

Economic Indicator — November 12, 2024

Small Businesses Gain Optimism in October

Fed Cuts and Election Hopes Spark Improvement, Countering Current Challenges

Summary

Looking Past the Headline Jump, Signs of Weakness Persist

The start of the Fed's easing cycle appeared to give small business owners a dose of optimism in October, while expectations surrounding November's election also likely played a role. The NFIB Small Business Optimism Index rose 2.2 points to 93.7, tied with July for the biggest over-the-month jump this year. Most components improved over the month, the most substantial being a seven-point surge in expectations for better business conditions. Yet, looking past the headline improvement in optimism, the underlying details suggest that small businesses are standing on shaky economic ground. Small business sales plummeted to its weakest reading since July 2020 while labor demand continued to deteriorate. Although hurricanes Helene and Milton likely explain softer hiring in October, plans for future hiring also continued to stall, remaining essentially unchanged since May. On the upside, inflation pressures continued to slowly ease, and the Fed's first rate cut in September seems to already be improving borrowing conditions for small businesses.

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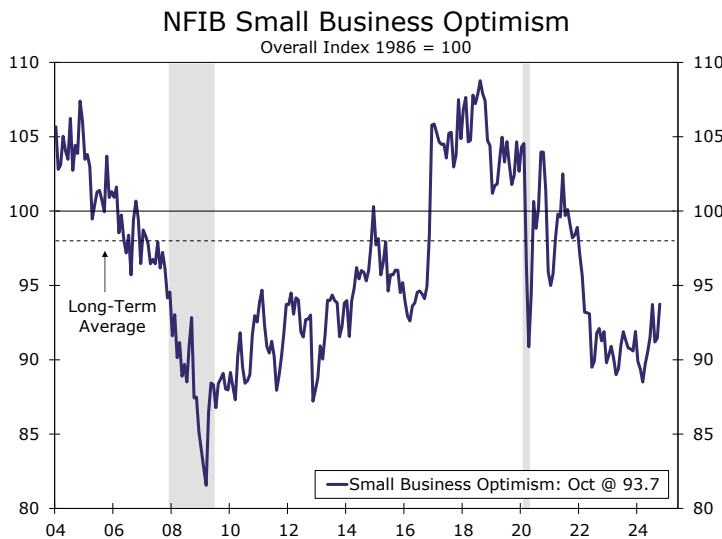
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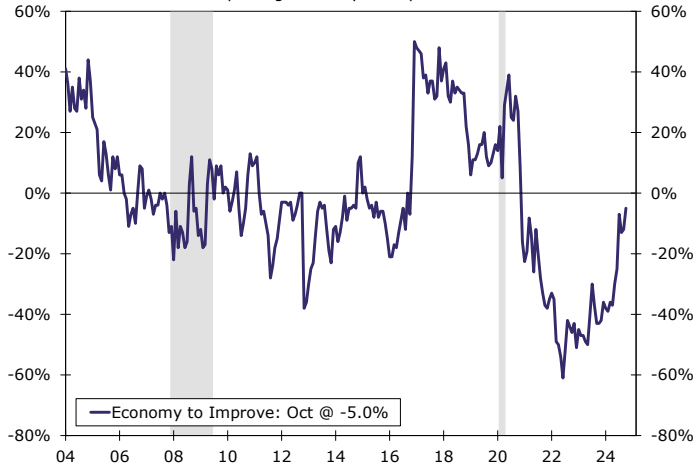
Source: NFIB and Wells Fargo Economics

The Fed and Election Drive Bump in Small Business Optimism

- The NFIB Small Business Optimism Index rose 2.2 points in October to 93.7. Although still firmly below the index's longer-term average of 98, October's bump marked the second consecutive improvement and tied with July for the biggest over-the-month jump this year.
- The Fed's first rate cut in September already seems to be improving borrowing conditions for small businesses. The regular interest rate paid by borrowers dipped slightly in October as the net share of owners reporting higher interest rates on their loans fell to just 5%, the lowest reading since the Fed starting raising rates in early 2022.
- Expectations tied to November's election may have bolstered optimism as well, however it also heightened uncertainty among small business owners. The uncertainty index rose once again, this time making a seven point jump to 110—another record-high print. November's survey should give a clearer picture of small business expectations now that the election results are mostly known.
- Most NFIB components stayed firmly negative, however nine of the index's ten components improved over the month. The net share of firms expecting better business conditions jumped the most, increasing seven points to -5%.
- As sentiment broadly improved across NFIB components, ongoing labor market deterioration stood out as a glaring exception. The net percent of owners with job openings rose to 35%, just a tick above September and the second lowest reading since January 2021. Hiring plans also continued to stall. A net 15% of small businesses planned to add payrolls over the next three months, essentially unchanged since May. Overall, 53% of owners reported hiring or trying to hire in October, down 6 points from September.
- As labor demand trails lower, compensation pressures have essentially reverted to pre-pandemic norms. A net 31% of owners reported raising compensation over the past three months while a net 23% planned to raise compensation, each of which are not far off from their shares in 2019.
- Inflation pressures also continued to slowly ease. A net 21% of firms in October reported raising their selling prices over the past three months, a one point dip from September and significantly below the 30% share in October 2023. Reports of higher prices were most frequent among firms in services industries where inflation remains the stickiest. Construction firms also reported higher prices, a product of elevated input costs and scarcer labor supply.
- As mentioned earlier, small business owners appear more optimistic about future demand than current conditions seem to warrant. The net percent of firms expecting higher real sales jumped five points to -4%, accompanied by a similar, albeit smaller bump in earnings expectations. Yet, reports of actual sales deteriorated to its weakest reading since July 2020 (-20%).

