

Economics Group

Special Commentary

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Wells Fargo Small Business Survey: Q4 2016

Small Business Confidence Jumps Following the Presidential Election

Small business owners are feeling much more optimistic about the prospects for the economy and their business in the coming year. The latest Wells Fargo/Gallup Small Business Index, which was conducted from Nov. 11 to Nov. 17, jumped 12 points to 80 from the previous quarter and is up 26 points over the past year (Figure 1). Small business optimism is now at its highest level since January 2008, when the index was coming down as the economy slid into recession. The latest reading marks the largest quarterly increase in a little over a year and is one of the largest quarterly gains in the series' history. The survey, which dates back to 2003, has risen by 12 or more points on only nine occasions. Most of those large prior gains were early in the recovery process, as confidence was rebounding off its lows, rather than late into a business expansion.

Small business optimism is now at its highest level since January 2008.

Previous surveys had shown small business owners were paying particularly close attention to the presidential election and intended to vote in much greater proportion than the population as a whole. The election outcome closely meshes with many of the top concerns raised by small business owners. Fifty-one percent of respondents stated that they believed the actions taken by the new president and Congress would make their company better off. Eighty-one percent of small business owners said they would like the incoming president and Congress to focus on reducing and simplifying taxes. Other top issues include reforms to healthcare and the Affordable Care Act, relief from government regulation and actions that would increase energy production.

While political factors likely influenced the magnitude of the improvement in small business confidence, business owners' attitudes about the economy and their business have been gradually improving for the past few years. All of the improvement in the most recent quarter, however, came from the expectations series, which jumped 17 points in the fourth quarter. The present situation index fell 5 points, essentially reversing the prior quarter's gain.

Figure 1

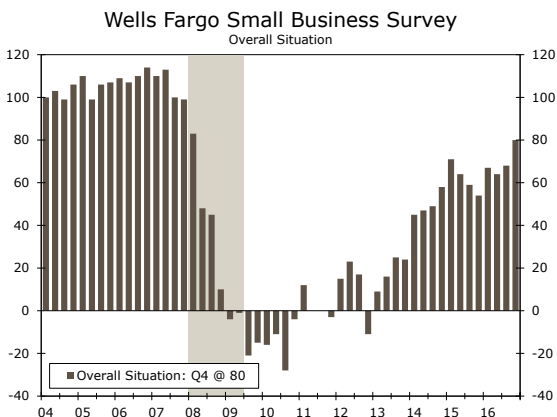
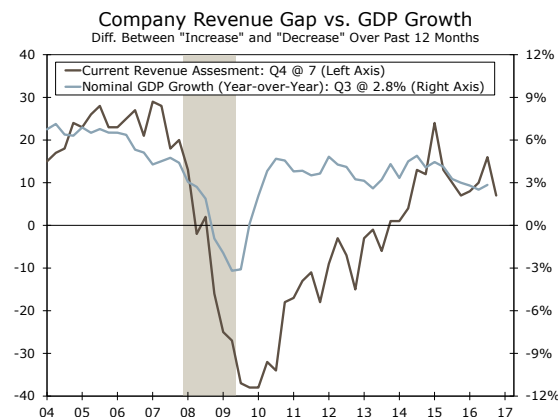


Figure 2



Source: Gallup, Wells Fargo Bank, U.S. Department of Commerce and Wells Fargo Securities



Small business owners have endured an unusually sluggish recovery from the Great Recession.

Optimistic about the Future but Still Focused on the Bottom Line

Small business owners have endured an unusually sluggish recovery from the Great Recession. Real GDP growth has averaged just a 2.1 percent pace over the past seven and a half years, while inflation has remained below 2 percent. Nominal GDP, which reflects revenue growth for the entire economy, has consistently been 4 percent or less, which has created challenges for businesses grappling with rising healthcare costs and the costs of complying with increased federal, state and local regulations. The net result has been tightly constrained cash flow for many businesses deep into this economic recovery. Business owners have responded to this predicament by holding the line on costs within their control, which has meant hiring fewer workers and investing less in new buildings and equipment.

