



# Macroeconomic Scenario Forecasting, Credit Trends, and Implications

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**Experian Public.**



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**Reshma Peck**  
Senior Vice President  
Marketing

**Macroeconomic scenarios**

**Credit trends**

**Macrotrends and implications**

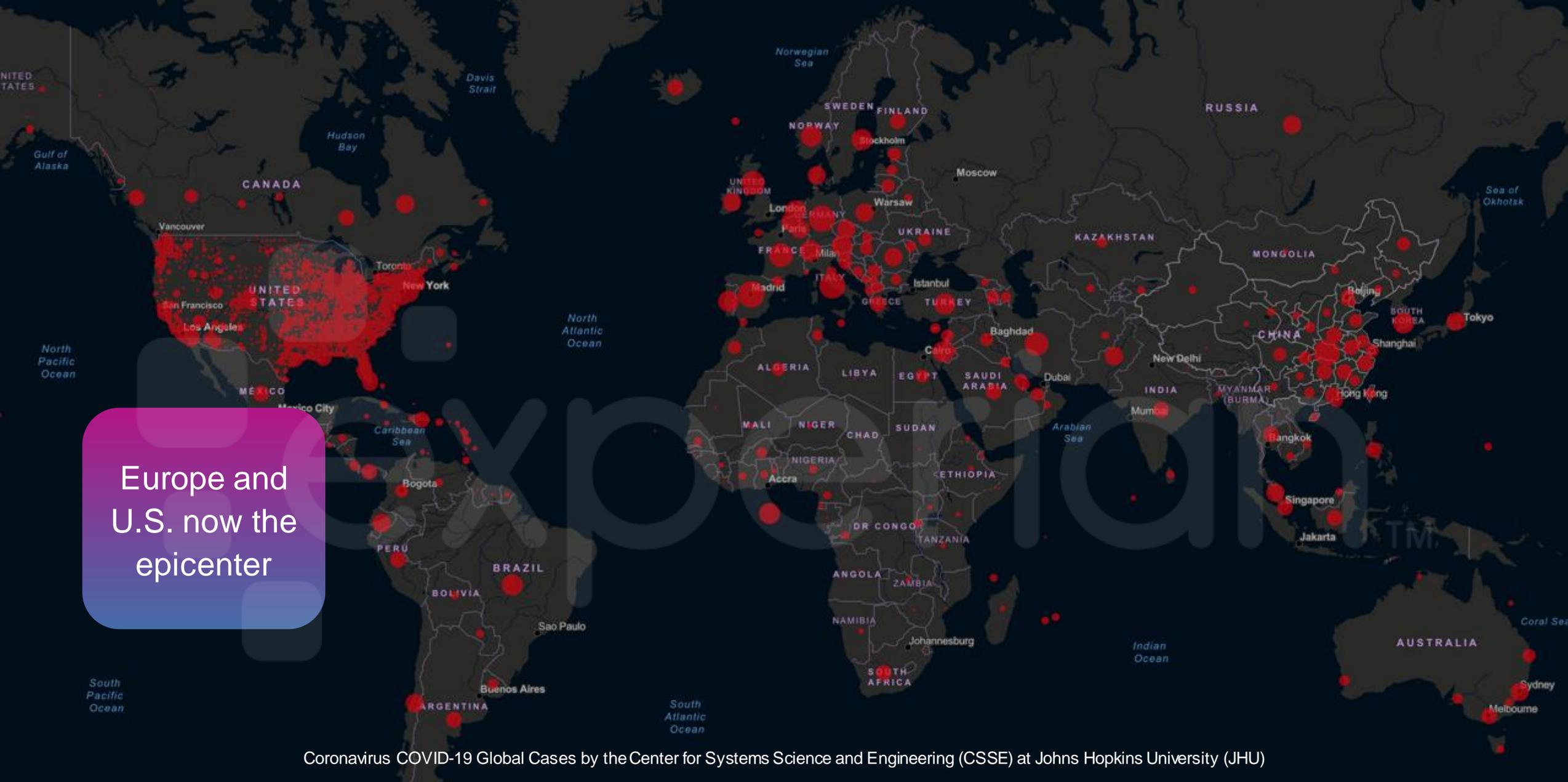
**Q&A**

# COVID-19 impact on the US economy



**Mohammed Chaudhri**

UK Chief Economist

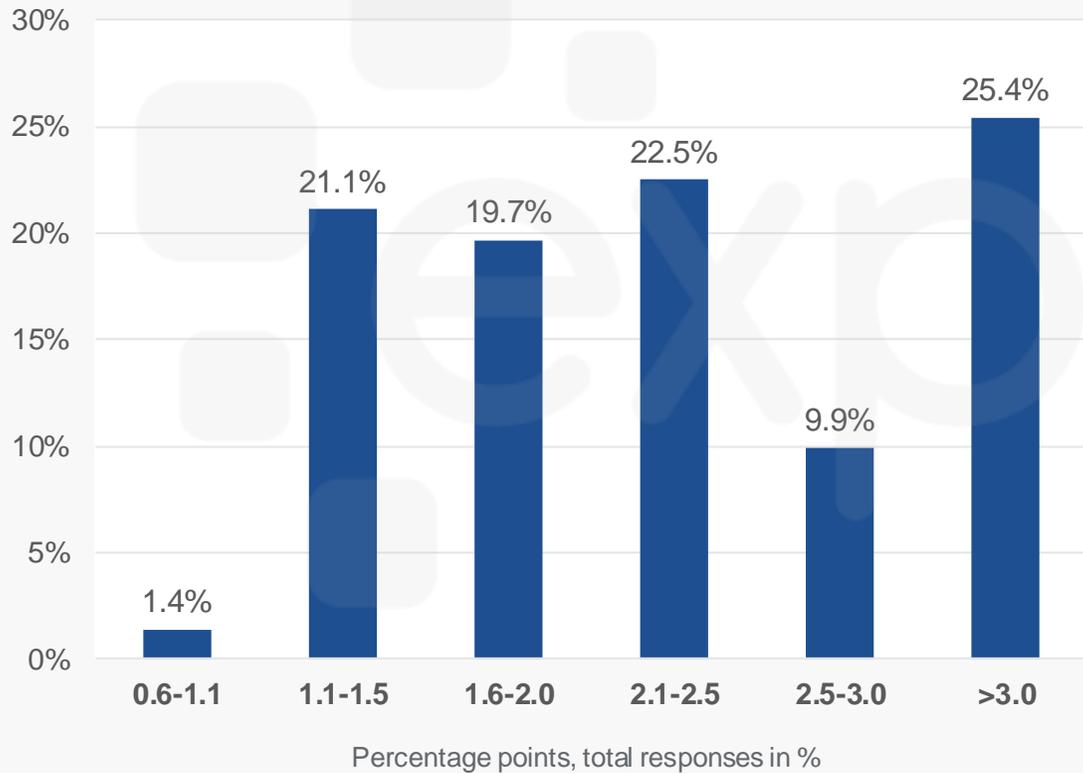


Coronavirus COVID-19 Global Cases by the Center for Systems Science and Engineering (CSSE) at Johns Hopkins University (JHU)

