

# Economics Group

## Special Commentary

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# Wells Fargo Small Business Survey: Q4-2018

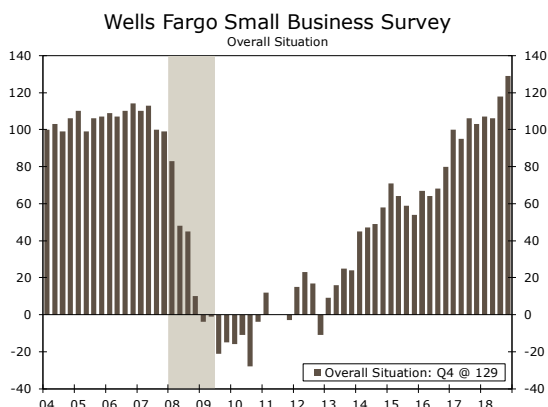
Small business owners do not appear to have been unnerved by the recent rise in trade tensions with China or the associated selloff in the stock market. The latest quarterly Wells Fargo/Gallup Small Business Index, which surveyed business owners from November 8 through November 14, jumped 11 points to a new all-time high of 129. Small business owners remain upbeat about the business environment and their own personal finances. Credit appears to be widely available and at still attractive interest rates. The only trouble spot is the tight labor market, which continues to make it difficult for business owners to find and retain the workers they need.

The fourth quarter jump in small business confidence is encouraging, coming right after the contentious midterm elections. Elections tend to keep economic issues front and center, and confidence often rises afterward, reflecting relief the election is over. While that may have played a role once again this year, most of the factors cited by business owners dealt with the business environment and small business finances. A record 55% of small business owners reported that their revenues had increased this past year and 62% expect gains in the coming year. With revenues up it is not surprising that 80% of business owners rated their financial situation as somewhat or very good and 84% expect their financial situation to improve over the coming year.

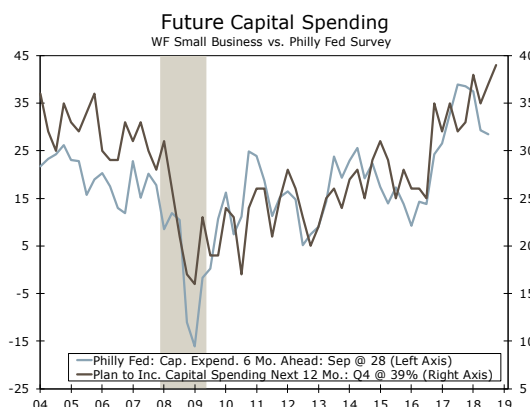
Business owners' optimistic assessment of their finances appears to confirm much of good news we have seen in the economy over the past few months. Nonfarm proprietors' income has risen 5.6% over the past year, according to the latest data from the Bureau of Economic Analysis. Credit conditions are also fairly good throughout most of the economy and few small business owners report any difficulty obtaining credit or collecting accounts receivables. A record 74% of firms state their cash flow was either very good or somewhat good over the past year, while a record low 10% said their cash flow was very poor or somewhat poor. Small business owners are generally less impacted by trade frictions than large companies. October's stock market selloff is also likely less distressing. Our survey includes firms with up to \$20 million in annual revenue. The bulk of the firms in the survey, however, have annual revenues of \$4 million or less.

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**Figure 1**



**Figure 2**



Source: Gallup, Wells Fargo Bank, Federal Reserve Bank of Philadelphia and Wells Fargo Securities



*Confidence surveys are diffusion indices and measure the breadth of confidence.*

### Small Business Owners Remain Optimistic About 2019

Small business owners are fairly optimistic about the economy in 2019. Most business owners expect the economy in 2019 to be similar to this past year, while 35% expect conditions to improve and just 10% expect conditions to weaken. Confidence surveys are diffusion indices and measure the breadth of confidence in the economy rather than the magnitude of confidence. The rise in small business confidence to an all-time high means that more businesses feel confident about the economy and the outlook for their business. It does not necessarily mean that business owners feel more confident about the economy or their business than at any other time. We suspect that the recent improvement in small business confidence reflects the ramping up of economic activity and sales following the tax cuts enacted earlier this year, as well as a broadening in the improvement in the economy to include more industries and more regions of the country.

