

Economics Group

Special Commentary

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Wells Fargo Small Business Survey: Q1-2019

Small business owners have become somewhat more cautious in the wake of last year’s stock market selloff, the partial federal government shutdown and worries about slower economic growth. The overall index tumbled 23 points in the first quarter, marking its largest drop in nearly seven years. The decline comes just one quarter after small business confidence hit an all-time high, when it rose 11 points to 129 in the fourth quarter. Moreover, the index had risen 12 points in the prior quarter and has remained above 100 for the past seven quarters, which means that small business confidence remains at a relatively high level even after the early 2019 drop.

The timing of the survey may partly explain the sharp first quarter reversal. The latest quarterly Wells Fargo/Gallup Small Business Index surveyed business owners from January 9 through January 15, which was too soon to capture much of the relief from the Fed’s recent softer policy stance and rebound in the stock market. While the timing of the survey may have captured more uncertainty than is present today, the drop in small business confidence is consistent with other surveys from manufacturers, builders and corporate CEOs for that period. All expressed concern about the economy late last year and some apprehension about the 2019 outlook. Those concerns appear to have been alleviated somewhat more recently, as the employment data have come in strong and financial markets have rebounded amid fairly solid corporate earnings.

Even after the fourth quarter drop, small business confidence remains at a relatively high level.

Small business owners’ assessment of their own finances deteriorated in the first quarter. The number of firms stating their revenues increased over the past 12 months still exceeds the number saying they declined, but the gap narrowed sharply. The number of firms reporting rising revenues fell 10 percentage points to 45% while the share of firms reporting declining revenues rose eight points to 25%. Both series fell to their weakest levels since the first quarter of 2017, which was the quarter small business confidence broke definitively higher following the 2016 election. Expectations for revenue growth in the coming year also fell slightly. The number of business owners expecting revenues to rise in the next 12 months fell seven points to 55%, while the number expecting revenues to fall remained unchanged at 10% for the third consecutive quarter.

Figure 1

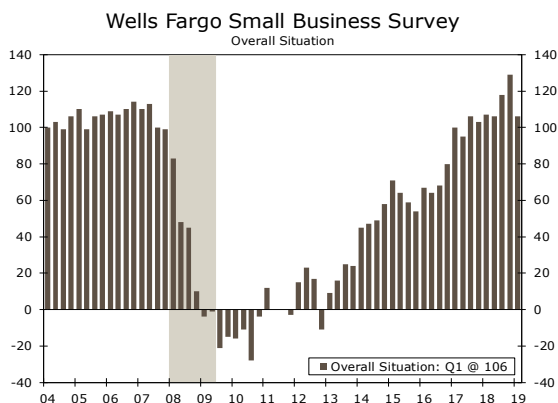
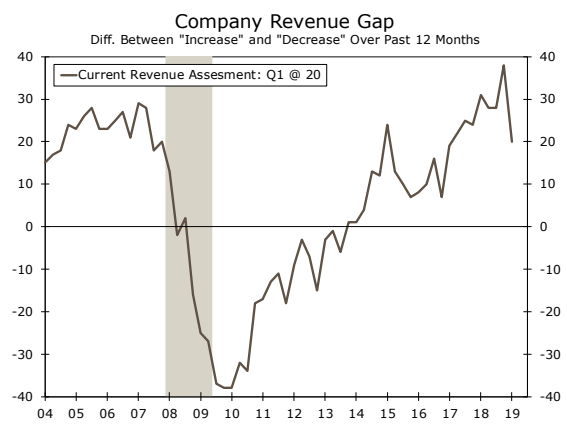


Figure 2



Source: Gallup, Wells Fargo Bank and Wells Fargo Securities

Most of the factors clouding the business outlook are outside the control of small business owners.

The biggest near-term challenge for business owners is finding and retaining the quality workers they need.

