

# HKECIC – D&B Export Credit Risk Index

JANUARY 2024



**ISSUED BY:**  
**Hong Kong Export Credit Insurance Corporation**  
**Dun & Bradstreet (HK) Limited**



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# CONTENTS

1. FOREWORD	1
2. INDEX METHODOLOGY	3
3. INDEX SUMMARY	4
4. INDEX DETAILS AND INSIGHTS	
4.1 Canada	5
4.2 Mainland China	9
4.3 Germany	13
4.4 The United Kingdom	17
4.5 The United States	21



# 1. FOREWORD



**Terence Chiu**

Commissioner, Hong Kong Export Credit Insurance Corporation

Assessing and managing risks is becoming more crucial for Hong Kong exporters amid increasing geopolitical complexity and volatility in global trade. This inaugural "HKECIC – D&B Export Credit Risk Index" report delves into the key markets and product categories for Hong Kong exporters. This comprehensive risk index is compiled from a bundle of economic, insolvency, and payment data and aims at providing insights and support to Hong Kong exporters in strengthening their risk management.

HKECIC has always been committed to supporting Hong Kong exporters in exploring new overseas markets, lowering trading risk, and reducing operating costs. The launch of "HKECIC – D&B Export Credit Risk Index" is a good demonstration of HKECIC's continuous effort in encouraging and supporting export trade.



**Andrew Wu**

General Manager, Dun & Bradstreet China

In an uncertain year for Hong Kong exporters, our business community has shown remarkable resilience. This report, tailored for Hong Kong exporters, provides nuanced insights into the post-epidemic landscapes of 5 key global markets and offers clarity in navigating complex global dynamics.

Dun & Bradstreet (D&B) remains unwavering in our commitment to support the Hong Kong economy, particularly SMEs. Beyond delivering data-driven solutions, we stand as a reliable partner, assisting businesses in navigating uncertainties, fostering resilience, and making smarter decisions.

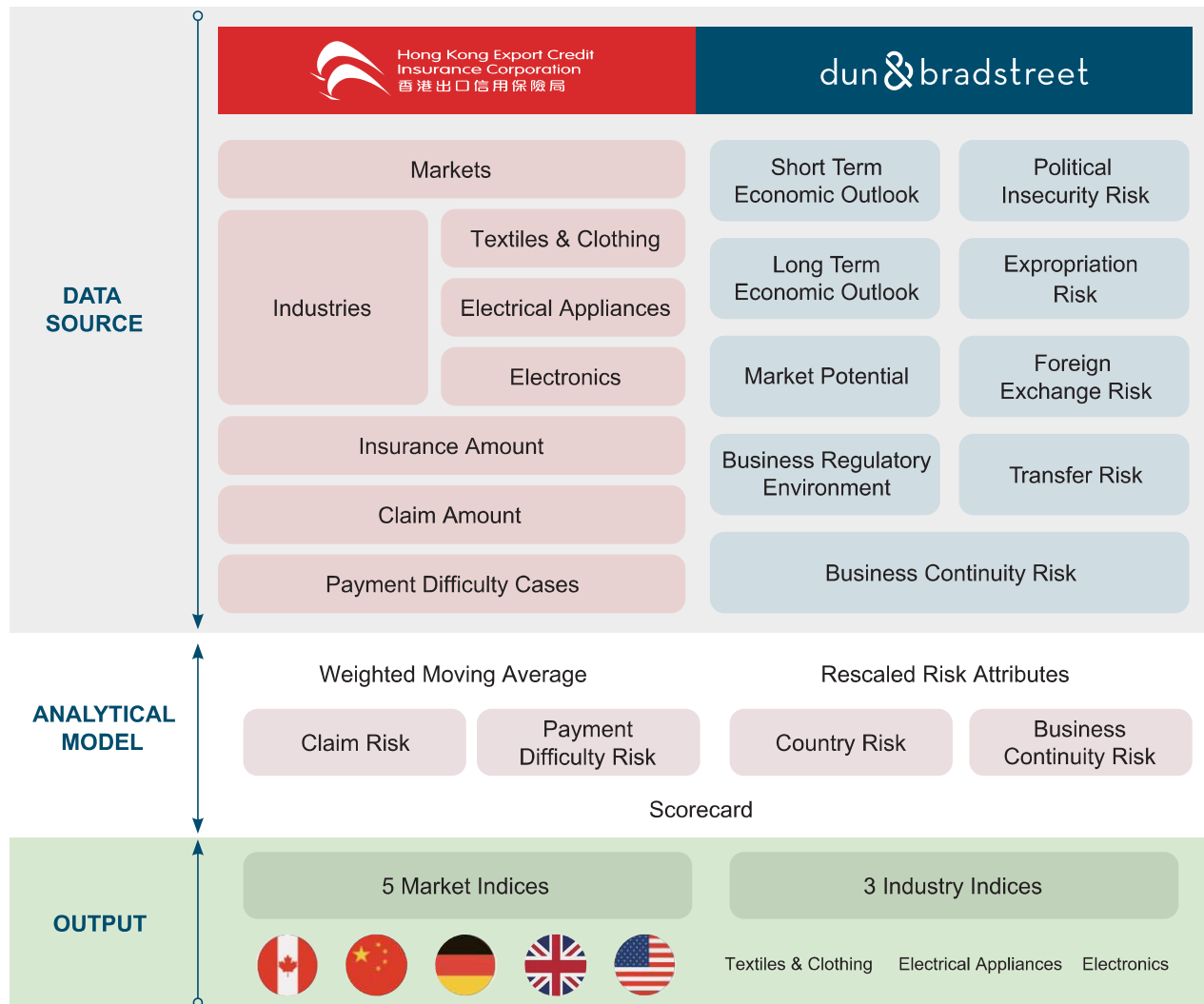
Sponsored by the Hong Kong Export Credit Insurance Corporation (HKECIC) and Dun & Bradstreet (D&B), the “HKECIC – D&B Export Credit Risk Index” leverages data sources of D&B and HKECIC to implement cross-analysis. D&B provides country and region risk indicators from nine different perspectives. Country and region risk indicators are based on D&B’s macro analysis and research. HKECIC provides insurance/claim data and payment difficulty data. Payment difficulty data include market and industry perspectives. The index set covers five market indices (Canada, Mainland China, Germany, the United Kingdom, and the United States) to reflect general export market risk. In each market, three industry indices (Textiles & Clothing, Electronics, and Electrical Appliances) are provided to reflect the specific industry risk.

The “HKECIC – D&B Export Credit Risk Index” could be used to support Hong Kong exporters to:

- Understand the global business environment in a concise and relevant manner.
- Identify risks in coming seasons for industries and related products.
- Recognise relatively riskier counterparties in comparison to the general market and industry.









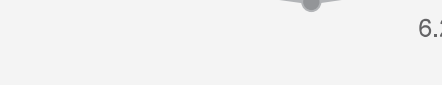

## 2. INDEX METHODOLOGY



HKECIC - D&B Export Credit Risk Index was created referencing data from both the Hong Kong Export Credit Insurance Corporation (HKECIC) and Dun & Bradstreet (D&B). HKECIC's insurance business data, including insurance amount, claim amount, and payment difficulty cases were analysed using weighted moving average to generate two risk indicators – claim risk and payment difficulty risk. The D&B country insights, including short term economic outlook, long term economic outlook, market potential, business regulatory environment, political insecurity risk, expropriation risk, foreign exchange risk, transfer risk and business continuity risk, were precisely developed indicators. The indicators were rescaled to reflect general risk in country level. In preparation for analytical modelling and calculations, the data are further normalised, processed, and weighted within scorecard. The outputs are 5 market indices as well as 3 industry indices in each market on 1-10 scale, where 1 represents the highest risk and 10 represents the lowest risk.

