CORPORATE FINANCE UPDATE

Key factors that will influence short-term business capitalization and planning

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After a meeting of the G20 major economies, early reports on the Memorandum of Understanding say that it includes a commitment to “use all available policy tools to address the impacts of the pandemic.” This includes discussions around how to reduce the debt of poor countries whose situations have been worsened by supply disruptions and rising energy costs. It also noted agreement on a landmark deal to set a global minimum level of corporate tax in 2023.

While different stages of pandemic recovery are complicating global policy among central banks, all agreed that a check on inflationary pressures is needed. However, promised interest rate hikes in the U.S. are worrisome for emerging markets, many of which are the very markets still burdened by rising COVID rates and insufficient vaccine supplies.

A recent Survey of Consumer Expectations report by the Federal Reserve Bank of New York showed that U.S. consumer expectations for inflation in the year ahead showed a drop by two percentage points from expectations in December 2021. However, a huge year-over-year increase in the consumer pricing index of 7.5% has analysts speculating that the Federal Reserve will raise interest rates in March to maintain its target. Moving too fast, however, could slow growth.

When making sense of this current environment for monetary policy and its impact on businesses, there are several factors to consider.

Traditional Lending Approval Rates Inching Up | Micro Lending Recovery

All U.S. banking types are showing modest increases in their loan approval rates, but they are still far below pre-pandemic approval levels. Anticipated higher interest rates should support more lending activity as banks obviously like to lend money when interest rates are higher. But it will also drive up the cost of capital for businesses that are ready to expand or shore up inventories.

At the same time, the micro lending industry has recovered faster globally than traditional banking. This industry is favorable to self-employed and small to mid-sized entrepreneurs. Post-pandemic, small business activity could see a surge in new business starts as individuals choose to forge their own career paths. This will only serve to heighten interest in micro lending.

Takeaways:

- Traditional lending institutions and micro lenders will keep a pulse on entrepreneurial activity in their market and may open lending in the coming months.
- Potential higher interest rates may require a move on expansion plans or major capital investments sooner than later. Consider financing options and timing.

- Due to longer inflationary impacts, outsourced accounting and advisory services may prove beneficial for automating back office processes and managing staff costs and cash flow.

Extended Supply Chain Woes | Opportunities in Real Estate/Warehousing

The International Monetary Fund cites supply chain problems among the major factors that will slow global growth to 4.4% in 2022, down from 5.9% in 2021. In 2023, global growth is predicted at only 3.8%.

A recent New York Times report noted that container ships remain at American ports for seven days on average, a 21% jump from pre-pandemic levels. Investments in warehousing by major retailers is in billions of dollars near major metropolitan areas to sustain continued consumer demand in certain goods that range from home improvement items to exercise equipment. Overtaxed infrastructure, along with personnel shortages in the trucking industry, indicate prolonged supply chain disruptions.

U.S. warehousing rents were already up 10 percent in the third quarter of 2021, prompting new construction and lease signing farther inland from major ports.

Takeaways:

- Continue to monitor critical inventory and plan ahead for orders months earlier than in the past. Discuss strategic planning and financing options.
- Business owners, construction leaders, and investors may want to explore real estate investments in retail goods warehousing as well as construction, manufacturing, and industrial materials warehousing.
- Retailers and wholesalers may explore outsourcing distribution services to keep up with demand.

Other Key Factors: CEO Turnover and 'Retirements'

Business owners should be planning now for a post-pandemic economy. Yet a survey of more than 3,000 U.S CEOs and executives noted that 72% are concerned about losing their jobs due to an inability to adapt fast enough to supply chain disruptions, workforce shortages, and poor execution of digital tools.

Meanwhile, the share of older workers in the labor force (ages 55-74) shrunk faster than pre-pandemic levels in both the U.S. and the UK, according to one survey by the International Monetary Fund. If these workers decide to retire permanently and not return following the pandemic, it is expected to permanently scar the job market and productivity.

While not all older workers are managing or leading businesses, a faster exit from the job market exacerbates an already larger trend of needing younger workers and streamlined training programs to support job skill match with available positions.

Takeaways:

- Anticipate business consulting needs related to CEO or executive turnover, including interim CFO guidance.
- Plan for continued capital investments in technology, with the need for streamlined implementation (e.g., accounting, workflow automation, AI).
- Manage succession planning as well as retention by structuring new methods of compensation or benefits for emerging leaders.

If you have any questions about these influences on your corporate or individual finance or planning needs, contact us.