April Macro Brief

Navigating choppy waters

April 29, 2024

Accenture Strategy

Macro Foresight

About this document

The monthly brief is intended to inform executive teams, boards and investors on the state of the economy. It has been prepared based on data as of **April 25, 2024**.

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

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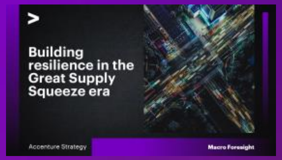

See our recent monthly macro briefs:

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April 2024

Executive Summary

Global themes

- **Coming out of Q1, the global economy continues to show resilience in the face of ongoing geopolitical instability and climate shocks, though the strength is not uniform and geographic divergence (both across and within regions) remains a key feature**
  - US growth is decelerating but still solid, Europe continues to struggle (apart from a promising turnaround in the UK), China's economy is holding steady on the back of a policy-aided manufacturing ramp up, while India and Saudi Arabia continue to soar
  - Key drivers of this cross-region and cross-country divergence include: differing degrees of consumer resilience (e.g. US vs. Europe), currency pressures and their impact on exports (APAC), and relative differences in economic and political stability (LATAM)
- **Despite moderating growth momentum, inflation has been re-accelerating for several months in the US and in parts of Europe.** This reversal is weakening central banks' confidence that inflation is on a sustainable path back down to target, and likely delaying rate cuts.
- **Against this backdrop, financial markets globally continue to see-saw, wrestling with overlapping uncertainties about the economic outlook, timing of central bank rate cuts, and geopolitical tensions.** This market volatility continues to weigh on M&A activity and overall corporate sentiment, dampening discretionary business spend and CAPEX plans.

Regional highlights

Americas

- In the **US,** consumer spending remains broadly resilient, but with clear softening among lower-income groups, and further downside risks from a cooling labor market
- In **LATAM,** Brazil and Mexico remain the growth outperformers so far in 2024, as others struggle with economic and political uncertainty

Europe, Middle East and Africa

- Both **German** and **UK** consumers remain cautious with their spending, but an improving income situation suggests a stronger rebound could be on the horizon
- In the **UAE** and broader **GCC**, recent record floods are putting pressure on companies to improve resilience to future climate shocks

Asia-Pacific

- **China** has had a better-than-expected start to 2024 on the back of strong manufacturing in government-promoted segments such as EVs and chips
- In **broader APAC,** currency depreciations and energy-related inflation are driving increased intra-region divergence

Key considerations and priorities for clients

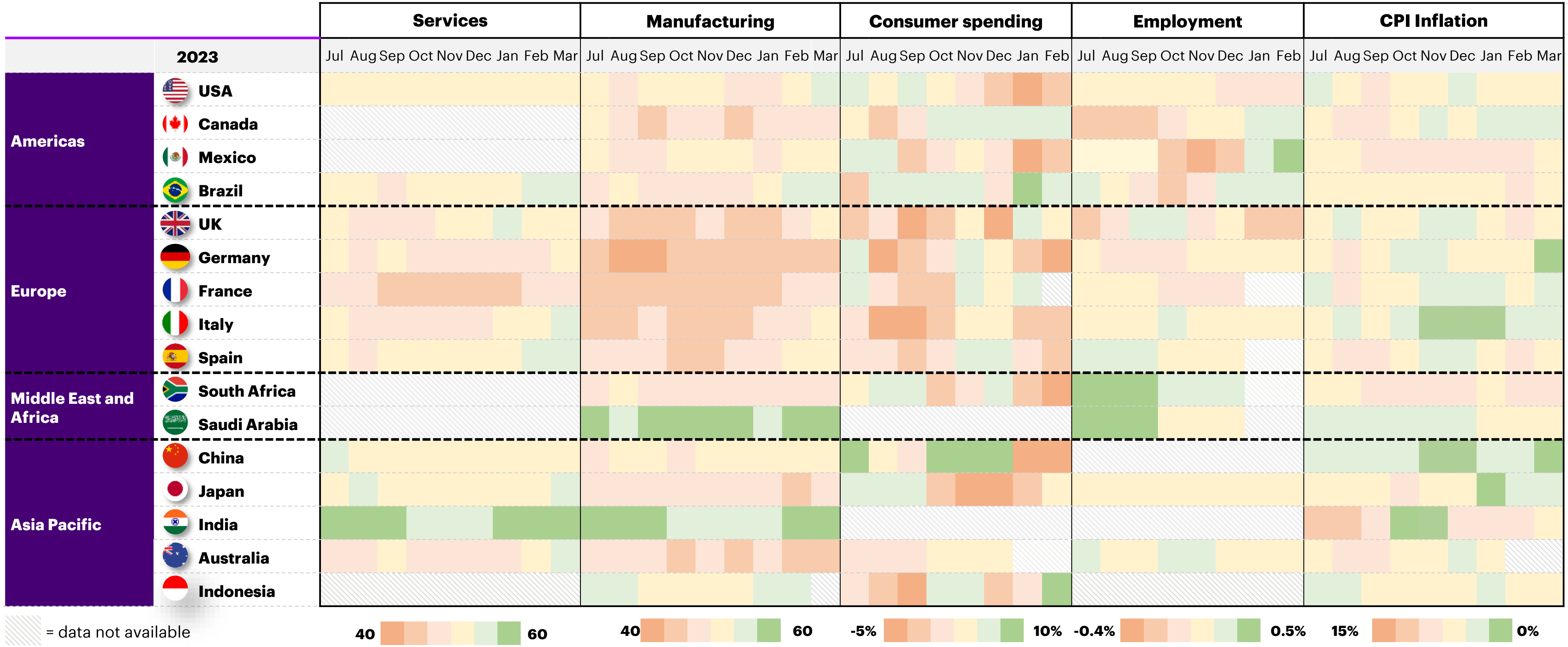
- **Companies should plan for increasingly divergent sales strength in geographic markets and across different consumer demographics.** In the US market, in particular, firms must recognize the mounting strains on lower-income consumers and adapt their pricing and products.
- **Scenarios where inflation accelerates further and/or persists at above-target levels should be given greater consideration.** Companies should pressure test 2024 cost plans formulated around the assumption of a "soft landing" and put in place appropriate contingencies.
- **Growing commodity price volatility and renewed supply chain risks in the current tense geopolitical environment create additional cost and preparedness requirements.** These include higher price hedging expenses, as well as more investment in supply chain analytics and monitoring for improved visibility into potential risks and disruptions.

Source: Accenture Strategy analysis

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

Country economic momentum snapshot

AS OF APR 25



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

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

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

Latest economic outlooks: Americas and Europe

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		Key recent datapoints	Base case outlook	What to watch for
Americas 	US	• GDP growth decelerated to an annual pace of 1.6% in Q1, the slowest since mid-2022 • Consumer spending was resilient in Mar, growing at same pace as in Feb after a slight drop in Jan • Core inflation accelerated further in March owing to energy and services price pressures	• A "weakflation" scenario, characterized by consumer-led downshift in growth and persistence of above-target inflation due to supply-side cost pressures	• Further acceleration in core inflation delaying the timing of Fed's rate cuts • Consumer spending inflection, led by lower-income households • Intensifying credit crunch for small businesses from CRE stress on banks
	Canada	• Headline and core inflation held steady in Mar, boosting case for BoC rate cuts by mid-year • Business confidence remained in weak in Q1, whereas consumer sentiment improved slightly	• Tight financial conditions, weakening external demand and housing market distress are expected to keep growth muted in the near term	• BoC more strongly indicating a move toward interest rate cuts • Further bankruptcies now that govt. loan repayment deadline has passed
	Brazil	• Monthly GDP tracker and PMIs suggest stronger-than-expected growth at start of 2024 • CPI inflation eased further in March	• Rebounding growth from the stagnation at end of 2023 amidst declining inflation and supportive central bank rate cuts	• Strength of agricultural harvest in 2024 amidst shifting climate patterns • Ongoing uncertainty regarding planned tax reforms and overall fiscal trajectory
Europe 	UK	• Retail sales rebounded strongly in Q1 after two consecutive quarters of contraction • Inflation eased further in Mar, providing boost to consumers in tandem with still-high wage growth	• Improving but-still ssluggish growth expected for rest of the year amidst ongoing manufacturing weakness and housing affordability pressures on consumers	• Timing of BOE rate cuts given loosening labor market and falling inflation • Election year driven fiscal expansion (e.g., additional tax relief)
	Germany	• Ifo business climate index improved for third consecutive month in April, suggesting a durable recovery in business sentiment • Core inflation remained sticky in March on a sequential 3-month basis	• Continued weakness in manufacturing, slowing export demands from China and EU, service activity boost, and disinflationary evolution likely stabilize the economy in the coming quarters	• Further initiatives to stimulate industrial competitiveness and exports and to improve business location by addressing structural factors
	France	• Latest PMIs show slower pace of contraction in manufacturing and return to growth for services Consumer confidence remained broadly flat in April and still well below its long-term average	• Continued muted growth despite falling inflation due to fiscal budget cuts and economic slowdowns in Germany and China	• Fiscal expenditure cuts in response to worsening budget deficit to avoid sovereign credit downgrade

Source: Accenture Strategy analysis

APAC economies are expected to continue to diverge, as India and Indonesia expand but Australia and others face sluggish demand and inflationary pressures

Latest economic outlooks: Asia-Pacific

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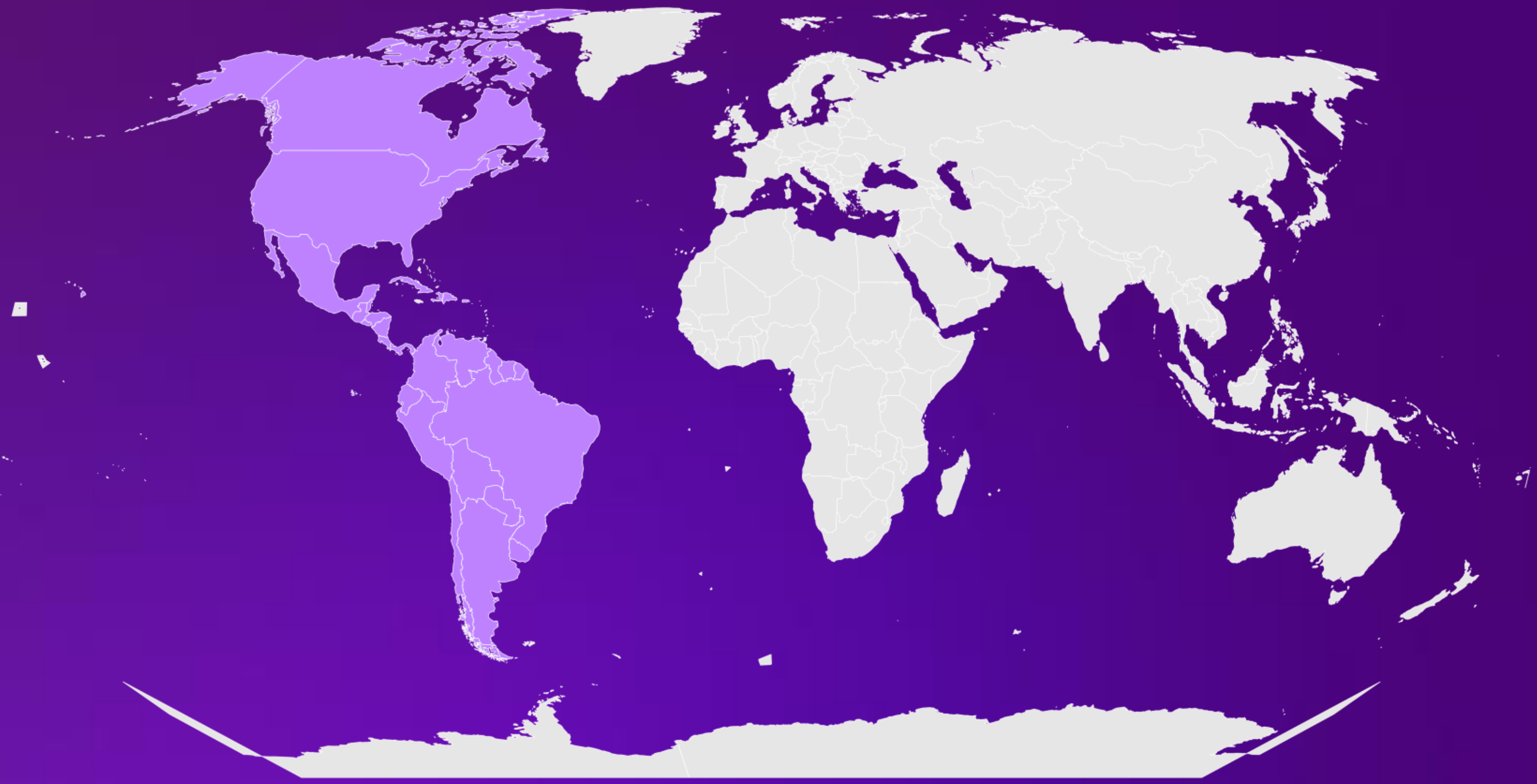
		Key recent datapoints	Base case outlook	What to watch for
Asia Pacific	China	• 5.3% YoY GDP growth in Q1 exceeded estimates • Industrial output growth slowed in March, though manufacturing in government-prioritized subsectors (e.g. EVs, chips) remains strong • Retail sales growth slowed to lowest pace since Jul 23 as property struggles weigh on consumers	• Subdued consumer confidence amid property sector challenges, soft external demand and limited policy stimulus in the near-term • Growth continues to trend down towards the slower (3-4%) potential rate associated with China's materializing structural challenges	• Extent of government policy support to prop up flagging growth and distressed property market • Export performance in targeted "New Three" sectors (EV, batteries, solar)
	Japan	• Manufacturing activity and new export orders remained in contractionary territory in April • 19th straight month of service PMI expansion, driven by stronger foreign demand • Consumers remain largely pessimistic, though sentiment improved slightly in March • Yen is at weakest level vs. USD since early 1990s	• GDP growth is expected to remain sluggish in 2024 as still-negative real income growth weighs on domestic demand and last year's strong export rebound (powered by pent-up auto and tourism demand and a weak yen) moderates	• Degree of moderation in tourism and auto export growth, especially in light of ongoing yen weakness • Extent of additional BoJ policy tightening now that it has ended its zero interest rate policy and yield curve control
	India	• Strongest private sector output in 8 months in March, with services reporting a sharp rise in business activity and manufacturers recording their strongest production increase since October 2020 • Consumer sentiment is nearing net positive	• Some moderation in growth momentum amidst slowing global demand, but still enough to maintain India's position as one of the fastest-growing major economies in 2024, continuing the trend from 2023 and 2022	• Resilience in domestic demand and strong growth in capital expenditure • Signs of manufacturers or other companies shifting supply chains to India
	Australia	• Manufacturing sector remained in contraction in Apr, but services continue to rebound strongly • Inflation ticked up slightly in March and continues to hover just below 4%	• Growth is likely to remain subdued as cost-of-living pressures and high interest rates continue to weigh on domestic demand	• Impact of positive wealth effects from recent house prices increases on consumer spending • Extent of imported inflation as the Australian dollar continues to weaken
	Indonesia	• Manufacturing sector expanded in March, as domestic demand drove new orders and output • Mild capacity pressure coupled with decreased business confidence led to no change in employment levels, despite expansionary PMIs	• Growth is expected to be resilient in 2024 as inflation pressures ease slightly and consumer spending remains relatively strong • Headwinds remain from slowing external demand and persistently elevated interest rates	• Potential economic policy shifts when new President-elect takes office • Continued measures to manage sluggish external commodities demand and inflation in food prices

