

PYMNTS

PYMNTS is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

PYMNTS

DECEMBER 2022 ■

MAIN STREET HEALTH

Q4 2022

SMBs BRACE FOR
A RECESSION



TABLE OF CONTENTS

| | |
|------------------------|-----------|
| Introduction | 03 |
| Key findings. | 06 |
| Methodology | 24 |

MAIN STREET HEALTH

Q3 2022

PYMNTS

SMBs BRACE FOR
A RECESSION

INTRODUCTION

High inflation and the threat of recession make it increasingly difficult for any firm to do business. In particular, the current economic landscape continues to curb the optimism of Main Street small to mid-sized business (SMB) owners.

PYMNTS’ research found that two-thirds of Main Street SMB owners anticipate a recession, while approximately 40% of firms highlight inflation as their most relevant challenge. Firms in the construction segment are the most likely to be worried about inflation, as 55% consider it their most relevant challenge. In turn, 20% of firms expect revenues to decrease in 2022, up 10 percentage points from last year. Times are especially tough for small firms, as 27% of businesses annually earning less than \$150,000 expect revenues to decrease in 2022.

¹ We define “Main Street businesses” as a subset of SMBs with less than \$10 million in annual revenue that conduct business in sectors consistent with the core of a city or town’s commercial district, such as retail, professional services, consumer services or hospitality.

Main Street SMBs make up much of the American business landscape, occupying town centers throughout the United States. Consequently, their performance typically serves as a good indicator of the market's current temperature. Though some figures are worrying, our research also found reasons for optimism. While just 56% of those selling primarily online and 46% of those selling mostly in-store expect revenues to increase, businesses with a mixed online and physical presence — at 62% — are most likely to be optimistic about 2022 revenues.

Despite the concerns of some Main Street businesses, the overall number of firms that fear going under remained steady this quarter, at 6.4%. Still, profit margins have narrowed for many SMBs. While the overall share of firms that increased prices in the last three months remained at approximately 60%, a larger number of construction firms, 71%, have done the same. In contrast, just 38% of firms in professional services increased prices. Meanwhile, fewer firms than last quarter say that lowering costs or improving productivity are their main actions to counteract inflation.

In the Main Street Health Survey Q4 2022: SMBs Brace For A Recession, PYMNTS examines the current state of Main Street businesses. We surveyed 501 U.S.-based businesses between Oct. 10 and Nov. 2 to learn more about the obstacles they face in the current business environment and their perceptions of the future.

This is what we learned.



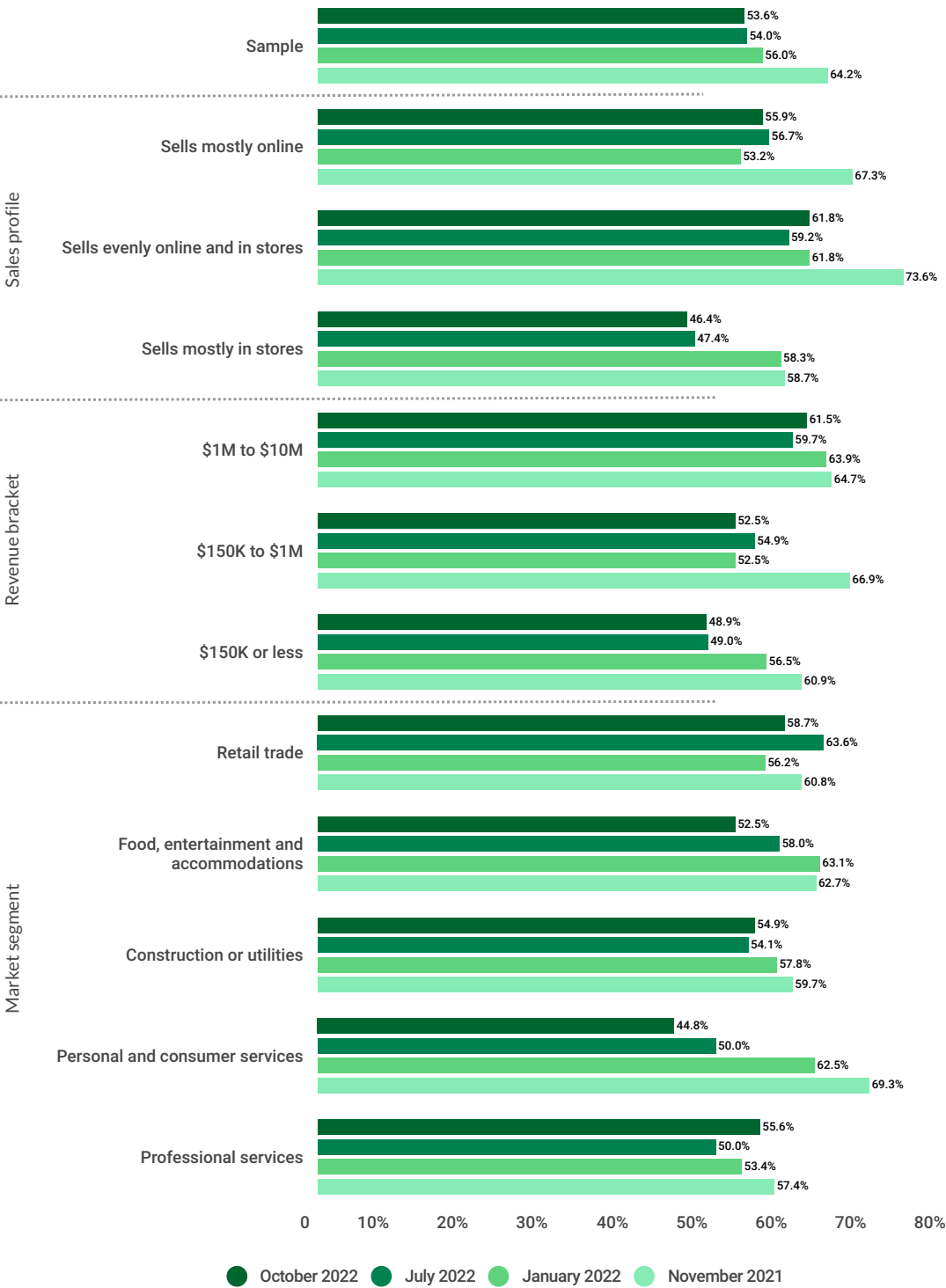
With two in three Main Street SMB owners anticipating a recession, those with a mixed online and physical presence are more optimistic about weathering the economic downturn.

Still, growing numbers of hospitality and consumer services firms believe they are at risk of bankruptcy.

Pessimism is steadily increasing among Main Street SMBs, with just half expecting higher revenues in 2022 than in 2021. The number of firms expecting revenue increases has dropped to 54% in October 2022 from 64% in November 2021. SMBs with similar shares of online and in-store sales are more likely to be optimistic about their 2022 revenues. Just 9.8% of these businesses believe revenues may drop, compared to 20% of all firms surveyed.

