Small Business Index

Q2 2023

WWW.SBINDEX.US

The Voice of Small Business Owners

PRESENTED BY MetLife U.S. Chamber of Commerce

Contents

INDEX SUMMARY

Index Up As Small Businesses Plan For More Hiring, Higher Revenue

Inflation remains top concern by far

Small businesses are feeling better about the future according to the latest MetLife & U.S. Chamber of Commerce Small Business Index. Both hiring plans and revenue expectations for the next year reached the highest level ever recorded in the Index (started in Q2 2017), driving the overall score higher.

63.1

2023 Q2 Score

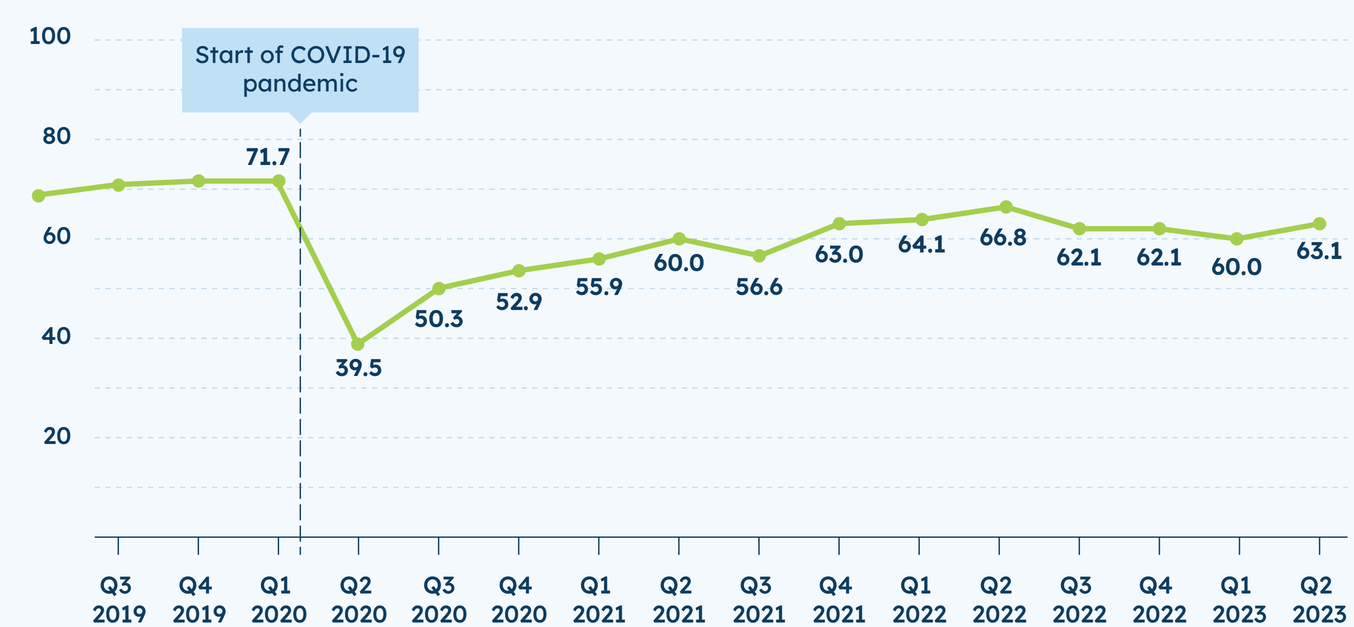
The Index rose to 63.1 this quarter, a slight increase from last quarter (60.0) and near findings in Q4 2022 (62.1). Overall, small businesses continue to feel good about the day-to-day operations of their business, including business health and cash flow, despite continued macroeconomic mixed signals.

However, most small business owners continue to see inflation as their biggest challenge by far. More than half (54%) of small business owners say inflation is their top challenge. This has remained consistent since Q3 2022 and represents a 35-percentage point increase since Q3 2021. This sentiment is widespread, and inflation is the top concern for small businesses regardless of their region, number of employees, or sector.

Small businesses say they are changing their behavior in response to interest rate hikes and have more concern about rising rates. Three in four (76%) small businesses say rising interest rates are limiting their ability to raise capital or financing for their business, a 10-percentage point increase since last quarter and a 16-percentage point increase since first asked one year ago. What's more, half (50%) of small businesses report that they have delayed plans to grow their business in response to higher interest rates. Fully 74% of small businesses express concern about rising interest rates making it harder to pay back their current business loans (while 36% say they strongly feel rising rates will make it harder to pay them back). Seventy three percent (73%) say it's harder to borrow money from banks for their business because banks are tightening lines of credit.

Small business owners also indicate that they are turning to more sources for capital/financing for their business. A majority report relying on their personal savings (71%), credit cards (67%), and local banks or credit unions (59%) for funding. Four in 10 (41%) small businesses say they have turned to fixed rate loans while 26% say they have used variable rate loans.

