# Small Business Index | Q4 | 2017

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CONFIDENCE ABOUT LOCAL ECONOMIES DRIVES RISE IN OUTLOOK

Increased confidence in local economies and the health of small businesses helped push the MetLife & U.S. Chamber of Commerce Small Business Index up for the second consecutive quarter to 63.2. This means 63.2% of small business owners have a positive outlook about their company and the small business environment in the United States.

Q4 INDEX HIGHLIGHTS

Most small businesses are not prepared for catastrophic events.
Only one-third of small businesses have plans in place to deal with a natural disaster, and less than half have formalized plans to deal with cybercrime. One-quarter have no plans for any type of catastrophic event. (See “Quarterly Spotlight” on page 2.)

Local economies remain bright spots.
Nearly half of small business owners (48%) report feeling “good” about the health of their local economy, up six percentage points from Q2 as cash flow remains strong. In contrast, about one-third (38%) report feeling “good” about the national economy—a drop from Q3.

Revenue and investment expectations remain steady.
Over half of small business owners (57%) expect revenues to increase next year. A quarter of small business owners (25%) plan to increase investment in their business.

Holiday sales are not “make-or-break” for most small businesses.
While a majority of retailers report that their overall profit depends on the holiday season, surprisingly two-thirds of all small businesses report that it’s not key to their overall profit.

The gulf is widening between the national and local economic outlook.
The increasingly rosy local economic outlook stands in contrast to worsening national sentiment, highlighting a growing divergence in perception between what entrepreneurs see countrywide compared to what they observe in their own backyard.

A quarter of small businesses have little to no online presence.
Time and staffing constraints are the biggest challenges to maintaining these activities. (See “Emerging Topic” on page 8.)
Despite an alarming number of high-profile natural disasters over the past year, most small businesses surprisingly do not have official plans to deal with them.

Majorities of small business owners do not have any plans in place to cope with a natural disaster (65%) or inclement weather (65%). Half (50%) have plans to prevent theft and deter intruders, and 47% have a plan to combat cybercrime. Nearly one-quarter (23%) have no plan in place to deal with any of these events.

23% of small businesses have no emergency plan.

When it comes to cybercrime—a key concern of small businesses surveyed in Q3—those in the Professional Services industry and businesses with more than 20 employees are most likely to be prepared.

While most small business owners (68%) have never had to unexpectedly close their business for an extended period, of those who have, most cite inclement weather or natural disasters as the reason for the closure.

EXPERT POINT OF VIEW

“Disasters are not a matter of if, but when. This is why every business owner, no matter the business size, needs to develop a disaster plan now. Developing a list of vendors and contacts, backing up key files on cloud storage, and disseminating an employee emergency phone tree are all simple steps to get you started that will help you reopen sooner when a disaster strikes.”

MARC DE COURCY
Senior Vice President
U.S. Chamber of Commerce Foundation

WHERE TO GET HELP

U.S. Chamber of Commerce Foundation
Corporate Citizenship Center
202-463-3133 | ccc@uschamber.com

Disaster Response Resources
www.uschamberfoundation.org/topics/disaster-response
“You can never be too prepared. And plugging into our local community and its plans goes a long way in knowing where to find help if needed or where to give help when people need you. Even if you are okay, your customers might not be. And the longer it takes the community to get back on its feet, the more the aftermath can wreak financial havoc on your business.”

LEIGH HARTING
Owner
3 Daughters Brewing
St. Petersburg, Florida

“Hurricane Charlie was our first brush with a major disaster at our restaurant. We were without power for an extended period of time and lost all of our food. While we recovered, there was definitely a financial impact on the business.”

MARYANN FERENC
Owner
Mise en Place Restaurant
Tampa Bay, Florida

“Are you in the process of rebuilding one of our locations that flooded after the storm, and we’ve learned a lot... You can never be too prepared for a disaster and its aftermath. If you aren’t, it can really take a toll on you financially.”

