

Economic recovery interrupted, not ended for small and midsize businesses

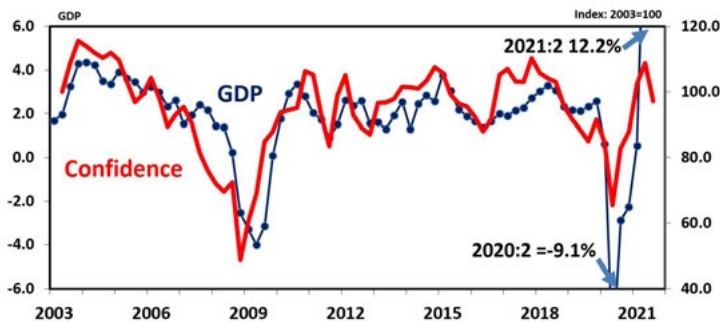
Confidence among CEOs fell in Q3 2021 due to the surge in the Delta variant, erasing all of the gains recorded in the first half of 2021. The setback, however, does not indicate an end to the recovery since the overall level of confidence remains higher than anytime between Q3 2018 and the end of 2020. Although prospects for the national economy suffered the greatest setbacks, metrics for future sales suggest that most CEOs expect the lull in the expansion to be temporary.

Plans for hiring and investment expenditures on plant and equipment remain quite strong, indicating that CEOs anticipate the impact of the Delta variant will be transitory. Increased upward pressures on prices of goods or services were due to higher material costs from their supply lines as well as higher wages to attract and retain employees. Indeed, 74% of CEOs surveyed said they expect to increase their selling prices: 44% reported worsening supply lines and 57% increased wages by 4% or more. While still holding optimistic prospects for future sales, CEOs nonetheless expected a less favorable revenue and profit outlook due to surging cases of the Delta variant.

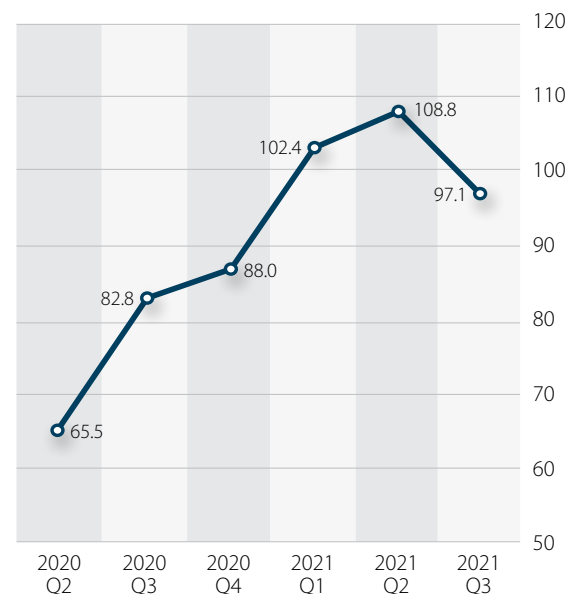
Slowdown in economic growth

CEOs reported a slowdown in the recent pace of economic growth as well as a decline in prospects for growth during the year ahead. Assessments of both recent and expected improvement in the economy fell 20 percentage points from last quarter. The proportion of CEOs that anticipated future improvement fell to just 31%, the lowest figure recorded during the pandemic: the surge in the Delta variant dashed long delayed hopes of a lasting recovery. Among CEOs surveyed, 40% reported that the Delta variant had impacted their businesses, and another 13% expected it may impact their businesses in the future.

Vistage CEO Confidence Index and
Year-to-Year Changes In GDP



Vistage CEO Confidence Index - 6-month Trend



The Vistage CEO Confidence Index fell to 97.1 in Q3 2021 due to the surge in the Delta variant, erasing all of the gains recorded in the first half of 2021.

