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TD Economics

Data Release: Small business confidence continues to hold on to post-election gains

- The NFIB's small business optimism index remained unchanged at 104.5 in May. The flat print was in line with market expectations, with small businesses largely holding on to the gains experienced since last year's election.

- Five of the sub-components posted a gain, four declined, and one remained unchanged. Capital investment plans rose 1 points to 28 percent, while plans to increase employment rose 2 points to 18 percent.

- Other labor market indicators remained upbeat with unfilled job openings rising 1 point to 34 percent and marking its best level since 2000. The share of firms increasing worker compensation rose 2 points to 28 percent while the share of firms 'planning' to increase compensation remained unchanged for the third consecutive month at 18 percent – both remaining near post-recession highs. Meanwhile, concerns about the quality of labor rose to the highest point since 2001 at 19 percent.

- On the other hand, expectations that now is a good time to expand and earnings trends eased off 1 point apiece to 23 and -10 percent respectively, while current inventory levels and plans to increase inventories also pulled back somewhat.

- The sub-index gauging the level of uncertainty moved down 1 point to 82. While this measure has come down over the past few months, it remains elevated compared to its historical median of 66.

Key Implications

- Small business confidence has managed to largely hold on to the gains experienced since the election with improvements seen in both employment and capital investment plans. Having said that, while hiring plans are generally back near their pre-crisis peak, capex intentions still have some catching up to do.

- The passage of the American Health Care Act in the House and the latest tax proposal from the White House likely contributed to the rosy print in May as they would be favorable for small businesses. Nonetheless, their future remains highly uncertain with significant political risks related to their implementation.

- The survey's labor market indicators point to a tightening labor market and rising inflationary pressures. In particular, rising job openings and increased concerns about the quality of labor should continue to support stronger earnings. This should strengthen the case for a Fed rate hike as the FOMC begins its two-day meeting round with the decision due tomorrow afternoon.

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