

## SECOND QUARTER 2007: THE ECONOMY AND SMALL BUSINESS

### Trends

- The economy grew at an annualized 3.4 percent in the second quarter. Much of this growth is owed to increases in net exports and private investment (especially non-residential construction, which rose an annualized 8.1 percent). Real personal consumption grew more slowly than in previous quarters. Industrial production and the purchasing managers' index for manufacturing were also up. New housing starts continued to fall, with a 6.3 percent annualized decline in the second quarter.
- Small businesses and consumers were more pessimistic about the future than in the previous quarter. The National Federation of Independent Business optimism index fell to 96.0 in June, and there was virtually no change in small business owners' attitudes toward expanding their firms or hiring new workers. These measures are lower than historical averages. The University of Michigan's consumer sentiment survey was also lower in the second quarter. Despite the surveys' findings, the economic and employment situation during this quarter were relatively favorable; the public's mood seems to reflect such factors as higher energy costs and the housing slowdown.
- The unemployment rate for April, May, and June was 4.5 percent. It has been essentially unchanged for the past year. Meanwhile, the economy generated 2 million net new jobs from June 2006 to June 2007, with 436,000 of these created in the second quarter. Every industry except for construction, manufacturing, and retail trade gained jobs during the quarter, and over half of the net new jobs occurred in education & health services and leisure & hospitality. Self-employment levels remained constant.
- Short-term interest rates changed little in the second quarter, after successive increases over the past few years. The rates charged on loans of less than one month rose slightly, but rates on loans from 31 days to one year fell by 0.1 percentage points. The Federal Reserve's Senior Loan Officers' Survey showed that demand for small loans has weakened, and that more banks are tightening their lending standards on small commercial and industrial loans for the first time since 2003. In the first two quarters of 2007, the total amount of venture capital invested increased 9 percent over the same quarters in 2006; the number of deals was up 3 percent.
- While core inflation (which excludes energy and food prices) grew an annualized 2.3 percent, the overall consumer price index grew by an annualized 5.2 percent. Higher food and energy costs account for a significant portion of the nation's current inflation. Producer prices rose even faster. The cost of West Texas crude oil was up nearly \$7 per barrel since March.

### Small Business Indicators

	Last five years					Last five quarters					Trends	
	2002	2003	2004	2005	2006	Q2-06	Q3-06	Q4-06	Q1-07	Q2-07	This Quarter	Q2-06 to Q2-07
Business bankruptcy filings (thousands)	38.5	35.0	34.3	39.2	19.7	4.9	5.3	5.6	6.3	--	--	--
Proprietors' income (\$billion, current dollars)	768.4	811.3	911.1	970.7	1015.1	1011.9	1014.8	1025.3	1039.1	--	--	--
Prime bank loan rate	4.7	4.1	4.3	6.2	8.0	7.9	8.3	8.3	8.3	8.3	0	↑ 0.2
Rates for smallest loans (less than \$100,000):												
Variable rate loans, repricing terms of 2-30 days	5.1	4.4	4.4	6.0	7.7	7.7	8.0	7.9	7.8	8.0	↑ 0.2	↑ 0.3
Variable rate loans, repricing terms of 31-365 days	6.6	6.4	6.2	7.1	8.4	8.1	8.7	8.6	8.8	8.7	↓ 0.1	↑ 0.6
Senior loan officers (percent of respondents):												
Net small firm C&I lending standards (those whose standards were eased minus those tightened)	-20.0	-7.1	13.1	9.0	4.6	7.0	4.8	1.8	0	-1.9	↓ 1.9	↓ 8.9
Net small firm demand for C&I loans (those whose demand was stronger minus those weaker)	-40.0	-14.7	25.9	27.3	0.2	3.5	5.0	-13.0	-5.3	-19.2	↓ 13.9	↓ 22.7
Venture investment: number of deals	3091	2914	3069	3127	3553	920	885	892	845	977	↑ 132	↑ 57
Venture investment: total invested (\$billion)	21.9	19.8	22.5	23.1	26.3	7.0	6.7	6.2	7.4	7.1	↓ 0.3	↑ 0.2

