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## TD Economics

### Data Release: Small business optimism loses some steam in January

- The NFIB's small business optimism index fell 1.3 points – slightly more than market expectations – to 93.9 in January. This was the weakest reading in almost two years.
- Looking under the hood, the details of the report were mostly disappointing, with six of the ten subcomponents falling on the month, three improving and one remaining unchanged.
- Expectations about an improvement in the economy and higher real sales were mostly to blame for the pullback in confidence, falling 6 and 4 points respectively.
- On the other hand, labor market indicators remained generally upbeat, with firms increasing both employment and worker compensation in January. And although the forward-looking subcomponents (plans to increase employment and wages) took a step back, the percent of firms citing 'difficulty of finding qualified workers' as their single most important business problem remained unchanged at 15 percent – the highest level since 2007.

### Key Implications

- Small business confidence has generally lost steam during 2015, with the trend of falling optimism continuing into this year. There have been two main themes playing out during recent months. Firstly, deteriorating expectations about the economy and sales have weighed on sentiment. Small businesses are primarily geared toward domestic demand, but their merchandise exports make up about a third of the total nonetheless. This suggests that small businesses are not entirely immune to the high US dollar, subdued global growth and market turbulence – factors that will likely continue to weigh on their confidence in the near-term.
- Secondly, despite the less upbeat economic expectations, businesses are quoting generally upbeat labor market conditions and continue to hire. Moreover, they appear to be having more difficulty in finding qualified workers, motivating them to raise compensation so as to attract the desired skillsets. This should help support income growth, and alongside low gasoline prices, shore up consumption. It will also help bring inflation closer the Fed's inflation mandate over the medium-term.
- While risks remain, with the recent stock market correction and global volatility weighing on consumers and businesses alike, we nonetheless feel that recent labor market progress will manifest in continued resilience in domestic demand, shoring up business confidence beyond the very-near term.

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