



# Economics Group

**Mark Vitner, Senior Economist**  
[mark.vitner@wellsfargo.com](mailto:mark.vitner@wellsfargo.com) • (704) 410-3277

## Small Business Optimism Remains Near A Record High

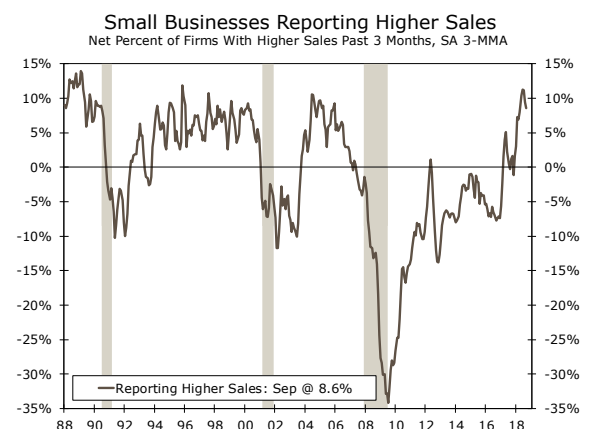
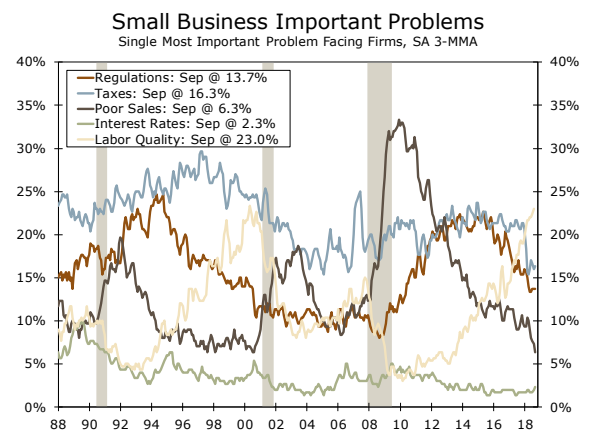
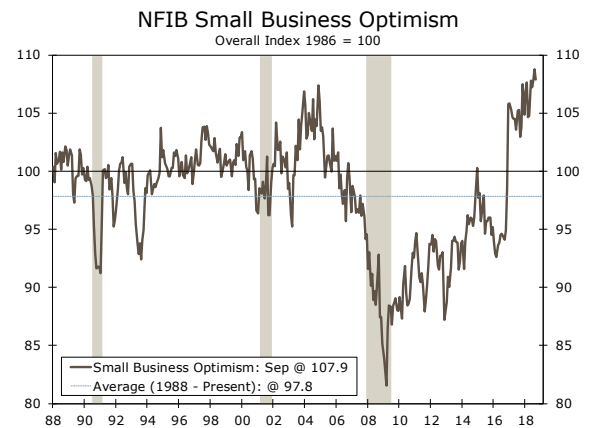
*Small Business Optimism slipped 0.9 points in September to 107.9 but remains near an all-time high. Tighter labor markets are pushing compensation costs higher, and many businesses are passing on those higher costs.*

### Small Business Owners Remain Largely Upbeat

Small business owners remain largely positive about the economy and their business environment but continue to be frustrated with their inability to find the workers they need, and they are paying more to hold onto existing workers. The National Federation of Independent Business (NFIB) Small Business Optimism Index (SBI) fell 0.9 points in September but remains close to its all-time high reached last month. Small drops were evident in most of the NFIB's components, with the notable exception of those dealing with compensation. The proportion of small business owners reporting that their compensation costs had increased rose 5 percentage points in September to a record high 37%, while the share planning to raise compensation costs in the future increased 3 percentage points to 24%. Both are highs for this cycle but are only marginally above the range recorded over the past year. The percentage of firms planning to raise prices fell 2 percentage points in September to 15%, which is up from 6% one year ago. Rising compensation costs and the continuing difficulty attracting and retaining the workers they need are clearly top of mind for many small business owners. Finding and retaining workers remains the most important problem facing small business owners, although the share of firms stating this fell slightly in September. The share of firms citing the cost of labor as the most important problem came in at 8%, just 1 percentage point below its all-time high. On the plus side, the proportion of businesses reporting poor sales as their greatest problem has continued to trend lower and is currently just 5%, which is just 3 percentage points above its all-time low. Rising interest rates do not appear to be impacting small business owners all that much. The proportion of firms stating that financing and interest rates was their most important problem was just 3% in September, which is also near its all-time low.

The overall operating environment for small businesses remains extraordinarily positive. About one-third of small business owners feel that the next three months will be a good time to expand their business, with economic conditions cited as the top reason for this optimism. The net share of firms expecting sales to rise over the next three months rose 3 points to 29% and remains near its high for the cycle.

While economic conditions remain solid, we suspect that the pace of improvement will likely decelerate going forward. The SBI is a diffusion index, and measures the breadth of small business optimism, not the magnitude. The net proportion of small business owners reporting higher sales already looks like it has rolled over. Small business owners might also get spooked by the mid-term elections. The SBI spiked in the immediate aftermath of the 2016 elections, as business owners anticipated some relief from burdensome regulations and meaningful tax reform. Any hint that this progress might be reversed would likely pull small business optimism lower.



## Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

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