



January Macro Brief

**Monthly deep-dive:
Top Macro Trends in 2023**

Macro Foresight

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
- 2** 2023 Economic Outlook
- 3** Top 10 Macro Trends in 2023
- 4** Latest Economic Indicators



1

Executive summary

Reflections on 2022

Executive Summary

Russia-Ukraine conflict

- In February, Russia, one of the world's largest energy producers, invaded Ukraine, a major global food producer, quickly resulting in energy shocks, longer-term energy and food security risks, and increased global geopolitical tensions
- Companies with personnel in Russia and Ukraine felt the impacts most immediately e.g., many multinationals were forced to exit Russia, often changing 20+ year corporate strategies of operating in Russia
- In addition, the subsequent disruption of major commodities fueled global inflation, leading to higher input costs for global companies and putting pressure on households in Europe and the US

Consumers proved resilient

- During the pandemic, savings rates surged, buffering consumer bank accounts. As economies reopened throughout 2022, consumers began to spend down those accumulated savings
- Pent-up consumer demand, insufficient capacity from supply-chain disruptions and labor shortages, and energy uncertainty stemming from the Russia/Ukraine conflict resulted in decades-high rates of inflation
- Fueled by higher wages and excess savings, consumers continued to spend even in the face of high inflation and declining asset prices

US legislation invests in future

- Expectations were low for Congress going in to 2022, but they passed the "Inflation Reduction Act" to make USD 400B worth of investments into clean energy, as well as the CHIPS act which is designed to improve the US's competitiveness in semiconductor production
- Both pieces of legislation drew ire internationally. The Inflation Reduction Act upset US' European allies over their own ability to compete for electric vehicle production, while China argued that the CHIPS act was an escalation of already growing tensions

Executive Teams and Boards dealt with continued uncertainty

- 2022 was full of economic shocks, volatility, and uncertainty. As a result, company planning cycles shortened as Executives had to manage multiple headwinds at the same time:
 - **Inflation:** Many firms managed inflationary pressures by passing on their increased input costs to consumers – largely boosting revenues and creating strong 2022 earnings. If inflation persists further, companies will need to become more creative in protecting margins.
 - **Increased geopolitical risks:** Many companies were forced to strengthen their in-house legal and risk management capabilities as a result of Russia/Ukraine and scenario planning is the new buzzword. Moving forward, these capabilities become ever more critical.
 - **Tightening financial conditions:** Public companies saw valuations erode as the S&P 500 lost 19% in 2022. Many executives who benefited from an era of cheap and abundant liquidity are now having to pivot to a profitability mindset as financial conditions tighten.
 - **Uncertainty in financial plans:** The multiple headwinds CFOs had to navigate meant companies often had very little line-of-sight on where they would land on their P&L, making planning throughout the year particularly challenging.



Considerations for 2023

Executive Summary

Multiple headwinds persist entering 2023

- Multiple headwinds face the global economy in 2023. Key areas to watch out for include:
 - **Persistent inflation:** Global inflation could start to recede in 2023; however, there are multiple potential risks which could offset disinflationary pressures—e.g., China re-opening, continued conflict in Russia/Ukraine, increased geopolitical risks, and resilient labor markets
 - **Looming recession:** Tightening financial conditions, high energy prices, a challenged consumer, and increased geopolitical risks increase the likelihood of recessions—therefore, a mild recession remains the likely case for the US and mild-to-moderate recessions across Europe
 - **Trade de-coupling:** Global trade has remained robust, but recent policy developments (e.g., industrial policy) and heightened US/China tensions increase the risk of trade de-coupling emerging in 2023
 - **China's uncertain rebound:** The strength of China's growth boost from re-opening will be a key variable for the global outlook. Key determinants to monitor are resilience of the health system, stability of the troubled property sector, and evolution of geopolitical tensions

Management principles CEOs and Boards should keep in mind

- Executives should expect more volatility, uncertainty, and shocks in 2023. Key principles to navigate this uncertainty include:
 - **Keep a view on the 'North Star':** Have a clear view on the company's long-term ambition as you navigate a potential recession
 - **Plan for multiple scenarios:** Stress test the P&L against different scenarios and understand which levers should be pulled to protect profitability. In a downturn, bold structural change may be required
 - **Be bold in decision-making:** The next year will be full of uncertainty. A common pitfall many companies make is becoming paralyzed in decision-making. Being able to make decisions and drive forward is critical
 - **Be focused in resource allocation:** Many companies have limited resources and management time. A recession means executives must be willing to scrutinize and cut pet projects and prioritize activities which drive profitability. Having clear data to drive insights is key
 - **Keep an eye on growth:** Downturns present opportunity and the best innovation often occurs when companies' backs are against the wall

Key capabilities to strengthen

- Companies will need to excel at key capabilities to navigate uncertainty – these are all underpinned by analytics and data. Key areas include:
 - **Scenario planning:** This capability should assess both the company's P&L, as well as wider industry dynamics the company operates in
 - **Strategic pricing:** The passing on of costs to offset inflation should become more targeted as consumer savings start to taper off
 - **Cost transformation:** Companies should look past 'low hanging fruit' and consider wider structural changes to operating models
 - **M&A:** A recession is full of opportunities for companies with strong balance sheets to target growth
 - **Risk management:** Assessing geopolitical risks and developing business continuity plans and playbooks becomes key
 - **Supply chain management:** Balancing resiliency with efficiency will be paramount as companies navigate a multitude of pressures
 - **Energy efficiency:** The energy crisis is likely to persist in 2023 and energy efficiency is key to reducing energy consumption





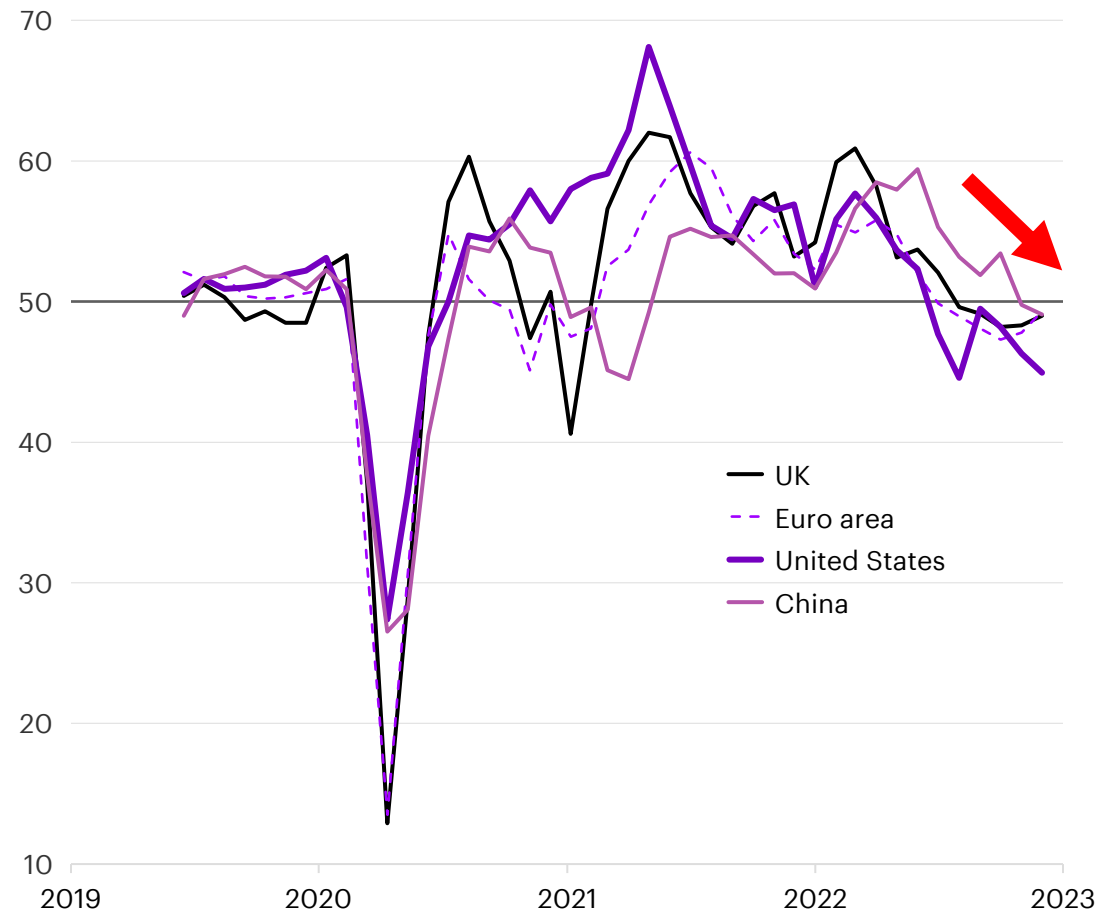
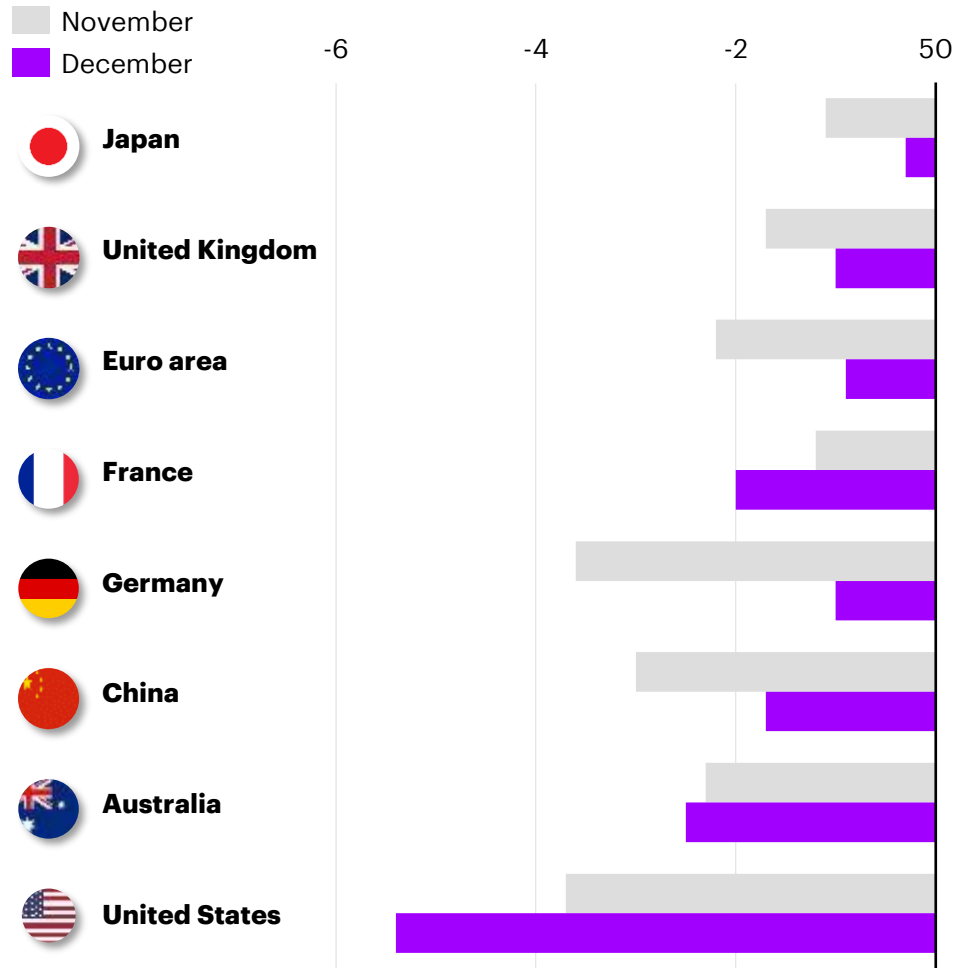
2

2023 Economic Outlook

High-frequency economic activity data for December showed continued output contractions in major economies and negative growth momentum going into 2023

Country PMI snapshot

Flash composite PMI Output / Activity



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

Business activity is contracting across several sectors – slowing activity and tightening financial conditions put particular pressure on Auto, Finance and Real Estate sectors

Global Industry PMI Snapshot






November 2022 vs. December 2022, PMI Output / Activity



Some forces that weighed on the global economy in 2022 are receding, but many others are persisting or intensifying, creating a challenging landscape for 2023

Key forces shaping global economic activity

NOT EXHAUSTIVE

| | Forces | Impact in 2022 | Expected change in 2023 | Comments |
|--|--|----------------|-------------------------|--|
|  | Tightening financial conditions | High | → | <ul style="list-style-type: none"> Future monetary policy tightening in 2023 is likely to decelerate following significant interest rate hikes by central banks in 2022 The lagged effects of this policy tightening on economic activity, however, are likely to peak throughout 2023 |
|  | Supply chain bottlenecks | Medium | ↓ | <ul style="list-style-type: none"> Most pandemic-related supply bottlenecks (e.g., stranded container ships, port congestions, factory closures) have receded However, emerging supply chain challenges due to geopolitical risks and cost/resilience tradeoffs create new pressures for companies |
|  | Energy and commodity shocks | High | → | <ul style="list-style-type: none"> Limited spare capacity in oil and gas markets, lingering uncertainty around Russia-Ukraine and OPEC+ supply plans, and increased demand from China's re-opening are likely to exert upward pressure on energy prices Some potential offset from slowing energy and metals demand as growth weakens Continued price pressure can be expected for agricultural commodities in 2023 amid elevated fertilizer costs, supply shortages, and severe weather risk |
|  | COVID-19 disruptions | Medium | ↓ | <ul style="list-style-type: none"> Most major economies have re-opened, and improved vaccination rates have built resilience against new surges in cases and increased policy tolerance of outbreaks Difficulties containing recent China's COVID surge and risks of new variants overwhelming health systems could trigger new lockdowns and supply disruptions |
|  | Geopolitical conflict and uncertainty | High | ↑ | <ul style="list-style-type: none"> Further escalation of the Russia-Ukraine conflict, US-China tensions, and/or Western sanctions on Russia could push energy and food prices higher and cause further global supply chain disruptions Intensification of China-Taiwan conflict could impact semiconductor-intensive sectors around the world, and lead to a more pessimistic global recession outlook |

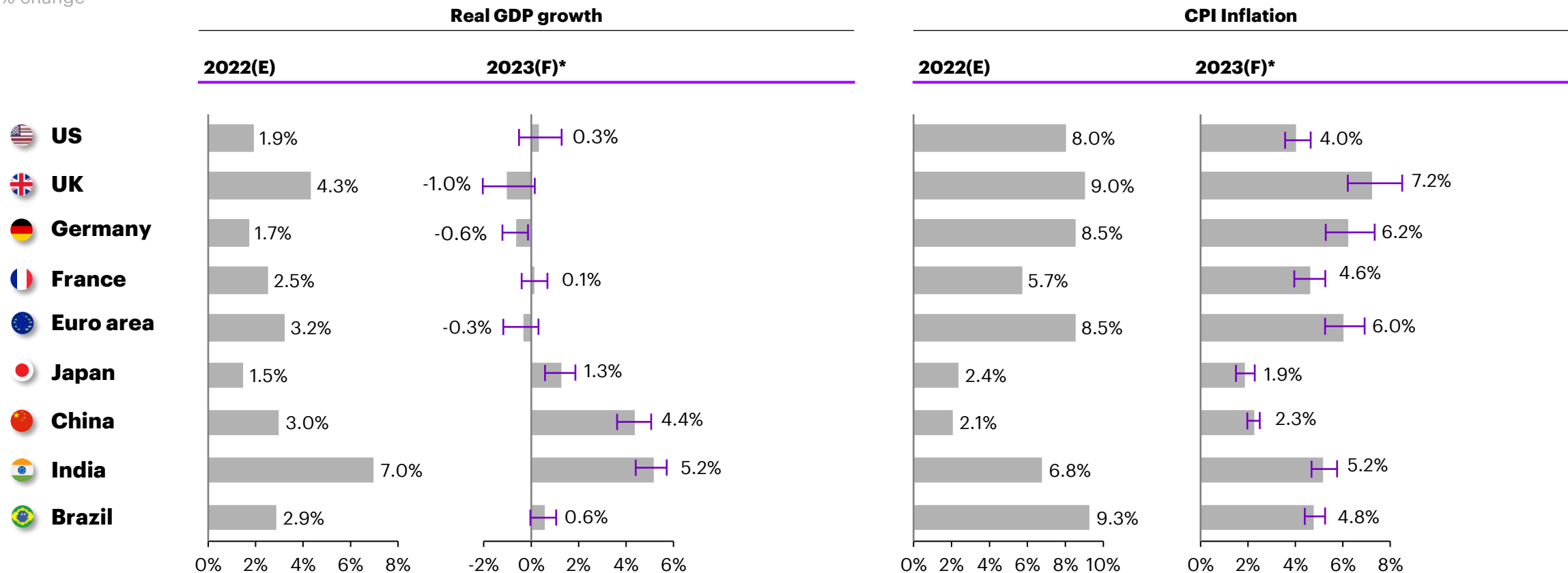


Forecasters expect slowing growth and easing but still-elevated inflation, with significant uncertainty about range of outcomes, reinforcing importance of scenario-based planning

Consensus GDP growth and inflation forecasts

Consensus GDP growth & CPI inflation forecasts (as of December 2022)

Consensus and range estimate is aggregated from a survey of investment banks, economic research firms, and companies with global operations
YoY % change



Notes: “E” denotes estimates and “F” indicates forecasts.
* Purple range lines represent the range of estimates among surveyed forecasters, while the gray bars are the consensus (mean).
Sources: Annual Blue Chip Consensus Forecasts, Haver Analytics, Accenture Strategy analysis

US outlook hinges on consumer and labor market resilience and magnitude of policy response; a mild recession is likely base case but policy gradualism could lead to stagflation

US economic outlook and key indicative recession scenarios

| Economic scenario | Mild recession | Moderate/severe recession | Stagflation |
|---------------------|--|---|---|
| Description | <ul style="list-style-type: none"> The Fed engineers a gradual demand slowdown to cool inflation, resulting in a mild recession Interest rates remain high (but stable) for 1+ years | <ul style="list-style-type: none"> Demand is slow to soften, and inflation remains sticky, forcing more aggressive rate hikes, triggering a deeper and sharper GDP contraction | <ul style="list-style-type: none"> Monetary and fiscal policies are eased at first sign of slowing growth This “loose” policy configuration cushions growth but enables high inflation to persist |
| Growth | Slightly negative (0 to -1%) | Significantly negative (<-2%) | Slightly positive (0 to 1%) |
| Inflation | Moderate (3-4%) | Moderate/low (2-4%) | High (>6%) |
| Unemployment | <ul style="list-style-type: none"> Slight increase (0.5 pp), with layoffs limited to most cyclical sectors Majority of labor demand decline occurs through reduced job vacancies | <ul style="list-style-type: none"> Significant increase (>2 p.p) Layoffs are broad-based across sectors | <ul style="list-style-type: none"> Low (<4%), fueling wage pressures |

Most likely



What to watch for

- **Consumer spending:** Consumer spending (which accounts for ~70% of GDP) has remained resilient, but will be increasingly squeezed by a slowing labor market, depletion of households’ excess savings, wealth erosion from falling asset prices, and rising cost of consumer credit
- **Persistence of labor market tightness:** Continued robust employment gains and elevated wage growth in H1 will make Fed uneasy about inflation outlook and likely trigger more aggressive rate hikes
- **Strength of US dollar:** Continued USD appreciation could take some pressure off inflation but erode export competitiveness and foreign-sourced earnings for US companies
- **Financial sector stresses and spillovers:** Recent fallout in crypto markets has been relatively contained, but potential stresses in other pockets of financial sector (e.g., insurance companies and pensions funds) may spillover to corporate and household financing conditions



Mild-to-moderate recessions are expected throughout Europe, especially in the UK, with gas shortages being the key risk to more severe outcomes