Vistage CEO Confidence Index highlights

Economic Sentiment	Revenues and Profits	Investments and Hiring
<p>56% of CEOs said the economy recently improved, a 20-point drop from Q2 2021.</p>	<p>68% of CEOs expect increased revenues in the next 12 months, a 10-point drop from last quarter.</p>	<p>47% of CEOs plan to increase fixed investments in the next 12 months, a 6-point drop from Q2 2021.</p>
<p>31% of CEOs expect the national economy to improve in the year ahead, a 23-point decline from last quarter.</p>	<p>50% of CEOs expect increased profits in the year ahead, the lowest level recorded since 2012 with the exception of the pandemic.</p>	<p>66% of CEOs plan to expand their workforce in the next 12 months, on par with Q1 2021.</p>

Record hiring challenges

When asked about planned increases in hiring, 66% of CEOs surveyed reported that they intend to increase their workforce, just below the prior quarter's 71% and equal to the 1st quarter's level. Hiring plans remain strong despite the economic slowdown; many small and midsize businesses are challenged to attract and retain the number of employees to meet their needs. Hiring challenges were cited by 67% of CEOs as limiting their ability to run at full capacity. Small and midsize businesses have used an array of incentives: boosting wages (69%), expanded benefits (28%), hiring bonuses (27%), and allowing remote working (41%). Current employees were offered skill development programs (56%) and increased overtime (26%).

Responses to Delta variant

Masking and vaccination policies differed across small and midsize businesses surveyed. No masking requirements were reported by 39% of CEOs. Masks were required until at least to the end of 2021 by 33%, and recommended but not required by 27%. Just 9% of CEOs reported requiring vaccinations, and another 36% were considering a vaccine requirement. The majority of CEOs reported that they would not issue a vaccine mandate for any of their employees. It should be noted that among the small and midsize businesses represented in the survey, 36% had 100 or more employees, and would be impacted by the new vaccine mandate that was announced during the course of the survey.

Planned investments remain strong

Nearly half (47%) of CEOs plan to increase new expenditures on plant and equipment during the next year. While below last quarter's pandemic peak of 53%, this proportion is higher than in any prior quarter since the Q3 2018. Hiring challenges have led 29% of CEOs to invest in automation and labor-saving devices. Just 10% planned to decrease investment spending in the latest survey.

Revenues and profits moderate

Increased revenue for the year ahead was expected by 68% of CEOs surveyed in Q3, well below the prior quarter's 78% and 76% in the 1st quarter. Nonetheless, revenue gains were expected to be higher than from the start of the pandemic to 2021. CEOs' expectations for profit gains dropped, falling to 50% from last quarter's 57%; more significantly, these expectations were lower than any quarter since Q4 2012, except during the shutdown in the economy in Q2 2020. This indicates the severe stress from falling revenues and increased costs.

— 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	909	56%
	Remained about the same	404	25%
	Worsened	301	19%
	Don't know/No opinion	6	0%
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	505	31%
	About the same	677	42%
	Worse	402	25%
	Don't know/No opinion	36	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	1100	68%
	Remain the same	390	24%
	Decrease	115	7%
	Don't know/No opinion	15	1%
4. Do you expect your firm's profitability to improve, remain about the same, or worsen during the next 12 months?	Improve	813	50%
	Remain the same	518	32%
	Worsen	272	17%
	Don't know/No opinion	17	1%
5. Are your firm's total fixed investment expenditures likely to increase, remain about the same, or decrease during the next 12 months?	Increase	765	47%
	About the same	673	42%
	Decrease	155	10%
	Don't know/No opinion	27	2%

