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NFIB Monthly Economic Newsletter

August 2023



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Small Business Economic Trends

The Optimism Index increased 0.9 of a point in July to 91.9. Despite its improvement, this is the 19th consecutive month below the 49-year average of 98. The last time the Index was at or above the average was December 2021. Of the 10 index components, 5 increased, 1 decreased, and 4 were unchanged.

- Twenty-one percent of owners reported that inflation was their single most important problem in operating their business, down 3 points from last month and 13 points lower than last July's highest reading since 1979 Q4. July's reading was the lowest since November 2021.
- Owners expecting better business conditions over the next six months improved 10 points from June to a net negative 30 percent, 31 percentage points better than last June's reading of net negative 61 percent. This was the highest reading since August 2021 but historically very negative.
- Forty-two percent of owners reported job openings that were hard to fill, unchanged from June but remaining historically very high. With owners' views about future sales growth and business conditions dismal, owners want to hire and make money now from solid consumer spending. Twenty-three percent reported "labor quality" as the most significant business problem.
- The net percent of owners raising average selling prices decreased 4 points to a net 25 percent seasonally adjusted, still a very inflationary level but trending down. This is the lowest reading since January 2021.
- The net percent of owners who expect real sales to be higher improved 2 points from June to a net negative 12 percent, still a very dismal posture.

Small Business Optimism Index

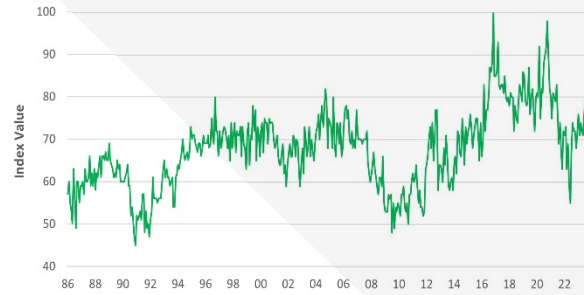
Based on Ten Survey Indicators
(Seasonally Adjusted)



Source: NFIB Small Business Economic Trends Survey
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NFIB Uncertainty Index

Frequency of 'Don't Know' or 'Uncertain'
Responses of Six Survey Questions



Read the latest full report: nfib.com/sbet

Macroeconomic Indicators

	Most Recent	Previous Month	One Year Ago	5 Years Ago
NFIB Optimism Index	91.9	91.0	89.9	104.7
NFIB Uncertainty Index	80	76	67	76
Unemployment Rate	3.5%	3.6%	3.5%	3.7%
Consumer Sentiment	71.2	71.6	58.2	89.8
CPI Inflation Rate (monthly)	0.2%	0.2%	1.3%	0.3%
Prime Rate of Interest	8.5%	8.25%	5.5%	5.25%
Retail Sales Change	0.7%	0.3%	-0.4%	0.3%
Housing Starts (000)	1452	1398	1404	1204

*Most recent available data for Retail Sales and Housing Starts from July 2023

Consumer Sentiment (Univ. of Michigan)

The University of Michigan's Survey of Consumers measures consumer sentiment with questions about expected personal finances, business conditions, and buying conditions asked of a random sample of U.S. consumers.

The Index of Consumer Sentiment was essentially unchanged from last month at a preliminary value of 71.2 (71.6 in June). The index is about 42% above the all-time historic low in June 2022, and although there was a slight decrease from last month, it is approaching the historical average reading of 86.



Source: University of Michigan



Source: U.S. Bureau of Economic Analysis



Source: U.S. Bureau of Labor Statistics

Gross Domestic Product (GDP)

GDP increased in the second quarter of 2023 by 2.4% (advance estimate), after an increase of 2.0% in the first quarter. The increase in the second quarter was largely due to increases in consumer spending, nonresidential fixed investment, state and local government spending, private inventory investment, and federal government spending. This was partly offset by decreases in exports and residential fixed investment. Imports also decreased. The second estimate of GDP for the second quarter of 2023 will be released August 30.

Unemployment

The U.S. economy added 187,000 jobs in July, after an increase of 209,000 jobs last month and was lower than expected. The unemployment rate changed little at 3.5%. Since March 2022, it has ranged from 3.4% to 3.7%. Significant job gains occurred in health care, social assistance, financial activities, and wholesale trade.

The most recent Job Openings and Labor Turnover Survey (JOLTS) produced by the Department of Labor found there were 9.6 million available jobs, 200,000 less than the previous month. Job openings increased in health care and social assistance and in state and local government (excluding education). Decreases occurred in transportation, warehousing, utilities, state and local government education, and federal government. The ratio of unemployed workers to job openings continues to be under one, indicating that there are more open positions than people seeking work, a very tight labor market.

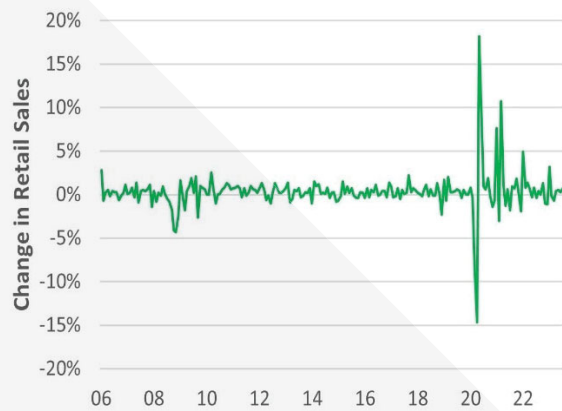
NFIB's July SBET survey found 42% of owners with "hard to fill" job openings, unchanged from June, but historically very high. Owners hope to fill some of those openings with solid hiring plans.



