The MetLife & U.S. Chamber of Commerce Small Business Index reaches a new pandemic-era high this quarter, but many small businesses report struggling with surging inflation and persistent supply chain issues.

This quarter’s Small Business Index score is 64.1, the highest score since the start of the pandemic. This score is consistent with last quarter’s score of 63.0. (The low point of the pandemic was reached in 2020 Q2 when the score reached 39.5). This score comes after a tumultuous 2021, where the Index fluctuated more than usual, though ultimately it ended with increased optimism relative to the onset of the pandemic in 2020.

The survey was conducted between January 14 - January 26, 2022 in the wake of the Omicron variant. COVID-19 remains a persistent challenge, but the underlying challenges, namely inflation and supply chain issues, are top of mind for most small businesses.

Over the last three quarters, inflationary costs and supply chain issues have become more challenging according to small business owners. One in three small business owners (33%) cite inflation costs as the primary concern facing the small business community, a 10 percentage point increase from last quarter. Small businesses are taking action on inflation. A vast majority (67%) report having to raise prices to combat inflation. Similarly, one in four say supply chain issues (26%) are a top challenge.

Index Reaches Pandemic-Era High, but Inflation Concerns Grow

Supply chain disruptions also linger, moderating optimism

INDEX SUMMARY

Overall, the SBI remains stable, with small business owners feeling generally optimistic about their day-to-day operations and expectations for the future. Similar to last quarter, about three in five (61%) small businesses owners say their business is in good health. Perceptions of the local and national economy have begun to stabilize when compared to early 2021.

Challenges due to “The Great Resignation” take a backseat to inflation and supply chain issues, but still pose a big challenge. A majority of small businesses are concerned about improving employee retention (57%) and recruiting enough employees to fill open positions (56%) at their business. The impact of The Great Resignation is felt more acutely among the largest small businesses (those with 20-499 employees).

33%
cite inflation costs as the primary concern facing the small business community
Small business owners have consistently ranked COVID-19 safety protocols and compliance as a top-tier challenge over the last three quarters (ranging from 21%-24%). As the pandemic continues, small business owners are in a holding pattern over when the small business climate will return to normal. A majority (51%) believe it will be six months to one year. This is in line with the share who said the same nearly a year ago (54% in Q2 2021).

51% of small business owners believe the small business climate will return to normal within six months to a year.

“Due to inflation, we’ve chosen to accept reduced net margins in the short term to ensure our employees can make ends meet. In the fall of 2021, we took the unprecedented step of reevaluating wages a second time in the same year, resulting in average pay increases of over 10% for our employees. Our investment in our team has strengthened employee and customer loyalty.”

Spencer Ferguson, CEO, Wasatch I.T.
Salt Lake City, UT
Index rises to pandemic-era high. 
The MetLife & U.S. Chamber of Commerce Small Business Index rose to 64.1 this quarter from 63.0 last quarter. This score remains below findings before the pandemic began (the score was 71.7 in Q1 2020).

Small businesses see inflation as biggest issue. One in three (33%) now rank inflation as the biggest challenge facing the small business community, marking a 10 percentage point increase compared to Q4 2021 and a 14 percentage point increase since Q3 2021.

Small businesses raise prices to fight inflation. To cope with the impacts of rising inflation, small business owners are having to adjust. The vast majority (67%) report having to raise their prices to cope with inflation.

61% of small business owners say their business is in good health.

Retailers most likely to raise prices. Small retailers are more likely to report increasing the prices of their goods and services (80%) than those in professional services (68%), manufacturing (65%), and services (56%).

Small businesses see supply chains as second biggest challenge. More small business owners cite supply chain issues as the biggest problem facing the small business community, when compared to late 2021 (26%, up 8 percentage points from Q4 2021).

INDEX HIGHLIGHTS

Small Business Index
2022 Q1 – 64.1

The MetLife and U.S. Chamber of Commerce Small Business Index score for Q1 is 64.1. The Index score for Q4 2021 was 63.0. In Q2 2020 it reached an all-time low of 39.5.1

A majority of small businesses are concerned about rising interest rates. Nearly three in ten (29%) small businesses are very concerned about rising interest rates. Overall, seven in ten small businesses are concerned about the impact rising interest rates will have on their business.

