

We're There

Economic Update: CRF Credit and AR Forum

Charleston, SC

March 2026

Steven C. Isberg, PhD

Senior Fellow, CRF

and

Chair, Department of Accounting, Towson University

Intentions

- Provide a comprehensive view by focusing on several key elements of the current economy:
 - Consumers
 - Trade
 - Investment
 - Job creation
 - AI
 - Debt and banking
- Connect to several other presentations, including
 - Eric and Brooke: Trade presentation
 - Scott: First Brands/private credit
 - Paul: inflation/household income/regional economics

What to watch

- Market demographics matter
 - Consumers: lower/middle continue to be squeezed
 - Middle market retailers will continue to feel these effects
 - Regional concentrations matter
 - Demand elasticities are more important: necessities v luxuries
 - Higher end markets will continue to flourish
 - The fuzzy band between the high and middle markets will shrink
- The Fed will continue to be cautious
 - Threats of instability in the funding and capital markets
 - Key conditions very similar to both 2000 and 2008
 - Is the Fed preparing to deal with a market meltdown?

What to watch (cont'd)

- Shifting labor market technology and demographics
 - Retirements will lead to a loss of knowledge legacies
 - AI will continue to replace human replication of business tasks
 - Incoming employees will need to manage, instruct, and interpret the results of work completed by digital agents
 - This will increase the importance of replacing the legacy knowledge lost due to retirements.
- Trade
 - Trade markets will continue to reorganize around tariff models
 - External impacts of military activities may disrupt trade and supply chains
 - The energy markets will be volatile and characterized by higher prices.

What to watch (cont'd)

- Investment and "Uncertainty"
 - Uncertainty has changed pricing behavior in the capital markets
 - AI and technology related investments are being priced as options as opposed to cash flow generators
 - Prices higher in cases where future volatility is greater (i.e., more upside potential)
 - Market indices continue to be dominated by a small number of large cap firms
 - As it did in 1999-2000, this market may spontaneously adjust (downward), taking other investments along with it.
 - (Relatively) high interest rates increase the cost of capital and reduce the attractiveness of investments in longer term assets such as manufacturing facilities.

Dashboard

- Broaden the view of your customers to include a wider variety of potential indicators
 - Use analytical models to identify and evaluate existing and new factors influencing your sales, credit and AR performances
 - Take advantage of AI-based inquiry. Screen and validate the results.
- Be sure to ***participate*** in the design of AI-based internal operating models to make sure that the algorithms accurately consider and align with your organizational objectives, growth and profitability goals, methods of credit and AR analysis, and performance metrics.

Dashboard (cont'd)

- Engage in a wide range of “what if” conversations. Uncertainty is about anticipating outcomes.
 - What might happen in a way that it has never happened before?
 - How might we be in a position to respond to such an event?
- Maintain liquidity and secure backup sources of liquidity to be available if the markets become unstable. (e.g., understand the liquidity positions of your banking partners)
- Be prepared to replace the role of the banks when it comes to working capital financing for your customers.



By the Numbers: GDP and Inflation

GDP and Inflation

Real GDP Growth Using CPI			
Quarter	Growth Rate Interval		
	Quarterly	Annual	Five-Year
2025 I	-0.73%	1.87%	2.27%
2025 II	4.32%	2.08%	4.06%
2025 III	5.03%	2.40%	2.82%
2025 IV	1.57%	2.52%	2.69%

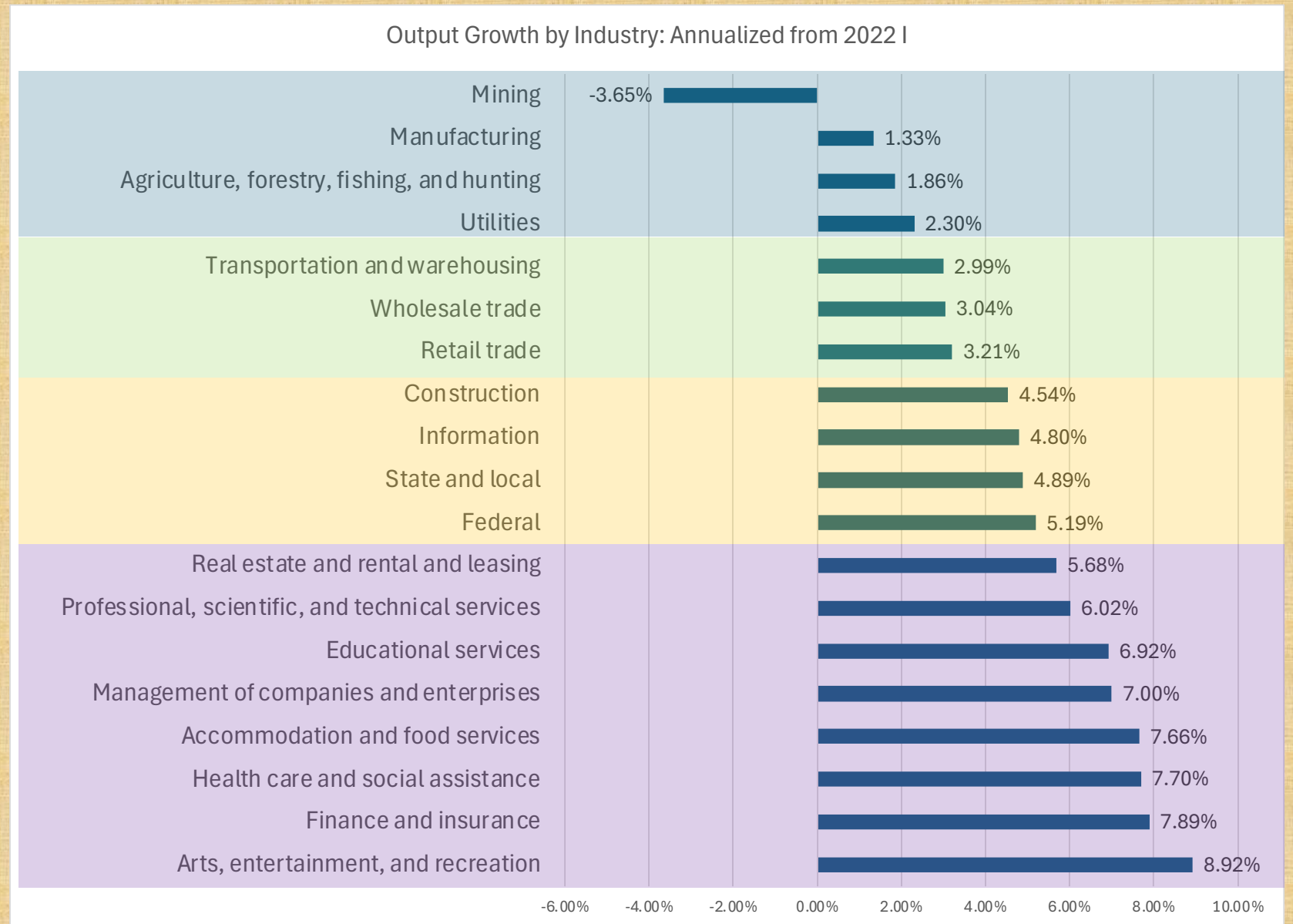
Inflation Rates: Feb 2026				
Measure	Monthly	Quarterly	Annual	5 YR Average Annual
Overall	3.25%	3.02%	2.40%	4.44%
Core	2.62%	2.99%	2.47%	4.26%
Food	4.80%	5.19%	3.09%	5.01%
Food at Home	5.40%	5.42%	2.50%	4.75%
Energy	7.89%	-1.32%	0.07%	5.26%

Contributions to Real Growth Using PCE					
Quarter	Cons	Invest	GOVT	NetEx	Overall
2025 I	0.42	3.79	-0.17	-4.68	-0.6
2025 II	1.68	-2.66	-0.01	4.83	3.8
2025 III	2.34	0.03	0.38	1.62	4.4
2025 IV	1.33	0.57	-1.03	-0.22	0.7

The recovery has stalled in response to changes intended to restructure the global economic order. Consumption has weakened, investment has not materialized, government has been cut, And the impact on trade has slowed volume and increased prices.

Output Growth Since 2022 Q1

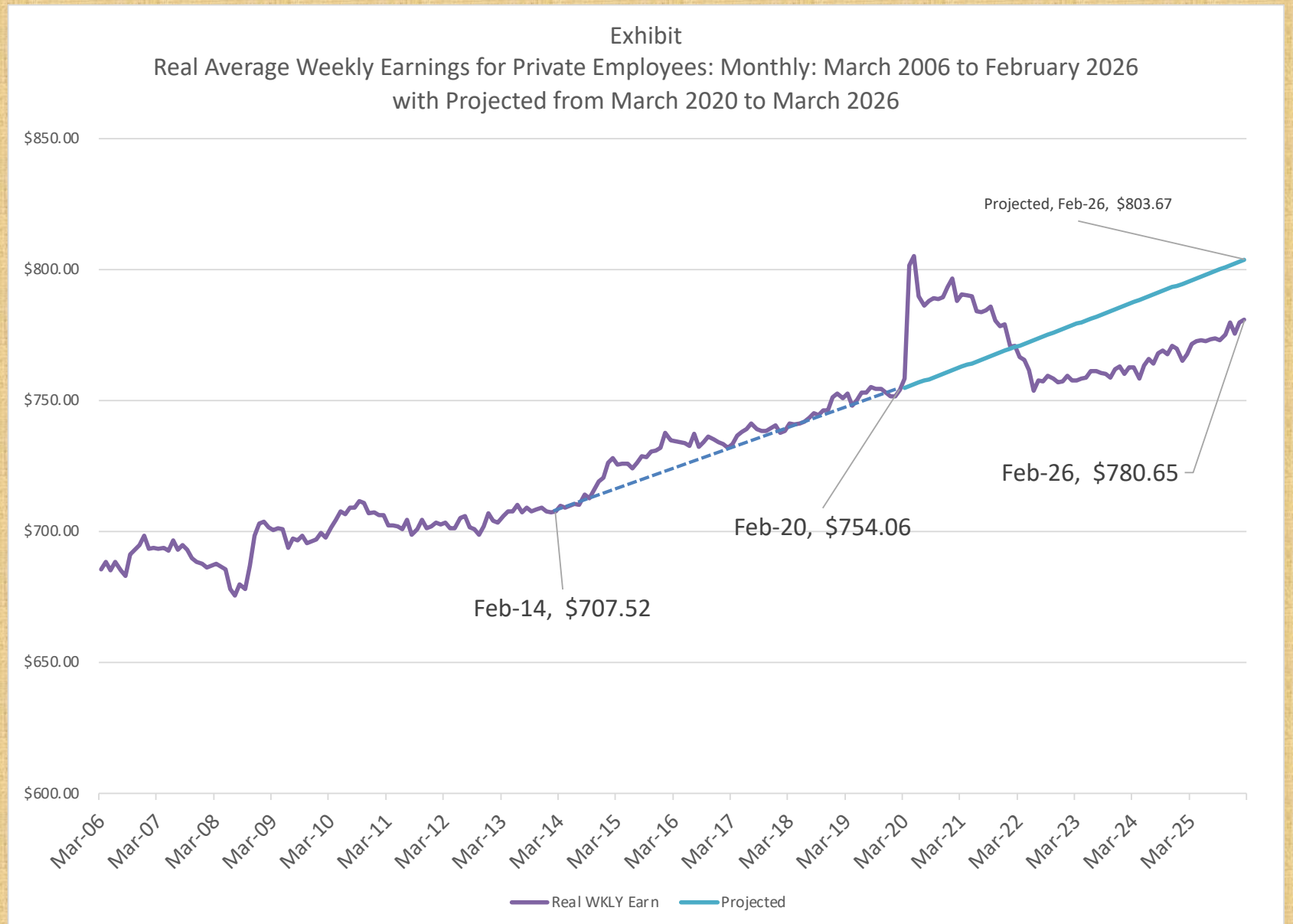
- Growth is unevenly spread
- Core productive economic growth is low
- Middle group consists of trade, construction, information and government
- Higher growth occurs in the service industries, showing evidence of a post-COVID recovery
- Shows that the economy is still service driven



