

SMALL BUSINESS INDEX

THE VOICES OF SMALL BUSINESS OWNERS | Q3 2020



Index Summary

SMALL BUSINESSES SAY ECONOMY IS THEIR TOP ELECTION ISSUE

MOST SEE ECONOMY AS AVERAGE OR POOR

Small businesses remain concerned about the strength of the economy and it is clearly their top election issue according to the latest MetLife & U.S. Chamber of Commerce Small Business Coronavirus Impact Poll.

The current Small Business Index score is 50.3 (an increase from 39.5 in Q2). However, this is still substantially below findings before the pandemic: the Index score was 71.7 in Q1 of 2020, based on data collected before the full economic impact of the coronavirus became apparent.¹

The survey found that small business owners still view the economy as largely negative, but their views have improved somewhat from midsummer. Most (78%) small business owners categorized the economy as “average”, “somewhat poor” or “very poor” in August (up 8 points from July). This most recent report marks a significant (40 point) shift from January 2020, when 38% said the same. At the same time, views of their local economic outlook have been relatively consistent since April.

Perceptions of their own business health vary significantly by sector. Just over one in three retailers feels their small business is in good health, down nearly 20 percentage points from March. In contrast, small businesses in the service industry are significantly more optimistic about their cash flow and overall business health (58% say their health is good) compared to July (40% said health was good). Meanwhile, professional services like consulting, remain the most likely sector to report good health (62%, compared to 37% for retail, 47% for manufacturing). This may give further credence to the theory of a K-shaped recovery in response to the pandemic in which white-collar professional services are outperforming blue-collar manufacturing and retail businesses.

Small businesses’ views of the economy are having major influence on their attitude to the upcoming election. For one, small businesses say the economy is—by far— their top election issue. Across regions, sectors, and business size, the economy tops the list of issues small businesses consider in their presidential voting decision (for 57% it is their first or second most important issue). Even as the COVID-19 pandemic persists, only 25% say this is their most, or second most, important consideration. Taxes (27%) and healthcare (25%) are also key concerns.

¹ Beginning in Q2 2020, the MetLife/U.S. Chamber of Commerce Small Business Index survey has been conducted via a monthly online survey, in place of the typical phone-based approach. This methodological shift is in response to anticipated lower response rates in dialing business locations 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.

Engagement in the election is high, but varies by region and company owner. Sixty-two percent are more interested in the 2020 presidential election when compared to the previous presidential election. Just 11% say they are less interested. Furthermore, small businesses with older owners or those which reside in the battleground states of the Midwest are the most engaged in the election.

Midwestern small businesses are more likely to show heightened interest in the election (71%) compared to other regions (63% in the South, 58% in the Northeast, and 57% in the West). Small businesses owned by older generations (46% of small businesses owned by baby boomers and older generations) are more likely to report they are “much” more interested in this election when compared to those owned by younger generations (36% of millennials and 38% of Gen Xers). Women-owned business report being more interested in this election compared to the previous election: 45% of female-owned businesses report much more interest in this election, while 36% of male-owned businesses report the same. Also, 54% of minority-owned small businesses have more interest in this election compared to 64% of non-minority-owned small businesses saying the same.

The index also shows that small business owners’ depth of concern over the coronavirus has lessened compared to last quarter. Overall, around three-quarters of small businesses are concerned about the impact that the coronavirus will have on their business. Yet, the number of small businesses reporting feeling “very” concerned about the virus’s impact has decreased more than 20 percentage points since March.

SMALL BUSINESS INDEX

2020 Q3 – 50.3

The MetLife and U.S. Chamber of Commerce Small Business Index score for Q3 is 50.3.
The Index score for Q2 2020 was 39.5 and for Q1 2020 was 71.7.²

