

August 2021

August 2-9 | 570 respondents

Small business confidence bogged down by Delta

Optimism among small businesses slipped in August, and while maintaining positive levels, it did fall to its lowest level in the past five months. The largest declines involved a reduction in the pace of economic growth, with the outlook for the national economy weakening to its lowest level in a year. When asked about the impact of the Delta variant on their business, 22% of small businesses said it already had a negative impact and another 22% expected a negative impact in the months ahead. As a result, small businesses reported more cautious plans for spending on fixed investments and hiring, and those modest cutbacks were accompanied by small anticipated declines in revenues and profits. Importantly, uncertainty about future infection rates due to the Delta variant have made small businesses more cautious, but not pessimistic. They now have substantial experience in maintaining and adapting their small businesses' operations to COVID-19.

Part of this adaptation is that small businesses have recognized that their pricing needs to become more responsive to their costs, and they are navigating how to manage those price increases without harming demand. Among small businesses surveyed, 55% had already raised prices since the start of the year, and 61% anticipate initial or additional price increases sometime before the end of 2021. While these gains will ease the financial burdens faced by small businesses, if those increases receive market confirmation based on sales, it could generate continued wage hikes and thus contribute to an upward momentum in inflation, exceeding the bounds of "transient" price increases forecasted by the Fed. What small businesses should also expect to be transient is the slowdown in economic growth caused by rising cases of the Delta variant.

Slower growth expected

The Delta variant is expected to significantly slow the pace of economic growth during the year ahead. The proportion of small businesses that anticipated improved conditions in the economy fell to 39% in August, down from last month's 50% and the 66% recorded three months ago. August's 39% was the least favorable economic outlook since April 2020. Why the August decline can still be considered modest is that just 20% report expectations for a worsening economy, less than half the 57% in April 2020. Most of the shift in the recent survey is that a greater proportion of small businesses are expecting stagnation - the economy to remain the same - rather than decline. Nonetheless, the overall shift in the economic outlook reflects a precautionary mood that may shift either toward renewed optimism or pessimism in the months ahead.

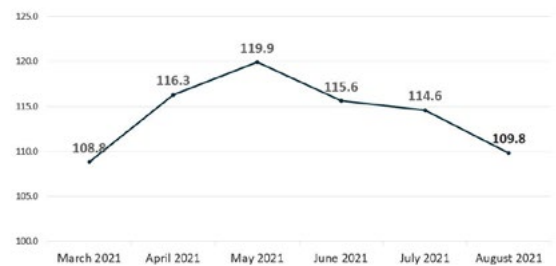
Revenue and profit growth moderates

Revenue and profit expectations for the year ahead continued to moderate in the past few months, despite recent and planned price increases by small businesses. This implies that the price increases did not add to the bottom line of small businesses and were likely less than the rise in costs of materials and labor. Increased revenues were anticipated by 73% of small businesses surveyed, marginally below last month's 76% and June's 80%. Despite the small decline, revenue expectations of small businesses over the year ahead remained more than three-times as high as at the April 2020 low, signaling that the worst is over. Increased profitability posted a similar slow decline, with 53% reporting expectations for increased profits in the August survey, down from last month's 57% and the 62% three months ago, but still more than twice as high as the April 2020 low.

Slight decline in investment spending

The stability in planned expenditures on new plant and equipment is the clearest signal that small businesses anticipate the Delta drag on economic growth will be transient. Plans to increase fixed investment spending were voiced by 47% of small businesses, barely below the average of 50% recorded during the prior three months, and more than three times the April 2020 low. Just 9% of small businesses responding to the August survey reported plans to cut spending in the year ahead on fixed investments, down from 22% last August and the peak of 52% in April 2020.

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



The WSJ/Vistage CEO Confidence Index slid to 109.8 in August, the third consecutive month of decline.

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

Hiring plans ease

Planned net increases in the workforce were voiced by 68% of small businesses in August, just below the recent peak of 75% set in May 2020, but well above last August’s 46%. The small decline reflects a precautionary shift in more small businesses planning to maintain the size of their current workforce rather than to favor a smaller workforce. Indeed, just 3% of small businesses expect to shrink the size of their workforce.

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

Source: August 2021 WSJ/Vistage Small Business CEO Confidence Index Survey n=570

Question	Answer	Respondents	
		#	%
1. Compared with a year ago, have overall economic conditions in the United States improved, remained the same, or worsened?	Improved	387	68%
	Remained about the same	107	19%
	Worsened	72	13%
	Don't know/No opinion	4	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	221	39%
	About the same	219	39%
	Worse	118	20%
	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	414	73%
	Remain the same	128	22%
	Decrease	24	4%
	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	300	53%
	Remain the same	196	34%
	Worsen	68	12%
	Don't know/No opinion	6	1%

Question	Answer	Respondents	
		#	%
5. Are your firm's total fixed investment expenditures likely to increase, remain about the same, or decrease during the next 12 months?	Increase	265	47%
	Remain the same	241	42%
	Decrease	53	9%
	Don't know/No opinion	11	2%
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	389	68%
	Remain the same	160	28%
	Decrease	15	3%
	Don't know/No opinion	6	1%
7. Has the recent increase in cases related to the Delta variant impacted your business?	Yes, we have been impacted	126	22%
	No, we have not been impacted	320	56%
	No, but I anticipate we may be impacted in the future	123	22%
8. What changes to Covid-related policies has your company made or do you plan to make in response to the increase in the Delta variant or recent government actions? Select all that apply	Vaccination policies	77	14%
	Masking policies	154	27%
	Return-to-work plans	102	18%
	Business travel policies	66	12%
	Have not made any changes	313	55%
	Uncertain/Don't know	62	11%
	Other	26	5%
9. Since the beginning of the year, has your company raised prices of your products and services?	Yes, we have raised prices once	206	36%
	Yes, we have raised prices multiple times	107	19%
	No, we have not raised prices	255	45%
10. Looking ahead, is your company planning to raise prices of your products and services or are you considering doing so?	Yes, this quarter	148	26%
	Yes, next quarter	58	10%
	Yes, before year end	142	25%
	No	218	39%

Question	Answer	Respondents	
		#	%
11. During your company's last fiscal year, what was its total employment?	1-9 employees	53	9%
	10-19 employees	108	19%
	20-49 employees	221	39%
	50-99 employees	134	23%
	100-499 employees	52	9%
	1000-4999 employees	1	0%
	None	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.