



## TD Economics

March 14, 2017

### Data Release: Small business confidence cools slightly but remains near record high in February

- The NFIB's small business optimism index eased off 0.6 points to 105.3 in February – just below market expectations which called for a pullback to 105.6. Today's report marks the first pullback in the index after four consecutive monthly gains. Historically, the sentiment reading has managed to breach the 105 level only during brief periods in 1983 and 2003-04.
- Three of the ten sub-indicators saw an improvement on the month, one remained unchanged while the rest pulled back.
- Expectations regarding higher real sales (down 3 to 26 percent) and the economy to improve (down 1 to 47 percent), and the belief that now is a good time to expand (down 3 to 25 percent) – elements which surged in the election's aftermath – eased off in February but remain near record highs. Capital outlay plans also pulled back 1 point to 26 percent.
- Unfilled job openings edged up 1 point to 32 percent – a level only once recorded back in 2000. The remaining labor market indicators – such as plans to increase employment (15 percent), share of firms increasing (26 percent) and planning (17 percent) to increase worker compensation – retracted 3 to 4 points apiece but remain elevated by historical standards.
- The uncertainty level, while lower than during the election month remained high, rising 1 point in February to 86.

### Key Implications

- After a significant spike in small business confidence following the election, some normalization and slight pullback were anticipated. Nevertheless, the sentiment reading has managed to remain near record highs for three consecutive months. This is encouraging, as it suggests that rise in confidence may have some staying power which could translate into capital expenditures and additional hiring.
- Expectations surrounding reduced regulatory burdens, along with healthcare and tax reform, were important contributors to the boost in post-election optimism. President Trump acted to address concerns about the first item by signing an executive order requiring government agencies to repeal two existing regulations for every new one introduced. Still, delays and alterations for the path of major legislation could temper optimism over the coming months.
- In itself, today's headline print is unlikely to make much of a difference to the Fed's decision tomorrow. That said, the trends showcased in the NFIB survey over the last several months have done their part in signaling rising inflationary pressures and a strengthening economic optimism. Taken together with other data releases, including last week's strong jobs report, the Fed is universally expected to follow through with a quarter-point increase tomorrow, with markets turning their attention to the Fed communication related to the future pace of rate hikes.

**Admir Kolaj, Economic Analyst**  
416-944-6318

@TD\_Economics

#### 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.