

FOURTH QUARTER 2008: THE ECONOMY AND SMALL BUSINESS

Trends

- In the fourth quarter of 2008, the U.S. economy suffered its worst decline since 1982; real GDP fell by an annualized 3.8 percent. Real exports, which had been a bright spot in previous quarters, declined nearly 20 percent (annualized) as the global recession weakened demand for U.S. products. Real imports fell 15.7 percent. Individual and business spending fell too. In annualized terms, real consumption declined 3.5 percent and real gross private fixed investment fell 12.3 percent. Echoing weakened demand, manufacturing output fell to historic lows: the manufacturers' purchasing index sank to its lowest point since 1980, and industrial production declined by an annualized 6 percent.
- The United States lost 2.97 million jobs in 2008, more than half of them in the fourth quarter. Unemployment rose to 7.2 percent in December. Only education and health services experienced job gains in the quarter. The sectors hit hardest were trade, transportation and utilities; manufacturing; construction; and professional and business services. Small businesses make up a significant share of these. With fewer workers, labor productivity increased at an annualized 3.2 percent. Unincorporated self-employment declined by 500,000 to 9.6 million; incorporated self-employment was unchanged at 5.8 million.
- According to the National Federation of Independent Business's monthly survey, small business owners' top concern was poor sales. Respondents indicated that the next three months were not a good time to hire and that they may even be likely to lay off workers. Overall, consumers and small businesses were very pessimistic in their economic outlook.
- In light of the banking sector's weakness, the Federal Reserve and the U.S. Treasury took aggressive actions, including October's Emergency Stabilization Act and the Troubled Asset Relief Program. In addition, the Federal Reserve cut its target federal funds rate to essentially zero. The yields on three-month Treasury bills fell to 0.03 percent in December, reflecting this significant relaxation of monetary policy. Overall, the prime rate was five percentage points lower than in September 2007. Banking standards were much tighter, small business loan demand remained weak, and there were fewer venture capital deals.
- The effects of inflation earlier in the year were reversed, with the consumer price index falling at an annualized 12.7 percent to return to its 2007 level. Much of this deflation was the result of dramatic declines in oil prices, which fell from \$145 per barrel in July to \$41 in December. Reduced demand was also a factor. Only 550,000 new homes (on an annual basis) were constructed in December, one-quarter of the level of housing starts in 2005.

Small Business Indicators

| | Last five years | | | | | Last five quarters | | | | | Trends | |
|---|-----------------|-------|--------|--------|--------|--------------------|--------|--------|--------|--------|--------------|----------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | Q4-07 | Q1-08 | Q2-08 | Q3-08 | Q4-08 | This Quarter | Q4-07 to Q4-08 |
| Business bankruptcy filings (thousands) | 34.3 | 39.2 | 19.7 | 28.3 | -- | 8.0 | 8.7 | 9.7 | 11.5 | -- | -- | -- |
| Proprietors' income (\$billion, current dollars) | 911.6 | 959.8 | 1014.7 | 1056.3 | 1072.4 | 1073.8 | 1071.7 | 1076.9 | 1080.5 | 1060.5 | ↓ 7.2% (a) | ↓ 1.2% |
| Prime bank loan rate | 4.3 | 6.2 | 8.0 | 8.1 | 5.1 | 7.5 | 6.2 | 5.1 | 5.0 | 4.0 | ↓ 1.0 | ↓ 3.5 |
| Rates for smallest loans (\$10,000 to \$99,999): * | | | | | | | | | | | | |
| Variable rate loans, repricing terms of 2-30 days | 4.4 | 6.0 | 7.7 | 7.7 | 5.0 | 7.2 | 5.6 | 4.9 | 4.9 | 4.7 | ↓ 0.2 | ↓ 2.5 |
| Variable rate loans, repricing terms of 31-365 days | 6.2 | 7.1 | 8.4 | 8.6 | 6.9 | 8.1 | 7.4 | 6.9 | 6.7 | 6.4 | ↓ 0.3 | ↓ 1.7 |
| Senior loan officers (percent of respondents): | | | | | | | | | | | | |
| Net small firm C&I lending standards (those whose standards were eased minus those tightened) | 13.1 | 9.0 | 4.6 | -4.3 | -55.5 | -9.6 | -30.4 | -51.8 | -65.3 | -74.6 | ↓ 9.3 | ↓ 65.0 |
| Net small firm demand for C&I loans (those whose demand was stronger minus those weaker) | 25.9 | 27.3 | 0.2 | -11.0 | -15.6 | -7.7 | -23.6 | -16.1 | -15.4 | -7.4 | ↑ 8.0 | ↑ 0.3 |
| Venture investment: number of deals | 3093 | 3155 | 3675 | 3952 | 3808 | 1051 | 988 | 1043 | 959 | 818 | ↓ 141 | ↓ 233 |
| Venture investment: total invested (\$billion) | 22.5 | 23.2 | 26.7 | 30.9 | 28.3 | 8.1 | 7.9 | 7.7 | 7.3 | 5.4 | ↓ 1.9 | ↓ 2.7 |

* Effective this quarter, the rates for the smallest loans are for loans ranging from \$10,000 to less than \$100,000; earlier figures are for loans values of less than \$100,000.

