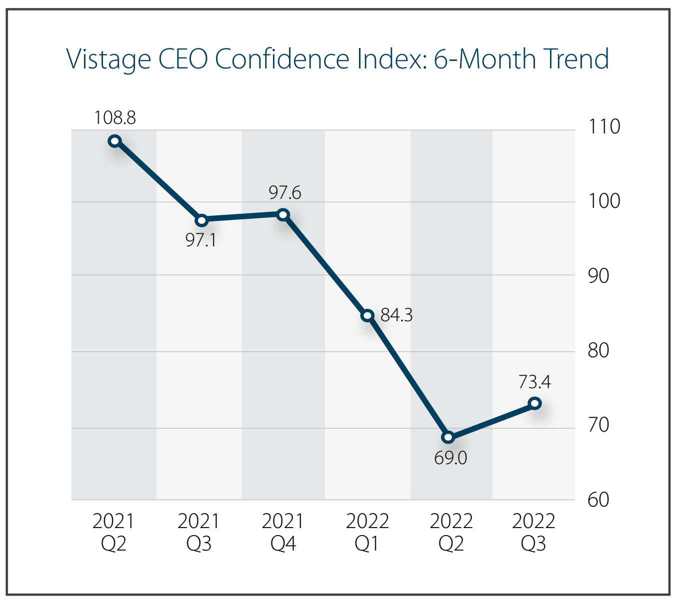
## Small gain in confidence among CEOs

While the Vistage CEO Confidence Index posted a modest gain in Q3, it remained well below last year's reading. The Q3 Index rose 6.4% from last quarter to reach 73.4, but was still 24.4% below last year. The quarterly gain was largely due to CEOs' views of the national economy, but was partially offset by small losses in planned investment expenditures. Anticipated revenues posted a slight net gain, but more significantly is that the expected gains are robust. When it comes to increased revenues in the next 12 months, 33% of CEOs anticipate revenue increases above 10%, 25% anticipate increases of 6% to 10%, and 17% anticipate increases of 1% to 5%. Just one quarter (25%) of CEOs anticipate revenues staying flat (12%) or declining. In addition, the proportion of CEOs that expect increased profits posted a sizable increase from last quarter. The cause of the gains in expected profits cannot be solely attributed to plans to increase prices; CEOs also report rising customer demand (61%), market expansion (47%), new products or services (38%), and increased productivity (38%). Tempering more substantial gains in profits are the increased costs of operations, primarily rising wages (91%), higher prices from vendors (80%), higher costs for raw inputs (63%) and energy (56%). In fact, 67% of CEOs report plans to raise prices in the year ahead. These expected price increases could result in more persistent inflation, possibly leading to the Federal Reserve increasing interest rates once again. The Fed's actions already have led to diminished demand, which could cause an increase in unemployment.


The Q3 2022 Vistage CEO Confidence Index rose 6.4% from last quarter to reach 73.4, but was still 24.4% below last year.

## Vistage CEO Confidence Index highlights

| Economic Sentiment | Revenues and Profits | Investments and Hiring |
|---|---|---|
| **16%** of CEOs said the economy recently improved, while 60% said it worsened. | **54%** of CEOs expect increased revenues in the next 12 months. | **35%** of CEOs plan to increase fixed investments in the next 12 months. |
| **12%** of CEOs expect the national economy to improve in the year ahead, while 50% expect it to worsen. | **38%** of CEOs expect increased profits in the year ahead, a 6-point gain from Q2 2022. | **52%** of CEOs plan to expand their workforce in the next 12 months. |

### Economic gains fall short of prior year

In the latest survey, there were large quarterly gains in CEOs' assessments of current and future economic conditions. Despite these gains, the majority of CEOs still held that current economic conditions have continued to weaken, and the decline would continue in the year ahead. Current economic conditions were judged to have worsened in the past year by 60% of CEOs, below last quarter's 68%, but it remained more than three times the 19% recorded last year. The same pattern was observed in year-ahead economic prospects: 50% anticipated further declines in the economy, significantly below last quarter's 64%, but double last year's 25%. Although the data is consistent with a shallower and shorter downturn, that outlook is contingent on lowering inflation without the Fed having to raise interest rates so high as to cause a more persistent weakness in demand. CEOs' assessments for the national economy are usually much more volatile than the outlook for their businesses.