Europe economic outlook and key indicative recession scenarios

| Economic scenario | Mild-to-moderate recession | Severe recession |
|---------------------|--|--|
| Description | <ul style="list-style-type: none"> Continued squeeze on household incomes and consumption from high inflation and rising interest rates Milder recessions more likely in continental European countries Recession likely more pronounced in the UK, where labor market tightness and wage inflation pressures are higher and more aggressive monetary policy response is likely | <ul style="list-style-type: none"> Gas shortages and rationing due to colder-than-expected winter, leading to industrial production disruptions and associated employment losses Economic fallout likely to be greater in relatively more gas-intensive economies e.g., Germany, Italy |
| Growth | Slightly or moderately negative | Significantly negative |
| Inflation | High but slowing | Moderate |
| Unemployment | Moderate but rising | High |

Most likely



What to watch for

- **Severity of rest of winter:** Abnormally cold weather could deplete natural gas stores, leading to rationing and:
 - Further inflation pressures, increased government spending on energy subsidies, and potential social unrest
 - Production disruptions in gas-intensive industrial sectors e.g., metals, glass, cement
- **Competition for LNG:** As Europe works to rebuild its gas storage after the winter season, growing global competition for LNG—particularly as China re-opens—could continue to threaten gas supply security and fuel energy inflation
- **Sovereign debt stress:** Political uncertainty around budget outcomes in high-debt countries (e.g., Italy, France) could lead to spikes in sovereign borrowing costs (akin to UK's mini-budget crisis)
- **Interest rate squeeze on consumers:**
 - In contrast to US, a much larger share of mortgages across Europe are variable-rate (especially in Portugal, Sweden, Austria)
 - Interest rates hikes will pressure consumers' debt service and incomes as these mortgages reprice



Lifting of COVID restrictions should give China's economy a short-term boost, but growth over medium-term will be challenged by demographics, property sector, and geopolitics

China economic outlook and key indicative scenarios

| Economic scenario | Smooth re-opening | Bumpy re-opening | Stagnation / mild recession |
|---------------------|--|---|---|
| Description | <ul style="list-style-type: none"> Current surge in COVID-19 cases quickly subsides, paving way for full relaxation of any remaining COVID restrictions Rapid recovery in mobility and consumer spending (especially for services) as early as Q2 2023 | <ul style="list-style-type: none"> Managing COVID surge proves difficult and/or new variants emerge Health systems become overwhelmed A stop-go approach to COVID restrictions is required, delaying and/or dampening the rebound in economic activity | <ul style="list-style-type: none"> Combination of COVID-19 disruptions, property sector turmoil, geopolitical headwinds and weaker demand for Chinese exports lead to significant slowing of growth and a sluggish subsequent recovery |
| Growth | Positive and accelerating (from 3% in 2022 to >4%) | Positive but more muted acceleration (to 3.5-4%) | Low or slightly negative (-0.5% to 2%) |
| Inflation | Low but rising (from ~2% in 2022 to <3%) | Low (2 to 2.5%) | Low (<2%) |
| Unemployment | Low and declining | Low but stable | Moderate and rising |

Most likely



What to watch for

Near-term (2023)

- Evolution of vaccination rates among elderly and strains on hospitals
- Scale of fiscal support to cushion transition path to slower growth (e.g., consumption stimulus, infrastructure investment, property sector bailout)
- Global economic slowdown, esp. China's trading partners like the US, will weigh on export receipts
- Geopolitical flareups (e.g., escalation of conflict with Taiwan / additional trade sanctions imposed by US)

Medium-term (post-2024)











- China is likely to face slower growth relative to historical norms, for reasons including:
 - Ongoing property sector correction (which is weighing on both property investment and household wealth/consumption)
 - Aging population
 - US technology restrictions on China
 - Domestic self-reliance policies (e.g., Dual Circulation), which may slow productivity growth and raise costs in medium-term



Other major global economies will feel the brunt of the simultaneous slowing in the US and Europe, tightening global financial conditions; and rising macro uncertainty

Country economic outlook summary

AS OF JANUARY 10

| | Composite PMI* | Manufacturing PMI* | Consumer sentiment | Unemployment rate | Retail sales | Inflation | Comments |
|---|----------------|--------------------|--------------------|-------------------|--------------|-----------|--|
| | | | | | | | Deteriorating ■ ■ ■ Strengthening Indicator |
|  Australia | — | — | +2.3 | 3.4% | -0.2% | 7.3% | <ul style="list-style-type: none"> Imported inflation likely to hinder growth Weaker consumer spending and potential real estate crisis is looming |
|  Brazil | — | — | +3.0 | 8.3% | 0.5% | 5.9% | <ul style="list-style-type: none"> Export boost from elevated commodity prices should help cushion growth Recent geopolitical risks increase risk premia and could slow FDI |
|  Canada | — | — | +2.7 | 5.1% | 1.4% | 6.8% | <ul style="list-style-type: none"> Weaker growth foreseen in 2023 amid political polarization over oil exploration Boost to energy exports from higher prices could provide some offset |
|  India | — | — | +2.9 | 8.3% | n/a | 5.9% | <ul style="list-style-type: none"> Some slowing foreseen from strong growth in 2022 amidst fading boost from re-opening, weakening global economy and rising interest rates |
|  Japan | — | — | -1.3 | 2.5% | 2.6% | 3.8% | <ul style="list-style-type: none"> Higher defense spending and government stimulus could forestall a recession going into 2023, but keep growth stagnant Inflation is elevated and puts pressure on real wages and consumers |
|  Mexico | — | — | +0.6 | 2.8% | 0.7% | 7.8% | <ul style="list-style-type: none"> Exposure via trade channels and a slowdown in the US and Canada will likely keep growth subdued in 2023 |
|  Russia | — | — | -1.0 | 3.7% | -7.9% | 12.0% | <ul style="list-style-type: none"> Punitive Western sanctions will continue to weigh on growth and likely result in another year of recession, though less severe than in 2022 Inflation remains elevated, limiting consumer / business spending |
|  Saudi Arabia | — | — | +4.0 | 5.8% | n/a | 2.9% | <ul style="list-style-type: none"> Ongoing economic diversification investments, along with high energy prices, should continue to drive growth in 2023 |
|  South Korea | — | — | +3.4 | 2.9% | -1.8% | 5.0% | <ul style="list-style-type: none"> The economy remains in expansionary territory and is likely to avoid a recession, but is exposed to heightened US-China tensions |
|  Singapore | — | — | n/a | 2.0% | 0.1% | 6.7% | <ul style="list-style-type: none"> Growth momentum deteriorated significantly in December 2022 and likely to decelerate further amid global slowdown and elevated price pressures |

* Individual PMI data points are copyright of S&P Global and not publicly disclosable.

Notes: PMI metrics provided as of December 2022. Consumer sentiment data reflects national surveys (MoM index point change according to latest available data).

Unemployment rate and inflation data reflect latest available (inflation rate is YoY % change). Retail sales data are provided by Refinitiv, Haver Analytics and national statistics agencies (MoM percentage change). All data reflect most recently published figures.








Sources: Haver Analytics, Refinitiv, S&P Global, Trading Economics, National Statistics Agencies, Accenture Strategy analysis

Copyright © 2023 Accenture. All rights reserved.

14

Risks of more severe or prolonged recession outcomes are higher in this economic cycle due to constraints on potential monetary and fiscal stimulus

Limitations on traditional anti-recession policy tools

| | Example policy tools to combat a recession | Feasibility | Description | Comments |
|---|--|---|--|--|
| Monetary  | Reduction in short-term interest rates |  | <ul style="list-style-type: none"> Reducing interest rates to boost demand | <ul style="list-style-type: none"> Inflationary environment likely to discourage central banks from reversing rate hikes “too soon”, delaying recovery near-term Further rate hikes may also be needed to anchor inflation expectations and avert wage-price spirals |
| | Quantitative easing |  | <ul style="list-style-type: none"> Financial asset purchases to support their prices | <ul style="list-style-type: none"> Quantitative easing may be considered to relieve financial stresses triggered by tightening financial conditions (ala UK mini-budget crisis in 2022), but this could undermine central bank inflation-fighting credibility |
| Fiscal  | Transfer payments to households or businesses |  | <ul style="list-style-type: none"> Measures designed to boost consumer income and spending | <ul style="list-style-type: none"> Spending of transfer receipts or tax savings could re-ignite inflation pressures In the US, a divided Congress and anxieties over debt ceiling could make it challenging to pass any new fiscal relief or stimulus |
| | Tax cuts |  | <ul style="list-style-type: none"> Tax measures which boost spending power of businesses and households | <ul style="list-style-type: none"> EU countries weaker fiscal positions (e.g., France, Greece, Italy, Spain) could find it difficult to maintain cost-of-living support measures such as energy subsidies without risking negative market perceptions about their fiscal sustainability and a rise in borrowing costs |
| | Supply side investment (e.g., infrastructure) |  | <ul style="list-style-type: none"> Measures designed to increase aggregate supply and support businesses in reducing costs/drive efficiencies | <ul style="list-style-type: none"> Globally, high deficits and debt increases after years of pandemic-related spending are likely to make it costly to fund large pro-growth investment programs |



3

Top 10 macro themes in 2023

Persistent inflation, slowing consumer spending, rising interest rates, and geopolitical uncertainty will all contribute to a challenging economic environment in 2023

2023 macro themes

| | | |
|--|---|---|
|  | 1. Persistent inflation continues to squeeze profitability | <ul style="list-style-type: none">Company gross margins will likely face continued pressure as the combination of persistent inflation and weakening demand constrains the ability to pass on costs to customers |
|  | 2. Consumer belt-tightening accelerates | <ul style="list-style-type: none">Consumer spending stands to lose steam as households run down their excess savings and feel the combined weight of inflation, falling asset prices, employment uncertainty, and higher rates |
|  | 3. Tightening financial conditions expose corporate debt and funding vulnerabilities | <ul style="list-style-type: none">Rising rates, other funding challenges, and contagion risks increase corporate financial stress—this could drive further activism, M&A, and a need to take out cost (often using value-based deals) |
|  | 4. The strong USD amplifies financial and economic headwinds | <ul style="list-style-type: none">USD strength could amplify cost pressures for companies buying US-sourced and USD-invoiced inputs, raise the risk of debt crises in emerging markets, and erode FX earnings for US companies |
|  | 5. China's economy re-opens | <ul style="list-style-type: none">China's easing Covid restrictions will likely boost consumer demand, add production, and increase global competition for resources – but expect a 'bumpy' re-opening in the near-term |
|  | 6. Geopolitical developments keep volatility and uncertainty high | <ul style="list-style-type: none">International tensions continue to create uncertainty in supply chains, resources, and marketsMore companies are going to need to balance building 'resiliency' vs. remaining cost competitive |
|  | 7. Depressed valuations create buying opportunities for Private Equity | <ul style="list-style-type: none">Equity markets are still pricing in a soft landing and further asset pricing corrections are likelyPEs have dry powder to use, but higher financing rates mean they'll have higher criteria for LBOs |
|  | 8. War for talent persists even as broader job market slows | <ul style="list-style-type: none">Slowing global growth could help relieve overall labor market tightness though certain industries are likely to see competition for people continue well into 2023 |
|  | 9. The global energy crisis continues to put pressure on businesses and governments | <ul style="list-style-type: none">Continued turbulence in energy markets—with risk of undersupply (in particular in gas) and elevated prices—is likely to continue to weigh on economic growth, company margins, and development |
|  | 10. Geographic shifts in industrial production begin | <ul style="list-style-type: none">Higher energy prices, a weaker European economic outlook, and supportive US policy (IRA) are increasing the likelihood more European manufacturing shifts away from Europe |



Executive Teams and Boards must be able to manage through continued uncertainty and volatility this year, as well as focus on strengthening key capabilities within the company

Key priorities for companies heading in 2023

Executive Teams / Boards focus areas

- ❑ **Keep a view on the 'North Star':** Having a clear view on the company's long-term ambition is key to navigating a recession.
- ❑ **Plan for multiple different scenarios:** Stress test the P&L against different macro scenarios and understand which levers should be pulled to protect profitability. In a downturn, bold structural change may be required.
- ❑ **Be bold in decision-making:** The next year will be full of uncertainty. A common pitfall many companies make is they become paralyzed in decision-making which slows response times.
- ❑ **Be focused in resource allocation:** Many companies have limited resources and management time. A recession means executives should be willing to cut pet projects and prioritize activities which drive profitability.
- ❑ **Keep an eye on growth:** Downturns present opportunity and the best innovation often occurs when companies' backs are against the wall. Be opportunistic in pursuing growth as others struggle.

Capabilities which become critical in 2023

- ❑ **Scenario planning:** Multiple macro scenarios could unfold in 2023 and each will have different impacts to the P&L. Scenario planning became a capability companies started to develop in 2022 – in 2023 they will need to leverage this capability more at scale.
- ❑ **Strategic pricing:** Most companies used pricing as a key lever to offset input cost inflation. However, real consumer incomes continue to face pressure and companies will need to be more targeted and analytical in their price to ensure volumes don't drop.
- ❑ **Cost transformation:** Many companies undertook cost reduction in 2022, targeting 'easy wins' to offset inflation and a slowing Q4. A potential downturn (which softens demand) or continued inflation (which puts pressure on margins if cost cannot be passed on) will continue to make cost a priority in 2023.
- ❑ **M&A:** Companies who excel at opportunistic M&A can leverage strong balance sheets to acquire distressed assets as the economy slows and financing costs rise.
- ❑ **Risk management:** Many companies were caught off guard with Russia/Ukraine in 2022. Being able to understand and navigate geopolitical, cyber, and economic risk, becomes critical as tensions continue to remain elevated.
- ❑ **Supply chain management:** High energy prices, increased geopolitical risk, slowing economic growth, and emerging industrial policies will make supply chain excellence a continued priority in 2023.
- ❑ **Energy efficiency:** Companies will need to drive energy efficiency in their operations to manage through continued elevated energy prices in 2023.

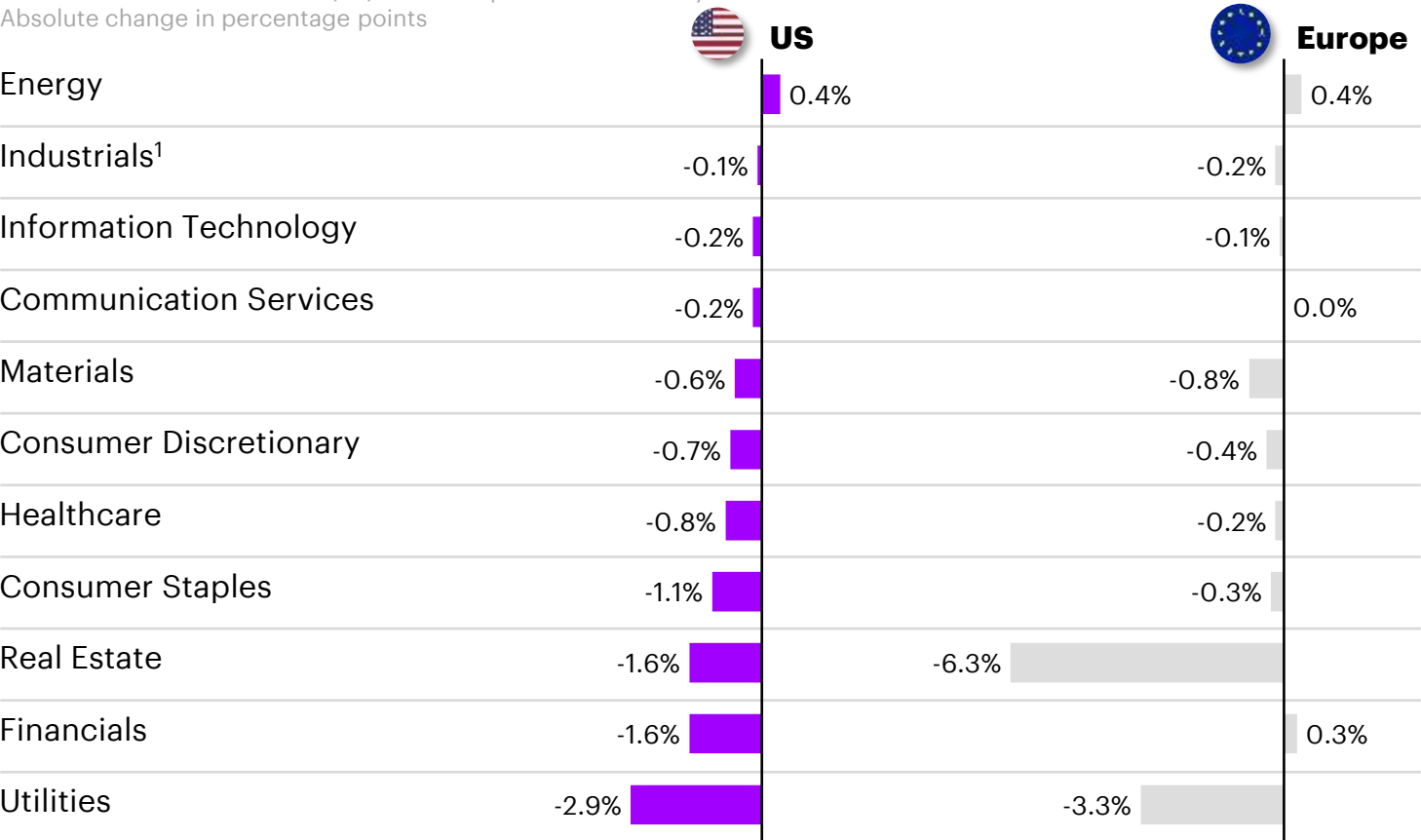


Inflation is slowing though prices are likely to remain elevated throughout 2023 – this will put further pressure on gross margins if companies cannot pass on cost

#1: Persistent inflation continues to squeeze profitability

Change to gross margins by sector

Most recent financials as of 12/31/2022 compared to calendar year 2021
Absolute change in percentage points



Commentary

- Energy prices and tight labor markets have continued to be the primary driver of increased input costs companies face
- While inflation may fall in 2023, it is likely to persist above central bank targets, due to:
 - The Chinese economy reopening
 - OPEC+ production decisions
 - Russian oil embargos/price caps
 - US relations with Venezuela
- Gross margins already faced erosion in 2022 and this trend should persist as companies are able to pull less on price in 2023

While revenue growth management will remain important in 2023, cost transformation strategies will become essential as the global economy nears recession

