

METLIFE & U.S. CHAMBER OF COMMERCE

SMALL BUSINESS INDEX

THE VOICES OF SMALL
BUSINESS OWNERS

Q1 2018



WWW.SBINDEX.US

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INDEX SUMMARY

A STRONGER NATIONAL OUTLOOK DRIVES JUMP IN SMALL BUSINESS CONFIDENCE

The Q1 MetLife & U.S. Chamber of Commerce Small Business Index rose to 66.3, up three points from Q4. A turnaround in confidence in the direction of the national economy contributed to the boost, making it the fourth consecutive quarterly rise and the largest increase on the Index record. This means 66.3% of small business owners have a positive outlook about their company and the small business environment in the United States.



Q1 INDEX HIGHLIGHTS

Rebounding national economic outlook leads local sentiment for the first time.

Small businesses' perception of the national economic climate has warmed considerably, with a majority of business owners (55%) feeling positive for the first time since the survey's inception, amid tax reform optimism.

Although optimistic, small businesses are still taking a cautious approach.

While anticipating a strong year, small businesses plan on spending conservatively, with more small businesses expecting to save profit (51%) rather than invest profit (39%).

Small business owners are twice as likely (47%) to think tax reform will help their business than those who think it will hurt their business (23%).

Nearly half of all small business owners believe tax reform will help their business. Even more (54%) believe tax reform will help the national economy.

More small businesses are planning to hire this quarter (up to 32% from 27% last quarter).

This marks the second quarter in a row that hiring plans have increased.

Confidence about tax reform depends on business size, region, and demographics.

Manufacturers (50%), larger small businesses (51%), and those in the Northeast (58%) are the most enthusiastic about tax reform. Small businesses in the West lag (37%). Women (44%) and minority-owned businesses (30%) are less confident that tax reform will help their business compared to men-owned businesses (48%).

One in three businesses (33%) does not have a rainy day fund.

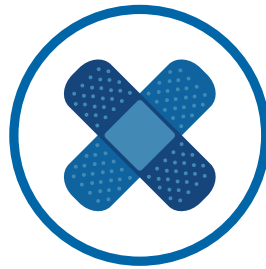
Businesses without emergency funds are more likely to rely on loans, gifts from friends and family, or credit cards to keep their business open if they encounter unforeseen expenses.

MANY SMALL BUSINESS OWNERS ANTICIPATE BENEFITS OF TAX REFORM

SMALL BUSINESS TAX REFORM SENTIMENT



47%
believe it
will help



23%
believe it
will hurt

Nearly half of all small business owners believe tax reform will help their business grow, and they are twice as likely to think it will benefit their business (47%) versus business owners who think it will hurt (23%) their business. About 14% believe it will have no impact and 16% were unsure.

A majority of small business owners (54%) also believe tax reform will help the national economy.

Nearly half of all small business owners believe tax reform will help their business.

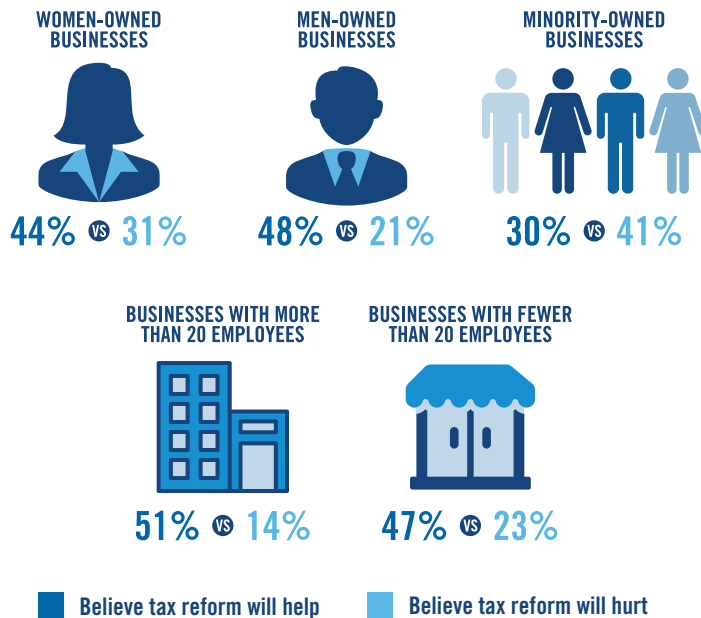
That is double the number (27%) of small businesses who think it will hurt the economy.

