

# Navigator

Now, next and how for business

United States



# United States

## Buoyant domestic economy, but cost pressures loom

The domestic US economy is in good health, although protectionist trade policies and government regulations have raised concerns about cost pressures. Nonetheless, the outlook for trade remains robust, and US firms are confident they can succeed in the current international environment. Businesses plan to increase the use of technology in their supply chains and to engage with new markets, to reduce costs and add fresh revenue streams.

### What is happening now

#### US firms remain positive about global trade prospects

The US economy has been firing on all cylinders in recent months, with buoyant domestic demand contributing to GDP growth of 4.2% in Q2—the strongest performance since 2014 Q3. Robust global activity is still supporting US exports while strong domestic activity supports imports. Recent economic data, however, suggest that growth has peaked and point to gradually easing momentum. As the boost from tax cuts fades, global growth moderates, inflation rises, and the Fed tightens policy, the US economy is expected to move into a more moderate growth mode. International trade policy and the escalating trade war with China pose further risk to the outlook. Nevertheless, US firms remain confident of success in international markets.

Nearly three quarters (72%) of US businesses believe the outlook for global trade is positive. Their key reasons for optimism are global economic growth and the strength of the domestic economy. Meanwhile, companies with a negative outlook cite trade policy developments including tariffs and the US-China trade dispute as concerns.

US firms name Canada, Mexico and the UK as key markets for expansion—but significantly do not include China among their top three target growth markets (Fig. 1). Concerns about US-China relations and the ever-escalating trade war are the likeliest explanation. Nonetheless, 79% of US firms are confident of success in the current trading environment, just slightly below the global average of 81%.

**Fig. 1: Which are the top 3 markets where your business will look to expand in the next 3-5 years? (Share of respondents identifying each market)**



Source: TNS Kantar

#### How your business can respond

- ◆ Assess the risks to your business strategy from higher interest rates and a stronger dollar
- ◆ Has your firm analysed the direct and indirect implications of recent trade policy developments for its supply chain?

# Policy developments

## Firms express concern about cost pressures from protectionism

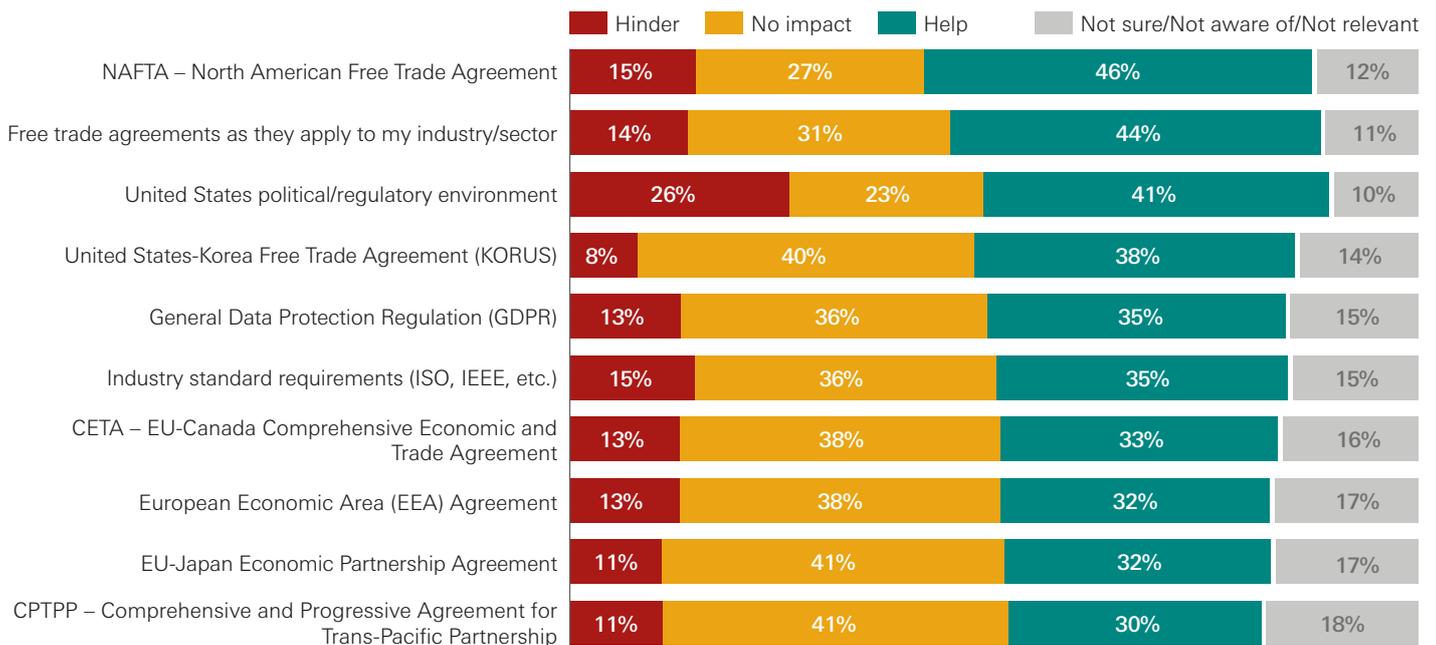
In the US, 69% of businesses surveyed believe governments are becoming more protective of domestic firms—nine percentage points more than in the previous survey. That uptick reflects the raft of protectionist measures introduced by the US administration in recent months, including new tariffs on steel and aluminium imports and separate tariffs on selected imports from China. These new tariffs are likely to raise costs for US industries that use imported inputs such as steel and aluminium in their production processes. Thus, it is unsurprising that almost half (44%) of respondent US firms say these regulations increase their cost of doing business.

