

Economic Indicator — March 11, 2025

## Small Business Optimism Takes Another Step Lower

### Higher Prices and Labor Troubles Weigh on Small Firms in February

#### Summary

##### Uncertainty Surges Higher Amid New Tariffs

Small business sentiment appears to be moderating amid higher economic uncertainty. The NFIB Small Business Optimism Index fell for the second consecutive month in February to 100.7 as the uncertainty index rose to its second highest level on record. Although economic perceptions remain much more constructive than in recent years, the recent flurry of tariff activity appears to have dented economic expectations and put upward pressure on small business prices. The net share of small firms raising their selling prices leapt 10 points in February to 32%, its highest level since May 2023. Price plans increased three points in kind. Meanwhile, the labor market reemerged as the top concern facing small firms, causing hiring plans to dip three points in February.

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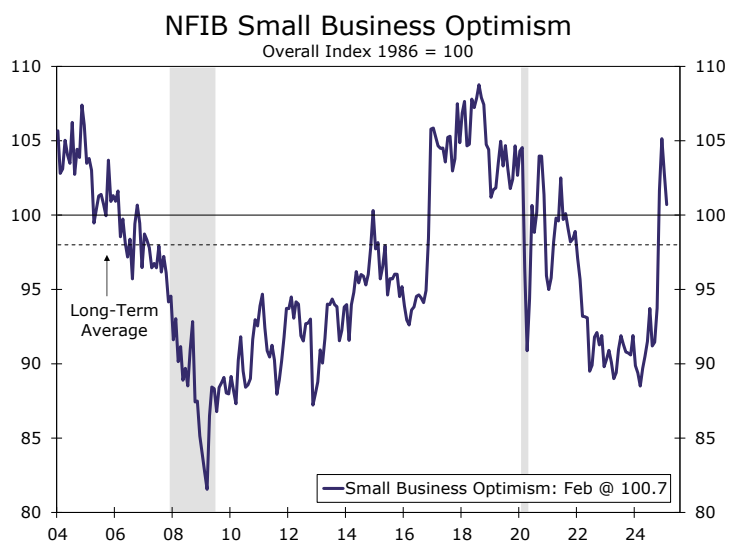
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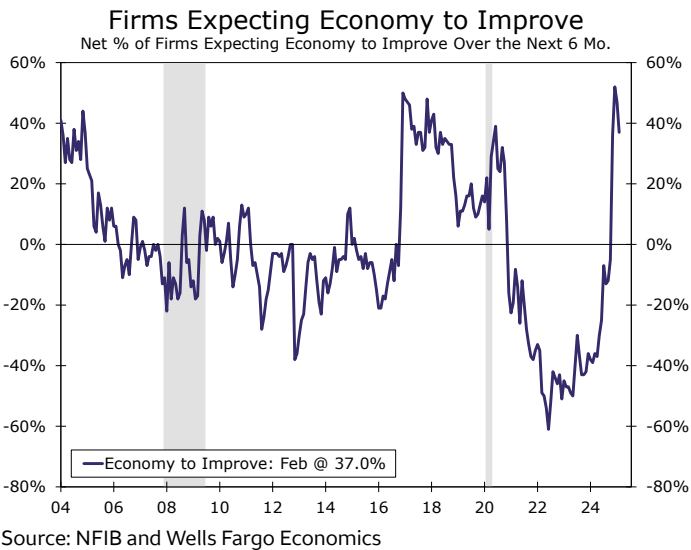
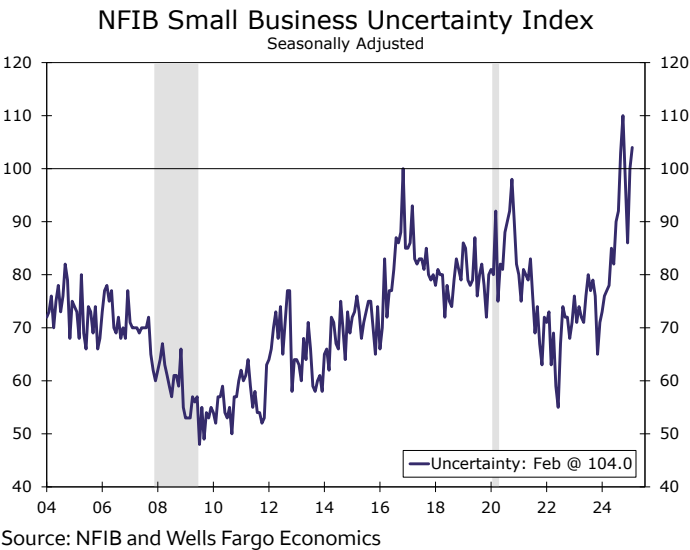
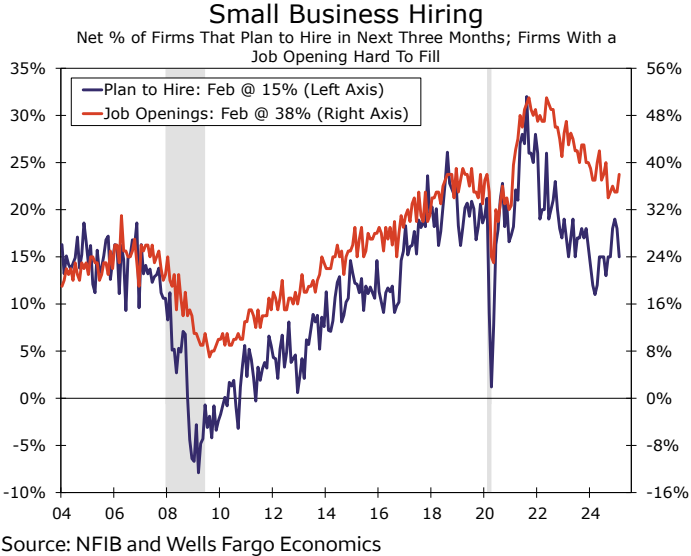
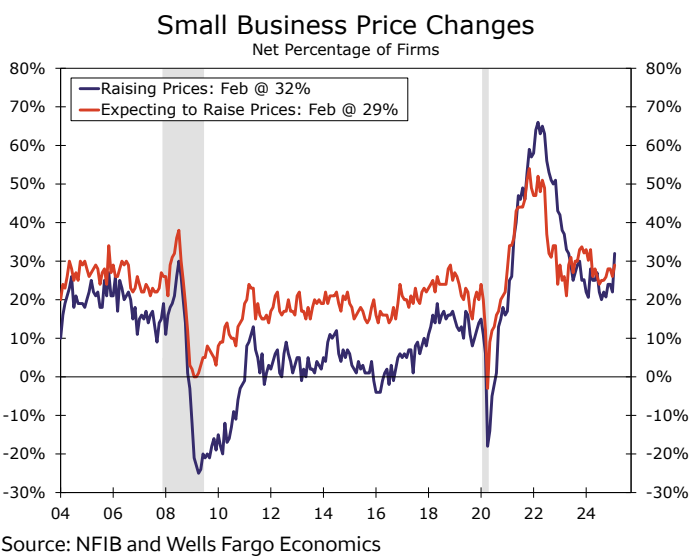
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Source: NFIB and Wells Fargo Economics