That optimism is even higher among American manufacturers, nearly two-thirds (65%) of whom believe tax reform will help the U.S. economy.



TAX REFORM OPTIMISM IS BROAD YET UNEVEN

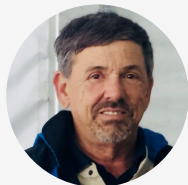
WILL TAX REFORM HELP OR HURT?



“Tax reform will make the national economy skyrocket. People will have their own money back in their pockets and do what they want with it. Personally, I’ll save a couple hundred thousand dollars a year.”

ARNOLD RIGGS
CEO

Black Diamond Stores / Riggs Oil Company
Big Stone Gap, Virginia



“I am not sure, and that is part of the problem. There is a lot of uncertainty...And trying to get my accountant on the phone is near impossible because they are scratching their heads trying to figure it out too.”

GINO SESTO
Founder
DASH TWO
Culver City, California



Although positive sentiment around tax reform is broad, the level of enthusiasm varies depending on demographics, region, and business size.

Women-owned businesses are less confident than men-owned businesses about the benefits of tax reform. About 44% of women-owned businesses believe it will help compared to 31% who believe it will hurt their business (that compares to 48% of men-owned businesses who think it will help and 21% who think it will hurt). Confidence drops even further for minority-owned businesses, only a third of whom (30%) see tax reform helping versus 41% who believe it will hurt their small business.

Small businesses in the Northeast (58%) and South (52%) are the most optimistic about what tax reform will do for their business compared to small businesses in the Midwest (41%) and West (37%).

Small businesses with over 20 employees are almost four times as likely to think tax reform will help versus hurt their business (51% and 14%, respectively). Businesses with fewer than 20 people report a two-to-one (47% to 23%) ratio that tax reform will help rather than hurt their business.

KEY FINDINGS

SMALL BUSINESS OPERATIONS

SMALL BUSINESS CONFIDENCE RISES AMID STRONG CASH FLOW

Small business health is stable, with 62% reporting they are in good health. More than a third (37%) of small business owners describe their business health as very good.

The rise in this quarter's national Index score is reflected in a more confident small business operational environment. The business health outlook is strong among those in the professional services industry (75%), businesses with more than 20 employees (76%), and those in the South (67%) and West (64%).



62%
of small business
owners describe
the financial health
of their company
as good



54%
of female business
owners were
optimistic about
the health of their
businesses

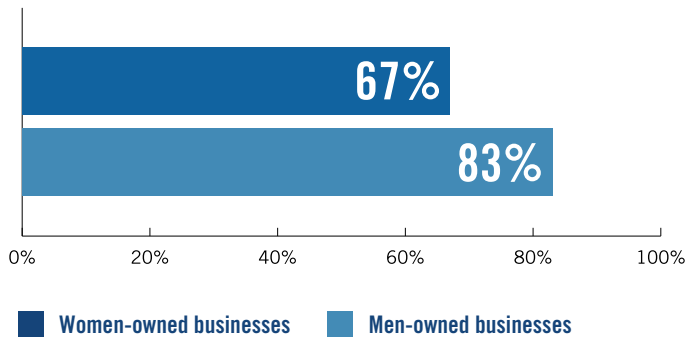


65%
of male business
owners were
optimistic about
the health of
their businesses

KEY FINDINGS

SMALL BUSINESS OPERATIONS

PERCENTAGE OF BUSINESSES COMFORTABLE WITH THEIR CASH FLOW



Businesses owned by women were less likely to report that their business was in good health (54%) compared to men-owned businesses (65%). Women were also more likely to say the health of their business was poor (15%) compared to men-owned businesses (9%).

Businesses with 20 to 99 employees are the most sound, with 76% reporting good health. Small businesses with four employees or fewer are less secure than the 62% average, with 57% of employers reporting good health.

Professional services reported the strongest health of any sector at 75%. The retail sector is facing the most pressure, with only 51% of businesses surveyed reporting good health.

A strong majority of small business owners (79%) feel comfortable with their cash flow, unchanged from last quarter. The 10% of businesses reporting to be in poor health are not comfortable with their cash flow (68%), while businesses in good health (62%) are nearly universally comfortable with their cash flow (91%).

As with business health, women-owned businesses are also less likely to feel comfortable with their cash flow (67%), consistent with 2017. Those that plan to invest in their business are more likely to feel comfortable with their cash flow versus those that plan to save (89% and 77%, respectively).

