VISTAGE

CEO CONFIDENCE INDEX SURVEY

Q3 2024

Focus on Productivity

ABOUT THE VISTAGE CEO CONFIDENCE INDEX

Since 2003, the Vistage CEO Confidence Index has captured the sentiment of small and midsize business CEOs, presidents and business owners about the U.S. economy each quarter. The Q3 2024 Vistage CEO Confidence Index survey was conducted online and sent to 9,941 active Vistage members who are part of Chief Executive and Small Business groups in the United States. It was open between September 3 and 17, 2024, and captured input from 1,626 leaders. Using ITR Economics' rate-of-change methodology, analysis reveals that the Vistage CEO Confidence Index is a leading indicator of the U.S. Industrial Production Index 9 months in advance.

Now in its 21st year, the Vistage CEO Confidence Index is recognized as the definitive voice of high-performing, high-integrity small and midsize business leaders. As a trusted resource, the Index provides world-class insights to inform decision-making for CEOs and other key leaders of small and midsize businesses.

For Vistage CEO Confidence Index results, visit

VISTAGE.COM/CEOINDEX

TABLE OF CONTENTS

FOCUS ON PRODUCTIVITY

In its simplest form, productivity is measured as revenue per employee. When customer demand slows, it impacts revenues and, therefore, productivity metrics. However, other factors impact productivity. Reduced workforce engagement and motivation reduce output. Workforce velocity results in new, inexperienced and disconnected workers. The lack of connectedness is also one of the downsides of the work-from-home model. Learning and cultural adoption are best established when people work together, yet the hybrid model is not going away anytime soon as flexibility is in high demand among employees.

With the stability of a more balanced economy and heavy investments in their workforce, CEOs have turned their attention to improving productivity, which can be affected by multiple factors:

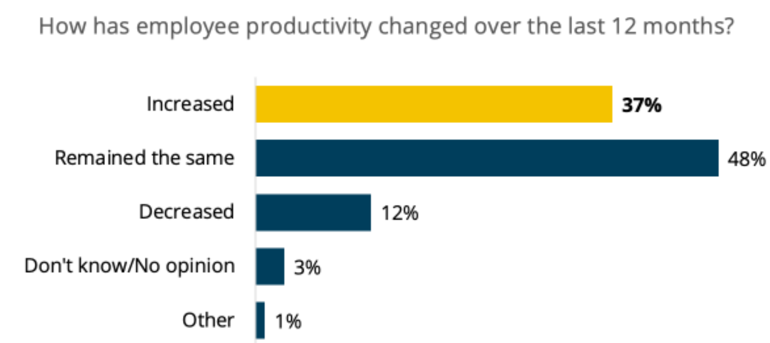
Talent: There is still a shortage of qualified workers for advanced roles that involve using sophisticated tools and business applications. This shortage negatively affects organizational performance and puts a strain on training and development resources as they work to bring inexperienced workers up to speed. Developing the workforce requires ongoing investments and time for training in order to improve performance and change attitudes.

Technology: Small and midsize businesses that have been slow to upgrade business systems or have struggled with user adoption may face productivity challenges. The slow embrace of digital transformation as the pace of change accelerates inhibits many organizations from taking a step forward. Accountability for integrating new tools and technology starts at the top.

Remote work: Working remotely was heralded as the savior when everything shut down during the pandemic. Now CEOs want to bring workers back to the office more frequently because we are seeing cracks in the hybrid model. Hybrid work may limit collaboration, stifle innovation and blunt the power of workplace culture. CEOs need to balance employee demands with business needs and understand the opportunity costs of favoring one or the other.

Despite these obstacles 37% of CEOs report increases in productivity over the last 12 months, a result of investments in productivity, while just 12% report decreases.

37% of CEOs report increased employee productivity over the past year



When asked about areas of investment, CEOs shared their current and future spending plans.

Nearly 8 in 10 CEOs (79%) are investing in culture and employee engagement as a way to strengthen bonds that the pandemic and remote work have threatened. With the recent influx of new employees and the loss of others, workplace culture has been diluted or morphed away from the core values and purpose of the organization. Rebuilding and reinforcing culture builds the foundation of an organization, allowing it to grow and prosper despite the economic and marketplace challenges that competitors and customers alike are facing.

