

# An Economic Update: What's Next?



Presented by: Amy Crews Cutts, PhD, CBE®  
Jose Plehn-Dujowich, PhD  
Date: June 10, 2024  
Session: #33014

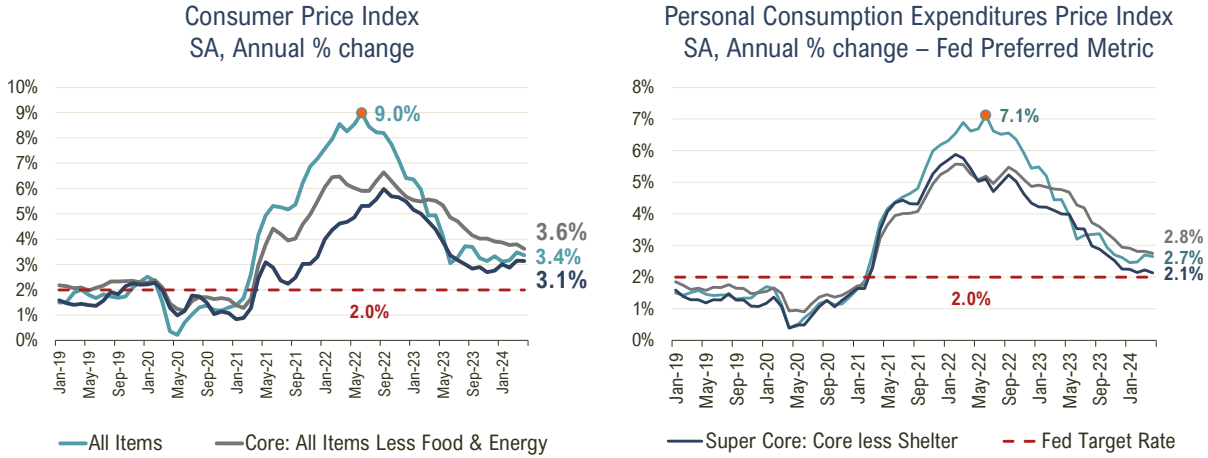
## The Macroeconomy

Inflation waning, growth steady, yet...

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# Inflation is waning, but the ride isn't smooth

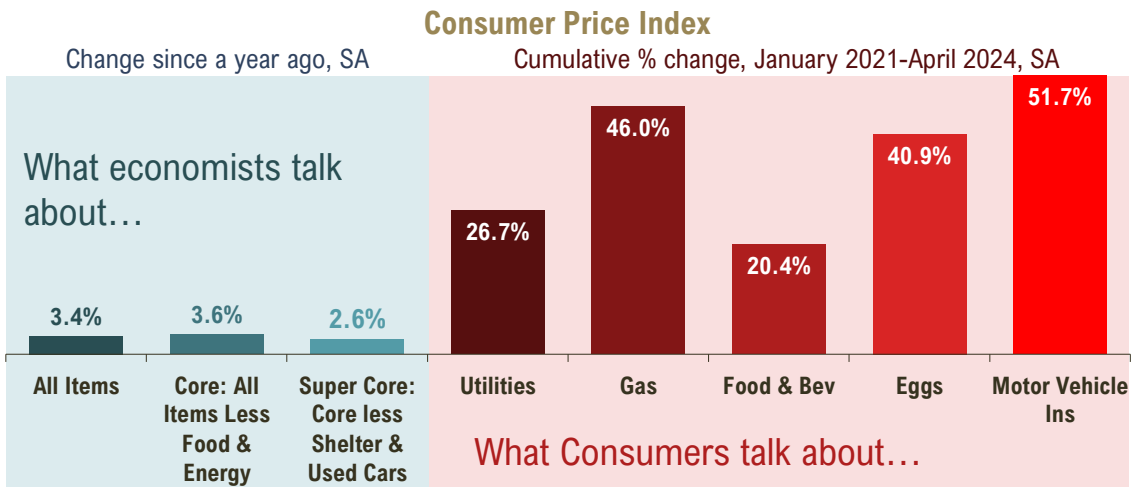
## Also, falling inflation ≠ falling prices



Source: AC Cutts & Associates, U.S. Bureau of Labor Statistics, Federal Reserve Bank of St Louis (FRED). Data through April 2024.

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# While the economists & the Fed care most about recent core & super core inflation, Consumers care costs of necessity items

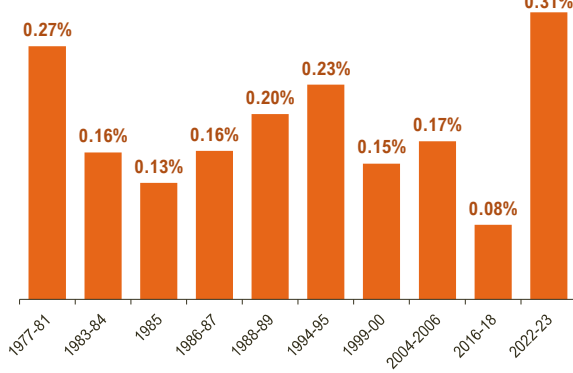


Source: AC Cutts & Associates, U.S. Bureau of Labor Statistics

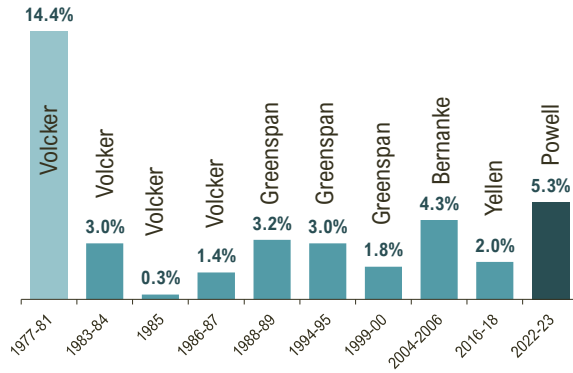
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# This round of tightening by the Fed is the most aggressive in the modern, post-Volcker period