In addition to a positive cash flow outlook, the number of businesses that say they are spending more time dealing with licensing, compliance, and other government requirements fell six percentage points to 18% (from 24% last quarter).

KEY FINDINGS

SMALL BUSINESS EXPECTATIONS

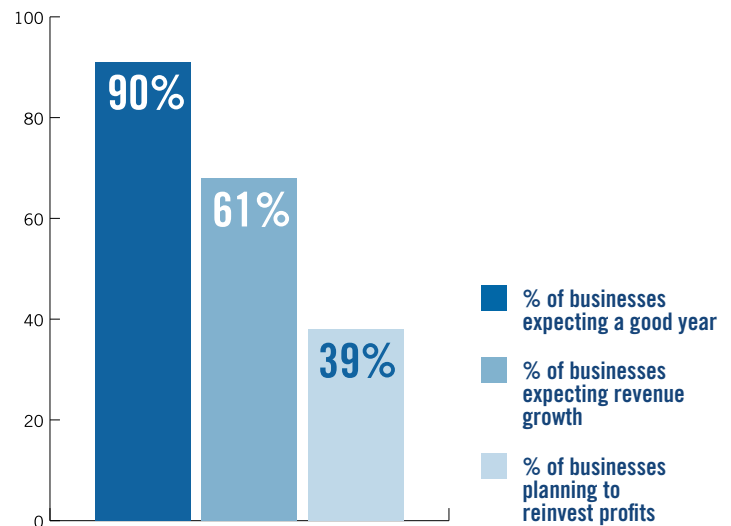
SMALL BUSINESSES HAVE HIGH EXPECTATIONS BUT REMAIN CAUTIOUS

Small business owners are feeling enthusiastic in the New Year, but still plan on spending conservatively in 2018. Nine out of every ten (90%) entrepreneurs said they anticipate a good year. The optimism is broadly shared across demographic groups—93% of minority-owned businesses and 86% of women-owned businesses anticipate a good year.

Small businesses expect higher earnings for a third quarter in a row, with 61% expecting an increase in future revenue one year from now, up four percentage points from last quarter. That optimism is expected to play out in a growth in hiring. Small business employment expectations are up for the second quarter in a row, with more small businesses (32%) planning to increase staff in the next year compared to last quarter (27%).

Even though small businesses anticipate a strong year, they plan to spend profits judiciously. More than half (51%) of small businesses plan to save profits, compared to 39% of small businesses that plan on investing these funds.

ATTITUDE VS. ACTIONS



“ We want to be everywhere. The goal is to be within driving distance of every American, and for that to happen we need to invest. ”

CHRIS BENNETT
CEO
Wonderschool
San Francisco, California



“ Preparing for the future is tough as a farmer. We save as much as we can and try to diversify our products. That's kept us going this long. ”

CHRIS PETERSEN
Owner
Family farm
Clear Lake, Iowa



KEY FINDINGS

SMALL BUSINESS EXPECTATIONS

When it comes to those who plan on spending, the top areas for investment are staff-related: pay for employees (53%), training for themselves and employees (49%), and hiring new staff (45%).

Those who are planning to invest are the most optimistic about increased revenue, with four in five reporting they expect an increase in future revenue (80%). Minority-owned businesses are also expecting a bump, with just under three-quarters (71%) reporting they anticipate increased revenue this year.

SAVERS VS. INVESTORS: BY THE NUMBERS



SAVERS

- 51%** will be saving more money in 2018
- 56%** expect future revenue to increase
- 38%** expect business to perform very well



INVESTORS

- 39%** will be investing more money in 2018
- 80%** expect future revenue to increase
- 45%** expect business to perform very well

“ The U.S. has boom and bust cycles that are hard to plan for. We are always planning for the worst, but hoping for the best. That means having savings, but also investing to find new customers. ”

LALIT CHORDIA
President and CEO
Thar Process Inc.
Pittsburgh, Pennsylvania



KEY FINDINGS

SMALL BUSINESS ENVIRONMENT

A STRONG NATIONAL OUTLOOK IS LEADING THE WAY

The largest change in small business sentiment this quarter came regarding the national economic direction, where small business perception of the country's economic outlook has warmed significantly. A majority of business owners are feeling positive about the U.S. economy for the first time in the Index's history, suggesting the national economic outlook is driving overall sentiment.