#1: Client Considerations

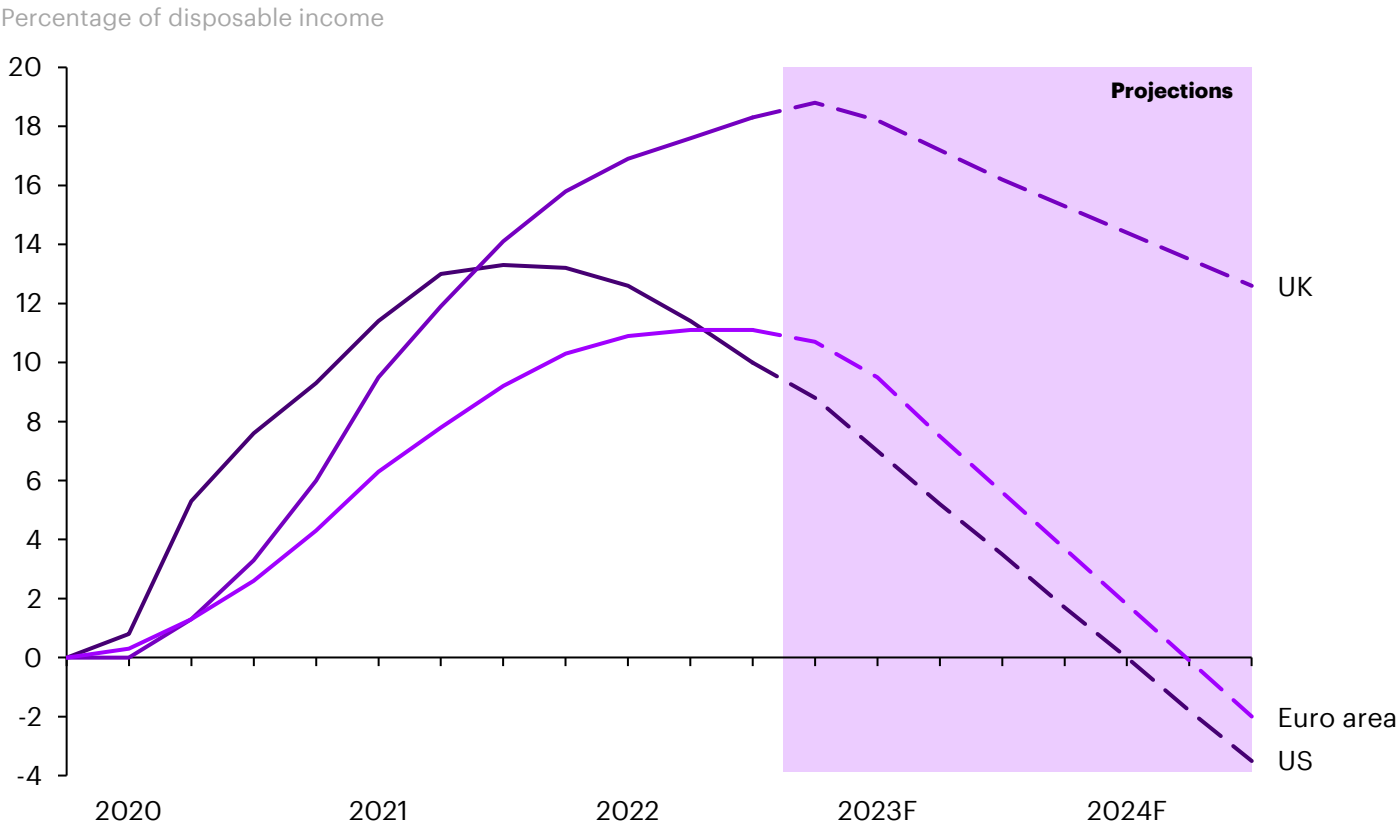
| | Industries | Considerations |
|---------------------|--|---|
| Energy-intensive | <ul style="list-style-type: none">UtilitiesTravel | <ul style="list-style-type: none">Energy efficiencyProduction / operations optimization (incl. maintenance)Strategic pricing |
| Materials-intensive | <ul style="list-style-type: none">AerospaceAutomotiveConsumer Goods & ServicesChemicalCommunicationsEnergyIndustrialNatural Resources | <ul style="list-style-type: none">Channel optimizationHedging for commodities / FXForward buying of stockMix optimizationPrice / pack architecture re-designSKU rationalizationStrategic pricingZero-based cost reductions for direct and indirect spend |
| Labor-intensive | <ul style="list-style-type: none">Financial ServicesHealthcareHigh TechPublic ServicesRetailSoftware | <ul style="list-style-type: none">Automation (e.g., automated workflow solutions)Business process outsourcing if partners can offer cost-competitive solutions and / or additional flexibility to scaleOne-off compensation pegged to expected inflationOrganizational structure simplificationProcess simplification |

Inflation and market turmoil are eroding consumer savings built up during the pandemic, with consumers shifting to heavily discounted and non-discretionary items

#2: Consumer belt-tightening accelerates

ROUGH ESTIMATES

Households' stock of excess savings



Commentary

- Despite remaining resilient throughout 2022, households' cumulative excess savings are beginning to decline in the US, UK, and Europe
- Based on a simulation of future income growth and savings rates,¹
 - European consumers will continue to wind down excess savings throughout 2023
 - US consumers will find their excess savings depleted sometime in H2
- Falling asset prices, inflation, employment uncertainty, and affordability of consumer credit may cause consumers to curtail spending sooner than expected
- There are signs that consumers are starting to tighten their belts as US retail sales fell in November 2022 by the most in nearly a year (-0.6%)
- Risks include higher than expected inflation, global recession, and persistent rate hikes

Notes: Stock of excess savings is the accumulated savings (over and above the pre-pandemic trend saving rates) from 2020 until today.
¹ Projections assume that, starting in Q1 2023, consumers reduce quarterly saving rates to below both pre-pandemic trend rates and all-time historically-low rates.

As companies battle for a share of shrinking household wallets, they should consider investing in advanced analytics and implementing targeted pricing and discount strategies

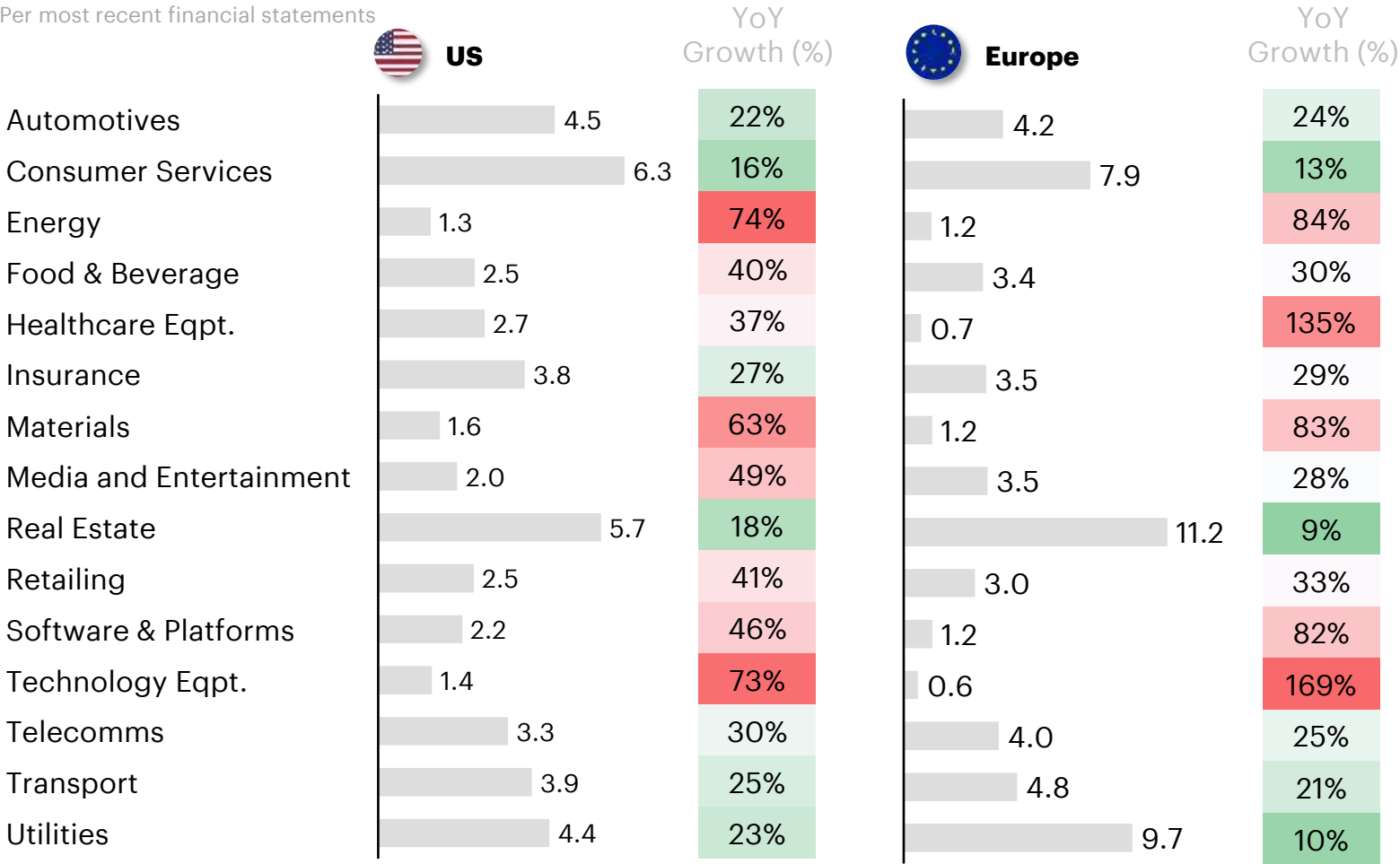
#2: Client considerations

| | Industry Outlook | Product outlook | | Client considerations | Other considerations |
|---------------------------------|------------------|---|--|---|----------------------|
| | | Positive | Challenged | | |
| Consumer staples | ↑ | <ul style="list-style-type: none">Private-label goodsSodas | <ul style="list-style-type: none">Big-box retailers | <ul style="list-style-type: none">Can prices be raised without volumes falling?What channels should be optimized?Can price pack architecture be optimized? | |
| Consumer discretionary | ↘ | <ul style="list-style-type: none">Home improvement | <ul style="list-style-type: none">ElectronicsApparelSporting goods | <ul style="list-style-type: none">Could markdowns and discounts be used to clear excess inventory?Are there opportunities to diversify revenues into services? | |
| Luxury brands | ↓ | <ul style="list-style-type: none">Personal luxury | <ul style="list-style-type: none">Mid-tier luxury | <ul style="list-style-type: none">Are there growth opportunities in the resale market?How much more savings do wealthier consumers have? | |
| Hotels, Restaurants and Leisure | → | <ul style="list-style-type: none">Economy and midscaleLuxury resorts | <ul style="list-style-type: none">Big-box business hotelsUpscale to 'upper upscale' | <ul style="list-style-type: none">To what extent does business demand recover as leisure demand slows?Are there inorganic growth opportunities?Can we optimize cash management? | |

Rising debt service costs and market funding challenges will add to companies’ economic pressures, driving increases in corporate financial stress and default risks

#3: Tightening financial conditions expose corporate debt and funding vulnerabilities

Debt to EBITDA ratio by industry



Commentary

- Corporate bond yields are at highest point since the Global Financial Crisis
- Corporate debt in many major economies (US, France, Germany, Japan, Brazil, and China) is above pre-pandemic levels and higher than during the start of last major corporate deleveraging (2008)
- Despite still-low default rates, they are poised to climb over next 1-3 years. Headwinds and risks include:
 - Central banks raising rates beyond current market expectations
 - Portfolio losses from asset price declines (e.g. commercial real estate, equities, bonds)
 - Contagion from broader financial sector stresses or emerging crises (e.g., crypto, pension funds)

CFOs should look for ways to strengthen balance sheets while COOs, CIOs, and CTOs should focus on reducing cost without increased investment (i.e., risk-based deals)

#3: Client Considerations

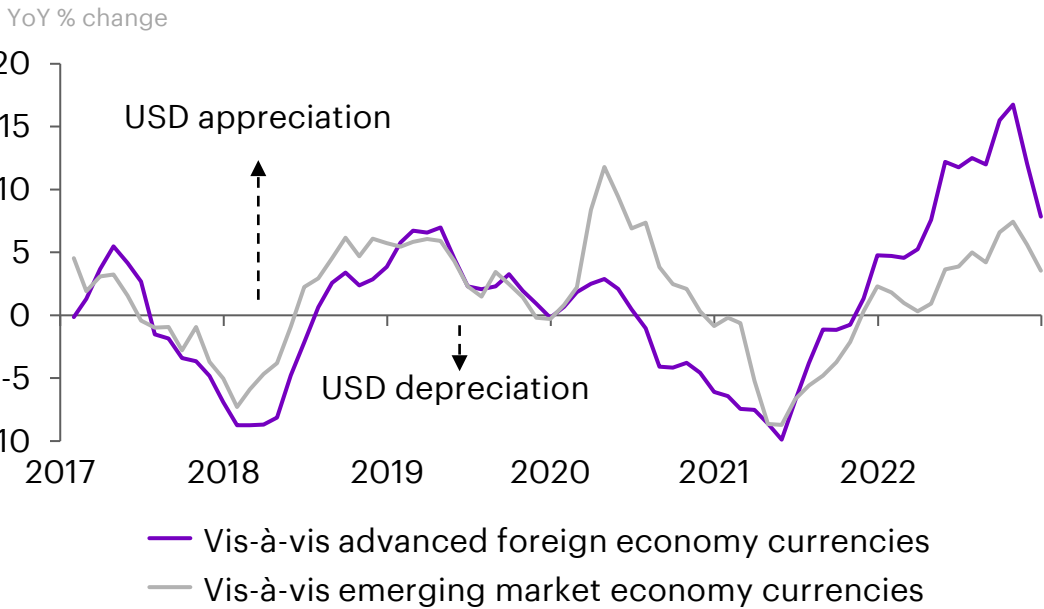
| | Industries | Considerations | |
|--|---|--|---|
| | | Finance / CFO | Operations |
| Highly leveraged industries – industries with large debt/EBITDA | <ul style="list-style-type: none"> Automotives Consumer Services Real Estate Utilities | <ul style="list-style-type: none"> Strengthen balance sheets by paying down debt Work debt related metrics and covenant thresholds into scenario planning exercises Invest in more frequent cash forecasting Consider divestment of non-core assets and unprofitable businesses | <ul style="list-style-type: none"> Control expenses <ul style="list-style-type: none"> Reduce overheads Streamline operations Automate certain processes Consider value- or risk-based deals with 3rd parties to reduce overall cost base Improve cash flow management (optimize working capital) |
| | Industries with growing debt <ul style="list-style-type: none"> Energy Technology Equipment Materials Software & Platforms | <ul style="list-style-type: none"> Negotiate with creditors to restructure debt Consolidate debt into one loan to reduce overall interest expense Work debt related metrics into planning exercises Exercise discipline with growth initiatives and prioritize profitability Sell non-core assets | <ul style="list-style-type: none"> Stringent portfolio management, with ability to quickly dial up/dial down 2023 investment plans Compete for market share with financially-strained competitors |



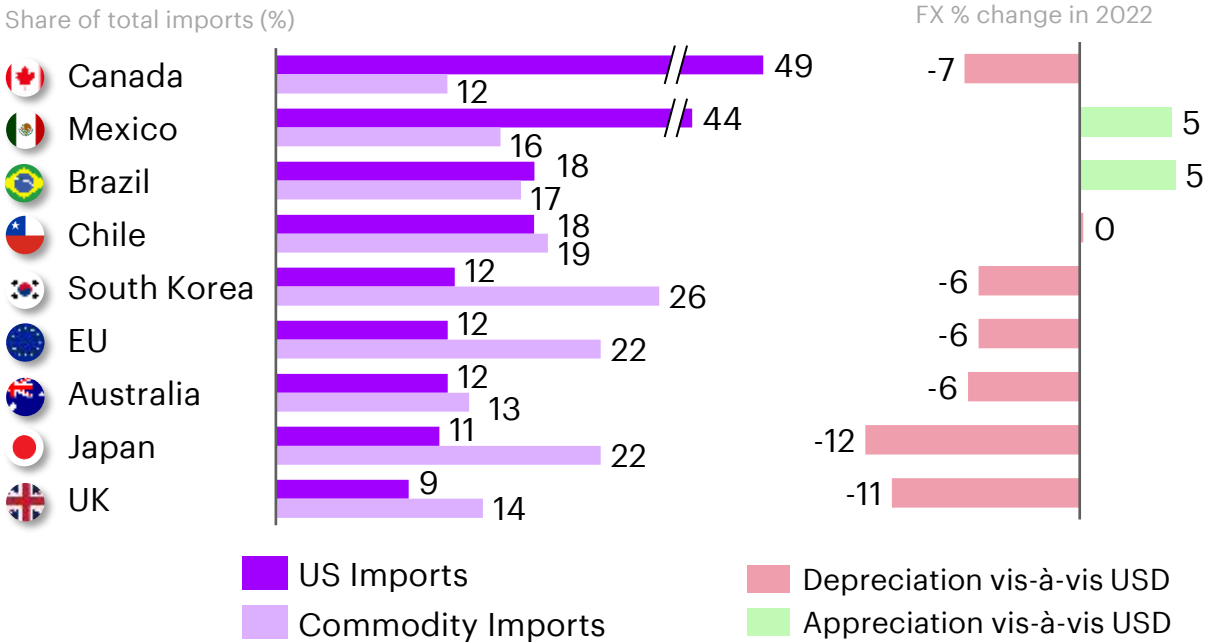
The likely persistence of USD strength throughout 2023 has important implications for inflation, growth, and financial stability in developed and emerging markets

#4: The strong USD amplifies financial and economic headwinds

Trade-Weighted USD



Countries with high levels of US and commodity imports



Commentary

- USD has appreciated ~10% against trading partner currencies since mid-2021, driven by rising interest rates, a flight to quality, and a more resilient economy compared to other developed economies
- Purchasers of US exports and commodities denominated in USD will be acutely affected
- Countries (typically in emerging markets) and companies with debt denominated in USD will contend with onerous debt servicing costs
- Major risks include commodity price volatility and impairments to emerging markets debt denominated in USD

US clients should consider stringent cash flow management and strategic acquisitions, while non-US clients should focus on reducing USD-denominated debt

#4: Client considerations

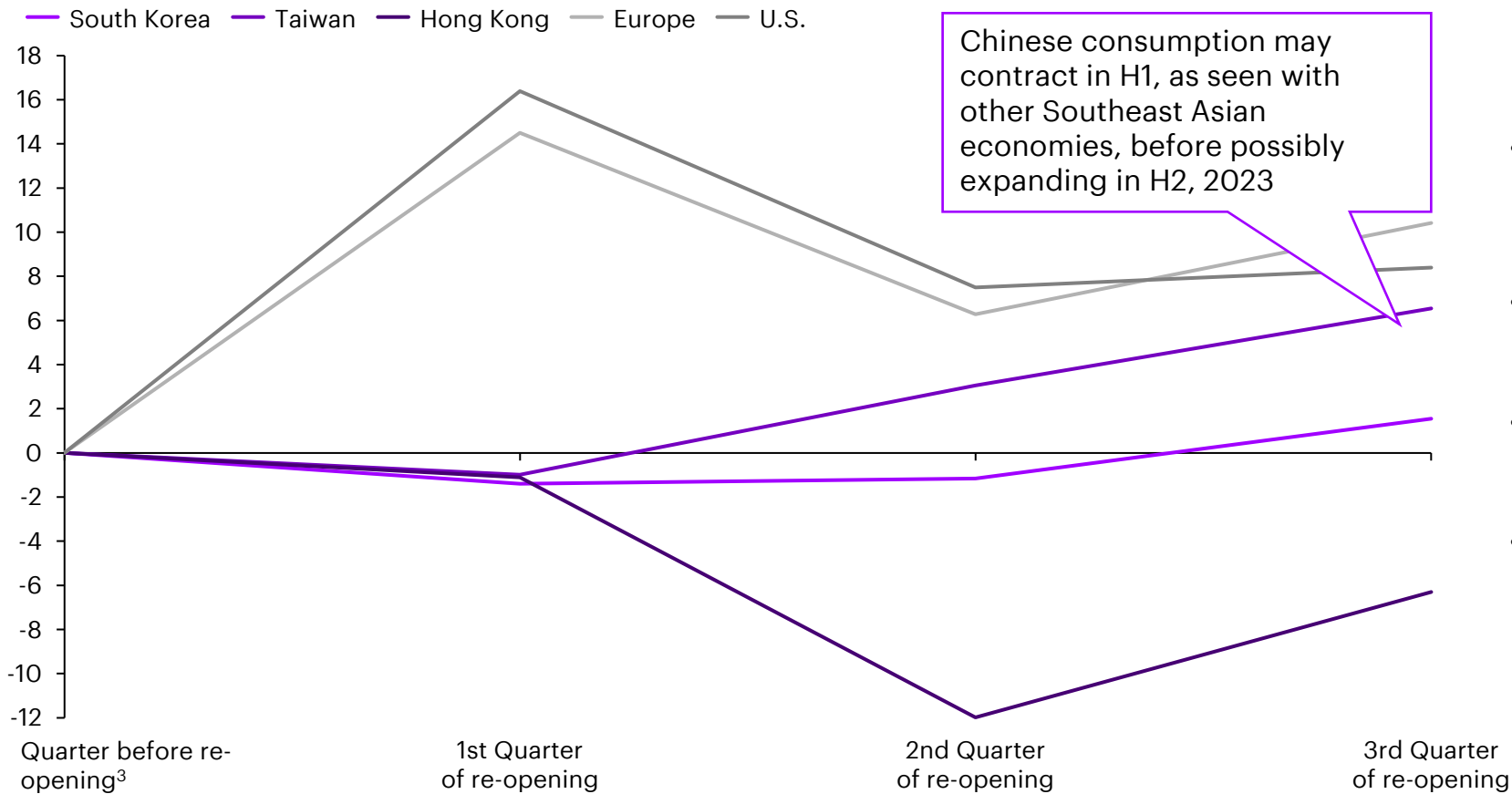
| | Implication | Client considerations |
|---|--|---|
| Importers of US intermediate and final goods | <ul style="list-style-type: none"> Companies across Asia and Europe will see higher costs persist in the near-term | <ul style="list-style-type: none"> Ability to pass on higher input costs to domestic consumers Ability to service added debt repayments Invest in procurement solutions to better monitor and manage relationships with vendors and suppliers Source goods from more cost-effective markets |
| Importers of commodities denominated in USD | <ul style="list-style-type: none"> For countries with currencies that are challenged against USD, purchasing dollar denominated input costs will add cost pressure | <ul style="list-style-type: none"> Ability to service higher debt repayments Hedging strategies to build a moat around mission critical resources Ensure strong capital buffers to maintain credit rating |
| US based companies | <div>Exporters</div> <ul style="list-style-type: none"> US exports become more expensive Demand may decline as local competitors gain a price advantage <div>Importers</div> <ul style="list-style-type: none"> Benefit due to boosts in purchasing power | <ul style="list-style-type: none"> Stringent cash flow management to avoid currency mismatches Strategic acquisitions of companies with above-average foreign revenue, who are currently trading at a discount, or of foreign competitors Expand market share in domestic markets through reduced pricing (particularly for goods producing sectors) |

