

# HKECIC – D&B Export Credit Risk Index

SEPTEMBER 2024



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



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# 1. FOREWORD



**Terence Chiu**

Commissioner, Hong Kong Export Credit Insurance Corporation

Hong Kong Export Credit Insurance Corporation (HKECIC) is pleased to present the second publication of the “HKECIC - D&B Export Credit Risk Index”. This collaborative effort with Dun & Bradstreet builds upon the success of our inaugural release, reflecting our ongoing commitment to empowering Hong Kong exporters with robust market intelligence and practical tools to navigate the dynamic global trade.

This latest “HKECIC - D&B Export Credit Risk Index” incorporates proprietary data and comprehensive insights from HKECIC and D&B, providing exporters with an up-to-date picture of the credit landscape. By leveraging the in-depth market analysis, exporters can make informed decisions, identify potential risks, and seize new business opportunities more confidently.



**Andrew Wu**

General Manager, Dun & Bradstreet China

The first half of 2024 has been marked by heightened global economic uncertainty, driven by persistent inflationary pressures, geopolitical tensions, and fluctuating energy prices. These challenges have compounded the complexity of the global trade environment, particularly affecting export-driven economies like Hong Kong.

In this context, the “HKECIC - D&B Export Credit Risk Index” emerges as a crucial tool for Hong Kong exporters, offering comprehensive insights to navigate these turbulent times. At Dun & Bradstreet, we continue to stand by Hong Kong’s business community, particularly SMEs, by providing data-driven solutions that enable informed decision-making, robust risk management, and sustained growth.

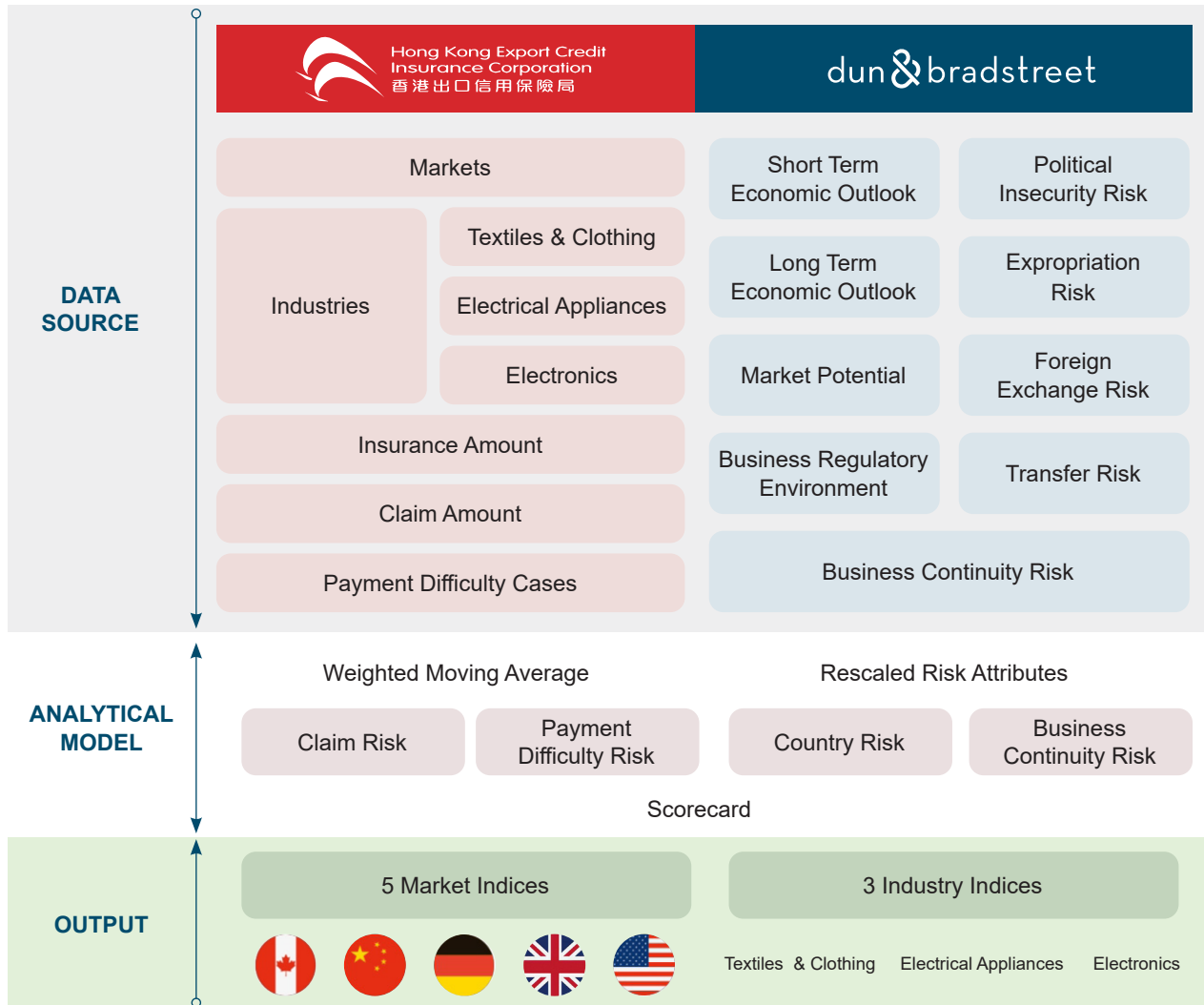
Sponsored by the Hong Kong Export Credit Insurance Corporation (HKECIC) and Dun & Bradstreet (D&B), the "HKECIC - D&B Export Credit Risk Index" leverages data sources of D&B and HKECIC to implement cross-analysis. D&B provides country and region risk indicators from nine different perspectives. Country 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

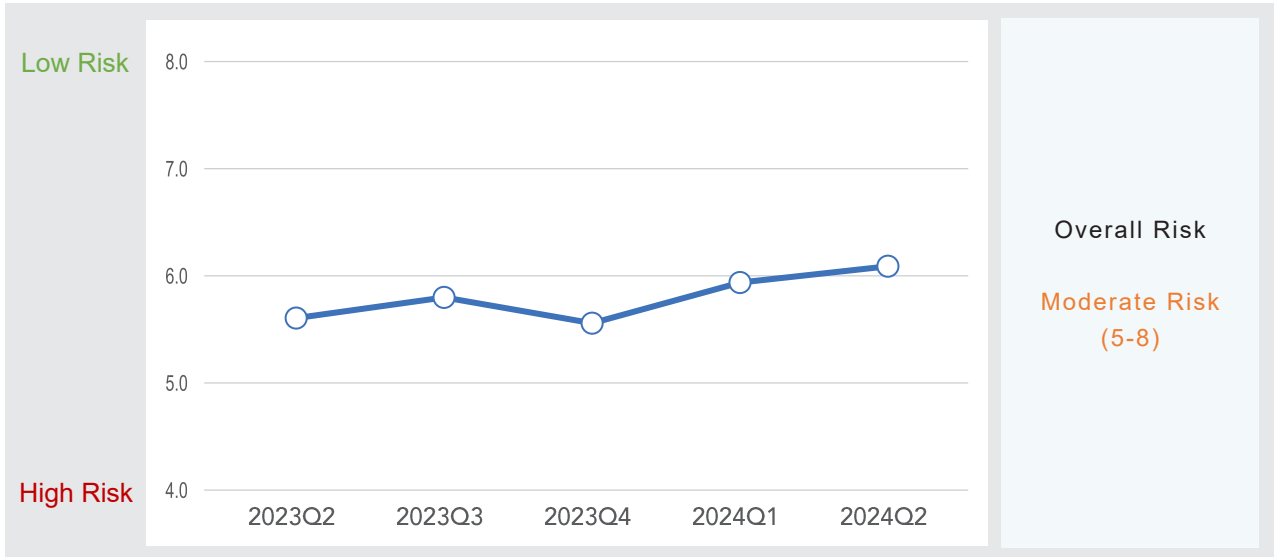
- ▲ Improving quarter-on-quarter
- ▼ Deteriorating quarter-on-quarter
- ▶ Flat quarter-on-quarter

Market	Credit Risk Index	Industry	Industry Index	
			2024 Q1	2024 Q2
 Canada		Textiles & Clothing	6.1	▶ 6.1
		Electrical Appliances	6.1	▶ 6.1
		Electronics	5.8	▲ 6.0
 China		Textiles & Clothing	7.2	▼ 7.0
		Electrical Appliances	7.2	▼ 7.0
		Electronics	6.8	▶ 6.8
 Germany		Textiles & Clothing	5.0	▶ 5.0
		Electrical Appliances	6.2	▶ 6.2
		Electronics	6.2	▶ 6.2
 UK		Textiles & Clothing	6.5	▼ 6.2
		Electrical Appliances	6.5	▶ 6.5
		Electronics	6.5	▶ 6.5
 USA		Textiles & Clothing	6.9	▲ 8.0
		Electrical Appliances	8.4	▲ 8.5
		Electronics	8.3	▲ 8.5

## 4. INDEX DETAILS AND INSIGHTS

### 4.1 Canada

#### CREDIT RISK INDEX



Source: D&B/HKECIC

#### Country Insight

Canada has an abundant supply of natural resources, a highly skilled workforce, and a stable political environment. Canada has a well-developed and sophisticated business landscape characterised by significant diversification, featuring advancements in the natural resources, manufacturing, and services industries. The credit risk index of Canada shows **mild improvement**.

