

SECOND QUARTER 2006: THE ECONOMY AND SMALL BUSINESS

Trends

- The American economy moderated its growth in the second quarter of 2006, growing 2.5 percent, down from 5.6 percent in the first quarter. Slower growth in real gross domestic product (GDP) mirrored similar slow-downs in real personal consumption and real gross private fixed investment. Real exports grew faster than real imports, though both figures were lower than in the first quarter. The second quarter of 2006 was the 19th consecutive quarter of real GDP growth, and industrial output continued to rise. In addition, the Institute for Supply Management's Purchasing Management Index has had a reading above 50 (which signifies growth in the sector) in every month since June 2003—for 38 consecutive months.
- Overall business and consumer confidence has fallen, according to the National Federation of Independent Business (NFIB) Optimism Index and the University of Michigan's Consumer Sentiment Survey. In June, the NFIB survey stated that fewer small businesses considered the next three months a good time to expand or to hire new workers relative to previous months.
- The unemployment rate in May and June 2006 was 4.6 percent, the lowest rate in five years. There were 865,000 nonfarm payroll jobs added in the first half of 2006, with 336,000 stemming from the second quarter. This net job growth is less than the pace set during the previous two years (first half). All major industries, except for the retail trade and information sectors, experienced employment gains in the second quarter. Industries with the largest shares of small business employment—construction, other services, wholesale trade, and leisure and hospitality—added 89,700 net new jobs during the quarter. Unincorporated self-employment increased to 10.7 million; incorporated self-employment remained at 5.5 million.* Employee wages and salaries increased at a similar rate as employee benefits.
- Interest rates continued to rise, with the prime rate averaging 7.9 percent in the second quarter of 2006, up a half percent from the first quarter. Other interest rates rose similarly, and the result has been slower growth in small business lending now versus one year ago, according to the Senior Loan Officers' Survey. Venture capital investment remains steady.
- Core consumer inflation, which excludes energy costs, increased an annualized 3.4 percent during the quarter. With the price of West Texas crude averaging \$70.96 per barrel in June 2006, up \$8.06 from March 2006, the annualized increase in the consumer price index including energy costs was up 5.1 percent for the quarter. Each suggests that inflationary pressures in the economy have returned after a long absence. According to the University of Michigan survey, consumers expect inflation to increase at 3.3 percent over the next twelve months, comparable with their expectations in 2005.

Small Business Indicators

	Last five years					Last five quarters				
	2001	2002	2003	2004	2005	Q2-05	Q3-05	Q4-05	Q1-06	Q2-06
Business bankruptcy filings (thousands)	40.1	38.5	35.0	34.3	39.2	8.7	9.5	12.8	4.1	--
Proprietors' income (billions of current dollars)	771.9	768.4	811.3	911.1	970.7	965.8	967.3	996.8	1008.3	1017.3
Prime bank loan rate	6.9	4.7	4.1	4.3	6.2	5.9	6.4	7.0	7.4	7.9
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	5.7	6.1	6.7	7.2	7.7
Variable rate loans, repricing terms of 31-365 days	8.7	6.6	6.4	6.2	7.1	7.1	7.1	7.7	8.3	8.1
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	22.7	0	4.2	4.8	7.0
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	45.5	33.4	16.7	5.3	3.5
Venture investment: number of deals	4460	3066	2884	3013	3071	804	762	795	818	856
Venture investment: total invested (billions of dollars)	40.5	21.8	19.6	22.0	22.6	6.3	5.6	5.7	6.2	6.3

Note: The second quarter figure for the Senior Loan Officers Survey is for April, which measures from January. 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 (2006)				
	2001	2002	2003	2004	2005	Feb	Mar	Apr	May	June
NFIB Small Business Optimism Index (1986 = 100)	98.4	101.2	101.3	104.6	101.6	101.5	98.0	100.1	98.5	96.7
NFIB: next 3 months "good time to expand" (percent of respondents)	12.3	14.3	15.7	22.3	20.6	20	19	18	18	13
NFIB: net percent planning to hire in the next 3 months	11.6	10.8	10.2	15.3	14.4	16	9	16	14	9
Self-employed, incorporated (millions)	4.5	4.6	5.0	5.2	5.3	5.5	5.5	5.5	5.4	5.5
Self-employed, unincorporated (millions)	10.1	9.9	10.3	10.4	10.5	10.4	10.4	10.5	10.6	10.7

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

* In May 2006, the Ewing Marion Kauffman Foundation released a study by Robert Fairlie stating that over the past decade, about 0.3 percent of adults per month became primarily self-employed using the Kauffman Entrepreneurial Index. For more information, see www.kauffman.org/items.cfm?itemID=703.

