

**MetLife and U.S. Chamber of Commerce
Small Business Index**

Special Report on Inflation and Supply Chain Shocks on Small Business

March 3, 2022

Report Summary

SMALL BUSINESSES SAY INFLATION IS THEIR TOP CONCERN

Inflation is, by far, the top concern for small businesses this quarter, according to new data from the MetLife & U.S. Chamber of Commerce Small Business Index survey taken January 14 - 26, 2022. Small businesses also expressed high levels of concern over supply chain disruptions. While these were key challenges cited in Q4 last year, concerns around inflation and supply chains have intensified.

Both issues are forcing small businesses to find ways to improvise and deal with an environment where increasing prices and supply chain headaches are the norm, at least for the foreseeable future. Some small businesses are reacting by raising prices or altering their supply chains.

Some small businesses cited concern about rising interest rates this year—and what impact that might have on their business. This comes ahead of anticipated rate increases from the Federal Reserve later in March. Although rising rates are not as top-of-mind as the reported difficulties small business owners are facing due to soaring prices or supply chain disruption, it's a concern to watch.

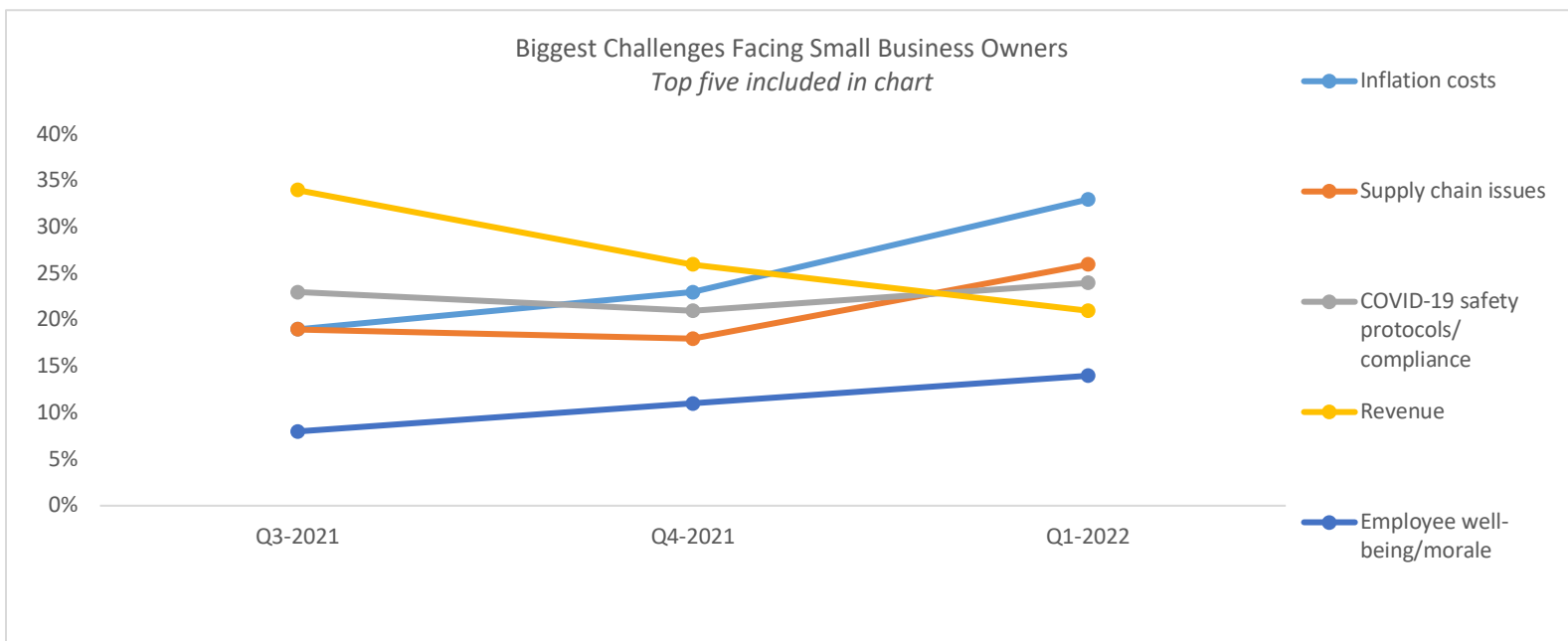
Heightened Concern for Inflation Spans Regions and Sectors

With inflation reaching multi-decade highs, small businesses say rising costs have become their top challenge. Furthermore, small business concerns over inflation are growing—they are much higher than they were last quarter (Q4 2021).

One in three (33%) small businesses now rank inflation as the biggest challenge facing the small business community (up 10 percentage points from Q4 2021) and up 14 percentage points from Q3 of last year.

More than eight in ten (85%) small business owners or decision makers are concerned about the impact of inflation on their business and almost half (44%) indicate they are very concerned (up 13 percentage points since Q4 2021). Three in four small businesses find managing higher costs due to inflation difficult (76%) and say rising prices have had a significant impact on their business in the past year (74%).

