

Economics Group

Special Commentary

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Wells Fargo Small Business Survey: Q3-2020

Some Incremental Improvement but Still a Long Road to Recovery

Small business owners are learning to live with the drag on economic activity resulting from efforts to contain the coronavirus. The Wells Fargo/Gallup Small Business Index rose 12 points during the third quarter to 60. The increase was entirely due to a rise in expectations for future conditions, which rose 32 points to 41. Business owners' assessment of current conditions fell 20 points during the quarter, falling to 19 from 39. The Wells Fargo/Gallup Small Business Index is calculated from a survey of small business owners' view on present conditions and future expectations of their overall financial situation, revenue, cash flow, capital spending, staffing levels and access to credit. The index hit an all-time high of 142 during the fourth quarter of 2019 before plummeting 94 points over the next two quarters, as states across the country shuttered much of their economy in order to contain the spread of COVID-19.

The rebound in small business confidence follows the gradual reopening of the economy in many states and closely tracks the decline in initial unemployment claims and rise in the stock market. The 20-point drop in business owners' assessment of current conditions likely reflects concerns about the rise in COVID-19 infections across much of the Sun Belt this summer as well as the widely covered civil unrest that accompanied some of the social justice protests across the country this summer. After bottoming in mid-April, most of the high-frequency data that we track—such as OpenTable restaurant dinners, TSA checkpoint throughput, Apple and Google mobility data, and information on the share of small businesses that are currently open, as well as staffing levels and hours worked—rose in May and early June but have since leveled off or even retreated slightly in a few markets that were hardest hit by the resurgence in COVID-19 cases.

Many of the states hardest hit by the summer resurgence in COVID-19 cases rank among the largest states in country, including the top three: California, Texas and Florida. Business re-openings were rolled back somewhat in parts of all three states, while the fourth largest state—New York—endured a spike in COVID-19 cases earlier and gradually saw businesses reopen over the summer.

Small business optimism rose 12 points during the third quarter but remains well below levels that prevailed toward the end of 2019.

Figure 1

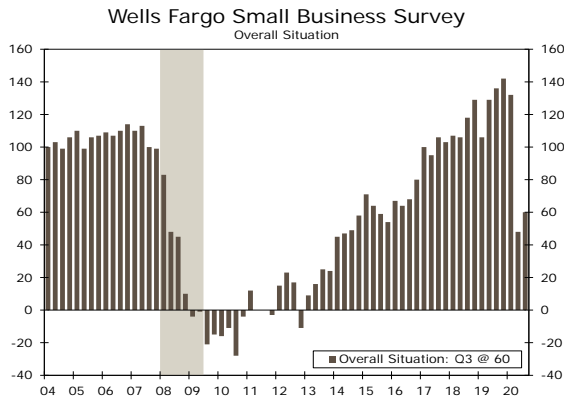
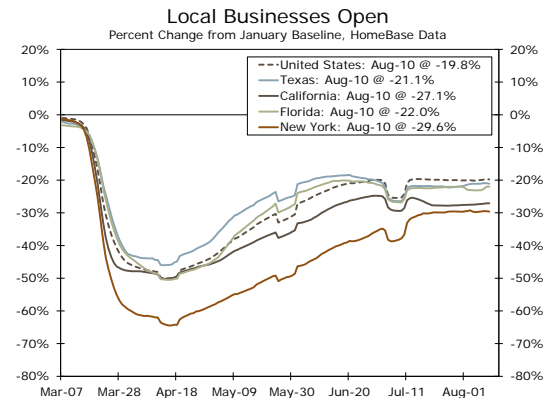


Figure 2



Source: Gallup, Wells Fargo Bank, HomeBase and Wells Fargo Securities

Together we'll go far



Concerns about the coronavirus and the associated loss of business remain the most pressing challenge.

