April Macro Brief

Waiting for the next shoe to drop

Macro Foresight

Accenture Strategy

April 2023

About this document

The monthly brief is intended to inform executive teams, boards and investors on the state of the economy.

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.

See our previous briefs:

For more information about Macro Foresight, visit www.accenture.com/macroforesight.

Contents

1 Executive Summary

April 2023
Executive Summary

Common global themes	• **April data suggests major economies have not been significantly derailed by recent financial stress, but remain on a slowing growth path:** – PMI surveys signal that overall business activity is still expanding, but with increasing divergence between services and manufacturing sectors—the former continues to grow on the back of resilient labor markets, while the latter has been contracting since late 2022 – Slowing manufacturing orders and rising inventories, in a context of easing global supply chain pressures, also point to softer demand • **As the post-pandemic tailwind to services spending dissipates**, it seems more likely that services sector growth will downshift to match the weakness in industrial activity, rather than the other way around—this convergence will likely mark the onset of recession • **An energy-led drop in headline inflation globally in March was a positive development, but is already a lagging inflation signal as oil prices rebounded forcefully in April** amidst OPEC supply cuts; core inflation also remains elevated and sticky in the US and Europe • In the background of these cyclical dynamics, the **recalibration of government policies to changing geopolitical and technology realities continues to reshape the business landscape** —recent measures include export restrictions, green investment subsidies, and regulations on AI
Regional highlights	• **In the US**, deposit flight from banks in the aftermath of SVB's failure has slowed and systemic financial stress abated somewhat. Some pullback in bank lending to the private sector is likely still on the cards, however, and could exacerbate ongoing contractions in credit-sensitive industrial sectors and real estate. The US economy is avoiding recession mainly due to the services-led resilience in consumer spending • **In Europe**, the UK government announced a set of new of environmental policies, dubbed "Green Day", to help protect jobs in industries such as electric vehicle production, which may come under threat from the US Inflation Reduction Act (IRA) and other US green subsidies. Proposed new regulations on AI were also announced in EU, which aim to safeguard against misuse of AI but could potentially stifle some innovation • **In APAC**, recent business-relevant policy developments include: (1) Japan limiting China's access to advanced semiconductors and equipment, which could benefit other semiconductor exporters in Asia-Pacific; and (2) indications from the Chinese government about a renewed pro-business policy stance, though this has yet to reduce perceived economic policy uncertainty among companies
Key considerations and priorities for clients	• Despite limited financial fallout thus far from recent banking failures, **companies should remain wary of the next possible "shoe to drop" in an environment of slowing growth and continued monetary tightening.** Distress in the commercial real estate sector is a key area to watch • **Companies should resist becoming complacent in the face of receding inflation and ongoing resilience in consumer spending—**financial pressures on consumers are growing, post-pandemic tailwinds are dissipating, and an inflection point is likely with high risk of cliff effects • **While pandemic-related disruptions to global supply chains now appear to have normalized,** risks and costs from changing geopolitics are on the rise; scenario-based geopolitical risk analysis, resilience and continuity planning, and supply chain recalibration will grow in importance

Source: Accenture Strategy analysis

Uncertainties around further financial fallout, geopolitical shifts and the duration of consumers' resilience continue to complicate companies' planning efforts

Key questions for Executive Teams / Boards

Economic outlook

"After banking distress, what will be the next 'shoe to drop' as growth slows and credit conditions continue to tighten?"

Technology change

"How will Generative AI impact our long-term industry outlook and business model?"

"What are the different scenarios for how quickly Generative AI catches on in enterprises? Could our business model be at risk?"

State of the consumer

"How much longer will consumer spending resilience persist?"

Geopolitical uncertainty

"How can we de-risk our business in China?"

"How do we balance enhancing enterprise resiliency vs. global economies of scale?"

Manufacturing shifts

"How do recent geopolitically motivated government policies affect my supply chain and competitive landscape?

Source: Accenture Strategy analysis

Overall economic momentum improved in April, but with continued divergence between services and manufacturing performance, and some softening in labor markets

Country economic momentum snapshot

AS OF APRIL 21

Deteriorating | Indicator | Strengthening

	Services PMI	Manufacturing PMI	Industrial Production	Business Confidence	Consumer Sentiment	Unemployment Rate	Retail Sales	CPI Inflation	Comments
USA*	53.7	50.4	0.9%	Declining	+1.5	3.5%	0.6%	5.0%	• Simultaneous tightening of lending standards and ongoing rate hikes are likely to weigh on economic growth in H2
UK*	54.9	46.6	0.3%	Improving	+6.0	3.8%	0.5%	10.1%	• Surging food prices and growing funding challenges are likely to pressure consumers and businesses in Q2'23
Germany*	55.7	44.0	1.0%	Improving	+1.2	2.9%	-0.6%	7.7%	• Drop in energy prices likely to boost economic activity • Fiscal policy support should help revive growth in H2'23
France*	56.3	45.5	1.2%	Improving	-0.6	7.0%	-0.1%	6.7%	• Strong services activity is likely to support growth, offset by rising producer input costs and a cost-of-living crisis
Italy	55.7	51.1	1.0%	Improving	+1.1	8.0%	-0.2%	8.0%	• Low energy prices and lesser reliance on Russian gas may boost energy-intensive sectors such as chemicals and steel • High debt levels make economy vulnerable to rate hikes
Spain	59.4	51.3	0.9%	Improving	-4.2	13.1%	+0.2%	3.0%	• Exposure to a slowdown across EU trading partners and lag in tourism recovery is likely to weigh on economic growth
China	57.8	50.0	1.4%	Declining	+3.2	5.3%	3.4%	0.7%	• Economic re-opening post zero-COVID policies is boosting local consumption and services activity
Japan*	54.9	49.5	-0.3%	Improving	+3.0	2.6%	1.0%	3.3%	• Elevated consumer price pressures and high raw material costs for manufacturing may hinder economic recovery
Brazil	51.8	49.2	-0.2%	Declining	+5.1	8.6%	0.1%	4.7%	• Slower employment growth and tighter lending conditions expected to constrain consumer spending and investments
Australia*	52.6	48.1	0.6%	Improving	+7.3	3.5%	-0.2%	7.8%	• High price pressures and input costs, along with consumer belt tightening, are likely to weigh on pace of recovery
India	57.8	56.4	0.4%	Declining	+0.5	7.8%	8.0%	5.7%	• India's economic resilience and continued robust growth remains a bright spot in the global economy

Notes: PMI metrics provided by S&P Global as of March 2023 (below 50=contraction), with markets marked with asterisks reflect latest Flash PMIs (estimates) for April 2023. Industrial production data reflects 3-month moving average rate sourced from Haver Analytics. Consumer sentiment data are from EC Consumer (Europe), GfK (UK), University of Michigan (US) and other national surveys (MoM index point change). Business confidence data reflects short-term trends. China's business confidence is as of Jun'22. Unemployment rate and inflation data provided by Haver Analytics (inflation rate is YoY % chg). Retail sales data are based on SA 3-MMA % change in volume or inflation-adjusted values provided by Haver. All data reflects most recent available.

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

2 Spotlight developments

North America

Services, underpinned by a resilient labor market, are keeping the US economy afloat and delaying the onset of recession despite declines in industrial activity

High frequency indicators of US economic activity

	Indicator	Unit	2014-19 Average	2021 Average	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1
Consumer	Goods spending	% change	0.9%	1.8%	0.0%	-0.6%	-0.1%	0.0%	2.1%*
Consumer	Services spending	% change	0.5%	1.8%	0.5%	1.1%	0.9%	0.4%	0.7%*
Industry	Industrial production	% change	-0.1%	0.9%	0.9%	1.0%	0.5%	-0.6%	0.0%
Industry	Manufacturing PMI	Index (>50=growth)	53.3	60.7	57.7	55.0	52.2	49.1	47.1
Industry	Durable goods orders	% change	-0.4%	2.6%	3.9%	1.3%	1.9%	1.4%	-3.1%*
Industry	Auto sales	% change	0.2%	-5.1%	8.5%	-5.8%	0.7%	7.0%	6.6%
Real Estate	Residential construction	% change	1.0%	0.6%	4.2%	-0.7%	-6.4%	-6.5%	-0.7%*
Real Estate	Nonresidential construction	% change	0.8%	-3.0%	-2.7%	-3.8%	3.7%	6.1%	3.0%*
Services	Services PMI	Index (>50=growth)	54.0	60.2	55.2	53.9	46.8	46.2	50.0
Services	Hotel occupancy	%	66.1	57.6	61.5	64.1	63.5	62.7	64.1
Services	Dining out	% change	0.8%	6.0%	-1.6%	5.9%	0.3%	0.2%	1.3%
Labor Market	Change in nonfarm employment	Thousand (avg. monthly rate)	570	608	561	329	423	284	345
Labor Market	Unemp. insurance claims	Thousand (weekly)	244	268	245	200	188	225	235

Implications for corporates

- Companies should interpret the ongoing resilience of economic growth with caution
  - Much of it appears driven by the tailwind from pent-up services demand, which is likely to dissipate soon
- Recent weakness in manufacturing output and new orders is occurring even as global supply chain pressures have reverted to pre-pandemic levels
  - This suggests that slowing demand, rather than constrained supply, is now the main headwind for manufacturers
- The expected tightening in lending conditions from recent banking stress is likely to pressure credit-sensitive sectors such as commercial real estate and automotive and reverse their positive recent growth momentum

Commentary

- Several areas of the economy have already been experiencing contraction or slowing growth in recent quarters, including manufacturing and residential real estate
- Resilient consumer spending, backed by a strong labor market, is ultimately what is keeping the US economy from slipping into a more broad-based downturn
  - This consumer strength is mainly a services spending story, however, reflecting the ongoing impulse from pent-up services demand post re-opening

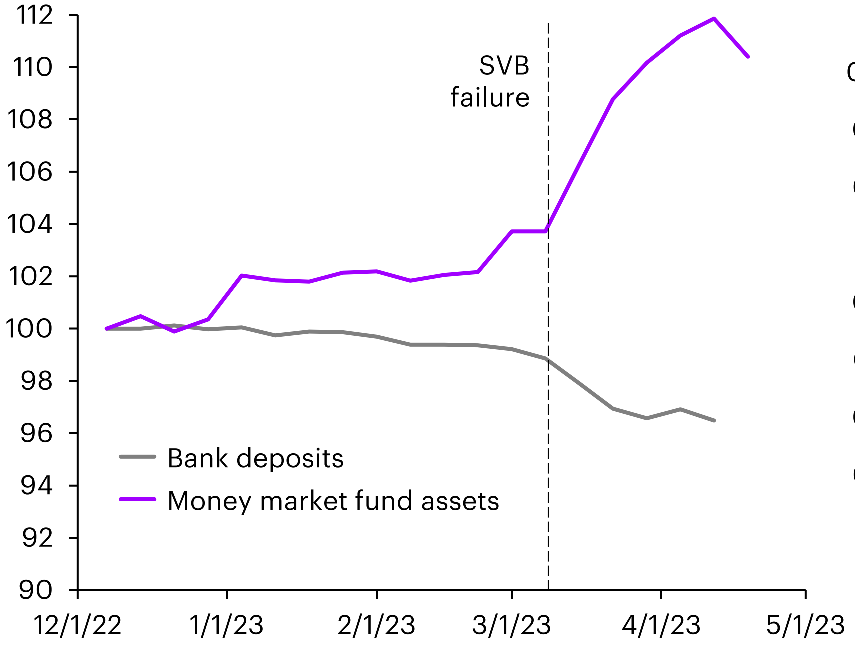
Notes: Shading is based on strength of indicator relative to its pre-pandemic historical average (2014-2019). Figures for 2022 and 2023 are quarter-on-quarter percent changes. For 2021 and 2014-2019, they are average of quarterly percent changes during the respective period. Asterix denotes 2023 Q1 calculation is based on partial data through through February 2023. Goods and services spending is based on personal consumption expenditures (PCE) data. “Dining out” figures are based on retail spend on food services.
Source: Haver Analytics, Accenture Strategy analysis

Banks’ competition for funding is driving up the return on saving; this could accelerate the timeline of cutbacks in consumer spending

Bank deposit and money market fund dynamics

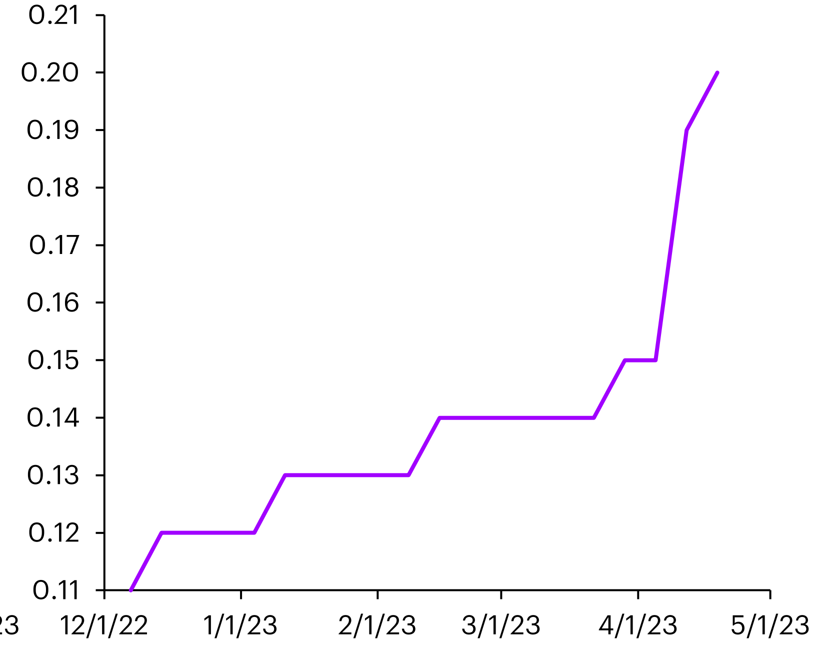
Bank deposits and money market fund assets

Index (Dec 7, 2022=100), as of April 19, 2022



Retail deposit rates at commercial banks

Percent (per annum), on USD 2,500 minimum savings account



Implications for corporates

- Bank’s funding stresses related to deposit flight appear to have abated somewhat, which could help limit their prospective pullback in lending to companies
- Broader uncertainty around the next “shoe to drop” in the financial system remains high, however
- This elevated uncertainty, combined with receding (though still high) inflation and rising deposit rates is likely to incentivize increased saving by households, further weighing on consumer spending

Commentary

- The surge in deposit withdrawals during the second half March following SVB’s failure has slowed in recent weeks—deposits at US commercial banks are hovering around 2.5% lower than their pre-SVB failure levels
- The migration of these deposits to money market (MM) funds—in search of higher yield and safer assets—also appears to have peaked for now
- To compete for funding, banks have raised retail deposit rates significantly since end-March, though these rates still trail what MM funds offer

Sources: Federal Reserve Board, Investment Company Institute, RateWatch, Accenture Strategy analysis

Europe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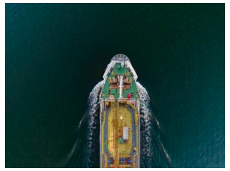
The UK announced a new set of "green" policies to increase energy independence and boost green investment and local manufacturing

UK Green Day plans

	Pillar	Description	Sector implications
	**Increase climate investment**	• Boost private investment to achieve energy security: – Deliver new nuclear projects – Develop 50GW of offshore wind by 2030. Allocate GBP 160 million towards pilots of offshore wind manufacturing – Quintuple solar power by 2035	• Investment focus on: – Carbon capture, usage, and storage – Electrolytical hydrogen production – Offshore wind energy – Solar energy
	**Accelerate EV charging infrastructure**	• Invest over GBP 380 million into EV charging infrastructure • Set a zero emission vehicle mandate on manufacturers requiring a minimum percentage of new car and van sales to be zero emission from 2024	• Boosts EV sales starting 2024 • Develop local manufacturing of EV charging
	**Enhance export finance**	• Increase the maximum exposure limit for UK export finance by GBP 10 billion to GBP 60 billion	• Boost exports from climate-change friendly sectors
	**Accelerate manufacture of heat pumps**	• Allocate GBP 30 million to boost manufacturing and supply of heat pumps	• Boost local manufacturing of clean technology • Reduce reliance on gas and rebalance electricity prices

Implications for corporates

- Regulations requiring an increasing percentage of new cars to be zero emission will assist EV manufacturers through higher demand for such vehicles
- Speedier planning approvals for energy infrastructure projects should lower corporates' operating costs
- Greater export finance exposure is expected to drive robust exports from clean manufacturers
  - In 2021, exports from low carbon and renewable energy industries grew 67% y/y compared to other sectors at 6%
- Several measures within the Green Day plans had previously been in place in some form, suggesting the expected benefits should be largely incremental

Sources: HM Government, Accenture Strategy analysis

The EU's proposed risk-based regulation of AI, while well-intentioned, could increase costs for start-ups and SMEs and dampen their investment and innovation

Proposed regulations may impact the already lagging AI industry in EU

Regulatory Proposal	EU Risk Tiers for AI	End Use
Ban on all AI systems considered a threat to safety	**Unacceptable Risk**	Facial recognition, subliminal end-uses, social scoring
Risk assessment/mitigation, conformity assessments, use of high-quality datasets, detailed documentation/oversight	**High Risk**	Transportation, healthcare, education training, HR tech, credit scoring, biometrics
Transparency obligations imposed	**Limited Risk**	Chatbots, industrial AI, audio and video generation
Free use allowed	**Minimal or No Risk**	AI-enabled video games, spam filters