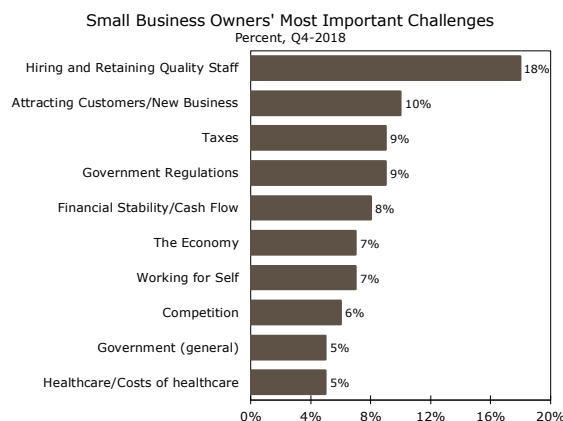
The broadening economic recovery is important. Small businesses are not as mobile as large companies and often must wait for the economic recovery to reach their community. That appears to finally have taken hold for much of the country in 2018. The economy took a long time to regain momentum following the Great Recession and parts of the country where housing was most overbuilt took even longer to recover. Today the housing crisis is well behind us and two of the areas that were hit hardest—Las Vegas and Phoenix—are seeing some of the strongest job growth in the country. Both areas are seeing broad-based gains that are boosting sales and employment across virtually every major industry. Most of the country has seen improvement this year. The strongest growth has been in the energy sector and Texas is the overall growth leader. Areas with ties to the tech sector also continue to see strong growth and tech firms are increasingly looking to broaden their footprint to include new communities where they can find the skilled workers they need.

Staffing is also top of mind for small business owners. For the third quarter in a row, hiring and retaining quality staff was rated as the top concern for small business owners. While finding and retaining quality workers has become more challenging, more small businesses plan to boost payrolls during the coming year. A whopping 35% of small business owners said they planned to boost employment in 2019, which matches the third quarter survey and is the highest proportion in the survey’s history. Only 4% of firms said they planned to reduce staffing, which is near an all-time low. The remaining 61% of small businesses said they planned to maintain staffing at the same level as last year.

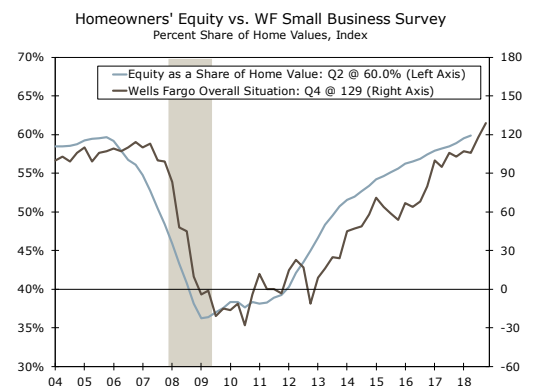
*Staffing is also top of mind for small business owners.*

The continued strength in small business confidence is particularly heartening coming at a time when many of the headlines are focused on trade tensions with China, the slope of the yield curve and political debate. Main Street appears to be less concerned about these issues. Small business owners are generally seeing strong demand and more are looking to expand their operations by adding staff or increasing capital spending. The rise in capital spending plans is consistent with other business surveys, including the survey done by the Federal Reserve Bank of Philadelphia.

