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TD Economics

Data Release: U.S. small business confidence outshines expectations in April

- The NFIB’s small business optimism index moved higher in April, rising by 1.7 points to 96.9. The reading came in above the consensus estimate, which called for the index to increase from 95.2 to 96.0.

- The details of the report were similarly upbeat, as eight out of ten index sub-components recorded gains on the month. The largest improvement was in the share of firms expecting higher earnings this quarter over the previous one, which jumped by 6 points. Other forward-looking subcomponents, such as plans to make capital outlays (+2 points), increase inventories (+3 points), and expand employment (+1 point) also rose. The share of firms expecting the economy to improve posted a modest uptick (+1 point), rising for the first time in five months. The share of firms unable to fill current positions increased from 24% to 27%.

- While most forward-looking subcomponents improved on the month, the share of businesses citing that now is a good time to expand remained unchanged relative to the month prior.

- The only sour cherry in the report was the sales expectations subcomponent, which slid for the fourth consecutive month (-3 points).

Key Implications

- This was an encouraging report. After a disappointing first quarter, small and medium businesses appear ready to turn the corner. The improvement in business sentiment in April follows in the footsteps of a Spring bounce-back in service sector activity and non-farm payrolls last week, and is another indication that the slowdown is behind us.

- A deterioration in sales expectations subcomponent was somewhat surprising, particularly as it runs counter to improved earnings outlook and a bounce-back in retail sales seen in March. We do expect this sub-component to reverse the decline in the near term, as household spending recovers from the winter slump and savings at the pump accumulate.

- Labor market indicators have all moved in the right direction this month. In addition to the uptick in the employment subcomponent and the gain in unfilled positions, the share of firms raising or considering raising worker compensation also ticked up. While for now wage gains remain modest, the ongoing tightening in the labor market suggests that wage growth momentum will continue.

Ksenia Bushmeneva, Economist
416-308-7392

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