

FOURTH QUARTER 2005: THE ECONOMY AND SMALL BUSINESS

Trends

- U.S. economic growth slowed in the fourth quarter of 2005. Growth of real gross domestic product (GDP) slowed to an annualized rate of 1.1 percent during the quarter. For the year, real GDP grew 3.5 percent. This drop-off mirrored a reduction in real personal consumption expenditures, which grew an annualized 1.1 percent during the fourth quarter, down from 4.1 percent in the third quarter. Net exports also were a factor. While real exports increased an annualized 2.2 percent, real imports rose 9.1 percent. On the positive side, real gross private fixed investment rose an annualized 12.2 percent in the quarter.
- Small business owners, according to the monthly National Federation of Independent Business Optimism Index, ended the year at 101.4. For the year, the index was off from the near-record scores of 2004, but for most of 2005 the optimism readings stayed above 100 (averaging 101.6), indicating a growing small business sector. The NFIB surveys also showed a willingness to expand and hire in the next three months. The University of Michigan's Consumer Sentiment Survey indicated a steady rise in optimism during the fourth quarter; this had fallen to low levels after Hurricanes Katrina and Rita.
- The unemployment rate at year's end was 4.9 percent. There were 2 million nonfarm payroll jobs added in 2005, with 438,000 of those stemming from the fourth quarter. Industries with the largest percentage of small business employment—construction, other services, wholesale trade, and leisure and hospitality—added 142,200 net new jobs during the quarter. Each industry sector except for retail trade saw employment gains in the fourth quarter. There was a slight up-tick in incorporated self-employment.
- Interest rates have continued to rise, with the average prime rate for 2005 nearly two percentage points higher than the 2004 average. Higher rates have not affected the demand for loans to small businesses; this remained strong according to the most recent Senior Loan Officers' Survey. Meanwhile, the number of deals and amount of investment in venture capital remained steady and were quite similar to the 2004 levels.
- Overall inflation remained under control, helped by lower energy costs in the fourth quarter. The price of West Texas crude ended the year below \$60 a barrel. In the labor market, private sector wages and salaries rose 2.5 percent from the fourth quarter of 2004 to the fourth quarter of 2005, whereas private sector benefits jumped 4.1 percent.

Small Business Indicators

	Last five years					Last five quarters				
	2001	2002	2003	2004	2005	Q4-04	Q1-05	Q2-05	Q3-05	Q4-05
Business bankruptcy filings (thousands)	40.1	38.5	35.0	34.3	--	7.8	8.1	8.7	9.5	--
Proprietors' income (billions of current dollars)	771.9	768.4	810.2	889.7	937.8	900.9	917.9	936.6	932.4	964.2
Prime bank loan rate	6.9	4.7	4.1	4.3	6.2	4.9	5.4	5.9	6.4	7.0
Rates for smallest loans (less than \$100,000):										
Variable rate loans, repricing terms of 2-30 days	7.4	5.1	4.4	4.4	6.0	4.5	5.3	5.7	6.1	6.7
Variable rate loans, repricing terms of 31-365 days	8.7	6.6	6.4	6.2	7.1	6.5	6.6	7.1	7.1	7.7
Senior loan officers (percent of respondents):										
Net small firm C&I lending standards (those whose standards were eased minus those tightened)	-39.4	-20.0	-7.1	13.1	9.0	18.2	9.1	22.7	0	4.2
Net small firm demand for C&I loans (those whose demand was stronger minus those weaker)	-36.6	-40.0	-14.7	25.9	27.3	25.5	13.7	45.5	33.4	16.7
Venture investment: number of deals	4456	3057	2865	2966	2939	798	704	784	742	709
Venture investment: total invested (billions of dollars)	40.7	21.7	19.6	21.6	21.7	5.7	5.0	6.2	5.4	5.1

Note: The fourth quarter figure for the Senior Loan Officers Survey is for October, which measures from July. C&I loans refers to commercial and industrial loans. 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 (2005)				
	2001	2002	2003	2004	2005	Aug	Sept	Oct	Nov	Dec
NFIB Small Business Optimism Index (1986 = 100)	98.4	101.2	101.3	104.6	101.6	100.9	100.0	103.7	101.2	101.4
NFIB: next 3 months "good time to expand" (percent of respondents)	12.3	14.3	15.7	22.3	20.6	21	19	22	20	21
NFIB: net percent planning to hire in the next 3 months	11.6	10.8	10.2	15.3	14.4	17	17	17	13	15
Self-employed, incorporated (millions)	4.5	4.6	5.0	5.2	5.3	5.2	5.1	5.2	5.3	5.4
Self-employed, unincorporated (millions)	10.1	9.9	10.3	10.4	10.5	10.2	10.3	10.3	10.2	10.3

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

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

Employment by Major Sector (millions)

