PAYCHEX THRIVE
A BUSINESS PODCAST

Season 4 | Episode 9

CNN's Matt Egan on the Business Outlook for 2023

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Announcer:
Welcome to Paychex THRIVE, a Business Podcast, where you'll hear timely insights to help you navigate marketplace dynamics and propel your business forward. Here's your host, Gene Marks.

Gene Marks:
Hey, everybody and welcome back to THRIVE Business Podcast. My name is Gene Marks. Thank you so much for joining us today. I've got Matt Egan with me. He is an award-winning reporter and journalist for CNN. Matt, thrilled to have you here. Thank you so much for speaking with me today,

Matt Egan:
Gene, thank you for having me, for taking the time.

Gene Marks:
Yeah. As I was saying to you before we even started recording, we have this little bit of overlap. My day job is as an accountant and as a business owner, but I do a lot of writing. I write for The Guardian, I write for the Philly Inquire, I write for The Hill and I cover issues about small and midsize businesses and that's why I've been anxious to talk to you for a while as well, because you've been with CNN for a while. You're a business reporter. You are covering the issues that our listeners and our viewers are facing right now. And so, I actually just wanted to throw out to you, some stuff for you to talk about and just give your insights and your thoughts on, if that sounds okay with you.

Matt Egan:
Yeah, Gene. That sounds great.

Gene Marks:
So we're here right now at the end of November. We're heading into the holiday season. Let me get your take on the holidays. Do you think this will be a strong holiday season or not?

Matt Egan:
So, I think it's going to be a slowdown, but also a strong holiday season, because last holiday season was just spectacular and that was not sustainable. People are feeling inflation and their paychecks are getting

squeezed and so, there's going to be a slowdown. I also think people are worried about the economy and so they may not spend quite as much. You even have Jeff Bezos out there telling people, "Maybe you don't want to buy big ticket items. Maybe you don't want to spend a lot of money on a TV." He said that to one of my colleagues at CNN. And so, I do think that there's going to be a little bit more caution, but you're still going to probably see pretty sharp increases in spending, which is obviously good news for a lot of the businesses out there.

Gene Marks:
Yeah. First of all, I do agree with you. I'm concerned only because some of the big box retailers like Target and Home Depot are a little gloomy. FedEx and UPS are also not super bullish. Nobody's predicting a catastrophe or anything like that. I think it's consistent with what you were saying, but why do you think in light of inflation, higher interest right now, this pending economic slowdown, why do you think people are still out there spending?

Matt Egan:
Well, I think it's in the nature of U.S. consumers. U.S. consumer spending is two-thirds of the economy, and so almost without fail, people tend to spend money. They want to go out there and shop. It's just a consumption-driven economy. I think that that's the way it works. I think that what's changing maybe is how aggressively they're going to spend, which is probably not the worst thing. If people are feeling a little strapped, then that's probably a good thing that they're not going to go out on a limb and spend more than they should. But one of the other concerning things is how people are going to spend and the National Retail Federation has some projections out where they think that more people are going to be tapping into savings to cover their holiday shopping, which is not great, because that's not sustainable.

Matt Egan:
And also, more people are going to be leaning on credit cards, which is also not great, because there's never a good time to carry a credit card balance, but this is arguably the worst time. We've seen credit card rates at all-time highs and store brand credit cards rates are somewhere around 30% and so, there is some risk there if the reason why people are continuing to spend and continuing to spend more, if they're doing it, because they're taking on credit card debt. That's not great.

Gene Marks:
How about you talk about credit card debt, which is definitely a big concern? Have you covered or written about BNPL, the buy now, pay later, trend as well? And it seems like more consumers are taking advantage of that type of financing, which comes with some concerns and I'm wondering what your thoughts are on that.

Matt Egan:
Yeah. Yeah. It is one of those really fast-dgrowing, relatively new technologies out there. It is an option that a lot of people are using more and more, in part because it's pretty easy. People can quickly go out there and do a buy now, pay later service. I think there are some concerns out there. One, because it is so easy, people may end up overcommitting. Also, there's some limited visibility in terms of whether or not the credit card, the credit bureaus that evaluate the ability for people to borrow, whether or not they're actually able to see the obligations that consumers have with buy now, pay later. So, if I go out there and I buy a TV and a microwave and I spend a whole bunch of money on suits and I do that with buy now, pay later, it's not really clear that the credit bureau actually can see that and so they may approve me for a car loan, even though actually, my cash flow suggests that I shouldn't be able to get that car.

