

Small Business Index

Q3 2023

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The Voice of Small Business Owners

PRESENTED BY



U.S. Chamber of Commerce

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INDEX SUMMARY

Index Reaches Post-Pandemic High As More See Improving Economy

Persistent concerns about inflation remain near record high

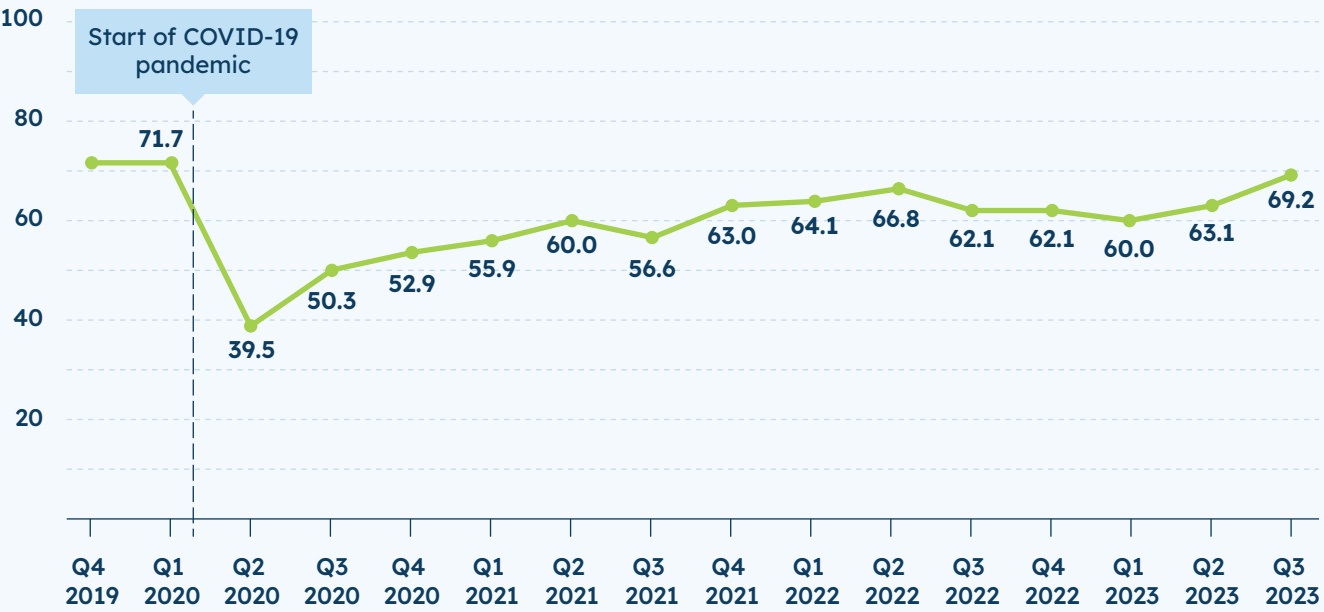
This quarter, the MetLife & U.S. Chamber of Commerce Small Business Index hits a post-pandemic high as more small businesses see an improving economy. The Q3 2023 MetLife & U.S. Chamber of Commerce Small Business Index rises to 69.2 this quarter, an increase since last quarter (63.1) and the highest reading since the start of the COVID-19 pandemic in early 2020.



Small businesses are clearly more positive about the economy and their overall business health this quarter. Currently, one-third (33%) of small businesses say the U.S. economy is in good health, a nine-percentage point increase from last quarter. A similar number (38%) feel the same about their local economy (up eight percentage points from Q2). Small businesses also are feeling better about their business health and cash flow: Two in three (66%) small businesses report that their business is in good health and roughly seven in ten (72%) say they are comfortable with their cash flow. Both measures jumped several points from last quarter.

In addition to increasing optimism about the local and the national economies, small businesses remain optimistic about future revenue and many have plans to increase investment and hiring. 71% say they expect next year’s revenue to increase, the highest levels recorded since the start of this survey (Q2 2017). In addition, 42% of small businesses say

Small Business Index Score Q4 2019 - Q3 2023



they plan to increase investment in the next year and two in five (40%) small businesses say they anticipate increasing staff in the next year.