Smaller firms — those with annual revenues of \$150,000 or less — are the most likely to anticipate a decrease in 2022 revenues, at 27%. Among market segments, hospitality (food, entertainment and accommodations) firms, at 26%, are the most likely to expect a revenue decline.

Figure 1A
Expectations for 2022 revenues
Share of Main Street SMBs expecting an increase in their 2022 revenue compared to their 2021 revenue, by business demographic



Source: PYMNTS
Main Street Health Survey Q4 2022: SMBs Brace For A Recession, December 2022
N varies based on month surveyed; N = 501: Whole sample in October 2022, fielded Oct. 10, 2022 - Nov. 2, 2022

Regardless of prospects for their business, two-thirds of firms predict a recession. While 64% of Main Street SMBs expect the U.S. economy to enter a recession, 41% think it is already happening and 20% believe a recession will come in the next six months. Interestingly, the share of consumers expecting a recession, also at 64%, is aligned with SMB owners’ expectations.

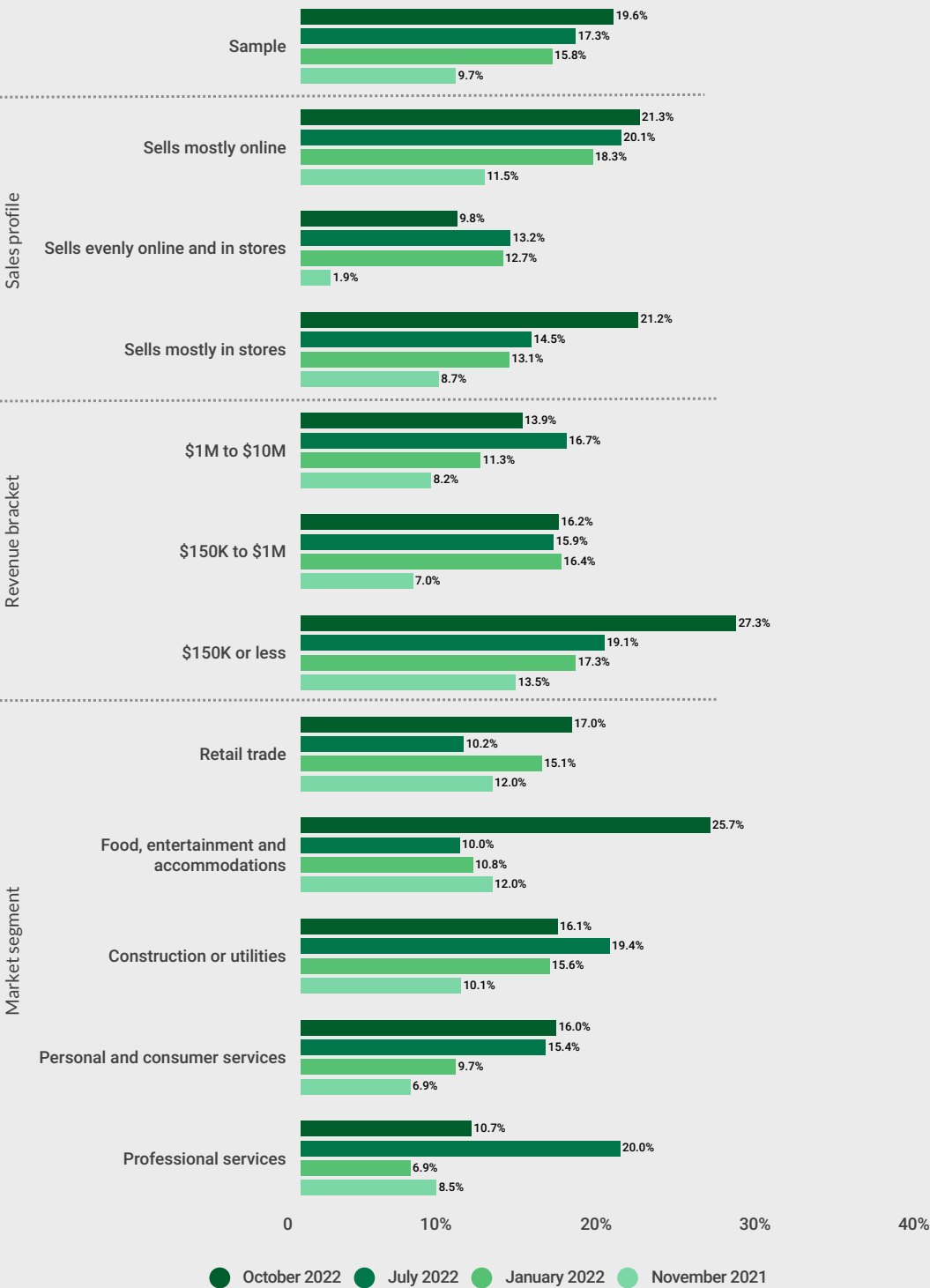
Even as Main Street SMBs’ expectations worsen, leading indicators do not suggest the U.S. has reached a critical situation. As measured by U.S. court statistics, bankruptcies remained the same in Q3 2022 as in Q3 2021, as did the share of surveyed firms expressing doubts about their survival. PYMNTS’ research finds that as of October 2022, 6.4% of firms considered themselves at risk of bankruptcy, a slight increase from 6.3% in November 2021.

Even so, certain market sectors are increasingly pessimistic about their chances of still being in business in 2024. In October 2022, 15% of hospitality firms believed they were at risk, twice the 8.2% share that said so in July 2022. Also, 9.5% of personal and consumer services firms say they are at risk of bankruptcy, compared to just 1.4% in January 2022.



Figure 1B
Expectations for 2022 revenues

Share of Main Street SMBs expecting a decrease in their 2022 revenue compared to their 2021 revenue, by business demographic



Source: PYMNTS
Main Street Health Survey Q4 2022: SMBs Brace For A Recession, December 2022
N varies based on month surveyed; N = 501: Whole sample in October 2022, fielded Oct. 10, 2022 - Nov. 2, 2022

Inflation continues to lead as the main driver of concern, yet uncertainty about economic conditions is rising among Main Street SMBs.

Less than one-quarter of SMB owners think inflation will return to normal in less than a year.

Four in 10 Main Street SMBs highlight inflation as their top challenge. While 39% of all firms cited inflation as the most relevant challenge in October 2022, 23% did so at the beginning of 2022. At 22%, the share of SMB owners who say uncertainty about economic conditions is their top concern is up from 17% last quarter.