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	1072	66%
	Remain the same	473	29%
	Decrease	70	4%
	Don't know/No opinion	5	0%
7. Do you expect prices for your product or service to increase, remain about the same, or decrease during the next 12 months?	Increase	1194	74%
	Remain the same	375	23%
	Decrease	39	2%
	Don't know/No opinion	11	1%
8. How do you expect your investment in marketing to change this year compared to pre-pandemic levels?	Increase	681	42%
	Remain the same	805	50%
	Decrease	95	6%
	Don't know/no opinion	33	2%
9. Which areas of marketing are you investing in this year?	Branding	729	46%
	Digital marketing: website, social, ecommerce, text	1300	82%
	Marketing automation	366	23%
	Direct or targeted marketing	724	46%
	Demand and/or lead generation	496	31%
	Traditional media: print, radio, TV	179	11%
	Sales support: collateral, case studies, messaging	634	40%
	Other	87	6%

Question	Answer	Respondents	
		#	%
10. What elements of digital marketing are you investing in?	Website	1130	88%
	E-commerce	347	27%
	Search Engine Optimization (SEO)	798	62%
	Online advertising: pay-per-click, display ads	494	38%
	Social media	1027	80%
	Mobile marketing	207	16%
	Email marketing	667	52%
	Online Content: Blogs, Video, Webinars	702	54%
	Other	32	2%
11. Has the recent increase in cases related to the Delta variant impacted your business?	Yes, we have been impacted	653	40%
	No, we have not been impacted	757	47%
	No, but I anticipate we may be impacted in the future	204	13%
12. What changes have you made or do you plan to make in response to the Delta variant or recent government actions?	Vaccination policies	375	23%
	Masking policies	656	41%
	Testing policies	307	19%
	Return-to-work plans	457	28%
	Have not made any changes	586	36%
	Uncertain/Don't know	122	8%
	Other	87	5%
13. What is your current mask policy for your workplace?	Masks are not required	628	39%
	Masks are recommended but not required	440	27%
	Masks will be required through 2021	295	18%
	Masks will be required indefinitely	238	15%

Question	Answer	Respondents	
		#	%
14. Do you currently require employees to be vaccinated?	Yes	137	9%
	No, but am considering requiring	574	36%
	No, will never mandate vaccines	889	56%
15. How have your employee retention rates changed since the beginning of 2021?	Increased	198	12%
	Remained the same	969	60%
	Decreased	434	27%
	Don't know/ no opinion	14	1%
16. Are hiring challenges impacting your ability to operate your business at full capacity?	Yes	1085	67%
	No	528	33%
17. If hiring employees has become more difficult, what are you doing in response?	Boosting wages	1037	69%
	Increasing overtime for existing employees	387	26%
	Adding employee benefits	417	28%
	Developing existing workforce	847	56%
	Slowing or delaying growth	362	24%
	Allowing employees to work remotely	623	41%
	Offering hiring bonuses	412	27%
	Refining recruitment strategies	813	54%
	Investing in automation and labor-saving devices	439	29%
	Seeking partners to create apprenticeship or internship programs	263	18%
	Does not apply	126	8%
Other	75	5%	

Question	Answer	Respondents	
		#	%
18. Which best describes your supply chain?	No problem	378	24%
	Getting worse	702	44%
	Slowly getting better	381	24%
	Other	143	9%
19. Which best describes how you have adjusted wages?	Have not increased wages	209	13%
	Increased wages 1%-3%	417	26%
	Increased wages 4%-6%	593	37%
	Increased wages more than 6%	316	20%
	Other	78	5%
20. During your company's last fiscal year, what were its total revenues?	Less than 500k	18	1%
	500-999k	33	2%
	1-4 Million	272	17%
	5-9 Million	273	17%
	10-20 Million	304	19%
	21-49 Million	334	21%
	50-99 Million	189	12%
	100-249 Million	115	7%
	250-499 Million	49	3%
	500-999 Million	17	1%
	1+ Million	16	1%

Question	Answer	Respondents	
		#	%
21. During your company's last fiscal year, what was its total employment?	1-9 employees	132	8%
	10-19 employees	196	12%
	20-49 employees	412	25%
	50-99 employees	304	19%
	100-499 employees	464	29%
	500-999 employees	66	4%
	1000-4999 employees	38	2%
	5000-9999 employees	2	0%
	10000+ employees	6	0%