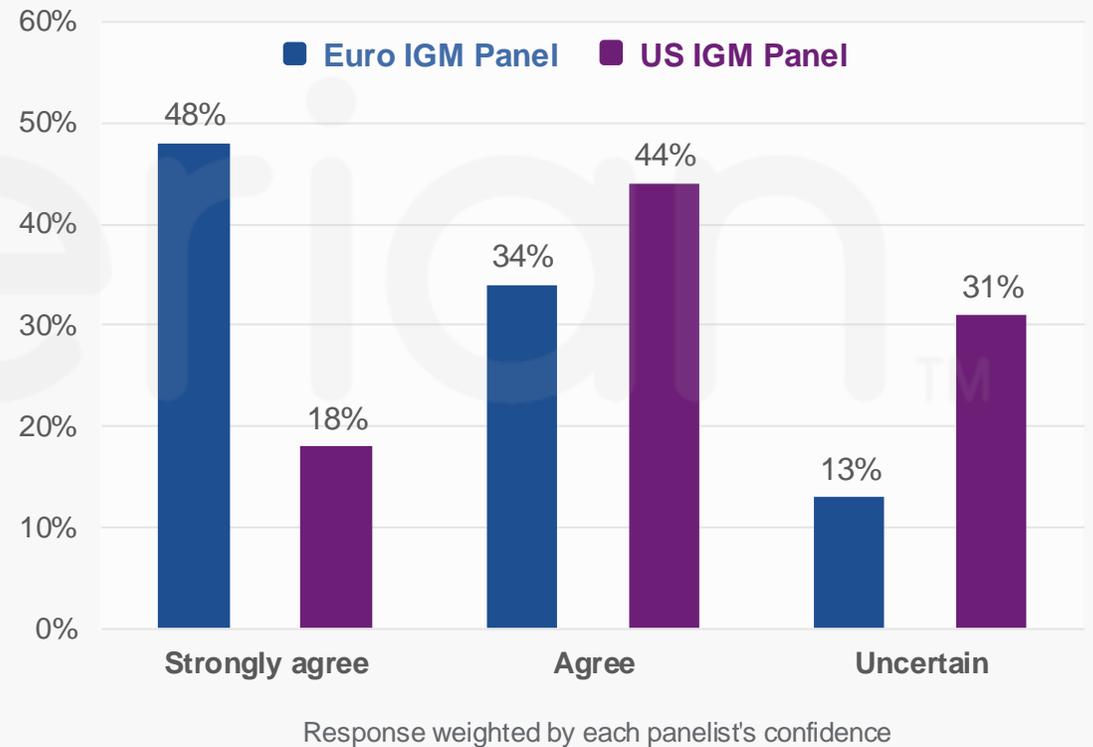


# Global recession unavoidable

What will be the negative impact of COVID-19 on 2020 global GDP growth in percentage points?



If the mortality of COVID-19 proves to be limited (similar to seasonal flu), is it likely to cause a major recession?

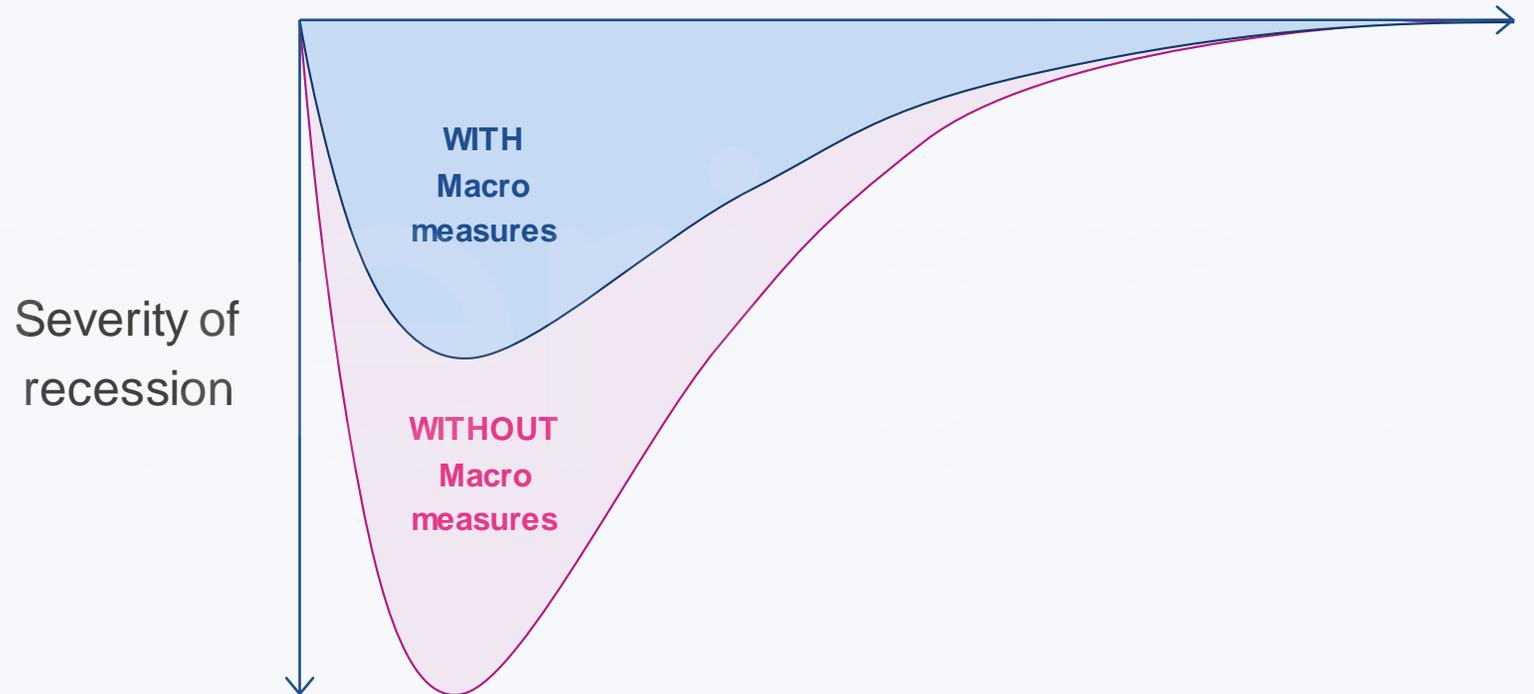


# Flattening the recession curve

Short-run trade-off between flattening the epidemic curve and the size of the recession.

Slowing down the peak of infections is likely to prolong the time that the economy is not at full capacity.

Time of first COVID-19 case





**Interest rates**

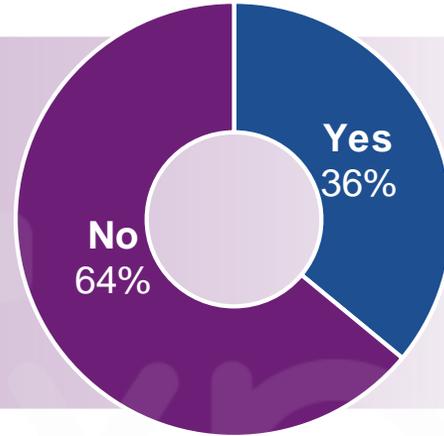
**Direct household stimulus**

**Employment income support**

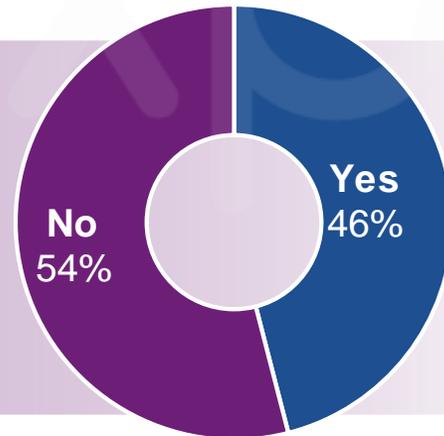
**Business loan support**

**Forbearance**

Are current stimulus measures enough to avoid lasting economic damage?



