

FIRST QUARTER 2008: THE ECONOMY AND SMALL BUSINESS

Trends

- Reflecting ongoing weakness, the U.S. economy grew 0.6 percent in first quarter 2008, mirroring the previous quarter. Consumer spending rose 1 percent on an annual basis, the slowest rate since second quarter 2001. Residential investment declines helped cause a drop of 4.6 percent in real gross private fixed investment. Nonresidential investment also declined. Industrial production fell; the Institute for Supply Management's manufacturing composite index, which remained below 50, signified a shrinking manufacturing sector. On the positive side, real exports benefited from a weaker dollar with annualized growth of 5.5 percent for the quarter and 9.5 percent year to year. Real imports rose less, at 2.5 percent.
- The public remains pessimistic about the overall economy. The small business optimism index from the National Federation of Independent Business (NFIB) fell to a record low since 1980—89.6 in March 2008. The University of Michigan consumer sentiment index was at its lowest level since February 1992, 69.5.
- Unemployment was slightly higher than in previous months at 5.1 percent in March. The U.S. economy shed 240,000 net nonfarm payroll jobs in the first quarter. The goods-producing sectors of construction and manufacturing lost 259,000 jobs in the quarter. Service sector industries were mixed, with job growth in education and health services, leisure and hospitality, other services, and government; and job losses in all other service sectors, including retail trade and financial activities. Looking ahead, the NFIB survey indicated a drop in planned hiring in the next three months. Labor productivity rose an annualized 2.2 percent in the first quarter, and self-employment remained unchanged.
- The Federal Reserve Board lowered interest rates to spur economic activity. The prime rate at the end of March was 5.25 percent—down three percentage points from September 2007. The three-month Treasury bill rate fell to an average of 1.26 percent in March, down 1.74 percent for the quarter and 3.68 percent since March 2007. The Senior Loan Officers' Survey showed weaker demand and tightening lending standards for small commercial and industrial loans. Venture capital deals were down \$660 million in the first quarter; the amount invested was still higher than in any other first quarter since 2001.
- Modest inflationary pressures persist. Consumer prices rose an annualized 3.1 percent in first quarter 2008 and, omitting food and energy costs, the so-called "core" inflation rate increased 2 percent on an annual basis. West Texas crude oil averaged \$105.56 per barrel in March, up \$13.83 since December and \$45 from the previous year. Overall wages and salaries increased an annualized 3.4 percent and benefits grew 2.3 percent. A falling dollar increases the cost of imported goods; since December, the U.S. dollar has fallen 8.2 percent against the euro, 10.6 percent against the Japanese yen, and 3.9 percent against the Chinese yuan. It remained even with the British pound over the quarter. (Exchange rates not shown in the tables below.)

Small Business Indicators

	Last five years					Last five quarters					Trends	
	2003	2004	2005	2006	2007	Q1-07	Q2-07	Q3-07	Q4-07	Q1-08	This Quarter	Q1-07 to Q1-08
Business bankruptcy filings (thousands)	35.0	34.3	39.2	19.7	28.3	6.3	6.7	7.2	8.0	--	--	--
Proprietors' income (\$billion, current dollars)	811.3	911.1	970.7	1015.1	1042.6	1027.4	1038.4	1048.7	1055.9	1056.6	↑ 0.3% (a)	↑ 2.8%
Prime bank loan rate	4.1	4.3	6.2	8.0	8.1	8.3	8.3	8.2	7.5	6.2	↓ 1.3	↓ 2.1
Rates for smallest loans (less than \$100,000):												
Variable rate loans, repricing terms of 2-30 days	4.4	4.4	6.0	7.7	7.7	7.8	8.0	7.8	7.2	5.6	↓ 1.6	↓ 2.2
Variable rate loans, repricing terms of 31-365 days	6.4	6.2	7.1	8.4	8.6	8.8	8.7	8.6	8.1	7.4	↓ 0.7	↓ 1.4
Senior loan officers (percent of respondents):												
Net small firm C&I lending standards (those whose standards were eased minus those tightened)	-7.1	13.1	9.0	4.6	-4.3	0	-1.9	-7.7	-9.6	-30.4	↓ 20.8	↓ 30.4
Net small firm demand for C&I loans (those whose demand was stronger minus those weaker)	-14.7	25.9	27.3	0.2	-11.0	-5.3	-19.2	-11.8	-7.7	-23.6	↓ 15.9	↓ 18.3
Venture investment: number of deals	2926	3082	3146	3647	3914	861	1028	980	1045	922	↓ 123	↑ 61
Venture investment: total invested (\$billion)	19.7	22.5	23.0	26.6	30.5	7.5	7.4	7.8	7.8	7.1	↓ 0.7	↓ 0.4

