



Economics Group

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Small Business Optimism Dips Slightly in June

The National Federation of Independent Business Small Business Optimism index fell 0.6 points in June to 107.2. The index remains near an all-time high. Sales are rising but labor remains in short supply.

Small Business Owners Remain Upbeat

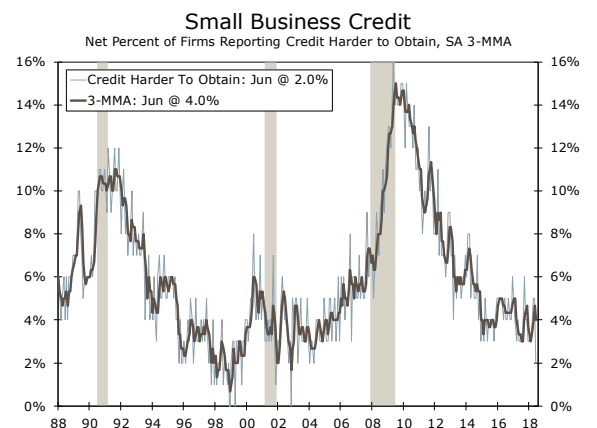
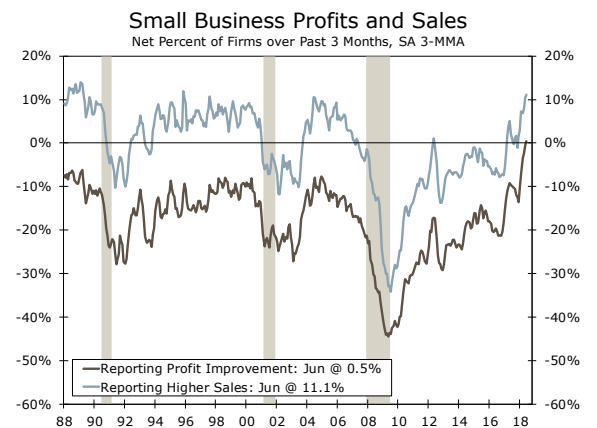
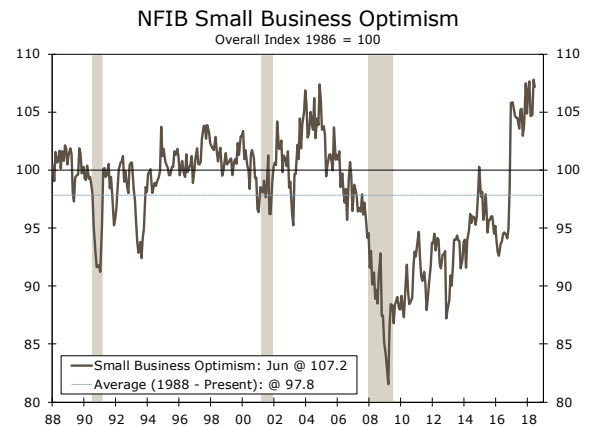
Small business owners remain positive about the current operating environment but may be a little wary about the potential impact of the ongoing trade dispute. The National Federation of Independent Business (NFIB) Small Business Optimism index fell 0.6 points in June to 107.2. While down slightly from the prior month, small business optimism remains at an exceptionally high level and has averaged 106.5 through the first half of 2018. Business owners also appear to be pleased with policy changes enacted over the past couple of years, particularly the easing of burdensome regulations and tax reform, which is encouraging more firms to invest in new equipment and expand their operations.

Many of the key components of the Small Business Optimism index fell in June but most remain near cycle highs. The net share of business reporting higher sales fell 5 points to 10 percent in June but averaged 11.1 percent over the past three months, marking the best three months for sales since November 1995. The NFIB noted that reports of sales gains were most frequent from manufacturers and wholesalers. The jump in sales might partially reflect an effort by producers and wholesalers to get ahead of any retaliatory tariffs placed on U.S. goods. The net percent of firms expecting sales to increase also fell 5 points to a net 26 percent, reversing half of last month's gain. Retailers and financial service providers were the most optimistic category of small businesses expecting sales to increase.

While lower than the prior month, the trend in sales remains solidly positive on a three-month average basis and profitability has also improved. That improvement has carried over to hiring and expansion plans. The share of small businesses looking to hire additional workers over the next three months rose 2 points to 20 percent in June, while the share of firms with job openings climbed 3 points to 36 percent. Hiring and retaining qualified workers has become the greatest challenge for small business owners. Moreover, the strength in hiring is largely in higher paying sectors, such as construction, manufacturing and financial services.

With labor markets tight, small businesses are generally having to boost compensation in order to attract and retain workers. The net share of firms raising compensation fell 4 points in June to 31 percent, while the net share of firms planning to raise compensation rose 1 point to 21 percent. The net share of firms raising prices fell 5 points to 14 percent.

As noted earlier, most of the key components of the small business survey gave back some of the exceptionally strong gains from the prior month. The monthly figures bounce around quite a bit and the three-month averages depicted in our charts do a better job of capturing the underlying trend. One area that posted a notable improvement in June was the net share of businesses reporting that loans were harder to get, which fell to just 2 percent and is about as low as it has ever been.



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