March Macro Brief

The productivity imperative

March 29, 2024

Accenture Strategy

Macro Foresight

About this document

The monthly brief is intended to inform executive teams, boards and investors on the state of the economy. It has been prepared based on data as of **March 23, 2024**.

Each brief includes a summary of global business-relevant macroeconomic developments, and a set of indicators that track the overall health of the economy, business activity and consumers.

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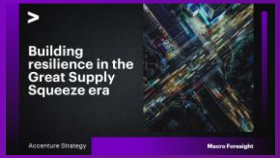

See our recent monthly macro briefs:

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Year-end 2023: Into the fog of winter
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Executive Summary

Global themes

- **Recent economic data remain largely consistent with the late-stage dynamics of the post-pandemic normalization cycle (as predicted in our 2024 outlook), including:**
  - A bottoming out of the global manufacturing slump, with new orders beginning to rebound after a year of inventory destocking
  - Further softening of consumer spending in the US and most of Europe, as the impulse from pent-up services demand continues to fade
  - Continued wage catch up dynamics (e.g., record pay hikes in Japan) as workers secure compensation for past real income erosion
- **The pipeline of supply-related cost pressures is again building.** Producer price inflation in the US and UK is creeping up amidst ongoing Red Sea shipping disruptions and dislocations in certain commodity markets (e.g., cocoa). Though most of these may prove transitory, they are manifestations of a more structural Supply Squeeze currently underway, which will drive higher inflation and volatility for some time to come.
- **In this environment of moderating demand and persistent cost pressures, the outlook for corporate profitability and economic growth increasingly hinges on productivity.** Though productivity growth in the US has rebounded in recent quarters, it remains sluggish or declining throughout most of Europe and in China and Japan. This will weigh on longer-term growth prospects unless some uplift is realized.

Regional highlights

Americas	Europe, Middle East and Africa	Asia-Pacific
• In the **US,** productivity growth has recovered to its pre-pandemic trend, but will likely need to accelerate further to offset structural rise in cost pressures, including from higher insurance costs • **Canadian** small businesses are facing intensifying bankruptcy pressures after deadline for repaying government aid loans has passed	• In **Germany,** recent declines in working hours and productivity per hour bode poorly for the economic outlook • **UK** productivity growth also remains muted, weighing on corporate profitability • In the **Middle East**, Red Sea shipping disruptions continue to affect trade costs	• **China** is reinvigorating its productivity agenda to counteract a demographic drag and diminishing returns to physical investment • The Bank of **Japan** raised interest rates for the first time in 17 years, ending a longstanding policy of negative rates

Key considerations and priorities for clients

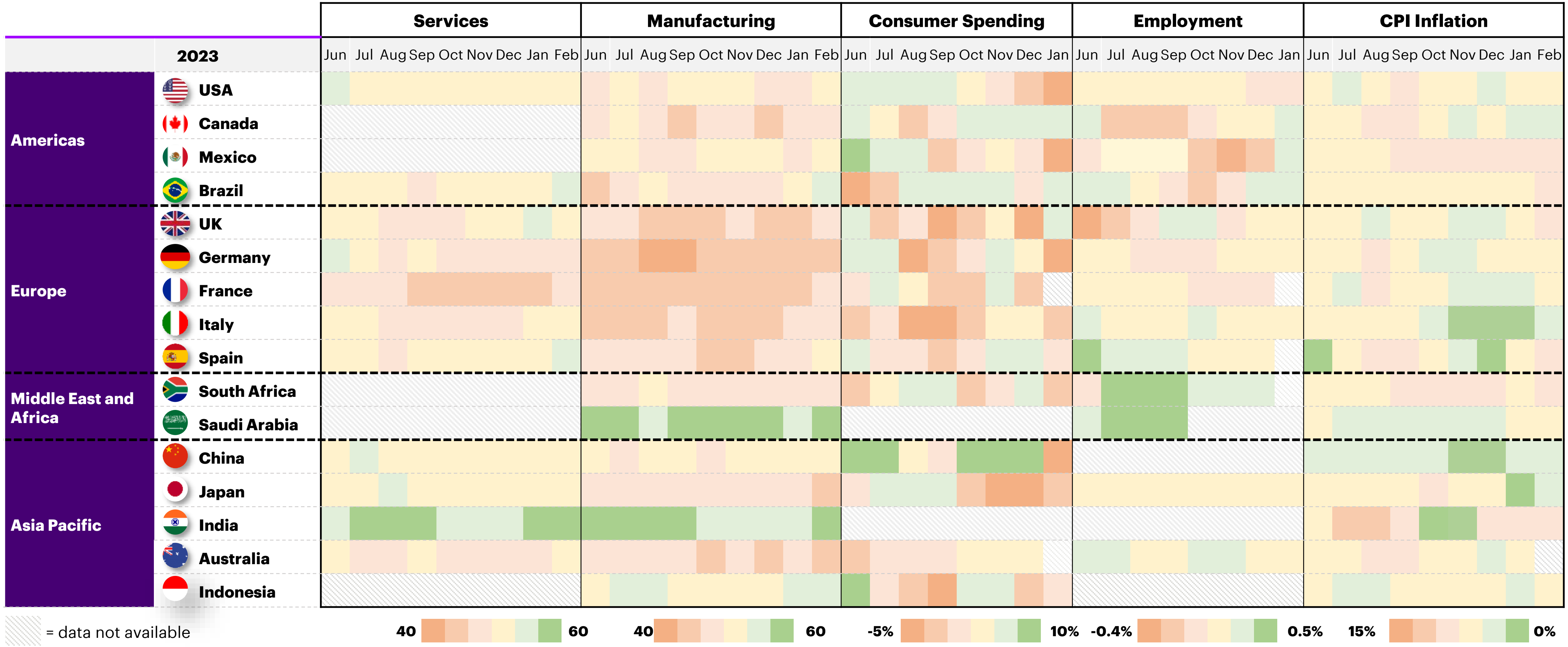
- **Companies will need to double down on their productivity agendas to drive top-line growth and maintain profitability.** This includes GenAI adoption across business functions, improved talent sourcing and management, and innovation-oriented capital and R&D planning.
- **Preparing for continued supply uncertainty and cost pressures will also be critical to building financial and operational resilience, including through:**
  - Supply chain reinvention strategies such as supplier diversification, on/near-shoring, and improved risk assessment capabilities
  - Embedding scenario planning more broadly across the business to better anticipate and manage higher supply and cost volatility

Source(s): Accenture Strategy analysis

The balance of recent data points to a bottoming out of the manufacturing slump in most regions, softening consumer spending, and moderating disinflationary momentum

Country economic momentum snapshot

AS OF MAR 22



Notes: Services and Manufacturing metrics refer to PMI services activity and PMI manufacturing output as provided by S&P Global and may include preliminary "flash" figures, shading is based on most recent result. South Africa and Saudi Arabia manufacturing numbers refer to the whole economy. Consumer spending shading based on real retail sales growth 3MMA percent change except for Australia which is based on Q/Q % change. Employment growth is derived from employment figures as provided by government authorities. CPI uses harmonized figures for Euro Area countries.

Sources: S&P Global, Haver Analytics, Accenture Strategy analysis

A consumer-led growth downshift alongside still-elevated inflation is base case for the US economy; continued stagnation or mild recessions are most likely throughout Europe

Latest economic outlooks: Americas and Europe

AS OF MAR 25

		Key recent datapoints	Base case outlook	What to watch for
Americas 	US	• Core inflation momentum accelerated further in Feb on the back of services price pressures • Labor market remains resilient, adding 275k jobs in Feb, with wage growth still near 5% • Retail sales rebounded slightly in Feb but are still down relative to end-2023 levels	• A "weakflation" scenario, characterized by consumer-led downshift in growth and persistence of above-target inflation due to supply-side cost pressures	• Further acceleration in core inflation delaying the timing of Fed's rate cuts • Consumer spending inflection, led by lower-income households • Intensifying credit crunch for small businesses from CRE stress on banks
	Canada	• Inflation slowed in February, suggesting the BoC may cut interest rates by mid-year 2024 • The national composite MLS Home Price Index benchmark seems to have hit a bottom	• Tight financial conditions, weakening external demand and housing market distress are expected to keep growth muted in the near term	• BoC more strongly indicating a move toward interest rate cuts • Further bankruptcies now that govt. loan repayment deadline has passed
	Brazil	• Monthly GDP tracker and PMIs suggests uptick in growth momentum at start of 2024 • CPI inflation came in higher than expected in February, driven by a surge in education prices	• Moderating growth relative to 2023 due to normalization of agricultural output, which saw unusually-strong harvest season last year	• Strength of agricultural harvest in 2024 amidst shifting climate patterns • Ongoing uncertainty regarding planned tax reforms and overall fiscal trajectory
Europe 	UK	• Latest PMIs suggest economy is rebounding from its mild recession in late 2023	• Sluggish growth expected for rest of the year, albeit a brighter outlook relative to EU peers • Expect consumer spending to remain resilient despite sticky housing driven inflation	• BOE might need to reconsider stance if Fed and ECB resort to cuts • Election year driven fiscal expansion (e.g., additional tax relief)
	Germany	• Ifo business climate index rose in March due to improved current assessment and expectations but remains on low levels • Inflation further declined in Feb to 2.5%, lowest since Jun '21	• Continued weakness in manufacturing, slowing export demand from China, high energy costs and restrictive fiscal rules are expected to keep growth stagnant in the coming quarters	• The effectiveness of recent approved growth package and further initiatives to stimulate industrial competitiveness and exports
	France	• Business climate improved back to its long-term average due to more favorable business situation • Stable employment climate despite declining hiring prospects in the service sector	• Continued muted growth despite falling inflation and rising consumer confidence due to fiscal budget cuts and economic slowdowns in Germany and China	• Further fiscal cuts due to higher budget deficit and the industrial investment plan in the face of the ruling minority government in the parliament

Source: Accenture Strategy analysis

China is expected to transition to slower growth path as it confronts structural challenges; Japan's economy is expected to be sluggish while India continues to thrive

Latest economic outlooks: Asia-Pacific

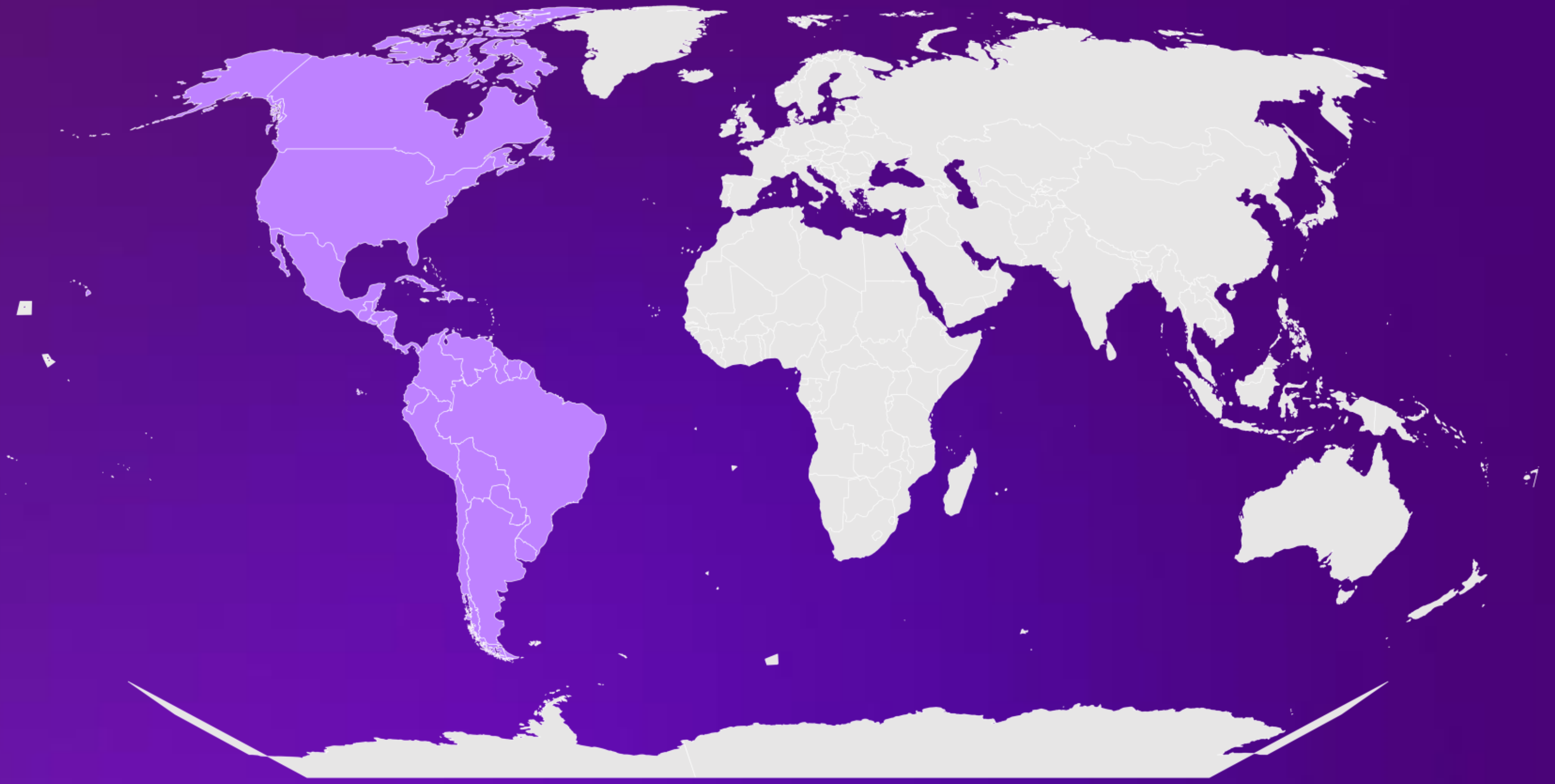
AS OF MAR 25

		Key recent datapoints	Base case outlook	What to watch for
Asia Pacific	China	• Slightly softer rise in services activity was offset by a quicker increase in manufacturing output, though the official NBS and private Caixin manufacturing PMI surveys continue to diverge • Announced investments in "new productive forces" following the Two Sessions meeting	• Subdued consumer confidence amid property sector challenges, soft external demand and limited policy stimulus in the near-term • Growth continues to trend down towards the slower (3-4%) potential rate associated with China's materializing structural challenges	• Extent of government policy support to prop up flagging growth and distressed property market • Export performance in targeted "New Three" sectors (EV, batteries, solar)
	Japan	• Bank of Japan raised its policy rate for the first time in 17 years • 18th straight month of service PMI expansion, though at a slower rate than January • Revised Q4'23 GDP growth figures mean Japan narrowly avoided a recession • Shunto wage negotiations resulted in 5.3% rise	• GDP growth is expected to remain sluggish in 2024 as still-negative real income growth weighs on domestic demand and last year's strong export rebound (powered by pent-up auto and tourism demand and a weak yen) moderates	• Degree of moderation in tourism and auto export growth, especially in light of ongoing yen weakness • Extent of additional BoJ policy tightening now that it has ended its zero interest rate policy and yield curve control
	India	• Manufacturing and services output continued to accelerate in February, reaching a 7-month high • Buoyant demand conditions and continued inbound investment drove new orders and overall activity	• Some moderation in growth momentum amidst slowing global demand, but still enough to maintain India's position as one of the fastest-growing major economies in 2024, continuing the trend from 2023 and 2022	• Resilience in domestic demand and strong growth in capital expenditure • Signs of manufacturers or other companies shifting supply chains to India
	Australia	• Services sector growth turned positive in Feb, though manufacturing remains in decline • More positive data from China boosted the AUD	• Growth is likely to remain subdued as cost-of-living pressures and high interest rates continue to weigh on domestic demand	• Impact of positive wealth effects from recent house prices increases on consumer spending • Ongoing drag on Australian exports from China's economic slowdown
	Indonesia	• Manufacturing sector continued to expand in February, with solid domestic demand supporting growth in new orders and output, while foreign demand stagnated	• Growth is expected to be resilient in 2024 as inflation pressures ease slightly and consumer spending remains relatively strong • Headwinds remain from slowing external demand and persistently elevated interest rates	• Potential economic policy shifts when new President-elect takes office • Continued measures to manage sluggish external commodities demand and inflation in food prices

Source: Accenture Strategy analysis

Spotlight developments

Americas

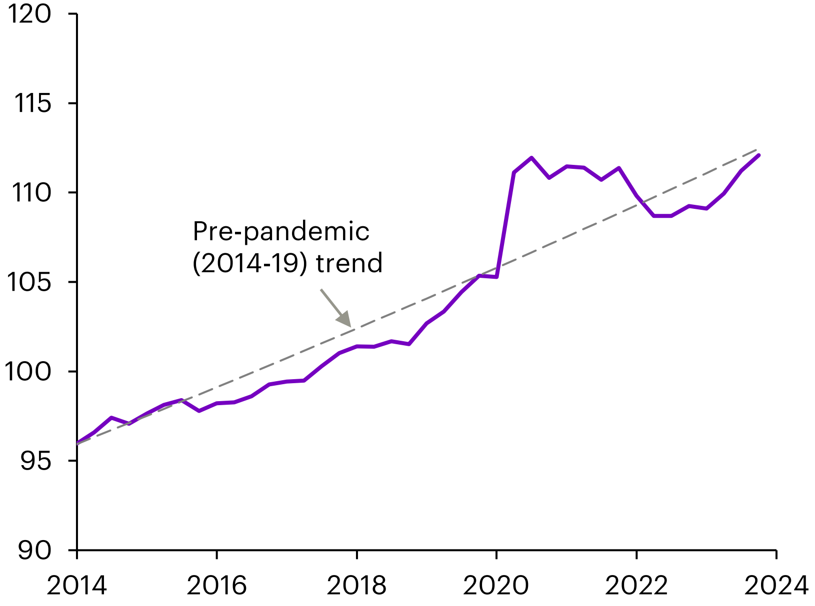


US labor productivity growth has returned to its pre-pandemic trend but remains below longer-term averages; a further uplift will be key to offset rising structural cost pressures

Productivity trends in the US

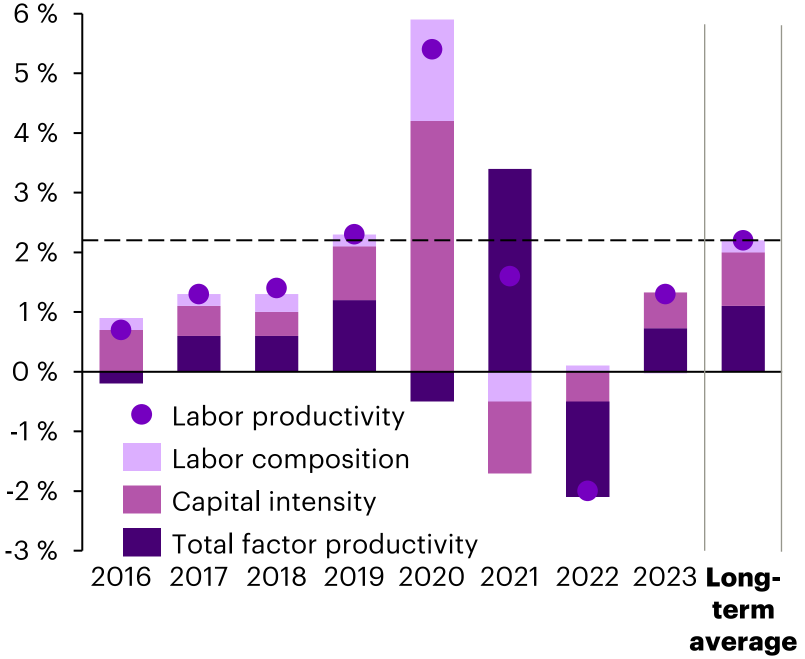
Real labor productivity

Private nonfarm business sector (Index, 2017 = 100, seasonally adjusted)



Contributions to labor productivity growth

Percent; long-term average is for the 20-year period preceding the global financial crisis (1988-2008)



Implications for corporates

- Although productivity has reverted to its pre-pandemic growth trend, businesses face a host of new structural cost pressures
  - Financial: structurally higher interest rates and tighter liquidity
  - Labor: shrinking supply and growing labor power
  - Commodities: tighter supply of oil, gas and critical minerals
- Companies able to boost productivity growth will be able to better control costs and protect margins without cutting headcount
- GenAI should be key productivity booster in the medium-to-long term

Commentary

- After a spike and then a downward correction due to pandemic-related fluctuations in labor utilization, labor productivity (output per working hour) in the US appears to be returning to its pre-pandemic trend growth rate of roughly 1.4%, which already was slower than the 20-year pre-GFC average of 2.2%
- The productivity rebound in 2023 was driven mainly be a rise in capital per worker (capital intensity) and multi-factor productivity (i.e. efficiency), possibly reflecting firms making more selective and productivity-focused investments in a higher interest rate environment
- Productivity contributions from improvement in the average skill level of the workforce were absent in 2023, suggesting that recent rebound in labor supply has been mainly in relatively lower-skilled workers

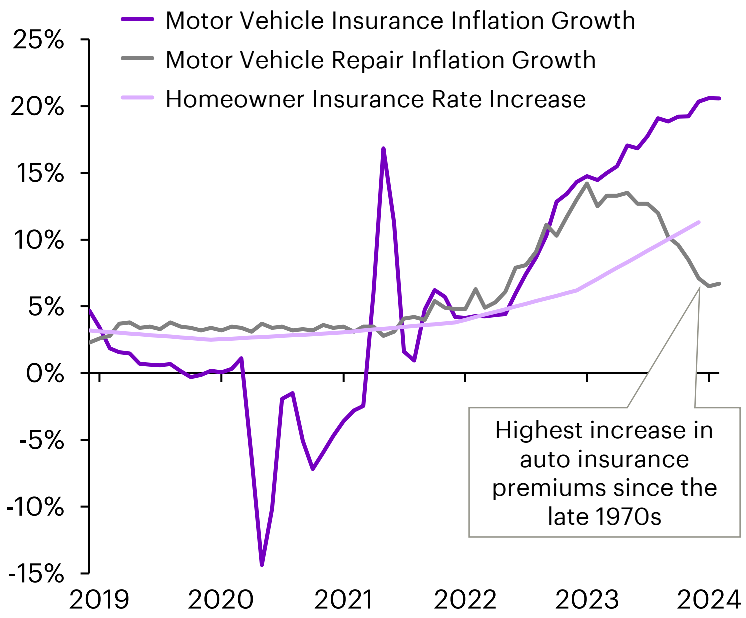
Sources: US Bureau of Labor Statistics, Haver Analytics, Accenture Strategy analysis