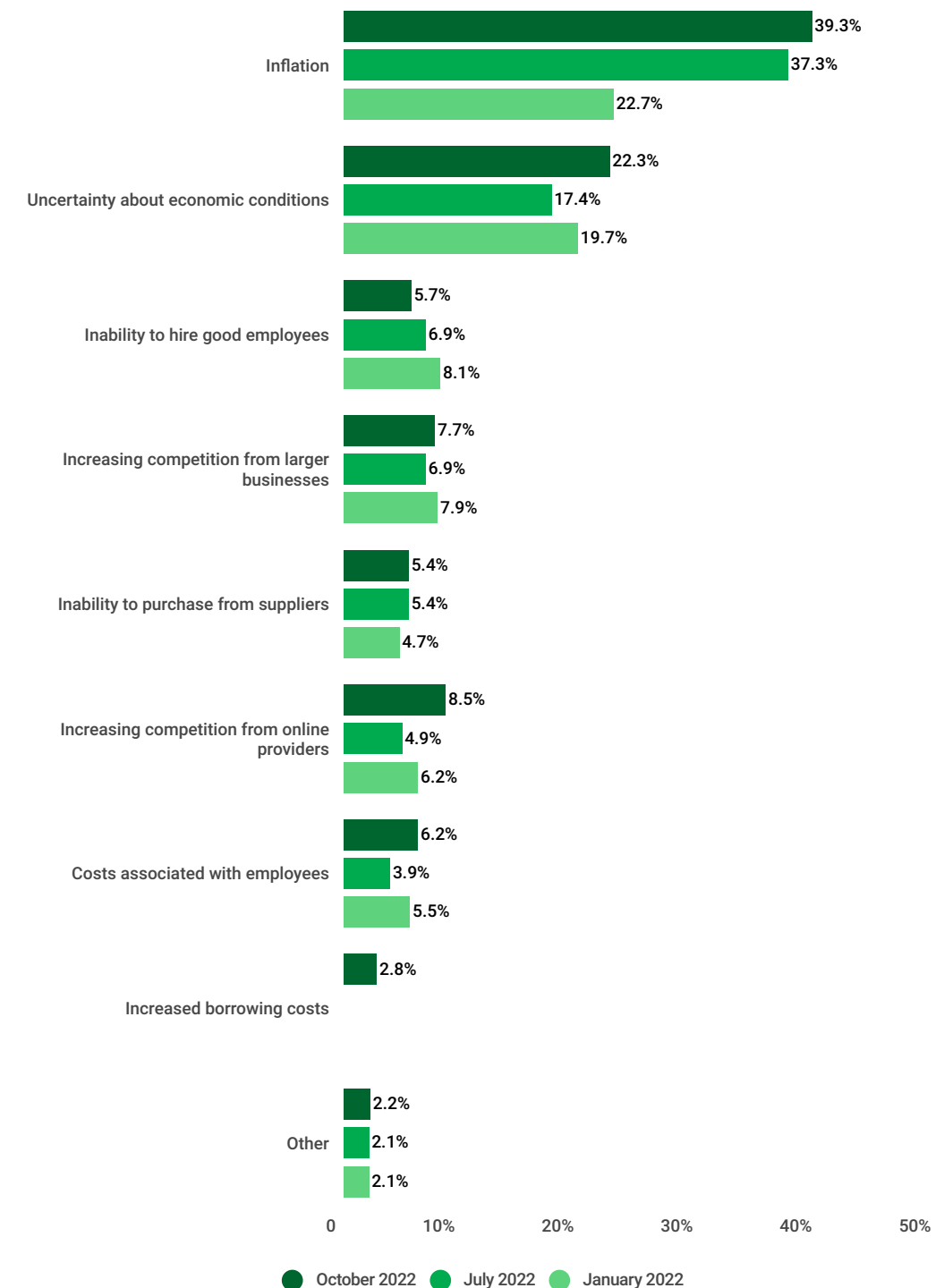
Firms in the construction sector are the most likely to be worried about inflation, as 55% consider it their most relevant challenge. This is followed by hospitality at 43%, retail at 42% and consumer services at 39%.

Overall, uncertainty about economic conditions is more prevalent among professional services firms. Just 32% identified inflation as their top challenge, and 38% were primarily concerned about the uncertain economic landscape. Less than one-quarter of firms in all other market sectors cite overall uncertainty about economic conditions as the top challenge.

Figure 2A

Greatest challenges for Main Street SMBs in 2022

Share of Main Street SMBs that considered a specific challenge to be their greatest this year, over time



