# Beyond the Trends

Understanding the Commercial Economy

Fall 2024

## About this report

Beyond the Trends is a quarterly report written by Experian Business Information Services. The report offers a unique view of the small business economy based on what we see in the data. With up to date information on over 33 million active businesses and how they perform from a credit standpoint. Experian will share insights and commentary on how economic conditions, public policy, and other factors might shape future small business performance.

# Cooler weather brings a cooler economy

**As the U.S. economy cools, small businesses prepare for the holidays and the stress of wrapping up another year.** The U.S. consumer has exceeded market expectations by spending beyond savings and looking at leverage to continue the behavior. Costs for core expenses continue to rise and notably impact spending capacity. Emerging consumers, GenZ, are leveraging at a higher rate than prior generations to the detriment of their credit health. This spending trend is cooling as consumer sentiment has been slowing coming into a U.S. election cycle where uncertainty is on the ticket. Small businesses will enter the holiday season with inventories building in anticipation of positive growth to close the year. Credit markets are open, supporting consumers and the businesses they frequent, with looser credit criteria as the market feels poised for a soft landing, a holiday gift.

## U.S. basking in a hot small business economy

Small businesses are crucial for holiday retail sales, fostering local economies and offering unique products that cater to niche markets. They account for 44% of U.S. economic activity and employ nearly half the U.S. workforce. During the holiday season, small retailers often generate 20-30% of their annual revenue, and according to a survey by the National Retail Federation, 75% of consumers plan to shop at small businesses during the holidays, highlighting their significant impact on holiday spending.

## Retail looking for relief

As retailers prepare for the 2024 holiday season, they are fine-tuning strategies to manage inventory efficiently amid evolving consumer demand and supply chain uncertainties. Large retailers like Walmart and Target are leaning into advanced data analytics to optimize stock levels, avoiding the costly overstock situations of previous years. Walmart, for instance, increased investment in real-time inventory tracking technology in 2023, allowing for more agile adjustments to in-store and online stock based on regional consumer demand trends. In 2024 there will be less focus on point promotions, and added focus to getting low cost items in customer's hands earlier in the season. Target focuses on smaller, more frequent orders with suppliers to better navigate supply chain volatility while enhancing their in-store pickup and delivery services to keep fulfillment fluid. Across the board, these companies diversify suppliers and prepare contingency plans for potential disruptions. With a volatile economic landscape and increasing pressure from e-commerce competitors, retailers prioritize flexible and responsive inventory systems to close 2024 in a strong position.

Retailers have refined customer engagement strategies over the last 24 months to cater to shifting consumer expectations. For the 2024 holiday season, retailers will focus on personalized experiences and blending physical with digital interactions. Established retailers face increasing competition, from online marketplaces, are strengthening customer service offerings by expanding virtual consultations and live chat options with Ai assistants, allowing customers to get real-time advice for holiday purchases. This focus on personalized, expert-driven engagement responds to a growing demand for convenience and tailored service.

Department store retail adapted by deepening its omnichannel approach, integrating online and offline shopping more seamlessly. For example, expanding local hubs which provide services like in-store pickups, returns, and personalized styling appointments without holding inventory. This enables them to focus on customer interaction rather than just transactions, fostering a more engaged and loyal customer base in a satellite strategy.

Retailers increasingly focus on sustainability and social engagement as part of their customer outreach. Brands like Patagonia promote eco-friendly holiday shopping by emphasizing their repair and resale programs, appealing to the growing segment of environmentally conscious consumers.

These strategies reflect a clear pivot toward personalization, convenience, and value-driven engagement as retailers close out 2024.

**Small businesses remain a cornerstone of the U.S. economy**, contributing significantly to job creation and economic activity. According to the latest data from the Small Business Administration (SBA), there are approximately 33.5 million small businesses in the United States, constituting 99.9% of all U.S. businesses. These small enterprises create two-thirds of all new jobs and contribute 45% to the U.S. economic output.

Small businesses are the backbone of local communities, fostering economic growth and creating opportunities for emerging entrepreneurs, including immigrant populations. According to the U.S. Small Business Administration, small businesses create 62% of net new jobs in the U.S., providing vital employment opportunities in local areas. Additionally, immigrant entrepreneurs own over 25% of small businesses, significantly contributing to economic diversity and innovation. Small businesses also reinvest more of their revenue locally; for every $100 spent at a small business, approximately $68 stays in the community, compared to $43 when shopping at larger retailers. This reinvestment strengthens local economies and supports community services, further amplifying their impact.

Sources: SBA Economic Impact of Small Businesses, American Immigration Council: Immigrant Entrepreneurs, Small Business Economic Impact Study

**Global challenges to small business health**

The global macroeconomic environment is characterized by sluggish growth, rising geopolitical tensions, and persistent supply chain disruptions. These factors directly impact small businesses in the U.S., particularly as they plan for 2025.

- **Global GDP growth**: The World Bank's forecast for growth in 2024 is just 2.6%, marking one of the slowest paces since the financial crisis. This cool growth environment dampens demand for U.S. exports and intensifies competition in sectors like manufacturing and retail.
- **Supply chain disruptions**: According to the Federal Reserve, over 30% of small businesses report significant supply chain challenges, primarily due to the ongoing war in Ukraine and heightened tensions in the South China Sea. Critical sectors like electronics and consumer goods struggle to secure components, delaying production and inflating costs. Ongoing challenges with global logistics, coupled with geopolitical tensions, have necessitated the diversification of supply chains.
- **Rising input costs**: Inflation in core inputs, such as energy and raw materials, remains high, with energy costs up 12% year-over-year globally. This puts a strain on small manufacturers and service providers who rely on steady supplies to maintain margins.

These data points play into resiliency and macroeconomic strength conditions, which are weighed as part of the Federal Reserve's velocity of activities needed to stabilize the U.S. economy and maintain positive employment.