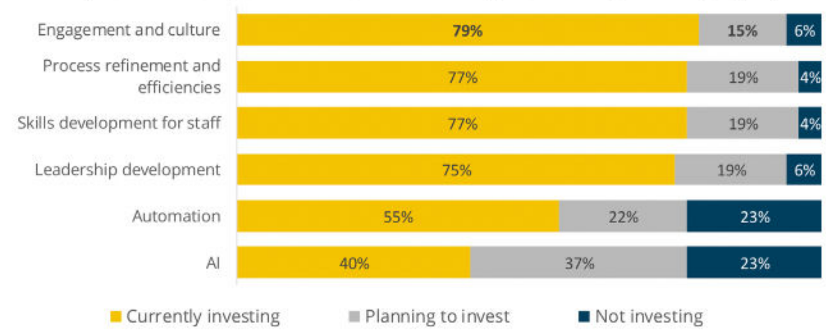
Other top tactics driving productivity are workforce development, including skills development for staff (77%) and leadership (75%). Leadership training pays off exponentially as frontline managers play a critical role in performance, engagement and employee productivity.

In addition to the 55% already investing in automation, 22% of CEOs plan to invest in this area. Automation spans different functions in the organization and should not be relegated to something that happens just on the factory floor; it can also be used to accelerate information available to measure performance and drive business decisions.

The use of artificial intelligence is slowly gathering speed, with 40% of CEOs currently investing and 37% planning to invest in AI. Those investing in generative technologies will more rapidly realize the efficiencies of this workplace enhancement, speeding and simplifying multiple aspects of daily knowledge workers' tasks. Individual productivity will grow first, followed by an organizational capacity to leverage data and insights uniquely generated by AI. Those not investing in AI (23% of CEOs) will face challenges maintaining a competitive advantage.

Engagement and workplace culture is currently the top tactic for driving productivity among small and midsize businesses

How does your business plan to address the following areas to improve employee productivity?



The path to increased productivity is paved with obstacles and hurdles — just as it always has been. Now, with an economy poised to grow, leaders should make key investments to increase productivity, ensuring they are first out of the gate for the pending growth cycle.

VISTAGE

Minor increase in CEO confidence as interest rate cut drives economic optimism

Another quarter passes with incremental movement in CEO sentiment. However, there is new light at the end of the tunnel: interest rate cuts. The Vistage CEO Confidence Index — calculated from a survey of over 1,600 CEOs just before the interest rate cut was announced — rose marginally to reach 85.1. This is a 1.8 point increase from last quarter and short of the 2024 high of 85.9. Still, it remains well below the norms of a prepandemic marketplace as the same issues and challenges that weighed on businesses in the first half of 2024 continued into the third quarter:

- Inflation continues to creep down; however, everything still costs more.
- Interest rates have started to fall, yet 60% of respondents said the cut will not impact their businesses until at least 2025.
- Hiring has become easier, and employee retention rates have stabilized as workforce velocity has slowed.

CEOs are becoming more optimistic about the economic future with forward-looking economic sentiment rising to its highest postpandemic point of 32%. However, the view of the current economy compared to last year continues to decline. Revenue and profit expectations both rose slightly as a reflection of the productivity gains and a still-steady marketplace. Meanwhile, plans for investments and hiring hovered near the 2024 average. Just 16% of CEOs have delayed investments due to election uncertainty, while the majority (81%) report the upcoming election has no impact on their business decisions.

