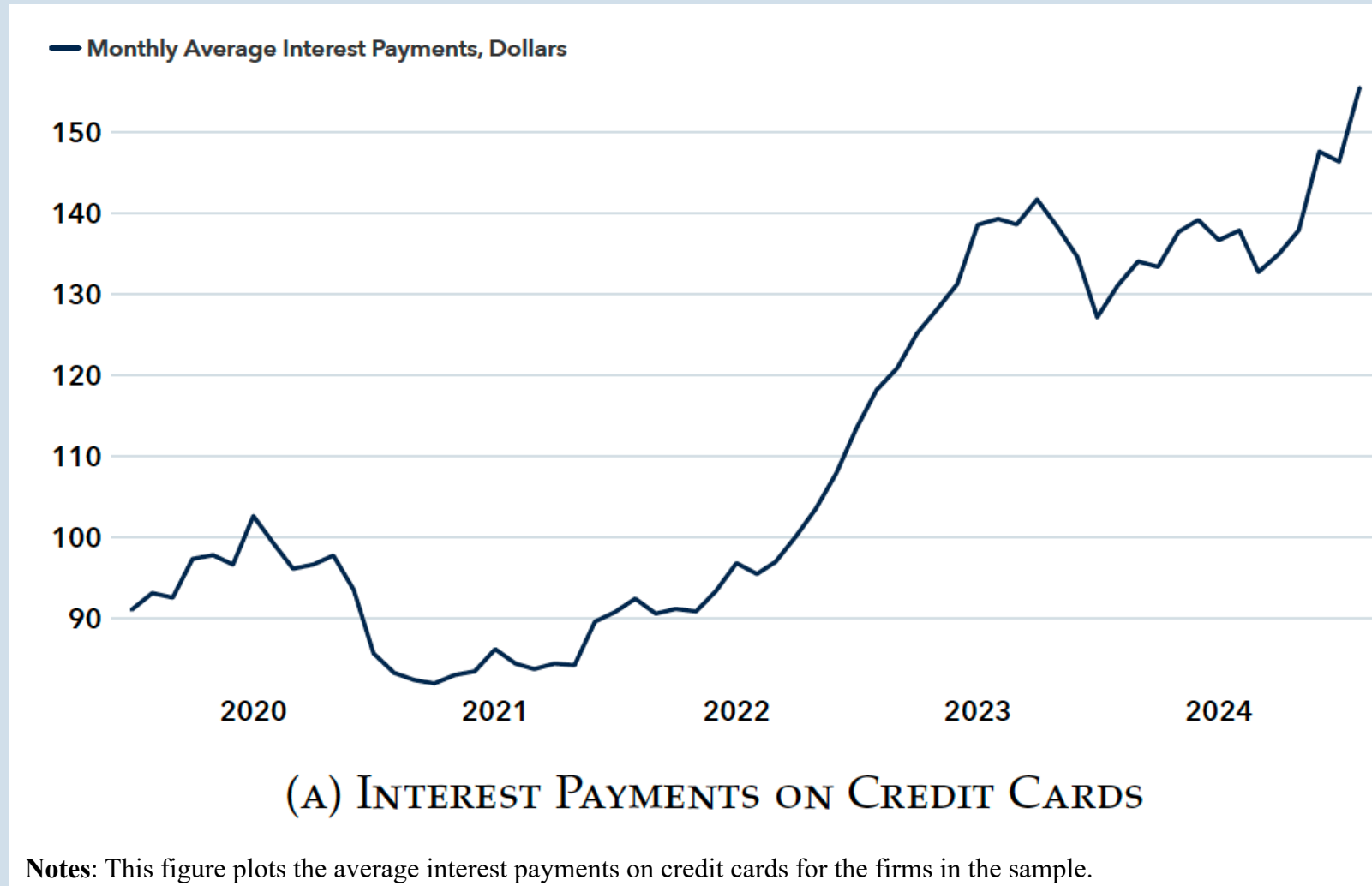
# Transmission of Monetary Policy to Small Business Financing



Notes: Panel (A) plots the average credit card payments and average loan payments for the firms in the sample. Panel (B) plots the credit card usage along with credit card payments for the same set of firms.