Notes: a=annualized growth rate. Senior loan officers' responses are from the Oct. 2008 survey. C&I = commercial and industrial loans. Trends may reflect rounding error.

Sources: Administrative Office of the U.S. Courts; Federal Reserve Board; National Venture Capital Association; U.S. Department of Commerce, Bureau of Economic Analysis.

| | Last five years | | | | | Last five months (2008) | | | | | Trends | |
|--|-----------------|-------|------|------|------|-------------------------|------|------|------|------|--------------|------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | Aug | Sept | Oct | Nov | Dec | This Quarter | Dec 07 to Dec 08 |
| NFIB Small Business Optimism Index (1986 = 100) | 104.6 | 101.6 | 98.9 | 96.7 | 89.8 | 91.1 | 92.9 | 87.5 | 87.8 | 85.2 | ↓ 7.7 | ↓ 9.4 |
| NFIB: next 3 months "good time to expand" (percent of respondents) | 22.3 | 20.6 | 17.4 | 13.9 | 6.5 | 6.0 | 11.0 | 5.0 | 7.0 | 7.0 | ↓ 4.0 | ↓ 7.0 |
| NFIB: net percent planning to hire in the next 3 months | 15.3 | 14.4 | 14.6 | 12.9 | 3.8 | 9.0 | 7.0 | 0 | -4.0 | -6.0 | ↓ 13.0 | ↓ 17.0 |
| Self-employed, incorporated (millions) | 5.2 | 5.3 | 5.5 | 5.8 | 5.8 | 5.9 | 5.8 | 5.9 | 5.9 | 5.8 | 0 | 0 |
| Self-employed, unincorporated (millions) | 10.4 | 10.5 | 10.6 | 10.4 | 10.1 | 10.3 | 10.1 | 9.7 | 9.6 | 9.6 | ↓ 0.5 | ↓ 0.3 |

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 (2008) | | | | | Trends | |
|-------------------------------------|------------------------|-----------------|---------------|---------------|---------------|---------------|-------------------------|---------------|---------------|---------------|---------------|---------------|------------------|
| | | 2004 | 2005 | 2006 | 2007 | 2008 | Aug | Sept | Oct | Nov | Dec | This Quarter | Dec 07 to Dec 08 |
| Goods-producing industries | 58.48 | 21.88 | 22.19 | 22.53 | 22.23 | 21.41 | 21.35 | 21.25 | 21.06 | 20.81 | 20.56 | ↓ 0.68 | ↓ 1.48 |
| Natural resources and mining | 49.21 | 0.59 | 0.63 | 0.68 | 0.72 | 0.77 | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 | 0 | ↑ 0.05 |
| Construction | 85.36 | 6.97 | 7.33 | 7.69 | 7.63 | 7.21 | 7.18 | 7.13 | 7.07 | 6.94 | 6.85 | ↓ 0.28 | ↓ 0.67 |
| Manufacturing | 44.43 | 14.32 | 14.23 | 14.16 | 13.88 | 13.42 | 13.39 | 13.32 | 13.20 | 13.08 | 12.92 | ↓ 0.40 | ↓ 0.86 |
| Service-producing industries | 48.24 | 109.54 | 111.51 | 113.56 | 115.37 | 115.64 | 115.70 | 115.49 | 115.29 | 114.94 | 114.61 | ↓ 0.87 | ↓ 1.50 |
| Trade, transportation and utilities | 43.93 | 25.53 | 25.96 | 26.28 | 26.63 | 26.38 | 26.35 | 26.26 | 26.16 | 26.01 | 25.86 | ↓ 0.40 | ↓ 0.87 |
| Wholesale trade | 61.12 | 5.66 | 5.76 | 5.90 | 6.02 | 5.96 | 5.95 | 5.95 | 5.92 | 5.89 | 5.85 | ↓ 0.09 | ↓ 0.19 |
| Retail trade | 40.05 | 15.06 | 15.28 | 15.36 | 15.52 | 15.36 | 15.33 | 15.28 | 15.22 | 15.13 | 15.04 | ↓ 0.23 | ↓ 0.52 |
| Information | 26.32 | 3.12 | 3.06 | 3.04 | 3.03 | 3.00 | 2.99 | 2.99 | 2.98 | 2.97 | 2.94 | ↓ 0.05 | ↓ 0.08 |
| Financial activities | 41.80 | 8.03 | 8.15 | 8.33 | 8.30 | 8.14 | 8.14 | 8.12 | 8.09 | 8.04 | 8.02 | ↓ 0.10 | ↓ 0.23 |
| Professional and business services | 43.11 | 16.39 | 16.95 | 17.57 | 17.95 | 17.78 | 17.73 | 17.68 | 17.61 | 17.49 | 17.38 | ↓ 0.29 | ↓ 0.73 |
| Education and health services | 47.76 | 16.95 | 17.37 | 17.83 | 18.32 | 18.86 | 18.95 | 18.96 | 18.98 | 19.04 | 19.09 | ↑ 0.13 | ↑ 0.52 |
| Leisure and hospitality | 60.89 | 12.49 | 12.81 | 13.11 | 13.43 | 13.46 | 13.45 | 13.43 | 13.40 | 13.34 | 13.31 | ↓ 0.12 | ↓ 0.24 |
| Other services | 85.44 | 5.41 | 5.39 | 5.44 | 5.49 | 5.53 | 5.53 | 5.53 | 5.54 | 5.51 | 5.48 | ↓ 0.05 | ↓ 0.04 |
| Government | 0 | 21.62 | 21.81 | 21.97 | 22.22 | 22.50 | 22.56 | 22.54 | 22.54 | 22.54 | 22.53 | 0 | ↑ 0.16 |

