

Business Insights

Ongoing Inflation and High Interest Rates






FIVE WAYS FOR BUSINESSES TO COPE

Although the crisis of the COVID-19 pandemic is squarely in the rear-view mirror, it cast a long shadow of economic ramifications that continue to challenge businesses today. The Federal Reserve's aggressive interest rate hikes through 2022 and 2023 succeeded in taming runaway inflation, but rates have remained elevated longer than most expected, and record-high costs for goods and services show no signs of shrinking.

This distressing mix of high prices and high interest rates is an ongoing concern for consumers and businesses alike. And, this year, a particularly contentious presidential election only exacerbates the uncertainty about economic policy going forward. While some business owners may be tempted to simply ride out the storm, doing nothing is rarely a strategy for success. With strategic planning and a focus on flexibility, companies can safely navigate the current economic climate and prepare for whatever challenges come next.



Here are five things business owners and executives should consider as they adapt to this environment:

-  **1. Keep an eye on consumer behavior.** The U.S. economy is largely consumer-led, meaning the spending habits of the American people exert great gravitational pull on the economic tides. Their influence creates ripple effects that impact nearly every type of business, consumer-facing and B2B. Understanding this relationship can help companies better forecast their own revenues and make informed business decisions.
-  **2. Turn to your customers for input.** Every business would like to know what their customers are thinking, and sometimes it's simply a matter of asking. In times of change, gathering customer input — whether through formal surveys or casual conversations — can reveal invaluable insights about their state of mind, future plans and what they're hearing from their customers.
-  **3. Prioritize flexibility and resilience.** As economic uncertainty threatens to disrupt business as usual, companies need to put themselves in a position to scale up or down as demand shifts, or even pivot to a whole new business model. Improving the company's working capital position should be the priority, ensuring the business has the cash it needs to make swift adjustments if necessary. Inflation-based price increases enacted over the past 18 months should be re-evaluated, leaving open
-  **4. Balance fixed and floating debt.** It remains to be seen when the Fed will finally lower interest rates again, so businesses shouldn't necessarily let a high-rate environment stop them from financing growth plans. But there is always the risk that committing to a substantial fixed-rate loan could prove regrettable if the Fed cuts rates soon after. Businesses should note that as the Fed cuts interest rates, all parts of the yield curve may be impacted differently. Each business should carefully consider their own risk tolerance and structure their mix of fixed and floating rate debt so that they can achieve their goals no matter how the Fed moves forward with interest rates.
-  **5. Hope for the best; plan for the worst.** Optimism is a powerful force in business, but it's important to temper great expectations with a dose of caution. Taking decisive actions now, such as streamlining operations, cutting unnecessary expenses and forgoing new commitments with rigid restrictions can put businesses in the best position to ride out an economic storm.

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