



# Economics Group

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## Small Business Optimism Surges in December

**Small business confidence surged 7.4 points in December and is up 10.9 points in the past two months. The turnaround reflects expectations for stronger economic growth and some easing of the regulatory burden.**

### One of the Greatest Turnarounds on Record

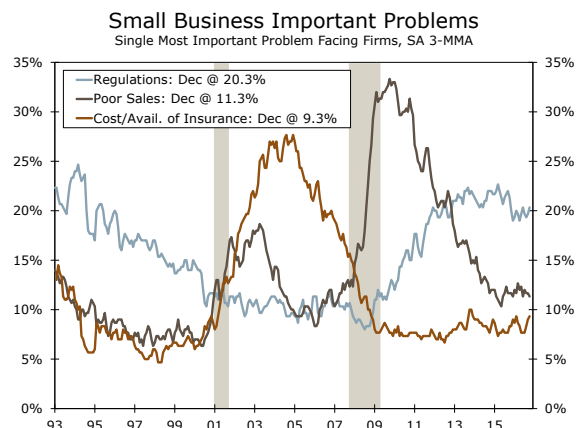
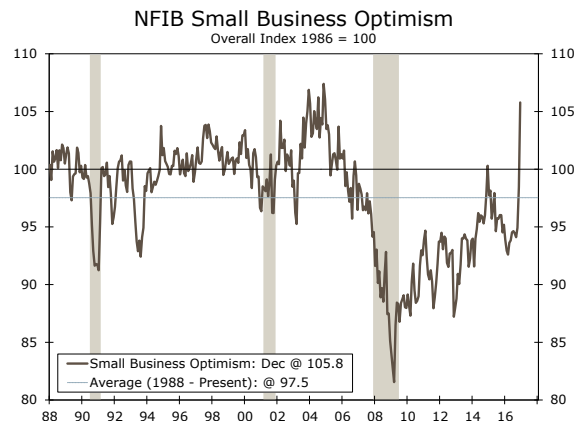
The National Federation of Independent Business (NFIB) Small Business Optimism Index surged 7.4 points in December, which marks the first full month that survey returns reflect the outcome of the U.S. presidential election. Small business confidence also rose 4.5 points in November. Survey results prior to the election put Small Business Optimism at 95.4, which was a half point higher than October. Responses received after the election showed confidence jumping 7 points to 102.4, resulting in November's overall reading of 98.4. When you factor in December's 7.4-point gain, the 14.4 percent two-month rise in small business optimism is one of the greatest turnarounds on record.

December's increase sent the NFIB index to its highest level in 12 years. Most of the increase came from the more forward looking components of the survey. The proportion of small business owners expecting the economy to improve over the next six months surged 38 points during December and the proportion of firms that expect their sales to improve jumped 20 points.

The enormous turnaround in small business confidence is encouraging because the index has languished at historically low levels throughout most of this expansion. Businesses have been befuddled by sluggish top line revenue growth and an avalanche of new regulations that squeezed profit margins and stifled growth. Business owners are hopeful that President-elect Trump will reverse these trends and his plans to cut taxes and roll back regulation are exactly what many business owners were looking for.

The turnaround in confidence has the potential to produce real gains in the economy. Time and resources diverted to complying with onerous regulations can now be diverted to growing their business. The proportion of business owners that feel now is a good time to expand their business climbed 12 points in December, which is the largest one-month gain on record. The survey notes that much of the increase was due to a change in the political climate. Plans to hire workers over the next three months also rose during the month and more small business owners stated that they planned to increase capital spending during the coming year.

The sharp turnaround in small business confidence is not all that surprising. Business owners have long indicated that higher taxes and the increased costs of complying with burdensome regulations were weighing on their performance. Income for many small business owners is taxed as ordinary income, which makes the prospect of tax reform a key issue for them. Moreover, for many business owners, their small business is not only their primary source of income, but also their life's work and single largest asset. Anything that positively or negatively effects the value of that business will promptly and palpably impact small business confidence.



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