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THE INFORMATION, COMMUNICATION & TECHNOLOGY CREDIT FORUM

2024 - The Future Ahead

Economic Update - January 2024



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Economic Update Jan 2024

New Year – Old Problems

Weak economic growth and rising credit risk ahead

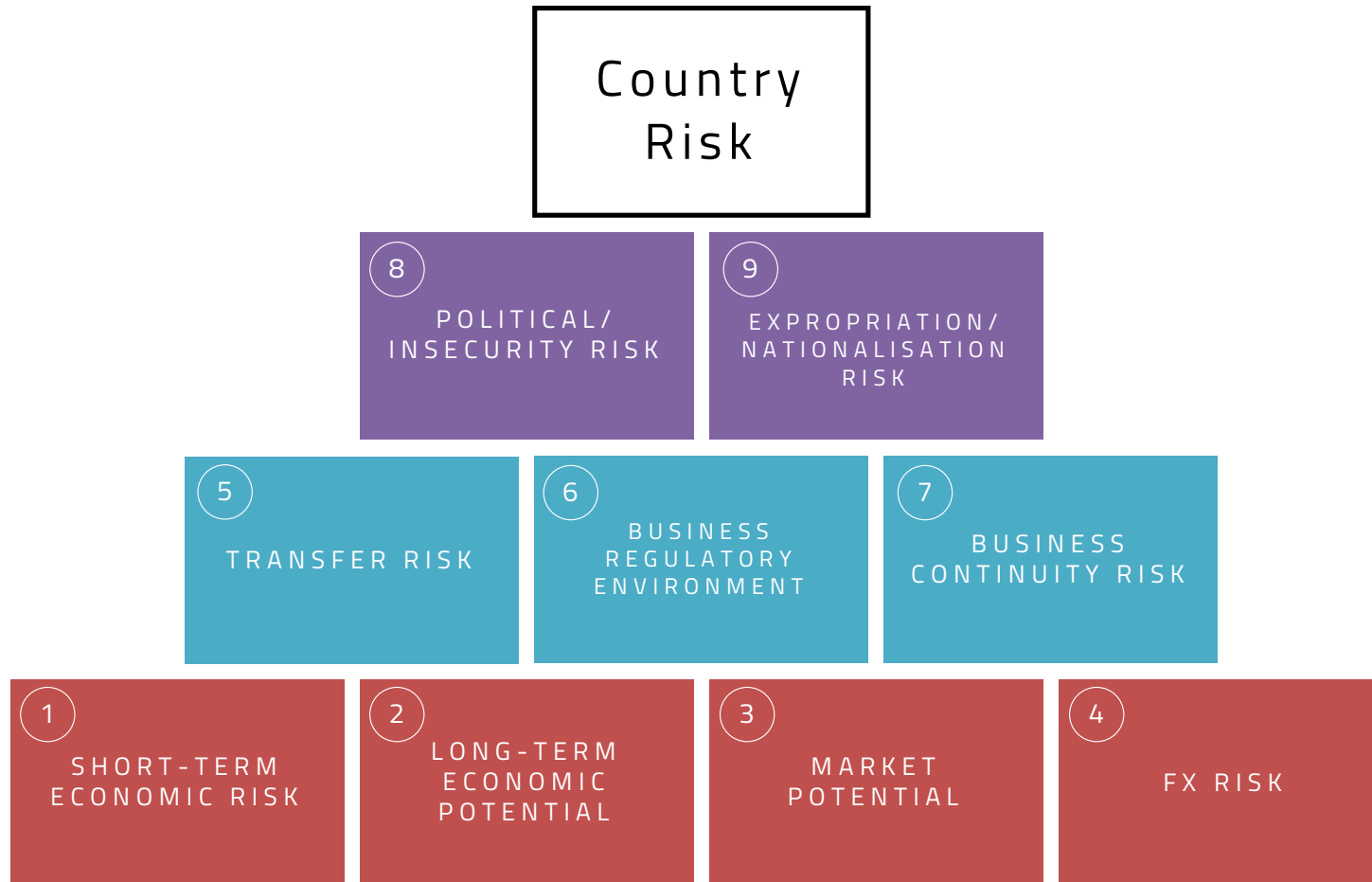
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ICT Forum, 11 January 2024

Agenda

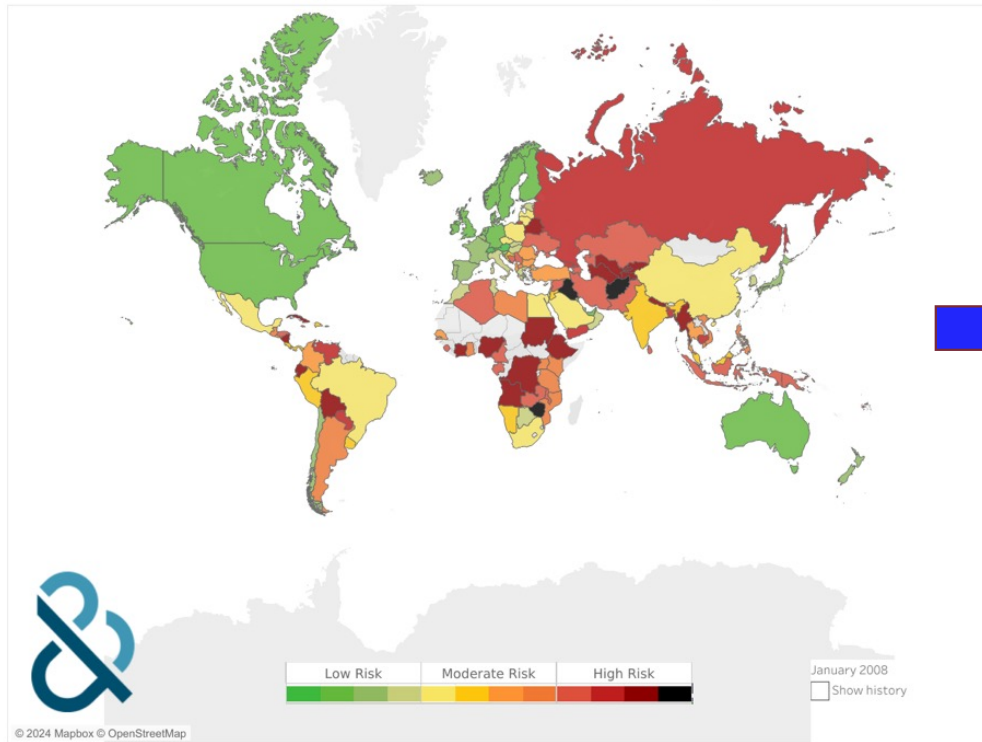
1. Country risk levels
2. Economic indicators
3. Geopolitical risks
4. Credit risk outlook
5. Q&A

What is Country Risk?

