Datanote: U.S. NFIB Small Business Survey, February

In one line: Small businesses feeling the pinch

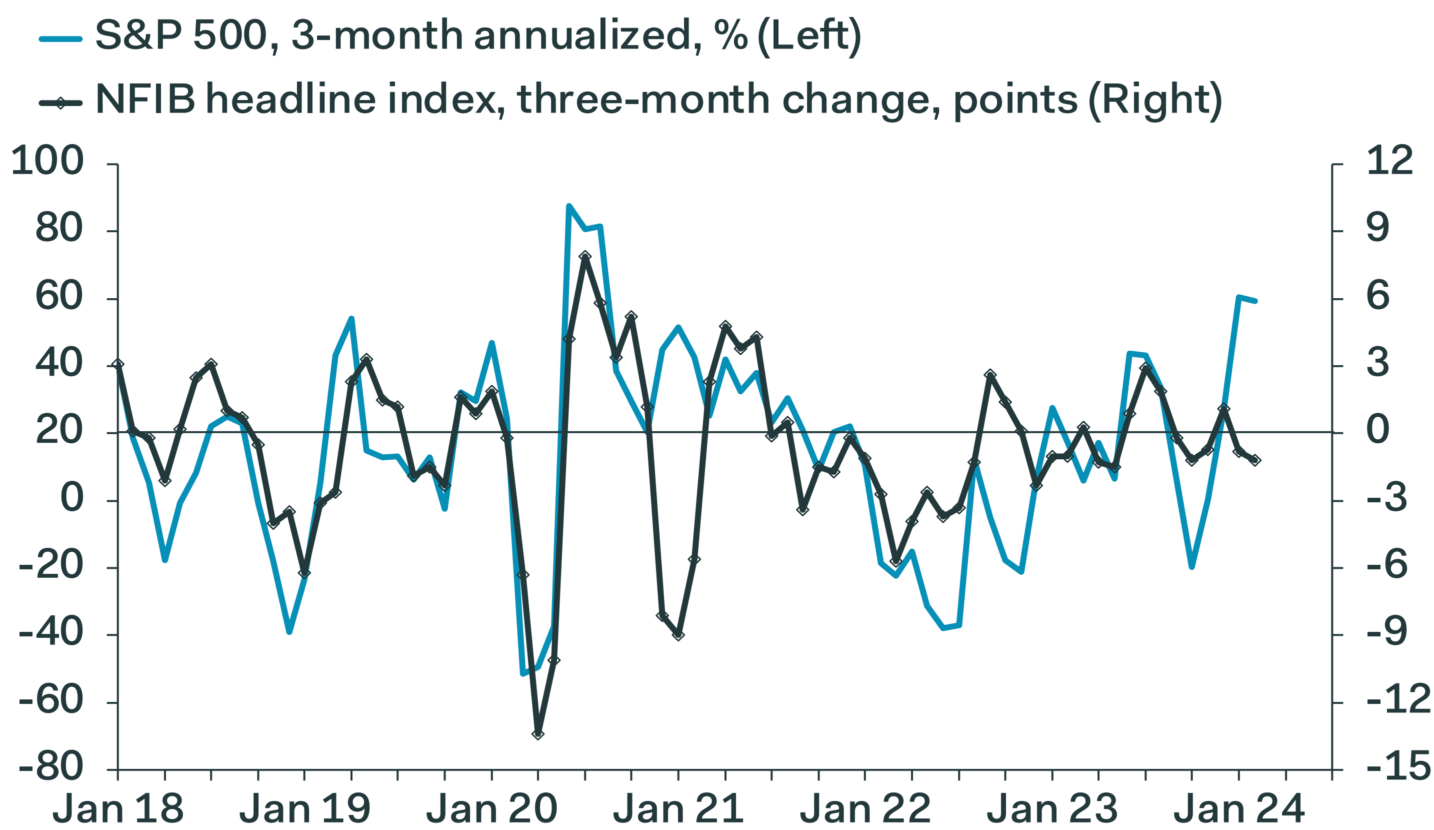
- The February NFIB Small Business Index dipped to 89.4 from 89.9, below the consensus, 90.5.

