

THIRD QUARTER 2008: THE ECONOMY AND SMALL BUSINESS

Trends

- The U.S. economy experienced weaknesses in the third quarter, as real gross domestic product fell 0.3 percent. Consumers, who helped lift GDP in the second quarter with their economic stimulus checks, reduced their spending by an annualized 3.1 percent in the third quarter, and real gross private domestic investment continued to fall, with an annualized 1.9 percent decline. Real exports remained strong, growing an annualized 5.9 percent; real imports declined 1.9 percent annually, resulting in an improved trade deficit. Meanwhile, manufacturing output declined, with the Institute for Supply Management's manufacturers' purchasing index down from 50.2 in June to 43.5 in September and the Federal Reserve's industrial production index down an annualized 6.0 percent.
- Small business owners and consumers are pessimistic about the economy, with the University of Michigan's consumer sentiment survey and the National Federation of Independent Business's optimism index lower than desired. According to the NFIB survey, the next three months are not a good time to expand operations, to hire new workers, or to invest in new capital projects.
- The unemployment rate in August and September rose to 6.1 percent, its highest point since September 2003, and the U.S. economy has lost jobs each month in 2008, with 760,000 fewer nonfarm payroll jobs since December 2007. Every industry has seen employment losses, with the exception of four – education and health services, government, natural resources and mining, and other services. Some of the hardest hit industries were construction, manufacturing, retail trade, financial activities, and professional and business services. In the third quarter, unincorporated self-employment fell from 10.5 to 10.1 million; incorporated self-employment remained around 5.8 million.
- The Federal Reserve has expressed concern about weaknesses in the economy and in the credit markets. It has worked closely with the U.S. Treasury and Congress to shore up the health of banking and other financial institutions and to stimulate the economy. (The Emergency Economic Stabilization Act was enacted on October 3, and the Federal Reserve cut the federal funds target rate by another 50 basis points on October 29. The prime rate is now 4.25 percentage points lower than in September 2007.) Small business lending demand remains weak, according to the Federal Reserve's Senior Loan Officers' Survey, and venture investment has also fallen in the third quarter.
- Inflation remains an issue, although growth in producer prices has tapered off. Consumer prices rose an annualized 6.7 percent in the third quarter; when energy and food prices were excluded, the consumer price index grew 3.2 percent annually. The producer price index, which increased nearly 14 percent between September 2007 and September 2008, was up an annualized 2.5 percent in the third quarter. Wages and salaries and the cost of providing benefits rose 2.2 percent and 2.3 percent, respectively, on an annualized basis. The price of oil has fallen dramatically since peaking at over \$145 per barrel in July. The average cost of West Texas crude was \$103.90 in September. (It fell further to around \$66 a barrel by the end of October.) Nonfarm labor productivity grew an annualized 1.1 percent in the third quarter.

Small Business Indicators

	Last five years					Last five quarters					Trends	
	2003	2004	2005	2006	2007	Q3-07	Q4-07	Q1-08	Q2-08	Q3-08	This Quarter	Q3-07 to Q3-08
Business bankruptcy filings (thousands)	35.0	34.3	39.2	19.7	28.3	7.2	8.0	8.7	9.7	--	--	--
Proprietors' income (\$billion, current dollars)	811.3	911.1	970.7	1015.1	1042.6	1063.8	1073.8	1071.7	1076.9	1080.0	↑ 1.2% (a)	↑ 1.5%
Prime bank loan rate	4.1	4.3	6.2	8.0	8.1	8.2	7.5	6.2	5.1	5.0	↓ 0.1	↓ 3.2
Rates for smallest loans (less than \$100,000):												
Variable rate loans, repricing terms of 2-30 days	4.4	4.4	6.0	7.7	7.7	7.8	7.2	5.6	4.9	4.9	0	↓ 2.9
Variable rate loans, repricing terms of 31-365 days	6.4	6.2	7.1	8.4	8.6	8.6	8.1	7.4	6.9	6.7	↓ 0.2	↓ 1.9
Senior loan officers (percent of respondents):												
Net small firm C&I lending standards (those whose standards were eased minus those tightened)	-7.1	13.1	9.0	4.6	-4.3	-7.7	-9.6	-30.4	-51.8	-65.3	↓ 13.5	↓ 57.6
Net small firm demand for C&I loans (those whose demand was stronger minus those weaker)	-14.7	25.9	27.3	0.2	-11.0	-11.8	-7.7	-23.6	-16.1	-15.4	↑ 0.7	↓ 3.6
Venture investment: number of deals	2940	3090	3154	3661	3931	983	1049	990	1033	907	↓ 126	↓ 76
Venture investment: total invested (\$billion)	19.8	22.5	23.1	26.7	30.8	7.8	8.1	7.8	7.7	7.1	↓ 0.6	↓ 0.7

Notes: a=annualized growth rate. The third quarter figure is for July 2008. C&I = commercial and industrial loans. Trends may reflect rounding error.

