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Unemployment costs hurt business

TAXES: Employers are saying that they're feeling squeezed and won't be able to hire workers.

By Christopher S. Rugaber
The Associated Press

WASHINGTON — As if small businesses needed another reason not to hire, consider their latest financial burden: the cost of rising unemployment itself.

Employers already are squeezed by tight credit, rising health care costs, wary consumers and a higher minimum wage. Now, the surging jobless rate is imposing another cost. It's forcing higher state taxes on companies to pay for unemployment insurance claims.

Some employers say the extra costs make them less likely to hire. That could be a worrisome sign for the economic recovery, because small businesses create about 60 percent of new jobs. Other employers say they'll cut or freeze pay.

■ Chuck Ferrar, who owns a liquor store in Annapolis, Md., expects to pay $9,000 in unemployment taxes next year, up from $3,000 this year. Health care costs for his employees will rise by $8,000, or 17.5 percent. "When you start adding this up, it turns into real money," he said. "If I lose an employee through attrition, I will not replace him. You can't afford to do it."

■ Sam Schlosser, owner of Plymouth Foundry Inc. in Plymouth, Ind., said his unemployment tax bill could double next year. Revenue at the family-owned company, which makes iron castings for machine parts, has fallen about 50 percent, he said. In case of higher taxes, his company may have to consider layoffs, he said.

■ Marjorie Feldman-Wood, president of Al's Beverages in East Windsor, Conn., which makes soda fountain syrup, said higher taxes would make pay raises less likely. Connecticut is borrowing from the federal government, and employers fear the state will have to raise taxes soon to repay the loan. "There's only so much money at the end of the day," she said.

Rob Carr The Associated Press

Chuck Ferrar, at his liquor store in Annapolis, Md., on Nov. 19, expects to pay $9,000 in unemployment taxes next year, up from $3,000 this year. Some employers say the higher cost makes them less likely to hire.

Bruce Meyer, a University of Chicago economics professor, said his studies show that higher unemployment taxes usually lead to lower pay for employees.

Behind the trend are widespread layoffs. The number of people claiming jobless aid has tripled since the recession began. The demand has drained the funds that many states use to pay jobless claims. Nearly half the states are borrowing from the federal government.

Now the bills are coming due. States reset their unemployment insurance taxes at the end of each year, and 33 states will raise them next year, according to the National Association of State Workforce Agencies. The states' tax revenue in the last fiscal year fell $42 billion short of what's needed for unemployment aid.

Most of the tax increases are being triggered by laws requiring higher taxes to make up for a decline in state funds to pay for benefits. In some cases, cuts in jobless aid are required, too.

Federal law requires states to build up unemployment insurance trust funds in good times so they can pay benefits during downturns. The idea is to avoid having to raise taxes or cut benefits in a recession.

But the severity of this recession has bankrupted many states' trust funds and forced them to borrow from the federal government. States eventually must pay back the loans. Otherwise, the federal government can raise taxes on their businesses.

The tax increases will have "a small, negative effect on hiring" because they will raise employers' costs, said Wayne Vroman, an economist at the liberal Urban Institute.

Economists predicting joblessness to decrease

By Emily Fredrix The Associated Press

Economists expect the joblessness that has weighed down the nation's economic recovery will start to slowly abate in 2010, but they predict consumers will continue to keep a tight rein on spending, according to a new survey.

While signs have pointed to the end of the recession, joblessness remains rampant. The national unemployment rate jumped to 10.2 percent in October, the highest in 26 years. About 9 million people currently receive unemployment benefits.

The November outlook by the National Association for Business Economics, which was released Monday, shows economists expect net employment losses to bottom out in the first quarter of next year. Employers are seen starting to add to their payrolls after that.

"While the recovery has been jobless so far, that should soon change," said Lynn Reaser, NABE's president and chief economist at Point Loma Nazarene University. "Within the next few months, companies should be adding instead of cutting jobs."

