



## Economics Group

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## Small Business Owners Growing More Uncertain

*The NFIB Small Business Optimism Index fell modestly to 101.8 in September. The reading remains consistent with solid economic growth, but rising uncertainty is holding back hiring and investment.*

### Optimism Index Consistent with Moderating Growth

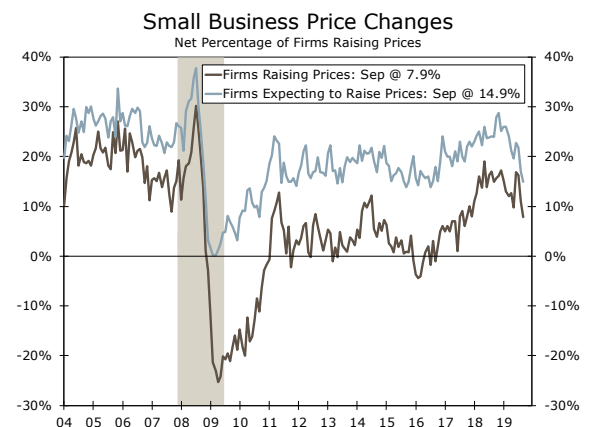
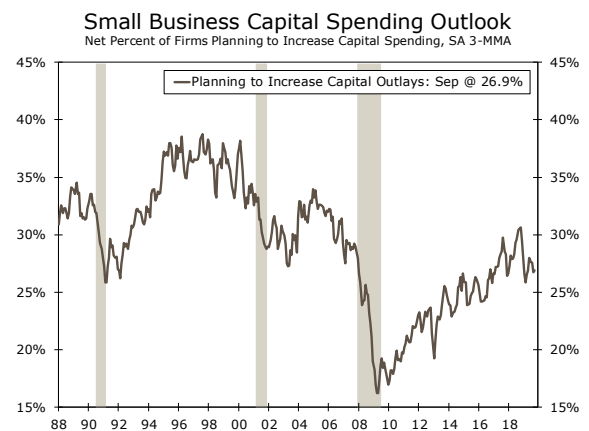
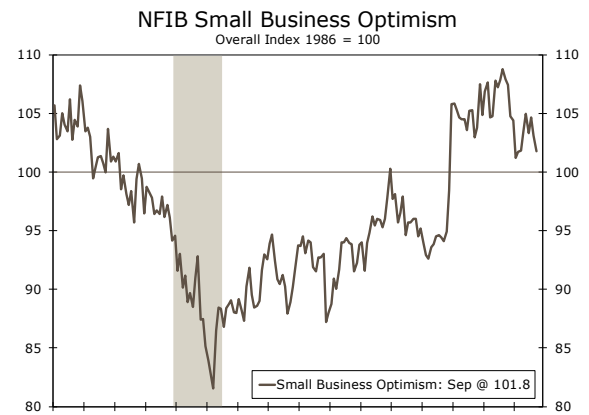
The NFIB small business survey remains at a historically high level, and continues to point towards solid but slowing economic growth. The index fell in September to 101.8 from 103.1, consistent with consensus expectations of a small decline. The NFIB reported that “mumblings about a coming recession” are becoming more prevalent, but the index still sits within the top 20% of all readings in the 46-year history of the survey. Sentiment is clearly moderating though, down from a high of 108.8 in August 2018.

The decline in September was broad-based, led by falling hiring plans and deteriorating assessments of growth prospects. Small business owners continue to see strong demand, but feel less confident about hiring and expanding in the current environment. Tariffs are having a tangible impact on small firms—30% reported a negative impact in September. Interestingly, the Fed’s decision to cut interest rates appears to have had limited impact on small businesses. The NFIB reports that the rate cut actually *raised* uncertainty, and the share of owners planning to invest in capex over the next six months fell one point to 27%. After two Fed rate cuts, and more likely in the pipeline, owners have yet to see credit conditions ease noticeably.

Finding quality labor remains the most common problem, reported by 23% of firms as their top concern. Of the 57% of owners who report trying to hire, almost 90% couldn’t find the labor they were looking for. Seventeen percent of owners are still planning to add staff, indicating that the difficulty finding workers is at least partially behind the slowdown in hiring. Thirty-one percent of firms have openings for skilled labor, while 15% have openings for unskilled labor. Shortages were most common in construction, non-professional services and manufacturing.

Tighter labor market conditions are feeding through to higher wages but not yet fueling higher inflation. Around a third of owners reported raising compensation, but the share raising selling prices fell three points to 8%, the lowest reading since December 2017. This, along with today’s below-consensus PPI inflation numbers, suggest inflationary pressures are diminishing, for now, making another rate cut a little easier for the Fed.

The NFIB small business Uncertainty Index has risen six points over the past three months, and this has begun to creep into business decisions. The share of firms stating it is a good time to expand fell four points to 22%, while the share expecting improved business conditions fell three points to 9%. The October survey could see an even bigger jump in uncertainty if the administration becomes further embroiled in the impeachment inquiry, which was launched on September 24. Small businesses owners are disproportionately Republican, and confidence skyrocketed following the 2016 election. GOP support for President Trump remains high, but political gridlock is worsening as we move closer to the primaries and 2020 election.



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