### 3. INDEX SUMMARY

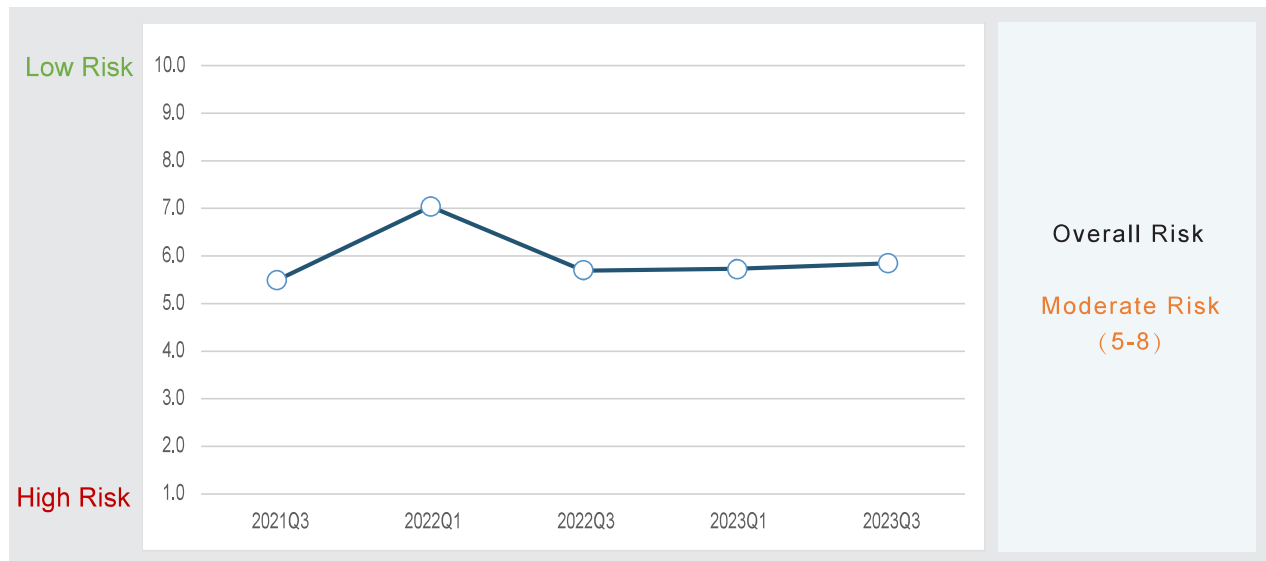
- ▲ Improving quarter-on-quarter
- ▼ Deteriorating quarter-on-quarter
- ▶ Flat quarter-on-quarter

Market	Credit Risk Index	Industry	Industry Index	
			2023 Q2	2023 Q3
 Canada		Textiles & Clothing	6.2	▼ 6.0
		Electrical Appliances	6.2	▼ 6.0
		Electronics	5.4	▲ 5.7
 China		Textiles & Clothing	7.3	▼ 7.1
		Electrical Appliances	7.3	▼ 7.1
		Electronics	7.3	▼ 7.1
 Germany		Textiles & Clothing	5.8	▼ 5.3
		Electrical Appliances	6.3	▼ 6.2
		Electronics	6.3	▼ 6.2
 UK		Textiles & Clothing	6.2	▶ 6.2
		Electrical Appliances	6.4	▶ 6.4
		Electronics	6.4	▶ 6.4
 USA		Textiles & Clothing	6.8	▲ 6.9
		Electrical Appliances	7.6	▲ 7.7
		Electronics	7.5	▲ 7.7

## 4. INDEX DETAILS AND INSIGHTS

### 4.1 Canada

#### CREDIT RISK INDEX



Source: D&B / HKECIC

#### Country Insight

Canada has a mature and sophisticated commercial environment, featuring a high degree of diversification, as well as advanced natural resources, manufacturing, and services sectors. The business climate is one of the best in the world, marked by low tariffs and consistent nominal GDP growth. Consumer spending is expected to slow down on the back of high interest rates and a declining housing market weighing on household wealth. The credit risk index reveals that risk in Canada remains **relatively stable** overall, despite minor risk fluctuations.

#### Recent Developments

- Wildfires and tight monetary policy continue to weigh on output. Real GDP stagnated in Q2, following 0.6% q/q growth in Q1. Residential investment collapsed, while household spending slowed sharply. Q3 did not register a strong start, with prior estimates of activity in July pointing to further stagnation.
- Consumer Price Index (CPI) inflation accelerated to 4.0% y/y in August, following a 3.3% rise in July. The pick-up in inflation was mainly due to higher y/y gasoline prices in August (+0.8%) compared with July (-12.9%). Excluding gasoline, the Consumer Price Index (CPI) was flat in August.



## Statistical Reference

Metric	2018	2019	2020	2021	2022	2023e	2024e
Real GDP growth (%)	2.8	1.9	-5.1	5.0	3.4	0.9	1.8
GDP per Capita in USD	46,577	46,470	43,479	52,469	55,590	56,641	59,058
Exchange Rate (yr avge, USD-CAD)	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Inflation (annual avge, %)	2.2	2.0	0.7	3.4	6.8	3.3	2.5
Purchasing Managers' Index (PMI)	60.3	54.0	51.2	61.3	57.5	54.8	N/A

Source: Haver Analytics / D&B

## Credit Environment: Risks and Opportunities

- Business insolvencies rose 38% in the 12-month period to the end of July compared with the same period in 2022 - construction, retail trade and accommodation, and food services recorded the largest increases.
- Inflation and increased debt servicing costs eroded consumers' purchasing power, making it challenging for some consumers to make timely debt repayments. This in turn can contribute to a rise in consumer credit delinquency.
- Following a period of weakness since mid-July, the Canadian dollar started to gain strength against the US dollar in September and is expected to appreciate gradually from mid-2024 as safe-haven currency demand for the US dollar recedes and the interest-rate differential between the two countries stabilises.

## Key Takeaways

- Be aware that business failures are at elevated levels and remain a significant risk, consider taking credit insurance cover to mitigate credit risk.
- Prepare for a potential housing market slowdown amid higher mortgage rates; consider the effect of higher interest rates on highly indebted households and businesses.
- Given the long-term disruption to supply chains, supplier and vendor due diligence is crucial.
- Tighten payment terms for counterparties with weak financial profiles.

## Supply Environment: Risks and Opportunities

- On the upside, weak growth should relieve price pressures. Producer prices rose 1.3% m/m in August, the first monthly increase since October 2022. Higher prices for refined petrol products (+10.6%), led the increase off the back of stronger global crude oil prices.
- The number of employees on payrolls changed little in July (+4,900) compared with the increase in June (+65,900); job vacancies declined 43,100 to 701,000, continuing the gradual downward trend since the same time in 2022.
- The Canadian government is introducing new policy and regulatory measures intended to both strengthen domestic supply chains and protect those supply chains from overreliance on offshore sources.

## Key Takeaways

- Expect supply chain bottlenecks to continue abating slowly but to pose challenges for businesses in the short term.
- Make supply chains more resilient by identifying alternative sources and reconsidering strategies to minimize vulnerability to sudden disruptions to help mitigate risks.
- Monitor closely on the regulatory change and assess its impact on Canadian counterparties.

