

Economic Indicator — January 14, 2025

Small Business Optimism Shoots Up in December

Better Economic Outlooks and Greater Certainty Boost Sentiment

Summary

Small Business Optimism on the Upswing

Small business sentiment continued to improve in December alongside greater economic and public policy certainty. The NFIB Small Business Optimism Index rose 3.4 points to 105.1, reaching its highest level since October 2018. Ongoing Fed easing coupled with a settled 2024 election likely played a role. The net share of owners anticipating better business conditions over the next six months soared to 52%, the second highest reading on record since the survey began in 1987. Meanwhile, small business owners generally reported easier access obtaining loans and expectations for more favorable credit conditions over the coming months. Labor demand also showed some early signs of stabilization, evidenced by an improvement in hiring plans in December. Yet progress on disinflation continued to stall, keeping inflation the top concern for small firms.

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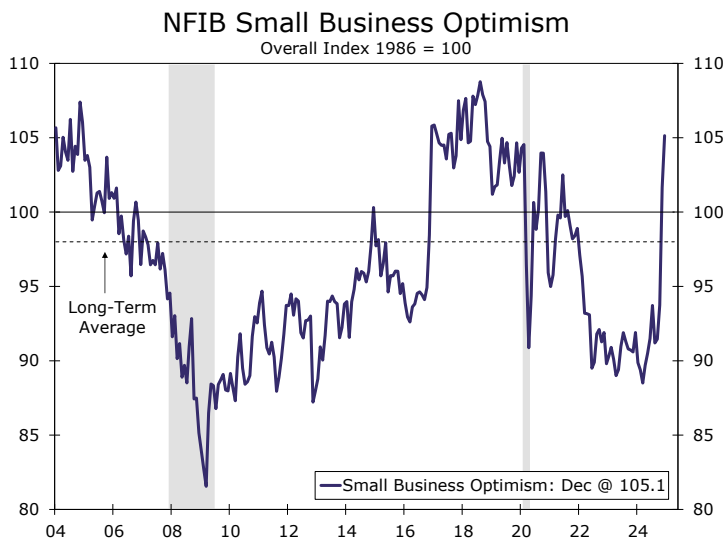
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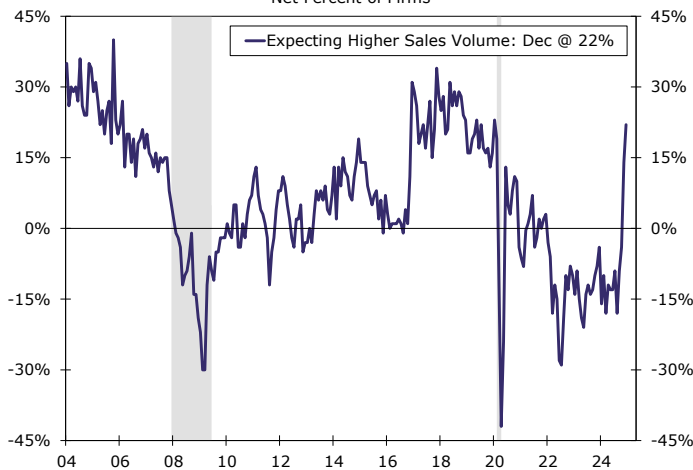
Source: NFIB and Wells Fargo Economics

Labor Demand Stabilizing Amid Brighter Economic Outlooks

- Following November's eight point surge, the NFIB Small Business Optimism Index rose 3.4 points in December to 105.1, marking the fourth straight improvement. Better economic outlooks coupled with less economic uncertainty propelled the index to its highest level since October 2018.
- The uncertainty index fell 12 points, reflecting clearer expectations for economic and public policy.
- Small business sentiment broadly improved. The share of owners anticipating better business conditions over the next six months soared to 52%, its second highest reading on record since the survey began in 1987. There was also a notable improvement in sales expectations, which moved into positive territory for only the second time in the last three years.
- Although some labor market indicators continued to soften, small business labor demand showed signs of stabilization. The net share of small firms with unfilled job openings slipped one point in December to 35%, tied with October for the second weakest reading since January 2021. However, the net percent with hiring plans over the next three months rose to 19%, reaching its highest proportion in nearly two years.
- Inflation remained small businesses' greatest reported problem as progress on disinflation continued to stall. Small businesses reported no change in the prevalence of price hikes (24%) or plans to raise prices over the coming months (28%), each of which was not far off from its level in December 2023. That said, inflation pressures no longer appear to be stemming from the labor market. The net share of firms raising compensation dipped three points to 29%, its lowest reading since March 2021. Plans to raise compensation also fell four points in December.
- Credit conditions continued to improve coinciding with the Fed's third rate cut in December. Firms generally reported easier access obtaining loans and a better outlook for credit conditions over the coming months. As the average interest rate on a short-term loan edged down to 8.7%, the net percent of owners reporting an uptick in interest rates fell to just 1%, its lowest share since before the Fed started raising interest rates in March 2022.
- Brighter sales expectations, and possibly some tariff-related hedging, appear to be driving an uptick in inventory accumulation. The net share of small businesses adding to inventory over the past three months jumped seven points in December. The net percent planning to expand inventory also shot up to 6%, its highest reading since December 2021.