ZAWADI BRYANT
CEO
NightLight Pediatric Urgent Care
Sugarland, Texas
The rise in this quarter's national Index score is reflected in a more confident small business operational environment. Almost two-thirds (61%) of small business owners describe the financial health of their company as “good” this quarter, about the same as last quarter. But within that group, 39% of respondents rated their outlook as “very good,” up from 35% last quarter.

Larger small businesses with 100 to 500 employees saw the greatest increase in their business outlook this quarter, with 65% rating their overall business as “very good,” up 13 percentage points from last quarter. Companies with fewer than four employees saw the second largest boost, with 37% of businesses rating their overall health as “very good,” up nine percentage points since last quarter. Sentiment in mid-sized small businesses stayed relatively stable.

The Professional Services* industry saw the greatest jump in sentiment, with 54% of businesses surveyed feeling “very good” about their organization’s health, a 18 percentage point jump from last quarter. In contrast, the retail sector saw its confidence fall, with 17% of respondents viewing the health of their business as “somewhat poor” or “very poor,” the highest negative outlook of any industry surveyed this quarter. Retail’s negative outlook is up from just 8% last quarter.

*Includes the following industries: Information; Finance and Insurance; Real Estate, Rental, and Leasing; Professional, Scientific, and Technical Services; Management of Companies and Enterprises; Administrative and Support; and Waste Management and Remediation Services.
The gap between the outlook for the local and national economies is widening—highlighting a divergence in perception—with just 38% of small businesses bullish on the national economy versus 48% who are bullish on economic growth in their own backyard. The 10 percentage point gap in relative sentiment doubled from last quarter when 41% of small businesses were positive on the national economy and 46% were optimistic about their local economy.

Small business owners in the West are most upbeat about their local economy (55%) but are on par with the rest of small business owners when evaluating the national economy (39%). In contrast, small business owners in the Northeast feel the least optimistic about both the national economy (36%) and their local economy (37%).

Businesses that have been in operation for less than ten years, those in the Professional Services industry, and those with more than 20 employees were the primary drivers of positive sentiment on local economies, up six percentage points from Q3.

The number of small businesses reporting stiffer competition rose to 20% in Q4 from 15% in Q3. Ease of doing business remains steady, with 70% reporting that time spent on licensing and other compliance measures remains the same.

“Our local economy is booming…People are finally realizing what a great thing we have going on up here. There are more visitors, more hotels, more restaurants—we’re breaking records.”

JOHN PESCHEL
Owner & President
Valley Linen Company
Kalispell, Montana

“The linchpin for entrepreneurship starts with the local economy’s support and the infrastructure that is in place, and it’s getting stronger here...you need companies and community members in your own backyard to support you. When you get those opportunities, it’s an eye-opener for how powerful your local economy is and a real watershed moment.”

BRENDON DEVER
Co-founder
Heads Up Display, Inc.
Buffalo, New York

Local vs. National Economic Health Perception Gap Has Doubled Since Q3

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<thead>
<tr>
<th></th>
<th>Q3</th>
<th>Q4</th>
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<tbody>
<tr>
<td>% of businesses rating overall local economic health as “good”</td>
<td>41%</td>
<td>38%</td>
</tr>
<tr>
<td>% of businesses rating overall national economic health as “good”</td>
<td>46%</td>
<td>48%</td>
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5 percentage point gap

10 percentage point gap
A majority of small business owners (57%) are optimistic that their revenue will increase next year, consistent with Q3 optimism (56%). Businesses in the Manufacturing and Resources industry saw the highest increase in optimism from last quarter, with 62% saying they expect next year’s revenue to increase, up 11 percentage points from Q3 (51%). There continues to be a gap in revenue expectations between businesses who are less than 10 years old and those that have been in operation for more than a decade, with three-quarters (73%) of newer businesses expecting revenue to increase next year versus 53% of more established businesses. A similar gap was seen in Q3: 70% versus 52%.

