

## QUARTERLY INDICATORS: THE ECONOMY AND SMALL BUSINESS

### Third Quarter 2004

#### Trends

- Overall economic trends were positive in the third quarter of 2004, continuing a pattern that has persisted since the third quarter of 2003. Real gross domestic product (GDP) increased at an annualized 3.7 percent in the third quarter. This was higher than the previous quarter and marked the twelfth consecutive quarter of positive real GDP growth. Between the third quarters of 2003 and 2004, industrial production, real gross private fixed investment, and real exports rose 4.6 percent, 14.6 percent, and 9.2 percent, respectively. Each was up significantly from their growth rates in the similar time period between 2002 and 2003.
- The National Federation of Independent Business optimism index averaged 104.4 over the third quarter which, according to Advocacy research, signified strengthening small business output. Meanwhile, in September, 23 percent of small business owners believed that the next three months would be good for expansion. In the first nine months of this year, the net percentage of small business owners planning to expand employment averaged 14.7 – the highest annual percentage since 2000 – meaning that 14.7 percent more owners plan to hire than cut back on employment.
- The unemployment rate fell to 5.4 percent in September, its lowest level since October 2001. The economy added 1.5 million new nonfarm payroll jobs between January and September 2004, with 309,000 being added in the third quarter. All but three major employment sectors added new workers in the third quarter. The information services, manufacturing, and retail sectors lost 74,900 employees collectively. Nonfarm business output per hour rose 3.1 percent between the third quarters of 2003 and 2004.
- The Federal Reserve Board began reining in a growing economy by raising interest rates. The average of both the prime rate and interest rates for small business loans of less than \$100,000 increased by 0.4 percentage points in the third quarter. Small firm demand for commercial and industrial loans remained stronger than in the previous months, according to the Senior Loan Officers' Survey. Investment by venture capital (VC) firms fell to \$4.3 billion in the third quarter; however, year-to-date VC investments in 2004 exceeded the previous year's.
- Inflation has been kept in check despite steep increases in the price of oil. The spot oil price of West Texas intermediate crude averaged \$45.95 per barrel in September, up \$7.93 from the June level. Consumer and producer prices, though, rose a modest annualized 0.6 and 1.6 percent, respectively, in the third quarter.

#### Small Business Indicators

	Last five years					Last five quarters				
	1999	2000	2001	2002	2003	Q3-03	Q4-03	Q1-04	Q2-04	Q3-04
Business bankruptcy filings (thousands)	37.6	35.5	40.1	38.5	35.0	8.4	8.3	10.6	8.2	--
Proprietors' income (billions of current dollars)	678.3	728.4	771.9	769.6	834.1	852.0	864.7	872.1	901.4	903.2
Prime bank loan rate	8.0	9.2	6.9	4.7	4.1	4.0	4.0	4.0	4.0	4.4
Rates for smallest loans (less than \$100,000)	8.7	9.7	7.4	5.1	4.4	4.2	4.3	4.3	4.2	4.6
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	8.8	12.7	19.6	4.3
Small firm C&I lending standards stayed the same	90.5	78.7	60.5	78.2	86.2	93.0	84.2	85.5	80.4	87.0
Small firm demand for C&I loans is stronger	14.5	15.5	6.6	4.6	12.7	15.8	15.7	27.3	43.6	30.4
Small firm demand for C&I loans stayed the same	75.4	65.8	50.4	50.0	60.0	56.1	64.7	67.3	50.9	60.9
Venture investment: number of deals	5615	8073	4617	3044	2834	692	753	684	794	601
Venture investment: total invested (billions)	54.7	105.9	41.0	21.5	18.7	4.3	5.4	5.1	5.9	4.3

Note: The third quarter figure for the Senior Loan Officers Survey is for July, which measures April through July. 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 (2004)				
	1999	2000	2001	2002	2003	May	June	July	Aug	Sept
NFIB Small Business Optimism Index (1986 = 100)	101.2	100.3	98.4	101.2	101.3	104.5	103.0	105.9	102.9	104.5
NFIB: next 3 months "good time to expand" (percent of respondents)	22.8	19.2	12.3	14.3	15.7	22	21	25	19	23
NFIB: net percent planning to hire in the next 3 months	17.2	15.6	11.6	10.8	10.2	14	11	16	19	14
Self-employed, incorporated (millions)	4.3	4.5	4.5	4.6	5.0	5.2	5.3	5.3	5.3	5.3
Self-employed, unincorporated (millions)	10.1	10.2	10.1	9.9	10.3	10.4	10.5	10.5	10.7	10.5