Auto and home insurance premiums have spiked as insurers factor in growing natural disaster risk, repair and maintenance costs

Insurance inflation in US

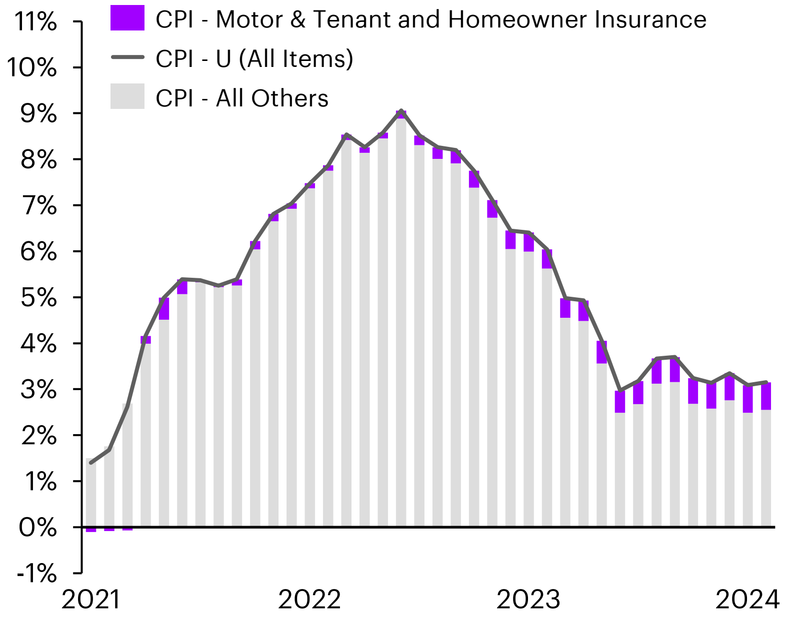
Motor vehicle and home insurance inflation

Year-on-year annual change (%)



Insurance contribution to CPI inflation

Year-on-year annual change (%)



Implications for corporates

- High homeowner insurance premiums could lead to owners underinsuring properties and skipping coverage for damage from certain disasters that are not prevalent in the area
- Customers for home and motor insurance are likely to buy bundled and customizable policies to unlock discounts
- Vehicle-intensive businesses are likely to be impacted by the increase in motor vehicle insurance costs, and could potentially pass these costs on to end consumers
- With the increased frequency and severity of climate change-related natural disasters, insurers are likely to continually increase premiums, putting pressure on both individual and company insurance expenses

Commentary

- Car insurance rates are at a nearly 50-year high, not only because of extreme weather and crime but also an increase in the prices and complexity of new cars making repairs more expensive
  - Motor vehicle maintenance and repair costs in the U.S. increased by 6.7% y-o-y in February, outpacing the overall CPI inflation rate of 3.2%
- The increase in the number and severity of hurricanes, floods, tornadoes and other harsh weather has led to a spike in home insurance claims, driving up premiums for homeowners by 11.3% in December 2023

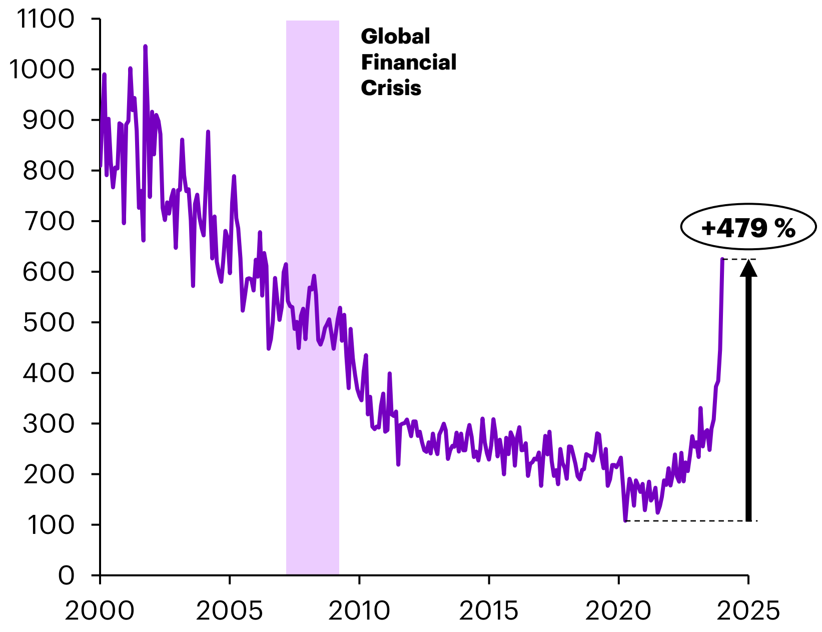
Sources: Bureau of Labor Statistics, S&P Global, Accenture Strategy analysis

Small business in Canada are facing are facing intensifying bankruptcy pressures after deadline for repaying government aid loans has passed

Corporate bankruptcies in Canada

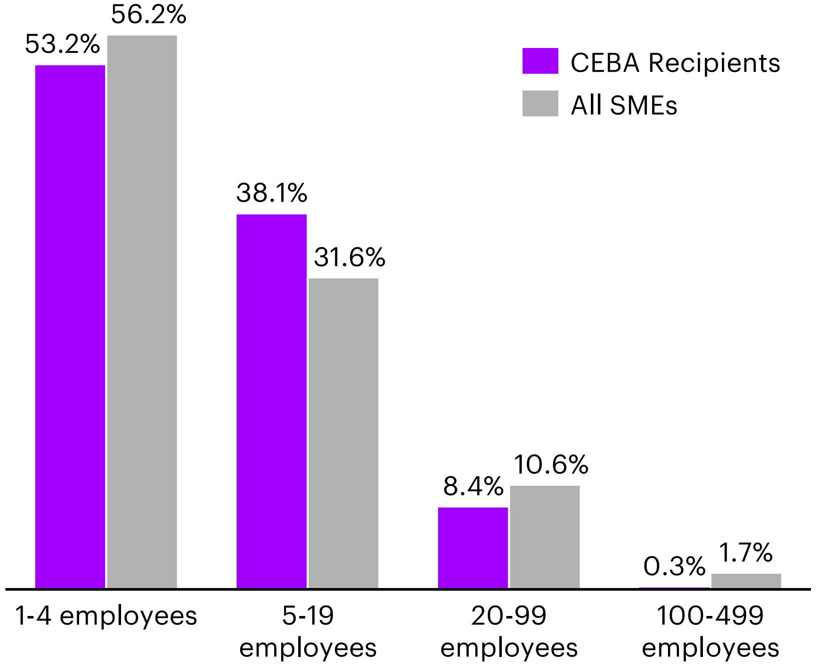
Business Bankruptcies

Number of bankruptcies per month, All industries



CEBA recipient distribution

Distribution of CEBA loans by number of employees, All industries



Implications for corporates

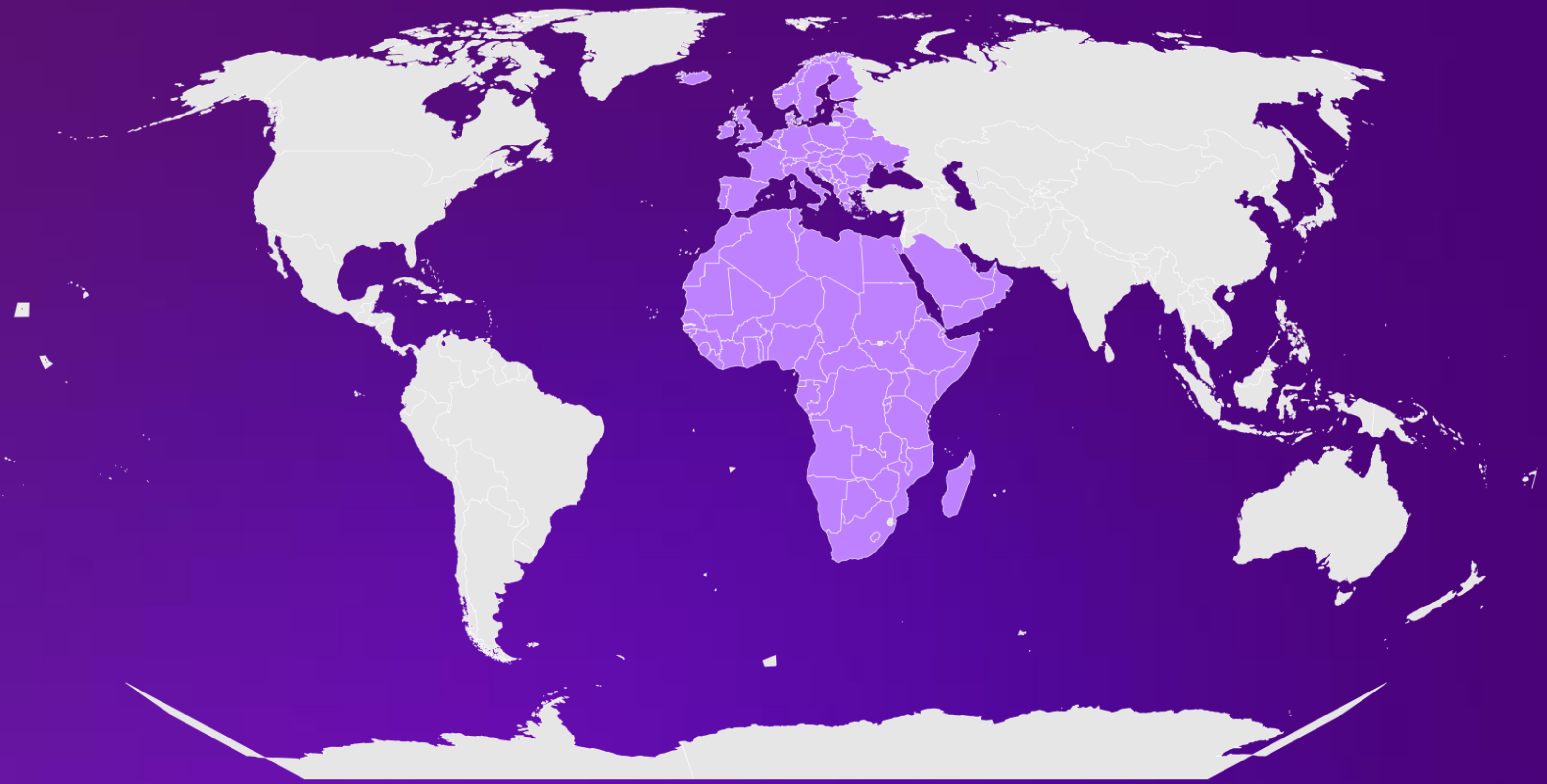
- Further bankruptcies of small businesses may lead to higher unemployment and a fall in consumption
- A higher debt burden, paired with high interest rates, is likely to weigh on business investment and thus the broader economic outlook
- Continued bankruptcies among smaller enterprises could result in long-term economic scarring, e.g:
  - persistent unemployment
  - reduced business dynamism
  - cautious investment in innovation

Commentary

- More than 885,000 small businesses took out CAD 60,000 interest-free Canada Emergency Business Account (CEBA) loans during the pandemic, amounting to a total of CAD 48 billion; two thirds of the loans had to be repaid by January 18, 2024
- About a fifth of small businesses have not repaid their loans and a quarter missed the deadline; CFIB estimates that around 225,00 small business took out a bank loan to refinance, at a time when interest rates are at an all time high
- Small businesses provide jobs to almost two-thirds of Canada’s workforce; an uptick in bankruptcies is likely to have an outsized impact on the economy

Sources: Government of Canada Statistics, ISED/Haver Analytics, Accenture Strategy analysis

Europe, Middle East and Africa

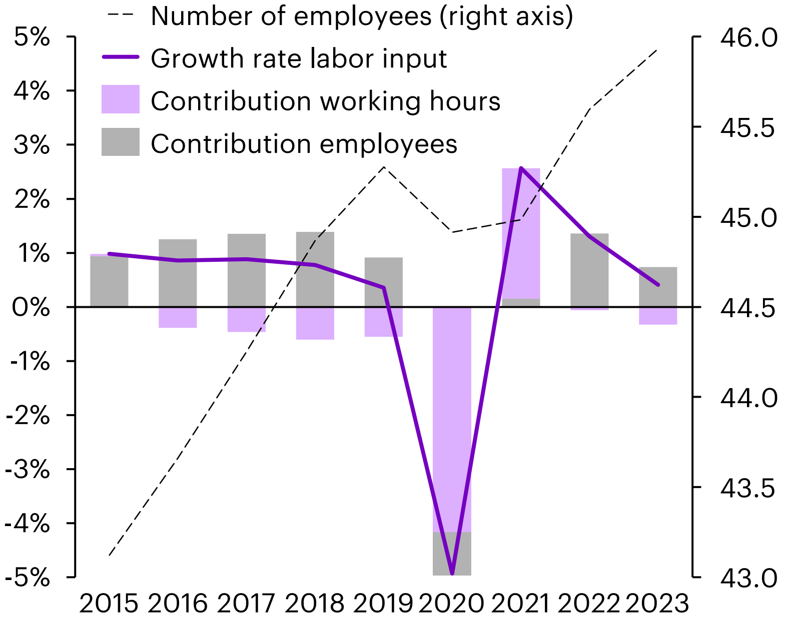


While the size of Germany's workforce is at a record high, declining working hours and productivity bode poorly for the economic outlook

German labor market trends

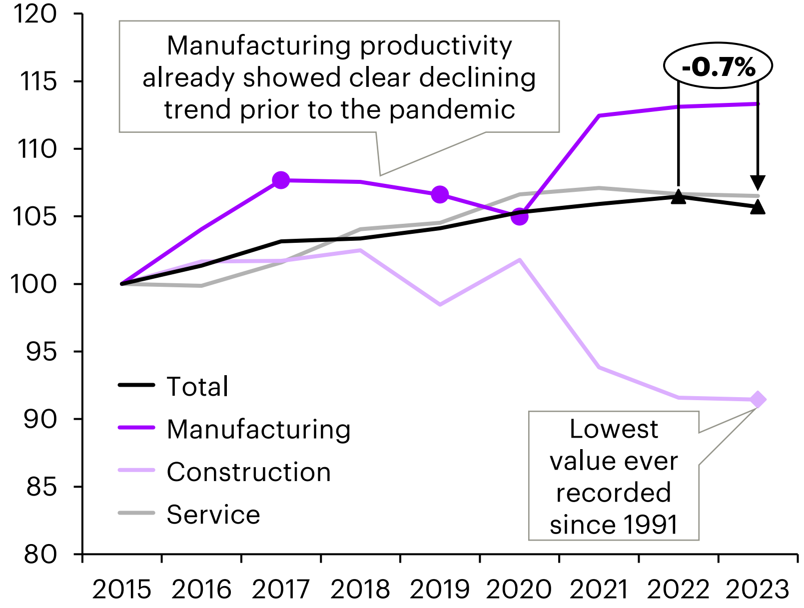
Employees and labor input as YoY % change

Contribution to change from number of employees and hours



Labor productivity per working hour

Index (2015 = 100, seasonally adjusted)



Implications for corporates

- Falling labor productivity in Germany raises concerns for economic prospects, given an aging and shrinking population and wider public desire to further reduce working hours (e.g., 4-day week)
- Companies will need to provide better framework conditions (e.g., flexible working models) to further attract and sustain talent
- To gain competitive advantage, companies should prioritize boosting productivity via:
  - workforce re- and upskilling
  - automation
  - adopting advanced technology incl. generative AI

Commentary

- Driven by increased immigration and domestic labor force participation, employment reached a record-high level of 45.9 million in 2023
  - In the medium term, however, Germany can expect a demographic headwind to labor supply from an aging population
- Despite growing employment, average working hours have been declining and negatively affecting the growth rate of total labor input
- Labor productivity per working hour has also been falling, particularly in construction sector due to an increase in low-skilled subcontractors and longer working hours

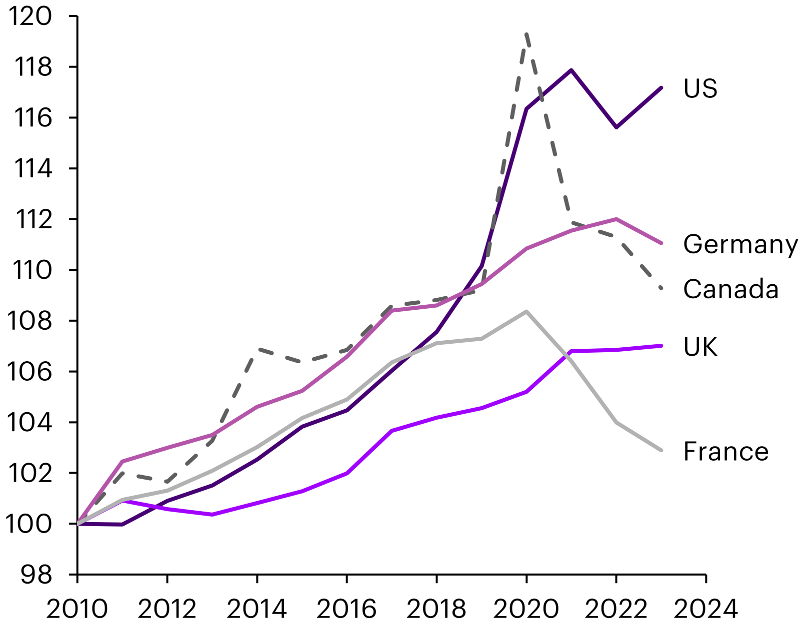
Sources: Federal Statistics Office (Destatis), Deutsche Bundesbank, Eurostat, Bauindustrie, Haver Analytics, Accenture Strategy analysis

Strategic investments in workforce skills and technology adoption are critical for UK companies to sustain profitability given a history of weaker productivity growth

UK productivity and corporate profitability

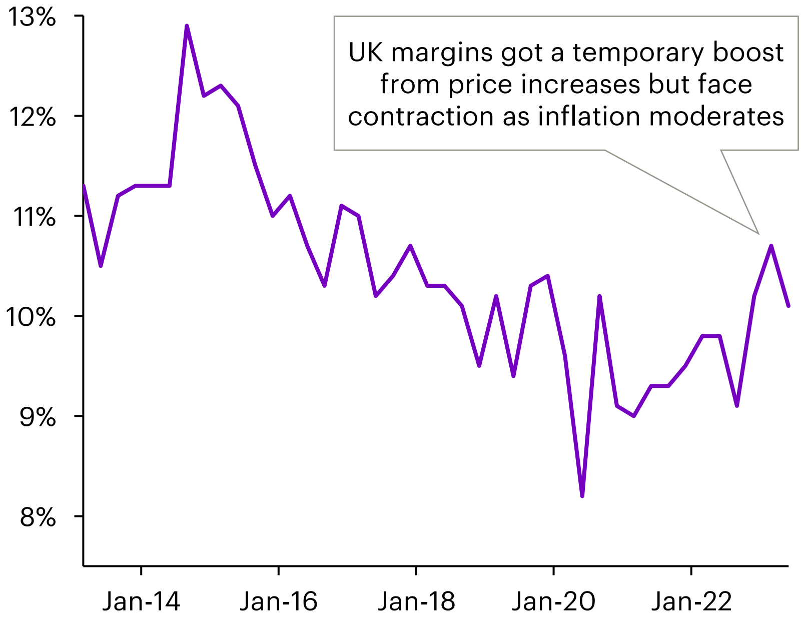
UK productivity in international context[1]

Real output per hour (index, 2010=100, seasonally adjusted)



Profitability of UK firms at risk of contraction

Net profit on capital employed (%) for non-financial firms[2]



Implications for corporates

- By proactively addressing the productivity challenge through a dual focus on workforce development and technological adoption, UK companies can position themselves to maintain profitability and competitiveness, even in the face of a tight labor market
- Companies can address productivity challenge by:
  - Prioritizing employee training and upskilling initiatives
  - Investing in technology that can help boost productivity (e.g., automation tools, analytics)

Commentary

- Productivity has long been a challenge for the UK economy—its productivity growth in the decade prior to the pandemic period lagged key G7 peers
- In the past couple of years, UK corporates have been able to offset some of the impact of lower productivity growth by passing on price increases to customers and increasing margins; however, recent declines in inflation suggest this trend may be coming to an end
- Moreover, UK labor market remains tight and wage pressures persist; unless labor market weakens, corporates might face further pressure on profits

Note: (1) US time series is for nonfarm business sector; UK figure for 2023 is based on average over first 3 quarters of the year; (2) Based on ONS' preferred indicator 'net rate of return' to measure the profitability of private non-financial corporations (PNFCs) in the UK