At the same time, the survey (conducted between July 20 – August 8, 2023) shows inflation and rising interest rates are persistent concerns for small businesses, and they are making themselves felt in different ways. A majority (52%) of small businesses continue to report that inflation is their biggest challenge, a consistent pattern over the past year. This quarter there was also notable concern about growing wage expectations: A majority (56%) of small businesses say keeping up with employee salary expectations is a challenge. At the same time, slightly fewer small businesses say that rising interest rates are limiting their ability to raise capital or financing for their business (70% in Q3 vs. 76% in Q2 2023).

Compared to last quarter, small businesses are less concerned about interest rate hikes (17% say it’s one of their biggest challenges, similar to late 2022 and early 2023). Furthermore, as they currently feel better about their own bottom line, some seem to be widening their focus to other issues, such as employee retention or affording employee benefits or healthcare.

Small businesses are also actively addressing employee mental health and well-being as priorities and that sentiment has risen compared to two years ago. In fact, 68% now say they utilize at least one resource to assist with employee mental health and well-being. Many small businesses also report leaning into their small, tight-knit family culture to retain employees—perhaps making them stand out as they compete to retain employees and attract new recruits.

INDEX HIGHLIGHTS

Small Business Index

Q3 2023 – 69.2

The MetLife and U.S. Chamber of Commerce Small Business Index score for Q3 is 69.2. The Q2 Index score was 63.1.

Index score jumps higher.
The MetLife & U.S. Chamber of Commerce Small Business Index rose to 69.2 from 63.1 last quarter. This is the highest score since the start of the COVID-19 pandemic in early 2020.

Small businesses more positive about the economy.
Currently, one-third (33%) of small businesses say the U.S. economy is in good health, a nine-percentage point increase from last quarter. 38% feel the same about their local economy (up eight percentage points from Q2).

Small business health improves.
Small businesses are feeling better about their business health: Two in three (66%) small businesses report that their business is in good health. This is a nearly 10 percentage-point increase from last quarter.



Inflation concerns persist.
A majority (52%) of small businesses say inflation is the top challenge, which has been consistent since this time last year. This is near a record high and consistent across regions, business size, and sector.

Small businesses slightly less worried about interest rate increases.
Compared to last quarter, small businesses are slightly less concerned about interest rate hikes (17% say it's one of their biggest challenges, similar to late 2022 and early 2023). 23% said interest rates were a top concern in Q2.

A majority are concerned about employees' salary expectations.
Over half of small businesses (56%) say it is challenging to keep up with their employees' salary expectations or demands.

Small businesses report unique support from key decision-makers.
Four in five small businesses (82%) agree that small businesses are uniquely qualified to provide employees with connections to, and support from, upper management.

Small business leaders prioritize mental health.
70% of small businesses say they are actively addressing employee mental health as a priority right now. This prioritization has increased since Q3 2021, when 60% said the same.

Most offer mental health and well-being resources.
Most small businesses (68%) report utilizing at least one resource to assist with employee mental health and well-being. They most commonly report encouraging employees to take mental health breaks during work (32%) or offering partial or full reimbursement for childcare (32%).

