# Country Insight Snapshot

## United States of America

October 2023

Written 06 October 2023

## OVERALL COUNTRY/REGION RISK INDICATOR

**Current Risk Indicator:**

DB2d
LOW RISK

High Risk (DB7) Low Risk (DB1)

- Last change: March 2022 (DB2b ➔ DB2d)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is STABLE

**LOW RISK** Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

### WorldWatch Headline

Stopgap agreement on spending averts immediate US government shutdown – but at cost of Speaker McCarthy's job, putting at risk all legislative agenda until election of new speaker.

### Recent Changes

- The ousting of a sitting House speaker in the manner that Speaker McCarthy was removed is unprecedented in US history and reflects the highly polarised political environment; it will lead to immediate confusion as lawmakers figure out a way forward, as the rules dictate that a replacement is needed before any new legislative business can be conducted.
- The limited spending agreement only offers an extension on government functioning until 17 November, and does not tackle issues such as funding for Ukraine.
- The hunt for a new speaker shaves off crucial days from the recent extension on deciding the full-year federal budget, keeping the threat of government shutdown intact while risking another messy election for the speaker's job.

### Events to Watch

- A messy and protracted speaker replacement process would signal hardening positions within a divided Republican Party and would be likely to weaken the party's position going into an election year in 2024.
- Failure to agree to a full-year budget by 17 November would warrant another extension but would be contingent on the next speaker's willingness to agree to it: a partial (at least) government shutdown is still on the cards.
- If the troubled Republic First, a small Philadelphia bank, is taken over by regulators without offering any protection for the 60% of uninsured depositors, it could trigger a run on other similarly troubled banks.

### Call to Action

- Monitor the security situation and supply routes in and around the Middle East given the flare-up between Israel and Hamas.
- Note that long-term government contracts could be put in limbo or face chaotic extensions in the event of a partial government shutdown.
- Follow developments in the Republican presidential nominee races to understand policy direction post-2024.
- Note that while financial contagion is not our base-case scenario, small banks are still susceptible to confidence shocks.
- Understand that the US remains very active in instituting non-tariff barriers to trade; continue to take this into account when making cross-border trade decisions.

# COUNTRY INSIGHT HEADLINES

## CREDIT ENVIRONMENT

**Current Risk Indicator:**

DB2d
LOW RISK

High Risk (DB7) | Low Risk (DB1)

- Last change: August 2023 (DB3a ➔ DB2d)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is STABLE

**LOW RISK** Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

### Risks and Opportunities

- With GDP growth proving significantly more resilient than anticipated and rate hikes nearing an end, the credit environment has a 'stable' outlook.
- Markets and the authorities at the Fed are now much more confident of avoiding a recession, striking the right balance of slowing demand and containing inflation without pushing unemployment much higher.
- Interest rate decisions notwithstanding, financing costs for businesses are likely to remain high for the time being, as the spikes at the long end of the yield curve suggest that the 'higher for longer' message is sinking in.
- Payments performance also indicates underlying pockets of stress: for example, the PAYDEX scores for small and medium-sized businesses in manufacturing have fallen throughout 2023.

### Trade Terms

| Description | Terms |
|---|---|
| Minimum Terms | OA |
| Recommended Terms | SD |
| Usual Terms | 0-60 days |

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

### Export Credit Cover

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

**Source**: Export Credit Agencies

### Call to Action

- Plan for cash flow management changes with the launch of the FedNow service, as vendors may now expect shorter payment settlement cycles.
- Note that retail sales underpin the economy's resilience in the face of aggressive credit tightening; consumer sentiment remains strong, as falling inflation has raised expectations of a soft landing.
- Note that the recently concluded annual stress test for banks suggests resilience among the largest US banks; however, the smaller banks, excluded from the analysis this year, remain at risk of losing investor and depositor confidence.
- Plan for high borrowing costs even if the Fed stops or skips hiking its benchmark interest rate in the near future.
- Assess counterparty risk adequately and update trade credit terms to reflect current credit conditions.

