

SMALL BUSINESS RESEARCH BULLETIN

Small Business Economic Indicators for 2003

This annual report presents the status of small firms in 2003 and makes the data on small firms more accessible to the public, decision-makers and researchers. It lists the number of businesses, new employer firms, business terminations, bankruptcies, and lending terms and standards. The data cover 2003 and years prior. Most of the data is at the national level, but state-by-state data is given in several categories: number of employer firms and self-employed, firm formation and termination rates, business bankruptcies, and financial information.

A note about 2003 data on nonfarm private employment by industry is in order. Previous editions of this report have listed detailed industry employment changes along with the industry's share of small business employment. Unfortunately, discrepancies between the Bureau of Labor Statistics' and U.S. Census Bureau's application of the new industry classification, NAICS, prevent that table from being generated this year.

Highlights

- The year 2003 began on a positive note, and important economic indicators advanced throughout the year. Output increased, the stock markets rose, proprietors' income grew, and corporate profits were up. The cautious atmosphere of the two previous years gave way to increased entrepreneurial risk taking.

- The number of employer firms increased by 18,000 (0.3 percent) and self-employed persons by 369,000 (3.7 percent). Although both firm starts and

terminations were at lower levels than in 2002, new employer firms outnumbered employer terminations by about 18,000.

- Businesses had solid returns as cost increases were held in check and productivity grew. Sole proprietor incomes and corporate profits were up 6.2 percent and 18.3 percent respectively. The compensation cost index (an indicator of labor costs) rose 4 percent, while the prime rate (an indicator of the cost of capital) fell by 11.8 percent. Productivity rose 4.5 percent. The only qualification to the year's positive economic news was in employment. The unemployment rate remained at around 6 percent and overall private sector employment declined by 400,000.

- 2003 set the stage for an uptick in employment: the number of employer firms increased every year since 1991. Considering that hiring the first employee is the most difficult, there are a great many businesses that are potential job creators.

- Even with a solid economy and available workers, small businesses are struggling to cope with rising health insurance costs. Despite a 5.7 percent unemployment rate at the end of 2003, a labor shortage could still potentially arise quickly.

- The outlook for future small business expansion was positive at the end of 2003. Banks began relaxing lending standards in late 2003 for the first time since 1998, and the demand for small business loans halted its decline. Business bankruptcies declined 9.1 percent, indicating that fewer closed businesses needed protection from creditors.

For More Small Business Information

For the complete report, *Small Business Economic Indicators 2003*, visit the Office of Advocacy website at www.sba.gov/advo.

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