

Economics Group

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Wells Fargo Small Business Confidence Stalls in Q4

Wells Fargo's Small Business Index fell 1 point to 24 in the fourth quarter. The present situation index rose 3 points, reflecting improving revenue, while the expectation series fell 4 points, reflecting headline concerns.

Small Businesses Remain Cautiously Optimistic

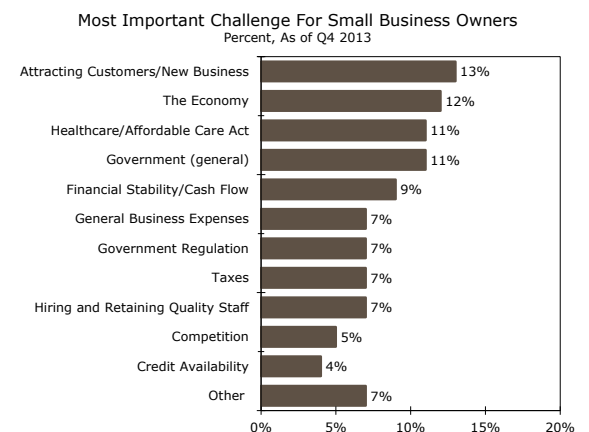
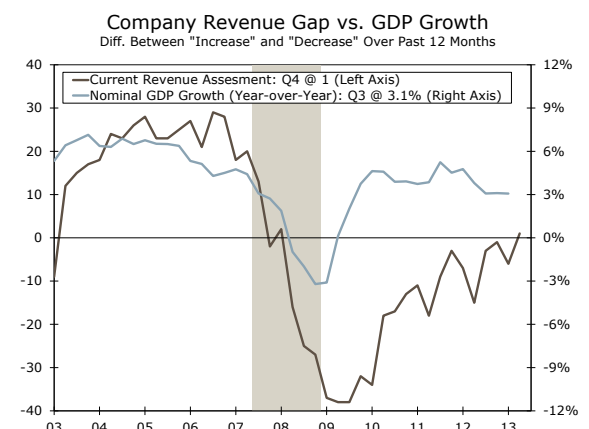
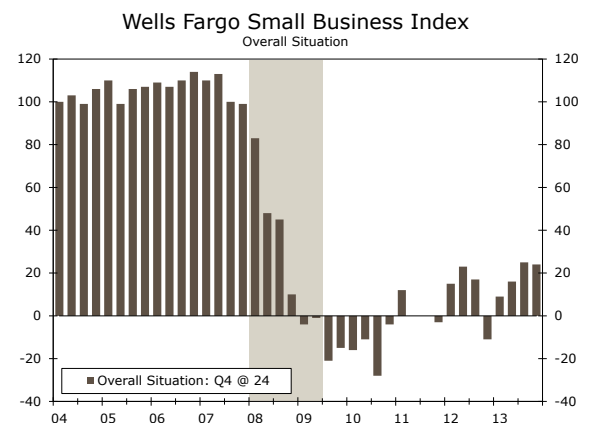
Small businesses showed some general unease over the partial government shutdown early in the fourth quarter as Wells Fargo's Small Business Index slipped 1 point to 24. The fourth quarter survey was conducted Oct. 23–39, a week after the 16-day shutdown ended. The future expectations component fell 4 points to 17 and likely reflects frustration many business owners feel over the dysfunction in Washington; a general sense of unease about pushing the ultimate resolution of the budget and debt ceiling issues that led to the shutdown into early 2014.

Although business owners remain concerned about big-picture issues, a growing proportion of firms cite some gradual improvement in their day-to-day operations and finances. The present situation series rose 3 points and is now at its highest level in more than five years. In addition, the proportion of firms reporting that their financial situation is either 'very good' or 'somewhat good' rose 3 points to 59 percent, whereas the proportion of firms stating that their financial situation was either 'somewhat poor' or 'very poor' fell 4 points to 21 percent. Revenue also is improving, with the proportion of firms seeing a rise in revenue over the past year, 34 percent, slightly exceeding the proportion reporting a decrease, 33 percent.

The improvement in revenue coincides with a modest improvement in capital spending and employment trends. Both series remain in negative territory, however, with slightly more firms allocating fewer funds for capital spending and reducing employment than increasing them. The shortfall between the proportion of firms expanding their operations and those contracting them is narrowing, however.

Small business owners continue to state that the single most important challenges facing them is attracting customers and new business. This is not surprising given the unusually sluggish economic recovery we have seen. Nominal GDP, which represents revenue growth for the entire economy, has risen just 3.1 percent over the past year. Other major concerns raised by small business owners were the economy, health care and the government in general. The number of firms stating that health care was the most important challenge facing their businesses rose 3 points, whereas the proportion citing government in general jumped 8 points during the quarter. Around a quarter of respondents report that credit is still difficult to obtain. Credit availability, however, ranks low on the list of most important challenges to firms, coming in at just 4 percent.

Our fourth quarter survey shows some modest improvement in small business trends, which is encouraging given all the headline risks surrounding the government shutdown and rollout of the Affordable Care Act. Conditions should improve further in 2014, as overall economic growth strengthens and more small businesses see revenues improve.



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