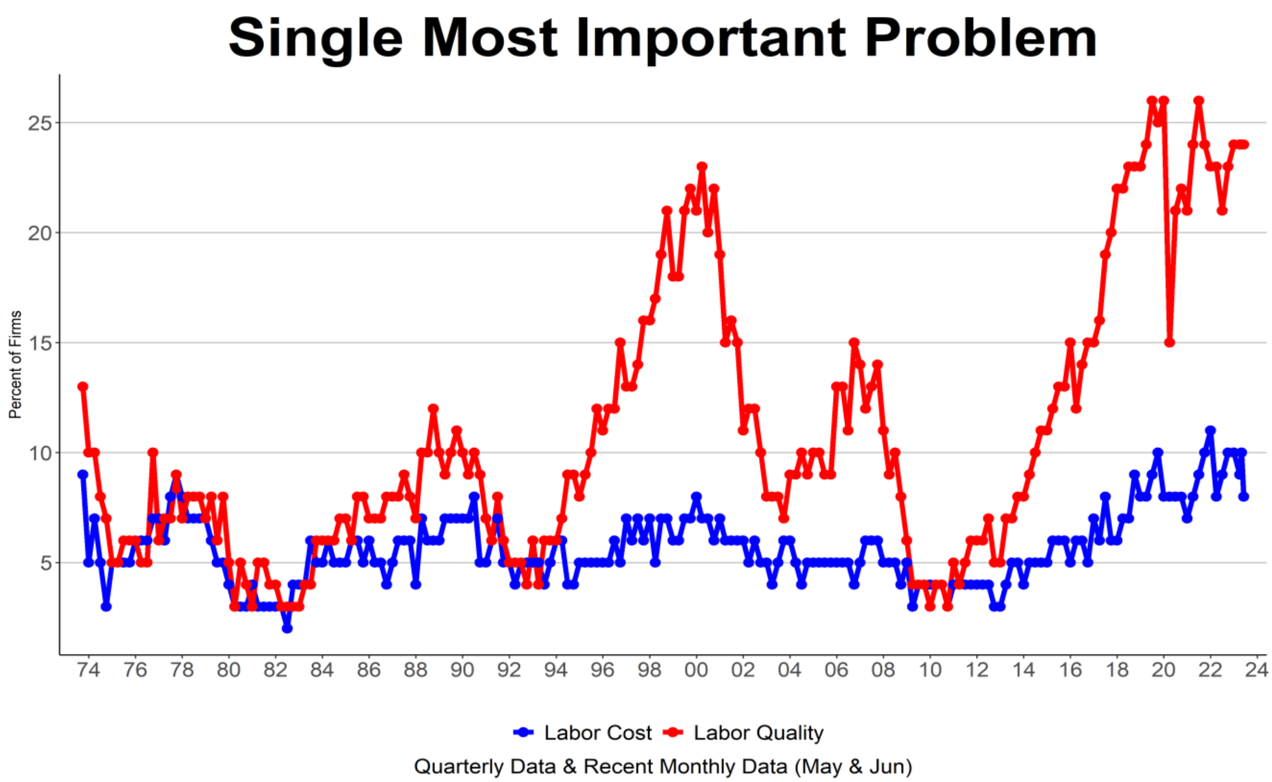
Pressure to Increase Compensation for Small Businesses Eases in June