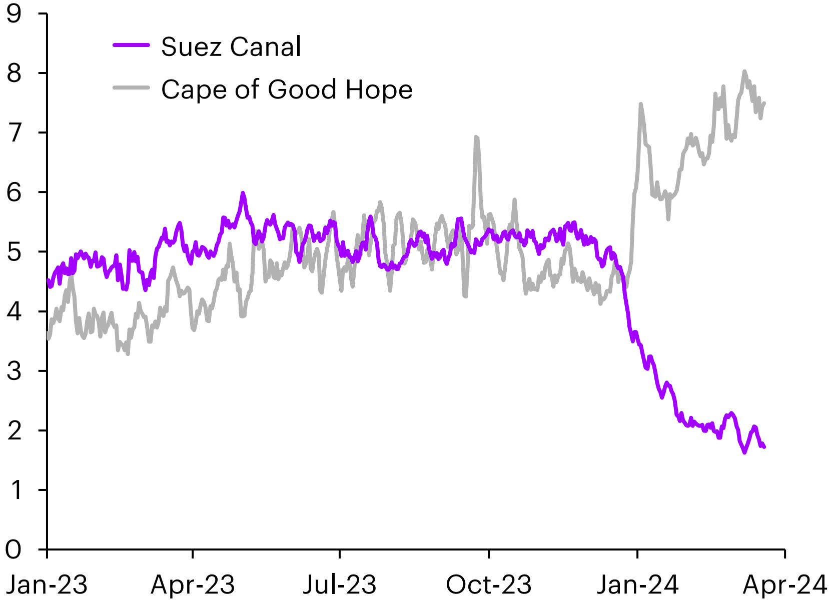
Sources: Haver Analytics, Office of National Statistics (ONS), Accenture Strategy analysis

The Red Sea shipping crisis has led to the price of some shipping routes increasing by almost 500%, creating ongoing inflation and profit margin pressures

Middle East shipping disruptions

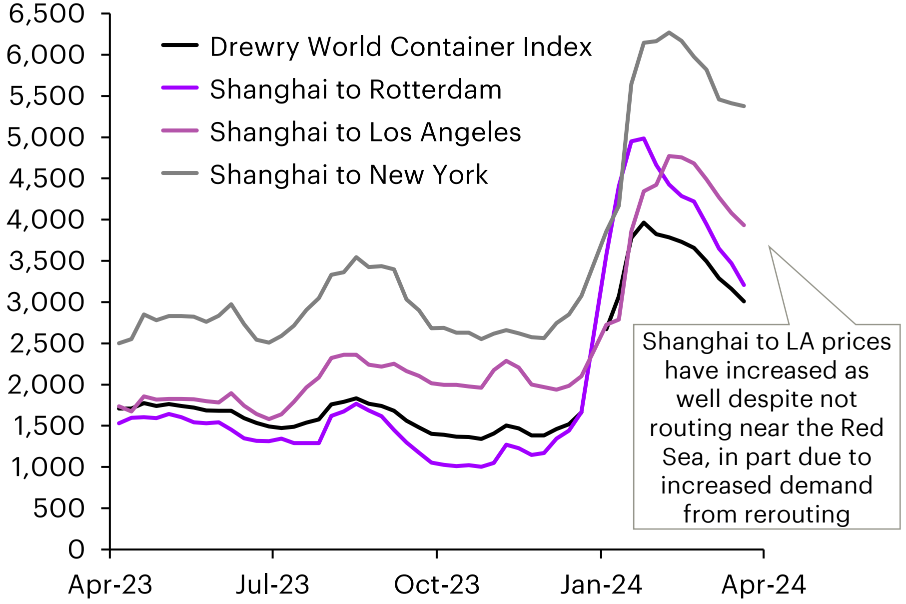
Daily maritime transit trade volume

Million metric tons (all vessel types, 7-day moving average)



Ocean freight costs

USD/40ft



Implications for corporates

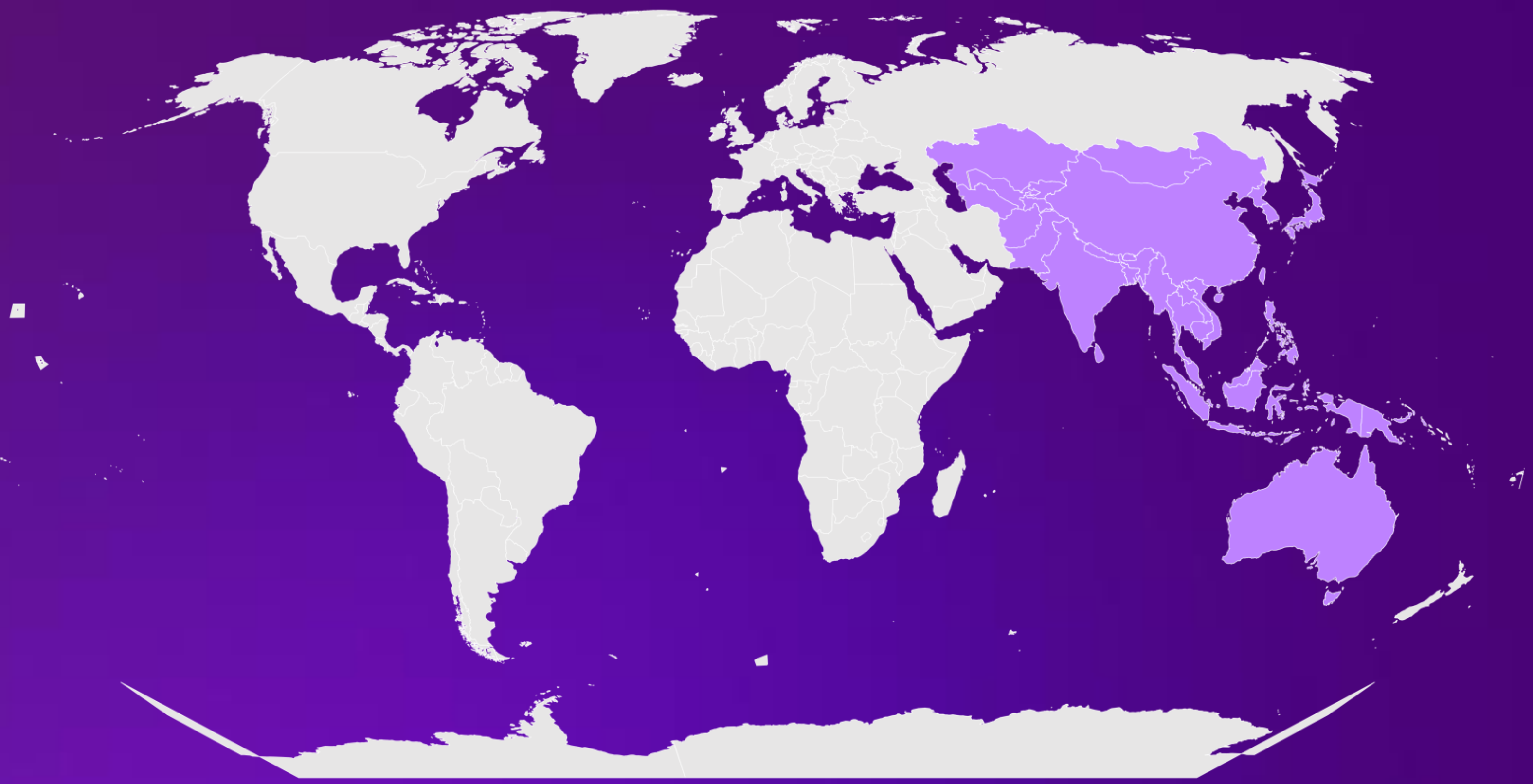
- Retailers dependent on sea freight imports from Asia could see significant cost pressure if the disruptions extend beyond time horizon of existing price hedges
- Automotive firms are also highly exposed, given their supply chain is exceptionally reliant on China for EV inputs, leading to compounding production delays
- Tech companies shipping larger items (e.g., TVs) are relatively more vulnerable, since those shipping smaller items e.g., smartphones tend to rely more on air freight

Commentary

- Attacks by Houthi rebels on ships in the Red Sea have driven up costs for the 30% of global container transit that passes through the Suez Canal, as shipping firms opt for increases in transit times of over 50% by rerouting around the Cape of Good Hope
- Elevated shipping costs will be felt in higher prices for imports and could drive core goods inflation back up; however, a post-pandemic oversupply of container ships has offset some of the price pressures and will likely facilitate a normalization of prices once disruptions subside
- Impacts to corporate profit margins will depend on whether consumer spending weakens and diminishes firms' ability to raise prices

Sources: IMF Port Watch, Drewry, Fitch Ratings, WEF, Accenture Strategy analysis

Asia Pacific

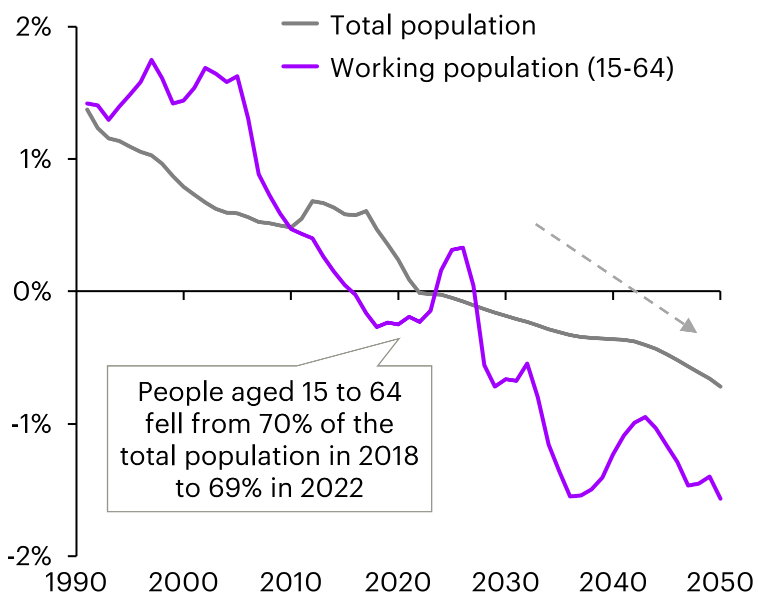


Following the Two Sessions, China is targeting productivity growth to counteract the economic drag from demographic decline and diminishing returns to physical investment

Declining population and productivity growth in China

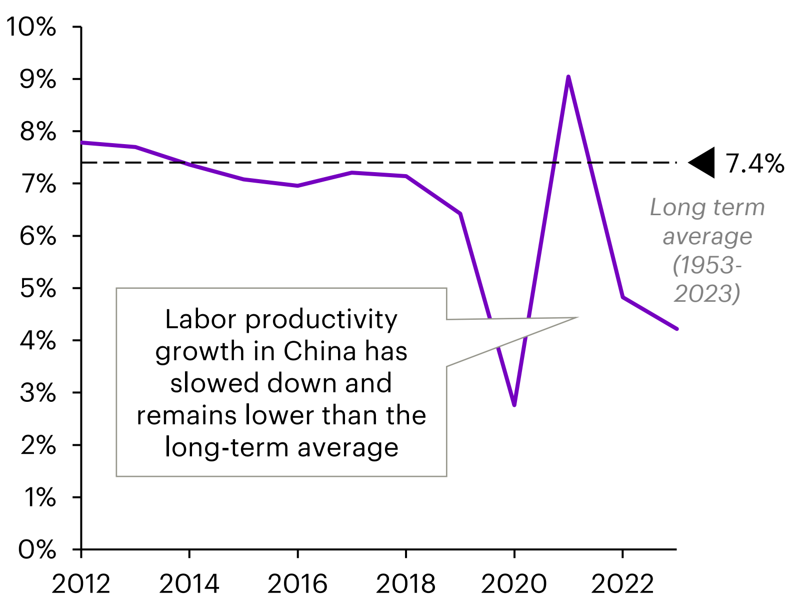
China's working population growth

Annual growth rate (%)



China's labor productivity growth

Year on year annual change (%)



Implications for corporates

- China's push to develop new productive forces is likely to increase investments in science and technology, potentially driving advances in fields such as AI and big data
- The push could entail:
  - Targeted investments in industries including electric vehicles, new materials, commercial spaceflight, quantum technology and life sciences
  - Potential state subsidies for corporates conducting R&D in these industries
- Corporates may also benefit from China's plans to upgrade aging industrial hinterlands such as the Pearl River and Yangtze River deltas

Commentary

- With a shrinking labor force, companies are accelerating technology adoption to meet labor needs and raise productivity while reducing costs
- Productivity growth has slowed in recent years as the labor force shrinks and debt-fueled growth in the property sector produces lower returns on capital; meanwhile, industrial policies have yet to result in the desired productivity gains
- At this year's annual Two Sessions meeting, President Xi's agenda focused on "new quality productive forces" to uplift productivity, foster innovation, promote technological self-reliance and shift from traditional growth drivers (e.g., manufacturing exports) to more advanced drivers

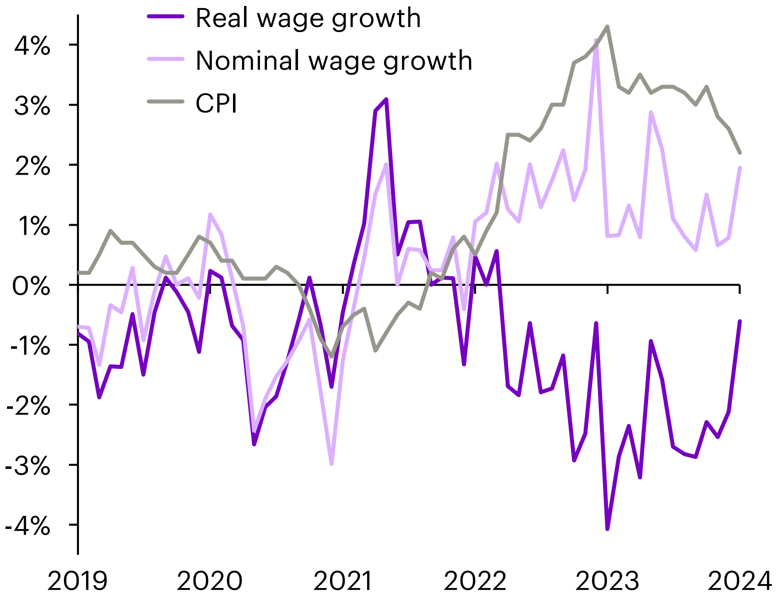
Sources: World Bank, IMF, CEIC, UN, Accenture Strategy analysis

Recent wage increases following the *Shunto* negotiations and continued yen depreciation may have been catalysts for the Bank of Japan's first interest rate hike in 17 years

Wage growth and FX developments in Japan

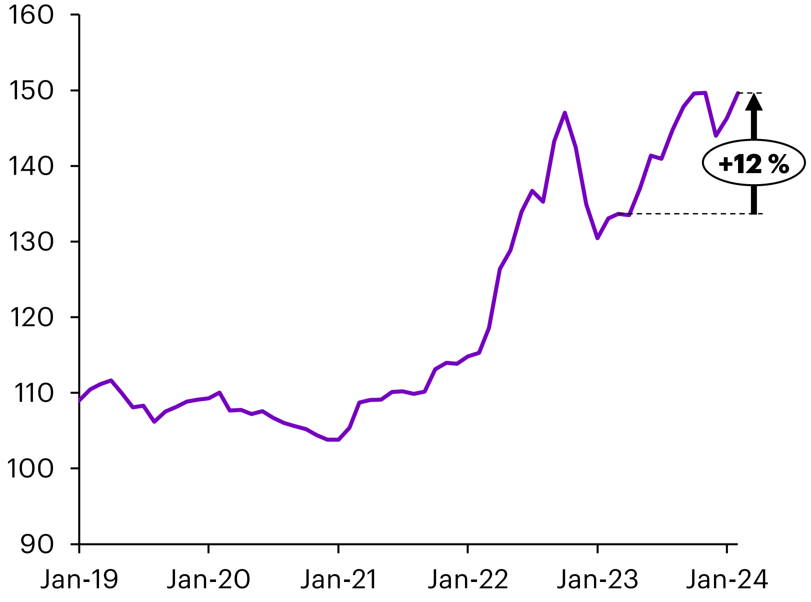
Japan wage growth and inflation

Year on year growth (%)



Foreign exchange rate of yen

Yen/USD



Implications for corporates

- Labor market conditions may continue to tighten in Japan as corporates seek to retain talent via wage increases
- BoJ's policy normalization could have varied impacts on corporates:
  - Capital inflows to Japan, potentially reducing cost of capital and/or boosting share prices
  - Continued near-term pressure on the yen, as the BoJ continues purchases of Japanese government bonds despite removing Yield Curve Control and lifting policy rate
- Corporates' access to capital may become more constrained, as monetary policy tightens and yields rise

Commentary

- The Bank of Japan (BOJ) raised its benchmark interest rate for the first time in 17 years, ending a longstanding policy of negative rates; this policy change comes after the Rengo union secured wage increases of 5.3% in negotiations with major employers—the heftiest pay rise in 33 years
- The yen fell from the 120 range against the dollar in 2016, when negative interest rates were introduced, to nearly 150 this month, likely driven by carry trades arbitraging the substantial interest rate differentials between the U.S. and Japan
- Wage hikes have recently failed to keep up with rising prices, leading to ongoing declines in real wages (22 straight months as of January 2024); rising income inequality, inflation and chronic labor shortages drove the *Shunto* increase in wages, giving strong support for the BOJ to normalize rates

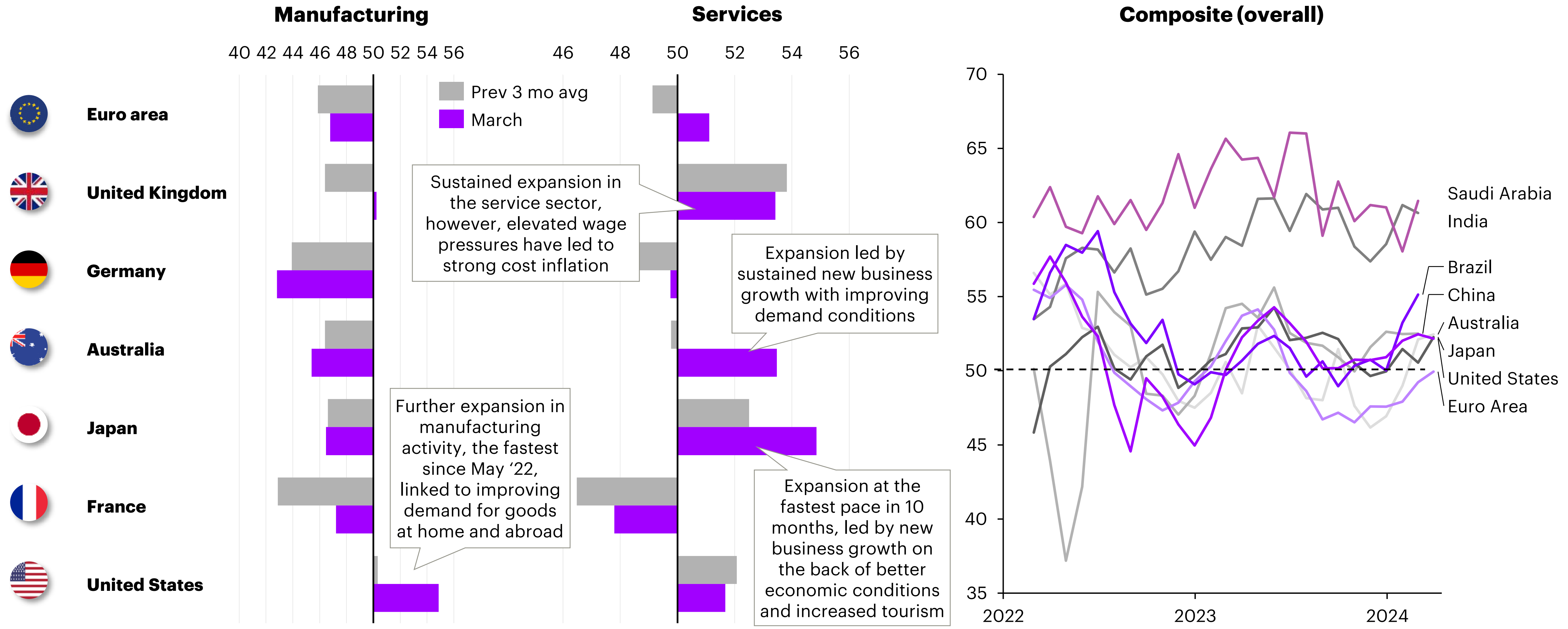
Sources: Japan Ministry of Health, Labour & Welfare, Nikkei Asia, Haver, Accenture Strategy analysis

Economic indicator chart pack

Regional and industry activity

Manufacturing remains in contraction across most major economies but is again expanding in the US; services performance is mixed

Flash PMI survey country snapshot



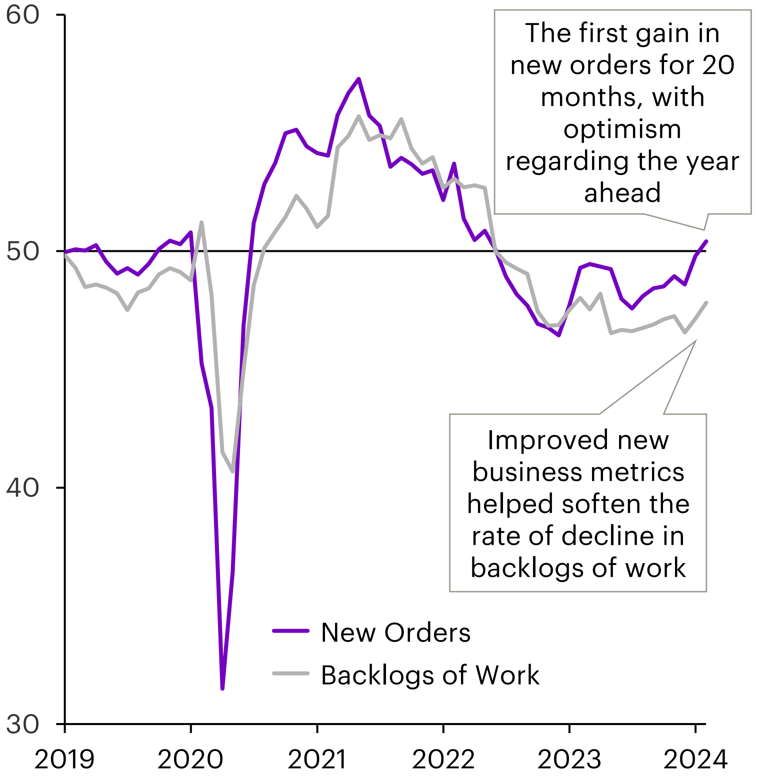
Note: A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month, most recent results may include preliminary flash figures
Sources: S&P Global, Accenture Strategy analysis

