

SECOND QUARTER 2010: THE ECONOMY AND SMALL BUSINESS

Trends

- Real gross domestic product grew for the fourth consecutive quarter, spurred by increases in private fixed investment (both residential and non-residential) and exports; the annualized rate of 2.4 percent was a decrease from the first quarter's 3.7 percent growth rate. Consumer spending increased by an annualized 1.6 percent. Growth in exports was outweighed by import growth. Measures of manufacturing output were mixed: industrial production rose an annualized 7.1 percent while the Institute for Supply Management's manufacturing index fell. (The ISM manufacturing measure stayed above the threshold of 50—a sign that the sector is still growing, albeit slower than in March and April).
- Consumer and business sentiment was higher in June than earlier in the year. The University of Michigan's consumer sentiment survey reached a two-year high, and the National Federation of Independent Business's small business survey showed greater willingness to expand or hire over the next three months; however, poor sales and access to credit remained small business owners' top concerns.
- The unemployment rate fell to 9.5 percent in June, and the economy generated 524,000 net new jobs in the second quarter. A number of major industries experienced employment gains—notably in manufacturing, professional and business services, education and health services, leisure and hospitality, and government; the construction and financial activities sectors showed continued weakness. Nonfarm productivity fell an annualized 0.9 percent in the second quarter, its first decline since the fourth quarter of 2008; for the year, however, nonfarm productivity was up 3.9 percent. Self-employment measures were mixed, with incorporated figures down and unincorporated up.
- The Federal Reserve maintained its target federal funds rate between zero and 0.25 percent at its June 23 meeting, citing subdued inflation trends and a moderate pace of economic recovery. The Senior Loan Officers' Opinion Survey suggests that small firm demand for commercial and industrial loans has increased from previous quarters, but remains weak. Lending standards were unchanged. Interest rates stayed at historic lows, with rates on short- and long-term Treasury securities falling in the second quarter. Meanwhile, venture investment rose significantly, to \$6.5 billion from \$4.9 billion in the previous quarter.
- Inflationary pressures remained low; the core consumer price index (which excludes food and energy) and the producer price index increased around 1 percent on an annual basis for the quarter. With food and energy prices included, the CPI actually fell for the quarter, reflecting lower oil prices. Both wages & salaries and benefits rose around 2 percent for the quarter.

Small Business Indicators

	Last Five Years					Last Five Quarters					Trends (in actual terms)	
	2005	2006	2007	2008	2009	Q2-09	Q3-09	Q4-09	Q1-10	Q2-10	This Quarter	Q2-09 to Q2-10
Business bankruptcy filings (thousands)	39.2	19.7	28.3	43.6	60.8	16.0	15.2	15.0	14.6	--	--	--
Proprietors' income (\$trillion, current dollars)	1.07	1.13	1.10	1.11	1.04	1.00	1.01	1.02	1.03	1.05	↑ 7.5% (a)	↑ 4.9%
Prime bank loan rate	6.19	7.96	8.05	5.09	3.25	3.25	3.25	3.25	3.25	3.25	0	0
Rates for smallest loans (\$10,000 to \$99,999):*												
Variable rate loans, repricing terms of 2-30 days	5.71	7.01	6.58	5.20	3.76	3.58	3.85	4.37	4.24	4.19	↓ 0.05	↑ 0.61
Variable rate loans, repricing terms of 31-365 days	6.27	7.35	7.05	6.93	5.60	5.46	5.48	5.88	5.55	5.72	↑ 0.17	↑ 0.26
Senior loan officers (percent of respondents):												
Net small firm C&I lending standards (those whose standards were eased minus those tightened)	9.0	4.6	-4.8	-55.5	-40.4	-42.3	-33.9	-16.1	-3.7	0	↑ 3.7	↑ 42.3
Net small firm demand for C&I loans (those whose demand was stronger minus those weaker)	27.3	0.2	-11.0	-15.6	-52.9	-63.5	-54.6	-35.7	-29.7	-9.3	↑ 20.4	↑ 54.2
Venture investment: number of deals (thousands)	3.19	3.75	4.02	4.00	2.89	0.71	0.71	0.84	0.74	0.91	↑ 166 deals	↑ 201 deals
Venture investment: total invested (\$billion)	22.7	26.2	30.0	28.0	18.1	4.3	5.1	5.3	4.9	6.5	↑ 1.65 bil.	↑ 2.25 bil.

*Effective Q4-08, "smallest" loans are defined as \$10,000 to \$99,999; previous quarters use less than \$100,000.