Index Highlights

- **Small businesses see economy as predominately negative.** Most (78%) small business owners categorized the economy as “average,” “somewhat poor,” or “very poor” in August (up 8 points from July). This most recent report marks a significant (40 point) shift from January 2020, when 38% said the same.
- **Views of local economies stay level.** Local economic outlooks have been relatively consistent since April. Thirty-six percent of small businesses perceive their local economy to be in poor health, statistically unchanged from July (39%).
- **Retailers are least optimistic.** Over one in three (37%) retailers feels their small business is in good health, down nearly 20 percentage points from March. They are also slightly less comfortable with their cash flow (48% are comfortable) than they were in July.
- **Rebound for the service industry?** As restaurants across the country reopen, small businesses in the service industry are significantly more optimistic about their cash flow (57%) and overall business health (58%) compared to July.
- **Views of current operations and future expectations remain consistent.** Since July, there has been little to no overall change regarding business health, comfort with cash flow, and expectations around increasing staff and revenue.
- **Interest in this election is high.** More than three in five small business owners say they are more interested in this election compared to the previous presidential election. Interest is highest in the Midwest and among small businesses with older owners.
- **The election is a hot topic.** Three-quarters (77%) of small business owners say the current presidential election has been a topic of conversation among their employees. Forty-two percent (42%) say it is a major topic of conversation.
- **The economy is top election issue.** The economy is the single most important issue for small business owners when considering which presidential candidate to vote for. A majority select it as their top, or second most important, issue.

² Since we moved to monthly (or near-monthly) tracking beginning in March 2020, the Index ratings for Q2 and Q3 are based on an average of responses from all surveys in that quarter. The Q3 Index was calculated based on 1,100 interviews from the July and September surveys. The Q2 Index was calculated based on 1,500 interviews from the April, May, and June surveys. The lower Index score in Q2 is driven by the sudden, major drop in business confidence regarding cash flow, overall health, and future expectations, in the wake of the COVID-19 pandemic. As sentiments have slowly begun to rebound or stabilize, the Q3 Index score responded accordingly.

- **Other hot election issues.** After the economy, small business owners cite taxes (27%), COVID-19 (25%), and healthcare (25%) as their most important 2020 election issues.
- **Female-owned small businesses more likely to see racial inequality as top election issue.** Female small business owners are twice as likely to consider race issues/racial inequality as one of the top two important factors when considering which presidential candidate to vote for compared to their male counterparts (16% vs. 8%).
- **In election, veteran-owned small businesses prioritize education, immigration reform.** Veteran-owned small businesses are more likely to view education (25%) and immigration reform (19%) as important versus all small business owners (12% and 7%, respectively).
- **Fewer “very” concerned about COVID-19.** Overall, around three-quarters (73%) of small businesses are concerned about the impact that the coronavirus will have on their business. Yet, the number of small businesses that report feeling “very concerned” has decreased to 35% from a high of 58% in March, a more than 20-point decrease (was 47% in July).
- **Small businesses expect longer for business climate to return to normal.** In March, 46% of small business owners said it would take “six months to a year” for the U.S. business climate to get back to normal. Now more than half (55%) of small businesses say the same.

Spotlight: Small Business and the 2020 U.S. Presidential Election

IN AN ELECTION SPARKING HIGH INTEREST, THE ECONOMY IS THE TOP ISSUE

Most small business owners say they are more interested in the 2020 election than the previous presidential election. Sixty-two percent are more interested in this election (including 40% who are “much” more interested) compared to 2016. Meanwhile, just 11% say they are less interested in this election compared to the previous one.

Small businesses in some of the most familiar “election battleground” regions are most interested in the election. Midwestern small businesses are more likely to show interest (71%) when compared to other regions (63% in the South, 58% in the Northeast, and 57% in the West). Small businesses owned by older generations (46% of baby boomers and older generations) report they are “much” more interested in this election compared to those owned by younger generations (36% of millennials and 38% of Gen Xers).

Interest levels also vary according to who owns the company along gender and racial lines. Women-owned business report being more interested in this election compared to the previous election: 45% of female-owned businesses report much more interest in this election, while 36% of male-owned businesses report the same. Minority-owned businesses seem to be less interested than their non-minority counterparts: 54% of minority-owned small businesses have more interest in this election compared to 64% of non-minority-owned small businesses saying the same.

