March Macro Brief

Financial fissures emerge

Macro Foresight

Accenture Strategy

March 2023

About this document

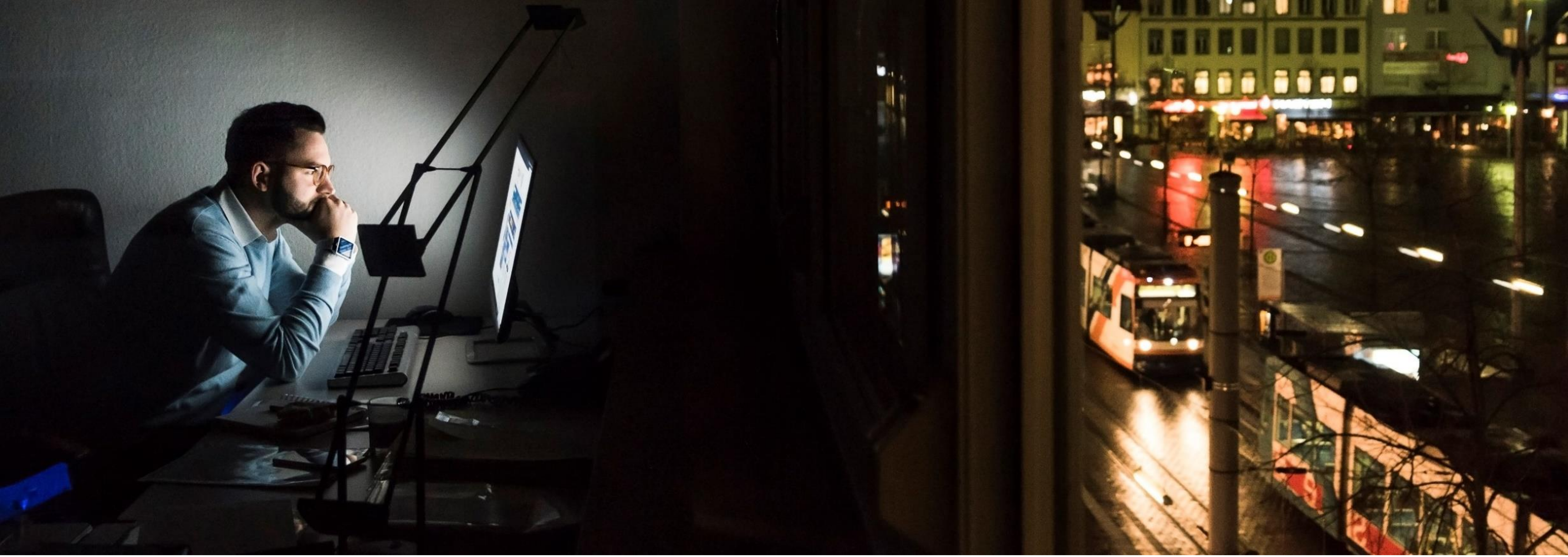
The monthly brief is intended to inform executive teams, boards and investors on the state of the economy.

Each brief includes a summary of key business-relevant macroeconomic developments globally, and a chart pack of indicators which track the overall health of the economy, business activity and consumers.

See our previous brief:
February 2023

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

Contents



1 Executive summary

March 2023
Executive Summary

Common global themes

- **Concerns about financial stress and instability cast a cloud over the global economy in March**, following the failures of Silicon Valley Bank (SVB), Signature Bank and Silvergate Bank in the US and the emergency sale of struggling Credit Suisse to UBS in Switzerland
- These events sent tremors through global markets and overshadowed continued signals of economic resilience in the recent data, including:
  - Improving PMIs and employment, though neither captures any potential hit to sentiment and activity from mid-March onwards
- Though some financial fallout was to be expected from aggressive monetary policy tightening globally over the past year, **these bank failures could trigger an accelerated credit crunch and negative confidence spirals** that bring forward the onset of recession and amplify its severity
- **Rising financial stress is occurring against a backdrop of unabating inflation**, as sequential inflation momentum continued to accelerate in the US and Europe, reflecting persistent wage pressures driving stickiness in services inflation
- **These dynamics further complicate the policy calculus for central banks globally**, who have to balance their commitment to fighting inflation against the risk of putting undue pressure on a financial system already showing fragility; the likelihood of "misses" on either goal remains high

Regional highlights

- **In the US**, indicators of financial stress are elevated, with banks drawing heavily on the Fed's lending facilities to bolster their liquidity positions. Smaller regional banks are under particular market pressure and may respond with less risk-taking and lending, weighing on economic growth. The Fed, judging this prospective credit tightening to be a partial substitute for rate hikes, stuck to a 25bp increase despite inflation concerns.
- **In Europe**, banks' earnings could take a hit as intensifying deposit competition forces down their relatively high deposit margins. Attempts to compensate via higher lending rates could also raise funding costs for corporates, as could reduced banking competition in Switzerland due to the UBS-Credit Suisse merger, and more general credit tightening as banks rein in risk-taking. Thus far, central banks in Europe appear undeterred by financial stability concerns in their fight against inflation, with the ECB, BoE and SNB following through with signaled rate hikes.
- **In APAC**, banking sectors appear well capitalized, and concerns relate mainly to difficulties accessing USD funding in moments of high market volatility and low liquidity. In prior crises, APAC central banks have usually secured USD swap lines with the Fed, which help mitigate this risk.

Key considerations and priorities for clients

- **Banks** should stress-test portfolios under a range of scenarios including the new behavioral deposit patterns being seen, assess liquidity of assets, review concentration risks to mitigate over-exposure, and re-evaluate investment portfolio hedging strategies
- **Non-financial corporates**, especially tech firms, should consider reviewing their treasury and risk management functions, transforming their strategy and infrastructure to protect and optimize cashflow
- **PE/VCs and asset managers** may face increased redemptions and scrutiny of illiquid assets, as well as challenges with new fundraising
- **All company types** should consider incorporating more adverse financial contagion and economic fallout scenarios into their strategic, operational and investment planning

Source: Accenture Strategy analysis

Growing financial system stress is putting financial risk back in the spotlight for companies, in parallel to ongoing inflation and recession concerns

Top-of-mind questions for companies to consider

"How should we prepare for potential contagion from ongoing banking sector stresses?"

"How resilient are our treasury and risk management strategies to declining market liquidity?"

"Is inflation or financial instability the bigger risk for the rest of 2023?"

Source: Accenture Strategy analysis

Recent data show improving economic momentum, but rising financial risks and persisting inflationary pressures continue to cloud the economic outlook

Country economic health snapshot

AS OF MARCH 24

Deteriorating | Indicator | Strengthening

	Services PMI	Manufacturing PMI	Industrial Production	Business Confidence	Consumer sentiment	Unemployment rate	Retail sales	CPI Inflation	Comments
USA*	53.8	49.3	-0.2%	Declining	-3.6	3.6%	0.3%	6.0%	• Simultaneous tightening of lending standards and ongoing rate hikes are likely to weigh on economic growth in H2
UK*	52.8	48.0	0.3%	Improving	+2.0	3.7%	0.3%	10.4%	• Surging food prices and growing funding challenges are likely to pressure consumers and businesses in Q2'23
Germany*	53.9	44.4	0.1%	Improving	+3.4	3.0%	-0.4%	9.2%	• 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*	55.5	47.7	0.3%	Improving	-0.6	7.0%	-1.1%	7.3%	• Expansion in services activity can boost growth, offset by rising producer input costs and growing cost of living crisis
Italy	51.6	52.0	0.9%	Improving	+3.1	7.9%	0.3%	9.7%	• Low energy prices and lesser reliance on Russian gas may boost energy-intensive sectors such as chemicals and steel
Spain	56.7	50.7	0.0%	Improving	-1.4	13.1%	+0.7%	6.0%	• Exposure to a slowdown across EU trading partners and lag in tourism recovery is likely to weigh on economic growth
China	55.0	51.6	1.5%	Declining	+1.8	5.6%	2.5%	1.0%	• Economic re-opening post zero-COVID policies is expected to boost local consumption and manufacturing activity
Japan*	54.2	48.6	-1.8%	Declining	+0.8	2.4%	-0.1%	3.3%	• Elevated consumer price pressures and high raw material costs for manufacturing may hinder economic recovery
Brazil	49.8	49.2	0.1%	Declining	+0.5	7.9%	-1.1%	5.6%	• Export boost from elevated commodity prices and China's re-opening should help cushion economic growth
Australia*	48.2	48.7	0.6%	Declining	-5.8	3.5%	-0.2%	7.8%	• High price pressures and input costs, along with tightening consumer belts, are likely to weigh on pace of recovery
India	59.4	55.3	2.4%	Declining	+0.8	7.5%	n/a	6.4%	• India's economic resilience and continued robust growth remains a bright spot in the global economy

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

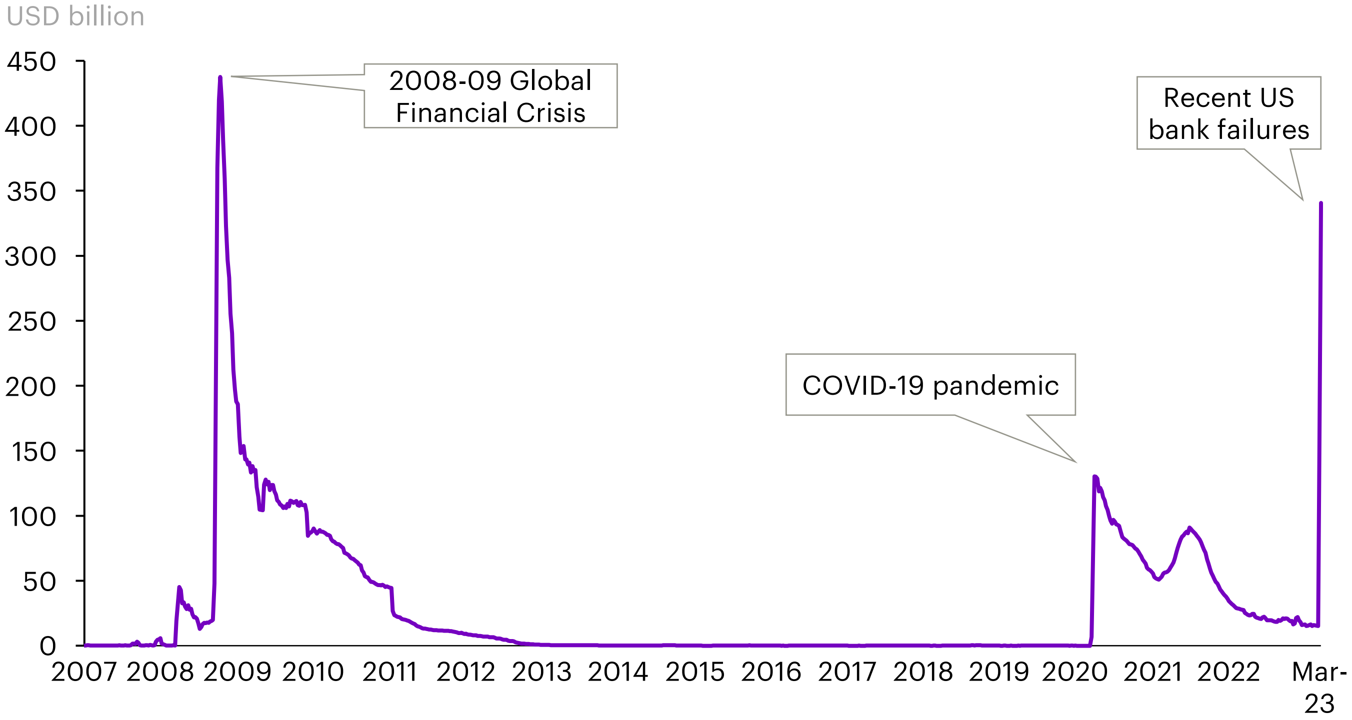
2 Spotlight developments

North America

Financial stress is elevated in the US in the aftermath of regional bank failures, fueling economic uncertainty and prompting companies to re-evaluate internal and external risks

Banking sector stress and scramble for liquidity

US commercial bank borrowing from the Federal Reserve



Implications for corporates

- Banks should expect, among other challenges, to face:
  - Increased market pressure due to re-pricing of assets, flight to quality, volatility and monetary policy uncertainty
  - Regulatory fallout, including increased scrutiny, heavier capital requirements, and a focus on liquidity and treasury functions
- Non-financial corporates will be under pressure to review their own liquidity management and interest rate hedging strategies, and counterparty risks with banking partners
- PE/VCs and asset managers may face increased redemption pressures and scrutiny of illiquid assets, as well as challenges with new fundraising
- All companies should consider incorporating more adverse financial and economic fallout scenarios into their strategic, operational and investment planning

Commentary

- US banks are scrambling to shore up their liquidity positions—their use of the Federal Reserve's liquidity facilities has surged to above pandemic-time levels, and is fast approaching the peaks reached during the 2008-09 Global Financial Crisis
- Banks' share prices have dropped ~25% since mid-March, compared to -0.4% for the broader S&P 500
- The FRA-OIS spread—an indicator of perceived banking sector credit risk—has spiked since March 8 to its highest level since the pandemic
- US Treasury yields have fallen across the maturity curve as investors flock to safe haven assets

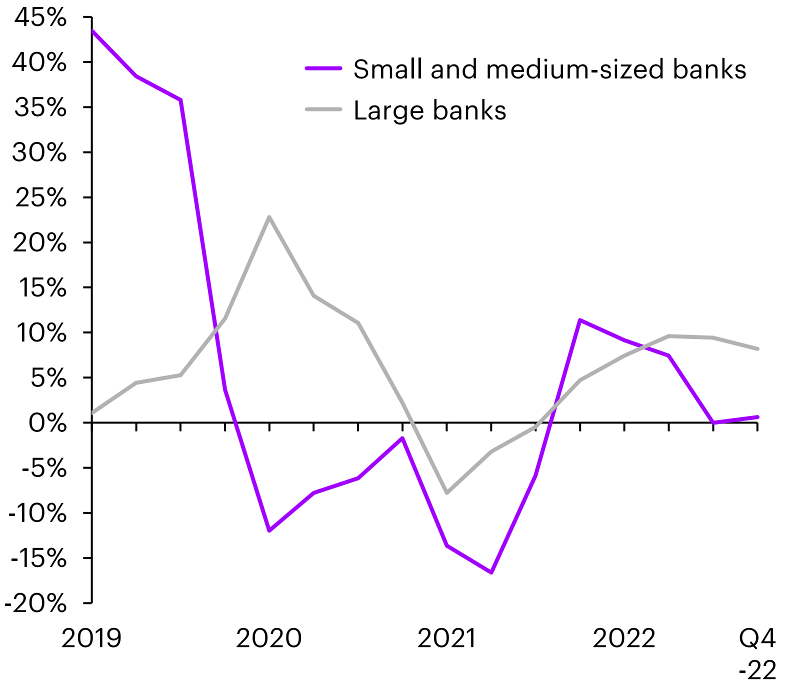
Sources: Federal Reserve, S&P Global, BLS, Accenture Strategy analysis

Greater market and regulatory pressures on smaller US banks could intensify the credit contraction already underway due to recent monetary policy tightening

Credit growth and lending standards among US banks

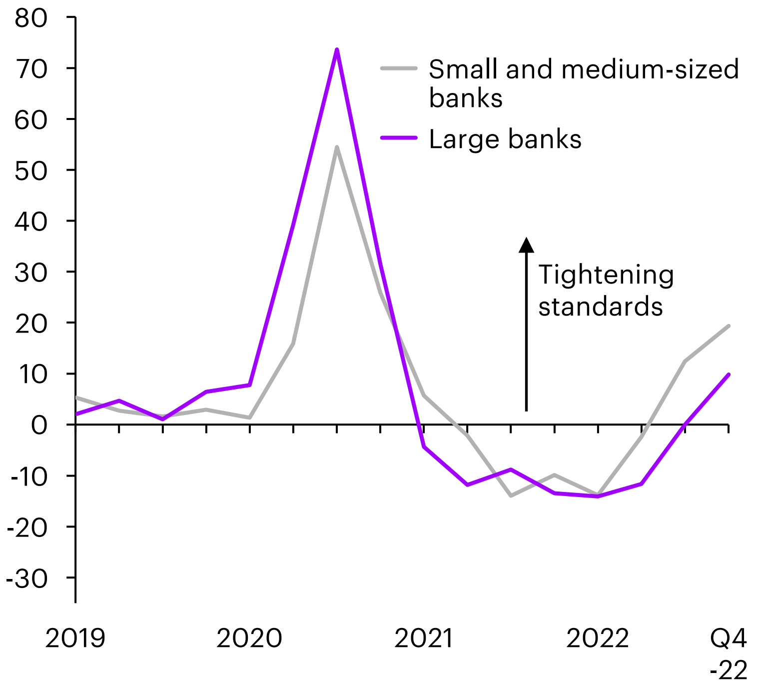
Commercial bank lending to private sector

Growth in outstanding loan balance (YoY%), quarterly data



Credit standards on bank loans

Net change in standards (tightening standards > 0)



Implications for corporates

- Companies relying on small and medium banks for financing (notably commercial real estate developers) may find borrowing from these banks becomes more costly or restrictive going forward
- At the same time, companies may start earning a higher return on their deposits at these banks (as banks compete to shore up their deposit base)
- Stricter lending standards would be tantamount to further tightening of financial conditions, and have a similar economic impact as Fed rate hikes
  - Emerging signs of a credit crunch may encourage the Fed to slow or reduce its planned rate hikes

Commentary

- Small and medium-sized banks—those with less than USD 250 billion in assets—account for more than 50% of bank lending to households and corporates in the US, and are especially important for commercial (80%) and residential (57%) real estate lending
- A pullback in lending by these banks could therefore affect financing and investment prospects for large parts of the US economy
- However, banks have already been scaling back loan volumes amidst tightening financial conditions, so further pullback may not be a game-changer

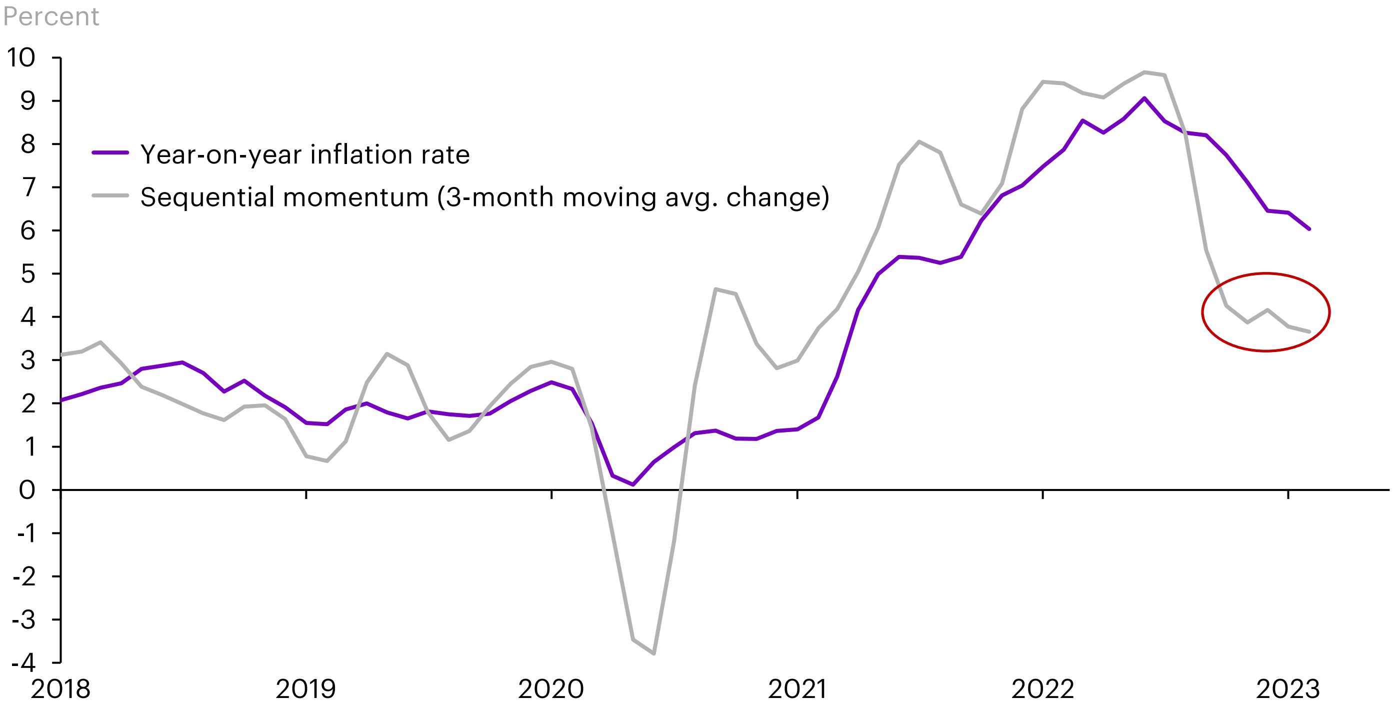
Notes: (1) Small- and medium-sized banks (SMB) are defined as FDIC-insured institutions with assets under USD 250 billion, while large banks are those with assets over USD 250 billion;
(2) The Lending Standards metric consists of a weighted index of a subset of US Fed survey responses calculated by Accenture

