



## SEPTEMBER CREDIT OUTLOOK

# Economic Weakness Weighs on Credit



### Inflation

Inflation cooled slightly, but it remains at an all-time high. The consumer price index rose by just .01% in August and 8.3% over the last 12 months. The slight increase is a twofold scenario which can be attributed to rising rent, food, natural gas, electricity, and medical related items. Despite this, gasoline fell by more than 10%, which helped offset all the other increases. The Fed will likely continue their efforts in taming inflation and another rate hike is expected.



### Unemployment

The U.S. added 315,000 jobs in August, which was the lowest monthly gain since April 2021. The unemployment rate rose slightly to 3.7% from 3.5% and was slightly above expectations. August has seen a wave of layoffs with no industry being immune. Companies are blaming the rapid hiring process during the pandemic, increasing costs, and a potential slowdown in business. Some companies have started to rescind job offers, freeze hiring processes, restrict travel, revise future earnings, and halt growth strategies due to the economic uncertainty. The corporate layoff trend is a concern and could persist, signaling a weak long-term outlook.



### Insolvencies

Business bankruptcy filings rose 6% in August, compared to August 2021. This was a 15% increase month-over-month when compared to prior year. This is the first time in many months where all chapter's month-over-month had increased, which is a credit concern. This trend will likely gain momentum as access to cheap capital shrinks and high debt loads become more difficult to amend or extend.

## CURRENT & EVOLVING CREDIT RISKS

### Refinancing Risk

Higher interest rates are already tightening credit markets for weaker credits. Companies looking to refinance maturing debt may find the interest burden unsustainable as options become limited.

### Credit Availability

Banks have tightened lending standards across all loan categories, according to a Loan Officer survey, inferring deteriorating market conditions. Lenders feel that high inflation will lower borrowers' ability to service debt, increasing their exposure to risk.

### Energy Shock

Doing business with European companies could become riskier in the coming months. As winter nears, Russia may cutoff Europe's natural gas supply, which would limit supply and catapult prices. Energy intensive sectors will need to pivot quickly or face shutdowns to minimize the impact. Many aluminum smelters are already feeling the squeeze. This energy crisis suggests more difficult credit conditions may lie ahead.

### U.S. Annual Inflation Rate