Source: U.S. Department of Labor



Source: U.S. Bureau of Labor Statistics



Source: U.S. Census Bureau

Consumer Price Index (Inflation Rate)

The Consumer Price Index (CPI) measures the price level of a basket of consumer goods commonly purchased by households. The CPI rose 0.2% in July month-to-month, the same as the previous month. Over the last 12 months, the all items index increased 3.2% up from June's 3.0% reading.

The largest contributor to the monthly all items increase was the shelter index, accounting for more than 90% of the increase. The index for motor vehicle insurance also contributed. Other indexes which increased in July were education and recreation. Indexes that decreased over the month include airline fares, communication, used cars and trucks, and medical care. The food index increased 0.2% and the energy index increased 0.1%. The Federal Reserve Bank of San Francisco, which **monitors** inflation sensitivity to COVID-19, finds that sectors sensitive to the disruptions caused by the pandemic account for most of the price increases.

From July 2022 to July 2023, motor vehicle insurance and motor maintenance and repair remained the categories with the greatest increase.

12-month percent change, Consumer Price Index, selected categories, July 2023, not seasonally adjusted

Categories	July 2022 - July 2023
Motor vehicle insurance	17.8%
Motor maintenance and repair	12.7%
Transportation services	9.0%
Rent of primary residence	8.0%
Owners' equivalent rent of residences	7.7%
Shelter	7.7%
Food away from home	7.1%
Limited service meals and snacks	7.1%
Cereals and bakery products	7.0%

Source: U.S. Bureau of Labor Statistics

Small business owners continue to report raising average selling prices, at levels unseen since the early 1980s. The latest NFIB SBET report found a net 25% of owners raised prices over the past three months, a decrease of 4 points from last month. This was the lowest reading since January 2021. The highest reading was in the mid-70s, the last time inflation was a serious problem, 67% in Q4 1974. A net 27% of owners plan to raise prices in the coming months, down 4 points from June.

Retail Sales

The Monthly Retail Trade Report measures consumer spending at retail stores and food services. Retail sales increased by 0.7% in July after an increase of 0.3% last month (revised). According to advance estimates of U.S. retail and food services, July's reading was better than expected and is 3.2% above July 2022. Retail trade sales were up 2% from July 2022 and nonstore retailers were up 10.3%. Food services and drinking places were up 11.9% from last year.

Data for August will be released September 14, 2023. These figures are not adjusted for inflation (e.g., gas dollar volumes rise as gas prices rise, actual gallons purchased increase by smaller percentages).

Prime Lending Rate

The prime rate is the price of short-term loans available to qualified businesses. In late July, the Fed announced it would increase the rates by a quarter-percentage point. The prime lending rate increased to 8.5%, and the federal funds rate increased to a target range of 5.25%-5.5%, as many expected. This is the highest level in more than 22 years. The Fed has raised interest rates ten times since March 2022. The next FOMC meeting is scheduled for September 19-20.



Source: U.S. Federal Reserve



Source: U.S. Census Bureau

Housing Starts

The Census Bureau reports monthly housing starts measured as the start of excavation on foundations of both single and multi-family housing units. July's New Residential Construction report found a level of 1.452 million units started, up from June's revised report of 1.398 million units started. July's estimate is 5.9% above last year's rate of 1.371. Supply chain problems (workers, lumber, appliances, building codes to name a few)



continue to slow new home construction and completion. Data for August will be released September 19, 2023.

Access more economic data at the St. Louis Fed's FRED Database

fred.stlouisfed.org

Upcoming Economic Indicator Releases

August 25	Michigan Consumer Sentiment (Final Estimate)
August 29	Job Openings and Labor Turnover (JOLTS)
August 30	GDP, 2nd Quarter 2023 (Second Estimate)
August 31	NFIB Jobs Report
September 1	BLS Employment Situation Report (Unemployment Rate)
September 12	NFIB Small Business Economic Trends
September 13	Consumer Price Index
September 14	Monthly Retail Trade Report
September 19	Housing Starts
September 19-20	Federal Open Market Committee Meeting

Additional NFIB Research and Media

NFIB Chief Economist Expects U.S. Recession - Bill Dunkelberg on Bloomberg (August 8). <https://www.bloomberg.com/news/videos/2023-08-08/nfib-chief-economist-expects-us-recession-video>

Podcast: NFIB Small Business Rundown – Episode 14: Essential Tips to Grow Your Small Business (July 27). <https://www.nfib.com/smallbusinessrundownpodcast/>

Podcast: The Journal – Will the Fed Stop Raising Interest Rates? (July 25). <https://www.wsj.com/podcasts/the-journal/will-the-fed-stop-raising-interest-rates/b1e95fda-d093-4311-8fc9-dec6f459ebcc>

Podcast: U.S. Chamber of Commerce Small Business Weekly Forecast – Holly Wade and Tom Sullivan (July 24). <https://www.uschamber.com/small-business/small-business-weekly-forecast>

Job Market Says No Recession (Yet). William Dunkelberg (July 21). <https://www.forbes.com/sites/williamdunkelberg/2023/07/21/job-market-says-no-recession-yet/?sh=1f1b5bee6c39>



NFIB Research Center

Holly Wade

Executive Director

Holly.Wade@nfib.org | (202) 314-2022

Madeleine Oldstone

Policy Analyst

Maddi.Oldstone@nfib.org

William Dunkelberg

Chief Economist

Follow us on Twitter @NFIBResearch