

Small business sentiment hints at looming recession

Increasing pessimism about future prospects for the national economy among small businesses led to the WSJ/Vistage Small Business CEO Confidence Index posting the largest year-to-year loss since the shutdown of the economy in April and May 2020. The national economy was expected to worsen by 57% of small businesses surveyed in May 2022, five times last May's 11% and equal to the all-time low recorded in April 2020. Improved profitability was anticipated by just 39% of small businesses surveyed in May 2022, down from 62% last May, with the falloff due to lower expected revenues as well as higher costs for materials and wages. The smallest declines posted were in investments in plant and equipment, which may change in the future due to anticipated increases in interest rates.

Compared to last May when the WSJ/Vistage Small Business CEO Confidence Index reached its pandemic peak, this month the Index posted a 30% decline. The data is consistent with an emerging economic downturn, although the timing of the start of a potential recession is still uncertain. The persistent strength in the labor market and rising wages is likely to extend the current expansion. Monetary policy aims to slow inflation by slowing the growth in demand. Even after the promised two half-point hikes in interest rates, the overall restraint will still be minimal. While more aggressive policies may be warranted based on the domestic economy, considerable uncertainties will persist about prospects for the European and Asian economies and the United States' growing military involvement in Ukraine.

Falloff in economic growth

Just 21% of small businesses thought that the U.S. economy had recently improved, plunging from 77% in last May's survey. When asked about prospects for the national economy during the year ahead, 57% of small businesses expected economic conditions to worsen. The combined data for both current and expected change indicates that small businesses hold quite negative opinions about the economy; nearly all of the gains recorded from May 2020 to May 2021 were reversed in the past year ending with the May 2022 survey. Complaints about rising prices were widespread, ranging from input materials (59%), vendor supplies (78%), and energy (49%), to rising wages (85%). Just 3% of small businesses said they hadn't experienced any negative effects of inflation.

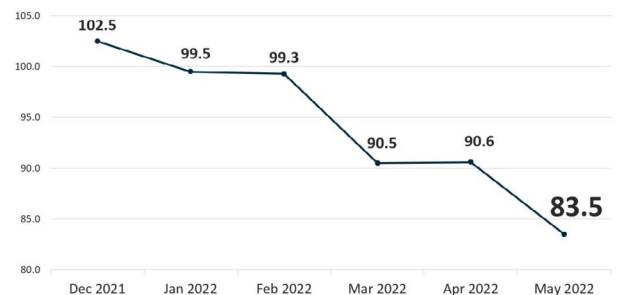
Revenue and profit expectations sink

The proportion of small businesses that anticipated revenue increases in the year ahead fell to 61% in May, down from 79% in last May's survey — a surprising decline given higher selling prices. More importantly, expected profitability fell substantially, with just 39% of small businesses expecting improved profits in the year ahead, down from last May's 62%. The decline in profit expectations was due in part to rising prices of the purchases of goods and services: 11% of small businesses reported increases of 25% or more, 49% reported increases of 10% to 25%, and 32% reported increases of 1% to 10%; just 8% experienced no price increases.

Hiring cools

When asked about potential changes in the size of their workforce, the proportion of small businesses planning to increase hiring fell to 59%, down from 75% last May. While just 3% planned a cutback in their total workforce, most of the May shift was toward keeping the size of their workforce unchanged (36%, up from 23% last May). Small businesses indicated that they had increased wages in the past year and expected to increase wages again in the year ahead. The future increases, however, will be uniformly lower than last year's boosts. Just 4% of small businesses are planning wage increases of 10% or more, well below last year's 16%; less than a quarter (24%) are planning wage increases of 6% to 10% compared to 41% last year. Lower wage gains were more commonly

WSJ/Vistage Small Business CEO Confidence Index: 6-Month Trend



The WSJ/Vistage Small Business CEO Confidence Index posted an 8% decline from last month and a 30% decline from last May when the Index reached its pandemic peak.

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planned for next year with 53% of small businesses planning wage increases of 3% to 5%, up from 34% last year; 9% are planning wage increases of less than 3%, which is more than twice the 4% in the past year. Smaller wage increases along with declining workforce expansion plans suggest a cooling — but still-healthy — labor market in the year ahead.

Investment plans impacted by interest rates

Plans to increase fixed investment expenditures were reported by 44% of small businesses in May. While this is down from last year’s 50%, this change was the smallest decline of any component of the Index. Just over a quarter (26%) of small businesses reported a negative impact of rising interest rates and an additional 32% expect a negative impact in the future.

