Datanote: US NFIB Survey, July

In one line: Headline index surges, but the details still point to weakness.

- The July headline index jumped to 93.7, from 91.5, above the consensus, 91.5.

The surge in the headline index to its highest level in more than two years is eye-catching but is built on flimsy foundations. More than four-fifths of the increase in the headline was due to a surge in just one of the ten components, with respondents' view of the general economic outlook leaping by 18 points, to -7 from -25. The net share of small businesses expecting better sales also rose, by four points, explaining the rest of the jump in the headline. The other eight components were either flat or moved only marginally.

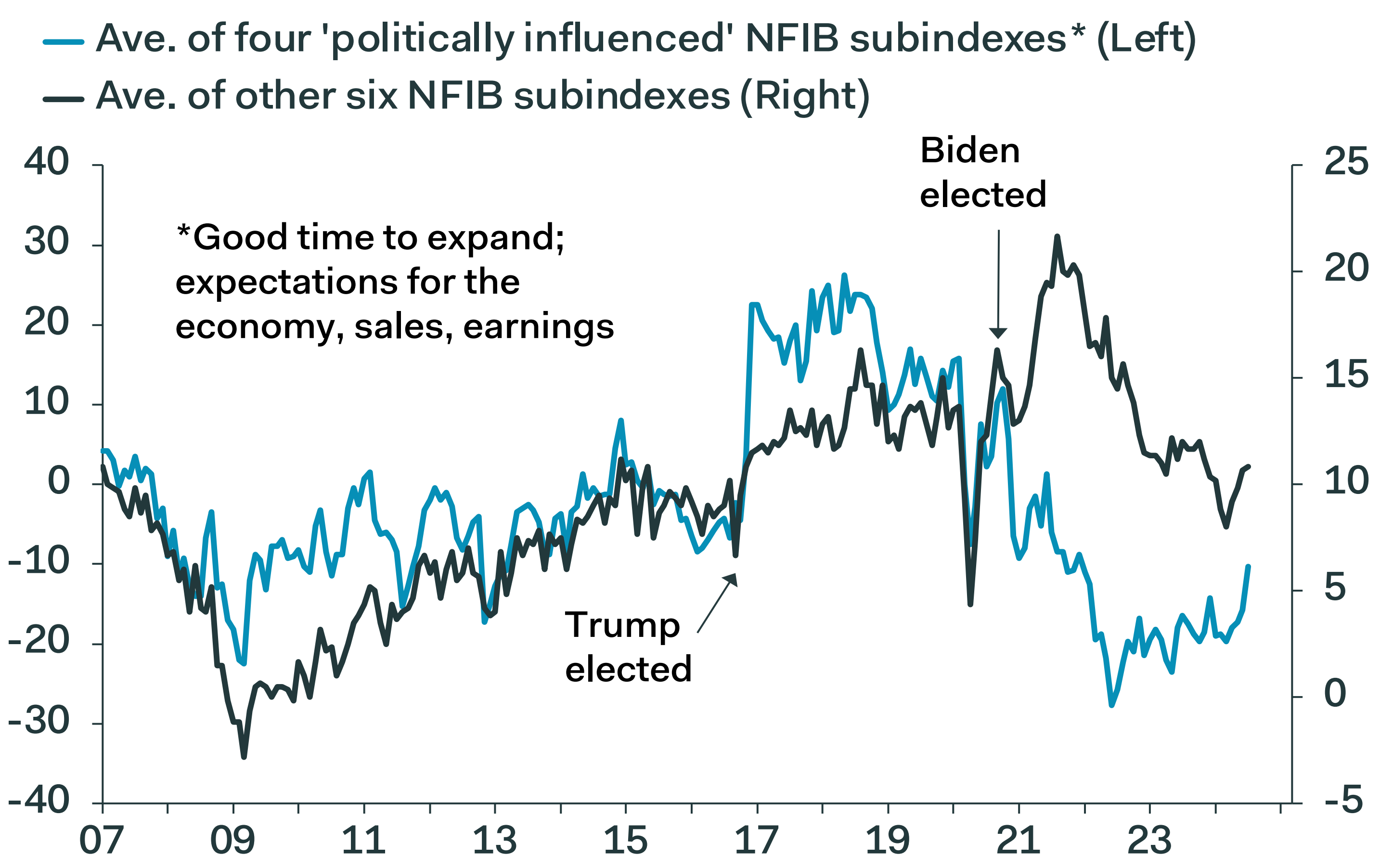
It is not clear why the economic

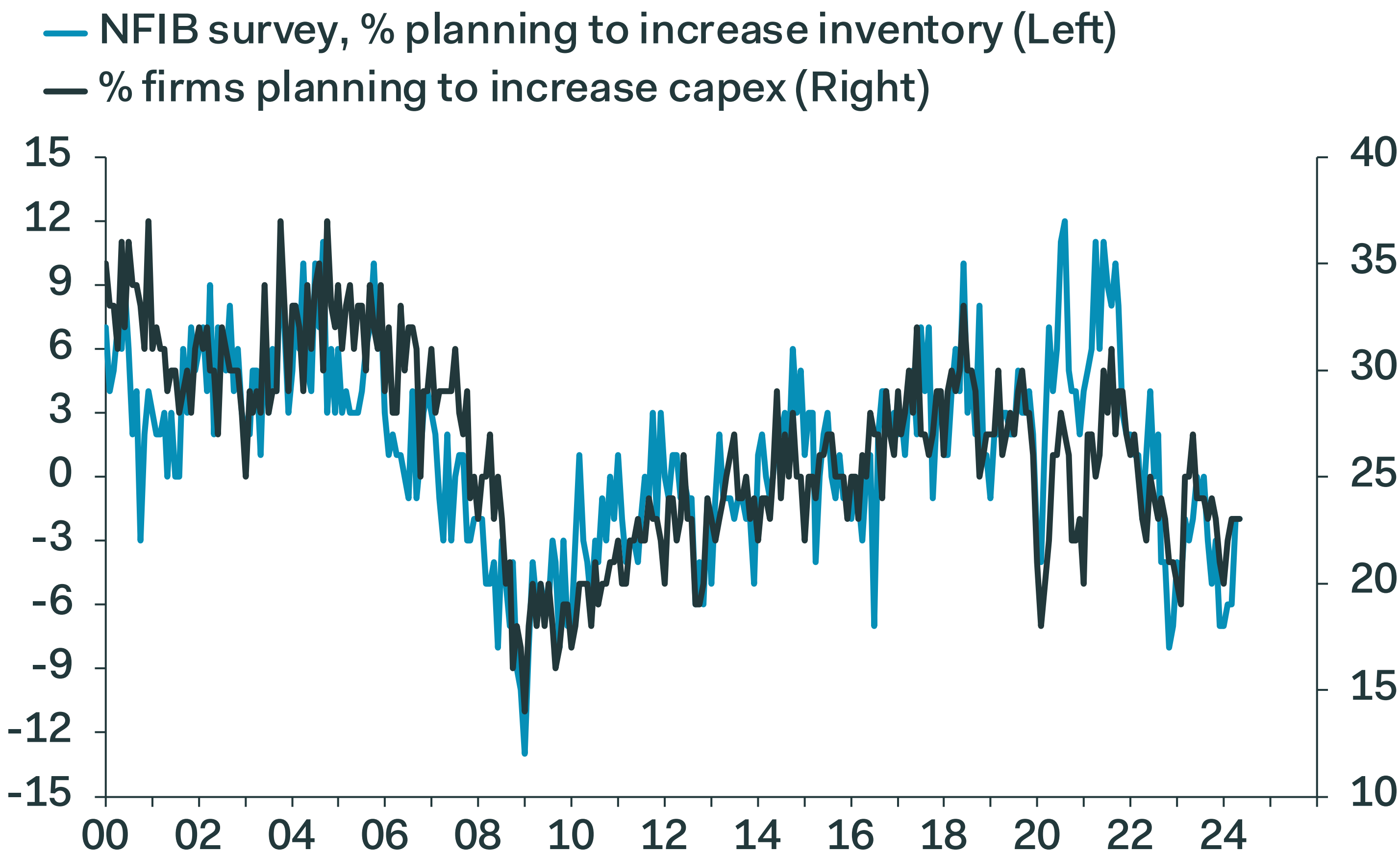
and sales outlook components of the survey jumped in July but, as we've noted before, these two components, along with the earnings and "good time to expand" indexes are erratic and are heavily influenced by both moves in the stock market and political developments. Stock prices were roughly 4% higher on average in July than in June, despite the drop at the end of the month. Moreover, President Biden's calamitous debate with Donald Trump was on June 27, so the survey may have picked up the slump in the

