

VISTAGE

CEO CONFIDENCE INDEX REPORT

Q2
2023

Focus on Technology

FOCUS ON TECHNOLOGY

Artificial Intelligence (AI) has long been hyped as the next great thing. In 2018 our [research report revealed](#) that just 13.6% of SMBs were leveraging AI. Of those leveraging AI, they were using it to support business operations (51%) and customer engagement (45%) with its potential capabilities largely left in IT's hands to unlock. Our latest survey revealed that now over half (51%) of CEOs report using AI in the area of customer engagement alone.

The release of ChatGPT last fall has spiked interest as AI has become accessible to all, unleashing incredible potential in individual productivity and business performance. Our latest data shows that 20% of CEOs actively use AI applications like ChatGPT, with another 23% currently testing it. Just as the 28.8 kbps modem made the internet usable for everyone in 1994, ChatGPT and its cousins — including Bard by Google, Einstein GPT, and Bing AI to name a few — have opened CEOs' eyes to AI's potential. We're a long way from the omnipresent Skynet first depicted in "The Terminator" movie series, but the pace and potential are accelerating.

This report captures CEO economic sentiment and strategic intent for the next 12 months, our analysis on page 9 focuses on the impacts and opportunities of Artificial Intelligence as an emerging technology.

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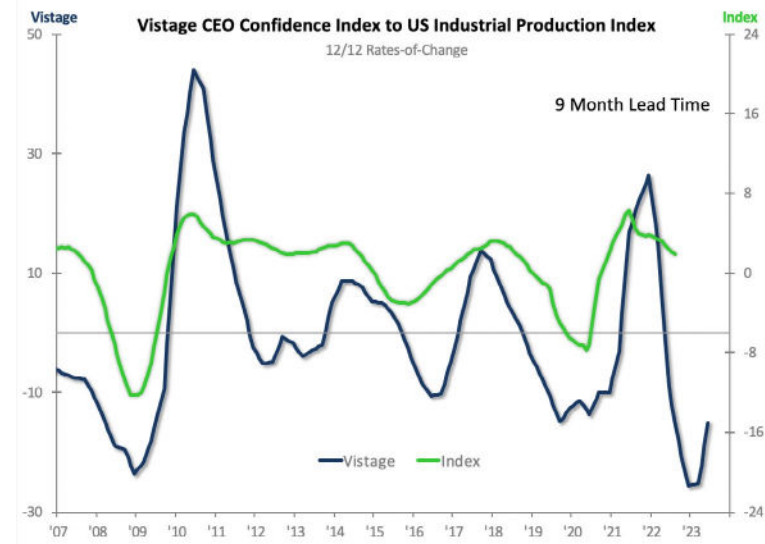
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For more CEO Confidence Index results, visit

[VISTAGE.COM/CEOINDEX](https://www.vistage.com/ceoindex)

**Leading Indicator:
Vistage CEO Confidence Index**

Using ITR Economics rate-of-change methodology, analysis has revealed that the Vistage CEO Confidence Index is a leading indicator of the U.S. Industrial Production Index 9 months in advance.



↑ Overall Economy

15%

of CEOs said the economy recently improved (up from 9% in Q1)

↑ Future Economy

11%

of CEOs expect the economy to improve in the year ahead (up from 9% in Q1)



↓ Expected Revenues

50%

of CEOs expect increased revenues in the year ahead (down from 55% in Q1)

↓ Profitability Projections

42%

of CEOs expected increased profits in the year ahead (close to the 43% in Q1)



↑ Future Investments

32%

of CEOs expect to increase investments in the year ahead (up from 30% in Q1)

↓ Future Employment

48%

of CEOs plan to expand their workforce in the next year (down from 54% in Q1)

CEO confidence stabilizes following pandemic volatility

Pilots will tell you that any landing you walk away from is a good landing, it's just that some are smoother than others. Over 9 quarters, the Vistage CEO Confidence Index captured pandemic-driven economic volatility — from a low of 65.5 recorded in Q3 2020 to a high of 108.8 a year later before collapsing again to 69.0 in Q2 2022. **Since then, the Vistage CEO Confidence Index has stabilized at 74.2 with the last 4 quarters moving within a 2.7-point range.**

