

Economic Update

Perspective by CRF: Special Edition

CRF's Annual Focus on the Economy for 2026

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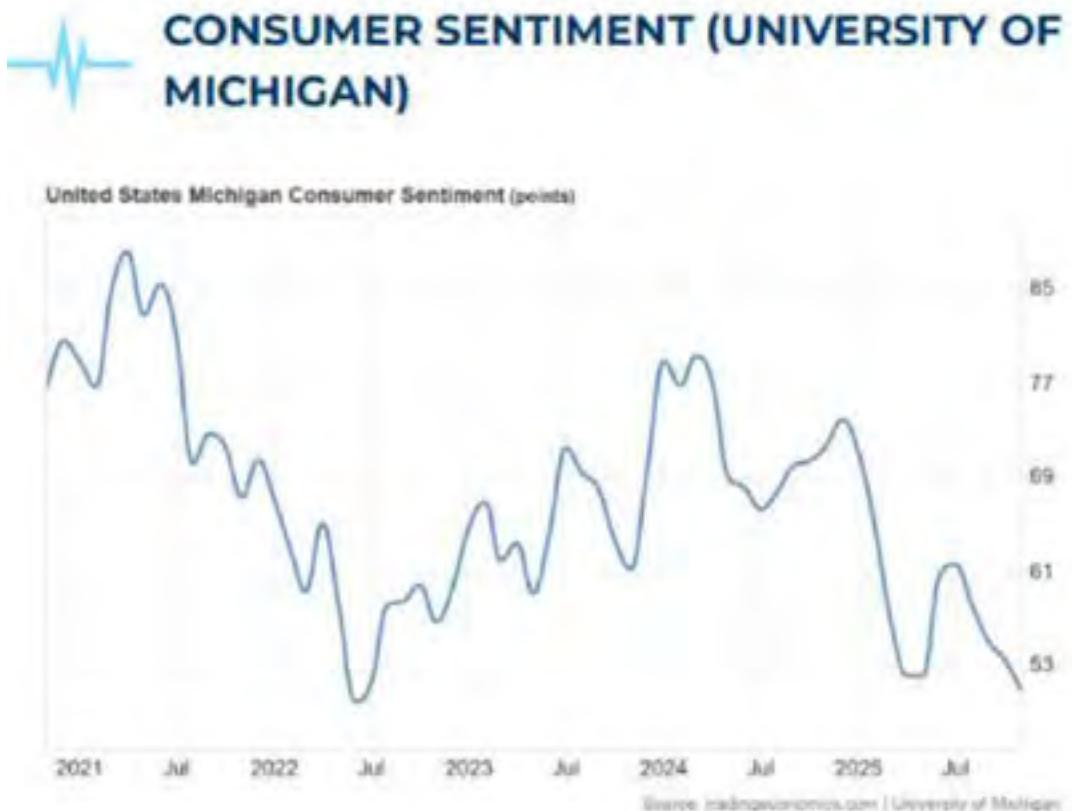
Economic Outlook for 2026

By: Scott Friedman, Chief Credit Officer, Pulse Ratings

As expected, 2025 saw significant uncertainty across the retail landscape as consumers faced mounting pressure from tariffs/inflation, rising debt, and a cooling labor market. These dynamics contributed to a volatile and often challenging retail environment. Looking ahead, it appears 2026 could bring more of the same. Tariffs, inflation, job cuts, elevated consumer debt, and the risk of government disruption all remain in play, pointing to another year in which low to middle-income households may continue scaling back on discretionary spending.

The US Government shutdown, which lasted for a record 43 days, was "resolved" recently as funding for the majority of federal agencies was extended until the end of January 2026. That being said, we see this as another case of kicking the can down the road, as many spending issues remain unresolved. The latest government shutdown resulted in an \$11 billion hit to the US economy. As a reminder, the SNAP program that supports the food-related needs of 42 million low-income people was partially impacted in November. On a positive note, the funding for the SNAP program was extended until next September as part of the recent agreement, which should keep it fairly insulated from whatever happens in January.

Even with the lifting of the government shutdown, the University of Michigan Consumer Sentiment Index fell to 51.0 in November from 53.6 in October, as high prices and weakening income continue to stress consumers. It is worth noting that the reading is at the second-lowest level on record.



As has been the case for the past few years, there seems to be mixed signals between how consumers feel and how they act. Case in point...US Retail Sales have increased 3.9% over the past year, while at the same time US Consumer Sentiment has plummeted to near record lows. We've never seen a divergence this wide between what consumers are saying and what they are doing.

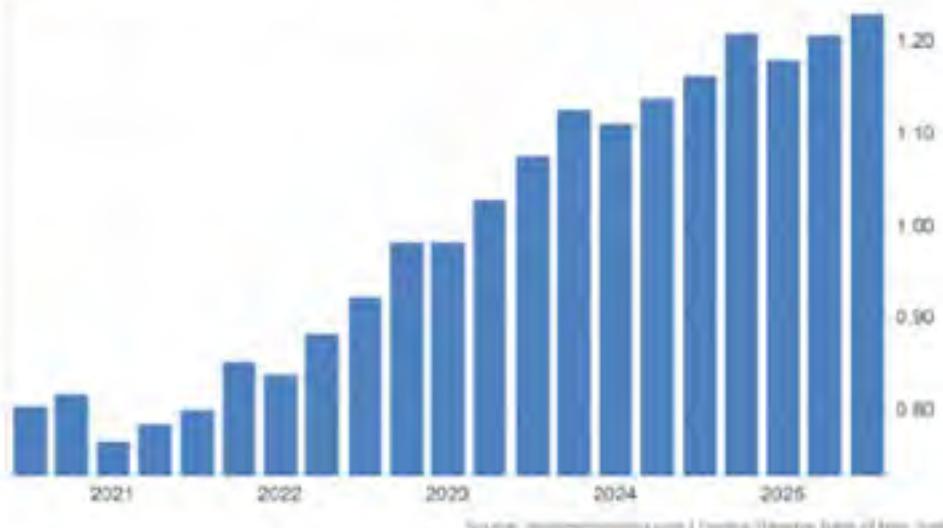
U.S. RETAIL SALES



If consumers are continuing to spend despite their views towards the economy, the question is – how are they paying for it? The answer seems to be, on credit. Elevated credit card debt remains a concern and a potential deterrent to future consumer spending. As per the New York Fed data, credit card balances increased by \$24 billion during 3Q25 to \$1.23 trillion, which is another all-time high. More concerning is the fact that the flow into serious credit card delinquencies remained heightened at 7.05% in the third quarter. As a reminder, the missed federal student loan payments that were earlier paused from being reported to the credit bureaus are now appearing in credit reports. As such, around 9.4% of the entire student debt is now 90+ days delinquent, reflecting rising financial stress on the younger borrowers. The rejection rate for all types of credit is at a record high, per the New York Fed, likely as banks tighten lending standards amid macroeconomic uncertainty and high delinquencies.

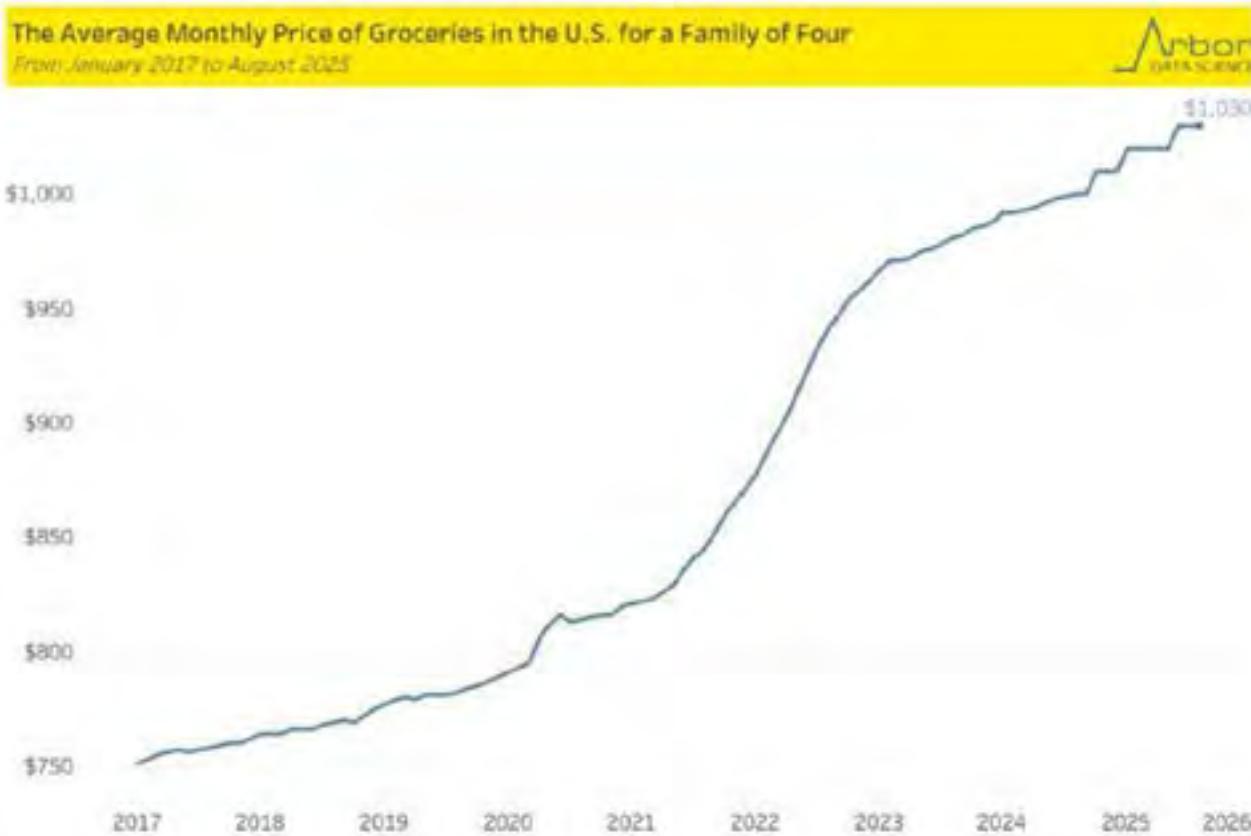
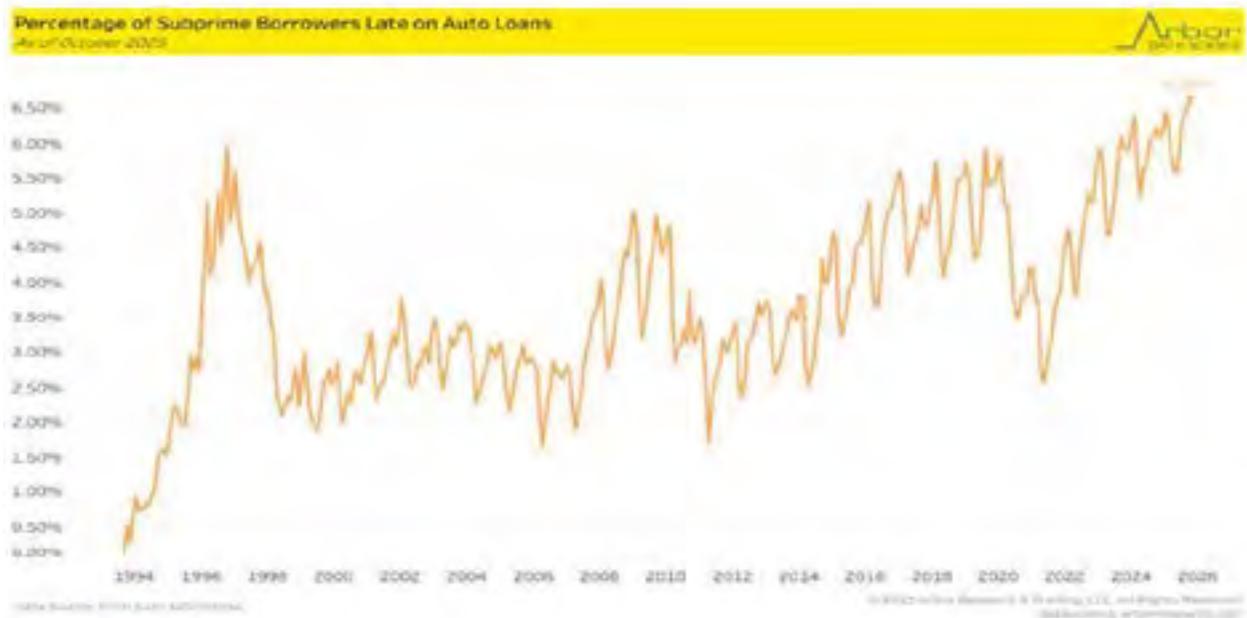
US CONSUMER CREDIT CARD BALANCES

United States Debt Balance Credit Cards (Trillion USD)