Sources: Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System (US), Haver analytics, Accenture Strategy analysis

Sequential inflation momentum is still not subsiding, even as base effects continue to bring down the headline inflation rate

CPI inflation trends in US

Year-on-year CPI inflation and its sequential short-term momentum



Implications for corporates

- Further declines in year-on-year headline inflation rates can be expected in the coming months due to base effects, but are not necessarily an indication of receding inflation momentum
- The Fed will likely pay closer attention to underlying momentum measures, which continue to suggest that further monetary policy tightening may be needed to bring inflation closer to its 2% target rate
- Companies should plan for scenarios where inflation remains stuck at 3-4% for the remainder of 2023 and beyond

Commentary

- While negative base effects (from high price levels in early 2022) are driving down the year-on-year CPI inflation rate, sequential inflation momentum has remained steady at around 4% in recent months, pointing to continued price "stickiness"
- Other measures of "underlying" inflation momentum—core CPI, median CPI, trimmed mean CPI—also show little recent deceleration, reflecting high services inflation underpinned by a tight labor market
- Barring outright month-on-month price declines going forward, there is a high chance that inflation does not fall below 3-4% by year-end

Sources: BLS, Accenture Strategy analysis

Europe


Powered by Bing
© Australian Bureau of Statistics, GeoNames, Microsoft, Navinfo, OpenStreetMap, TomTom, Zenrin

Credit Suisse's troubles were largely structural and idiosyncratic, but could have broader repercussions for Swiss banking and for the European banking system

Credit Suisse fallout implications

Share prices of Credit Suisse and European banks index (rebased)

Implications for corporates

- Credit Suisse was largely an asset manager but has a significant investment bank and Swiss retail and corporate bank business
- The deal with UBS represents a merger of the top two Swiss domestic banks
  - This could reduce competition in the market for both retail and investment banking, pushing up prices for customers
- Treasury operations and risk therein will come into renewed focus for corporates as deposit insurance remains limited for these customers

Commentary

- Even before the events in the US banking system, a range of scandals, fines, failed strategies and management changes meant Credit Suisse had significantly underperformed its European peers—evidenced by the growing gap in its share price compared to European bank average
- Credit Suisse had already lost 40% of its deposit base in 4Q22 and quickly came into the spotlight as market scrutiny of banks vulnerable to deposit flight intensified

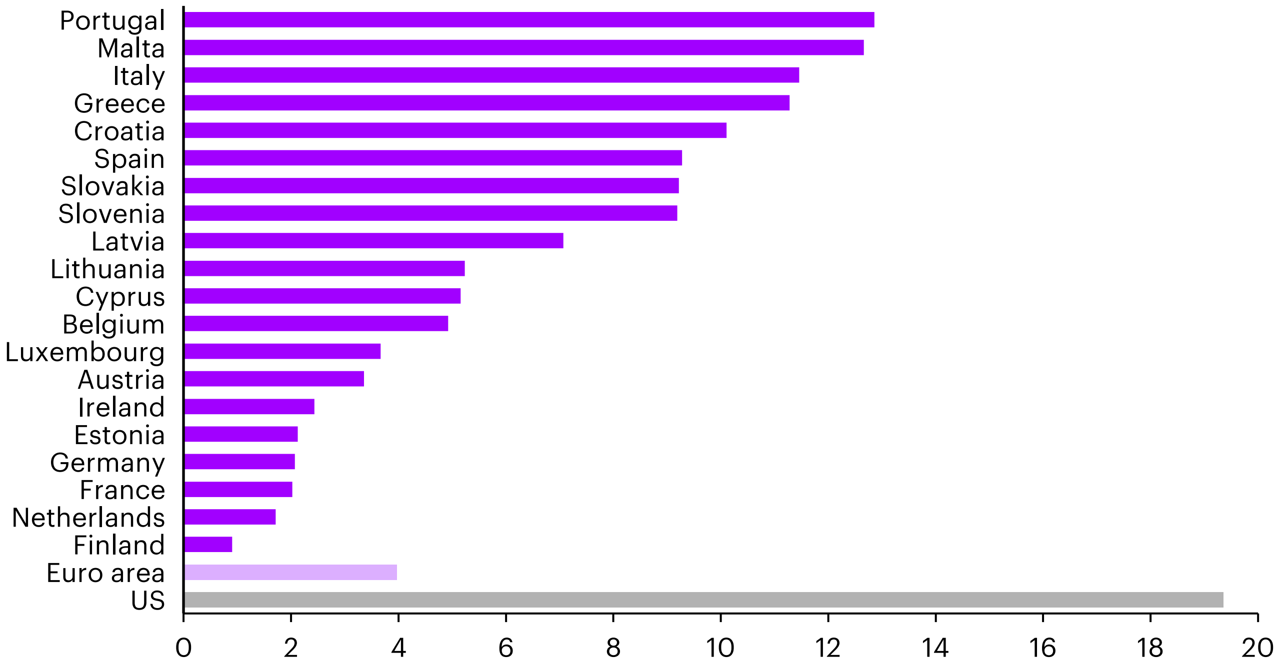
Sources: CapitalIQ, Accenture Strategy analysis

European banks generally have lower sovereign debt exposure than US banks, but negative confidence effects could still lead to tighter credit standards and reduced lending

European economies' banks sovereign debt levels

Sovereign debt securities as a % of total bank assets, by economy

Percent (as of December 2022)



Implications for corporates

- Confidence events can feed through to the real economy quickly, meaning we may see weaker consumer activity, lowered investment and profit pressure.
- If fears around sovereign debt exposures and mark-to-market positions spread, Italian banks (especially smaller ones) may become a particular source of concern
- A general rise in banks' funding costs is likely to feed into reduced credit availability, particularly to riskier sectors like SMEs, leveraged lending and commercial real estate.
- Slowing of rate hikes by European central banks in anticipation of such credit tightening could help limit increase in funding costs for corporates
    - However, central banks will have to weigh the risks that a more dovish monetary policy stance creates for their commitment to fight inflation

Commentary

- Portugal, Italy and Greece are the major countries with the largest exposure to sovereign debt within their banks' balance sheets. However, the failure of Silicon Valley Bank (SVB) was more about the failure to hedge this exposure, something which is a more standard practice within Europe.
- Liquidity requirements and stress tests are a common feature in Europe, without similar carve-outs to those allowed in the US which led, in part, to the SVB failure.

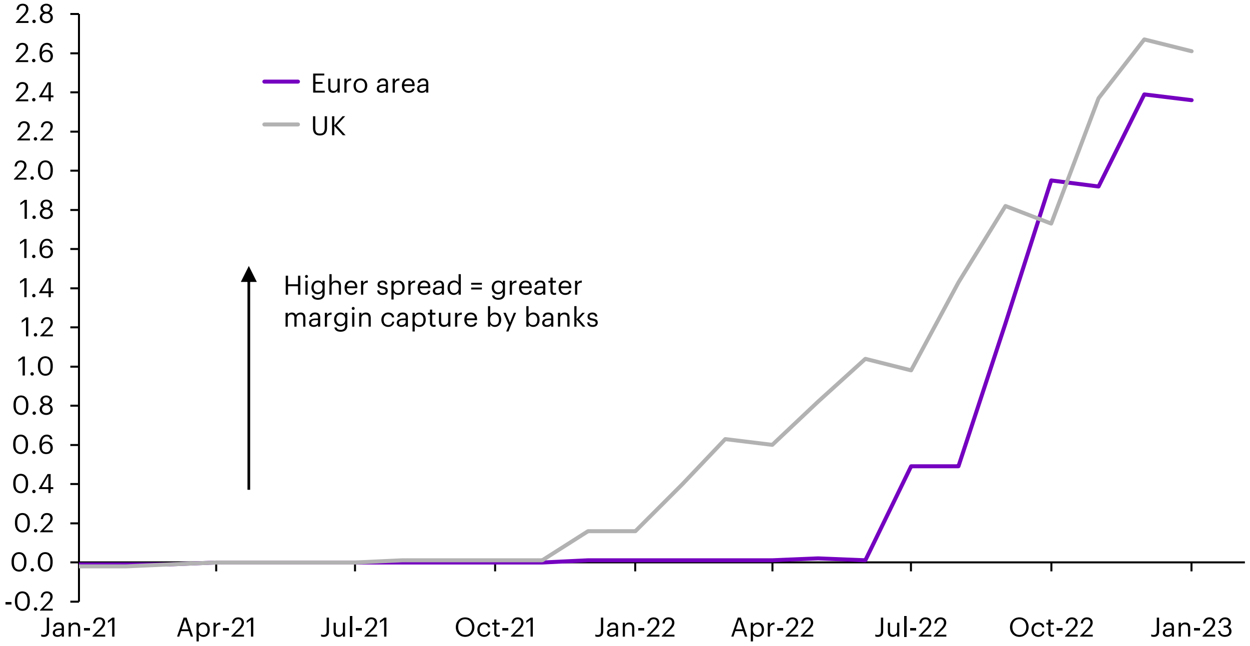
Sources: ECB, Haver Analytics, Accenture Strategy analysis

European banks have been slow to pass on interest rate increases to their depositors, but this dynamic could now change as competition for deposits intensifies

European deposit pricing moves

Overnight bank deposit spreads* in the Euro area and UK

Difference between central bank policy rate and banks' average deposit rates (percentage points)



Implications for corporates

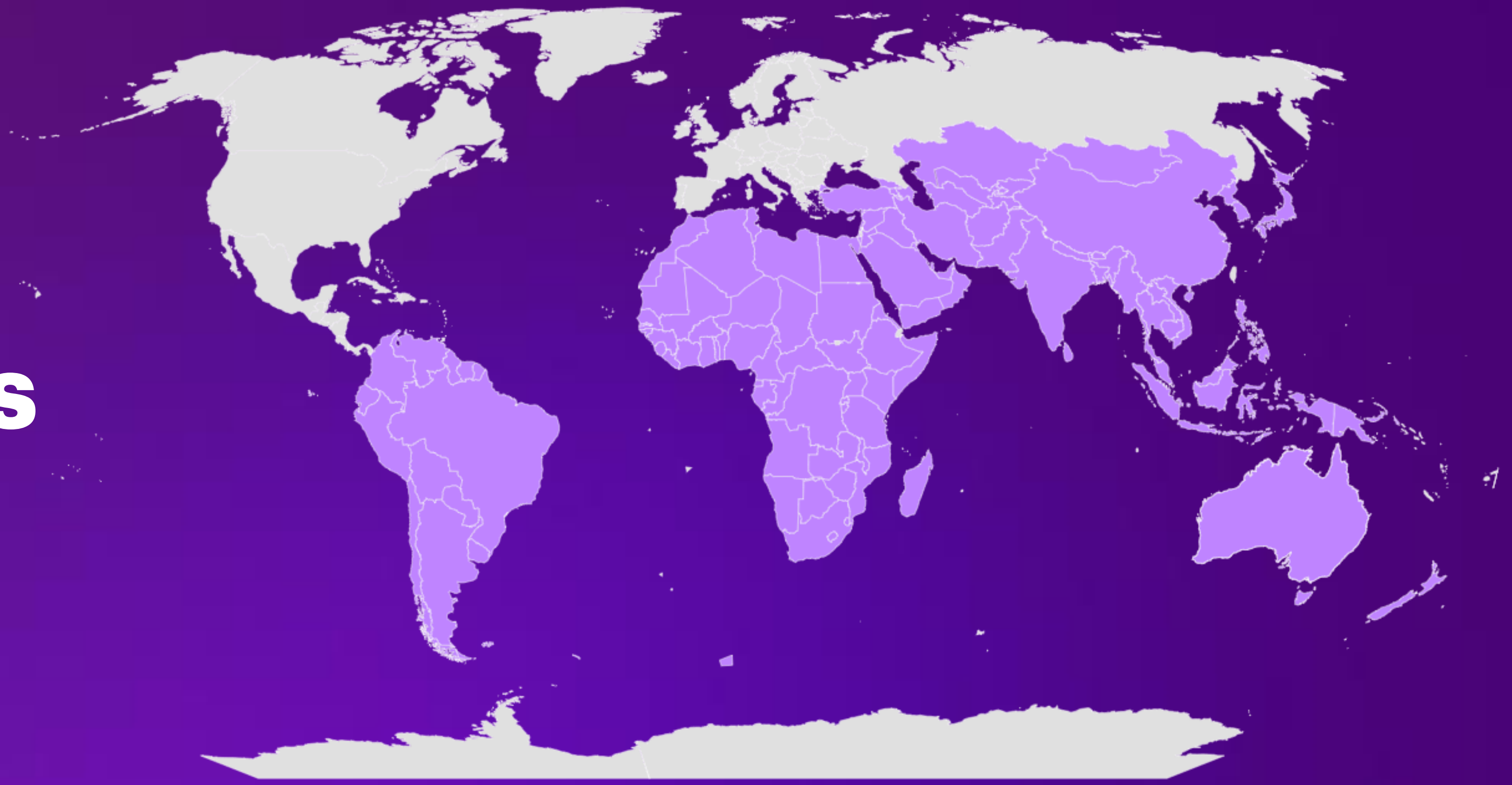
- Cash rich corporates could see revenue benefits on cash balances held
- Greater deposit pricing pressure is likely to weigh on bank earnings in the near term
  - Banks have a tendency to pass this margin pressure through to the lending side of their business, which could drive up borrowing costs for small businesses
- Banks competing for funding in short-term money markets could also lead to higher funding costs in capital markets for larger corporates

Commentary

- Central banks' reference deposit rates in both Euro area and UK (i.e., the rate that banks can earn by depositing funds at the central bank) remain significantly higher than the deposit rates that banks are offering their own customers. These growing deposit "spreads" highlight how much European banks have benefitted from rising policy interest rates (via improved margins) at the expense of their depositors.
- The "deposit beta"—the pass-through of changes in central bank base rates to commercial banks' deposit rates—was near 100% at both Silicon Valley and Signature banks. The contrastingly low beta in Europe could come under pressure as banks try to avoid customer deposit flight.

Note: Reference central bank policy rate in UK is Bank of England's Bank rate, and the ECB's deposit rate in the Euro area.
Sources: ECB, Haver Analytics, Accenture Strategy analysis

Growth Markets

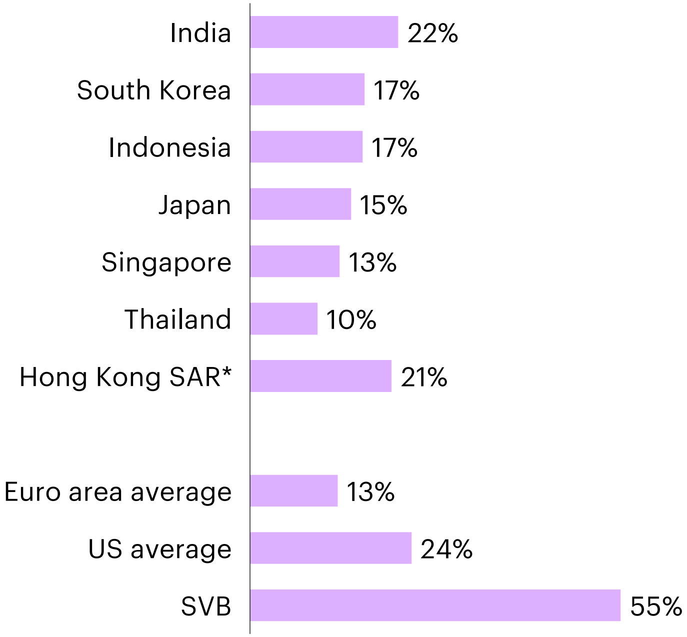


Interest rate risk on securities portfolios is a general concern for APAC banks, but it does not appear more pronounced than it is for banks in the US or Europe

Asian banks' exposure to investment securities

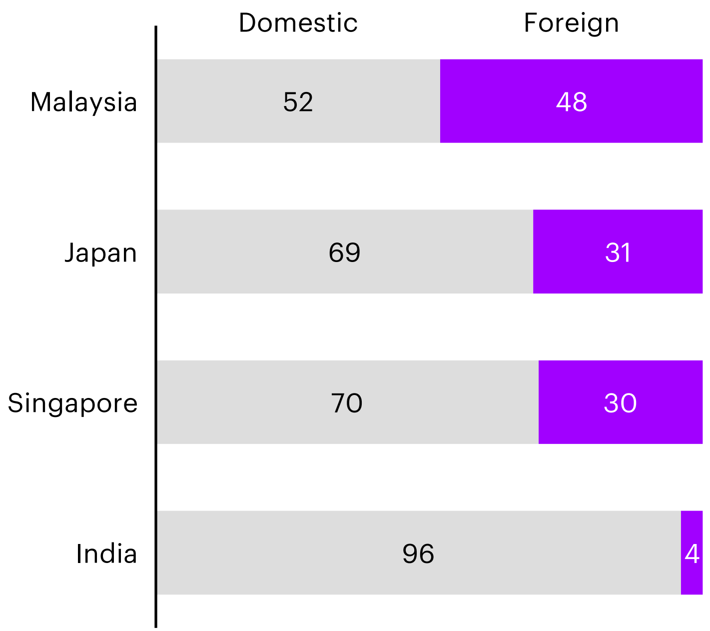
Banks' debt securities as % of total assets

Select APAC countries banking sector (%, latest)



Composition of banks' debt securities portfolio

As % of total debt securities, 2022



Implications for corporates

- Depending on their individual hedging practices, some APAC banks may face mark-to-market losses on their securities portfolios due to interest rate swings
- The risk that such losses trigger widespread deposit flight and a liquidity squeeze for banks and other corporates appears relatively low, however:
  - Past APAC episodes of deposit flight were driven mainly by currency depreciation or rising yield differentials, rather than market fluctuations in bond values
  - Bank stress-testing practices and regulatory oversight in China, India, Indonesia and Singapore are largely compliant and on par with EU and US Basel III-related standards

Commentary

- Banks in Malaysia, Japan and Singapore hold sizeable amounts of foreign debt securities (including US Treasuries), potentially exposing them to declines in the market value of these securities due to ongoing increases in US and European interest rates
- Meanwhile, Indian banks are particularly vulnerable to domestic interest rates increases, due to their large domestic securities holdings
  - Reserve Bank of India has raised interest rates by 250 bps since early 2022

*Hong Kong (negotiable debt, including negotiable certificates of deposit)

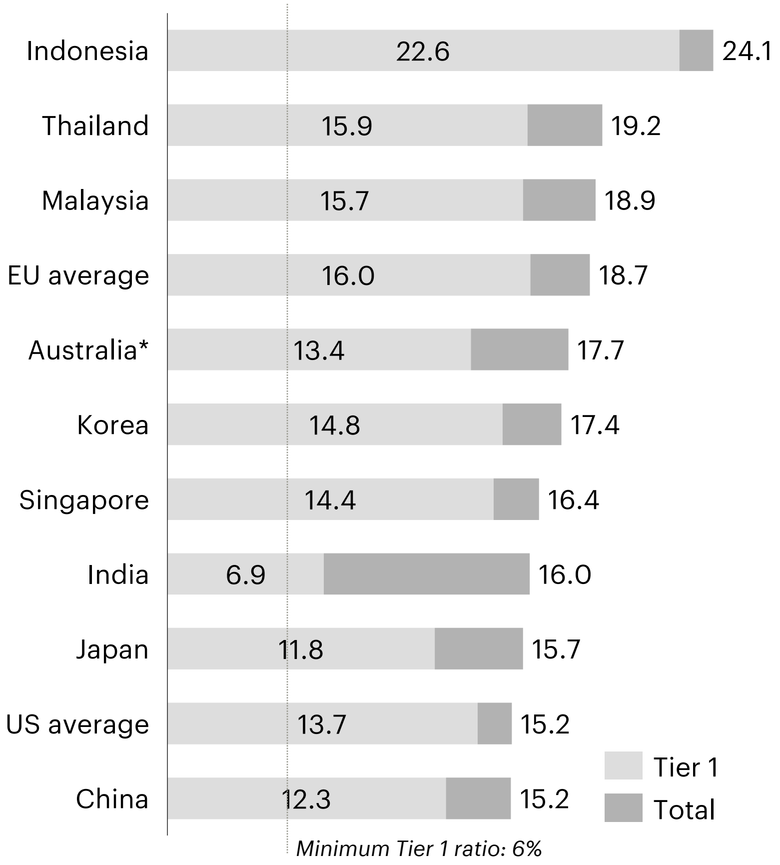
Source: Capital IQ, Haver, national central bank statistical databases, Accenture Strategy analysis

