SMALL BUSINESS INDEX

THE VOICES OF SMALL BUSINESS OWNERS

Q3 2018
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INCREASED CONFIDENCE PUSHES SMALL BUSINESS OPTIMISM TO NEW HEIGHTS

The MetLife & U.S. Chamber of Commerce Small Business Index climbed to 69.7 in Q3 of 2018. The record high score reflects a rebound in national economic outlook, matching the highest levels in the history of the survey. The trend line for business owners rating the overall health of their business as good has moved upward after five consecutive quarters of unchanged results. Despite such optimism, revenue expectations for the year ahead were down for small business of all sizes.
Q2 INDEX HIGHLIGHTS

Credit where credit is due.
One-fifth of small businesses have applied for a loan or line of credit in the past year. Those applying for financing were equally split between seeking a loan or securing a line of credit. Of those applying, about two-thirds received the full amount, while 10% noted only receiving a partial amount. Fifteen percent were rejected outright.

Timing influences perception.
About one in five small business owners seeking financing report that it is hard to obtain. Recent experience colors perception, with those who have sought financing in the last year almost twice as likely (41%) to report getting access to credit is hard, versus those who have ever applied (24%).

The Small Business Index score rose for the sixth quarter in a row.
Strong sentiment is driven by resurgence in the national economic outlook.

National economic outlook rebounds from Q2 drop.
Small business owners’ perception of the national economy regained its footing to Index record setting levels at 55%, after having dropped eight percentage points in Q2.

Perception of local economic conditions rises.
The health of the local economy continues to drive the optimistic perceptions of small business owners. In Q3 2018, the number rating their local economic health as good increased to 51%, the highest mark in the history of the Index.

Small business revenue outlook dims for coming year.
Increased revenue expectations for the coming year declined by six points in Q3 (56%). This broke a string of four consecutive quarters of stable revenue expectations.

Flora Wieczorek, Owner of United Fuel Service, Brooklyn, NY.
Credit can be a financial lifeline, safety net, or a springboard for growth for small businesses. One-fifth of small businesses have applied for some sort of financing—a loan or line of credit—within the past year. Applications for each type of financing were equally split. While the majority of applications were successful, with two-thirds of those applying for credit receiving the full amount, 11% said they received only part of what they asked for, and 15% were rejected outright.

Small businesses applying for financing in the last 12 months are twice as likely to say they plan to increase investment in their business in the next year than those who have not applied for financing, at 44% and 21%, respectively. Those business owners who applied for financing in the past year are optimistic the additional funds will add to their top line. Those who have applied for financing in the past year were also more likely to say they expect their revenue to increase in the year ahead versus those who have not applied in the past 12 months (67% and 54%, respectively).

The overall optimistic outlook of small business owners seemed to influence their reasons for securing additional financing. Most said the loans were to buy new equipment (27%), or to expand/upgrade facilities (20%). Of those that sought credit, only 10% said the financing was necessary to keep the business afloat, while an equal percentage said the money went to buy inventory.

Increased competition is a prime motivator behind the move to seek additional financing. Businesses who have applied for financing in the past year are more likely to report an increase in local competition over the past six months (22%) compared to those that have not applied for financing (15%) in the past year. The increase in local competition could also be why only a small percentage, 4%, sought loans for expanding to new markets.

Opinions on how easy it is to get access to credit vary widely based on recent experience. Overall, less than one-quarter of small business owners say credit is hard to obtain (23%). Business owners who have applied for credit within the past year are twice as likely to say it is hard to get, compared to those who have not tried within the past year (41% and 20%, respectively). Those who have applied for credit at some point in the past, rather than in just the past year, were more likely to say it is easy to obtain financing (70%) rather than difficult (24%).
EMERGING TOPIC

ACCESS TO CREDIT IS NOT CREATED EQUAL

The longer a small business has been in operation, the more likely it is to receive the full amount of additional financing requested, however, these companies are also less likely to have applied in the past year.

Three-quarters of older businesses, those in operation for 20-plus years, seeking funding in the past year received the full amount. Eighteen percent sought financing of some sort within the past year. Only 11% were rejected when seeking funding. Additional funds went to expanding/upgrading facilities (21%) or buying new equipment (27%), potentially addressing a need to replace older machinery or update facilities.