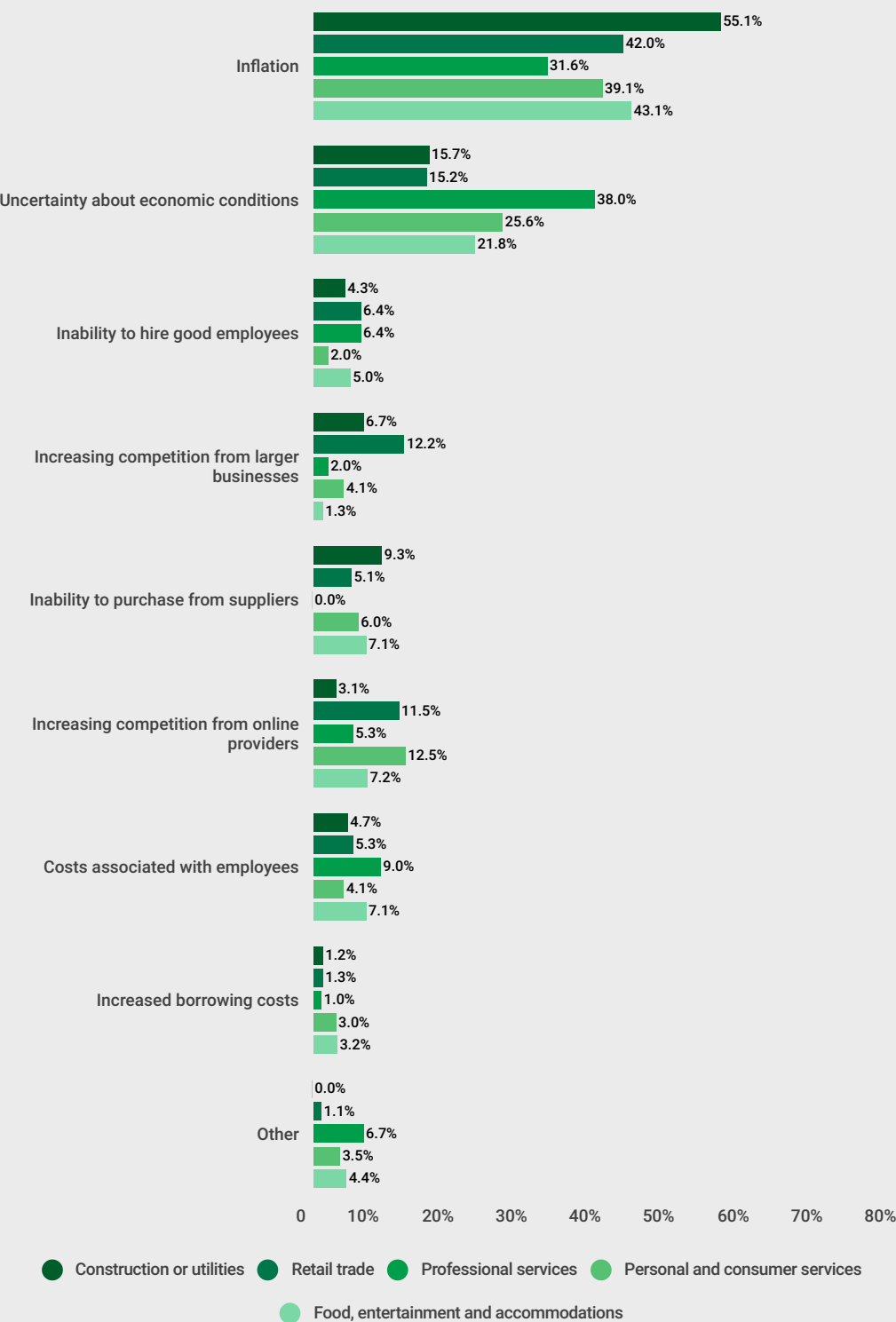
Source: PYMNTS

Main Street Health Survey Q4 2022: SMBs Brace For A Recession, December 2022

N = 532: Whole sample in January 2022; N = 533: Whole sample in July 2022; N = 501: Whole sample in October 2022, fielded Oct. 10, 2022 to Nov. 2, 2022

Figure 2B
Greatest challenges for Main Street SMBs in 2022

Share of Main Street SMBs that considered a specific challenge to be their greatest this year, by market segment



Source: PYMNTS
Main Street Health Survey Q4 2022: SMBs Brace For A Recession, December 2022
N = 501: Whole sample, fielded Oct. 10, 2022 to Nov. 2, 2022

Just 24% of SMB owners think inflation will return to pre-2021 levels in less than one year. Most owners believe inflation will return to normal in more than one year but less than two years, at 26%. One-quarter of SMB owners believe inflation will return to normal by the end of 2024, with 24% saying it will take more than two years.

Main Street SMBs also face inflationary pressures, yet the share of firms that have increased prices in the last three months has remained steady at 61%, slightly less than the 63% that did so last quarter.

At 71%, construction firms are the market sector most likely to have increased prices, followed by retail trade firms at 67% and hospital-ity businesses at 63%. Professional and consumer service providers were significantly less likely to cite price increases in October 2022 than in July 2022, with professional service providers at 38% in October and 53% in July and consumer service providers at 46% in October and 62% in July.

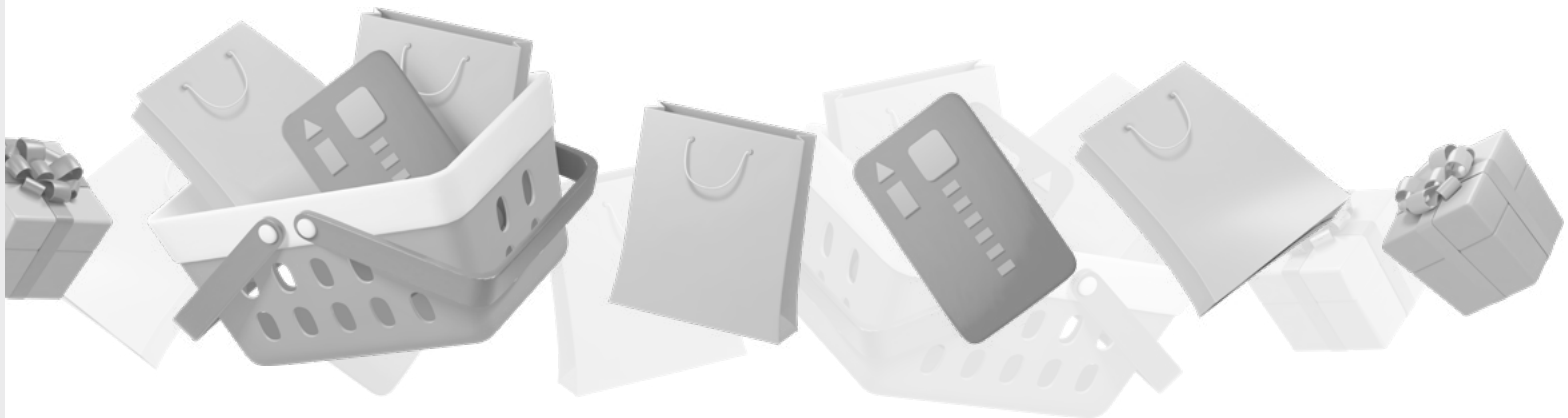
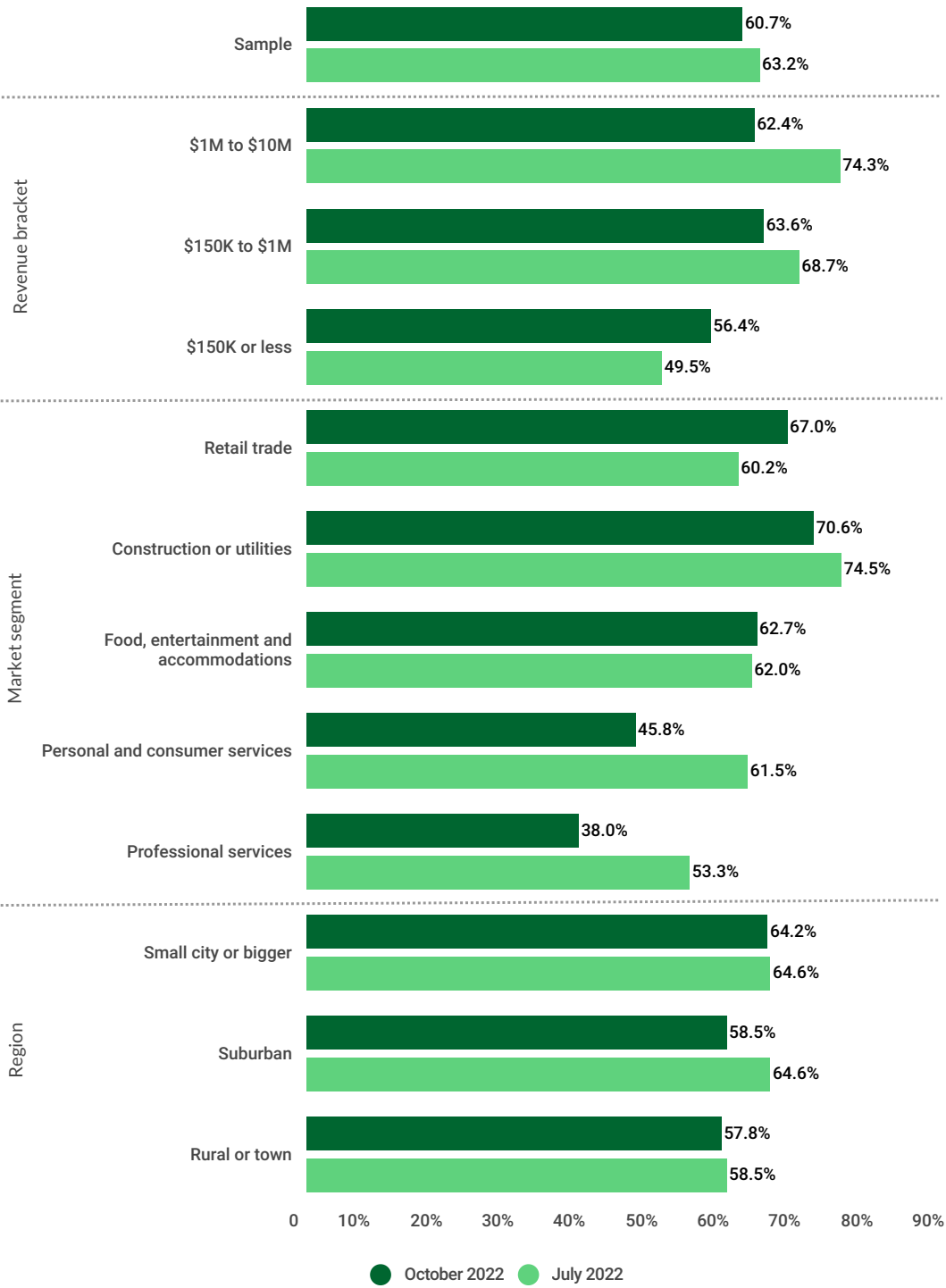


