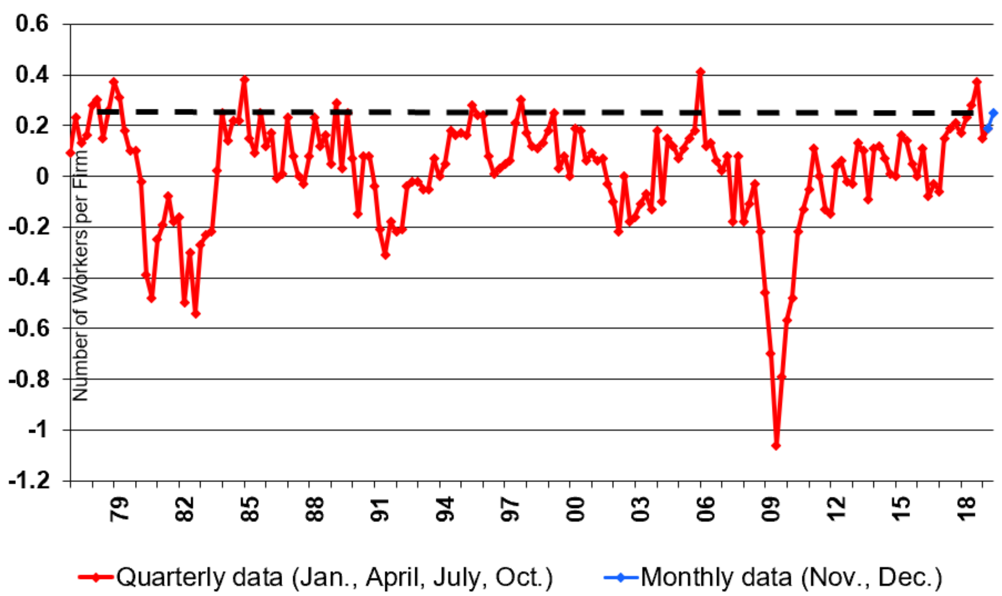
JOB CREATION SOLID IN DECEMBER, HAPPY NEW YEAR!

(Based on 621 respondents to the DECEMBER survey of a random sample of NFIB's member firms, surveyed through 12/28/18)

