Data Release: U.S. small business confidence shows little improvement in February

- The NFIB's small business optimism index remained little changed in February, edging up 0.1 points and landing at 98.0. Today's reading fell short of expectations, with the median consensus forecast calling for a more pronounced rise in the index to 98.9.

- Looking beneath the headline number, the details of the report were mixed. Three out of the index's ten subcomponents rose on the month, four declined and three remained unchanged. The percent of firms planning to increase inventories (up from 2% to 4%) and the share of firms expecting credit conditions to ease (up from -5% to -4%) were among the subcomponents which posted gains on the month. Ditto for the share of firms with unfilled positions, which increased by 3 points to 29% - the highest level since April 2006.

- Meanwhile, plans to increase employment (down from 14% to 12%), the near-term outlook on the economy (down from 0% to -1%) and sales (down from 16% to 15%) have all deteriorated on the month. February marked the second consecutive monthly decline in both the hiring intentions and sales outlook.

Key Implications

- Despite the expectations of a stronger rebound in February, the print on the NFIB's small business confidence was somewhat disappointing, suggesting that U.S. small and medium businesses were not overly upbeat. It is hard to blame them, with February bringing severe snowstorms and harsh winter weather to many states, leading to temporary closures and slower consumer traffic.

- We have seen this scenario play out during last year's harsh winter as well. As such, we expect that business sentiment will show a stronger improvement in March. After all, aside from the temporary weather disruptions, small and medium businesses have a handful of things to be happy about. Chief among them is the improving labor market and low gasoline prices, which bode well for consumers' income and consequently future sales.

- It is hard to ignore the elevated share of firms reporting hard-to-fill job openings, which is at the highest level in nine years. This result further highlights the robust job creation and increasing tightness in the labor market, with unemployment rate falling to 5.5% in February. Several large retailers have recently announced pay increases, and today's data suggests that increasing competition for workers may soon prompt small and medium firms to follow suit.

Ksenia Bushmeneva, Economist
416-308-7392

DISCLAIMER
This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.