



TARIFFS AND SMALL BUSINESS

Trade is a top priority of the current Administration with renegotiating the terms of NAFTA and China trade policies as two of their main efforts. Tariffs, subsidies, and farm relief payments are three tools being used by the Administration in pursuing its trade negotiation goals with tariffs getting the most public attention.¹

All businesses are not identically affected by these changes, but to get a sense of the impact to the small business sector, NFIB asked a random sample of its hundreds of thousands of member firms if their operations had been impacted by recent trade policy related changes with Mexico, Canada, or China.² About 5 percent reported that they had been favorably impacted, most likely due to subsidies or targeted relief payments to offset higher costs. However, nearly 30 percent reported that they experienced a “somewhat negative impact,” and about 10 percent reported a “significant negative impact” on their firm (Table 1). Most of the negative impact comes in the form of higher costs related to tariffs placed on imports into the U.S., including aluminum and steel, but also tariffs placed on U.S. exports, including soy beans. In simple terms, a tariff is a sales tax imposed on specific imported goods or services. A 25 percent tariff raises the cost of acquisition by 25 percent, but how that increase in cost migrates through the economic system is often very complex. In addition, retaliatory tariffs imposed by other countries on goods we make and export have also disrupted markets and reduced sales as those tariffs make our goods more expensive to other countries.

Table 1

Have recent changes in trade policy with China, Canada and Mexico impacted your business?

	Jan. 2019	Dec. 2018	Nov. 2018
Significant positive impact	1%	1%	1%

¹ For a list of specific products affected (hundreds of items used by U.S. producers), see Jacqueline Varas, The Total Cost of Trump’s Tariffs, American Action Forum (Feb. 14, 2019), <https://www.americanactionforum.org/research/the-total-cost-of-trumps-new-tariffs/>.

² NFIB’s Small Business Economic Trends survey asks a random sample of its hundreds of thousands of member firms every month questions related to business operations. The trade policy question asking if their operations had been impacted by recent trade policy related changes with Mexico, Canada, or China was included in the November and December 2018 and January 2019 questionnaire.

Somewhat positive impact	4%	3%	4%
No impact	56%	56%	58%
Somewhat negative impact	28%	27%	26%
Significant negative impact	9%	10%	8%
NA	3%	3%	3%
	100%	100%	100%
Total # respondents	1740	621	700

The activities of small businesses span the entire spectrum of production and delivery of goods and services, and their specializations will give them different exposures to the impact of tariffs and trade agreements. This is clear in Table 2 which shows responses by industry. Least impacted are firms in the various service sectors including finance, insurance, real estate, non-professional services, and professional services where 10 to 20 percent reported a negative impact. Most impacted were firms in agriculture, where 64 percent reported a negative impact, half of those “significantly negative.” Fifty-seven percent in the wholesale trades reported a negative impact, followed by 41 percent in manufacturing and in construction.

Table 2

Have recent changes in trade policy with China, Canada, and Mexico impacted your business?

January 2019	Const	Mfg	Trans	Whls	Retail	Ag	FIRE	Non-prof	Prof
Significant positive impact	1%	2%	4%	0%	1%	3%	0%	1%	0%
Somewhat positive impact	4%	7%	2%	5%	3%	4%	2%	4%	1%
No impact	52%	48%	60%	37%	56%	26%	87%	70%	83%
Somewhat negative impact	34%	34%	26%	42%	32%	31%	7%	20%	6%
Significant negative impact	7%	7%	4%	15%	5%	33%	3%	2%	4%
NA	2%	2%	5%	1%	2%	3%	1%	4%	6%
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total # respondents	295	206	57	102	406	193	99	299	82

These “negative impacts” include rising costs of inputs, a reduced availability of needed inputs, higher selling prices needed to cover tariff costs, and wasted time and effort required to reorganize “supply chains” disrupted by the tariffs. But beyond the direct impacts, changes in trade policy and retaliatory measures are surely a source of much uncertainty for many. Uncertainty surrounding trade policy

will undoubtedly contribute to slower economic growth; the question is by how much.

But it doesn't usually end there. Along the way, businesses make different decisions about how much and from whom to buy. Some may find less expensive suppliers or decide to use less of the good (and produce less of their product) because the higher price they must charge will discourage customers.

How all this plays out, for example, the tariff on aluminum which goes into F-150 truck or beer cans to name just two uses, depends on the industry affected and the ultimate sensitivity of the final consumer to the ultimate product price. Small businesses truly span the entire spectrum of U.S. business, providing virtually every product or service "in miniature." Identifying all the specific impacts would be an impossible task, with 6 million employer firms and tens of millions of single-person firms all in the mix. However, the NFIB trade question offers a general understanding of how recent changes in trade policy impact small businesses.