

# Economics Group

## Special Commentary

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# Wells Fargo Small Business Survey: Q3-2018

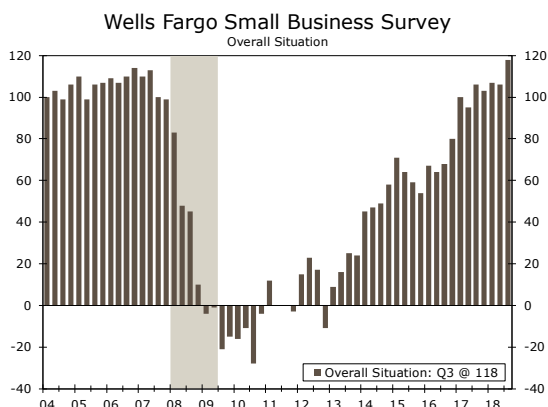
Small businesses are typically one of the first areas to detect a shift in the economy’s underlying momentum and that bodes well for the second half of the year and 2019. Various measures of small business confidence began to turn up in late 2016 and have remained strong ever since. The most recent survey results suggest the economy’s strong second quarter momentum, which saw real GDP surge at a 4.1 percent pace, should carry over into to the second half of the year. The latest Wells Fargo/Gallup Small Business Survey showed overall Small Business Optimism surged 12 points in the third quarter to 118 and put Small Business Optimism at its highest level in the 15-year history of the survey. Both perceptions about the current state of business and expectations for future conditions rose to new highs during the quarter.

The improvement in the economy is readily apparent to small business owners. One of the key underlying details in the strong second quarter GDP data reported was that proprietors’ income, which measures the income of non-incorporated business, grew much more strongly than had been previously reported. Proprietors’ income has risen 5.8 percent over the past year and has increased by a collective \$813 billion more than had been previously reported since 2010. The strength in proprietors’ income is reflected in the sharp improvement in small business owners’ assessment of their current finances, with 78 percent rating their financial situation either very good (34 percent) or somewhat good (44 percent) and just 9 percent stating their finances were either somewhat poor (7 percent) or very poor (2 percent). Moreover, 84 percent of small business owners said they expect their financial position to be good one year from now.

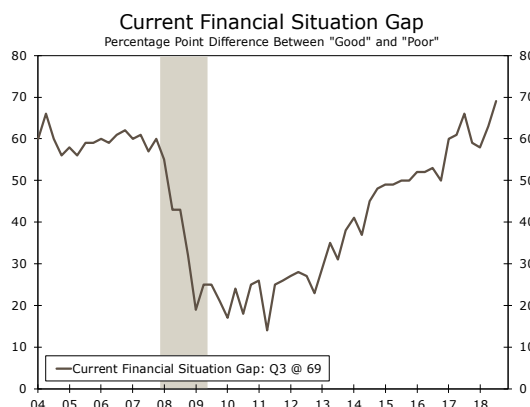
***A record proportion of small business owners are looking to increase their staff over the coming year.***

With business owners feeling confident, more firms are looking to expand. Twenty-six percent of business owners stated they had increased their staff over the past 12 months, while just 8 percent said they reduced staff. Looking ahead, a record 35 percent of small businesses plan to add staff during the coming year, while just 4 percent plan to reduce employment. Businesses are also more inclined to increase capital spending, with 37 percent stating they would increase capital spending either a lot (12 percent) or a little (25 percent).

**Figure 1**



**Figure 2**



Source: Gallup, Wells Fargo Bank and Wells Fargo Securities

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### Small Businesses Are Well Positioned to Expand

Small business owners are in a good position to expand. Cash flow has improved along with top line revenues. While interest rates have risen, they remain low. Home values have also increased, providing business owners the wherewithal to borrow. In addition, credit quality remains very good, with relatively few businesses reporting difficulty collecting on accounts. Sixty-nine percent of small business owners classified their cash flow as either good or somewhat good, which is 6 points higher than the prior quarter and a new record high. Small business owners also report few problems accessing credit, with 49 percent noting that obtaining credit will be very or somewhat easy over the next 12 months.

