February Macro Brief

Macro Foresight

Accenture Strategy

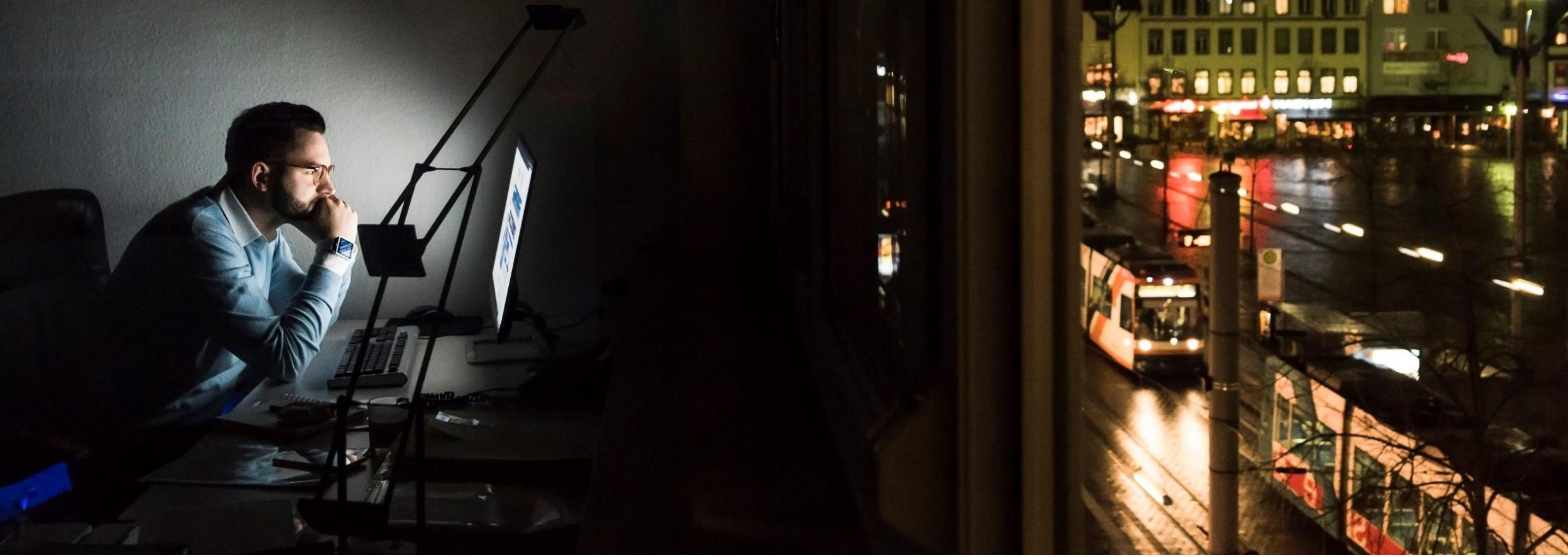
February 2023

About this document

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

Each brief includes macroeconomic indicators which track the overall health of the economy, business activity and consumers.

Contents



1 Executive Summary

February 2023
Executive Summary

Common global themes

- After largely negative momentum going into 2023, global economic activity has exhibited some green shoots over the past two months
  - Flash PMI surveys of business activity in February signaled a return to expansion in most major economies for first time since mid-2022
  - Consumer sentiment turned less pessimistic in January, on balance, and into February as well for the US
  - Employment growth remained robust, particularly in services industries that continue to benefit from pent-up consumer services demand
- However, this demand resilience is coming at the expense of some slowing of progress on the inflation reduction front
  - Core inflation remained stubbornly high in the US (by both CPI and PCE measures) and edged up higher in the Euro area
- Overall, these data developments suggest an improved growth outlook in the near term, but raise the prospect that central banks will have to become more aggressive in the fight against inflation, which could increase the severity of potential recessions triggered further down the road
- Geopolitical uncertainty also continued to mount amidst tensions around spy balloons and Russia's withdrawal from nuclear arms agreements

Regional highlights

- **In the US**, despite growing layoffs in tech and finance, the broader labor market shows few signs of cooling, pointing to continued wage pressures and competition for workers. This strong labor market has kept consumer spending resilient, but the recent uptick in households' savings rate and reductions in credit card borrowing signal growing strains on household finances and potential belt-tightening on the horizon
- **In Europe**, the unusually warm winter has helped the continent avoid gas rationing and severe growth downturns; in turn, inflation is proving stickier, and companies' wage-setting behavior is starting to reflect this expected inflation persistence, raising risk of wage-price spirals and eliciting more hawkish statements by the ECB
- **In APAC**, pressure on central banks to keep up with increasingly more aggressive rate hikes by the Fed could exacerbate the strains this monetary tightening has already been putting on companies' earnings and financial health; the expected growth impulse to the region from China's re-opening has yet to materialize—domestic travel has rebounded but a broader economic recovery is likely still a few months out

Key considerations and priorities for clients

- Corporate planning exercises should start to more seriously consider macro scenarios where: (1) interest rates go higher and stay there for longer than previously expected; and (2) a potential recession begins later in 2023 (or in 2024) but is more severe or protracted
- As labor market tightness and the war for talent persists (particularly in the service sector), workforce management will rise in importance—strategies and capabilities for talent retention, performance-linked compensation and cost-saving process automation will be key
- Consumer-facing businesses need to be more selective in passing on costs to customers given growing risk of demand destruction. Consider brand pricing power, economic vulnerabilities of specific customer segments, and geography when evaluating pros and cons of price hikes

Source: Accenture Strategy analysis

As 2023 progresses, companies are increasingly asking about the state of consumers, recession outlooks, China’s re-opening and new industrial policies

What business executives are asking most in February

“How long should we expect consumer spending to remain robust? How much more price increase can consumers bear?”

“Is a recession still the base case or should we now be factoring in upside growth scenarios?”

“When will the positive impulse to global growth from China’s re-opening start to materialize?”

“How will new US industrial policy (e.g., IRA) influence the energy transition and our net zero targets?”

“What signals should we be monitoring to see if deglobalization starts to unfold?”

Source: Accenture Strategy analysis

Despite some recent green shoots in consumer and services demand, the balance of data points to a still-weak global economy contending with high inflation

Country economic health snapshot

AS OF FEBRUARY 27

Deteriorating | Indicator | Strengthening

	Services PMI	Manufacturing PMI	Industrial Production	Business Confidence	Consumer sentiment	Unemployment rate	Retail sales	CPI Inflation	Comments
USA*	50.5	47.8	-0.7%	Declining	+1.5	3.4%	0.3%	6.4%	• Fed continues to tighten rates as core inflation remains sticky, raising risk of sharp demand drop later in the year
UK*	53.3	49.2	0.0%	Improving	-3.0	3.7%	-0.5%	10.1%	• Persistent cost of living crisis is putting significant pressure on consumers' budgets and business activity
Germany*	51.3	46.5	-1.5%	Declining	+2.8	2.9%	-1.9%	8.7%	• Activity is likely to drag in H1'23 as local energy prices remain high, but fiscal policy support to consumers and businesses should help revive growth in H2'23
France*	52.8	47.9	0.1%	Improving	-1.1	7.0%	-0.1%	6.0%	• High risks of a slowdown amid weak purchasing power and domestic demand, along with rising debt levels
Italy	51.2	50.4	0.5%	Improving	-1.6	7.8%	-0.5%	10.0%	• Higher rates and imported energy prices to weigh on business operating costs and capital investments
Spain	52.7	48.4	-0.4%	Improving	+2.3	13.1%	+0.7%	5.8%	• Exposure to a slowdown across EU trading partners and lag in tourism recovery to weigh on economic growth
China	52.9	49.2	-0.9%	Declining	-1.1	4.0%	-1.2%	2.1%	• Economic reopening post zero-COVID policies is expected to boost local consumption and manufacturing activity
Japan*	53.6	47.4	-0.9%	Improving	+0.7	2.5%	-0.3%	4.3%	• Growing defense spending and government stimulus likely to forestall a recession, but inflation weighs on real wages
Brazil	50.7	47.5	0.1%	Declining	-2.2	8.1%	-1.1%	5.8%	• Export boost from elevated commodity prices, favorable crop prospects and China's higher growth outlook should help cushion economic growth
Australia*	49.2	50.0	0.5%	Declining	-8.8	3.7%	-0.2%	7.8%	• Rising interest rates and operating costs to weigh on consumer purchasing power and business investments
India	57.2	55.4	0.5%	Declining	+1.3	7.1%	N/A	6.5%	• Weakening global economy and rising interest rates to weigh on economic activity in 2023

Notes: PMI metrics provided by S&P Global as of January 2023 (below 50=contraction), with markets marked with asterisks reflect Flash PMIs (estimates) for February 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 standardized based on values ranging from Jan'10. 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

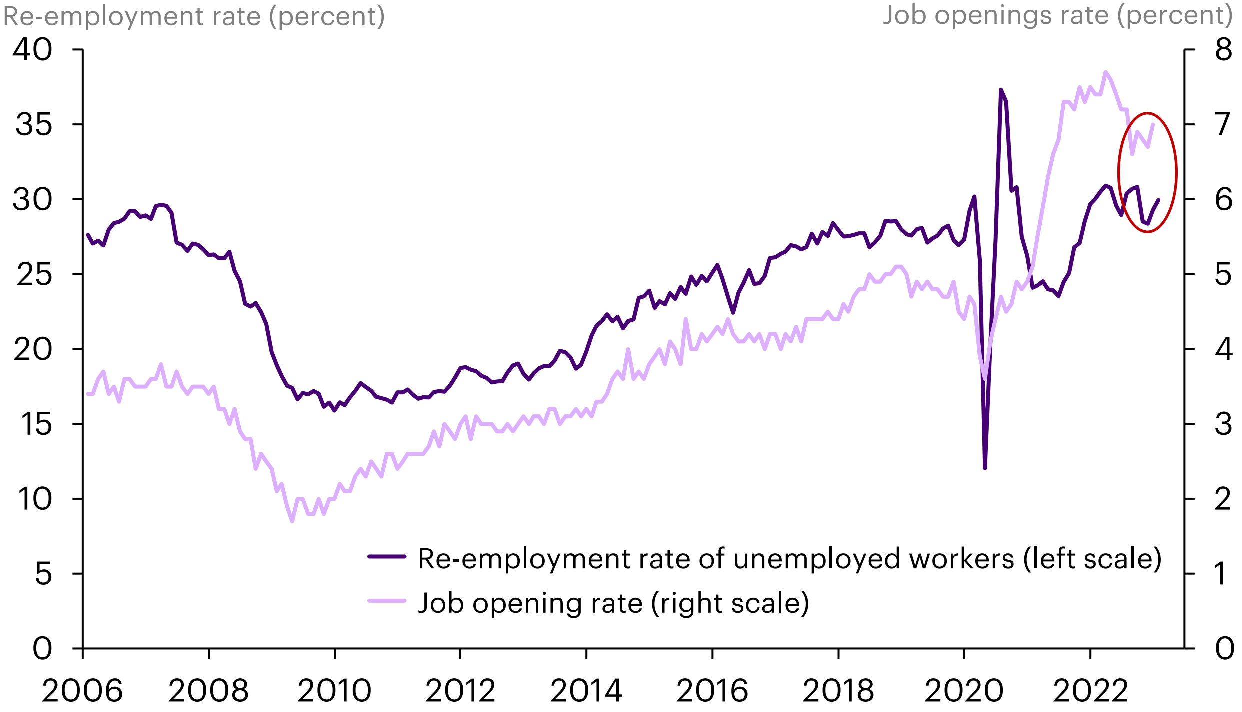
2 Spotlight developments

North America

Despite growing tech and finance layoffs, the broader US labor market shows few signs of cooling, pointing to continued wage pressures and competition for workers

US labor market strength and churn

Job opening and re-hiring rates



Implications for corporates

- Continued strength in the labor market could put pressure on the Fed to accelerate its rate hikes, leading to tighter financial conditions for companies
- High job vacancy rates suggest companies should expect continued competition for workers and pressure on labor costs
- Going forward, a sign to watch for that labor market is cooling would be when layoffs spread to industries where job openings and worker re-employment rates are low

Commentary

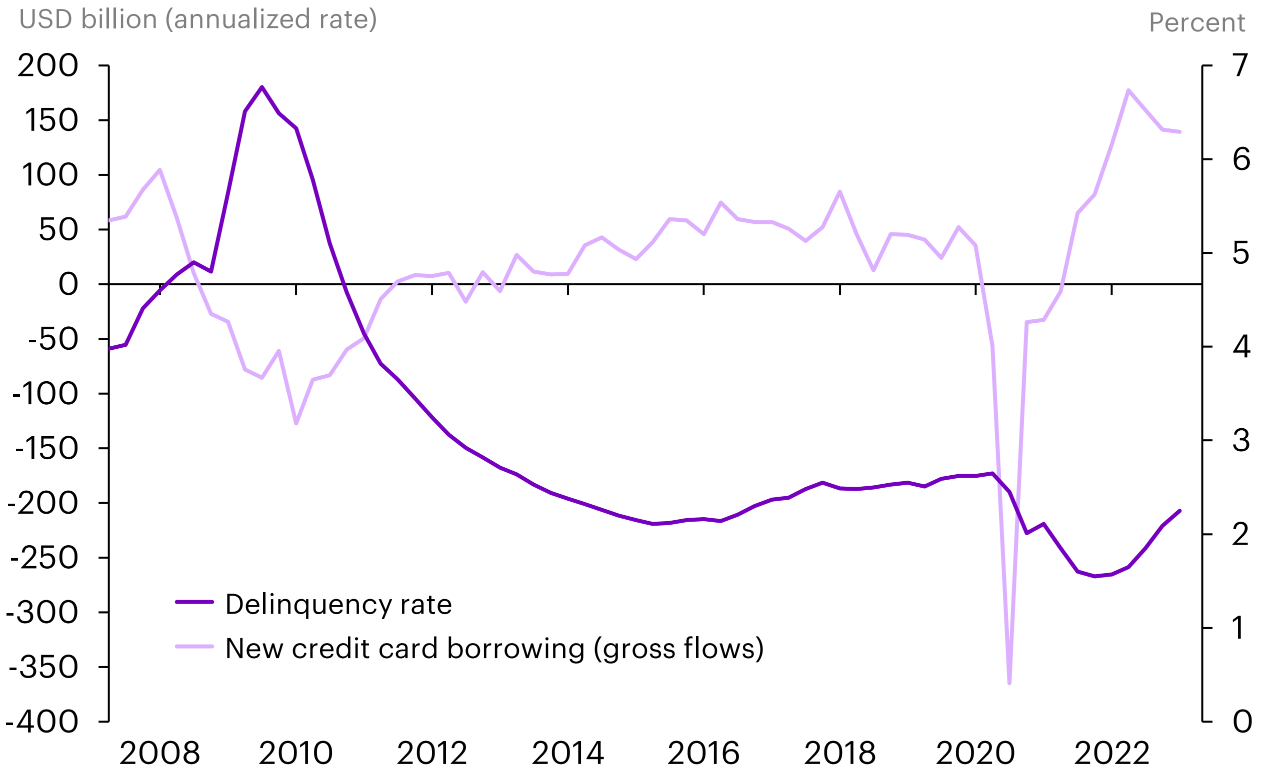
- Most corporate layoffs to date have been concentrated in finance and tech sectors and among companies who over-hired during pandemic based on extrapolation of pandemic time trends that are now normalizing
- However, laid off workers do not appear to be having difficulty finding new jobs—reemployment rates for unemployed workers remain above both their pre-pandemic and pre-financial crisis averages, while job openings are still abundant (increasing by 572,000 in January)
- These dynamics, in combination with strong January jobs growth and a further drop in the unemployment rate, continue to signal a tight labor market

Sources: BLS, Accenture Strategy analysis

Consumers’ use of credit to finance spending is slowing as they face growing financial pressure and repayment difficulties

Consumer credit growth and default rates

Credit card borrowing and delinquency rates



Implications for corporates

- As credit card borrowing becomes increasingly expensive, consumers will have to lean even more aggressively on their savings buffers to maintain current spending levels
- This could bring forward the timeline of when US households exhaust their accumulated pandemic savings and significantly curtail spending
- Consumer-facing companies should prepare for:
  - A potential inflection point in consumer spending in the coming months
  - Declining ability of customers to absorb additional price increases
  - Increases in late/unpaid bills as households come under increasing financial stress

Commentary

- Since mid-2021, US households have increasingly been relying on credit card borrowing to maintain spending in the face of rising inflation
- In recent months, rising interest rates have begun to slow new borrowing and contributed to rising default rates on credit card debt (though defaults are still below pre-pandemic rates)

Source: Federal Reserve Board, Accenture Strategy analysis

Europe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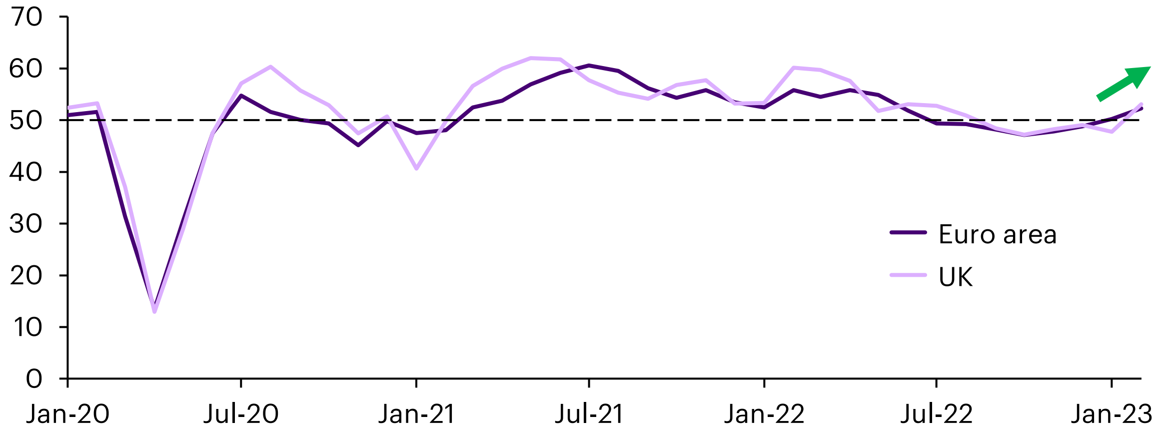
A winter of unexpected economic resilience in Europe sets the stage for "higher for longer" interest rates to combat inflation, raising risk of sharper recessions further down the road

Higher European growth momentum and interest rates

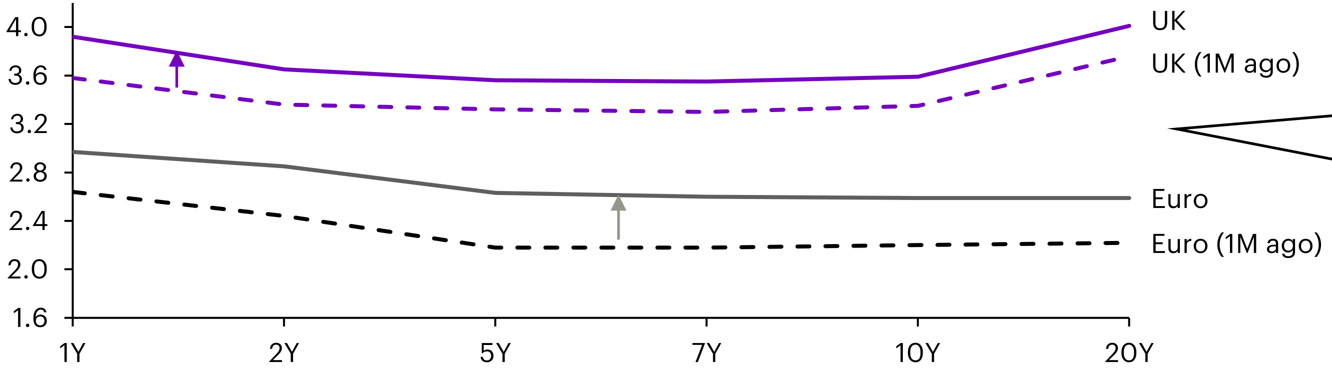
Composite PMIs

Above 50 = expansion



Government bond yield curves

Percent



Both UK and Euro area yield curves have shifted higher over the past month on stronger growth data and the anticipation of tighter monetary policy. They remain inverted though, reflecting continued expectations of eventual recession.