Implications for corporates

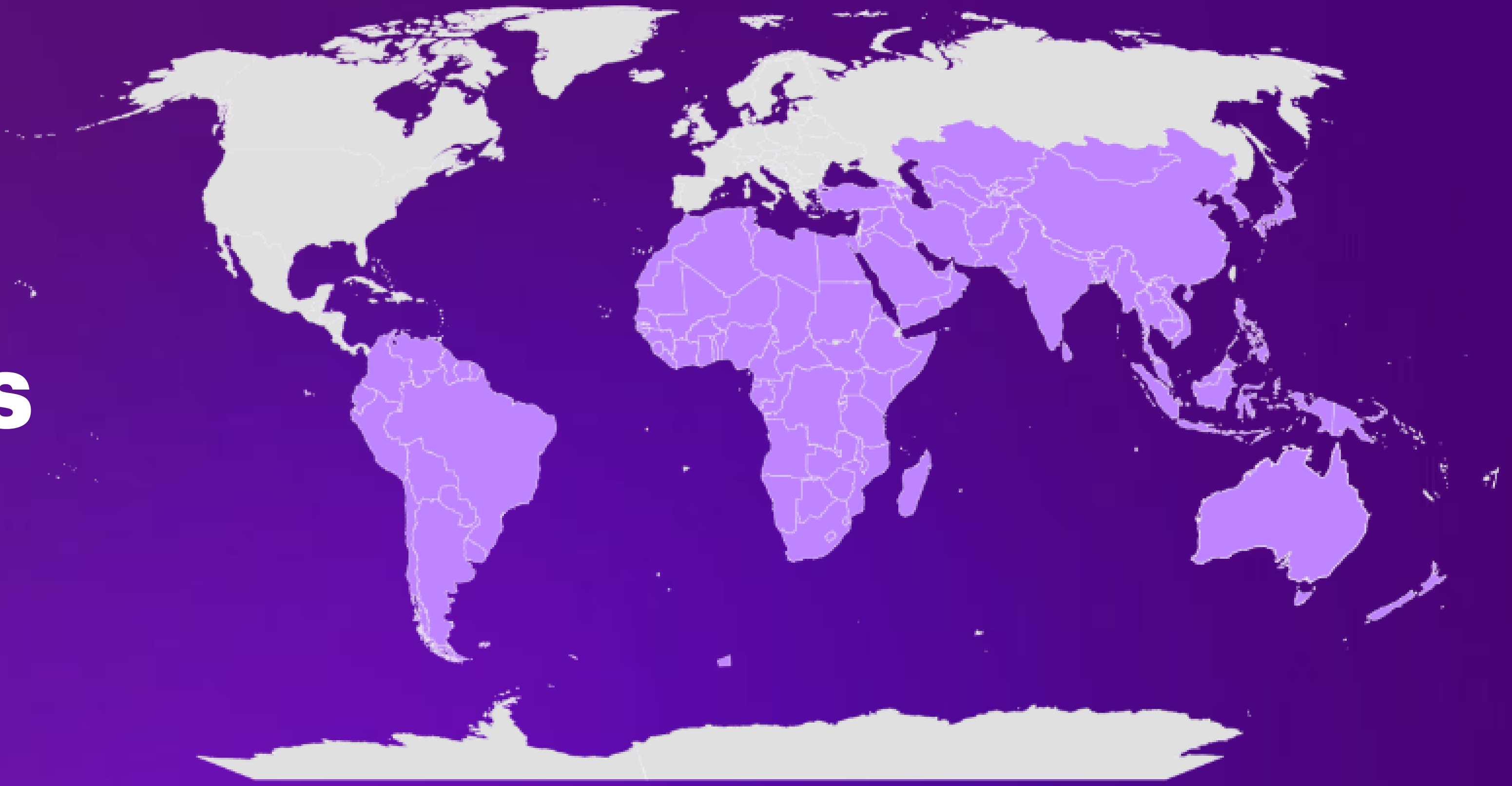
- **Start-ups and SMEs** may incur additional compliance costs ranging between 5-17% of AI business revenue
- **Conformity assessment** can cost up to 13% of the AI investment costs for start-ups and SMEs
- **Large corporates,** particularly tech firms, may incur additional expenses 0.2%-1% of AI related revenue
- Firms may also be subject to fines ranging from EUR 10-30m, or 2-6%, of global turnover for non-compliance

Commentary

- AI regulations proposed by the European Council intend to create a common regulatory standard across the AI value chain that can improve trust, simplify development and drive adoption of AI solutions across the EU. Regulatory sandboxes are expected to aid testing and deployment of AI solutions.
- Under this horizontal risk-based approach, definitions of AI systems and high-risk end-uses are somewhat ambiguous and leave room for interpretation—e.g., the Act could potentially target any linked software / database that may lie outside the deployed AI solution
- Facing increased regulatory costs, EU-based start-ups and SMEs may shift towards low-risk AI solutions or non-AI applications, which could stifle innovation; larger tech firms are likely to be less impacted due to prior experience handling complex compliance and regulatory challenges

Source: European Commission Impact Assessment Study, Brookings, Sifted, Center for Data Innovation, AI Act Impact Survey, Clifford Chance, Artificial Intelligence Index Report 2023, McKinsey & Company Survey 2022, Accenture Strategy analysis

Growth Markets

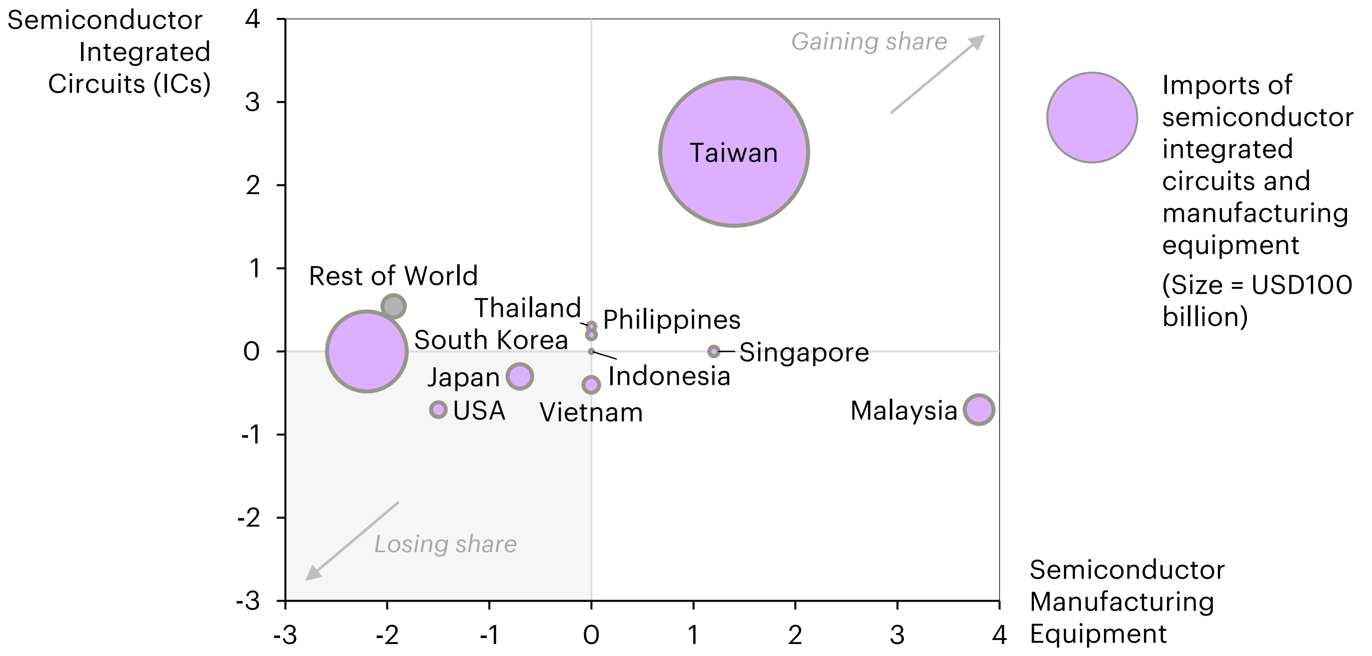


Japan has followed the US in limiting China's access to advanced semiconductors and equipment, which may benefit other exporters in Asia-Pacific

China semiconductor imports

Foreign suppliers of China's semiconductors and manufacturing equipment

Change in supplier share of China's imports, 2021-2022 (percentage points)



Implications for corporates

- Suppliers that are not subject to export controls may see an increase in their share of exports to China
- Countries may also promote domestic semiconductor production, benefitting local firms
- Companies should assess their exposure to decoupling and export restrictions, including:
  - Risk to sales, supply chains, assets, and personnel
  - Timelines for sanctions compliance
  - Any special exemptions (e.g., Korean companies have a 1-year exemption from US sanctions)
- Companies should evaluate diversification strategies, which could decrease risk but increase the cost of managing their supply chains

Commentary

- Companies have taken different approaches to the prospect of China's decoupling by doubling down on existing production, diversifying away from at-risk areas, or withdrawing from certain countries altogether
- October 2022: US restricted the export of advanced microchips (AI/HPC applications), advanced semiconductor manufacturing equipment or items containing US components or software, and prohibited US citizens from supporting the development or production of chips at targeted Chinese firms
- March 2023: Japan aligned technology export controls with US, restricting the export of 23 types of semiconductor manufacturing equipment

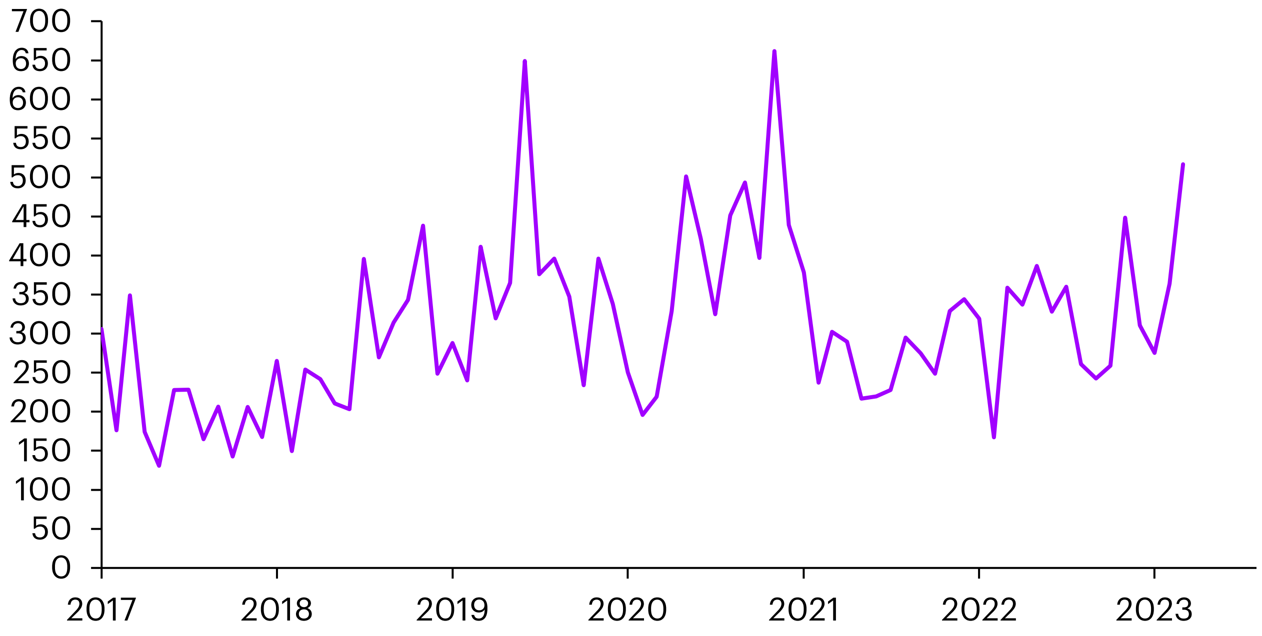
Imports from Rest of World do not include re-imports from China/Hong Kong.
Sources: General Customs Administration of China, UN COMTRADE Trade Map, Accenture Strategy analysis.

Despite the Chinese government's renewed pro-business stance to help revive slowing economic growth, perceived policy uncertainty among companies remains high

China Economic Policy Uncertainty Index

News-based economic policy uncertainty index

Indexed to 100 in 2000



Implications for corporates

- Under the new "Invest in China" campaign, foreign MNCs in China have been promised greater institutional access and economic incentives
- However, recent increases in perceived economic policy uncertainty suggests many companies remain skeptical of the government's long-term commitment to a pro-business stance
- Key uncertainties relate to:
  - A reversal of business support measures and renewed regulatory interventions, as was seen in the case of Ant Group and TikTok IPO
  - The strength of the post-pandemic recovery, which could lead the government to re-orient its policies if growth undershoots expectations
  - The degree of oversight and regulation of the financial sector, where there is longstanding vulnerabilities and opaqueness

Commentary

- After years of zero COVID-19 policy, lockdowns, and rising tensions with the US, China faces slowing structural economic growth and high youth unemployment, among other challenges
- Recent government policy signals indicate a pro-business stance in support of growth, but uncertainty around future policy remains high

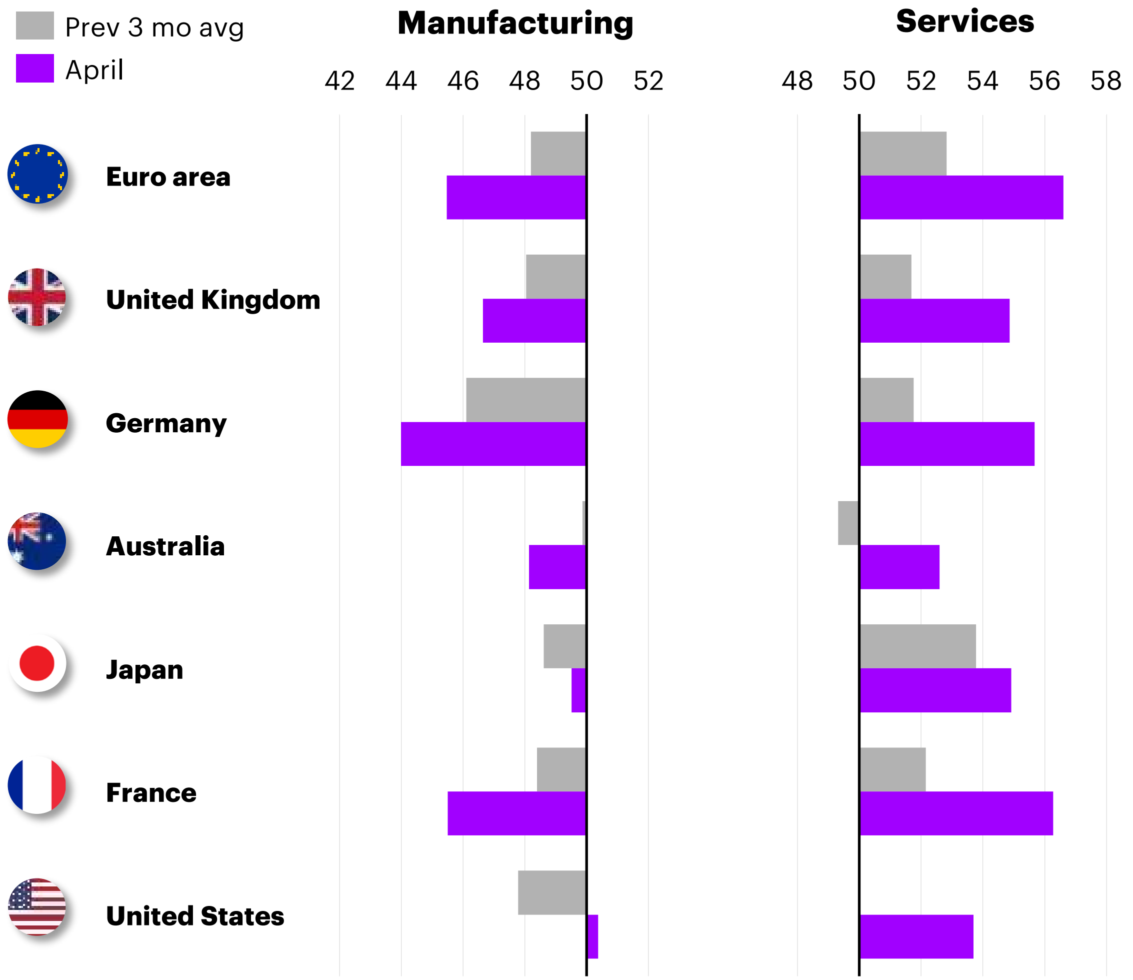
Note: Uncertainty index methodology: obtain monthly counts of articles that contain at least one term in each of three term sets: Economics, Policy, and Uncertainty. They report the terms in each set using Chinese characters and the corresponding English translations., Accenture Strategy Analysis, Source: Haver Analytics

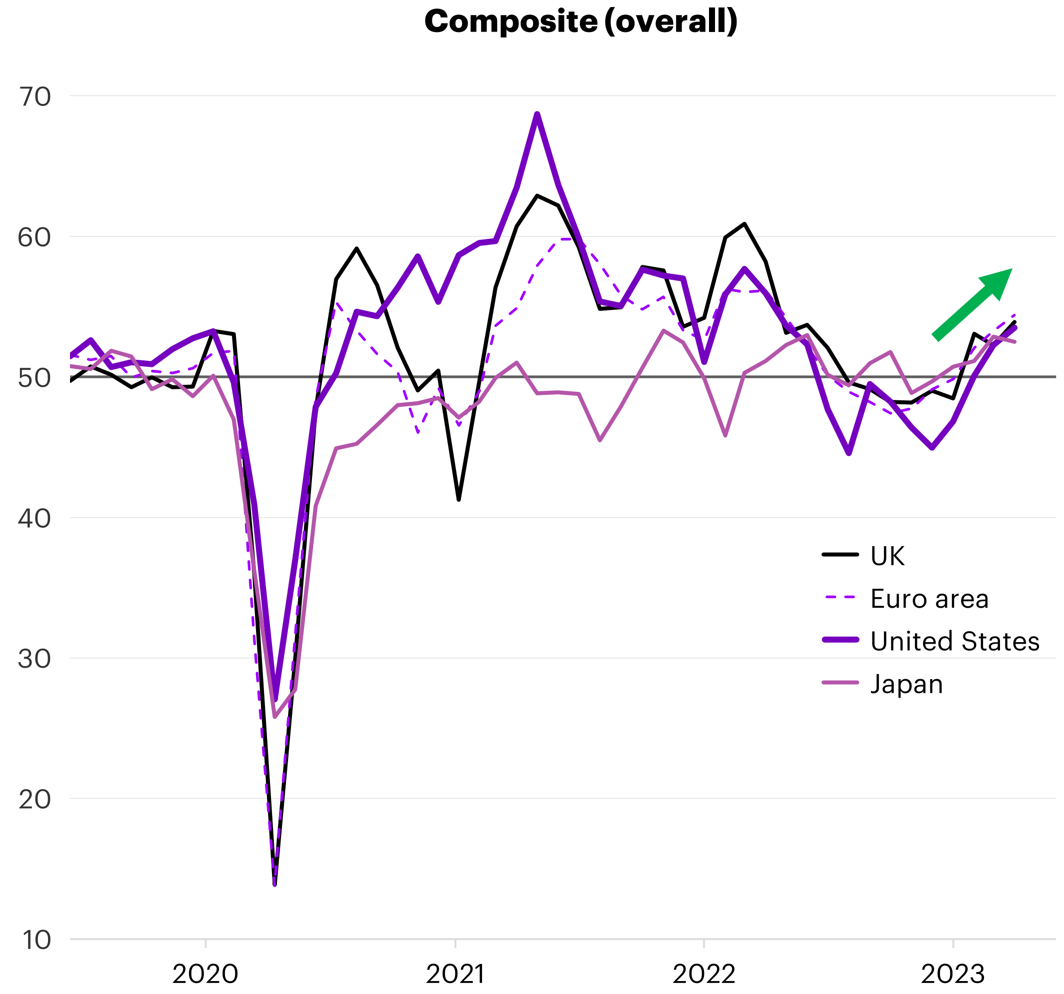
3 Economic indicator chart pack

Regional and industry activity

Overall growth momentum in major economies remained positive in April on the back of strong services activity, though this disguises the ongoing contraction in manufacturing

April Flash PMI country snapshot





Note: A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month
Sources: S&P Global, Accenture Strategy analysis

Detailed industry-level data (through March only) showed a concentration of growth momentum in services sectors, led by recreation, tourism and transportation

Global Industry PMI snapshot

March 2023 vs Previous 3 Month Average, PMI Output / Activity

Commentary

- Chemicals, energy and utilities have been in contraction since mid-2022
- Banking and real estate have shown increased economic activity for the first time in nine and twelve months respectively
- Elevated defense spending amidst the ongoing Russia-Ukraine conflict is expected to support demand in the aerospace & defense sectors
- Consumer-facing industries, travel, arts & recreation, communications & media and airlines remain key drivers of output growth

