

## Recession anticipated by small businesses

Pessimism about prospects for the national economy among small businesses has skyrocketed compared to last year. The WSJ/Vistage Small Business CEO Confidence Index plunged by 31% from last June to reach 74.9 in June 2022, the largest annual loss since May 2020 after the pandemic shut down the national economy. Small business leaders were particularly negative about both the current state as well as future prospects for the national economy. The majority of small businesses surveyed reported higher input and vendor costs, increased energy expenses as well as higher wages. Although three-in-four small businesses expect to raise prices, revenue and profit expectations are the weakest since the 2020 shutdown of the economy.

Notably, small businesses expressed a degree of resilience in their plans as only a small proportion reported cutbacks in hiring and fixed investment expenditures. These more modest cutbacks may reflect their inability to hire and expand operations as much as they would have liked during the 2021 surge in demand. The impact of the Federal Reserve's hikes in interest rates, however, is likely to further reduce domestic demand without much reduction in inflation due to energy and food costs that largely depend on global factors. Even if a "soft landing" is achieved, if unemployment increases and inflation remains high, stagflation may be the result.

### Economic pessimism indicates pending recession

The proportion of small businesses that thought that the economy recently improved plunged to just 14% from 74% a year ago. Moreover, expectations for future gains in the economy were virtually absent as just 9% of small businesses anticipate any improvement in national economic conditions in the year ahead. The combined data for both current and expected economic prospects indicate that small businesses hold nearly as negative opinions about the economy as they did at the height of the pandemic's shutdown of the economy. Based on the outlook of small businesses, the negative GDP growth recorded in the 1st quarter may be identified in hindsight as the start of a renewed downturn due to price increases in energy, food, and housing as well as the Fed's hikes in interest rates.

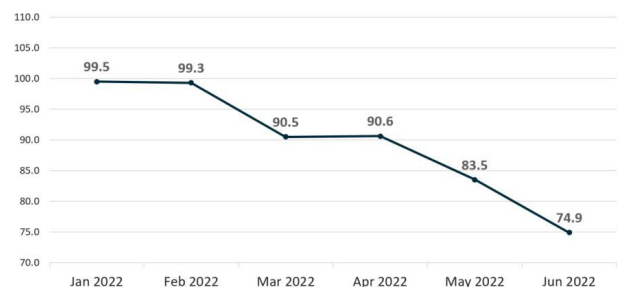
### Revenue and profit expectations sink

The proportion of small businesses that anticipate revenue increases plunged by one-third during the past year, falling to 53% from last June's 80%. Expected increases in profitability fell to a greater extent, to just 33% this June, down from 59% last June. The steep falloff in profitability reflects the combined effects of changes in sales and rising costs, although it was partially offset by price increases. Reports of rising costs were widespread, ranging from input materials (54%), vendor supplies (79%) and energy (56%), to rising wages (88%); all figures compared to last month's data. Just 1% of small firms said they hadn't experienced any negative effects of inflation. When asked about prices for their products or services, 75% of small businesses plan to increase prices, but given the profitability outlook they either didn't offset the increases in costs or they tempered the size of price increases so that they wouldn't unduly diminish demand.

### Reduced hiring and investment plans

When asked about potential changes in the size of their workforce, the proportion of small businesses expecting to increase their workforce fell to 52% in June, down from 71% last June and the lowest level since the early months of the pandemic. Compared with the retrenchment in revenues and profits, this decline was more modest, perhaps reflecting the challenges they recently faced in hiring and training. Those that plan increases in expenditures on plant and equipment fell to 37% in June, down from 49% last June. Compared with expectations for revenues, profits, and the economy, planned workforce additions and investment expenditures posted the smallest year-to-year percentage declines. This may reflect balancing uncertainty about the length and depth of the downturn due to unknowns about the Ukrainian war, global energy and food supplies, and the Chinese economy against the challenges of tight labor markets and the new facilities needed for changing work patterns.

**WSJ/Vistage Small Business CEO Confidence Index: 6-Month trend**



The WSJ/Vistage Small Business CEO Confidence Index plunged by 31% from last June, the largest annual loss since May 2020 after the pandemic had shut down the national economy.

Visit [vistageindex.com](http://vistageindex.com) to see the interactive tool and view results from previous months.