Source: https://www.consumers.com | Federal Reserve Board of New York

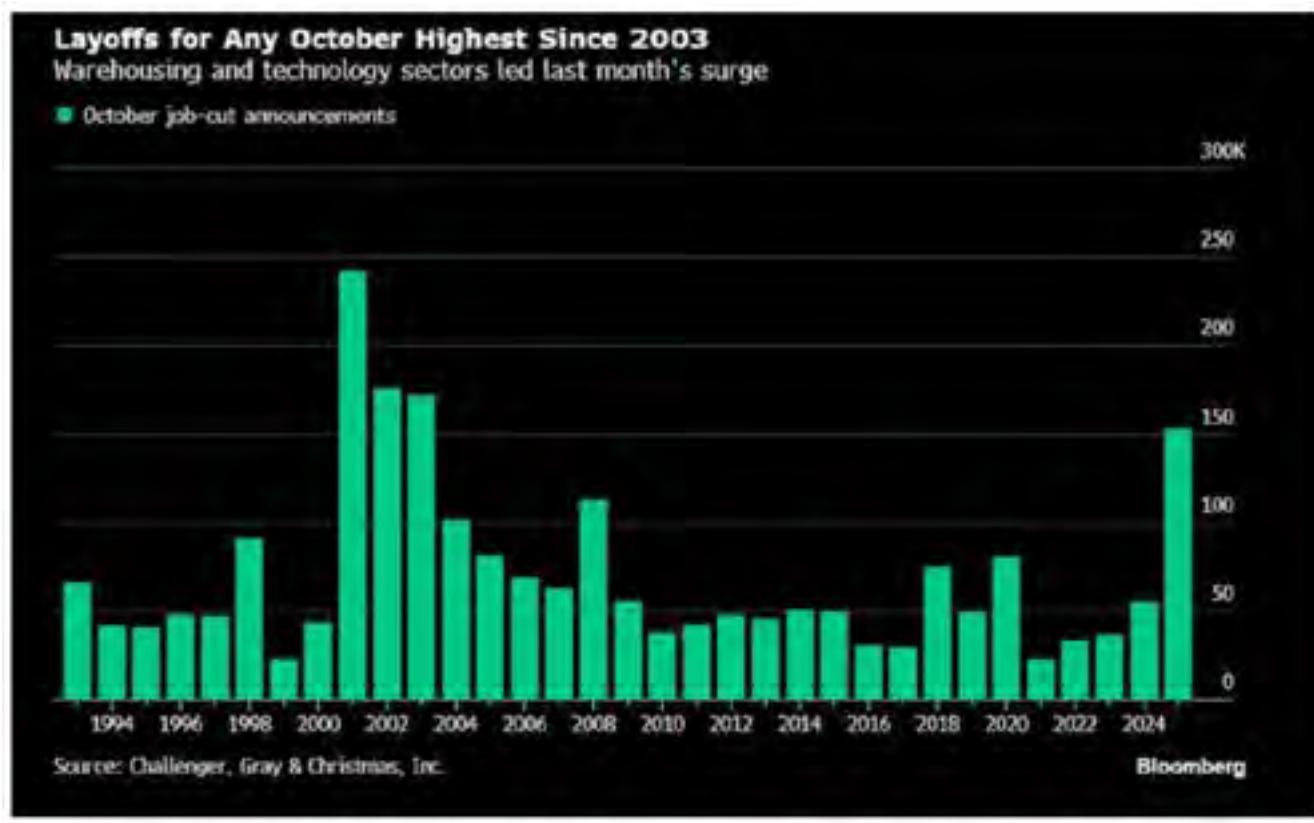
Credit cards and student loans are not the only obligations that consumers are falling behind on. According to Fitch, auto loan delinquencies (60+ days) among subprime borrowers hit a record high of 6.65% in October. Since consumers need their vehicles to drive to and from work, auto loans are usually one of the last things people will fall behind on. However, even more important than vehicle payments is putting food on the table. According to Feeding America, the average monthly price of groceries in the US for a family of four has gone up to \$1,030. No wonder credit card and auto loan delinquencies are rising. As such, these elevated delinquencies are concerning and speak to the overall state of consumers as we look out into 2026.



Data Source: Feeding America's Map the Meal Gap study, which uses food price data contributed by NielsenIQ, the Urban Institute's "Data USA"® Cover the Cost of a Meal in Your County™, and the Bureau of Labor Statistics' Consumer Price Index for all Urban Consumers (CPI-U), adjusted via Federal Reserve Economic Data.

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Overall, the labor market remained resilient in 2025, but there are signs of cracks heading into 2026. US companies announced the most job cuts in October in more than 2 decades with AI adoption, softening consumer and corporate spending, and rising costs driving the layoffs. Among the names of the companies announcing layoffs were Verizon, UPS, Amazon, Target, GM and Paramount.



These announced layoffs came after the long-delayed September jobs report was released, which saw the US economy add better-than-expected 119,000 jobs during the month, an improvement from the 4,000 jobs lost in August. On the flip side, the unemployment rate ticked up from 4.3% in August to 4.4% in September, its highest level in four years.

The tariff narrative entered the discussion in early 2025 and it has not gone away, with plenty of peaks and valleys. Most recently, the United States struck a deal with China to ease tariffs on imports from China imposed to restrict fentanyl flows by removing 10% of the cumulative rate. In addition, the US will maintain its suspension of heightened reciprocal tariffs on Chinese imports until November 10, 2026. To note, the current 10% reciprocal tariff will remain in effect during this suspension period. Recently, tariffs on over 200 food and agricultural products were rolled back as customers are grappling with higher grocery prices. As a reminder, a case is ongoing in the Supreme Court to determine the legality of tariffs, the outcome of which could have serious consequences for 2026.

US headline inflation rose to 3.0% in September, climbing up from 2.3% in April and reaching its highest level since the beginning of 2025. This increase came despite the fact that tariff impacts on prices have not been as pronounced as previously expected due to rollbacks on these hikes. In addition, many vendors and retailers have absorbed a major chunk of tariffs to try to protect consumer demand. Even so, we would be remiss not to mention that the prices have nonetheless moved in the wrong direction. The US Bureau of Labor Statistics has indicated that it will not be able to release the October inflation report in the aftermath of the disruption from the government shutdown.

The markets remain ambivalent regarding the path of interest rates in 2026. As expected, the Fed lowered its benchmark interest rates by another 25bps at its October meeting in addition to the 25bps cut it made in September amid increased downside risks to the jobs market. The rate cut came despite the unfavorable

inflation trends. However, the rate decision for its December 9-10 meeting becomes increasingly complicated as there was a dearth of government data releases for October, with Fed Chair Jerome Powell likening the situation to "driving in a fog." The labor report will now be released on December 16, retail sales on December 17, and the inflation report on December 18 for the November data, all of which are after the next FOMC meeting. The markets currently expect the Fed to lower its benchmark rate by another 25bps to the 3.50%-3.75% range in December, but the odds of the rate cut have diminished considerably and there is a chance that the Fed might hesitate and keep it unchanged due to the lack of relevant data.

Lastly, it is worth noting that the lower-income consumer continues to be the most adversely impacted by the current economic volatility. To this point, in its recent earnings call, Walmart stated that lower-income customers have been under additional pressure and, as such, have evidenced some moderation in spending in that income cohort. Elsewhere, Chipotle noted that the 25 to 35-year-old customers are particularly feeling pressured, a trend that it believes is not unique to Chipotle.

As we look ahead, we expect consumer spending trends to remain bifurcated, with affluent consumers continuing to shop while low- and middle-income shoppers likely remain cautious in their spending, especially on discretionary items.

About the Author:

Scott Friedman joined Pulse Ratings as Chief Credit Officer in June 2023. Prior to joining Pulse, Scott served as the principal at Scott Friedman Consulting/Olympus Peak Consulting since 2009, providing in-depth credit analysis, financial market insight, insolvency valuation work and credit risk mitigation alternatives to clients that include some of the world's largest consumer product companies. Scott also served as the Head of Trade Claims and a member of the investment team at Olympus Peak Asset Management, a credit fund with assets under management in excess of \$1.7 billion. Prior to starting his own firm, Scott was a Vice President in the Trade Claims and Vendor Finance group at Avenue Capital, a global fund with assets under management that exceeded \$15 billion. Before joining Avenue Capital Scott was a Vice President and member of the senior management team at F&D Reports. Scott has also spent time at American International Group and National Westminster Bank U.S. Scott received his B.S. in Management from Binghamton University's School of Management and an MBA in Finance from Pace University's Lubin School of Business.

Economic Projections for USA & International - 2026

By: Paul Hill, Founder and President of JSI Analytics

Executive Summary

Few people are prepared for just how awful, and how good the US economy will be in 2026. This is a true statement; not intended to be provocative. At present, some states are in recession, while others are growing at over 4%. The division between the weak performers and the dynamic growth regions is getting wider with each passing month.

We analyze the US economy as 50 states, each with 13 industry sectors. Think in terms of a matrix of 650 cells (50 x 13). When you observe that in 2025, Finance & Insurance in Illinois was -2.7% year over year, while Information Technology in North Carolina was +2.9% year over year, it becomes evident that a granular method for evaluating the performance of the economy is the responsible approach.

When we roll up our state projections for 2026, we arrive at a national GDP estimate of 4.2%. Though that single number doesn't tell you where to invest and expand, or more importantly, where to pull back the reins on credit risk.

Since Covid, there has been a sharp divergence of economic activity at the state level, which is the basis for our rationale for breaking out the data to 50 states. For reference purposes, all 50 states were at least flat, or growing in 2019. In 2020, every state was in recession for at least one quarter. From 2021 onward, states such as California and Illinois have been in and out of recession, while conversely, many SE states have been growing robustly.

6 Key Economic Factors to Watch in 2026

1. **Geographic bifurcation of economic activity** – states are diverging significantly, and the gap will widen further in 2026. In the past 5 decades, this hasn't happened on this scale.
2. **Consumer weakness** – 68% of economic activity flows off the consumer. The financial predicament of low- and middle-income consumers has been completely misunderstood. Inflation has had a very material effect on the businesses that serve these consumers. Though the economy is technically not in recession, the consumption behavior of low- and middle-income consumers is very similar to what is observed in periods of recession.
3. **The AI / Robotics / Electrification / Manufacturing Economy** – the capital expenditures are already massive, with 2025 being up more than 35% over 2024. Though AI gets most of the media buzz, it really is 'the operating system' for an economic renaissance, especially in manufacturing. Expect significant gains in productivity as manufacturers of autos, aircraft, building components, and other products ramp up with factories where technically capable workers monitor and maintain systems of robots that perform the physical work.
4. **The Financial Deterioration of Small & Mid-sized Businesses** – SMB revenue share and profits began declining over 20 years ago. It accelerated early in Covid and has not recovered. Analysis of SMB financials shows this trend will continue through 2026 and beyond.
5. **Labor Market Shortages and Excesses** – the mismatch of skills required vs available workers is somewhat similar to the geographic disparities mentioned above. AI is reducing employment in occupations where repetitive tasks and pattern matching can be done by computer.