Implications for corporates

- Still tight-labor markets in Euro area and UK are likely to motivate further tightening of monetary policy by ECB and BoE, and the prospect of higher rates for a longer period
- European companies should be prepared for possibility of a stronger near-term outlook but a sharper recession later on
- For corporates, this means:
  - Scenario planning should be adjusted for a weaker downside growth scenario but prefaced by months of "stronger for longer"
  - Higher finance costs should drive a reassessment of capex plans
  - The ability to adapt pricing, products and marketing as consumer demands shift will drive relative performance

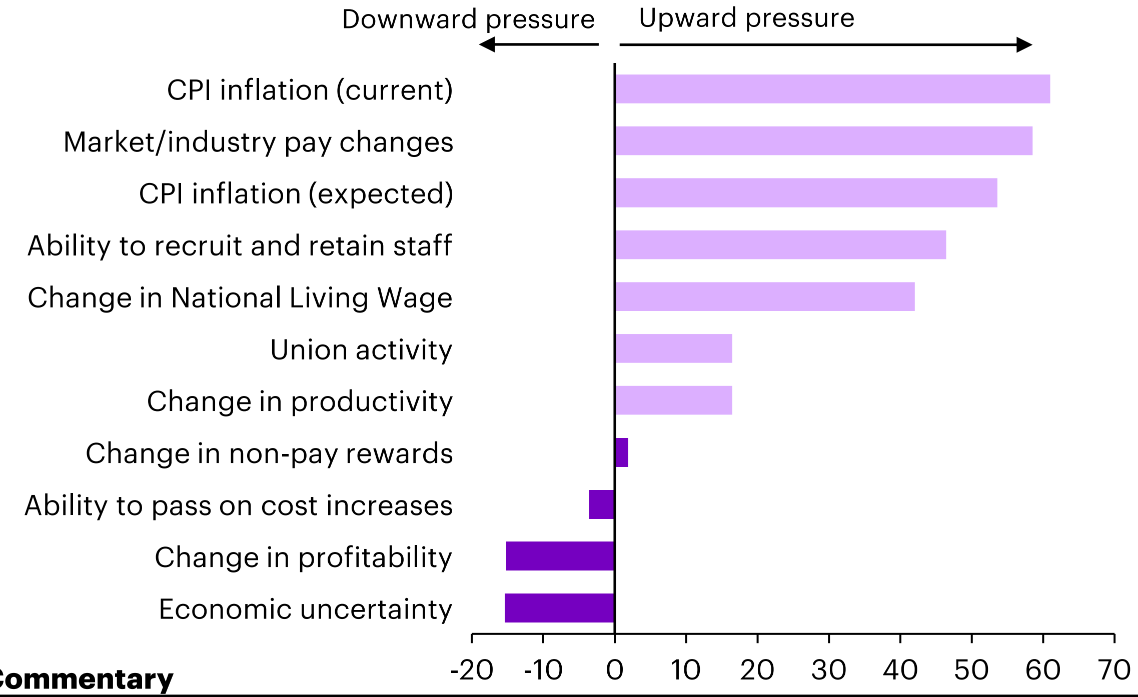
Sources: RBS, CIPS, S&P Global, Capital IQ, ONS, Eurostat, Haver Analytics, Accenture Strategy analysis

European companies continue to feel strong wage pressures that could shape their wage-setting behavior early in 2023 and lock in high wage growth momentum

Wage-setting trends among European companies

Factors affecting UK companies' expected pay settlements in 2023

Net balance of respondents (percent)



Implications for corporates

- The combination of elevated inflation expectations, ongoing talent shortages, and union pressures will likely keep employer bargaining power in Europe weak
- This will make it difficult for companies to keep a lid on pay increases in 2023
- As demand softens in parallel and ability to pass on higher labor costs diminishes, margin pressures could also intensify
- Workforce management will rise in importance, requiring:
  - focus on training and benefits to reduce churn rates
  - greater selectivity in pay increases and stronger links to performance

Commentary

- Companies surveyed by the Bank of England and ECB expect pay negotiations with workers to yield higher average wage growth in 2023—6% in the UK compared to 5% in 2022, and 5% in the Euro area vs. 3.5% in 2022
- These expectations are largely shaped by high current CPI inflation and perception that it will remain well above central banks' 2% target in 2023
- Strong perceived wage pressures so early in the year could set the tone for wage setting behavior for the rest of 2023, contributing to the persistence of high wage growth and raising risk of wage-price spirals

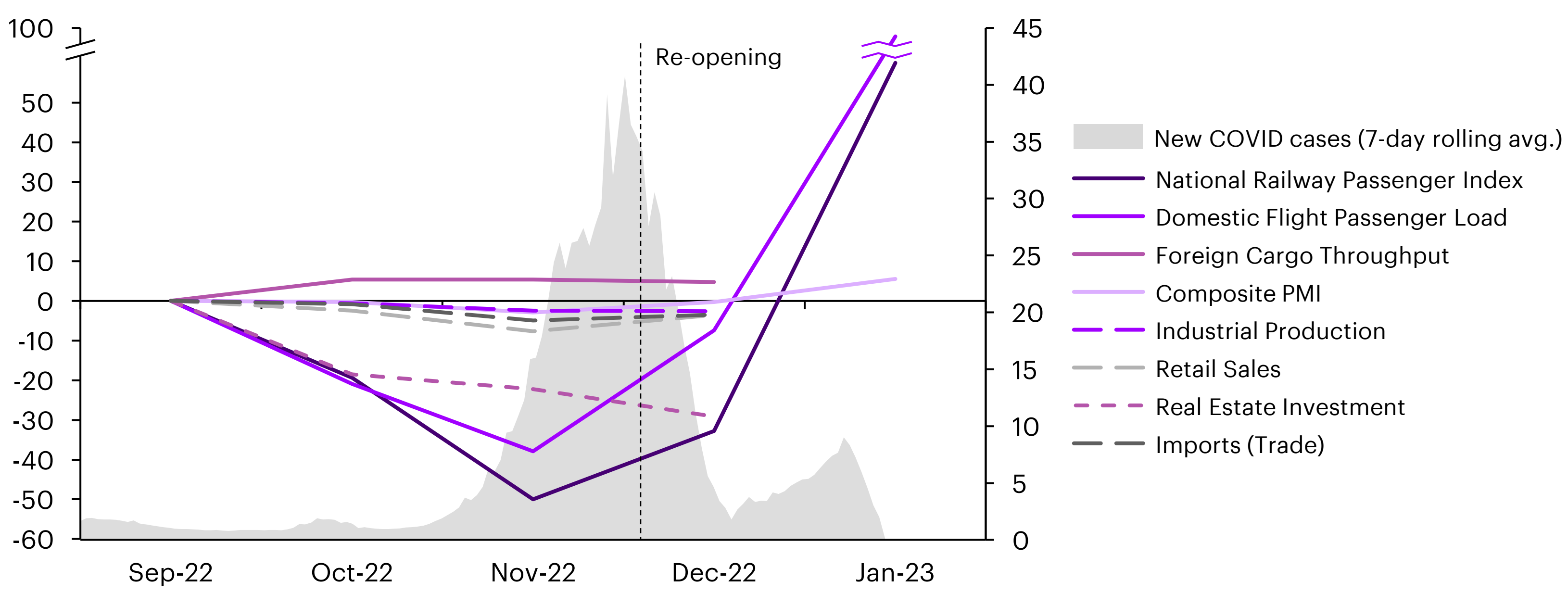
Sources: Bank of England, European Central Bank, Accenture Strategy analysis

Growth Markets

It is still too early for businesses and investors to be bullish about China's economic rebound—any major growth impulse from re-opening still appears nascent

High-frequency indicators of economic activity in China

Selected economic indicators before and after re-opening



Implications for corporates

- March 2023 could be an inflection point in China's economy, when residual drags on activity and mobility from the winter COVID surge dissipate, and recovery starts to kick into full gear
- Property market woes remain, but Chinese government may ease "Three Red Lines" rules on leverage, alleviating pressure on indebted corporates in real estate and construction
- China re-opening will likely put upward pressure on inflation in APAC, especially for energy imports, impacting APAC corporates' input costs and external demand

Commentary

- China's COVID infections surged in November but have since eased from this peak—official reporting of new COVID cases was suspended in mid-January but public officials suggest no major new waves occurred in February, even amidst the Lunar New Year holidays
- High-frequency economic indicators do not point to any rapid or broad-based resurgence yet, though there are some positive early signs:
  - Composite PMI in January signaled economic expansion for first time since August 2022, led by services sectors (manufacturing is still stagnant)
  - Domestic flight and railway traffic rebounded significantly in January, suggesting domestic travel and tourism is back on track
- So far this is consistent with experiences of other Asian economies, which did not see a significant economic rebound until a quarter after re-opening

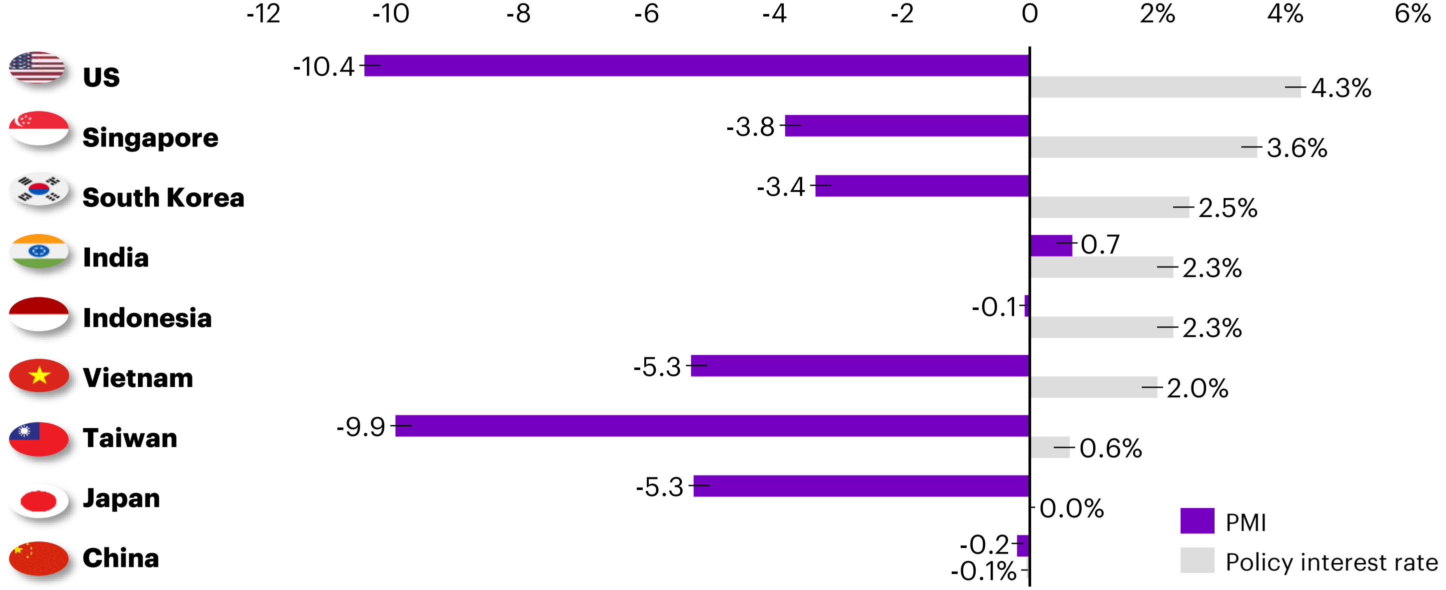
Sources: S&P Global, Haver Analytics, Our World In Data, Ministry of Transport China, National Bureau of Statistics China, Accenture Strategy analysis

Continued pressure on APAC central banks to keep up with US rate hikes could exacerbate strains monetary tightening has been putting on APAC growth and corporate earnings

APAC policy interest rates and manufacturing PMI

Change in key policy rates and manufacturing PMI in Asia and US

Change in central bank key policy rate (cumulative %) and PMI (absolute) since the month interest rate hikes started in each country



Implications for corporates

- The cumulative impact of interest rate hikes, which began in 2022 is beginning to weigh on corporate earnings and financial health
- Of companies in APAC who have reported their earnings in 2023, about 50% (across many sectors) have missed their earnings targets
- APAC companies should prepare for:
  - Continued USD strength, which could impact their USD-denominated debt and input prices, especially for USD-invoiced commodities such as energy
  - Continued tightening of financial conditions as the Fed potentially re-accelerates rate hikes in 2023

Commentary

- Despite downward trending manufacturing PMI indicating deteriorating economic activity, APAC central banks continue to raise key policy rates to keep up with the Fed's policy tightening and combat persistent domestic inflation
- Asian economies fared well relative to the US economy; however, they still need to combat persistent inflation and are under pressure to defend their currency against the Fed's rate hikes
- Asian currencies depreciated versus the USD in 2022, putting pressure on companies with large exposure to rising raw material and energy prices or with significant USD-denominated debts

Sources: Refinitiv, Haver Analytics, Accenture Strategy analysis; Note: Base starting months for interest hike are 1) US Feb 22, 2) Singapore Dec 21, 3) South Korea Dec 21, 4) India Apr 22, 5) Indonesia Jul 22, 6) Vietnam Aug 22, 7) Taiwan Feb 22, 8) Japan Dec 21 (no hike), 9) China Dec 21 (no hike).

