PANTHEON MACROECONOMICS

# Datanote: US NFIB Survey, March

**In one line: Small businesses are struggling**

- The NFIB survey's headline index dipped to 88.5, from 89.4, below the consensus, 89.9.

The drop in the NFIB survey in March was the third straight monthly decline and takes the headline index to its lowest level in 11 years. The retreat in the index lately is all the more notable given that the headline tends to be sensitive to the stock market, which has surged to new highs.

Most of the fall in the March NFIB is due to an eight-point plunge in the sales expectations index, which is very volatile and could easily reverse in the coming months. But seven of the other nine equally-weighted headline components were either flat or down.

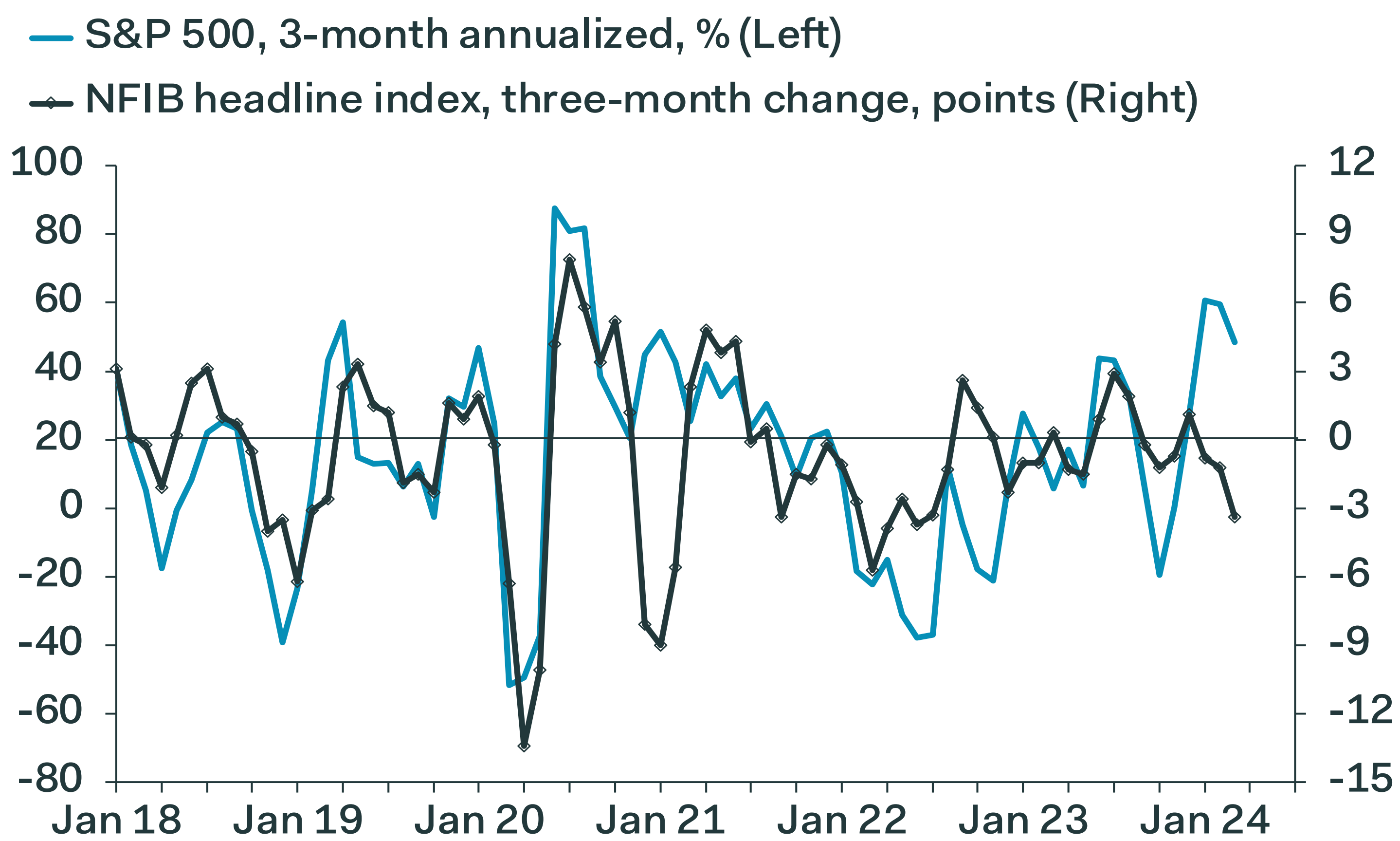
Comparing the current level of the

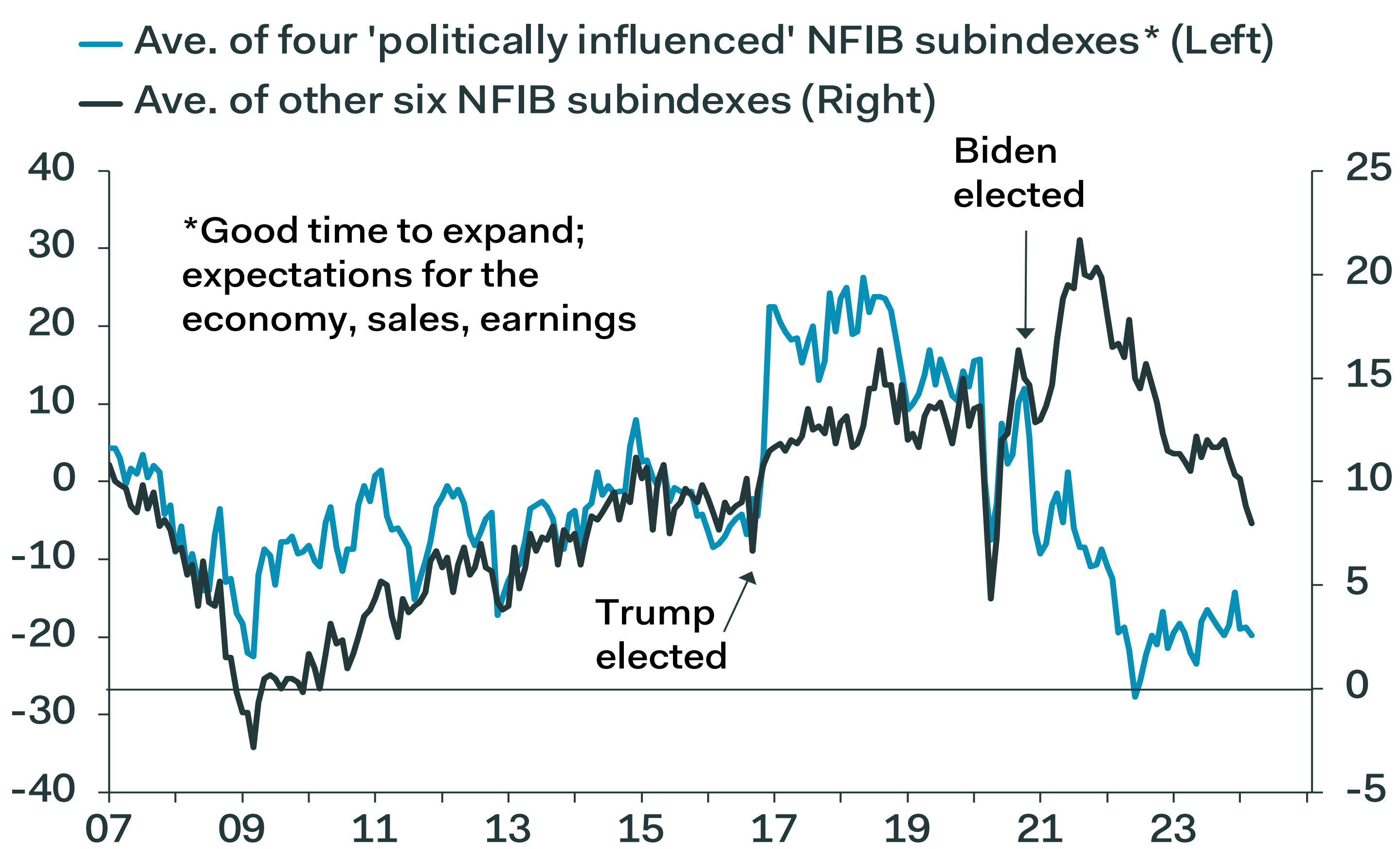
headline NFIB index with its historical range can be misleading, since four of the ten components within the headline seem to be heavily influenced by politics, surging on President Trump's election in late 2016 and plunging on President Biden's election in late 2020, as our second chart shows. But the other six headline components are less sensitive to politics, and an average of those measures has also fallen sharply recently, to a depressed level. Tighter credit conditions seem to be increasingly weighing on small businesses, who see little sign of this changing soon; the expected credit conditions index dropped to -8, from -6; it was -4 in March last year.

Credit worries chime with the further one-point dip in the survey's capex intentions index, which has continued to fall even as the equivalent measure from the regional Fed's manufacturing surveys has turned around in recent months. The NFIB sample includes manufacturing firms but is a whole-economy survey, dominated by services firms. Elsewhere, the inventory plans index was unchanged in March, consistent in theory with a big inventory drawdown ahead. But it has been a poor guide to the official monthly inventory numbers recently.