Concerns about Inflation Stay Near Record Highs

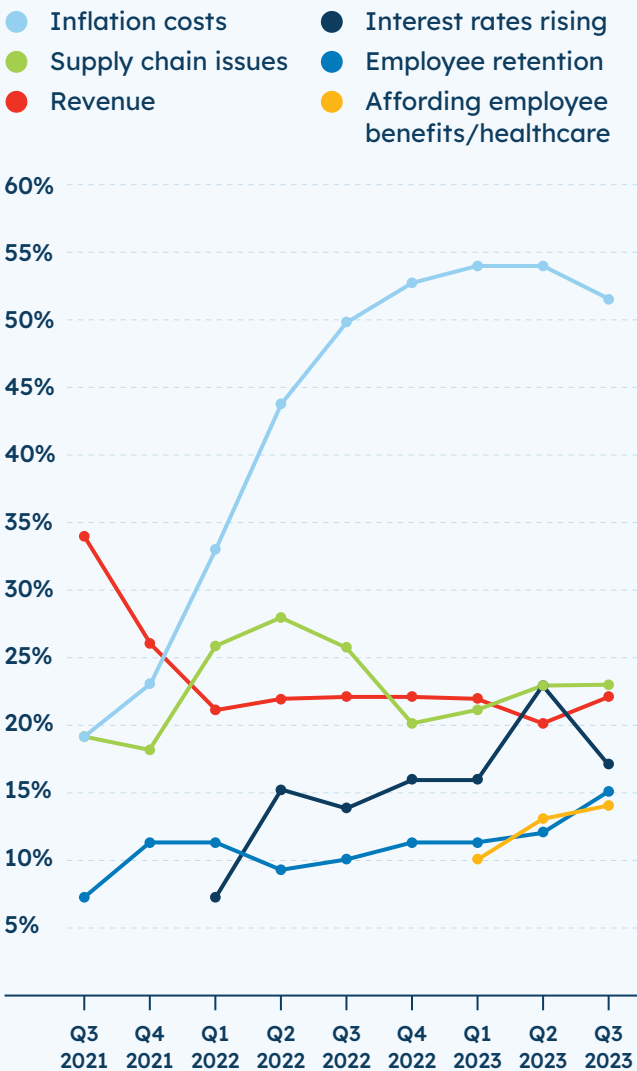
Majority say keeping up with salary expectations is a challenge

This quarter, small businesses remain concerned about the impact of inflationary pressures on their business—a trend which has been consistent since this time last year. A majority (52%) of small businesses say inflation is their largest challenge. Concern about inflation is consistent regardless of the business’s region, number of employees, or sector.

Though inflation levels have eased, small businesses are still feeling its impacts. This quarter there was notable concern about wage expectations: 56% said keeping up with employee salary expectations is a challenge.

Other concerns don’t come close to registering the same level of concern as inflation. Concerns about supply chain issues, revenue, and rising interest rates continue to stay in a second tier of concerns this quarter—all measuring more than twenty percentage points lower than inflation concerns.

Top 6 biggest challenges facing small business owners



“Interest rates rising” added in Q1 2022
“Affording employee benefits/healthcare” added in Q1 2023

Concerns about employee retention creep up

However, there is a slow uptick in other concerns, such as employee retention and being able to afford employee benefits.

For example, small businesses are twice as likely to say employee retention is one of their biggest challenges compared to two years ago (15% vs. 7% in Q3 2021). Likewise, 14% say affording employee benefits or healthcare is a top concern (10% said this was a top concern in Q1 2023).

Most small businesses (56%) say it is challenging to keep up with their employees’ salary expectations or demands. In addition, half (52%) of small businesses say they are concerned about employee retention issues caused by stress or burnout.

As small businesses begin to feel more optimistic about the economy and their day-to-day operations, perhaps they are focusing more on improving their business over the long term by retaining the right talent.

“We worked very hard to create policies that support our staff in their ability to pursue their mental wellness. All employees have 120 hours of personal time to utilize for therapy visits, taking their dog to the vet, vacations, days off, etc. Additionally, we offer an unlimited number of sick leave hours, to accommodate myriad ailments that need to be addressed by our employees, including mental health needs.”

Allen Brooks, Chief Storytelling Officer
Building Momentum
Alexandria, VA



Small Businesses Say They Are Slightly Less Worried about Interest Rates

But 86% say small business most vulnerable to rising interest rates

Concerns around rising interest rates have slightly declined this quarter. Small businesses are slightly less concerned about interest rate hikes (17% say it's one of their biggest challenges, while 23% said it was a top concern in Q2 of this year). This is similar to levels from late 2022 and early 2023.

