THERE’S NOTHING SMALL ABOUT SMALL BUSINESS.

America’s 28 million small businesses account for two-thirds of new jobs, generate more than half of the nation’s economic output, and have an impact that extends far beyond their front doors. Whether in Washington or on Wall Street, the voice of Main Street needs to be heard and better understood.

That’s why we’re pleased to team up to produce the new MetLife & U.S. Chamber of Commerce Small Business Index, which each quarter examines the state of small business across the country and the factors that are influencing entrepreneurs’ decisions.

In addition to delivering a comprehensive, real-time, quantitative snapshot of the state of America’s small business sector (defined as companies with fewer than 500 employees), the research explores small business owners’ views on current economic and societal trends. We’ll also be able to explore variances in sentiment based on small businesses’ location, industry, and additional demographic information.

Through interviews with 1,000 small business owners and operators every quarter, this Index will offer a unique lens through which to better understand this increasingly critical and constantly growing segment of the U.S. economy.

MetLife and the U.S. Chamber of Commerce are proud to stand behind small businesses. The U.S. Chamber, founded in 1912, has 105 years of experience standing up for American business, the lifeblood of the country’s economy. MetLife has a 149-year tradition of protecting American businesses, employees, families, and communities.

The Small Business Index is part of a broad collaboration by MetLife and the U.S. Chamber to champion the important role small businesses play in our communities and in the nation, bringing their concerns, priorities, and successes to the national stage. We look forward to delivering this report each quarter, and we hope that it helps you better understand the big picture for small businesses, too.

Sincerely,

SUZANNE P. CLARK
Senior Executive Vice President,
U.S. Chamber of Commerce

JAMES W. REID
Executive Vice President,
Regional and Small Business Solutions, MetLife
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The MetLife & U.S. Chamber of Commerce Small Business Index for the second quarter of 2017 shows that small businesses in America generally have a positive outlook. The Q2 Index score of 60.6 (on a scale of 0 to 100) was buoyed by small business owners’ confidence regarding the health of their companies but tempered by their concerns about the direction of the national and local economies.

THE MEANING BEHIND THE INDEX

An Index score of 60.6 means that approximately 60.6 percent of small business owners have a positive outlook for their company and the environment in which they operate.

The Index takes into account a holistic view of the small business sector, capturing the views of small business CEOs and owners across three key areas:

- SMALL BUSINESS OPERATIONS:
  overall health, hiring in the last year, and cash flow

- SMALL BUSINESS ENVIRONMENT:
  health of their local economy, competition, perspectives on the U.S. economy, and time spent on regulatory requirements

- FUTURE SMALL BUSINESS EXPECTATIONS:
  investing in the business, hiring plans, and forward-looking revenue expectations

KEY DRIVERS OF THE Q2 INDEX

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INDEX METHODOLOGY

The MetLife & U.S. Chamber of Commerce Small Business Index is the product of 1,000 telephone interviews in April 2017 with American small business owners and operators conducted by Ipsos, an independent global market and research company. Each respondent was asked the same set of ten questions that compose the Index. The survey findings have been calibrated to match the U.S. Census data on small business to better ensure the data is representative of the small business sector at large. Please see the methodology on pages 12–15 for more detail.
MOST SMALL BUSINESS OWNERS SAY THEIR COMPANIES ARE CURRENTLY IN GOOD HEALTH

“LARGER” SMALL BUSINESSES RANK HIGHEST IN TERMS OF OVERALL HEALTH

Over half (61%) of American small businesses rate the health of their small businesses as good, including 38% describing their business health as very good. However, these positive sentiments are not universally shared across the entire sector. Smaller businesses with fewer than five employees are less positive (33% very good) as are businesses operating in the service (34% very good) or retail (33% very good) sectors.

How would you rate the overall health of your business?

![Bar chart showing the percentage of businesses rating their health as very good, somewhat good, and average or poor across different employee size categories.]
The large majority of small businesses report no significant change in their staffing levels over the last year, with 72% reporting they retained the same size staff. However, certain segments report hiring growth. Business owners with 20 or more employees are much more likely to report staff increases in the past 12 months. Likewise, younger companies—less than 10 years old—outpace the overall hiring rate.

Over the past year, would you say you have: increased staff, retained the same size staff, or reduced staff?

- Increased staff: 7%, 13%, 10%
- Retained the same size: 21%, 72%, 47%
- Reduced staff: 71%, 15%, 43%

How comfortable are you with your company’s current cash flow situation?

“Due to the last recession, small businesses I know have had limited access to capital through bank loans and other financing, not allowing them to expand their operations or even stay in business.”

MICHELE EVANSON, CEO
Evan International, Fayetteville, NY
**INDEX INPUT: SMALL BUSINESS ENVIRONMENT**

**4 SMALL BUSINESS OWNERS OFFER MIXED VIEWS ABOUT THE STATE OF THE U.S. ECONOMY**

How would you rate the overall health of the U.S. economy?