## Market Environment:

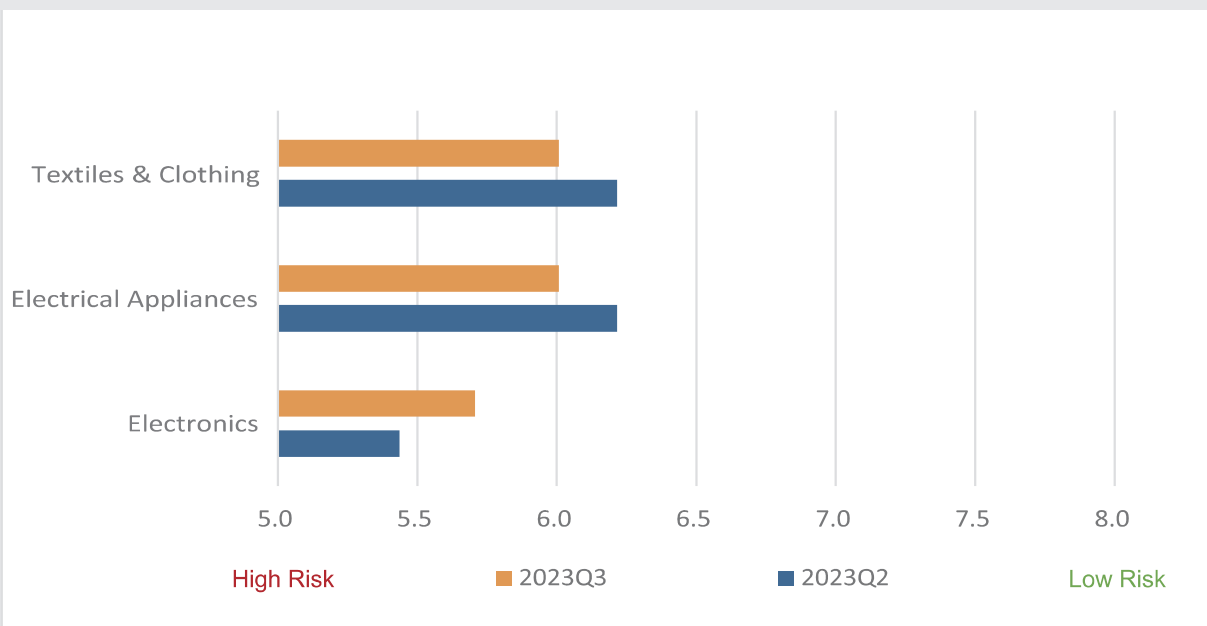
### Risks and Opportunities

- The United States-Mexico-Canada Agreement (USMCA) is a mutually beneficial agreement for North American workers, farmers, ranchers, and businesses. The agreement creates more balanced, reciprocal trade, and promotes economic growth in North America.
- A slowdown in housing and consumer spending due to rising interest rates will lead to sluggish economic growth in 2023 and early 2024.
- The retail and fast-food sector has to factor in growing regulatory and consumer focus on sustainability. Canada banned the manufacture and import of single-use plastics that are often used in carrier bags, takeout containers and straws from end-2022, and sales of these items will be banned from end-2023.

### Key Takeaways

- Factor the impacts of solid wage growth and continued elevating core inflation in 2023 into business planning for 2024.
- Rising interest rates have contributed to a sharp rise in business insolvencies, threatening market potential.
- Expect the services sector, led by hospitality and travel sectors, to maintain strong activity and drive up economic growth in the warmer months.

## Industry Index



Source: D&B / HKECIC

## Industry Trends

### Textiles & Clothing

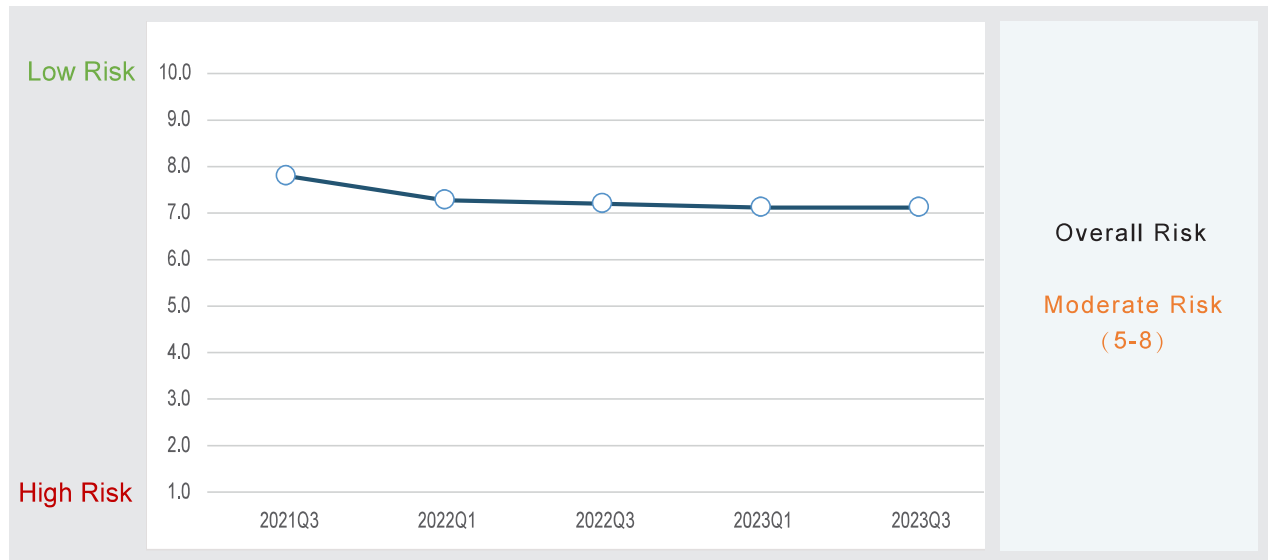
- In 2022, clothing imports grew by 31% to \$10.6 billion, making Canada one of the top 10 apparel-consuming markets in the world.
- During the first nine months of 2023, total exports of textiles and clothing from Hong Kong to Canada dropped 17% compared to the same period in 2022, in line with the trend of total exports to Canada, which plummeted 19% during the same period.
- For the first nine months of 2023, the number of business bankruptcies in the textiles and clothing industry increased by 47% to 85, from 58 during the same period in 2022.
- A new law named "Fighting Against Forced Labour and Child Labour in Supply Chains Act." (Bill S-211) will be in force on 1 January 2024, under which retailers and importers have the responsibility to identify and prevent human rights violations within their supplier networks.
- Risk level on the textiles and clothing industry has **slightly deteriorated** compared to the previous quarter, but remained at an overall medium risk level.

### Electrical Appliances and Electronics

- Hong Kong's total exports of electrical appliances and electronics to Canada dropped 19% during the first three quarters of 2023.
- The number of business bankruptcies in the field of electrical appliances and electronics increased by 23% to 38 for the first nine months of 2023.
- Notwithstanding high levels of personal savings, higher financing costs (particularly in the fixed mortgage space) resulting from tight monetary policy will affect demand for big-ticket retail spending on items such as vehicles, furniture, and electronics.
- Canada will invest in the semiconductor industry to support chip manufacturing and research. In the future, with the further increase of policy support and capital investment, the electronics industry as well as the semiconductor industry in Canada may resume development.
- The index for the electronics sector was at higher risk level, due to claim payments relating to the insolvency of a Canadian wireless web access products and services provider.