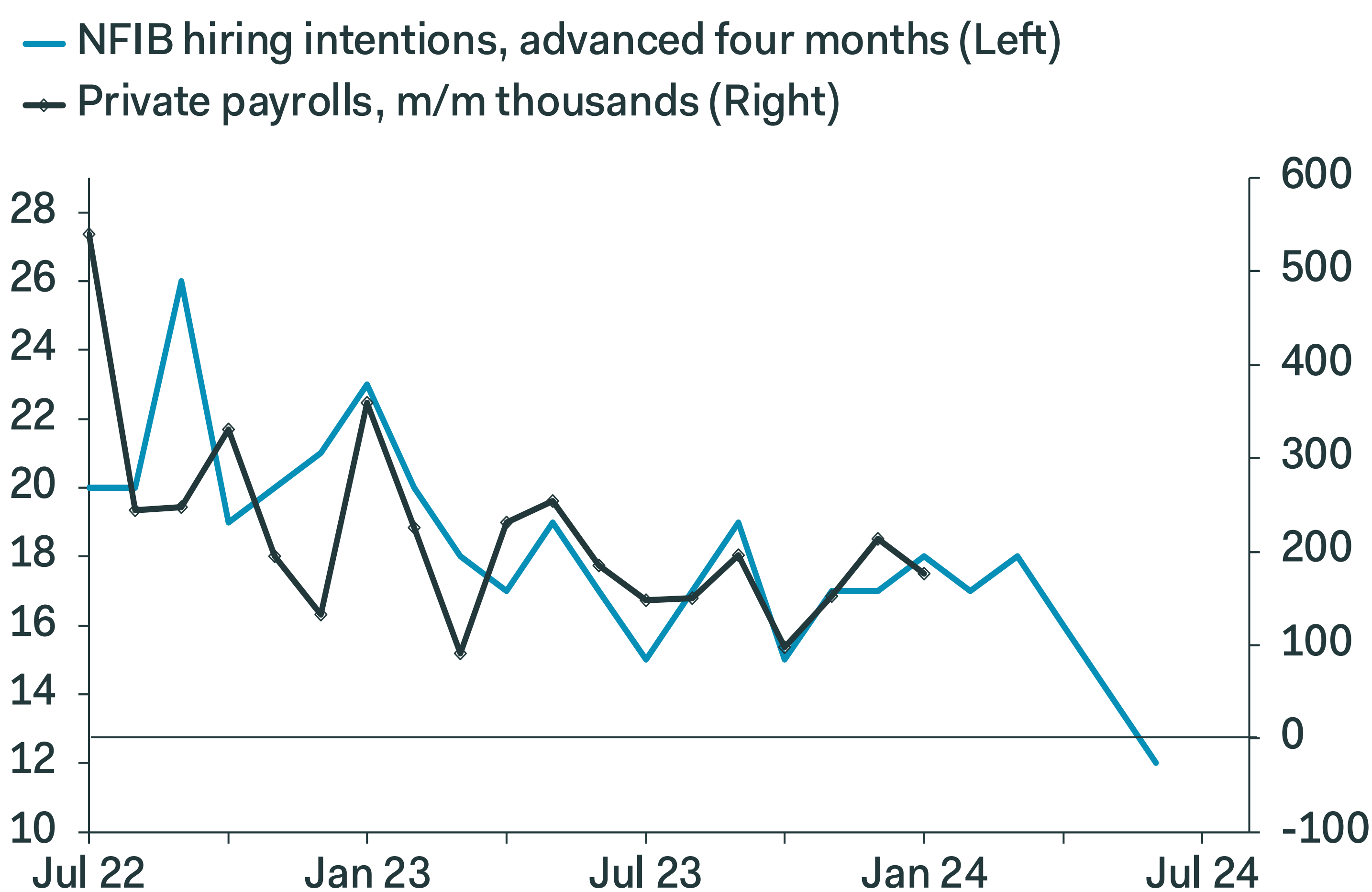
The second consecutive monthly fall in the headline index was again at odds with the further rally in stock prices last month. The headline index of the NFIB often tracks stock prices in the short term, as our first chart shows, mainly due to swings in the three subindexes - of ten in total - capturing business owners' expectations for the economy, sales and earnings. In February, the sales expectations subindex jumped to -10 from -16, but that only partly reverses a plunge in January, and smaller declines in most of the other subindexes were enough to push down the headline. The average of the seven non-expectations subindexes feeding into the headline fell to its lowest level since mid-2020. Overall, this further drop in the NFIB despite higher stock prices seems to point to a more fundamental deterioration in trading conditions for small businesses, lagging the tightening of credit.

