

SECOND QUARTER 2008: THE ECONOMY AND SMALL BUSINESS

Trends

- The U.S. economy grew an annualized 1.9 percent in the second quarter of 2008, which was stronger than both of the previous two quarters. (The fourth quarter of 2007 was revised to reflect a decline in real GDP.) Two factors led to the increase in output in the second quarter – higher consumption (up an annualized 1.5 percent), perhaps assisted by economic stimulus checks, and a dramatic increase in real exports (up an annualized 9.2 percent). Meanwhile, residential investment continues to be a drag on economic growth, which was reflected in a 14.8 percent annualized decline in real gross private investment in the quarter. The industrial picture was mixed, with industrial production down and the Institute for Supply Management’s (ISM’s) manufacturers’ purchasing index up. Most significantly, though, the ISM index is now above 50, which is a possible sign of recovery in that sector.
- Americans remain pessimistic on the economy, as reflected by both the National Federation of Independent Business’s optimism index and the University of Michigan’s consumer sentiment survey. The NFIB survey shows a lack of desire by small business owners to hire or invest in their firm. These owners now state that inflation is their top concern, followed by taxes and poor sales.
- The unemployment rate in June rose to 5.5 percent, its highest point since July 2004. Moreover, the U.S. economy has lost jobs each month so far in 2008, with 412,000 fewer nonfarm payroll jobs in June 2008 than December 2007. The largest losses have come from the construction and manufacturing sectors, which combined, lost 254,000 net jobs in the second quarter. Bright spots for the quarter include education and health services (+166,000), government (+119,000), natural resources and mining (+17,000), and leisure and hospitality (+10,000). Unincorporated self-employment rose 0.6 percent from March to June 2007; it had fallen earlier in the year.
- The Federal Reserve Board of Governors cut its target interest rate in April by 25 basis points. The prime rate is 5 percent, down from 8.25 percent in September 2007. Both short-term and long-term government securities, however, ended the quarter up by about 0.60 percent. The Senior Loan Officers’ Survey suggests a slight improvement in small business lending demand; however, one could still characterize loan demand as weak. Venture capital deals were roughly equivalent to last year.
- Government statistics show higher overall prices. The producer price index was up nearly an annualized 30 percent for the quarter, reflecting higher costs for raw materials and intermediate goods. These costs, however, have not yet been passed along to the consumer, which suggests that large and small businesses saw their profits squeezed. The consumer price index rose 7.9 percent on an annualized basis over that time, but when energy and food prices were excluded, the “core” inflation rate was up an annualized 2.5 percent. West Texas intermediate crude oil averaged \$133.93 per barrel in June, and American consumers have become accustomed to paying \$4.00 or more per gallon for gasoline. Wages and salaries rose an annualized 3 percent for the second quarter, outstripping the 1.9 percent rise in benefits. Labor productivity remains strong, with nonfarm business output up an annualized 2.2 percent for the quarter.

Small Business Indicators

	Last five years					Last five quarters					Trends	
	2003	2004	2005	2006	2007	Q2-07	Q3-07	Q4-07	Q1-08	Q2-08	This Quarter	Q2-07 to Q2-08
Business bankruptcy filings (thousands)	35.0	34.3	39.2	19.7	28.3	6.7	7.2	8.0	8.7	--	--	--
Proprietors’ income (\$billion, current dollars)	811.3	911.1	970.7	1015.1	1042.6	1050.2	1063.8	1073.8	1071.7	1077.3	↑ 2.1% (a)	↑ 2.6%
Prime bank loan rate	4.1	4.3	6.2	8.0	8.1	8.3	8.2	7.5	6.2	5.1	↓ 1.1	↓ 3.2
Rates for smallest loans (less than \$100,000):												
Variable rate loans, repricing terms of 2-30 days	4.4	4.4	6.0	7.7	7.7	8.0	7.8	7.2	5.6	4.9	↓ 0.7	↓ 3.1
Variable rate loans, repricing terms of 31-365 days	6.4	6.2	7.1	8.4	8.6	8.7	8.6	8.1	7.4	6.9	↓ 0.5	↓ 1.8
Senior loan officers (percent of respondents):												
Net small firm C&I lending standards (those whose standards were eased minus those tightened)	-7.1	13.1	9.0	4.6	-4.3	-1.9	-7.7	-9.6	-30.4	-51.8	↓ 21.4	↓ 49.9
Net small firm demand for C&I loans (those whose demand was stronger minus those weaker)	-14.7	25.9	27.3	0.2	-11.0	-19.2	-11.8	-7.7	-23.6	-16.1	↑ 7.5	↑ 3.1
Venture investment: number of deals	2934	3084	3151	3653	3918	1033	978	1047	977	990	↑ 13	↓ 43
Venture investment: total invested (\$billion)	19.8	22.4	23.1	26.6	30.7	7.4	7.8	8.1	7.5	7.4	↓ 0.1	0

