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SMALL BUSINESS EXPECTATIONS DOWN, BUT FUNDAMENTALS REMAIN STRONG

This quarter, the MetLife & U.S. Chamber of Commerce Small Business Index recorded the first significant drop since the survey began in 2017. Conducted in the midst of the longest federal government shutdown in history, the survey score dropped from 69.3 in Q4 of 2018 to 65.6 in Q1 2019.

The change is largely due to a decline in economic outlook and expectations (both national and local), but small business owners report their fundamental business operations remain strong:

- More than half of small business owners (56%) expect increased revenue in 2019, down only slightly from last quarter (60%).
- More than one in four small business owners (27%) plan to increase investment over the next year, almost unchanged from Q4 (29%).
- A similar number of small businesses report plans to increase staff over the next year (29%), compared to last quarter (30%).
Expectations for national economy decline.
Optimism about the health of the U.S. economy declined this quarter. While a majority of small businesses (53%) report a belief that the national economy is in good health, this number dropped five percentage points from last quarter (58%).

View of local economy dips, too.
Small business owners’ views on their local economy are on par with the national economic outlook (53% rate it in good health). This reflects a slight downward shift from the Q4 2018 rating of 56%.

Small businesses anticipate steady staff levels, investment.
Twenty seven percent of business owners plan to increase investment over the next year, almost unchanged from Q4 (29%). Similarly, (29%) report plans to increase staff, unchanged from last quarter (30%).

Veteran, minority, Gen X and Millennial- owned businesses look to hire.
Plans to increase headcount over the next year are primarily driven by businesses with 20 or more employees (44%), veteran-owned businesses (44%), minority-owned businesses (42%), and millennial or Gen X owned businesses (39%).

Views of national economy decline across most of country.
Views on the national economy have consistently softened across the Northeast, Midwest, and West regions.

Northeast most pessimistic on local economy.
Businesses in the Northeast marked the biggest decline in optimism: just 38% say their local economy is in good health, down 10 percentage points from Q4 2018.

Revenue expectations down slightly.
Fewer small businesses expect revenue to increase (56%), compared to the end of 2018 (60%).

Potential shutdown effect?
The survey was conducted from Jan. 3-Jan. 31, mostly overlapping with the federal government shutdown from Dec. 22, 2018-Jan. 25, 2019. While it’s not clear if this affected small businesses’ views, a number of respondents mentioned the shutdown, without prompting.
For the first time, the MetLife & U.S. Chamber of Commerce Small Business Index surveyed small business owners about their view of the state of American infrastructure including highways, roads, railroads, ports, communications, and Internet infrastructure.

One trend became clear above all: Most American small businesses see local transportation infrastructure as merely average or poor, while about half of businesses worry that U.S. infrastructure is not keeping up with technological advancement in competing nations.

Other major survey findings include:

- Small business owners are more likely to see the infrastructure they use daily, including high speed Internet, local roads and bridges, cell phone networks, and highways—as critical to the operation of their business.

- In comparison, they view airports, ports and harbors, mass transit and railroads as less critical for their day to day operations.

- Small business owners tend to prioritize the improvement of local transportation systems—local roads highways, bridges and mass transit—over national transportation systems like airports, railroads, and ports and harbors.

- Northeasterners are most critical of the quality of their infrastructure. Midwesterners and Southerners overall rate the quality of their infrastructure highest, but see a lot of room to improve their transportation systems.

"We’ve got 70 vehicles, they’re moving around throughout the day. If our workers are sitting in traffic, that’s lost productivity. I’m going to pay them, but I can’t bill for them. We need our people, our equipment, our tools on the job site. It’s important to be able to move across the city quickly.”

JAMES STRANGE
Vice President
Advanced Electrical Systems
Louisville, Kentucky
U.S. CHAMBER EXPERT INTERVIEW: INFRASTRUCTURE

WHY INFRASTRUCTURE IS SO VITAL

ED MORTIMER
Vice President, Transportation & Infrastructure Policy
U.S. Chamber of Commerce

We sat down with U.S. Chamber Vice President of Transportation and Infrastructure, Ed Mortimer, to ask him about the state of U.S. infrastructure, its importance for small businesses, and what a 21st century infrastructure looks like. Here are some of his thoughts.

Q: What surprised you in the SBI survey results regarding infrastructure?
A: The survey results show that while transportation infrastructure is important, broadband access is also a critical infrastructure in need of modernization. While the private sector is largely responsible for broadband, the Chamber of Commerce feels strongly that the federal government must take an active role in support of this and other infrastructure challenges.

