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A Slowdown for Small Businesses

By CATHERINE RAMPELL

In the latest sign that the economic recovery may have lost whatever modest oomph it had, more small businesses say that they are planning to shrink their payrolls than say they want to expand them.

That is according to a new report released Tuesday by the National Federation of Independent Business, a trade group that regularly surveys its membership of small businesses across America.

The federation’s report for May showed the worst hiring prospects in eight months. The finding provides a glimpse into the pessimism of the nation’s small firms as they put together their budgets for the coming season, and depicts a more gloomy outlook than other recent (if equally lackluster) economic indicators because this one is forward-looking.

While big companies are buoyed by record profits, many small businesses, which employ half of the country’s private sector workers, are still struggling to break even. And if the nation’s small companies plan to further delay hiring — or, worse, return to laying off workers, as they now hint they might — there is little hope that the nation’s 14 million idle workers will find gainful employment soon.

“Never in the 37-year history of our company have we seen anything at all like this,” said Frank W. Goodnight, president of Diversified Graphics, a publishing company in Salisbury, N.C. He says there is “no chance” he will hire more workers in the months ahead.

“We’re being squeezed on all sides,” he says.

Each month, the National Federation of Independent Business surveys the owners of small businesses about how they are doing and where they think the economy is going. One question asks whether businesses plan to increase or decrease the number of employees in the next three months. Economists then calculate a net hiring figure by subtracting the percentage of companies that plan to downsize from the percentage that plans to expand.

In May, the share of companies that planned to shrink their work forces was one percentage point higher than the share of companies that planned to expand them, the first time since last September that this indicator was negative. And even though it was slightly negative, this index, a fairly reliable indicator of hiring decisions, has been trending downward all year.

The unemployment rate has been stubbornly high in the last year, primarily because companies have stopped hiring, not laying off more workers. Although layoffs were at a record low in April, the latest monthly data available, Tuesday’s survey suggests that workers may soon be challenged by both sides of the employment ledger.

With wages relatively stagnant in recent months, the University of Michigan’s consumer sentiment survey found that workers’ expectations for their families’ income growth over the next year were at a record low. This is the first recovery in which, seven quarters in, there have been zero gains in aggregate wages and salaries.

Stagnant wages, coupled with the recent stock market slide and further declines in housing prices, have left consumers feeling not well-off enough to significantly increase their spending, which would encourage hiring.

“One thing you’ve got to understand is that we do not hire workers for the sake of hiring workers. We hire them to do jobs,” Mr. Goodnight said. “If we don’t have the work coming in, nothing will make me hire another person.”

When asked about the “single most important problem” facing their businesses, about one in four cited “poor sales,” according to the federation’s survey. Uncertainty over regulations is also mentioned frequently. About a third of businesses blame either “taxes” or “government requirements” for their current troubles, leading some economists to attribute the recent slide in overall business optimism to Washington’s protracted debates over tax policy, financial changes and health care.

Meanwhile, larger businesses, sitting on mountains of cash, have been weathering the weak recovery relatively well.

The Business Roundtable CEO Economic Outlook survey, also released on Tuesday, is a less closely watched report that relies on responses from the chief executives of larger companies. It found that the number of large companies expecting their American work forces to grow in the next six months far outnumbers those that anticipate shrinkage.

“What we’ve had is a tale of two recoveries,” said John Ryding, chief economist at RDQ Economics. “Between large businesses and small businesses, it is literally the best of times and the worst of times.”

Several factors have helped larger companies succeed, economists say.

Jared Bernstein, a senior fellow at the liberal Center on Budget and Policy Priorities and a former economic adviser to Vice President Joseph R. Biden Jr., said, “Larger businesses have consistently had more going for them in this recovery.”

He added: “They have better access to credit markets. They have greater ease in exporting abroad where some economies are growing faster than ours. All that shows up in their profits.”

The one potential bright spot in the small-business survey involves industries that have had the smallest job growth but now seem willing to add jobs, according to William C. Dunkelberg, the chief economist for the federation.

These include construction and nonprofessional services like restaurants, which was crippled by the housing bust. Manufacturing, which had been the engine of job growth for many months before scaling back in May, also showed promise.