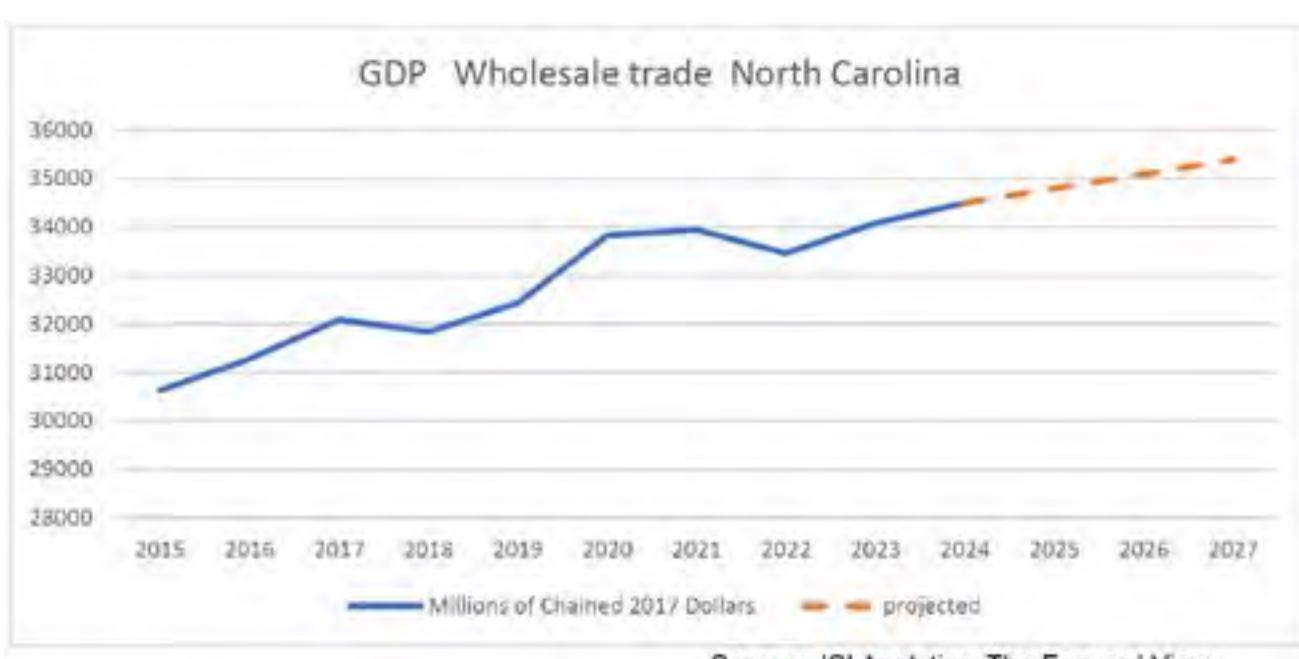
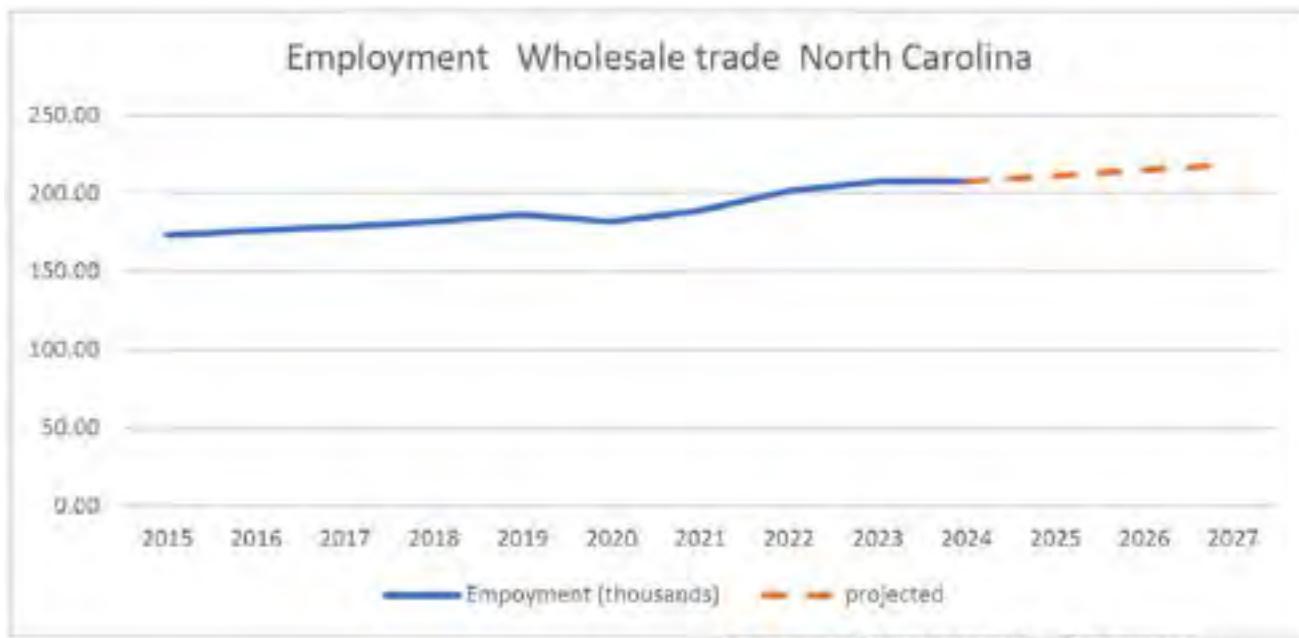
Conversely, the rapid buildout for AI / robotics / manufacturing / electrification, and the facilities required to operate and maintain this economic boom has led to a serious shortfall of workers in the 'technical trades'.

6. **Housing / Residential Construction** – a recovery would be meaningful to economic growth. There is an 'if' to this, and that is long duration interest rates / mortgage rates.

We discuss these 6 factors in greater detail below.

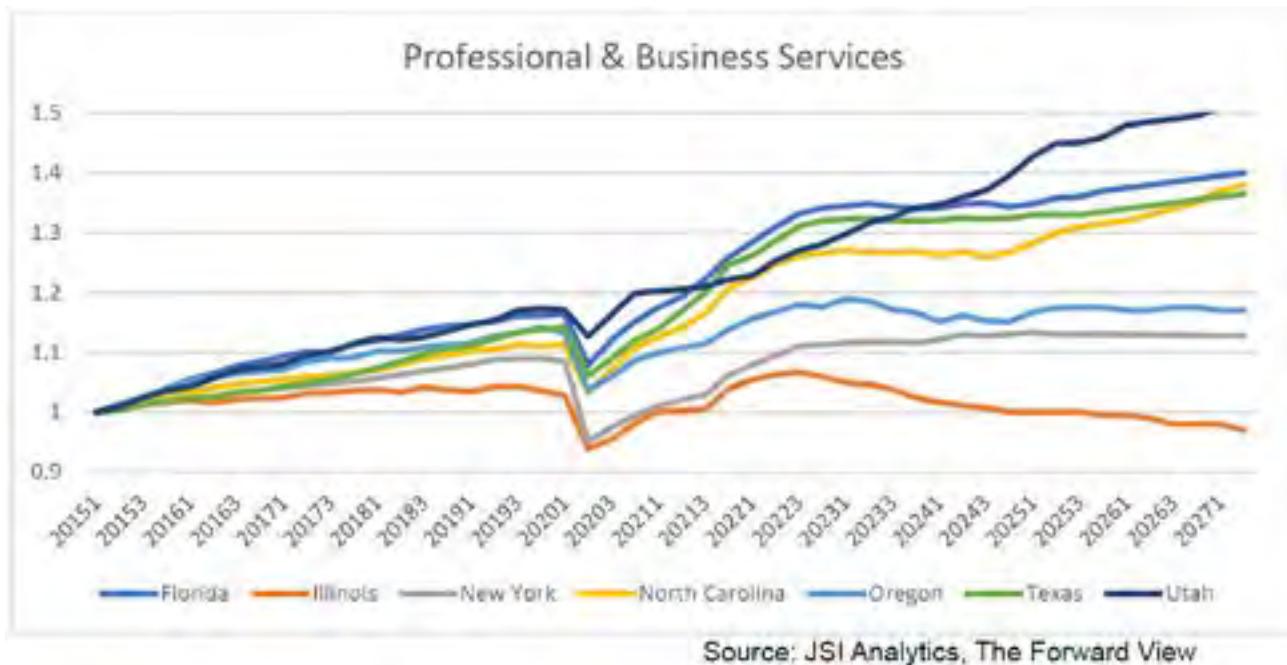
Our System for Organizing Economic Data – Making the Process of Generating Economic Forecasts Relatively Easy, and Defensible

We present our data in a format of 50 states, each with 13 Industry Sectors (NAICS) such as: Healthcare, Information, Manufacturing, Wholesale Trade, Finance & Insurance, and so forth. We then provide the key economic values (GDP and fulltime employment) from 2015 through 2025, with a projection through 2026 and 2027 (our predictive program, [The Forward View](#) generates rolling 24-month estimates). What this enables you to visualize is the historical trendline (2015 – 2024), and what is actually occurring now (Q4 2025), which provides you with a contextual and empirically supported basis for the forward-looking estimate (2026, 2027).



When graphing multiple states together, this provides a quick contextual understanding of the diverging behaviour between various states.

Change in GDP, chained to 2015, for analysis of Professional and Business Services, through Q2 2025, with projections through Q2 2027



Additional Detail Relating to the 6 Economic Factors for 2026

1. Geographic bifurcation of economic activity

States are diverging significantly, and the gap will widen further in 2026.

Depending upon where you are located and the industry sectors you serve, the economy will range from being in a moderate recession (-2%) to expanding strongly (+6%).

The acceleration of businesses migrating from high regulation, high tax states to states with more favorable operating conditions became a discernable trend in 2021. Since then, it has become the key driver of the economic divergence.

Compound the above point with the fact that new business formation has been concentrated into the same states to where businesses are migrating.

Capital investments will contribute significantly to economic growth in 2026. We discuss this in greater detail below, but the investments and resulting growth from capex are projected to create growth rates upwards of 6% in certain regions.

Acceleration of Taxpayer Migrations – cost of living, taxes and sentiment are driving this trend. Overlapping this dynamic is that we are relatively early in a de-urbanization trend. This began during Covid as people could work from anywhere, and thus they chose low density areas to relocate where a balance between quality of life, relatively quick access to airports, and other amenities are meaningful factors.

There are about 30 large metro areas with high rates of outbound migration, and the consequences

will likely be rather severe. These same locales have large liabilities, including existing debts and public employee pensions. A quick look at state credit ratings tells much of the story, though many municipal bonds may not fully reflect the risks associated with their rapidly eroding tax bases.

Fun fact – Utah is an under-the-radar boom state. On every metric: employment, GDP growth, new business applications, and state credit rating, Utah is a top performer. Also worth noting - Utah is the only state in the US where healthcare is not a top 5 industry sector (it's #7). Evidently, there is some truth that alcohol and tobacco are detrimental to one's health.

2. Consumer weakness

Inflation began impacting consumer finances in the latter half of 2021. As the cost of rent, energy, food and other expenditures rose at 8% or more annually, lower income consumers were forced to cut back on discretionary expenditures. By Q2 2022, middle income households were adjusting consumption to the extent that Walmart, Target and many other retailers cited inflation and consumer weakness as having a material effect on sales. Inflation didn't end there. By the time inflation moderated in 2024, households had lost roughly 20% of their purchasing power.

It is important to note that the consumer does not recover from inflation simply because it has dropped to below 3%. They would need years of wage growth, in excess of the rate of 'goods and services' inflation, in order to recover that 20% loss of purchasing power. The impact this has had on businesses is still deeply misunderstood today.

The middle class has historically been defined as families with a household income between the 25th and 75th percentiles. However, because of decades of creeping inflation, the lower end of the middle class had moved up to the 40th percentile.

Households below that level were spending all of their income each month (the infamous 'less than \$500 in emergency savings'). Presently, the middle class is a family with a household income between roughly the 55th and 80th percentiles.

Our inflation model, How America Spends, shows the changes in consumption as households struggle to meet their financial obligations. They take on debt to maintain the consumption pattern they're accustomed to. As their debt burden rises, they gradually begin to cut back on discretionary expenditures (dining out, entertainment, travel). If their financial situation deteriorates further, they will cut back on non-discretionary spending (auto insurance, healthcare, education).

The net effect on businesses has been very detrimental as revenue declines from reliable customer classes has been rather severe.

Conversely, the inflationary money printing that began in 2020 lifted asset valuations significantly. This asset appreciation has significantly benefited the top 20% of households. The result of this can be summarized succinctly by airline CEOs in saying, 'It has become easier to sell out the front of the plane than the back.'

For 2026, we see aggressive stimulus flowing out from the administration in various forms. This will increase economic activity, while at the same time being inflationary.

3. The AI / Robotics / Electrification / Manufacturing Economy

The rationale for corporate investments in AI is the expectation of massive gains in productivity. These productivity gains will be realized not simply through the buildup of data centers. This is a massive, intertwined system whereby 'AI, robotics, electrification, manufacturing' are linked and supportive, from facilities to power generation, and the workers required to make it happen.

To be clear, we are not in the camp of 'AI will replace everyone'. AI will be, and in some instances already is, a revolutionary information tool. AI does the thinking. It does not do the building, and a lot of building needs to be done.

AI will be telling robots what to do and how to do it. But first, someone needs to build the data centers, the robotics facilities, design the robots, maintain the robots, and so forth. None of that happens without massive capital investments and armies of skilled engineers, technicians, and other workers who are building out the infrastructure now, for this futuristic manufacturing economy. To us, this is more about a manufacturing economy than it is an 'AI economy'. What we see as an end game from all of this is enormous gains in productivity – factories utilizing AI powered robots to produce 3x to 5x the output per worker hour, as compared to current output.

Jensen Huang, CEO of Nvidia says the conventional thinking that AI will just obsolete workers is completely missing the target. Manufacturing facilities in the future will consist of 'two factories': 1- producing the company's products, 2- the facility that maintains, modifies, and updates the robots used in the manufacturing facility.

There are two competitors in this race, period: US and China. Both can be winners, but because the consequences are so great, neither can afford to be a loser.

Specific to the US, there are 'haves' and 'have nots' in terms of where investments are being made. The availability / cost of electricity is a significant determinant of where facilities are being constructed. Access to electricity follows the typical regulatory regime where states that have favorable energy policies are generally the same states which are friendly to manufacturers.

The majority of capital investments for the AI / Robotics / Electrification / Manufacturing Economy are concentrated in 22 states. The sequence of events for an AI-enabled manufacturing facility is as follows:

- 1) Engineering teams develop the product concept and conceive the systems and workflow for manufacturing.
- 2) The consultants, accountants and lawyers do the 'paperwork' including site permits, budgeting, and related functions.
- 3) Construction is the first physical work done for the facility.
- 4) Manufacturing machinery and robots are installed.
- 5) Software tying the hardware systems together is installed.
- 6) Hiring of the workers who will operate and maintain all of the systems is the final step prior to beginning manufacturing.

In favorable operating environments, these processes are completed in less than 2 years.

Furthermore, investments in the US by foreign businesses are at historic highs. European and Asian based entities are committing \$ trillions for US manufacturing. Airbus, Hyundai, German auto, Japanese auto and Swiss pharmaceuticals are doubling down on existing facilities, which are concentrated primarily in the SE US.

Putting all of this in context regarding what it may do for growth: The total verbal commitments for capital investments in the US in the next 10 years is \$18 trillion.

