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Economic Outlook for 2024

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2024 Economic Outlook

The 2024 U.S. economic outlook suggests a transition from rapid to moderate growth. Inflation is expected to align with the Federal Reserve's target, prompting lower interest rates. Consumer spending, though reduced from post-COVID levels, remains a key driver. The labor market might see a slight increase in unemployment and slower job and wage growth. Business investment could face initial dampening due to high interest rates, but a rebound is possible. Government spending is projected to slow, while the housing market shows signs of recovery. Global factors, like geopolitical tensions, continue to influence the economy.

GDP Growth: Predicted to slow down, indicating a shift from rapid to moderate expansion.

Inflation and Interest Rates: Expected to stabilize closer to the Federal Reserve's target, with a likelihood of reduced interest rates to maintain economic balance.

Consumer Spending: Continues to drive the economy, albeit at a reduced pace compared to the post-COVID surge.

Employment Trends: Slight increase in unemployment rates, with a general slowdown in job and wage growth.

Business Investment: Anticipated to be initially subdued due to higher interest rates, with a potential rebound later in the year.

Government Spending: Projected to grow at a slower rate.

Housing Market: Set for recovery, boosted by lower mortgage rates and accumulated demand.

Global Influences: Geopolitical tensions and trade dynamics remain significant factors impacting the U.S. economy.

This comprehensive analysis, sourced from Moody's Analytics, Goldman Sachs, and the Congressional Budget Office, provides a nuanced view of the anticipated economic conditions in the U.S. for 2024.

JP Morgan Outlook: Predicts economic growth deceleration, forecasting a real GDP growth of 0.7%. Factors such as consumer spending, fiscal spending, business investment, housing activity, and interest rates are discussed.

- Predicts a real GDP growth of 0.7%.
- Consumer spending expected to slow down.
- Fiscal spending shifts from positive to modest drag.
- Business investment and housing activity impacted by higher interest rates.
- Labor market normalization and inflation trends.

Harvard Business Review - Global Economy: Highlights that despite better-than-expected performance in 2023, 2024 remains uncertain due to factors like interest rates, wars, and climate disasters. It covers themes like inflation control, labor market conditions, financial market stability, and geopolitical impacts.

- Emphasizes uncertainty in 2024 despite better-than-expected performance in 2023.
- Discusses the impact of higher interest rates, wars, and climate disasters.
- Explores themes like inflation control, labor market conditions, and financial market stability.

JP Morgan Outlook

1. Economic growth is likely to decelerate in 2024 as the effects of monetary policy take a broader toll and post-pandemic tailwinds fade.

We expect real GDP growth to walk the line between a slight expansion and contraction for much of next year, also known as a soft landing. After tracking to a better-than-expected 2.8% real GDP growth in 2023, we forecast a below-trend 0.7% pace of expansion in 2024. Among the major components of GDP, consumer spending is likely to rise at a more muted pace next year, while fiscal spending could swing from a positive contributor in 2023 to a modest drag. Notable drops in business investment and housing activity in 2023 set the foundation for improved performance in 2024, even if the outlook remains muted amid higher interest rates; 2023 strength in services sector is likely to soften.

2. We assume the hiking cycle is over, leaving the Fed Funds on hold at 5.25%-5.5% until the middle of 2024.

If inflation continues its moderating trajectory over the coming quarters, we think it is likely the FOMC will start to slowly normalize policy rates near the midpoint of next year. We forecast 25 bps cuts at each meeting beginning in June, bringing the Fed Funds target range to 4.00%-4.25% at the end of 2024. Concurrently, quantitative tightening, the Fed's balance sheet runoff program, is expected to be maintained at the same pace through 2024. At $95 billion per month, quantitative tightening is projected to remove approximately $1 trillion from the economy next year.

3. The U.S. consumer could begin to bend, but not break.

There are numerous reasons to expect consumer spending growth to slow next year from its firm pace in 2023: diminished excess savings, plateauing wage gains, low savings rates and less pent-up demand. Additionally, the restart of student loan payments and uptick in subprime auto and millennial credit card delinquencies are emerging signs of stress for some consumers. On the flipside, household balance sheets and debt servicing levels remain healthy. Tight labor markets continue to support employment and therefore income levels. Considering the cross currents, we think consumer spending growth can stay positive overall in 2024, but at a lower rate than 2023.

4. The larger-than-expected fiscal boost to the U.S. economy in 2023 could flip to a slight headwind in 2024.

The fiscal deficit roughly doubled to $1.84 trillion—7.4% of GDP—in fiscal 2023 from $950 billion in 2022. While the full extent of this year's deficit expansion would not be considered stimulus in a classic sense, it is clear the federal government took in a lot less cash than it sent out. Looking to 2024, we expect the federal deficit to narrow to a still very large 5.9% of GDP, reflecting a bit of belt-tightening on the spending side partly offset by higher interest outlays on government debt.

5. Labor markets are showing signs of normalization to end 2023; unemployment could drift higher in 2024 while remaining low in historical context.

Momentum in the job market is starting to wane with slowing payroll growth and modestly rising unemployment, as well as declining quit rates and temporary help. Increased labor force participation and elevated immigration patterns over the past year have added labor supply, while a shortening work week indicates moderating demand for labor. Considering the challenges to add and retain workers coming out of the pandemic, businesses could be more reluctant than normal to shed workers in a slowing economic environment. Even so, less hiring activity could be enough to cause the unemployment rate to tick up to the mid-4% area by the end of next year due to worker churn. Already slowing wage gains should slow further in the context of a softer labor market.

6. Inflation trends are cooling, but likely to remain above the Fed's 2% target through 2024.

After reaching a four-decade high in 2022, inflation on both a headline and core basis has moderated significantly in 2023. Some categories have seen more improvement than others. For example, core goods inflation dropped from a peak of 12.4% in February 2022 to 0% in October 2023. Progress on core services inflation, which includes the sticky shelter category, has been slower. After peaking at 7.3% in February 2023, core services inflation was still running an elevated 5.5% in October 2023. We expect moderating shelter inflation in 2024 as the lag in market rents pricing should catch up in the inflation readings. We forecast core PCE prices—the Fed's preferred inflation metric—to rise 2.4% in 2024, down from 3.4% in 2023.

7. Housing sector activity has dropped 30%-40% over the past 18 months amid the surge in mortgage rates.

With housing affordability metrics at a 40-year low, combined with 75% of mortgages locked in at 4% or below, the U.S. housing market is effectively frozen. Real residential investment tumbled at a 12% seasonally adjusted annual rate over the past six quarters. Meanwhile, home values rose 6% in 2023—to near all-time highs—amid tight supply and historically low vacancies. Given the already large drop in recent years, we think the housing market is one area of the economy that could perform better in 2024 than in 2023, even if trends remain soft in the near term.

8. Supply chain bottlenecks are mostly in the rearview, while global supply chain restructuring will take time.

Over the past year, as inventory constraints and shipping costs have fallen, supply chain considerations have shifted from short-term tactics to longer-term strategies of minimizing costs while ensuring resiliency. Legislation passed in 2022 including the CHIPS and Science Act and Inflation Reduction Act provides incentive for certain strategic industries—including semiconductors and renewables—to onshore production. This has resulted in rising business investment in high-tech manufacturing structures over the past year. Bigger picture, we expect global supply chain adjustments to continue at a conservative pace, as even the simplest changes are both costly and complex.

9. Pressures on the commercial real estate sector are likely to intensify.

The higher-for-longer interest rate environment and challenges among small and regional banks are resulting in tightening of lending standards and slowing slow growth. This is occurring across all loan types, but most acutely for the commercial real estate sector, where small and regional banks have meaningful exposure. With nearly $550 billion of maturing commercial real estate debt over the next year, losses are expected to mount for lenders and investors. While we do not expect this to be a systemic issue, reduced lending activity and potential investor losses could be an economic headwind.

10. Geopolitical risks will remain top of mind.

Elevated trade tensions with China, the ongoing Russia-Ukraine war and conflict in the Middle East all point to continued uncertainties and risks heading into 2024. While direct U.S. economic impact has been limited thus far, the larger risk is for a supply shock of a critical commodity or good—energy, food, semiconductors—that triggers significant market disruption. Next year's U.S. presidential election could be more impactful than recent cycles on geopolitics given the backdrop of already elevated tensions.

Harvard Business Review

What to Expect from the Global Economy in 2024

As 2023 comes to a close, the global economy is, in many ways, doing better than expected. The U.S. not only avoided a recession but has grown at a steady clip. Unemployment has been low and, crucially, inflation is falling in most of the world.

And yet, the economic outlook remains deeply uncertain. Higher interest rates are grinding their way through the system, wars are wreaking havoc around the world, and climate disasters are becoming more and more common. Five-year growth prospects for the global economy have never been worse.

The macroeconomic situation in 2024 will remain difficult and uncertain — but there are key themes and questions every business leader should keep an eye on heading into next year. While this analysis is focused on the U.S. economy, many of these same questions apply to much of the world.

Has inflation been tamed?

In June of 2022, the U.S. consumer price index peaked at just over 9% higher than the year prior. Since then it has fallen sharply: In November that figure was just 3.1%, not far from the Fed's stated goal of 2%.

So has inflation been tamed? The optimistic case starts with rental prices, which are a major slice of household spending. Rent prices are rising much less quickly, but that takes a long time to show up in inflation statistics because most U.S. renters sign year-long leases. As more leases come up for renewal — and their prices stay flat or rise only modestly — the CPI could fall even further. By this way of thinking, inflation is nearly where it needs to be, there's just a lag in the data.