The long-awaited, post-pandemic new reality has landed, establishing a new baseline for the Vistage CEO Index 24 points below the 10-year (2010 to 2019) Index average of 98 points. **Depressed by dour CEO economic sentiment, expectations for profits and revenues have declined well below pre-pandemic norms.** Plans for increased investments are down 18 points from 10-year norms, yet stable over the past year with little pressure to reduce fixed investments nor much energy to increase either. Incremental hiring is down slightly over the last year, but only 8 points off the historical norms. That underscores a still strong labor market in the face of economic negativity.

The predictive nature of the Vistage CEO Confidence Index tells us that while we might have safely landed on the ground, we're not where we want to be, and there is no departure time set for the next growth cycle.

74.2

↑ 1.6 points from previous quarter

The Vistage CEO Confidence Index rose slightly to 74.2 in Q2 2023, a 7.6% increase from last year's 69.0.

- Just **50%** of CEOs expect increased revenues, a 3-year low.
- **44%** expect economy to worsen in the next 12 months, compared to 53% last quarter.
- **48%** of CEOs plan to increase their workforce, the lowest since Q2 2020.





Jackie Greene,
Vice President of Economics,
ITR Economics

ITR Economics applied our “rate-of-change” methodology to over 20 years of Vistage data, which determined a strong predictive relationship between the Vistage CEO Confidence Index and the U.S. Industrial Production Index. The Vistage CEO Confidence Index leads by about 9 months.

This relationship reflects the industry composition of the survey respondents as they relate very well to U.S. industrial production. **The Vistage CEO Confidence Index is a strong indicator for small and midsize businesses to use for planning purposes.**

While the Vistage CEO Confidence Index remains at lower levels, our rate of change analysis shows some upward trajectory, which in ITR terminology is “phase A.” However looking at the whole collection of leading indicators, this might not be a sustainable upward trend. **Although there is a lot of upturn in the indicators, a longer-term analysis suggests that many of those indicators might start turning down again later this year.**

Pressures building on the economy will drive the downward trend, specifically:

- Despite growth in U.S. Industrial Production, manufacturing as a component of that has been in a general declining trend through most of 2023 to date, and increased downward pressure is expected as the year continues.

- The disinflation trend is continuing. Looking at the Consumer Price Index, the current inflation rate of 4% is the lowest it’s been in a little over two years and trending downward
- Rising interest rates are a key driver for the projected recession. The Federal Reserve’s actions may impact the duration of the recession throughout 2024. There is some risk of further increases from the Fed that could result in an even steeper or prolonged recession next year.

While a recession is in the forecast, different markets will behave differently. **What you need to know is how your markets are trending for 2024, and how steep the declines will be. If you’re diversified, develop plans to push your resources to the different aspects of your business to mitigate that decline on the business.** If parts of your business have higher profit margins, put more resources there, particularly with the tight labor market. Review which products will give you the better return, especially as we head into a downturn.

In terms of cost management, delay cutting back on headcount, benefits or employee development as the labor market remains tight and cutbacks pose a risk on retention. Consider reducing or delaying investments in headcount or investments in new machinery.

Our forecast is for a mild recession in 2024 with growth to return in 2025. Understanding the levels of growth in 2025 will determine the investment to put into capacity needs. If you return to today’s volume, ensure you’re investing in the needed capacity. Adopt an entrepreneurial mindset and focus on investments that will get you into new markets or grow in market share.