A quarter of all small businesses (25%) report they will be increasing investment in the upcoming year, remaining steady from Q3 (23%) and Q2 (25%). Investment expectations for next year are driven primarily by businesses that have been in operation for less than ten years, with 39% of business owners and decision makers reporting they plan to increase investment. Expectations are higher for businesses with 5-19 employees (31%) and those with 20-99 employees (29%).
KEY FINDINGS

SMALL BUSINESS EXPECTATIONS

HO-HO-HO FOR SOME, HO-HO-HUM FOR OTHERS

With the exception of retailers, a majority of small business owners report that the holiday season (and Q4 in general) is not a “make-or-break” time of year for them. More than half of retailers (55%) view holiday sales as “very important” or “somewhat important” to their overall annual profit. However, three-quarters of all small business owners report that revenue either remains the same (50%) or decreases for the holiday season (24%).

Over half of manufacturers (55%) and professional services firms (59%) report that the holiday season is not at all important to their overall profit, and more businesses in these sectors actually report a decrease in their quarterly revenue this time of year. Many outside of the retail and hospitality industries note that their businesses routinely close during the holiday period. Others in various service industries, such as auto repair, say that one particular time of year is not more impactful than another.

“

Our business is entirely based on luxury and high-end goods, so we see an increase for holiday purchases.

SMALL BUSINESS PRINCIPAL
Retail Trade Industry, Georgia

“

My business drops off for the holidays. Most people use their money for presents and not tires or auto repair.

SMALL BUSINESS OWNER
Services Industry, Tennessee

“

The holiday season is overall the most important season for a toy store. We hire more part-time workers and close at 9 p.m. or 10 p.m. during the holidays or we lose sales.

SMALL BUSINESS OWNER
Retail Trade Industry, Illinois

Importance of the Holiday Season by Industry

![Pie charts showing the importance of the holiday season by industry]
A QUARTER OF SMALL BUSINESSES HAVE LITTLE TO NO ONLINE PRESENCE

Slowly Logging On: Usage Across Platforms

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<tr>
<th>Platform</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Facebook</td>
<td>41%</td>
</tr>
<tr>
<td>Other Social Media</td>
<td>26%</td>
</tr>
<tr>
<td>Mobile App</td>
<td>11%</td>
</tr>
<tr>
<td>Branded Online Store</td>
<td>9%</td>
</tr>
<tr>
<td>Online Retailer (Amazon, eBay, Etsy, etc.)</td>
<td>6%</td>
</tr>
<tr>
<td>Online Ads</td>
<td>2%</td>
</tr>
<tr>
<td>No Online Presence</td>
<td>19%</td>
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A quarter of small businesses are not active on the Internet, with one-fifth (19%) reporting they do not have an online presence of any kind, and an additional 7% saying they do not actively maintain their online presence. Time and staffing constraints are the biggest challenges in maintaining an active online presence for small businesses. However, nearly three-quarters of small businesses do engage online. Maintaining a website and engaging on Facebook are the two most popular forms of online activity. More than half of small businesses (53%) have a website but not an online retail presence, and 41% are active on Facebook.

Of those who do not have an online presence, 75% said that it didn’t apply to their business model, or was too difficult to maintain because of staffing and time constraints.

"You have to go where your customers are, and I target and serve millennials...They are what my whole business model is centered on, so having an active web, social media, and digital presence is essential to my success."

DOUGLAS BONEPARTH
President
Bone Fide Wealth
New York, New York

"Having an online presence isn’t really relevant...and it’s a good thing because I don’t want to have to keep it up—I would have to be the person who maintains it."

APRIL O’CALLAGHAN
Operating Officer
Goschie McCarthy and Associates
Eugene, Oregon
Small businesses in the South are the most confident of any region, bolstered by the strongest revenue, investment, and national economic outlook of any region. Almost 7 out of 10 small businesses located in the South rate their business' health as “somewhat good” to “very good,” the highest surveyed. About 63% of small businesses in the region expect revenues to grow next year, and 27% expect to increase investment, the highest of the four regions. Further, 40% of respondents in the South rated the health of the United States economy as “somewhat” or “very” good, the highest positives in the country.

