Small Business Confidence Rises Solidly in November

The NFIB Small Business Optimism Index rose 2.3 points to 104.7, marking the largest increase since May. Small business owners feel better about the overall economy and are looking to expand and hire more workers.

Small Business Owners See Better Days Ahead

Small business optimism rose solidly in November, with the overall index rising 2.3 points to 104.7, just slightly below its cycle high. Seven of the 10 index components rose during the month, with earnings trends jumping 10 points. Business owners appear to have a clearer view of the business environment. The NFIB Uncertainty Index fell six points in November, following a four-point drop the prior month, and is now at its lowest level since May 2018. The drop in uncertainty may reflect some rising optimism that trade deals will be reached with Mexico and China.

The improvement in small business confidence likely reflects stronger sales in recent months, as well as some drawdown in inventories. A net 12% of business owners reported higher sales in the past three months, up eight points from the prior report and the highest level since May 2018. The strength in sales has helped curb inventories. The net share of business owners stating that inventories were “too low” rose five percentage points in November to 1%. A net 3% of firms plan to expand their inventories, which is a historically high number but down two percentage points from the prior month. The proportion of business owners stating that now is a good time to expand their business rose six points to 29%, the highest reading since May. Economic conditions are the most important reason business owners want to expand today, followed by sales prospects and finances.

The employment components of the NFIB survey all came in exceptionally strong. The net proportion of business owners reporting adding staff jumped six percentage points to 10%, which was the highest reading since March and second highest reading of the business cycle. The number of job openings rose four percentage points to 38%, the highest since July and one of the highest readings of this expansion. Sixty-one percent of firms reported hiring or trying to hire workers during the period. Of those firms trying to hire workers, 88% reported few or no qualified applicants for the position they were trying to fill.

The strength in the employment components is becoming increasingly evident in the compensation data. Average hourly earnings for production and nonsupervisory workers have a fairly tight correlation with the share of businesses citing the quality of labor as their number one challenge. Thirty percent of small businesses reported raising compensation, while 26% plan to do so, up four percentage points from the prior month and the highest level since December 1989. The rise in compensation costs is leading more businesses to attempt to pass those higher costs on to their customers. The proportion of small businesses raising prices over the past three months rose two percentage points to 12%, while a net 22% of small business owners said they plan to raise prices in coming months.

Source: National Federation of Independent Business, U.S. Department of Labor and Wells Fargo Securities