#### Recent Developments

- The latest developments suggest a cautiously optimistic outlook for Canada's economy, with some downward pressure on its currency and a slowing rate of inflation, which could influence monetary policy decisions and economic stability.
- The Canadian economy showed a modest growth, with GDP increasing by 0.4% q/q and 1.7% y/y in Q1 2024. The growth of household consumption is expected to be backed by rising wages, while investment is benefitting from slowing inflation and falling interest rates. A steady return to growth in Canada's main trading partner will eventually boost exports.
- Consumer Price Index (CPI) inflation fell to 2.7% y/y in April, marking the slowest rate since March 2021. Core inflation, which excludes food and energy costs, fell to 1.6% thanks to a decline in those prices.
- The Canadian Dollar (CAD) has depreciated against the US Dollar (USD) since the beginning of the year. The CAD-to-USD exchange rate fell from CAD1.32:1USD in January to CAD1.37:1USD in June. As the global economic outlook remains uncertain, the CAD-to-USD exchange rate is likely to continue its downward trajectory.

## Statistical Reference

Metric	2019	2020	2021	2022	2023	2024e	2025e
Real GDP growth (%)	1.9	-5.1	5.0	3.4	1.2	1.4	1.7
GDP per Capita in USD	46,470	43,479	52,469	55,590	55,275	58,486	60,438
Exchange Rate (yr avge, USD-CAD)	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Inflation (annual avge, %)	2.0	0.7	3.4	6.8	3.9	2.2	1.7
Purchasing Managers' Index (PMI)	54.0	51.2	61.3	57.5	53.7	60.2	N/A

Source: Haver Analytics/D&B

## Credit Environment:

### Risks and Opportunities

- In June, the Bank of Canada cut the headline interest rate by 25 bps to 4.75% in response to falling inflation, making credit more affordable across the economy. In May, the country's main stock index, the S&P/TSX, which had risen by over 15% over the past six months, surpassed 22,300, enabling firms to raise more capital.
- The Canadian federal government has introduced a suite of financial measures, including a new loan guarantee programme for indigenous communities to finance development projects on their lands, and a potential expansion of halal mortgage access through a rent-to-own system. The federal budget promises to introduce open banking legislation, which will facilitate the sharing of personal and financial information among approved banks.

### Key Takeaways

- For effective credit risk management, it is imperative to perform thorough background checks on all prospective borrowers prior to extending credit facilities.
- Conduct comprehensive background checks on all customers before extending credit and ensure strict payment protocols.
- Consider diversifying customer base to mitigate the risk of delayed or non-payment.

## Supply Environment:

### Risks and Opportunities

- Canada is suffering from a labour shortage, with 648,000 job vacancies in Aug 2024, driven by a scarcity of skilled talents who command high remunerations.
- Trade unions are demanding to be consulted before employers bring in staff from abroad to fill vacancies, claiming that local Canadians are being overlooked in favour of temporary foreign workers. The workforce is expanding rapidly, having added 90,000 jobs in April, largely due to immigration.
- Triggered by a dispute over pay and work conditions, unions representing border personnel are threatening a work-to-rule action, which could slow cross-border traffic with the US.

## Key Takeaways

- Factor the risk of delayed deliveries into short-term business planning. Regularly assess this risk by evaluating factors such as supplier reliability, lead time, and supply chain complexity.
- While wages are surging and household optimism is on the rise, consumers remain cautious about spending at the moment.

## Market Environment:

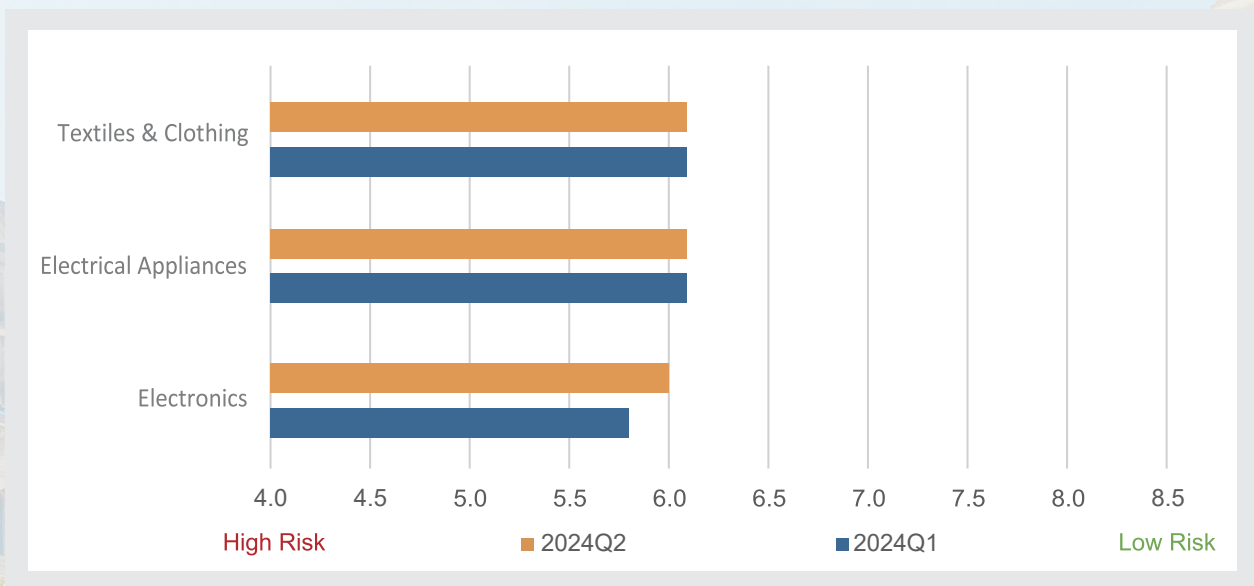
### Risks and Opportunities

- Growth in industrial production continued to decline, standing at just 0.4% y/y in March.
- The current minority government is fragile, facing strong opposition in parliament and broader public discontent, fuelled by the escalating cost of living and a housing shortage.

## Key Takeaways

- Canada's proximity to its largest trading partner, the US, provides a great access to a vast market for Canadian goods and services.
- Keep an eye on the government's declining approval ratings and signs of stress within the minority administration.