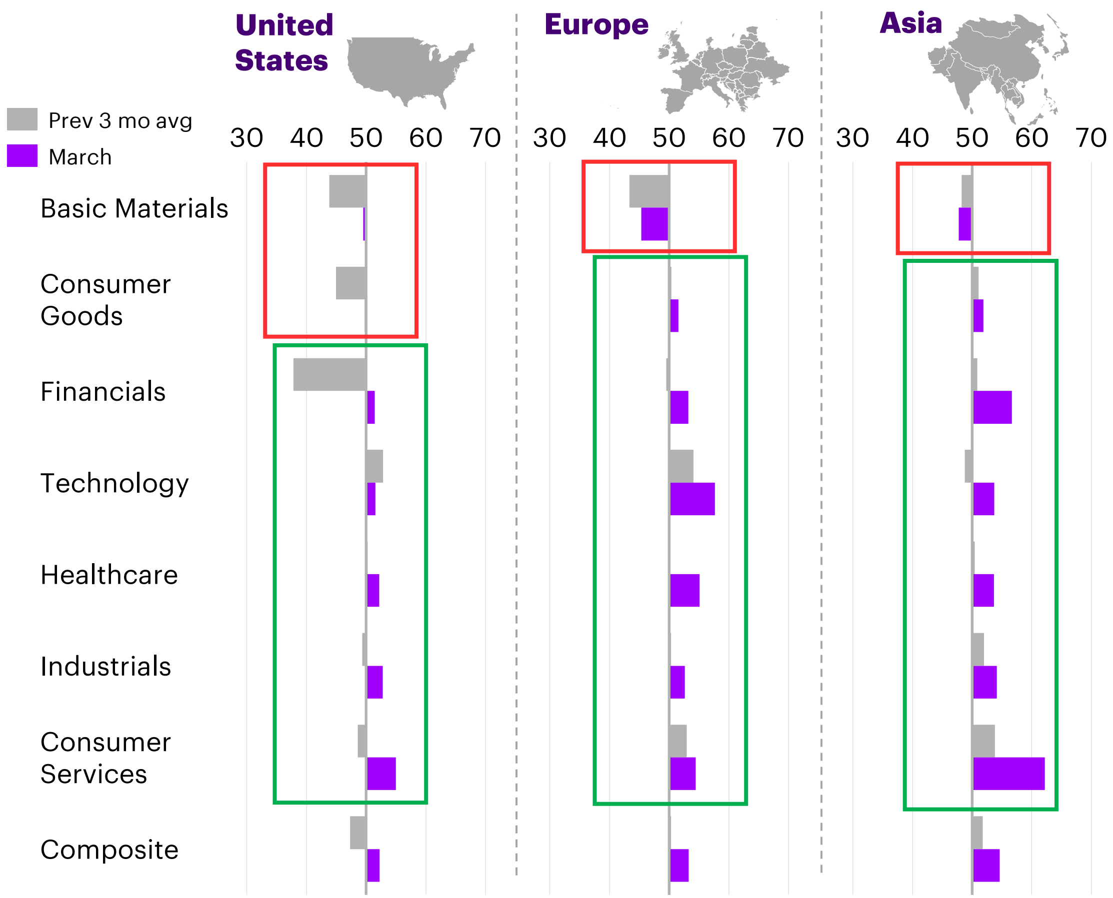
Note: A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month
Sources: S&P Global, Accenture Strategy analysis

Basic materials continue to struggle across geographies as most other sectors have shown increased economic activity

Regional PMI overviews

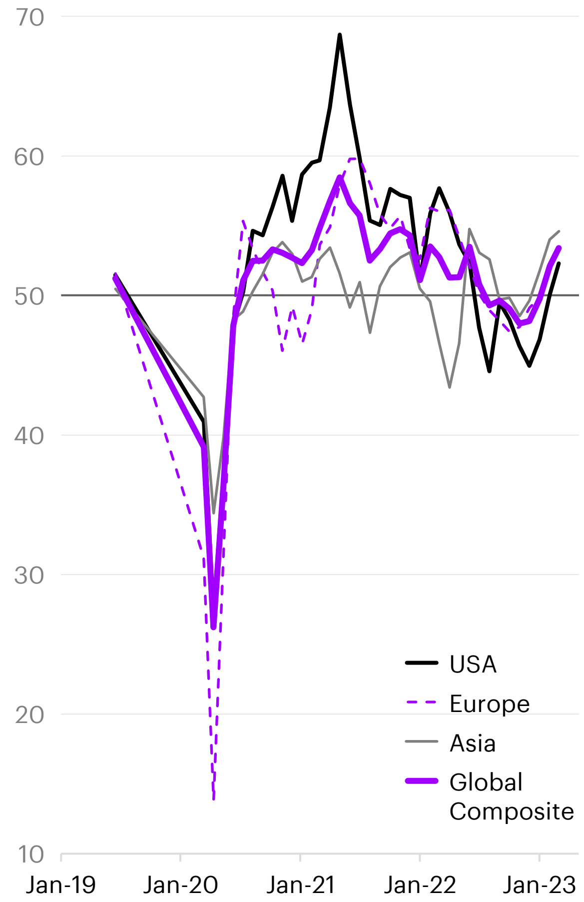
Regional industry performance

March 2023 vs Previous 3 Month Average, PMI Output/Activity



Regional performance

Composite PMI Output / Activity



Commentary

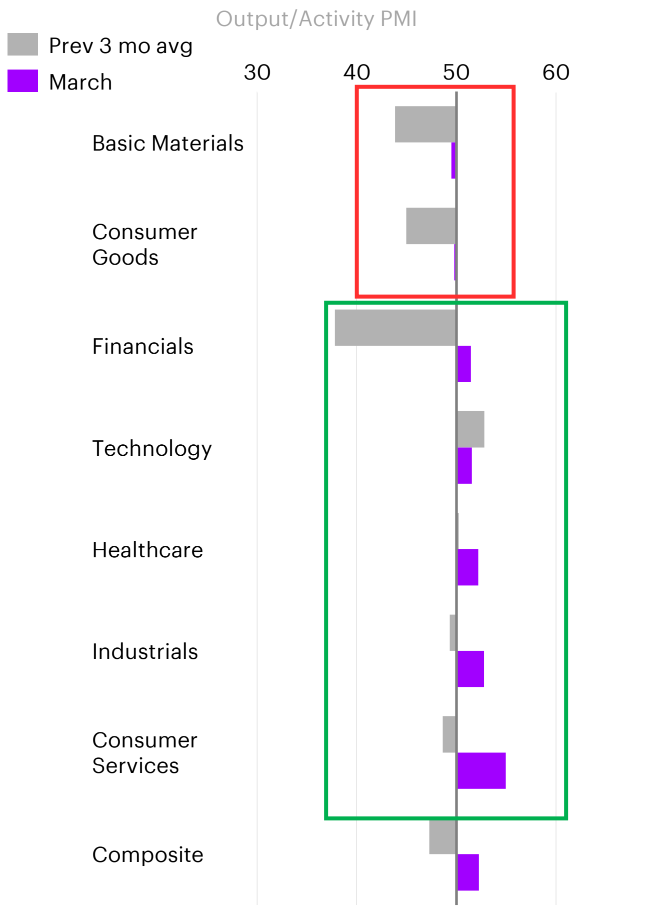
- Basic materials continues to contract, reflecting weak new orders and declining staffing levels
- Despite recent stresses in the banking system, financial sector growth was positive in Mar'23
- Consumer services have emerged as key growth driver based on strong new orders and expansion of output prices

Note: Industry names are aligned with Tier 2 IHS industry classification: Basic Materials (Chemicals, Resources); Consumer Goods (Auto, Beverages & Food, Household & Personal Products); Consumer Services (Media, Tourism & Recreation); Financial Services (Banks, Insurance, Real Estate); Health (Healthcare Services, Pharma & Biotech); Industrials (Industrial Goods, Services, Transport), Technology (Tech Equipment., Software & Services)
Sources: S&P Global, Accenture Strategy analysis

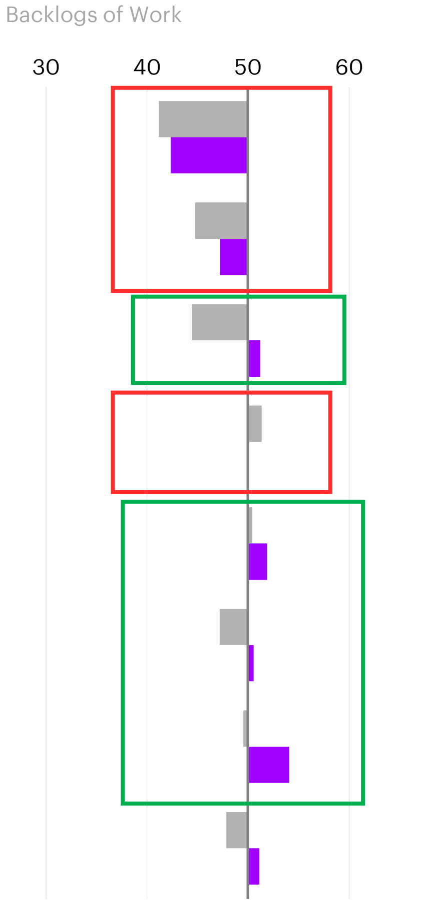
In the US, basic materials and consumer goods declined; output activity of financials and healthcare turned positive in March when compared to recent trends

Regional outlook: United States

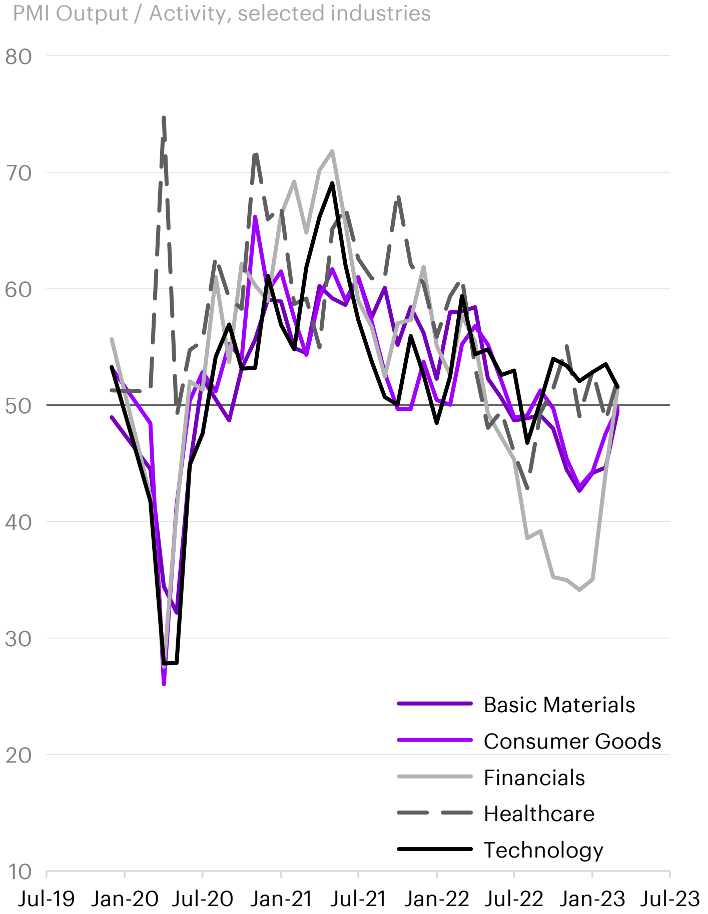
Industry Performance



Backlogs of Work



Industry Performance



Commentary

- Consumer services continued as a key growth driver, recording its highest rate of expansion since Jun'22
- Strong output prices and output activity have helped maintain a positive outlook for industrials and technology
- Basic materials continues to struggle from marginal decline in output activity
- Financials surprisingly rebounded after fall in activity over the last 10 months

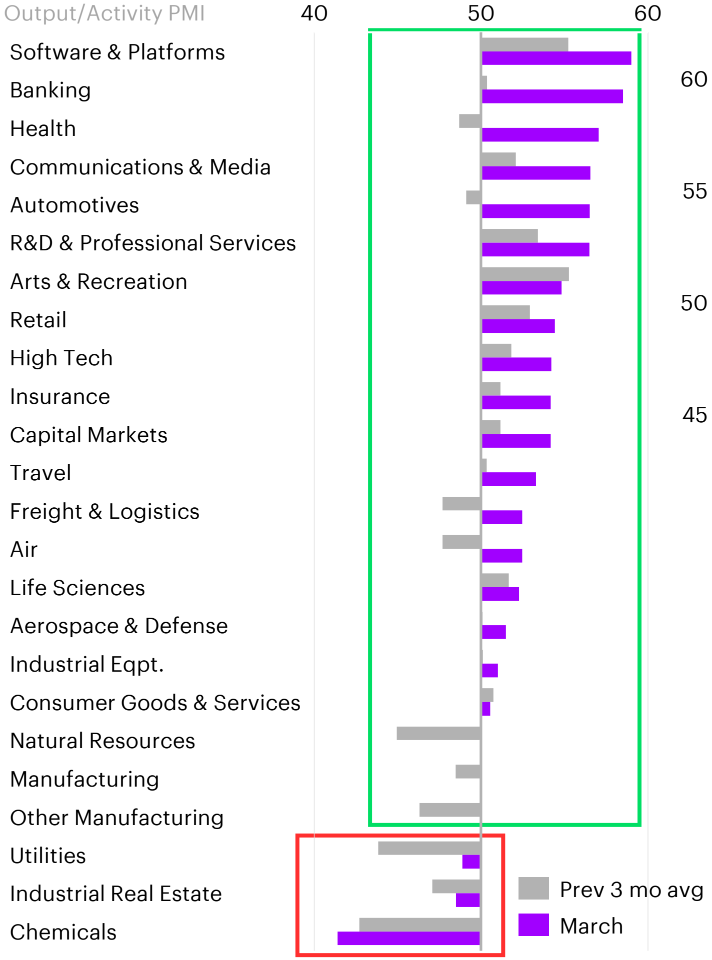
Note: Industry names are aligned with Tier 2 IHS industry classification: Basic Materials (Chemicals, Resources); Consumer Goods (Auto, Beverages & Food, Household & Personal Products); Consumer Services (Media, Tourism & Recreation); Financial Services (Banks, Insurance, Real Estate); Health (Healthcare Services, Pharma & Biotech); Industrials (Industrial Goods, Services, Transport), Technology (Tech Equipment., Software & Services)
Sources: S&P Global, Accenture Strategy analysis

Most European industries recorded increased economic activity; chemicals, industrial and utilities experienced declines

Regional outlook: Europe

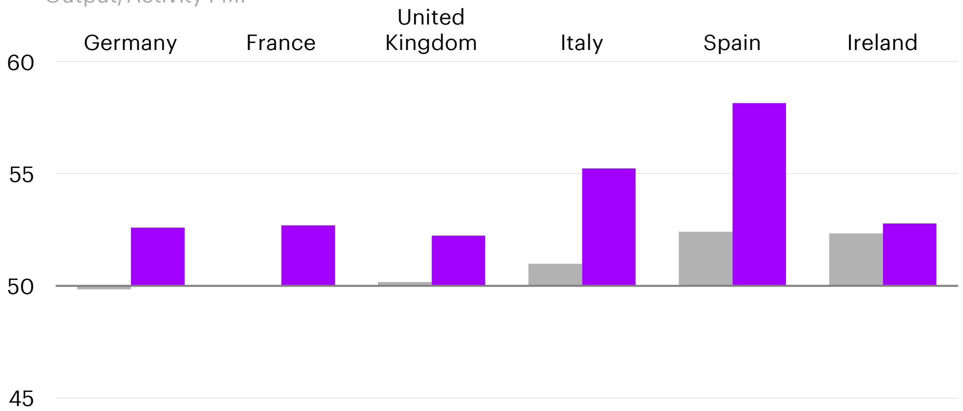
Industry Performance

March 2023 vs Previous 3 Month Average, Output/Activity PMI



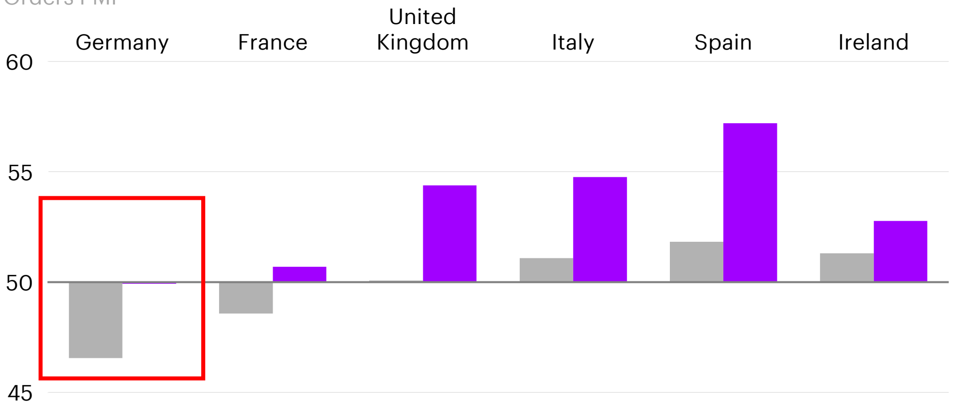
Country Performance

March 2023 vs Previous 3 Month Average, Output/Activity PMI



New Orders Index

March 2023 vs Previous 3 Month Average, New Orders PMI



Commentary

- Output growth continues to improve across major European economies, moving into positive territory (relative to recent 3-month average) in Germany, France
- Software and platforms have shown strong output growth, propelled by growing orders and job creation
- Banking, healthcare, tourism, and high tech had strong new order growth in March

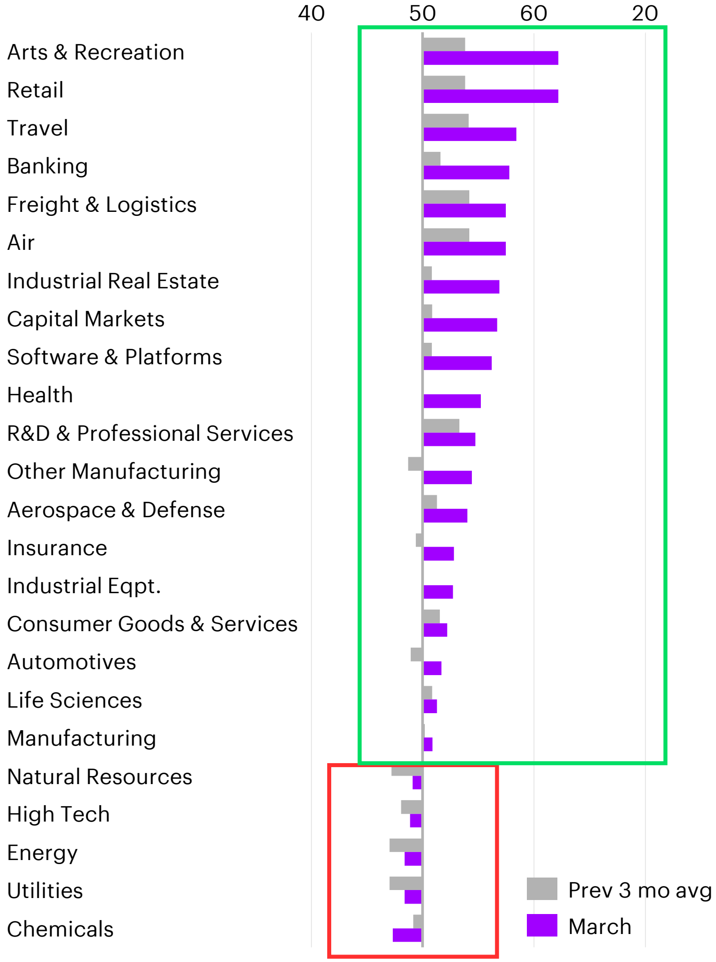
Sources: S&P Global, Accenture Strategy analysis

Consumer-focused sectors led growth in Asia-Pacific, with India and China showing strongest growth momentum

