

# Store Front Index

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MARCH 2017

Q4 2016 Index Value

116.8 

up from 116.1 in Q3 2016



3.4 million  
store front businesses

Q4 2016 expected growth  2.1%

## Q4 2016 FORECAST SNAPSHOT



0.3%  
Building Contractors



1.8%  
Eating and Drinking



1.9%  
Service/Repair



-0.1%  
Retail



2.5%  
Personal Services



0.7%  
Health Care



3.3%  
Professional Services



5.7%  
Fitness

# Store Front Index™

## Introduction

### The Store Front Index – What Happened Through Q4 2016

From Brexit to the election of President Donald Trump, the U.S. stock market in 2016 went from record lows to record highs. The stock market kicked off 2016 at a historical low of 15,431,<sup>1</sup> rose in March, but then crashed by a 611-point fall in June<sup>2</sup> and the news of Brexit broke. So where did that leave America's small businesses that make up the backbone of the economy?

How did the pizza place down the street, the corner store where you buy milk or the local repair shop do in the first half of 2016? From their point of view, did America need to be made great again?

The PYMNTS.com Store Front Index™ (SFI) tracks the health of small businesses across America. In this report, we review the SFI results for Q2 2016 compared to previous quarters and make predictions for upcoming quarters. (More information on how the SFI is calculated can be found at the end of the report in our Methodology section.)

We're pleased to report that overall small businesses are growing healthily. At the end of 2015, the Index was 115.0 points. This, like the stock market, dipped at the beginning of 2016. However, as 2016 continued the Index began to grow, and by Q2 2016 it was 115.4 points. In other words, from the point of view of small businesses, America's doing just fine. While we won't have the results for the rest of 2016 until another few quarters, we predict, that growth will continue. In other words: At least in the case of small businesses, America will continue to do just fine.

Feedback? Comments? Drop us a line [storefront@pymnts.com](mailto:storefront@pymnts.com).

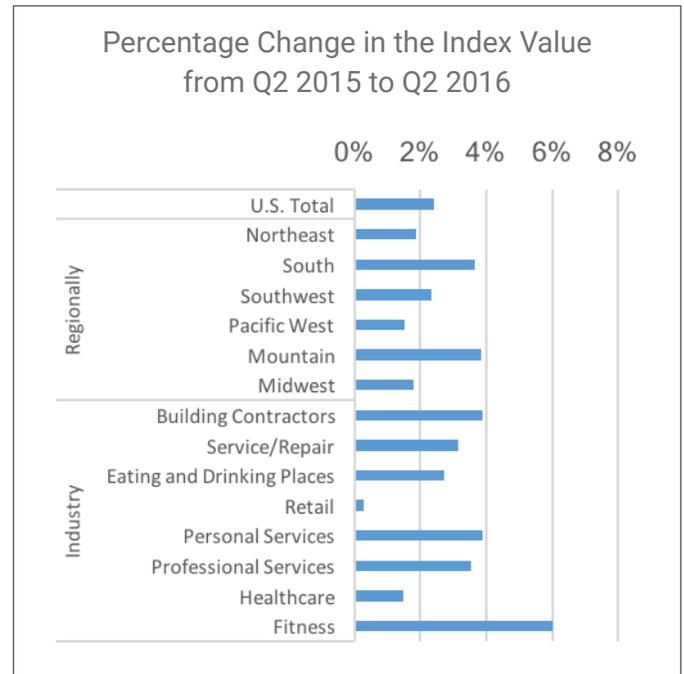
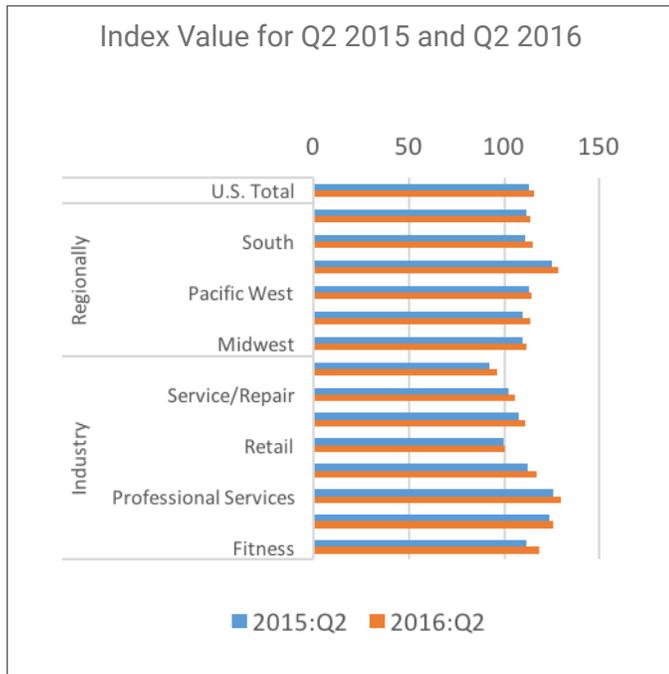
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<sup>1</sup> Egan M. Dow finishes wild 2016 with 13.4% gain. CNN.com. December 30, 2016. <http://money.cnn.com/2016/12/30/investing/dow-stocks-2016-trump/>. Accessed March 8, 2017.

<sup>2</sup> Ibid.

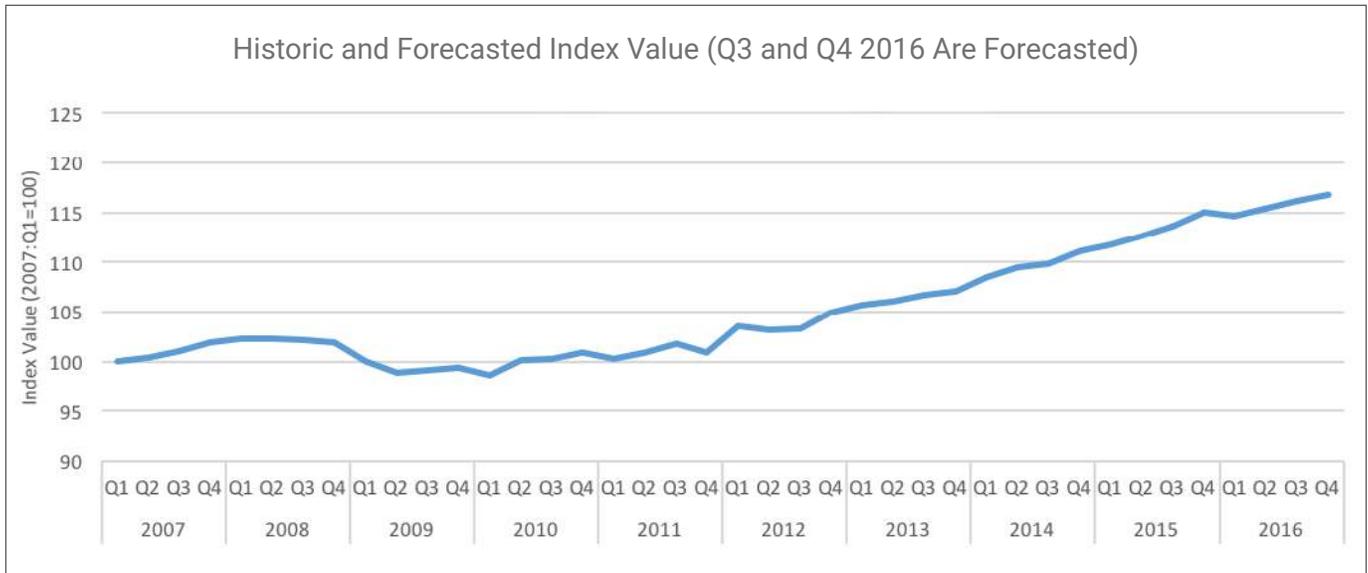
## Overall Store Front Index™ Results

During Q1 2016, the Index fell from 115.0 to 114.6 points. However, the next quarter it rose to 115.4 points, showing healthy growth. The Mountain region and the South had the most growth at 3.9 percent and 3.6 percent, respectively. Sector-wise, Fitness had the most growth at 6.0 percent.



