Forecast for your business in 2024

Navigating a tricky economic terrain

By Phillip M. Perry

Editor's Note:
Do high interest rates and the sluggish economy have you bracing for the new year? Phillip Perry's forecast for 2024 retail business and consumer spending will help prepare you for what's ahead.

Fasten your seat belts and enjoy the ride. Like airline travelers bracing for expected turbulence, garage door, gate, and access companies should prepare for a tricky operating environment in 2024. On the upside, the economy will continue to grow, although at a slower pace.

Consumers and business owners are both feeling fairly optimistic, unemployment remains low, capital investments are plugging along at a healthy pace, and the all-important housing market is burgeoning.

However, higher interest rates, established by the Federal Reserve to control inflation, are putting downward pressure on business activity and shoppers' buying habits. Economists are lowering expectations for the next 12 months.

"The coming year will continue to be a difficult environment for retailers," said Scott Hoyt, senior director for Moody's Analytics (Moody's). "We're expecting 2.5% retail sales growth for 2024 — slower than the 4.7% growth expected when 2023 numbers are finalized." When adjusted for inflation, he noted, retail sales are expected to be flat for both years.

The slowdown comes on the heels of a healthy 9.3% retail sales increase clocked for 2022. Those days are gone, and businesses should expect consumers to continue to spend more on services rather than merchandise.

Hoyt said that spending on categories such as recreation, travel, and entertainment is still below prepandemic levels. "I think we have another year in which the shift toward services is going to be something retailers need to deal with."

Economy slows

Door dealers, alongside most businesses, are dealing with deceleration in the larger business environment. "We expect real GDP [Gross Domestic Product] to grow 1.4% in 2024," said Bernard Yaros Jr., assistant director and economist at Moody's. That's slower than the 2.1% increase expected for the final 2023 numbers and below the 2.0% to 3.0% considered emblematic of normal business growth.

Slowing commercial activity will affect the bottom line. Moody's expects a decline of 4.5% in corporate profits for 2023 and only a modest recovery of 0.3% in 2024.

The gloomy forecasts from economists are being echoed by businesses in the field. Many are experiencing a business slowdown due largely to the effect of increasing interest rates, said Tom Palisin, executive director of The Manufacturers' Association.

While businesses understand the need for higher interest rates, they nevertheless hope for early relief. "If inflation does not continue to drop, interest rates will have to be increased further, which will be a big problem," Palisin said.

Are the Federal Reserve's efforts paying off? There's some good news here. Moody's expects year-over-year consumer price inflation to average 3.2% by the end of 2023, down from over 6% the previous year. Moreover, the number should continue to drop until it reaches the Fed's target rate of 2% late in 2024.

Indeed, Moody's predicts that the Fed will start to lower interest rates around June of 2024, although slower than previously anticipated because of persistent inflation and ongoing labor market tightness. Cuts of about 25 basis points per quarter are expected over the next few years until the Federal Funds Rate reaches 2.75% by the fourth quarter of 2026 and 2.5% in 2027.

For door and access dealers, declining inflation is a double-edged sword. On the plus side, it encourages consumers to spend more. On the negative side, it gives businesses less power to raise prices. And once inflation is taken into consideration, retail sales are expected to be virtually flat for both 2023 and 2024.

Feeling good

Shoppers tend to open their wallets when they are feeling good, and it appears they feel relatively positive about the future. "Consumer confidence has been trending higher, and I think prospects are good for it to improve next year," said Hoyt. "Things should normalize as the economy continues to grow and gas prices stabilize."

The healthy job market is one major driver of consumer confidence. "The unemployment rate has been very low, bouncing around between 3.5% and 3.8% for some time," said Hoyt. A slowdown in job growth orchestrated by the Federal Reserve's interest rate hikes should moderate things.

"We think unemployment will trend upward a

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bit, ending 2024 around 4.2%." Many economists peg an unemployment rate of 3.5% to 4.5% as the "sweet spot" that balances the risks of wage escalation and economic recession.

Enticing salaries

Low unemployment can present businesses with two practical challenges. The first is the need to raise wages to attract sufficient workers. "Wage and salary growth has been strong, fueled by a tight labor market," said Hoyt. "We're expecting it to increase just a shade over 5% for both 2023 and 2024." In 2022, growth was a little over 8%.

Moody's believes that the nation will avoid a recession in 2024, attributing the soft landing to resilience in labor markets and consumer confidence.