For most small businesses, the election is a hot topic of conversation. Around three-quarters (77%) report that the 2020 presidential election is a topic of conversation among employees in the workplace, and 42% say it is a *major* topic of conversation. Fewer than a quarter (23%) say this is not discussed in their workplace. As the table below shows, differences can be seen

across sectors and business sizes when it comes to this topic of conversation. 50% of manufacturers say the election is a major topic of workplace conversation, while services and professional services are less likely (40% for both) to say so. Based on size, 48% of mid-size (5-19 employees) small businesses say the election is a major topic of conversation, but 43% of larger small businesses and 39% of smaller small business (1-4 employees) report that it is a major topic of conversation.

Has the 2020 presidential election been a topic of conversation among employees in your workplace?	Total	Employee Size			Sector			
		1-4	5-19	20-499	Manu- facturing	Services	Retail	Prof. Services
Yes, it's a major topic of conversation	42	39	48	43	50	40	41	40
Yes, it's a minor topic of conversation	35	29	45	46	37	41	35	30
No	23	32	7	11	13	19	24	30
<i>Yes, it's a topic of conversation (Net)</i>	<i>77</i>	<i>68</i>	<i>93</i>	<i>89</i>	<i>87</i>	<i>81</i>	<i>76</i>	<i>70</i>

Small business owners report that the impact of a candidate's policy positions on their business are one of their major criteria for deciding which candidate to support. Fully 81% say how a candidate's positions may impact their business plays *a role* in deciding who to support. For around half (48%) of small business owners, it is a *major* factor in this decision. Manufacturers are more likely to say this is a major factor in their decision, with 60% reporting this. Only 16% of small businesses report that the impact of a candidate's policy positions is *not* a factor when deciding which candidate to support.

In a familiar refrain of election-year politics, small businesses report the economy is their number one issue—by far. Across regions, sectors, and business size, the economy tops the list of issues small businesses consider in their presidential voting decision (for 57% it is the first or second most important issue). Even as the COVID-19 pandemic persists, only 25% say this is their most, or second most, important consideration. After the economy, small business owners cite taxes (27%), COVID-19 (25%), and healthcare (25%) as their most important 2020 election issues.

Male-owned businesses are more likely to cite the economy as their top issue: 41% of men-owned small businesses said the economy was their top issue versus 27% for women-owned small companies. The smallest small businesses are most likely to list the economy as their top issue (40% with less than five employees, 24% with 5-19 employees, and 29% with 20 or more employees). Meanwhile, veteran-owned businesses think education and immigration reform carry more weight as election issues. Veteran-owned small businesses are more likely to view

education (25%) and immigration reform (19%) as important versus all small business owners (12% and 7%, respectively).

But the question of racial equity is also of top importance to some small businesses with young and women owners. Small business owned by millennials are more likely to cite race issues or racial inequality as one of their top two issues (20%) when compared to those owned by older generations (10% for both businesses owned by Gen Xers and by baby boomers or older). Female small business owners are twice as likely to consider race issues/racial inequality as one of the top two important factors when considering which presidential candidate to vote for compared to their male counterparts (16% vs. 8%).

MOST SAY PARTISAN GRIDLOCK IS A SERIOUS ISSUE

A strong majority of small business owners (82%) say partisan gridlock in a Washington is a serious issue. 52% say it is a “very serious” issue and 30% say it is a “somewhat” serious issue. Only 6% say it is “not very serious” and just 2% say it is “not at all serious.”

68% percent of small business owners agree that it is “more important for political leaders to compromise, rather than stick to their beliefs, in order to get things done.” 28% of small business owners disagree (8% strongly disagree).

The Uneven Impact of COVID-19: Sectors Matter

CONCERN OVER PANDEMIC LESSENS SLIGHTLY, WITH RETAIL AND SERVICES MOST CONCERNED

As the COVID-19 pandemic continues, small business concerns about the impact of the pandemic overall have eased somewhat, but their point of view depends on which sector they operate in.

73% of small businesses are concerned about the pandemic's impact on their business, but slightly fewer express concern compared to July (78%). Across sectors, concern is highest among small business in retail (77%) and the service industry (76%). 71% of manufacturers and 69% of professional services firms report that they are concerned about the pandemic.

Since July, fewer small businesses say they are "very" concerned about the outbreak's impact on their business. Currently, 35% feel the most intense level of concern, down 12 points from 47% in July. However, this marks a substantial decline from late March (just after the first wave of closures and stay at home orders) when 58% of all small businesses reported they were very concerned (a 23-point drop since March).

