



NFIB Small Business Survey: "Heating Up After Years on the Sideline"

March 13, 2018

by Jill Mislinski

of Advisor Perspectives

The latest issue of the NFIB Small Business Economic Trends came out this morning. The headline number for February came in at 107.6, up 0.7 from the previous month and its second highest of all time. The index is at the 99th percentile in this series. Today's number came in above the Investing.com forecast of 107.1.

Here is an excerpt from the opening summary of the news release.

Small business owners are showing unprecedented confidence in the economy as the optimism index continues at record high numbers, rising to 107.6 in February, according to the NFIB Small Business Economic Trends Survey, released today. The historically high numbers include a jump in small business owners increasing capital outlays and raising compensation.

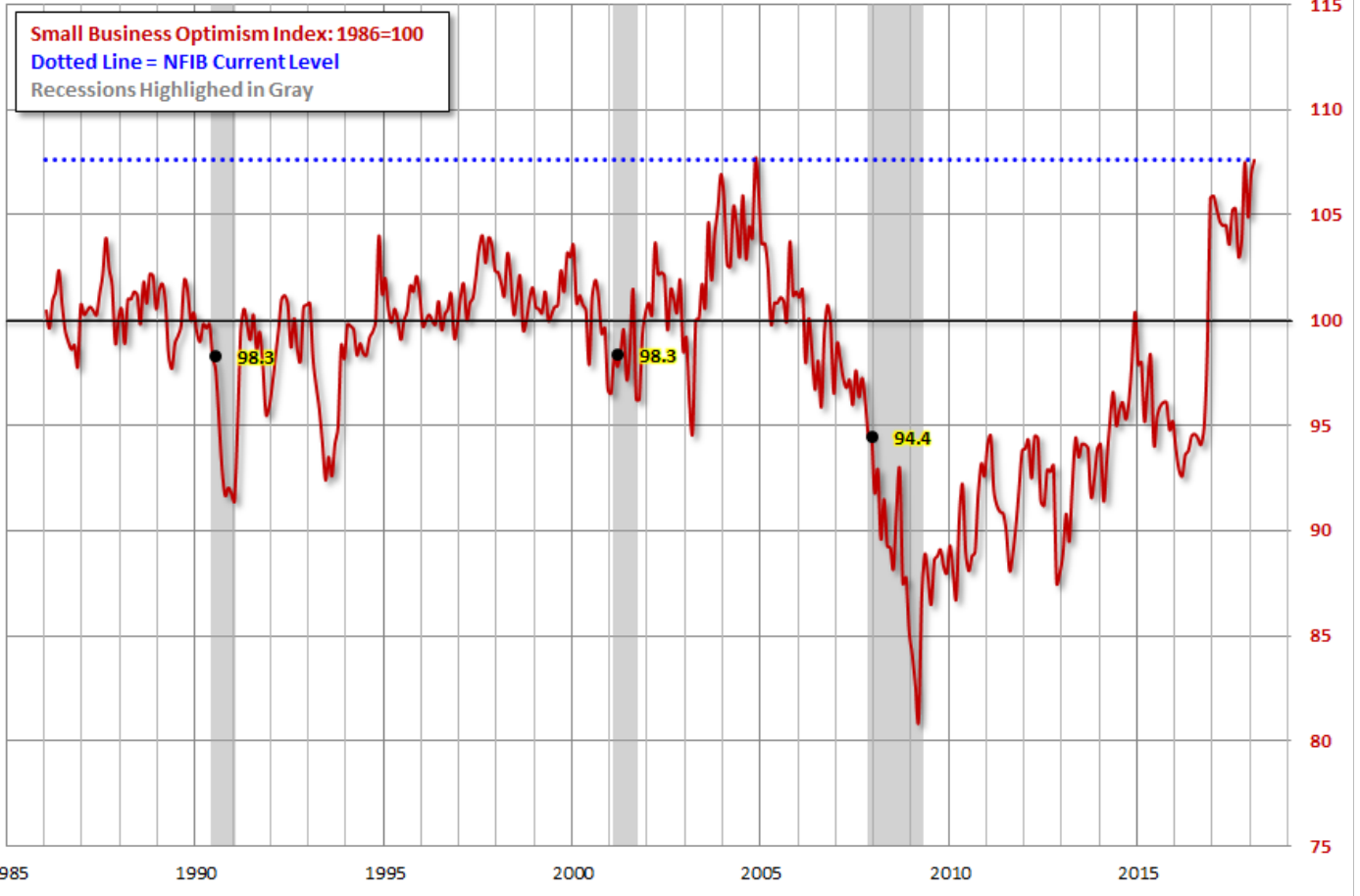
"When small business owners have confidence and certainty in the economy, they're able to hire more workers and invest in their business," said **NFIB President and CEO Juanita Duggan**.

