Introduction

 On September 15, 2008, Shearson Lehman filed for bankruptcy, kicking off – or making manifest for all to see – the most significant economic collapse since the Great Depression.

The federal government’s response was an economic stimulus package which was considered by some at the time and by almost all economists in hindsight, as insufficient to offset the substantial depression in business investment and consumer demand. As a result, there was a slow recovery which lasted until the mid-2010s. While there was a lengthy period of high unemployment and slow economic growth, neither the collapse nor the recovery resulted in increased inflation. This was in keeping with basic economic theory – demand decreased, which has a deflationary impact on prices.

 By the mid-2010s, the economy had overcome the doldrums of the Great Recession. Investment increased, businesses expanding, incomes started to rise and GDP growth resumed at or near the pace that it had been running prior to 2008.

 In March 2020, COVID shut down virtually all economic activity in the country for a period of months – and more than a year in some places. Suddenly, there was a severe spike in unemployment, production stopped and imports never left their point of origin. For a time, there was a combination of empty shelves and no buyers. Uncertainty reigned. At this point, the federal government – under Trump and then Biden – took the lessons of 2008 to heart and passed large economic recovery packages to boost both consumer and business confidence. Demand soared while supply remained stagnant. Again, Econ 101 – inflation followed. There was no debate about the fact of inflation; the dispute was over whether it was “transitory” or was going to remain persistent.

 Unemployment rapidly decreased in 2021-22, even while stimulus funds were being funneled to consumers - keeping demand high while the supply chains struggled to keep up. Inflation continued, but business growth returned. Beginning in 2023, even as the official figures for inflation showed that it had returned to historically normal levels (2-4%), the lived experience for most people has been that prices have gone up and never came back down. 92 percent of consumers in a KPMG survey reported increased cost of living and 75% reported the increase to be more than 5%.

 One of the primary reasons for the seemingly dramatic change in prices is that it has been almost 50 years since the U.S. experienced a serious inflationary cycle. Throughout the 1970s, prices rose steadily across almost all sectors of the economy.

Year Inflation Rate Federal Funds Rate Business Cycle\* Events Affecting Inflation

1970 5.60% 5.00% Trough (0.2%) Recession

1971 3.30% 5.00% Expansion (3.3%) Wage-price controls

1972 3.40% 5.75% Expansion (5.3%) Stagflation

1973 8.70% 9.00% Nov. peak (5.6%) End of the gold standard

1974 12.30% 8.00% Contraction (-0.5%) Watergate scandal

1975 6.90% 4.75% March trough (-0.2%) Stopgap monetary policy

1976 4.90% 4.75% Expansion (5.4%)

1977 6.70% 6.50% Expansion (4.6%)

1978 9.00% 10.00% Expansion (5.5%)

1979 13.30% 12.00% Expansion (3.2%)

1980 12.50% 18.00% January peak (-0.3%) Recession began

1981 8.90% 12.00% July trough (2.5%) Reagan tax cut

*Historical US Inflations Rate by Year: 1929 to 2025,* Investopedia

 From 1991 to 2020, however, there was only one year (2007) with an inflation rate higher than 4%. As a result, a majority of Americans have not experienced inflation and more importantly, chronic inflation.

 Business inflation moves more slowly than consumer inflation. This is one of the reasons why the official figures seemed to suggest less inflation than our daily experience. It is much faster for the price of eggs or bacon to rise at the grocery than for John Deere to increase prices on the farm equipment that is used in the production of the eggs and bacon. But lag time in the business inflation does not suggest it is not happening, and indeed more may be on the way.

 Shrinkflation – Finally, another reason why “inflation” has not been seen as a major issue in the economy over the past 35 years is that US businesses have avoided monetary inflation has by utilizing product shrinkflation. “There sure is a lot of air in this bag of chips. A ‘fun size’ candy bar was a lot more fun when we were kids. That new ‘easier-to-hold’ sports drink bottle is the same height, but thinner in the middle. And why is Fluffy suddenly doing her ‘I’m hungry’ meow two hours after dinner? It’s not your imagination—it’s shrinkflation (a [portmanteau](https://www.britannica.com/topic/portmanteau-word) of “shrink” and “inflation”), or what marketers sometimes call the “grocery shrink ray.” Shrinkflation is a gradual [price inflation](https://www.britannica.com/money/what-is-inflation) that affects all consumers.” Doug Ashburn, *Shrinkflation: Inflation Hiding in Plain Sight*, Britannica Money.

