

Economic Indicator — January 11, 2022

NFIB Small Business Optimism Edges Higher in December

Summary

Small Business Owners Are Battling Staffing Shortages and Rising Costs

The NFIB Small Business Optimism Index edged 0.5 points higher in December to 98.9. Seven of the index's ten components increased during the month, led by owners' expectations for earnings, economic conditions and staffing. Business owners are having an unusually tough time hiring the workers they need. Staffing concerns and inflation remain the most pressing issues among small business owners. Supply chains issues appear to have eased a bit, however. The proportion of business owners that said their current inventory was "too low" fell six points in December and the proportion of firms planning to increase inventories fell two points.

The NFIB survey likely did not pick up much of the impact from the latest surge in COVID and associated staffing difficulties that have arisen since. We expect the January data to fall back somewhat, reflecting the rising number of workers that have had to miss work due to COVID, requiring them to isolate themselves for a few days. Consumer engagement appears to be holding up relatively well, however, so any dip should be relatively short. That said, the net share of business owners expecting economic conditions to improve over the next six months remains exceptionally low at -35%, even though it edged three points higher in December.

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Small Business Optimism Increases Slightly

The NFIB Small Business Optimism Index increased 0.5 points in December to 98.9. Seven of the index's ten components increased during the month, led by owners' expectations for earnings, economic conditions and staffing. The Optimism index remains slightly above its long-term average. Business owners remain on edge, however. Many businesses have been able to maintain profitability by passing along their higher operating costs, but many owners are growing concerned that their ability to pass along the higher costs will be limited by diminishing fiscal and monetary stimulus. Staffing difficulties and rising prices are the top two concerns cited by business owners and there is little prospect of near-term relief on either front.

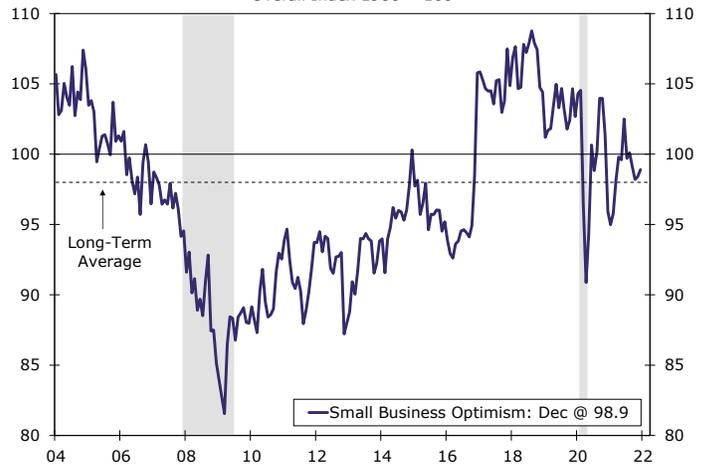
Sales improved modestly in December, with the share of small business owners citing higher nominal sales rising back into positive territory for the first time since September. Inflation remains a problem, however, with 22% of business owners reporting that inflation is the single most important problem they face each day in operating their business. This marks a 19 point increase in the share of businesses citing inflation as their number one problem since the beginning of 2021, and marks the highest level for this series in the fourth quarter of 2021.

While several components increased in December, many remain at problematic levels. The share of business owners reporting improving profits, for example, rose three points in December but remains exceptionally low at -14%. Among business owners reporting lower profits, 29% blamed the rising cost of materials, 22% cited weaker sales, 17% cited labor costs, while the balance referenced usual seasonal change, lower prices, higher taxes and regulatory changes. Among businesses citing rising profits, 63% credited sales, 11% cited seasonal factors and 15% cited higher prices.

The NFIB survey provided an early warning that inflation would become a more persistent problem for the economy. More recently business owners are sounding the alarm about future business conditions. Most economic forecasts remain relatively optimistic about 2022, even though monetary and fiscal policies are set to swiftly pivot from incredibly accommodative to somewhat restrictive over the course of the year. The share of business owners expecting economic conditions to improve over the next six months rose three points in December to -35%. Even after December's increase, the share of business owners expecting business conditions to improve has fallen 23 points over the past six months.