## Industry Index



Source: D&B/HKECIC

## Industry Trends

### Textiles & Clothing

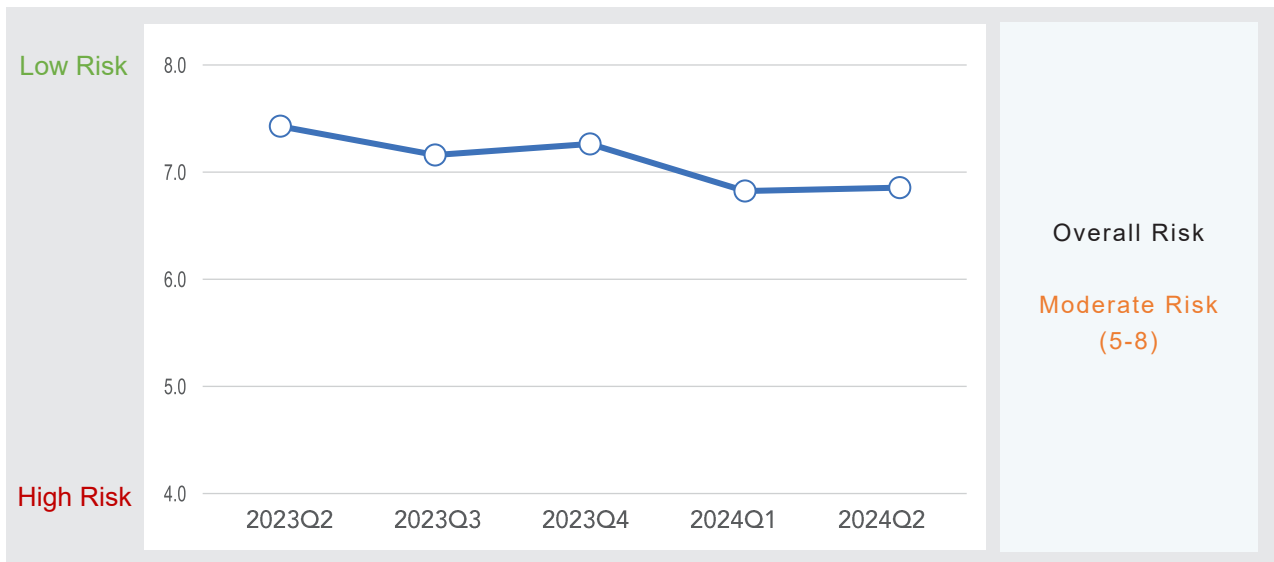
- The index for Canada's textiles and clothing industry has shown a slight improvement since Q3 2023, remaining stable in H1 2024.
- Hong Kong's government statistics show that total exports from Hong Kong to Canada decreased by 8% y/y in H1 2024, while its textile and clothing exports to Canada rose by 8% y/y during the same period.
- In H1 2024, business bankruptcy cases in the textiles and clothing sector decreased by 56% and 61% compared with H1 2023 and H2 2023 respectively.
- As shown in a recent report from Trendex North America, the Canadian apparel market in 2023 outperformed its overall retail sales, with particularly strong growth in the women's and luxury segments, benefitting from tourism growth.
- For the first five months of 2024, Canada's retail sales of clothing and clothing accessories however dropped by 2% y/y. The weak retail sales performance shows that Canadian consumer spending continues to struggle under past rate hikes and higher living costs.

### Electrical Appliances and Electronics

- The index for Canada's electrical appliances and electronics industry has shown a slight improvement since Q3 2023, with the risk level of electrical appliances remaining stable in H1 2024.
- A note of caution, however, is that Hong Kong's total exports of electrical appliances and electronics to Canada registered a 20% y/y slump in H1 2024. During this period, the number of business bankruptcies in the field of electrical appliances and electronics increased by 48% and 42% compared with H1 and H2 2023 respectively.
- Canada's Clean Electricity Investment Tax Credit policy provides a 15% refundable tax credit for investments in eligible clean electricity projects throughout 2024, which may encourage the development of clean energy projects and accelerate the green transformation of Canada's electronic sector.

## 4.2 Mainland China

### CREDIT RISK INDEX



Source: D&B/HKECIC

### Country Insight

Mainland China has long been the largest trading partner of a majority of countries worldwide, with its business conditions varying by province and differing across prime, lower-tier and peripheral areas. Generally speaking, as in retail business, foreign brands have struggled to outcompete their domestic counterparts, which enjoy access to better local financial resources and insights. The credit risk index reveals minor risk fluctuations in Mainland China market, with **slight deterioration**.

### Recent Developments

- Mainland China has proposed packages to stabilise the property sector, including government purchases of unsold projects, allowing local governments to buy back undeveloped land from struggling developers, and lowering payment ratios. While these initiatives are anticipated to revive construction activities, there remains scepticism regarding consumer demand amid an economic slowdown.
- The government's ongoing regulatory easing, aimed at supporting domestic investment and attracting foreign investment, is bolstering the overall market environment.
- An agreement has been signed on building the China-Kyrgyzstan-Uzbekistan railway, which is a crucial project for enhancing connectivity within Central Asia and advancing the Belt and Road Initiative.
- The government continues to prioritise policies relating to market access expansion within the healthcare, service, and telecommunications sectors. In line with this objective, strategic adjustments to import tariffs became effective on 1 January 2024.

## Statistical Reference

Metric	2019	2020	2021	2022	2023	2024e	2025e
Real GDP growth (%)	5.9	2.2	8.4	3.0	5.2	4.7	5.1
GDP per Capita in USD	10,045	10,309	12,496	12,610	12,489	13,432	14,589
Exchange Rate (yr avge, USD-CNY)	6.9	6.9	6.4	6.7	7.1	7.0	6.9
Inflation (annual avge, %)	2.9	2.5	0.8	1.9	0.3	1.6	1.9
Purchasing Managers' Index (PMI)	49.7	49.9	50.5	49.1	52.6	51.3	N/A

Source: Haver Analytics/D&B

## Credit Environment:

### Risks and Opportunities

- The People's Bank of China (PBoC) has issued a number of circulars to ease homebuying regulations by lowering payment requirements and allowing cheaper home loans to revive the property sector.
- On 22 July 2024, the PBoC announced a cut in its Loan Prime Rate (LPR) to 3.35% for one-year term and 3.85% for terms over five years. This may enhance businesses' eagerness to invest and their capacity to expand production scales.
- Data released by the PBoC showed that in H1 2024, Mainland China's loans increased by CNY13.3 trillion, and the incremental rise in social financing amounted to CNY18.1 trillion. At the end of June 2024, the balance of broad money (M2) amounted to CNY305.0 trillion, representing an increase of 6.2% y/y.
- The yuan remains under pressure due to economic weakness and the widening risk premium differential on interest rates. As the first US Federal Reserve rate cut is postponed and again contrary to market expectations, the yuan might continue to face challenges against the US dollar.

### Key Takeaways

- Despite increased monetary and fiscal policy support, and improved credit growth, credit transmission may remain slow.
- The yuan has become more attractive for trade settlements and financing, following the enhanced use of financial sanctions by the US in the aftermath of the Russia-Ukraine conflict.

## Supply Environment:

### Risks and Opportunities

- The supply environment for the technology and electronics sectors has worsened considerably: Mainland China has imposed export license requirements on gallium and germanium and, most recently, on high-grade graphite; meanwhile, Japan and the Netherlands have joined the US in restricting the supply of high-end chips and equipment to Chinese firms.
- The recent petition against Chinese shipbuilders in the US could adversely affect the supply environment, as it rekindles fears of tariffs and trade tensions.
- Despite an unlikely recurrence of investment-driven growth as in the past, infrastructure spending will endure, focusing on rural regions that were previously neglected.
- Military attacks in the Red Sea have affected Chinese exporters supplying European markets.

## Key Takeaways

- Mainland China's export controls on graphite, effective 1 December 2023, could adversely affect manufacturers of batteries for electric vehicles (EVs).
- The EU's decision to investigate state-sponsored subsidies for Mainland China's electric vehicles (EVs) and wind turbines, coupled with the US probe into Chinese shipbuilders, may once again disrupt supply chains.
- Companies operating in the artificial intelligence (AI) space are particularly vulnerable to US-led bans on the export of advanced processors and screening of outbound investments.

