



November 10, 2015

TD Economics

Data Release: Small business optimism remains flat in October

- The NFIB's small business optimism index remained unchanged in October at 96.1, after rising for three consecutive months. Today's reading came in only very slightly below market expectations.
- The details of the report were mixed. The biggest gain was seen in the share of firms expecting higher sales, which recovered half of September's decline. Additionally, the share of businesses that thought 'now is a good time to expand' and the share of firms planning to make capital expenditures within the next 3 to 6 months rose one point apiece.
- However, the optimism was counterbalanced by a pullback in the share of firms planning to add inventories and those reporting higher earnings this quarter, which fell 3 points apiece. Labor market indicators were relatively strong compared to historical levels, but the share of firms planning to increase employment fell one point. Meanwhile, the share of firms planning to raise worker compensation rose for a second consecutive month to 17%.

Key Implications

- Small business optimism is still below the cyclical peaks reached earlier in the year, but the improvements over the prior three months cannot be ignored. Also, today's significant recovery in the share of firms expecting higher sales over the next six months is encouraging after it fell to the lowest level in three years in September.
- The fiscal uncertainty which loomed over the U.S. economy over the past few months likely intensified some of the concerns that small businesses had about the future. But the recent budget deal should alleviate some of these concerns and help shore up business confidence in the months ahead.
- In the very near term, the main question on everyone's mind will be: Will the Fed hike rates in December? On the domestic front, a spectacular payrolls report last week swayed the probability in favor of a December hike, an outcome likely cemented due to wages growing at the best pace in six years (2.5% year-over-year, which alleviates some of the concerns with regards to inflation). Today's report builds on the same undertones, with indications that business will raise worker compensation.

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