

## FIRST QUARTER 2007: THE ECONOMY AND SMALL BUSINESS

### Trends

- Overall economic growth slowed in the first quarter of 2007. Real gross domestic product grew at an annualized rate of 1.3 percent, down from 2.5 percent in the fourth quarter of 2006. Industrial production also grew slowly. Weakness in the housing sector is the primary reason for the slower growth. Housing starts averaged 2.1 million in 2005 but fell to an annualized 1.5 million in March 2007. Real gross private fixed investment fell by an annualized 6.5 percent in the first quarter. Most of the decline is attributable to housing. Excluding residential investment, investment grew by an annualized 2 percent. Real personal consumption expenditures increased by an annualized 3.8 percent.
- Consumer and small business confidence remain at their 2006 averages, which is less optimistic than the past few years. The National Federation of Independent Business survey shows this pessimism affecting some small business owners' view of the next three months; fewer of them are planning to expand their businesses or hire new workers. With that said, these survey responses are not evident in the economic statistics: personal consumption and the nation's employment picture remain bright spots overall. These confidence indicators have tended to vary inversely with the price of oil; if the cost of filling up the gas tank is higher, the public tends to be more pessimistic on these surveys, and vice versa.
- The unemployment rate in March 2007 was 4.4 percent, matching its recent low in October 2006—the lowest rate since May 2001. The economy generated 455,000 net new jobs in first quarter 2007 and almost 2 million since first quarter 2006. Employment rose in every industry except manufacturing. The bulk of these new jobs stemmed from trade, transportation, and utilities; financial activities; professional and business services; education and health services; and leisure and hospitality. Small businesses make up at least 40 percent of these sectors. Meanwhile, incorporated self-employment increased slightly.
- Interest rates remained virtually unchanged over the previous year, after several increases in 2005 and 2006. Since first quarter 2005, rates for the smallest loans have risen over 2 percent. Higher rates may be beginning to affect the demand for small business loans. While most senior bank officers see no change in demand, a growing minority is observing weaker loan demand. At the same time, venture capital investment increased to a recent high of \$7.1 billion in the first quarter, albeit with fewer deals.
- The consumer price index rose 2.8 percent since March 2006 and the producer price index rose 4.6 percent. Core inflation, which excludes energy and food costs, is lower, especially at the producer price level. Private sector wages and salaries have grown 3.5 percent and benefits, 2.3 percent, since first quarter 2006.

### Small Business Indicators

	Last five years					Last five quarters					Trends	
	2002	2003	2004	2005	2006	Q1-06	Q2-06	Q3-06	Q4-06	Q1-07	This Quarter	Q1-06 to Q1-07
Business bankruptcy filings (thousands)	38.5	35.0	34.3	39.2	19.7	4.1	4.9	5.3	5.6	--	--	--
Proprietors' income (\$billion, current dollars)	768.4	811.3	911.1	970.7	1015.1	1008.3	1011.9	1014.8	1025.3	1037.5	↑ 4.8% (a)	↑ 2.9 %
Prime bank loan rate	4.7	4.1	4.3	6.2	8.0	7.4	7.9	8.3	8.3	8.3	0	↓ 0.8
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	7.2	7.7	8.0	7.9	7.8	↓ 0.1	↑ 0.6
Variable rate loans, repricing terms of 31-365 days	6.6	6.4	6.2	7.1	8.4	8.3	8.1	8.7	8.6	8.8	↑ 0.2	↑ 0.5
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	7.0	4.8	1.8	0	↓ 1.8	↓ 4.8
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	5.3	3.5	5.0	-13.0	-5.3	↑ 7.7	↓ 10.6
Venture investment: number of deals	3086	2904	3041	3107	3522	853	910	875	884	778	↓ 106	↓ 75
Venture investment: total invested (\$billion)	21.8	19.7	22.2	22.8	26.1	6.3	6.9	6.6	6.2	7.1	↑ 0.9	↑ 0.8

**Notes:** a=annualized growth rate. The first quarter figure is for January and measures from October. C&I = commercial and industrial loans. Trends may reflect rounding error.  
**Sources:** Administrative Office of the U.S. Courts; Federal Reserve Board; National Venture Capital Association; U.S. Dept. of Commerce, Bureau of Economic Analysis.