In addition, slightly fewer small businesses say rising interest rates are limiting their ability to raise capital or financing for their business (70% in Q3 vs. 76% in Q2 2023). Significantly fewer say they are either concerned about rising interest rates making it harder to pay back current loans (62% vs. 74% in Q2 2023) or think it is harder to borrow money for their business from banks because they are tightening lines of credit (62% vs. 73% in Q2 2023).

Despite these shifts, however, it is important to note that a majority of small business owners still express concerns about the potential impact of rising interest rates on their businesses. 86% of respondents say that small businesses are the most vulnerable to rising interest rates.

Concerns about the impact of rising interest rates are generally consistent across regions, business size, and sector. Nevertheless, female-owned small businesses are more likely than male-owned small

businesses to say they are concerned about rising interest rates making it harder to pay back current loans (67% vs. 59%, respectively). They are also more likely to say it is harder to borrow money for their business because of tightening lines of credit (68% vs. 58%, respectively). These significant differences, not present last quarter, emerged as male-owned small businesses are slightly more optimistic about the effects of interest rates on their financing while female-owned small businesses maintain a similar level of concern since last quarter.

70%

of small businesses say rising interest rates are limiting their ability to raise capital or financing



Small Businesses Make Mental Health a Priority

Majority offer at least one mental health or well-being resource

About half (52%) of small businesses say they are concerned about employee retention issues caused by stress or burnout, and many report actively offering resources to support employee mental health and well-being.

Resources small businesses utilize to assist with employee mental health and wellbeing



This quarter, 70% of small businesses say they are actively addressing employee mental health as a priority. This has increased since Q3 2021, when 60% said the same. Additionally, most of these small business owners or decision makers report working to prioritize employee mental health regardless of region, employee size, sector, or gender of ownership.

Notably, small businesses owned by baby boomers or older generations are less likely to say their business is actively addressing employee mental health as a priority compared to those owned by Gen Zers, millennials, and Gen Xers (56% for boomers vs. 75% for Gen Z/millennials, and 71% for Gen Xers).

Most small businesses (68%) report utilizing at least one resource to assist with employee mental health and well-being this quarter. Small businesses most commonly report encouraging employees to take mental health breaks during work hours (32%) or offering partial or full reimbursement for childcare (32%). After that, about a quarter say they offer one-on-one check-in meetings to discuss mental health and wellbeing (26%), have discussions about mental health and stress (25%), or limit emails and meetings to standard work hours (24%). Most of these measures are consistent with those recorded in Q1 2021.

Overall, the smallest small businesses (those which employ fewer than five people) are less likely to say they offer one of the listed mental health resources, though a majority of them still do. What a small business actually offers also depends on size. These reported differences suggest that small business owners are increasingly able to utilize resources to assist with employee well-being as they grow and hire more staff.

Most small businesses say their size helps retain staff

Most small businesses see their uniquely tight-knit environment as a competitive advantage.

Roughly nine in ten small businesses agree that their company feels like a family and that this environment has helped them retain employees (89% vs. 77% in Q3 2021). Similarly, four in five small businesses (82%) agree that small businesses are uniquely qualified to provide employees with connections to—and support from—upper management.

A majority of small businesses—regardless of region, number of employees, sector, or gender of ownership—agree with these sentiments, emphasizing the advantage of a “family feel” and unique support from upper management when it comes to employee retention. Of note, however, the reported benefit of a family feel on employee retention is more pronounced for small businesses with 5-19 employees than those larger small businesses with 20-500 employees (92% vs. 84%, respectively). Eighty-eight percent of those with fewer than five employees say the same about the reported benefit of a family feel on employee retention.

70%
of small businesses say they are actively addressing employee mental health as a priority

KEY FINDINGS

Small Business Operations, Environment and Expectations

Small Business Operations

Cash flow comfort and business health perceptions head higher

Small business owners are increasingly optimistic about their business health and have greater cash flow comfort—both are up significantly this quarter. At the same time, the percentage of small businesses that say they have increased staff has remained relatively stable over the past year.

