

VISTAGE

CEO CONFIDENCE INDEX REPORT



Q2
2024

Focus on Artificial Intelligence

ABOUT THE VISTAGE CEO CONFIDENCE INDEX

Established in 2003, the Vistage CEO Confidence Index surveys small to midsize business CEOs, presidents and business owners about the U.S. economy each quarter. The Q2 2024 Vistage CEO Confidence Index includes responses from 1,708 U.S. CEOs, surveyed between June 3 and 17, 2024. Using ITR Economics' rate-of-change methodology, analysis has revealed 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 more Vistage CEO Confidence Index results, visit

VISTAGE.COM/CEOINDEX

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CEO Confidence Takes a Dip

“It’s not swimming, but it’s not drowning” best describes a 4-year-old in a pool and wavering CEO confidence. The Q2 2024 Vistage CEO Confidence Index dipped to 83.3 following four consecutive quarters of gains. CEOs have yet to see signs of a growth cycle with most struggling to manage inflation and interest rates. The dip in confidence expressed by 1,708 CEOs pulls the index back beneath the low points of the 2010s.

Economic expectations dragged the index underwater from last quarter’s 85.9. Despite a GDP rate of 2.9% over the previous four quarters, CEO economic confidence slipped. CEO confidence dropped 14.4% from last quarter when comparing the economy to a year ago. Similarly, there was a drop of 7.6% in confidence for the future economy as compared to Q1. The expectations for revenue and profit that rose slightly were offset by a similar drop in future investments and hiring. With November’s U.S. general election approaching, politicians and media are ramping up the rhetoric, distorting and amplifying economic data to their advantage. CEOs need to filter the political noise and maintain vigilance for the first signs of their next growth cycle.

However, CEOs are not treading water while waiting for the economy to spark. When asked what they are doing to improve productivity, CEOs identified 4 key strategies they are focused on:

1. **AI and Automation:** New tools have been adopted to handle routine and repetitive tasks, allowing employees to focus on more complex and value-added activities.

2. **Enhanced training and development:** CEOs are upskilling their workforce through continuous training and development programs for workers and leaders.
3. **Streamlining processes and implementing new technologies:** Leaders are reviewing and refining their existing processes to eliminate inefficiencies, including implementing new technologies like Enterprise Resource Planning (ERP) systems, Customer Relationship Management (CRM) tools, and project management software to improve workflow and communication.
4. **Improving employee engagement and culture:** Engaged employees are more productive and more likely to stay. Building a positive and engaging workplace culture is a priority.

The promise of a future growth cycle remains. It’s maybe just a little further out than hoped for based on the fluctuation in the Vistage CEO Confidence Index. Meanwhile, the threat of a broad recession seems to have passed, leaving the relative stability of the status quo in place.

83.3

↓ The Q2 2024 Vistage CEO Confidence Index dipped to 83.3 following four consecutive quarters of gains.

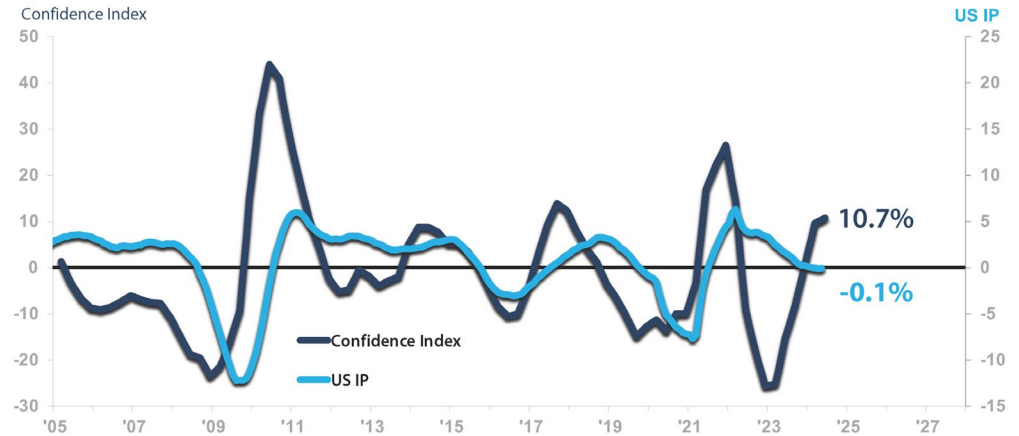
Vistage CEO Confidence Index - 8-Quarter Trend



Leading Indicator: Vistage CEO Confidence Index

ITR Economics, using its rate-of-change methodology, has determined that the Vistage CEO Confidence Index is a leading indicator of the U.S. Industrial Production Index 9 months in advance. Businesses reliant on the U.S. Industrial Production Index can map key indicators to the Vistage CEO Confidence Index to aid in forecasting.