## 4.2 Mainland China

### CREDIT RISK INDEX



Source: D&B / HKECIC

### Country Insight

Mainland China has long been the largest trading partner in the world. Business conditions vary by province and between prime, lower-tier and peripheral areas. Generally, as in retail, foreign brands have struggled to out-compete domestic groups, which have access to better local financial resources and insights. The government welcomes a growing share from foreign companies in Mainland China over the medium term. The credit risk index reveals that Mainland China's market risk had minor risk fluctuations in the early part of the period but remained **relatively stable** overall. Mainland China's economy continues to show signs of stabilisation, but with stimulus effects not yet fully played out, growth expectations remain modest.

### Recent Developments

- Mainland China has extended a review of 'anti-dumping' tariffs on hydroiodic acid imported from the US and Japan, following the addition of another 42 firms from Mainland China to the blacklist of US export restrictions by October 2023.
- There has been a series of announcements aiming to encourage stock market activity and deepen capital markets for domestic and international investors.
- Tariff reductions on commodities as part of free-trade agreements will align with Mainland China's dual circulation strategy for economic growth and its long-term green goals.
- The China-Arab States Summit opens the door for deeper economic cooperation between Mainland China and the region.

## Statistical Reference

Metric	2018	2019	2020	2021	2022	2023e	2024e
Real GDP growth (%)	6.8	5.9	2.2	8.4	3.0	5.3	4.7
GDP per Capita in USD	9,811	10,045	10,309	12,496	12,610	12,685	13,682
Exchange Rate (yr avge, USD-CNY)	6.6	6.9	6.9	6.4	6.7	7.1	7.0
Inflation (annual avge, %)	1.9	2.9	2.5	0.8	1.9	0.8	1.6
Purchasing Managers' Index (PMI)	50.9	49.7	49.9	50.5	49.1	50.0	N/A

Source: Haver Analytics / D&B

## Credit Environment:

### Risks and Opportunities

- The authorities' attention has turned to resolving the huge burden of local government debt, allowing local governments to refinance off-balance sheet debt via bond sales and issue additional bonds.
- Despite easier credit conditions, companies that operate in or are closely linked to the real estate sector are suffering from weak sentiment; looming high-profile defaults continue to hurt sentiment.
- Monetary easing has set the People's Bank of China (PBoC) on a divergent course from the US Federal Reserve and most other central banks in the world.
- The authorities have directed banks to ease credit conditions, especially for consumers and small businesses, more recently extending support policies for the property sector.
- A series of policy and regulatory measures to support growth may now begin to show a cumulative positive effect on growth, starting Q4 2023.

### Key Takeaways

- Be aware that although monetary and fiscal policy support has been ramped up and credit growth has improved, credit transmission may remain slow.
- A divergent monetary policy from the US Fed has increased depreciation pressure on the yuan, but also note the currency's growing attraction in trade settlements and financing.

## Supply Environment:

### Risks and Opportunities

- The supply environment has worsened, particularly for the tech and electronics sectors; Mainland China recently imposed export license requirements on gallium and germanium, and Japan and the Netherlands have joined the US in limiting the supply of high-end chips and equipment to Chinese firms.
- Natural disasters – ranging from floods to droughts – remain a key risk to business continuity.
- Although the investment-led growth of previous years may not be seen, spending on infrastructure remains a high priority, especially in underserved rural areas.

## Key Takeaways

- The EU's decision to probe subsidies for Mainland China's electric vehicles could disrupt auto supply chains; potential probes into wind turbines may open another front in this regard.
- Companies operating in the artificial intelligence (AI) space are particularly vulnerable to the US-led bans on the export of advanced processors and screening of outbound investments.

## Market Environment:

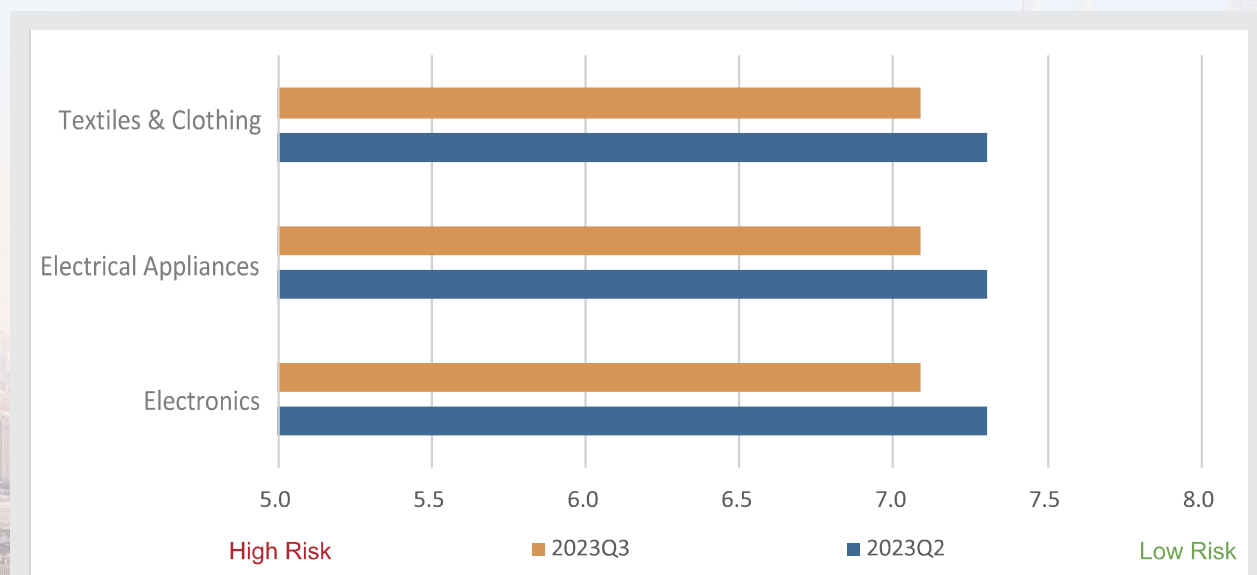
### Risks and Opportunities

- US sanctions targeting Chinese entities, along with economic coercion in the semiconductor and tech space, continue to raise compliance and operating costs for businesses.
- Since the July Politburo meeting, authorities across the board have embarked on regulatory easing to promote consumption and investments in small firms and startups, including technology firms.
- The fresh round of tensions over investment screenings and export controls may complicate US-Mainland China trade dealings.

## Key Takeaways

- Be aware that export controls have significantly curtailed market access in the tech space for both the US and Mainland China.
- Expect foreign investment opportunities in R&D to expand, especially in the central, western, and northeastern regions.
- Look to benefit from deepening economic cooperation between Mainland China and the Middle East, and also between Mainland China and Latin America, most notably in electric vehicle battery manufacturing, the tech-automobile sector, resource processing, and infrastructure.

## Industry Index



Source: D&B / HKECIC

## Industry Trends

### Textiles & Clothing

- Hong Kong's total exports of textiles & clothing to Mainland China dropped 22% for the first nine months of 2023, compared to a 16% decline for all products.
- Imports of textiles and clothing also registered a drop of 6% during the first three quarters of 2023, while retail sales of the clothing sector grew 10.6% during the same period, suggesting that retailers were still clearing the inventory accumulated during the pandemic.
- A new lifetime cycle assessment platform for textile products, named LCPlus, was launched in October 2023, marking a crucial step towards the country's 'dual carbon' goals.
- Payment experience in this sector has been satisfactory in recent years, reflected by the relatively low risk index.