Will the COVID-19 slump morph into a broader financial crisis?



- How successful the government measures are in mitigating the economic impact on households and businesses?
- Timing and speed of the recovery – V, U, W shaped
- Global backdrop
  - Trade & supply chain impacts on industry
  - Financial markets performance and credit conditions



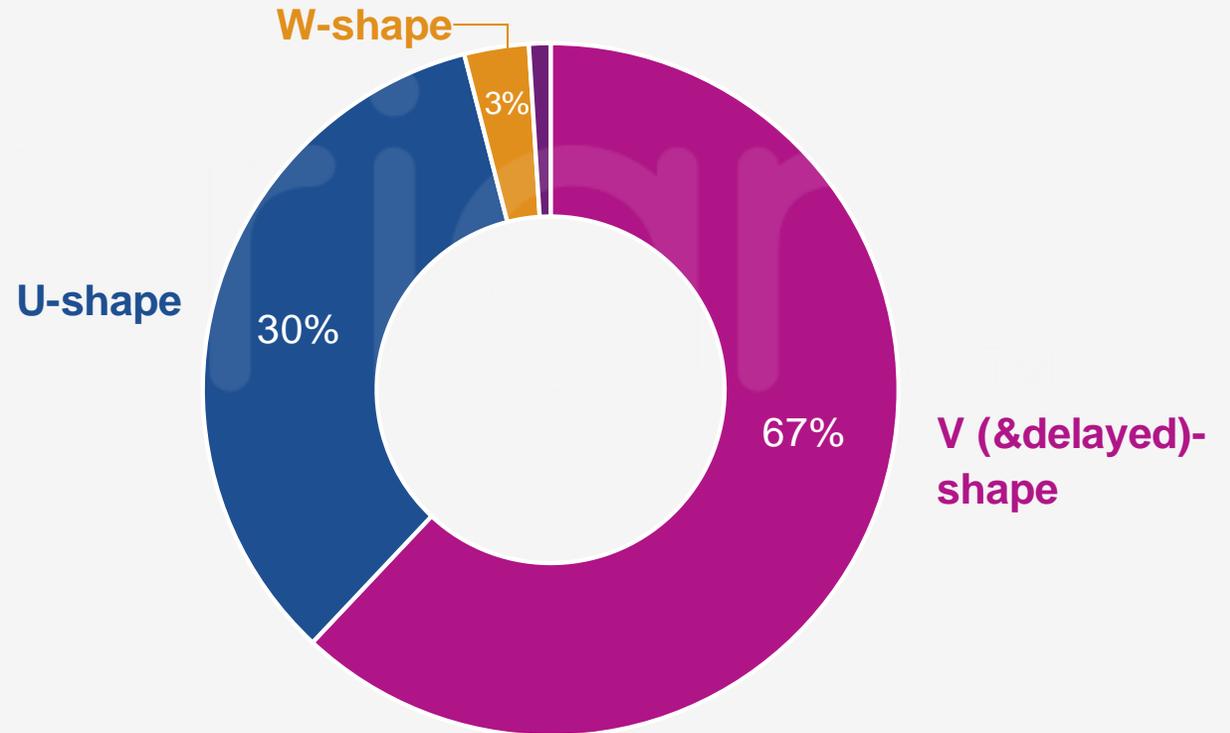
# Macroeconomic scenarios

**V-shape**      **Delayed V-shape**

**U-shape**  
Severe case

**W-shape**  
Very severe case

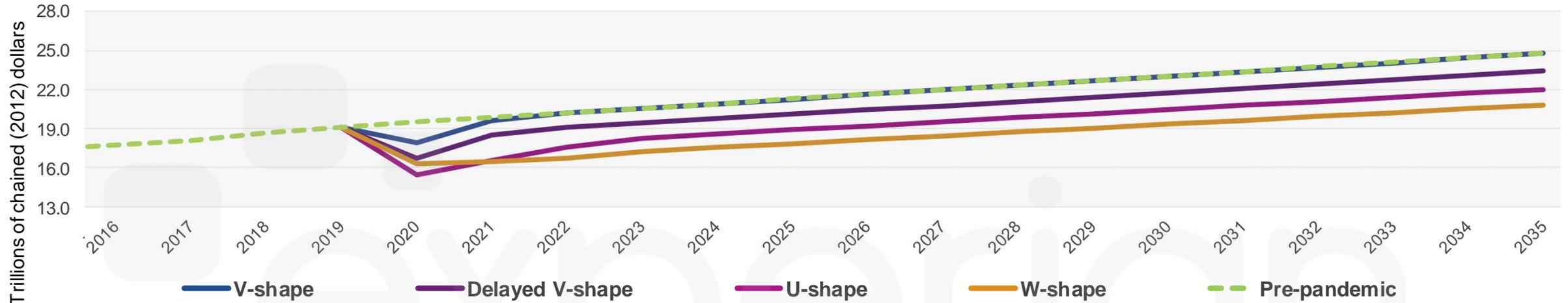
What will be the shape of the global economic downturn?