If \$1 trillion is affected in 2026 (this is a moderately conservative estimate) this will add approximately 3% to GDP growth for the year.

4. The accelerating financial deterioration of Small- and Mid-sized Businesses

SMB revenue share and profits began declining 25 years ago. It accelerated early in Covid and has not

recovered. Conversely, revenue and profits at the 100 largest corporations continue to rise. There is a clear consolidation underway where the largest corporations grow at much faster rates than the overall economy.

If a data table can replace a thousand words, this is the one. Please spend a few moments reviewing this table and contemplate the ramifications of the trend line.

Annual Net Profit by Revenue Class

	<\$1 mi	\$1mi - \$5mi	\$5mi - \$10mi	\$10mi - \$50r	\$50mi - \$100	\$100mi - \$25	\$250mi - \$50	\$500mi - \$1b	>\$1bi
2019	5%	6%	6%	7%	8%	9%	9%	9%	10%
2020	5%	5%	6%	6%	7%	8%	9%	9%	11%
2021	4%	4%	5%	5%	6%	7%	8%	9%	11%
2022	4%	3%	4%	5%	6%	6%	8%	9%	12%
2023	3%	2%	4%	4%	5%	6%	7%	8%	12%
2024	2%	2%	3%	3%	4%	5%	7%	7%	13%

Source: JSI Analytics, Financial Benchmarking

5. Labor Market Shortages and Excesses

The mismatch of skills required vs available workers is somewhat similar to the geographic disparities mentioned above. AI is reducing employment in occupations where repetitive tasks and pattern matching can be done by computer. Though there have been dire predictions of massive job losses due to AI, those assertions are not supported as yet by unemployment claims data. Larger employers are reluctant to shed workers in many occupations, given the difficulties in recruiting and training.

Conversely, the rapid buildout for AI / robotics / manufacturing / electrification, and the facilities required to operate and maintain this economic boom has led to a serious shortfall of workers in the 'technical trades'. Industry trade groups are estimating the need for 500,000 electricians, 200,000 welders, 120,000 HVAC and related workers in the next 5 years.

Projections for the engineering and robotics workers required for these factories are in the millions over the next 5 to 10 years.

6. Housing / Residential Construction

Real estate and residential construction combined become the largest contributor to GDP in 29 states. These sectors are down from their 2022 highs by roughly 40%. The obvious reason being interest rates.

If the 30-year mortgage rate were to drop into the 5% range, estimates are for a 20% rise in home sales. The impact on sales of appliances, home furnishings, and so forth demonstrate the importance of the real estate sector. Furthermore, the trend of household migration towards states with favorable economic environments will accelerate.

International Economics

Key Points:

1. Governmental Debt and Deficits

We see this in the near term as a 'low probability, but high risk' issue. While over the longer term we view this as a 'high probability, catastrophic risk' issue.

Bottom Line - Governments are indebted beyond their ability to service their debts. The consequences of this are directly relevant to Treasury and Credit as this impacts all interest rates, from central bank

rates, to commercial banks, mortgages, commercial loans, down to consumer credit cards. Everyone has some level of exposure.

Worldwide debts, including households, businesses, and governments exceed \$300 trillion US dollars. Worldwide annual GDP is approximately \$100 trillion. The \$300 trillion in worldwide debt is comprised of:

- Households \$60 trillion – minimal risk due to low concentration
- Businesses \$60 trillion – moderate risk to holders of debt in marginal businesses
- Government \$180 trillion – significant risk as most industrialized nations are by definition, insolvent. Governments are issuing new debt to buy each other's debt. It's a good business model, until it isn't.

We'll use Japan as an example of how things might go off the rails:

Japan's debt to GDP is about 250% (US by comparison is about 120%). 1/3 of the taxes collected by the Japanese government go to service interest on their debt. It is assumed that in less than 3 years, 2/3 of taxes will go to debt service.

If/when that happens, the Japanese government must sell assets to pay interest and bills. The first assets they would sell are paper. They hold \$3 trillion in US assets (about \$1 trillion in US Treasury debt). If that were to occur, it could precipitate an unravelling of intertwined debts across many countries.

It is not as though any entity has a clear understanding of who owes who, and how much. What happened in 2008 to instigate the Great Financial Crisis is that when Lehman failed, banks stopped lending to each other, and the financial system did lock up for a short period.

The risk being addressed here is not at the commercial bank level; this is at the level of governments' central banks.

'The most important price in the world is the cost of capital'. If markets continue to lose faith in central banks, interest rates can only rise. Central bankers will become largely irrelevant as markets will have total control over long-term and short-term rates.

2. Weak Economies of Developed Nations

Anemic growth plagues much of the developed world. Worth noting, from 2011 through 2019, the US was deficit spending about \$400 billion annually to generate 2% GDP growth. In the most recent 3 years, the US has been spending over \$2 trillion annually to generate almost 3% GDP growth.

Annual GDP Growth Rates and Debt to GDP

Country	2019	2020	2021	2022	2023	2024	Debt/GDP
China	6%	2.3%	8.6%	3.1%	5.4%	4.9%	84%
European Union	1.8%	4.4%	6.3%	3.4%	0.4%	1.0%	90%
Japan	0.9%	0.9%	0.2%	0.9%	0.1%	0.0%	249%
United States	2.6%	0.1%	6.0%	2.5%	2.8%	2.8%	119%
Emerging Markets	3.4%	0.1%	5.4%	3.9%	2.9%	2.6%	60%

Source: World Bank 2025

3. Pay Close Attention to the Price of GOLD

Don't look at gold as an investment opportunity. Look at it as a signaling function, and it is screaming 'risk'. In the past 60 years, the price of gold rose by more than 110-fold (11,000%). Interestingly, 100 ounces of gold still buys a median priced home in most markets, just as it did decades ago. It's not as though gold is worth more; it's that our currencies have been devalued by that amount. This exemplifies the scourge that inflation is.

The only people who should truly be celebrating the run up in gold prices are miners. Everyone else should be concerned. Gold is going up in price for one reason only – the deterioration of faith in major currencies.

When people ask, 'Can gold hit \$5,000 or \$10,000?' – be careful what you wish for. If gold were to go to \$10,000, that likely means that some central banks and their currencies are collapsing in a debt spiral. As always, follow the trendline.

Given the recent massive accumulations of gold by many central banks (outside of the developed world) it is conceivable that gold becomes a de facto currency again – or it becomes the basis for which the valuation of currencies is determined. Developing nations (primarily the BRICS) are working on a gold-backed currency.

Summarizing the Observations

The US economy is relatively well positioned for 2026. However, being the best house in a bad neighborhood provides little comfort to many. The chasm between states that are growing and those in decline is unprecedented at this current scale. It becomes very difficult from an actuarial perspective to model out scenarios where the declining states can correct their fiscal issues. It is too easy for individuals, businesses, and capital to leave for more accommodative conditions.

On an international level, most developed nations face the same problems – little or no growth, weak demographics, and that giant math problem (debt) that can't be solved with a speech or hand waving.

On the positive side of the ledger, the growth states are providing environments which are conducive to capital investments, innovation, employment, and quality of life. And AI enabled manufacturing is likely to become a once in a lifetime opportunity of innovation, growth and productivity. The wealth creation as a consequence will ultimately be on the same order of magnitude.

The good news is that states such as Utah, the Carolinas and others provide a template for fiscal management and governance that is supportive of innovation and the resulting wealth creation. This provides sustainable employment and a durable tax base. Just as markets determine the true cost of capital, businesses determine where that capital will be allocated.

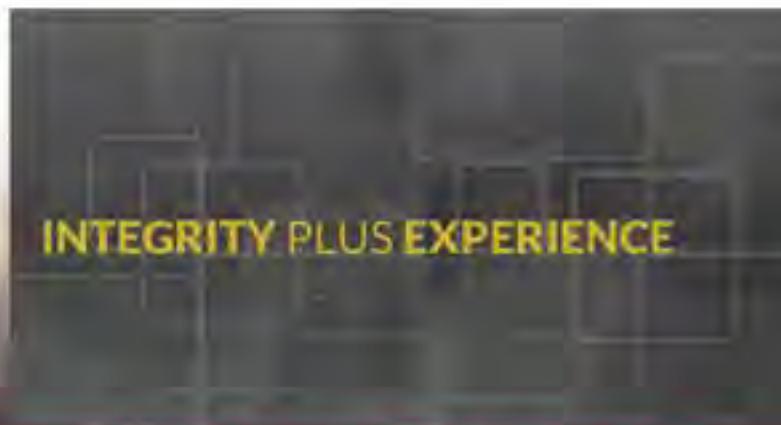
About the Author:

Paul Hill is a business economist, inventor/holder of multiple patents, developer of risk management tools and hedging strategies, Founder and President of JSI Analytics, Co-founder of EducateToCareer.org, and an undergrad of California State University at Northridge, 1989.



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Economic Outlook for 2026: More Questions Than Answers

By: Steven C. Isberg, PhD, Senior Fellow, Credit Research Foundation and Chair, Department of Accounting, Towson University

We are coming up on one year into the attempt by the current administration at restructuring the American economy through the primary use of two socioeconomic tools: tariffs and immigration control. The tariffs are intended to reduce our trade deficit and bring capital spending, primarily in the areas of manufacturing, back onshore to stimulate growth and create a sustainable employment market in the real economy. The economic effects of immigration policy should be realized by their impact on the supply of labor in different business sectors. The current administration claims that it inherited a mess. The situation is still messy, and the outcomes of these policies remain, in many respects, unclear. While there are dozens of facets on which we can focus in anticipation of outcomes for the economy in 2026, this piece will focus on the three that I consider to be most important: prices, debt, and investment spending. Notice that I am using the term prices and not necessarily inflation. While the two are inextricably linked, price levels matter more at this point than the rate of inflation.

Prices and Inflation

We often hear "prices are coming down" on the part of politicians touting the supposed success of their policies. Bear in mind, the result of prices coming down would be a ***negative*** inflation rate. It was falling prices, the ***negative inflation rate***, that drove the American economy into the Great Depression in the 1930s. Federal Reserve Chair Ben Bernanke's quantitative easing policies in the five years following the financial market crash of 2008 kept the same thing from happening again. In a leveraged economy, falling prices spell certain doom. ***Inflation is necessary*** to maintain adequate servicing of the accumulated debt. The Federal Reserve sets a target of 2.0% inflation to keep the economy from failing due to falling prices.

What consumers are suffering from today are high price levels, which continue to rise at a rate higher than the Fed's 2.0% target. The reduction in the rate at which prices ***have been rising*** has been entirely due to the Fed's holding steady on their counter inflationary policy of maintaining higher interest rates and lower monetary reserve growth. The evidence is clear. As can be seen in Exhibit 1, the rate of inflation in general prices, food, and energy all came down in the period January 2022 to January 2025.¹ As of January 2025, the annual rates of price inflation were 3.00%, 2.47% and 0.80% for general prices, food, and energy respectively. All three showed signs of steadily falling from the time at which the Fed began its counter-inflationary policies in January 2022. The Fed should be given credit where the credit is due.

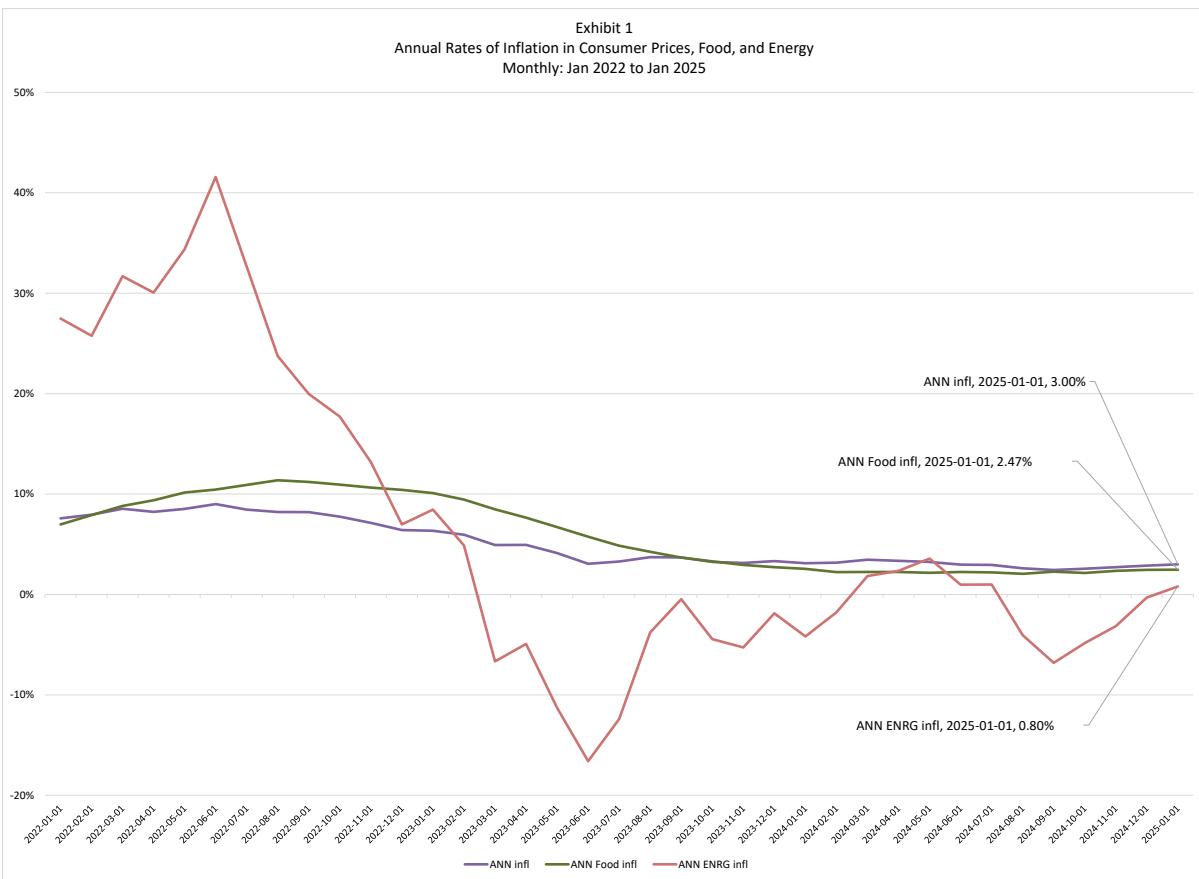
Since January 2025, ***inflation, not prices***, have been, to a partial degree, stable. Consumer prices are increasing at a slightly lower annual rate of 2.71%. Food prices are increasing at a slightly higher annual rate of 2.63%. Energy prices, however, are increasing at a much higher rate of 4.14% annually. Energy prices, which were stable in January 2025, fell through July. Since then, however, price growth has increased to an annual rate of 4.14%. As can be seen in Exhibit 2, there is a suggestion of a slowing in the rate of growth in consumer and food prices, but growth in energy prices is clearly rising.²