**Credit card use surged during COVID, and Fed rate hikes turned those balances into lasting debt.**

# The Cost of Borrowing: Average Credit Card Interest Payments



# Measuring Banks' Exposure to Interest Rate Risk: **The Income Gap**

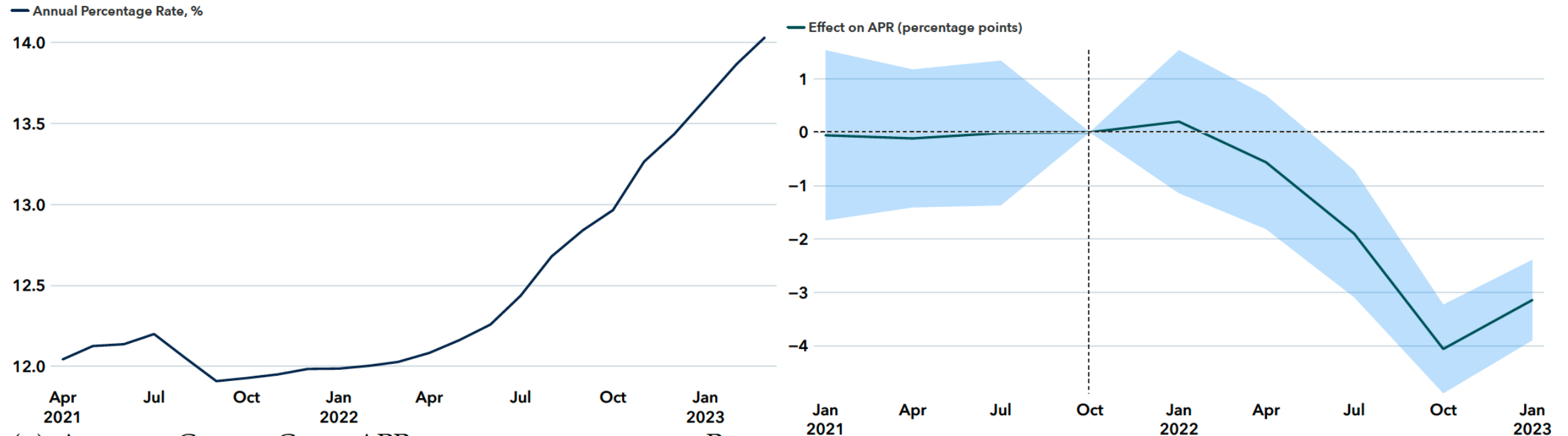
$$\text{Income Gap} = \frac{(\text{Rate Sensitive Assets}) - (\text{Rate Sensitive Liabilities})}{\text{Total Assets}}$$

The income gap measures a bank's exposure to interest rate risk.

A positive income gap means that more assets than liabilities reprice in the short term—so when interest rates rise, the bank's income increases

