

## Supply chain congestion cools boom for small businesses

Small business optimism remained at high levels in June, although it eased off the post-pandemic high set last month. The small decline in June reflected the growing realization among CEOs that re-starting the economy is accompanied by congested supply lines and entails higher wages to attract employees. Demand has grown much more rapidly due to substantial gains in savings and pent-up demand, outstripping the capacity of firms to ramp-up production. As a result, small firms now believe that the pace of economic growth during the year ahead will be slower than they had anticipated. Indeed, the largest drop in the June survey was in the proportion who expected the economy to continue to improve, falling by 13 percentage points. Nearly twice as many small businesses thought the supply chain problems were getting worse rather than better, and half of small businesses surveyed are offering wage gains of 4% or more. Overall, nine-in-ten firms reported that they had experienced inflated costs, mentioning wages (66%), raw materials (56%), and increased vendor prices (63%). Hiring difficulties and rising wages have caused 62% of firms to invest in labor saving technology, with another 16% planning such investments. Overall, the data continue to indicate a rapidly expanding economy and higher inflation rates. A higher “transient” inflation rate that quickly falls back to the mid 2% range accompanied by full employment by the end of 2022 is the aim of economic policies. Stubbornly high inflation and rising interest rates are the main concerns with current fiscal policies.

### Resurgent economy

Although the proportion of small firms who thought the economy had improved (74%) dipped slightly from last month (77%), it still remained higher than in any prior time in the nine-year history of the survey. A much larger drop was recorded in how small businesses view prospects for the year ahead, with 53% expecting the economy to improve, down from 66% in the prior two months. The drop-off may reflect the transition to increased service demand; the travel, dining, and entertainment industries experienced the brunt of the pandemic and are more labor intensive than goods production. While many underestimated how long the economy would be in the grips of the pandemic, many also overestimated the pace of restoration for small businesses, especially service firms.

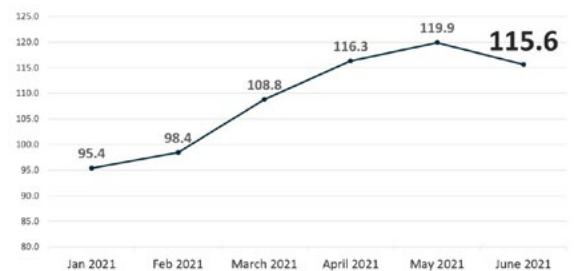
### Revenues and profits improve

Increased revenues are expected by 80% of small businesses in the year ahead, barely below the peak of 83% recorded at the start of 2018. While revenue expectations remained quite positive, rising input prices and wages have trimmed profit margins. Profits were expected to increase by 59% of small businesses responding to the June survey, slightly below May’s 62%. Overall, profit projections have remained stable since March 2021 ranging from 59% to 62%. Overall, the data indicate that higher input prices and increased wages have not significantly reduced profits. There is no question that the higher wages offered by small businesses will not be considered “transient” by their employees and will thus be passed on to customers. Input and vendor prices due to shortages are more likely to be transient, lasting a short time.

### Stable investment spending

Plans to increase their fixed investment spending were voiced by 49% of small businesses responding to the June survey, just below last month’s 50% and the nine-year peak of 52% recorded in 2018. When asked about whether they were investing in technology to reduce the labor burden, 62% reported they had already started to invest, and another 16% indicated they planned such investments in the future; just 22% reported no such investments. Higher inflation will temporarily push real interest rates lower and cut the inflation-adjusted cost of borrowing.

**WSJ/Vistage Small Business CEO Confidence Index – 6 month trend**



After climbing for 6 consecutive months, the WSJ/Vistage CEO Confidence Index declined to 115.6 in June.

Visit [vistageindex.com](https://vistageindex.com) to see the interactive tool and view results from previous months.