Consumers

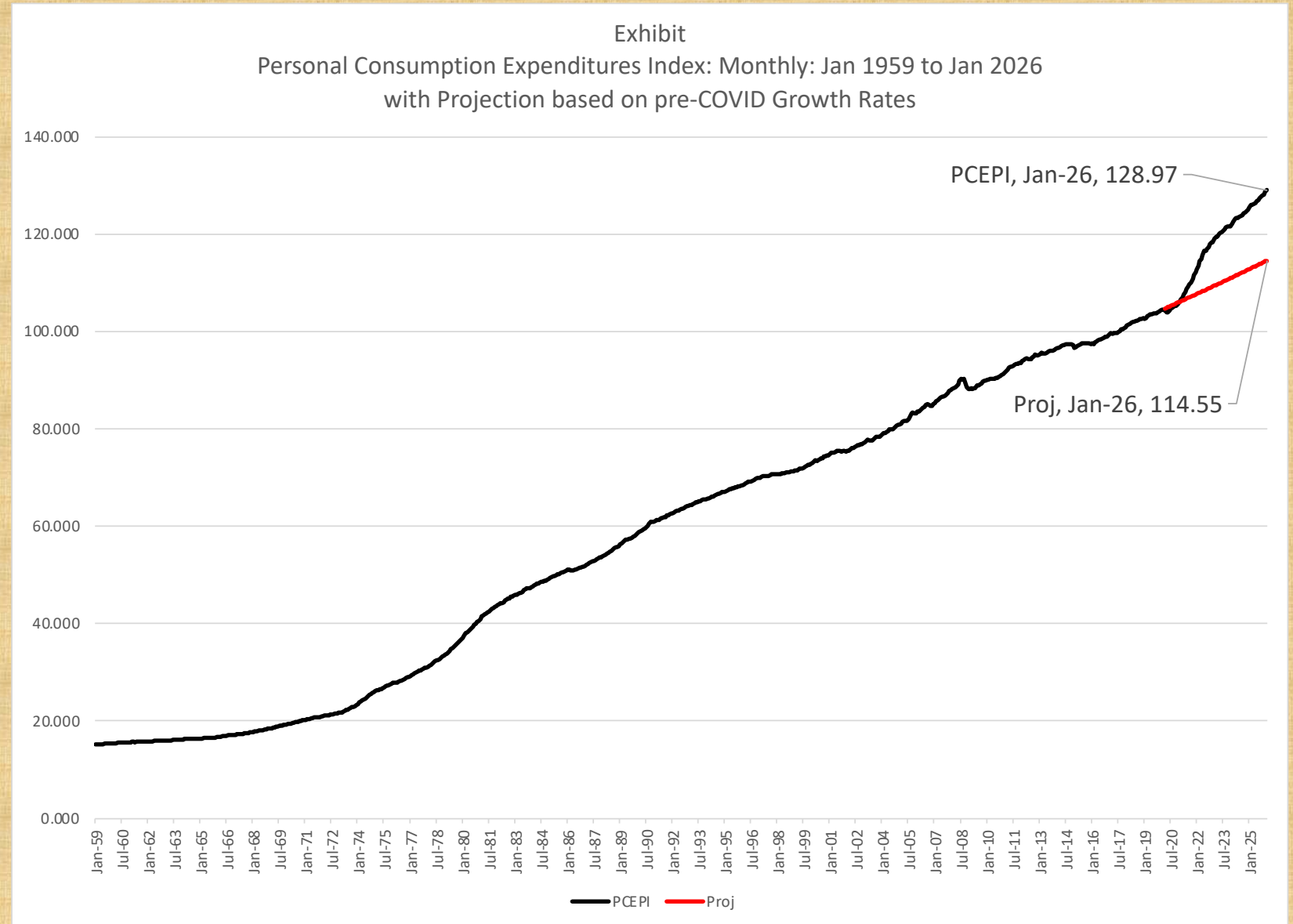
Consumer Income

- Pandemic data impacts
- Net of pandemic effects, consumer income has not kept pace with inflation.
- Household lifestyles adapted to a certain expected and actual growth rate in earnings over time.
- It has become increasingly difficult to maintain those lifestyles in a high price environment
- Debt is no longer available as a stop gap for maintaining lifestyle.



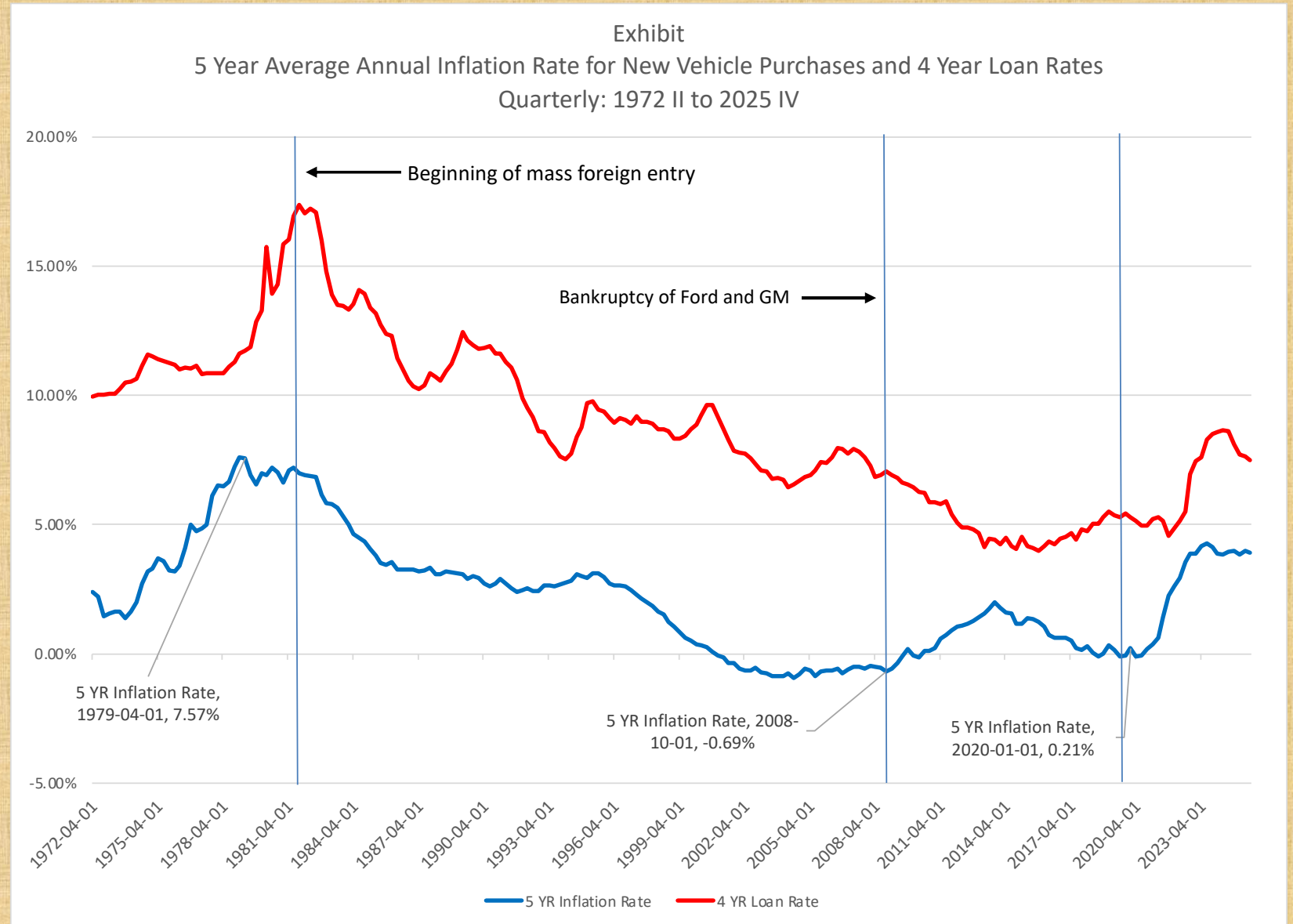
Permanent Price Increases Example: PCE Inflation Measures

- Pandemic driven price increases resulted in permanent shifts in price levels.
- US consumers are suffering from the cumulative impact of the compounding effect of persistently high inflation rates on top of the record high rates during the pandemic.
- This has cut into the purchasing power and standards of living for most US consumers.

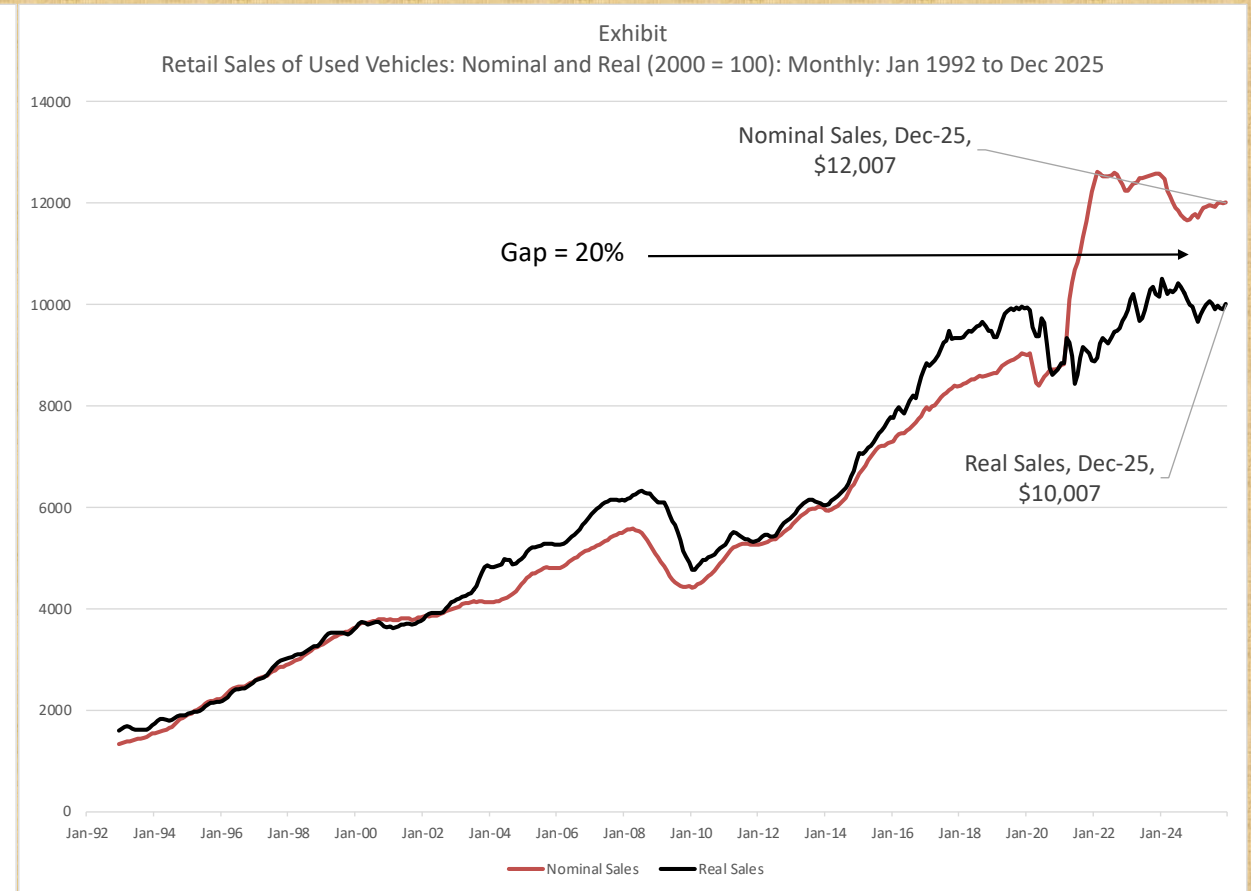
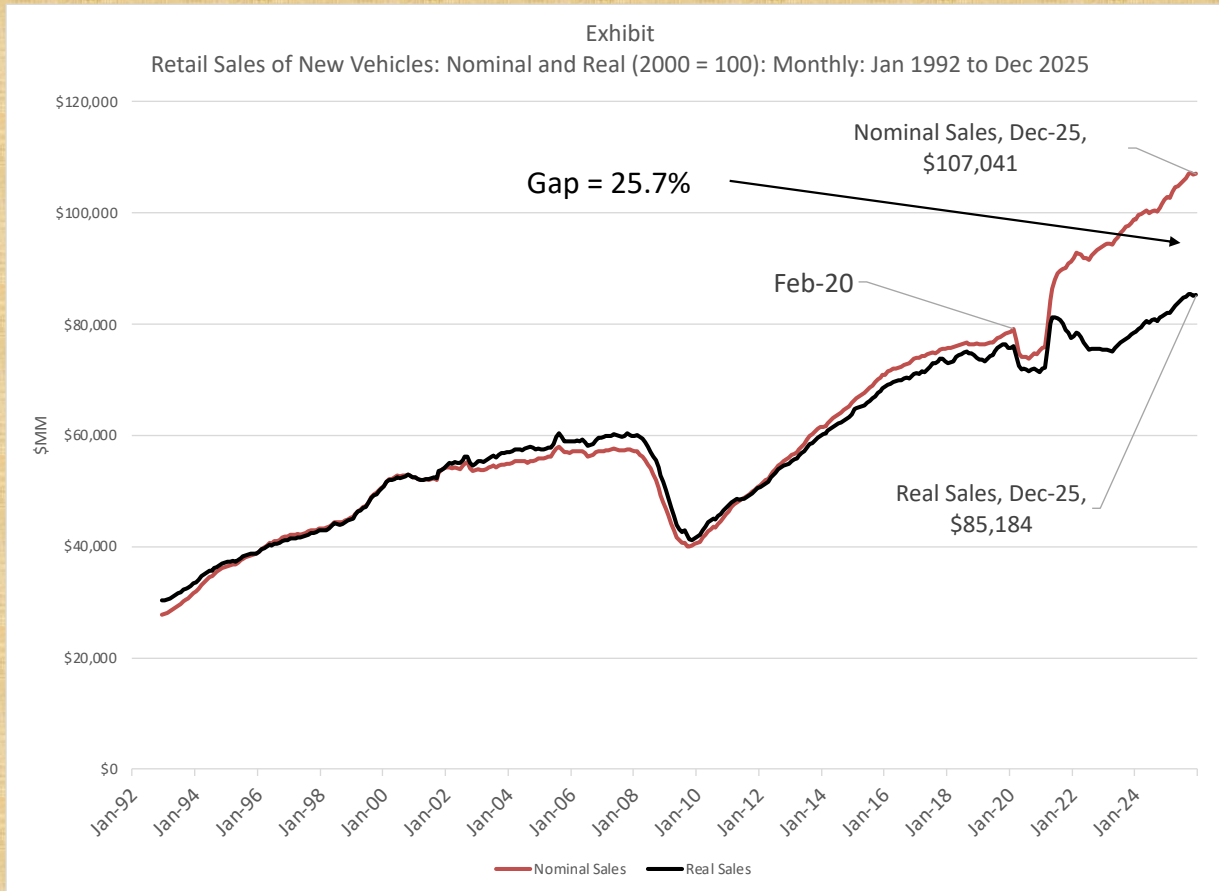