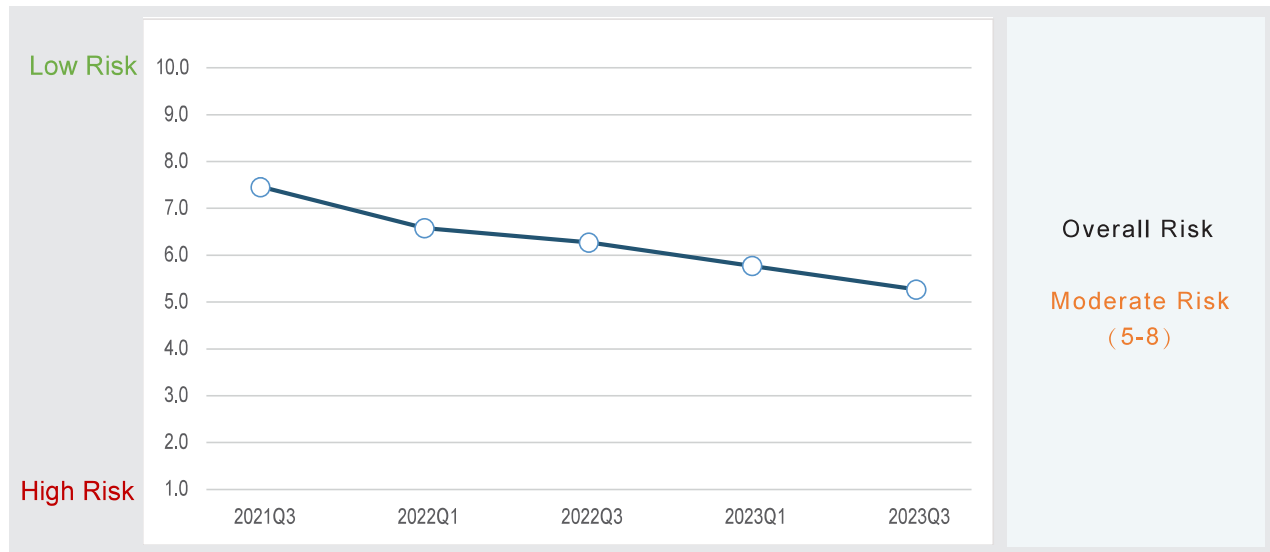
### Electrical Appliances and Electronics

- Electrical appliances and electronics have been the key product categories for Hong Kong's total exports to Mainland China, representing around 75% of total exports to the country during the first nine months of 2023, and registered a drop of 16% in export value compared to the same period in 2022.
- The trend was in line with other key electronic exporters in the regional supply chain, which were hit hard by the electronics down cycle and easing chip prices.
- Meanwhile, imports of electrical-related products recorded a decline of 15% for the first nine months of 2023, as recovery momentum in the consumer electronics sector remained subdued.
- Recent payment experience in this sector remained satisfactory, as exporters tended to be more cautious amid the weak market momentum.



## 4.3 Germany

### CREDIT RISK INDEX



Source: D&B / HKECIC

### Country Insight

Inflation is still elevated (affecting many sectors of the Germany economy) and the rating outlook remains at 'deteriorating'. The credit risk index reveals that German market risks show a **continued deterioration**. Prices remain high in Germany, contributing to deterioration in competitiveness and economic conditions; signs of recovery are not convincing.

### Recent Developments

- Germany entered recession around the turn of the year and stagnated in Q2. It is likely to see a deterioration in the economy in the short term.
- Headline prices are falling sharply in the latest data, but the core measure, which more accurately reflects the shopping baskets of households, is continuing to rise into Q3.
- Germany is proposing to exempt thousands of small and medium-sized firms from complying with recently adopted EU sustainability rules, by raising the reporting threshold from 250 to 500 employees, thereby easing reporting costs.



## Statistical Reference

Metric	2018	2019	2020	2021	2022	2023e	2024e
Real GDP growth (%)	1.0	1.1	-3.8	3.2	1.8	-0.5	0.6
GDP per Capita in USD	47,998	46,858	46,463	51,176	47,375	52,694	55,996
Exchange Rate (yr avge, USD-EUR)	0.8	0.9	0.9	0.8	1.0	0.9	0.9
Inflation (annual avge, %)	2.0	1.4	0.4	3.2	8.7	6.0	2.2
Purchasing Managers' Index (PMI)	54.8	51.1	46.3	55.3	50.4	49.7	N/A

Source: Haver Analytics / D&B

## Credit Environment:

### Risks and Opportunities

- The lagged effects of tighter monetary policy will continue to weigh on growth in second half of the year; while the economy could go negative again by the end of 2023, however, a deep recession is not expected.

### Key Takeaways

- Assess the creditworthiness of energy-intensive companies given increasingly high oil and gas prices.
- Take into account the availability of export credit cover, thereby limiting risks when doing business with Germany-based counterparties.
- Monitor the possibility that the European Central Bank (ECB) has finished raising interest rates and follow announcements by the central bank that may indicate when it would feel comfortable to begin easing policy.
- Watch the risk of non-payment, as the number of insolvencies is now rising, albeit at a moderate rate.

## Supply Environment:

### Risks and Opportunities

- The mild winter in 2022 helped Germany and Europe ration energy; however, more savings will be needed, as 2023-24 will be the first winter without any Russian pipeline gas at all.
- A study by the Federation of German Industries (BDI) found that 30% of businesses in Germany are considering moving jobs and production abroad and that 16% had already initiated steps to relocate parts of their business; firms cited uncompetitive resource prices as a reason.
- Weak industrial production points to soft GDP growth in Q3, with production between May and July 1.9% lower than in the previous three months', as a sign of waning investment, the production of capital goods dropped 2.9% m/m in July.
- Most confidence indicators point to a downward trend in manufacturing, with the September Purchasing Managers' Index (PMI) rising to 46.4, from 44.6 in August, although it remains in contractionary territory. Energy-intensive industry continues to feel the effects of high energy prices eating into competitiveness.

## Key Takeaways

- Expect bankruptcies to continue to climb in first half of 2024 as firms struggle with soft demand and high borrowing costs.
- Take appropriate hedging measures against currency exposure, as these risks are elevated.
- Monitor supplier risk given the difficulties that some parts of the economy are experiencing.

