

# Economics Group

## Special Commentary

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# Wells Fargo Small Business Survey: Q2 2016

## Small Business Confidence Pulls Back Slightly in the Second Quarter

Small business owners remain guardedly optimistic about prospects for the economy and their business for the coming year. The second quarter Wells Fargo/Gallup Small Business Survey, which was conducted in early April, showed that overall small business confidence fell 3 points to 64 (Figure 1). The survey was conducted at the start of the second quarter, and the first quarter's survey was conducted before the early year sell-off in the financial markets raised concerns that slower growth overseas might more severely impact the U.S. economy. Those concerns subsided somewhat during the first quarter but have been replaced by worries about how the lead-up to this year's election of a new president and Congress would impact small businesses.

The overall level of small business confidence is consistent with the recent trend in overall economic growth. Real GDP grew at just a 0.5 percent annual rate during the first quarter of 2016 and has averaged just a 2.2 percent pace over the past three years. By comparison, real GDP grew by an average of 2.6 percent per year from 2004 to 2007, when the Wells Fargo/Gallup Small Business Index averaged 105.7. While most business owners acknowledge that business is better today than it was a few years ago and their financial positions have improved, the pace of improvement has consistently fallen short of expectations.

Just over two-thirds of business owners stated that their present financial situation was either very good or somewhat good, which tied the previous quarter's mark for the highest this measure has been in this cycle (Figure 2). Conversely, only 15 percent of business owners stated that their financial situation was either somewhat poor or very poor. Moreover, an even higher proportion of business owners, 72 percent, expect their financial situation to be good 12 months from now, while just 11 percent expect their situation to be somewhat poor or very poor.

*The level of small business confidence is consistent with the recent trend in overall economic growth.*

Figure 1

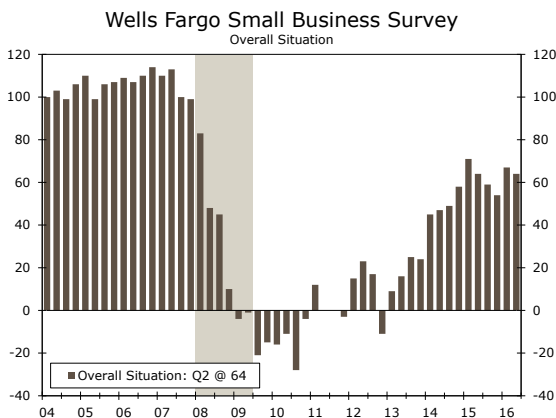
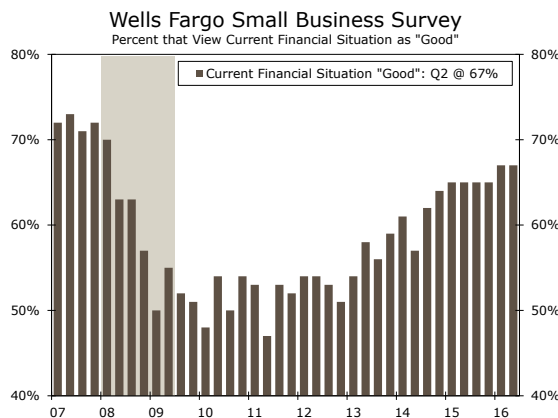


Figure 2



Source: Gallup, Wells Fargo Bank and Wells Fargo Securities, LLC



**The shortfall in actual revenue growth has weighed on small business confidence.**

**Nevada and Colorado topped all states in terms of small business job growth.**

**The uncertainty surrounding the presidential election will likely keep small business confidence close to its recent range.**

### Business Owners Are Keeping a Close Eye on Expenses

The proportion of business owners reporting that sales have increased over the past year has improved over the course of the business cycle but has not exceeded 50 percent since mid-2007. The latest survey shows that 40 percent of firms saw an increase in revenue over the past 12 months (Figure 3), with 14 percent of business owners reporting that sales had increased a lot and another 26 percent reporting that sales increased a little. The proportion of business owners stating that revenues had increased a lot was the highest of any quarter this cycle. Most businesses, however, stated that revenues either stayed the same over the past year, 30 percent, or that revenues had decreased, 30 percent.

