Small Business Index
Q1 2023

The Voice of Small Business Owners

PRESENTED BY

MetLife
U.S. Chamber of Commerce
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**INDEX SUMMARY**

**Index Down Slightly as Small Businesses See Weaker Economy**

Inflation remains top concern of small businesses across country

This quarter, small businesses’ concerns over inflation remain at record highs and their perceptions of the economy have slightly dimmed according to the latest MetLife & U.S. Chamber of Commerce Small Business Index. However, most small business owners continue to feel good about their own business health and cash flow.

Overall, small business owners appear to be in a holding pattern, as many of their day-to-day operational and future expectations are in line with the previous two quarters.

This quarter’s score of 60.0 is a small dip from last quarter’s score (62.1) and is mostly driven by worsening perceptions of the national economy. The Index is slightly lower than its post-pandemic high of 66.8 in Q2 2022 and closer to where it was in early 2021.

More than half (54%) of small business owners continue to cite inflation as their top concern, the fifth consecutive quarter that inflation has topped the list of challenges. In comparison, other issues like revenue, supply chain issues, and rising interest rates remain second-tier concerns.

Over the long term, small businesses’ perceived access to capital has declined significantly: Nearly half (49%) of small business owners say their current access to capital or loans is good, which is slightly, but not significantly, lower than in Q2 2022 (54%) and markedly lower than it was in Q2 2017 (67%).

Finally, most small businesses see benefit in offering health insurance coverage, but often find the task of selecting the right options burdensome. A wide majority of small businesses say that offering employees healthcare is the right thing to do (89%) and that employer-provided healthcare helps attract and retain employees (85%). However, roughly seven in ten (65%) say that navigating healthcare options for their business is time-consuming.

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1. Beginning in Q2 2020, an online approach was used in place of the typical phone methodology. This change in mode may be responsible for some of the shifts in the data after Q1 2020.
Small Business Index
Q1 2023 – 60.0

The MetLife and U.S. Chamber of Commerce Small Business Index score for Q1 is 60.0. The Index score for Q4 2022 was 62.1.

Index score drifts lower.
The MetLife & U.S. Chamber of Commerce Small Business Index fell slightly to 60.0 this quarter from 62.1 last quarter. This is slightly lower than its post-pandemic high of 66.8 in Q2 2022 and closer to where it was in early 2021.

Inflation remains the top concern, by far.
Over half of small businesses (54%) say inflation is the top challenge facing the small business community, a 31-point increase from Q4 2021. This marks the fifth consecutive quarter that inflation tops the list of challenges.

Perceptions of national economy decline.
One in five (20%) small business owners believe the U.S. economy is in good health, down from 27% saying the same last quarter. This marks a change from 2022 when perceptions remained stable (from 27%-30%).

Most optimistic about business health.
Most small business owners remain optimistic about their own business’s health. The majority (63%) of small business owners report that their business is in good health, which has remained stable since Q2 of last year.

Views of local economy steady.
Perceptions of local economies have remained stable the last three quarters following a decline between Q2 and Q3 2022. Twenty-nine percent of small businesses said their local economy was good this quarter.

Small businesses feel good about their cash flow.
Just under two in three (64%) small business owners say they are comfortable with their cash flow. This has remained stable for the past two quarters. This also marks a return to levels of confidence seen in early 2021.

Small businesses planning less investment.
Fewer small businesses say they plan to increase investment over the next year than did last quarter (38% vs. 47%). However, sentiments this quarter look similar to one year ago (40% in Q1 2022).

Access to capital declines over long term.
Compared to Q2 2017, perceptions of access to capital have slid, but still almost half (49%) of small business owners say their current access to capital or loans is good. This is slightly lower than those who rated their access to capital as good in Q2 2022 (54%) and significantly lower than in Q2 2017 (67%).

Small businesses like to offer healthcare, but choosing a plan is burdensome.
A wide majority of small businesses say that offering employees healthcare is the right thing to do (89%). However, most (65%) say that navigating healthcare options for their business is time-consuming.

2. Beginning in Q2 2020, an online approach was used in place of the typical phone methodology. This change in mode may be responsible for some of the shifts in the data after Q1 2020.
Inflation Remains the Biggest Challenge for Small Business

Concern over inflation remains near record highs

This quarter, inflation remains the top concern for a majority of small business owners (54%). This is consistent with last quarter (53%), and it is the fifth consecutive quarter that inflation has topped the list of challenges they see. In comparison, other issues like revenue, supply chain issues, and rising interest rates remain second-tier concerns, like they were last quarter.

