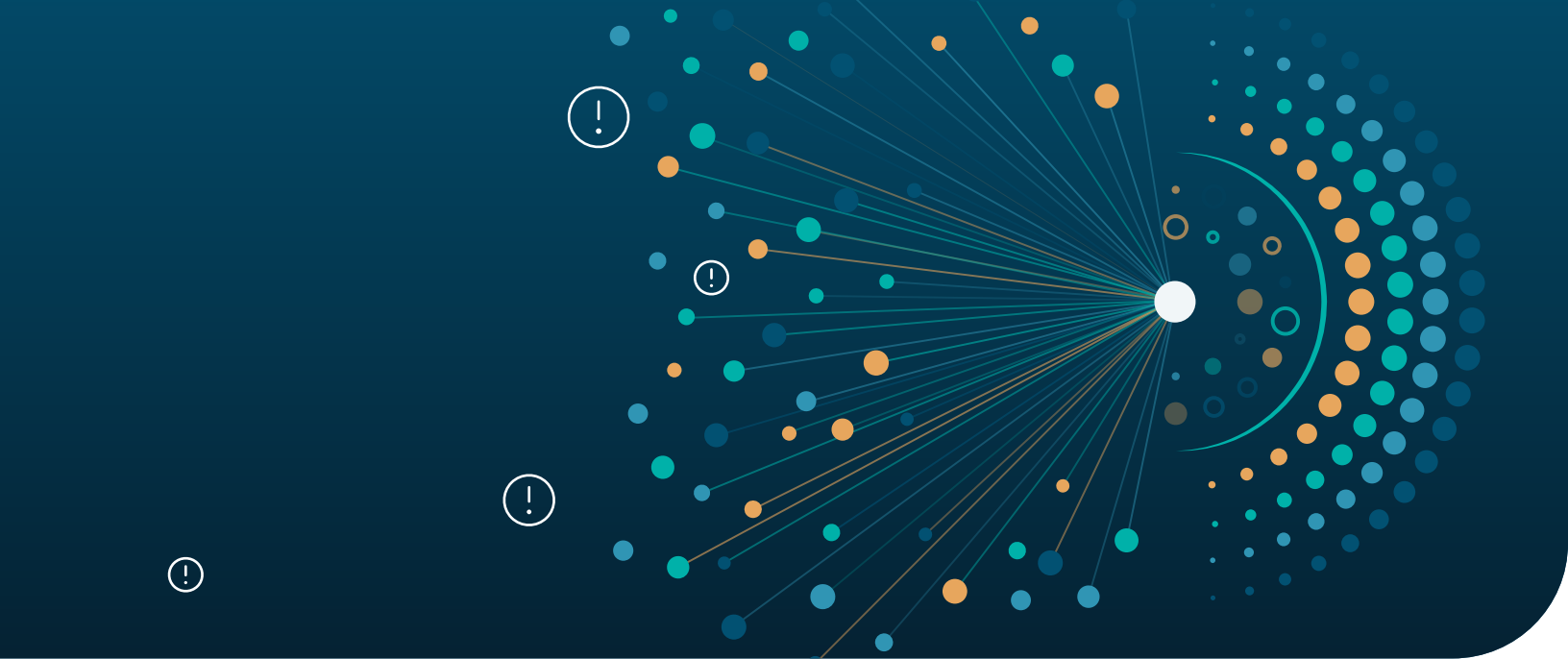


IN THE NEWS

Signals of a Changing Market Landscape

Dun & Bradstreet Observations



The impacts brought about by the pandemic, supply chain disruptions, labor market challenges, economic sanctions and geopolitical issues, have contributed to a complex environment that is unprecedented and difficult to understand. The compounding effects of these multiple unexpected events are challenging businesses and altering both commercial and consumer spending habits. In addition, many public sector regulatory bodies are attempting to quell uncertainty through fiscal and monetary policies in order to support economies facing headwinds such as:

1. Rising failure and delinquency scores signaling mounting pressure on distressed entities
2. Continuing disruption in operations
3. Deteriorating small business health
4. Increasing business fraud

Signals of the Past May Inform the Future

The question remains whether observable trends and behaviors indicate a severe economic downturn or a more moderated downturn with some desired effects stemming from economic policies.