Highest average monthly pace of increases over total period of tightening



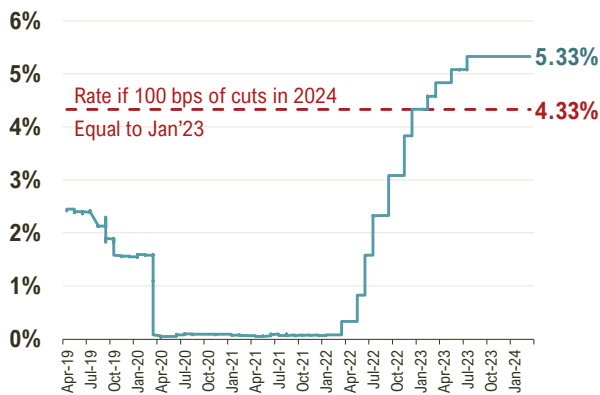
Highest total change since 1977-1981 tightening rounds



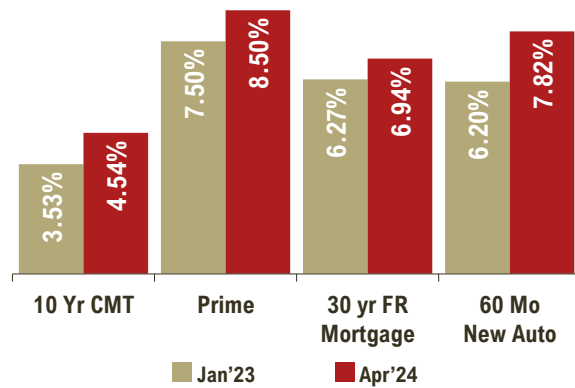
Source: AC Cutts & Associates, Federal Reserve Bank of St. Louis (FRED), chart on left is the total change in the monthly Fed Funds Effective Rate divided by months from first increase to final; chart on right is the total change in the monthly Fed Funds Effective Rate (end of month).

# Would Fed rate cuts be stimulative? No. Monetary policy acts with a lag - cuts will not yield quick relief

Fed Funds Effective Interest Rate, NSA, %



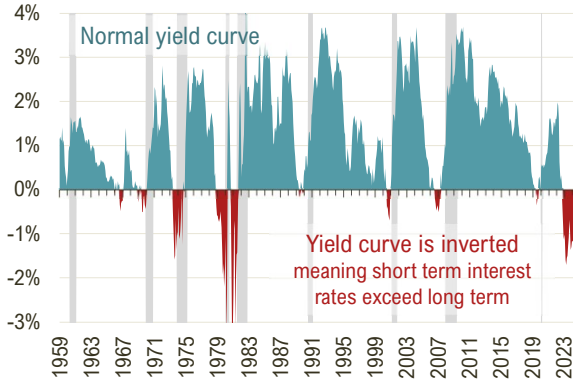
Select interest rates, NSA, %



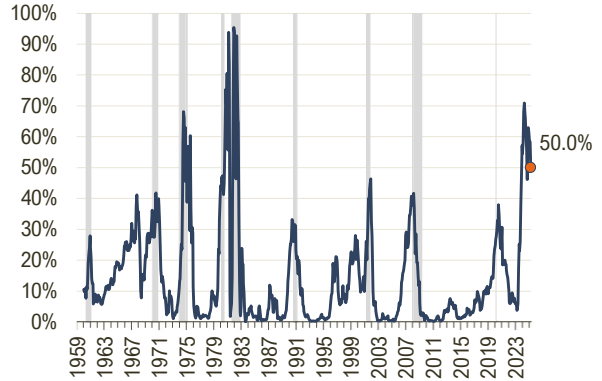
Source: AC Cutts & Associates, Board of Governors of the Federal Reserve System, Freddie Mac, Federal Reserve Bank of St. Louis (FRED), Bankrate (used with permission)

# What the yield curve has to say: Recession prob at 50%, about 10 ppts higher than economist surveys

Treasury Term Spread: 10-year bond rate – 3-month bill rate (monthly average, %, NSA)



Probability of Recession: 12 months ahead of term spread readings (% , monthly average, NSA)