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

Source: May 2022 WSJ/Vistage Small Business CEO Confidence Index Survey n=604

Question	Answer	Respondents	
		#	%
1. Compared with a year ago, have overall economic conditions in the United States improved, remained the same or worsened?	Improved	126	21%
	Remained about the same	149	25%
	Worsened	324	54%
	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	75	12%
	About the same	168	28%
	Worse	342	57%
	Don't know/No opinion	19	3%
3. Do you anticipate that your firm’s sales revenues will increase, remain about the same or decrease during the next 12 months?	Increase	370	61%
	Remain the same	169	28%
	Decrease	58	10%
	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	236	39%
	Remain the same	210	35%
	Worsen	151	25%
	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	263	44%
	Remain the same	252	42%
	Decrease	71	12%
	Don't know/No opinion	18	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	358	59%
	Remain the same	219	36%
	Decrease	18	3%
	Don't know/No opinion	9	1%
7. In your recent hiring, have you rehired employees who left your company – "boomerang" employees?	Yes, we have actively recruited former employees	45	7%
	Yes, we have rehired former employees who expressed interest in returning	134	22%
	No, we have not rehired former employees	410	68%
	Other	15	2%
8. Which changes have you made or are you making to improve retention and hiring? Select all that apply	Non-traditional or flexible schedules for work days or hours	288	48%
	Boosting wages	468	78%
	Hybrid/remote work	299	50%
	Employee development programs	316	53%
	Mentorship programs	122	20%
	Reverse mentorship programs (junior staff mentoring executives)	15	3%
	Adding employee benefits	205	34%
	Perks for on-site workers, including services, meals or fitness	115	19%
	In-person events and team building activities	269	45%
	Investments in home office for remote workers	87	15%
	Investing in new technology for productivity or collaboration	239	40%
Other	36	6%	

Question	Answer	Respondents	
		#	%
9. Which changes are you making in the physical workplace this year? Select all that apply	Increasing size of existing workplace	88	15%
	Refurbishing or upgrading existing workplace	195	33%
	Decreasing size of existing workplace	35	6%
	Closing one or more locations	22	4%
	Moving to a new location	56	10%
	Adding a new location	61	10%
	None of the above	249	42%
	Other	15	3%
10. Which effects of inflation are impacting your business? Select all that apply	Increasing size of existing workplace	88	15%
	Refurbishing or upgrading existing workplace	195	33%
	Decreasing size of existing workplace	35	6%
	Closing one or more locations	22	4%
	Moving to a new location	56	10%
	Adding a new location	61	10%
	None of the above	249	42%
	Other	15	3%
11. Which effects of inflation are impacting your business? Select all that apply	Higher costs for raw materials and other inputs	354	59%
	Increased prices from vendors	467	78%
	Increased energy prices	295	49%
	Increased wages and compensation	509	85%
	Not experiencing effects from inflation	21	3%
	Other	17	3%

Question	Answer	Respondents	
		#	%
12. How has inflation changed your firm's profitability during the last 12 months?	Improved	51	8%
	Remained the same	245	41%
	Worsened	281	47%
	Don't know/no opinion	26	4%
13. On average, how much have you increased wages or salaries in the past 12 months?	Have not increased wages or salaries	21	4%
	Less than 3%	32	5%
	Between 3% and 5%	201	34%
	Between 6% and 10%	243	41%
	More than 10%	93	16%
	Other	8	1%
14. How much do you plan to increase wages or salaries in the next 12 months?	Not planning to increase wages or salaries	42	7%
	Less than 3%	53	9%
	Between 3% and 5%	323	53%
	Between 6% and 10%	143	24%
	More than 10%	23	4%
	Other	20	3%
15. On average, how much have the prices your business pays for goods and services increased this year?	No increase	46	8%
	Less than 10%	194	32%
	Between 10% and 25%	297	49%
	More than 25%	65	11%

Question	Answer	Respondents	
		#	%
16. Are rising interest rates impacting your business?	Yes	158	26%
	No	251	42%
	Not yet, but we expect them to	191	32%
17. Which best describes your supply chain?	No problem	137	23%
	Getting worse	174	29%
	Slowly getting better	238	40%
	Other	52	9%
18. Is your business being impacted by the latest lockdowns in China?	Yes, directly impacted	70	12%
	Yes, indirectly impacted	119	20%
	No, but we anticipate future impacts	150	25%
	No, no impacted at all	263	44%
19. Is the war in Ukraine impacting your business?	Yes	153	25%
	No	255	42%
	Don't know/uncertain	193	32%

Question	Answer	Respondents	
		#	%
20. During your company's last fiscal year, what was its total employment?	1-9 employees	62	10%
	10-19 employees	97	16%
	20-49 employees	238	40%
	50-99 employees	137	23%
	100-499 employees	61	10%
	500-999 employees	3	0%
	1000-4999 employees	1	0%
	5000-9999 employees	1	0%
	10000+ 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.