Q: A lot of small businesses see average to poor infrastructure. Does that square with other data and surveys you’re seeing?
A: It does. The American Society of Civil Engineers rates our nation’s infrastructure a D+. That’s not a grade to be proud of. Also, our infrastructure was largely built 60-100 years ago. The time to modernize is now!

Q: It seems small businesses rate the Internet and telecommunications infrastructure as higher quality than roads, highways, mass transit… Do you agree with this assessment?
A: For many small businesses, broadband access is critical in our e-commerce economy. That being said, we still need traditional transportation infrastructure to move people and products. The ways we move in the 21st century will be different and we need to modernize our infrastructure to provide seamless connections and improve efficiency and safety.

Q: What might a 21st century infrastructure look and feel like?
A: A 21st century infrastructure will include utilizing technologies such as 5G and sensors to operate our infrastructure more efficiently. Concepts such as Smart Cities will continue to grow and attract high skilled Millennial workers. With autonomous vehicles and drones becoming more prevalent, new ways to connect ports and rails to highways and public transportation will be part of the solution.

Q: Why is infrastructure so important to small businesses?
A: We view infrastructure as the backbone of the economy. Many small businesses have three main criteria when deciding where to locate: tax policy, regulatory environment, and quality of infrastructure. Infrastructure is a key component in moving product to market and ensuring customers and employees can travel safely and efficiently.
SMALL BUSINESSES SAY QUALITY INFRASTRUCTURE KEY TO SUCCESS

The majority of respondents say high speed Internet (64%), local roads and bridges (57%), and cell phone networks (55%) are very important to the success of their small business.

All industries are highly likely to report high speed Internet is important to their success, but they differ somewhat on other infrastructure priorities:

• The service industry is particularly adamant that good communication infrastructure is required to be successful. They rate high speed Internet (85%) and cell phone coverage (78%) as most important.

• Retail (85%), the manufacturing and resources (83%) sector, and other industries (81%) rate local transportation as the most important infrastructure system, edging out high speed Internet.

• Small businesses in manufacturing and resource industries and retail are more likely to cite all transportation infrastructure as being important to their operations, compared to those in the professional and service industries, who place a higher value on local infrastructure.

SMALL BUSINESSES SEE ROOM FOR IMPROVEMENT IN INFRASTRUCTURE...

A majority of small businesses rate high speed Internet, local roads and bridges, cell phone networks, and highways as vital to the success of their company. Yet most businesses see their local transportation infrastructure as average or poor in quality.

A majority of small business owners see a lot of room for improvement in infrastructure, especially local transportation systems:

• Sixty two percent say local roads and bridges are of average, poor, or very poor quality. Only about two in five say local roads and bridges are very good or good (38%) and only about one in ten say these systems are very good (13% highways and 10% local roads and bridges).

• Fifty two percent say highways are average, poor, or very poor in quality. Less than half of small businesses report the quality of highways as very good or good (48%).

• A majority of small businesses report the quality of high speed Internet (56%) and cell phone network coverage (58%) in their area as very good or good.
Across the country there is some variation in views of infrastructure quality. Some findings of particular note include:

- Small businesses in the Northeast rate the quality of the infrastructure in their area lower.
- Those in the Midwest and South report high quality for communication systems, both cell phone coverage (62% Midwest and 63% South) and high speed Internet (60% for both regions). However, the majority in both regions rate their transportation systems as average quality or lower.
- Those in the West rate their transportation infrastructure somewhat higher than other regions. National and international infrastructure--such as airports, railroads, and ports--are viewed as higher quality than other regions.

### QUALITY OF INFRASTRUCTURE IN THEIR AREA

<table>
<thead>
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<th>Average</th>
<th>Poor</th>
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</table>

Legend:
- Very Good
- Good
- Average
- Poor
- Very Poor
- Don't Know
FAILING INFRASTRUCTURE TAKES A TOLL ON LOCAL D.C. BUSINESS

“It MAKES IT DIFFICULT TO DO BUSINESS”

Daniel Speer recently spent nearly a full day out on the road, visiting prospective clients around the Washington, D.C. area alongside one of his home remodeling company’s project managers. By the time he returned home that evening, his focus was on a repair job.

“We hit three jobs in the D.C. metro area, and it took almost six hours,” Speer, Vice President at Case Design Remodeling in Washington, said. “When we meet with the clients and assess site conditions, that takes 15 minutes, a half hour at the very most. So the rest of that six hours was spent on the road.”