**Figure 3**

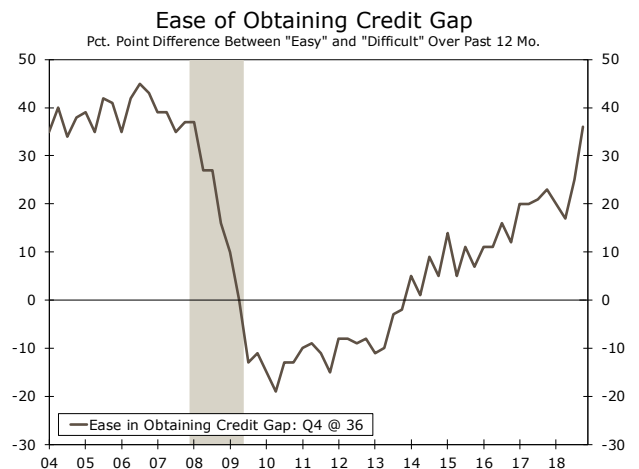
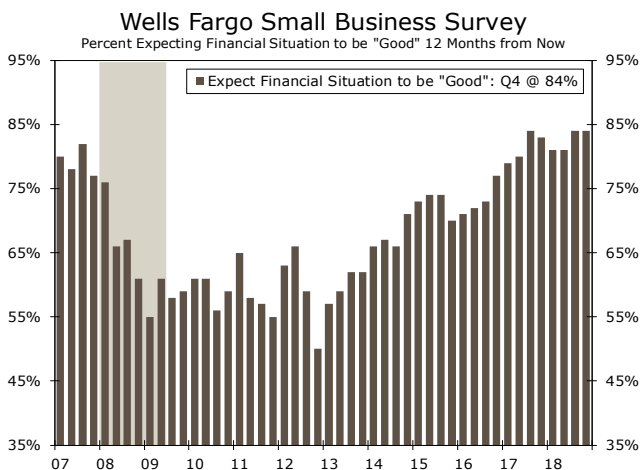
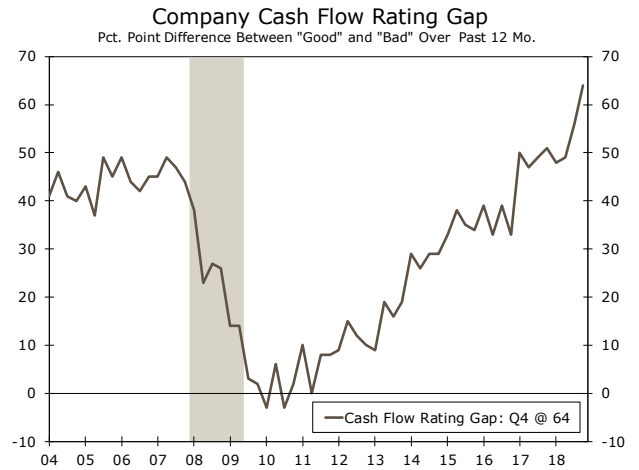
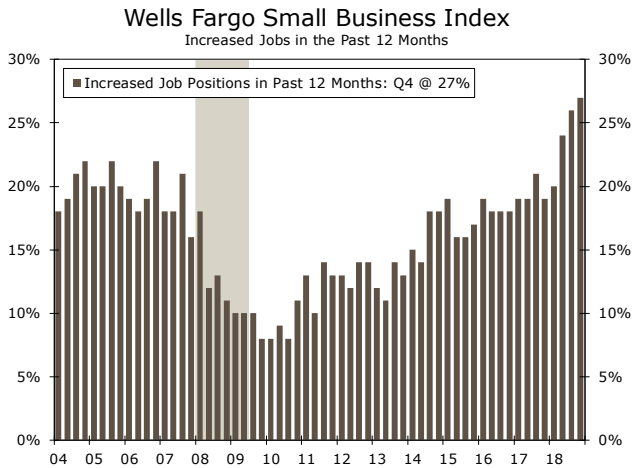
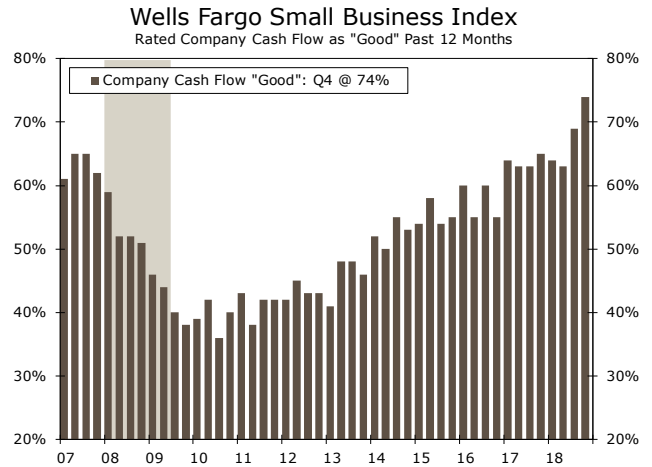
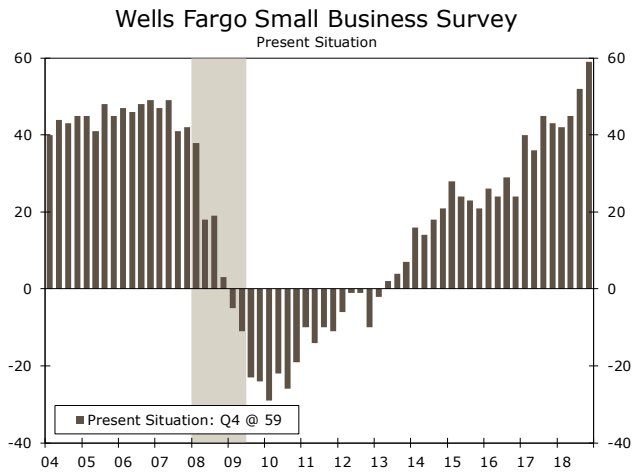


