



Small Business, Key to Recovery, Is Still Hurting

By JANET MORRISSEY Tuesday, Nov. 17, 2009



Ed Brennan, an office-furniture store owner in the Philadelphia area, couldn't believe how quickly and ferociously the recession hit his business. Demand for office furniture had surged to new highs in 2008, causing him to frantically add staff to meet furniture orders and allowing him to wrap up the year with revenue surpassing the \$24 million mark — the highest level since his company's launch in 1989. But all of that

came to an abrupt halt in January 2009 when the recession forced companies to postpone or cancel office expansions and renovations, causing demand for Brennan's office furniture to dry up.

"Think of a bug hitting a windshield going 60 miles an hour — that was what January was like," says Brennan. "We had been going gangbusters — we had our best year ever [in 2008] and all of a sudden everybody stopped buying."

To adapt, Brennan cut staff to 30 employees from 60, and is bracing for 2009 revenue to fall to \$10 million from \$24 million.

Brennan isn't alone.

Small-business company sales fell 3.8% on average in the first 10 months of 2009, which reverses the 2.4% gain posted in 2008, according to Sageworks, which provides software and consulting services to private business. "That's almost a 6% decline in the sales growth rate," says Andrew White, the firm's chief financial officer. Large publicly traded companies fared better, with sales slipping only 1.8% on average in the first 10 months of the year, he says.

Certain sectors have been ravaged more than others: small businesses involved in the transportation and warehouse business, manufacturing, wholesale trade and retail trade took the biggest hits, with sales plunging 16.7%, 13.8%, 10.4% and 6.7% respectively in 2009, says White.

The National Federation of Independent Business offers similar gloomy findings: its latest data indicate 86% of small businesses surveyed reported that earnings either fell or were flat in the past three months and 82% posted either flat or lower sales. Over the next three months, 21% plan to cut workers and 32% expect to reduce inventory. The recession has hit small businesses particularly hard during this recession, and government bailout programs have yet to offer significant incentive programs aimed at propping up the battered sector. Although there are some provisions for small companies, "we're not seeing it," says Brennan. "We're always left out." Yet, the small business community has typically played a key role in leading the country out of past recessions.

Small businesses generated 65% of the job growth between 1993 and 2008, and represent about half of the private-sector employment in the U.S., according to the Small Business Administration. "So they are going to be important for us to have a true recovery that includes job growth," says White.

The meltdown in the credit markets, the housing collapse, the weak U.S. dollar and depressed consumer confidence have all taken a particularly harsh toll on small businesses. Many small companies rely on credit cards for capital because they don't have access to debt or equity capital as public companies do, and many are seeing these credit lines trimmed or even pulled altogether by skittish banks.

The housing turmoil and the weak dollar have weighed heavily on small business as demand for building contractors, which are often smaller businesses, dried up in the housing bust, and the cost of importing raw materials like copper for contracting work has risen due to the weak U.S. dollar. Large companies with overseas operations have an easier time hedging against those risks.

On the flip side, if the beaten-down U.S. dollar boosts demand for domestic products from overseas buyers, many small businesses won't be able to take advantage of it. "Your ability to meet that demand depends upon your access to credit," says Joseph Brusuelas, a director and senior economist at Moody's Economy.com.

Economists and other experts say it's critical that small businesses recover for the broader economy to truly rebound. "Smaller firms, with fewer than 20 employees, account for 25% of all jobs, but they generated 40% of the [job] growth in the last expansion in 2001," says Brusuelas. He believes the Obama Administration needs to guarantee bigger loans to small firms through the Small Business Administration, and offer either a significant tax credit or tax cut to companies that hire new workers. "If you can get small businesses train or hire employees, that's going to impact the jobless rate," concurs White.

Brennan isn't convinced a tax credit for new hires will work. "I don't have any work for someone, so giving me a \$5,000 tax credit to hire someone and pay them \$40,000 a year with health benefits and vacation, that's \$60-grand. Do the math," he says. Brennan would prefer the government offer a tax credit or tax cut for every dollar that small businesses spend on health care for their employees.

William Dunkelberg, chief economist with the NFIB, says it's all about consumer spending, not credit. "The biggest problem is there's no sales — that's the real killer here," he says. Only 4% of those surveyed [by the NFIB] named credit as the problem. "Capital-spending plans are at 35-year lows and inventory-investment plans are at 35-year lows. They're just not borrowing — they're not asking for it," he says.

Dunkelberg believes the U.S. government needs to focus on ways to increase consumer spending and, therefore, demand for products. He'd like to see the government suspend the FICA (or social security) withholding tax and extend the Bush tax cuts that are slated to sunset within the next two years.

Brennan admits this is the worst he's seen the business environment, but remains optimistic the sector will rebound with or without a stimulus package.

"I'm more of a Warren Buffett approach — there are good times in business and bad times," says Brennan. "But this one just came like a tsunami — we were so busy we didn't see it coming."