The lack of revenue growth is evident in the most recent numbers. The proportion of business owners stating that their revenues had increased over the past year fell four percentage points in the fourth quarter to 37 percent, while the proportion that said revenues fell over the past year rose 5 percentage points to 30 percent. The revenue gap (Figure 2), which measures the difference between these two, tumbled 9 points to 7. All of those numbers are roughly even with where they were a year ago.

While the latest small business survey shows little improvement in recent conditions, business owners clearly expect conditions to improve during the coming year. The proportion of business owners expecting revenue to increase over the coming year jumped 10 points in the fourth quarter to 58, marking its largest gain in nearly five years and is the marks the highest proportion of business owners expecting revenues to increase in nine years. Businesses are similarly upbeat about the outlook for their cash flow. Moreover, both the proportion expecting to increase capital spending and increase hiring during the next year skyrocketed to post-recession highs (Figure 4). More business owners also stated that they expected to access credit during the coming years and a growing proportion expect their access to credit to improve despite a widely expected rise in interest rates.

The share of business owners expecting to increase capital spending and hiring during the next year skyrocketed.

Business owners' large emphatic response to the presidential election is not surprising. Small business owners are particularly sensitive to changes in personal tax rates, as many businesses are taxed at the personal tax rate. Business owners are also sensitive to the prospect of reducing burdensome regulations and finding ways to deal with rising healthcare costs, which tend to hit business owners directly. The sharp rise in small business confidence also matches gains in the Conference Board's measure of consumer confidence, which jumped 8.5 points in November. Moreover, confidence in many of the industrial states that ultimately swung the result of this election, including Ohio and Michigan, also registered huge gains in November, which reinforces the notion that much of the huge gain in small business confidence is tied to hopes that the new president and Congress will bring about the changes small business owners desire.