Gene Marks:
In all the reading I've done of BNPL, that's actually the first time I've heard that point of view and that makes complete sense. You're right. I don't think it does get reported. The buy now, pay later, the platforms are being offered not only by specific storefronts, but also the PayPals of the world and the Squares and you're right. They're not reporting that information necessarily to the credit bureaus. It's a really good point. That really is. And then the other issue as well, and again this is a small business podcast, but I don't know if you're a retailer and you're selling to consumers, yeah, I don't know, I'm just encouraging my clients to say, "Listen, you've got to make sure that consumers know what they're getting into," particularly their younger consumers, because there's some potential liabilities with these things if they don't pay off these transactions.

Matt Egan:
Right. Absolutely. It's one of those short-term versus medium- and long-term perspectives. The short term obviously it's great if you're going to have another option for people to keep spending at your store and to have it be relatively easy and a new option and it's not credit card debt. That is one of the best parts about it, is it's not this 20 or 30% interest. You're able to spread out those payments and buy things more flexibly than you would otherwise, but if in the medium term, it actually ends up being a big liability and causes more problems for people down the line, that's not great. It's not good for your medium or longer term health as a store.

Gene Marks:
Got it. Got it. Okay. So, to recap, we're going in the holiday season. You're expecting it to be a pretty strong holiday season, but not as strong as it was in the past, mainly because the past was pretty out of control strong. You're expecting that consumers are most likely going to be tapping either credit card debt or their savings. Neither of them are great options, but yeah, the power of the consumer, particularly in this country, really, it doesn't end. Let's pivot a little bit and talk a little bit about next year, particularly early 2023. So, all of my clients, a lot of my readers, everybody's wondering whether or not we're heading into a recession. Are we already in a recession? This is what you cover, so Matt, what do you see?

Matt Egan:
Well, I think what's safe to say is that the economy faces an elevated risk of a recession.

Gene Marks:
Spoken like a true economist.

Matt Egan:
Yeah. And so what does that mean? It means that it's a challenging time for the economy and I think recession is a scary word. I think sometimes people automatically flash back to 2008 and I think it's important to remember that not all recessions are created equally. There are those historic recessions, like The Great Recession that began in late 2007. Then there's the COVID recession in 2020, which was just a complete collapse, but also this rapid rebound. But then there's also more mild recessions and what's interesting is that some economists are saying, "Listen, we think there's going to be a recession, but it's not going to be a deep, deep recession where unemployment goes skyrocketing above 10%." Fitch Ratings, for example, they put out a forecast saying that they think there's going to be a 1990s style recession, which is basically a mild recession and there's some interesting parallels, because the 1990 recession was caused in large part by the Federal Reserve trying to squash inflation and also by rising energy prices and so there are some parallels between then and now.

Matt Egan:
But I do think we need to take some of these forecasts with a grain of salt, because first of all, not everyone is calling for a recession. Goldman Sachs thinks there's only a one in three chance of a recession, so that means the odds are favoring no recession in the next year, in their perspective, but no one really knows how this is going to play out. There are no playbooks for this. There's no model for "What happens to an economy three years after a once in a century pandemic, after an inflation crisis with the most aggressive Fed we've seen it a long time and also in the middle of a war in Ukraine." No one really knows how this is going to play out.

Gene Marks:
And what's really weird about the conversation about recession now, you're right, coming off a pandemic, historic supply chain issues, which no economist had any idea how to deal with that. And then also, we're in a recession where we've got almost historic-low levels of unemployment and yet we're showing growth. We've got an industry, like the tech industry, that's laying off tens of thousands of workers and Matt, every one of my clients, I think a lot of people that are Paychex customers, people that are listening to this, they're looking for employees. You hear small businesses are desperate for employees. Just a weird time to report on a recession.

