Small Business Owners Remain Very Optimistic

Small business owners remained incredibly upbeat to start the year, with a rising share expecting sales and earnings to improve. The January survey likely came too early to capture any anxiety about the coronavirus.

Small Business Owners Remain Upbeat about Business Prospects

The January NFIB Small Business Optimism Index beat expectations and rose 1.5 points to 104.3, which the NFIB notes is in the top 10% of readings in the survey’s 46-year history. In short, business owners began the new year feeling pretty good about the economy and their firms’ performance. Some of the optimism is likely attributable to the rising stock market and optimism surrounding the signing of the Phase I China trade deal. The two largest contributors to the headline increase, however, were the percent of firms expecting higher real sales and the percent expecting improving earnings, which rose seven and five points, respectively. Overall, six of the index’s 10 components rose in January, while two fell and two were unchanged.

The Phase I trade deal did not boost capex plans, with the 28% of firms planning capital outlays unchanged on the month. Small firm capex plans tend to lead overall business fixed investment, which has contracted for three straight quarters, the first time this has happened since the recession. Despite their optimistic view of the economy, business owners face a litany of concerns that have likely made them reticent to commit to major capital projects. For starters, technology is rapidly breaking down barriers to entry in many industries, which has increased competition for sales and eroded pricing power. Political uncertainty surrounding the 2020 elections and concerns about the size of the federal budget are also weighing on investment decisions. The Uncertainty Index rose one point after jumping eight points in December, and sits at a fairly high level. The end of the impeachment process would likely have brought this index down next month, but rising fears about the coronavirus will likely offset any lessening of concerns.

Owners reported strong hiring in January, with firms adding an average of 0.49 workers per firm, the largest increase since March 2019. Looking ahead, 19% of firms plan to add staff, but owners continue to struggle finding workers. Thirty percent have openings for skilled workers, but 49% report they are unable to find “qualified” labor for open positions. Quality of labor remains the most widely cited challenge for small business owners, followed by taxes, government regulations and competition from large firms. With the unemployment rate near a 50-year low, employers have boosted wages to attract workers. Thirty-six percent reported raising compensation recently (a seven-point jump), while 24% plan to raise wages in the near future.

Looking forward, the coronavirus could weigh on optimism. The January survey was likely conducted too soon to capture any impact, which would show up in supply chain disruptions. While small businesses are less exposed to global growth and international trade than multinational corporations, even the smallest firms today source inventory and inputs from China, either directly or indirectly. Small firms are also exposed to financial conditions, which have recently eased and may offset some of these concerns.

Source: National Federation of Independent Business and Wells Fargo Securities