

The Small Business Share of GDP, 1998-2004

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This study extends work previously sponsored by the Office of Advocacy to examine small businesses' contribution to GDP. It incorporates an additional level of detail made possible by the availability of data classified according to the North American Industrial Classification System (NAICS). The most recent report on the topic was published in 2002.¹

Gross domestic product (GDP) is the market value of goods and services generated by labor and property located in the United States. This report considers each component of private nonfarm GDP and estimates the proportion of it attributable to small businesses and the proportion of it attributable to large businesses. (For purposes of this analysis, small businesses are defined as those with fewer than 500 employees.)

Overall Findings

Small businesses continue to play a vital role in the economy of the United States. During the 1998-2004 time period, small businesses produced half of private nonfarm GDP.² It is worth noting that while the share of GDP attributable to small business has remained relatively stable over the years, a detailed look at the industry level reveals a more dynamic picture. While the small business share of many of the industries studied declined during this time period, strong growth in small business-dominated sectors helped the overall share remain at 50 percent.

The small business share of GDP has held virtually constant from 1998 through 2004 starting at 50.5 percent in 1998, reaching 49.9 percent in 2000 then rising to 50.7 percent in 2004. This represents several years of relative stability in the small business share since the mid-1980s.

Highlights

The adoption of the North American Industrial Classification System (NAICS) has allowed researchers to examine industries in greater detail. The current estimates cover 16 nonfarm industry sectors. Of these sectors, two have small business shares greater than 80 percent: construction and other services.³ Five sectors have small business shares greater than 50 percent: real estate and leasing, professional and technical services, health and social services, arts and entertainment, and accommodation and food services. One industry, holding companies, is about equally split between large and small businesses. Two industries have shares that are nearly 50 percent: trade (wholesale and retail) and administrative and waste management services. Six sectors' small business shares are less than 50 percent: mining and manufacturing, utilities, transportation and warehousing, information, finance and insurance, and education services.

The small business share of compensation has stabilized in several industries. It shows little change from 1998 through 2004 in manufacturing, utilities, finance and insurance, education, and other services.

1. Joel Popkin and Company, *Small Business Share of NAICS Industries*, U.S. Small Business Administration, Office of Advocacy, June 2002. www.sba.gov/advo/research/rs218tot.pdf.

2. Historically, the source data for making estimates of small business GDP have often not covered the agricultural sector.

3. "Other services" are defined in NAICS 81. This sector, officially titled "other services except public administration," comprises establishments from a variety of industries solely because they are engaged in services that are not specifically classified elsewhere in the system. The range of activities spans equipment and machinery repair, dry cleaning and laundry services, photofinishing services, and dating services. NAICS 81 covers 212,485 firms, 211,835 of which are small (99.7 percent).

The small business share of the nonlabor components of GDP has risen from 1998 to 2002, the last year for which there are benchmark data for estimating the noncompensation shares.

Scope and Methodology

The U.S. Department of Commerce's Bureau of Economic Analysis (BEA) publishes GDP by major industry and by major value-added component. The researchers estimate small- and large-firm shares for each value-added component in each industry for the years 1998-2002. Those shares are then applied to the BEA data to separate each component into a large and small-business share. Once all the components are divided, they can be added up to determine each industry's contribution. All the small business components can then be added to determine how much of private nonfarm GDP was produced by small businesses and how much was produced by large businesses. The 2003 and 2004 data are estimates based on preliminary small business receipt shares.

Additional data sources are needed to generate business-size shares for each value-added component in each industry. The data that underlie the firm-size shares come from the Census Bureau's Statistics of U.S. Businesses. The calculation of the small business share of the noncompensation components is based on SUSB data and annual data from the Internal Revenue Service's Statistics of Income program.

This report was peer reviewed consistent with the Office of Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at advocacy@sba.gov or (202) 205-6533.

Ordering Information

The full text of this report and summaries of other studies performed under contract with the U.S. Small Business Administration's Office of Advocacy are available on the Internet at www.sba.gov/advo/research.

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