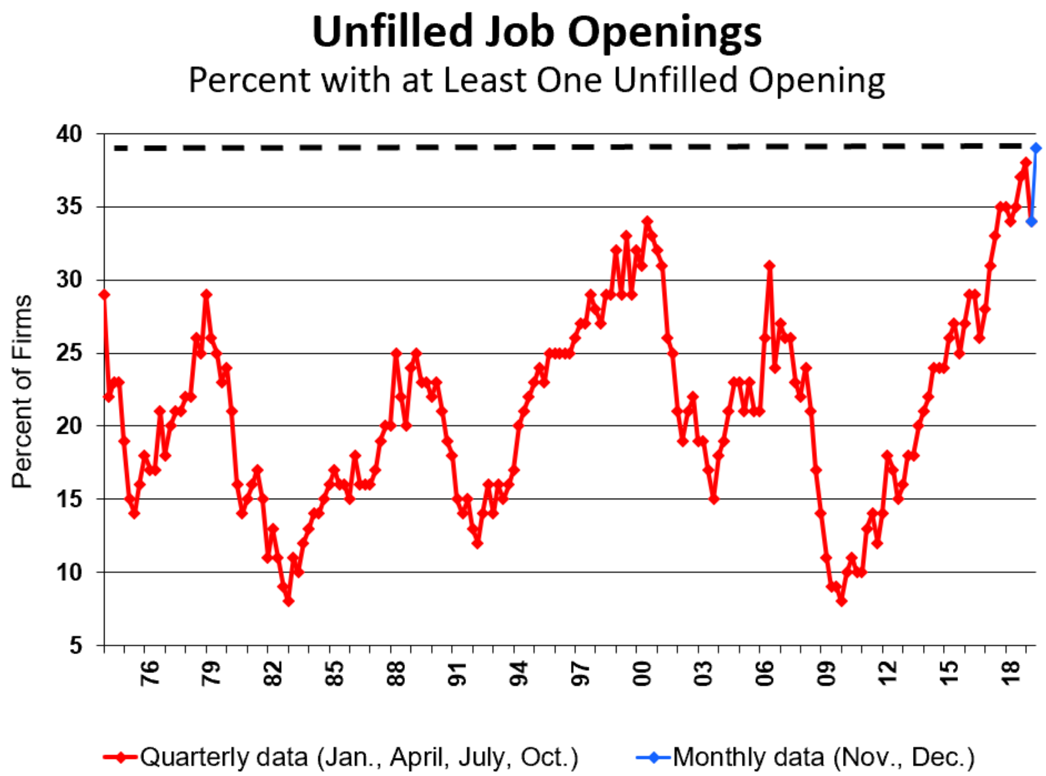
EMBARGO 1 PM THURSDAY

Job creation was solid in December with a net addition of 0.25 workers per firm (including those making no change in employment), up from 0.19 in November and the best reading since July. Fifteen percent (down 1 point) reported increasing employment an average of 3.0 workers per firm and 10 percent (down 1 point) reported reducing employment an average of 2.9 workers per firm (seasonally adjusted).

