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Key HR is the KEY to Your Success

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Key HR is aligned with preferred provider companies to offer new and innovative ways to meet out clients' payroll, employee leasing, benefits and insurance needs.

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Five Economic Predictions for 2024

The economic outlook for 2024 feels significantly less murky than it did going into 2023. And yet plenty of uncertainty remains about the specifics of Federal Reserve policy changes and global central bank reactions, China's potential rebound, and the influence of geopolitical dynamics on global economies. Amidst the myriad of factors influencing market performance, accurately forecasting these five macro calls will likely play a pivotal role in shaping portfolio returns for investors this year.

1. The Federal Reserve (Fed) will finally pivot into a slow cutting cycle.
While we are eager to see the door close on higher rates, it is imperative to recognize that the Fed cannot consider easing policy until inflation pressures are convincingly contained. There likely needs to be a slight cooling in economic activity and rebalancing in the labor market to drain out the most stubborn of inflationary pressures before the Fed eases policy. Indeed, the 1970s experience, when the Fed cut rates prematurely and inadvertently reignited inflation pressures, serves as an important reminder to the Fed to gather sufficient evidence of disinflation before it cuts. However, the door should be open for monetary easing in the second half of the year. While it will be a historically shallow easing cycle, the positive growth economic backdrop should still ensure a constructive investment environment.

2. Global central banks will follow the Fed's lead in cutting rates.
Importantly for investors, once central banks – particularly the Fed – start to cut interest rates, we expect to see a flood of assets out of money market funds that will find a new home across asset classes. On the equity front, there are pockets of opportunities despite expensive valuations around the world. Within the U.S., small cap is one of the more attractively valued sectors and should benefit as solid economic growth is accompanied by policy easing. Outside of the U.S., Latin America exhibits attractive valuations while parts of Asia – particularly India – demonstrate strong fundamentals. Within fixed income, as slowing growth coupled with policy rate cuts should put downward pressure on bond yields, investors should consider extending into longer-duration bonds.

3. 2024 will be a more stable year for China.
The good news is that policymakers are gradually increasing their stimulus measures, clearly troubled by the pervasive weakness in the economy and investment backdrop. The bad news is that while 2024 should be a more stable year for China, a sharp stimulus-driven recovery, like we have seen in previous years, is unlikely. Policy actions will need to be more forceful and more targeted at the property market if they are to rescue the economy from debilitating weakness. As such, investor interest will likely remain lackluster until economic momentum can be effectively reinvigorated.

4. Geopolitical unrest, particularly in the Middle East, poses a moderate risk to the 2024 outlook.
Tensions involving supply chains and oil prices can fundamentally impact growth and inflation. While oil prices remain quite low, supply chains have been impacted by the geopolitical tensions in the Middle East. Shipping costs have increased, raising the risk of renewed price pressures. Keep an eye on both shipping costs and oil prices for the foreseeable future – sustained increases may feed through to inflation expectations, making it more challenging for global central banks to start cutting interest rates as expected.

5. The biggest risk for the economy in 2024? Accelerating growth.
If economies continue to see growth above trend, inflationary pressures are likely to build up again. In that situation, the Fed and other central banks would be more likely to raise rates than to cut them. This would inevitably set up a potential hard landing in 2025, something the Fed has been working hard to avoid. The best-case scenario for investors in 2024 is gently decelerating growth that culminates in a soft landing and Federal Reserve rate cuts.

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Promoting Civility in Retail: The Customer is Not Always Right

In a country with an exposed nerve, the retail sector is often Ground Zero when it comes to disrespectful workplace behavior.
Historically, retail managers have responded to rude customers by trying to calm the situation and putting that customer's needs and feelings at the top of the priority list. But that "customer is always right" attitude can quickly turn off the front-line employees who absorbed the initial customer abuse. "We heard from our [employees] that they didn't feel like we had their backs," said Julie Lodge-Jarrett, the chief people and purpose officer at Dick's Sporting Goods, who said the company changed its customer intervention policy a couple years ago in response to that employee feedback.