Small Business Owners Are Guardedly Optimistic About 2019

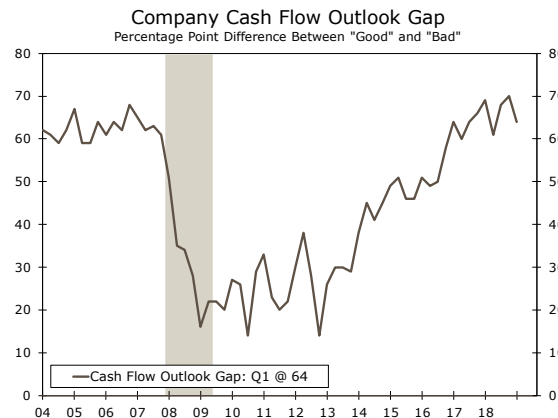
Small business owners have clearly become more cautious about the economic outlook and the outlook for their own business. The shift in small business confidence is apparent in virtually every component of our quarterly survey, but the absolute levels remain consistent with solid growth. A more apt description of small business sentiment is that business owners are now guardedly optimistic about 2019. More firms still see the economy and their business improving during the coming year than see conditions weakening. Most of the factors clouding the business outlook, such as the stock market selloff, government shutdown and concerns about how the trade skirmish is impacting global growth, are outside of the control of small business owners. Moreover, Main Street did not deteriorate anywhere near as much as Wall Street did during the fourth quarter. Retailers actually had a fairly solid quarter and business in the leisure and hospitality sector was strong.

The actions taken by small business owners have not changed as dramatically as the overall measures of small business sentiment. The proportion of firms increasing capital spending over the past 12 month (30%) remains twice as high as the share of firms decreasing capital spending (15%). Plans to increase capital spending over the next 12 months fell back slightly, with the share falling four points to 35% and the share of firms planning to cut capital spending rising five points to 17%. One of the reasons investment plans are holding up so well is that firms still feel pretty positive about their own finances and their cash flow. Credit is also readily available, with very few firms reporting difficulty securing financing.

The biggest near-term challenge for business owners is finding and retaining the quality workers they need. Small business owners have identified difficulty hiring and retaining workers as the most important challenge facing their business for the past four quarters, a period during which the national unemployment rate fell to as low as 3.7%. Attracting business is the second highest rated concern.

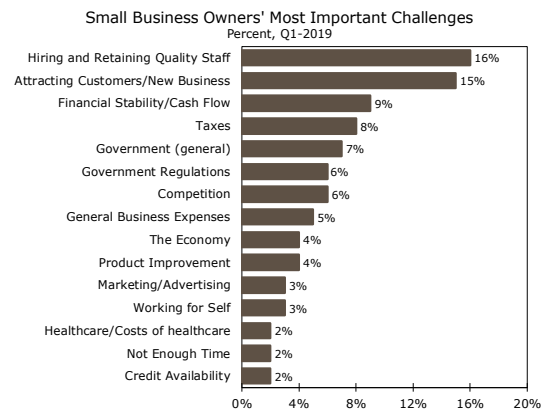
Small business owners' guarded optimism is apparent in most of the survey's major components. While just over two-thirds of small business owners see economic conditions remaining strong and feel their business is in sound financial shape, fewer firms are planning to add staff in the coming year and more businesses are beginning to think about contingency plans if the economy were to weaken. Our survey asked business owners who owned their businesses during the 2008 recession to compare their preparedness now to that earlier point in time. Seventy-five percent of the firms responding said they were more prepared today if the economy were to weaken, while just 14% said they were less prepared. In addition, when asked what their greatest lesson was in the decade since the 2008 recession, the most frequent response was conservative capital management and frugality (19%). Other lessons included monitoring cash flow (12%) and good planning (9%). Business owners' responses around preparedness and their continued sense that 2019 will be a prosperous year indicate a sense of guarded optimism rather than a prediction of tougher economic times.