In general, banking sectors in APAC are even better capitalized than in the US, and central banks have been able to rely on USD swap lines in times of crisis to mitigate liquidity risks

APAC bank capitalization and central bank emergency liquidity facilities

Banking Sector Capitalization

Tier 1 Capital, Tier 1+2 Capital Ratios (%, latest available)



APAC Central Bank FX Liquidity Programs

Central bank	USD liquidity access arrangements with the US Federal Reserve	
	Current arrangements	*Past arrangements*
People's Bank of China	None	None
Hong Kong Monetary Authority	None	*None, but large USD reserves held due to HKD peg with USD*
Bank of Japan	Permanent USD swap line	Ongoing since 2010
Bank of Korea	None	Currency swap arrangement: • 2008 – 2010, USD 30 billion • 2020 – 2021, USD 60 billion
Monetary Authority of Singapore	None	Currency swap arrangement: • 2008 – 2010, USD 30 billion • 2020 – 2021, USD 60 billion
Bank Indonesia	None	Dollar liquidity swap line (repo): • 2020, USD 60 billion
Reserve Bank of India	None	None

Implications for corporates

- APAC corporates may struggle to access US dollars in moments of heightened market uncertainty/volatility and declining liquidity
- APAC central banks can help mitigate this risk through USD swap arrangements with Fed
    - Currently only Bank of Japan has a standing facility, but other APAC central banks have precedent in securing USD swap lines from the Fed in times of crisis

*In Australia the Tier 1 minimum capital requirement for the big four banks is 10.5%, higher than peer countries

Sources: National central banks and financial sector supervisory agencies, FRED database, Haver, Accenture strategy analysis

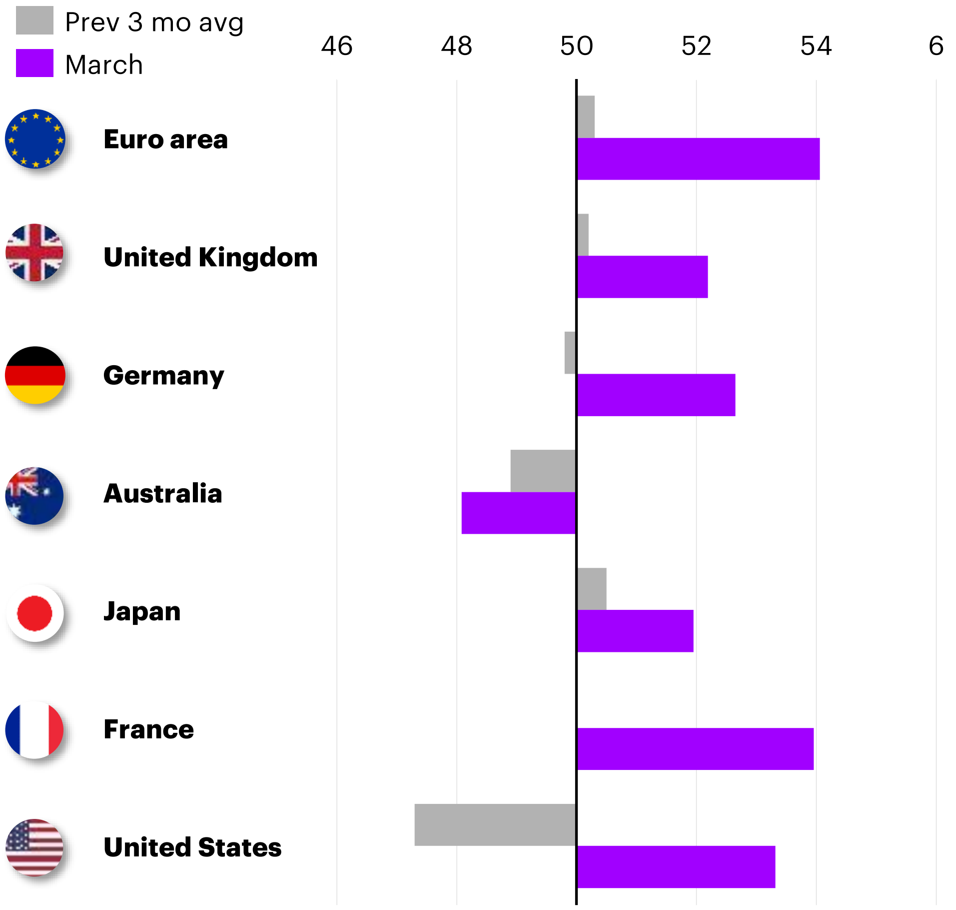
3 | Economic indicator chart pack

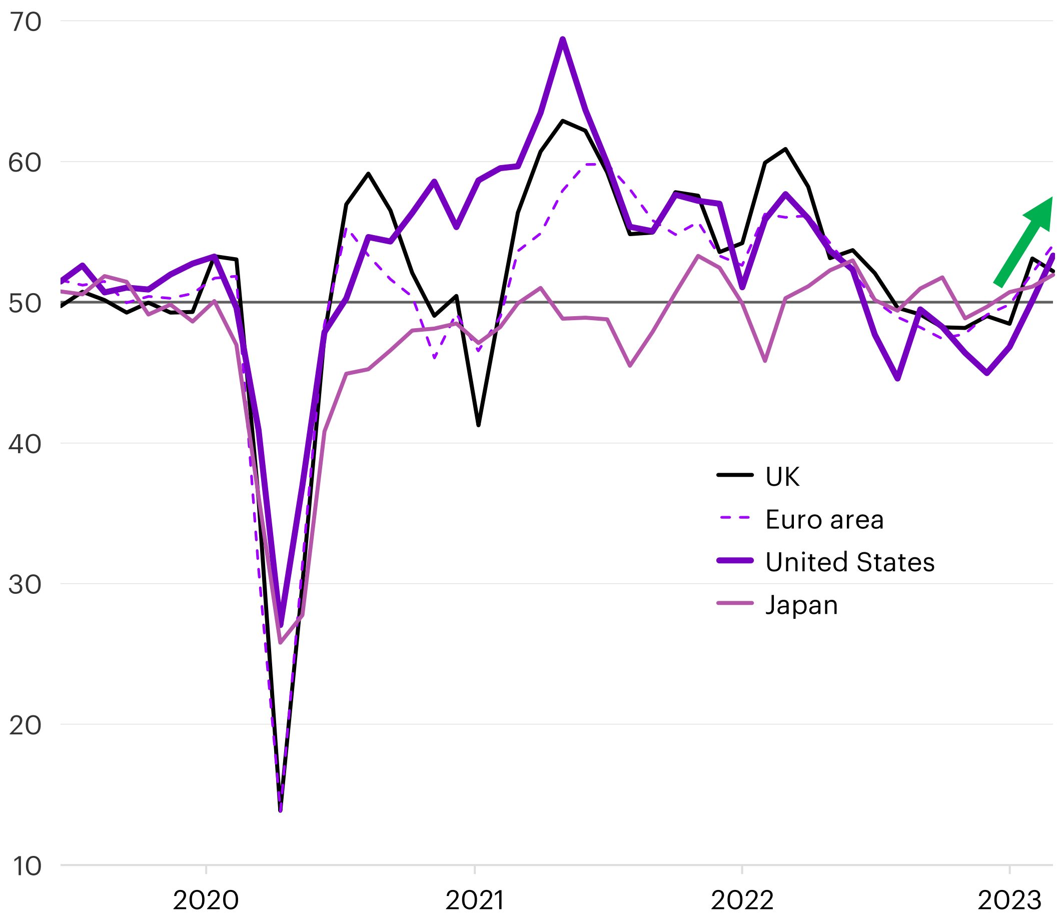
Regional and industry activity

Mid-month readings of business activity health in March showed further improvement, but do not capture likely impact of rising financial stress in second half of March

March Flash PMI country snapshot

Composite PMI Output / Activity



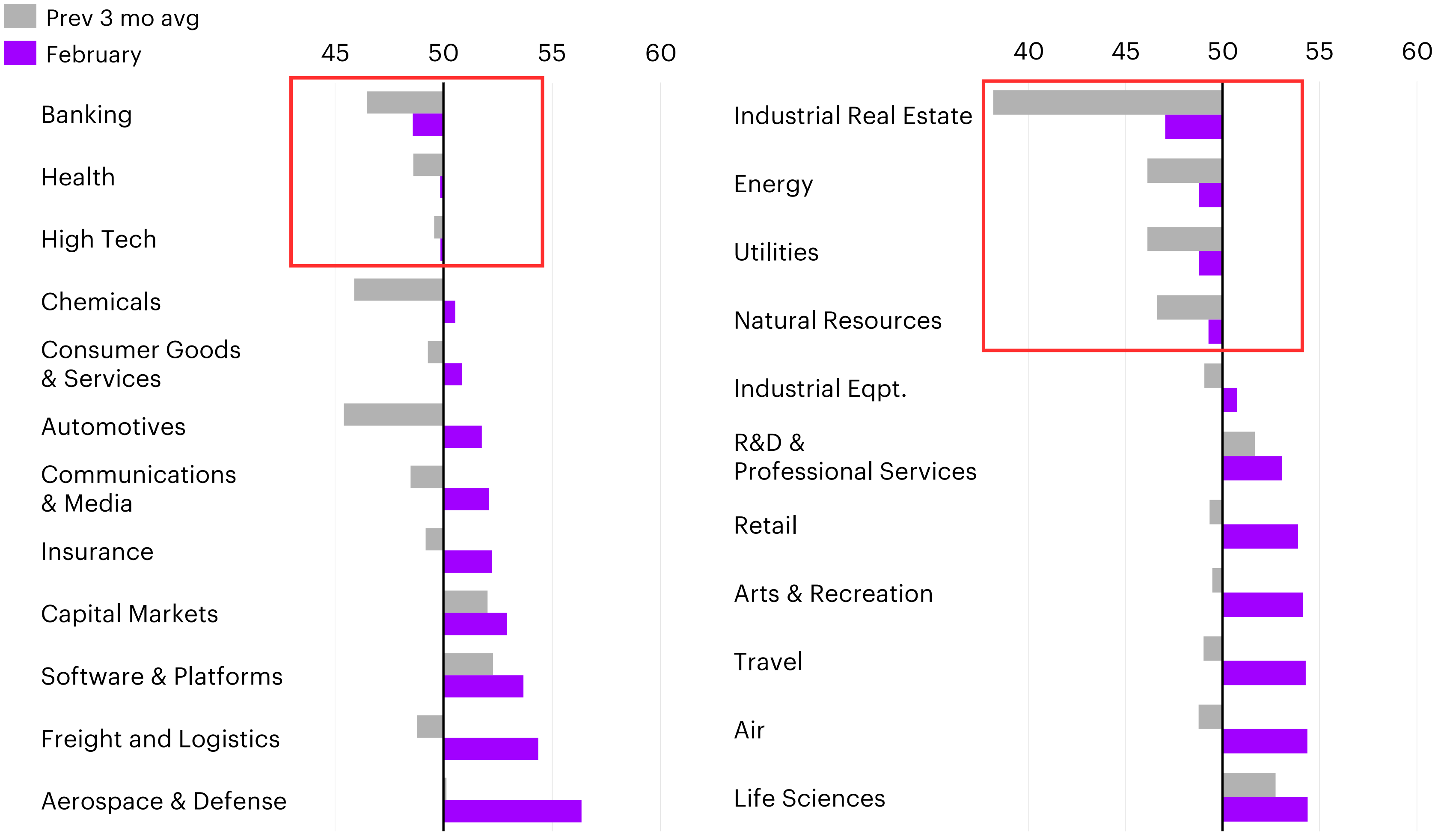


Sources: S&P Global, Accenture Strategy analysis

Consumer-facing industries trended upward in February while real estate, energy and utilities remain in contraction

Global Industry PMI snapshot

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



Commentary

- Real estate, energy and utilities have been in contraction as prices correct
- Failures of Silicon Valley Bank, Silvergate Bank and Signature Bank have highlighted stress in the banking sector
- Large orders for new aircraft from airlines and increased military spending post Russian invasion, have boosted outlook for aerospace & defense sectors
- Consumer facing industries Consumer Goods, Travel, Arts and recreation, and Airlines remain resilient

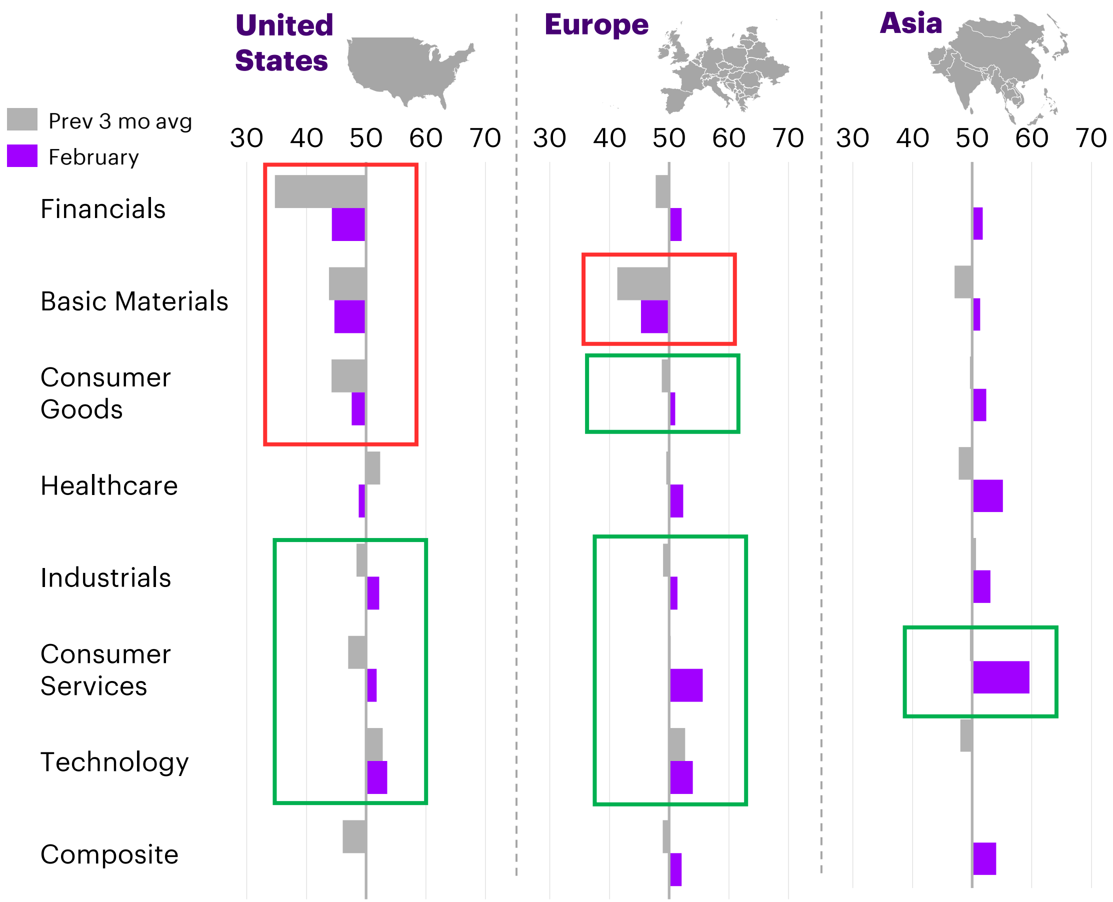
Note: A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month
Sources: S&P Global, Accenture Strategy analysis

Tightening financial conditions continue to weigh on US demand while Europe and Asia remained resilient

Regional PMI overviews

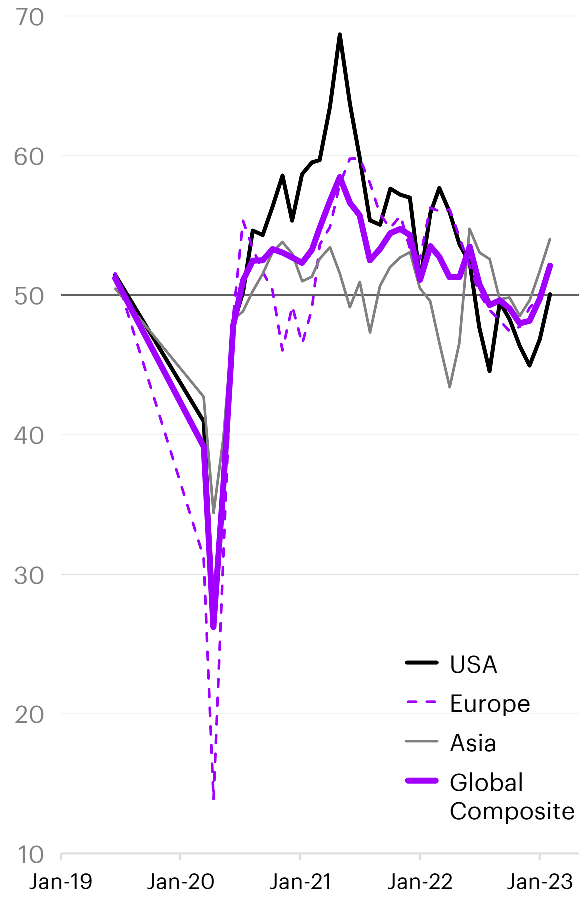
Regional industry performance

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



Regional performance

Composite PMI Output / Activity



Commentary

- Financials continue to underperform in US due to high input costs, lack of new orders and work backlogs
- Basic Materials continues to contract, reflecting weak new orders and high backlogs

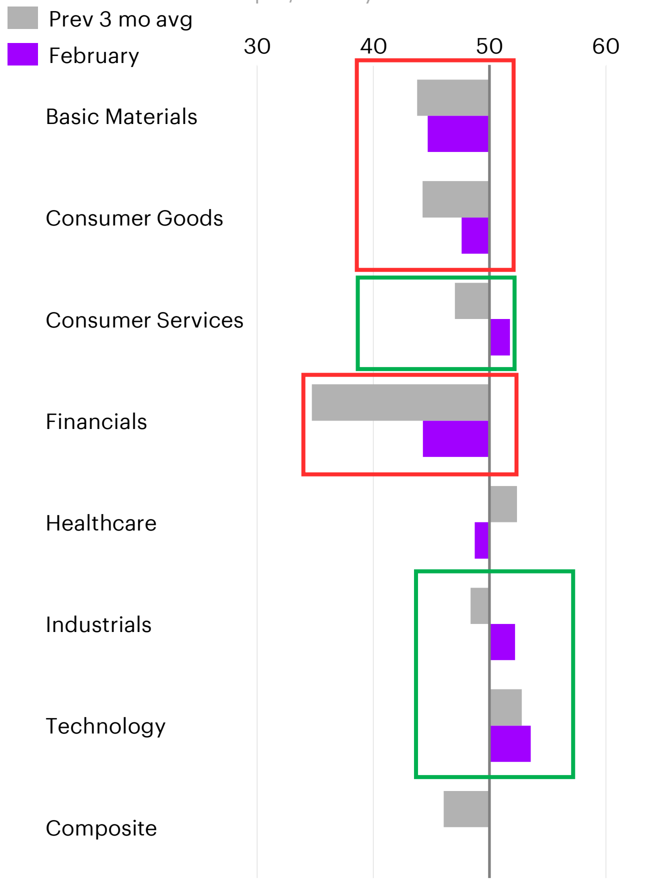
Note: Industry names are aligned with Tier 2 IHS industry classification: Basic Materials (Chemicals, Resources); Consumer Goods (Auto, Beverages & Food, Household & Personal Products); Consumer Services (Media, Tourism & Recreation); Financial Services (Banks, Insurance, Real Estate); Health (Healthcare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

In the US, Basic Materials, Financials and Consumer Goods continue to struggle; growth momentum for Consumer Services and Industrials turned positive in February