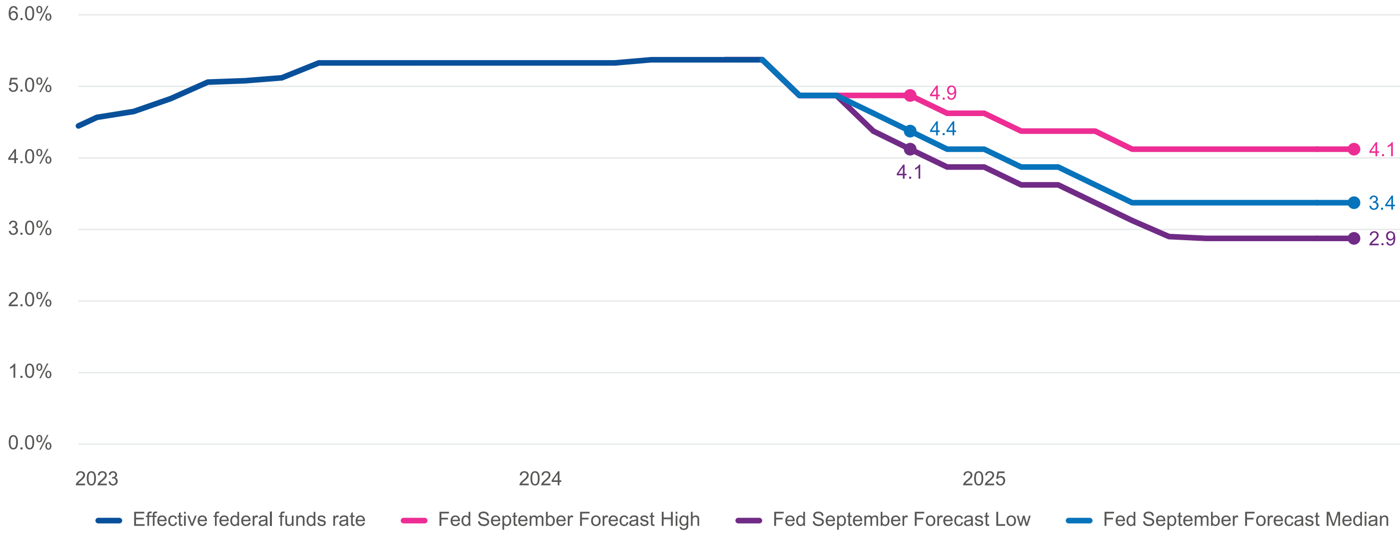
**Supply chain disruptions to the retail industry**

Due to global supply chain disruptions, U.S. small businesses need help obtaining essential commodities and products. Industrial strikes at major French and German ports over the summer have reduced cargo throughput by $6 billion in lost trade, creating small business inventory and supply delays. Many small U.S. businesses, particularly those reliant on imported goods such as electronics, clothing, and specialty items, are experiencing longer wait times and increased shipping costs. These delays could be preventing their ability to restock holiday inventory in real time, especially for high-demand items. Extreme weather conditions like torrential rains, drought, fire, etc... are further constraining global shipping routes. Low water levels, for example, in the Rhine River 2022-2023 reduced shipping capacity by 30%, limiting the flow of essential goods like chemicals, machinery, and other raw materials to U.S. markets. Small businesses scramble to find alternative, more costly transport solutions. These combined factors are expected to result in just 3-4% growth in U.S. holiday retail sales, compared to the 5% seen in previous years, as small businesses struggle to meet consumer demand amidst these challenges.

**Macroeconomic environment and small business resilience**

On September 18, 2024, the U.S. Federal Reserve implemented a fifty basis point cut, reducing the federal funds rate to 4.75%-5.00%, marking its first rate cut in four years, generating an effective federal funds rate of 4.83% as of the end of September. This rate is a key indicator influencing various economic factors, including auto, personal loan, credit card, mortgage, and small business lending rates.

## Federal Funds Rate and Forecast




Sources: Experian Economic Strategy Group, Federal Reserve Board of Governors

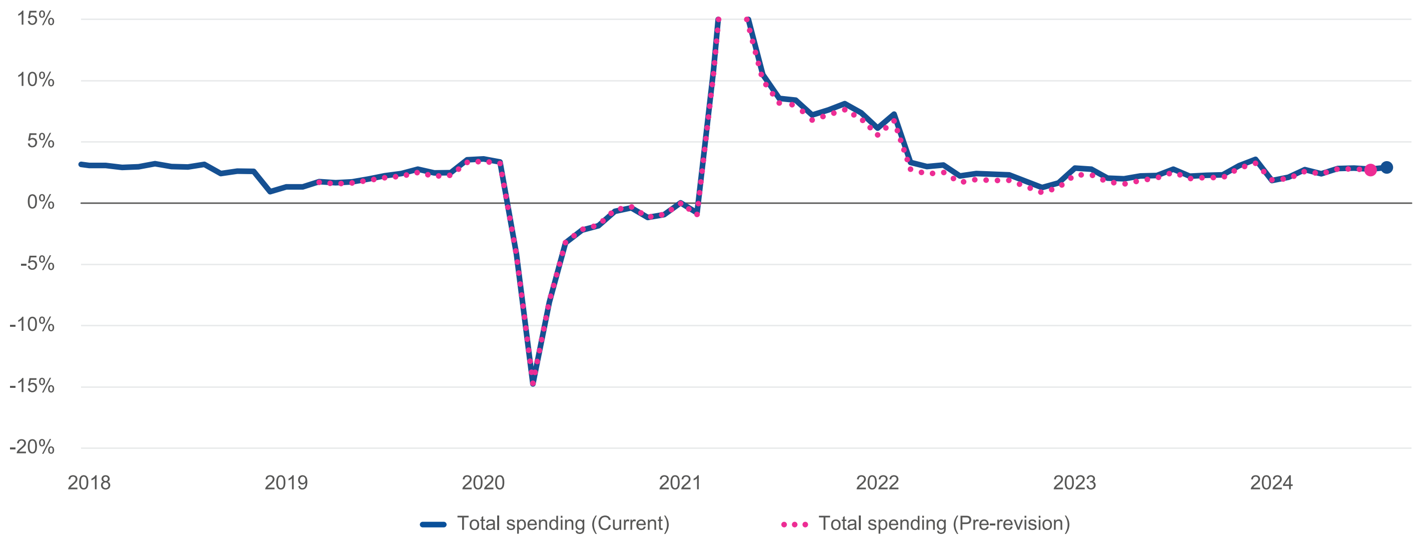
Several key macroeconomic indicators drove this decision. Inflation, which had surged to a peak of 9.1% in mid-2022, had since declined to 2.5% by August 2024, nearing the Fed's long-term target of 2%. The labor market showed signs of weakening, with the unemployment rate ticking up to 4.2%, prompting concerns about sustained employment levels. The Fed projected further softening in the labor market, with expectations for unemployment to reach 4.4% by the end of the year. The September job numbers are stronger than expected and may put a kink in the Federal Reserve rate cutting strategy and outlook for closing out 2024. GDP growth projections for the third quarter remained stable at around 3%, reflecting a more modest economic outlook.