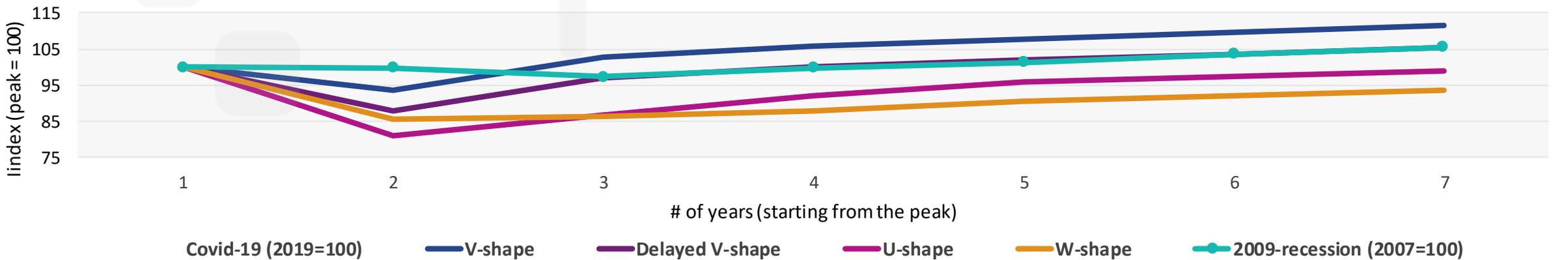


# Year-over-year shifts to GDP

## GDP Level



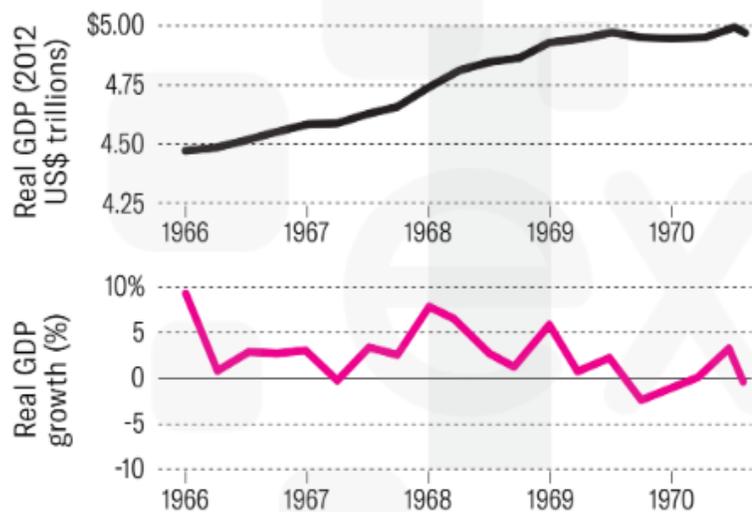
## GDP y-on-y%



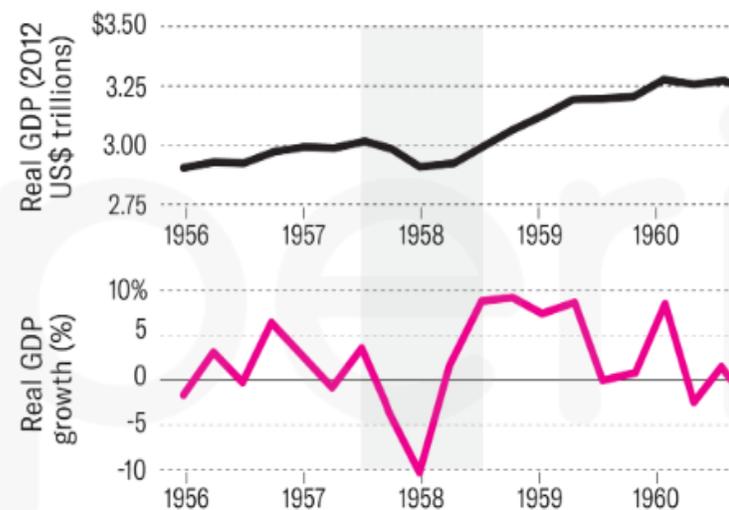


# Prior pandemics haven't been v-shaped

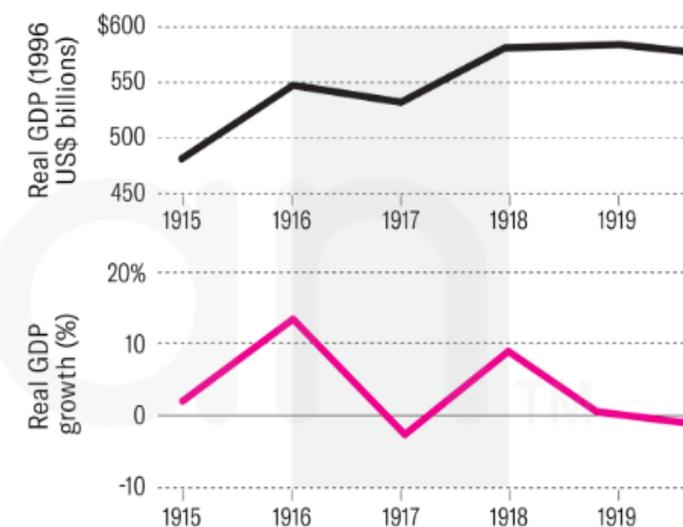
**1968 H3N2 (“Hong Kong”) flu – 100,000 U.S. deaths**



**1958 H2N2 (“Asian”) flu – 116,000 U.S. deaths**



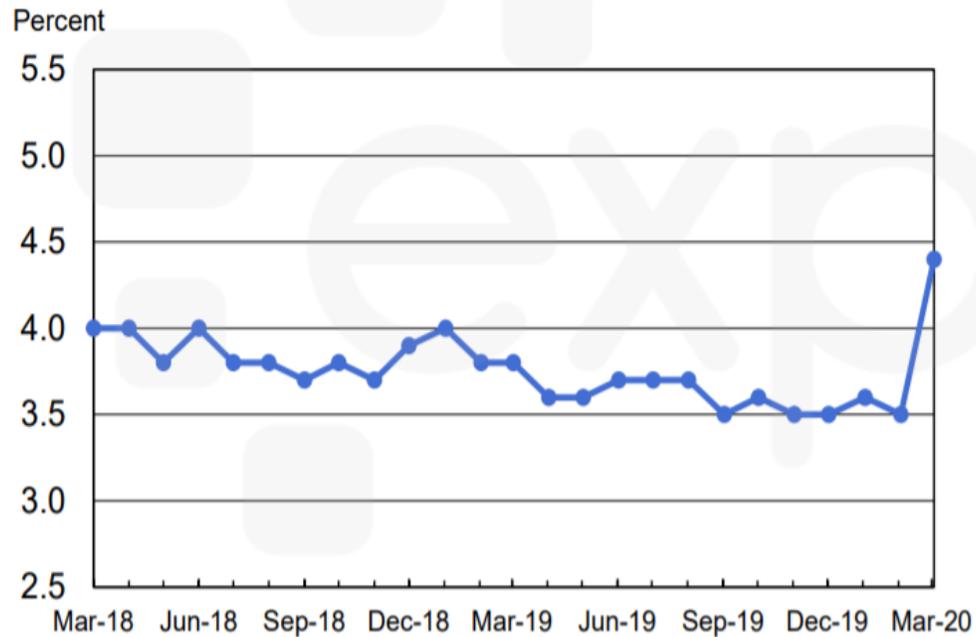
**1918 Spanish flu – 675,000 U.S. deaths**



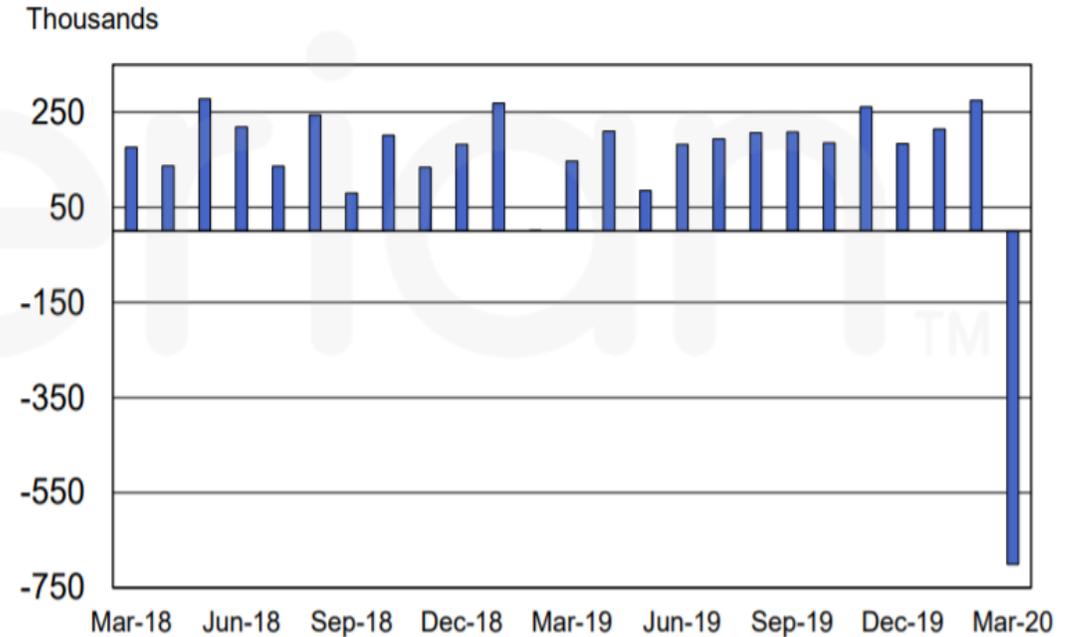


# Uncertainty continues to build

Unemployment rate, seasonally adjusted, March 2018 – March 2020 (BLS)