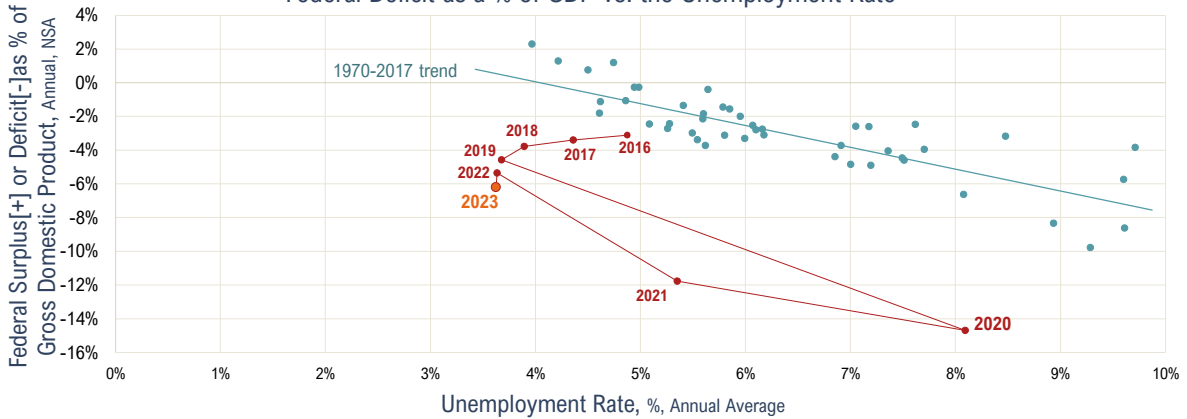
Source: AC Cutts & Associates, Federal Reserve Bank of New York, data through April 2024

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# Federal deficit as a share of GDP remains disconnected from pre2016 trend

Federal Deficit as a % of GDP vs. the Unemployment Rate

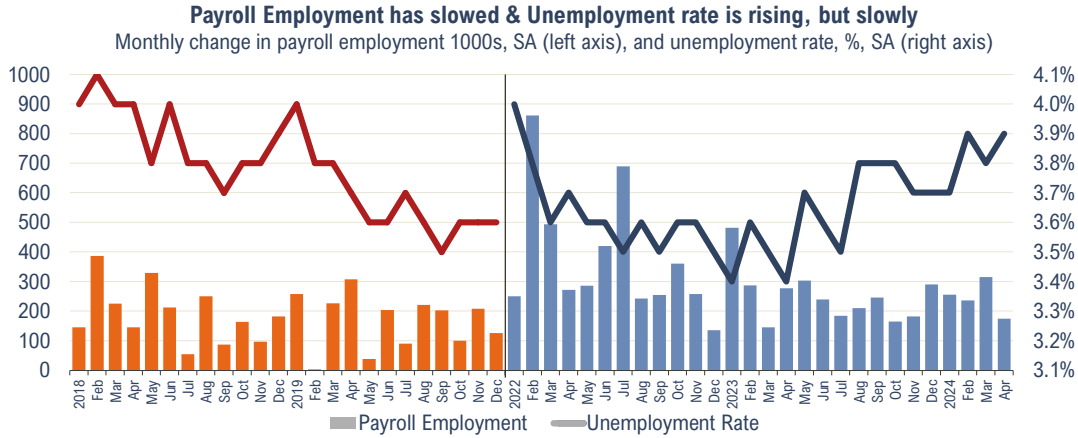


Source: AC Cutts & Associates, U.S. Bureau of Economic Analysis, Federal Reserve Bank of St Louis (FRED)

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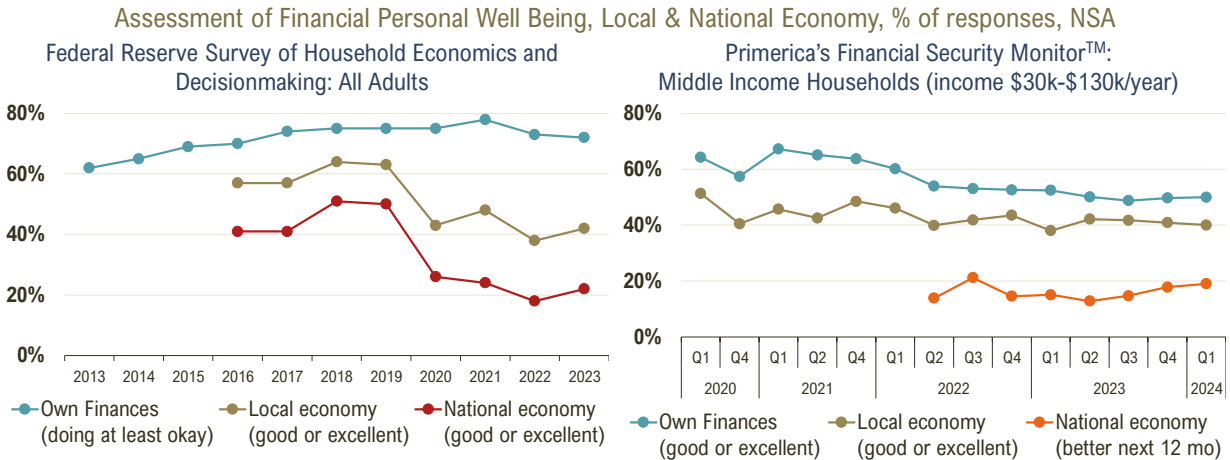
# Labor markets show few ill effects of Fed monetary tightening so far – Recent trends indicate some slowing



Source: AC Cutts & Associates LLC, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics. Orange/red data are pre pandemic, blue/teal are two years post pandemic onset.