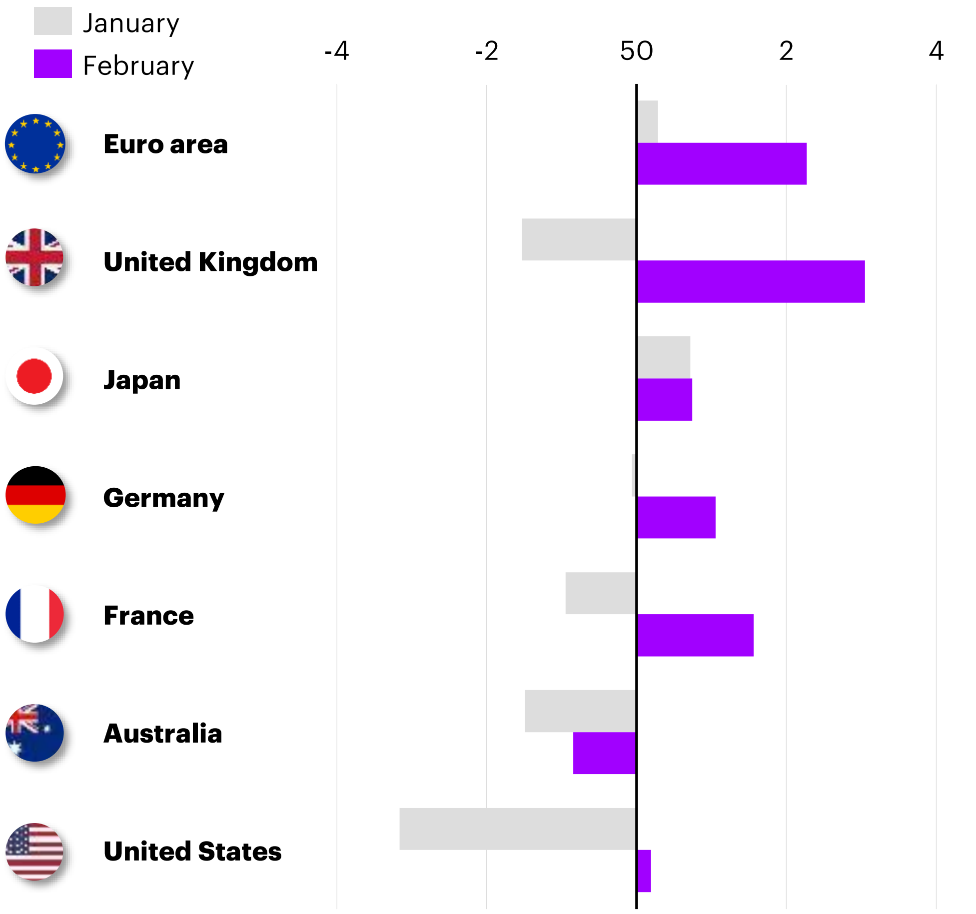
3 Economic indicator chart pack

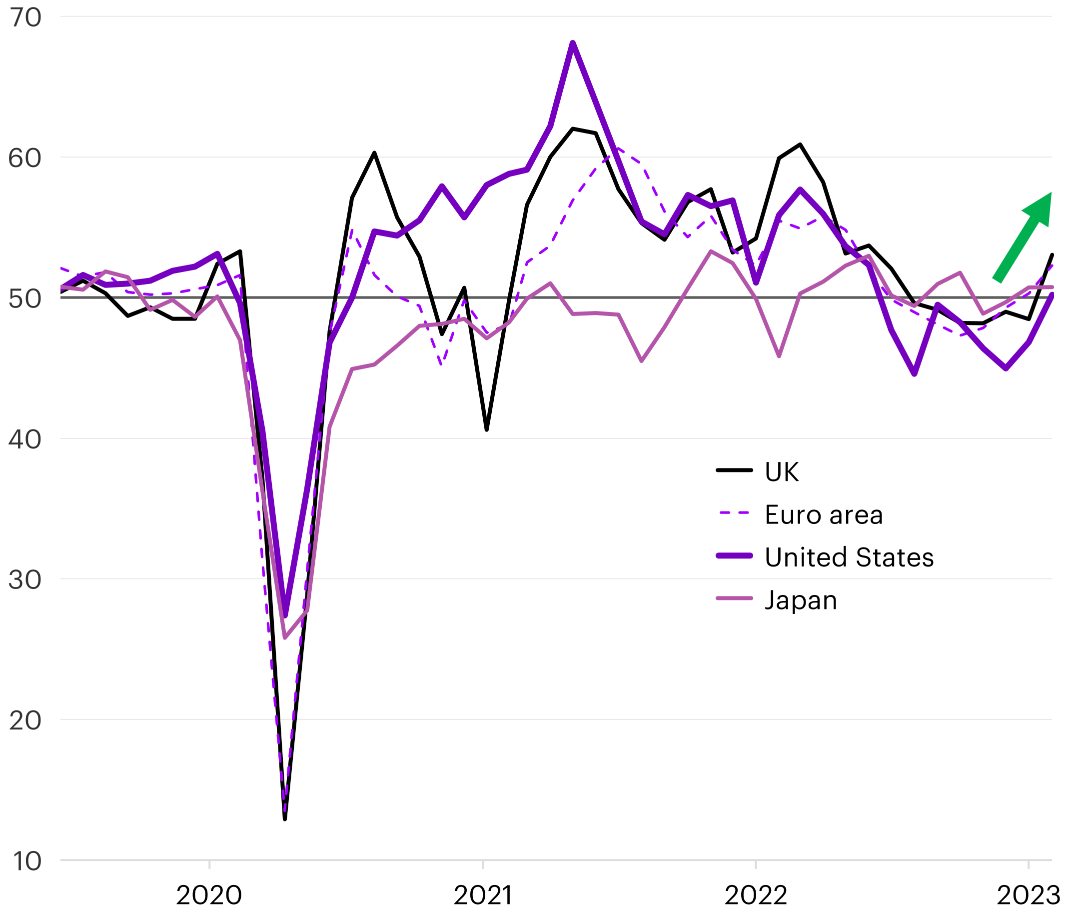
Regional and industry activity

Survey-based business activity data for February showed a return to positive growth momentum for the first time since mid-2022

February "Flash" PMI country snapshot

Flash composite PMI Output / Activity



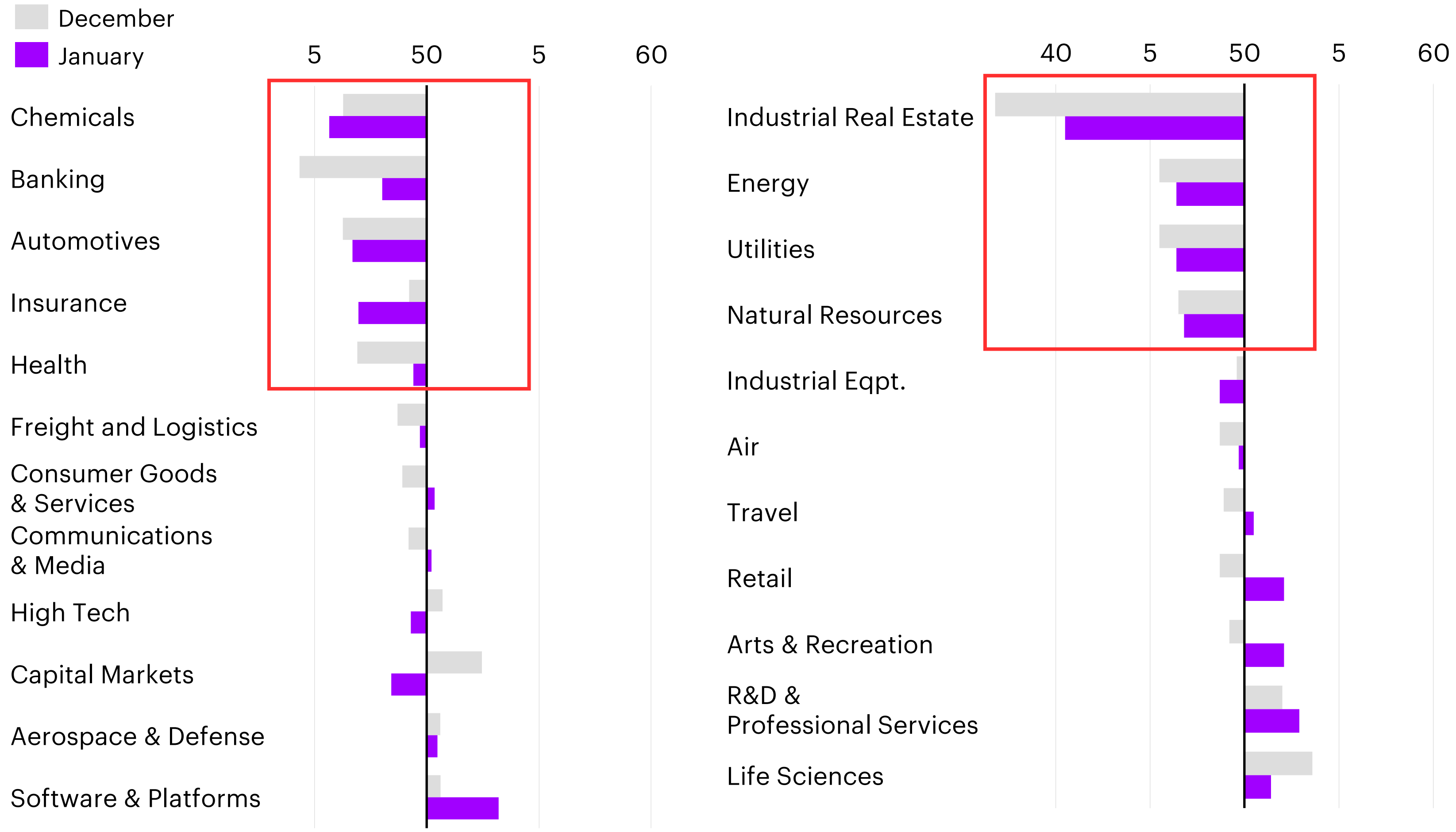


Sources: S&P Global, Accenture Strategy analysis

Industry-level data (through January only) showed consumer-facing industries trending upward while real estate, energy, and utilities remain in contraction

Global Industry PMI snapshot

December 2022 vs. January 2023, PMI Output / Activity



Commentary

- Travel, retail, consumer goods & services, and recreation all trended upward pointing to a resilient consumer
- Real estate, energy and utilities have been contracting for close to a year
- Automotives and chemicals have both been in contraction since June 2022
- High tech and capital markets both moved from expansionary to contractionary territory in January
- High tech, health, capital markets and insurance all expanded employment while logging contractionary output in January

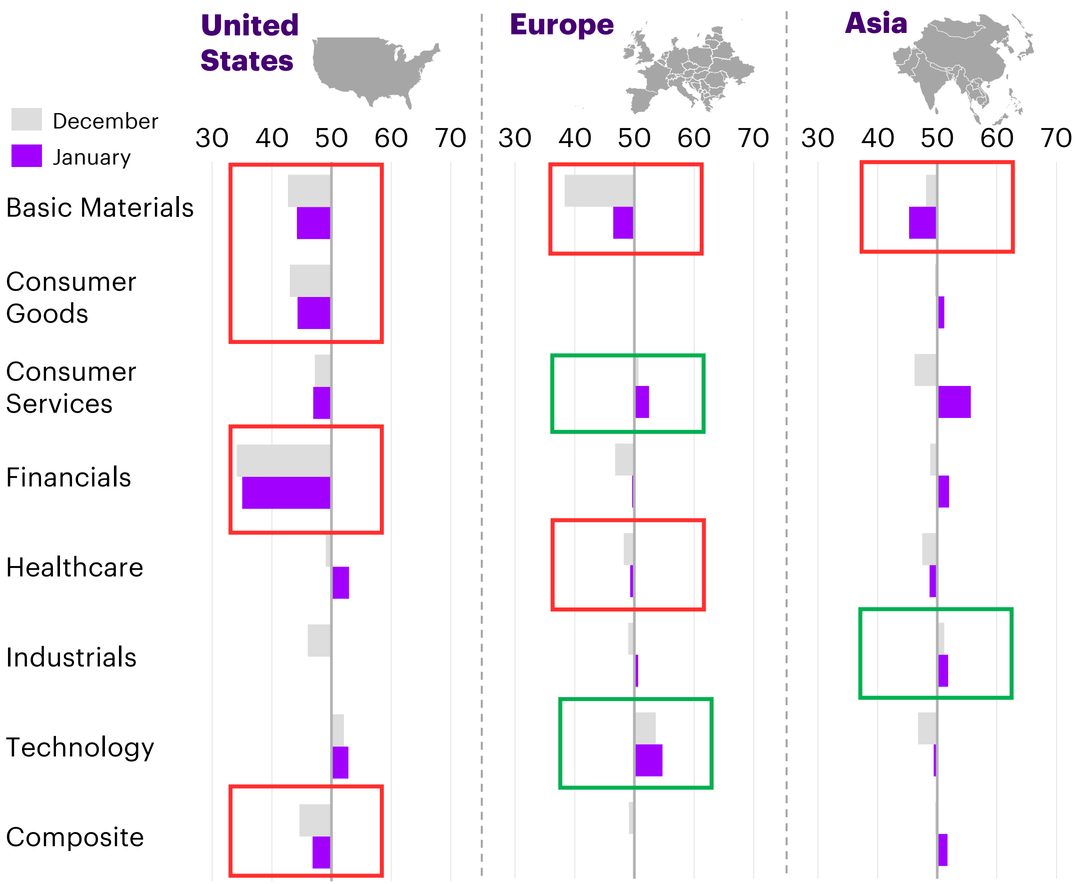
Note: A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month
Sources: S&P Global, Accenture Strategy analysis

Tightening financial conditions continue to weigh on US demand, while Europe returned to growth in some sectors and Asia remained resilient

Regional PMI overviews

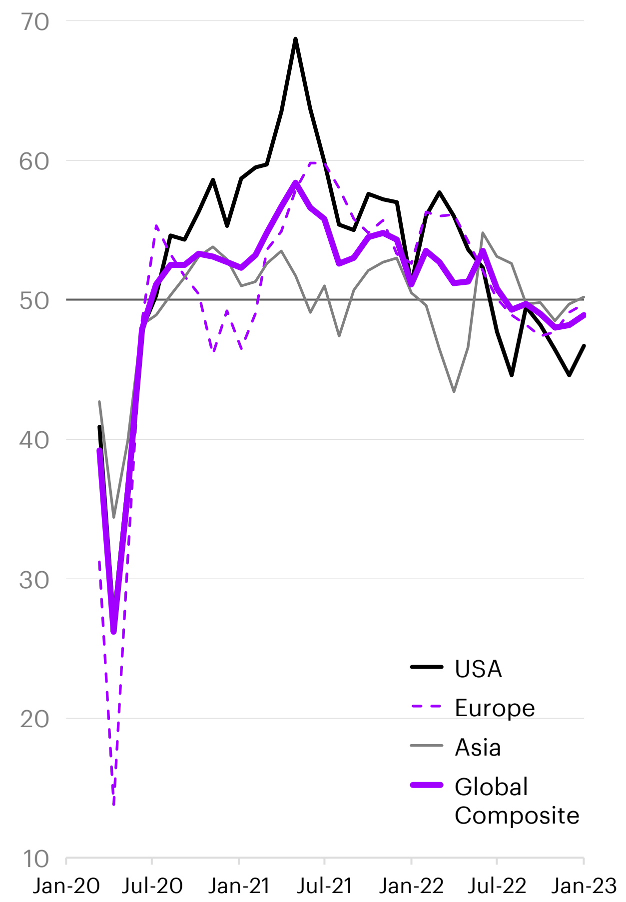
Regional industry performance

December '22 vs January '23, PMI Output/Activity



Regional performance

Composite PMI Output / Activity



Commentary

- In the US, tightening financial conditions are putting downward pressure on consumer demand and financials
- After several months of contraction, and persistent consumer pessimism, European consumers goods and services sectors logged two consecutive months of expansion
- Consumer goods and services in Asia expanded, likely driven by improved mobility around China's economic re-opening

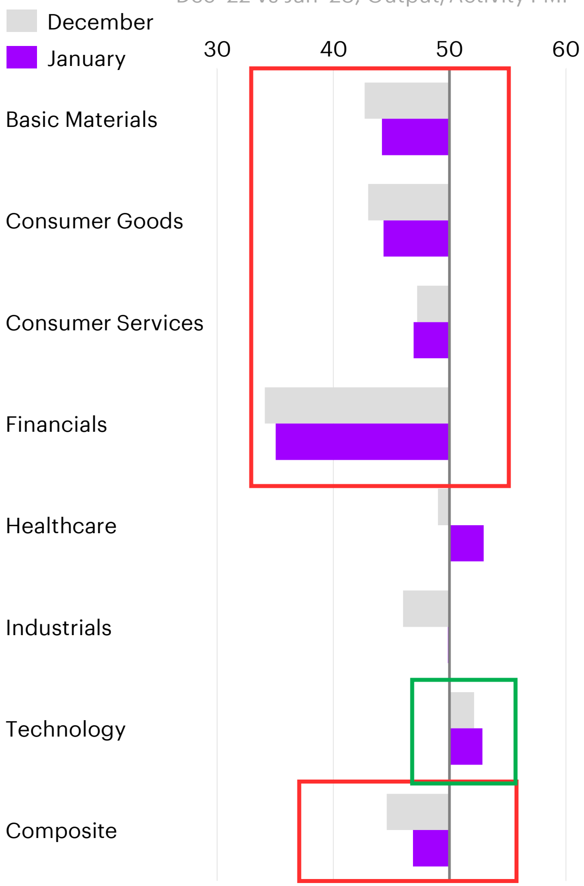
Note: Industry names are aligned with Tier 2 IHS industry classification: Basic Materials (Chemicals, Resources); Consumer Goods (Auto, Beverages & Food, Household & Personal Products); Consumer Services (Media, Tourism & Recreation); Financial Services (Banks, Insurance, Real Estate); Health (Healthcare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

In the US, Financial Services reported the sharpest decline in activity in January; Technology output remained surprisingly resilient despite growing layoffs in the sector

Regional outlook: United States

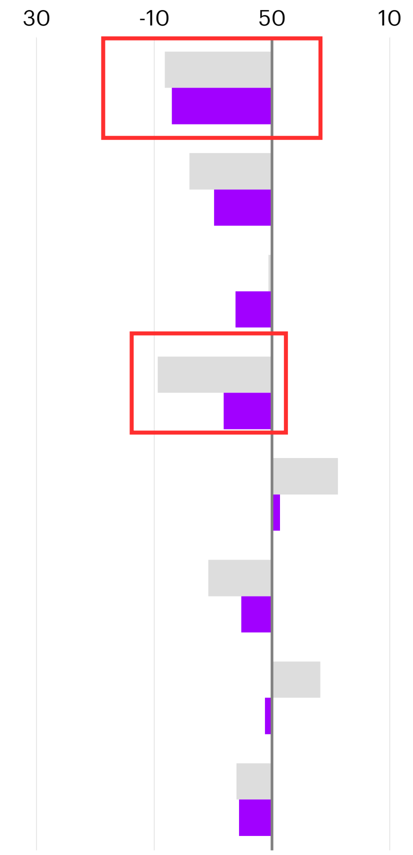
Industry Performance

Dec '22 vs Jan '23, Output/Activity PMI



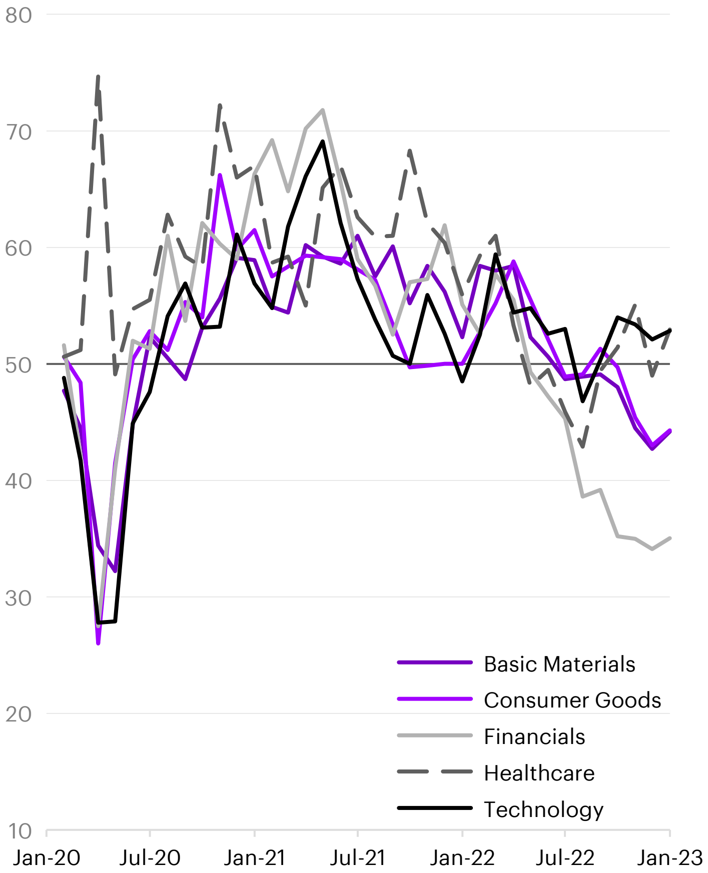
Backlogs of Work

Dec '22 vs Jan '23, Backlogs of Work



Industry Performance

PMI Output / Activity, selected industries



Commentary

- The financial sector continued to be the worst-performing sector easing as higher borrowing costs and growing economic uncertainty have softened client demand
- Contraction in basic materials slowed slightly as delivery times for inputs into factories improved, but the industry remains in a protracted downturn
- Higher levels of output were recorded in the technology sector driven by greater tech investments and demand for digital services