## Market Environment:

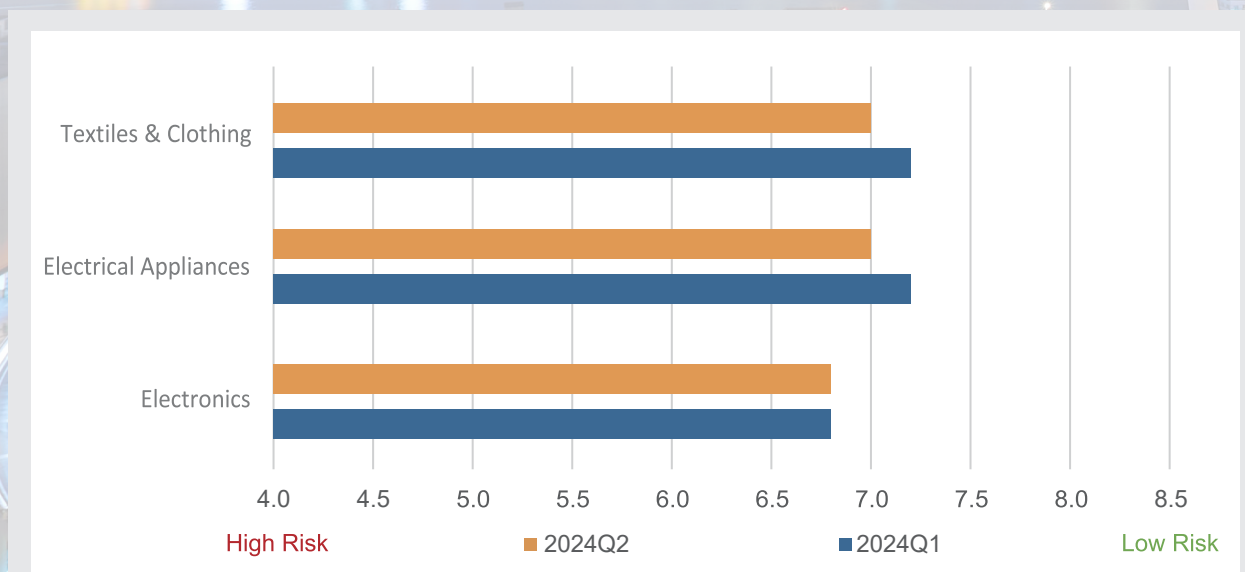
### Risks and Opportunities

- The US government is also reviewing a Section 301 case against the Chinese shipbuilding, maritime and logistics sectors filed on 12 March, which may eventually lead to new tariffs, countermeasures, and WTO petitions.

## Key Takeaways

- Be aware that export controls and extensive screening of inbound and outbound investments, which have significantly curtailed market access in the tech space for both the US and Mainland China are likely to continue.
- Capitalise on enhanced Sino-Middle Eastern and Latin American ties, particularly in market integration, electric vehicle battery production, tech-auto manufacturing, resource processing, and infrastructure construction.
- Watch for potential adjustments to US-China trade policies following the 2024 US presidential election.

## Industry Index



Source: D&B/HKECIC

## Industry Trends

### Textiles & Clothing

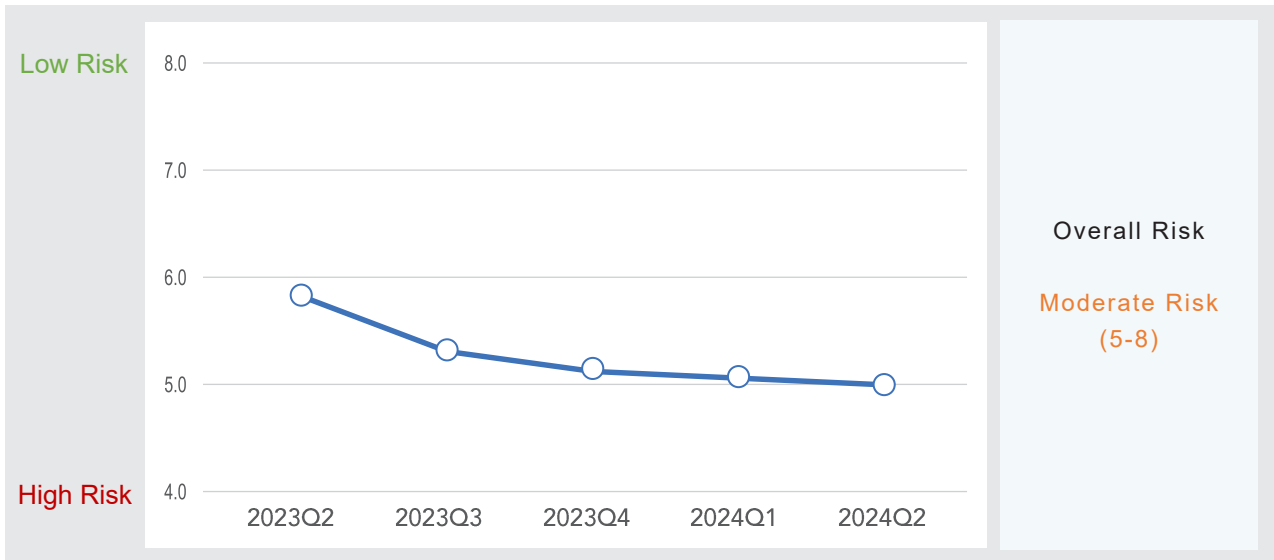
- The index for Mainland China textiles and clothing industry showed slight deterioration in the first two quarters of 2024, though risk level remained low.
- Hong Kong's overall textiles and clothing exports to Mainland China dwindled by 0.5% y/y in H1 2024, while its total exports to China surged by 19% during the period.
- China's textiles & clothing sector had a relatively weak export growth of 2% in US dollar terms in H1 2024, compared with a 4% growth for all products. Apparel manufacturers in Mainland China continued to face headwinds such as rising production costs, labour shortages, and heightened competition from ASEAN countries, as a result of de-risking moves and the China-plus-one strategy adopted by Western companies.
- Retail sales of textiles & clothing also grew by a below-average 1% during the same period, compared with a 4% growth in retail sales of all consumer goods, as consumer confidence is yet to recover fully.

### Electrical Appliances and Electronics

- The index for Mainland China electrical appliances industry showed a slight deterioration in H1 2024, while that for the electronics industry remained flat during the period.
- In H1 2024, Hong Kong's overall exports of electrical appliances and electronics to Mainland China increased by 16%, compared with H2 2023.
- Chinese exports of mechanical and electrical products rose by 5% in US dollar terms during H1 2024, benefiting from a recovery in global demand for consumer electronics. Domestic demand also saw robust growth, with retail sales of telecommunication equipment registering an 11% increase during the period.
- Despite a positive outlook for China's consumer electronics market, manufacturers have to navigate several challenges, particularly those related to technology disputes with Western countries, which restrict high-end chip and equipment sales to Chinese companies.

## 4.3 Germany

### CREDIT RISK INDEX



Source: D&B/HKECIC

### Country Insight

Germany's growth remains anaemic in 2024. Unemployment, having started 2023 at 5.5%, trended upwards to nearly 6% in early 2024. As indicated by the credit risk index, the German market has experienced a **continuous deterioration** in overall risk since Q3 2023. Full-year growth projections range from 0% to 0.4%, with domestic demand expected to drive a mild recovery in 2025. Domestic demand is set to pick up slowly in 2024 and 2025 as real wage growth resumes, although high financing costs are likely to keep investments below pre-pandemic levels.

### Recent Developments

- The economy contracted by 0.2% y/y in Q1 2024, following a 0.5% decline in Q4 2023. The improvement was largely attributable to a jump in gross fixed capital formation, which rose 1.2% in Q1 2024 from a 2.1% decline in Q4 2023. In April, the government revised its economic growth forecast for 2024 up from 0.2% to 0.3%, in contrast to its earlier downward revision in February from 1.3% to 0.2%.
- Consumer spending is expected to be adversely affected as unemployment ticks up and inflation remains high. The European Central Bank (ECB) anticipates a sustained economic recovery, as higher wages and improved terms of trade bolster real incomes.

## Statistical Reference

Metric	2019	2020	2021	2022	2023	2024e	2025e
Real GDP growth (%)	1.1	-3.8	3.2	1.8	-0.2	0.3	1.2
GDP per Capita in USD	46,858	46,463	51,176	47,375	53,255	52,440	57,710
Exchange Rate (yr avge, USD-EUR)	0.9	0.9	0.8	1.0	0.9	1.0	0.9
Inflation (annual avge, %)	1.4	0.4	3.2	8.7	6.0	2.4	2.0
Purchasing Managers' Index (PMI)	51.1	46.3	55.3	50.4	49.4	49.1	N/A

Source: Haver Analytics/D&B

## Credit Environment:

### Risks and Opportunities

- In its June meeting, the ECB ended its post-pandemic monetary policy tightening cycle by cutting the benchmark rates by 25 bps.
- Germany's deficit, which stood at 2.5% of GDP in 2023, is expected to narrow down to less than 2.0% in 2024. The government debt level, which dropped to 63.6% of GDP in 2023, is expected to remain under control and improve to 59.0% by 2028.
- Germany has reinforced its "debt brake", which limits the government's options for fiscal expansion. Nevertheless the government is initiating new schemes to support households, including gas and electricity price brakes, an income tax cut due to adjusted tax brackets, and an increase in child tax allowances. These schemes are likely to exert additional pressure on public finances.
- Businesses were still suffering from the consequences of the pandemic, including high inflation and interest rates. In the first five months of 2024, the number of firms filing for insolvency surged by 29% y/y.