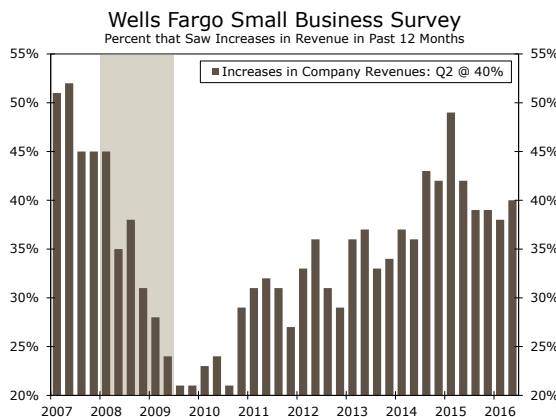
One persistent trend we have seen in the survey is that the proportion of business owners stating that sales increased during the past 12 months has consistently trailed well behind the proportion of business owners expecting sales to increase. The shortfall in actual revenue growth is one reason that small business confidence has had such a tough time recovering, particularly since many business owners continue to report that compensation and regulation costs have consistently exceeded expectations. The net result has been that fewer businesses are boosting capital spending, 23 percent, or hiring more workers, 18 percent.

Regionally, there have been some notable bright spots. Nevada and Colorado topped all states in job growth of firms employing less than 500 workers in 2015, the most recent data available (Figure 4). In both cases, growth in the tech sector has been a boon, with construction of Tesla's new gigafactory setting off a tech boom around Reno, Nev. Other notable regions include Florida, Georgia and Utah, all of which are enjoying solid population growth, rebounding housing markets and an influx of new industries, which is likely driving small business startups and growth.

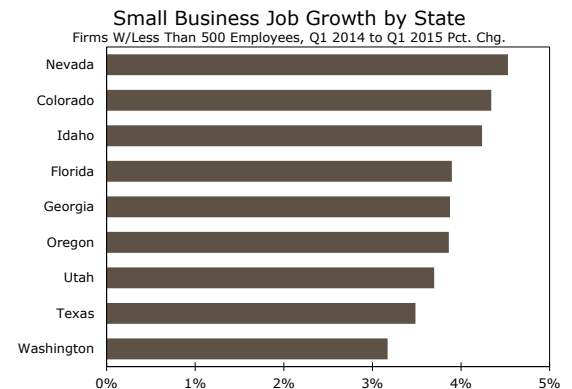
Presidential election years can be difficult times for the economy. Businesses often hold back on hiring and capital spending decisions as the election draws near. A total of 87 percent of small business owners stated that they were following the election, with 56 percent reporting they were following closely, 31 percent somewhat closely. This marks a much higher proportion relative to a recent national Gallup poll that found only 37 percent of American adults reporting they are following the presidential election very closely and 38 percent are following it somewhat closely. Ninety-two percent of small business owners said they plan to vote in the November election.

The run-up to this year's presidential election is particularly vexing. Only 28 percent of small business owners said that the presidential candidates were discussing the most important issues for small businesses, compared to 58 percent of the broader adult population. For small business owners, top concerns include implications of potential changes to the tax code that impact small businesses, economic policies that affect small business owners and changes to healthcare laws. The uncertainty surrounding the presidential election will likely keep small business confidence close to its recent range and may also further restrain capital spending and hiring.

