

QUARTERLY INDICATORS: THE ECONOMY AND SMALL BUSINESS

Second Quarter 2004

Trends

- The overall economy continued to recover. Real gross domestic product increased at an annualized rate of 2.8 percent in the second quarter, and although that number was lower than previous quarters, it did mark the eleventh consecutive quarter of positive real output growth since the recession in 2001. Industrial production was also higher. Moreover, consumers and businesses remained confident. For instance, the National Federation of Independent Business's Optimism Index was at or above 103 in April, May, and June, which, according to a recent Advocacy study by Joel Popkin and Company, signifies growing small business output. (For more information on the July 2003 Advocacy study, see: <http://www.sba.gov/advo/research/rs231.pdf>.)
- The unemployment rate remained at 5.6 percent, but that does not tell the full story. Nonfarm payroll jobs grew by 610,000 in the second quarter and 1.45 million since August 2003. Each employment sector, except for government, hired new workers. The number of Americans who have been unemployed for at least 15 weeks continued its decline from 3.3 million in the first quarter to 3.1 million in the second quarter, but remained above pre-recessionary levels.
- In the five major industries with more than 50 percent small business employment, there were 180,000 new jobs created between March and June with the following breakdown: leisure and hospitality services—70,000; construction—59,000; other services—28,000; wholesale trade—15,000; and natural resources and mining—8,000.
- Worker productivity remained strong, showing a 4.6 percent increase in nonfarm business output per hour between the second quarters of 2003 and 2004. Meanwhile, private sector benefit cost increases continued to outstrip the increases of providing wages and salaries over that same time period. Benefits increased 7.4 percent versus a 2.8 percent rise in wages and salaries.
- Proprietors' income increased at an annualized rate of 14.8 percent from the first quarter, from \$872.1 to \$902.8 billion. In addition, self-employment grew slightly. In June, there were 5.3 million incorporated and 10.5 million unincorporated self-employed individuals.
- Interest rates remained low with the prime rate at 4.0 percent, and small business loans less than \$100,000 averaged 4.2 percent. There was an upward trend, though, on 3-month and 10-year Treasury securities, as the market expects higher rates in the near future. The Federal Reserve's Senior Loan Officers' Survey showed greater demand for small firm lending in the second quarter. Meanwhile, venture investment increased to 5.6 billion – almost 17 percent higher than in the second quarter of 2003.
- The spot oil price of West Texas intermediate crude ended the quarter at \$38.02 per barrel, a \$1.26 increase from March. Both figures are higher than the average price per barrel of \$31.14 in 2003.

Small Business Indicators

	Last five years					Last five quarters				
	1999	2000	2001	2002	2003	Q2-03	Q3-03	Q4-03	Q1-04	Q2-04
Business bankruptcy filings (thousands)	37.6	35.5	40.1	38.5	35.0	9.3	8.4	8.3	10.6	8.2
Proprietors' income (billions of dollars)	678.3	728.4	771.9	769.6	834.1	825.7	852.0	864.7	872.1	902.8
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	4.8	4.2	4.3	4.3	4.2
Senior loan officers (percent of respondents):										
Small firm C&I lending standards have eased	1.9	0.5	0.0	0.9	0.0	1.8	1.8	8.8	12.7	19.6
Small firm C&I lending standards stayed the same	90.5	78.7	60.5	78.2	86.2	83.6	93.0	84.2	85.5	80.4
Small firm demand for C&I loans is stronger	14.5	15.5	6.6	4.6	12.7	5.5	15.8	15.7	27.3	43.6
Small firm demand for C&I loans stayed the same	75.4	65.8	50.4	50.0	60.0	67.3	56.1	64.7	67.3	50.9
Venture investment: number of deals	5736	8303	4857	3098	2876	727	706	759	686	761
Venture investment: total invested (billions of dollars)	56.2	107.8	42.9	21.6	18.8	4.8	4.4	5.4	5.0	5.6

Note: The second quarter figure for the Senior Loan Officers Survey is for April, which measures January through April.

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	Feb-04	Mar-04	Apr-04	May-04	Jun-04
NFIB Small Business Optimism Index (1986 = 100)	101.2	100.3	98.4	101.2	101.3	102.6	102.6	105.3	104.5	103.0
NFIB: next 3 months "good time to expand" (percent of respondents)	22.8	19.2	12.3	14.3	15.7	19	18	24	22	21
Self-employed, incorporated (millions)	4.3	4.5	4.5	4.6	5.0	5.0	5.2	5.2	5.2	5.3
Self-employed, unincorporated (millions)	10.1	10.2	10.1	9.9	10.3	10.1	9.9	10.1	10.4	10.5