Forward-looking manufacturing indicators such as rising new orders, increasing input purchases and improving output expectations point to a stronger outlook

Leading indicators of global manufacturing momentum

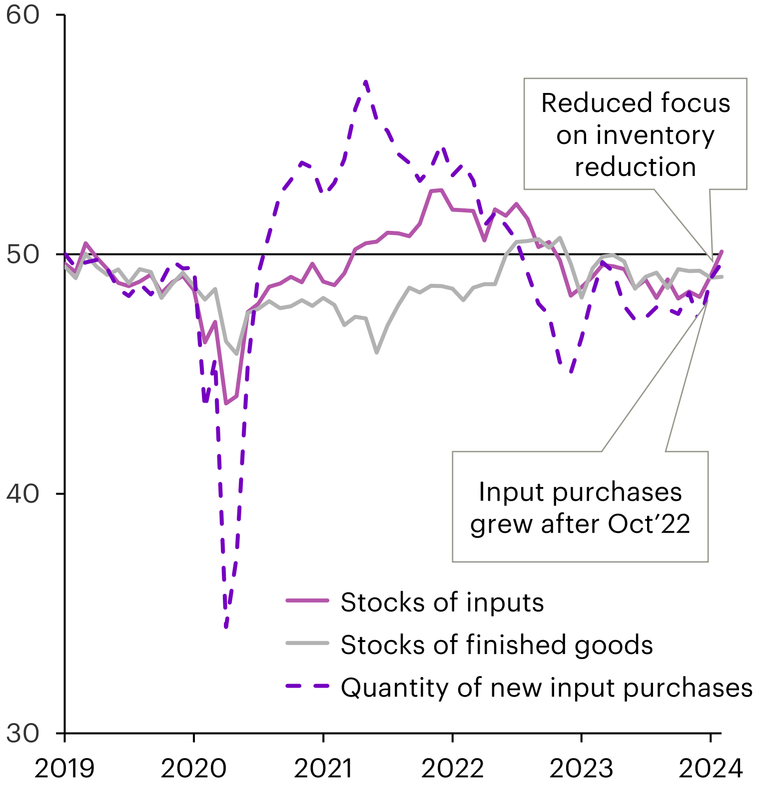
New order intake returns to growth…

Diffusion indexes (SA, 50+=Expansion)



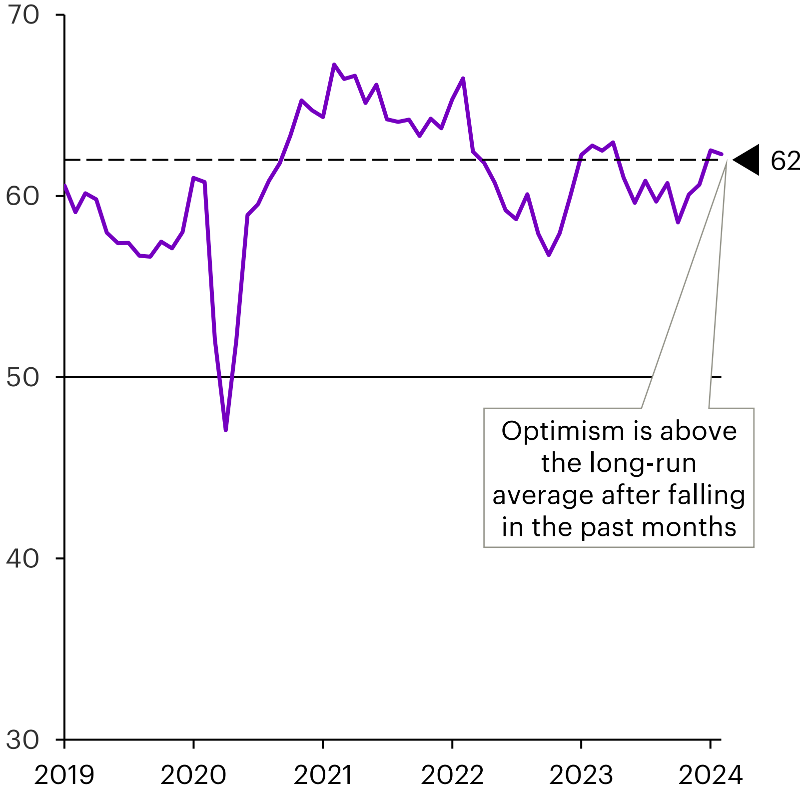
…with increasing input purchases …

Diffusion indexes (SA, 50+=Expansion)



…highlighting optimism for the 12-m outlook

Manufacturing future output (NSA, 50+=Expansion)



Notes:
1/ Data reflects global diffusion indexes, which are GDP-weighted averages in over 40 countries incl. US (21.6%), China (12.7%), Japan (7.7%), Germany (3.6%), UK (3.5%), and India (3.3%), among others. Annual weights are based on Gross Value Added (GVA) in the manufacturing sector in constant US$ from the World Bank. The select countries account for 98% of global manufacturing value added. 2/ Global manufacturing PMI indices are compiled by S&P Global from responses to monthly questionnaires sent to purchasing managers in survey panels totaling around 13,500 companies.

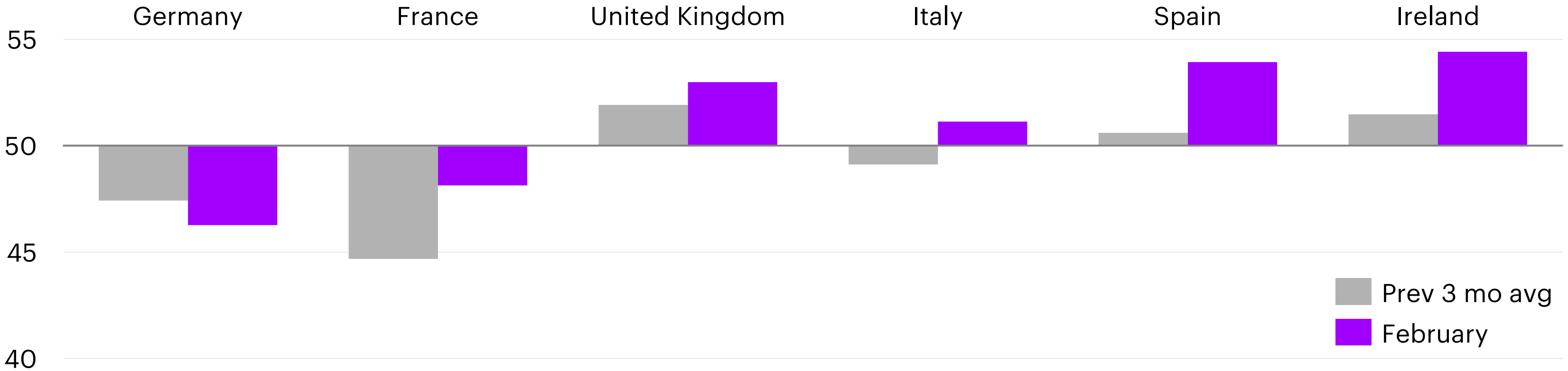
Sources: Haver Analytics, S&P Global, Accenture Strategy analysis

Business activity improved in the UK, Italy, Spain and Ireland while the downturn continued in Germany and France

Regional performance: Europe

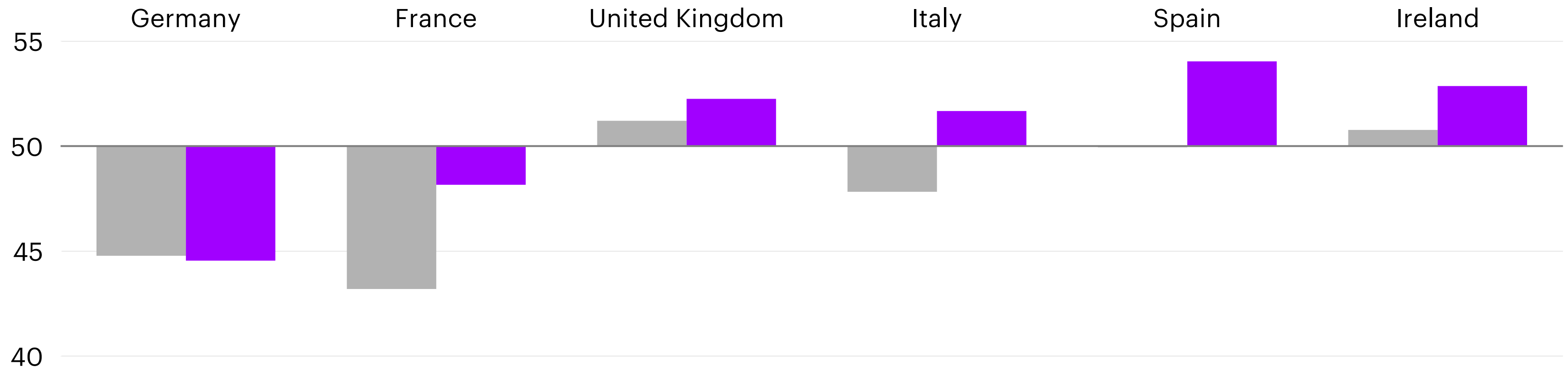
Output/activity

Feb '24 vs Previous 3 Month Average, Output/Activity PMI (>50=expansion)



New Orders

Feb '24 vs Previous 3 Month Average, New Orders PMI (>50=expansion)



Commentary

- New orders in November grew in the UK, Italy, Ireland and Spain, while the downturn slowed for France in February (relative to the recent 3-month average)
- Private sector output expanded in the UK in February, as the service sector activity continued to exhibit strong growth, while the contraction in manufacturing output eased to its slowest pace in three months
- Demand-driven upswing in Spain, with improvements in the manufacturing sector and momentum in services stemming from increased domestic demand

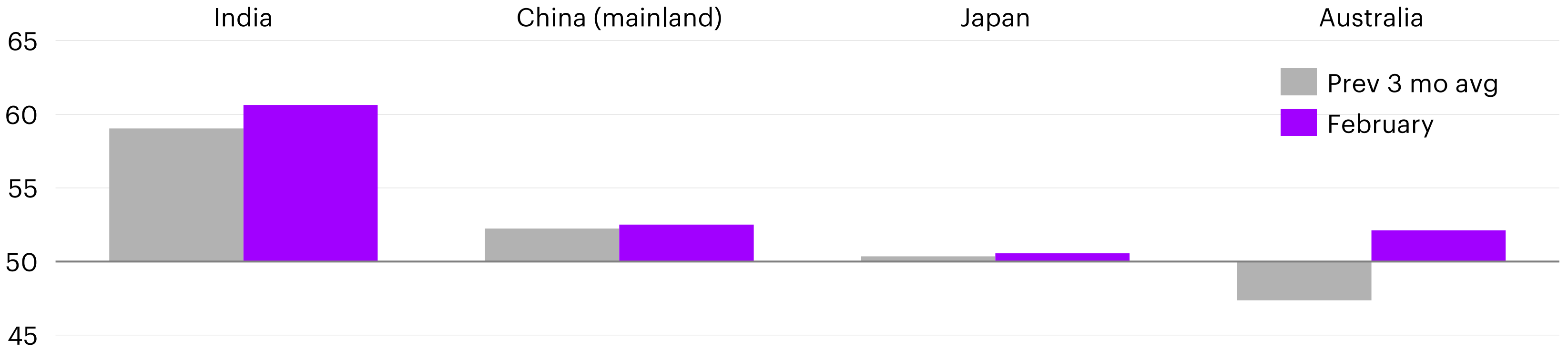
Sources: S&P Global, Accenture Strategy analysis

India continues to show the strongest growth momentum within Asia-Pacific, while conditions improved in Australia to a 9-month high

Regional performance: Asia-Pacific

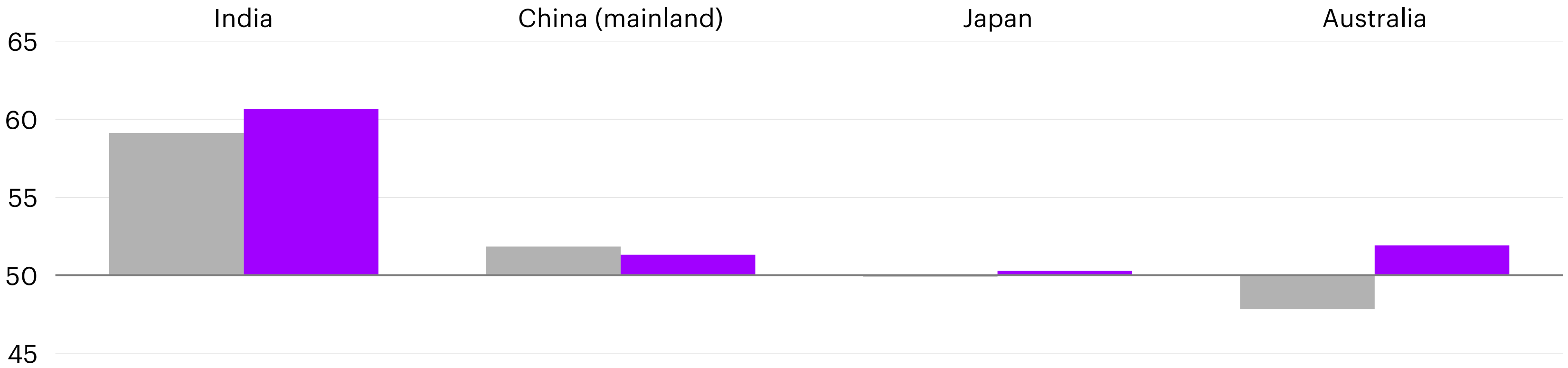
Country performance

Feb '24 vs Previous 3 Month Average, Output/Activity PMI (>50=expansion)



New Orders Index

Feb '24 vs Previous 3 Month Average, New Orders PMI (>50=expansion)



Commentary

- The pace of acceleration in the output of India's manufacturers and service providers, combined, was at a 7-month high in February, driven by buoyant demand conditions, investment in technology, efficiency gains, expanded clientele and favorable sales developments
- In China, data indicated that a slightly softer rise in service sector activity was offset by a quicker increase in manufacturing output, though rates of expansion were identical across both sectors and modest overall
- Australia's private sector activity improved midway into the first quarter, though growth was driven solely by the service sector, while higher new orders were supported by the expansions in output and employment

Sources: S&P Global, Accenture Strategy analysis

Manufacturing sector saw expansion across most of Southeast Asia, with only Malaysia and Taiwan showing signs of contractions

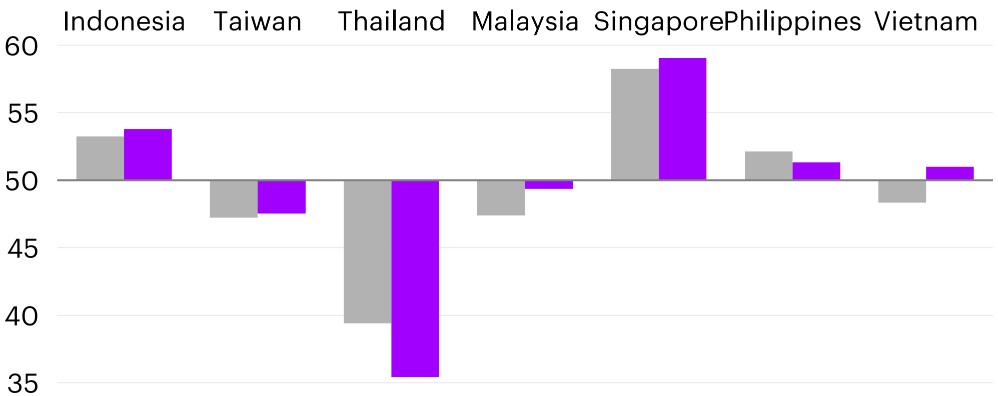
Regional performance: Southeast Asia

Manufacturing Performance

Feb '24 vs Previous 3 Month Average, Manufacturing Output

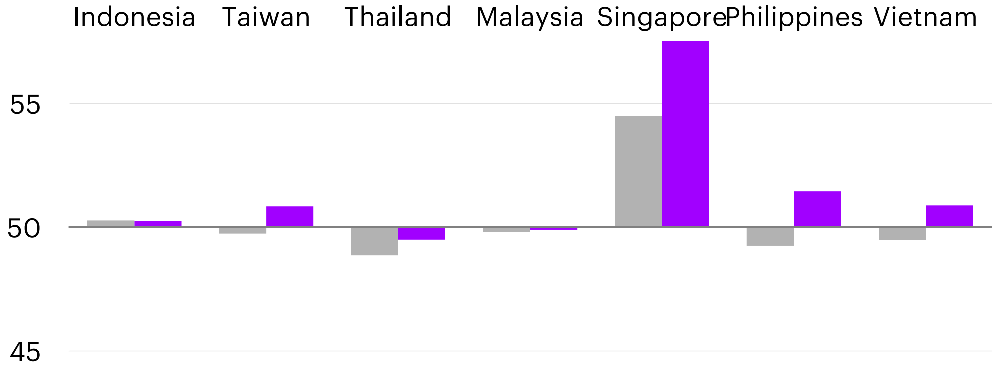
Manufacturing New Orders

Feb '24 vs Previous 3 Month Average, New Orders PMI



Manufacturing Employment

Feb '24 vs Previous 3 Month Average, Employment PMI



Commentary

- Indonesia's manufacturing sector continued to expand in February, with solid domestic demand supporting growth in new orders and output, while foreign demand stagnated
- An improvement in demand conditions underpinned the latest expansion in business activity in Singapore, and a record rise in employment levels coupled with renewed growth in purchasing activity reflected confidence among firms for business activity to expand in the near term
- The Vietnamese manufacturing sector continued to grow marginally in February, with both output and new orders up for the second month running

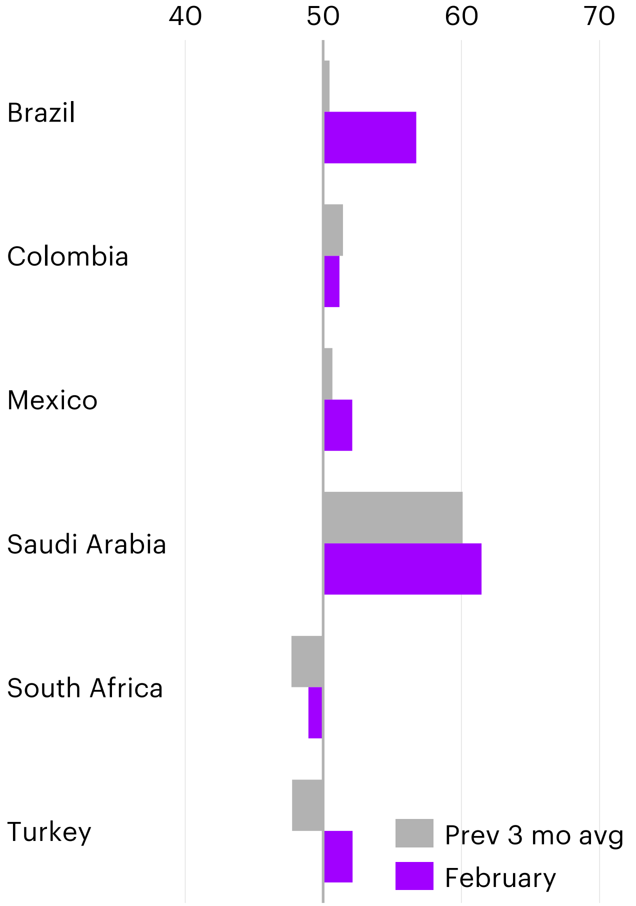
Note: Performance for Singapore covers the whole economy
Sources: S&P Global, Accenture Strategy analysis

Saudi Arabia, Brazil, Columbia and Turkey show signs of manufacturing expansion, while activity in South Africa continues to deteriorate

Regional performance: Other emerging markets

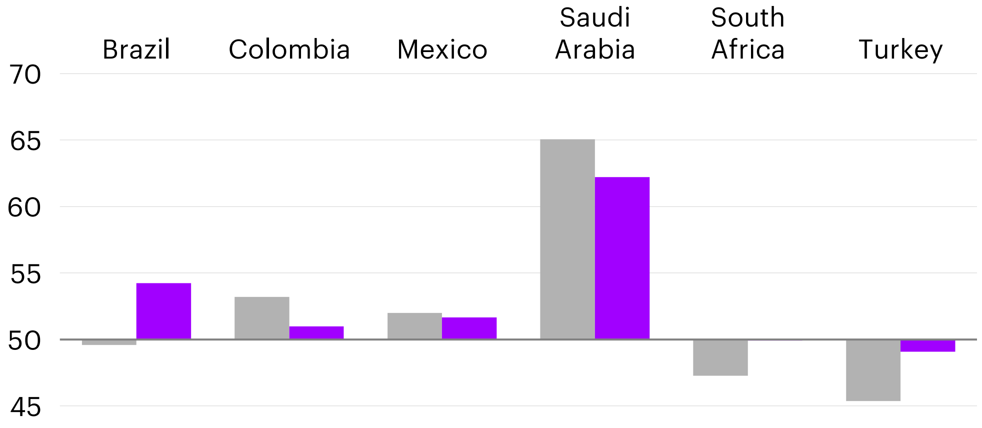
Manufacturing Performance

Feb '24 vs Previous 3 Month Average, Manufacturing PMI



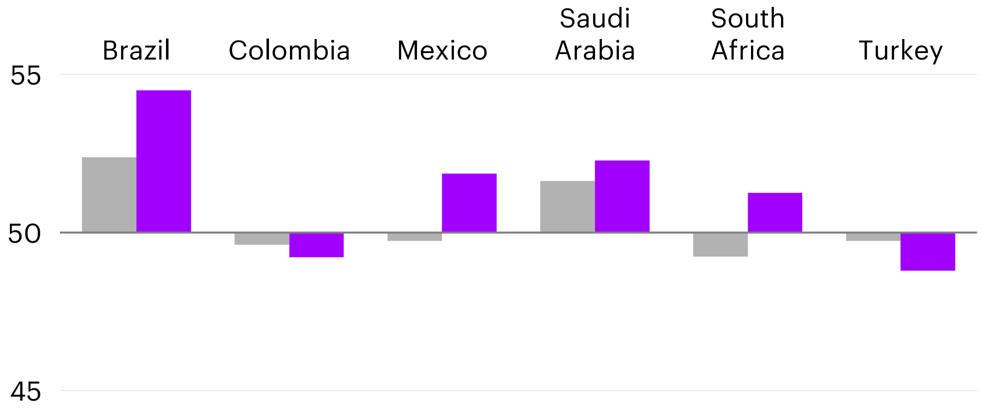
Manufacturing New Orders

Feb '24 vs Previous 3 Month Average, New Orders PMI



Manufacturing Employment

Feb '24 vs Previous 3 Month Average, Employment PMI



Commentary

- Brazilian manufacturing strengthened in February, as improvements in demand conditions boosted the growth of new orders and production
  - In turn, companies stepped up input purchasing and recruited employees at the strongest rate in 19 months
- Mexico's manufacturing industry showed an improvement in operating conditions during February, as the reinstatement of sales growth underpinned a renewed expansion in output
- In February, Turkey's production grew for the first time in eight months. This resurgence was primarily driven by the stabilization of customer demand, which also encouraged firms to increase their purchasing activity
- In Saudi Arabia, a faster growth in the private sector was driven by improved client demand and a boost from tourism