### Key Takeaways

- Export credit cover is available to mitigate risks of Germany-based counterparties.
- Monitor the extent and frequency of ECB rate cuts, as they are data-dependent.
- Be aware of non-payment risks, as the number of insolvencies is rising.

## Supply Environment:

### Risks and Opportunities

- External supply chain issues, labour strikes, and extensive flooding in southern Germany have increased overall supply chain risk.
- Energy security is a cause for concern, as the transition to renewable energy sources is progressing slowly. The economy remains heavily dependent on fossil fuels.
- Germany has agreed to the EU proposal to abolish its gas storage levy at border crossing points with neighbouring countries by the end of the year.
- The International Air Transport Association (IATA) has criticised the increase in German aviation taxes, arguing that it will weaken the German economy and impede the industry's decarbonisation efforts.

## Key Takeaways

- Business bankruptcies are expected to remain elevated in 2024 as firms grapple with soft demand and high borrowing costs.
- Take appropriate hedging measures against currency exposure, as these risks are elevated.
- Monitor supplier risk in light of the challenges faced by certain sectors in the economy.

## Market Environment:

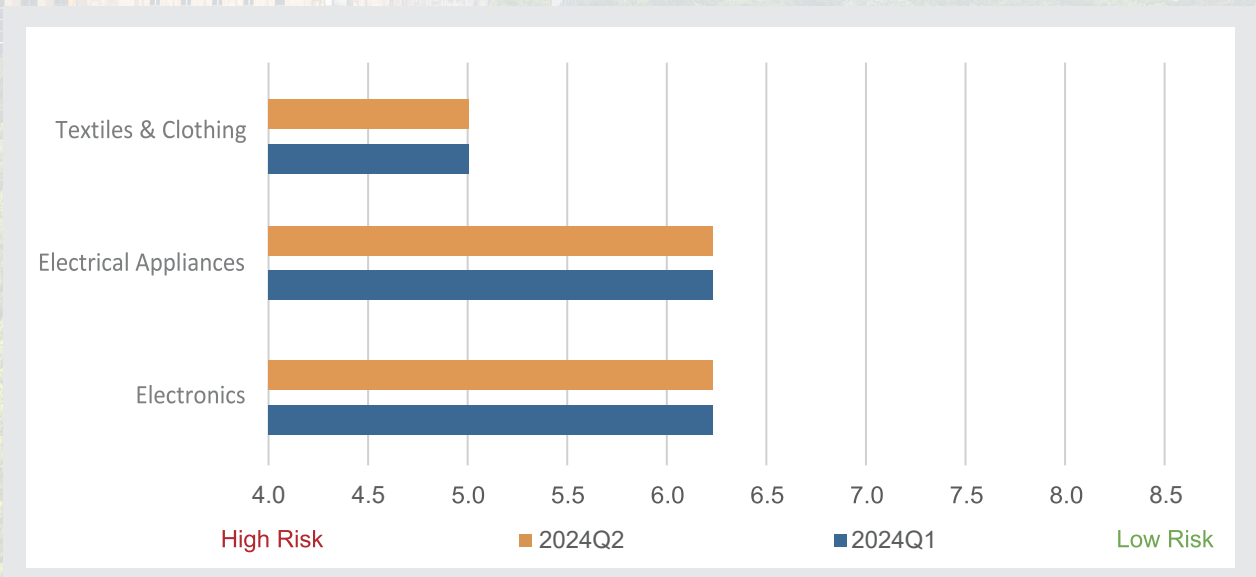
### Risks and Opportunities

- German market environment is supported by improving consumer purchasing power, driven by the combined effect of falling inflation and increasing remuneration. The property sector is facing challenges from declining investment, high construction costs, and tepid housing demand.
- In May, Germany launched the Opportunity Card. Aimed at easing Germany's skilled labour shortage by attracting qualified workers from abroad, the Card allows individuals from non-EU countries to seek employment in the country.
- Industrial production declined by 2.5% m/m in May, compared with a 0.1% rise in April. This marks the second month of contraction in 2024 and the steepest decline since late 2022. Although it picked up slightly by 1.4% m/m in June, the y/y decrease stood at 4.1%, which may indicate a continuous decline in German industrial production.
- The EU has significantly revised its planned supply chain regulation to garner support from major economies, including Germany, Italy and France.

## Key Takeaways

- Eurozone CPI inflation is expected to put the ECB's 2.0% target to the test throughout 2024.
- Factor in relatively high wages: the gross minimum monthly wage in Germany is EUR2,054, the fourth highest in the EU.
- Explore opportunities among Germany's large pool of small and medium enterprises (SMEs).

## Industry Index



Source: D&B/HKECIC

## Industry Trends

### Textiles & Clothing

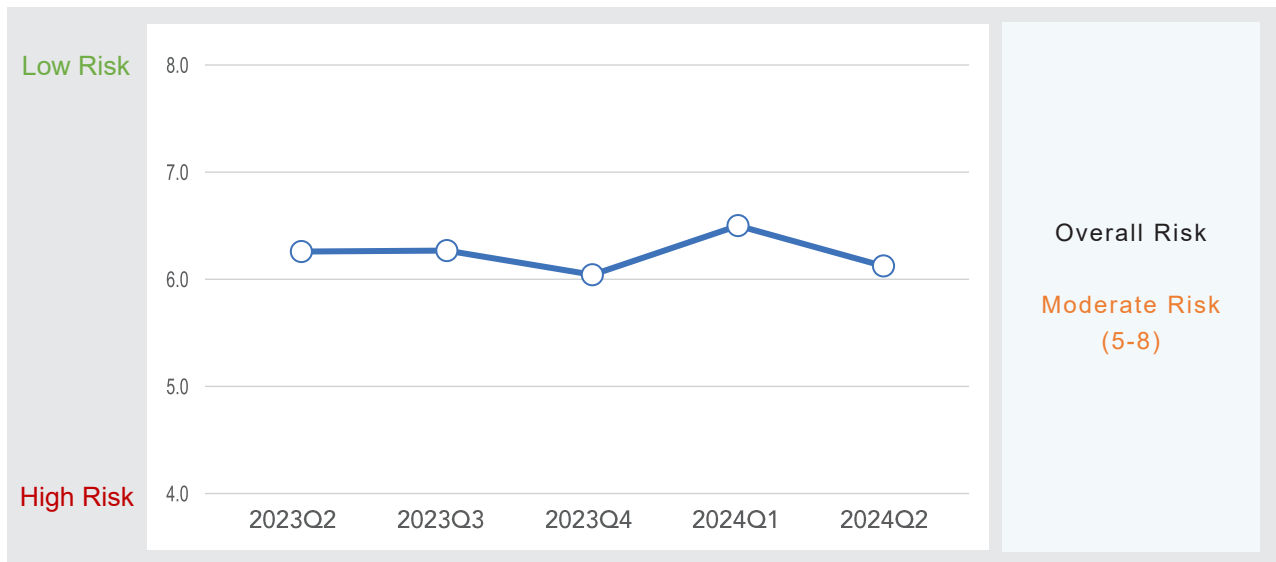
- The index for the German textiles and clothing industry was at the bottom end of the moderate risk range (close to high risk range). Risk level deteriorated slightly compared to Q3 2023.
- Against the backdrop of weak consumer sentiment, discretionary items like apparel was one of the hardest hit industries. Some retailers, including German subsidiaries of the renowned clothing group Esprit, and department stores Galeria Kaufhof and KaDeWe, filed for insolvency during the period.
- Hong Kong's total exports to Germany declined by 8% y/y for H1 2024, with textiles & clothing exports dropping at a faster rate of 15% y/y.
- The pandemic, the heightened logistical uncertainty in Asia, and the shorter, less costly sea routes from North Africa to Germany have led the German Fashion Association to move clothing production from Asia to North Africa. This shift could potentially affect future textiles and clothing exports from Hong Kong to Germany.

