



TD Economics

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Data Release: U.S. small business sentiment perks up in July

- After edging lower in the previous month, the NFIB Small Business Optimism Index rebounded by 0.7 points to 95.7 in July. Despite the uptick, the headline number missed market expectations for a 96.0 reading.
- The underlying details were fairly constructive, with most components improving modestly in the month. Indicators relating to business expansion moved higher. The sub-component tracking near-term expectations for the economy gained 4.0 points on the month, and a higher share of respondents said that now was a good time to expand (+3.0 points). Plans to increase payrolls and boost capital spending also edged up in tandem, moving up by 1.0 point apiece.
- Three out of ten sub-components retreated in July. Six-months ahead sales expectations moved slightly lower (-1.0 point). Current inventory level followed suit, also declining by 1 point. Last but not least, the share of businesses with unfilled positions fell by 2.0 points.

Key Implications

- While the improvement was modest, on balance this morning's NFIB report was a positive one. It is particularly encouraging to see strengthening business expansion plans. Hiring intentions remain a bright spot and are currently at the highest level since September 2007, suggesting that small and medium businesses will continue to add to job growth in the second half of this year.
- Progress on the business investment side has been less remarkable, with capital expenditure sub-component posting the first gain since April. Still, an uptick in July is a step in the right direction.
- One disappointing detail of the report was deterioration in sales outlook, which is surprising given the recent progress in the labor market and gains in consumer confidence. Perhaps, the downshift reflects businesses' concerns about lack of acceleration in income growth. On that front, ongoing tightening of the labor market should soon begin to put upward pressure on wages. While this should help provide a boost to sales, it will also increase costs.

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