Vistage CEO Confidence Index to US Industrial Production Index
12/12 Rates-of-Change



↓ Recent Economy

18%

of CEOs reported economic improvements, down 8 points from 26% in Q1.

↓ Future Economy

23%

of CEOs expect the economy to improve in the next year, down from 26% last quarter.



= Revenue Projections

60%

of CEOs expect increased revenues, unchanged from Q1.

↑ Profitability Projections

48%

of CEOs expect increased profits in the year ahead, up from 46% last quarter.



↓ Investment Plans

35%

of CEOs plan to increase fixed investments in the next 12 months, a slight decrease from 36% last quarter.

↓ Workforce Plans


49%

plan to expand their workforce over the next 12 months, down from 51% in Q1.


Despite the dip in the Vistage CEO Confidence Index, it's crucial to contextualize this data within broader trends. Long-term rates of change are still rising, suggesting that the current decline might not signal a prolonged downturn.

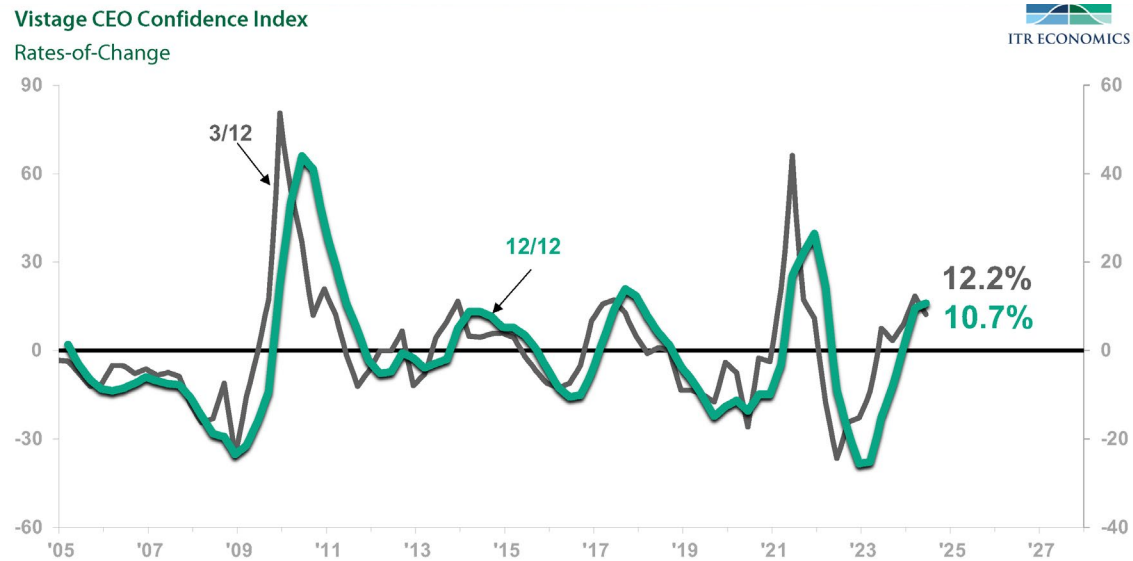
The U.S. Industrial Production Index is expected to slightly decline in 2024, but growth is anticipated for 2025, particularly in various sub-sectors such as manufacturing and consumer spending. High interest rates have led many CEOs to delay investments, but I anticipate rate cuts in the near future, possibly starting in September, which could ease some financial pressures.

Regarding labor market trends, wage inflation remains a significant issue due to a mismatch between job openings and available workers. CEOs should focus on retaining top talent and making efficient investments like AI and technology to prepare for the anticipated growth in 2025. Strategic planning and investment in people and technology are crucial to navigating the current economic challenges and capitalizing on future opportunities.



