

June 27th, 2023

Supply Chain Risks

What is the importance of the global supply chain?

The debt ceiling is a legal limit on the amount of money that the US government can borrow to fund its operations. If the debt ceiling is not raised or suspended by June 1st, 2023, the government may not be able to pay its bills on time, which could lead to a default on its debt obligations. Debt limit is currently set at \$31.4tn.

This situation is not new; in 2011 the US government came close to defaulting on its debt for the first time in history. The longest shutdown lasted 35 days from December 21, 2018, through January. 25, 2019. A 16-day shutdown began on October 1, 2013. Two brief shutdowns occurred in January and February 2018.

What are the risks?

- The US government may be forced to delay or reduce payments to its creditors, such as bondholders, Social Security recipients, and military personnel.
- US credit ratings could be damaged and make it more expensive for the government to borrow money in the future, leading to higher interest rates and slower economic growth or recession. Reaching an agreement before June 1 would likely limit the economic damage, but the risk of a credit downgrade persists, like in 2011.
- Financial volatility would increase and likely cause a negative impact on the stock, bond and credit markets. Consumer confidence could be impacted and recession possibilities may increase. Back in 2011, a similar standoff triggered an unprecedented credit downgrade of the US government and a 16% drop in the S&P 500 over the span of 10 days.

How could we respond?

Running scenario analysis

Different scenarios can be defined: a Brinkmanship, a Short Default or a Protracted Default. Even a short debt limit breach could lead to a decline in real US GDP. A protracted default would likely lead to severe damage to the US economy, with job growth swinging from its current pace of robust gains to losses numbering in the millions.

Identify vulnerabilities and responses

Our business and markets may be exposed to a different degree of vulnerability to macroeconomic and financial conditions. It is important to answer questions like: how will a recession impact the level of subscribers? How much will advertising sales revenue be affected? Analyzing the impact of the economic slowdown started in 2022 can provide some answers.

Analyzing risk interconnectivity

Risks do not manifest themselves in isolation. They are interconnected. For example, the fear that the US government may abruptly suspend spending causes general uncertainty, an increase in interest rates and, consequently, greater credit risk and a lower propensity to consume and invest.

Next Steps

An agreement in Congress between Republicans and Democrats is needed to modify or suspend the debt ceiling. Democrats are calling for a "clean" measure to raise the debt limit - that is, one that is not tied to any other legislative measures. Republicans want to roll back the expansion of federal programmes. They want to limit federal spending - or, at least, spending on Democratic priorities. Intense negotiations are expected in the next few weeks.