Vehicle Industry Restructuring, Prices and Interest Rates

- Consumers are now dealing with the double-whammy of high vehicle prices and high loan rates.
- Vehicle price behavior changed as the global industry expanded.
- Interest rate decreases facilitated vehicle purchases as the industry first grew and then consolidated.
- Prices were at first inversely related to interest rates following the credit market collapse.
- Supply impacts of the pandemic changed the underlying structure of the industry.



Permanent Pandemic Sticker Shock



The end results have been permanent increases in price levels for both new and used vehicles.

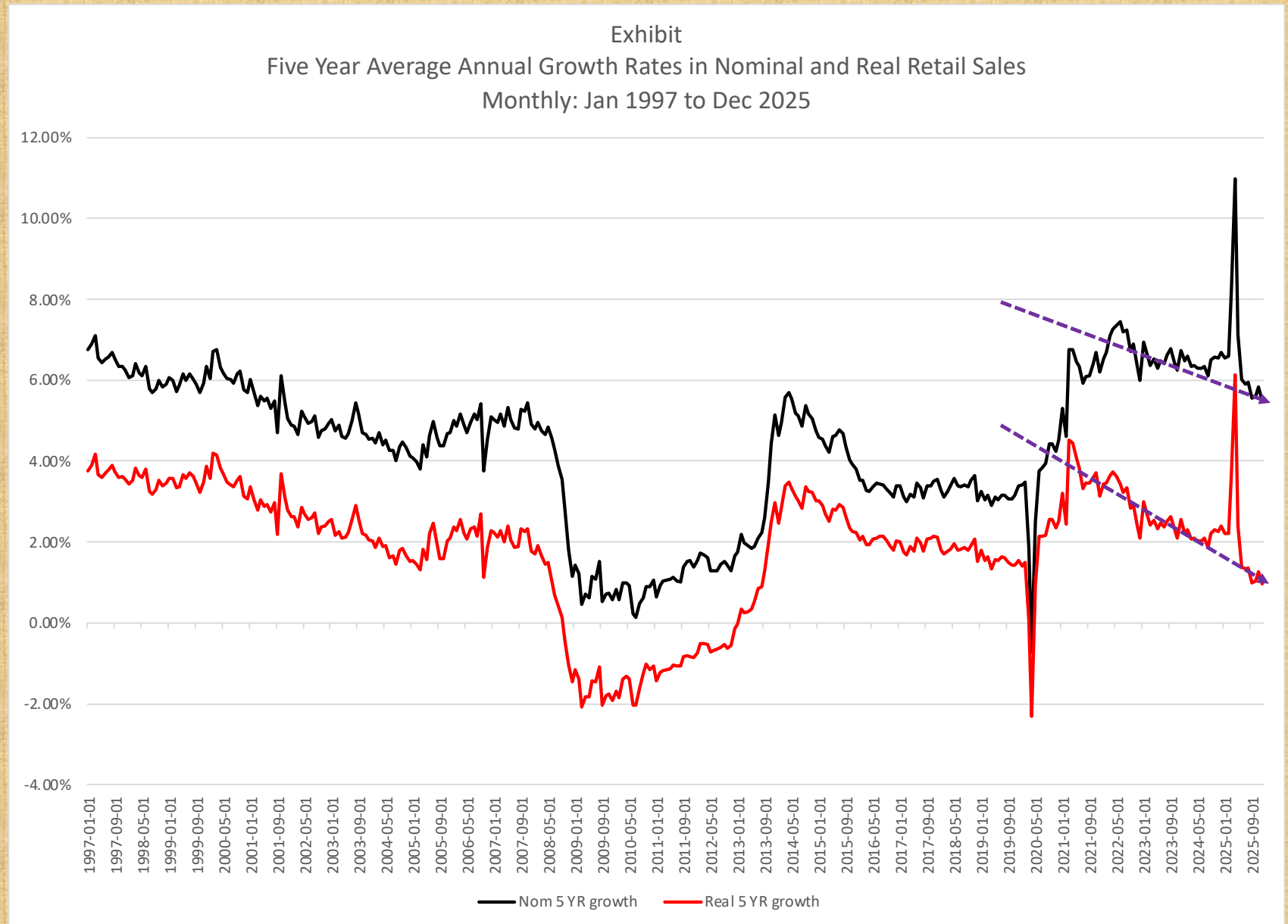
Consumer Spending

Pandemic data effects

Consumer income effects are becoming visible in real retail sales growth outcomes.

This is key given the importance of consumer spending as an economic driver

This pattern will worsen without increases in income and/or job opportunities resulting from private investment.



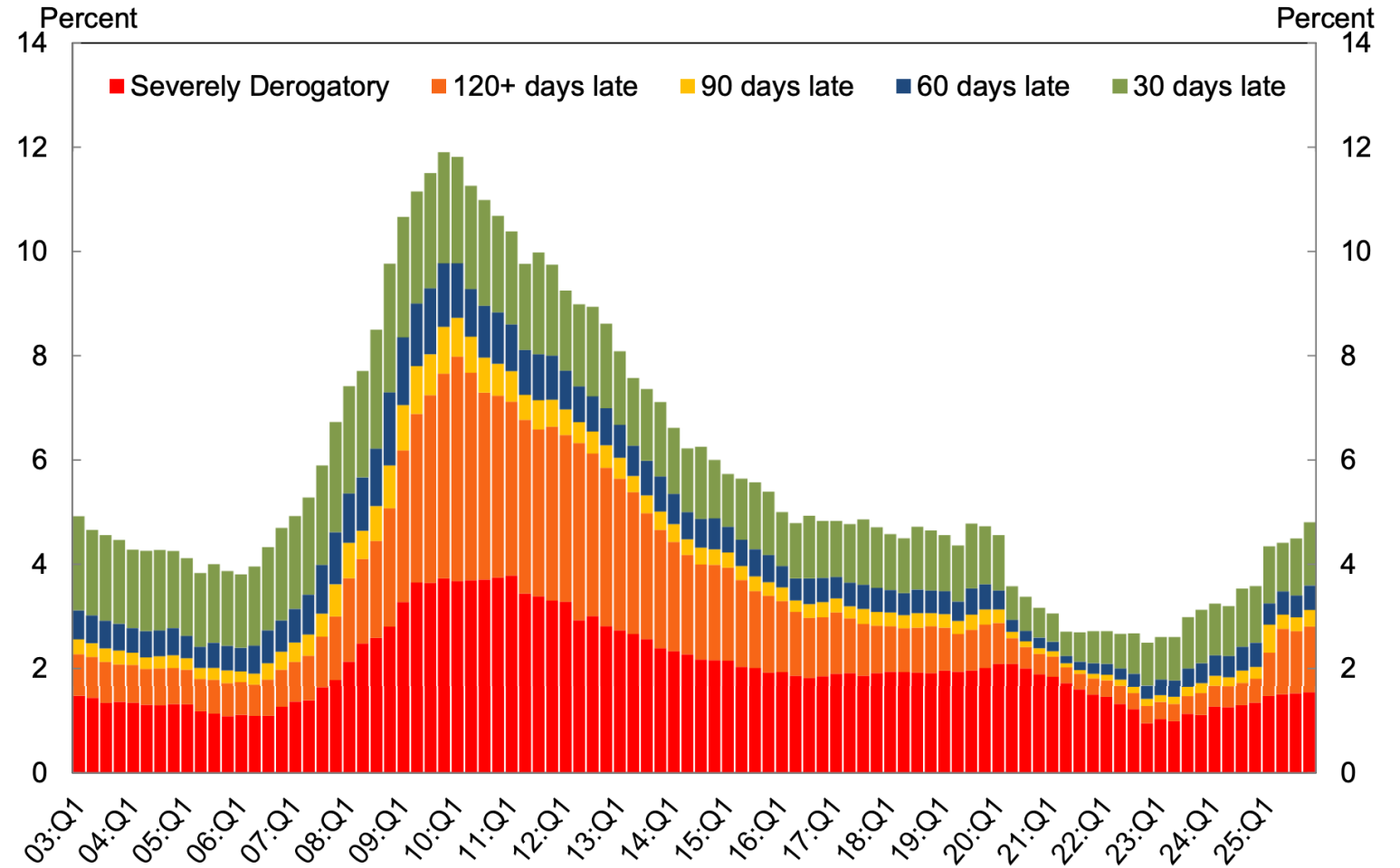
Consumer debt: Rising delinquencies

Delinquency rates are
back to pre-pandemic
levels

Higher than 2007

Showing no signs of
decline

Total Balance by Delinquency Status



Source: New York Fed Consumer Credit Panel/Equifax

Delinquencies by Loan Type

Largest increases in delinquency rates:

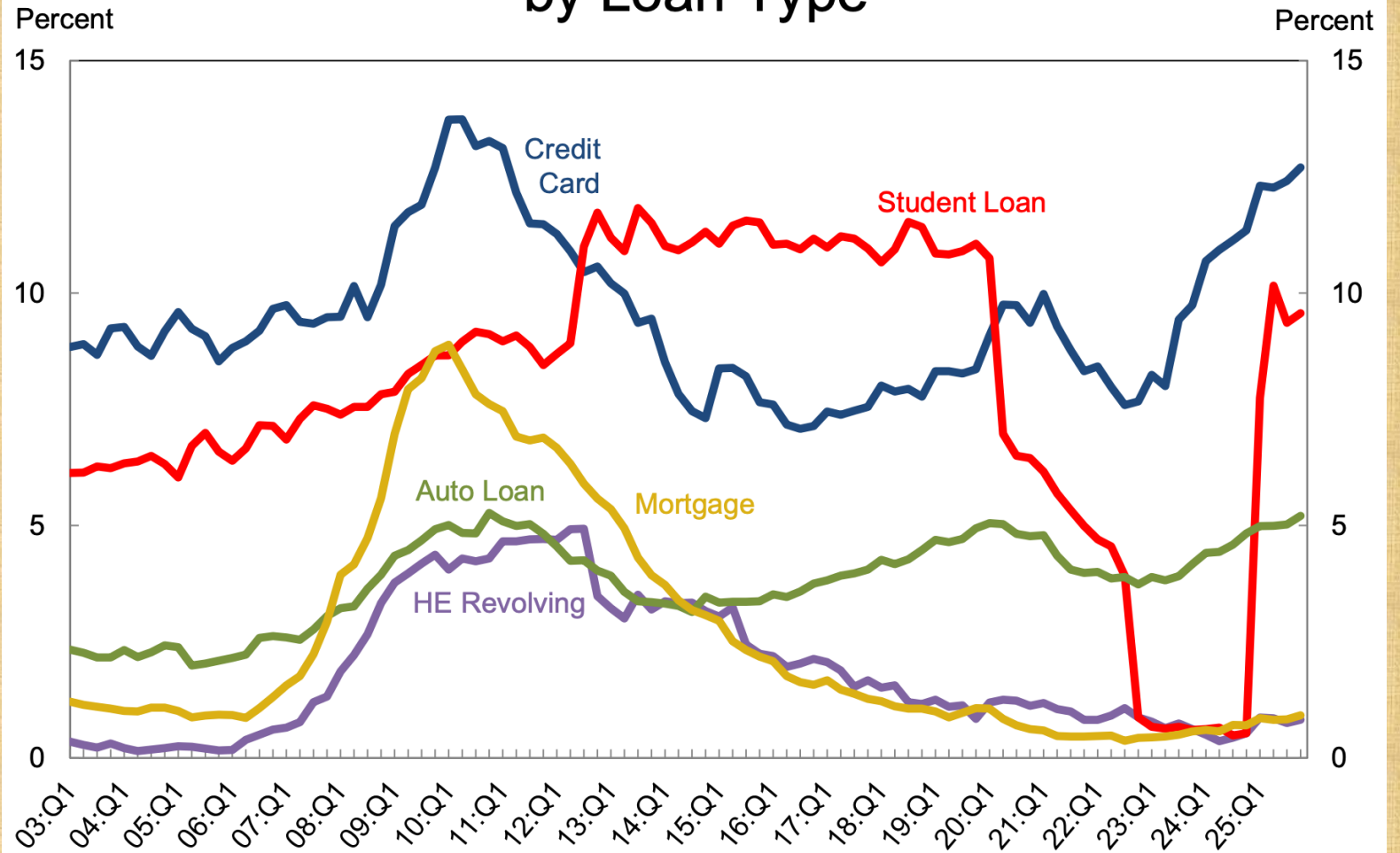
- Student loans
- Credit cards
- Auto loans