Economic sentiment stabilizes

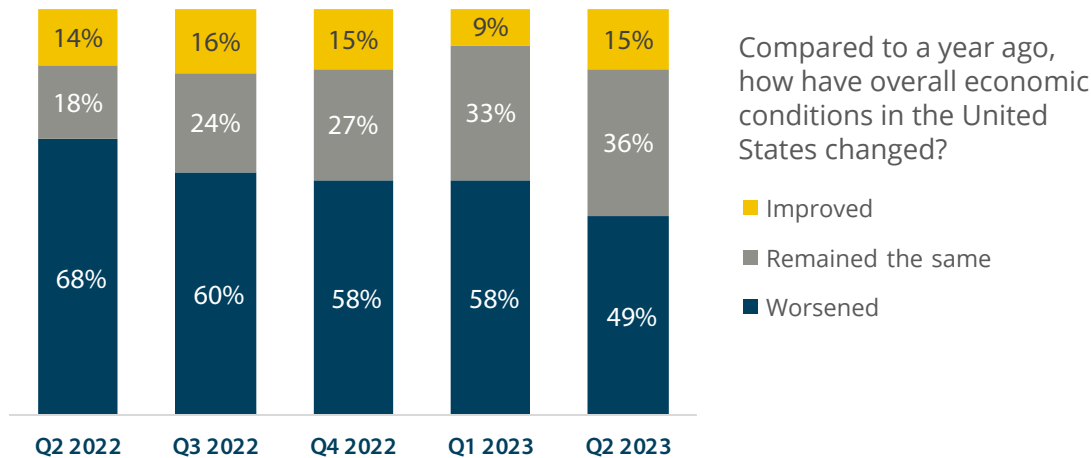
When comparing the U.S. economy to last year, 15% of CEOs believe it has improved, an improvement from 9% last quarter.

More significant is waning pessimism; the proportion of CEOs that believe the economy is worse has improved nearly 20 points in the past year, dropping to 49% in Q2 2023 from 68% a year ago. The slower pace of inflation is likely reflected in these numbers along with supply chain improvements.

Looking forward, pessimism about the future of the economy has eased as well, with 44% reporting that it will get worse in the next 12 months compared to 64% last year. This is also a 9-point improvement from last quarter's 53%.

Despite the easing of pessimism about the economy, other components of the Index indicate that CEOs have begun to streamline their business in preparation for a recession.

The proportion of CEOs that feel the economy is worse dropped nearly 20 percentage points from Q2 2022



LEADERSHIP CHALLENGE:

“Forecasting how and when a downturn in our markets will affect the market size as a whole and which segments may be more or less affected.”

Chris Borglum, President, K Industries

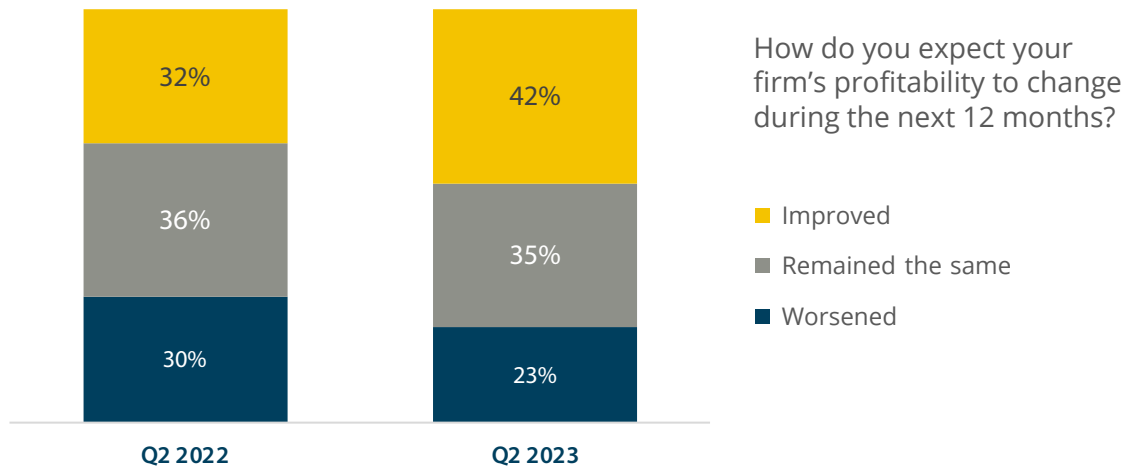


Projections for revenues and profits stagnant

While past pessimistic views of the economy from CEOs have not translated into negative views about their business, we are seeing a more pronounced decline in optimism regarding expectations for revenue and profitability. Just half (50%) of CEOs expect increased revenues in the year ahead, down from 55% last quarter. On the other end of the spectrum, 17% of CEOs expect decreases in revenues over the next 12 months, which has held steady over the last 3 quarters.