Despite better news on rent, we're still "not quite" there on inflation according to Matthew Klein, an economic analyst and author of The Overshoot newsletter. "Most of the excessive price increases in 2021 to 2022 were attributable to one-off events associated with the pandemic, the response to the pandemic, and Russia's invasion of Ukraine. The impact of those disruptions peaked in the middle of 2022 and has since faded," says Klein. However, "overall inflation remains somewhat faster than before the pandemic because wages and spending (in dollars) are both rising slightly faster than before. If underlying nominal retail spending is rising 7% a year it is hard for inflation to hold the line at 2% a year for very long."

The Federal Reserve is ending the year on a fairly optimistic note, by not only holding interest rates steady but signaling the possibility of multiple rate cuts in 2024. However, that path is not preordained and things could still go wrong according to Mihir Desai, a professor of finance at Harvard Business School and co-host of the *After Hours* podcast. "Absent a significant economic downturn, the final descent to 2% inflation will take longer, and have more zigs, zags and potholes than typically considered," he says. "As the saying goes, the longest mile is the last mile home."

(In Europe, where the war in Ukraine has had a more dramatic impact on energy prices, the European Central Bank and Bank of England remain somewhat more hawkish in their statements.)

Is the historically good labor market over?

One of the biggest debates of the last two years was whether unemployment would have to rise in order to bring down inflation. Thankfully, it hasn't had to rise much.

"This is still one of the best times in U.S. history to be looking for a job," says Klein. "The share of people in their prime working years is close to the highest it has ever been, although still below the peak of the late 1990s. The share of people who are working part-time when they would rather be full time is around all-time lows."

The labor market *is* cooling — at least slightly. The number of new hires has declined significantly over the last year, according to LinkedIn, and the number of job openings per unemployed worker has fallen as well. So far, though, the U.S. unemployment rate is still relatively low. And, as *The Economist* has argued, the longer term outlook for workers in the U.S. and Europe looks strong.

Can financial markets handle higher interest rates?

In March, the FDIC took over Silicon Valley Bank after it experienced a classic bank run. The cause? Higher interest rates made its bond portfolio less valuable, threatening its balance sheet and spooking its customers. Signature Bank and First Republic failed shortly thereafter. Higher interest rates have been working their way through the economy, denting the balance sheets of bondholders and raising the cost of borrowing. Could they destabilize financial markets next year?

"All the impacts that one would expect from higher interest rates will still happen (and are happening) but just in slow motion relative to expectations," says Desai. "As such, there is no sudden stop but more of a rolling stop ahead for the economy – perhaps a death by thousand cuts. That slowing process will be less immediately disruptive or recognizable but more long-lasting and harder to engineer an escape from given the limited fiscal and monetary space available to policy-makers."

Corporate bankruptcies rose sharply in the U.S. this year, but are still well below the highs of the great financial crisis period.

"Many businesses are exposed to floating-rate debt, and they may be feeling pinched at some point. There are stories about some leveraged buyouts that are struggling," says Klein. "But the experiences of Australia, Canada, Europe, and the UK — other rich economies that have much more short-term borrowing than we do — suggests that strong growth can make higher interest costs tolerable. While there is going to be pain ahead for some, the overall economic impact may not be that large."

Other themes to keep an eye on in 2024

Asked what else he's watching, Klein says:

China is a big wildcard. Many people had expected that the end of "Covid Zero" this year would lead to a surge in consumer spending and a big spike in oil prices, which had been held down by China's travel restrictions. That is not what happened, in part because of longstanding structural issues that Michael Pettis and I explained in our book *Trade Wars Are Class Wars*, and also because the government seems determined to continue squeezing the real-estate sector.

Now there seems to be an attempt to pivot to investing in levels of manufacturing capacity that would only make sense if China became an overwhelmingly dominant exporter in categories where it has, until recently, not competed internationally. How that plays out and how that will affect the other major economies will be very important, and has the potential to be extremely disruptive.

Desai adds:

Were the warning signs on fiscal policy (higher long-term rates) from the fall of 2023 a red herring or a canary in the coal mine?

How does the remarkable rise in stock market concentration resolve itself? Via a broadening or a final and fatal narrowing? Will AI deliver on its transformative promise on the expected aggressive timeline? If not, does this lead to the unwinding of the AI-fueled rally in stocks and a corresponding tightening of financial conditions?

Does the narrative of the economic decline of China and the rise of India prove itself out? If so, how does this remake politics and economics around the world?

Politics will remain a major driver of economic uncertainty in 2024, including via the U.S. presidential election which could have unpredictable consequences for geopolitics, trade, and the wars in Ukraine and the Mideast.

What else? Josh Lipsky, the senior director at the Atlantic Council's GeoEconomics Center (where, for the record, I do some editing work), summed up his view of the biggest risks to the economy in a recent newsletter:

China’s inaccurate data masking sputtering growth, the world’s major shipping companies stopping transit in the Red Sea, and the second largest economy in South America at serious risk of default. And that’s just scratching the surface.

While the economic outlook in the U.S. is better than it was a year ago, much of the uncertainty that businesses have gotten used to over the past three years is not going away.

The risks are real and numerous. Lipsky’s metaphor for the economy in 2024 is a Jenga tower: “If you look from above, the tower seems tall and sturdy,” he writes. “But if you pan the camera down and look at the sides of the Jenga tower, you see all the missing pieces. Each one is hollowing out the structure and you never know just how much instability the tower can take before it topples over.”

Understanding America’s Labor Shortage: The Most Impacted Industries

American businesses are creating hundreds of thousands of jobs each month, yet a significant number of positions still remain unfilled, especially in the professional and business service sector.

The COVID-19 pandemic caused a major disruption in America’s labor force—something many have referred to as ‘The Great Resignation.’ In 2022, more than 50 million workers quit their jobs, following the 47.8 million who did so in 2021. In 2023, this trend gradually subsided, with 30.5 million workers resigning as of August.

A closer look at what has happened to the labor force can be better described as ‘The Great Reshuffle.’ While quit rates remain high, hiring rates continue to outpace them as many workers have been transitioning to other jobs in search of an improved work-life balance and flexibility, increased compensation, or a strong company culture.

The U.S. Chamber is closely monitoring trends in job openings, labor force participation, and quit rates affecting industries nationwide. Continue reading to explore an analysis of the industries most significantly affected by these trends.

For a broad overview of the state of our workforce, check out our America Works Data Center. An in-depth look at how the worker shortage is impacting the nation is here, and a state by state breakdown tracking the worker shortage is here. The data is available here.

Food service and hospitality businesses struggle to retain workers

Jobs that are fully in-person and traditionally have lower wages have had a more difficult time retaining workers, even prior to the pandemic. For example, the leisure and hospitality industry has experienced the highest quit rates of all industries, with the accommodation and food services subsector of this industry experiencing a quit rate consistently above 4.5 percent since July 2021.

Across all industries, hiring rates have continuously outpaced quit rates. Looking again at leisure and hospitality, the industry lost 837 thousand workers in September 2023, but 1.1 million people were hired into the industry that same month. In fact, since November 2020, leisure and hospitality has maintained the highest hiring rate among all industries, ranging between 6% to nearly 19%. This hiring rate remains significantly higher than the national average, which stood at 3.7 percent in September 2023.

When taking a look at the labor shortage across different industries, the education and health services sector, and the professional and business services sector, consistently exhibit the highest number of job openings. It's worth noting that professional and business services span a broad spectrum of occupations including legal services, scientific research, as well as roles like landscaping workers, cleaners, and waste disposal workers.

Meanwhile, in more stable, higher paying industries, such as financial activities and manufacturing, the number of employees quitting has been lower.

A closer look at labor force participation

The most recent jobs report from the Bureau of Labor Statistics indicates that thousands of individuals are joining the workforce, which is good. However, labor force participation still does not match what it was before the pandemic for a variety of reasons.

If the labor force participation rate were at the February 2020 level, we would have an additional 2.2 million people in the workforce— and this shortage is impacting all industries in nearly every state. Even if every unemployed worker were to fill an open job within their respective industry, there would still be millions of unfilled job positions, highlighting the widespread labor shortage.

To further understand shifts in the labor force, it is important to look at labor force participation across different industries. As of September 2023, including marginally attached workers, all industries have a worker shortage except for nondurable goods manufacturing, wholesale and retail trade, construction, and transportation and utilities.

Even if every unemployed person with experience in the financial activities or professional and business service sectors were employed, only 42% and 44% of the existing job vacancies in these industries would be filled, respectively.

The manufacturing industry as a whole faced a major setback after losing roughly 1.4 million jobs during the onset of the pandemic. Since then, the industry has made significant strides towards recovery, making a concerted effort to address job vacancies. While durable goods manufacturing has seen a more substantial recovery compared to nondurable goods manufacturing, as of August 2023, a gap persists, with 616,000 total manufacturing job openings yet to be filled.

On the contrary, the construction industry faces a labor surplus. The number of unemployed workers with experience in this industry exceeds the available job openings, with an average of 367,000 job vacancies per month in 2023, while the monthly average of individuals with experience in this field seeking employment amounts to 490,000.

It's worth noting that a labor surplus does not ensure that all positions will be occupied, as workers may not necessarily be located in the geographic areas where the open positions are situated. It also does not imply that an industry will have all the workers it needs in future years.