Democrats' perceived chances in the election in the first half of July, without registering Vice President Harris' better fortunes more recently. Small business owners as a group lean Republican, and the 18-point jump in the economic outlook subindex is far smaller than the 57-point surge between October 2016 and January 2017 following Mr. Trump's surprise win. If politics and the stock market explain the surge in July, a reversal in August looks likely. The stock market has stumbled, but the Democrats' perceived odds of winning the presidency have jumped from barely one-in-three in mid-July to nearly 60% more recently according to some closely-watched models.

The survey's details continue to point to a difficult backdrop for small businesses. The subindexes measure plans to raise inventory and capital spending were both unchanged in July, well below their pre-Covid levels. The hiring intentions measure was released, as usual, last Thursday, before payrolls. It was also unchanged last month, although after adjusting for residual seasonality in the series we estimate that it dipped slightly, consistent with growth in private payrolls remaining close to the tepid pace in July. That is noteworthy, given that this index has been the single best leading indicator of private payrolls over the past couple of years. The weakness in hiring and investment plans almost certainly reflects the ongoing pressure from very high rates and the associated pullback in bank lending. The survey's measure of credit availability improved slightly in July, but the average interest rates faced by small businesses fell only trivially. As our fourth chart shows, both measures remain around levels only seen in the past around the onset of recessions. Given the lags between changes in rates and businesses' hiring and investment plans, things will probably get worse before they get better.

Elsewhere, the net share of firms planning to raise prices dipped to 22, from 27, a five-month low. A small part of that decline probably reflects a dip in commodity prices in July, but our adjusted measure dropped back too, to its lowest level in nearly four years. On past form, this continues to point to a further decline in underlying services inflation.





