

Economic uncertainty prevails among small firms.

Optimism among small firms was recorded at its lowest level in more than six years in the October 2019 survey; there was only one other time in the history of the survey that a lower level of economic confidence was recorded. It is of some interest to note that the prior low of 83.9, recorded in November 2012, was due to uncertainty about how the “fiscal cliff” would be spanned, and the current low of 89.9 reflects uncertainty about tariff policy as well as other issues. Indeed, the October 2019 survey found that 39% of all firms reported that tariffs had hurt their business, and the number of firms that rated the Trump administration as having a positive net impact on their business was the lowest reading in the past two years. While a weakening economy is now expected nearly four times as frequently as an improving economy (43% vs. 11%), it is nonetheless true that in the upcoming year, the majority of firms still anticipate higher revenues (62%), higher profits (51%), and an increased number of employees (55%). To be sure, the proportions expecting increases in each of these factors have declined during the past year, but firms have not expressed the same degree of pessimism as they have for the overall economy. The most favorable interpretation is that a settlement with China on trade could quickly reverse the negative slide in prospects for the economy, bringing them more in line with those elements of confidence that have resisted steep declines. The least favorable interpretation is that the downward momentum, once established, is hard to reverse, and in time its negative impact will overwhelm judgements about revenue, profits, and hiring. Importantly, just 35% of small firm CEOs indicated plans to increase fixed investments, which indicate longer term bets on economic growth. This is the lowest level since the fiscal cliff episode during the three month span from November 2012 to January 2013. Overall, the odds are still in favor of a slower pace of economic growth into 2020, but small firms could quickly transform their uncertainty into pessimism if conditions warrant.

Economy expected to weaken.

While the October survey recorded no change from last month in how small firms viewed the current state of the economy, with the proportion of CEOs that expect improvements remaining at 22%, this is a mere fraction of last October’s 60%. Just over one-in-four firms judged that the national economy was in decline, unchanged from last month and well above last year’s 7%. When asked about prospects for the economy during the year ahead, just 11% expected improving conditions, the lowest proportion recorded since the survey began in 2012. The 43% of firms who expected economic conditions to worsen is a seven-year record high as well. Due to the short life of the survey, there is not enough data to forecast a recession for the overall economy, but the data does indicate that the pace of growth will slow in 2020, with the main weakness in business investments. Moreover, there are more negative than positive risks to this dismal forecast.

Investment and hiring plans diverge.

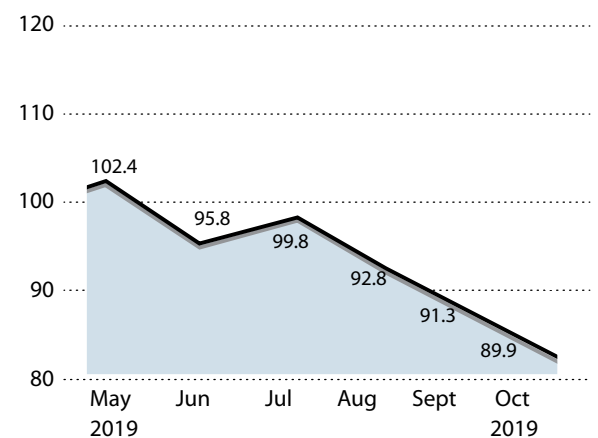
The difference between plans to increase investments compared to plans to expand the workforce indicates that small firms are quite concerned about the longer term future. Just 35% of small firm CEOs reported plans to increase their fixed investments, the lowest level since January 2013. In contrast, hiring plans remain optimistic, based on diminished but positive growth in the year ahead. Planned net gains in their workforce were voiced by 55% of CEOs, only marginally below last year’s 62%, although the lowest percentage since October 2016. Importantly, cutbacks in their workforce were planned by just 6% in October 2019, barely above last year’s 5%.

Revenues and profits soften but remain optimistic.

The proportion of CEOs who expect higher revenues and profits for their firms in the year ahead were unchanged from last month, although both were modestly below last year’s levels. Rising revenues are expected by 62% of CEOs in October, down from 73% last year. Higher profits are expected by 51% in October, down from last year’s 59%. These declines are moderate compared to the decline in sentiment about the economy; revenues and profits indexes fell by 7% and 8% respectively, while the yearly declines in the economy indexes were 32% and 38%.

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

WSJ/Vistage Small Business CEO Confidence Index



The WSJ/Vistage Small Business CEO Confidence Index declined to 89.9 in October 2019, a 12% decline over the last 6 months.

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	147	22%
	Remained about the same	343	51%
	Worsened	181	27%
	Don't know/No opinion	7	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	75	11%
	About the same	298	44%
	Worse	293	43%
	Don't know/No opinion	12	2%
3. Do you anticipate that your firm's sales revenues will increase, remain about the same, or decrease during the next 12 months?	Increase	423	62%
	Remain the same	199	29%
	Decrease	52	8%
	Don't know/No opinion	4	1%
4. Do you expect your firm's profitability to improve, remain about the same, or worsen during the next 12 months?	Improve	347	51%
	Remain the same	239	35%
	Worsen	89	13%
	Don't know/No opinion	3	0%
5. Are your firm's total fixed investment expenditures likely to increase, remain about the same, or decrease during the next 12 months?	Increase	239	35%
	Remain the same	340	50%
	Decrease	89	13%
	Don't know/No opinion	10	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	375	55%
	Remain the same	259	38%
	Decrease	41	6%
	Don't know/No opinion	3	0%
7. Will the new overtime rule from the U.S. Department of Labor that goes into effect January 1, 2020 impact your business?	Yes	88	13%
	No	418	62%
	Don't know/no opinion	172	25%
8. How are tariffs impacting your business?	Posetively impacting my business	28	4%
	No impact on my business	385	57%
	Negatively impacting my buisness	262	21%
9. Has the Trump administration changed prospects for your business?	It has improved prospects for my firm	274	41%
	It has worsened prospects for my firm	178	27%
	It has had no impact on prospects for my firm	215	32%
10. During your company's last fiscal year, what was its total employment?	1-9 employees	68	10%
	10-19 employees	121	18%
	20-49 employees	259	38%
	50-99 employees	151	22%
	100-499 employees	76	11%
	500-999 employees	1	0%
	1000-4999	1	0%
	5000+ 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.

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