Notes: a=annualized growth rate. The second quarter figure is for April 2008. 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 (2008)					Trends	
	2003	2004	2005	2006	2007	Feb	Mar	Apr	May	June	This Quarter	June 07 to June 08
NFIB Small Business Optimism Index (1986 = 100)	101.3	104.6	101.6	98.9	96.7	92.9	89.6	91.5	89.3	89.2	↓ 0.4	↓ 6.8
NFIB: next 3 months “good time to expand” (percent of respondents)	15.7	22.3	20.6	17.4	13.9	8.0	5.0	6.0	4.0	4.0	↓ 1.0	↓ 9.0
NFIB: net percent planning to hire in the next 3 months	10.2	15.3	14.4	14.6	12.9	11.0	3.0	5.0	2.0	5.0	↑ 2.0	↓ 7.0
Self-employed, incorporated (millions)	5.0	5.2	5.3	5.5	5.8	5.8	5.8	5.7	5.8	5.7	↓ 0.1	0
Self-employed, unincorporated (millions)	10.3	10.4	10.5	10.6	10.4	10.1	9.9	10.2	10.3	10.5	↑ 0.6	↓ 0.3

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 (2008)					Trends	
		2003	2004	2005	2006	2007	Feb	Mar	Apr	May	June	This Quarter	June 07 to June 08
Goods-producing industries	57.88	21.81	21.88	22.19	22.53	22.22	21.82	21.74	21.63	21.58	21.50	↓0.24	↓0.77
Natural resources and mining	61.93	0.57	0.59	0.63	0.68	0.72	0.74	0.75	0.75	0.76	0.77	↑0.02	↑0.05
Construction	86.14	6.74	6.97	7.33	7.69	7.62	7.38	7.34	7.28	7.25	7.20	↓0.15	↓0.46
Manufacturing	44.18	14.51	14.32	14.23	14.16	13.88	13.69	13.64	13.59	13.57	13.54	↓0.11	↓0.35
Service-producing industries	48.72	108.18	109.54	111.51	113.56	115.40	116.10	116.09	116.14	116.14	116.17	↑0.07	↑0.81
Trade, transportation and utilities	45.27	25.29	25.53	25.96	26.28	26.60	26.58	26.55	26.50	26.45	26.44	↓0.12	↓0.16
Wholesale trade	60.94	5.61	5.66	5.76	5.90	6.03	6.06	6.05	6.04	6.04	6.04	↓0.02	↑0.01
Retail trade	41.12	14.92	15.06	15.28	15.36	15.49	15.43	15.40	15.36	15.33	15.33	↓0.08	↓0.16
Information	26.16	3.19	3.12	3.06	3.04	3.03	3.02	3.01	3.01	3.00	3.00	↓0.02	↓0.04
Financial activities	41.88	7.98	8.03	8.15	8.33	8.31	8.23	8.23	8.23	8.23	8.21	↓0.02	↓0.10
Professional and business services	43.88	15.99	16.39	16.95	17.57	17.97	18.07	18.01	18.03	17.98	17.94	↓0.07	↑0.01
Education and health services	47.84	16.59	16.95	17.37	17.83	18.33	18.67	18.71	18.76	18.82	18.88	↑0.17	↑0.56
Leisure and hospitality	60.89	12.17	12.49	12.81	13.11	13.47	13.66	13.68	13.69	13.68	13.69	↑0.01	↑0.23
Other services	85.57	5.40	5.41	5.39	5.44	5.49	5.52	5.52	5.53	5.53	5.52	0	↑0.03
Government	0	21.58	21.62	21.81	21.97	22.20	22.36	22.38	22.40	22.45	22.50	↑0.12	↑0.29