Overall, small business owners and operators feel that the U.S. economy is in decent shape. Nearly three-quarters (74%) feel that the U.S. economy's health is either average or above average. One-third (33%) note that the U.S. economy is in somewhat good or very good health, with one-quarter (25%) saying that the economy is in poor or somewhat poor health.

**5 SMALL BUSINESS OWNERS SLIGHTLY MORE POSITIVE ABOUT THE HEALTH OF THEIR LOCAL ECONOMIES**

How would you rate the overall health of the economy in your local area?

The majority (78%) of small business owners and operators rate the economic health of their local area as average or above average. Four-in-ten (42%) report the health of their local areas as somewhat good or very good. Approximately one-quarter (22%) rate the local economy’s health as somewhat poor or very poor. There is great variation by region. Nearly half of small businesses in the South (49%) report that their local economy’s health is somewhat good or very good. In contrast, three-in-ten (31%) small business owners in the Northeast report similar sentiments.
LARGER BUSINESSES REPORT HIGHER LEVELS OF COMPETITION

Compared to six months ago, does your business see more, less, or about the same competition?

Roughly three-quarters (76%) report that the amount of competition is consistent with six months ago, and around 15% report facing more competition. However, 26% of larger businesses in the small business segment (100-500 employees) say they are facing increased competition.
ONE IN FOUR SMALL BUSINESS OWNERS SAY GOVERNMENT REQUIREMENTS DEMANDING MORE TIME

Compared to six months ago, has the time or resources you spend completing licensing, compliance, and other governmental requirements increased, decreased, or stayed the same?

Overall, small business owners and operators report spending roughly the same amount of time and resources on regulatory tasks as they did six months ago. One-quarter (25%) feel that they’re spending more time over the same time period. Larger companies (20-99 employees and 100-500 employees) report spending more time on these activities (36% and 32% respectively).

“Kentucky is facing a tremendous amount of growth right now in the construction sector. I agree the overall U.S. economy has not grown like we would have hoped from a major recession. I am cautiously optimistic with the new administration this will improve more rapidly.”

JAMES STRANGE, VP
Advanced Electrical Systems
Louisville, KY
INDEX INPUT: SMALL BUSINESS EXPECTATIONS

FOR EVERY ONE SMALL BUSINESS EYEING CONTRACTION, FIVE ARE EXPECTING GROWTH IN STAFF

In the next year, do you anticipate increasing staff, retaining the same size staff, or reducing staff?

“We are definitely hoping to add staff this year, but there is a huge skills gap in our area for the licensed spa professionals that I employ.”

PATRICIA OWENS
PRESIDENT
FACES DaySpa
Hilton Head Island, SC

PATRICIA OWENS
PRESIDENT
FACES DaySpa
Hilton Head Island, SC
For the upcoming year, do you plan to: increase investment, invest about as much as you did last year, or reduce investment?

While one-quarter (25%) of American small business owners and operators plan to increase investments in their business in the upcoming year, the plurality of small business owners (56%) anticipates investing about the same amount in their business. Roughly one-third (34%) of small businesses that have been in operation less than 10 years anticipate investing more in their business next year, compared to only 23% of businesses in operation 10 years or more.

EXPERT POINT OF VIEW

“In the conversations I am having with small business owners around the country, I am starting to see that sense of confidence and optimism bounce back. Therefore, I am not surprised to see that a relative healthy one quarter of small businesses plan to increase investment next year - though I think we would all like to see that number continue to grow in the months ahead.”

TOM SULLIVAN
Vice President, Small Business Policy, U.S. Chamber of Commerce

Looking forward one year, do you expect next year’s revenues to increase, decrease, or stay the same?

Across the board, a majority (60%) of small business owners and operators are hopeful and expect revenues to increase in the coming year – only 9% anticipate a decline in revenue. Most notably, regional variations exist amongst small business owners’ and operators’ confidence in future revenues. Optimism reigns in the South, with 64% of small businesses expecting greater revenue next year. Conversely, only 54% of small businesses in the Northeast foresee positive revenue growth.
Capital investment and upgrades are a top priority for small businesses looking toward the future. Small business owners and operators identified areas where an increase in capital could drive improvements – whether a manufacturer needs a larger facility or a restaurant owner needs fresh décor. At the same time, many express a desire to hire more staff or compensate their current staff at a higher level, indicating that they may anticipate the potential growth of their businesses.

If you received a grant of $50,000–$5 million to invest in your business, how would you spend it?

“Capital expansion is #1. Our equipment is quite expensive because we are in manufacturing. And, we need to expand our buildings. We are running out of space for machines and employees.”

“Equipment and plants are the cornerstone of manufacturing, in terms of having an edge. And the people, taking care of people is most important.”

“I would probably look to add legal business development and marketing resources for my business, and invest in additional office space for those hires.”