"The historically high readings indicate that policy changes – lower taxes and fewer regulations – are transformative for small businesses. After years of standing on the sidelines and not benefiting from the so-called recovery, Main Street is on fire again."

The first chart below highlights the 1986 baseline level of 100 and includes some labels to help us visualize that dramatic change in small-business sentiment that accompanied the Great Financial Crisis. Compare, for example, the relative resilience of the index during the 2000-2003 collapse of the Tech Bubble with the far weaker readings following the Great Recession that ended in June 2009.

NFIB Small Business Optimism Index

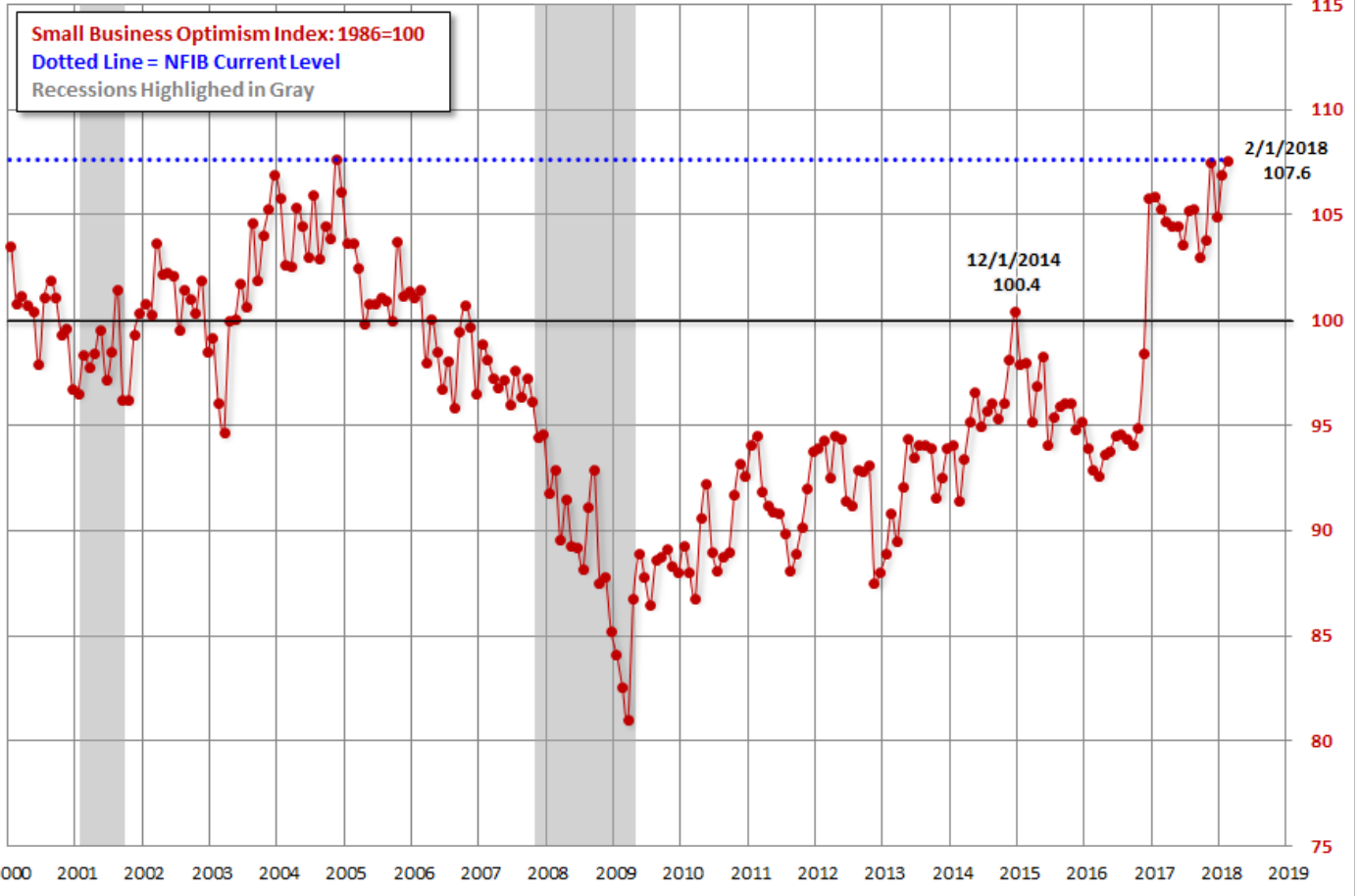
..... Current Level is now at 107.6 ● Recession Starts