Figure 3
Main Street SMBs increasing prices in 2022
Share of Main Street SMBs that increased prices in the three months prior to being surveyed, by business demographic



Source: PYMNTS
Main Street Health Survey Q4 2022: SMBs Brace For A Recession, December 2022
N = 533: Whole sample in July 2022; N = 501: Whole sample in October 2022, fielded Oct. 10, 2022 - Nov. 2, 2022



Main Street SMBs were more likely to mark up prices and less likely to reduce costs to counter decreasing margins in October 2022.

With more than half of Main Street SMBs already operating on narrower margins, most firms continue to deal with rising costs by marking up prices, while fewer do so by cutting costs. In October 2022, 58% of all SMBs said their profit margins decreased in the last year, slightly increasing from 57% in July.

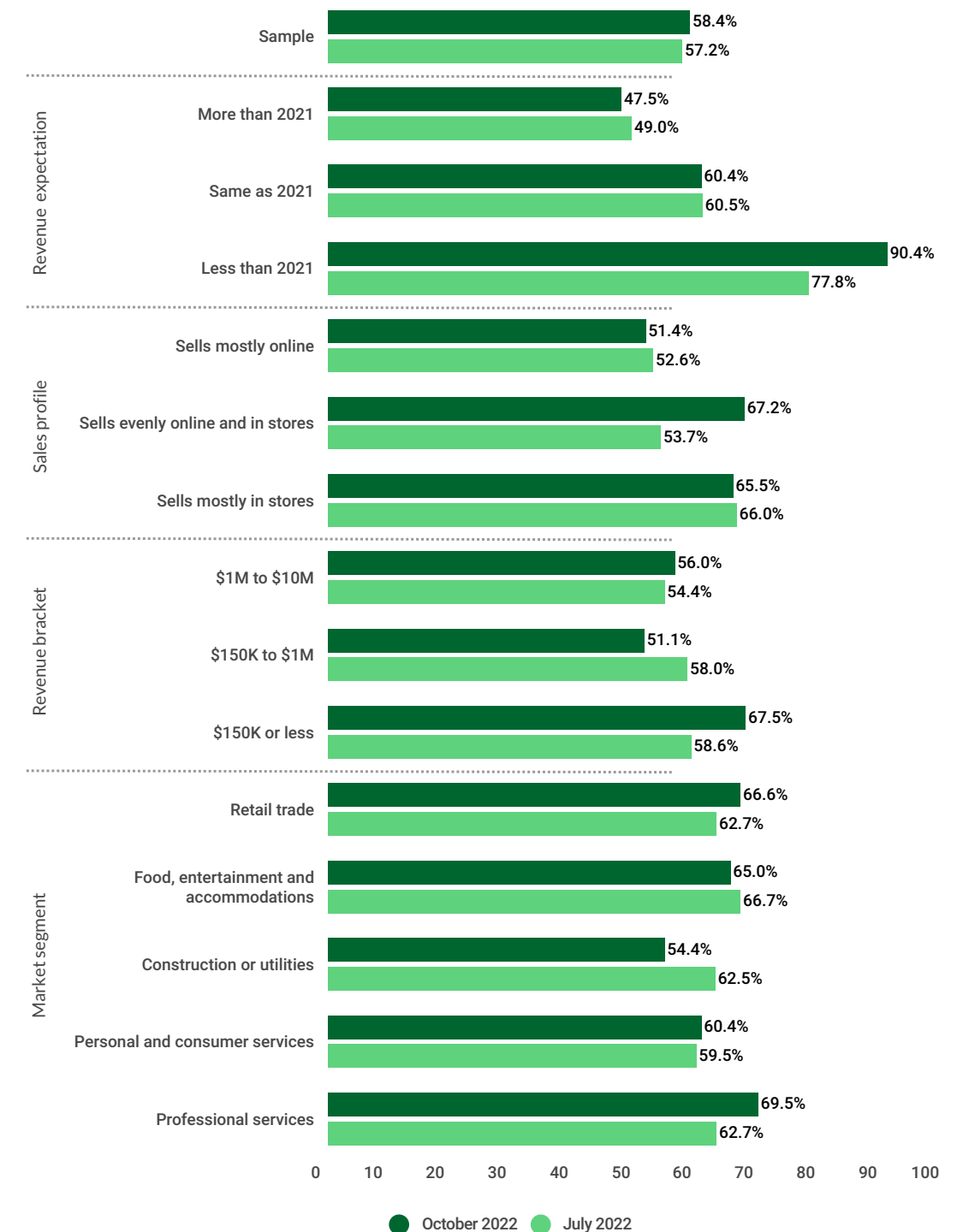
Firms across all market sectors also reported narrower margins this quarter. Leading all sectors at 70%, more professional service firms reported decreased profit margins in the last 12 months in October 2022, up from 63% in July 2022. That result is also more likely among smaller firms, with 68% reporting decreased profit margins in the last 12 months in October 2022, up from 59% in July 2022.

Marking up prices has been the primary strategy to fend off inflation's effects, with 31% of firms saying this was the most important action, up from 29% in July. Fewer firms reported lowering business costs in October 2022, at 11%, compared to 16% in July 2022. Meanwhile, 13% mentioned working on improving productivity in October 2022 and July 2022.

