

Ben Johnston, COO of Kapitus, a small business lender and marketplace:

How the Iran Conflict and Rising Oil Prices Could Impact Small Businesses:

“The war with Iran has effectively closed the Strait of Hormuz and forced producers in the Gulf region to begin shutting down oil and gas production, actions that cannot be quickly reversed. Given that approximately 20% of the world’s oil production must travel through the Strait of Hormuz in order to reach consumers, it is likely that this disruption will be significant, and last for months, depending on the duration of hostilities and the time it takes to reestablish production and a working supply chain once the war is over.

Rising oil prices are yet another shock to operating margins that small businesses need to contend with (on top of inflation, tariffs, etc). Today, with oil climbing, small businesses are once again grappling with the impact of an unforeseen expense and agonizing over whether to pass these increased costs on to an already stretched customer base. We expect that small businesses will likely delay raising prices as long as possible – similarly to when tariffs were first introduced – but that businesses will ultimately need to pass these expenses on to customers should prices remain elevated for several months.

The uncertainty caused by a sudden spike in oil prices and the lack of clarity as to the severity and duration of the spike will likely cause many small businesses to retrench, holding off on starting new projects, taking on new hires, and investing in the growth of the business, until the picture becomes clearer. Given the importance of small businesses to the US economy, this could have a significantly negative impact on the unemployment rate and overall GDP growth.”

Impact on minerals and metals:

“In addition to oil and gas, the Gulf States have leveraged their access to plentiful petroleum to produce energy intensive products including industrial metals such as aluminum, copper, phosphates, and gold. These countries also produce a wide range of petroleum-based plastics, chemicals, fertilizers, and helium. In addition, Saudi Arabia and the UAE have become global logistics hubs where high-technology components are imported, assembled, and then exported. As a result, in addition to oil, global manufacturing is also highly reliant on the raw materials and finished goods that are exported from the Persian Gulf region.”

Impact on competition between the U.S. and China:

“While the blockage of the Strait of Hormuz is driving prices higher for all products exported from the Persian Gulf, Asian manufacturing centers appear to be suffering more than those in the Americas. This is because of Asia’s heavy reliance on Gulf oil relative to the rest of the world. Because the US is the world’s largest oil producer, oil prices here have risen less than in Asia, giving our manufacturing base a relative advantage. The US was already experiencing a resurgence in its manufacturing base as the result of tariffs, increased automation, and frustrations with disruptions in the global supply chain. We now see a long-term disruption in the Persian Gulf as driving the repatriation of manufacturing to the United States.”

Industries That Will Be Most Impacted:

“One of the industries with the highest dependency on oil and gas prices is the transportation industry which includes long-haul trucking as well as short-haul and local delivery services. Fuel oil is one of the transportation industry’s primary operating expenses, and operators will feel the impact of this disruption immediately. The agriculture industry is also highly exposed given the diesel-powered heavy machinery used in production, the distribution costs required for products to reach consumers, and the fertilizer required to maintain crop yields. Many small manufacturers also have significant exposure as oil and gas are often used directly in the manufacturing process or to generate electricity to power plants and equipment or in the production of raw materials such as plastic, aluminum and steel. In addition, the construction industry has significant exposure to the petroleum markets given the heavy machinery used during the construction process and the building materials required in modern construction. In addition to oil and gas, Gulf states also export a range of products critical to global agriculture and manufacturing such as fertilizer that is critical for maintaining crop yields around the world, helium used in semiconductor and other high-end manufacturing, and aluminum, steel, and concrete, all critical to support the global construction industry. In addition, many manufacturers of these products in Europe and Asia rely on oil and natural gas from the Persian Gulf to fuel these industries. As a result, US manufacturers of similar goods may have an advantage due to their access to more consistent and affordable petroleum products extracted and refined in the US.”

Impact on Small Business Lending:

“Simply put, uncertainty in the economy leads to higher lending prices. If higher oil prices lead to reduced business margins, the market will react by demanding higher rates to compensate for an increase in risk. Small business revenue is made up primarily of consumer spending. Rising oil prices hit consumers directly by increasing non-discretionary spending like the cost to drive to work and heat one’s home. As a result, consumers cut back on the discretionary spending that small businesses rely on, thereby reducing cashflow and financial health.”

On the Positive Side:

“The US has a robust oil and gas industry which employs many small businesses involved in both upstream and downstream production. These businesses will benefit from higher prices which, if sustained for a long enough period of time, make additional oil and gas projects economically viable. It is also important to note that as the largest oil and gas producer in the world, the United States is less exposed to economic disruption than many other developed economies, especially those in Europe and Asia. As a result, it is likely that fuel costs will rise higher and faster in parts of the world where we are currently levying tariffs with the goal of driving production back to the United States. If US oil prices become a relative advantage to US businesses, it may serve to speed the repatriation of manufacturing back to the US during this period of instability.”

Financial Strategies Small Business Owners Should Consider to Stay Resilient Against Sudden Economic Shocks:

“Over the past several years, small businesses have become all too adept at managing through crises. Many have learned the hard way the importance of keeping a close eye on margins, managing supply chains and cost of goods sold, and developing products that appeal to cost conscious consumers. Successful businesses today maintain options in their supply chain, their headcount, and in their access to capital. Many

businesses today are investing in automation as a way to control more of their supply chain and reduce dependency on human capital. With recent advances in AI, many businesses are now adopting AI tools that help them connect with and manage customers, handle accounting and business analytics, and even develop software. Successful businesses also maintain multiple financial relationships capable of providing working capital to fund growth. Many also finance equipment purchases and maintain revolving lines of credit to manage the volatility of cashflows month to month. It is important for small businesses to maintain both bank and non-bank relationships to ensure access to a full suite of financial products.”