Small Business Index Score Q3 2019 - Q2 2023



INDEX HIGHLIGHTS

Small Business Index Q2 2023 – 63.1

The MetLife and U.S. Chamber of Commerce Small Business Index score for Q2 is 63.1. The Index score for Q1 was 60.0

Index score heads higher.

The MetLife & U.S. Chamber of Commerce Small Business Index rose slightly to 63.1 from 60.0 last quarter. This is near findings in Q4 2022 (62.1).

Hiring plans reach record highs.

Hiring expectations reached the highest ever recorded for the Index (started Q2 2017). Nearly half (47%) of small businesses report that they anticipate increasing staff in the next year, up 10 percentage points since last quarter.

Revenue expectations reach record highs.

Revenue expectations reached the highest ever recorded for the Index (started Q2 2017). 71% of small businesses say they expect next year's revenue to increase, up by seven percentage points since Q1 2023.

Inflation remains the top challenge.

A majority (54%) of small businesses rate inflation as their largest challenge. This represents a 35-percentage point increase since Q3 2021 and marks the sixth consecutive quarter that inflation tops the list of challenges.

More see rising interest rates as top challenge.

23% of small business owners say rising interest rates are the top challenge facing the small business community, increasing by seven percentage points since last quarter (was 16%).

Small businesses are more likely to say competition has increased.

36% of small businesses say competition has increased compared to six months ago, a nine-percentage point jump from Q1 2023 (27%).

Small businesses turn to more sources for financing.

As inflation persists and concerns around interest rates grow, more small businesses report turning to multiple sources of funding compared to a year ago, particularly personal savings, friends, and family.

Rising interest rates are limiting the ability to raise capital.

Three in four (76%) small businesses say that rising interest rates are limiting their ability to raise capital, a 10-percentage point increase since Q1 and a 16-point increase since Q2 2022.

Small businesses put growth plans on hold in response to rising rates.

In response to higher interest rates, half (50%) of small businesses report that they have delayed plans to grow their business.

QUARTERLY SPOTLIGHT

Small Businesses Adjust to Higher Interest Rates, Tighter Credit

Half have delayed plans to grow due to higher interest rates

This quarter, small business owners report taking a number of actions in response to higher interest rates.

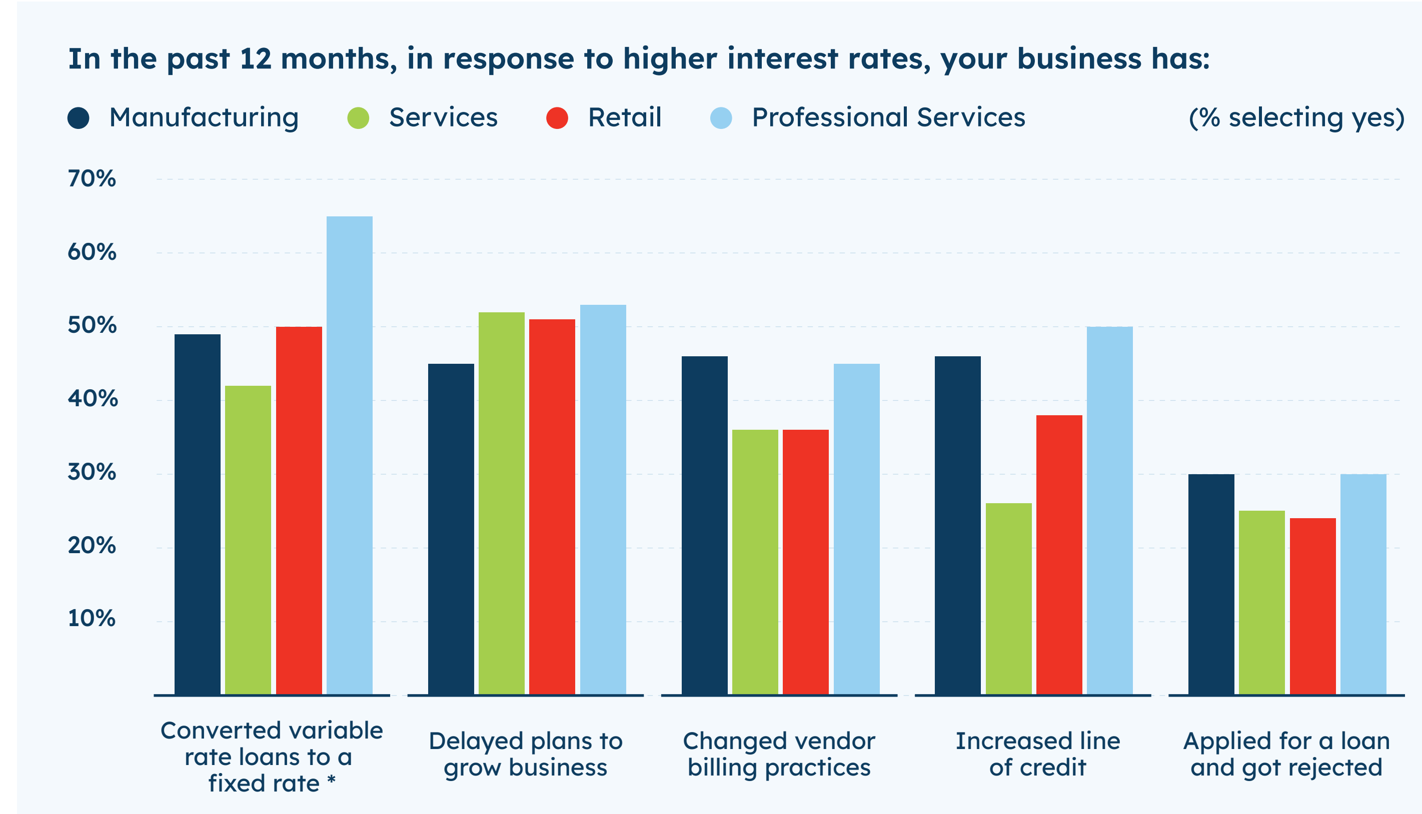
Half (50%) of small businesses report that they have delayed plans to grow their business due to rising interest rates. Of the 26% that had used a variable rate loan, 53% have converted it into a fixed rate loan. Finally, roughly four in 10 report changing billing practices to front-load costs (40%) and increasing their line of credit (39%).