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# Despite low sentiment, in surveys consumers indicate they are mostly doing okay, but their communities and the nation are not

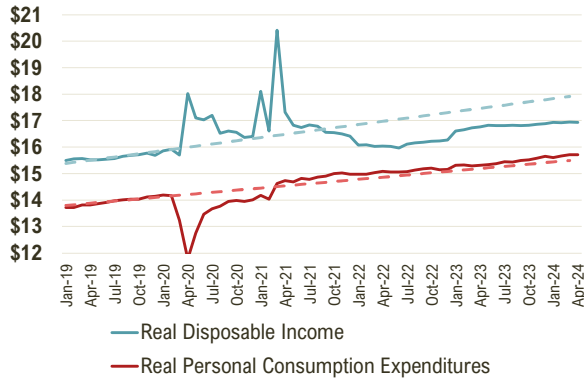


Source: AC Cutts & Associates LLC, Board of Governors of the Federal Reserve System, Primerica Financial Security Monitor Survey (used with permission)

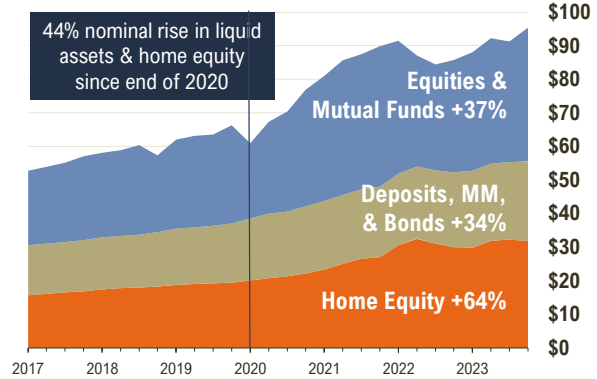
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# Wealth effects explain the growing disconnect between disposable income and consumer spending

Real disposable income and personal consumption expenditures in \$T, SAAR vs 2017-2019 trends



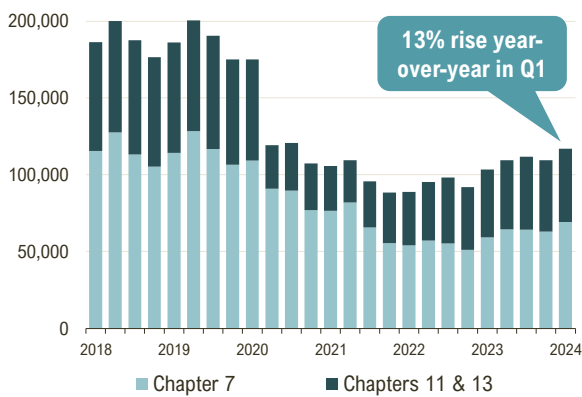
Household liquid assets and home equity, in \$T, NSA



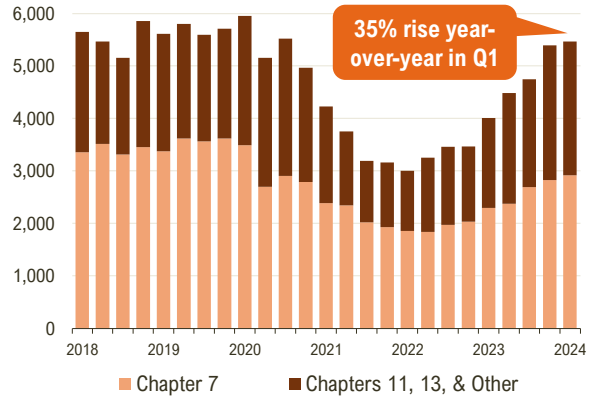
Source: AC Cutts & Associates LLC, Bureau of Economic Analysis, Board of Governors of the Federal Reserve System, St. Louis Federal Reserve Bank (FRED)