**Notes:** a=annualized growth rate. The first quarter figure is for April and measures from January. 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 (2007)					Trends	
	2002	2003	2004	2005	2006	Feb	Mar	Apr	May	June	This Quarter	June 06 to June 07
NFIB Small Business Optimism Index (1986 = 100)	101.2	101.3	104.6	101.6	98.9	98.2	97.3	96.8	97.2	96.0	↓ 1.3	↓ 0.7
NFIB: next 3 months "good time to expand" (percent of respondents)	14.3	15.7	22.3	20.6	17.4	18.0	12.0	12.0	12.0	13.0	↑ 1.0	0
NFIB: net percent planning to hire in the next 3 months	10.8	10.2	15.3	14.4	14.6	13.0	12.0	13.0	13.0	12.0	0	↑ 3.0
Self-employed, incorporated (millions)	4.6	5.0	5.2	5.3	5.5	5.9	5.7	5.7	5.7	5.7	0	↑ 0.2
Self-employed, unincorporated (millions)	9.9	10.3	10.4	10.5	10.6	10.5	10.6	10.6	10.6	10.6	0	0

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

For previous quarterly indicators, visit [www.sba.gov/advo/research/sbei.html](http://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 (2007)					Trends	
		2002	2003	2004	2005	2006	Feb	Mar	Apr	May	June	This Quarter	June 06 to June 07
<b>Goods-producing industries</b>	<b>57.61</b>	<b>22.55</b>	<b>21.81</b>	<b>21.88</b>	<b>22.19</b>	<b>22.58</b>	<b>22.47</b>	<b>22.50</b>	<b>22.46</b>	<b>22.45</b>	<b>22.44</b>	<b>↓0.06</b>	<b>↓0.17</b>
Natural resources and mining	51.24	0.58	0.57	0.59	0.63	0.68	0.71	0.72	0.72	0.72	0.72	↑0.01	↑0.04
Construction	86.43	6.71	6.73	6.98	7.34	7.69	7.64	7.69	7.67	7.66	7.66	↓0.03	↓0.03
Manufacturing	44.00	15.26	14.51	14.32	14.23	14.20	14.11	14.09	14.07	14.07	14.06	↓0.03	↓0.18
<b>Service-producing industries</b>	<b>49.36</b>	<b>107.79</b>	<b>108.18</b>	<b>109.54</b>	<b>111.50</b>	<b>113.60</b>	<b>114.95</b>	<b>115.10</b>	<b>115.26</b>	<b>115.46</b>	<b>115.59</b>	<b>↑0.49</b>	<b>↑2.17</b>
Trade, transportation and utilities	45.35	25.50	25.29	25.53	25.96	26.23	26.39	26.44	26.43	26.46	26.47	↑0.03	↑0.27
Wholesale trade	61.58	5.65	5.61	5.66	5.76	5.90	5.96	5.96	5.98	5.99	6.01	↑0.05	↑0.11
Retail trade	42.16	15.02	14.92	15.06	15.28	15.32	15.36	15.40	15.38	15.39	15.38	↓0.02	↑0.09
Information	26.17	3.39	3.19	3.12	3.06	3.05	3.08	3.09	3.10	3.10	3.10	↑0.01	↑0.05
Financial activities	41.43	7.85	7.98	8.03	8.15	8.36	8.45	8.45	8.45	8.46	8.46	↑0.02	↑0.11
Professional and business services	44.95	15.98	15.99	16.39	16.95	17.56	17.84	17.83	17.86	17.89	17.90	↑0.07	↑0.36
Education and health services	48.08	16.20	16.59	16.95	17.37	17.84	18.14	18.19	18.25	18.29	18.36	↑0.17	↑0.56
Leisure and hospitality	62.09	11.99	12.17	12.49	12.81	13.14	13.43	13.45	13.48	13.54	13.57	↑0.12	↑0.48
Other services	86.27	5.37	5.40	5.41	5.39	5.43	5.45	5.46	5.47	5.48	5.48	↑0.02	↑0.05
Government	0	21.51	21.58	21.62	21.81	21.99	22.17	22.20	22.23	22.24	22.26	↑0.06	↑0.29