Notes: a=annualized growth rate. The first quarter figure is for January 2008. 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 (2007-2008)					Trends	
	2003	2004	2005	2006	2007	Nov	Dec	Jan	Feb	Mar	This Quarter	Mar 07 to Mar 08
NFIB Small Business Optimism Index (1986 = 100)	101.3	104.6	101.6	98.9	96.7	94.4	94.6	91.8	92.9	89.6	↓ 5.0	↓ 7.7
NFIB: next 3 months "good time to expand" (percent of respondents)	15.7	22.3	20.6	17.4	13.9	13.0	14.0	9.0	8.0	5.0	↓ 9.0	↓ 7.0
NFIB: net percent planning to hire in the next 3 months	10.2	15.3	14.4	14.6	12.9	11.0	11.0	9.0	11.0	3.0	↓ 8.0	↓ 9.0
Self-employed, incorporated (millions)	5.0	5.2	5.3	5.5	5.8	5.9	5.8	5.7	5.8	5.8	0	↑ 0.1
Self-employed, unincorporated (millions)	10.3	10.4	10.5	10.6	10.4	10.1	9.9	9.9	10.1	9.9	0	↓ 0.5

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 (2007-2008)					Trends	
		2003	2004	2005	2006	2007	Nov	Dec	Jan	Feb	Mar	This Quarter	Mar 07 to Mar 08
Goods-producing industries	57.88	21.81	21.88	22.19	22.53	22.22	22.05	21.98	21.91	21.82	21.73	↓0.25	↓0.63
Natural resources and mining	61.93	0.57	0.59	0.63	0.68	0.72	0.74	0.74	0.74	0.74	0.75	↑0.01	↑0.04
Construction	86.14	6.74	6.97	7.33	7.69	7.62	7.52	7.47	7.43	7.38	7.34	↓0.13	↓0.36
Manufacturing	44.18	14.51	14.32	14.23	14.16	13.88	13.79	13.77	13.74	13.69	13.64	↓0.13	↓0.31
Service-producing industries	48.72	108.18	109.54	111.51	113.56	115.40	115.99	116.10	116.10	116.10	116.11	↑0.01	↑1.16
Trade, transportation and utilities	45.27	25.29	25.53	25.96	26.28	26.60	26.69	26.66	26.63	26.58	26.56	↓0.10	↓0.02
Wholesale trade	60.94	5.61	5.66	5.76	5.90	6.03	6.08	6.07	6.07	6.06	6.05	↓0.02	↑0.07
Retail trade	41.12	14.92	15.06	15.28	15.36	15.49	15.51	15.49	15.47	15.43	15.41	↓0.08	↓0.11
Information	26.16	3.19	3.12	3.06	3.04	3.03	3.02	3.02	3.01	3.02	3.01	↓0.01	↓0.02
Financial activities	41.88	7.98	8.03	8.15	8.33	8.31	8.26	8.25	8.24	8.23	8.23	↓0.02	↓0.11
Professional and business services	43.88	15.99	16.39	16.95	17.57	17.97	18.08	18.13	18.10	18.07	18.03	↓0.10	↑0.15
Education and health services	47.84	16.59	16.95	17.37	17.83	18.33	18.52	18.57	18.62	18.67	18.71	↑0.14	↑0.55
Leisure and hospitality	60.89	12.17	12.49	12.81	13.11	13.47	13.63	13.64	13.64	13.66	13.68	↑0.04	↑0.33
Other services	85.57	5.40	5.41	5.39	5.44	5.49	5.51	5.51	5.51	5.52	5.52	↑0.01	↑0.04
Government	0	21.58	21.62	21.81	21.97	22.20	22.28	22.33	22.34	22.36	22.38	↑0.04	↑0.23