The key labor market numbers in the NFIB report were released the Thursday before the employment report, as usual; they are not new today. Most notably, the hiring intentions index dipped further, to 11 from 12. This index has been a remarkably good leading indicator of growth in private payrolls in recent years and is now consistent with private payrolls falling by early summer.

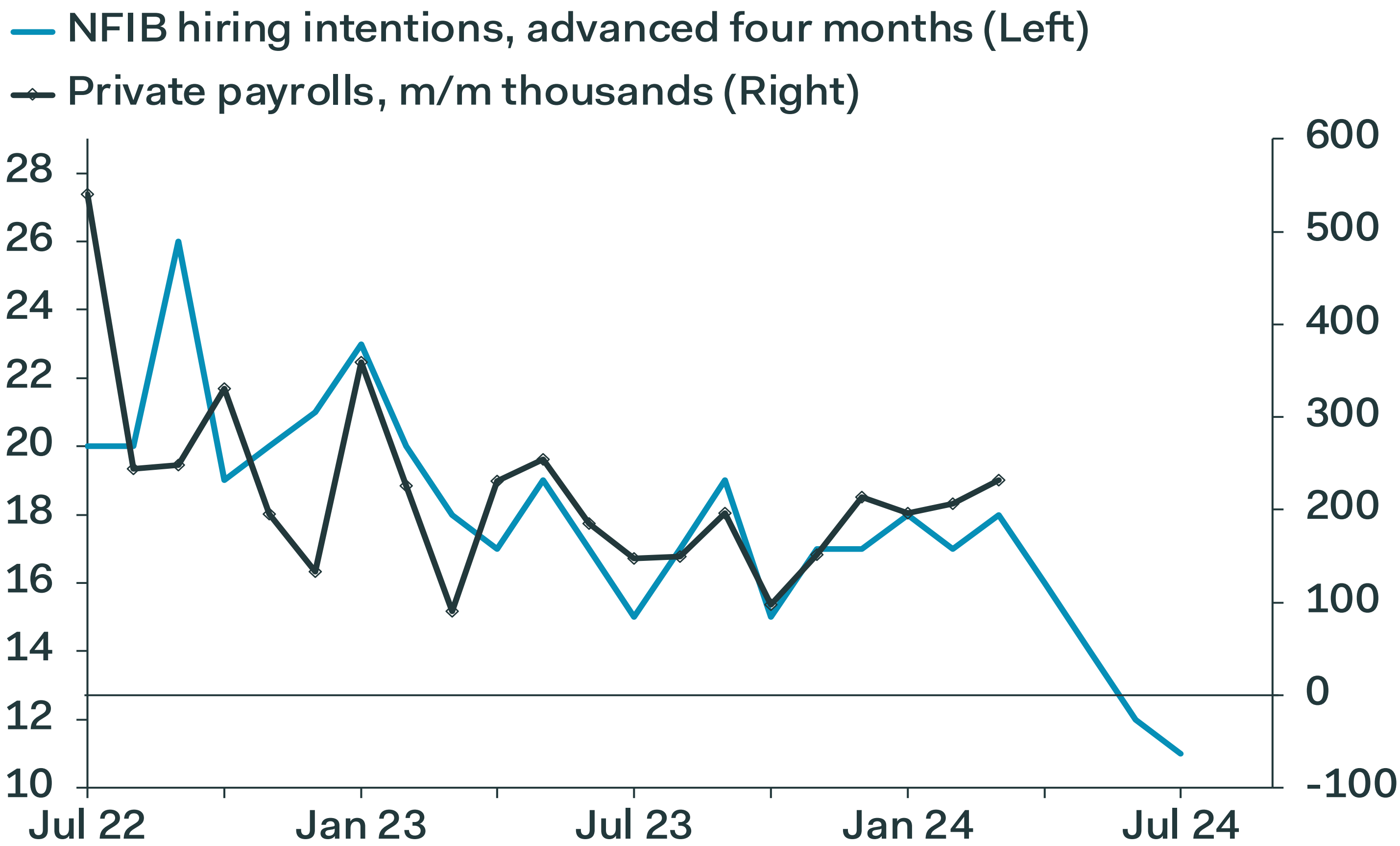
Finally, the seven-point jump in the selling prices index was the biggest monthly increase in over two years, taking the measure to a five-month high. The leap in our commodity-price adjusted version suggests that only a small part of this increase reflects the recent run-up in gas and other commodity prices. That said, the index remains quite low compared to its history and is still consistent with a sharp slowdown in underlying services inflation to around pre-pandemic levels in the coming quarters, a message echoed by other indicators, such as the prices paid balance of the ISM services survey, and the JOLTS quits rate.