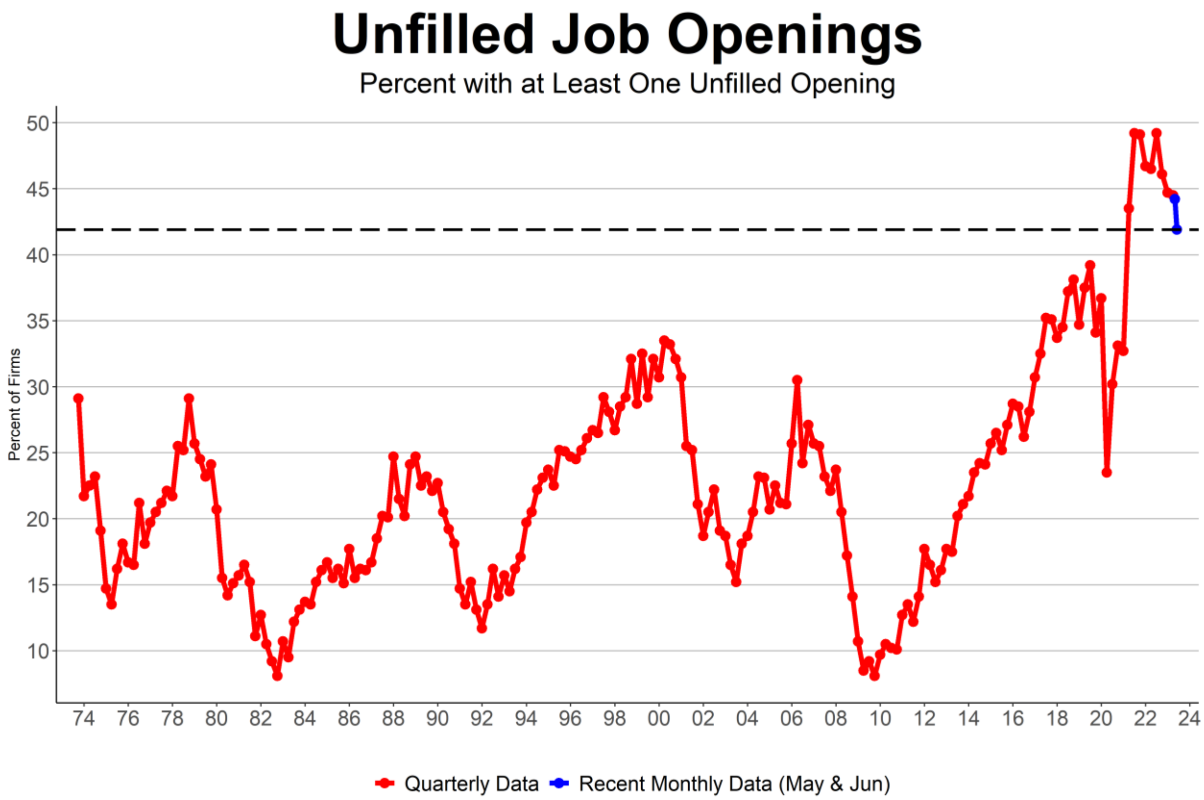
Based on 496 respondents to the June survey of a random sample of NFIB's member firms, surveyed through 6/29/2023

EMBARGO 1 PM THURSDAY

First quarter GDP clocked in at 2%, weaker than the historical average but higher than most estimates, mainly due to unanticipated levels of consumer spending. Looking to Q2, spending remained positive, which resulted in many firms still needing workers. Forty-two percent (seasonally adjusted) of all owners reported job openings they could not fill in the current period, down 2 points from May. 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-five percent have openings for skilled workers (down 3 points) and 18 percent have openings for unskilled labor (down 2 points). The labor force participation rate remains below pre-Covid levels, contributing to the shortage of workers available to fill open positions. But openings are trending down, although from historically high levels.

The percent of small business owners reporting labor quality as their top small business operating problem remains elevated at 24 percent, unchanged from May. Labor cost reported as the single most important problem to business owners decreased 2 points to 8 percent, 5 points below the highest reading of 13 percent reached in December 2021.

