

Shortage-driven inflation dims outlook among small businesses

Confidence among small businesses in November declined for the sixth consecutive month due to undiminished shortages, higher prices for input materials and offering higher wages to compete in the tight labor market. Supply shortages were reported for domestic (55%) and foreign-sourced goods (49%), and delays in shipping were reported on domestic orders (43%) as well as international orders (41%). Higher labor costs were reported by 80% of all small businesses responding to the November survey. The accelerating gap between customer demand and their costs has led 60% of small businesses to raise their prices in just the past 90 days. Not surprisingly, those widespread price hikes still mean that higher profits were less frequently expected for the sixth consecutive month. Moreover, the push toward higher prices and wages can be expected to continue well into 2022. While small businesses and consumers have come to accept the necessity of continued increases, however reluctantly, those behavioral reactions will be encouraged by continued expansive monetary and fiscal policies, even if they are somewhat tempered in the months ahead. Small businesses need to utilize proactive measures to survive financially in this changing economic environment since purely reactive measures will diminish the likelihood of their financial survival. Anticipated conditions must be taken into account when making decisions.

Slower pace of economic growth

Small businesses continued to report a slowdown in the pace of economic growth, with just 47% reporting that the economy had recently improved, falling 30 percentage points over the past six months from the peak of 77% recorded in May 2021. Just 26% of small businesses expected the economy to improve during the year ahead, unchanged from last month, and well below May's 66%. Indeed, more small businesses anticipated that aggregate economic conditions would worsen rather than improve during the year ahead in the November survey (34% vs. 26%), duplicating last month's negative balance of opinion. The last time such negative expectations for the overall economy occurred was during the April 2020 shutdown of the entire economy. Rather than by decree, this time it will be due to supply shortages of input materials and labor as well as due to an accelerating rate of inflation.

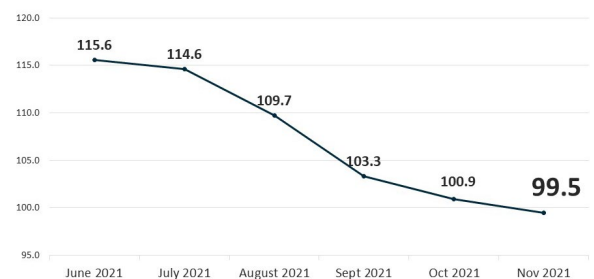
Revenue and profit growth dim

Revenue and profit expectations among small businesses moderated during the past several months, although profit expectations were more affected. Revenue increases in the next 12 months were expected by 69% of small businesses in the November survey, up slightly from 67% in October, but below the pandemic peak of 80% in June. From June 2012 to December 2019, increased revenues were anticipated on average by 72% of small businesses, an insignificant difference from the 69% in November 2021. In contrast, higher profits were expected by 48% of small businesses surveyed in November 2021, well below the 2012-2019 average of 58%. This was little changed from last month's 49% but well below the pandemic peak of 62% in May 2021. This indicates that only a partial offset of higher costs will be covered by higher prices.

Holiday hiring challenges

Hiring plans have remained virtually unchanged in the past few months, with 66% of small businesses anticipating hiring additional workers and just 3% cutting back staffing in the November survey. The challenges faced by small businesses are likely to increase as holiday sales and delivery services add to the demand for workers. This will have the impact of increasing wages to attract the needed workers as well as increasing overall prices.

WSJ/Vistage Small Business CEO Confidence Index: 6-month trend



The WSJ/Vistage Small Business CEO Confidence Index dropped to 99.5 in November, the sixth consecutive month of decline.

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

Investment plans expand

Increases in fixed investment expenditures during the year ahead are planned by 44% of small businesses in November, while just 7% expected to trim their investment spending; net investment plans were unchanged from last month. Importantly, unlike the significant declines in other measures, investment plans among small businesses were only marginally below the May peak. The enduring strength of investment plans attests to the long-term optimism among small businesses as well as the challenges of investing in labor-saving devices and equipment.

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

Source: November 2021 WSJ/Vistage Small Business CEO Confidence Index Survey n=567

Question	Answer	Respondents	
		#	%
1. Compared with a year ago, have overall economic conditions in the United States improved, remained the same, or worsened?	Improved	269	47%
	Remained about the same	128	23%
	Worsened	167	29%
	Don't know/No opinion	3	1%
2. During the next 12 months, do you expect that the overall economic conditions in the U.S. will be better, about the same, or worse than now?	Better	146	26%
	About the same	220	39%
	Worse	191	34%
	Don't know/No opinion	10	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	394	69%
	Remain the same	130	23%
	Decrease	41	7%
	Don't know/No opinion	2	0%
4. Do you expect your firm's profitability to improve, remain about the same, or worsen during the next 12 months?	Improve	274	48%
	Remain the same	197	35%
	Worsen	91	16%
	Don't know/No opinion	5	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	249	44%
	Remain the same	261	46%
	Decrease	42	7%
	Don't know/No opinion	15	3%
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	373	66%
	Remain the same	175	31%
	Decrease	17	3%
	Don't know/No opinion	2	0%
7. How has your firm's total number of employees changed in the last four months?	Increased	282	50%
	Remained the same	219	39%
	Decreased	66	12%
8. What factors have led to the decrease in the size of your workforce?	Demand has softened	10	15%
	Supply chain issues make it difficult to fill orders	12	18%
	Workers have left for other jobs	44	67%
	Workers have exited the labor market	21	32%
	Other	16	24%
9. Which supply chain challenges are impacting your business?	Availability of components, materials or products from domestic suppliers	310	55%
	Availability of components, materials or products from foreign suppliers	275	49%
	Delays in international shipping	234	41%
	Delays in domestic shipping	243	43%
	Rising prices/costs of components, materials or products	379	67%
	Not directly impacted by supply chain issues	140	25%
	Other	23	4%

Question	Answer	Respondents	
		#	%
10. Which effects of inflation are you experiencing within your business?	Higher costs for raw materials and other inputs	300	53%
	Higher costs for labor	453	80%
	Increased prices from vendors	409	72%
	Not experiencing effects from inflation	37	7%
	Other	15	3%
11. How have your prices changed over the past 90 days?	Increased	342	60%
	Remained the same	217	38%
	Decreased	3	1%
	Don't know/no opinion	4	1%
12. What changes have you made — or do you plan to make — in response to the ongoing pandemic or recent government policies and actions?	Vaccination policies	128	23%
	Masking policies	154	27%
	Testing policies	75	14%
	Return-to-work plans	122	22%
	Business travel	87	15%
	Have not made any changes	240	42%
	Uncertain/Don't know	47	8%
Other	31	5%	
13. During your company's last fiscal year, what was its total employment?	1-9 employees	50	9%
	10-19 employees	109	19%
	20-49 employees	220	39%
	50-99 employees	128	23%
	100-499 employees	59	10%
	1000-4999 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.