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SMALL BUSINESS CONFIDENCE BOUNCES BACK

This quarter, the MetLife & U.S. Chamber of Commerce Small Business Index rebounded 3.1 points after dropping in the first quarter. The current Index score is 68.7, up from 65.6 last quarter.

This uptick is largely due to more positive perceptions of the national economy (outlooks on local economies were statistically unchanged) and continued optimism about business health and cash flow. Notably, the first quarter survey was taken in the midst of the longest federal government shutdown in history, which may have dented optimism in the short term.

Some of the key findings this quarter include:

- 59% of small businesses say the U.S. economy is in good health, up six percentage points from last quarter.
- 27% of small business owners plan to increase investment in their company over the next year, continuing a trend from the last two quarters.
- Small businesses’ local outlooks are statistically unchanged from last quarter with 51% saying their local economy is in good health compared to 53% last quarter.
- 69% of manufacturers feel positive about the national economic outlook, up 16 percentage points from last quarter.
Optimism about the national economy reaches higher. Small businesses across the country expressed a greater optimism about the health of the U.S. economy compared to last quarter. Nearly six in ten small businesses (59%) believe the U.S. economy is in good health, up six percentage points from last quarter (53%).

Views of the local economy remain steady. Small businesses’ local outlooks are statistically unchanged from last quarter. Currently, 51% say their local economy is in good health compared to 53% last quarter (and 48% in Q2 2018).

Manufacturers turn bullish. Small business manufacturers’ optimism took a big leap in Q2, with 69% feeling positive about the national economic outlook, a substantial 16 percentage point increase from last quarter.

Small businesses hold investment, staffing levels steady. 27% of small business owners plan to increase investment in their company over the next year, continuing a trend from the last two quarters. 28% plan to increase staff in the next year.

Female business owners become more optimistic. Last quarter, we reported a persistent gap between male-owned businesses (more positive) and female-owned businesses (less positive). However, female-owned businesses have optimism (58%) about the U.S. economy this quarter only 1% below that of male-owned businesses.

Northeast turns upbeat. 58% of Northeast small businesses believe the U.S. economy is in good health, up from 51% last quarter and up 12% from one year ago (46%).

Millennial and Gen X-owned small businesses drive hiring plans. Plans to increase headcount are primarily driven by Millennial or Gen-X-owned businesses (39%) despite representing only 27% of survey respondents.
This quarter, the MetLife & U.S. Chamber of Commerce Small Business Index surveyed small businesses about how they select healthcare plans for their employees.

The survey tracked three important trends about how small businesses learn about and select healthcare plans:

- Most small businesses (69%) say the process of navigating healthcare options can be time consuming. 42% strongly agree with this sentiment.

- Small businesses commonly rely on human experts for advice. Small businesses most commonly (32%) turn to insurance brokers, consultants, or agents to make informed decisions about healthcare plans.

- Cost is the key driver of decision making. The top priorities for small business owners when considering healthcare coverage options are keeping insurance premiums and out-of-pocket costs (like co-pays) low.

Survey respondents added that small business owners are most commonly (41%) responsible for choosing healthcare coverage and other benefits. But larger small businesses tend to delegate this duty to their HR departments.

- Small businesses with fewer than 20 employees are more likely (41%) to say the owner manages benefit-related decisions compared to those with 20 or more employees (23%).

I feel like it’s pretty time consuming to navigate and understand what are the best options for your employees. We work with a broker, and they put together ‘here are your annual increases’ and ‘here are some other offers you could do.’ We take that data and put it into a spreadsheet to look at usage and how our employees used the insurance in the past.”

NATALIE KADDA
President and CEO
Kaddas Enterprises, Inc.
Salt Lake City, Utah
Q: According to the survey, a lot of small businesses make their healthcare coverage decisions based on the cost of plans. Is prioritizing the cost of a healthcare program the right way to think about and choose health insurance for your small company?

A: I believe the answer really depends on whether the businesses’ employees share that priority. I would hope that the reason cost is the primary driver of making decisions for healthcare coverage is because that is the priority for their employees. If it isn’t, then I think that is another opportunity to educate companies on benefit options.

Q: What can be done to help those small businesses that don’t offer healthcare coverage for their workers?

A: While robust, comprehensive, soup to nuts coverage is great, it does come with a higher premium price tag. To help small businesses provide coverage, there must be a greater variety of plans available. That’s why we support the ability of state and local chambers of commerce to provide health insurance coverage options for their small business members.

Q: Respondents said that they most commonly (32%) get information about healthcare plans from a healthcare agent, broker, or consultant. Fewer go to a search engine or a corporate website. Is there something about having a human talk you through options that helps reassure people and lead them to a decision?

