

# Payden&Rygel

## *Economic Update*

THOUGHTS FROM OUR ECONOMICS TEAM

JUNE 14, 2011

### Small Businesses, Retail Sales and Employment

We often highlight the importance of the small business sector to the US economy and the recovery process. In fact, as of May, 91 million workers were employed by private sector businesses with fewer than 500 workers compared to 17.5 million workers on the payrolls of businesses with more than 500 employees. Further, **businesses with fewer than 500 employees accounted for 99% of net, new private-sector jobs created over the last 12 months.**

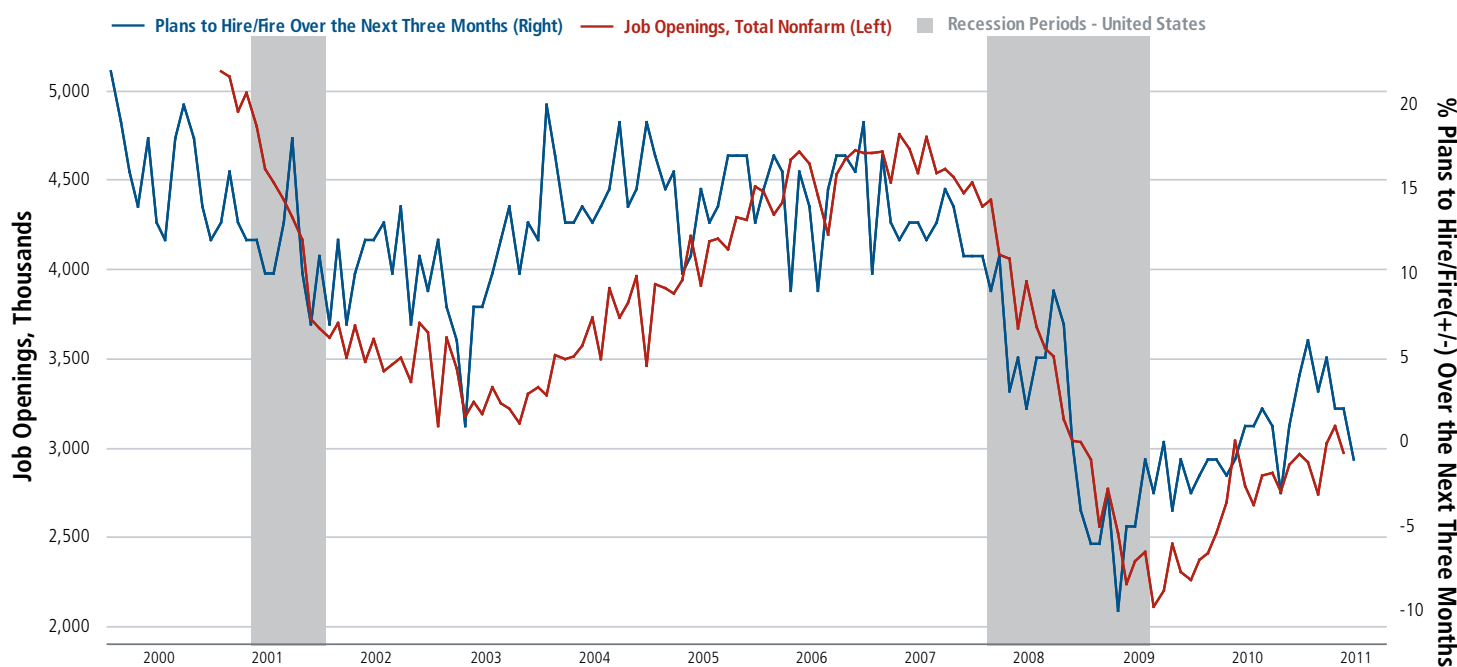
In that light, this morning's small business optimism survey report was a disappointment. The index took a dip in May and still remains at index levels (90.9) consistent with weak economic activity. What's more, the survey of 355,000 firms shows that firms' hiring plans declined in May. **The net percent of firms planning to hire/fire over the next 3 months fell to -1.** This measure appears to be trending in the right direction, but has weakened since the turn of the year.

Why is this important? Simple: when small businesses have plans to hire, job openings increase. When job openings increase, the unemployment rate tends to fall. **The continued weak results on the small business survey point to little progress on bringing the unemployment rate down** (consistent with the BLS's May unemployment rate at 9.1%, up from 9.0%).

What's behind the small business malaise? We know part of this is sales related as 25% of small businesses report "weak sales" as the "single most important problem". Indeed, we also found out this morning that retail sales in May fell 0.2%. If we exclude autos sales (which were weak on supply issues), gas and building materials, the so-called "core" retail sales measure rose just 0.2% in May after increasing 0.3% in April.

Overall, **the retail spending data suggests that consumer spending is growing at a modest 2% annual rate in the second quarter**, consistent with an ongoing theme: continued moderate economic growth (not a double dip), weak hiring activity and little progress on the unemployment rate.

#### SMALL BUSINESS PLANS TO HIRE/FIRE AND JOB OPENINGS



Sources: National Federation of Independent Businesses, Bureau of Labor Statistics