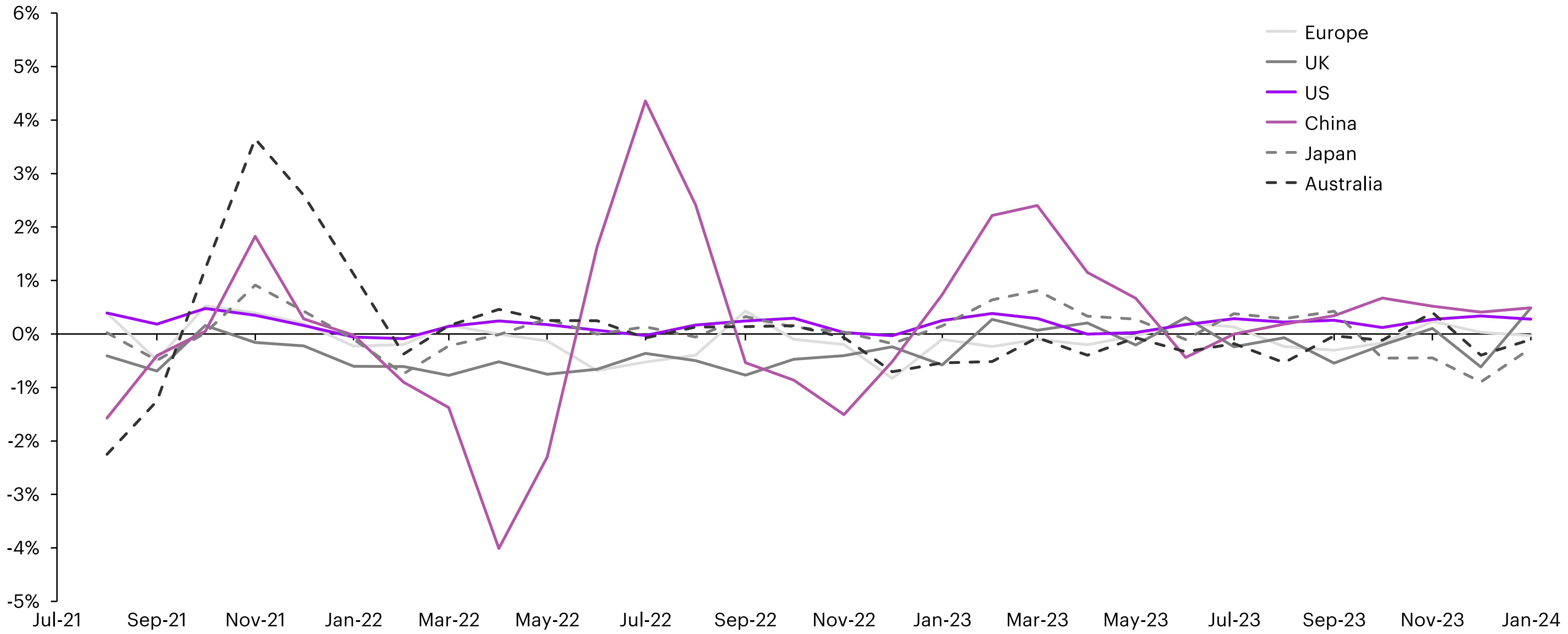
Note: South Africa and Saudi Arabia PMI is for the whole economy
Sources: S&P Global, Accenture Strategy analysis

Consumer spending

Consumer spending continues to moderate in most major economies, though there is a nascent rebound in the UK

Consumer spending trends

Real (inflation-adjusted) consumer spending, 3 month moving avg. % change

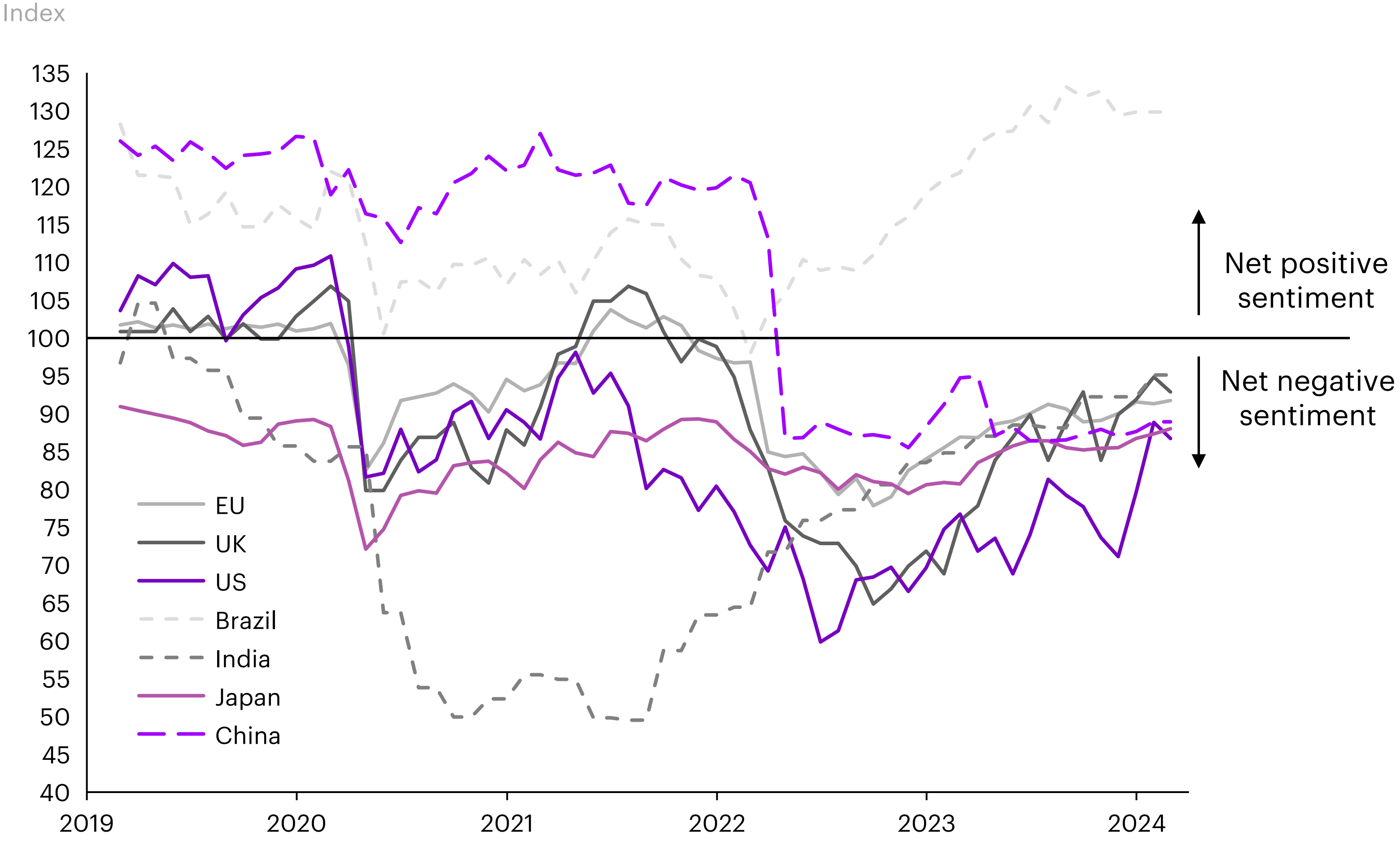


Note: Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area, UK, Canada, Japan, Australia, and China series data is retail sales.
Sources: BEA, BLS, Eurostat, ONS, Haver analytics, Accenture Strategy analysis

Consumer sentiment remains largely pessimistic globally and fell across the UK and US after having improved slightly in January

Consumer sentiment

Indicators of overall consumer sentiment



Commentary

- Consumer sentiment for the US edged lower in March where small improvements in personal finances were offset by modest declines in expectations for business conditions
- UK consumer sentiment fell for the first time in four months in February as households took a gloomier view of their recent personal finances and the broader economic outlook

Notes: All series have been rebased from their original reported levels to a central point of 100. UK data from GfK Survey. US data from Michigan Survey
Sources: EC Consumer Surveys, GfK Survey, University of Michigan Survey, Fecomercio, China National Bureau of Statistics, Reserve Bank of India, Japan Cabinet Office, WSJ

The rebound in UK consumer spending appears concentrated in goods; services spending is moderating as pent-up demand fades

Consumer spending trends by goods and services category

AS OF MAR 14

		US		UK		Germany		France	
		11	Latest monthly change	Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change
Goods	Groceries	0.7%	-0.2%	-0.5%	3.4%	-0.7%	1.2%	-0.2%	-1.3%
	Motor vehicles	-1.9%	-3.7%	-7.0%	3.2%	2.1%	3.5%	6.4%	2.6%
	Furniture	1.7%	-1.4%	-2.2%	-3.2%	-5.6%	-3.3%	-6.2%	-8.2%
	Electronics	7.6%	-2.1%	23.8%	0.7%	-0.5%	1.7%	4.4%	-2.7%
	Footwear & apparel	1.9%	0.7%	-3.8%	-1.4%	-2.0%	3.2%	-0.1%	0.5%
	Fuel	0.6%	-1.4%	-0.6%	5.4%	0.3%	-1.2%	-2.8%	0.6%
Services	Transportation	1.4%	0.3%	-0.7%	0.2%	-2.1%	-5.3%	-0.3%	1.8%
	Entertainment	1.4%	-0.3%	-0.6%	0.9%		n/a	0.7%	-1.4%
	Dining out and hotels	3.2%	0.2%	-1.0%	-0.7%	-1.5%	-1.7%	0.3%	1.3%
	Information services	2.9%	0.4%	-1.8%	-0.7%	2.4%	5.7%	2.2%	2.1%
	Telecom	3.2%	0.4%	-3.3%	0.9%	3.7%	1.0%	4.6%	3.6%

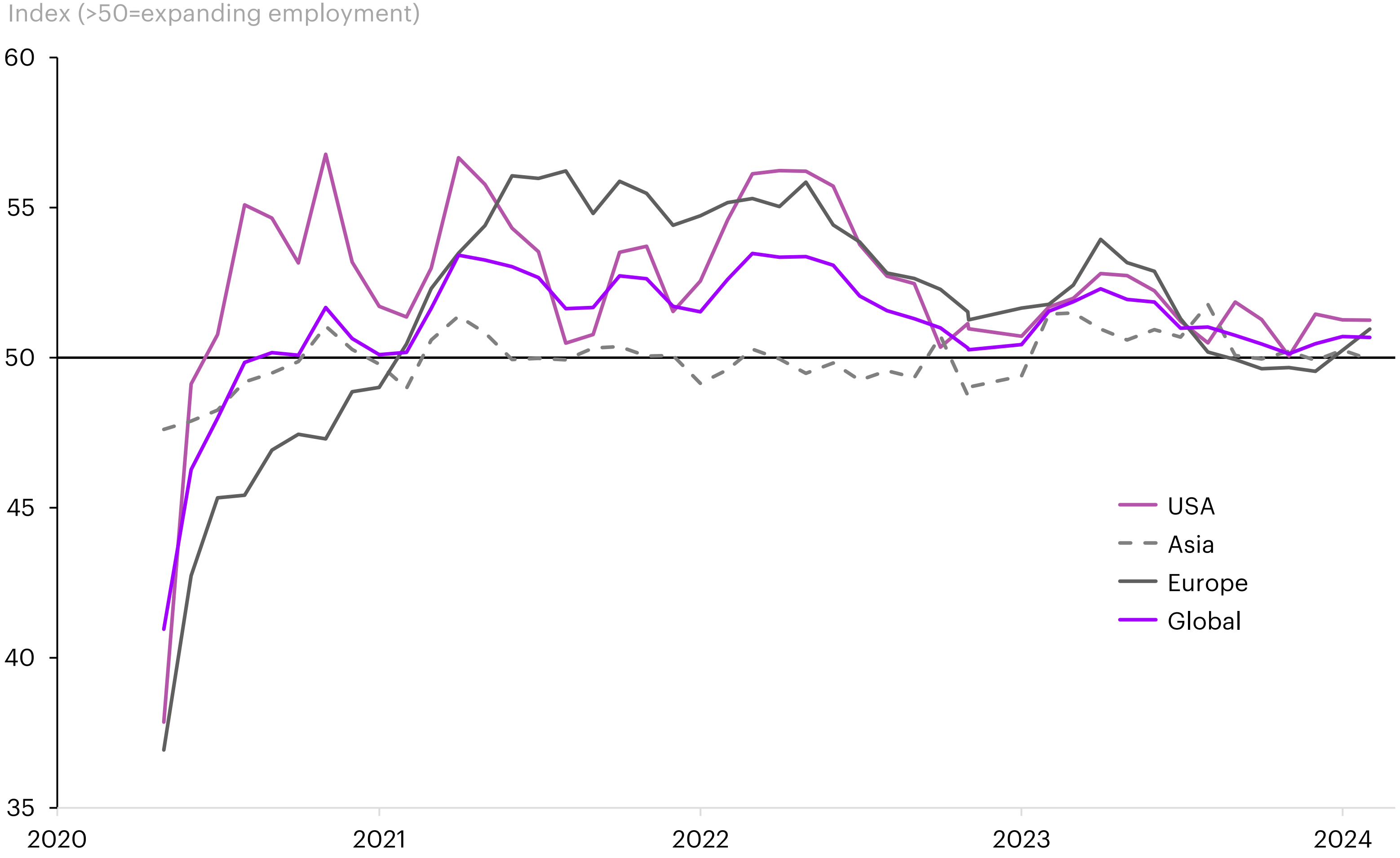
Notes: Spending figures are inflation-adjusted. Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area and UK, series data is retail sales, motor vehicles sales/registrations, and services turnover. Some European services data may include B2B spending. Data presented is most recently available data for each geography and category.
Sources: BEA, BLS, ONS, National Institute of Statistics and Economic Studies, Federal Statistical Office

Labor markets

Labor markets remain resilient as employment growth remained stable after marginally growing in January

Employment growth

Aggregate PMI Employment Index



Commentary

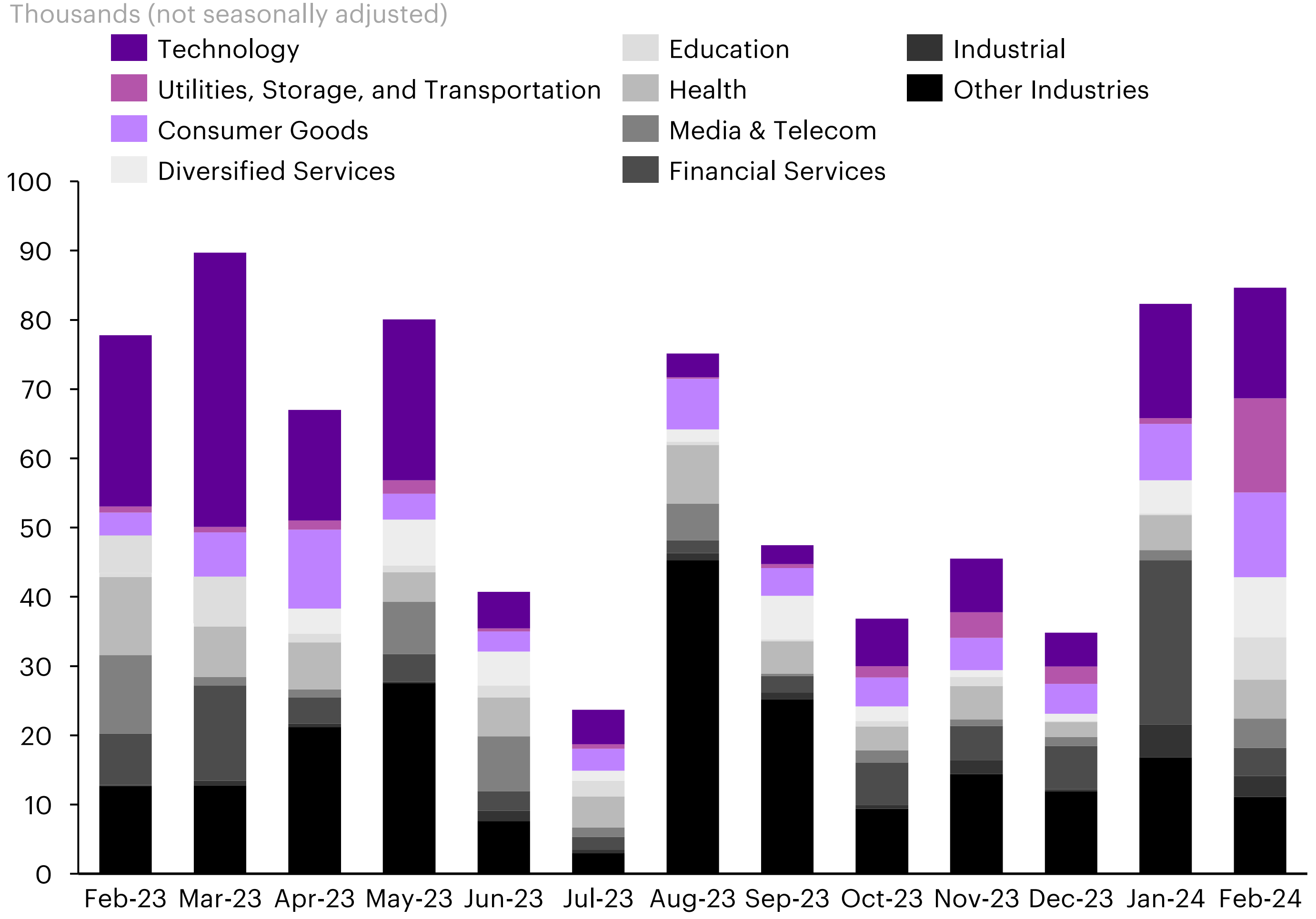
- In the US, employment expanded but at a slower pace than in previous 3 months
- European employment saw a marginal expansion for a second consecutive month after contracting in December

Sources: S&P Global, BLS, Accenture Strategy analysis

A persistent wave of layoffs continues in the US as businesses aggressively slash costs and embrace technological innovations

US corporate layoff tracker

Announced layoffs by sector



Commentary

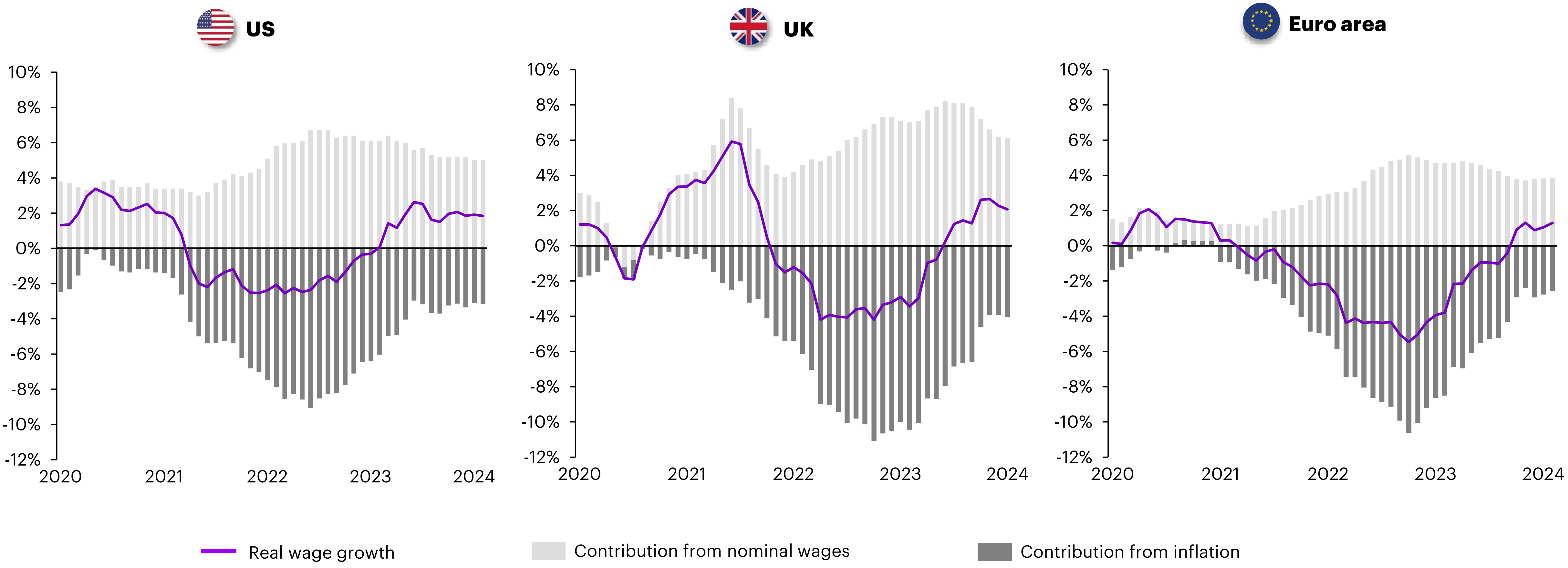
- The technology sector and transportation sector led all industries in layoffs in February
  - Restructuring efforts and plant, unit or store closures were most frequently cited as reasons for layoffs
- Transportation companies have announced 14,148 cuts this year, up 587% from the 2,059 announced in the first two months of 2023
- In light of the backlash some companies have faced for directly attributing job cuts to artificial intelligence, they appear to be framing this shift as a 'technological update' rather than an outright substitution of human roles with AI