Figure 3

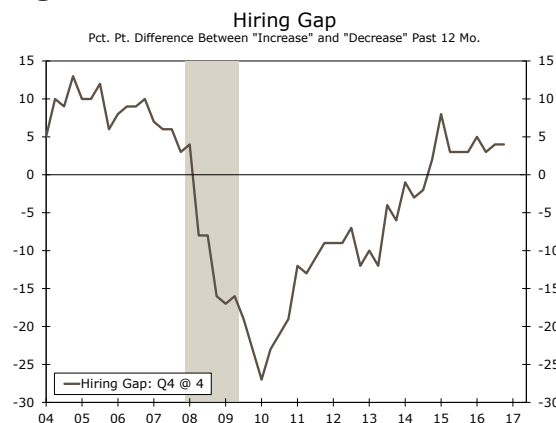
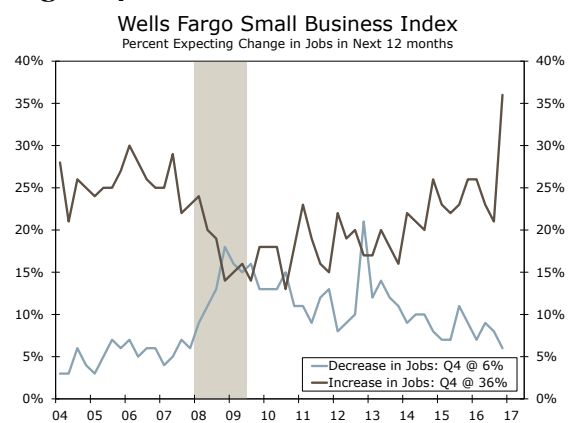
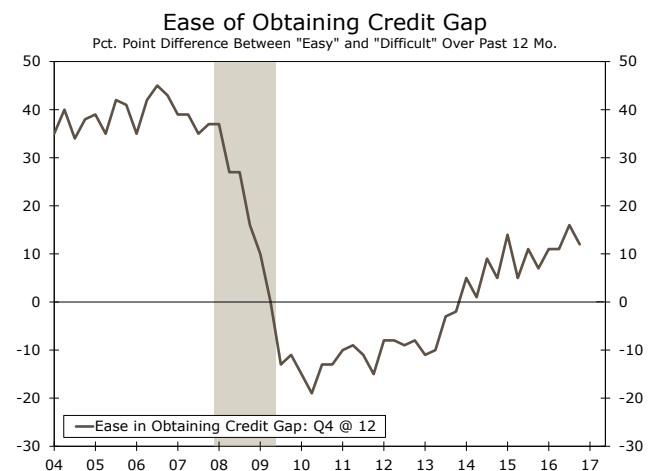
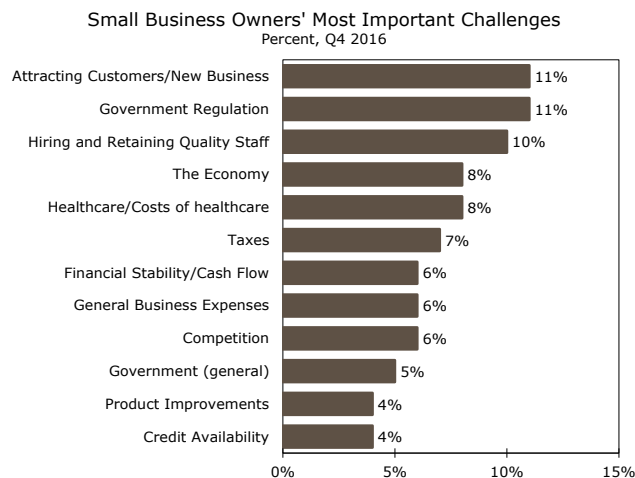