How concerned are you about the impact of the coronavirus or COVID-19 outbreak on your business?	Total	Region				Sector			
		North-east	Mid-west	South	West	Manu-facturing	Services	Retail	Prof. Services
Very Concerned									
Mar. 25-28	58	65	52	59	56	49	64	56	58
Jul. 9-16	47	48	38	52	45	40	58	43	47
Aug. 21-27	35	37	36	31	36	34	44	33	27
Total Concerned (Net)									
Mar. 25-28	84	89	81	84	83	82	83	81	86
Jul. 9-16	78	81	71	78	79	77	84	70	78
Aug. 21-27	73	76	75	71	73	71	76	77	69

Most see months before things return to normal. In March, 46% of small business owners said it would take "six months to a year" for the U.S. business climate to get back to normal. Now more than half (55%) of small businesses say the same. Just 8% think that it will never return to normal (unchanged from July). Small businesses in services are drastically more likely than other sectors to predict a longer time before a return to normal: just 16% say under six months, 60% say six months to a year, and 13% say the U.S. small business climate will never reboot.

As we reach the six-month mark of the pandemic, this more pessimistic outlook is particularly evident among Midwestern small business owners and those in the service industry.

In light of the current circumstances, how long do you think it will be before the U.S. small business climate returns to normal? <i>6 months – 1 year</i>	Total	Region				Sector			
		North-east	Mid-west	South	West	Manu-facturing	Services	Retail	Prof. Services
Mar. 25-28	46	47	45	44	50	51	46	42	50
Jul. 9-16	56	66	63	42	61	46	65	55	54
Aug. 21-27	55	59	60	49	58	53	60	55	52

A majority of small businesses (59%) are “concerned” about having to close again or stay closed if there is a second wave of COVID-19, but this is down slightly from 65% in July. The number of small businesses that are “very concerned” about closing if there is a second wave has also decreased: 26% of small businesses say they are “very concerned,” down nine points from 35% in July.

A few select regions and sectors are less concerned about having to close due to a second wave than they were in July. This includes the service industry (57% concerned, down 15 points), small businesses in the South (58% concerned, down 14 points), and, to a lesser extent, manufacturers (59%, down nine points).

At the moment, concern over closing if there is a second wave is particularly high among mid-sized and larger small businesses (67% of those with 5-19 employees and 74% of those with 20 or more employees). Retailers are most likely to express concern across sectors regarding having to close or stay closed if there was a second wave: 66% are concerned about this (whereas 57-59% are concerned among other sectors).

KEY FINDINGS

SMALL BUSINESS OPERATIONS

PERCEPTIONS OF BUSINESS HEALTH, CASH FLOW REMAIN STEADY

Perceptions of business health and cash flow remained steady in August and do not show much difference from findings in March when the pandemic's major impact began.

Perceptions of overall health among small businesses held steady from July. In August, 53% of small businesses reported good health (statistically unchanged from 55% in July and 57% in March).

Perceptions of business health are dependent on sector to some degree. Professional services (like consulting) had higher perceptions of business health and retail had the lowest perceived business health. Professional services (62%) remain the most likely to report good health, while those in retail (37%) were the least likely, marking an eight-point decline from July in retailers' perceptions. At the sector level, there have also been some fluctuations around perceived business health from last month, Manufacturing small businesses saw a decrease in those reporting good health (falling from 65% in July to 47% in August) while those in services saw an 18-point-increase (40% in July to 58% in August).

Regionally, small business health is fairly similar in all parts of the country, ranging from the low- to mid-50% mark.

First, how would you rate the overall health of your business? <i>Good Overall Health</i>	Total	Region				Employee Size			Sector			
		North-east	Mid-west	South	West	1-4	5-19	20-499	Manu-facturing	Services	Retail	Prof. Services
Mar. 25-28	57	54	58	58	57	47	71	76	52	53	56	64
Jul. 9-16	55	56	47	62	50	43	73	72	65	40	45	67
Aug. 21-27	53	51	57	50	54	48	54	74	47	58	37	62

Overall comfort with cash flow (57%) is also unchanged from July (55%), and, with the exception of April (where we saw a significant decline in comfort) has remained generally consistent throughout the pandemic. From July to August, regional fluctuations in cash flow comfort have been minimal, except for those in the West feeling more positive now than in July (57% in August from 48% in July).

