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Subject: Small Business Optimism Index Falls in August; U.S. Import Prices -0.4% in August, +0.2% Excluding Fuels

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Small Business Optimism Index Falls in August

The National Federation of Independent Business (NFIB) optimism index fell to 88.1 in August from 89.9 in July. Earlier readings were 90.8 in June, 90.9 in May, 91.2 in April, 91.9 in March, 94.5 in February, 94.1 in January, 92.6 in December, 93.2 in November, 91.7 in October, 89.0 in September, and 88.8 in August of 2010.

While it is popular to bash politicians (not that they don't deserve it), the overriding issues facing small business are related to the long-term correction of massive excesses that developed during the credit and asset price bubble. Unfortunately, with the corrective process far from over, there is little chance of significant, sustained improvement in economic conditions anytime soon.

This index had hit a cycle low of 81.0 in March 2009 (which was the second lowest reading ever) and then rebounded to reach 88.9 in May 2009. In the sixteen months afterwards (i.e., through September of last year), the index exhibited erratic movement which netted out to little change. More recently, a mild uptrend emerged over the winter, but this was interrupted in March as higher energy costs and global events weighed on sentiment. Now, with this index remaining severely depressed, the message is that small business owners still are feeling much pain.

The "plan to hire" diffusion index rose to +5% in August from +2% in July, and these followed +3% in June, -1% in May, +2% in April, +2% in March, +5% in February, +3% in January, +6% in December, +4% in November and +1% in October. While the most recent three months were better than the shockingly bad May outcome, the absolute level of this sub-index is still at recessionary levels and hence is very discouraging.

U.S. Import Prices -0.4% in August, +0.2% Excluding Fuels

Overall U.S. import prices fell by a m/m 0.4% in August (the median forecast was -0.8%) after a 0.3% rise in July, a 0.7% drop in June, a 0.1% increase in May, a 2.6% gain in April, and a 3.0% jump in March.

Of considerable importance in helping to determine underlying trends is the direction of non-fuel prices (which excludes both petroleum products and natural gas, and is thus a better core indicator than the non-petroleum figure which includes natural gas). **In August, non-fuel prices rose by 0.2% on a m/m basis, which followed a 0.2% rise in July, an unchanged level in June, a 0.3% increase in May, a 0.8% rise in April, and a 0.8% increase in March.** There was no consensus forecast for this measure.

Higher prices for imported foods had boosted the non-energy index (and also the total figure) earlier in the year, although this changed more recently with the food category down a m/m 0.8% in August after +0.5% in July, -1.7% in June, -0.7% in May, +2.5% in April, +4.3% in March, +0.6% in February, +2.5% in January, +1.3% in December, +2.6% in November, and +2.1% in October. On a y/y basis, imported food prices were up 14.4% in August, and imported fuel costs were up by 43.5% (fuel has almost a 5x larger weight in the overall index than does food).

Measured from a year earlier, overall import prices were up 13.0% in August and non-fuel prices were up by 5.3%.

Taking their cue from movements in the real trade weighted dollar, the medium-term path for non-fuel import prices is likely to be one of moderate increases, which would result in modest acceleration on a y/y basis.