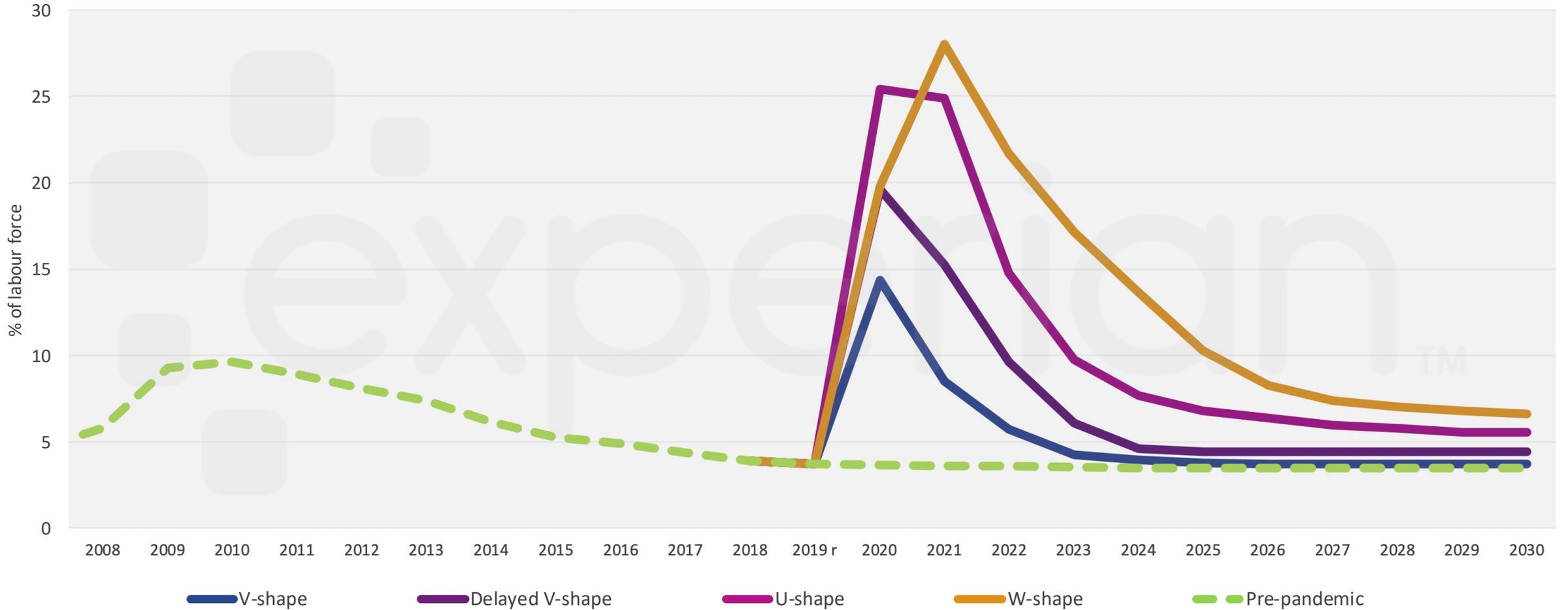
Nonfarm payroll employment over-the-month change, seasonally adjusted, March 2018 – March 2020 (BLS)





