

THIRD QUARTER 2007: THE ECONOMY AND SMALL BUSINESS

Trends

- Real gross domestic product grew 3.9 percent in the third quarter of 2007, much faster than anticipated and comparable to second quarter growth. Strong growth in exports (assisted by a weak dollar) and solid gains in consumer spending helped fuel the rise in output. Real investment grew at an annualized rate of 0.9 percent. Its tepid growth is due to weakness in the housing market, which saw another decline in new housing starts. The production picture is mixed: industrial production rose an annualized 3 percent for the quarter but the manufacturing purchasing manager's index fell 4 points between June and September.
- Small business owners were more optimistic in September than in June, according to the National Federation of Independent Business's Optimism Index. The percent of businesses that see the next three months as a good time to expand is below the annual average of the past five years. The University of Michigan's consumer sentiment survey also shows a subdued outlook. The American public has continued to spend despite this negative mindset, as in several previous quarters.
- Unemployment rose slightly, to 4.7 percent in September from 4.5 percent in June, but the expanding economy generated 282,000 more jobs than it lost. Job losses in construction and manufacturing were more than offset by job gains in professional and business services, education and health services, leisure and hospitality, and government. Unincorporated self-employment hovered between 10.5 million and 10.8 million. Incorporated self-employment remained steady at 5.7 million.
- In September, the Federal Reserve lowered its federal funds target rate by 0.5 percent. Interest rates paid by small businesses and consumers moved in tandem. Many observers contend that the move was necessitated by credit concerns in the financial markets related to sub-prime lending. The Federal Reserve's Senior Loan Officers' Survey shows continued weakness in small loan demand and somewhat tighter lending conditions on net. The number of venture capital deals and amount invested fell slightly; however, these figures are similar to the readings found in third quarter 2006, with the total invested up by \$300 million.
- Overall inflation remained under control, with the consumer price index rising an annualized 1 percent and producer prices falling 0.5 percent. Year-to-year inflation figures show a more substantial increase. Consumer prices, for example, rose 2.8 percent from September 2006 to September 2007. One culprit is higher energy prices. The price of a barrel of West Texas crude oil rose \$12.45 in the quarter, averaging just below \$80 a barrel in September. Wages, salaries, and benefits increased an annualized 3.1 percent in the third quarter; however, wage and salary growth has outpaced the rise in benefit costs year-to-year (3.4 percent to 2.4 percent).

Small Business Indicators

	Last five years					Last five quarters					Trends	
	2002	2003	2004	2005	2006	Q3-06	Q4-06	Q1-07	Q2-07	Q3-07	This Quarter	Q3-06 to Q3-07
Business bankruptcy filings (thousands)	38.5	35.0	34.3	39.2	19.7	5.3	5.6	6.3	6.7	--	--	--
Proprietors' income (\$billion, current dollars)	768.4	811.3	911.1	970.7	1015.1	1003.6	1009.8	1027.4	1038.4	1045.7	↑ 2.8% (a)	↑ 4.2%
Prime bank loan rate	4.7	4.1	4.3	6.2	8.0	8.3	8.3	8.3	8.3	8.0	↓ 0.3	↓ 0.3
Rates for smallest loans (less than \$100,000):												
Variable rate loans, repricing terms of 2-30 days	5.1	4.4	4.4	6.0	7.7	8.0	7.9	7.8	8.0	7.8	↓ 0.2	↓ 0.2
Variable rate loans, repricing terms of 31-365 days	6.6	6.4	6.2	7.1	8.4	8.7	8.6	8.8	8.7	8.6	↓ 0.1	↓ 0.1
Senior loan officers (percent of respondents):												
Net small firm C&I lending standards (those whose standards were eased minus those tightened)	-20.0	-7.1	13.1	9.0	4.6	4.8	1.8	0	-1.9	-7.7	↓ 5.8	↓ 12.5
Net small firm demand for C&I loans (those whose demand was stronger minus those weaker)	-40.0	-14.7	25.9	27.3	0.2	5.0	-13.0	-5.3	-19.2	-11.8	↑ 7.4	↓ 16.8
Venture investment: number of deals	3092	2920	3073	3131	3608	897	912	850	1000	887	↓ 113	↓ 10
Venture investment: total invested (\$billion)	21.9	19.7	22.4	23.0	26.4	6.8	6.3	7.5	7.2	7.1	↓ 0.1	↑ 0.3

Notes: a=annualized growth rate. The third quarter figure is for July and measures from April. C&I = commercial and industrial loans. Trends may reflect rounding error.

Sources: Administrative Office of the U.S. Courts; Board of Governors of the Federal Reserve System; National Venture Capital Association; U.S. Department of Commerce, Bureau of Economic Analysis.