More than half (55%) of business owners see the national economy in good health, up 17 percentage points from 38% in Q4 of 2017. Optimism concerning the economic health of the country is shared equally among men (56%) and women (54%). The rosier national outlook also marks the first time in the history of the survey that small business owners (46%) have had a stronger perception of the country's economic path than their local economy, where the view is less positive.

Belief that tax reform will have a positive impact on business health appears to be strongly correlated with positive attitudes about the national economy. Among small business owners that believe tax reform will help the economy, 69% say the U.S. economy is in good shape and 35% say very good shape.

The shared favorable outlook on the nation's economic scene did not spill over to small business owners' backyards, where sentiment fell for the first time in the history of this Index. 46% of small businesses view their local economy's health as good. Last quarter, 48% of those surveyed were positive about the local economy versus only 39% for the national economy. Perception of local economy diverges by gender. Men-owned businesses are more confident, with 48% viewing their local economy as good compared to 40% for women-owned businesses.



55%
of small business
owners believe the
**national
economy
is in good
health**

▲ (up from 38% in Q4 2017)

“If people feel good about the national economy it does well. People spend.”

WILLIAM (BJ) GALL
Partner
Frame's Pest Control, Inc.
Toledo, Ohio



“The state as a whole has gone through harder times of late, but it's a beautiful community of hardworking people.”

LIZ EGAN
Owner
Floral Alchemy
Milwaukee, Wisconsin



ONE IN THREE SMALL BUSINESSES HAS NO RAINY DAY FUND

One-third of American small businesses (33%) have no rainy day savings to help with unexpected expenses. While every business's need for emergency funds is not the same, the lack of resources increases vulnerability to unforeseen events and expenses.

Businesses without emergency funds are more likely to have to rely on loans or gifts from friends and family (18% versus 11% overall) and credit cards (12% versus 8% overall) to keep their business open if they encountered unexpected expenses.

Businesses that have been operational for less than ten years, retailers, and women-owned small businesses are most likely to not have a rainy day fund (45%, 41%, and 40%, respectively). Gen X-owned businesses are more likely to have a rainy day fund compared to Baby Boomer-owned businesses (37% versus 31%).

Among the businesses who report plans to save in 2018, over a third (36%) currently do not have a rainy day fund compared to 29% who are planning to invest more. A majority (60%) of those that plan to invest are also more likely to be comfortable with their business's emergency fund than savers (50%).

This comes after the 2017 data showed only one-third of small businesses have a plan in place to deal with catastrophic events that could threaten their business. The vulnerabilities ranged from unpreparedness for natural disasters (65%) to inclement weather (65%) to preventing theft or intruders (50%). Unexpected events like these can cripple an unprepared business. Having a plan in place can go a long way in ensuring business continuity after the unexpected happens.

EXPERT POINT OF VIEW

“The inability to cover emergency expenses can really destroy long-term financial planning if a business isn't ready. Having emergency funds to cover the unexpected can mean the difference between hanging on after an emergency or hanging it up altogether. Small business owners would benefit from being as proactive as possible with saving in case the unexpected happens.”

