bank five nine

Economics for Small Business

When you run a small business, it's easy to get wrapped up in the day-to-day details. In fact, it may seem impossible to step back and see the big picture while juggling clients, suppliers and a variety of other demands.

Yet there's an economy out there that's impacting the work you do and the people you rely on to buy your products and services. And if you're not always paying attention, your business could be impacted.

Fortunately, the economic information you need to keep pace in a changing world is readily available. In fact, we've compiled several key insights—along with perspectives from business banking experts to help you make the most of them.

Let's take a look at the current economic environment and some of the key elements of our economy that could be impacting your business.

Small Businesses Experiencing Record-Level Profit Growth

Are you feeling it?

According to an April 2018 National Federation of Independent Businesses (NFIB) Economic Trends Survey, small businesses are experiencing record-setting profit growth. "Never in the history of this survey have we seen profit trends so high," said NFIB President and CEO Juanita Duggan.

To make matters even rosier, the same report reveals that businesses reporting sub-par sales and profits fell to near record lows.

So, what's fueling this record-setting trend? According to the report, strong sales, productivity gains and newly implemented tax laws are all playing a significant role.

However, Morgan Dornfeldt, Business Banking Advisor at Bank Five Nine, believes confidence may be a significant factor that is fueling this record setting profit growth. "The numbers tell us what's happening, but the optimistic outlook that owners have for their business is what fuels them to continue to perpetuate the positive cycle," says Dornfeldt. "They feel good about investing in their companies and buying new equipment, adding new employees and upgrading their facilities."

Workforce and Labor Markets

Speaking of new employees, roughly half of the businesses surveyed in the NFIB report cited hiring difficulties as a major concern, finding few or no qualified applicants for the positions they were hoping to fill. As a workaround, some businesses are turning to temporary workers to shore up staffing needs—although qualified temporary resources are extremely limited.

For example, two industries that have been especially hard hit by this labor shortage are manufacturing and construction, where nearly half those surveyed reported unfilled openings.

In construction, there has been and continues to be a slow-down in building new homes as builders find it increasingly difficult to pull together work teams that are trained and qualified for the job at hand.

"A drop in home construction usually means a struggling economy, but in today's market there's a very different reason for the slow down," says Dornfeldt. "If your business is tied to new home construction, you may be feeling the pinch of a labor shortage and a very similar situation exists with many manufacturing companies who require skilled labor to produce their products."

Despite a limited labor pool, small businesses haven't given up on finding qualified workers. In fact, fifty-seven percent (57%) of those surveyed reported hiring or trying to hire. "With unemployment rates at some of the lowest in years, companies across the board are competing for the best talent," says Dornfeldt. "You may have to lean on recruiters or staffing firms more than usual," he noted, adding that there are several online resources that can help time-pressed business owners match their open positions with the right applicant.

Another real consequence of the tight labor market is the increase in wages and benefits small business owners are offering to secure the qualified talent they need to keep their business running. "You need to keep your eye on your cost of labor and make periodic adjustments to your pricing or productivity to maintain your profitability," according to Dornfeldt.

Capital Spending

With the growth in sales and profits, small business owners are seriously considering a capital expenditure during this economic cycle. The NFIB survey showed that a considerable number of small businesses have committed to a capital expenditure. More than sixty percent reported some kind of purchase for their business:

- 43% for new equipment
- 27% for vehicles
- 16% went toward improved or expanded facilities
- 14% for new fixtures and furniture

Whether a capital expenditure is right for your business depends on a variety of factors, says Dornfeldt. “Now is the time to go over the list of purchases you’re considering to improve your business, whether it’s a new roof, more vehicles—whatever.”

Dornfeldt suggests looking at the expenditures and categorizing them as ‘must haves’ and ‘wants,’ then choosing them based on priority. “While it may be great to add a new truck to the fleet, you may have more pressing expenses, like a building or acquiring a garage where you can store and service it,” he said.