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 (2008)					Trends	
	2003	2004	2005	2006	2007	May	June	July	Aug	Sept	This Quarter	Sept 07 to Sept 08
NFIB Small Business Optimism Index (1986 = 100)	101.3	104.6	101.6	98.9	96.7	89.3	89.2	88.2	91.1	92.9	↑ 3.7	↓ 4.4
NFIB: next 3 months "good time to expand" (percent of respondents)	15.7	22.3	20.6	17.4	13.9	4.0	4.0	6.0	6.0	11.0	↑ 7.0	↓ 3.0
NFIB: net percent planning to hire in the next 3 months	10.2	15.3	14.4	14.6	12.9	2.0	5.0	5.0	9.0	7.0	↑ 2.0	↓ 7.0
Self-employed, incorporated (millions)	5.0	5.2	5.3	5.5	5.8	5.8	5.7	5.7	5.9	5.8	↑ 0.1	0
Self-employed, unincorporated (millions)	10.3	10.4	10.5	10.6	10.4	10.3	10.5	10.6	10.3	10.1	↓ 0.4	↓ 0.4

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

Note: Starting this quarter, annualized growth rates are calculated using averages between the current and previous quarter, instead of using quarterly end points. 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.

Employment by Major Sector (millions)

	Percent small business	Last five years					Last five months (2008)					Trends	
		2003	2004	2005	2006	2007	May	June	July	Aug	Sept	This Quarter	Sept 07 to Sept 08
Goods-producing industries	57.88	21.81	21.88	22.19	22.53	22.22	21.58	21.49	21.44	21.38	21.30	↓0.19	↓0.84
Natural resources and mining	61.93	0.57	0.59	0.63	0.68	0.72	0.76	0.77	0.78	0.79	0.80	↑0.03	↑0.07
Construction	86.14	6.74	6.97	7.33	7.69	7.62	7.25	7.20	7.17	7.16	7.13	↓0.07	↓0.46
Manufacturing	44.18	14.51	14.32	14.23	14.16	13.88	13.57	13.53	13.49	13.43	13.38	↓0.15	↓0.44
Service-producing industries	48.72	108.18	109.54	111.51	113.56	115.40	116.14	116.13	116.11	116.10	116.02	↓0.11	↑0.32
Trade, transportation and utilities	45.27	25.29	25.53	25.96	26.28	26.60	26.45	26.43	26.39	26.36	26.30	↓0.13	↓0.35
Wholesale trade	60.94	5.61	5.66	5.76	5.90	6.03	6.04	6.03	6.02	6.01	6.00	↓0.03	↓0.05
Retail trade	41.12	14.92	15.06	15.28	15.36	15.49	15.33	15.32	15.30	15.28	15.24	↓0.09	↓0.25
Information	26.16	3.19	3.12	3.06	3.04	3.03	3.00	3.00	2.99	2.98	2.98	↓0.02	↓0.05
Financial activities	41.88	7.98	8.03	8.15	8.33	8.31	8.23	8.21	8.21	8.20	8.18	↓0.03	↓0.11
Professional and business services	43.88	15.99	16.39	16.95	17.57	17.97	17.98	17.93	17.90	17.86	17.83	↓0.09	↓0.17
Education and health services	47.84	16.59	16.95	17.37	17.83	18.33	18.82	18.89	18.94	18.99	19.02	↑0.13	↑0.57
Leisure and hospitality	60.89	12.17	12.49	12.81	13.11	13.47	13.68	13.68	13.66	13.65	13.63	↓0.05	↓0.08
Other services	85.57	5.40	5.41	5.39	5.44	5.49	5.53	5.53	5.53	5.52	5.53	↑0.01	↑0.04
Government	0	21.58	21.62	21.81	21.97	22.20	22.45	22.46	22.50	22.53	22.54	↑0.08	↑0.32