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 2006 firm size data; leisure and hospitality uses 2005 information due to 2006 data suppressions. See www.sba.gov/advo/research/us06_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) | |
|--|-----------------|---------|---------|---------|---------|--------------------|---------|---------|---------|---------|------------------|---------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | Q4-07 | Q1-08 | Q2-08 | Q3-08 | Q4-08 | This Quarter | Q4-07 - Q4-08 |
| Real gross domestic product Level (\$billion) | 10675.7 | 10989.5 | 11294.9 | 11523.9 | 11671.3 | 11620.7 | 11646.0 | 11727.4 | 11712.4 | 11599.4 | ↓ 3.8% (a) | ↓ 0.2% |
| Annual percentage change* | 3.6 | 2.9 | 2.8 | 2.0 | 1.3 | -0.2 | 0.9 | 2.8 | -0.5 | -3.8 | | |
| Real personal consumption expenditures (\$billion)* | 7561.4 | 7791.7 | 8028.9 | 8252.8 | 8276.2 | 8298.2 | 8316.1 | 8341.3 | 8260.6 | 8186.9 | ↓ 3.5% (a) | ↓ 1.3% |
| Real gross private fixed investment (\$billion)* | 1770.2 | 1873.5 | 1912.5 | 1809.7 | 1702.2 | 1781.3 | 1754.7 | 1702.0 | 1703.7 | 1648.5 | ↓ 12.3% (a) | ↓ 7.5% (a) |
| Federal government surplus or deficit (\$billion) | -370.6 | -291.7 | -201.1 | -229.3 | -- | -236.4 | -330.7 | -649.6 | -547.7 | -- | -- | -- |
| Real exports of goods and services (\$billion)* | 1126.1 | 1205.3 | 1314.9 | 1425.9 | 1518.6 | 1482.1 | 1500.6 | 1544.7 | 1556.1 | 1472.8 | ↓ 19.8% (a) | ↓ 0.6% |
| Real imports of goods and services (\$billion)* | 1720.0 | 1821.9 | 1930.5 | 1972.4 | 1906.7 | 1966.5 | 1962.6 | 1926.0 | 1909.1 | 1829.2 | ↓ 15.7% (a) | ↓ 7.0% |
| Corporate profits after tax (\$billion) | 923.9 | 1034.3 | 1199.6 | 1192.1 | -- | 1177.6 | 1190.6 | 1126.5 | 1121.3 | -- | -- | -- |
| Nonfarm business sector output per hour for all persons (1992=100) | 131.6 | 134.1 | 135.2 | 137.1 | 141.0 | 138.6 | 139.5 | 140.8 | 141.3 | 142.4 | ↑ 3.2% (a) | ↑ 2.7% |
| Employment cost index: private sector wages & salaries (2005=100) | 96.8 | 99.2 | 102.0 | 105.5 | 108.7 | 106.7 | 107.6 | 108.4 | 109.0 | 109.6 | ↑ 2.2% (a) | ↑ 2.7% |
| Employment cost index: private sector benefits (2005=100) | 94.8 | 99.2 | 102.1 | 104.5 | 107.2 | 105.8 | 106.4 | 106.9 | 107.5 | 107.9 | ↑ 1.5% (a) | ↑ 2.0% |