Matt Egan:
It is really weird. Also, let's not forget the last recession began less than three years ago, so the fact that we're even debating this is very unusual. The last two economic expansions lasted about a decade each, so if this one only lasted three years, that would be very unusual and upsetting, because in a recession, you would be talking about millions of people losing their jobs and also countless small businesses going under, foreclosures. Now, thankfully, we're really not seeing almost any of that with one exception, and you mentioned it, that being the tech sector, so we have seen a lot of layoffs in the tech sector. Through the first half of November alone, around 30,000 job cuts were announced. That's according to outplacement firm, Challenger, Gray & Christmas and for some context that is more than twice the amount what was announced by the tech sector all year, coming into November.

Matt Egan:
So, we are seeing that Amazon and Meta, Lyft, a bunch of different companies, Roku, announcing job cuts, but I do think it's important to put all that in context. These companies, they hired really aggressively. They arguably have a little bit more room to cut when it comes to slimming down. They've also seen their stock prices really get crushed, in part because of higher interest rates, so they're responding to that and history shows that tech layoffs are not really a great indicator for layoffs, economy-wide. Tech companies could cut jobs and the rest of the economy could keep going. So, I think the one concern though would be, Gene, if you end up having a lot of business owners look and say, "Well, I respect Amazon and I respect Facebook and they're cutting jobs, so I guess I should be too." Because then it becomes a cascading effect.

Gene Marks:
Yeah. It could be more of expectations. It's funny, again, when I look at my clients and they look at HireMe right now, obviously everybody's desperate. There's almost 11 million unfilled jobs. One of the silver linings in all of this is that these tech companies are laying off people, good people, talented people, that just they overhired. Could be an opportunity for a lot of smaller companies to grab up some talent if they've got the wherewithal to pay for them. You know what I mean? So that is a silver lining.

Matt Egan:
Absolutely. And that could be one reason why initial jobless claims, which are a proxy for firing, they remain historically low.

Gene Marks:
Oh. I know.

Matt Egan:
And it could be that even though a lot of tech companies are laying off workers, those workers, in many cases, are able to quickly find a job elsewhere, because there is this war for talent out there. And I talked to the CEO of Carrier, the manufacturing company, and he said, "Listen, it has become noticeably easier to retain and attract talent recently, but it is still a historically tight jobs market and there is still this battle out there for competition." So, everything is relative. The job market could slow down a lot and it could still be really strong.

Gene Marks:
Yeah. I agree. We talked about the tech industry and the challenges they were having. What thoughts do you have on the housing and construction as well? That's another industry that's really been struggling this year. I was in Oklahoma a couple weeks ago. I actually spoke at this event for Oklahoma realtors, which by the way, half the room was women that seemed like they were out of the TV show, "Selling Sunset," and the other half of the room was guys in cowboy hats. It was a really interesting crowd and they were hurting this year. Your real estate market, in a lot of parts of the country, they've been struggling. But, funnily enough, more than a few of them were like, "We had a great year in 2020 in 2021, so we think we can weather it." But I'm curious to hear what your thoughts are on housing and construction and what you're reporting on.

Matt Egan:
Well, COVID set off this just epic housing boom.

Gene Marks:
I know.

Matt Egan:
You have to think about the environment. We're talking about, in some cases, 20% year-over-year price gains, all-cash offers, intense bidding wars. Some people are buying homes without ever setting foot in them. So, none of that really is normal, nor none of it is that sustainable and all of it was, at least in part, enabled by the easy money from the Federal Reserve. The fact that you could borrow for 30 years at 3% or even less was pretty amazing. That was really helping to drive demand, helping to support demand, and helping to support these price gains. So what's changed, of course, is that you can no longer borrow for 30 years at 3% or less. Mortgage rates have gone up. They've more than doubled. Hit around 7% recently and that's just a huge deal.

Matt Egan:
The higher they go, the less home people can afford and so, it does seem like things are slowing down pretty dramatically, because you can no longer afford that same house. It changes the calculations wildly. People would be paying hundreds of dollars more per month, but at the same time, the supply of homes out there is not all that strong. We're still dealing with a shortage of housing and there is still a lot of pent up demand for homes. The question is at what price? And so, it's easy to see how we could see home prices continue to decelerate. In some cases, actually go down month-over-month, but whether or not that goes into something much deeper seems kind of unlikely, because of the fact that there is just not that much a supply of homes out there, which is really different from the mid-2000s when there was just way too much homes.