Here is a closer look at the indicator since the turn of the century. We are just below the post-recession high.

NFIB Small Business Optimism Index

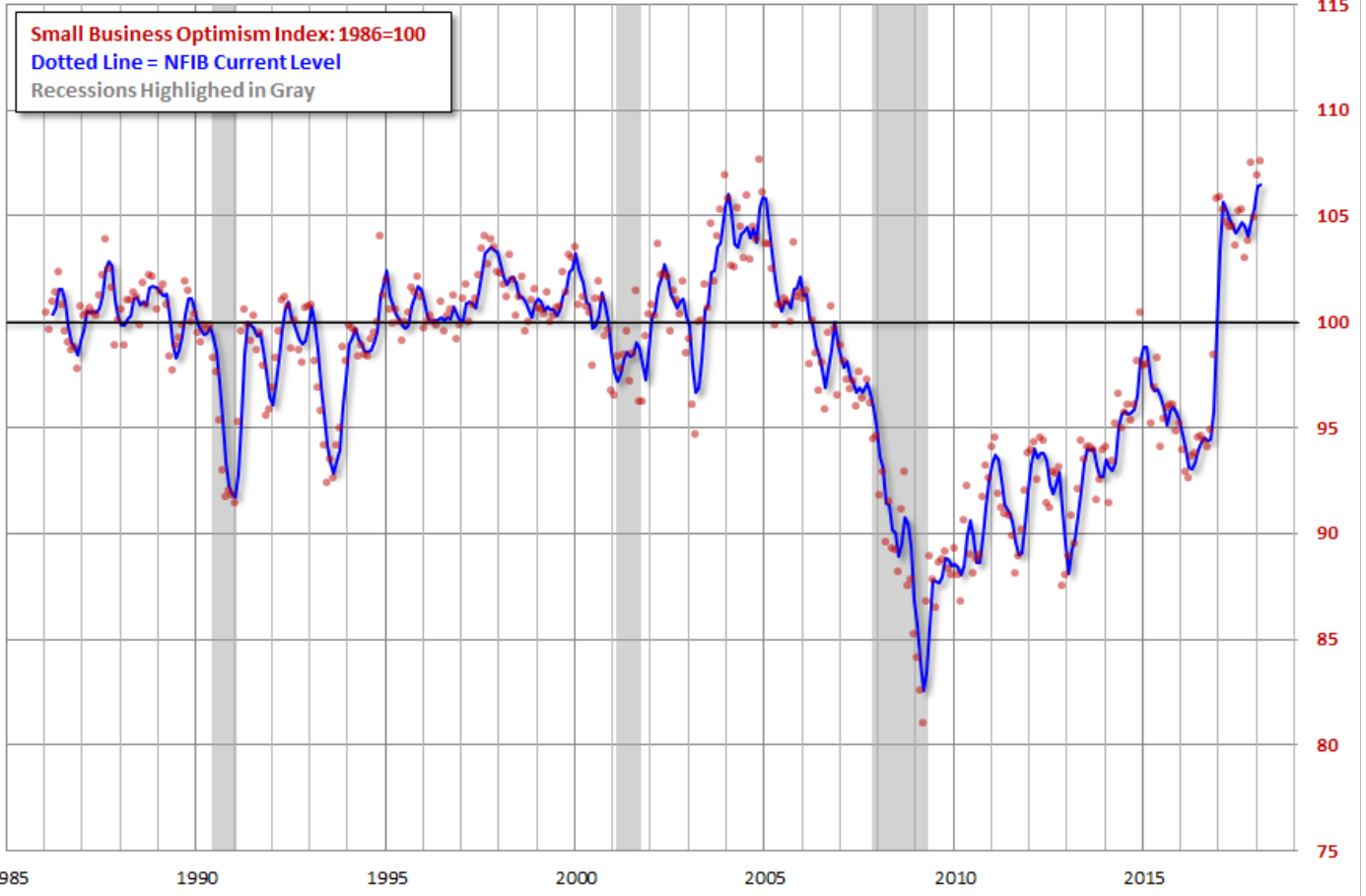
..... Current Level is now at 107.6



The average monthly change in this indicator is 1.3 points. To smooth out the noise of volatility, here is a 3-month moving average of the Optimism Index along with the monthly values, shown as dots.

NFIB Small Business Optimism Index

— Three-Month MA is now at 106.5



Here are some excerpts from the report.

Labor Markets

Job creation remained solid in the small business sector as owners reported a seasonally adjusted average employment change per firm of 0.22 workers, a strong showing and a repeat of last month.

Inflation

How effective has the Fed's monetary policy been in lifting inflation to its two percent target rate?

The net percent of owners raising average selling prices rose 2 points to a net 13 percent seasonally adjusted, after a 3 point increase in January. This is the highest reading since July

2014.

Credit Markets

Has the Fed's zero interest rate policy and quantitative easing had a positive impact on Small Businesses?

Two percent of owners reported that all their borrowing needs were not satisfied, down 1 point and at the record low. Thirty-two percent reported all credit needs met (up 1 point) and 51 percent said they were not interested in a loan, down a point.