# Bankruptcy filings declined sharply in 2020-21 but started rising again in 2H 2022

Nonbusiness (Personal) Bankruptcy Filings, NSA



Business Bankruptcy Filings, NSA

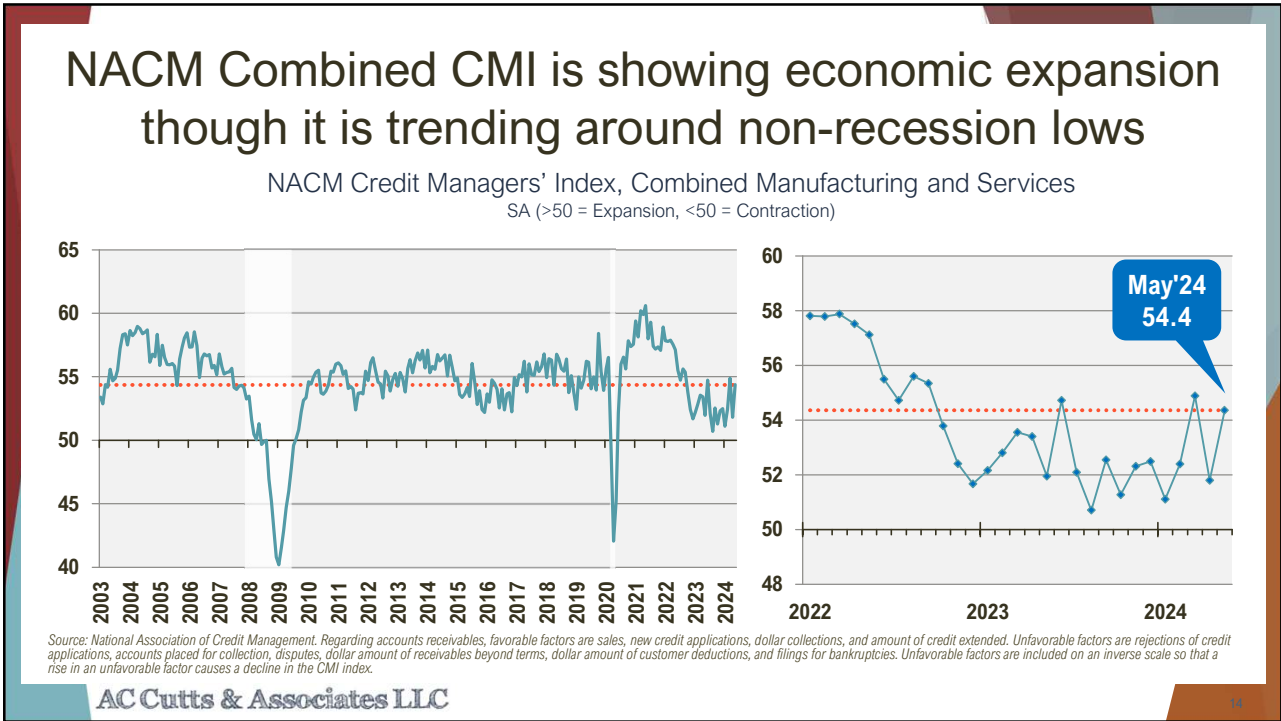


Source: AC Cutts & Associates, United States Courts

# The NACM Credit Manager's Index

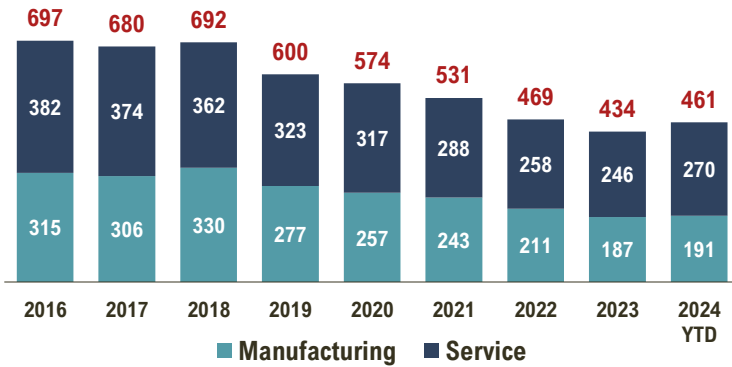
The good, the bad, and the vexing...

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# The number of respondents to the CMI survey is only 70% of what it was in 2018-19

Average Number of CMI Survey Respondents



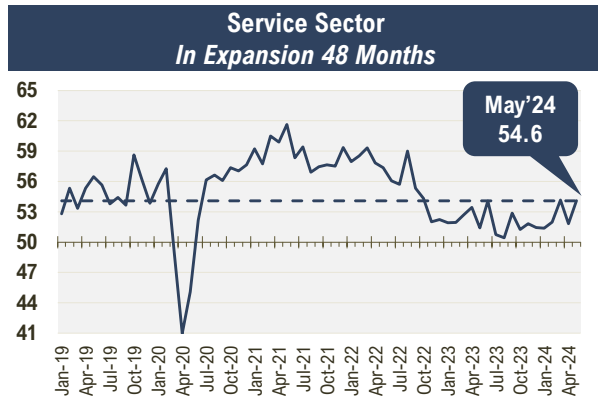
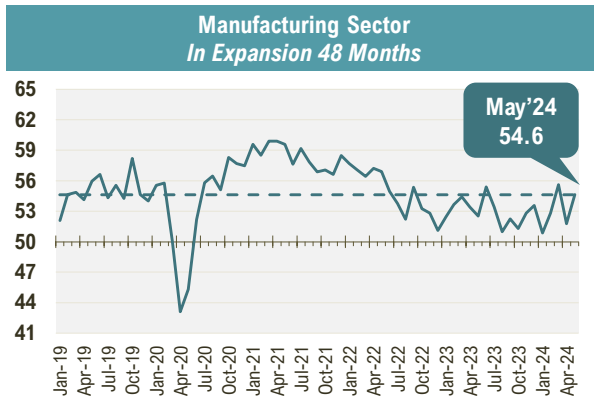
- The statistical integrity of the CMI depends on sufficient numbers of respondents
- Additional cuts cannot be done without sufficient numbers – eg, Construction or Metals CMI indexes

Source: National Association of Credit Management.