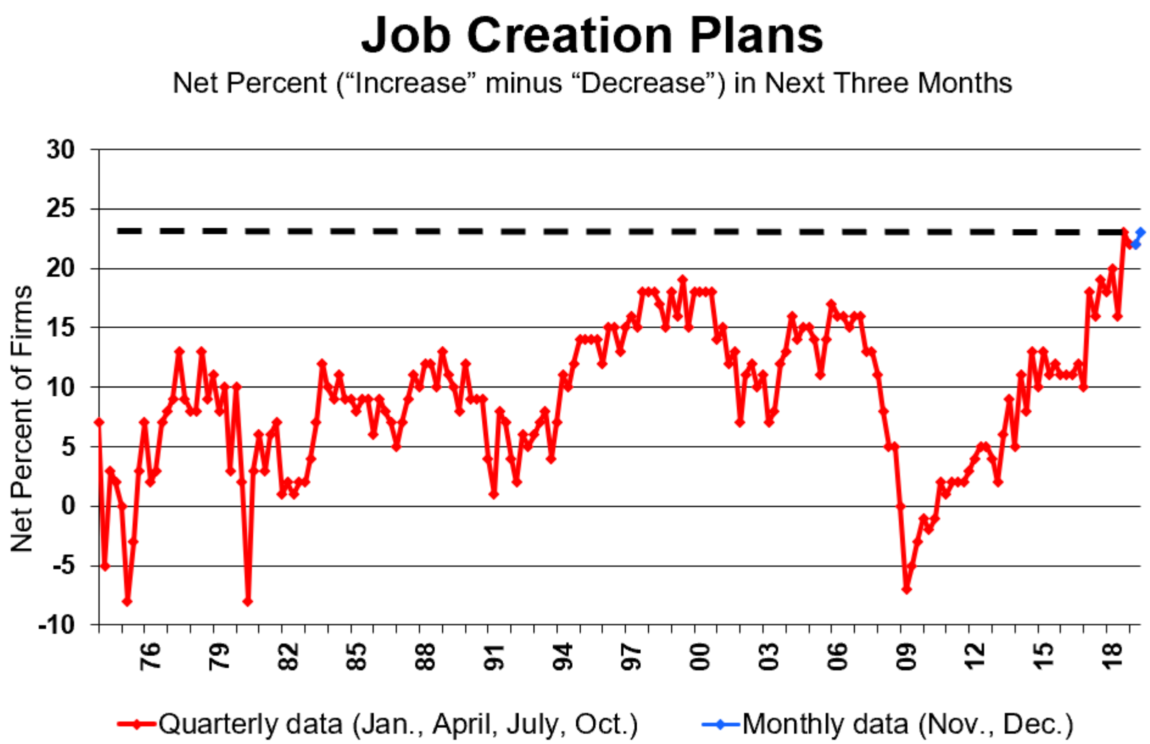
Average Change in Employment Per Firm



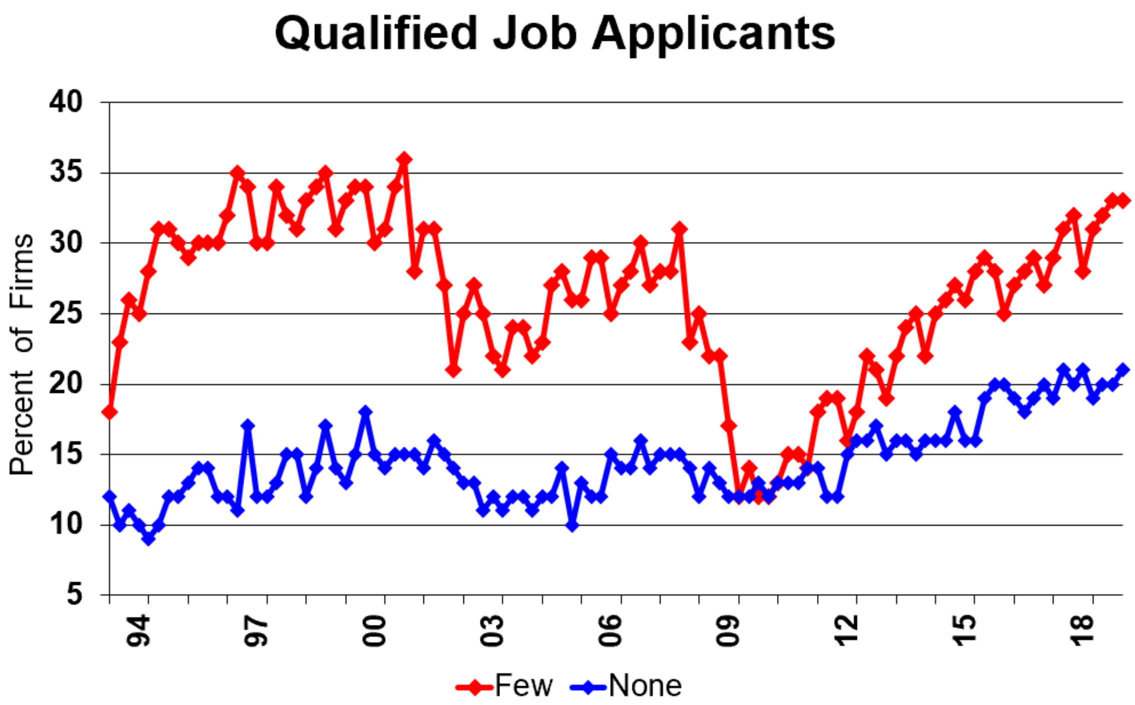
Sixty percent reported hiring or trying to hire (unchanged), but 54 percent (90 percent of those hiring or trying to hire) reported few or no qualified applicants for the positions they were trying to fill (up 1 point). "Qualified" includes specific work related skills but also covers poor appearance, attitude, social skills, and unreasonable wage expectations as well as poor work history. Twenty-three percent of owners cited the difficulty of finding qualified workers as their Single Most Important Business Problem, down 2 points from last month's record high reading.



Thirty-nine percent of all owners reported job openings they could not fill in the current period, up 5 points and a new record high. Labor markets are still exceptionally tight. Thirteen percent reported using temporary workers (down 1 point). In construction, 49 percent reported open positions and 42 percent in manufacturing (both not seasonally adjusted). If filled, even more output would be produced and the unemployment rate would drop further.



A seasonally-adjusted net 23 percent plan to create new jobs, up 1 point from November's reading. Not seasonally adjusted, 23 percent plan to increase total employment at their firm (up 1 point), and 5 percent plan reductions (down 2 points). Job creation plans were strongest in construction (net 27 percent) and professional services (net 38 percent).



However, with labor markets tight for both skilled and unskilled workers, it will be difficult to fulfill those plans. Thirty-three percent have openings for skilled workers and 12 percent have openings for unskilled labor. Thirty-three percent reported few qualified applicants for their open positions and 21 percent reported none!