Speer’s company has a fleet of more than 50 vehicles that zig and zag their way across the Washington metropolitan area every day, heading to and from the homes of clients seeking new kitchens, bathrooms, and basements. Increasingly, poor road conditions and aging infrastructure have led to more congestion which in turn leads to fewer client visits and less work accomplished.

“Traffic and infrastructure are a really big deal for us,” he says. “When I’m sending someone to do a demo job in the District of Columbia, I have to schedule them for several hours longer than I would if they were going somewhere else. It makes it difficult to do business.”

It’s not just the time lost in traffic that has Speer frustrated with the state of the area’s roadways.

“We have to spend a lot more money on our fleet because of flat tires and vehicles out of alignment,” Speer says. “Not to mention that we’re putting brakes on these vehicles every couple of months.”

Case Design Remodeling and other D.C. area small businesses are in a particularly challenging spot, as our nation’s capital region is home to some of the most crippled roadways in the country. The American Society of Civil Engineers (ASCE) in its latest infrastructure report card gave the District of Columbia a D+ grade in its “roads” category.

However, Washington-area businesses are hardly alone.

On a national level, America’s infrastructure earned the same D+ grade from ASCE, which identified a $2 trillion infrastructure gap, including investments for surface transportation like bridges and roadways. By 2025, our nation’s failing infrastructure systems will have cost American businesses $7 trillion.

“You don’t have to be a civil engineer to know that our nation’s infrastructure is falling apart,” U.S. Chamber of Commerce President and CEO Tom Donohue wrote recently. “All you have to do is leave your house. The evidence is everywhere—and affects everyone.”

A legislative solution that paved the way to better roadways and modern surface infrastructure would be a windfall for small businesses like Speer’s.

“If roads are better,” Speer says, “Our bottom line increases, and we can pass on savings to our clients.”
Obviously, there’s the increased fuel costs. But more importantly, it’s the loss of time. Adding probably 45 minutes to an hour to each of those truck trips...To lose another hour, per truckload, is extremely costly. Any hiccups in transportation transfers directly to our bottom line—that’s crucial for agriculture.”

DON DUVALL
Chairman
Illinois Corn Marketing Board
Carmi, Illinois

Discussing a “major bridge” over the Wabash River being closed for years and having to use a detour, adding an extra 17-20 miles per trip:
High Speed Internet, Local Roads, Are Top Priorities for Small Business

Small business owners see a lot of room for improvement in U.S. infrastructure from local county roads to international mega ports to rural broadband service.

Some of the most telling findings of the survey include:

- In terms of local infrastructure, small business owners prioritize local roads as needing the most improvement (69%) followed by highways (44%), bridges (30%), and mass transit (25%).

Across the board, small business owners also see improving high speed Internet as a clear priority:

- Fifty seven percent of small business owners say improving high speed Internet access should be a priority.
- One in three prioritize cell phone networks (35%).

About half of small business owners worry that U.S. infrastructure is not keeping up with technological advancement (47%). Those in the Northeast (53%) and the West (50%) are more likely to worry about infrastructure falling behind than those in the Midwest (36%) or South (47%).

Regionally, there is some variation in infrastructure priorities. Overall, the Northeast and West prioritize mass transit, while those in other regions prioritize improvements to local roads and highways.

Some additional findings include:

- Small businesses in the Northeast report the lowest quality of infrastructure.
- Small businesses in the West (31%) and Northeast (26%) are more likely to prioritize improving mass transit than those in the South (22%) or Midwest (19%).
- Northeasterners are less likely to prioritize local roads (62%) or highways (36%) than Midwesterners (72% and 48%, respectively), Southerners (70% and 45%, respectively), or Westerners (71% and 47%, respectively).
- Three in five small business owners are confident that local (61%) and national (60%) transportation infrastructure will continue to improve.
### Quality of Infrastructure by Region

#### Northeast
- Cell Phone Network: 49%
- Airports: 47%
- High Speed Internet: 52%
- Highways: 40%

#### Midwest
- Cell Phone Network: 62%
- Airports: 55%
- High Speed Internet: 60%
- Highways: 49%

#### West
- Cell Phone Network: 63%
- Airports: 61%
- High Speed Internet: 60%
- Highways: 52%

#### South
- Cell Phone Network: 54%
- Airports: 63%
- High Speed Internet: 53%
- Highways: 46%

Data Source: Q1 2019 SBI Report Draft from Ipsos
This quarter, small businesses’ optimism about the U.S. economy drops five percentage points overall, from its high of 58% in Q4 of 2018. But this new rating (53%) is on par with sentiments from late 2017, when 55% reported the U.S. economy as good.

