

Expectations Shifted Dramatically Throughout March

The month of March brought substantial change to financial markets and the real economy that had significant impacts on small business owner expectations and plans. March endured a stock market crash with the stock market indices losing 22% of its value and jobless claims rising to a record 10 million in the last two weeks of the month. The news became almost totally dominated with reports about the virus and increasing numbers of states, now 42 states in all, shut down nonessential businesses and put in place orders to severely limited public movement and gatherings.

To provide some insight into how business owners responded to the economic and political turmoil, the 627 responses were group into those responses collected by mail in the mail by March 16 (answering the questionnaire in the first half of the month) and those responding after mid-month.

	Feb.	March	Mar. 1-16	Mar. 17-31	Difference
Plans to Increase Employment	21	9	13	5	8
Plans to Make Capital Expenditures	26	21	23	19	4
Plans to Increase Inventories	2	-3	3	-9	12
Expect Economy to Improve	22	5	7	4	3
Expect Real Sales Higher	19	-12	4	-30	34
Current Inventory	-4	-2	1	-5	6
Current Job Openings	38	35	40	30	10
Expected Credit Conditions	-1	-4	-2	-6	4
Now a Good Time to Expand	26	13	19	7	12
Earnings Trends	-4	-6	-4	-6	2
Optimism Index	104.5	96.4	100.7	92.1	8.6

The most dramatic change was the decline in the net percent of owners expecting higher real sales. Small business owners quickly understood the rapid decline in future sales prospects as the economy started to shut down for many industries.

This will necessitate far fewer employees especially with forced closings of many labor intensive, nonessential businesses, including restaurants and retail. Job openings fell 10 percentage points from 40% in the first half of the month to 30% in the second half. The shift in job creation plans followed suit dropping 8 points from the first half to the second half.

Shifts in business operations lagged a bit behind deteriorating expectations. When separating the Index components into two categories:

Hard: Job Creation Plans, Job Openings, Inventory Plans, Earnings, Capital Expenditure Plans

Soft: Expected Business Conditions, Outlook for Expansion, Expected Real Sales, Expected Credit Conditions, Inventory Satisfaction

The hard components fell a combined 34 points from the first half of the month to the second half. The soft components fell 60 points.

As the month went on, an increasing number of small business owners grew pessimistic about future expansion opportunities. The economic outlook for increasing numbers of small business owners appeared grim. Small business owners are now quickly adjusting to their rapidly changing economic conditions and they are bracing for more disruptions going forward.