Your quarterly download on the economy and what it means for your clients. Brought to you by Gusto's team of economists.

Watch this quarter's webinar

Headline

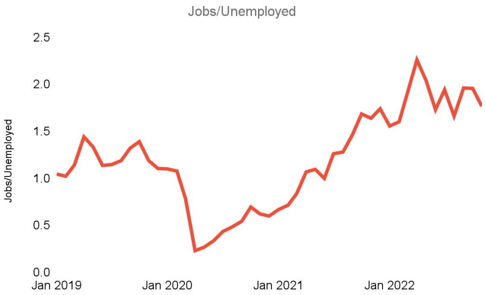
The prospect of a "soft landing" has revived in the last quarter, but a mild recession is still possible, too. Expect a continued **tight talent market, but off last year's highs. Slower hiring and stabilizing pay is good news for businesses, who can re-focus on fully integrating last year's hires into the company.** The financing environment will get harder with **rising interest rates**. Business can respond to this by increasing their cash reserves.

Trends to Watch

Tight Labor Markets. *It's still hard...*
The talent market is showing minimal signs of a slowdown, with jobless claims near record lows and 1.7 jobs per unemployed person. At the same time, companies are only filling vacancies, not hiring to grow, and job openings are dropping of last year's highs. If this pullback continues, businesses should see some easier hiring in a few months.

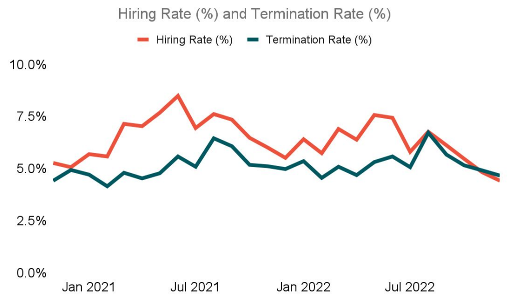
Metrics to Watch

Jobs-per-unemployed = difficulty hiring



Source: St. Louis Federal Reserve (FRED)

Look for decreasing quits and/or increasing layoffs to ease hiring

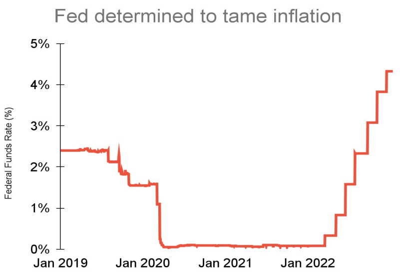


Source: Gusto Interactive Data Tracker

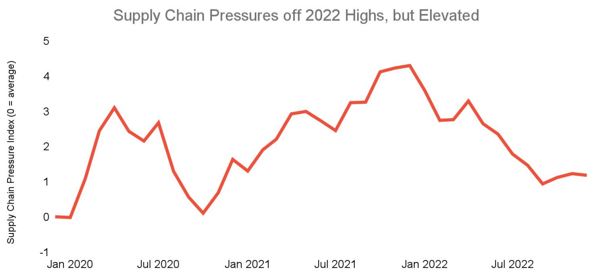
Consumer Spending, Inflation and Interest
Inflation-adjusted consumer spending remained mostly stable QOQ, but spending on discretionary retail purchases dropped in November and December, suggesting weakening demand. We expect spending declines to be gradual into 2023. Important progress on inflation was made last quarter, but we expect the Fed to keep the interest rate high, making the financing environment difficult. Companies can respond to this by building reserves and delaying large investments.

Interest rates will make financing tough, but help ease prices over time. Supply chain improvements should reduce input prices.

Metrics to Watch



Source: St. Louis Federal Reserve (FRED)



Source: New York Federal Reserve

So what? Strategies for SMBs

- Double-down on retention. Consider high-value, low-cost benefits to keep workers & manage costs.
- Seek contractors and non-traditional workers to take on tasks for outstanding jobs.
- Build working capital reserves. Get available tax credits, grants or government support to ease cash flow.
- Consider delaying large investments for at least 6 months, if possible, to wait for better financing conditions.

Have feedback? Email us at the-economy-explained@gusto.com