Small Business and Inflation
NFIB Research Center
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Small employers were asked a series of questions on how the current state of inflation is impacting their business. This survey was conducted from April 14-17, 2022. A random sample of NFIB’s membership was drawn, generating 540 responses of small employer business owners.

Small business owners began signaling inflation issues the summer of 2021 when NFIB's Small Business Economic Trends survey found increasing numbers of small business owners reported “inflation” as their single most important problem. The survey also reported escalating numbers of small business owners raising prices and planning to raise prices. Owners are absorbing rising input costs resulting from frustrating supply chain disruptions, staffing shortages, and rising fuel costs. These challenges continue to impact small business owners broadly across most industry sectors.

The inflation picture is a new challenge for most small business owners. Only those who were in business in the early 1980s have any experience with a similar circumstance. This survey captures the impact of inflation on small employer businesses and how owners are responding to cost increases.

OVERALL
Inflation pressures are pervasive across the small business sector. The survey found that all small employers report inflation impacting their business to varying degrees. Over half (62%) reported the inflation is having a substantial impact on their business while about a third (31%) reported a moderate impact. Only 6% reported a mild impact and 0% reported no impact.

SPECIFIC COSTS
When small employers were asked what is contributing to higher costs in their business, “inventory, supplies, and materials” and “fuel (gasoline, diesel, fuel oil, etc.)” took top billing having the largest percentage of owners reporting them as substantial. Over three-quarters (77%) of small employers reported “inventory, supplies, and materials” as being a substantial contributor to higher costs, while 18% reported moderate. Only 4% reported mild and 1% reported none.
Over three-quarters (77%) of small employers reported that rising prices for “fuel (gasoline, diesel, fuel oil, etc.)” is a substantial contributor to higher costs. Sixteen percent reported moderate, 6% mild, and 1% none.

“Labor,” “rent,” and “utilities” contribute to cost pressures for many small employers, but to a lesser degree than supplies/inventory and fuel. A little over a third (36%) of small employers reported “labor” being a substantial contributor to higher costs, another 37% reported moderate contribution. A fifth of small employers reported mild contribution and 8% reported none. For “rent,” 7% reported it being a substantial contributor, 18% moderate contributor, 21% mild contributor, and about half (54%) none. Twenty-six percent of small employers reported “utilities (heating, cooling, electricity)” as a substantial contributor to higher costs and about half (47%) reported moderate contribution. About a quarter (23%) reported mild contribution and only 5% reported none.

**ABSORBING COSTS**

Small employers have few tools available to them to help mitigate inflation pressures. Small employers must absorb these costs to keep their business operating and use various strategies to do that. The main tool of course is to raise prices for goods or services, passing higher input costs on to their customers. Eighty-six percent of small employers are increasing the prices of their goods or services. Of those increasing prices, 8% reported that the effort was absorbing all their total cost increases, 30% reported most, about half (53%) reported some, and 9% a little.

Another 84% of small employers experience lower business earnings to some degree. Inflation generally impacts business earnings first before owners can find other ways to absorb costs. Eight percent reported this absorbing all their total cost increases, 25% most, 53% some, and 14% a little.

Another tactic is to reduce the quantity of the goods or services offered to help stabilize cost increases, however this tactic is used sparingly. About a fifth (21%) of small employers have reduced the quantity of materials or goods used to produce final product(s) to absorb higher costs. Eight percent reported this absorbing all their total cost increases, 14% most, 52% some, and 22% a little.

On the other side of the coin, 26% of small employers switched to lower cost materials or goods (inventory, supplies, etc.) to produce final product(s), with 6% reporting this absorbing all total cost increases. Another 8% reported most, 56%
some, and 29% a little. About a quarter (26%) of small employers are increasing the use of energy efficient products or technologies. Four percent reported this absorbing all their total cost increases, 9% most, 38% some, and 47% a little.

Absorbing higher costs through debt and financing is also a tactic used by some owners, a viable option for many likely due to historically low interest rates and the anticipation that inflation pressure won’t persist long term. Thirty-one percent are taking on debt to finance higher costs with 7% reporting it is absorbing all total cost increases. A fifth reported most, 53% some, and 18% a little. Twenty-eight percent of small employers are reducing employee related costs, such as compensation, number of employees, hours worked, etc. Four percent reported that this covered all the cost increase, 9% most, 54% some, and 30% a little.

