

Economic Indicator — October 10, 2023

# NFIB Small Business Optimism Index Declines Again in September

## The Outlook for Small Firms Dims as Inflation Remains Top Challenge

### Summary

#### Small Business Optimism Steps Back in September

The NFIB Small Business Optimism Index fell to 90.8 in September from 91.3 in August. Optimism is up a bit from the low of 89 hit in April 2023, however over the past few months, the index has been hovering around levels not experienced since 2012 in the aftermath of the Great Recession. Ongoing pessimism on the part of small firms reflects a long list of challenges which include inflation, labor shortages, higher financing costs and reduced credit access. Although some of these macroeconomic factors have improved this year, small firms do not appear to be convinced that the road ahead is clear of obstacles. The share of firms expecting the economy to improve over the next six months, which is still near a record low even after turning up in the summer, deteriorated for the second consecutive month in September.

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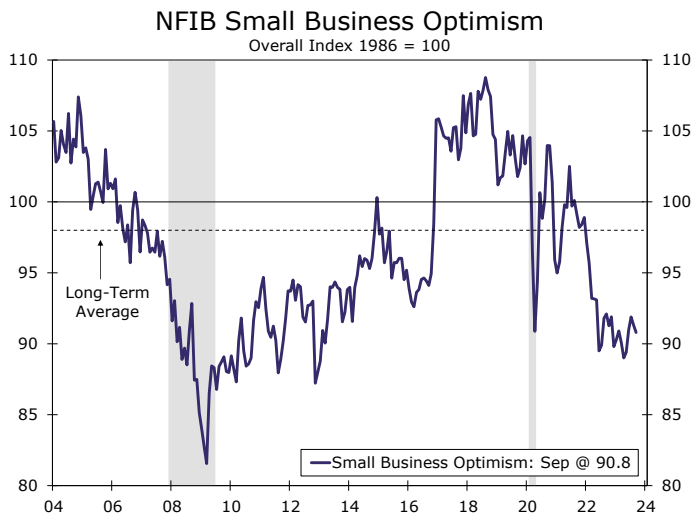
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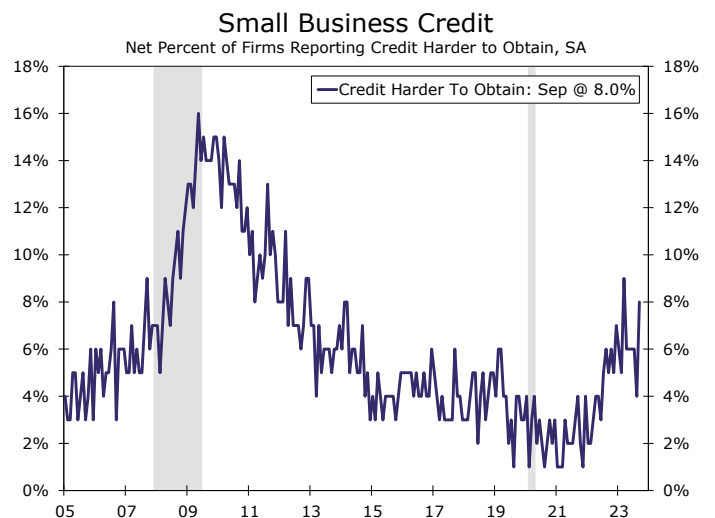
Source: NFIB and Wells Fargo Economics

