Data Release: Optimism among small business owners rises to one year high

- The NFIB Small Business Optimism Index gained 2.3 points in May, rising to 94.4, which came in ahead of the markets expectations of 92.1.

- The gains were relatively broad based, with all but three of the sub-components posting modest gains. Most notable was the bounce back in the “expect higher sales” and “good time to expand” sub-components, which each gained 4 percentage points on the month.

- While expectations surrounding the economy and future sales did improve – gaining 10 percentage points on the month – firms still remain somewhat pessimistic.

- After posting strong gains last month, future plans to hire slipped modestly in May. Nonetheless, the majority of small business owners are still expecting to hire in the coming months.

Key Implications

- With this morning’s release, the NFIB Small Business Index has now posted gains in 4 of the 5 months thus far this year, and currently sits just a touch shy of its cyclical high of 94.5 posted last April.

- While access to credit has been the Achilles’ heel for small business owners throughout this recovery, conditions have eased over the past several months. Furthermore, accordingly to the Federal Reserve’s April Senior Loan Office Survey, the majority of banks reported that spreads paid on loans made to small businesses also eased over the first quarter of 2013. This bodes well for small business owners, as the majority of individuals surveyed reported plans to increase capital expenditures over the next 3-6 months.

- The decline in the “plans to hire” sub-component was by far the biggest surprise of this morning’s release - especially after the decent employment numbers released for the month of May. Nonetheless, as the recovering housing market continues to gain steam throughout the summer months, we anticipate construction jobs to follow suit. Given that over 80% of all construction jobs fall under the small business category, we expect to see decent job growth coming out of the small business sector in the coming months.

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