Small businesses are consistently optimistic. Small business owners remain about as optimistic about their business as they were last quarter. About three in five small business owners say their business is in good health (61%).

Most have implemented changes to retain staff. A majority (60%) of small businesses report their business has implemented new changes over the past year to improve employee retention. This includes increasing schedule flexibility (37%) and wages (31%) as well as providing employees with more opportunities to learn/grow (29%).

1. Since we moved to monthly (or near-monthly) tracking for much of 2020, the Index ratings for Q2 2020 and Q3 2020 are based on an average of responses from all surveys in that quarter. The Q3 2020 Index was calculated based on 1,100 interviews from the July and September surveys. The Q2 Index was calculated based on 1,300 interviews from the April, May, and June surveys. From Q4 2020 to the present, the Index score was calculated based on a single survey of approximately 750 interviews per quarter. While significant changes in data points from Q1 2020 to the pandemic-era quarters can largely be attributed to the recent economic environment, switching from a phone to online approach may have also generated a mode effect.
Flexible work is most popular offering in face of “Great Resignation”

In the wake of many American workers reevaluating their jobs and subsequently resigning—“The Great Resignation”—small businesses report enacting policies to improve recruitment and retention. Small businesses say staffing is not as urgent a challenge compared to inflation, supply chain disruption, and COVID-19 this quarter. However, a majority report concerns about improving employee retention (57%) and recruiting enough employees to fill open positions (56%) at their business. Over half also cite increased competition for talent with large companies in their area (62%) and other small businesses (58%).

In this growing competition for employees, a majority (60%) of small businesses indicate they have implemented changes over the past year to improve employee retention. The most popular tactic is increasing schedule flexibility (37%), followed by increasing wages (31%), and providing employees with more opportunities to learn/grow (29%).

Looking ahead, less than half (48%) agree that worker shortages across the country will be resolved in 2022. But most small businesses feel they are well placed to win the war for talent: a majority agree their business has a clear plan in place to retain their employees (76%) or find and attract new ones (68%). Still, some businesses are considering implementing changes over the next six months to improve employee retention or attract new talent, including increasing wages (30%) and schedule and remote work flexibility (29%) and providing employees with more opportunities to learn/grow (21%).

The size of a small business reflects its concern about the impact of “The Great Resignation.” Larger small businesses have more concerns about attracting and retaining talent. Small businesses with 20-499 employees rank employee retention (21%) as a top challenge alongside inflation (24%), supply chain disruption (25%), and COVID-19 (26%). In fact, they are more than two times as likely to cite employee retention (21%) as the biggest challenge facing the small business community than those with just 5-19 employees (10%) or 1-4 (9%) employees.

Respondents from these largest small businesses are also more likely to say they have implemented new changes over the past 12 months in an attempt to improve employee retention and that they have a clear plan to attract and retain talent.

“Utah has performed well compared to other state economies, but the tight labor will continue to put downward pressure on growth.”

Natalie Kaddas
CEO, Kaddas Enterprises
Salt Lake City, Utah
Small businesses have persistent concerns over COVID protocols

This survey was fielded during the height of the Omicron variant surge in January, and small business concerns around COVID-19 remained high at that time.

For example, a majority of small businesses expect a return to “normal” to be months away. 51% of small businesses say they believe it will be six months to one year until the small business climate returns to normal. This is in line with the share who said the same in Q2 2021 (54%). However, more than twice as many say they don’t know when the small business climate will return to normal than did in Q2 2021 (15% vs. 7%), pointing toward the lingering uncertainty small businesses owners face.

Additionally, almost one in four (24%) small business owners cite COVID-19 safety protocols and compliance as a top issue facing the small business community, while separately 49% say they find it difficult to maintain COVID-19 safety protocols (up from 41% in Q3 2021).

Concern over the impact of COVID-19 among small business owners is in line with concern levels this time last year, before many Americans were eligible for COVID-19 vaccines (75% vs. 76% in Q1 2021). Larger businesses (those with 20-499 employees) say they are having a harder time maintaining COVID-19 safety protocols and report heightened concern over the impact of COVID on their business than those with fewer than 20 employees.