All industries currently have job openings, with each actively seeking new hires. The rate of hiring varies significantly from one industry to another, with certain sectors bringing in a larger number of new employees at a more rapid rate compared to others.

Consider the mining and logging industry, which is relatively small in terms of employment. From January to September 2023, this industry hired the fewest number of workers, totaling 234,000. This stands in sharp contrast to the leisure and hospitality sector and professional and business services sector. In the same time frame, each of these industries hired around 10 million employees.

Unemployment exists in varying degrees among labor shortages

In the U.S., a healthy unemployment rate typically falls within the range of 3% to 5%. As of September 2023, the national average unemployment rate stands at 3.8%. Within this context, there are 6.4 million people unemployed. This group includes individuals with varying degrees of experience spanning a wide array of industries.

The industries with lower-than-average unemployment rates have fewer experienced candidates to choose from when filling their job openings. This situation leads to heightened competition among businesses in these industries as they vie for the limited pool of available talent.

The prevalence of remote work has dropped precipitously since 2021, despite workers' preference for flexibility. This year, just a quarter of all employees work remote part of the time. While this is a small number compared to the pandemic high, it towers over the pre-pandemic norm, indicating the permeance of some remote work in the years to come.

Certain industries and occupations simply cannot function without in-person work. The highest propensity for in-person work exists in the hospitality and food services, transportation, and retail trade industries, where nearly 80% of staff work fully on-site. Alternatively, industries with a low amount physical labor or with customer service tasks are more likely to work remotely, such as the information and finance sectors, where less than 30% of staff are fully on-site.

The U.S. Chamber of Commerce is proud to lead the business community in identifying the actions employers can take to remain competitive to attract and retain talent. Businesses can increase their hiring pools by removing barriers to entering the workforce like expanding childcare access, offering innovative benefits, participating in second-chance hiring, and providing opportunities for new and existing staff to be upskilled and reskilled on the job.

The labor market challenges facing business are anticipated to continue into the next few decades as our nation's workforce ages and employers create new jobs. Here's what the latest data says—and what businesses need to know—about the workforce of the future.

What to Expect from the Economy in 2024

A possible economic slowdown would be mitigated by the ongoing worker shortage.

A smaller workforce will define the economy in 2024. In fact, it will be the key economic challenge we face for the foreseeable future. A shortage of workers will be hard on businesses, but for some consumers it also means they will always be able to find a job that can support their spending. That will put a floor under any economic weakness in 2024.

Smaller Workforce Is Key to Understanding Future Economic Trends

Our workforce is too small because of simple demographics. The Baby Boomer generation was more than three times larger than the generation that came before it, the Silent Generation. As the Boomers entered the workforce in the early 1960s, labor force participation rose sharply.

However, the following generation, Generation X, was smaller than the Boomers. The Millennial Generation is only slightly larger than the Boomers, and Generation Z is slightly smaller than the Millennials.

This has created a demographic shortfall for the workforce. For economic growth, it is ideal for succeeding generations to be larger than the ones before them. Visualized, it should look like a triangle, with younger generations being larger than the ones that came before. Instead, we have an inverted triangle.

This means that as Boomers retire and exit the workforce, there are not enough workers in the younger generations to fully replace them. Boomers will still be spending and consuming, so businesses will still need to meet strong demand, but they will have to do so with a smaller pool of workers.

Worker Shortage's Impact on the Economy in 2024

The economy is likely to slow in early 2024 because consumer spending is likely to slow. Consumers have relied on savings accumulated during the pandemic and credit card balances they paid down to keep their spending levels above inflation. Pandemic-era savings are largely gone for those who need them most, and credit card balances have risen sharply. Capacity to add more debt will be limited in 2024.

This will weaken spending and growth. The economy grew over 5% in the 3rd quarter of 2023 and is tracking to grow over 1% in the 4th. Growth is projected to slow even further in 2024. For instance, the Chamber projects the economy will grow a scant 0.2% and 0.4% in the second and third quarters, respectively. That is a far cry from growth in the third quarter of 2023.

The worker shortage will put a floor under how much the economy slows because job openings are going to remain far above the number of unemployed workers. Plus, wages have been growing smartly, and they are likely to continue to do so because the demand for workers outpaces their supply.

Economic Headwinds Finally Take their Toll, Perhaps Enough for a Recession

Even with plentiful jobs and strong wage growth, the compound effects of savings being spent down, credit cards spent up, higher interest rates, and lingering inflation will weigh heavily on the economy in 2024.

The economy has still not fully absorbed the impact of higher interest rates that were necessary to fight inflation, and those higher rates will be a continuing drag on the economy.

While inflation is coming down, it remains above the Federal Reserve's (Fed) 2% target. That means it will remain a hefty burden on consumers' budgets and reduce the chances the Fed can lower interest rates soon.

All these factors add up to slowing consumer spending and a slowing economy in 2024 compared to a solid economy in 2023.

Whether the consumer slowdown causes a recession remains an open question. It is possible the combined force of these headwinds causes a recession in 2024. A recession is defined as two consecutive quarters of negative economic growth.

The last time we had two such quarters was the first and second quarters of 2022. Not many people remember those six months as a recession because key economic indicators such as jobs, spending, income, and manufacturing output all increased during that time – the first time they did so during a recession. The first half of 2022 is largely forgotten as a recession because on average the American people did not feel economic pain then.

We could have a similar scenario in 2024. The economy could slow, perhaps all the way to the point of meeting the technical definition of a recession, but because businesses need workers so badly, we do not see widespread layoffs. In fact, businesses may keep hiring even as the economy cools. In that case, we could have another recession where there the America people do not experience much economic pain.

Late 2024 and Beyond Forecast Better

Once we emerge from that slowdown, the outlook for the U.S. economy is sunny for the remainder of 2024 and into 2025. Usually when an economy is hit with shocks, bubbles within the economy burst or weaknesses are exposed. We have had three large shocks in a row over the last three years (COVID-19 pandemic, inflation and higher interest rates) with no fallout, suggesting the underlaying state of the economy is strong.

Once inflation falls further and the economy more fully absorbs higher interest rates, it is poised to grow robustly.

Risks to the Positive Forecast

As is always the case, there are risks that could threaten the optimistic outlook. There are always unknown-unknowns, black swan events no one can predict that could imperil the economy – a pandemic, for instance.

There are more tangible threats for the economy in 2024 though. The riskiest is a severe drop in the office space market. The prices of office space buildings in urban centers have plummeted because of higher vacancy rates and higher interest rates. This is putting their owners and the owners' lenders in a tight spot and could lead to a credit crunch at regional size banks. These banks are crucial suppliers of credit to small and medium-sized businesses, and they are the largest lenders to the owners of office space complexes. These banks need to cut back on lending as they sort through their losses on office space loans.

Geopolitics could also hurt the economy. Intensification of the Russia-Ukraine and Israel-Hamas wars could destabilize the global economy, which would hurt the U.S. economy. And there is always the chance of an unforeseen conflict arising.

Lastly, there remains domestic U.S. political risk. Congress still needs to pass a budget for fiscal years 2024 and 2025. It also needs to raise the debt limit before January 1, 2025. Failure to do any of these would mean a blow to the economy.

Bottom Line

The economy faces serious challenges in 2024, as it always does. The worker shortage means consumers are better equipped to weather a potentially slowing economy to start the year. It also means that any slowdown is likely to be mild and that the economy is likely to rebound strongly.

AI and the Future of Work: Preparing the Workforce for an AI-Driven Economy

AI is best positioned to augment the workforce, not replace it. The U.S. Chamber's Commission on Artificial Intelligence Competition, Inclusion, and Innovation report outlines recommendations for preparing the workforce for the continued integration of AI tools across our economy.

To paraphrase Mark Twain, reports of the “end of work” have been greatly exaggerated – more than once. Throughout history, the arrival of new technology has been regarded as a threat to human work and, in every instance, new technology has been integral to unlocking new work, new value, and rising incomes.

This hopeful view is not the same thing, however, as saying that new technology, like artificial intelligence, will be all upside for every worker, all the time, everywhere. The recent report from the U.S. Chamber’s Commission on Artificial Intelligence Competition, Inclusion, and Innovation acknowledges that the effects of AI on employment will be both uneven and hard to predict. The report emphasizes that, at its core, AI tools are informing and expanding, not replacing, human labor and, “if developed and deployed ethically, [AI] has the ability to augment human capabilities and empower people to do much more.”

How Workers and Businesses Can Prepare for the AI Economy of the Future

By its nature, technological innovation requires businesses and workers to learn and adapt—and learning and adaptation can be hard. Sometimes, it means upskilling within an existing job and at other times finding a whole new job in a different sector.

This learning and adaptation process is likely to be particularly demanding when it comes to AI. A recent University of Pennsylvania study found that 80 percent of American jobs are likely to see at least 10 percent of their tasks altered by AI while almost 20 percent of jobs will see at least 50 percent of their tasks altered. Another study by Goldman Sachs largely echoed these findings estimating that 18 percent of jobs globally could be computerized with “knowledge” and “information” tasks especially exposed.

During one of the AI Commission’s field hearings, Cheryl Oldham, vice president of education policy at the U.S. Chamber, emphasized that if we’re going to minimize any labor market disruptions and build new and effective pathways that lead to AI-related jobs, “we need to proactively lean into workforce development.”

To do so, the report recommends:

- **Training and Reskilling:** The creation of new programs that can help ease worker transitions find and improve incentives for businesses to invest in retraining as necessary.
- **Educating the Future Workforce:** Urging students and workers to prepare early and to continuously upgrade their knowledge, skills, and abilities.