# Affordability challenge

## Unemployment rate

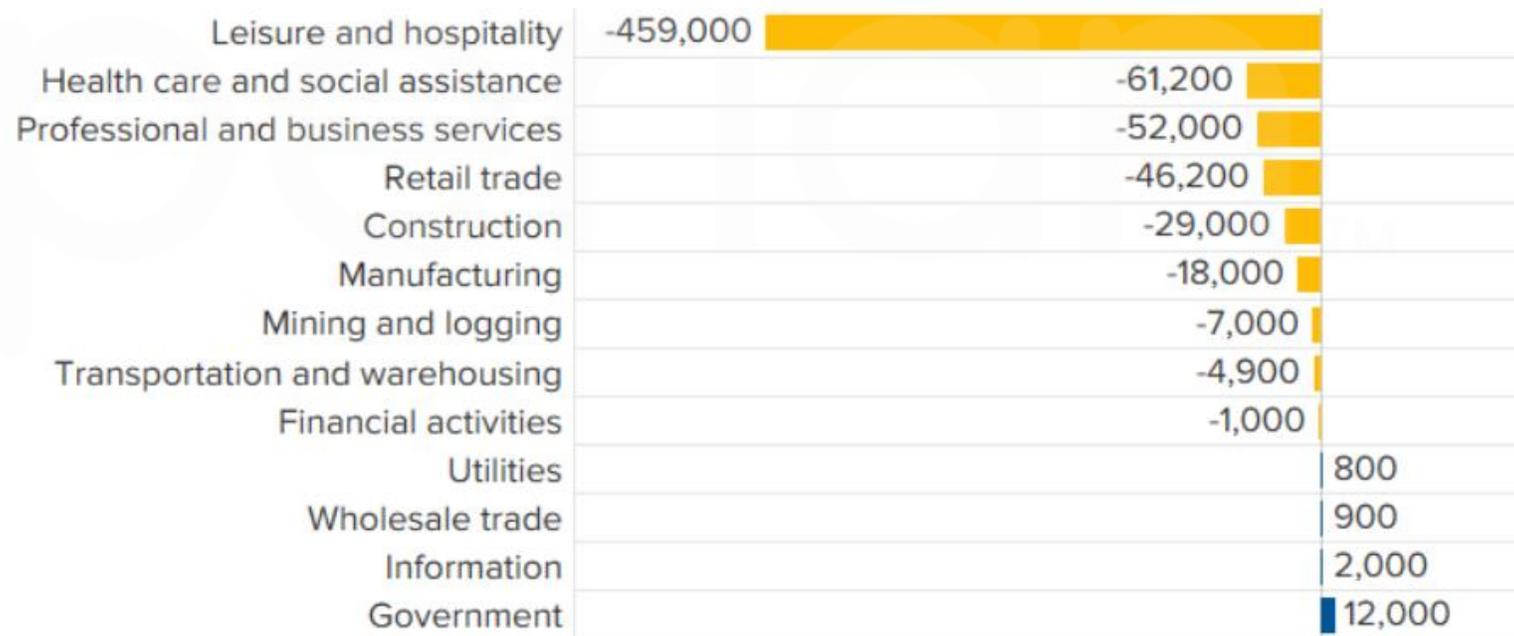


All sectors are impacted, but some more severely

Estimated degree of impact, by duration

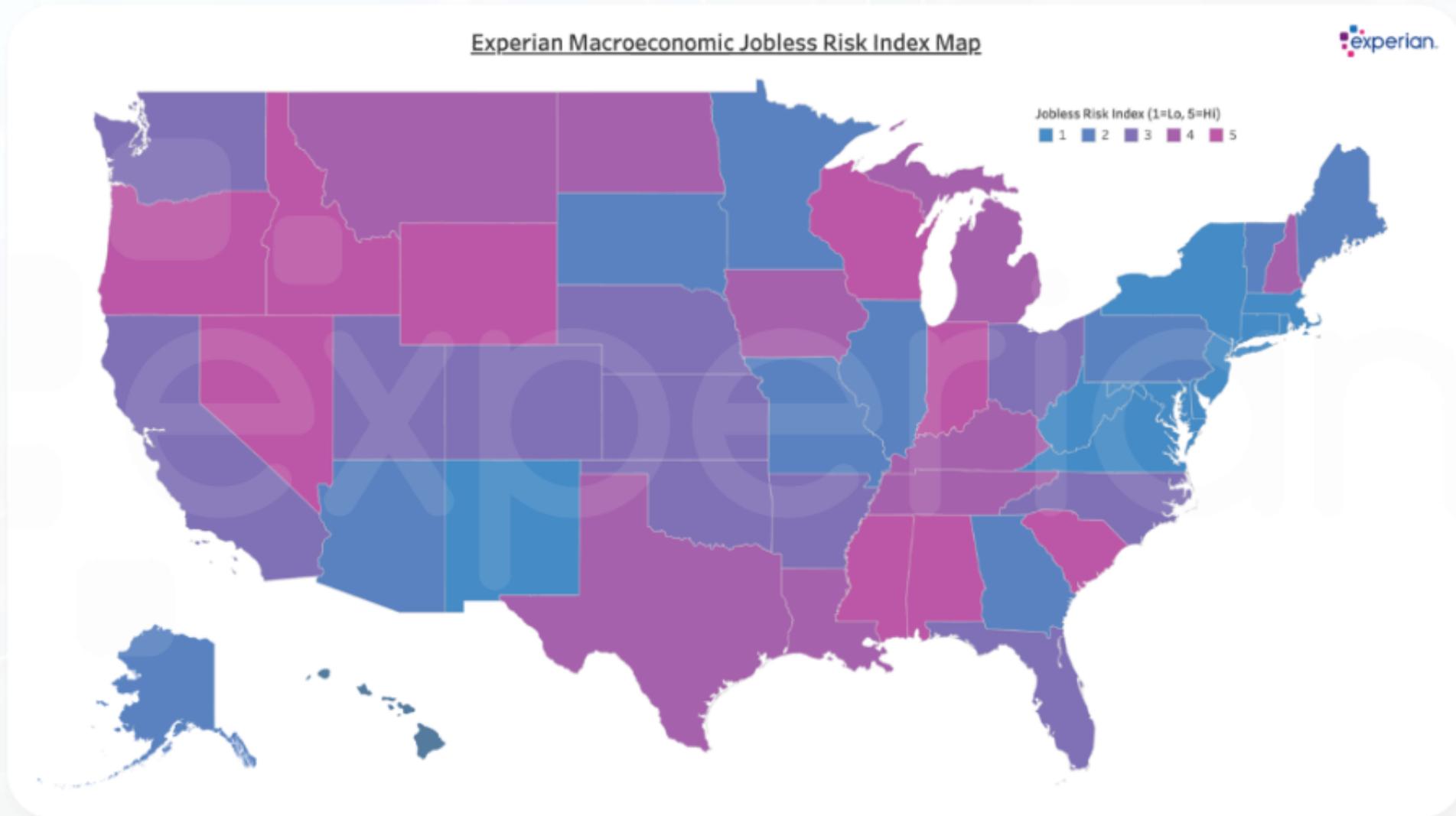


March jobs one-month net change (BLS)





# COVID-19 sensitivity





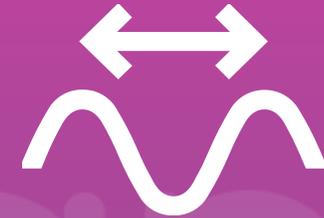
# Demographics matter: **unequal** opportunity



More high-skilled individuals can work from home than low-skilled workers.



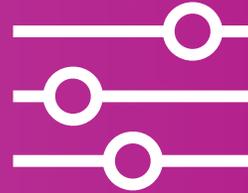
Most workers in manufacturing, retail, leisure, construction and transportation and utilities can hardly work from home.



Skills may correlate with liquidity to sustain brief unemployment spell during the health crisis.



CECL - even more important that CECL is implemented well and on the basis of the most robust, reasonable and supportable assumptions possible in the current environment.



Model adjustments – in exceptional credit conditions, traditional drivers of credit risk, when considered in isolation, tend not provide a complete picture of how credit risk and losses are evolving.



Stress testing – although difficult to forecast the impact of the pandemic due to very limited forward-looking information – there are clear signs that, taken in isolation, economic and credit conditions are worsening.

# Consumer credit data



**Tom O'Neill**

Expert Analytical Consultant



# Overview of Credit Score and Attribute Treatment

|  | <b>Natural Disaster<br/>(AW w/o D)</b>   | <b>Deferred<br/>(29/AW w/ D)</b><br><i>Historically tied to mainly<br/>student loans</i>  | <b>Forbearance<br/>(CP w/ D)</b><br><i>Historically tied to student<br/>loans and mortgage</i>  | <b>No Payment Due<br/>with Balance owing<br/>(no spcmt)</b>   |
|--|--|---|---|---|
| <b>Credit Risk Scores</b>  | <p>Typically no special treatment</p> <p>VantageScore V3&amp;4: exclude negative payment information </p> | <p>Deferred balance not utilized until repayment resumes.  </p> | <p>Deferred balance not utilized until repayment resumes.  </p> | <p>Some scores may use an estimated scheduled payment </p> |
| <b>Attributes</b><br><i>Uses include credit scores, decision criteria, account management criteria, prescreen criteria, research</i> | <p>No special treatment</p> <p><i>Specific attributes will capture behavior.</i></p>   | <p>Main attributes exclude deferred balance until repayment resumes.</p> <p><i>Specific attributes will include deferred behavior.</i></p>  | <p>Main attributes exclude deferred balance until repayment resumes.</p> <p><i>Specific attributes will include deferred behavior.</i></p>  | <p>Some attributes estimate scheduled payments</p> <p><i>Specific attributes will capture this behavior.</i></p>                              |

**Please refer to [www.fico.com](http://www.fico.com) and [www.vantagescore.com](http://www.vantagescore.com) for more details.  
Be sure to check specific generic and custom models for treatments.**



# Credit Attribute trends highlights

As of April 22, 2020

**The attribute showing the greatest upward shift is the number of trades affected by a natural disaster.**

While all states are affected, Michigan, Illinois and New Mexico have the highest increase

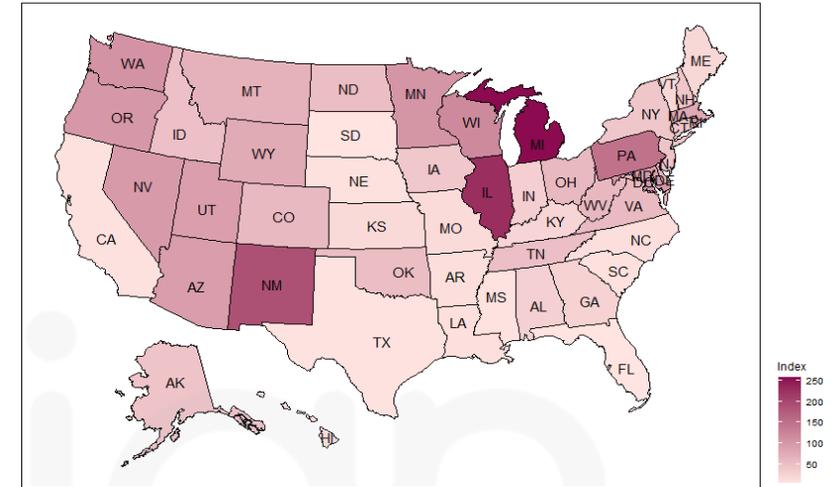
**A significant increase in deferred student loans is observed as a result of government loans being automatically deferred for six months.**

While all states show an increase in the number of deferred student trades, Utah, Missouri and New York show the most significant increase.