Top 5 biggest challenges facing small business owners

- Inflation costs
- Supply chain issues
- COVID-19 safety protocols/compliance
- Revenue
- Employee well-being/morale

Heightened Concern for Inflation Spans Regions and Sectors

Small businesses raise prices to cope with spiraling inflation

With inflation reaching multi-decade highs, small businesses say rising costs have become their top challenge. One in three (33%) small businesses now rank inflation as the biggest challenge facing the small business community (up 10 percentage points from Q4 2021 and up 14 percentage points from Q3 of last year).

More than eight in ten (85%) small business owners or decision makers are concerned about the impact of inflation on their business and almost half (44%) indicate they are very concerned (up 13 percentage points since Q4 2021). Three in four small businesses find managing higher costs due to inflation difficult (76%) and say rising prices have had a significant impact on their business in the past year (74%).

To cope with rising inflation small business owners are adjusting, most often by raising the prices for their goods and services. A strong majority (67%) of small businesses report having to raise their prices over the past year. Another four in ten (41%) report
Majority of small businesses say they have altered their supply chain

After inflation, supply chain issues (26%), along with COVID (24%), are the next biggest concerns for small business owners this quarter.

More small business owners (26%) now cite supply chain issues as their biggest problem, up eight percentage points from Q4 2021. (As noted above, 33% said inflation is their biggest concern.) The vast majority (76%) of small businesses are concerned about the impact supply chain disruptions are having on their business.

More than six in ten (63%) small businesses report having their supply chain disrupted by COVID, though this has not increased significantly since Q4 2021 (61%). A similar share (65%) state it is difficult to manage disruptions to their supply chain (similar to 61% in Q3 2021). In response to these disruptions, 61% of respondents report altering their supply chain in the last six months—consistent with the share who said the same in Q4 2021 (63%). Finally, a majority (55%) report having their supply chain disrupted due to a lack of workers.

Interest rates have hovered near zero since March 2020. However, the Federal Reserve raised them during its March meeting. Anticipating this, seven in ten (70%) small businesses are concerned about the impact rising interest rates will have on their business. In fact, nearly three in ten (29%) are very concerned about rising interest rates. However, when prioritizing the top challenges the small business community faces, business owners rank rising interest rates at the bottom of concerns coming out of the pandemic (only 7% said rising rates are a big challenge). The risk of rising interest rates is on small businesses owners’ radar but is not yet posing a significant challenge.
Small Business Environment
Small businesses’ views of national, local economies stabilize

Small business views of the national and their local economies remained consistent this quarter, although they are not overly optimistic. About one in three (29%) small businesses rate the overall U.S. economy as good, while nearly four in ten (39%) rate their local economy as good.

Although small businesses are not particularly bullish about the economy, they have expressed more stability in their economic sentiment since Q3 2021 compared to earlier in the pandemic, particularly at the local level. Small businesses in the services industry have a less positive outlook on the national and local economy compared to those in retail and professional services.

Half of small businesses indicate the level of competition from smaller or local companies over the last six months has remained the same (50%), while three in ten (30%) say it has increased. Professional service firms (40%) are more likely than those in manufacturing (24%) and services (24%) to say they face increased competition.

Small Business Expectations
A majority of small business owners expect increasing revenues

Small businesses are generally optimistic for the next year as evidenced by their plans to hire, invest more, and anticipate increasing revenue.

A majority (52%) plan to retain their staff size, while 37% plan to increase staff (this is near the record high for this finding of 38%, recorded last quarter). This desire to hire more workers indicates that the competition for talent will continue unabated this year. Meanwhile, eight in ten say they plan to either increase investment (40%) or invest in similar rates as last year (40%).

Finally, 63% anticipate their revenue will increase. Although this is similar to the share who said so in Q4 2021 (59%), it’s consistent with an upward trend since the pandemic low of 47% in Q1 2021.