**Figure 4**



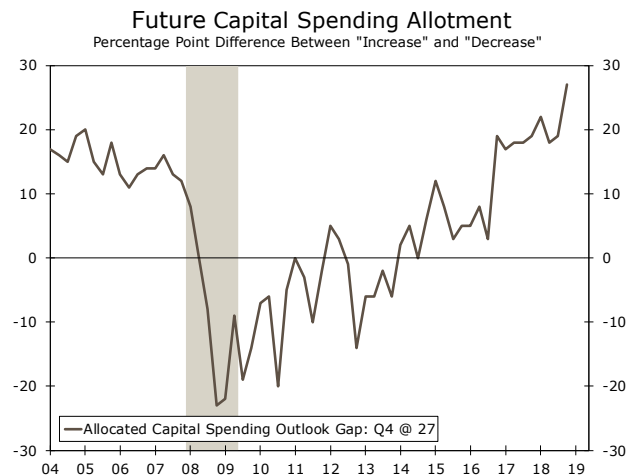
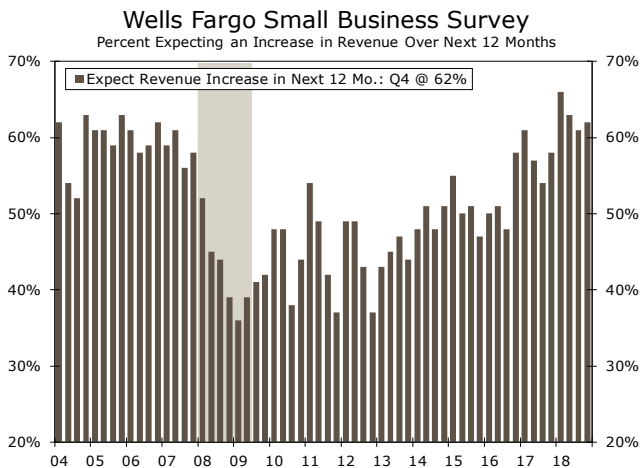
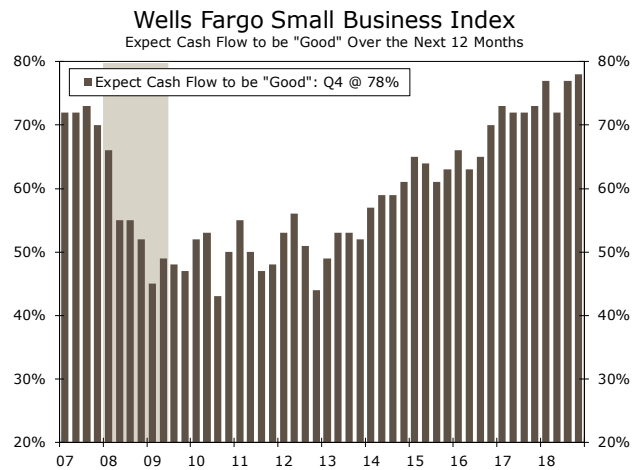
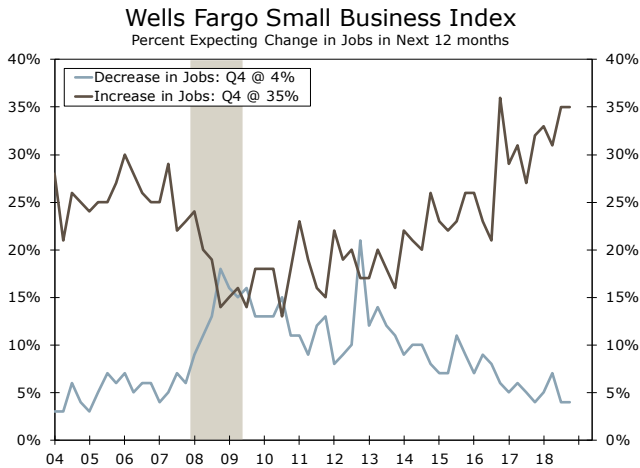
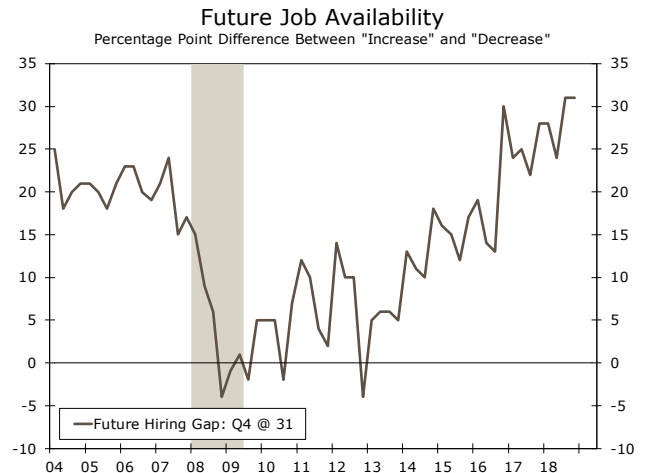
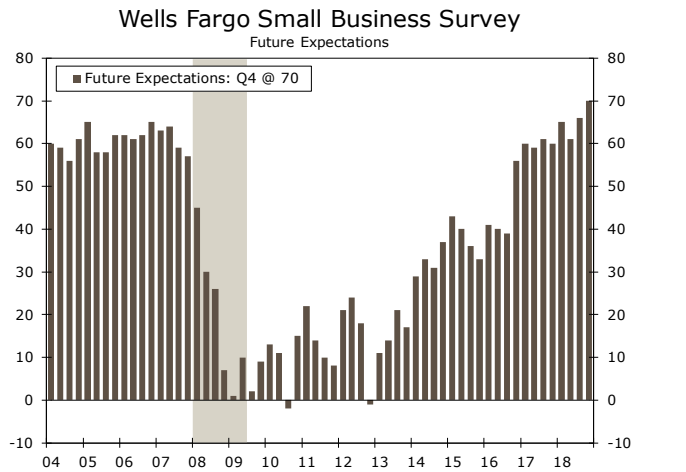
Source: Gallup, Wells Fargo Bank, Federal Reserve Board and Wells Fargo Securities

**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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