Firms Expecting Economy to Improve

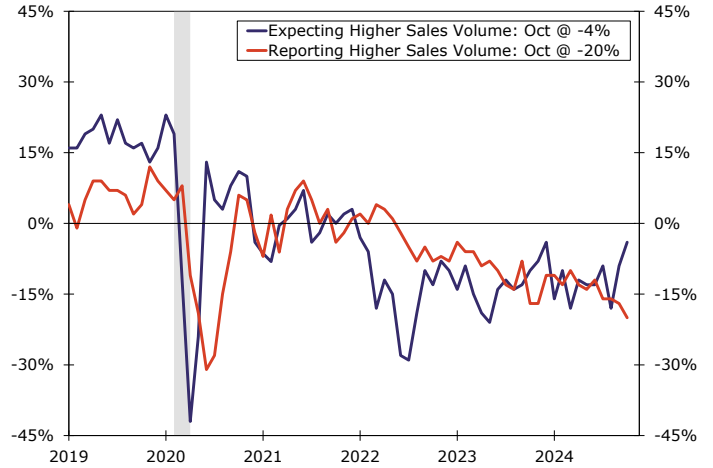
Net % of Firms Expecting Economy to Improve Over the Next 6 Mo.



Source: NFIB and Wells Fargo Economics

Small Business Actual Sales and Expected Sales

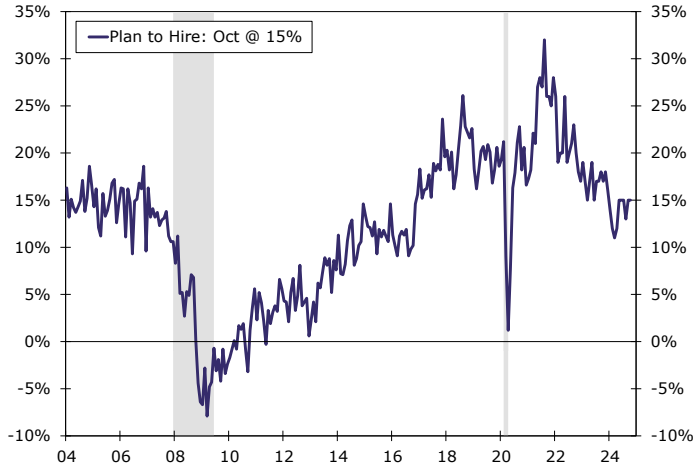
Net Percent of Firms



Source: NFIB and Wells Fargo Economics

Small Business Hiring Plans

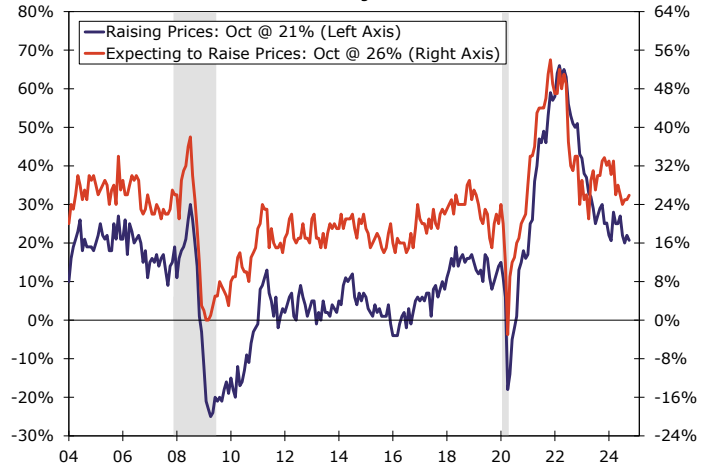
Net % of Firms That Plan to Hire in Next Three Months



Source: NFIB and Wells Fargo Economics

Small Business Price Changes

Net Percentage of Firms



Source: NFIB and Wells Fargo Economics

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