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## TD Economics

### Data Release: Small business confidence continues to pull back in September

- The NFIB's small business optimism index fell 0.3 points to 94.1 in September, running below market expectations for a recovery to 95 points. The decline continued to erode the progress that was made earlier in the year, bringing the sentiment reading back to the June level.
- Looking under the hood, the details of the report were mostly disappointing. Six of the ten subcomponents fell on the month, with the biggest deterioration recorded in plans to increase inventories (down 8 points to -7 percent) and job openings (down 6 points to 24 percent). Expansion plans also saw a slight deterioration of 2 points to -7 percent.
- The remaining four subcomponents advanced on the month. Notably, expectations on an improvement in the economy and higher real sales rose 12 and 5-points respectively – sending mixed signals about the future.
- The labor market indicators remain near post-recession highs, but their improvement has generally stalled over the last few months. Plans to increase employment improved by 1 percentage point to 10 percent in September, while plans to increase worker compensation remained unchanged at 14 percent. The difficulty of finding qualified workers is cited as the second most important problem behind taxes.

### Key Implications

- Today's report is disappointing as it suggests that the improvement in small business confidence that had occurred since March has stalled over the past two months.
- Putting today's report aside, a slew of encouraging data releases in September – such as the ISMs, auto sales and payrolls – suggest the domestic economy is still on a solid footing. As such, the pullback in SME confidence should be viewed as transitory.
- Political uncertainty likely shares some of the blame for the downturn in small business confidence. As the dust settles on the election and the realities of a new economic vision are digested by small and medium-sized businesses, this uncertainty should diminish and hopefully give way to improved business confidence.

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