- **Economic Policies:** Encouraging Congress to adopt tax policies that support “human labor augmentation” within firms rather than ones that incentivize the substitution of technology for human labor and skill.

AI is neither the end of work nor a future delivered on a golden platter. Rather, it is a new tool that, just like new tools of the past, will take time, effort, and practice to master.

The Future of the Office

Industry professionals surveyed say that local permitting and zoning regulations are a key barrier in converting office space to other real estate uses.

Key Findings

- 46% of commercial real estate professionals indicate that zoning/permitting is impacting their ability to convert current office spaces into other uses.
- Flexible and hybrid workspaces that promote collaboration with offsite teams will be hot trends over the next five years.
- 71% of builders and 68% of architects are receiving more frequent requests to convert existing office space for a different use compared to one year ago.

Executive Summary

The future of the office is here. The U.S. Chamber of Commerce Future of the Office survey has found that the new office will be more flexible, open, and health-conscious than the old. As many look to repurpose existing commercial spaces, the professionals surveyed said government red tape is a key barrier to office space conversion. The survey also found that some commercial real estate professionals think offices will be converted to other commercial uses—but few anticipate they will be transformed into residential properties.

The commercial real estate professionals surveyed say that government regulation is a primary barrier to office space conversion, but that existing office footprints and environmental rules are also contributing challenges. Almost half (46%) of commercial real estate professionals indicate zoning/ permitting is impacting their ability to convert current office space into other types of real estate with nearly one in four (23%) saying it is the most important factor. In addition, 47% of those surveyed indicate building layouts are impacting their ability to convert office space into other types of real estate, while more than two in five professionals (44%) indicate environmental regulations.

Architects (54%) are more likely than builders (35%) or owner/managers (24%) to say that converting office spaces into other commercial uses will be a trend in the coming year. However, real estate professionals are more skeptical that conversion from commercial to residential space will be a big trend this year. Among the different specialties, builders are more likely to believe converting office space into housing will be a big trend. One in five builders (20%) believe converting office spaces into residential housing units will be the most influential trend in office design in the next year. This is compared to just 6% of both property owners/managers and architects saying so.

The findings from the survey show that a majority of commercial real estate professionals believe that improving office air quality (58%), spaces that accommodate social distancing (52%), and spaces which allow for co-working (52%) will be influential trends in office design over the next year.

Most of the professionals surveyed foresee a significant change in long-term trends. A majority of those surveyed say flexible workspaces (65%), improved ventilation (63%), and work-from-home/hybrid spaces (61%) will be hot trends in office space design over the next five years.

The purpose of this study—which was conducted in late 2022—was to identify trends in office space conversion, design, and usage among commercial real estate professionals (architects, builders, and owners/managers).

The specific research objectives of this study are to:

- Identify the most influential office space trends in the near and long term.
- Determine expected changes in office design.
- Measure the frequency of office space conversion requests.
- Determine the most frequent types of office conversions being requested.
- Identify where office space conversions are most likely to occur in the future.
- Determine the primary factors impacting the ability to convert office space.

Small Business Index

Q4 2023

WWW.SBINDEX.US

The Voice of Small Business Owners

PRESENTED BY MetLife U.S. Chamber of Commerce

Contents

INDEX SUMMARY

Index Drops As View of Economy Declines

Employers having harder time finding employees with right skills, experience

This quarter, the Q4 2023 MetLife & U.S. Chamber of Commerce Small Business Index falls to 61.3—close to sentiments from earlier this year and in late 2022—and below last quarter's score of 69.2. Small businesses' declining view of the national economy and their local economy helped drive the headline score down.

61.3

Q4 2023 Score

According to the poll taken between October 5-24, 2023, 25% of small businesses say the U.S. economy is in good health and 30% say their local economy is in good health, both down eight percentage points since last quarter. While optimism about future revenue expectations is widespread, there has been a softening of this measure too. Almost two-thirds (65%) of small businesses expect revenue to increase next year, down from a record-high 71% expecting the same over the last two quarters.

Small businesses' concerns are still dominated by persistent high inflation. For the sixth consecutive quarter, at least 50% of small businesses cite inflation as one of the biggest challenges they are facing right now. However, concerns may be leveling off; the percentage citing inflation as the top concern has held steady at 52-54% since Q4 2022.

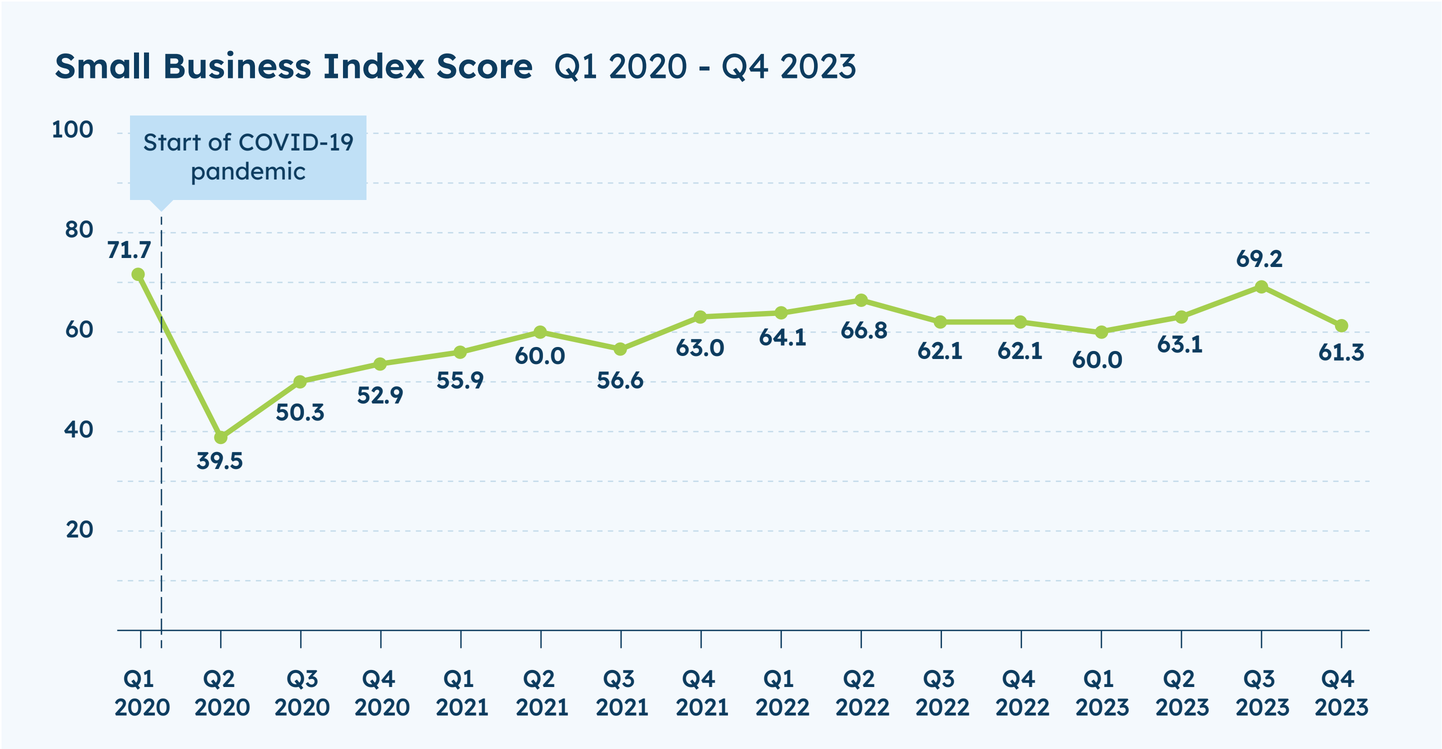
Small businesses' second biggest concern is revenue with 22% citing this as a top concern. Meanwhile, small businesses' concerns about supply chain issues are slightly fading. Supply chain issues are tied for fourth place as the most challenging issue reported among small businesses this quarter (17%), along with affording employee benefits or healthcare.

Nearly half of small businesses report searching for, recruiting, or interviewing new talent in 2023—a significant increase from mid-2021. Most of those looking for new employees say it is hard finding candidates with the experience or skills they need. More also say it is hard to find enough candidates to fill open positions versus a few years ago. Nearly half of those who report searching for new talent in 2023 say it is hard to offer competitive pay and benefits. In fact, 60% of all small businesses agree it is challenging to keep up with existing employees' salary expectations.

In response, small business owners are getting innovative in their struggle to find and retain talent. The most popular

50%

of small businesses cite inflation as one of the biggest challenges they are facing right now



strategy is offering flexible work schedules, with 68% of small businesses saying they plan to offer it in the next year. Roughly half (48%) also say they plan to offer a hybrid or remote work environment in the next year to attract new talent. Both incentives are particularly popular among those in the professional services sector. In addition, half (50%) of small businesses say they will be offering increased pay, paid sick leave, or listing the hourly pay/salary range for each open position they announce.

To help alleviate staffing constraints, small businesses are interested in recruiting workers from overlooked groups. Nearly three in four (71%) small businesses agree that employers should more often consider hiring from talent pools such as formerly-incarcerated people, veterans, military spouses, or legal immigrants. In addition, a majority (54%) of small businesses think the U.S. should issue more skilled worker visas annually so businesses can hire the workers they need.