## Market Environment:

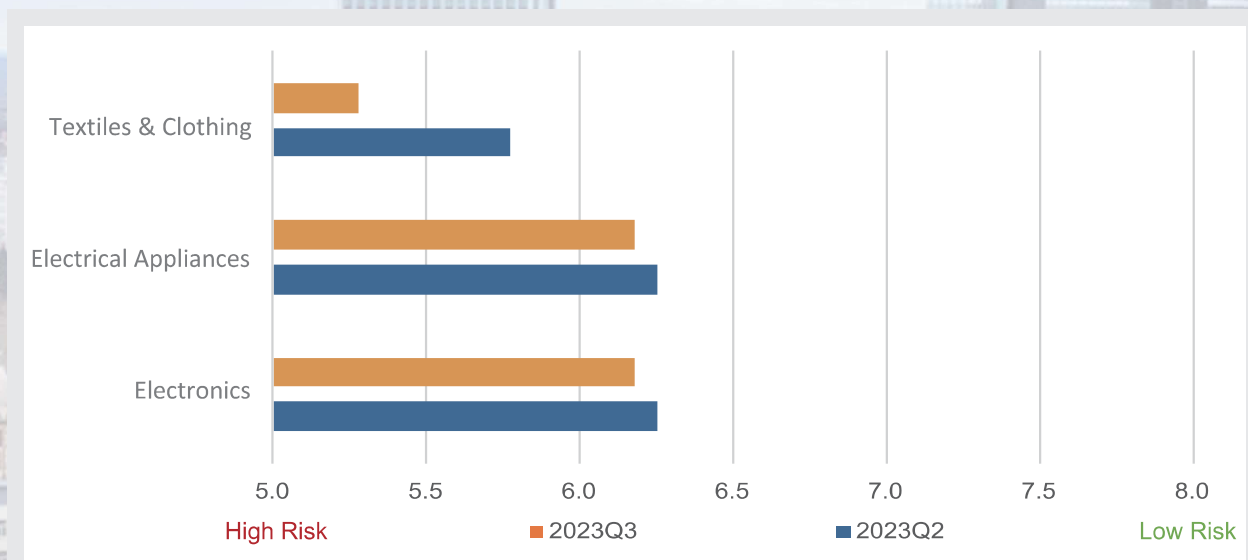
### Risks and Opportunities

- Real wages deteriorated and weighed on private consumption over the first half of the year, while soft external demand held back the country's exporters.
- Producer prices fell at the fastest rate in August since data collection began almost 75 years ago, dropping 12.6% y/y; the fall supports our view that consumer inflation will slow in second half of the year and into 2024.

## Key Takeaways

- Expect Consumer Price Index (CPI) inflation to stay elevated in 2024 but to continue to ease.
- Expect the government to become more interventionist in the energy sector; it raised its ownership stake in Uniper in 2022.

## Industry Index



Source: D&B / HKECIC

## Industry Trends

### Textiles & Clothing

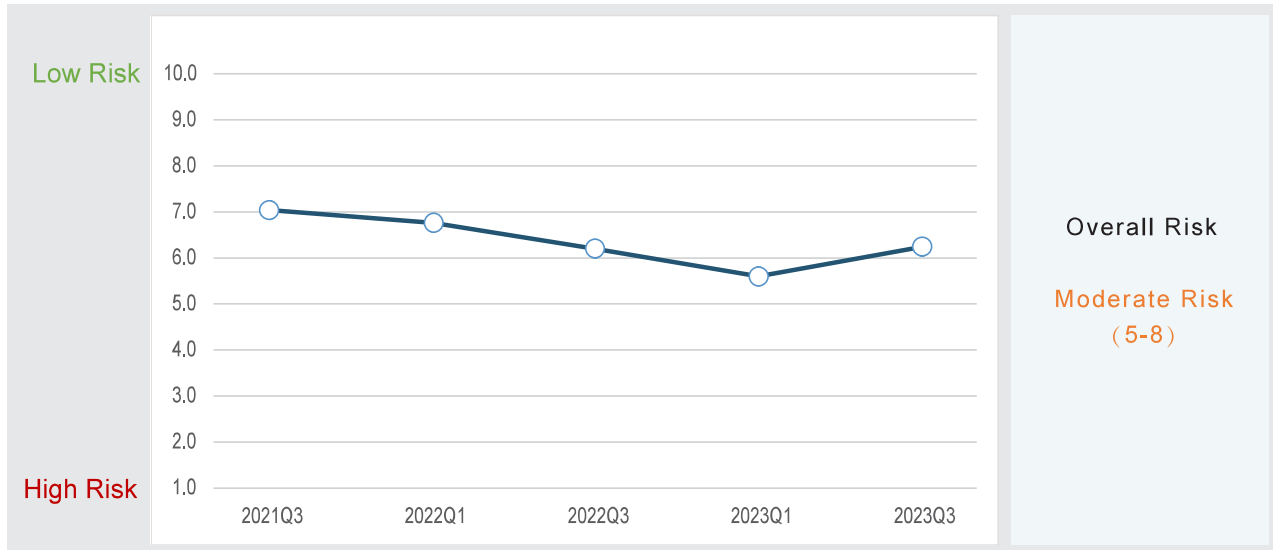
- Hong Kong's total exports to Germany declined 25% year-on-year for the first nine months of 2023, with textiles & clothing exports dropping by 28%.
- Clothing retailers in Germany were hit hard by the lackluster economy in 2023, and reported significant decrease in customer foot traffic, as per a survey by IFO Institute.
- Imports of textiles and clothing related products dropped 11% during the first nine months of 2023, reflecting subdued local demand.
- The number of business bankruptcies in textiles and clothing sector increased 47% for the first eight months of 2023, including the insolvency filing of ladies' clothing retailer Madeleine Mode GmbH in August 2023.
- The risk trend of the textiles and clothing industry has **deteriorated** compared to the previous quarter, as late payment was noted on several German apparel buyers in recent quarters.

### Electrical Appliances and Electronics

- Electrical appliances and electronics represented around 68% of Hong Kong's total exports to Germany during the first three quarters of 2023.
- Business bankruptcies in this sector rose 47% in the year to August.
- The German government continues to promulgate a variety of regulations, and has thrown an olive branch with a variety of subsidy programs to the major chip leading companies. It has vigorously invited them to invest in Germany to build factories, which will affect the whole of Europe's industrial development.
- The risk of electrical appliances and electronics industry changed little from the previous quarter and is **relatively stable**.

## 4.4 The United Kingdom

### CREDIT RISK INDEX



Source: D&B / HKECIC

### Country Insight

The UK's market potential is sound, as the country offers a large consumer base (approaching 70 million over the next few years) with high living standards. Tariffs and barriers to market entry are generally low. However, with consumers facing high inflation and demand remaining subdued, the UK economy is expected to barely grow at all this year. The credit risk index reveals that UK market risk was more volatile in the first quarter, with a gradual recovery in the third quarter. The longer the Bank of England (BoE) keeps rates at elevated levels, the more likely the economy will outright contract.

### Recent Developments

- If the UK's run of poor data continues, then recession looks somewhat more likely. Having grown 0.2% q/q in Q2, GDP shrank 0.5% m/m in July and then grew 0.2% in August.
- Between August and September, consumer price inflation remained at 6.7% y/y, with only a small drop in the core measure (reflecting underlying prices) to 6.1%, from 6.2%. A small rise in services inflation, which acts as a gauge of domestic price pressures and is closely followed by the BoE, is likely to give the central bank cause to keep rates high.

## Statistical Reference

Metric	2018	2019	2020	2021	2022	2023e	2024e
Real GDP growth (%)	1.4	1.6	-10.4	8.7	4.3	0.1	0.9
GDP per Capita in USD	43,224	42,699	40,230	46,692	45,758	49,088	51,790
Exchange Rate (yr avge, USD-GBP)	0.7	0.8	0.8	0.7	0.8	0.8	0.8
Inflation (annual avge, %)	2.5	1.8	0.9	2.6	9.1	6.5	4.0
Purchasing Managers' Index (PMI)	N/A	N/A	52.0	55.9	53.0	51.2	N/A

Source: Haver Analytics / D&B

## Credit Environment:

### Risks and Opportunities

- Sterling has continued to depreciate against the US dollar over September and into October, as it has since mid-July. The BoE's hike cycle, in the face of a relatively more persistent battle with inflation compared to the US or eurozone, propped up cable at around USD1.3 : GBP1.0 in July.
- The BoE is to set up, with immediate effect, a permanent lending facility to support struggling non-bank financial institutions (including pension funds and insurers) during times of financial strain.