Regional outlook: Asia-Pacific

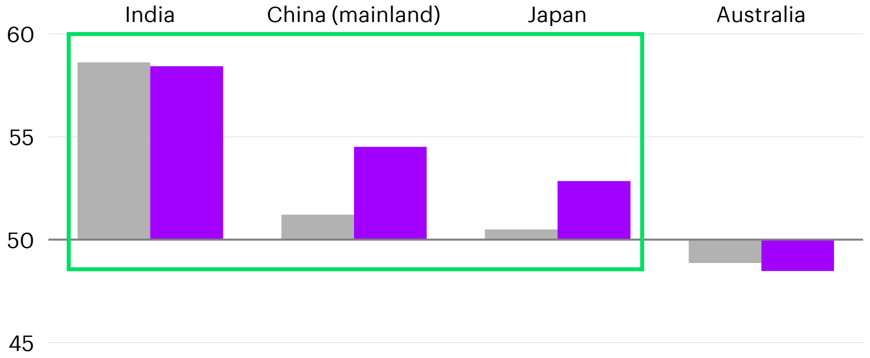
Industry Performance

Recent 3 month average vs Mar '23, Output/Activity PMI



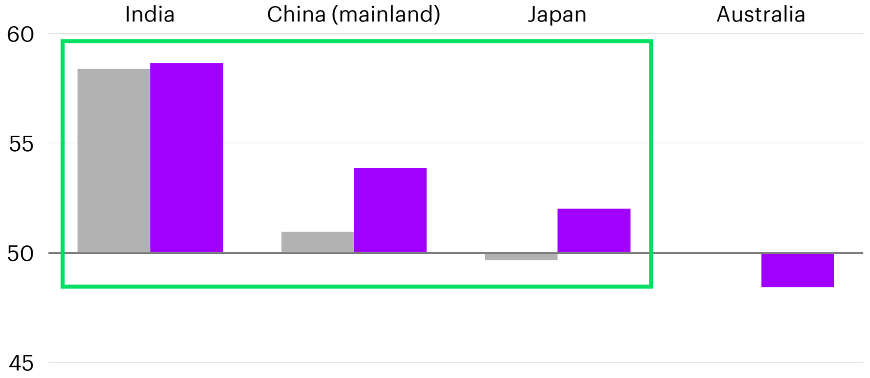
Country Performance

Recent 3 month average vs Mar '23, Output/Activity PMI



New Orders Index

Recent 3 month average vs Mar '23, Output/Activity PMI



Commentary

- Increasing factory orders, easing supply chain and cost pressures led to strong manufacturing growth in India
- China's economic re-opening continues to progress, reflected in strong services sector activity in March
- In Japan, while overall output increased, manufacturing is still seeing falling output and new orders
- Both manufacturing and service sectors recorded declines in Australia on the back of weaker demand and inflationary pressures

Sources: S&P Global, Accenture Strategy analysis

Manufacturing across ASEAN recorded marginal expansion in March; Malaysia, Vietnam and Taiwan recorded contraction

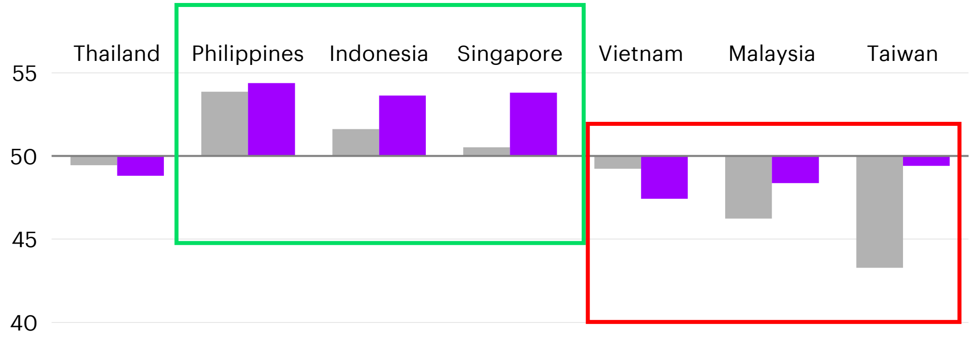
Regional outlook: Southeast Asia

Manufacturing Performance

Recent 3 month average vs Mar '23 Manufacturing Output

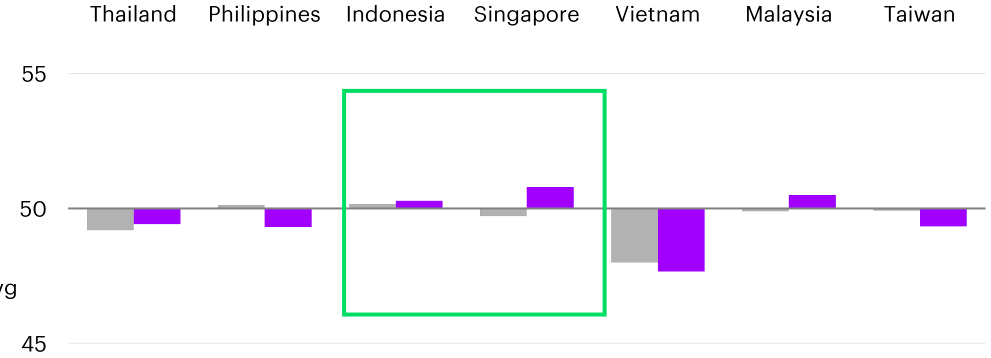
Manufacturing New Orders

Recent 3 month average vs Mar '23, Manufacturing New Orders PMI



Manufacturing Employment

Recent 3 month average vs Mar '23, Manufacturing Employment PMI



Commentary

- Thailand showed the strongest growth despite a fall in new orders as firms reduced their backlogs
- Increased new orders and softening in inflationary pressures in March vs February supported the expansion of Filipino manufacturing. Employment has fallen for 2 successive months.
- Improved sentiment and increased demand drove expansion of Indonesia's manufacturing sector
- Increased new orders and output expansion boosted hiring in Singapore
- Vietnam's manufacturing sector contracted in March as new orders and export demand fell vs February
- Malaysia's manufacturing sector continued to contract as demand and customer sentiment remain muted
- Low confidence and muted demand continue to impact Taiwan's manufacturing sector

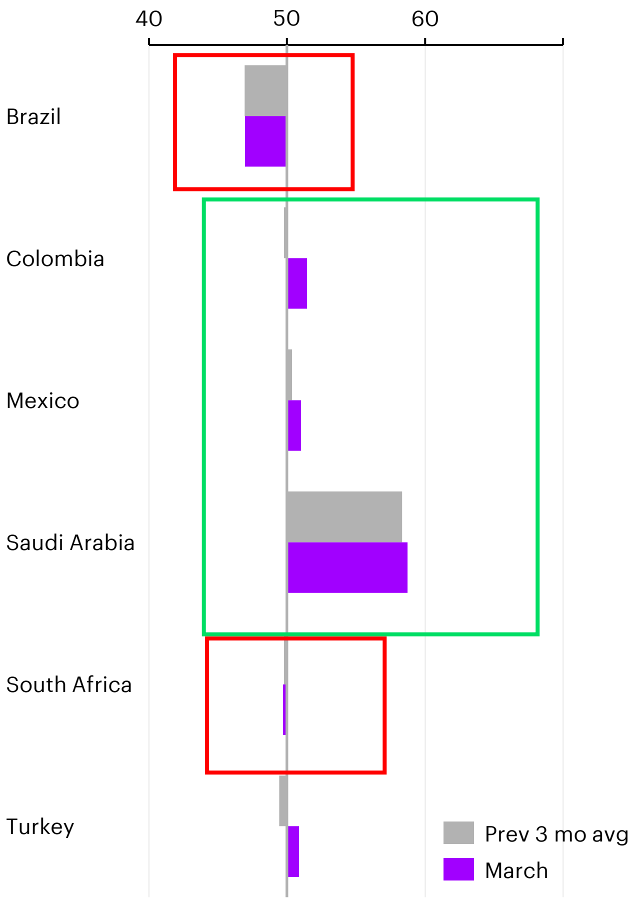
Note: Performance for Singapore covers the whole economy
Sources: S&P Global, Accenture Strategy analysis

Other emerging markets lost growth momentum, while Saudi Arabia extended its gains

Regional outlook: Other emerging markets

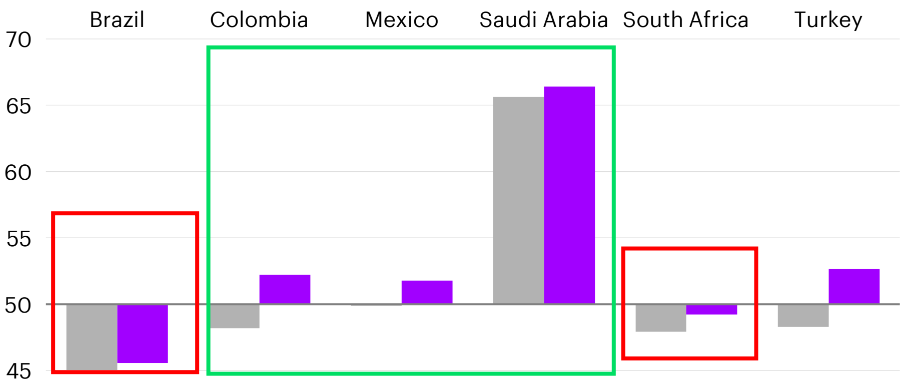
Manufacturing Performance

Recent 3 month average vs Mar '23, Manufacturing PMI



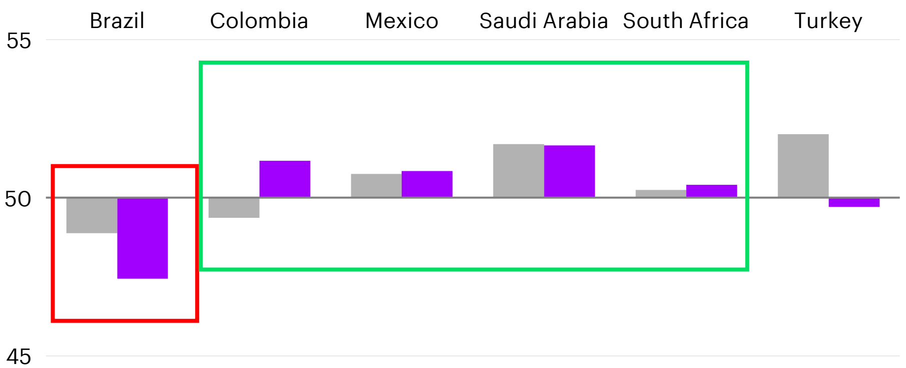
Manufacturing New Orders

Recent 3 month average vs Mar '23, New Orders PMI



Manufacturing Employment

Recent 3 month average vs Mar '23, Employment PMI



Commentary

- In Brazil, weak demand and policy concerns are affecting the manufacturing industry
- Colombia experienced a rebound in economic activity, with increased new orders and employment
- Earthquake aftermath and retirement age regulations have led to a reduction in employment in Turkey despite output expansion
- Saudi Arabia's business activity continues to expand, reflecting strong new orders
- Manufacturing output contracted in South Africa as input cost inflation remains a key challenge
- Manufacturing in Mexico expanded with increased new orders, employee count and reduced delivery times

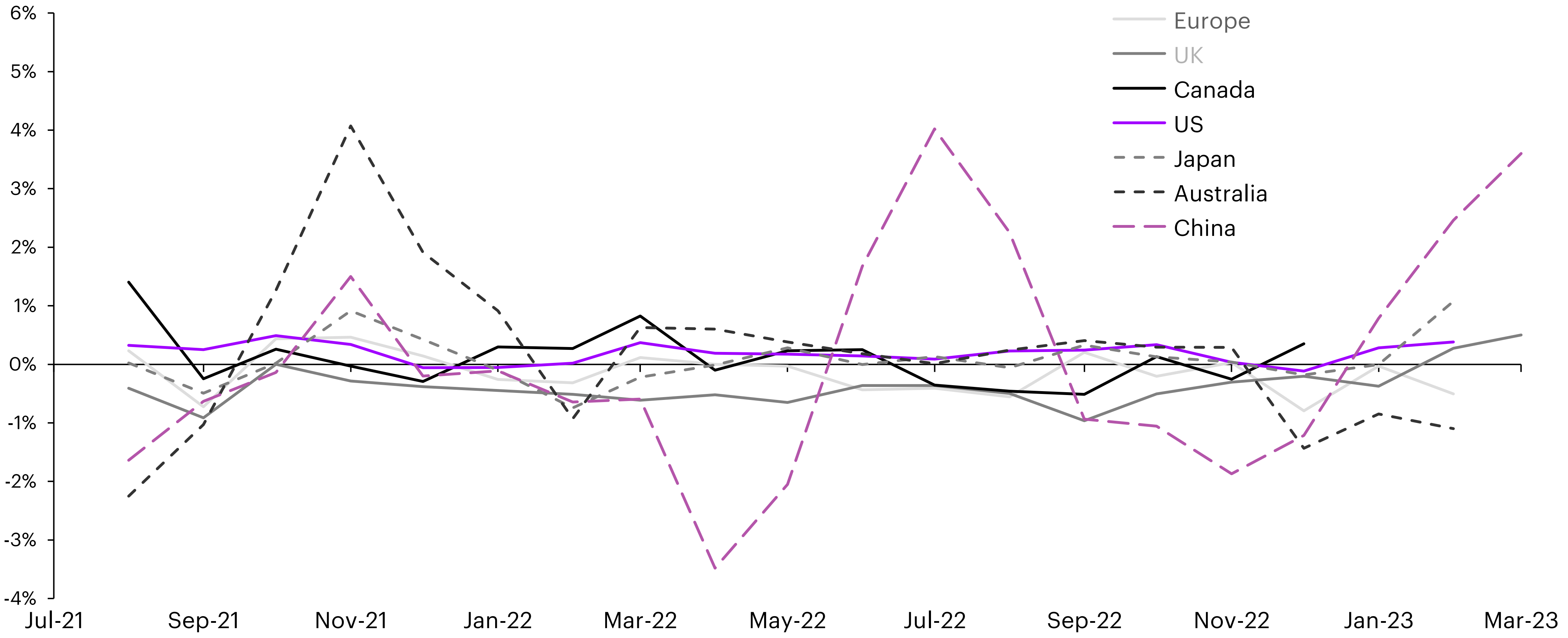
Note: South Africa and Saudi Arabia PMI is for the whole economy
Sources: S&P Global, Accenture Strategy analysis

Consumer spending

Recent consumer spending growth is improving across most major economies; China’s consumption has rebounded strongly after the economy’s re-opening

Consumer spending trends

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

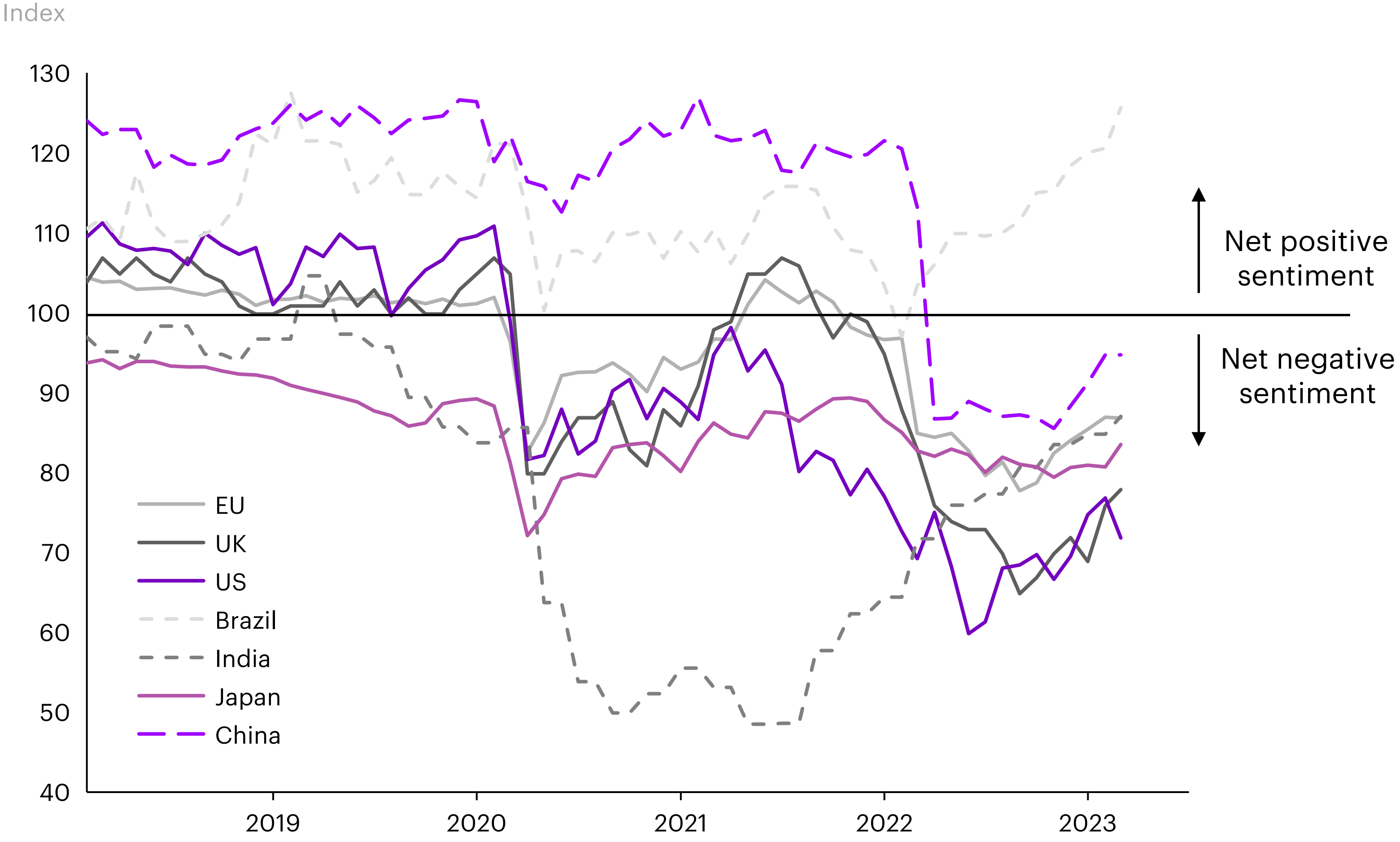


Notes: Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area, UK, Canada, Japan, Australia, and China series data is retail sales.
Sources: BEA, BLS, Eurostat, ONS, Haver analytics, Accenture Strategy analysis

Consumer sentiment globally remains largely pessimistic, but improved in March across the EU, Japan, UK and India

Consumer sentiment remains low

Indicators of overall consumer sentiment



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

Commentary

- The milder-than-expected winter has contributed to easing of energy prices and improved consumer confidence across Europe
- The now year-long trend of improving consumer confidence in India and Brazil continues

In the US and Europe, consumers continue to rotate their spending into services; car sales in US, UK and Germany reversed their recent growth trend

Consumer spending trends by goods and services category

AS OF APRIL 17

		US		UK	
		Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change
Goods	Groceries	-0.6%	0.5%	-2.5%	0.9%
	Motor vehicles	1.2%	-3.9%	10.8%	-9.7%
	Furniture	0.9%	-0.4%	-4.1%	-1.4%
	Electronics	3.1%	1.2%	0.4%	-3.1%
	Footwear & apparel	2.4%	-1.0%	3.8%	2.9%
	Fuel	-0.1%	3.2%	-1.9%	-1.1%
Services	Transportation	0.1%	1.1%	-0.7%	-0.5%
	Entertainment	2.6%	-0.4%	-1.2%	1.6%
	Dining out and hotels	2.7%	-2.1%	-1.0%	0.3%
	Information services	2.4%	0.8%	1.3%	-0.3%
	Telecom	1.7%	0.5%	7.7%	1.3%

