



## A View From Main Street

Posted by Paul Vigna on November 30, 2009  
Credit Crisis, Economy, Markets, Retail Sales

You've probably noticed the depressing frequency with which small businesses in your town have disappeared. Every so often, another storefront is suddenly empty, the windows papered over and dirt shadows on the walls where the old signs used to be.

Yes, my barber's still packed on Saturday mornings, and an Italian deli in town just moved to a bigger store a block away, and even the local sporting-goods store is hanging in. But for each of those stories, there's another business that's already come and gone. And it's clear that small businesses across the nation, a key to the economy, job growth and revival, remain pressured.

And, of course, that Italian deli moved into an abandoned storefront.

Incentives to spur small-business growth will be one of the "discussion forums" at this month's "jobs summit," the dog and pony show the White House is hosting to prove it's committed to getting the nation's unemployment rate down to a somewhat more incumbent-friendly level. (Here's one "outside the box" idea, or maybe I should say, outside the beltway idea, for the summiteers: *raise* interest rates. That's right, raise them.)

The big issue revolves around credit. On the one hand, banks don't want to lend, certainly not with the drunken abandon they had before. But there also is less demand; businesses and consumers alike are *cutting down* debt, not taking on more of it. That is the heart of the problem.

One problem, one big problem, for small businesses is that they're still having trouble accessing credit, and as the Dubai fiasco shows, the global wind down from the great credit boom of the aughts isn't over. The Times' Gretchen Morgenson makes the point:

All that debt overhanging consumers and organizations is the pivotal reason we are still seeing a free fall in bank lending. And small businesses, which account for half of all jobs in this country, are taking the brunt of this credit contraction. Smaller banks are especially worried about their own balance sheets and aren't making loans. This puts small businesses — important engines of growth — squarely on the brink.

She cites a survey from the National Federation of Independent Business that showed “credit tightness” hit a 23-year high in the fall. “Credit continues to remain troublingly hard for small business to come by,” she writes, although it’s a story that’s not getting a lot of attention, because most people (and reporters) focus on the big public companies.

Another reason small businesses aren’t tapping their credit lines (if they still have them) is because, much like consumers, there is less demand for credit. Sageworks, another private research firm focused on small business, notes that inventory is sitting on shelves for nearly 26 days this year, up from about 20 in 2008.

“These businesses with lingering inventory have less incentive to borrow and buy goods that are currently not selling at previous rates,” the firm’s CFO, Drew White, wrote. “The data also suggests that these privately held owners reacted appropriately by decreasing inventories, debt, and other overhead expenses in order to maintain their cash reserves so that they are in a position to expand and grow when their sales growth returns with the improving economy.”

Of course, nobody knows when that exactly will be. Sales for the big S&P 500 companies were down in the third quarter, and are down for the year, and Sageworks reports sales this year for the companies it tracks are down 3.8%.