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## TD Economics

### Data Release: Small business optimism falls to a two-year low in March

- The NFIB's small business optimism index retreated for a third consecutive time in March, falling by 0.3 points to 92.6. The monthly change was not statistically significant. Nevertheless, the index level marked a two-year low. The reading also came in below market expectations which called for a modest rise to 93.5.
- The details of the report were mostly disappointing – six of the ten subcomponents fell on the month, while four saw some improvement.
- The net share of firms expecting the economy to improve saw an uptick of 4 points but remained in negative territory for the thirteenth month at -17%. Additionally, the share of firms reporting that now is a good time to expand retreated by 2 points for the second consecutive month to 6%.
- Labor market indicators were mixed indicating the labor market cycle is maturing. Firms indicated decreased job openings while hiring plans also took a slight step back. On the other hand, the share of firms raising worker compensation remained unchanged from the prior month at 22% and the share of firms planning to raise compensation saw an improvement of 4 points to 16% - suggesting that labor conditions are becoming increasingly tight.

### Key Implications

- Small business optimism continued to disappoint, running contrary to the largely positive tone of other economic data from March and the improved financial market sentiment. Still concerns about global growth remain, while increasing regulation continues to pose challenges for small businesses. Moreover, political uncertainty is increasingly cited as a key factor throwing cold water on small business expansion plans. These factors will likely continue to weigh on business confidence in the near-term and may, in fact, become even more pronounced as the year progresses.
- Still, there is some cause for optimism. Despite losing some steam over the past few months, labor market indicators are still near post-recession highs suggesting continued job growth. Furthermore, plans to raise worker compensation have not been derailed by the decline in overall sentiment. Rising wages and an economy that continues to pull workers from the sidelines, along with the boost in disposable income related to relatively low energy prices, should over time manifest in stronger sales for businesses thus helping shore up small business confidence over the medium-term.

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