	Last five years					Last five months (2006-2007)					Trends	
	2002	2003	2004	2005	2006	Nov	Dec	Jan	Feb	Mar	This Quarter	Mar 06 to Mar 07
NFIB Small Business Optimism Index (1986 = 100)	101.2	101.3	104.6	101.6	98.9	99.7	96.5	98.9	98.2	97.3	↑ 0.8	↓ 0.7
NFIB: next 3 months "good time to expand" (percent of respondents)	14.3	15.7	22.3	20.6	17.4	17.0	17.0	17.0	18.0	12.0	↓ 5.0	↓ 7.0
NFIB: net percent planning to hire in the next 3 months	10.8	10.2	15.3	14.4	14.6	19.0	10.0	17.0	13.0	12.0	↑ 2.0	↑ 3.0
Self-employed, incorporated (millions)	4.6	5.0	5.2	5.3	5.5	5.6	5.7	5.7	5.9	5.7	0	↑ 0.2
Self-employed, unincorporated (millions)	9.9	10.3	10.4	10.5	10.6	10.6	10.7	10.4	10.5	10.6	↓ 0.1	0

**Sources:** National Federation of Independent Business; U.S Department of Labor, Bureau of Labor Statistics.

For previous quarterly indicators, visit [www.sba.gov/advo/research/sbei.html](http://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 (2006-2007)					Trends	
		2002	2003	2004	2005	2006	Nov	Dec	Jan	Feb	Mar	This Quarter	Mar 06 to Mar 07
<b>Goods-producing industries</b>	<b>57.61</b>	<b>22.55</b>	<b>21.81</b>	<b>21.88</b>	<b>22.19</b>	<b>22.58</b>	<b>22.53</b>	<b>22.52</b>	<b>22.55</b>	<b>22.49</b>	<b>22.53</b>	<b>↑ 0.01</b>	<b>↓ 0.04</b>
Natural resources and mining	51.24	0.58	0.57	0.59	0.63	0.68	0.70	0.71	0.71	0.71	0.71	↑ 0.01	↑ 0.05
Construction	86.43	6.71	6.73	6.98	7.34	7.69	7.68	7.69	7.72	7.66	7.71	↑ 0.03	↑ 0.02
Manufacturing	44.00	15.26	14.51	14.32	14.23	14.20	14.14	14.13	14.13	14.12	14.10	↓ 0.03	↓ 0.11
<b>Service-producing industries</b>	<b>49.36</b>	<b>107.79</b>	<b>108.18</b>	<b>109.54</b>	<b>111.50</b>	<b>113.60</b>	<b>114.42</b>	<b>114.65</b>	<b>114.78</b>	<b>114.96</b>	<b>115.09</b>	<b>↑ 0.45</b>	<b>↑ 2.01</b>
Trade, transportation and utilities	45.35	25.50	25.29	25.53	25.96	26.23	26.32	26.35	26.38	26.40	26.45	↑ 0.10	↑ 0.22
Wholesale trade	61.58	5.65	5.61	5.66	5.76	5.90	5.93	5.96	5.95	5.96	5.96	↑ 0.01	↑ 0.09
Retail trade	42.16	15.02	14.92	15.06	15.28	15.32	15.33	15.32	15.36	15.37	15.41	↑ 0.09	↑ 0.03
Information	26.17	3.39	3.19	3.12	3.06	3.05	3.06	3.07	3.07	3.08	3.08	↑ 0.01	↑ 0.02
Financial activities	41.43	7.85	7.98	8.03	8.15	8.36	8.42	8.44	8.44	8.45	8.45	↑ 0.01	↑ 0.14
Professional and business services	44.95	15.98	15.99	16.39	16.95	17.56	17.73	17.79	17.80	17.84	17.83	↑ 0.04	↑ 0.40
Education and health services	48.08	16.20	16.59	16.95	17.37	17.84	18.02	18.06	18.10	18.14	18.19	↑ 0.13	↑ 0.48
Leisure and hospitality	62.09	11.99	12.17	12.49	12.81	13.14	13.32	13.37	13.40	13.43	13.45	↑ 0.08	↑ 0.43
Other services	86.27	5.37	5.40	5.41	5.39	5.43	5.44	5.45	5.44	5.45	5.45	0	↑ 0.03
Government	0	21.51	21.58	21.62	21.81	21.99	22.11	22.11	22.14	22.17	22.20	↑ 0.08	↑ 0.29