China has begun to re-open its economy, but rising COVID infections could delay or partially offset the economic boost from re-opening

#5: China's economy re-opens

Private consumption after COVID easing

Quarterly % change



Commentary

- At the end of 2022, the Chinese government decided to drop its 'Zero-Covid' policy, with little warning to businesses or consumers
- Similar to other Southeast Asian economies, the subsequent boom in COVID infections caused weak consumption over the Christmas period
- If China can control further outbreaks, it is likely that it will experience a strong rebound in H2 2023
- Internal demand is likely to be the bright spot of economic growth as recessionary fears in Europe dampen export growth
- Renewed Chinese demand for commodities (e.g., copper and oil) is likely to drive price increases

Note: (1) Stringency Index measures the strictness of government COVID-19 policies, a higher score indicates a stricter response (2) Re-opening determined by drop in stringency index, indicating easing of COVID restrictions (3) Quarter before re-opening indexed to zero
Sources: Haver Analytics, Our World in Data, National Bureau of Statistics of China, Accenture Strategy analysis

The impact of China’s re-opening is likely to vary across company archetypes, depending on their exposure to supply chains, consumers, or raw materials

#5: China’s economy re-opens

| Company archetypes | Likely impact of China re-opening | Client considerations | Most impacted industries |
|--|---|--|---|
| #1: Commodity and industrial manufacturers | <ul style="list-style-type: none"> Benefit from rebounding commodity prices and production activity | <ul style="list-style-type: none"> Demand fundamentals improve China open to more FDI | <ul style="list-style-type: none"> Chemicals Engineering Industrial Manufacturing Mining Oil & Gas |
| #2: Supply chain-reliant producers | <ul style="list-style-type: none"> Could expect further labor shortages and supply chain disruptions in the short-term By H2 2023, supply chain disruptions should begin to ease | <ul style="list-style-type: none"> In the medium-term, demand fundamentals improve However, these companies should plan for continued supply chain pressures in H1 | <ul style="list-style-type: none"> Automotives Consumer Electronics Energy High-Tech |
| #3: Consumer-facing companies | <ul style="list-style-type: none"> Benefit from a boost in demand from Chinese consumers (and increase in Chinese tourism) Luxury benefits from more Chinese traveling abroad (and travel channels) | <ul style="list-style-type: none"> Demand fundamentals improve Tailor marketing and propositions to re-openings | <ul style="list-style-type: none"> Consumer Goods Luxury / Beauty Retail |
| #4: Technology companies | <ul style="list-style-type: none"> More exposed to geopolitical tensions (e.g., US/China) vs. China Covid re-openings | <ul style="list-style-type: none"> Onshore production to reduce geopolitical risks Plan for potential ringfencing of operations | <ul style="list-style-type: none"> Aerospace & Defence Semiconductors Software and Platforms |

Geopolitical tensions between global powers add risk to a volatile economic climate, often causing opposite effects on major macroeconomic forces

#6: Geopolitical developments keep volatility and uncertainty high

NON-EXHAUSTIVE

| Geopolitical issue | Demand for commodities | Cost of energy | War for talent | Consumer demand | Energy transition | Comments |
|---|------------------------|----------------|----------------|-----------------|-------------------|---|
| Europe and US compete for EV production | ↑ | → | ↑ | ↑ | ↑ | <ul style="list-style-type: none"> Potential changes to electric vehicle tax credits following US and EU discussions could shift production |
| Russia / Ukraine crisis | ↑ | ↑ | → | ↘ | ↑ | <ul style="list-style-type: none"> Continued global energy supply pressure is incentivizing investment in energy transition |
| China tension with Taiwan | ↑ | ↗ | → | ↘ | ↓ | <ul style="list-style-type: none"> Ongoing tensions and perceived risk may impact foreign relations and accelerate relocations in semiconductor production |
| Increasing OPEC influence | → | ↑ | → | ↘ | ↓ | <ul style="list-style-type: none"> OPEC's increasing influence over the global energy market may impact energy prices and supply |
| US easing tensions with Venezuela | → | ↓ | → | ↗ | ↓ | <ul style="list-style-type: none"> Lifting US energy sanctions on Venezuela could open an alternative energy source |
| US restrictions on Chinese tech | ↑ | → | ↑ | ↘ | ↓ | <ul style="list-style-type: none"> Potential escalation of US trade restrictions on China due to national security concerns as China files challenges with the WTO |

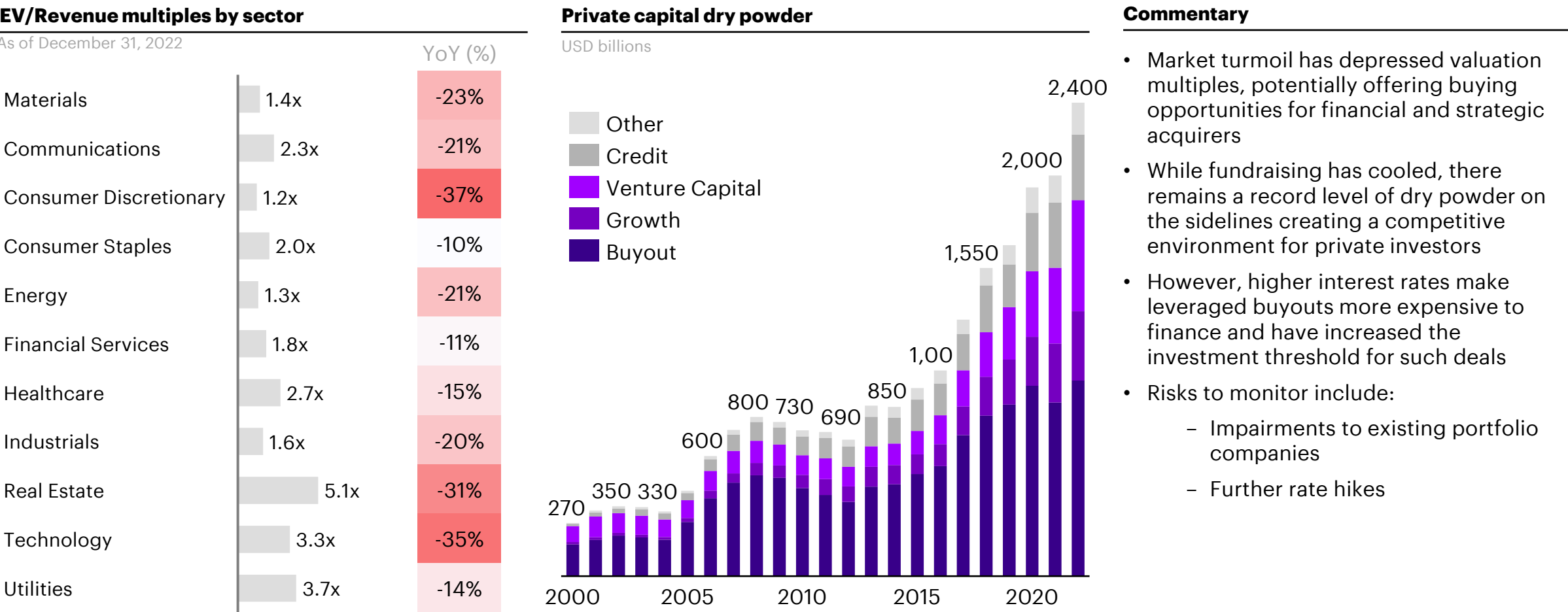
Companies can consider various strategic and operational actions in the short and longer-term to help them more effectively operate globally in an era of increased geopolitical risk

#6: Client Considerations

| | Strategy and Risk | | Operations | | | |
|---|--|--|---|---|---|--|
| | Scenario Planning | Risk Management | Supply Chain | Operating Model | Technology | Workforce |
| Short-term (0-12 months) | <ul style="list-style-type: none"> Develop scenario plans for different risks Review investment portfolio and establish new hurdle rates for increased risk premia | <ul style="list-style-type: none"> Evaluate top risks in each country in the portfolio Develop business continuity plans Strengthen government relations and legal capabilities | <ul style="list-style-type: none"> Refresh supply chain strategy Assess key supply chain risks under different scenarios Renegotiate contracts to build resilience | <ul style="list-style-type: none"> Assess changes to governance and structures in high risk countries e.g., ringfencing a certain country | <ul style="list-style-type: none"> Refresh IT strategy, including for ERP, infrastructure, and partners Strengthen cybersecurity capabilities | <ul style="list-style-type: none"> Develop local management teams Develop local workforces |
| Medium-to-long term (12-24+ months) | <ul style="list-style-type: none"> Embed analytics and leading indicators to inform scenarios | <ul style="list-style-type: none"> Develop carve-out plans for most risky assets Diversify international revenues | <ul style="list-style-type: none"> Assess options for new supplier sources Re-locate / onshore manufacturing | <ul style="list-style-type: none"> Consider local stock market listings Compartmentalize groups vs. local BUs (e.g., ‘China for China’ business models) | <ul style="list-style-type: none"> Carve-out technology stacks in high risk countries | <ul style="list-style-type: none"> Balance between training local talent and use of foreign experts |

Corporate valuations are falling, creating potential buying opportunities, but elevated interest rates and competition make deals more difficult

#7: Depressed valuations create buying opportunities for private investors



Commentary

- Market turmoil has depressed valuation multiples, potentially offering buying opportunities for financial and strategic acquirers
- While fundraising has cooled, there remains a record level of dry powder on the sidelines creating a competitive environment for private investors
- However, higher interest rates make leveraged buyouts more expensive to finance and have increased the investment threshold for such deals
- Risks to monitor include:
 - Impairments to existing portfolio companies
 - Further rate hikes

Private Equity firms can adjust their buying, selling, and operational strategies to help capture excess returns against current market turmoil

#7: Depressed valuations create buying opportunities for Private Equity and acquirers

| Market Opportunities | Considerations | | |
|--------------------------------------|---|--|--|
| | Deal Flow | Exits | Operational |
| Buyout Sector Focus: Tech & Software | <ul style="list-style-type: none">Valuation declines may present investment opportunities | <ul style="list-style-type: none">Difficult LBO environment may extend holding periods | <ul style="list-style-type: none">Prioritize profitability over growth to prepare tech companies for exit |
| Buyout Sector Focus: Consumer | <ul style="list-style-type: none">Consumer Discretionary valuations may present viable entry multiples | <ul style="list-style-type: none">Consumer likely to curb spending. Look to long-term oriented strategic acquirers over financial buyers | <ul style="list-style-type: none">Reposition and reprice products to maximize market shareAddress rising costs |
| Distressed | <ul style="list-style-type: none">Companies with heavy debt and short-term economic challenges may be candidates for restructuringLook to conglomerates for spin off opportunities | <ul style="list-style-type: none">Strengthen balance sheets and sell non-core assets to prepare companies for sale | <ul style="list-style-type: none">Insist on cost saving exercises and disciplined growth investments |
| Growth Equity / Venture | <ul style="list-style-type: none">Take advantage of governmental investments in emerging technologies | <ul style="list-style-type: none">Review portfolio and prioritize top performing assets particularly in industries with ongoing challenges | <ul style="list-style-type: none">Extend holding periods, invest in long-term growth initiativesOffer liquidity options for employees |

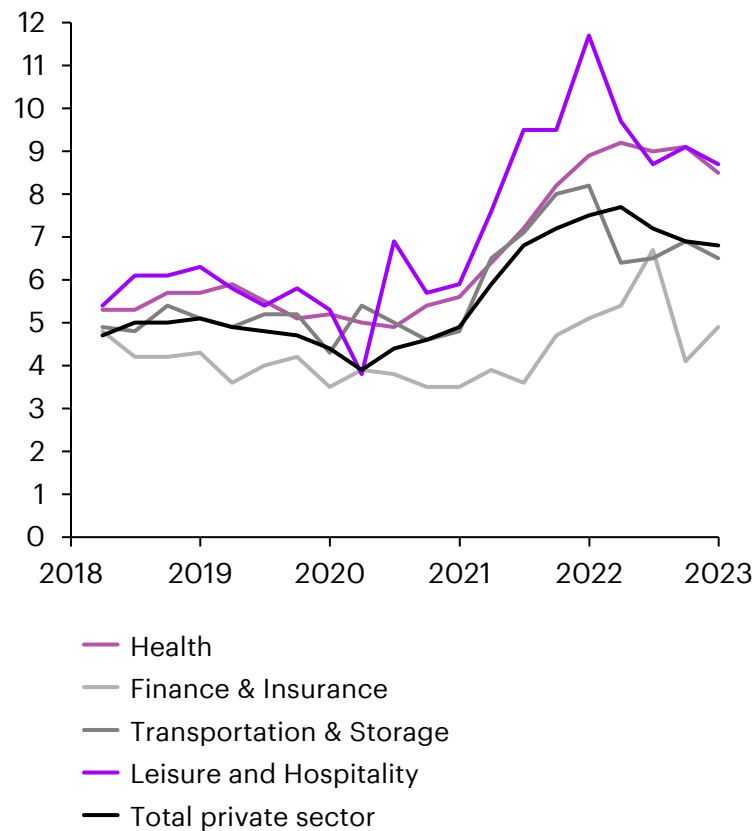
- Leveraged Buyouts** – Fed’s posture is to extend rate hikes well beyond those implied by markets. Rates should remain elevated, making LBOs more expensive to finance
- Dividends** – For companies with extended holding periods, recapitalizations are an option to provide liquidity
- Rates** –High interest rates may offer strategic acquirers a relative advantage over financial buyers in exit markets

Labor shortages are likely to persist in 2023, especially in services sectors, but wage inflation could cool if economic hardship incentivizes people to re-enter the workforce

#8: War for talent continues even as broader job market slows

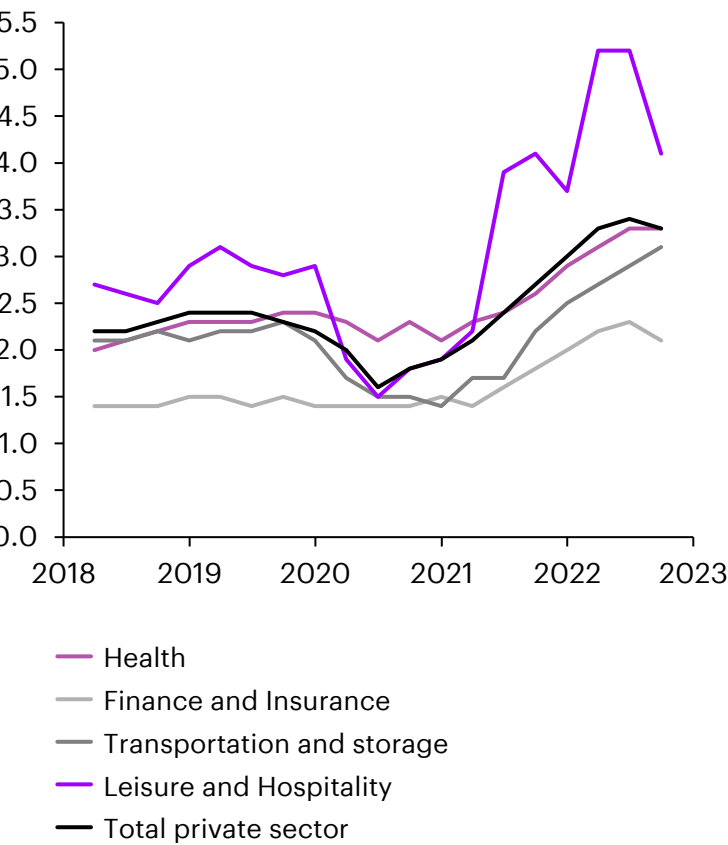
US job openings rates

Percent, seasonally adjusted



Euro area job openings rates

Percent, seasonally adjusted



Commentary

- US and European labor markets have proven resilient despite aggressive tightening of monetary policy
- Some signs of easing labor demand are now emerging, with vacancies falling and layoffs rising in sectors such as Finance and Technology
- Job vacancy rates remain higher-than-average, however, in services (e.g., Health, Hospitality) where there are ongoing worker shortages despite strong wage growth
- These labor demand-supply gaps could partly reflect the still-incomplete rebound of labor force participation to pre-pandemic rates, particularly among older (55 and over) workers
- The sector-specific nature of these imbalances could also be a sign of more structural skills mismatches, suggesting war for talent could persist even as overall labor demand eases or participation improves

Companies should be prepared for various scenarios of how the labor market responds to monetary policy tightening, and have data-led processes in place to respond accordingly

#8: Client Implications

| Scenario | Description | Wage inflation | Labor force participation | Considerations | |
|--|--|----------------|---------------------------|--|--|
| | | | | People Functions | Strategic Planning |
| #1: Gradual rebalancing of labor market | <ul style="list-style-type: none">• People are drawn back into the workforce as job growth slows• Wage inflation and spending start to fall without causing a severe downturn | ↓ | ↑ | <ul style="list-style-type: none">• Disciplined hiring approach• Right size investments in HR and recruiting functions to keep pace with needs of the business | <ul style="list-style-type: none">• Surface best investment ideas for growth• Identify workforce risks (e.g., skill shortages) if economic outlook deteriorates |
| #2: War for talent intensifies | <ul style="list-style-type: none">• High interest rates and a cooling economy are not enough to bring workers back into the workforce• The war for the talent intensifies, further fueling wage inflation | ↑ | ↓ | <ul style="list-style-type: none">• Invest in innovative, data-led talent acquisition strategies• Attractive employee schemes to support with cost-of-living crisis• Invest in compensation for key roles where labor competition is tight | <ul style="list-style-type: none">• Routinely revisit forecasts for hiring needs• Invest in economical employee retention programs |
| #3: Slack in the labor market is created | <ul style="list-style-type: none">• Rates are raised too aggressively, leading to significant decline in labor demand• Wage inflation is tamed, but unemployment spikes | ↓ | → | <ul style="list-style-type: none">• Revisit forecasts for hiring need | <ul style="list-style-type: none">• Align top line considerations to personnel investments• Quickly identify core workforce needs (e.g., skills, size) that can manage a downturn but align with long-term business goals |

The global economy will feel the effects of the energy crisis in 2023 – with implications across growth, profitability, development, geopolitics, and the wider transition

#9: The global energy crisis continues to put pressure on businesses / governments

