

## Stagflation anticipated by small businesses

The WSJ/Vistage Small Business CEO Confidence Index, calculated from a survey of small business leaders, slid to 73.9 in July, a slight monthly loss from June's 74.9. This was the third time since the start of the year that the Index remained largely unchanged from the prior month while still posting an overall loss of 26% since January — which accounts for most of the year-to-year loss of 36%. Small businesses anticipate a downturn turn in the economy, rapid inflationary gains have reduced profits, and hiring plans have declined. Unemployment has been traditionally considered a lagging indicator, but the strength of recent wage gains has kept consumer demand at relatively high levels.

The steep declines in sentiment about current and future prospects for the national economy is now comparable to the readings from the worst of the pandemic shutdown of the economy in the Spring of 2020. The falloff in revenue and profit expectations is much smaller compared to assessments of the economy, but aside from the pandemic shutdowns, it is still lower than any other time in the past decade. Finally, hiring and investment spending posted the smallest decline, and are still above the lows recorded ten years ago.

Despite being fully aware of the mounting economic challenges, small businesses expressed their determination to take full advantage of the remaining economic strength and to prepare for the subsequent upturn. It is likely that the Federal Reserve will aggressively increase interest rates into mid-2023, which will likely reduce domestic demand and modestly increase unemployment rates. This monetary policy will have moderate success in reducing inflation, with food and energy prices more dependent on global factors. The likely result is better known as "stagflation," meaning a slower pace of economic growth accompanied by stubborn shortfalls in full employment and inflation persistently above the goal of 2%.

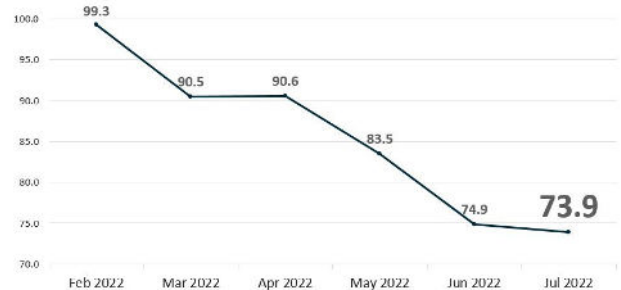
### Grim prospects for economy have minimal impact on demand

Sixty-nine percent of small businesses thought the economy had worsened during the past year, and 62% expected the national economy to further worsen in the year ahead. Few small businesses anticipated any improvement in the year ahead, with just 10% expecting that the economy would improve, down from 50% last July. The virtual collapse of favorable prospects for the economy are not fully reflected in the expected declines in revenues and profits. This mismatch is not unusual, but the extent of the difference is noteworthy. When asked whether the underlying demand for their product or service had changed over the past three months, increases were more likely to be reported than decreases (28% versus 16%), with 56% reporting that their customer demand has not changed.

### Revenue and profit expectations hit 10-year low

The proportion of small businesses that anticipated revenue increases was 49% in July, down from 72% at the start of 2022. Just 34% expected increased profits, down from 51% in January 2022. Actual declines in expected revenues were reported by 15%, and expected declines in profits were reported by 30% of the small businesses surveyed in July. These substantial declines indicated an inability to fully pass their cost increases to their customers. This brought the expected levels of revenues and profits to their lowest point in a decade, aside from the immediate aftermath of the shutdown in 2020. Small businesses paid higher wages (87%), higher vendor prices (78%), increased prices for raw inputs (59%), and higher energy costs (53%). Just 2% of businesses reported that they are unaffected by inflation, with 44% of small businesses saying inflation had influenced their customers' purchasing or buying behavior.

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



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

### Hiring and investment plans stagnant

When asked about potential changes in the size of their workforce, the proportion of small businesses expecting to increase their workforce remained at 52% in July, the same as in June, but well below the 67% recorded in January. Just 8% reported their intention to reduce the overall number of employees in July, in contrast to a majority of small businesses who expected a worsening economy. Thirty-eight percent plan to increase expenditures on plant and equipment in July, below January's 47%. Small businesses may be investing today to avoid higher future interest rates, but most are maintaining their investments.