Profitability expectations remain stable with 42% expecting increased profits, 10 points above last year's 32%. Those expecting decreased profits have held steady at around 23%, compared to last year's 30%. **This year-over-year improvement shows that increased selling prices are offsetting inflationary pressures. With disinflation occurring, profitability expectations — while lower than average — have stabilized after rebounding from last year's low.**

The proportion of CEOs that expect increased profits improves 10 percentage points from last year



LEADERSHIP CHALLENGE:

“Keeping the business profitable with the current environment of demand shifting, high inflation, and long lead times for equipment and services.”

Mark Riegel, CEO,
FroDo Baking Company LLC



CEOs focus on cost management

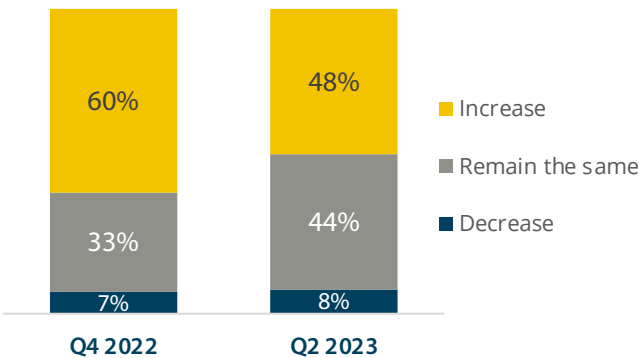
Higher interest rates and tightened lending standards continue to influence investments of small and midsize businesses. While less than one-third (32%) of CEOs plan to increase fixed investments in the next 12 months, just 18% plan to decrease fixed investments, holding with the average over the last year.

Workforce expansion plans are becoming more conservative with less than half (48%) of CEOs planning to increase personnel in the next 12 months. It's important to note that just 8% of CEOs report

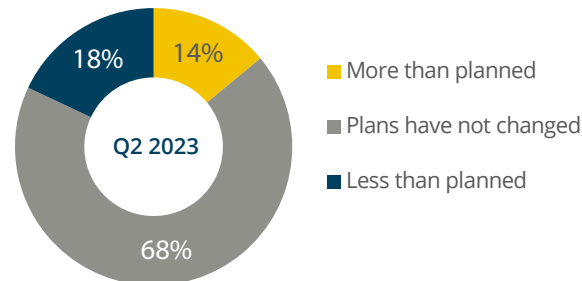
plans to decrease their workforce, a figure that has stayed steady since last year. **Uncertainty and rising interest rates may have caused delays in hiring, but there has not been an increase in those planning a reduction in force.** Quit rates are slowing, retention is stabilizing, and hiring has become easier, resulting in the tempering of workforce velocity. However, just under half (45%) of CEOs report that hiring challenges continue to impact their operational capacity.

The proportion of CEOs that plan to expand their workforce falls 12 percentage points

How do you expect your firm's total number of employees to change in the next 12 months?



How will your hiring for the remainder of 2023 change compared to your plans at the start of the year?



“Banks underwriting standards have quickly tightened even more for small service companies for a variety of legitimate reasons... making SBA loans the primary option. It is much harder to remain independent and do M/A unless you can self-finance.

Patrick Shelton, Manager, Benefit Plans Plus LLC

The use of AI is growing across the business sector. **One-in-five respondents (20%) report they are currently using AI, but 44% are best described as “AI Curious” either actively testing its capabilities or planning to do so.** However 33% are on the sidelines neither using nor exploring AI. The wave of interest sparked by the open access to generative AI tools like ChatGPT scratches the surface of what the AI future looks like.

