

Economic Indicator — May 11, 2021

Small Business Confidence Rises Modestly in April

Supply Chain Headaches Weigh on Small Business Confidence

Summary

Small Business Owners Face Numerous Immediate Challenges

The National Federal of Independent Business reported that its Small Business Optimism Index rose by a smaller-than-expected 1.6 points in April to 99.8. While April's increase was smaller than expected, the Small Business Optimism Index remains slightly above its long-run average. The relatively lofty level is deceiving, however, as a large and growing proportion of business owners report relentless supply chain challenges and a growing number are having to adjust their operating plans to deal with rapidly rising input costs and a persistent shortage of workers or job applicants.

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Small Business Optimism Rises in April

The National Federal of Independent Business reported that Small Business Optimism rose by a smaller-than-expected 1.6 points in April to 99.8. Even with the smaller-than-expected rise, Small Business Optimism remains relatively high and is nearly two points above its long-run average. Small Business Optimism hit an all-time high of 108.8 in August 2018.

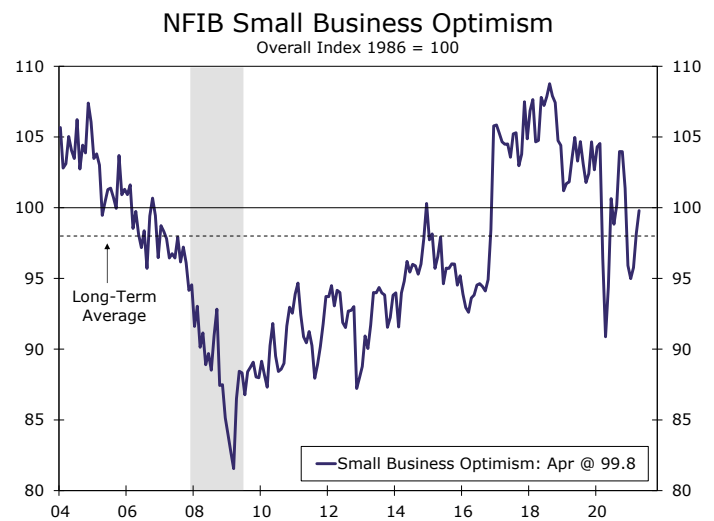
Eight of the 10 components improved in April, while two declined. Business owners' assessment of earnings over the past three months rose eight points to negative seven. The improvement reflects an increase in sales. The net proportion of firms reporting higher sales over the past three months rose nine points in April to 3% and expectations for sales over the next three months rose one point to a net 1%. While both series are moving in the right direction, both the assessment of current sales and expectations for future sales remain relatively low. By contrast, compensation costs not only continue to trend higher but have reached levels more typically associated with the latter stages of the business cycle. The net proportion of business owners boosting compensation over the past three months rose three points to 31%, while the net proportion of firms planning to boost compensation over the next three months also rose three points to 20%.

Small Business Owners Are Dealing With a Hiring Crisis

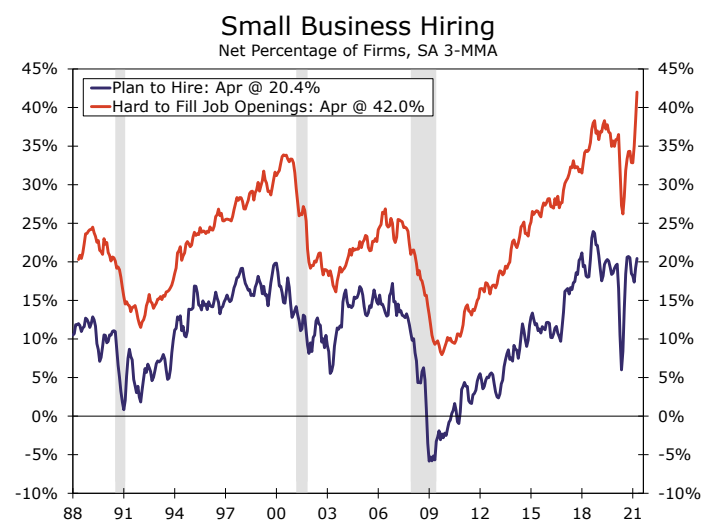
The relatively lofty level of Small Business Optimism is deceiving, as a large and growing proportion of business owners report relentless supply chain challenges and a growing number are having to adjust their operating plans to deal with rapidly rising input costs and a persistent shortage of workers or job applicants. In addition to boosting wages, many firms are having to pay hiring bonuses or offer other incentives in order to attract workers. Even after these efforts, small businesses are still having a tough time finding workers.

