

THIRD QUARTER 2006: THE ECONOMY AND SMALL BUSINESS

Trends

- The U.S. economy grew 1.6 percent in the third quarter of 2006, down from 5.6 percent in the first quarter and 2.6 percent in the second. The slower growth reflects lower business investment, especially in residential housing. Real personal consumption grew an annualized 3.1 percent during the quarter, up from 2.6 percent the previous quarter. Real imports grew at a faster annualized rate—7.8 percent—than real exports at 6.5 percent. Industrial production fell during the third quarter, but was up for the year.
- Both the National Federation of Independent Business' Optimism Index and the University of Michigan's Consumer Sentiment Survey show that overall confidence in the economy improved. The September NFIB survey also found more small business owners stating that the next three months were a "good time to expand" and hire new workers.
- The unemployment rate in September was 4.6 percent, the same as in June, but lower than in July and August. The economy generated 501,000 net new jobs in the third quarter, with service-producing industries accounting for all of the change. The manufacturing and retail trade sectors lost employment during the quarter, but all other industries saw an increase or no change. Industries with the largest shares of small business employment—construction, other services, wholesale trade, and leisure and hospitality—added 153,200 net new jobs over July levels. Incorporated self-employment saw a slight decrease in the third quarter, but overall self-employment was higher than a year ago.
- The prime rate increased to an average of 8.3 percent in the third quarter, up 0.4 percent for the quarter and 1.8 percent for the year. Other rates rose similarly. Higher interest rates weakened the demand for small business loans over the year, but the Senior Loan Officer Survey finds more bankers seeing stronger demand than weaker demand for small business loans. Venture capital investment is down from the last quarter.
- Business bankruptcy filings have fallen dramatically since the laws were revised in October 2005. While no figures are yet available for the third quarter, there were 4,100 and 4,900 filings in the first two quarters of 2006. If the trend continues, the number of business bankruptcy filings in 2006 will be significantly smaller than in previous years. A similar fall-off is found in personal bankruptcy filings.
- Inflation remained under control in the third quarter, helped by falling energy prices. The consumer price index rose an annualized 0.8 percent during the quarter, 2.1 percent since September 2005. The average price of petroleum fell \$7.07 per barrel between July and September.

Small Business Indicators

	Last five years					Last five quarters					Trends	
	2001	2002	2003	2004	2005	Q3-05	Q4-05	Q1-06	Q2-06	Q3-06	This Quarter	Q3-05 to Q3-06
Business bankruptcy filings (thousands)	40.1	38.5	35.0	34.3	39.2	9.5	12.8	4.1	4.9	--	--	--
Proprietors' income (billions of current dollars)	771.9	768.4	811.3	911.1	970.7	967.3	996.8	1008.3	1011.9	1013.4	↑ 0.6% (a)	↑ 4.8%
Prime bank loan rate	6.9	4.7	4.1	4.3	6.2	6.4	7.0	7.4	7.9	8.3	↑ 0.4	↑ 1.8
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	6.1	6.7	7.2	7.7	8.0	↑ 0.3	↑ 1.9
Variable rate loans, repricing terms of 31-365 days	8.7	6.6	6.4	6.2	7.1	7.1	7.7	8.3	8.1	8.7	↑ 0.6	↑ 1.6
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	0	4.2	4.8	7.0	4.8	↓ 2.2	↑ 4.8
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	33.4	16.7	5.3	3.5	5.0	↑ 1.5	↓ 28.4
Venture investment: number of deals	4464	3073	2887	3024	3092	771	794	829	907	797	↓ 110	↑ 26
Venture investment: total invested (billions of dollars)	40.5	21.8	19.6	22.1	22.7	5.6	5.7	6.2	6.8	6.2	↓ 0.6	↑ 0.6