Notes: Seasonally adjusted. See www.bls.gov/ces/cessuper.htm for NAICS code equivalents for each sector. The small business percentage by sector is based on 2005 firm size data. See www.sba.gov/advo/research/us05_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)	
	2003	2004	2005	2006	2007	Q3-07	Q4-07	Q1-08	Q2-08	Q3-08	This Quarter	Q3-07 - Q3-08
Real gross domestic product												
Level (\$billion)	10301.1	10675.7	10989.5	11294.9	11523.9	11625.7	11620.7	11646.0	11727.4	11720.0	↓0.3% (a)	↑0.8%
Annual percentage change*	2.5	3.6	2.9	2.8	2.0	4.8	-0.2	0.9	2.8	-0.3		
Real personal consumption expenditures (\$billion)*	7295.4	7561.4	7791.7	8028.9	8252.8	8278.5	8298.2	8316.1	8341.3	8275.2	↓3.1% (a)	0
Real gross private fixed investment (\$billion)*	1613.1	1770.2	1873.5	1912.5	1809.7	1838.7	1781.3	1754.7	1702.0	1693.7	↓1.9% (a)	↓7.9%
Federal government surplus or deficit (\$billion)	-372.2	-370.6	-291.7	-201.1	-229.3	-244.3	-236.4	-330.7	-640.0	--	--	--
Real exports of goods and services (\$billion)*	1026.1	1126.1	1205.3	1314.9	1425.9	1466.2	1482.1	1500.6	1544.7	1567.0	↑5.9% (a)	↑6.9%
Real imports of goods and services (\$billion)*	1545.0	1720.0	1821.9	1930.5	1972.4	1978.0	1966.5	1962.6	1926.0	1916.9	↓1.9% (a)	↓3.1%
Corporate profits after tax (\$billion)	749.9	923.9	1034.3	1199.6	1192.1	1217.3	1177.6	1190.6	1126.5	--	--	--
Nonfarm business sector output per hour for all persons (1992=100)	128.0	131.6	134.1	135.4	137.9	138.3	138.6	139.5	140.8	141.1	↑1.1% (a)	↑2.0%
Employment cost index: private sector wages & salaries (2005=100)	94.2	96.8	99.2	102.0	105.5	105.9	106.7	107.6	108.4	109.0	↑2.2% (a)	↑2.9%
Employment cost index: private sector benefits (2005=100)	88.8	94.8	99.2	102.1	104.5	105.0	105.8	106.4	106.9	107.5	↑2.3% (a)	↑2.4%

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 (2008)					Trends	
	2003	2004	2005	2006	2007	May	June	July	Aug	Sept	This Quarter	Sept 07 to Sept 08
Unemployment rate (seasonally adjusted)	6.0	5.5	5.1	4.6	4.6	5.5	5.5	5.7	6.1	6.1	↑0.6	↑1.4
Civilian employment—16 years and older (millions, seasonally adjusted)	137.7	139.2	141.7	144.4	146.0	146.0	145.9	145.8	145.5	145.3	↓0.6	↓1.0
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	3.4	3.1	2.6	2.3	2.3	2.8	2.9	3.1	3.4	3.6	↑0.7	↑1.2
Nonfarm payrolls (millions, seasonally adjusted)	130.0	131.4	133.7	136.2	137.6	137.7	137.6	137.6	137.5	137.3	↓0.3	↓0.5
Producer price index (1982=100)	138.1	146.7	157.4	164.8	172.7	196.6	200.7	205.6	199.9	197.2	↑2.5% (a)	↑13.7%
Consumer price index (all urban consumers and all items; seasonally adjusted, 1982-84=100)	184.0	188.9	195.3	201.6	207.3	215.1	217.4	219.2	218.9	218.8	↑6.7% (a)	↑4.9%
Consumer price index (all urban consumer; all items less food & energy; seasonally adj., 1982-84=100)	193.2	196.6	200.9	205.9	210.7	214.8	215.5	216.2	216.7	217.0	↑3.2% (a)	↑2.5%
Univ. of Mich. Consumer Sentiment (1966=100)	87.6	95.2	88.6	87.3	85.6	59.8	56.4	61.2	63.0	70.3	↑13.9	↓13.1
Spot oil price/barrel: West Texas intermediate crude	31.14	41.44	56.47	66.10	72.36	125.39	133.93	133.44	116.61	103.90	↓\$30.03	↑\$23.97
New privately owned housing units started (millions, seasonally adjusted at the annual rate)	1.9	1.9	2.1	1.8	1.3	1.0	1.1	0.9	0.9	0.8	↓0.3	↓0.4
ISM purchasing managers index—manufacturing composite (seasonally adjusted)	51.7	59.1	54.4	53.1	51.1	49.6	50.2	50.0	49.9	43.5	↓6.7	↓7.0
Industrial production (2002=100, seasonally adj.)	101.2	103.8	107.2	109.6	111.4	111.1	111.5	111.4	110.4	107.3	↓6.0% (a)	↓4.5%
3-month Treasury bills (secondary market rate)	1.01	1.37	3.15	4.73	4.35	1.73	1.86	1.63	1.72	1.13	↓0.73	↓2.76
10-year Treasury note (constant maturity rate)	4.02	4.27	4.29	4.79	4.63	3.88	4.10	4.01	3.89	3.69	↓0.41	↓0.83

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

Sources: Board of Governors of the Federal Reserve System; 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.