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# The Service and Manufacturing CMI's are similarly trending – both indicate expansion

NACM Credit Managers' Index  
SA (>50 = Expansion, <50 = Contraction)

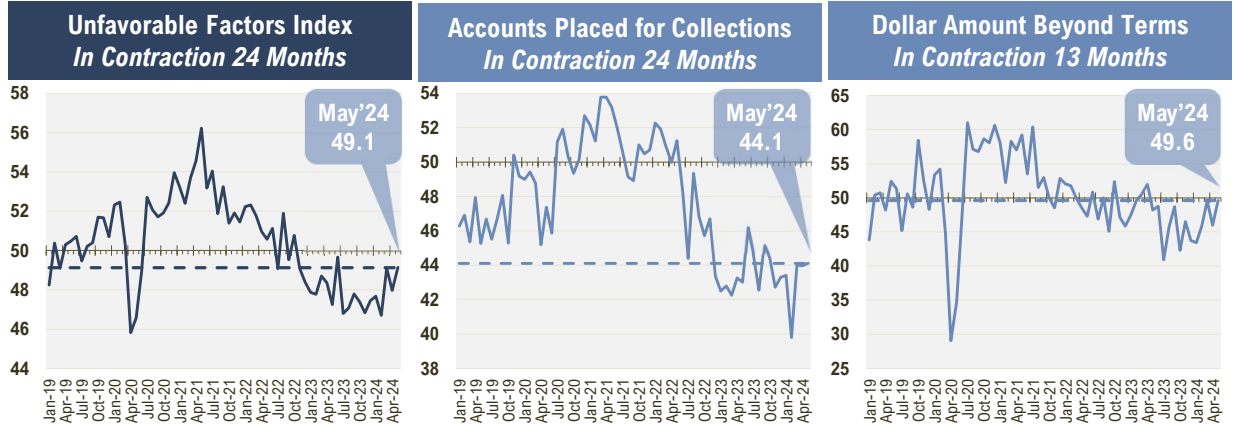


Source: National Association of Credit Management.

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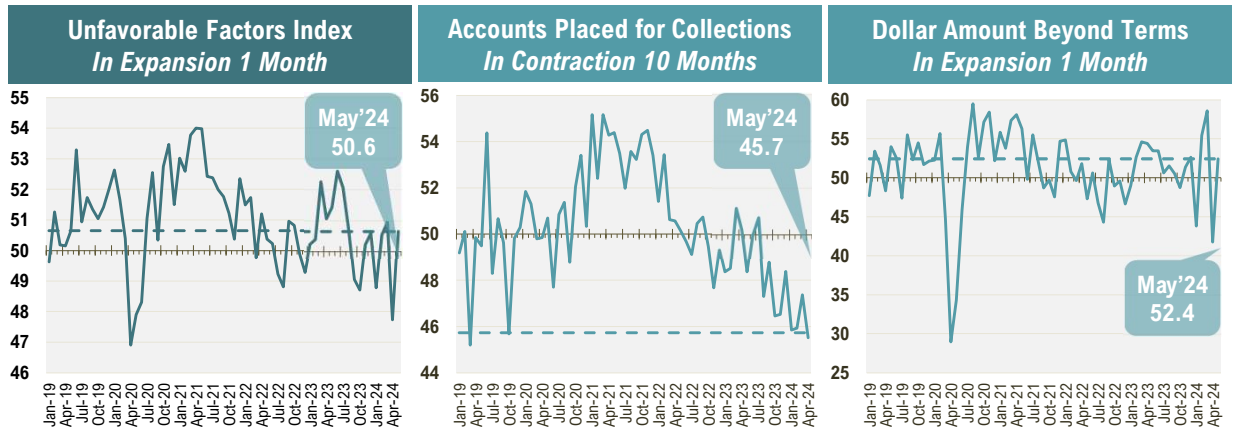


# NACM Services Sector unfavorable factor index has been in contraction since November 2022



Source: National Association of Credit Management. Index values >50 = Expansion, <50 = Contraction. Indexes are seasonally adjusted.

# NACM Manufacturing Sector unfavorable factor index has been bouncing between expansion and contraction



Source: National Association of Credit Management. Index values >50 = Expansion, <50 = Contraction. Indexes are seasonally adjusted.

# Bright Query

Bringing new insights from business financial information

**AC Cutts & Associates LLC**

## BQ U.S. DATA

**U.S. COMPLETE COVERAGE**

- ✓ 5K PUBLIC FIRMS
- ✓ 74M PRIVATE FIRMS
- ✓ 97M LEGAL ENTITIES
- ✓ 291M LOCATIONS
- ✓ FAMILY TREE
- ✓ 154M EMPLOYEES
- ✓ 150M OFFICERS
- ✓ 90K JURISDICTIONS


## What is Bright Query?

**IRS**  
Employee benefit Plans  
Tax Audit tables & procedures for private company financial line items

**SEC**  
10-K and 10-Q filings for public company financial line items

**SECRETARIES OF STATE**  
Business registration & corporate family tree

### BrightQuery



- QUARTERLY FINANCIALS (Publics & Privates)
- MONTHLY EMPLOYMENT & PAYROLL (Publics & Privates)
- VERIFIED IDENTITY
- HISTORY: 2010 - PRESENT

**DEPT. OF LABOR (DOL)**  
Employment & payroll records  
Unemployment claims, tied to companies

**US POSTAL SERVICE (USPS)**  
Address & vacancy verification

**SBA SMALL BUSINESS ADMINISTRATION**  
(SBA) loans for small businesses

## NFIB SMALL BUSINESS FACTS - NET INCOME BY INDUSTRY

Coming Soon

Powered by **BrightQuery**

SMB'S (Companies with less than 500 employees.)

