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Economic Edition

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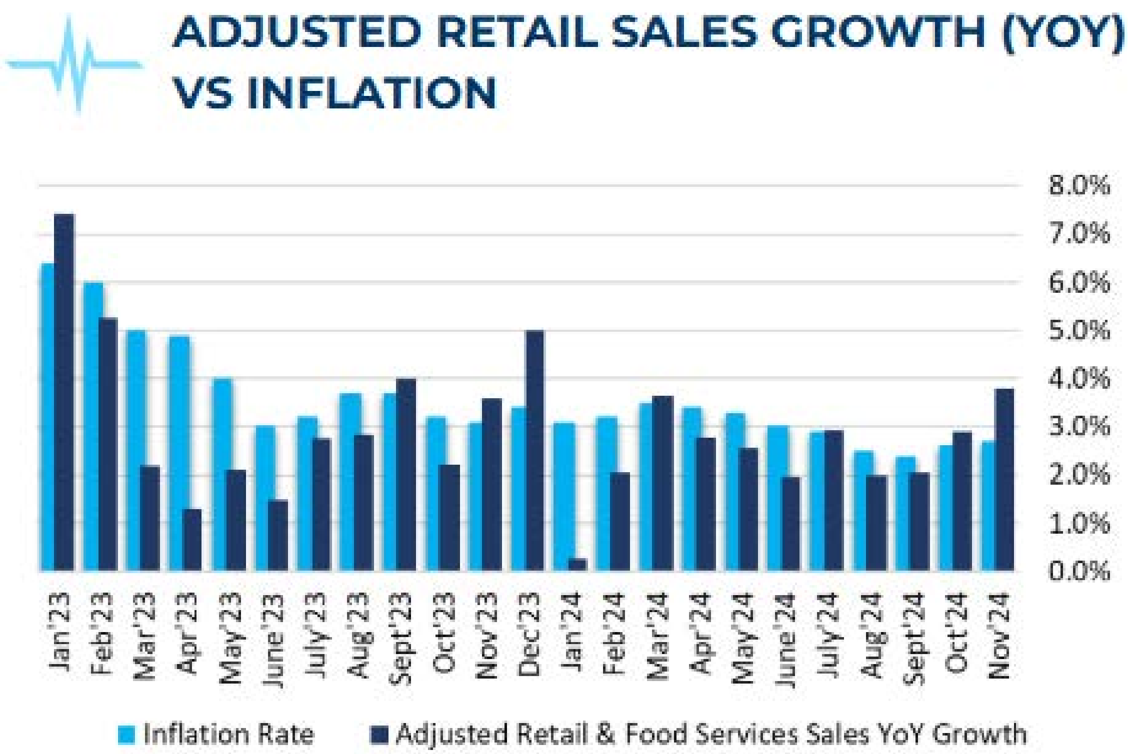
2024 Economic Outlook