 Products which seemingly have not risen in price can do so by reducing the amount of product being sold. This approach has become more dramatic in the years since COVID, and as a result of widespread coverage in our media-saturated culture, but it has been around for several decades. My favorite example is World’s Finest Chocolate Bars. This staple of fund-raising was a full 3 oz. of almond-studded chocolate for just 50 cents, when I sold them for the Sandy Springs Little League in 1970. My grand-daughter is selling a 1.65 oz bar for $2.00.

Impacts of Inflation in the Commercial Credit Industry

 *Client Behavior Shifts in Response*

* Businesses prioritize cash flow; less likely to outsource collections immediately; We’re seeing older accounts too, some borderline on SOL in that debtor’s state. Clients seem to be hoping we can settle some older debts, written off long ago.
* More selective in choosing collection partners; many clients use more than one agency, in some cases, we’ve seen clients choose to eliminate one (or more) so the agency can dedicate collectors to their portfolio and have a smoother client-services relationship. Client-service departments have kind of become a thing of the past, clients no often prefer to have 1 or 2 points of contact, be it a specific collector or manager, where all requests, questions and the like can be handled more efficiently.
* Push for lower contingency fees or bundled services. New clients, absolutely this happens. Unfortunately, sales reps today tend to accept what the new client demands, without any negotiation, (if that’s even a possibility), which can result in the legal collection claims operate at a loss for the agency.
* Altered credit/collection standards: The period after the Great Recession featured a dramatic reduction in credit granted and tightening of credit standards. Over time and with improved economic conditions across the board, credit was loosened again, creating greater opportunities for debtors to run up unpaid balances. In the event of a new downturn, credit may again be tightened with fewer claims placed as a result of fewer write-offs.
* Merchant Cash Advance: The creation and proliferation of the Merchant Cash Advance industry in the aftermath of the Great Recession has continued. Businesses which might have had four $10,000 accounts go into default over time instead obtain an MCA, typically for more than the outstanding debt load, which defaults in a single instance for a larger – and less collectible – balance. Inflationary pressures on the borrowers looking to MCAs for cash relief will increase the balances owed on these financial vehicles, possibly leading to more defaults, which will lead to more uncollectible placements.

*Impacts on Collection Agencies*

* Increased operating costs, especially in compliance and tech, and personnel. Agencies may be trying to do more with less, including sales reps.
* Higher delinquency rates = more demand for services: While client’s debtors may increase, they are hanging onto claims longer, placing later than they should or we would like, and in many cases, allowing less of a credit line.
* But: inflation may delay payments to agencies as clients conserve cash. We have seen some clients delay paying fees on direct payments, and become far more selective which accounts they choose to sue. Out-of-pocket legal costs/expenses are taken far more into consideration than ever before.
* Greater competition or fee pressure. New clients dictate what they will pay to conduct business with us, used to be the other way around, so we get slammed on fee more now than ever before. Most clients though who have been with us over the long-term do not.

 *Impacts on Commercial Law Lists/Directories*

* More law firms/collection agencies seeking listing = revenue opportunity
* But: budget cuts may reduce advertising or subscription spending
* Need to demonstrate ROI in tighter economic conditions

