

FOURTH QUARTER 2007: THE ECONOMY AND SMALL BUSINESS

Trends

- The U.S. economy was weaker in the fourth quarter of 2007, with real GDP ending the year at a 0.6 percent annualized growth rate. The weaker dollar helped boost real exports, which increased at an annualized 3.9 percent, while real imports were constant. Consumer spending increased by an annualized 2.0 percent. Investment remained weak, particularly in the residential sector where the nation has seen steady declines. In December 2007, new housing starts averaged an annualized 1.0 million homes—less than half the average level seen in 2005. The Institute for Supply Management’s manufacturing composite index fell below 50 in December—the lowest reading since April 2003—suggesting that manufacturing output was contracting.
- The public remained somewhat pessimistic in the fourth quarter according to both the National Federation of Independent Business’s optimism index and the University of Michigan’s consumer sentiment survey.
- Unemployment rose to 5.0 percent in December 2007, its highest level since April 2005. It was low by historical standards, however. The economy generated 282,000 net new jobs in the fourth quarter, and 1.1 million during the entire year. The goods-producing sectors of construction and manufacturing saw declines. Nearly all of the net job gains in 2007 stemmed from service industries: trade, transportation, and utilities; professional and business services; education and health services; leisure and hospitality; and government. Unincorporated self-employment fell in the fourth quarter, and incorporated self-employment remained essentially unchanged. Nonfarm labor productivity grew slower in the fourth quarter than in the previous two quarters.
- The Federal Reserve Board lowered its target federal funds rate twice in the fourth quarter of 2007. As a result, the prime rate, which began the quarter at 7.75 percent, ended it at 7.25 percent. (*Editor’s note: As of today, the rate has fallen further – courtesy of additional cuts by the Federal Reserve in the first quarter of 2008 – and now stands at 6.0 percent.*) The Federal Reserve’s Senior Loan Officers’ Survey suggests sustained weakness in the demand for small loans, with some tightening of lending standards. Two other indicators—the total amount of venture capital deals and the total amount invested—both fell in the fourth quarter of 2007, but they were higher than in the fourth quarter of 2006.
- Inflationary pressures persisted, as the country saw large gains in consumer prices. When examining core inflation, which excludes food and energy prices, inflation appeared more modest—growing at an annualized 2.7 percent in the fourth quarter. The price of oil, which surpassed \$100 per barrel at one point in December, averaged \$91.37 for the month, up \$11.44 for the quarter and nearly \$30 for the year. Employee benefit costs outstripped gains in employee wages and salaries.

Small Business Indicators

	Last five years					Last five quarters					Trends	
	2002	2003	2004	2005	2006	Q4-06	Q1-07	Q2-07	Q3-07	Q4-07	This Quarter	Q4-06 to Q4-07
Business bankruptcy filings (thousands)	38.5	35.0	34.3	39.2	19.7	5.6	6.3	6.7	7.2	--	--	--
Proprietors’ income (\$billion, current dollars)	768.4	811.3	911.1	970.7	1015.1	1009.8	1027.4	1038.4	1048.7	1057.3	↑ 3.3% (a)	↑ 4.7%
Prime bank loan rate	4.7	4.1	4.3	6.2	8.0	8.3	8.3	8.3	8.2	7.5	↓ 0.7	↓ 0.7
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	7.9	7.8	8.0	7.8	7.2	↓ 0.6	↓ 0.7
Variable rate loans, repricing terms of 31-365 days	6.6	6.4	6.2	7.1	8.4	8.6	8.8	8.7	8.6	8.1	↓ 0.5	↓ 0.5
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	1.8	0	-1.9	-7.7	-9.6	↓ 1.9	↓ 11.4
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	-13.0	-5.3	-19.2	-11.8	-7.7	↑ 4.1	↑ 5.3
Venture investment: number of deals	3092	2922	3082	3138	3630	918	858	1018	974	963	↓ 11	↑ 45
Venture investment: total invested (\$billion)	22.0	19.7	22.5	23.0	26.6	6.3	7.5	7.3	7.6	7.0	↓ 0.6	↑ 0.7