**Unexpected market impacts**

Interestingly, the fifty basis point cut had some surprising effects. Mortgage rates dropped to an 18-month low of 6.2%, spurring a moderate wave of refinancing activity as homeowners rushed to take advantage of lower borrowing costs. Mortgage refinancing applications surged by 15% within a week of the cut as homeowners rushed to capitalize on lower interest rates. While large corporations benefited from reduced borrowing costs, small businesses faced mixed outcomes, as some lenders tightened their credit standards amid concerns over future economic stability.

Due to several key economic factors, the Federal Reserve is likely to reduce the Federal Funds Rate slowly and moderately over the next 24 months.

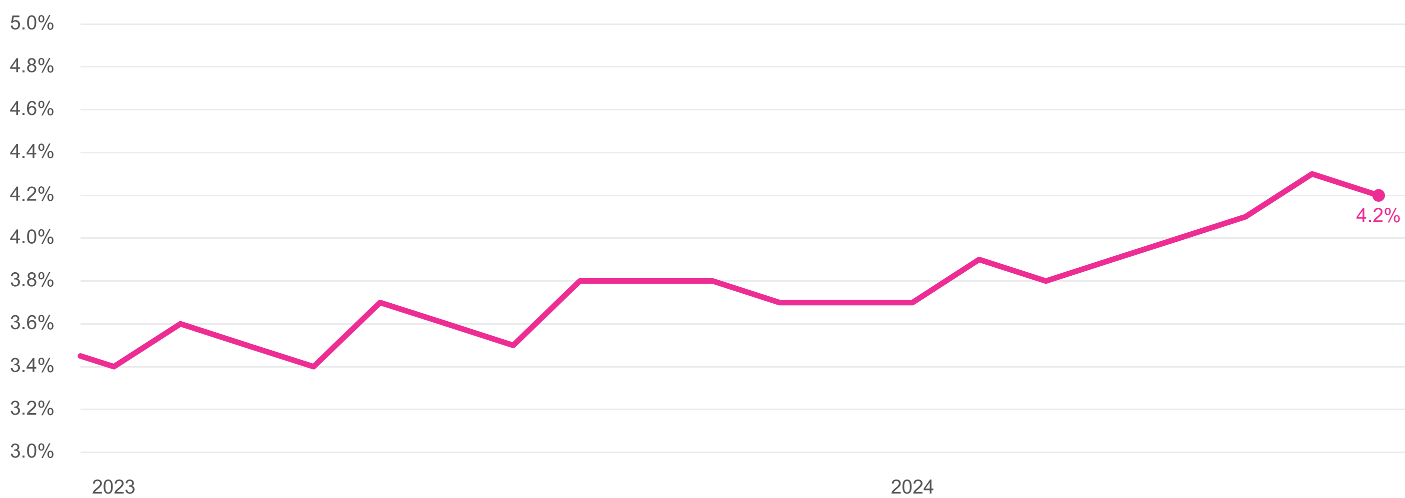
## Consumer spending




Sources: Bureau of Economic Analysis and Experian Economic Strategy Group

First, inflation is expected to decline gradually, with the Personal Consumption Expenditures (PCE) index forecasted to drop to 2.1% by 2025, aligning closely with the Fed's 2% target.

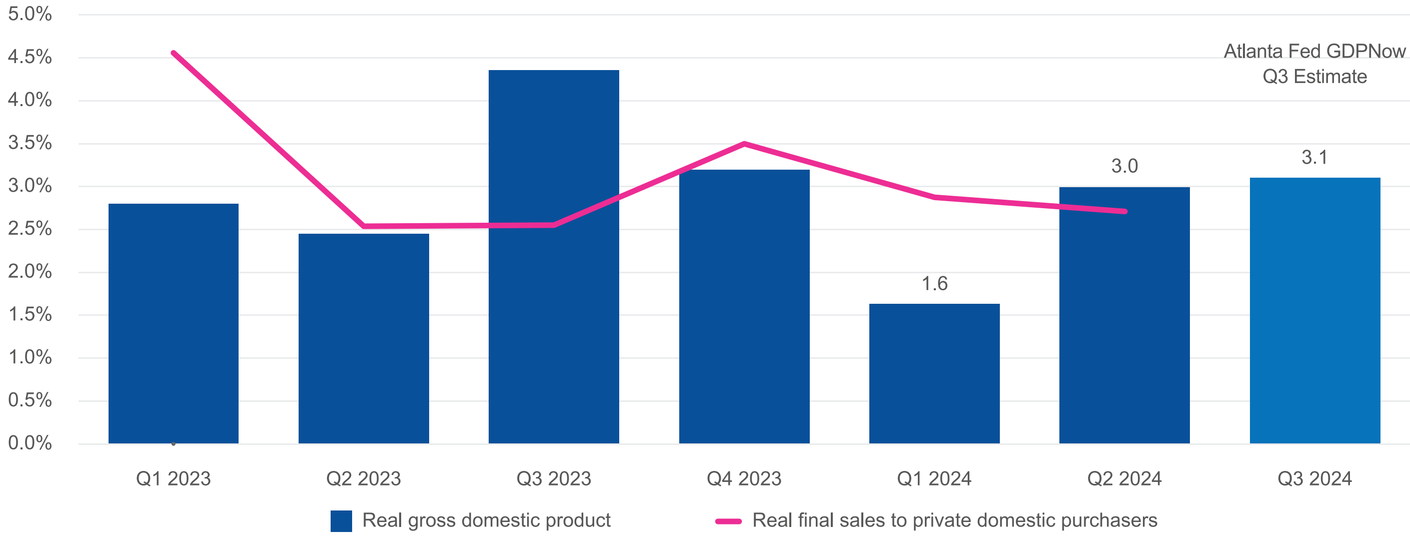
## Unemployment rate is rising




Source: U.S. Bureau of Labor Statistics

Second, unemployment is projected to rise modestly, reaching 4.4% by the end of 2024, suggesting a cautious approach to avoid significant disruptions in the labor market.

