

# Commercial Business Sentiment Report

Third Quarter, 2024



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As interest rates decline, commercial businesses with annual revenues between \$10 million and \$500 million are cautiously optimistic about the future. Despite this, inflation continues to pose a significant challenge, and the uncertainty of the upcoming election is shaping strategic plans for 2025. However, recession fears have largely subsided, and many companies are shifting their focus toward growth opportunities.

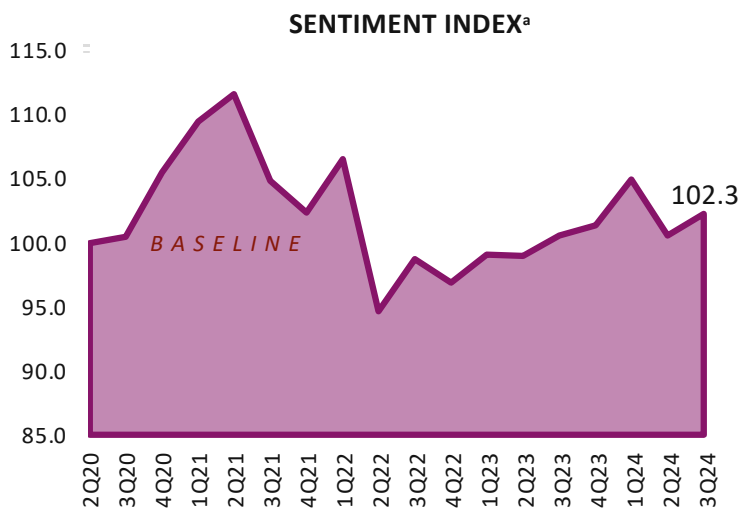
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IN COLLABORATION WITH

BARLOW RESEARCH ASSOCIATES

# Trends in Commercial Sentiment and Outlook

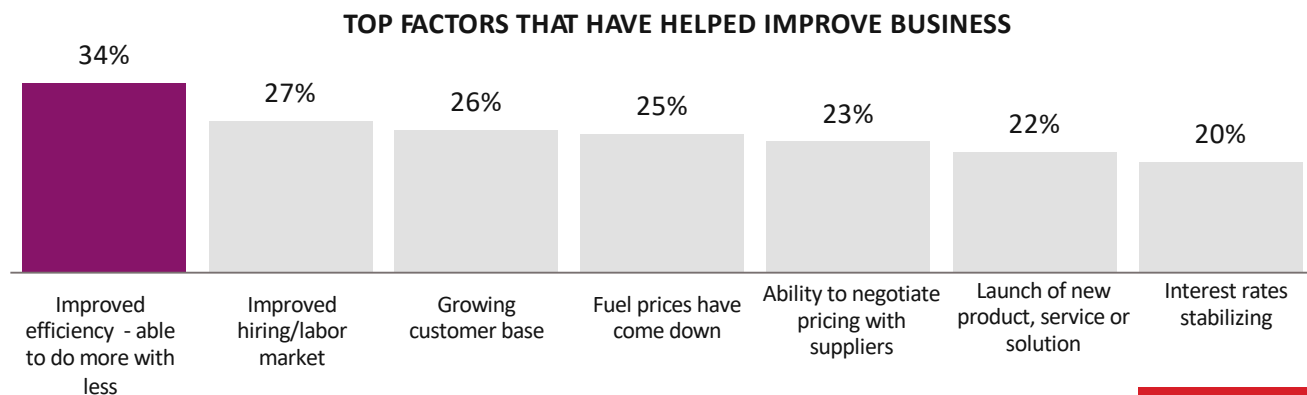
## COMMERCIAL SENTIMENT HAS IMPROVED, MAKING UP GROUND FROM LOSSES IN THE SECOND QUARTER OF 2024



Sentiment improvements in the third quarter of 2024 primarily reflect a reduction in pessimism rather than a significant rise in optimism. Commercial companies are actually slightly less confident that their overall financial condition and demand for their products or services will improve compared to the second quarter of 2024. However, the sentiment index reflects a marked decline in pessimism around their business outlook, product/service demand, and both the short- and long-term state of the economy.