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 (2007)					Trends	
	2002	2003	2004	2005	2006	Aug	Sept	Oct	Nov	Dec	This Quarter	Dec 06 to Dec 07
NFIB Small Business Optimism Index (1986 = 100)	101.2	101.3	104.6	101.6	98.9	96.3	97.3	96.2	94.4	94.6	↓ 2.7	↓ 1.9
NFIB: next 3 months “good time to expand” (percent of respondents)	14.3	15.7	22.3	20.6	17.4	12.0	14.0	14.0	13.0	14.0	0	↓ 3.0
NFIB: net percent planning to hire in the next 3 months	10.8	10.2	15.3	14.4	14.6	15.0	14.0	11.0	11.0	11.0	↓ 3.0	↑ 1.0
Self-employed, incorporated (millions)	4.6	5.0	5.2	5.3	5.5	5.8	5.7	5.8	5.9	5.8	↑ 0.1	↑ 0.1
Self-employed, unincorporated (millions)	9.9	10.3	10.4	10.5	10.6	10.6	10.5	10.3	10.1	9.9	↓ 0.6	↓ 0.7

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. 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	Aug	Sept	Oct	Nov	Dec	This Quarter	Dec 06 to Dec 07
Goods-producing industries	57.61	22.55	21.81	21.88	22.19	22.53	22.18	22.14	22.10	22.05	21.99	↓0.15	↓0.45
Natural resources and mining	51.24	0.58	0.57	0.59	0.63	0.68	0.73	0.73	0.73	0.74	0.74	↑0.01	↑0.03
Construction	86.43	6.72	6.74	6.97	7.33	7.69	7.61	7.59	7.58	7.52	7.48	↓0.11	↓0.22
Manufacturing	44.00	15.26	14.51	14.32	14.23	14.16	13.84	13.82	13.80	13.79	13.77	↓0.05	↓0.26
Service-producing industries	49.36	107.79	108.18	109.54	111.51	113.56	115.58	115.70	115.88	115.99	116.13	↑0.43	↑1.59
Trade, transportation and utilities	45.35	25.50	25.29	25.53	25.96	26.28	26.64	26.65	26.64	26.69	26.67	↑0.01	↑0.21
Wholesale trade	61.58	5.65	5.61	5.66	5.76	5.90	6.05	6.06	6.07	6.08	6.07	↑0.02	↑0.11
Retail trade	42.16	15.02	14.92	15.06	15.28	15.36	15.50	15.49	15.47	15.51	15.50	↑0.01	↑0.09
Information	26.17	3.39	3.19	3.12	3.06	3.04	3.02	3.03	3.03	3.02	3.01	↓0.02	↓0.02
Financial activities	41.43	7.85	7.98	8.03	8.15	8.33	8.31	8.29	8.28	8.26	8.26	↓0.04	↓0.10
Professional and business services	44.95	15.98	15.99	16.39	16.95	17.57	17.98	18.00	18.07	18.08	18.15	↑0.15	↑0.33
Education and health services	48.08	16.20	16.59	16.95	17.37	17.83	18.42	18.45	18.49	18.52	18.58	↑0.13	↑0.54
Leisure and hospitality	62.09	11.99	12.17	12.49	12.81	13.11	13.49	13.55	13.60	13.63	13.65	↑0.10	↑0.36
Other services	86.27	5.37	5.40	5.41	5.39	5.44	5.50	5.50	5.50	5.51	5.51	↑0.01	↑0.04
Government	0	21.51	21.58	21.62	21.81	21.97	22.21	22.23	22.26	22.28	22.31	↑0.08	↑0.22