Business Owners Strive for Resiliency amid Extreme Uncertainty

The COVID-19 pandemic has led to unprecedented uncertainty for many small businesses. Business owners have adjusted to this new environment by cutting expenses where possible, investing in equipment to allow for more social distancing and increasing their online presence, either through remote working or online ordering and sales. While many firms have adjusted their operating procedures, there is still a great deal of uncertainty about where the virus goes from here and how that will affect their business. Concerns about the coronavirus and associated loss of business remain the most pressing challenge for small businesses, with 27% of business owners rating it as their top concern. The share has come down from the height of the crisis, when it was cited by 44% of business owners, as new cases declined in most of the nation's largest states.

Business owners are concerned about the public policy response to the coronavirus. A surprisingly large portion of business owners (43%) feel the economy reopened too soon, while 25% feel that the pace of reopening was about right. A further 22% felt the reopening came later than it should have and 10% said the economy, at least as it related to their business, was still not open. Business owners felt somewhat differently about the pace of reopening in their own local area, with 33% stating they felt the economy opened too soon and 37% saying the timing of the economy reopening was about right. Twenty-four percent of business owners felt the economy should have opened sooner than it did and 7% said their local economy was still not open.

The perception of whether the economy opened too early or too late is likely tied to the industry a particular business operates in. Industries that closely interact with the public are most at risk and 55% of the businesses in our survey say they regularly interact with the public in their place of business. Restaurants and bars, entertainment venues, salons and spas, fitness centers and other service providers have been hardest hit. Of those businesses that have been allowed to reopen, most must do so at dramatically reduced capacity levels. Limits on capacity are not the only problem, however, as customers are often reluctant to re-engage in the economy when they are concerned about contracting COVID-19. The most recent Google Mobility data shows an uptick in visits to retail and a restaurant destinations and likely reflects recent decline in new infections and a later Labor Day.

Given their concerns about COVID-19, it is not surprising business owners are so closely tuned into the presidential election. A whopping 97% of small business owners plan to vote in November. The high proportion of business owners voting is not unusual because so much of business owners' economic wellbeing is tied to the success of their business, which is highly influenced by tax policy and government regulations. Nearly 60% of business owners believe the outcome of the November election will have a major impact on their business and would like to see the candidates focus on further relief for small business, tax reform and getting the economy back on track. The perception of who will do the best job of handling COVID-19 is critically important, with 88% of small business owners stating that the president's approach on this is either extremely or very important.

A whopping 97% of small business owners say that they plan to vote in November.

Figure 3

Will the Upcoming Presidential Election Impact Your Business?
Q3-2020

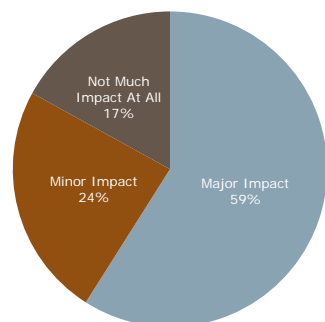
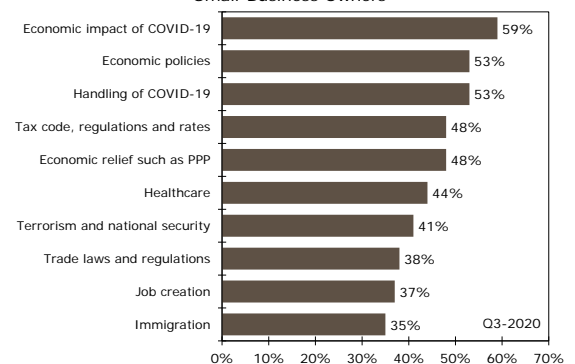


