

When the going gets tough, tough small businesses get going

Small businesses have long relied on their skill and ability to adapt to changing economic, political and social conditions. The ongoing pandemic has already caused small businesses to make fundamental changes, and also to anticipate additional challenges as new variants arise in the years ahead. Importantly, the December survey ended a six-month sting of falling confidence among small businesses. Although the monthly gain was incremental, it nonetheless reveals that confidence among small businesses is nearly identical to its average level over the past ten years (102.4).

The survey was conducted as CEOs became aware of the Omicron variant and its ability to spread rapidly, with little evidence about its potential lethality. To be sure, while small businesses were well aware of the expected negative impact of Omicron on economic growth, they nonetheless voiced their intentions to redouble their hiring efforts. Expanding their workforce was planned by the second highest proportion of small businesses (75%) since the survey began in 2012, tied with May 2021. Over two-thirds of small businesses surveyed (68%) reported that the number of current employees was insufficient to operate at full capacity. Given that their overall costs have increased, six-in-ten small businesses recently raised their selling prices, and three-in-four anticipated additional price hikes in the year ahead. These planned price increases are driven by rising costs, as profit expectations remain unchanged. There is little doubt that these changes indicate that the economy has entered into an inflationary era.

Slower pace of economic growth

The Delta variant had already reduced the overall pace of economic growth, and the Omicron variant will further depress growth expectations in the months ahead. In the December 2021 survey, 46% of small businesses reported the economy had recently improved, just below last month's 47% and the lowest since the pandemic began. When asked about prospective changes in the national economy, for the third consecutive month just 26% of small businesses thought it would improve. In addition, more businesses anticipated that the economy would worsen (31%) than improve (26%). With a negative economic outlook, one might have anticipated that small businesses would also want to temper hiring and investment plans, but confidence in their ability to adapt made them plan just the opposite.

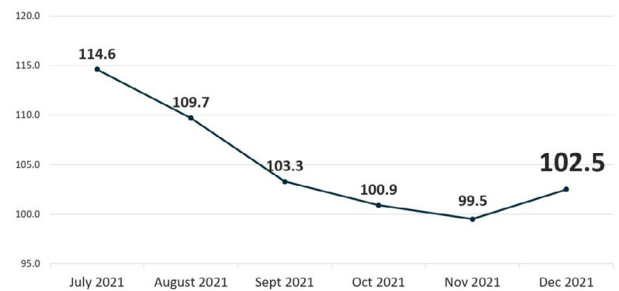
Overcoming hiring challenges

With the exception of May 2021, more small businesses plan on expanding their labor force (75%) than recorded in the prior ten years. Small businesses are using many methods to attract and retain employees including wage increases (73%), developing (68%) and reorganizing the current workforce (44%), the ability to work at home (44%), adding new benefits (38%), increasing overtime for current employees (24%), and hiring bonuses for new employees (24%). Importantly, 67% of small businesses are currently investing in labor-saving technologies, and 14% plan to do so in the future.

Investment plans expand

Increases in fixed investments expenditures were planned by 50% of small businesses surveyed in December, up from last month's 44% and last year's 38%. Just 8% plan a decline in net investments, with 39% keeping their total investment expenditures about the same. The persistent strength attests to small business CEOs' optimism about their business, longer-term prospects for the economy and the shift toward labor-saving technologies.

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



The WSJ/Vistage Small Business CEO Confidence Index ticked up to 102.5 in December driven by revenue expectations and expansion plans.

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

Prices up, profits stable

Since the costs of materials and labor have risen sharply, small businesses had no choice but to increase the price of the product or service they provide. Price increases in the past 90 days were reported by 63% of small businesses, and during the year ahead, 75% plan to increase their prices. Among the small businesses that are planning increases, the price hikes are substantial: 63% plan increases of 5% to 10%, and another 20% plan increases above 10%. Price increases under 5% were the least common, anticipated by just 16% of all those who intend to raise prices. Total sales revenue (the combination of volume and prices) was expected to increase by 73% of small businesses, well below the June 2021 peak of 80%. In contrast, higher profits were expected by 49% of small businesses, largely unchanged for the past two months. Although expectations for higher revenues are slightly higher than the average since 2012 (73% vs. 71%), expectations for increased profits are below those historic norms (49% vs. 56%).