Small businesses are also adapting to higher inflation. Almost half (49%) of small businesses indicate that they have taken out a loan within the past year to cover higher costs due to inflation. This is similar to this time last year (46%), but higher than in Q3 2022 (40%).

Small businesses in services are less likely to say they have taken out a loan due to inflation or to report increasing their line of credit than other sectors.

50%

of small businesses report that they have delayed plans to grow their business due to rising interest rates



Majority say rising interest rates are limiting ability to raise capital

Most small business owners report feeling the effects of interest rate hikes on financing their business this quarter.

In fact, a strong majority (76%) of small businesses say that rising interest rates are limiting their ability to raise capital or finance their business, a 10-percentage point increase since last quarter and a 16-percentage point increase year over year (Q2 2022). Similarly, 73% of small businesses say it's harder to borrow money for their business from banks because they are tightening lines of credit. Likewise, 74% express concern about rising interest rates making it harder to pay back current business loans.

> "Our local economy is persistently strong. Unemployment is still at 2.3% locally and construction markets remain strong. People continue to want to move to Florida. I am quite confident in our local market."
>
> **Mike Zaffaroni, Owner and President**
> **Liberty Landscape Supply**
> **Jacksonville, FL**

*Respondents to this question equaled 391.

Percentage of small businesses that agreed with the following statements:

While rising rates certainly have implications for the broader economy, fully nine in ten (91%) small business owners agree that small businesses are the most vulnerable to rising interest rates (including 52% that strongly feel this way).

Despite professional services being the most likely sector to cite rising interest rates as a top concern, businesses from all sectors express similar levels of worry over interest rates' impact on their access to capital and ability to pay back current loans.

76%

of small businesses say that rising interest rates are limiting their ability to raise capital or finance their business

QUARTERLY SPOTLIGHT

Small Businesses Cast Wider Net to Secure Financing as Rates Rise

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

In the face of higher interest rates, small businesses are turning to a diverse range of sources to finance and grow their businesses.

Compared to a year ago, small businesses report turning to a wide array of funding sources at even higher levels. A majority still report relying on their personal savings (71%) and credit cards (67%) as the top sources for funding their small businesses. A lesser amount—but still a majority (59%) of small businesses—seek funding from local banks or credit unions.

