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TD Economics

Data Release: Small business confidence holds on to recent gains in January

- The NFIB's small business optimism index rose 0.1 points to 105.9 in January, beating expectations which called for a pullback to 105. Today's headline print marked the fourth consecutive monthly gain – confirming that the surge in optimism post-election remains intact.
- The details of the report were mixed as half of the sub-indicators improved, while the other half fell on the month.
- The recent upswing in confidence has been accompanied by significant improvements in three major subcomponents – expectations about the economy, projections of higher real sales and whether 'now is a good time to expand'. The latter improved 2 points on the month while the first two subcomponents fell 2 points apiece. Nevertheless, all three remain well-elevated compared to the performance of recent years.
- Labor market indicators remained largely upbeat. Unfilled job openings and the share of firms planning to increase employment rose 2 points apiece to 18 percent and 31 percent respectively.
- Most notably, the share of firms raising worker compensation rose 4 points to 30 percent - the highest since 2007. Meanwhile, the share of firms 'planning' to raise worker compensation pulled-back 2 points but remains elevated at 18 percent.
- The uncertainty sub-index remained unchanged at an elevated 85 points.

Key Implications

- Optimism among small business owners trumped market expectations for a downtick and continued to ride high in January. Today's headline print, along with survey details, suggests that the recent improvement in confidence will have some staying power should the sought-after policies get implemented.
- Policy changes are expected to help buoy confidence in the near-term. The president has made good on his promise to ease regulatory burdens for small businesses by signing an executive order which requires that agencies cut two existing regulations for every new one introduced. A repeal of the employer mandate – a distinct possibility as the administration shifts its focus toward repealing and replacing the Affordable Care Act – may provide further support to the measure.
- Having said that, the extended lags in the political process have the potential to temper optimism in the coming months. Underscoring this narrative is the fact that work on a comprehensive tax bill – an important contributor to the recent boost in optimism – is unlikely to commence before the summer.

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