 *Impact on Commercial Collection Law Firms*

* More legal actions due to increased defaults – Clients are holding accounts longer before placement, attempting to secure payment before outsourcing collection efforts. Studies by Credit Research Foundation and others demonstrate repeatedly that collectability decreases dramatically over time.
* Greater demand for litigation vs. soft collections - Fewer accounts placed with attorneys will be resolved without litigation, increasing costs to clients and to the firms.
* Less demand for litigation vs. soft collections? The converse of the earlier point is also true for more creditors. Faced with the potential for additional out of pocket expenses on contingent collections, more creditors are hoping for some percentage of accounts to be resolved with an attorney demand letter. For most attorneys, ADLs are not a profit center; the costs are small but the success rate is quite low and there is still some amount of initial review, office expense, and file monitoring.
* Rising court and filing fees – As judicial systems face inflationary pressures, over time there are increases in filing and other fees to enhance court revenues. Clients and agencies understandably resist requests for additional upfront costs, but cost deposits are seldom a profit center for firms and at times costs must be advanced to keep a case moving against which there is pushback from the clients and agencies.
* Rising overhead – IT cost increases; rent increases; salary demands. All firms strive to increase efficiency in order to improve the margin on collection cases. Efficiency requires capable personnel. Capable personnel remain in demand and inflation increases the cost for such people, which reduces the margins again. The alternative is to replace personnel, which costs additional time for training, etc. before eventually leading to the same result.
* “Hidden” costs to firms – in addition to the office overhead costs, there are a number of additional costs that may not appear as a line on the ledger. The federal mileage reimbursement is one such cost. This may not be a significant issue for some attorneys, particularly in the smaller states in the Northeast or with population centers in close proximity, but this can be a significant expense item in larger states.
* Clients may be slower to pay legal invoices
* Reduced collection revenue vis-à-vis expenses. Inflation on the producer end will result in increased fees based on larger dollar balances to be collected. However, during the delay from clients holding accounts and the general lag time in the business cycle, the expenses are already rising before the revenues can do so.

 *Impacts Across the Industry*

* Marketing. The costs associated with marketing are rising, such as attendance at this very event.
* Holding onto hardware longer. As costs have risen, it is tempting to hold onto existing business hardware – from technology to furniture – rather than replace it before absolutely necessary.

Opportunities for Adaptation

* Tech and automation to reduce costs
* Value-based pricing models
* Enhanced marketing via directories and reviews
* Tighter collaboration among triadic partners to retain clients
* Adjusting budgets to reflect inflationary pressures. For example, we increased the monthly marketing budget this year to account for the higher costs of law lists and meetings. If there is no increase, or one smaller than budgeted, it is “found money”
* The biggest solution of the 21st Century – outsourcing as many expenses as possible to the customers. It started with self-serve gas stations; now it almost ubiquitous: scanning your own groceries, filling out medical information forms online before visiting the doctor. In our industry, creating a portal for the users to access. If you can find a way to shift some of the expenses or administrative tasks to your counter-parties, you can reduce the costs and increase the margins.

Where are we now?

 Contrary to many forecasts, the economy has not stalled and inflation has not skyrocketed. For example, for many years, 5% unemployment was considered full employment. Recent upticks in the unemployment rate still have it below that threshold. Inflation persistently remains above the Federal Reserve’s target rate of 2% - hovering up or down monthly depending on external factors as it typically does – but it is remains small, particularly in comparison to the chart produced above. However, there remain significant headwinds for the economy.

 **Tariffs are inflationary.**  “When the government imposes a tariff – a tax – on an imported good, that money comes from someone. Although the importer actually pays the money to the government, that cost ends up getting shared among the exporter in the foreign country, the importing company in the U.S., and the consumer. Who pays how much depends on the product in question, what kinds of substitute products are available, and how competitive the market is.” Matthew Rooney, Managing Director of the Bush Institute-SMU Economic Growth Initiative. While the doomsday scenarios posited in April have not come to pass, business have been increasing costs in order to absorb the additional expense of tariffs. “Once those import taxes kicked in, U.S. consumers in August shelled out 21% more for beans than a year earlier, according to CPI data.

 Other products that are heavily imported and that, as of August, are seeing large price increases compared with a year ago include:

* Audio equipment: +12%
* Household furniture: +10%
* Bananas: +6.6%
* Women's dresses: +6.2%
* Watches: +5.6%
* Motor vehicle parts: +3.4%”

Megan Cerullo, *Money Watch, CBSNews.com*, September 12, 2025.

