



D.C. gridlock seen as big threat to small business



Ian Horn for msnbc.com - Michael Osborn, president of Pie 'N Burger International, at his restaurant in Pasadena, California. Small businesses are worried about the economy in 2012, and many blame Washington for the problems.

By John W. Schoen, Senior Producer

Corey Shaker is hoping to sell a lot more cars next year. The biggest roadblock he sees is the ongoing political gridlock in Washington, D.C.

Shaker, CEO of Hometown Auto Retailers, a dealership chain based in Waterbury, Conn., has reason to be optimistic about 2012. After falling sharply in the 2007-09 Great Recession, car sales are bouncing back. New high-mileage models are drawing owners of aging clunkers to his showrooms. The downturn forced many of his competitors out of business, generating higher sales for dealers left standing.

But Shaker said some potential customers may have second thoughts about buying because of government gridlock and bickering among lawmakers.

"Consumer confidence moves the economy," he said. "The biggest single thing they can do (in Washington) to boost the economy is to boost confidence. And to do that, consumers have to believe that there is leadership that can get their act together to make the spending cuts on stuff we don't need."

Msnbc.com wanted to see what small businesses, traditionally the economy's biggest job creators, thought about the business outlook for 2012. We'll be checking back with these businesses at times during the new year to gauge what's happening in the economy.

Now, however, there was all but uniform agreement that the government has hurt the economy much more than it's helped.

The latest headlines from Washington aren't encouraging. With less than two weeks before the holiday recess, Congress is again playing a game of brinkmanship. A Senate-approved measure that would have extended payroll tax cuts and renewed extended unemployment benefits was suddenly jettisoned Monday after House Republicans walked away from the deal.

Tom Dodds, the owner of slashBlue, a small IT support, outsourcing and disaster recovery company based in St. Paul, Minn., has experienced firsthand how quickly Washington budget gridlock can spook his customers.

"When the news came out in August about the possible downgrade on the U.S. credit rating, everybody held their breath a little," he said. "So decisions don't get made. Everyone just takes a pause and holds back on spending."

For small businesses left standing after the recession, 2010 was a year of rebuilding. After seeing growth stabilize in the first half of the year and pick up a bit in the second half many small business owners contacted by msnbc.com say the national economy seems to have little momentum heading into the new year.

"We're just not seeing the long-term strength that we had predicted a year ago," said Keith Tuttle, president of Motor Carrier Service, a long-haul trucking company based in Northwood, Ohio. "We'll have three very good weeks in terms of volume and then we see a week of indecision on the part (of) some shippers."

The polarization and blame-shifting in Washington has fed that indecision by postponing some of the most pressing problems confronting consumers and businesses. And with the presidential election campaign well under way, small business owners see little prospect of anything changing in the nation's capitol.

"We need fundamental structural reform of the tax code, less regulation, and a more bipartisan approach to big solutions for spending and the deficit," said Bob Benham, the owner of Balliets, a high-end women's clothing store in Oklahoma City. "That's not going to happen in an election year."

New regulations, governing everything from finance to health care reform, have added to the uncertainty for small business owners.

"When you bring 30 million new people into the (health care) system, someone has to pay for all that," said Benham. "We just don't know where we're going. I can only anticipate that it's going to be more expensive rather than less expensive."

Industry-specific regulations hit some industries harder than others. The U.S. Department of Transportation, for example, is considering new rules that would put tighter limits on the number of hours truck long-haul drivers can spend behind the wheel. Tuttle said that will mean some deliveries that can now be done in one shift will require a two-day run.

"It basically puts a monkey wrench in distribution cycles all across the country if this goes through," he said.

The political turmoil in Washington adds uncertainty to the already-clouded economic outlook. Economists generally see the U.S. economy slowing a bit in 2012. But that forecast masks a much wider range of fortunes across sectors of the economy and regions.

In Pasadena, Calif., Michael Osborn has seen foot traffic fall off at his restaurant, Pie and Burger, as several nearby retailers have closed up shop. Business at the restaurant is down 10 to 15 percent, although his catering business has held up a bit better. Facing an uncertain future, customers are very careful about where and how they spend, he said.