Optimism about the U.S. economy has declined across all regions except the South, compared to last quarter.

Small businesses’ perception of their local economy turns slightly less favorable this quarter. Currently, 53% say their local economy is in good health, down from 56% last quarter. This shift is more pronounced at the regional level, driven primarily by small businesses in the Northeast who are less optimistic about their local economies.

Different sectors of small businesses view the economy differently. Manufacturers and the service industry report significant declines in optimism about both the local and national economy compared to Q4 of 2018. Among those businesses categorized as “Other,” the national economic outlook has declined, despite their view of their local economy remaining the same.
Small businesses have reported relatively consistent levels of competition and time spent on complying with laws and licensing.

Some of the recent findings in these areas include:

- Three quarters (73%) of small businesses report that the level of competition from smaller or local companies has stayed the same over the past six months. This is on par with last quarter.
- The number of small businesses reporting more or less competition is largely unchanged from last quarter. Both of these changes are incremental, within two percentage points.
- Seven in ten businesses (69%) report the amount of time spent on compliance or licensing remains unchanged from last quarter (70%).
- Twenty five percent report the time spent on compliance has increased (virtually unchanged from 23% in Q4 2018), and just 4% say it has decreased.
- Businesses in the Northeast and Midwest are more likely to say time spent has increased (six and seven percentage point increases from last quarter, respectively).

“On the whole, I think...cautious optimism is what I would say. I know particularly in the steel industry we have seen some effects from the tariffs increasing prices and a couple of jobs have been delayed because of that, but, overall, it’s going well.”

JON AUGELLI
CEO, Project Manager
Fickett Structural Solutions, Inc.
Middleton, Wisconsin

“I think the economy is going very well despite some inaction, or neutral effect, from the government...I think there is some slow down due to the trade wars we have had for the last year or so, but hopefully those things are temporary.”

PEDRO M. LEON
Owner
A&P Cleaners
Murray, Utah
Nationwide, more than one in four small business owners (27%) plan to increase investment in their company over the next year, statistically unchanged from Q4 2018 (29%).

Survey results show a good deal of variation based on region: Certain areas of the country are pulling back on investment, while others are ramping up. In the Northeast, 21% of small business owners report plans to increase investment, down from 26% last quarter (but a return to Q3 2018 levels). In the South, 27% plan to invest more over the next year, trending down from 38% last quarter. In contrast, small businesses in the West are more likely to report plans for higher investment compared to last quarter (32% vs. 25%).

Larger small businesses plan to invest more than smaller ones, and minority-owned businesses are planning to invest more than non-minority-owned businesses in the coming year. Thirty-six percent of businesses with 20 or more employees plan to increase their investments in the coming year, compared to just 24% of businesses with less than five employees. Thirty-nine percent of minority-owned businesses are planning to invest more in 2019, compared to 25% of non-minority-owned businesses. (This gap has widened from Q4, when there was a nine percentage point difference between the two).

Across sectors, fewer small businesses report plans to increase investment compared to last quarter. Fewer small manufacturers report plans to increase investments than last quarter (28% vs. 34%), with more saying they plan to invest the same amount. Those in the service category are also slightly more likely to say they will invest the same, rather than increase investments, compared to last quarter.
Overall, a similar number of small businesses report plans to increase staff (29%) as last quarter. The plans to increase headcount are being primarily driven by larger small businesses (44%) and veteran-owned (44%), minority-owned (42%) and millennial- or Gen X-owned (39%) businesses.

Regionally, plans for greater headcount are down, but the South anticipates more hiring. Overall, Southern small businesses are less likely to report plans for more headcount in 2019 (32% vs. 40% last quarter), but are more likely to do so than businesses in the Northeast (24%) and Midwest (26%). Across sectors, retailers are more likely to plan on increasing staff (36% vs. 29% in Q4 of 2018) while those in the service sector are less likely (29% vs. 36% last quarter).

Small business revenue expectations have come down from last quarter. The Northeast is least likely to expect increased revenue and the South is most likely to expect revenue gains.

Some additional findings include:

- More than half of small businesses (56%) expect increased revenue in 2019, down slightly from the end of last year (60%).
- Another third (34%) expect revenue to stay the same, while just 8% think it will decrease.
- Businesses in the Northeast are the least likely to expect increased revenue (47%, down from 52% in Q4 2018).
- Southern small businesses are feeling less optimistic about future staffing and investment compared to past quarters, but remain the most optimistic about future revenue (67% expect an increase).
- Retailers are the most likely sector to expect an increase in revenue (61%). Emerging small businesses—those in operation for 10 years or less—are the most likely to expect an increase in revenue over the next year (70%).