### Electrical Appliances and Electronics

- The index for German electrical appliances and electronics has remained flat since Q3 2023.
- Hong Kong's total exports of electrical appliances and electronics to Germany decreased by 12% y/y in H1 2024, reflecting weak local demand.
- Bitkom, Germany's digital association, reported disappointing sales in the country's consumer electronics segment, anticipating an annual sales drop of 7.5% in 2024. They commented that general improvement in hardware durability has diminished the urgency for new purchases among most households.

## 4.4 The United Kingdom

### CREDIT RISK INDEX



Source: D&B/HKECIC

### Country Insight

The United Kingdom is recognized for its low business regulatory environment risk, and for having created an advantageous global landscape for private enterprises with robust market infrastructure and pro-innovation regulations. While the UK's demographic structure is somewhat more favourable than that of continental Europe, Brexit is constraining the inflow of young workers from the EU. Notwithstanding this, the UK's market potential is robust, as the country offers a large consumer base (approaching 70 million over the coming years) of high living standards, while tariffs and barriers to market entry are generally low. The credit risk index generally **remains flat** since Q3 2023 with some volatility during the first two quarters of 2024.

### Recent Developments

- Economic growth has been soft but real GDP expanded by 0.6% q/q in Q1 2024, confirming that the UK has emerged from recession following contractions in the final two quarters of 2023.
- Nevertheless, its monthly real GDP showed no growth in April after a 0.4% rise in March, according to an early estimate by the Office of National Statistics (ONS). Output of services grew by 0.2% in April, marking the fourth month of growth in a row. However, production and construction output fell by 0.9% and 1.4% respectively.
- Persistently elevated consumer price inflation, which has exceeded the target rate, continues to be a mounting pressure for UK businesses, coinciding with an unusually high rate of corporate insolvencies.

## Statistical Reference

Metric	2019	2020	2021	2022	2023	2024e	2025e
Real GDP growth (%)	1.6	-10.4	8.7	4.3	0.1	0.5	1.2
GDP per Capita in USD	42,699	40,230	46,692	45,758	49,309	49,124	52,297
Exchange Rate (yr avge, USD-GBP)	0.8	0.8	0.7	0.8	0.8	0.8	0.8
Inflation (annual avge, %)	1.8	0.9	2.6	9.1	7.3	2.7	2.5
Purchasing Managers' Index (PMI)	N/A	52.0	55.9	53.0	46.4	49.3	N/A

Source: Haver Analytics/D&B

## Credit Environment:

### Risks and Opportunities

- The rate of consumer price inflation fell to 2.0% y/y in May 2024 from 2.3% the month before. Core inflation (excluding energy and food prices) fell to 3.5% from 3.9%.
- Sterling is now valued at USD1.29:1GBP, compared with USD1.26:1GBP in mid-June. The better-than-expected economic performance has recently boosted the currency.
- The FTSE 100 fell to 8,200 points by mid-June, down from a five-year high of 8,400 in mid-May. The stock market remains relatively buoyant, as the central bank's announcements hint at probable interest rate cuts later this year.

### Key Takeaways

- Thoroughly assess any non-payment risk, as tighter financial conditions increase credit risk. Businesses should conduct financial stress tests to assess the lagged effects of tighter monetary policies on their operations, as insolvencies may rise further in 2024.
- Monetary policy will remain restrictive for a while yet, despite the BoE's holding rates at its June meeting.
- The repercussions of two years of progressively tighter monetary policies are yet to fully manifest in the real economy sphere, and this lag is projected to continue dampening economic expansion.

## Supply Environment:

### Risks and Opportunities

- The latest data show that producer input prices barely changed, falling by 0.1% y/y in May, compared with a 1.4% dip in April. Although the inflation of producer input prices has seen a sustained decrease over recent months, price levels remain elevated.
- Wages (excluding bonuses) grew by 6.0% y/y in the three-month period from February to April, unchanged from Q1. In real terms, wages grew by 2.3%.
- The Labour Party won the general election in July, taking 412 seats (nearly two-thirds of total seats) in the House of Commons, compared with the Conservatives' 121.

## Key Takeaways

- Government policy may shift towards a new focus on industrial strategies, including state intervention, which may prioritise some sectors over others.
- Seize the opportunity presented by the ongoing reduction in input costs to renegotiate contracts with more favourable conditions for your business operations.

## Market Environment:

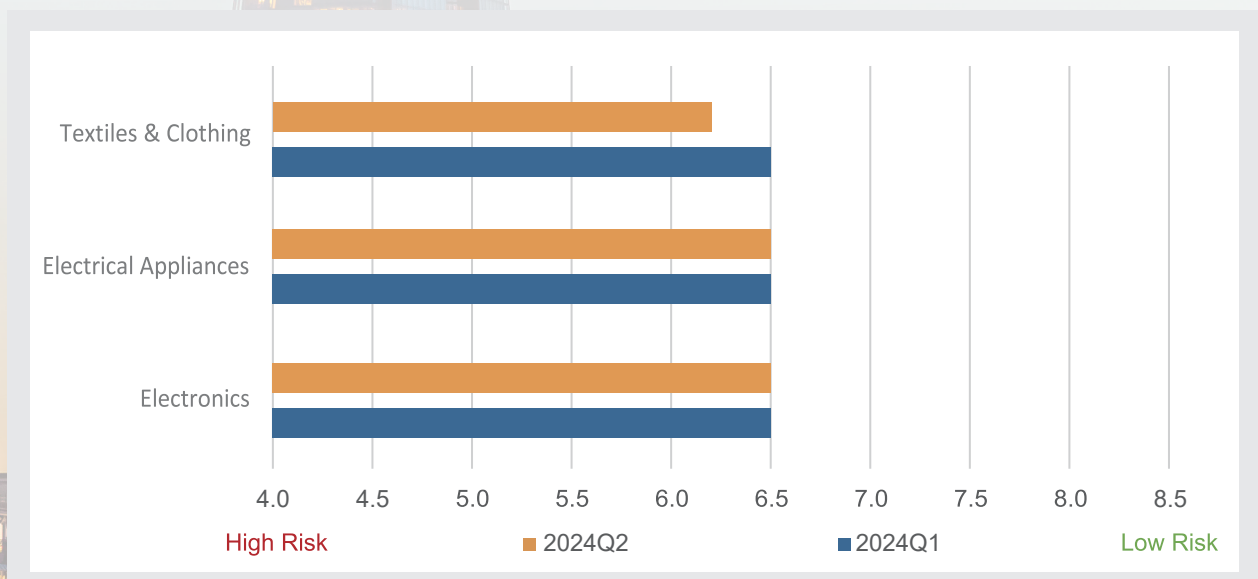
### Risks and Opportunities

- Retail sales fell by 2.3% in April, following a modest fall of 0.2% in March, with sales volumes declining broadly across a wide range of sectors.
- The large Labour majority provides the new administration with a huge mandate, albeit at a time of formidable challenges, including poor economic growth and low productivity, and with little fiscal ammunition – government debt was equivalent to 99.5% of GDP at the end of June 2024.

## Key Takeaways

- The number of firms going bust fell 13.2% q/q in Q1 2024. There were 859 fewer declarations compared to Q4 2023. The retail, personal services and construction sectors saw the largest absolute decreases in insolvencies.
- The UK has, in addition to signing new agreements, successfully rolled over a total of 71 EU free-trade deals with other countries. The administration's dedication to fostering a more liberal trade environment is anticipated to significantly enhance the UK's market potential and economic opportunities.

