

## Quarterly Indicators: The Economy and Small Business

### First Quarter 2004

#### Trends

- Real economic output has been rising, especially since third quarter 2003. Production increased in manufacturing, an industry hard hit during and after the recession. Real gross private investment is also improving, a sign that capital spending is recovering.
- The economy is experiencing positive employment signs, including the creation of nearly 600,000 new nonfarm jobs in the first three months of 2004. Nearly all sectors saw positive gains from November 2003 to March 2004. Unemployment remains an issue, however as nonfarm payrolls have not recovered to their pre-recession levels, and 3.3 million people remain unemployed. The employment picture is cited for waning consumer sentiment and business optimism (NFIB survey) in February and March, yet both are higher than their 2002 and 2003 averages.
- Productivity has increased rapidly, with nonfarm business output per hour up 5.3 percent between first quarters 2003 and 2004.
- Costs to provide benefits to employees continue to increase. Wages and salaries increased 2.6 percent between first quarters 2003 and 2004, while benefit costs rose 7.1 percent. Prices, however, remained stable.
- Interest rates remain at all-time lows, less than half of their value in 2000. The Federal Reserve Board's Senior Loan Officer Opinion Survey indicates more banks this year than last plan to ease small firm lending standards in the next three months, and small firm demand for lending is rising.
- Venture capital has remained relatively stable over the past year, although venture investments are significantly lower than their highs during the technology boom of the late 1990s.
- Proprietors' income, up nearly 10 percent between the first quarters of 2003 and 2004, continues to increase. Corporate profits increased 31.4 percent from fourth quarter 2002 to fourth quarter 2003. (First quarter data are not yet available.)
- The number of incorporated self-employed was at 5.2 million in March 2004, up from an average of 4.4 million for the years of 1999, 2000, and 2001.
- More small firm owners are saying it's a good time to expand their business than in previous years, although the February and March 2004 levels for this sentiment were lower than in the previous few months. Job-related concerns are cited for these dips.

#### Small Business Indicators

	Last five years					Last five quarters				
	1999	2000	2001	2002	2003	Q1-03	Q2-03	Q3-03	Q4-03	Q1-04
Business bankruptcy filings (thousands)	37.6	35.5	40.1	38.5	35.0	8.8	9.3	8.4	8.3	--
Proprietors' income (billions of dollars)	678.3	728.4	770.7	797.7	846.9	813.5	838.8	860.9	874.3	894.3
Prime bank loan rate	8.0	9.2	6.9	4.7	4.1	4.0	4.0	4.0	4.0	4.0
Rates for smallest loans (less than \$100,000)	8.7	9.7	7.4	5.1	4.4	4.3	4.8	4.2	4.3	--
Senior loan officers (percent of respondents):										
Small firm C&I lending standards have eased	1.9	0.5	0.0	0.9	0.0	0.0	1.8	1.8	8.8	12.7
Small firm C&I lending standards stayed same	90.5	78.7	60.5	78.2	86.2	86.2	83.6	93.0	84.2	85.5
Small firm demand for C&I loans is stronger	14.5	15.5	6.6	4.6	12.7	13.8	5.5	15.8	15.7	27.3
Small firm demand for C&I loans stayed same	75.4	65.8	50.4	50.0	60.0	51.7	67.3	56.1	64.7	67.3
Venture investment: number of deals	5604	8068	4609	3033	2779	662	706	686	725	618
Venture investment: total invested (billions of dollars)	54.4	105.9	40.7	21.3	18.4	4.2	4.7	4.3	5.2	4.6

Notes: All annual figures represent mean, except bankruptcies. The shaded area indicates a recession.

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				
	1999	2000	2001	2002	2003	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04
NFIB Small Business Optimism Index (1986 = 100)	101.2	100.3	98.4	101.2	101.3	105.3	106.9	105.8	102.6	102.6
NFIB: next 3 months "good time to expand" (percent of respondents)	22.8	19.2	12.3	14.3	15.7	24	24	25	19	18
Self-employed, unincorporated (millions)	10.5	10.3	10.2	10.0	10.7	11.1	10.7	10.8	10.5	10.2
Self-employed, incorporated (millions)	4.4	4.4	4.4	4.6	5.0	5.1	5.0	5.1	5.1	5.2

Notes: All annual figures represent mean. The shaded area indicates a recession.