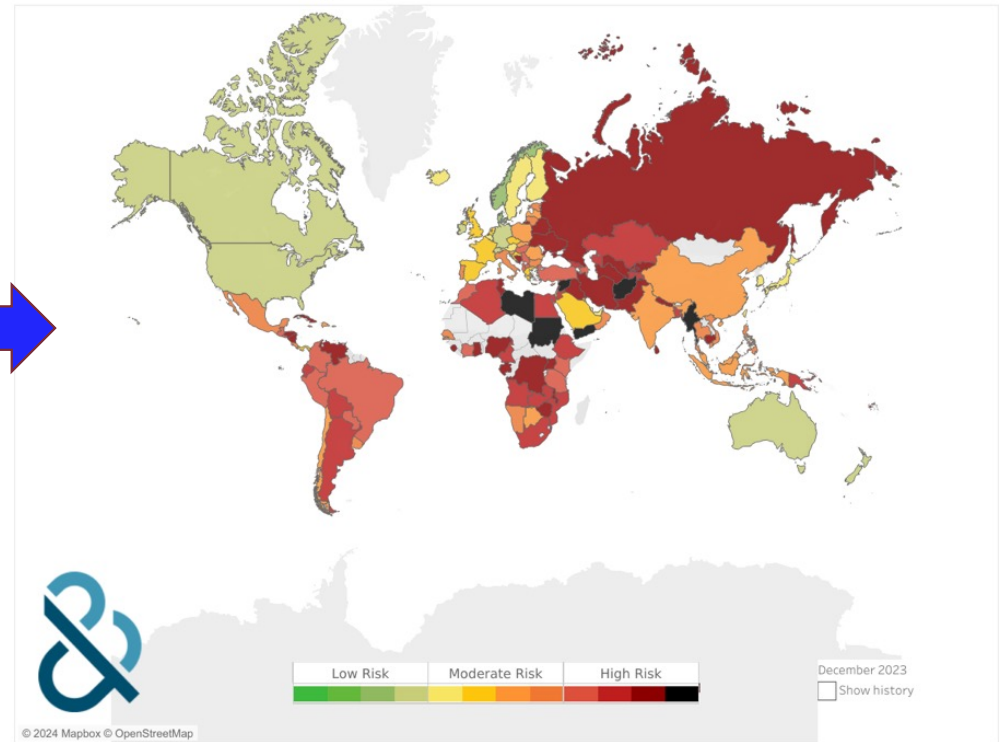


COUNTRY RISK LEVELS HAVE RISEN SINCE 2008

Dun & Bradstreet Country/Region Risk Indicators - January 2008



Dun & Bradstreet Country/Region Risk Indicators - December 2023

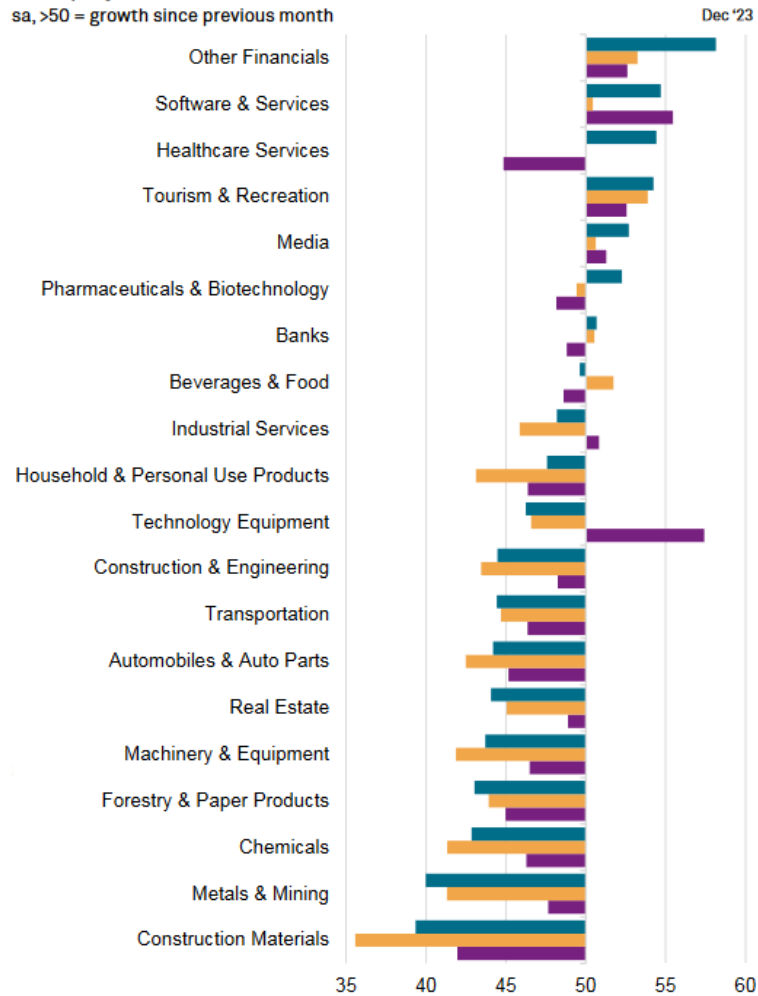


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■ Output Index
 ■ New Orders Index
 ■ Employment Index

sa, >50 = growth since previous month



Source: S&P Global PMI.