Source: Accenture Strategy analysis

Spotlight developments

Americas

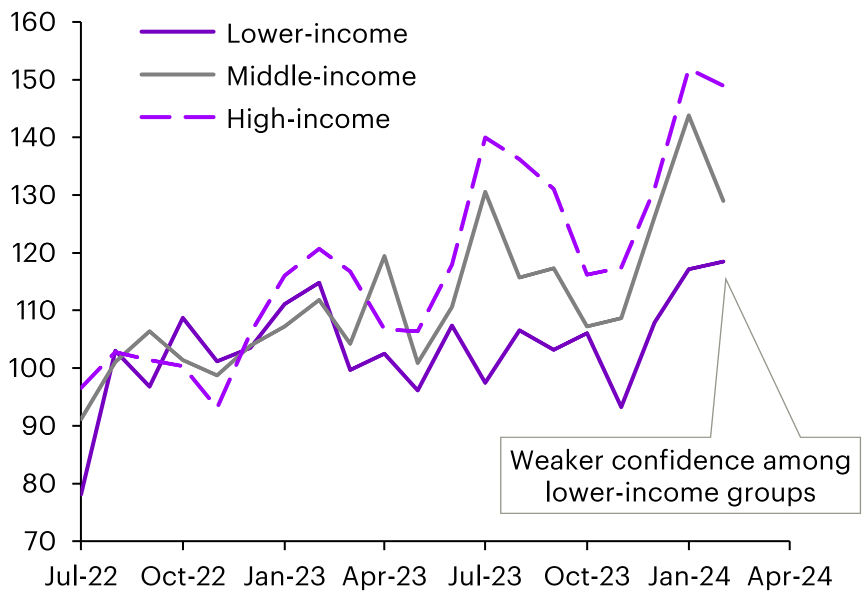


US consumers remain resilient overall, but there are growing pressures beneath the surface and lower-income groups have already started to rein in their spending

US consumer spending and sentiment by income group

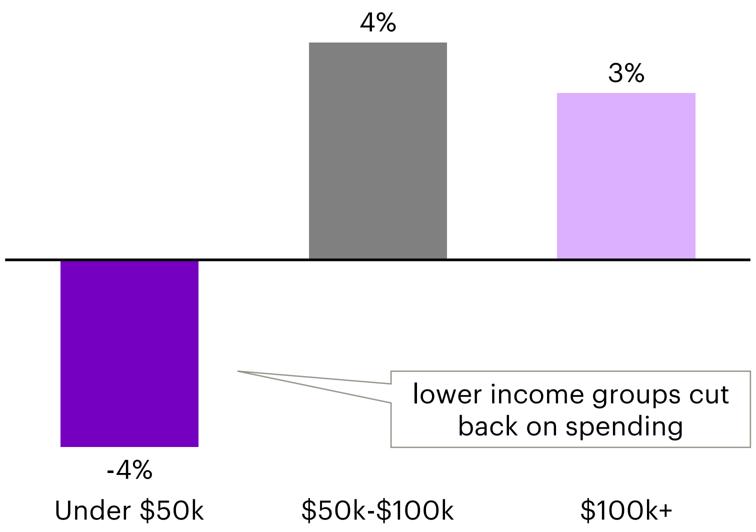
Consumer confidence across income groups

Index May 2022 = 100



Spending patterns across income groups[1]

Annual percent change in monthly household spending[2]



Implications for corporates

- Companies can expect some further slowing of consumer spending going forward, led by the more financially-pressured lower-income groups
- Consumer-facing companies in more discretionary product categories are likely to be particularly impacted, and should consider
  - Adapting offerings and pricing, where possible, to the crimped purchasing power of lower-income groups
  - Running periodic price-sensitivity analyses and market surveys

Commentary

- Overall consumer spending decelerated slightly in Q1 2024, growing 0.6% QoQ compared to an average of 0.8% the prior two quarters
- Much of this slowdown appears to stem from lower-income consumers, who have limited pandemic savings buffers remaining, are seeing decelerating wage growth, and struggling with high interest rates (evidenced by rising credit card and auto loan delinquency rates) and poor housing affordability
- The muted consumer sentiment among these lower-income segments suggest their spending is likely to remain tepid in the near-term

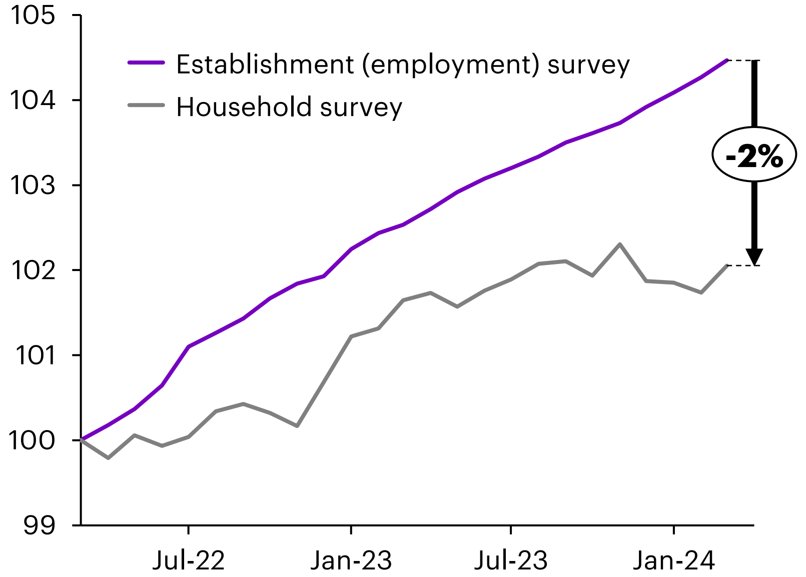
Note(s): 1) Lower-income groups earn <$50k, middle-income $50k and $100k, high-income more than $100k. 2) 3-month moving average
Source(s): University of Michigan consumer sentiment, Morning Consult Economic Intelligence, Accenture Strategy analysis.

Ongoing divergence between US employment surveys and the composition of recent job growth casts some doubt on degree of labor market strength

Mixed signals on US labor market strength

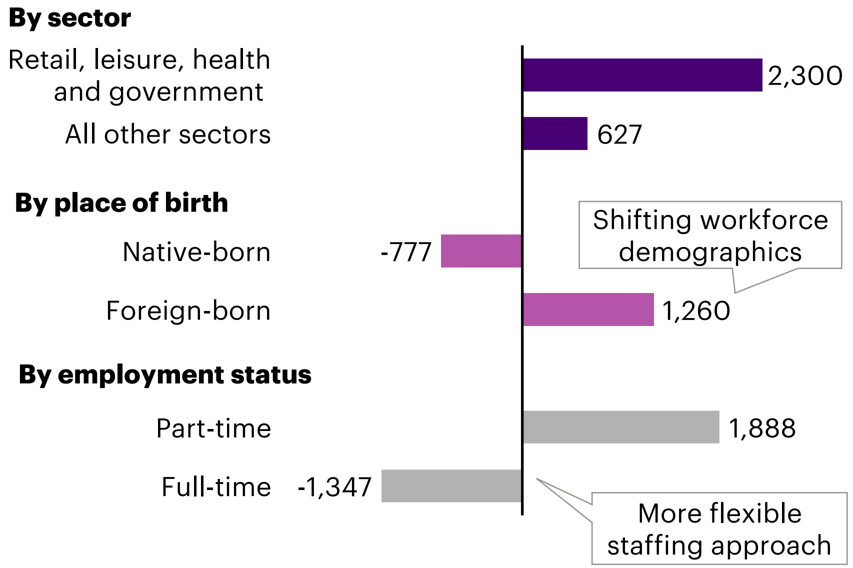
Employment (household vs. establishment survey)

Index (March 2022 = 100, seasonally adjusted)



Cumulative changes in employment over past year

Cumulative number of workers employed since March 2023



Implications for corporates

- Large share of part-time workers in recent employment growth could translate into weaker income fundamentals for consumer spending
- A potential "catch down" of payroll jobs numbers to the weaker path implied by household survey could lead the Fed to reassess strength of economy and bring forward rate cuts
- Companies will need to remain nimble with their talent strategies and compensation structures amidst uncertainty about true degree of labor market strength

Commentary

- Some reasons why labor market may not be as robust as suggested by the monthly job creation figures from the establishment survey are:
  - Job growth as measured by the survey of households is considerably lower, and has been broadly flat over past 6 months
  - Most recent job gains appear driven by ongoing normalization of employment in most pandemic-affected services (e.g. retail, leisure)
  - Hiring demand appears to have been mainly for foreign-born workers and the lesser-skilled roles that had highest vacancy rates during pandemic
  - New employment has been mainly in part-time roles, suggesting firms remain uncertain about outlook and are managing headcount cautiously

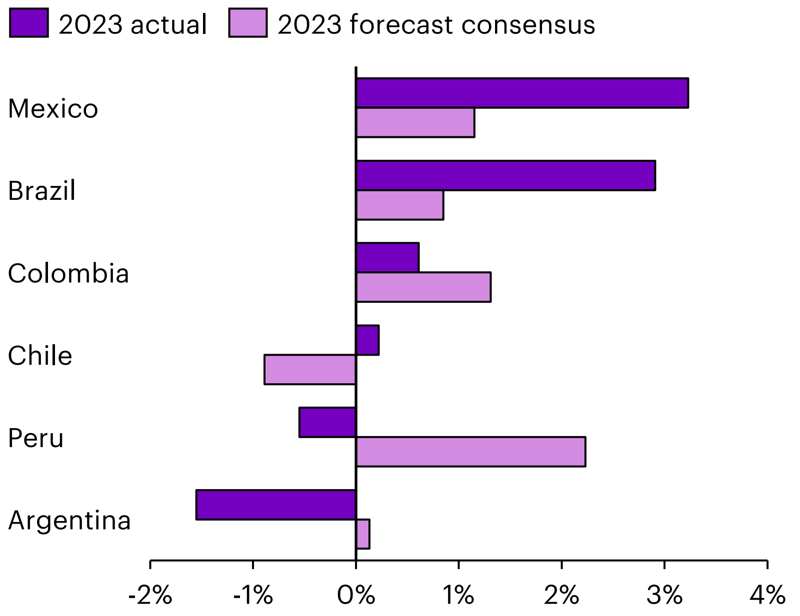
Note(s): 1) Establishment Survey (Payroll Employment), Employees on Nonfarm Payrolls 2) Employment Situation: Household Survey, civilian employment 16 years of age and over
Source(s): Haver Analytics, Bureau of Labor Statistics, Accenture Strategy analysis.

