Job Market Remains a Challenge for Small Businesses

Based on 1313 respondents to the July survey of a random sample of NFIB's member firms, surveyed through 7/31/2023

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Economic growth picked up in the second quarter, posting an annualized growth rate of 2.4 percent, up from 2 percent in Q1. Half of the growth (47 percent) in GDP came from business investment in plants and equipment, residential construction and inventories, matching the contribution of consumers. Nineteen percent was produced by government purchases (like defense). The trade deficit subtracted 11%. In support, the job market added over 200,000 new jobs in July. But, half were in the public sector. Driving growth by creating more public sector jobs (paid by taxpayers, not firms) is not a sound growth strategy. Since the Federal Reserve began tightening policy in March 2022, job openings have fallen 20 percent while the unemployment rate has trended sideways. Private sector firms remain ready to make a contribution, with 42 percent (seasonally adjusted) of all owners reported job openings they could not fill in the current period, unchanged from June. The share of owners with unfilled job openings far exceeds the 49-year historical average of 23 percent although it is 9 percentage points lower than the record high of 51 percent last reached in May 2022. Thirty-six percent have openings for skilled workers (up 1 point) and 18 percent have openings for unskilled labor (unchanged).
The percent of small business owners reporting labor quality as their top small business operating problem remains elevated at 23 percent, down 1 point from June. Labor cost reported as the single most important problem to business owners increased 2 points to 10 percent, 3 points below the highest reading of 13 percent reached in December 2021.
Job openings in residential construction increased 7 points from last month, and the need for workers remains historically strong. Higher mortgage rates have not depressed real estate purchases as much as expected. Mortgage rates will remain high for the rest of the year under Fed policy.

**Industry- Percent with Job Openings**
- Construction: 61%
- Manufacturing: 50%
- Transportation: 47%
- Wholesale: 47%
- Services: 44%
- Retail: 41%
- Agriculture: 32%
- Professional: 27%
- Finance: 27%
Owners’ plans to fill open positions remain elevated, with a seasonally adjusted net 17 percent planning to create new jobs in the next three months, up 2 points from June but 15 points below its record high reading of 32 reached in August 2021. Although there was an increase, hiring plans are clearly trending down, gradually, but leaving plans still historically strong in the face of a weakening economy.

Overall, 61 percent reported hiring or trying to hire in July, up 2 points from June. Fifty-six percent (92 percent of those hiring or trying to hire) of owners reported few or no qualified applicants for the positions they were trying to fill (up 2 points). Thirty-three percent of owners reported few qualified applicants for their open positions (unchanged) and 23 percent reported none (up 2 points).
Seasonally adjusted, a net 38 percent reported raising compensation, up 2 points from June's lowest reading since May 2021. A net 21 percent plan to raise compensation in the next three months, down 1 point from June. Far more owners will have to increase compensation to compete than are currently planning to add to that expense with new hires or increased compensation. With labor demand remaining strong (as has consumer spending), firms must maintain competitive compensation to retain workers and hopefully to fill critical positions. As long as consumers spend, firms will find it profitable to hire. But hiring continues to be hindered by the lack of qualified workers.
The labor situation remains frustrating for small business owners. The staffing shortage has limited small business owners’ ability to fully take advantage of current sales opportunities. For now, the level of job openings suggests the labor market will continue to be firm, especially on Main Street. But the third quarter will likely see the number of layoffs rising and, eventually, a reduction in unfilled job openings. And, fewer owners will raise worker compensation.