– Analysis provided by Dr. Richard Curtin, University of Michigan

Source: June 2022 WSJ/Vistage Small Business CEO Confidence Index Survey n=853

Question	Answer	Respondents	
		#	%
<b>1. Compared with a year ago, have overall economic conditions in the United States improved, remained the same, or worsened?</b>	Improved	119	14%
	Remained about the same	158	19%
	Worsened	573	67%
	Don't know/No opinion	3	0%
<b>2. During the next 12 months, do you expect the overall economic conditions in the U.S. will be better, about the same, or worse than now?</b>	Better	79	9%
	About the same	233	27%
	Worse	531	62%
	Don't know/No opinion	10	1%
<b>3. Do you anticipate that your firm's sales revenues will increase, remain about the same, or decrease during the next 12 months?</b>	Increase	450	53%
	Remain the same	272	32%
	Decrease	116	14%
	Don't know/No opinion	15	2%
<b>4. Do you expect your firm's profitability to improve, remain about the same or worsen during the next 12 months?</b>	Improve	283	33%
	Remain the same	315	37%
	Worsen	244	29%
	Don't know/No opinion	11	1%
<b>5. Are your firm's total fixed investment expenditures likely to increase, remain about the same, or decrease during the next 12 months?</b>	Increase	319	37%
	Remain the same	387	45%
	Decrease	132	15%
	Don't know/No opinion	15	2%

Question	Answer	Respondents	
		#	%
6. Do you expect your firm's total number of employees will increase, remain about the same, or decrease during the next 12 months?	Increase	442	52%
	Remain the same	351	41%
	Decrease	53	6%
	Don't know/No opinion	7	1%
7. Which best describes your supply chain?	No problem	208	24%
	Getting worse	253	30%
	Slowly getting better	320	38%
	Other	68	8%
8. Which effects of inflation are you experiencing for your business? <i>Select all that apply</i>	Higher costs for raw materials and other inputs	461	54%
	Increased prices from vendors	674	79%
	Increased wages and compensation	749	88%
	Increased energy prices	474	56%
	Change in buyer behaviors	336	39%
	Not experiencing effects from inflation	10	1%
	Other	21	2%
9. How do you expect prices for your product or service to change during the next 12 months?	Increase	641	75%
	Remain the same	196	23%
	Decrease	10	1%
	Don't know/No opinion	5	1%
10. Since the beginning of the year, how has the size of your workforce changed?	Increased	416	49%
	Remained the same	332	39%
	Decreased	105	12%

Question	Answer	Respondents	
		#	%
<b>11. Which factors are impacting the recent decrease in your headcount?</b> <i>Conditional to decrease in Q10</i>	Decrease in demand	18	17%
	Uncertainty about the economy	20	19%
	Difficulty attracting and retaining employees	65	62%
	Difficulty competing for talent with larger companies	46	44%
	Other	24	23%
<b>12. Which factors are driving the recent increase in your headcount?</b> <i>Conditional to increase in Q10</i>	Staffing to meet current demand	308	74%
	Scaling for increased customer demand	219	53%
	Staffing for new location	42	10%
	Expanding to new markets	82	20%
	Other	26	6%
<b>13. How have your employee retention rates changed since the beginning of the year?</b>	Increased	88	10%
	Remained the same	590	69%
	Decreased	166	19%
	Don't know/No opinion	8	1%
<b>14. Are hiring challenges impacting your ability to operate your business at full capacity?</b>	Yes	532	63%
	No	314	37%
<b>15. Are you seeing an increase in worker absences due to COVID?</b>	Yes	242	31%
	No	536	69%
<b>16. How has the cost of insurance for your business changed in the last year?</b>	Increased	587	76%
	Remained the same	149	19%
	Decreased	10	1%
	Don't know/No opinion	29	4%

Question	Answer	Respondents	
		#	%
<b>17. Is your business “nearshoring” — moving or expanding production in the U.S., Mexico or other nearby areas?</b>	Yes, have already made changes	54	7%
	Yes, are in the midst of changing	25	3%
	No, but considering	59	8%
	No	284	37%
	Not applicable	353	46%
<b>18. Are your customers or suppliers “nearshoring” — moving or expanding production in the U.S., Mexico or other nearby areas?</b>	Yes, have already made changes	52	7%
	Yes, are in the midst of changing	91	12%
	No, but considering	54	7%
	No	292	38%
	Uncertain	283	37%
<b>19. During your company’s last fiscal year, what was its total employment?</b>	1-9 employees	78	9%
	10-19 employees	174	20%
	20-49 employees	353	41%
	50-99 employees	170	20%
	100-499 employees	72	8%
	500-999 employees	6	1%

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## Small Business CEO Survey

A monthly survey measuring the sentiment of U.S. small business CEOs and owners about the economy.

Visit [vistageindex.com](https://vistageindex.com) to view an interactive tool with full results from previous months.