To the present moment, the predicted inflation from the imposition of across the board tariffs and from specific larger tariffs on imports from some countries has not occurred. “Through June, US consumers had absorbed 22% of tariff costs, but that share was expected to rise to 67% by October, according to an August 10 estimation from Goldman Sachs economists. That assessment led to a [demand from [President]](https://www.cnn.com/2025/08/12/economy/trump-goldman-sachs) Trump that the investment giant fire its chief economist.” Alicia Wallace, *CNN.Com*, August 2, 2025. Unless the Supreme Court rules that the Trump administration cannot legally enact the current tariff regime by executive order, tariff costs will remain plugged into prices for imported goods.

 **Uncertainty** about tariffs has caused a decrease in business investment. “Overall, in 2025, we predict business investment to rise just 0.7%, slowing from the 3.7% recorded in 2024.” *Deloitte* *United States Economic Forecast, Q2* (Michael Wolf, Global Economist) If business purchasing does decrease as the predicted soft investment forecasts, then there will be less equipment sales. For example, in the Agriculture sector, John Deere reported in August that it had a 9 percent decline in net sales and 26 percent drop in net income. Fewer farmers buying new Deere equipment leads to fewer collection claims in areas of the country with large farming operations.

 Additionally, much of the current business investment is being driven by AI – not the technology but the necessary infrastructure to support the massive space and energy needs for the computers to run it. According to the Dodge Construction Network, in 2025, spending on data center construction, which does not include the cost of the technology going into the buildings, will exceed investment in traditional office buildings. The 0.7% growth forecast by *Deloitte* includes this upswing in hard construction.

 **Restricting immigration and increasing deportation** causes impacts across the workforce. “The general wage rate, averaged across all workers, fall slowly over time relative to current policy before deporting, eventually falling by 0.5 percent. So does GDP per capita. Intuitively, while unauthorized low-skilled workers are mostly substitutes for authorized low-skilled workers, unauthorized low-skilled workers are complements to high-skilled workers. Higher-skill workers, despite being fewer in number, still have a larger impact on the wage base and GDP. They are generally harmed by deportation more than authorized lower-skill workers are helped. A higher-skill worker also contributes more to taxes than lower-skill workers, especially in the presence of a progressive income tax system.” *Mass Deportation of Unauthorized Immigrants: Fiscal and Economic Effects*, Penn Wharton School of Business, University of Pennsylvania, July 28, 2025.

 Additionally, while the overall unemployment figure has not increased dramatically, all indications are that the current steady employment is limited to a single sector – healthcare. “If it weren’t for job gains in the health-services sector, it would barely be growing at all.” Justin Lahart, *Healthcare Jobs Are a Rare Bright Spot in the Stalling Labor Market*, Wall Street Journal, September 8, 2025. The most recent report from the Bureau of Labor Statistics reflected little change in virtually of the other industries surveyed. The Employment Situation – August 2025, Bureau of Labor Statistics, <https://www.bls.gov/news.release/pdf/empsit.pdf> Sept. 5, 2025.

 The final uncertainty in the economy revolves around the Trump Administration’s actions vis-à-vis **the Federal Reserve**. The Fed Funds Rate has been a constant source of agita for Trump: in 2024, he predicted that the Fed would cut interest rates in an attempt to harm his campaign; in 2025, he has been vociferous in his condemnation of the Fed refusing to cut rates. (He simultaneously argues that the economy is booming, which is typically a reason to keep rates higher – to avoid the economy overheating.) With his attempt to fire one of the members of the Board of Governors and his repeated threats to fire the Chairman, Trump has put concern over the continued independence of the Fed onto the front pages.

 At the time of submission, it appears that the Fed will engage in one or more rate cuts over the rest of the year, possibly due to the pressure being applied by the White House. However, slowing employment numbers are also used as a basis for encouraging the Fed to reduce rates further. (Trump again argues both sides – seeking to cut rates, which makes sense if unemployment is increasing, while arguing that the Bureau of Labor Statistics is improperly manipulating the figures when they show an uptick in unemployment.)

 All of these factors point toward more difficult economic times. Whether any of the present circumstances prove to be enduring, planning for the possibility is essential to business success going forward.