

THIRD QUARTER 2005: THE ECONOMY AND SMALL BUSINESS

Trends

- In the third quarter of 2005, Americans dealt with the ramifications of Hurricanes Katrina and Rita and rising petroleum prices; nonetheless, the economy continued its expansion. Real gross domestic product (GDP) grew at an annualized rate of 3.8 percent, up from 3.3 percent the previous quarter. Personal and business spending accounted for this result as real personal consumption and real gross private fixed investment increased at annualized rates of 3.9 and 2.2 percent, respectively. Nonfarm productivity increased a healthy annualized 4.1 percent in the third quarter, up from 2.1 percent in the second quarter. Meanwhile, exports, imports, and proprietors' income remained relatively flat. Industrial production declined, due in large part to the storms.
- Measures of optimism were mixed, especially after the hurricanes. The National Federation of Independent Business' monthly Optimism Index fell slightly, to 100.0, but this level still indicates that the small business sector is growing. The same survey found that a large percentage of small businesses respondents consider the next three months "a good time to expand." This contrasts with the University of Michigan's Consumer Sentiment Survey, which fell from 96.5 in July to 76.9 in September. Despite the increased pessimism, consumption spending is still strong.
- The unemployment rate fell to 4.9 percent in August but rose to 5.1 percent in September after the hurricanes. The economy has created nearly 1.6 million net new jobs so far this year, with 453,000 of those stemming from the third quarter. Employment rose in most major industries with the exception of leisure and hospitality, manufacturing, retail trade, and other services. The national perspective, however, masks the employment losses that have resulted from Hurricanes Katrina and Rita in the affected areas. Between August and September, Louisiana lost 251,000 individuals from its nonfarm payroll and Mississippi lost 59,700.
- The Federal Reserve has continued to raise interest rates in an effort to stabilize the growing economy. Higher rates, though, have not dampened demand for small business lending, which according to the Senior Loan Officers' Survey, remains strong.
- The price of West Texas crude reached an average of \$65.57 for the month of September, resulting in significantly higher prices for gasoline attributable to hurricane-related damage as well as continued increases in global demand. Consumer prices (excluding energy costs) have remained under control, rising at an annualized growth rate of 1.6 percent for the third quarter.

Small Business Indicators

	Last five years					Last five quarters				
	2000	2001	2002	2003	2004	Q3-04	Q4-04	Q1-05	Q2-05	Q3-05
Business bankruptcy filings (thousands)	35.5	40.1	38.5	35.0	34.3	7.6	7.8	8.1	8.7	--
Proprietors' income (billions of current dollars)	728.4	771.9	768.4	810.2	889.7	889.1	900.9	917.9	936.6	937.5
Prime bank loan rate	9.2	6.9	4.7	4.1	4.3	4.4	4.9	5.4	5.9	6.4
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	4.6	4.5	5.3	5.7	6.1
Variable rate loans, repricing terms of 31-365 days	9.9	8.7	6.6	6.4	6.2	6.3	6.5	6.6	7.1	7.1
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	3.7	18.2	9.1	22.7	0
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	38.9	25.5	13.7	45.5	33.4
Venture investment: number of deals	7816	4458	3057	2857	2945	656	791	707	780	714
Venture investment: total invested (billions of dollars)	104.8	40.8	21.7	19.6	21.5	4.6	5.6	5.0	6.1	5.3

Note: The third quarter figure for the Senior Loan Officers Survey is for July, which measures from April. 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)				
	2000	2001	2002	2003	2004	May	June	July	Aug	Sept
NFIB Small Business Optimism Index (1986 = 100)	100.3	98.4	101.2	101.3	104.6	100.8	100.8	101.1	100.9	100.0
NFIB: next 3 months "good time to expand" (percent of respondents)	19.2	12.3	14.3	15.7	22.3	18	22	20	21	19
NFIB: net percent planning to hire in the next 3 months	15.6	11.6	10.8	10.2	15.3	15	13	14	17	17
Self-employed, incorporated (millions)	4.5	4.5	4.6	5.0	5.2	5.4	5.3	5.2	5.2	5.1
Self-employed, unincorporated (millions)	10.2	10.1	9.9	10.3	10.4	10.7	10.5	10.5	10.2	10.3