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

### Employment by Major Sector (millions)

	Percent small business	Last five years					Last five months (2004)				
		1999	2000	2001	2002	2003	May	June	July	Aug	Sept
<b>Goods-producing industries</b>	54.1	24.47	24.65	23.88	22.56	21.82	21.89	21.90	21.91	21.92	21.91
Natural resources and mining	50.6	0.60	0.60	0.61	0.58	0.57	0.59	0.59	0.59	0.59	0.59
Construction	85.1	6.54	6.79	6.83	6.72	6.72	6.91	6.91	6.92	6.93	6.93
Manufacturing	41.6	17.32	17.27	16.44	15.26	14.52	14.40	14.40	14.40	14.40	14.38
<b>Service-producing industries</b>	49.2	104.53	107.14	107.96	107.79	108.12	109.27	109.37	109.44	109.55	109.66
Trade, transportation and utilities	47.1	25.77	26.22	25.99	25.50	25.28	25.48	25.50	25.50	25.50	25.51
Wholesale trade	62.9	5.89	5.93	5.77	5.65	5.61	5.64	5.64	5.65	5.66	5.67
Retail trade	43.4	14.97	15.28	15.24	15.02	14.92	15.05	15.05	15.04	15.04	15.02
Information	26.5	3.42	3.63	3.63	3.39	3.20	3.18	3.18	3.17	3.16	3.15
Financial activities	40.2	7.65	7.69	7.81	7.85	7.97	8.03	8.05	8.04	8.06	8.09
Professional and business services	44.2	15.95	16.67	16.48	15.98	15.99	16.43	16.46	16.49	16.51	16.54
Education and health services	47.5	14.79	15.11	15.65	16.20	16.58	16.87	16.89	16.90	16.94	16.95
Leisure and hospitality	61.2	11.54	11.86	12.03	11.99	12.13	12.33	12.34	12.34	12.35	12.37
Other services	85.5	5.09	5.17	5.26	5.37	5.39	5.41	5.42	5.41	5.42	5.42
Government	0	20.31	20.79	21.12	21.51	21.57	21.54	21.53	21.57	21.60	21.64

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 2001 firm size data. See [http://www.sba.gov/advo/stats/us\\_tot\\_mi.pdf](http://www.sba.gov/advo/stats/us_tot_mi.pdf) for more information.

Sources: 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				
	1999	2000	2001	2002	2003	Q3-03	Q4-03	Q1-04	Q2-04	Q3-04
Annual change, real gross domestic product	4.5	3.7	0.8	1.9	3.0	7.4	4.2	4.5	3.3	3.7
Real personal consumption expenditures (billions)*	6438.6	6739.4	6910.4	7123.4	7355.5	7401.7	7466.8	7543.0	7572.4	7658.9
Real gross private fixed investment (billions)*	1642.6	1735.5	1598.4	1560.7	1628.8	1659.4	1714.1	1764.5	1842.9	1866.3
Federal government surplus or deficit (billions)	103.7	189.5	46.7	-254.5	-364.6	-433.0	-379.2	-391.0	-382.9	--
Real exports of goods and services (billions)*	1008.2	1096.3	1036.7	1012.4	1031.8	1033.8	1076.2	1095.4	1114.8	1128.8
Real imports of goods and services (billions)*	1304.4	1475.8	1435.8	1484.4	1550.3	1542.5	1604.5	1645.5	1695.1	1726.8
Corporate profits after tax (billions)	592.7	552.8	563.2	690.7	786.2	818.4	876.8	909.1	902.7	--
Nonfarm business sector output per hour for all persons (1992 = 100)	112.2	115.3	117.8	123.6	129.1	130.6	131.7	132.8	134.1	134.7
Employment Cost Index: private sector wages and salaries (1989 = 100)	140.3	146.0	151.4	156.4	161.0	161.7	162.5	163.5	164.4	165.8
Employment Cost Index: private sector benefits (1989 = 100)	147.6	156.0	163.7	171.7	182.5	183.8	186.3	191.2	194.5	196.4

\*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 (2004)				
	1999	2000	2001	2002	2003	May	June	July	Aug	Sept
Unemployment rate (seasonally adjusted)	4.2	4.0	4.8	5.8	6.0	5.6	5.6	5.5	5.4	5.4
Civilian employment – 16 years and older (millions, seasonally adjusted)	133.5	136.9	136.9	136.5	137.7	138.8	139.0	139.7	139.7	139.5
Civilian unemployed – 15 weeks and over (millions, seasonally adjusted)	1.5	1.3	1.8	2.9	3.4	3.1	3.1	2.9	2.9	3.0
Nonfarm payrolls (millions, seasonally adjusted)	129.0	131.8	131.8	130.3	129.9	131.2	131.3	131.3	131.5	131.6
Producer Price Index (1982 = 100)	125.5	132.7	134.2	131.1	138.1	146.6	147.1	147.6	147.9	147.7
Consumer Price Index (seasonally adjusted, 1982 = 100)	166.6	172.2	177.0	179.9	184.0	188.8	189.4	189.3	189.4	189.7
Consumer Sentiment Survey (1966 = 100)	105.8	107.6	89.2	89.6	87.6	90.2	95.6	96.7	95.9	94.2
Spot Oil Price per barrel: West Texas Intermediate Crude	19.25	30.30	25.92	26.10	31.14	40.28	38.02	40.69	44.94	45.95
ISM Purchasing Managers Index – manufacturing composite (seasonally adjusted)	54.6	51.7	43.9	52.4	53.3	62.8	61.1	62.0	59.0	58.5
Industrial production (1997 = 100, seasonally adjusted)	110.6	115.4	111.5	110.9	111.1	116.2	115.9	116.7	116.5	116.7
M2 money stock (billions, seasonally adjusted)	4526.0	4802.2	5220.2	5615.3	5999.4	6289.6	6299.1	6292.0	6300.7	6330.2
3-month Treasury bills (secondary market rate)	4.64	5.82	3.39	1.60	1.01	1.02	1.27	1.33	1.48	1.65
10-year Treasury note (constant maturity rate)	5.64	6.03	5.02	4.61	4.02	4.72	4.73	4.50	4.28	4.13

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.

For previous quarterly indicators, visit <http://www.sba.gov/advo/stats/sbei.html>.