The impact of rising prices is widespread, as inflation is the top concern for small businesses regardless of region, number of employees, or sector. By sector, professional services small businesses (28%) are more likely to cite rising interest rates as a top concern than those in services (13%), retail (12%), and manufacturing (10%).

In contrast, just 22% of all small businesses surveyed see revenue as a top challenge, the next biggest concern cited. Similarly, 21% said supply chain issues are a top concern and 16% said rising interest rates were. Just 9% said COVID-19 safety protocols are a top concern.

Rising interest rates are causing some in the small business community to say they are seeking out financing more earnestly. Two-thirds of small businesses (66%) say that rising interest rates are limiting their ability to raise capital or financing for their business. Larger small businesses—those with 20-500 employees—are more likely to say that inflation is forcing them to seek out more capital (75%) and that rising interest rates are limiting their ability to raise capital (77%) than those with fewer than 20 employees.

Meanwhile, rising prices have pushed many small businesses to seek more financing. A majority of small business owners (62%) say that rising prices have forced them to seek out additional capital or financing for their business in the past year. Younger generations of small business owners indicate they are feeling the pressure more keenly: Small businesses owned by Gen Z or millennials (73%) are more likely than both Gen Xers (58%) and baby boomers and older (45%) to say rising prices have forced them to seek out additional capital.

“For my industry I would say inflation is still going up. Case in point is our cost of coffee, labor, and overhead like gas and electricity. In San Francisco, specifically, each July 1 the minimum wage increases based on the annual increase in the Consumer Price Index. For me that means my rate jumps from $16.99 to $18.07 or 6.36%. The challenge is keeping up with these costs, and constantly raising my prices. It seems as though I can’t keep up.”

Hrag Kalebijan, Owner
Henry’s House of Coffee
San Francisco, CA
As Perceived Access to Capital Declines, More Turn to Personal Savings

Personal savings, credit cards are most popular way to fund business

More small businesses perceive access to capital declining over the long run. To help make up the difference, more of them indicate they are opting to turn to personal savings to fund their businesses.

Almost half of small business owners (49%) say their current access to capital or loans is good. This is slightly, but not significantly, lower than the share that rated their access to capital as good in Q2 2022 (54%). However, this is significantly lower than in Q2 2017 when 67% said their access to capital or loans was good.

Personal savings are the most popular means of financing a small business, followed closely by credit cards. A majority of small businesses rely on their personal savings (69%), credit cards (64%), and local banks or credit unions (53%) for capital/loans.

Using personal savings to finance a small business is also growing in popularity. More small businesses now (69%) say they rely on personal savings to finance their business than in Q2 2022 (60%) and also up from Q1 2020 (43%).

Where small businesses turn for funding—and how they feel about their own access to capital—is also dependent on demographic factors.

Male-owned small businesses are more likely to say their access to capital or loans is good this quarter than female-owned businesses (52% vs. 43%, respectively). Male-owned businesses are also significantly more likely to report having gone to national banks (48% vs. 33% for female-owned businesses) for capital or financing. In contrast, female-owned businesses are significantly more likely to say they have turned to personal savings (74% vs. 66% for male-owned businesses). However, both men and women-owned small businesses say they are relying on personal savings more now than in Q2 2022.

Additionally, small businesses with younger owners are more likely to perceive they have poorer access to capital. Gen Z or millennial-owned small businesses are more likely to say their access to capital or loans is fair or poor (46%) versus 35% of Gen X-owned businesses and 34% of baby boomers or older-owned businesses. Gen Z or millennial-owned small businesses are also more likely than baby boomers or older generations to say they have turned to personal savings or to friends and family for capital or financing to grow their businesses.

Perceived access to capital also increases with the number of employees a business has. Nearly three in four (73%) small businesses with 20-500 employees say they have good access to capital, compared to 55% of those with 5-19 employees, and just 41% of those with fewer than five employees.

3. Beginning in Q2 2020, an online approach was used in place of the typical phone methodology. This change in mode may be responsible for some of the shifts in the data after Q1 2020.
4. In Q1 2020 and Q2 2022, this option was asked as, “Grants or loans for minority-owned small businesses.”
“Both local economies we are involved in seem to be pretty stable and growing. In Houston, despite what you hear, the oil and gas industry is still hiring. Utah really doesn’t have too many highs or lows. Just a great, steady increase.”