Shifts in cash flow among sectors are more noticeable, with retailers seeing a consistent, steady decline in their comfort from March, and the service industry rebounding after a more pessimistic July. Small manufacturers (from 67% in July to 55% in August, down 12 points) and retailers (from 56% in July to 48% in August, down eight points) saw their cash flow comfort drop significantly. On the other hand, services saw their cash flow comfort rise (from 40% in July to 57% in August, up 17 points). Professional services cash flow comfort remained steady (from 61% to a statistically similar 63%). Minority-owned small businesses are somewhat more likely to report they are “not very comfortable” with their cash flow (36% versus 29% for non-minority-owned businesses).

How comfortable are you with your company's current cash flow situation? <i>Comfortable</i>	Total	Region				Employee Size			Sector			
		North-east	Mid-west	South	West	1-4	5-19	20-499	Manu-facturing	Services	Retail	Prof. Services
Mar. 25-28	59	56	64	61	54	55	65	67	49	52	61	67
Jul. 9-16	55	56	54	60	48	45	70	71	67	40	56	61
Aug. 21-27	57	55	61	54	57	54	60	65	55	57	48	63

Around the same number of small businesses reported spending more time on licensing, compliance, or other government requirements in the last six months (25% in August versus 29% in July). Those in manufacturing saw the largest decrease across sectors, with 25% in August reporting spending more time on compliance-related work compared to 38% in July.

The number of small businesses who report increased staff over the past year is 15%, slightly, but not significantly, lower than July’s 20%. 64% report retaining the same size staff and 19% report reducing staff over the past year. In contrast, 67% of non-minority-owned small businesses report retaining the same size staff in comparison to 49% of minority-owned small businesses who report the same.

KEY FINDINGS

SMALL BUSINESS ENVIRONMENT

MOST SEE “AVERAGE” OR “POOR” U.S. ECONOMY

Most (78%) small business owners categorized the economy as “average,” “somewhat poor” or “very poor” in August (up 8 points from July). This most recent report marks a significant (40 point) shift from January 2020, when 38% said the same.

But also, fewer saw the economy as “very poor” (down to 19% from 24% in July, a fall of five points). In late August, a majority of small businesses (59%) categorized the national economy as “about average” or “somewhat poor.” This is a shift back to outlooks held three months ago.

Regionally, those in the Midwest and South saw the largest changes in optimism toward the national economy: Midwesterners were more optimistic in August (up 11 points) while Southerners were less upbeat (down 17 points).

How would you rate the overall health of the United States economy?	8/21-27	7/9-16
Very good	7	10
Somewhat good	15	18
About average	20	15
Somewhat poor	39	31
Very poor	19	24
<i>Good (Net)</i>	<i>22</i>	<i>29</i>
<i>Poor (Net)</i>	<i>58</i>	<i>55</i>

Generally, views of their local economies remain unchanged from July. Thirty-six percent of small businesses perceive their local economy to be in poor health, statistically unchanged from July (39%).

However, sentiment is shifting on a regional level about local economies. Midwestern small businesses express slightly more optimism concerning their local economy in August (35%, from 27%). While 31% of Northeastern small businesses said their local economy was good in July, just 21% said the same in August. The largest small businesses (those with at least 20 employees) also experienced a decline in those reporting good local economic health: dropping 13 points from July to 37% in August.

Twenty-nine percent of small businesses report more competition compared to six months ago from smaller or local companies, similar to July (31%) but higher than May (21%). Across sectors, retailers are most likely to report higher levels of competition (33% of retailers in August versus 47% of retailers in July reported more competition).

KEY FINDINGS

SMALL BUSINESS EXPECTATIONS

MAJORITY PLAN TO KEEP SAME SIZE STAFF, ONE-THIRD PLAN TO INCREASE INVESTMENT

Most small businesses are expecting a rise in revenue, a few see a coming decrease. Most small businesses (52%) predict an increase in their future revenues (53% did so in July). In fact, three times more small businesses expect to see an increase (52%), rather than a decrease in next year's revenues (16%). Meanwhile, a quarter expect revenues to stay the same.

