

QUARTERLY INDICATORS: THE ECONOMY AND SMALL BUSINESS

Fourth Quarter 2004

Trends

- The U.S. economy was significantly stronger in 2004 than in recent years. Real gross domestic product (GDP) increased 4.4 percent for the year – its highest jump since 1999. The 3.1 percent increase in the fourth quarter marked the thirteenth consecutive quarter of positive growth. Moreover, between the fourth quarters of 2003 and 2004, real personal consumption expenditures, real gross private fixed investment, and real exports rose 3.9, 10.6, and 4.1 percent, respectively. Industrial production was also up by 4.3 percent over the year. On the negative side, real imports outpaced the growth in real exports with a 9.2 percent increase in 2004, continuing a pattern of large trade imbalances.
- Americans, by and large, were more optimistic in the fourth quarter, according to both the National Federation of Independent Business' Optimism Index and the University of Michigan's Consumer Sentiment Survey. The December NFIB survey also shows that 28 percent more small businesses plan to expand rather than contract in the next three months, and the net percentage planning to hire in the next three months is 17 percent. Each of these figures exceeds the annual averages over the past five years.
- The unemployment rate fell to 5.4 percent in September 2004, and ended the year at that same rate. For the year, the economy added 2.2 million nonfarm payroll jobs, 606,000 in the fourth quarter. These new jobs in the fourth quarter were in every industry sector, with the exception of manufacturing, which lost 12,000 workers. Overall manufacturing employment was up 76,000 workers for the year. Nonfarm productivity increased just 0.8 percent in the fourth quarter, significantly lower than in previous quarters and years; over the longer view, however, it increased 4.1 percent between the averages of 2003 and 2004.
- Interest rates have continued to move upward as a result of a growing economy and the efforts of the Federal Reserve to reduce inflationary pressures. Consumer and producer prices increased at annualized rates of 3.0 and 6.7 percent, respectively, in the fourth quarter; if energy costs are excluded, the rates are 1.2 and 3.9 percent, respectively. The price of oil fell from an average of \$53.13 a barrel in October to \$43.33 a barrel in December.
- According to the Senior Loan Officers Survey, small business demand for commercial and industrial loans remained strong; a quarter of all respondents continued to ease rather than tighten lending standards. In 2004, \$2 billion more was invested in venture capital deals than in 2003, according to the National Venture Capital Association; \$5.3 billion was invested during the fourth quarter.

Small Business Indicators

	Last five years					Last five quarters				
	2000	2001	2002	2003	2004	Q4-03	Q1-04	Q2-04	Q3-04	Q4-04
Business bankruptcy filings (thousands)	35.5	40.1	38.5	35.0	--	8.3	10.6	8.2	7.6	--
Proprietors' income (billions of current dollars)	728.4	771.9	769.6	834.1	902.4	864.7	872.1	901.4	902.9	933.1
Prime bank loan rate	9.2	6.9	4.7	4.1	4.3	4.0	4.0	4.0	4.4	4.9
Rates for smallest loans (less than \$100,000):										
Variable rate loans, repricing terms of 2-30 days	9.7	7.4	5.1	4.4	4.4	4.3	4.3	4.2	4.6	4.5
Variable rate loans, repricing terms of 31-365 days	9.9	8.7	6.6	6.4	6.2	6.1	6.1	6.1	6.3	6.5
Senior loan officers (percent of respondents):										
Net small firm C&I lending standards (those whose standards were eased minus those tightened)	-20.4	-39.4	-20.0	-7.1	+13.1	+1.8	+10.9	+19.6	+3.7	+18.2
Net small firm demand for C&I loans (those whose demand was stronger minus those weaker)	-3.3	-36.6	-40.0	-14.7	+25.9	-3.9	+21.8	+38.1	+38.9	+25.5
Venture investment: number of deals	8073	4617	3050	2847	2876	754	686	798	645	747
Venture investment: total invested (billions of dollars)	105.9	41.0	21.6	18.9	20.9	5.4	5.1	6.0	4.6	5.3

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. Bureau of Economic Analysis.

	Last five years					Last five months (2004)				
	2000	2001	2002	2003	2004	Aug	Sept	Oct	Nov	Dec
NFIB Small Business Optimism Index (1986 = 100)	100.3	98.4	101.2	101.3	104.6	102.9	104.5	103.9	107.7	106.1
NFIB: next 3 months "good time to expand" (percent of respondents)	19.2	12.3	14.3	15.7	22.3	19	23	20	29	28
NFIB: net percent planning to hire in the next 3 months	15.6	11.6	10.8	10.2	15.3	19	14	15	19	17
Self-employed, incorporated (millions)	4.5	4.5	4.6	5.0	5.2	5.3	5.2	5.2	5.1	5.0
Self-employed, unincorporated (millions)	10.2	10.1	9.9	10.3	10.4	10.6	10.5	10.6	10.5	10.4