Lauren Saidel-Baker
CFA and Economist
ITR Economics



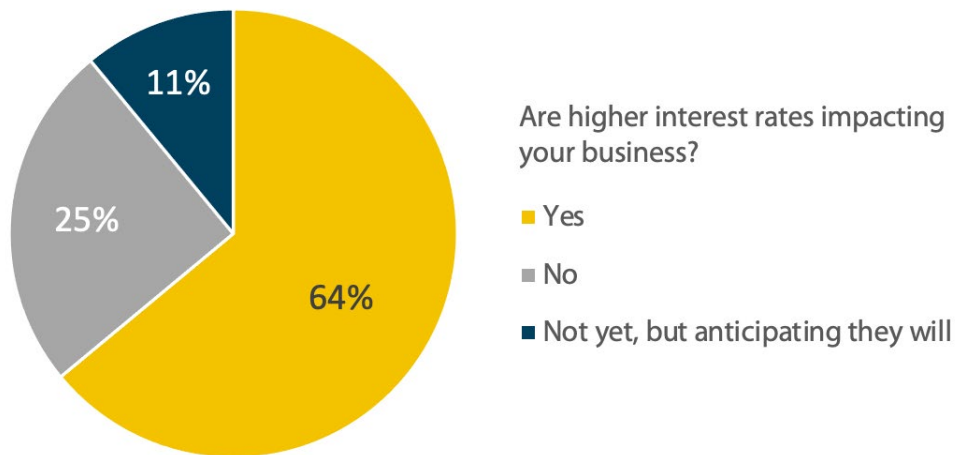




While down slightly from Q1, economic sentiment of CEOs in Q2 is still the highest it has been since Q1 2022. A drop in CEOs' assessment of the economy pulled the Vistage CEO Confidence Index down as a whole and has held the Index back since the recovery from the highly volatile pandemic era. Unlike the other Index components, which rely on internal data and forecasts, economic sentiment is the CEOs' perception of external economic forces on their business environment and marketplace.

Interest rates remain a challenge for 64% of CEOs who said higher rates were impacting their business. Unlike tariffs, which 82% said had no impact on their business, high interest rates are causing CEOs to delay investments in real estate and construction (30%) along with equipment and other capital expenditures (26%). Rates also affect customers, resulting in longer sales cycles and postponed or delayed decisions. With only one rate cut now expected in the fall, the cost of money isn't going to radically change this year but should improve slowly in 2025.

64% of CEOs are impacted by higher interest rates



Delayed or postponed investments in anticipation of interest rate cuts:

“Delaying capital equipment investments until future demand is reaffirmed and interest rates drop.”

Richard Broadbent
President of Bench Dogs
Denver, Pennsylvania

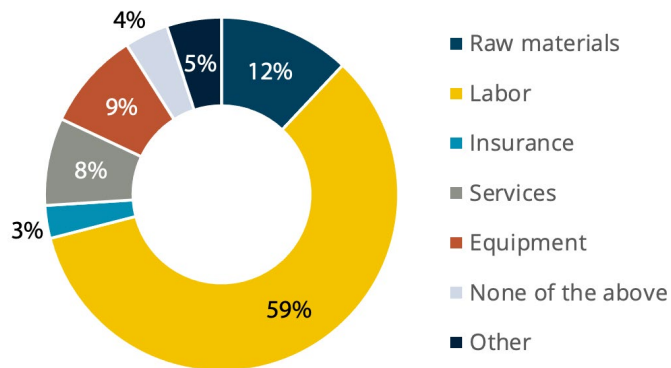


Expectations for revenue and profits rose fractionally above the last two quarters but remain well below the 2010 averages plagued by moderating but stubborn inflation. Labor (59%) was identified as the biggest source of inflation. However, CEOs do see a slowly improving inflation picture. In Q1, 59% of CEOs thought that inflation would rise in the year ahead with just 31% thinking it would be flat or decrease. Now, 46% see an increase in inflation, and 40% believe inflation will be the same or lower.

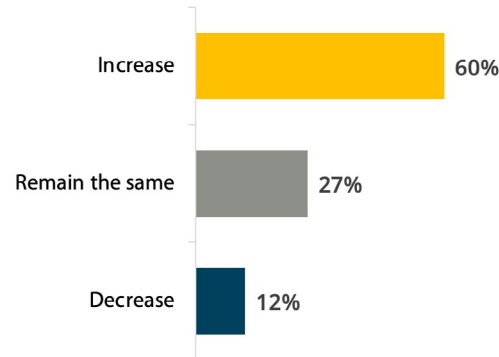
Inflation has a direct impact on profitability. In addition to labor, increasing material and service costs are either absorbed by profits or passed on to customers through price increases. With the cost of money at current rates, some customers are delaying or postponing purchases, which further pressures revenue.

60% of CEOs expect increased revenues despite inflation impacts

Which is the biggest source of inflation currently impacting your business?



