

Economic Indicator — June 10, 2025

Small Business Optimism Perks Up in May

Tariff De-Escalation Boosts Outlooks

Summary

Small Business Sentiment Improves, but Challenges Remain

Small business sentiment rose in May for the first time this year, coinciding with an agreement on May 12 to lower tariffs between the United States and China. The NFIB Small Business Optimism Index bounced three points in May to 98.8. This move erased the prior month's decline and brought the measure back up above its longer-term average. That said, a simultaneous increase in small business uncertainty highlights the evolving nature of trade negotiations. There also appears to be a disconnect between current conditions on the ground and the economic outlook. Small firms' expectations for business conditions and sales meaningfully strengthened in May while reports of actual sales, earnings and capital expenditures each deteriorated. Hiring plans also sank one point to 12% and the share of firms with job openings remained unchanged at the lowest reading since January 2021. Price and compensation pressures remain contained at present amid a directional deterioration in the labor market. However, an uptick in plans to raise prices possibly points to higher inflation readings this summer.

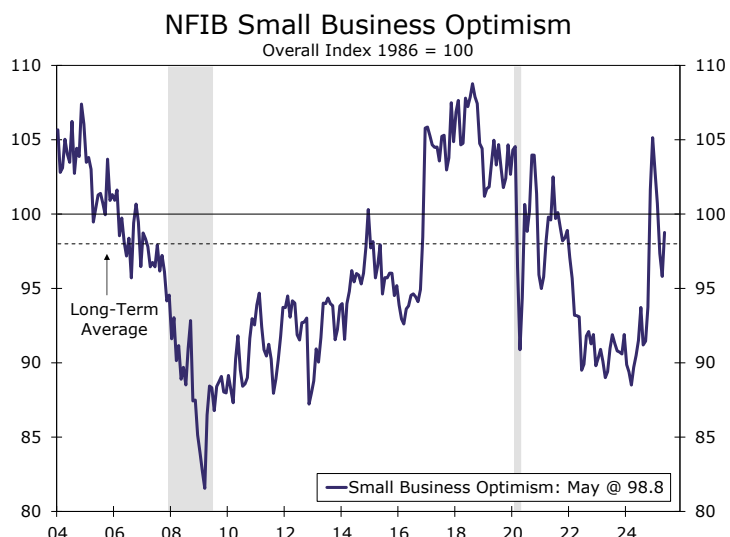
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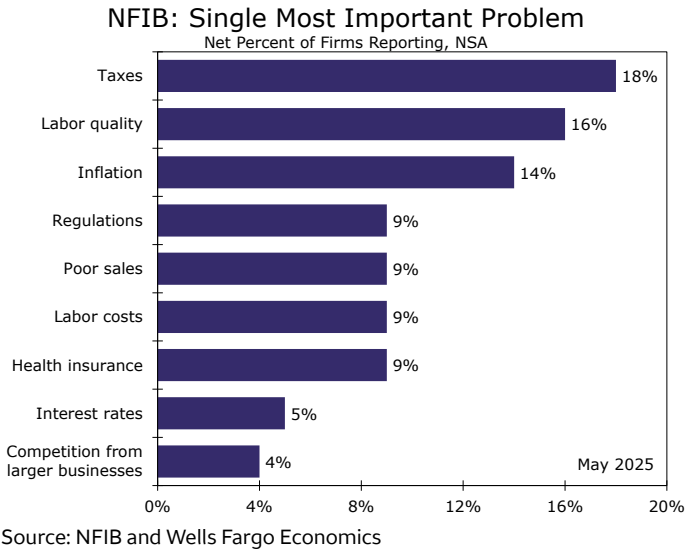
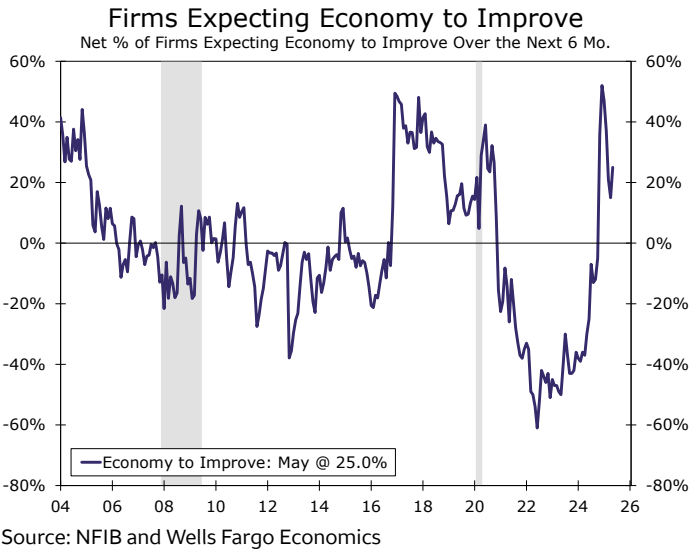
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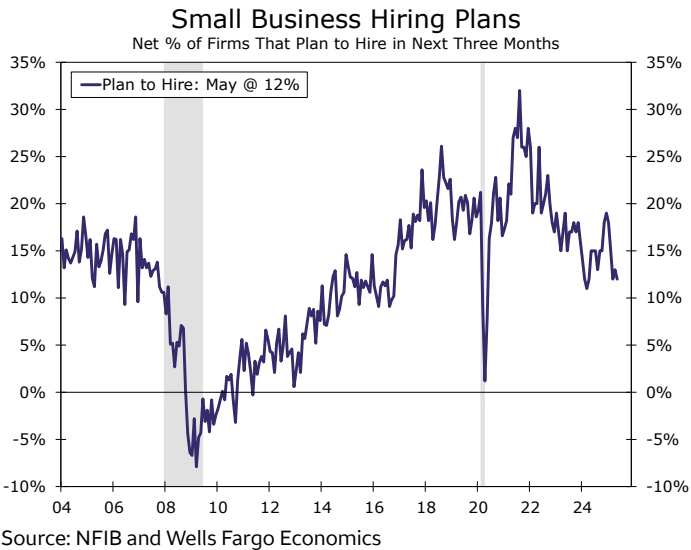
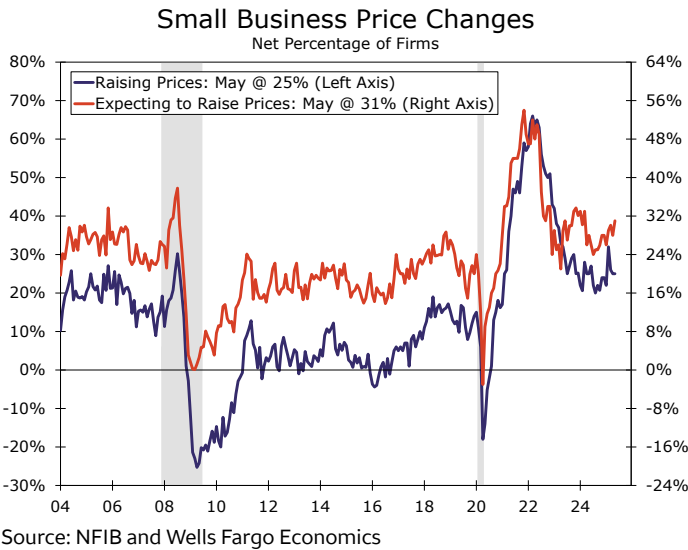