Regional outlook: United States

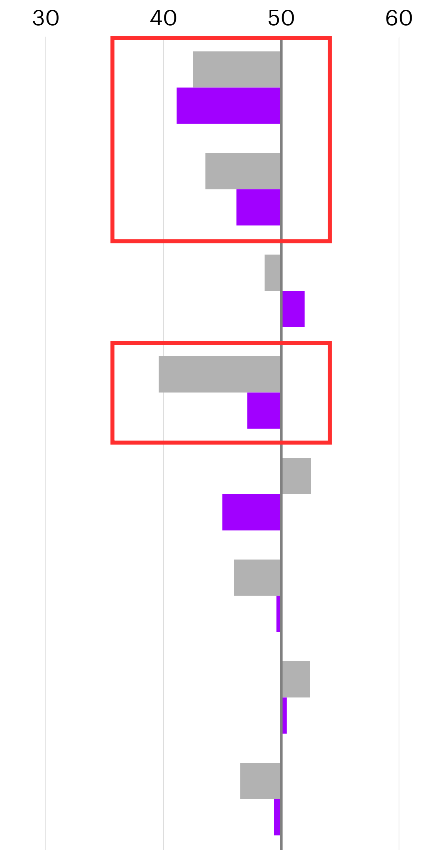
Industry Performance

Output/Activity PMI



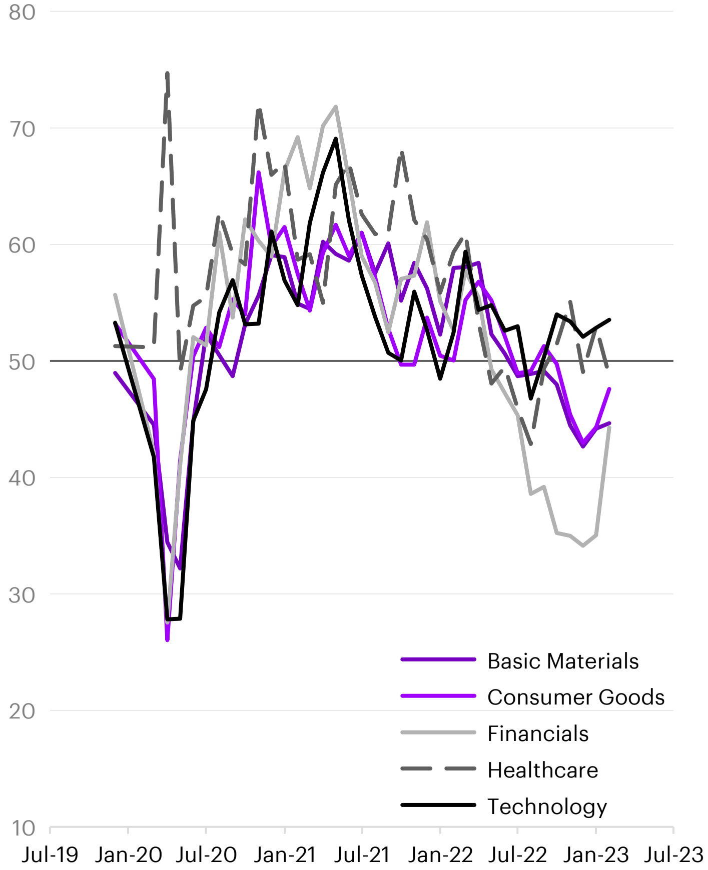
Backlogs of Work

Backlogs of Work



Industry Performance

PMI Output / Activity, selected industries



Commentary

- Consumer services output has expanded for the first time after 7 months
- Strong output prices and output activity have helped maintain a positive outlook for Industrials and Technology
- Basic Materials continues to struggle from falling energy prices and slow recovery in mining activity

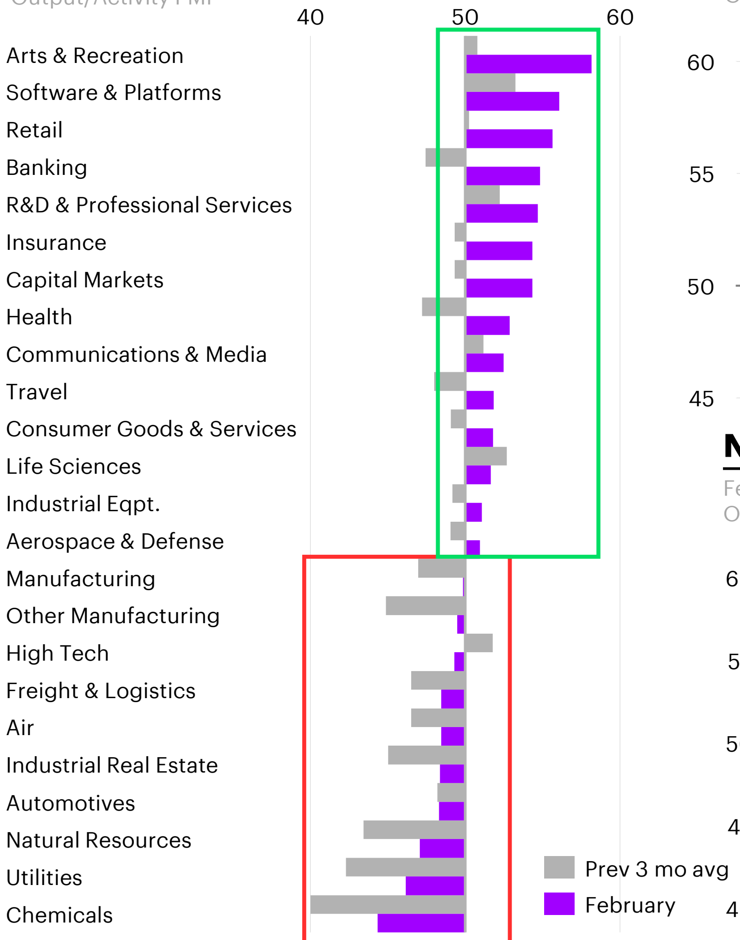
Note: Industry names are aligned with Tier 2 IHS industry classification: Basic Materials (Chemicals, Resources); Consumer Goods (Auto, Beverages & Food, Household & Personal Products); Consumer Services (Media, Tourism & Recreation); Financial Services (Banks, Insurance, Real Estate); Health (Healthcare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

Recreation, Software, and Retail industries are driving growth in Europe; Chemicals and Utilities continue to struggle

Regional outlook: Europe

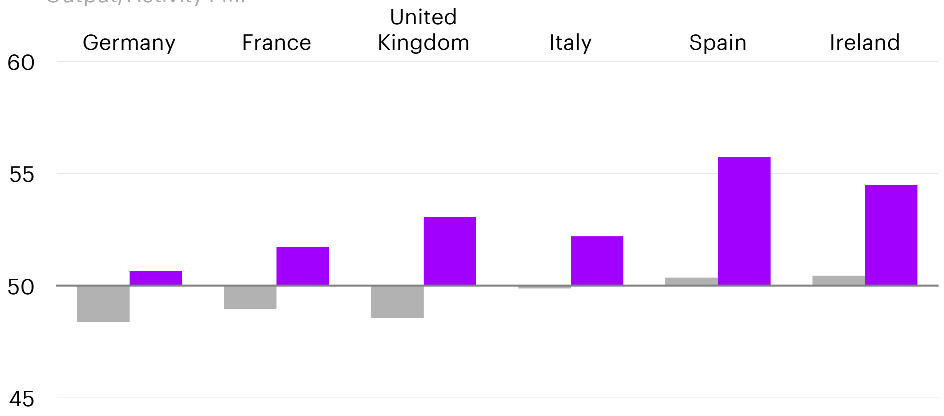
Industry Performance

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



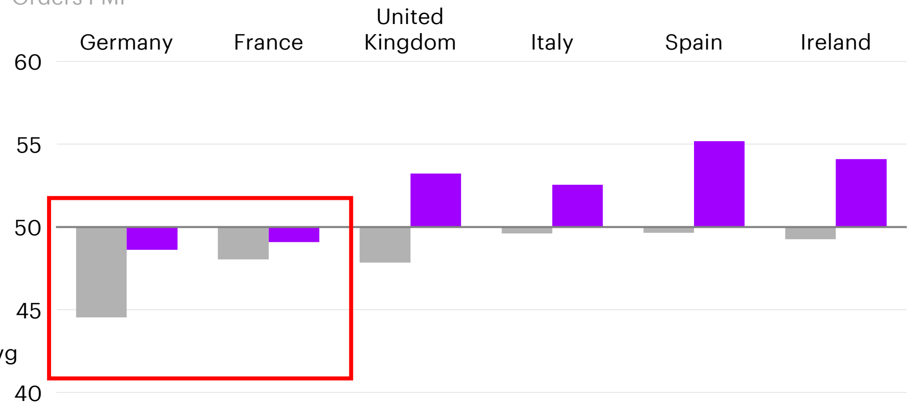
Country Performance

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



New Orders Index

February 2023 vs Previous 3 Month Average, New Orders PMI



Commentary

- Output growth improved across major European economies, moving into positive territory (relative to recent 3-month average) in Germany, France, UK and Italy
- Software and Platforms has shown strong output growth, propelled by a growing order book and job creation
- Growth momentum in Consumer Goods, Life Sciences, Industrial Equipment and Aerospace & Defense turned positive in February

Sources: S&P Global, Accenture Strategy analysis

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

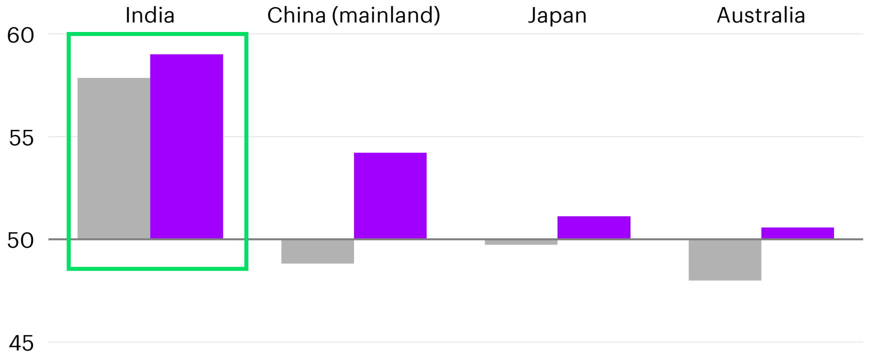
Regional outlook: Asia-Pacific

Industry Performance

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

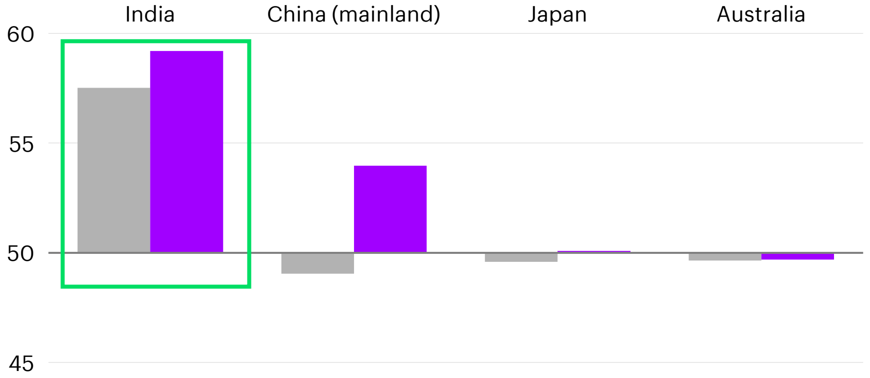
Country Performance

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



New Orders Index

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



Commentary

- Asia-Pacific continued its bright start to 2023 with most sectors recording growth
- In Japan, while overall output increased, manufacturing is still plagued by falling output and new orders
- Services continued to be a key driver of growth in India, China and Japan, and moved into expansionary territory in Australia

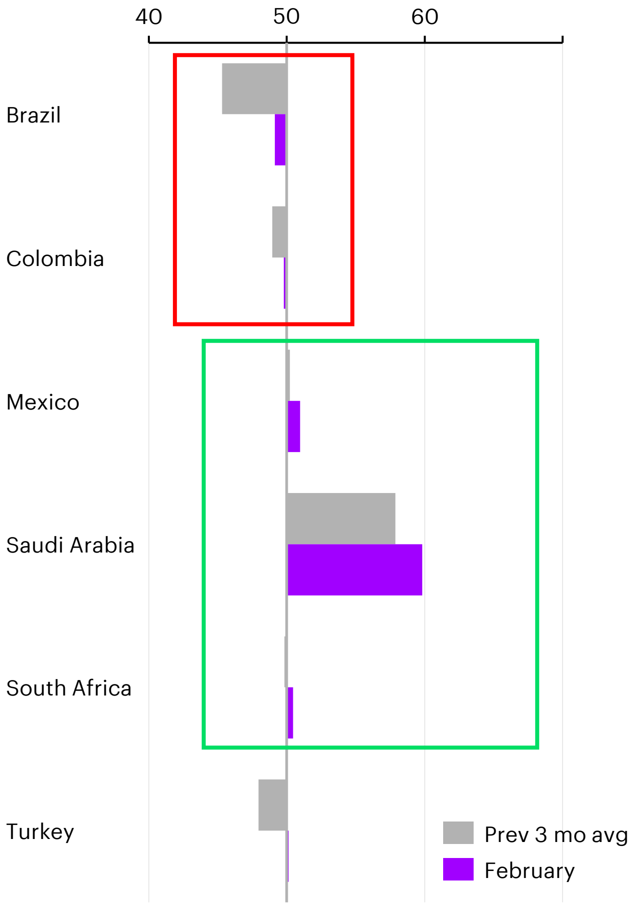
Sources: S&P Global, Accenture Strategy analysis

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

Regional outlook: Other emerging markets

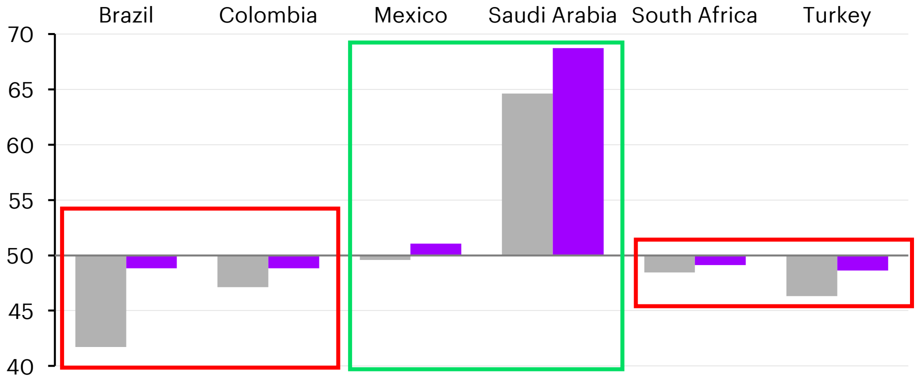
Manufacturing Performance

Recent 3 month average vs Feb '23, Manufacturing PMI



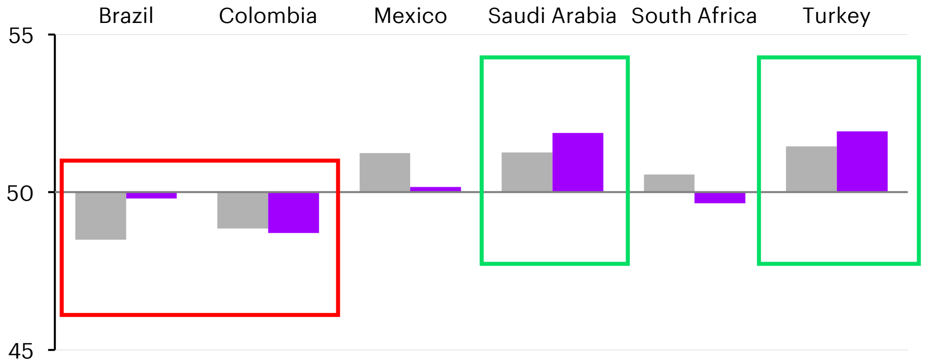
Manufacturing New Orders

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



Manufacturing Employment

Recent 3 month average vs Feb '23, Employment PMI



Commentary

- In Brazil, weak demand and policy concerns are affecting the manufacturing industry
- Colombia experienced a contraction as companies have reduced output and reduced headcount to deal with uncertain conditions
- In the aftermath of the earthquake, new orders have fallen in Turkey while output has remained stable
- Saudi Arabia's business activity continues to expand, reflecting strong new orders
- Manufacturing output is showing stabilization in both Mexico and South Africa; input cost inflation remains a key challenge, however

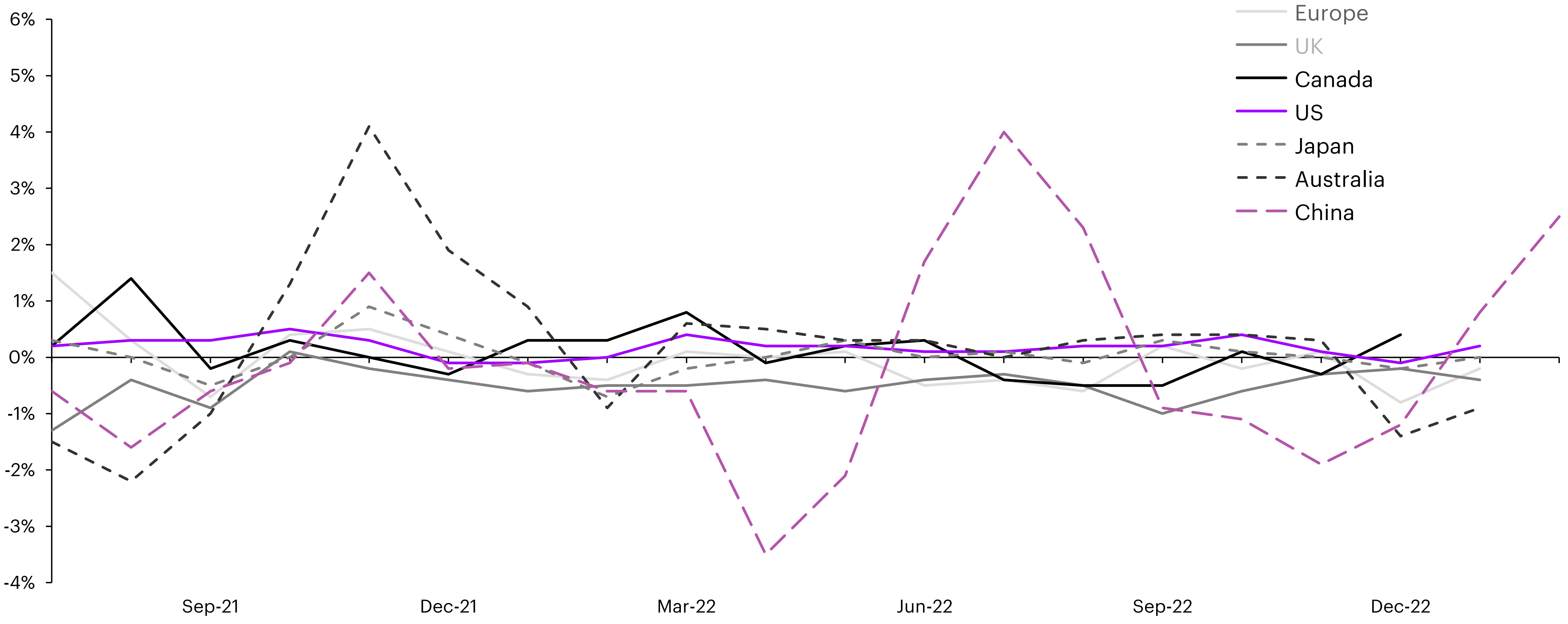
Note: South Africa and Saudi Arabia PMI is for the whole economy
Sources: S&P Global, Accenture Strategy analysis

Consumer spending

Recent consumer spending growth remains tepid or negative in most major economies; China's consumer rebound after re-opening is starting to take hold

