Small Business and Inflation

NFIB Research Center

Small employers were asked a series of questions on how the current state of inflation is impacting their business. This survey was conducted from June 31 – July 7. A random sample of NFIB's membership was drawn, generating 462 responses of small employer business owners.

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 (56%) reported that inflation is having a substantial impact on their business while about a third (35%) reported a moderate impact. Only 8% reported a mild impact and 0% reported no impact. Small employers were asked whether the impact of inflation on their business is easing up, getting worse, or about the same. Three quarters (75%) reported that inflation pressure is getting worse, a quarter (25%) about the same, and 1% reported it easing up.

SPECIFIC COSTS

When small employers were asked what is contributing to higher costs in their business, "fuel (gasoline, diesel, fuel oil, etc.)" and "inventory, supplies, and materials" took top billing having the largest percentage of owners reporting them as substantial. Over three-quarters (79%) of small employers reported that rising "fuel (gasoline, diesel, fuel oil, etc.)" prices are a substantial contributor to higher costs. Thirteen percent reported moderate, 5% mild, and 3% none. Seventy-two percent of small employers reported "inventory, supplies, and materials" as being a substantial contributor to higher costs, while 22% reported moderate. Five percent reported mild and 1% reported none.

"Labor," "rent," and "utilities" contribute to cost pressures for many small employers, but to a lesser degree than "inventory, supplies, and materials" and "fuel". A little under a third (31%) of small employers reported "labor" being a substantial contributor to higher costs, another 35% reported moderate contribution. About a fifth (21%) of small employers reported mild contribution and 13% reported none. For "rent," 4% reported it being a substantial contributor, 15% moderate contributor, 16% mild contributor, and over half (64%) none. Rent is usually set in a contract and does not change quickly in response to inflation. The impact on rental costs will be revealed later as rental agreements are renegotiated. Thirty-one percent of small employers reported "utilities (heating, cooling, electricity)" as a substantial contributor to higher costs and 40% reported moderate contribution. About a quarter (24%) 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, 7% reported that the effort was absorbing all their total cost increases, 36% reported most, about half (47%) reported some, and 9% a little.

Another 82% of small employers absorb costs through lower business earnings to some degree. Inflation generally impacts business earnings first before owners can find other ways to absorb costs. Nine percent reported this absorbing all their total cost increases, 28% most, 50% some, and 11% 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. Less than a fifth (17%) of small employers have reduced the quantity of materials or goods used to produce final product(s) to absorb higher costs. Seven percent reported this absorbing all their total cost increases, 23% most, 52% some, and 15% a little.

In a related move, 23% of small employers switched to lower cost materials or goods (inventory, supplies, etc.) to produce final product(s) and services, with 4% reporting this absorbing all total cost increases. Another 14% reported most, 47% some, and 32% a little. Eighteen percent of small employers are increasing the use of energy efficient products or technologies. Four percent reported this absorbing all their total cost increases, 10% most, 42% some, and 44% 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. Twenty-nine percent are taking on debt to finance higher costs with 9% reporting it is absorbing all total cost increases. A quarter reported most, 51% some, and 15% a little. Thirty-one percent of small employers are reducing employee related costs, such as compensation, number of employees, hours worked, etc. Nine percent reported that this covered all the cost increase, 11% most, 62% some, and 18% a little.

PRICES

Seventy percent of small employers are planning to raise average selling prices in the next three months and 17% were not sure. Thirty-eight percent reported they would raise prices by 10% or more and about half (44%) reported 4-9%. Only 3% reported they would raise prices by under 2%. Almost three-quarters (71%) of small employers raised their average selling prices in the last three months. Thirty-one percent raised prices by 10% or more and almost half (45%) reported between 4-9%. Only 6% reported that they raised prices by under 2%.

Almost three-quarters (73%) 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-three percent reported assessing price levels weekly, 23% monthly, and 17% every few months. Only 8% of small employers reported twice a year, 13% yearly, and 6% less frequently than once a year.

About half (45%) of small employers have contracts with customers with fixed price agreements. These make price adjustments more difficult, depending on the terms of the contract, including its duration.