In Q2 2021, only 16% of small businesses surveyed said that inflation was a big concern, behind their concerns about taxes and consumer demand (both at 23% saying they were big concerns) at the time.



SMALL BUSINESSES RAISING PRICES TO COPE WITH SPIRALLING INFLATION

To cope with rising inflation small business owners are adjusting, most often by raising the prices for their goods and services. A strong majority (67%) of small businesses report having to raise their prices over the past year. Another four in ten (41%) report having decreased staff or taken out a loan in the past year (39%) in response to growing inflation pressures.

There are nuances to how small business owners are responding depending on firm size and sector. Larger small businesses (those with 20 or more employees) are more likely to report decreasing staff or taking out a loan in response to inflation than those with fewer employees. Small businesses in the retail sector are the most likely sector to report increasing the prices of their goods and services (80%) compared to those in professional services (68%), manufacturing (65%), and services (56%).

INFLATION EVERYWHERE: ACROSS THE COUNTRY AND FOR ALL SECTORS

Inflation is everywhere: the impacts of rising inflation are affecting small businesses of every size, in every sector, and in every region of the country.

In fact, small businesses owners in every region of the country cite it as one of the largest challenges they face. Small businesses with 1-4 employees and 5-19 employees also rank inflation as the top challenge—while small businesses with 20-499 employees rate it as a top-tier concern alongside COVID-19 protocols and supply chain issues. It is also among the biggest concerns in all four regions of the country. Finally, across sectors, those in the manufacturing (41%), services (35%), retail (32%) and professional services (29%) sector all cite inflation as one of the top challenges facing the small business community.

<i>Which of the following are the biggest challenges facing small business owners coming out of the COVID-19 pandemic? You may select up to two.</i>	Region				Size			Sector			
	Northeast	Midwest	South	West	1-4 Emp.	5-19 Emp.	20-499 Emp.	Manufacturing	Services	Retail	Prof. Services
Inflation costs	33	33	37	29	32	39	24	41	35	32	29
Supply chain issues	26	25	32	21	25	30	25	32	22	33	19
COVID-19 safety protocols/compliance	23	30	21	24	24	24	26	20	32	20	22
Revenue	33	19	18	20	25	17	11	21	25	16	24
Employee well-being/morale	8	10	17	16	13	13	16	12	14	12	15
Lack of applicants for job openings	10	19	13	9	11	14	16	16	19	10	8
Employee retention	12	11	10	10	9	10	21	9	14	11	10
Caring for family	9	6	9	7	8	8	8	7	7	9	8
Low quality of applicants who applied for job openings	3	9	10	10	8	10	8	11	6	6	11
Interest rates rising	9	4	7	9	7	5	11	7	2	8	11
Access to credit or a loan	9	5	6	4	9	1	5	3	7	8	6
Something else	4	2	1	6	2	6	2	3	2	3	4
Don't know	1	4	1	4	3	1	0	1	1	2	3

Supply Chain Issues Are Small Business's Second Biggest Worry

MAJORITY OF SMALL BUSINESSES SAY THEY HAVE ALTERED THEIR SUPPLY CHAIN

After inflation, supply chain issues (26%), along with COVID (24%), are the next biggest concerns for small business owners this quarter. More small business owners (26%) now cite supply chain issues as their biggest problem, up eight percentage points from Q4 2021. (As noted above, 33% said inflation is their biggest concern). The vast majority (76%) of small businesses are concerned about the impact supply chain disruptions are having on their business.

More than six in ten (63%) small businesses report having their supply chain disrupted by COVID, though this has not increased significantly since Q4 2021 (61%). A similar share (65%) state it is difficult to manage disruptions to their supply chain (similar to 61% in Q3 2021).

In response to these disruptions, 61% of respondents report altering their supply chain in the last six months—consistent with the share who said the same in Q4 2021 (63%). Finally, a majority (55%) report having their supply chain disrupted due to a lack of workers.

% Strongly/Somewhat Agree	Region				Size			Sector			
	Northeast	Midwest	South	West	1-4 Emp.	5-19 Emp.	20-499 Emp.	Manu- facturing	Services	Retail	Prof. Services
My business' supply chain has been dramatically disrupted or affected by worker shortages	57	48	56	56	51	57	66	51	42	67	59
My business' supply chain has been dramatically disrupted or affected by the COVID-19 pandemic	63	63	64	63	62	61	71	70	49	71	67
I am unable to keep up with customer demand because of disruptions to my supply chain	48	39	47	48	45	45	51	48	27	59	52
I have had to alter my business' supply chain in the past 6 months	58	60	65	61	58	66	66	63	50	69	65

Small businesses from across the country, regardless of size, are concerned about their supply chains. While more than two-thirds of small business decision makers are concerned about supply chain disruptions, this concern is more pronounced for those in the retail (86%) and manufacturing (78%) sectors, compared to services (67%). However, compared with the previous quarter, more respondents from the professional services and manufacturing sectors now report experiencing supply chain disruptions at some point since the pandemic began.

