

THIRD QUARTER 2010: THE ECONOMY AND SMALL BUSINESS

Trends

- The U.S. economy grew for the fifth consecutive quarter, with real gross domestic product up 2 percent in the third quarter. Personal consumption, which makes up 70 percent of real GDP, increased at a 2.6 percent annual rate. Real gross private fixed investment was up an annualized 12.8 percent, and real exports rose 5 percent. Real imports, however, were up over 17 percent annually. Manufacturing output measures were mixed. Industrial production increased an annualized 2.7 percent for the quarter; the Institute for Supply Management's manufacturing index fell in September, but stayed above the key threshold of 50, signifying continued manufacturing growth.
- Small businesses are tentatively optimistic. Several surveys point to signs that the worst of the recession might be over, with both the American Express OPEN Small Business Monitor Survey and Discover Small Business Watch (*not shown here*) finding small business owners eager to pursue new opportunities—including hiring new workers—in the next six months. The small business survey from the National Federation of Independent Business, while unchanged from June, was up from the previous two months. The University of Michigan's consumer sentiment index fell, however.
- The unemployment rate was 9.6 percent in September 2010, and nonfarm payrolls fell 108,000 in the third quarter. The largest declines stemmed from government, which lost 475,000 jobs as temporary U.S. Census workers were let go and state and local governments grappled with budgetary challenges. Most other major industries saw net gains in employment. Nonfarm productivity increased at an annualized 1.9 percent, rebounding from a fall in the previous quarter and reflecting lower unit labor costs. Both incorporated and unincorporated self-employment declined between June and September.
- The Federal Reserve maintained its target federal funds rate between zero and 0.25 percent at its September 21 meeting, citing a modest recovery and limited short-term inflation risk. The Senior Loan Officers' Opinion Survey from July found stronger small firm demand for commercial and industrial lending, with improving overall lending conditions. The SBA reported a large increase in 7(a) and 504 lending in FY 2010, which ended on September 30. SBA-backed lending in FY2010 totaled \$22 billion, up from \$17 billion in FY 2009 (*not shown here*). Venture capital deals fell in the third quarter.
- Inflationary pressures were minimal. Core consumer inflation (excluding volatile energy and food costs) was up an annualized 0.7 percent for the quarter; including these costs, the consumer price index rose an annualized 2.7 percent. Producer prices increased an annualized 3.1 percent in the quarter (and over 6 percent since September 2009). Oil prices were unchanged in the quarter. Wages & salaries and benefits rose around 2 percent (annualized) in the quarter.

Small Business Indicators

	Last Five Years					Last Five Quarters					Trends (in actual terms)	
	2005	2006	2007	2008	2009	Q3-09	Q4-09	Q1-10	Q2-10	Q3-10	This Quarter	Q3-09 to Q3-10
Business bankruptcy filings (thousands)	39.2	19.7	28.3	43.6	60.8	15.2	15.0	14.6	14.5	--	--	--
Proprietors' income (\$trillion, current dollars)	1.07	1.13	1.10	1.11	1.04	1.01	1.02	1.03	1.05	1.06	↑ 3.5% (a)	↑ 5.2%
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	3.85	4.37	4.24	4.19	4.20	↑ 0.01	↑ 0.35
Variable rate loans, repricing terms of 31-365 days	6.27	7.35	7.05	6.93	5.60	5.48	5.88	5.55	5.72	5.32	↓ 0.40	↓ 0.16
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	-33.9	-16.1	-3.7	0	9	↑ 9.0	↑ 42.9
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	-54.6	-35.7	-29.7	-9.3	-3.6	↑ 5.7	↑ 51.0
Venture investment: number of deals (thousands)	3.19	3.75	4.03	4.01	2.92	0.72	0.86	0.76	0.96	0.78	↓ 182 deals	↑ 64 deals
Venture investment: total invested (\$billion)	22.6	26.1	30.0	28.1	18.3	5.2	5.4	4.9	6.9	4.8	↓ \$2.12 bil.	↑ \$0.38 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 July 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	May	June	July	Aug	Sept	This Quarter	Sept 09 to Sept 10
NFIB Small Business Optimism Index (1986 = 100)	101.6	98.9	96.7	89.8	86.7	92.2	89.0	88.1	88.8	89.0	0	↑ 0.2
NFIB: next 3 mos. "good time to expand" (% responses)	20.6	17.4	13.9	6.5	5.3	5	6	5	4	6	0	↓ 3
NFIB: net percent planning to hire in the next 3 months	14.4	14.6	12.9	3.8	-3.6	1	1	2	1	-3	↓ 4	↑ 1
Self-employed, incorporated (millions)	5.3	5.5	5.8	5.8	5.5	5.1	5.3	5.1	5.0	5.0	↓ 0.3	↓ 0.4
Self-employed, unincorporated (millions)	10.5	10.6	10.4	10.1	9.8	9.9	10.0	9.8	9.8	9.7	↓ 0.3	↓ 0.3