“There is a little bit of a dimming in optimism, although [small business owners] still feel pretty confident regarding the outlook for their own firms and growth prospects.”

“...There are some things that are weighing on their confidence—policy plays into that...Some issues are driving this uncertainty, for example, trade and tariffs. The longer the tariffs continue, the greater the impact on small businesses in general.”

KAREN KERRIGAN
President & CEO
Small Business and Entrepreneurship Council
Vienna, Virginia
Over the past few quarters, small businesses have reported consistently good health. This quarter, nearly two thirds of small businesses (64%) report that their business is in good health, unchanged from the past two quarters (64% in Q3 2018 and 65% last quarter).

Regionally, Southern small businesses are the most optimistic (68% rate their health as good). Business size also impacts health: the larger the business, the more likely they are to report their business is in good health.

By sector, retailers continue to be less optimistic, a trend observed throughout 2018.

More small businesses report keeping headcount consistent this quarter. Seven in ten (71%) small businesses say they have retained the same size staff over the past year, up from 64% last quarter. This is the first time this number has climbed above 70% since Q2 2017. Of the remaining 29% of businesses, more say they have increased staff (17%) than reduced (12%).

Perceptions of business health typically influence headcount decisions. Thirty eight percent of businesses in poor health say they have reduced staff over the past year, compared to just 8% of businesses in good health. Minority-owned businesses—while less likely to report being in good health compared to the national average (59% vs. 64%)—report more headcount growth in the past year than non-minority-owned businesses (25% vs. 16%).

Comfort with cash flow remains remarkably steady: 82% report feeling comfortable, in line with past quarters. Southern small businesses continue to feel the most optimistic about their cash flow (88%), while those in the Northeast are the least optimistic (77%).
Fewer businesses say the economy is in very good health. 22% of small businesses say the U.S. economy is in very good health, down from 29% at the end of 2018.

Northeast views of local economy decline sharply. 38% of Northeastern small business owners say the local economy is in good health, down 10 percentage points from last quarter.

Retailers are less likely to report their business is in good health. 56% say their business health is good, but more (61%) expect next year’s revenues to increase.

Minority-owned businesses plan to invest at higher rate. 39% report plans to increase investments in the next year, compared to 25% of non-minority-owned businesses.

Businesses with 20 or more employees, veteran, minority, and Millennial- or Gen X-owned businesses are the most likely to report plans to increase staffing in 2019.

Small businesses rate high speed Internet (64%), local roads and bridges (57%) and cell phone networks (55%) as very important infrastructure for their success.

Most small business owners say U.S. local transportation infrastructure is average or poor quality.

Small business owners are more likely to prioritize improving local roads (69%) over highways (44%), bridges (30%) and mass transit (25%).

Businesses in the West (31%) and Northeast (26%) are more likely to prioritize improving mass transit than those in the South (22%) or Midwest (19%).

Small business owners see infrastructure not keeping pace. About half of small business owners worry U.S. infrastructure is not keeping up with technological advancement (47%).

Those in the Northeast (53%) and the West (50%) are more likely to worry about infrastructure falling behind technological advancement abroad than those in the Midwest (36%) or South (47%).
OPTIMISM ABOUT THE ECONOMY DECLINES ACROSS MOST REGIONS

Q1 SMALL BUSINESS INDEX SCORES BY REGION

Small businesses in the **Northeast** report the biggest change in their local economic outlook. Just 38% of small businesses in the Northeast say their local economy is in good health, down 10 percentage points from Q4 of 2018. This level marks a return to levels in late 2017.

The **Midwest** is the only region this quarter where overall business health has improved (from 58% to 64%). But this increase comes solely from businesses who report their health as somewhat good, rather than very good. This quarter, fewer Midwest small businesses anticipate revenues increasing, compared to last quarter (54% and 62%, respectively).

Small businesses in the **South** have not reported a change in their overall business health or in their outlook on the national economy. In fact, Southern small businesses continue to be the most positive about the national economy, though future expectations have declined: 27% plan to increase investment in the upcoming year, down from 38% last quarter.

Small businesses in the **West** have reported the largest decline in their business health, from from 67% who rated health as good in Q4 of 2018 to 60% now. This change comes exclusively from a decline in those reporting very good health (from 43% to 35%).