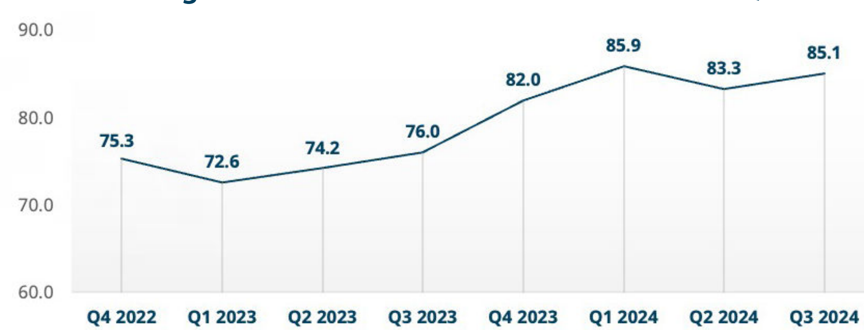
After a few chaotic years, the stability of the current economic landscape provides a solid platform for long-term strategic planning. In our research report, *Strategic Planning: Identifying Gaps in Your Game*, we revealed that 72% of CEOs use an internally developed approach to strategic planning. In our Q3 survey, we learned that 66% use a 3-to-5-year planning horizon with 12% planning beyond 5 years and 13% for just a year.

Long-term strategic planning is difficult even in the most stable of times. CEOs in our survey identified economic uncertainty, succession planning, political uncertainty and workforce/skilled labor as their biggest challenges in long-term planning. These external forces will influence planning for the next 5 years.

- **Workforce evolution:** Over the next 5 years, the Boomer workforce will reach retirement age, with the smaller population of Gen Zs filling the gap.
- **Workplace dynamics:** The hybrid workplace solution is not final. Return-to-office initiatives are surging as CEOs seek to reclaim the advantage of in-person work for collaboration and innovation.
- **Artificial Intelligence:** The rapid advancements of AI will affect all aspects of work and life, providing a competitive advantage to those who are early adopters.
- **Global depression:** 2030 marks the beginning of a global depression forecast by ITR Economics, driven by demographics, debt, healthcare and other factors.

The strategic looking glass is as cloudy as ever. However, barring another black swan event, the stage is set for a positive second half of the decade, with 2030 acting as a bookend to the 2020 pandemic start. Building a five-year strategic plan for this window of prosperity enables CEOs to capitalize on a rising economy while positioning for an uncertain turn of the decade.

Vistage CEO Confidence Index rises to 85.1 in Q3



Q3 2024

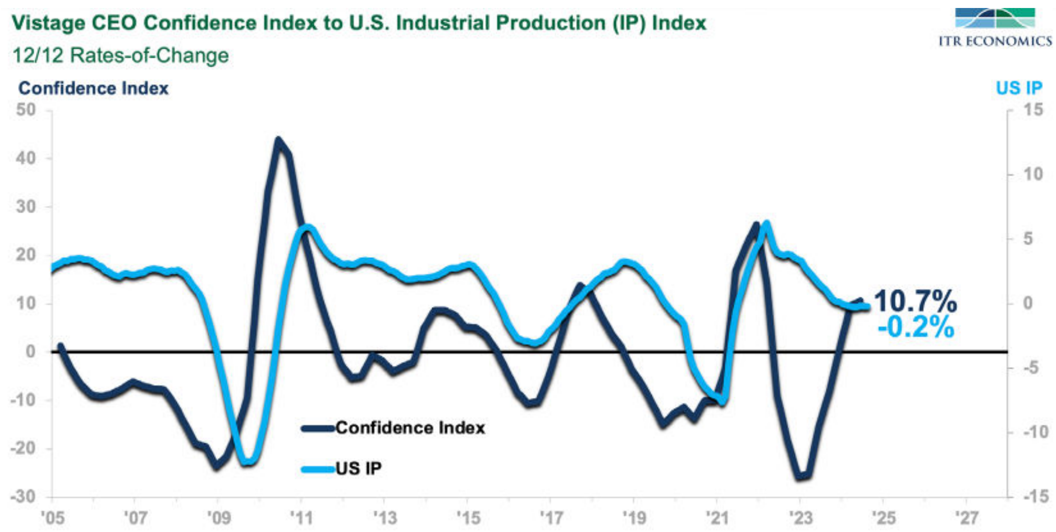
Vistage CEO Confidence Index

HIGHLIGHTS

VISTAGE

Leading Indicator: Vistage CEO Confidence Index

ITR Economics analysis shows that the CEO Confidence Index leads the U.S. Industrial Production Index by about three quarters in a typical economic cycle. Currently, while there are signs of growth, the data does not support rapid expansion like the postpandemic surge. The Vistage CEO Confidence Index reflects an environment of positive, controlled growth that will be more measured and potentially more sustainable. The data offers a balanced outlook for the near future and aligns with expectations for a moderate resurgence in growth next year.



