Voice of the CFO

A recurring conversation with CFOs on finance-related issues

November 2024

Chief Economist Diane Swonk shares insights on the road ahead for CFOs

CFOs know how to command attention, as well as pay attention. It was the latter as KPMG Chief Economist Diane Swonk, engaged CFOs with her economic experience on what's ahead in 2025 with a new administration and her expectations for a bumpy 2026. Her opening salvo focused on lowering expectations for change. New policies take time to be implemented and achieve results. She also counseled CFOs on the persistent nature of inflation that many know well from budgeting higher wages for workers to dealing with frustrated customers upset at higher prices. CFOs expressed interest in tariffs and tariff retaliation with Swonk taking CFOs through recent US history with tariffs and why this time around might be different. Finally, Swonk reminded CFOs about the law of unintended consequences as she explained how mass deportation could hurt economic growth and increase overall unemployment. Good news: It gets better before it gets worse.

On the CFO agenda

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Editor's note: These comments were shared on November 14, 2024, and reflect KPMG insights on the economy and the new administration.
Our perspective may change as developments evolve. Please visit KPMG Economics to stay current on all KPMG commentary.

The economy

A bumpy ride in 2026

CFOs have high interest in the economic outlook now that we're past the US election and looking ahead to 2025. KPMG Chief Economist Diane Swonk, with her keen grasp of the consumer mindset, labor markets, and the Federal Reserve, shared what she sees.

"It's important to think about the gap between what a political campaign promises and what is actually executed. Extremes are not useful to think about. Since policies take time to implement, the outlook for 2025 is not as much impacted as the prospects for 2026."

Swonk believes there is a good possibility of a fourth rate cut this year as a quarter point in December. She also conveyed how the Fed determines its actions.

"The Fed does not make policy based on what could happen. It makes policy based on where we're at, so nothing about tariffs or immigration policy changes is factored into Fed policy."

The strong dollar and the Fed's soft landing have lowered inflation. However, tariffs, tariff retaliation, and immigration policy could all combine to upset the apple cart in 2026.

According to Swonk, a slowdown in immigration, along with tariffs that are more broad-based, create more inflation and stoke stagflation, defined as the trio of high inflation, slow economic growth, and high unemployment. It's why she's forecasting the economy slowing to near stall speed by the end of 2026.

Many CFOs are frustrated by inflation and its impact on their businesses. A CFO for a food company is optimistic about the consumer but pessimistic about the cumulative effect from inflation.

"Real wages are up, and the consumer is doing better. But in three years and with cumulative inflation over 30 percent, we've taken prices up and our volume is down. Politicians are also saying that food companies are price gouging the consumer. We're very concerned about continued inflation and the impact that it will have on us and our profits."

Swonk has a slow phase-in of tariffs with more certainty around tax cuts and near-term Fed rate actions. The federal government needs to come up with a budget to replace the continuing resolution by December 20 and raise the debt ceiling at the start of the year. That adds sand to the gears of congressional actions but not necessarily executive orders. The worst of the downside effects of changes to policies on growth and inflation hit in 2026, more than a year away.

> "No party has been successful at reducing deficits."
>
> —Diane Swonk, Chief Economist, KPMG

Business adjusts

Tariffs, stagflation, and sweeteners

Like students in an advanced economics class, CFOs listened intently to Diane Swonk's commentary. CFOs were filled with questions about how her views would impact their own organizations.

Several CFOs wanted to know more about tariff retaliation and stagflation. In 2018, the Fed rolled out tariffs on big-ticket items like washers and dryers. Because the tariffs were targeted, the impact on inflation was negligible as was retaliation. The tariffs proposed by Trump 2.0 are across the board and hefty, increasing the risk of inflation and retaliation. The US hasn't had stagflation with policy missteps and external factors since the 1970s and the Nixon administration.

A global CFO with operations in China and the US is trying to assess what will happen when tariffs start to be implemented while a US-based CFO is worried about the geographic impact from tariffs. Countries and supply chains are already bracing for tariffs and shifting operations to Vietnam and Mexico.

"Content rules are going to be very important to determine if you're able to retain some form of a free trade agreement," remarked Swonk.

A CFO with an insurance company is on the front lines of regulation oversight and climate change. Margins are certainly tighter. As Swonk pointed out, hurricanes devasted the orange groves and vegetable crops. The result was the largest increase in the Consumer Price Index. There were also disruptions to travel that impacted the Producer Price Index (PPI). Weather events and disrupted supply chains delay deliveries and lead to higher prices and an increase in inflation. The appreciated dollar is forcing currencies in Canada and Mexico to depreciate and call into question the United States-Mexico-Canada Agreement (USMCA).

One area CFOs won't have trouble adjusting to is corporate tax cuts that Swonk refers to as sweeteners. CFOs can expect an extension of the Tax Cuts and Jobs Act in full and a potential goody bag of accelerated depreciation, interest, extension of bonus depreciation, and more, but all require delayed gratification. As Swonk noted, even with a unified government, there are hurdles to getting sweeteners through the lengthy legislative process. It's helpful to remember the gap that Swonk mentioned between what a political campaign promises and what is executed in due time.

> "We're in a tough spot where there is still inflation."
>
> —CFO for a food company

Workforce impact

Wages, benefits, and deportations

The CFO plate has been full of workforce issues like return to work and merit and performance increases. Swonk weighed in on return to work and what studies show.

"So far there's been no evidence that return-to-office mandates increase productivity growth," said Swonk. "Return-to-office mandates force parents to pay for childcare costs or one parent, mostly women, lose work hours. The blow to low-wage women and their hours worked is quite stunning. Hybrid models show much more promise on when it comes to boosting productivity growth."

One CFO expressed a wish shared by many CFOs for different models showing inflation and tariff trends with employer side wage reaction to various scenarios. A CFO for a multinational electrical distributor knows how to hire and retain workers but might benefit from a model offering insights to base decisions on.

"We're accustomed to quickly adjusting our wage rates in markets where we feel pressured. We always did that annually, but we can't anymore. We must react quicker."

It's not just wages weighing on CFO minds. It's also benefits. There is a trend toward middle management helping subsidize benefits for lower-wage workers. Other companies offer a tiered structure for healthcare coverage with middle and senior leadership contributing at a different rate.

Swonk articulated what she expects based on immigration with and without a large increase in deportations.

"There is an initial upward pressure on wages if immigration slows dramatically. The research on deportation by counties in the 2010s revealed that those with the largest deportations experienced the largest net employment losses for native-born workers."

Imagine a plant employing both native and immigrant workers. Once the immigrants are deported, the plant doesn't have enough native workers to run the shifts, so the firm is forced to close. That's how a mass deportation can have a contagion effect on the overall employment picture.

Swonk continues. "Given the immigration outlook, even with the most benign scenarios, it's much harder for the Fed to nail a soft landing without more pain. Even if we do get the December rate cut, the Fed doesn't want to rekindle the cooling numbers of inflation. The US economy is more prone to inflation. When you curb growth and fight inflation with higher rates and unemployment goes up with the deportation of workers, that's when we worry about stagflation."

> "So far there's been no evidence that return-to-office mandates increase productivity growth."
>
> —Diane Swonk, Chief Economist, KPMG

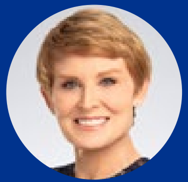
Key considerations

- Follow KPMG economists on their social media outlets
- Email Diane Swonk with your CFO-specific questions
- Sound the alarm to the board for 2026 and plan ahead

Additional resources

Policy shifts & the economy: Inflation & higher interest rates

Economic Outlook 2025 with Chief Economist Diane Swonk



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