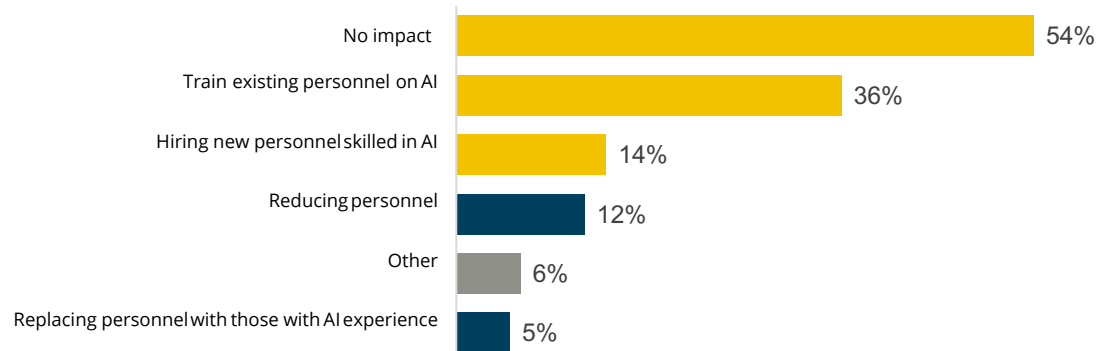
As AI's prevalence grows, so too does its impact on people. More than one-third (36%) are training their workforce on AI with another 19% planning to either replace or hire people with AI skills. Although just 12% currently see AI as a means to reduce personnel, that number will grow when the next hiring boom strikes from the next growth cycle. **More likely in the near term is that AI will power the productivity of existing workers and offset some of the talent acquisition pressures rather than eliminate them.**

The value of AI will drive individual productivity just as tools like Microsoft Excel did for ledgers. A worker's ability to leverage AI in their job will quickly move from a competitive advantage to a role requirement. **It will have broad corporate value meshing massive amounts of business data into previously unseen patterns. What it won't do is make critical, strategic business decisions.** That still demands a leader's instincts, judgment and perspectives...for now.



54% of CEOs anticipate AI will have no impact on their personnel

How do you anticipate AI applications such as ChatGPT will impact your personnel?



“This technology will be transformative. We need to train our existing associates to adopt this tech in their daily activities to be more productive and effective.”

Andra Grava, Founder and Chief Innovation Officer, The DI Center



Vistage Decision Model

Technology enables many things, and while it primarily sits in the area of operations as a tool that IT is responsible for, all functions can benefit, from the automation of processes that streamline financial reporting to chatbots that can improve the ability to serve customers. While automation saves time in operations, knowledge workers can now leverage tools like ChatGPT that use natural language processing and generative AI to gather information and create a strong first draft. This application has the potential to make recommendations for policies and procedures, contacts, marketing content, and more. CEOs must consider how their organizations can benefit from these capabilities, as well as assess risks.

The Vistage Decision Model is a research-based framework that categorizes the key decisions that top-performing CEOs of small and midsize businesses are facing. It's not a framework for how to make decisions but is a lens that business leaders can use to categorize what decisions they should be focused on to optimize their business and enhance their leadership. Recruiting and retaining top talent has never been more challenging.

Small business confidence improves after dip related to debt ceiling uncertainty

While trends in the Vistage CEO Confidence Index are measured quarterly, the [WSJ/Small Business CEO Confidence Index](#) is calculated monthly and provides a barometer for the sentiment of a subset of respondents — leaders of businesses with \$1-20 in annual revenues — over a more frequent timeframe. This more frequent view captures more nuanced changes in opinions and the impacts of current events not seen reflected in a quarterly cycle.

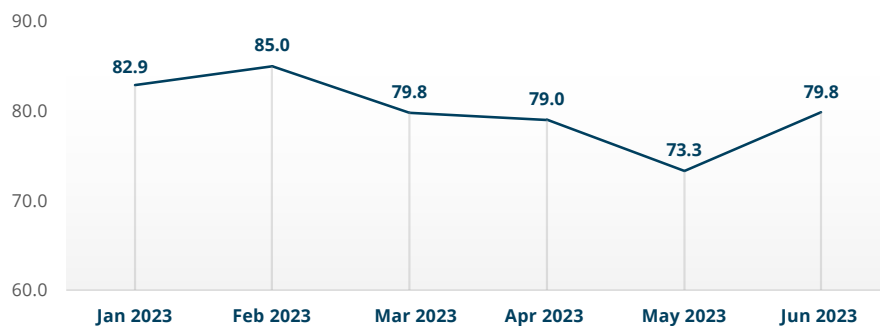
After the uncertainty of the debt ceiling status that impacted small business confidence in May, the June WSJ/Vistage Small Business CEO Confidence Index increased 6.5 points to reach 79.8, returning to the level recorded this past March.

