

US Business Health Dips, SMBs Show Resilience

The U.S. Overall Business Health Index fell to a 1.5-year low, as explained during Dun and Bradstreet's (D&B's) *U.S. Economic Health Tracker December 2018* webinar. This month saw the strongest month-over-month decline since March 2012; but despite these grim outlooks in the overall index, the data shows small businesses (SMBs) have been practicing adaptability and strength in recent months.

This month's business health index saw the strongest month-over-month (MOM) decline since March of 2013, dropping by a total of 0.74%. With a high MOM decline and 1.5-year low, D&B Senior Economist Adam Morehouse predicts this can potentially lead to a more risky business environment in 2019. Should businesses face higher risks for trade and purchases, Morehouse said, this can directly lead to greater payment difficulty.

"This month's downturn was rather violent, as the index declined sequentially at the strongest pace since March of 2013," Morehouse said in the webinar. "While the index has been on a gradual decline from the beginning of May of this year, the strong drop and the pickup in the strength of the decline is significant."

But SMBs saw an almost opposite result in D&B's index. The U.S. Small Business Health Index rose 0.5 points—a total of 0.6% from the prior month—reaching a 20-month high. The index has been building momentum over the recent months, and D&B predicts the acceleration will continue into the new year. The failure ratio on the SMB health survey reached a four-year low, indicating SMBs are performing better than they have in nearly half a decade.

Given the dismal outlook of the overall health index, the positive data coming from SMBs seems odd. Morehouse explains SMB's rise above failure can be attributed to their ability to adapt to risk and change in the market. SMBs are learning to operate under restrictive monetary environments, meaning they are learning to cope with and withstand the obstacles the business-to-business (B2B) sphere may leave them with.

The SMBs are also contributing to the overall health of the U.S. economy. Morehouse noted many levels in the index have simmered down to the levels seen before the 2016 presidential election, indicating the short-term measures enacted by the Trump administration to help big businesses have worn off. SMBs showing low failures is also a good sign as higher failure rates were a red flag leading up to the Great Recession in 2007.

"Typically, if we were on the verge of recession, we would see a rise in failures like we did in 2007," Morehouse said. "But we're just not seeing that in the data. Conventionally you should look at the low failure rate as small businesses are continuing to support growth as we enter 2019, but we do want to keep an eye on failures in 2019."

The data in the U.S. Overall Business Health Index provided mixed results for different sectors, and while Morehouse does not predict an economic downturn on the horizon, it's still important to monitor the health of the U.S. economy moving into 2019—especially with new Congress members in office. Morehouse notes the positive growth in 2018 and predicts the momentum may continue into the new year, although it may be too soon to tell.

"The U.S. recorded the strongest GDP growth streak in real terms. ... A lot of that comes from personal consumption," Morehouse said. "There has been strong momentum in spending in

recent data, but will that continue the growth in momentum? Looking at various survey data, consumers feel good presently and generally feel good about future expectations, certainly more than a few years ago.”

—Christie Citranglo, editorial associate