Sources: Challenger Employment Report, Haver Analytics

Real wage growth is now in positive territory across the US, UK and Euro area amidst subsiding inflation

Wage growth developments

YoY % change in real wages and contributions to change (percentage points) from nominal wage growth and inflation

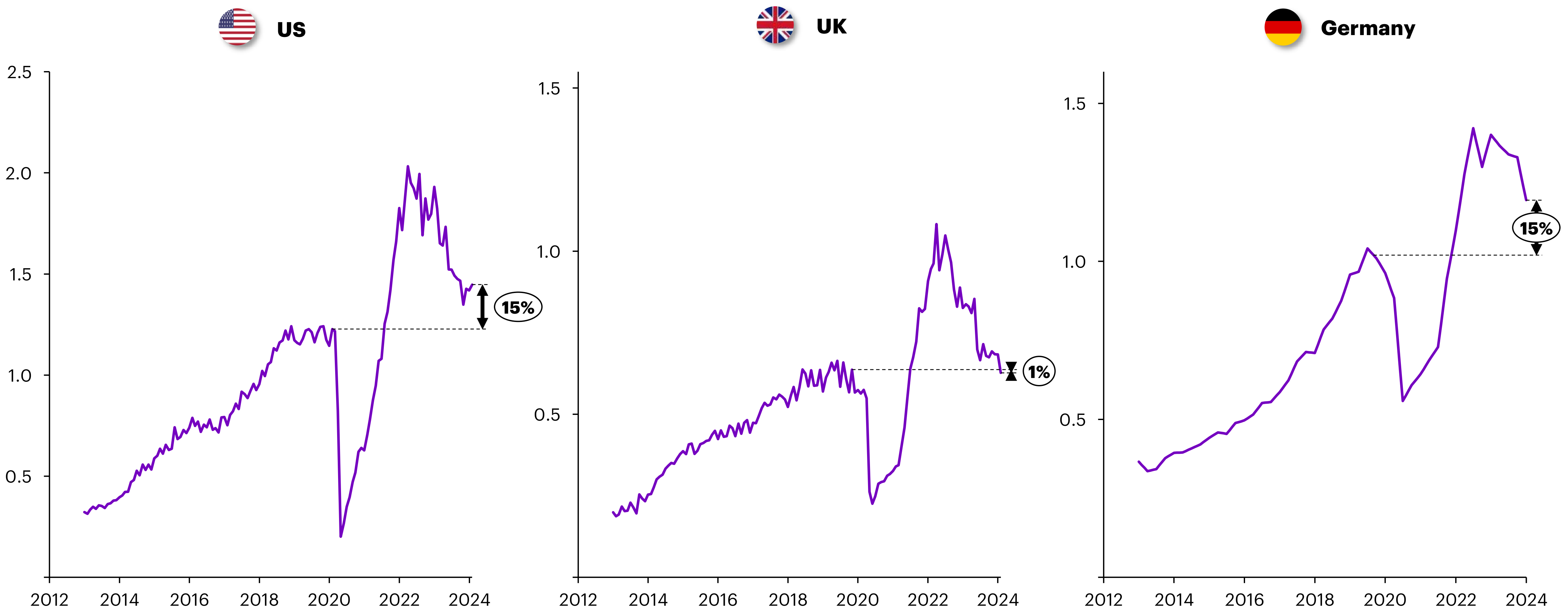


Sources: BLS, ONS, Indeed, Accenture Strategy analysis

A difficult hiring environment (relative to pre-pandemic norms) persists across US and Europe, though labor market tightness has eased significantly in the US and UK

Labor market tightness

Job vacancies per unemployed person



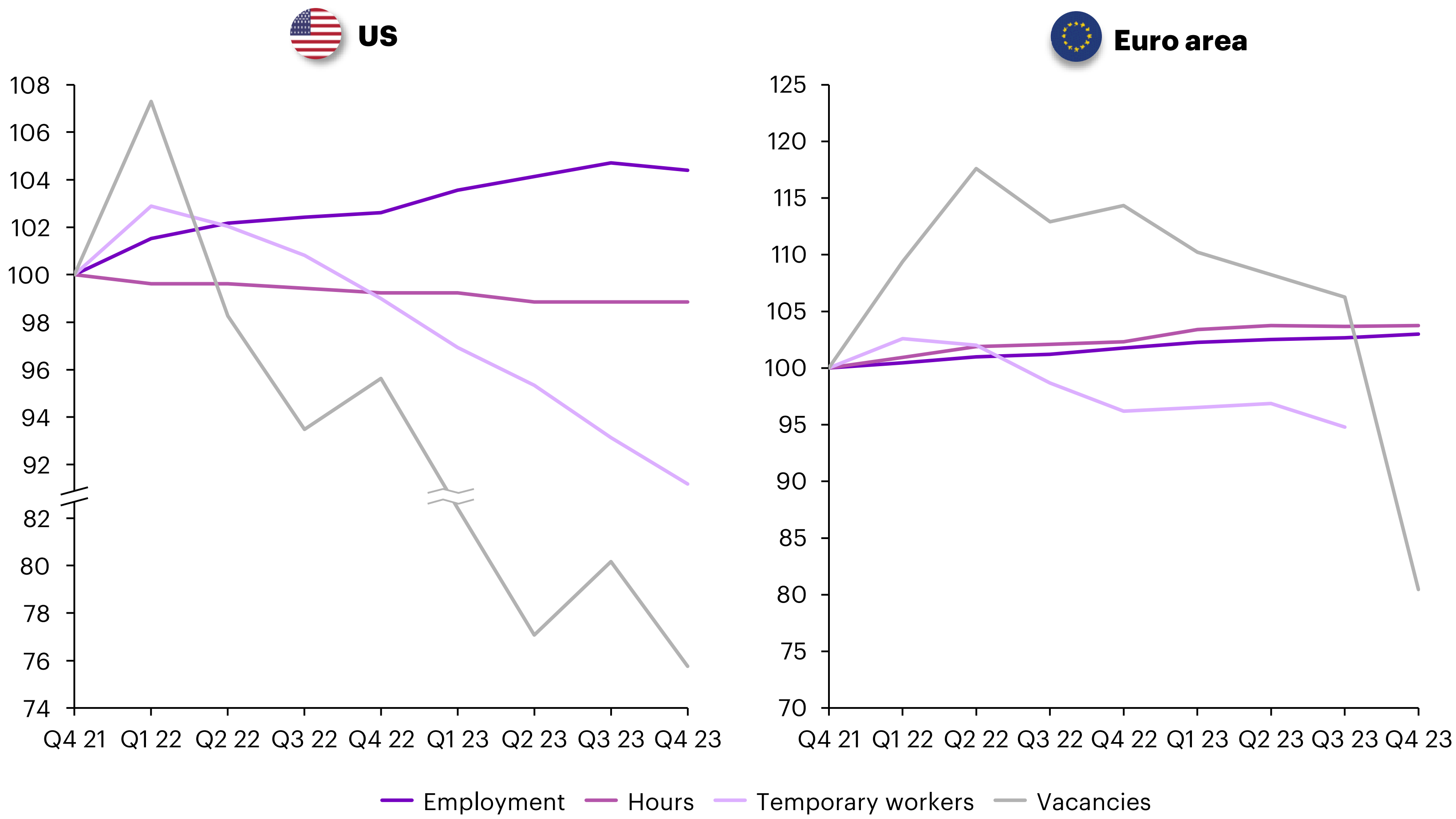
Sources: BLS, ONS, Eurostat

In both US and Europe, worker hoarding remains prevalent and labor market adjustment is happening mainly through channels other than outright layoffs

Labor market indicators

Recent labor market movements

Index 100 = Q4 2021



Commentary

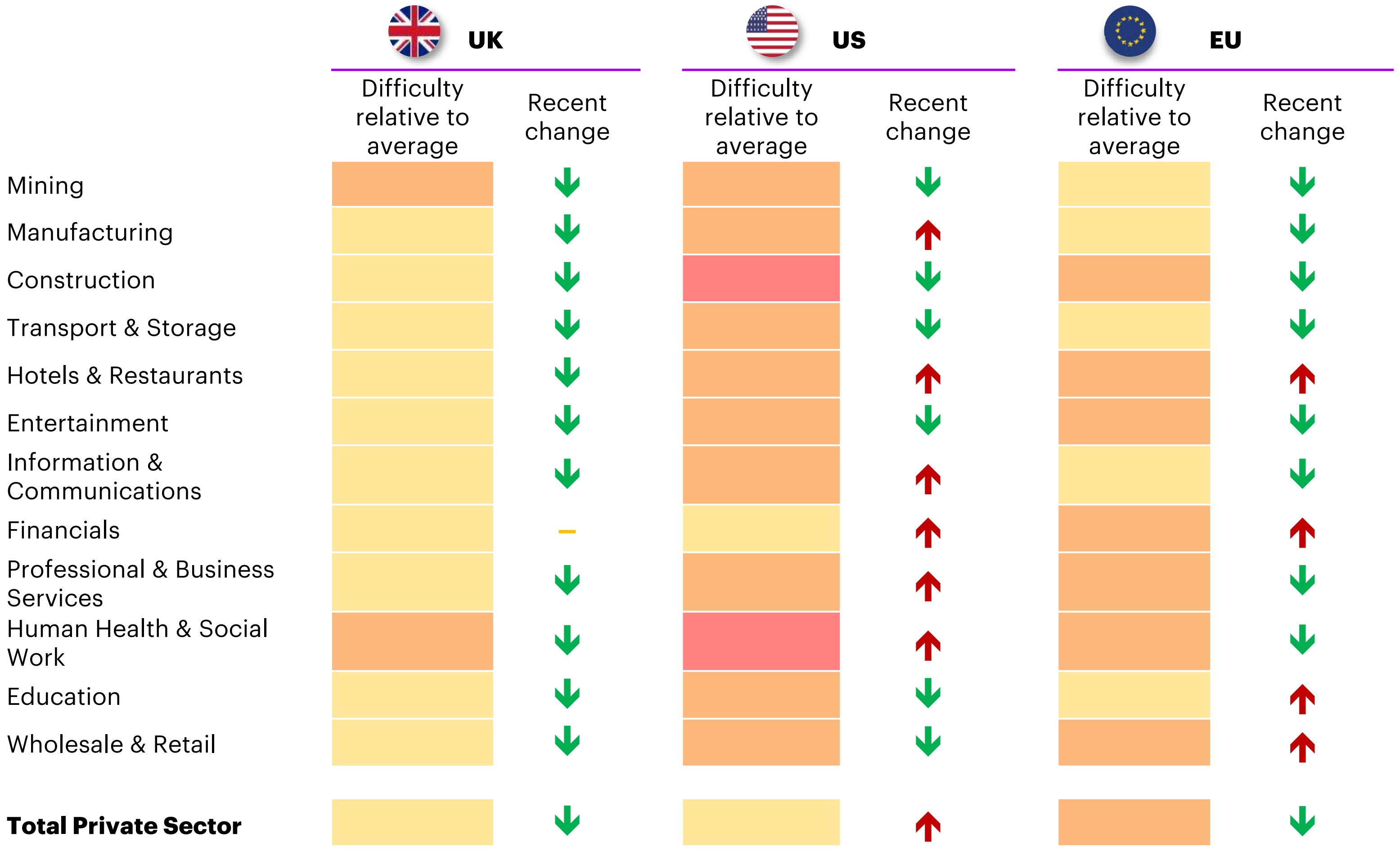
- While employment continues to remain high in the US, companies have been reducing hours and temporary workers to adjust to lower levels of demand
  - Job openings decreased slightly in Q4 2023, however, they increased in December after falling in the past two months
  - The number of people quitting their jobs was the lowest in nearly three years
- Just as labor markets in the Euro Area never quite reached the same levels of tightness witnessed in the US, they are slower to loosen in the current environment
  - Lower vacancies and increase in productive hours continue to be main channels of recent labor market adjustment

Sources: Census Bureau, Bureau of Labor Statistics, Goldman Sachs Research, White House, Accenture Strategy analysis

Talent shortages remain most pronounced in the US while improving in most sectors across the UK and the EU

Relative difficulty of hiring by sector

Deviation in job vacancy rate from long-term average and recent trend (arrow)



Commentary

- Hiring difficulties are pronounced in the mining and human health and social work industries across the US, UK and EU
- While the difficulties have eased in the UK and EU, they are still pronounced in the US, particularly in construction and services

Difficulty finding labor (relative to long-term average)

More difficult — Less difficult

Notes: Hiring difficulty in each sector is assessed by comparing average job vacancy rate in that sector over recent 3 months to its long-term pre-pandemic average (2012-2019). The recent trend (improving/worsening) is based on comparison of latest job vacancy rate to its average over the prior three months. UK and US analysis is based on monthly data, and EU on quarterly data.
Sources: ONS, Eurostat, BLS, Haver Analytics, Accenture Strategy analysis

Inflation

Disinflation momentum continues across Europe; inflation increased in China due to spending linked to the Lunar New Year

CPI inflation rates and trends

Year over year change to CPI and point change from prior month

Country	YoY Inflation Rate	Change from previous month's rate (percentage points)
United States	3.2%	0.1% ↑
United Kingdom	4.0%	0.1% ↑
Canada	2.8%	-0.5% ↓
Germany	3.1%	-0.7% ↓
France	3.1%	-0.3% ↓
Italy	0.9%	0.0% ↓
Spain	2.9%	-0.6% ↓

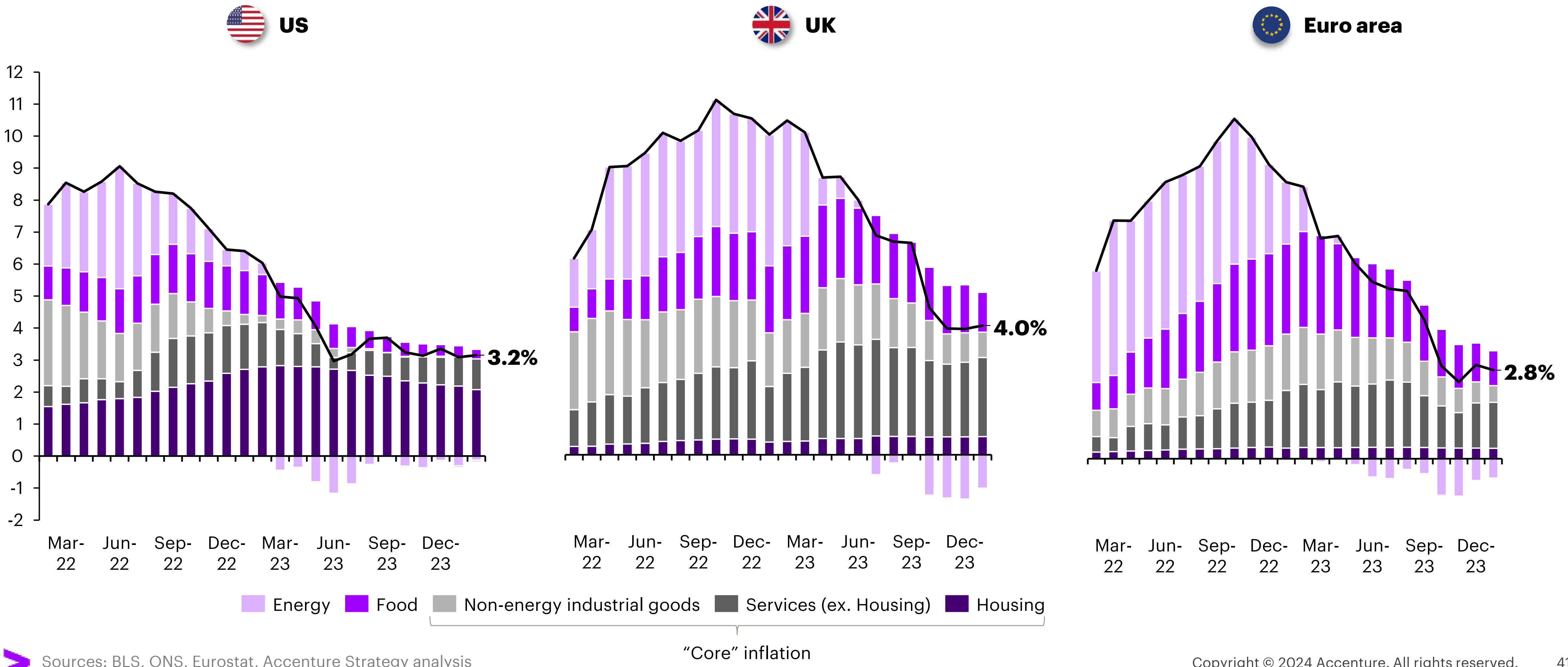
Country	YoY Inflation Rate	Change from previous month's rate (percentage points)
China	0.7%	1.5% ↑
Japan	2.2%	-0.4% ↓
Brazil	4.5%	0.0% ↓
India	5.1%	0.0% ↓
Singapore	3.4%	-0.3% ↓
Korea	3.1%	0.3% ↑

Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

Core inflation appears to be stabilizing at above-target levels in the US and Europe, reflecting ongoing stickiness in services prices

Drivers of recent CPI inflation

Year-on-year % change and % point contributions from major goods and services categories

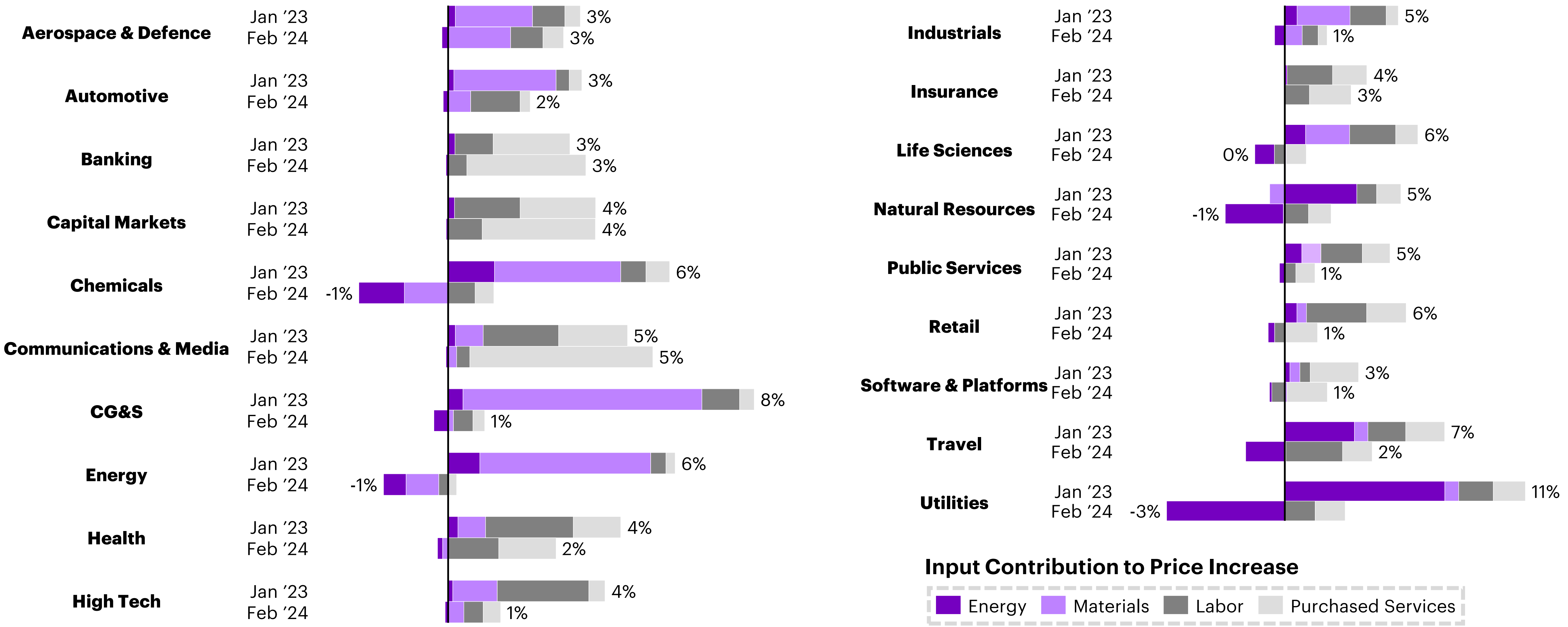


Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

Falling year-over-year materials and energy prices have reduced some of the input cost pressures across industries

Recent input cost inflation by industry

LTM year-over-year % change in input costs and contributions (percentage points) from key inputs, 2023