Important connections to the identity of the borrowers

Recent grads unable to find work at adequate pay levels

Households extending lifestyle using credit

Percent of Balance 90+ Days Delinquent by Loan Type



Source: New York Fed Consumer Credit Panel/Equifax

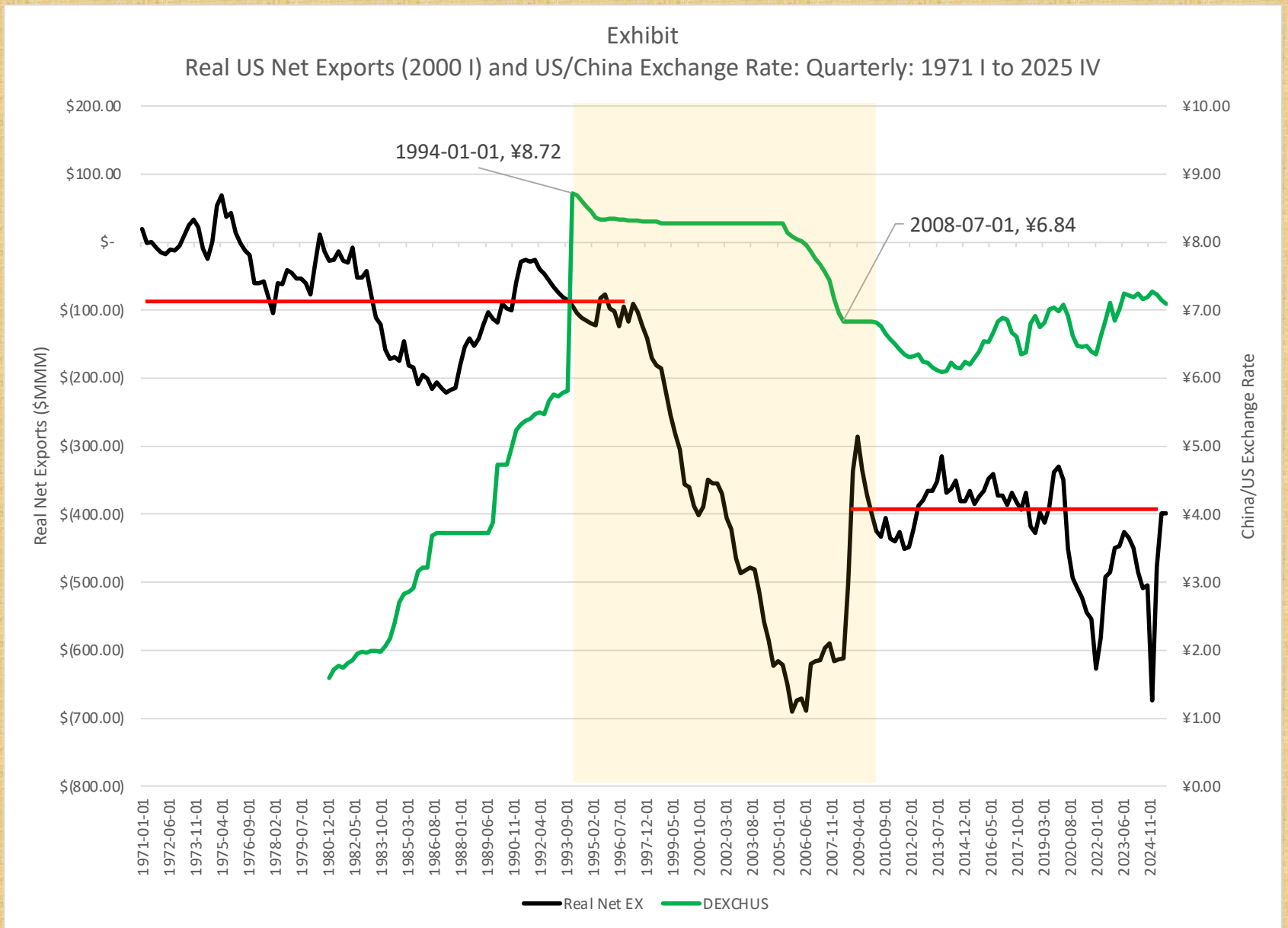
Trade

Three Phases of Trade Driven by China

Phase I: Through 1994: strengthening dollar and opening of the Chinese economy; 1980's offshoring of manufacturing base.

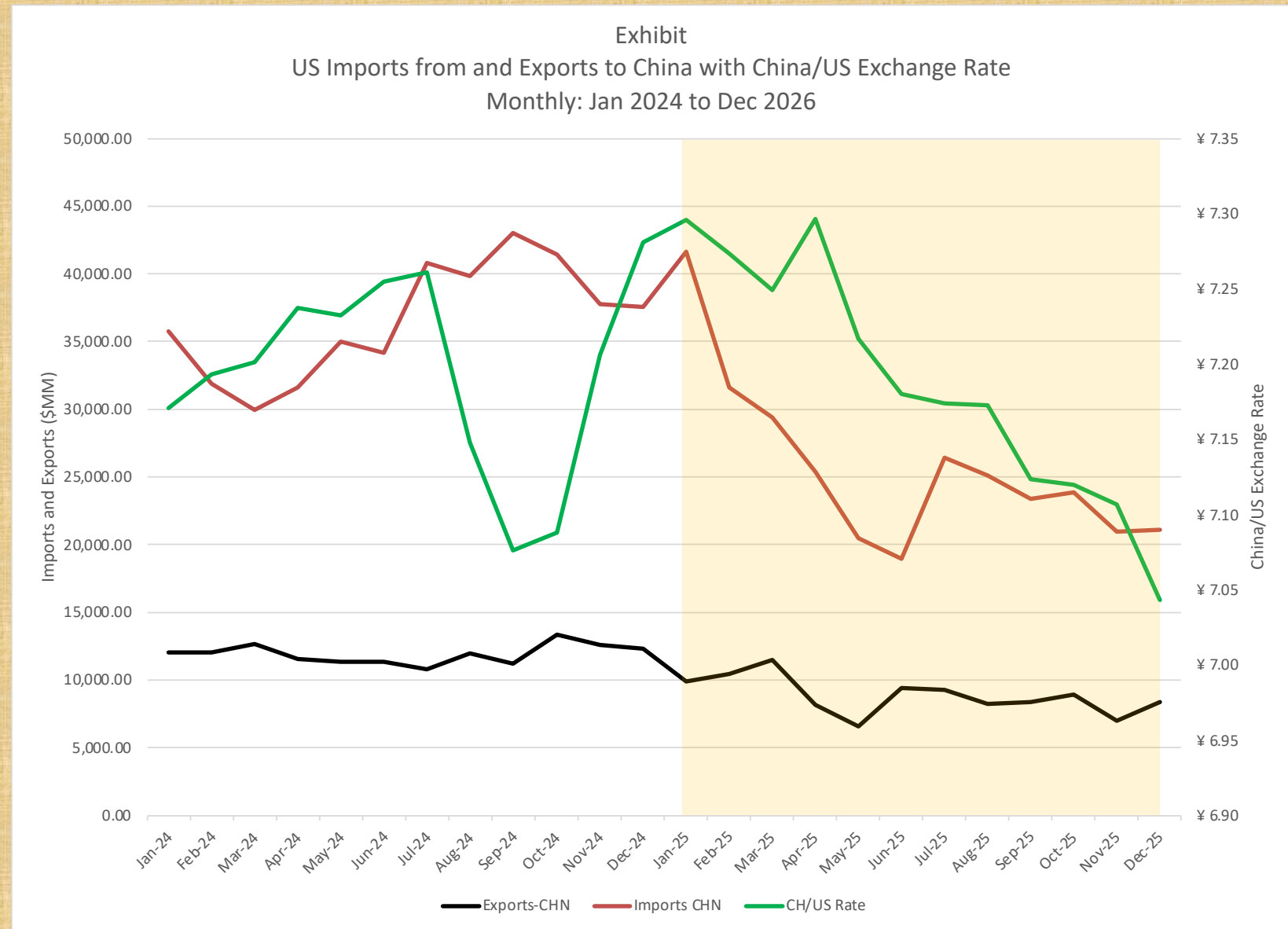
Phase II: China locks its exchange rate; mass relocation of manufacturing capacity to China. Deepening of the overall permanent US trade deficit

Phase III: Financial market collapse and loosening of the exchange rate control reduces the permanent level of the trade deficit, although it persists even with other trading partners



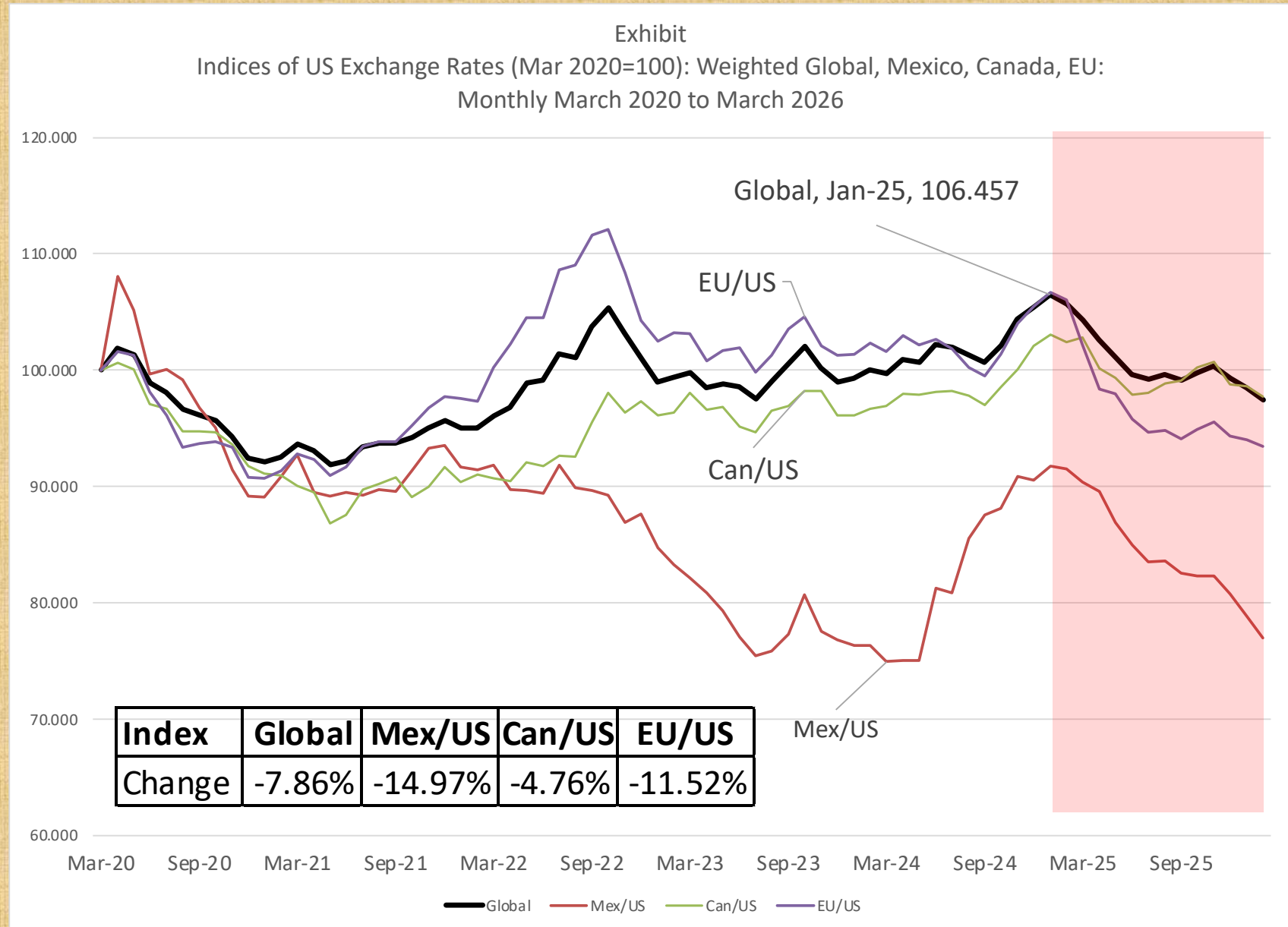
2025 Tariff Impositions

- China's currency appreciated relative to the dollar as global demand for it increased
- US imports from China fell, reducing the trade deficit
- Despite the strengthening of the Chinese currency, US exports to China did not increase, rather, they fell.
- There is a question of the degree to which there is enough global demand for US products to sustain trade surpluses without significant reinvestment in US manufacturing.



