



NFIB Survey: It Isn't the Best of Times for Small Businesses

small business business customers economy

Summary: According to a new NFIB survey, pessimism prevails among small business owners. We discuss the challenges that small businesses noted in the survey and the potential impact on CFIs.

Today, the first Thursday of February, is [known as Optimist Day](#). Optimist organizations around the world have been celebrating Optimist Day for over a century, and while the date has changed, the meaning of the day hasn't. Volunteers with Optimist International and other local optimist organizations will spend today promoting leadership, fostering creativity, and motivating others to embrace their talents and pursue dreams.

Optimists might be a bit deflated if they talk to enough business owners. According to the latest National Federation of Independent Businesses ([NFIB](#)) [survey of small business owners](#), small business owners maintain a decidedly pessimistic view of business conditions. Despite overall economic indicators that seemed to be tracking better, small businesses, the bread and butter of CFI lending, weren't seeing much improvement in their operations or outlook as 2023 drew to a close.

The NFIB Small Business Optimism Index [stood at 91.9 in December](#), marking the 24th consecutive month when the index was below its 50Y average of 98. Yet, it was an improvement from 90.6 in November.

Worker Shortage Impacts Small Business

Inflation and inability to find qualified workers remain the top two concerns of business owners. The worker shortage leaves them with not enough employees to maintain their current operations, much less expand. If small businesses can't expand, then they don't need to borrow more, and that impacts the ability of CFIs to grow their small business lending portfolios. Fewer new business loans also mean reduced interest income potential for CFIs.

Fed Sees Decline in Small Business Loan Demand

In fact, the Fed has been tracking a decline in demand for small business loans. A [report by the Federal Reserve Bank of Kansas City](#) found that new small business commercial and industrial loans dropped 18.1% in Q3 2023, compared to the same period in 2022, and were down 16.4% QoQ. It was the sixth straight quarter of declining loan demand. The declines have been most pronounced at small banks.

At the same time, banks reported having sufficient capital to lend more to small businesses. Despite tightening lending standards, loan approvals increased from 84% in Q2 to 88% in Q3. However, that doesn't change the fact that banks still saw a 23% decline in loan demand from small businesses in Q3.

Details of the Worker Shortage

NFIB's recent surveys of business owners point to the inability of small businesses to attract enough talent as a primary challenge to growth. Ironically, their labor problems stem at least partly from the low unemployment rate, which is generally a positive thing for the economy.

As the NFIB said in a news release accompanying the data from their December survey, “Inflation and labor quality have consistently been a tough complication for small business owners, and they are not convinced that it will get better in 2024.”

Here are a few key findings about small business talent shortages:

- 1. Of the 55% of business owners who tried to hire workers in December, 89% reported getting few or no qualified applicants, [according to the NFIB November report](#).
- 2. Around 36% of small business owners raised compensation in December, while 29% said they planned to raise wages over the next three months.
- 3. Nearly half of small business owners who posted jobs in 2023 [had a hard time offering competitive pay and benefits](#) to job candidates, according to the U.S. Chamber of Commerce.
- 4. Six out of ten small businesses experience difficulty meeting their current employees’ compensation expectations.

While C&I loan demand is soft and business sentiment continues to be down, there is an expectation for the Fed to begin rate cuts this year. This alone could spur C&I lending and improve general business sentiment. That being said, the picture painted by these recent statistics is one of small businesses struggling to find workers, while the competition for talent continues to push up wages and make it harder to attract and retain qualified employees. This continues to be exacerbated by national demographic and employment trends.

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Is your institution looking for more lending opportunities? [Fully-funded, senior secured floating-rate loans](#) put your liquidity to good use and allow you to gain income. Learn about how our C&I Loan Program can help your loan growth objectives.

ECONOMY & RATES

Rates As Of: 02/01/2024 05:37AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.42	0.02	0.02
6M	5.18	-0.08	-0.08
1Y	4.68	-0.03	-0.09
2Y	4.20	-0.01	-0.05
5Y	3.83	-0.01	-0.02
10Y	3.91	-0.01	0.03
30Y	4.16	-0.01	0.13
FF Market	FF Disc	IORR	
5.33	5.50	5.40	
SOFR	Prime	ORER	
5.32	8.50	5.31	

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