Brazil and Mexico remain on track to be the economic outperformers in LATAM in 2024, as Argentina and others in the region struggle with economic and political uncertainty

LATAM economic growth outlook

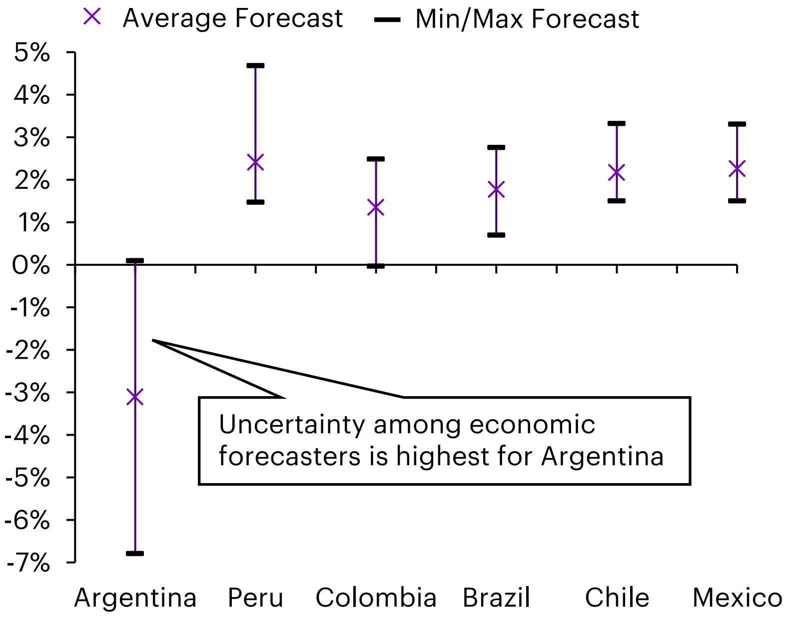
2023 GDP growth relative to expectations

% YoY, forecast consensus as of January 2023 vs actual growth



2024 GDP growth forecasts[1]

% YoY, as of April 16, 2024



Implications for corporates

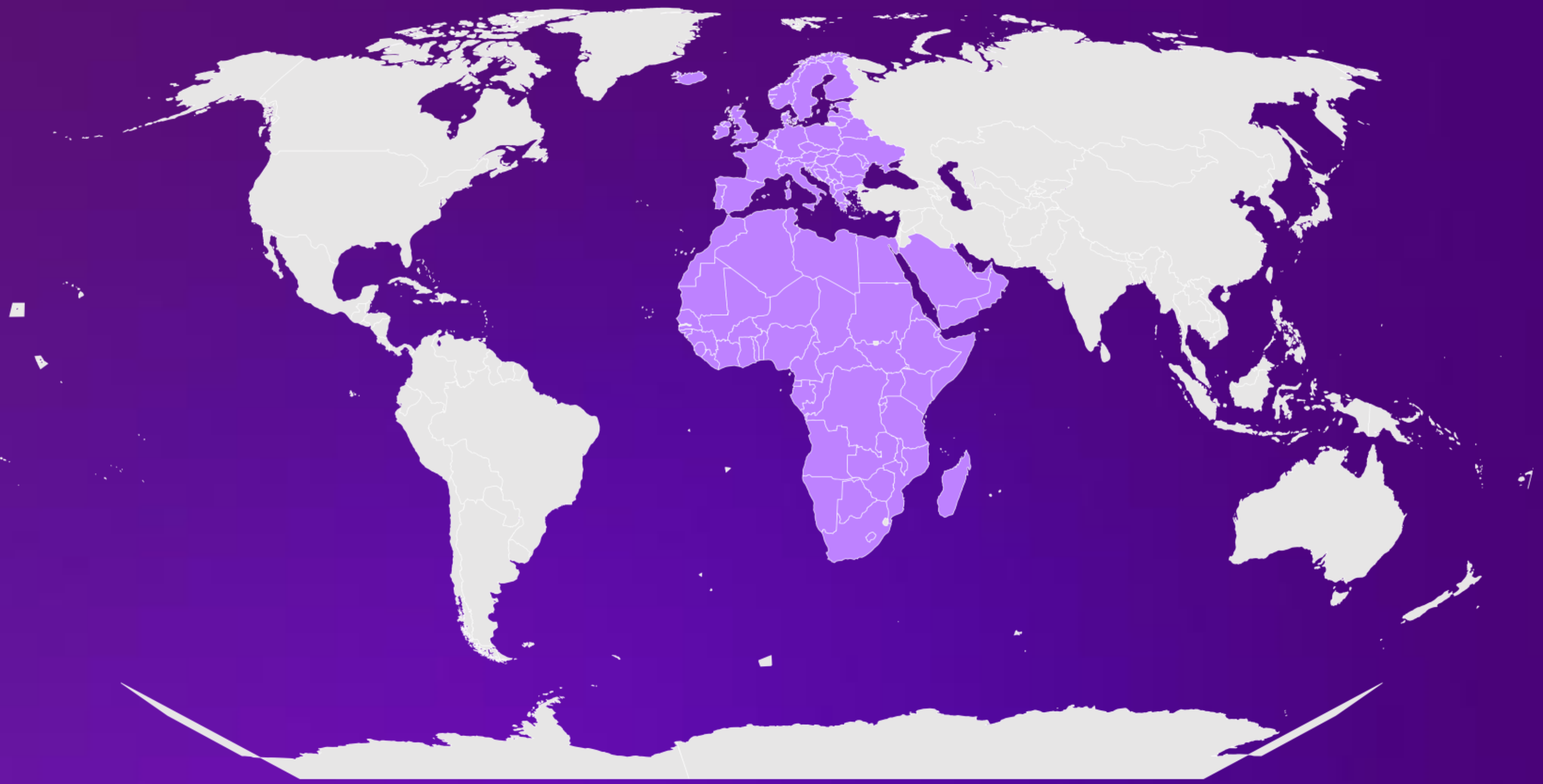
- The market for B2B will remain strong in Mexico and Brazil as multinationals prioritize these two markets for new investments to sustain top-line growth
- Mexico's outperformance and stable growth prospects is likely to further strengthen the country's competitive position for nearshoring
- In Chile, CAPEX-heavy projects in infrastructure, energy, and mining are likely to resume on the back of a more predictable regulatory environment
- Companies should closely track economic health indicators in Argentina to determine appropriate moment to resume investments given the instability

Commentary

- Brazil and Mexico surpassed last year's growth forecasts in Latin America, driven by steady consumer spending and exports; their growth fundamentals remain strong for 2024 and uncertainty around their economic outlook is fairly low (i.e. a small variance in GDP growth projections among forecasters)
- Peru and Chile, where political uncertainty was a major drag to investment in 2023, are expected to rebound this year; notably, Chile will benefit from a stable regulatory framework as the country voted against changing its market-friendly constitution after more than three years of public deliberation
- Argentina remains the region's wild card as the outcome of President Milei's aggressive economic adjustment plan is yet to be determined

Note(s): 1) Countries are ranked left to right by the range of their forecast variances, with the widest range positioned at the extreme left
Source(s): FocusEconomics, Accenture Strategy analysis.

Europe, Middle East and Africa

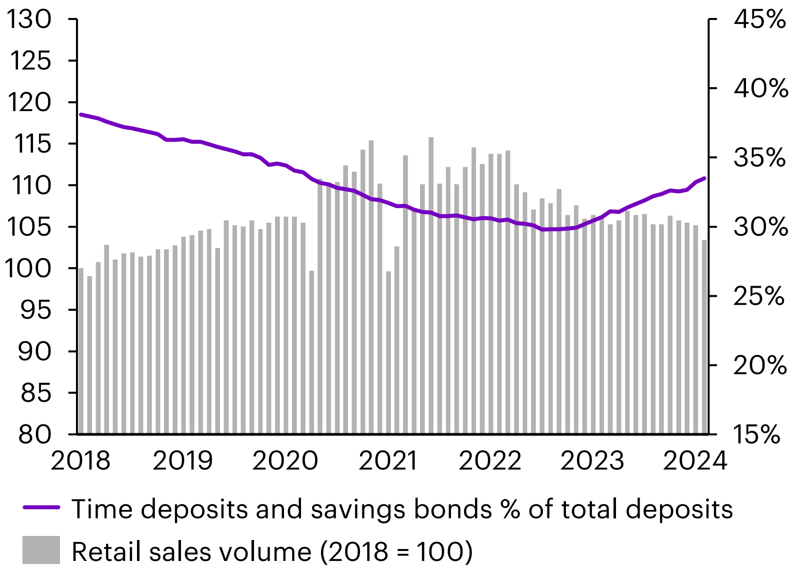


German consumers remain conservative with their spending, but improving income situation suggests a stronger rebound could be on the horizon

German private consumption

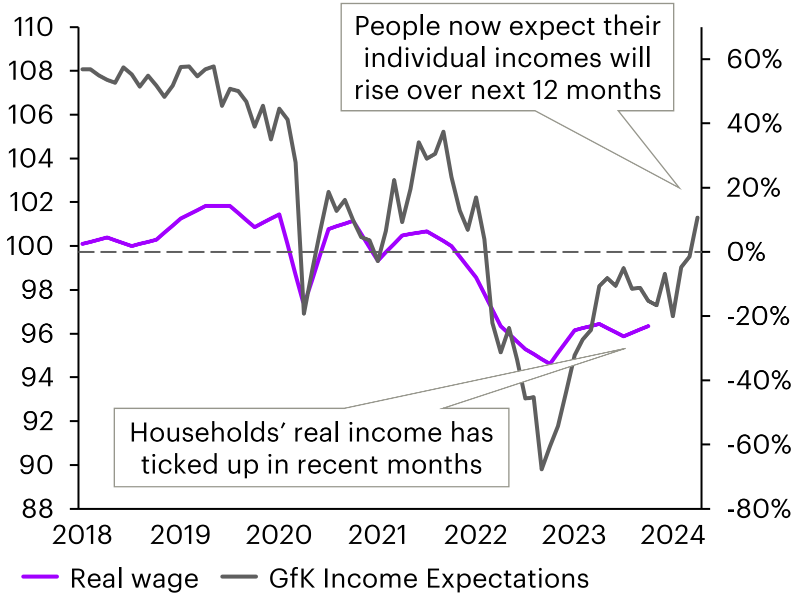
Retail sales and household savings

Retail sales volume 2018 = 100 (LHS), percent of savings in less liquid interest-bearing accounts (RHS)



Real wages and consumer climate

Index, Q4 2021 = 100, seasonally adjusted
Gfk income expectations percent balance



Implications for corporates

- Companies should remain cautious about prospect of a strong rebound in German consumer spending until
  - Real wage growth shows some further momentum
  - Exports rebound and the economy can rebuild after the major energy supply disruptions of past 2 years
- Amidst still-muted consumer demand, companies should prioritize re-evaluating pricing strategies, reducing costs and protecting margins

Commentary

- Rising energy costs and an economic recession have caused German consumers to protect savings in lieu of spending
- While recent disinflation and wage growth have boosted real incomes, households remain cautious about spending their pandemic-time savings—their savings rates remain near longer-term trends
- While consumers are still pessimistic overall about spending (answering "no" to questions about making major purchases), they increasingly believe their incomes will rise over the next 12 months (first time since Feb 2022, see above)

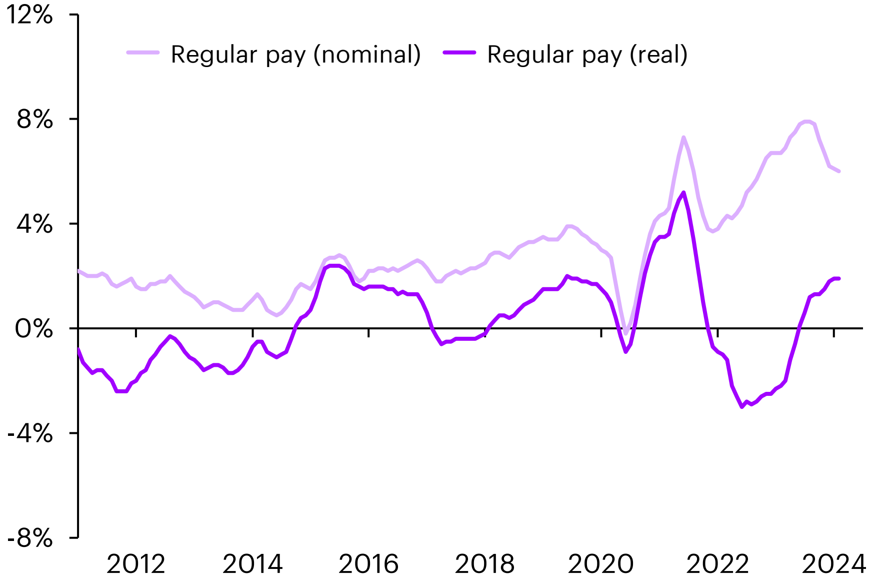
Source: Federal Statistics Office (Destatis), Kienbaum, GfK, IMF, Haver Analytics, Accenture Strategy analysis

UK consumers are confident amidst a robust labor market and falling inflation, but cautious spending habits pose challenges for retailers and consumer-facing companies

