

Economics Group

Special Commentary

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Wells Fargo Small Business Survey: Q3-2019

Small Business Confidence Rises As Business Owners Shake Off Tariffs

Main Street appears to be far less impacted by the intensifying trade frictions than Wall Street. Wells Fargo’s Small Business Optimism Survey showed business owners were more optimistic about both the present economic situation and future business conditions. Overall small business optimism rose seven points during the third quarter to 136.

While the overall index increased notably the past two quarters, data from earlier this year were depressed following the stock market sell-off last December. The current survey was completed well before the recent market volatility surrounding the extension of tariffs on the \$300 billion of Chinese goods not already covered by tariffs. Our survey asked business owners how tariffs were impacting their business. While business owners are paying close attention to the trade dispute, the overwhelming majority of owners stated tariffs have had little or no impact on their business, and few expect tariffs to negatively impact their business going forward. Owners are more concerned about the knock-on effects intensifying trade frictions have on the financial markets.

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The Wells Fargo/Gallup Small Business survey has been conducted quarterly since 2003. The latest survey was taken July 8-12. New methodology was used beginning in the second quarter, as the survey moved from a telephone-based survey to a web-based model. The methodology change means comparisons with prior data should be viewed cautiously. The second quarter rebound makes intuitive sense, as the first quarter survey was taken in early January and reflected the late 2018 stock market sell-off. The second quarter rebound brought the index back to its level from two quarters earlier, while continued improvement in the current quarter is consistent with broader measures of economic activity and the most recent Consumer Confidence survey.

The close link with consumer confidence surveys is understandable. The majority of business owners surveyed in the Wells Fargo/Gallup Small Business Survey have annual sales of \$2 million or less. A small portion of the businesses have sales between \$2 million and \$20 million. Firms surveyed in the Wells Fargo/Gallup survey are much smaller than those in the monthly NFIB survey.

Figure 1

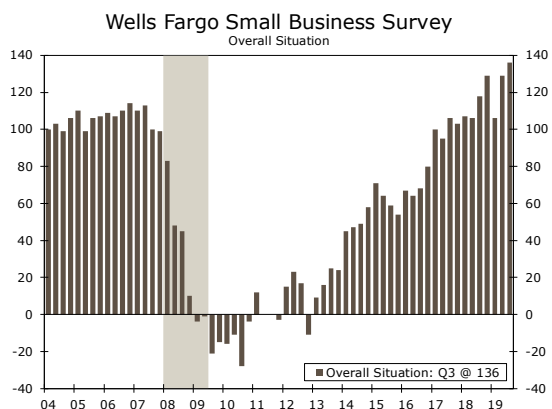
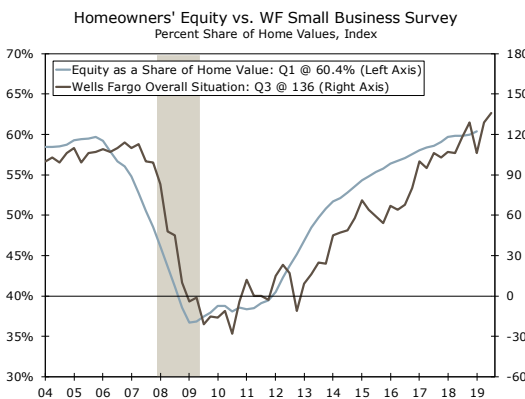


Figure 2



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

Together we'll go far



Labor market strength is likely driving much of the optimism.

Small Business Owners Remain Upbeat About the Economy

Main Street appears to be dealing with the uncertainty brought by the trade dispute with China very well. When asked how they would rate the current state the U.S. economy, 70% of small business owners responded either ‘good’ or ‘excellent’, an increase of seven percentage points from the prior quarter. We suspect that the high level of optimism small business owners have in the economy reflects the health of the labor market, which has seen a further decline in the unemployment rate and continued strong job growth that has broadened across more parts of the country.

