

May 2018

CEO confidence stabilizes at high levels.

Economic optimism among small businesses has remained largely unchanged at very favorable levels during the past three months. The WSJ/Vistage Small Business CEO Confidence Index was 112.4 in May, insignificantly different from the 113.6 in April, the 112.6 in March or last May's 110.9. While the Confidence Index is below January's six-year peak of 120.5, which was sparked by the passage of tax reform legislation, confidence has remained at the top of the range it has traveled since the survey began in mid-2012.

Although most components of the Confidence Index varied by only one or two points from last month, significantly more CEOs expected lowered profitability in the year ahead. Indeed, expected profitability posted its largest percentage monthly decline since late 2012, although it still remained at relatively favorable levels. One conjecture is that CEOs have reduced expectations now that they understand the details of how the new tax legislation will impact their firms, causing them to moderate their excessive initial enthusiasm.

One might anticipate less favorable views of the Trump administration as a consequence, but when asked how the administration affected their business prospects, an improved outlook was reported by 49% in May, up from 45% in the prior two months and only slightly below the peak of 52% recorded in January. Higher costs of materials, higher interest rates and potentially higher tariffs are the most likely reasons for higher costs and thus lower profits; however, the decline in outlook on profitability would imply relatively large expected total cost increases. While it could just be a result that will correct itself next month, if the decline in expected profitability is confirmed or accelerates in subsequent months, it could play a significant role in how firms decide on additional investment expenditures.

Strong revenues prevail amid weaker profit expectations.

Despite reduced expectations for profit growth, small firms continued to anticipate robust gains in revenue during the year ahead. Overall, financial prospects for small firms remained at favorable levels. When asked about expected revenues, 81% of all small firms anticipated higher revenues during the year ahead, barely below last month's 82% or the six-year peak of 83% recorded at the start of 2018. Expected increases in profits, however, fell to 63% in May, down from April's six-year peak of 70% and the lowest level recorded since October 2017. The decline in profit expectations is best considered an anomaly until additional data can confirm or refute the decline.

Business expansion plans remain strong.

Small firms planned to expand their investments in new plant and equipment and to increase the size of their workforce. Plans to expand investment expenditures were voiced by 52% in May, up from 48% in April and last May's 47%, tying the six-year peak last recorded from December to February 2018. Expansion of their workforce was planned by 66% of all firms, between April's 65% and the six-year peak of 72% set in December 2017. While the strength in hiring and investments suggest the falloff in profits was an anomaly, uncertainty about the economy and economic policies caused 10% of firms to delay additional investments and 5% to delay additional hiring.

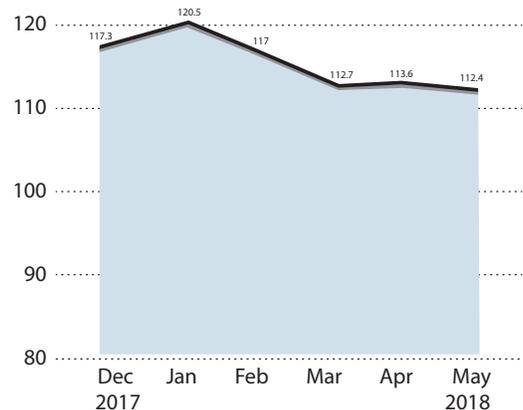
Perception of the economy stabilizes.

Although the recent pace of growth has stabilized, CEOs expected the economy to grow more slowly during the year ahead. Recent economic gains were cited by 60%, largely unchanged from one and two months ago, but 10 percentage points below the January 2018 figure. In contrast, favorable prospects for the economy during the year ahead fell to 34% in May, also unchanged from the prior two months, but down 20 percentage points from the January 2018 reading. While some of the decline could be due to the expectation of interest rate hikes, it stands in sharp contrast to economists' forecasts for a stronger economy in 2018 than in 2017.

– Analysis provided by Dr. Richard Curtin, University of Michigan

Source: April 2018 WSJ/Vistage Small Business CEO Confidence Index survey, n= 1,022

WSJ/Vistage Small Business CEO Confidence Index



Visit vistageindex.com to see the interactive tool and view results from previous months.

Question	Answer	Respondents	
		#	%
1. Compared with a year ago, have overall economic conditions in the United States improved, remained the same or worsened?	Improved	442	60%
	Remained about the same	250	34%
	Worsened	44	6%
	Don't know/No opinion	5	1%
2. During the next 12 months, do you expect the overall economic conditions in the United States will be better, about the same or worse than now?	Better	252	34%
	About the same	353	48%
	Worse	123	17%
	Don't know/No opinion	13	2%
3. Are your firm's total fixed investment expenditures likely to increase, remain about the same or decrease during the next 12 months?	Increase	384	52%
	Remain the same	302	41%
	Decrease	49	7%
	Don't know/No opinion	6	1%
4. Do you anticipate that your firm's sales revenues will increase, remain about the same or decrease during the next 12 months?	Increase	599	81%
	Remain the same	106	14%
	Decrease	33	4%
	Don't know/No opinion	3	0%
5. Do you expect your firm's profitability to improve, remain about the same, or worsen during the next 12 months?	Improve	470	63%
	Remain the same	202	27%
	Worsen	63	9%
	Don't know/No opinion	6	1%

Question	Answer	Respondents	
		#	%
6. Do you expect your firm's total number of employees will increase, remain about the same or decrease during the next 12 months?	Increase	488	66%
	Remain the same	209	28%
	Decrease	35	5%
	Don't know/No opinion	3	0%
7. Has the Trump administration changed prospects for your business?	It has improved prospects for my firm.	359	49%
	It has worsened prospects for my firm.	120	16%
	It has had no impact on prospects for my firm.	258	35%
8. During your company's last fiscal year, what was its total employment?	1-9 employees	64	9%
	10-19 employees	137	18%
	20-49 employees	262	35%
	50-99 employees	171	23%
	100-499 employees	100	13%
	500-999 employees	4	1%
	1000-4999 employees	2	0%
	5000-9999 employees	1	0%

WSJ | VISTAGE

Small Business CEO Survey

A monthly survey measuring the sentiment of U.S. small business CEOs and owners about the economy.

Visit vistageindex.com to view an interactive tool with full results from previous months.