

U.S. NFIB Small Business Optimism Index (July 2023)

Admir Kolaj, Economist | 416-944-6318

Date Published: August 8, 2023

Small Business Optimism Index Improves as Inflation Concerns Ease

- The NFIB's Small Business Optimism Index rose 0.9 points to 91.9 in July, coming in above market expectations for a flat print. The confidence measure remains well below its long-run average of 98 points, but July marked the third consecutive monthly improvement for the index.
- Four of the ten subcomponents improved on the month, four remained unchanged and two deteriorated. The largest gain was in expectations for an improvement in the economy, which rose 10 points for the second month in a row to -30%. Capital outlay plans and expectations for higher real sales improved 2 points apiece to 27% and -12% respectively.
- The net share of businesses planning to increase employment rose 2 points to 17%, while the share of firms with unfilled job openings held flat at 42%. Quality of labor concerns ticked down one point, with 23% of business owners identifying this as

their top business problem. Inflation concerns continued to trend lower, falling 3 points on the month to a still-elevated 21%.

- The share of owners reporting labor costs as their top business problem rose 2 points to 10% – among the highest levels in the survey's history. The share of firms increasing compensation rose 2 points to 38%, but the share of firms 'planning' to raise compensation fell one point to 21%. On the prices side, the share of businesses raising and planning to raise average selling prices declined in July, with both falling 4 points apiece to respectively 25% and 27%.

Key Implications

- Sentiment among small business owners remains downbeat relative to historical patterns, but the main story here is the recent improvement, with the index up modestly for the third month in a row in July. A less negative view on future economic conditions is encouraging. Moreover, small businesses remain very much in hiring mode. A net 42% of firms had open positions in July, and some 17% plan create jobs in the three months ahead – not far off the 20% average in the pre-pandemic period.
- The hiring environment remains competitive, with the share of firms reporting "few or no qualified applicants" increasing from a recent cycle low of 51% in December 2022 to 56% in July. An elevated share of businesses (38%) continue to increase compensation in order to retain and attract workers. But, with plenty of headwinds, including a higher interest rate environment, a smaller one-fifth of businesses 'plan' to increase compensation in the next three months. Overall, the cooldown in wage and price plans is consistent with lower inflation ahead.

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal,

investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.