## IMPROVED EFFICIENCY HAS BEEN ESSENTIAL TO BOLSTER CONFIDENCE

One in three commercial companies indicated that improving their efficiency has been an important component to maintaining their financial health.



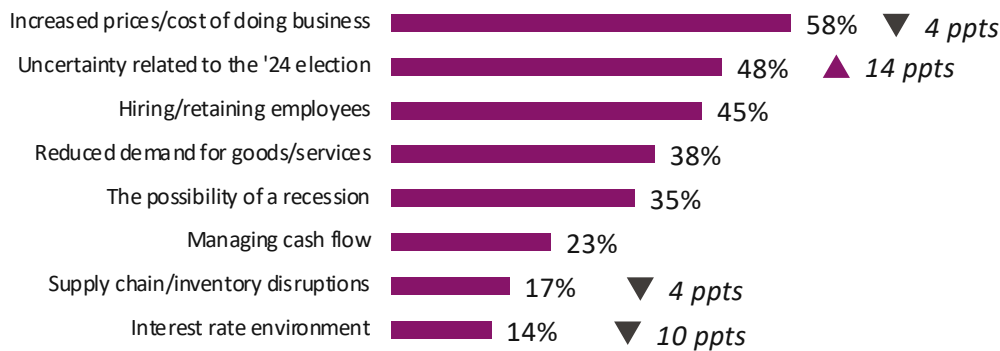
a: BUSINESS SENTIMENT INDEX: The business sentiment index is a composite score derived from businesses' perceptions about their companies' overall health and the health of the U.S. economy. The index is anchored to a "baseline" that was set based on measurements taken in June 2020. Each subsequent wave of the Commercial Business Sentiment Study tracks how responses to input questions deviate from the baseline.



# Concerns and headwinds

Inflation and the elevated cost of doing business has been a detrimental force many commercial companies have had to combat over the past two to three years. More recently, headwinds have come in the form of uncertainty related to the outcome of the presidential election, a factor that many anticipate will impact the overall health of the U.S. economy, the speed of inflation and their taxes.

## TOP CONCERNS

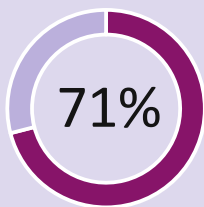


▼▲ Change from the second quarter 2024

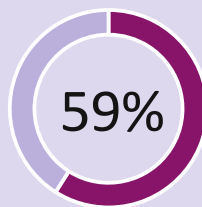
Price increases remain a primary concern, with over half of commercial companies planning to raise their prices within the next three to six months to protect their profit margins. A majority (59%) have already been successful in passing these increased costs on to their customers.

## TOP AREAS OF CONCERN ABOUT THE ELECTION

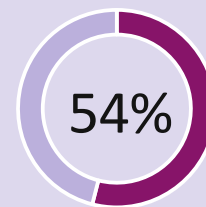
Health of the U.S. economy



Inflation



Taxes



*"While things have settled down overall, we are in a seasonal period of uncertainty until after the elections."*

\$100MM <\$500MM Fabric mill

*"Things have been pretty stable over the last 3 months, but a lot of projects are on hold pending the result of the election."*

\$100MM <\$500MM Highway construction

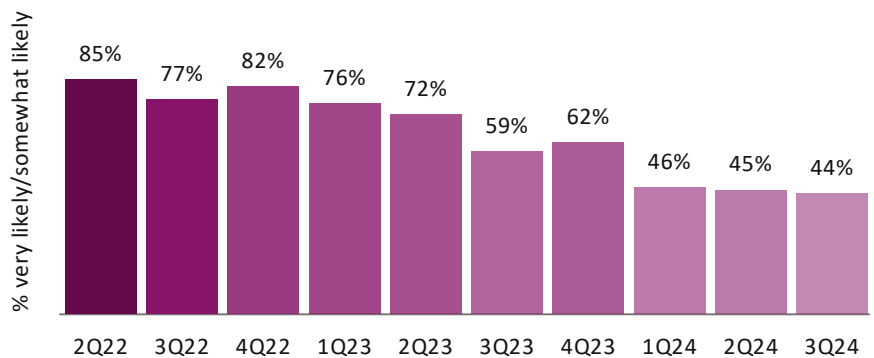
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# Outlook on the future

## NEARLY HALF OF COMMERCIAL BUSINESSES EXPECT THE U.S. ECONOMY TO IMPROVE OVER THE NEXT FIVE YEARS

Eight in 10 commercial companies expect the U.S. economy to either remain stable or improve over the next 12 months. Additionally, concerns about an economic recession in the next six to nine months have substantially diminished, with only 44% believing a recession is likely and only 35% of companies expressing concern about a near-term downturn.