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 2005 firm size data. See www.sba.gov/advo/research/us05_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)	
	2003	2004	2005	2006	2007	Q1-07	Q2-07	Q3-07	Q4-07	Q1-08	This Quarter	Q1-07 – Q1-08
Real gross domestic product												
Level (\$billion)	10301.1	10675.7	11003.5	11319.4	11566.8	11412.6	11520.1	11658.9	11675.7	11693.1	↑0.6% (a)	↑2.5%
Annual percentage change*	2.5	3.6	3.1	2.9	2.2	0.6	3.8	4.9	0.6	0.6		
Real personal consumption expenditures (\$billion)*	7295.4	7561.4	7803.6	8044.1	8277.8	8215.7	8244.3	8302.2	8349.1	8369.1	↑1.0% (a)	↑1.9%
Real gross private fixed investment (\$billion)*	1557.2	1613.1	1770.2	1869.3	1825.5	1816.9	1837.4	1859.9	1787.7	1766.6	↓4.6% (a)	↓2.8%
Federal government surplus or deficit (\$billion)	-372.2	-370.6	-318.3	-220.1	-220.6	-218.5	-206.8	-230.3	-226.7	--	--	--
Real exports of goods and services (\$billion)*	1026.1	1126.1	1203.4	1304.1	1409.9	1354.7	1379.5	1441.2	1464.1	1483.8	↑5.5% (a)	↑9.5%
Real imports of goods and services (\$billion)*	1545.0	1720.0	1821.5	1928.6	1965.5	1966.8	1953.4	1974.3	1967.3	1979.7	↑2.5% (a)	↑0.7%
Corporate profits after tax (\$billion)	749.9	923.9	979.9	1099.8	1128.6	1095.2	1152.2	1152.5	1114.6	--	--	--
Nonfarm business sector output per hour for all persons (1992=100)	128.0	131.6	134.1	135.4	137.9	136.1	137.0	139.0	139.6	140.4	↑2.2% (a)	↑3.2%
Employment cost index: private sector wages & salaries (2005=100)	94.2	96.8	99.2	102.0	105.5	104.3	105.1	105.9	106.7	107.6	↑3.4% (a)	↑3.2%
Employment cost index: private sector benefits (2005=100)	88.8	94.8	99.2	102.1	104.5	103.1	104.2	105.0	105.8	106.4	↑2.3% (a)	↑3.2%

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 (2007-2008)					Trends	
	2003	2004	2005	2006	2007	Nov	Dec	Jan	Feb	Mar	This Quarter	Mar 07 to Mar 08
Unemployment rate (seasonally adjusted)	6.0	5.5	5.1	4.6	4.6	4.7	5.0	4.9	4.8	5.1	↑0.1	↑0.7
Civilian employment—16 years and older (millions, seasonally adjusted)	137.7	139.2	141.7	144.4	146.0	146.6	146.2	146.2	146.0	146.0	↓0.2	↓0.2
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	3.4	3.1	2.6	2.3	2.3	2.4	2.5	2.5	2.4	2.4	↓0.1	↑0.2
Nonfarm payrolls (millions, seasonally adjusted)	130.0	131.4	133.7	136.2	137.6	138.0	138.1	138.0	137.9	137.8	↓0.2	↑0.5
Producer price index (1982=100)	138.1	146.7	157.4	164.8	172.7	179.4	178.6	180.8	182.4	188.1	↑23.0% (a)	↑11.1%
Consumer price index (all urban consumers and all items; seasonally adjusted, 1982-84=100)	184.0	188.9	195.3	201.6	207.4	210.9	211.7	212.5	212.6	213.3	↑3.1% (a)	↑4.0%
Univ. of Michigan Consumers' Sentiment (1966=100)	87.6	95.2	88.6	87.3	85.6	76.1	75.5	78.4	70.8	69.5	↓6.0	↓18.9
Spot oil price per barrel: West Texas intermediate crude	31.14	41.44	56.47	66.10	72.36	94.62	91.73	92.95	95.35	105.56	↑\$13.83	↑\$45.00
New privately owned housing units started (millions, seasonally adjusted at the annual rate)	1.9	1.9	2.1	1.8	1.3	1.2	1.0	1.1	1.1	0.9	↓0.1	↓0.5
ISM purchasing managers index—manufacturing composite (seasonally adjusted)	51.7	59.1	54.4	53.1	51.1	50.0	48.4	50.7	48.3	48.6	↑0.2	↓2.1
Industrial production (2002=100, seasonally adjusted)	101.2	103.8	107.2	109.6	111.4	112.3	112.4	112.6	111.8	112.1	↓0.3	↑1.7
3-month Treasury bills (secondary market rate)	1.01	1.37	3.15	4.73	4.35	3.27	3.00	2.75	2.12	1.26	↓1.74	↓3.68
10-year Treasury note (constant maturity rate)	4.02	4.27	4.29	4.79	4.63	4.15	4.10	3.74	3.74	3.51	↓0.59	↓1.05

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.