### Profit expectations improve

The proportion of CEOs that anticipate increased revenues in the year ahead was largely unchanged in the Q3 survey. Increased revenues were anticipated by 54% of CEOs, barely above last quarter's 52%. Importantly, revenue expectations in the last two quarters were at the lowest levels since the pandemic shutdown in 2020. However, as noted, those expecting revenue increases are expecting healthy increases. Rising profits are anticipated by just 38% of CEOs. Although this is an improvement from last quarter's 32%, it remains well below last year's 50%. The challenges of managing businesses are substantial amid such large and volatile changes in inflation, interest rates, hiring and retention rates, and remote and onsite workforces.

### Investment plans decline as interest rates rise

Increased hiring is planned by 52% of CEOs responding to the Q3 survey, unchanged from last quarter and the lowest since the start of the pandemic in 2020. Despite the pandemic decline, when asked how their hiring plans have changed since the start of the year, more CEOs said planned hiring had increased (30%) rather than decreased (11%), due in part to lower retention rates (24%) exceeding greater retention rates (15%). In addition, nearly three times as many firms kept higher-than-usual inventories as those with lower-than-usual inventories (when compared to historical norms). New investments in plant and equipment continued to decline. Just 35% of CEOs plan increases in investment expenditures in the next 12 months according to the survey, down from 38% last quarter and 52% three quarters ago, and below the ten-year average of 43%. New investment expenditures are likely to be even weaker as interest rates rise in the year ahead.

— *Analysis provided by Dr. Richard Curtin, University of Michigan*

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| Question | Answer | Respondents # | Respondents % |
|---|---|---|---|
| **1. Compared with a year ago, have overall economic conditions in the United States improved, remained the same or worsened?** | Improved | 236 | 16% |
| | Remained about the same | 360 | 24% |
| | Worsened | 917 | 60% |
| | Don't know/No opinion | 9 | 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 | 184 | 12% |
| | About the same | 549 | 36% |
| | Worse | 755 | 50% |
| | Don't know/No opinion | 34 | 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 | 829 | 54% |
| | Remain the same | 455 | 30% |
| | Decrease | 230 | 15% |
| | Don't know/No opinion | 8 | 1% |
| **4. Do you expect your firm's profitability to improve, remain about the same or worsen during the next 12 months?** | Improve | 580 | 38% |
| | Remain the same | 562 | 37% |
| | Worsen | 367 | 24% |
| | Don't know/No opinion | 13 | 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 | 535 | 35% |
| | About the same | 708 | 47% |
| | Decrease | 252 | 17% |
| | Don't know/No opinion | 27 | 2% |

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| Question | Answer | # | % |
|---|---|---|---|
| **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 | 796 | 52% |
| | Remain the same | 580 | 38% |
| | Decrease | 137 | 9% |
| | Don't know/No opinion | 9 | 1% |
| **7. Which of the following will contribute to your projected sales revenues in the next 12 months?** *Select all that apply* | Increased productivity | 567 | 38% |
| | Price increases | 919 | 61% |
| | Customer growth | 921 | 61% |
| | New products/services | 570 | 38% |
| | New market expansion | 710 | 47% |
| | Other | 92 | 6% |
| **8. During the next 12 months, how much do you expect your sales revenues to change?** | Increase more than 10% | 502 | 33% |
| | Increase 6-10% | 386 | 25% |
| | Increase 1-5% | 258 | 17% |
| | Remain the same | 188 | 12% |
| | Decline 1-5% | 85 | 6% |
| | Decline 6-10% | 60 | 4% |
| | Decline more than 10% | 40 | 3% |
| **9. How do you expect prices for your product or service to change during the next 12 months?** | Increase | 1022 | 67% |
| | Remain the same | 395 | 26% |
| | Decrease | 82 | 5% |
| | Don't know/No opinion | 20 | 1% |

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| Question | Answer | Respondents # | Respondents % |
|---|---|---|---|
| **10. Which effects of inflation are you experiencing for your business?** *Select all that apply* | Higher costs for raw materials and other inputs | 953 | 63% |
| | Increased prices from vendors | 1223 | 80% |
| | Increased wages and compensation | 1387 | 91% |
| | Increased energy prices | 854 | 56% |
| | Change in buyer behaviors (slowing demand, smaller budgets, increased rigor, longer sales cycles) | 659 | 43% |
| | Increased costs for business travel | 596 | 39% |
| | Not experiencing effects from inflation | 18 | 1% |
| | Other | 41 | 3% |
| **11. Which best describes your supply chain?** | No problem | 157 | 10% |
| | Getting worse | 211 | 14% |
| | Slowly getting better | 872 | 57% |
| | Does not apply | 208 | 14% |
| | Other | 70 | 5% |
| **12. How do your current inventory levels compare to historical levels?** | Higher | 449 | 30% |
| | About the same | 378 | 25% |
| | Lower | 172 | 11% |
| | Does not apply | 497 | 33% |
| | Other | 21 | 1% |