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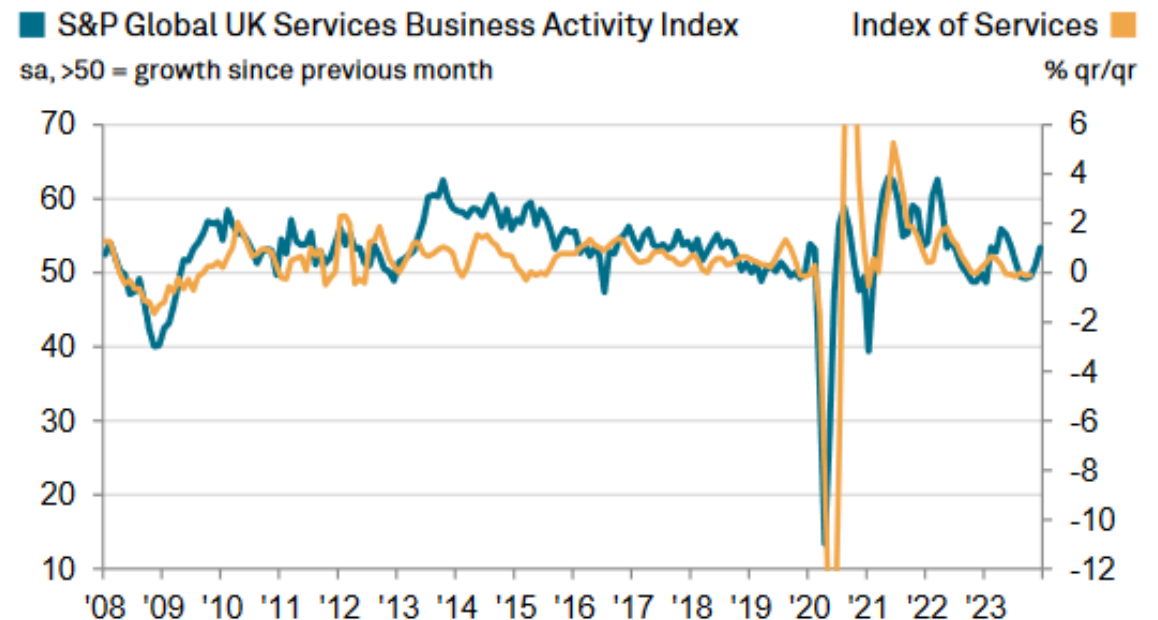
DIVERGING SECTORAL TRENDS

- European sectoral PMI data shows that 7 out of 20 industries reported output growth in late 2023
- Best reading since June 2023
- Improvements are driven by the service sector
- Basic materials and consumer goods performed poorly in December 2023
- New order inflow is contracting in 13 out of 20 sectors surveyed
- Employment levels are also falling in most industries (14 out of 20)

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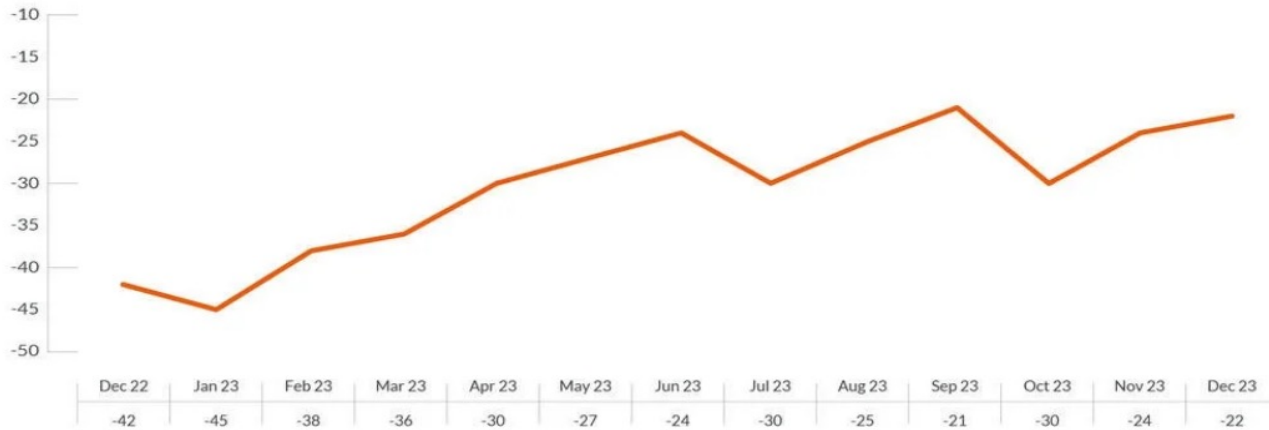
UK PMI IS IMPROVING

- UK Services PMI increased by the fastest pace in 6 months
- Both, output and new work have risen for the second month in a row
- Business optimism has increased to the highest level since May 2023
- Higher demand is driven by technology and financial sector companies
- Employment is falling

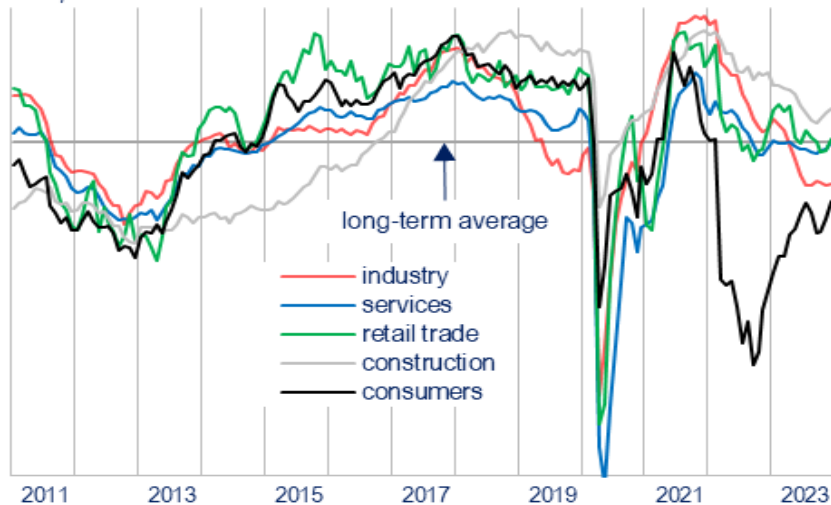


Sources: S&P Global PMI, ONS.
Data were collected 06-20 December 2023.