NFIB Small Business Optimism

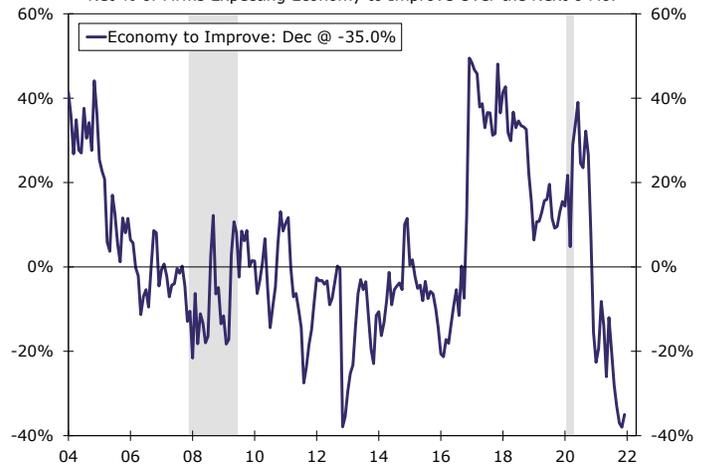
Overall Index 1986 = 100



Source: NFIB and Wells Fargo Economics

Firms Expecting Economy to Improve

Net % of Firms Expecting Economy to Improve Over the Next 6 Mo.

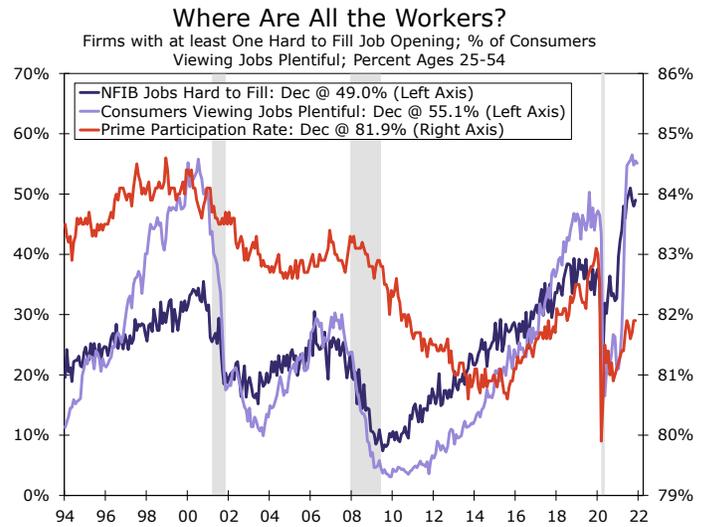


Source: NFIB and Wells Fargo Economics

Staffing shortages have continued to be the greatest challenge for small business owners. The NFIB reports that 49% of business owners had a job opening they could not fill in December, up one point from the prior month. Many owners have cited skills mismatches as a primary culprit of their hiring woes, with 95% of owners trying to hire reporting "few" or "no qualified" applicants for the positions they were trying to fill during the month. This squares with the sluggish recovery that we have seen in the prime-age (individuals ages 25-54) labor force participation rate over the course of the pandemic.

Hiring difficulties have caused businesses to boost compensation to attract and retain workers. The net share of small businesses raising compensation rose four points to 48% in December, a 48-year record high. Plans to raise compensation in the next few months held steady at 32%, unchanged from November's record high. Owners are increasingly worried about their ability to continue passing on higher compensation and material costs to their customers, particularly with monetary and fiscal policy set to become less accommodative in the near term and restrictive not so long after that.

December's NFIB survey likely did not pick up much of the impact from the latest surge in COVID and associated staffing difficulties that have arisen since. We expect the January data to fall back somewhat, reflecting the rising number of workers that have had to miss work due to COVID, requiring them to isolate themselves for a few days. Consumer engagement appears to be holding up relatively well, however, so any dip should be relatively short.



Source: U.S. Department of Labor, NFIB, the Conference Board and Wells Fargo Economics

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