

Economic Indicator — October 8, 2024

Small Business Optimism Ticks Up in September

Despite the Slight Improvement, Sentiment Remains Bleak

Summary

Economic Woes and High Uncertainty Dent Small Business Outlooks

Small businesses owners remain fairly downbeat on the economy. The NFIB Small Business Optimism index rose 0.3 point to 91.5 in September. Although the outlook for business conditions has improved significantly over the past few months, so has economic uncertainty. The uncertainty index capturing the share of firms answering "don't know" or "uncertain" to at least six questions jumped to its highest level on record dating back to 1987. The upcoming election is certainly a large influence, however a number of economic factors are also playing a role. Sales, capital expenditures and inventory investment all weakened in September. Although looser labor market conditions are improving the availability of workers and reducing compensation pressures, job openings continue to decline on trend. On the upside, the descent in hiring plans seems to have stalled, remaining essentially unchanged over the past five months. NFIB survey responses also remain consistent with downward-trending inflation.

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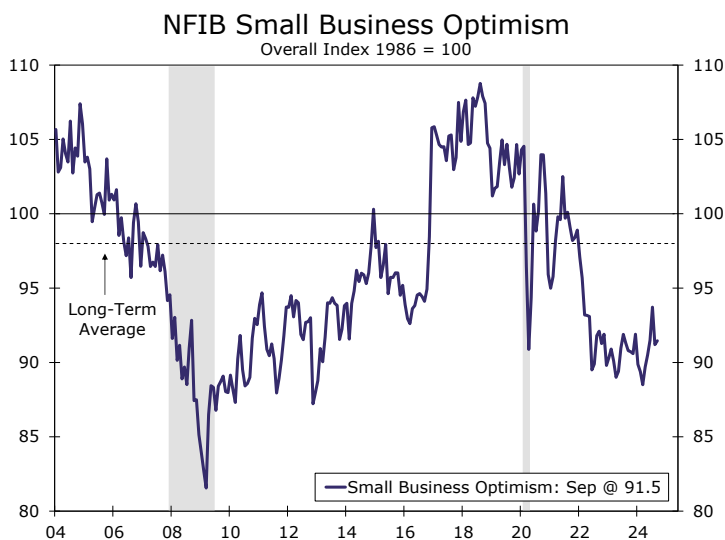
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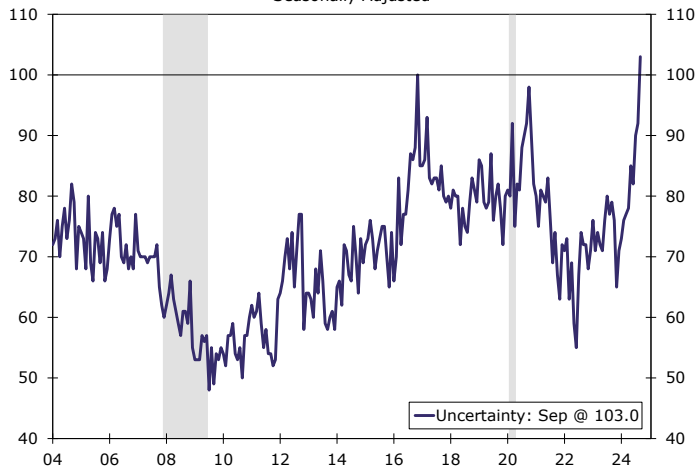