**PRICES**
Sixty-eight percent of small employers are planning to raise average selling prices in the next three months and 22% were not sure. Forty percent reported they would raise prices by 10% or more and about half (47%) reported between 4-9%. Only 2% reported they would raise prices by under 2%.

Almost three-quarters (72%) of small employers reported assessing the adequacy of their price levels of the goods or services they provide more frequently than twice a year. Thirty-one percent reported assessing price levels weekly, 21% monthly, and 20% every few months. Only 9% of small employers reported twice a year, 14% yearly, and 6% less frequently than once a year.

About half (46%) of small employers have contracts with customers with fixed price agreements. These make price adjustments more difficult, depending on the terms of the contract.

**ENERGY AND GAS COSTS**
When asked about how the impact the recent increase in gas and fuel prices is having on their business, nearly all (99%) of small employers reported it having some degree of a negative impact on their business. About half (48%) reported a substantial negative impact, 35% a moderate negative impact, 16% a mild negative impact, 1% a positive impact, and 1% no impact.

About half (42%) of small employers characterized the cost of energy used in their business (electricity, natural gas, gasoline, and fuel oil) as one of the five largest business costs they have. About a quarter (24%) reported it being one of the two or
three largest business costs they have and 4% reported it being the single largest business cost in their business. Twenty-nine percent of small employers reported that it was not one of top five largest business costs they have. One percent reported their business has no direct energy costs.

When asked what activities business energy costs are primarily linked to, about a quarter (26%) said heating and/or cooling. Five percent said lighting, 40% said operating vehicles, 26% said operating equipment and/or processes, and 3% said other.

Small employers were asked what business activities are being impacted by higher gas and fuel prices. Sixty-eight percent reported employee travel for work purposes and another 68% reported commuting to/from work. Three-quarters of small employers reported that delivery services are being impacted by higher gas and fuel prices, 62% reported equipment operation, and 51% reported other vehicle use.

**OTHER**
Forty-four percent of small employers reported that in the last six months they have been unable to acquire a key input needed to produce a good and service they offer to customers.

About a quarter (27%) of small employers have experienced an increase in theft of their products or supplies over the past two years. Fifty-nine percent have not and 14% reported does not apply.

**SUMMARY**
Inflation is consuming the attention of all small employer businesses to varying degrees, an issue that has been more or less absent for the last 40 years. This new challenge requires many small employers to adjust business operations and use various tools and tactics to absorb input cost increases.
**Questionnaire**

**Q1. Is inflation impacting your business?**
62% 1. Substantial impact  
31% 2. Moderate impact  
 6% 3. Mild impact  
 0% 4. No impact  
N= 538

**Q2. What is contributing to your higher costs?**

**A. Labor**
36% 1. Substantial  
37% 2. Moderate  
20% 3. Mild  
 8% 4. None  
N=534

**B. Rent**
7% 1. Substantial  
18% 2. Moderate  
21% 3. Mild  
54% 4. None  
N=526

**C. Inventory, supplies, materials**
77% 1. Substantial  
18% 2. Moderate  
 4% 3. Mild  
 1% 4. None  
N=537
D. Utilities (heating, cooling, electricity)
26% 1. Substantial
47% 2. Moderate
23% 3. Mild
5% 4. None
N=533

E. Fuel (gasoline, diesel, fuel oil, etc.)
77% 1. Substantial
16% 2. Moderate
6% 3. Mild
1% 4. None
N=538

Q3. How are you absorbing or covering these cost increases?

A. Increasing prices of your goods and services
86% 1. Yes
14% 2. No
N=539

A1. To what degree is this effort absorbing total cost increases?
8% 1. All
30% 2. Most
53% 3. Some
9% 4. Little
0% 5. Does not apply
N=462

B. Lowering business earnings
84% 1. Yes
16% 2. No
N=539
B1. To what degree is this effort absorbing total cost increases?
8% 1. All
25% 2. Most
53% 3. Some
14% 4. Little
2% 5. Does not apply
N=453

C. Reducing quantity of materials or goods used to produce final product(s)
21% 1. Yes
79% 2. No
N=535

C1. To what degree is this effort absorbing total cost increases?
8% 1. All
14% 2. Most
52% 3. Some
22% 4. Little
4% 5. Does not apply
N=113

D. Switching to lower cost materials or goods (inventory, supplies, etc.) to produce final product(s)
26% 1. Yes
74% 2. No
N=534

