

## Small firm CEO confidence retreats.

Economic optimism among small businesses in the December 2018 survey fell to its lowest level since the October 2016, the month prior to the presidential election. The WSJ/Vistage Small Business CEO Confidence Index was 101.7 in December, down 4.6 points from 106.3 in November and 15.6 points from last December's 117.3. The acceleration in the decline is due to a growing belief that the pace of national economic growth will slow by a considerable degree during the year ahead. CEOs did not report the same concerns when asked about prospects for their own business. The expected pace of revenue growth fell to its lowest level in the past two years in the December survey, and plans for increased fixed investments also fell to a two-year low. Surprisingly, when asked about intended changes in their workforce, CEOs said they are planning to increase employment at the same levels as reported in the past six months. However, they did pare back their planned increases in hiring from a year ago. Overall, the data suggests that despite the growing conviction of a much slower growth in GDP, CEOs expect that decline to only have a limited impact on their own firm's prospects. While most CEOs have remained relatively optimistic about the performance of their firms in the year ahead, rising economic uncertainty has begun to negatively influence small firms.

### CEOs see slowdown in economic growth.

When asked to assess the recent performance of the national economy, just 43% of CEOs reported that the economy had recently improved, down from 55% reported in November and 65% reported in last December's survey. More importantly, small firms thought that the economic growth would continue to slow during the year ahead. Twice as many firms anticipated that conditions would weaken rather than strengthen in 2019 (33% versus 15%). In only one other survey since the survey first began in mid-2012 did firms express less optimism about growth prospects, which occurred in November of 2012 (also following the presidential election and a split Congress). The majority of small firms (51%) still anticipated that the pace of growth in 2019 would remain largely unchanged from 2018. Given the increased uncertainty that has dominated the financial markets and global economy, one could anticipate that firms will continue to shift toward less positive expectations for the national economy. Tariffs were reported to have a negative impact by 38% of firms; the China trade issues are unlikely to be solved anytime soon, and the size of tariffs may accelerate in 2019.

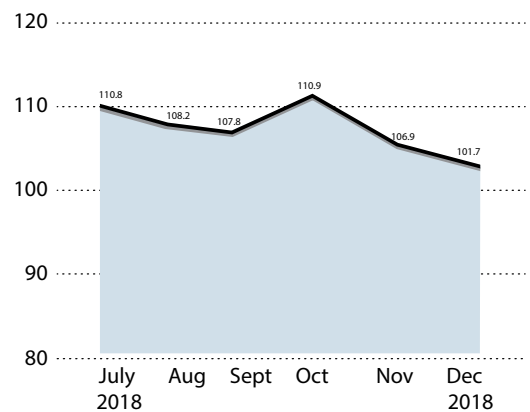
### Despite economic outlook, revenue and profit prospects remain strong.

Expectations for revenues and profits were diminished but remained at favorable levels in the December survey. 70% of CEOs expect increased revenues in the year ahead, and 60% expect higher profits. While these expectations are favorable, they are below last year, with revenue expectations showing greater declines (-8.9% from a year ago) than anticipated profits (-5.0%). Notably, very few small firms anticipated declines in revenues (6%) or profits (9%), which is largely unchanged from the past few months.

### Robust hiring plans could be curtailed by inflation.

Three out of five CEOs expect to increase their workforce during the year ahead. Given the tight labor market, small firms intend to attract employees by boosting wages (61%) and benefits (36%), while developing the skills and capabilities of their existing labor force was cited by 68%. The Fed must balance the need for higher interest rates to contain these inflationary impulses by providing necessary support for the overall economy so that the expected growth slowdown does not become a recessionary downturn.

**WSJ/Vistage Small Business CEO Confidence Index**



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Question	Answer	Respondents	
		#	%
<b>1. Compared with a year ago, have overall economic conditions in the United States improved, remained the same, or worsened?</b>	Improved	273	43%
	Remained about the same	266	42%
	Worsened	86	14%
	Don't know/No opinion	8	1%
<b>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?</b>	Better	92	15%
	About the same	322	51%
	Worse	207	33%
	Don't know/No opinion	12	2%
<b>3. Do you anticipate that your firm's sales revenues will increase, remain about the same, or decrease during the next 12 months?</b>	Increase	443	70%
	Remain the same	146	23%
	Decrease	35	6%
	Don't know/No opinion	9	1%
<b>4. Do you expect your firm's profitability to improve, remain about the same, or worsen during the next 12 months?</b>	Improve	378	60%
	Remain the same	191	30%
	Worsen	59	9%
	Don't know/No opinion	5	1%
<b>5. Are your firm's total fixed investment expenditures likely to increase, remain about the same, or decrease during the next 12 months?</b>	Increase	265	42%
	Remain the same	311	49%
	Decrease	47	7%
	Don't know/No opinion	10	2%
<b>6. Do you expect your firm's total number of employees will increase, remain about the same, or decrease during the next 12 months?</b>	Increase	408	64%
	Remain the same	201	32%
	Decrease	19	3%
	Don't know/No opinion	5	1%

Question	Answer	Respondents	
		#	%
<b>7. If hiring workers has become more difficult, what are you doing in response? Please select all that apply.</b>	Boosting wages	385	61%
	Adding employee benefits	225	36%
	Developing existing workforce	428	68%
	Slowing or delaying expansion plans	65	10%
	Reducing marketing activities	27	4%
	Adjusting fulfillment/delivery timelines	68	11%
	Increasing investment in equipment to automate tasks	192	30%
	Shifting work to another location	50	8%
	Allowing employees to work remotely	150	24%
	Partnering with organizations to create apprenticeship or internship programs	114	18%
	None of the above	52	8%
Other, please specify	55	9%	
<b>8. In the past year, what has been the biggest impact of the Tax Cuts and Jobs Act for your company?</b>	Increased hiring	62	10%
	Increased investments	101	16%
	Increased sales	83	13%
	No impact	345	55%
	Other, please specify	38	6%
<b>9. How are tariffs impacting your business?</b>	Positively impact my business	27	4%
	No impact on my business	365	58%
	Negatively impact my business	237	38%
<b>10. Has the Trump administration changed prospects for your business?</b>	It has improved prospects for my firm.	298	48%
	It has worsened prospects for my firm.	120	19%
	It has had no impact on prospects for my firm.	209	33%

Question	Answer	Respondents	
		#	%
<b>11. Which area do you expect to be impacted most by the result of the midterm elections?</b>	Economic growth	187	29%
	Healthcare reform	144	22%
	Infrastructure	98	15%
	Tax policy	90	14%
	Tariffs/Trade policy	36	6%
	Other, please specify	99	15%
	<b>12. During your company's last fiscal year, what was its total employment?</b>	1-9 employees	55
10-19 employees		115	18%
20-49 employees		214	34%
50-99 employees		166	26%
100-499 employees		74	12%
500-999 employees		6	1%
1000-4999 employees		1	0%
None		1	0%
10000+ employees		1	0%

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## Small Business CEO Survey

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

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