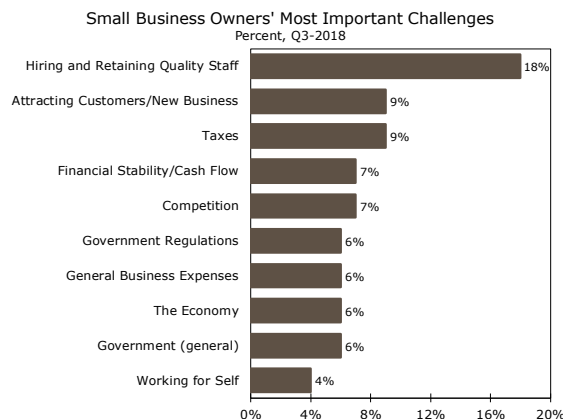
Data from the Small Business Administration suggest the bulk of small business growth has taken place in the South and the West. Parts of the country that have experienced sustained population gains have seen some of the strongest growth in small business. Reviewing the data across geographies identifies three key themes. Small business growth is strongest in areas with vibrant tech sectors, such as San Francisco, Seattle, Denver and Austin; rapidly-growing energy markets, like Houston and Oklahoma City; and rapidly-growing parts of the Sun Belt and Rocky Mountain states, such as Orlando, Charlotte, Atlanta, Nashville, Dallas, Phoenix and Salt Lake City.

Separate data collected by Yelp Inc., which helps connect consumers with local businesses, show communities with sustained rapid population growth tend to support more small business growth, with a larger share of new businesses achieving success. The latest Yelp data show particularly strong growth in home services, health-related businesses and restaurants. Austin, Miami, Atlanta, Phoenix and Charlotte rank as the top 5 of the 50 markets covered. The success in these markets makes a lot of sense, given they are all seeing strong in-migration, which fuels demand for household services, such as interior design, security and home automation. The large share of newcomers in these metro areas also makes it easier for new businesses to establish a market presence. Slower-growing metro areas in the Northeast and Midwest have generally had less success, as new business startups face a tougher time competing with long-established businesses.<sup>1</sup>

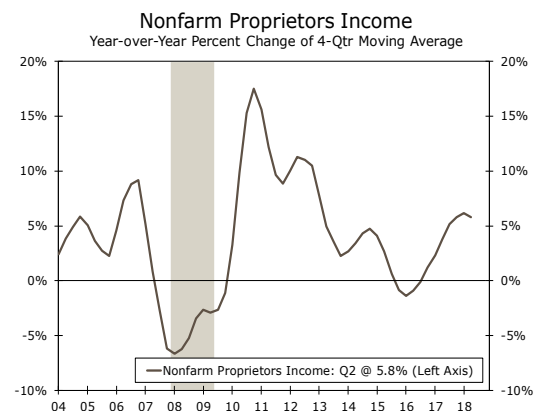
While strong economic growth has produced a great environment for small businesses, many business owners are continuing to face challenges brought about by that strong growth. The unemployment rate has recently fallen below 4 percent and is well below that in many rapidly growing areas, such as Austin and Nashville. Attracting and retaining the workers businesses need to provide quality service or to grow their operations remains by far the greatest challenge for small business owners today. By contrast, concerns about taxes and regulation, which perennially topped the list of concerns by small business owners for much of this decade, have receded considerably.