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	Feb-04	Mar-04	Apr-04	May-04	Jun-04
Goods-producing industries	54.1	24.47	24.65	23.88	22.56	21.82	21.68	21.78	21.82	21.89	21.90
Natural resources and mining	50.6	0.60	0.60	0.61	0.58	0.57	0.57	0.58	0.59	0.59	0.59
Construction	85.1	6.54	6.79	6.83	6.72	6.72	6.79	6.85	6.87	6.91	6.91
Manufacturing	41.6	17.32	17.27	16.44	15.26	14.52	14.32	14.34	14.37	14.40	14.40
Service-producing industries	49.2	104.53	107.14	107.96	107.79	108.12	108.59	108.85	109.13	109.27	109.34
Trade, transportation and utilities	47.1	25.77	26.22	25.99	25.50	25.28	25.33	25.42	25.45	25.48	25.50
Wholesale trade	62.9	5.89	5.93	5.77	5.65	5.61	5.61	5.62	5.63	5.64	5.64
Retail trade	43.4	14.97	15.28	15.24	15.02	14.92	14.96	15.01	15.04	15.05	15.05
Information	26.5	3.42	3.63	3.63	3.39	3.20	3.17	3.17	3.17	3.18	3.18
Financial activities	40.2	7.65	7.69	7.81	7.85	7.97	7.99	8.00	8.02	8.03	8.04
Professional and business services	44.2	15.95	16.67	16.48	15.98	15.99	16.20	16.24	16.36	16.43	16.45
Education and health services	47.5	14.79	15.11	15.65	16.20	16.58	16.76	16.81	16.85	16.87	16.89
Leisure and hospitality	61.2	11.54	11.86	12.03	11.99	12.13	12.23	12.27	12.30	12.33	12.34
Other services	85.5	5.09	5.17	5.26	5.37	5.39	5.38	5.39	5.40	5.41	5.42
Government	0	20.31	20.79	21.12	21.51	21.57	21.54	21.55	21.57	21.54	21.53

Note: Seasonally adjusted. 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	Q2-03	Q3-03	Q4-03	Q1-04	Q2-04
Annual change, real gross domestic product	4.5	3.7	0.8	1.9	3.0	4.1	7.4	4.2	4.5	2.8
Real personal consumption expenditures (billions of dollars)*	6438.6	6739.4	6910.4	7123.4	7355.5	7311.4	7401.7	7466.8	7543.0	7562.5
Real gross private fixed investment (billions of dollars)*	1642.6	1735.5	1598.4	1560.7	1628.8	1577.6	1659.4	1714.1	1764.5	1818.4
Federal government surplus or deficit (billions of dollars)	103.7	189.5	46.7	-254.5	-364.6	-364.4	-433.0	-379.2	-384.2	--
Real exports of goods and services (billions of dollars)*	1008.2	1096.3	1036.7	1012.4	1031.8	1006.5	1033.8	1076.2	1095.4	1129.9
Real imports of goods and services (billions of dollars)*	1304.4	1475.8	1435.8	1484.4	1550.3	1531.7	1542.5	1604.5	1645.5	1682.6
Corporate profits after tax (billions of dollars)	592.7	552.8	563.2	690.7	786.2	761.7	818.4	876.8	909.1	--
Nonfarm business sector output per hour for all persons (1992 = 100)	112.2	115.3	117.8	123.6	129.1	127.9	130.8	131.6	132.8	133.8
Employment Cost Index: private sector wages and salaries (1989 = 100)	140.3	146.0	151.4	156.4	161.0	160.3	161.7	162.5	163.5	164.4
Employment Cost Index: private sector benefits (1989 = 100)	147.6	156.0	163.7	171.7	182.5	181.1	183.8	186.3	191.2	194.5

*Chained 2000 dollars.

Note: Seasonally adjusted.

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

	Last five years					Last five months				
	1999	2000	2001	2002	2003	Feb-04	Mar-04	Apr-04	May-04	Jun-04
Unemployment rate (seasonally adjusted)	4.2	4.0	4.8	5.8	6.0	5.6	5.7	5.6	5.6	5.6
Civilian employment – 16 years and older (millions, seasonally adjusted)	133.5	136.9	136.9	136.5	137.7	138.3	138.3	138.6	138.8	139.0
Civilian unemployed – 15 weeks and over (millions, seasonally adjusted)	1.5	1.3	1.8	2.9	3.4	3.3	3.3	3.0	3.1	3.1
Nonfarm payrolls (millions, seasonally adjusted)	129.0	131.8	131.8	130.3	129.9	130.2	130.6	131.0	131.2	131.2
Producer Price Index (1982 = 100)	125.5	132.7	134.2	131.1	138.1	141.4	142.7	144.5	146.6	147.1
Consumer Price Index (seasonally adjusted, 1982 = 100)	166.6	172.2	177.0	179.9	184.0	186.3	187.2	187.6	188.8	189.4
Consumer Sentiment Survey (1966 = 100)	105.8	107.6	89.2	89.6	87.6	94.4	95.8	94.2	90.2	95.6
Spot Oil Price per barrel: West Texas Intermediate Crude	19.25	30.30	25.92	26.10	31.14	34.74	36.76	36.69	40.28	38.02
ISM Purchasing Managers Index – manufacturing composite (seasonally adjusted)	54.6	51.7	43.9	52.4	53.3	61.4	62.5	62.4	62.8	61.1
Industrial production (1997 = 100, seasonally adjusted)	110.6	115.4	111.5	110.9	111.1	114.8	114.7	115.5	116.5	116.2
M2 money stock (billions of dollars, seasonally adjusted)	4526.0	4802.2	5220.2	5615.3	5999.4	6120.4	6167.7	6215.9	6285.8	6292.9
3-month Treasury bills (secondary market rate)	4.64	5.82	3.39	1.60	1.01	0.93	0.94	0.94	1.02	1.27
10-year Treasury note (constant maturity rate)	5.64	6.03	5.02	4.61	4.02	4.08	3.83	4.35	4.72	4.73

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

For the First Quarter 2004 Economic Indicators, visit <http://www.sba.gov/advo/stats/sbqei0401.pdf>.

This data supercedes all previously released versions of the Second Quarter report.