## Industry Index



Source: D&B/HKECIC

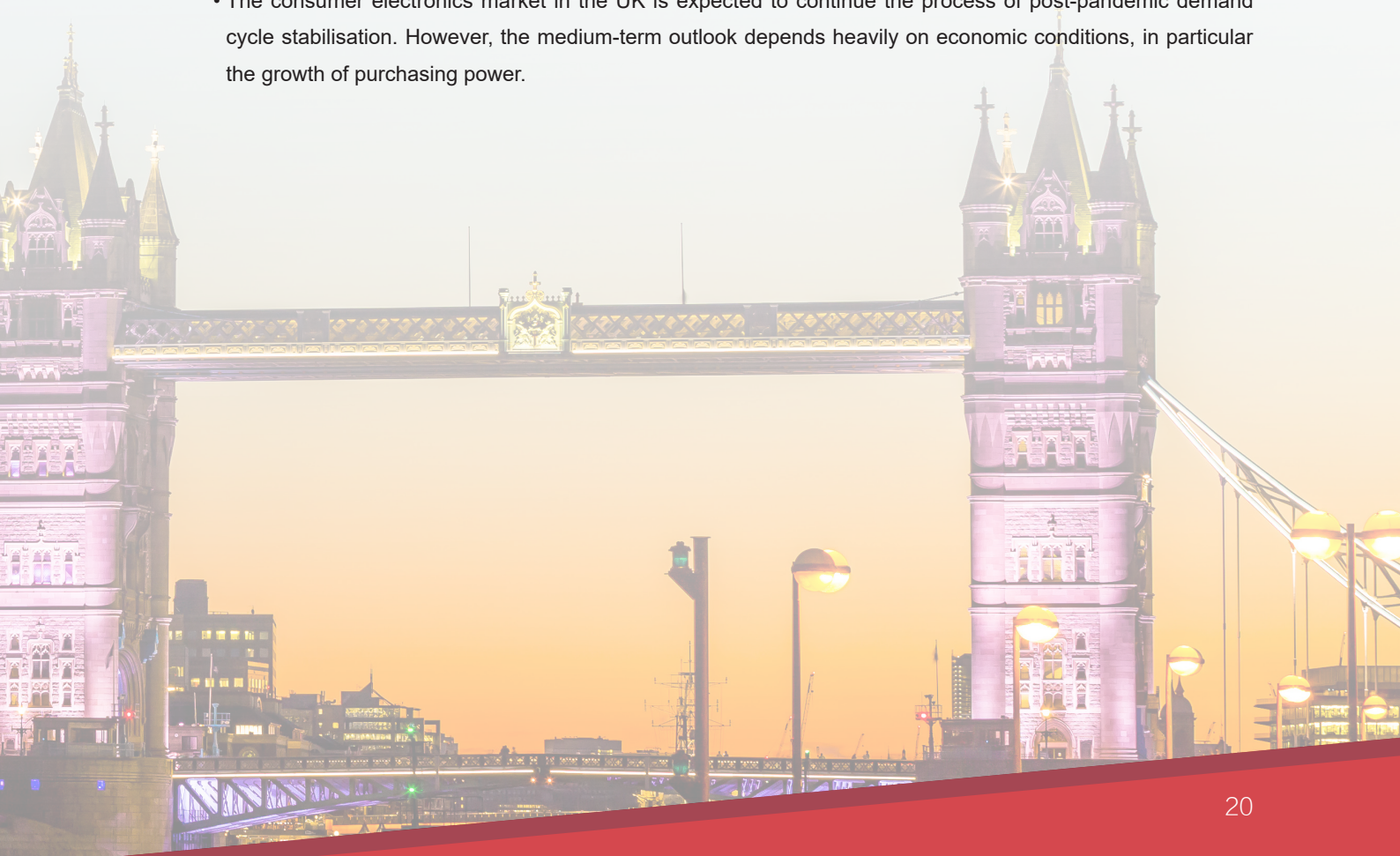
## Industry Trends

### Textiles & Clothing

- The index for the UK textiles and clothing industry has remained flat since Q2 2023, with slight fluctuations in Q1 2024.
- Hong Kong's total exports to the UK dropped by 8% y/y in H1 2024, with the exports of textiles-and-clothing-related products plummeting by 24%.
- The H1 2024 period saw high street fashion retailer Ted Baker, as well as online clothing retailers Matches and Viyella, fell into administration.
- In July 2024, GlobalData, a worldwide data analytics firm based in the UK, significantly revised down its forecast for UK apparel retail sales, from a projected growth of 2.2% in January to a decline of 3.1%. The firm cited poor weather as the cause for the ongoing struggles of UK clothing and footwear retailers in 2024. The outlook for the UK apparel industry remains challenging.

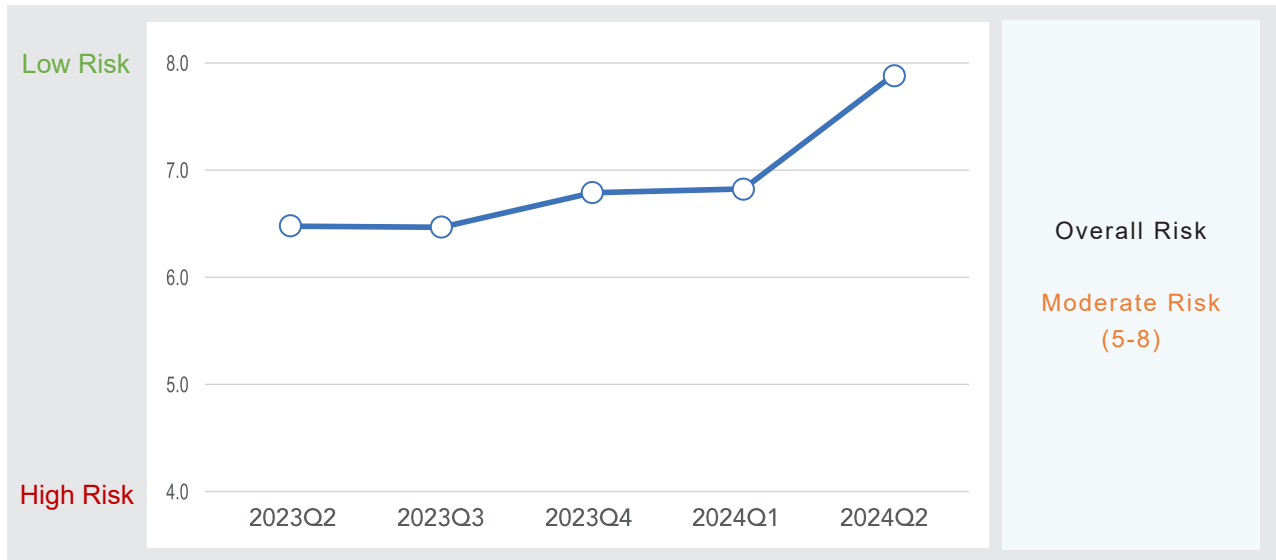
### Electrical Appliances and Electronics

- The index for the UK's electrical appliances and electronics remained flat during H1 2024.
- Total exports of electronics and electrical products from Hong Kong to the UK declined by 10% y/y in H1 2024, in line with the trend of Hong Kong exports to the UK.
- UK electrical retail sales are expected to grow at a sluggish rate of 0.3% in 2024, according to the latest report from GlobalData. This, however, reversed the 1.4% fall in 2023.
- The consumer electronics market in the UK is expected to continue the process of post-pandemic demand cycle stabilisation. However, the medium-term outlook depends heavily on economic conditions, in particular the growth of purchasing power.



## 4.5 The United States

### CREDIT RISK INDEX



Source: D&B/HKECIC

### Country Insight

The US is the world's largest economy, with a population of almost 333 million and a GDP per capita exceeding USD70,000. The economy is predominantly market-oriented, with consumer spending accounting for around 70% of its GDP, although government spending also plays an important role in many states. The credit risk index reveals a **continuous optimisation** of overall risk in the US market since Q3 2023, driven by improved economic performance and sustained strong dollars, both of which have enhanced the US market potential.

### Recent Developments

- The current President, Mr. Joe Biden, announced on 21 July his withdrawal from the 2024 presidential election. The latest polls indicate that "immigration" has surpassed "economy" as the leading topic for the upcoming election. The other presidential candidate, Donald Trump, is proposing an across-the-board 10% tariff on imports if he is elected in November, which could cause substantial disruption to cross-border trade.
- Government policies are geared towards ensuring long-term energy security by subsidising the green energy transition. However, supply shocks to oil prices remain a risk to energy costs in the short term.
- The US is broadening the scope of sanctions to target more entities from Mainland China, Russia and Iran. Additionally, the US government has ramped up tariffs on USD18 billion worth of imports from Mainland China in strategic sectors, ranging from electric vehicles (EVs) to solar-powered cells.

