

## Economics Group

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### Small Businesses Remain Unusually Cautious

**The Wells Fargo/Gallup Small Business Index fell 6 points to 17 during the third quarter, as businesses grew more concerned about sluggish demand and heightened uncertainty about the economy and public policy.**

#### Sluggish Revenue Growth Keeps Small Businesses Cautious

The Wells Fargo/Gallup Small Business Index fell 6 points during the third quarter to 17, reflecting continued caution by business owners in regard to future economic conditions. Owners' views on current business conditions were little changed from the previous survey, with 53 percent stating that their current financial situation was either very good or somewhat good. That is essentially the same level reported in the previous four quarters and compares to a prerecession high of 75 in late 2006.

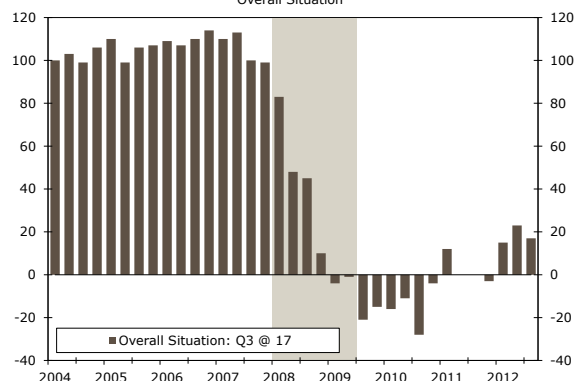
While business owners noted that their financial situation held steady, the proportion reporting revenue gains declined during the quarter, falling 5 points to 31 percent. The proportion of firms noting that revenues decreased fell during the quarter, slipping 1 point to 38 percent, while the proportion stating that revenue growth stayed the same during the quarter rose 6 points to 30 percent. With 68 percent of small businesses reporting revenues were either unchanged or down for the quarter, business owners had to focus even more attention on expense control in order to keep their finances in good shape. This is one reason why businesses have remained so reluctant to expand their operations and hire additional workers.

For the 17th consecutive quarter, more firms said they decreased capital spending over the past 12 months than reported that they increased it. The trend has become less negative, however, with the gap between those increasing and decreasing capital outlays rising from a recession low of -35 three years ago to -11 today. Of those firms that have increased capital outlays, the overwhelming majority invested in new equipment and machinery, new computers, software, website upgrades or new mobile devices. Businesses are somewhat more upbeat about future capital outlays, with just 1 percent more firms stating that they plan to decrease spending (24 percent) over the next 12 months than plan to increase it (23 percent). The remaining 52 percent say capital spending will remain the same.

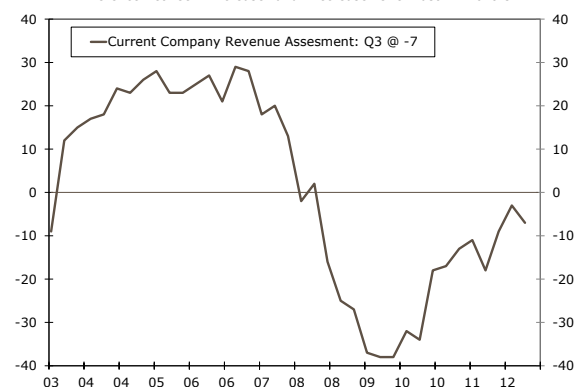
Of those small businesses stating that they do not plan to make any new capital investments over the next 12 months, the top reason cited is that they are too concerned about the overall state of the economy. When asked what would make them more likely to increase capital outlays, the top response is a better sales and revenue outlook, closely followed by more certainty about their operating environment.

While small businesses are understandably frustrated by the sluggish pace of this recovery, a post-recession high of 55 percent state they are generally pleased to be a small businesses owner. Small business owners tend to be an optimistic, yet cautious, group. Most see conditions improving modestly in the economy but would prefer more clarity in future tax and regulatory policy. For the most part, small business owners see the glass as half full, the glass simply is not as large as they would like it to be.

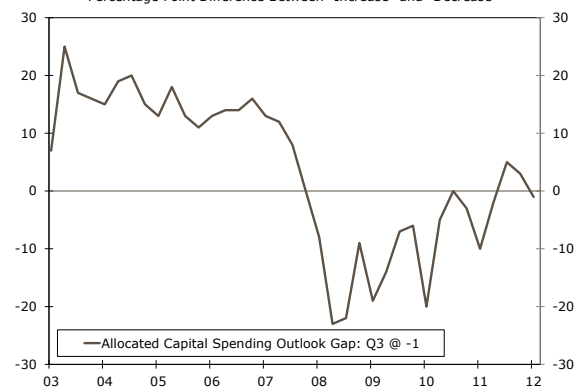
Wells Fargo Small Business Survey  
Overall Situation



Company Revenue Gap  
Difference Between "Increase" and "Decrease" Over Past 12 Months



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



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

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