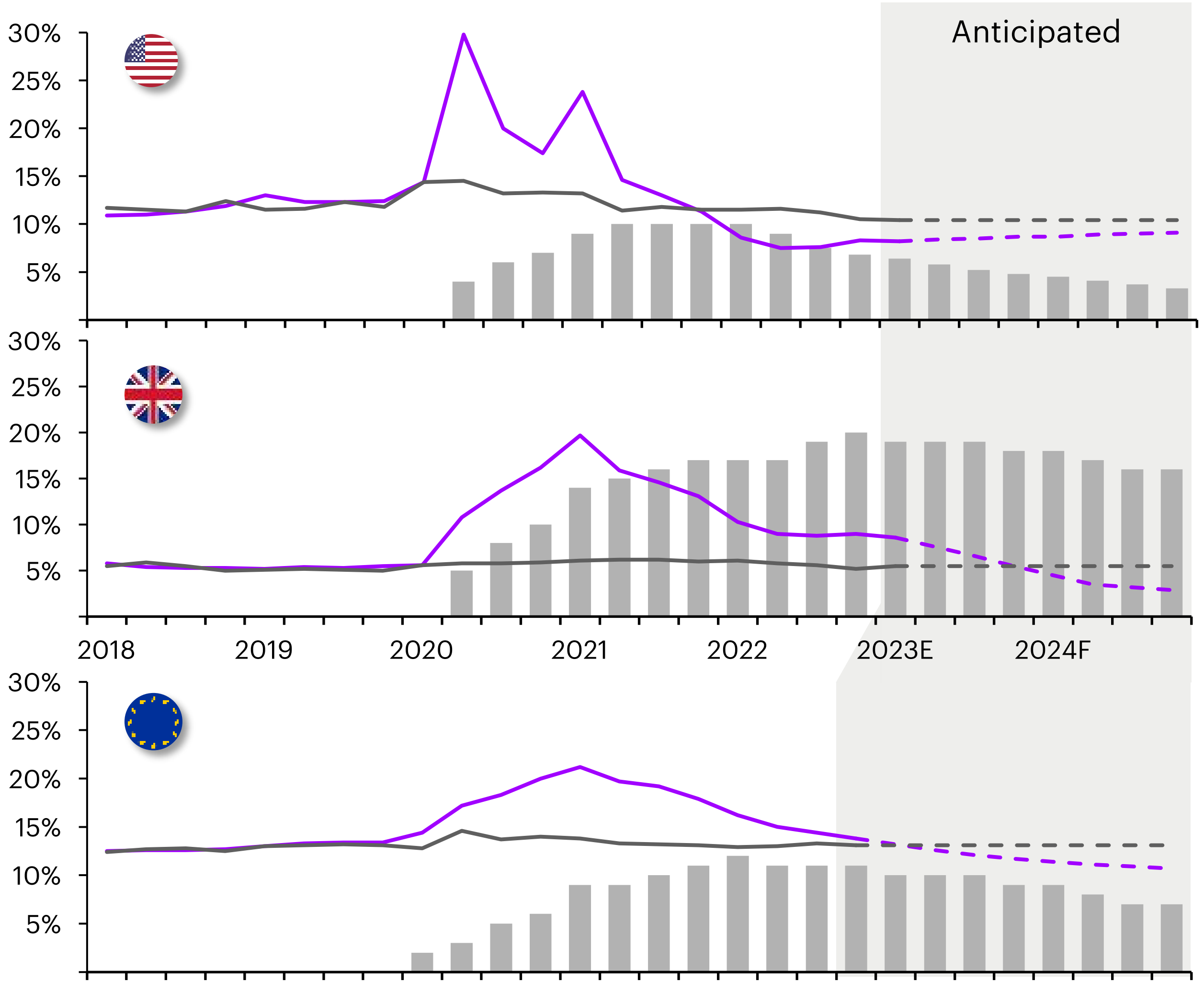
		Germany		France	
		Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change
Goods	Groceries	-4.1%	0.3%	-2.0%	0.6%
	Motor vehicles	9.9%	-7.9%	7.2%	0.5%
	Furniture	-3.0%	-4.9%	-0.1%	5.6%
	Electronics	2.4%	5.8%	1.6%	1.6%
	Footwear & apparel	5.1%	1.2%	6.1%	-0.7%
	Fuel	-4.7%	-1.7%	1.1%	-0.4%
Services	Transportation	2.4%	1.9%	2.8%	2.4%
	Entertainment		n/a	8.6%	6.8%
	Dining out and hotels	-9.9%	3.6%	3.0%	0.2%
	Information services	2.8%	-12.5%	5.7%	0.5%
	Telecom	2.8%	-4.2%	4.3%	1.3%

Notes: 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

The US consumer has been resilient to date, but caution is warranted amid declining excess savings

Household savings dynamics



Commentary

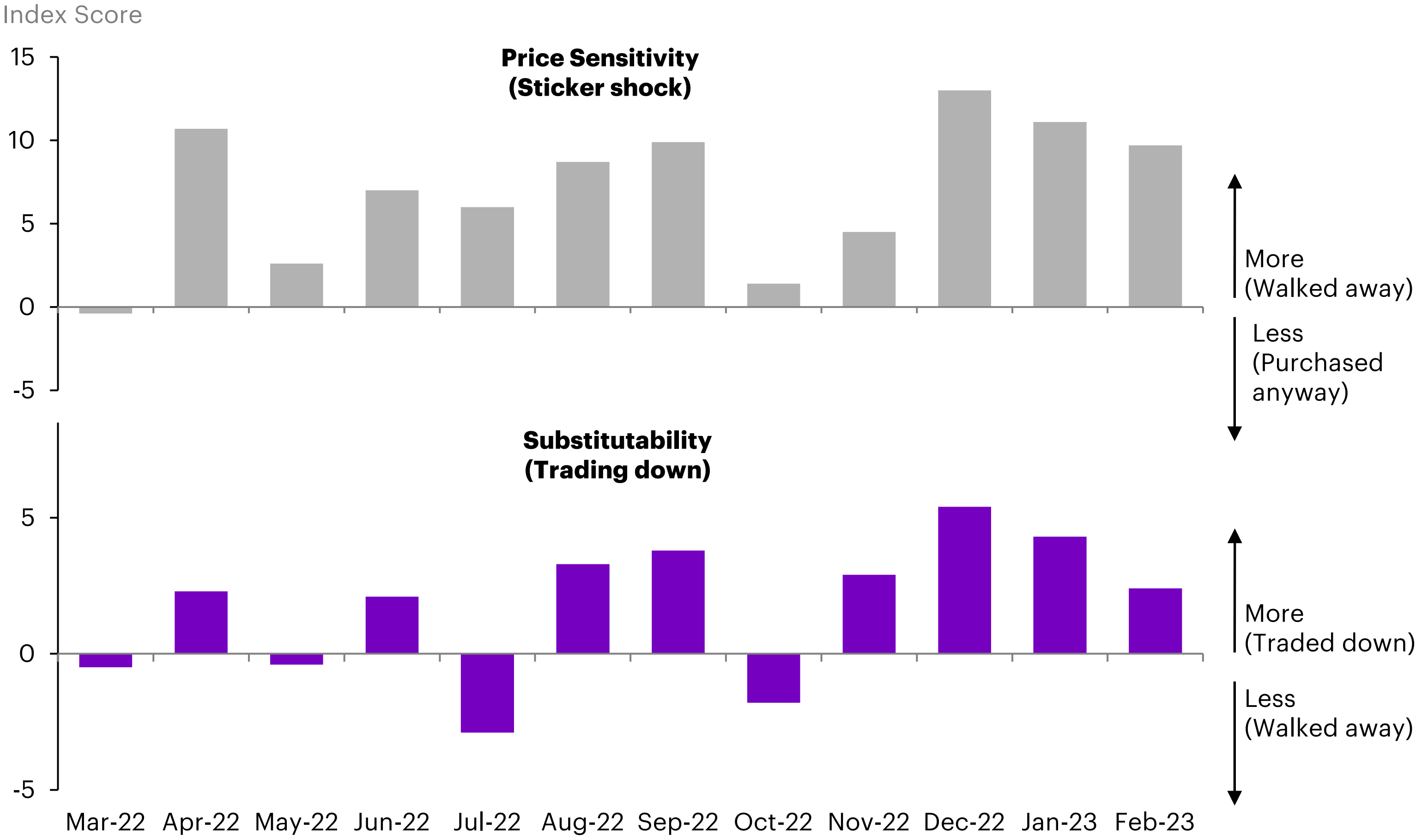
- When economies closed at the beginning of the pandemic savings rate climbed to all time highs. As the pandemic progressed, consumers continued to amass savings
- Here we have estimated how those excess savings (the difference between the observed savings rate and that which would have been predicted by prevailing economic conditions) have accumulated over time
- We expect the US consumer will continue to wind down those savings until overall savings return to normal levels
- European consumers have been slower to spend against those accumulated savings though we expect that they will start to wind down those savings levels into 2023 and 2024

Sources: Bureau of Economic Analysis, European Central Bank, ONS

US consumers report reductions in their price sensitivity and pressure to trade down since the beginning of 2023, but both metrics remain elevated amidst persistent inflation

US consumer behavior in the face of inflationary pressures

Survey-based measures of US consumers' price sensitivity and tendency to trade down



Commentary

- Reported price sensitivity peaked in December 2022 but has eased slightly since
  - This could reflect the recent decline in headline inflation from its peaks
  - However, share of consumers who walked away from a higher-than-expected purchase still exceeds the share who purchased anyway
- Similarly, the share of consumers who trade down—i.e., opt for a lower-priced substitute product or service rather than foregoing purchase altogether—has been declining but remains elevated
  - This could reflect consumers feeling lower pressure as a result of bargains and promotions post-holidays season

Note: Morning Consult's "Price Sensitivity" index is based on survey responses of US consumers, where it reflects net balance of respondents who did not make a purchase because price was too high minus ones who purchased for higher-than-expected price; and "Substitutability" index reflects balance of respondents who purchased lower-priced alternative products minus those who did not make the purchase due to high price.
Sources: Morning Consult Economic Intelligence, Accenture Strategy analysis

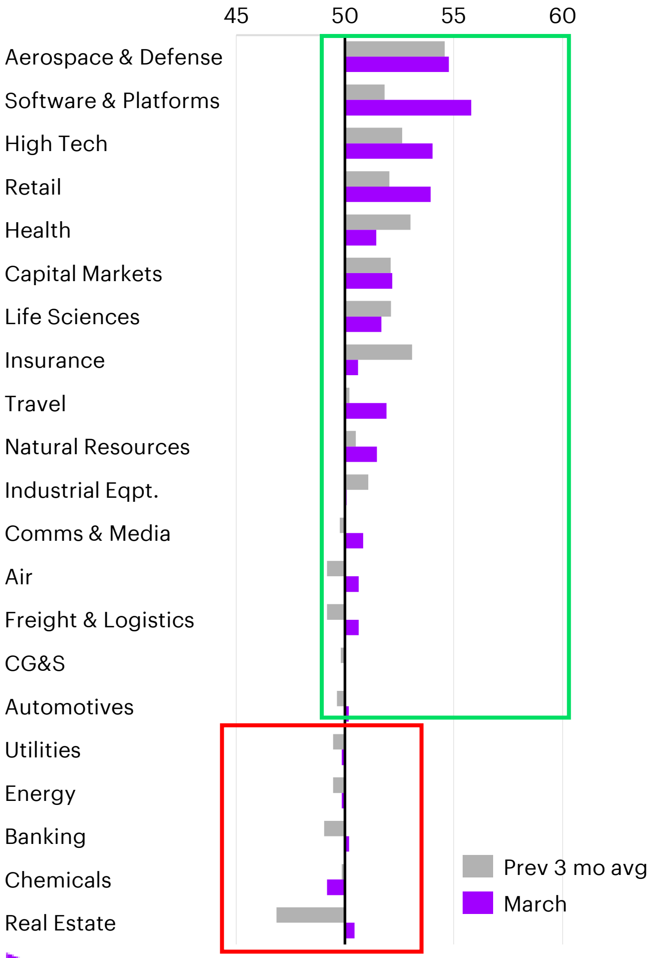
Labor markets

Global labor market stability continued in March across most sectors and major economies

Labor markets: Global overview

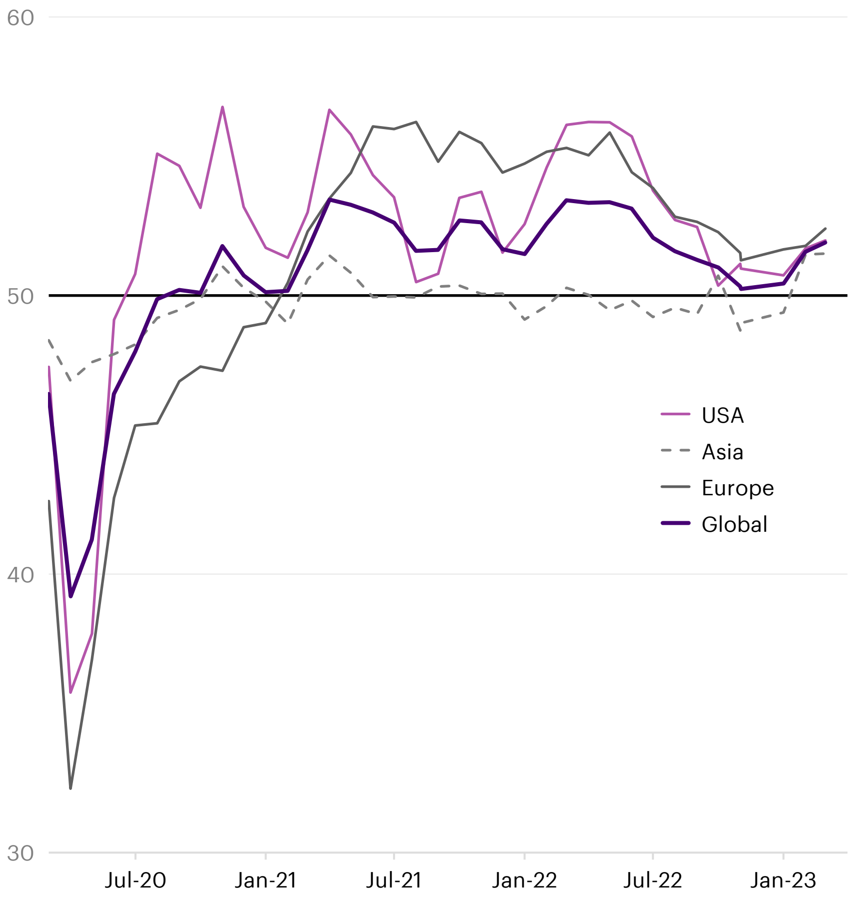
Global PMI Employment Index

Recent 3 month average vs Mar '23, Employment PMI



Aggregate PMI Employment Index

Employment PMI



Commentary

- Employment in Asia continued its rebound from lows in January
- The ongoing employment strength in services sectors will be key to watch in 2023 as wage pressures in those industries could lead to stickier inflation
- Despite stress in the banking sector, employment in most financials saw a slight uptick in March

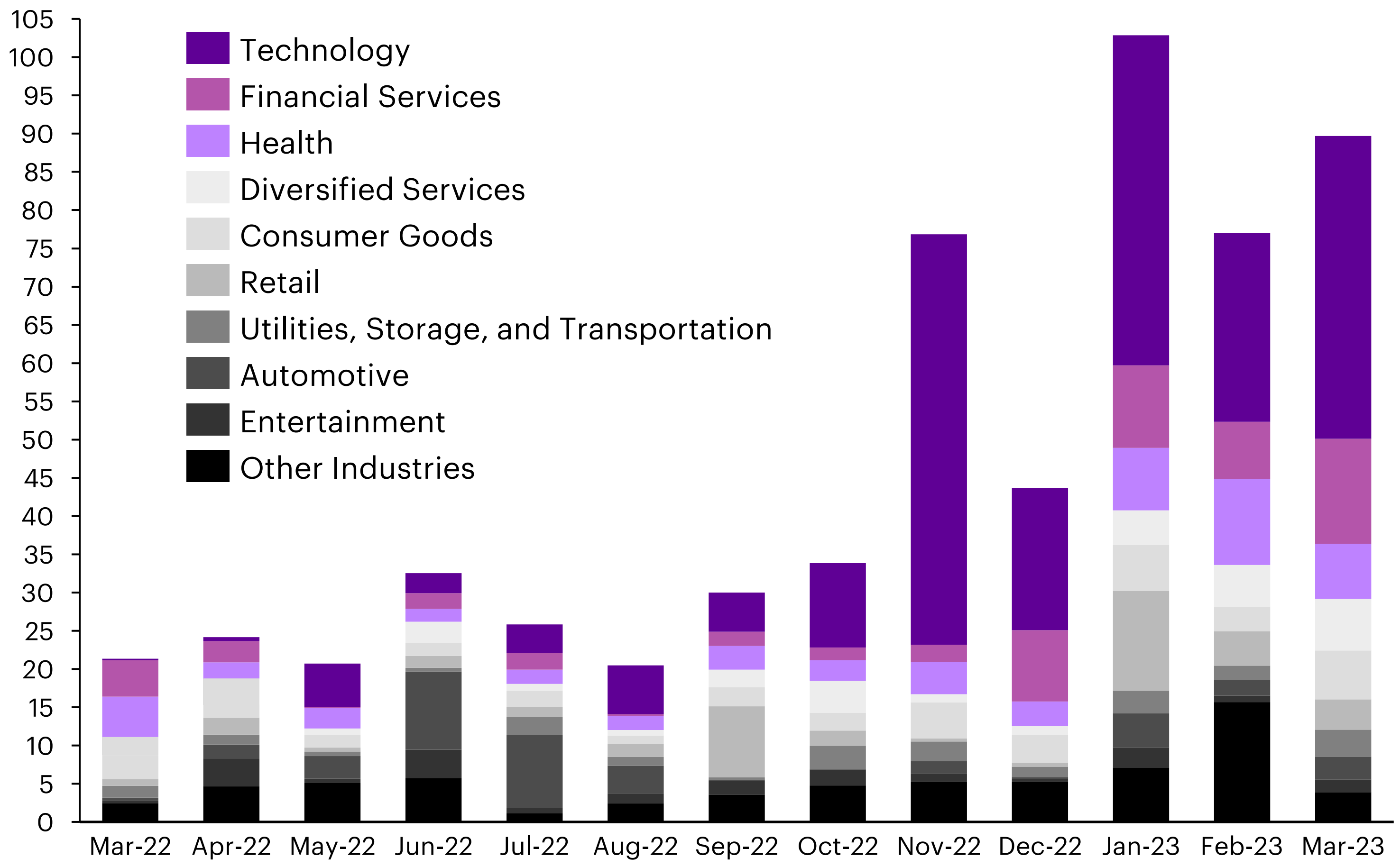
Sources: S&P Global, BLS, Accenture Strategy analysis

The overall number of layoffs in the US grew in March, with noticeable increases in the technology and financial services sectors

US corporate layoff tracker

Announced layoffs by sector

Thousands (not seasonally adjusted)