ENERGY AND GAS COSTS

When asked about the impact of higher gas and fuel prices on their business, nearly all (96%) of small employers reported it having some degree of a negative impact on their business. A little over a half (54%) reported a substantial negative impact, 31% a moderate negative impact, 11% a mild negative impact, 1% a positive impact, and 3% no impact. The June Consumer Price Index report showed that energy costs increased 41.6% over the last 12 months, a huge challenge for many small employers to navigate. NFIB Energy Reports during the early 1970s showed that rising energy costs were “regressive,” becoming a larger share of total revenue the smaller the firm was.

Forty-one percent 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 (28%) reported it being one of the two or three largest business costs they have and 6% reported it being the single largest business cost in their business. Twenty-three percent of small employers reported that it was not one of top five largest business costs they have. Two 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. Four percent said lighting, 37% said operating vehicles, 29% said operating equipment and/or processes, and 4% said "other".

Small employers were asked what business activities are being impacted by higher gas and fuel prices. About three-quarters (77%) of small employers reported that delivery services are being impacted by higher gas and fuel prices. Seventy-two percent reported commuting to/from work and another 71% reported employee travel for work purposes. Sixty-three percent reported equipment operation, and 62% reported other vehicle use.

Business activity	Responded "Yes"
Delivery services	77%
Commuting to/from work	72%
Employee travel for work purposes	71%
Equipment operation	63%
Other vehicle use	62%

SUPPLY CHAIN DISRUPTIONS

Small employers were asked about the impact of supply chain disruptions on their business. Almost all (96%) of small employers reported supply chain disruptions having some degree of impact on their business. About half (48%) reported a significant impact, 34% moderate, 14% mild, and only 4% reported no impact. A little over half (56%) reported being unable to acquire a key input needed to produce a good and service offered to their consumers in the last six months.

INTEREST RATES

The Federal Reserve has started aggressively increasing interest rates to curb inflation pressures and will likely continue this pursuit through 2022. Small employers were asked about the impact of interest rates on their business. Sixty-seven percent reported that higher interest rates are having some degree of a negative impact on their business. Fifteen percent reported a substantial negative impact, 23% moderate, and 29% mild. Only 1% reported positive impact and about a third (32%) responded no impact.

Those who responded yes to higher interest rates currently impacting their business were then asked how these higher interest rates are impacting their business. Thirty-four percent reported higher interest rates impacting their business by increasing the cost of financing. Fourteen percent said increasing the cost of financing for their customers, 42% responded slowing general consumer spending, and 5% responded reducing financing options.

The Federal Reserve will likely continue increasing interest rates over the next six months. Small employers were asked whether they anticipate future increases in interest rates impacting their business. Eighty-five percent anticipate future increases in interest rates to have some degree of a negative impact. About a quarter (28%) responded substantial negative impact, 32% moderate, and 25% mild. Only 1% reported a positive impact and 15% reported no impact.

When asked if they anticipate that higher interest rates will slow down consumer spending over the next 6 months, 43% responded significant slowdown, 39% moderate slow down, and 14% mild slow down. Only 2% responded no change and 3% didn't know.

SUMMARY

When inflation sets in, the price of just about everything rises. Inflation is always a result of an imbalance between the demand for something and its supply. Oil is an example; declines in global oil production while world demand rose resulted in higher prices. Oil is used to make so many things: gasoline, plastics, fertilizer, electricity, and transportation services to name a few. Higher energy costs just added to the supply problems we were experiencing from global covid related shortages. And now we face a policy response from government with the Federal Reserve dramatically raising interest rates to combat the worst inflation since the late 1970s and early 1980s. Small businesses are messengers, sending on higher input costs in the form of higher prices, lower earnings, etc. The impact of all of this is on consumers, who bear the ultimate burden. Fixing it will be painful, but it will happen, hopefully not with a severe recession.

QUESTIONAIRE

Q1. Is inflation impacting your business?

56% 1. Substantial impact
35% 2. Moderate impact
8% 3. Mild impact
0% 4. No impact
N=460

Q2. Is the impact of inflation on your business easing up, getting worse or about the same as it was 3 months ago?

1% 1. Easing up
75% 2. Getting worse
25% 3. About the same
N=459

Q3. What is contributing to your higher costs?