While all six components that comprise the Small Business Index increased from last month, most notably there is a lessening in pessimism about the U.S. economy's future. **The proportion of small businesses that believe the economy will worsen in the next 12 months declined 13 points from last month to reach 44%.**

Sentiment about revenues and profits improved from last month, and disinflation is evident in profitability expectations as they have rebounded from last month; **43% report expectations for improved profits in June compared to last month's 36%.** Revenue expectations rebounded after a dip last month as well, with 53% expecting increased revenues and 15% expecting decreased revenues. As ITR Economics has noted, different industries are in different cycles.

Expansion plans remain conservative but have not declined following last month's dip. While one-third (33%) of small businesses report they have delayed hiring in the last 6 months, 48% plan to expand their workforce in the next 12 months and just 7% report plans to decrease the size of their workforce. Higher interest rates and tightened lending standards continue to put a hold on fixed investments and capital spending for small businesses in the year ahead. More than half plan to delay (53%) or reduce (52%) capital spending this year.

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



↑ Overall Economy	↑ Expected Revenues	↑ Future Investments
14% of CEOs said the economy recently improved (up from 11% in May)	53% of CEOs expect increased revenues in the year ahead (up from 48% in May)	30% of CEOs expect to increase investments in the year ahead (up from 29% in May)
↑ Future Economy	↑ Profitability Projections	↑ Future Employment
12% of CEOs expect the economy to improve in the year ahead (up from 8% in May)	43% of CEOs expect expected increased profits in the year ahead (up from 36% in May)	48% of CEOs plan to expand their workforce in the next year (up from 45% in May)



Joe Galvin | Chief Research Officer, Vistage Worldwide, Inc.

As Chief Research Officer for Vistage, the world's leading executive coaching organization for small and midsize businesses, Joe Galvin is responsible for providing Vistage members with current, compelling and actionable thought leadership on the top issues, topics and decisions of small and midsize business CEOs.



Jackie Greene | Vice President of Economics, [ITR Economics](#)

Jackie Greene is the Vice President of Economics and has been serving ITR Economics' clients since 2005. During that time she has contributed to the company's forecasts, publications, and thought leadership. Jackie has worked with many clients in a one-on-one capacity as well as delivered keynote addresses on multiple continents.



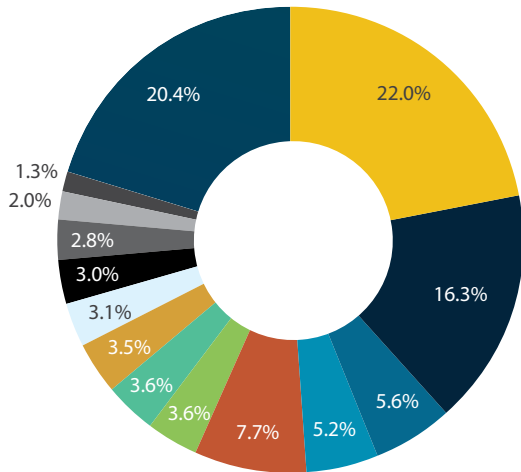
Anne Petrik | Vice President of Research, Vistage Worldwide, Inc.

As Vice President of Research, Anne Petrik leads the design, deployment and analysis of CEO surveys for Vistage, capturing the sentiment and practices of the Vistage CEO community. Using her analysis in collaboration with perspectives from experts and partners, Anne directs the thought leadership published by Vistage research to provide small and midsize business CEOs with insights that inform on how to optimize their businesses and enhance their leadership.

The Q2 Vistage CEO Confidence Index survey was conducted June 5-12, 2023, and gathered 1,265 responses from CEOs and key executives for small and midsize businesses that are active Vistage members..