Tom Richter, CEO
Jan-Pro Cleaning Systems
Midvale, UT

Smaller small businesses are also more likely to turn to personal savings to fund their businesses. Small businesses with fewer than five employees are more likely to say they rely on personal savings to finance their business (75%) than those with 5-19 and 20-500 employees (59% each). In fact, more of the smallest businesses (less than five employees) now say they rely on personal savings than in Q2 2022 (65%). The largest small businesses, those with 20-500 employees, report turning to more sources for financing in general than those with fewer than twenty employees.

Perceptions of access to capital also vary by sector, with one sector in particular standing out. Small businesses in the services sector are less likely to rate their access to capital as good (38%) than those in retail (53%), professional services (52%), and manufacturing (51%).

Many find securing grants cumbersome, time-consuming

Small business owners cite varying barriers to securing financing for their business. When it comes to loan financing specifically, nearly half of small businesses (46%) say that not having enough revenue or assets to qualify for a loan makes it difficult for them to get financing.

When it comes to securing grants or loans, many find the application process cumbersome and confusing. More than half (52%) find the application process time-consuming, and 46% say the process is confusing to the extent that it makes it difficult to get financing or credit for their business.

Relatively less say that a bad credit score is a barrier to financing their small business. Around one in three (34%) small businesses say that having a bad credit score or credit history poses challenges to securing financing. In particular, Gen Z or millennial-owned small businesses (42%) are more likely than Gen Xers (29%) or baby boomers and older (26%) to say that having a bad credit score or credit history makes it difficult for them to access financing.

Almost Half Say Limited Revenue Poses Barriers to Securing Capital

| QUARTERLY SPOTLIGHT |

<table>
<thead>
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<th>Percentage of small businesses that use the following to find capital or financing to grow</th>
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<tbody>
<tr>
<td>Personal savings</td>
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<td>Credit cards</td>
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<td>Local banks or credit unions</td>
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<td>National banks</td>
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<td>Friends &amp; family</td>
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<td>U.S. Small Business Association</td>
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<td>Grants or loans</td>
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<td>Online lenders</td>
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0-4 Employees: 80%
5-19 Employees: 70%
20-500 Employees: 60%

46% of small businesses say that not having enough revenue or assets to qualify for a loan makes it difficult for them to get financing.
The vast majority of small businesses see offering health insurance as a crucial recruitment tool, and as the right thing to do.

Nearly nine in ten small business owners believe offering employees health insurance is the right thing to do (89%) and that employer-sponsored health insurance helps attract and retain employees (85%).

Despite their belief in the value of employer-sponsored health insurance, small businesses indicate they face challenges when actually trying to offer those benefits. Nearly two in three (65%) say that navigating health insurance options for their business is time-consuming. Fewer now say that they have enough information to make informed decisions about health benefits for their employees than in Q2 2019\(^5\) (65% vs. 74%).

Also, affordability is a top issue for some small businesses. Ten percent of small business owners rate affording employee benefits or healthcare as a top challenge facing the small business community.

However, 62% believe the cost of health insurance crowds out other priorities for their business.

Across generations, Gen Z or millennial-owned small businesses are more likely than Gen Xers to say that figuring out how to offer benefits to full-time employees is difficult. Despite these challenges, Gen Xers and millennials (80%) are more likely than Gen Xers (70%) and baby boomers and older generations (62%) to say that their business prioritizes its employees when deciding where to invest capital.

Many small businesses also struggle with which benefits to offer and how to select them. A majority say they find it difficult to figure out what benefits to offer their business’ full-time employees (55%) and how to offer those benefits (51%). Another 58% say they wish they had outside help when it comes to offering employee benefits.

Most small businesses wish they had help on choosing health benefits.
Small Business Operations, Environment and Expectations

Small Business Operations
Most report good business health, cash flow comfort

Despite a decline in their views of the national economy, most small business owners remain optimistic about their own business’s health and cash flow. Most also say they have retained the same number of staff over the past year.

Most (63%) small business owners report that their business is in good health, which has remained stable since Q2 2022. Consistent with previous quarters, small businesses that employ more people are more comfortable about their business health. Roughly three in five (56%) small businesses with fewer than five employees say they are in good health, compared to 71% of small businesses with 5-19 employees, and 80% of small businesses with 20-500 employees. Each of these measures is consistent with the previous two quarters.

Most businesses are also pleased with their cash flow, similar to findings in recent quarters. About two in three (64%) small business owners say they are comfortable with their cash flow. This has remained stable for the past two quarters, after experiencing a seven-percentage point drop between Q2 and Q3 2022. This also marks a return to levels of confidence seen in early 2021.