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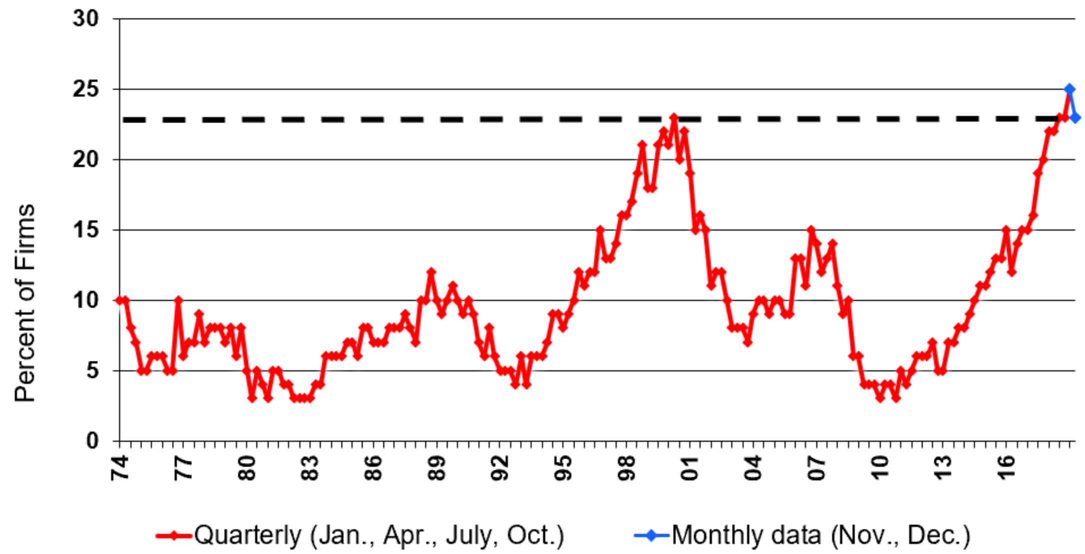
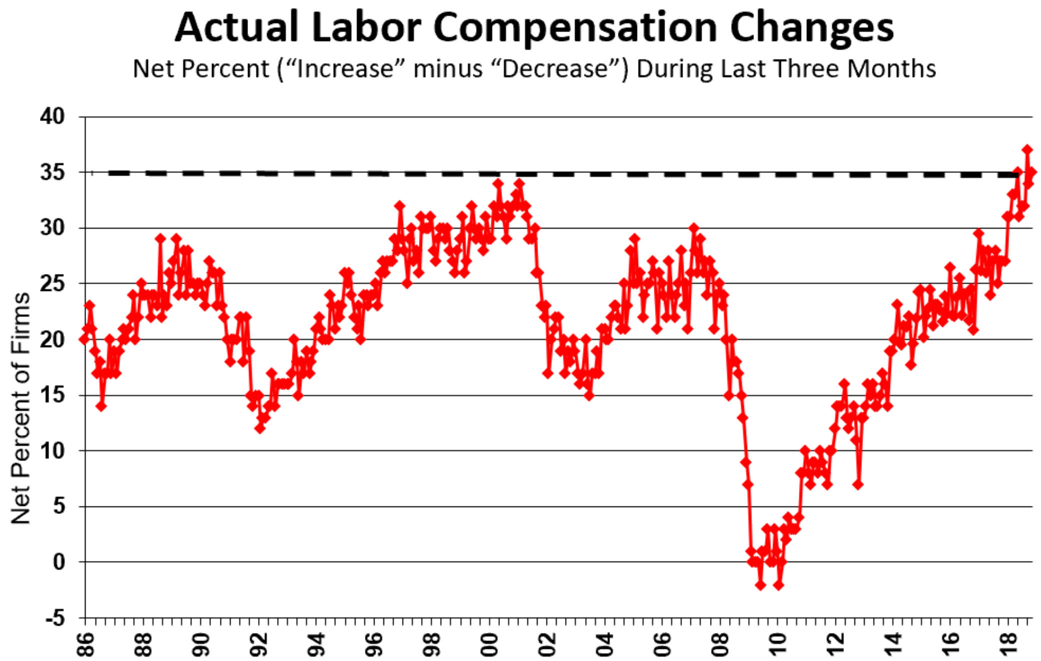
Percent of Firms Reporting Labor Quality as Their #1 Business Problem



It is frustrating to have the potential to sell and produce more, but be unable to hire the workers needed. With taxes cut and deregulation, finding qualified workers remains the top problem facing business owners. A successful hire in this market is likely to create a job vacancy elsewhere because the labor force is not growing quickly enough to satisfy demand. Overall, a good measure to watch is initial claims for unemployment benefits. If it starts rising steadily, it is a sign that spending is weakening and labor is being released. Hopefully, seasonal adjustments give a reasonably accurate picture of this process! Winter does slow economic activity in large parts of the country.

The percent of business owners reporting that they increased employee compensation continued at 45 year record high levels. A net 35 percent reported higher compensation in December and a net 24 percent planned increases in the next few months (down 1 point), predicting further gains in wages and benefits.



Labor force growth has now become a serious constraint on growth in the economy. With a million more job openings that people wanting a job, it is a great environment for workers, with wages rising and lots of job alternatives to choose from. The labor force participation rate remains well below its pre-2008 levels, and retirement doesn't explain all of that reduction. Expect job creation to be in the 160,000 range as employers just can't find enough qualified workers. The unemployment rate will tick down unless labor force participation surprises with more people coming off the sidelines. Wages will rise further.