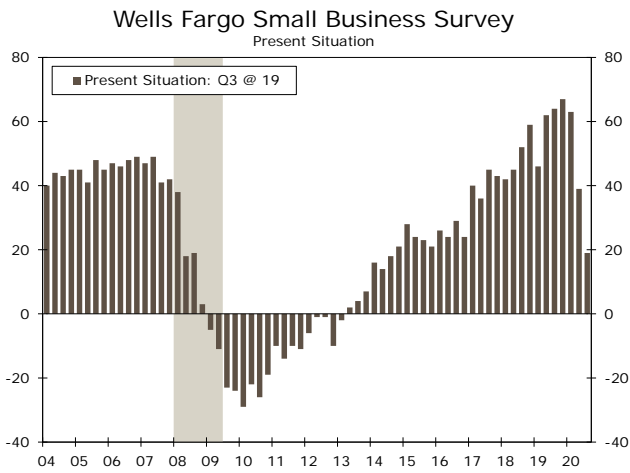
Figure 4

Top 10 "Extremely Important" Issues for U.S. Small-Business Owners

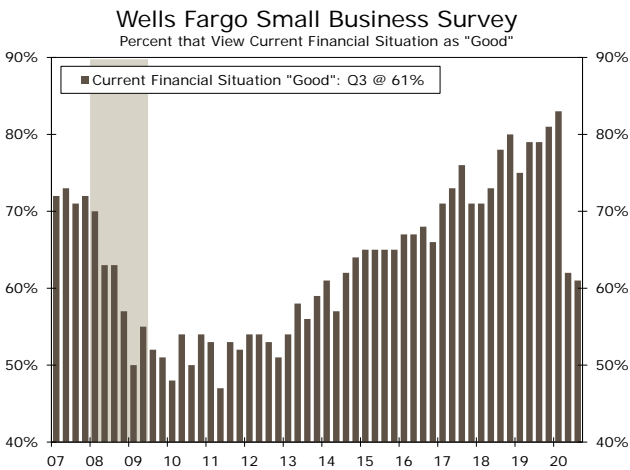
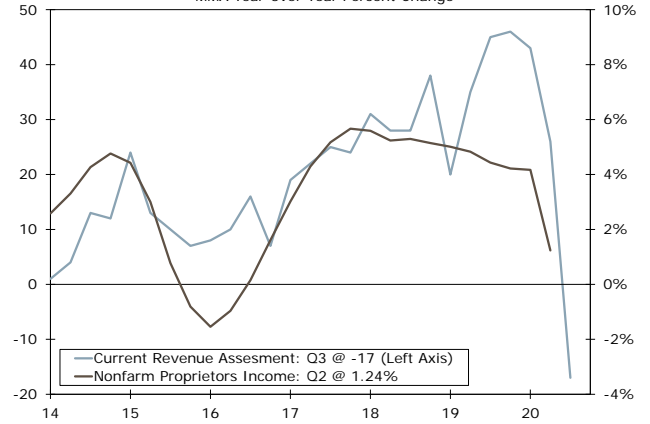


Source: Gallup, Wells Fargo Bank and Wells Fargo Securities

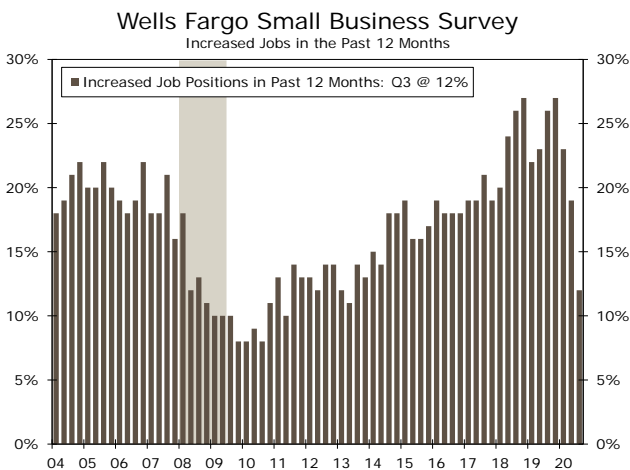
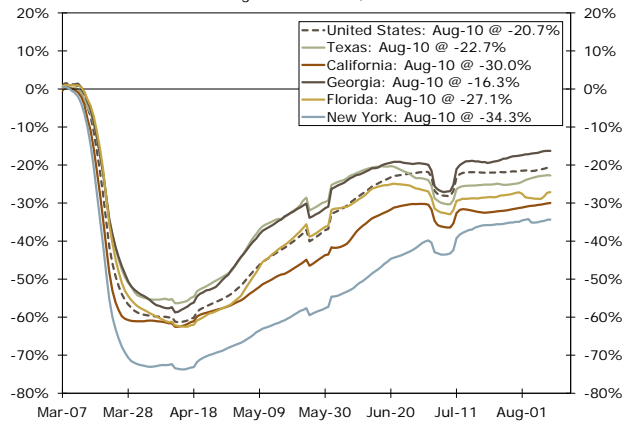
Present Situation