Figure 3

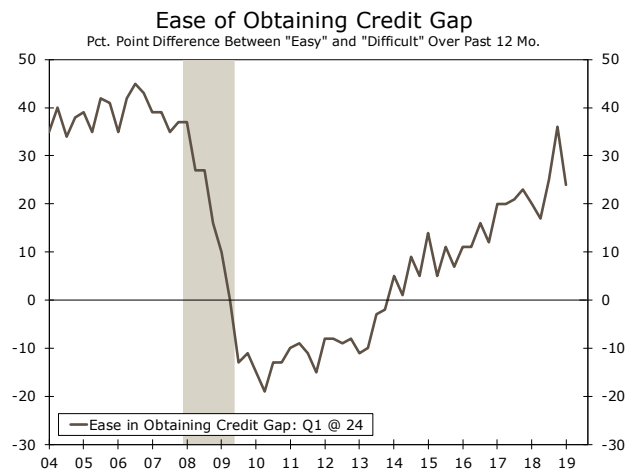
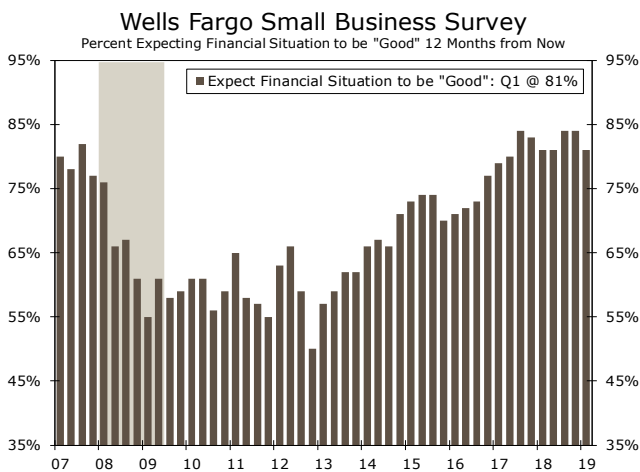
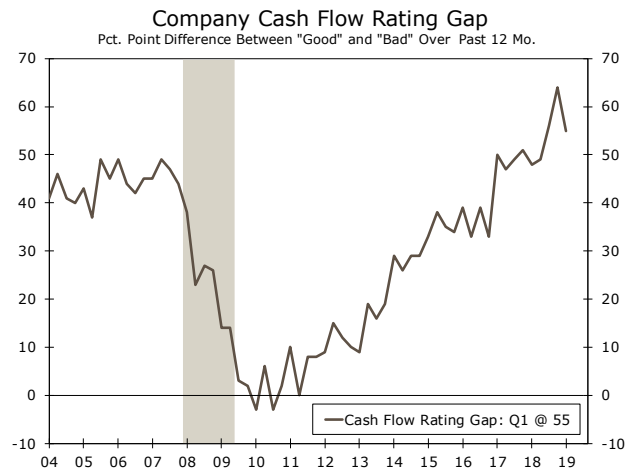
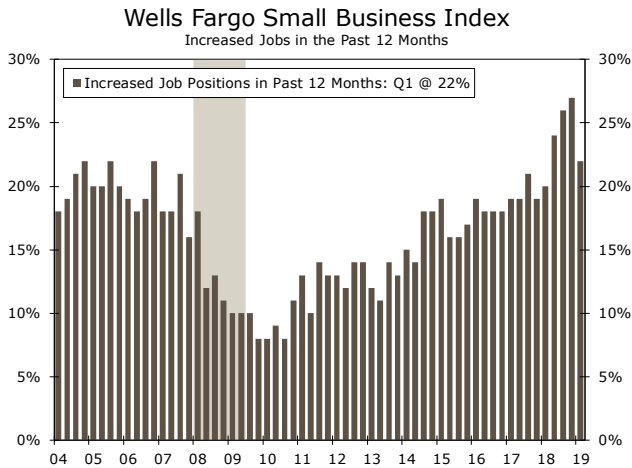
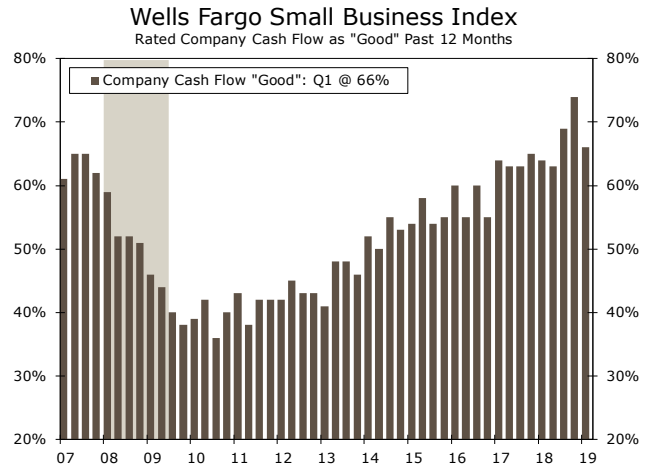
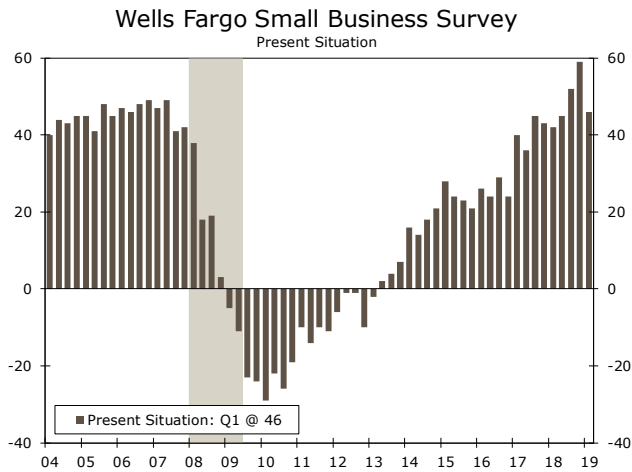