Dun & Bradstreet monitors organizations around the world and during previous downturns, has detected signals of business behaviors and risk tendencies that may provide some insight into future economic states. For example, during past economic downturns, Dun & Bradstreet data illustrated that companies shifted from seeking new business to prioritizing the collection of existing customers' outstanding debt. During these same periods of economic contraction, new forms of business identity theft also tended to emerge.

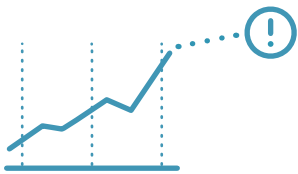
In addition to behavioral signals, Dun & Bradstreet's risk scores, based on the company's Data Cloud, which includes information about hundreds of millions of organizations globally, depicts signs of a changing economy and potential slowdown. What are the signs this time around? Dun & Bradstreet observed the following patterns:



Observation I: Operational disruption will continue

We observed two business ecosystem (i.e. networks of vendors and customers interacting with one another) metrics. The first ecosystem was a measure of clustering, which informs an understanding of the number of clusters of interoperating entities. For both the global and the U.S. only data samples in our study, the metric showed a decrease in clustering, suggesting some significant impact to the commercial infrastructure. In cases of decreasing clustering, even thriving businesses may find it more difficult to find counterparties with whom to do business.

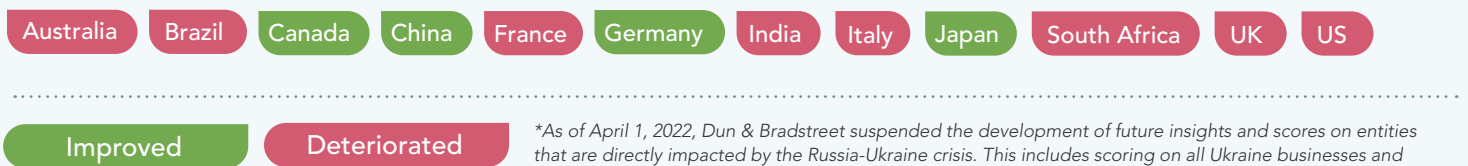
The second ecosystem metric was a measure of graph density. Essentially, this measure informs an understanding of how busy the ecosystem is. For both the Global and the U.S. only sample, the study showed a marked decrease in density, suggesting a significant downturn in the overall volume of transactions.



Observation II: Rising failure and delinquency scores signal mounting pressure on already distressed entities

When we apply Dun & Bradstreet's Global Business Ranking (GBR), which predicts the likelihood that a company will become inoperable, inactive or dormant in the next 12 months, the ranking deteriorated in markets including the U.S., U.K., France and India (GBR observed between May 2021 — May 2022). A deterioration in scores implies higher risk levels among companies, or the potential for businesses becoming inactive. This also demonstrates that the impact of multiple disruptions are indeed vast, and the ripple effect may impede growth in the near-term.