## The Store Front Index

Despite its slight dip in Q1, the Index is showing healthy growth. We predict that results for Q3 and Q4 will continue to mark healthy growth and mirror GDP and employment growth.



### Overall Index Results

#### Establishments

In Q2 2016, the number of establishments increased by 2.2 percent. Growth was driven by the Fitness and Professional services, which grew by 6 and 4 percent, respectively. Similar to previous quarters, the greatest growth continues to be in the South, where the number of establishments increased by 3.6 percent. For Q4 2016, we predict that establishments will decrease to 2.1 percent and the South will continue leading this growth. For comparison, during our last report establishments grew by 1.9 percent, and growth was led by the Fitness and Professional services industries, with the South driving regional growth. However, establishment growth continues to be the smallest contributor to the overall Index growth.

#### Employment

In Q2 2016, employment increased by 3.3 percent. Similar to establishments, Fitness drove growth: This quarter it increased by a whopping 7.3 percent. Most of the employment growth was in the Mountain region and in the South, both of which saw growth of 5 percent. Overall, the employment rate is projected to grow by 2 percent by Q4 2016. Last report, employment growth was 2.9 percent, with Building Contractors driving industry growth and the South driving regional growth.

#### Wages

Wage has been the largest driver of growth in the Store Front Index, and this quarter is no different. This quarter, wage growth increased by 3.2 percent. Eating and Drinking Places led industry growth at 5.6 percent, while regional growth was driven by the Mountain region (6 percent) and the South (4 percent). However, for Q4 2016, we predict growth will sink to 0.4 percent. For comparison, last quarter, growth was 3.1 percent, led by Building Contractors and Remodelers and driven by the South and Mountain regions.

### Index Value by Industry

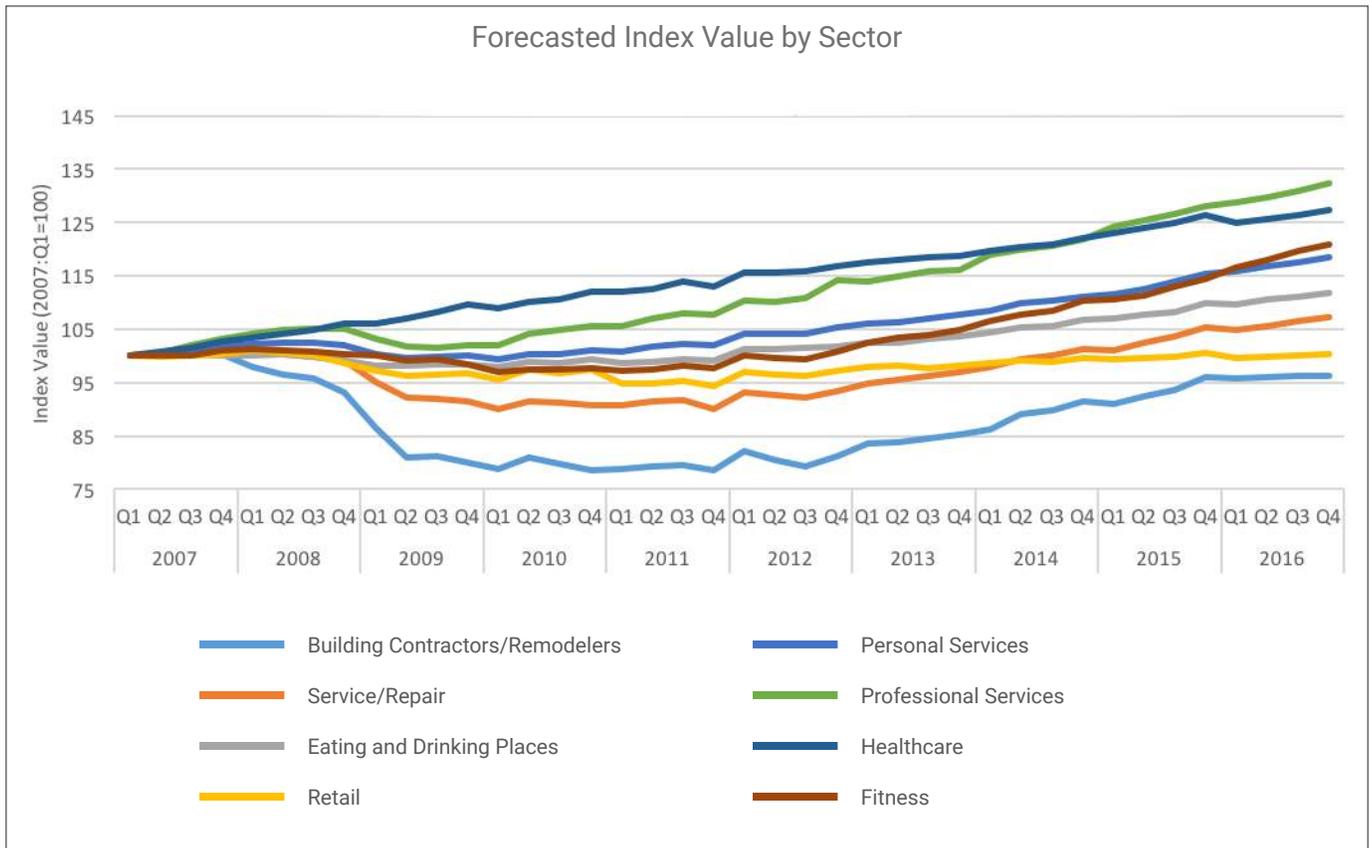
In Q2 2016, the Fitness sector stole first place from Building Contractors and Remodelers. The Fitness sector grew by 6.0 percent, Building Contractors grew by 3.9 percent and Personal Services stayed in third place with a growth of 3.9 percent.

Overall Growth Across Sectors			
Fitness	6.0%	Service/Repair	3.1%
Building Contractors/Remodelers	3.9%	Eating and Drinking Places	2.7%
Personal Services	3.9%	Health Care	1.5%
Professional Services	3.5%	Retail	0.3%

Since 2012, Building Contractors have seen quite a bit of growth. However, this seems to have stalled during this quarter. By contrast, Fitness and Professional Services are continuing their trend of showing strong growth. (Last quarter, Fitness was in third place).

Health Care, which tends to have positive growth, continues to stay steady.

