

Economic Indicator — April 9, 2024

## Small Business Optimism Falls to an 11-Year Low

### Stubborn Inflation Top of Mind for Firms

#### Summary

#### Small Business Optimism Edges Lower in March

The NFIB Small Business Optimism Index fell for a third consecutive month in March, ultimately dropping to its lowest level since 2012. Firms reported sharply lower sales expectations from the previous month, and a net 36% of respondents expect the economy to worsen in the next six months. Price pressures and finding quality labor were the primary issues facing small businesses in March, although inflation has muscled its way back to being the foremost concern for most small businesses. Indeed, the net percentage of small business owners raising prices jumped to 28% from 21%, the highest share since October 2023. The labor market continues to plow ahead, helped along by robust labor supply growth. Firms seem to be having an easier time finding workers as the share of firms reporting a difficult-to-fill position fell to its lowest level in just over three years. That said, hiring intentions continued to move lower in March, falling to their lowest level since October 2016—not including the initial pandemic downturn. Small business optimism will likely remain suppressed going forward as firms continue to face difficulties stemming from rising prices, a strong labor market and uncertain demand outlook.

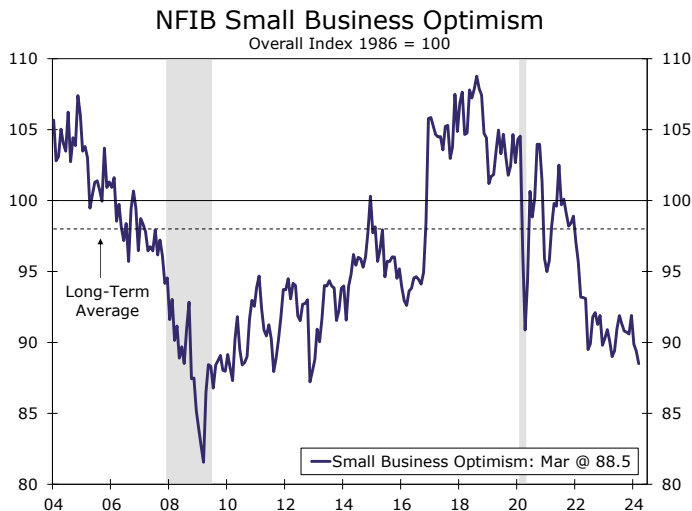
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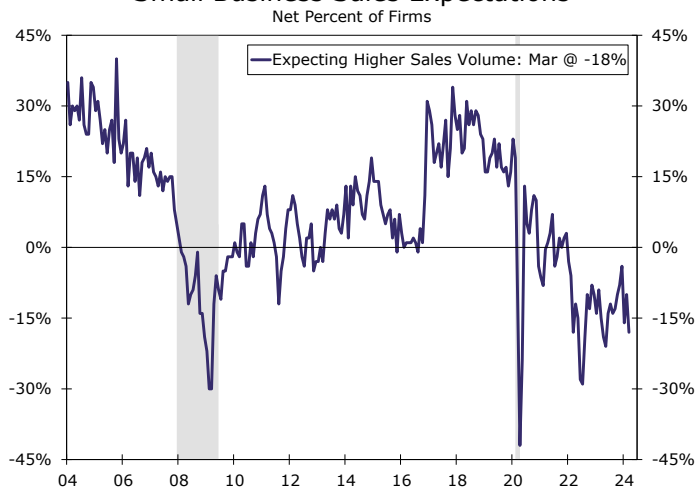