NFIB survey, % planning to increase inventory (Left)
% firms planning to increase capex (Right)
15
12
9
6
3
0
-3
-6
-9
-12
-15
40
35
30
25
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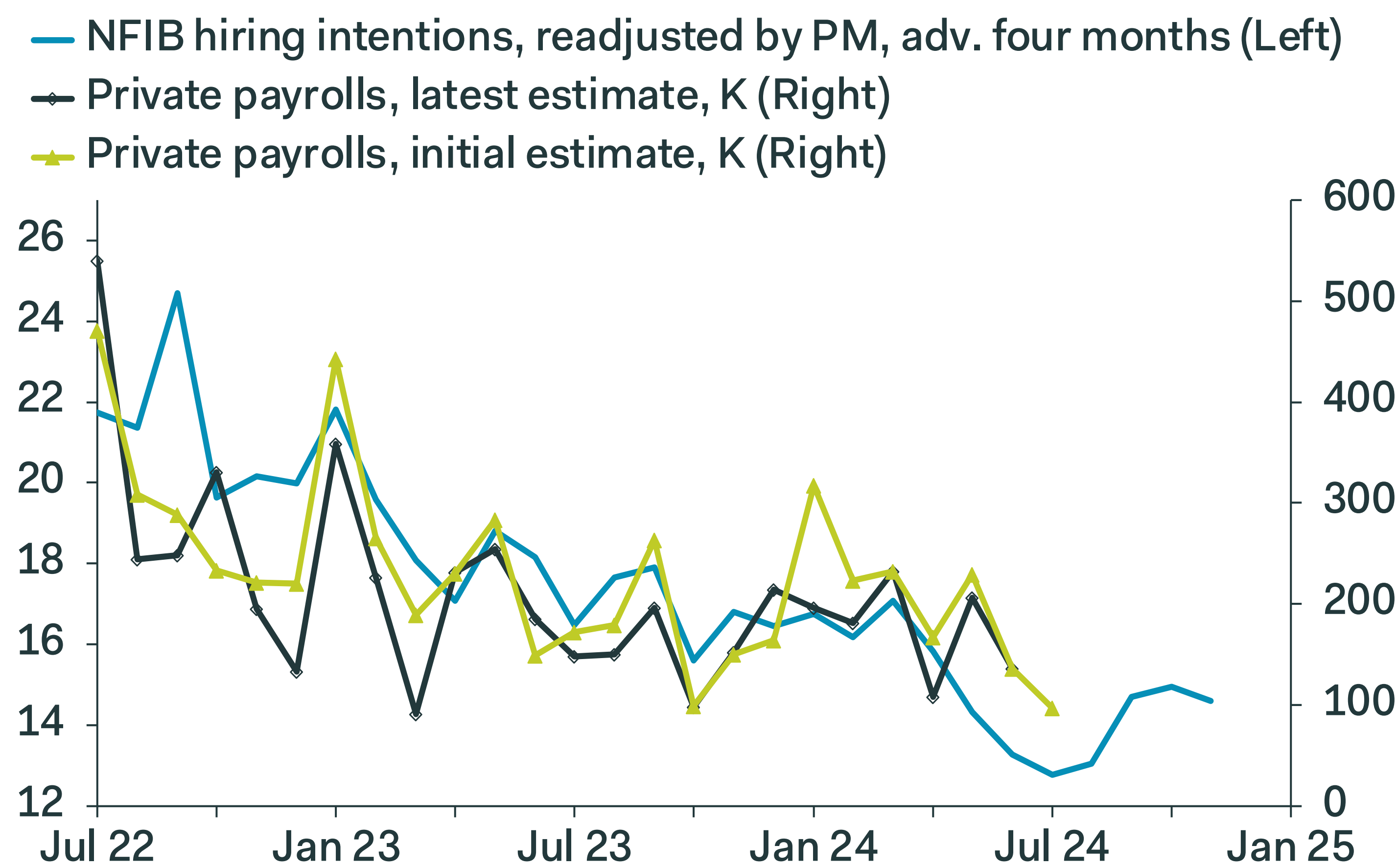
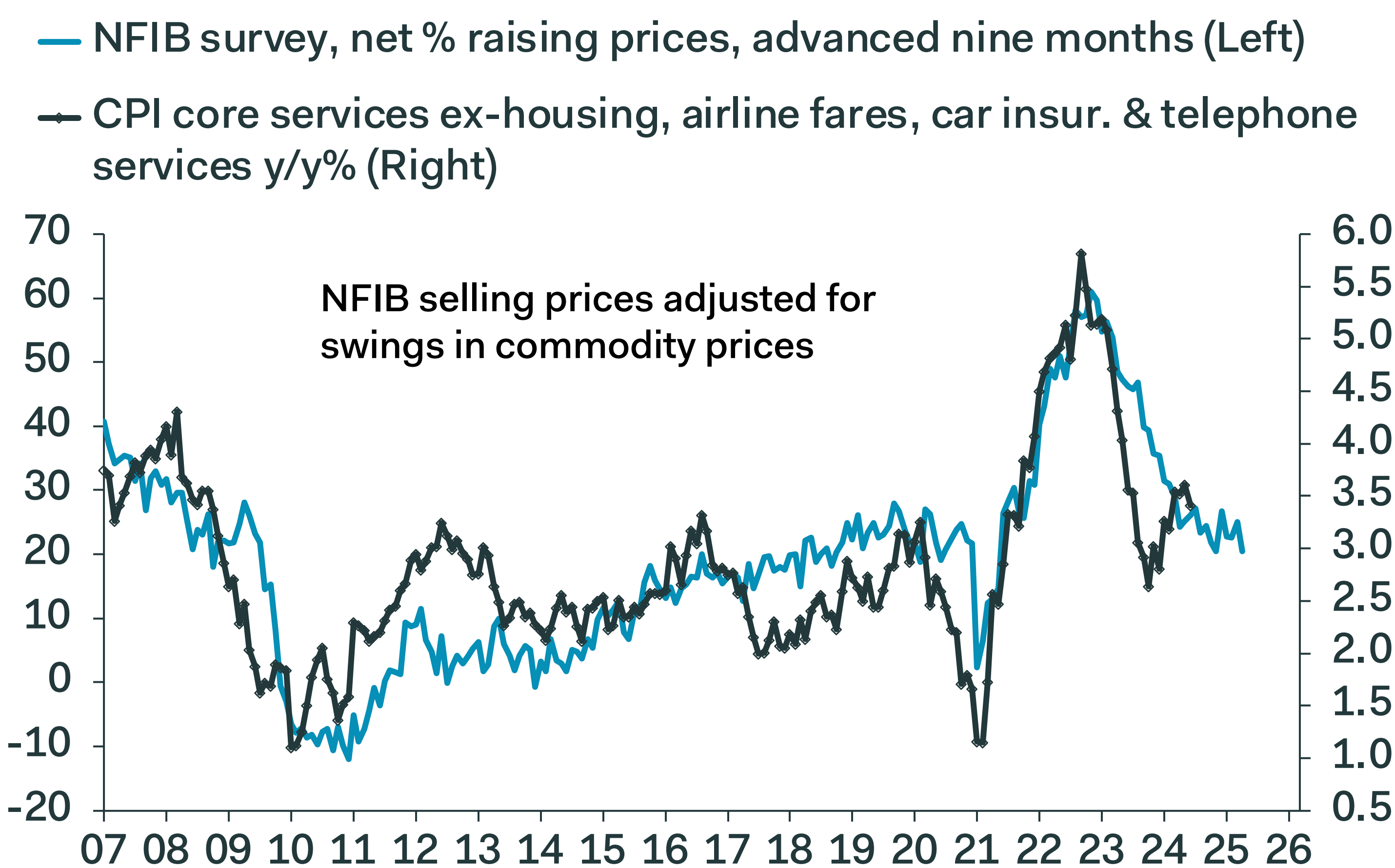


NFIB hiring intentions, readjusted by PM, adv. four months (Left)
Private payrolls, latest estimate, K (Right)
Private payrolls, initial estimate, K (Right)
26
24
22
20
18
16
14
12
600
500
400
300
200
100
0
Jul 22
Jan 23
Jul 23
Jan 24
Jul 24
Jan 25


NFIB, % of firms reporting credit harder to get (Left)
Ave. interest rate paid on short-term loans, % (Right)
Both series are three-month averages, shaded bars mark recessions
18
16
14
12
10
8
6
4
2
0
16
14
12
10
8
6
4
86
91
96
01
06
11
16
21


NFIB survey, net % raising prices, advanced nine months (Left)
CPI core services ex-housing, airline fares, car insur. & telephone services y/y% (Right)
NFIB selling prices adjusted for swings in commodity prices
70
60
50
40
30
20
10
0
-10
-20
6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
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