## The Store Front Index

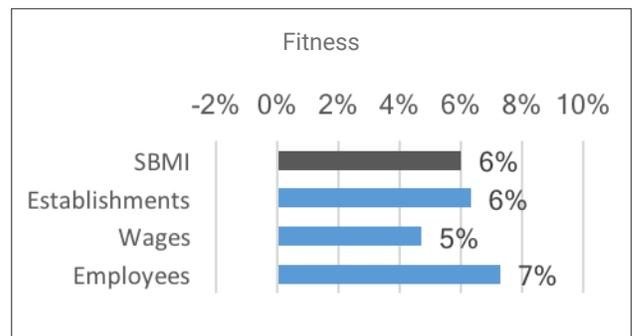
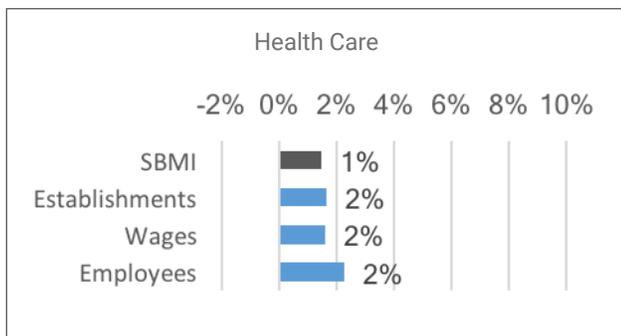
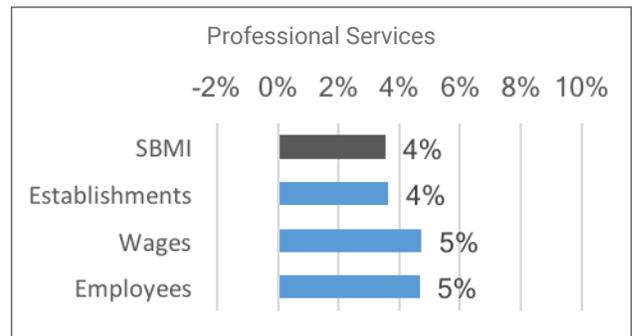
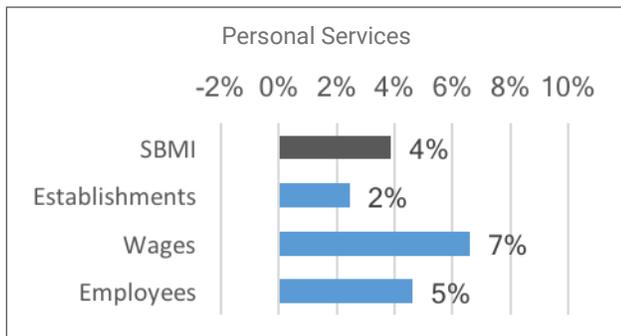
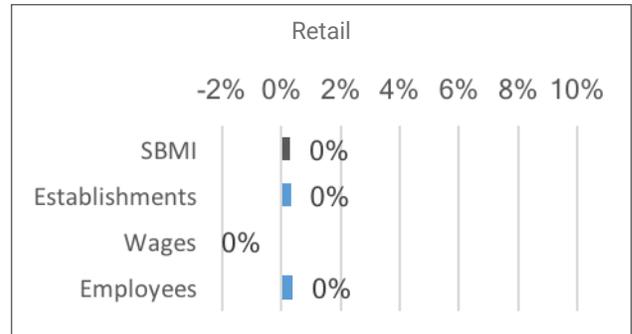
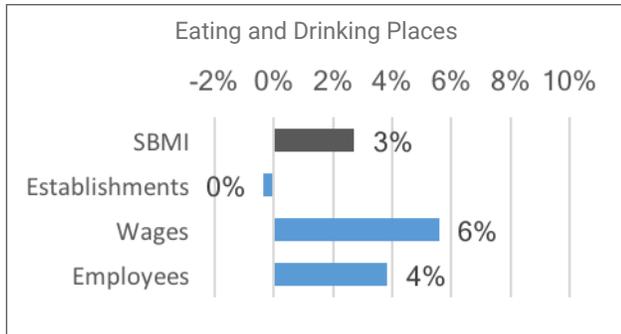
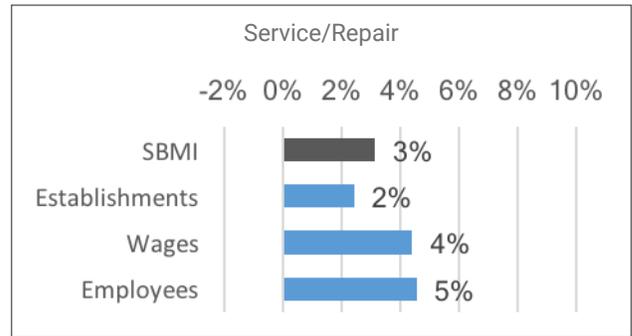
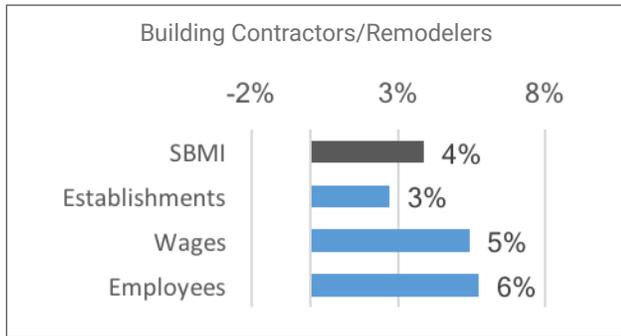


Unsurprisingly, most sectors saw large dips after the recession. However, post-recession the sectors went on different trajectories. Interestingly, Building Contractors, which had the largest fall and then showed significant growth, have now flattened out. In fact, most of the sectors seemed to have flattened out, with the exception of Fitness and Professional Services. Fitness appears to be growing exponentially, which is good news for America's collective waistline, and while Professional Services doesn't have quite as large of an uptick, its growth hasn't slowed either.

# The Store Front Index

## Index Value by Industry

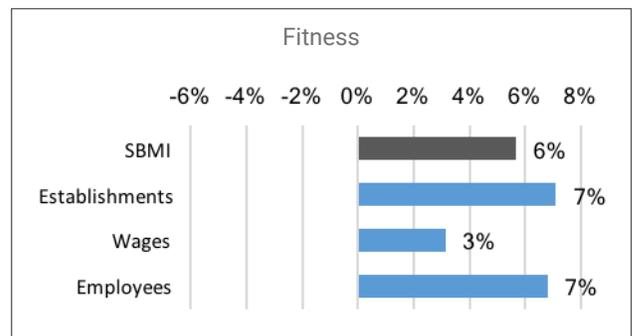
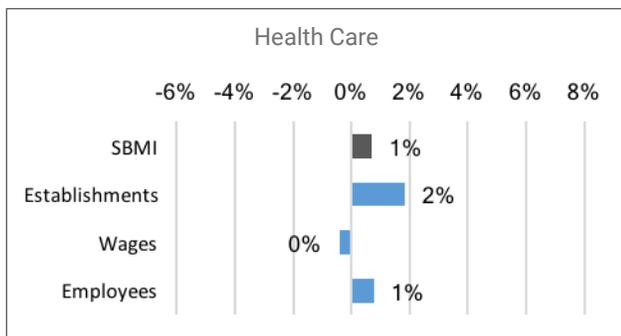
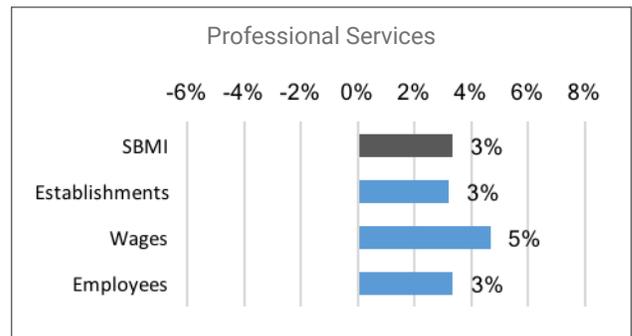
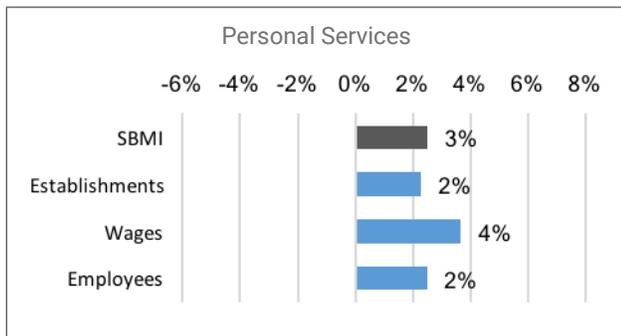
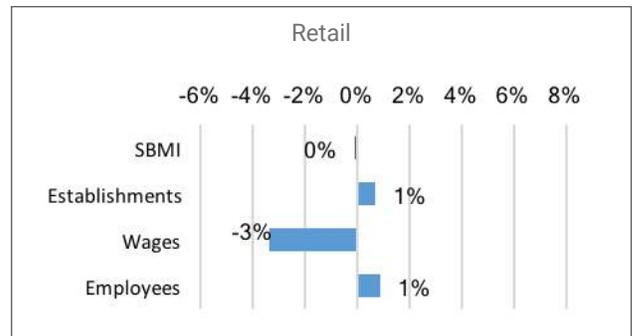
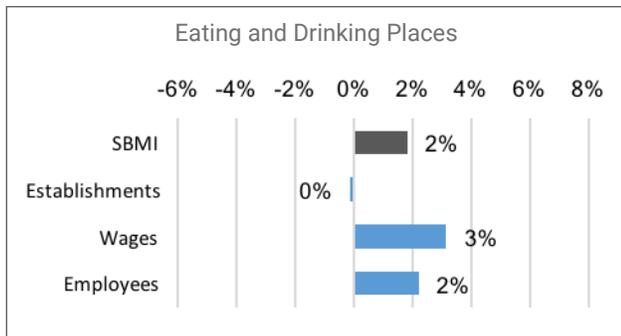
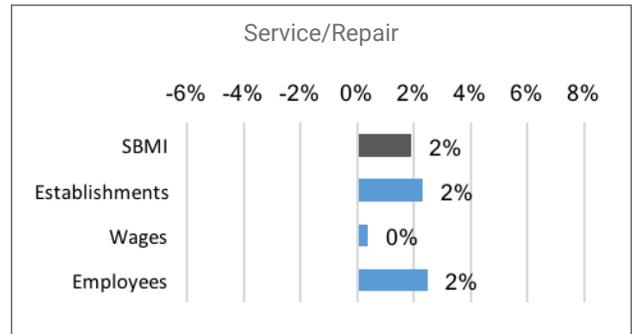
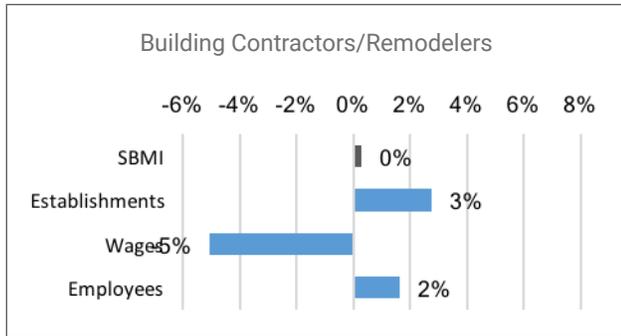
### Actual Index Growth For Q2 2016