"The reality is that there are many times when the customer isn't right; where the customer isn't treating our [employees] with the civility and respect they deserve," Lodge-Jarrett said during a recent edition of the SHRM Executive Network's People + Strategy Podcast. In the past, Dick's managers would respond to customer conflicts by apologizing to the customer "whether or not we did anything wrong," Lodge-Jarrett said. Step two would be to remove the front-line employee from the situation and do anything possible to please the customer. But when employees complained about this process, Dick's completely changed how it trained managers and employees to approach customer conflicts.

Under the new process, Lodge-Jarrett said, a manager still intervenes but instead says something like, "Sir, I can tell you're unhappy and I would like to do everything I can to help you get what you came in here for today. But I want to start by saying that at Dick's Sporting Goods, we don't tolerate lack of respect and we expect that everyone's treated with the dignity that they deserve. And how you're treating my teammate is unacceptable. So we've got two choices. You can choose to be civil, and if you do, I'd love to help you get what you came here for. Or if you don't think you can do that, I'd politely ask you to leave." The result? Lodge-Jarrett said "that one small step paid big dividends to create greater civility within our stores and to create that reciprocal agreement" between both employees and customers.

It's not a realistic goal to eliminate all disagreements between employees and customers, or among employees themselves. But it's HR's duty, she said, to help facilitate those hard conversations and bring understanding to both parties. "Civility or lack thereof is not synonymous with misalignment or disagreement," Lodge-Jarrett said. "I think it's our responsibility in HR to create the conditions by which you can have messy but healthy debates and discussions. And you can do that in a civil way even if you're not aligned and on the same page." To help enable those conversations, Dick's started a new program in 2020 called Dialogue Circles. It brought employees together in small groups—either in person or online—to allow for facilitator-led conversations on topics that historically would've been seen as taboo in the workplace, such as gun reform, abortion and racial conflict.

One topic that Dick's won't be facilitating Dialogue Circles around is the 2024 presidential election. Employees will be able to discuss issues in these gatherings, but not candidates. And the company is reminding workers to avoid the hot-button red versus blue debate. "We are doubling down on reinforcing our zero-tolerance stance," Lodge-Jarrett said. "Everyone deserves to be treated with dignity and respect, agnostic of whether you're a Republican or a Democrat or support one candidate or the other. … When the nation feels so divided, we're at least creating a culture where we feel more united and feel like we belong, at least inside our four walls."

When should companies take a stand on social issues?

"We've had a lot of debate and discussion on that in the past, and I would say that our default is not to publicly enter the conversation. Our default is to remain quiet on things where we don't have something to say or where we don't think we authentically have earned the right to have a point of view. But there are a few things where we are going to decide to be public, and firearms is a great example of that.

Two questions HR leaders should ask when deciding what to prioritize.

"I encourage my team to look through two frames in any decision that we make about how we spend our time and the type of work that we do. The first is always, is the work we're doing adding business value? I think there needs to be a direct linkage and cause and effect. I think it's a cop-out to say we can't measure the effect and the impact of our work on the business. We need to have those analytics to be able to prove that the work we're doing is driving the business forward. "The second [question]: Is the work we're doing enhancing the employee experience? We have the responsibility to be advocates for our employees, to be the voice of the employees when their voice isn't being heard to the extent that it should or could. And if we do this right, we know there's a direct correlation between our top quartile of stores from an [employee] satisfaction perspective and our top quartile of stores from a customer satisfaction."

How do sports transfer into the workplace?

"What I learned from being a student athlete is the importance of work ethic, of resilience, of grit. Sports taught me how to win and how to lose with civility, and we don't see that necessarily all the time on the courts and fields today. It taught me good sportsmanship, how to be a part of a team and to know when to lead, but to also know when to be willing to be a follower for the good of the team. "All of those skills are directly transferable to our professional life, … and they're directly impacting the decisions I make as a people leader as well. Because just as in sport, a coach has to change the way they approach each individual athlete because they all respond differently to different feedback and different styles. The same needs to be true for us as people leaders, knowing that we've got to figure out what motivates and what disincentivizes each of our teammates."