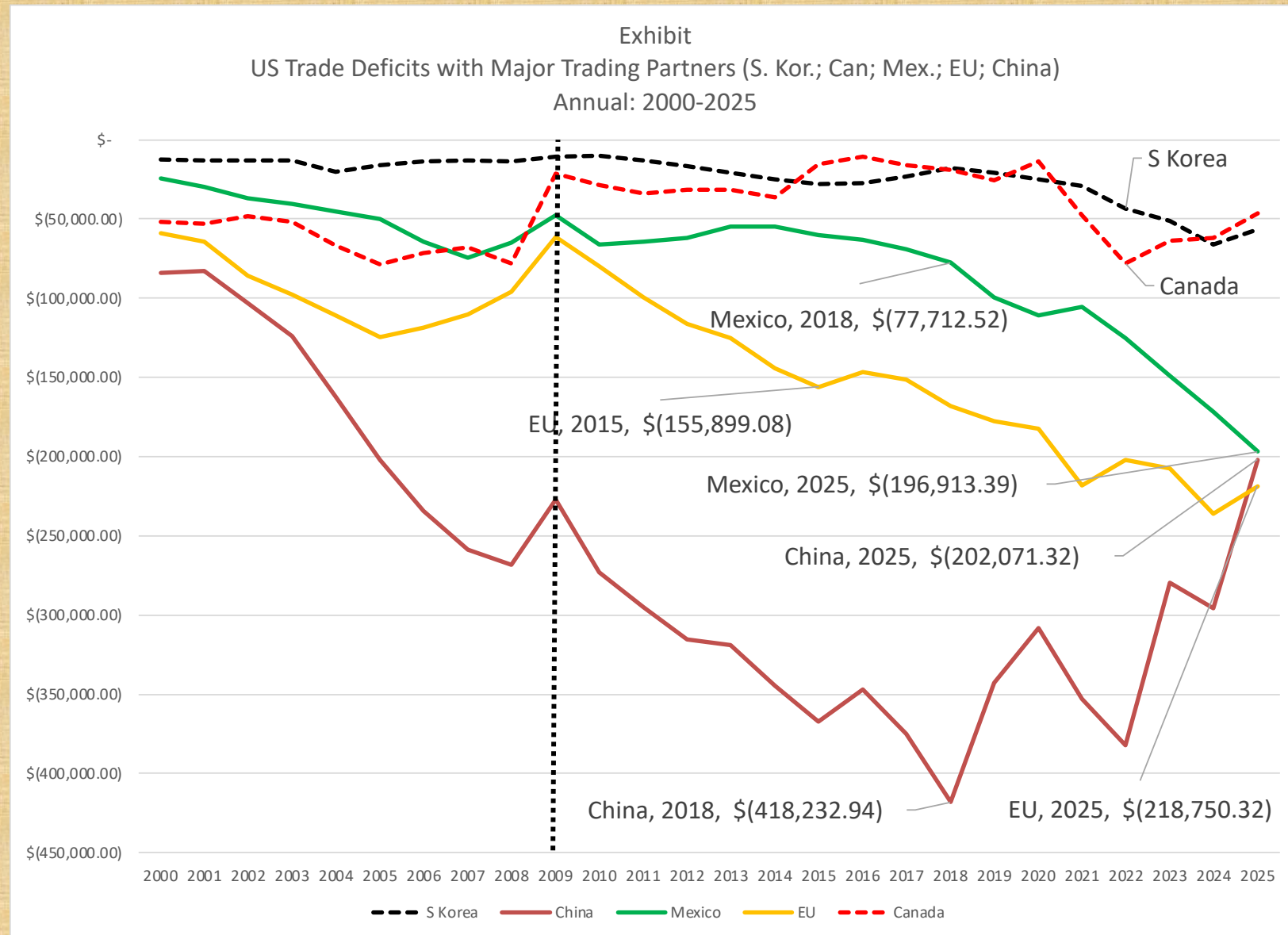
Decrease in US Dollar Value

- The value of the US dollar also fell globally and with our primary trading partners (EU, Mexico, Canada).
- This was not only a stated intention of administration policy, but a result of trade shifting due to the tariff environment (e.g., countries sought trading partners other than the US)
- The dollar has lost strength as a reserve currency and US consumers have lost purchasing power and wealth in the process.



Trade Deficits Persist

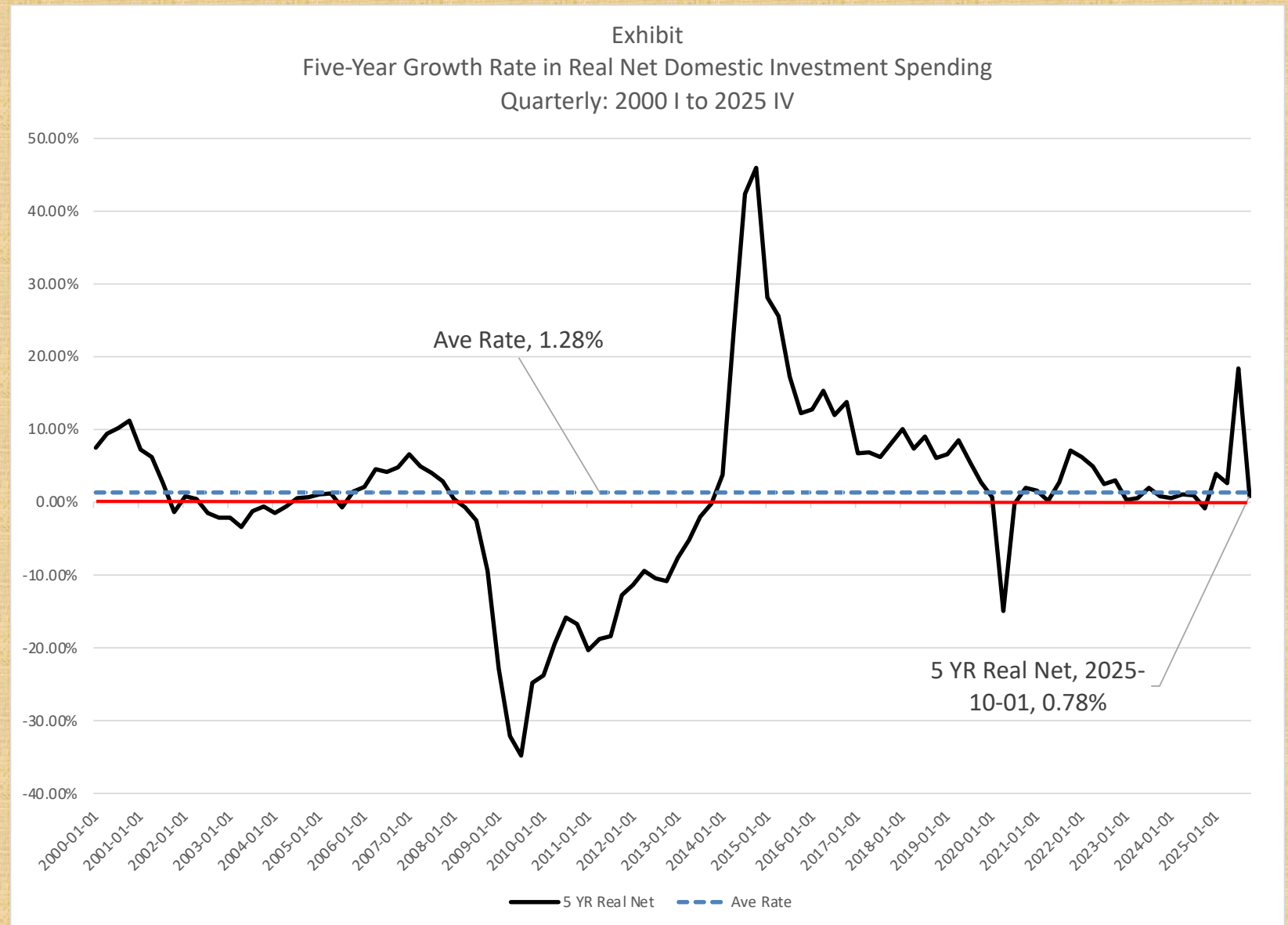
- The US manufacturing base is incapable of meeting demand for consumer goods and other products that it tends to import.
- As the deficit with China has declined, trade deficits with Mexico, the EU, and to a degree Canada and South Korea, have deepened. U.S. consumers are paying more for these imports.
- Even so, the **US exported \$1.2 trillion** to the EU, Mexico and Canada combined.
- This will persist until US manufacturers begin making products that we have tended to import (e.g., appliances, automobile components, electronics, apparel, and other consumer goods).



Investment

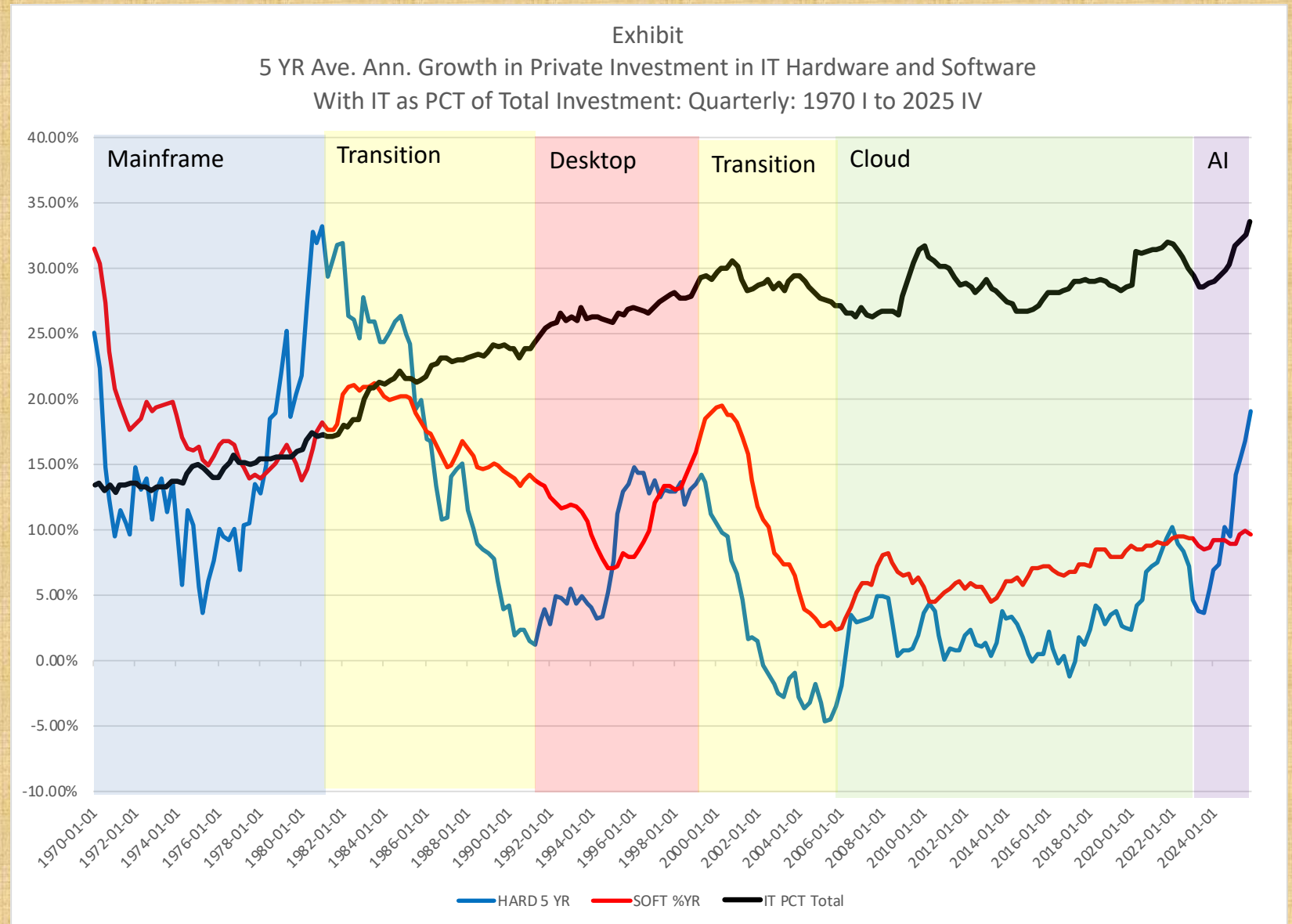
Net New Investment Spending

- There has been little net new REAL investing in the US economy in the 21st century.
- Spikes in behavior are attributable to the financial market collapse and the pandemic.
- Otherwise, investment has been enough to cover depreciation and inflation, not provide net new growth opportunities across the broader economy.



