

Small Business GDP: Update 2002-2010

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Purpose

U.S. gross domestic product (GDP) is the market value of the goods and services produced by labor and property located in the United States. This research takes each component of private nonfarm GDP and estimates the proportions produced by small and large businesses. This study is another installment in the series of studies sponsored by the Office of Advocacy on small businesses' contribution to GDP, the most recent of which was published in April 2007.

Overall Findings

Small businesses continue to be incubators for innovation and employment growth during the current recovery. Small businesses continue to play a vital role in the economy of the United States. They produced 46 percent of the private nonfarm GDP in 2008 (the most recent year for which the source data are available), compared with 48 percent in 2002. That is down from more than 50 percent in 1998. It is worth noting, however, that the drop is partially explained by a change in methodology with respect to how partnerships are handled. While the share of GDP attributable to small business has declined, a detailed look at the industry level reveals a more dynamic picture. For example, while the share of small business employment declined over the time period, some sectors, with many small businesses, experienced growth relative to other sectors.

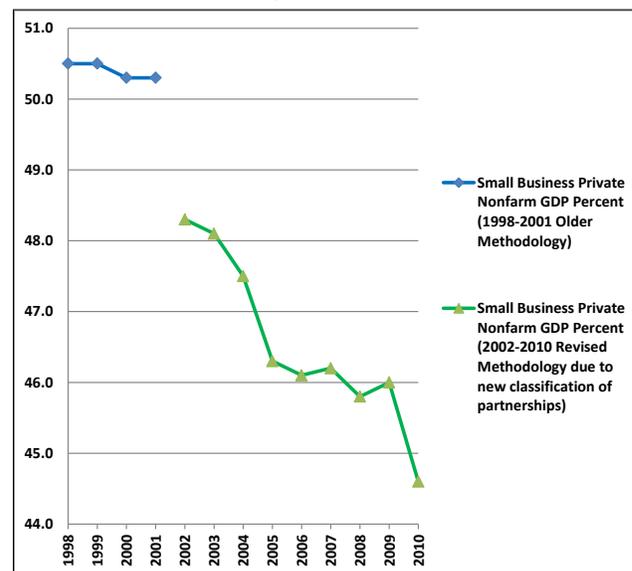
The small business share of GDP held virtually constant from 1998 through 2004 starting at 50.5 percent in 1998, dropping slightly to 49.9 percent in 2000, then rising to 50.7 percent in 2004. This update in the current study re-estimated the small business share of GDP from 2002 to 2008, because of the newly added ability to further delineate between large and small partnerships. We now have

a stable period from 1998 to 2001 and a period of slow decline from 2002 to 2008 (46 percent).

Highlights

- Small businesses continue to be incubators for innovation and employment growth during the current recovery. The net job gains of small businesses matched those of larger businesses during the last half of 2010, and the gross job gains of small business outpaced those of large businesses by about 3 to 1.
- Preliminary data for 2009 and 2010 indicate that both large and small businesses were hit hard by the 2007 recession. The data further indicate that the small business share of GDP held steady in

Small Business GDP, 1998-2010



Note: The 1998-2001 trendline is slightly higher than the 2002-2010 trendline because of a change in the methodology for inclusion of partnerships, formerly assumed to be small. Because the data now allow a distinction between small and large partnerships, more partnerships are now included in the large business share of GDP.

early 2009, but fell further in 2010, as corporate businesses (large-business centric) recovered more quickly than noncorporate businesses (small business centric).

- The construction industry, a sector predominately made up of small businesses, was especially affected by the downturn, and has declined as a share of the overall economy.
- The health care industry, on the other hand, is made up of about 50 percent small businesses, and has grown as a share of the overall economy, partly offsetting the overall losses in employment in other industries.

Scope and Methodology

The general methodology used to calculate the 2002-2008 shares is the same as that used to produce the prior estimates with one exception: there is a change in the calculation of the noncompensation components of partnerships. The Bureau of Economic Analysis (BEA) publishes GDP by major industry and by major value-added component. The researchers estimated small- and large-firm shares for each value-added component in each industry for the years 2002-2008. Once all of the components were estimated for each industry, the small business portions of compensation and each of the noncompensation components were summed for each industry. When that small business total was divided by the industry GDP total, it produced the small business share for that industry.

Producing business-size shares for each value-added component in each industry, however, requires additional data sources. The data used to analyze the firm-size shares are produced primarily using annual data from the Census Bureau's Statistics of U.S. Businesses (SUSB). The calculation of the small business share of the noncompensation components is based on SUSB data and annual data from the Statistics of Income (SOI) program of the Internal Revenue Service.

The Medical Expenditure Panel Survey (MEPS) data, primarily used for tracking health insurance coverage and costs, were used to provide indications about the direction of the trendline for payrolls for each industry for 2009 and 2010. Just as this paper was being finalized, the SUSB payroll shares for 2009 were released, and those tended to confirm the shares estimated from the MEPS data.

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