How do you expect your firm's sales revenues to change during the next 12 months?



Current impacts of inflation and how you are responding to them:

“The costs of most of the products we purchase are going up, leading us to increase our selling prices to both offset these costs and maintain profit percentages.”

Brian Weigelt
Owner of the Weigelt Company
North Bend, Washington

“We are forced to continue to raise prices each year to keep up with labor changes.”

Vistage member since 2010



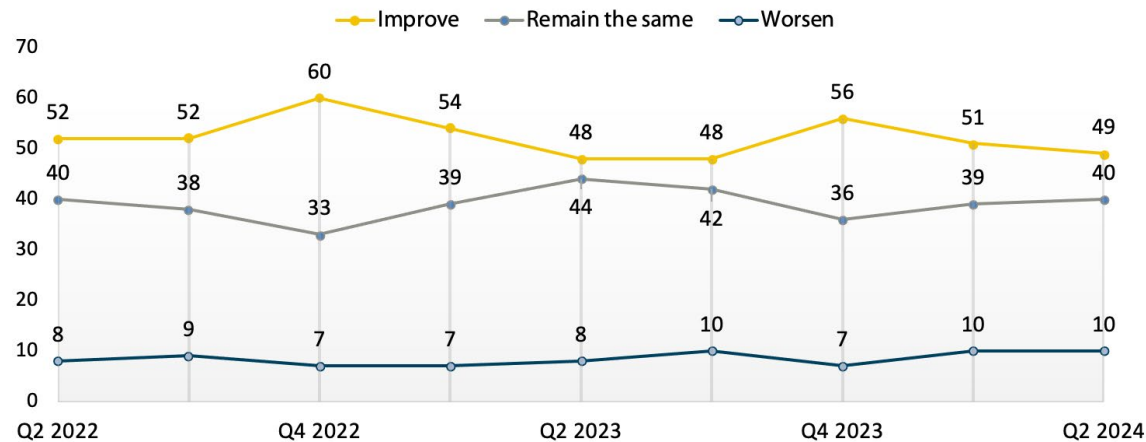
Sentiments for investments and hiring were fractionally lower quarter over quarter but are within 10% of 2010 averages. Despite the drag of interest rates and inflation, business investments remain stable. Hiring rates have slowed but are also stable as organizations delay or postpone new hires until the economy sparks.

Although workforce velocity has slowed compared to 2022, it remains close to the peak of pre-pandemic levels. Talent acquisition and retention remain the top leadership challenge

just ahead of managing economic issues like inflation and costs. Many are finding it easier to hire, allowing for better candidate selection. However, labor costs continue to rise, forcing CEOs to raise prices again or accept decreased profitability. Once the growth cycle is fully engaged and competition for talent skyrockets again, investments made today in the training and development of workers will pay off in higher retention and better engagement.

Workforce velocity slows compared to 2022, but remains close to pre-pandemic levels

How do you expect your firm's total number of employees to change during the next 12 months?



Current impacts of inflation:

“While we are seeing a slowdown in wage inflation, it is still currently driving up operating costs.”

Mark Russell
CEO of Linstol USA LLC
Naples, Florida

Where inflationary pressures are increasing at a greater pace than last year:

“The cost of living continues to go up. This affects everyone on the payroll and puts more of a strain to obtain and hold top talent.”

Chris Wells
Owner of Elevation Blinds
North Myrtle Beach, South Carolina

AI is no longer the future, it is the present, evolving quickly and uniquely for different business types right before our eyes. Eventually, we'll all live in an AI-powered world, just as we learned how to reside in today's digital space. But for now, leaders who embrace the AI shift ahead of their market competitors will seize an advantage as the next wave of technology-powered productivity takes hold.

Many CEOs are turning their attention and budgets to AI. Currently, 30% are increasing spending in AI with another 12% redirecting existing budgets. Meanwhile, 55% are making no changes, which corresponds to the 55% who are also not adjusting staff or training because of AI. Not every type of business or business function can readily take advantage of AI as it is today, but their day will come. Most knowledge workers are already using AI individually. 32% of CEOs say they are actively training staff, 8% are hiring new talent, 6% are creating new roles or teams, and 11% are redefining job roles.

Currently, 49% of CEOs say they use AI for sales and marketing, and 23% use AI for customer service and support, placing customer management and engagement at the forefront of AI usage. Digital marketing, customer segmentation, personalization, content creation, chatbots, predictive analytics, lead scoring, sales forecasting and price optimization all benefit, providing better decision-making and improved customer engagement. Also, 33% are using AI for improved operations and efficiency with 18% participation for human resources.