## U.S. GDP is cooling




Sources: Bureau of Economic Analysis, Atlanta Fed GDPNow estimate, Experian Economic Strategy Group

**Consumer spending**

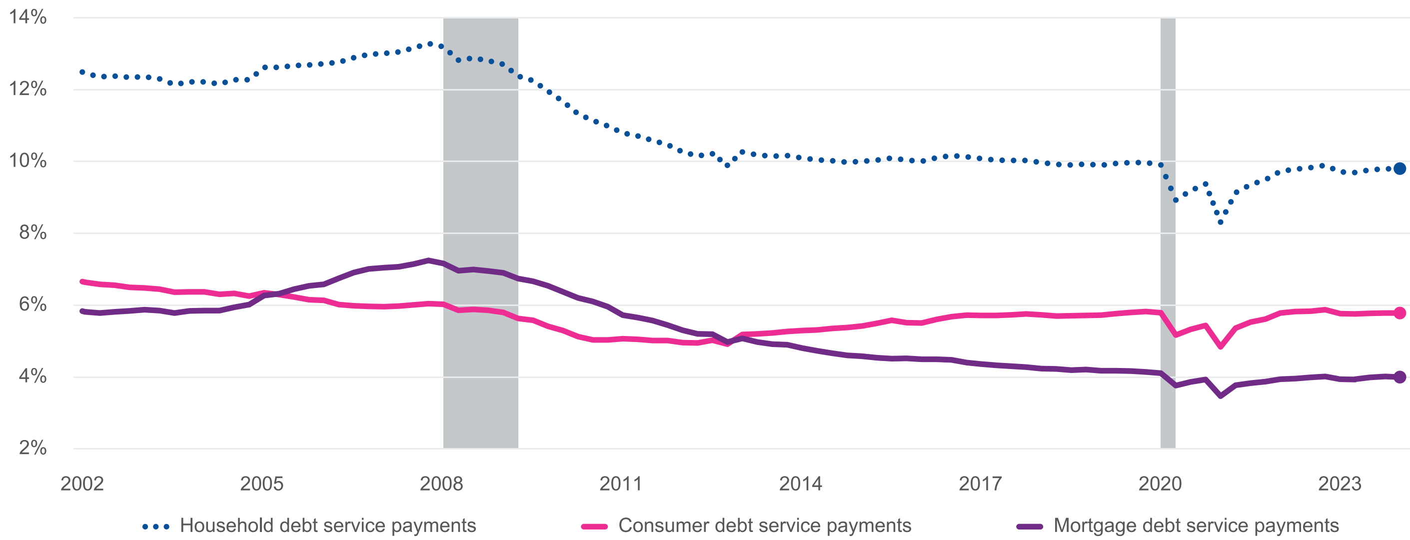
In 2024, U.S. consumer discretionary spending has been declining, with inflation and rising interest rates putting pressure on household budgets. By August, retail earnings reports revealed that large ticket items, such as home improvement projects, saw a 5.8% drop in transactions over $1,000, reflecting consumers' hesitancy to finance larger purchases. Inflation, while easing, remains a factor, with core costs like rent and auto insurance continuing to rise, leaving less disposable income for non-essential goods. Reports from retailers like Target and Home Depot highlighted the cautious nature of consumers. Target saw a 2% increase in same-store sales, but only after significant price reductions on essential goods. Discretionary spending categories like apparel only recently showed signs of recovery after a year-long decline (Lipper Alpha Insight). While there are signs of modest improvement in consumer sentiment, the high cost of living and tighter credit conditions weigh heavily on discretionary spending.

## Falling leaves, rising costs: Managing core expenses

As of August 2024, U.S. retail and food services sales reached $710.8 billion, representing a modest 0.1% increase from the previous month and a 2.1% rise compared to August 2023. Retail trade sales saw a 2% year-over-year growth, with non-store retailers showing the most robust performance, up 7.8%. Meanwhile, food services and drinking places experienced a 2.7% increase from August 2023, driven by a recovering demand for dining out. These figures underscore steady, albeit slow, consumer spending in physical and online retail spaces. Source: U.S. Census Bureau. U.S. consumers are grappling with rising core expenses, which are putting a significant strain on discretionary spending.

**Consumer debt service ratio**: The debt service ratio has climbed to 5.7%, surpassing pre-pandemic levels. This increase reflects higher payments on consumer loans like credit cards and auto loans, driven by elevated interest rates. As more income goes toward debt repayment, more is needed for holiday-related purchases.

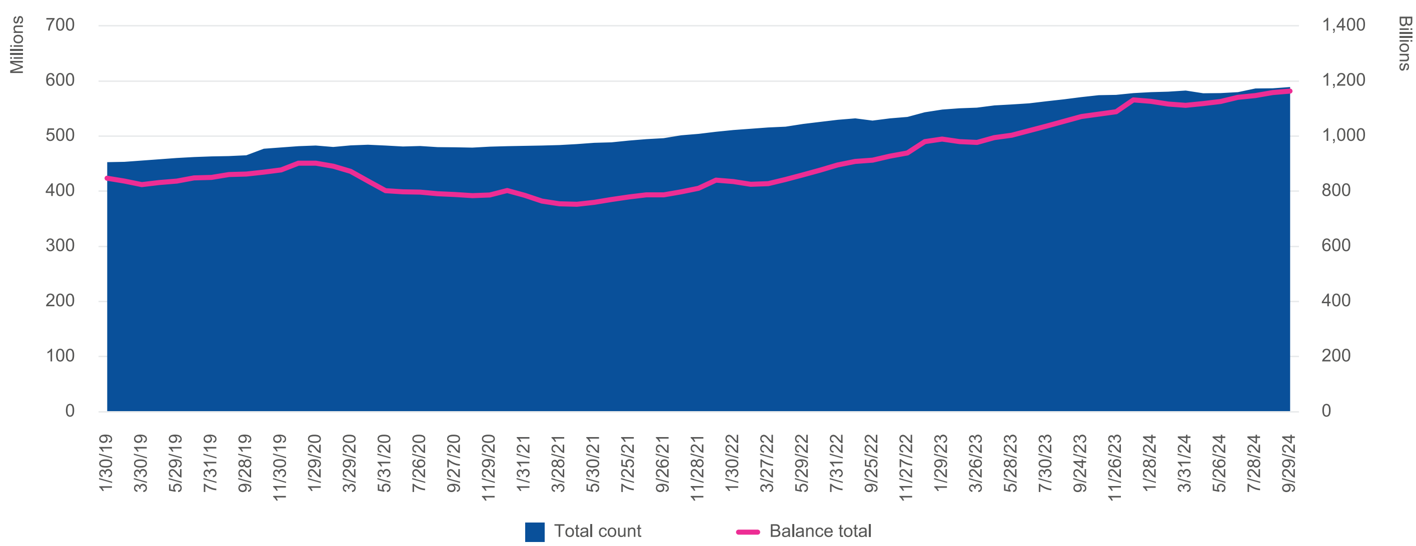
## Are consumers managing their debt obligations vs inflation?