Chart I: GBR observed between May 2021 to May 2022



Source: Dun & Bradstreet

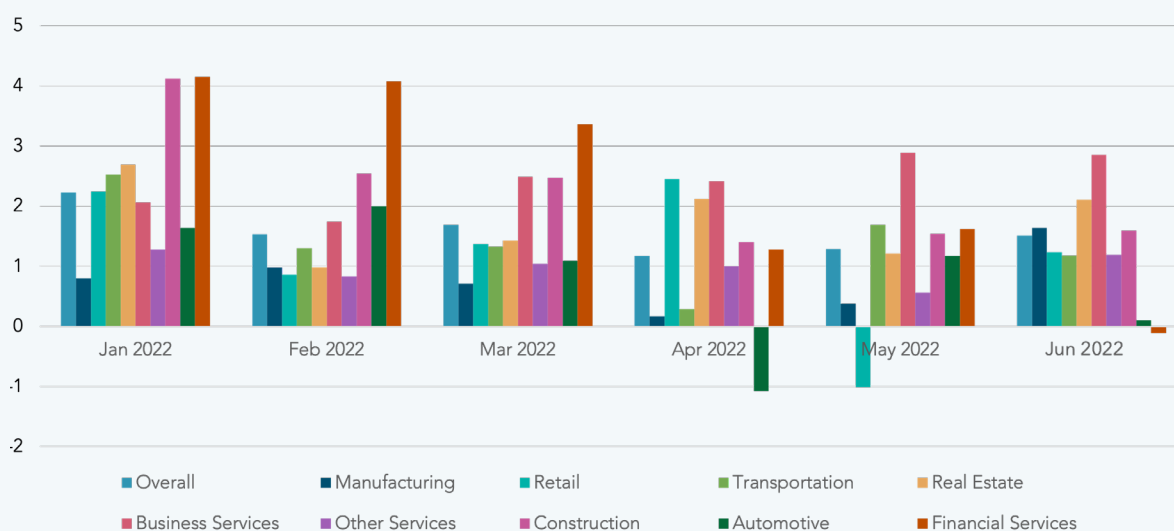
**As of April 1, 2022, Dun & Bradstreet suspended the development of future insights and scores on entities that are directly impacted by the Russia-Ukraine crisis. This includes scoring on all Ukraine businesses and sanctioned entities.*



Observation III: Small businesses are showing signs of deteriorating financial health

The Dun & Bradstreet Small Business Health Index (SBHI) in the U.S., which is strongly correlated to economic activity, shows continuous deceleration in growth within some major sectors, beginning in 2022. This coincides with the end of federal and local stimulus assistance programs. The deceleration among most sectors continued through June 2022, with only the Business Services (e.g., Professional and Engineering Services) industry showing some gains. This is due to consumer spending slowing as buyers shift from spending on durable goods to non-durables and services. The most apparent example can be found in the drop in Dun & Bradstreet's Automotive Index in April and Dun & Bradstreet's Retail Index in May 2022.

Chart II: Dun & Bradstreet U.S. Small Business Health Index (month-over-month sectoral changes)



Source: Dun & Bradstreet

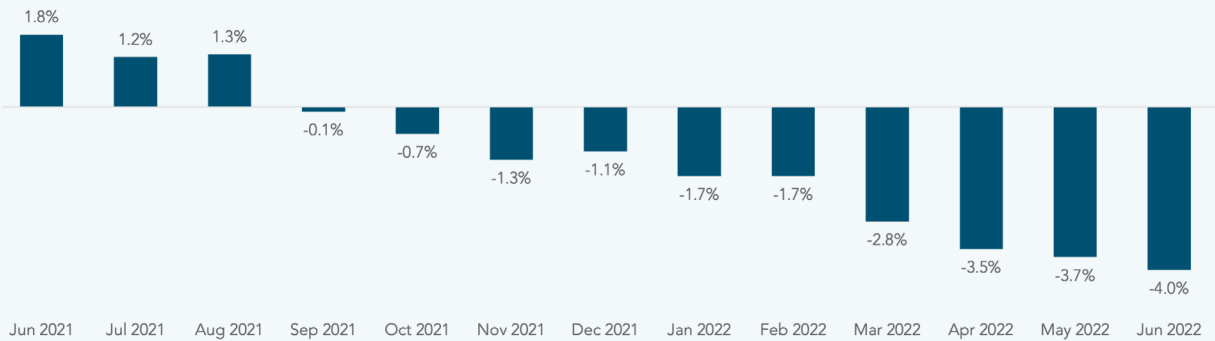
A similar decline in small business optimism is witnessed in other markets as well. For example, the Dun & Bradstreet Business Optimism Index for small businesses in India reached its lowest level in four quarters. Additionally, the Small Business Index released by the Federation of Small Businesses in the U.K. stood at 15.3 in Q1 2022 — way below its level of 27.3 in Q1 2021. The GBR score for small businesses in the U.S. and India also saw a deterioration between May 2021 and May 2022, indicating stress on businesses.