### Key Takeaways

- Thoroughly assess the risk of non-payment as tighter financial conditions increase credit risk.
- Monitor payment performance closely; readings are still worse than in pre-pandemic times, although they are on an improving trend since early 2021.

## Supply Environment:

### Risks and Opportunities

- Producer input prices inflation fell 2.6% y/y in September, marking the fourth consecutive month of falling prices. Producer output (factory gate) prices also fell, by 0.1%. Deflationary producer prices implied softer forthcoming consumer prices.
- Wage growth nudged lower to 8.1% y/y in the three months to August, from 8.5% in July, the largest monthly drop since December 2022. The latest data may indicate that the labour market has continued to cool.

### Key Takeaways

- Stay informed about and take note of how UK firms have adjusted supply chains after the Brexit transition period.
- Businesses trading with and from Northern Ireland have to familiarize themselves with the differences in customs checks and barriers between the 'green lane' and the 'red lane' (e.g. in the Agri-food sector).

## Market Environment:

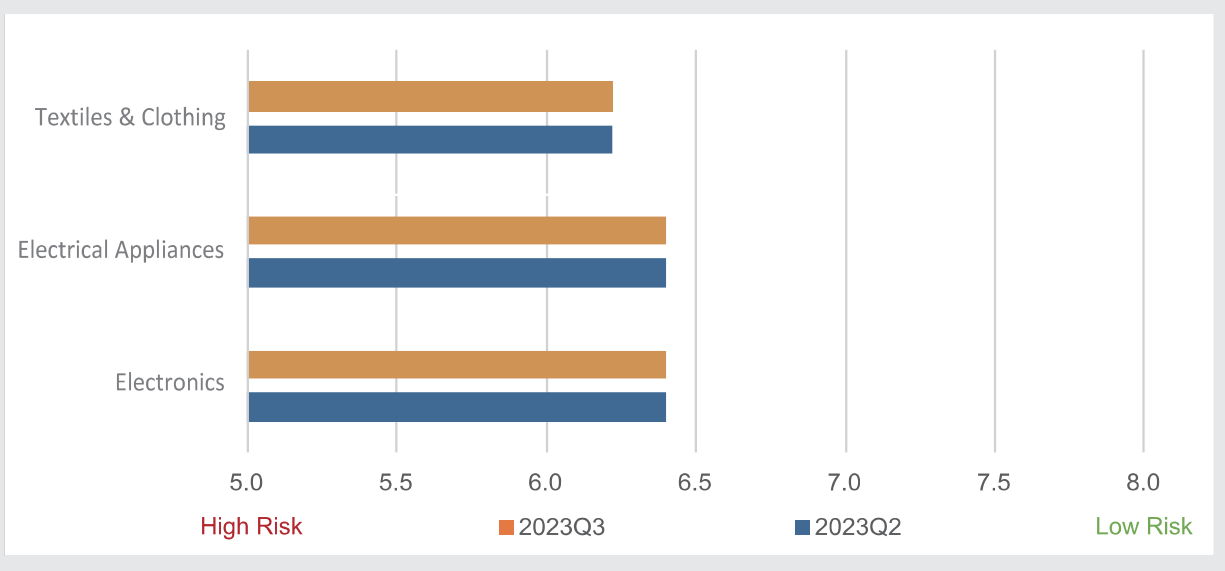
### Risks and Opportunities

- A survey by GfK (a NielsenIQ company) measuring consumer confidence has found that British households are less optimistic than at any time in the past three years: the indicator fell from -21 to -31 as households face rising housing and fuel costs.
- Retail sales growth slowed in September, rising 2.7% m/m, compared with 4.1% growth in August. Consumers appear to have been put off spending on big ticket items, as sales of furniture and electrical goods performed poorly.

### Key Takeaways

- Be aware that the pressure from wage growth and services inflation could contribute to a resumption of interest rate hikes by the BoE.
- The full capital expensing policy introduced in the Spring Budget, which allows for 100% capital spending to be fully deductible from taxable profits, is likely to improve business sentiment and stimulate investment, albeit only for three years.

### Industry Index



Source: D&B / HKECIC

## Industry Trends

### Textiles & Clothing

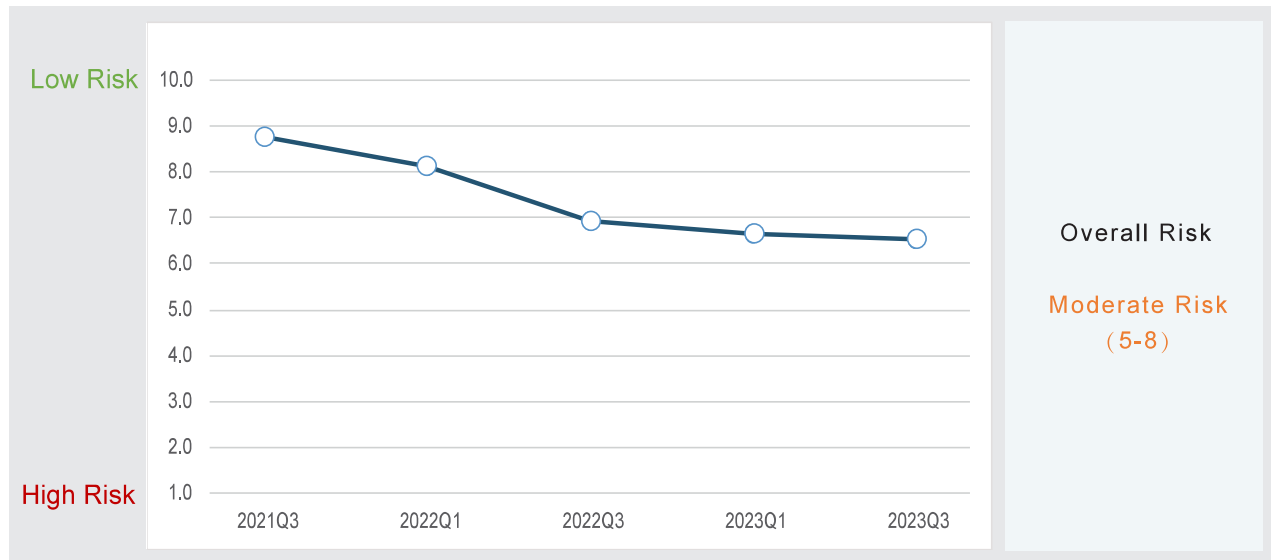
- Hong Kong's total exports to the UK grew 21% in the first nine months of 2023, but exports of textiles & clothing remained weak and plummeted 14% during the period.
- Government statistics showed that business insolvencies in textile related sector grew 21% to 497 cases in the first three quarters of 2023. Fashion brands that were put into liquidation included Christopher Kane and People Tree, while Joules and Cath Kidston were rescued by retail chain Next Plc.
- The retail market, including the apparel sector, faced several challenges including high energy and sourcing costs and, tightened financial conditions, while the cost-of-living crisis continued to wreak havoc on consumer buying power.
- The textiles and clothing import trade is dominated by trade outside of the EU. In 2022, the UK imported a total of £27.6 billion of textiles and clothing, of which only 32% was imported from the EU, and 68% was imported from the outside of the EU, which is a slight decrease from the peak of 71% in 2010.
- Risk level on textiles and clothing industry remained flat in recent quarters.