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| Question | Answer | Respondents # | Respondents % |
|---|---|---|---|
| **13. Since the beginning of the year, how has the size of your workforce changed?** | Increased | 804 | 53% |
| | Remained the same | 533 | 35% |
| | Decreased | 178 | 12% |
| | Don't know/No opinion | 2 | 0% |
| **14. Since the beginning of the year, how have your employee retention rates changed?** | Increased | 225 | 15% |
| | Remained the same | 928 | 61% |
| | Decreased | 357 | 24% |
| | Don't know/No opinion | 8 | 1% |
| **15. How will your hiring for the remainder of 2022 change compared to your plans at the start of the year?** | Hiring more than planned | 450 | 30% |
| | No change to hiring plans | 905 | 60% |
| | Hiring less than planned | 163 | 11% |
| **16. Are hiring challenges impacting your ability to operate your business at full capacity?** | Yes | 940 | 62% |
| | No | 577 | 38% |

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| Question | Responses | | | | |
|---|---|---|---|---|---|
| | | **Have Implemented** | **Planning to implement** | **No plans to implement** | **Uncertain at this time** |
| **17. If hiring and retaining employees has become more difficult, what are you doing in response?** *Select all that apply* | Boosting wages | 82% | 9% | 7% | 2% |
| | Offering flexible hours/schedules | 64% | 5% | 27% | 4% |
| | Offering hiring or retention bonuses | 42% | 6% | 46% | 6% |
| | Creating apprenticeship or internship programs | 40% | 18% | 34% | 8% |
| | Leveraging assessments | 28% | 13% | 43% | 17% |
| | Increasing overtime | 35% | 3% | 56% | 6% |
| | Refining recruitment strategies | 65% | 18% | 14% | 3% |
| | Adding employee benefits | 45% | 15% | 35% | 5% |
| | Developing existing workforce | 73% | 20% | 6% | 2% |
| | Leadership development programs | 59% | 26% | 12% | 3% |
| | Reorganizing the workforce | 39% | 20% | 36% | 6% |
| | Investing in automation and labor-saving devices | 39% | 25% | 30% | 6% |
| | Offering remote work options | 59% | 3% | 34% | 4% |

| Question | Response | # | % |
|---|---|---|---|
| **18. Is your company finding it easier or more difficult to fill job openings than at the start of the year?** | Easier | 294 | 19% |
| | No change | 741 | 49% |
| | More difficult | 475 | 31% |

| Question | Response | # | % |
|---|---|---|---|
| **19. Which best describes your current workforce model?** | All-remote workforce | 99 | 7% |
| | Hybrid workforce | 752 | 50% |
| | Fully on-site workforce | 593 | 39% |
| | Other | 69 | 5% |

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| Question | Responses |
|---|---|

**20. In the next three months, how do you expect the following components of your workforce model to change?**

| | Decrease | Remain the same | Increase |
|---|---|---|---|
| Remote work | 16% | 76% | 8% |
| On-site work | 3% | 75% | 22% |
| Flexible scheduling (hours and days on site) | 2% | 84% | 13% |

**21. During your company's last fiscal year, what were its total revenues?**

| | # | % |
|---|---|---|
| Less than 500k | 14 | 1% |
| 500-999k | 30 | 2% |
| 1-4 Million | 205 | 13% |
| 5-9 Million | 246 | 16% |
| 10-20 Million | 301 | 20% |
| 21-49 Million | 303 | 20% |
| 50-99 Million | 206 | 14% |
| 100-249 Million | 127 | 8% |
| 250-499 Million | 53 | 3% |
| 500-999 Million | 17 | 1% |
| 1+ Billion | 20 | 1% |

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| Question | Answer | Respondents # | Respondents % |
|---|---|---|---|
| **22. During your company's last fiscal year, what was its total employment?** | 1-9 employees | 110 | 7% |
| | 10-19 employees | 145 | 10% |
| | 20-49 employees | 388 | 25% |
| | 50-99 employees | 328 | 22% |
| | 100-499 employees | 428 | 28% |
| | 500-999 employees | 66 | 4% |
| | 1000-4999 employees | 44 | 3% |
| | 5000-9999 employees | 5 | 0% |
| | 10000+ employees | 7 | 0% |
| | None | 1 | 0% |

VISTAGE CEO Confidence Index | Surveying CEOs of small to midsize businesses since 2003

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