= Recent Economy

18%

of CEOs reported economic improvements, unchanged from Q2.

↑ Future Economy

32%

of CEOs expect the economy to improve in the next year, up from 23% last quarter.

↑ Revenue Projections

63%

of CEOs expect increased revenues, an increase from 60% in Q2.

↑ Profitability Projections

49%

of CEOs expect increased profits in the year ahead, an uptick from 48% last quarter.

↓ Investment Plans

34%

of CEOs plan to increase fixed investments in the next 12 months, a slight decrease from 35% in Q2.

↑ Workforce Plans

50%

of CEOs plan to expand their workforce over the next 12 months, up from 49% last quarter.

ITR EXPERT PERSPECTIVE

With the slight increase in CEO confidence despite ongoing economic challenges such as inflation and interest rates, small and midsize businesses must invest in efficiency and automation. This investment is crucial to navigate the current economic landscape and prepare for the anticipated growth cycle in 2025. One bright spot is the 50 basis point interest rate cut that we saw from the Federal Reserve, with another cut expected this year. This is good news as the survey revealed that 100 basis point cuts would be impactful to most small and midsize businesses. There's a chance there will be additional cuts into early 2025, but ITR is not forecasting the full 200 basis point reduction that the market expects; we see more inflation on the horizon, which will thwart further cuts. While disinflation is the name of the game for the remainder of 2024, inflation will return next year, so investments should be planned accordingly.

"Efficiency is the name of the game. Make sure investments are worthwhile and that you have a strategy in place. AI and automation can really help businesses get ahead."

Lauren Saidel-Baker

Interest rates and inflation: The Federal Reserve's recent 50 basis point rate cut is a positive move, and additional cuts are expected through the end of the year. However, rising inflation in 2025 may limit further cuts.

Investment strategy: Businesses should not wait for larger interest rate cuts. Invest now in efficiency-boosting projects like AI and automation, even with slightly higher borrowing costs.

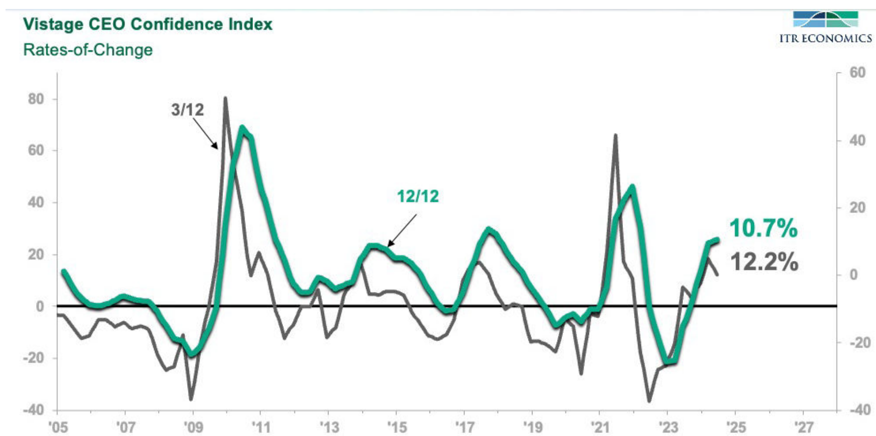
Lauren Saidel-Baker
CFA and Economist
ITR Economics

ITR ECONOMICS
Now part of Crowe

Timing investments and preparing for future growth cycles (2025 and beyond) is crucial, with the labor market and cost of borrowing remaining key considerations.

Labor market outlook: Although retention rates are improving and hiring has become slightly easier, the labor market remains tight, with not enough workers available for job openings. As wage pressures are expected to persist, leaders should focus on improving productivity through automation.

