

## FIRST QUARTER 2006: THE ECONOMY AND SMALL BUSINESS

### Trends

- The U.S. economy began 2006 with a strong showing: real gross domestic product (GDP) rose at an annual rate of 4.8 percent, up from 1.7 percent in the fourth quarter of 2005. The strong increase reflected healthy growth in the annual rates of real personal consumption expenditures (5.5 percent) and real gross private fixed investment (6.5 percent). A large increase in real exports (12.1 percent annual growth) was outpaced by the expansion of real imports (13.0 percent annual growth). In addition, both industrial production and proprietors' income continued to rise.
- Consumers and business owners became slightly more pessimistic as the first quarter of 2006 ended. This was evident in the University of Michigan's Consumer Confidence Survey, which fell to 88.9 in March 2006 from 91.5 in December 2005, as well as in the National Federation of Independent Business's Optimism Index, which fell to a three-year low of 98.0 in March. Small businesses surveyed for the index expressed less willingness to hire in the coming months. The optimism index had been higher in January and February (101.1 and 101.5, respectively), so future surveys will show whether the March reading was an aberration.
- The unemployment rate in March 2006 was 4.7 percent, the same as in January 2006 and the lowest rate since July 2001. An additional nonfarm payroll jobs were added, and all major industries except for manufacturing saw net employment increases in the first quarter. Industries with the largest shares of small business employment—construction, other services, wholesale trade, and leisure and hospitality—added 241,500 net new jobs during the quarter. There were also increases in self-employment, with 5.5 million incorporated and 10.6 million unincorporated self-employed in March 2006.
- Interest rates continued to rise, with the prime rate averaging 7.4 percent in the first quarter of 2006, up 2 percentage points from the first quarter of 2005. Other interest rates are similar. According to the Senior Loan Officers' Survey, these rate increases have had an impact on the demand for loans to small businesses; bank executives note that the strong demand for such loans has softened from the previous quarter. Venture capital investment remains steady: 761 deals valued at \$5.6 billion were finalized in the first three months of 2006.
- Core consumer inflation, which excludes energy costs, increased an annual 2.6 percent during the quarter. With energy costs, the consumer price index rose an annual 4.3 percent. The price of West Texas crude averaged \$62.90 in March 2006. This is more than in December 2005 (\$59.43) but slightly less than the January 2006 price (\$65.51), reflecting a volatile energy market.

### Small Business Indicators

	Last five years					Last five quarters				
	2001	2002	2003	2004	2005	Q1-05	Q2-05	Q3-05	Q4-05	Q1-06
Business bankruptcy filings (thousands)	40.1	38.5	35.0	34.3	--	8.1	8.7	9.5	12.8	--
Proprietors' income (billions of current dollars)	771.9	768.4	810.2	889.7	938.7	917.9	936.6	932.4	967.7	977.9
Prime bank loan rate	6.9	4.7	4.1	4.3	6.2	5.4	5.9	6.4	7.0	7.4
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	5.3	5.7	6.1	6.7	7.2
Variable rate loans, repricing terms of 31-365 days	8.7	6.6	6.4	6.2	7.1	6.6	7.1	7.1	7.7	8.3
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	9.1	22.7	0	4.2	4.8
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	13.7	45.5	33.4	16.7	5.3
Venture investment: number of deals	4451	3054	2877	2991	3039	710	792	756	781	761
Venture investment: total invested (billions of dollars)	40.5	21.7	19.6	21.8	22.4	5.0	6.2	5.5	5.7	5.6

Note: The first quarter figure for the Senior Loan Officers Survey is for January, which measures from October. 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 (2005-2006)				
	2001	2002	2003	2004	2005	Nov	Dec	Jan	Feb	Mar
NFIB Small Business Optimism Index (1986 = 100)	98.4	101.2	101.3	104.6	101.6	101.2	101.4	101.1	101.5	98.0
NFIB: next 3 months "good time to expand" (percent of respondents)	12.3	14.3	15.7	22.3	20.6	20	21	20	20	19
NFIB: net percent planning to hire in the next 3 months	11.6	10.8	10.2	15.3	14.4	13	15	17	16	9
Self-employed, incorporated (millions)	4.5	4.6	5.0	5.2	5.3	5.3	5.4	5.5	5.5	5.5
Self-employed, unincorporated (millions)	10.1	9.9	10.3	10.4	10.5	10.2	10.3	10.4	10.6	10.6