Notes: Seasonally adjusted. See 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. 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	Q4-06	Q1-07	Q2-07	Q3-07	Q4-07	This Quarter	Q4-06 – Q4-07
Real gross domestic product												
Level (\$billion)	10048.9	10301.1	10675.7	11003.5	11319.4	11395.5	11412.6	11520.1	11658.9	11677.4	↑0.6% (a)	↑4.1%
Annual percentage change*	1.6	2.5	3.6	3.1	2.9	2.1	0.6	3.8	4.9	0.6		
Real personal consumption expenditures (\$billion)*	7099.3	7295.4	7561.4	7803.6	8044.1	8141.2	8215.7	8244.3	8302.2	8342.7	↑2.0% (a)	↑2.5%
Real gross private fixed investment (\$billion)*	1557.2	1613.1	1770.2	1869.3	1919.6	1856.2	1816.9	1837.4	1859.9	1810.5	↓10.2% (a)	↓2.5%
Federal government surplus or deficit (\$billion)	-270.9	-372.2	-370.6	-318.3	-220.1	-181.5	-218.5	-206.8	-229.1	--	--	--
Real exports of goods and services (\$billion)*	1013.3	1026.1	1126.1	1203.4	1304.1	1350.9	1354.7	1379.5	1441.2	1455.0	↑3.9% (a)	↑7.7%
Real imports of goods and services (\$billion)*	1484.6	1545.0	1720.0	1821.5	1928.6	1948.2	1966.8	1953.4	1974.3	1975.9	↑0.3% (a)	↑1.4%
Corporate profits after tax (\$billion)	693.7	749.9	923.9	979.9	1099.8	1178.8	1095.2	1152.2	1152.5	--	--	--
Nonfarm business sector output per hour for all persons (1992=100)	123.5	128.0	131.6	134.1	135.4	135.6	135.9	136.6	138.6	139.2	↑1.7% (a)	↑2.7%
Employment cost index: private sector wages & salaries (2005=100)	91.6	94.2	96.8	99.2	102.0	103.2	104.3	105.1	105.9	106.7	↑3.1% (a)	↑3.4%
Employment cost index: private sector benefits (2005=100)	83.7	88.8	94.8	99.2	102.1	103.4	103.1	104.2	105.0	105.9	↑3.5% (a)	↑2.4%

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	Aug	Sept	Oct	Nov	Dec	This Quarter	Dec 06 to Dec 07
Unemployment rate (seasonally adjusted)	5.8	6.0	5.5	5.1	4.6	4.6	4.7	4.7	4.7	5.0	↑0.3	↑0.6
Civilian employment—16 years and older (millions, seasonally adjusted)	136.5	137.7	139.2	141.7	144.4	145.8	146.3	146.0	146.6	146.2	0	↑0.3
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	2.9	3.4	3.1	2.6	2.3	2.4	2.4	2.4	2.4	2.5	↑0.1	↑0.4
Nonfarm payrolls (millions, seasonally adjusted)	130.4	130.0	131.4	133.7	136.2	137.8	137.8	138.0	138.0	138.1	↑0.3	↑1.1
Producer price index (1982=100)	131.1	138.1	146.7	157.4	164.8	172.4	173.5	174.4	179.4	178.6	↑12.2% (a)	↑7.9%
Consumer price index (all urban consumers and all items; seasonally adjusted, 1982-84=100)	179.9	184.0	188.9	195.3	201.6	207.7	208.3	208.9	210.6	211.2	↑5.6% (a)	↑4.1%
Univ. of Michigan Consumers' Sentiment (1966=100)	89.6	87.6	95.2	88.6	87.3	83.4	83.4	80.9	76.1	75.5	↓7.9	↓16.2
Spot oil price per barrel: West Texas intermediate crude	26.10	31.14	41.44	56.47	66.10	72.39	79.93	86.20	94.62	91.37	↑\$11.44	↑\$29.70
New privately owned housing units started (millions, seasonally adjusted at the annual rate)	1.7	1.9	1.9	2.1	1.8	1.3	1.2	1.2	1.2	1.0	↓47.5% (a)	↓38.2%
ISM purchasing managers index—manufacturing composite (seasonally adjusted)	50.8	51.7	59.1	54.4	53.1	51.2	50.5	50.4	50.0	48.4	↓2.1	↓3.1
Industrial production (2002=100, seasonally adjusted)	100.0	101.1	103.6	106.9	111.2	114.1	114.2	113.7	114.0	114.0	↓0.2	↑1.7
3-month Treasury bills (secondary market rate)	1.60	1.01	1.37	3.15	4.73	4.20	3.89	3.90	3.27	3.00	↓0.89	↓1.85
10-year Treasury note (constant maturity rate)	4.61	4.02	4.27	4.29	4.79	4.67	4.52	4.53	4.15	4.10	↓0.42	↓0.46

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.