### Electrical Appliances and Electronics

- Total exports of electrical products from Hong Kong to the UK plummeted 32% in the first nine months of 2023.
- Business insolvencies in the sector grew 18% year-on-year to 314 cases.
- Retail sales growth slowed in September, rising 2.7% m/m compared with 4.1% growth in August; sales fell 0.9%. Consumers appear to have been put off spending on big ticket items, as sales of furniture and electrical goods performed poorly.
- Payment experience of the UK's electrical appliances and electronics industry has been stable and satisfactory in recent quarters.

## 4.5 The United States

### CREDIT RISK INDEX



Source: D&B / HKECIC

### Country Insight

The US is the largest economy in the world, with a population of almost 333 million and GDP per capita of more than USD70,000. The economy is predominantly market-oriented, and consumer spending accounts for around 70% of GDP, although government spending plays an important role in many states. The US is one of the most economically prolific markets and is the global centre for finance and technology, underpinning its good score. The credit risk index reveals that risk in the US market is **slightly deteriorating** in recent quarters, and overall risk remains moderate, benefitting from an otherwise stable and developed economic stance. A low degree of uncertainty is associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

### Recent Developments

- 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.
- Risks from US regional bank failures in early 2023 seem to have abated, with large banks clearing stress tests comfortably; small regional banks could continue to face periodic pressures.
- The initial signs of cracks have begun to show in the labour market, with unemployment ticking higher.
- Intensifying US-Mainland China competition may increase operational and compliance costs for businesses; despite recent diplomatic outreach, the chip war between the two countries continues to heat up.



## Statistical Reference

Metric	2018	2019	2020	2021	2022	2023e	2024e
Real GDP growth (%)	3.0	2.5	-2.2	5.8	1.9	2.3	1.1
GDP per Capita in USD	62,192	64,374	63,472	70,013	76,101	80,662	83,713
Exchange Rate (yr avge, USD)	-	-	-	-	-	-	-
Inflation (annual avge, %)	2.4	1.8	1.2	4.7	8.0	4.1	3.2
Purchasing Managers' Index (PMI)	N/A	N/A	56.1	59.7	50.7	51.3	N/A

Source: Haver Analytics / D&B

## Credit Environment:

### 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.
- Although the rate hiking cycle is close to the end, credit conditions are likely to remain tight for an extended period – business bankruptcies are on the rise in the region.
- 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.
- Payment performance also indicates underlying pockets of stress: for example, the payment behaviour for small and medium-sized businesses in manufacturing has deteriorated throughout 2023.

### Key Takeaways

- Plan for cash flow management changes with the launch of the FedNow service, as vendors may now expect shorter payment settlement cycles.
- The recently concluded annual stress test for banks suggests resilience among the largest US banks; however, the smaller banks, excluded from the analysis in 2023, remain at risk of losing confidence from investors and depositors.

## Supply Environment:

### Risks and Opportunities

- 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.

## Key Takeaways

- Audit the supply chain for their environmental impact to ensure compliance under ESG initiatives.
- 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.
- The US remains active in instituting tariff and non-tariff barriers to trade; factor this into cross-border trade decisions.

## Market Environment:

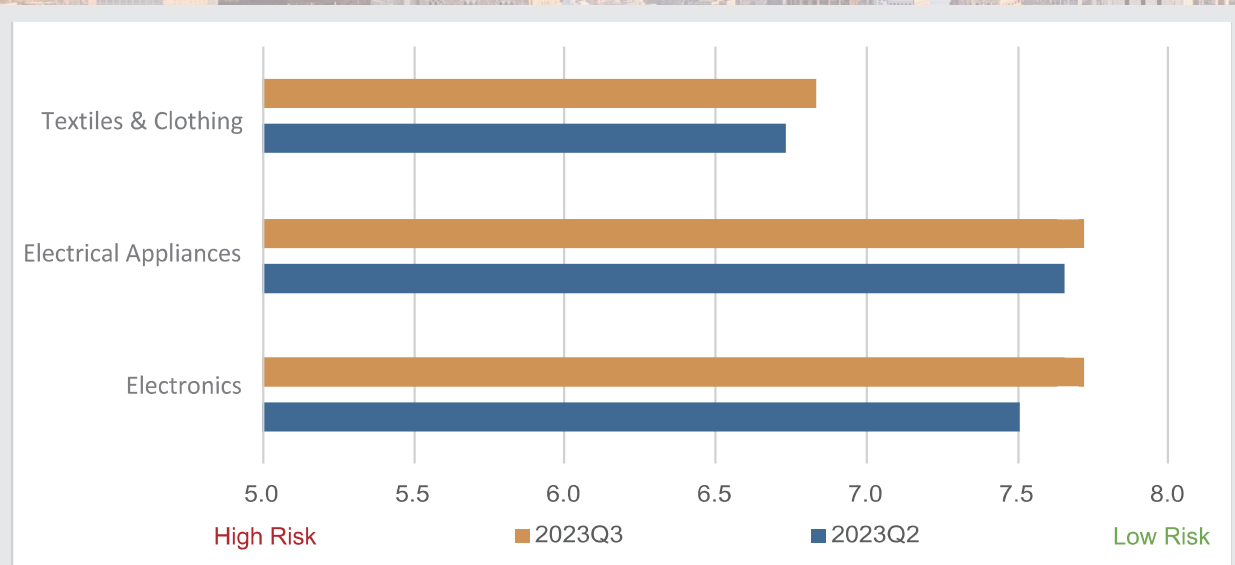
### Risks and Opportunities

- 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.

## Key Takeaways

- 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.
- 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 license requirements for exports.
- 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.

## Industry Index



Source: D&B / HKECIC

## Industry Trends

### Textiles & Clothing

- For the first nine months of 2023, Hong Kong's total exports to the US decreased 12%, but exports of textiles and clothing performed relatively well and managed to drop by 2% only.
- Official figures from the US Office of Apparel and Textiles (OTEXA) revealed that US imports of apparel have fallen around 25% from January to September in 2023, with all 10 major apparel suppliers to the US experiencing a shipment decline over the period.
- Textile raw materials, logistics and labour, as well as a range of purchasing costs associated with trade regulations have risen, thereby increasing the ad valorem import tariffs for American apparel companies.
- The first nine months of 2023 have seen some big-name apparel retailers including Soft Surroundings, David's Bridal and Showfields filed for Chapter 11 bankruptcy protection. With tight credit conditions and weakening consumer demand, the trend of rising bankruptcy filings is likely to continue.
- The Index of the US textiles and clothing industry remained at moderate risk level.

### Electrical Appliances and Electronics

- Total exports of electrical appliances and electronics from Hong Kong to the US dropped 12% from January to September in 2023, matching the overall decline rate of Hong Kong exports to US.
- The Biden administration's executive orders to review technology-related investments in Mainland China follow a series of export controls instituted on the most advanced semiconductor technology and escalate the ongoing technology decoupling/de-risking between the world's two largest economies.

# ABOUT US



Hong Kong Export Credit  
Insurance Corporation  
香港出口信用保險局

The Hong Kong Export Credit Insurance Corporation was established in 1966 under the Hong Kong Export Credit Insurance Corporation Ordinance (Chapter 1115). It was created by statute with the aim of encouraging and supporting export trade by providing Hong Kong exporters with insurance protection against non-payment risks arising from commercial and political events. Its contingent liability under contracts of insurance is guaranteed by the Government of the Hong Kong Special Administrative Region, with the statutory maximum liability currently standing at \$55 billion.

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