"We get a lot of counter talk, and people are still really apprehensive," he said. "The unemployment rate is really high in California. I don't know anyone who doesn't know someone with a real hard story to tell."

The story is a lot brighter in Dickinson, N.D., according to Guy Moos, CEO of Baker Boy, which makes baked goods for institutional food service companies. While Moos sees the national economy muddling along again in 2012, he expects the North Dakota economy will remain robust.

"Oil exploration, a strong farming and ranching sector, coupled with increasing strength in manufacturing will bode well for our state," Moos said.

Business is so strong the company recently invested more than \$19 million to build a highly automated, 85,000-square-foot plant that can produce more than 30,000 cases of goods each week. He expects the business to grow by 15 percent next year.

With conditions so uneven — some sectors and regions struggling while others are thriving -- many small business owners are still on the defensive. Some who are still recovering from the recession are paying down debts and hoarding cash. That's cut into loan demand for community bankers like Cynthia Blankenship, vice chairman of the Bank of the West in Grapevine, Texas.

"They're not willing to take what money they have left and leverage it," she said. "Not until they have a better sense of recovery."

Small businesses face a long list of uncertainties in 2012 — from the prospect of higher prices for energy and raw materials to fickle shifts in consumer confidence.

Just as a bleak job market has many consumers worried about their next paycheck, some business owners are having a tough time with customers who can't, or won't, pay their bills.

"We just wrote off \$19,000 from a customer that didn't pay," said Vicky Sparks, co-owner of PEI, a shipping company based in Stockbridge, Ga. "Our collections lady said we can spend a lot of money on legal fees, and there's a good chance we're not going to get paid anyway. We can do everything right and simply not get paid. It's a great way to go out of business."

Tuttle is also coping with the perennial wild card faced by heavy energy consumers. Volatile energy prices have fueled a boom in sales of energy-saving equipment. Tuttle figures that by raising fuel efficiency just a small amount he saves \$1,000 per year per truck.

"So we're retrofitting a lot of our trailers with aerodynamics and upgrading our truck fleet to take advantage of some of the fuel economy savings that are built into new trucks," he said.

Such business investment should help boost sales for car dealers in 2012. Hometown Auto's Shaker is about break ground on a new \$5.3 million Ford-Lincoln franchise in Watertown, Conn., that will bring dozens of construction jobs to the area over the next year. The new facility will double the dealer's number of service bays, allowing Shaker to hire eight more skilled technicians.

Finding those skilled workers isn't always easy, even in regions with high unemployment. Darlene Miller, CEO of Permac Industries, a Burnsville, Minn., manufacturer of custom precision parts, said finding talented people is her "number one concern."

Manufacturing companies continue to invest in high-tech equipment to help them win back business that had formerly been sent offshore to lower-cost suppliers in places like China. [Drew Greenblatt](#), CEO of [Marlin Steel Wire](#), a Baltimore company that makes [wire baskets](#) and other [steel products](#), won back some of that business this year after [upgrading his plant with high-tech equipment](#) that allows the company to boost speed and quality and lower costs.

But he can't find enough skilled workers to fill \$27-an-hour openings for machine operators.

"We're having a hard time find smart people to run these machines," he said. "We'll pay \$27 an hour to start, not including bonuses, overtime, health insurance and college reimbursement."

Small businesses report they plan to hire next year – but very selectively. Some, like Baker Boy's Moos, report that investing in automation has allowed them boost output with the same workforce.

But it's hard to make that investment, in plant and new hires, without clearer evidence that stronger growth is coming.

"I'd rather stretch a little with inventory and stretch with staff and kind of wait and see what happens," said Benham. "I'm just being very conservative. It's the old guy gut feeling. I just feel like next year could be rough sailing, and I want to keep myself in a real liquid position."

<http://bottomline.msnbc.msn.com/news/2011/12/19/9563940-dc-gridlock-seen-as-big-threat-to-small-business>

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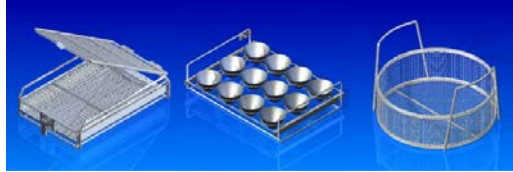
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