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Fitch: Most North American Sectors Retain Deteriorating Outlook

Fitch Ratings-New York-30 June 2023: Nearly three quarters of North American sectors maintain a deteriorating outlook for 2023, reflecting Fitch Ratings' expectation for weaker core credit drivers relative to 2022. Inflation, rising rates, and tightening lending conditions remain key considerations for North American sector outlooks.

There are no mid-year changes to our sector outlooks except for U.S. REITs, for which we changed the sector outlook to deteriorating from neutral, taking into account further tightening of commercial real estate (CRE) lending conditions amid ongoing valuation pressure and macro headwinds.

Economic growth in 1H23 was stronger than expected, supported by robust employment and consumption, which have been mostly resilient to rising rates. We have raised our 2023 economic growth forecasts for the U.S. to 1.2% from 1.0% and Canada to 1.3% from 0.8%.

However, demand indicators are showing signs of slowing, according to our latest Global Economic Outlook. We forecast a shallow U.S. recession in 4Q23-1Q24, driven by tighter credit conditions, lower savings, reduced business investment and expected negative job growth. The effects of these factors on the consumer are key considerations underlying our deteriorating outlooks for financial institutions, consumer securitizations, the retail sector and sectors tied to residential real estate. For some corporations and infrastructure projects, demand erosion may weaken pricing power, and still-high operating costs and capex could pose challenges to cost recovery and contribute to margin pressures.

Anticipated regulatory changes as a result of the March banking sector crisis, combined with recession concerns and lower banking system liquidity from monetary tightening, will continue to impair credit availability. Financial sector tightening has been most evident in refinancing risk for CRE loans, but leveraged loans are also starting to feel its effects. Weak demand and higher vacancies have caused certain office and retail property values to drop, which may have material negative implications for REITs, CMBS, municipalities and financial institutions.

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