



## Economics Group

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# Small Business Confidence Improves Further in Q3

**Wells Fargo's small business confidence index rose 9 points in the third quarter to 25. Even with the increase, small businesses remain guarded and are more upbeat about future prospects than their recent results.**

## Small Business Confidence Continues to Claw its Way Back

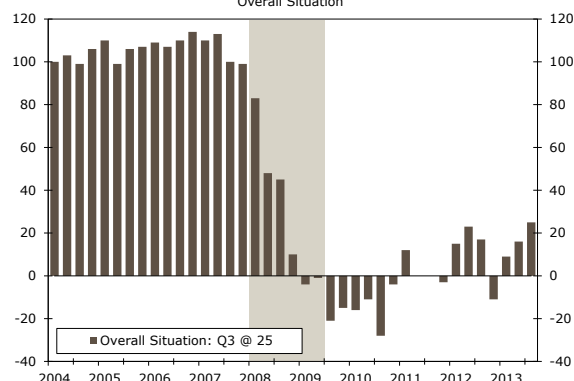
Wells Fargo's Small Business Confidence Index rose 9 points in the third quarter to 25, reaching its highest level in five years. Both the present situation and future expectations components of the survey increased during the quarter, but small businesses are clearly more upbeat about future prospects than they are about actual operating results over the past year. The present situation index rose 2 points during the quarter to 4, while expectations climbed 7 points to 21.

The past five years have been challenging for small businesses, which have seen revenues grow ever so slightly and endured continuous pressure on operating margins. The "company revenue gap", which represents the difference between the number of respondents who reported an increase in revenue versus those who saw a decrease fell 5 points to -6, which provides some insight into the extent of the difficulty many business owners are facing. The pressure on margins is evident in several of the "current situation" components. Even with this setback, the revenue gap for the next twelve months rose 7 points to 30, suggesting firms remain optimistic about the coming year despite their unease about current conditions.

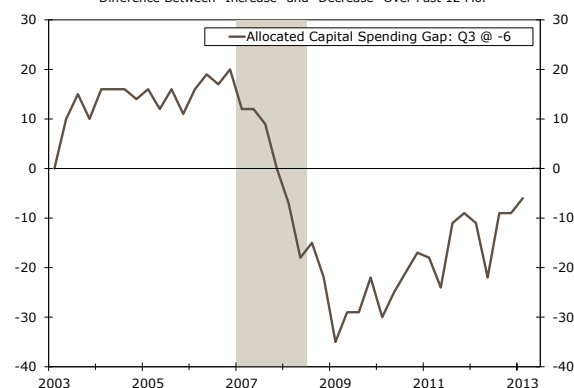
Although small businesses are still cautious about their financial conditions, attitudes toward investment and hiring are gradually improving. Capital spending has been gradually inching higher, with the gap between those respondents increasing allocations for capital purchases and those business owners decreasing them narrowing significantly over the past five years. The series remains in negative territory, which is consistent with the sluggish growth seen in business fixed investment. Employment shows a similar trend. The proportion of firms increasing employment over the past 12 months still slightly trails the number of firms decreasing employment. The outlook has improved, however, with 18 percent expecting to increase employment during the next year and just 12 percent expecting to reduce employment. Moreover, the proportion of firms planning to increase hiring has eclipsed those planning further cutbacks for three straight quarters.

Credit availability for small business owners continues to improve. The proportion of firms stating that credit was difficult to get fell 5 points in the third quarter to 25 percent. Expectations for credit availability improved slightly more, with the share expecting credit to be difficult to get falling to its lowest level in five years. Demand for credit is still soft, however, as many firms remain too concerned about the overall state of the economy or about their own financial condition to commit to major capital outlays. The most important variables cited by business owners that would motivate them to grow their business would be stronger sales growth, more certainty about the business environment and lower federal taxes.

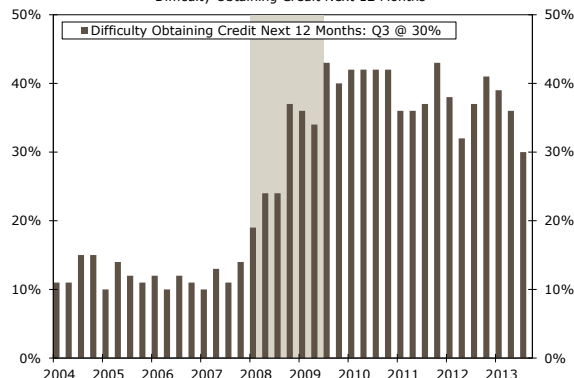
Wells Fargo Small Business Index  
Overall Situation



Capital Spending Allotment Gap  
Difference Between "Increase" and "Decrease" Over Past 12 Mo.



Wells Fargo Small Business Index  
Difficulty Obtaining Credit Next 12 Months



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