



Economics Group

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Small Business Optimism Rises Solidly in January

Small Business Optimism rose 2.0 points in January to 106.9 and is just shy of its all-time high hit in November. Firms report improved pricing power and increased wage pressure. Capital spending plans also increased.

Small Business Optimism Rebounds in January

The National Federation of Independent Business (NFIB) Small Business Optimism Index rose 2.0 points in January, reversing most of December's drop. Small business confidence remains close to its high for this cycle and is just 1.1 points below its July 1983 all-time high. Six of the survey's ten components rose in January, led by an 11-point gain in earnings. Business owners' assessment of earnings remains near its highest level of this cycle.

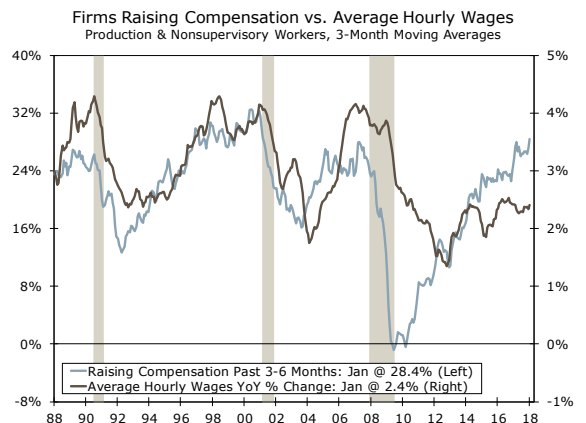
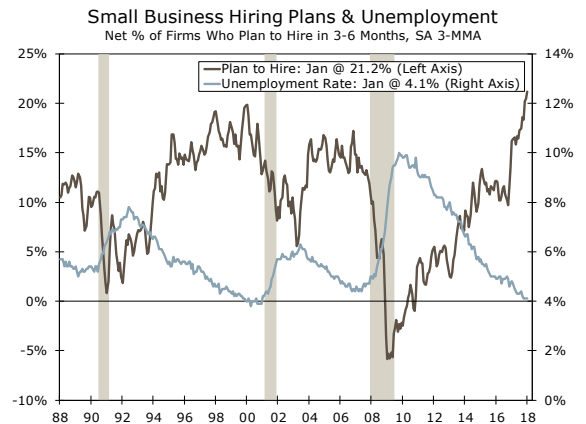
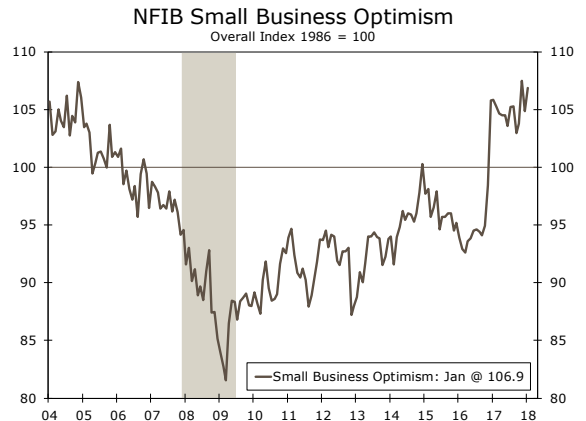
The improvement in earnings is encouraging business expansions. The proportion of business owners stating now is a good time to expand rose 5 points in January to 32 percent and is the highest ever for this series. The increase suggests hiring and capital spending will remain strong. Improved economic conditions and a better political climate are the key reasons business cited as why business owners feel now is a good time to expand.

Sixty-one percent of small businesses reported making capital outlays in January, which was unchanged from December and the second highest reading seen in this cycle. Of those making outlays, 44 percent were for capital equipment, 28 percent were for vehicles and 16 percent were for improved and expanded facilities. We suspect that business owners are increasingly looking at ways to substitute capital for labor.

Tightening labor markets have become a limiting factor for many businesses. Finding skilled workers is now the top challenge for small business owners, surpassing taxes and regulations. Fifty-five percent of small businesses reported hiring or trying to hire workers in January, but 49 percent of firms, or 89 percent of the firms trying to hire workers, reported that they had few or no qualified applicants for the positions they are trying to fill.

Finding competent and committed workers is always a challenge for small business owners, most of which feel a passion for their business that is hard to instill in their employees. While economic theory says raising wages would solve the issue, small businesses typically have less room to do this.

Compensation costs are clearly rising. The proportion of firms noting their compensation costs had risen over the past three months rose 4 points to 31 percent in January, the highest reading since 2000 and close to the all-time high. Plans to increase compensation over the next three months rose 1 point to 24 percent, the highest since 1989. Rising compensation costs appear to be pushing prices higher as well. The share of business owners raising prices rose 3 points to a net of 11, which is the highest since July 2014. Rising wage and price pressures add to recent concerns about the economy running too hot. While compensation and prices have perked up, the lack of wage growth and inability to raise prices had been cited as a glaring weakness only a few months ago. We suspect policymakers will allow the economy to run a little hot in hopes the improvement will broaden and finally reach parts of the economy that, up until recently, had seen little improvement.



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