Figure 4A

Decreasing profits, increasing prices

Share of Main Street SMBs that have experienced decreased profit margins in the last 12 months, by business demographic

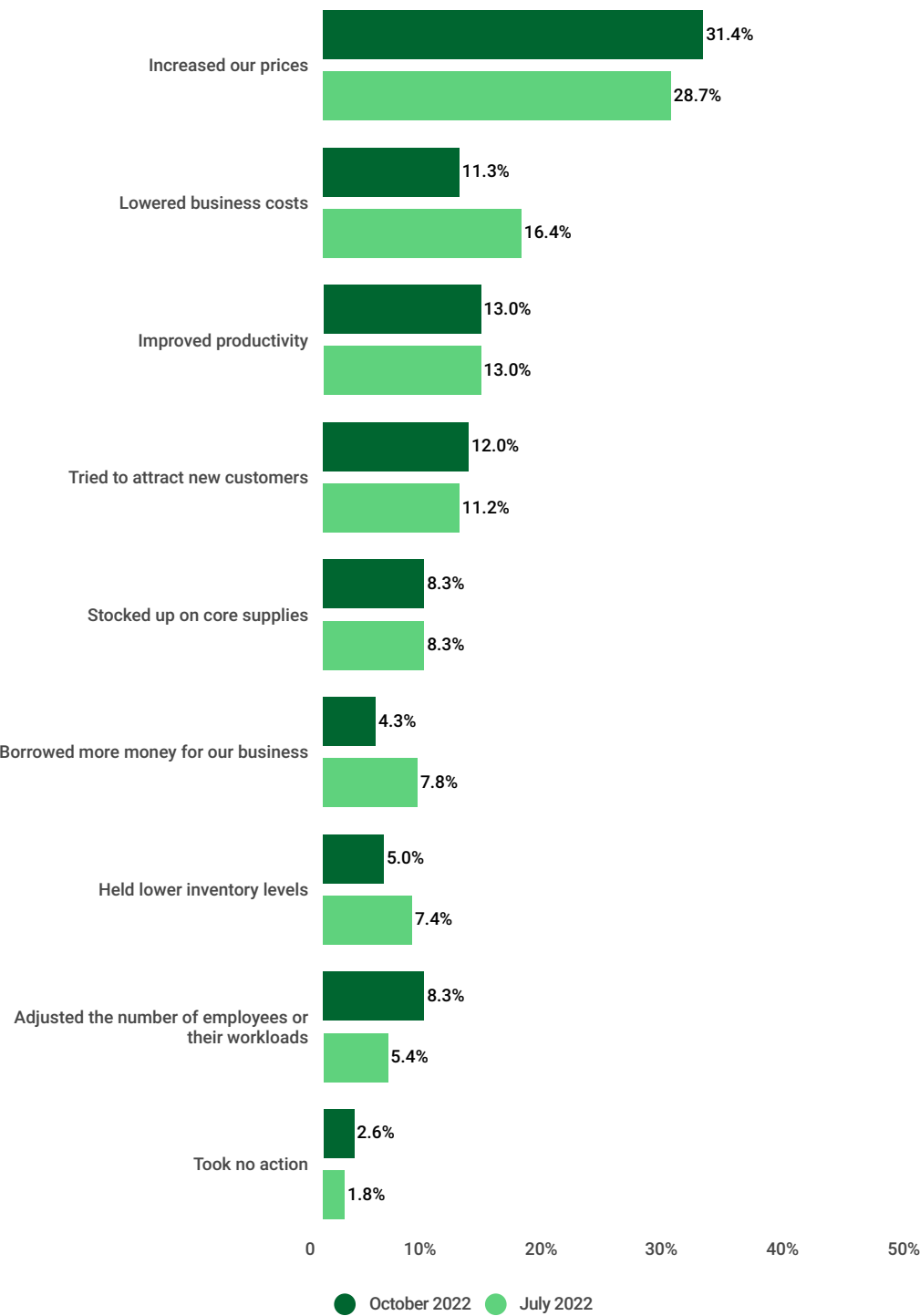


Source: PYMNTS

Main Street Health Survey Q4 2022: SMBs Brace For A Recession, December 2022

N = 533: Whole sample in July 2022; N = 501: Whole sample in October 2022, fielded Oct. 10, 2022 - Nov. 2, 2022

Figure 4B
Decreasing profits, increasing prices
Share of Main Street SMBs that cited taking select actions to combat inflation’s effects



Source: PYMNTS
Main Street Health Survey Q4 2022: SMBs Brace For A Recession, December 2022
N = 466: Firms directly affected by inflation in July 2022; N = 407: Firms directly affected by inflation in October 2022, fielded Oct. 10, 2022 - Nov. 2, 2022



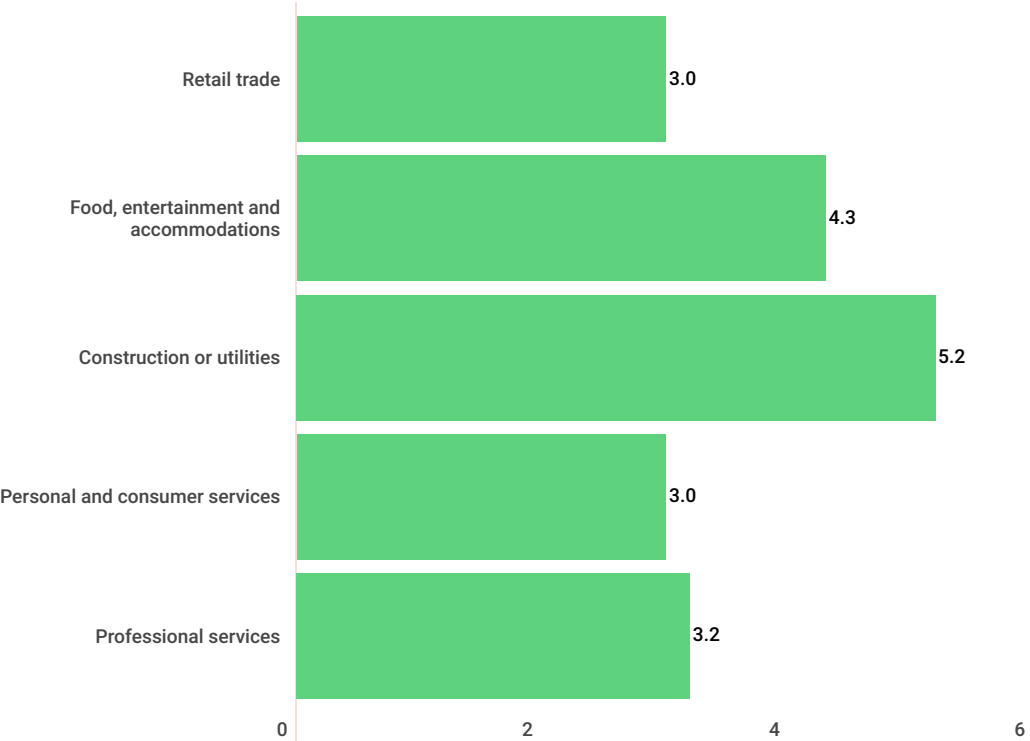
Main Street SMBs, on average, identify four areas of future technology innovation.
Firms reluctant to innovate digital capabilities cite lack of scale as a leading concern.

