

Your quarterly download on the economy and what it means for your clients. Brought to you by Gusto's team of economists.

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Headline

The overall economy maintains a strong position with good GDP growth, and positive but decreasing job gains. Smaller businesses are feeling more weakness as they struggle to find talent, and some are pulling back on hiring to deal with uncertainty. Despite reasonable numbers overall, sentiment remains poor about the economic outlook. Ensuring that data, not emotions, drive business decisions is key to navigating the next few months.

Trends to Watch

Labor market strength to weakness?

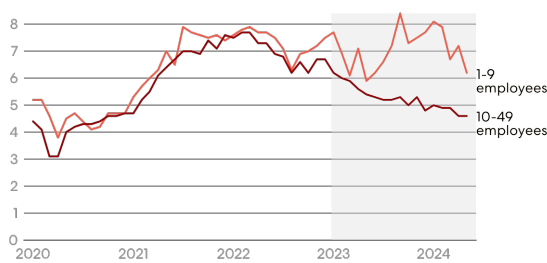
The labor market is strong but showing signs of weakness. SMBs have struggled to find good talent or are pulling back. A few months of a weaker labor market could open opportunities for SMBs to get better-quality candidates, but economic softness may reduce the need for extra staff.

Metrics to Watch



Smallest SMBs still can't find the right talent

Job opening rate (% of all filled and unfilled jobs)

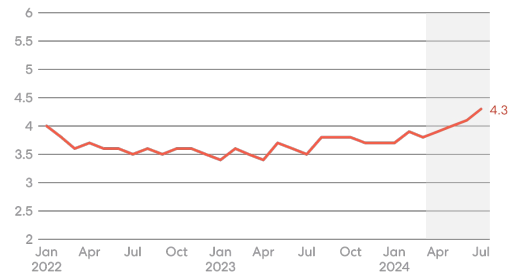


Source: Bureau of Labor Statistics

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Rising unemployment signals labor market softness

Unemployment rate (%)



Source: Bureau of Labor Statistics

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Consumer Spending, Inflation and Interest

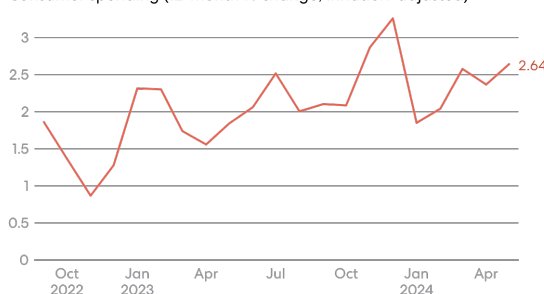
More progress on inflation gives a good chance to start interest rate cuts in September, a relief for SMBs looking to invest in tech or equipment. Consumer spending remains robust, but watch out, B2C businesses: large increases in unemployment can cause drops in spending/demand.

Metrics to Watch



Consumer spending remains health y-o-y

Consumer spending (12-month % change, inflation-adjusted)

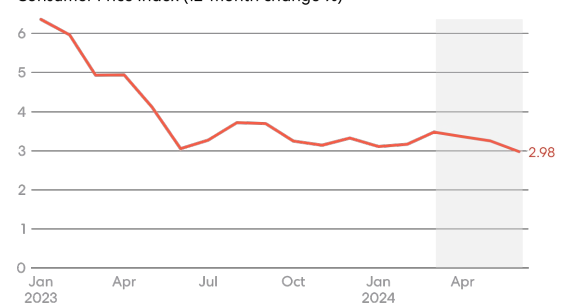


Source: Bureau of Economic Analysis

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Inflation progress raises hopes for interest rate cuts

Consumer Price Index (12-month change %)



Source: Bureau of Labor Statistics

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So what? Strategies for SMBs

- Continue to expect better financing conditions towards end-of-year. Work with clients to plan for investments.
- Labor market softness without big spending drops is a win-win for businesses. Watch unemployment rates and consumer spending to assess risks and know whether to plan to hire or hold back.
- Economic health is not translating to economic sentiment. Balance emotions with data for business planning.