Two-thirds (65%) of small businesses say the overall health of their business is very or somewhat good, up from 59% last quarter. This is a return to levels reported this time last year. In addition, seven in ten (72%) small businesses say they are somewhat or very comfortable with their current cash flow, up from 64% last quarter.

As in past quarters, small businesses that employ fewer than five employees are less likely than larger small businesses (those that employ 5-19 workers or 20-500 workers) to feel positive about their overall business health or cash flow. Perceived business health is consistent by sector, but small



65%

of small businesses say the overall health of their business is very or somewhat good

“Although the local economy has seen a softening this summer, the forecast for the upcoming winter is strong. As a tourism-based economy, the decrease in overnight visitation and domestic travel this summer had an effect on operations and bottom lines for the many small businesses that comprise our local economy. We are fortunate to have an innovative Chamber of Commerce/Visitors Bureau that is implementing a sustainable tourism plan to diversify the visitor profile.”

Heleena Sideris, General Manager, Park City Lodging, Park City, UT

businesses in the manufacturing and professional services sectors are more likely than those in retail to say they are comfortable with their cash flow (84% and 76% vs. 66%, respectively). Meanwhile, two-thirds (66%) of small businesses in the services sector say they are comfortable with their cash flow, significantly lower than in the manufacturing sector.

The percentage of small businesses who say they have increased staff in the past year is unchanged from Q2 2023 (23%). This reading marks the seventh quarter that data has not changed overall when it comes to reported headcount for small businesses. It also continues a more-than-year-long trend of larger small businesses (those with more than 20 employees) being more likely to say they have increased their staff over the past year versus smaller ones.





Small Business Environment

More small businesses, but not a majority, confident in economy

This quarter, small business owners are more confident in the U.S. and local economies—but still a majority view the U.S. economy or their local economy as in average or poor health. Small businesses also report comparable time spent on compliance requirements compared to last quarter and stable levels of local competition.

Currently, one-third (33%) of small businesses say the U.S. economy is in good health, a nine-percentage point increase from last quarter (24%). Nearly two-fifths (38%) say their local economy is in good health, up eight percentage points since last quarter and returning to levels seen in early 2022, prior to when inflation peaked in the United States.

Small businesses in the professional services and retail sectors are more likely to say their local economy or the national economy is in good health versus those in the services sector. Forty-five percent of those in professional services and 42% of those in retail say the local economy is in good health, versus 29% of those in services. Forty-four percent of those in professional services and 36% of those in retail say the national economy is in good health, versus 23% of those in services. About three in ten small businesses in manufacturing say the same for both national and local economic health.

Similar to last quarter, nearly two in five (38%) small businesses say the time or resources they spend on completing licensing, compliance, or other government requirements has increased compared to six months ago. Reported time spent on compliance is also similar to last year. By sector, small businesses in the professional services sector (46%) are more likely than those in services (32%) or retail (34%) sectors to say time or resources spent on licensing and compliance has increased. In fact, professional services small businesses have reported higher levels of increased time or resources spent on compliance compared to those in the services sector since Q1 2023.

About a third (34%) of small businesses say competition among businesses in their area has increased over the past six months, a stable level since last quarter (36%). In a pattern observed for the past year, small businesses' perceptions of increased competition are consistent across business sizes. Small businesses in the services sector are less likely to say competition has increased than those in the retail or professional services sectors (22% vs. 37% and 41%, respectively). About a third (34%) of small businesses in the manufacturing sector say the same.

“Based on federal government data, Minnesota’s economy is growing at a rate above 2022, but declines in manufacturing output, finance and insurance are offsetting the gains. We see this decline in our own business. It’s not across the board, but we see a softening in demand from some of our customers.”

Traci Tapani, Co-President, Wyoming Machine, Inc., Stacy, MN

Small Business Expectations

Small businesses retain record-high revenue expectations

This quarter, small businesses remain optimistic about future revenue and investment—and have held onto record revenue expectations for a second quarter in a row.

