

# 2009 Report Card – 2010 Prognosis



**GET  
WELL!**



Small business can breathe just a bit easier now that nationalization of healthcare is on hold. Also, Cap and Trade and its crippling taxes seem to be frozen in its tracks due to a very cold winter combined with mounting reports of faulty evidence for global warming.

But even with these two budget busters off the table for now, the last four years of Bush and the first year of Obama have left our country with crippling debt due to massive government spending. If all the government's agenda items are ultimately passed, it's a safe bet that the national debt will surpass 100% of GDP within this decade.

So why should small businesses worry about statistics such as debt as a percent of GDP?

The best case scenario of excessive federal debt is a wet blanket thrown over any hope of economic growth and recovery from the recession any time soon. Small business growth is at the heart of any recovery, so this means that small businesses will not see a significant recovery unless we get debt under control by massive federal spending cuts.

And the worst case? Keep in mind that China is the main creditor for much of this debt and they have their own problems right now. Should they balk at funding more of our debt, or worse yet, be unable to due to their own economic woes, prepare for a host of really bad economic outcomes. Outcomes such as hyperinflation and currency collapse could push us into an economic downturn that would make the last two years seem like a pleasant memory,

Small businesses are already fragile due to two years of hunkering down. Expect massive small business failures if this scenario comes to pass.

William Dunkelberg, Chief Economist for the National Federation of Independent Business said, "Twenty-four months of recession have sapped the financial strength of many small firms. 2009 was a very difficult year for small business. Continued weak sales and threatening domestic policies from Washington have left small business owners with little to be optimistic about in the coming year."

The NFIB Index of Small Business Optimism lost .3 points in December, falling to 88.0 (1986=100). The index has been below 90 for 15 months. Optimism has clearly stalled.

## **Look for the Small Victories**

### *Employment*

Ten percent of the owners increased employment, the highest reading of 2009. That's encouraging, but the survey also found that 22% reduced employment.

The job outlook also has some hopeful signs. Ten percent reported unfilled job openings; up 2 points from November. This is a good sign.

Those planning to reduce hiring are still about double the percentage of those planning to increase hiring. However, over the next three months, the number of small business owner's planning to reduce employment has declined slightly. And those who are planning to increase their hiring are up one percentage point from November.

### *Capital Spending*

The frequency of reported capital outlays over the past six months was unchanged at 44% of all firms, holding at a record low level. Plans to make capital expenditures over the next few months rose 2 points to 18%. Still near the record low but at least it has started to move in the right direction.

### *Sales*

When it comes to revenues, it becomes a little harder to see positive signs. The net percentage of all owners reporting higher sales in the past three months remained negative at -25%. However, this is a six point improvement over the dismal November reading.

### *Earnings*

Try as I may, I could not find a silver lining in the responses on profits. Reports of positive profit trends were unchanged at -43%. For the 54% reporting lower earnings compared to the previous 3 months, 65% cited weaker sales, 4 % each blamed rising labor costs, higher material costs and higher insurance costs, while 6% blamed lower selling prices. Poor real sales and price cuts are responsible for much of the weakness in profits.

Owners continued to reduce compensation at a record pace with 10% reporting reduced worker compensation and 9% reporting gains, unchanged from November

## *Credit*

Regular borrowers (accessing capital markets at least once a quarter) continued to report difficulties in arranging credit at the highest frequency since 1983. A net 15% reported loans harder to get than in their last attempt, unchanged from November,

## **Some Optimism**

Alright, so the big picture shows only slight signs of improvement in the economic conditions for small business.

Let's keep focusing on the small victories. Our eyes are on those small business owners who continue to survive and thrive in spite of the adversities they are facing in the economy and from the misguided policies coming out of Washington.

Several recent surveys of small business owners have been showing signs that confidence is improving. Mind you, it's not a robust rebound of confidence, but at least there seems to be a sense that the worst may be over . . . **may** be over.

This optimism is not due to an imminent return to economic growth. Remember, we are seeing results in these surveys that come from the survivors. And even they are not optimistic because they see good times in the foreseeable future. They are a bit more optimistic simply because they have survived the last two years.

If employment does not rebound, this optimism will fade. And employment will not improve due to the Keynesian Folly we see coming out of Washington with massive increases in government spending. It will come, albeit slowly, by turning small business owners loose by putting more money in their coffers through tax cuts and getting government out of their way.

The panic is over for now. But any improvement in optimism is very fragile and tentative.



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*Rhonda D. McClendon, CPA*

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*David Burrell*

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Let’s talk.

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