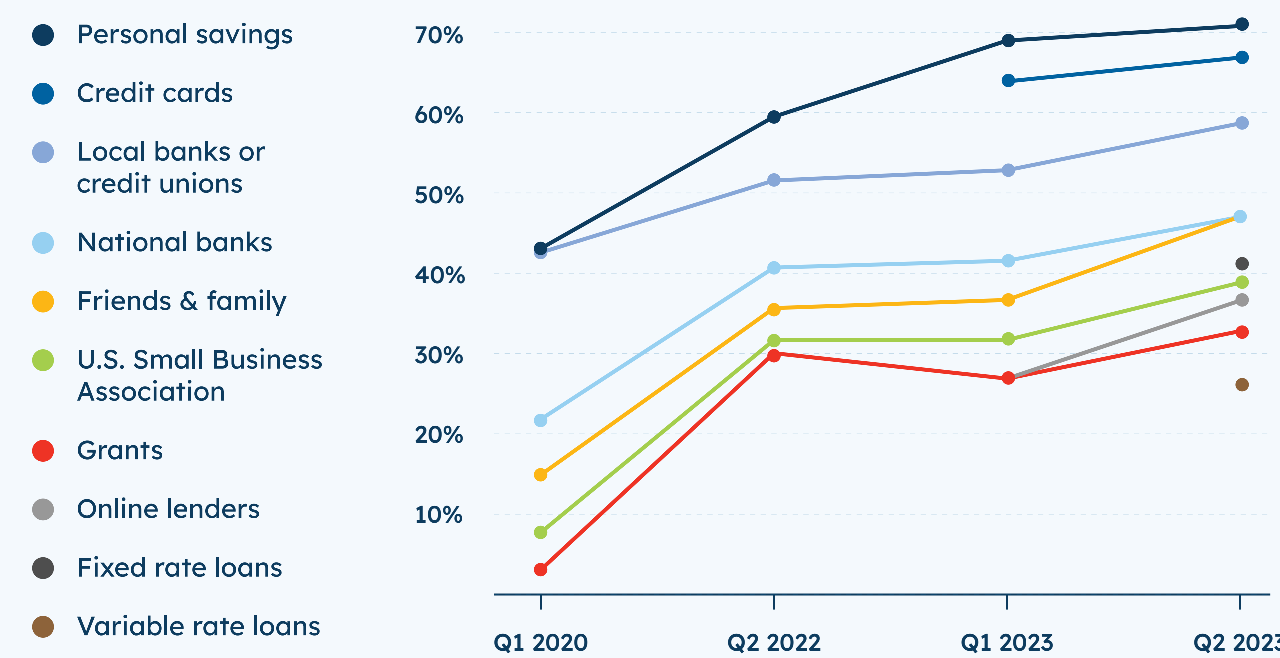
This quarter two new questions revealed that some small businesses opted for fixed rate loans (41%) or variable rate loans (26%) to fund their businesses.

Demographically, small businesses of different sizes and ownership patterns seek financing from different places. Larger small businesses are more likely to say they've turned to traditional sources of financing than smaller ones, while the smallest small businesses (less than five employees) have increasingly diversified their financing sources over the last quarter.

71%

of small businesses still report relying on their personal savings for funding

Resources small businesses use or go to for capital or financing *



Small businesses with fewer than five employees are more likely to report turning to personal savings and online lenders than larger ones. Compared to Q1 2023, the smallest small businesses report turning to a number of sources at higher levels including: local banks or credit unions (55% vs. 46%), friends and family (51% vs. 37%), national banks (45% vs. 35%), online lenders (41% vs. 25%), and the U.S. Small Business Administration (37% vs. 27%). Meanwhile, the largest small businesses report using financing sources in similar rates as Q1 2023.

As in Q1 2023, male-owned small businesses continue to say they have turned to national banks at higher rates than women-owned small businesses (51% vs. 41%). However, while women-owned businesses reported turning to personal savings more than male-owned businesses in Q1 2023, this quarter shows both turning to their savings at similar rates (69% vs. 71%, respectively).

Small businesses owned by Generation Z, millennials, or Generation X are more likely to indicate that they have turned to nearly all the diverse sources asked about compared to those owned by baby boomers and older generations. This marks a change from last quarter, where there were more similarities between Gen X and baby boomer-owned businesses. This quarter, Gen X-owned businesses report turning to *many more* sources of financing compared to last quarter including local banks or credit unions (57% vs. 47%), national banks (48% vs. 37%), and friends and family (45% vs. 32%)—among other sources.

* Notes

"Credit cards" and "Online lenders" added in Q1 2023.

"Fixed rate loans" and "Variable rate loans" added in Q2 2023.

In Q1 2020 and Q1 2022, "Grants" was asked as "Grants or loans for minority-owned small businesses" and in Q1 2023 it was asked as "Grants or loans".

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.

QUARTERLY SPOTLIGHT

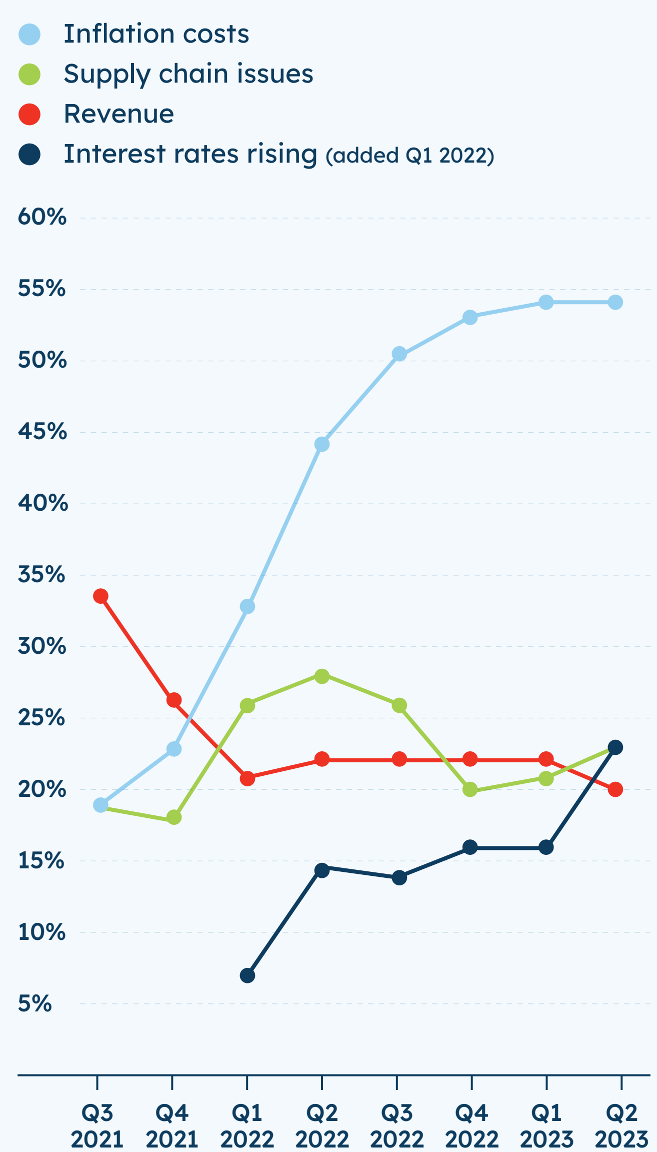
Inflation Remains Top Challenge for Small Businesses Nationwide

Over half say inflation remains biggest challenge

Small businesses owners say inflation remains their single biggest challenge by far; other challenges don't come close.

A majority (54%) of small businesses rate inflation as their largest challenge. This matches past highs from the Index and has remained consistent since Q3 2022. It also represents a 35-percentage point increase since Q3 2021. The concern over inflation is widespread: Inflation is the top concern for small businesses regardless of their region, number of employees, or sector.

Top 4 biggest challenges facing small business owners



Consistent with last quarter, supply chain issues (23%), rising interest rates (23%), and revenue (20%) remain second-tier concerns behind inflation. However, more small businesses (23%) indicate that rising interest rates are a top concern this quarter, after this measure plateaued at about 15% throughout 2022. Since Q3 2021, when this was first asked, concerns over rising interest rates have climbed 16 percentage points.

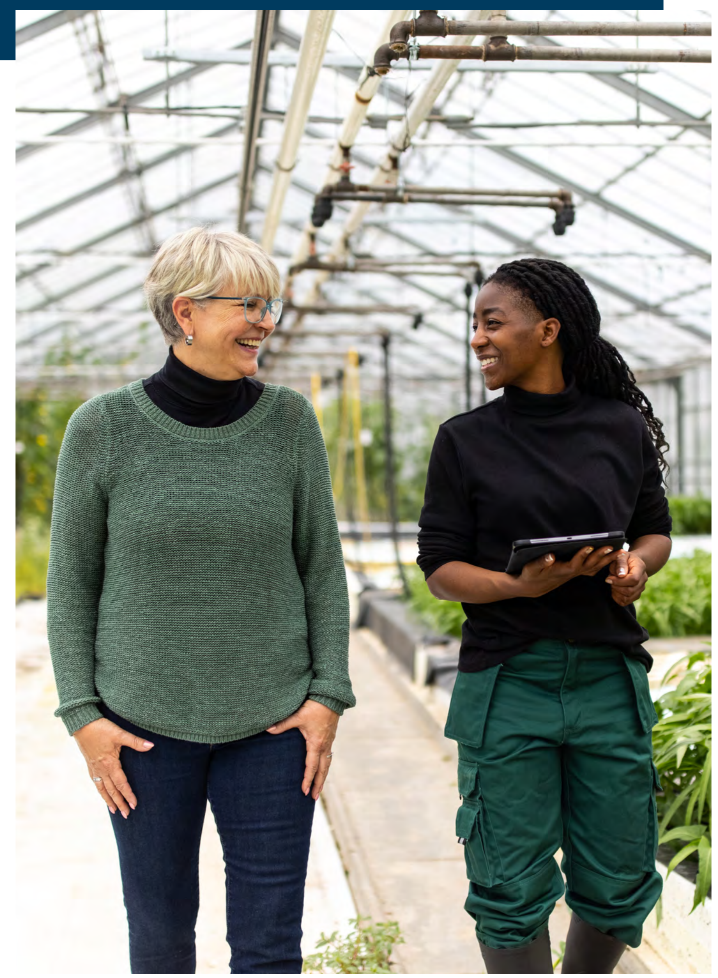
Similar to last quarter, professional services small businesses are more likely to cite rising interest rates as a top concern than those in other sectors (34% vs. 17-21%, respectively). Businesses in the West are also more likely than those in other regions to say interest rates are a top concern (32% vs. 18%-21%, respectively).

54%

of small businesses rate inflation as their largest challenge

KEY FINDINGS

Small Business Operations, Environment and Expectations



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

Small business owners report stability in their operations—including business health, comfort with cash flow, and increased staffing—this quarter.

About three in five (59%) small businesses say the overall health of their business is very or somewhat good. This reading is consistent with last quarter, when 63% said the same, but lower than that recorded in Q2 2022 (66%). As has been the case in the past, small businesses with more employees are more comfortable with their business health. While 50% of those with fewer than five employees say their business is in good health, 69% of those with 5-19 employees say the same, and 85% of those with 20-500 employees agree.

Unchanged from first quarter, just under two in three (64%) small business owners say they are comfortable with their cash flow. This has remained stable for the past three quarters, following a seven-percentage point drop between Q2 and Q3 2022.

59%

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

Over the past few years, small businesses with a larger number of employees are more likely to say they are comfortable with their cash flow than those with fewer employees. This pattern persists this quarter: 86% of small businesses with 20-500 employees say they are comfortable with their cash flow compared to 74% of those with 5-19 employees and 55% of those with fewer than five employees.

Most small businesses report steady staffing levels. Sixty-four percent say their business has retained the same staff size over the past year, while nearly a quarter (23%) say they have increased staff. This reading marks the sixth quarter that data has not changed overall when it comes to reported headcount. The data also shows that companies with more employees are more likely to say they have increased their staff size than those with fewer employees, a pattern observed for over a year.

> "Tightening in both credit and private equity markets is creating challenges for many small business owners. Rising interest rates make it more challenging for some entrepreneurs to qualify for financing, although I have seen several loan guarantee programs step up to assist some of these borrowers in securing funding."
>
> **Stephanie Sims, Founder**
> **Finance-Ability, Scottsdale, AZ**

Small Business Environment
Small businesses see a stable national and local economy

Confidence in the U.S. and local economies are stable this quarter. About a quarter (24%) of small business owners believe the U.S. economy is in good health, consistent with Q1 2023 (20%).

Three in ten (30%) small businesses say their local economy is good, a stable reading from Q1 2023 (29%) and extending a year-long plateau in perceptions of local economies after a drop between Q2 and Q3 2022. Perceptions of local economic health are largely similar across regions, employee size, and industry. For the national economy, however, those small businesses in the retail sector (28%) and professional services (29%) industries are more likely to report that the national economy is in good health than those in the service sector (15%).

This quarter, nearly two in five (37%) small businesses say the time or resources they spend on completing licensing, compliance, or other government requirements has increased compared to six months ago. Following a seven-point drop in perceived increased compliance requirements last quarter (from 35% in Q4 2022 to 28% in Q1 2023), current perceptions have now returned to those observed between Q2 and Q4 2022, when between 35%-37% of small businesses said compliance requirements had increased. This trend follows that of the past two years: the reported time and resources spent on compliance requirements generally drops in Q1 and rises back to stable levels in Q2 of each year.

Perceived levels of competition from smaller or local companies have also increased this quarter. About 36% of small businesses say competition has increased compared to six months ago, a nine-percentage point jump from Q1 2023 (27%). This increase mirrors a similar change observed in Q2 2022, when 39% of small businesses said competition increased versus 30% in Q1 2022.

While the perceived increase in competition is consistent across business size, differences emerge by sector. Small businesses in the retail and professional service industries are more likely to say competition has increased than those in the service industry (38% and 41% vs. 27%, respectively). While just over a third (36%) of small businesses in manufacturing say they have experienced increased competition, too, they are not significantly more likely to say so than retail and professional services.

36%

of small businesses say competition has increased compared to six months ago, a nine-percentage point jump from Q1 2023

Small Business Expectations

Small businesses have record expectations for hiring, revenue

Small businesses' expectations for the future have improved significantly this quarter. These increasingly bullish perspectives on the future—for both increased staffing and revenue—are a contributing factor in the increase of the overall Small Business Index score.

Nearly half (47%) of small businesses report that they anticipate increasing staff in the next year, up 10 percentage points since last quarter. This increase in staffing expectations is particularly notable and is the highest recorded since the start of the Index (in Q2 2017).

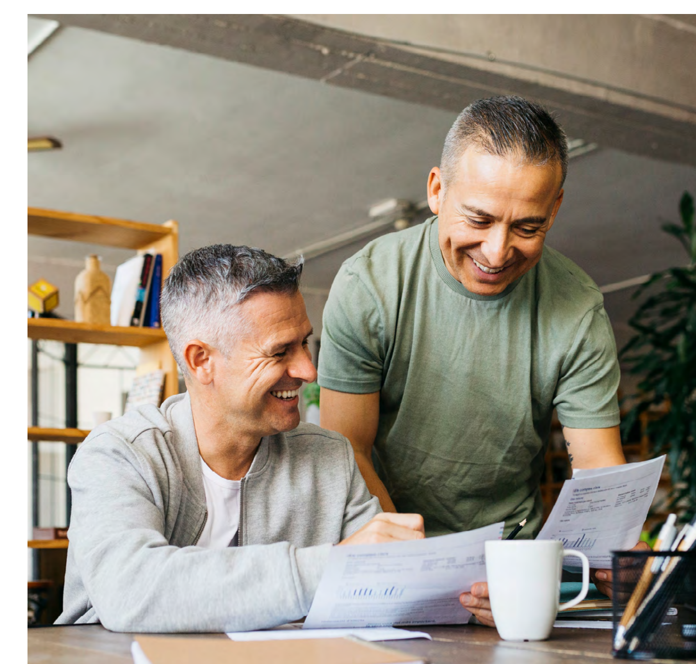
Similarly, 71% of small businesses say they expect next year's revenue to increase, up by seven percentage points since Q1 2023. This is also the highest percentage of small businesses who have reported expectations for increased revenue since the study began.

In contrast, 42% of small businesses say they plan to increase investment in the next year, which is consistent with that reported last quarter (38%).

For future expectations, small businesses with fewer than five employees have gotten more optimistic overall since last quarter: 44% say they plan to increase staffing (+16 percentage points), 71% say they are planning for increased revenue (+9 percentage points), and 44% say they plan to invest more (+11 percentage points). It is important to note, however, that larger small businesses are *still more* optimistic about the future increases in staffing than those with fewer employees. While 55% of those with 20-500 employees say they plan to increase staffing, 44% say the same among those with fewer than five employees.

Although this pattern was similar for increasing investment last quarter, small businesses with 0-4 employees, 5-19 employees, and 20-500 employees are similarly optimistic about increasing future investments this quarter (44%, 36%, and 44%, respectively).

When considering future increases to staffing, revenues, and investment, few significant differences emerge by sector. However, small businesses in the retail industry are more likely than those in professional services to say they plan for revenue to *decrease* in the next year (11% vs. 4%, respectively). Small businesses in the retail industry are also more likely to say they plan to *reduce* investment in the next year compared to those in the services and professional service industries (15% vs. 8% and 5%, respectively).



SNAPSHOTS

Index Snapshots

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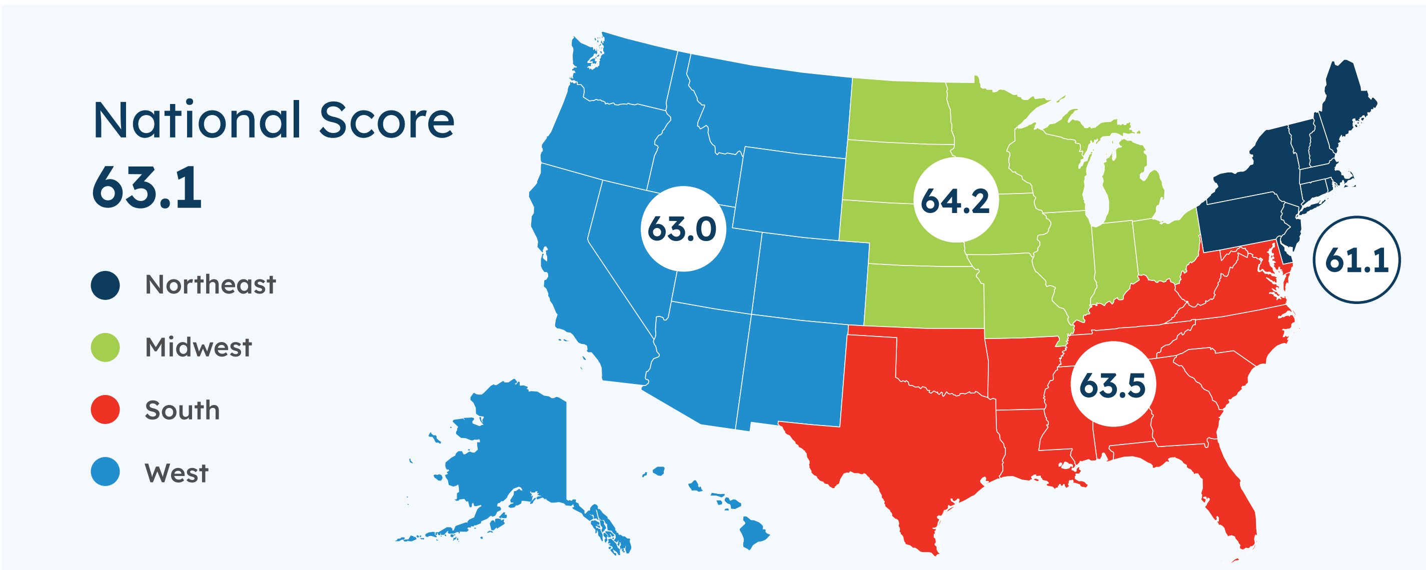
As inflation persists and concerns around interest rates grow, more small businesses report turning to multiple sources of funding compared to a year ago, particularly personal savings, friends, and family.