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	May	June	July	Aug	Sept	This Quarter	Sept 09 to Sept 10
Goods-producing industries	58.30	22.19	22.53	22.23	21.33	18.62	17.99	17.99	18.03	18.05	18.04	↑ 50	↓ 80
Natural resources and mining	44.49	0.63	0.68	0.72	0.77	0.70	0.72	0.73	0.73	0.74	0.75	↑ 22	↑ 72
Construction	85.17	7.33	7.69	7.63	7.16	6.04	5.61	5.60	5.59	5.63	5.62	↑ 24	↓ 194
Manufacturing	44.43	14.23	14.16	13.88	13.40	11.88	11.67	11.67	11.70	11.68	11.68	↑ 4	↑ 42
Service-providing industries	47.73	111.51	113.55	115.36	115.45	112.29	112.60	112.43	112.32	112.30	112.27	↓ 158	↑ 534
Trade, transportation and utilities	43.01	25.96	26.28	26.63	26.29	24.95	24.74	24.74	24.77	24.78	24.81	↑ 65	↑ 52
Wholesale trade	60.95	5.76	5.90	6.02	5.94	5.62	5.58	5.58	5.59	5.59	5.59	↑ 13	↑ 13
Retail trade	38.95	15.28	15.36	15.52	15.28	14.53	14.45	14.43	14.44	14.45	14.46	↑ 29	↑ 31
Information	25.80	3.06	3.04	3.03	2.98	2.81	2.73	2.71	2.72	2.72	2.72	↑ 5	↓ 61
Financial activities	41.47	8.15	8.33	8.30	8.14	7.76	7.60	7.59	7.58	7.58	7.58	↓ 15	↓ 107
Professional and business services	42.77	16.95	17.57	17.94	17.74	16.57	16.66	16.70	16.69	16.73	16.75	↑ 52	↑ 400
Education and health services	47.15	17.37	17.83	18.32	18.84	19.19	19.50	19.53	19.56	19.60	19.62	↑ 89	↑ 374
Leisure and hospitality	60.18	12.81	13.11	13.43	13.44	13.10	13.07	13.10	13.11	13.14	13.17	↑ 74	↑ 75
Other services	84.73	5.39	5.44	5.49	5.51	5.36	5.34	5.33	5.35	5.36	5.38	↑ 47	↑ 33
Government	0	21.81	21.97	22.22	22.50	22.55	22.96	22.72	22.54	22.40	22.25	↓ 475	↓ 232