The decline in business optimism reflects the pessimistic outlook for aggregate demand, which is further supported by the Organization for Economic Co-operation and Development's (OECD) Consumer Confidence Index (CCI). The latest available CCI readings for the U.S., U.K., greater Europe and China demonstrate a decline to their lowest level in history. Of the 41 economies tracked by the OECD, 37 economies witnessed a decline in the CCI between January 2022 and June 2022. Given that the CCI provides an indication of future developments of households' consumption and savings, the recent downward trend could be a concern given that these 37 economies contribute to around 80% of the world's Gross Domestic Product (GDP). This insight further supports Dun & Bradstreet's GBR observations — illustrating the trends in the commercial market (based on the GBR) are reflected in the consumer spending realm (based on the CCI). However, the Bureau of Labor Statistic's recent release of the data showing buoyancy in the labor market and the cooling of the Consumer Price Index (CPI), provide some optimism via economic rebalancing from policy.

Credit card spending increases suggest a shift to credit as a last resort

Another indication of a slowdown in small business health and payment performance comes from the credit card utilization subcomponent of the SBHI. This subcomponent index denotes the average rate of credit card use among small businesses. A higher rate of use denotes an absence of cash flow or availability of credit through traditional channels, which in turn indicates a slower economic or business cycle. In addition, high credit card utilization often signals financial pressure, future payment defaults, and even business failures. The subcomponent has declined for 10 consecutive months, with acceleration in the rate of decline since March 2022, signaling the worsening of credit availability for small businesses.

Chart III: Credit Card Utilization SBHI Subcomponent (year-over-year changes)

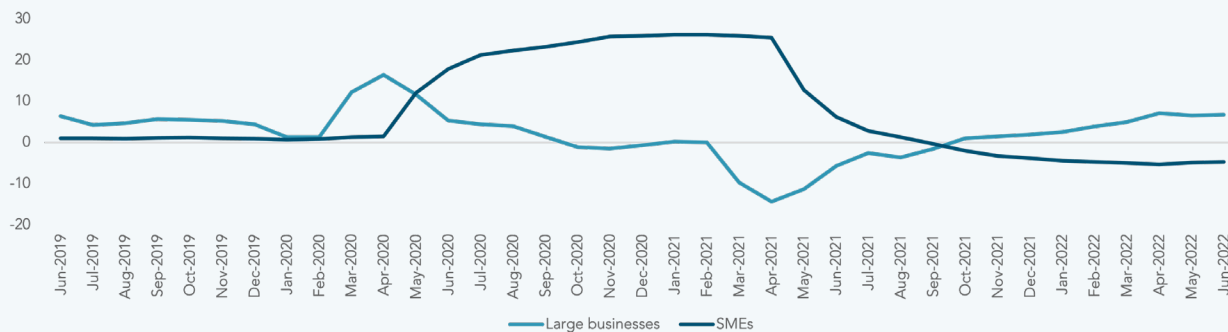


Source: Dun & Bradstreet

While there are signs of increased business credit card usage, central banks around the world have engaged in monetary policy tightening, aggravating the availability of credit for small businesses. In June and August, the U.S. Federal Reserve and the Bank of England respectively announced their biggest interest rate hikes in more than 27 years. Of the 37 economies tracked by the Bank for International Settlements, 30 economies, including Canada, Hong Kong SAR, Republic of Korea and India witnessed an increase in their interest rate between January 2022 and June 2022.