Source: NFIB and Wells Fargo Economics

Small Businesses Still Battling Headwinds

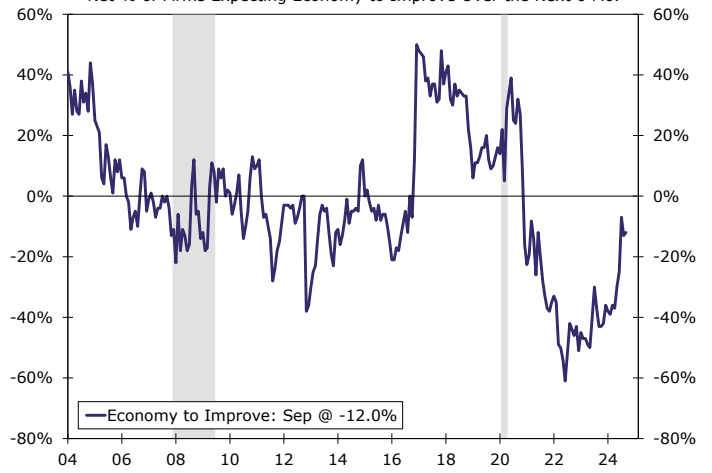
- The NFIB Small Business Optimism Index ticked up 0.3 points to 91.5 in September, providing some giveback from a substantial dip in August.
- The outlook for business conditions has improved significantly over the past few months, helping to boost to the headline index. However, small business owners are also expressing more uncertainty than ever before. The uncertainty index rose 11 points in September to 103, the highest measure since records began in 1986.
- Small businesses are still worried about inflation, but the intensity of their concern continues to moderate. The share of owners identifying inflation as their top problem dipped to 23% in September, far below the 37% peak reached in July 2022. As the labor market shows a bit more resilience, the percentage of owners listing labor quality as their top problem similarly fell back to 17% in September, the second lowest reading of the year.
- NFIB survey responses remain consistent with downward-trending inflation. The net proportion of firms planning price hikes over the next three months was unchanged at 25% in September, down from 33% at the start of the year in January. The net percent *raising* prices perked up a bit to 22%, but was similarly muted when compared to the 29% share recorded a year ago.
- Compensation pressures are no longer a significant factor underpinning price growth. As the labor market loosens alongside a rise in unemployment, the net share of firms raising compensation in September fell to 23%, the lowest level since April 2021. Job openings also continued to decline on trend, with the percentage of owners reporting unfilled positions dipping to its lowest reading since January 2021.
- General economic uncertainty tied to the election and the lagged effects of restrictive monetary policy appear to be holding back investment. The percent of small businesses making capital expenditures fell to 51% on net, the lowest reading in over two years. Plans to make capital outlays similarly dipped 5 points to its lowest share since April 2023.
- A slowdown in sales is another factor dimming outlooks. The net proportion of small businesses reporting an uptick in sales over the past three months slumped to -17%, the lowest reading this year.
- A pullback in inventory accumulation may also reflect softer business investment. Although inventory planning has remained fairly steady, the net percent of owners expanding inventories in September collapsed to -13%, the lowest measure since June 2020 in the thick of the pandemic.
- At the time of the survey in September, small business credit conditions remained highly unfavorable. The average interest rate paid on a short term loan reached 10.1% in September, the highest level in over three years. When asked about the prospect of easier lending conditions over the next three months, -8% of small business owners on net responded in agreement. Not only is this share still firmly negative, but it is up only 2 points from a year ago. As the Fed fully engages in its easing cycle, however, credit availability should improve for small firms.

NFIB Small Business Uncertainty Index
Seasonally Adjusted



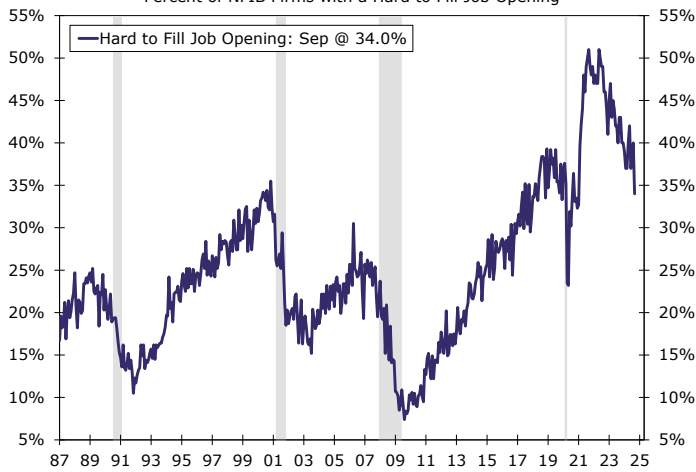
Source: NFIB and Wells Fargo Economics

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



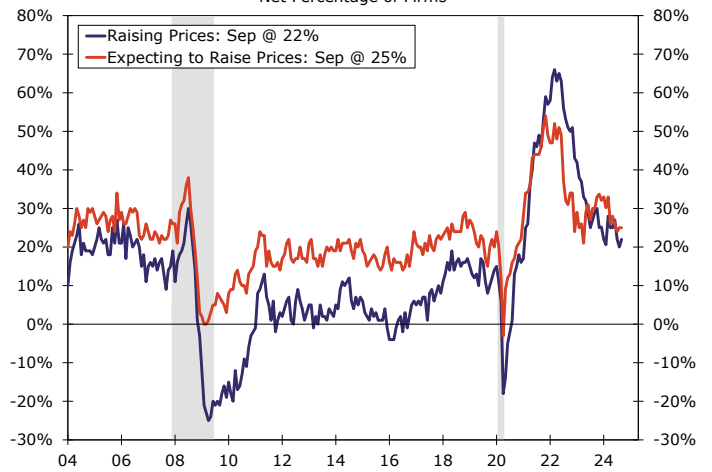
Source: NFIB and Wells Fargo Economics

Hard to Fill Job Openings
Percent of NFIB Firms with a Hard to Fill Job Opening



Source: NFIB and Wells Fargo Economics

Small Business Price Changes
Net Percentage of Firms



Source: NFIB and Wells Fargo Economics

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