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EMPLOYEE BENEFITS

How California's Raises for Fast-Food Workers Will Ripple Across Industries

Michaela Mendelsohn, who owns six El Pollo Loco locations serving grilled chicken and tacos in California, recently found herself raising managers' pay by over 10% to more than $83,000 a year. With the state's new law mandating a $20 minimum wage for fast-food workers taking effect April 1, a separate rule requiring salaried staff to earn double the minimum wage has triggered a chain reaction. "They've gotten a big pay increase," Mendelsohn said of her managers, who had typically made just over $70,000 a year.

When California Governor Gavin Newsom touted the effects of the landmark wage law, he said it would lift pay for 500,000 low-income employees throughout the state. That's looking like a vast understatement now. The law is already creating spillover effects from janitors to hotel cleaners, as well as higher-paid workers within the fast-food business. That's just the start. As many as 5 million of the state's low-wage workers, both in fast food and adjacent industries not covered by the law, could also get raises, according to Bloomberg Economics. Given California's huge population — No. 1 in the country — that would amount to about 3% of the entire U.S. workforce.

The likely effects are big enough to play a possible role in boosting a national gauge of labor costs, Anna Wong and Estelle Ou said in a Bloomberg Economics report. That could add to pressure on the Federal Reserve to delay interest-rate cuts, while acting as a drag on President Joe Biden's push to bring down inflation — a key pitch to voters in his reelection campaign. "What happens in California fast-food restaurants likely won't end there," Wong and Ou said. There are early indications that pay raises are spreading from fast-food joints to other California employers. School cafeteria workers in Sacramento will be paid $20 an hour come July, a raise spurred in part by anticipated competition for labor from restaurant workers, a move reported earlier by the Associated Press.

That's a glimpse of what's to come as lower-paid workers throughout the job market use the new fast-food benchmark as leverage with their employers, said Joseph Bryant, an executive vice president at Service Employees International Union, or SEIU, which championed the wage law. "The floor has been lifted," he said. "Lower-wage workers across the board are saying, 'We deserve the same.'" Potentially blunting the impact are layoffs and reductions in work hours. In one example, a McDonald's worker in Southern California who used to average about 25 hours a week is now scheduled for 10 to 18. The employee, who asked not to be named for fear of being fired, is weighing whether to look for another job to make up for the lost income.

Companies are also rushing to boost productivity to mitigate the historic wage hike. Mendelsohn said she'll be testing an AI chatbot to take orders from drive-through customers. McDonald's reintroduced bagel sandwiches as part of a plan to boost traffic that also includes $15 million for advertising. It's rare for the burger chain to invest in promoting its products in a single state.

Price increases are another big way the new law's effects are rippling through the economy, which is adding to inflationary pressures for consumers. McDonald's franchisee Scott Rodrick, whose 18 restaurants are mostly in the San Francisco area, has raised prices between 5% and 7%. He's also contemplating putting off some repairs to afford the pay raises. "This is just so extraordinary, with the repercussions of what might happen to businesses small and medium-size, up and down the state of California, unknown," he said. At California locations of Chipotle Mexican Grill, the price of a chicken burrito or bowl averaged $10.27 as of April 3, up from $9.50 on March 29, KeyBanc Capital Markets said in a report. Prices at Burger King rose about 2% from February to early April, while Wendy's started charging about 8% more, according to Kalinowski Equity Research, which surveyed 25 locations of each chain.

Owners and executives throughout the industry are starting to adapt in other ways as well, even if it means gritting their teeth. Given the rules about how much managers have to make relative to the minimum wage if they don't get overtime, salaried fast-food supervisors now have to be paid a minimum of $83,200, up from $66,560, the state's labor department said. That means restaurant chains suddenly face higher costs than other employers, even as many of their customers are struggling. "The biggest concern that we have is being singled out as an industry," said Kerri Harper-Howie, a McDonald's franchisee with stores in Los Angeles County.

