AUGUST CREDIT OUTLOOK

Declining Housing Activity Signals a Slowing Economy

Housing

Mortgage applications have hit a 22 year low and foreclosures are up 150% from last year. Overall activity has declined in the housing sector as the economic outlook has soured due to high inflation and increased rates. This has negatively impacted buyer affordability and eroded demand for home building activities. A slowing housing market is typically a good indicator of cooling economic activity.

Unemployment & Inflation

The U.S. added 528,000 jobs in July, which was more than double what was anticipated. The unemployment rate dipped slightly to 3.5% from 3.6% as the U.S economy has recovered all jobs lost from the pandemic. The consumer price index was unchanged, holding at 8.5% over the last 12 months. This was thanks to an offsetting scenario caused by declining fuel costs and increasing food costs.

Insolvencies

The total number of new U.S. bankruptcy filings in July were down by 13% year over year, but the first 6 months of 2022 show bankruptcy filings pushing upward. The month of February showed new filings across all chapters increased by 3.2% over prior month and March filings advanced to 33.5% over previous month. It is likely this trend, along with restructuring activities, will tick upwards, as companies look for creative strategies to stay solvent because of challenging and expensive borrowing conditions.

CURRENT & EVOLVING CREDIT RISKS

Recession or No Recession

The United States has now recorded two consecutive quarters of declining GDP, as real GDP contracted at a 0.9% rate in the second quarter. Gross private domestic investment—spending by businesses—contracted 13.5% in the second quarter and inventory growth slowed. True recession risk continues to tick up and tightening credit conditions will pressure credit quality for the remainder of the year.

Reduced Liquidity, High Interest Rates, Increased Defaults

Defaults have remained low so far this year, but higher interest rates and dwindling liquidity will lead to an uptick in these numbers. The industry's median rating fell to 'BBB+' from 'A-' and it is anticipated to be the third consecutive year where downgrades surpass upgrades. This is a credit risk for companies that have lopsided balance sheets and tight liquidity.

Rising prices:

As 2022 Q3 gets underway, companies across all sectors continue to navigate through a bevy of financial obstacles.The Producer-Price Index fell by 0.5% in July, but year over year increased to 9.8% falling into single digit growth compared to prior months. As prices continue to broaden, this will place stress on companies' operating activities and likely impact overall credit metrics.

U.S. Annual Inflation Rate