It is important to note that the energy inflation rate represents changes in a bundle of different forms of energy. While a variety of fuel prices may be going down, household electric bills are going up. The rate of energy price inflation is one of the most volatile elements of overall inflation, and it will deserve closer attention in the coming year, as discussed further below.

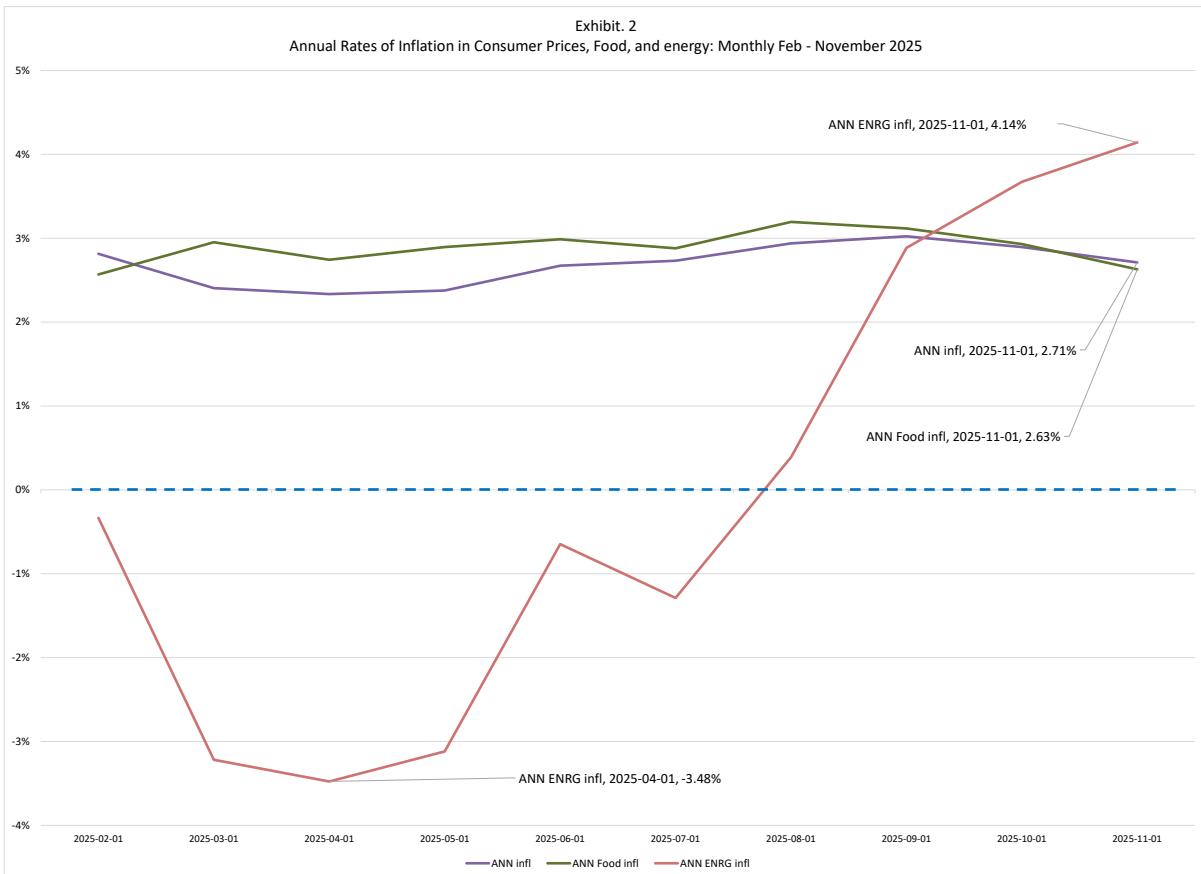
The impact of tariffs is currently under debate. The administration claims that they have been price neutral. Federal Reserve Chair Powell claims that they have had a one-time impact on the rate of inflation, which represents a permanent increase in prices that would not have existed in the absence of the tariffs.

1 Data: Federal Reserve Bank of St. Louis, Economic Data

2 Ibid.



The longer-term impacts of the tariffs remain to be seen. As the tariffs have taken effect, the trade deficit is falling. That also means that the supply of foreign produced goods is also falling, which will put upward pressure on prices until that supply is replaced by that produced in the United States. That is a much longer-term proposition. I do not anticipate that it will resolve in 2026.



Many consumers are now reeling from the cumulative impact of five years of continuous price inflation. Over the past five years, general prices have increased by 25.7%; food prices by 31.4%, and energy prices by 28.4%. By contrast, nominal average hourly wages have grown by 24.3% over the same time-period.³ Those households earning higher than average wages may not be feeling the impacts of inflation nearly as much as those who have experienced lower wage growth over that same time. From analysis of other data, we know that compensation growth rates increase along with the level of income. Growth in the bottom 50% of U.S. households has been lowest. These households are also among those most heavily in debt. This will continue to exacerbate the weaknesses in the American economy well into 2026 and will persist until higher wage-earning job opportunities materialize because of potential investment in US manufacturing.⁴

Prices, Inflation, and Debt

As mentioned earlier, rising prices become necessary to maintain liquidity and the ability to service debt in a highly leveraged economy. This is most important at the government level, where inflation that leads to higher wages and profits also leads to higher tax revenues. Falling wages and profits have the opposite effect. The debt burden on all borrowers remains the same, and access to cash flows needed to service that debt declines. In an extreme case, this can lead to rapid collapse in the financial markets as borrowers default on their debt payments.

An examination of historical data suggests that we have both borrowed our way into inflation and continue to borrow against that inflation. The complicating factor in this pattern appears to be the rate of growth in federal government debt. The rate at which total borrowing grows across all sectors steadily increased from the early 1950s through the early 1980s. As can be seen in Exhibit 3, this was accompanied by an increasing rate of inflation over the same time.⁵ As can also be seen in Exhibit 3, the rate of growth in total sector borrowing is correlated with the rate of inflation. The pattern appears to be broken, however, during three distinct intervals.

Despite increased borrowing during the period between 1981-87, the rate of inflation decreased. This is due to the initiation of Federal Reserve Chair Paul Volker's counter-inflationary policies that increased interest rates and thenceforth reducing them as inflation came down. As the rates came down, the Reagan administration engaged in significant levels of federal government deficit spending to build the defense infrastructure and win the Cold War. Following the Crash of 1987, the rate growth in borrowing declined across all sectors, and we had a period of low inflation through the early 2000s. This occurred despite an uptick in the rate of overall debt growth between 1995 and 2006. As we can also see, however, the rate of growth in federal government borrowing fell as it ran budget surpluses in several years during the Clinton Administration.

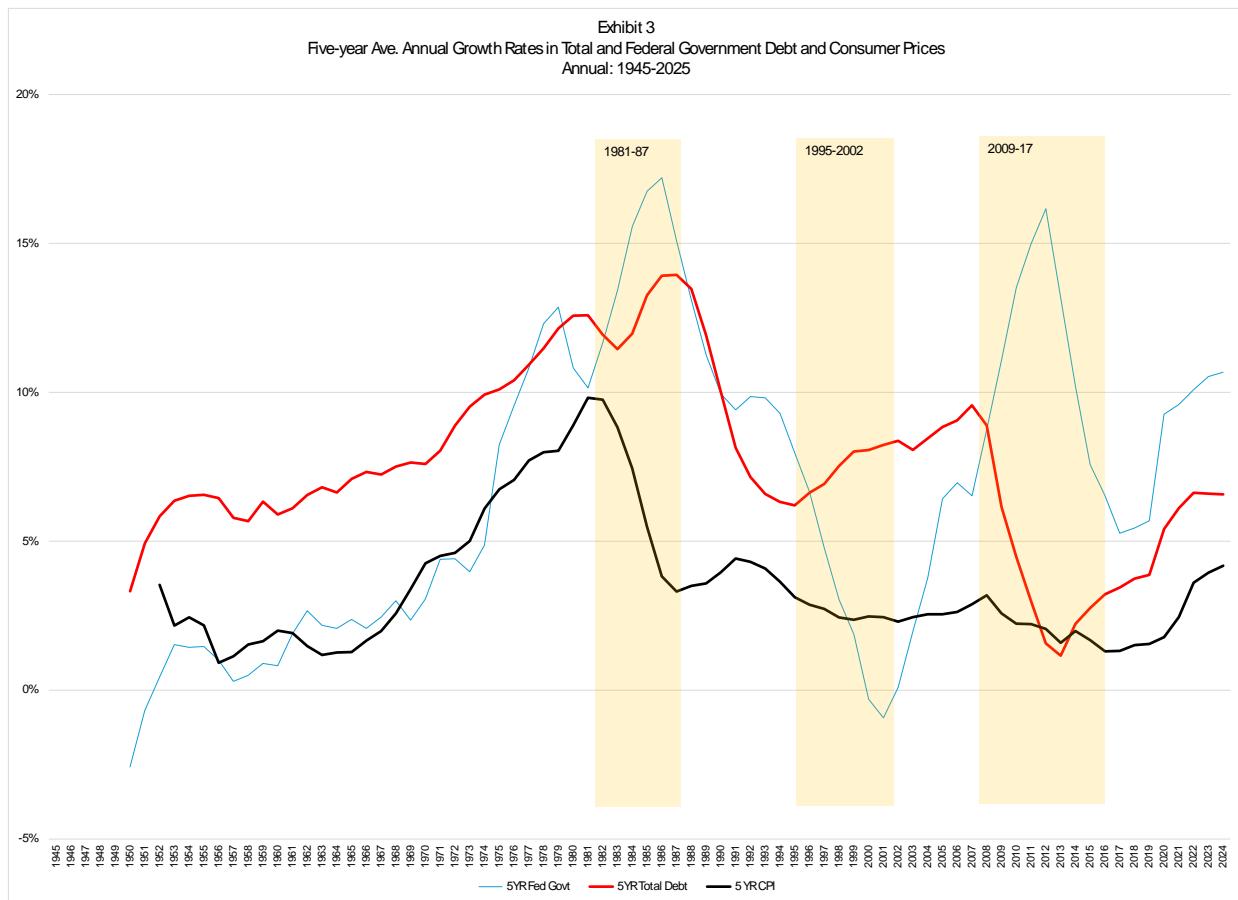
Everything changed after the financial market collapse of 2008. While the rate of growth in all sector borrowing declined, that for the federal government increased. As it was pointed out earlier, this was a time at which the rate of inflation was declining, and the Federal Reserve was supporting the economy with the vast infusions of reserves during the period of quantitative easing from 2009 to 2014. Eventually, the growth rate in all sector debt increased. By the time of the pandemic, inflation was also starting to increase.

The monetary infusions in response to the pandemic led to massive increases in borrowing, primarily at the federal government level, and the inflation by which we are still confronted. It therefore seems as if borrowing is, to a degree, inflationary, and government borrowing is even more inflationary. The problem we currently face is that, without maintaining inflation, we may not be able to service the outstanding debt. Prices cannot be allowed to fall. This will continue to impact consumers. The impact will be much more severe for those in the lower household income categories. There is no indication that this will improve in 2026.