Business owners also reported a high degree of satisfaction with their current financial positions, with 79% rating their finances as very good (40%) or somewhat good (39%) and just 4% rating their finances as somewhat poor (4%) or very poor. Expectations for their finances one year from now also remain high, with 84% expecting the finances to be either very good (46%) or somewhat good (38%) and just 3% expecting their finances to be somewhat or very poor.

The strong positive responses to questions about finances are consistent with responses from questions about revenues and cash flow. Fifty-eight percent of small business owners said their revenues had increased a lot (13%) or a little (45%), while just 13% reported that revenues decreased a little (11%) or a lot (2%). And an overwhelming proportion of business owners (64%) expect their revenues to increase during the coming year, with 16% expecting revenues to increase a lot and 48% expecting revenues to increase a little. Another 31% expect revenues to stay the same, while just 5% look for revenues to decline.

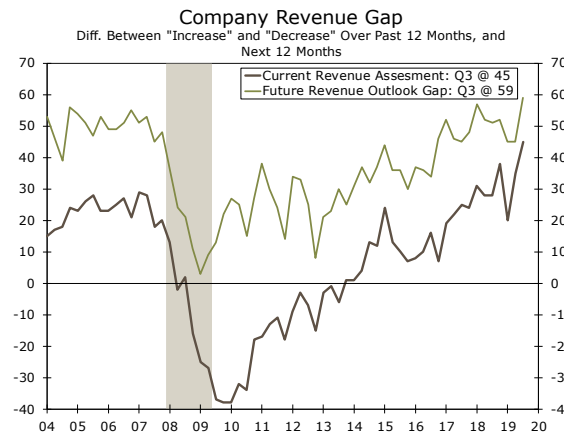
Small business finances are closely correlated with home equity.

The high proportion of business owners expressing optimism about their current and future financial position likely reflects the rebound in the stock market and turn in the Federal Reserve’s rhetoric toward lowering interest rates. Small business finances are closely correlated with home equity, which provides a cushion for business owners. Home equity reached new all-time highs in the most recent quarter.

With such a high proportion of business owners feeling confident about their finances, more firms are looking to expand. The proportion of firms planning to increase capital spending over the next 12 months rose two points to 35%. About one-third of small businesses increased capital spending over the past year. The growth in capital spending by small firms may help offset the growing caution by larger companies that have been more adversely impacted by the trade dispute.

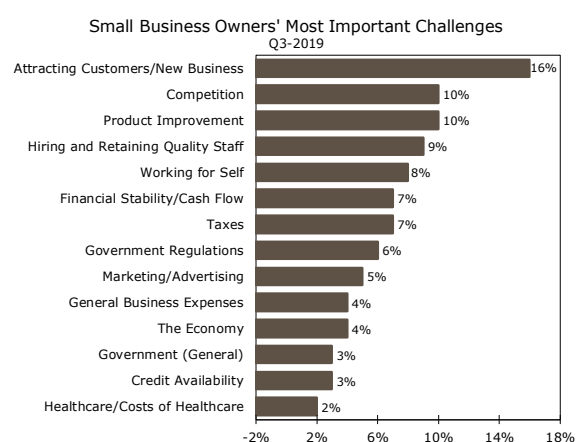
While small businesses have apparently been less impacted by the trade dispute, more than four out of five business owners said they were following news about trade policy and tariffs either somewhat or very closely. Two-thirds of business owners stated tariffs would impact their business very little or not at all. Moreover, more than three quarters of business owners state their hiring plans would not change, even if the cost of good increases, and 69% stated they would not change their expansion plans, even if tariffs result in increased costs.