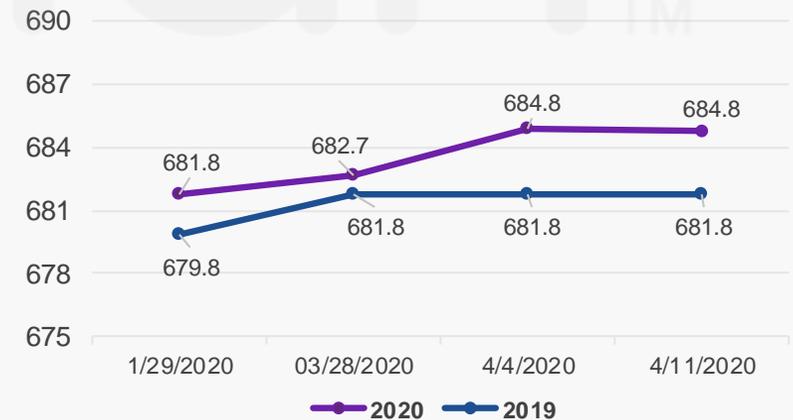
**An increase in the number of forbearance trades reported earlier in this month reversed last week and came back closer to earlier counts.**

**We are seeing a gradual increase in score values, due in part to a decrease in delinquent status being reported on trades during the consumer protection period.**