Index Score December 2022 – December 2023



Graph 2: EU confidence indicators²



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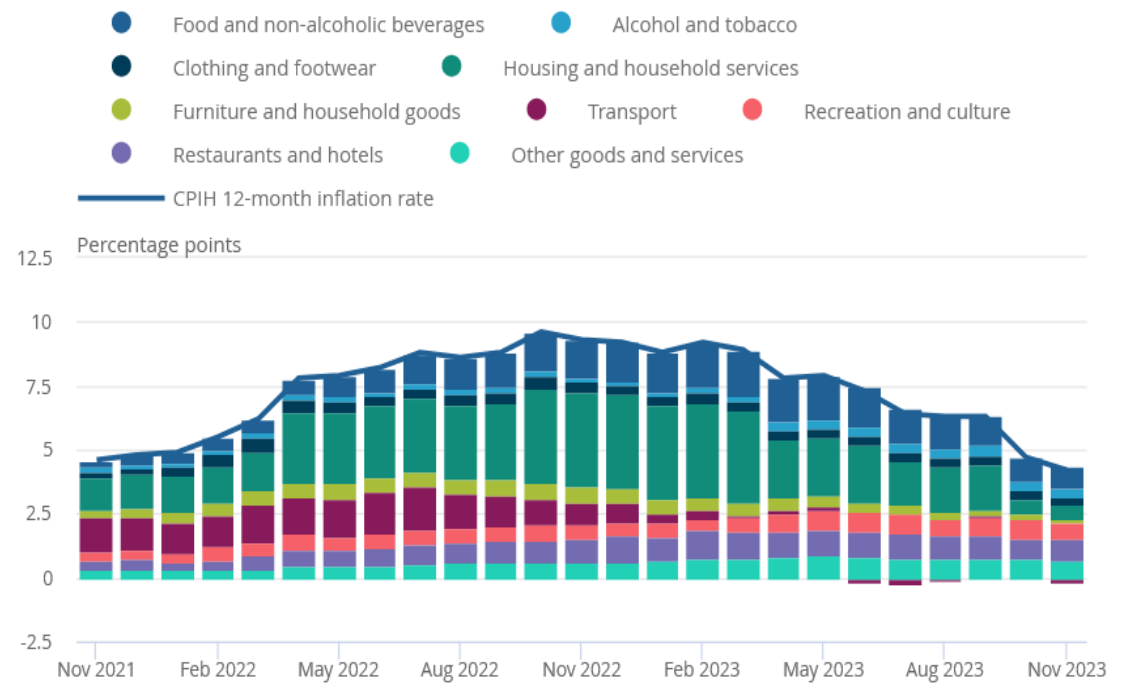
CONSUMER CONFIDENCE

- Recently, households have become less pessimistic
- In the UK, GfK's Consumer Confidence Indicator came in at -22 points in December
- This is up from -45 points in January
- All five sub-ratings showed improvements but are still in negative territory
- In the EU, consumer confidence has also improved
- Households are more upbeat about the year ahead

INFLATION

- Consumer prices have moderated throughout 2023
- The CPIH came in at 4.2% y/y in November, down from 9.2% in February
- The drop is broad based with 12 out of 13 sub-indices making downward contributions
- Goods inflation stands at 2.0%, prices in the service sector are rising by a high 6.3% though
- Core inflation came in at 5.2%

Contributions to the annual CPIH inflation rate, UK, November 2021 to November 2023

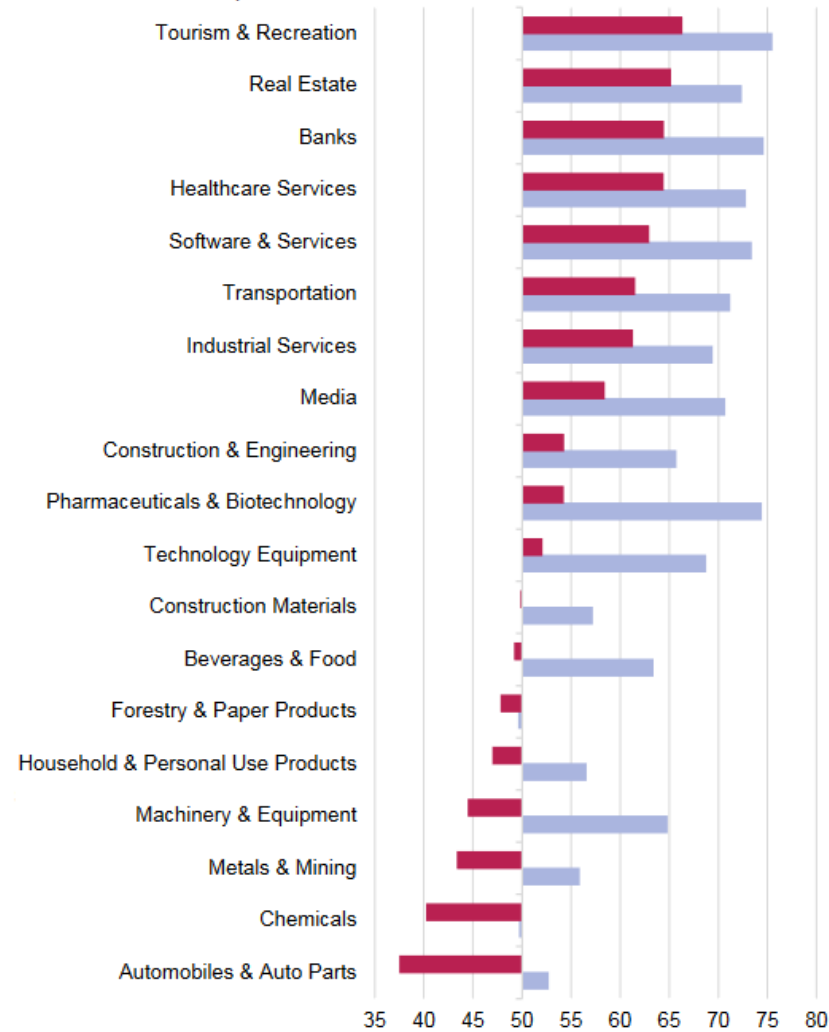


Source: ONS

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Input Prices Index
 ■ Dec '23 ■ 2023 high
 sa, >50 = inflation since previous month



Source: S&P Global PMI.