3 Data: Federal Reserve Bank of St. Louis, Economic Data

4 See for example: Isberg, Steven C.; Economic Outlook: Upheaval, Volatility, and Uncertainty. Presented to the CRF Forum, San Diego, CA, March 2025

5 Data: Federal Reserve Bank of St. Louis, Economic Data



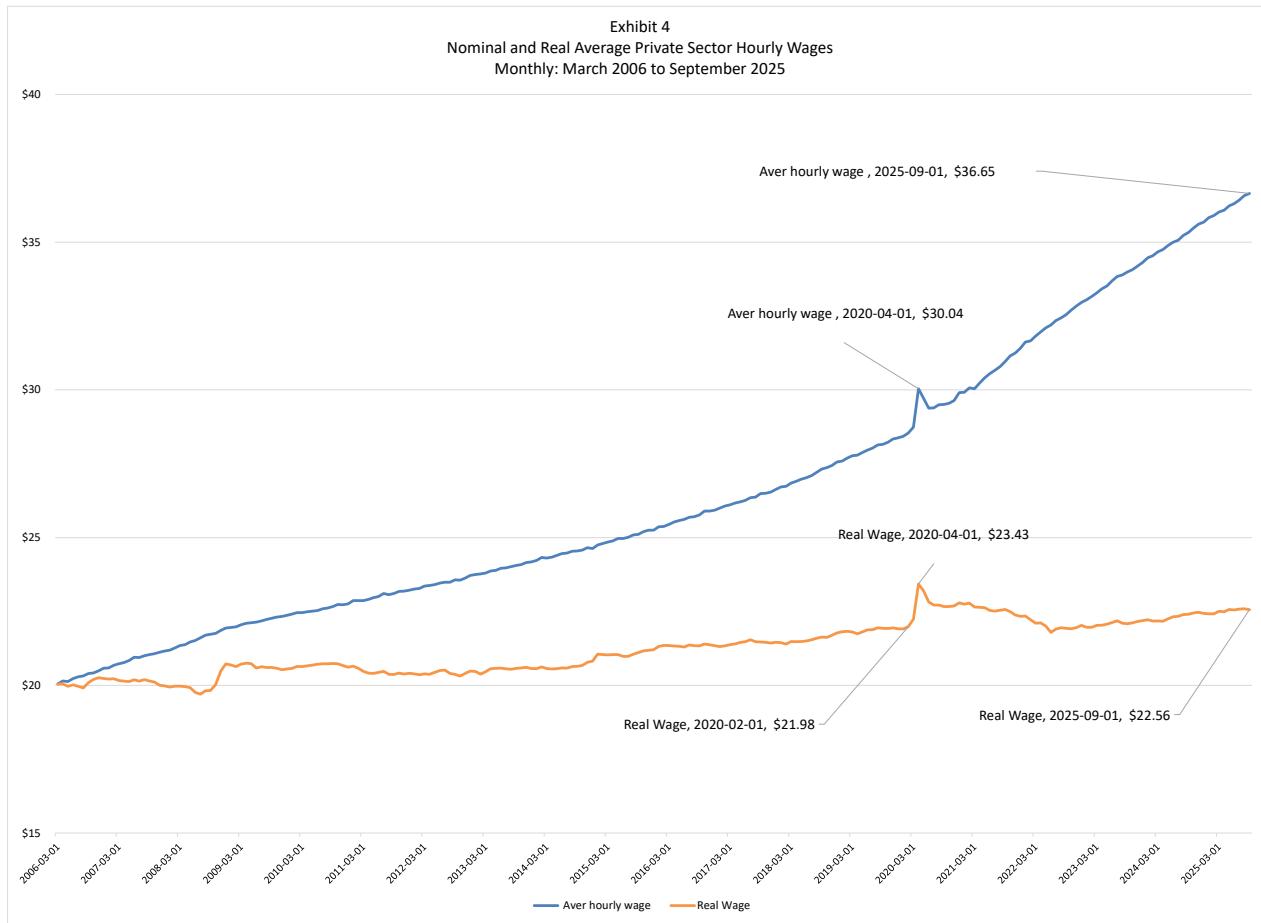
The American economy now sits in a debt trap. The rate of growth in this debt, especially at the government and consumer levels, is unsustainable, and has been so for a long time. While the current administration engaged in a program designed to create massive spending cuts by way of the Department of Government Efficiency, the deficit continues to grow. In addition to the government burden, the debt markets are now characterized by new varieties of private lending. These private lending markets are, to a great degree, somewhat opaque. They have formed in response to regulations that prohibit banking institutions from making certain types of high-risk loans. As we have seen in the case of First Brands, however, regulated banks may be indirectly exposed to risks inherent in this kind of lending. Further, lack of capital in the equity markets is leading many technology companies to use debt to finance their massive investments into data centers and AI technologies. Should the losers in this competition be highly indebted, it could lead to a different kind of meltdown in the credit markets. It is currently difficult to discern exactly how much risk exposure exists in these markets, but we will certainly find out in the case of a spontaneous meltdown such as that which occurred in 2008.⁶

Wages and Employment

"Wages are going up!" is yet another claim often heard in the political arena. While this is true in a nominal sense, inflation has eaten away at those earnings as quickly as they have materialized. As mentioned earlier, earners in the lower wage categories are most likely not even keeping up with inflation. As shown in Exhibit 4, the average hourly nominal wage has grown from \$30.04 in April 2020 to \$36.65 in September 2025.⁷ Accounting for the impacts of inflation indicate that the real wage equivalent has fallen from \$23.43 to \$22.56 over the same time. It is important to bear in mind that these are average wages, which means there are groups of workers earning amounts below the average. Earners in these categories continue to be hit hard by the impact of inflation.

⁶ For a more detailed analysis of the current sector debt problem in the U.S. see my recent article: Isberg, Steven C., "The Next Economic Evolution: Where Will It Take Us?" Credit and Financial Management Review, 2025 Q IV

⁷ Data: Federal Reserve Bank of St. Louis, Economic Data



"More people are working" is another claim often heard in the political arena. To a degree, this is true. The overall employment level has increased by 499,000 since January 2025, an increase of 0.31%. At the same time, however, manufacturing employment has declined by 58,000, a decrease of 0.45%. The labor force participation rate is also declining. A total of 171,600 have left the labor force since January 2025.⁸

These total employment trends do not compare favorably to prior years. In the three years leading up to January 2025, employment levels rose by 4.8 million in 2022, 2.3 million in 2023, and 2.0 million in 2024. The increase of under a half million for 2025 is the smallest it has been since the Fed began its counter inflationary policies.

Immigration policy is having a clear impact on the employment markets. The level of foreign-born workers in the civilian labor force is down by 1,102,000 since January 2025. The total number of foreign-born employees is down by almost the same amount, 972,000. Given that the estimate of undocumented employees in the labor market as of 2023 was almost 8.5 million, it appears that most of those undocumented employees may still be working. Many of the foreign-born workers are leaving highly skilled and technical jobs. This will not help the American economy continue to be competitive in the future.

Investment Spending

All we can really say when it comes to the number of dollars committed to capital investment spending in the US is: let's wait and see. An analysis by Bloomberg points out that the Bonafide commitments of investment capital to the United States amount to \$9.6 trillion. This is consistent with the number reported on the White House website. The analysis adjusts this total to \$7.0 trillion given that \$2.6 trillion of those funds are not in the form of capital investment spending.⁹

⁸ Data: Federal Reserve Bank of St. Louis, Economic Data

⁹ Donnan, Shawn, et.al.; "Trumps \$21 Trillion Investment Boom is Actually Short Trillions," Bloomberg, 24 November 2025

A significant amount of this includes a variety of investment commitments that followed the passing of the Chips and Science Act in 2022. It doesn't really matter which administration is responsible for the influx of investment spending, if that spending does, in fact, materialize and result in output and job growth. A total of \$9.6 trillion in investment spending, even spread out over four years, would represent more than a 40% increase over what it is now (2025 Q1). That would provide a significant boost to the economy.¹⁰ But it won't all materialize in 2026. In the meantime, we will be vulnerable to inflation, recessionary pressure and potentially high debt default rates.

It is important to note that significant amounts of these investment commitments are committed toward spending on data centers and AI-related technology. This raises the question of whether the US possesses the necessary energy infrastructure to support this level of investment and output when it comes to the tech industries. As shown earlier, energy prices have risen at much higher rates over the past six months as more of these centers and networks are coming online. If we don't have an accompanying expansion in energy generating capacity, the increased competition for kilowatt hours generated may drive up energy prices and restrict the supply available for residential and other commercial sectors. There is no indication that an expansion of the type of capacity needed will take place in 2026. Hence, we can probably expect to see overall energy prices continue to increase until more capacity is brought online.

For the Credit Manager

What are your imperatives for 2026? Here they are:

- There is a good chance that we will see recessions in many economic sectors, especially those in which products constituting discretionary purchases are sold to lower and even now middle-income households. These consumers are stretched and running out of debt capacity.
- Keep your eyes and ears open for signs of credit risk and instability in the private debt markets. This and the government market is where the next crisis will hit. As much as you are able, develop as deep an understanding of how your business may be exposed to these risks, and how they may impact your customers.
- Maintain liquidity on your own balance sheet and look for the same in your customers.
- When the President appoints a new Fed chair, the first thing they will most likely do is lower interest rates. Look for a spike in inflation, increases in borrowing and the risk levels that will accompany that borrowing.
- Keep a close eye on your customer sales trends and how they are affecting your order-to-cash cycle. As the financial markets become unstable, you will be called upon to be the interest-free lender. Make sure you know just how much capital your customers need to remain afloat and be careful to give them just enough to keep them going but not overextend your risk exposure.
- Be careful NOT to over-rely on AI tools in running your credit policies and/or your business. You are much better experts than any AI system. Put that expertise to good use.

¹⁰ Doan, Laura; "Trump touts over \$20 trillion in new U.S. investments, but the numbers don't add up," CBS News, 5 December 2025

About the Author:

Dr. Steven Isberg is currently Senior Fellow at the Credit Research Foundation and Associate Professor and Chair of the Department of Accounting at Towson University in Towson, Maryland. Steve has been working with CRF since 1994 in his capacity as research fellow and in the development and delivery of a wide variety of our professional training and education programs. Steve has been a part of a number of key CRF research initiatives over the years, including The Future of Credit Studies; the Compensation Studies; Shared Services; and now CECL. Steve has almost 40 years of experience teaching at the college level, where he specializes in the areas of accounting, financial statements analysis and valuation, and financial economic history.

The Ripple Effect: How Global Economic Uncertainty Is Reshaping Commercial Credit Risk — and How Credit Leaders Must Prepare for 2026

By: Rudy Schatzmann, National Account Manager, Altus Commercial Receivables

Executive Summary

The global economy has entered a prolonged period of structural uncertainty rather than cyclical recovery. While growth remains positive, it is persistently below pre-pandemic trends, trade policy fragmentation has become embedded, and business insolvencies continue to rise across regions and industries. For commercial credit and accounts receivable (AR) leaders, these forces are converging in ways that materially increase payment risk, extend cash conversion cycles, and complicate recovery outcomes.

As organizations look toward 2026, the risk environment will not be defined by a single systemic shock, but by selective stress, uneven liquidity, and delayed visibility into customer distress. In this environment, credit professionals must evolve from transactional operators into strategic risk managers who translate macroeconomic signals into proactive portfolio-level actions that protect cash flow and preserve enterprise value.

Global Growth, Trade Fragmentation, and the New Reality for AR

Global growth remains resilient but structurally constrained. The IMF's *World Economic Outlook* (October 2025) projects 3.2% global growth in 2025 and 3.1% in 2026, highlighting downside risks from protectionism and policy uncertainty and noting U.S. inflation above target even as broader disinflation proceeds.¹ The World Bank's *Global Economic Prospects* (June 10, 2025) cuts 2025 global growth to 2.3%, the slowest since 2008 outside recessions, attributing the downgrade to tariff shocks and elevated policy uncertainty.²

Trade volumes in 2025 reflected front loading ahead of tariff implementation and AI related hardware demand; the WTO raised its 2025 merchandise trade outlook to +2.4% but warned of a 2026 slowdown as tariffs take full year effect.³ UNCTAD's *Foresights* 2025 similarly underscores record policy uncertainty and a recessionary trajectory with global growth ~2.3% in 2025, intensifying pressures—especially for developing economies.⁴

Implications for AR: This environment creates friction, not collapse. Tariffs, rules of origin, and documentation scrutiny lengthen invoice validation cycles, raise dispute frequency (surcharges, duties, freight terms), and elongate payment timelines as customers manage working capital more conservatively.