The Northeast reported the least confidence of the four regions, weighed down by a more pessimistic outlook on their local economy and tighter financial conditions. Businesses in the Northeast responded more negatively regarding the health of their local economy, with 30% labeling their own backyard as “very poor” or “somewhat poor,” the highest negatives of any region surveyed. Their businesses also saw the tightest cash flow outlook, with 23% of businesses surveyed reporting they were “not at all comfortable” or “not very comfortable” with their company’s cash flow situation.
Small business health remained steady in 2017 with six-in-ten small business owners (61%) saying their business' overall health is good.

Local economies are improving with nearly half of small business owners (48%) saying their local economies are strong, up from 46% in Q3 and 42% in Q2.

Only slightly more than one-third (38%) of small business owners are optimistic about the national economy compared to 41% in Q3.

Competition is on the rise, with one-fifth of business owners (20%) seeing a more active local economy, up from 15% last quarter.

Small businesses in the South are the most confident in the country.

Investment plans are steady with a quarter of small businesses (25%) planning to increase investment in the next year.

More than half of small business owners (57%) believe next year’s revenues will increase.

Time spent on licensing and compliance has remained steady since Q2.

More small business owners (27%) will be looking to hire in the upcoming year compared to Q3 (24%).

Over half of retailers (55%) report that the holiday season is very important for their overall profit for the year, compared to just 31% of all small businesses.

One-quarter of small businesses report having no plan in place for any type of catastrophic event.

About one-in-four small businesses are not active on the Internet.
To construct national, regional, and employee size, and broad industry group level estimates of the health of small businesses in the U.S., a sequence of statistical techniques was applied to the survey results, including elastic net for variable selection and multilevel 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 U.S. Bureau of Labor Statistics on job change by industry.

All sample surveys and polls may be subject to other sources of error, including, but not limited to, coverage error and measurement error. The poll has a margin of error of plus or minus 3.5 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 confidence interval adjusted for design effect of the following: (n=1,000, DEFF=1.5) adjusted confidence interval=+/-5 percentage points. Where figures do not sum to 100, this is due to the effects of rounding.
METHODOLOGY

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 competition, less competition, or about the same level of competition from smaller or local companies?
7. Compared to six months ago, has the time or resources you spend completing licensing, compliance, or other government 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 in the business 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?

2017 CORE INDEX TRENDS

The infographic below charts responses—in percentages—to each of the Index’s 10 core questions and will provide insights into the changing attitudes and expectations of small business owners over time. This infographic reflects responses to the first three surveys, Q2, Q3, and Q4 of 2017. Responses to the 10 core questions are used to calculate the MetLife & U.S. Chamber of Commerce Small Business Index number, which currently stands at 63.2—meaning 63.2% of small business owners have a positive outlook for their companies and the environment in which they operate.
METLIFE & U.S. CHAMBER OF COMMERCE

METHODOLOGY
SURVEY MAKEUP OF 1,000 RESPONDENTS

INDUSTRY BREAKDOWN

- MANUFACTURING AND RESOURCES: 19%
- EDUCATION, HEALTH CARE, AND RECREATION: 14%
- RETAIL: 26%
- PROFESSIONAL SERVICES: 29%
- OTHER: 13%

REGIONAL BREAKDOWN

- SOUTH: 31%
- WEST: 21%
- MIDWEST: 27%
- NORTHEAST: 20%

COMPANY SIZE BREAKDOWN

- 0–4 employees: 28%
- 5–19 employees: 9%
- 20–99 employees: 61%
- 100–500 employees: 2%
The U.S. Chamber of Commerce is the world’s largest business federation representing the interests of more than 3 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.

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The data and statements herein provide preliminary findings based upon an Ipsos poll conducted September 18, 2017, to October 16, 2017. All sample surveys and polls may be subject to error.

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