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Independent Businesses. The group's April index rose 1.8 points to a post-recession high of 95.2. The economy continues to perform modestly and April's index followed suit as it crossed the 95 marker for the first time since 2007. Seven Index components improved, one was unchanged and 2 fell.

**Isaac M. O'Bannon** • May. 19, 2014



Small business optimism increased in April, according to the National Federation of Independent Businesses. The group's April index rose 1.8 points to a post-recession

high of 95.2. The economy continues to perform modestly and April's index followed

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"Small business confidence rising is always a good thing, but it's tough to be excited by meager growth in an otherwise tepid economy. Washington remains in a state of policy paralysis. From the small business perspective there continues to be no progress on their top problems: cost of health insurance, uncertainty about economic conditions, energy costs, uncertainty about government actions, unreasonable regulation and red tape, and the tax code. So while the improvement is welcome, as long as small business owners continue to have negative views owners about the future, the 95 number may fade."

- **Labor Markets.** NFIB owners increased employment by an average of 0.07 workers per firm in April (seasonally adjusted), weaker than March but the seventh positive month in a row and the best string of gains since 2006.

The remaining 74 percent of owners made no net change in employment. Fifty-one percent of the owners hired or tried to hire in the last three months and 41 percent reported few or no qualified applicants for open positions. GDP didn't grow in the first quarter, so not a lot of new workers were needed. April looked a bit better as the economy "thawed". Weather was bad in the first quarter but since the U.S. was not uniformly "frozen", the weakness in employment and GDP growth can't be blamed entirely on Mother Nature

- **Job Creation.** Twenty-four percent of all owners reported job openings they could not fill in the current period (up 2 points). This suggests that the unemployment will ease a tenth of a point or more. Fourteen percent reported using temporary workers, up 1 point from March. Job creation plans reversed a recent negative trend and rose 3 percentage points to a seasonally adjusted net 8 percent.

- **Sales.** The net percent of all owners (seasonally adjusted) reporting higher nominal sales in the past 3 months compared to the prior 3 months improved 4 points to a net negative 2 percent, far better than the negative 31 percent readings in

2009. This is the best seasonally adjusted reading since early 2012 when the economy

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the best reading since 2007. Not seasonally adjusted, 15 percent reported profits higher quarter to quarter (up 3 points), and 41 percent reported profits falling (down 1 point). Rising labor costs are keeping pressure on earnings.

Two percent reported reduced worker compensation and 23 percent reported raising compensation, yielding a seasonally adjusted net 20 percent reporting higher worker compensation (down 3 points after a 4 point gain in March), but still among the best readings since 2008. A net seasonally adjusted 14 percent plan to raise compensation in the coming months, unchanged from February and March. The reported gains in compensation are now solidly in the range typical of an economy with solid growth. Although GDP growth in Q1 was less than expected (about zero), the small business sector continues to show signs of progress, small as they may be.

- **Credit Markets.** Credit continues to be a non-issue for small employers. In April, just five percent of the owners reported that all their credit needs were not met, 1 point above the record low. Thirty percent reported all credit needs met, and 53 percent explicitly said they did not want a loan. Only 1 percent reported that financing was their top business problem (tied with the record low) compared to 22 percent citing taxes, 20 percent citing regulations and red tape and 15 percent citing weak sales. Small business owners are far more concerned about taxes, regulations and health care costs than financing issues.

- **Inventories.** The pace of inventory reduction was steady, with a net negative 6 percent of all owners reporting growth in inventories (seasonally adjusted). Reductions are good if in response to strong sales, but not so good if it is in response to weak sales. Owners are satisfying orders with existing inventory but not ordering new stocks. The net percent of owners viewing current inventory stocks as “too low” lost a point, falling to a net negative 1 percent, historically a “lean” reading. Sales trends did improve, although remained historically weak and probably insufficient to produce a substantial reduction in inventories. The solid reading for expected real

sales contributed to the need to rebuild with the net percent of owners planning to

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adjusted, a net 22 percent plan price hikes (up 3 points). If successful, the economy will see a bit more “inflation”.

Accounting • Small Business

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