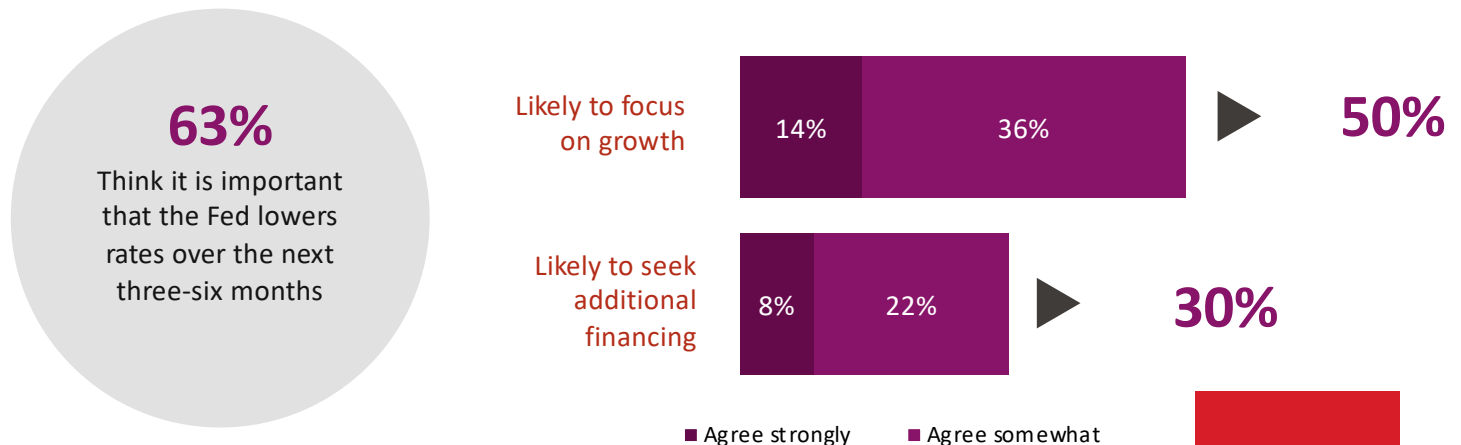
LIKELIHOOD OF A RECESSION IN 6-9 MONTHS



## REDUCED INTEREST RATES ARE EXPECTED TO CONTINUE TO OFFER RELIEF

High interest rates have been a challenge for fewer and fewer commercial companies throughout 2024. In the third quarter, only 31% of companies indicated high interest rates have been detrimental to their overall financial condition (down from a high of 48% in the fourth quarter of 2023). However, many believe it is important that the Fed continues to lower rates.

IF RATES DECREASE OVER THE NEXT 12 MONTHS...



## **ABOUT THE COMMERCIAL BUSINESS SENTIMENT STUDY**

The Wells Fargo Commercial Business Sentiment Study began in the summer of 2020 in collaboration with Barlow Research Associates to monitor the evolving impact on businesses from the pandemic, their most pressing challenges and the types of support they need from their bank. Given the continued fluid economic climate, the study has continued quarterly to understand evolving sentiment and needs of commercial companies.

An online survey was administered to collect data from senior, high level executives (i.e., CFOs, treasurers, presidents, directors of finance, credit managers) at commercial companies. The third quarter 2024 study was conducted from August 30 to September 4 among 380 commercial companies.

## **ABOUT BARLOW RESEARCH**

Barlow Research Associates, Inc., based in Minneapolis, MN, is a market research firm specializing in the financial services industry. Founded in 1980, Barlow Research focuses on executing in depth, complex studies that help financial institutions integrate the voice of businesses into their decision making processes.

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