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INFLATION

Input prices

- Producer price inflation is moderating in the manufacturing sector
- This is because of lower commodity prices but also because of reduced demand
- In the service sector, most industries still record sharp increases in input prices
- Wages in the UK were up by 7.3% y/y (nominal) and 1.3% (real) in Aug-Oct 2023
- Generally, the UK/EU labour market is showing signs of a slowdown

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	133.00 % (+ 15)	▲	Argentina Leliq Policy Rate (Oct 12, 2023)
	4.35 % (+ 0.25)	▲	Australia Cash Rate (Nov 07, 2023) - CHART
	11.75 % (- 0.50)	▼	Brazil Selic Rate (Dec 13, 2023)
	5.00 % (+ 0.25)	▲	Canada Target ON Rate (Jul 12, 2023) - CHART
	8.25 % (- 0.75)	▼	Chile Monetary Policy Rate (Dec 19, 2023)
	3.45 % (- 0.10)	▼	China Loan Prime Rate, LPR (Aug 21, 2023)
	13.00 % (- 0.25)	▼	Colombia Key Policy Rate (Dec 19, 2023)
	6.00 % (- 0.25)	▼	Costa Rica Policy Rate (Dec 20, 2023)
	6.75 % (- 0.25)	▼	Czech Republic Repo Rate (Dec 21, 2023)
	3.75 % (+ 0.25)	▲	Denmark Lending Rate (Sep 14, 2023)
	4.50 % (+ 0.25)	▲	Eurozone Key Interest Rate (Sep 14, 2023) - CHART
	10.75 % (- 0.75)	▼	Hungary Base Rate (Dec 19, 2023)
	9.25 % (+ 0.50)	▲	Iceland 7-d Deposit Rate (Aug 23, 2023)
	6.50 % (+ 0.25)	▲	India Policy Repo Rate (Feb 08, 2023)
	6.00 % (+ 0.25)	▲	Indonesia Repo Rate (Oct 19, 2023)
	4.50 % (- 0.25)	▲	Israel Benchmark Rate (Jan 01, 2024)
	-0.10 % (- 0.10)	▼	Japan Key Policy Rate (Jan 29, 2016)
	11.25 % (+ 0.25)	▲	Mexico Benchmark Rate (Mar 30, 2023)
	5.50 % (+ 0.25)	▲	New Zealand Cash Rate (May 24, 2023)
	4.50 % (+ 0.25)	▲	Norway Key Policy Rate (Dec 14, 2023)
	5.75 % (- 0.25)	▼	Poland Reference Rate (Okt 04, 2023)
	16.00 % (+ 1.00)	▲	Russia Key Rate (Dec 15, 2023)
	6.00 % (+ 0.25)	▲	Saudi Arabia Repo Rate (Jul 26, 2023)
	3.50 % (+ 0.25)	▲	South Korea Base Rate (Jan 13, 2023)
	8.25 % (+ 0.50)	▲	South Africa Repurchase Rate (May 25, 2023)
	4.00 % (+ 0.25)	▲	Sweden Repo Rate (Sep 21, 2023)
	1.75 % (+ 0.25)	▲	Switzerland SNB Policy Rate (Jun 22, 2023)
	42.50 % (+ 2.50)	▲	Türkiye 1 Week Repo Rate (Dec 21, 2023)
	5.25 % (+ 0.25)	▲	United Kingdom Bank Rate (Aug 03, 2023) - CHART
	5.25-5.50 (+ 0.25)	▲	USA Funds Rate (Jul 26, 2023) - CHART

Source: <https://www.cbrates.com/>

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MONETARY POLICY

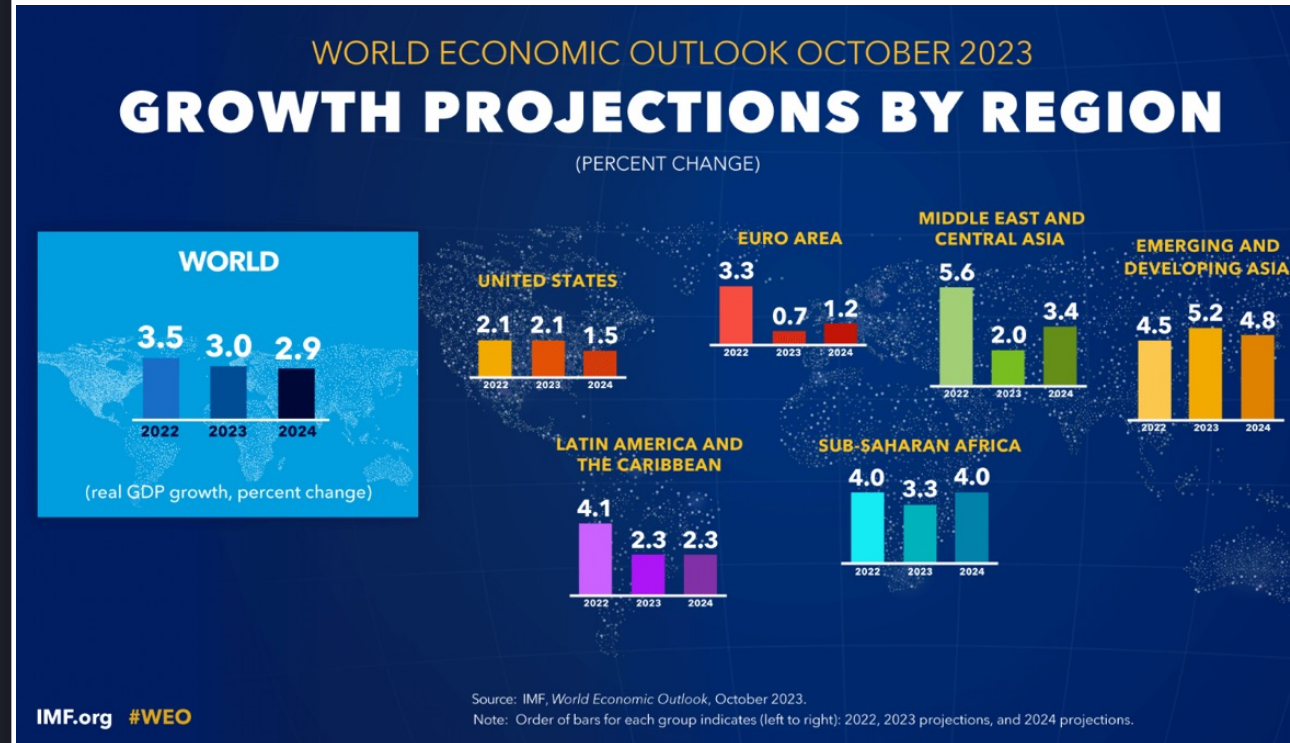
Tightening has stopped

- Monetary tightening cycle has peaked in G7 economies
- In some countries (Central Europe, for example), rates have started to fall already
- The Bank of England might cut rates in H2 2024
- However, high core inflation and strong wage growth complicate the outlook
- Despite the drop in inflation, interest rates should be “higher for longer”