Consumer spending trends

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

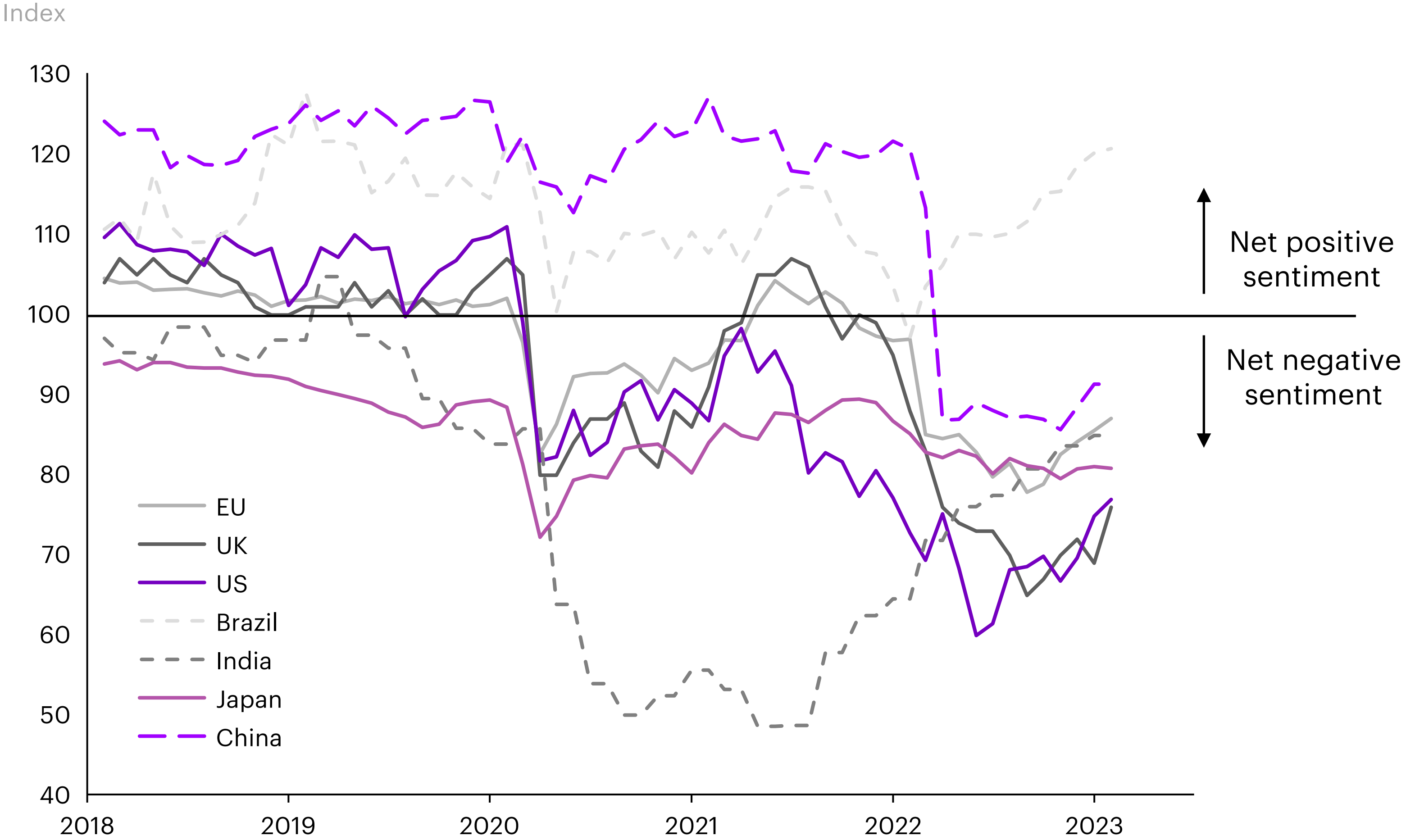


Notes: Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area, UK, Canada, Japan, Australia, and China series data is retail sales.
Sources: BEA, BLS, Eurostat, ONS, Haver analytics, Accenture Strategy analysis

Consumer sentiment globally remains largely pessimistic but improved further in February, with Brazil an ongoing lone bright spot

Consumer sentiment remains low

Indicators of overall consumer sentiment



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

Commentary

- Mild EU winter has contributed to easing of energy prices and improved consumer confidence across Europe
- Consumer confidence in India and Brazil improved inline with trends of the previous months
- Though consumer confidence in US improved in Feb’23 vs Jan’23, recent stress in the banking sector may erode confidence in the upcoming months

In the US and Europe, consumers continue to rotate their spending into services, though car sales have been seeing a rebound

Consumer spending trends by goods and services category

AS OF MARCH 22

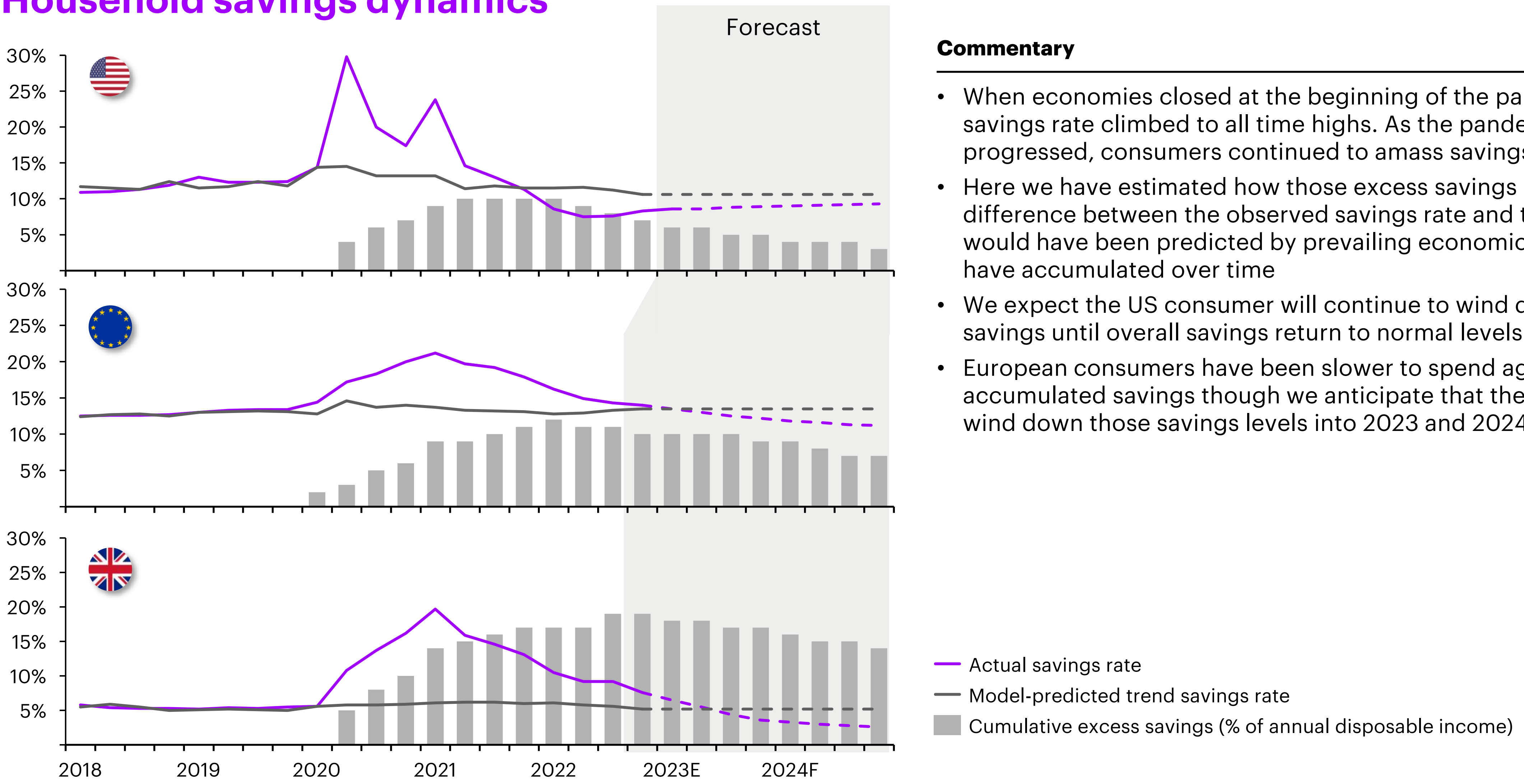
		US		UK		Germany		France	
		Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change
Goods	Groceries	-1.3%	-0.1%	-2.7%	-0.5%	-5.2%	0.9%	-1.7%	-2.4%
	Motor vehicles	-1.1%	11.9%	6.0%	6.6%	7.4%	6.4%	4.7%	-0.6%
	Furniture	0.5%	2.0%	-1.1%	-6.1%	-4.4%	4.0%	-3.8%	-2.0%
	Electronics	2.5%	1.7%	-1.6%	0.0%	0.9%	2.6%	2.6%	-2.5%
	Footwear & apparel	2.2%	3.0%	1.1%	-2.9%	5.5%	-6.4%	7.0%	2.5%
	Fuel	-0.6%	-2.2%	-3.0%	1.7%	-0.6%	4.7%	0.4%	-0.8%
Services	Transportation	0.9%	0.9%	0.6%	-3.2%	-1.0%	-2.9%	2.6%	-3.5%
	Entertainment	2.3%	1.4%	-1.1%	-7.7%		n/a	10.6%	-4.4%
	Dining out and hotels	3.0%	4.6%	0.2%	-0.8%	-9.9%	3.6%	6.4%	-0.2%
	Information services	2.7%	0.7%	0.3%	-0.2%	5.4%	14.6%	5.9%	1.4%
	Telecom	2.2%	0.5%	3.0%	-3.1%	5.4%	2.6%	4.8%	0.9%

Notes: Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area and UK, series data is retail sales, motor vehicles sales/registrations, and services turnover. Some European services data may include B2B spending. Data presented is most recently available data for each geography and category

Sources: BEA, BLS, ONS, National Institute of Statistics and Economic Studies, Federal Statistical Office

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

Household savings dynamics



Commentary

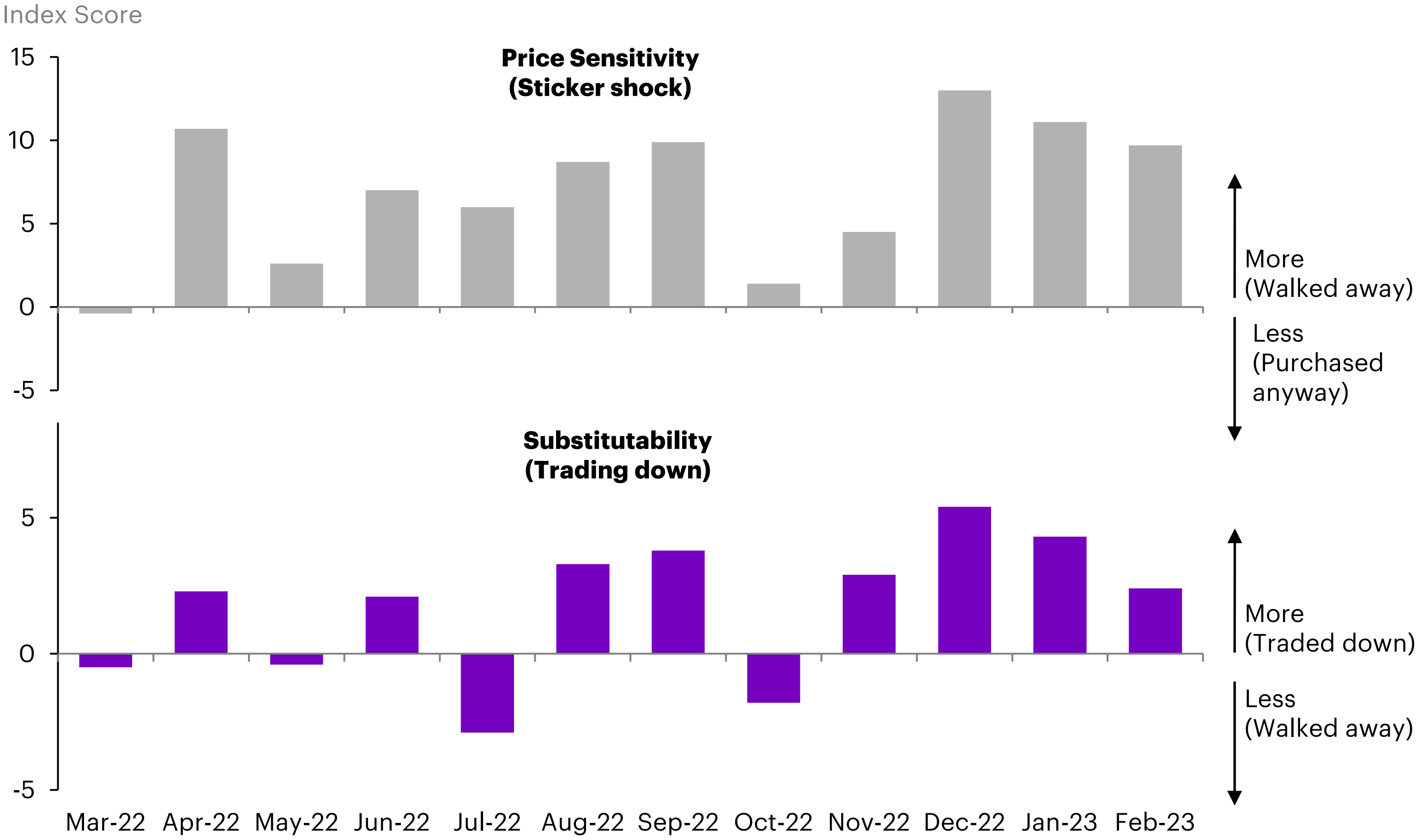
- When economies closed at the beginning of the pandemic savings rate climbed to all time highs. As the pandemic progressed, consumers continued to amass savings
- Here we have estimated how those excess savings (the difference between the observed savings rate and that which would have been predicted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

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

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

US consumer behavior in the face of inflationary pressures

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



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

Commentary

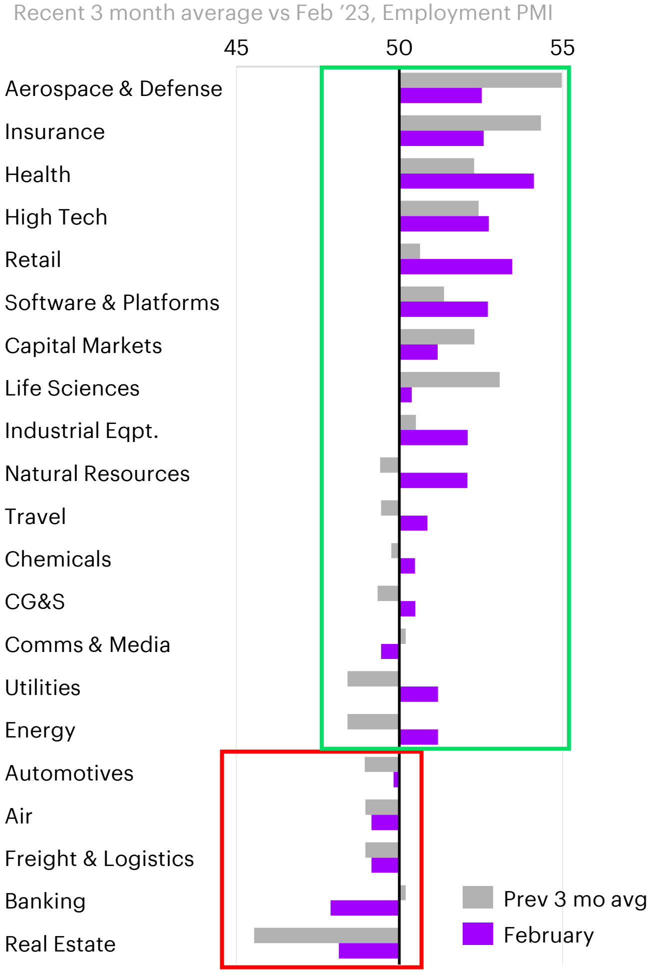
- Reported price sensitivity peaked in December 2022 but has eased slightly since
  - This could reflect the recent decline in headline inflation from its peaks
  - However, share of consumers who walked away from a higher-than-expected purchase still exceeds the share who purchased anyway
- Similarly,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

Labor markets

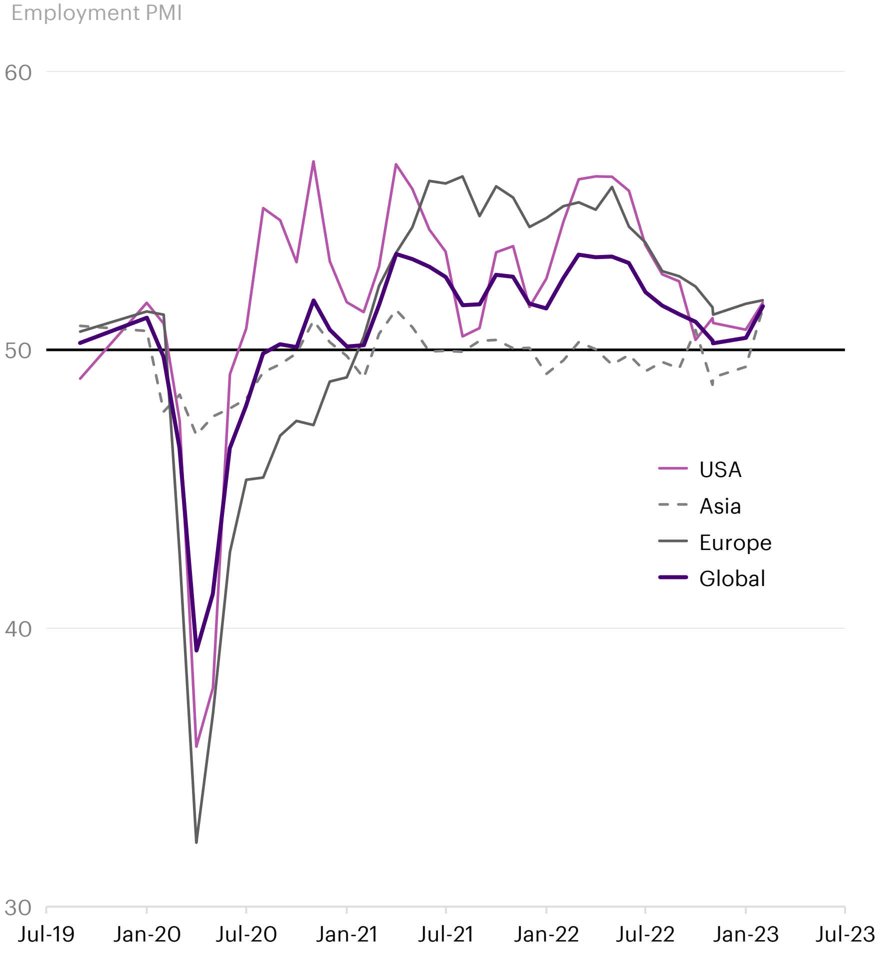
Global labor market stability continued in February across most sectors and major economies

Labor markets: Global overview

Global PMI Employment Index



Aggregate PMI Employment Index



Commentary

- Employment in Asia rebounded from a decline in January as most industries hired employees to expand workforce
- In Europe and the US, labor markets remain tight
- Continued employment strength in services sector will be a key to watch in 2023 as wage pressures in those industries could lead to stickier inflation
- Employment outlook in Banking can also be expected to worsen amidst recent stresses in the sector

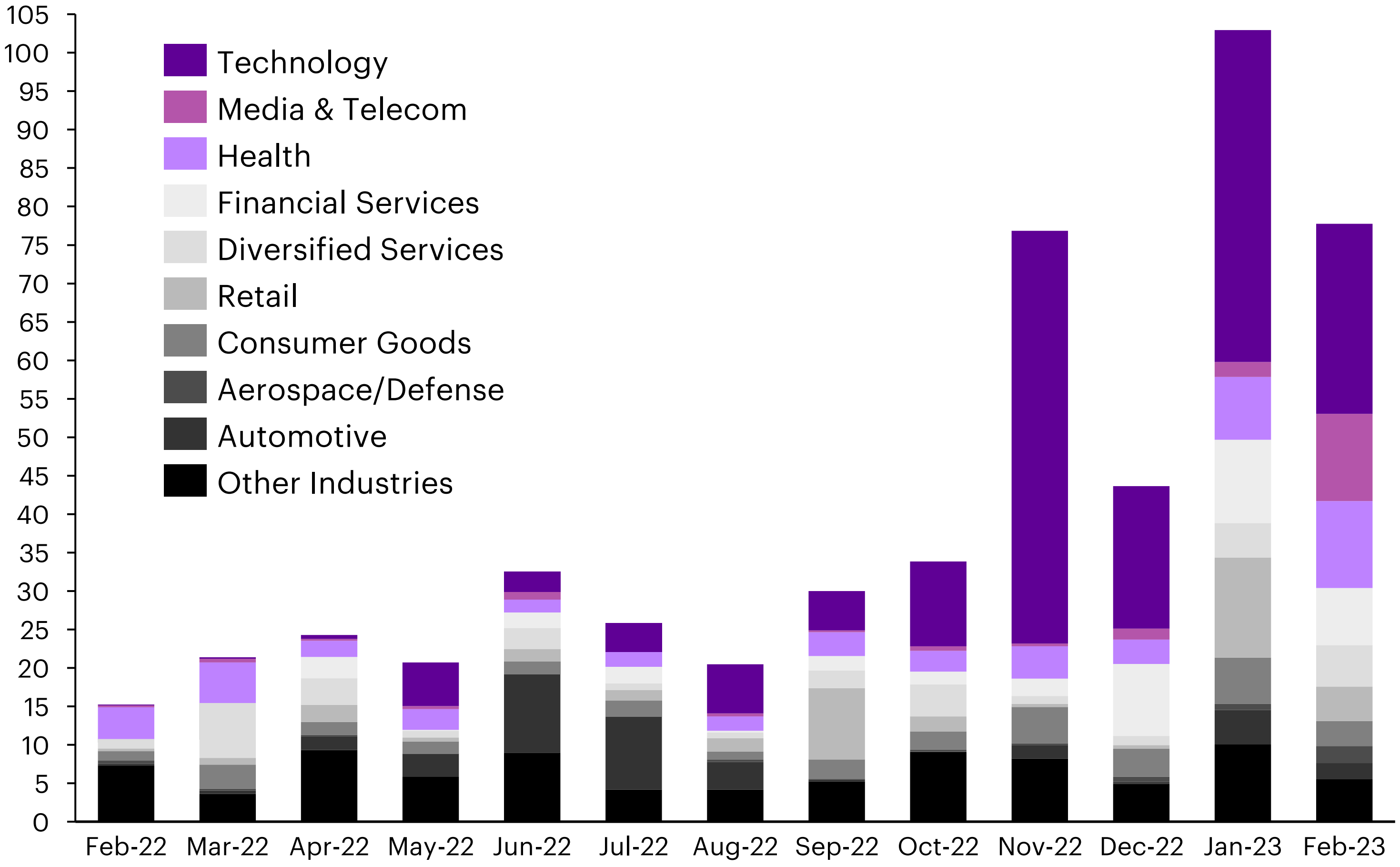
Sources: S&P Global, BLS, Accenture Strategy analysis