By 2026, these conditions should be viewed as structural rather than temporary. Credit teams must incorporate trade and tariff exposure into risk assessment models and treat administrative delay as a meaningful form of credit risk.^{3,4}

1 IMF — World Economic Outlook (October 14, 2025): Global growth 3.2% (2025), 3.1% (2026); risks from protectionism; U.S. inflation above target. <<https://www.imf.org/en/publications/weo/issues/2025/10/14/world-economic-outlook-october-2025>> [imf.org]

2 World Bank — Global Economic Prospects (June 10, 2025): Global growth cut to 2.3% for 2025; tariffs and uncertainty dominate. Press Release: <<https://www.worldbank.org/en/news/press-release/2025/06/10/global-economic-prospects-june-2025-press-release>> Report hub: <<https://www.worldbank.org/en/publication/global-economic-prospects>> [worldbank.org], [worldbank.org]

3 WTO — Global Trade Outlook (Oct 2025): 2025 merchandise trade +2.4%; front loading and AI hardware demand; slowdown expected in 2026. (Press coverage/example) <<https://www.cnbc.com/2025/10/07/wto-hikes-global-trade-forecast-for-2025-slowdown-expected-in-2026-.html>> [wto.org]

4 UNCTAD — Trade & Development Foresights 2025: World growth ~2.3% in 2025; record policy uncertainty; recessionary trajectory. Report page: <<https://unctad.org/publication/trade-and-development-foresights-2025-under-pressure-uncertainty-reshapes-global>> [unctad.org]

Rising Insolvencies and the Masking of Credit Deterioration

Business insolvencies have risen steadily in recent years and are expected to remain elevated through 2026. Allianz Trade projects +6% global insolvencies in 2025 and +3% in 2026 after +10% in 2024, with notable stress in transportation, construction, and B2B services.⁵ At the same time, the nature of distress is shifting: covenant waivers, distressed exchanges, PIK toggles, and sponsor interventions can delay visible defaults, particularly among leveraged middle market firms.

S&P Global's baseline places the U.S. speculative grade default rate near ~3.5% (Europe ~3.75%) but warns that prolonged tariff uncertainty could push defaults closer to pessimistic scenarios, while selective defaults are surging in private credit—outpacing conventional defaults five to one in 2024.^{6,7}

This masking effect presents a challenge for credit professionals. Traditional indicators—financial statements, ratings—often lag reality. Changes in payment behavior (partial pays, recycled disputes, delayed responses, avoidance) frequently precede formal distress by months.

As a result, AR teams increasingly serve as the earliest detection point for enterprise credit risk. Organizations that fail to act on these signals risk losing recovery leverage by the time defaults become explicit.^{5,7}

Monetary Policy, Liquidity, and Uneven Customer Outcomes

While central banks have begun easing monetary policy, access to liquidity remains uneven across sectors and regions. On December 10, 2025, the Federal Reserve lowered the target range for the federal funds rate to 3.50% – 3.75%, with a “hawkish cut” stance and measures to keep reserves ample (including T bill purchases).^{8,9} Private sector indicators show mixed momentum: the S&P Global Composite PMI indicates expansion led by services, while manufacturing and new export orders remain subdued; ISM reports Services PMI at 52.6 (Nov) and Manufacturing PMI at 48.2 (Nov), underscoring sector divergence.^{10,11}

Implications for credit leaders means customer risk will not increase uniformly. Some counterparties will stabilize quickly, while others will manage liquidity tactically by stretching payables, disputing invoices, or selectively prioritizing suppliers. Historical payment performance alone is no longer a reliable predictor of future behavior.

Preparing for 2026: What AR Leaders Should Do Now

1. Segment Customers by Trade, Tariff, and Supply-Chain Exposure.

Traditional segmentation based solely on size or historical payment behavior is no longer sufficient.

5 Allianz Trade — Global Insolvency Report (2025): Insolvencies +6% (2025), +3% (2026) after +10% (2024); sector/regional detail. Overview: <https://www.allianz-trade.com/en_global/news-insights/economic-insights/global-insolvency-report.html> [allianz.com]

6 S&P Global Ratings — Corporate Default Outlook (Apr 25, 2025): Baseline U.S. speculative grade default ~3.5%; risks up with tariff uncertainty. AJOT summary: <<https://www.ajot.com/news/sp-global-ratings-maintains-corporate-default-forecasts-but-risks-are-rising>> [ajot.com]

7 PitchBook — Private Credit Selective Defaults (Aug 5, 2025): Selective defaults outpaced conventional defaults 5:1 in 2024; covenant loosening/PIK toggles noted. <<https://pitchbook.com/news/articles/private-credit-faces-alarming-surge-in-selective-defaults-s-p>> [pitchbook.com]

8 Federal Reserve — Implementation Note (Dec 10, 2025): Target range set to 3.50%–3.75%; operational details and reserve management. <<https://www.federalreserve.gov/newsevents/pressreleases/monetary20251210a1.htm>> [federalreserve.gov]

9 Federal Reserve — FOMC Statement (Dec 10, 2025): “Hawkish cut,” dissents recorded; ample reserves to be maintained. PDF: <<https://www.federalreserve.gov/monetarypolicy/files/monetary20251210a1.pdf>> [federalreserve.gov]

10 S&P Global — Monthly PMI Bulletins (Nov & Dec 2025): Services led expansion; global Composite ~52.7–52.9; export orders weak and confidence subdued. Nov: <<https://www.spglobal.com/marketintelligence/en/mi/research-analysis/monthly-pmi-bulletin-november-2025.html>> Dec: <<https://www.spglobal.com/marketintelligence/en/mi/research-analysis/monthly-pmi-bulletin-december-2025.html>> [spglobal.com], [spglobal.com]

11 ISM — PMI Reports (Nov 2025): Services PMI 52.6; Manufacturing PMI 48.2; sector divergence persists. Services: <<https://www.prnewswire.com/news-releases/services-pmi-at-52-6-november-2025-ism-services-pmi-report-302630958.html>> Manufacturing: <<https://www.prnewswire.com/news-releases/manufacturing-pmi-at-48-2-november-2025-ism-manufacturing-pmi-report-302626979.html>> [prnewswire.com], [prnewswire.com]

AR leaders must incorporate industry exposure, country of origin, incoterms, and tariff sensitivity into segmentation models. Customers exposed to trade friction often exhibit longer payment cycles and higher dispute rates regardless of solvency. Accounts exposed to trade friction typically exhibit longer payment cycles and higher dispute rates regardless of solvency; these require earlier engagement and tighter terms (e.g., Net 30 vs. Net 60). These accounts require earlier engagement and tighter terms, not uniform portfolio tightening.^{3 12}

2. ***Strengthen Documentation to Prevent Disputes Upstream***

Disputes are increasingly used as a working-capital management tactic. Ambiguity around surcharges, freight, duties, and delivery acceptance creates opportunities for delay. Standardizing documentation, embedding clear contractual language, and enforcing proof-of-delivery protocols are essential to reducing preventable disputes and shorten resolution time.

3. ***Deploy Risk-Based, Omnichannel Collection Strategies***

Uniform collection strategies are increasingly ineffective. Leading AR teams deploy omnichannel outreach models that align communication method, timing, and escalation authority to customer risk profile. Early human intervention for higher-risk accounts improves outcomes and preserves optionality. Sector divergences in PMI data justify different cadence and message content across manufacturing vs. services portfolios.^{10 11}

4. ***Monitor Behavioral Early-Warning Indicators***

By the time an account reaches severe delinquency, recovery options are already narrowing. Credit teams must monitor changes in payment cadence, partial payments, dispute recycling, and responsiveness. Build dashboards that combine behavioral data with sector PMIs and sponsor actions to trigger earlier workout conversations or third party support.^{5 7 10}

5. ***Reprice Credit Terms Dynamically***

Static credit policies create hidden risk in a volatile environment. Rather than across-the-board tightening, organizations should adjust terms selectively based on risk tier, exposure concentration, and macroeconomic triggers (e.g., WTO downgrades, PMIs <50). Consider milestone billing or CIA for at risk segments and early pay incentives backed by surcharge clarity.^{3 10}

6. ***Ensure Cross-Border Compliance and Recovery Readiness***

As insolvencies rise, recovery outcomes increasingly depend on speed and preparation. AR leaders must ensure readiness across jurisdictions, including lien strategies, UCC filings, arbitration provisions, and enforcement pathways. Fragmentation increases the value of friendly venues and documentation discipline in cross border claims.¹⁴

7. ***Integrate AR Intelligence into Enterprise Liquidity Planning***

AR does not operate in isolation. Forward-looking insights on expected payment delays, customer concentration risk, and scenario-based cash flow impacts should be shared with treasury and finance leadership to support enterprise liquidity planning.

What to Watch in 2026 (and Plan Against Now)

- Tariff carry through: WTO expects trade growth to slow in 2026, as tariffs take full year effect; plan for higher deductions and longer resolution cycles unless documentation and surcharge clarity improve.
- Selective defaults and covenant slippage: S&P warns that distressed exchanges and PIK toggles could mask deteriorating credit quality; integrate legal escalation thresholds sooner for sponsor backed debtors.
- Insolvency plateau timing: Allianz Trade's path shows a peak continuing into 2026 before modest

¹² ISM — Release Hub (context for cadence and sector trends): Ongoing monthly PMI updates and sector notes (2025). <https://www.prnewswire.com/news/institute-for-supply-management/> [prnewswire.com]

easing; scale early intervention programs and workout capacity accordingly.

Action Checklist (Quarter by Quarter)

Q1–Q2:

- Build tariff/origin risk tiers; shorten terms for Tier A risk customers.
- Roll out omnichannel escalation (Day 3/7/14 cadence) with dispute templates covering tariffs/surcharges.
- Launch insolvency early warning dashboard tied to PMIs and sponsor activity.

Q3:

- Audit cross border documentation (incoterms, COO certificates, delivery/acceptance).
- Pilot AI assisted dispute classification to fast track documentation fixes and reduce short pays.

Q4:

- Re calibrate collection intensity to Fed/ECB policy signals and sector stress; embed legal escalation triggers for selective default profiles.
- Partner with Altus on large balance and international placements to lock in year end cash conversion.

Conclusion

The economic environment heading into 2026 will be defined less by systemic collapse and more by precision risk. Credit professionals who invest in early detection, disciplined governance, and dynamic credit strategies will protect cash flow and preserve enterprise value. Organizations that fail to adapt will face longer cash conversion cycles, higher dispute volumes, and diminished recovery leverage as distress signals remain masked until it's too late.

Conversely, those who invest in early detection, dynamic credit policies, and integrated liquidity planning will protect working capital and strengthen enterprise resilience. This is not just about collections—it's about safeguarding financial stability in an era where volatility is structural, not temporary.

At Altus, we understand these challenges. Our commercial-only focus, compliance rigor, and technology-driven transparency position us to help organizations navigate this complexity with confidence. As uncertainty becomes a permanent feature of the global economy, proactive credit management is no longer optional. It is a strategic imperative for 2026 and beyond.

About the Author:

Rudy Schatzmann has spent nearly 20 years in AR Credit Collections, all with Altus Commercial Receivables, where he's widely regarded as an expert in Commercial Collections, Risk Management and Loss Mitigation. His deep industry knowledge is bolstered by a diverse career in sales, sales management, training, and business ownership across multiple industries. Rudy attributes his success to the broad range of experiences he's gained over the years, which provide valuable insights into his current role.

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AR Management



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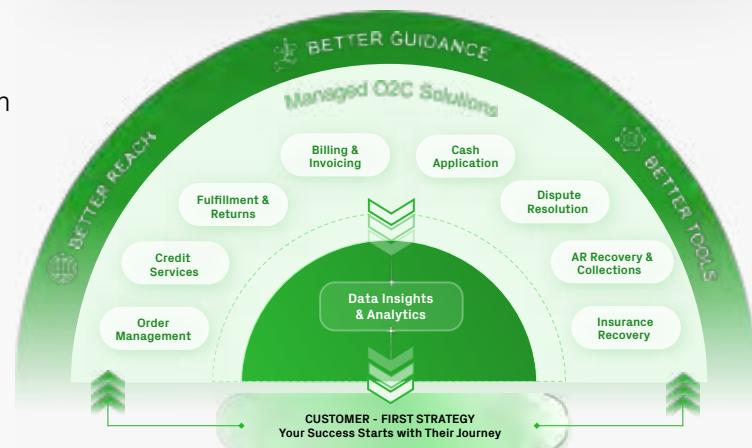
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The Working Capital Trap Finance Can No Longer Ignore

By: Amanda Wilson, Senior Vice President of Sales, Billtrust

2025 exposed a fundamental vulnerability in how most companies manage working capital. As government shutdowns delayed payments, tariffs squeezed margins, and interest rates remained elevated, finance leaders discovered that their traditional cash management playbooks were built for a stability that no longer exists.

The scale of the problem is clear. Atradius's [2025 Payment Practices Barometer](#) found that 43% of B2B credit sales in the U.S. are paid late, with bad debt write-offs affecting 5% of long-overdue invoices. The primary culprits? Customer liquidity constraints and inefficient payment processes – precisely the conditions that manual AR systems struggle to address.

Meanwhile, finance leaders report feeling the squeeze. [Billtrust research](#) shows that 95% of AR professionals feel more pressure to ensure cash flow because of current economic uncertainty, while 80% say they're being asked to do more even as investment in AR tools hasn't matched their needs. Yet despite this pressure, most AR functions remain stuck in reactive mode, chasing late payments rather than preventing them.

The Illusion of Control

Most finance leaders believe they have working capital management under control. They track days sales outstanding, monitor aging reports, and maintain regular customer communication. The problem is that these traditional approaches are fundamentally reactive, built around historical data and manual intervention.

