



Economics Group

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Small Business Confidence Dips in August

The NFIB Small Business Optimism Index fell 1.6 points to 103.1 in August. Small business owners are less optimistic about the economic outlook and appear to be paring back capital spending and hiring.

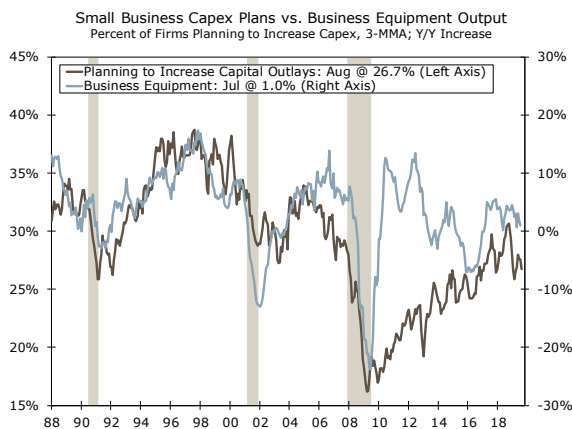
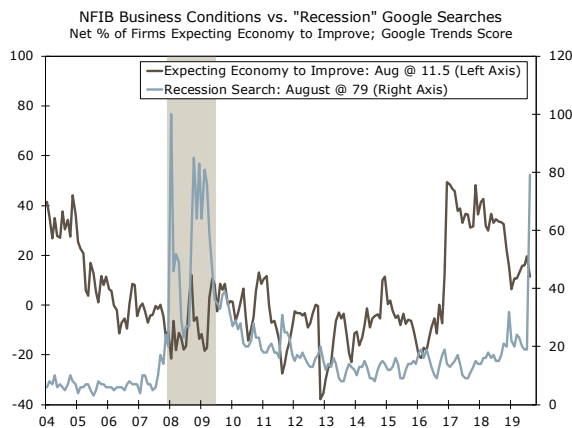
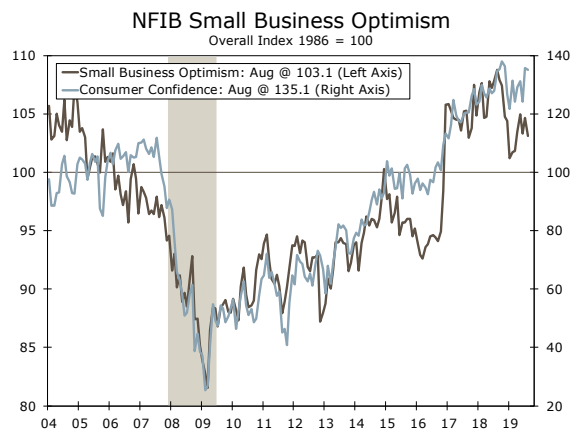
Small Business Owners Remain Cautious

The National Federation of Independent Business (NFIB) Small Business Optimism Index fell 1.6 points to 103.1 in August. The index hit its high for the cycle one year ago when it reached 108.8. The current reading is roughly even with its average this year and remains at a level consistent with solid economic growth. There is a notable split between how business owners see conditions today and what they expect in the future. Sales remain relatively strong and the trend in earning remains positive, while employment continues to increase and few business report difficulty obtaining financing. Expectations for sales and overall business conditions declined sharply, however, reflecting the extreme market volatility in mid-August. There has also been a noticeable divergence in views about the economy between business owners and consumers over the past year. The split is consistent with the diminished expectations for sales on the part of business owners and continued optimism about the labor market for consumers.

Business owners' heightened concern is understandable given the increased volatility in the stock market and the inversion of the yield curve this past month. There was huge spike in the number of Google searches for the word "recession" after the yield on the 2-year Treasury fell below the yield on the 10-year. Not surprisingly, the net percent of business owners expecting business condition to improve over the next six month fell eight points to 12%, the largest drop since January. That drop also followed a big stock market sell-off. The high for the series was December 2016, following the presidential election, and the index remained close to that high until steel and aluminum tariffs were put in place in early 2018.

Business owners' expectations are important because they provide some insight into the outlook for hiring and capital spending. While the outlook for both remains positive, neither is showing much strength. The net share of business owners expecting to increase staff over the next six months fell one point to 20, which is still fairly strong but down six points from its cycle high one year ago. Likewise, the share of firms planning a capital expenditure during the next three to six months remained unchanged at 28 but is down five points from its cycle high hit one year ago. Of those planning to make a capital outlay, 42% plan to purchase equipment, 24% plan to purchase vehicles, 18% plan to improve buildings or land, 15% plan to purchase furniture or fixtures and 4% plan to purchase additional buildings or land. The gradual pullback in capital spending plans has tended to lead changes in output of business equipment.

Given the uncertainty about the trade standoff and global economy, we are not surprised small business optimism pulled back a notch. Concerns about the global economy have subsided a bit this month and stock prices have rebounded. We expect small business optimism to do the same next month.



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