## Accounts Reported with Natural Disaster



## VantageScore 3.0 average score





# Distribution of originations by VantageScore

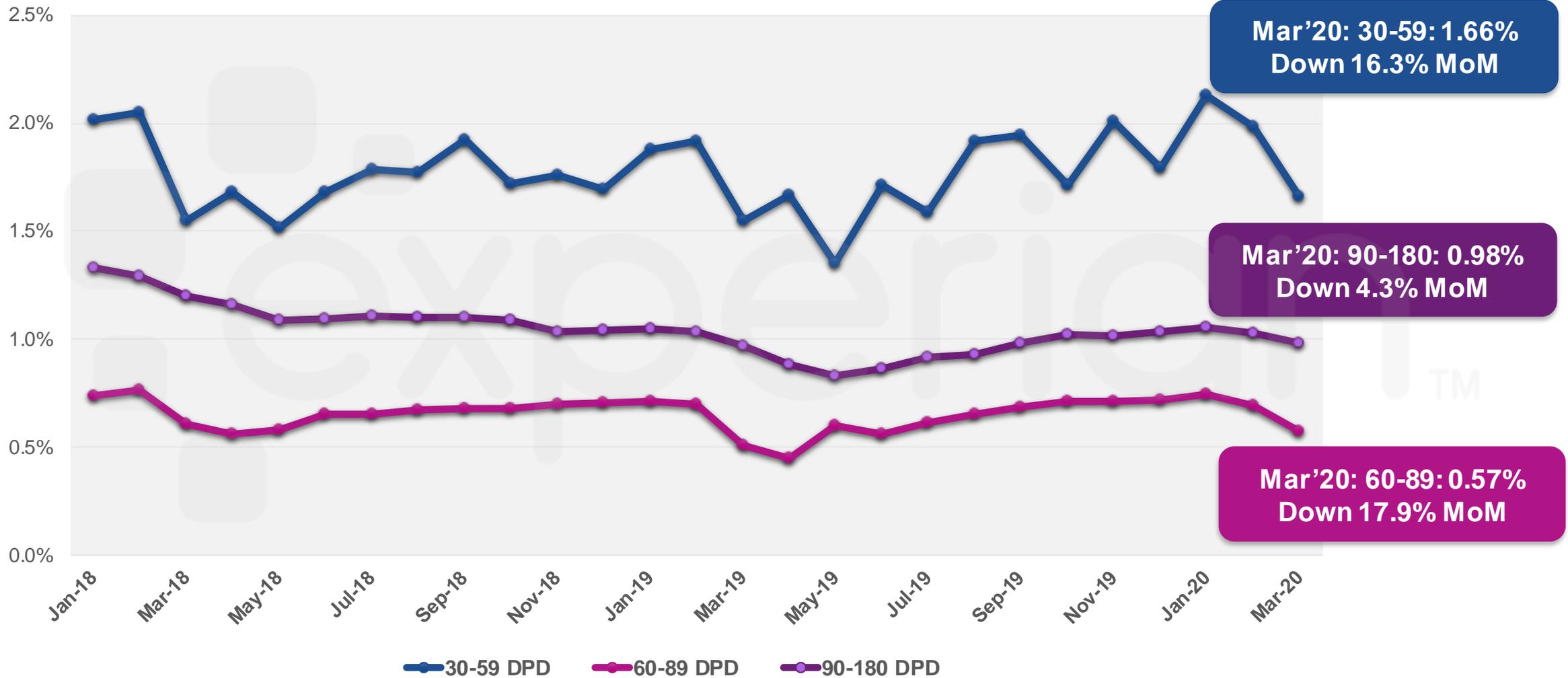


Source: Experian Ascend Sandbox



# Mortgage delinquency

Percent of balances delinquent



# Macrotrends and implications



**Gavin Harding**

Senior Business Consultant



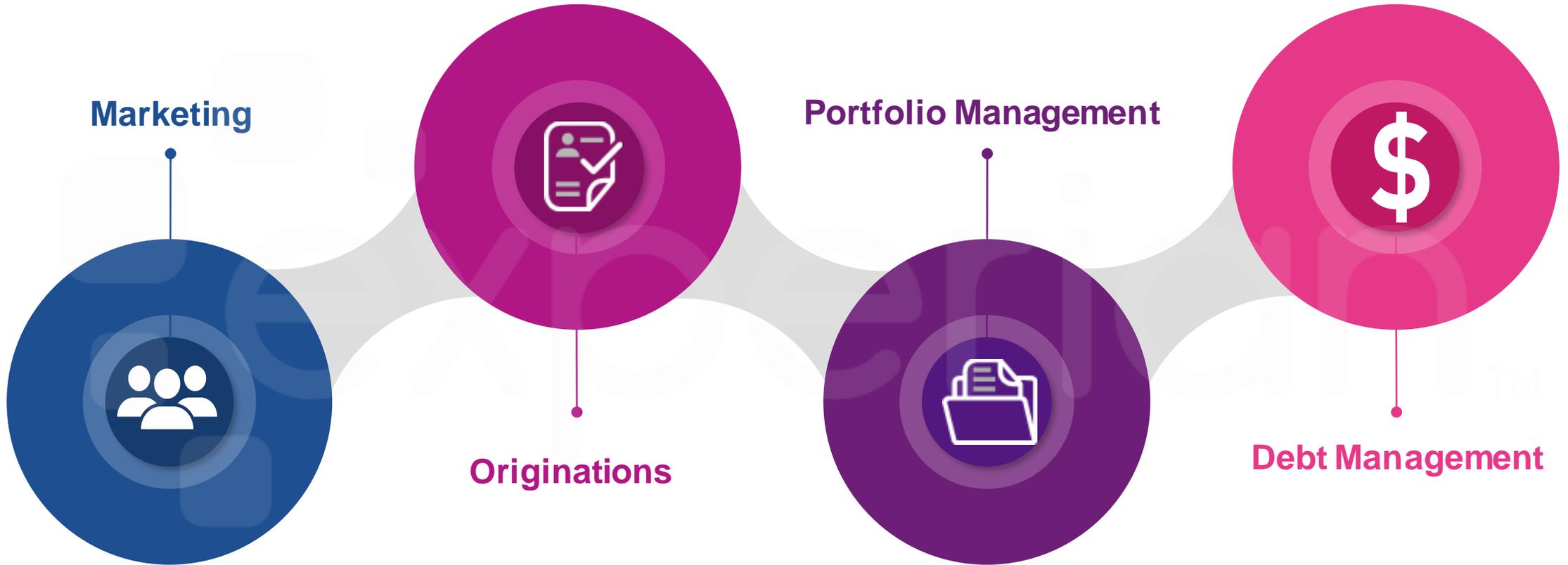
# Strategies for right now

As organizations respond to the health crisis and economic volatility, key focus areas should include:

- Reducing and mitigating risk
- Monitoring consumer behavior
- Addressing operational challenges
- Reporting and compliance



# Plan across the customer lifecycle





# Marketing

Strategies

Reduce Costs

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Use Fresh Data

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Incorporate Advanced Criteria

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Utilize Agile Tools

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# Marketing

Hone criteria and deploy tools to target the right accounts

Data, attributes and scores

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Prescreen

---

Triggers

---

Development and deployment

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# Originations

Strategies

Go digital

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Get deeper insights

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Use alternative data

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Increase fraud protection

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# Originations

Combine automation and operating efficiencies to update lending strategies

Identity proofing and fraud risk analytics

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Verification of income and employment

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Instant credit decisioning

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Attribute creation and consumption

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# Portfolio management

Strategies



Benchmark

Forecast scenarios

Revise, reduce, retain

Monitor accounts

# Portfolio management

Mitigate portfolio risk and retain your best customers



Portfolio health,  
migrations and triggers

Portfolio loss  
forecasting

Data, attributes and  
scores

Analytics and strategy  
design

# Debt management

Strategies

Drive efficiency

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Increase right party contacts

---

Ensure compliance

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Monitor accounts

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# Debt management

Make operating changes based on COVID-19 related deferment guidance.

Compliance filters and triggers

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Consumer contact and skip tracing

---

Decision management and optimization

---

Attribute creation and integration

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# Connect with us



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# Questions?



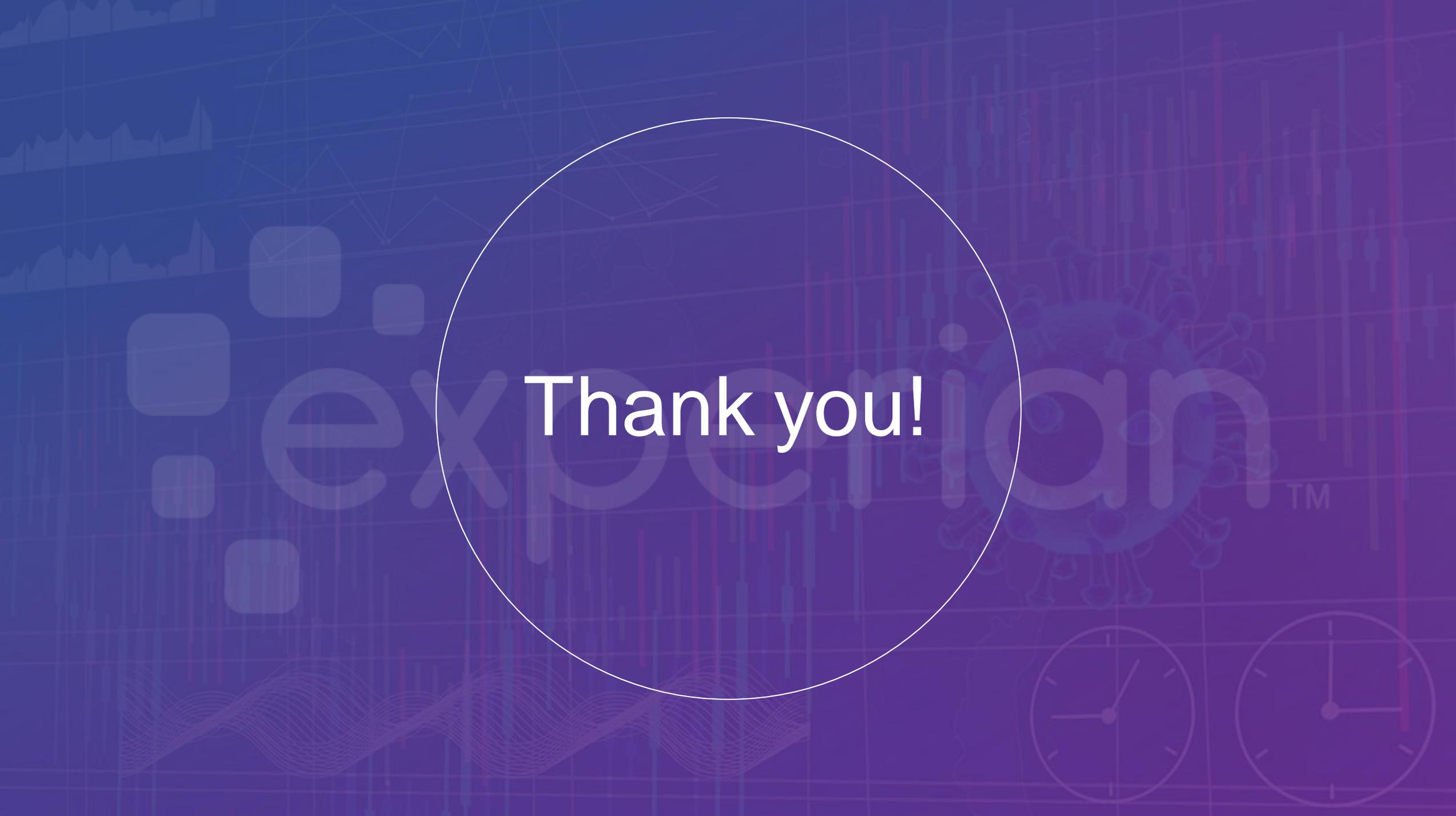
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The background is a dark blue-to-purple gradient. It features several faint, semi-transparent elements: a line graph with multiple peaks and valleys, a bar chart with vertical bars of varying heights, a large stylized virus particle with spikes, and two analog clock faces. The word 'experian' is written in a large, light-colored, sans-serif font across the middle of the image, with a 'TM' trademark symbol to its right. A white circle is centered on the page, containing the text 'Thank you!' in a white, sans-serif font.

Thank you!