When a customer payment arrives two weeks late, your AR team can investigate and act. But by then, your cash position has already been impacted. Your vendor payments may be delayed, your line of credit tapped, and your strategic investments postponed. Finance teams end up spending more time fighting fires and less time on strategic cash management, which is exactly when strategic management matters most.

Why Traditional Approaches Break Down

Traditional working capital management relies on three core assumptions that the current environment has invalidated:

1. **Payment patterns are predictable.** Historical averages work in stable environments. But when economic shocks hit customers differently, past behavior becomes a poor predictor of future payment timing.
2. **Manual intervention can scale.** Following up on late payments manually is manageable at certain volumes. But as payment cycles lengthen and exceptions multiply, manual processes can't keep pace. Teams end up triaging rather than optimizing.
3. **Uniform terms are sufficient.** One-size-fits-all terms either leave money on the table or expose companies to unnecessary risk when some customers are flush with cash while others are stretched thin.

These assumptions didn't stop working gradually. 2025's disruptions shattered them simultaneously. Companies relying on traditional approaches found themselves constantly playing catch-up, with cash forecasts obsolete within days and working capital positions deteriorating faster than they could respond.

What Forward-Thinking Finance is Doing Differently

The finance leaders navigating 2025's volatility most successfully share a common approach: they've moved from reactive to predictive working capital management.

Rather than waiting for payments to become overdue, they're using AI-powered systems to predict payment behavior weeks in advance. These systems analyze thousands of variables, including payment histories, industry trends, macroeconomic indicators, and customer financial signals, to identify which invoices are at risk before problems materialize.

The impact is measurable. According to the aforementioned Billtrust study, 99% of companies using AI in accounts receivable have reduced their days sales outstanding, with 75% seeing reductions of at least six days. More importantly, all improved scalability without adding headcount. This is critical when budgets are constrained, but demands are growing.

These leaders have also automated cash forecasting to maintain accuracy amid volatility. When payment patterns shift weekly rather than quarterly, manual forecasts become obsolete before they're distributed. AI-driven forecasting adjusts in real time, giving treasury teams the visibility they need to manage liquidity proactively rather than reactively.

Perhaps most critically, forward-thinking finance leaders are rethinking payment terms entirely. Rather than offering uniform terms to all customers, they're using predictive analytics to tailor terms based on individual customer payment patterns and risk profiles. Reliable customers receive early payment incentives. Higher-risk customers get terms that balance relationship value with protection. The result: optimized cash conversion without damaging customer relationships.

The Path Forward

The working capital trap isn't that external conditions are challenging. Every economic cycle brings challenges. The trap is continuing to use management approaches designed for stability in an environment defined by volatility.

As we look toward 2026, the landscape shows no signs of stabilizing. Trade policies remain in flux, interest rates stay elevated, and supply chain vulnerabilities persist. In this environment, working capital management can't be a periodic review of aging reports. It needs to be a continuous, predictive process powered by technology that can process complexity at scale.

The tools exist. The ROI is proven. What's missing for most organizations isn't technology. It's the decision to stop accepting late payments and reactive forecasting as inevitable parts of doing business.

About the Author:

Amanda Wilson, Senior Vice President, Sales at Billtrust, is a SaaS subject matter expert and sales executive with over 15 years of experience in building relationships and driving tangible results for her clients in the accounts receivable space.

Realignment and Risk: Supply Chain as a Critical Variable in Business Credit

By: Chris Woodard, CMO and Co-Founder, Handle.com

As 2026 begins, credit conditions across industries reflect recalibration rather than resolution. The year just concluded was shaped by continued supply chain realignment, shifting cost structures, and uneven execution across customer bases. While some headline economic indicators stabilized toward year-end, payment behavior remained inconsistent. For credit teams, the gap between reported financial health and observed cash flow performance widened further.

Looking back on 2025, many organizations expected supply chain pressures to ease as inflation moderated and logistics networks normalized. Instead, volatility persisted, reshaped by trade policy adjustments, sourcing shifts, labor constraints, and infrastructure stress. These forces did not always suppress demand, but they materially influenced how and when customers paid.

Payment delays, disputes, and uneven settlement patterns frequently emerged as early signals of credit deterioration, even among customers that appeared financially stable.

Looking ahead through 2026, it's prudent to operate with the consideration that these dynamics are unlikely to fade. Supply chain execution has moved from a temporary disruption to a structural influence on credit outcomes. Understanding how operational performance translates into payment behavior is no longer a tactical exercise – it is a core requirement for managing B2B credit risk in the year ahead.

Across B2B markets, the link between operations and credit outcomes has tightened. Credit risk is increasingly shaped by how customers consider and manage sourcing, fulfillment, and inventory under pressure rather than by headline financial strength alone.

Over the past several years, many businesses restructured supply networks in response to these changes. Supplier diversification, longer lead times, and higher inventory buffers were rational responses. At the same time, these adjustments altered cash flow timing and working capital dynamics in ways traditional credit models do not fully capture. Payment risk now often emerges through operational signals well before it appears in financial reporting.

For credit teams managing trade exposure, payment behavior has become an early indicator rather than a trailing confirmation of stress.

How Operational Stress Becomes Credit Risk

In most B2B relationships, supply chain disruption does not immediately translate into nonpayment. The initial impact is more subtle, showing up as friction within billing and settlement processes rather than outright delinquency. When materials or components arrive late, incomplete, or out of sequence, customers often delay formal acceptance. That delay postpones invoicing, approval workflows, or internal matching against purchase orders and receiving records.

As these frictions accumulate, invoices are more likely to be disputed, short paid, or held pending reconciliation. In many cases, the issue is not disagreement over the amount owed, but uncertainty over whether contractual delivery conditions have been met. Payment timing becomes contingent on resolution rather than stated terms.

During this phase, customers typically manage liquidity defensively rather than signaling distress. Payments slow selectively, with funds directed toward vendors viewed as operationally critical or contractually inflexible.

Trade creditors absorb the adjustment through extended days outstanding, even when the customer remains solvent and profitable on paper. This behavior can persist across multiple billing cycles, allowing exposure to build while traditional financial indicators continue to suggest stability.

By the time missed payments or formal delinquencies appear, the disruption has often become embedded in the customer's operating rhythm. What began as an execution issue effectively becomes a credit issue, not through inability to pay, but through the reordering of payment priorities driven by operational constraint.

Why Supply Chain Structure Matters More Than Ever

Several structural features of modern B2B supply chains magnify this effect.

Cost volatility has become persistent rather than episodic. Input price swings compress margins and force contract renegotiation. Where pricing cannot adjust quickly, customers preserve cash by extending payables. From a credit perspective, this creates risk even when demand remains intact and balance sheets appear healthy.

Execution risk has also increased across logistics and fulfillment. Capacity constraints in transportation, warehousing, and processing disrupt invoicing cadence. Credit teams often see this first as irregular payment timing, short pays, or growing unapplied cash balances before any formal delinquency emerges.

Inventory strategies have shifted as well. Higher safety stock and seasonal builds reduce the risk of missed sales but increase reliance on supplier financing. Customers with limited working capital flexibility often show early stress through slower payments rather than declining revenues or margins.

These patterns align with empirical research showing that credit risk propagates through supply chains, with operational disruptions at one firm correlating with payment stress among trading partners rather than remaining isolated events¹.

Together, these dynamics shift credit risk from a question of ability to pay to one of timing, prioritization, and cash flow control.

Trade Policy and Domestic Sourcing in Credit Context

Changes in trade policy and sourcing strategy continue to shape the operating environment for many B2B businesses. Over the past year, tariffs and the gradual shift toward domestic sourcing and nearshoring have influenced cost structures and execution dynamics in ways increasingly relevant to credit assessment.

Tariff-related cost changes are often absorbed or managed over time rather than passed through immediately. Contract terms, competitive positioning, and customer relationships can delay pricing adjustments, resulting in modest margin pressure that surfaces indirectly through payment timing rather than abrupt financial deterioration. Credit teams may observe longer settlement cycles, more frequent payment adjustments, or increased deduction activity, even when shipment volumes remain steady.

These cost considerations can also influence purchasing behavior. Some customers adjust order timing or inventory levels in anticipation of changes, while others adopt a more conservative liquidity posture. From a credit perspective, the result is typically greater variability in billing and collections rather than an immediate shift in credit quality.

Domestic sourcing and reshoring introduce a different set of tradeoffs. Shorter supply chains improve visibility and reduce exposure to long-haul disruptions, but they also operate with tighter schedules and less buffer. When domestic suppliers face labor constraints, weather events, or permitting delays, the effects can move quickly into delivery timing and invoice processing. These shifts are often reflected in acceptance delays or

¹ Geng, J., Li, Y., Wang, Z., & Zhang, Y. (2024). Credit risk contagion of supply chain finance: An empirical analysis of supply chain listed companies. PLOS ONE, 19(5), e0306724. <https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0306724>

compressed billing cycles rather than prolonged transit uncertainty.

In some cases, higher domestic input costs limit flexibility when conditions change. Payment behavior may become uneven across vendors as customers align settlement timing with operational priorities. These patterns are not always apparent in financial statements and may persist without signaling broader financial weakness.

Viewed together, trade policy shifts and domestic sourcing can contribute to periods of more synchronized payment variability, particularly where exposures overlap in timing or geography. While this does not imply elevated default risk on its own, it can influence receivables aging and short-term cash flow expectations when adjustments occur simultaneously².

Transmission Effects Across Customer Bases

An important and often underappreciated aspect of supply chain risk is how it propagates across customer bases. Operational disruption rarely affects one customer in isolation. Shared suppliers, carriers, regional dependencies, or cost pressures create common points of friction.

When costs rise or inputs are delayed, multiple customers may adjust payment timing in parallel. This clustering effect increases correlated stress and reduces the effectiveness of dispersion strategies. Customers that appear independent on paper may be operationally linked in ways that materially affect cash flow timing. Empirical research on production networks and trade credit confirms that shocks can transmit across connected firms through payment behavior rather than balance-sheet insolvency³.

For credit teams, this means concentration risk can exist where it is not immediately visible through industry classification or customer size.

Operational Signals That Provide Practical Insight

In this environment, effective credit monitoring requires closer attention to how customers operate, not just how they report.

Order behavior is often the earliest signal. Rising rates of order changes, partial fulfillment, accelerated pre-buying, or sudden order pullbacks indicate planning instability. These patterns consistently precede disputes and delayed payments.

Billing mechanics also matter. Increases in invoice discrepancies, extended approval cycles, or frequent documentation revisions signal internal friction. These issues often appear weeks before payment terms are breached.

Supplier and sourcing concentration adds further insight. Customers dependent on a small number of suppliers, or newly transitioned suppliers, are inherently more sensitive to disruption. Mapping these dependencies helps identify exposure before it materializes in receivables.

Operational performance metrics provide additional context. Sustained declines in on-time delivery or fulfillment rates are strongly associated with later delinquency, reinforcing the importance of operational indicators alongside traditional credit analysis⁴.

² Federal Reserve Bank of New York. (2024). Global Supply Chain Pressure Index. <https://www.newyorkfed.org/research/policy/gscpi>

³ Acemoglu, D., Carvalho, V. M., Ozdaglar, A., & Tahbaz-Salehi, A. (2012). The network origins of aggregate fluctuations. *Econometrica*, 80(5), 1977–2016. <https://onlinelibrary.wiley.com/doi/10.3982/ECTA9623>

⁴ International Journal of Production Economics. (2024). Supply chain execution risk and financial performance linkages. *International Journal of Production Economics*, 262, 109001. <https://www.sciencedirect.com/science/article/pii/S092552732400321X>

From Observation to Credit Action

The practical implication for credit teams is not to replace financial analysis, but to rebalance it. Financial statements remain essential, but they are no longer sufficient on their own.

More effective credit strategies incorporate operational and cost context into routine decision-making. Exposure management, term negotiations, and collection approaches are more effective when informed by how a customer's supply chain performance is affecting cash flow behavior.

Scenario analysis provides one useful lens. Evaluating how customers might respond to sourcing shifts, cost changes, or logistics disruption allows credit teams to assess sensitivity earlier and respond in a measured way rather than reacting after payment behavior deteriorates.

Blending operational indicators into credit frameworks further improves early warning capability and aligns with established principles of forward-looking credit risk management⁵.

Implications for 2026 and Beyond

Looking ahead, supply chain realignment is unlikely to reverse. Trade policy adjustments, domestic sourcing pressures, labor constraints, and climate-related disruption will continue to influence execution risk and cost structures. Credit outcomes will increasingly reflect how well customers adapt to these conditions rather than static measures of financial strength.

For B2B credit professionals, the conclusion is practical. Supply chain behavior must be treated as a core credit variable. Doing so enables earlier interpretation of payment signals, more informed exposure decisions, and stronger resilience in an operating environment where variability is structural rather than temporary.

5 Bank for International Settlements. (2023). Principles for the management of credit risk. Basel Committee on Banking Supervision. <https://www.bis.org/publ/bcbs125.htm>

About the Author:

Chris Woodard is the CMO and Co-Founder of Handle.com. Handle's software powers the largest credit and finance teams in construction. Fortune 500 material suppliers and contractors trust Handle on a daily basis to provide their credit and collections departments with an end-to-end solution that saves their staff 10-12 hours per week.

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