Unchanged from last quarter, 42% of small businesses say they plan to increase investment in the next year, and 71% say they expect next year’s revenue to increase. Small businesses’ plans to increase investment are generally stable since Q4 2021. Notably, since last quarter, small businesses continue to report plans for increased revenue at the highest levels recorded since the start of this survey (Q2 2017). These self-reported plans to increase investment or for increased revenue are consistent by sector and business size.

Also this quarter, two in five (40%) small businesses say they anticipate increasing staff in the next year. This measure has fluctuated in the past year and last quarter’s reported 47% who then planned to increase staff appears to be somewhat of an outlier.

However, larger small businesses and those in professional services are especially likely to say they plan to increase staff in the next year. Small businesses with the most employees (20-500) are more likely to say they will hire more in the next year than those with fewer than five employees (50% vs. 37%, respectively). Additionally, small businesses in the professional services sector are more likely to say they plan to increase staff over the next year (46%) compared to those in retail (36%). About two in five say the same among small businesses in either the manufacturing or services sector (43% and 39%, respectively), tracking closely with the national average.



Index Snapshots



Index score jumps higher.
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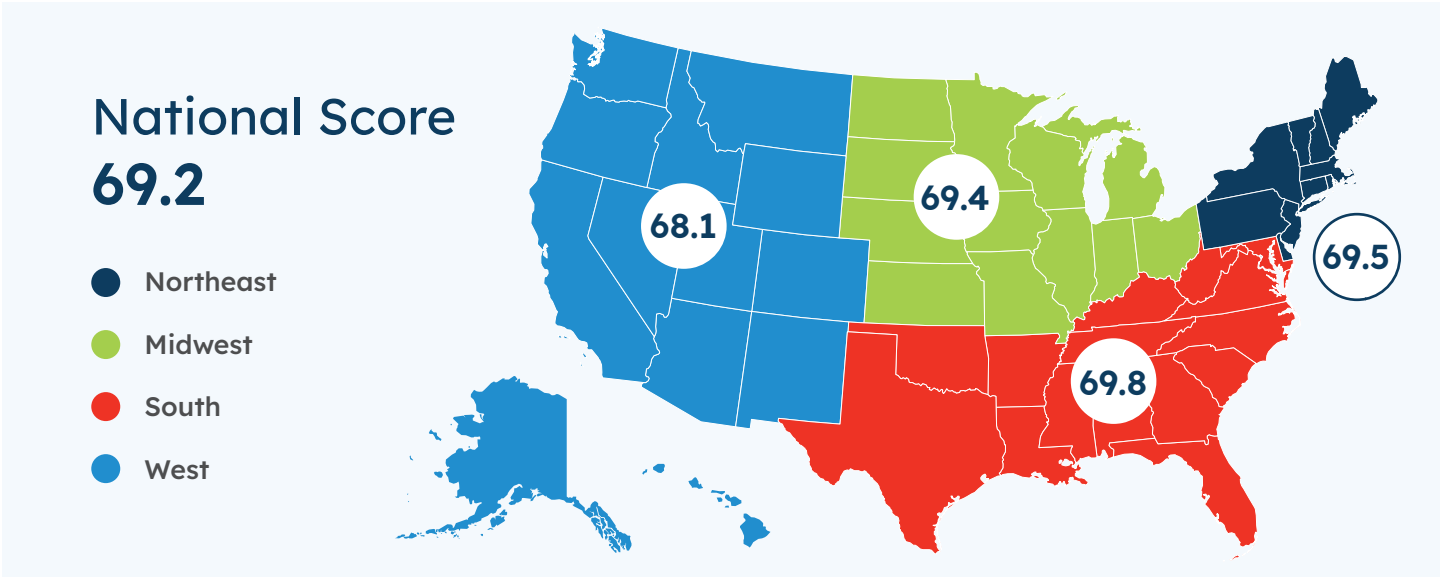
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Q3 Small Business Index Scores by Region

All regional scores increase, as some feel better about the economy



Northeast (69.5): Northeastern small businesses are increasingly positive about both the economy and business operations this quarter. Half of Northeastern small businesses say their local economy is in good health and 42% say the national economy is in good health, increasing by 19 percentage points and 12 percentage points, respectively, since last quarter. Similarly, seven in ten Northeastern small businesses say their business is in good health and they are comfortable with their cash flow.