ALIYA WONG
Executive Director
Retirement Policy
U.S. Chamber of Commerce



BACKUP PLANS FOR BUSINESSES WITHOUT RAINY DAY FUNDS



18% would rely on loans or gifts from friends and family

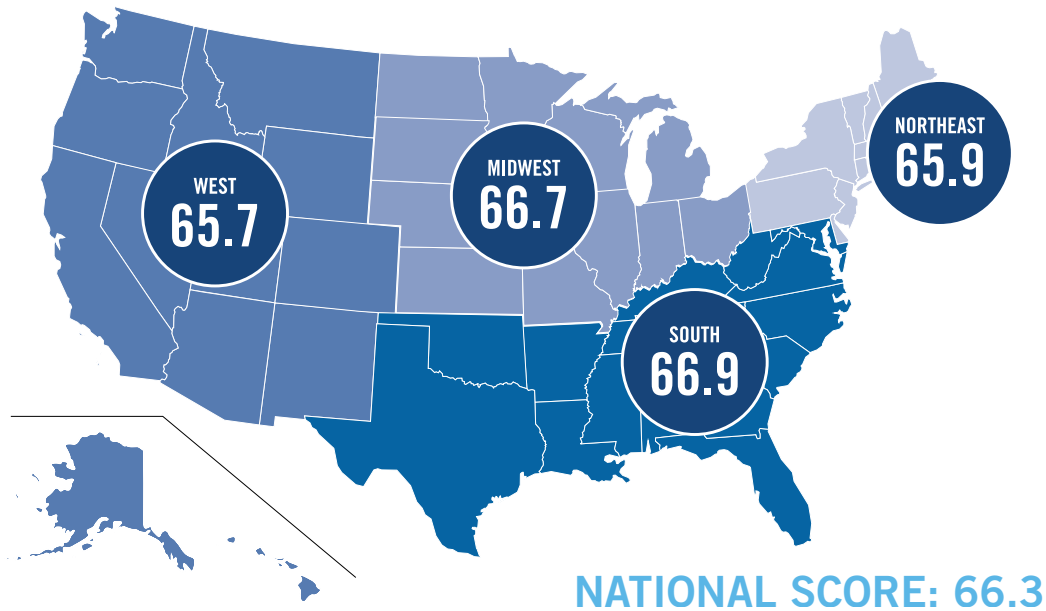


12% would use credit cards

REGIONAL SCORES

THE AMERICAN SOUTH REMAINS ROBUST

The following map shows a breakdown of each region's Q1 Small Business Index score.



The bounce in the overall Small Business Index sentiment was led by entrepreneurs in the South. Southern small business owners were the most optimistic for the second quarter in a row, with 67% rating their overall health as good compared to an average of 62% nationally. Businesses in the South are more likely to be positive on the overall health of the country (62%), their local economy (52%), and are looking to hire (38%) more any other region. More small businesses in the South report plans to increase investment for the upcoming year (35%), compared to the national average, rather than invest about the same as last year or reduce investment.

Businesses in the West anticipate the strongest rise in profits this year, with 68% of companies anticipating increased sales. Businesses in the South are not far behind at 66%. That compares to an average of 61% across all regions and 50% in the Midwest, the region that anticipates the weakest revenue growth.

Small business owners in the Northeast continue to have the bleakest view of their local economy compared to any other region, with just one-third (37%) reporting that their local economy is in good health.

INDEX **SNAPSHOTS**



The MetLife & U.S. Chamber of Commerce Small Business Index rose to **66.3**, the **fourth consecutive quarterly rise**.



Two-to-one small business owners (47% vs. 23%) **see tax reform as beneficial to their business**.



Manufacturers (65%) and larger small businesses (64%) are the most enthusiastic about tax reform.



79% of small businesses are comfortable with their cash flow.



Small businesses expect higher earnings in 2018, with 61% expecting increased revenue.



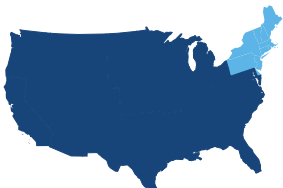
Nine out of ten small businesses are **anticipating a good year**.



More **small businesses expect to save profits** (51%) rather than invest them (39%).



More than half (**55%**) of small business owners **see the U.S. economy in good health**, up from 38% in Q4.



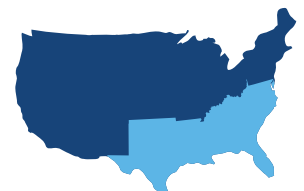
Northeastern small businesses have the bleakest view of their local economy, with just over one-third (37%) reporting good health.



Women-owned small businesses are less comfortable with their cash flow (67%) compared to men-owned businesses (83%).



One-third of small businesses (33%) report having **no rainy day fund for emergency events**.



Businesses in the South are the most optimistic (67%) for the second quarter in a row.

METHODOLOGY

SURVEY METHODOLOGY

These are findings from an Ipsos poll conducted January 8, 2018 – January 25, 2018 via telephone in English. For the survey, a sample of 1,000 small business owners and operators were sourced from the continental U.S., Alaska, and Hawaii.

Small businesses are defined in this study as companies with fewer than 500 employees that are not sole proprietorships. The sample for this study is a listed business directory of all U.S. businesses obtained through Dun & Bradstreet. Ipsos used fixed sample targets, unique to this study, in drawing the 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 2014 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.

All sample surveys and polls may be subject to other sources of error, including, but not limited to, coverage error and measurement error. The poll has a margin of error of plus or minus 3.5 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 confidence interval adjusted for design effect of the following: (n=1,000, DEFF=1.5) adjusted confidence Interval=+/-5 percentage points. Where figures do not sum to 100, this is due to the effects of rounding.

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.