# The Store Front Index

## Index Value by Industry

### Projected Index Growth For Q2 2016

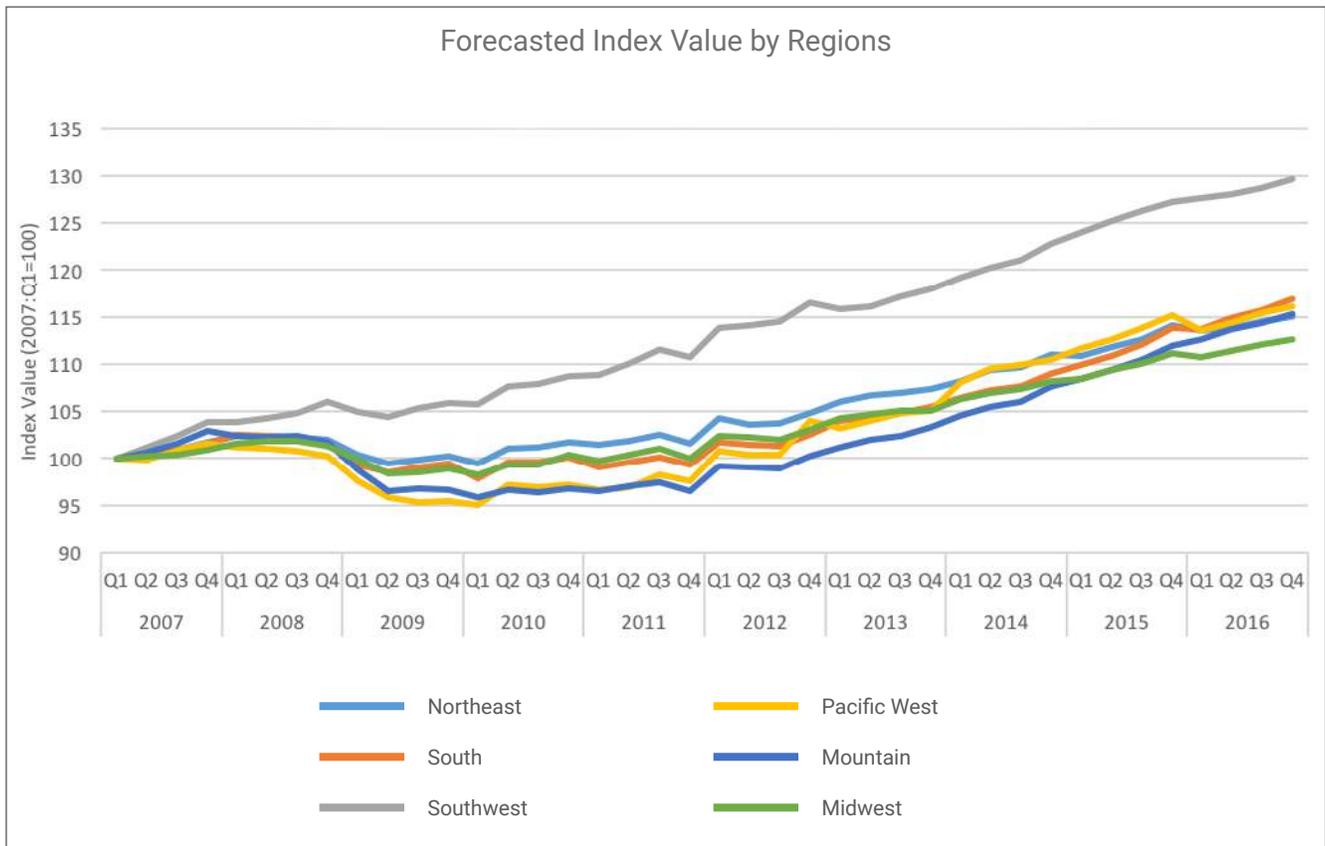


## The Store Front Index

### Index Values by Region

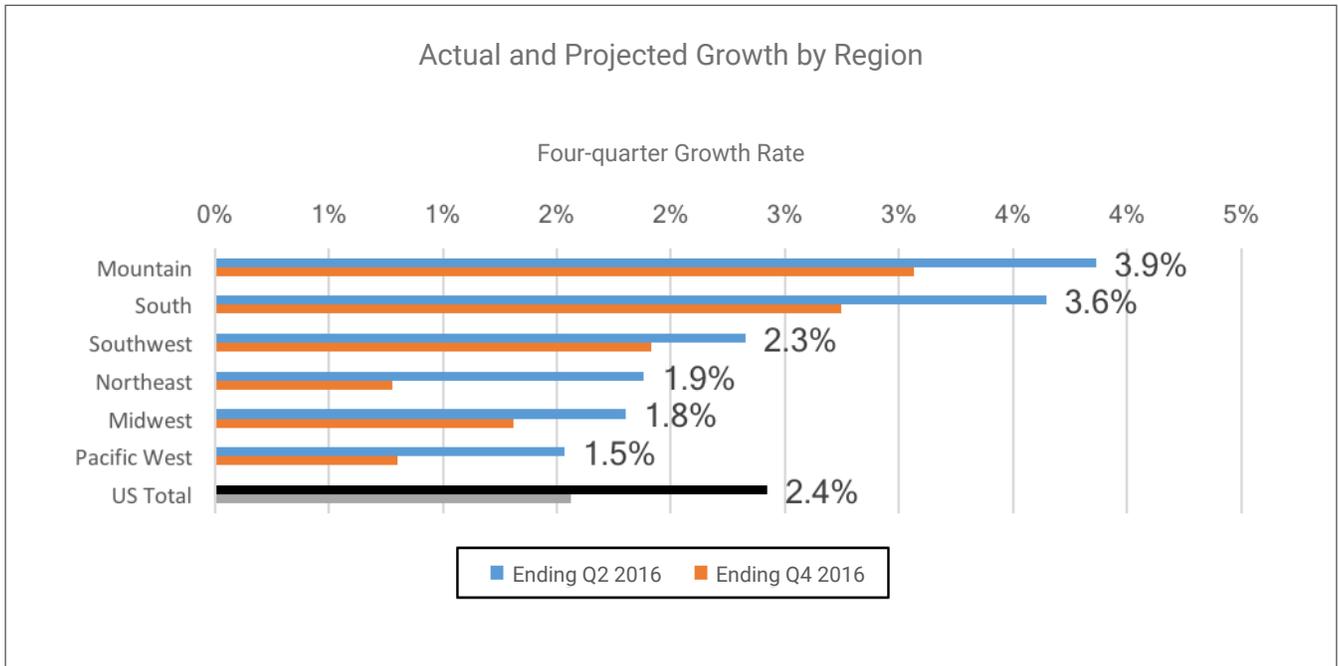
With all of the geographic regions in the U.S. continuing to do well, the index saw an overall growth of 2.4 percent through Q2 2016 with a 1.8 percent growth rate in the Midwest and 3.9 percent in the Mountain region.

