Small business owners appear to be looking past the disruption from the trade standoff with China. The Wells Fargo/Gallup Small Business Index rose six points to an all-time high of 142 during the fourth quarter. Both business owners’ assessment of the present situation and their view of future expectations rose three points during the quarter, climbing to 67 and 75, respectively. The record levels of small business confidence and optimism about the economic outlook coincide with the strongest labor market in nearly 50 years, as well as the Fed’s latest interest rate cuts and the rising stock market. By and large, small business owners see the economy moving in the right direction, with 63% rating current conditions as either excellent (22%) or good (41%).

Business owners are certainly not ambivalent about this past summer’s recession scare. About one-third of business owners feel that a recession is either somewhat very likely (22%) or extremely likely (11%) within the next year. The survey was taken in early October and expectations for a trade deal have improved since the survey was taken.

More importantly, operating fundamentals remain strong. The proportion of small businesses owners that state their financial situation is either very good (42%) or somewhat good (39%) rose two points during the quarter to 81%. Moreover, the proportion of firms expecting their finances to be either very good or somewhat good 12 months from now rose one point to its highest reading ever, while those expecting their finances to be somewhat poor or very poor fell to an all-time low.

The survey asked small business owners if they felt the outcome of the presidential election would have a major impact on their business. Fifty-one percent felt the outcome would have a major impact on their business, 37% felt the outcome would have a minor impact, while 12% said the outcome would have not much impact at all.

Business owners were also asked an open-ended question about which issues they felt presidential candidates should focus on. The largest share mentioned taxes, fair regulation and tax relief (21%). Other frequently cited concerns were healthcare/insurance/affordable healthcare (11%), the economy (10%) and trade (7%). Manufacturers (16%) and industries tied to agriculture (12%) were more likely to cite trade as a top concern than business owners as a whole. There were partisan gaps evident on most issues other than taxation, which was the top issue for owners from both parties.

Owners want presidential candidates to focus on taxes.
Lower Interest Rates Have Bolstered Small Business Balance Sheets
The bipartisan focus on tax issues by small business owners is understandable. Small businesses often reflect a lifetime’s work and passion, with business owners constantly reinvesting their earnings back into their business and often working for little to nothing for years at time. How small business owners are going to be compensated and taxed when they sell their business is always a key concern. Moreover, the sweat equity put into a business is rarely fully appreciated by the tax law.

Small business confidence is also closely correlated with consumer confidence. The close correlation makes sense as many small businesses are consumer-driven. More importantly, however, all small businesses are run by consumers/entrepreneurs that are closely following the economy’s every move. We bring this up because there is a notable split between how small business owners view their financial situation, with 81% saying their finances are either very good or somewhat good, and their company’s performance, with only 57% stating their revenues have increased a lot (11%) or a little (46%) over the past year. Clearly, lower interest rates, which have reduced rates on home equity lines or allowed homeowners to refinance their mortgages, and the rising stock market are bolstering confidence.

With finances in solid shape and less of their business at risk from the trade war, small business owners remain much more upbeat about capital spending than larger companies. The proportion of small business owners stating they increased capital spending over the past year a lot (8%) or a little (24%) has consistently remained at around 30% for the past three years, while 55% of firms state they have maintained capital spending at the same levels as a year earlier. Moreover, the proportion of firms planning to increase capital spending over the coming year has increased in each of the past two quarters, which is the opposite of what we have seen with larger companies. Credit is available for both large and small businesses. The proportion of small business owners stating they have had difficulty obtaining credit over the past year remains near an all-time low.

Small businesses have also seen less of a falloff in hiring than large businesses have. The proportion of small businesses increasing staff over the past year rose one point to 27% in the fourth quarter, with 6% stating they increased employment a lot and 21% saying they increased employment a little. Only 5% said they reduced staff over the past 12 months, with 4% saying they reduced staff a little and 1% saying they reduced staffing a lot. Moreover, the share of firms stating they plan to increase staff over the next 12 months rose four points in the fourth quarter to 31%, with 8% saying they want to increase a lot, while 23% said they would like to increase a little. Only 3% of small businesses plan to reduce staff over the coming year, with 2% saying they plan to reduce staff a little and 1% saying they plan to reduce staff a lot. The surprisingly strong survey results are consistent with the most recently released nonfarm employment data, which show hiring was much stronger during the past three months than had been previously reported.

*Source: Gallup, Wells Fargo Bank and Wells Fargo Securities*
Present Situation

Wells Fargo Small Business Survey
Present Situation

Wells Fargo Small Business Survey
Increased Jobs in the Past 12 Months

Wells Fargo Small Business Survey
Percent Expecting Financial Situation to be "Good" 12 Months from Now

Wells Fargo Small Business Survey
Rated Company Cash Flow as "Good" Past 12 Months

Wells Fargo Small Business Survey
Company Cash Flow Rating Gap

Wells Fargo Small Business Survey
Ease of Obtaining Credit Gap

Source: Gallup, Wells Fargo Bank and Wells Fargo Securities
Future Situation

Wells Fargo Small Business Survey

Future Job Availability
Percentage Point Difference Between "Increase" and "Decrease"

Future Hiring Gap: Q4 @ 28

Wells Fargo Small Business Survey
Percent Expecting Change in Jobs in Next 12 months

Decrease in Jobs: Q4 @ 3%
Increase in Jobs: Q4 @ 31%

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

Expect Cash Flow to be "Good": Q4 @ 79%

Percent Expecting an Increase in Revenue Over Next 12 Months

Expect Revenue Increase in Next 12 Mo.: Q4 @ 65%

Future Capital Spending Allotment
Percentage Point Difference Between "Increase" and "Decrease"

Allocated Capital Spending Outlook Gap: Q4 @ 29

Source: Gallup, Wells Fargo Bank and Wells Fargo Securities
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