By sector and size, the story is a bit different. In August, slightly fewer retailers predicted an increase in revenues over the next year than in the month previous (55% in August vs. 61% in July). Mid-sized small businesses, though, were more optimistic in August, with double-digit increases in those expecting an increase in next year's revenues (those with 5-19 employees are up 14 points).

A third of small businesses report plans to increase investment in the upcoming year. As was seen in previous polls this year, more businesses plan to increase (33%) rather than decrease investments in the next year (17%).

Differences in expectations about future investment emerge if we look across gender, regional, sectoral, and racial lines. For example, male-owned small businesses are more likely to foresee an increase in investments (37%) when compared to female-owned ones (27%). However, the two groups are just as likely to predict an increase in revenues over the next year (52% for male-owned businesses and 51% for female-owned businesses). Across regions, those in the Northeast are least likely to predict an increase in investment, marking a decrease in optimism from 41% in July to just 25% in August (compared to 30% in the Midwest, 34% in the West, 37% in the South). While small businesses in the retail and professional services sectors have not seen major changes compared to July in reported plans to increase investments, manufacturers have become less likely to say this (down 10 points from July), and services firms have become more likely (up 11 points). 45% of minority-owned small businesses expect to invest more over the coming year, while 30% of non-minority-owned firms plan to do the same. 40% of non-minority-owned small businesses plan to keep future investments the same, while 29% of minority-owned businesses plan to do so.

The impact of COVID-19 continues to impact employment, but a majority of small businesses across regions and sectors plan to retain the same size staff (58% overall) over the next year. Also, 28% expect to increase staff over the coming year.

REGIONAL SCORES

Q3 SMALL BUSINESS INDEX SCORES BY REGION

REGIONS IMPROVE CONSISTENTLY, STILL SIGNIFICANTLY LOWER THAN Q1

NATIONAL SCORE 50.3

Northeast (50.1): Fifty-three percent of small businesses in the Northeast rate the health of the national economy as poor (55-63% in other regions). 42% rate their local economy as poor, slightly more than other regions (31-37%). Pessimism persists here in future expectations: just 25% plan an increase in investments, 22% an increase in staff, and 47% predict an increase in revenues for the upcoming year.

Midwest (50.5): Fifty-seven percent in the Midwest rate their overall business health as good, generally in line with other regions (50-54% across other regions). Around a third of Midwestern small businesses (35%) report a good local economy, compared to 21-28% saying the same in other regions. But 35% cite an increase in local competition (double what was seen in late May: 17%).

South (50.4): Southern small businesses are relatively optimistic about future investments and hiring plans. Thirty-seven percent plan to increase investments for the upcoming year (compared to 25-34% across other regions). Regarding hiring, 33% anticipate increasing their staff in the next year (compared to 22-28% elsewhere).

West (50.2): Overall, Western small businesses hold similar views to small businesses overall. Fifty-four percent in the West say their small business's health is good, in line with the rest of the country (53%). More rate the U.S. economy as poor (63%, compared to 53-59% elsewhere), but feel better about their local economy.

Methodology

SURVEY METHODOLOGY

These are the findings of an Ipsos poll conducted between August 21-27, 2020. For this survey, a sample of roughly 600 small business owners and operators age 18+ from the continental U.S. Alaska and Hawaii was interviewed online in English.

The sample for this study was randomly drawn from Ipsos' online panel, partner online panel sources, and "river" sampling 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 fewer than 500 employees that are not sole proprietorships. Ipsos used fixed sample targets, unique to this study, in drawing 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 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.

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 4.6 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 ($n=600$, $DEFF=1.5$, adjusted Confidence Interval= ± 6.1 percentage points).

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 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 2016 Statistics of U.S. Businesses dataset.

Percentage breakdowns for region, employee size, and sector:

Manufacturing and Resources	19%		Employee Size: 1-4	61%		Northeast	20%
Services	25%		Employee Size: 5-19	27%		Midwest	20%
Retail	24%		Employee Size: 20-99	10%		South	35%
Professional services	29%		Employee Size: 100+	2%		West	25%
Other	4%						