Comments

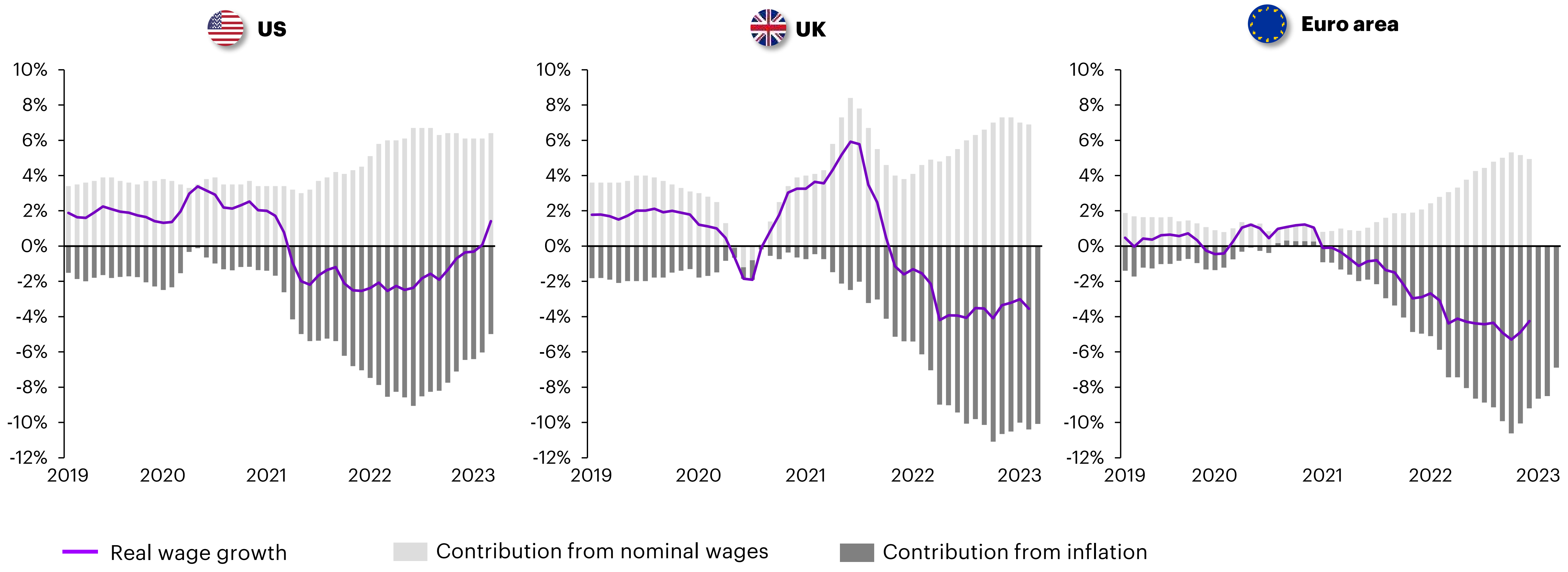
- Tech companies that had over-hired during the pandemic continue to lead the way in layoffs as they focus on optimizing headcount
- Stress in the financial services sector continues from banking collapses, slowdown in corporate dealmaking and increased volatility in the global financial markets
- A slowdown in consulting and deal advisory is leading to layoff announcements by professional service firms
- Consumer companies are also announcing layoff plans in expectation of slowing consumer demand

Sources: Challenger Employment Report, Haver Analytics

Real wage growth has turned positive in the US amidst recent easing of inflation, but remains persistently negative across Europe

Wage growth developments

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

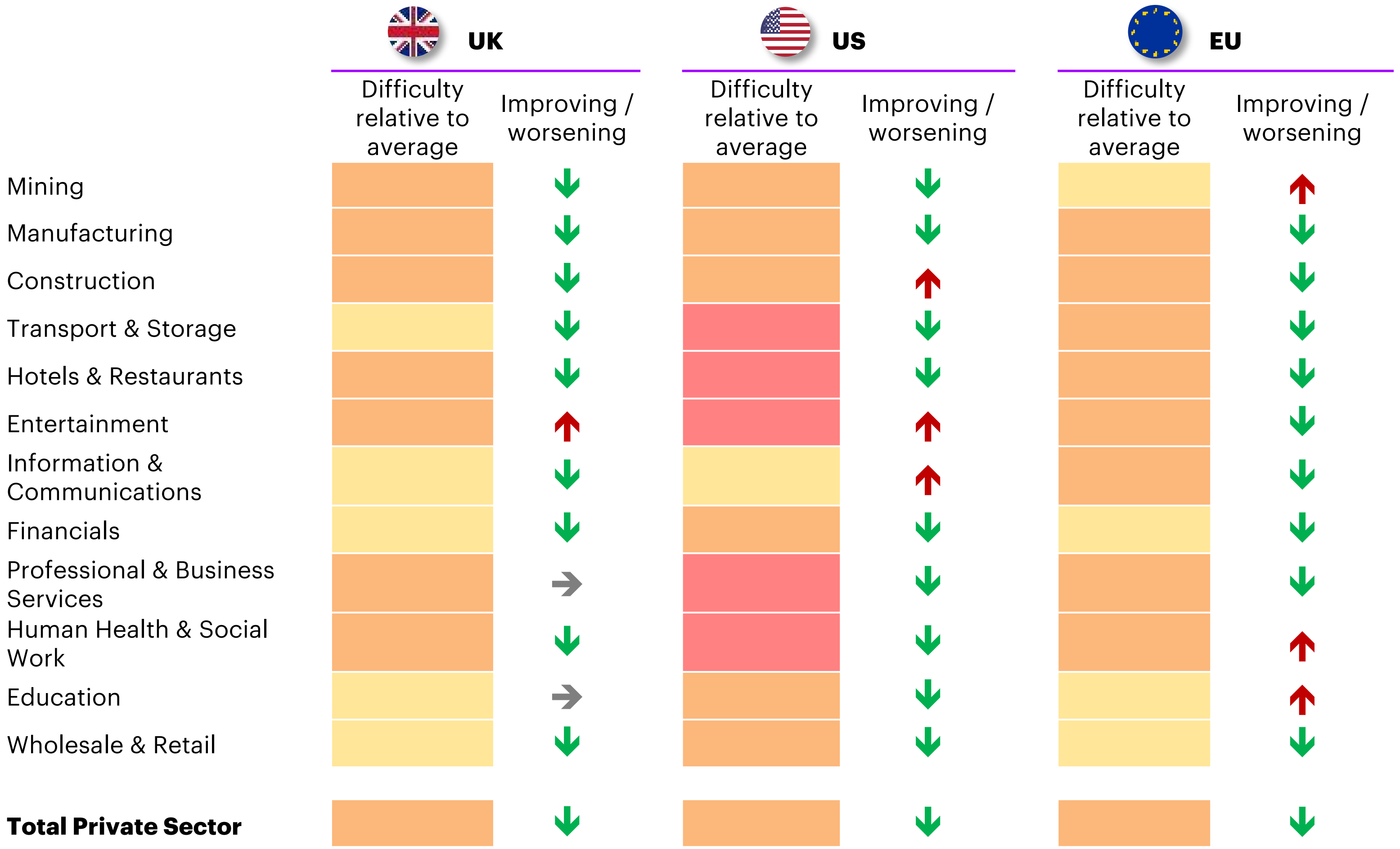


Sources: BLS, ONS, Indeed, Accenture Strategy analysis

Talent shortages persist across the US and Europe though most sectors are seeing improvement

Relative difficulty of hiring by sector

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



Comments

- Overall hiring difficulties relative to historical norms are highest in the US, as compared to UK and Europe
- Across geographies, hiring difficulties remain most pronounced in the healthcare, leisure and hospitality industries
  - In the US, difficulties filling open positions in the entertainment sector worsened in February (latest available data)
  - In the EU, labor shortages are also acute and increasing in the construction industry

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

Energy price declines in March provided some inflation relief globally, but current rates are still elevated, except in China

CPI Inflation

Latest overall 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	5.0%	-1.0%
United Kingdom	10.1%	-0.4%
Canada	4.4%	-0.9%
Germany	7.7%	-1.5%
France	6.7%	-0.6%
Italy	8.0%	-1.8%
Spain	3.0%	-3.0%

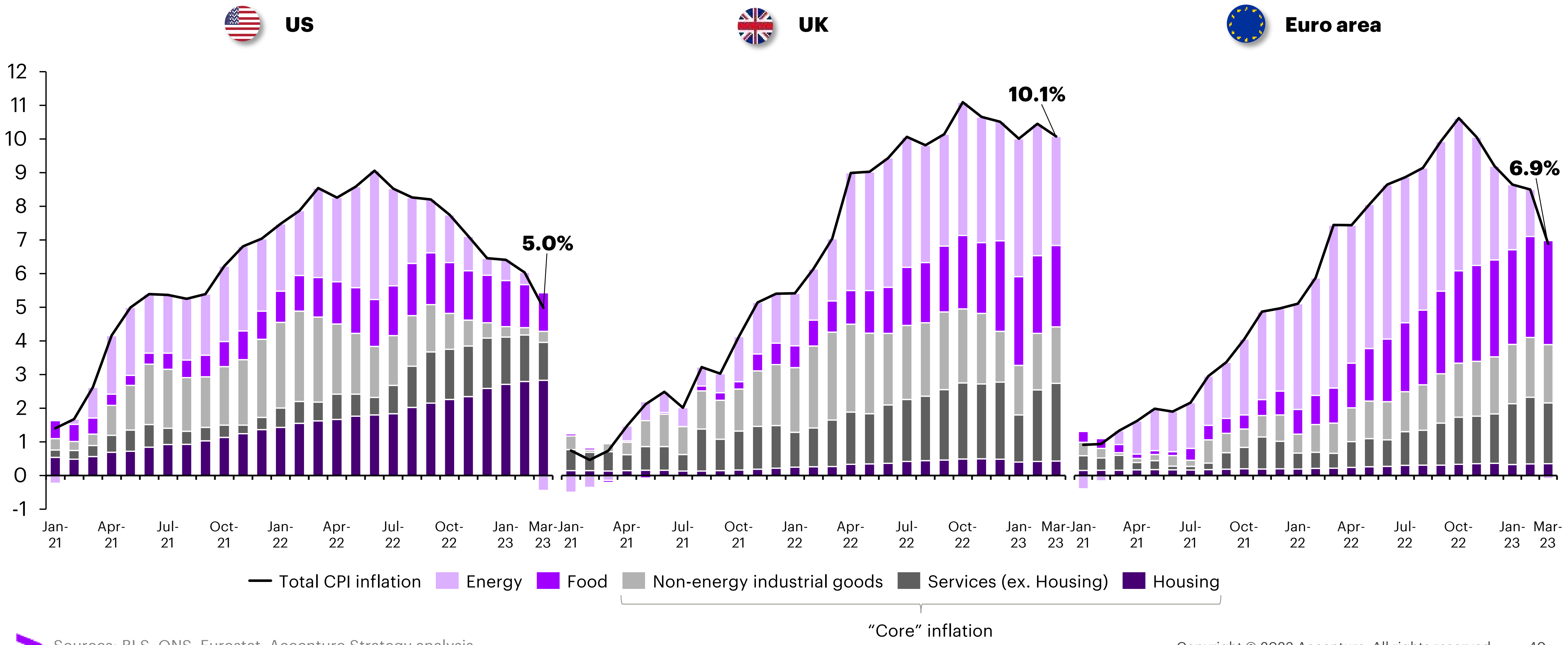
Country	YoY Inflation Rate	Change from previous month's rate (percentage points)
China	0.7%	-0.3%
Japan	3.3%	-1.0%
Brazil	4.7%	-0.9%
India	5.7%	-0.8%
Singapore	6.3%	-0.3%
Korea	4.2%	-0.6%

Sources: Haver Analytics, Accenture Strategy analysis

In March, energy contributed negatively to US and Euro area inflation for the first time in two years; food and core inflation remain elevated and sticky

Drivers of recent CPI inflation

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

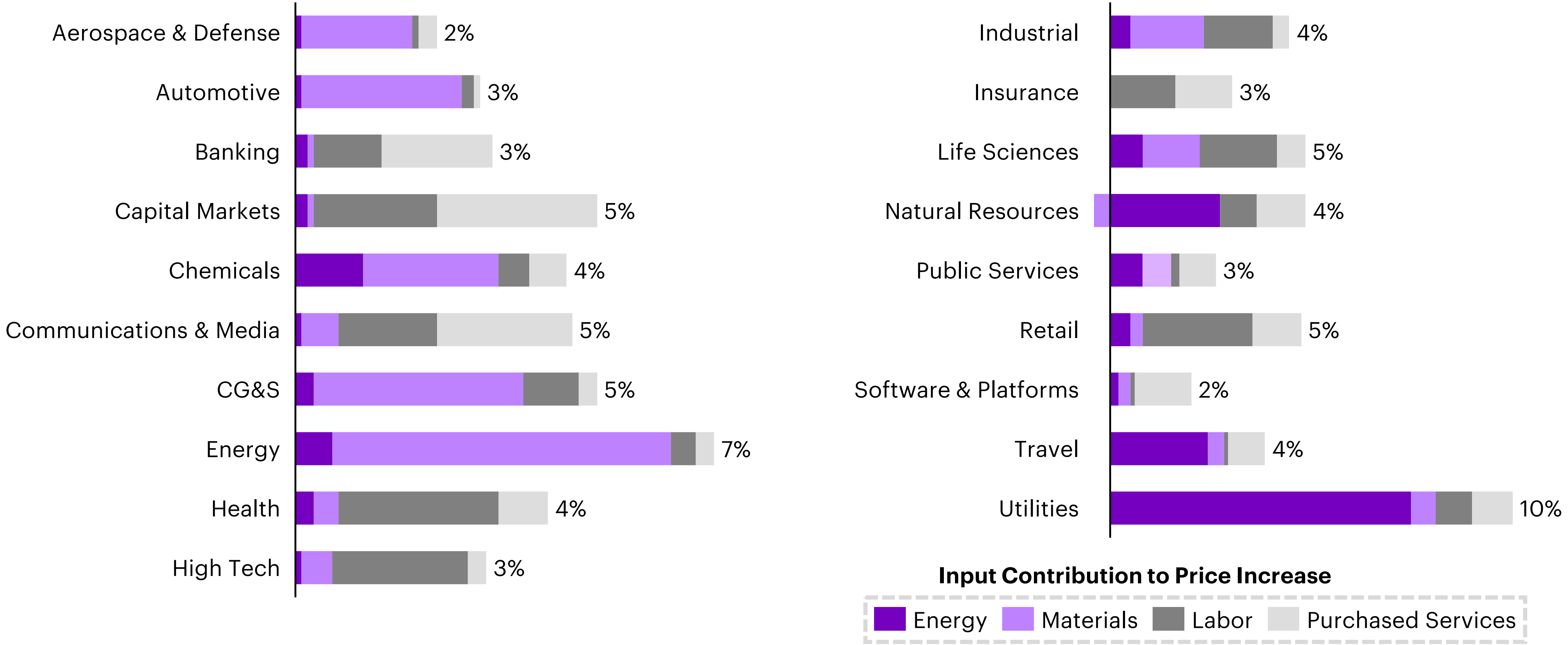


Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

Falling material 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

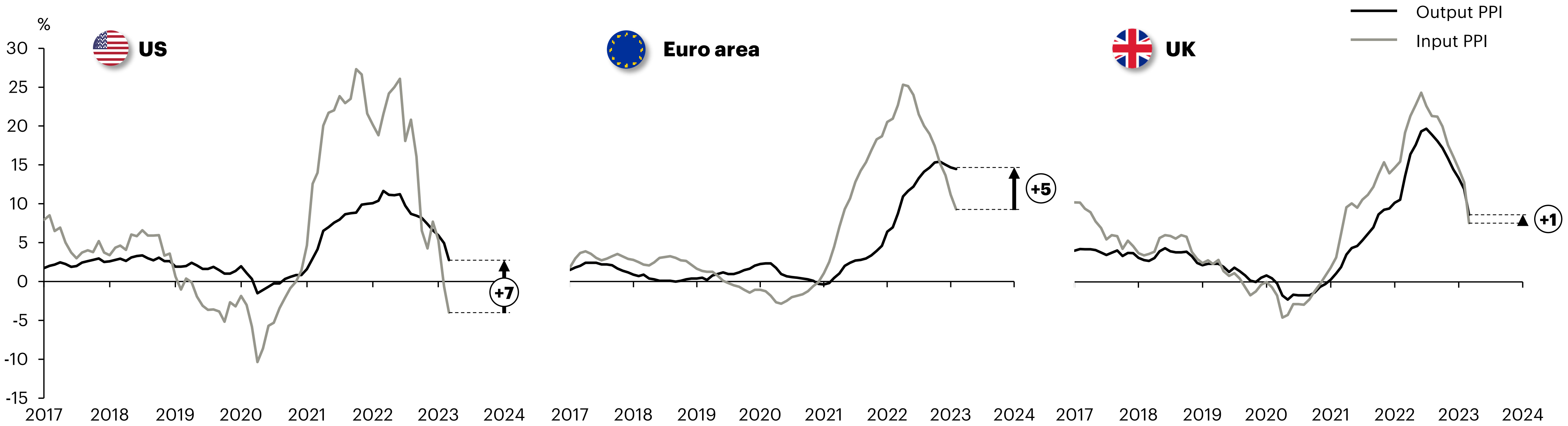


Note: Wage data as of 2/23, energy prices as of 1/23, Materials and Purchased Services PPI price increases as of 3/23
Sources: BLS, BEA, ECI, Accenture Strategy analysis

US and European companies are increasingly passing on their input costs to consumers

Company input cost pass-through trends

Producer price indices (PPI) for intermediate inputs and final outputs, YoY % 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
- **In the US and Euro area, corporate margins are being restored as intermediate input inflation pressures ease**
- **UK companies are also now fully passing on their input costs**