	Percent small business	Last five years					Last five months (2005)				
		2001	2002	2003	2004	2005	Aug	Sept	Oct	Nov	Dec
Goods-producing industries	56.35	23.87	22.55	21.81	21.88	22.14	22.16	22.16	22.20	22.25	22.26
Natural resources and mining	50.71	0.61	0.58	0.57	0.59	0.63	0.63	0.64	0.64	0.64	0.65
Construction	85.99	6.83	6.71	6.73	6.96	7.23	7.27	7.28	7.30	7.34	7.33
Manufacturing	43.18	16.44	15.26	14.51	14.33	14.28	14.26	14.24	14.26	14.27	14.28
Service-producing industries	49.52	107.96	107.79	108.19	109.59	111.48	111.85	111.87	111.86	112.11	112.21
Trade, transportation and utilities	45.98	25.99	25.50	25.29	25.51	25.83	25.91	25.87	25.87	25.91	25.88
Wholesale trade	62.08	5.77	5.65	5.61	5.65	5.72	5.73	5.74	5.74	5.75	5.75
Retail trade	43.08	15.24	15.02	14.92	15.04	15.17	15.23	15.18	15.18	15.19	15.17
Information	25.60	3.63	3.39	3.19	3.14	3.14	3.15	3.15	3.14	3.14	3.15
Financial activities	40.91	7.81	7.85	7.98	8.05	8.23	8.25	8.27	8.29	8.30	8.32
Professional and business services	44.63	16.48	15.98	15.99	16.41	16.93	16.98	17.04	17.05	17.13	17.16
Education and health services	48.03	15.65	16.20	16.59	16.95	17.34	17.42	17.46	17.44	17.48	17.51
Leisure and hospitality	61.81	12.03	11.99	12.18	12.48	12.74	12.83	12.76	12.76	12.81	12.83
Other services	86.38	5.26	5.37	5.40	5.43	5.47	5.47	5.47	5.46	5.47	5.48
Government	0	21.12	21.51	21.58	21.62	21.80	21.85	21.86	21.85	21.87	21.89

Notes: Seasonally adjusted. See <http://www.bls.gov/ces/cessuper.htm> for NAICS code equivalents for each sector. The small business percentage by sector is based on 2003 firm size data. See http://www.sba.gov/advo/research/us_03_n6.pdf. Due to data suppression, the number of small utility firms is estimated using 2002 data. 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				
	2001	2002	2003	2004	2005	Q4-04	Q1-05	Q2-05	Q3-05	Q4-05
Annual change, real gross domestic product (percent)	0.8	1.6	2.7	4.2	3.5	3.3	3.8	3.3	4.1	1.1
Real personal consumption expenditures (billions)*	6910.4	7099.3	7306.5	7588.6	7858.1	7698.8	7764.9	7829.5	7907.9	7930.2
Real gross private fixed investment (billions)*	1629.4	1548.9	1627.4	1794.4	1915.6	1863.9	1902.9	1885.0	1909.4	1965.1
Federal government surplus or deficit (billions)	46.7	-247.9	-382.8	-406.5	--	-371.6	-298.3	-297.3	-415.2	--
Real exports of goods and services (billions)*	1036.7	1013.3	1031.2	1117.9	1193.3	1144.5	1165.3	1195.4	1202.7	1209.8
Real imports of goods and services (billions)*	1435.8	1484.6	1552.6	1719.2	1825.2	1778.6	1810.7	1809.6	1820.2	1860.1
Corporate profits after tax (billions)	563.2	693.7	799.7	890.3	--	926.4	925.6	975.0	932.8	--
Nonfarm business sector output per hour for all persons (1992 = 100)	118.5	123.3	128.0	132.3	135.9	133.5	134.5	135.3	136.8	136.6
Employment Cost Index: private sector wages and salaries (1989 = 100)	151.4	156.4	160.9	165.0	168.9	166.4	167.4	168.4	169.4	170.5
Employment Cost Index: private sector benefits (1989 = 100)	163.7	171.7	182.5	195.4	205.0	199.9	202.0	203.6	206.2	208.1

*Chained 2000 dollars.

Note: Seasonally adjusted.

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 (2005)				
	2001	2002	2003	2004	2005	Aug	Sept	Oct	Nov	Dec
Unemployment rate (seasonally adjusted)	4.8	5.8	6.0	5.5	5.1	4.9	5.1	4.9	5.0	4.9
Civilian employment—16 years and older (millions, seasonally adjusted)	136.9	136.5	137.7	139.2	141.7	142.4	142.4	142.6	142.6	142.8
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	1.8	2.9	3.4	3.1	2.6	2.7	2.6	2.5	2.5	2.4
Nonfarm payrolls (millions, seasonally adjusted)	131.8	130.3	129.9	131.3	133.6	134.0	134.0	134.1	134.4	134.5
Producer Price Index (1982 = 100)	134.2	131.1	138.1	146.7	157.4	157.6	161.9	166.0	163.6	163.0
Consumer Price Index (seasonally adjusted, 1982 = 100)	177.0	179.9	184.0	188.9	195.3	196.1	198.5	198.9	197.8	197.7
Consumer Sentiment Survey (1966 = 100)	89.2	89.6	87.6	95.2	88.6	89.1	76.9	74.2	81.6	91.5
Spot oil price per barrel: West Texas intermediate crude	25.92	26.10	31.14	41.44	56.47	64.97	65.57	62.37	58.3	59.43
ISM Purchasing Managers Index—manufacturing composite (seasonally adjusted)	43.9	52.4	53.3	60.5	55.5	53.5	58.0	58.1	57.3	55.6
Industrial production (2002 = 100, seasonally adjusted)	99.9	100.0	100.6	104.7	108.0	108.6	107.2	108.2	109.1	109.8
M2 money stock (billions, seasonally adjusted)	5219.7	5615.3	6004.9	6277.9	6544.2	6568.9	6600.0	6629.6	6652.0	6680.5
3-month Treasury bills (secondary market rate)	3.39	1.60	1.01	1.37	3.15	3.44	3.42	3.71	3.88	3.89
10-year Treasury note (constant maturity rate)	5.02	4.61	4.02	4.27	4.29	4.26	4.20	4.46	4.54	4.47

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

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