UK retail sales and wage growth

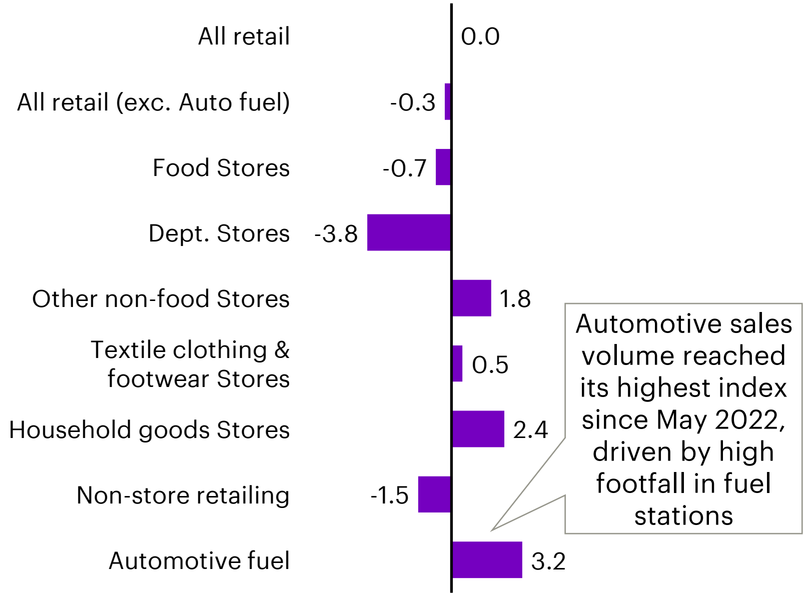
Real incomes continue to grow

Average weekly earnings annual growth rates in the UK (%)



Consumers continue to spend but more cautiously

Volume sales change in the UK retail sector (MoM, %)



Implications for corporates

- Consumer Staples sector may face pressure on margins as consumers seek value, leading to potential pricing pressures to maintain market share
- Consumer Discretionary firms must be agile and innovative, offering compelling value propositions to capture the attention and wallets of confident yet discerning consumers
- Across the board, retailers must adapt to evolving consumer preferences and optimize pricing, promotions, and product assortments

Commentary

- UK consumers are riding a wave of high confidence, underpinned by a robust labor market and the return of positive real wage growth
  - In recent survey, UK consumers came out as most confident among OECD nations
- However, the retail sector faces some headwinds, with flat sales and declining food purchases, suggesting a shift towards cautious spending behaviors

Note(s): 1) Non-store retailing are retailers that do not have a store presence – online retailers, stalls and markets etc.2. total pay and regular pay (excluding bonuses)

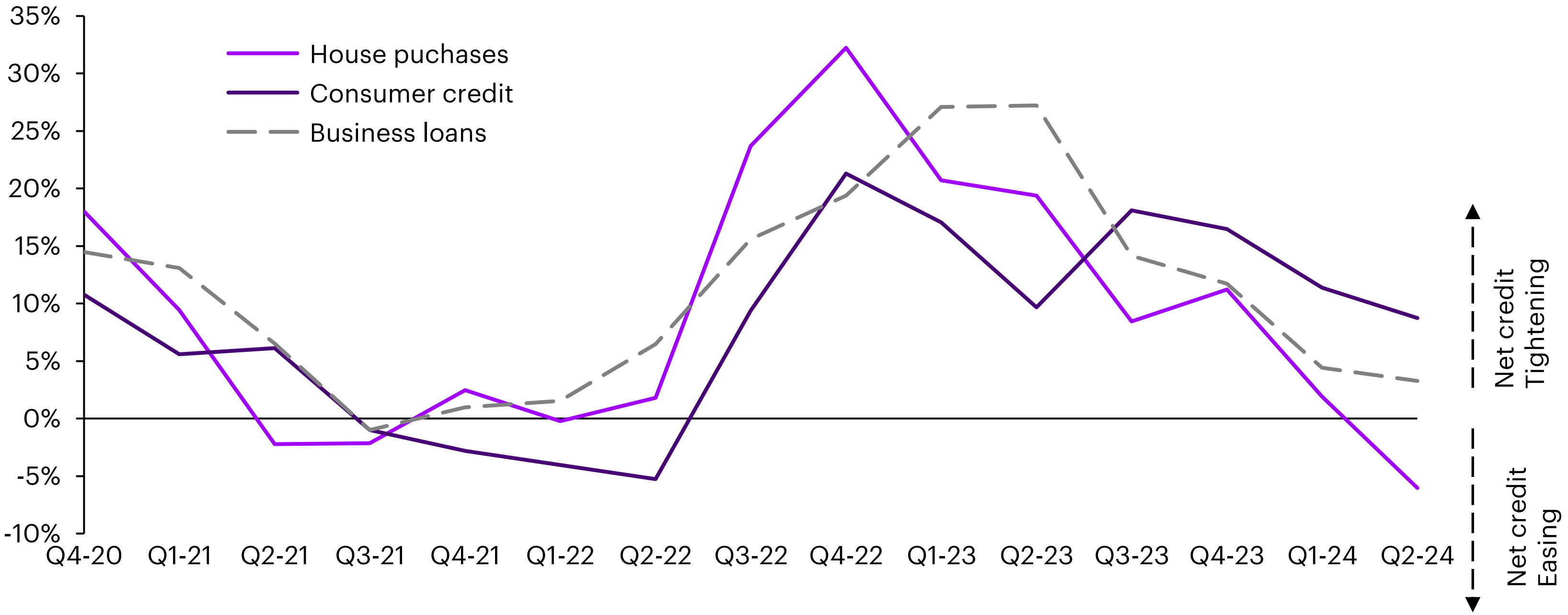
Source(s): Haver Analytics, Office of National Statistics (ONS), Accenture Strategy analysis.

Lending standards among Euro area banks continue to tighten, weighing on investment and consumer spending

Euro area bank credit standards

Euro area banks further tighten credit standards for businesses and consumers, except for housing loans

Net percentage balance, %, change in credit standards



Implications for corporates

- As credit standards tighten, companies may need to rely more on internal funds or seek alternative more costly funding sources
  - This could lead to cost-cutting measures and pressure CAPEX plans
- Consumer-facing firms selling big-ticket items that are generally purchased on credit may face ongoing headwinds until credit conditions start to ease

Commentary

- Credit standards in the eurozone worsened somewhat in Q1 ‘24, mainly due to worsening conditions in Germany, which may lead to a competitive disadvantage for German businesses and a potential shift of investment activities to other countries in the region where credit is more accessible
- Banks’ standards for consumer credit were also tightened but saw net easing for household mortgages—the first such instance since Q4 ’21

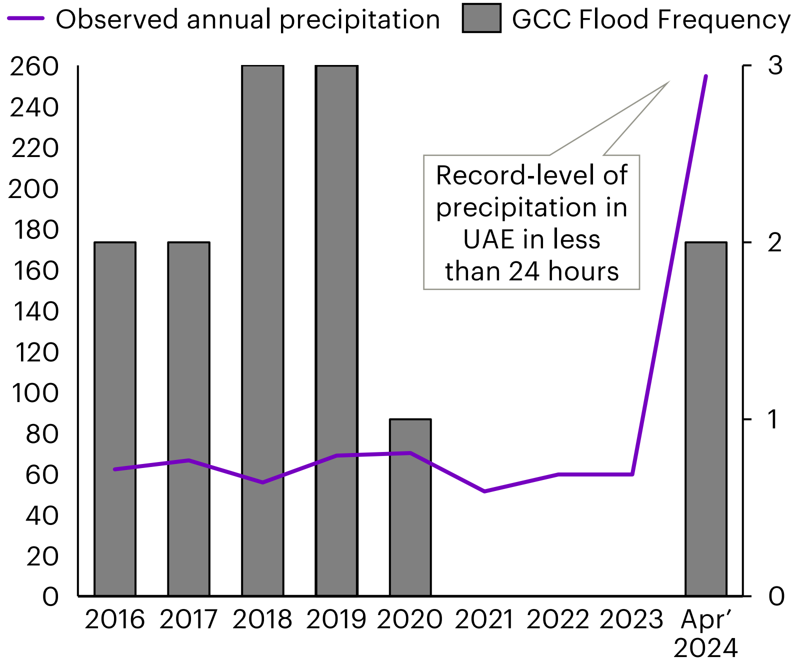
Note(s): 1) A positive net percentage balance indicates that a larger proportion of banks have tightened credit standards (net tightening). A negative number would refer to a net easing of credit standards. Similarly, a positive figure related to the credit demand questions would indicate an increase in loan demand. 2) The European Central Bank's quarterly bank lending survey has been modeled on the Federal Reserve's "Senior Loan Officer Opinion Survey on Bank Lending Practices.“ Approximately 120 euro area banks representing all of the euro area countries participate in the survey.
Source(s): European Central Bank, Haver Analytics, Accenture Strategy analysis.

In the aftermath of recent major floods, pressure will grow on GCC companies to improve resilience to future climate shocks

UAE climate risks and infrastructure

Precipitation in UAE up 4x annual average

Millimeters of rain (annual) | Number of floods per year



Select economic impacts from climate shocks

Evaluation and likelihood of impact

Impact on UAE	Likelihood	Risk level
Loss of business opportunities due to transport disruptions	●	High
Reduced reliability of transport infrastructure and buildings	●	High
Increased infrastructure maintenance costs	◕	High
Damage to coastal and offshore infrastructure	◕	High

Nearly 90% of UAE infrastructure is located within meters of sea level in low-lying coastal area

Implications for corporates

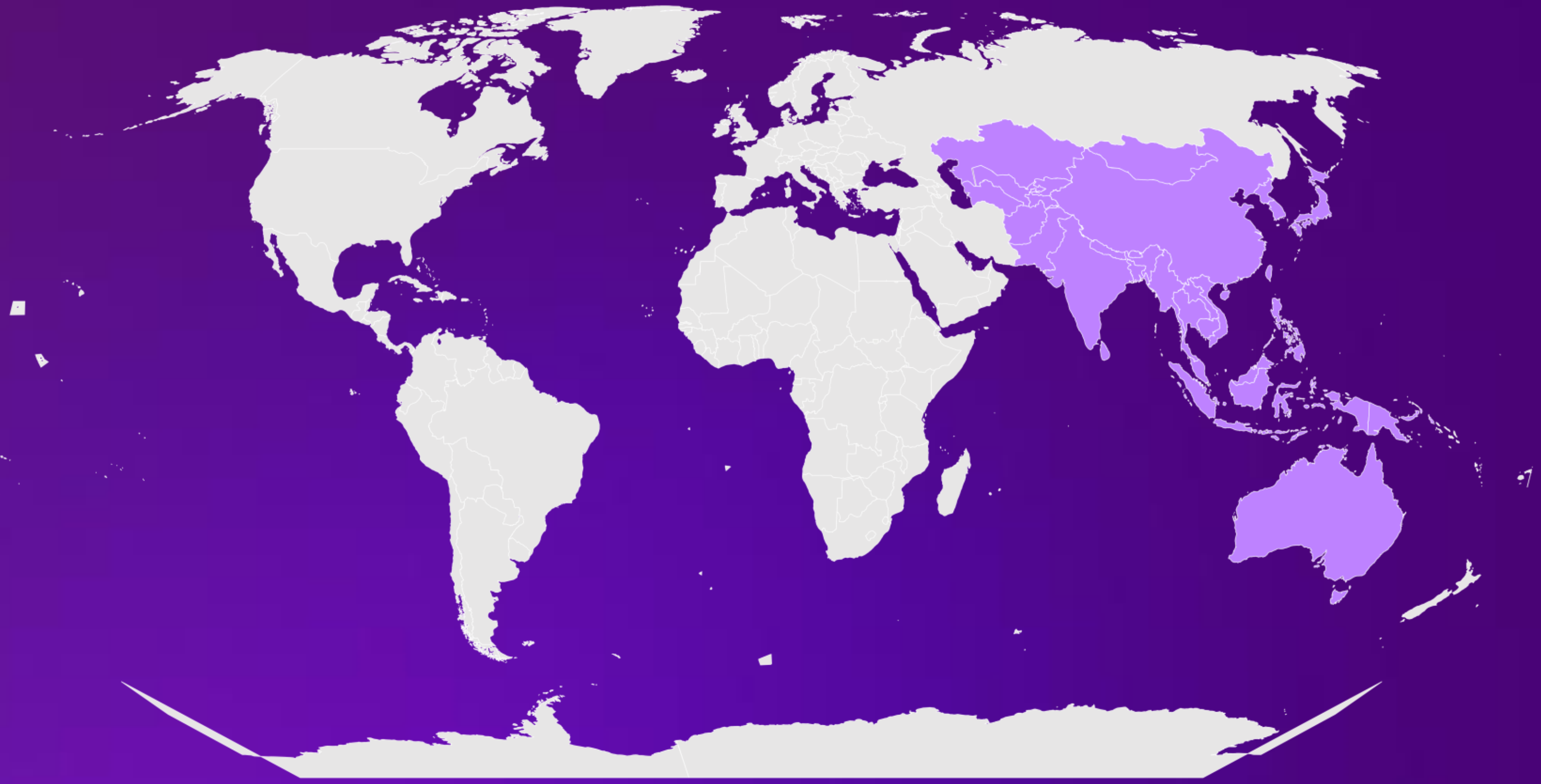
- GCC companies should re-evaluate their climate risk mitigation and adaptation strategies for extreme climate events
  - Diversify supplier base to ensure business continuity during climate-related disruptions
  - Develop contingency plans for logistics and supply chain
  - Embed climate risk scenario analyses into strategic planning
- GCC governments should consider:
  - Reassessing their infrastructure resiliency roadmap against climate shocks
  - Increasing investments in AI-powered climate resilience tech (e.g. smart sensors)

Commentary

- UAE's 24-hour period of heavy rain in mid-April (the most in 75 years) led to at least $1 billion in economic losses, including damage to public transport infrastructure, flight cancellations and business interruptions
- While the UAE ranks first regionally in infrastructure quality[1], the various damage to roads, bridges and public transport systems will require significant investment to repair; ripple effects to the broader economy from temporary lost wages, displaced residents and business closures are also likely

Note(s): 1) The World Bank's Logistics Performance Index (LPI) measures the quality of trade and transport infrastructure across different countries
Source(s): EM-DAT, World Bank Climate change knowledge portal, IMF, UAE Ministry of Energy and Infrastructure, Accenture Strategy analysis.