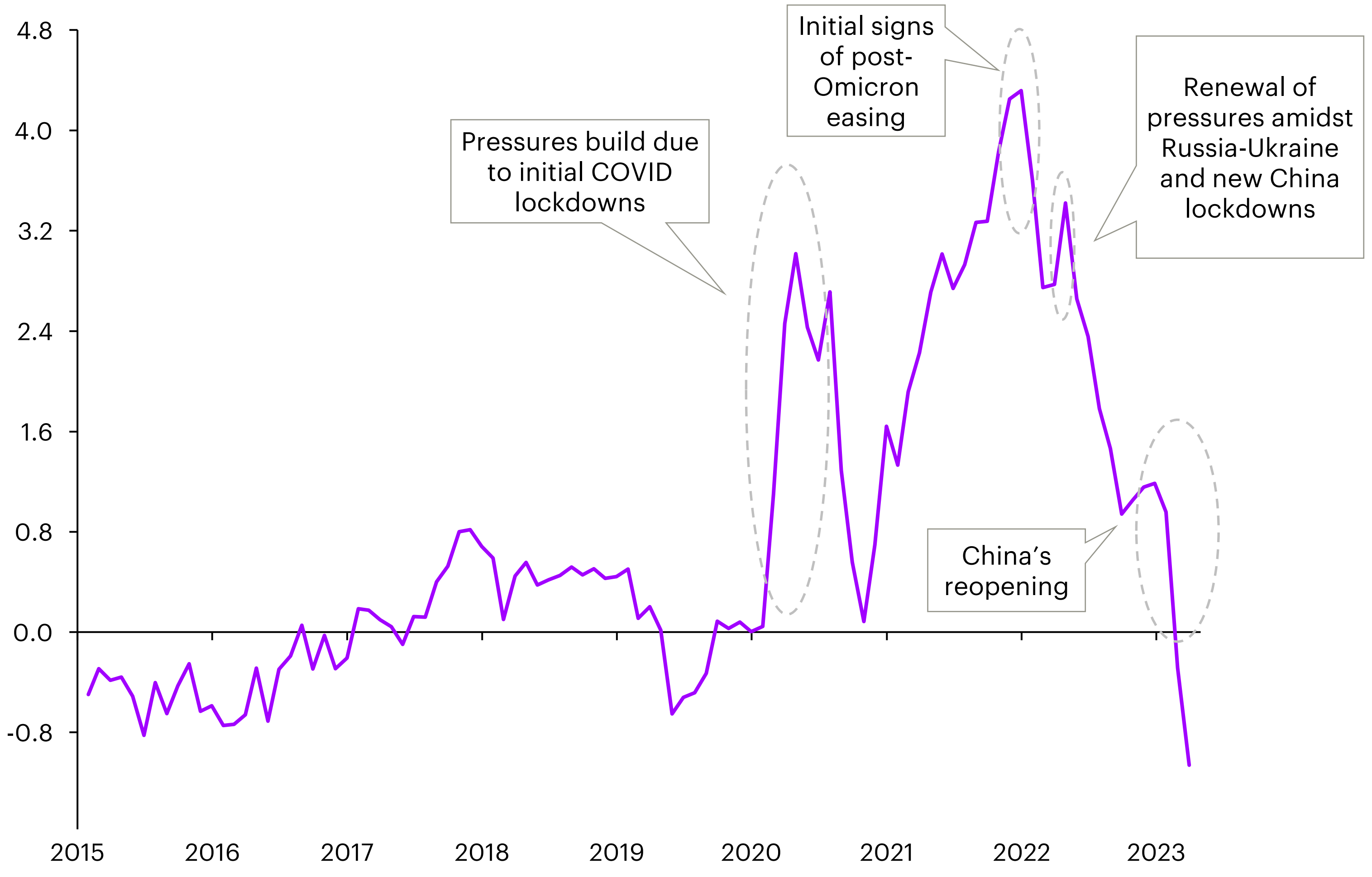
Notes: 1) Figures in bold represent absolute percentage point difference between intermediate and final demand PPI YoY % values; higher positive values imply greater pass through to final producer selling prices, while larger negative values imply lower pass through. 2) US data is based on production 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 are now below pre-pandemic levels and at a 13-year low

Global Supply Chain Pressure Index

Standard deviations from long-term average (=0)



Commentary

- Global supply chain pressures continued to ease in March, led by decreases in Euro area delivery times and backlogs
- Easing supply chain pressures should have a disinflationary impact on goods prices and help support global trade flow

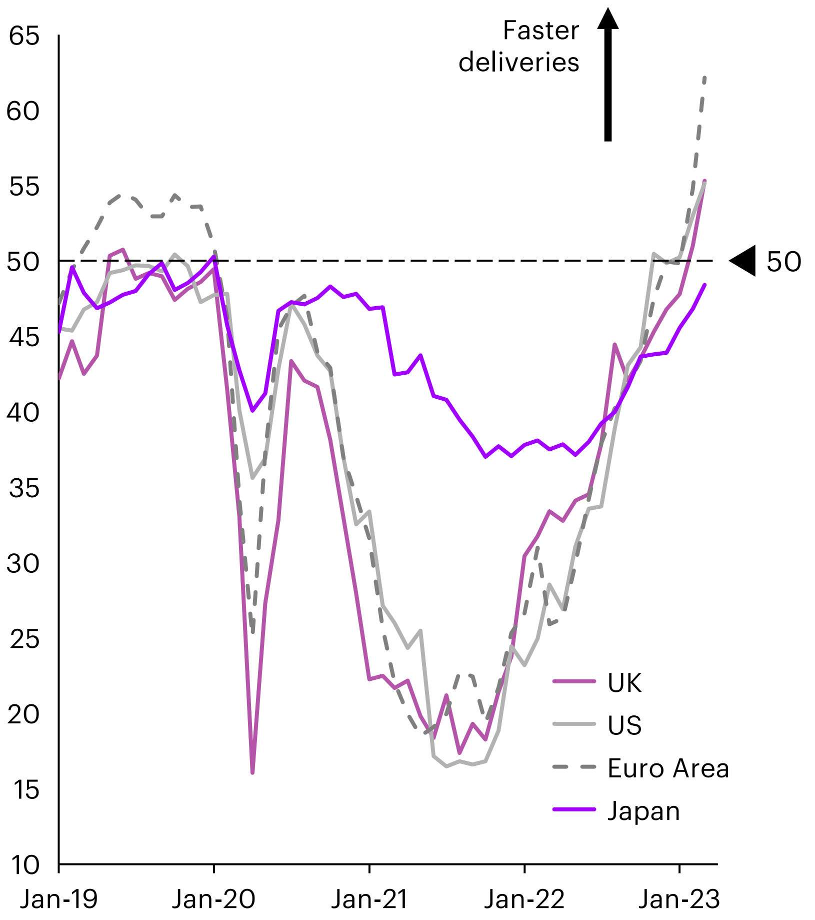
Sources: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, Accenture Strategy analysis

Diminishing demand and reduced manufacturing output in Europe have shortened supplier delivery times and backlogs of work

Suppliers' delivery times and backlogs of work

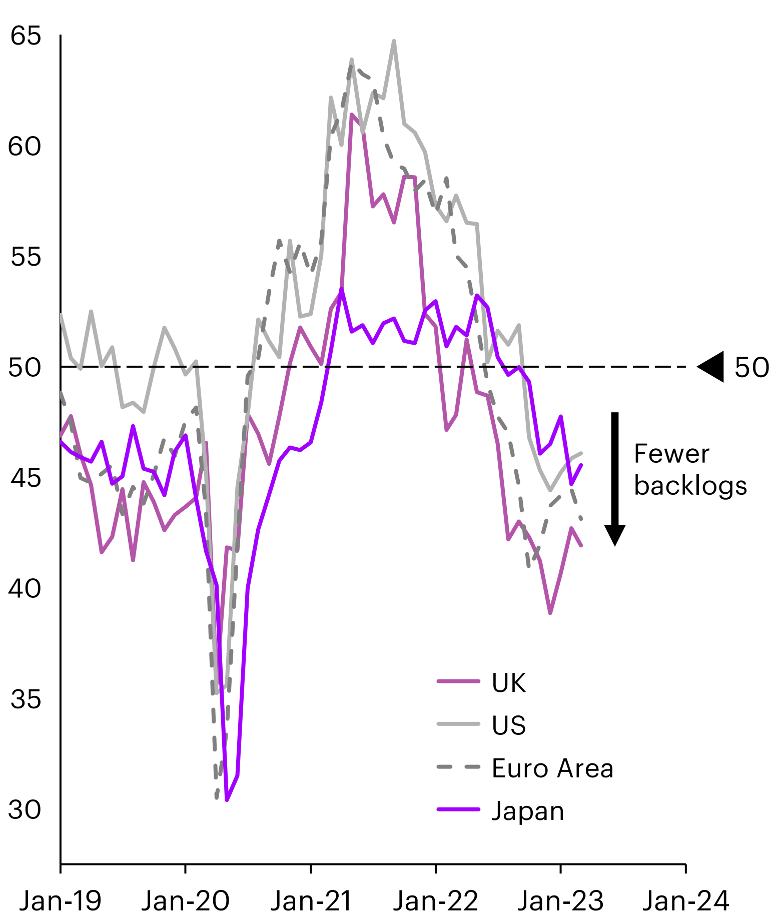
Suppliers' Delivery Times

Seasonally adjusted, 50+ = Increase



Manufacturing Backlogs of Work

Seasonally adjusted, 50+ = Increase



Commentary

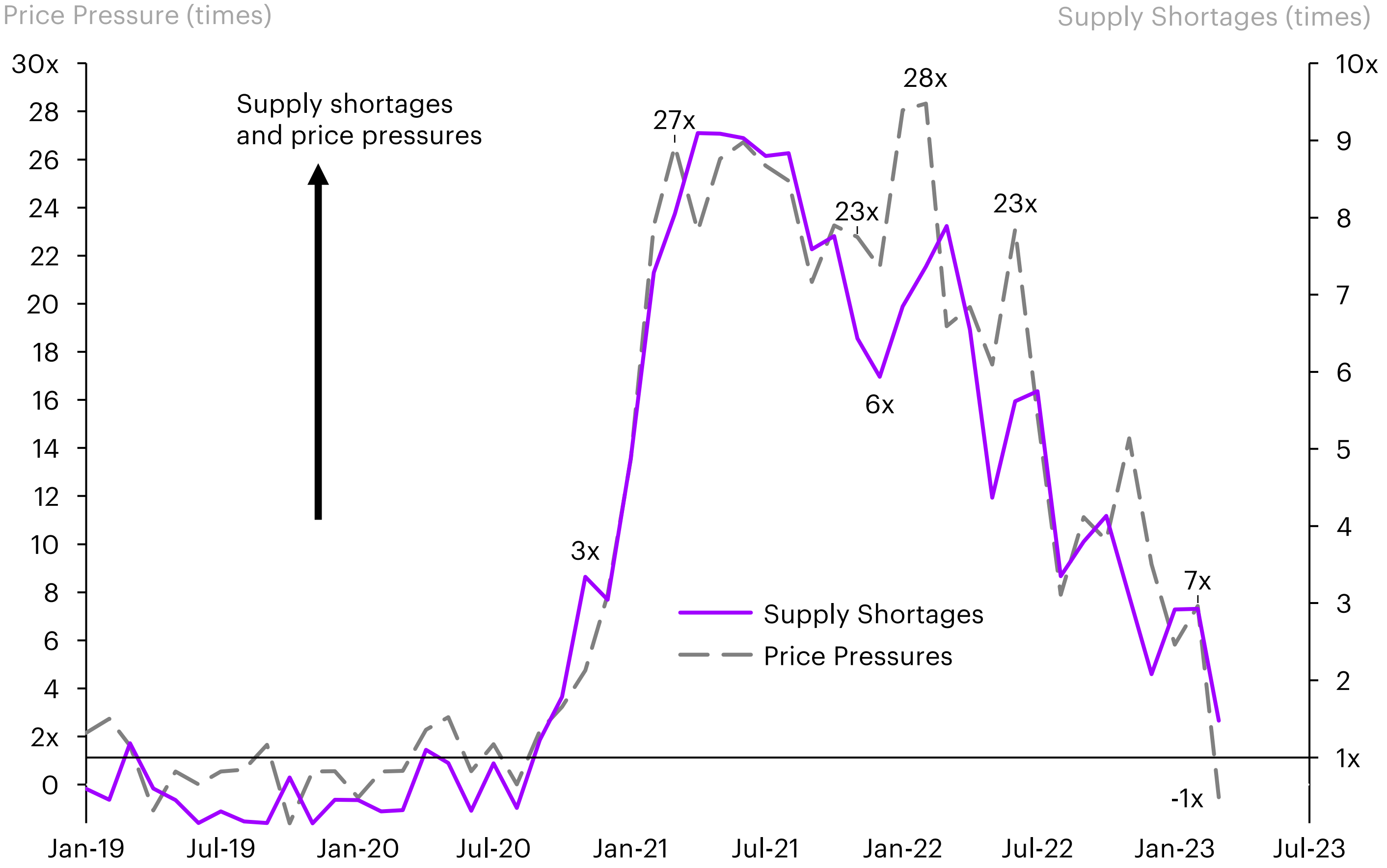
- Supplier delivery times improved further in March, reflecting greater supply availability and fewer bottlenecks
- Weakening demand and reduced production in the manufacturing sector are behind the shorter delivery times in Europe
- Weak demand for materials in the US drove improvement in lead times
  - Manufacturers are implementing cost cutting initiatives, including cutbacks input purchases
- Easing transportation delays and better materials availability are improving delivery times in Japan
- Japanese manufacturers expect a rise in production this year

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

Semiconductor supply and price pressures continue to ease, with price pressures running below their long-term average for first time in more than 40 months

Semiconductor supply chain pressures

Global Semiconductor Supply Shortages and Price Pressures



Commentary

- Semiconductors had the lowest reported supply shortages in 30 months
- Global semiconductor industry sales are slowing, decreasing 4% month-on-month (as of February) driven by macroeconomic headwinds and market cyclicality:
  - On a year-on-year basis, they are down 20.7%, led by Europe (-0.9%), Americas (-14.8%), Asia Pacific (-22.1%) and China (-34.2%)
- Price pressures are easing given oversupply as well as slowing demand for consumer electronics
- Several semiconductor manufacturers have slashed production and capital spending to prevent further slide in prices

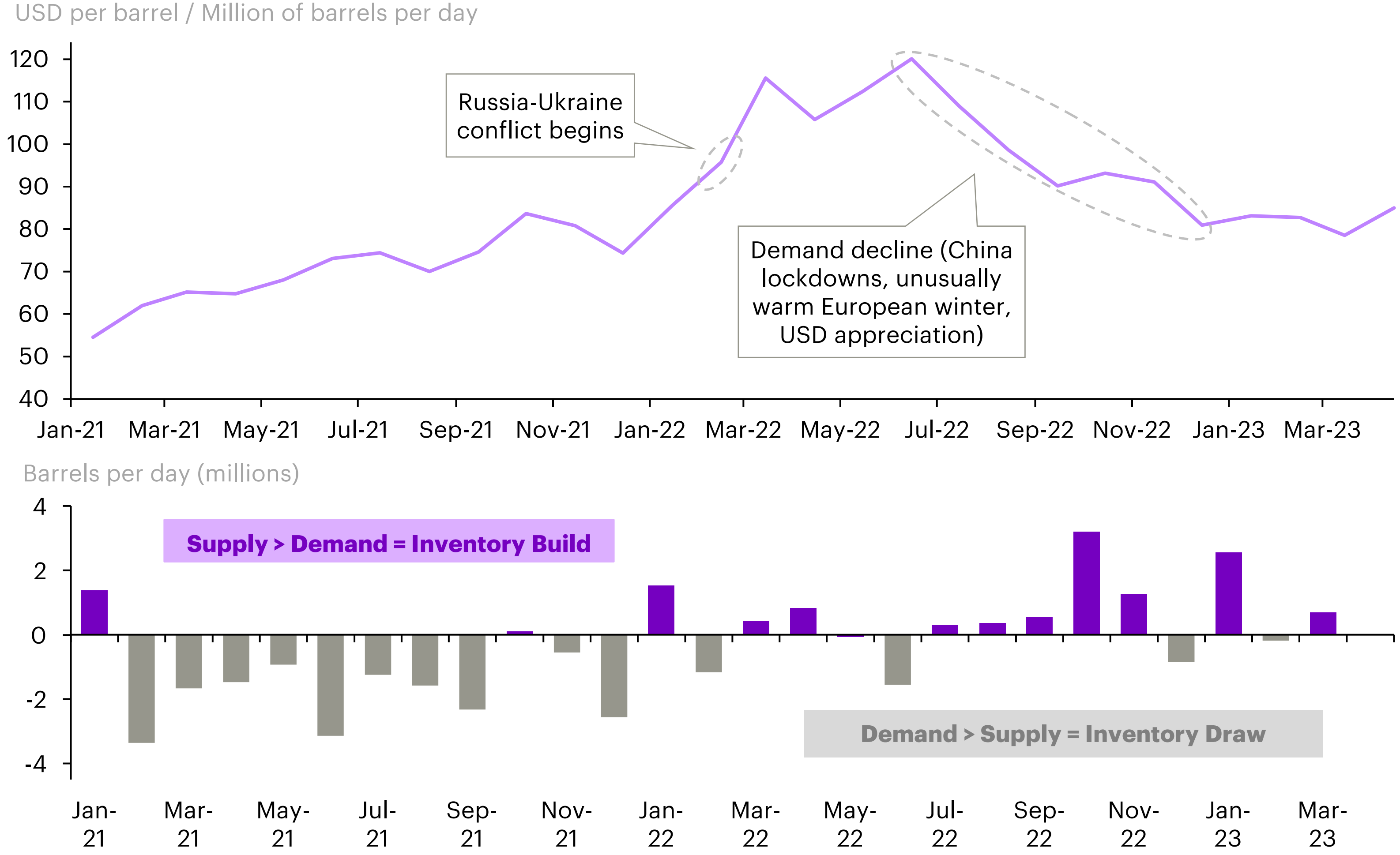
Note: Multiples are derived from monthly survey responses of over 10,000 manufacturing companies conducted by IHS Markit with index value of 1.0x means that supply shortages are in line with the long-run average since 2005
Sources: IHS Markit, S&P Global, Semiconductor Industry Association, Accenture Strategy analysis

Energy and commodities

Oil prices increased 6% in early April after OPEC+ announced plans to cut oil production; however, the price momentum has slowed as the demand outlook continues to weaken

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), with daily April data averaged through April 25, 2023
Sources: Energy Information Agency, World Bank, Refinitiv Eikon, IEA, Accenture Strategy Analysis

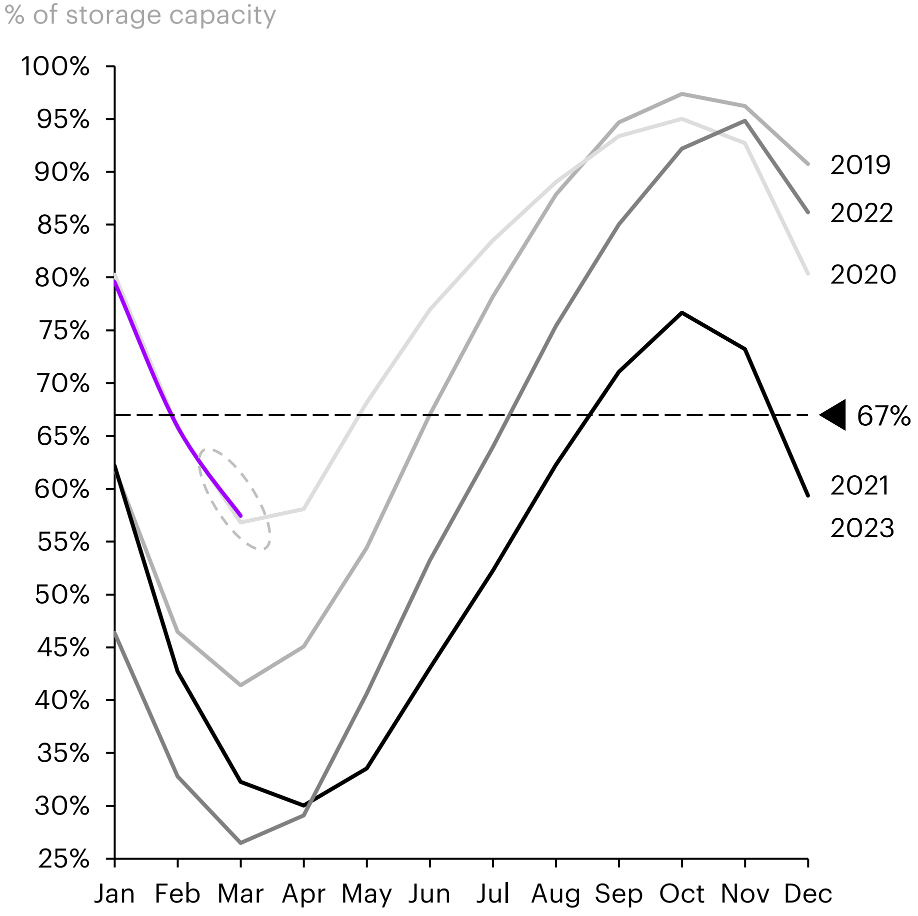
Drivers of energy prices in 2023

- After declining during most of March, Brent crude oil prices increased 6% in early April, trading around USD 87 as OPEC+ announced plans to cut output by more than 1 million barrels per day
- However, prices have retreated somewhat in the second half of April amidst ongoing fears of a looming global recession
- Going forward, supply and demand fundamentals continue to suggest upward price pressures
  - Demand outlook from China improving
  - Disincentives to new investment by energy companies due to volatile prices, high cost of capital
  - Disincentives to holding high inventory buffers (due to higher cost of capital)

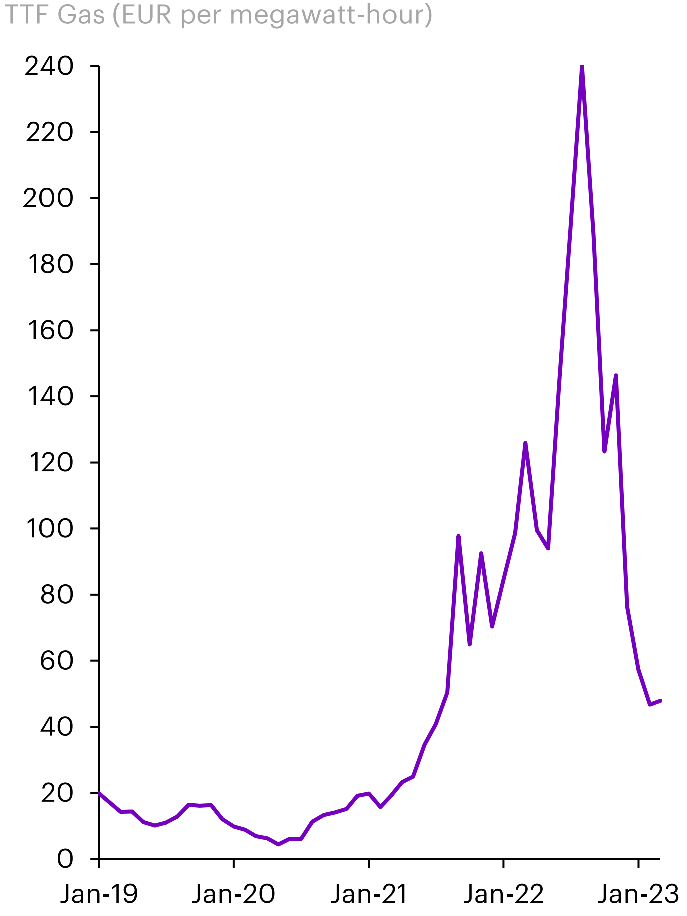
EU gas reserves have fallen throughout the winter and sit at record levels for the season

EU natural gas reserves and prices

European gas reserves are relatively high at 57%...