The overall number of layoffs in the US edged down in February, but there was a noticeable increase among Media and Telecom companies

US corporate layoff tracker

Announced layoffs by sector

Thousands (not seasonally adjusted)



Comments

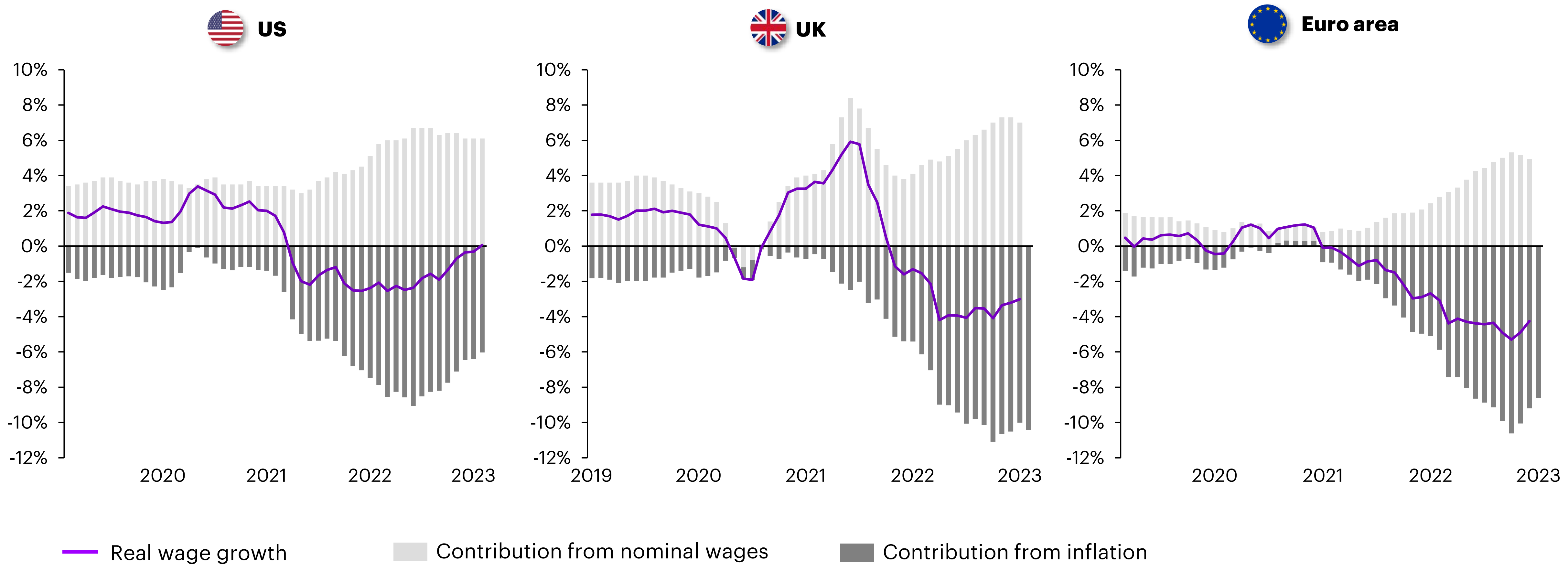
- Uncertain economic conditions and falling ad revenues have led to a major workforce retrenchment by news and media outlets
- Tech companies that had over-hired during the pandemic continue to lead the way in layoffs as they focus on optimizing headcount
- Stress in the banking sector stemming from collapses of SVB, Signature and Silvergate may end up affecting a higher number of financial services jobs in the upcoming months

Sources: Challenger Employment Report, Haver Analytics

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

Wage growth developments

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

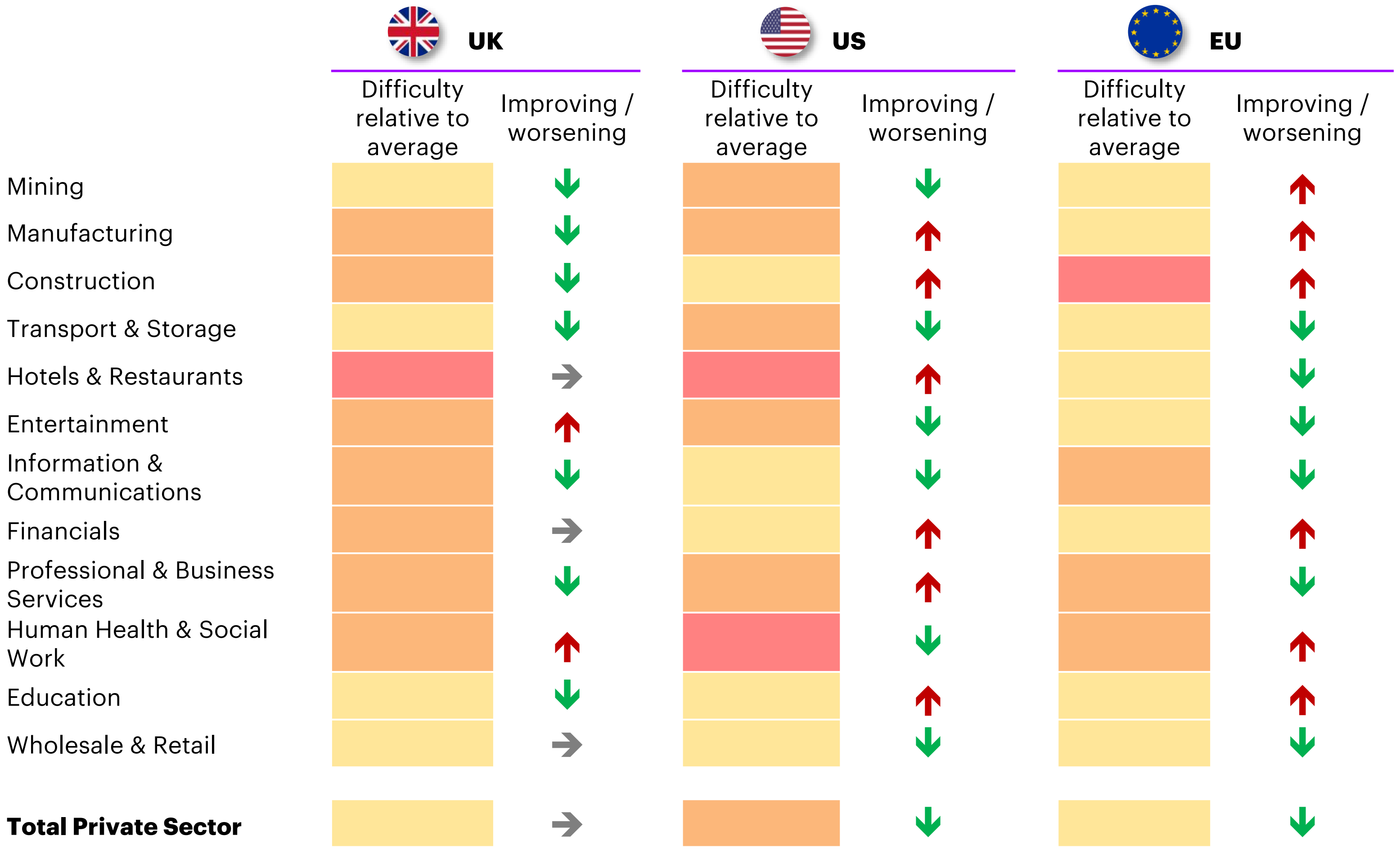


Sources: BLS, ONS, Indeed, Accenture Strategy analysis

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

Relative difficulty of hiring by sector

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



Comments

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

Difficulty finding labor (relative to long-term average)

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's rate (percentage points)
United States	6.0%	-0.4% ↘
United Kingdom	10.4%	+0.4% ↑
Canada	5.3%	-0.6% ↓
Germany	9.2%	+0.1% ↑
France	7.3%	+0.2% ↑
Italy	9.7%	-0.8% ↓
Spain	6.0%	+0.2% ↑

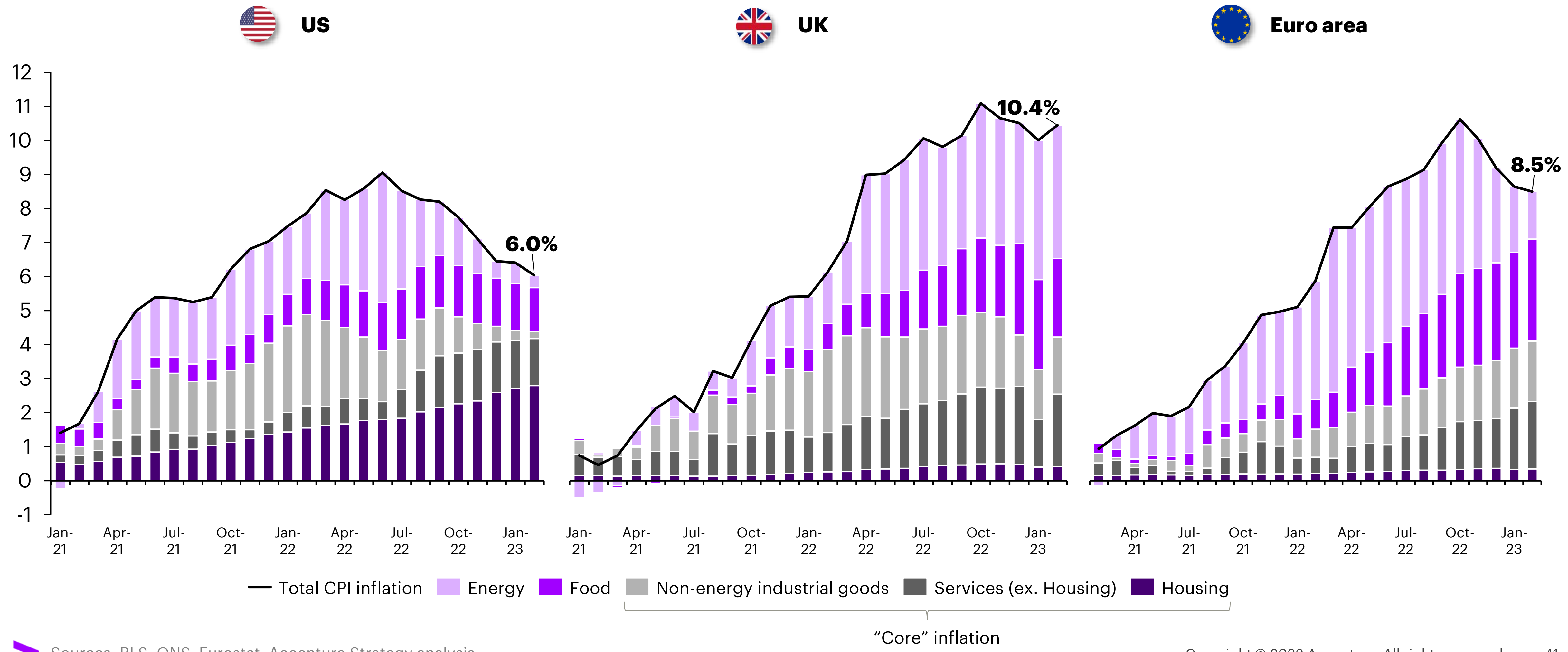
Country	YoY Inflation Rate	Change from previous month's rate (percentage points)
China	1.0%	-1.1% ↓
Japan	3.3%	-1.0% ↓
Brazil	5.6%	-0.2% ↘
India	6.4%	-0.1% ↘
Singapore	6.3%	-0.3% ↘
Korea	4.8%	-0.3% ↘

Sources: Haver Analytics, Accenture Strategy analysis

Resurgent food price pressures drove inflation higher again in the UK in February; headline inflation eased slightly in US and Euro area but core inflation remains high

Drivers of recent CPI inflation

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

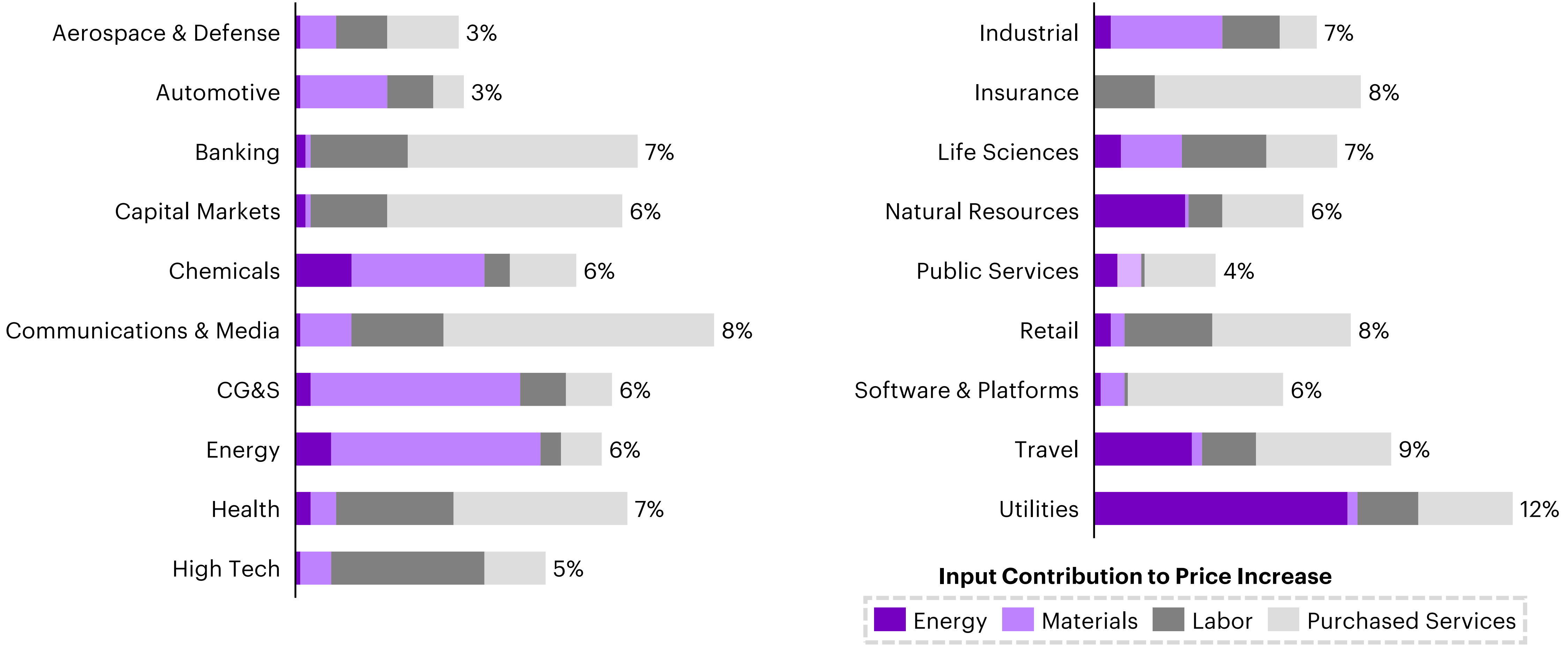


Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

Energy and commodity prices are driving input cost increases in sensitive industries

Recent input cost inflation by industry

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

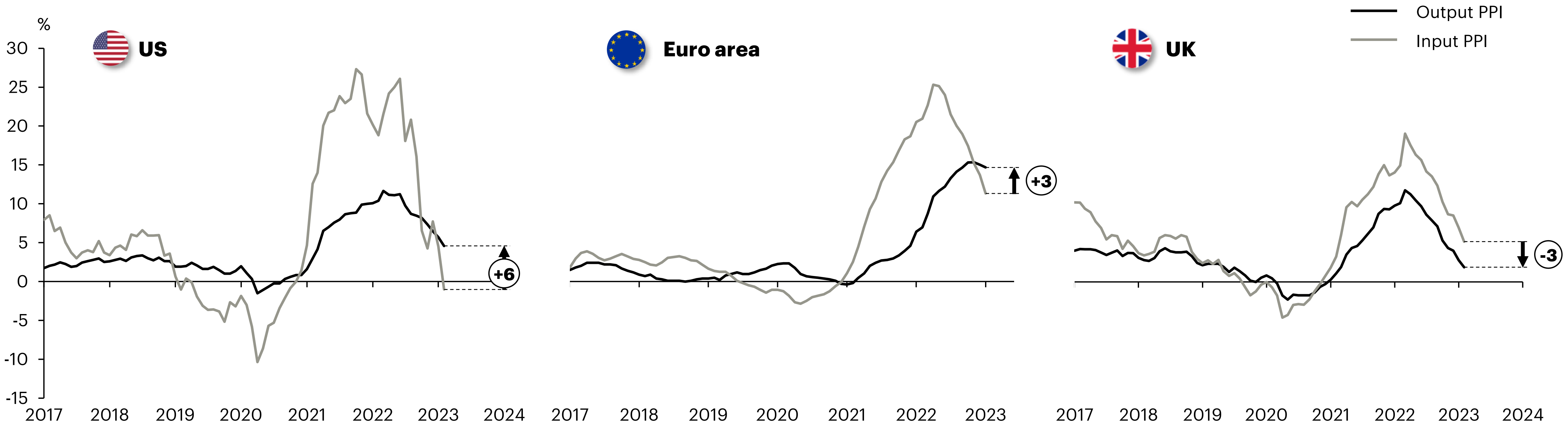


Note: Wage data as of 1/23, energy prices as of 12/22, materials and Purchased Services PPI price increases as of 1/23
Sources: BLS, BEA, ECI, Accenture Strategy analysis

US and Euro area companies are increasingly passing on their input costs to consumers, 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



Commentary

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

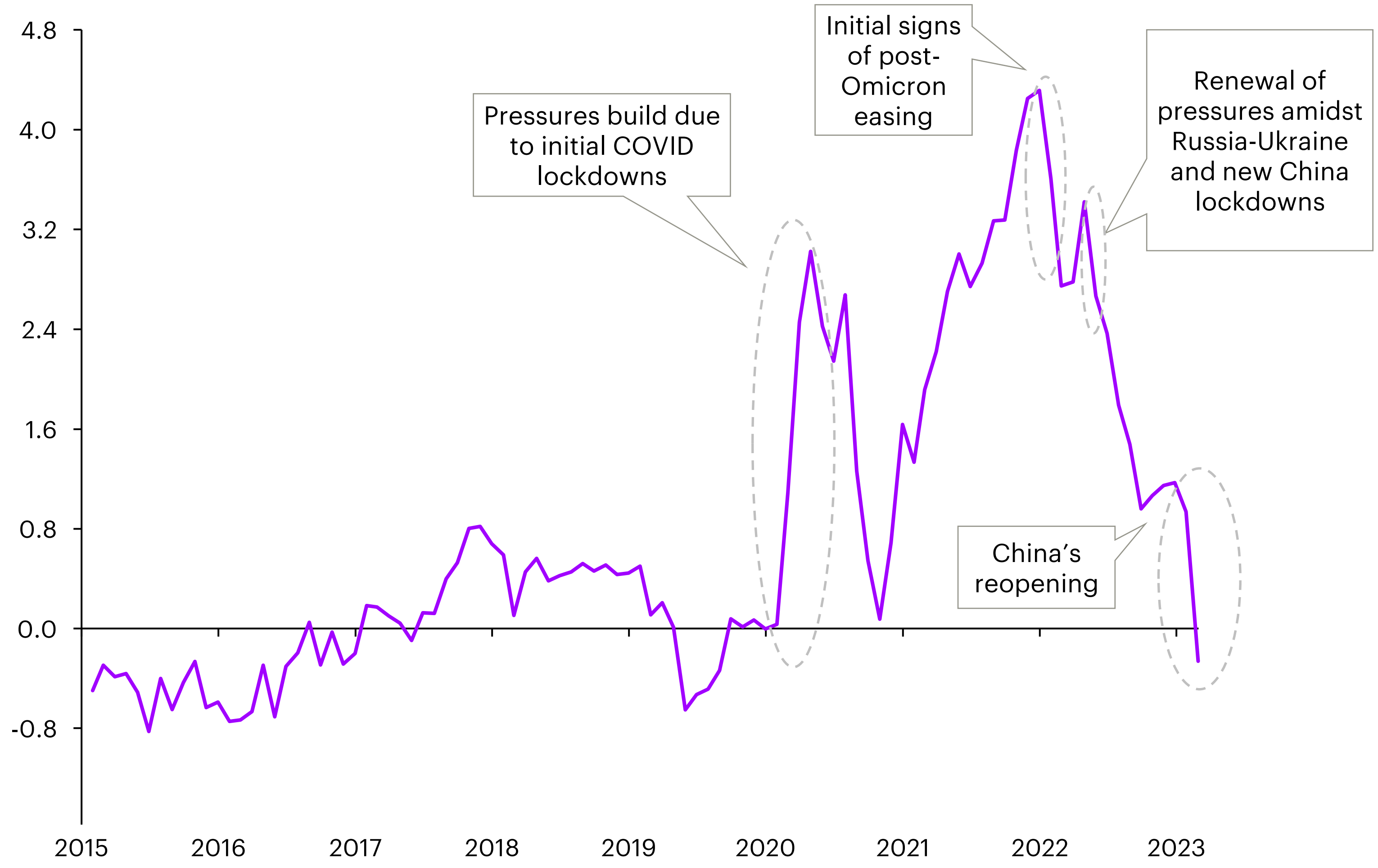
Notes: 1) Figures in bold represent absolute percentage point difference between intermediate and final demand PPI YoY % values; higher positive values imply greater pass through to final producer selling prices, while larger negative value imply lower pass through. 2) US data is based on production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