For the regional-level estimate specifically, the current quarter information also references the data from the previous three quarters to better stabilize the current quarter estimate.

The process used is known as post stratification, something that 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 2014 Census Survey of U.S. Businesses.

METHODOLOGY

CORE INDEX QUESTIONS

Small Business Operations

1. How would you rate the overall health of your business?
2. Over the past year, would you say you have increased staff, retained the same size staff, or reduced staff?
3. How comfortable are you with your company's current cash flow situation?

Small Business Expectations

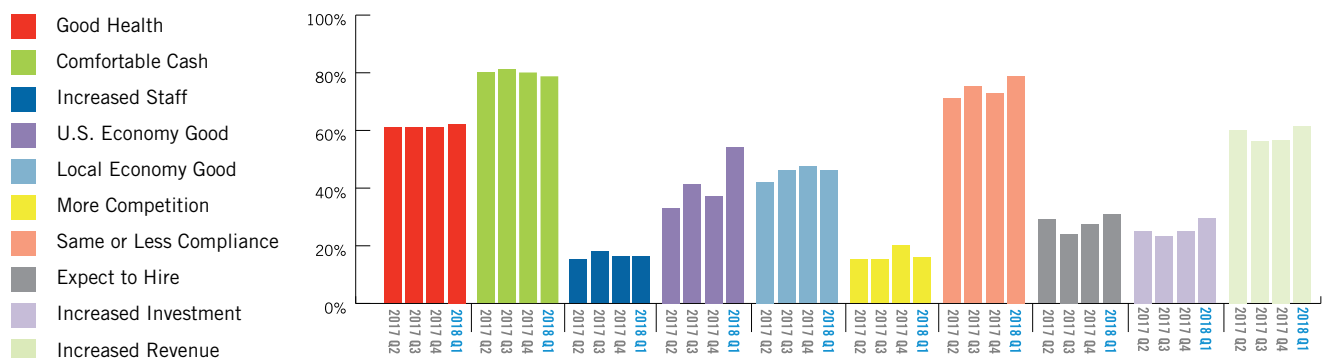
4. In the next year, do you anticipate increasing staff, retaining the same size staff, or reducing staff?
5. For the upcoming year, do you plan to increase investment, invest about as much in the business as you did last year, or reduce investment?
6. Looking forward one year, do you expect next year's revenues to increase, decrease, or stay the same?

Small Business Environment

7. How would you rate the overall health of the U.S. economy?
8. How would you rate the overall health of the economy in your local area?
9. Compared to six months ago, does your business see more competition, less competition, or about the same level of competition from smaller or local companies?
10. Compared to six months ago, has the time or resources you spend completing licensing, compliance, or other government requirements increased, decreased, or stayed the same?