Source: NFIB and Wells Fargo Economics

## Sales Expectations Deteriorate, Hiring Remains a Challenge

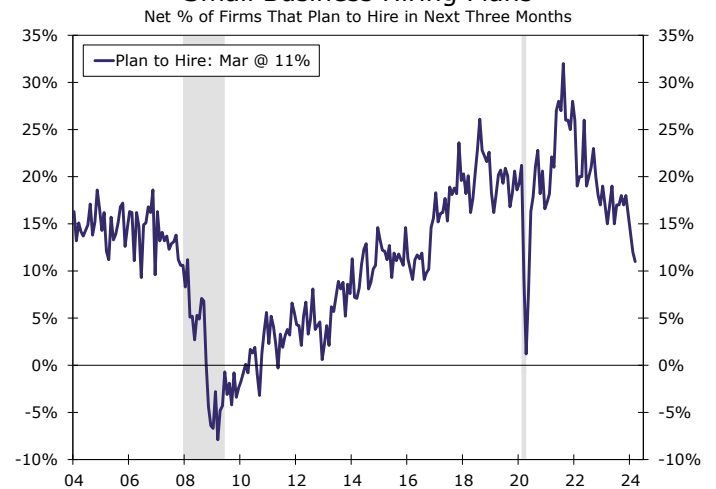
- The NFIB Small Business Optimism Index fell to 88.5 in March, missing consensus expectations of a slight improvement. The headline index ultimately fell to its lowest level since December 2012 and has now run below its long-term average for 27 consecutive months.
- Lower sales expectations were the primary culprit for the lower headline reading. The net percent of owners expecting higher sales over the next three months fell to -18% from -10%. The economic outlook remains largely pessimistic, with a net 36% of firms expecting the economy to worsen in the next six months.
- Hiring remains a challenge for small businesses as the labor market has held firm in the face of higher interest rates. Small firms' hiring intentions continued to pull back in March, a trend that we expect will continue as long as firms must contend with higher interest rates. The down-trend suggests the labor market may start to lose some momentum over the coming months.
- Recent improvements to labor supply should allow some of these hiring issues to abate. Labor supply growth was robust in March and should help support the overall pace of hiring while reducing the inflationary pressures stemming from the jobs market. Wage pressures remain a reality, and a higher share of firms reported increasing compensation now and over the next three months.
- Higher input costs are front-of-mind for small businesses as inflation supplanted labor quality as the single most important problem facing small business owners. Wage growth continues to generate a degree of price pressure, particularly within the labor-intensive service sector.
- After falling in February, the net share of firms currently raising prices reversed sharply in March to hit 28%, the highest share since October 2023. The net percent of firms planning to raise prices also ticked up slightly to 33% and has trended sideways for the past few months, a trend not supportive of softer inflation in the future.

### Small Business Sales Expectations



Source: NFIB and Wells Fargo Economics

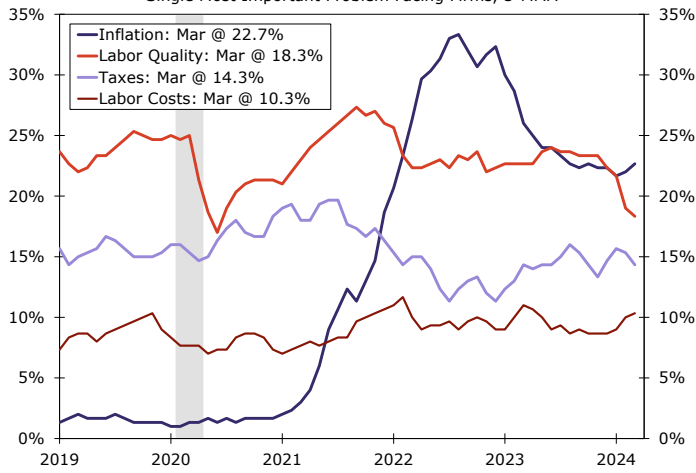
### Small Business Hiring Plans



Source: NFIB and Wells Fargo Economics

### Small Business Important Problems

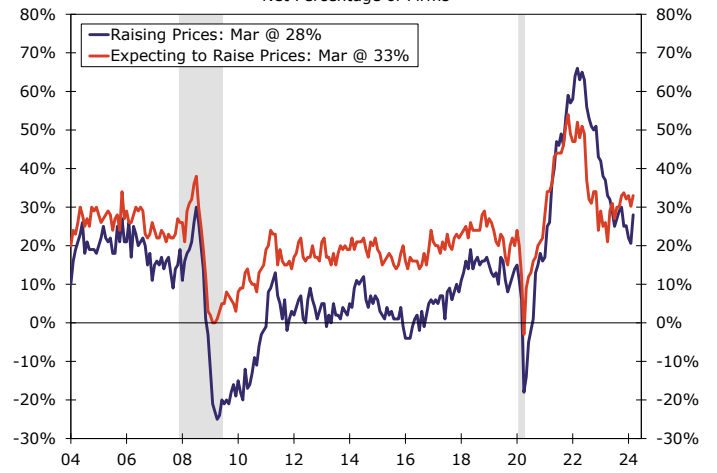
Single Most Important Problem Facing Firms, 3-MMA



Source: NFIB and Wells Fargo Economics

### Small Business Price Changes

Net Percentage of Firms



Source: NFIB and Wells Fargo Economics

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