Global Supply Chain Pressure Index

Standard deviations from long-term average (=0)



Commentary

- Global supply chain pressures are back to their pre-pandemic long-term average
- China's lifting of COVID restrictions in early December 2022 has facilitated additional easing of these pressures
- Further easing may occur 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

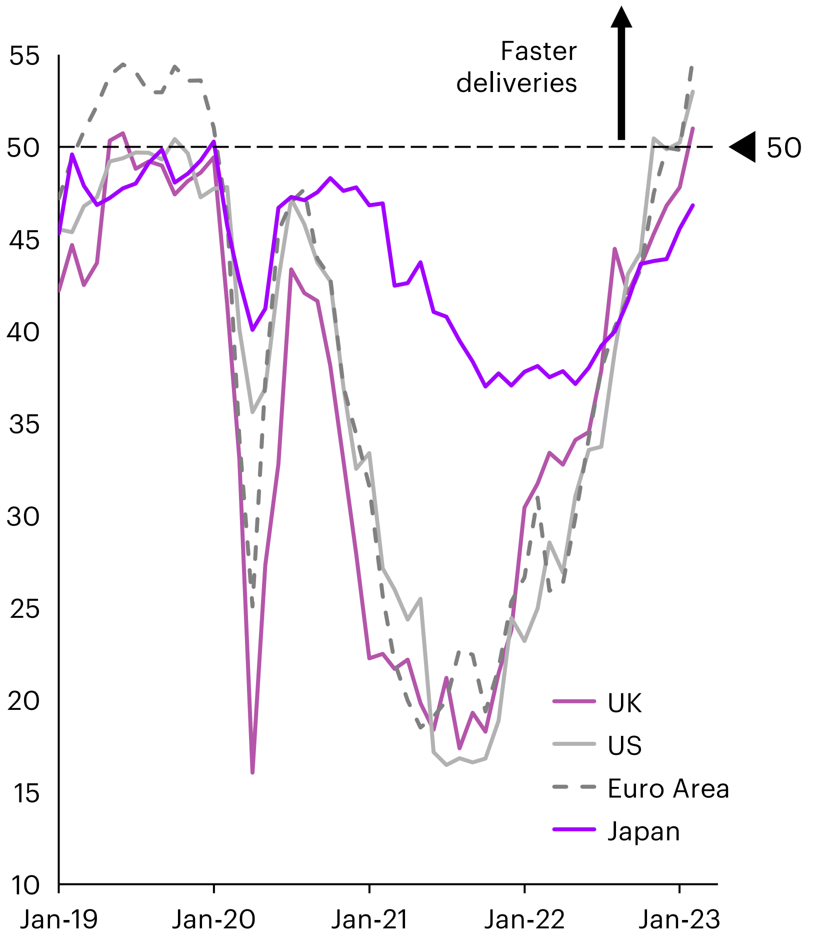
Sources: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, Accenture Strategy analysis

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

Suppliers’ delivery times and backlogs of work

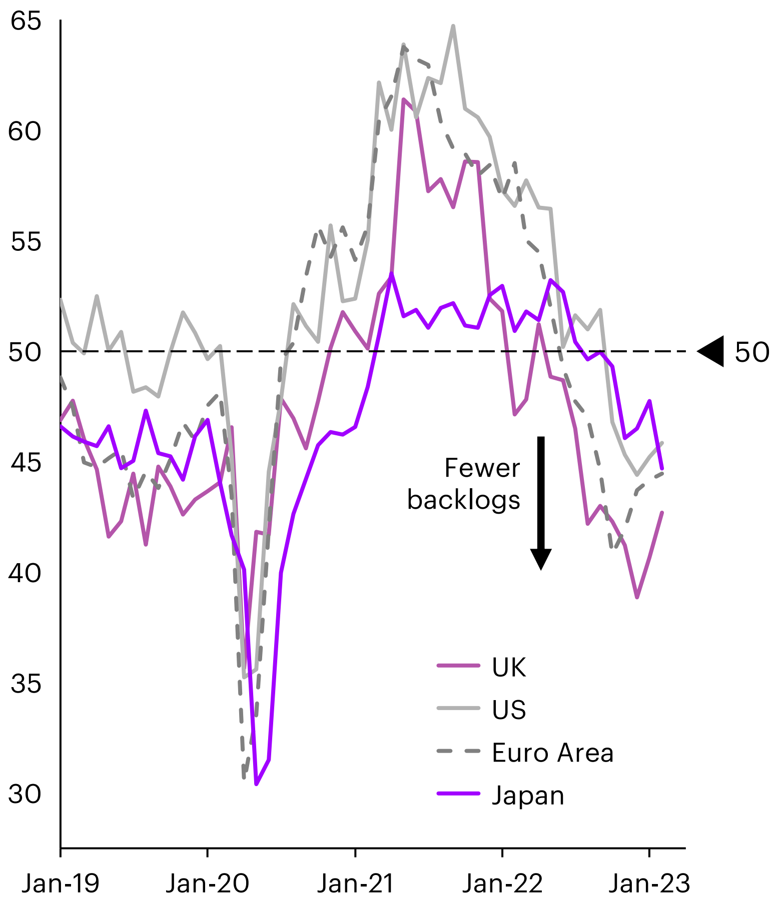
Suppliers’ Delivery Times

Seasonally adjusted, 50+ = Increase



Manufacturing Backlogs of Work

Seasonally adjusted, 50+ = Increase



Commentary

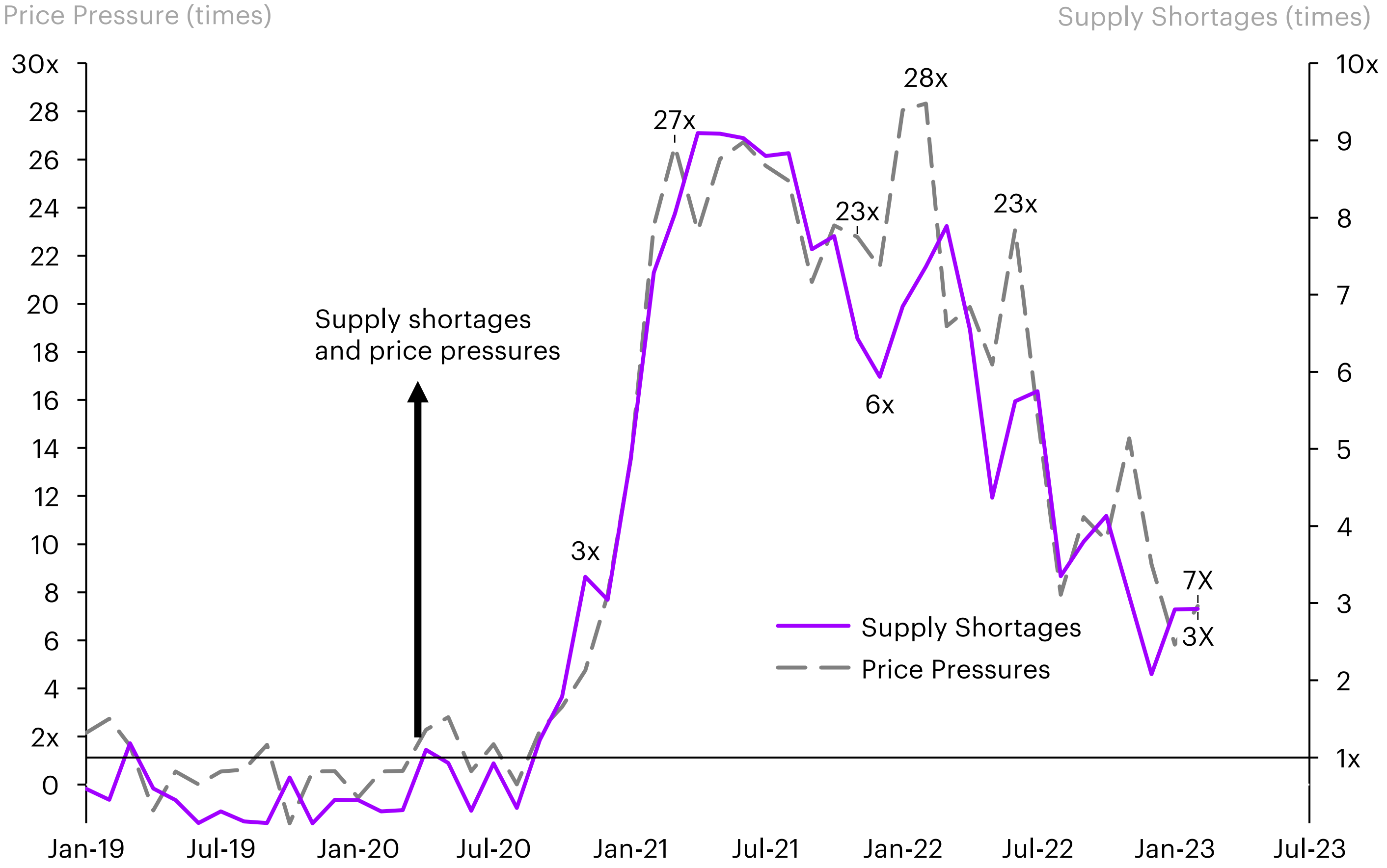
- Supplier delivery times improved further in February
  - Slowing demand can be expected to continue to relieve supplier bottlenecks
- Manufacturers’ backlogs of work continue to decline across US and Europe, albeit at a slower pace
- In Japan, falling manufacturing orders are likely to contribute to further reductions in backlogs of work in the coming months

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

Semiconductor supply and price pressures 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



Commentary

- Semiconductor demand is expected to ease as downstream demand for consumer electronics softens in line with slowing global growth
  - Global semiconductor sales decreased in Jan'23 by ~5% on MoM basis vs Dec'22 and over 18% vs Jan'22
  - European and Japanese sales grew YoY; US, China and the rest of APAC experienced declines
- Price pressures remain around 7x higher than their long-term average since January 2005
- Inventory has improved across multiple chip categories – memory and analog
  - Excess inventory is expected to alleviate pricing pressures in specific categories

Note: Multiples are derived from monthly survey responses of over 10,000 manufacturing companies conducted by IHS Markit with index value of 1.0x means that supply shortages are in line with the long-run average since 2005

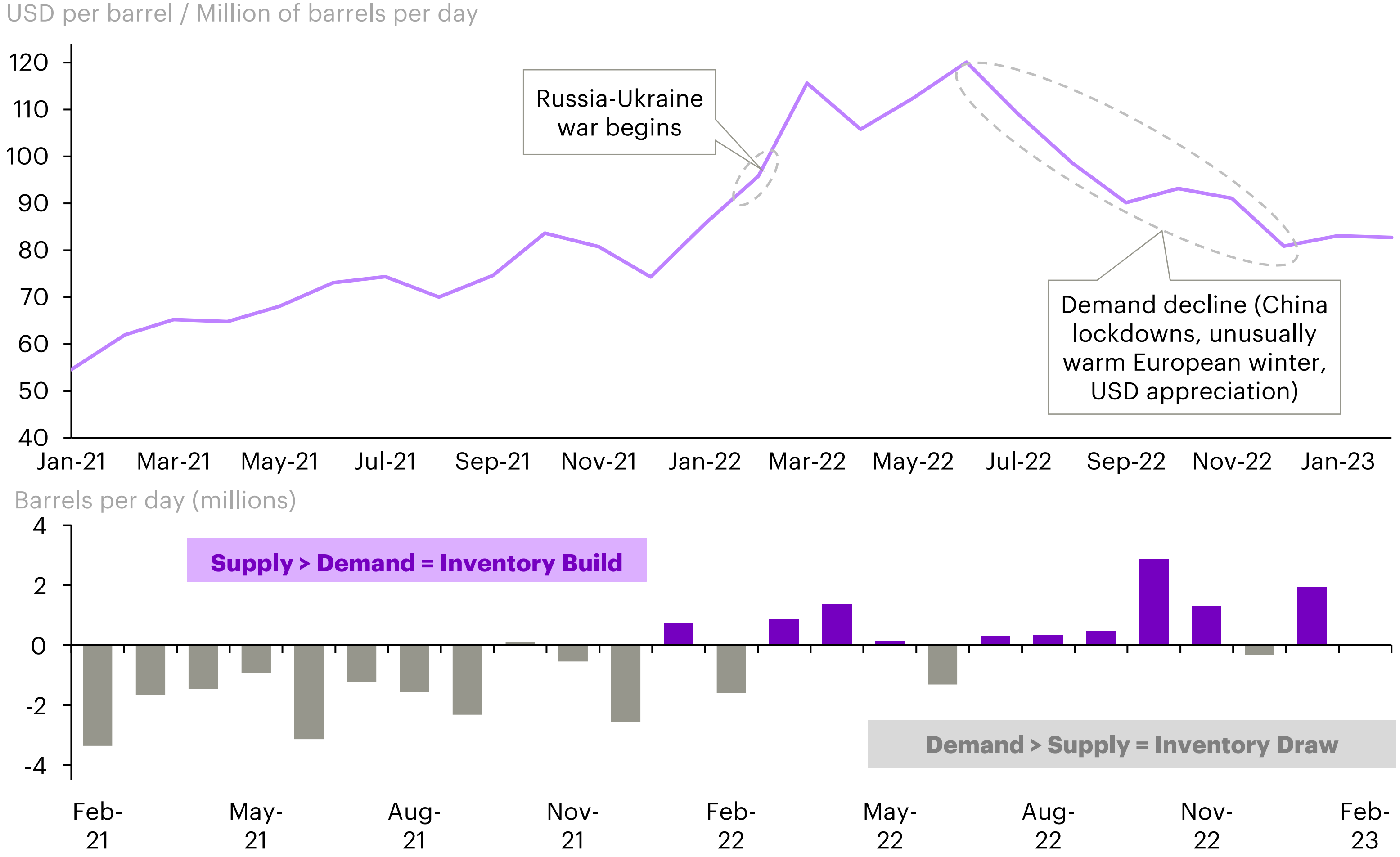
Sources: IHS Markit, S&P Global, Semiconductor Industry Association, Accenture Strategy analysis

Energy and commodities

Oil prices edged lower for part of March amidst concerns about demand impacts from financial stress, but are likely to trend higher again going forward

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, IEA, Accenture Strategy Analysis

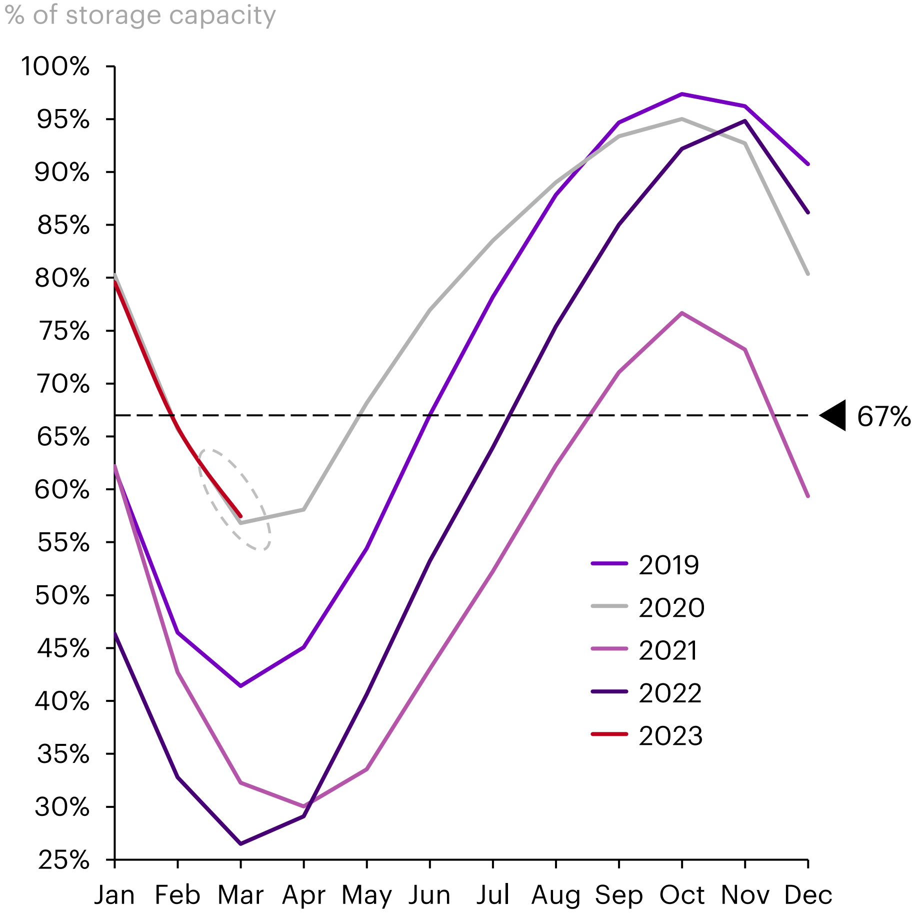
Drivers of energy prices in 2023

- Brent crude oil prices fell to near USD 70 per barrel in mid-March in the wake of US banking failures, but have been edging back up since
- Going forward, supply and demand fundamentals continue to suggest upward price pressures
  - Increasing demand from China's ongoing economic re-opening
  - Russia's announced production cut of 500kb/d (~5%)
  - 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)

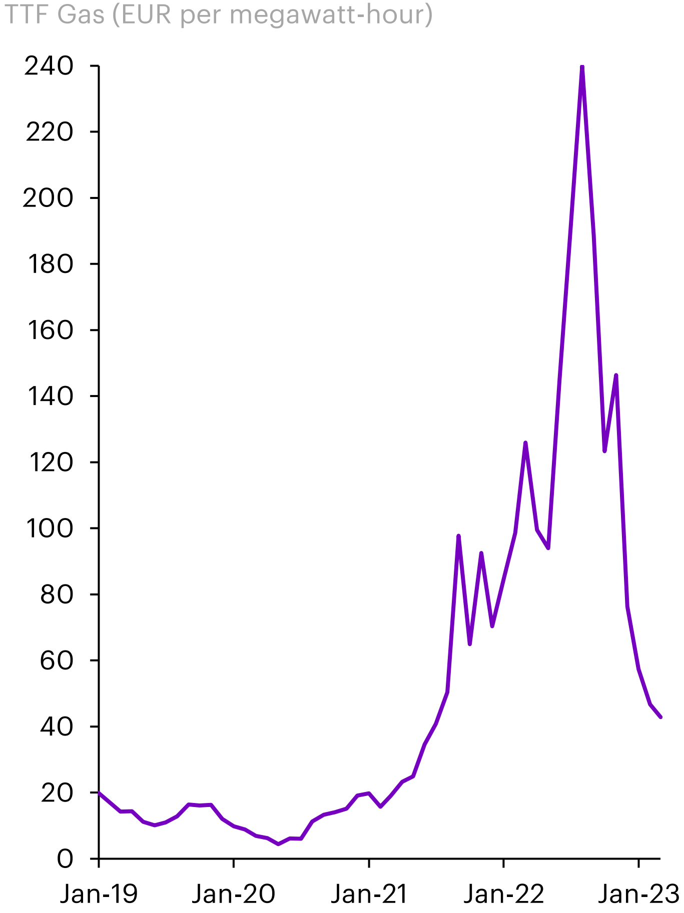
EU gas reserves are at comfortable levels so far in 2023, but rebuilding them before next winter will be challenging amidst Russian gas ban and rebounding Chinese gas demand