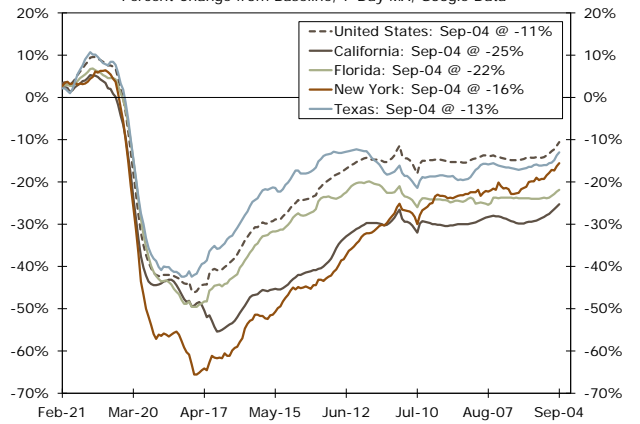
Company Revenue Gap vs. Nonfarm Income
 Diff. Between "Increase" and "Decrease" Over Past 12 Months, 4Q-MMA Year-over-Year Percent Change



Hours Worked by Hourly Employees
 Percent Change from Baseline, Homebase Data



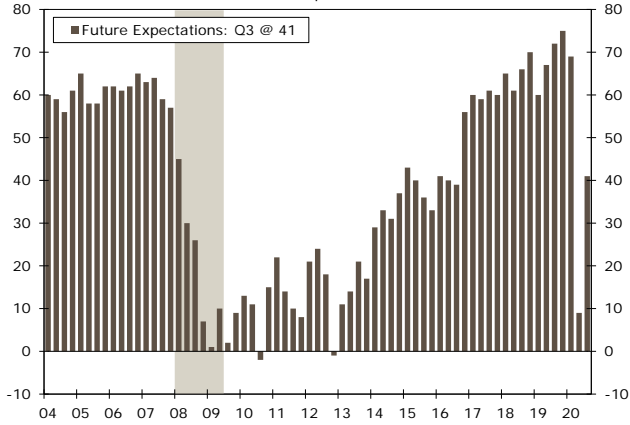
Visits to Retail & Recreation Locations
 Percent Change from Baseline, 7-Day MA, Google Data



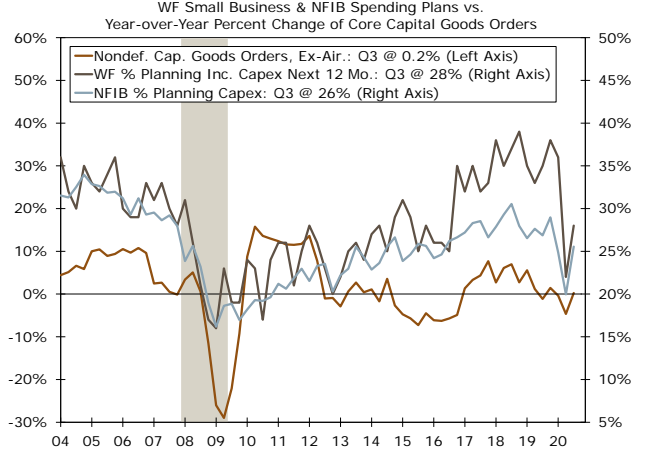
Source: Gallup, Wells Fargo Bank, HomeBase, Google, U.S. Department of Labor and Wells Fargo Securities