Industries

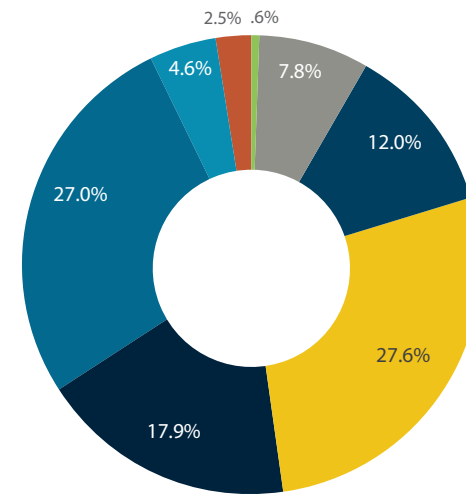
- Manufacturing
- Construction
- Wholesale Trade
- Finance & Insurance
- Consulting Services
- Health Care
- Architectural & Engineering
- Retail Trade
- Computer Systems Design
- Transportation & Warehousing
- Real Estate
- Advertising & PR
- Administrative & Support Service
- All Others



Each quarter, the WSJ/Vistage Small Business Index is calculated from a subset of data from the Vistage CEO Confidence Index comprised of respondents with \$1-20 million in annual revenues.

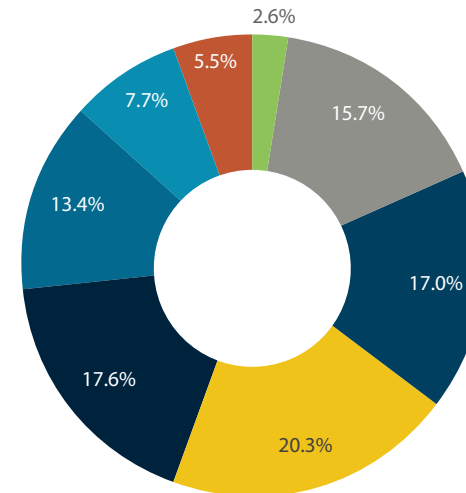
Number of Employees

- <10
- 10-19
- 20-49
- 50-99
- 100-499
- 500-999
- 1000-4999
- 5000+



Annual Revenues

- < \$1 Million
- \$1-4 Million
- \$5-9 Million
- \$10-20 Million
- \$21-49 Million
- \$50-99 Million
- \$100-249 Million
- \$250+ Million



ABOUT THE CEO CONFIDENCE INDEX

Each quarter the Vistage CEO Confidence Index gathers data from top-performing CEOs on their sentiment regarding the economy, prospects for their business and expansion plans. Started in Q1 2003, the Index has grown to be the largest and most comprehensive report of opinions and projections from CEOs of small and mid-size companies in the U.S.

See the full data set at vistage.com/ceoindex.

ABOUT VISTAGE RESEARCH

Vistage conducts original research and curates subject matter expertise from thought leaders to create actionable, thought-provoking insights for leaders of small and midsize businesses. Our analysis of surveys we conduct, including the WSJ/Vistage Small Business CEO survey and Vistage CEO Confidence Index survey, informs various reports. Since 2003, Vistage has published the CEO Confidence Index, which is a leading indicator of the U.S. Industrial Production Index 9 months in advance. Vistage provides the data and expert perspectives to help SMB CEOs make better decisions.

Learn more at vistage.com/research-center

ABOUT VISTAGE WORLDWIDE INC.

Vistage is the world's largest CEO coaching and peer advisory organization for small and midsize businesses. For more than 60 years, we've been helping CEOs, business owners and key executives solve their greatest challenges through confidential peer groups and one-to-one executive coaching sessions. Today, more than 45,000 members in 35 countries rely on Vistage to help make better decisions for their companies, families and communities. The results prove it: Vistage CEO members grew their annual revenue on average by 4.6% in 2020, while nonmembers with comparable small and midsize businesses saw revenue decrease by 4.7%, according to a study of Dun & Bradstreet data.

Learn more at vistage.com

VISTAGE

CEO CONFIDENCE INDEX

20TH ANNIVERSARY

Capturing sentiment of small and midsize business CEOs since 2003.

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