48%

of small businesses say they plan to offer a hybrid or remote work environment in the next year to attract new talent

INDEX HIGHLIGHTS

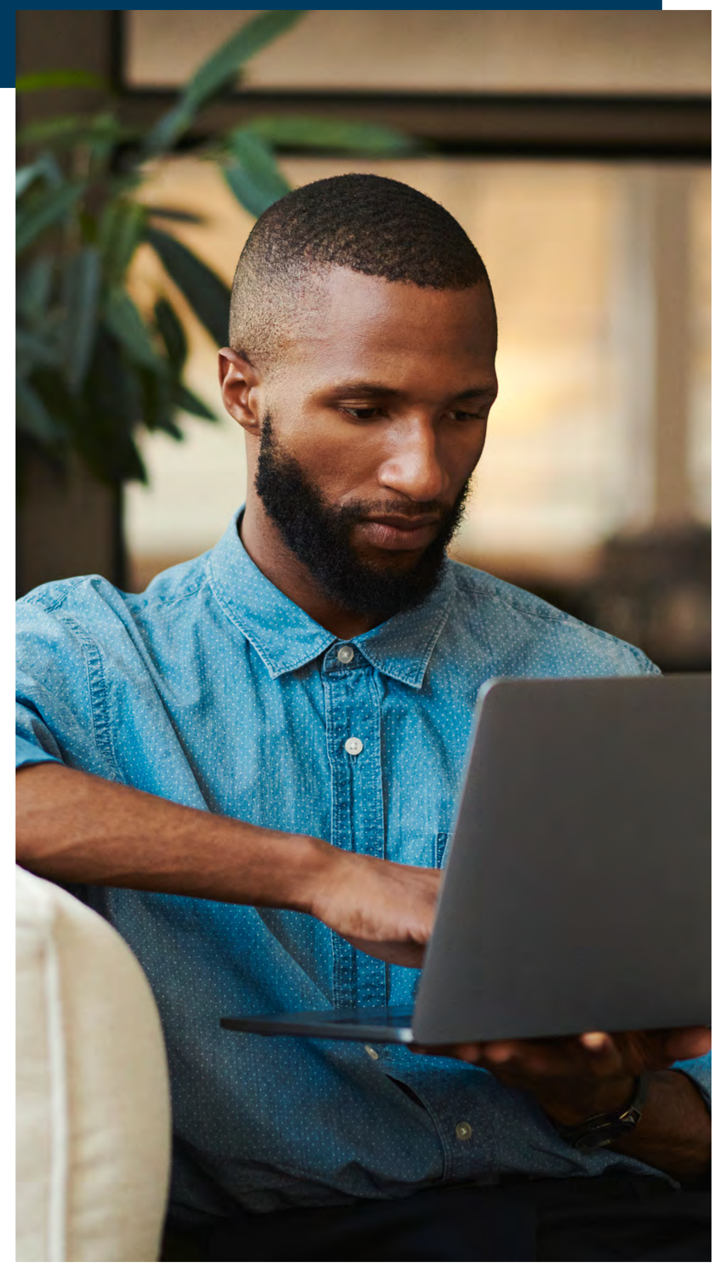
Small Business Index Q4 2023 – 61.3

The MetLife and U.S. Chamber of Commerce Small Business Index score for Q4 is 61.3. The Q3 Index score was 69.2.

Index score declines.
The MetLife & U.S. Chamber of Commerce Small Business Index fell to 61.3 from 69.2 last quarter. This is close to overall sentiments this time last year.

Views of the economy decline to levels seen earlier this year
25% of small businesses say the U.S. economy is in good health, down eight percentage points from last quarter, but similar to readings from late 2022 and early 2023.

Views of the local economy drop.
30% of small businesses say their local economy is in good health, down eight percentage points since Q3, returning to levels earlier this year.



Inflation remains the top challenge—by far.
A majority of small businesses (53%) say inflation is the top challenge facing the small business community. This is the sixth quarter in a row where 50% or more have cited inflation as their biggest challenge.

Most small businesses say there is a worker shortage.
A majority (53%) of small businesses agree there is a worker shortage in their local area.

More small businesses are looking for workers.
45% of small businesses say they have searched for new talent this year, up from 36% who said so in fall 2021.

Most small businesses struggle to find workers with the right experience and skills.
Over half of those who have searched for talent in 2023 say it is hard to find candidates with the experience (54%) or skills (52%) their business needs.

A strong majority report planning to offer flexible work options.
Nearly seven in ten (68%) small businesses say they plan to offer more flexible working hours over the next year to attract new talent. Also, 48% say they plan to offer a hybrid or remote working environment.

Most small businesses find it hard keeping up with salary demands.
A majority of small businesses (60%) say it is challenging to keep up with their employees' salary expectations or demands, in line with attitudes from last quarter (56%).

Most feel small businesses should consider workers from overlooked groups.
71% of small businesses agree that employers should more often consider hiring from overlooked talent pools, such as formerly-incarcerated people, veterans, military spouses, or legal immigrants.

Most small businesses think there should be more visas for skilled legal immigrants.
A majority (54%) of small businesses think the U.S. should issue more skilled worker visas each year so businesses can hire the workers they need.

QUARTERLY SPOTLIGHT

Inflation Tops List of Concerns for Eighth Consecutive Quarter

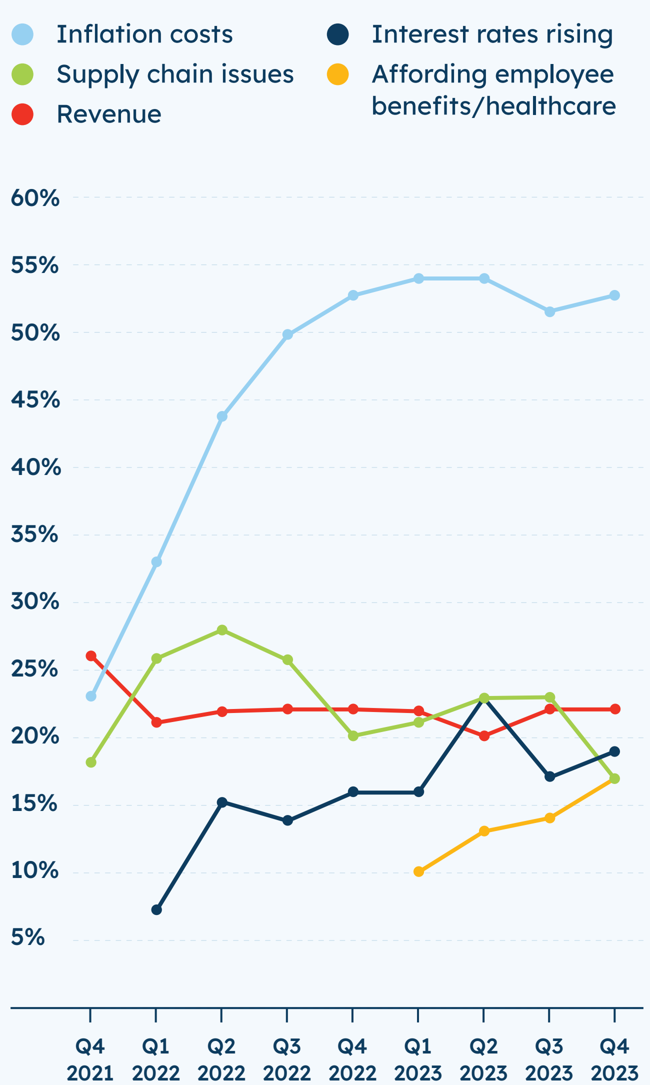
Worries about affording employee healthcare and benefits grow

This quarter, small business concerns about inflation remain near record highs. In fact, inflation has been the top concern for small businesses for the last two years running.

In Q1 2022, inflation replaced revenue as the single top concern among small business owners with 33% saying it was a top concern. Since then, inflation concerns have grown and plateaued: A majority of small businesses (53%) say inflation is the top challenge facing the small business community. This is also the sixth quarter in a row where 50% or more have cited inflation as their biggest challenge.

Inflation concerns continue to exist regardless of a small business's region, number of employees, or sector. However, small businesses in the services sector are more likely than those in manufacturing or professional services to say inflation is their biggest challenge (61% vs. 48% and 47%, respectively). About half (54%) of small businesses in retail say the same.

Top 5 biggest challenges facing small business owners



"Interest rates rising" added in Q1 2022
"Affording employee benefits/healthcare" added in Q1 2023

Other concerns don't come close to inflation. About one-fifth of small business decision makers say either revenue (22%) or rising interest rates (19%) are the biggest challenges facing them right now. Each of these levels is relatively unchanged from Q3 2023.

In addition, supply chain issues are less a concern than they used to be. Small businesses said supply chain issues are their fourth most challenging issue with 17% saying it's a top concern. This is down from a peak of 28% who said it was a top concern in Q2 2022.

A growing concern is containing the cost of employee benefits. Concerns around affording employee benefits or healthcare have increased by seven percentage points since the start of the year to 17% saying it's a top concern. There is a clear upward trend when compared to the beginning of the year when only 10% said affording employee benefits or healthcare was a top concern. Business size matters here: affording employee benefits and healthcare is the second most challenging issue reported among small businesses with 20-500 employees.

This quarter, 12% of small businesses each say that employee retention or employee well-being/morale are top concerns. Small businesses have expressed fairly consistent sentiments about these two measures since the question was first asked in Q3 2021.

"… From a customer standpoint, we have waiting lists to get into our classes… But our biggest handicap to growth is staffing. We are working on revamping and increasing our pay scales and benefit structure to hopefully entice more workers."