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 (2005)				
		2000	2001	2002	2003	2004	May	June	July	Aug	Sept
Goods-producing industries	48.41	24.65	23.87	22.55	21.81	21.88	22.14	22.13	22.13	22.15	22.16
Natural resources and mining	38.24	0.60	0.61	0.58	0.57	0.59	0.62	0.63	0.63	0.63	0.64
Construction	96.15	6.79	6.83	6.71	6.73	6.96	7.21	7.23	7.24	7.26	7.29
Manufacturing	42.34	17.27	16.44	15.26	14.51	14.33	14.30	14.28	14.27	14.26	14.23
Service-producing industries	55.03	107.14	107.96	107.79	108.19	109.59	111.28	111.45	111.73	111.92	111.89
Trade, transportation and utilities	52.32	26.22	25.99	25.50	25.29	25.51	25.84	25.85	25.92	25.94	25.85
Wholesale trade	62.79	5.93	5.77	5.65	5.61	5.65	5.72	5.72	5.73	5.74	5.74
Retail trade	42.92	15.28	15.24	15.02	14.92	15.04	15.19	15.20	15.25	15.26	15.18
Information	25.56	3.63	3.63	3.39	3.19	3.14	3.15	3.15	3.15	3.15	3.15
Financial activities	39.73	7.69	7.81	7.85	7.98	8.05	8.19	8.21	8.23	8.24	8.26
Professional and business services	44.83	16.67	16.48	15.98	15.99	16.41	16.85	16.91	16.96	17.00	17.05
Education and health services	47.84	15.11	15.65	16.20	16.59	16.95	17.29	17.34	17.38	17.43	17.48
Leisure and hospitality	61.43	11.86	12.03	11.99	12.18	12.48	12.74	12.77	12.80	12.84	12.76
Other services	86.16	5.17	5.26	5.37	5.40	5.43	5.47	5.48	5.48	5.47	5.47
Government	0	20.79	21.12	21.51	21.58	21.62	21.75	21.76	21.82	21.84	21.87

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 2002 firm size data. See http://www.sba.gov/advo/stats/us_02_n6.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	Q3-04	Q4-04	Q1-05	Q2-05	Q3-05
Annual change, real gross domestic product (percent)	3.7	0.8	1.6	2.7	4.2	4.0	3.3	3.8	3.3	3.8
Real personal consumption expenditures (billions)*	6739.4	6910.4	7099.3	7306.5	7588.6	7617.5	7698.8	7764.9	7829.5	7904.7
Real gross private fixed investment (billions)*	1679.0	1629.4	1548.9	1627.4	1794.4	1833.4	1863.9	1902.9	1885.0	1895.6
Federal government surplus or deficit (billions)	189.5	46.7	-247.9	-382.8	-406.5	-411.6	-371.6	-298.3	-285.5	--
Real exports of goods and services (billions)*	1096.3	1036.7	1013.3	1031.2	1117.9	1125.0	1144.5	1165.3	1195.4	1197.6
Real imports of goods and services (billions)*	1475.8	1435.8	1484.6	1552.6	1719.2	1731.5	1778.6	1810.7	1809.6	1809.4
Corporate profits after tax (billions)	552.8	563.2	693.7	799.7	890.3	858.2	926.4	925.6	975.0	--
Nonfarm business sector output per hour for all persons (1992 = 100)	115.5	118.5	123.3	128.0	132.3	132.7	133.5	134.5	135.3	136.6
Employment Cost Index: private sector wages and salaries (1989 = 100)	146.0	151.4	156.4	160.9	165.0	165.7	166.4	167.4	168.4	169.4
Employment Cost Index: private sector benefits (1989 = 100)	156.0	163.7	171.7	182.5	195.4	196.7	199.9	202.0	203.6	206.2

*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 (2005)				
	2000	2001	2002	2003	2004	May	June	July	Aug	Sept
Unemployment rate (seasonally adjusted)	4.0	4.8	5.8	6.0	5.5	5.1	5.0	5.0	4.9	5.1
Civilian employment—16 years and older (millions, seasonally adjusted)	136.9	136.9	136.5	137.7	139.2	141.5	141.6	142.1	142.4	142.4
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	1.3	1.8	2.9	3.4	3.1	2.7	2.4	2.4	2.7	2.6
Nonfarm payrolls (millions, seasonally adjusted)	131.8	131.8	130.3	129.9	131.3	133.4	133.6	133.9	134.1	134.0
Producer Price Index (1982 = 100)	132.7	134.2	131.1	138.1	146.7	154.3	154.1	156.2	157.3	161.9
Consumer Price Index (seasonally adjusted, 1982 = 100)	172.2	177.0	179.9	184.0	188.9	194.1	194.1	195.1	196.1	198.5
Consumer Sentiment Survey (1966 = 100)	107.6	89.2	89.6	87.6	95.2	86.9	96.0	96.5	89.1	76.9
Spot oil price per barrel: West Texas intermediate crude	30.30	25.92	26.10	31.14	41.44	49.83	56.26	58.70	64.97	65.57
ISM Purchasing Managers Index—manufacturing composite (seasonally adjusted)	51.7	43.9	52.4	53.3	60.5	51.4	53.8	56.6	53.6	59.4
Industrial production (1997 = 100, seasonally adjusted)	115.4	111.3	111.0	110.9	115.5	118.5	119.4	119.4	119.6	118.0
M2 money stock (billions, seasonally adjusted)	4798.2	5214.9	5609.5	5997.1	6269.1	6482.8	6515.6	6525.1	6554.4	6587.9
3-month Treasury bills (secondary market rate)	5.82	3.39	1.60	1.01	1.37	2.84	2.97	3.22	3.44	3.42
10-year Treasury note (constant maturity rate)	6.03	5.02	4.61	4.02	4.27	4.14	4.00	4.18	4.26	4.20

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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