Sources: U.S. Bureau of Labor Statistics, Bureau of Economic Analysis and Experian Economic Strategy Group

**Credit card balances**: Credit card balances have surged by 9% year-over-year, with more consumers relying on credit to manage rising living costs. While credit card utilization remains below pre-pandemic highs, tightening lending standards and high interest rates suggest limited borrowing capacity for many consumers heading into the holiday season.

## U.S. credit card balances

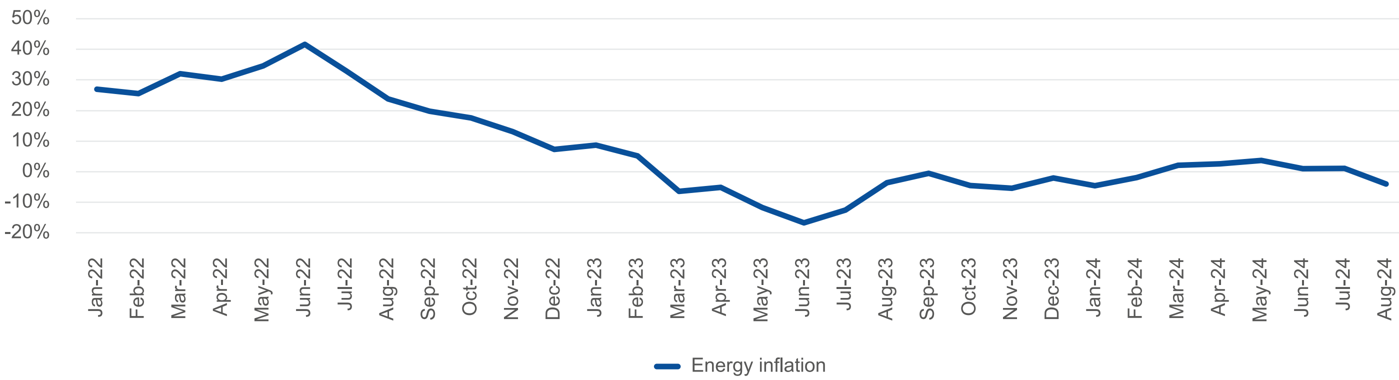



Source: Experian State of Credit

**Student loan repayment resumption**: The return of student loan payments, which impacts around twenty-seven million borrowers, is expected to divert up to $10 billion monthly from consumer spending. This additional financial burden will further restrict discretionary spending, limiting purchases during the critical holiday period.

**Energy costs**: Energy prices have been falling 4% year over year, driven by overcapacity in the global market. Global tensions around the world are already creating upward pressure on futures as we end 2024. Higher electricity and fuel costs directly impact household budgets, as essential utility bills and transportation expenses eat into funds that might otherwise be used for discretionary purchases.

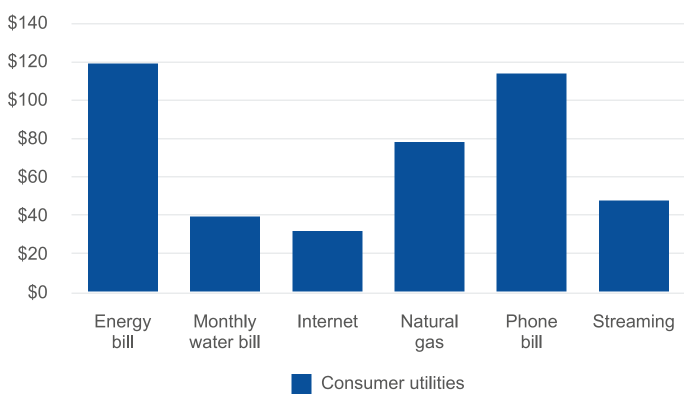
## Energy costs



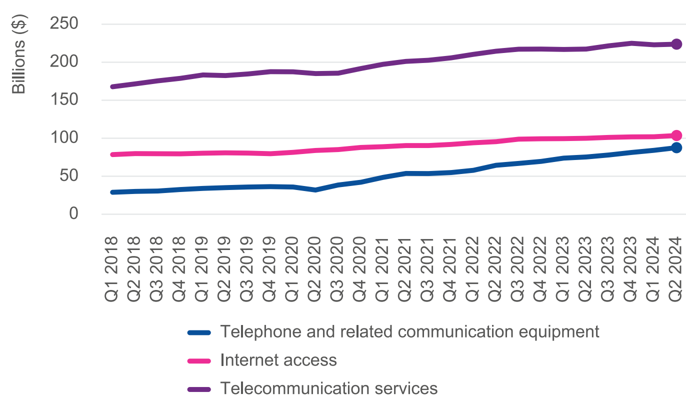

Source: U.S. Bureau of Labor Statistics

**Technology costs**: The rising costs of essential technology, including internet and phone services, have also become a growing financial burden. Consumers prioritize these expenses over non-essential goods, with technology becoming necessary for work, education, and communication.

## Average dollars spent consumer utilities



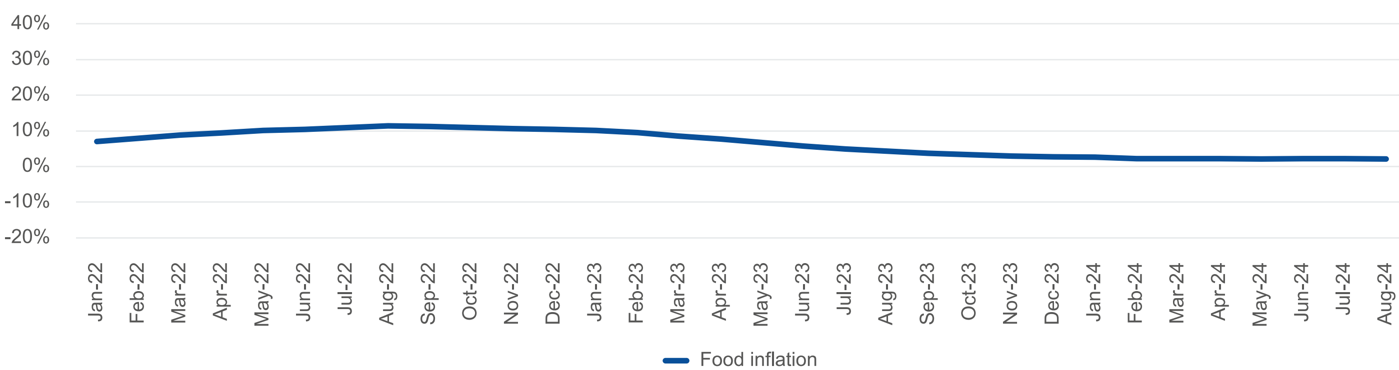

## Telecom-related spending




Sources: statistic_id1108684_monthly-residential-utility-costs-by-state-us-2023, Bureau of Economic Analysis, and Experian Economic Strategy Group

**Food prices**: Food inflation is normalizing, with grocery prices increasing by 2.1% year-over-year. This does not mean deflation is forcing prices down, only that prices are not accelerating as quickly as they were in the prior year. Households feel the pinch as they allocate more of their income toward basic nutrition needs, leaving less for holiday splurges.

