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TD Economics

Data Release: Small business optimism bucks the recent losing trend, rising in April

- After falling for three consecutive months, the NFIB's small business optimism index took sprung higher in April, rising 1 point to 93.6. The reading came in slightly ahead of market expectations which called for a more modest uptick to 93. Despite this improvement, the index level remains well below the prior cyclical peak of 100.3 reached in December 2014.

- Looking beneath the headline print, the details of the report were broadly encouraging. Five of the ten subcomponents rose on the month, four remained unchanged and only one saw a slight decline.

- Labor market indicators continued to show signs of resilience. After losing some steam over the last few months, job openings and plans to increase employment both improved by 4 points (to 29; or the highest post-recession level) and 2 points (to 11), respectively. In addition, the share of firms raising worker compensation rose 2 points to 24, while the share of those 'planning to raise' compensation fell 1 point to 15 – precisely the average of the past year and a half.

Key Implications

- Today's report is broadly encouraging, and suggests that small business confidence may finally be turning after a three-month losing trend. The rising optimism among small business owners may be related to diminishing fears of a near-term recession with both U.S. and global economic activity appearing to be gathering some steam after a weak start to the year.

- Domestic economic developments, including continued improvement in the labor market support the case for small business optimism. Still, the road ahead may prove bumpy with political uncertainty potentially weighing on sentiment this year. Already, political uncertainty is the second most cited reason as to why now is not a good time to expand.

- In combination with a gradual rise in the price of oil and a stabilization of the trade-weighted value of the US dollar later this year, a tightening labor market – corroborated by today's NFIB metrics – should spur wage growth and steer inflation closer toward the Fed's mandated 2% target. This should be the catalyst for the Fed to resume its very gradual tightening cycle later this summer. For more, see our report released today.

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