IT Hardware and Software Investment

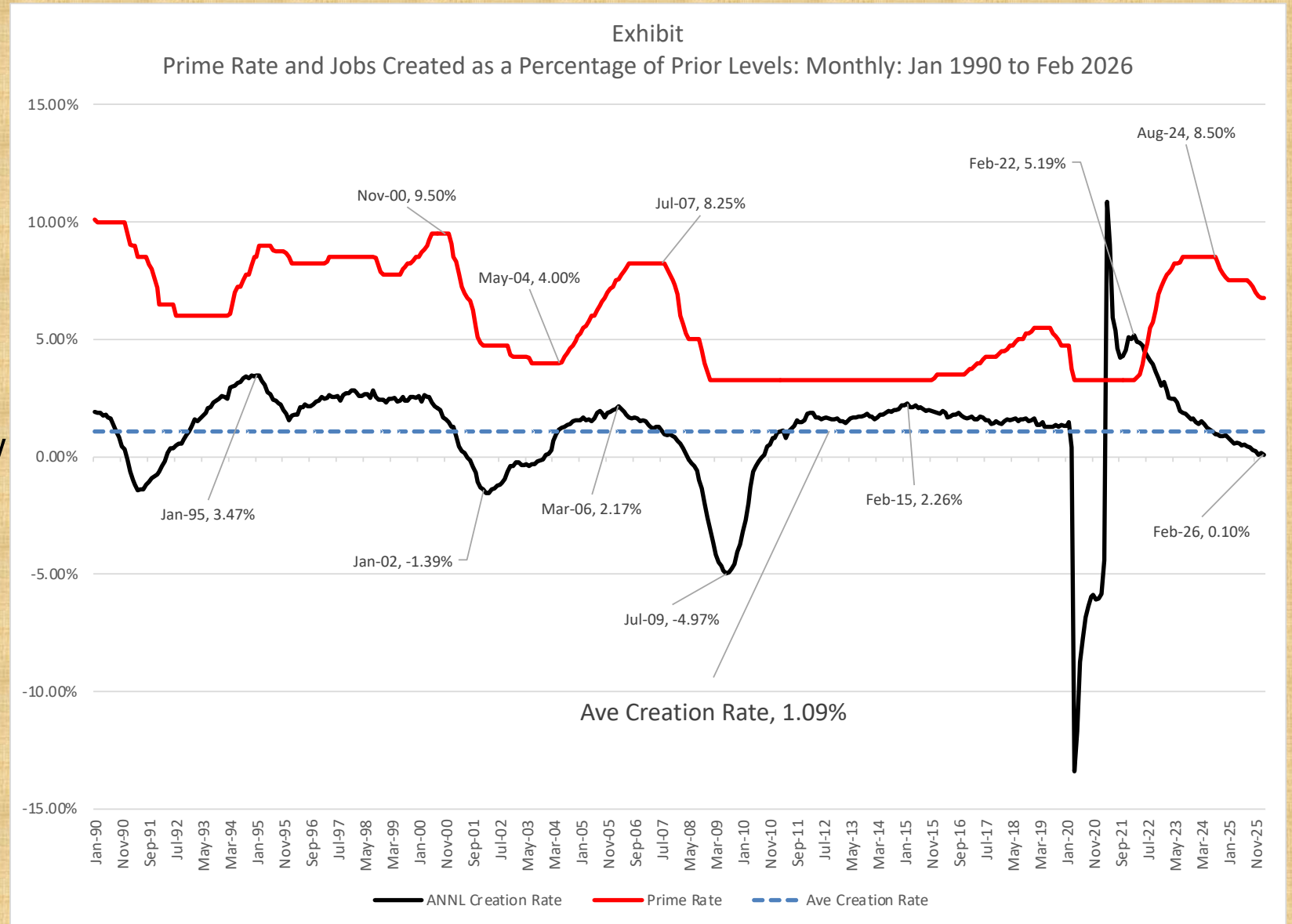
- IT hardware and software now comprise 34% of all private investment spending in the US
- Growth rates in hardware and software investment have followed technology development patterns since the end of WW2.
- Rates of growth in technology investment have slowed due to decreases in cost per unit of IT output over time.
- Movement toward AI and data centers have resulted in an increase in the growth of investment in hardware since 2022.



Employment and Job Creation

Job creation

- Not surprisingly, the rate of job creation has been low in the 21st century.
- Interest rates impact both investment and job creation
- Not accidentally, this follows the pattern of low growth in net new private investment spending.
- The distorting effects of the pandemic are now dissipating as we return to more of a long-term stagnant growth scenario.

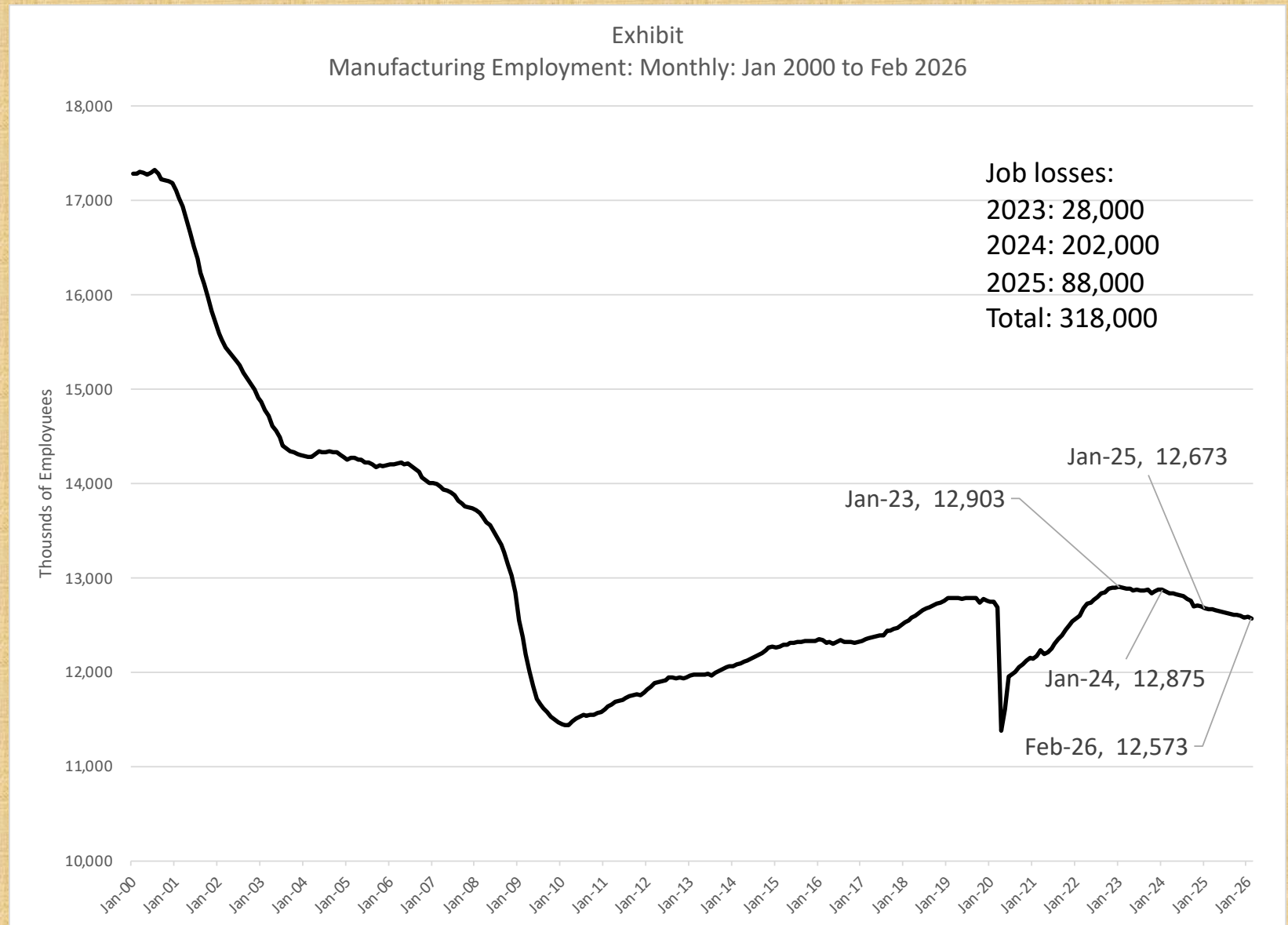


Manufacturing employment

Manufacturing employment continues to fall

Even new investments in manufacturing may not result in substantial increases in job opportunities due to the use of technology in the manufacturing process.

Any new investment in manufacturing will take several years to materialize into substantial permanent job growth.

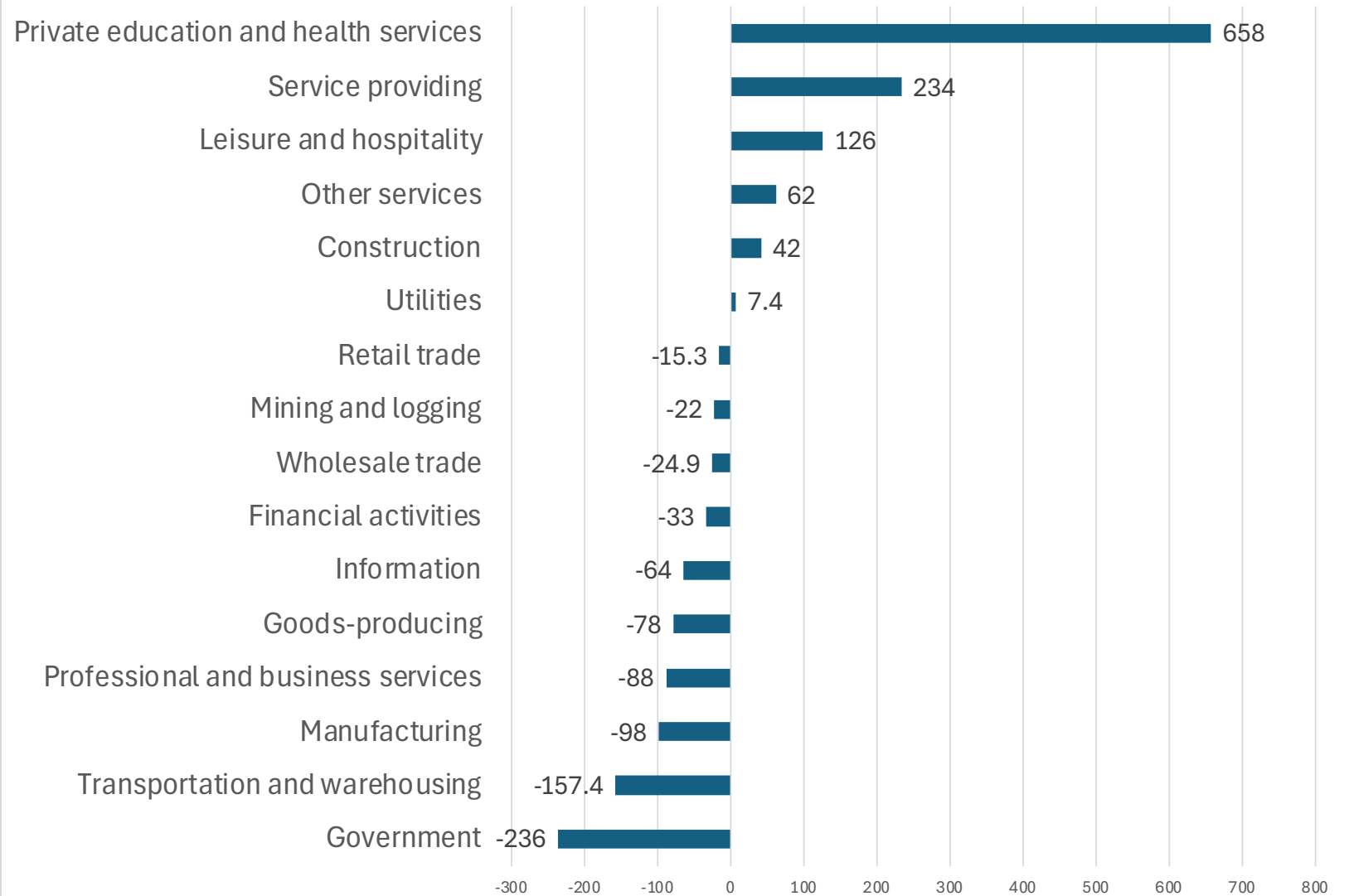


Employment Growth Sectors

The effects of technology are being felt at the lower levels of employment growth.

