

## **Datanote: US NFIB Survey, April**

**In one line: An improvement, but small businesses are still under pressure**

- The NFIB survey's headline index rose to 89.7, from 88.5, above the consensus, 88.2.

The increase in the headline index of the NFIB in April breaks a streak of three consecutive monthly declines

but still leaves it at a very depressed level, up only slightly from the 11-year low hit in March and below the trough during the pandemic in early 2020. Also note that around half of the increase in the headline was due to a six-point jump in the “expectations for sales” subindex, which has been very volatile recently.

Comparisons with the history of the series are, admittedly, somewhat misleading due to the political bias in the survey. The headline index surged

following Donald Trump's election in late 2016, but plunged when Joe Biden won the presidency, probably because small business owners lean Republican overall. Even so, an average of the six subindexes included within the headline which are based on less subjective questions, and appear to be less heavily influenced by politics, is also very depressed at present, as the first chart shows. We think that tight credit conditions are weighing increasingly heavily on small businesses, which are at the

sharp end of the pullback in lending by commercial banks and, in particular, regional lenders.

Turning to the survey's details, the uptick in the net percentage of small companies planning to raise capex intentions, to 22 from 20, is encouraging but reverses only part of the drop seen since the start of this year, and is still consistent with depressed business investment. After diverging from a similar measure of capex intentions derived from the

regional Fed manufacturing surveys early last year, the two measures are now telling a similar story again. The net share of small firms planning to raise inventory also improved, to -6 from -7, but that still meant a dip in the three-month average. That suggests, at face value at least, a significant drag on overall GDP growth from inventories over the next couple of quarters, although this measure has been a poor guide to the hard data for a while now.