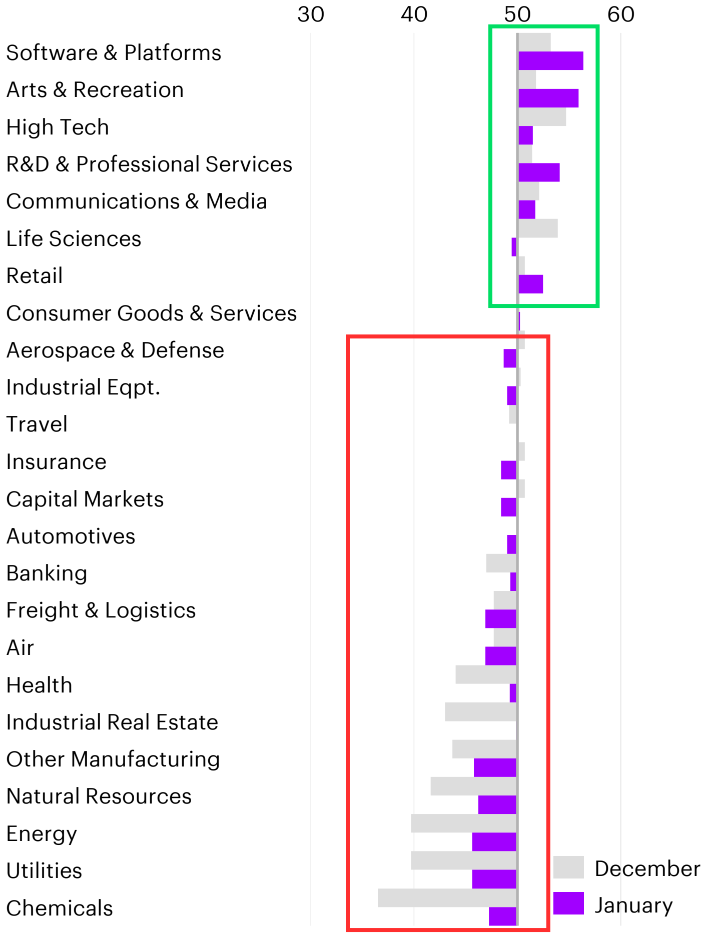
Note: Industry names are aligned with Tier 2 IHS industry classification: Basic Materials (Chemicals, Resources); Consumer Goods (Auto, Beverages & Food, Household & Personal Products); Consumer Services (Media, Tourism & Recreation); Financial Services (Banks, Insurance, Real Estate); Health (Healthcare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

Most European sectors registered falling activity, though tech and consumer-facing businesses performed better

Regional outlook: Europe

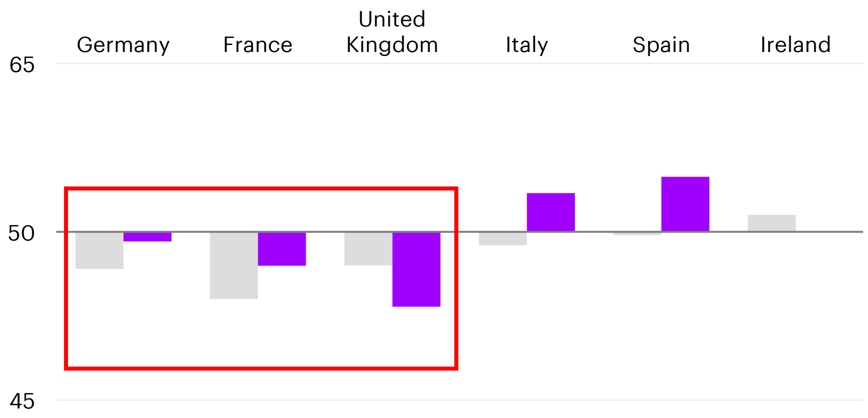
Industry Performance

December '22 vs January '23, Output/Activity PMI



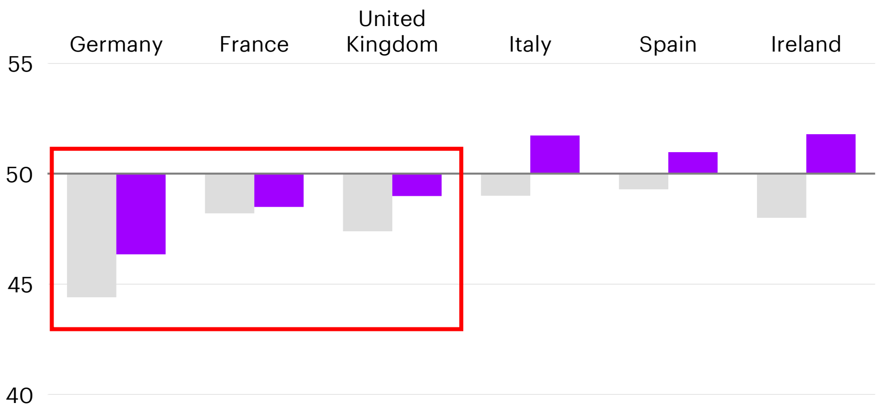
Country Performance

December '22 vs January '23 Output/Activity PMI



New Orders Index

December '22 vs January '23, New Orders PMI



Commentary

- The majority of sectors continued downturns going into 2023
- Basic materials sector continued to suffer with backlogs and new orders driving challenges to the industry against the backdrop of rising prices
- While consumers face higher bills, demand remained resilient as recreation and retail saw significant expansion
- Germany is showing some weakness across construction and manufacturing as material and labor prices increase
- Germany, France and UK all performed poorly in January but the flash February results indicate some reversal to positive momentum

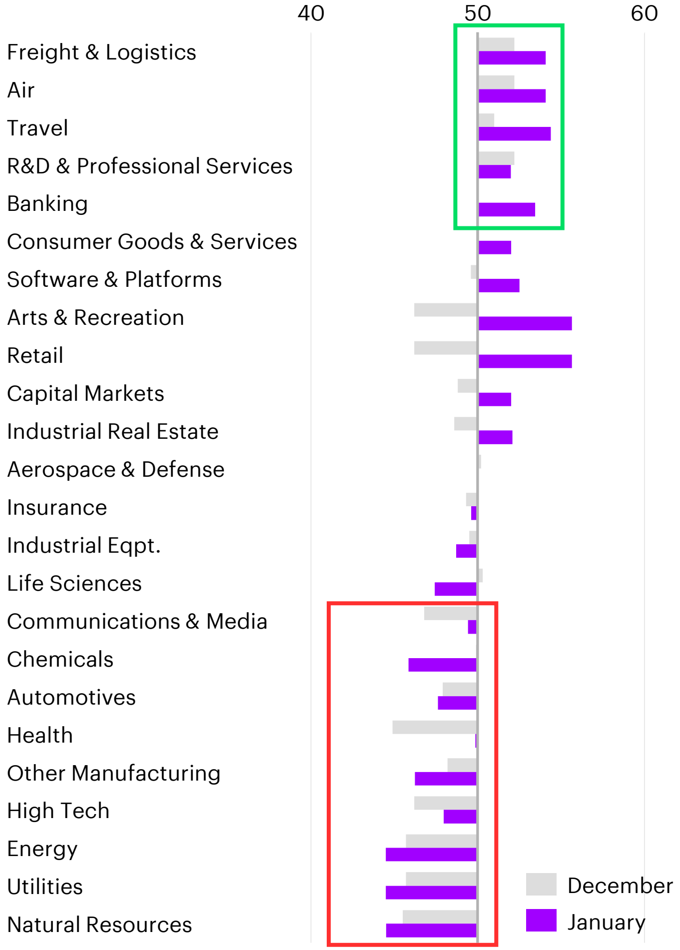
Sources: S&P Global, Accenture Strategy analysis

Asia-Pacific largely continued to enjoy growing business activity buoyed by the post-COVID recovery; India's output remained strong

Regional outlook: Asia-Pacific

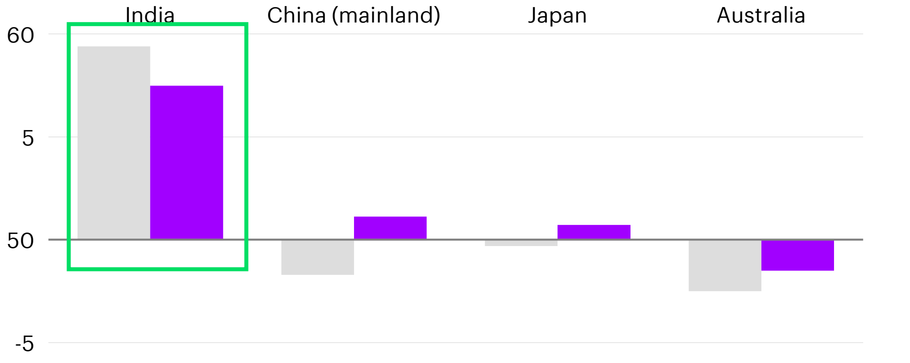
Industry Performance

December '22 vs January '23, Output/Activity PMI



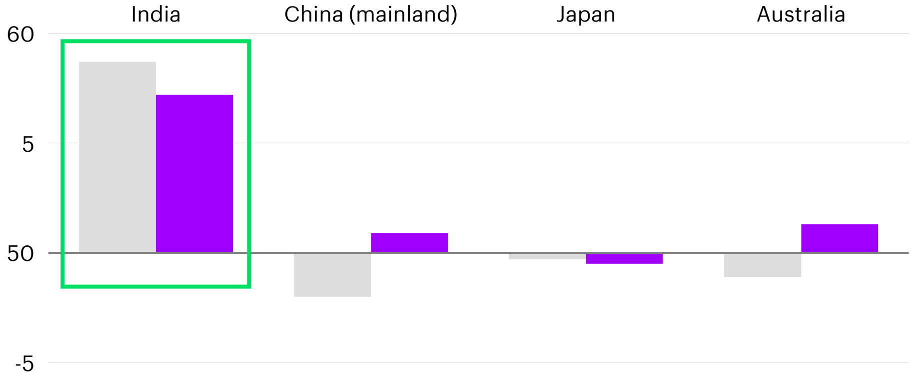
Country Performance

December '22 vs January '23, Output/Activity PMI



New Orders Index

December '22 vs January '23, New Orders PMI



Commentary

- Asia-Pacific witnessed a bright start to 2023 as a greater number of sectors recorded growth
- The post COVID-recovery continues to drive expansion as recreation and retail recorded the largest gain, and was joined by growth in travel and consumer goods
- In Japan, output growth remains tepid, reflecting weak new orders and declining employment
- Services in India continued to see strong demand and employment remained in positive territory

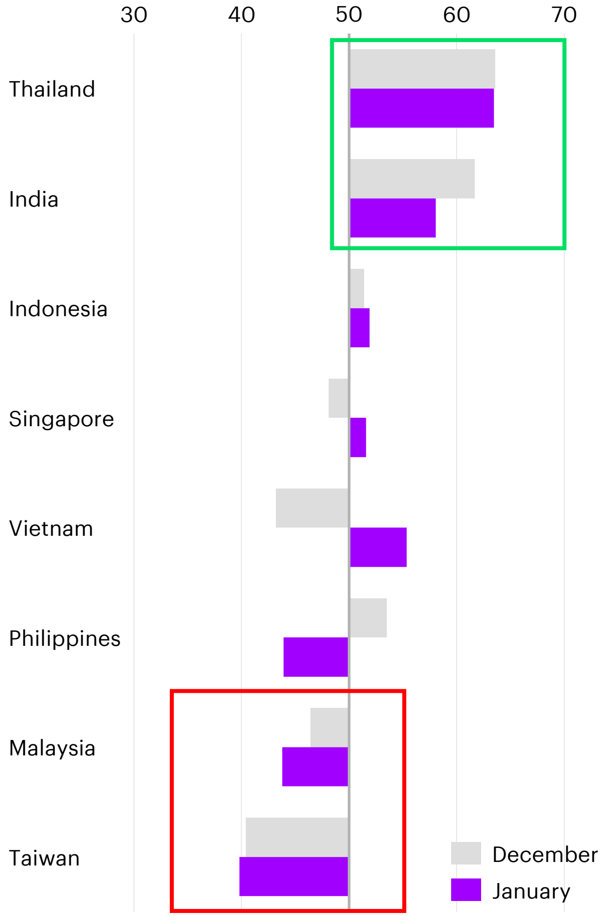
Sources: S&P Global, Accenture Strategy analysis

Manufacturing across ASEAN experienced growth as conditions across the region improved – driven by greater production and rise in new orders

Regional outlook: Southeast Asia

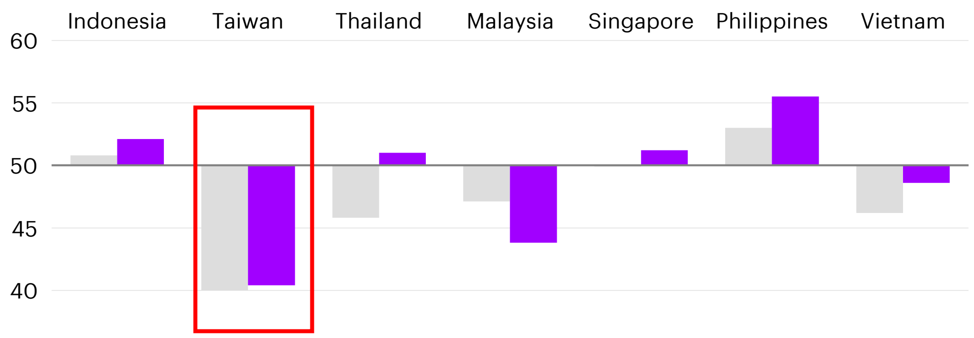
Manufacturing Performance

December '22 vs January '23, Manufacturing Output



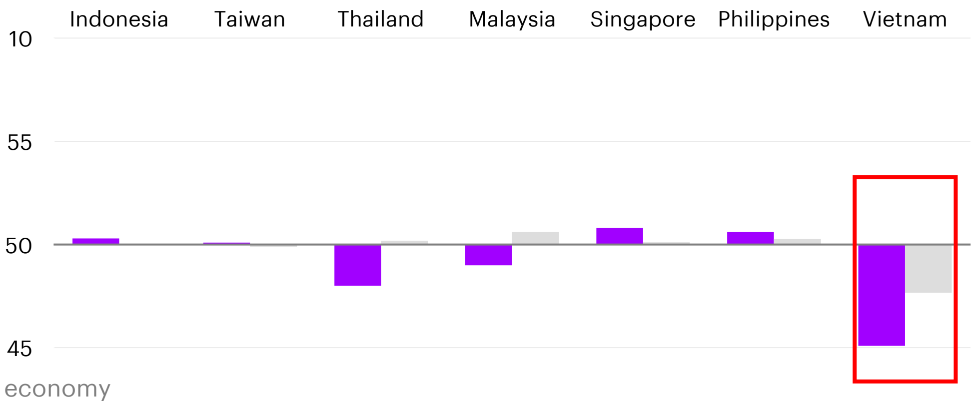
Manufacturing New Orders

December '22 vs January '23, Manufacturing New Orders PMI



Manufacturing Employment

December '22 vs January '23, Manufacturing Employment PMI



Commentary

- ASEAN economies reported mixed results at the start of 2023
- Thailand showed the strongest growth from demand and new orders but mainly from prices. Input prices are on the rise but manufacturing has been able to pass those costs along to customers
- India also saw improved demand from new orders as they continue to outperform the region
- Singapore returned to growth territory, while manufacturers in the Philippines recorded a 7-month high of output activity as pricing pressures eased
- Taiwan suffered from declining new orders, while backlogs remained deeply contractionary. Further, the manufacturing sector struggled to pass costs along to customers

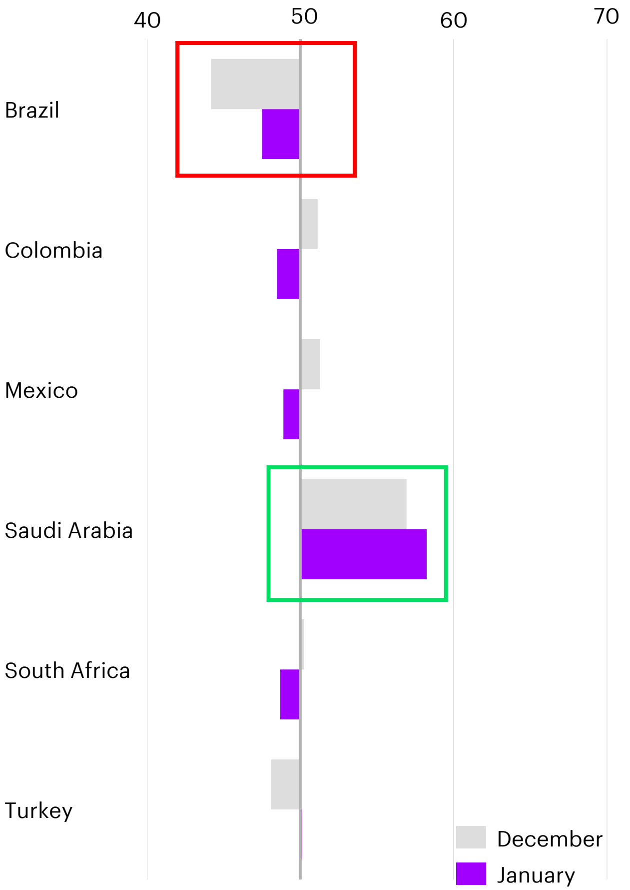
Note: Performance for Singapore covers the whole economy
Sources: S&P Global, Accenture Strategy analysis