Brenda Nolby, President
Jam Hops
Ham Lake, Minnesota

QUARTERLY SPOTLIGHT

Most Say It's Hard to Find Workers With the Right Experience, Skills

Most small businesses see a worker shortage in their area

Most small businesses who searched for or hired new talent this year say they are having a hard time finding workers with the right skills and experience they need—and the trend is getting worse.

About half of small businesses who have searched for new talent in 2023 say it is hard to find candidates with the experience (54%) or skills (52%) they need for the job. When compared to September 2021, when this question was last asked, the net difficulty[1] in finding candidates has increased significantly. Small businesses say that finding workers with the necessary experience (up a net 19 percentage points), finding candidates in their area (up net 14 percentage points), and finding enough candidates to fill open positions (up net 11 percentage points) have all become more difficult.

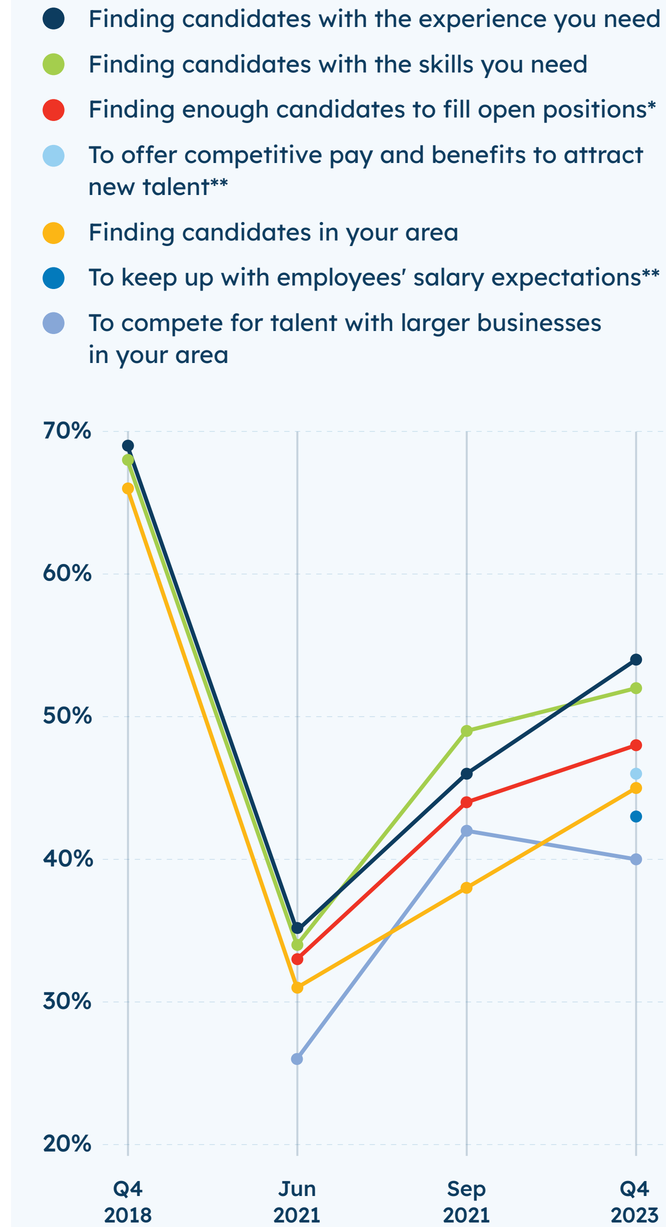
Additionally, a majority (53%) of all small businesses say there is a worker shortage in their area. Small businesses that report searching for new talent in 2023 are even more likely to say there is a worker shortage in their area than those who have not searched for new talent this year (63% vs. 44%, respectively). Also, almost half (48%) of small businesses who have searched for talent in 2023 say it is hard to find enough candidates to fill open positions.

Furthermore, 71% of small businesses who say it is hard to fill open positions say they feel there is a worker shortage in their area, emphasizing the impact of this perceived shortage on the hiring process and the difficulty of finding the right workers.

54%

of small businesses who have searched for new talent in 2023 say it is hard to find candidates with the experience they need for the job

Difficulty in aspects of hiring over time



* This option was first asked in the June 2021 Pulse study
** This option was first asked in Q4 2023

1. Net difficulty is calculated by subtracting the percent selecting somewhat or very easy from the percent selecting somewhat or very hard for each response option.

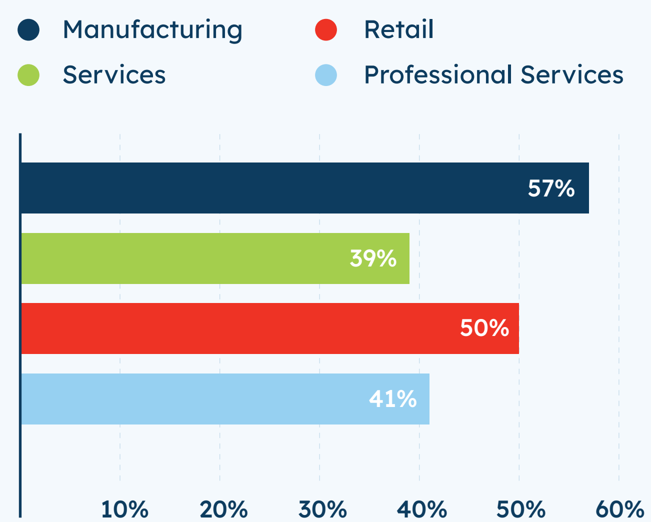
Most small businesses see a worker shortage in their area

Exacerbating the fight to find the right workers, 45% of small businesses say they have searched for new talent this year, up from 33-36% in our 2021 pulse surveys, and closer to what was reported in Q4 2018 (43%), a year before the onset of the COVID-19 pandemic.

As with reported increases in staffing in the past year, small businesses are more likely to report having searched for new talent in 2023 if they are male-owned or have more employees. Many (78%) large small businesses (20-500 employees) report seeking workers this year—while only 33% of those with 1-4 employees report the same.

Small manufacturers and retailers are the most hungry for workers. Manufacturers (57%) and retailers (50%) are more likely than services (39%) or professional services (41%) to say that they've searched for or interviewed new talent this year.

Percentage that searched for, recruited, or interviewed any new talent in 2023 (by sector)



QUARTERLY SPOTLIGHT

Most Say It Is Hard to Keep Up with Employee Salary Expectations

Many look to flexible and remote work to attract employees

Amidst these reported challenges to hiring—amplified by reported worker shortages and difficulties offering competitive pay and benefits to attract new talent—44% of small businesses also say they think that their business needs to change its hiring strategies in 2024. And many are reporting plans to do just that.

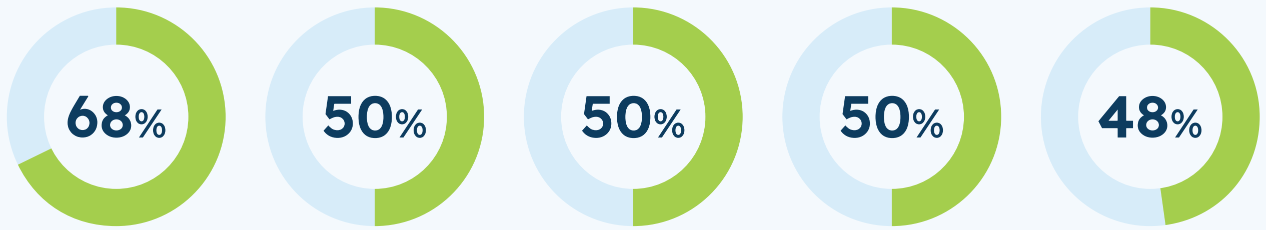
Offering flexible work hours is the top way small businesses hope to attract talent in 2024. Nearly seven in ten (68%) small businesses say they plan to offer more flexible working hours in the next year. Similarly, 48% say they plan to offer hybrid or remote working environment options. Also, 67% of small businesses surveyed report currently offering employees the ability to work remotely/from home at least once per week.

Regardless of business size or sector, the majority of small businesses report planning to offer more flexible working hours to attract new talent. Those with 5-19 employees, however, are more likely than the smallest (fewer than five employees) and

68%

of small businesses say they plan to offer more flexible working hours in the next year

Percentage that said that regardless of current hiring status, they planned to do the following to attract new talent in the next year



Offer more flexible working hours

Increase pay offering

Offer paid sick leave

List hourly pay or salary range for each open position

Offer a hybrid or remote work environment

largest (20-500 employees) small businesses to plan to do so. Small businesses in the professional services sector (75% offering flexible hours) are more likely to say they plan to do this than those in the manufacturing sector (58% offering flexible hours). Still, in all sectors at least a majority of small businesses report offering flexible work hours.

When it comes to planning to offer a hybrid or remote work environment to attract new talent in the next year, small businesses in the professional services sector and those owned by Gen Zers or millennials are especially likely to say they will offer a hybrid or remote work environment to attract talent in the next year.

Small businesses are using other methods to attract workers. Half (50%) of small businesses report that they plan to increase pay offerings, offer paid sick leave, or list the hourly pay or salary range in job descriptions to attract talent in the next year.