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

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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 (2005-2006)				
		2001	2002	2003	2004	2005	Nov	Dec	Jan	Feb	Mar
<b>Goods-producing industries</b>	<b>56.35</b>	<b>23.87</b>	<b>22.55</b>	<b>21.81</b>	<b>21.88</b>	<b>22.14</b>	<b>22.26</b>	<b>22.28</b>	<b>22.34</b>	<b>22.37</b>	<b>22.39</b>
Natural resources and mining	50.71	0.61	0.58	0.57	0.59	0.62	0.64	0.64	0.65	0.65	0.66
Construction	85.99	6.83	6.71	6.73	6.97	7.28	7.41	7.42	7.46	7.49	7.50
Manufacturing	43.18	16.44	15.26	14.51	14.31	14.23	14.21	14.22	14.23	14.23	14.23
<b>Service-producing industries</b>	<b>49.52</b>	<b>107.96</b>	<b>107.79</b>	<b>108.18</b>	<b>109.54</b>	<b>111.32</b>	<b>111.97</b>	<b>112.09</b>	<b>112.20</b>	<b>112.36</b>	<b>112.54</b>
Trade, transportation and utilities	45.98	25.99	25.50	25.29	25.53	25.91	26.01	26.02	26.04	26.05	26.08
Wholesale trade	62.08	5.77	5.65	5.61	5.66	5.75	5.78	5.78	5.80	5.81	5.82
Retail trade	43.08	15.24	15.02	14.92	15.06	15.25	15.29	15.30	15.30	15.29	15.31
Information	25.60	3.63	3.39	3.19	3.12	3.07	3.06	3.07	3.07	3.07	3.07
Financial activities	40.91	7.81	7.85	7.98	8.03	8.14	8.22	8.22	8.24	8.27	8.29
Professional and business services	44.63	16.48	15.98	15.98	16.39	16.88	17.06	17.12	17.13	17.16	17.21
Education and health services	48.03	15.65	16.20	16.59	16.95	17.34	17.48	17.51	17.54	17.59	17.62
Leisure and hospitality	61.81	12.03	11.99	12.18	12.49	12.80	12.88	12.90	12.93	12.96	12.99
Other services	86.38	5.26	5.37	5.40	5.41	5.39	5.38	5.39	5.40	5.40	5.40
Government	0	21.12	21.51	21.58	21.62	21.81	21.88	21.88	21.84	21.88	21.90

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](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	Q1-05	Q2-05	Q3-05	Q4-05	Q1-06
Annual change, real gross domestic product (percent)	0.8	1.6	2.7	4.2	3.5	3.8	3.3	4.1	1.7	4.8
Real personal consumption expenditures (billions)*	6910.4	7099.3	7306.5	7588.6	7856.9	7764.9	7829.5	7907.9	7925.4	8032.0
Real gross private fixed investment (billions)*	1629.4	1548.9	1627.4	1794.4	1919.8	1902.9	1885.0	1909.4	1981.9	2013.4
Federal government surplus or deficit (billions)	46.7	-247.9	-382.8	-406.5	-323.0	-298.3	-297.3	-407.9	-288.6	--
Real exports of goods and services (billions)*	1036.7	1013.3	1031.2	1117.9	1195.3	1165.3	1195.4	1202.7	1217.6	1252.8
Real imports of goods and services (billions)*	1435.8	1484.6	1552.6	1719.2	1828.3	1810.7	1809.6	1820.2	1872.9	1931.0
Corporate profits after tax (billions)	563.2	693.7	799.7	890.3	973.8	925.6	975.0	932.8	1061.8	--
Nonfarm business sector output per hour for all persons (1992 = 100)	118.5	123.3	128.0	132.3	135.9	134.7	135.5	136.9	136.8	137.9
Employment Cost Index: private sector wages and salaries (2005 = 100)	88.8	91.6	94.2	96.8	99.2	98.3	98.8	99.4	100.1	100.8
Employment Cost Index: private sector benefits (2005 = 100)	80.1	83.7	88.8	94.8	99.2	98.0	98.8	99.6	100.4	100.8

\*Chained 2000 dollars.

Notes: Seasonally adjusted. The employment cost index data reflects a switch to a new base of December 2005 = 100.

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 (2005-2006)				
	2001	2002	2003	2004	2005	Nov	Dec	Jan	Feb	Mar
Unemployment rate (seasonally adjusted)	4.8	5.8	6.0	5.5	5.1	5.0	4.9	4.7	4.8	4.7
Civilian employment—16 years and older (millions, seasonally adjusted)	136.9	136.5	137.7	139.2	141.7	142.6	142.8	143.1	143.3	143.6
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	1.8	2.9	3.4	3.1	2.6	2.5	2.4	2.2	2.5	2.3
Nonfarm payrolls (millions, seasonally adjusted)	131.8	130.3	129.9	131.4	133.5	134.2	134.4	134.5	134.7	134.9
Producer Price Index (1982 = 100)	134.2	131.1	138.1	146.7	157.4	163.7	163.0	164.6	161.9	162.0
Consumer Price Index (seasonally adjusted, 1982 = 100)	177.0	179.9	184.0	188.9	195.3	197.8	197.7	199.0	199.1	199.8
Consumer Sentiment Survey (1966 = 100)	89.2	89.6	87.6	95.2	88.6	81.6	91.5	91.2	86.7	88.9
Spot oil price per barrel: West Texas intermediate crude	25.92	26.10	31.14	41.44	56.47	58.30	59.43	65.51	61.63	62.90
ISM Purchasing Managers Index—manufacturing composite (seasonally adjusted)	43.9	52.4	53.3	60.5	55.5	57.3	55.6	54.8	56.7	55.2
Industrial production (2002 = 100, seasonally adjusted)	99.9	100.0	100.6	104.7	108.1	109.4	110.4	110.0	110.6	111.2
M2 money stock (billions, seasonally adjusted)	5221.4	5614.1	6005.2	6277.8	6541.7	6647.6	6675.7	6737.9	6760.5	6777.2
3-month Treasury bills (secondary market rate)	3.39	1.60	1.01	1.37	3.15	3.88	3.89	4.24	4.43	4.51
10-year Treasury note (constant maturity rate)	5.02	4.61	4.02	4.27	4.29	4.54	4.47	4.42	4.57	4.72

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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