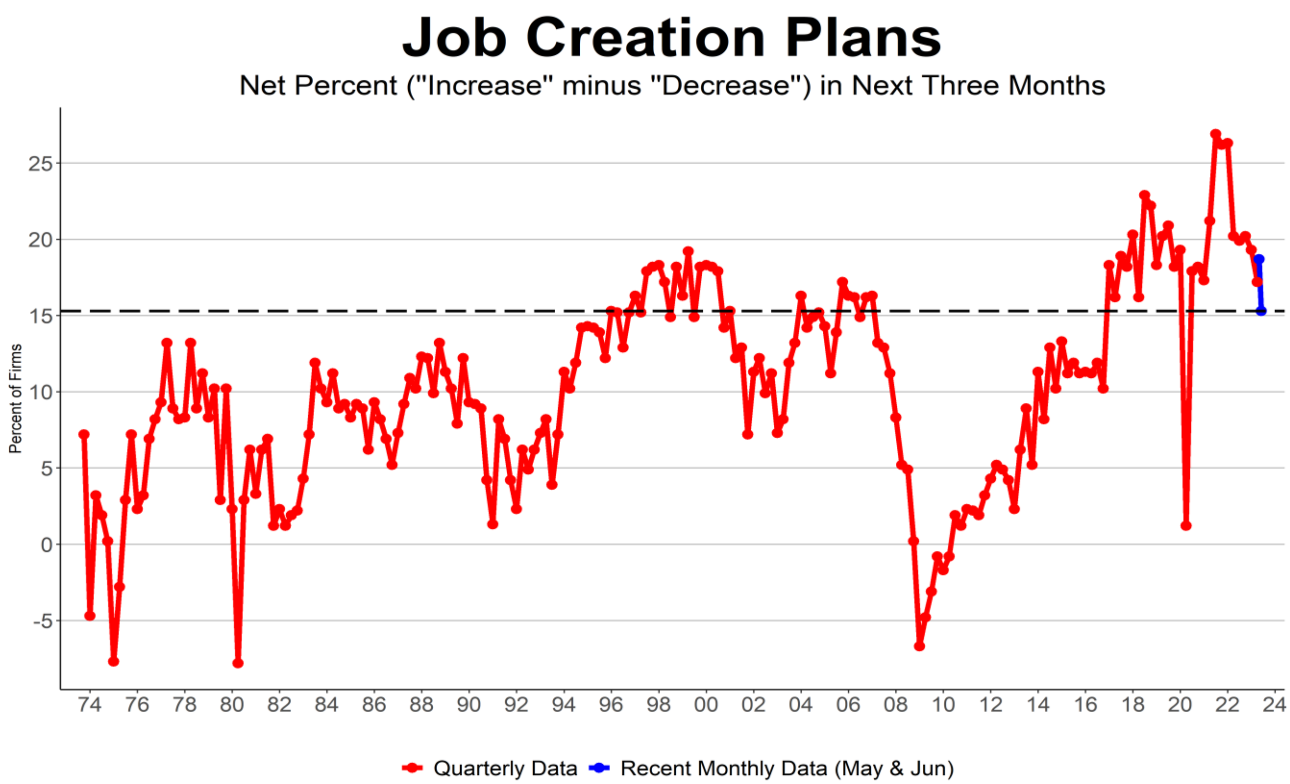

Single Most Important Problem
Percent of Firms
25
20
15
10
5
74 76 78 80 82 84 86 88 90 92 94 96 98 00 02 04 06 08 10 12 14 16 18 20 22 24
Labor Cost
Labor Quality
Quarterly Data & Recent Monthly Data (May & Jun)



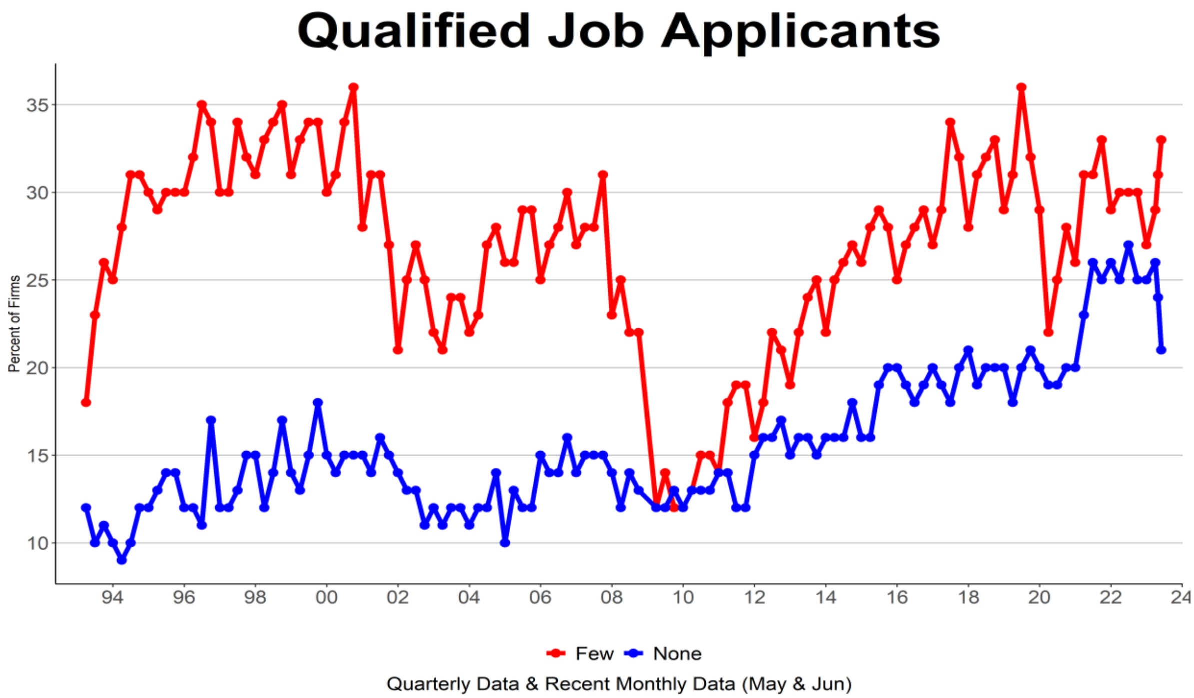
Job openings in residential construction decreased 5 points from last month, although the need for workers remains historically strong. Higher mortgage rates have not depressed real estate purchases significantly yet, but the Federal Reserve will keep rates high (and maybe 25 basis points higher) until inflation cools a lot more.