## SUPPLY ENVIRONMENT

**Current Risk Indicator:**

| | DB3b SLIGHT RISK | |
|---|---|---|
| High Risk (DB7) | | Low Risk (DB1) |

- Last change: June 2023 (DB3c ➔ DB3b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is STABLE

**SLIGHT RISK** Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

### Risks and Opportunities

- Failure to agree to a full-year budget by 17 November would require another extension on current spending or a partial shutdown of government services; legislative business will remain disrupted until a new House Speaker is elected.
- Leading indicators of supply chain pressures show signs of near-normalisation; however, specific sectors relying on critical raw material supplies and semiconductors may face disruption due to policy choices.
- Government policies are geared to ensure long-term energy security by subsidising the green energy transition, but supply shocks to oil prices remain a risk to energy costs in the short term.
- The first agreement under the Indo-Pacific Economic Framework (IPEF, which includes the US and 13 Asia-Pacific economies) tackles supply chain resilience, thus improving long-term prospects.
- Business continuity will continue to be affected by severe weather: hurricanes in Florida, floods in eastern Kentucky, droughts in western states and flooding in parts of California are examples of some recent events.

### Call to Action

- Note that despite an uptick in the unemployment rate to 3.8%, the labour market in the US remains tight, with wages still rising.
- Audit supply chains for their environmental impact to ensure compliance under ESG initiatives.
- Review supply routes in the South China Sea amid heightened tension and possible military drills in the Indo-Pacific.
- Assess supply chain vulnerabilities and test business continuity protocols against the risk of extreme weather events and the risk of armed conflict in vendor jurisdictions.
- Note that the US remains active in instituting tariff and non-tariff barriers to trade; factor this into cross-border trade decisions.

## MARKET ENVIRONMENT

**Current Risk Indicator:**

| High Risk (DB7) | | DB2d LOW RISK Low Risk (DB1) |
|---|---|---|

- Last change: July 2022 (DB2c ➔ DB2d)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is STABLE

**LOW RISK** Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

### Risks and Opportunities

- Retail sales in the US, particularly for services, have remained firm on the back of pandemic-era savings.
- US firms are losing Mainland China as a market in the ongoing chip war between the two countries, but at the same time weakness in other large, developed markets and a series of supportive legislative moves have revitalised the US market's investor attractiveness.
- The Securities and Exchange Commission's actions against crypto exchanges Binance and Coinbase may lead to complex legal battles before regulatory clarity is achieved.
- Fresh rounds of tension over Taiwan Region may complicate the next phase of US-Mainland China trade dealings.
- Technology decoupling with Mainland China, which is a bipartisan priority in the US, has gathered pace, with more countries now being drawn in.

### Call to Action

- Note that the US administration closely scrutinises breaches of export controls to sanctioned entities in Russia and Mainland China; stay up to date on the entity list and upcoming trade/investment restrictions.
- Note that softening inflation readings and buoyant retail sales underpin the resilience of the US consumer, but expect a slowdown as excess household savings from the pandemic era begin to run down and student debt repayments resume.
- Follow developments on the legal battles against crypto exchanges to get a sense of regulatory direction in the sector.

## POLITICAL ENVIRONMENT

**Current Risk Indicator:**

| High Risk (DB7) | | DB2c LOW RISK Low Risk (DB1) |
|---|---|---|

- Last change: June 2023 (DB2d ➔ DB2c)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is STABLE

**LOW RISK** Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

### Risks and Opportunities

- The ouster of House Speaker Kevin McCarthy reflects divisions in the Republican Party; failure to close ranks now could weaken its position going into the 2024 election year.
- Despite an agreement over the debt ceiling, the specifics of funding will remain a contentious issue, possibly leading to a partial government shutdown in Q4 2023.
- The Republicans have a crowded field of presidential nominees for the 2024 elections; however, former president Donald Trump remains in the lead, despite his recent indictments.
- Recent high-profile meetings suggest that efforts to ease mounting tensions between the US and Mainland China are underway; however, in terms of actions both sides are ramping up efforts to escalate their tech decoupling.
- Tense relations between the US and Mainland China may increase compliance and operational costs for companies, especially those in the tech sector.

