

First Quarter 2005: The Economy and Small Business

Trends

- Real GDP increased 3.1 percent, somewhat less than in previous quarters. Higher energy costs had an impact. Two components of GDP explain part of the picture. Real personal consumption expenditures and real gross private fixed investment (capital spending) had annualized growth rates of 3.5 and 5.0 percent, down from 4.2 and 10.5 percent, respectively. The trade sectors continue to see brisk growth, with real exports and imports rising at annualized rates of 7.0 and 14.7 percent, respectively.
- Small business owner and consumer optimism have weakened from the highs in 2004, yet the direction is still positive. The National Federation of Independent Business Optimism Index averaged 103.3 during the quarter. According to Advocacy research, this indicates a growing small business sector.
- The unemployment rate fell to 5.2 percent in March 2005. The economy has added 477,000 new jobs so far in 2005, and 2.7 million new jobs since December 2003. Incorporated self-employment has grown steadily to 5.4 million, up 500,000 for the year. Each industry except for manufacturing, which lost 20,000 jobs in the quarter, has contributed to these gains. Industrial production has seen only modest gains recently. The four industries with the largest percentage of small business employment – construction, other services, wholesale trade, and leisure & hospitality – added 135,000 new jobs.
- Interest rates continued to increase as policymakers tried to dampen inflationary pressures. The average prime lending rate rose to 5.4 percent in the quarter; the 2004 average was 4.3 percent. For small loans, the variable rate for short-term loans between one month and one year increased to 6.6 percent. Meanwhile, the Senior Loan Officers Survey shows that demand for small business commercial and industrial loans remains strong. Quarterly venture investments have “floated between \$4.4 billion and \$5.9 billion,” according to the National Venture Capital Association, for the past two years.
- The average price of West Texas crude reached \$54.31 a barrel in March 2005 – almost \$11 more than the December 2004 average. This has affected consumer inflation. Between December 2004 and March 2005, consumer prices rose an annualized 4.25 percent, with 1.37 percentage points of the rise attributable to energy costs. Producer prices followed a similar pattern.

Small Business Indicators

	Last five years					Last five quarters				
	2000	2001	2002	2003	2004	Q1-04	Q2-04	Q3-04	Q4-04	Q1-05
Business bankruptcy filings (thousands)	35.5	40.1	38.5	35.0	34.3	10.6	8.2	7.6	7.8	--
Proprietors' income (billions of current dollars)	728.4	771.9	769.6	834.1	902.8	872.1	901.4	902.9	934.9	--
Prime bank loan rate	9.2	6.9	4.7	4.1	4.3	4.0	4.0	4.4	4.9	5.4
Rates for smallest loans (less than \$100,000):										
Variable rate loans, repricing terms of 2-30 days	9.7	7.4	5.1	4.4	4.4	4.3	4.2	4.6	4.5	5.3
Variable rate loans, repricing terms of 31-365 days	9.9	8.7	6.6	6.4	6.2	6.1	6.1	6.3	6.5	6.6
Senior loan officers (percent of respondents):										
Net small firm C&I lending standards (those whose standards were eased minus those tightened)	-20.4	-39.4	-20.0	-7.1	+13.1	+10.9	+19.6	+3.7	+18.2	+9.1
Net small firm demand for C&I loans (those whose demand was stronger minus those weaker)	-3.3	-36.6	-40.0	-14.7	+25.9	+21.8	+38.1	+38.9	+25.5	+13.7
Venture investment: number of deals	7832	4450	3037	2834	2883	665	789	644	776	674
Venture investment: total invested (billions of dollars)	104.9	40.8	21.5	19.2	21.0	5.0	6.0	4.6	5.4	4.6

Note: The first quarter figure for the Senior Loan Officers Survey is for January, which measures from October. 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. Bureau of Economic Analysis.

	Last five years					Last five months (2004-2005)				
	2000	2001	2002	2003	2004	Nov	Dec	Jan	Feb	Mar
NFIB Small Business Optimism Index (1986 = 100)	100.3	98.4	101.2	101.3	104.6	107.7	106.1	103.7	103.7	102.5
NFIB: next 3 months “good time to expand” (percent of respondents)	19.2	12.3	14.3	15.7	22.3	29	28	23	24	19
NFIB: net percent planning to hire in the next 3 months	15.6	11.6	10.8	10.2	15.3	19	17	15	16	10
Self-employed, incorporated (millions)	4.5	4.5	4.6	5.0	5.2	5.1	4.9	5.0	5.1	5.4
Self-employed, unincorporated (millions)	10.2	10.1	9.9	10.3	10.4	10.5	10.4	10.3	10.3	10.4

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

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For previous quarterly indicators, visit <http://www.sba.gov/advo/research/sbei.html>. Note that data are revised periodically, and this version reflects such changes.