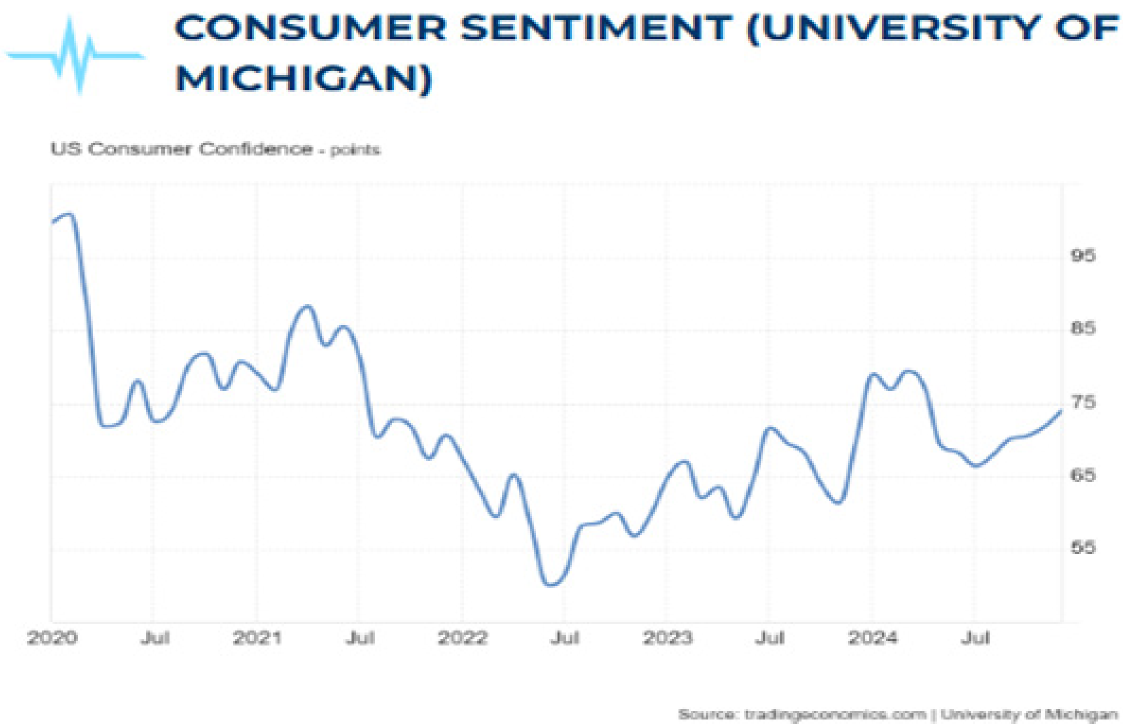
By: Scott Friedman, Chief Credit Officer, Pulse Ratings

The two prevailing economic themes as we look towards 2025 remain uncertainty and volatility. In many ways this is similar to what we experienced in 2024 as it seems that every positive economic indicator was followed by a negative. Of course, any election year cycle brings with it a level of unknown, however 2024 seemed to have even more ambiguity. Unfortunately, 2025 looks to be more of the same. While president-elect Trump is perceived to be pro-business, as the initial stock market rally demonstrated, persistent inflation remains a problem. Despite retail sales growth outpacing the CPI in the last two months, the cumulative effect of price increases over the past few years is wearing on the consumer.



While the Fed's recent 25 basis point rate cut was expected, the bigger news was the narrative regarding doubt over how much it would continue to cut rates in 2025. Fed Chairman Jerome Powell said, "Today was a closer call, but we decided it was the right call…From here, it's a new phase, and we're going to be cautious about further cuts." The comments sent markets reeling at the time with the Dow Jones Industrial Average down more than 1,100 points, or 2.6%, marking its 10th loss in a row. This represented the worst losing streak in 50 years. New projections released by the Fed at that time show Fed officials expect inflation to be stickier next year than previously anticipated. The projections show officials expect to make fewer rate reductions, with most penciling in two cuts for 2025, down from four at their meeting in September. The magnitude of the revision to the inflation forecast was broad-based among the 19 officials who participate in policy meetings. The latest cut, approved by 11 of 12 Fed voters, lowered the central bank's benchmark federal-funds rate to a range between 4.25% and 4.5%, a two-year low. It marks the third reduction in a row and leaves the rate a full percentage point below where it stood before September. Separately, hopes that the rate cuts would make homes more affordable have not come to fruition as mortgage rates continue to rise. Average 30-year mortgages have climbed to around 6.7% from roughly 6.1% since the Fed started lowering rates in September, according to Freddie Mac. Even worse, mortgage rates are expected to rise further given that they move in tandem with the yield on the 10-year Treasury, which has surged recently. Factors such as stubborn inflation, elevated budget deficits, and the prospect of tariffs and tax cuts in a second Trump administration have all helped turn investors against longer-term Treasurys in recent weeks. The Fed added to those concerns by forecasting higher inflation over the next couple of years.