### Call to Action

- Monitor the security situation and supply routes in and around the Middle East given the flare-up between Israel and Hamas.
- Note that while a partial government shutdown may not be as catastrophic as a debt default, the ensuing chaos could hurt business continuity contingent on non-critical government activity.
- Follow efforts to put a floor under US-Mainland China relations, but prepare for higher compliance costs as both sides continue with new regulations to preserve national security interests.
- Monitor the security situation in the South China Sea; specifically, review supply routes against the possibility of a military incident, as Sino-US military communication has weakened.
- Watch for disincentives for US firms to outsource to Mainland China, plus incentives for chip manufacturers to move to the US; stay updated on all licence requirements for exports.

# STATISTICAL REFERENCE

## KEY INDICATORS AND FORECASTS

### Historical Data/Forecasts

| Metric | 2018 | 2019 | 2020 | 2021 | 2022 | 2023f | 2024f | 2025f | 2026f | 2027f |
|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP growth (%) | 3 | 2.5 | -2.2 | 5.8 | 1.9 | 1.8 | 1.1 | 2.1 | 1.8 | 2.1 |
| Nominal GDP in USDbn | 20,657 | 21,521 | 21,323 | 23,594 | 25,744 | 27,280 | 28,467 | 29,792 | 30,966 | 32,325 |
| Nominal GDP in local currency | 20.7tn | 21.5tn | 21.3tn | 23.6tn | 25.7tn | 27.3tn | 28.5tn | 29.8tn | 31.0tn | 32.3tn |
| GDP per Capita in USD | 62,192 | 64,374 | 63,472 | 70,013 | 76,101 | 80,235 | 83,282 | 86,705 | 89,663 | 93,131 |
| Population (year-end, m) | 332.1 | 334.3 | 335.9 | 337 | 338.3 | 340 | 341.8 | 343.6 | 345.4 | 347.1 |
| Exchange rate (yr avge, USD-LCU) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Current Account in USDbn | -439.8 | -441.8 | -597.1 | -831.4 | -971.6 | -848.2 | -851.1 | -853.5 | -855.5 | -829.8 |
| Current Account (% of GDP) | -2.1 | -2.1 | -2.8 | -3.5 | -3.8 | -3.1 | -3 | -2.9 | -2.8 | -2.6 |
| FX reserves (year-end, USDbn) | 114.8 | 118.4 | 133.8 | 240.2 | 232.7 | 225.7 | 219 | 212.4 | 206 | 199.8 |
| Import Cover (months) | 0.4 | 0.5 | 0.6 | 0.8 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 |
| Inflation (annual avge, %) | 2.4 | 1.8 | 1.2 | 4.7 | 8 | 4.1 | 3.2 | 2.5 | 2.1 | 2.2 |
| Govt Balance (% GDP) | -4.2 | -4.7 | -16.2 | -11.1 | -5.4 | -5.6 | -5.5 | -5.2 | -5 | -5.8 |

**Source**: Haver Analytics/Dun & Bradstreet

### Comparative Market Indicators

| Indicator | US | Canada | Germany | Japan | UK |
|---|---|---|---|---|---|
| Income per Capita (USD) | 80,235 | 56,641 | 53,126 | 35,828 | 48,796 |
| Country Population (m) | 340 | 38.8 | 83.3 | 123.3 | 67.7 |
| Internet users (% of population) | 90.9 | 92.3 | 89.8 | 90.2 | 94.8 |

**Source**: Various sources/Dun & Bradstreet

### Transfer Situation

| Type | Delay |
|---|---|
| Potential FX/Bank Delays | 0-1 week |
| Potential Local Delays | 0-1 week |

**Note**: Length of delay for completion of local and foreign transfers **Source**: Dun & Bradstreet

### Trade Payment Restrictions

| Trade Payment Restriction | US | North America | OECD Average |
|---|---|---|---|
| Restrictions on non-Residents' Accounts | 0 | 0 | 0.06 |
| Restrictions on Payments for Imports | 0 | 0 | 0.06 |
| Restrictions on Payments for Invisible and other Current Transfers | 0 | 0 | 0.35 |

**Note**: for a definition of the Trade Payment Restrictions please see the online user guide **Source**: International Monetary Fund

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