Almost half (46%) of US firms think NAFTA will have a positive impact on their business over the next three years (Fig. 2), suggesting companies were encouraged by the announcement of a preliminary trade deal between the US and Mexico in August<sup>1</sup>. The domestic economy’s recent strength explains why 41% of respondents believe the current political and regulatory environment in the US will help their business. At the same time, 26% of firms believe the current political and regulatory environment will hinder their business, underlining the polarised interpretation of President Trump’s policies.

## How your business can respond

- ◆ Explore alternative supply-chain options, including domestic suppliers.
- ◆ Be prepared for the possibility of significant retaliatory tariffs on exports.

**Fig. 2: Relevance and impact of policy developments in the next 3 years**



Source: TNS Kantar

\*May not total 100% due to rounding

<sup>1</sup> The survey was conducted before the announcement of a renamed United States-Mexico-Canada Agreement (USMCA).

# What is happening next for business strategy

## Labour market tightness encourages firms to invest in skills development

With the US unemployment rate recently falling below 4% for the first time since 2000, US firms are understandably planning to increase their emphasis on productivity and upskilling their workforces (Fig. 3). This is especially important for commodity-producing respondents, as their highly labour-intensive operations exacerbate the issue of labour market tightness. US firms also cite growing market share and focusing more on long-term performance as priorities for the future.

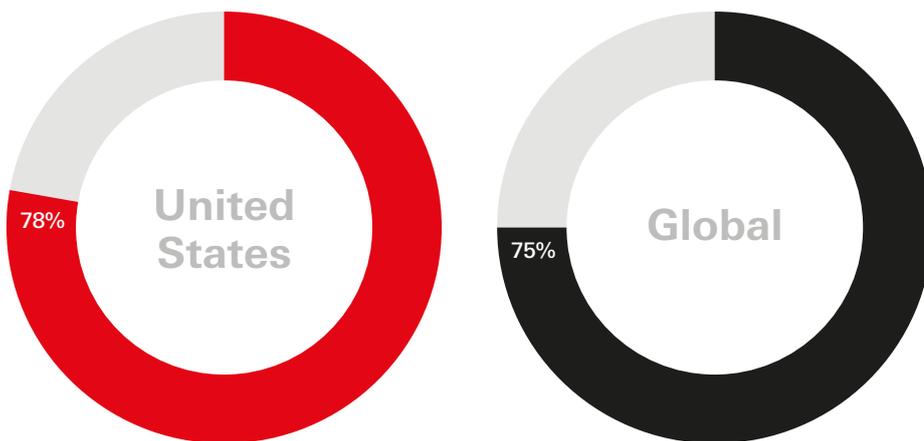
Firms around the world are increasingly leveraging data to advance their business strategies, and in the US, 78% of respondent firms are using data to optimise performance (Fig. 4) – slightly more than the global average of 75%. Operational data is the most commonly used (55%), followed by market data, transactional data, and customers’ personal data. US firms see the Internet of Things as offering the most opportunities from digitisation, and see increased regulation of data as the biggest challenge.