A: Yes, I think the response speaks to the reason why the brokerage industry exists. Healthcare is complicated and being able to ask questions, and get assurances and explanations about different plans is not just reassuring, it is important.
Navigating healthcare options for my business is time consuming.

Most small businesses believe they have enough information to make informed decisions (74%).

Almost as many (67%) say they are able to stay informed about changes in healthcare laws and regulations that could impact their business.

However, a majority (69%) also report that the process of navigating healthcare options is time consuming, with 42% strongly agreeing with this sentiment.

Attitudes toward healthcare coverage decision making

- Navigating healthcare options for my business is time consuming.
- We have enough information to make informed decisions about healthcare for our business.
- We are able to provide our employees with good coverage options.
- I stay informed and educated about changes to healthcare laws and regulations that would affect my business.
- The cost of healthcare crowds out other priorities for our business.
SMALL BUSINESSES TURN TO HEALTHCARE EXPERTS TO MAKE DECISIONS

Small businesses go to a variety of sources of information to learn about offering healthcare coverage for their workers, but clearly prefer talking to actual human experts about available options:

- Small businesses most commonly turn to health insurance or benefit brokers, consultants, or agents (32%) for information regarding benefit plans.
- Fewer turn to Google or other search engines (9%), other business owners (7%), or some “Other” type of resource (11%) to find information on healthcare options.
- A small percentage (7%) says they do not know where to go for information on choosing a healthcare plan.

The top priorities for small business owners when considering healthcare coverage options are keeping insurance premiums and out-of-pocket costs low.

Here’s a breakdown of the top priorities for small businesses considering a healthcare plan:

- Decision makers rated both low premiums (20%) and low out-of-pocket costs like co-pays and deductibles (20%) as the most important criteria for selecting a healthcare plan.
- However, larger small businesses (with 100 or more employees) also see flexibility and variety in choice as a major consideration with 21% seeing this as a priority, compared to just 7% for mid-size and 9% for small size small businesses.
- These larger small businesses also prioritize keeping out-of-pocket costs (25%) and insurance premiums low (24%).

PRIORITIES FOR HEALTHCARE COVERAGE OPTIONS ACROSS REGIONS
QUARTERLY SPOTLIGHT: HEALTHCARE

SMALL BUSINESSES SAY HEALTHCARE COSTS CROWD OUT OTHER PRIORITIES

Small businesses are the most familiar with more traditional forms of healthcare coverage options, such as traditional group health insurance (66%).

They are less familiar with other options:

- 43% are familiar with changes to contribution limits for health savings accounts.
- 35% are aware of group coverage health reimbursement accounts.
- 28% are familiar with Association Health Plans.
- 22% know about a qualified small employer health reimbursement arrangement.
- 19% have heard of taxable stipends.

By sector, retailers struggle the most to find information to enable them to make informed decisions about healthcare. Small business sectors reporting that they have enough information to make informed decisions about healthcare coverage are:

- 81% in professional services.
- 74% in services.
- 72% in manufacturing.
- 68% of retail businesses.

Costs of offering healthcare are a big concern for the majority of small businesses. A majority (57%) say the cost of healthcare crowds out other priorities for their business and 41% report not being able to provide their employees with good coverage options.

FAMILIARITY WITH COVERAGE OPTIONS ACROSS INDUSTRIES
QUARTERLY SPOTLIGHT: HEALTHCARE

By sector, concerns over healthcare costs are greatest in manufacturing (62%), as compared to services (57%), professional services (55%), and retail (53%).

Retailers are also the least likely to report they are able to provide good healthcare coverage options by a significant margin. Here’s how sectors rated themselves on their ability to provide good healthcare options for their employees:

- 54% in professional services.
- 54% in manufacturing.
- 46% in services.
- 36% of retailers.

THE COST OF HEALTHCARE CROWDS OUT OTHER PRIORITIES FOR OUR BUSINESS

“

We use a broker who understands the needs of our team members and stays within their budget and ours. It is less time consuming now that we use a broker and we have enough information. Before, I would do all the research and find the different options. It was very time consuming.”

MAUREEN BUTLER
Treasurer
Vistra Communications, LLC
Lutz, Florida
This quarter, small businesses’ optimism about the U.S. economy rebounded, with 59% of small businesses reporting that the U.S. economy is in good health, up six percentage points from last quarter (53%).

While the national economic outlook improved, small businesses’ outlooks on their local economies are statistically unchanged from last quarter. Currently, 51% say their local economy is in good health (53% said the same last quarter and 48% said so in Q2 2018).