Employees in the higher growth sectors may be shielded from the intrusion of technology in the workplace.

Change in Employment by Industry: Feb. 2025 to Feb. 2026 (thousands)



Employment and AI

AI and the Employment Markets

- Actual penetration of AI into the employment markets has been relatively minimal to date.
- Much of the job losses can be attributed to “AI Washing”
- The potential penetration of AI into completion of certain job tasks and functions is disproportionate across the different sectors of the economy,
- Study results: ANTHROPIC; March 2026

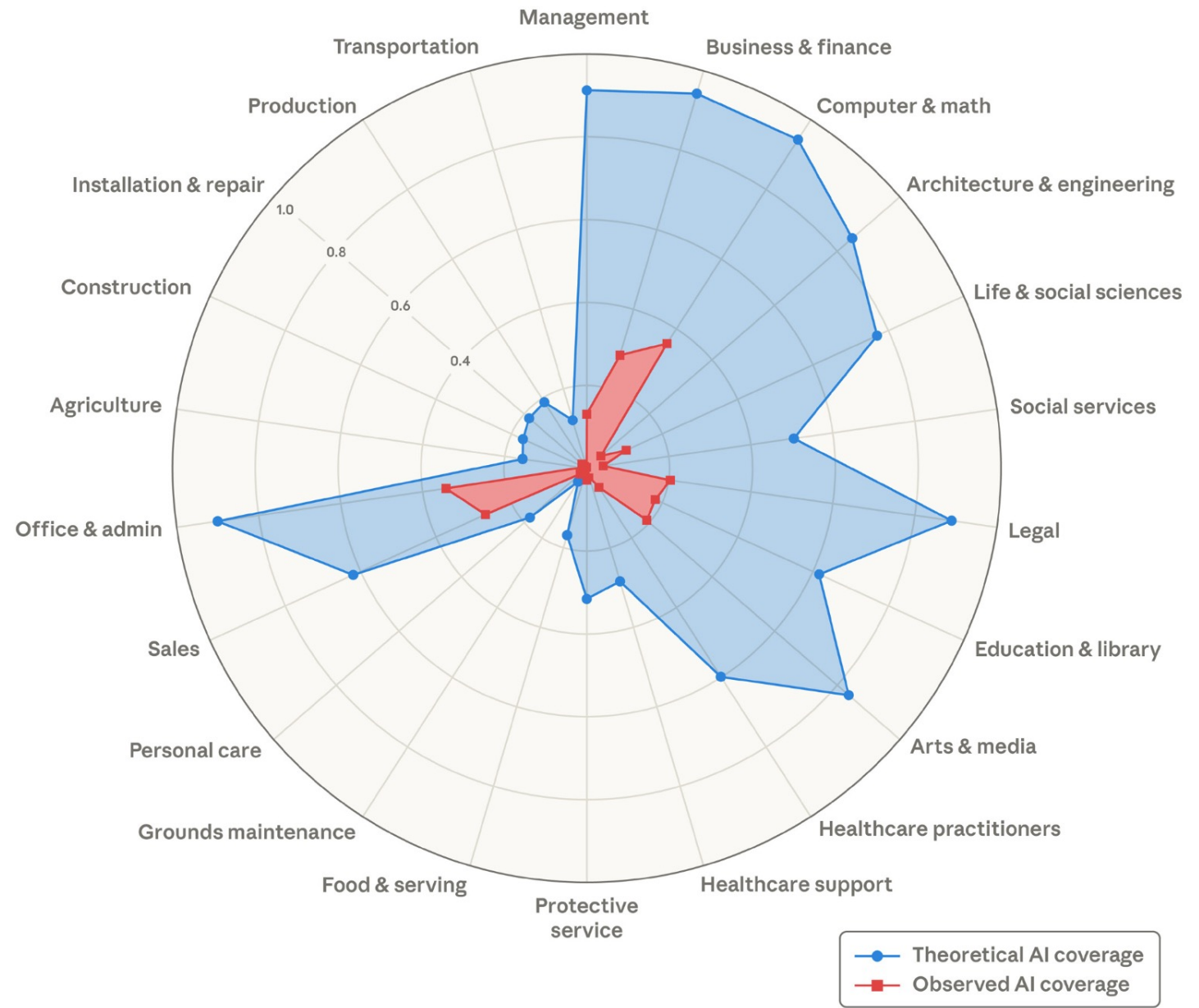
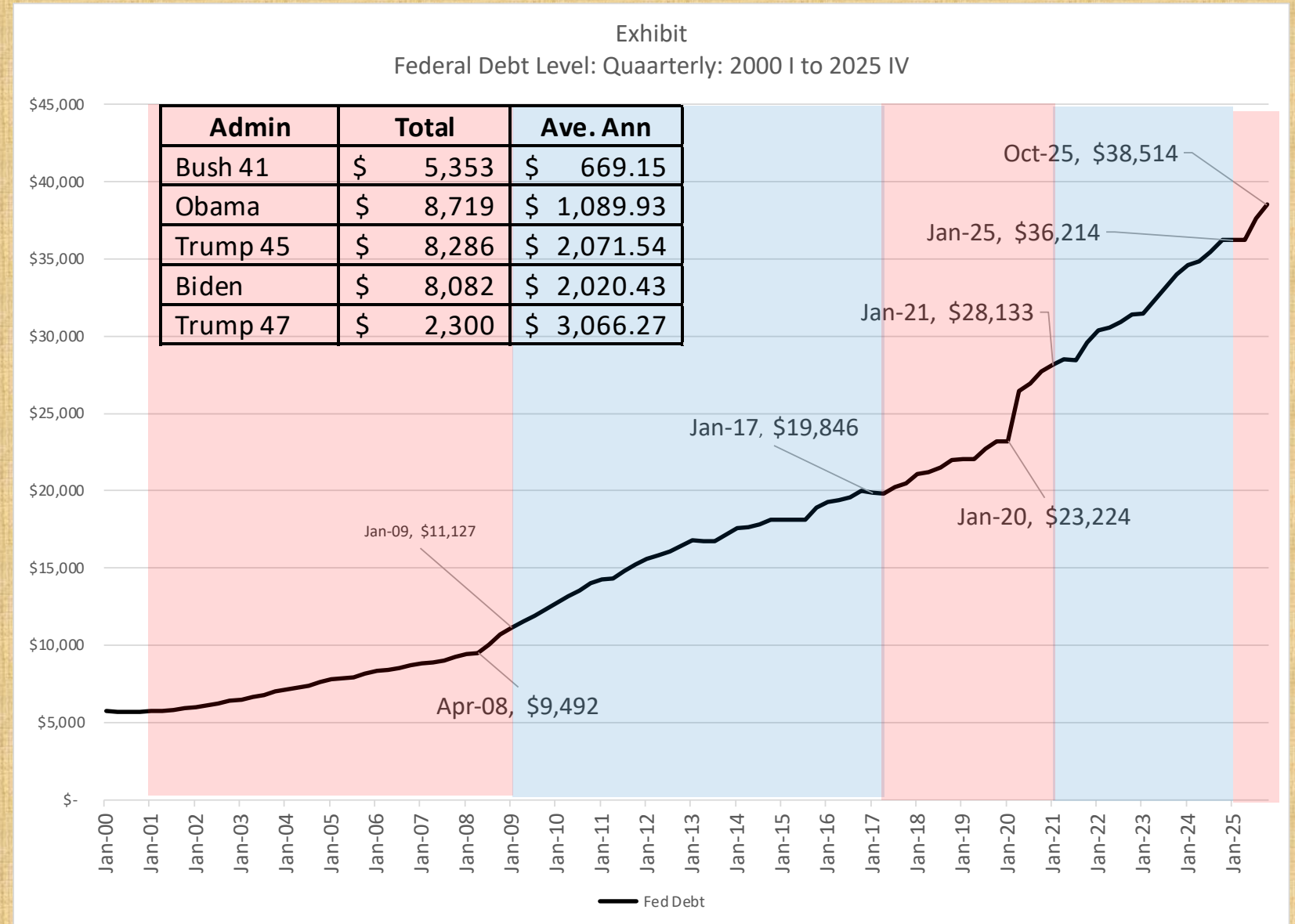


Figure 2: Theoretical capability and observed exposure by occupational category
This figure shows the share of job tasks that LLMs could theoretically perform (blue area) and our own job coverage measure derived from usage data (red area).

Debt and Banking

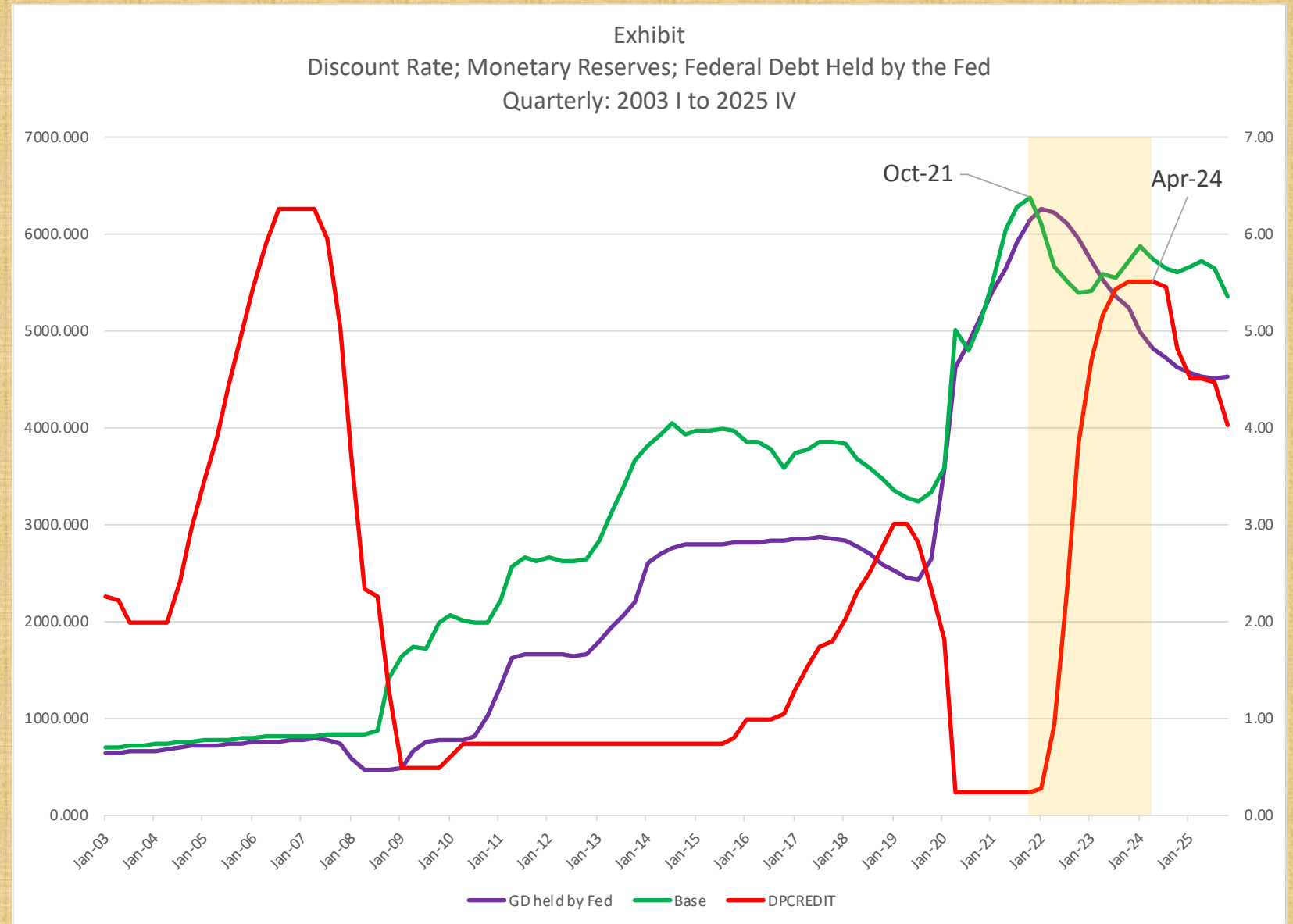
Federal Government

- Borrowing is now over \$39 trillion.
- The current administration is borrowing at the rate of \$3.0 trillion per year.
- Deficits continue to accumulate, despite DOGE and other efforts to reduce spending.
- War-related costs will only serve to worsen this problem.