## Food costs continue to put pressure on consumers

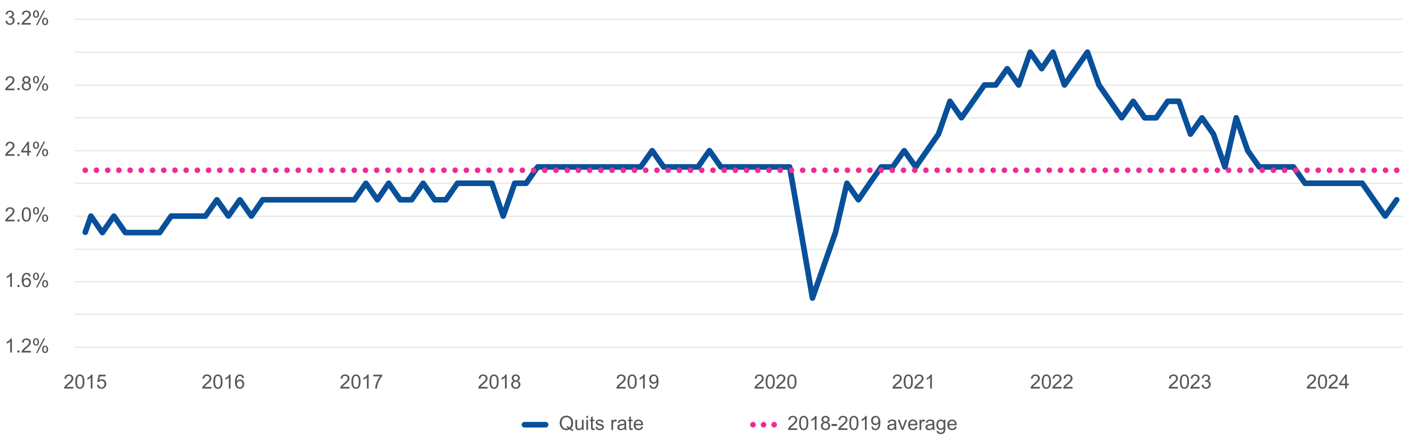



Source: U.S. Bureau of Labor Statistics

## Wages keeping up with inflation

In August, U.S. inflation rate eased to 2.3%, down from over 9% at the midpoint of 2022. Wage growth remains under pressure, with wages increasing 6.3% in August, a drop from the 7.3% recorded in the March. Inflation cooling, real wage growth has been minimal, leaving workers with a modest increase in purchasing power. Productivity gains, which could help reduce wage pressures without causing inflation, have slowed to 1% in 2024, compared to the 2.5% gains seen earlier in the decade. This sluggish growth limits the ability of businesses to absorb higher wage costs without passing them on to consumers, adding stress to particular sectors, such as retail and hospitality.

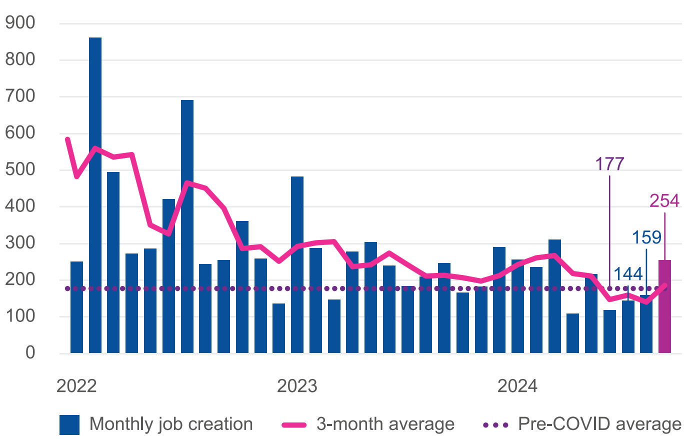
## Quits rate edging down




Source: U.S. Bureau of Labor Statistics

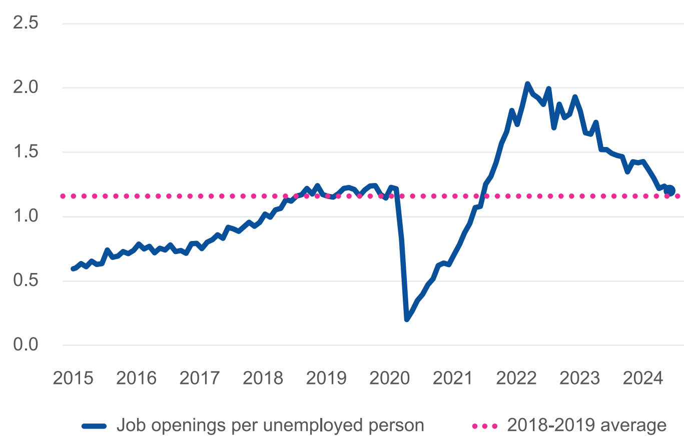
The quits rate, a key indicator of labor market strength, has fallen to 2.1%, down from 2.6% in 2022. This suggests a cooling labor market, reducing employees' bargaining power and further limiting wage growth. We observed wage increases outpacing inflation and slowing productivity, which means that many workers may struggle to maintain their standard of living.