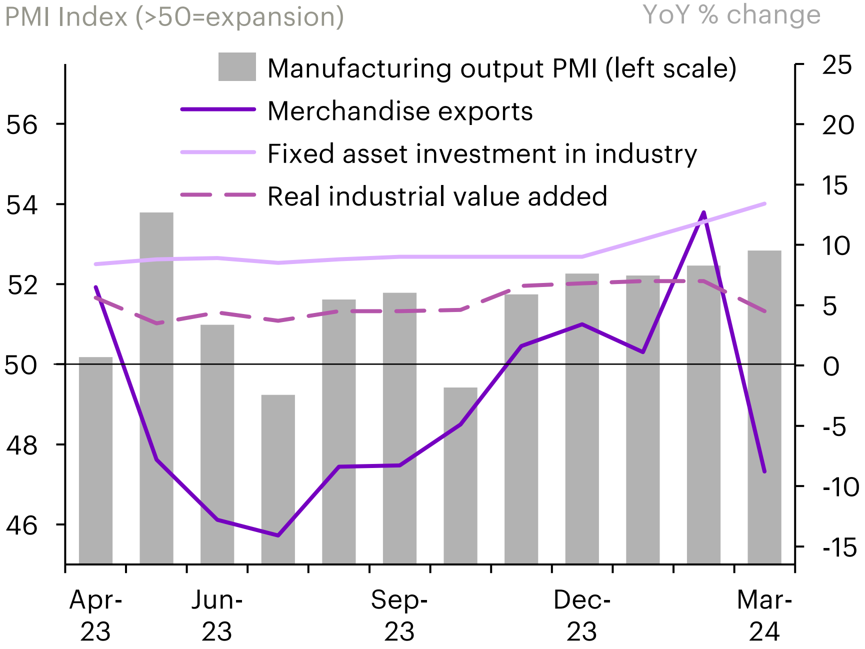
Asia Pacific



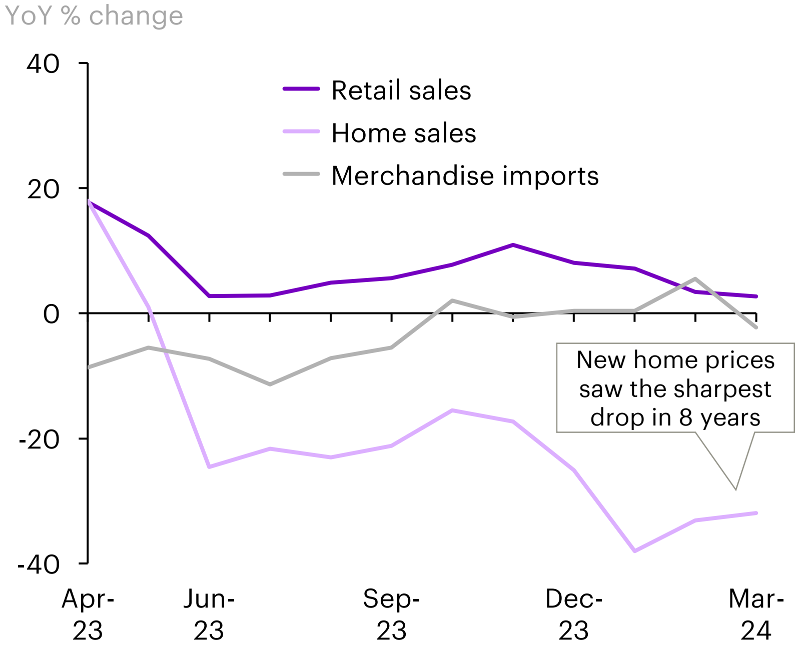
China's recent growth remains solid but uneven, as government-supported manufacturing activities offset ongoing property sector weakness and softening consumer spending

High-frequency indicators of economic activity in China

Strong industrial activity overall in Q1



Sluggish domestic demand



Implications for corporates

- Softening Chinese consumer spending could lead to:
  - a growth drag for major exporters to China (e.g., Germany, Japan)
  - margin squeeze and delaying and scaling back investment decisions for domestic firms
- Continued public subsidization of manufacturing in China could lead to:
  - Global oversupply and "dumping" of strategic goods such as electric vehicles, integrated circuits and steel
  - Excess inventory build-up for domestic firms

Commentary

- China's GDP growth held up strongly in Q1 2024—increasing by 5.3% YoY (vs. 5.1% YoY in Q2 2023) and even accelerated slightly on a QoQ basis
- However, recent growth dynamics in China suggest a tale of two economies:
  - An export-oriented manufacturing sector that is being buoyed by government support for high tech and renewable energy goods (e.g. EVs, chips) and international price competitiveness due to Yuan weakness and domestic producer price deflation
  - Weak domestic demand, reflecting a still-troubled property sector that continues to weigh on consumer confidence and spending
- Some slowing of industrial and export momentum in March implies even more policy stimulus may be needed to prop up economic growth going forward

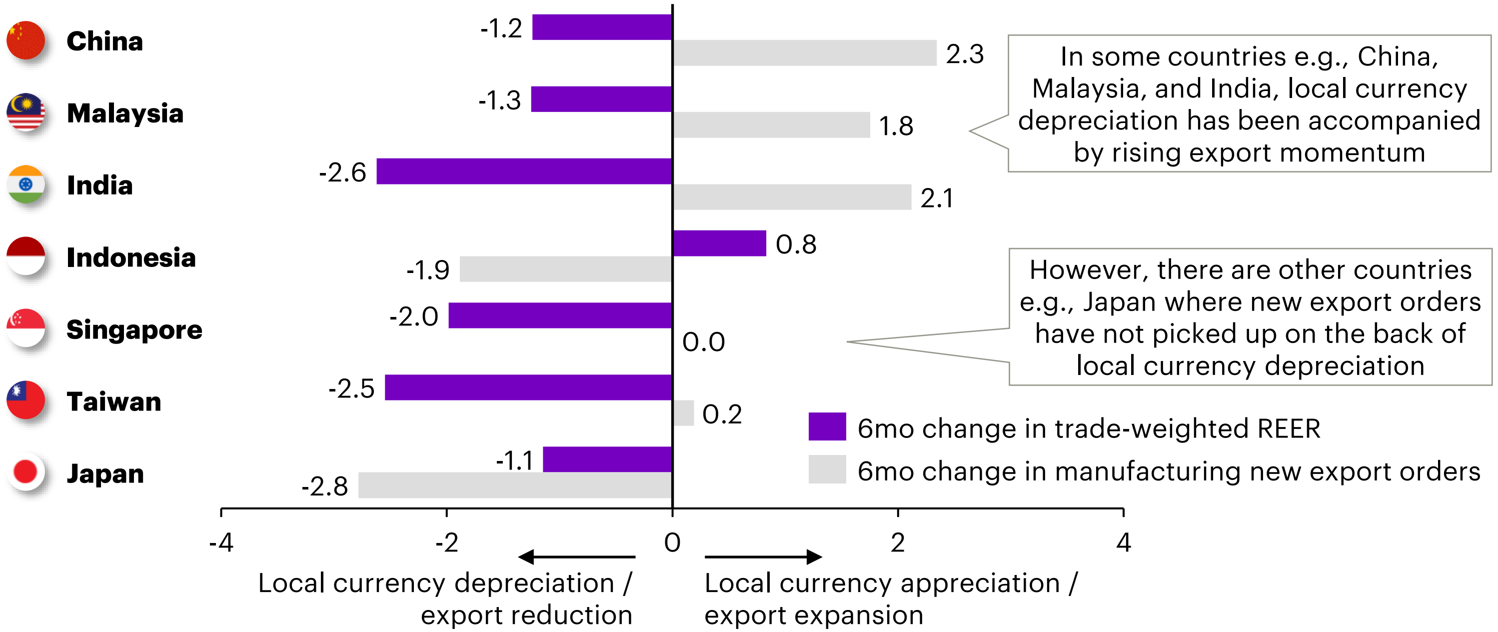
[1]Retail sales (mil. Yuan, SA) pre-COVID CAGR was 6.5% (2015-2019). Growth since reopening has ranged from 6.7% (Q1'23 vs. Q4'22) to 10.6% (Mar'23 vs. Dec'23)
Sources: S&P Global, Haver Analytics, National Bureau of Statistics China, CEIC, Accenture Strategy analysis

Pressures on APAC currencies are contributing to diverging growth outlooks within the region, within China and India benefitting thus far and Indonesia seeing an export drag

Currency and export divergence in APAC

APAC currency performance and export momentum

6-month % change in trade-weighted real effective exchange rate (PPI-basis, Oct 2023 = 100) and change in manufacturing new export orders PMI (index points, >0 = expansion)



Implications for corporates

- Corporate performance may diverge as well, as some firms could face additional inflationary pressure even as exporters benefit from depreciating local currencies
- Extended local currency weakness could impact corporates by:
  - complicating efforts to reduce inflation and squeezing margins in import-dependent countries (e.g., South Korea, Japan)
  - pressuring external debt servicing or refinancing, especially amid still-high US and European interest rates
  - driving continued uncertainty for corporate Treasury departments

Commentary

- APAC currencies have been under pressure in April, with the yuan declining to a 4-month low and the yen hitting a 34-year low against the US dollar
- These currency movements and their impacts on export performance are driving divergent growth outlooks for APAC economies
  - In its April WEO, the IMF forecasts Indonesia and India's growth in 2024 to exceed the APAC average by 1.8% and 3.6%, respectively
- Amidst renewed energy prices and prospect of higher-for-longer policy rates in US, APAC currency and imported inflation pressures are likely to persist

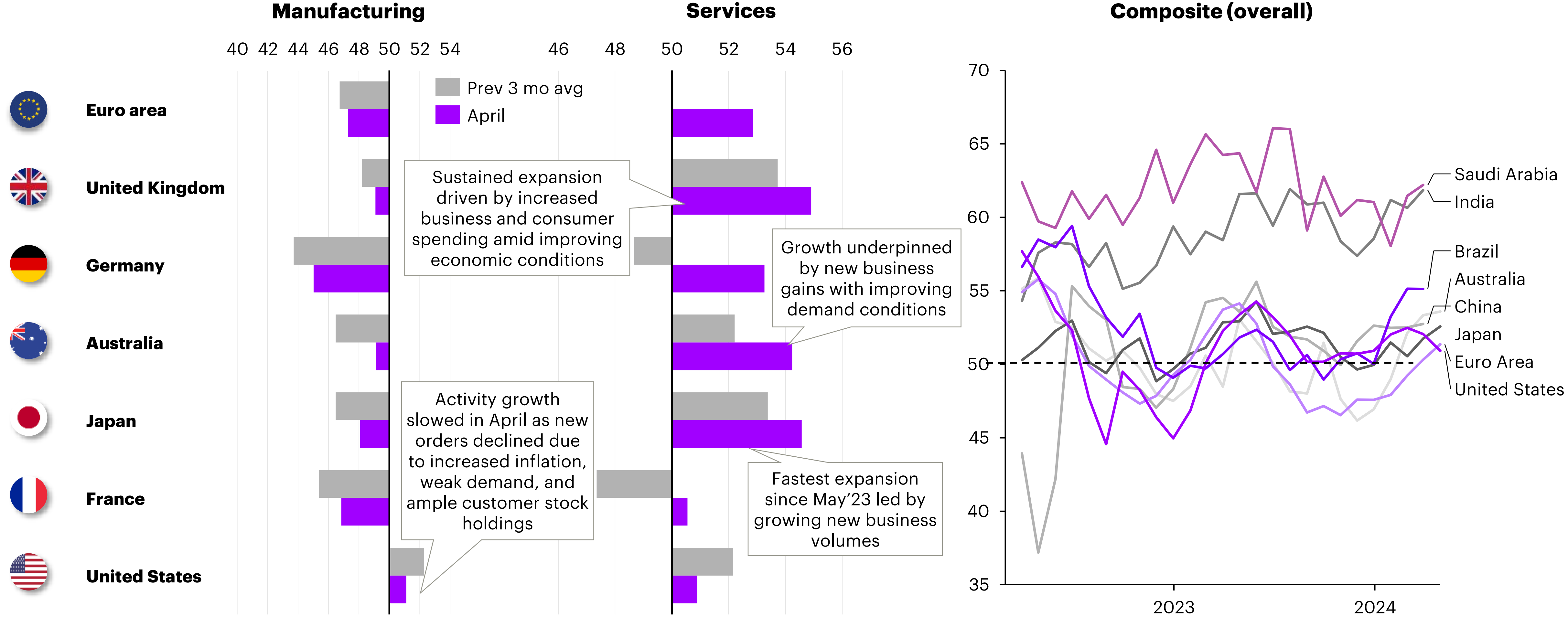
Note: Change in trade-weighted real effective exchange rate and manufacturing new export orders are the difference between October 2023 and March 2024 values. New export orders PMIs are rebased to zero, where a score >0 indicates expansion and a score <0 indicates contraction.
Sources: Nomura, ING, IMF World Economic Outlook (April 2024), Haver Analytics, Accenture Strategy analysis