**Figure 3**

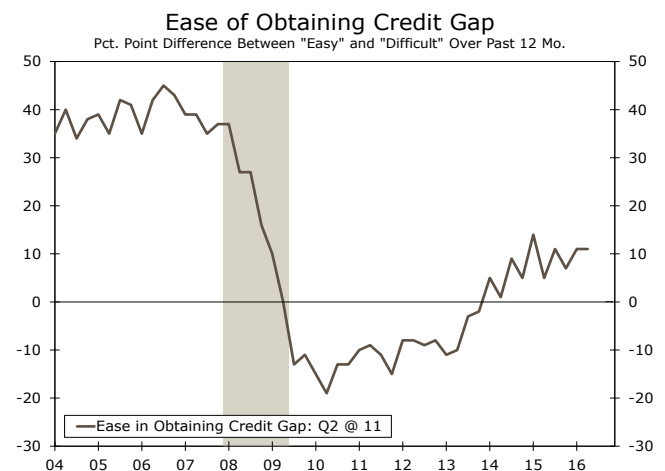
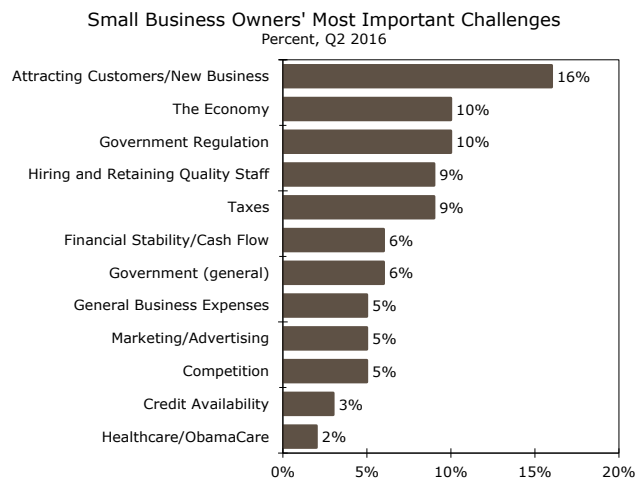
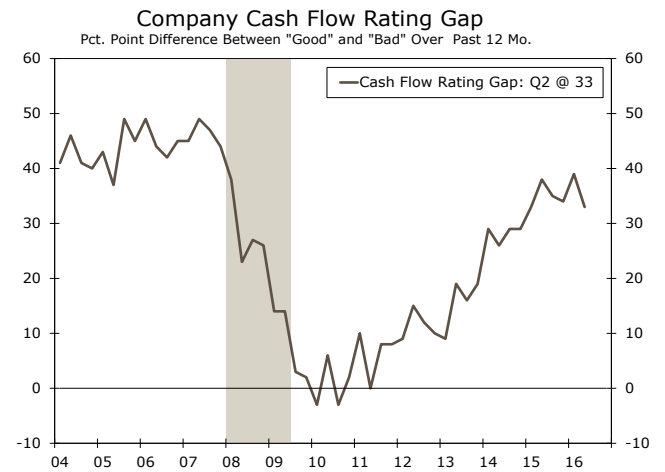
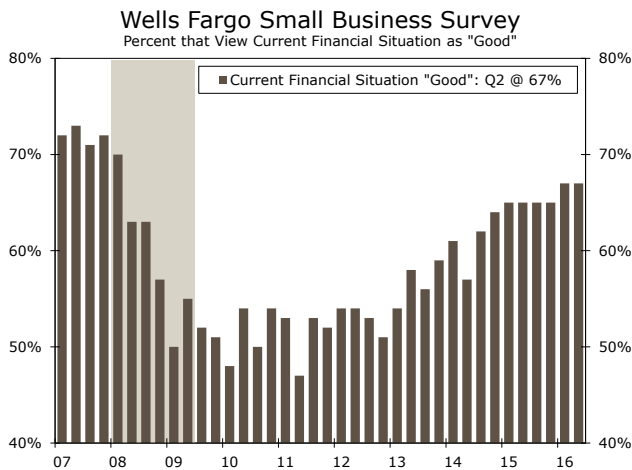
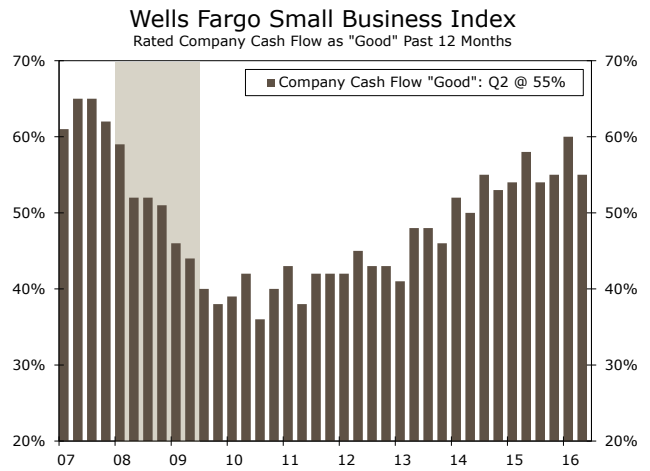
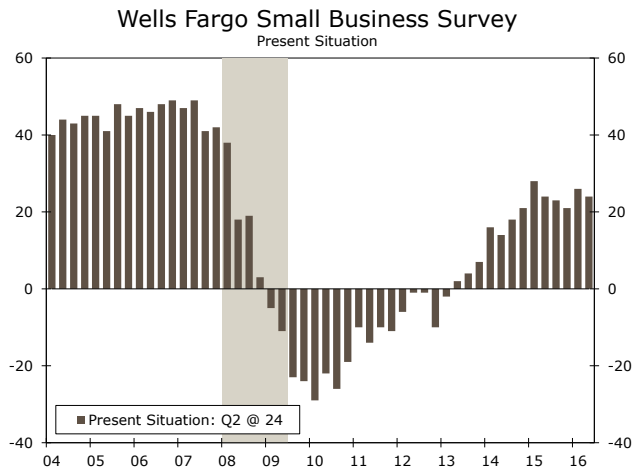