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 2005 firm size data. See www.sba.gov/advo/research/us05_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)	
	2003	2004	2005	2006	2007	Q2-07	Q3-07	Q4-07	Q1-08	Q2-08	This Quarter	Q2-07 - Q2-08
Real gross domestic product												
Level (\$billion)	10301.1	10675.7	10989.5	11294.9	11523.9	11491.4	11625.7	11620.7	11646.0	11700.6	↑1.9% (a)	↑1.8%
Annual percentage change*	2.5	3.6	2.9	2.8	2.0	4.8	4.8	-0.2	0.9	1.9		
Real personal consumption expenditures (\$billion)*	7295.4	7561.4	7791.7	8028.9	8252.8	8237.3	8278.5	8298.2	8316.1	8347.5	↑1.5% (a)	↑1.3%
Real gross private fixed investment (\$billion)*	1557.2	1613.1	1770.2	1869.3	1825.5	1822.9	1838.7	1781.3	1754.7	1686.0	↓14.8% (a)	↓7.5%
Federal government surplus or deficit (\$billion)	-372.2	-370.6	-291.7	-201.1	-229.3	-211.4	-244.3	-236.4	-325.3	--	--	--
Real exports of goods and services (\$billion)*	1026.1	1126.1	1205.3	1314.9	1425.9	1392.2	1466.2	1482.1	1500.6	1534.1	↑9.2% (a)	↑10.2%
Real imports of goods and services (\$billion)*	1545.0	1720.0	1821.9	1930.5	1972.4	1963.4	1978.0	1966.5	1962.6	1929.2	↓6.6% (a)	↓1.7%
Corporate profits after tax (\$billion)	749.9	923.9	1034.3	1199.6	1192.1	1204.0	1217.3	1177.6	1190.6	--	--	--
Nonfarm business sector output per hour for all persons (1992=100)	128.0	131.6	134.1	135.4	137.9	136.4	138.3	138.6	139.5	140.3	↑2.2% (a)	↑2.8%
Employment cost index: private sector wages & salaries (2005=100)	94.2	96.8	99.2	102.0	105.5	105.1	105.9	106.7	107.6	108.4	↑3.0% (a)	↑3.1%
Employment cost index: private sector benefits (2005=100)	88.8	94.8	99.2	102.1	104.5	104.2	105.0	105.8	106.4	106.9	↑1.9% (a)	↑2.6%

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 (2008)					Trends	
	2003	2004	2005	2006	2007	Feb	Mar	Apr	May	June	This Quarter	June 07 to June 08
Unemployment rate (seasonally adjusted)	6.0	5.5	5.1	4.6	4.6	4.8	5.1	5.0	5.5	5.5	↑0.4	↑0.9
Civilian employment—16 years and older (millions, seasonally adjusted)	137.7	139.2	141.7	144.4	146.0	146.0	146.0	146.3	146.0	145.9	0	↓0.2
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	3.4	3.1	2.6	2.3	2.3	2.4	2.4	2.6	2.8	2.9	↑0.5	↑0.6
Nonfarm payrolls (millions, seasonally adjusted)	130.0	131.4	133.7	136.2	137.6	137.9	137.8	137.8	137.7	137.7	↓0.2	0
Producer price index (1982=100)	138.1	146.7	157.4	164.8	172.7	182.7	188.1	190.7	196.5	200.7	↑29.6% (a)	↑15.5%
Consumer price index (all urban consumers and all items; seasonally adjusted, 1982-84=100)	184.0	188.9	195.3	201.6	207.4	212.6	213.3	213.7	215.1	217.4	↑7.9% (a)	↑4.9%
Consumer price index (all urban consumer; all items less food & energy; seasonally adj., 1982-84=100)	193.2	196.6	200.9	205.9	210.7	213.9	214.2	214.4	214.8	215.5	↑2.5% (a)	↑2.4%
Univ. of Mich. Consumer Sentiment (1966=100)	87.6	95.2	88.6	87.3	85.6	70.8	69.5	62.6	59.8	56.4	↓13.1	↓28.9
Spot oil price/barrel: West Texas intermediate crude	31.14	41.44	56.47	66.10	72.36	95.35	105.56	112.57	125.39	133.93	↑\$28.37	↑\$66.45
New privately owned housing units started (millions, seasonally adjusted at the annual rate)	1.9	1.9	2.1	1.8	1.3	1.1	1.0	1.0	1.0	1.1	↑0.1	↓0.4
ISM purchasing managers index—manufacturing composite (seasonally adjusted)	51.7	59.1	54.4	53.1	51.1	48.3	48.6	48.6	49.6	50.2	↑13.8% (a)	↓6.0%
Industrial production (2002=100, seasonally adj.)	101.2	103.8	107.2	109.6	111.4	112.2	112.2	111.4	111.2	111.7	↓1.7% (a)	↑0.3%
3-month Treasury bills (secondary market rate)	1.01	1.37	3.15	4.73	4.35	2.12	1.26	1.29	1.73	1.86	↑0.60	↓2.75
10-year Treasury note (constant maturity rate)	4.02	4.27	4.29	4.79	4.63	3.74	3.51	3.68	3.88	4.10	↑0.59	↓1.00

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.