Notes: a=annualized growth rate. The third quarter figure is for July and measures from April. 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 (2006)					Trends	
	2001	2002	2003	2004	2005	May	June	July	Aug	Sept	This Quarter	Sept 05 to Sept 06
NFIB Small Business Optimism Index (1986 = 100)	98.4	101.2	101.3	104.6	101.6	98.5	96.7	98.1	95.9	99.4	↑ 2.7	↓ 0.6
NFIB: next 3 months "good time to expand" (percent of respondents)	12.3	14.3	15.7	22.3	20.6	18.0	13.0	16.0	13.0	18.0	↑ 5.0	↓ 1.0
NFIB: net percent planning to hire in the next 3 months	11.6	10.8	10.2	15.3	14.4	14.0	9.0	15.0	17.0	17.0	↑ 8.0	0
Self-employed, incorporated (millions)	4.5	4.6	5.0	5.2	5.3	5.4	5.5	5.5	5.4	5.4	↓ 0.1	↑ 0.3
Self-employed, unincorporated (millions)	10.1	9.9	10.3	10.4	10.5	10.6	10.7	10.7	10.7	10.7	0	↑ 0.3

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

Editorial Note: This issue features new "Trends" columns in the tables. These provide a quick numerical snapshot of recent and year-to-year changes in the statistics, lending further support to the bullets above. The trends are differences and follow the same unit of measure as the other data in that row, except where noted. For example, the employment data by sector are presented in millions of workers; therefore, the trends are also in millions of workers.

Employment by Major Sector (millions)

	Percent small business	Last five years					Last five months (2006)					Trends	
		2001	2002	2003	2004	2005	May	June	July	Aug	Sept	This Quarter	Sept 05 to Sept 06
Goods-producing industries	57.61	23.87	22.55	21.81	21.88	22.14	22.41	22.44	22.42	22.43	22.42	↓0.01	↑0.28
Natural resources and mining	51.24	0.61	0.58	0.57	0.59	0.62	0.67	0.68	0.68	0.68	0.68	↑0.01	↑0.05
Construction	86.43	6.83	6.71	6.73	6.97	7.28	7.50	7.50	7.50	7.51	7.52	↑0.02	↑0.19
Manufacturing	44.00	16.44	15.26	14.51	14.31	14.23	14.23	14.26	14.24	14.23	14.22	↓0.04	↑0.03
Service-producing industries	49.36	107.96	107.79	108.18	109.54	111.32	112.71	112.82	112.95	113.18	113.33	↑0.52	↑1.63
Trade, transportation and utilities	45.35	25.99	25.50	25.29	25.53	25.91	26.04	26.04	26.05	26.05	26.06	↑0.02	↑0.12
Wholesale trade	61.58	5.77	5.65	5.61	5.66	5.75	5.84	5.85	5.85	5.85	5.87	↑0.02	↑0.10
Retail trade	42.16	15.24	15.02	14.92	15.06	15.25	15.23	15.22	15.22	15.21	15.20	↓0.02	↓0.07
Information	26.17	3.63	3.39	3.19	3.12	3.07	3.06	3.06	3.05	3.06	3.06	0	↓0.01
Financial activities	41.43	7.81	7.85	7.98	8.03	8.14	8.32	8.32	8.32	8.33	8.36	↑0.05	↑0.19
Professional and business services	44.95	16.48	15.98	15.98	16.39	16.88	17.28	17.32	17.36	17.40	17.42	↑0.10	↑0.42
Education and health services	48.08	15.65	16.20	16.59	16.95	17.34	17.68	17.70	17.74	17.81	17.84	↑0.14	↑0.39
Leisure and hospitality	62.09	12.03	11.99	12.18	12.49	12.80	13.01	13.02	13.06	13.10	13.13	↑0.10	↑0.30
Other services	86.27	5.26	5.37	5.40	5.41	5.39	5.41	5.40	5.40	5.40	5.42	↑0.01	↑0.04
Government	--	21.12	21.51	21.58	21.62	21.81	21.92	21.95	21.97	22.02	22.05	↑0.10	↑0.19