While the University of Michigan Consumer Sentiment Index improved to 74.0 in early December from 71.8 in November, reaching its highest level since April 2024, it should be noted that sentiment is currently about midway between the all-time low reached in June 2022 and pre-pandemic readings. Adding to the theme of ambiguity, this report was followed by a differing view from the Conference Board, which showed that confidence among American consumers dropped unexpectedly in December. Specifically, an index of sentiment published by the Conference Board dropped 8.1 points to 104.7, defying hopes for an increase, according to a consensus of economists compiled by The Wall Street Journal. The expectations index—measuring consumers' near-term confidence in income, business and the jobs market—fell 12.6 points to 81.1, taking it close to the level that often signals recession, according to the Conference Board. "The recent rebound in consumer confidence was not sustained in December, as the index dropped back to the middle of the range that has prevailed over the past two years," said Dana M. Peterson, chief economist at The Conference Board.

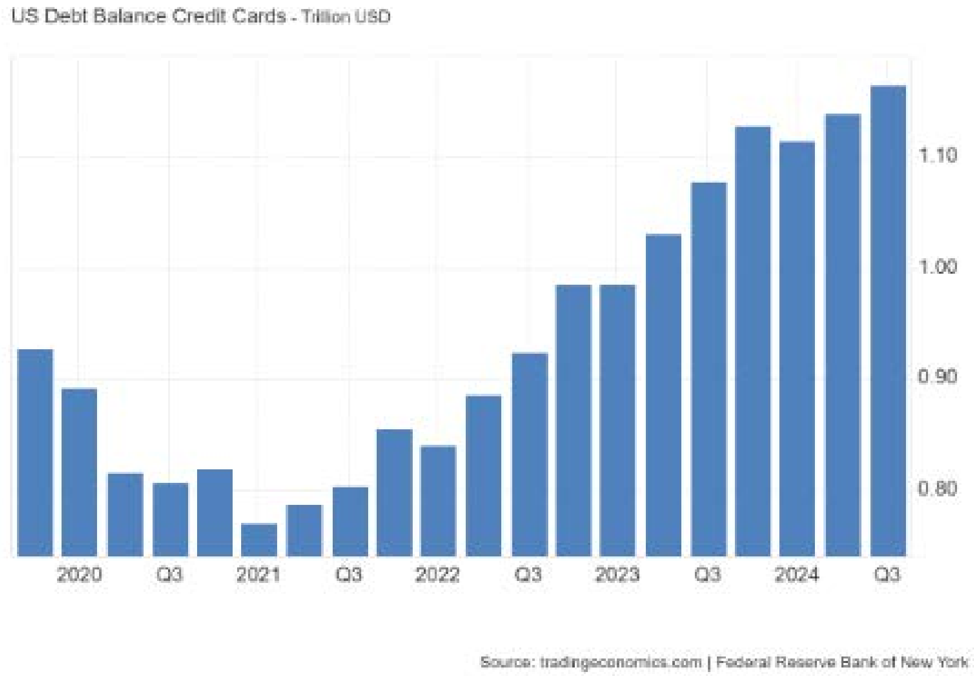


Retail holiday spending also highlights overall uncertainty with winners and losers, which we expect to continue in 2025. While higher-income households continued to spend, lower-income Americans were squeezed by persistent inflation. Overall, consumers spent 3.8% more from Nov. 1 through Dec. 24 than they did in the same period last year, according to Mastercard, which excludes auto sales. The tally doesn't include the week after Christmas, which is also a key shopping period. The gains were boosted by restaurant spending, which increased 6.3% in the period compared with last year. Online retail sales rose 6.7% year-over-year, while in-store sales increased 2.9%.