But even if companies do start restaffing next spring, they aren't expected to ramp up hiring very quickly. Some 7.3 million jobs have been lost since December 2007, according to NABE. Of the 48 panelists surveyed, 61 percent do not expect a complete recovery of those lost jobs until 2012. And they expect the unemployment rate will remain "stubbornly high," averaging 9.6 percent in the fourth quarter of 2010.

Panelists ranked high unemployment as their second biggest concern over the next five years, expressing "extreme concern" first and foremost about the federal deficit. Those surveyed expect inflation will remain low and the dollar to remain weak, though they see it strengthening against the euro and continuing to be a major reserve currency.

The economy grew at a 3.5 percent pace in the third quarter, the Commerce Department announced last month, a strong signal that the economy is entering a recovery phase from the worst recession since the Great Depression. But the pace of the recovery is expected to be slow because of high unemployment and tight credit.

The latest survey by NABE notes that sluggish consumer spending will continue to weigh on the economy. But it predicts rebounds in housing, growth from business spending as more companies restock lean inventories, and a rise in stock prices.

Consumers beginning to trim credit card debt

By Eileen AJ Connelly
The Associated Press

NEW YORK — Consumers got more serious about paying down their credit card debt this summer, a time when delinquencies usually to go up.

Cardholders making late payments on bank-issued cards like those bearing MasterCard and Visa logos fell to 1.1 percent for the July-to-September period, down from 1.17 percent in the prior three months, according to credit reporting agency TransUnion.

The decline is significant because of its timing. Delinquency rates usually rise in the third quarter from the prior period as people spend on summer vacations and back-to-school shopping, said Clifton O'Neal, a TransUnion spokesman.

The latest quarter marks the first time in a decade the delinquency rate dropped in the third quarter from the preceding quarter, according to the TransUnion analysis. Delinquency rates typically seesaw between quarters. That means the rate typically rises in the first and third quarters and falls in the second and fourth quarters.

The usual rise in delinquency rates might not happen this first quarter either, however, O'Neal said.

Deliquencies, which are payments at least 90 days past due, are an indicator that cardholders will default on the debt.

The third-quarter delinquency rate was basically flat with the third quarter of last year, when 1.09 percent of card payments were 90 days or more late. A payment that is three months past due is an indicator of a coming default, since it is difficult to make up that many missed payments.

Credit card delinquencies were highest in Nevada (1.98 percent), Florida (1.47 percent), Arizona (1.35 percent) and California (1.33 percent), the states hardest hit by the housing crisis. TransUnion figures showed the average balance on outstanding bank cards fell to $5,612 from the previous quarter's $5,719, and from $5,710 in the 2008 third quarter.

LARRY STEVEN LONDRE
CSUN DIALOGUE

Holiday can help business connect

Thanksgiving isn't just about big meals. It should be more about connecting. In this economy marketing pros, business owners and others in the Valley will need to see an opportunity or two to promote their products and services in a way which creates value and generates sales:

Handling objections: This is a tough economy in which to conduct business, especially when nearly every decision is based on price. Remember, though, that it's risky to discuss price until it can be compared to the product's benefits. Once you convey the benefits, price may become a secondary factor which usually can be dealt with successfully. Learn to accept objections as a challenge which, when handled correctly, will benefit you and your prospect. Customer decisions are based on many criteria including time, quality and money.

Sales: Ideas are best when they generate sales. Retailers use any or all of the promotion tools, from advertising, direct marketing, personal selling, sales promotion, P.R., and the Web. For example, more banners in store fronts can generate more foot traffic into their establishment.

Inventory: Items highly specific to the holidays, such as certain foods, products and decorations, are central to Thanksgiving. While you want to be certain you are adequately supplied, being overstocked will add to storage expenses. Tighten up this inventory.

Value-added pricing: Offer more so you can differentiate yourself from your competition. Rather than cutting prices, add services, such as free delivery for a specific time.

Build relationships: Consider sending clients a Thanksgiving card rather than a holiday card to get a jump on the competition. Business owners can also network online thanks to social media sites with local networking opportunities.

Give back: Come up with ideas to connect with your customers in a way that is not so self-serving, like engaging your employees in a day of volunteerism. You and your staff could work at a food bank, or host a meal for the homeless on or around Thanksgiving.

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