Note that the key labor market numbers in the NFIB release are not new. They were released, as usual, the day before last week's payrolls report. The drop in the hiring intentions balance to 12, from 14, leaves it at its lowest point since mid-2020, signaling private payroll growth slowing to around zero in the coming months. The share of companies reporting that jobs were hard to fill slipped too, to a three-year low, also suggesting a softening labour market and slower wage growth ahead.

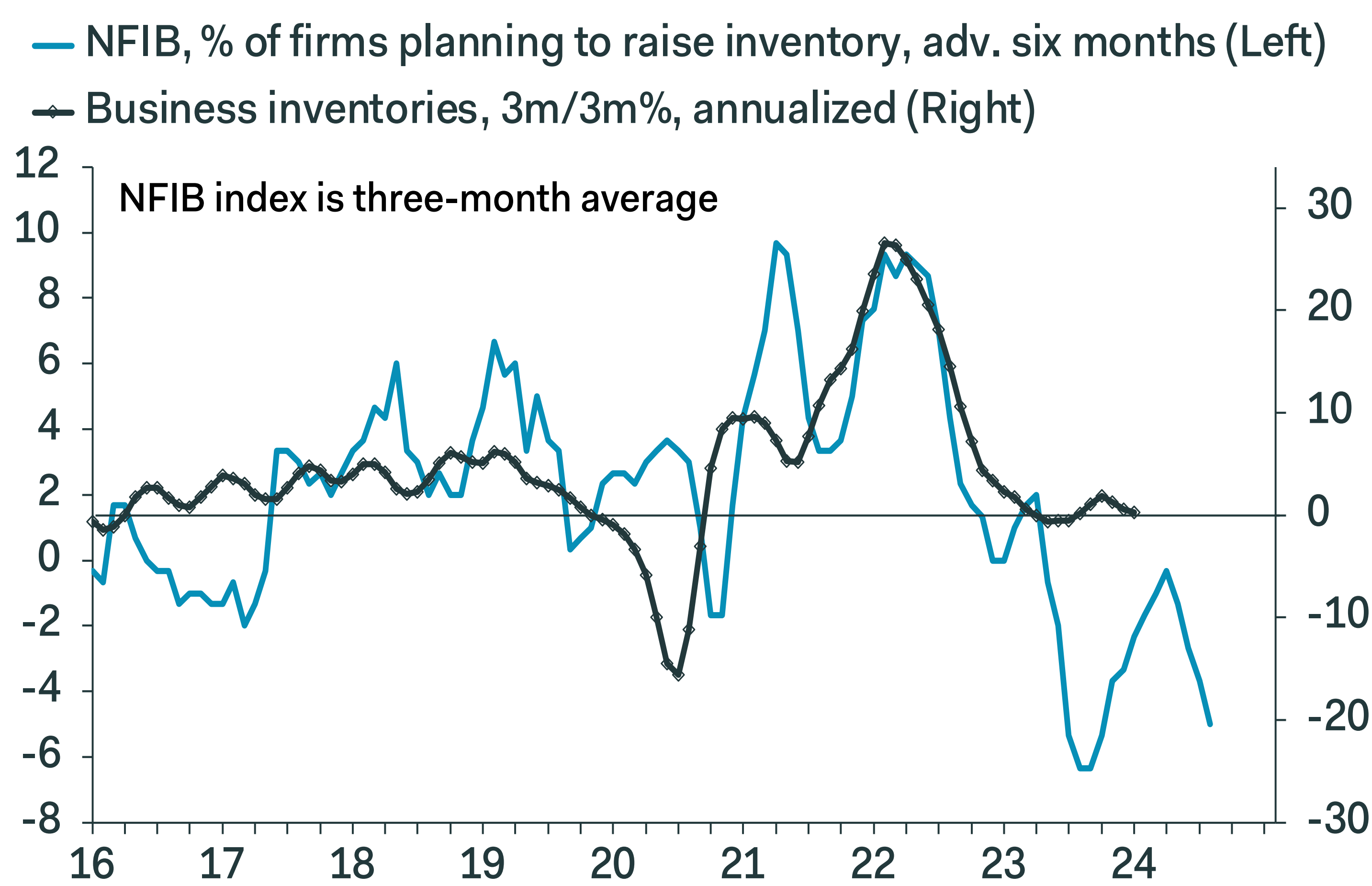
Small businesses' plans to raise capex also slipped, to 21 from 23, at odds with the turnaround in investment suggesting by the equivalent numbers in the Fed's regional manufacturing surveys, although the NFIB measure had been running hot relative to the Fed surveys for some time. Plans to raise inventory, meanwhile, dropped by four points, meaning the subindex continues to point to inventories exerting a big drag on overall GDP growth, although it has provided a poor guide to the hard data lately.

