

Posted on Thu, Jan. 20, 2011

Weak sales still businesses' biggest worry

By Mike Armstrong
Inquirer Staff Writer

While business activity is expected to pick up in 2011, weak sales remain the biggest worry for companies, according to a new survey by the Federal Reserve Bank of Philadelphia.

That mirrors the findings of a monthly survey of the National Federation of Independent Business membership where "poor sales" has been cited as the biggest problem for small businesses since mid-2008.

Economists assembled by the Greater Philadelphia Chamber of Commerce for its Economic Outlook 2011 event at the Hyatt Philadelphia at the Bellevue Wednesday morning were far from morose, but not quite merry.

Jason Novak, a research and policy support manager at the Philly Fed, presented results of an online survey of 207 chamber members during the first half of December.

Members were asked for their assessment of business conditions both for the region and their companies. By examining the difference between companies indicating increasing activity and those expecting decreasing activity, the Fed identified clear improvement in expectations for the local economy for 2011 compared with 2010. More businesses may be seeing their sales growing year over year, but when asked about the biggest problem they face, the respondents picked "poor sales" over cost of benefits and eight other challenges.

Novak cautioned that the responses to the 12 questions asked by the Fed may reflect a "downward bias" given the uncertainty over possible federal tax increases and other policy issues at the time the survey was conducted.

A panel discussion by three local economists described a U.S. economy that isn't growing fast enough to put more people to work and lower the unemployment rate, which stood at 9.4 percent in December.

Cheryl J. Carleton, a Villanova University economist, said the key was that lack of sales growth. Businesses are looking for a sustained increase in demand before hiring, because it's expensive to add workers, she said.

William C. Dunkelberg, an economics professor at Temple University and chief economist for the independent business federation, tied the weak sales environment to the increase in the national savings rate from 1 percent before the recession to about 6 percent now. Each percentage point of the savings rate is equivalent to about \$100 billion in consumer spending. In essence, consumers have removed \$500 billion in spending from the economy, he said.

Kevin C. Gillen, vice president of Econsult Corp., noted that the housing sector typically was a casualty of any economic downturn, but this time it was the cause of it. Although the Philadelphia region has fared better than most housing markets around the nation, no one should conclude that makes it more competitive. Structurally, the region remains a high-cost,

high-tax and highly regulated place to do business, he said. Ebullience was left to keynote speaker Jim Cramer, host of CNBC's *Mad Money* show, who repeated his call for stocks to rise 16 percent in 2011 as investors rotate out of bonds and bond funds.

Contact Mike Armstrong at 215-854-2980 or marmstrong@phillynews.com.

Find this article at:

http://www.philly.com/inquirer/business/20110120_Weak_sales_still_businesses__biggest_worry.html

Check the box to include the list of links referenced in the article.

© Copyright | Philly Online, LLC. All Rights Reserved. Any copying, redistribution or retransmission of any of the contents of this service without the express written consent of Philly Online, LLC is expressly prohibited.