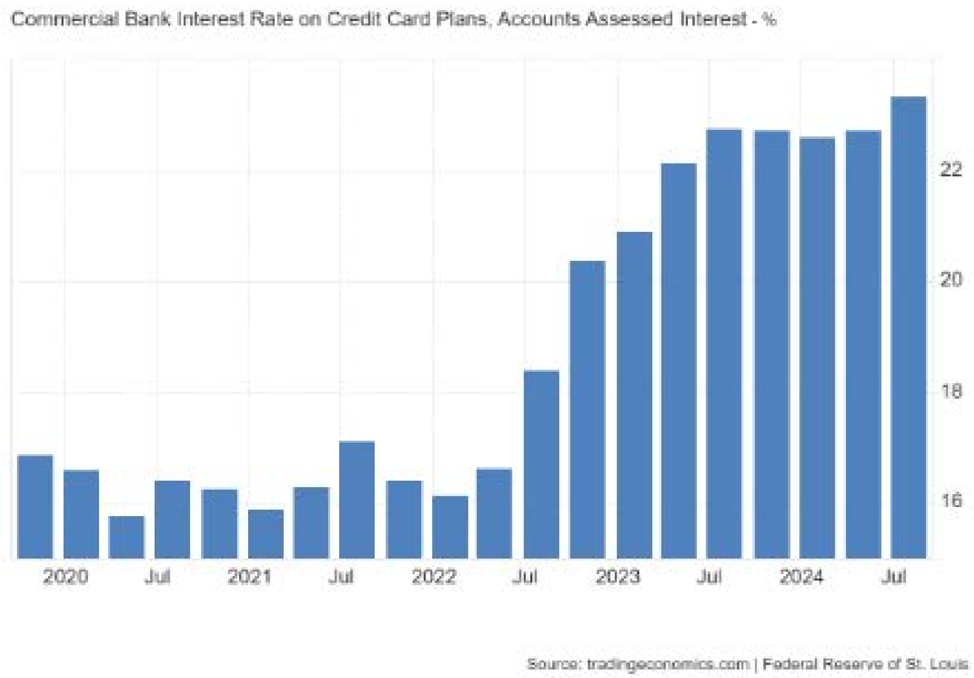
Looking towards 2025, one area of major concern that could potentially impact the retail sector is the continued rise in U.S. credit card balances. These balances increased to an all-time high of $1.17 Trillion in the third quarter of 2024 from $1.14 Trillion the prior quarter. Balances are expected to rise again in 4Q, but it will be interesting to see if they come down in the first quarter of 2025 as is typically the case with consumers paying down some of their holiday purchases. Of course, with average credit card interest rates still north of 22% eating away at the principal on these balances, it has become more challenging for many consumers.

While lower-income households carry a much higher credit card balance relative to their income, wealthier Americans are generally the primary driver of consumer spending. However, households at the bottom of the income distribution tend to have the highest ratios of credit card debt to monthly income.

US CONSUMER CREDIT CARD BALANCES



AVERAGE CREDIT CARD INTEREST RATES OVER LAST 5 YEARS (US)



Not surprisingly, from a retail perspective those chains that focus on these lower-income consumers had a difficult 2024 and we expect more of the same in 2025. Bankruptcy filings from the likes of Conn's, 99 Cents Stores Only, Big Lots, Dirt Cheap, and Bob's/EMS, all highlight the difficulties facing these consumers as they look to stretch their budget dollars. Even stronger retail credits like Dollar General and Dollar Tree have acknowledged the struggles of their customer base.

Restaurant chains, and casual dining in particular, shared many of the struggles of discount retailers in 2024. Chapter 11 filings included Red Lobster, TGI Fridays, Burger Fi, World of Beer, Buca di Beppo, and others. However, while food away from home inflation is easy to blame for these insolvencies, another common theme has been overall stale concepts that has lost market share to the growing offerings of high-quality quick service chains like Chipotle, Cava and others. In 2025 we expect the list of restaurant insolvencies to grow as persistent inflation will remain a headwind.