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GLOBAL REAL GDP GROWTH

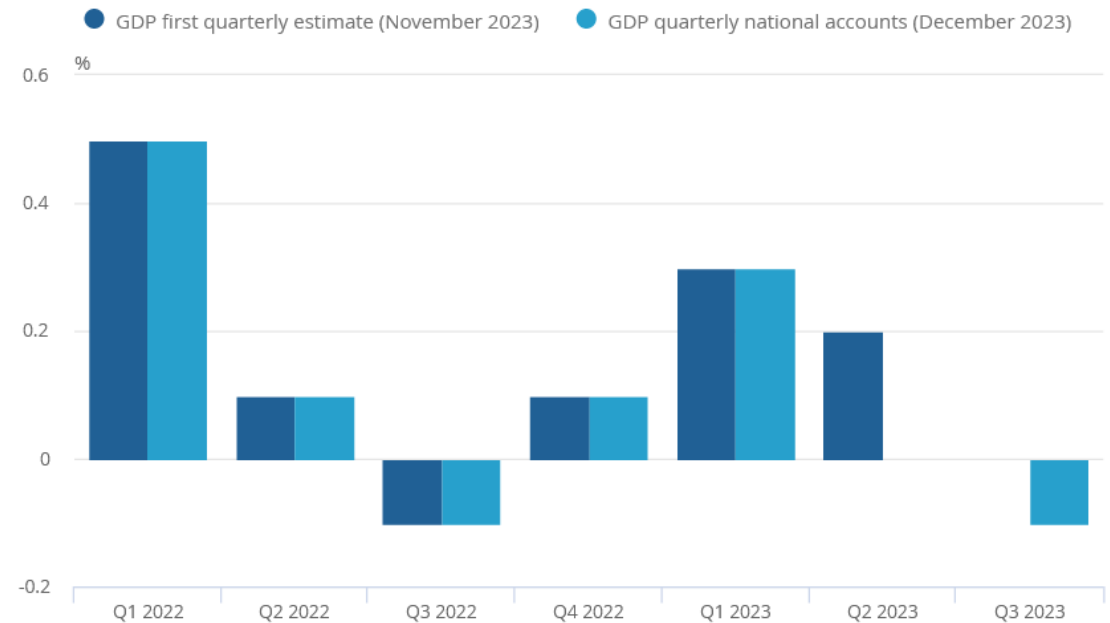
- The IMF predicts another slowdown, 2024 growth will come in at 2.9% only
- Both, the US and China will see real GDP growth decelerate this year
- Europe will experience higher growth, albeit from a very low base
- Germany will be the only G7 economy that has shrunk in 2023



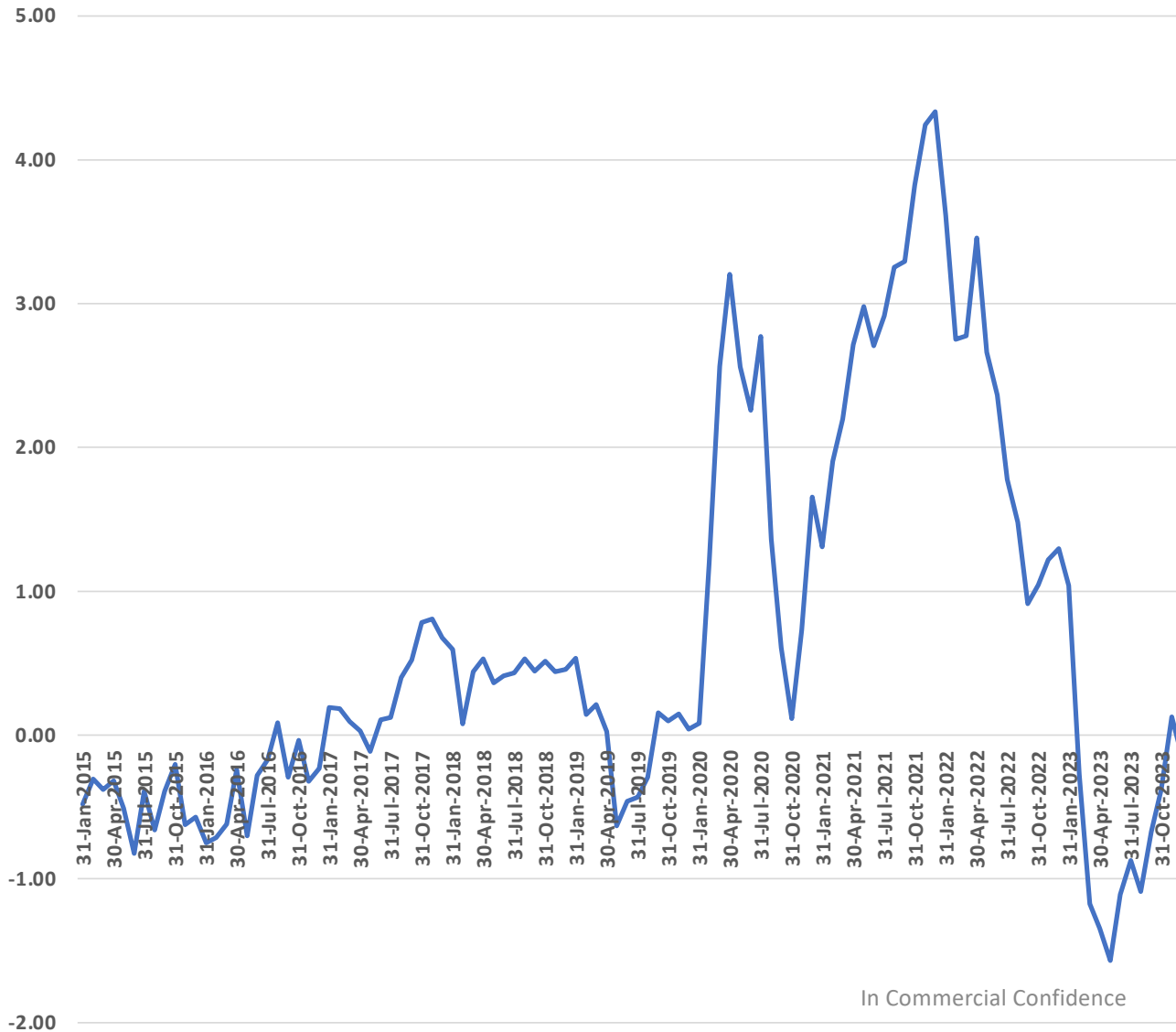
UK REAL GDP GROWTH

- The ONS has recently revised Q2 and Q3 2023 growth figures downwards
- Hence the UK is already halfway to a technical recession
- Services (-0.2% q/q) have contracted while production (+0.1%) and construction (+0.4%) were up in Q3
- Household consumption (-0.3% q/q) and investment (-0.1%) are down, government consumption (+0.2%) and net trade (+0.1) are up