Figure 3



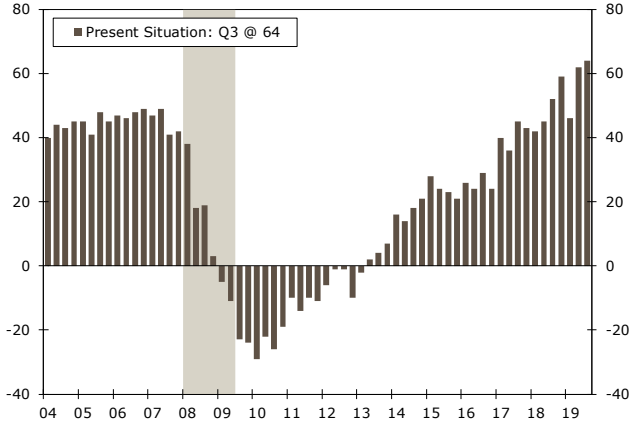
Source: Gallup, Wells Fargo Bank and Wells Fargo Securities

Figure 4

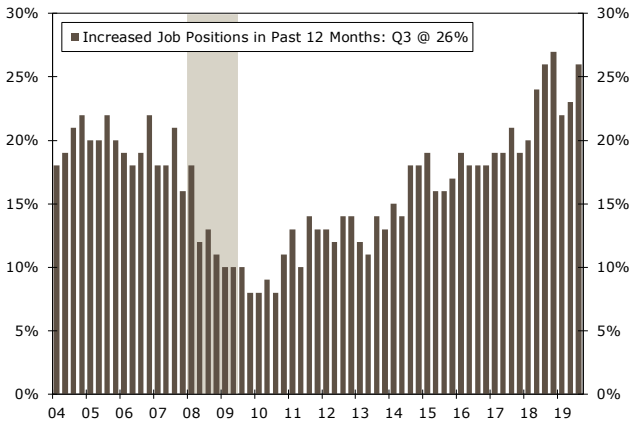


Present Situation

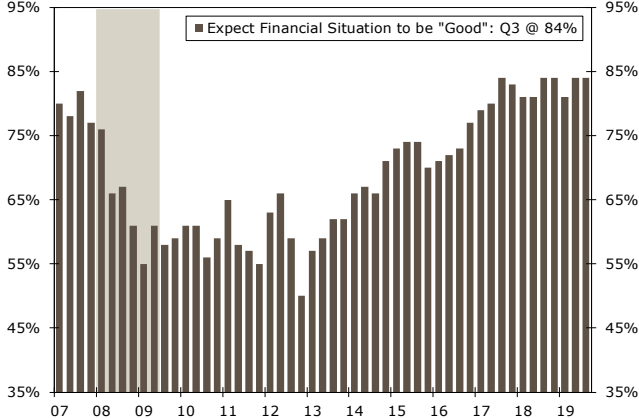
Wells Fargo Small Business Survey
 Present Situation



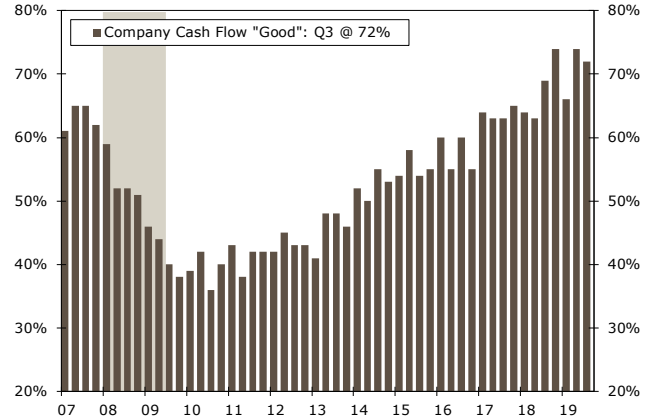
Wells Fargo Small Business Index
 Increased Jobs in the Past 12 Months



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

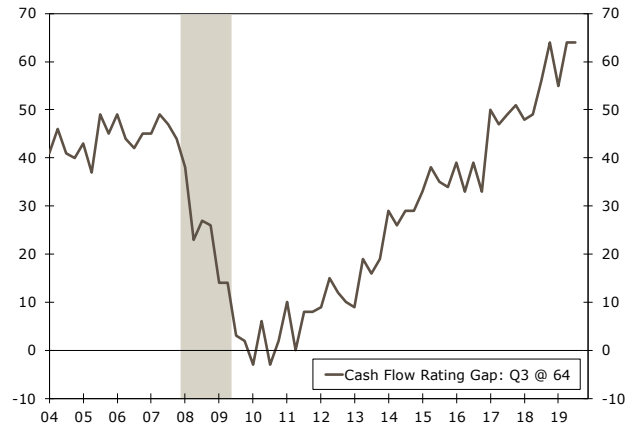


Wells Fargo Small Business Index
 Rated Company Cash Flow as "Good" Past 12 Months



