SMALL BUSINESS INSIGHTS

Blog

Latest economic trends for small businesses

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At the start of the year we looked at the main global macroeconomic trends small business owners need to keep an eye on this year - inflation, economic growth and finding/retaining staff. Four months into 2023, we revisit how these trends are tracking.

The macroeconomy has largely performed as expected since the start of 2023. The world economy is facing some considerable challenges, but on a more positive note the outlook has not become worse. Inflation is coming down and central banks appear to be nearing the end of their tightening cycle. GDP growth is slowing broadly in line with expectations of little or no growth, especially in advanced economies. Labour markets appear to be loosening a little in response to slowing growth but there are no signs of sharp increases in unemployment. The main negative development since the start of the year has been a new risk emerging in the form of banking sector instability, especially in the United States.

Inflation broadly continuing to show improvement …

In late 2022 evidence started to emerge that inflation may have peaked in some countries. This trend has continued in 2023. The monthly March 2023 inflation readings were all lower than in December 2022 - Australia (6.3% y/y), Canada (4.3% y/y), New Zealand (6.7% y/y - quarterly), Singapore (5.5% y/y), South Africa (7.1% y/y), the United Kingdom (8.9% y/y) and the United States (5.0% y/y). Despite the improvement these rates are still high by historical standards and some prices, such as for services, are not easing as quickly as these headline numbers are. Inflation in South Africa has also picked up again in the last two months from 6.9% y/y in January 2023.

… leading some central banks to press pause

This improving inflation trend has seen two central banks leave official interest rates on hold at their most recent meetings - Australia and Canada. Singapore uses a target exchange rate rather than interest rates to set monetary policy and in its April Statement said that it was leaving its exchange rate target settings unchanged. Another group of central banks raised rates by smaller amounts than they were in late 2022 at their most recent meetings - New Zealand, United Kingdom and United States - suggesting that they could be approaching the end of their rate rise cycle. Only South Africa has seen a larger rise (50bp to 7.75%) at its most recent meeting in March, compared to the previous decision of a 25bp increase.

IMF's outlook little changed with little growth expected in 2023

In April the IMF released its latest forecasts for the global economy. The organisation is projecting GDP growth in advanced economies of only 1.3% in 2023 and 1.4% in 2024, after 2.7% growth in 2022. The 2023 forecast is marginally stronger than was published in January 2023 (1.2%) and October 2022 (1.1%). This means that while the advanced economy growth outlook is very weak, on a positive note it has not become substantially worse. The IMF did, however, warn that the risks are still balanced to the downside.

The country GDP growth data showed some variations (see table 1). Australia, New Zealand, Singapore and South Africa have all seen their 2023 growth forecasts reduced. Meanwhile, Canada had no change and the United Kingdom and the United States have both seen an improvement in their forecasts.

Table 1: IMF GDP forecasts, y/y% growth (compared to previous forecast)		
	2023	2024
Australia	1.6 (-0.3)	1.7 (n.a)
Canada	1.5 (no change)	1.5 (no change)
New Zealand	1.1 (-0.8)	0.8 (n.a)
Singapore	1.5 (-0.8)	2.1 (n.a)
South Africa	0.1 (-1.1)	1.8 (+0.5)
United Kingdom	-0.3 (+0.3)	1.0 (+0.1)
United States	1.6 (+0.2)	1.1 (+0.1)
Note: Canada, United States, United Kingdom and South Africa are compared to Jan 2023 forecasts. Australia, New Zealand and Singapore are compared to Oct 2022 forecasts.		

Labour markets remain tight

The slowdown in economic growth has not yet resulted in a rise in unemployment and most forecasters continue to expect a milder impact on labour markets than usually happens during growth slowdowns or recessions. The unemployment rate is still below 4% in five of the seven countries, expect Canada (5.0%) and South Africa (32.7%).

But a new banking sector risk has emerged

Unfortunately a new risk has emerged. In March two banks in the United States collapsed and a major European bank, Credit Suisse, needed to be bought by another institution. This instability undermined confidence in the global banking sector and sparked concerns about a broader financial crisis. To date the issue has been largely contained and regulators in all countries are working together to prevent these events triggering something more serious. Nevertheless, small business owners, especially those in the United States, should be aware of the heightened credit risk these bank failures have created.

What does this all mean for small businesses?

The next 12 to 18 months will continue to be challenging for small business owners and, as outlined by the IMF, the risks remain on the downside rather than the upside. The latest issues in the banking sector, while localised at this stage, are also a reminder that things can change quickly.

Importantly, small business owners aren't powerless in this environment. There are active steps that can help a business not only survive but be well positioned when conditions improve. These include:

- Continue to understand what is happening to costs to make sure the business stays profitable.
- Use the competitive advantage of being close to customers to adjust product and services offerings. This might include cutting less profitable lines, offering loyalty bonuses and thinking about new products and services that increasingly budget-conscious customers may prefer.
- Prepare a 1-2 year business plan that allows the business to adjust to potentially slower growth.
- Use this possibly quieter period to work on processes and investigate ways to make better use of technology to automate as much as possible.
- Identify key staff and work out how to retain them so the business is well placed when activity picks up again, including in non-wage ways such as offering extra leave entitlements or bonuses.
- Work with trusted advisors to understand financial risks in the business, including potential banking or credit risks.