### Small Businesses Report Tighter Credit Conditions

- The NFIB Small Business Optimism Index fell to 90.8 in September from 91.3 in August. Although improving slightly since the spring, the index sits below the 92.8 reading recorded in the same month last year.
- Many of the macroeconomic factors which have weighed heavily on business confidence over the past several years have improved so far in 2023. Inflation has moderated considerably and, broadly speaking, labor supply has returned to prepandemic form. That noted, price pressures and labor shortages continue to pose challenges for small firms, and tighter credit conditions now also appear to be weighing on sentiment.
- The business outlook deteriorated for the second straight month in September. The net percent of respondents expecting the economy to improve over the next six months fell to -43% from -37%. This is the lowest share since May and is an about-face from the more optimistic survey results seen in June and July.
- Deteriorating credit conditions weighed on sentiment in September. A net 8% of owners reported it was harder to get a loan compared to three months ago—the highest reading since the March survey conducted in the wake of multiple bank failures. The outlook was equally pessimistic as a net 10% of owners expect credit conditions to worsen in the next three months, the highest reading since December 2012.
- So far, the U.S. economy has remained largely resilient in the face of more restrictive monetary policy. Small businesses are clearly feeling the effects of higher interest rates, however. A net 26% reported paying a higher interest rate compared to three months ago, the highest since 2006. The average rate paid on these loans was 9.8%, up from 9.0% in July.
- Hiring plans ticked up slightly in September. The slight upturn coincides with September's surprisingly robust nonfarm payrolls report and August's increase in job openings. Small business continue to have difficulty filling positions, however, with 43% of owners reporting they were unable to fill a job opening in September, up from 40% in August.
- Wage pressures continue to ease. The net share of owners raising compensation held steady at 36% during September, while the share planning to raise compensation dipped to 23% in September from 26% in August.
- Although wage pressures appear to be abating, a higher share of small firms reported raising selling prices during the month. The net share of owners raising prices increased two percentage points to 29%, the highest since June 2023.
- Inflation and labor quality remained the chief concerns of business owners in September. Although inflation concerns are down on an annual basis, the measure is still above its pre-pandemic trend.

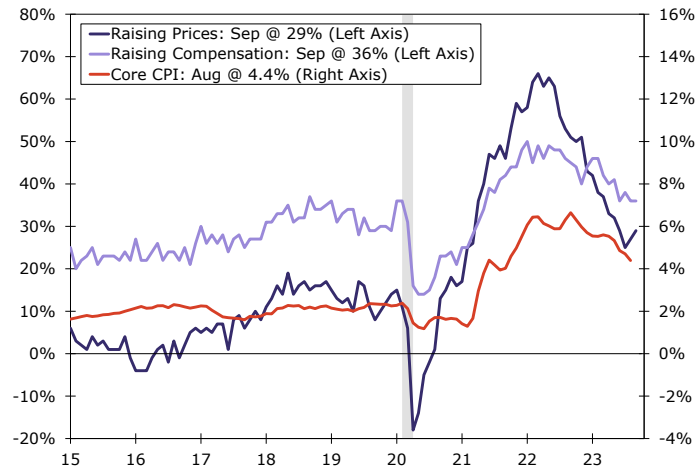


Source: NFIB and Wells Fargo Economics



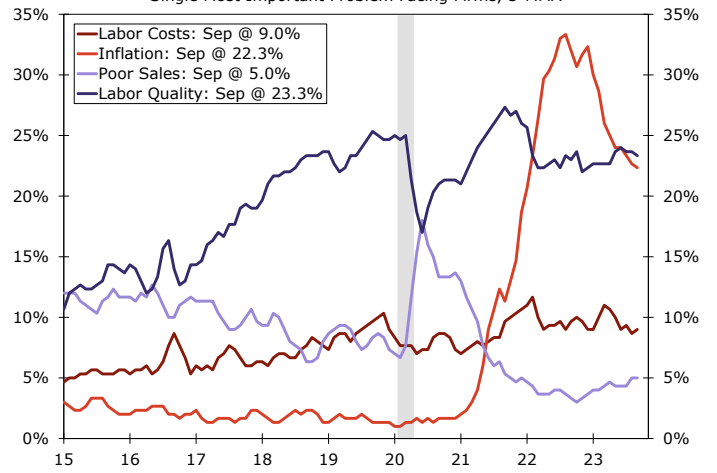
Source: NFIB and Wells Fargo Economics

**Firms Raising Prices & Compensation vs. Core CPI**  
 Net Percentage, Core CPI: Year-over-Year Percent Change



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

**Small Business Important Problems**  
 Single Most Important Problem Facing Firms, 3-MMA



Source: NFIB and Wells Fargo Economics

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