Sales and Inventories

Consumer sales are on the rise and this gives small business owners something to feel good about. Contributing factors include wage and salary growth for the average family—a phenomenon driven by tax cuts and the improving employment market.

The trend of solid sales growth is expected to continue for quite some time and this trend is setting up business owners for a strong finish to this year and an optimistic forecast for next year.

If inventory is an indication, many businesses are already anticipating a healthy stretch run for this year and maintaining a solid base for the first half of next year. The percentage of owners planning inventory increases is in positive territory, although most of their projections are not excessive.

“The balance between inventory and demand can be tricky to pinpoint,” says Matt Schwechel, SVP, Director of Commercial Lending. “A skilled business banker can work with you to find ways to manage inventory and cash flow, so you’re prepared for almost any scenario.”

Inflation—The Magic Number Two

While the Federal Reserve has set a target of two percent inflation, the actions of business owners may dictate whether or not this goal is actually reached.

According to the survey, nearly a quarter of the businesses surveyed plan to raise prices—possibly in response to pressure to pass on the costs of increased wages and compensation to customers. Tax cuts and growing operating profits may help to alleviate some of this pressure, however.

“The decision to adjust pricing is driven by a variety of factors unique to each business,” said Dornfeldt. “It should reflect not only a desire to manipulate sales, but also the ability to maintain a sustainable positive cash flow and corporate profits.”

A Historical Perspective on Compensation and Earnings

While government reports of salary and wage gains remain historically low, they’re better than they’ve been for quite some time. It’s important to note, that while wage gains were generally higher in the past, so was inflation.

Against this backdrop, the number of businesses raising worker compensation remained unchanged, according to the NFIB survey. However, the tight labor market and the growing demand for skilled workers will have an impact on worker compensation over time for both new and existing employees.

Reports of positive profits, however, improved to the highest mark in the survey's 45-year history—much of it due to robust sales and gains in operating profits. New tax laws and the current strong economy bolster speculation that profits will continue to improve.

Credit Markets

When it comes to credit, only two percent of businesses surveyed reported that financing was their top business concern. In addition, half the respondents indicated they were not currently interested in a business loan.

"While businesses will always need credit at some point, it's clear that it's not the dominant issue like it has been in years past," says Schwechel. "The current economic conditions are providing a strong sales and profit base for many small businesses to fund capital initiatives internally."

Of the business owners who did report borrowing, thirty one percent (31%) said they did so regularly. It's significant to note, however, that the demand for fixed-rate credit has risen, most likely in response to rate hikes by the Federal Reserve—and predictions of more to come.
"The days where interest rates were kept artificially low are coming to an end," says Schwechel. "Businesses are realizing that they need to reconsider how they use credit in an environment where the Fed won't suppress rates as they've done in the past."

In this changing environment, Schwechel notes that a savvy business bank can be a tremendous ally when it comes to borrowing smart and adjusting a business' credit portfolio to leverage cash flow, the changing rates environment and taking advantage of the new tax laws.

A Broad Step Back

When you consider the big picture, there's more than enough reason for business owners to be optimistic. The main challenge—low unemployment and a small skilled labor market—will impact everyone, however, the economy continues to show positive signs that bode well for the future.

The key for any business will be to stay on top of economic developments and the day-to-day and making adjustments as needed. A seasoned business banking partner can be a valuable ally. "Most business bankers consider themselves business partners with their clients," says Dornfeldt. "While they may not be shareholders, they do have a stake in the business' success."

We’re Here to Help

At Bank Five Nine we understand that every business owner has a passion. Ours is to help you understand the real-world factors that impact your business, so you can turn your passion into long-term success.

If you have questions or just want a perspective from an experienced business bank, we’re here to help. Please contact Morgan Dornfeldt, Business Banking Advisor at (262) 560-6365 or for your commercial lending needs, call Matt Schwechel, Senior Vice President, Director of Commercial Lending at (262) 670-3021. We look forward to hearing from you.