**SMB KPI'S**  
AS OF 2023 Q4

**271.5K**  
TOTAL EMPLOYMENT

**12.9K**  
# COMPANIES

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**\$1.1bn**  
NET INCOME

**\$166.4M**  
YOY NET INCOME CHG

---

**17.00%**  
YOY NET INCOME %

SELECT STATE  
Virginia

SELECT CBSA (METROPOLITAN AREA)  
All

SELECT CONGRESSIONAL DISTRICTS  
Connolly

CLEAR FILTERS

**NET INCOME BY NAICS SECTOR**

BQ NAICS SECTOR	EMPLOYMENT	YOY % CHGS	# COMPANIES	YOY % CHGS	NET INCOME	YOY % CHGS
Accommodation and Food Services	9,711	-28.70%	468	-32.07%	\$18.3M	-19.93%
Administrative and Support and Waste Management and Remediation Services	13,362	6.38%	474	-12.65%	\$14.2M	57.18%
Arts, Entertainment, and Recreation	2,594	-0.97%	212	-13.39%	\$3.4M	24.36%
Construction	11,858	-5.03%	965	-10.77%	\$51.3M	-13.39%
Educational Services	5,663	-4.91%	271	-17.75%	\$3.5M	9.07%
Finance and Insurance	8,041	1.12%	532	-3.05%	\$105.0M	-2.23%
Health Care and Social Assistance	25,965	-2.71%	1580	-11.39%	\$25.3M	57.61%
Information	10,662	4.01%	359	-7.38%	\$63.0M	4.79%
Management of Companies (Holding Companies)	731	-7.59%	18	-21.74%	\$3.8M	-34.00%
Manufacturing	6,610	-2.02%	293	-9.52%	\$40.9M	-11.75%
Mining	34	-2.50%	4	0.00%	(\$0.8M)	-27.53%
Other Services	16,230	-19.07%	992	-15.17%	\$12.9M	1.62%
Professional, Scientific, and Technical Services	134,318	1.51%	5096	-4.47%	\$579.9M	44.06%
Real Estate and Rental and Leasing	7,056	-4.72%	578	-7.85%	\$143.8M	-8.40%
Retail Trade	9,471	-10.80%	607	-15.43%	\$22.3M	3.85%
Transportation and Warehousing	4,290	-2.38%	259	-9.77%	\$6.6M	10.63%
Utilities	557	42.42%	18	0.00%	\$6.7M	50.22%
Wholesale Trade	4,335	-0.98%	202	-10.37%	\$24.6M	2.05%
<b>TOTALS</b>	<b>271,488</b>	<b>-2.84%</b>	<b>12928</b>	<b>-9.90%</b>	<b>\$1,124.7M</b>	<b>17.00%</b>

Note: All data & statistics in this report, were compiled exclusively by BrightQuery and sourced from State & Federal agencies.

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**NACM**  
NATIONAL ASSOCIATION  
OF CREDIT  
MANAGEMENT



**Bright Query**

# The Evolving Threat of Fraud in B2B Trade

A new NACM & Bright Query white paper



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# There are more than 74M businesses in the US but not all are legit

Fraud Indicators Compiled by BQ - 4Q2023

COMPANY TYPE	# COMPANIES	INACTIVE	NON EMPLOYER	NO FOUND EIN	NO VERIFIED LEGAL ENTITY	HAS IRS TAX LIEN	RESIDENTIAL ADDRESS
Employer	9,894,880	4,252,013	0	7,338,148	3,731,870	163,433	3,516,983
Holding Company	7,208,266	2,423,803	7,208,266	6,011,590	0	58,895	2,700,426
Non Employer	3,593,752	1,223,928	3,593,752	2,937,873	71,730	38,628	1,649,851
Sole Proprietor	53,339,592	28,429,751	53,339,592	48,106,442	616,776	158,071	26,924,929
<b>Total</b>	<b>74,036,490</b>	<b>36,329,495</b>	<b>64,141,610</b>	<b>64,394,053</b>	<b>4,420,376</b>	<b>419,027</b>	<b>34,792,189</b>
Employer	13%	6%	0%	10%	5%	0%	5%
Holding Company	10%	3%	10%	8%	0%	0%	4%
Non Employer	5%	2%	5%	4%	0%	0%	2%
Sole Proprietor	72%	38%	72%	65%	1%	0%	36%
<b>Total</b>	<b>100.0%</b>	<b>49.1%</b>	<b>86.6%</b>	<b>87.0%</b>	<b>6.0%</b>	<b>0.6%</b>	<b>47.0%</b>

Potential fraud indicators are separately summed.

Source: "The Evolving Threat of Fraud in B2B Trade" NACM and Bright Query White Paper



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# Out of the 74M businesses in the US, only 2.35M of them have a commercial address, verified EIN, and are active

COMPANY TYPE	# COMPANIES	% OF TOTAL COMPANIES	COMMENTS
Employer	1,072,967	1.4%	Highly Verified
Holding Company	268,445	0.4%	No economic activities
Non Employer	207,829	0.3%	No associated employment filings
Sole Proprietor	804,563	1.1%	Not full-time employers
<b>Total</b>	<b>2,353,804</b>	<b>3.2%</b>	

Companies that have a commercial address, a verified EIN and are active

Source: "The Evolving Threat of Fraud in B2B Trade" NACM and Bright Query White Paper



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# How do we know if a company is legit?