Fig. 3: Top 3 actions for future company direction

- 1 Increasing emphasis on productivity/skills development
- 2 Growing market share
- 3 Increasing emphasis on long-term performance/growth

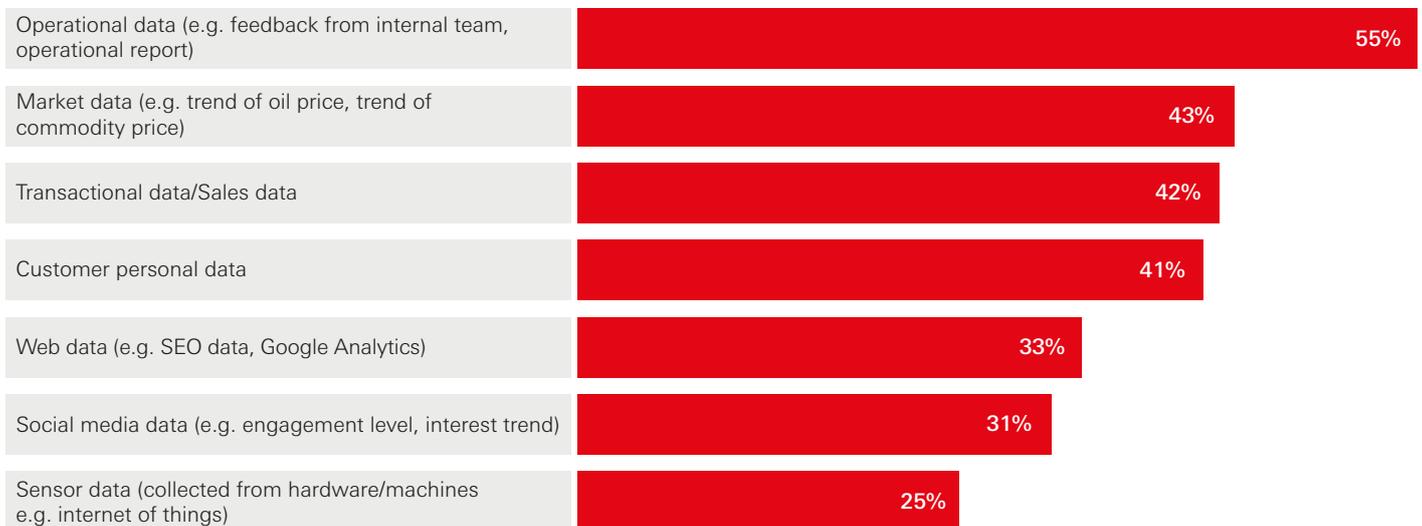
Fig. 4: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

### Data sets currently being used



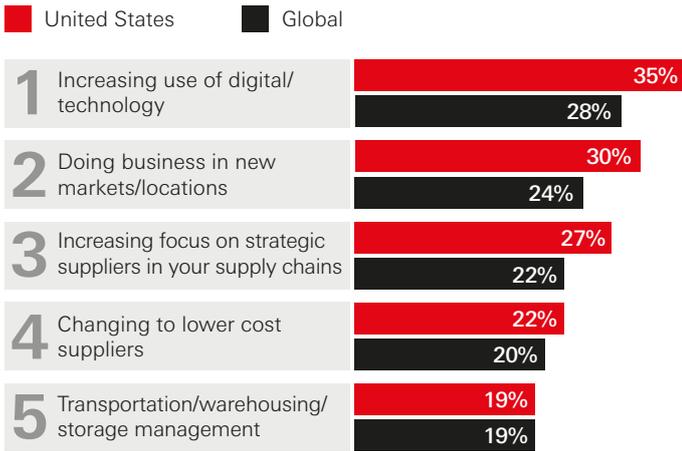
Source: TNS Kantar

### Technology at the forefront of supply-chain ambitions

More than one third (35%) of US firms say increased use of technology is the top change planned in their supply chain for goods, followed by doing business in new markets (Fig. 5). Cost reduction (52%) and increasing profits and or revenue (40%) are the most frequently cited objectives behind these changes. The results suggest that US firms increasingly view technology as central to their business strategies, and that purchasing goods from different markets may become necessary as new tariff measures disrupt existing supplier relationships.

