



Changing Consumer Spending Shows Cracks in Economy

small business economy

Summary: As economists warn that recession is inevitable, CFIs should actively take steps to best prepare themselves and their customers to weather a significant economic downturn.

Authorities have long dealt with smuggling at the border, and drug seizures are a daily part of the lives of border patrol agents. These days, however, something other than drugs is catching their attention. With the price of eggs having risen by 60% over the past year, border agents have seen a significant rise in the number of people [trying to smuggle eggs into the US from places like Juárez, Mexico](#), where eggs can be purchased for as little as \$3.40 per dozen, compared with prices as high as \$7.37 in some parts of the US.

Egg smuggling may not be the norm, but inflation and soaring prices on everyday goods have historically led consumers to alter their spending habits and tighten their belts. With most economists in agreement that a recession is inevitable in 2023, community financial institutions (CFIs) should proactively prepare for a downturn and talk to small business customers about steps they can take to prepare themselves.

Bracing for the Worst

Even though the rate of inflation has tapered in recent months, [61% of economists](#) surveyed by the Wall Street Journal believe that the Federal Reserve's aggressive rate hikes over the past year have put the US on a trajectory for a recession in the second half of 2023, [including former Federal Reserve Chairman Alan Greenspan](#). The World Bank [recently lowered its 2023 GDP forecast for the US to 0.5%](#) and noted how that, combined with flat expectations for Europe, may even point to another global recession.

If economists are right, consumers are likely to pull back on their spending and borrowing, a shift that will be felt by CFIs and small businesses alike. Now is the time to begin preventive measures, such as stress testing lending portfolios to determine where your institution stands in a worst-case scenario, if multiple customers begin defaulting.

Financial institutions should take a close look at lending within the sectors that are most susceptible to a recession, such as real estate and businesses such as restaurants and retailers. With CFIs now expected to implement the Current Expected Credit Losses (CECL) accounting methodology, this is something that should be factored into stress testing as well. In the fourth quarter of 2022, warning signs such as a [19% increase in credit card loans experienced by JPMorgan Chase](#) and a 14% increase in unpaid credit card debt among Bank of America credit card holders spurred some of the industry's largest banks to bolster their reserves. In the case of JPMorgan Chase, the bank increased its reserves to \$1.4B.

Looking Outside Your Institution

Beyond preparing your own organization for a recession, it makes sense to help customers prepare as well. With signs that consumers are already hurting from ongoing inflation, small businesses are likely to feel the pain if people start pulling back on their spending.

Here are ways that CFIs can help their small business customers weather an economic downturn, as well as strengthen their ties to your institution:

- **Encourage decreased spending.** In the same way that banks are bracing for a downturn by keeping more spare cash on hand, small businesses should be encouraged to do the same and put off any unnecessary purchases or improvements that will not materially impact their operations.
- **Help with cash management.** Another way to provide value for small businesses is to help them improve their methods of cash management and forecasting. With many small businesses still relying on archaic methods for tracking these things, such as spreadsheets, teach business owners about technology offerings that can simplify and streamline their processes. This is particularly true if these are offerings your organization is well versed in.
- **Offer advisory assistance.** This can enhance relationships with small businesses, give your organization a clearer view of any risks these customers may be facing, and better understand what type of lending assistance may or may not be appropriate, if needed.

Amidst widespread predictions for a recession looming large, the rise of egg smuggling indicates that cracks in the economy are already starting to show. CFIs would be well served to prepare both themselves and customers, particularly small businesses, for the worst-case scenario.

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ECONOMY & RATES

Rates As Of: 03/13/2023 11:54AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.01	0.13	0.59
6M	5.17	0.00	0.41
1Y	4.31	-0.70	-0.40
2Y	4.06	-0.76	-0.37
5Y	3.69	-0.50	-0.32
10Y	3.53	-0.39	-0.35
30Y	3.67	-0.25	-0.30
FF Market	FF Disc	IORR	
4.57	4.75	4.65	
SOFR	Prime	ORER	
4.55	7.75	4.56	

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