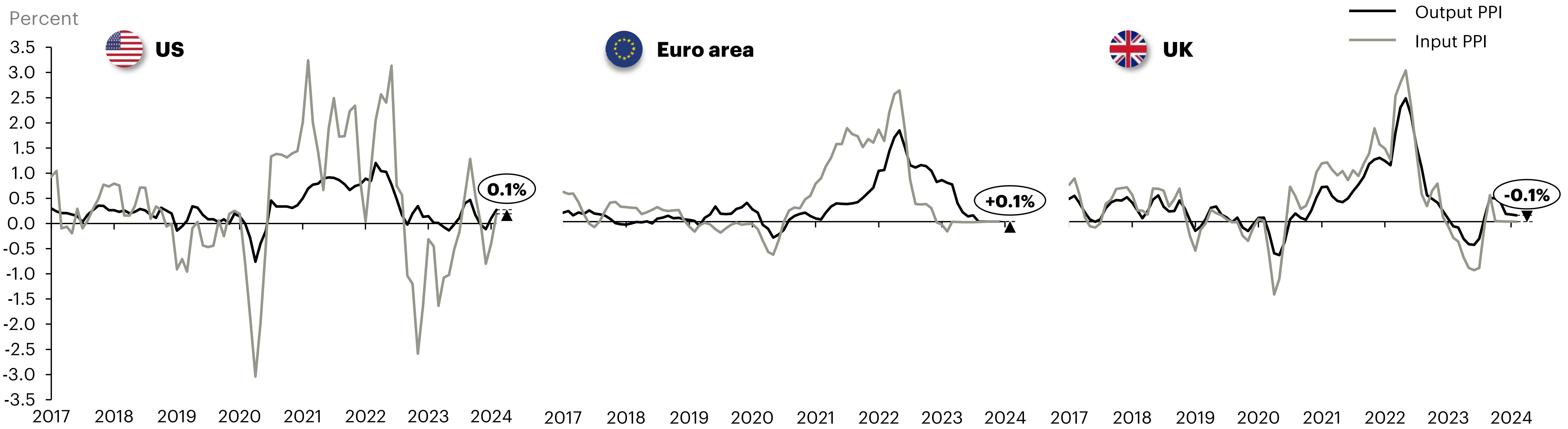


Notes: Wage data as of Jan'23; Energy prices as of Feb '24 for Natural Gas, Dec'23 for Electricity and Feb'24 for Others; Materials and Purchased Services PPI price increases as of Feb'24.
Sources: BLS, BEA, EIA, EPA, Accenture Strategy analysis

Companies in the US and Europe continue to be able to pass on their increase in input costs to customers

Company input cost pass-through trends

Producer price indices (PPI) for intermediate inputs and final outputs, 3 month moving average % change



Commentary

- The gap between cost increases for intermediate inputs (input PPI) and the change in producer selling prices for final goods (output PPI) is an approximate indicator of the extent to which producers have been absorbing their input costs increases

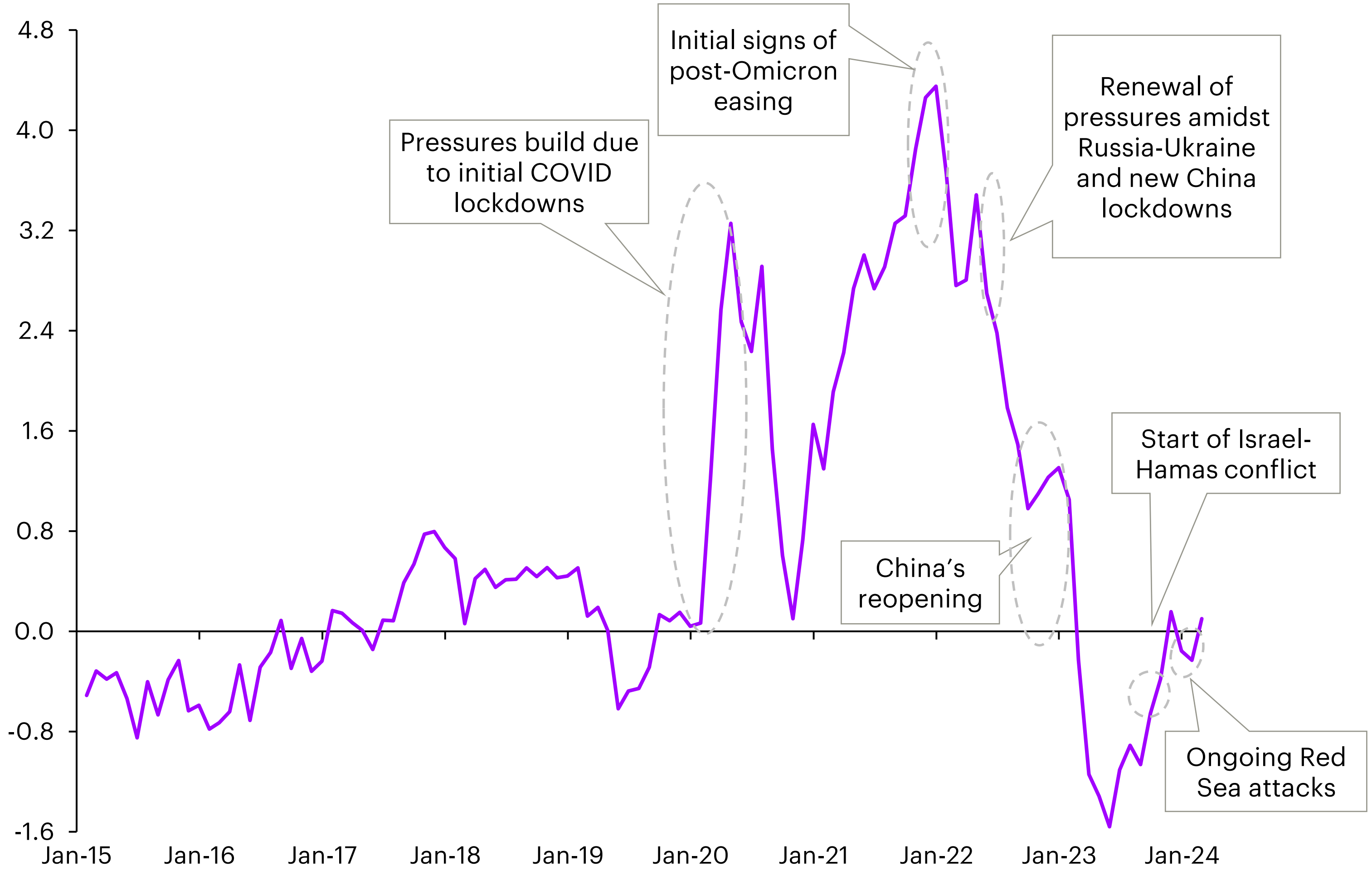
Notes: 1) Figures in bold represent absolute percentage point difference between intermediate and final demand PPI YoY % values; higher positive values imply greater pass through to final producer selling prices, while larger negative values imply lower pass through. 2) US data is based on production flow classification for PPI, where Stage 2 intermediate inputs (shown in chart) feed into stage 3 production, stage 3 outputs serve as inputs to stage 4 production, and stage 4 provides inputs to final demand goods/services.
Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

Supply chains

Global supply chain pressures rose marginally in February owing to ongoing shipping disruptions in the Red Sea

Global Supply Chain Pressure Index

Standard deviations from long-term average (=0)



Commentary

- Global supply chain pressures are settling near their long-run pre-pandemic average
- Going forward, risks are on the upside as global trade has been held back by disruptions at two critical shipping routes (Suez Canal and Panama), leading to:
  - spike in freight rates and insurance premiums as ships are diverted through the Cape of Good Hope
  - increased transit time for container movement on the Asia–Europe route by about 50%

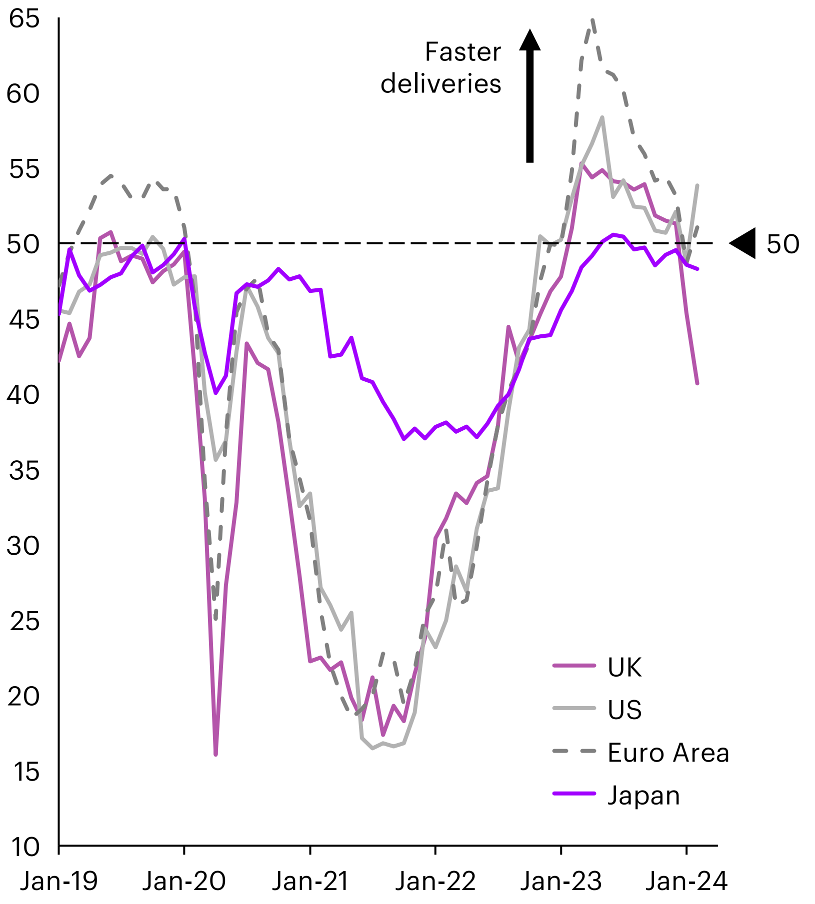
Sources: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, Accenture Strategy analysis

Global shipping delays due to the Red Sea crisis continue to impact suppliers' delivery times

Suppliers' delivery times and backlogs of work

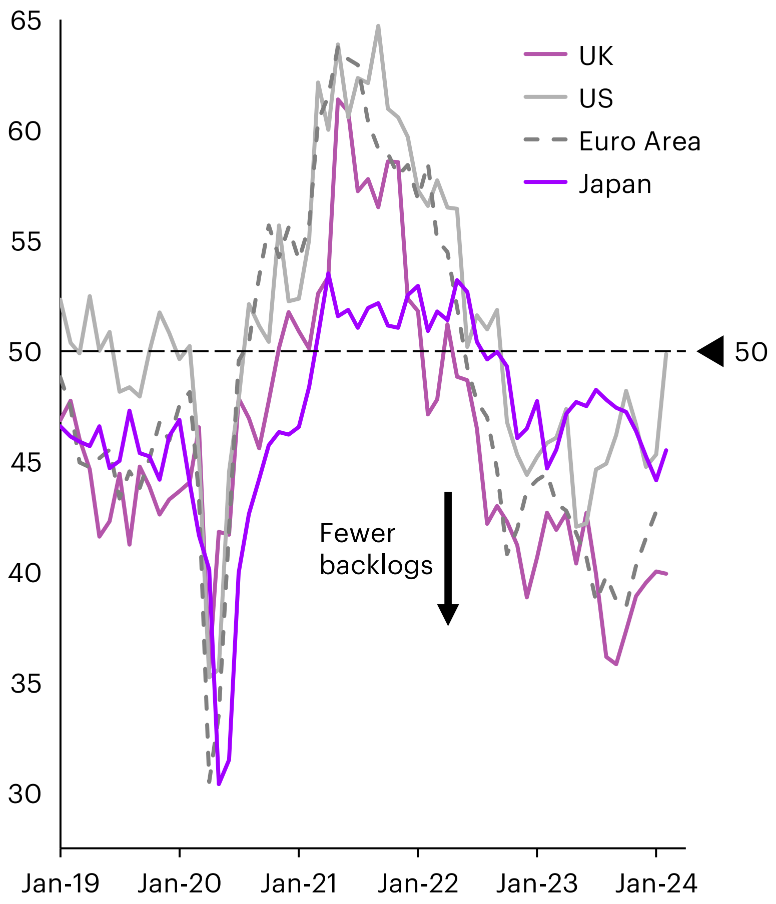
Suppliers' Delivery Times

Seasonally adjusted, 50+ = Increase



Manufacturing Backlogs of Work

Seasonally adjusted, 50+ = Increase



Commentary

- Supplier delays were overwhelmingly linked to longer international shipping times as vessels rerouted away from the Suez Canal in February, due to the Houthi attacks in the Red Sea
- The pace of work backlog clearance decreased in the US, Japan and Euro area

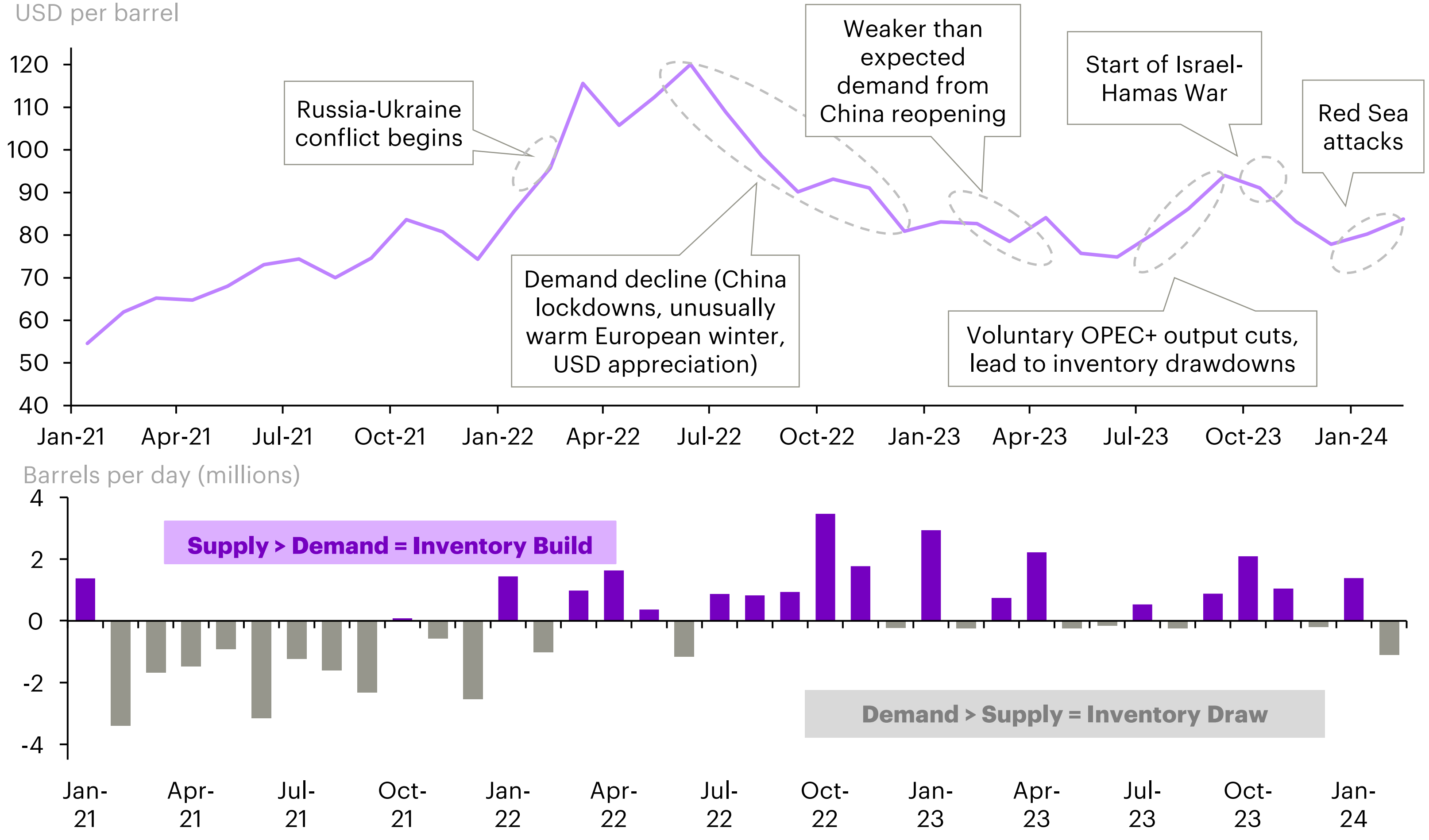
Sources: CIPS/S&P Global, Haver Analytics, Thomson Reuters, Accenture Strategy analysis

Energy and commodities

Oil prices rose in early March, reaching the highest level since November, amid elevated geopolitical risks and tightening supply

Crude oil prices and inventories

Brent crude oil spot prices (upper panel) and global inventory changes (lower panel)



Note: Monthly average of crude oil price UK Brent 38` API (USD per barrel)
Sources: Energy Information Agency, World Bank, Bloomberg, Haver Analytics, Accenture Strategy analysis

Drivers of energy prices in 2024

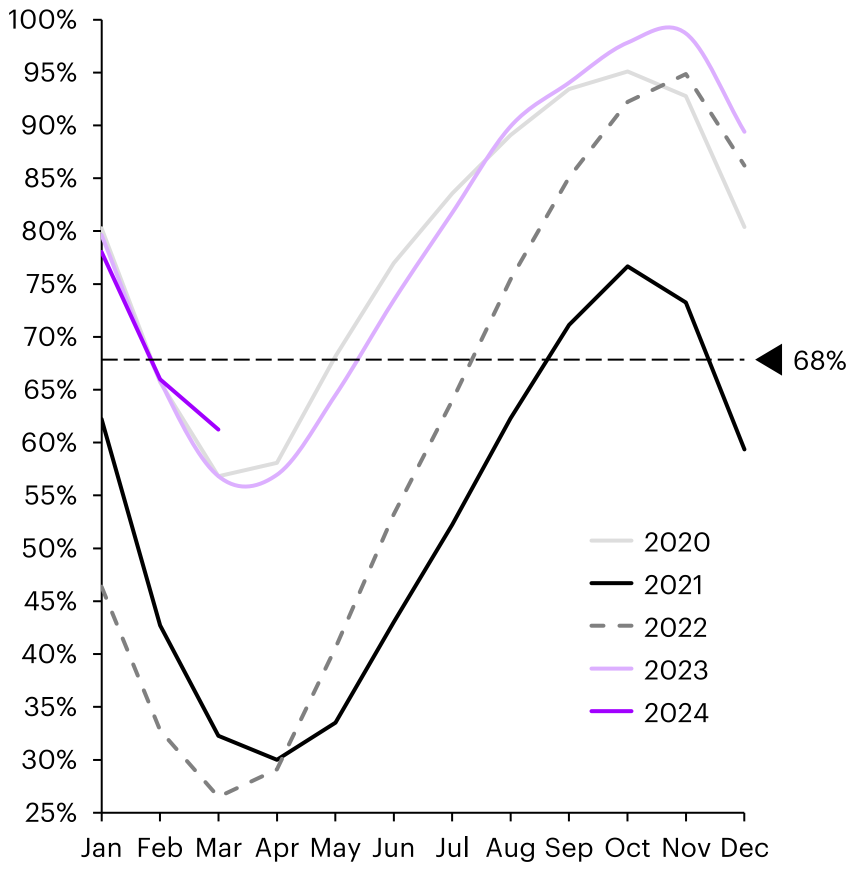
- Benchmark crude oil prices rose in early March on the back of lower crude exports from Iraq and Saudi Arabia and signs of stronger demand and economic growth in China and the US
- In Russia, Ukrainian attacks on energy infrastructure have idled around 7% of refining capacity in the first quarter
- Going forward, supply and demand fundamentals continue to suggest upward price pressures, with
  - Risk of further supply disruptions due to escalating geopolitical tensions in the Middle East
  - Increased demand as economies move into the summer driving season

EU gas prices have steadily declined for the second winter running, amid high inventory levels and warmer-than-average temperatures

EU natural gas reserves and prices

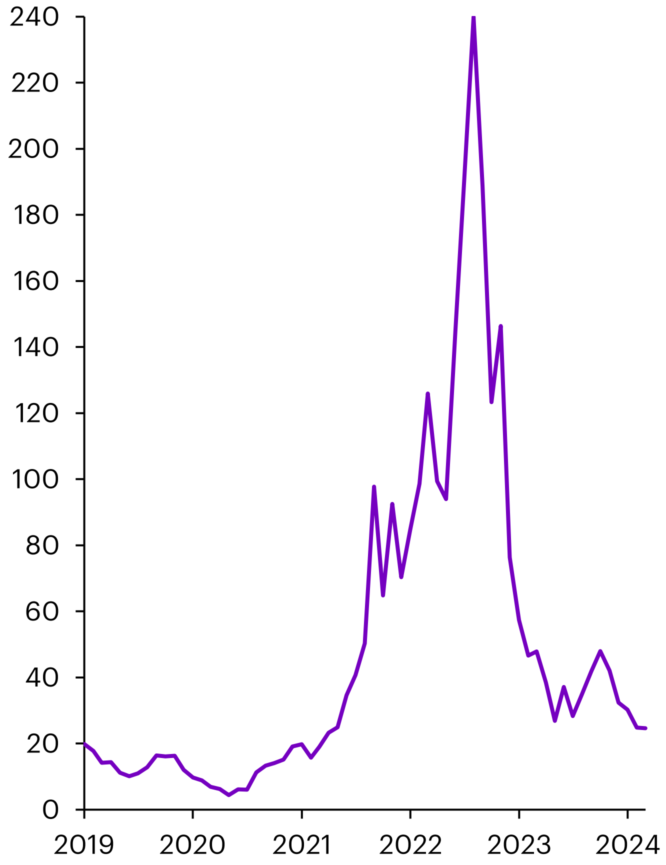
European gas reserves are relatively high at 62%...