NFIB Commentary

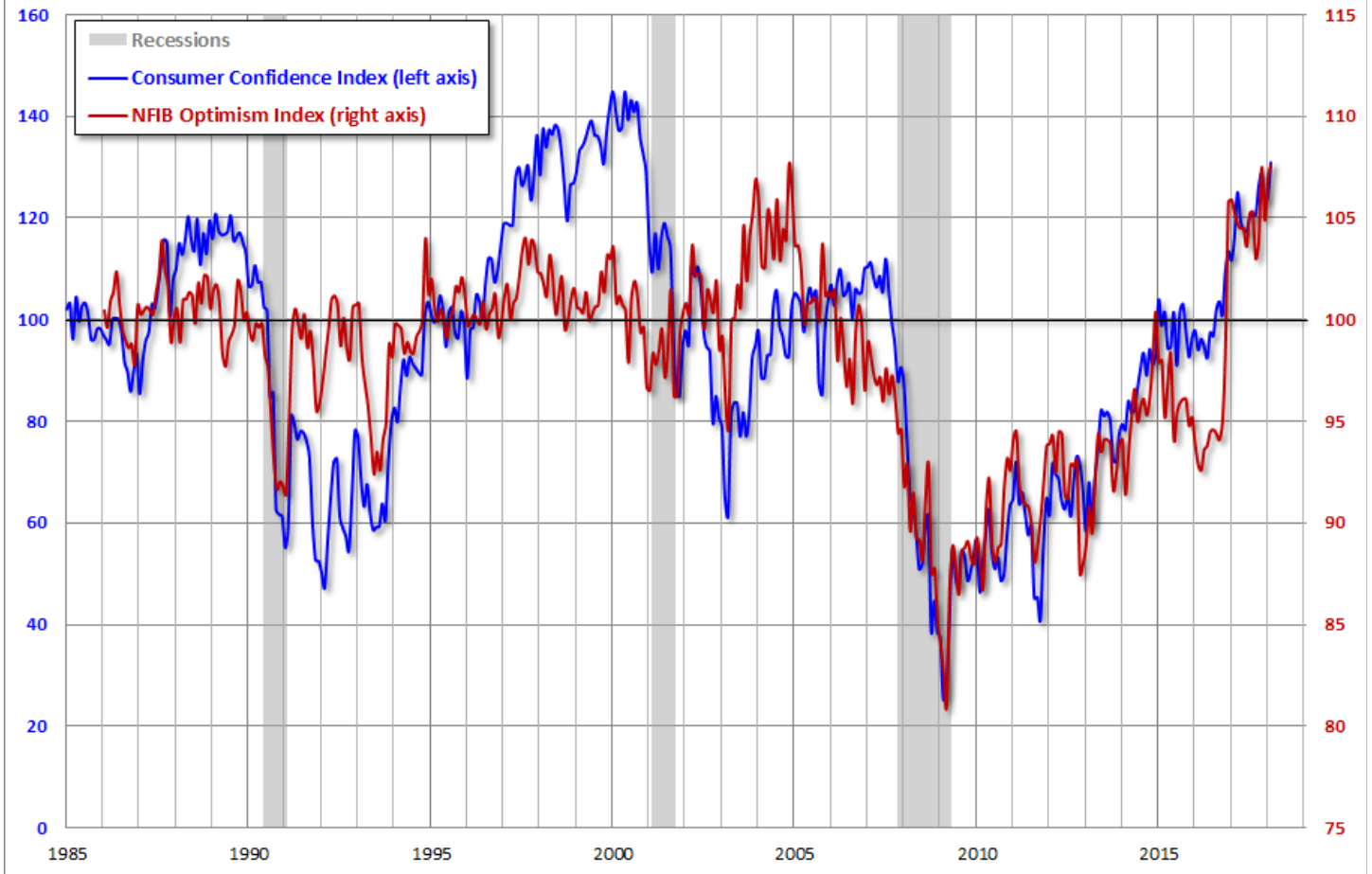
This month's "Commentary" section includes the following observations and opinions:

The small business sector is on fire. The pickup in capital spending is a very favorable sign, as capital spending (crucial for improved productivity) fell way behind from 2009 to 2016. Improved capital spending signals increased confidence in the future of the economy. Hiring is excellent and would be stronger if the labor market were not so tight. This is and will be a major constraint on growth. Inventory investment is strong and will add to GDP this quarter, hopefully it will be purchased later in the year by customers. Inflationary pressures from Main Street are minimal although reported hikes in average selling prices have been edging up. After years of small businesses sitting on the sidelines and not benefiting from the so called recovery, Main Street is again on fire.

Business Optimism and Consumer Confidence

The next chart is an overlay of the Business Optimism Index and the Conference Board Consumer Confidence Index. The consumer measure is the more volatile of the two, so it is plotted on a separate axis to give a better comparison of the two series from the common baseline of 100.

Conference Board Consumer Confidence Index NFIB Small Business Optimism Index



These two measures of mood have been highly correlated since the early days of the Great Recession. The two diverged after their previous interim peaks, but have recently resumed their correlation. A decline in Small Business Sentiment was a long leading indicator for the last two recessions.