The Small Business Health Index experienced a turning point this month with a 3.4-point upturn following 10 consecutive months of decline. The index value stands at 87.4, back to its May 2023 level. All sectoral indices improved on a M/M basis with the business services and automotive sectors showing the highest improvement and the real estate and transportation sectors registering the least. The improvement in the index is primarily driven by the card delinquency index which also saw a 3-point M/M improvement. However, the credit card utilization continued to increase, showing that availability of credit for small businesses remains constrained. Although conditions have improved compared to the past months, all indices still declined on a Y/Y basis.

The U.S. labor market is expected to add about 175K jobs in August 2023. The latest Job Openings and Labor Turnover Survey (JOLTS) published by the Bureau of Labor Statistics shows the number of quits have dropped to levels last seen in early 2021, indicating that labor force may have become less confident about finding more favorable positions. The job openings ratio remained stable in July at 1.51 jobs for every unemployed person (compared to 1.54 jobs in June) but was also the lowest ratio since September 2021. This moderate softening, if it continues to show in subsequent reports, may be a signal for the Fed to reconsider further tightening of the policy rate.
After last month’s reading when the Overall Business Health Index saw some improvement after 20 consecutive months of decline, the index continued its increasing trend. The overall index gained 0.7% on a Y/Y basis but remains slightly under 50, which signals increased balance sheet risk outlook for all businesses in the U.S. The index had last achieved a value over 50 in January 2020, right before the onset of the COVID-19 pandemic. Despite the favorable fiscal policy that provided ample assistance to businesses to navigate the pandemic, their balance sheet health remains below the pre-pandemic benchmark. However, the outlook remains on trend to achieve its pre-pandemic level. *February 2023 marks the last comprehensive historical revision to the Overall Business Health Index with subsequent planned revisions occurring during February of each year.

The September tracker comes amid renewed optimism among economists that progress on inflation reduction is leading the US economy into a “soft-landing” instead of a prolonged recession. The current PCE inflation rate (3.3%) stands much closer to the Fed’s 2% target rate compared to the levels recorded last summer. However, according to Chairman Powell, getting inflation back down to the target may require a period of below-trend economic growth as well as some softening in labor market conditions. This is apparent in the average growth rate of real GDP (2.05%) in the first half of 2023, and in our proprietary indicators as well. Both the SBHI and the OBHI are indicating improvements in small business payment performance and general business balance sheet health respectively, but with caveats. Small businesses continue to remain credit constrained and their ability to meet their financial obligations remains diminished compared to a year ago. OBHI continues to remain slightly below the “neutral risk” line, indicating a risky financial outlook for U.S. businesses in the medium term. The labor market is expected to see some softening in job gains as the fiscal impact of the pandemic era begins to recede and the effect of monetary tightening dominates.

A closer look at the components of real GDP shows a drop in consumption, imports and government expenditure in Q2 compared to Q1 2023. While business investment has improved on the same Q/Q basis, the declines are concerning as they indicate diminished aggregate demand. Some supplementary fiscal policy may be needed to protect some sections of the economy during the looming slowdown.

The Small Business Health Index measures year-over-year small business performance through payment patterns and credit use. U.S. Jobs Health combines Small Business Health Index industry data with BLS figures to forecast monthly nonfarm payroll employment. The U.S. Overall Business Health Index provides a weighted average of Dun & Bradstreet’s Viability Score, Delinquency Predictor and Total Loss Predictor. The index ranges from zero (with all businesses recording high levels of risk) to 100% (with all businesses recording low levels of risk). Report based on data available as of August 29, 2023.

To learn more, visit https://www.dnb.com/perspectives/analytics/us-business-economic-trends.html

ABOUT DUN & BRADSTREET

Dun & Bradstreet, a leading global provider of business decisioning data and analytics, enables companies around the world to improve their business performance. Dun & Bradstreet’s Data Cloud fuels solutions and delivers insights that empower customers to accelerate revenue, lower cost, mitigate risk, and transform their businesses. Since 1841, companies of every size have relied on Dun & Bradstreet to help them manage risk and reveal opportunity. Twitter: @DunBradstreet

© Dun & Bradstreet, Inc. 2022. All rights reserved.