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

Source: December 2021 WSJ/Vistage Small Business CEO Confidence Index Survey n=785

Question	Answer	Respondents	
		#	%
1. Compared with a year ago, have overall economic conditions in the United States improved, remained the same, or worsened?	Improved	364	46%
	Remained about the same	197	25%
	Worsened	219	28%
	Don't know/No opinion	5	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	202	26%
	About the same	330	42%
	Worse	242	31%
	Don't know/No opinion	11	1%
3. Do you anticipate that your firm's sales revenues will increase, remain about the same, or decrease during the next 12 months?	Increase	576	73%
	Remain the same	167	21%
	Decrease	35	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	385	49%
	Remain the same	263	34%
	Worsen	130	17%
	Don't know/No opinion	7	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	396	50%
	Remain the same	308	39%
	Decrease	63	8%
	Don't know/No opinion	18	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	590	75%
	Remain the same	168	21%
	Decrease	25	3%
	Don't know/No opinion	2	0%
7. How have your prices changed over the past 90 days?	Increased	493	63%
	Remained the same	280	36%
	Decreased	8	1%
	Don't know/no opinion	3	0%
8. Do you expect prices for your product or service to increase, remain about the same, or decrease during the next 12 months?	Increase	584	75%
	Remain the same	177	23%
	Decrease	14	2%
	Don't know/no opinion	8	1%
9. How much are you planning to increase prices in the next 12 months?	Less than 5%	96	16%
	Between 5 to 10%	370	63%
	More than 10%	117	20%
10. How have your employee retention rates changed since the beginning of 2021?	Increased	119	15%
	Remained the same	463	59%
	Decreased	192	25%
	Don't know/no opinion	9	1%

Question	Answer	Respondents	
		#	%
11. Are hiring challenges impacting your ability to operate your business at full capacity?	Yes	533	68%
	No	248	32%
12. If hiring employees has become more difficult, what are you doing in response?	Boosting wages	553	73%
	Developing existing workforce	510	68%
	Refining recruitment strategies	379	50%
	Reorganizing the existing workforce	334	44%
	Allowing employees to work remotely	332	44%
	Investing in automation and labor-saving devices	296	39%
	Adding employee benefits	286	38%
	Slowing or delaying growth	196	26%
	Creating apprenticeship or internship programs	181	24%
	Increasing overtime for existing employees	179	24%
	Offering hiring bonuses	179	24%
	Does not apply	51	7%
Other	26	3%	
13. Are you investing in technology to reduce the labor burden in your product or service?	Yes	526	67%
	No, but we are planning to	107	14%
	No	150	19%
14. Which best describes your supply chain?	No problem	220	28%
	Getting worse	265	34%
	Slowly getting better	236	30%
	Other	61	8%

Question	Answer	Respondents	
		#	%
15. Which effects of inflation are you experiencing for your business?	Higher costs for raw materials and other inputs	424	55%
	Increased prices from vendors	588	76%
	Offering increased wages	531	68%
	Not experiencing effects from inflation	41	5%
	Other	15	2%
16. Has your business made changes in response to the ongoing pandemic, the Omicron variant or government actions?	Yes, we have already made changes	287	37%
	No, we have not made changes, but plan to	48	6%
	No, we have not made changes and are not planning changes	386	49%
	Uncertain/Don't know	43	5%
	Other	19	2%
17. Which changes have you made or are planning to make in response to the ongoing pandemic, the Omicron variant or government action?	Vaccination policies	116	36%
	Masking policies	185	57%
	Safety protocols in the workplace	239	73%
	Testing policies	91	28%
	Return-to-work plans	148	45%
	Business travel	87	27%
	Other	17	5%

Question	Answer	Respondents	
		#	%
18. During your company's last fiscal year, what was its total employment?	1-9 employees	82	10%
	10-19 employees	137	17%
	20-49 employees	314	40%
	50-99 employees	181	23%
	100-499 employees	67	9%
	500-999 employees	4	1%

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.