...and EU gas prices at lowest since mid-2021



Commentary

- Natural gas prices in Europe continue to fall as a warm winter reduced demand and reserves buffered vulnerability from Russian imports
- Many European countries intend to increase mix of renewables and diversify sources of natural gas supply to reduce reliance on Russian imports going forward

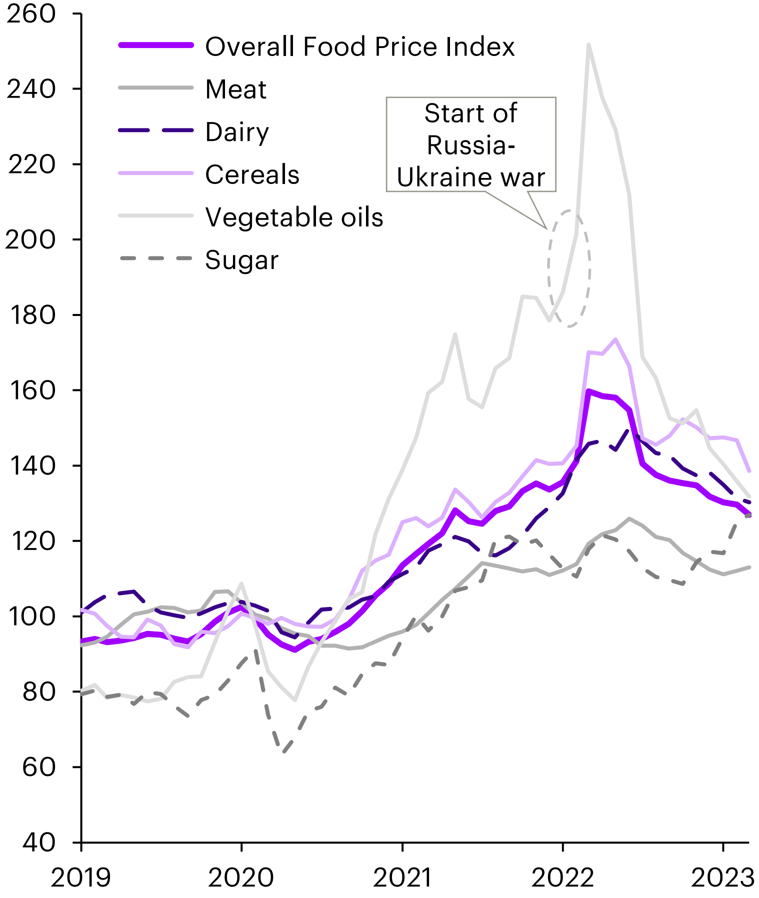
Note: Dutch TTF Natural Gas Futures front-month contract. TTF stands for Title Transfer Facility, which is a virtual trading hub for natural gas in Europe. TTF prices represent the average monthly price of natural gas traded at this hub and are considered a benchmark for natural gas prices in Europe.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

Overall food prices fell for the 12th consecutive month in March, but geopolitical tensions, Chinese demand and further climate disruptions could renew upward pressures

Food and fertilizer prices

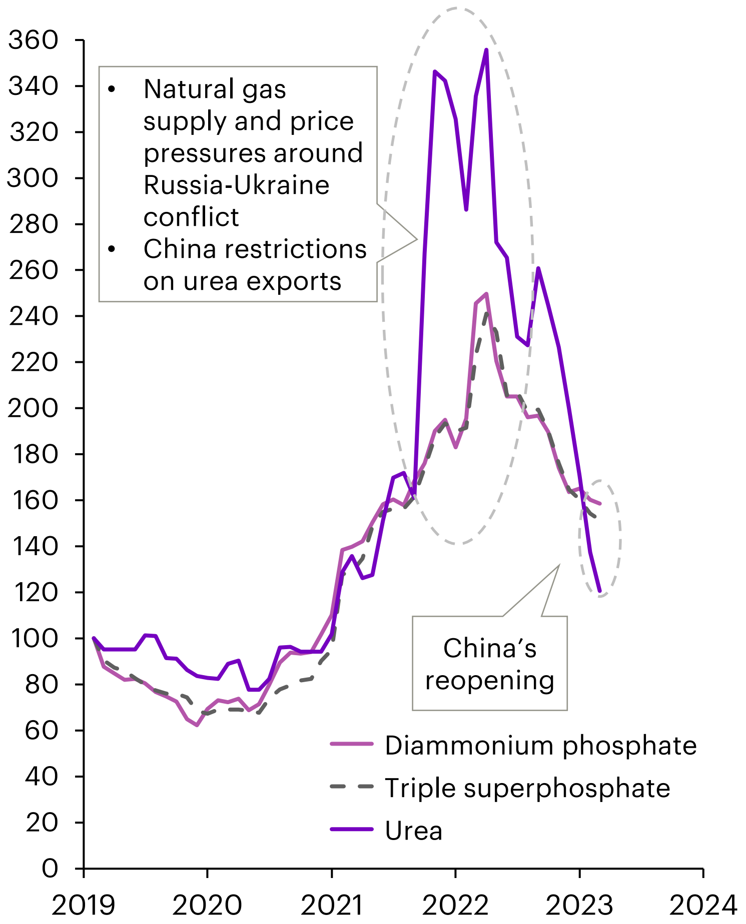
Food prices

Index, 2014-2016 = 100



Fertilizer prices

Index, Jan 2019 = 100



Commentary

- Global food commodity prices continued to fall in March 2023, benefitting from declining costs of energy and fertilizers since mid-2022
  - Sugar prices continue to rise, prompting many international buyers to delay purchases
  - Brazil continues to struggle with an overwhelmed transport system ahead of its sugar harvest
- Further broad easing in food prices may be constrained by:
  - Escalation of Russia-Ukraine conflict that may affect crop and fertilizer production
  - Recent disease outbreaks (e.g., avian flu in India) affecting livestock

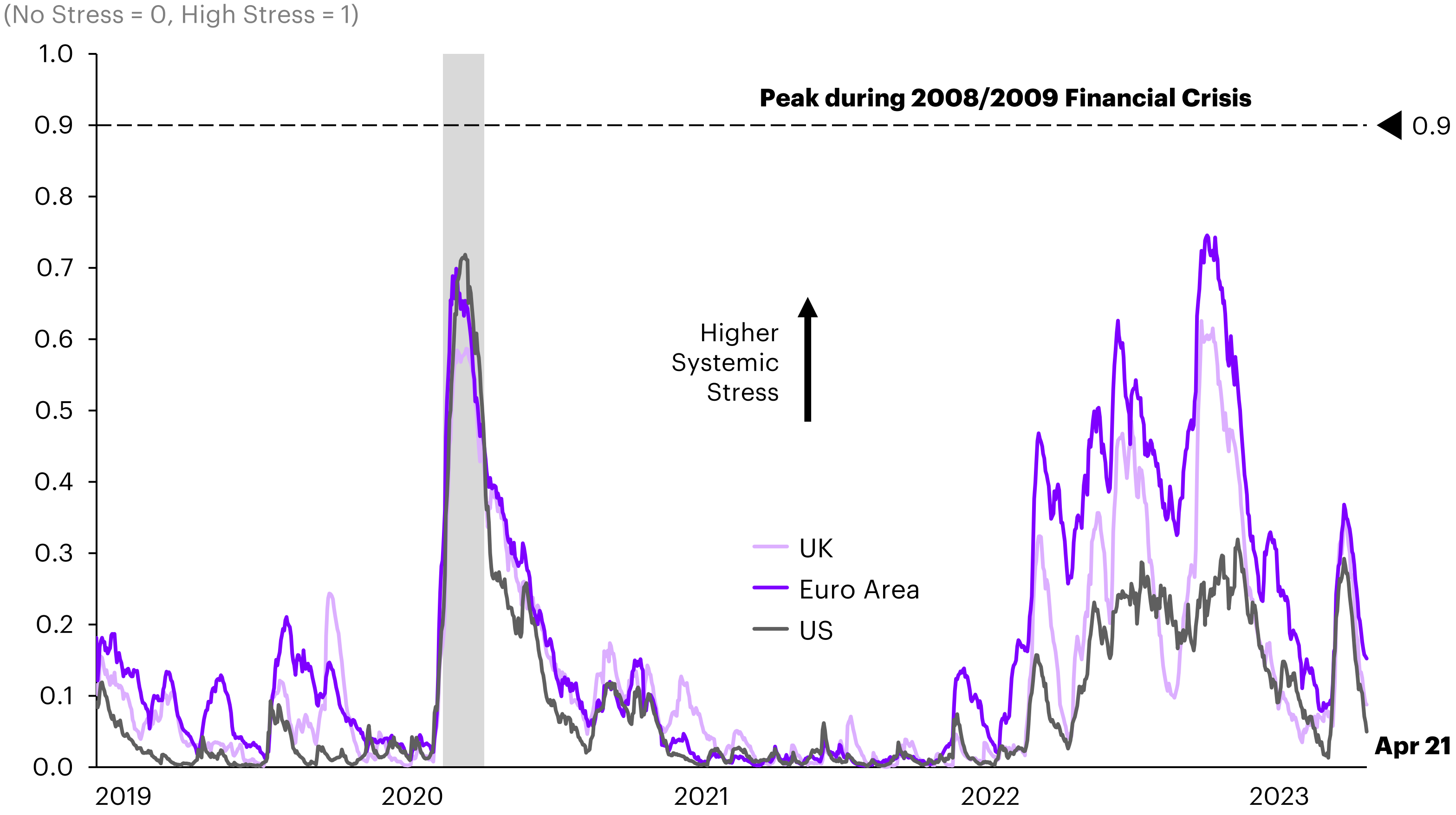
Note: Food Price Index is a measure of the monthly change in international prices of a basket of food commodities
Sources: World Bank, UN FAO, USDA, Accenture Strategy analysis

Financial markets

Systemic financial stress in major economies has eased since mid-March

Systemic financial stress indicators

Composite Indicator of Systemic Stress Index



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

Commentary

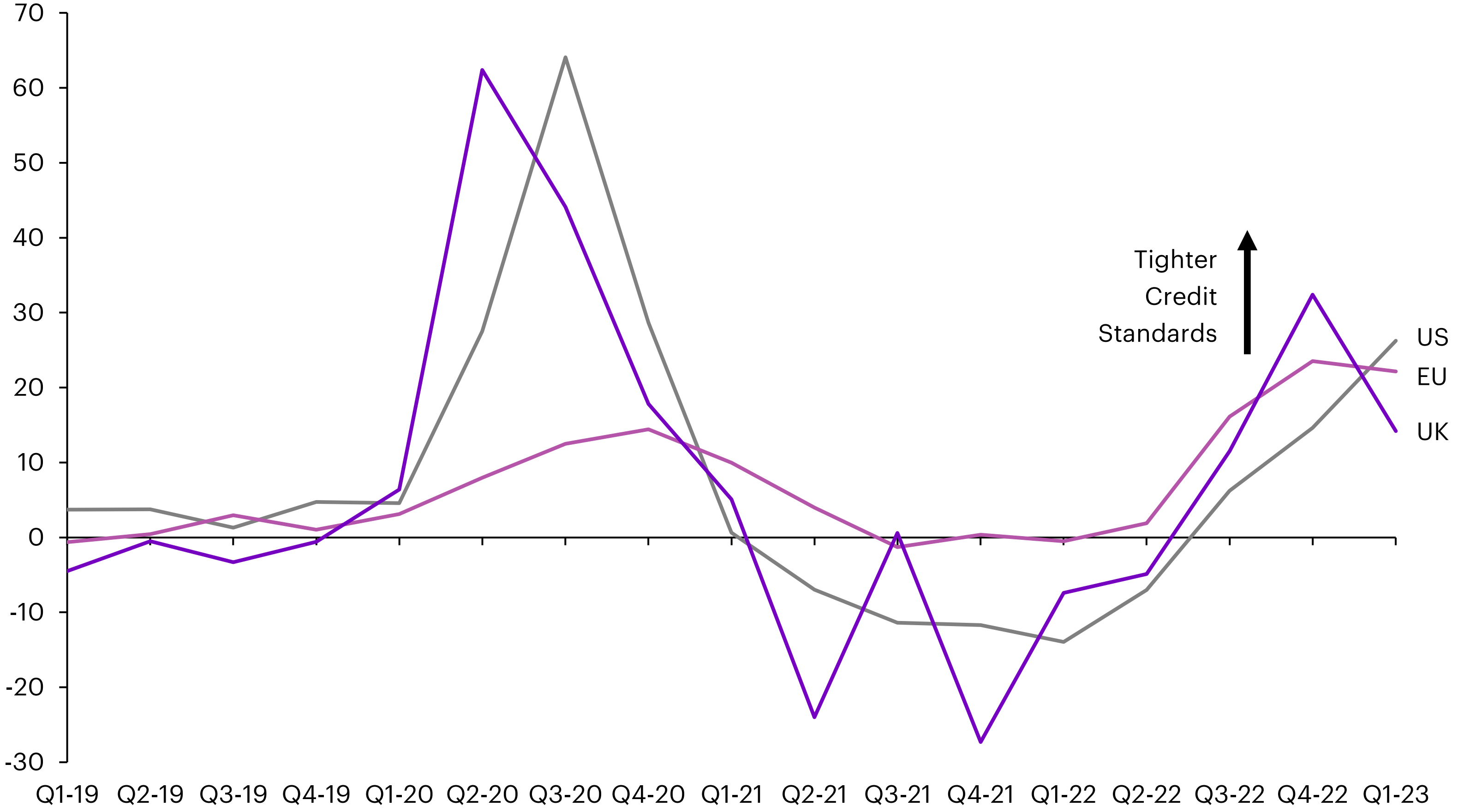
- After surging in March amidst the fallout from bank failures, systemic financial stress levels across the US and Europe have subsided significantly
- Elevated financial pressure is nonetheless expected going into the second half of 2023 amidst
  - Sustained interest rate hikes
  - Growing prospects of an economic downturn
  - Emerging vulnerabilities in sectors where banks have large exposure (e.g., commercial real estate)

As banks' lending standards tighten, risks of a credit crunch and economic slowdown grow

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: 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 already been leading banks to scale back lending and tighten their credit standards
- Tightening in the US accelerated during Q1 '23, while EU lending standards remain tight but stable; UK lenders backed off their pace of standards tightening during this same period
- Growing market and regulatory pressures in the aftermath of recent bank failures could prompt banks to further reduce risk-taking and credit provision
- An intensifying credit crunch raises the risk of more severe recession outcomes via a squeeze on household and corporate funding and investment

In the wake of recent banking stress, perceived credit risk rose across all sectors, but has now receded for most except financials and real estate

US corporate bond spreads

Sector	Recent avg. Z-spread* (Basis Points)	Change relative to average (as of April 20, 2023) (Change in Basis Points relative to recent average)
Financials	105	33
Real Estate	161	22
Consumer Discretionary	126	5
Information Technology	87	4
Telecommunications	144	0
Materials	168	-2
Energy	187	-2
Utilities	145	-4
Health care	111	-4
Consumer staples	115	-6
Industrials	124	-7
All Investment Grade	143	3
All High-Yield	369	2

Commentary

- Corporate bond spreads in the US rose sharply in late March in response to growing banking system stress
- In April, however, perceived credit risk appears to have receded for most sectors
  - Risk remains above-average in financials and other interest-rate sensitive sectors such as real estate
- A reemergence of sector-wide spread widening could translate into
  - Tougher refinancing terms
  - Increases in corporate defaults
  - Restructurings, especially among highly-leveraged entities

Note: Z-spreads (semi-annual compounding) data reflect investment grade (IG) US 10-Yr corporate bonds for each sector. IG and high-yield series reflect bonds with maturity tenor of 10 years. *Average spread calculation ranges from March 8, 2022 until March 9, 2023, the day after the first US regional bank fallout. Z-spread, a relative measure to spot Treasuries, primarily considers credit risk, and its calculation is indirectly impacted by liquidity and prepayment risks.

Sources: S&P Capital IQ, Accenture Strategy analysis

About us

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 is a leading global professional services company that helps the world's leading businesses, governments and other organizations build their digital core, optimize their operations, accelerate revenue growth and enhance citizen services— creating tangible value at speed and scale. We are a talent and innovation led company with 738,000 people serving clients in more than 120 countries. Technology is at the core of change today, and we are one of the world's leaders in helping drive that change, with strong ecosystem relationships. We combine our strength in technology with unmatched industry experience, functional expertise and global delivery capability. We are uniquely able to deliver tangible outcomes because of our broad range of services, solutions and assets across Strategy & Consulting, Technology, Operations, Industry X and Accenture Song. These capabilities, together with our culture of shared success and commitment to creating 360° value, enable us to help our clients succeed and build trusted, lasting relationships. We measure our success by the 360° value we create for our clients, each other, our shareholders, partners and communities. Visit us at www.accenture.com.

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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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