Long-term planning: Strategic plans should consider both the short-term growth cycle and the long-term challenges posed by demographic shifts and automation needs.

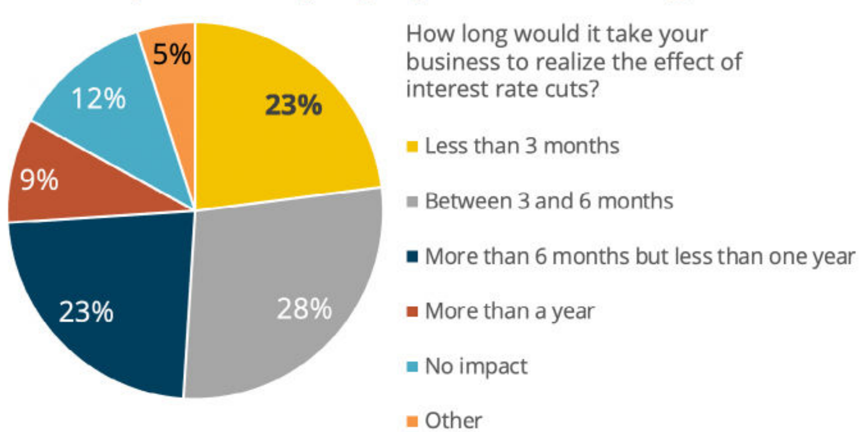


ECONOMIC SENTIMENT

CEOs have been pessimistic about the economy for the last 6 months. Just 18% report the economy is better than last year, while a growing proportion of CEOs (41%) report that it is worse than a year ago. Certainly, the prolonged period of elevated interest rates and growing inflation, albeit at a slower rate, has taken its toll on businesses.

Looking ahead, we see a more optimistic picture. Nearly one-third (32%) of CEOs report that they expect the economy to improve in the next 12 months, and just 23% expect it to worsen. This optimism was undoubtedly based on the Federal Reserve's interest rate cut, which will likely start to stimulate the economy. However, despite the interest rate cuts, 28% of CEOs report that it will take 3 to 6 months to see impacts, meaning those positive effects on the economy may not be felt until early 2025 at the earliest.

While 23% of CEOs report their business will realize the effect of interest rate cuts this year, the majority report it will take longer



Decisions or investments delayed due to election uncertainty:

"Seeking capital has been a challenge of ours, and with the upcoming election, we are looking to delay getting loans to see if interest rates will truly fall."

Bill Rupert
President, RCS-CM LCC
Huntington Beach, California

Planned actions in response to interest rate cuts:

"I hope to capitalize on larger marketing budgets/new business opportunities in response to interest rate cuts."

Alex Oesterle
Chief Executive Officer, Blue Bear Creative
Denver, Colorado

Q3 Vistage CEO Confidence Index n=1,626. Data collected September 3-17, 2024.