Federal Reserve Policy

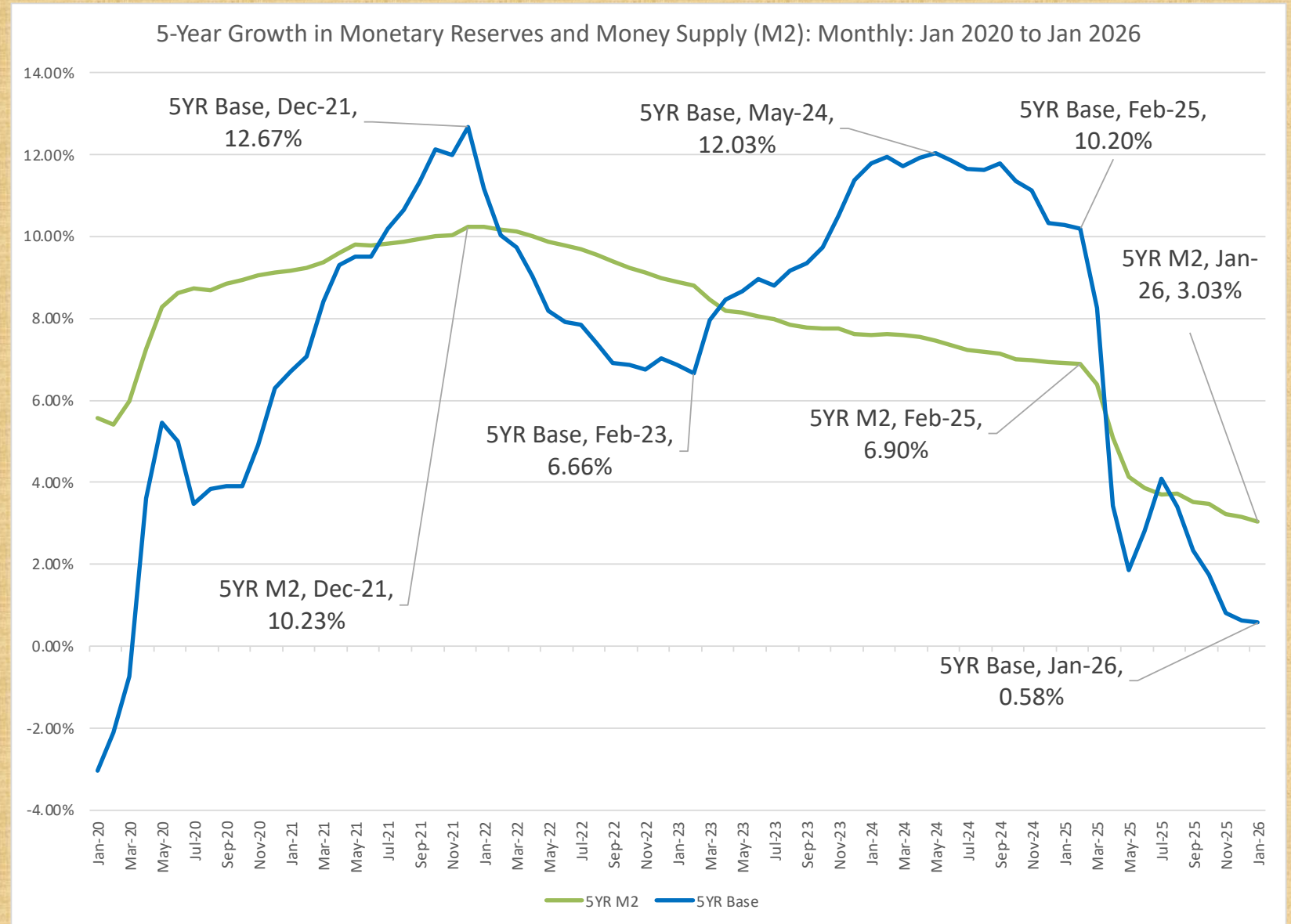
- The Fed continues to pursue tight monetary policy
- No more than one rate reduction expected for 2026
- Reserve growth is slow to negative.
- The Fed is steadily reducing its holdings of Federal government debt securities.



Money not responsive?

As the Fed forestalls rate reductions, slows down on reserve growth and reduces its holdings of Federal government debt securities, the money supply continues to grow at a higher rate than reserve growth.

To what degree does private lending influence the Fed's direct or indirect control of the money supply?



Private Lending in the 21st Century

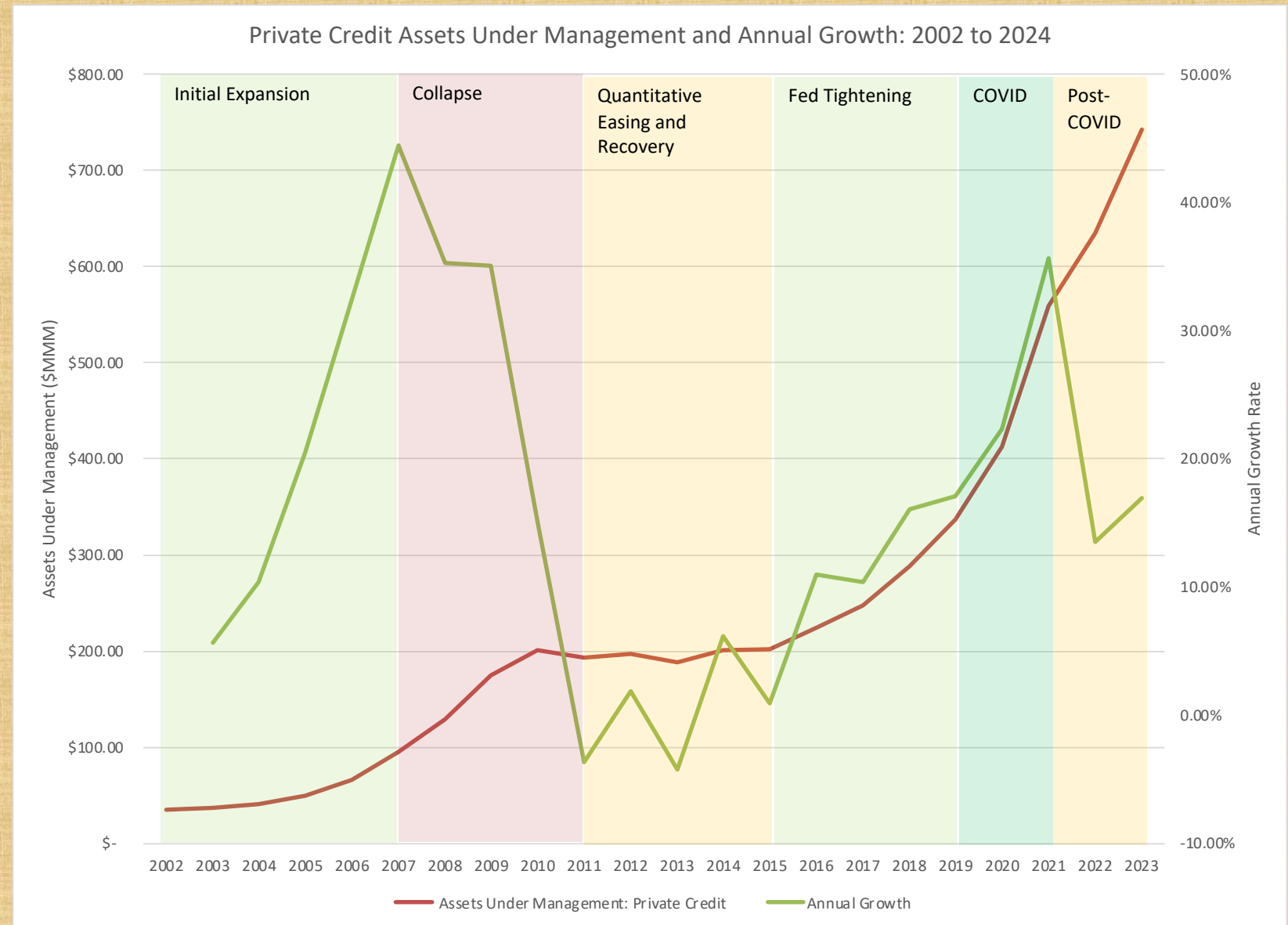
Initial growth in private lending precedes the credit market collapse of 2008

The rate of growth in private credit was non-existent during quantitative easing and the post-crash recovery

Private credit growth resumed when the Fed began contractionary policies after 2015; It continued to grow at increasing rates through the pandemic

While post-pandemic Fed tightening may have slowed the growth, private lending has reached volumes of anywhere between \$1.7 and \$2.1 trillion, depending on who is counting.

Default rates are an increasing concern.



Elevated Risk Levels

- Private credit markets
- Consumer credit risks
- Corporate bankruptcies
- Persistent inflation
- Tariff-driven friction in global trade markets
- War-related risks
 - Energy prices
 - Supply chain disruptions
 - Domestic attacks
 - Additional financial market risk due to government borrowing and spending
- Impact of income tax policy changes: a saving grace?

What to watch

- Market demographics matter
 - Consumers: lower/middle continue to be squeezed
 - Middle market retailers will continue to feel these effects
 - Regional concentrations matter
 - Demand elasticities are more important: necessities v luxuries
 - Higher end markets will continue to flourish
 - The fuzzy band between the high and middle markets will shrink
- The Fed will continue to be cautious
 - Threats of instability in the funding and capital markets
 - Key conditions very similar to both 2000 and 2008
 - Is the Fed preparing to deal with a market meltdown?

What to watch (cont'd)

- Shifting labor market technology and demographics
 - Retirements will lead to a loss of knowledge legacies
 - AI will continue to replace human replication of business tasks
 - Incoming employees will need to manage, instruct, and interpret the results of work completed by digital agents
 - This will increase the importance of replacing the legacy knowledge lost due to retirements.
- Trade
 - Trade markets will continue to reorganize around tariff models
 - External impacts of military activities may disrupt trade and supply chains
 - The energy markets will be volatile and characterized by higher prices.

What to watch (cont'd)

- Investment and "Uncertainty"
 - Uncertainty has changed pricing behavior in the capital markets
 - AI and technology related investments are being priced as options as opposed to cash flow generators
 - Prices higher in cases where future volatility is greater (i.e., more upside potential)
 - Market indices continue to be dominated by a small number of large cap firms
 - As it did in 1999-2000, this market may spontaneously adjust (downward), taking other investments along with it.
 - (Relatively) high interest rates increase the cost of capital and reduce the attractiveness of investments in longer term assets such as manufacturing facilities.

Dashboard

- Broaden the view of your customers to include a wider variety of potential indicators
 - Use analytical model to identify and evaluate existing and new factors influencing your sales, credit and AR performances
- Be sure to ***participate*** in the design of AI-based internal operating models to make sure that the algorithms accurately consider and align with your organizational objectives, growth and profitability goals, methods of credit and AR analysis, and performance metrics.

Dashboard (cont'd)

- Engage in a wide range of “what if” conversations. Uncertainty is about anticipating outcomes.
 - What might happen in a way that it has never happened before?
 - How might we be in a position to respond to such an event?
- Maintain liquidity and secure backup sources of liquidity to be available if the markets become unstable. (e.g., understand the liquidity positions of your banking partners)
- Be prepared to replace the role of the banks when it comes to working capital financing for your customers.