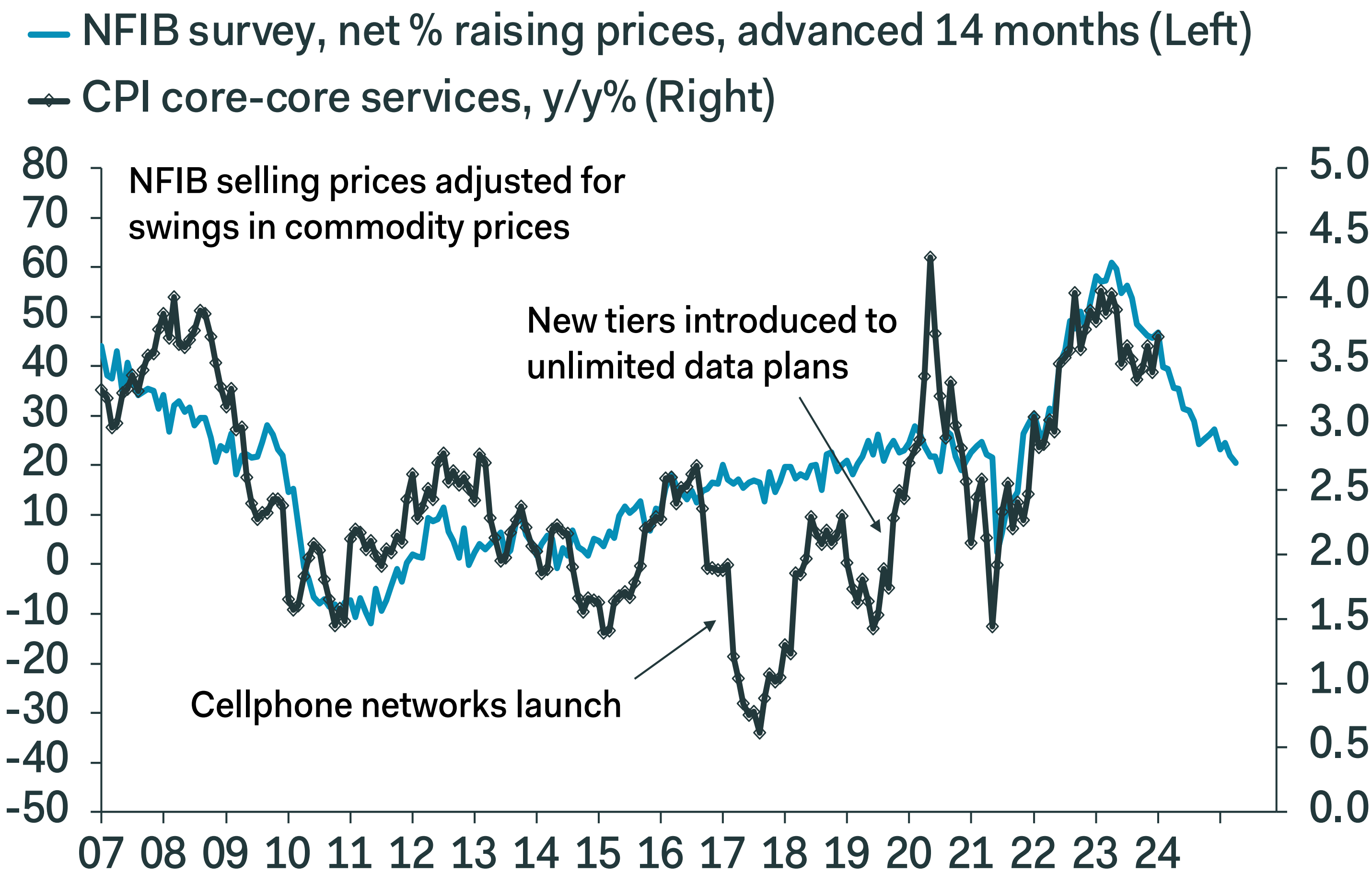
One bright spot is the uptick in the expected credit conditions subindex, to -6 from -8. That's still tight, but significantly better than the -11 trough that coincided with the surge in longterm interest rates late last year. On the inflation front, meanwhile, the small fall in the selling prices subindex is encouraging, especially after adjusting for the recent upturn in commodity prices. The selling prices index continues to point to a sharp slowdown in underlying services inflation, back to pre-pandemic levels, over the coming quarters.