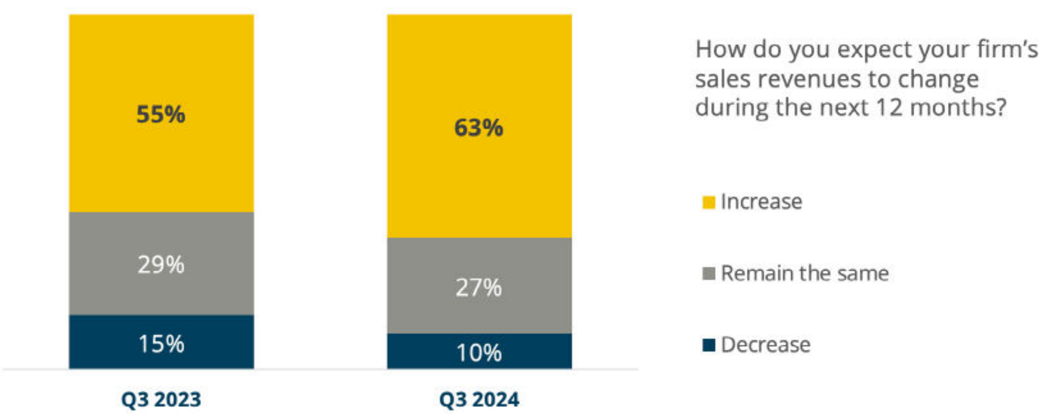
Vistage CEO Confidence Index

REVENUES & PROFITS

While 63% of CEOs expect increased revenues in the year ahead, this revenue growth may follow the pattern of other leading indicators, which means this growth is occurring at a slower rate. Just 1 in 10 CEOs expects decreasing revenues in the next 12 months, the lowest proportion since March 2022, which is a positive sign. Growth, when accompanied by disinflation, results in improved profitability. CEOs need to keep their eye on inflation trends, as when inflation begins to rise, price increases will once again be in play.

Profitability expectations have gradually improved, with almost half (49%) of CEOs anticipating increased gains in the next 12 months. Only 15% expect profits to decrease, the lowest proportion since mid-2021. The recent interest rate cut will also have a positive impact in this area because higher borrowing costs have been affecting profitability. With lower interest rates, investments will now have a reduced impact on profits.

The proportion of CEOs expecting increased revenues has grown 8 percentage points from last year



Reasons for increased profitability expectations:

"We will have completed a year of significant investment – new ERP, software products development and website redesign."

Heather Rogers
President, Time Timer
Cincinnati, Ohio

"We're making key investments in employee training and education, and automation for mundane and repetitive tasks, so our employees can focus on more creative and value-adding work."

Andrew Henry
Owner, Henry Holsters LLC
Spencer, Indiana

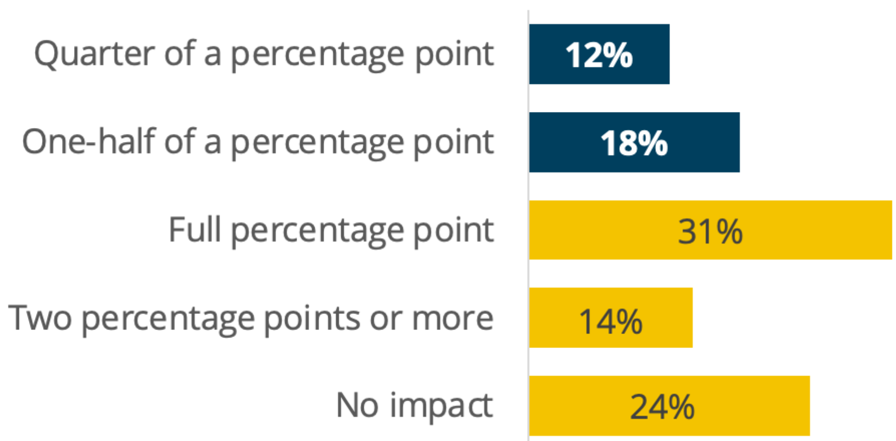
Q3 Vistage CEO Confidence Index n=1,626. Data collected September 3-17, 2024.

INVESTMENTS & HIRING

CEOs remain conservative on investing, with just over a third (34%) planning to increase fixed investments and half (50%) planning to add incremental personnel. It's important to note this data was collected before the drop in interest rates, so lower rates will change how CEOs approach investing in their business.

When asked what level of interest rate cuts would impact their business, 30% shared that another quarter- or half-point drop would have an impact. As the first interest rate cut was a half a percentage point, a second half-point cut would loosen the purse strings. Some of the actions CEOs are planning to take include hiring, investing in stalled capital projects and exploring acquisitions. As Saidel-Baker noted, the ITR forecast is for not only additional interest rate cuts but also the return of inflation. CEOs must get the timing right on their planned investments.

3 in 10 CEOs report that their business will be impacted by the half-point cut in interest rates



Planned actions in response to interest rate cuts:

"Immediate reduction to interest expenses for variable credit lines, consider financing of equipment instead of cash purchase"

Heather Chandler
President, Sealstrip Corporation
Gilbertsville, Pennsylvania

"Adding staff in anticipation of growth due to both internal sales and marketing efforts, along with manufacturing sector improvements due to rate cuts"

Jim Ginther
CEO/Owner, United States Compliance Corp.
Excelsior, Minnesota

Q3 Vistage CEO Confidence Index n=1,626. Data collected September 3-17, 2024.