## BQ – FRAUD INDICATOR SYSTEM

FRAUD CHECKS	ACTION	LEGAL ENTITY VERIFICATION	ADDRESS VERIFICATION	OPERATIONS VERIFICATION
Name & Address	Verification of company name and address	x	x	
Organization Status	Are all legal entities with an organization in good legal standing with the State?	x		
Legal Entity Status	Is the company legally in good standing with the state?	x		
Economic Status	Is the company actively filing with the USDOL or IRS?			x
EIN - Employer Identification Number	Verification of the company's EIN	x		x
Principal/Owner	Principals & officers registered with state	x		
No Officers Registered with Legal Entity	The company reported no officers with the state	x		
Company Type	Is the company an employer, a holding company or a sole proprietor?			x
Benefit Plans	Does the company file benefit plans?			x

Source: BrightQuery



# How do we know if a company is legit?

## BQ – FRAUD INDICATOR SYSTEM

FRAUD CHECKS	ACTION	LEGAL ENTITY VERIFICATION	ADDRESS VERIFICATION	OPERATIONS VERIFICATION
Commercial Address	Does the company have a commercial address?		x	
PO Box, USPS, or Private Mailbox	Does the company list a PO Box or Private mail box as its address?		x	
Vacant Address	Is the company's address reported as vacant by the USPS?		x	
Multiple Legal Entities Registered at a Residential Address	Count the number of legal entities registered at a residential address		x	
Tax Lien	Does the company have an IRS Income Tax lien?			x
OFAC	Is the company on the terrorist watch list?			x
Revenue	Compare BQ revenue vs company reported revenue on application			x
Industry	Industry filed by company vs reported by company			x
BQ Credit Score	Credit risk rating of the company			x

Source: BrightQuery





# Some types of businesses are more likely to be a front for fraud than others

## BQ - Select Business Persona Types and Likelihood of Fraud

BUSINESS PERSONA	DESCRIPTION	TYPICAL BUSINESS QUALITIES					
		CAPITAL INTENSIVE?	COMMERCIAL ADDRESS?	HAS FULL-TIME EMPLOYEES?	OFFERS BENEFITS?	TYPICAL NAICS SECTOR	FRAUD LIKELIHOOD
Independent Contractors	Similar to business owners, independent contractors work for themselves.	No	Primarily Residential	No	No	Agriculture, Mining, Administration, Accommodation & Food Services, Other Services	Average
Brokers	A broker is an intermediary who helps perform financial transactions on behalf of a client. Brokers can be individuals or firms.	No	Residential & Commercial	No	No	Finance & Insurance, Real Estate	Average
Associations & Organizations	Legal entities that promote the interests of their members.	No	No: Primarily Residential	No	No	Other Services	High
Non Profits	A nonprofit organization (NPO), is a legal entity organized and operated for a collective, public, or social benefit. Tax-Exempt Status: 501 (c)(3) status	No	Residential & Commercial	No	No	Other Services	High
Holding Company	Legal entities that do not have economic activities but are legally in good standing.	No	No: Typically no operational address	No	No	Management of Companies	High

Source: BrightQuery



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# Fraudsters are birds of a feather – they are not equally distributed across the US

## BQ - BOTTOM FIVE STATES WITH LOWEST FRAUD INDICATORS

### FRAUD INDICATORS PER COMPANY

### TOTAL FRAUD INDICATORS PER STATE

STATE	AVG FRAUD IND PER COMPANY	% OF TOTAL FRAUD INDICATORS	STATE	TOTAL FRAUD INDICATORS	% OF TOTAL FRAUD INDICATORS
Wyoming	1.08	0.5%	Puerto Rico	46,256	0.1%
Delaware	1.12	3.6%	Alaska	126,242	0.1%
Nevada	1.12	1.2%	North Dakota	131,940	0.1%
Oklahoma	1.13	0.9%	Vermont	162,270	0.2%
Louisiana	1.13	1.4%	South Dakota	167,321	0.2%

Source: BrightQuery



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# Fraudsters are birds of a feather – they are not equally distributed across the US

## BQ – TOP FIVE STATES WITH THE HIGHEST FRAUD INDICATORS

### FRAUD INDICATORS PER COMPANY

### TOTAL FRAUD INDICATORS PER STATE

STATE	AVG FRAUD IND PER COMPANY	% OF TOTAL FRAUD INDICATORS	STATE	TOTAL FRAUD INDICATORS	% OF TOTAL FRAUD INDICATORS
Florida	1.61	14.5%	Florida	12,978,430	14.5%
Puerto Rico	1.34	0.1%	California	7,342,336	8.2%
North Dakota	1.25	0.1%	Texas	5,722,233	6.4%
California	1.25	8.2%	New York	5,316,701	5.9%
Massachusetts	1.24	1.6%	Delaware	3,196,302	3.6%

Source: BrightQuery



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