Other emerging markets lost momentum at the start of 2023, driven by subdued demand – Saudi Arabia continued to rise as business confidence hit two-year high

Regional outlook: Other emerging markets

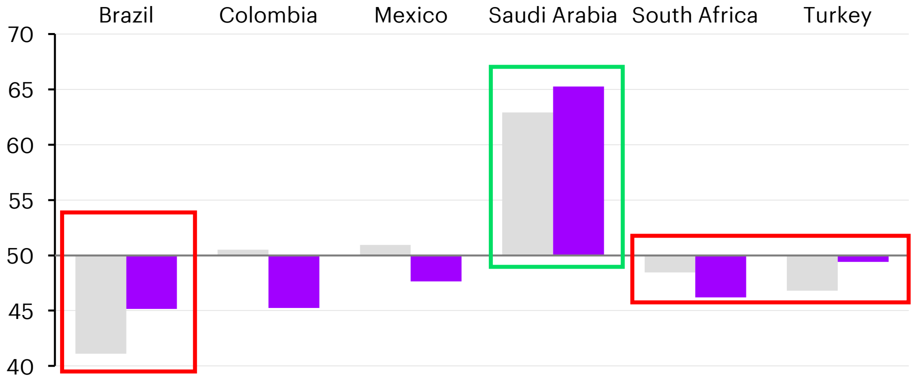
Manufacturing Performance

December '22 vs January 23, Manufacturing PMI



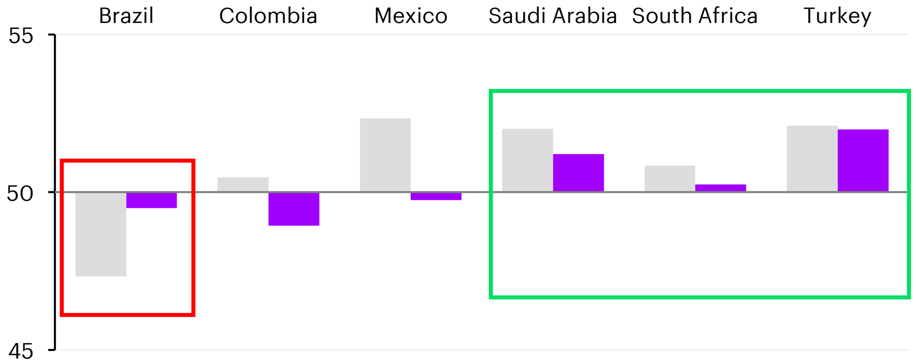
Manufacturing New Orders

December '22 vs January '23, Manufacturing New Orders PMI



Manufacturing Employment

December '22 vs January '23, Manufacturing Employment PMI



Commentary

- Other emerging markets were mostly flat with Brazil contracting and Saudi Arabia continuing to grow
- In Brazil, input cost inflation rose faster than companies' ability to pass costs along. New orders suffered and employment continued to decline albeit at a slowing rate
- Colombia experienced a contraction while input prices remain elevated
- Saudi Arabia's business activity continues to expand as new orders and quantity of orders are up sharply while input prices are contained
- Employment declined across LATAM as manufacturers battled with rising costs and dampened demand, while employment growth in Saudi Arabia, Turkey and South Africa eased as companies continue to reduce their work backlogs

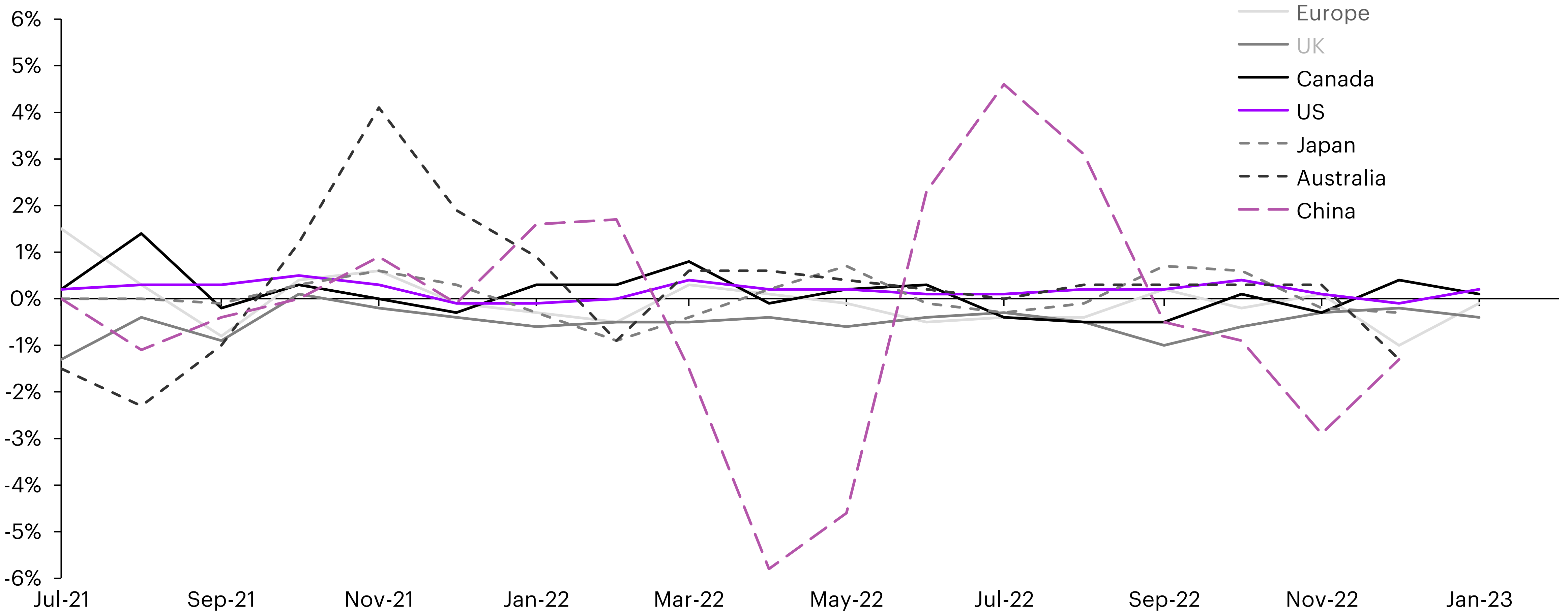
Note: South Africa and Saudi Arabia PMI is for the whole economy
Sources: S&P Global, Accenture Strategy analysis

Consumer spending

Recent consumer spending growth remains negative in most major economies, except in North America where consumers are showing resilience

Consumer spending trends

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

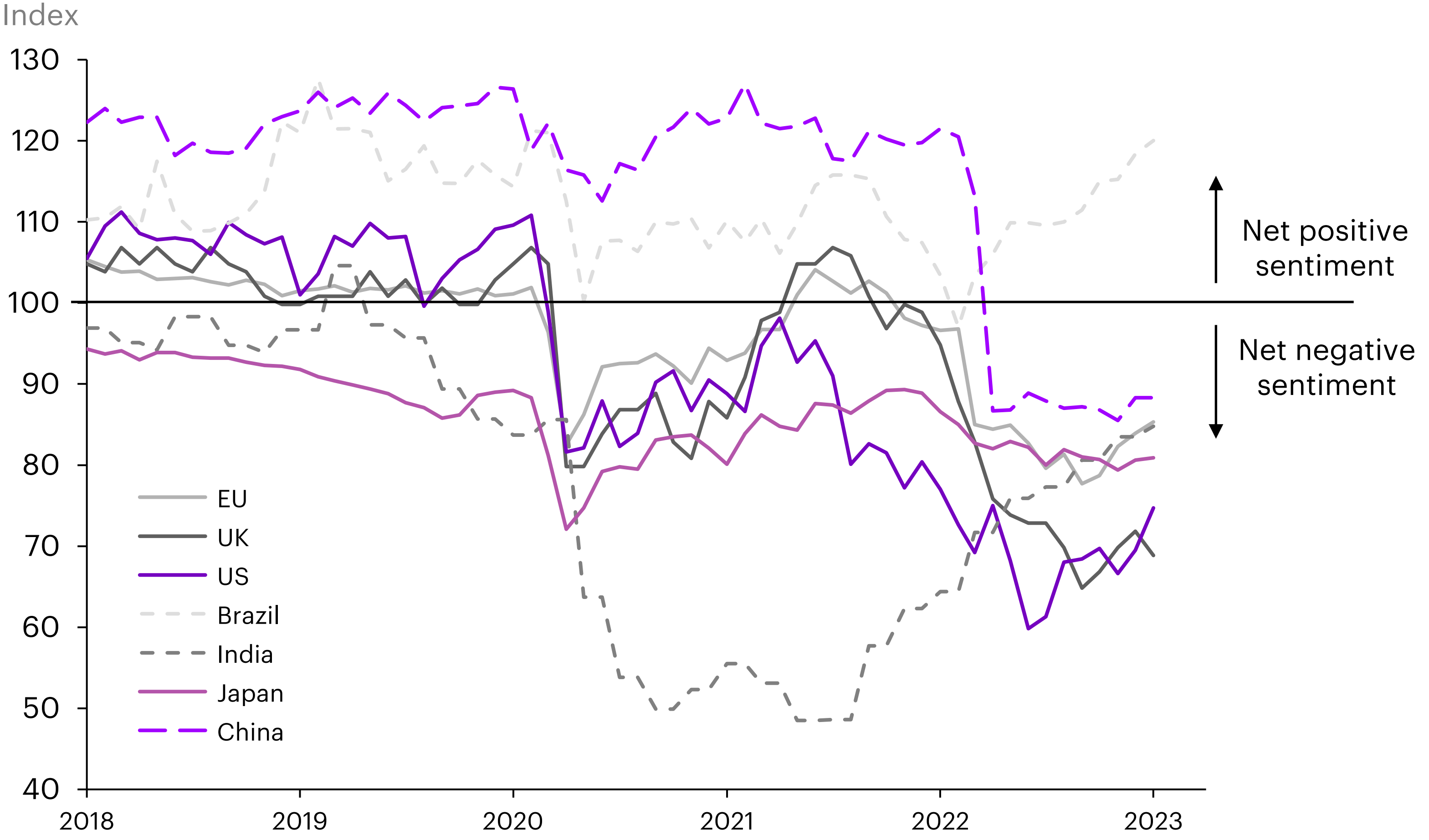


Notes: Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area, UK, Canada, Japan, Australia, and China series data is retail sales.
Sources: BEA, BLS, Eurostat, ONS, Haver analytics, Accenture Strategy analysis

Despite rebounding sentiment across the US, UK and EU in December, consumers remain pessimistic amid ongoing cost-of-living crises and persistent economic uncertainty

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

Comments

- US consumer confidence has been on the rebound since bottoming out in June 2022
- UK consumers remain pessimistic
- EU consumers' sentiment has also been improving over the winter, mainly reflecting more optimistic expectations of the future
- Sentiment among consumers in Brazil and India continues to show steady improvement

In the US and Europe, consumers continue to rotate spending into services though car sales had a strong rebound in January

Consumer spending trends by goods and services category

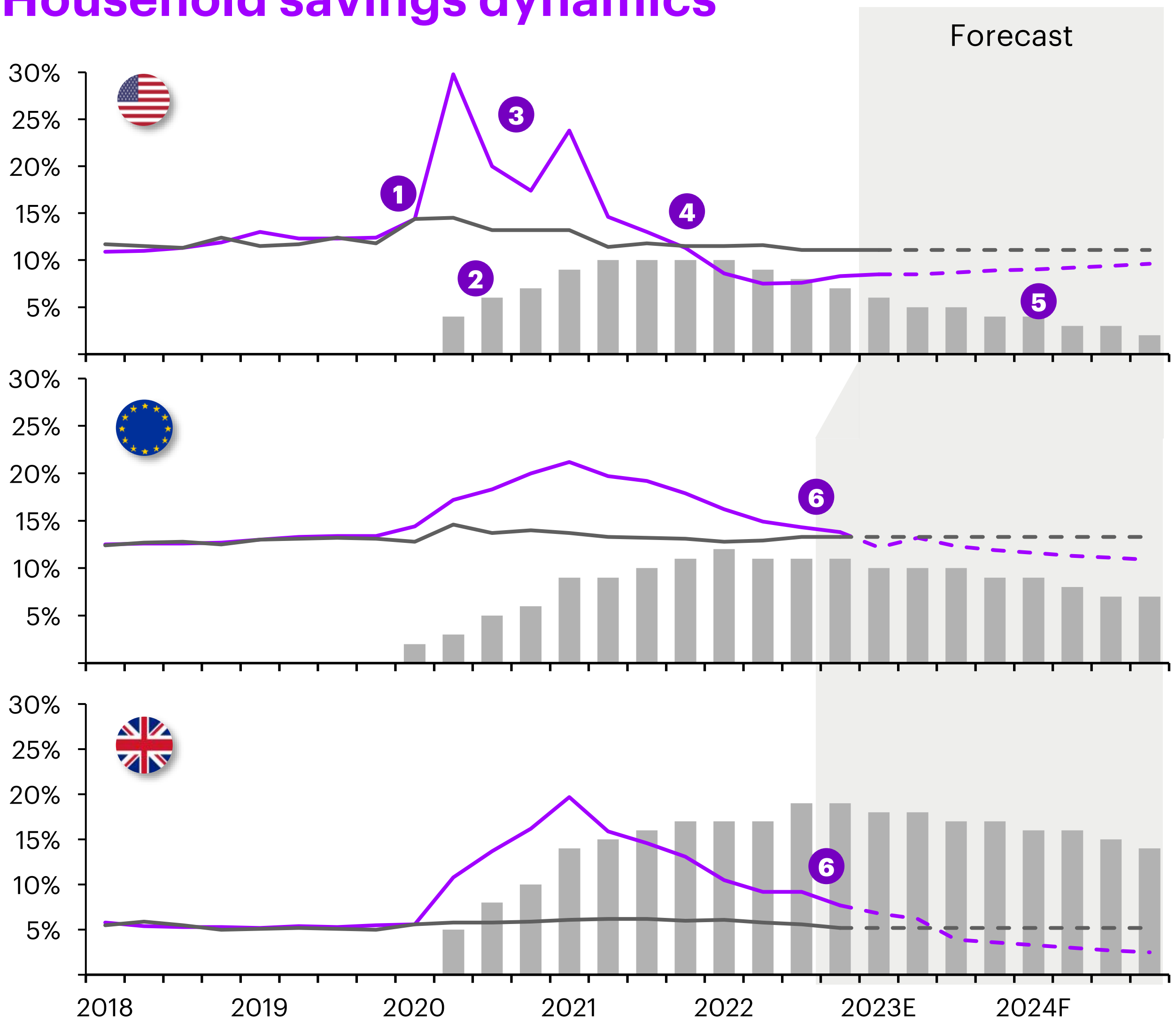
AS OF FEBRUARY 28

		US		UK		Germany		France	
		Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change
Goods	Groceries	-1.3%	-0.1%	-2.7%	-0.5%	-5.8%	-3.0%	-1.7%	-2.4%
	Motor vehicles	-1.1%	11.9%	-1.7%	8.5%	7.4%	6.4%	4.7%	-0.6%
	Furniture	0.5%	2.0%	-1.1%	-6.1%	-7.1%	-0.4%	-3.8%	-2.0%
	Electronics	2.5%	1.7%	-1.6%	0.0%	0.4%	-7.1%	2.6%	-2.5%
	Footwear & apparel	2.2%	3.0%	1.1%	-2.9%	9.1%	-6.0%	7.0%	2.5%
	Fuel	-0.6%	-2.2%	-3.0%	1.7%	0.7%	1.1%	0.4%	-0.8%
Services	Transportation	0.9%	0.9%	1.8%	-3.2%	1.1%	1.4%	2.6%	-3.5%
	Entertainment	2.3%	1.4%	1.8%	-7.7%		n/a	10.6%	-4.4%
	Dining out and hotels	3.0%	4.6%	2.3%	-0.8%	-15.6%	2.3%	6.4%	-0.2%
	Information services	2.7%	0.7%	0.3%	-0.2%	1.7%	5.5%	5.9%	1.4%

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

1. At the beginning of the pandemic, US savings rate reached record levels. Closed economies kept savings much higher than what a predictive model would have forecasted
2. As consumers continued to save, they started to build up their savings accounts. In each period they were prevented from spending as normal, they continued to add to their savings
3. Stimulus and expanded unemployment benefits added to income, and therefore savings
4. As the US economy has opened up, the consumer has started saving at rates that are lower than what would have been predicted by a model based on wealth effects and economic uncertainty. The US consumer has remained resilient
5. We expect the US consumer will continue to wind down those savings until overall savings return to normal levels
6. European consumers are yet to start winding down their COVID-era savings though we forecast that they will start to wind down those savings levels into 2023 and 2024

Actual savings rate
Model-predicted trend savings rate
Cumulative excess savings (% of annual disposable income)

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

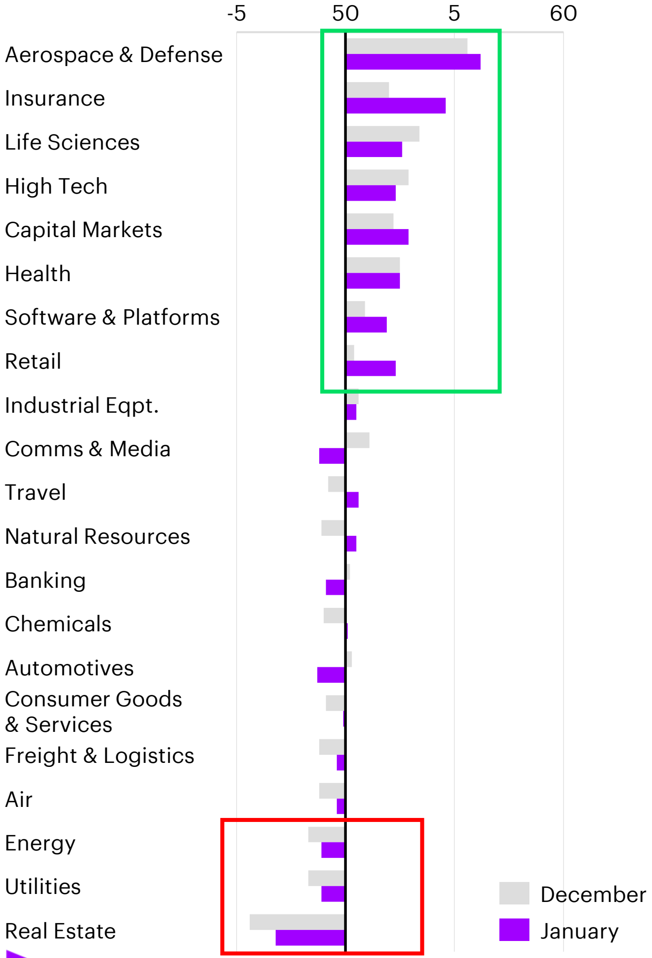
Labor markets

Global labor market stability continued in January with service industries in particular continuing to hire