Twenty-two percent of companies in operation for 11 to 20 years applied for additional financing within the past year. Sixty-six percent received the full amount, and 10% received a partial amount. However, these companies were outright rejected 21% of the time, a rate four points higher than that of younger companies. Small businesses in operation for 11 to 20 years most often report using additional funds to expand(upgrade facilities (31%), perhaps to give their business a “face-lift.”

The youngest small businesses, those in operation for 10 years or less, who sought additional financing in the past year fared worse than more established companies in securing the full amount (51%). Nineteen percent of these companies received a partial amount, and 17% were rejected outright. Younger businesses reported using additional funds to buy equipment, inventory, start a business, or expand to new markets.

Among businesses reporting they are in good health, getting financing is not a big concern, with 71% reporting that it is easy. The picture is vastly different for businesses that are not in good health. Though financing is often a buoy for struggling businesses, getting that needed financial assistance may be an obstacle too high to overcome. Among these businesses only 40% report getting financing is easy.

WHERE SMALL BUSINESSES SPENT THEIR ADDITIONAL FINANCING

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<th>11%</th>
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<td>Starting your business</td>
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SMALL BUSINESS INDEX | Q3 | 2018
With economic pressures mounting on ailing small businesses, cash flow is a major concern among 69% of them, and 30% are planning to reduce their amount of investment in the coming year. In addition, one-fifth of small businesses in poor health plan to reduce staff in the next 12 months.

Small businesses in good health and those that aren’t in good health were equally likely (20%) to have sought financing in the past year. Businesses not in good health are more likely to receive only a partial amount (41%) or be rejected altogether (25%), than those in good health (10% and 8%, respectively).
U.S. ECONOMY RIDING STRONG TAILWIND OF REGULATORY AND TAX REFORMS

Many words fit the U.S. economy today. The Federal Reserve recently described the economy as “strong,” a bold descriptive as the Fed signals its intentions regarding future interest rate policy. Other words like “sweet spot” provide a bit more color, but I find the expression “nearly textbook” most apt.

In the first half of the year, the broadest measure of the economy – gross domestic product, or GDP – exceeded 3% growth after inflation. The second quarter showed even stronger annualized growth at 4.1%. The second half of the year is likely to maintain this 3% pace.

Data from the Q1 2018 survey suggests this is what many small businesses see going forward: More than half of small business owners (54%) surveyed said they believe tax reform will help the national economy, and 47% said they anticipate that it will also help their business.

Other data supports the “nearly textbook” expression. The unemployment rate at around 4% is strikingly low, yet job growth continues to surprise on the upside. At some point, job growth will slow down as the pool of individuals who can be drawn into the workforce and employed evaporates, but we’ve been saying that for a couple of years now, and still job growth remains robust.

Inflation has accelerated slightly as many press reports warn, but the dire tones are false notes. In fact, over the last year, inflation accelerated only slightly, to 2.2%, due to a bump in energy prices a few months ago, but this effect is transitory. Interest rates have likewise crept up slightly, but the bellwether 10-year Treasury note continues to hover around 3%. With inflation hovering around 2%, interest rates adjusted for inflation – which are most important for the economy – continue near historic lows.

With all this good news, why only “nearly” textbook? Above all, because real wage growth remains slow. Tight labor markets over an extended period should trigger a substantial increase in real wages. This has not occurred so far, and this phenomenon of low real wage growth has been going on for many years and cuts across most industrialized countries, suggesting the forces in play are global in nature.

Textbook economies are rare indeed. The U.S. has experienced such a happy state a total of perhaps 3 years out of the last 50. We should reinforce and protect the economy’s strength as much as we can by embracing sound policies and avoiding self-destructive ones.

J.D. Foster
Chief Economist
U.S. Chamber of Commerce

The opinions stated here are solely those of the U.S. Chamber of Commerce, not opinions of MetLife, and are not necessarily views endorsed or approved by them.
Small business owners’ perception of the national economy regained its footing to record setting levels of 55%, tying the highest mark in Index history, after having dropped eight percentage points in Q2.

Perception of the national economy helped fuel optimism in the local economy. Half of the small businesses surveyed in Q3 rated their local economy as good, the strongest mark on Index record, surpassing last quarter’s level of 48%. Small business owners in the Midwest (49%) and Northeast (46%) saw confidence in the local economy dip slightly after each registered 10% confidence gains in Q2. The South made up the most ground, up 7% in local market confidence (49%). Small businesses in the West continued to exhibit the highest confidence levels in their local economy (57%).

