



## TD Economics

April 8, 2014

### Data Release: Spring puts small businesses in a better mood

- Following a decline a month earlier, the NFIB's Small Business Optimism Index regained some ground March, edging up by 2 points to 93.4. Today's gain exceeded market expectations, which called for the index to rise to 92.5.
- Improved sentiment among small business owners translated into broad-based gains, with six out of ten index sub-components improving on the month. The forward looking sub-components, such as the expectations about the economy and future sales, moved higher, rising by 1 and 9 points apiece and partially reversing some of last months' losses. In tandem with brightened sales outlook, plans to increase inventories also rose by 6 points.
- The assessment of current business conditions also improved. The net share of respondents expecting better earnings this quarter over last and citing that now is a good time to expand rose by 2 points each.
- Meanwhile, hiring and capital spending expectations deteriorated in March, falling by 2 and 1 points respectively. Businesses' view about future credit conditions as well as the share of firms with unfilled positions remained unchanged.

### Key Implications

- Today's gain in the headline number has mostly reversed February's slump in small business confidence, suggesting that the weakness was weather-induced and temporary. This performance was in line with other recently released indicators, such as the ISM non-manufacturing index and consumer confidence, which also showed improvement following a subpar showing earlier in the quarter.
- While small businesses are feeling better than they were last month, they are not in a hurry to expand just yet, as indicated by the lack of improvement in hiring and capital spending intentions. The employment sub-component is currently at the lowest point since October 2013. That being said, the correlation between actual payroll gains and the NFIB employment is weaker than with other indicators, such as the ISM non-manufacturing, which posted an uptick in March.
- The improvement in the near-term sales outlook suggests that businesses believe that purchases were put off due to harsh winter and that the pent-up demand will propel sales higher in the coming months. This is our opinion as well, with growth in consumer spending forecast to fast-track to 3.8% in the second quarter. Poor sales remain among the top three business concerns, thus stronger consumer spending in the coming months bodes well for small business sentiment.

**Ksenia Bushmeneva, Economist**  
**416-308-7392**

#### DISCLAIMER

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.