D1. To what degree is this effort absorbing total cost increases?
6% 1. All
8% 2. Most
56% 3. Some
29% 4. Little
1% 5. Does not apply
N=140
E. Increasing use of energy efficient products or technologies
26% 1. Yes
75% 2. No
N=533

E1. To what degree is this effort absorbing total cost increases?
4%   1. All
9%   2. Most
38% 3. Some
47% 4. Little
2%   5. Does not apply
N=136

F. Taking on debt to help finance higher costs
31% 1. Yes
69% 2. No
N=533

F1. To what degree is this effort absorbing total cost increases?
7%   1. All
20% 2. Most
53% 3. Some
18% 4. Little
1%   5. Does not apply
N=163

G. Reducing employee related costs (compensation, number of employees, etc.)
28% 1. Yes
72% 2. No
N=534
G1. To what degree is this effort absorbing total cost increases?

4%   1. All
9%  2. Most
54% 3. Some
30% 4. Little
3%  5. Does not apply
N=147

Q4. Do you plan to raise your average selling prices in the next three months?

68% 1. Yes
9%   2. No
22% 3. Not sure
N=539

A. By how much will you likely raise prices?

2%   1. Under 2%
12%  2. 2-3%
26%  3. 4-5%
21%  4. 6-9%
40%  5. 10% or more
1%   6. Does not apply
N=366

Q5. How often do you assess the price levels of the goods or services you sell?

31% 1. Weekly
21%  2. Monthly
20%  3. Every few months
9%   4. Twice a year
14%  5. Yearly
6%   6. Less frequently than once a year
N=534
Q6. Does your business have contracts with customers with fixed price agreements?
46% 1. Yes
45% 2. No
9% 3. Does not apply
N=538

Q7. Specifically looking at gas and fuel costs, how is the recent increase in gas and fuel prices impacting your business?
48% 1. Substantial negative impact
35% 2. Moderate negative impact
16% 3. Mild negative impact
1% 4. Positive impact
1% 5. No impact
N=537

Q8. How would you characterize the cost of energy used in your business (e.g., electricity, natural gas, gasoline, and fuel oil)?
4% 1. The single largest business cost you have
24% 2. One of the two or three largest business costs you have
42% 3. One of the five largest business costs you have
29% 4. Not in the top five business costs you have
1% 5. Your business has no direct energy costs
N=536

Q9. What activities are your business energy costs primarily linked to?:
26% 1. Heating and/or cooling
5% 2. Lighting
40% 3. Operating vehicles
26% 4. Operating equipment and/or processes
3% 5. Other ___________________________
N=536
Q10. What business activities are impacted by higher gas and fuel prices?

A. Employee travel for work purposes
   68% 1. Yes
   32% 2. No
   N=536

B. Commuting to/from work
   68% 1. Yes
   32% 2. No
   N=530

C. Delivery services
   75% 1. Yes
   25% 2. No
   N=536

D. Equipment operation
   62% 1. Yes
   38% 2. No
   N=529

E. Other vehicle use
   51% 1. Yes
   49% 2. No
   N=518

F. Other __________________________

Q11. In the last six months, have you been unable to acquire a key input needed to produce a good and service you offer to customers?
   44% 1. Yes
   56% 2. No
   N=536

A. If so, what is that key input? ____________
Q12. Have you experienced an increase in theft of your products or supplies over the past two years?
27% 1. Yes
59% 2. No
14% 3. Does not apply
N=538

Q13. Please classify your major business activity, using one of the categories of examples below.
21% 1. Construction (general contractor, painting, carpentry, plumbing, electrical, etc.)
17% 2. Manufacturing and mining
4% 3. Transportation (truckers, movers, etc.)
4% 4. Wholesale
15% 5. Retail
5% 6. Restaurant/Bar
6% 7. Agriculture (veterinarian, forestry, landscaping, fisheries, etc.)
3% 8. Financial, insurance, real estate
18% 9. Services (auto repair, house cleaning, salon, etc.)
5% 10. Professional services (attorney, physician, skilled nursing, etc.)
1% 11. Other ___________
N=540

Q14. Number of Employees
12% 1. 1-2 employees
26% 2. 3-5 employees
19% 3. 6-9 employees
17% 4. 10-19 employees
17% 5. 20-49 employees
7% 6. 50-199 employees
2% 7. 200 or more employees