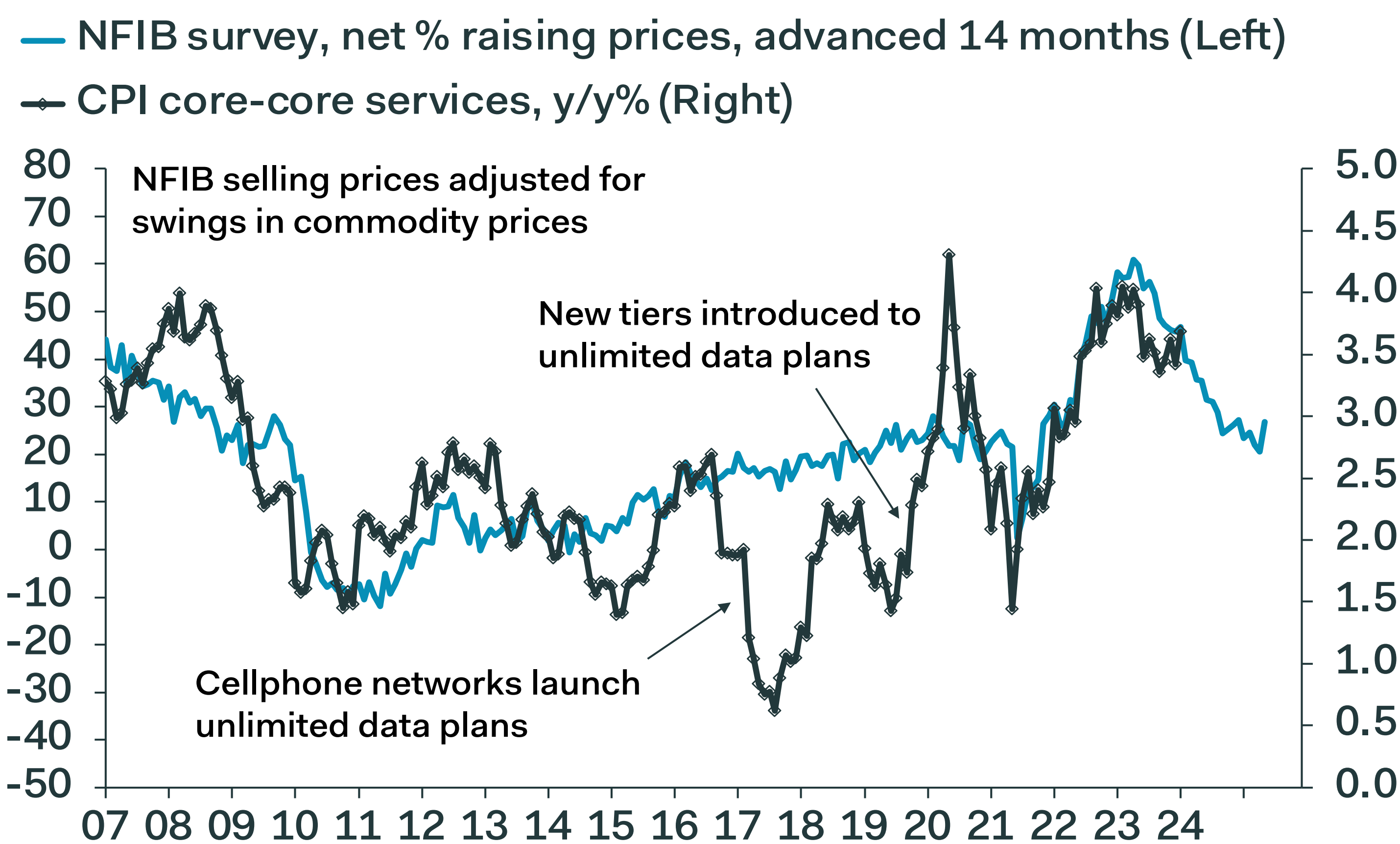

S&P 500, 3-month annualized, % (Left)
NFIB headline index, three-month change, points (Right)
100
80
60
40
20
0
-20
-40
-60
-80
12
9
6
3
0
-3
-6
-9
-12
-15
Jan 18
Jan 19
Jan 20
Jan 21
Jan 22
Jan 23
Jan 24


Ave. of four 'politically influenced' NFIB subindexes* (Left)
Ave. of other six NFIB subindexes (Right)
*Good time to expand; expectations for the economy, sales, earnings
Biden elected
Trump elected
40
30
20
10
0
-10
-20
-30
-40
25
20
15
10
5
0
-5
07
09
11
13
15
17
19
21
23

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 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 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 unlimited data plans
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
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