Small Business Sales Expectations

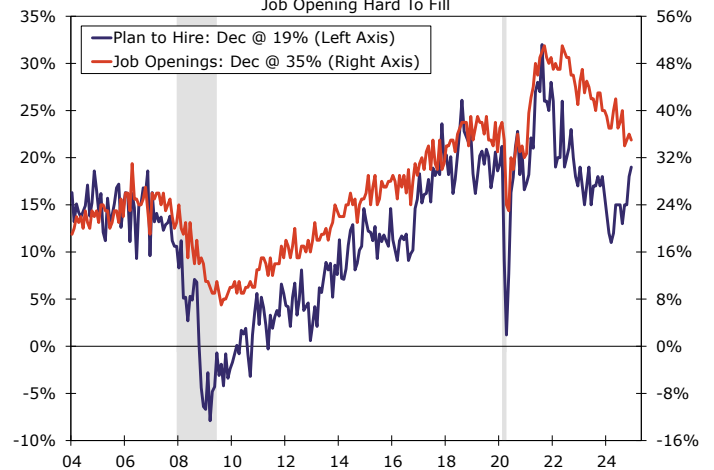
Net Percent of Firms



Source: NFIB and Wells Fargo Economics

Small Business Hiring

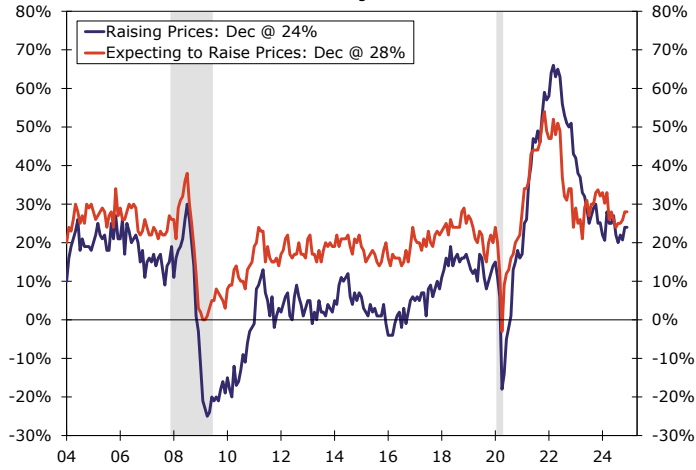
Net % of Firms That Plan to Hire in Next Three Months; Firms With a Job Opening Hard To Fill



Source: NFIB and Wells Fargo Economics

Small Business Price Changes

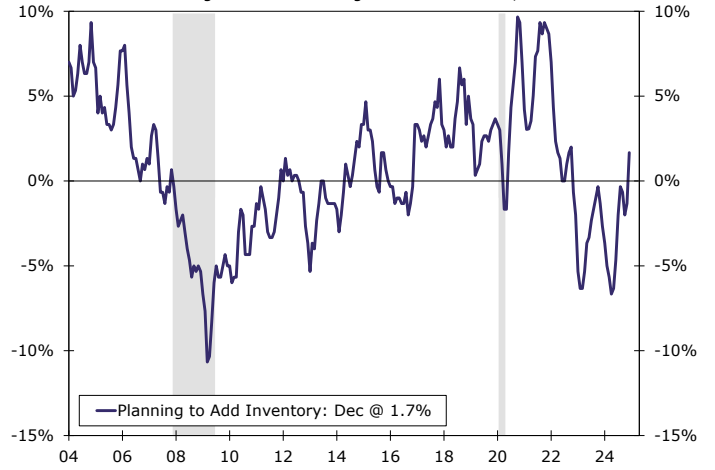
Net Percentage of Firms



Source: NFIB and Wells Fargo Economics

Small Business Inventories

Net Percentage of Firms Planning to Add Inventories, SA 3-MMA



Source: NFIB and Wells Fargo Economics

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