**Concerns about taxes and regulations have receded, while attracting quality staff remains the most important challenge.**

**Figure 3**



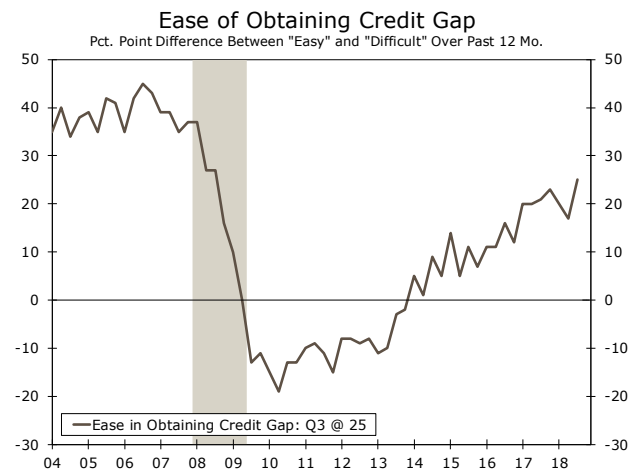
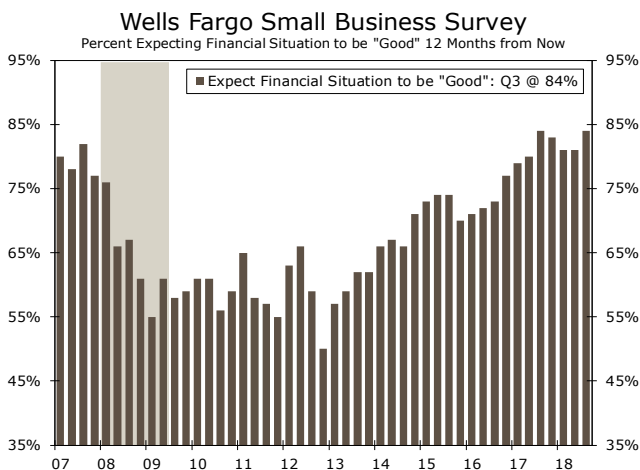
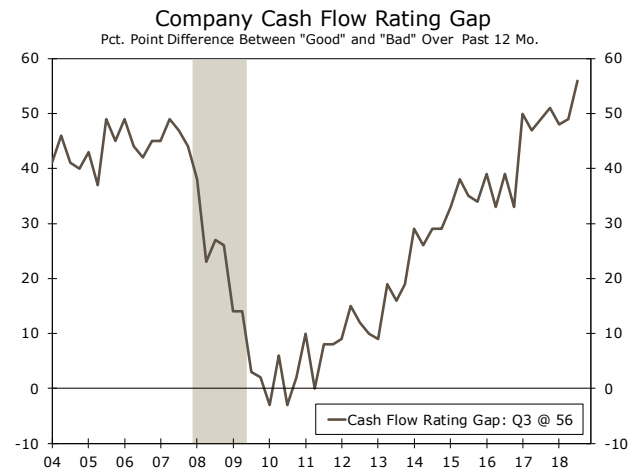
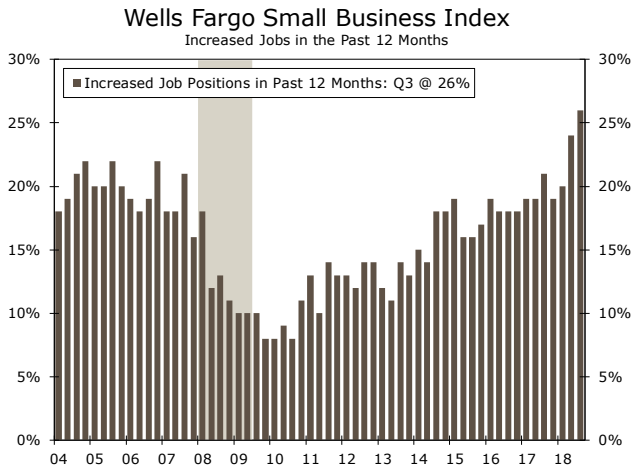
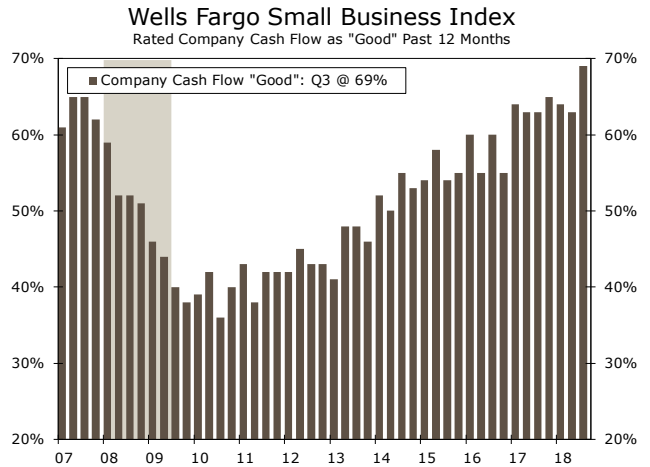
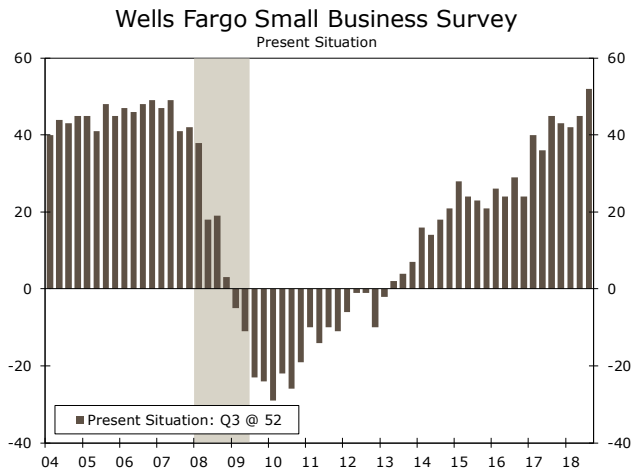
**Figure 4**