Midwest (69.4): Nearly three in ten (28%) Midwestern small businesses say the U.S. economy is in good health. This is slightly, but not significantly, below the national average, but represents a significant positive shift in the region compared to last quarter (+11 percentage points). In contrast, Midwestern small businesses are less likely to report that hiring has increased this quarter (11% in Q3 vs. 29% in Q2). Regardless, Midwestern small businesses remain optimistic about improving revenue and investment next year.

South (69.8): More Southern small businesses say their business is in good health (74% vs. 63% in Q2) this quarter and Southern respondents feel slightly better than the national average when it comes to business health. Similarly, more are comfortable with cash flow (76% in Q3 vs. 66% in Q2), and report that they have increased staff in the past year (28% vs. 19%). Their perspectives around the business environment and expectations for the future are generally stable.

West (68.1): Western small businesses are less negative about the national economy this quarter. Just 37% now say the U.S. economy is in poor health, down 17 percentage points since Q2 and 20 percentage points since Q1. Here, the gap between those who say the U.S. economy is good versus those who feel it is poor has closed significantly: They're now the same (37% good and 37% poor this quarter).

Small Business Index Methodology

These are the findings of an Ipsos poll conducted between July 20 – August 8, 2023. For this survey, a sample of 751 small business owners and operators age 18+ from the continental U.S., Alaska, and Hawaii was interviewed online in English.

The sample was randomly drawn from partner online panel sources that specialize in B2B sample and does not rely on a population frame in the traditional sense. Ipsos uses fixed sample targets, unique to the study, in drawing sample. Small businesses are defined in this study as companies with 500 or fewer employees that are not sole proprietorships. This sample calibrates respondent characteristics to be representative of the U.S. small business population using standard procedures such as raking-ratio adjustments. 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. The source of these population targets is U.S. Census 2020 Statistics of U.S. Businesses dataset. Additional post-hoc weights were made to the population characteristics on the gender of the business's owner and whether the business is minority-owned or not. The source of these two weight variables is the Small Business Administration's 2022 Small Business Profiles.

Statistical margins of error are not applicable to online non-probability polls. All sample surveys and polls may be subject to other sources of error, including, but not limited to coverage error and measurement error. Where figures do not sum to 100, this is due to the effects of rounding. The precision of Ipsos online polls is measured using a credibility interval. In this case, the poll has a credibility interval of plus or minus 4.4 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 credibility interval adjusted for design effect of the following (n=751, DEFF=1.5, adjusted Confidence Interval=+/- 5.9 percentage points).

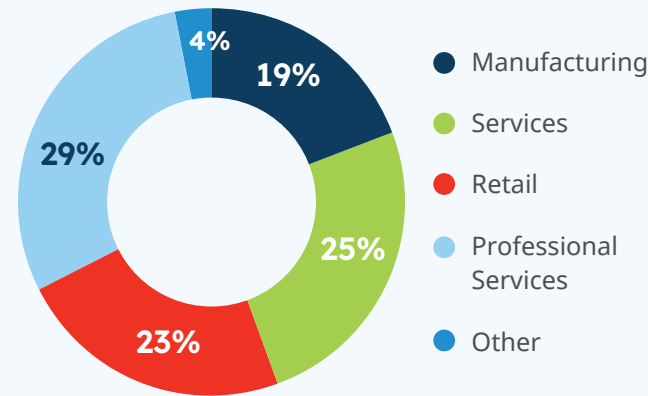
Starting with the March 2020 survey, small business decision makers are reached via an online survey, in place of the typical phone-based approach. This methodological shift is in response to lower anticipated response rates in dialing owners at their businesses as a result of mandated closures related to the COVID-19 outbreak. While significant changes in data points can largely be attributed to the recent economic environment, switching from a phone to online approach may have also generated a mode effect.