A. Labor

31% 1. Substantial
35% 2. Moderate
21% 3. Mild
13% 4. None
N=458

B. Rent

4% 1. Substantial
15% 2. Moderate
16% 3. Mild
64% 4. None
N=454

C. Inventory, supplies, materials

72% 1. Substantial
22% 2. Moderate
5% 3. Mild
1% 4. None
N=461

D. Utilities (heating, cooling, electricity)

31% 1. Substantial
40% 2. Moderate
24% 3. Mild
5% 4. None
N=458

E. Fuel (gasoline, diesel, fuel oil, etc.)

79% 1. Substantial
13% 2. Moderate
5% 3. Mild
3% 4. None
N=460

Q4. How are you absorbing or covering these cost increases?

A. Increasing prices of your goods and services

86% 1. Yes
14% 2. No
N=461

A1. To what degree is increasing prices absorbing total cost increases?

7% 1. All
36% 2. Most
47% 3. Some
9% 4. Little
0% 5. Does not apply
N=398

B. Lowering business earnings
82% 1. Yes
19% 2. No
N=458

B1. To what degree is lowering business earnings absorbing total cost increases?
9%   1. All
28% 2. Most
50% 3. Some
11% 4. Little
2% 5. Does not apply
N=371

C. Reducing quantity of materials or goods used to produce final product(s)
17% 1. Yes
83% 2. No
N=458

C1. To what degree is reducing quantity of materials or goods used to produce final product(s) absorbing total cost increases?
7%   1. All
23% 2. Most
52% 3. Some
15% 4. Little
4%   5. Does not apply
N=75

D. Switching to lower cost materials or goods (inventory, supplies, etc.) to produce final product(s)
23% 1. Yes
78% 2. No
N=457

D1. To what degree is switching to lower cost materials or goods absorbing total cost increases?

4% 1. All

14% 2. Most

47% 3. Some

32% 4. Little

4% 5. Does not apply

N=103

E. Increasing use of energy efficient products or technologies

18% 1. Yes

83% 2. No

N=457

E1. To what degree is increasing use of energy efficient products or technologies absorbing total cost increases?

4% 1. All

10% 2. Most

42% 3. Some

44% 4. Little

0% 5. Does not apply

N=79

F. Taking on debt to help finance higher costs

29% 1. Yes

71% 2. No

N=455

F1. To what degree is taking on debt to help finance higher costs absorbing total cost increases?

9% 1. All

25% 2. Most

51% 3. Some

15% 4. Little

0% 5. Does not apply

N=132

G. Reducing employee related costs (compensation, number of employees, etc.)

31% 1. Yes
69% 2. No
N=456

G1. To what degree is reducing employee related costs absorbing total cost increases?

9% 1. All
11% 2. Most
62% 3. Some
18% 4. Little
1% 5. Does not apply
N=142

Q5. Do you plan to raise your average selling prices in the next 3 months?

70% 1. Yes
13% 2. No
17% 3. Not sure
N=455

A. By how much will you likely raise prices in the next 3 months?

3% 1. Under 2%
15% 2. 2-3%
23% 3. 4-5%
21% 4. 6-9%
38% 5.10% or more
0% 6. Does not apply
N=315

Q6. Did you raise your average selling prices in the last 3 months?

71% 1. Yes
29% 2. No
N=452

A. By how much did you raise prices?

6% 1. Under 2%
17% 2. 2-3%
26% 3. 4-5%
19% 4. 6-9%
31% 5. 10% or more
1% 6. Does not apply
N=324

Q7. How often do you assess the price levels of the goods or services you sell?

33% 1. Weekly
23% 2. Monthly
17% 3. Every few months
8% 4. Twice a year
13% 5. Yearly
6% 6. Less frequently than once a year
N=454

Q8. Does your business have contracts with customers with fixed price agreements?

45% 1. Yes
55% 2. No
N=454

Q9. Specifically looking at gas and fuel costs, how is the recent increase in gas and fuel prices impacting your business?

54% 1. Substantial negative impact
31% 2. Moderate negative impact
11% 3. Mild negative impact
1% 4. Positive impact
3% 5. No impact
N=457

Q10. How would you characterize the cost of energy used in your business (e.g., electricity, natural gas, gasoline, and fuel oil)?