# From Policy Rates to Credit Card APRs: Transmission Through Bank Income Gaps

FIGURE 8: APR AND INCOME GAP



(A) AVERAGE CREDIT CARD APR ACROSS BANKS IN THE RATE-WATCH DATA

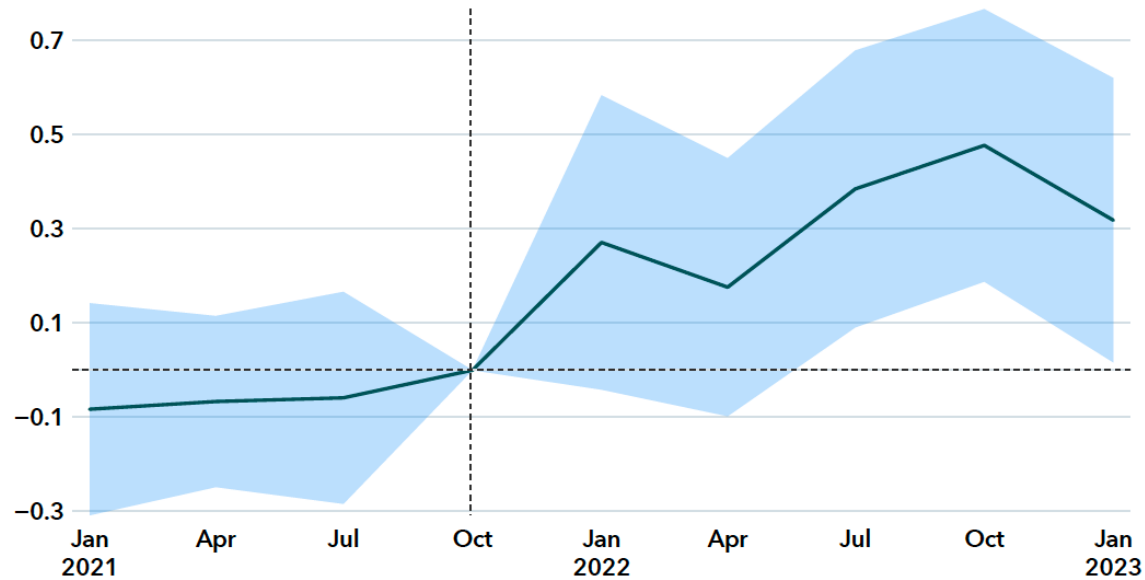
(B) INCOME GAP AND INTEREST RATES

**When the Fed tightened, credit card rates jumped up 2 percentage points in just one year.**

**Not all banks pass on rate hikes equally – those with higher income gaps charged less.**

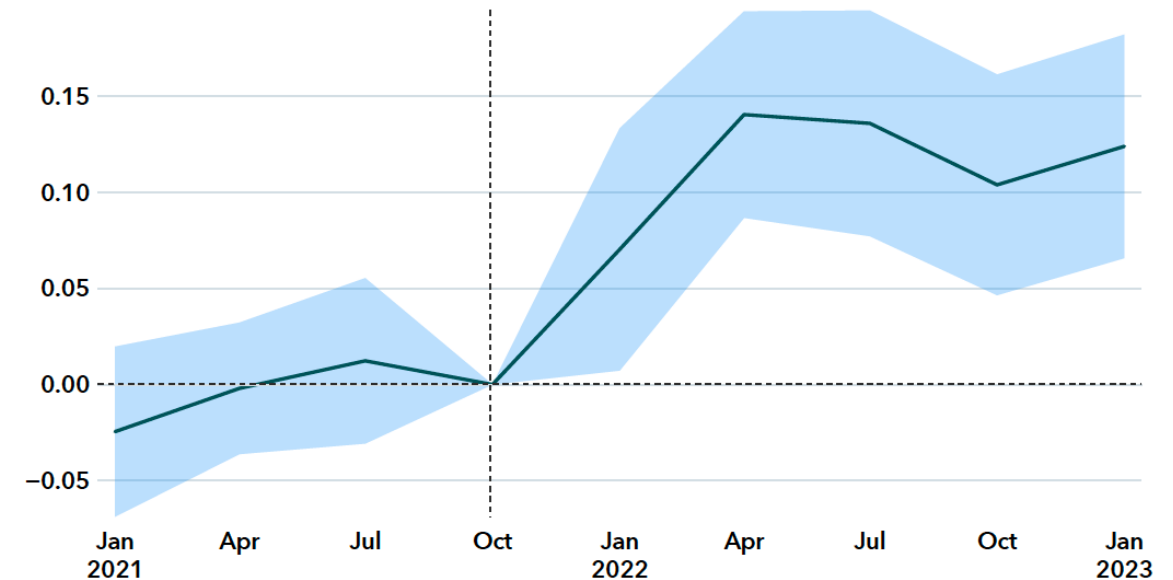
# Banks' Interest Rate Exposure & Credit Card Use and Costs

— Effect on Log Credit Card Usage



(B) CC USAGE

— Effect on Interest > 0



(B) INTEREST > 0

**As rates rose, small businesses shifted their borrowing toward banks with higher income gaps.**

# References

- "[Intuit QuickBooks Small Business Index: A New Employment Series for the US, Canada, and the UK](#)," (Ufuk Akcigit, Raman Chhina, Seyit Cilasun, Javier Miranda, Eren Ocakverdi, Nicolas Serrano-Velarde), NBER Working Paper #31350.
- "[Credit Card Entrepreneurs](#)," (Ufuk Akcigit, Raman S. Chhina, Seyit Cilasun, Javier Miranda, and Nicolas Serrano-Velarde), NBER Working Paper #33618.

**Thank You!**

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