S&P 500, 3-month annualized, % (Left)
NFIB headline index, three-month change, points (Right)
100
80
60
40
20
0
-20
-40
-60
-80
12
9
6
3
0
-3
-6
-9
-12
-15
Jan 18
Jan 19
Jan 20
Jan 21
Jan 22
Jan 23
Jan 24


NFIB hiring intentions, advanced four months (Left)
Private payrolls, m/m thousands (Right)
28
26
24
22
20
18
16
14
12
10
600
500
400
300
200
100
0
-100
Jul 22
Jan 23
Jul 23
Jan 24
Jul 24


NFIB, % of firms planning to raise capex (Left)
Regional Fed manuf. surveys, six-month ahead capex plans (Right)
34
32
30
28
26
24
22
20
18
16
14
12
10
40
35
30
25
20
15
10
5
0
-5
-10
-15
-20
15
16
17
18
19
20
21
22
23
24


NFIB, % of firms planning to raise inventory, adv. six months (Left)
Business inventories, 3m/3m%, annualized (Right)
NFIB index is three-month average
12
10
8
6
4
2
0
-2
-4
-6
-8
30
20
10
0
-10
-20
-30
16
17
18
19
20
21
22
23
24


NFIB survey, net % raising prices, advanced 14 months (Left)
CPI core-core services, y/y% (Right)
NFIB selling prices adjusted for swings in commodity prices
New tiers introduced to unlimited data plans
Cellphone networks launch
80
70
60
50
40
30
20
10
0
-10
-20
-30
-40
-50
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24