## U.S. monthly job creation (in thousands)




Source: U.S. Bureau of Labor Statistics

## Job openings per unemployed person




Source: U.S. Bureau of Labor Statistics

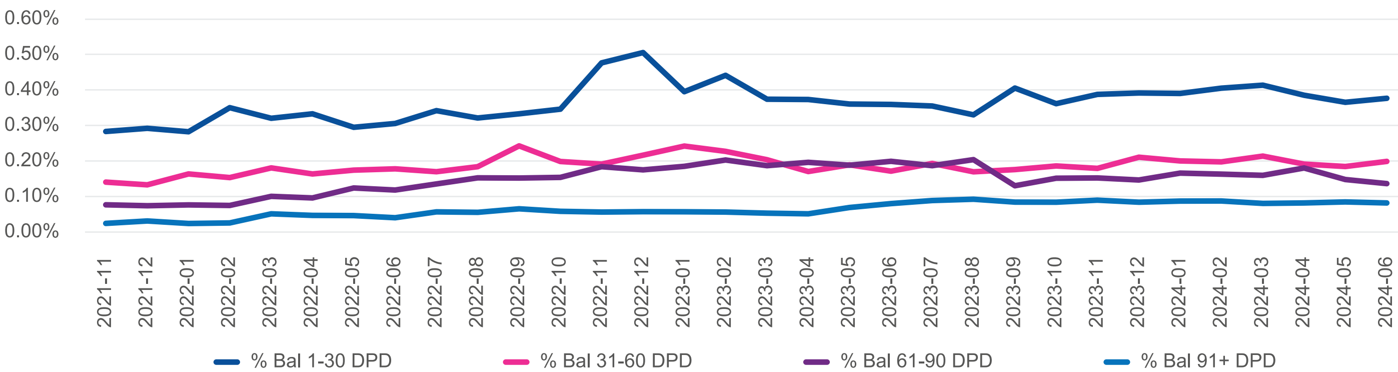
The cooling labor market poses significant challenges for small businesses, particularly as small business owners plan for 2025. This decline in job creation reflects cautious optimism among small business owners, many of whom have slowed hiring amid economic uncertainty in the first part of 2024. A very positive September jobs number, 254k new jobs, added to the speculation that the economy is warmer than anticipated. This boost to the labor market will shift the Fed to focus on inflation vs employment as we enter the final months of the year.

Wages growth is down 21% over the last 24 months, and in 2025 projections, small businesses will find it easier to attract and retain talent if they offer competitive compensation.

## Small business rested and waiting

U.S. small businesses face a challenging yet hopeful landscape as the 2024 holiday season approaches. Several key metrics illustrate the current health of the sector. First, small business credit card utilization increased by 4.6%, signaling greater reliance on credit to manage operational expenses. This rise in credit usage is crucial for industries such as retail and hospitality, which are heavily impacted by seasonal fluctuations and higher operational costs heading into the holidays.

### U.S. commercial delinquency rates



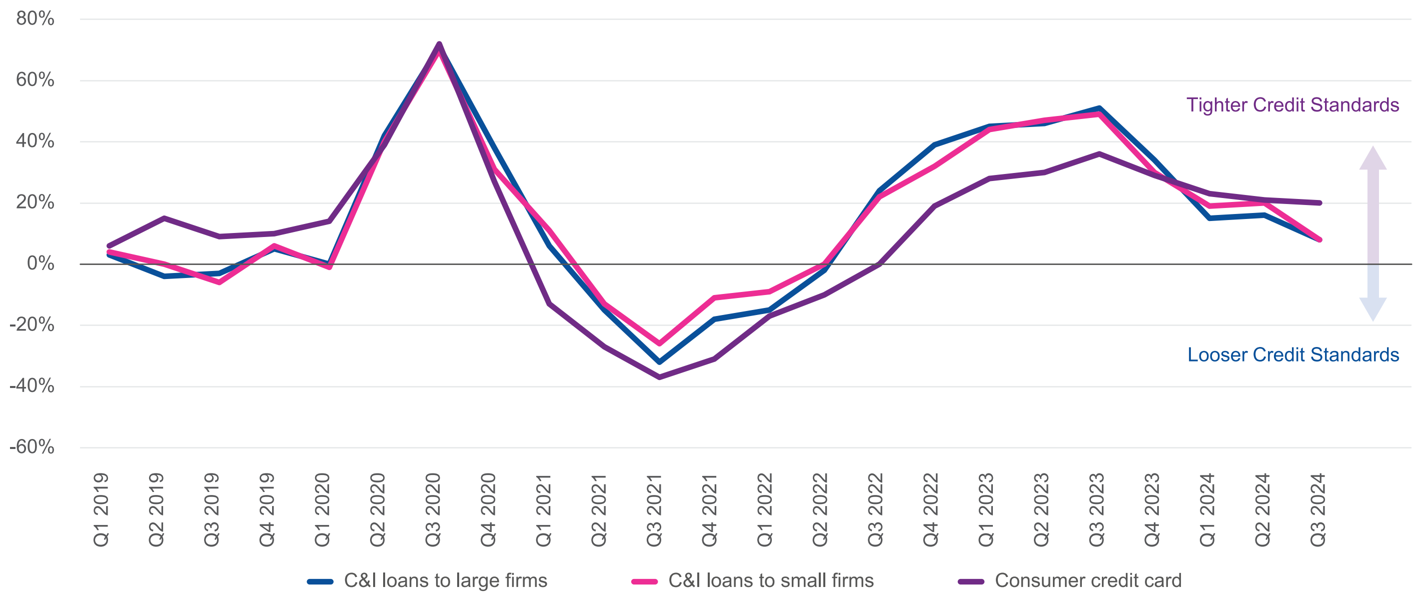

Source: Experian Commercial Benchmark

Delinquencies have been rising over the past 24 months, and the trends reflect broader economic pressures. Despite these challenges, delinquency trends have flattened over the last 12 months creating a lending environment where the average business credit score remains stable, providing a silver lining for businesses aiming to weather short-term obstacles and plan for 2025.

Looking ahead to 2025, growth expectations are cautiously optimistic. Small businesses focus on maintaining financial discipline while adjusting to shifting consumer demand; the upcoming holiday season will be a key litmus test for longer-term economic recovery. Lenders are enhancing their use of data analytics and AI to assess creditworthiness, diversify product development and innovation, and more surgically expand their buy box strategies, allowing for better risk management and personalized lending solutions. Innovation in lending is critical to keep credit markets open and available to U.S. small businesses.

Small business lending is open for business, but the cost of funds is rising.

## Credit markets loosen criteria for both consumer and commercial products




Source: Federal Reserve Board Senior Loan Officer Opinion Survey (SLOOS)

To limit risk, small business lenders lend at higher rates with lower lines to continue serving their customers. Increasing annual percentage rates (APR) and interest rates in September on commercial lending products are deciding to take on additional debt or even access to credit more challenging for businesses. The prime rate has surged to 8%, burdening businesses relying on variable-rate credit. The rising cost of capital is reflected in loan delinquency rates, signaling increased financial stress among small and medium-sized enterprises (SMEs). These trends force businesses to reconsider taking on new debt as the costs of servicing existing loans escalate and profitability margins shrink. Access to capital remains a critical concern for small businesses.