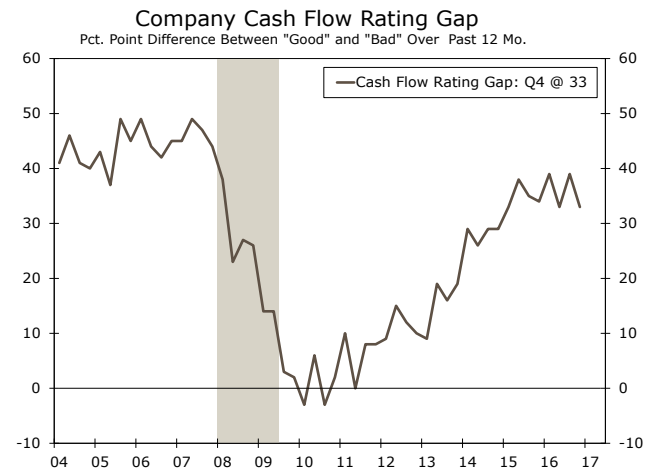
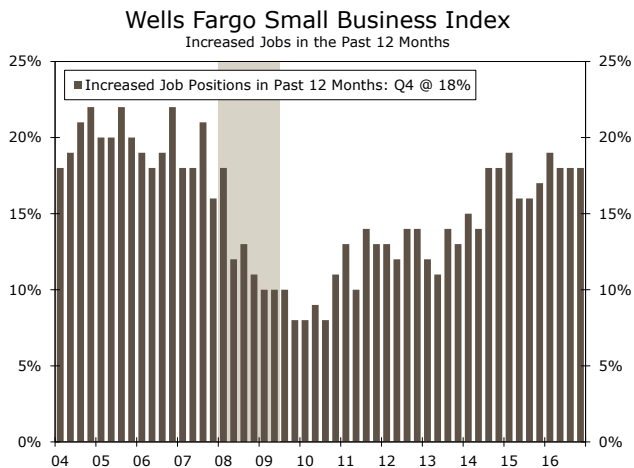
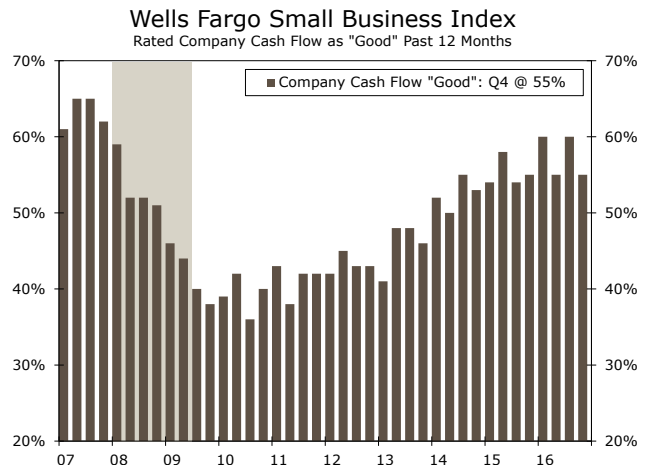
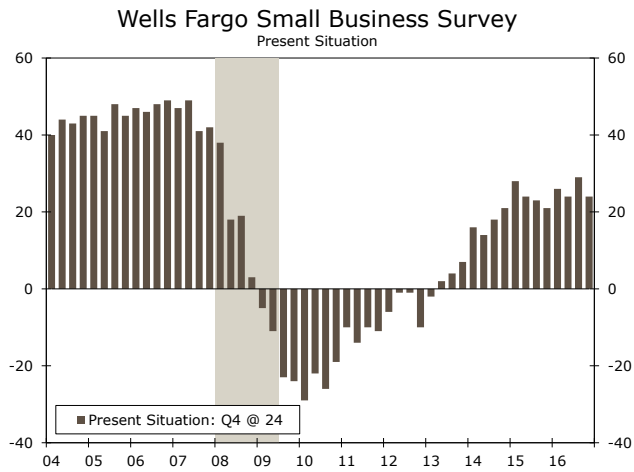