Source: NFIB and Wells Fargo Economics

Labor Demand Softens Despite Brighter Economic Outlooks

- The NFIB Small Business Optimism Index bounced three points in May to 98.8, erasing the decline in April. With May's jump, the index has now moved back above its longer-term average of 98.
- The improvement in small business optimism coincided with a deal reached between the U.S. and China on May 12 to lower tariffs on both sides. The net share of small firms anticipating better economic conditions in the near-term rocketed ten points to 25% as the net percentage expecting greater sales similarly jumped 11 points to 10%.
- While the tariff de-escalation brightened firms' optimism for the future, current conditions remain unsteady. Reports of realized sales, earnings and capital expenditures each moved lower over the month. The uncertainty index also climbed two points to 94, well above the historical average of 68.
- Poor labor supply remains a concern but is not the top problem for small firms at present. The percent of owners ranking labor quality as their most pressing issue fell three points in May to 16%, the lowest share since April 2020. Although firms are having difficulty finding qualified labor, especially in the construction, transportation and manufacturing industries, the overall share with few or no qualified applicants is on par with pre-pandemic levels.
- That said, labor demand appears to be trailing. The net share of owners with open positions was unchanged in May at 34%, eight points lower than a year ago and equal to the reading in January 2021. Hiring plans simultaneously fell one point to 12%.
- Labor market softness is putting downward pressure on compensation growth. Only 26% of firms on net reported raising compensation over the past three months, the lowest share since February 2021. Meanwhile, plans to raise compensation ticked up slightly but remained below the average from 2021 to 2023.
- There was little movement on the inflation front. The net proportion of small businesses raising prices held steady at 25% in May. However, the share planning to raise prices ticked three points higher to 31%, possibly reflecting the anticipation for tariff-driven price pressures.
- Taxes took the top spot as small firms' most important problem in May. This issue will likely remain top of mind for small firms over the next couple of months as Congress irons out the details of its tax & spending bill.





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