



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277
Sara Silverman, Economic Analyst
sara.silverman@wellsfargo.com • (704) 410-3281

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.

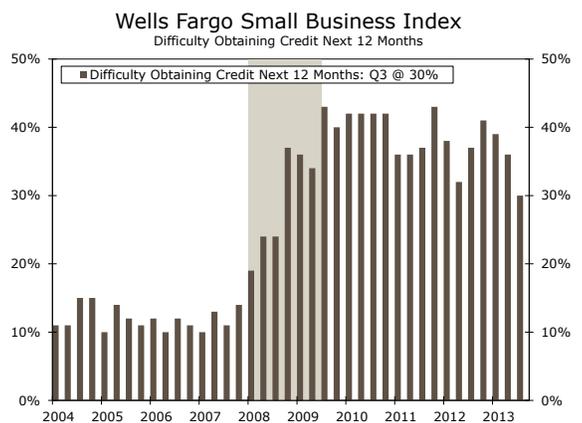
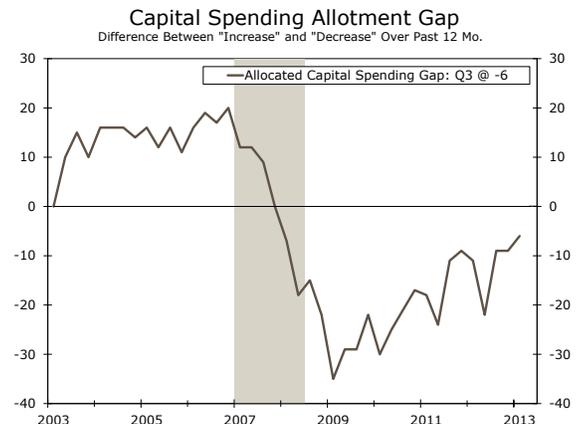
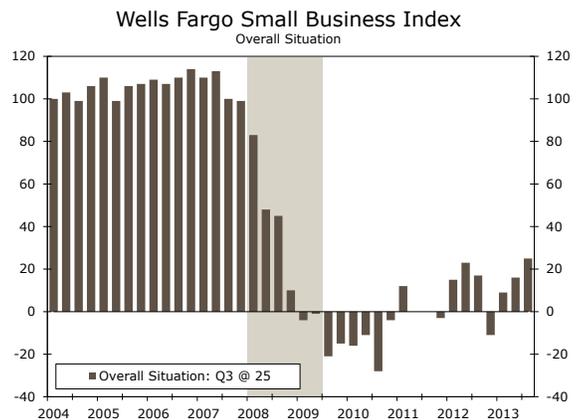
Small Business Confidence Continues to Claw its Way Back

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 Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Sarah Watt	Economist	(704) 410-3282	sarah.watt@wellsfargo.com
Michael T. Wolf	Economist	(704) 410-3286	michael.t.wolf@wellsfargo.com
Sara Silverman	Economic Analyst	(704) 410-3281	sara.silverman@wellsfargo.com
Zachary Griffiths	Economic Analyst	(704) 410-3284	zachary.griffiths@wellsfargo.com
Peg Gavin	Executive Assistant	(704) 410-3279	peg.gavin@wellsfargo.com
Cyndi Burris	Administrative Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC. ("WFS") is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. ("WFBNA") is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. WFS and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2013 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Services Authority. The content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FSA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS
FARGO

SECURITIES