Labor markets: Global overview

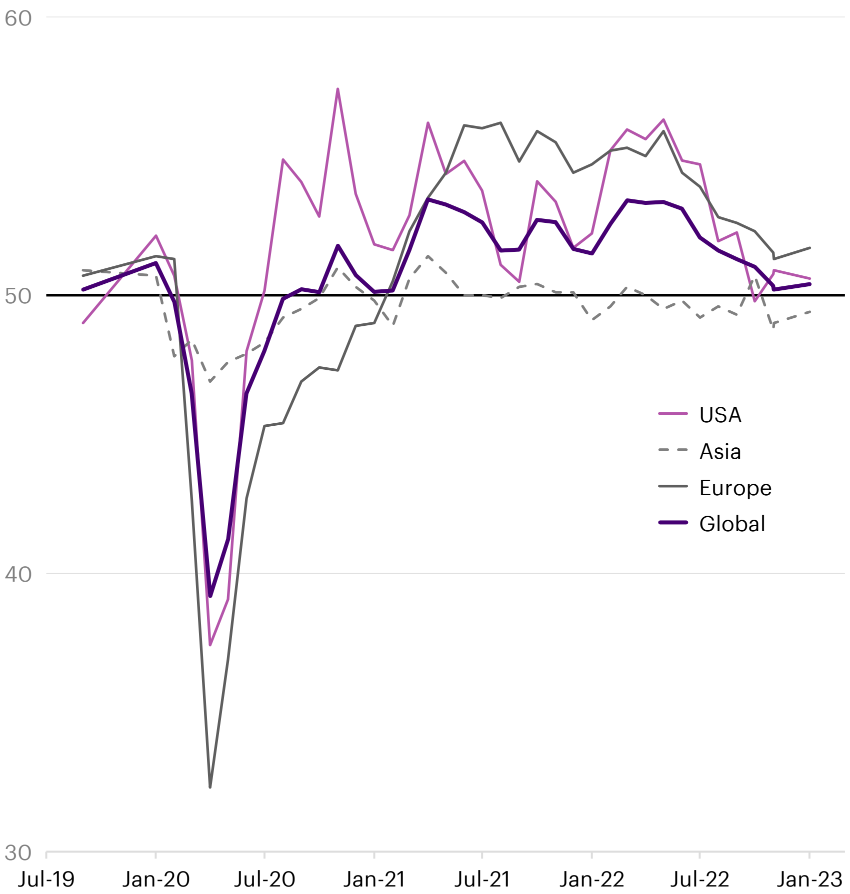
Global PMI Employment Index

December '22 vs January '23, Manufacturing and Services PMI



Aggregate PMI Employment Index

Manufacturing and Services employment PMI



Commentary

- Employment in Asia contracted due to declining new orders and order quantities
- In Europe and the United States, employers continue to hire and compete for talent as labor markets remain tight
- Industries with high labor costs (insurance, aerospace, life sciences, high tech) continued to expand employment in January
- Continued strength in services sector will be a key point to watch in 2023 as those industries could lead to stickier inflation

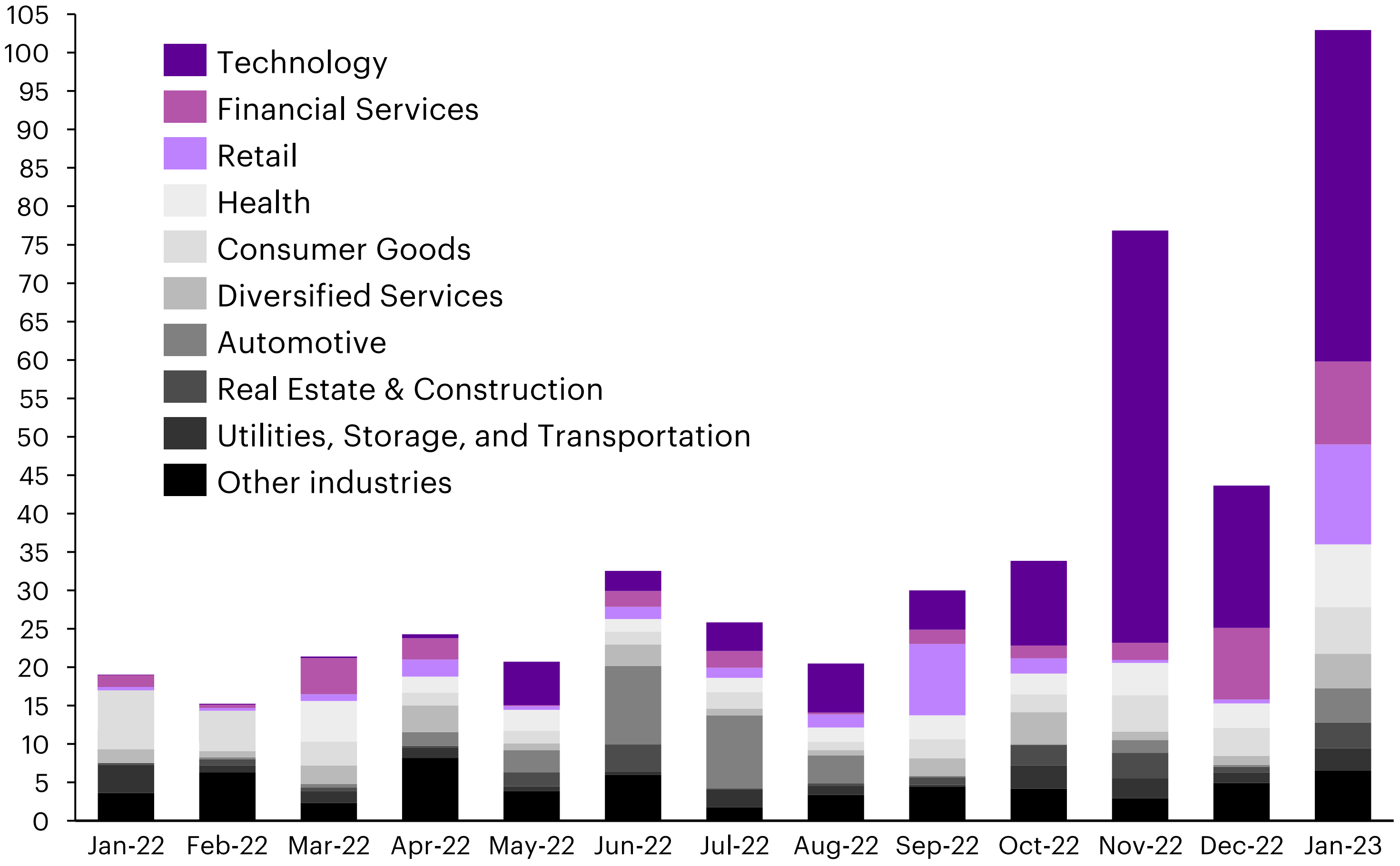
Sources: S&P Global, BLS, Accenture Strategy analysis

US layoffs are on the rise but remain concentrated in technology and finance sectors

US corporate layoff tracker

Announced layoffs by sector

Thousands (not seasonally adjusted)



Comments

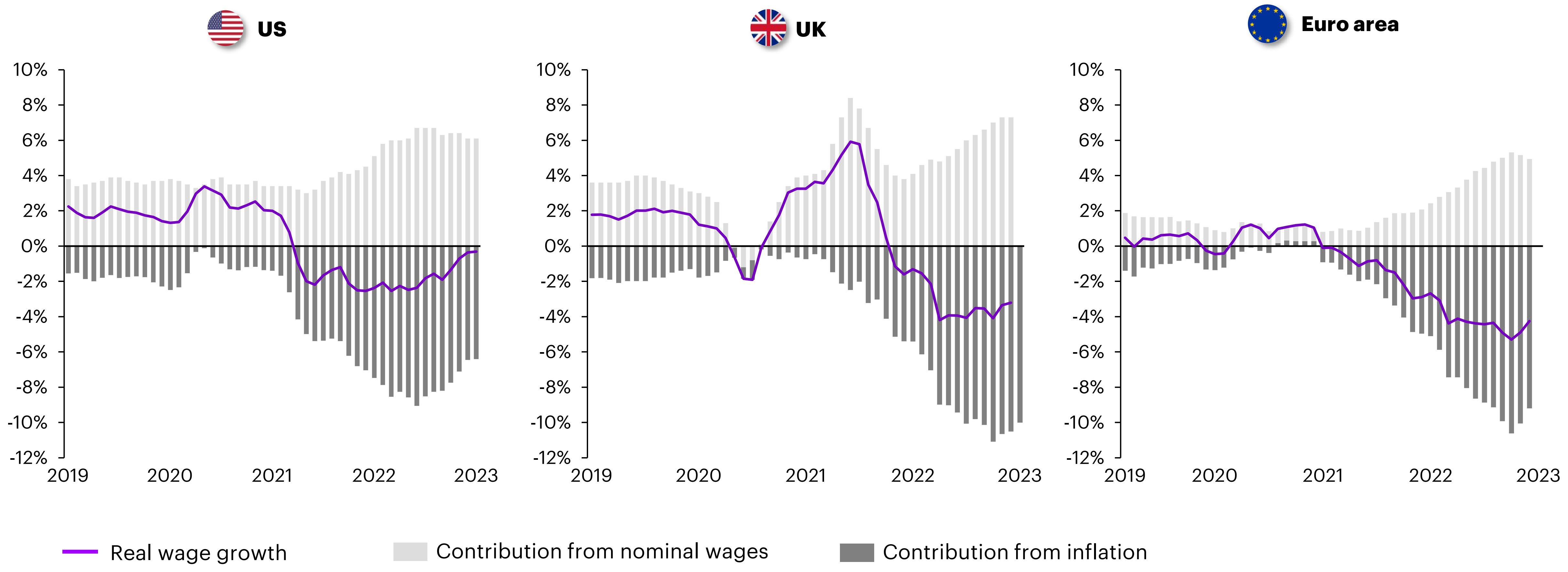
- Announced layoffs in the US have been rising markedly since October
  - Layoffs have been concentrated in the technology and financial services sectors, which over-hired during the pandemic
  - Retail sector layoffs have also been increasing, even when taking into account usual January post-holiday rise
- Overall US labor market remains very tight despite these layoffs

Sources: Challenger Employment Report, Haver Analytics

Real wage growth is on the cusp of turning 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

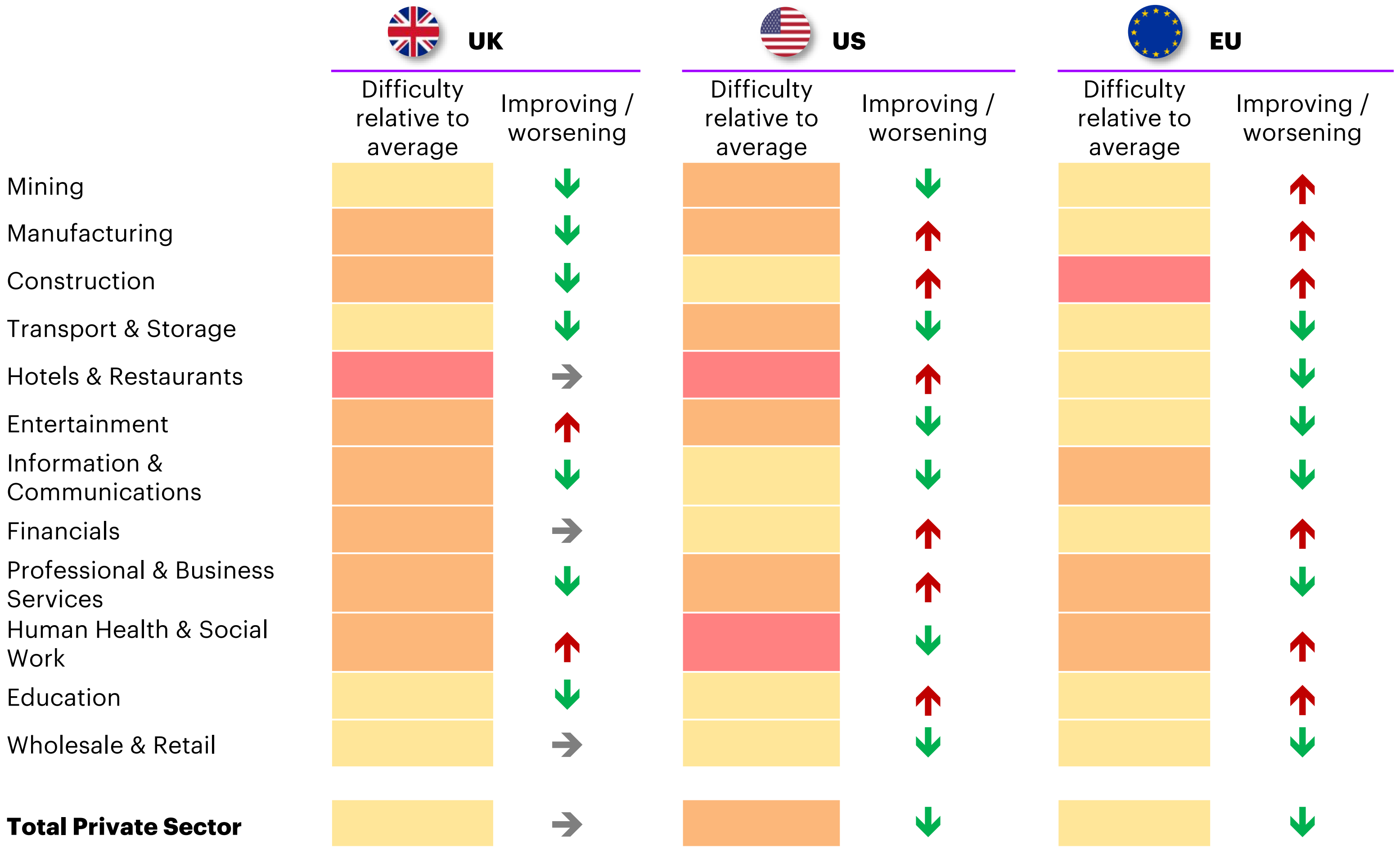


Sources: BLS, ONS, Indeed, Accenture Strategy analysis

Finding talent continues to be more difficult relative to pre-pandemic norms, though there has been some recent improvement in sectors where shortages are less acute

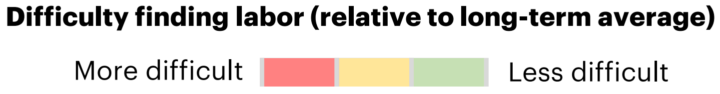
Relative difficulty of hiring by sector

Deviation in job vacancy rate from long-term average (percentage points) 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 and leisure and hospitality industries
  - In the US, difficulties filling open positions in hospitality sector increased further in December (latest available data)
  - In the EU, labor shortages are also acute and increasing in the construction industry



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

Inflation globally remains elevated well above target levels, 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 (percentage points)
United States	6.4%	-0.1%
United Kingdom	10.0%	-0.5%
Canada	5.9%	-0.4%
Germany	8.7%	0.5%
France	6.1%	0.2%
Italy	9.9%	-1.7%
Spain	5.8%	0.1%

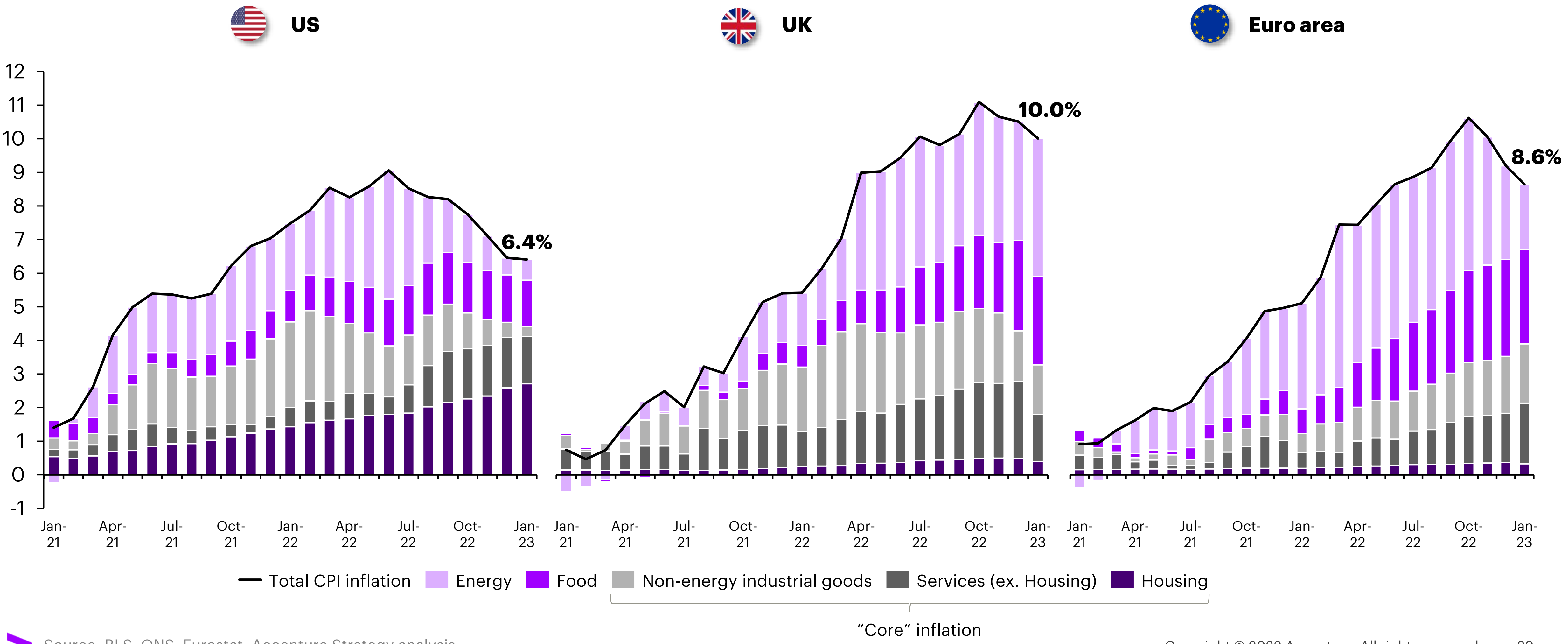
Country	YoY Inflation Rate	Change from Previous Month (percentage points)
China	1.7%	-0.1%
Japan	4.1%	0.2%
Brazil	5.8%	0.0%
India	6.0%	0.6%
Singapore	6.6%	0.2%
Korea	5.2%	0.1%