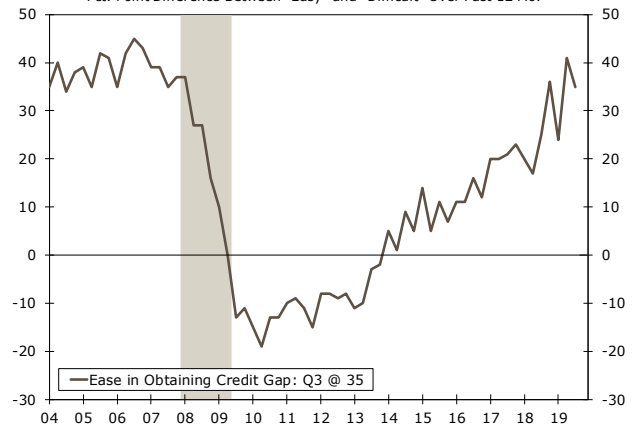
Company Cash Flow Rating Gap

Pct. Point Difference Between "Good" and "Bad" Over Past 12 Mo.



Ease of Obtaining Credit Gap

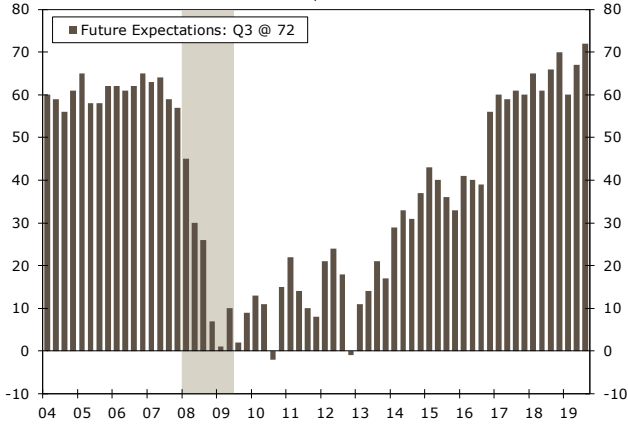
Pct. Point Difference Between "Easy" and "Difficult" Over Past 12 Mo.



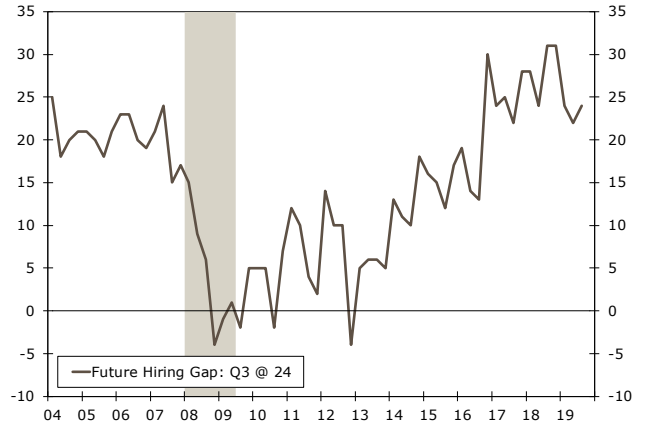
Source: Gallup, Wells Fargo Bank and Wells Fargo Securities