**U.S. regional impact from retail supply chain disruptions**

U.S. small businesses are grappling with significant domestic supply chain bottlenecks that could dampen retail performance. Both online and brick-and-mortar retailers are feeling the strain, with several vital bottlenecks emerging in September 2024.

- The double hit of Hurricane Helene followed closely by Hurricane Milton, is an example of a climate event impacting U.S. businesses, will impact the small business ecosystem along the east coast, with many businesses facing closures due to property damage and supply chain disruptions. The destruction of homes and infrastructure will also reduce consumer spending, further impacting economic recovery efforts.
- One major challenge is the **ongoing shortage of truck drivers**, which has worsened in 2024. Small businesses are struggling to receive inventory on time, with the industry short by an estimated 78,000 drivers. This delay impacts their ability to restock during critical holiday sales periods, with shipping times extending up to **40% longer than pre-pandemic levels**.
- **Port congestion**, particularly at crucial U.S. hubs like Los Angeles and Long Beach, has also been a persistent issue. These ports handle a significant portion of imports, and current backlogs are causing delays of **up to two weeks** for imported goods to reach retailers. This is especially challenging for small businesses relying on just-in-time inventory systems.
- **Warehouse labor shortages** are adding to the strain. The warehouse labor market remains tight, with **job vacancy rates exceeding 6%** in many regions. This shortage is slowing down the processing and distribution of goods to retailers, particularly for small businesses without the resources to expedite logistics.

These supply chain pressures are expected to contribute to slower retail sales growth. The 2024 holiday season's projected growth is just 3%, well below the **5% pre-pandemic average**.

The 2024 holiday season presents notable supply chain challenges across the U.S., particularly for small business owners in online retail, brick-and-mortar stores, and wholesale. Regional bottlenecks are becoming more pronounced, impacting inventory availability, shipping times, and costs.

**Northeast**: Severe port congestion in New York and New Jersey, exacerbated by increased demand, is expected to delay shipments. On average, port delays have lengthened by 25%, while warehouse capacity has shrunk, with vacancy rates below 3%. These challenges could lead to stock shortages for companies like Macy's, which relies on fast-paced seasonal inventory. The region's retail will face increased storage costs, which have surged by 18%.

**Midwest**: Rail delays in Illinois and surrounding states, worsened by labor shortages, disrupt the flow of goods across the region. These disruptions have led to a 12% increase in transportation costs, significantly impacting wholesalers and small businesses. Retailers like Target, which operates large distribution centers in the Midwest, are pushing for earlier holiday promotions to mitigate these delays.

**West Coast**: Los Angeles and Long Beach ports, already notorious for delays, are seeing an influx of goods ahead of the holiday season. This has resulted in a backlog of 15% more shipments than in 2023. Retailers like Walmart are attempting to bypass delays by using chartered ships. However, the shortage of truck drivers is making inland transportation challenging, with freight costs jumping by 10%.

The supply chain stress across these regions indicates that small businesses must plan strategically to navigate shipping disruptions and escalating costs during the 2024 holiday season.

The **International Longshoremen's Association (ILA)**, representing 45,000 dockworkers, strike began as expected on October 1, 2024 and ended within 3 days providing wage increases over the next six years to workers. The strike impacted thirty-six key ports, including those in New York, New Jersey, and Savannah, Georgia—ports that account for nearly 41% of U.S. cargo flow.

This strike delayed shipments for both imports and exports, affecting industries from retail to manufacturing. Small businesses relying on timely deliveries will be especially vulnerable, as they need more resources to mitigate prolonged disruptions. Retailers like **Macy's** and **Walmart**, which depend heavily on East Coast ports for seasonal goods, could face shortages and increased shipping costs during their most critical sales window.

Contingency plans such as diverting cargo to West Coast ports are complicated by high costs and limited capacity and offer little relief. Given these challenges, businesses may need to brace for higher transportation costs and potentially slower delivery times during the holiday season.

The October labor agreement delayed discussions surrounding port automation until January. This portion of the labor contract proposal with the union will be much more complicated as a concession to the union would potentially put the U.S. further behind the globe in port efficiency, safety, and innovation. If a concession is not negotiated, the U.S. could face another labor strike in the first quarter crimping the U.S. small business supply chain and putting upward pressure on inflation as costs rise.

## Will 2024 end with a perfect storm or the dawn of a new era of optimism?

As the final months of 2024 unfold, small businesses are navigating an economic environment that, while challenging, offers several opportunities. Despite cooling consumer sentiment and rising costs, small enterprises remain a cornerstone of local economies, driving job creation and fostering innovation. The upcoming holiday season presents a crucial moment for businesses to capitalize on evolving consumer demand, with many adopting data-driven strategies to optimize inventory and maintain operational efficiency. Though higher energy and material costs persist, enterprises show remarkable resilience, adjusting quickly to supply chain challenges and shifting financial conditions.

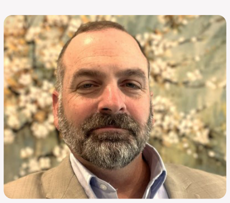
Small businesses are increasingly turning to flexible financial strategies and innovative solutions to manage the high cost of borrowing. The Federal Reserve's recent rate cut offers some optimism, but the cost of capital remains elevated. This environment requires businesses to strategically manage their credit and plan for long-term growth. As the year winds down, the focus will shift to adapting to consumer preferences and preparing for 2025 with strong financial foundations.

Small business lenders should avoid distractions from the election cycle, recognizing it as a brief interruption in broader economic trends. Instead, they should focus on the behaviors and analytics that drove their past success, concentrating on strategic planning and opportunities for growth over the next 12 months.

Experian's small business credit bureau data and analytics are key tools for navigating these lending challenges. By providing deep insights into creditworthiness and risk management, our analytics help businesses secure the right financing to meet their goals. As lenders become more selective, those who act decisively and leverage credit insights effectively will avoid the fear of missing out (FOMO) on growth opportunities, ensuring they stay ahead of the competition in the coming year.

**The crisp cool air reminds us it is time to change behaviors and prepare for the changing seasons. Your business is going through that same transformation, so be prepared ahead of the market conditions.**


### About the author



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Brodie leads a team of statistical consultants, scientists, modelers, and engineers with diverse skills to provide clients with leading edge analytic-driven information solutions, services, and visualization of actionable insights. His is an industry expert, who speaks on behalf of Experian at industry conferences.

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