> "When we hire, we tell people: 'If you're heading downtown to see a show and need to leave at four, we want you to leave at four. If your kid has a school play and you need to be there at midday, we want you to go.' … I don't know if it gives us an advantage in hiring, but I do think it helps with retention. We never want someone to miss what matters in their personal life because of work."
>
> **Julianne Weiner, COO**
> **Sonic Promos**
> **Gaithersburg, Maryland**

Most say it's hard keeping up with employee salary expectations

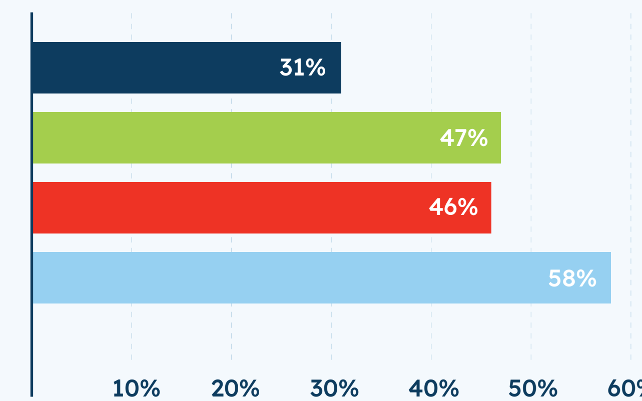
With the fierce competition to find and keep talent, it's not surprising that many employers are having a hard time keeping up with workers' salary demands. Three in five (60%) small businesses report that it is challenging to keep up with their current employees' salary expectations or demands, similar to last quarter (56%).

It's also hard to keep up with the demands of new workers. Almost half (46%) of small businesses who say they have searched for new talent in 2023 say it is hard to offer competitive pay and benefits to attract new talent. Among those searching for talent and saying it is hard to fill open positions, even more agree (60%).

This self-reported difficulty in offering competitive pay and benefits to attract talent is particularly pronounced for the smallest small businesses (those with less than five employees). By sector, small businesses in professional services are more likely (58%) to say it is difficult to offer competitive pay and benefits to attract new talent compared to those in manufacturing (31%); those in services (47%) and retail (46%) fall in the middle.

Percentage that said it was somewhat/very hard to offer competitive pay and benefits to attract new talent (by sector)

Manufacturing · Retail · Services * · Professional Services



* Base size is small (n=73). Exercise caution in interpreting results.

QUARTERLY SPOTLIGHT

Small Businesses Consider New Talent Pools to Find Workers

A majority say the country should issue more skilled worker visas

With the increased difficulty finding the right workers and enough candidates for job openings, small businesses are searching for ways to find employees who may have been previously overlooked. Specifically, small businesses are looking at women, legal immigrants, and historically-overlooked talent pools to help fill the gap.

Finding affordable childcare is one of the biggest barriers to working, so some small businesses are offering some kind of reimbursement for childcare to expand their hiring pool to parents, and mothers in particular, to ultimately fill hiring gaps amid perceived worker shortages. Businesses owned by Gen Zers or millennials (33%), businesses that have 20-500 employees (35%), or businesses planning to hire in 2023 (34%) are especially likely to say they plan to provide childcare reimbursement in the next year.

A majority of small businesses say the country should accept more skilled, legal immigrants to meet their staffing needs. Over half (54%) of small businesses say they agree that the U.S. should issue more skilled worker visas each year so businesses can hire the workers they need. The latter of these statements, about skilled worker visas, is particularly important to small businesses who report having a worker shortage in their area: 67% of them say the U.S. should offer more skilled worker visas, while just 39% of small businesses who do not report a worker shortage agree.

Many also believe small businesses should look more widely for workers. A majority (71%) of small businesses agree that employers should more often consider hiring from overlooked talent pools, such as formerly incarcerated people, veterans, military spouses, or legal immigrants.

71%

of small businesses agree that employers should more often consider hiring from overlooked talent pools

Social media and personal referrals remain top recruiting tools

Using social networks and professional referrals remain the top ways for small businesses to find new talent this year.

Of the small businesses who report having searched for new talent in 2023, two-thirds (66%) say they used social networks, such as LinkedIn, to search for candidates, and about half (54%) say they have asked professional contacts and/or current employees for referrals. These were also the top methods recorded in June 2021 and Q4 2018, when this question was previously asked.

The second tier of hiring strategies for those who have searched for candidates in 2023 includes promoting the benefits offered (35%), using a recruiter (32%), and attending professional networking events or leveraging professional memberships (30%). Compared to June 2021, small businesses who report looking for talent in 2023 are now more likely to say they have searched for candidates by attending professional networking events or school/college events or career fairs – something that could not be done in the height of the pandemic.

Small businesses report plans to hire seasonal workers this year

Fewer small businesses report planning to hire seasonal employees for the upcoming holiday season this year versus in Q4 2022 and Q4 2021 (19% vs. 28% and 29%, respectively).

Small businesses in the retail sector are more likely than those in the services or professional services sector to say they plan to hire seasonal employees (28% vs. 17% and 10%, respectively). One-quarter of those in the manufacturing sector say the same.

A majority (74%) of small businesses who say they plan to hire seasonal employees continue to report that they plan to offer hiring incentives or bonuses to attract them.

KEY FINDINGS

Small Business Operations, Environment and Expectations

Small Business Operations

Most say their business health and cash flow are good

About two-thirds (64%) of small businesses say the overall health of their business is very or somewhat good, stable from levels last quarter (66%) and consistent with levels from Q4 last year (64%). Two-thirds (67%) of small businesses say they are somewhat or very comfortable with their current cash flow, down slightly from last quarter (72%) but consistent with the reading from this time last year (67%). This slight decline in comfort with cash flow comes from the decrease of small businesses saying they are very comfortable (21% in Q4 vs. 26% in Q3 2023) with their cash flow.

Small businesses are also slightly less likely to say they have increased staff in the past year compared to last quarter (17% vs. 23%, respectively). The largest small businesses (20-500 employees) continue to be more likely than those with fewer employees to say they have increased their staff over the past year. Additionally, small businesses that have been in operation for 10 years or less are more likely than those that have been in operation for more than 20 years to say they have increased staff in the past year (20% vs. 9%, respectively).

This quarter, reported outlooks on business operations vary more by sector than they have in the past few quarters. While perceived business health was consistent across all sectors last quarter, more small businesses in the retail sector now say their business is in good health than those in services this quarter (69% vs. 56%, respectively).

Manufacturing small businesses are more likely to report staff increases. When it comes to reported increases in staffing over the past year, small businesses in the manufacturing sector are more likely than those in any other sector to say they have increased their staff (28% vs. 13%-17%, respectively).

Small Business Environment

More small businesses see a weakening economy

This quarter, small business owners' perceptions of the economy have worsened and closely resemble attitudes at the beginning of the year. Twenty-five percent of small businesses say the U.S. economy is in good health, and 30% say their local economy is in good health, both down eight percentage points since last quarter.

While perceptions of the national economy are consistently down, one-quarter (25%) of small businesses say the U.S. economy is in good health. Across regions, although readings in the Midwest and South are stable, those in the Northeast and West have significantly declined from last quarter (by 16 percentage points and 14 percentage points,

"We have always been a Flex Time shop and it used to be a competitive advantage. Everyone in our industry expects it now."

Jon Briccetti, Chief Executive Officer
Troy Web Consulting
Troy, NY

25%

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

respectively). By gender of ownership, male-owned small businesses are more likely than female-owned small businesses to say either the U.S. economy or their local economy is in good health.

This quarter, fewer small businesses report that competition has increased over the past six months (27% vs. 34% in Q3). Now, more than half (56%) of small businesses say that competition from smaller or local companies has stayed about the same versus six months ago, up by eight percentage points since Q3. Small businesses' perceptions of increased competition are consistent across business sizes.

More small businesses now report that the time or resources spent on completing licensing, compliance, or other government requirements has stayed the same versus six months ago (57% vs. 51% in Q2 and Q3). Small businesses with 20-500 employees are now more likely than those with 5-19 employees or fewer than five employees to say the time or resources spent on compliance has increased compared to six months ago (52% vs. 37% and 29%, respectively).

56%

of small businesses say that competition from smaller or local companies has stayed about the same versus six months ago

Small Business Expectations

Small businesses continue to have high optimism about the future

Compared to small businesses' muted perceptions of the economy, their expectations for the future continue to be optimistic and generally consistent with readings from last quarter.

Two in five (40%) small businesses report that they plan to increase staff in the next year, unchanged from last quarter and similar to levels reported from mid-2022 to early 2023. Another two in five (42%) small businesses say they plan to increase investment in the next year, generally unchanged from the start of the year.

While self-reported plans to increase investment are consistent by gender of ownership and number of employees, male-owned small businesses are more likely than female-owned small businesses to say they plan to increase staff next year (44% vs. 34%, respectively).

By size, small businesses with 20-500 employees are more likely than those with fewer than five employees to say they plan to increase staff (52% vs. 37%). By sector, small businesses in professional services are most likely of all sectors to say they plan to increase staff next year (49% vs. 36-38% for others, respectively). Small businesses in the professional services sector are also more likely than those in services to say they plan to increase investment (49% vs. 33%, respectively).

Overall, 65% of small businesses expect revenue to increase over the next year, down slightly from record-high higher revenue expectations the last two quarters (when 71% expected increased revenue). Small businesses are more likely to say they expect next year's revenue to increase if they have younger owners or are a newer business. Small businesses with 20-500 or 5-19 employees are more likely than those with fewer than five employees to say they expect revenue to increase next year (73% and 71% vs. 60%, respectively).

SNAPSHOTS

Index Snapshots

Index score declines.

The MetLife & U.S. Chamber of Commerce Small Business Index fell to 61.3 from 69.2 last quarter. This is close to overall sentiments this time last year.

