



Economics Group

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Small Business Confidence Rises Slightly in July

Small business owners remain cautiously optimistic. The National Federal of Independent Business Small Business Optimism Index rose 1.3 points in July, partially reversing a 4.2-point drop in June.

Small Business Owners Remain Cautiously Optimistic

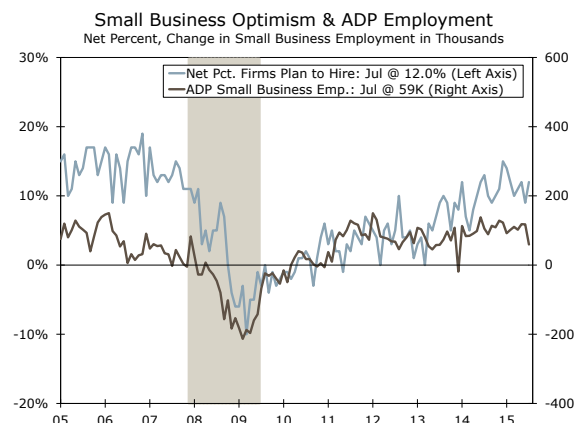
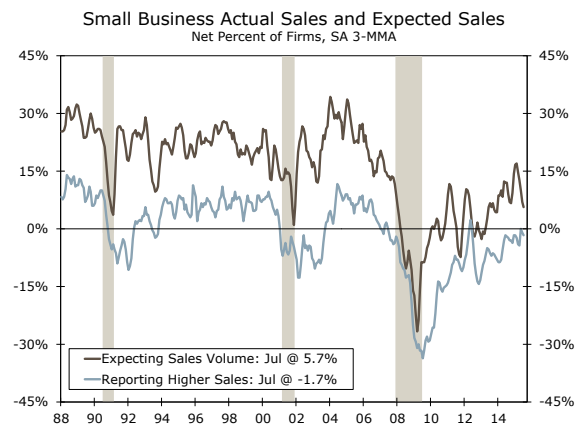
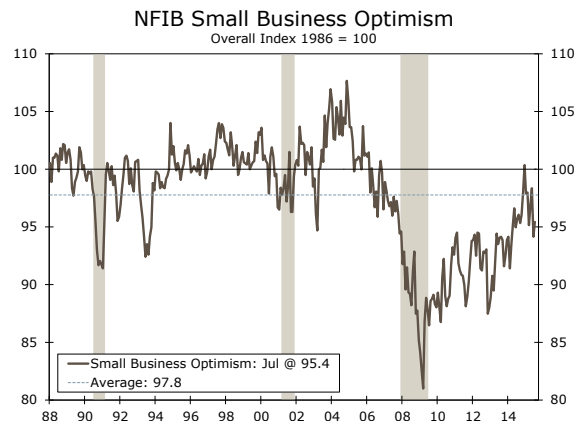
Small Business Optimism rose 1.3 points in July. The increase only partially reverses June's 4.2-point drop, but the overall level of small business optimism remains well within its recent range and is within a few points of its high for this cycle. While small business confidence remains at a solid level, business owners are nowhere near as positive as they were during the past three expansions. In particular, business owners continue to express a great deal of concern about general business conditions, sales and earnings. Moreover, business owners continue to express a great deal of frustration with the litany of government regulations and mandates they face.

Although the share of business owners that feel now is a good time to expand rose 3 points in July to 12 percent, it remains merely a shadow of its former self and is less than half of what it would normally be this far into an economic recovery. Actual capital spending looks a bit healthier, however. The share of business owners that made a capital expenditure during the past six months rose 3 points in July to 61 percent, which is the highest level this year and one of the highest readings since the recession. Equipment purchases accounted for 42 percent of capital outlays and vehicles accounted for another 25 percent. Other major capital projects include outlays for improved buildings or land, (18 percent), and furniture and fixtures, (13 percent).

The rise in actual capital spending by small businesses is certainly welcome, but the continued caution voiced by business owners suggests that these gains may prove difficult to sustain. Only 24 percent of business owners state that they plan to make capital outlays over the next three to six months, which is still well off levels seen in prior recoveries. We suspect that the recent upturn in capital outlays may be tied to more aggressive efforts by lenders to increase lending to small business. Credit conditions remain near their highest levels of the expansion and are much closer to previous highs than most of the other components of the survey.

The improvement in credit conditions may explain the split between planned and actual capital spending. A little less than one-third of small business owners borrow regularly. Most small businesses finance capital projects out of current revenues. Revenue growth remains sluggish. Slightly more businesses report lower revenues over the past three months than higher revenues. Expectations also remain muted. The net proportion expecting sales to rise in the near-term remains stuck at around 6 percent.

The bottom line is that small business owners see the economy continuing to plod along at its recent pace. There is no sign that conditions are about to break out to the upside. Hiring plans continue to modestly trudge higher, with hiring plans rising 3 points in July to 12 percent. The trend in small business hiring has moved closely in line with the ADP employment measure, which shows small businesses accounting for roughly 42 percent of the jobs created over the past two years.



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