	Last five years					Last five months (2007)					Trends	
	2002	2003	2004	2005	2006	May	June	July	Aug	Sept	This Quarter	Sept 06 to Sept 07
NFIB Small Business Optimism Index (1986 = 100)	101.2	101.3	104.6	101.6	98.9	97.2	96.0	97.6	96.3	97.3	↑ 1.3	↓ 2.1
NFIB: next 3 months "good time to expand" (percent of respondents)	14.3	15.7	22.3	20.6	17.4	12.0	13.0	16.0	12.0	14.0	↑ 1.0	↓ 4.0
NFIB: net percent planning to hire in the next 3 months	10.8	10.2	15.3	14.4	14.6	13.0	12.0	13.0	15.0	14.0	↑ 2.0	↓ 3.0
Self-employed, incorporated (millions)	4.6	5.0	5.2	5.3	5.5	5.7	5.7	5.6	5.8	5.7	0	↑ 0.3
Self-employed, unincorporated (millions)	9.9	10.3	10.4	10.5	10.6	10.6	10.8	10.7	10.6	10.5	↓ 0.3	↓ 0.2

Sources: National Federation of Independent Business; Current Population Survey, U.S. Bureau of Labor Statistics.

For previous quarterly indicators, visit www.sba.gov/advo/research/sbei.html. Note that historical data are revised periodically, and this version reflects such changes.

Employment by Major Sector (millions)

	Percent small business	Last five years					Last five months (2007)					Trends	
		2002	2003	2004	2005	2006	May	June	July	Aug	Sept	This Quarter	Sept 06 to Sept 07
Goods-producing industries	57.61	22.55	21.81	21.88	22.19	22.58	22.45	22.44	22.42	22.35	22.32	↓ 0.12	↓ 0.31
Natural resources and mining	51.24	0.58	0.57	0.59	0.63	0.68	0.72	0.72	0.73	0.73	0.73	↑ 0.01	↑ 0.03
Construction	86.43	6.71	6.73	6.98	7.34	7.69	7.66	7.67	7.65	7.62	7.61	↓ 0.06	↓ 0.12
Manufacturing	44.00	15.26	14.51	14.32	14.23	14.20	14.07	14.05	14.05	14.00	13.98	↓ 0.07	↓ 0.22
Service-producing industries	49.36	107.79	108.18	109.54	111.50	113.60	115.46	115.54	115.65	115.81	115.94	↑ 0.40	↑ 1.93
Trade, transportation and utilities	45.35	25.50	25.29	25.53	25.96	26.23	26.46	26.47	26.49	26.49	26.51	↑ 0.04	↑ 0.26
Wholesale trade	61.58	5.65	5.61	5.66	5.76	5.90	5.99	6.01	6.02	6.02	6.03	↑ 0.02	↑ 0.11
Retail trade	42.16	15.02	14.92	15.06	15.28	15.32	15.39	15.38	15.39	15.39	15.37	↓ 0.01	↑ 0.08
Information	26.17	3.39	3.19	3.12	3.06	3.05	3.10	3.09	3.09	3.09	3.10	0	↑ 0.04
Financial activities	41.43	7.85	7.98	8.03	8.15	8.36	8.46	8.46	8.48	8.46	8.45	↓ 0.01	↑ 0.40
Professional and business services	44.95	15.98	15.99	16.39	16.95	17.56	17.89	17.89	17.91	17.94	17.97	↑ 0.08	↑ 0.33
Education and health services	48.08	16.20	16.59	16.95	17.37	17.84	18.29	18.36	18.42	18.48	18.51	↑ 0.15	↑ 0.57
Leisure and hospitality	62.09	11.99	12.17	12.49	12.81	13.14	13.54	13.55	13.57	13.59	13.64	↑ 0.09	↑ 0.43
Other services	86.27	5.37	5.40	5.41	5.39	5.43	5.48	5.48	5.48	5.48	5.47	↓ 0.01	↑ 0.03
Government	0	21.51	21.58	21.62	21.81	21.99	22.24	22.23	22.21	22.27	22.30	↑ 0.06	↑ 0.22

Notes: Seasonally adjusted. See www.bls.gov/ces/cessuper.htm for NAICS code equivalents for each sector. The small business percentage by sector is based on 2004 firm size data. See www.sba.gov/advo/research/us04_n6.pdf. Trends may reflect rounding error.

Sources: U.S. Small Business Administration, Office of Advocacy, using data from the U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics.