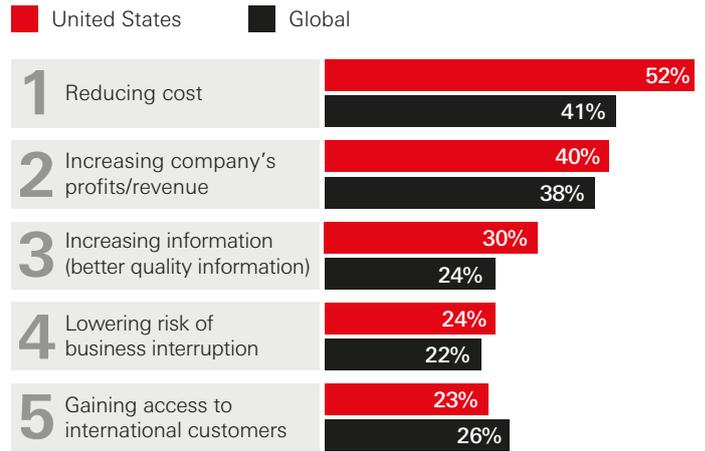
Fig. 5: Supply chain changes for goods

#### Top 5 planned supply chain changes in the next 3 years



Source: TNS Kantar

#### Top 5 objectives behind the changes

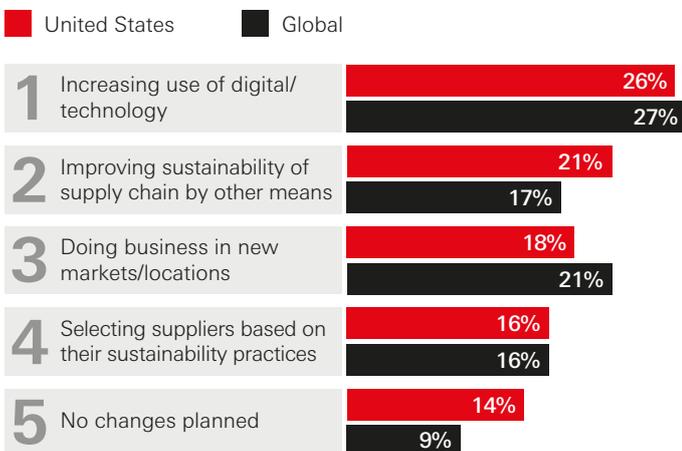


As for services (Fig. 6), just over a quarter (26%) of US firms report that increased use of technology is a top change they plan for their supply chains, followed by improving sustainability. As with goods supply chains, cost reduction and increasing profits or revenue are the most frequently cited objectives.

It is also notable that respondents view sustainability issues as important in their business decisions. Across both the goods and services sectors, around two thirds of US firms say ethical and environmental sustainability is important to their organisation, on a par or ahead of the global average.

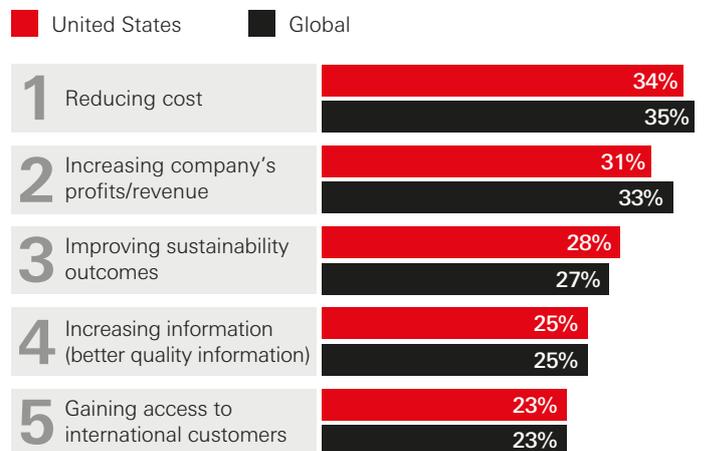
Fig. 6: Supply chain changes for services

#### Top 5 planned supply chain changes in the next 3 years



Source: TNS Kantar

#### Top 5 objectives behind the changes



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## About HSBC Navigator US

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 8,650 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 34 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, 500 businesses were surveyed in the US. Global results are based on an average of the 34 markets (using weights based on each market's share of world trade). The survey was conducted over a six week period from July to September 2018.

Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

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