% of storage capacity



and prices dipping with rising temperature

TTF Gas (EUR per megawatt-hour)



Commentary

- Europe is on track to end the winter with a record volume of gas in storage, as Northwest Europe is about 80% through the heating season
  - Storage facilities across the EU and the UK were 62% full on March 5th compared to with an average of 41% full on the same date between 2011 and 2020
- Natural gas prices in Europe dipped again in early March, marking the 5th straight month of decline, with chance of further decreases driven by
  - Higher-than-average wind speeds boosting wind generation in Northwest Europe
  - Falling gas consumption in response to rising temperatures in the West

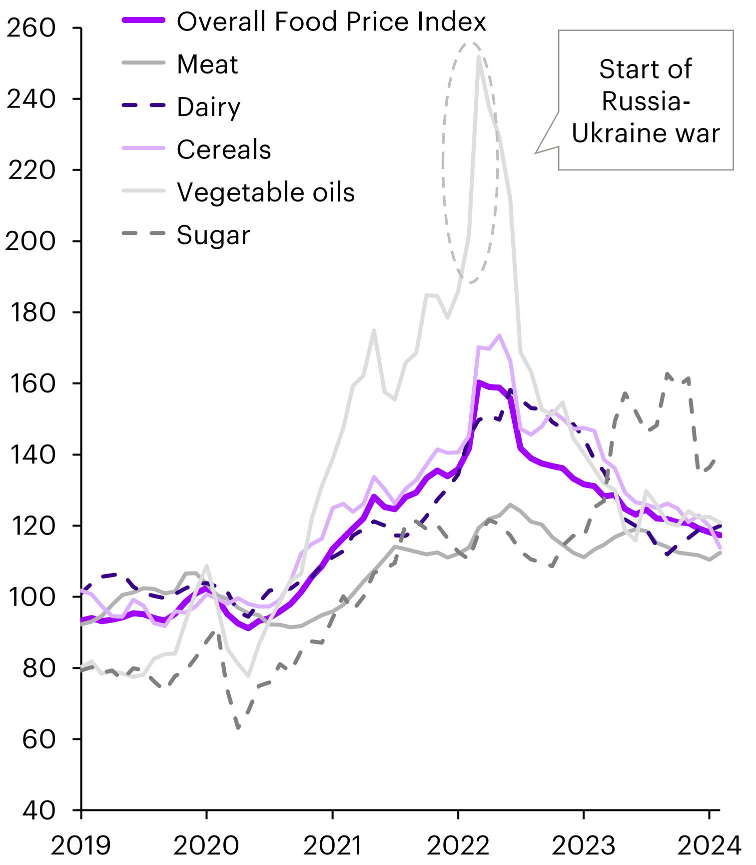
Notes: Dutch TTF Natural Gas Futures front-month contract. TTF stands for Title Transfer Facility, which is a virtual trading hub for natural gas in Europe. TTF prices represent the average monthly price of natural gas traded at this hub and are considered a benchmark for natural gas prices in Europe.
Sources: Gas Infrastructure Europe, Bloomberg, European Council, Reuters, Investing.com, Accenture Strategy analysis

Overall food prices fell marginally in February, while fertilizer prices saw a minor increase

Food and fertilizer prices

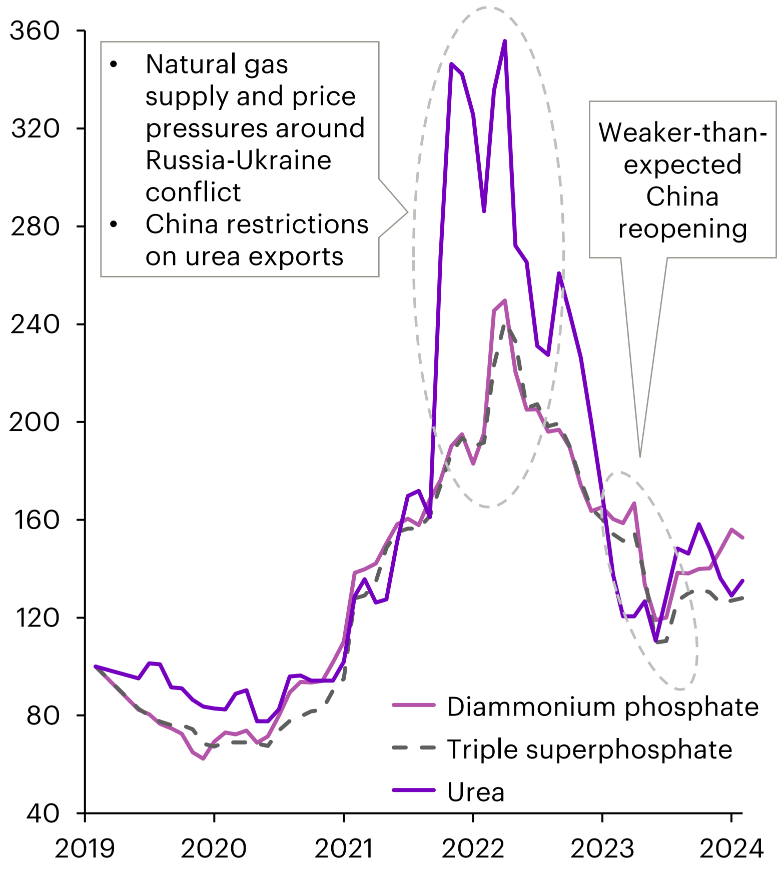
Food prices

Index, 2014-2016 = 100



Fertilizer prices

Index, Jan 2019 = 100



Commentary

- Food commodity prices dropped in February as cereal and vegetable oil prices fell, offsetting slight increases in sugar, meat and dairy product prices
- The increase in sugar prices was driven by:
  - persistent concerns over the outlook for the upcoming season in Brazil following a prolonged period of below-average rainfall
  - forecasts pointing to likely production declines in Thailand and India (leading sugar exporters)
- Cocoa prices have more than tripled in the past year on the back of one of the worst supply deficits in history, reflecting:
  - supply disruptions in Ivory Coast and Ghana, which together account for 60% of global cocoa production
  - crop diseases and heavy rains negatively affecting yields

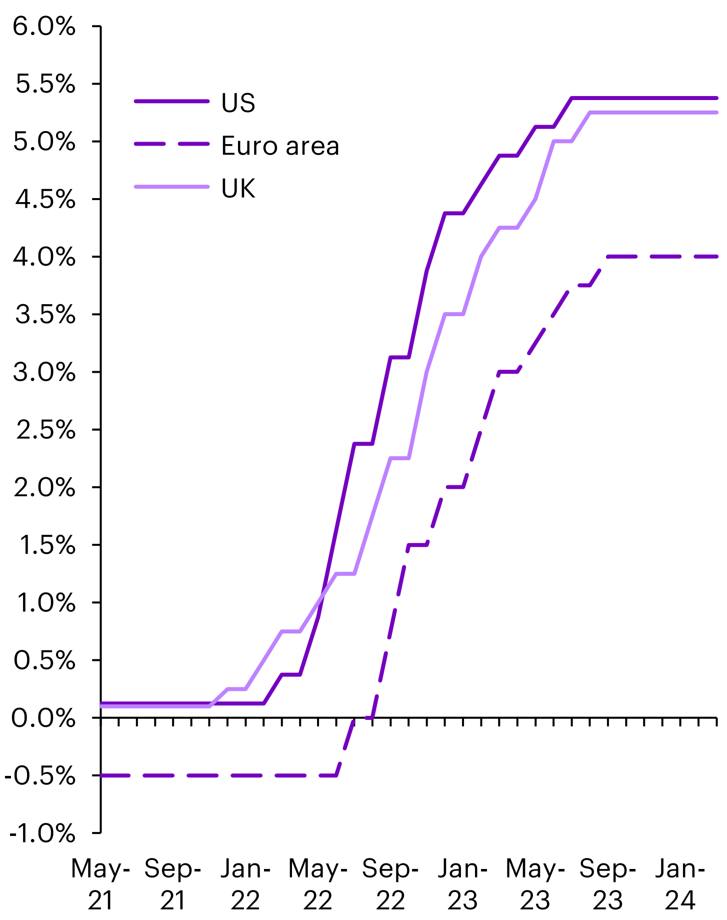
Notes: (a) Food Price Index is a measure of the monthly change in international nominal prices of a basket of food commodities (b) Fertilizers include DAP (diammonium phosphate), TSP (triple superphosphate), and Urea.
Sources: World Bank, UN FAO, USDA, Bloomberg, Accenture Strategy analysis

Financial markets

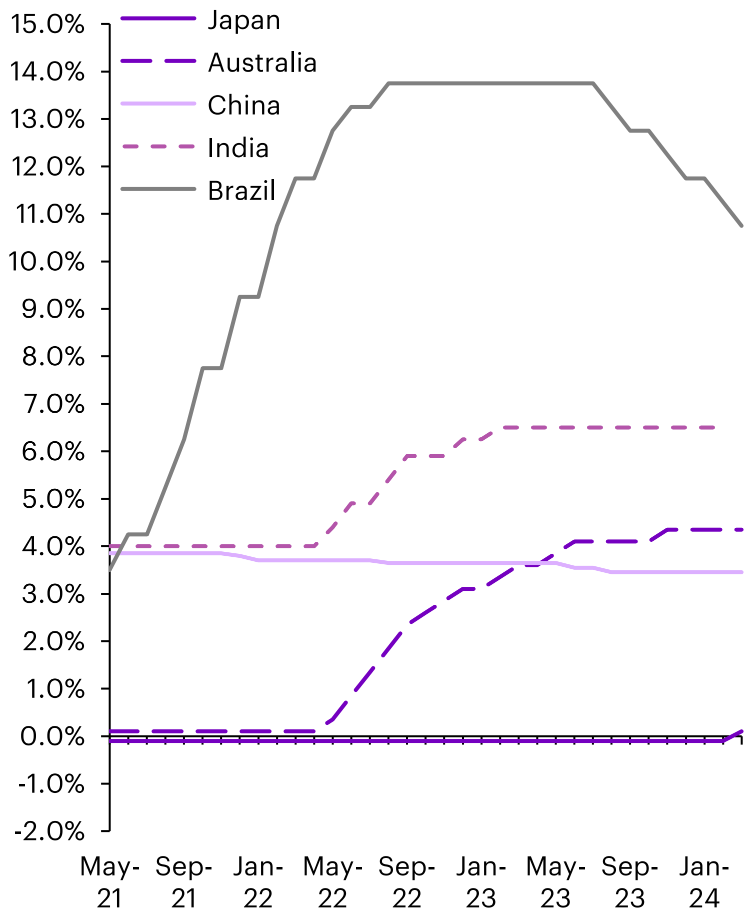
Most central banks are looking to ease monetary policy as inflation retreats

Monetary policy across major economies

US, UK and Euro area policy rates



Policy rates for other major economies



Commentary

- The Fed again opted to keep its key interest rate steady in March, though it is signaling an intention to deliver multiple rate cuts later this year
- The ECB kept its key policy rates unchanged; however, it might consider reducing interest rates, potentially in June, as inflation gradually returns to the bank's 2% target
- The Bank of England held its policy rate steady in March and projects CPI inflation to return to its 2% target sometime in Q2’24
- The Bank of Japan ended its negative interest rate policy and implemented the country's first interest rate hike in 17 years
- Brazil's central bank cut its benchmark rate by another 50bp in March, for a sixth consecutive month, as inflation continues to ease

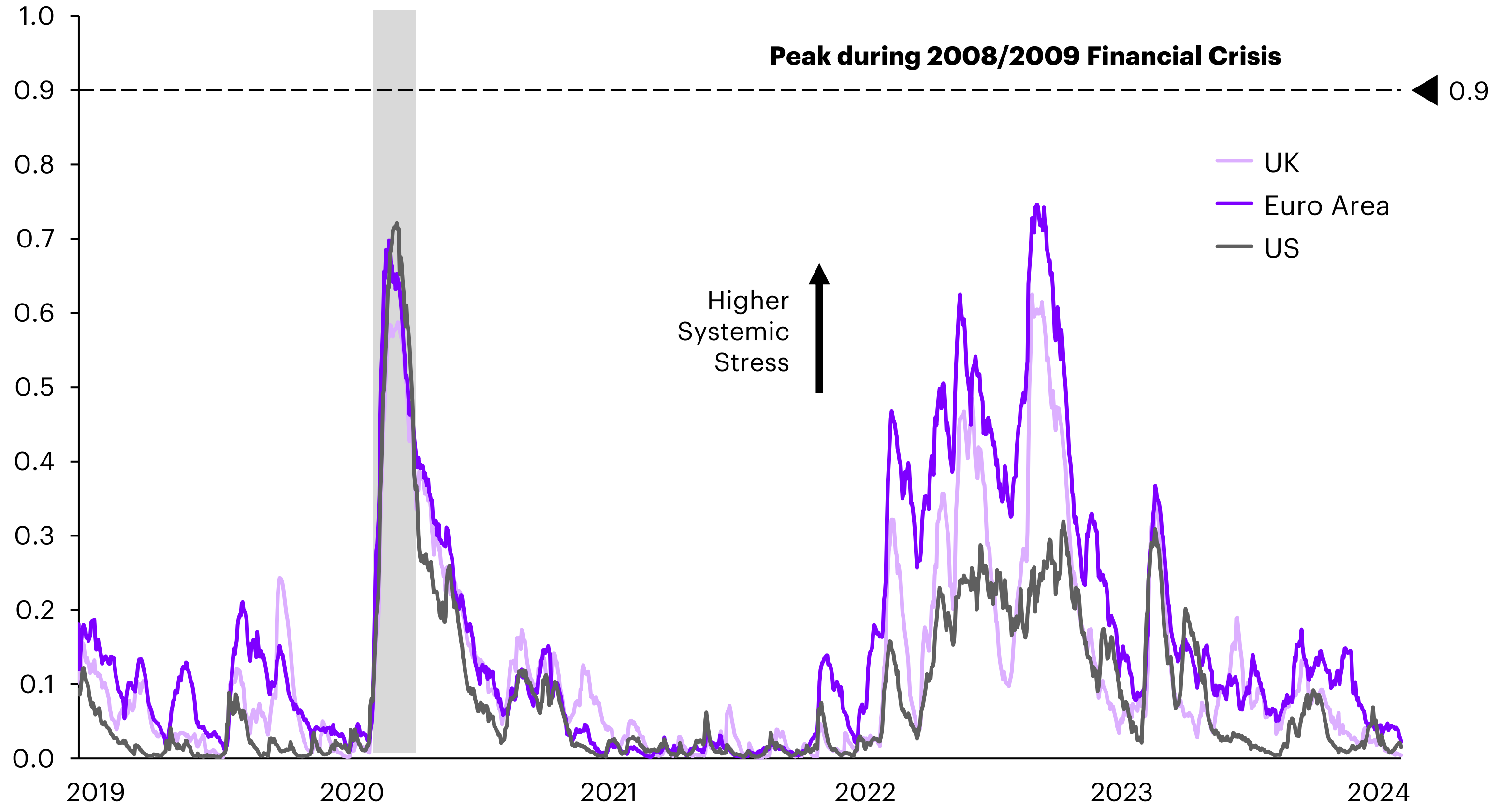
Source(s): Federal Reserve Bank, European Central Bank, Bank of England, Bank of Japan, Reserve Bank of India, Central Bank of Brazil, Reserve Bank of Australia, People's Bank of China, Accenture Strategy analysis

Systemic financial stress in major economies has generally remained subdued since peaking during the wave of bank failures in early 2023

Systemic financial stress indicators

Composite Indicator of Systemic Stress Index

(No Stress = 0, High Stress = 1)



Commentary

- Systemic stress levels in the US and Europe continue their downward path from the recent peak in March 2023
- Elevated financial pressures are likely to remain stable going forward amid
  - Anticipated interest rate cuts
  - Distress in certain sectors where banks have large exposure (e.g., commercial real estate)
  - Heightened geopolitical tensions

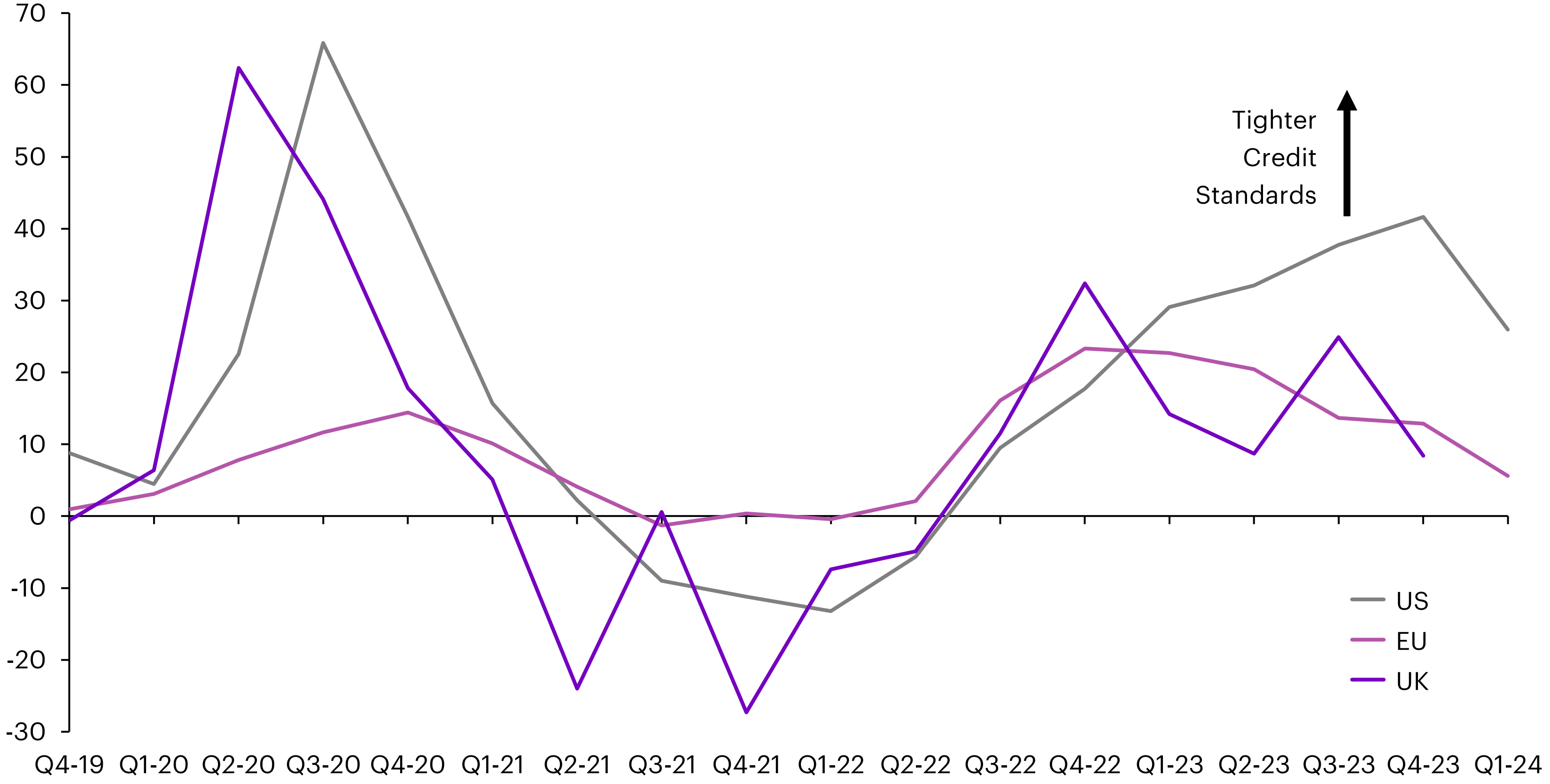
Notes: (1) The composite indicator of systemic stress consists of market-based financial stress measures that namely covers the financial intermediaries sector, money markets, equity markets, bond markets and foreign exchange markets (2) Grey shading reflects U.S. recession
Sources: Haver Analytics, European Central Bank, Accenture Strategy analysis

There continues to be net tightening of lending standards among banks in the US and Europe, with risks of a broader credit crunch if CRE distress intensifies

Restrictiveness of banks' lending standards

Banks are tightening their credit standards in tandem with monetary tightening

Index of weighted net change in credit standards (tightening standards > 0)



Notes: The date of each datapoint refers to the quarter in which the bank lending survey was conducted but reports the assessment of credit conditions in the prior quarter. Lending standards for US and EU reflect a weighted index constructed using select survey questions to measure tightening or loosening standards to both households and enterprises. UK lending standards series based on inverted series of use of credit scoring

Sources: Haver Analytics, EU Bank Lending Survey, BoE, Board of Governors of the Federal Reserve System, Accenture Strategy analysis

Commentary

- Monetary policy tightening since early 2022 has been leading banks to scale back lending and tighten their credit standards
- US banks continued to tighten credit standards in Q1 '24 for CRE, credit card and auto loans with banks expecting the demand to strengthen across all categories and loan quality to deteriorate across most loan types
- In the EU, there was a moderate net further tightening in credit standards for loans to firms, with more tightening expected in the first quarter of 2024
  - Demand for loans by firms and households continued to decrease substantially, albeit less steeply than in the previous quarter
  - Bank lending conditions tightened more in real estate and construction than in other sectors

About Accenture Macro Foresight

Accenture Strategy's Macro Foresight capability is focused on helping companies and investors understand major macro shifts in the global economy and what they mean for corporate strategic planning, investment planning and enterprise-wide transformation – with the goal of helping clients distill complicated macro trends into simple, pragmatic recommendations which drive value.

The team has hubs in Europe, the United States, and Asia and its members have prior experience working for governments, investment banks, asset managers, multilateral institutions and large corporates to bring a global, multi-disciplinary perspective to problem-solving. Visit us at www.accenture.com/macroforesight.

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Accenture Strategy works with boards, CEOs and C-suite executives to create 360° value for all stakeholders by defining and answering their most strategic business questions—including growth, profitability, technology-driven transformation, mergers and acquisitions (M&A), operating models and sustainability—with insights from AI and data science, combined with deep industry and function expertise. Visit us at www.accenture.com/strategy.

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