Source: Haver Analytics, Accenture Strategy analysis

Energy-driven inflation has started to pick up again in January in US and UK; core inflation rose further in US and Euro area, but eased in UK amidst sharp drop in transport prices

Drivers of recent CPI inflation

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

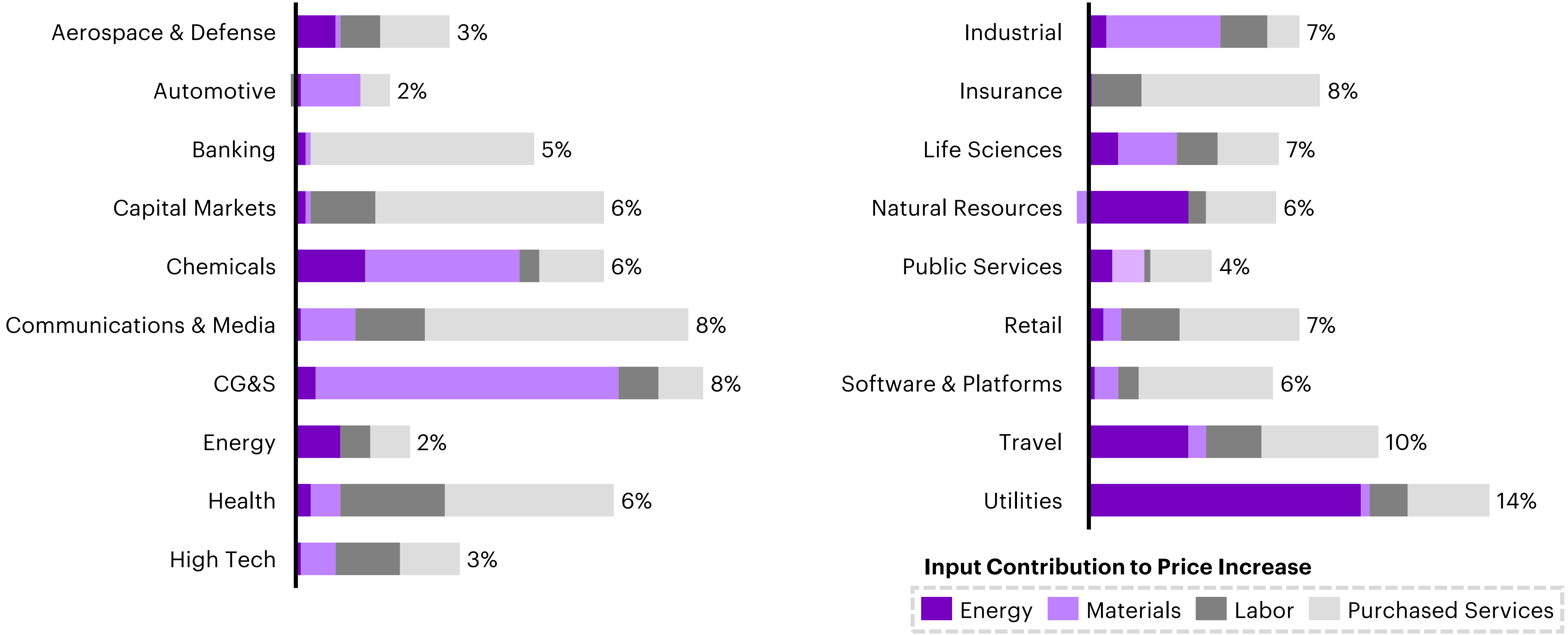


Source: BLS, ONS, Eurostat, Accenture Strategy analysis

Energy and commodity prices are driving input cost increases in sensitive industries particularly in Utilities, Travel, Insurance, Consumer, and Communications

Recent input cost inflation by industry

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

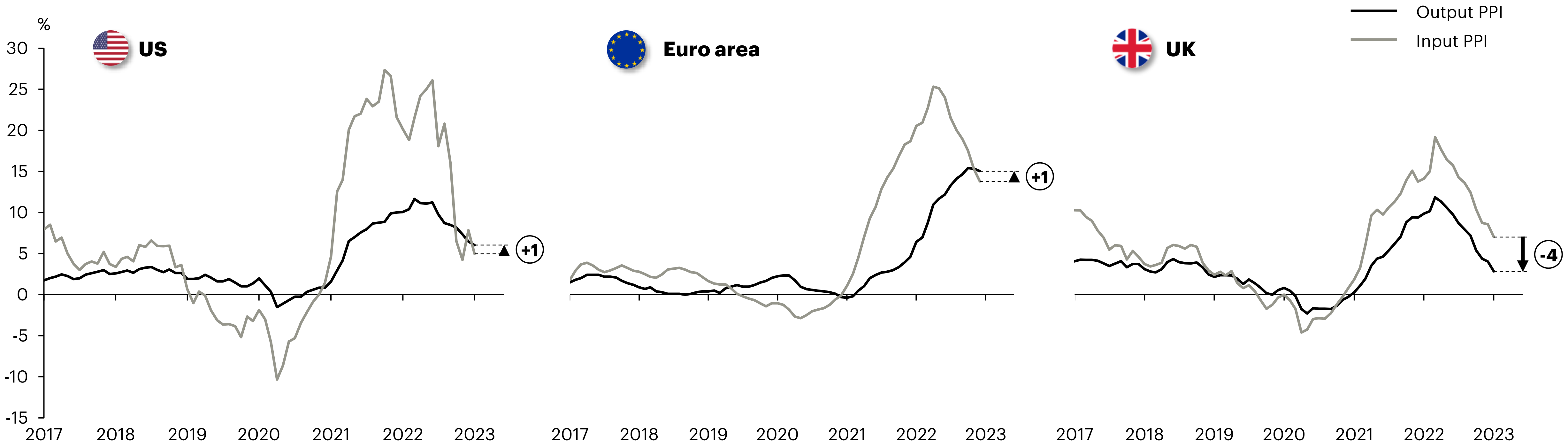


Note: Wage data as of 12/22, energy prices as of 11/22, materials and Purchased Services PPI price increases as of 1/23
Source: BLS, BEA, ECI, Accenture Strategy analysis

US and Euro area companies are passing increasingly more of their input cost increases to final selling prices, while margin erosion continues in the UK

Company input cost pass-through trends

Producer price indices (PPI) for intermediate inputs and final outputs, YoY % change



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, margins are being restored as intermediate input inflation pressures ease. Euro area companies are also now fully passing on costs, while in the UK, companies are still hesitating to pass on costs in case consumers trade down or stop buying.

Notes: 1) Figures in bold represent absolute percentage point difference between intermediate and final demand PPI Y.o.Y.% values; higher positive values imply greater pass through to final producer selling prices, while larger negative value 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.

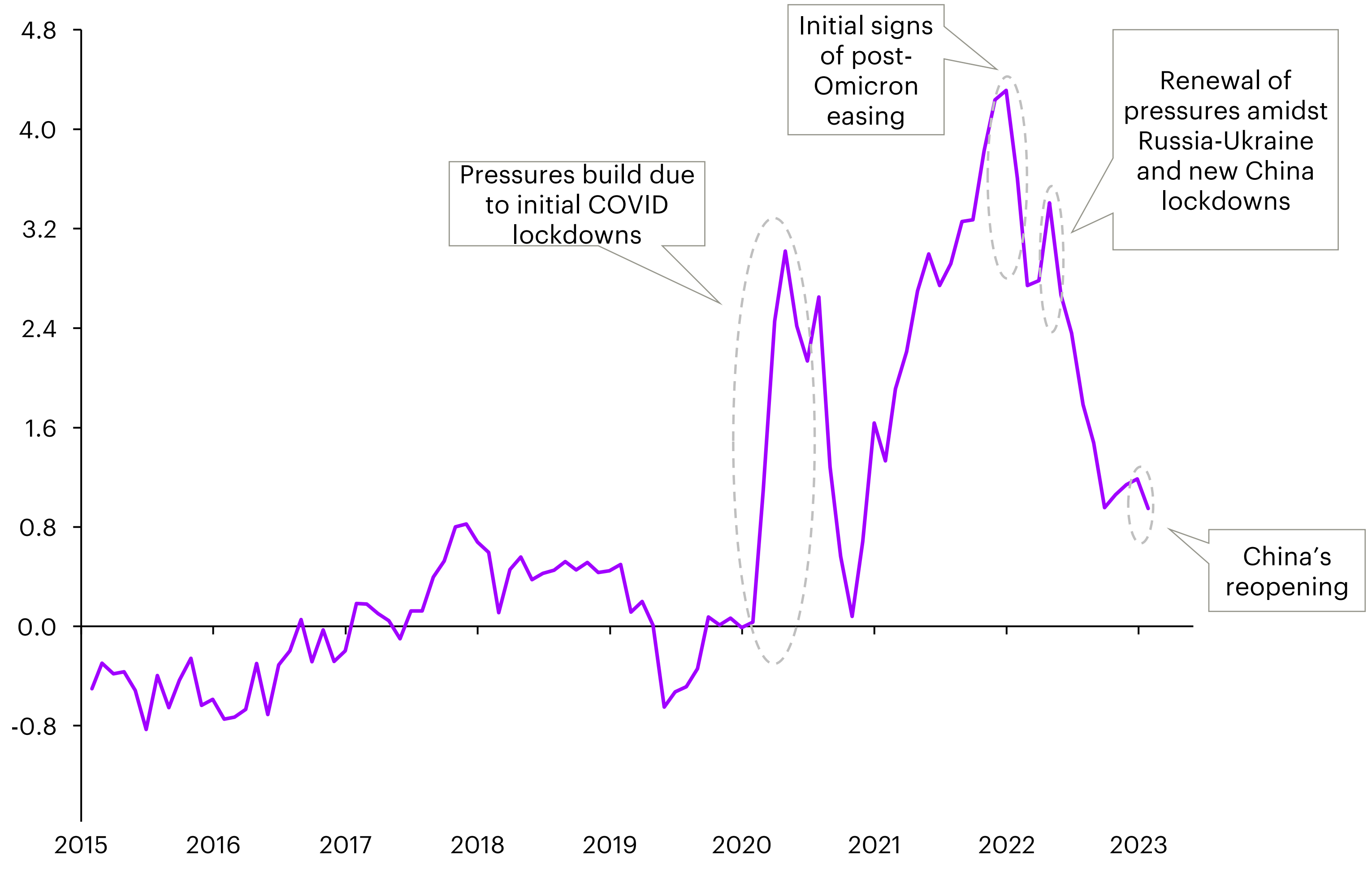
Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

Supply chains

Global supply chain pressures are set to recede further in the wake of China's re-opening

Global Supply Chain Pressure Index

Standard deviations from long-term average (=0)



Commentary

- Global supply chain pressures are down significantly since their peaks in early 2022
- China's lifting of COVID restrictions in early December 2022 has facilitated additional easing of these pressures
- This trend is likely to continue as China's economic re-opening progresses
- Easing supply chain pressures should also continue to promote disinflation for goods that were most affected by pandemic-related supply chain disruptions, e.g.,
  - Cars
  - Furniture and appliances
  - Electronics

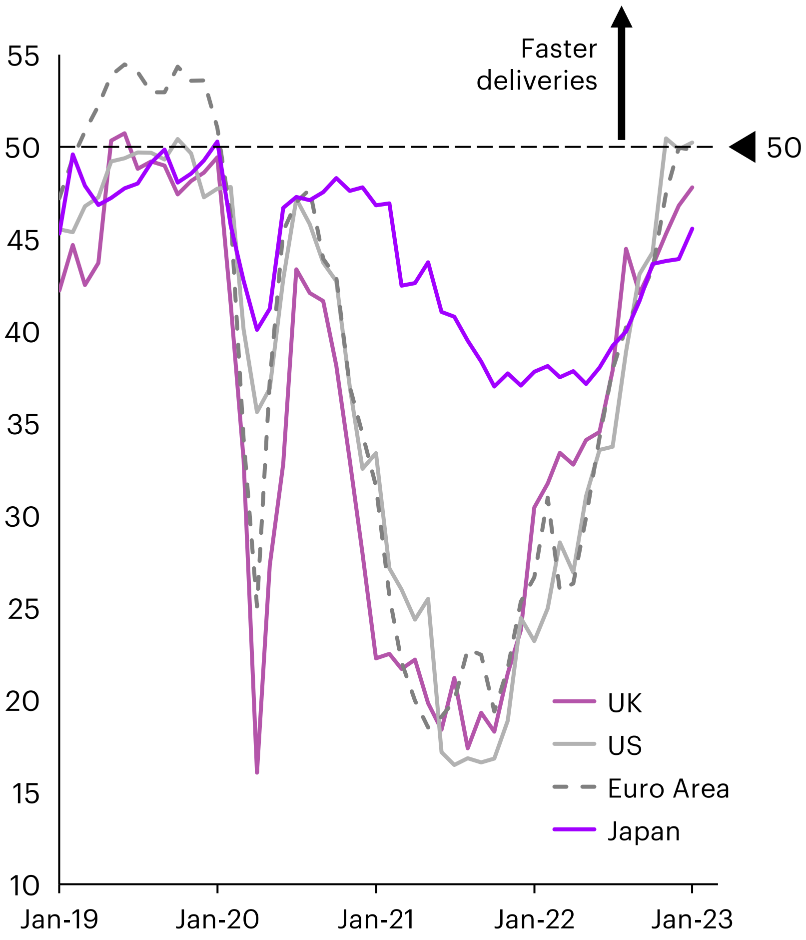
Sources: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, Accenture Strategy analysis

Delivery times and work backlogs for manufacturers have broadly normalized to pre-pandemic averages across major economies

