External economic factors that can cause model disruptions

Inflation
Downward movement in inflation is a positive sign that the interest rate hikes from the Federal Reserve are starting to take effect.

Inflation appears to be moderating from its peak but continues to run hot in key household essentials.

Labor market performance
Unemployment remains near record lows in many states, but there has been a recent surge of layoffs in the technology industry.

Shortages in the service sector have driven up wages for the lower wage groups and for job switchers.

Consumer behavior
In part due to higher levels of spending, the personal savings rate reached a 17-year low of 2.3% in October 2022.*

Saving

Volatile market conditions
The recovery has been uneven, and the future remains unpredictable for many organizations across industries.

New home sales have slowed to pre-pandemic levels and homebuilder sentiment has fallen for 11 straight months as affordability has constrained buyers.*

Potential future credit losses
Lower-income consumers — especially those designated as “sensitive” to inflation — are seeing delinquency rates rise.

Here are key actions that credit risk executives should take now

Increase monitoring frequency.
With ongoing market shifts, sporadic model and decision strategy monitoring is no longer enough. Automating the monitoring process allows you to closely follow real-time economic and consumer behavior changes to meet customer needs and accommodate market fluctuations.

Know exactly where to adjust for quick wins.
Gaining a clear understanding of portfolio performance throughout the entire acquisitions process is crucial. Pinpointing exactly where there may be a problem allows you to determine adjustments that can be made quickly and easily for short-term wins.

Set up for rapid recalibration or rebuild of models and decision strategies.
The key to making the best business decisions is consistently adjusting to new macro conditions, as changes in the economic environment will ultimately impact portfolio performance. It’s important to know when to recalibrate or rebuild your models and decision strategies, while also having the ability to deploy them quickly to meet market demands.

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