Future Situation

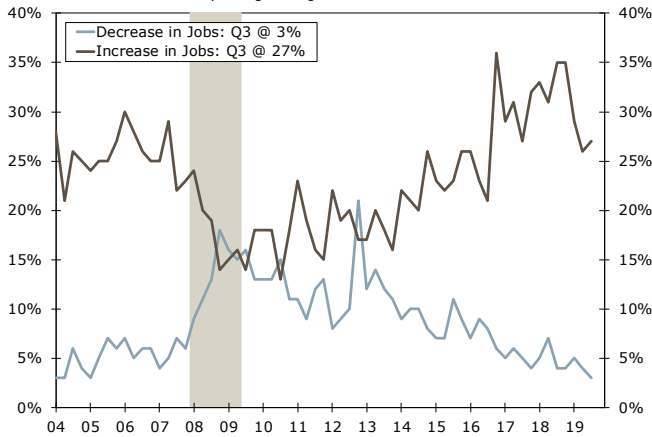
Wells Fargo Small Business Survey
 Future Expectations



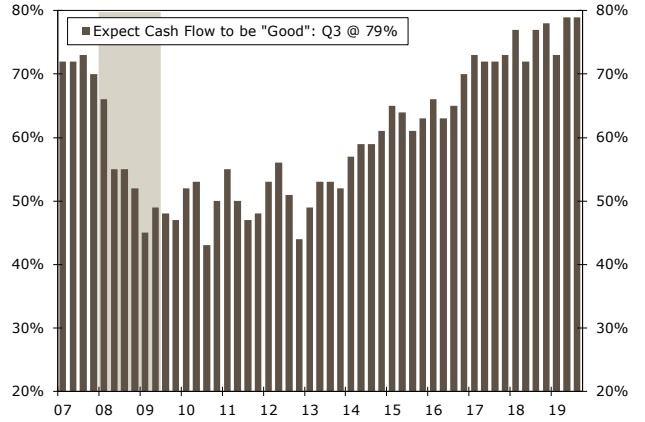
Future Job Availability
 Percentage Point Difference Between "Increase" and "Decrease"



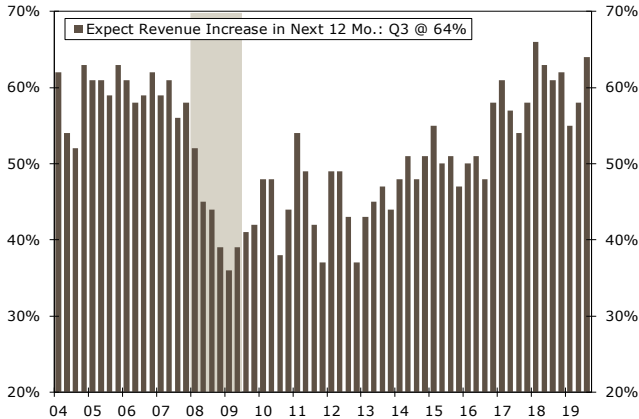
Wells Fargo Small Business Index
 Percent Expecting Change in Jobs in Next 12 months



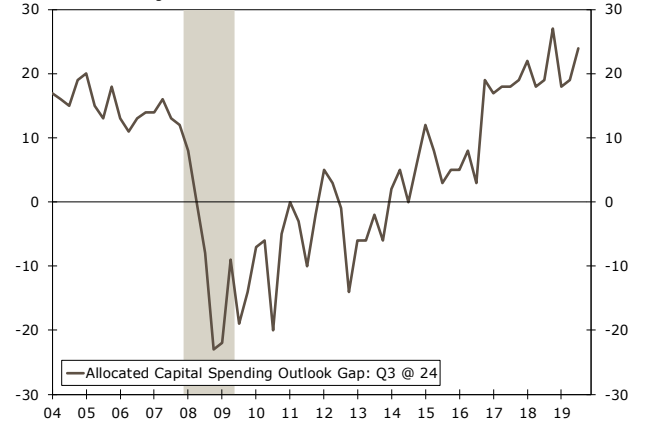
Wells Fargo Small Business Index
 Expect Cash Flow to be "Good" Over the Next 12 Months



Wells Fargo Small Business Survey
 Percent Expecting an Increase in Revenue Over Next 12 Months



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



Source: Gallup, Wells Fargo Bank and Wells Fargo Securities

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