

Country Insight Snapshot United States of America

May 2022





Overall Country Risk Rating: DB2d

Last change: March 2022



Low risk: Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.

Rating Outlook: Stable

WorldWatch Headline

Borrowing costs will rise further as the Fed continues an aggressive pace in the coming months to dampen soaring inflation, following a 50-basis-point hike in its benchmark rate in May.

Recent Changes

- The Fed accelerates tightening with a 50bps hike, further increasing borrowing costs.
- Non-farm payroll employment increased by 428,000 in April, with the jobless rate at 3.6%, just above pre-pandemic levels (3.5% in December 2019).
- Real personal consumption expenditure dropped by 0.4% in February following a 2.1% increase in January.
- The outlook for real GDP forecast in 2022 is clouded by high inflation - exacerbated by the war in Ukraine - which has dented consumer and business sentiment.

Events to Watch

- The Fed's aggressive stance aims to counter concerns about higher inflation expectations becoming entrenched in the economy; as it seeks to get to a neutral policy setting.
- The US, EU and other allies are reportedly considering the implementation of additional sanctions against Russia as the war in Ukraine continues.
- Commercial banks' outlook for loan quality is mixed - household loan quality will likely deteriorate.

Call to Action

- Plan for higher borrowing costs as the Fed continues to tighten to combat record inflation.
- Factor in still-elevated shipping costs, input shortages and wage pressures which will keep production costs high in the coming months.
- Note that the US remains active in instituting tariff barriers to trade; continue to take account of that when making cross-border trade decisions.



Country Insight Headlines

Credit Environment

Score: DB2d



Last change: March 2022 (DB2b→DB2d)

Rating Outlook: Stable

Risks and Opportunities

- The Federal Reserve raised the fed funds target by 50 basis points to 0.75%-1.00% in May, marking the largest rate hike since 2000 and further increasing debt-servicing costs.
- In June the Fed will also reduce its holdings of Treasuries and mortgage-backed securities at a rate of USD47.5bn, increasing over a three-month period to USD95bn.
- The US Financial Services sectoral risk rating slid to DB3d in March from DB3b in February, albeit remaining in the low-medium risk category.
- However, near-term risks are tilted to the downside, with stubborn inflation hitting businesses and consumers.
- According to the January Senior Loan Officer Opinion Survey report, lenders expect business loan quality to improve and household loan quality to decline, as measured by delinquencies and charge-offs.

Trade Terms

Description	
Minimum Terms	OA
Recommended Terms	SD
Usual Terms	30-60 days

Source: Dun & Bradstreet

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance.

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden	Full cover available, conditions apply
ECGD	Full cover available
Euler Hermes AG	Medium- or long- term cover available, limited short-term cover

Source: Export Credit Agencies

Call to Action

- The U.S. Small Business Health Index (SBHI) rose by 1.7 points in March on a sequential basis as a result of lower payment and credit card delinquency.
- Note that inflation pressures continue to weigh heavily on consumer sentiment: the US CPI rose to 8.5% y/y in March, the fastest pace of increase since 1982.
- Plan for higher financing costs as the Federal Open Market Committee (FOMC) aggressively hikes its benchmark interest rate to combat the highest inflation rates in decades.
- [Assess counterparty risk](#) adequately, especially for energy-intensive companies, because of high hydrocarbon prices.



Supply Environment

Score: DB3a



Last change: March 2022 (DB2d→DB3a)

Rating Outlook: Stable

Risks and Opportunities

- The labour market remains tight, despite an unemployment rate of 3.6% (April 2022).
- The US has announced an historic release of 1m barrels of oil per day from its strategic reserves to help reduce energy prices, which spiked sharply in February-March because of the war in Ukraine.
- Businesses across many countries, including the US, are experiencing supply-chain bottlenecks and increased input-cost pressures because of the war in Ukraine and lockdowns triggered by China's zero-Covid policy.
- Business continuity will continue to be affected by severe weather events as observed in the Midwest, when deadly tornados in December caused power disruption and the destruction of hundreds of businesses in at least six states.

Call to Action

- Consider alternative supplier countries for major products exported by Russia and Ukraine, including copper, corn, crude oil, gold, iron and steel, iron ore, platinum, sunflower seed, safflower or cotton-seed oil, turbo-propellers, and wheat.
- Note that the America COMPETES Act of 2022, which seeks to boost US chip production substantially, is unlikely to succeed in its current form in the Senate.
- With the pandemic and extreme weather events exposing the need for greater supply-chain resilience, recalibrate supply-chain management as needed.
- Even after discounting the impact of coronavirus, tariff barriers remain in place; continue to compare the costs of onshoring versus offshoring supply chains.
- The US remains active in instituting tariff barriers to trade: factor this into cross-border trade decisions.



Market Environment

Score: DB2c



Last change: May 2022 (DB2b→DB2c)

Rating Outlook: Stable

Risks and Opportunities

- Wage growth continued to be strong: average hourly earning rose 0.4% m/m in March with a y/y rise of 5.6% from 5.2% m/m in February.
- Consumer spending moved to services in February: real spending on goods dropped 2.1% m/m from a 5.6% increase in January.
- Real disposable income for households dropped 0.2% m/m in February, though nominal compensation grew 0.7% in the month.
- In addition to stubborn inflation, prolonged supply-chain problems because of the Russia-Ukraine war are creating headwinds for the economy.

Call to Action

- Note that inflation, though likely to have peaked, continues to weigh heavily on the near-term market outlook, as the surge in energy prices fuels inflation: the CPI rose at its fastest pace since 1982, hitting 8.5% in March.
- Be aware that, with the normalisation of business activities, e-commerce is returning to expected pre-pandemic trend levels.
- Consider alternative sourcing options and [explore alternative selling options](#), given the disruption caused by the Russia-Ukraine war.
- If competing for government contracts, monitor Federal Acquisition Regulatory Council proposals to ensure compliance with domestic content requirements.
- Note that broad-based resilient consumer prices affecting energy costs, housing and food are keeping consumer sentiment depressed because of an expected erosion of real disposable incomes.
- Given heightened global uncertainty, we recommend having a strong cash position.



Political Environment

Score: DB2c



Last change: March 2022 (DB2b→DB2c)

Rating Outlook: Stable

Risks and Opportunities

- The US, EU and allies are reportedly considering additional sanctions on Russia to bring an end to the war in Ukraine.
- Potential new sanctions aimed at Russia's oil and gas sector would have massive effects on European economies, the energy security fragility of which has been underscored by the war.
- Despite broad bi-partisan support for America's sanctions on Russia and military assistance to Ukraine, the US electorate is deeply polarised ahead of the November 2022 mid-term elections.
- One of the Biden administration's biggest domestic challenges is stubborn inflation, which is at a 40-year high.

Call to Action

- Monitor the Russia-Ukraine war for the imposition of additional sanctions by the US and its allies.
- Note that the Republican Party is expected to capture the House in the 2022 mid-terms.
- Be aware that the migrant crisis at the US border with Mexico is a major non-pandemic political challenge for the Biden administration.
- Note that Biden's economic platform, starkly different to Trump's, will affect corporate tax rates, the minimum wage and business environmental costs.
- Watch for disincentives for US firms to outsource to China.



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