

October 2018

CEO confidence edges downward.

Analysis of the October 2018 survey revealed that economic optimism among CEOs has slipped to its lowest level since the presidential election. The WSJ/Vistage Small Business CEO Confidence Index was 106.9 in October, down from 110.9 in September and last October's 110.0. The decline has been paced by an anticipated slowdown in the rate of economic growth during the year ahead, and perhaps more importantly, by a slight falloff in expected revenues and profits. There has not been a sudden collapse in confidence, but rather a cumulative slow decline. Nonetheless, the overall level of economic confidence voiced by small firm CEOs remains well above the lows recorded in early 2016 and in 2012. All components fell in the October survey, and all components were less favorable than in last October's survey except that small firms judged the current state of the economy more favorably. The pace of economic growth is expected to slow significantly in the year ahead, with as many CEOs expecting improving as expect worsening economic conditions. The anticipated weakness in the national economy may simply reflect the unusually strong current pace of economic growth or the ending of the tax and spending stimulus, complaints about the negative impact of trade tariffs, or higher interest and inflation rates during the year ahead. When asked whether the current administration has improved or worsened prospects for their own business, nearly half of all firms (48%) held favorable views of Trump's policies, only slightly below the peak of 52% recorded in January 2018. 46% of CEOs indicated a lower tax burden, with 24% reporting declines of 10% or less and 22% citing declines of 10% or more. When asked about the most recently round of tariffs, 42% of CEOs thought they would have a negative impact on their business.

Slower economic growth anticipated.

Despite the strong recent pace of economic growth, small firm CEOs have increasingly anticipated that a slowdown will occur during the year ahead. Just 24% of CEOs expected continued improvement in the national economy, less than half the peak of 54% set in January 2018. 50% of CEOs did not anticipate a downturn, but instead expected economic conditions to remain largely unchanged. Slower growth following very robust rates in Q2 and Q3 still represents a very positive judgement about economic prospects. Three-in-five CEOs judged the current state of the economy to have improved over the past year; this positive assessment has not changed much in the past few months.

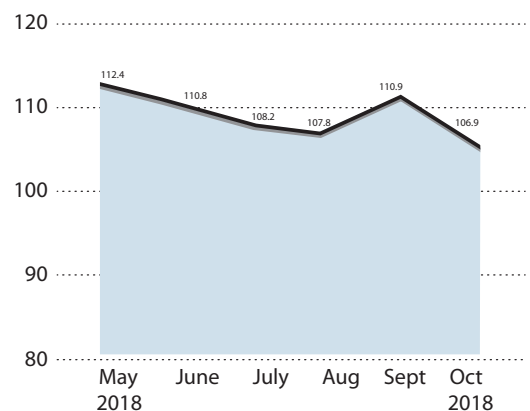
Diminished revenue and profits.

Expectations for sales revenues and profits for the year ahead remained at very favorable levels, although both have declined by 10 percentage points since the start of 2018. 73% of CEOs expect increased revenues in the year ahead, and 59% anticipate higher profits. Presumably, a tight labor market, higher interest rates and trade tariffs have all added to costs, and there is every reason to anticipate that wages, interest rates, commodity prices and other costs will continue to increase in the year ahead. Cost increases often accompany strong and long economic expansions.

Robust expansion plans.

The willingness of CEOs to increase their investments in plant and equipment and to increase their workforce suggest that they anticipate only a small falloff from the current robust pace of growth. Gains in fixed investments were planned by 46% of CEOs in the October survey, slightly below last month's 50% and last year's 48%. Importantly, increased fixed investments was the most common planned use of the savings from reduced taxes. 62% of CEOs planned expansion of their workforces in the year ahead, just below last month's 65% and equal to last year's reading. This strength in CEO willingness to expand their firms is perhaps the best "bottom-line" indicator of their confidence that the expansion will continue even if at a slower pace.

WSJ/Vistage Small Business CEO Confidence Index



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

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

Question	Answer	Respondents	
		#	%
1. Compared with a year ago, have overall economic conditions in the United States improved, remained the same, or worsened?	Improved	413	60%
	Remained about the same	220	32%
	Worsened	46	7%
	Don't know/No opinion	10	1%
2. During the next 12 months, do you expect the overall economic conditions in the U.S. will be better, about the same, or worse than now?	Better	166	24%
	About the same	345	50%
	Worse	164	24%
	Don't know/No opinion	14	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	317	46%
	Remain the same	312	45%
	Decrease	54	8%
	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	506	73%
	Remain the same	129	19%
	Decrease	49	7%
	Don't know/No opinion	5	1%
5. Do you expect your firm's profitability to improve, remain about the same, or worsen during the next 12 months?*	Increase	407	59%
	Remain the same	214	31%
	Decrease	64	9%
	Don't know/No opinion	4	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	424	62%
	Remain the same	225	33%
	Decrease	36	5%
	Don't know/No opinion	4	1%
7. Has the Trump administration changed prospects for your business?	It has improved prospects for my firm.	326	48%
	It has worsened prospects for my firm.	135	20%
	It has had no impact on prospects for my firm.	218	32%
8. How have your taxes been impacted by the new law?	Decreased more than 20%	27	4%
	Decreased by 10 to 20%	119	18%
	Decreased by less than 10%	159	24%
	Remained about the same	309	47%
	Increased by less than 10%	24	4%
	Increased by 10 to 20%	17	3%
	Increased more than 20%	3	0%
9. If your taxes have decreased as a result of the new law, what do you expect to do with the savings?	Boost wages	41	14%
	Increase investment	130	43%
	Expand into new areas	41	14%
	Take more profits	51	17%
	Other, please explain	38	13%

Question	Answer	Respondents	
		#	%
10. How will the most recent round of tariffs impact your business?	Positively impact my business	47	7%
	No impact on my business	347	51%
	Negatively impact my business	285	42%
11. During your company's last fiscal year, what was its total employment?	1-9 employees	60	9%
	10-19 employees	118	17%
	20-49 employees	238	35%
	50-99 employees	176	26%
	100-499 employees	91	13%
	500-999 employees	5	1%
	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.