**Notes:** Seasonally adjusted. See [www.bls.gov/ces/cessuper.htm](http://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](http://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	Q1-06	Q2-06	Q3-06	Q4-06	Q1-07	This Quarter	Q1-06 – Q1-07
Real gross domestic product												
Level (\$billion)	10048.9	10301.1	10703.5	11048.6	11415.3	11316.4	11388.1	11443.5	11513.0	11549.1		
Annual percentage change*	1.6	2.5	3.9	3.2	3.3	5.6	2.6	2.0	2.5	1.3	↑ 1.3% (a)	↑ 2.1%
Real personal consumption expenditures (\$billion)*	7099.3	7295.4	7577.1	7841.2	8091.5	8003.8	8055.0	8111.2	8195.9	8273.6	↑ 3.8% (a)	↑ 3.4%
Real gross private fixed investment (\$billion)*	1557.2	1613.1	1770.6	1866.3	1951.3	1963.6	1968.5	1964.8	1885.6	1854.4	↓ 6.5% (a)	↓ 5.6%
Federal government surplus or deficit (\$billion)	-282.1	-392.5	-394.9	-312.5	-151.0	-134.2	-137.0	-183.2	-149.6	--	--	--
Real exports of goods and services (\$billion)*	1013.3	1026.1	1120.4	1196.1	1302.8	1269.3	1288.5	1310.0	1343.5	1339.3	↓ 1.2% (a)	↑ 5.5%
Real imports of goods and services (\$billion)*	1484.6	1545.0	1711.3	1815.3	1920.9	1905.9	1912.7	1938.8	1926.1	1937.0	↑ 2.3% (a)	↑ 1.6%
Corporate profits after tax (\$billion)	693.7	749.9	882.5	931.4	1140.7	1112.1	1115.7	1162.7	1172.3	--	--	--
Nonfarm business sector output per hour for all persons (1992=100)	123.5	128.0	131.8	134.6	136.7	136.3	136.7	136.6	137.3	137.9	↑ 1.7% (a)	↑ 1.2%
Employment Cost Index: private sector wages & salaries (2005=100)	91.6	94.2	96.8	99.2	102.0	100.8	101.8	102.4	103.2	104.3	↑ 4.3% (a)	↑ 3.5%
Employment Cost Index: private sector benefits (2005=100)	83.7	88.8	94.8	99.2	102.1	100.8	101.5	102.5	103.4	103.1	↓ 1.2% (a)	↑ 2.3%

**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 (2006-2007)					Trends	
	2002	2003	2004	2005	2006	Nov	Dec	Jan	Feb	Mar	This Quarter	Mar 06 to Mar 07
Unemployment rate (seasonally adjusted)	5.8	6.0	5.5	5.1	4.6	4.5	4.5	4.6	4.5	4.4	↓ 0.1	↓ 0.3
Civilian employment—16 years and older (millions, seasonally adjusted)	136.5	137.7	139.2	141.7	144.4	145.6	145.9	146.0	145.9	146.3	↑ 0.3	↑ 2.6
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	2.9	3.4	3.1	2.6	2.3	2.2	2.1	2.1	2.1	2.2	↑ 0.1	↓ 0.2
Nonfarm payrolls (millions, seasonally adjusted)	130.4	130.0	131.4	133.7	136.2	136.9	137.2	137.3	137.4	137.6	↑ 0.5	↑ 2.0
Producer Price Index (1982=100)	131.1	138.1	146.7	157.4	164.8	164.6	166.0	164.2	167.3	169.7	↑ 9.2% (a)	↑ 4.6%
Consumer Price Index (all urban consumers and all items; seasonally adjusted, 1982-84=100)	179.9	184.0	188.9	195.3	201.6	201.9	202.8	203.2	203.9	205.1	↑ 4.7% (a)	↑ 2.8%
Univ. of Michigan Consumers' Sentiment (1966=100)	89.6	87.6	95.2	88.6	87.3	92.1	91.7	96.9	91.3	88.4	↓ 3.3	↓ 0.5
Spot oil price per barrel: West Texas intermediate crude	26.10	31.14	41.44	56.47	66.10	59.37	62.03	54.57	59.26	60.56	↓ \$1.47	↓ \$2.34
New Privately Owned Housing Units Started (millions, seasonally adjusted at the annual rate)	1.7	1.9	1.9	2.1	1.8	1.6	1.6	1.4	1.5	1.5	↓ 25.3% (a)	↓ 23.0%
ISM Purchasing Managers Index—manufacturing composite (seasonally adjusted)	52.4	53.3	60.5	55.5	53.9	49.9	51.4	49.3	52.3	50.9	↓ 0.5	↓ 4.4
Industrial production (2002=100, seasonally adjusted)	100.0	101.1	103.6	106.9	111.2	111.5	112.2	111.8	112.7	112.5	↑ 0.9% (a)	↑ 2.3%
3-month Treasury bills (secondary market rate)	1.60	1.01	1.37	3.15	4.73	4.94	4.85	4.98	5.03	4.94	↑ 0.09	↑ 0.43
10-year Treasury note (constant maturity rate)	4.61	4.02	4.27	4.29	4.79	4.60	4.56	4.76	4.72	4.56	0	↓ 0.16

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

**Sources:** Federal Reserve Board; 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.