Industry- Percent with Job Openings	
Manufacturing	55%
Construction	54%
Transportation	46%
Retail	43%
Services	42%
Wholesale	41%
Professional	41%
Agriculture	32%
Finance	16%

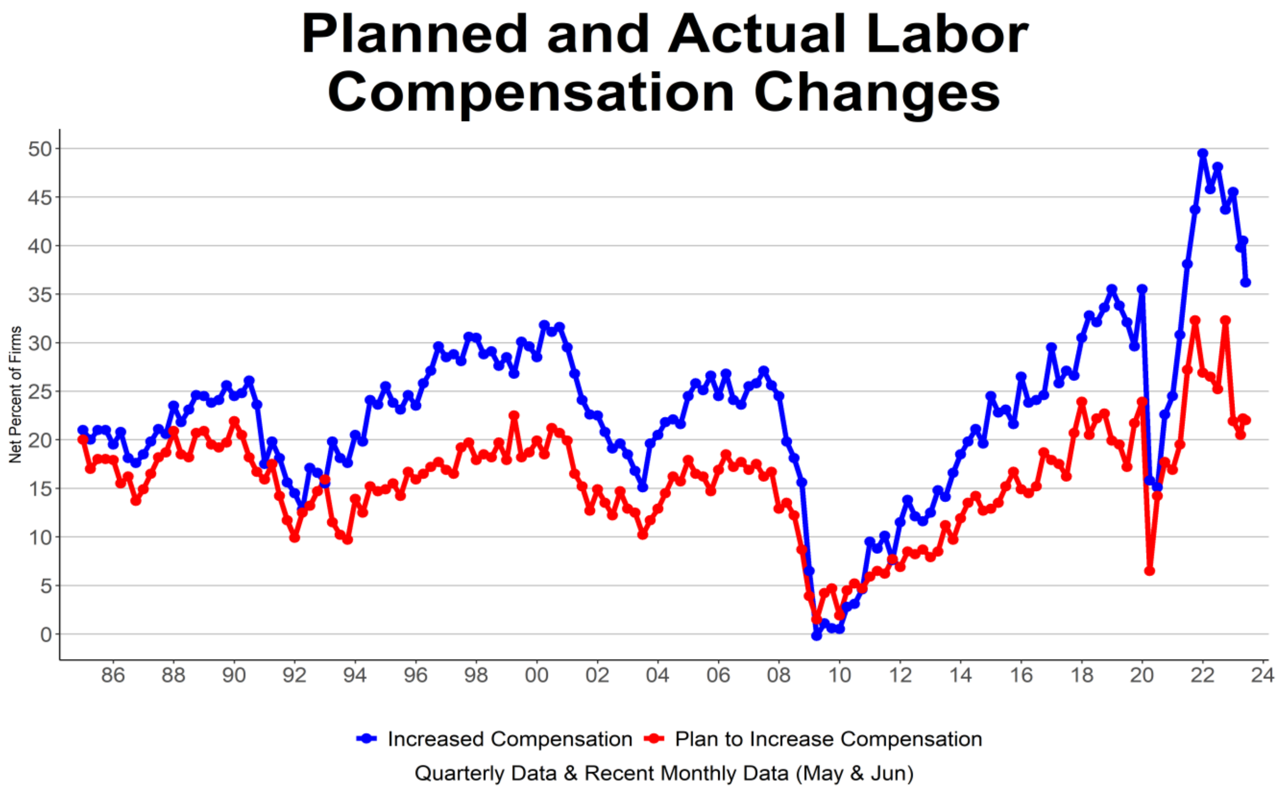
Owners' plans to fill open positions remain elevated, with a seasonally adjusted net 15 percent planning to create new jobs in the next three months, down 4 points from May but 17 points below its record high reading of 32 reached in August 2021. Hiring plans are clearly trending down, but the descent has been gradual, leaving plans historically strong in the face of a weakening economy but in a more historically normal range.



Overall, 59 percent reported hiring or trying to hire in June, down 4 points from May. Fifty-four 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 (down 1 point). Thirty-three percent of owners reported few qualified applicants for their open positions (up 2 points) and 21 percent reported none (down 3 points).



Seasonally adjusted, a net 36 percent reported raising compensation, down 5 points from May and the lowest since May 2021. A net 22 percent plan to raise compensation in the next three months, unchanged from May. 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 open critical positions. As long as consumers spend, firms will find it profitable to hire.



The labor situation remains frustrating for small business owners. Lower Index of Small Business Optimism readings are currently held off by historically high levels of job openings and hiring plans. The staffing shortage has limited small business owners' ability to fully take advantage of current sales opportunities. Those opportunities are starting to fade, but not dramatically, yet. 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 see the number of layoffs rising and, eventually, a reduction in unfilled job openings. And, fewer owners will raise worker compensation.