In the face of continued top line pressures in 2025, we also expect the pace of M&A activity to pick up as retailers look for economies of scale to leverage the cost side of profitability. This M&A activity will include private equity and take-private transactions (i.e. Walgreens, Destination XL, Nordstrom, etc.), as well as traditional acquisitions such as Hudson's Bay/Saks/Neiman Marcus Group. While the Kroger/Albertsons/C&S transaction did not get across the finish line in 2024, we suspect this won't be the last we hear from the grocery sector and anticipate smaller merger-related transactions will be prevalent in 2025.

Lastly, the recent bankruptcy cases of Big Lots, Party City, and Container Store highlight that retail will continue to experience Chapter 11 filings at a higher rate than most other sectors. It will also be interesting to see what happens with the thousands of now available retail real estate square footage. With high interest rates continuing to dampen new store openings in 2025, we suspect that those retailers looking to grow their footprint will be very aggressive in bidding for these now available boxes.

About the Author:

Scott Friedman *joined Pulse Ratings as Chief Credit Officer in June 2023. Prior to joining Pulse, Scott served as the principal at Scott Friedman Consulting/Olympus Peak Consulting since 2009, providing in-depth credit analysis, financial market insight, insolvency valuation work and credit risk mitigation alternatives to clients that include some of the world's largest consumer product companies. Scott also served as the Head of Trade Claims and a member of the investment team at Olympus Peak Asset Management, a credit fund with assets under management in excess of $1.7 billion. Prior to starting his own firm, Scott was a Vice President in the Trade Claims and Vendor Finance group at Avenue Capital, a global fund with assets under management that exceeded $15 billion. Before joining Avenue Capital Scott was a Vice President and member of the senior management team at F&D Reports. Scott has also spent time at American International Group and National Westminster Bank U.S. Scott received his B.S. in Management from Binghamton University's School of Management and an MBA in Finance from Pace University's Lubin School of Business.*

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1980s Redux? Economic Update: 2025

By: Steven C. Isberg, PhD, Senior Fellow, Credit Research Foundation and Chair, Department of Accounting, Towson University

Are we in for another early 1980s style economy? Let's look at a table showing some of the similarities in geo-political-economic conditions.

Condition/Event	Early 1980s	Today
Significant monetary event	Gold standard ends: 1971	Monetization begins: 2008
Significant black swan event	The Oil Embargo: 1973	The COVID Pandemic: 2020
Prices	High inflation: 1974-1980	High inflation: 2020-2023
Interest rates	Increases: 1979-1981	Increases: 2022-2023
Unemployment	Rising: mid-to-late 1970s	Spiked during the pandemic
Federal government	Conservative Republican succeeds single-term Democrat	
Federal budget initiatives	David Stockman (Reagan budget)	DOGE (Trump budget)
Geopolitical	Tension in the Middle East; Soviet Union invades Afghanistan	Tension (war) in the Middle East; Russia invades Ukraine
Gold prices	Rising and high	Rising and high

While there is obviously not a 1:1 match of these events between the two time periods, the conditions are similar enough to inform us of what we might expect for the economy in 2025, particularly in relation to the plans expressed by the incoming presidential administration.

The two big questions on the table now seem to revolve around the problem of...

About the Author:

***Dr. Steven Isberg** is currently Senior Fellow at the Credit Research Foundation and Associate Professor and Chair of the Department of Accounting at Towson University in Towson, Maryland. Steve has been working with CRF since 1994 in his capacity as research fellow and in the development and delivery of a wide variety of our professional training and education programs. Steve has been a part of a number of key CRF research initiatives over the years, including The Future of Credit Studies; the Compensation Studies; Shared Services; and now CECL. Steve has almost 40 years of experience teaching at the college level, where he specializes in the areas of accounting, financial statements analysis and valuation, and financial economic history.*


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Credit Market Outlook 2025: Will the Economy Stick the Landing, or Tumble into Trouble?