At Mendelsohn's Pollo Loco locations, while she increased her managers' pay, she also curtailed a bonus package to help weather the raises. "They really have to show us that they can salvage the profitability of the stores" to get a bonus, she said. Others are taking a different approach. Many franchisees are reclassifying their managers to hourly employees to sidestep the regulation that would require a salary boost, said Richard Reinis, a lawyer who represents employers on a newly established fast-food council that could shape rules on working conditions.

The answer is "to convince them that they can keep their title of assistant manager or even general manager, but they will work hourly and be treated like hourly employees," he said. As for the people in challenging low-paid jobs that the law was aimed at, many of them are getting a meaningful boost. Angelica Hernandez, a McDonald's worker who's also on the fast-food council, said she's able to "breathe a little easier" thanks to the wage increase. "In all of my years, 19 years working in this industry, I can only remember getting around 10-cent raises, maybe 25 cents," she said at a press event organized by SEIU, the labor union. "So this is a huge raise."

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WORKERS' COMP

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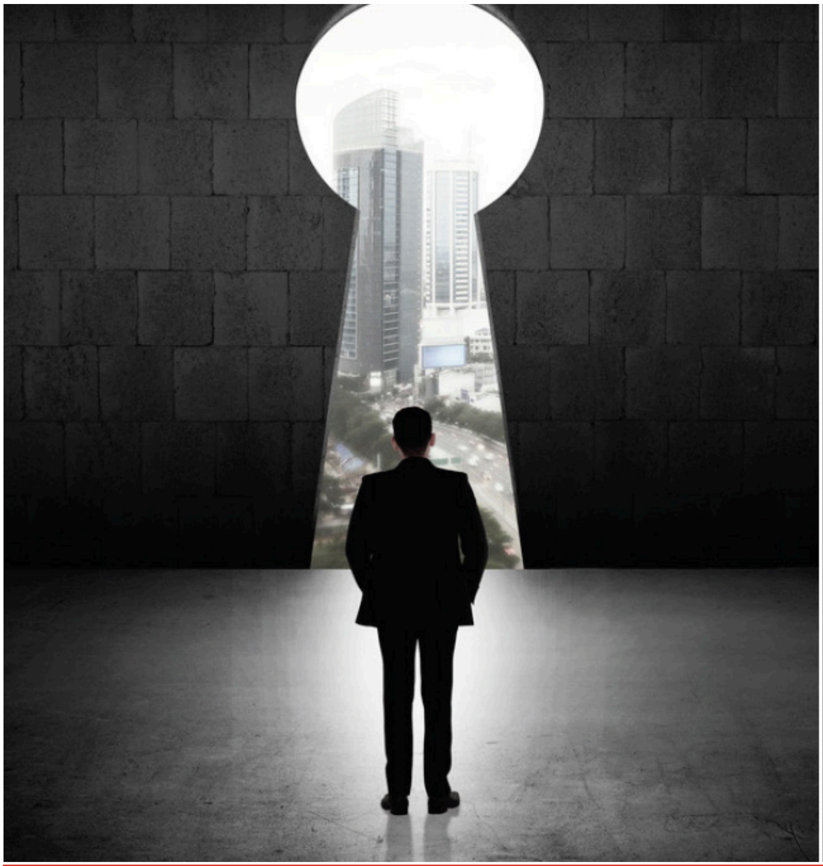

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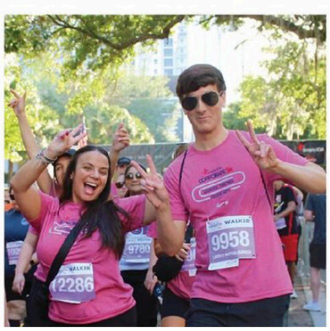

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