Latest developments entering 2023

- **Energy prices spiked in 2022 and then fell later in the year**, driven initially by demand spike as Covid restrictions eased globally and then by the Russia-Ukraine conflict
- **Europe largely avoided a 'tough winter' in 2022** and developing economies have borne the brunt of elevated energy prices
- **However, the energy crisis will extend into 2023 and may worsen in Europe e.g.,**
 - EU bans on seaborne Russian crude (Dec. 2022) and oil products (Feb. 2023)
 - Multiple risk factors come into play in 2023 e.g.,
 - China's reopening
 - Continued underinvestment in oil and gas developments as energy companies are focusing on returning returns back to shareholders
 - Impact of inflation on real investment levels
 - Supply implications from the recent Russia oil price cap sanctions
 - Mitigating factors include slowdown in global demand due to recession and increase in non-OPEC supply

Implications to the wider economy

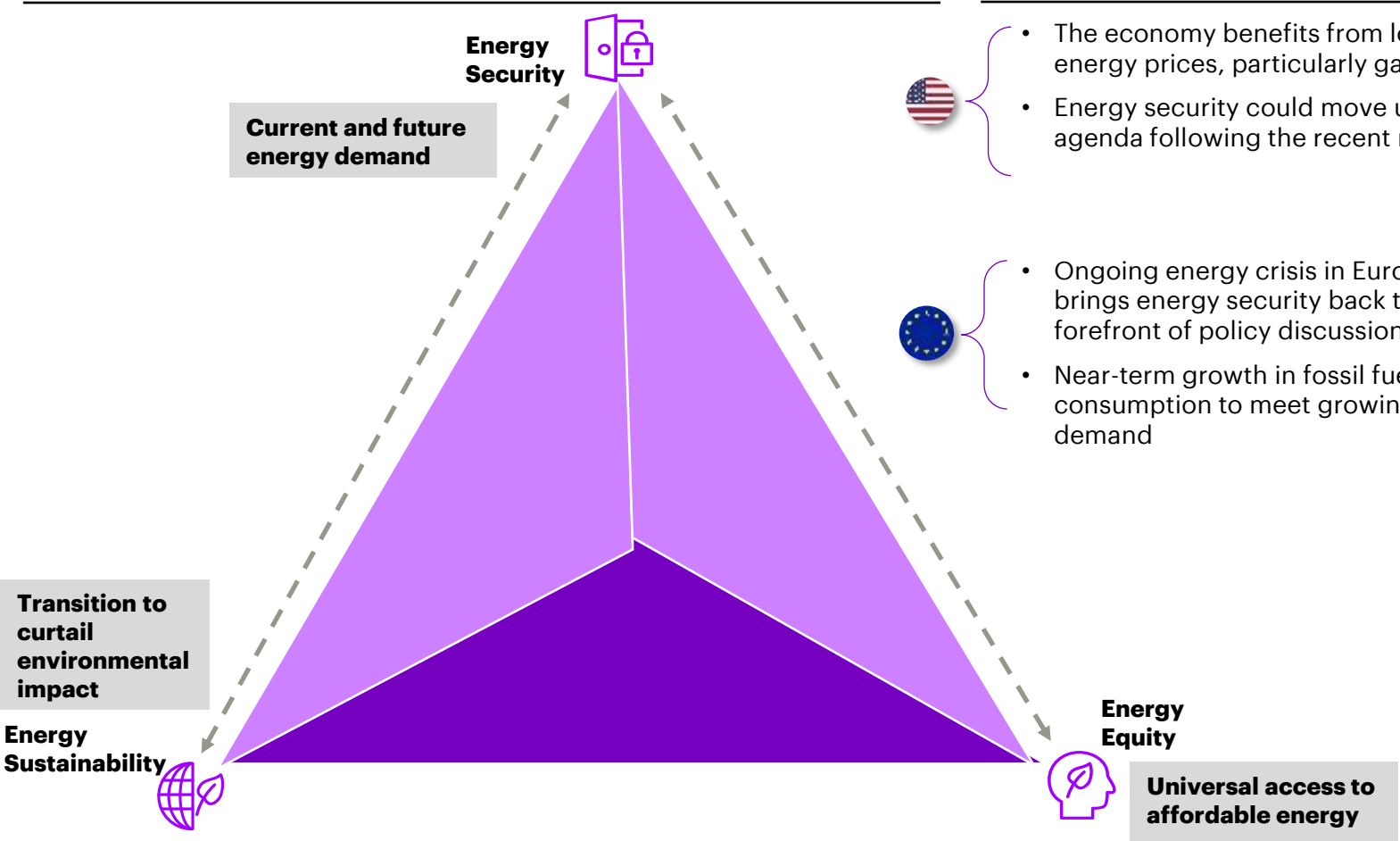
- **Economic growth:** Higher energy prices benefit energy producing nations and hurt the energy consuming ones. In addition, higher energy prices weigh on consumers' discretionary budgets
- **Company margins:** Higher energy prices will weigh on company profit margins – both in SG&A and COGS
- **Energy poverty:** Higher 2022/23 domestic prices are driving increased energy poverty rates for households, particularly in developing countries
- **EU manufacturing competitiveness:** Higher energy prices have resulted in lower production (e.g., 25% of German chemicals companies have cut output) and are creating a debate whether manufacturers should leave Europe
- **Energy transition:** IEA predicts the energy crisis could accelerate the switch to low-carbon energy with the aid of supportive policies measures (e.g., US IRA); however, energy security has moved back up political agendas
- **Energy efficiency:** Company priorities of embracing energy efficiency become key as they aim to reduce energy costs and usage
- **Geopolitical implications:** Western sanctions are shifting Russia closer to China and India, while Saudi Arabia (and wider OPEC+) are seeing enhanced economic influence given global energy supply challenges
- **Balancing competing energy priorities:** Higher energy prices will put pressure of competing priorities on energy sustainability, security, and access

Energy efficiency is a key near-term priority, but companies should also assess how the current environment impacts their Net Zero commitments

#9: Client Considerations

NON-EXHAUSTIVE

The energy trilemma: Companies to balance between energy security and sustainability



Commentary

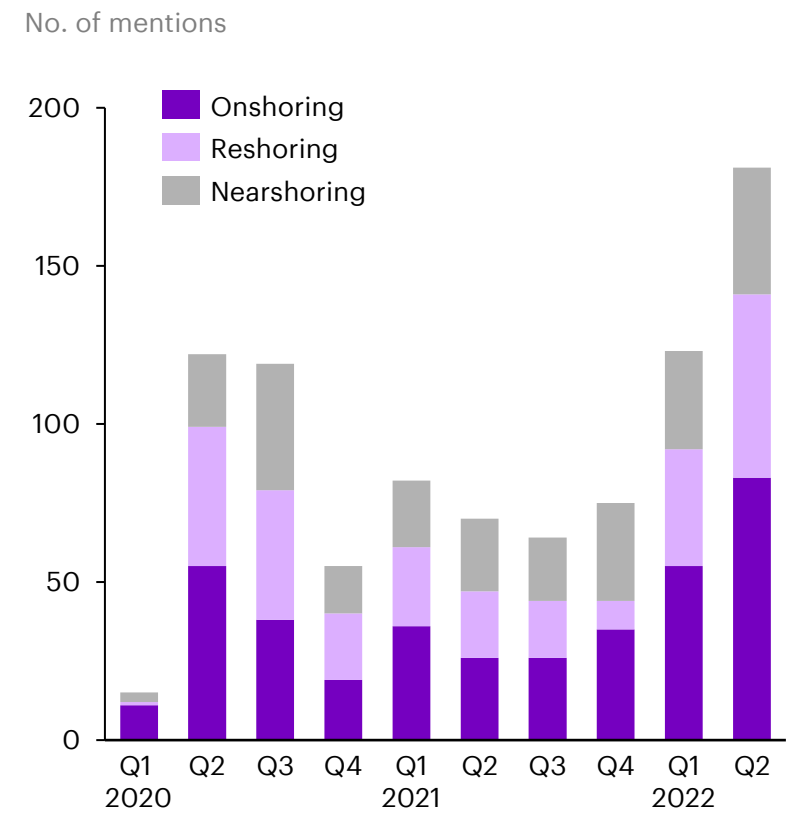
Client considerations

- The economy benefits from lower energy prices, particularly gas
- Energy security could move up the agenda following the recent midterms
- Ongoing energy crisis in Europe brings energy security back to the forefront of policy discussions
- Near-term growth in fossil fuels consumption to meet growing energy demand
- Hedge against commodity cost fluctuations, especially for energy-intensive and metal-intensive inputs
- Drive energy efficiency in company operations
- Re-assess existing sustainability and Net Zero commitments to understand where potential risks exist, particularly to commitments made to investors
- Increase investments in low-carbon technologies

New industrial policies (e.g., US IRA), increased geopolitical tensions, energy prices, and slowing growth are causing companies to reconsider where best to locate manufacturing

#10: Geographic shifts in industrial production begin

Supply chain shift mentions across US Corporate presentations









Executives are increasingly motivated to move production locations:

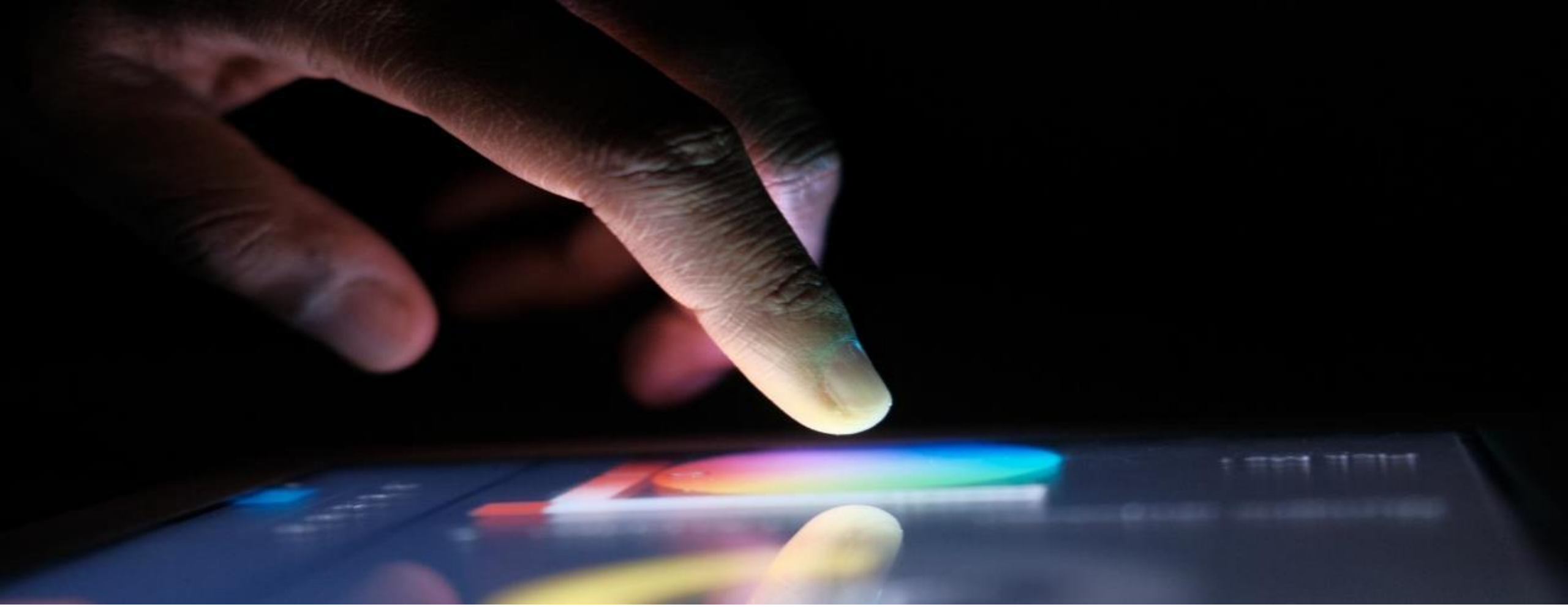
- **“It is true that the decoupling of the US and China is becoming a bigger challenge for us,”** [CEO of Panasonic Yuki] Kusumi said, adding that the company was studying ways to produce more car battery materials in the US that have previously been procured in China.” – FT 12/31/2022
- “OCI is expanding its already significant presence in South-East Texas, a region which, as a clean energy leader and with its strategic location, plays a key role in the growing low-to-zero carbon hydrogen industry and is one of the best places globally to invest in this area.” – Nassef Sawiris, Executive Chair of OCI
- **“Following the enactment of the ... “CHIPS Act”, we announced plans to invest in two leading-edge memory manufacturing fabs in the United States... ”** – Micron 10-Q 12/22/2022

Manufacturers will need to evaluate both near-term financial impacts, as well as long-term strategic positioning when making location decisions

#10: Client considerations

|  |  |  |  |  |  |
|--|--|--|---|--|--|
| Long-term demand outlook | Set-up costs to move | Operating costs | Network effects | Available policy support | Geopolitical risk |
| <ul style="list-style-type: none"> The medium- to long-term demand outlook of the region and whether its growing or shrinking relative to other regions | <ul style="list-style-type: none"> The costs associated with constructing a new plant in a different region | <ul style="list-style-type: none"> The costs to operate a plant in one region vs. another Key factors to consider include <ul style="list-style-type: none"> Energy costs Wages Transportation costs, Taxes | <ul style="list-style-type: none"> The agglomeration effects of being located near other competitors e.g., this can facilitate sharing of talent and ideas | <ul style="list-style-type: none"> New policy support which can either subsidize set-up costs or operating costs Policies include the US Inflation Reduction Act and CHIPS Act | <ul style="list-style-type: none"> The geopolitical risks could increase the cost of capital or ‘black swan’ events lead to writing off of assets |

Manufacturers must weigh the cost/benefit of shifting production to different regions. Each decision will need to consider a range of factors



4

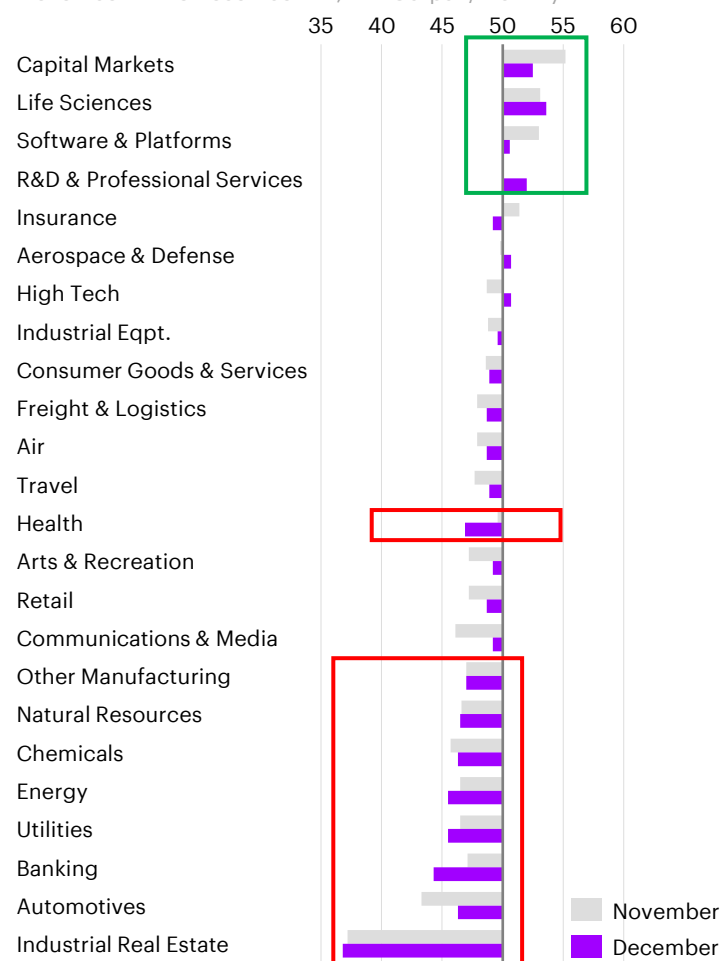
Latest economic indicators

Global economic activity contracted for the fifth consecutive month, with Industrial Real Estate output declining at the steepest rate in December

Global December PMI

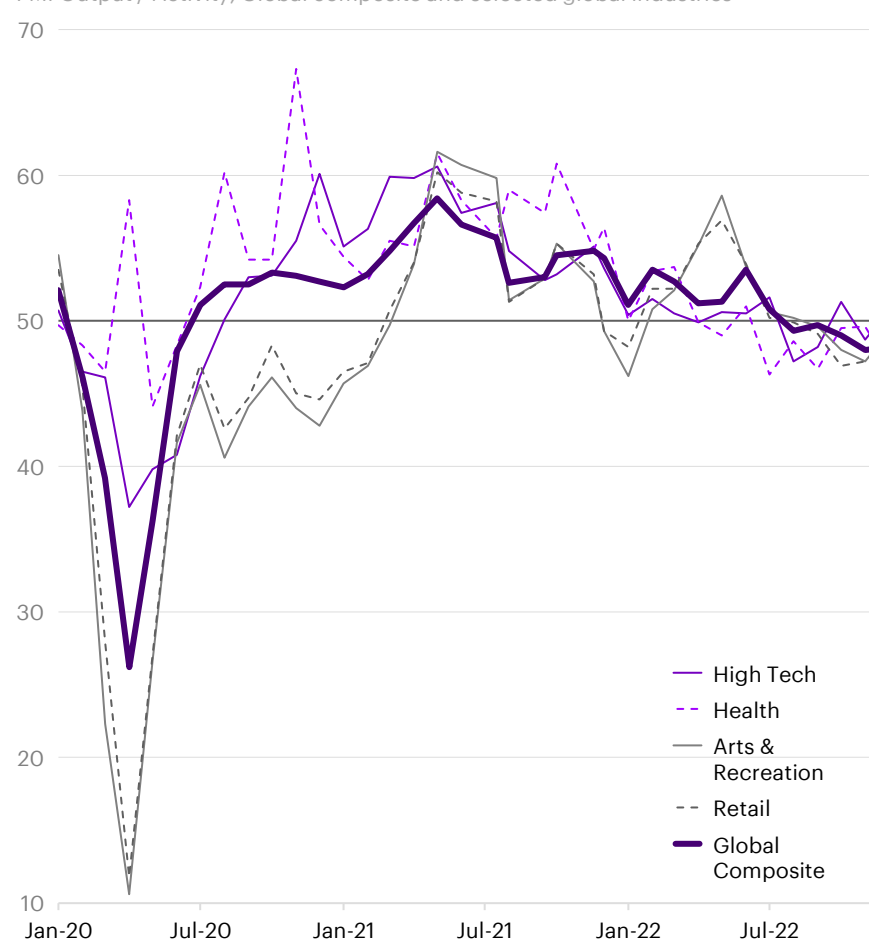
Global industry performance

November '22 vs December '22, PMI Output / Activity



Global PMI output / activity

PMI Output / Activity, Global composite and selected global industries



Commentary

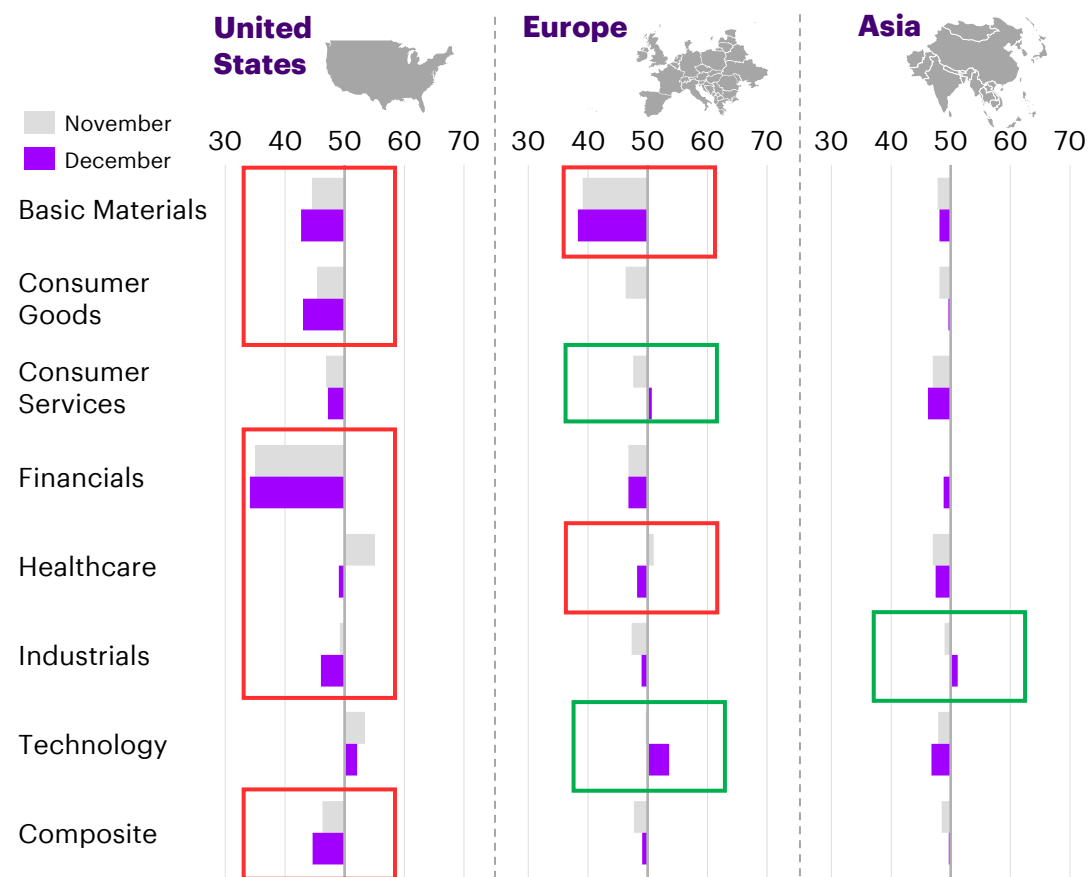
- The global PMI from December (48.2) rounded off the worst calendar quarter performance since Q2 2009 if the initial pandemic lockdown months are excluded
- Rates of decline were seen across most of the manufacturing and services sectors as the demand environment continues to worsen
- Industrial Real Estate remains the worst performer in December with activity falling at the sharpest pace since the start of the pandemic
- Business confidence has increased somewhat due to China re-opening and improving supply disruptions, but the mood is mostly subdued over fears of higher interest rates and further demand destruction