Source: Gallup, Wells Fargo Bank and Wells Fargo Securities

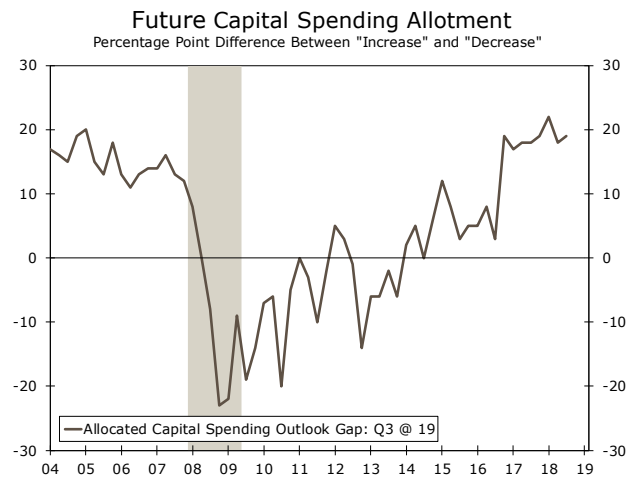
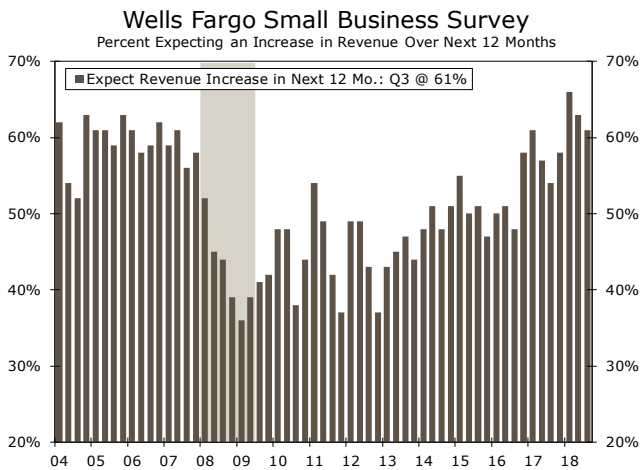
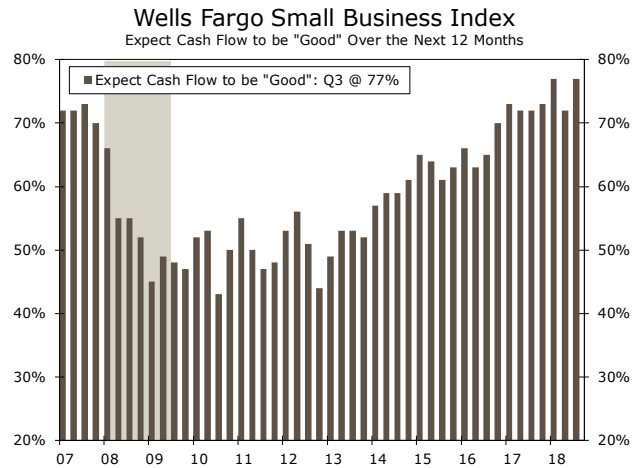
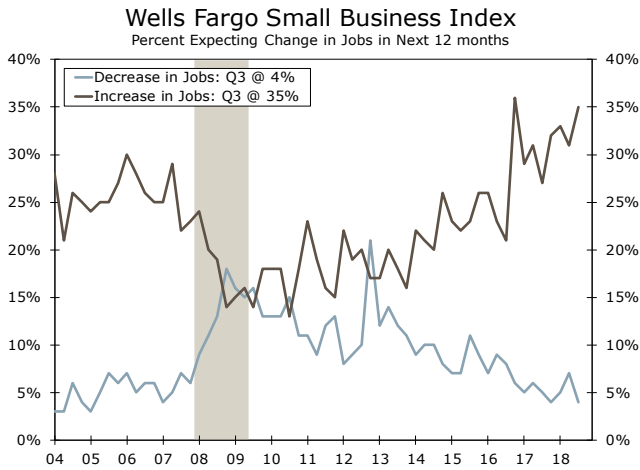
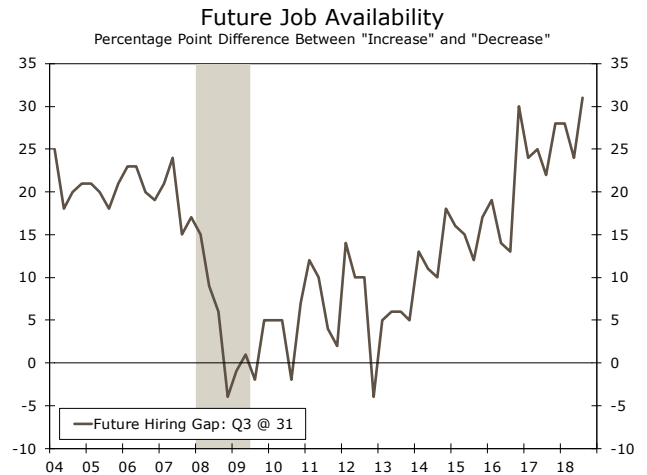
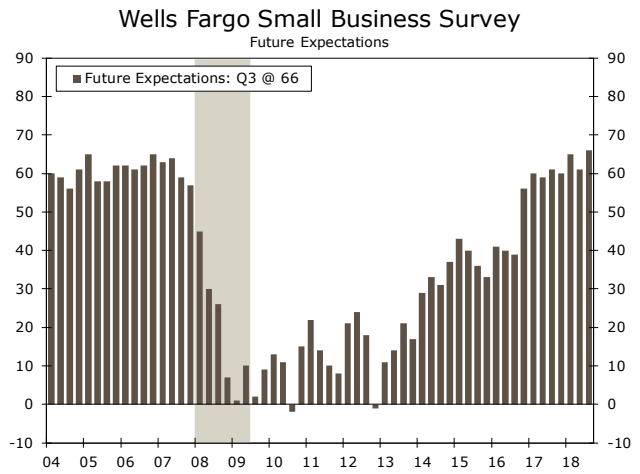
<sup>1</sup>Yelp Local Economic Outlook for Q2-2018. <https://www.yelpblog.com>. May 15, 2018.

**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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