Since its low point at end of the Great Recession (Q1 2010), the index grew by 17 percent for the six-and-a-half-year period. This growth has ranged from 13 percent in the Midwest to 21 percent in the Southwest.



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We predict that by Q4 2016, growth will be 1.6 percent, with the Mountain region showing the most growth at 3.1 percent and the Northeast region running last, with 0.8 percent growth.

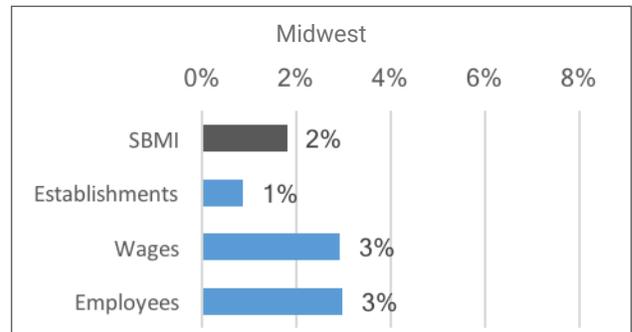
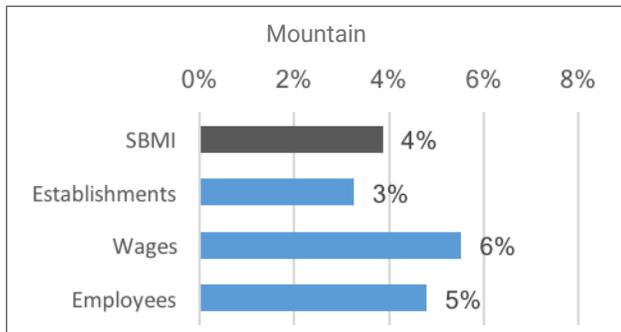
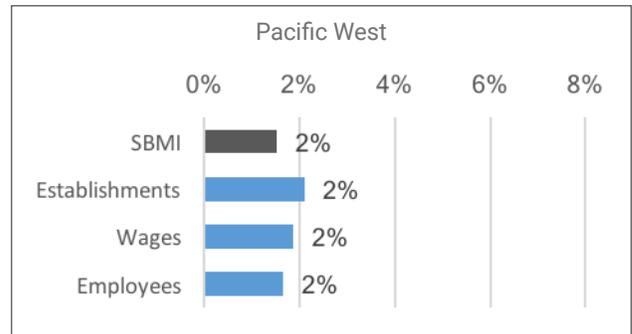
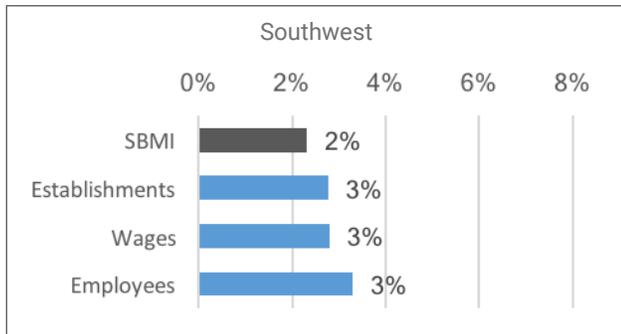
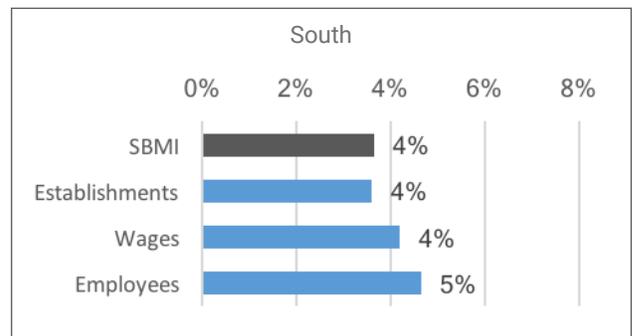
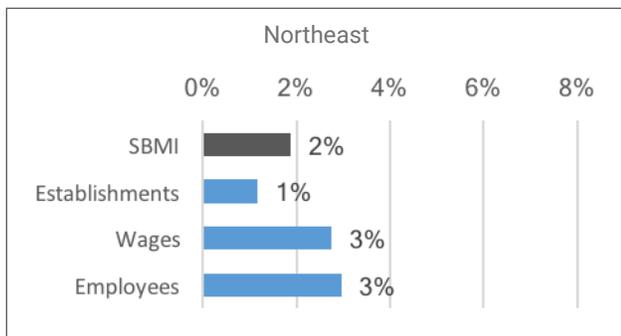


# The Store Front Index

## Index Values by Region

### Actual Index Growth For Q2 2016

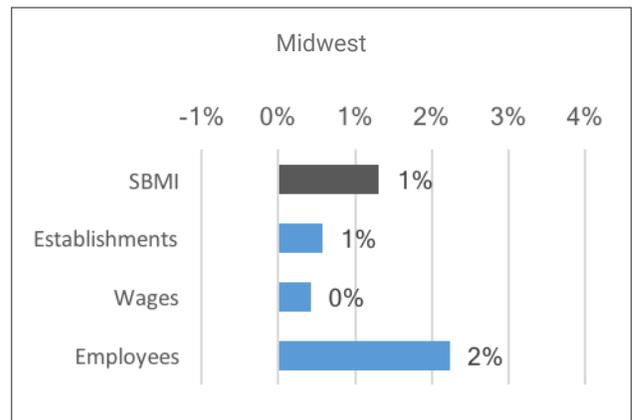
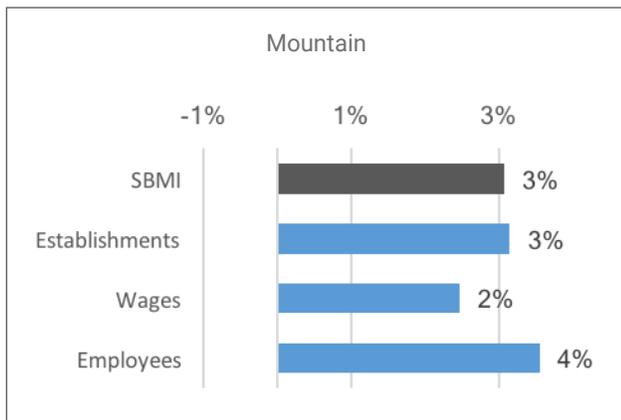
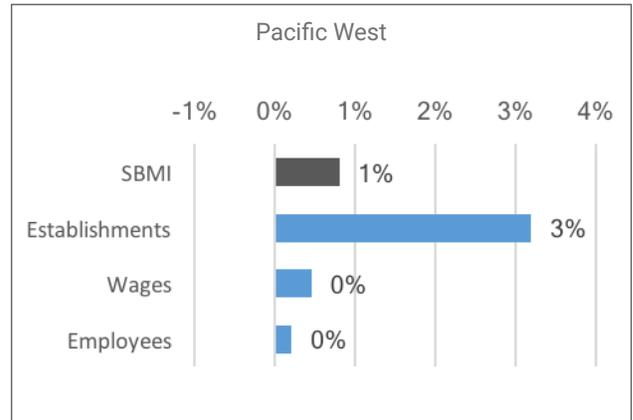
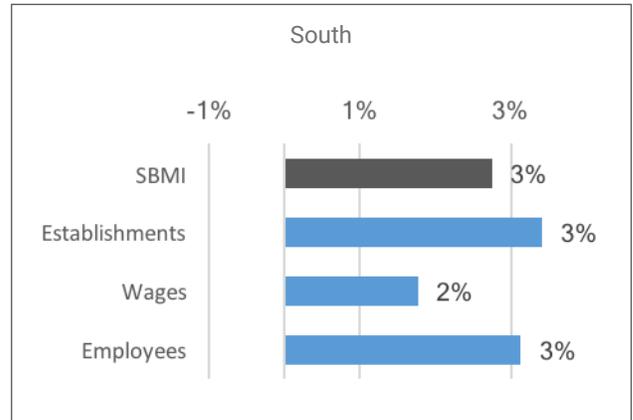
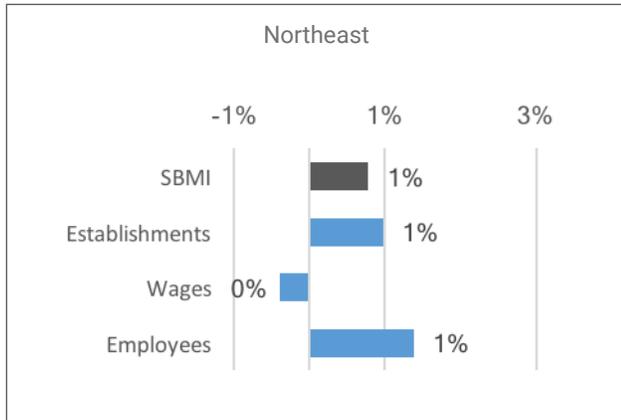
Overall, even though the stock market shows great volatility, the Index remains relatively stable. Wage and employee growth continue to be the main engines of growth, while the South and Mountain regions continue to observe the highest growth in terms of wages and employment. We project this growth to continue its course into the next quarter.