The proportion of small businesses reporting that they currently have job openings rose two points in April to 44%. That easily marks a record high for this series and is double its long-run average. Of those businesses either hiring or trying to hire in April, 92% reported few or no "qualified" applicants for the positions they were trying to fill. Another common refrain heard from business owners is that workers that inquired about job openings and scheduled an interview never showed up for that job interview, which lends some support to the notion that the extension of expanded federal unemployment benefits, combined with the latest round of relief checks, has reduced the urgency of finding a job.

The inability to hire workers may explain the dichotomy between the net proportion of small businesses owners planning to make capital expenditures over the next three to six months, which rose seven points to 27%, and the proportion of business owners expecting business conditions to improve over the next six months, which fell seven points to a net -15%. The split likely reflects the need for business owners to invest in labor-saving equipment, particularly in the restaurant industry.



Source: NFIB and Wells Fargo Securities

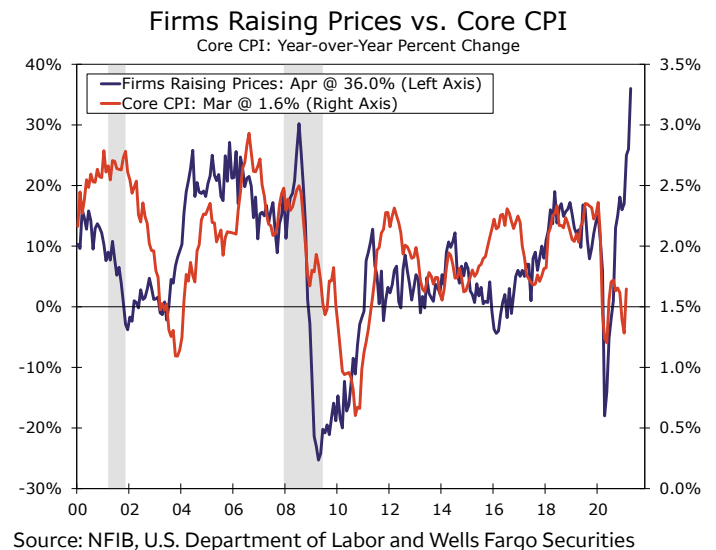


Source: NFIB and Wells Fargo Securities

Business Owners See Inflation Picking Up

The net proportion of small business raising their average selling prices over the past three months jumped a whopping 10 percentage points to a net 36%. This marks the highest reading for this series, which has a strong leading relationship with the core Consumer Price Index (CPI), since April 1981. At that time, the core CPI was up 9.4% year-over-year, or roughly 5.7 times the most recent year-over-year increase. On an unadjusted basis, 45% of small businesses reported raising prices, while just six percent said they lowered them. Price hikes were most prevalent in wholesale trade, with 62% raising prices and 3% reducing them, and retailing, where 46% reported they raised prices and 6% said they lowered them. Looking ahead, the proportion of firms planning to raise prices over the next three months rose two points in April to 36%.

The recent rush to raise selling prices reflects the abrupt reopening of the economy along with widespread shortages of products and raw materials. While we agree with the Fed's assessment that these pressures should prove transitory, there is a growing risk that these temporary supply-chain bottlenecks will prove more lasting than the temporary jump in inflation may prove faster and more enduring than the Fed has been expecting.



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