Views of the economy decline to levels seen earlier this year.

25% of small businesses say the U.S. economy is in good health, down eight percentage points from last quarter, but similar to readings from late 2022 and early 2023.

Views of the local economy drop.

30% of small businesses say their local economy is in good health, down eight percentage points since Q3, returning to levels earlier this year.

Inflation remains the top challenge—by far.

A majority of small businesses (53%) say inflation is the top challenge facing the small business community. This is the sixth quarter in a row where 50% or more have cited inflation as their biggest challenge.

Most small businesses say there is a worker shortage.

A majority (53%) of small businesses agree there is a worker shortage in their local area.

More small businesses are looking for workers.

45% of small businesses say they have searched for new talent this year, up from 36% who said so in fall 2021.

Most small businesses struggle to find workers with the right experience and skills.

Over half of those who have searched for talent in 2023 say it is hard to find candidates with the experience (54%) or skills (52%) their business needs.

A strong majority report planning to offer flexible work options.

Nearly seven in ten (68%) small businesses say they plan to offer more flexible working hours over the next year to attract new talent. Also, 48% say they plan to offer a hybrid or remote working environment.

Most small businesses find it hard keeping up with salary demands.

A majority of small businesses (60%) say it is challenging to keep up with their employees' salary expectations or demands, in line with attitudes from last quarter (56%).

Most feel small businesses should consider workers from overlooked groups.

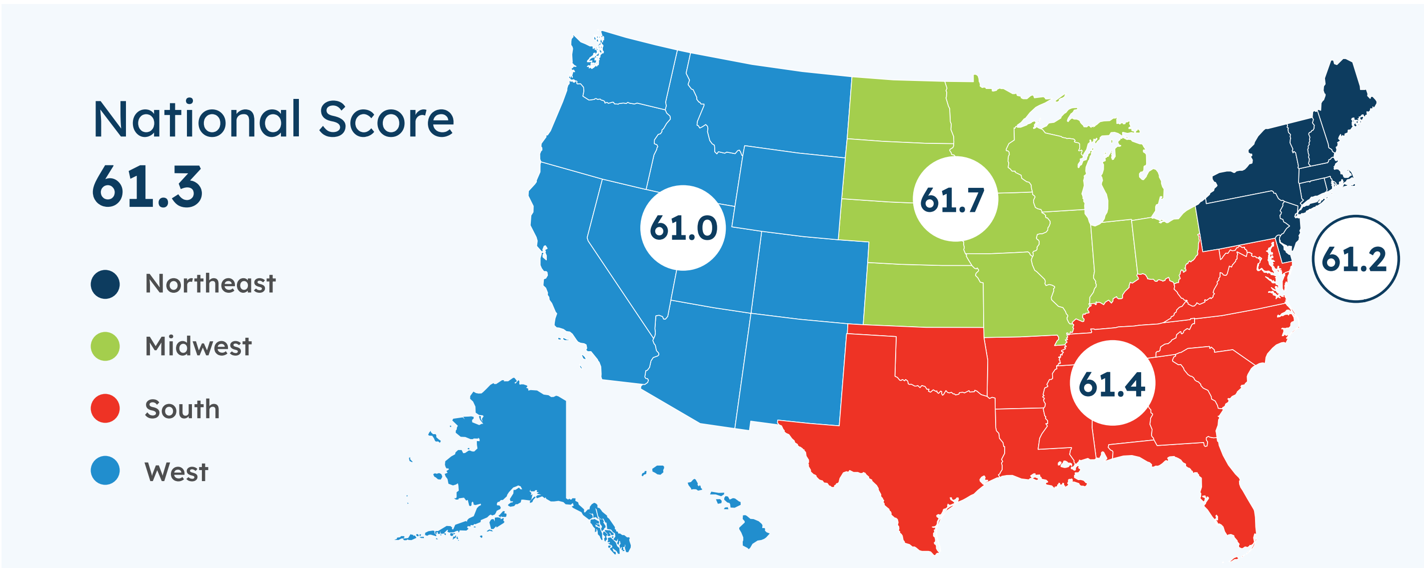
71% of small businesses agree that employers should more often consider hiring from overlooked talent pools, such as formerly-incarcerated people, veterans, military spouses, or legal immigrants.

Most small businesses think there should be more visas for skilled legal immigrants.

A majority (54%) of small businesses think the U.S. should issue more skilled worker visas each year so businesses can hire the workers they need.

Q4 Small Business Index Scores by Region

Regional scores fall, especially in West and Northeast



Northeast (61.2): Attitudes toward the economy have worsened more in the Northeast than other regions. 26% say the national economy is in good health, down from 42% last quarter. Also, there is a 15-percentage point drop from last quarter in attitudes toward the local economy. While two-thirds (65%) feel comfortable with their current cash flow, this number represents a 12-percentage point decline from last quarter. However, about two in five expect next year's revenues to increase.

Midwest (61.7): 24% of Midwestern small businesses feel good about the U.S. economy, but 52% feel it is in poor health, tracking closely with the national average. Their attitudes toward their local economy remain evenly split between good and poor. However, 44% now say their local economy is average (vs. 34% last quarter). Midwestern small businesses are less likely to report plans for increasing staff next year (33%, compared to 37%-45% in other regions).

South (61.4): Slightly more Southern small business owners say the economy is in poor health (56% now vs. 48% last quarter). Meanwhile, two-thirds (68%) feel comfortable with their cash flow. Small business owners in the South who searched for new talent this year are more likely than those in the Northeast or West to say it was hard finding candidates with the skills they need.

West (61.0): Western small business attitudes toward the national economy have worsened from last quarter's high point. Now, 23% say the U.S. economy is in good health, and 49% say it is in poor health. Last quarter, views were evenly split between good and poor (37% each). Fewer expect revenues to increase over the next year (64% now vs. 76% in Q3 2023), but expectations for increasing headcount remain the same.

Small Business Index Methodology

These are the findings of an Ipsos poll conducted between October 5-24, 2023. For this survey, a sample of 751 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 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. The source of these population targets is U.S. Census 2020 Statistics of U.S. Businesses dataset. 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. The source of these two weight variables is the Small Business Administration's 2022 Small Business Profiles.

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=751, DEFF=1.5, adjusted Confidence Interval=+/- 5.9 percentage points).

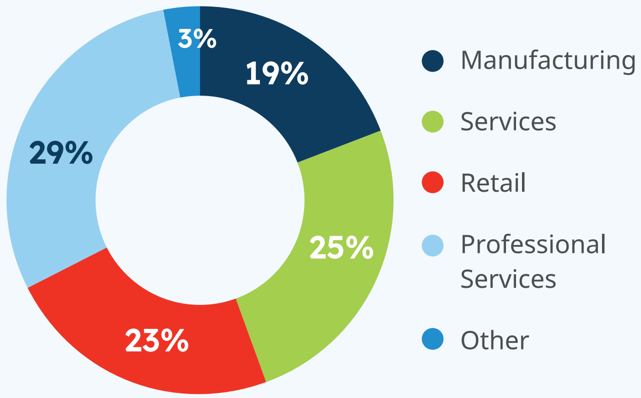
Starting with the March 2020 survey, small business decision makers are reached via an online survey, in place of the typical phone-based approach. This methodological shift was in response to lower anticipated response rates in dialing owners at their businesses as a result of mandated closures related to the COVID-19 outbreak. Switching from a phone to online approach may have also generated a mode effect.

Index Methodology

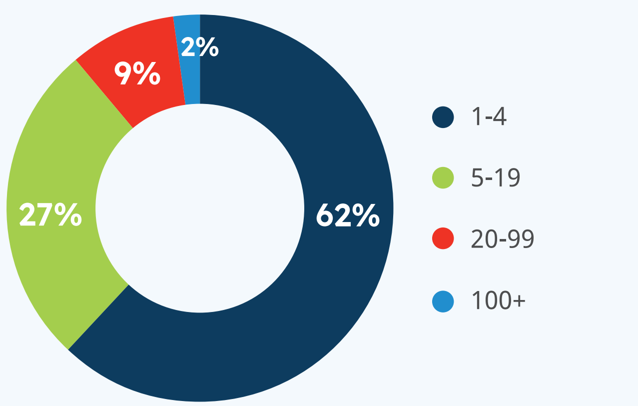
To construct national, regional, employee size, and broad industry group level estimates of the health of small businesses in the U.S., a sequence of statistical techniques were applied to the survey results, including elastic net for variable selection and multilevel regression with post stratification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

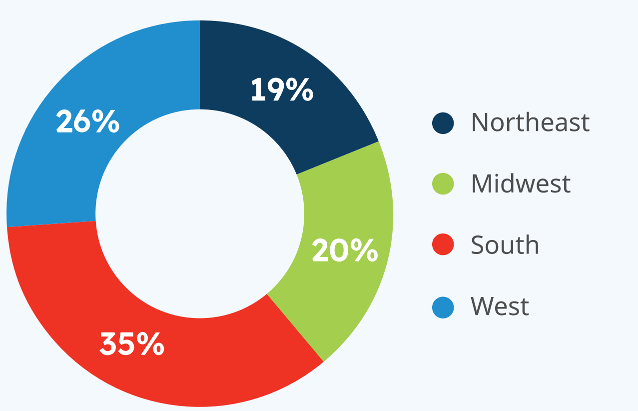
Breakdown by Sector



Breakdown by Employee Size



Breakdown by Region



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 2020 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

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U.S. Chamber of Commerce

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

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