National economy sentiment in the South rebounded seven points to 49%, after seeing a 19 point drop in Q2. The Midwest leads all regions in national economic confidence at 60%, a rise of nine points, which also equals the increase in the West (58%). Only the Northeast lagged, dropping one point to 45%.

Local competition in the last six months increased by four points to 18% compared to the previous survey. Nearly three-quarters, 74%, reported the level of local competition has remained the same over the last six months. In terms of sectors, one in four retailers reported increased local competition, while manufacturers and education and healthcare services firms each reported a seven point increase (16% and 18%, respectively).

“The economy seems strong at the moment. However, I do have concerns about the tariffs and some other things going on now.”

SUSAN HAKENJOS
Vice President,
Brentwood Travel
St.Louis, Missouri
U.S. ECONOMIC OPTIMISM HOLDS STEADY

The local economy here in Sacramento is doing well. There is resurgence in the restaurant industry and craft breweries are opening up. Our housing market is strong.

DAVID GOLDENBERG
Executive Director,
California Sea Urchin Commission
Sacramento, California

Our local economy is strong and growing. There has been a lot of job growth. Companies have begun locating their offices here because they see the opportunity. We are between Silicon Valley and Los Angeles and still have a reasonable cost of living here, which makes it attractive to some of the larger tech companies.

JEREMY DEMING
CEO and Executive Director,
Boys & Girls Club of Santa Maria Valley
Santa Maria, California
SMALL BUSINESS EXPECTATIONS

SMALL BUSINESS REVENUE OUTLOOK DIMS FOR COMING YEAR

Revenue expectations for a majority of small business owners dropped six points to 56%, snapping four consecutive quarters of growing revenue expectations in the next year. Small businesses with 20-99 employees were the most optimistic about gains (64%), but that figure is down nine points from Q2’s report.

The revenue expectations between male and female small business owners held constant at the four point difference reported in Q2, however, revenue expectations for both were down from last quarter’s report. Female small business owners remain more optimistic (59%) than their male counterparts (55%). Women also anticipated slightly more hiring growth at 27%, compared to men at 24%, but both figures are down (9% and 6%, respectively) from Q2.

Reduced revenue expectations appear to be having an impact on future hiring decisions. A quarter of small business owners in Q3 expect to increase their headcount, down from record levels of one in three surveyed in Q2. The biggest pullback in hiring came from businesses with 100 or more employees. In Q2, 61% of these companies expected to increase headcount; however, that number now sits at 38%.

Although revenue expectations have slipped, small businesses expect to keep investment activities stable. Only 10% of businesses reported plans to reduce investment in the coming year, tying the lowest mark in the history of the survey. However, those expecting to increase investment dipped by three points to 22% from Q2’s results at 25%.

2018 has been a year of growth for TCC. We upgraded our training space and expanded our staff. For the first time in several years we believe our increased revenue stream is sustainable. We are regaining our pre-recession confidence and have added several contract trainers and a new admin. As a small business, we are mindful that we need to constantly evolve to meet the changing needs of our clients. We look forward to what the future will bring, and at the moment the future looks very bright.

DEAN JONES HINCHEY
President and CEO,
The Communication Center
Washington, D.C.
LARGER BUSINESSES PLANNING TO INCREASE STAFF OVER THE NEXT YEAR

<table>
<thead>
<tr>
<th>Employee Size</th>
<th>Increased Staff</th>
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<tbody>
<tr>
<td>0-4</td>
<td>21%</td>
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<tr>
<td>5-19</td>
<td>29%</td>
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<tr>
<td>20-99</td>
<td>39%</td>
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<tr>
<td>100 +</td>
<td>38%</td>
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Amy Brace, Owner, Amy’s Cupcake Shoppe, Hopkins, MN.
KEY FINDINGS

SMALL BUSINESS OPERATIONS

OVERALL BUSINESS HEALTH GETS STRONGER

Small business owner sentiment about the health of their business increased, with 64% reporting good overall health. The move breaks five consecutive quarters of unchanged reporting at 61%. The number reporting very good health remained steady, 38%, consistent with the last two quarters.