# The Store Front Index

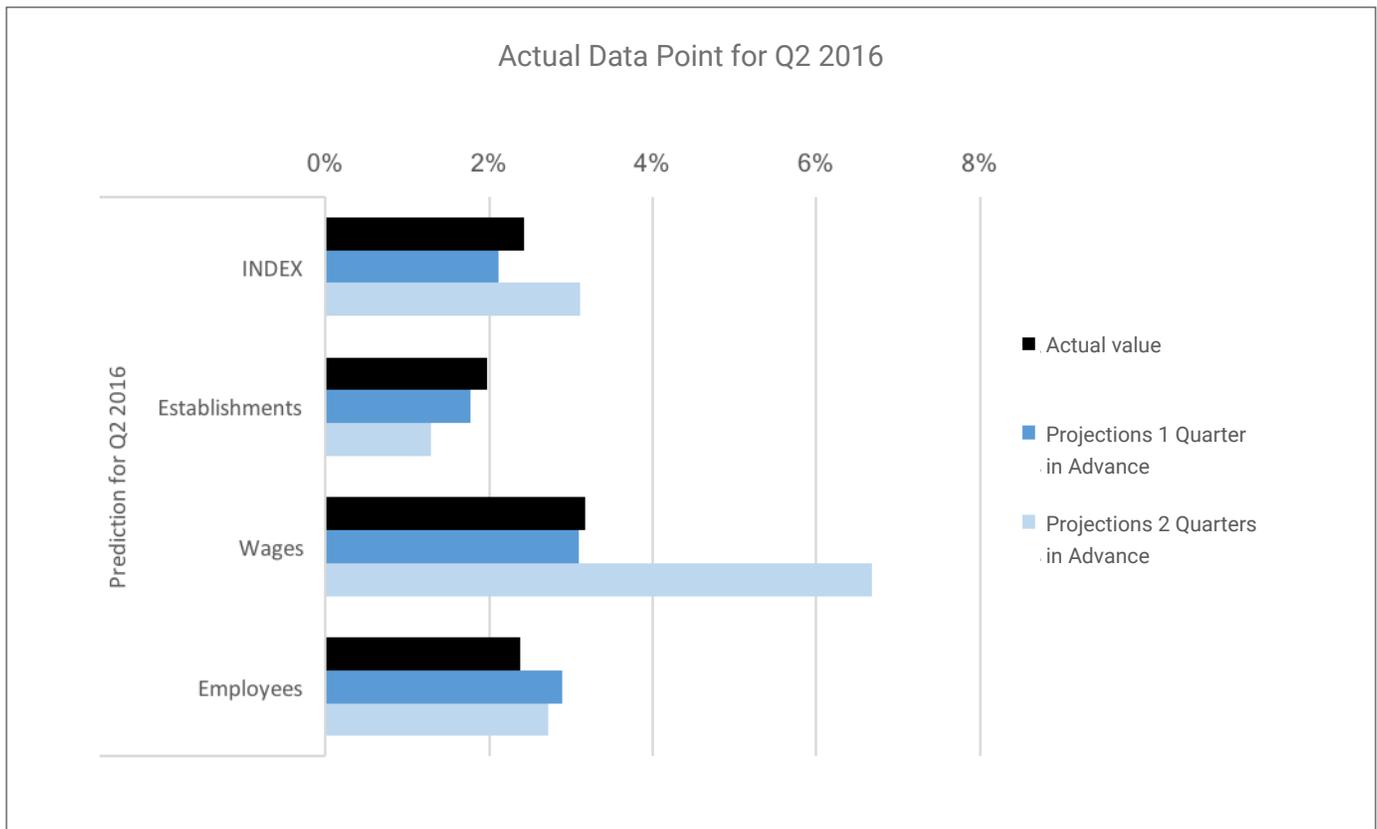
## Index Values by Region

### Projected Index Growth For Q3 2016



### Evaluation of Prior Projections

Here, we take a closer look at the actual growth rate of store front businesses and the accuracy of our forecasts. In the chart below, “actual value” refers to the data for Q2 2016. “Projections 1 Quarter in Advance” refers to predictions we made about Q2 2016 during Q1 2016, and “Projections 2 Quarters in Advance” refers to predictions we made during Q4 2015.



We’re doing quite well when it comes to predicting growth for establishments and employees. However, we over predicted wages during Q4 2015. In last report, we explained that this was because there was an unexpected drop in wages from Q4 2015 to Q1 2016, which we were not able to predict as the drop was the first of its kind since the Great Recession. This quarter, we see that our predictions for wage growth in Q1 2016 were very accurate. In other words, barring the unexpected, we’re on target.

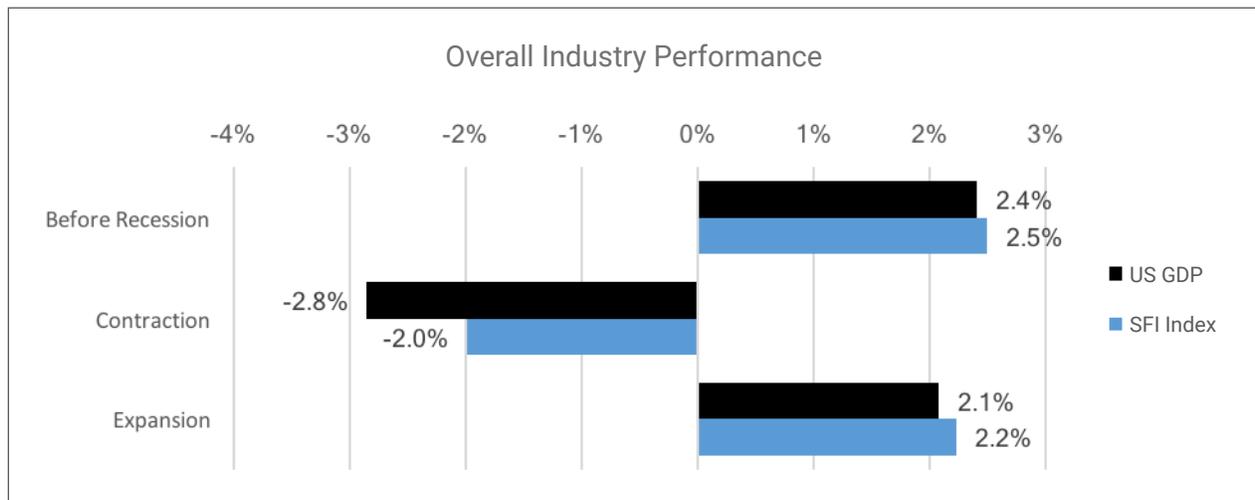
### Deep Dive: The Index Through Ups and Downs

The Index continues to grow steadily – but right now, we’re in an economic upswing. According to the National Bureau of Economic Research (NBER), there have been 11 business cycles since 1945. The average cycle lasts about six years: The economy expands for about five years and then contracts for one year. Our current cycle has existed for seven-and-a-half years – well above average, but still less than the longest expansion. But what happens to the Index as the economy expands and contracts?