## Statistical Reference

Metric	2019	2020	2021	2022	2023	2024e	2025e
Real GDP growth (%)	2.5	-2.2	5.8	1.9	2.5	2.0	1.8
GDP per Capita in USD	64,374	63,472	70,013	76,101	80,474	83,694	86,666
Exchange Rate (yr avge, USD)	-	-	-	-	-	-	-
Inflation (annual avge, %)	1.8	1.2	4.7	8.0	4.1	2.5	2.3
Purchasing Managers' Index (PMI)	N/A	56.1	59.7	50.7	51.2	52.9	N/A

Source: Haver Analytics/D&B

## Credit Environment:

### Risks and Opportunities

- Despite resilient GDP growth and a gradual, uneven decline in inflation, the credit environment continues to be restrictive.
- The July Consumer Price Index report showed the US annual inflation rate falling to its lowest level since March 2021, expectations for Fed rate cuts have shifted to Q3 in 2024. Smaller/regional banks remain at risk of losing investor and depositor confidence, as evidenced by the recent stock market rout following the announcement of their Q4 2023 results.

### Key Takeaways

- The first rate cut is not expected until Q3 2024, which may impact consumer confidence and corporate investment decisions.
- Evaluate thoroughly the risks associated with trading partners, and revise trade credit terms to align with current credit environment.

## Supply Environment:

### Risks and Opportunities

- The crude oil stockpiles rose almost 1.4 million barrels to 430.7 million barrels in the week ending 9 August, according to data from the Energy Information Administration (EIA).
- However, strikes and labour actions may disrupt operations, as several unions have successfully used them to negotiate higher wages. Additionally, states along the south and south-eastern US borders could experience power outages during Q3 2024, according to the North American Electric Reliability Corporation.
- The US remains active in putting up tariff and non-tariff barriers to trade, potentially influencing cross-border trade decisions. Specific sectors dependent on essential raw materials and semiconductors could face disruptions due to these policy decisions. A case in point recently is the graphite importers reliant on Chinese imports.
- In early July, Hurricane Beryl triggered over 1,300 flight cancellations by airlines operating in Texas. Severe weather events, such as hurricanes, floods, and disasters like wildfires, will continue to cause significant disruptions to business continuity and operational stability across various industries.
- The Biden administration announced on September 13, 2024 that it is moving to curb low-value shipments entering the U.S. duty-free under the \$800 "de minimis" threshold, by proposing a new rule to deny the exemption to packages that contain low-value goods. The proposed trade rule also includes the need for new information disclosure for small packages.

## Key Takeaways

- Assess supply chain vulnerabilities and test business continuity protocols against the risks of extreme weather events.
- According to the research group Climate Change, power outages attributed to climate-related events and accidents are on the rise in the US.
- There is bipartisan support for reducing trade dependence on Mainland China and limiting Chinese firms' access to US technology/data, which are perceived as crucial for national security.
- For Hong Kong exporters, once enacted, the tightening duty-free rules could result in stricter customs scrutiny and the loss of some advantages when accessing the U.S. market, particularly for items like textiles and apparels.

## Market Environment:

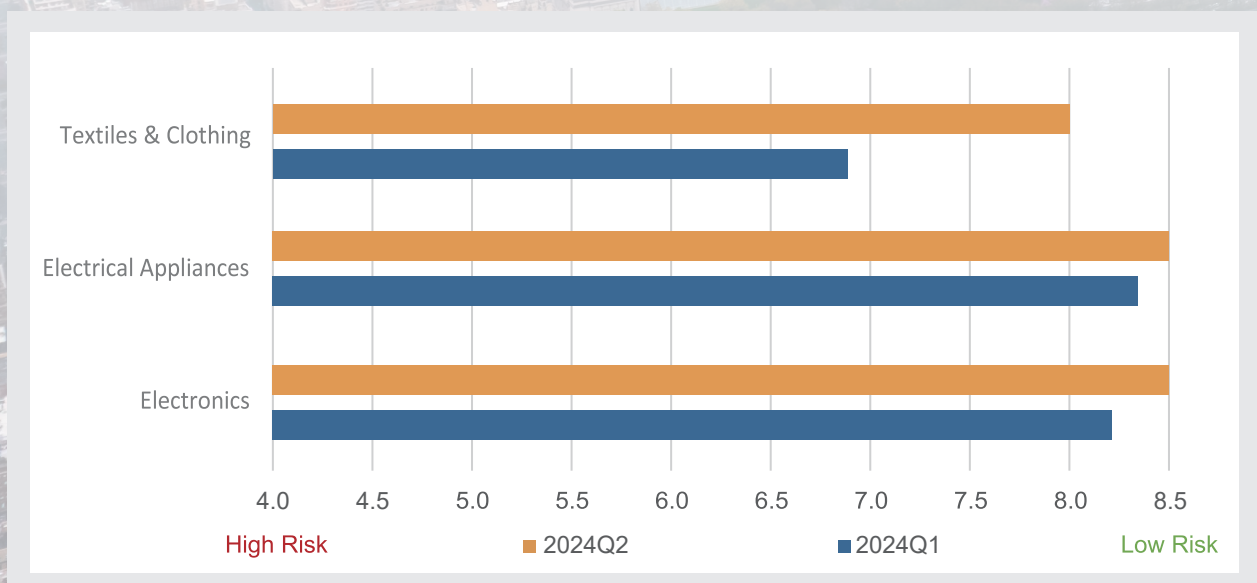
### Risks and Opportunities

- Retail sales in the US, particularly for services, have remained firm on the back of pandemic-era savings, but that may begin to change later in 2024. In July 2024, retail sales rose by 1% from the prior month after a 0.2% dip in June adjusted for seasonal variation and holiday and trading-day differences, indicating the backbone of US economy remains solid.
- Anti-dumping duties on products from Mainland China companies will negatively affect manufacturers of cans, food, personal care and household products reliant on such imports.
- At the federal level, Mainland China's access to US technology and data is still considered a significant geopolitical risk, as highlighted by the push for TikTok's sale and the prohibition of its use on government devices. The risk is further exemplified by the US government's revocation of licenses that previously permitted US semiconductor companies to export specific products to Huawei.

## Key Takeaways

- Despite stringent credit tightening, retail sales demonstrate the economy's sustained resilience in challenging times. Consumer sentiment remains strong but may falter later in the year.
- Monitor changes in trade and investment policies between the US and Mainland China, particularly those related to the technology sector.

## Industry Index



Source: D&B/HKECIC

## Industry Trends

### Textiles & Clothing

- The index for the US textiles and clothing industry indicates reduced risk for Q2 2024, thanks to improved payment experience within the sector.
- In the first half of 2024, Hong Kong's total exports to the US rose by 16.4% compared with the same period last year, though textiles and apparel exports dropped by 5.3% during the period.
- In May 2024, the US Department of Homeland Security (DHS) added 26 Chinese textile companies to the Uyghur Forced Labor Prevention Act (UFLPA) Entity List, barring imports from these companies. Next targets on the cards are likely to be Chinese online fashion retailers, which have been gaining market share in the US with low-priced clothing.
- The outcome of the US election will have a direct bearing on the political climate, potentially affecting trade policies, including tariffs, which in turn impact the apparel industry. Amid growing uncertainties and an increasingly challenging business environment, apparel companies may continue to diversify their sourcing bases to minimise sourcing risks.

### Electrical Appliances and Electronics

- The indices for the US electrical appliances and electronics are stable, indicating low payment risk.
- Total exports of electrical appliances and electronics from Hong Kong to the US grew by a remarkable 34.4% y/y in the first six months of 2024, reflecting a sustained recovery in demand for electronics, driven in part by the growing demand for artificial intelligence (AI) components.
- Challenges persist, however, with growing trade protectionism posing an ongoing threat. Alongside export controls on shipment of US chips to China, US policymakers have become increasingly concerned about national security risks associated with Chinese-made vehicle software, as the country's expertise in electronics advances. In May 2024, the Biden administration announced an uplift of import duties on electric vehicles (EVs) by more than 100%, with an eye on controlling imports from China. As part of a review of Section 301 of the US Trade Act of 1974, additional tariff hikes on lithium batteries, semiconductors, critical minerals, and steel and aluminium, among other products from China, are set to be phased in over the next two years.

# ABOUT US



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 \$80 billion.

For more information on HKECIC, please visit <https://www.hkecic.com/tc>.



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