## Economic Expectations Move Slightly Lower in February

- The NFIB Small Business Optimism Index fell for the second consecutive month in February, dipping 2.1 points to 100.7. Seven out of ten components trailed lower over the month, including capital investment plans, sales expectations and hiring plans. Job openings, expectations for credit conditions and earning trends each improved.
- The net percent of small businesses anticipating better business conditions over the next six months fell 10 points to 37%.
- Although sentiment appears to be retreating from its recent surge, the Small Business Optimism Index as of February remains substantially above its 2022-2024 average of 92.
- The prospect of tariffs may be leading firms to get ahead of new import levies by increasing prices. The net share of small firms that raised their selling prices jumped 10 points to 32% in February. The monthly rise was the largest since April 2021 and brings the subindex to the highest level since May 2023. Price hikes were reportedly most common in the finance, wholesale and agriculture industries. Meanwhile, the proportion planning to raise prices increased 3 points in kind, likely reflective of the flurry of new tariff plans in the works.
- The labor market, meanwhile, is an increasing source of concern for small business owners. Labor quality surpassed inflation as the top problem facing small firms in February. The percent naming labor costs as their most important issue also jumped three points to 12%, only one point less than the record high reached in December 2021.
- As labor concerns mount, the net percent planning to hire over the next few months dipped three points to 15%. This figure is more or less on par with the average level in 2024 and does not represent a dramatic deterioration in labor demand. Yet, a concurrent jump in unfilled job openings suggests that small businesses may be having difficulty filling positions.
- On the upside, the labor market is not a major source of inflation pressures at present. The proportion of firms raising compensation was flat in February as the net share planning to raise compensation fell two points to 18%.
- Despite the challenges, small business owners appear to have constructive views of business activity. NFIB introduced a new question this month asking owners to rate the overall health of their business. A combined 66% reported that business was either good or excellent while only 6% expressed that business is bad.
- Small business borrowing conditions were slightly more favorable in February. The average interest rate paid on a short-term loan dipped from 9.4% to 8.8% as the net share expecting easier credit conditions inched one point higher to -3%. That said, FOMC members have communicated that they are in no hurry to cut interest rates again amid stalled inflation progress and policy uncertainty, meaning debt costs may remain elevated for some time.



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