Credit has been drying up for the small business community and a persistent increase in borrowing rates might see many businesses forced into severe delinquency, causing further deterioration in small business health. In addition, lending to Small and Medium Businesses (SMEs) in the U.K. continued to decline for the 10th consecutive month, ending in June 2022. Banks are becoming more risk averse and continue to tighten their internal guidelines or loan approval criteria. For example, parts of Europe tightened their credit standards for SMEs in Q2 2022 (net percentage of 10%), compared to Q1 2022 (net percentage of 7%).

Chart IV: Annual Growth of Lending to SMEs vs. Large Businesses (percentage year-over-year)



Source: Bank of England

Dun & Bradstreet also observed a steeper decline in U.S. small business risk scores. For example, the Dun & Bradstreet Delinquency Score, which predicts the likelihood of severely delinquent bill payments (91 days or more past terms), increased by 2.4% between 2021 and July 2022 for businesses with 1-10 employees, compared to 0.8% and 0.7% for businesses with 11-99, or more than 100 employees, respectively. This indicates that economic challenges are disproportionately impacting the cash flow of smaller businesses compared to larger organizations.



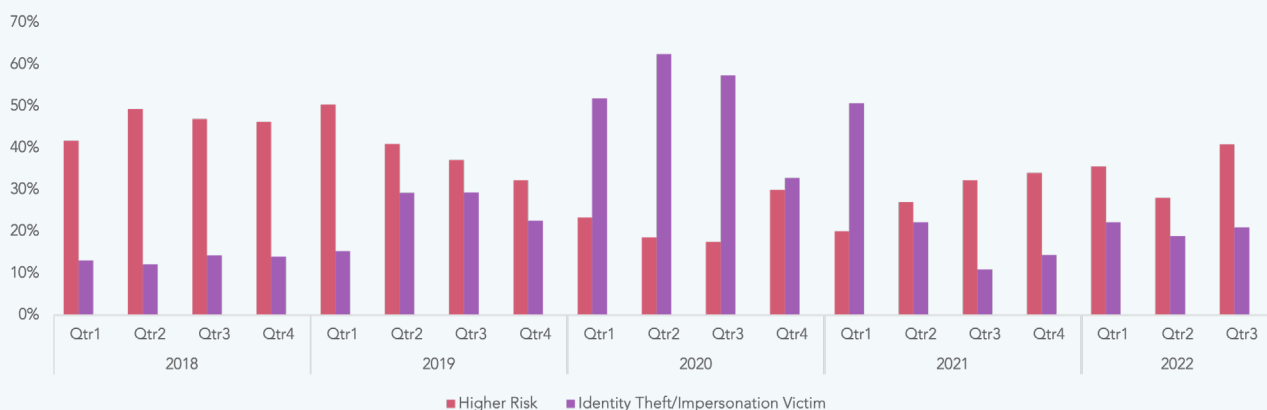
Observation IV: Business fraud will likely rise with increasing cash flow constraints

Globally, input costs have skyrocketed in the last few months. Data from the World Bank shows that price increases between April 2020 to June 2022 were the largest for any equivalent 26-month period since the 1970s for energy, since 2008 for food, and since 2011 for metals and minerals. Consequently, according to the OECD, retail inflation numbers recorded in June 2022 were at their highest level since 1974 in Germany, 1985 in France, 1991 in the UK, 1981 in the US, and 2014 in Japan.

Business identity theft traditionally increases after natural disasters and economic crisis, as bad actors take advantage of healthcare or business funding programs, or gain access to capital by falsely applying and obtaining a loan or line of trade credit. This time around, the squeeze in cash flows, through higher input prices and lower availability of capital, is leading to an increase in business identity theft and other forms of business fraud.

Dun & Bradstreet's team of Certified Fraud Examiners, who investigate occurrences of business malfeasance, including misrepresentation and business identity theft, observed that in this current quarter (partial Q3 2022), there has been an 8% increase in misrepresentation cases (i.e. businesses misrepresenting themselves and their transactions) and an 11% increase in business identity theft in the U.S., U.K, Canada and Ireland, when compared to Q3 of 2021.