Small Business Operations, Environment and Expectations

Small Business Operations
Small businesses’ optimism steady, cash flow comfort inches up

The majority of small business owners remain optimistic about their business, like they were last quarter. Over half (61%) of small business owners say their business is in good health this quarter. This is unchanged from last quarter, which previously marked the highest rating on this measure since the onset of the pandemic.

Consistent with previous quarters, small businesses that employ more people are more comfortable with their business health. Just over half (55%) of small businesses with fewer than five employees say they are in good health, compared to 66% of small businesses with 5-19 employees and 84% of small businesses with 20-499 employees. Compared to last quarter, this marks an increase among those with 20-499 employees (previously 74%).

Seven in ten (70%) small businesses are comfortable with their cash flow. Though this is essentially unchanged since last quarter (67%), it marks the continuation of a consistent, gradual trend upward since the pandemic low of 48% in April 2020. Again, companies with more employees are more comfortable with their cash flow.

Roughly one in five (19%) small businesses say they have increased staff in the past year, while a majority (65%) have retained the same staff size. This is in line with last quarter. As with the previous operational measures, the largest small businesses (those with 20-499 employees) indicate they have increased staff more than those with fewer than 20 employees. More small businesses in the professional services (30%) and retail (23%) sector say they have increased staff compared to those in the manufacturing (12%) or services sector (10%).

Rising costs on everything has definitely impacted us... We are diligently working continually to cut back on unnecessary costs and reduce our monthly expenses.”

Bill Rossi, President
Rossi Enterprises, Inc., Chicago, IL
Index rises to pandemic-era high again.
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and expect next year’s revenue to increase (65%). Year (66%), are comfortable with their cash flow (66%), indicate they retained the same staff size over the past year (68%) rate their business’s health as good. Two-thirds (42%) economy to be good. Meanwhile, nearly seven in ten (69%) say their business’s health is good, putting them at the top of the range, along with those in the Northeast. A majority (55%) say the amount of time they spend on compliance has remained the same (up 10 percentage points from Q4 2021).

Northeast (64.2): In the Northeast, roughly two in five small business owners consider the U.S. (38%) and local (42%) economy to be good. Meanwhile, nearly seven in ten (68%) rate their business’s health as good and a similar number (70%) are comfortable with their cash flow. The most notable increases from last quarter come from the share intending to increase investment over the next year (46% vs. 34%) and those saying they have increased staff over the past year (29% vs 19%).

South (63.7): Perceptions of the small business environment are worse in the South than in the Northeast and the West. Just over one in five (22%) small businesses rate the U.S. economy as good, a decline from last quarter (40%). 35% rate their local economy as good. However, a majority (56%) consider the health of their business as good. Two-thirds indicate they retained the same staff size over the past year (66%), are comfortable with their cash flow (66%), and expect next year’s revenue to increase (65%).

Midwest (63.5): Over one in four (26%) Midwestern businesses rate the U.S. economy as good, while 35% rate their local economy as good. 58% say their business’s health is good. Seven in ten (71%) say they are comfortable with their cash flow. In terms of the future, one-third (32%) say they intend to increase staff over the next year, while six in ten (60%) say they intend to retain the same staff size—up 13 percentage points from last quarter.

West (65.1): Compared to last quarter, more small businesses in the West are comfortable with their cash flow (75% vs. 58%). Roughly one in three businesses in the West rate the U.S. economy as good (34%), while 46% rate their local economy as good. Two in three (66%) say their business’s health is good, putting them at the top of the range, along with those in the Northeast. A majority (55%) say the amount of time they spend on compliance has remained the same (up 10 percentage points from Q4 2021).

Small Business Index Methodology

These are the findings of an Ipsos poll conducted between January 14 - January 26, 2022. For this survey, a sample of 750 small business owners and operators age 18+ from the continental U.S., Alaska and Hawaii were interviewed online in English. The sample for this study was randomly drawn from Ipsos’ online panel and partner online panel sources 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. 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 2018 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 adjusted for design effect of the following (n=750, DEFF=1.5, adjusted Confidence Interval= +/-5.6 percentage points).

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 2018 Statistics of U.S. Businesses dataset.

2. Beginning in Q2 2020, the MetLife/U.S. Chamber of Commerce Small Business Index survey has been conducted via online surveys, 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.