Economic indicator chart pack

Regional and industry activity

Manufacturing remains in contraction across most major economies but is rebounding in the US; services performance is re-strengthening after recent moderation

Flash PMI survey country snapshot



Note: A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month, most recent results may include preliminary flash figures

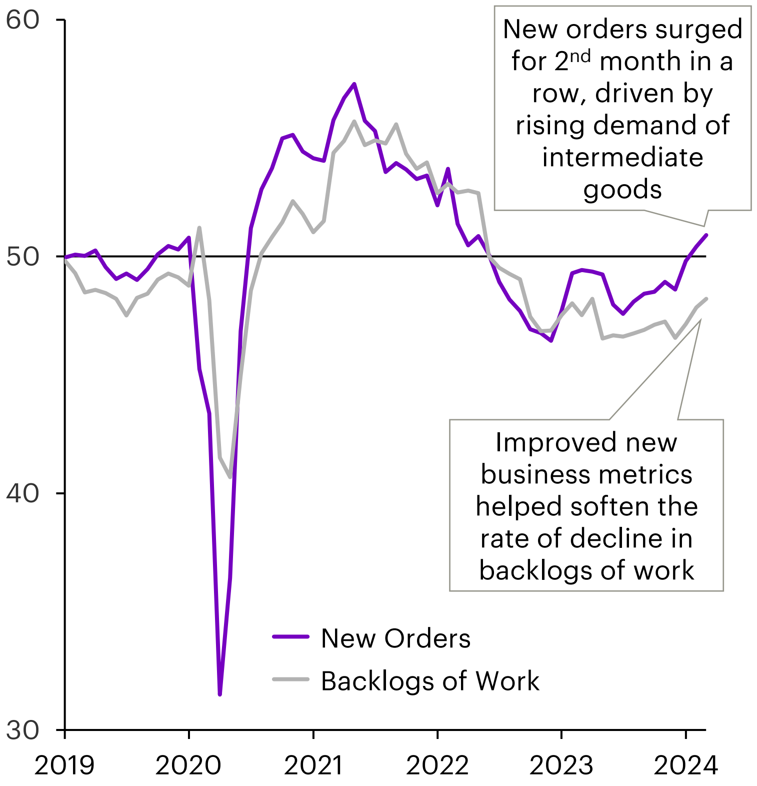
Sources: S&P Global, Accenture Strategy analysis

Forward-looking indicators suggest the global manufacturing downturn is at a likely inflection point and soon headed for recovery

Leading indicators of global manufacturing momentum

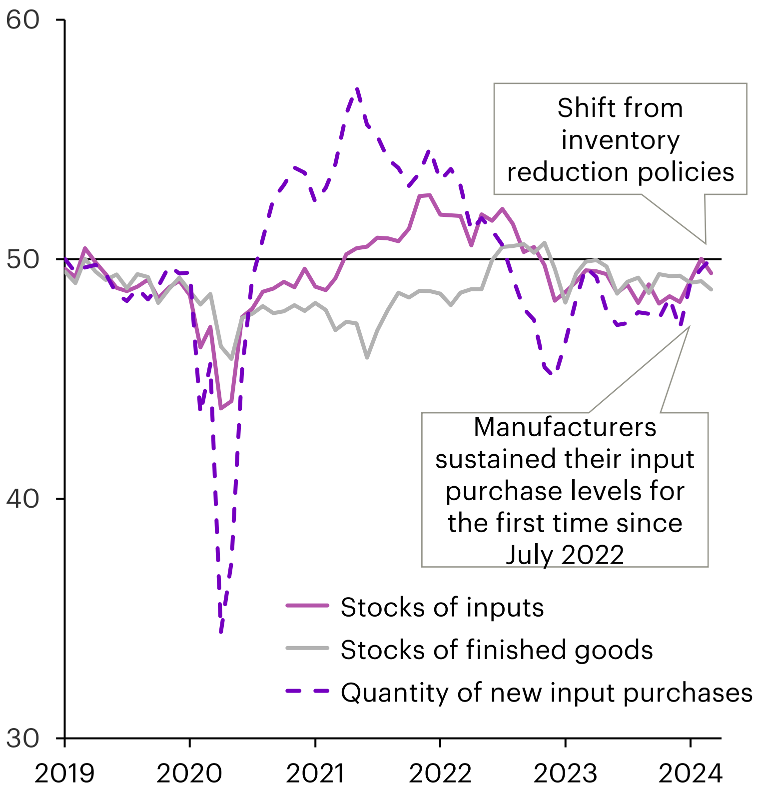
New order intake returns to growth…

Diffusion indexes (SA, 50+=Expansion)



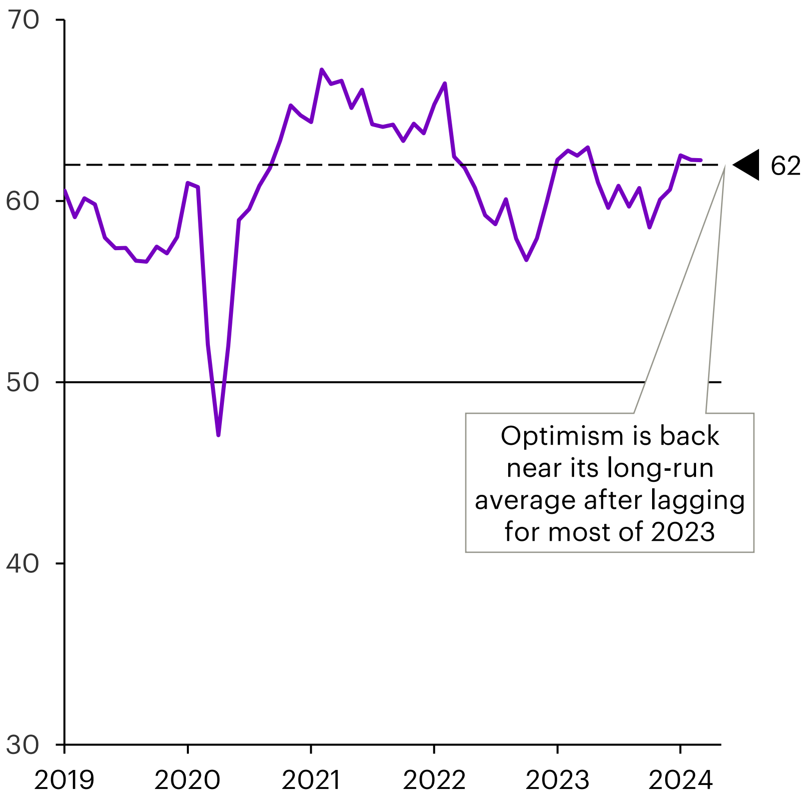
…with increasing input purchases …

Diffusion indexes (SA, 50+=Expansion)



…highlighting optimism for the 12-m outlook

Manufacturing future output (NSA, 50+=Expansion)



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

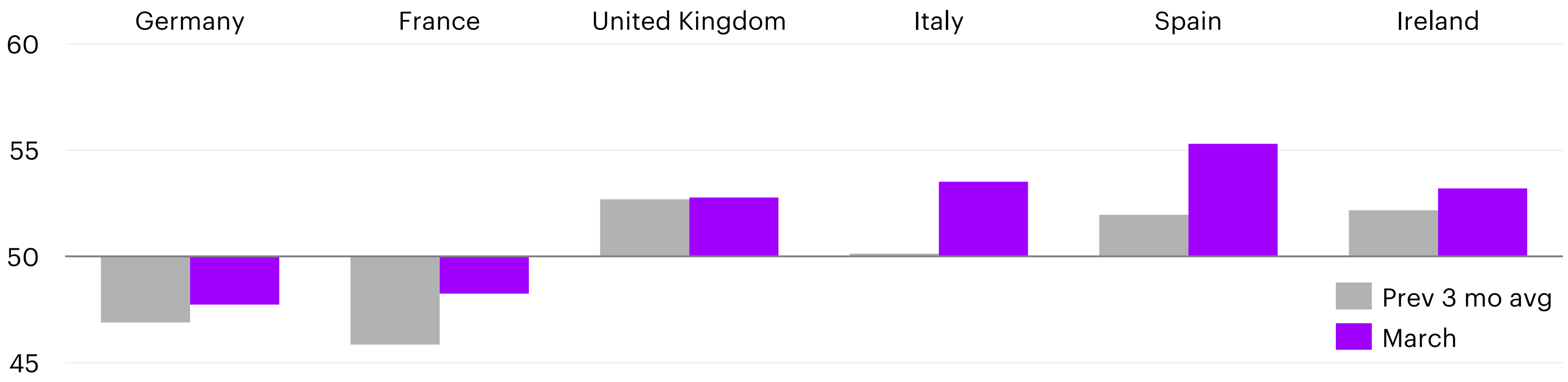
Sources: Haver Analytics, S&P Global, Accenture Strategy analysis

Business activity strengthened in the UK, Italy, Spain, and Ireland, while Germany and France continued to experience a downturn

Regional performance: Europe

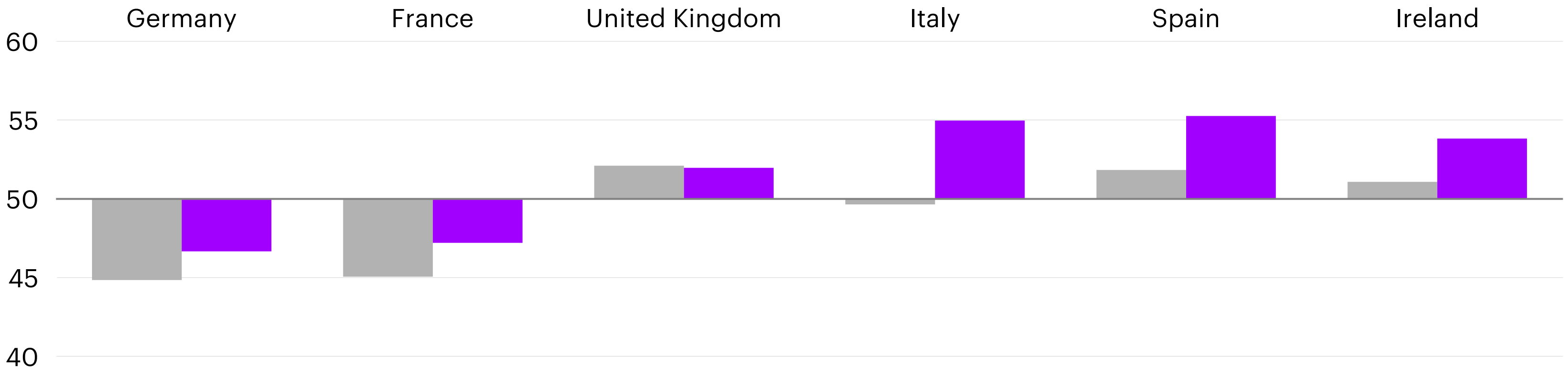
Output/activity

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



New Orders

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



Commentary

- In March, new orders grew in Italy, Ireland, and Spain, while the downturn slowed in France and Germany relative to the recent 3-month average
- In the UK, private sector output expanded less in March compared to February, with growth extending from the services to the manufacturing sector; this marked the first increase in manufacturing production since February 2023
- Spain's private sector saw robust growth in March, with services expanding rapidly on account of increasing new business volumes while manufacturing showed modest growth