EU natural gas reserves and prices

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



...and EU gas prices lowest in 5-month long



Commentary

- EU natural gas storage rates reached an all-time March high during 2023 amidst:
  - A warmer-than-usual 2022/23 winter
  - Declines in EU gas consumption by 15%
  - EU strategic agreement to raise gas reserves in June 2022
- However, natural gas supply and price pressures are likely to increase again ahead of the 2023/24 winter season given
  - Increased competition for global LNG supplies as China's economy reopens
  - EU's ongoing reduction of Russian gas imports as it looks for alternative suppliers

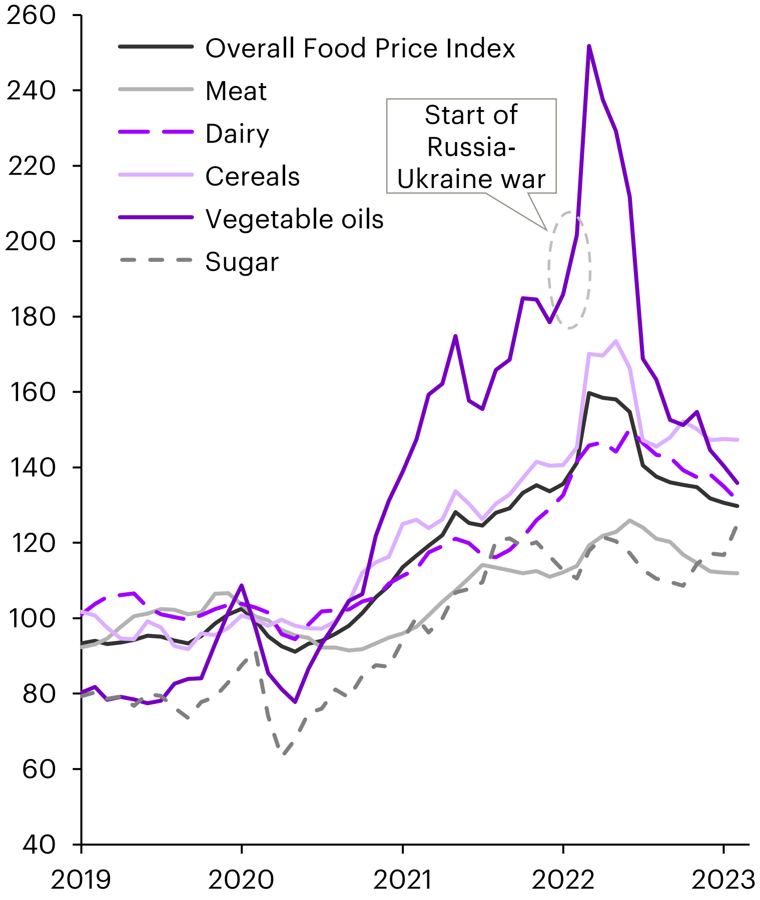
Note: Dutch TTF Natural Gas Futures front-month contract. TTF stands for Title Transfer Facility, which is a virtual trading hub for natural gas in Europe. TTF prices represent the price of natural gas traded at this hub and are considered a benchmark for natural gas prices in Europe.
Sources: Gas Infrastructure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

Overall food prices have eased since mid-2022, but upside risks remain due to Black Sea tensions, rebounding Chinese demand and potential disease outbreaks

Food and fertilizer prices

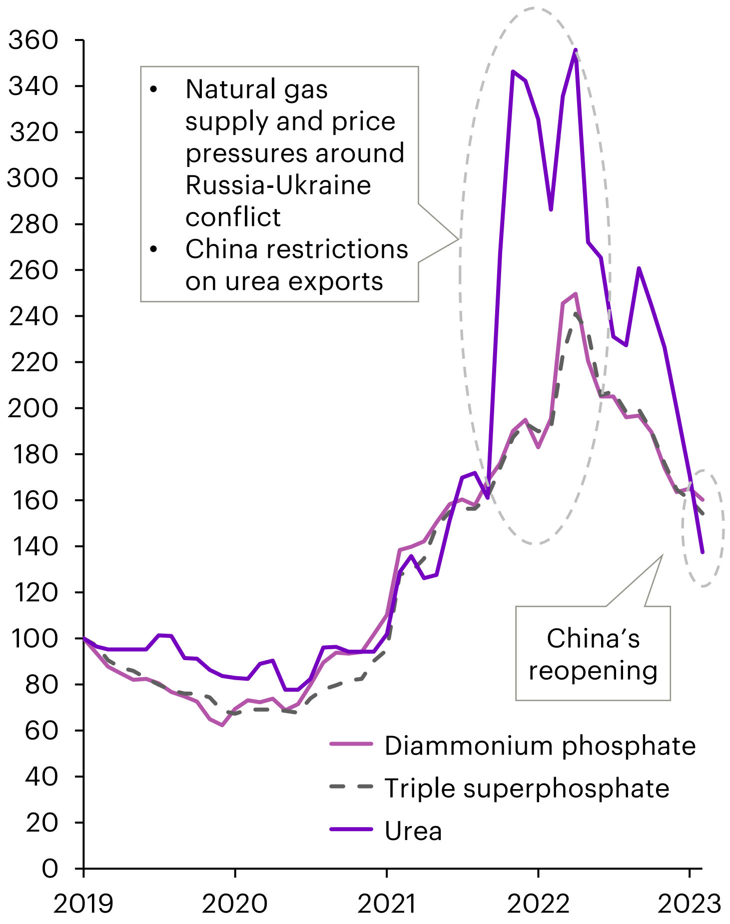
Food prices

Index, 2014-2016 = 100



Fertilizer prices

Index, Jan 2019 = 100



Commentary

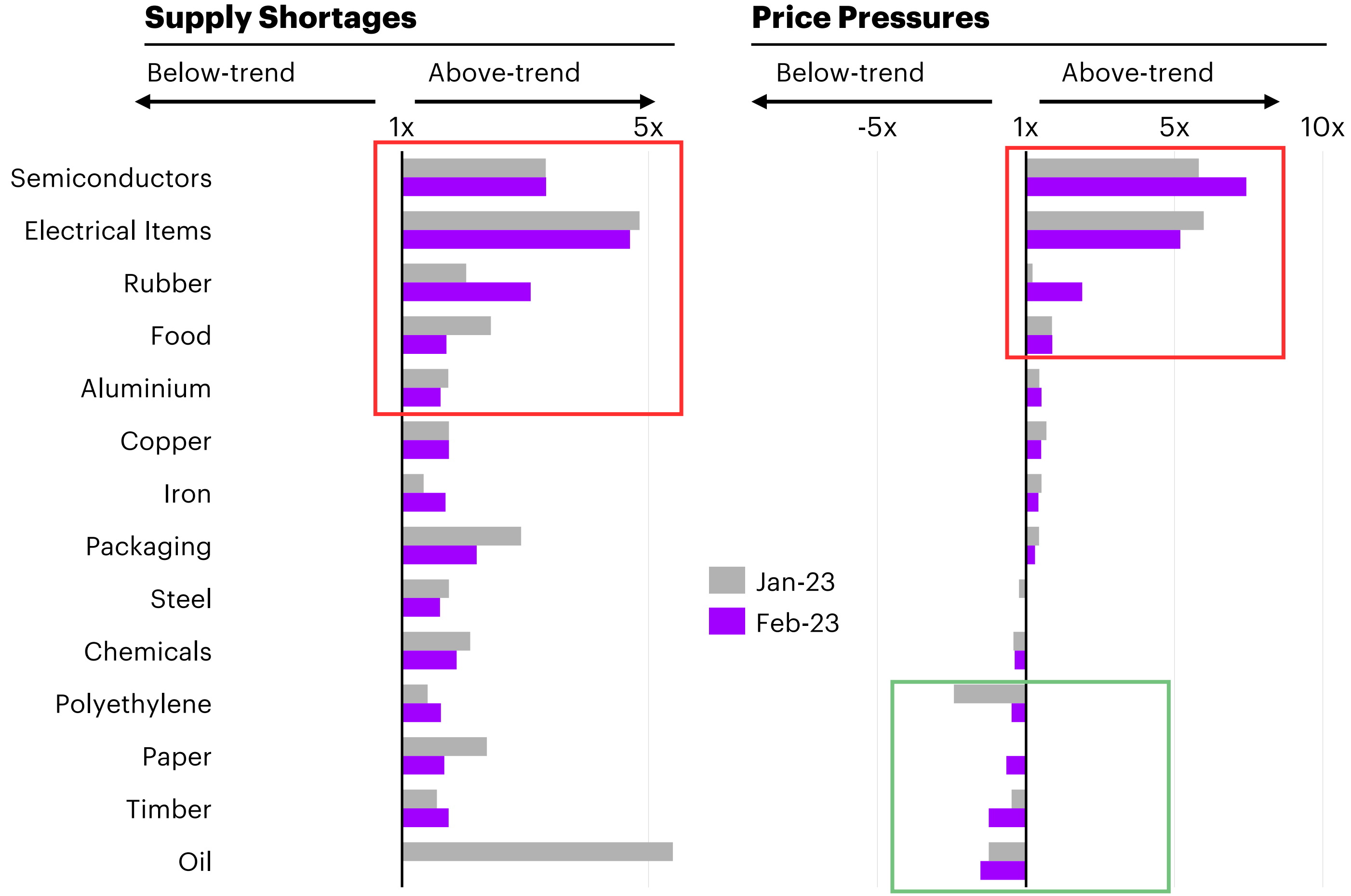
- Global food commodity prices continued to moderate in February 2023, benefitting from declining costs of energy and fertilizers since mid-2022
  - Sugar prices increased amid reports of lower export prospects from India
  - Promising sugar harvest in Asia and Brazil is likely to support softer prices going into second half of 2023
- Further broad easing in food prices may be constrained by:
  - Escalation of Russia-Ukraine conflict that may affect crop and fertilizer production
  - Recent disease outbreaks (e.g., Avian Flu in India) affecting livestock

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

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

January 2023 vs. February 2023



Commentary

- Manufacturing companies are still facing commodity supply shortages, but at lowest level since Jan '21, with
  - Moderating supply shortages in about 80% of commodities under coverage
  - Easing commodity price pressures to their second-lowest level in 26 months
- Producers pointed to persistent supply shortages in rubber, which nearly doubled from last month
  - Rubber price pressures were further exacerbated by China's reopening, which stoked industrial demand
- Reported supply and price pressures for oil eased for the fourth consecutive month amidst fears of global recession

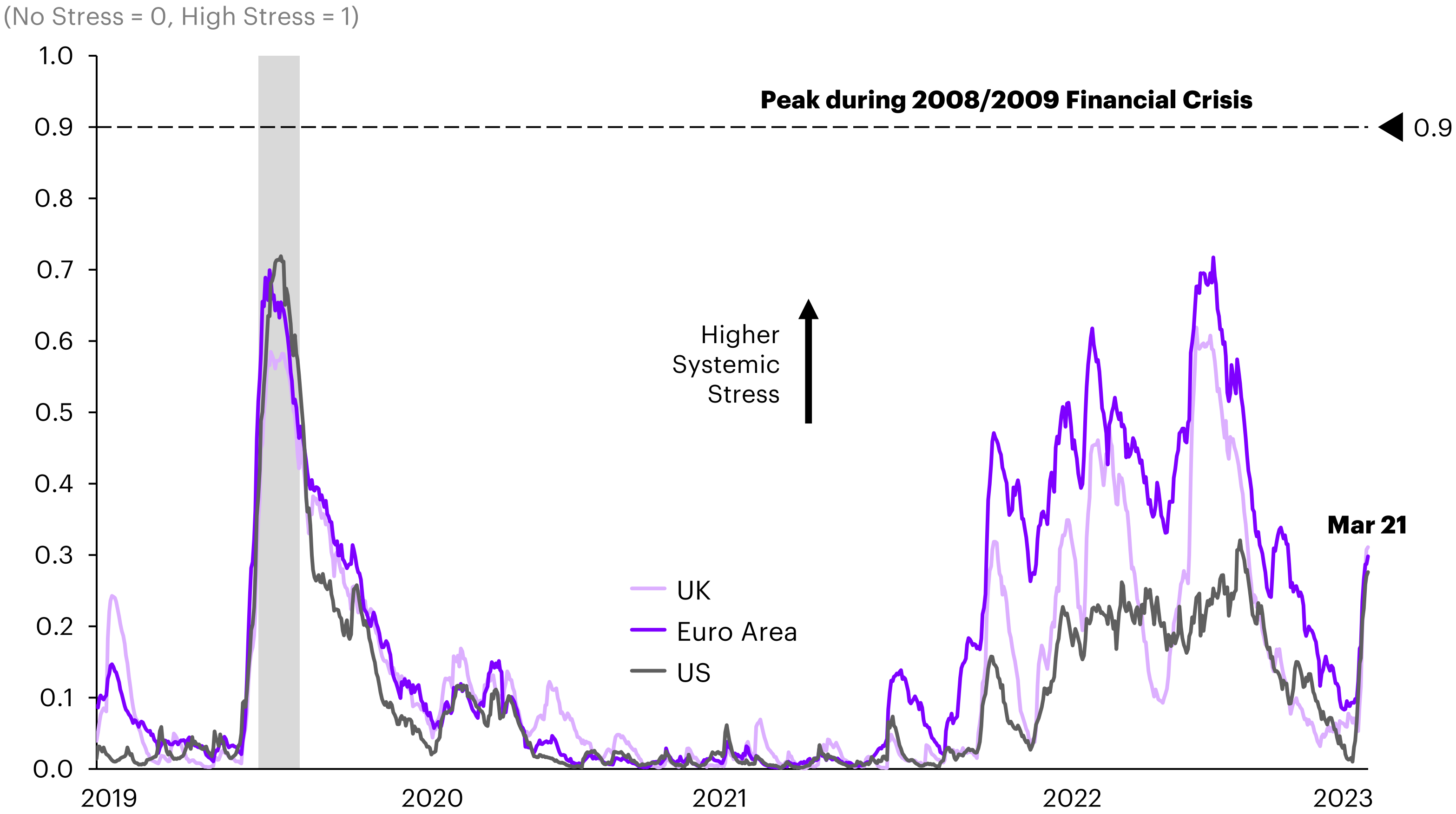
Note: Multiples are derived from monthly survey responses of over 10,000 manufacturing companies conducted by IHS Markit with index value of 1.0x means that supply shortages are in line with the long-run average since Jan 2005
Sources: IHS Markit, S&P Global, Accenture Strategy analysis

Financial markets

Systemic financial stress in major economies has spiked in the aftermath of recent bank failures but remains below peaks reached in recent years

Systemic financial stress indicators

Composite Indicator of Systemic Stress Index



Commentary

- Systemic stress levels across United States, UK and Europe have risen throughout 2023
- Stress levels remain lower than peaks reached during pandemic and the 2008-09 financial crisis
- Elevated financial pressure is expected going into the second quarter of 2023 amidst
  - Sustained interest rate hikes
  - Growing prospects of an economic downturn

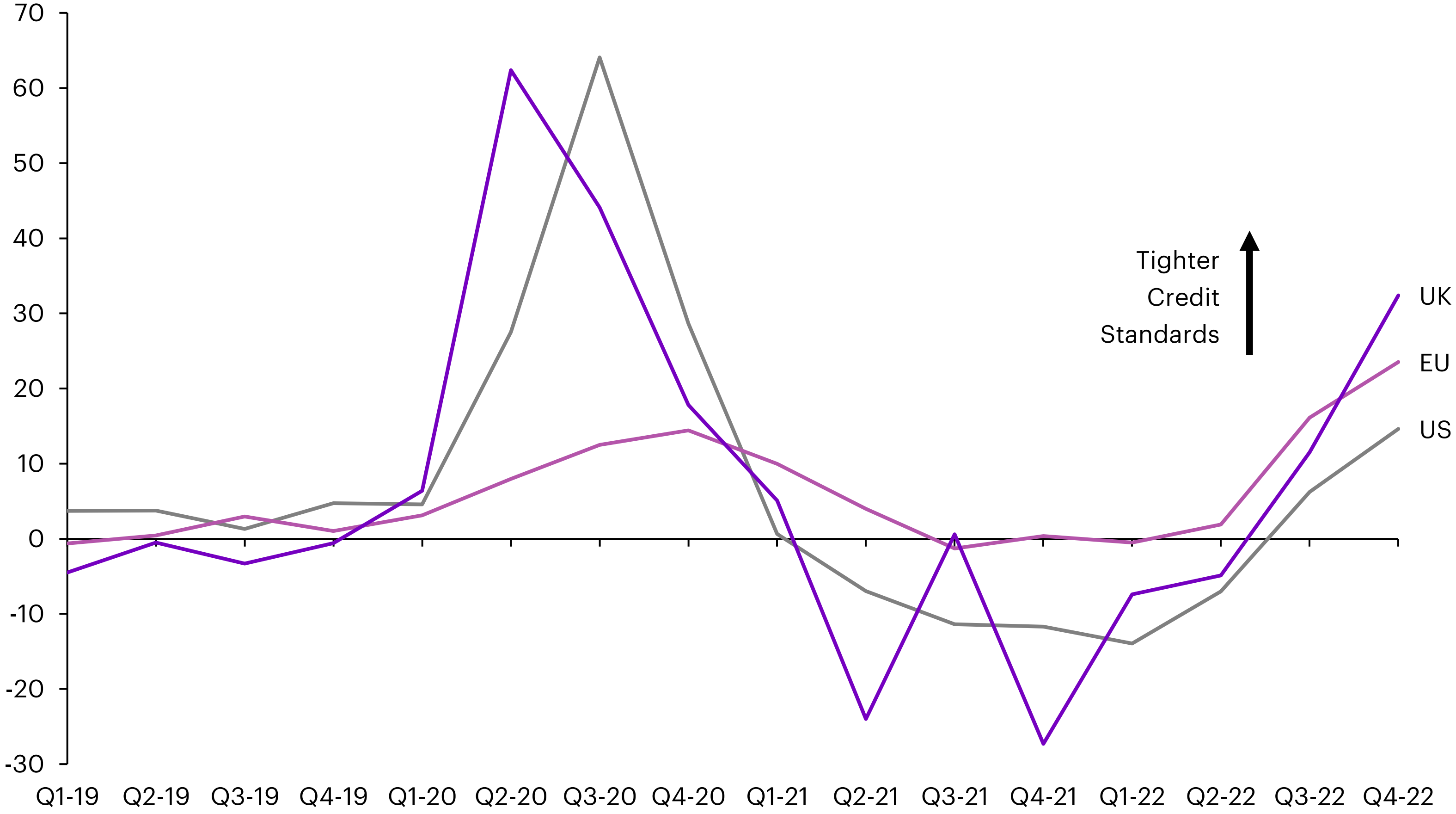
Notes:
(1) the composite indicator of systemic stress consists of market-based financial stress measures that namely covers the financial intermediaries sector, money markets, equity markets, bond markets and foreign exchange markets.
(2) Grey shading reflects U.S. recession
Sources: Haver Analytics,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

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

Restrictiveness of banks' lending standards

Banks are tightening their credit standards in tandem with monetary tightening

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



Commentary

- Monetary policy tightening since early 2022 has already been leading banks to scale back lending and tighten their credit standards
- Growing market and regulatory pressures in the aftermath of recent bank failures could prompt banks to further reduce risk-taking and credit provision
- An intensifying credit crunch raises the risk of more severe recession outcomes via a squeeze on household and corporate funding and investment

Notes: Lending standards for US and EU reflect a weighted index constructed using select survey questions to measure tightening or loosening standards to both households and enterprises. UK lending standards series based on inverted series of use of credit scoring

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

In the wake of recent US bank failures, perceived credit risk has risen the most for companies in the financial, real estate and energy sectors

US corporate bond spreads

Sector	Recent avg. Z-spread* (Basis Points)	Change relative to average (as of March 23, 2023) (Change in Basis Points relative to recent average)
Financials	104	55
Real Estate	161	41
Energy	201	31
Information Technology	87	25
Materials	168	24
Consumer Discretionary	126	21
Consumer Staples	115	18
Health care	111	17
Utilities	145	16
Telecommunications	144	16
Industrials	124	13
All Investment Grade	143	21
All High-Yield	369	128

Commentary

- Corporate bond spreads in the US have risen noticeably across sectors since early March
  - Largest increases have been for financials and other interest-rate sensitive sectors such as real estate and energy
- Further spread widening could translate into increases in corporate defaults and restructurings, particularly among highly-leveraged entities

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

About us

About Accenture Macro Foresight

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

The team has hubs in Europe 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. Visit us at www.accenture.com/macroforesight.

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.

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