Suppliers' delivery times and backlogs of work

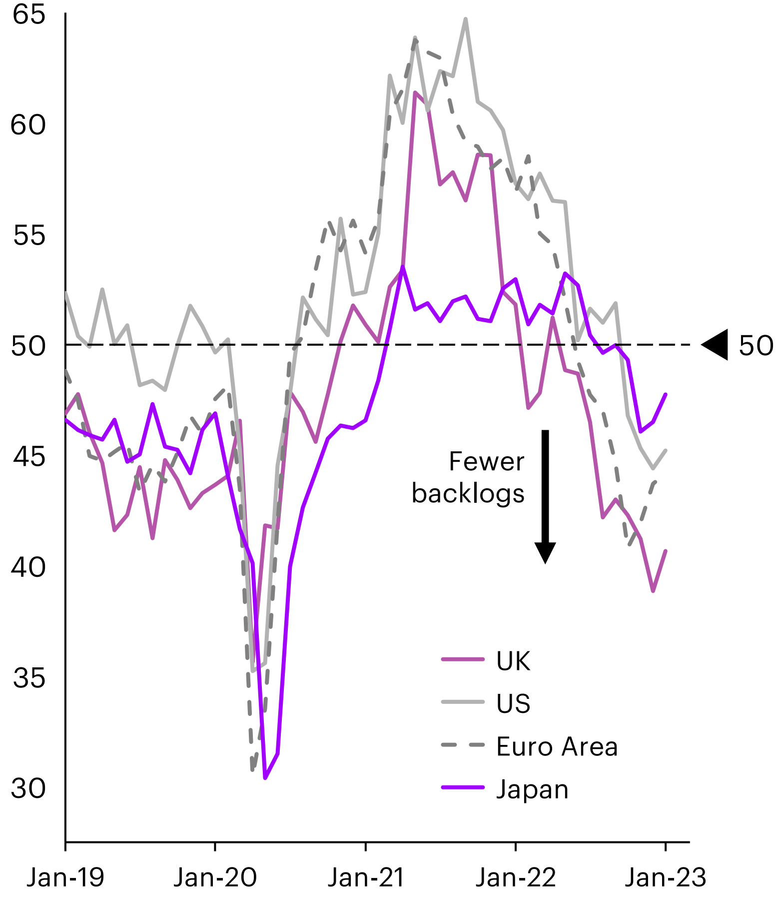
Suppliers' Delivery Times

Seasonally Adjusted, 50+ = Increase



Manufacturing Backlogs of Work

Seasonally Adjusted, 50+ = Increase



Commentary

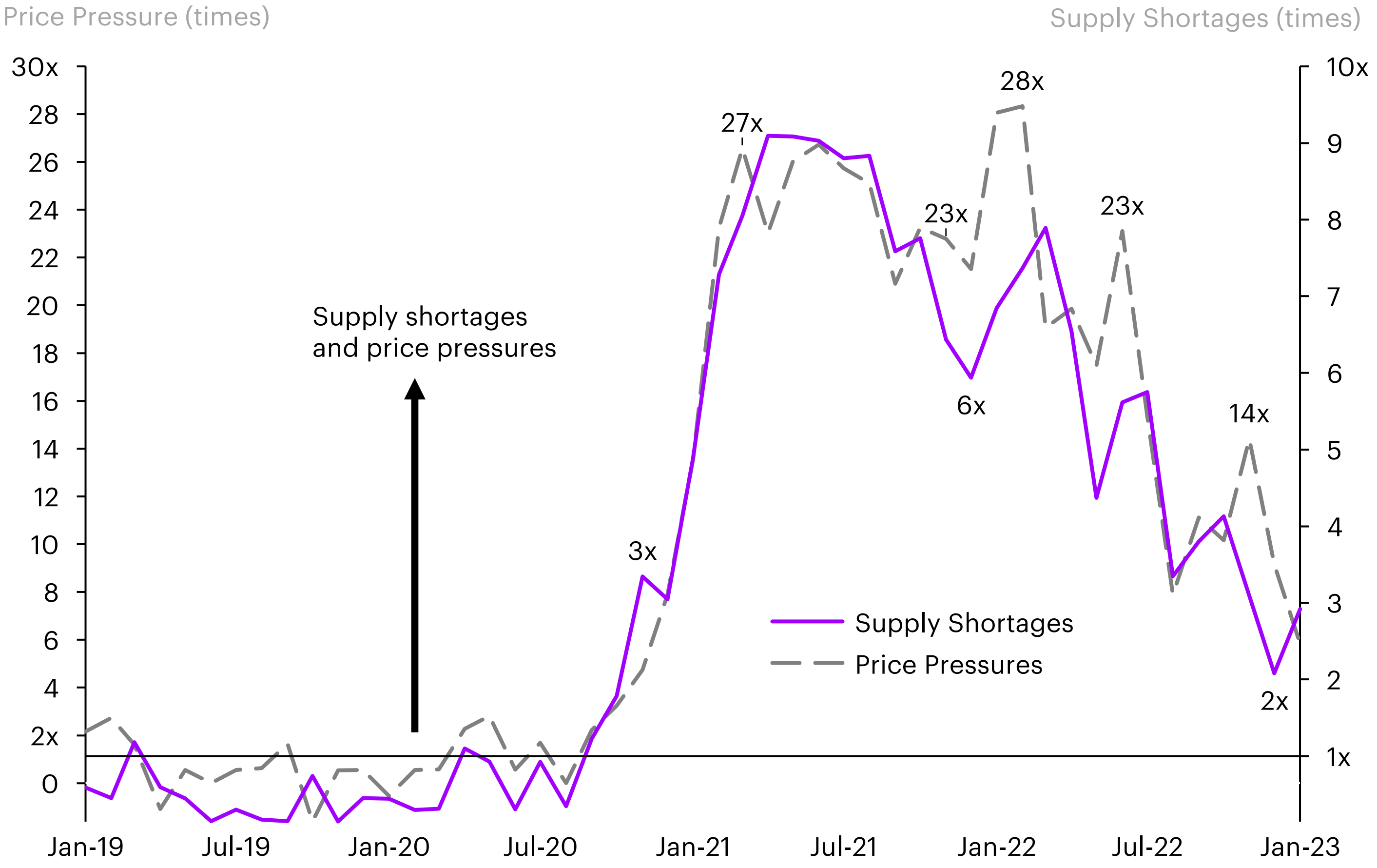
- Improvements in suppliers' delivery times in the US and the Euro area are a bit further along than those in Japan and the UK
  - Delivery times for US manufacturers quickened in January for first time since late 2019 (rather than just slowing more gradually)
- Manufacturers' backlogs of work continue to decline but at a slightly slower rate in recent months
  - Manufacturers in the UK continue to see fastest relative reduction in backlogs
- While these indicators suggest significant progress towards normalization of supply chain pressures, risks of resurgence are high amid escalating geopolitical tensions globally

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

Semiconductor supply and price pressures also continue to ease but remain somewhat elevated—3 times higher than their long-term averages

Semiconductor supply chain pressures

Global Semiconductor Supply Shortages and Price Pressures still high but easing



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

Commentary

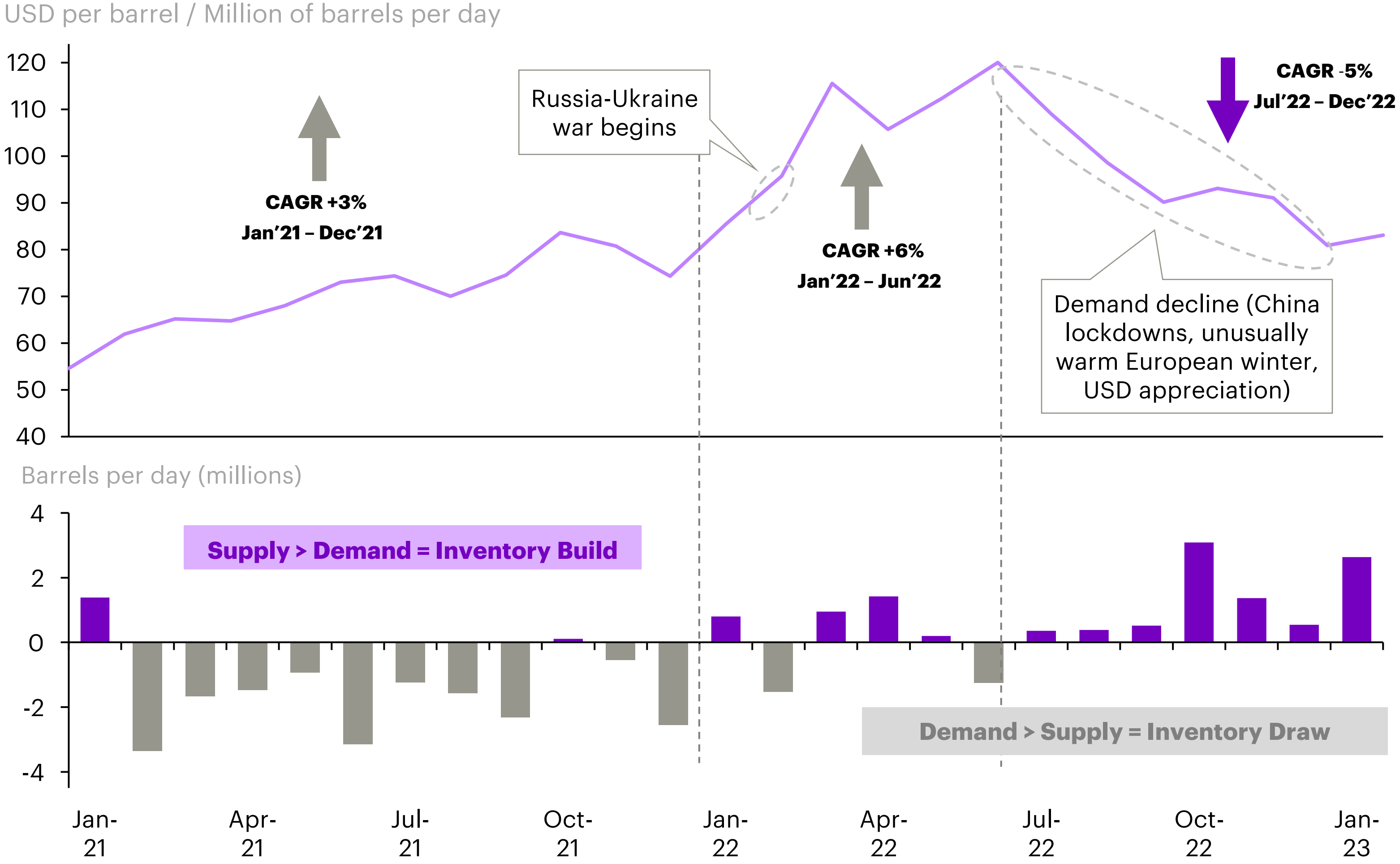
- Semiconductor supply shortages have receded from recent peaks, but are still well-above long-run averages, as global demand rises to record highs
  - Global semiconductor sales increased by 3.2% in 2022 to $574 billion, the highest level on record
  - Long-term demand outlook remains bullish as importance of semiconductors grows in the digital and energy transition space
- Price pressures remain around 6x higher than their long-term average
- These elevated pressures will continue to challenge chip-intensive manufacturers’ bottom lines, especially those in:
  - Consumer electronics, including smartphones
  - Industrial equipment, such as robots
  - Health technology (i.e., monitoring devices)
  - Renewable energy technologies, such as solar panels and wind turbines

Energy and commodities

After declining in H2 2022 amidst weaker demand, oil prices are set to trend higher again in 2023 due to China’s re-opening, declining Russian supply and strong OPEC pricing power

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, Refinitiv Eikon, Accenture Strategy Analysis

Drivers of energy prices in 2023

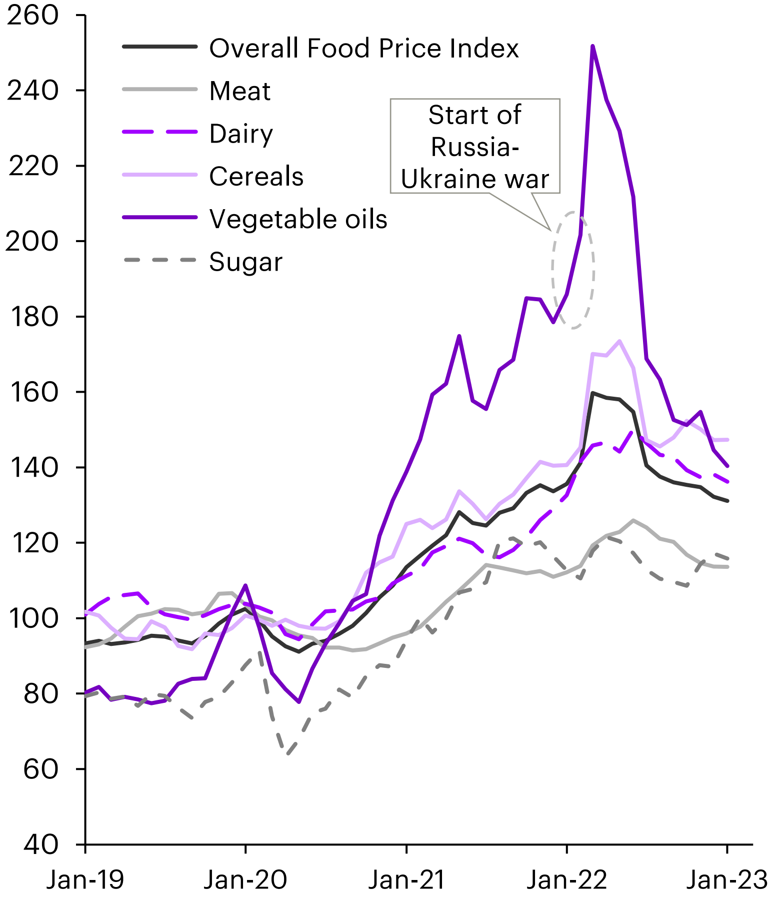
- China’s re-opening is set to drive a rebound in energy demand
- Russian supply reductions amidst:
  - EU ban and difficulties re-routing exports of finished petroleum products
  - High taxes by Russian government on production (levying tax based on Brent price rather than discounted Urals price)
- Strong OPEC pricing power given limited global spare production capacity
- 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)
- Europe’s need to replenish gas reserves in late 2023

Food prices have come down since mid-2022 amidst easing energy and fertilizer costs, but upside risks remain due to Black Sea tensions and rebounding Chinese demand

Food and fertilizer prices

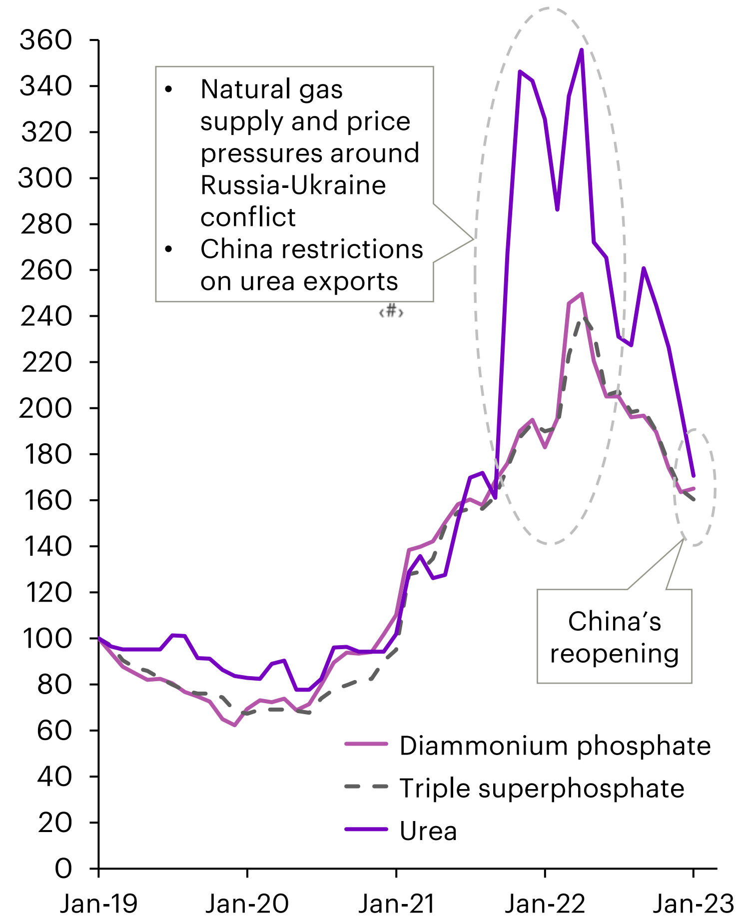
Food prices

Index, 2014-2016 = 100



Fertilizer prices

Index, Jan 2019 = 100



Commentary

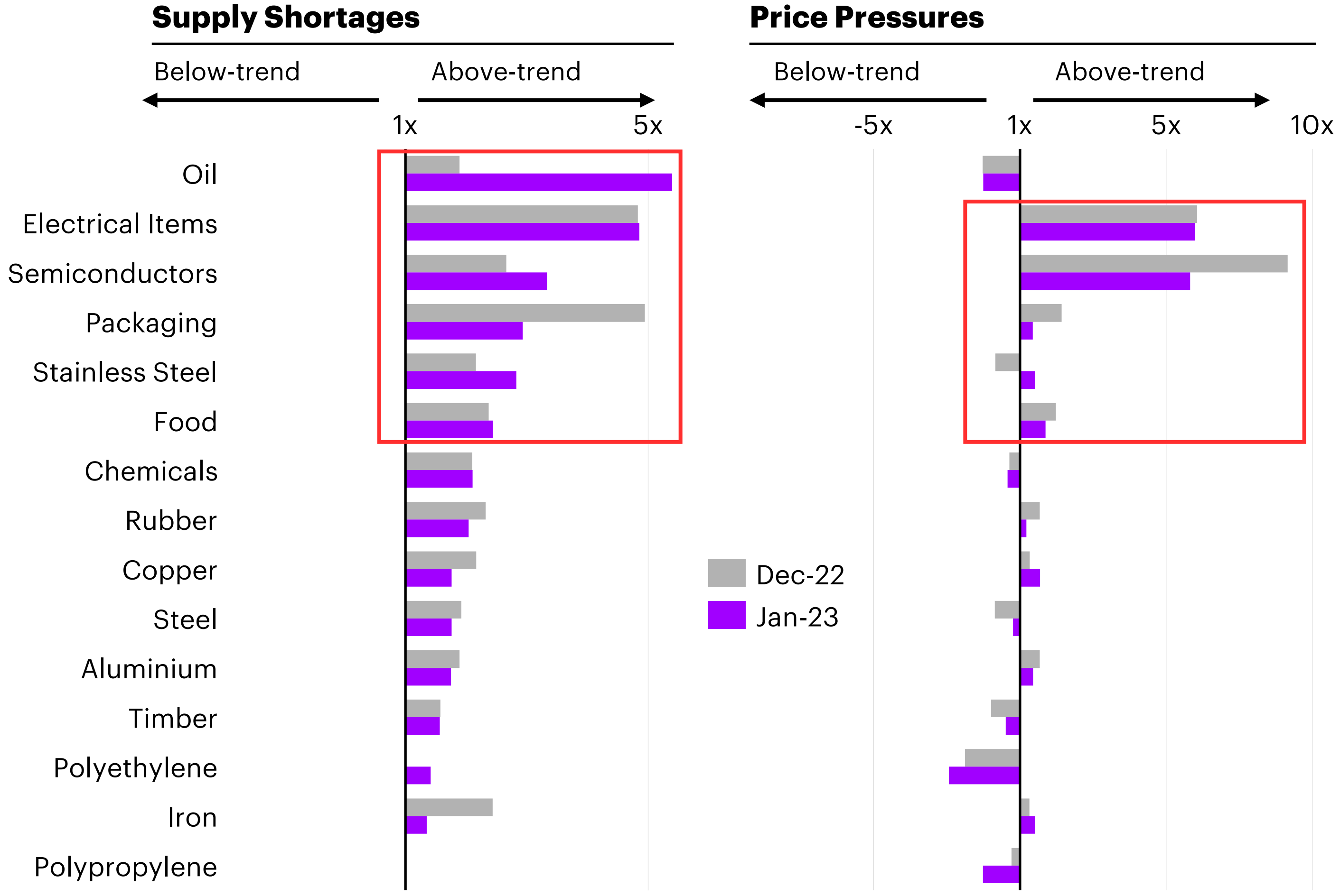
- Global food commodity prices continued to fall in January 2023, benefitting from declining costs of energy and fertilizers since mid-2022
  - Prices remain elevated for meat and sugar
  - Higher sugar production prospects in Asia and Brazil could help support softer prices in 2023
- Further broad easing in food prices may be constrained by:
  - Likely rebound in energy prices in 2023
  - Ongoing concerns over export disruptions in the Black Sea and sustained global demand persist
  - Escalation of Russia-Ukraine fighting that hampers crop production
- Food security is still a concern going into 2023 with heightened geopolitical tensions and extreme weather impacting the world

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, Accenture Strategy analysis

Manufacturing companies continue to report above-average commodity price and supply chain pressures, but at lowest levels in 2+ years

Commodity supply and price pressures

December 2022 vs. January 2023



Commentary

- Manufacturing companies are still reporting commodity supply shortages, but at lowest level since Jan ’21
  - Supply shortages and price pressures are still higher relative to their long-run average (since 2005)
  - Price pressures regressed to their second-lowest level in 25 months, in tandem with easing supply shortages
- Supply and price pressures for electrical items reached their third- and second-lowest levels, since Jan ’21, amid easing of semiconductor supply chains
- Pressures on packaging and food are high albeit declining, implying slight relief for food packaging firms’ operating costs
- Higher demand for copper on the back of electrification initiatives is still putting upside pressure on 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 Jan 2005
Sources: IHS Markit, S&P Global, Accenture Strategy analysis

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The team has hubs in Europe and the United States 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.

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Chris Tomsovic
Global Lead, London
Chris.Tomsovic@Accenture.com

Nick Kojucharov
North America Lead, San Francisco
Nick.Kojucharov@Accenture.com

Aditya Harit
Europe Lead, London
Aditya.Harit@Accenture.com