Future Situation

Wells Fargo Small Business Survey
 Future Expectations

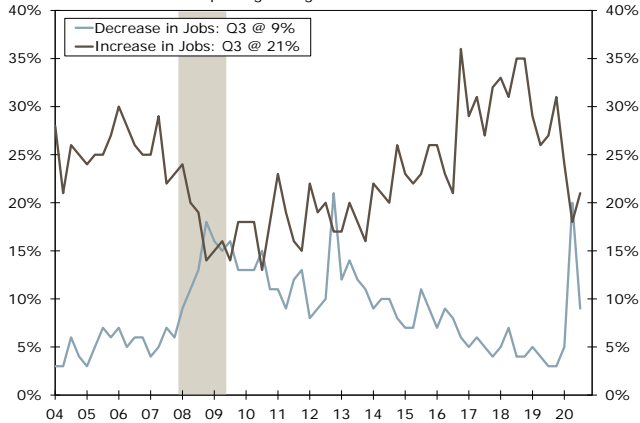


Capital Spending Plans vs. Investment



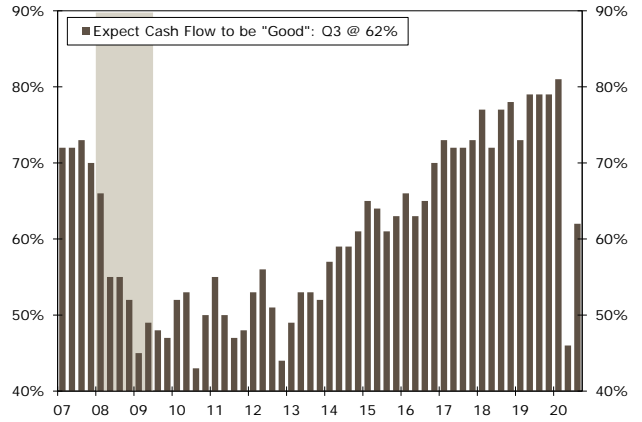
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Percent Expecting Change in Jobs in Next 12 Months



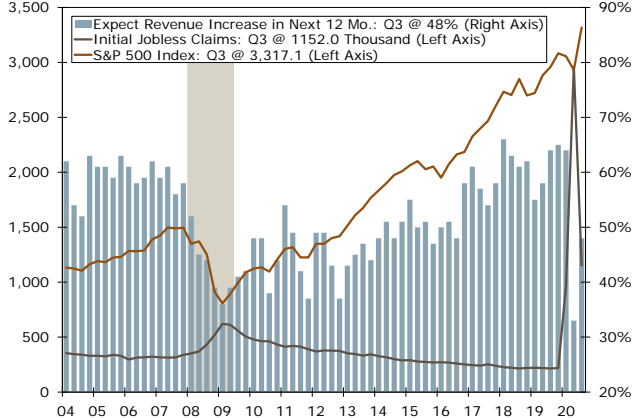
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Expect Cash Flow to be "Good" Over the Next 12 Months



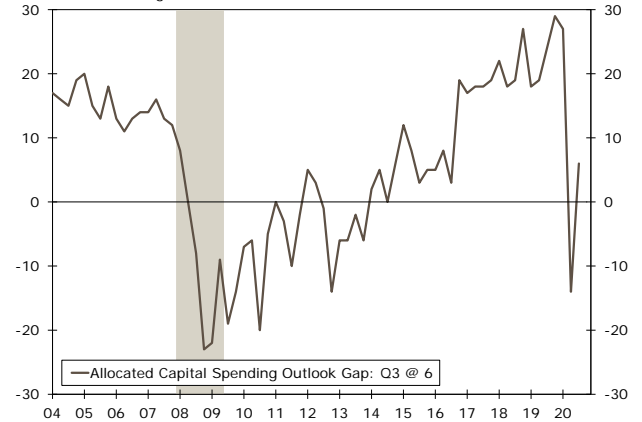
Wells Fargo Small Business Index

Percent Expecting an Increase in Revenues Over Next 12 Months



Future Capital Spending Allotment

Percentage Point Difference Between "Increase" and "Decrease"



Source: Gallup, Wells Fargo Bank, NFIB, Bloomberg LP, U.S. Census Bureau and Wells Fargo Securities

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