Palisin echoed economists' predictions, reporting that businesses have needed to hike their compensation to remain competitive among themselves and other economic sectors. For his members, entry level hourly wages increased an eye-popping 8% to 10% in 2022 and 2023, respectively, far higher than the historic average of 2.5% to 3.0%.

The second problem is a scarcity of workers. The inability to hire enough skilled, quality employees can affect the bottom line. Two issues contributing to the labor shortage are the retirement of baby boomers and a postpandemic effect in which people are reassessing their life goals and leaving their former jobs for new pursuits.

"Some demographic structural things happening in the U.S. mean we just don't have, in many cases, the number of workers needed to meet demand," said Palisin. "That's not going to change." Little wonder employers are turning their attention to retaining the talent they have.

Housing markets

Given the generally upbeat consumer sentiment, prospects are good for the housing sector. "New home sales are running at the top end of the range set in the decade preceding the pandemic," said Yaros. "One reason is that a lack of existing inventory is pushing buyers to consider new homes. The construction industry is stepping in to close the gap, and housing starts have exceeded expectations."

The construction of new homes is being fueled by a cold, hard fact: There aren't enough existing homes to meet demand. "The 3.1 months' supply of existing homes remains well below the four to six months of inventory that is considered a balanced housing market," said Yaros.

Strong demand caused a 10.3% increase in the median price for existing homes in 2022 and a 0.6% increase in 2023. A correction of 1.1% is expected in 2024. The scarcity can be linked to the run-up in mortgage rates. The ultra-low interest rates of existing mortgages is an incentive for existing homeowners to stay put.

"Current homeowners had refinanced their investments at 3% or 4%," said Bill Conerly, principal of his Oregon consulting firm. "Replacing what they had with better homes would require walking away from those mortgages to take on new ones at 7%. I think we'll see this trend continue for another year, but I think we'll also see a lot of strength in remodeling, and that will be financed probably with home equity lending or second mortgages."

Business confidence

High interest rates, an inflationary environment, and rising worker wages: a trilogy of challenges that in normal times would dampen business confidence. Additional threats to corporate well-being, such as high energy costs resulting from the Russia-Ukraine war and an appreciation of the U.S. dollar, also hampers export activity.

Despite all this, companies don't seem to be planning any dramatic adjustments to their operations, in marked contrast to their cautious attitude of a year earlier. "While our members have moderated their expectations for the future, they are still feeling slightly positive," said Palisin.

"One reason is that we seem to have avoided the recession that many were predicting." Moody's believes that the nation will avoid a recession in 2024, attributing the soft landing to resilience in labor markets and consumer confidence.

Businesses looking to borrow funds to fuel capital investments should prepare for a tougher negotiating environment. "The banking sector is in retrenchment and lenders are becoming more risk averse," said Anirban Basu, chairman and CEO of Sage Policy Group. "As a result, developers are having more difficulty lining up financing."

Fueling the concern among financial institutions is a recent spate of loan delinquencies and bankruptcies. Banks are looking at their portfolios and seeing where they can tighten up. Companies holding inexpensive prepandemic loans will see earnings hit when they need to refinance at six or seven percent.

Prepare for a soft landing

U.S. Gross Domestic Product (GDP)
Annual % Change

2014: 2.3%
2015: 2.7%
2016: 1.7%
2017: 2.2%
2018: 2.9%
2019: 2.3%
2020: -2.8%
2021: 5.9%
2022: 2.1%
***2023:** 2.1%
***2024:** 1.4%

Economists predict slowing growth for 2024.

Source: World Bank; * = projections by Moody's Analytics.

Time will tell

Hoyt recommends that in early 2024 door, gate, and access businesses look at employment levels and labor market trends to estimate how the year will go, especially with job growth slowing.

"An increasing number of analysts think the Fed can pull off their mission of getting job growth to slow but not stop. That's vitally important for retailers because consumers need job growth to have the income growth that results in retail sales growth," said Hoyt.

A second key indicator will be trends in oil and gasoline prices. "If fuel prices stay in their recent range, that's good news for retailers," said Hoyt. "If they spike again … that would be a severe problem for retail businesses. It would force consumers to spend more of their budgets on energy and less on goods."

Whatever the condition of the tea leaves, door, gate, and access companies will encounter a tougher operating environment in 2024 due to uncertainty about inflation and interest rates, labor shortages, higher energy costs, a slowdown in China's economy, and recurring threats of a U.S. federal government shutdown, said Palisin. "There are a lot of spinning plates in the air, and some of them may fall and crack." ■