US and Europe saw steeper declines in demand and business activity than Asia, as consumer spending starts to wane and borrowing costs take their toll

Regional PMI overviews

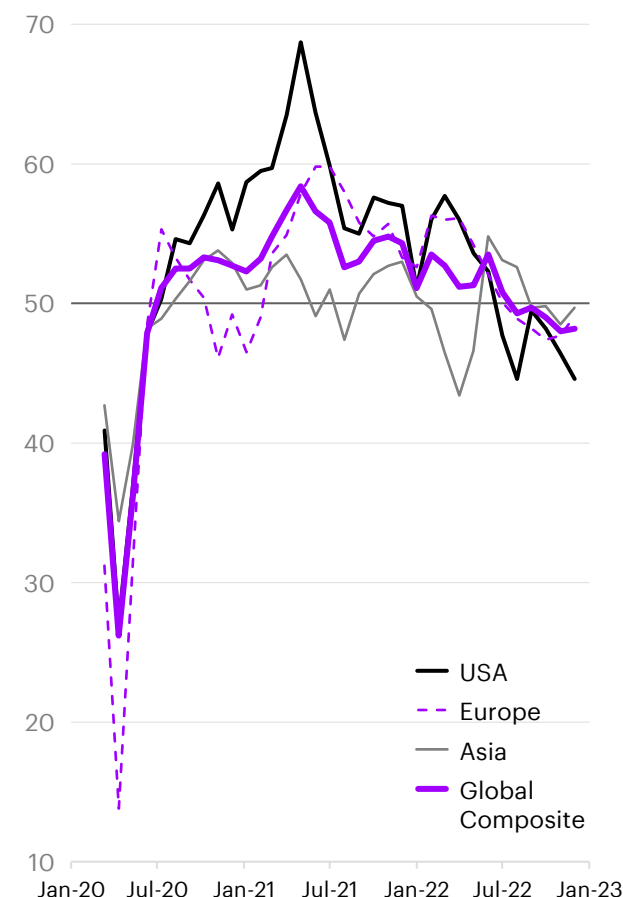
Regional industry performance

November '22 vs December '22, PMI Output/Activity



Regional performance

Composite PMI Output / Activity

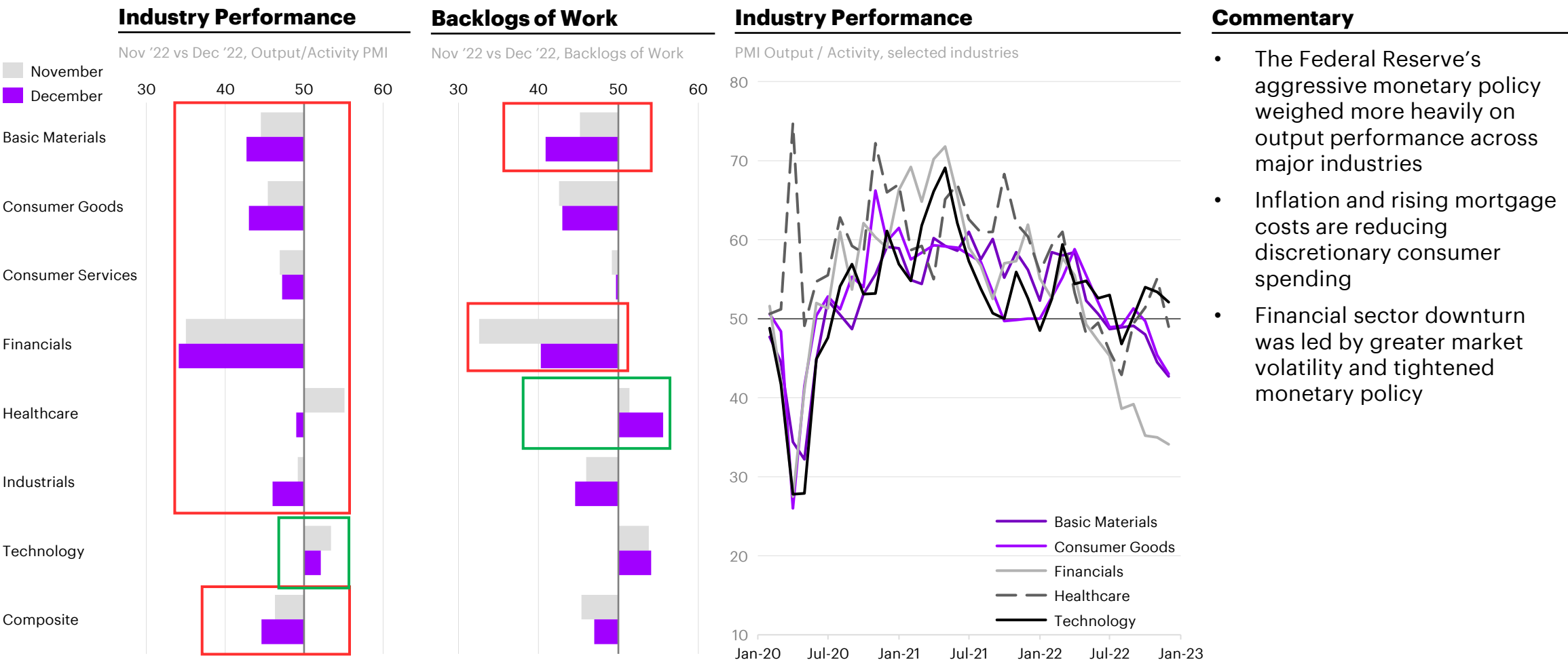


Commentary

- In the US, both manufacturing and services sectors saw steep declines as business conditions worsened amid declining consumer demand
- The story is similar in Europe, where elevated energy costs are beginning to take their toll on household wallets
- Despite a slight contraction in Asia (mainly driven by China's zero-Covid policy) it remained the most resilient region overall

In the US, all sectors contracted in December – with Financial Services seeing the sharpest decline in 32 months, driven by aggressive interest rate increases

Regional outlook: United States

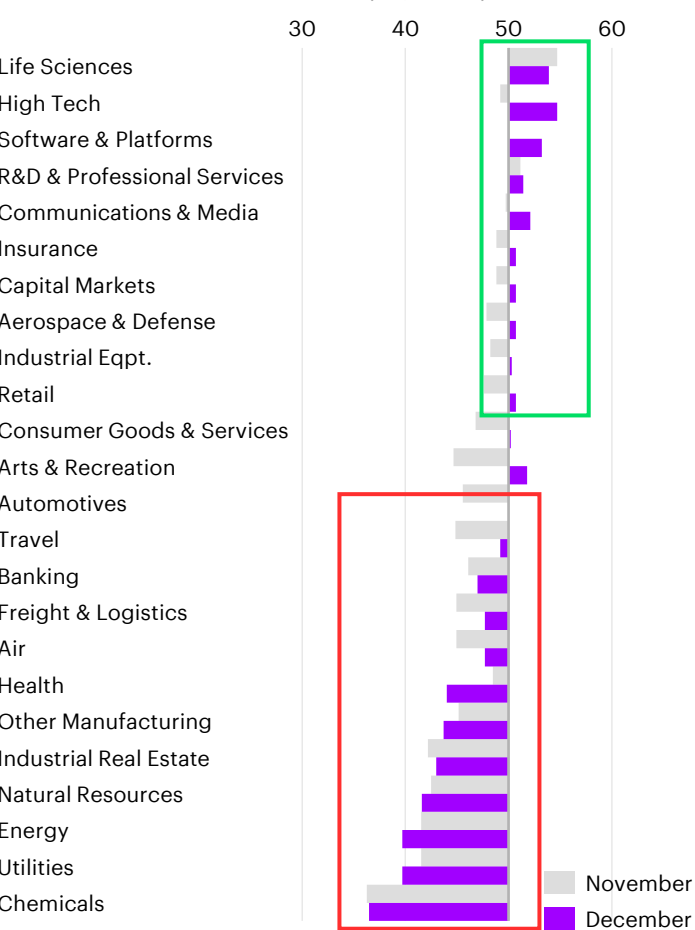


Business activity and new orders continue to fall across Europe, but improved supply conditions increased confidence and eased the rate of decline

Regional outlook: Europe

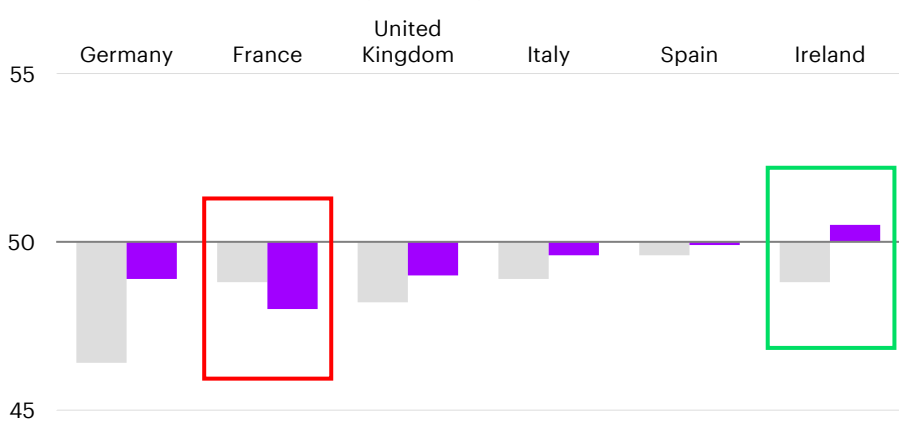
Industry Performance

November '22 vs December '22, Output/Activity PMI



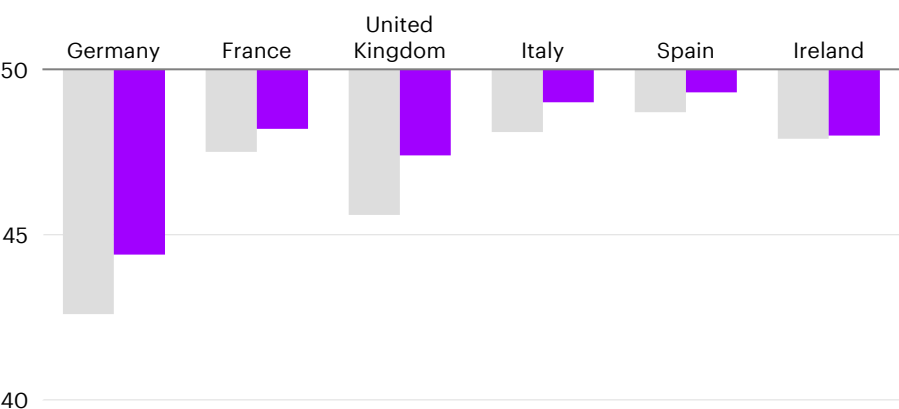
Country Performance

November '22 vs December '22, Output/Activity PMI



New Orders Index

November '22 vs December '22, New Orders PMI



Commentary

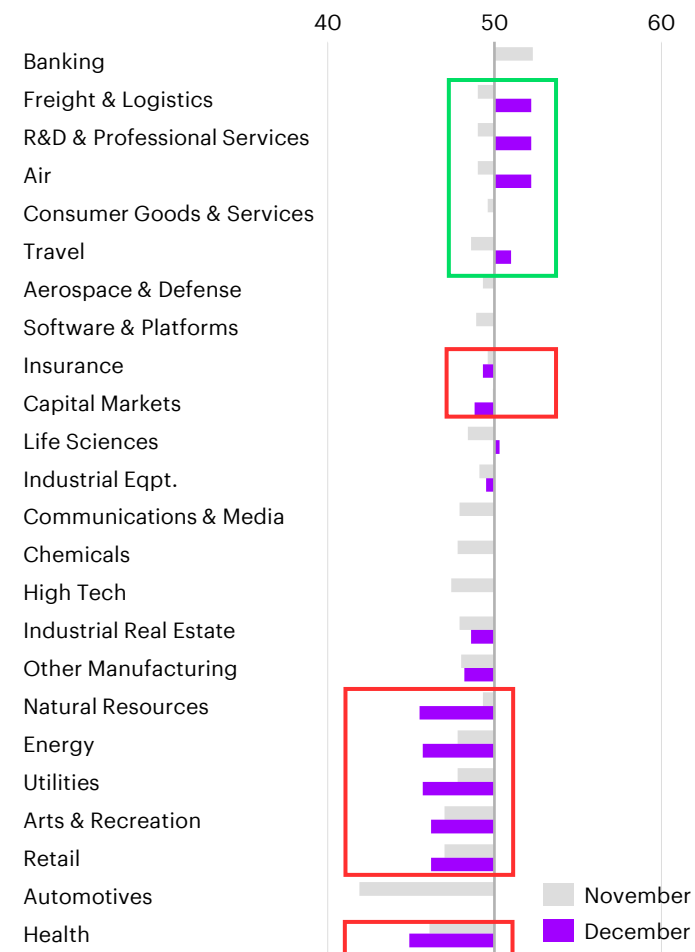
- Business activity increased somewhat in December as cost pressures eased
- Energy-intensive primary and secondary industries continued to experience the strongest declines
- Improved supplier delivery times increased business confidence and eased contractions in new orders
- Reduced energy constraint fears in Germany partially relieved downward pressure on output

Surges in COVID-19 infections caused widespread disruptions in China, while strong export demand and business optimism stimulated growth in India

Regional outlook: Asia-Pacific

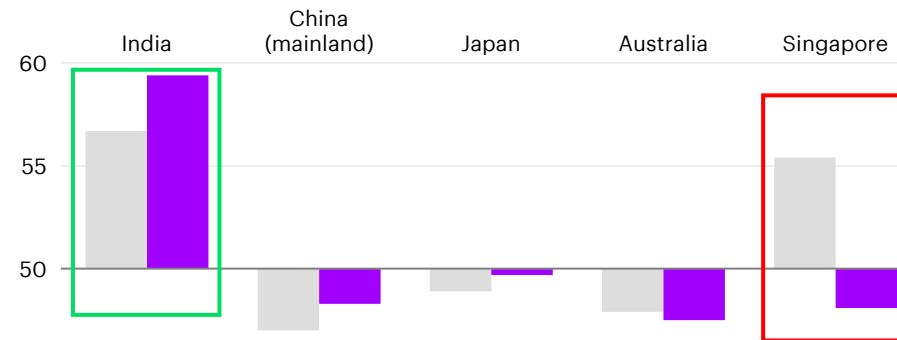
Industry Performance

November '22 vs December '22, Output/Activity PMI



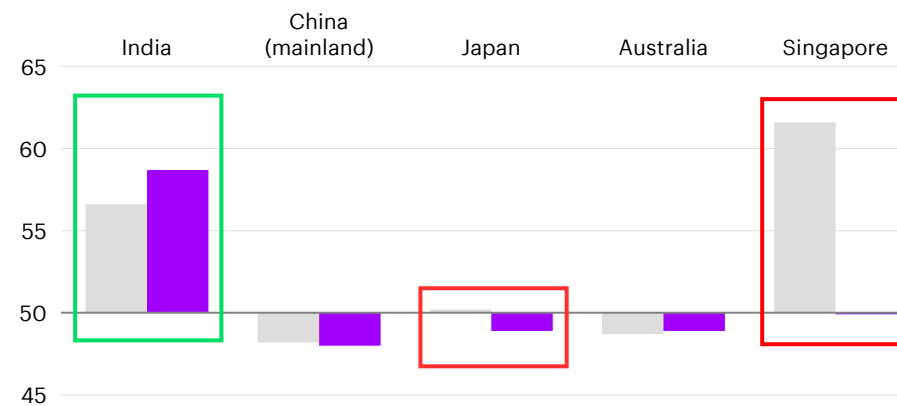
Country Performance

November '22 vs December '22, Output/Activity PMI



New Orders Index

November '22 vs December '22, New Orders PMI



Commentary

- China cancelled its zero-Covid policy without any warning to consumers or businesses
- COVID-19 infections have spread rapidly as a result, restricting manufacturing activity
- India's output and new orders grew at the fastest rate in three months led by strong sentiment and export orders
- Singapore's output growth and business optimism weakened due to Covid-19 disruptions and sustained expansion in new orders increased manufacturing lead times

ASEAN manufacturers continued to experience a slowdown in December as deteriorating global demand softens 2023 outlook