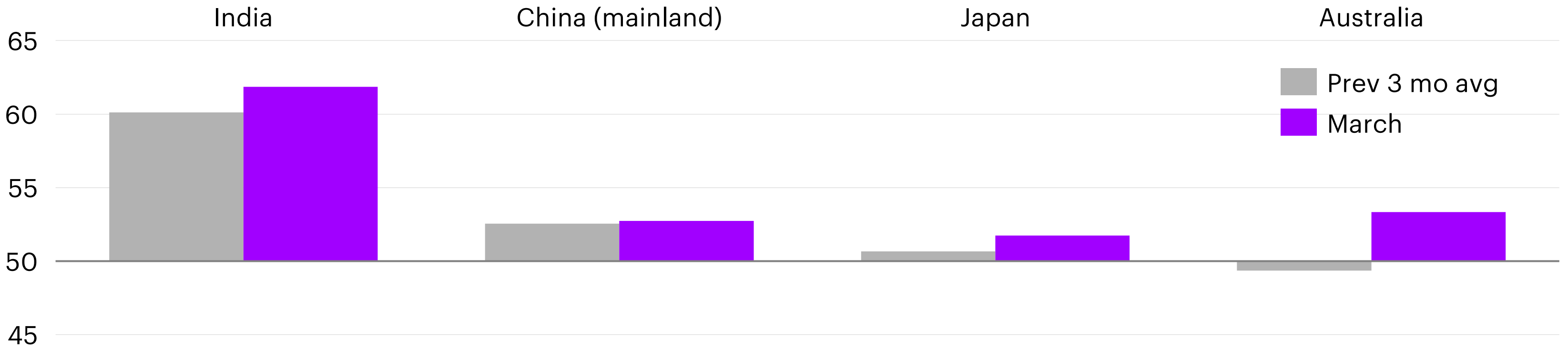
Sources: S&P Global, Accenture Strategy analysis

India maintains its growth momentum in the Asia-Pacific region, while Japan's conditions improved to their highest level since September 2023

Regional performance: Asia-Pacific

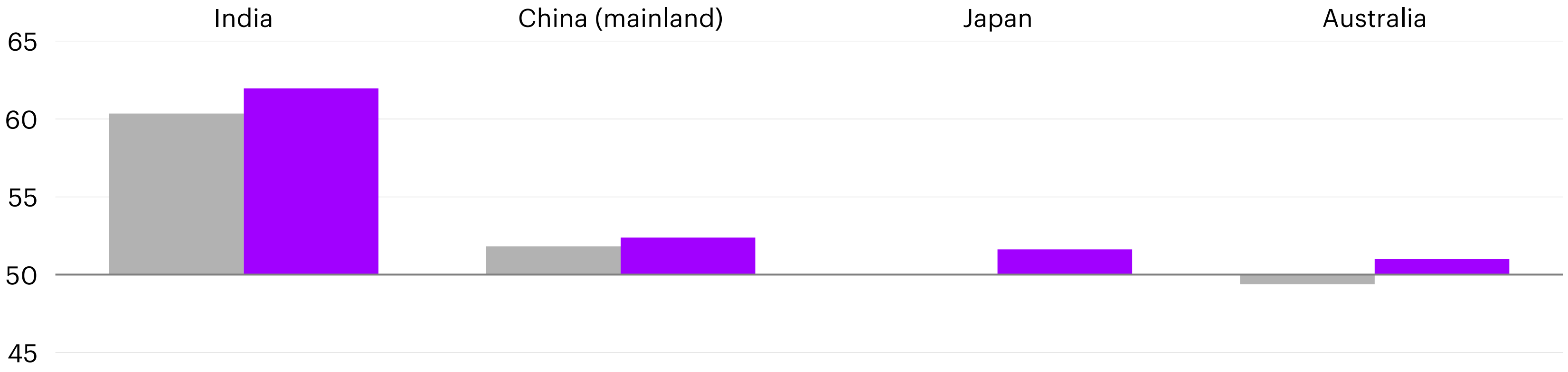
Country performance

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



New Orders Index

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



Commentary

- India's private sector saw the strongest output in eight months in March
  - Service providers reported a sharp rise in business activity
  - manufacturers recorded their strongest production increase since October 2020
- In China, business activity strengthened mainly on account of improved manufacturing momentum (rising output and new orders)
- Japan's private sector experienced an uptick led by expansion in the service sector with a softer decline in manufacturing; new business volume increased for service providers, supported by stronger foreign demand for Japanese services in March

Sources: S&P Global, Accenture Strategy analysis

Manufacturing contracted across most of Southeast Asia, with only Indonesia, Thailand and Singapore showing signs of expansion

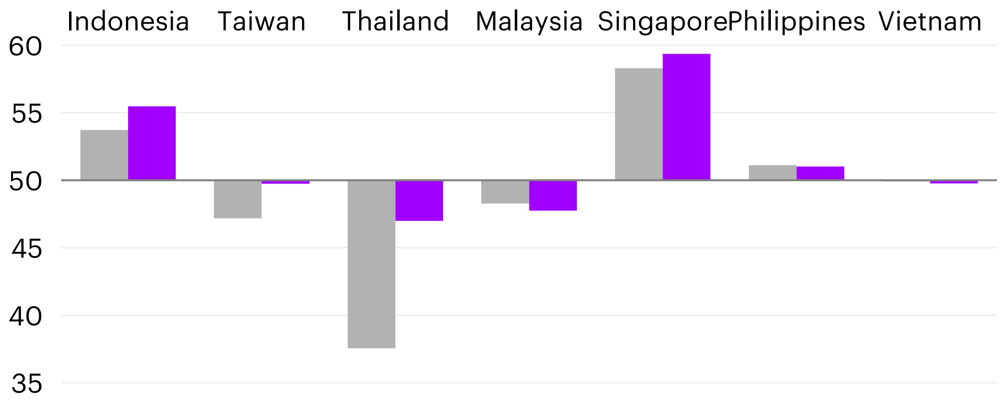
Regional performance: Southeast Asia

Manufacturing Performance

Mar '24 vs Previous 3 Month Average, Manufacturing Output

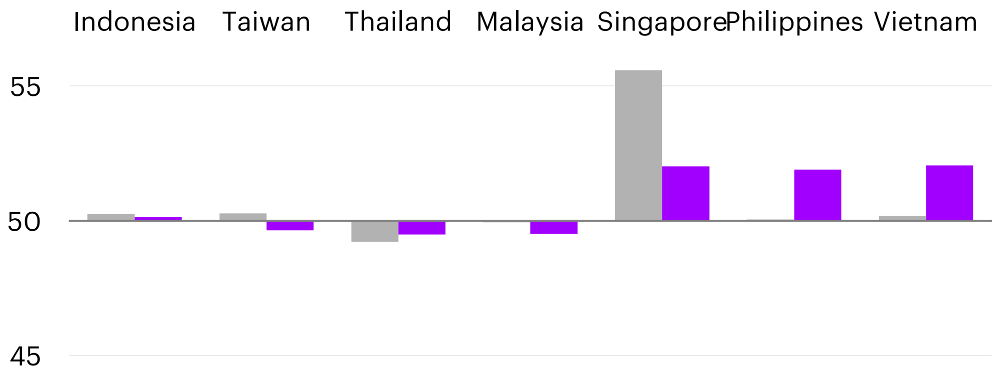
Manufacturing New Orders

Mar '24 vs Previous 3 Month Average, Manufacturing New Orders PMI



Manufacturing Employment

Mar '24 vs Previous 3 Month Average, Manufacturing Employment PMI



Commentary

- Indonesia's manufacturing sector expanded in March, buoyed by strong domestic demand driving growth in new orders and output; however mild capacity pressure coupled with decreased business confidence led to no change in employment levels
- Private sector output in Singapore expanded in March due to improved demand conditions and a surge in new orders, especially in the wholesale & retail sector. Overall, firms expressed optimism about future business activity
- In March, Vietnam's manufacturing sector growth stalled due to subdued demand and competitive pressures compounded by geopolitical issues; however, manufacturers remain optimistic about increased production in the coming year

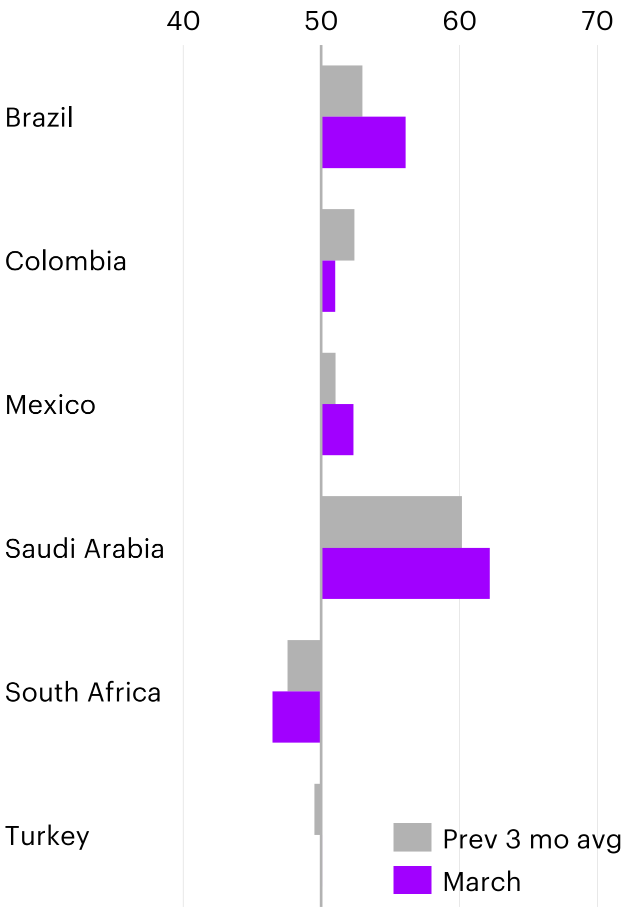
Note: Performance for Singapore covers the whole economy
Sources: S&P Global, Accenture Strategy analysis

South Africa faced further business activity setbacks in March, with the steepest decline in new order volumes in over two years

Regional performance: Other emerging markets

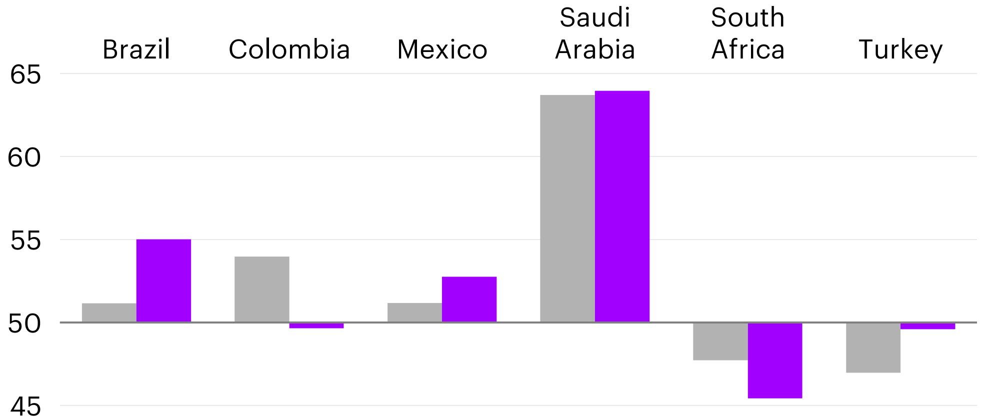
Manufacturing Performance

Mar '24 vs Previous 3 Month Average, Manufacturing PMI



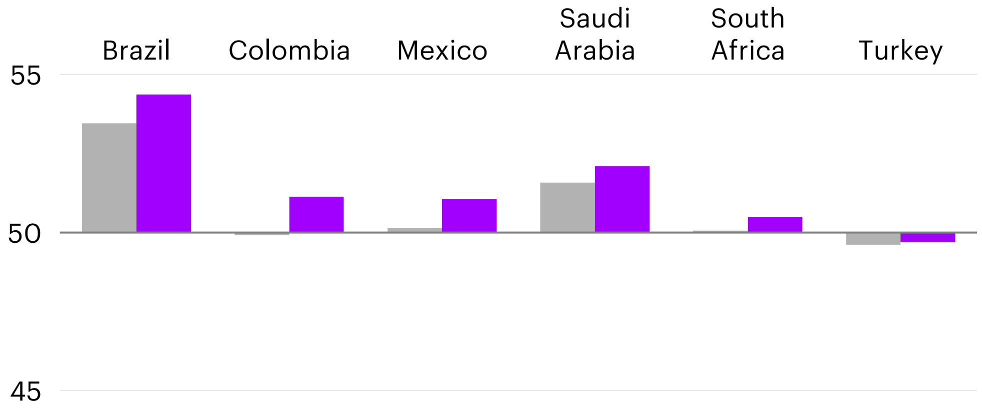
Manufacturing New Orders

Mar '24 vs Previous 3 Month Average, Manufacturing New Orders PMI



Manufacturing Employment

Mar '24 vs Previous 3 Month Average, Manufacturing Employment PMI



Commentary

- In March, Brazilian manufacturing strengthened with a surge in new orders driving up production. While domestic demand improved, manufacturers faced challenges fulfilling international orders.
- Mexico's manufacturing sector expanded moderately in March despite declining new export orders (attributed to weak US demand) and fading business confidence
- Turkey's manufacturers reported broadly unchanged operating conditions in March while new orders and employment neared stabilization
- In Saudi Arabia, a faster growth in the private sector was driven by favorable demand conditions as orders from foreign customers improved
- South African business conditions further declined as new orders fell amid price pressures and drought-induced lower demand