CONTRIBUTORS

VISTAGE

Joe Galvin | Chief Research Officer, Vistage Worldwide, Inc.

As Chief Research Officer for Vistage, the world's leading executive coaching organization for small and midsize businesses, Joe Galvin is responsible for providing Vistage members with current, compelling and actionable thought leadership on the top issues, topics and decisions of small and midsize business CEOs.

Anne Petrik | Vice President of Research, Vistage Worldwide, Inc.

As Vice President of Research, Anne Petrik leads the design, deployment and analysis of CEO surveys for Vistage, capturing the sentiment and practices of the Vistage CEO community. Using her analysis in collaboration with perspectives from experts and partners, Anne directs the thought leadership published by Vistage research to provide small and midsize business CEOs with insights that inform on how to optimize their businesses and enhance their leadership.

Lauren Saidel-Baker | CFA and Economist, ITR Economics

A speaker and economist at ITR Economics, Lauren Saidel-Baker provides consulting services for small businesses, trade associations, and Fortune 500 companies across a spectrum of industries. Lauren graduated with honors from Wellesley College, double majoring in economics and religion. She earned her MBA at Boston University Questrom School of Business. She has also been featured on the Financial Sense Newshour podcast, Floor Covering Weekly magazine and tED magazine's online publication.

Vistage CEO Confidence Index

DEMOGRAPHICS & METHODOLOGY

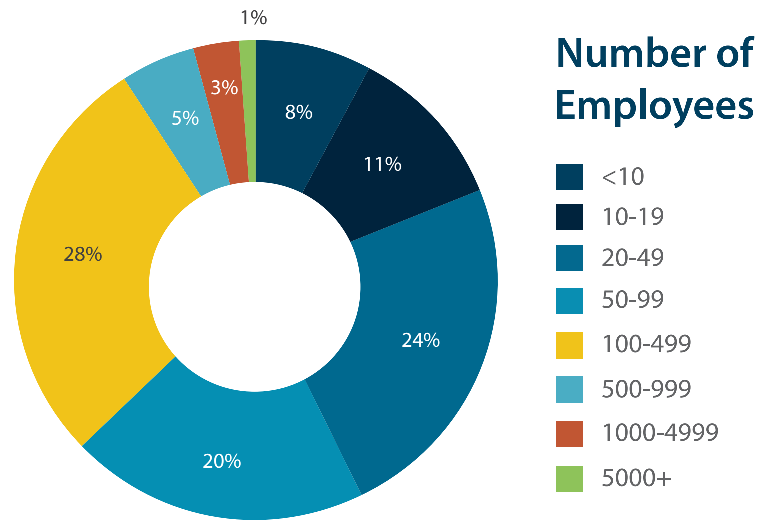
VISTAGE

The Q3 Vistage CEO Confidence Index survey, was conducted online and sent to 9,941 active Vistage members who are part of Chief Executive and Small Business groups in the United States. It was open between September 3 and 17, and captured input from 1,626 leaders.