“We are using AI a lot in many different ways from creative ideas to helping with copy for marketing. We are also implementing AI to help create unique ways of speaking with our different types of customers.”

Tracy Hiner
Owner, Black Crow Studios | Long Beach, California

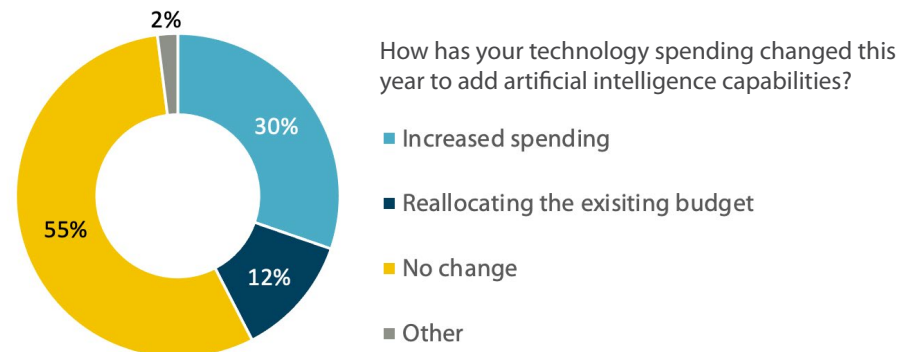
Asked about what type of AI they use, 55% of CEOs identified generative AI tools like ChatGPT for content creation, writing emails, marketing materials, customer support, document drafting and various text generation tasks.

Meanwhile, 20% use specialized, industry-specific AI tools for operations like loan underwriting, digital banking security, inventory forecasting, cybersecurity and automated customer interactions. AI is also being used for data analysis, decision-making and process automation.

CEOs felt the impact of AI is improved productivity and efficiency. Just as Microsoft products like Excel, Word and PowerPoint automated how we tabulate, publish and present data and information, AI tools help in automating routine tasks, drafting content, summarizing documents and generating first drafts of various communications, saving time and increasing efficiency. Better marketing and customer engagement, data analysis and decision-making, and operational improvements have all been impacted by AI.

The beat of the digital transformation drum gets louder with rapid adoption and incorporation of AI by individual workers well ahead of their organizations. The Microsoft 2024 Workplace Trend Index revealed that 75% of knowledge workers are already using AI, with 46% starting in the last 6 months. For workers, it's said, "You won't lose your job to AI, you'll lose it to someone who knows how to use AI." For organizations, that translates to, "You won't lose a customer to AI, you'll lose them to a competitor better capitalizing on AI."

3-in-10 CEOs have increased spending this year to add AI capabilities



Optimism among small businesses increased slightly from last month: The WSJ/Vistage Small Business CEO Confidence Index rose to 91.0, recovering from last month's dip.

The recent tariffs on Chinese goods are not expected to significantly impact most small businesses, with 84% reporting no effect. Among those affected, the majority are in the manufacturing sector, either benefiting from supply chain shifts or facing increased costs if dependent on Chinese supplies. John Lucci, President/CEO of FTE Performance Consulting in Troy, Michigan, noted that some manufacturers, particularly in the automotive and electronics sectors, have shifted production to North America, benefiting Mexico and expanding U.S. manufacturing.

Conversely, 13% of small businesses reported negative impacts. Erik Fleming, president and CEO of Diverse Optics Inc., in Rancho Cucamonga, California, highlighted the expected 30% increase in the cost of plastic resin from China, necessitating sourcing from other Asian countries and facing customer reluctance to requalify.

Inflation is slowing, with less than half (48%) of small businesses expecting it to grow in the coming year. This marks a 10 percentage point improvement from March. However, labor costs remain the top source of inflation for 59% of small businesses, with wages in some cases rising faster than last year. As Allan Cook, CEO of Alco Building Solutions in Arcadia, California, notes he is offering wages 20% higher than a year ago due to a competitive labor market.

Over half (52%) of small businesses are increasing their workforce, which, coupled with higher wages, impacts the bottom line. Additionally, labor costs include health insurance, with rising rates affecting nearly all small businesses. Health insurance saw significant increases, with 9% of businesses reporting

hikes greater than 25%, 40% reporting increases between 10% and 25%, and 36% seeing less than a 10% rise. Paul Austin, CEO of Waver Manufacturing Company in Flower Mound, Texas, anticipates even larger increases in the future, despite experiencing less than a 10% increase during their August 2023 renewal.