Regional outlook: Southeast Asia

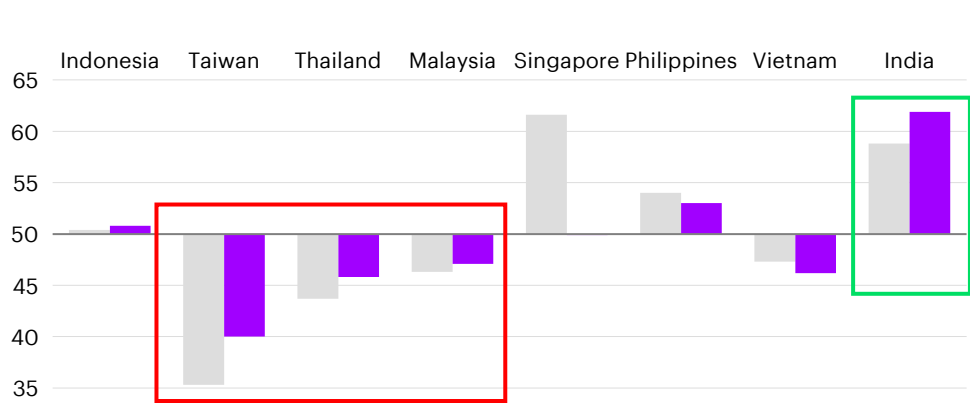
Manufacturing Performance

November '22 vs December '22, Manufacturing Output



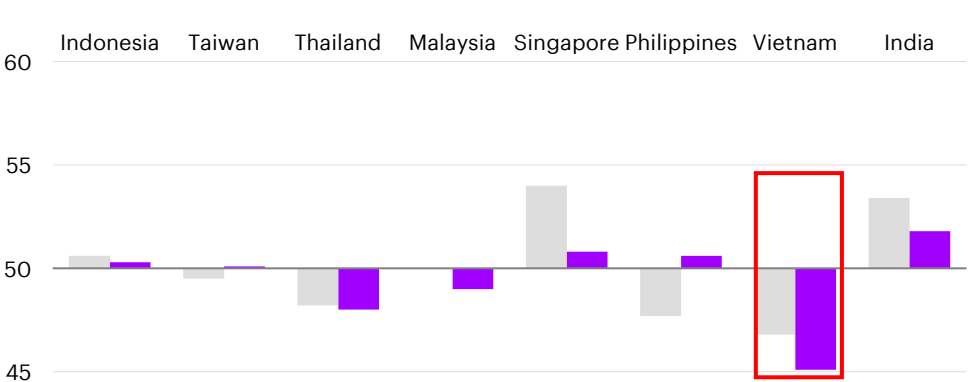
Manufacturing New Orders

November '22 vs December '22, Manufacturing New Orders PMI



Manufacturing Employment

November '22 vs December '22, Manufacturing Employment PMI



Commentary

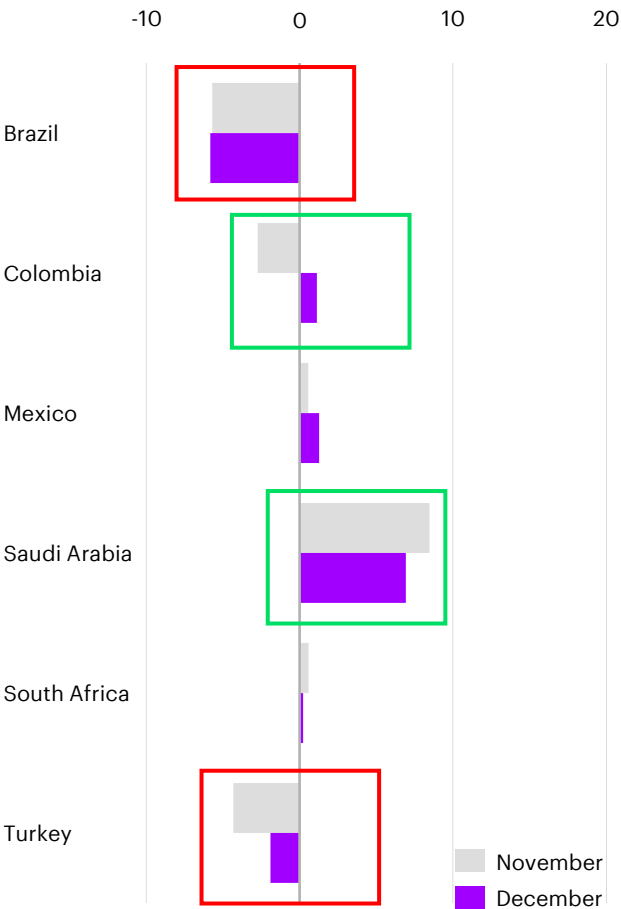
- The latest manufacturing performance marked the slowest expansion of the ASEAN manufacturing sector for 15 months
- Manufacturing new orders deteriorated across most of the economies tracked
- Declines in manufacturing output are particularly sharp in Vietnam, in part due to subdued demand conditions in the key export markets of mainland China, the EU and US
- Amid tighter financial conditions in Western economies, the revival of demand may remain some time away

It is a similar story in other Emerging markets as they also suffer from the global slowdown – Saudi Arabia remains the only economy with consistent growth heading into 2023

Regional outlook: Other emerging markets

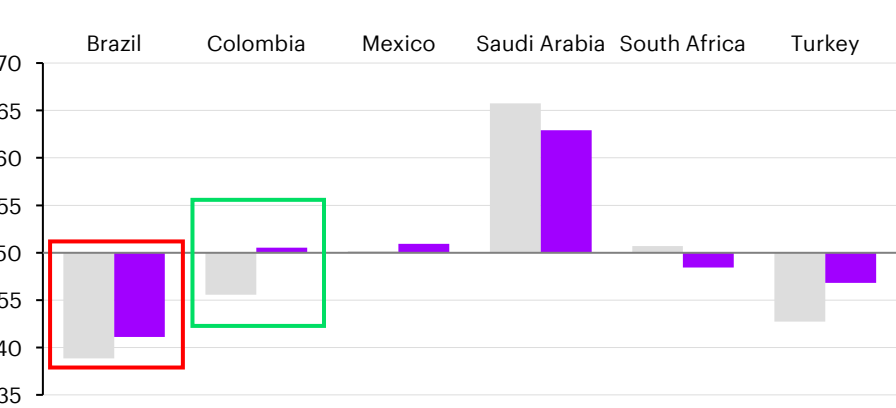
Manufacturing Performance

November '22 vs December '22, Manufacturing PMI



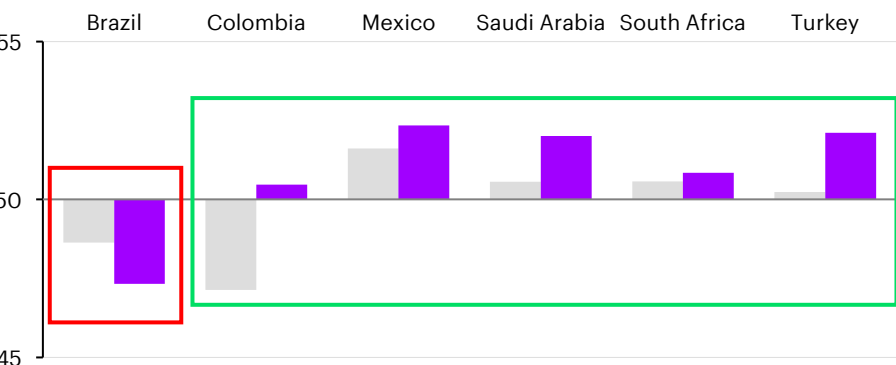
Manufacturing New Orders

November '22 vs December '22, Manufacturing New Orders PMI



Manufacturing Employment

November '22 vs December '22, Manufacturing Employment PMI



Commentary

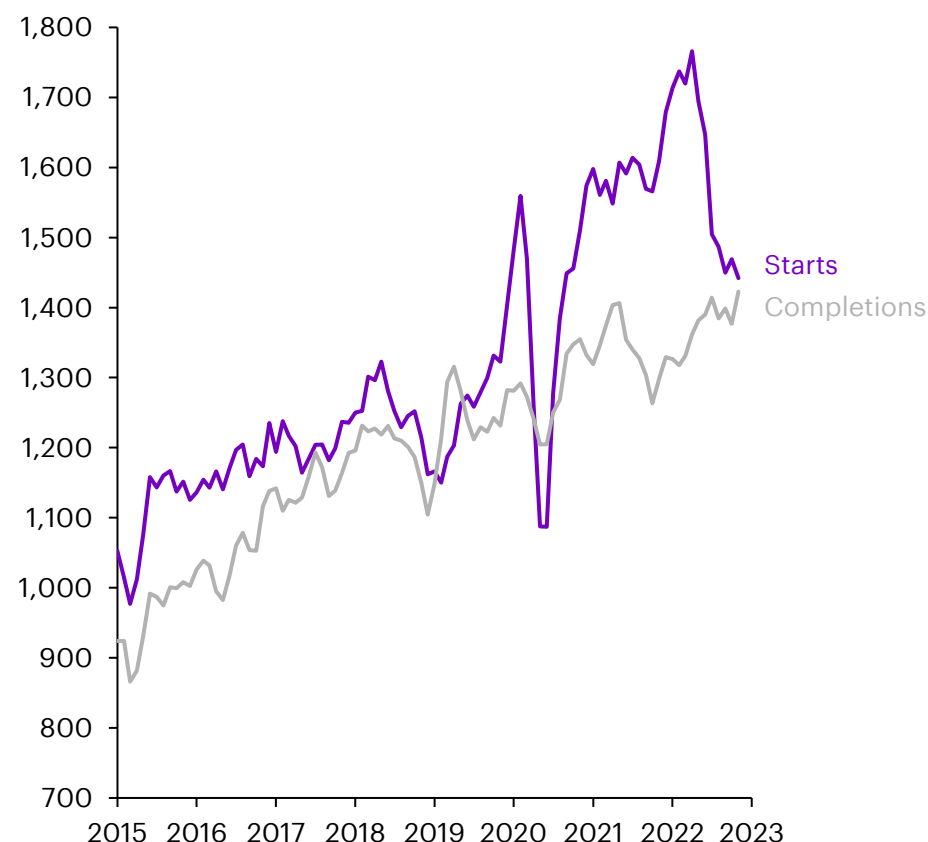
- Brazilian December PMI registered consecutive steep declines due to economic and public policy uncertainty as well as slowing international demand from Europe, Latin America, and the US
- Colombia shifted into expansionary territory in December, reversing course from October and November
- Saudi Arabia’s business activity continued to expand after months of solid performance, primarily driven by new orders from abroad
- Employment improved in most markets as manufacturing companies took on more staff to get through extended backlogs

US housing starts and retail car sales suffered further declines in December, as rising interest rates and persistent inflation squeeze affordability

US housing and car markets

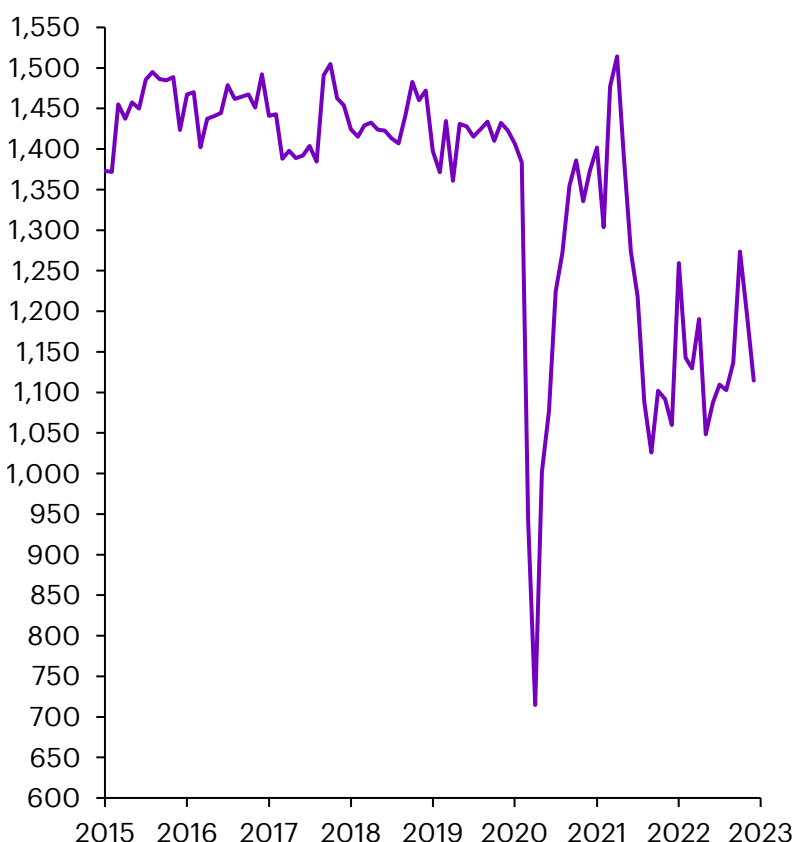
US housing starts and completions

Monthly figures in thousands, 3-month moving average



US retail light weight vehicle sales

Monthly figures in thousands, seasonally adjusted



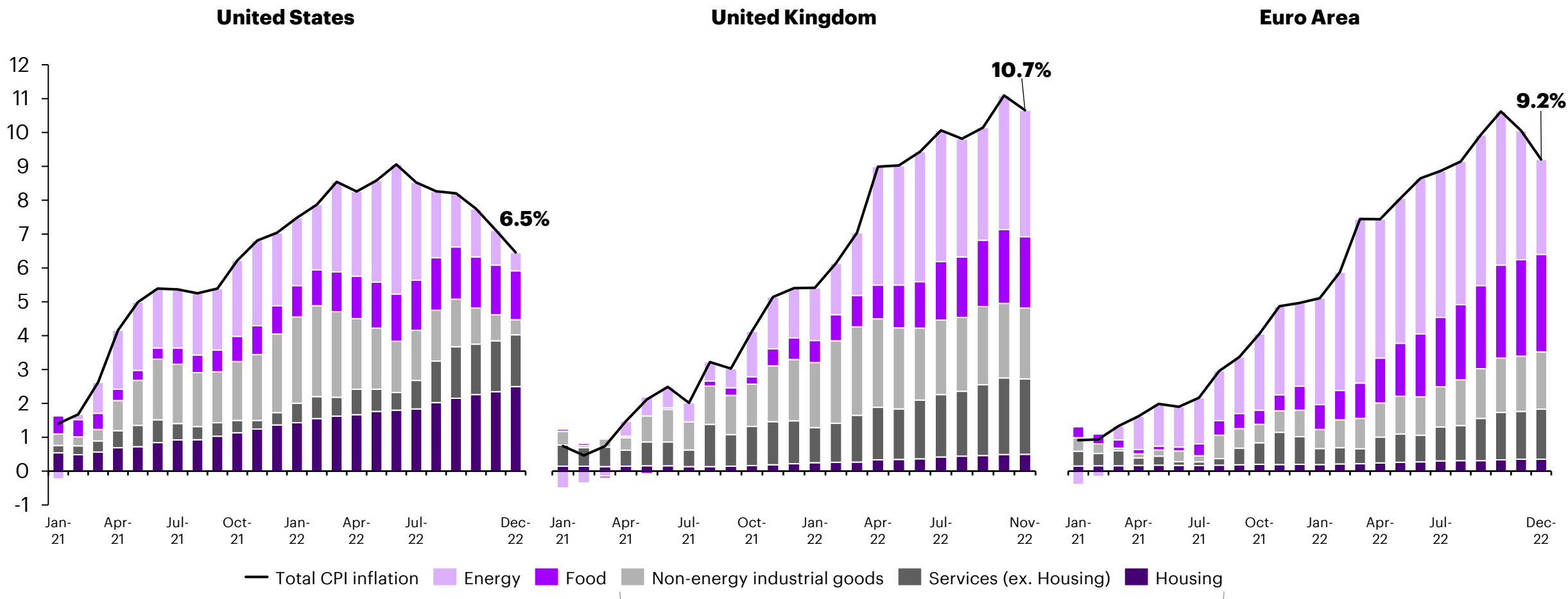
Commentary

- Surging mortgage rates and tighter lending standards are reducing housing transactions and inducing sharp decelerations in housing price growth
- New car sales are also impacted by this, along with continued microchip shortages
- House prices nationally are already down 2% since June, and the likelihood of a larger correction in real estate markets is increasing
 - US households hold around 30% of their wealth in real estate, meaning this could have significant repercussions on consumer spending and balance sheets going forward

Overall inflation in the US and Euro area eased further in December on the back of falling energy prices; food prices pressures persist, however, and core inflation remains high

Drivers of recent CPI inflation

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

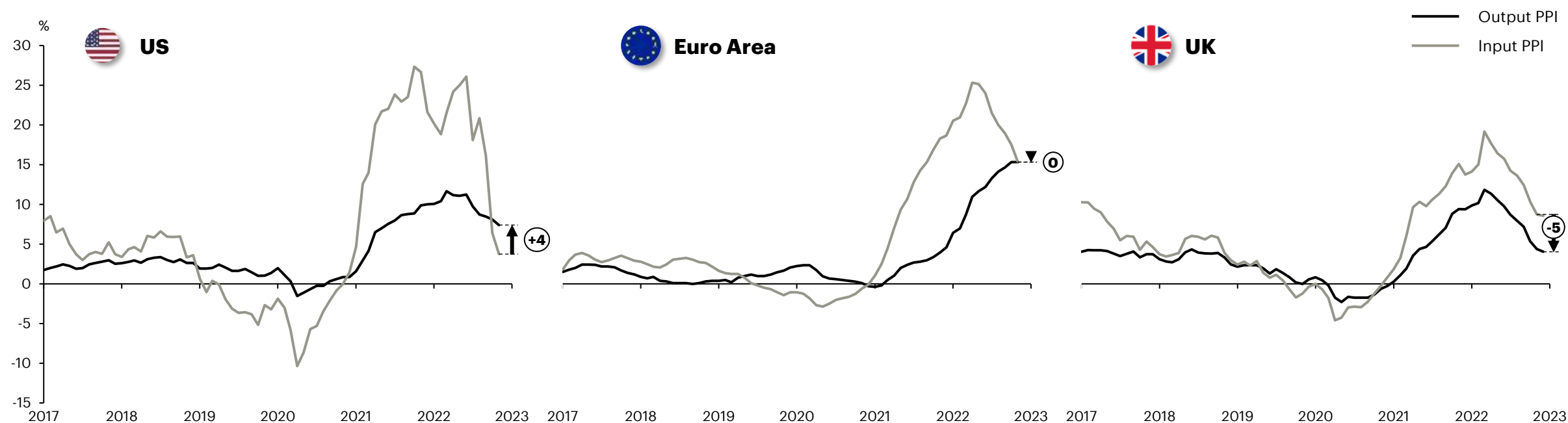


"Core" inflation

US and Euro area companies are passing on 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 number implies higher pass through to final producer selling prices. 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.