Larger small businesses seem to more acutely feel supply chain disruptions. As the chart shows, small business owners with 20 or more employees are more likely to report that their business' supply chain has been dramatically disrupted by worker shortages or the pandemic compared to smaller businesses. The share of larger small businesses (with 20-499 employees) who report

their supply chain was impacted by worker shortages has increased compared to Q4 2021 (66% vs. 54%).

70% OF SMALL BUSINESSES CONCERNED ABOUT RISING INTEREST RATES

Interest rates have hovered near zero since March 2020. However, the Federal Reserve is expected to raise them in its March meeting. In light of this, seven in ten (70%) small businesses are concerned about the impact rising interest rates will have on their business.

In fact, nearly three in ten (29%) are *very* concerned about rising interest rates. However, when prioritizing the top challenges the small business community faces, business owners rank rising interest rates at the bottom of concerns coming out of the pandemic (only 7% said rising rates are a big challenge).

Clearly, while rising Fed rates are not a primary concern of small businesses, it is still on their mind and gives them concern. This is largely true across geography, size, and industry, although respondents in the West region (76%) and those in the professional services industry (78%) are slightly more concerned relative to their counterparts.

Methodology

SURVEY METHODOLOGY

These are the findings of an Ipsos poll conducted between January 14-26, 2022. For this survey, a sample of 750 small business owners and operators age 18+ from the continental U.S. Alaska and Hawaii was interviewed online in English.¹

The sample for this study was randomly drawn from Ipsos' online panel and partner online panel sources and does not rely on a population frame in the traditional sense. Ipsos uses fixed sample targets, unique to the study, in drawing sample. Small businesses are defined in this study as companies with fewer than 500 employees that are not sole proprietorships. Ipsos used fixed sample targets, unique to this study, in drawing sample. This sample calibrates respondent characteristics to be representative of the U.S. small business population using standard procedures such as raking-ratio adjustments. The source of these population targets is U.S. Census 2018 Statistics of U.S. Businesses dataset. The sample drawn for this study reflects fixed sample targets on firmographics. Post-hoc weights were made to the population characteristics on region, industry sector and size of business.

Statistical margins of error are not applicable to online non-probability polls. All sample surveys and polls may be subject to other sources of error, including, but not limited to coverage error and measurement error. Where figures do not sum to 100, this is due to the effects of rounding. The precision of Ipsos online polls is measured using a credibility interval. In this case, the poll has a credibility interval of plus or minus 4.1 percentage points for all respondents. Ipsos calculates a design effect (DEFF) for each study based on the variation of the weights, following the formula of Kish (1965). This study had a credibility interval adjusted for design effect of the following (n=750, DEFF=1.5, adjusted Confidence Interval=+/-5.6 percentage points).

Index Methodology²

To construct national, regional, employee size, and broad industry group level estimates of the health of small businesses in the U.S., a sequence of statistical techniques were applied to the survey results, including elastic net for variable selection and multilevel regression with post stratification (MRP) from the survey data.

¹ Beginning in Q2 2020, the MetLife/U.S. Chamber of Commerce Small Business Index survey has been conducted via online surveys, in place of the typical phone-based approach. This methodological shift is in response to anticipated lower response rates in dialing business locations as a result of mandated closures related to the COVID-19 outbreak. While significant changes in data points can largely be attributed to the recent economic environment, switching from a phone to online approach may have also generated a mode effect.

² This report's findings are focused on a subset of questions from the MetLife and U.S. Chamber of Commerce Q1 2022 Small Business Index survey. The Index scores for Q1 2022 will be released in a subsequent report.

Since each business may report the state of its health by different standards, Ipsos uses the core survey questions to construct a stable, consistent definition of small business status. Each business is then classified into one of three categories: poor, neutral, or good. Once each business is measured on a consistent scale, the survey results are fed into a multilevel regression model to generalize our results to a broader set of businesses enabling us to measure the health of businesses not just nationally but also at the level of state, industry, and business size. The model uses employee size, industry type, and location as individual level predictors, as well as data from the BLS on job change by industry.

Next, to ensure that our model results are reflective of the small business population in the U.S., we adjust our estimates using the number of businesses in the over 5,000 possible combinations of state, industry, and firm-size categories to ensure that the model of business health represents the U.S. population of small businesses.

The process used is known as post-stratification, something which was not possible with the original sample due to sample-size limitations. The population estimates for employee size, industry, and location were obtained from the U.S. Census 2018 Statistics of U.S. Businesses dataset.

Percentage breakdowns for region, employee size, and sector:

Manufacturing and Resources	19%		Employee Size: 1-4	61%		Northeast	19%
Services	25%		Employee Size: 5-19	27%		Midwest	20%
Retail	23%		Employee Size: 20-99	10%		South	35%
Professional services	28%		Employee Size: 100+	2%		West	25%
Other	5%						