Overall sentiment among female small business owners jumped a healthy 12 points to 63% in Q3. All sectors remained strong with professional services leading the way at 77%, a 15 point increase over Q2. Manufacturing slipped two points to 64%, but still registered the second strongest mark in Q3 among the surveyed sectors. Retail continued to lag at 57%, despite posting a four percent increase from Q2.

Nearly one in five small business owners (19%) hired more people over the past year. As in Q2, companies with more than 100 employees did the most hiring: 45% reported adding staff in the past year. However, that trend may not hold as only 38% of these larger businesses anticipate hiring in the year ahead, falling significantly from last quarter, when 61% of businesses with 100 plus employees reported plans to increase staffing.

Eight out of ten small business owners reported feeling comfortable with their cash flow. Female and male small business owners alike reported increased confidence in cash flow, 75% and 83% respectively, from their Q2 numbers.

Small business owners found a way to shave a small amount of time off dealing with licensing, compliance, and other government requirements: Only 20% reported an increase in handling these issues, down one point from last quarter’s survey.

“Growth in the economy is important to my business because our services are in demand when other companies are successful and have the resources to invest in public relations and marketing support.”

NEIL HARE
President and CEO,
Global Vision Communications
Washington, D.C.
Two-thirds of small businesses applying for credit received the full amount, 11% received a partial amount, and 15% were rejected outright.

Of the businesses that have applied for financing in the past year, 22% are more likely to report an increase in local competition in the past six months.

More small business owners who say their operation is in good health said it was easy to obtain financing or credit than those not in good health, 71% vs. 40%.

Businesses not in good health were more likely to receive only a partial amount of financing (13%) or be rejected altogether (25%) than those in good health (10% and 8%, respectively).

55% of small businesses are optimistic about the health of the U.S. economy, rebounding from Q2’s 8 percentage point drop and tying the highest rating in the history of the survey.

The number of small businesses reporting their local economy as good increased to 51%, the strongest mark in the history of the Index.

A majority of small business owners expect higher, though curbed, earnings.

The professional services sector is the most confident in the health of its business (77%).

The retail sector continues to be the least confident in the health of its business (57%), despite a four point increase since Q2.

Small business owners in the West remain the most confident in the local economy (57%), marking the third consecutive quarter as the most optimistic region.

Confidence in the local economy among those in the South rebounded seven points from last quarter to 49%.
Optimism in the strength of the national and regional economies continued to push regional confidence higher. Belief in the overall strength of the U.S. economy rose again in Q3; the one point increase from Q2 to 69.7% represents the sixth consecutive quarter of increased confidence among survey participants.

This quarter, the increase in optimism is driven by the West, which surpassed the other regions in terms of positive sentiments about the overall health of their business (68%), the overall health of the local economy (57%), and the level of increased local competition (16%). While the rate of growth in regional index scores has slowed in the Midwest since last quarter, they remain the highest due to strong outlooks on the national economy (60%) compared to the other regions and the country average (55%).

While scores in the South continue to soften since previous quarters, small business owners remain optimistic about future growth, and are the most likely to anticipate increasing investments (31%), increasing staff (28%), and higher revenues (61%) in the coming year.
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 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 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 that 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.
Survey Makeup of 1,000 Respondents

REGIONAL BREAKDOWN

INDUSTRY BREAKDOWN

MANUFACTURING AND RESOURCES: 17%
EDUCATION, HEALTHCARE, AND RECREATION: 22%

COMPANY SIZE BREAKDOWN

0–4 employees: 28%
5–19 employees: 21%
20–99 employees: 25%
100–500 employees: 15%
100+ employees: 9%

OTHER INDUSTRIES: 15%
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 EXPECTATIONS
4. In the next year, do you anticipate increasing staff, retaining the same size staff, or reducing staff?
5. 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?
6. Looking forward one year, do you expect next year’s revenue to increase, decrease, or stay the same?

SMALL BUSINESS ENVIRONMENT
7. How would you rate the overall health of the U.S. economy?
8. How would you rate the overall health of the economy in your local area?
9. Compared to six months ago, does your business see more competition, less competition, or about the same level of competition from small or local companies?
10. 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?

2018 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 last four surveys, Q4 of 2017, and Q1, Q2, and Q3 of 2018. 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 69.7—meaning 69.7% of small business owners have a positive outlook for their companies and the environment in which they operate.
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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