Chart V: Rise of Business Fraud Risk



Note: High Risk - Likely Significant or Acute Business Risk where the business has shown signs of material malfeasance and misrepresentation either through the fabrication, exaggeration or omission of data as verified through research by D&B Certified Fraud Examiners. Business Identity Theft is defined as the use or attempted use without authorization of a business name and/or its identity data for illicit gain.

Source: Dun & Bradstreet



Conclusion

The rise in input costs, interest rate hikes, lower consumer demand, and withdrawal of fiscal support by governments around the world, may have a significant negative impact on business margins — raising the risk of business insolvencies. As seen in the past, there could be a potential increase in business fraud, while unsuspecting businesses are preoccupied with navigating these unprecedented times. There are also signs of small business operational shifts as they move towards greater credit card usage and experience operational challenges, including paying bills on time.

These observations are consistent with claims not only of a potential economic downturn, but also a recalibration of economic conditions resulting from policy interventions.



Organizational Best Practices

We live in a world of hyper-disruption where unexpected events will continue to occur, and operating rulebooks do not exist. Given the ever-evolving economic climate, organizations must look beyond the short term, day-to-day considerations and focus on long-term planning. Below are a few best practices to consider during this time:

1 Understand your starting point

Always look at your organization holistically to evaluate your financial health in addition to your vendors' and suppliers' health. Know your vendors and suppliers and their financial or operational risks. In addition, understand your obligations and connections to customers, prospects and suppliers so you can quickly scale back or change operations as needed in the face of any economic uncertainty that arises.

It is also essential to proactively identify risks so mitigation and alternative plans can be developed. When evaluating who you work with, ask yourself: What industry are they in and what is their financial condition? Are your operations stable enough to take on new engagements? Without clarity, opportunities are missed and risks to your business can increase over time. For public sector clients, understand regulatory and national security risks.

2 Maintain focus

It is more important than ever to stay connected to how unexpected events or sanction requirements and changing policies can impact your operations. Continuous monitoring of internal operations and external events helps to separate signals from noise and enables identification of crucial insights. For businesses, this means staying focused on a long-term strategic plan, and for government agencies, this extends to the mission objectives.

3 Remain agile

Nimbleness and openness to change can be your biggest assets to creating a longer-term, agile operation. For example, during an unexpected event, such as a port closure, there may be opportunities to pivot your supply chain operations. If your primary suppliers are impacted by this type of unexpected event, consider using an alternative supplier in a non-impacted region of the world.

Know your organization's core competencies and get help with everything else. Dun & Bradstreet's data management, risk solutions and analytic insights can help support your planning and long-term goals. Please contact your Dun & Bradstreet Account Manager today to learn about how you can gain the data and insights you need to properly manage your organization's risk profile and plan for long-term success.



Methodology

Dun & Bradstreet leveraged the company's Data Cloud, containing information about hundreds of millions of businesses worldwide to uncover insights on the current financial health of industries and regions around the world. Leveraging the company's proprietary data and analytics, Dun & Bradstreet was able to evaluate companies' financial health, focusing on their risk levels (for potential closure or survival), bankruptcy and credit payment and delinquency rates, in addition to supply chain operations.

To analyze the structure of business ecosystems and the density of activity, Dun & Bradstreet observed signals and patterns gathered from various regions around the world, including North America, Europe and Asia. For global insights, the team reviewed data reflective of the S&P Global 100. For U.S.-only insights, the team reviewed a stratified sample of small businesses which had multiple locations across the nation. The data for this brief also considered three points in time: historic downturns such as the 2008 recession, the economic downturn at the beginning of the COVID-19 pandemic and present day.

The information and insights contained in this report reflect the best available information at the time of the development of the report.

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