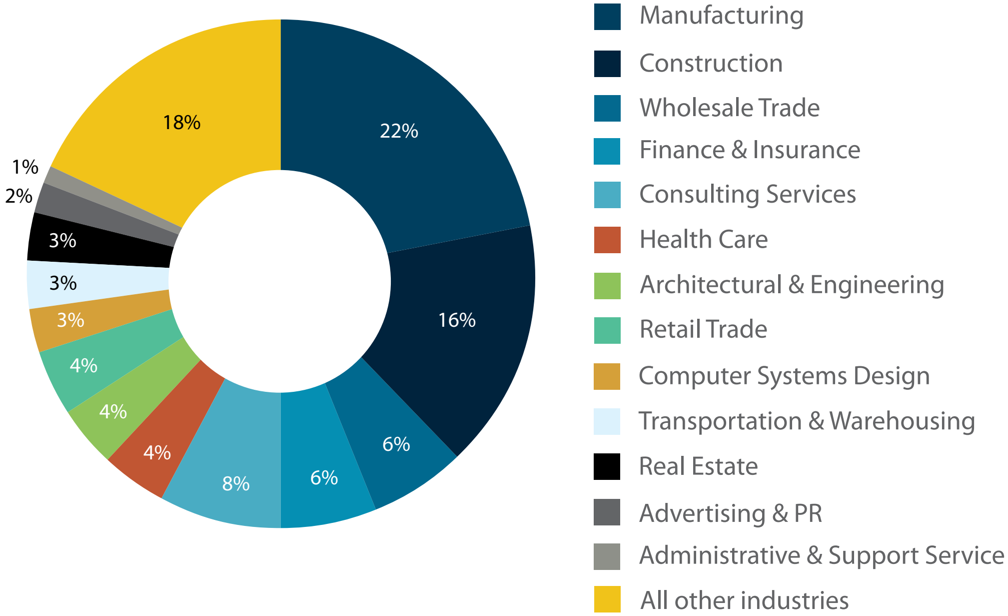
This survey informs two indexes:

- The Vistage CEO Confidence Index (calculated quarterly)
- The WSJ/Vistage Small Business CEO Confidence Index (calculated monthly), which accounts for respondents with revenues of $1-20 million.

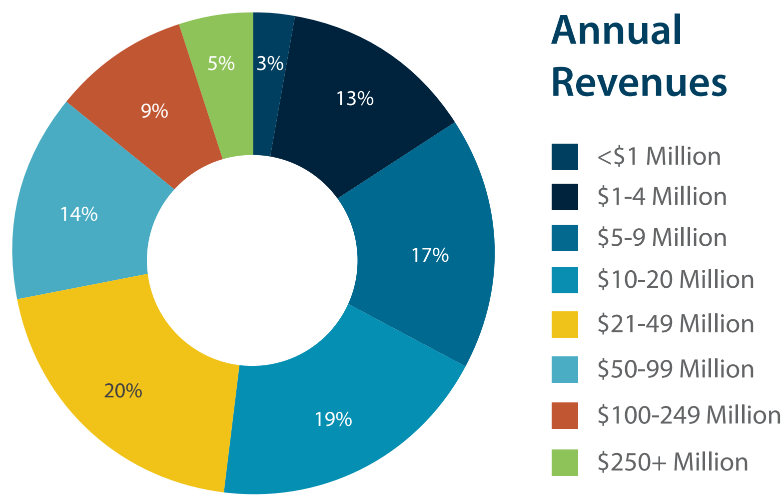
Number of Employees



Industries



Annual Revenues



ABOUT VISTAGE RESEARCH

Vistage conducts original research and curates subject-matter expertise from thought leaders to create actionable, thought-provoking insights for leaders of small and midsize businesses. Our analysis of surveys we conduct, including the WSJ/Vistage Small Business CEO survey and the Vistage CEO Confidence Index survey, informs various reports. Since 2003, Vistage has published the CEO Confidence Index, a proven economic indicator. Vistage provides the data and expert perspectives to help SMB CEOs make better decisions.

Learn more at vistage.com/research-center

ABOUT VISTAGE WORLDWIDE, INC.

Vistage is the world's largest CEO coaching and peer advisory organization for small and midsize businesses. For more than 65 years, we've been helping CEOs, business owners and key executives solve their greatest challenges through confidential peer groups and one-to-one executive coaching sessions. Today more than 45,000 members in 35 countries rely on Vistage to help make better decisions for their companies, families and communities. The results prove it: Vistage CEO members grew their annual revenue on average by 4.6% in 2020, while nonmembers with comparable small and midsize businesses saw revenue decrease by 4.7%, according to a study of Dun & Bradstreet data.

Learn more at vistage.com

VISTAGE

CEO CONFIDENCE INDEX

Capturing the sentiment of small and midsize business CEOs since 2003

4840 Eastgate Mall, San Diego, CA 92121

800.589.0531 | Intl +1.858.523.6800

vistage.com