Similar to attitudes around business health, larger small businesses are more comfortable with their cash flow—a pattern observed consistently over the past few years. About three in five small businesses with fewer than five employees (57%) are comfortable with their cash flow, while 71% of small businesses with 5-19 employees and 82% of small businesses with 20-500 employees are. Again, each of these measures remains at a similar level as last quarter.

Small businesses have also been consistent in retaining employees and hiring new ones. Nearly seven in ten small business owners (69%) say their business retained the same staff size over the past year, while nearly one in five (19%) indicate they increased staff. This has remained stable for over a year.

Again, companies with more employees are more likely to say they have increased their staff size than those with fewer employees—a pattern also observed for over a year.
Small Business Environment

Small businesses see a weaker national economy, steady local ones

Perceptions of the economy are mixed this quarter: More small businesses believe the national economy is declining, while views of local economies have held steady. More and more, small business owners seem to be separating their perceptions of the macroeconomic environment from the economy in their local area and day-to-day operations.

Confidence in the national economy has declined this quarter with just one in five (20%) small business owners saying the U.S. economy is in good health. This marks a decline from 2022, when perceptions of the U.S. economy remained stable (ranging from 27%-30% saying it was good over the entire year).

However, small businesses are more optimistic—and more consistent—in their views of their local economy. Slightly more small businesses rate their local economy as good (29%) compared to their views of the national economy. Moreover, perceptions of local economies have remained stable the last three quarters following a decline between Q2 and Q3 2022.

National and local economic perceptions are largely similar across regions and industries. Small businesses with fewer than five employees are more pessimistic about the U.S. economy and their local economy than larger small businesses. Roughly one in six (15%) of these businesses say the U.S. economy is good compared to 27% of businesses with 5-19 employees and 28% of those with 20-500 employees.

Small business owners’ perceptions of time spent on licensing and compliance now resemble that of Q1 2022, before businesses reported a bump in time spent on these issues from Q2 to Q4 2022. Now, 28% of small business owners report spending more time on licensing, compliance, or other government requirements as opposed to between 35-37% in Q2 to Q4 of last year. But most see a consistent amount of red tape: 60% now say the amount of time they spend on compliance has stayed the same over the last six months. Similarly, more small business owners now report seeing about the same level of competition from smaller or local companies than last quarter (57% vs. 50%).

small business expectations

Most small businesses expect revenue to increase over the next year

Reflecting uncertainty over the direction of the economy, small businesses plan to pull back on increasing investment over the next year. At the same time, a majority expect their revenue to increase and almost two in five say they intend to increase staff.

Fewer small businesses say they plan to increase investment over the next year than did last quarter (38% now vs. 47% in Q4 2022). After most of 2022 representing a high-water mark on increasing investment, sentiments this quarter look similar to a year ago (40% in Q1 2022).

Otherwise, small businesses’ future expectations remain similar to last quarter—with most expecting more revenue. Nearly two in five (37%) say they intend to increase staff over the next year, while roughly three in five (64%) say they expect their revenue to increase. Each of these is essentially unchanged from the last two quarters.

Similar to other findings this quarter, small businesses with fewer than five employees differ in their future expectations from larger small businesses. They are less likely to say they plan to increase investment over the next year (33%) than those with 5-19 employees (45%) and 20-500 employees (50%). Additionally, small businesses with 5-19 employees (48%) and those with 20-500 employees (55%) are more likely than those with fewer than five employees (28%) to say they plan to increase staff over the next year.

Just as small businesses with fewer than five employees have grown pessimistic about the economy, they have also become less bullish on their plans for the future. Fewer now say they plan to increase investment over the next year compared to last quarter (33% vs. 47%).

By sector, fewer small businesses in services say they plan to increase staff (27%) than those in manufacturing (42%), retail (40%), or professional services (40%).
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Compared to Q2 2017, perceptions of access to capital have slid, but still almost half (49%) of small business owners say their current access to capital or loans is good. This is slightly lower than those who rated their access to capital as good in Q2 2022 (54%) and significantly lower than in Q2 2017 (67%).

Small businesses like to offer healthcare.
A majority of small businesses say that offering employees healthcare is the right thing to do (89%). However, most (65%) say that navigating healthcare options for their business is time-consuming.

6. Beginning in Q2 2020, an online approach was used in place of the typical phone methodology. This change in mode may be responsible for some of the shifts in the data after Q1 2020.
Small Business Index Methodology

These are the findings of an Ipsos poll conducted between January 16-February 2, 2023. For this survey, a sample of 752 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 source of these population targets is U.S. Census 2019 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. 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.

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=752, 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 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 2019 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**

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](http://www.uschamber.com).

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**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](http://www.MetLife.com).

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