Our data set ranges from Q1 2007 to Q2 2016<sup>3</sup>. According to the NBER, the Great Recession began in November 2007 and ended in June 2009. We compared the Index to the economy for three different periods:

- Q1 2007–Q4 2007: Pre-recession, a period of economic expansion
- Q4 2007–Q2 2009: The recession, a period of economic contraction
- Q2 2009–Q2 2016: Post-recession, a period of economic expansion

We compared the performance of the Index to the U.S. gross domestic product (GDP), and the results are broken out in the chart below.

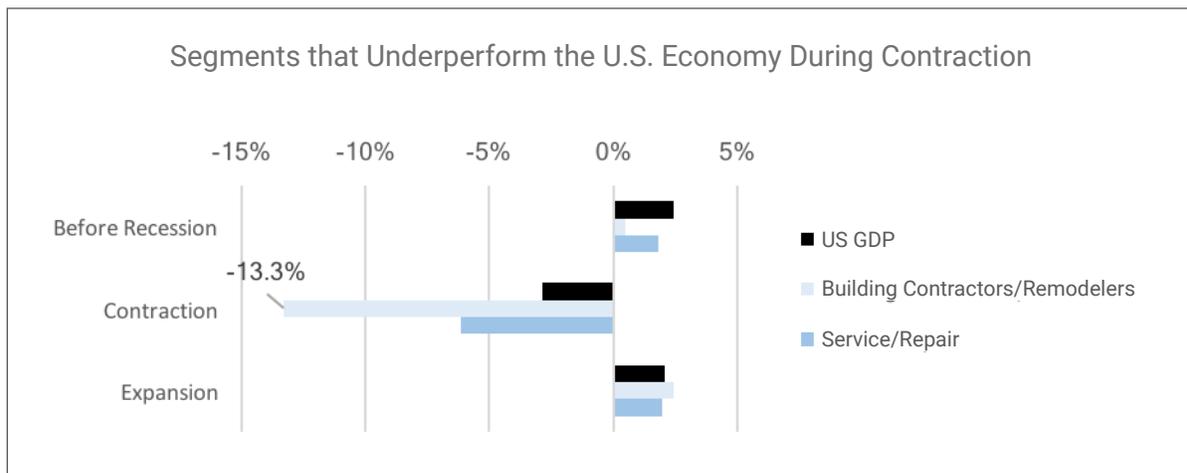


<sup>3</sup> Raw data from the U.S. Bureau of Labor Statistics is available from 2004, but our methodology calls for three years of data to accomplish seasonal adjustments. Therefore, we can only use data from the first quarter of 2007 for the purpose of Index calculations.

## The Store Front Index

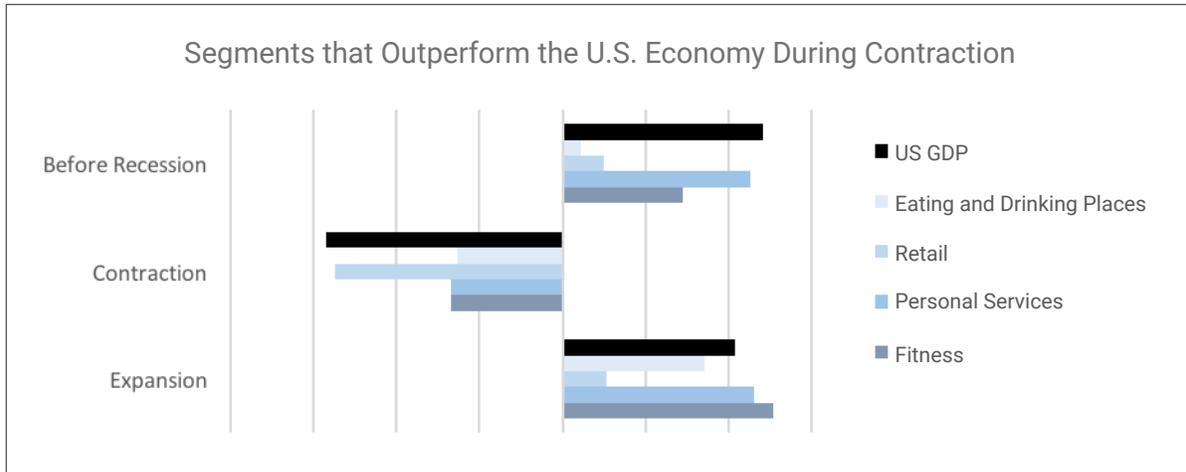
During periods of expansion, the economy and the Index both did quite well. Before the recession, the US economy grew at a rate of 2.4 percent and the Index grew at a rate of 2.5 percent. After the recession, the economy grew at a rate of 2.1 percent, and the Index grew by 2.2 percent. The Index performed slightly better than the GDP. However, during the recession, the Index performed significantly better than the GDP.

Upon closer analysis, we found that sectors could be broken into three different categories. First were sectors that performed worse than the economy as a whole. During the expansion, they performed at a similar or worse rate than the economy, but during contractions they did much worse than the economy. Building Contractors/Remodelers and Service/Repair fell into this category. Building Contractors, in particular, were hard-hit during the recession: Their performance declined by 13.3 percent per year.

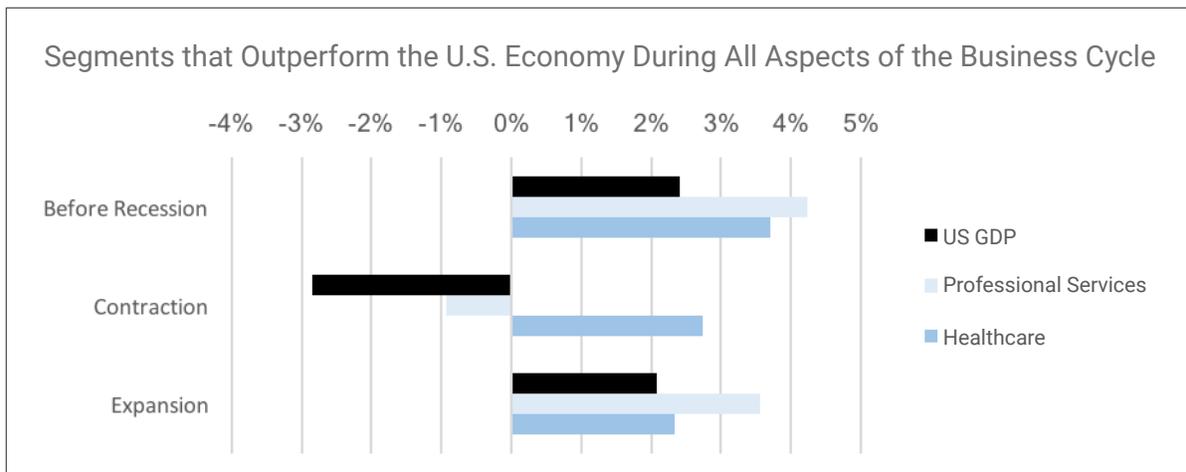


The second category is businesses that tend to perform worse than the economy during expansions but perform better than the economy during contractions. This category includes Eating and Drinking Places, Retail, Personal Services, and Fitness.

## The Store Front Index



The last category encompasses business that outperform the economy during periods of expansion and contraction. Only Professional Services and Health Care fall into this category.



In general, it seems as if store front businesses are less susceptible to the ups and downs of the economic cycle. Our hypothesis is that their small size and their tendency to have fewer shareholders protects them from the whims of the economic cycle – particularly the downturns.



