

Economic Analysis

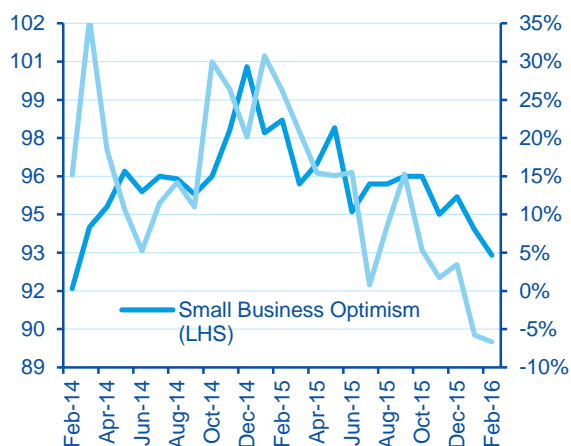
# Small Business Optimism Decreases in February

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- **Small business optimism fell to a 26-month low as consumer confidence also dropped**
- **Reported declines in small business employment contradict the month's strong payrolls**
- **Concerns about sales and costs increased, reflecting a difficult operating environment**

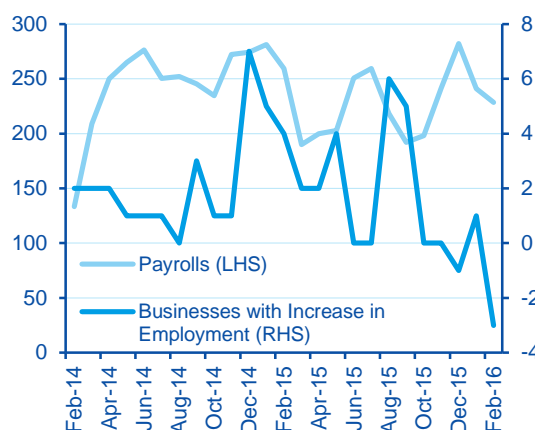
Small business optimism in February fell one point to 92.9, a 26-month low, holding well below the historical average of 97.8. This coincides with a drop in consumer confidence and a slowdown in retail sales that were observed in February (Chart 1). Almost all of the indicators in the survey softened. The expectations of small business owners for the performance of the economy in the next six months are at a very low point, as they were in January. The survey shows more businesses reporting negative changes in employment, and even more importantly a negative average change in employment per firm. This contradicts the solid gain in payrolls for the month (Chart 2), suggesting that larger businesses created most of the jobs in the last three months. NFIB's members, who are the respondents in this survey, do not fit a standard definition of a "small business", but the typical NFIB member employs 10 people and reports gross sales of about \$500,000 a year. Asked about the single most important problem they face, most of the respondents cited taxes, government regulations and inquiries, as well as quality of labor. Concerns increased regarding poor sales, insurance cost and availability, and competition from large businesses (Chart 3).

Chart 1  
**Small Business & Consumer Confidence**  
SA, 1986=100 and YoY % Change



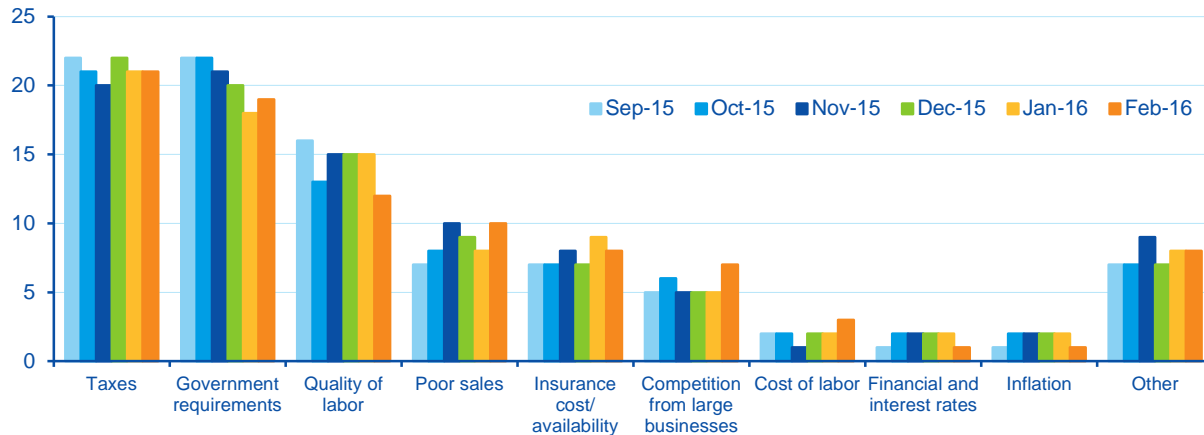
Source: Conference Board, NFIB & BBVA Research

Chart 2  
**Nonfarm Payrolls & Small Business Employment**  
3mma Monthly Change in Thousands and %



Source: NFIB & BBVA Research

Chart 3  
**Single Most Important Problem**  
% Reporting



Source: NFIB & BBVA Research

A net of -6% of businesses reported expectations of higher sales this quarter, which is lower than the historic average of 1%, but was better than January's -7%, likely helped by January's solid consumer spending. However, the expectations for quarterly earnings worsened – a net of -21% of owners reported expectations of higher quarterly earnings this quarter, below the historic average of -18%. The percent of firms unable to fill positions was close to a ten-year high, and with the concerns about the cost of labor, future sales, and competition from large businesses increasing, the overall picture from February's survey is of a small business sector that is getting more concerned about how it will compete going forward.

On a positive note, a net of 10% of small businesses plan to increase employment, which is above the historical average of 9%. Furthermore, 23% are planning capital expenditures in the next 3-6 months, which although below the historic average of 29%, is still solid compared to post-recession trends. However, these figures are likely going to fall in the coming months if the current sentiment prevails. Commenting on the results, NFIB said: "Political uncertainty remains a major concern and the President does not seem inclined to act favorably on any small business owner's major concerns. Fed policy communications are very disconcerting, giving an impression that the economy is weak. Too much monthly dithering. All of this generates uncertainty, the enemy of spending and hiring behavior that would move the economy forward at a faster pace." We expect small businesses to be supported by the U.S. economy maintaining a moderate pace of expansion throughout the coming year, around 2.5%, as strong personal consumption helps offset weakness in other areas. However, we also expect further improvements in the labor market, resulting in tighter supply and further increasing small businesses' concerns regarding labor costs.

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