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	Q3-09	Q4-09	Q1-10	Q2-10	Q3-10	This Quarter	Q3-09 to Q3-10
Real gross domestic product												
Level (\$trillion)*	12.64	12.98	13.23	13.23	12.88	12.86	13.02	13.14	13.19	13.26	↑ 2.0% (a)	↑ 3.1%
Annual percentage change*	3.1%	2.7%	1.9%	0	-2.6%	1.6%	5.0%	3.7%	1.7%	2.0%		
Real personal consumption expenditures (\$trillion)*	8.82	9.07	9.29	9.27	9.15	9.16	9.18	9.23	9.28	9.33	↑ 2.6% (a)	↑ 1.9%
Real gross private fixed investment (\$trillion)*	2.17	2.23	2.16	1.96	1.52	1.49	1.59	1.69	1.79	1.85	↑ 12.8% (a)	↑ 23.5%
Federal government surplus or deficit (\$trillion, annual rate)	-0.28	-0.20	-0.24	-0.64	-1.22	-1.36	-1.31	-1.31	-1.35	--	--	--
Real exports of goods and services (\$trillion)*	1.31	1.42	1.55	1.65	1.49	1.49	1.57	1.62	1.65	1.67	↑ 5.0% (a)	↑ 12.2%
Real imports of goods and services (\$trillion)*	2.03	2.15	2.21	2.15	1.85	1.88	1.90	1.95	2.10	2.19	↑ 17.4% (a)	↑ 16.3%
Corporate profits after tax (\$trillion)	1.04	1.14	1.09	1.07	0.99	1.04	1.11	1.16	1.21	--	--	--
Nonfarm business sector output per hour for all persons (2005=100)	100.0	100.9	102.5	103.6	107.2	108.3	109.9	110.9	110.4	110.9	↑ 1.9% (a)	↑ 2.4%
Employment cost index: private sector wages & salaries (2005=100)	99.2	102.0	105.5	108.7	110.3	110.5	111.0	111.4	111.9	112.4	↑ 1.8% (a)	↑ 1.7%
Employment cost index: private sector benefits (2005=100)	99.2	102.1	104.5	107.2	108.5	108.6	108.9	110.4	111.0	111.6	↑ 2.2% (a)	↑ 2.8%

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	May	June	July	Aug	Sept	This Quarter	Sept 09 to Sept 10
Unemployment rate (seasonally adjusted)	5.1	4.6	4.6	5.8	9.3	9.7	9.5	9.5	9.6	9.6	↑ 0.1	↓ 0.2
Civilian employment—16 years and older (millions, seasonally adjusted)	141.7	144.4	146.0	145.4	139.9	139.4	139.1	139.0	139.3	139.4	↑ 272,000	↑ 623,000
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	2.6	2.3	2.3	3.2	7.3	8.9	9.0	8.7	8.5	8.5	↓ 501,000	↑ 53,000
Nonfarm payroll jobs (millions, seasonally adjusted)	133.7	136.1	137.6	136.8	130.9	130.6	130.4	130.4	130.4	130.3	↓ 108,000	↑ 454,000
Producer price index (1982=100)	157.4	164.8	172.7	189.6	172.9	184.8	183.7	184.2	184.5	185.1	↑ 3.1% (a)	↑ 6.3%
Consumer price index (all urban consumers and all items; seasonally adjusted, 1982-84=100)	195.3	201.6	207.3	215.3	214.6	217.2	216.9	217.6	218.2	218.4	↑ 2.7% (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	221.0	221.4	221.7	221.8	221.8	↑ 0.7% (a)	↑ 0.8%
Univ. of Mich. Consumer Sentiment (1966=100)	88.6	87.3	85.6	63.8	66.3	73.6	76.0	67.8	68.9	68.2	↓ 7.8	↓ 5.3
Spot oil price/barrel: W. Texas intermediate crude	56.5	66.1	72.4	99.6	61.7	73.8	75.4	76.4	76.8	75.3	↓ \$0.04	↑ \$5.85
New privately owned housing units started (millions, seasonally adjusted at the annual rate)	2.07	1.81	1.34	0.90	0.55	0.59	0.54	0.55	0.61	0.61	↑ 71,000	↑ 24,000
ISM purchasing managers index—manufacturing composite (seasonally adjusted)	54.4	53.1	51.1	45.5	46.2	59.7	56.2	55.5	56.3	54.4	↓ 12.2% (a)	↑ 3.8%
Industrial production (2007=100, seasonally adj.)	95.3	97.4	100.0	96.7	87.7	92.5	92.6	93.2	93.4	93.2	↑ 2.7% (a)	↑ 5.4%
3-month Treasury bills (secondary market rate)	3.15	4.73	4.35	1.37	0.15	0.16	0.12	0.16	0.16	0.15	↑ 0.03	↑ 0.03
10-year Treasury note (constant maturity rate)	4.29	4.79	4.63	3.67	3.26	3.42	3.20	3.01	2.70	2.65	↓ 0.55	↓ 0.75

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.