## Tapping Sudsy Success on Main Street

Nestled between a row of condos and multi-family homes in Cambridge, Mass., 284 Broadway is a red brick warehouse, which was once a neighborhood auto repair shop.

The repair shop, Metric Systems, is now gone – although the name lives on. These days, Metric Systems is a mildly salted, Gose-style beer with notes of coriander, produced by Lamplighter Brewing Company, the building’s new occupant.

Since its opening in late September 2016, the brewery has fast become a go-to rendezvous spot for Cambridge’s beer aficionados, who at busy times are willing to wait outside for entry into Lamplighter’s boisterous tap room – a somewhat small yet comfortable space furnished with high-top wooden counters, teal-accented drapes and vibrant yellow upholstery.

Lamplighter’s fast-growing popularity reflects the burgeoning appetite for craft beer and the improving state of storefront businesses in the U.S. And, behind the scenes, the brewery’s story is that of an exacting journey of finding Main Street success.

PYMNTS caught up with Cayla Marvil, Lamplighter’s cofounder, to talk about the challenges that curb the process of setting up shop, the lessons learned along the way and the rewards of being a bustling neighborhood brewery.

### **The long, sometimes frosty, road to success**

When cofounders’ AC Jones and Marvil set out to pursue their dream, their idea was to create beer that would distinguish Lamplighter from other local breweries where IPAs abound.

“We wanted to make beer that was a little funkier and a little different, and we thought Cambridge would embrace that kind of different and unique taste,” Marvil said.

And while the vision of appealing to a mature palate was clear to Marvil and Jones, when it came to actualizing their business idea, the strenuous process would take them down a long, winding road that started with mapping out the scale of their operation before finding the right real estate.

“We wanted to start fairly large because if you are small, it’s really hard to grow as you just don’t have the capital coming in,” Marvil said. At the same time, she added, “we didn’t want to go too big and shoot ourselves in the foot.”

After two years of searching, the auto shop location on Broadway seemed to fit the bill. The 10,000-square-foot facility was large enough to fit six ceiling-high steel brewing barrels, with enough room left over to build out a tap room.

And though leasing the facility in itself was far from a clear-cut experience, Marvil said, little did she and Jones know that seeking a license and a zoning permit was going to be such a challenge.

“Everybody told us, (count on) twice the time and twice the money,” Marvil recalled. “We were like, nah, we will do it differently.”

As it turned out, the process still took quite a long time and a lot of money, she said.

While getting a license was a fairly straightforward process, one of the biggest challenges impeding progress was getting the building re-zoned, Marvil said.

The City of Cambridge [mandates](#) the establishment of a brewing facility in a “heavy industrial” district, but Lamplighter’s location at 284 Broadway was classified as a “Business A” zoning district. That meant that the facility could be used for a host of businesses, but not brewing.

What followed was a long, drawn-out process to seek approval for a zoning variance. The team spent two months getting the business’ floor plan, elevations and application ready and then another two months to get on the docket for a zoning hearing meeting.

In total, it took almost nine months, Marvil recalled. Seeking an approval meant canvassing the neighborhood – writing to neighboring residents detailing their business plan, speaking with them to resolve their concerns – and then using their input to further carve up Lamplighter’s operation.

“That was a really scary period of time because we had leased the building and we weren’t entirely sure if the project that we built out was even going to happen in that building. Luckily, it did.”

In the end, “almost the entire neighborhood came out and stood behind us,” she said.

After an arduous construction and zoning approval process, which took almost 18 months, in September 2016, the brewery finally began selling beer in growlers as it wrapped tap room construction. Two months later, Lamplighter was fully operational.

### **Growing thirst for suds**

Year over year, Americans have become thirstier for craft beer. And with that thirst, microbreweries have seemingly been popping up around the country like hopped up hop plants. According to the Brewers Association, there were around 4,100 breweries operating in the U.S. as of December 2015. With an estimated two new breweries now opening every day, the number of American breweries stands at an all-time high.

The rapid proliferation of micro-suds has been most evident in cities like Burlington, Vt., Denver, Colo., Portland, Ore., and Portland, Me., where craft

breweries are seemingly on almost every street corner like coffee shops, Marvil pointed out.

In Massachusetts, however, the craft beer market is far from reaching a saturation point, she said. The state's website, [Mass.Gov](http://Mass.Gov), estimates there are 116 craft breweries in Massachusetts, with 25 of them located in Greater Boston area.

While the number is climbing, Marvil is confident the competition is healthy for the category. "In Cambridge, if anything, we help each other because it brings tourism to the area and encourages people to buy more local and look at what the craft options are in the store," she said.

As for Lamplighter, staying competitive in the space has meant focusing on producing distinct beer that consumers appreciate.

And if they like it, they will tell others. Marvil says that the brewery's popularity has spread more through word of mouth than any other medium.

"We pretty early on decided that we didn't want to spend money on any traditional forms of advertising," she said. "In today's day and age, everyone's on Facebook, Instagram and Twitter, and it's much easier to reach people that way than pay for advertising."

More than anything, the agonizingly long time it took to open the brewery turned out to be a blessing in disguise, she said, considering the construction caught the attention of passersby and built buzz. "People would say, 'What's this place that's not freaking open?' And then we finally did. So they were like, 'Oh, yay!'"

### Tapping into tap room success

Five months since the opening of its tap room, the constant influx of visitors and their drinking preferences has helped the company better understand changing demands to inform its beer production.

"We can now look at the breakdown and say, 'Hey, 90 percent of people buy IPAs — we'd better crank out an IPA again.' We are definitely looking at those numbers," Marvil said. When Lamplighter first opened, she said, the brewery would often run out of certain beers.

"For a week, we had three beers on tap, and we were like, 'Crap, what were we thinking?'" she said. "But you know, people were forgiving."

In the years to come, while the brewery is aiming to boost its distribution for growth, it's also looking into expanding the size of its tap room by nearly 1,000 square feet by utilizing the back-room space it had previously envisioned for expanding its brewing capacity.

Doing that, of course, means again breaking through approval red tape.

"I think we all have a little PTSD from the last time," Marvil said. "But yeah, it will be less tricky because we now know everybody, we know the process, but still we have to convince all our neighbors of this specific idea."

Nonetheless, the growing demand for Lamplighter's craft beer has more than offset the pain. And, with all the support from the neighborhood, Marvil said, the micro-brewing business couldn't be in a better place.

### What is the Index?

The Store Front Index™ (SFI) provides a quarterly metric measuring the health of typically small businesses that populate Main Street USA. Measurements are in real terms and are based on the growth in new establishments, real wages and employment.

Main Street small businesses are identified by the North American Industry Classification System codes that relate to businesses that are typically small businesses found on main streets in both urban and suburban areas. This includes eating establishments, professional and personal services, construction, remodeling and repair services, fitness clubs, and a wide variety of retailers.

### Index Development

We used data from the Quarterly Census of Employment and Wages provided by the U.S. Bureau of Labor Statistics<sup>4</sup> only for our selected industries.<sup>5</sup> In total, we used over 10 million data records covering the number of establishments, employees and total wages to develop the Index. We used econometric analysis and modeling techniques to develop the Index, adjusting for seasonality and calculated over a 10-year period. The Index was established using data from 2004 through 2014.

The SFI is calculated as a weighted average of the three factors: the number of establishments, the number of employees and the total wages paid for select industries.

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<sup>4</sup> U.S. Bureau of Labor Statistics. Quarterly Census of Employment and Wages. <http://www.bls.gov/cew/dataguide.htm>. Accessed March 8, 2017.

<sup>5</sup> Actual data was only available for Q1 2016. Projections were developed for Q2 and Q3 2016 using the calculated values of the Index, along with industry and regional macroeconomic data on GDP and employment, which were proven to be highly correlated with our Index data.

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### **Feedback**

We are interested in your feedback on this report. If you have questions or comments or would like to subscribe to this report, please email us at [storefront@pymnts.com](mailto:storefront@pymnts.com).

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