Notes: a=annualized growth rate. Senior loan officers' responses are from the April 2010 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 (2010)					Trends (in actual terms)	
	2005	2006	2007	2008	2009	Feb	Mar	Apr	May	June	This Quarter	June 09 to June 10
NFIB Small Business Optimism Index (1986 = 100)	101.6	98.9	96.7	89.8	86.7	88.0	86.8	90.6	92.2	89.0	↑ 2.2	↑ 1.1
NFIB: next 3 mos. "good time to expand" (% responses)	20.6	17.4	13.9	6.5	5.3	4	2	4	5	6	↑ 4	↑ 2
NFIB: net percent planning to hire in the next 3 months	14.4	14.6	12.9	3.8	-3.6	-1	-2	-1	1	1	↑ 3	↑ 2
Self-employed, incorporated (millions)	5.3	5.5	5.8	5.8	5.5	5.4	5.5	5.1	5.1	5.3	↓ 0.2	↓ 0.1
Self-employed, unincorporated (millions)	10.5	10.6	10.4	10.1	9.8	9.8	9.6	9.8	9.9	10.0	↑ 0.4	↓ 0.1

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

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, except where noted)

	Percent Small Business	Last Five Years					Last Five Months (2010)					Trends (thousands)	
		2005	2006	2007	2008	2009	Feb	Mar	Apr	May	June	This Quarter	June 09 to June 10
Goods-producing industries	58.30	22.19	22.53	22.23	21.33	18.62	17.85	17.91	17.97	17.99	17.99	↑ 85	↓ 513
Natural resources and mining	44.49	0.63	0.68	0.72	0.77	0.70	0.69	0.70	0.71	0.72	0.73	↑ 23	↑ 33
Construction	85.17	7.33	7.69	7.63	7.16	6.04	5.59	5.61	5.63	5.61	5.58	↓ 28	↓ 445
Manufacturing	44.43	14.23	14.16	13.88	13.40	11.88	11.57	11.59	11.63	11.67	11.68	↑ 90	↑ 101
Service-providing industries	47.73	111.51	113.55	115.36	115.45	112.29	111.79	111.94	112.19	112.60	112.38	↑ 439	↑ 246
Trade, transportation and utilities	43.01	25.96	26.28	26.63	26.29	24.95	24.67	24.71	24.74	24.74	24.74	↑ 22	↓ 207
Wholesale trade	60.95	5.76	5.90	6.02	5.94	5.62	5.56	5.57	5.58	5.58	5.58	↑ 7	↓ 35
Retail trade	38.95	15.28	15.36	15.52	15.28	14.53	14.42	14.44	14.45	14.45	14.43	↓ 12	↓ 119
Information	25.80	3.06	3.04	3.03	2.98	2.81	2.74	2.73	2.73	2.73	2.71	↓ 17	↓ 86
Financial activities	41.47	8.15	8.33	8.30	8.14	7.76	7.63	7.61	7.61	7.60	7.59	↓ 19	↓ 152
Professional and business services	42.77	16.95	17.57	17.94	17.74	16.57	16.57	16.64	16.64	16.66	16.69	↑ 119	↑ 234
Education and health services	47.15	17.37	17.83	18.32	18.84	19.19	19.40	19.45	19.48	19.50	19.53	↑ 79	↑ 363
Leisure and hospitality	60.18	12.81	13.11	13.43	13.44	13.10	13.03	13.05	13.09	13.07	13.09	↑ 42	↓ 14
Other services	84.73	5.39	5.44	5.49	5.51	5.36	5.31	5.32	5.33	5.34	5.33	↑ 12	↑ 34
Government	0	21.81	21.97	22.22	22.50	22.55	22.46	22.51	22.58	22.96	22.71	↑ 201	↑ 142