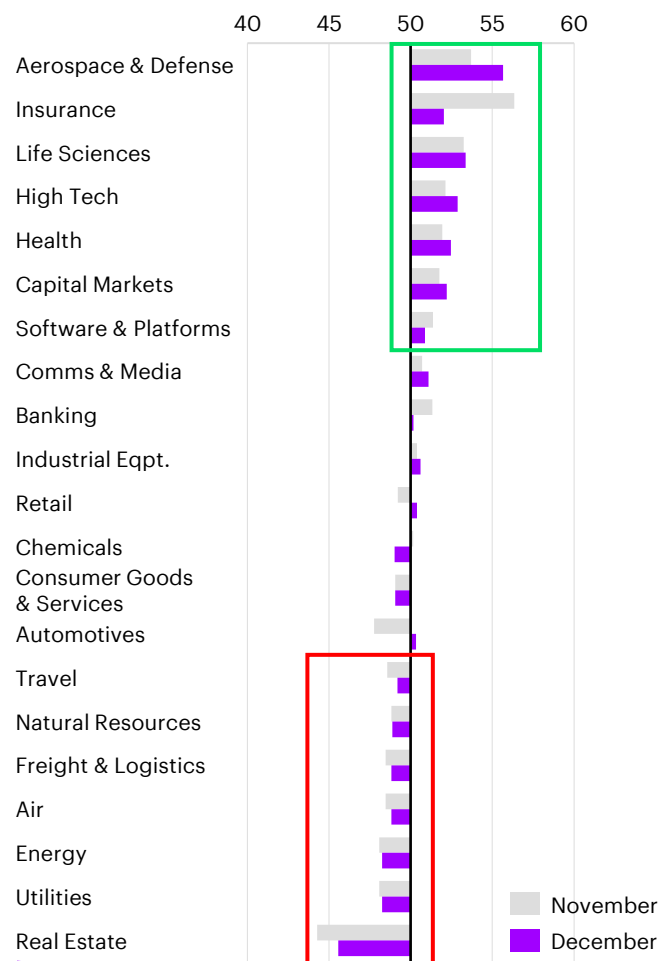
Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

Global labor market stability continued in December despite the outlook for 2023 declining, with some industries remaining cautiously optimistic

Labor markets: Global overview

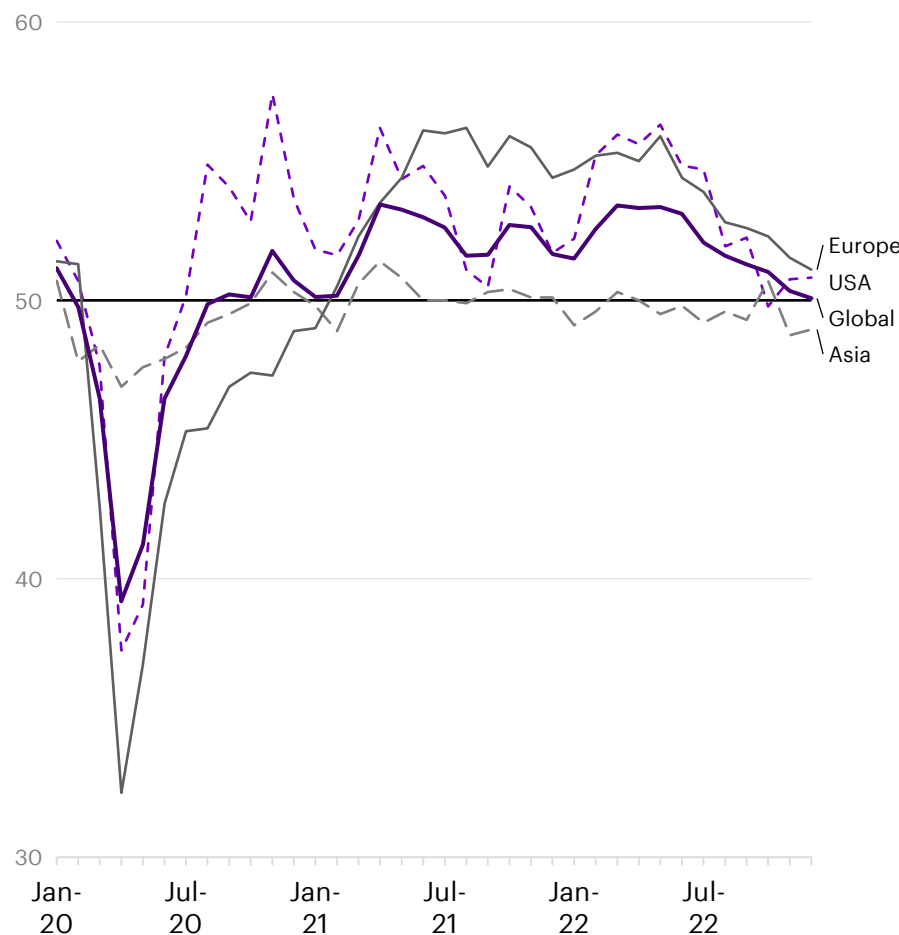
Global PMI Employment Index

November '22 vs December '22, Manufacturing and Services PMI



Aggregate PMI Employment Index

Manufacturing and Services employment PMI



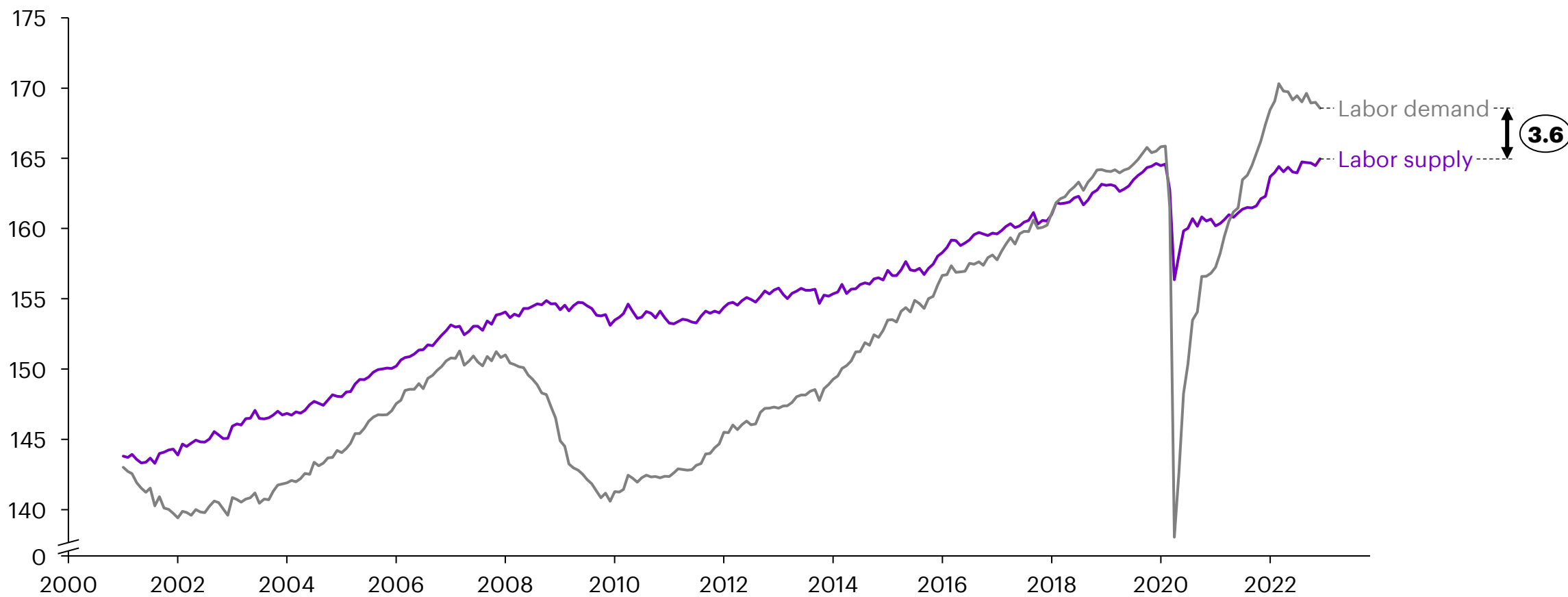
Commentary

- Asian employment contracted due to declining backlogs of work for manufactured goods
- Labor force in Aerospace & Defense continues to expand over rising geopolitical tensions
- Significant cost pass-through squeezed demand and thus hiring in energy-intensive industries like Natural Resources
- Layoffs within Real Estate continue to occur in both the retail and commercial sectors
- **Overall, a softening of the labor market remains a key area to watch heading into 2023**

The gap between labor demand and supply in the US is shrinking, but remains well above pre-pandemic levels and continues to drive wage inflation

U.S. labor supply and demand

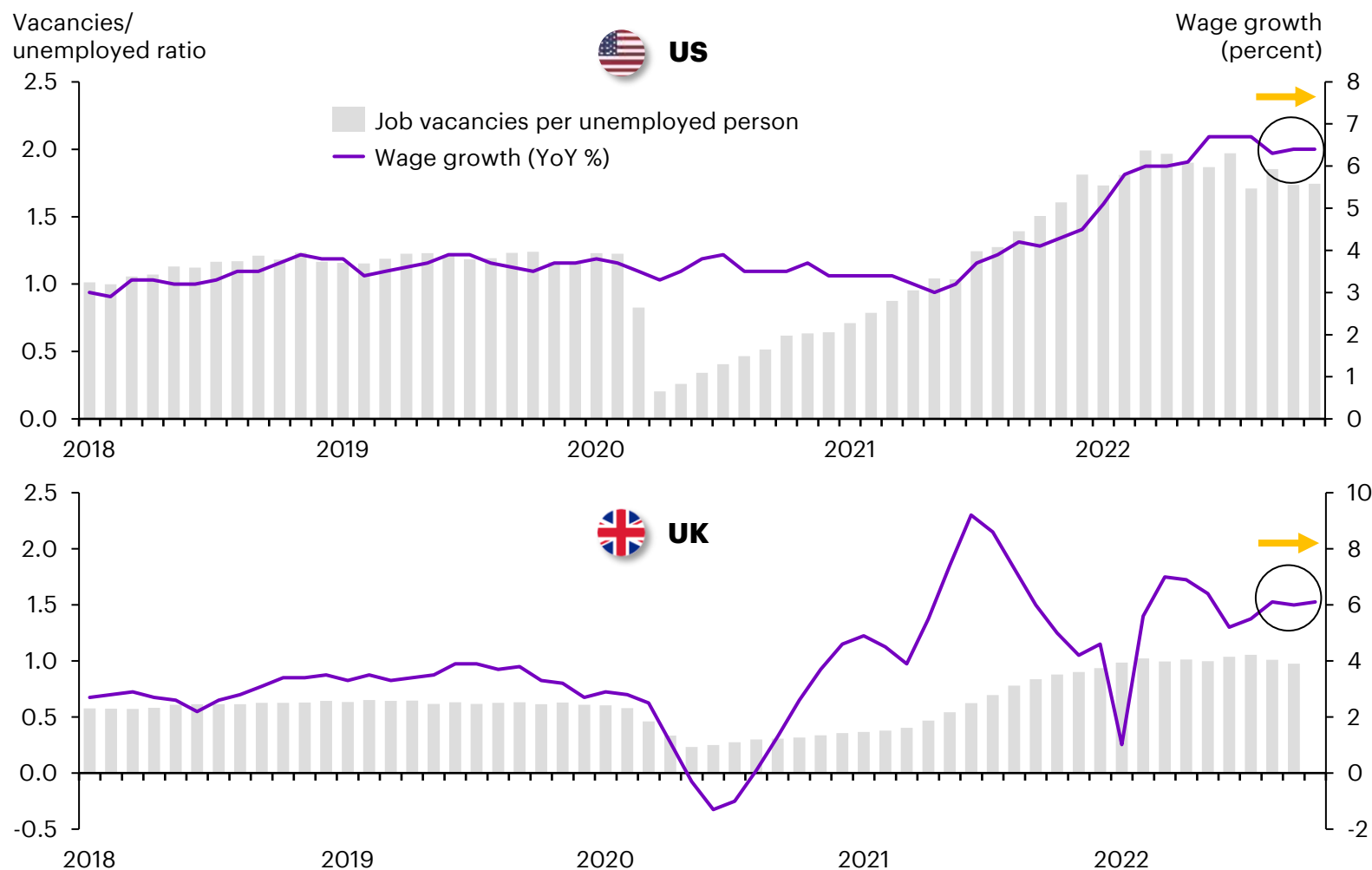
Labor force (supply) and sum of employment and job openings (demand), millions



Interest rate rises are beginning to cool US and UK labor markets, but still-high wage inflation sustains the risk of wage-price spirals

US and UK wage inflation in a context of tight labor markets

Nominal wage growth YoY and ratio of job vacancies to unemployed persons



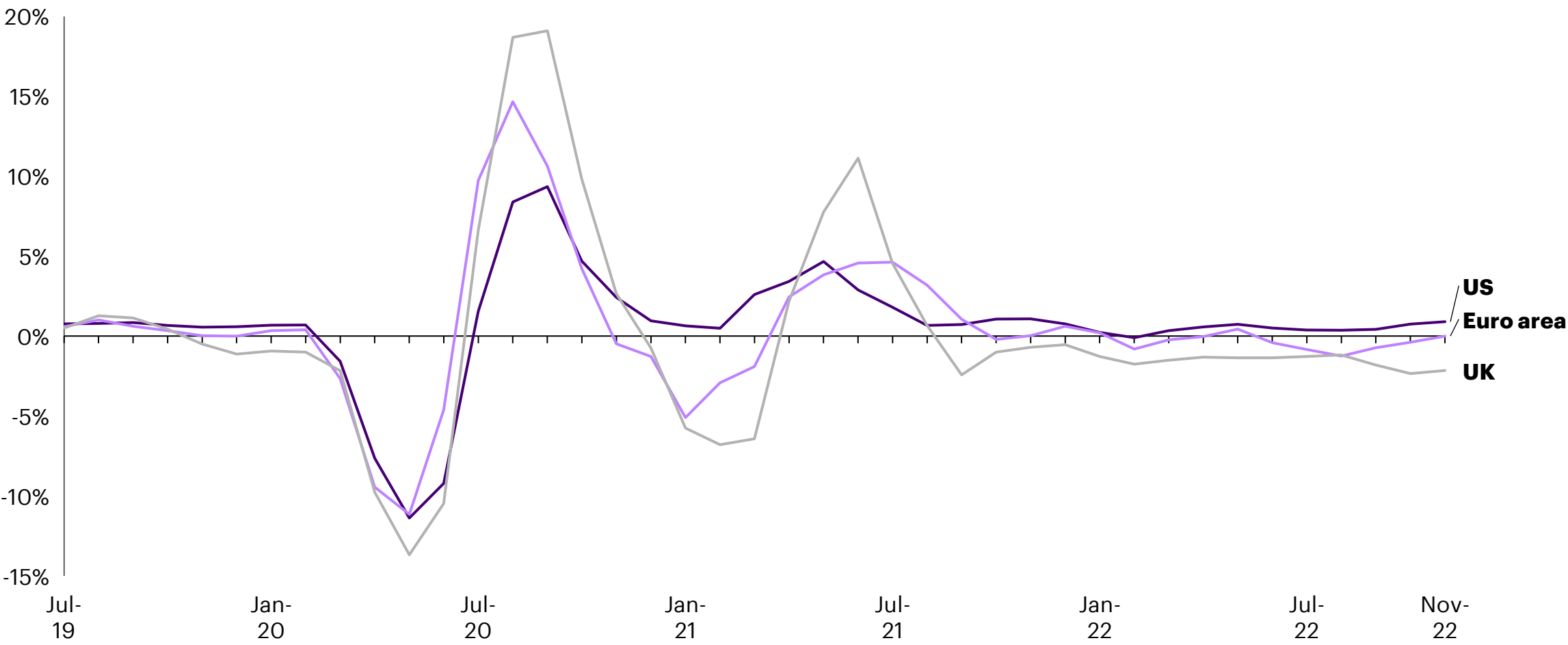
Commentary

- **US:** Job vacancies per unemployed person is trending downwards but remains elevated alongside wage growth
- **UK:** Wage growth is levelling, but the vacancies-unemployed ratio is starting to decline as the economic outlook worsens
- Despite early signs of labor market cooling, persistent high wage growth suggests wage-price spirals remain a risk in both the US and UK

Consumer spending momentum strengthened marginally in November in the US as holiday season kicked off, but remained stagnant or negative in Europe

Consumer spending trends

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

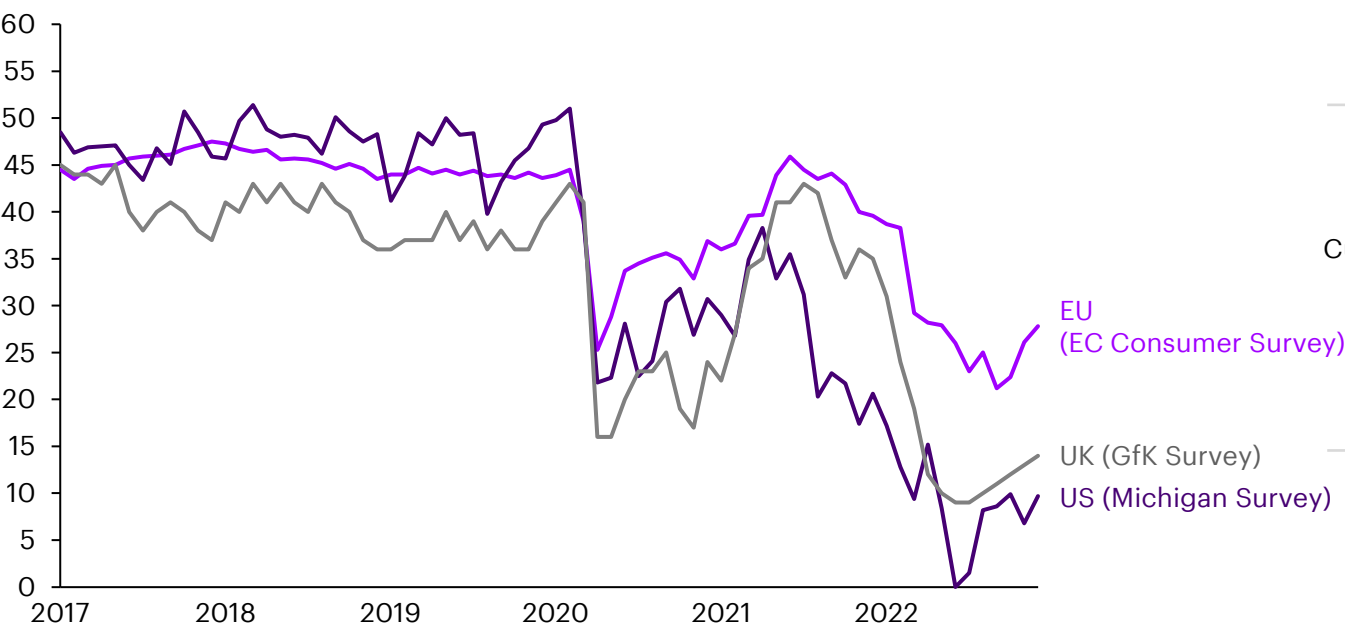


Despite rebounding sentiment across the US, UK and EU in December, consumers remain pessimistic amid ongoing cost-of-living crises and persistent economic uncertainty

Consumer sentiment remains low

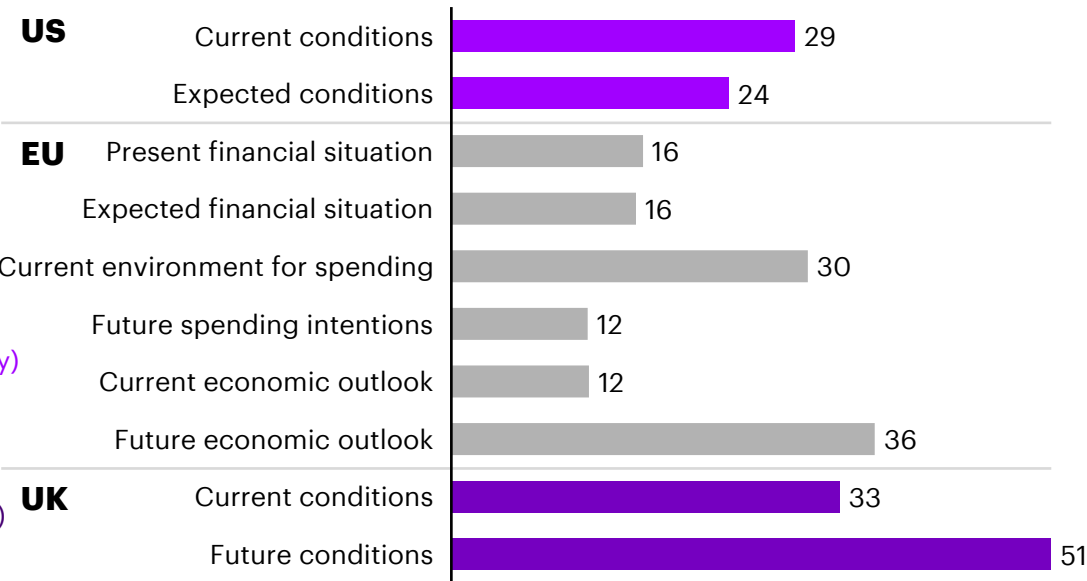
Indicators of overall consumer sentiment

Index



Deterioration in consumers' assessment of current vs. future conditions

Decline in consumer sentiment since June 2021 (index points)



- **US:** November's dip in confidence was recovered in December as inflation eased
- **UK:** Improving confidence reflected less negative outlooks on the future economic situation, but declining real wages preserved cautiousness
- **EU:** Further easing of energy prices in December boosted consumer confidence during the holiday period, but overall level remains low due to lingering uncertainty over energy supply and price developments in the medium term

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 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.

About Accenture

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.

About Accenture Strategy

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.

Copyright © 2023 Accenture. All rights reserved. Accenture and its logo are registered trademarks of Accenture.

This content is provided for general information purposes only, does not take into account the reader's specific circumstances, and is not intended to be used in place of consultation with our professional advisors. This document reflects information available as of the date of publication, and positions may be subject to change. Accenture disclaims, to the fullest extent permitted by applicable law, any and all liability for the accuracy and completeness of the information and for any acts or omissions based on such information. Accenture does not provide legal, regulatory, financial or tax advice. Readers are responsible for obtaining such advice from their own legal counsel or other licensed professionals.



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