## Hiring plans expand

Planned net increases in hiring were voiced by 71% of small business respondents in June, just below May's 75%, which was the highest level since the survey started in 2012. Small businesses are increasing wages to attract new hires, with 26% offering 1-3% increases, 32% planning 4-6% gains, and 18% of firms offering increases of greater than 6%. No wage increases were reported by 19% of small businesses, with 5% mainly mentioning bonuses, increases to select employees, or rising minimum wages. The tight labor market is evidenced by 50% of small businesses offering wage increases of 4% or more.

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

Source: June 2021 WSJ/Vistage Small Business CEO Confidence Index Survey n=819

Question	Answer	Respondents	
		#	%
1. Compared with a year ago, have overall economic conditions in the United States improved, remained the same, or worsened?	Improved	605	74%
	Remained about the same	94	11%
	Worsened	112	14%
	Don't know/No opinion	8	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	436	53%
	About the same	241	29%
	Worse	124	15%
	Don't know/No opinion	18	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	653	80%
	Remain the same	129	16%
	Decrease	30	4%
	Don't know/No opinion	7	1%
4. Do you expect your firm's profitability to improve, remain about the same, or worsen during the next 12 months?	Improve	481	59%
	Remain the same	246	30%
	Worsen	88	11%
	Don't know/No opinion	4	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	404	49%
	Remain the same	353	43%
	Decrease	53	6%
	Don't know/No opinion	9	1%

Question	Answer	Respondents	
		#	%
<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	585	71%
	Remain the same	218	27%
	Decrease	14	2%
	Don't know/No opinion	2	0%
<b>7. How have your employee retention rates changed since the beginning of 2021?</b>	Increased	78	10%
	Remained the same	576	70%
	Decreased	156	19%
	Don't know/No opinion	9	1%
<b>8. Why do you believe employees are leaving your organization? (Select all that apply)</b>	Uncertainty in our businesses	42	5%
	Industry challenges	66	8%
	Higher salaries	250	31%
	Better benefits	53	7%
	More flexibility	71	9%
	Better career/development options	136	17%
	Not applicable	427	53%
<b>9. What is your current mask policy for your workplace?</b>	Masks are not required	506	63%
	Masks are recommended but not required	163	20%
	Masks will be required through 2021	91	11%
	Masks will be required indefinitely	39	5%
<b>10. What is your policy regarding vaccinations?</b>	Requiring that some or all employees are vaccinated	32	4%
	Recommending but not requiring that employees are vaccinated	388	48%
	Providing incentives or rewards to those who voluntarily show proof of vaccination	41	5%
	Requesting that employees share vaccination status	52	6%
	Not requesting or requiring vaccine information	284	35%
	None of the above	16	2%

Question	Answer	Respondents	
		#	%
<b>11. Which effects of inflation are you experiencing for your business? (Select all that apply)</b>	Higher costs for raw materials and other inputs	453	56%
	Higher costs for labor	537	66%
	Increased prices from vendors	514	63%
	Not experiencing effects from inflation	91	11%
	Other	31	4%
<b>12. Which best describes your supply chain?</b>	No problem	259	32%
	Getting worse	318	39%
	Slowly getting better	169	21%
	Other	61	8%
<b>13. Which best describes how you have adjusted wages?</b>	Have not increased wages	158	19%
	Increased wages 1%-3%	208	26%
	Increased wages 4%-6%	258	32%
	Increased wages more than 6%	148	18%
	Other	39	5%
<b>14. Are you investing in technology to reduce labor burden in your product or service?</b>	Yes	504	62%
	No, but we are planning to	130	16%
	Other	179	22%
<b>15. When do you expect to resume travel for business purposes?</b>	Have already resumed business travel	512	63%
	In the next 3 months	129	16%
	Before year end	96	12%
	Travel is suspended until 2022	10	1%
	Uncertain at this time	64	8%

Question	Answer	Respondents	
		#	%
16. During your company's last fiscal year, what was its total employment?	1-9 employees	81	10%
	10-19 employees	154	19%
	20-49 employees	325	40%
	50-99 employees	193	24%
	100-499 employees	64	8%
	500-999 employees	2	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](https://vistageindex.com) to view an interactive tool with full results from previous months.