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Aug. 13, 2013

## Small Business Optimism Index

Up a Mere 0.6 Points in July to 94.1.  
*Should It Be Renamed the Pessimism Index?*

Index Component	Net %	Change From June	
Plans to Increase Employment	9%		2
Plans to Make Capital Outlays	23%		0
Plans to Increase Inventories	-1%		0
Expect Economy to Improve	-6%		-2
Expect Real Sales Higher	7%		2
Current Inventory	-1%		1
Current Job Openings	20%		1
Expected Credit Conditions	-8%		-1
Now a Good Time to Expand	9%		2
Earnings Trends	-22%		1

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**NFIB**  
The Voice of Small Business

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“In an attempt to ‘make lemonade’ from the lousy bushel of lemons the administration has handed the small-business community, owners gave the July optimism index the great distinction of being the fourth highest reading since December 2007 – when the economy slipped into official recession,” said **NFIB chief economist Bill Dunkelberg**. “But let’s not get too excited: The level is still well below the average reading of 100 in the prior 35 years and still half a point below the December 2007 reading.”

The July indicators are as follows:

- **Job Creation.** July was another slow month for jobs among NFIB’s 350,000 owners, with the average increase in employment coming in at a negative 0.11 workers per firm, the third negative monthly reading in a row. Owners have stopped reducing employment, but they have not resumed hiring.
- **Hard to Fill Job Openings.** Twenty percent of all owners reported job openings they could not fill in the current period, a potentially good omen for the unemployment rate. Fifteen percent reported using temporary workers, up 3 points from June. The healthcare law provides incentives to increase the use of temporary and part-time workers and June saw an increase of 360,000 part-time jobs accompanied by a loss of 240,000 full-time jobs.
- **Sales.** The net percent of all owners reporting higher nominal sales in the past three months compared to the prior three months improved a point, rising to a negative 7 percent. The net percent of owners expecting higher real sales volumes rose 2 points, to 7 percent of all owners. These expectations remain depressed and are not the kind that will generate a lot of new employment or new orders for inventories.

- **Earnings and Wages.** Reports of positive earnings trends improved 1 point in July

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owners surveyed reported all credit needs met, and 52 percent explicitly said they did not want a loan.

- **Capital Outlays.** In July, the frequency of reported capital outlays over the past six months fell 2 points to 54 percent, 7 points below the average spending rate through 2007. The percent of owners planning capital outlays in the next three to six months was, again, unchanged at 23 percent. Reports of outlays fell almost across the board, painting a weaker spending picture than the month prior.
- **Good Time to Expand.** In July, 9 percent characterized the current period as a good time to expand facilities (up 2 points). The net percent of owners expecting better business conditions in six months was a net negative 6 percent, 2 points worse than June's reading.
- **Inventories.** The pace of inventory reduction continued in June, with a net negative 10 percent of all owners reporting growth in inventories, a 3 point decline from June. For all firms, a net negative 1 percent (up 1 point) reported stocks too low, a historically "lean" reading. Plans to add to inventories were unchanged from June; the net percent of owners planning to add to inventories remained a negative 1 percent of all firms.
- **Inflation.** Fourteen percent of the NFIB owners surveyed reported reducing their average selling prices in the past three months (up 2 points), and 17 percent reported price increases (down 2 points). The net percent of owners raising average selling prices was 4 percent, down 4 points. As for prospective price increases, 16 percent plan on raising average prices in the next few months (down 3 points), and 3 percent plan reductions (unchanged). A net 15 percent plan price hikes, down 3 points. Overall the inflation picture is fairly benign.

The report is based on the responses of 1,615 randomly sampled small businesses in

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