

Economic Indicator — November 8, 2022

Small Business Optimism Declines in October Inflation Continues to Weigh on Sentiment

Summary

Persistent Price Pressures Dim Small Business Optimism

- The National Federation of Independent Business (NFIB) Small Business Optimism Index declined 0.8 points in October to 91.3.
- This marks the first decline in the headline index since June. However, persistent inflation, higher interest rates and economic uncertainty has kept the headline index below the 49-year average of 98 for ten straight months.
- Inflation issues have endured, with 33% of firms identifying inflation as their single most important problem in October. Firms appear most concerned about eroding profit margins from rising input costs. The share of firms reporting positive profit trends improved one percentage point over the month but remains relatively low at -30%. Of firms reporting lower profits, 34% blamed the loss in profits on rising material costs, 22% blamed weaker sales and 12% blamed rising labor costs.
- The net percent of firms reporting higher selling prices fell one percentage point to a net 50%. While still elevated, this is the fifth straight monthly decline in this component, indicating underlying inflation drivers may be softening.
- Current compensation plans softened slightly, falling one point to a net 44%. That noted, a rising share of firms reported intentions to raise compensation in the months ahead. Businesses planning to raise compensation over the next three months jumped from a net 23% to 32% in October. This is the largest month-to-month jump on records dating back to 1986. The jump in compensation plans sets up the possibility of rising wages placing further upward pressure on inflation.
- Plans to increase employment fell three percentage points to a net 20%, reflecting some moderation in terms of labor demand. Although hiring plans have cooled from the all-time high of 32% seen in August 2021, hiring plans are still relatively strong even as firms increasingly cite a deteriorating economic outlook.
- Ten percent of firms reported labor costs as their most important problem, and 23% cited labor quality as their chief issue.
- Optimism about what lies ahead continued to slip as a net -46% of business owners expect better business conditions over the next six months, a two percentage point drop from September.
- Firms continue to feel the impact of disjointed supply chains. In October, 90% of respondents reported supply chains having an adverse impact on their business. Even as firms struggle with supply issues, a net zero percent of respondents reported inventories being too low. This is the first time since June 2020 that the component has dropped out of positive territory as firms have had a chance to let inventories build in the first half of 2022.

Economist(s)

Charlie Dougherty

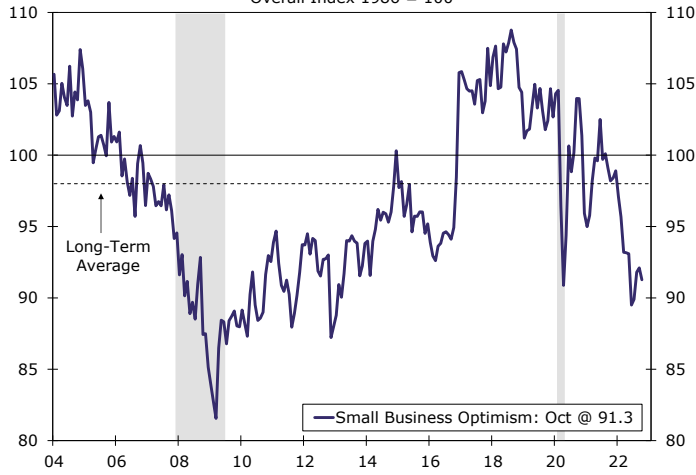
Economist | Wells Fargo Economics
Charles.Dougherty@wellsfargo.com | 212-214-8984

Patrick Barley

Economic Analyst | Wells Fargo Economics
Patrick.Barley@wellsfargo.com | 704-410-1232

NFIB Small Business Optimism

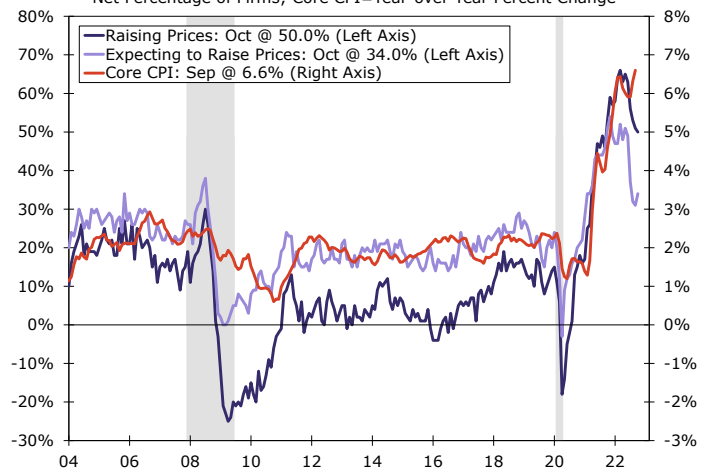
Overall Index 1986 = 100



Source: NFIB and Wells Fargo Economics

Small Business Price Changes

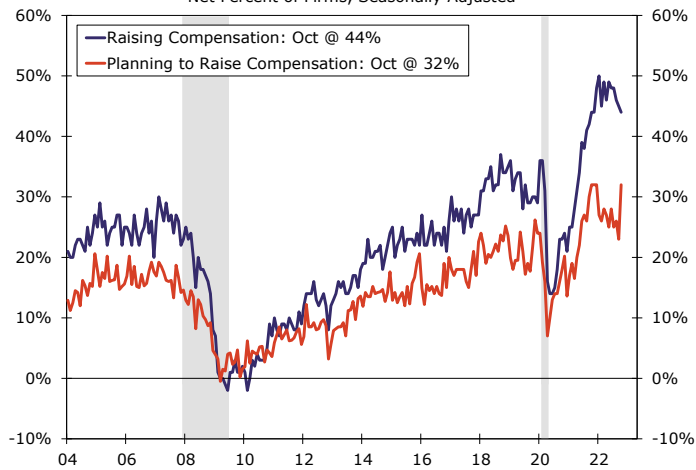
Net Percentage of Firms; Core CPI=Year-over-Year Percent Change



Source: NFIB, U.S. Department of Labor and Wells Fargo Economics

Small Businesses Raising Wages vs. Prices

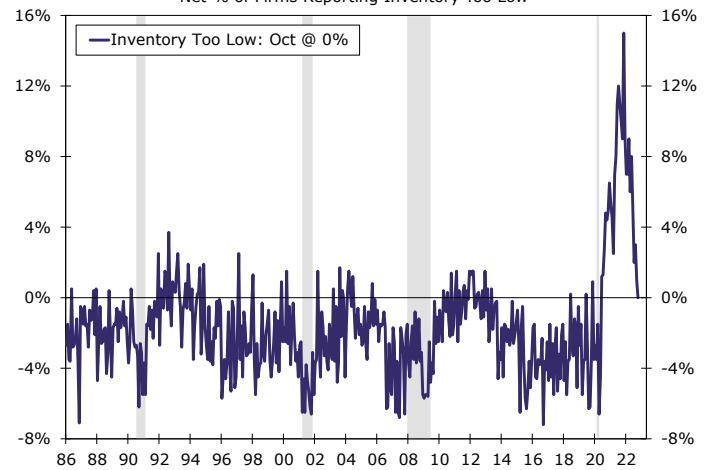
Net Percent of Firms, Seasonally Adjusted



Source: NFIB and Wells Fargo Economics

NFIB Inventory Too Low

Net % of Firms Reporting Inventory Too Low



Source: NFIB and Wells Fargo Economics

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Jessica Guo	Economic Analyst	212-214-1063	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation offer or solicitation with respect to the purchase or sale of any security or other financial product nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report. The views and opinions expressed in this report are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2022 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE