

Small Business Index

Q3 2021

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The Voice of Small Business Owners

PRESENTED BY



U.S. CHAMBER OF COMMERCE

Contents

Index Summary
4

Index Highlights
8

Quarterly Spotlight
10

Key Findings
18

Index Snapshots
22

Regional Scores
24

Methodology
26

About Us
28

Small Businesses Show Growing Signs of Caution About the Future

Staffing levels and investment plateau, as concerns about inflation grow.

With new variants causing a rise in COVID-19 cases, the latest MetLife & U.S. Chamber of Commerce Small Business Index finds that small businesses are showing increasing caution about the current and future economic climate.

This quarter’s Small Business Index score is 56.6, down from last quarter (60.0 in Q2), but in line with the beginning of the year (55.9 in Q1 2021).¹ The survey—conducted between July 16 – 30, 2021 as the Delta variant began to spread rapidly across the country—shows signs that small business staffing and investments (both current and future) may be hitting a plateau. However, overall views of their own business’s health and cash flow remain stable this quarter.

Separate from the Index score, there are broad concerns about revenue, inflation, and the impact of rising costs generally. The survey also found that more small business owners, from every background, agree that minority-owned small businesses face more challenges than non-minority-owned businesses.



56.6

2021 Q3 Score



Small Businesses Grow More Cautious

A big theme from this quarter’s survey is the growing caution of small businesses when it comes to future hiring and investment. There is evidence of this caution across a number of different metrics.

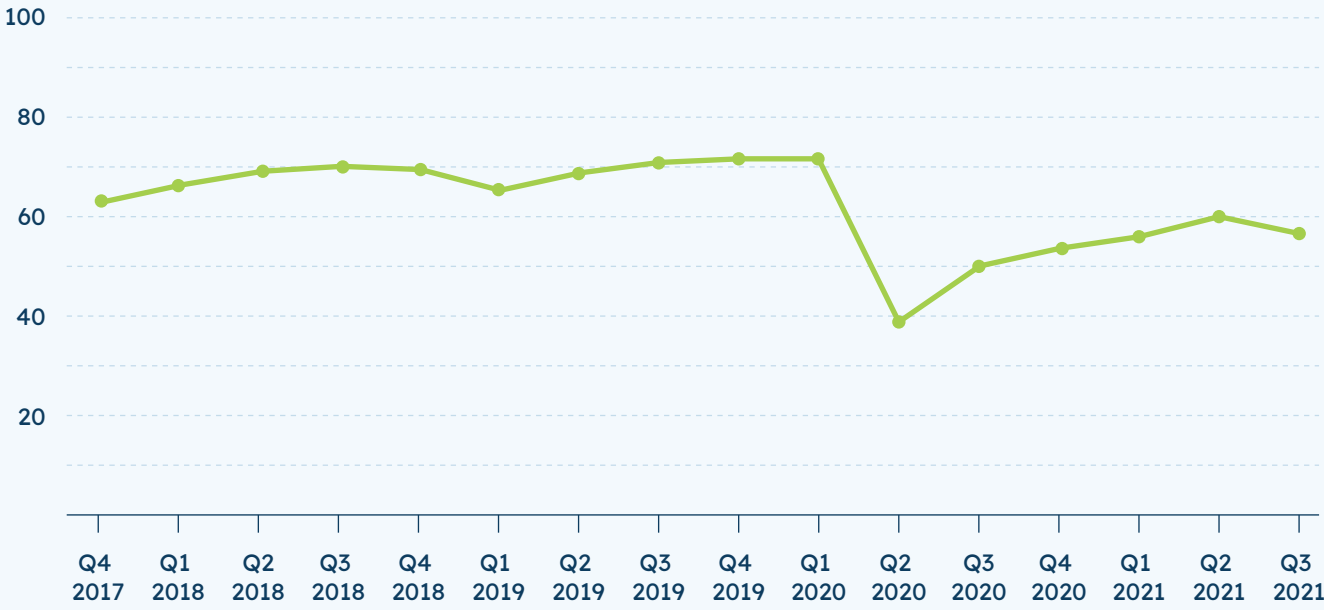
Compared with the past year, fewer businesses (29%) report plans to increase investment in their business over the next year (was 35% in Q1). This quarter 48% said they plan to invest the same amount over the next year (up from 42% last quarter and up from 37% in Q1).

Most small businesses report retaining the same amount of staff over the last year. Around three in five (68%) small business decision makers say they have retained the same size staff over the past year, while 17% said they had reduced staff over that time. A majority (62%) anticipate retaining the same size staff next year (28% anticipate increasing staff) and 6% plan reducing staff. This contrasts with last quarter when fewer reported retaining the same amount of staff. Then, 57% reported retaining the same size staff over the last year and 23% percent reported they reduced staff. Additionally, 52% said they planned to retain the same size staff and 11% said they planned to reduce staff over the next year.

68%

of small business decision makers say they have retained the same size staff over the past year

Small Business Index Score 2017 Q4 - 2021 Q3



However, overall current business health and cash flow remain unchanged, with most businesses feeling generally optimistic. More than half (55%) of small business owners believe the health of their business is good and two-thirds (66%) believe their cash flow situation is good. Both of these measures remain statistically unchanged from the previous quarter and had been steadily climbing back to pre-pandemic levels—but have yet to reach them. (65% said the overall health of their business was good in Q1 2020, 80% were comfortable with their cash flow in Q1 2020).

While most small businesses are increasingly cautious, they do recognize modest improvements to the country’s economy. This quarter, around one in three (34% of) small business owners say the U.S. economy is in good health: higher than any point since the pandemic began. However, very few (just 7%) say the economy is in “very good” health. Instead, the improving views of the national economy come from more businesses saying the country’s economy is “somewhat good.” A similar pattern emerges regarding the economy in their local area: 31% see an average local economy, 14% say it is “very good,” and 26% say the local economy is poor.

Small businesses see revenue (or the lack thereof) as their single biggest post-COVID challenge. Although most (58% of) small businesses expect their revenue to increase in the next year (on par with last quarter), 34% of small business owners believe that revenue is the biggest challenge facing small businesses coming out of the pandemic. This is followed by: compliance with COVID-19 safety protocols (23%), supply chain issues (19%) and inflation costs (19%).

Growing Concerns Over Inflation, Supply Chain Constraints

The vast majority of small businesses (72%) are finding it difficult to manage higher costs due to inflation, as they work to recover from the pandemic. About three quarters (73%) of small business owners also say that rising prices have had a significant impact on their business in the past year.

As with inflation, supply chain issues are also giving businesses concern. 61% of small business owners say it is difficult for them to manage disruptions to their supply chain and 62% say their supply chain has been dramatically disrupted by the pandemic.

More Positive Attitudes Toward Minority-Owned Small Businesses

A significant majority (66%) of small business owners, regardless of sector, area of the country, or racial/ethnic background, agree that minority-owned small businesses face more challenges than non-minority-owned businesses. After a year that sparked diversity, equity, and inclusion initiatives throughout the workforce, more small businesses now believe this to be true when compared to early 2020 when they were last surveyed on this topic (when 52% said minority-owned small businesses faced more challenges).



INDEX HIGHLIGHTS

Small Business Index

2021 Q3 – 56.6

The MetLife and U.S. Chamber of Commerce Small Business Index score for Q3 is 56.6. The Index score for Q2 2021 was 60.0; in Q2 2020 it reached an all-time low of 39.5.²



50% of small businesses say it is difficult to recruit enough employees

Fewer small businesses plan to increase investment.

Compared with the past year, fewer businesses (29%) report plans to increase investment in their business (was 35% in Q1). But a plurality (48%) said they plan to invest the same amount over the next year.

Most small businesses plan to keep staffing levels the same.

Around three in five (68%) small businesses say they have retained the same size staff over the past year. Also, 62% anticipate retaining the same size staff next year (28% anticipate increasing staff next year).

Half of small businesses report problems finding staff.

About half (50%) of small businesses say it is difficult to recruit and hire enough employees to fill open positions and to compete for talent with other small (52%) and large (57%) businesses in their area.

Small businesses see modest improvements to the economy.

Around one in three (34% of) small business owners say the U.S. economy is in good health: higher than any point since the pandemic began. However, very few (7%) say the economy is in “very good” health.

Small businesses see mixed local economy.

31% of small businesses surveyed see an average local economy, 14% say their local economy is “very good,” but 26% say the local economy is poor.

Overall business health and cash flow remain unchanged, with most feeling optimistic.

More than half (55%) of small business owners believe the health of their business is good and two-thirds (66%) believe their cash flow situation is good.

The vast majority of small businesses are finding it difficult to manage inflation.

72% of small businesses say they find it difficult to manage higher costs due to inflation as they work to recover from the pandemic.

Small businesses see lack of revenue as biggest post-pandemic challenge.

58% of small businesses expect their revenue to increase next year, but 34% of small business owners believe that revenue is the biggest challenge they face coming out of the pandemic.

More say minority-owned businesses face unique challenges.

Two-thirds (66%) of small businesses now acknowledge that minority-owned small businesses face more challenges than non-minority-owned businesses. This is an increase of 14 percentage points from when this question was last asked in Q1 2020.

Midwestern small businesses get more optimistic.

Nearly three in five (59%) Midwestern small businesses feel positively about their overall business health, and are the only region to see a significant increase from Q2 2021 (45%). Midwestern small businesses are not as confident about the health of their local economy (32% say it is good).



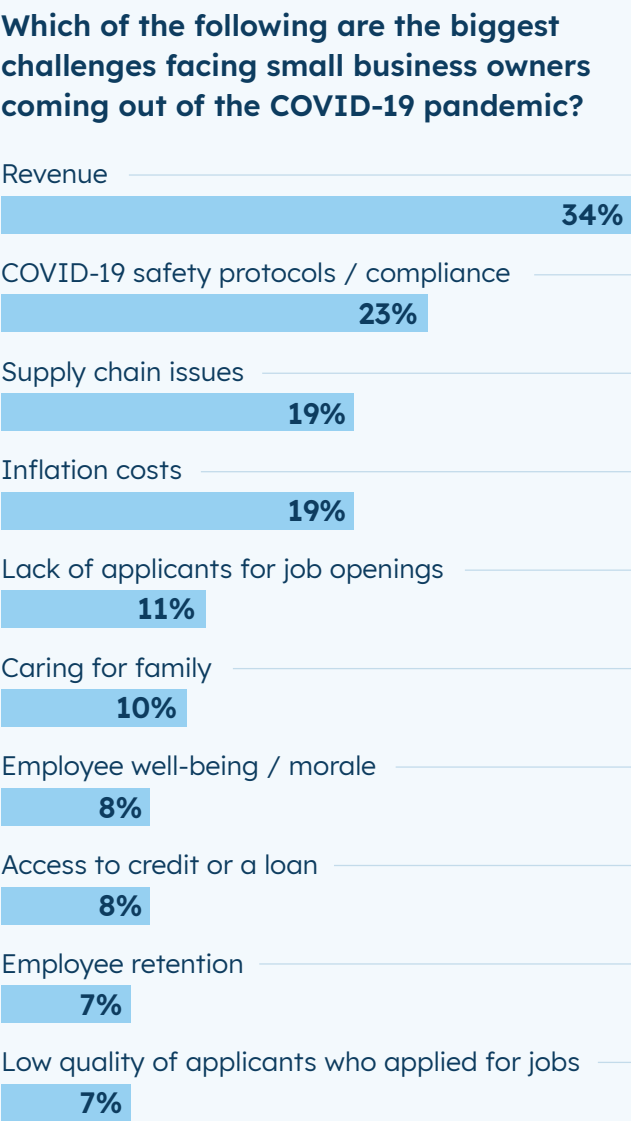
As Businesses Reopen, Revenue Is Biggest Challenge

Covid protocols, inflation, supply chain also cause concern

As the Delta variant of COVID-19 continues to spread rapidly across the country, our latest survey of America’s small businesses shows a resilient sector that is showing signs of caution as it looks to the future. Despite a good amount of optimism about the national economy and their own business health—most small businesses’ investment and hiring plans seem to have plateaued.

Small businesses say their biggest challenge is generating revenue. Although 58% of small businesses expect their revenue to increase in the next year, a plurality of small business owners (34%) believe that revenue is the single biggest challenge facing small businesses emerging from the pandemic.

Revenue is the top cited challenge for small businesses across all regions and sectors, with about a third of small business owners in each region and each sector indicating this is the biggest challenge. When it comes to business size, smaller small businesses are more likely to cite revenue as the biggest challenge facing their businesses during this economic recovery. In contrast, larger



small businesses are more likely to cite COVID-19 safety protocols/compliance as their top challenge. COVID-19 compliance is also a top-tier issue for small businesses in the services sector.

COVID-19 safety protocols are the second most often-noted challenge, with 23% of all small businesses noting it as a challenge. Larger small businesses (34%) and those in the services sector (33%) are more likely to say COVID-19 protocols are a challenge.

In a tie for the third most-cited challenge facing small businesses emerging from the pandemic are two issues: supply chain and inflation. One in five (19%) small business owners believe that these are the biggest challenges they face as the economy recovers. This holds true across region and company size. However, small businesses in certain sectors are more worried about this than others. Retailers are most likely to cite supply chain issues and inflation costs as their biggest challenge, followed by manufacturers.

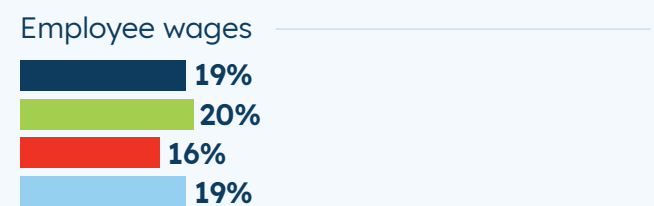
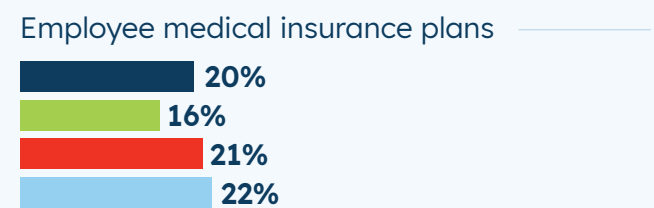
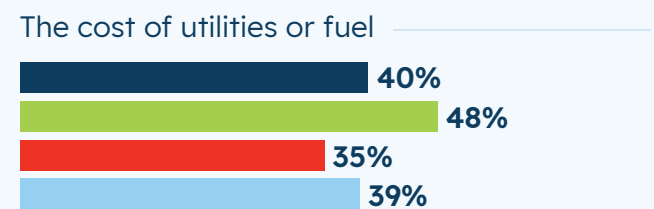
Service sector struggles most to find workers

Today, many sectors and businesses across the country are struggling to find enough workers to fill open positions. Overall, 11% of small businesses this quarter cited the lack of applicants for open jobs as their top challenge. Data suggests that this effect is worst in the services sector where 15% said this was their biggest concern.

Seven percent of small businesses said that their top concerns were the low quality of applicants who applied for jobs and employee retention. The manufacturing sector (11% said was top concern) and the Southern region (12% said was top concern) were more likely to say that the low quality of applicants is a top concern. Larger small business (20-499 employees) were the most likely group to say that retaining employees is their top challenge with 18% saying so.

Over the past year, where in your business have you seen the impact of rising prices the most? (Strongly agreed or somewhat agreed)

● Manufacturing ● Services
● Retail ● Professional Services



Most say higher costs are proving hard to manage

Though 19% say inflation is the single biggest challenge facing small businesses as they recover from the pandemic, 72% of small businesses say that managing higher costs due to inflation is difficult for them. Also, about three quarters (73%) of small business owners say that rising prices have had a significant impact on their business in the past year.

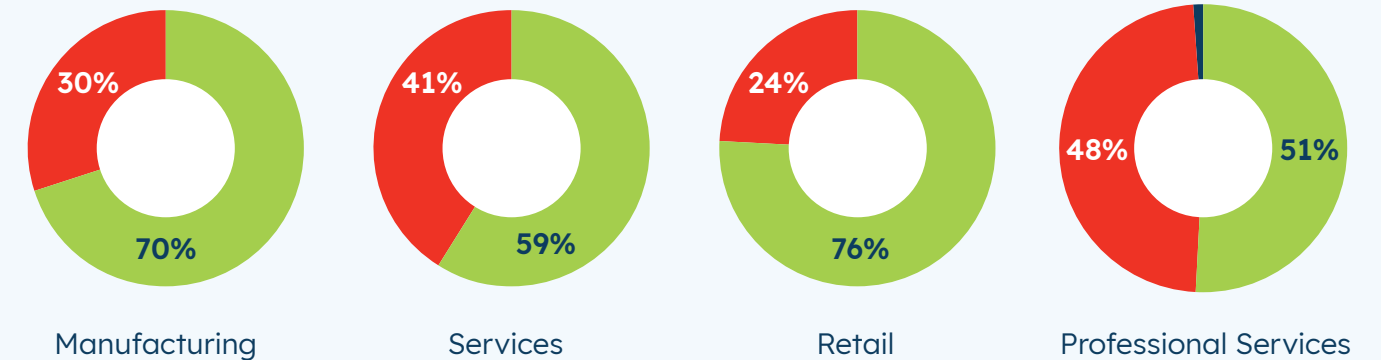
The difficulty of dealing with inflation varies by sector, with manufacturers feeling the most pressure. Manufacturers are the most likely to say (at 82%) that managing higher costs due to inflation is difficult. Three quarters of retailers and small businesses in the services sector (both 74%) agree that managing higher costs is difficult for them, while 61% of those in the professional services sector agree.

Larger small businesses struggle more than smaller ones with inflation. Among small businesses with 20-499 employees, 81% say they have a difficult time managing higher costs brought on by inflation, compared to seven in ten businesses with 1-4 employees (71%) and businesses with 5-19 employees (69%).

Across regions, there is less variability, with 69%-75% of small businesses in each region saying managing higher costs is difficult for them (this does not represent a significant difference). Among the nearly three-quarters of businesses that acknowledge the significant impact of rising prices, those in the West and the South (both 78%) are among the most likely to say this. The same is true for retailers (81%) and manufacturers (80%).

How much do you agree or disagree with the following? “My business’ supply chain has been dramatically disrupted or affected by the COVID-19 pandemic.”

● Agree (Net) ● Disagree (Net) ● Don't know



Among the small businesses who said that rising prices have had a significant impact on their business, that impact is seen most in:

- **The cost of goods and supplies (60%)**
- **The cost of utilities or fuel (41%) and**
- **Rent for retail, commercial, or office space (21%)**

Retailers, manufacturers struggle the most with supply chain issues

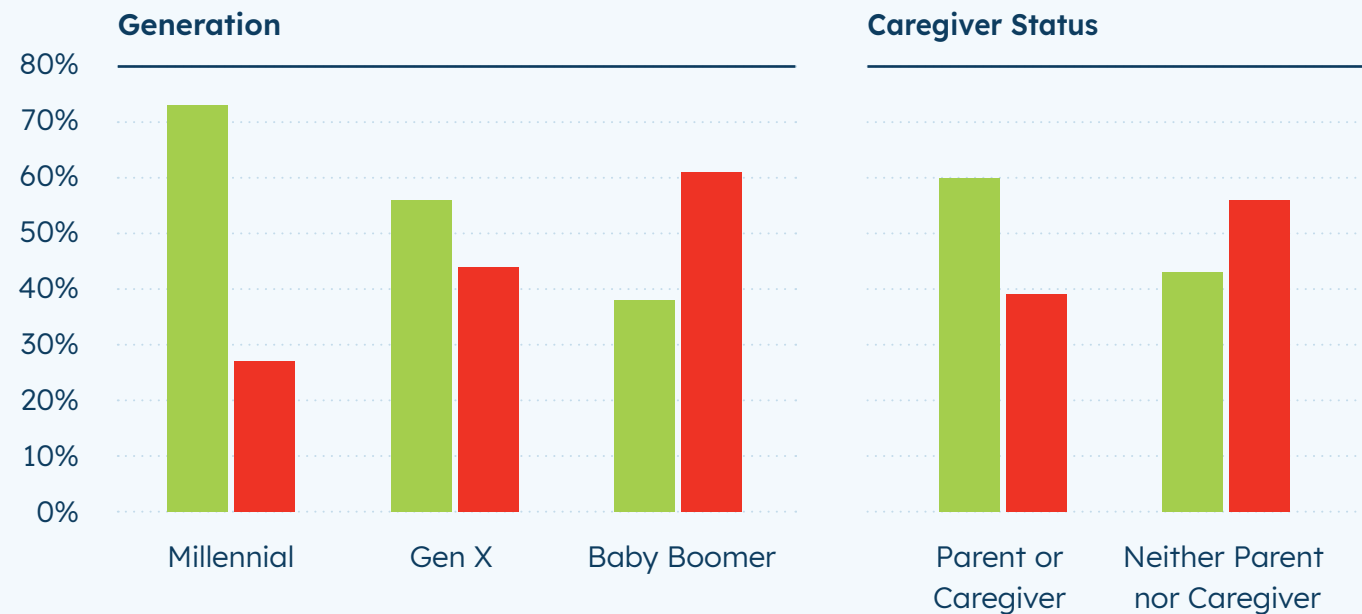
Similar to inflation, supply chain issues are a top concern behind revenue. This quarter, 61% of small business owners say it is difficult for them to manage disruptions to their supply chain, and 62% say their supply chain has been dramatically disrupted by the pandemic.

Retailers struggle the most with supply chain disruptions, with 80% of small business retailers saying it is difficult for them to manage these disruptions. Two-thirds of small business manufacturers report difficulty managing supply chain disruptions. Small businesses that provide services (and may therefore rely less on supply chains) don't have as much difficulty, with 53% in the services sector and 50% in the professional services sector saying it is difficult for them to manage disruptions. Regionally, the differences are small, with most in all regions saying it is difficult to manage supply chain disruptions.



How much do you agree or disagree with the following?
 “I am struggling with work-life balance.”

● Agree (Net) ● Disagree (Net)



Majority say they struggle with work/life balance

Balancing career and life has become a challenge for many during the pandemic and the same holds true for small business decision makers. About half (52%) of small business owners say they struggle with work-life balance, and 51% say they struggle to spend enough time with family outside of work.

Here, business size, the generation of the business owner, and their status as a caretaker all play a role in perceived ability to balance work and life. There is little difference between all male-owned and all female-owned businesses on the topic. Small business owners who run larger small businesses tend to struggle balancing work and life more than those who run medium-sized or smaller businesses. Seven in ten small businesses with 20-499 employees say they struggle with work-life balance, compared to

56% of businesses with 5-19 employees and 47% of small businesses with 1-4 employees.

This trend also holds true when it comes to spending time with family outside of work. Seventy-eight percent of larger small businesses report they struggle to spend time with family outside of work, while medium-sized (59%) and smaller small businesses (42%) are less likely to agree.

Small business owners from younger generations—as well as those who are parents or caregivers—also are more likely to say they struggle with work-life balance and spending time with their families outside of work.

Finding workers to fill open jobs also remains a big concern for small businesses. About half of small businesses say it is difficult to recruit and hire enough employees to fill open positions (50%) and to compete for talent with other small (52%) and large (57%) businesses in their area. Larger small businesses have more difficulty with these staffing issues than medium-sized (5-19 employees) and smaller (1-4 employees) small businesses.

While 23% of small business owners think complying with COVID-19 safety protocols is the biggest challenge small businesses face coming out of the pandemic, 41% report that it is difficult for them to maintain these safety protocols. The difference here is that COVID-19 compliance is more centered around larger small businesses, rather than spread out relatively evenly across sector, size, or region, like other issues seem to be.

Despite all these challenges they face and the uncertainty of the pandemic, small businesses are optimistic about the future. While 43% of small business owners have considered closing their business in the past year, almost twice as many (79%) say they are optimistic about the future of their business.

“I would rate the overall health of our local economy in Los Angeles as in need of resuscitation... California businesses are additionally burdened with protracted shutdowns, recession fallout, the rising costs of goods, droughts, and raging fires. But my money is on the entrepreneurial spirit of California residents and entrepreneurs, who lead with resilience and perseverance when the going gets tough. At the end of the day—he or she with the most innovative, goal-directed behavior often wins and paves the way for others’ success.”

Dr. Mary Lynn Rapier, Ph.D
Founder and Owner
A Psychology Corporation
Santa Monica, California

Attitudes Toward Minority-Owned Businesses Shift

Two-thirds say minority-owned businesses face more challenges

After a year of focus on—and investment in—diversity, equity, and inclusion initiatives in the business world, two-thirds (66%) of small businesses acknowledge that minority-owned small businesses face more challenges than non-minority-owned businesses. This is an increase of 14 percentage points (up from 52%) from when this question was first asked in Q1 2020. Additionally, most small businesses see the benefit in hiring racially-diverse candidates and want to see more training and hiring initiatives to do so.

Across regions, sectors, and size, a majority of small business owners support diversity in the workplace, though there are differences. Larger small businesses, for example, are more likely to support making investments to ensure a more diverse workplace—perhaps because they have more resources to do so. Small businesses with 20-499



64%

of minority small business owners say that being a minority is good for business

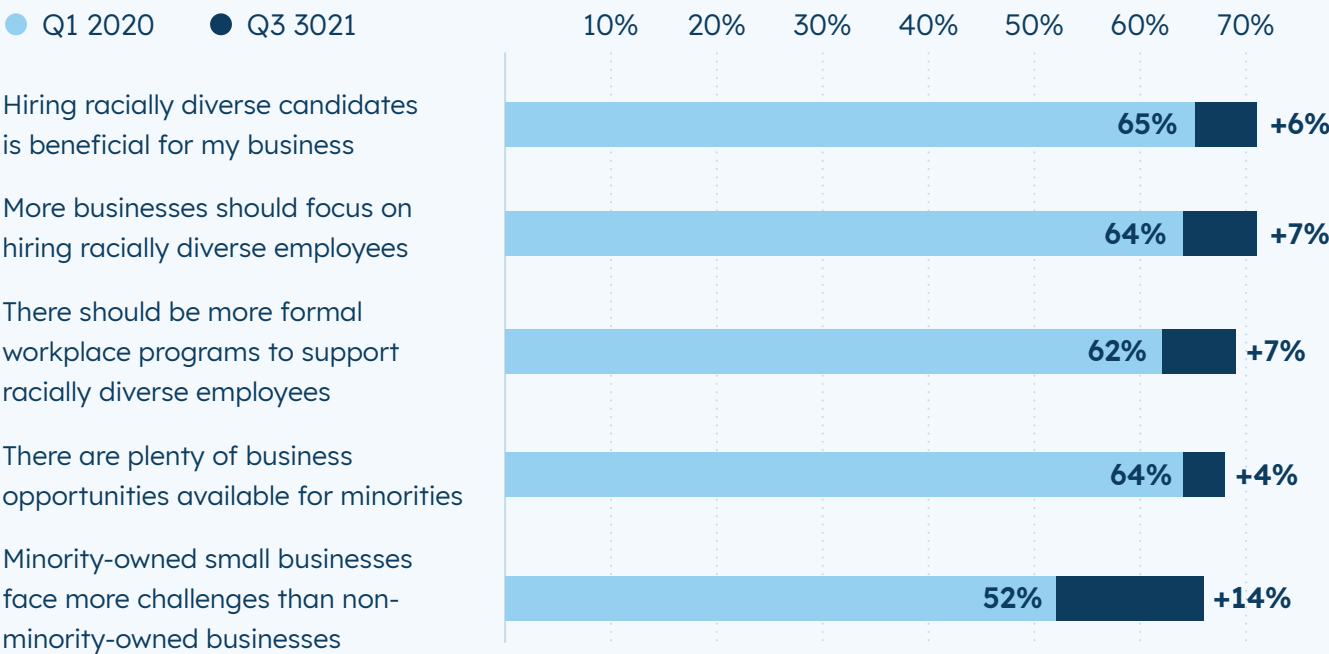
employees are most likely to think more businesses should focus on hiring racially diverse employees (85%), compared to medium-sized small businesses (74%) and the smallest small businesses (67%). Nine in ten (88%) larger small business owners support formal workplace training or programs to support racially diverse employees, and 85% agree that hiring diverse candidates is beneficial.

Despite the ongoing challenges minority-owned (either racial/ethnic minority or LGBTQ) small businesses face, their mood is significantly more positive now than at the beginning of last year (Q1 2020), specifically when it comes to the benefits and resources available for them. Currently, more than three in five minority small business owners say that being a minority is beneficial for their business (64%), up from 26% in early 2020. Sixty-four percent of minority small business owners say that they are aware of the benefits available to them as minority-owned businesses, and 62% believe these minority-specific resources are adequate. In Q1 2020, fewer than half agreed with these statements. Despite these benefits, over half of minority small business owners find it difficult to find and build a relationship with a mentor who looks like them (55%).

66%

of small businesses acknowledge that minority-owned small businesses face more challenges than non-minority-owned businesses

How much do you agree or disagree with the following statements? (Total agreeing)



KEY FINDINGS

Small Business Operations, Environment and Expectations

Small Business Operations

Small businesses have overall optimism, see consistent cash flow

This quarter, most small businesses say their view of their business health is good. They report steady cash flow and staffing numbers.

When it comes to their own business health, most small businesses are optimistic and see little change. Over half (55%) of small businesses rate their overall business health as good, on par with previous quarters going back to May 2020. Larger small businesses have a markedly more optimistic view of the health of their business: the vast majority (85%) of small businesses with 20-499 employees believe their business is in good health, compared to 64% of small businesses with 5-19 employees and 45% of small businesses with less than five employees.

As for staffing, a majority say they have retained the same amount of staff. Almost seven in ten (68%) small businesses report that over the past year they have retained the same size staff, which is an increase from the 57% of those who said the same in the previous quarter. Only 13% of small business owners say they have increased their headcount over the past year. Small businesses with less than five



66%

of small businesses say they're comfortable with their cash flows

employees are the least likely to report an increase (8%) over the past year. 17% of all small businesses say they have reduced staff over the last year.

Finally, most small businesses are comfortable with their current cash flow. Around two thirds of small business owners overall say they are comfortable with their cash flow, not significantly different from last quarter (66% in Q3 vs. 64% in Q2). Larger small businesses are much more comfortable with their cash flow than smaller small businesses.

Small Business Environment

Small businesses see slightly improving national, local economies

Small businesses are generally more optimistic about both the national economy and their local economy than they were last quarter.

One third of small businesses (34%) believe the U.S. economy is in good health, compared to 27% in Q2 (and 21% in Q1 2021). Optimism about local economies is even higher, with two in five (42%) small business owners saying their local economy is in good health. While this is still less than half of small business owners, it is a pandemic high for this measure.

34%

of small businesses believe the U.S. economy is in good health



“Workforce and inflation are the two biggest challenges I’m facing as we emerge from the pandemic. In my case, I’m hoping immigration reform can be more than a wedge issue in the coming months. The system is and has been broken for a long time, to the detriment of my small business and the greater economy.”

Richard Cardew
Founder & Owner, Cardew Hay Co.
Buckeye, Arizona



Small business owners generally do not perceive a significant change in the level of competition from other local companies over the past six months. Over half (55%) of small businesses say the level of competition from smaller or local companies has stayed the same in the past six months, while one in four (26%) say competition has increased, unchanged from the previous quarter. Most small businesses also say the time spent on compliance (58%) remains the same as six months ago, on par with what they said last quarter (57%).

58%

of small businesses say the time spent on compliance remains the same as six months ago

Small Business Expectations

Small businesses get cautious about the future

Despite general optimism about their current health and the economy, small business owners are growing cautious about the future. This can be seen in steady plans to retain staffing and investment at current levels—without ramping them up or down.

Sixty-two percent of all small business owners anticipate retaining current staffing levels, an increase from the previous quarter (52%). Half or more of small businesses across all sizes and sectors plan to retain the same size staff in the next year. 28% of small businesses plan to increase staff and just 6% plan to reduce staff.

Plans for investment are also plateauing. Almost half (48%) of small business owners plan to invest about as much in their business as they did last year, which is a double-digit increase from the beginning of the year (Q1, 37%). Another 29% plan to increase

investment (which is down slightly from 33% in Q2 2021), while 15% of small businesses plan to reduce investment.

Overall revenue expectations for the next year are also unchanged from the previous quarter. A majority of small business owners (58%) expect their revenues to increase in the coming year, and another 31% expect their revenues to remain the same. Across sectors, 70% of small businesses in the services sector expect revenues to increase in the next year, which is higher than small businesses in the professional services sector (59%), retail (54%), and manufacturing (42%).

Index Snapshots

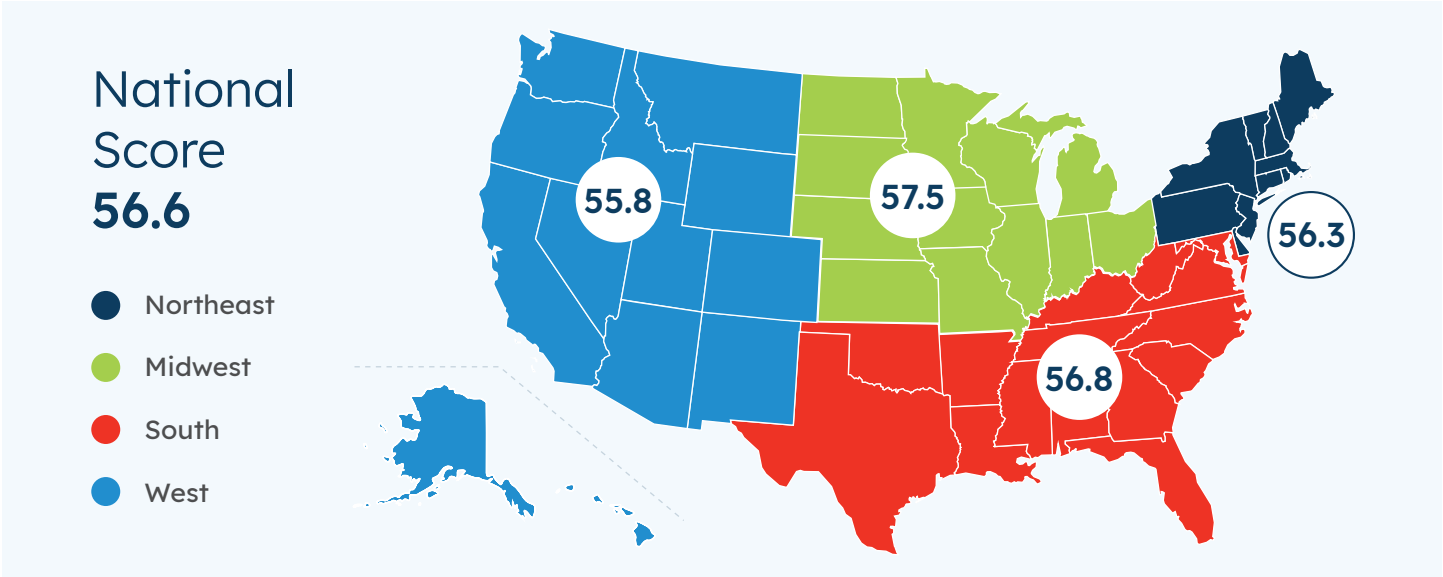
	<p>Index falls.</p> <p>The MetLife & U.S. Chamber of Commerce Small Business Index fell from 60.0 in Q2 to 56.6 this quarter. This score remains below findings before the pandemic began: the score was 71.7 in Q1 of 2020.</p>
	<p>Fewer small businesses plan to increase investment.</p> <p>Compared with the past year, fewer businesses (29%) report plans to increase investment in their business (was 35% in Q1). But a plurality (48%) said they plan to invest the same amount over the next year.</p>
	<p>Most small businesses plan to keep staffing levels the same.</p> <p>Around three in five (68%) small businesses say they have retained the same size staff over the past year. Also, 62% anticipate retaining the same size staff next year (28% anticipate increasing staff next year).</p>
	<p>Half of small businesses report problems finding staff.</p> <p>About half (50%) of small businesses say it is difficult to recruit and hire enough employees to fill open positions and to compete for talent with other small (52%) and large (57%) businesses in their area.</p>
	<p>Small businesses see slightly improving economy.</p> <p>Around one in three (34% of) small business owners say the U.S. economy is in good health: higher than any point since the pandemic began. However, very few (7%) say the economy is “very good.”</p>
	<p>Many see mixed prospects for local economy.</p> <p>Thirty-one percent of small businesses surveyed see an average local economy, 14% say their local economy is “very good,” but 26% say the local economy is poor.</p>

	<p>Overall business health and cash flow remain unchanged, with most feeling optimistic about business health.</p> <p>More than half (55%) of small business owners believe the health of their business is good and two-thirds (66%) believe their cash flow situation is good.</p>
	<p>The vast majority of small businesses are finding it difficult to manage inflation.</p> <p>Seventy-two percent of small businesses say they find it difficult to manage higher costs due to inflation as they work to recover from the pandemic.</p>
	<p>Small businesses see lack of revenue as biggest challenge.</p> <p>Thirty-four percent of small business owners believe that revenue is the biggest challenge they face coming out of the pandemic.</p>
	<p>More say minority-owned businesses face unique challenges.</p> <p>Two-thirds (66%) of small businesses acknowledge that minority-owned small businesses face more challenges than non-minority-owned businesses. This is an increase of 14 percentage points from Q1 2020.</p>



Q3 Small Business Index Scores by Region

Midwest bucks national trend with big jump in business health



Northeast (56.3): This quarter, 30% of small businesses in the Northeast plan to increase investment, trailing only the South. This marks a slight, but not significant, drop from the previous quarter (36%). Slightly fewer Northeastern businesses report plans to increase staff (24%, down from 32%) and they lag behind the Midwest in terms of revenue and investment expectations. However, a majority of small businesses in the Northeast report good overall business health (56%) and comfort with cash flow (65%), similar to last quarter.