Across sectors, manufacturers—who reported a decline in economic optimism last quarter—are the most positive about the national economy and their local economies. Strikingly, manufacturers’ optimism took a big leap, with 69% feeling positive about the national economic outlook, a substantial 16 percentage point increase from last quarter.

On the other hand, professional services companies feel less optimistic about the national economy and their local economies compared to previous quarters. Professional services business owners reported a 9% drop in their view of their local economy.

U.S. ECONOMIC OUTLOOK VARIES BY INDUSTRY
Other key findings about the small business environment include:

- Nearly three-quarters (72%) of small businesses report that the level of competition from smaller or local companies has stayed the same over the past six months, unchanged from last quarter.
- 18% of businesses report facing more competition, while 7% report less.
- Nearly a quarter of retailers and professional service firms (23% each) report facing more competition compared to six months ago.
- Bucking a previous trend, female-owned businesses have a renewed optimism about the U.S. economy this quarter, with 58% characterizing it as good. 59% of male-owned businesses said the same.
- Nearly three-quarters (73%) report the amount of time they have spent on compliance or licensing has stayed the same over the same period, up slightly from last quarter (69%).
- 21% of small businesses say time spent on compliance has increased, compared to 25% last quarter, 3% say it has decreased.

“I’m very optimistic about the local economy...We’ve had a long, steady growth pattern in that regard and we don’t see that slowing down at all.

We have brand new businesses starting between eight and nine thousand jobs in our region every year. It’s especially notable at a time where we have record low unemployment. Seeing those new folks starting off means we’ve created an environment where they can do that in a successful manner.”

MEG SCHNEIDER
Senior Vice President,
Business Resources
& Community Development
Greater Des Moines Partnership
Des Moines, Iowa
Nationwide, more than one in four small business owners (27%) plan to increase investment in their company over the next year, holding steady with the last two quarters.

Regionally, more small businesses in the South plan to increase investment in the coming year compared to last quarter (32% vs. 27% in Q1), while the opposite is true for those in the West (26% vs. 32% in Q1). Plans to increase investment remain unchanged for businesses in the Northeast and Midwest.

At the sector level, manufacturers are the most likely to report increasing investments. Last quarter, fewer manufacturers planned to increase investments, but it appears this trend has not held.

Similar to the findings about increasing investment, 28% of small businesses plan to increase staff in the next year. Plans to increase headcount are primarily driven by businesses with 20 or more employees (45%) and Millennial or Gen X-owned businesses (39%).

Businesses that consider themselves in good health are more likely than the norm to plan to hire: 34% of businesses in good health plan to increase staff in the next year.

Last quarter, retailers were the sector most likely to plan on increasing staff. However, they seem to have backed off from those plans in Q2 with only 21% planning to hire, compared to 36% in Q1 (and 29% in Q4 2018). Manufacturers, on the other hand, are more likely to plan increases to their headcount (39%, compared to 30% last quarter).
Revenue expectations also hold steady this quarter. More than half of small businesses (57%) report expectations that next year’s revenues will increase, unchanged statistically from last quarter. Another third (34%) expect revenue to stay the same, while just 7% think it will decrease.

As in past quarters, the larger the business, the more likely they are to expect revenue to increase. Currently, two-thirds of businesses with 20 or more employees expect next year’s revenue to go up (66%), compared to 52% of businesses with fewer than five employees.

By sector, revenue expectations had some interesting standouts:

- Manufacturers’ renewed optimism this quarter extends here, too, with 59% expecting next year’s revenue to increase, compared to 53% in Q1.
- Retailers are slightly less hopeful than they were last quarter: 55% expect an increase in revenue, versus 61% in Q1.

This quarter’s findings show small business confidence remaining steadily upbeat, which echoes what I’m hearing at our regional summits in Houston and Minneapolis. Small businesses generally appreciate the message out of Washington, which is lower taxes, reduced regulation, and a bipartisan effort to fix crumbling infrastructure, and that is evoking a positive reaction about the national economy.

A prolonged trade war and difficulty finding qualified and willing employees are headwinds that prevent even higher levels of confidence from Main Street employers.”

I’m absolutely optimistic about the local and national economy. Our county has an unemployment rate now of 3.9% which is the lowest it’s been since the early 1970s. We have a good attitude, especially among our small businesses, of optimism.”

Joe Hurd
President and CEO
Blair County Chamber of Commerce
Altoona, Pennsylvania

TOM SULLIVAN
Vice President, Small Business Policy
U.S. Chamber of Commerce
Washington, D.C.
The number of small businesses reporting good health remains consistent this quarter, with 65% of small businesses reporting that their business is in good health (64% reported good health in Q1). Business size impacts perceptions of health: the smallest businesses are least likely to believe they are in good health.