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 2004 firm size data. See http://www.sba.gov/advo/research/us04_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	
	2001	2002	2003	2004	2005	Q3-05	Q4-05	Q1-06	Q2-06	Q3-06	This Quarter	Q3-05 - Q3-06
Real gross domestic product (billions)	9890.7	10048.9	10301.1	10703.5	11048.6	11115.1	11163.8	11316.4	11388.1	11432.9	↑1.6% (a)	↑2.9%
-- Annual percentage change *	0.8	1.6	2.5	3.9	3.2	4.2	1.8	5.6	2.6	1.6		
Real personal consumption expenditures (billions)*	6910.4	7099.3	7295.4	7577.1	7841.2	7895.3	7910.2	8003.8	8055.0	8116.2	↑3.1% (a)	↑2.8%
Real gross private fixed investment (billions)*	1598.4	1557.2	1613.1	1770.6	1866.3	1855.9	1927.0	1963.6	1968.5	1958.7	↓2.0% (a)	↑5.5%
Federal government surplus or deficit (billions)	46.7	-247.9	-372.2	-382.0	-309.2	-396.1	-263.5	-147.0	-131.5	--	--	--
Real exports of goods and services (billions)*	1036.7	1013.3	1026.1	1120.4	1196.1	1200.5	1228.4	1269.3	1288.5	1309.0	↑6.5% (a)	↑9.0%
Real imports of goods and services (billions)*	1435.8	1484.6	1545.0	1711.3	1815.3	1808.1	1865.0	1905.9	1912.7	1948.9	↑7.8% (a)	↑7.8%
Corporate profits after tax (billions)	563.2	693.7	749.9	882.5	931.4	887.5	968.9	1112.1	1115.7	--	--	--
Nonfarm business sector output per hour for all persons (1992=100)	118.6	123.5	128.0	131.8	134.9	135.8	135.8	137.2	137.6	137.6	0	↑1.3%
Employment Cost Index: private sector wages & salaries (2005=100)	88.8	91.6	94.2	96.8	99.2	99.4	100.1	100.8	101.7	102.5	↑3.2% (a)	↑3.1%
Employment Cost Index: private sector benefits (2005=100)	80.1	83.7	88.8	94.8	99.2	99.6	100.4	100.8	101.5	102.5	↑4.0% (a)	↑2.9%

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 (2006)					Trends	
	2001	2002	2003	2004	2005	May	June	July	Aug	Sept	This Quarter	Sept 05 to Sept 06
Unemployment rate (seasonally adjusted)	4.8	5.8	6.0	5.5	5.1	4.6	4.6	4.8	4.7	4.6	0	↓0.5
Civilian employment—16 years and older (millions, seasonally adjusted)	136.9	136.5	137.7	139.2	141.7	144.0	144.4	144.3	144.6	144.9	↑0.5	↑2.4
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	1.8	2.9	3.4	3.1	2.6	2.3	2.1	2.3	2.4	2.3	↑0.2	↓0.3
Nonfarm payrolls (millions, seasonally adjusted)	131.8	130.3	129.9	131.4	133.5	135.1	135.3	135.4	135.6	135.8	↑0.5	↑1.9
Producer Price Index (1982=100)	134.2	131.1	138.1	146.7	157.4	165.3	165.9	167.1	167.9	165.4	↓1.2% (a)	↑2.0%
Consumer Price Index (all urban consumers and all items; seasonally adjusted, 1982-84=100)	177.0	179.9	184.0	188.9	195.3	201.9	202.3	203.2	203.7	202.7	↑0.8% (a)	↑2.1%
Univ. of Michigan Consumers' Sentiment (1966=100)	89.2	89.6	87.6	95.2	88.6	79.1	84.9	84.7	82	85.4	↑0.5	↑8.5
Spot oil price per barrel: West Texas intermediate crude	25.92	26.10	31.14	41.44	56.47	70.94	70.96	74.41	73.05	63.87	↓\$7.07	↓\$1.70
ISM Purchasing Managers Index—manufacturing composite (seasonally adjusted)	43.9	52.4	53.3	60.5	55.5	54.4	53.8	54.7	54.5	52.9	↓0.9	↓5.1
Industrial production (2002=100, seasonally adjusted)	99.9	100.0	100.6	104.7	108.1	112.2	113.4	113.8	113.8	113.1	↓0.9% (a)	↑5.6%
3-month Treasury bills (secondary market rate)	3.39	1.60	1.01	1.37	3.15	4.72	4.79	4.95	4.96	4.81	↑0.02	↑1.39
10-year Treasury note (constant maturity rate)	5.02	4.61	4.02	4.27	4.29	5.11	5.11	5.09	4.88	4.72	↓0.39	↑0.52

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

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, 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.