Midwest (57.5): Nearly three in five (59%) Midwestern small businesses feel positively about their overall business health and are the only region to see a significant increase from Q2 2021 (45%). Midwestern small businesses are not as confident about the health of their local economy (32% say it is good, 14-17 points behind the South and West). More than other regions, Midwestern small businesses plan to increase staff in the next year (39%, compared to 24-27% in other regions).

South (57.5): Sixty-one percent of small businesses in the South are comfortable with their cash flow, making them the least confident across regions. However, Southern small businesses are the most likely to plan on investing more in the next year: 35% plan to increase investment, and 39% plan to invest the same amount. They are also most likely to report an increase in expected revenues in the next year (62% now, 53% in Q2, 40% in Q1).

West (55.8): Westerners' view of their own small business health (54%) is on par with small business overall (55%) and with sentiments last quarter (53%). Seventy percent are comfortable with their current cash flow situation. Yet, small businesses in the West are more cautious about the future than other regions: 55% expect revenue to increase in the next year, compared to 62% in Q2. Western small businesses are also the least likely to increase investment in the coming year, with only 22% saying they plan to do so.



Small Business Index Methodology

These are the findings of an Ipsos poll conducted between July 16–30, 2021. For this survey, a sample of roughly 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. 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 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 of plus or minus 4.1 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=750, DEFF=1.5, adjusted Confidence Interval=+/-5.6 percentage points).



Index Methodology

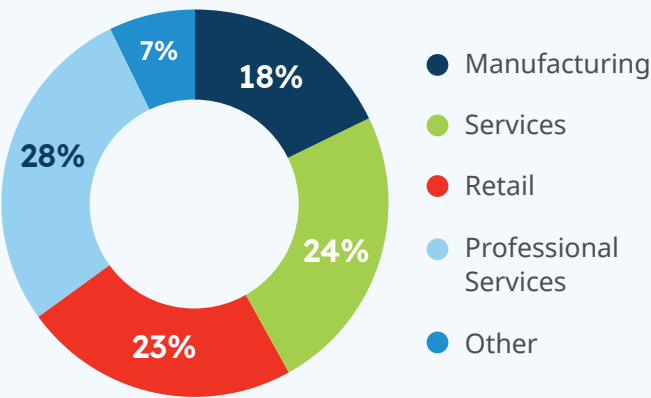
To construct national, regional, employee size, and broad industry group level estimates of the health of small businesses in the U.S., a sequence of statistical techniques were applied to the survey results, including elastic net for variable selection and multilevel regression with post stratification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

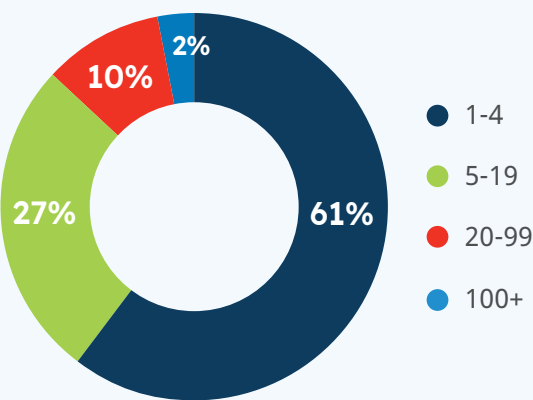
Next, to ensure that our model results are reflective of the small business population in the U.S., we adjust our estimates using the number of businesses in the over 5,000 possible combinations of state, industry, and firm-size categories to ensure that the model of business health represents the U.S. 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.

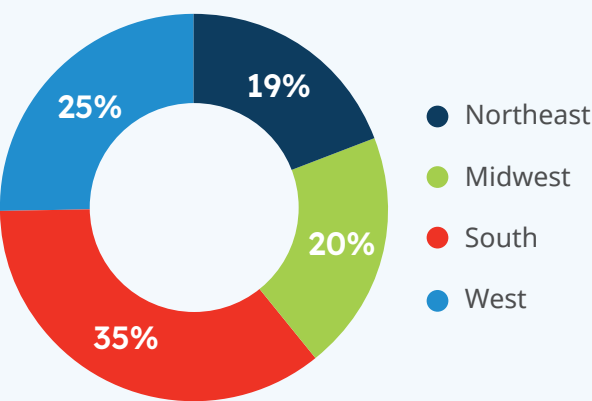
Breakdown by Sector



Breakdown by Employee Size



Breakdown by Region





U.S. CHAMBER OF COMMERCE

U.S. Chamber of Commerce

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

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Notes

1. 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.

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. The Q1 Index was calculated based on 1,000 telephone interviews in December 2019 and January 2020. While significant changes in data points from Q1 to the proceeding quarters can largely be attributed to the recent economic environment, switching from a phone to online approach may have also generated a mode effect.



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