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 2007 firm size data. See www.sba.gov/advo/research/us07_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)	
	2005	2006	2007	2008	2009	Q2-09	Q3-09	Q4-09	Q1-10	Q2-10	This Quarter	Q2-09 to Q2-10
Real gross domestic product												
Level (\$trillion)*	12.64	12.98	13.23	13.23	12.88	12.81	12.86	13.02	13.14	13.22	↑ 2.4% (a)	↑ 3.2%
Annual percentage change*	3.1%	2.7%	1.9%	0	-2.6%	-0.7%	1.6%	5.0%	3.7%	2.4%		
Real personal consumption expenditures (\$trillion)*	8.82	9.07	9.29	9.27	9.15	9.12	9.16	9.18	9.23	9.26	↑ 1.6% (a)	↑ 1.6%
Real gross private fixed investment (\$trillion)*	2.17	2.23	2.16	1.96	1.52	1.45	1.49	1.59	1.69	1.80	↑ 28.8% (a)	↑ 23.9%
Federal government surplus or deficit (\$trillion, annual rate)	-0.28	-0.20	-0.24	-0.64	-1.22	-1.27	-1.35	-1.31	-1.35	--	--	--
Real exports of goods and services (\$trillion)*	1.31	1.42	1.55	1.65	1.49	1.45	1.49	1.57	1.62	1.66	↑ 10.4% (a)	↑ 14.4%
Real imports of goods and services (\$trillion)*	2.03	2.15	2.21	2.15	1.85	1.79	1.88	1.90	1.95	2.08	↑ 28.8% (a)	↑ 16.4%
Corporate profits after tax (\$trillion)	1.04	1.14	1.09	1.07	0.99	0.92	1.04	1.11	1.16	--	--	--
Nonfarm business sector output per hour for all persons (2005=100)						106.5	108.3	109.9	110.9	110.6	↓ 0.9% (a)	↑ 3.9%
Employment cost index: private sector wages & salaries (2005=100)	99.2	102.0	105.5	108.7	110.3	110.0	110.5	111.0	111.4	111.9	↑ 1.8% (a)	↑ 1.6%
Employment cost index: private sector benefits (2005=100)	99.2	102.1	104.5	107.2	108.5	108.3	108.6	108.9	110.4	111.0	↑ 2.2% (a)	↑ 2.5%

Notes: Seasonally adjusted; *Chained 2005 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 (2010)					Trends (in actual terms)	
	2005	2006	2007	2008	2009	Feb	Mar	Apr	May	June	This Quarter	June 09 to June 10
Unemployment rate (seasonally adjusted)	5.1	4.6	4.6	5.8	9.3	9.7	9.7	9.9	9.7	9.5	↓ 0.2	0
Civilian employment—16 years and older (millions, seasonally adjusted)	141.7	144.4	146.0	145.4	139.9	138.6	138.9	139.5	139.4	139.1	↑ 214,000	↓ 919,000
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	2.6	2.3	2.3	3.2	7.3	8.8	9.0	9.0	8.9	9.0	↓ 24,000	↑ 1.12 mil.
Nonfarm payroll jobs (millions, seasonally adjusted)	133.7	136.1	137.6	136.8	130.9	129.6	129.9	130.2	130.6	130.4	↑ 524,000	↓ 267,000
Producer price index (1982=100)	157.4	164.8	172.7	189.6	172.9	181.0	183.3	184.4	185.0	183.7	↑ 0.9% (a)	↑ 5.5%
Consumer price index (all urban consumers and all items; seasonally adjusted, 1982-84=100)	195.3	201.6	207.3	215.3	214.6	217.6	217.7	217.6	217.2	216.9	↓ 1.5% (a)	↑ 1.1%
Consumer price index (all urban cons.; all items less food & energy; seas. adj., 1982-84=100)	200.9	205.9	210.7	215.6	219.2	220.6	220.7	220.8	221.0	221.4	↑ 1.3% (a)	↑ 1.0%
Univ. of Mich. Consumer Sentiment (1966=100)	88.6	87.3	85.6	63.8	66.3	73.6	73.6	72.2	73.6	76.0	↑ 2.4	↑ 5.2
Spot oil price/barrel: W. Texas intermediate crude	56.5	66.1	72.4	99.6	61.7	76.4	81.2	84.5	73.8	75.4	↓ \$5.89	↑ \$5.67
New privately owned housing units started (millions, seasonally adjusted at the annual rate)	2.07	1.81	1.34	0.90	0.55	0.61	0.63	0.68	0.58	0.55	↓ 85,000	↓ 34,000
ISM purchasing managers index—manufacturing composite (seasonally adjusted)	54.4	53.1	51.1	45.5	46.2	56.5	59.6	60.4	59.7	56.2	↓ 3.4	↑ 10.9
Industrial production (2007=100, seasonally adj.)	95.3	97.4	100.0	96.7	87.7	90.5	91.0	91.2	92.5	92.5	↑ 7.1% (a)	↑ 8.2%
3-month Treasury bills (secondary market rate)	3.15	4.73	4.35	1.37	0.15	0.11	0.15	0.16	0.16	0.12	↓ 0.03	↓ 0.06
10-year Treasury note (constant maturity rate)	4.29	4.79	4.63	3.67	3.26	3.69	3.73	3.85	3.42	3.20	↓ 0.22	↓ 0.52

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.