**Notes:** Seasonally adjusted. See [www.bls.gov/ces/cessuper.htm](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 [www.sba.gov/advo/research/us04\\_n6.pdf](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 (percent)	
	2002	2003	2004	2005	2006	Q2-06	Q3-06	Q4-06	Q1-07	Q2-07	This Quarter	Q2-06 – Q2-07
Real gross domestic product												
Level (\$billion)	10048.9	10301.1	10675.7	11003.5	11319.4	11306.7	11336.7	11395.5	11412.6	11507.9		
Annual percentage change*	1.6	2.5	3.6	3.1	2.9	2.4	1.1	2.1	0.6	3.4	↑3.4% (a)	↑1.8%
Real personal consumption expenditures (\$billion)*	7099.3	7295.4	7561.4	7803.6	8044.1	8009.3	8063.8	8141.2	8215.7	8241.4	↑1.3% (a)	↑2.9%
Real gross private fixed investment (\$billion)*	1557.2	1613.1	1770.2	1869.3	1919.6	1948.5	1928.2	1856.2	1816.9	1831.0	↑3.1% (a)	↓6.0%
Federal government surplus or deficit (\$billion)	-282.1	-392.5	-394.9	-312.5	-151.0	-163.0	-173.0	-120.8	-142.9	--	--	--
Real exports of goods and services (\$billion)*	1013.3	1026.1	1126.1	1203.4	1304.1	1288.4	1306.6	1350.9	1354.7	1375.9	↑6.4% (a)	↑6.8%
Real imports of goods and services (\$billion)*	1484.6	1545.0	1720.0	1821.5	1928.6	1915.0	1940.4	1948.2	1966.8	1953.7	↓2.6% (a)	↑2.0%
Corporate profits after tax (\$billion)	693.7	749.9	923.9	979.9	1099.8	1115.6	1122.1	1178.8	1095.2	--	--	--
Nonfarm business sector output per hour for all persons (1992=100)	123.5	128.0	131.5	134.1	135.4	135.6	135.0	135.6	135.9	136.5	↑1.8% (a)	↑0.6%
Employment Cost Index: private sector wages & salaries (2005=100)	91.6	94.2	96.8	99.2	102.0	101.8	102.4	103.2	104.3	105.1	↑3.1% (a)	↑3.4%
Employment Cost Index: private sector benefits (2005=100)	83.7	88.8	94.8	99.2	102.1	101.5	102.5	103.4	103.1	104.2	↑4.3% (a)	↑2.7%

**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 (2007)					Trends	
	2002	2003	2004	2005	2006	Feb	Mar	Apr	May	June	This Quarter	June 06 to June 07
Unemployment rate (seasonally adjusted)	5.8	6.0	5.5	5.1	4.6	4.5	4.4	4.5	4.5	4.5	↑0.1	↓0.1
Civilian employment—16 years and older (millions, seasonally adjusted)	136.5	137.7	139.2	141.7	144.4	145.9	146.3	145.8	145.9	146.1	↓0.1	↑1.8
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	2.9	3.4	3.1	2.6	2.3	2.1	2.2	2.3	2.2	2.3	↑0.1	↑0.2
Nonfarm payrolls (millions, seasonally adjusted)	130.4	130.0	131.4	133.7	136.2	137.4	137.6	137.7	137.9	138.0	↑0.4	↑2.0
Producer Price Index (1982=100)	131.1	138.1	146.7	157.4	164.8	167.3	169.7	171.2	173.4	173.7	↑9.8% (a)	↑4.6%
Consumer Price Index (all urban consumers and all items; seasonally adjusted, 1982-84=100)	179.9	184.0	188.9	195.3	201.6	203.9	205.1	206.0	207.4	207.8	↑5.2% (a)	↑2.7%
Univ. of Michigan Consumers' Sentiment (1966=100)	89.6	87.6	95.2	88.6	87.3	91.3	88.4	87.1	88.3	85.3	↓3.1	↑0.4
Spot oil price per barrel: West Texas intermediate crude	26.10	31.14	41.44	56.47	66.10	59.26	60.56	63.97	63.46	67.48	↑\$6.92	↓\$3.48
New Privately Owned Housing Units Started (millions, seasonally adjusted at the annual rate)	1.7	1.9	1.9	2.1	1.8	1.5	1.5	1.5	1.4	1.5	↓6.3% (a)	↓19.4%
ISM Purchasing Managers Index—manufacturing composite (seasonally adjusted)	52.4	53.3	60.5	55.5	53.9	52.3	50.9	54.7	55.0	56.0	↑46.5% (a)	↑3.7%
Industrial production (2002=100, seasonally adjusted)	100.0	101.1	103.6	106.9	111.2	112.5	112.4	112.9	112.8	113.4	↑3.4% (a)	↑1.4%
3-month Treasury bills (secondary market rate)	1.60	1.01	1.37	3.15	4.73	5.03	4.94	4.87	4.73	4.61	↓0.33	↓0.18
10-year Treasury note (constant maturity rate)	4.61	4.02	4.27	4.29	4.79	4.72	4.56	4.69	4.75	5.10	↑0.54	↓0.01

**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.