

Small businesses find stability amid uncertainty

The extended period of stability in small business sentiment has masked more substantial changes due to uncertainties about the evolving outlook for COVID-19, federal policy responses to rising inflation and lagging labor force participation. Small business sentiment has remained virtually unchanged during the past four months as increased economic risks have increasingly offset decreasing COVID risks to small businesses.

The WSJ/Vistage Small Business CEO Confidence Index was 99.3 in February, nearly identical to the 99.5 recorded last month and the 99.5 from three months ago. Although the latest results were similar to 98.4 recorded last February, small businesses reported that a substantially different environment had emerged. Small businesses were more likely to think current conditions in the economy had improved compared with a year ago, and less likely to expect continued growth in the year ahead.

The lack of improvement in the past few months suggests lingering uncertainty about the possibility of another COVID variant, prospects for inflation, how fast the Federal Reserve will hike interest rates, and how successful wage increases will be in increasing labor force participation rates and decreasing turnover. Importantly, these economic decisions will begin to evolve during the first quarter, which is expected to be the weakest quarter of GDP growth in 2022.

Economic growth expected to slow

A sizable slowdown in both the current and expected pace of economic growth has been reported since mid-2021. The proportion of small businesses that thought the economy had continued to expand in the February survey was half the level from mid-2021, falling to 37% from 74% in July 2021. The same steep falloff was recorded in the expected pace of expansion, falling to 25% from 50% in July. This shift has meant that current economic conditions are barely more positive than negative (37% vs. 32%), and expected conditions are barely more negative than positive (32% vs. 25%). Such relatively even splits in assessments of the national economy in the January and February surveys indicate widespread uncertainty.

Robust investment plans

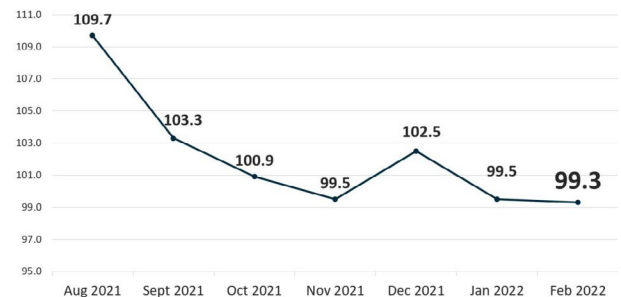
Increases in fixed investment expenditures were planned by 48% of all small businesses surveyed in February, remaining near the 2021 peak of 51% set in July. Just 8% of small businesses responding in February planned to cut their investment spending in the next 12 months.

Hiring challenges persist due to inflationary pressure

Plans to increase total employment were voiced by 69% of small businesses that responded to the February survey, landing between last month's 67% and December's 75%. Two-thirds of small businesses cited they were unable to hire as many workers as they needed to operate at full capacity, despite widespread offers of salary increases. Looking back, 6% of small businesses did not offer salary increases in the past year, and one-third (33%) offered salary gains of more than 6%. For the year ahead, 84% of small businesses plan to offer salary increases to attract new hires, and 56% intend to offer increases of greater than 4%.

Along with rising salary expenses, one-in-five small businesses reported price increases from suppliers. Despite rising costs, the main supply chain challenge is the availability of supplies and delivery delays, cited by three-quarters of small businesses. This emphasis makes sense: Higher prices can offset higher costs, but sales require the availability of supplies.

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



In February the WSJ/Vistage Small Business CEO Confidence Index declined marginally to 99.3.

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

Revenues steady while profits off slightly

Total sales revenues are expected to increase by 71% of small businesses in the next 12 months, barely below 72% recorded last month as well as last year. Profits were anticipated to increase by 50% of small businesses surveyed in February, below last year's 57%. Rising labor and input costs, coupled with unchanged revenues, have negatively impacted profits. Given the rather small profit decline, it would imply higher unit selling prices.

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

Source: February 2022 WSJ/Vistage Small Business CEO Confidence Index Survey n=598

Question	Answer	Respondents	
		#	%
1. Compared with a year ago, have overall economic conditions in the United States improved, remained the same, or worsened?	Improved	220	37%
	Remained about the same	181	30%
	Worsened	193	32%
	Don't know/No opinion	4	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	152	25%
	About the same	238	40%
	Worse	193	32%
	Don't know/No opinion	15	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	425	71%
	Remain the same	131	22%
	Decrease	34	6%
	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	299	50%
	Remain the same	190	32%
	Worsen	100	17%
	Don't know/No opinion	9	2%

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	287	48%
	Remain the same	250	42%
	Decrease	47	8%
	Don't know/No opinion	14	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	413	69%
	Remain the same	160	27%
	Decrease	20	3%
	Don't know/No opinion	5	1%
7. Over the last 30 days, how has the size of your workforce changed?	Increased	238	40%
	Remained the same	296	49%
	Decreased	64	11%
8. Are hiring challenges impacting your ability to operate your business at full capacity?	Yes	387	65%
	No	211	35%
9. Which best describes how you have adjusted wages or salaries in the past 12 months?	Have not increased wages	34	6%
	Increased wages 1% - 3%	111	19%
	Increased wages 4% - 6%	236	40%
	Increased wages more than 6%	196	33%
	Other	19	3%
10. How much do you plan to increase wages or salaries in the next 12 months?	Not planning to increase wages or salaries	64	11%
	Increasing wages 1% - 3%	169	28%
	Increasing wages 4% - 6%	254	43%
	Increasing wages more than 6%	80	13%
	Other	29	5%

Question	Answer	Respondents	
		#	%
11. Which best describes your supply chain?	No problem	164	27%
	Getting worse	177	30%
	Slowly getting better	191	32%
	Other	65	11%
12. What is currently your biggest supply chain challenge?	Price of goods and materials	77	21%
	Availability of inventory	105	29%
	Delivery/fulfillment time	164	45%
	Quality of goods and services received	9	2%
	Other	11	3%
13. Do you think suppliers are favoring larger companies over smaller ones?	Yes	343	60%
	No	224	40%
14. Which effects of inflation are you experiencing in your business?	Higher costs for raw materials and other inputs	321	54%
	Increased prices from vendors	448	75%
	Offering increased wages	452	76%
	Not experiencing effects from inflation	29	5%
	Other	16	3%
15. Does your company plan to secure additional financing this year?	Yes, already have secured loans	86	14%
	Yes, are in the application process	72	12%
	Yes, but have not yet begun the application process	63	11%
	No	374	63%

Question	Answer	Respondents	
		#	%
16. How does the availability of financing and credit standards from lenders compare with the process prior to the pandemic?	Easier to get financing	21	10%
	About the same	130	59%
	More difficult to get financing	31	14%
	Don't know/uncertain	39	18%
17. During your company's last fiscal year, what was its total employment?	1-9 employees	58	10%
	10-19 employees	99	17%
	20-49 employees	249	42%
	50-99 employees	123	21%
	100-499 employees	67	11%
	500-999 employees	1	0%
	1000-4999 employees	1	0%
18. During your company's last fiscal year, what were its total revenues?	500-999k	3	1%
	1-4 Million	172	29%
	5-9 Million	180	30%
	10-20 Million	196	33%
	21-49 Million	40	7%
	50-99 Million	4	1%
	100-249 Million	2	0%
	250-499 Million	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.