At the sector level, retailers remain less optimistic. In contrast, manufacturers, in a trend visible in other areas this quarter, are slightly more optimistic than last quarter. 66% of manufacturers report good health, up five percentage points from Q1.

Most small businesses report consistent staffing levels this quarter, with more hiring than reducing staff. Overall, 70% of small businesses say they have retained the same size staff over the past year, on par with last quarter (71%) and similar to a year ago (68%). Of the remaining 30% of businesses, more say they have increased staff (18%) than reduced it (11%).

Overall comfort with cash flow is in line with past quarters (83%). At the regional level, all four regions report steady levels of comfort with their cash flow, with Midwestern businesses the most likely to say they are very comfortable (39%), reflecting a growing optimism from previous quarters.

Small businesses in their second decade (11-20 years) of operations seem to be in an optimism sweet spot. They are most optimistic about their business health (71%), compared to both younger and older businesses. Those in operation for less than 10 years (62%), as well as those around for 20 or more (64%), are both less optimistic about their health.
Most small businesses see a strong national economy. 59% of small businesses say the U.S. economy is in good health, up six percentage points from 53% last quarter.

Manufacturers bounce back. 69% of manufacturers feel positive about the national economic outlook, up 16 percentage points from last quarter.

Second decade success: Businesses that have operated for 11 to 20 years are most optimistic about their business health and cash flow.

Female-owned businesses report renewed optimism about the U.S. economy this quarter, with 58% saying they are optimistic about the economy compared to 59% of male-owned businesses.

69% of small businesses report that the process of navigating healthcare options is time consuming. Four in ten (42%) strongly agree.

Nearly two-thirds of manufacturers (62%) say the cost of healthcare crowds out other priorities for their business.

Small businesses most commonly turn to insurance brokers, consultants, or agents (32%) for information regarding benefit plans.

One in five: The number of small businesses that rate low insurance premiums and low out-of-pocket cost as the most important criteria for choosing healthcare coverage for employees.
**Regional Scores**

### Optimism About the Economy Returns Across All Regions

#### Q2 Small Business Index Scores by Region

![Map of the United States with regional scores highlighted]

**National Score:** 68.7

**Northeast:** Last quarter, we reported a decline in optimism about economic outlook in the Northeast. This quarter, things are looking brighter. 58% percent of Northeast small businesses believe the U.S. economy is in good health, up from 51% last quarter and up 12% from one year ago (46%). Currently, 48% believe their local economy is in good health, up from 38% last quarter.

**Midwest:** The percentage of Midwest small businesses reporting the U.S. economy is in good health rose 7 percentage points from last quarter to 57% from 50%. In contrast, Midwesterners’ outlook on the local economy has softened slightly, dropping to 46% from 50% last quarter. 85% of Midwest small businesses are very comfortable with their cash flow compared to 81% last quarter and 67% believe their business is in good health.

**South:** 62% of small businesses in the South are optimistic about their overall business health, but this optimism has slightly declined from the past two quarters (67% in Q4 2018 and 68% in Q1 2019). Their local economic outlook is also down 9 percentage points from 60% in Q1 to 51% this quarter. They have not reported a change in their outlook on the national economy (57% say it is good).

**West:** This quarter, optimism has returned to Western small businesses: 67% feel their business is in good health, compared to 60% last quarter. Outlooks on the U.S. economy have also improved, and businesses in this region now are the most optimistic (62% say the economy is good, a 10-percentage point increase from last quarter). Their local economic outlook is unchanged at 55%.

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Small businesses are defined in this study as companies with fewer than 500 employees that are not sole proprietorships. The sample for this study is a listed business directory of all U.S. businesses obtained through Dun & Bradstreet. Ipsos used fixed sample targets, unique to this study, in drawing the 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 the U.S. Census 2016 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.

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.

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.

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 2015 Statistics of U.S. Businesses dataset.
Survey Makeup of 1,000 Respondents

INDUSTRY BREAKDOWN
- Manufacturing and Resources: 17%
- Education, Healthcare, and Recreation: 23%
- Professional Services: 26%
- Retail: 22%

COMPANY SIZE BREAKDOWN
- 0–4 employees: 9%
- 5–19 employees: 2%
- 20–99 employees: 27%
- 100–500 employees: 61%
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?

2019 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, Q3 and Q4 of 2018 and Q1 and Q2 of 2019. 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 68.7% – meaning 68.7% 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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