Source: Gallup, Wells Fargo Bank and Wells Fargo Securities

Figure 4

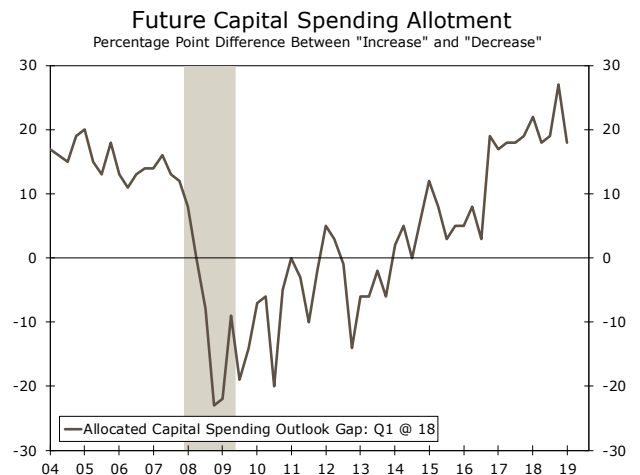
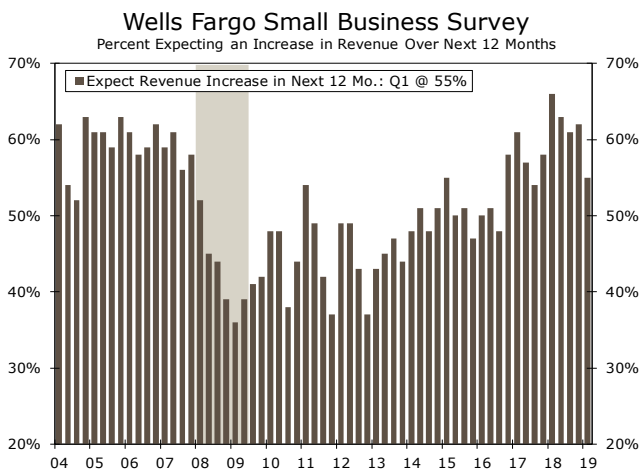
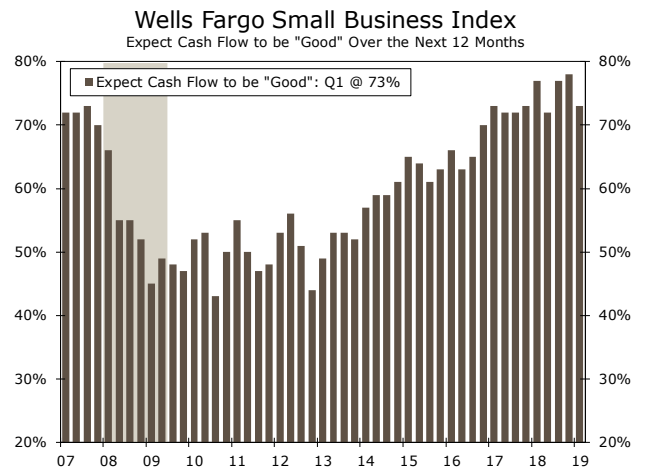
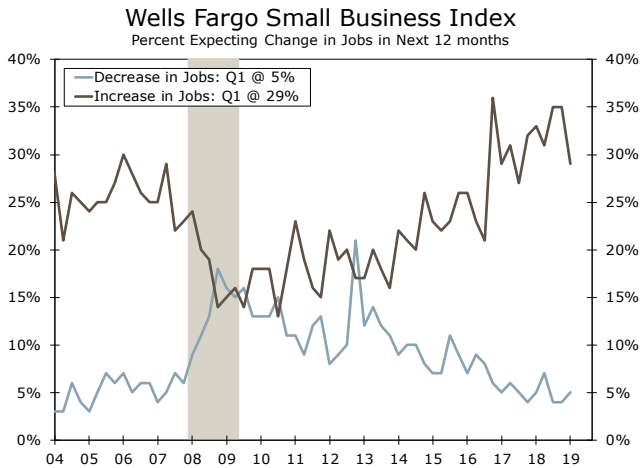
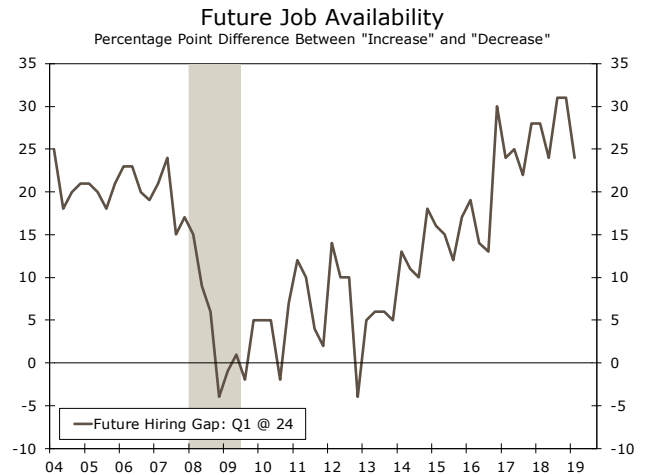
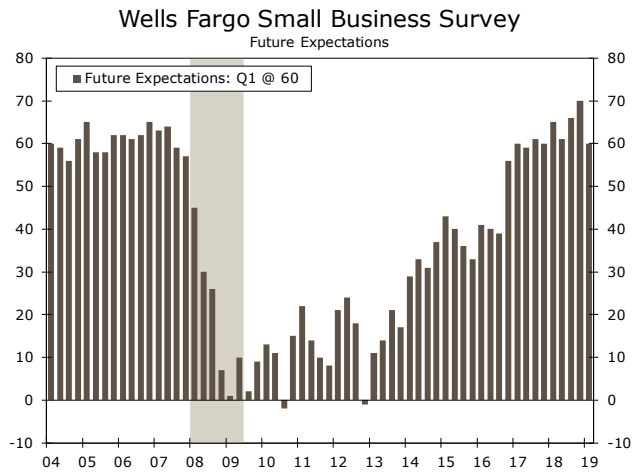


Present Situation



Source: Gallup, Wells Fargo Bank and Wells Fargo Securities

Future Situation



Source: Gallup, Wells Fargo Bank and Wells Fargo Securities

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