6% 1. The single largest business cost you have
28% 2. One of the two or three largest business costs you have
41% 3. One of the five largest business costs you have
23% 4. Not in the top five business costs you have
2% 5. Your business has no direct energy costs
N=458

Q11. Which activities are your business energy costs primarily linked to?

26% 1. Heating and/or cooling
4% 2. Lighting
37% 3. Operating vehicles
29% 4. Operating equipment and/or processes
4% 5. Other
N=456

Q12. What business activities are impacted by higher gas and fuel prices?

A. Employee travel for work purposes

71% 1. Yes
29% 2. No
N=453

B. Commuting to/from work

72% 1. Yes
28% 2. No
N=450

C. Delivery services

77% 1. Yes
23% 2. No
N=453

D. Equipment operation
63% 1. Yes
37% 2. No
N=449

E. Other vehicle use
62% 1. Yes
38% 2. No
N=439

Q13. Are supply chain disruptions impacting your business?
48% 1. Significant impact
34% 2. Moderate impact
14% 3. Mild impact
4% 4. No impact
N=454

Q14. 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?
56% 1. Yes
44% 2. No
N=449

Q15. Do you support or oppose the following proposals to help reduce business costs:

A. Reduce tariffs on imported goods
14% 1. Strongly support
15% 2. Moderately support
11% 3. Mildly support
30% 4. Neither support or oppose
8% 5. Mildly oppose
6% 6. Moderately oppose
15% 7. Strongly oppose
N=450

B. Suspend the federal gas tax
32% 1. Strongly support
11% 2. Moderately support
13% 3. Mildly support
13% 4. Neither support or oppose
7% 5. Mildly oppose
7% 6. Moderately oppose
18% 7. Strongly oppose
N=451

C. Increase domestic energy production
88% 1. Strongly support
7% 2. Moderately support
1% 3. Mildly support
3% 4. Neither support or oppose
1% 5. Mildly oppose
0% 6. Moderately oppose
0% 7. Strongly oppose
N=453

Q16. Are higher interest rates currently impacting your business?
15% 1. Substantial negative impact
23% 2. Moderate negative impact
29% 3. Mild negative impact
1% 4. Positive impact
32% 5. No impact
N=454

Q17. If yes, how are higher interest rates impacting your business?
34% 1. Increasing the cost of financing for your business
14% 2. Increasing the cost of financing for your customers
42% 3. Slowing general consumer spending
5% 4. Reducing financing options
0% 5. Other
5% 6. Does not apply
N=303

Q18. The Federal Reserve will likely continue increasing interest rates over the next six months. Do you anticipate future increases in interest rates to impact your business?

28% 1. Substantial negative impact
32% 2. Moderate negative impact
25% 3. Mild negative impact
1% 4. Positive impact
15% 5. No impact
N=454

Q19. Do you anticipate that higher interest rates will slow down consumer spending over the next 6 months?

43% 1. Significant slow down
39% 2. Moderate slow down
14% 3. Mild slow down
2% 4. No change
3% 5. I don't know
N=456

Q20. Please classify your major business activity, using one of the categories of examples below.

18% 1. Construction (general contractor, painting, carpentry, plumbing, electrical, etc.)
15% 2. Manufacturing and mining
4% 3. Transportation (truckers, movers, etc.)
5% 4. Wholesale
19% 5. Retail
5% 6. Restaurant/Bar
7% 7. Agriculture (veterinarian, forestry, landscaping, fisheries, etc.)
4% 8. Financial, insurance, real estate
16% 9. Services (auto repair, house cleaning, salon, etc.)
7% 10. Professional services (attorney, physician, skilled nursing, etc.)
1% 11. Other
N=455

If other, please describe your major business activity.

Q21. Number of Employees

17% 1. 1-2 employees
25% 2. 3-5 employees
19% 3. 6-9 employees
19% 4. 10-19 employees
12% 5. 20-49 employees
7% 6. 50-199 employees
1% 7. 200 or more employees
N=458

Q22. How long have you owned your business?

2% 1. Less than 1 year
2% 2. 1-2 years
11% 3. 3-5 years
11% 4. 6-10 years
73% 5. More than 10 years
N=458