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 (2008) | | | | | Trends | |
|---|-----------------|-------|-------|-------|-------|-------------------------|--------|-------|-------|-------|--------------|------------------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | Aug | Sept | Oct | Nov | Dec | This Quarter | Dec 07 to Dec 08 |
| Unemployment rate (seasonally adjusted) | 5.5 | 5.1 | 4.6 | 4.6 | 5.8 | 6.2 | 6.2 | 6.6 | 6.8 | 7.2 | ↑ 1.0 | ↑ 2.3 |
| Civilian employment—16 years and older (millions, seasonally adjusted) | 139.2 | 141.7 | 144.4 | 146.0 | 145.4 | 145.3 | 145.0 | 144.7 | 144.1 | 143.3 | ↓ 1.7 | ↓ 3.0 |
| Civilian unemployed—15 weeks and over (millions, seasonally adjusted) | 3.1 | 2.6 | 2.3 | 2.3 | 3.2 | 3.4 | 3.7 | 4.1 | 4.0 | 4.5 | ↑ 0.9 | ↑ 2.0 |
| Nonfarm payrolls (millions, seasonally adjusted) | 131.4 | 133.7 | 136.2 | 137.6 | 137.1 | 137.1 | 136.7 | 136.4 | 135.8 | 135.2 | ↓ 1.6 | ↓ 3.0 |
| Producer price index (1982=100) | 146.7 | 157.4 | 164.8 | 172.7 | 189.7 | 199.9 | 197.2 | 186.4 | 177.5 | 171.3 | ↓ 43.1% (a) | ↓ 4.1% |
| Consumer price index (all urban consumers and all items; seasonally adjusted, 1982-84=100) | 188.9 | 195.3 | 201.6 | 207.3 | 215.2 | 218.9 | 218.8 | 216.7 | 213.1 | 211.5 | ↓ 12.7% (a) | 0 |
| Consumer price index (all urban consumer; all items less food & energy; seasonally adj., 1982-84=100) | 196.6 | 200.9 | 205.9 | 210.7 | 215.6 | 216.7 | 217.0 | 216.8 | 216.8 | 216.8 | ↓ 0.3% (a) | ↑ 1.7% |
| Univ. of Mich. Consumer Sentiment (1966=100) | 95.2 | 88.6 | 87.3 | 85.6 | 63.8 | 63.0 | 70.3 | 57.6 | 55.3 | 60.1 | ↓ 10.2 | ↓ 15.4 |
| Spot oil price/barrel: West Texas intermediate crude | 41.44 | 56.47 | 66.10 | 72.36 | 99.57 | 116.61 | 103.90 | 76.65 | 57.44 | 41.02 | ↓ \$62.88 | ↓ \$50.71 |
| New privately owned housing units started (millions, seasonally adjusted at the annual rate) | 1.9 | 2.1 | 1.8 | 1.3 | 0.9 | 0.9 | 0.8 | 0.7 | 0.7 | 0.6 | ↓ 0.3 | ↓ 0.5 |
| ISM purchasing managers index—manufacturing composite (seasonally adjusted) | 59.1 | 54.4 | 53.1 | 51.1 | 45.5 | 49.3 | 43.4 | 38.7 | 36.6 | 32.9 | ↓ 10.5 | ↓ 16.2 |
| Industrial production (2002=100, seasonally adj.) | 103.8 | 107.2 | 109.6 | 111.4 | 109.5 | 109.8 | 105.2 | 107.1 | 105.7 | 103.6 | ↓ 6.0% (a) | ↓ 7.8% |
| 3-month Treasury bills (secondary market rate) | 1.37 | 3.15 | 4.73 | 4.35 | 1.37 | 1.72 | 1.13 | 0.67 | 0.19 | 0.03 | ↓ 1.10 | ↓ 2.97 |
| 10-year Treasury note (constant maturity rate) | 4.27 | 4.29 | 4.79 | 4.63 | 3.67 | 3.89 | 3.69 | 3.81 | 3.53 | 2.42 | ↓ 1.27 | ↓ 1.68 |

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

Sources: Federal Reserve Board; 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.