Index Methodology

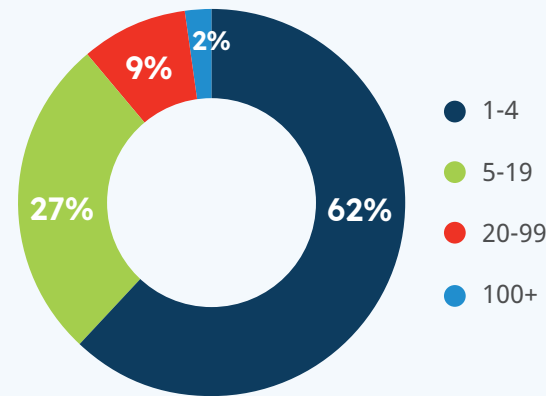
To construct national, regional, employee size, and broad industry group level estimates of the health of small businesses in the U.S., a sequence of statistical techniques were applied to the survey results, including elastic net for variable selection and multilevel regression with post stratification (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

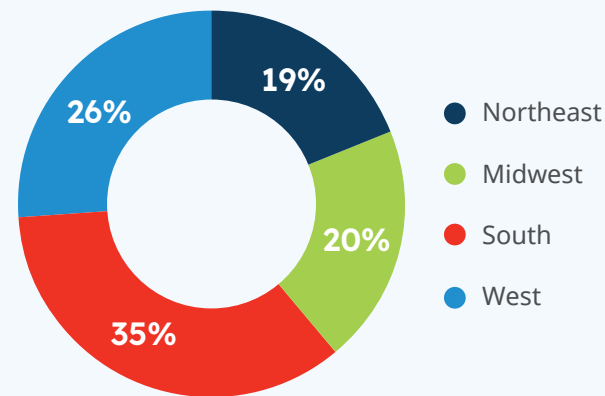
Breakdown by Sector



Breakdown by Employee Size



Breakdown by Region



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 2020 Statistics of U.S. Businesses dataset.

Small businesses are categorized into four industry sectors, using the NAICS sector definitions from the U.S. Census.

- **Retail:** Wholesale Trade; Retail Trade; or Accommodation and Food Services
- **Manufacturing:** Agriculture, Forestry, Fishing and Hunting; Mining, Quarrying, and Oil and Gas Extraction; Utilities; Construction; Manufacturing; or Transportation and Warehousing
- **Services:** Educational Services; Health Care and Social Assistance; Arts, Entertainment, and Recreation; or Other Services
- **Professional Services:** Information; Finance and Insurance; Real Estate and Rental and Leasing; Professional, Scientific, and Technical Services; Management of Companies and Enterprises; or Administrative and Support and Waste Management and Remediation Services

About Us



U.S. Chamber of Commerce

U.S. Chamber of Commerce

The U.S. Chamber of Commerce is the world's largest business organization representing companies of all sizes across every sector of the economy. Our members range from the small businesses and local chambers of commerce that line the Main Streets of America to leading industry associations and large corporations. They all share one thing: They count on the U.S. Chamber to be their voice in Washington, across the country, and around the world. For more than 100 years, we have advocated for pro-business policies that help businesses create jobs and grow our economy.

For more information, visit www.uschamber.com.

Press Contact

Lindsay Cates
U.S. Chamber of Commerce
lcates@uschamber.com
202-897-8515



MetLife

MetLife

MetLife, Inc. (NYSE: MET), through its subsidiaries and affiliates ("MetLife"), is one of the world's leading financial services companies, providing insurance, annuities, employee benefits, and asset management to help its individual and institutional customers navigate their changing world. Founded in 1868, MetLife has operations in more than 40 markets and holds leading market positions in the United States, Japan, Latin America, Asia, Europe, and the Middle East.

For more information, visit www.MetLife.com.

Press Contact

Judi Mahaney
MetLife
jmahaney@metlife.com
646-238-4655

For more information on this index, visit www.sbindex.us



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