Employment by Major Sector (millions)

	Percent small business	Last five years					Last five months (2006)				
		2001	2002	2003	2004	2005	Feb	Mar	Apr	May	June
Goods-producing industries	56.35	23.87	22.55	21.81	21.88	22.14	22.37	22.38	22.42	22.41	22.43
Natural resources and mining	50.71	0.61	0.58	0.57	0.59	0.62	0.65	0.66	0.67	0.67	0.68
Construction	85.99	6.83	6.71	6.73	6.97	7.28	7.49	7.50	7.51	7.50	7.50
Manufacturing	43.18	16.44	15.26	14.51	14.31	14.23	14.23	14.23	14.24	14.23	14.26
Service-producing industries	49.52	107.96	107.79	108.18	109.54	111.32	112.36	112.52	112.60	112.71	112.81
Trade, transportation and utilities	45.98	25.99	25.50	25.29	25.53	25.91	26.05	26.08	26.05	26.04	26.05
Wholesale trade	62.08	5.77	5.65	5.61	5.66	5.75	5.81	5.82	5.83	5.84	5.85
Retail trade	43.08	15.24	15.02	14.92	15.06	15.25	15.29	15.31	15.26	15.23	15.22
Information	25.60	3.63	3.39	3.19	3.12	3.07	3.07	3.07	3.07	3.06	3.06
Financial activities	40.91	7.81	7.85	7.98	8.03	8.14	8.27	8.28	8.31	8.32	8.31
Professional and business services	44.63	16.48	15.98	15.98	16.39	16.88	17.16	17.20	17.21	17.28	17.31
Education and health services	48.03	15.65	16.20	16.59	16.95	17.34	17.59	17.62	17.65	17.68	17.70
Leisure and hospitality	61.81	12.03	11.99	12.18	12.49	12.80	12.96	12.98	12.99	13.01	13.04
Other services	86.38	5.26	5.37	5.40	5.41	5.39	5.40	5.40	5.40	5.41	5.40
Government	0	21.12	21.51	21.58	21.62	21.81	21.88	21.90	21.92	21.92	21.94

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	Q2-05	Q3-05	Q4-05	Q1-06	Q2-06
Annual change, real gross domestic product (percent)	0.8	1.6	2.5	3.9	3.2	3.3	4.2	1.8	5.6	2.5p
Real personal consumption expenditures (billions)*	6910.4	7099.3	7295.4	7577.1	7841.2	7819.8	7895.3	7910.2	8003.8	8053.0
Real gross private fixed investment (billions)*	1598.4	1557.2	1613.1	1770.6	1866.3	1832.6	1855.9	1927.0	1963.6	1971.7
Federal government surplus or deficit (billions)	46.7	-247.9	-372.2	-382.0	-309.2	-289.6	-396.1	-263.5	-164.7	--
Real exports of goods and services (billions)*	1036.7	1013.3	1026.1	1120.4	1196.1	1191.0	1200.5	1228.4	1269.3	1279.6
Real imports of goods and services (billions)*	1435.8	1484.6	1545.0	1711.3	1815.3	1797.1	1808.1	1865.0	1905.9	1906.7
Corporate profits after tax (billions)	563.2	693.7	749.9	882.5	931.4	950.1	887.5	968.9	1112.1	--
Nonfarm business sector output per hour for all persons (1992 = 100)	118.6	123.5	128.0	131.8	134.9	134.3	135.8	135.8	137.2	137.6
Employment Cost Index: private sector wages and salaries (2005 = 100)	88.8	91.6	94.2	96.8	99.2	98.8	99.4	100.1	100.8	101.7
Employment Cost Index: private sector benefits (2005 = 100)	80.1	83.7	88.8	94.8	99.2	98.8	99.6	100.4	100.8	101.5

*Chained 2000 dollars.

Notes: Seasonally adjusted; p= preliminary data. 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 (2006)				
	2001	2002	2003	2004	2005	Feb	Mar	Apr	May	June
Unemployment rate (seasonally adjusted)	4.8	5.8	6.0	5.5	5.1	4.8	4.7	4.7	4.6	4.6
Civilian employment—16 years and older (millions, seasonally adjusted)	136.9	136.5	137.7	139.2	141.7	143.3	143.6	143.7	144.0	144.4
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	1.8	2.9	3.4	3.1	2.6	2.5	2.3	2.4	2.3	2.1
Nonfarm payrolls (millions, seasonally adjusted)	131.8	130.3	129.9	131.4	133.5	134.7	134.9	135.0	135.1	135.2
Producer Price Index (1982 = 100)	134.2	131.1	138.1	146.7	157.4	161.8	162.0	163.8	165.3	165.9
Consumer Price Index (seasonally adjusted, 1982 = 100)	177.0	179.9	184.0	188.9	195.3	199.1	199.8	201.0	201.9	202.3
Univ. of Michigan Consumers' Sentiment (1966 = 100)	89.2	89.6	87.6	95.2	88.6	86.7	88.9	87.4	79.1	84.9
Univ. of Michigan Consumers' Expected Inflation (median expected price change for the next 12 months)	2.4	2.5	2.5	3.0	3.3	3.0	3.0	3.3	4.0	3.3
Spot oil price per barrel: West Texas intermediate crude	25.92	26.10	31.14	41.44	56.47	61.63	62.90	69.69	70.94	70.96
ISM Purchasing Managers Index—manufacturing composite (seasonally adjusted)	43.9	52.4	53.3	60.5	55.5	56.7	55.2	57.3	54.4	53.8
Industrial production (2002 = 100, seasonally adjusted)	99.9	100.0	100.6	104.7	108.1	110.7	111.2	112.2	112.3	113.2
M2 money stock (billions, seasonally adjusted)	5213.4	5999.6	5989.2	6265.9	6537.8	6752.2	6767.5	6790.0	6796.5	6828.1
3-month Treasury bills (secondary market rate)	3.39	1.60	1.01	1.37	3.15	4.43	4.51	4.60	4.72	4.79
10-year Treasury note (constant maturity rate)	5.02	4.61	4.02	4.27	4.29	4.57	4.72	4.99	5.11	5.11

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.

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