Small Business Optimism Slips in June

The NFIB Small Business Optimism Index fell 1.7 points in June to 103.3. While overall confidence remains at a fairly high level, business owners expressed concern about slowing sales, trade tensions and rising costs.

Tariffs Are Likely Squeezing Small Business Profit Margins

The tight relationship between the stock market and small business confidence appears to have taken a break in June. Small business confidence fell 1.7 points, despite a blowout month for the major stock market averages. One likely explanation is that small businesses are having a tougher time dealing with tariffs compared to large companies. The proportion of small businesses raising prices over the past three months jumped seven points in June to 17. While the seven-point rise is eye-catching, the prior month’s reading was the lowest since December 2017. An average of the past two months puts the index right around its average for the past 18 months. That said, the NFIB survey noted that 30% of business owners reported that China trade policy was negatively impacting their business.

Many large companies were able to negotiate burden sharing arrangements with their suppliers, which offset some of the impact of tariffs. Small business owners do not have such bargaining power. A strategy that small businesses implemented was placing orders ahead of higher tariffs, which resulted in higher inventories late last year. Inventories have run down more recently.Margins are now likely being squeezed and this may be why so many small businesses are expressing caution about capital spending and hiring plans. The proportion of small business owners reporting a capital expenditure over the past six months fell 10 points to 54%—the lowest in over four years. Once again, the prior month’s reading was a bit of an outlier, and an average of the past two months’ data does not look as alarming.

All of the drop in capital expenditures over the past year has been for outlays of $50,000 or more. There was no drop evident for outlays less than that. The split makes sense given the heightened uncertainty surrounding international trade, slower sales and rising costs.

Small business owners are also taking a more cautious view on hiring. The proportion of small business owners reporting they increased their staff over the past three months fell four points to 5% in June, which is the lowest reading since late last year. Hiring plans for the next three months also slipped, but by only one point, to a relatively high 20%. The proportion of small businesses reporting they have open positions they could not fill fell slightly, dropping two points to 36%. Of the 58% of firms reporting they were trying to hire workers, either in the course of ordinary turnover or to expand their workforce, 50% reported few or no qualified applicants for the position they were trying to fill. The inability to find skilled workers remains the greatest current challenge for small business owners. The cost of labor is another key challenge and has risen three percentage points over the past year to a series high.

While small business confidence fell only modestly in June and remains at a relatively lofty level, the composition of the decline is consistent with a broader slowing in economic growth during the second half of the year.

Source: National Federation of Independent Business and Wells Fargo Securities