Even with fewer firms looking to cut costs and increase productivity to deal with inflation’s effect on their profit margins, SMB owners identified four areas where they plan to innovate in the next 12 months. Construction firms reported having the largest number of incoming innovations, with an average of 5.2 technologies to be implemented in the upcoming 12 months. Firms in retail trade and personal and consumer services are the least proactive on innovation, planning an average of three digital implementations.

While firms most likely already use digital tools for immediate payment confirmation, payroll software, cash flow management and customer relationship management (CRM), the top areas where firms are planning to innovate in the next 12 months are AP/AR integration and enterprise resource planning, at 25% each.

Thirteen percent of firms do not use or plan to innovate any digital tools. SMB owners are the most likely to be reluctant to innovate, with 39% saying they are doing just fine without implementing technological changes and 36% saying their scale is insufficient for adequate returns on such innovations.

Figure 5A
Main Street SMBs’ interest in technology innovations
Number of digital capabilities in which Main Street SMBs are planning innovations in the next 12 months, by market sector



Source: PYMNTS
Main Street Health Survey Q4 2022: SMBs Brace For A Recession, December 2022
N = 501: Whole sample, fielded Oct. 10, 2022 - Nov. 2, 2022

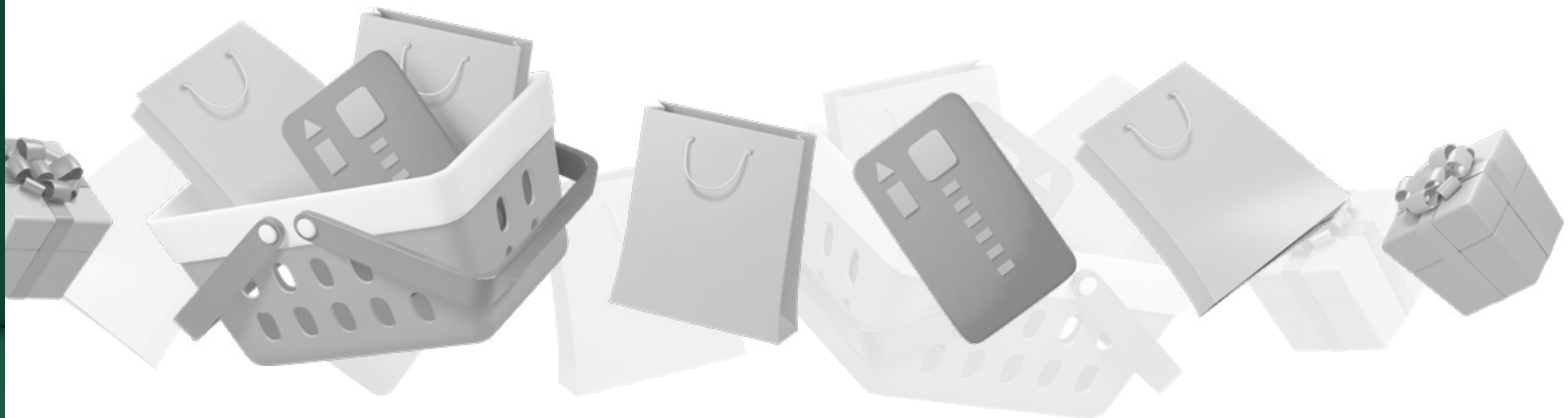
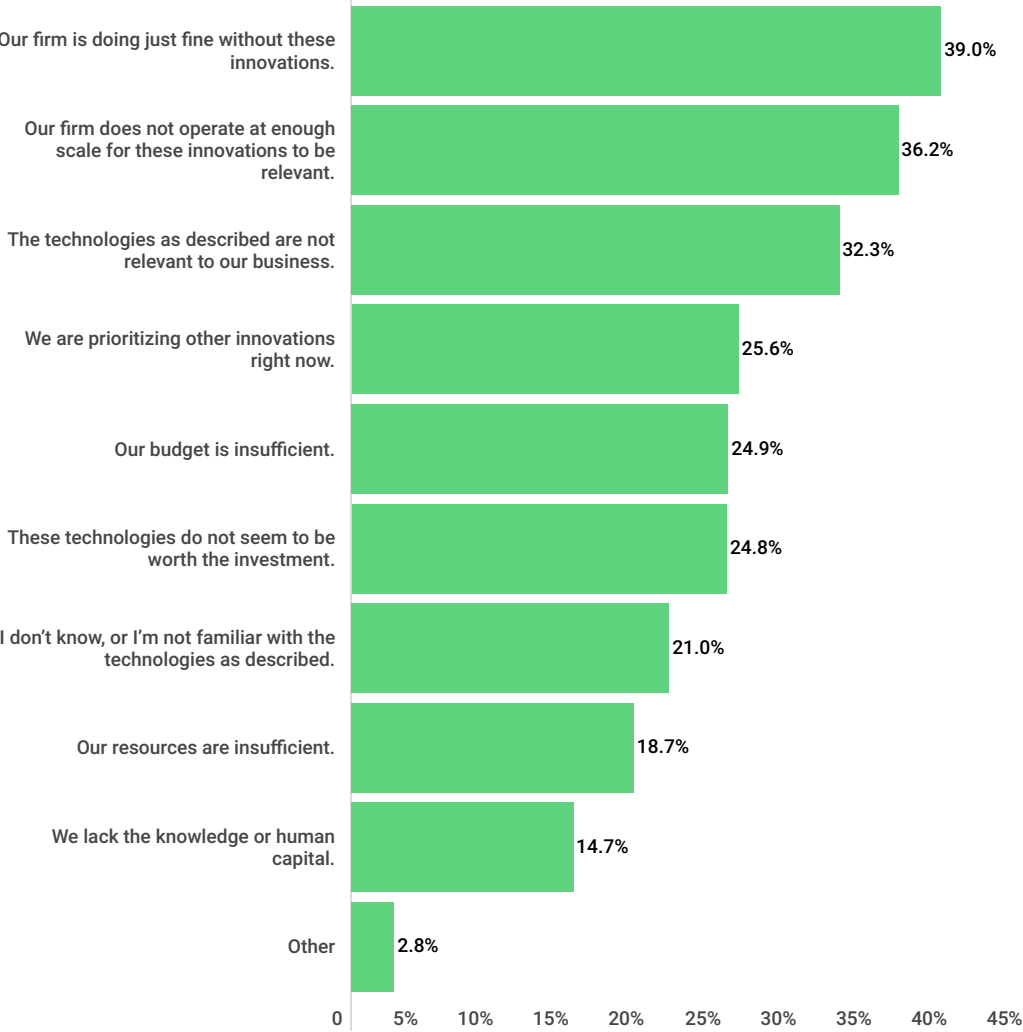
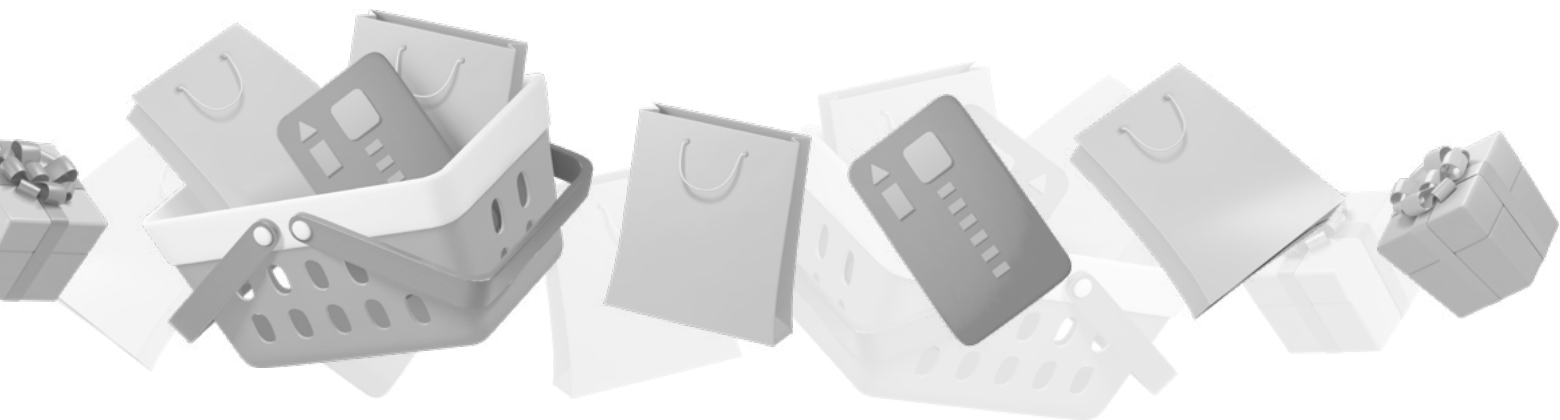