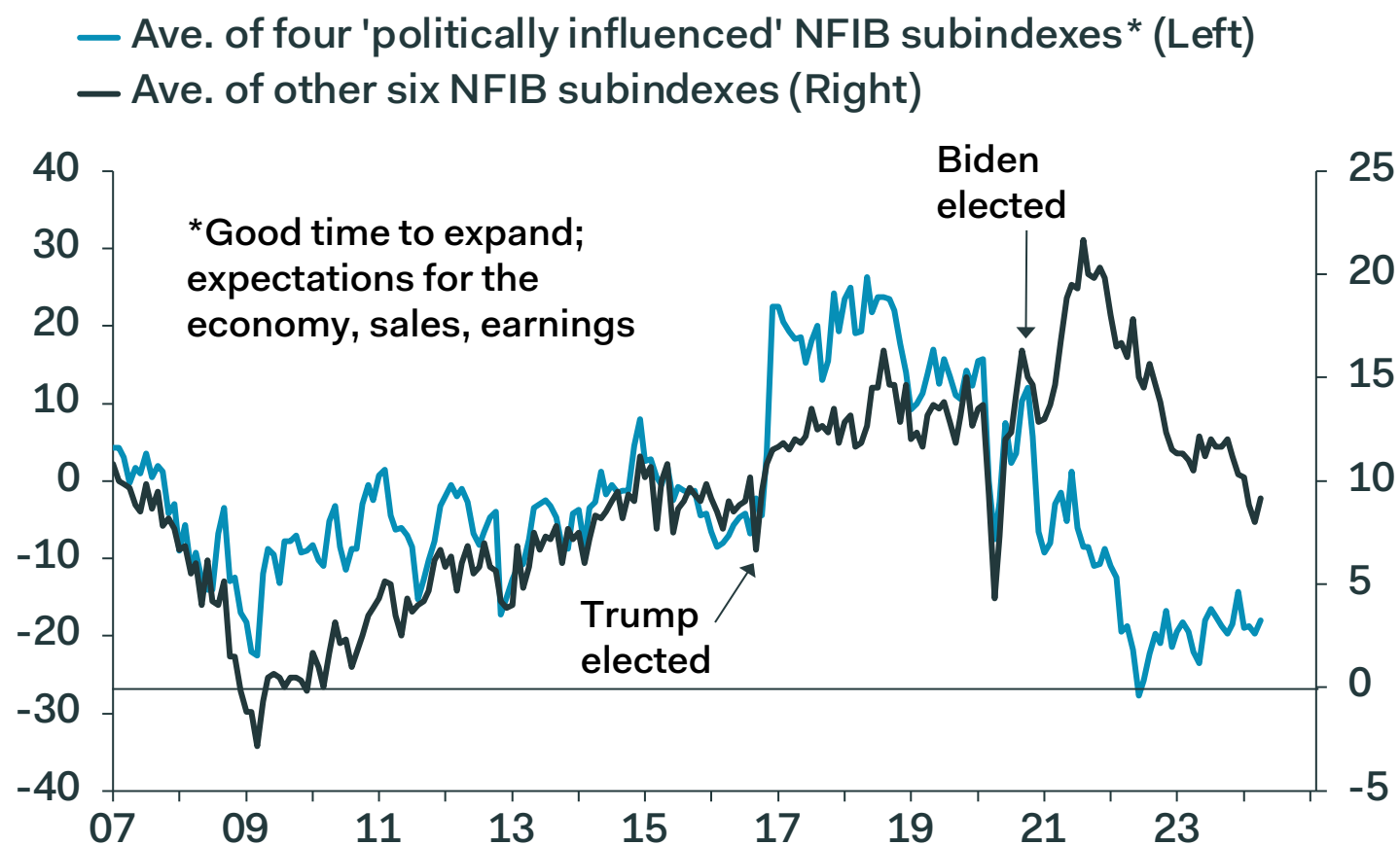
The labor market numbers in this

report are not new. They were released the Thursday before the employment report, as usual. Most notable is the survey's hiring intentions index, which has provided a remarkably good lead on private payrolls growth over the past year or two, perhaps because small businesses have accounted for an outsized share of overall net hiring. The index ticked up to 12 in April, from 11, but it still points to private jobs growth dropping to around zero over the next few months. The pressure on small businesses appears to be

prompting them to cut back on hiring too, not just investment and inventory accumulation. If the signal provided by the hiring intentions balance remains as reliable as it has been recently, the case for multiple Fed rate cuts this year will start to look a lot stronger very soon.

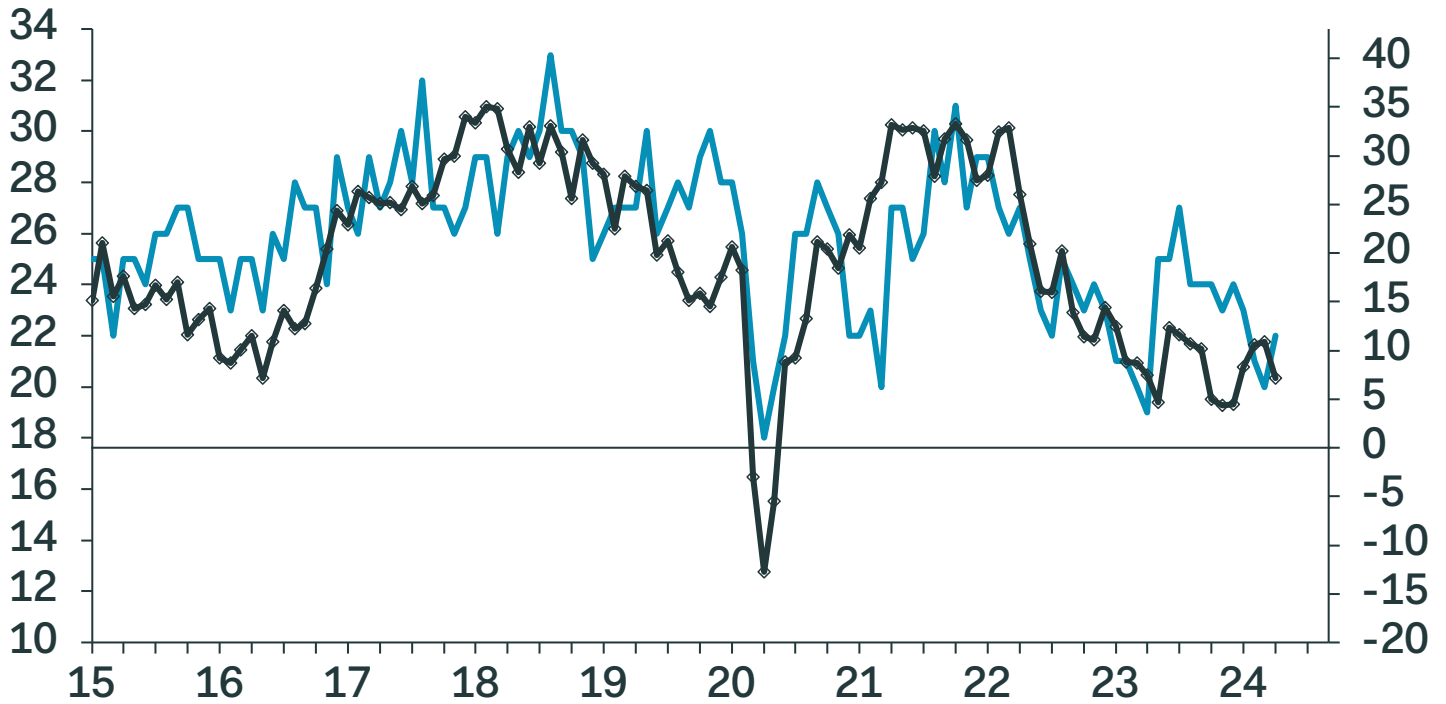
Finally, the drop in the survey's selling prices subindex to 25, from 28, was welcome news, particularly since higher commodity prices last month probably exerted an upward

influence. Our readjusted measure of the subindex that accounts for swings in commodity prices has a reasonable relationship with underlying services inflation, and continues to point to services inflation falling back significantly again soon.





- NFIB, % of firms planning to raise capex (Left)
- Regional Fed manuf. surveys, six-month ahead capex plans (Right)



- NFIB, % of firms planning to raise inventory, adv. six months (Left)
- Business inventories, 3m/3m%, annualized (Right)