2018 CORE INDEX TRENDS

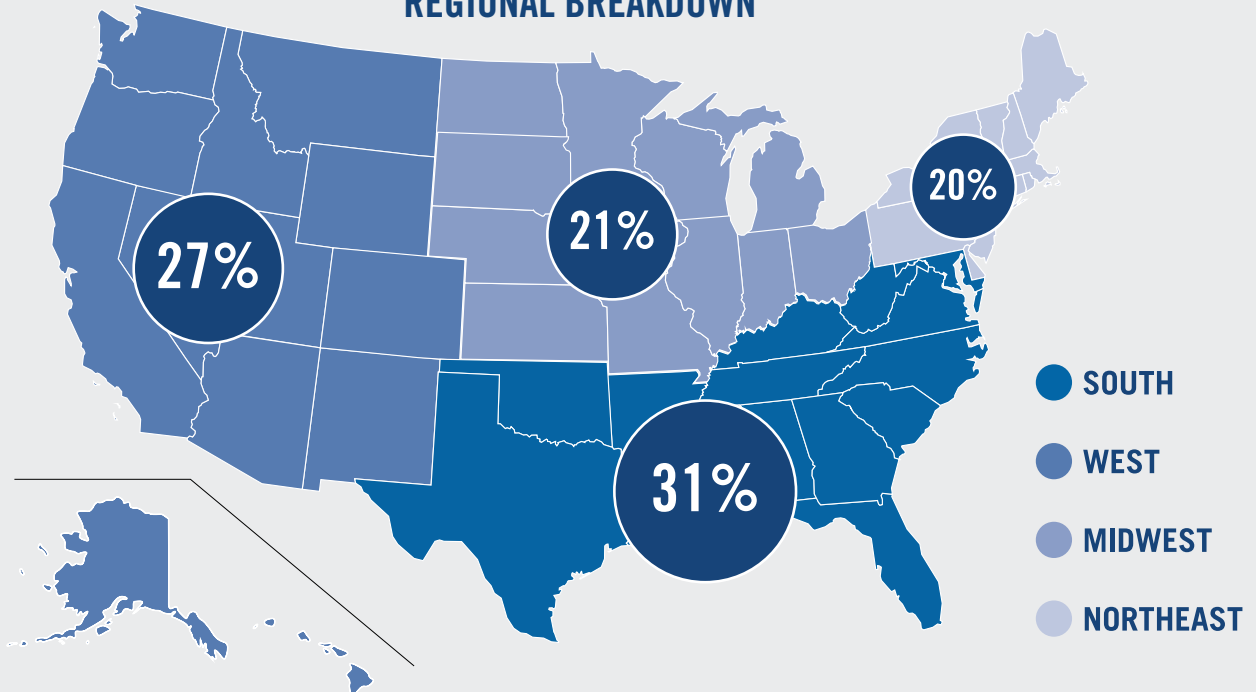
The infographic below charts responses—in percentages—to each of the Index's 10 core questions and will provide insights into the changing attitudes and expectations of small business owners over time. This infographic reflects responses to the first three surveys, Q2, Q3, and Q4 of 2017 and Q1 of 2018. Responses to the 10 core questions are used to calculate the MetLife & U.S. Chamber of Commerce Small Business Index number, which currently stands at 66.3—meaning 66.3% of small business owners have a positive outlook for their companies and the environment in which they operate.



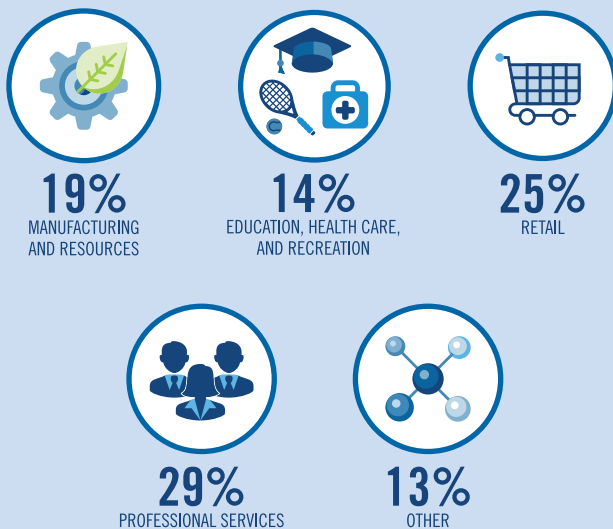
METHODOLOGY

SURVEY MAKEUP OF 1,000 RESPONDENTS

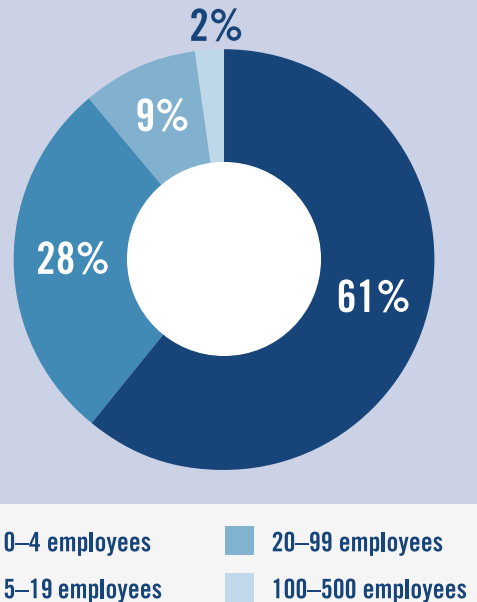
REGIONAL BREAKDOWN



INDUSTRY BREAKDOWN



COMPANY SIZE BREAKDOWN



ABOUT US



The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. Its International Affairs Division includes more than 70 regional and policy experts and 25 country- and region-specific business councils and initiatives. The U.S. Chamber also works closely with 117 American Chambers of Commerce abroad. For more information, visit www.uschamber.com.



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For more information on this Index, visit www.sbindex.us.

The data and statements herein provide preliminary findings based upon an Ipsos poll conducted January 8, 2018, to January 25, 2018. All sample surveys and polls may be subject to error.