By: Rich Newman, Managing Director and UCC Practice Co-Chair and Conrad Ragan, Director Alvarez & Marsal

With the reign of the easy credit environment long gone, consumers and market watchers are bracing for the potential recession that has been predicted for so long. Consumers should be concerned.

Consumers face record high debt, dwindling savings and stubborn inflation that could drag down the U.S. gross domestic product (GDP), the measure of economic vitality. Since an overwhelming portion of the GDP is made up of consumer activity, businesses are being affected at a time when access to debt has become more difficult and industry leaders look to competitive pricing and easier access to credit that may imperil smaller competitors.

Those forces are showing up in the bankruptcy courts, where 2024 bankruptcy filings are...

About the Authors:

Rich Newman, Managing Director UCC Practice Co-Chair, co-leads Alvarez & Marsal's Unsecured Creditors' Committee practice. As managing Director with Alvarez & Marsal Creditor Advisory in Chicago he provides financial advisory services to creditors and focuses on representing official committees of unsecured creditors in bankruptcy proceedings. Specializes in 363 sales, liquidity management, business plan review, solvency, formulation of reorganization plans and litigation support. With more than eighteen years of restructuring experience, Mr. Newman has advised unsecured creditor committees, healthy and distressed companies in leveraged recapitalizations, mergers and acquisitions, and support of interim management roles.

Conrad Ragan is a Director with Alvarez & Marsal's North American Commercial Restructuring practice, where he specializes in representing official committees of unsecured creditors in bankruptcy proceedings with a focus on implementing strategies to maximize creditor recoveries, the development and evaluation of financial models, business reviews and stakeholder negotiations.

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Is Your Credit Policy Appropriate for This Economy?

By: Rudy Schatzmann, National Account Manager, Altus Receivables Management

As businesses navigate a shifting economic landscape, it's essential to examine the suitability of their credit policies. The economic environment, characterized by rising inflation, fluctuating interest rates, and supply chain disruptions, can significantly impact how companies manage their credit offerings. For businesses extending credit to customers, the stakes are high: get it wrong, and you risk increased bad debt, cash flow challenges, and even customer churn. Get it right, and you could foster long-term relationships while maintaining financial health.

In this article, we'll explore how to assess whether your credit policy is appropriate in today's economy, key factors to consider, and best practices for adapting your approach.

1. Understanding the Economic Context

The current economic climate is marked by uncertainty. Several factors are at play:

About the Author:

***Rudy Schatzmann** has been with Altus for 19 years, starting in the Denver branch and elevated to Training Manager within 3 years. He then transitioned to their Corporate Headquarters in Kenner, Louisiana to take over the Corporate Training Manager Position. He has most recently worked in the position of National Account Manager for the last 11 years.*

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Credit Resilience in 2025: Steering Cash Flow through Rising Costs

By: Chris Woodard, CMO and Co-Founder, Handle.com

The outlook for 2025 presents both opportunities and challenges as businesses navigate rising costs, labor shortages, and supply chain disruptions. While global inflation is projected to stabilize – declining to 3.5% by the end of 2024 and further easing to 2.3% in 2025, according to the IMF and Federal Reserve – significant cost pressures will persist across key sectors.

Credit professionals face a pivotal moment: their ability to drive cash flow efficiency, mitigate customer risk, ensure payment protection, and align credit policies with broader business goals will determine their companies' ability to thrive in an uncertain economic environment.

Economic Trends and Cost Pressures Impacting 2025

While inflation is slowing, businesses must contend with elevated costs that vary across industries. In construction, overall costs are projected to...

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About the Author:

***Chris Woodard** is the CMO and Co-Founder of Handle.com. Handle's software powers the largest credit and finance teams in construction. Fortune 500 material suppliers and con¬tractors trust Handle on a daily basis to provide their credit and collections departments with an end-to-end solution that saves their staff 10-12 hours per week.*

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