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

### Employment by Major Sector (millions)

	Percent small business	Last five years					Last five months				
		1999	2000	2001	2002	2003	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04
<b>Goods-producing industries</b>	54.1	24.47	24.65	23.88	22.56	21.82	21.69	21.67	21.70	21.68	21.77
Natural resources and mining	50.6	0.60	0.60	0.61	0.58	0.57	0.57	0.57	0.57	0.57	0.58
Construction	85.1	6.54	6.79	6.83	6.72	6.72	6.77	6.77	6.81	6.79	6.86
Manufacturing	41.6	17.32	17.27	16.44	15.26	14.52	14.34	14.32	14.31	14.32	14.33
<b>Service-producing industries</b>	49.2	104.53	107.14	107.96	107.79	108.12	108.34	108.37	108.50	108.59	108.85
Trade, transportation and utilities	47.1	25.77	26.22	25.99	25.50	25.28	25.26	25.21	25.31	25.33	25.41
Wholesale trade	62.9	5.89	5.93	5.77	5.65	5.61	5.59	5.60	5.61	5.61	5.62
Retail trade	43.4	14.97	15.28	15.24	15.02	14.92	14.92	14.88	14.94	14.96	15.01
Information	26.5	3.42	3.63	3.63	3.39	3.20	3.17	3.18	3.16	3.17	3.17
Financial activities	40.2	7.65	7.69	7.81	7.85	7.97	7.99	7.98	7.98	7.99	8.00
Professional and business services	44.2	15.95	16.67	16.48	15.98	15.99	16.11	16.16	16.17	16.20	16.25
Education and health services	47.5	14.79	15.11	15.65	16.20	16.58	16.71	16.73	16.75	16.76	16.81
Leisure and hospitality	61.2	11.54	11.86	12.03	11.99	12.13	12.18	12.19	12.22	12.23	12.26
Other services	85.5	5.09	5.17	5.26	5.37	5.39	5.38	5.37	5.38	5.38	5.39
Government	0	20.31	20.79	21.12	21.51	21.57	21.54	21.54	21.53	21.54	21.57

Note: Seasonally adjusted. All annual figures represent mean. Shaded area represents a recession. See <http://www.bls.gov/ces/cessuper.htm> for NAICS code equivalents for each sector.

Sources: Office of Advocacy, using data from the U.S. Bureau of the Census; U.S. Bureau of Labor Statistics

### Macroeconomic Indicators

	Last five years					Last five quarters				
	1999	2000	2001	2002	2003	Q1-03	Q2-03	Q3-03	Q4-03	Q1-04
Annual change, real GDP	4.5	3.7	0.5	2.2	3.1	2.0	3.1	8.2	4.1	4.2 (p)
Real personal consumption expenditures (billions of dollars)*	6438.6	6739.4	6904.6	7140.5	7365.2	7244.1	7304.0	7426.6	7486.2	7555.6
Real gross private fixed investment (billions of dollars)*	1642.6	1735.5	1590.6	1572.0	1638.1	1581.6	1599.9	1656.1	1714.6	1744.7
Federal government surplus or deficit (billions of dollars)	103.6	189.5	50.5	-240.0	-414.5	-320.6	-424.6	-494.8	-418.9	--
Real exports of goods and services (billions of dollars)*	1008.2	1096.3	1039.0	1014.2	1034.7	1012.4	1009.6	1033.7	1083.1	1091.6
Real imports of goods and services (billions of dollars)*	1304.4	1475.8	1437.1	1484.8	1543.9	1502.5	1535.7	1538.9	1598.3	1606.2
Corporate profits after tax (billions of dollars)	592.7	552.8	569.3	709.2	845.0	713.2	811.3	893.7	961.9	--
Nonfarm business sector output per hour for all persons (1992 = 100)	112.2	115.3	117.8	123.6	129.1	126.0	127.9	130.8	131.6	132.7
Employment Cost Index: private sector wages and salaries (1989 = 100)	140.3	146.0	151.4	156.4	161.0	159.3	160.3	161.7	162.5	163.5
Employment Cost Index: private sector benefits (1989 = 100)	147.6	156.0	163.7	171.7	182.5	178.6	181.1	183.8	186.3	191.2

\*Chained 2000 dollars

Note: Seasonally adjusted. All annual figures represent mean. Shaded area represents a recession

Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics

	Last five years					Last five months				
	1999	2000	2001	2002	2003	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04
Unemployment rate (seasonally adjusted)	4.2	4.0	4.8	5.8	6.0	5.9	5.7	5.6	5.6	5.7
Civilian employment – 16 years and older (millions, seasonally adjusted)	133.5	136.9	136.9	136.5	137.7	138.1	138.5	138.6	138.3	138.3
Civilian unemployed – 15 weeks and over (millions, seasonally adjusted)	1.5	1.3	1.8	2.9	3.4	3.5	3.4	3.4	3.3	3.3
Nonfarm payrolls (millions, seasonally adjusted)	129.0	131.8	131.8	130.3	129.9	130.0	130.0	130.2	130.2	130.6
Producer Price Index (1982 = 100)	125.5	132.7	134.2	131.1	138.1	138.9	139.5	141.0	141.8	142.7
Consumer Price Index (seasonally adjusted, 1982 = 100)	166.6	172.2	177.0	179.9	184.0	184.6	184.9	185.8	186.3	187.2
Consumer Sentiment Survey (1966 = 100)	105.8	107.6	89.2	89.6	87.6	93.7	92.6	103.8	94.4	95.8
ISM Purchasing Managers Index – manufacturing composite (seasonally adjusted)	54.6	51.7	43.9	52.4	53.3	61.3	63.4	63.6	61.4	62.5
Industrial production (1997 = 100, seasonally adjusted)	110.6	115.4	111.5	110.9	111.1	112.9	113.1	113.9	114.8	114.5
M2 money stock (billions of dollars, seasonally adjusted)	4526.0	4801.9	5222.9	5621.6	6010.9	6076.2	6071.0	6076.3	6129.2	6174.0
3-month Treasury bills (secondary market rate)	4.64	5.82	3.39	1.60	1.01	0.93	0.90	0.88	0.93	0.94
10-year Treasury note (constant maturity rate)	5.64	6.03	5.02	4.61	4.02	4.30	4.27	4.15	4.08	3.83

Note: All annual figures represent the mean. The shaded area indicates a recession.

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