SMALL BUSINESS CFO
Manufacturing Industry
Colorado

SMALL BUSINESS PRESIDENT
Accommodations & Food Industry
Connecticut

SMALL BUSINESS PRESIDENT
Technical Services Industry
New York
As owners and operators are feeling good about the state of their firms, many of them are working even more than they have in the past to improve their businesses’ success. Three-in-ten small business owners (30%) say they are working more hours than they did a year ago. Small businesses with 5 to 19 employees at their company report the largest increase in hours, with 32% of owners and operators saying that they are working more hours than they were at this time last year.

“As an entrepreneur, I have the ability to say yes or say no to doing work … I am a one-armed paperhanger. You do it all … You don’t have a backup if something happens, like emergency family situations.”

SMALL BUSINESS OWNER
Consulting Industry
New Jersey

“(Owning a business is … ) time-consuming. We have to put in a lot of hours to ensure the success of our business. It’s stressful. When things are not going well, that falls on our shoulders.”

SMALL BUSINESS PRESIDENT
Construction Industry
Florida

“(There) just isn’t enough time to do everything.”

SMALL BUSINESS PRESIDENT
Retail Industry
North Carolina
How would you rate the quality of potential recruits that are applying for positions at your company?

Many small business owners say they are struggling to find qualified candidates for their open positions. One in four (25%) described the quality of recruits applying for their positions as poor, while only two in five (39%) say the quality of recruits is good or very good. Owners in professional services industries expressed the most favorable views, with 55% rating candidates as good or very good (only 17% rated them as poor). Conversely, only 27% of manufacturers and 26% of retailers say they’re getting good or very good recruits, with 31% and 30% rating recruits as poor, respectively.

The quality of recruits is on the poor side. They aren’t people I would be really interested in having work for me … it’s like they [recruits] are looking for something that fits their lifestyle instead of looking to be a good employee for someone else.

SMALL BUSINESS OWNER
Accommodations & Food Industry
Colorado

We get to pick and choose who are the best candidates. They are well qualified. But the best candidates are hungry and they are motivated.

SMALL BUSINESS CEO
Real Estate Industry
Alaska
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 multi level regression with post-stratification (MRP) from the survey data. 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 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 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 2014 Census Survey of U.S. Businesses.
CORE INDEX QUESTIONS:

Small Business Operations

1. How would you rate the overall health of your business?

2. Over the past year, would you say you have: increased staff, retained the same size staff, or reduced staff?

3. How comfortable are you with your company’s current cash flow situation?

Small Business Environment

4. How would you rate the overall health of the U.S. economy?

5. How would you rate the overall health of the economy in your local area?

6. Compared to six months ago, does your business see more, less, or about the same competition?

7. Compared to six months ago, has the time or resources you spend completing licensing, compliance, or other governmental requirements increased, decreased, or stayed the same?

Small Business Expectations

8. In the next year, do you anticipate increasing staff, retaining the same size staff, or reducing staff?

9. For the upcoming year, do you plan to: increase investment, invest about as much as you did last year, or reduce investment?

10. Looking forward one year, do you expect next year’s revenues to increase, decrease, or stay the same?
METHODOLOGY

SURVEY MAKE UP OF 1,000 RESPONDENTS

REGIONAL BREAKDOWN

SOUTH
BASED ON (312 RESPONDENTS)

WEST
BASED ON (273 RESPONDENTS)

MIDWEST
BASED ON (201 RESPONDENTS)

NORTHEAST
BASED ON (214 RESPONDENTS)

INDUSTRY BREAKDOWN

19% MANUFACTURING/AGRICULTURE
(189 RESPONDENTS)

14% EDUCATION/HEALTH CARE
(140 RESPONDENTS)

26% WHOLESALE/RETAIL
(257 RESPONDENTS)

29% PROFESSIONAL SERVICES/REAL ESTATE
(294 RESPONDENTS)

12% OTHER
(120 RESPONDENTS)

SIZE BREAKDOWN

61% EMPLOYEE SIZE

28% 0–4
(614 RESPONDENTS)

9% 5–19
(278 RESPONDENTS)

2% 20–99
(89 RESPONDENTS)

2% 100–500
(19 RESPONDENTS)
The U.S. Chamber of Commerce is the world’s largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. Its International Affairs division includes more than 70 regional and policy experts and 25 country- and region-specific business councils and initiatives. The U.S. Chamber also works closely with 117 American Chambers of Commerce abroad. For more information, visit www.uschamber.com.

MetLife, Inc., through its subsidiaries and affiliates (“MetLife”), is one of the largest life insurance companies in the world. Founded in 1868, MetLife is a global provider of life insurance, annuities, employee benefits and asset management. Serving approximately 100 million customers, MetLife has operations in nearly 50 countries and holds leading market positions in the United States, Japan, Latin America, Asia, Europe and the Middle East. For more information, visit www.metlife.com.

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The data and statements herein provide preliminary findings based upon an Ipsos poll conducted April 2017. All sample surveys and polls may be subject to error.