Figure 4



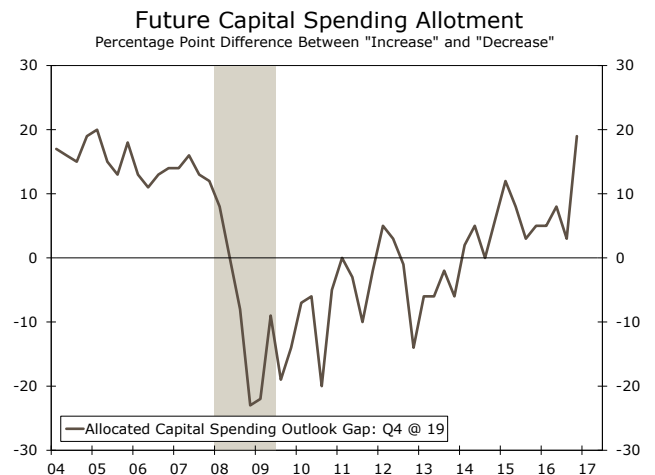
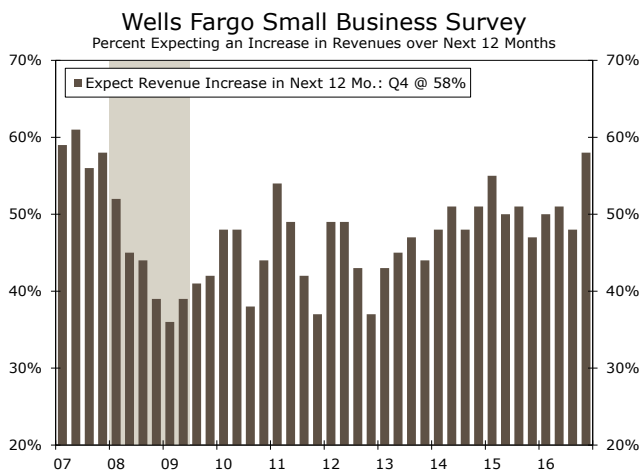
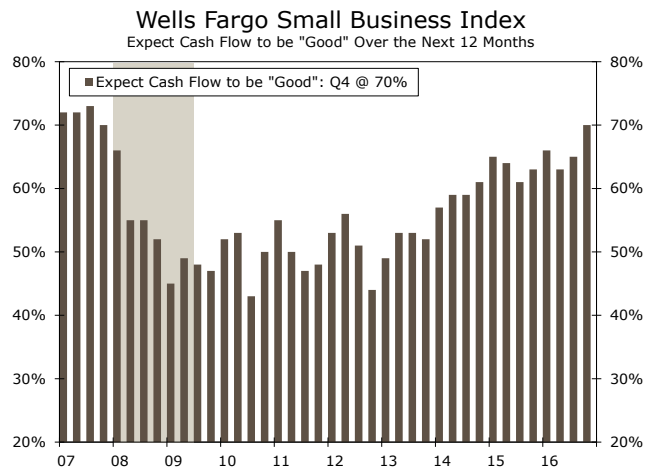
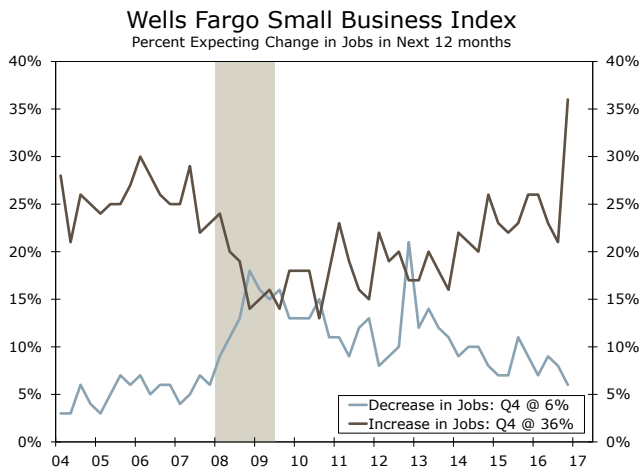
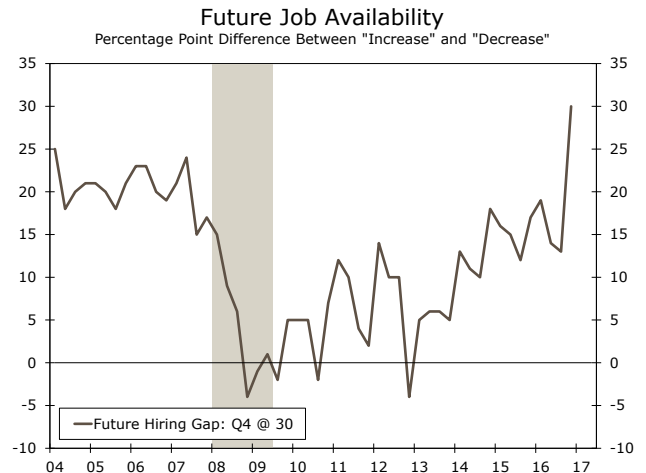
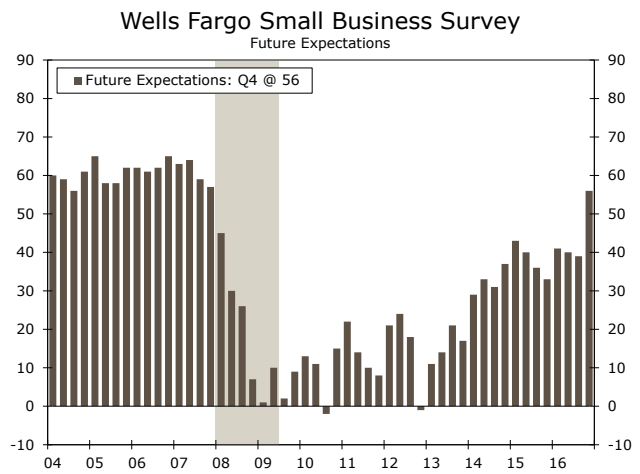
Source: Gallup, Wells Fargo Bank and Wells Fargo Securities

Present Situation



Source: Gallup, Wells Fargo Bank and Wells Fargo Securities

Future Situation



Source: Gallup, Wells Fargo Bank and Wells Fargo Securities

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