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 (2004)				
		2000	2001	2002	2003	2004	Aug	Sept	Oct	Nov	Dec
Goods-producing industries	54.1	24.65	23.88	22.56	21.82	21.89	21.94	21.96	22.02	22.02	22.03
Natural resources and mining	50.6	0.60	0.61	0.58	0.57	0.59	0.59	0.59	0.59	0.60	0.60
Construction	85.1	6.79	6.83	6.72	6.72	6.92	6.94	6.96	7.02	7.03	7.03
Manufacturing	41.6	17.27	16.44	15.26	14.52	14.38	14.41	14.41	14.41	14.40	14.40
Service-producing industries	49.2	107.14	107.96	107.79	108.12	109.39	109.60	109.70	109.96	110.09	110.24
Trade, transportation and utilities	47.1	26.22	25.99	25.50	25.28	25.48	25.52	25.52	25.56	25.58	25.58
Wholesale trade	62.9	5.93	5.77	5.65	5.61	5.65	5.65	5.66	5.67	5.68	5.70
Retail trade	43.4	15.28	15.24	15.02	14.92	15.03	15.05	15.03	15.06	15.06	15.04
Information	26.5	3.63	3.63	3.39	3.20	3.17	3.17	3.16	3.16	3.16	3.16
Financial activities	40.2	7.69	7.81	7.85	7.97	8.05	8.05	8.08	8.09	8.11	8.12
Professional and business services	44.2	16.67	16.48	15.98	15.99	16.45	16.52	16.55	16.64	16.66	16.71
Education and health services	47.5	15.11	15.65	16.20	16.58	16.92	16.97	16.98	17.05	17.09	17.13
Leisure and hospitality	61.2	11.86	12.03	11.99	12.13	12.32	12.34	12.35	12.36	12.39	12.40
Other services	85.5	5.17	5.26	5.37	5.39	5.41	5.41	5.41	5.41	5.42	5.42
Government	0	20.79	21.12	21.51	21.57	21.60	21.63	21.65	21.68	21.69	21.72

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 2001 firm size data. See http://www.sba.gov/advo/stats/us_tot_mi.pdf for more information.

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				
	2000	2001	2002	2003	2004	Q4-03	Q1-04	Q2-04	Q3-04	Q4-04
Annual change, real gross domestic product	3.7	0.8	1.9	3.0	4.4	4.2	4.5	3.3	4.0	3.1
Real personal consumption expenditures (billions)*	6739.4	6910.4	7123.4	7355.5	7634.7	7466.8	7543.0	7572.4	7667.8	7755.4
Real gross private fixed investment (billions)*	1735.5	1598.4	1560.7	1628.8	1839.1	1714.1	1764.5	1842.9	1853.9	1895.1
Federal government surplus or deficit (billions)	189.5	46.7	-254.5	-364.6	--	-379.2	-391.0	-380.0	-384.1	--
Real exports of goods and services (billions)*	1096.3	1036.7	1012.4	1031.8	1115.3	1076.2	1095.4	1114.8	1131.1	1120.0
Real imports of goods and services (billions)*	1475.8	1435.8	1484.4	1550.3	1701.7	1604.5	1645.5	1695.1	1714.3	1751.9
Corporate profits after tax (billions)	552.8	563.2	690.7	786.2	--	876.8	909.1	902.7	864.7	--
Nonfarm business sector output per hour for all persons (1992 = 100)	115.3	117.8	123.5	129.0	134.2	131.7	132.8	134.1	134.7	135.0
Employment Cost Index: private sector wages and salaries (1989 = 100)	146.0	151.4	156.4	161.0	165.0	162.5	163.5	164.4	165.8	166.4
Employment Cost Index: private sector benefits (1989 = 100)	156.0	163.7	171.7	182.5	195.4	186.3	191.2	194.5	196.4	199.3

*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 (2004)				
	2000	2001	2002	2003	2004	Aug	Sept	Oct	Nov	Dec
Unemployment rate (seasonally adjusted)	4.0	4.8	5.8	6.0	5.5	5.4	5.4	5.5	5.4	5.4
Civilian employment – 16 years and older (millions, seasonally adjusted)	136.9	136.9	136.5	137.7	139.2	139.7	139.5	139.8	140.3	140.2
Civilian unemployed – 15 weeks and over (millions, seasonally adjusted)	1.3	1.8	2.9	3.4	3.1	2.9	3.0	3.0	3.0	3.0
Nonfarm payrolls (millions, seasonally adjusted)	131.8	131.8	130.3	129.9	131.3	131.5	131.7	132.0	132.1	132.3
Producer Price Index (1982 = 100)	132.7	134.2	131.1	138.1	146.6	148.0	147.7	149.8	151.3	150.1
Consumer Price Index (seasonally adjusted, 1982 = 100)	172.2	177.0	179.9	184.0	188.9	189.4	189.7	190.9	191.2	191.1
Consumer Sentiment Survey (1966 = 100)	107.6	89.2	89.6	87.6	95.2	95.9	94.2	91.7	92.8	97.1
Spot oil price per barrel: West Texas intermediate crude	30.30	25.92	26.10	31.14	41.44	44.94	45.95	53.13	48.46	43.33
ISM Purchasing Managers Index – manufacturing composite (seasonally adjusted)	51.7	43.9	52.4	53.3	60.5	59.6	59.1	57.5	57.6	57.3
Industrial production (1997 = 100, seasonally adjusted)	115.4	111.3	111.0	110.9	115.5	116.0	115.7	116.6	116.8	117.8
M2 money stock (billions, seasonally adjusted)	4801.4	5219.3	5614.5	5998.4	6266.8	6300.2	6332.8	6346.9	6380.5	6397.7
3-month Treasury bills (secondary market rate)	5.82	3.39	1.60	1.01	1.37	1.48	1.65	1.76	2.07	2.19
10-year Treasury note (constant maturity rate)	6.03	5.02	4.61	4.02	4.27	4.28	4.13	4.10	4.19	4.23

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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