OCTOBER CREDIT OUTLOOK

Housing, Unemployment, & Manufacturing Tumble

Housing

Home prices have started to fall for the first time since the Great Recession as rates have more than doubled. Housing is the most rate sensitive industry with new home sales, pending home sales, and new builds all trending downwards. Listings are lingering longer with large cities experiencing month over month decline as demand has eroded. Home prices are expected to fall in most areas with overall modest declines, but areas with huge price surges can expect a dip in tandem.

Inflation

Inflation has ticked slightly up and remains hot for the month of September. The consumer price index rose by just .01% in September and 8.2% over the last 12 months. The slight increase is attributed to shelter, food, and medical related items. Despite this, gasoline was down around 5.0%, which helped offset any larger increases. The Fed's target of 2.0% inflation is still far away and they will continue their efforts in taming inflation; another 75-basis hike is expected.

Unemployment & PMI

The U.S. added 263,000 jobs in September, which is finally showing signs of cooling as the labor market tightens. The unemployment rate dipped to 3.5% from 3.7%, which was back to its July level and 50 year low. Certain industries, like tech, are continuing with layoffs due to weakening global economic conditions. Global manufacturing has fallen into a contractionary phase with its second month of worldwide production dropping. Downturns are projected in 21 out of 31 countries. A slowdown in both added jobs and global manufacturing are leading indicators of a dwindling economy.

CURRENT & EVOLVING CREDIT RISKS

Rating Downturn

New potential downgrades are out pacing upgrades 3 to 1. Consumer products continue to lead negative outlooks due to excessive inventory, with more than a quarter on credit watch. The next leading industries are transportation, chemicals, healthcare, forest products, and building materials, which all saw moderate increases in negative bias. A decline in current and future ratings will impact access to capital and raise borrowing rates.

Unfavorable Contracts

A recurring trend from the early 2000's appears to be resurfacing in the auto supply base. Inflation and other challenges are making some contracts unsustainable, and some firms are choosing bankruptcy or the threat of it, to renegotiate contracts. This trend could bleed outside the automotive segment and manifest itself first in the weakest companies.

Bankruptcy Trending

Business bankruptcy filings rose 7% across all chapter's year over year. Chapter 11 filings were up 76% in September when compared to prior year. This accounts for two straight months of an increase in filings, which appears to be a developing trend. Challenges are piling up for both global and regional markets. Many are wondering how severe of a recession the markets will witness. We believe this trend will be higher due to the changing macroeconomic climate coupled with continuous fiscal tightening policies.

U.S. Annual Inflation Rate