UK, Quarter 1 (Jan to Mar) 2022 to Quarter 3 (July to Sept) 2023



US FED's Global Supply Chain Pressure Index



SUPPLY CHAINS

Rising stress levels

- The US Federal Reserve's Global Supply Chain Pressure Index has deteriorated in Q4 2023
- Water scarcity in the Panama canal has caused delays, capacity will drop to 60%
- Attacks by Houthi rebels in the Red Sea will impact on Suez canal traffic
- Shipping costs have risen since mid-2023
- Labour shortages in the logistics sector also create problems
- General shift from "just in time" to "just in case"

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GEOPOLITICS

Risks are rising

- Anti-Establishment parties are doing well in polls
- Key elections in 2024: US, EU and UK
- Some Western democracies are transforming into illiberal regimes
- Ukraine war will continue but public support for Kyiv is fading
- US-China tensions will rise

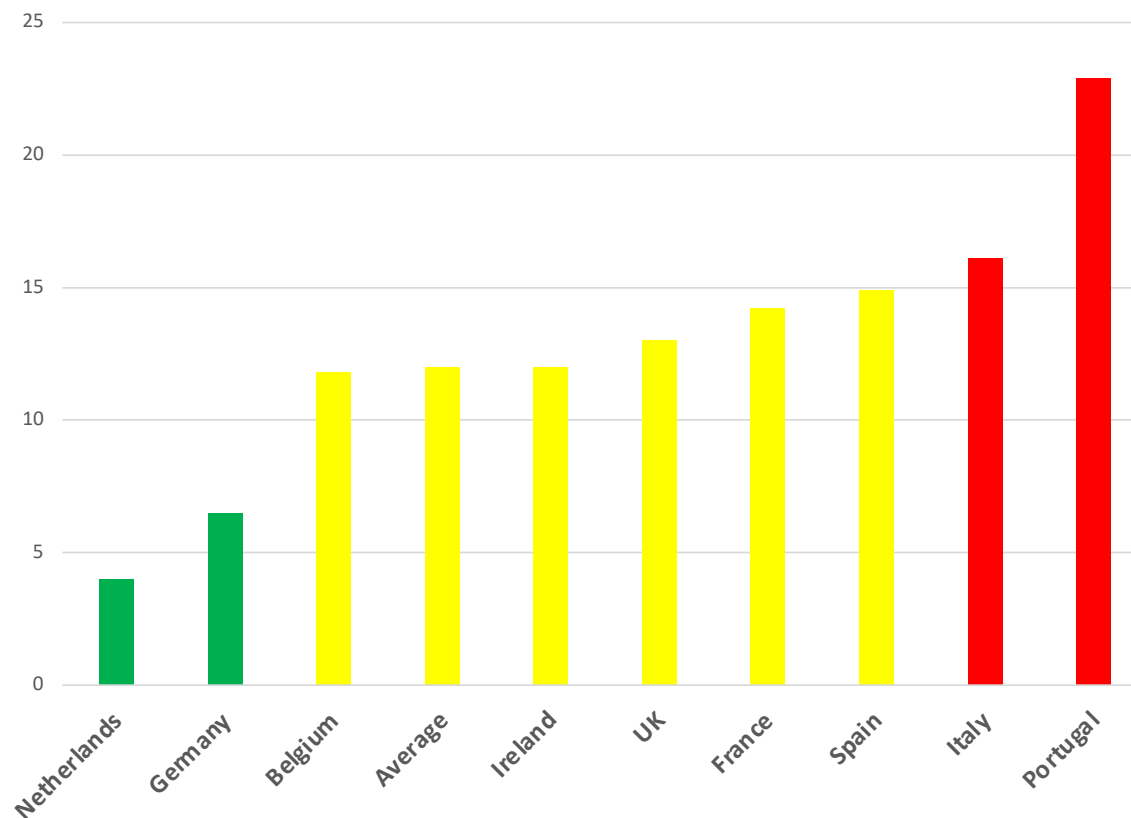
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PAYMENTS PERFORMANCE

- Trend unexpectedly improved in Q3 2023
- Average payment delay has dropped from 14.4 days in early 2021 to 12.0 days in Q3 2023
- Q2 2023 had seen the first deterioration since Q4 2020
- Five quarters of consecutive improvements in the UK
- Payments performance tends to lag the economic cycle