Gene Marks:
You're absolutely right. Yeah. I read today that somebody buying a home today with mortgage rates as they were, the same buyer would pay the same mortgage for a house that was provided around 400,000

versus the houses provided at 600,000. That makes a huge impact and rates are only going to go up. As far as we know, the Fed Reserve is still planning on more interest rate increases.

Matt Egan:
Right. That's right. The Fed is expected to continue to raise interest rates. The market is betting another 50 basis points at the December meeting, but that this would actually be a slowdown, because they were raising interest rates four times in a row at 75 basis points. We haven't seen anything like that since the early 80s, but markets are anticipating that the Fed is going to keep raising interest rates at least another one or two times early next year and so that should support mortgage rates. Although, I think at some point, the market's going to start to price in the end of this interest rate hiking cycle, or at least the pause. If the economy's not doing well, then markets may actually have to start pricing in rate cuts. So, I don't know. No one really can say for sure how much higher mortgage rates are going to go, but it's hard to see them coming down to the very low levels that people enjoyed in 2020 and 2021 anytime soon.

Gene Marks:
See, that's why I love talking to you about this, because if I talk to a specific economist, the economist is going to be giving you his model and what he expects and what his calculations are. Whereas when I speak to yourself, because you're a journalist, you're talking to many economists, so you're basically reporting on what you're seeing out there and I just think it gives our audience just a different view and a more diverse view as to what they should expect. Yes. Okay. So we only have a few minutes left and I did want to get your thoughts, just a couple other quick issues.

Gene Marks:
Let's talk a little bit about inflation. Inflation itself has been trending down. Both the CPI and the producer price index came in a little bit lower over the past couple of months, which is great news. I have to tell you, Matt, when I talk to my clients in various industries, that they're looking at the PPI and wholesale prices, they see that right now, it's running at an annualized rate around 8%. I think it's like 7.7, 7.8%, something like that, but man, when I talk to them, they're like, "The PPI might say this, but the core materials for my business, the cost of plywood, the cost of steel, the cost of natural gas, the cost of freight and transportation, way more than that 8%." And I was just curious what your thoughts are where you see inflation going in 2023 and the people that you're talking to, what they're telling you.

Matt Egan:
Well, I think you're hitting on a great point, because it really is all relative, so inflation might be slowing down, which is a relief, because it can't get better until it stops getting worse, but at the same time, inflation rates are just so much hotter than what would be considered healthy right now. In fact, at any other point in the last 20, 30, 40 years, this would be the high. It's only because the last 12 months have been so bad, that this is a cool down. And a lot of it also depends on who you're talking to, what businesses, because for example, the PPI report showed that passenger vehicle prices have come down sharply. It was the biggest decline in prices in years, which is a relief, because those prices were just painfully high. All the supply chain issues, computer chip shortage.

Matt Egan:
But then at the same time, we're seeing food prices continue to go up very sharply. Thanksgiving meal prices are very high, historically high, and so a lot of it really does depend and there's going to be winners and losers. There's going to be some businesses that are experiencing pricing pressure relief for their input cost and I think that that will be this big tailwind for those companies and then others may not really be seeing any relief anytime soon. So, I think that there is some frustration there, because even if inflation gets cut in half from the peak, it's still going to be painfully high for consumers and for businesses. And I think

there's a bit of a race against time when it comes to inflation and when it comes down, because the Fed is going to have to keep raising interest rates, until they have confidence that inflation is going to be going back towards healthy levels.

Matt Egan:
And so, if in the next few months, inflation proves to be hotter than expected, it's more stubborn than people anticipated. First of all, that would be a repeat of the last 12 months, because we're getting hotter and it's more stuff than expected. But secondly, it would force the Fed to say that they're going to keep raising interest rates, or at least that's what the Fed would likely do and so that's where you get this recession concern, because at some point, they're going to end up slamming the breaks on the economy so hard that consumers are going to have to actually cut spending and that's where you get the downturn.

Gene Marks:
Yeah. Again, I've seen this past year has been a little odd, because a lot of businesses during COVID were crushed. We know that restaurants, retail, travel, I don't know if you were reporting on the same thing, but I had a lot of clients that did just great during 2020 and 2021. A lot of B2B businesses, home contract. You and I should have been in the pool repair business. We would've been millionaires by now. So, there were a lot of different people that did fine. Even in this year of higher inflation, this 8% on average inflation, a lot of my clients were stepping up and raising compensation for their employees.