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

Source: July 2022 WSJ/Vistage Small Business CEO Confidence Index Survey n=581

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	69	12%
	Remained about the same	105	18%
	Worsened	403	69%
	Don't know/No opinion	4	1%
<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	59	10%
	About the same	154	27%
	Worse	362	62%
	Don't know/No opinion	6	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	287	49%
	Remain the same	202	35%
	Decrease	85	15%
	Don't know/No opinion	7	1%
<b>4. Do you expect your firm's profitability to improve, remain about the same or worsen during the next 12 months?</b>	Improve	199	34%
	Remain the same	202	35%
	Worsen	175	30%
	Don't know/No opinion	5	1%

Question	Answer	Respondents	
		#	%
5. Are your firm's total fixed investment expenditures likely to increase, remain about the same, or decrease during the next 12 months?	Increase	219	38%
	Remain the same	269	46%
	Decrease	83	14%
	Don't know/No opinion	10	2%
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	300	52%
	Remain the same	227	39%
	Decrease	49	8%
	Don't know/No opinion	5	1%
7. Since the beginning of the year, what roles have you had the most difficulty filling? <i>Select all that apply</i>	Front line employees	197	35%
	Skilled workers	242	43%
	Professional staff	256	45%
	Managers/functional leaders	142	25%
	Executive leadership	59	10%
	Other	44	8%
8. Is your company finding it easier or more difficult to fill job openings now compared to the start of the year?	Easier	92	16%
	No change	309	54%
	More difficult	176	31%
9. Are hiring challenges impacting your ability to operate your business at full capacity?	Yes	343	59%
	No	236	41%
10. How will your hiring for the remainder of 2022 change compared to your plans at the start of the year?	Hiring more than planned	90	16%
	Hiring plans have not changed	421	73%
	Hiring less than planned	69	12%

Question	Answer	Respondents			
		Have implemented	Planning to implement	No plans to implement	Uncertain at this time
<b>11. If hiring employees has become more difficult, what are you doing in response?</b> <i>Select all that apply</i>	Boosting wages	79%	10%	8%	3%
	Developing existing workforce	67%	26%	6%	1%
	Offering flexible hours/schedules	60%	6%	28%	5%
	Refining recruitment strategies	57%	20%	18%	4%
	Allowing remote work options	57%	5%	35%	4%
	Leadership development programs	50%	29%	16%	5%
	Adding employee benefits	41%	13%	41%	5%
	Creating apprenticeship or internship programs	34%	16%	40%	10%
	Reorganizing the workforce	31%	22%	43%	4%
	Investing in automation and labor-saving devices	29%	26%	37%	7%
	Offering hiring bonuses	28%	4%	61%	7%
Increasing overtime	28%	2%	63%	7%	

<b>12. Which effects of inflation are impacting your business?</b> <i>Select all that apply</i>	Higher costs for raw materials and other inputs	344	59%
	Increased prices from vendors	453	78%
	Increased wages and compensation	501	87%
	Increased energy prices	309	53%
	Change in buyer behaviors	254	44%
	Not experiencing effects from inflation	14	2%
	Other	17	3%

Question	Answer	Respondents	
		#	%
<b>13. Outside of expected seasonal fluctuations, how has demand for your company's products and services changed in the last three months?</b>	Increased	164	28%
	Remained the same	321	56%
	Decreased	91	16%
<b>14. Which best describes your supply chain?</b>	No problem	150	26%
	Getting worse	117	20%
	Slowly getting better	258	45%
	Other	51	9%
<b>15. During your company's last fiscal year, what was its total employment?</b>	1-9 employees	61	10%
	10-19 employees	98	17%
	20-49 employees	210	36%
	50-99 employees	146	25%
	100-499 employees	61	10%
	500-999 employees	3	1%
	5000-9999 employees	1	0%
	None	1	0%

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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.

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