Overall, small businesses are navigating these economic pressures with a cautious sense of optimism, adapting to the changing landscape through strategic adjustments in sourcing, labor management and cost control.

= Recent Economy	↑ Revenue Projections	↑ Investment Plans
<p>19%</p> <p>of small businesses reported economic improvements, unchanged from 19% in May.</p>	<p>62%</p> <p>of small businesses expect increased revenues, an increase from 58% in May.</p>	<p>36%</p> <p>plan to increase fixed investments in the next 12 months, up from 32% in May.</p>
↑ Future Economy	↑ Profitability Projections	↑ Workforce Plans
<p>24%</p> <p>of small businesses expect the economy to improve in the next year, rising three points from 21% last month.</p>	<p>49%</p> <p>of small businesses expect increased profits in the year ahead, an increase from 45% last month.</p>	<p>52%</p> <p>plan to expand their workforce over the next 12 months, an uptick from 48% last month.</p>

→ Find deeper insights and explore the full dataset from the [June 2024 WSJ/Vistage Small Business Index](#).

**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.

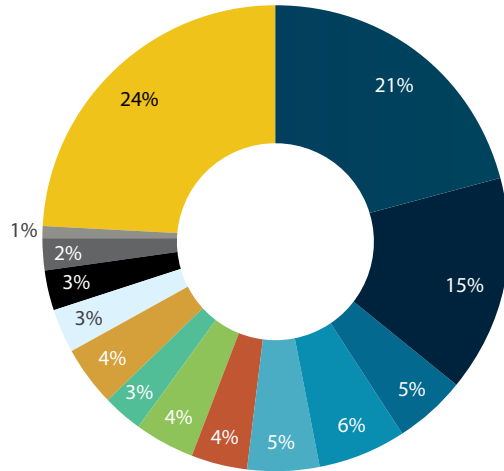
As Vice President of Research, Anne Petrik leads the design, deployment and analysis of CEO surveys for Vistage, capturing the sentiment and practices of the Vistage CEO community. Using her analysis in collaboration with perspectives from experts and partners, Anne directs the thought leadership published 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](https://www.itreconomics.com/)

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 has also 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.

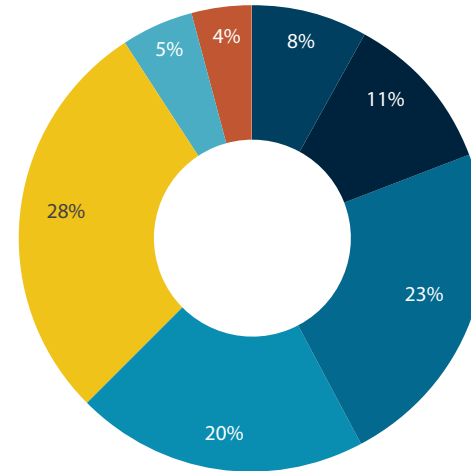
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Industries



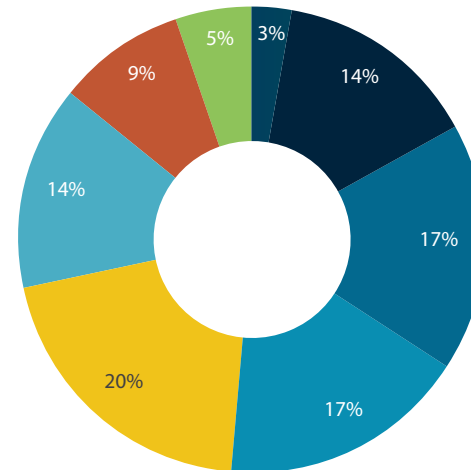
- Manufacturing
- Construction
- Wholesale Trade
- Finance & Insurance
- Consulting Services
- Health Care
- Architectural & Engineering
- Retail Trade
- Computer Systems Design
- Transportation & Warehousing
- Real Estate
- Advertising & PR
- Administrative & Support Service
- All other industries

Number of Employees



- <10
- 10-19
- 20-49
- 50-99
- 100-499
- 500-999
- 1000-4999

Annual Revenues



- < \$1 Million
- \$1-4 Million
- \$5-9 Million
- \$10-20 Million
- \$21-49 Million
- \$50-99 Million
- \$100-249 Million
- \$250+ Million

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.

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Capturing sentiment of small and midsize business CEOs since 2003

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