Average Payment Delay in Days Q3 2023



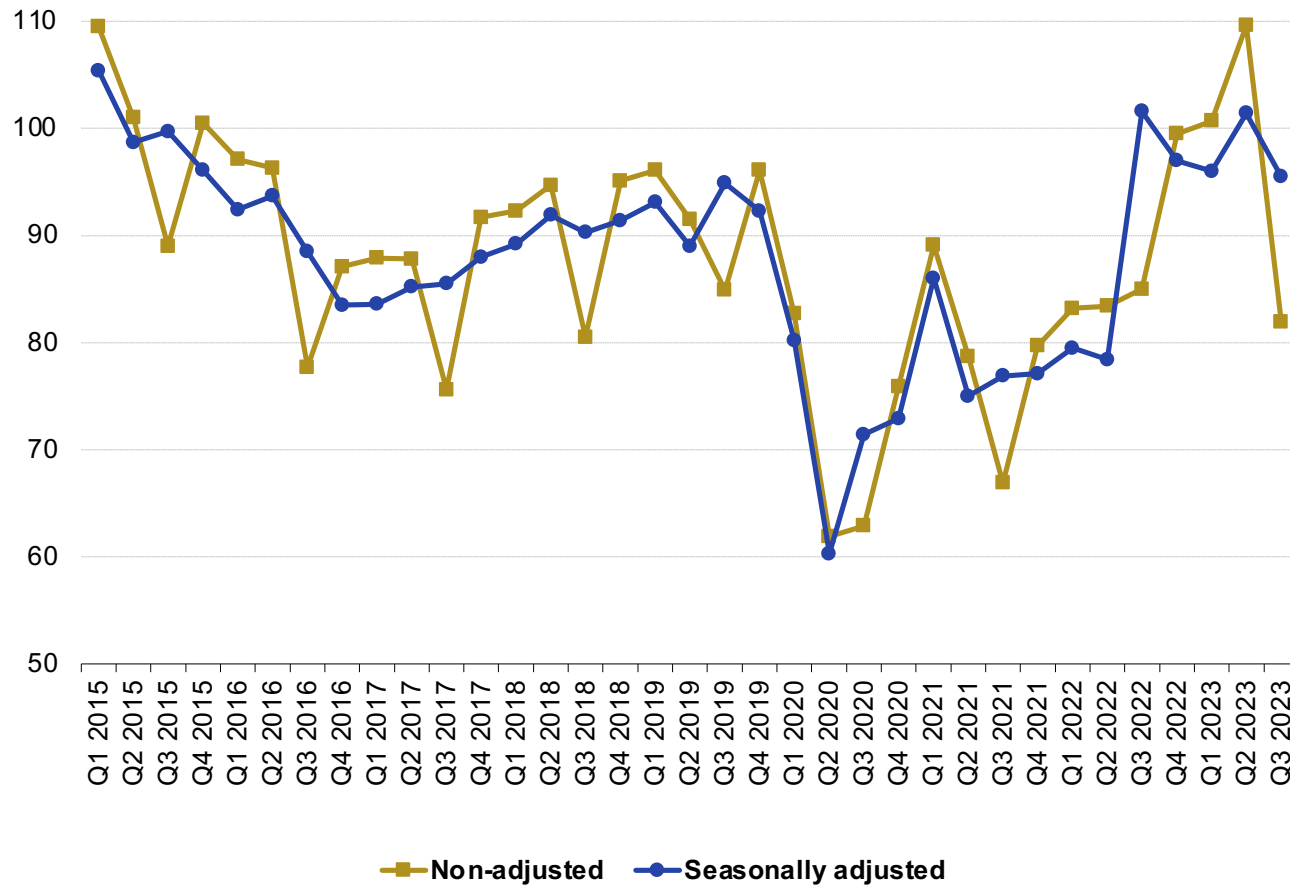
Source: Dun & Bradstreet

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EU (available countries), declarations of bankruptcies of businesses, Q1 2015 to Q3 2023

(2015=100)



Source: Eurostat (sts_rb_q)

EU INSOLVENCIES

Risks have risen

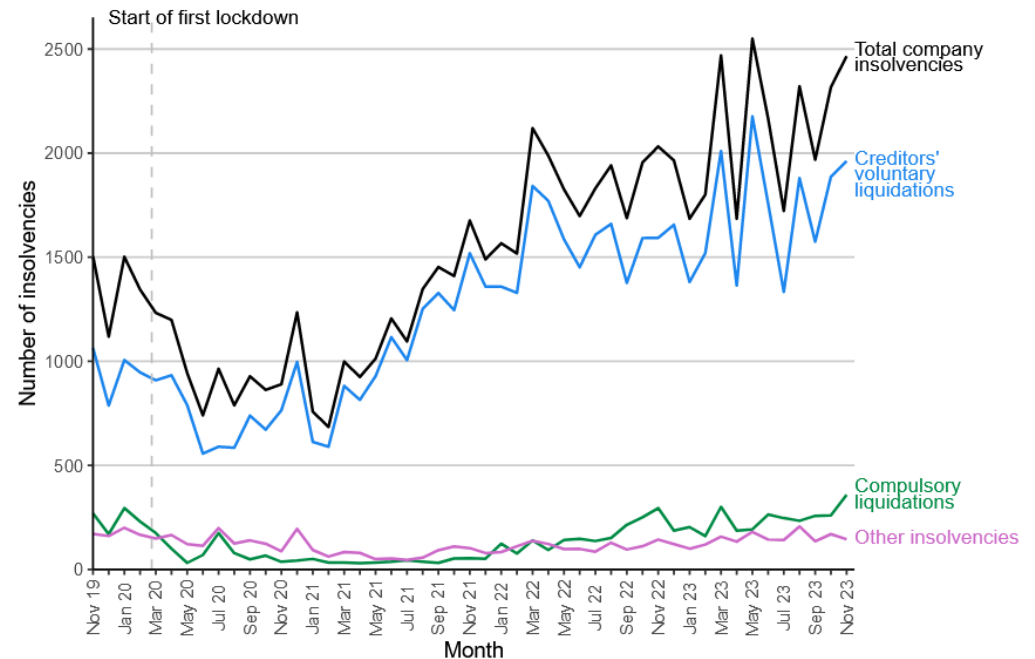
- In Q3 2023, EU business failures decreased by 5.8% q/q and by 6.0% y/y
- Three out of the eight sectors surveyed reported a rise
- Compared with pre-Covid readings, business failures are up by 3% now
- Worst performer is the accommodation and food sector (+31%)
- The number of business failures is likely to rise in 2024

UK INSOLVENCIES

- Company insolvencies in England/Wales in Nov 2023 were up by 21% y/y
- Mainly driven by creditor's voluntary liquidations (CVL are 80% of all liquidations)
- 2023 will be the worst year since the global financial crisis
- The outlook for 2024 is challenging

Figure 1: The number of registered company insolvencies in November 2023 was higher than in the same month last year, driven by higher numbers of CVLs and compulsory liquidations.

Company insolvencies, England and Wales, November 2019 to November 2023, not seasonally adjusted



Summary

1. Expect economies to enter technical recessions in early or mid-2024
2. Inflationary pressures will continue to subside in 2024
3. That said, interest rate cuts (if any) will be small in size
4. The labour market will cool down, but the number of job vacancies will remain higher than during previous recessions
5. Low (or negative) growth, high interest rates and tougher lending conditions will lead to higher credit risk



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