Small businesses put growth plans on hold in response to rising rates.

In response to higher interest rates, half (50%) of small businesses report that they have delayed plans to grow their business.

Q2 Small Business Index Scores by Region

Regional scores move up, with Midwest notching highest score



Northeast (61.1): About half (51%) of small businesses in the Northeast say their business is in good health, declining by 14 percentage points since Q1 2023 (65%). A majority (62%) say they are comfortable with their cash flow, down 12 percentage points from last quarter (74%). More also report reducing staff in the past six months (up to 20% from 7% in Q1). However, they are significantly more likely to plan to increase staff (53% vs. 29%) this quarter.

Midwest (64.2): Views on overall business operations hold steady this quarter in the Midwest. About two-thirds of Midwestern small businesses report their business is in good health (65%) and that they are comfortable with cash flow (68%). Alongside the national trend of increased optimism about the future, Midwestern small businesses are more likely to say they plan to increase investment (42%) and predict higher revenue (68%) this quarter, increasing by about 10 percentage points each since last quarter.

South (63.5): Attitudes of small businesses in the South are more stable than other regions this quarter. Overall, there have been slight, but not significant, positive shifts in many measures, such as increased competition, more comfort with cash flow, and plans to increase staff. However, their attitudes track quite closely to the broader national outlook, likely explaining the increase in the Southern regional score this quarter.

West (63.0): Western small businesses' perceptions of the economic climate are improving. Nearly half of Western small businesses say that they plan to hire more staff in the next year (49% vs. 38% in Q1). Attitudes toward the U.S. economy have also improved this quarter, following a 12-percentage point drop in Q1. Nearly three in ten (29%) regional small businesses say the U.S. economy is in good health, compared to 35% in Q2 2022.

Small Business Index Methodology

These are the findings of an Ipsos poll conducted between May 8-24, 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).

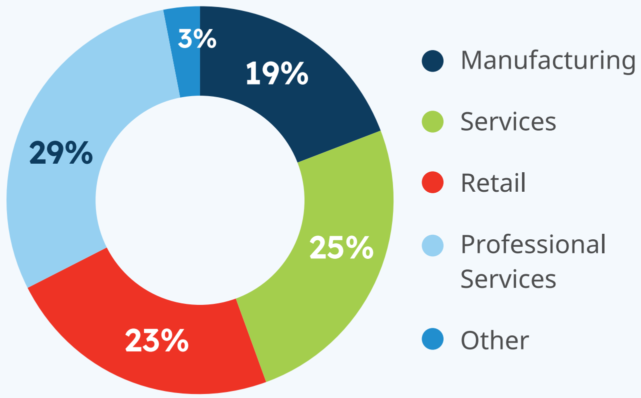
Starting with the March 2020 survey, small business decision makers are reached via an online survey, in place of the typical phone-based approach. This methodological shift is in response to lower anticipated response rates in dialing owners at their businesses as a result of mandated closures related 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

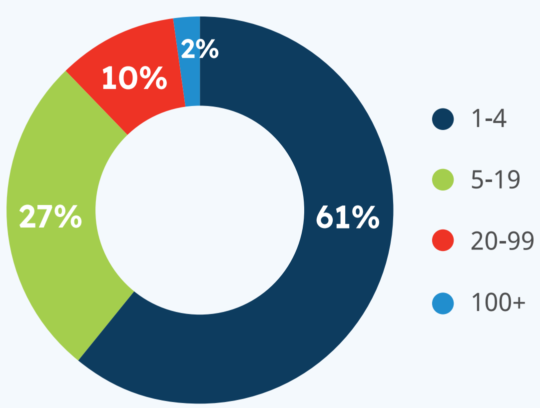
To construct national, regional, employee size, and broad industry group level estimates of the health of small businesses in the U.S., a sequence of statistical techniques were applied to the survey results, including elastic net for variable selection and multilevel regression with post stratification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

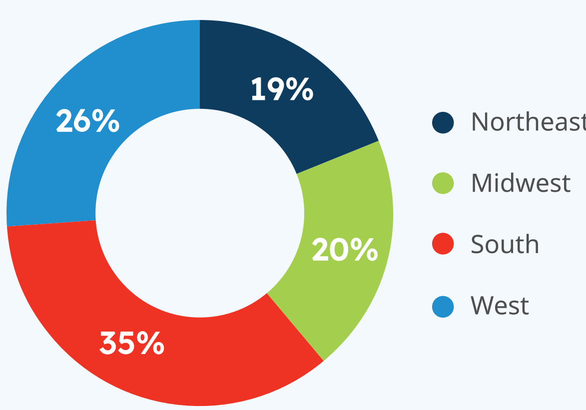
Breakdown by Sector



Breakdown by Employee Size



Breakdown by Region



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

MetLife

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**.

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MetLife

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For more information, visit **www.MetLife.com**.

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U.S. Chamber of Commerce

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