Employment by Major Sector (millions)

	Percent small business	Last five years					Last five months (2004-2005)				
		2000	2001	2002	2003	2004	Nov	Dec	Jan	Feb	Mar
Goods-producing industries	48.41	24.65	23.87	22.55	21.81	21.88	22.00	22.02	22.00	22.06	22.08
Natural resources and mining	38.24	0.60	0.61	0.58	0.57	0.59	0.60	0.60	0.61	0.61	0.62
Construction	96.15	6.79	6.83	6.71	6.73	6.96	7.06	7.09	7.09	7.12	7.15
Manufacturing	42.34	17.27	16.44	15.26	14.51	14.33	14.34	14.33	14.31	14.32	14.31
Service-producing industries	55.03	107.14	107.96	107.79	108.19	109.59	110.30	110.43	110.57	110.76	110.85
Trade, transportation and utilities	52.32	26.22	25.99	25.50	25.29	25.51	25.62	25.62	25.65	25.70	25.71
Wholesale trade	62.79	5.93	5.77	5.65	5.61	5.65	5.68	5.68	5.68	5.69	5.70
Retail trade	42.92	15.28	15.24	15.02	14.92	15.04	15.08	15.08	15.08	15.12	15.11
Information	25.56	3.63	3.63	3.39	3.19	3.14	3.13	3.13	3.12	3.12	3.13
Financial activities	39.73	7.69	7.81	7.85	7.98	8.05	8.11	8.13	8.15	8.16	8.16
Professional and business services	44.83	16.67	16.48	15.98	15.99	16.41	16.61	16.67	16.69	16.77	16.79
Education and health services	47.84	15.11	15.65	16.20	16.59	16.95	17.11	17.14	17.18	17.19	17.21
Leisure and hospitality	61.43	11.86	12.03	11.99	12.18	12.48	12.57	12.59	12.61	12.63	12.64
Other services	86.16	5.17	5.26	5.37	5.40	5.43	5.44	5.45	5.45	5.45	5.45
Government	0	20.79	21.12	21.51	21.58	21.62	21.71	21.72	21.71	21.74	21.75

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 2002 firm size data. See http://www.sba.gov/advo/stats/us_02_n6.pdf for more information.

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				
	2000	2001	2002	2003	2004	Q1-04	Q2-04	Q3-04	Q4-04	Q1-05
Annual change, real gross domestic product	3.7	0.8	1.9	3.0	4.4	4.5	3.3	4.0	3.8	3.1
Real personal consumption expenditures (billions)*	6739.4	6910.4	7123.4	7355.5	7632.6	7543.0	7572.4	7667.8	7747.0	7814.2
Real gross private fixed investment (billions)*	1679.0	1629.4	1548.9	1627.4	1794.4	1721.4	1778.3	1816.1	1861.9	1884.9
Federal government surplus or deficit (billions)	189.5	46.7	-254.5	-364.6	-375.6	-391.0	-380.0	-375.0	-356.2	--
Real exports of goods and services (billions)*	1096.3	1036.7	1012.4	1031.8	1115.3	1095.4	1114.8	1131.1	1140.0	1159.5
Real imports of goods and services (billions)*	1475.8	1435.8	1484.4	1550.3	1701.7	1645.5	1695.1	1714.3	1761.2	1822.7
Corporate profits after tax (billions)	552.8	563.2	690.7	786.2	912.4	909.1	902.7	864.7	973.0	--
Nonfarm business sector output per hour for all persons (1992 = 100)	115.3	117.8	123.5	128.9	134.0	132.7	134.0	134.4	135.1	136.0
Employment Cost Index: private sector wages and salaries (1989 = 100)	146.0	151.4	156.4	160.9	165.0	163.5	164.5	165.7	166.4	167.2
Employment Cost Index: private sector benefits (1989 = 100)	156.0	163.7	171.7	182.5	195.4	190.9	194.1	196.7	199.9	202.0

*Chained 2000 dollars.

Note: Seasonally adjusted.

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 (2004-2005)				
	2000	2001	2002	2003	2004	Nov	Dec	Jan	Feb	Mar
Unemployment rate (seasonally adjusted)	4.0	4.8	5.8	6.0	5.5	5.4	5.4	5.2	5.4	5.2
Civilian employment – 16 years and older (millions, seasonally adjusted)	136.9	136.9	136.5	137.7	139.2	140.3	140.2	140.2	140.1	140.5
Civilian unemployed – 15 weeks and over (millions, seasonally adjusted)	1.3	1.8	2.9	3.4	3.1	3.0	3.0	2.8	2.9	2.8
Nonfarm payrolls (millions, seasonally adjusted)	131.8	131.8	130.3	129.9	131.3	132.3	132.4	132.6	132.8	132.9
Producer Price Index (1982 = 100)	132.7	134.2	131.1	138.1	146.7	151.4	150.1	150.9	151.6	153.6
Consumer Price Index (seasonally adjusted, 1982 = 100)	172.2	177.0	179.9	184.0	188.9	191.2	191.2	191.3	192	193.2
Consumer Sentiment Survey (1966 = 100)	107.6	89.2	89.6	87.6	95.2	92.8	97.1	95.5	94.1	92.6
Spot oil price per barrel: West Texas intermediate crude	30.30	25.92	26.10	31.14	41.44	48.46	43.33	46.84	47.97	54.31
ISM Purchasing Managers Index – manufacturing composite (seasonally adjusted)	51.7	43.9	52.4	53.3	60.5	57.6	57.3	56.4	55.3	55.2
Industrial production (1997 = 100, seasonally adjusted)	115.4	111.3	111.0	110.9	115.5	116.9	117.9	179.9	118.2	118.5
M2 money stock (billions, seasonally adjusted)	4801.0	5218.6	5613.5	6003.1	6275.5	6404.5	6428.4	6441.9	6455.7	6475.2
3-month Treasury bills (secondary market rate)	5.82	3.39	1.60	1.01	1.37	2.07	2.19	2.33	2.54	2.74
10-year Treasury note (constant maturity rate)	6.03	5.02	4.61	4.02	4.27	4.19	4.23	4.22	4.17	4.50

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.

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