

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