Figure 5B
Main Street SMBs' interest in technology innovations

Share of Main Street SMBs that cite select reasons for not considering technology innovation



Source: PYMNTS
Main Street Health Survey Q4 2022: SMBs Brace For A Recession, December 2022
N = 307: Firms not considering any innovations, fielded Oct. 10, 2022 - Nov. 2, 2022



CONCLUSION

Inflation's ongoing surge and the prospect of a recession have Main Street SMBs expecting trying times ahead. Some firms are more optimistic, with those that sell both in-store and online feeling they can better roll with the punches, as do SMBs that bring in higher revenues and those willing to raise prices in response to inflation. Increasingly, SMBs are coming to believe that inflation is here to stay for the next couple of years and are doing what they can to lessen the impact. On a positive note, most firms are less fearful that they will go out of business in the next year, a silver lining in what could be a cloudy and bumpy future for many SMBs going into 2023.

METHODOLOGY

Main Street Health Survey Q4 2022: SMBs Brace For A Recession, a PYMNTS report, examines the outlook and experiences of small to mid-sized businesses in the current market environment. We surveyed 501 U.S.-based businesses between Oct. 10 and Nov. 2 about their experiences. Of the organizations surveyed, 18% were in construction or utilities, 17% in retail, 11% in professional services, 9.4% in personal and consumer services, and 9% in food, entertainment and accommodations (also referred to as "hospitality"). Twenty-seven percent of the organizations annually earn between \$1 million and \$10 million, 37% earn between \$150,000 and \$1M, and 36% earn less than \$150,000.

DISCLAIMER

The Main Street Health Survey may be updated periodically. While reasonable efforts are made to keep the content accurate and up to date, PYMNTS MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, REGARDING THE CORRECTNESS, ACCURACY, COMPLETENESS, ADEQUACY, OR RELIABILITY OF OR THE USE OF OR RESULTS THAT MAY BE GENERATED FROM THE USE OF THE INFORMATION OR THAT THE CONTENT WILL SATISFY YOUR REQUIREMENTS OR EXPECTATIONS. THE CONTENT IS PROVIDED "AS IS" AND ON AN "AS AVAILABLE" BASIS. YOU EXPRESSLY AGREE THAT YOUR USE OF THE CONTENT IS AT YOUR SOLE RISK. PYMNTS SHALL HAVE NO LIABILITY FOR ANY INTERRUPTIONS IN THE CONTENT THAT IS PROVIDED AND DISCLAIMS ALL WARRANTIES WITH REGARD TO THE CONTENT, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND NON-INFRINGEMENT AND TITLE. SOME JURISDICTIONS DO NOT ALLOW THE EXCLUSION OF CERTAIN WARRANTIES, AND, IN SUCH CASES, THE STATED EXCLUSIONS DO NOT APPLY. PYMNTS RESERVES THE RIGHT AND SHOULD NOT BE LIABLE SHOULD IT EXERCISE ITS RIGHT TO MODIFY, INTERRUPT, OR DISCONTINUE THE AVAILABILITY OF THE CONTENT OR ANY COMPONENT OF IT WITH OR WITHOUT NOTICE.

PYMNTS SHALL NOT BE LIABLE FOR ANY DAMAGES WHATSOEVER, AND, IN PARTICULAR, SHALL NOT BE LIABLE FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL, OR INCIDENTAL DAMAGES, OR DAMAGES FOR LOST PROFITS, LOSS OF REVENUE, OR LOSS OF USE, ARISING OUT OF OR RELATED TO THE CONTENT, WHETHER SUCH DAMAGES ARISE IN CONTRACT, NEGLIGENCE, TORT, UNDER STATUTE, IN EQUITY, AT LAW, OR OTHERWISE, EVEN IF PYMNTS HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

SOME JURISDICTIONS DO NOT ALLOW FOR THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES, AND IN SUCH CASES SOME OF THE ABOVE LIMITATIONS DO NOT APPLY. THE ABOVE DISCLAIMERS AND LIMITATIONS ARE PROVIDED BY PYMNTS AND ITS PARENTS, AFFILIATED AND RELATED COMPANIES, CONTRACTORS, AND SPONSORS, AND EACH OF ITS RESPECTIVE DIRECTORS, OFFICERS, MEMBERS, EMPLOYEES, AGENTS, CONTENT COMPONENT PROVIDERS, LICENSORS, AND ADVISERS.

Components of the content original to and the compilation produced by PYMNTS is the property of PYMNTS and cannot be reproduced without its prior written permission.