**Figure 4**



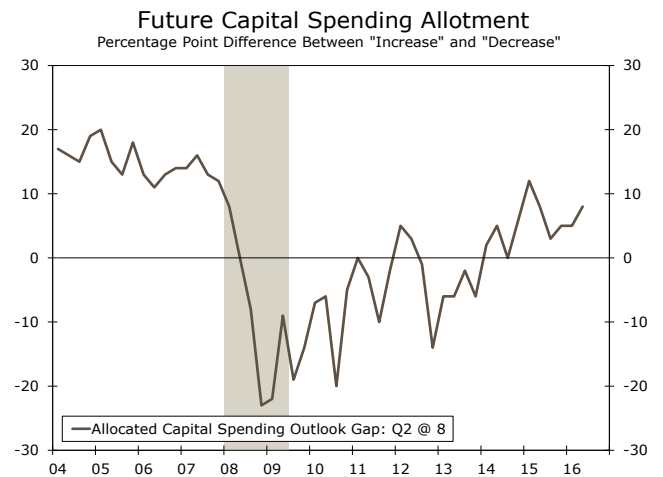
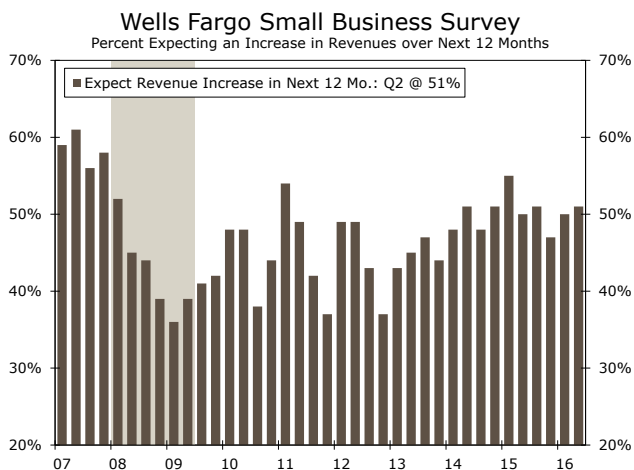
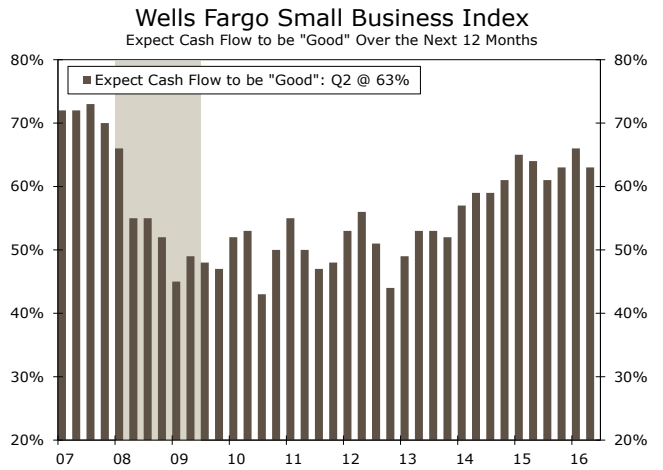
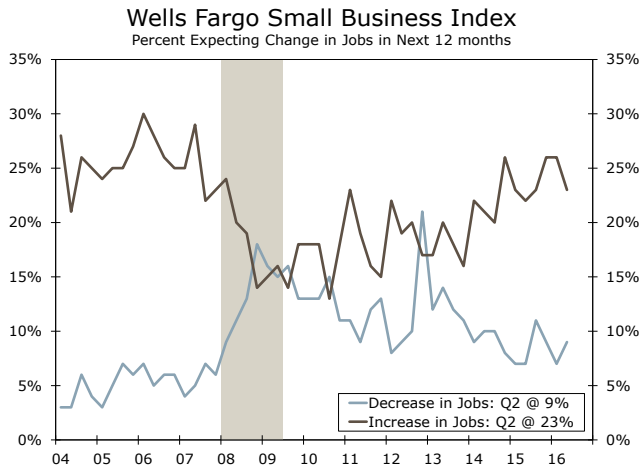
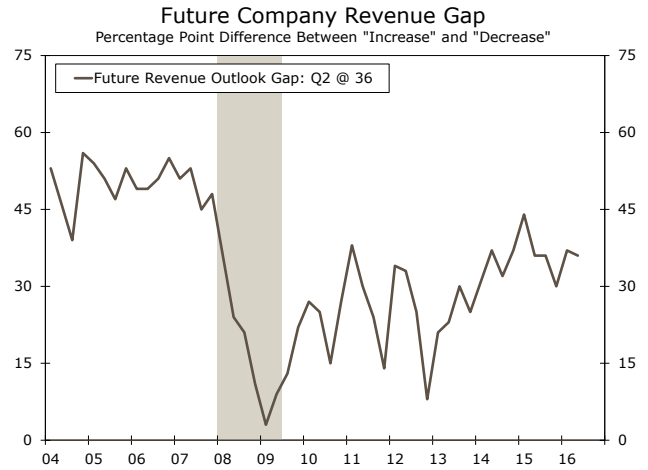
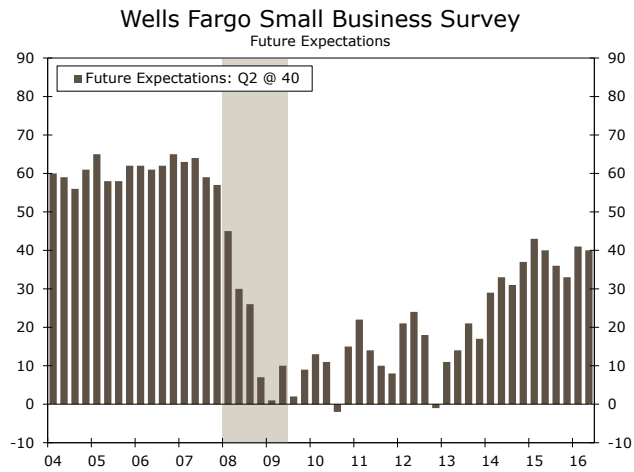
Source: Gallup, Wells Fargo Bank, U.S. Dept. of Labor and Wells Fargo Securities, LLC

**Present Situation**



**Source: Gallup, Wells Fargo Bank and Wells Fargo Securities, LLC**

**Future Situation**



**Source: Gallup, Wells Fargo Bank and Wells Fargo Securities, LLC**

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