

The Small Business Economy 2006

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Purpose and Scope

In this fifth edition of *The Small Business Economy*, the Office of Advocacy reviews the economic environment for small businesses in the year 2005, including the financial and federal procurement marketplaces in chapters 1-3. New research on women in business, education and entrepreneurship, and the approach to local and state economic development known as “economic gardening” are featured in chapters 4-6. Advocacy’s annual report on implementation of the Regulatory Flexibility Act (RFA) and the results of Advocacy’s initiative to carry regulatory flexibility successes to the state level are summarized in chapter 7. Appendices provide data on small businesses, as well as the key RFA law and executive order.

Highlights

The Small Business Economy

Signs of economic progress continued in 2005. Three economic indicators key to an analysis of the economy’s performance—output, productivity, and unemployment—were up. Business starts totaled 671,800, above closures at 544,800, contributing to a new high in employer firms of 5.99 million. Nonemployer firms reached 19.86 million.

Small Business Financing in 2005

Favorable financial conditions supported U.S. economic growth in 2005 despite hurricanes and energy price increases. Real gross domestic product grew at a rate of 3.1 percent. Net borrowing increased by 19 percent, a pace comparable to that in 2003-2004. Commercial banks expanded lending and eased terms on commercial and industrial loans.

Federal Procurement from Small Firms

Small businesses continued to benefit from the federal acquisition of goods and services from small firms in 2005, and also from changes that helped clarify the federal procurement environment. Small firms were awarded \$79.6 billion in contracts, according to data from the Federal Procurement Data System-Next Generation.

Women in Business

Research on women-owned businesses finds that between 1997 and 2002, the number of women-owned firms increased by 19.8 percent, and the number of women-owned employer firms, by 8.3 percent. Women owned 6.5 million, or 28.2 percent of nonfarm U.S. firms.

Education and Entrepreneurship: What is Known and Not Known about the Links between Education and Entrepreneurial Activity

Research on the impact of general education on entrepreneurship suggests positive, but not linear links. The highest levels of entrepreneurship are found in individuals with at least a bachelor’s degree. Research also suggests a link between entrepreneurship education and venture creation.

Economic Gardening: Next Generation Applications for a Balanced Portfolio Approach to Economic Growth

“Economic gardening” is an entrepreneur-centered growth strategy pioneered in the city of Littleton, Colorado. Its best practices emphasize 1) infrastructure—building the community assets essential to commerce and overall quality of life; 2) connectivity—improving the interaction among business owners and critical resource providers; and 3) market

information—accessing competitive intelligence on markets, customers, and competitors comparable to that historically available to larger firms.

An Overview of the Regulatory Flexibility Act and Related Policy

In the 25th year of the Regulatory Flexibility Act (RFA), the Small Business Administration, Office of Advocacy's report shows RFA implementation by federal agencies is improving. More agencies are approaching the Office of Advocacy requesting training or seeking advice early in the rulemaking process. First-year cost savings achieved for small firms through the RFA process totaled \$6.6 billion in FY 2005. Also in 2005, 18 states introduced regulatory flexibility and 7 states enacted regulatory flexibility legislation or an executive order.

This report was peer reviewed consistent with the Office of Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at advocacy@sba.gov or (202) 205-6533.

Ordering Information

The full text of this report and summaries of other studies performed under contract with the U.S. Small Business Administration's Office of Advocacy are available on the Internet at www.sba.gov/advo/research.

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