Macroeconomic Indicators

	Last five years					Last five quarters					Trends (percent)	
	2002	2003	2004	2005	2006	Q3-06	Q4-06	Q1-07	Q2-07	Q3-07	This Quarter	Q3-06 – Q3-07
Real gross domestic product												
Level (\$billion)	10048.9	10301.1	10675.7	11003.5	11319.4	11336.7	11395.5	11412.6	11520.1	11630.7		
Annual percentage change*	1.6	2.5	3.6	3.1	2.9	1.1	2.1	0.6	3.8	3.9	↑ 3.9% (a)	↑ 2.6%
Real personal consumption expenditures (\$billion)*	7099.3	7295.4	7561.4	7803.6	8044.1	8063.8	8141.2	8215.7	8244.3	8305.3	↑ 3.0% (a)	↑ 3.0%
Real gross private fixed investment (\$billion)*	1557.2	1613.1	1770.2	1869.3	1919.6	1928.2	1856.2	1816.9	1837.4	1841.3	↑ 0.9% (a)	↓ 4.5%
Federal government surplus or deficit (\$billion)	-270.9	-372.2	-370.6	-318.3	-220.1	-239.2	-181.5	-218.5	-192.6	--	--	--
Real exports of goods and services (\$billion)*	1013.3	1026.1	1126.1	1203.4	1304.1	1306.6	1350.9	1354.7	1379.5	1432.2	↑ 16.2% (a)	↑ 9.6%
Real imports of goods and services (\$billion)*	1484.6	1545.0	1720.0	1821.5	1928.6	1940.4	1948.2	1966.8	1953.4	1978.4	↑ 5.2% (a)	↑ 2.0%
Corporate profits after tax (\$billion)	693.7	749.9	923.9	979.9	1099.8	1122.1	1178.8	1095.2	1152.2	--	--	--
Nonfarm business sector output per hour for all persons (1992=100)	123.5	128.0	131.6	134.1	135.4	135.0	135.6	135.9	136.6	138.2	↑ 4.9% (a)	↑ 2.4%
Employment cost index: private sector wages & salaries (2005=100)	91.6	94.2	96.8	99.2	102.0	102.4	103.2	104.3	105.1	105.9	↑ 3.1% (a)	↑ 3.4%
Employment cost index: private sector benefits (2005=100)	83.7	88.8	94.8	99.2	102.1	102.5	103.4	103.1	104.2	105.0	↑ 3.1% (a)	↑ 2.4%

Notes: Seasonally adjusted; *Chained 2000 dollars; a=annualized growth rate. Real GDP and its components are preliminary data. Trends may reflect rounding error.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics.

	Last five years					Last five months (2007)					Trends	
	2002	2003	2004	2005	2006	May	June	July	Aug	Sept	This Quarter	Sept 06 to Sept 07
Unemployment rate (seasonally adjusted)	5.8	6.0	5.5	5.1	4.6	4.5	4.5	4.6	4.6	4.7	↑ 0.2	↑ 0.1
Civilian employment—16 years and older (millions, seasonally adjusted)	136.5	137.7	139.2	141.7	144.4	145.9	146.1	146.1	145.8	146.3	↑ 0.1	↑ 1.4
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	2.9	3.4	3.1	2.6	2.3	2.2	2.3	2.4	2.4	2.4	↑ 0.1	↑ 0.1
Nonfarm payrolls (millions, seasonally adjusted)	130.4	130.0	131.4	133.7	136.2	137.9	138.0	138.1	138.2	138.3	↑ 0.3	↑ 1.6
Producer price index (1982=100)	131.1	138.1	146.7	157.4	164.8	173.4	173.7	174.9	172.4	173.5	↓ 0.5% (a)	↑ 4.9%
Consumer price index (all urban consumers and all items; seasonally adjusted, 1982-84=100)	179.9	184.0	188.9	195.3	201.6	207.4	207.8	208.0	207.7	208.3	↑ 1.0% (a)	↑ 2.8%
Univ. of Michigan Consumers' Sentiment (1966=100)	89.6	87.6	95.2	88.6	87.3	88.3	85.3	90.4	83.4	83.4	↓ 1.9	↓ 2.0
Spot oil price per barrel: West Texas intermediate crude	26.10	31.14	41.44	56.47	66.10	63.46	67.48	74.18	72.39	79.93	↑ 12.45	↑ 16.06
New privately owned housing units started (millions, seasonally adjusted at the annual rate)	1.7	1.9	1.9	2.1	1.8	1.4	1.5	1.4	1.3	1.2	↓ 56.7% (a)	↓ 30.8%
ISM purchasing managers index—manufacturing composite (seasonally adjusted)	52.4	53.3	60.5	55.5	53.9	55.0	56.0	53.8	52.9	52.0	↓ 25.7% (a)	↓ 1.3%
Industrial production (2002=100, seasonally adjusted)	100.0	101.1	103.6	106.9	111.2	113.0	113.5	114.2	114.3	114.4	↑ 3.0% (a)	↑ 1.9%
3-month Treasury bills (secondary market rate)	1.60	1.01	1.37	3.15	4.73	4.73	4.61	4.82	4.20	3.89	↓ 0.72	↓ 0.92
10-year Treasury note (constant maturity rate)	4.61	4.02	4.27	4.29	4.79	4.75	5.10	5.00	4.67	4.52	↓ 0.58	↓ 0.20

Notes: a = annualized growth rate. Trends may reflect rounding error.

Sources: Board of Governors of the Federal Reserve System; Dow Jones Energy Service; U.S. Department of Commerce, Bureau of the Census; Institute for Supply Management; U.S. Department of Labor, Bureau of Labor Statistics; University of Michigan, Survey of Consumers.