Gene Marks:
They were keeping up with it. They were able to absorb it, but like you just said, if this continues on, I don't know how much more businesses can absorb and another year of 8 to 10% inflation would be a big problem for a lot of companies and they would really have to start contracting and getting rid of people and I think that's just a really important thing to keep in mind. So, that brings me into just really my last question, Matt. It's just as we're going into 2023, I'm curious to hear what kinds of stories do you think you'll be reporting on, business stories, particularly about small businesses, that you think will be the news that will be in 2023? What do you expect to happen, without a crystal ball, of course?

Matt Egan:
Well, I think that it's going to end up being a lot of these same themes. What happens to energy prices, for example? Because that's obviously been a pain point talking about diesel.

Gene Marks:
Yeah. We barely talked about that. You're absolutely right.

Matt Egan:
Gasoline prices, natural gas, and I think there's a lot of uncertainty there, but what's going to happen next? OPEC has gone from cutting production to raising production and vice versa and the war in Ukraine, we don't know how that's going to play out. The G7 is imposing new restrictions on Russian oil. Europe is trying to impose a ban on most Russian energies, so there's just a lot of uncertainty and we don't really know, is that going to end up being one of the reasons why inflation doesn't come back down towards healthy levels, or is that actually going to be a huge positive and is that the reason why the Fed is able to pause on interest rate increases, because energy prices do calm down? And I think the same thing with food, that food has been another really big pain point. People are feeling that at the grocery store, the restaurants. Restaurants have this huge increase when it comes to input costs for food.

Matt Egan:
At some point, you would hope that that starts to ease and hopefully, that is a tailwind for some of the businesses and families out there. But again, if it's not, I think that's where you get into some more concerning scenarios for next year. But listen, I think that the economy has dealt with a lot of negative

shocks in the last two and a half years. No one really saw COVID coming until it came and then when it did, it was still way worse than people anticipated. A lot of people didn't see a war in Europe to the extent that that has happened, until it basically was happening. People did not think the Fed was ever going to be moving as aggressively. People thought the Fed would be stuck at near zero forever. So there's been all these negative shocks. Maybe we're finally due for a positive shock. Maybe some of the recession doom and gloom will prove to be way too negative and perhaps this economy can just keep chugging along.

Gene Marks:
Are you sure you're a journalist? This is our glass is half full attitude here. You're supposed to be selling based on bad news all the time, but you sound like you have a more positive outlook for 2023 than maybe in years past. I hope that's what I'm taking away.

Matt Egan:
I think so. I just think that sometimes the conventional wisdom is the pendulum swings too much in one direction or the other. Early this year, we were reporting on how some economists were out there starting to warn about a recession in 2023 or 2024 and at the time, people were really, really positive on this economy and people thought that it would just keep going and I think it's become much more common now to be worried about a recession and I think that there is a risk of making it seem inevitable, when in fact, it's not inevitable and there is still a path.

Matt Egan:
According to the Fed, according to a lot of the Wall Street economists, there's still a path to get a soft landing, where they get inflation under control without causing a recession. The path has gotten narrower than it was. It's probably uncomfortably narrow, but it could still happen and for now, the economy is still adding jobs. The unemployment rate is still low. Jobless claims are still low, despite these layoffs in the tech sector and inflation is cooling off, so it's going to be a pretty consequential year, I think 2023, for the economy, one way or another.

Gene Marks:
Matt Egan is an award-winning journalist and reporter. Covers business, the economy, financial markets for CNN. Matt, thank you very much for joining. Your insights are great. I know our listeners and our viewers really take a lot of your opinions and where you see the world going into consideration, as they're trying to figure out where to spend their money and invest and hire, so it's just your insights are really valuable, so thank you very much.

Matt Egan:
Thank you, Gene. Thanks for all the great questions.

Gene Marks:
Do you have a topic or a guest that you would like to hear on THRIVE? Please let us know. Visit payx.me/thrivetopics and send us your ideas or matters of interest. Also, if your business is looking to simplify your HR, payroll benefits, or insurance services, see how Paychex can help. Visit the resource hub at paychex.com/worx. That's W-O-R-X. Paychex can help manage those complexities while you focus on all the ways you want your business to thrive. I'm your host, Gene Marks, and thanks for joining us. Till next time, take care.

Speaker 2:
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