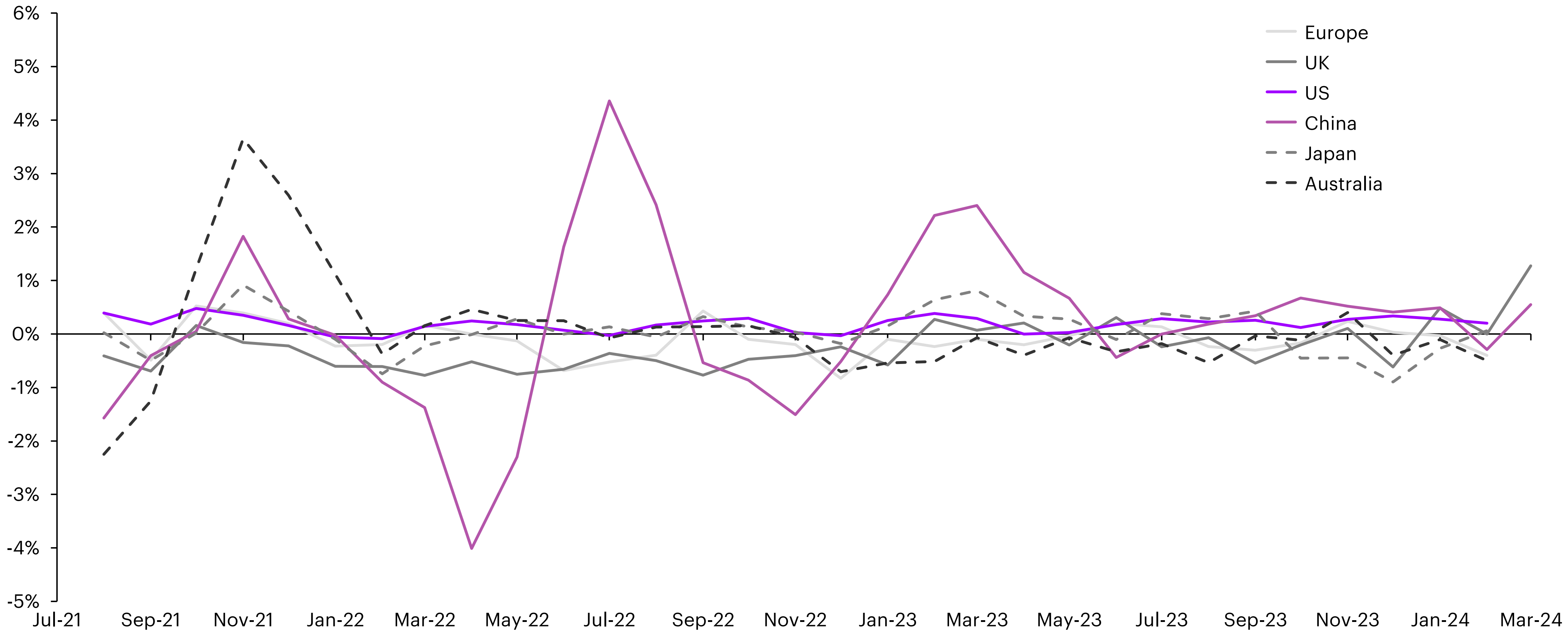
Note: South Africa and Saudi Arabia PMI is for the whole economy
Sources: S&P Global, Accenture Strategy analysis

Consumer spending

Consumer spending continues to moderate in most major economies, though there has been a notable rebound in the UK

Consumer spending trends

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

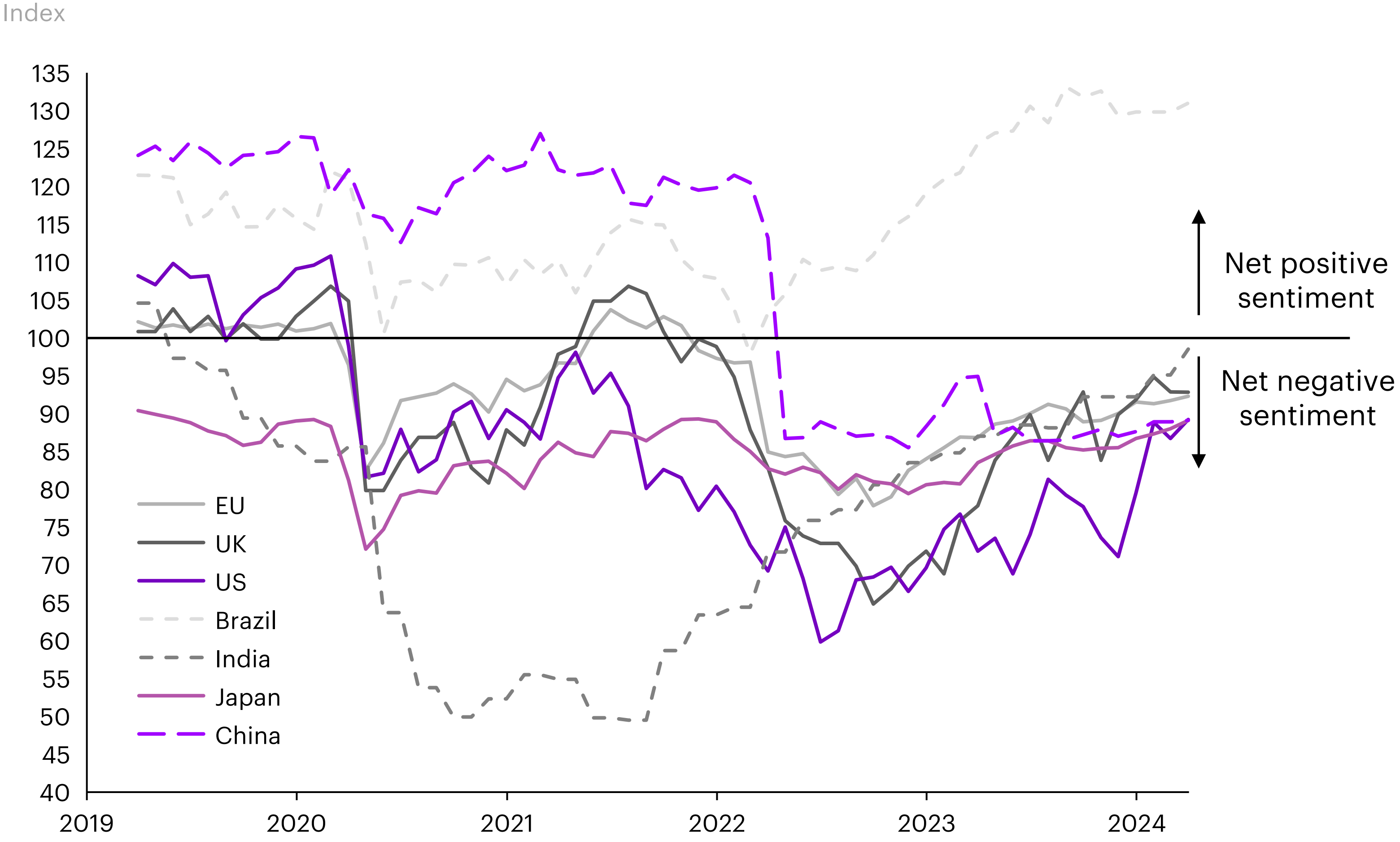


Note: Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area, UK, Canada, Japan, Australia, and China series data is retail sales.
Sources: BEA, BLS, Eurostat, ONS, Haver analytics, Accenture Strategy analysis

Consumer sentiment remains largely pessimistic globally with a slight improvement across the US and Japan

Consumer sentiment

Indicators of overall consumer sentiment



Commentary

- Consumer sentiment in the US rebounded slightly in March from a minor dip in February, suggesting continued caution among consumers
- Consumer sentiment in India continued to strengthen in March, primarily fueled by increased confidence in employment prospects alongside a slight improvement in perceptions of personal financial conditions

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

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

Consumer spending trends by goods and services category

AS OF APRL 24

		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	0.4%	-0.2%	-0.3%	-0.7%	-0.4%	-1.3%	0.1%	0.0%
	Motor vehicles	-1.3%	3.8%	-1.9%	-7.9%	0.8%	-2.5%	4.4%	-7.1%
	Furniture	1.6%	0.4%	-5.7%	1.6%	-6.4%	3.8%	-4.7%	4.2%
	Electronics	6.3%	-2.3%	38.0%	-0.8%	0.3%	3.1%	3.4%	-0.3%
	Footwear & apparel	2.1%	-1.5%	-2.6%	0.5%	-1.1%	2.9%	-0.6%	-0.5%
	Fuel	-0.2%	-2.9%	0.6%	3.1%	1.3%	-1.9%	-1.2%	0.6%
Services	Transportation	2.4%	2.6%	1.0%	2.7%	-2.5%	7.8%	2.0%	0.2%
	Entertainment	0.6%	0.9%	-0.3%	1.6%		n/a	2.7%	2.3%
	Dining out and hotels	2.6%	0.4%	-0.4%	-1.2%	-1.0%	0.5%	1.9%	-0.8%
	Information services	2.9%	0.4%	-1.8%	1.0%	2.8%	-2.7%	1.2%	-0.1%
	Telecom	3.1%	0.4%	-0.7%	1.6%	1.4%	-5.4%	3.1%	-3.3%

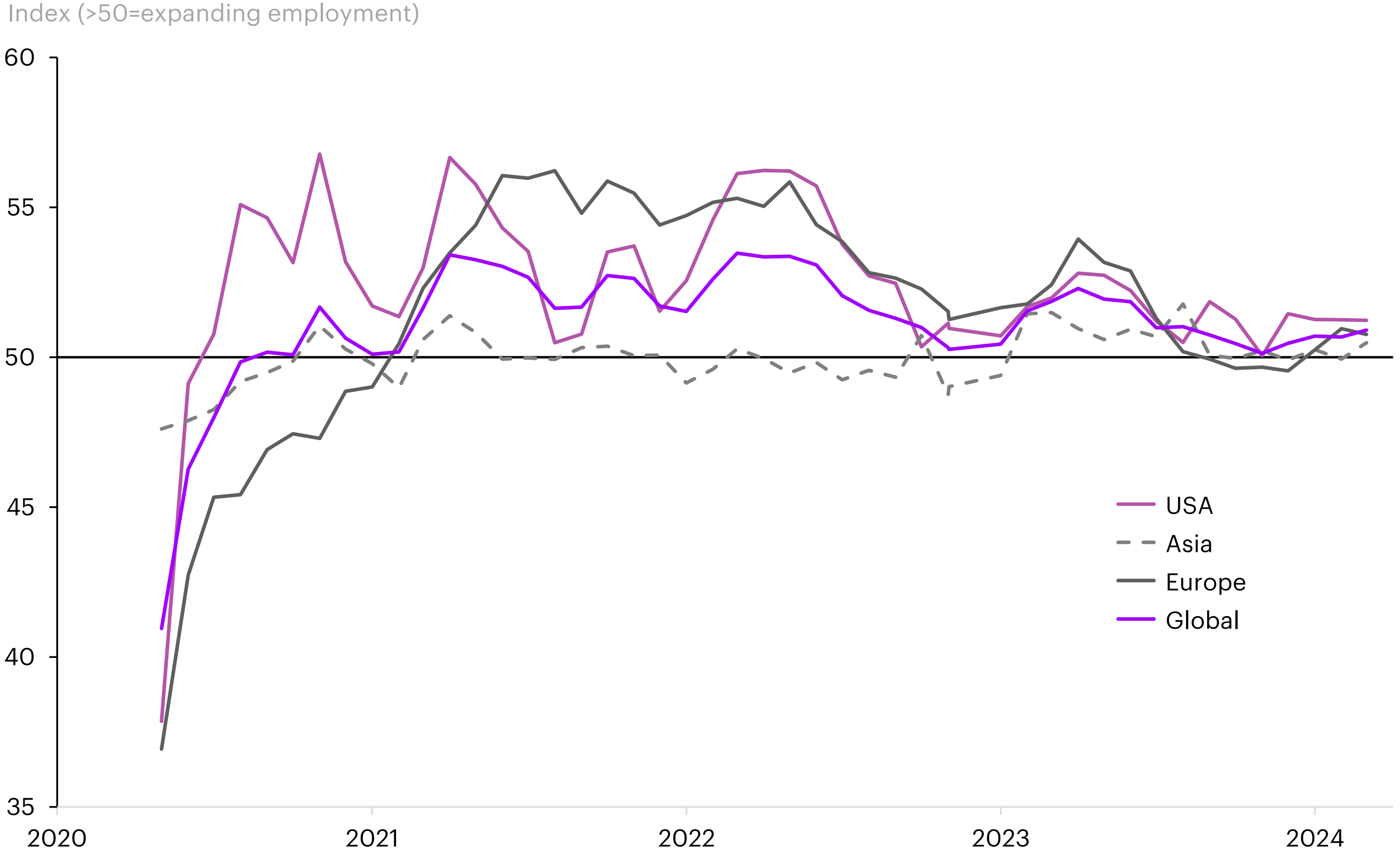
Notes: 1. UK's previous 6-Months includes a stronger than normal holiday season. 2. Spending figures are inflation-adjusted. Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area and UK, series data is retail sales, motor vehicles sales/registrations, and services turnover. Some European services data may include B2B spending. Data presented is most recently available data for each geography and category.
Sources: BEA, BLS, ONS, National Institute of Statistics and Economic Studies, Federal Statistical Office

Labor markets

Labor markets continue to show resilience, with employment growth remaining stable in the first quarter of the year

Employment growth

Aggregate PMI Employment Index



Commentary

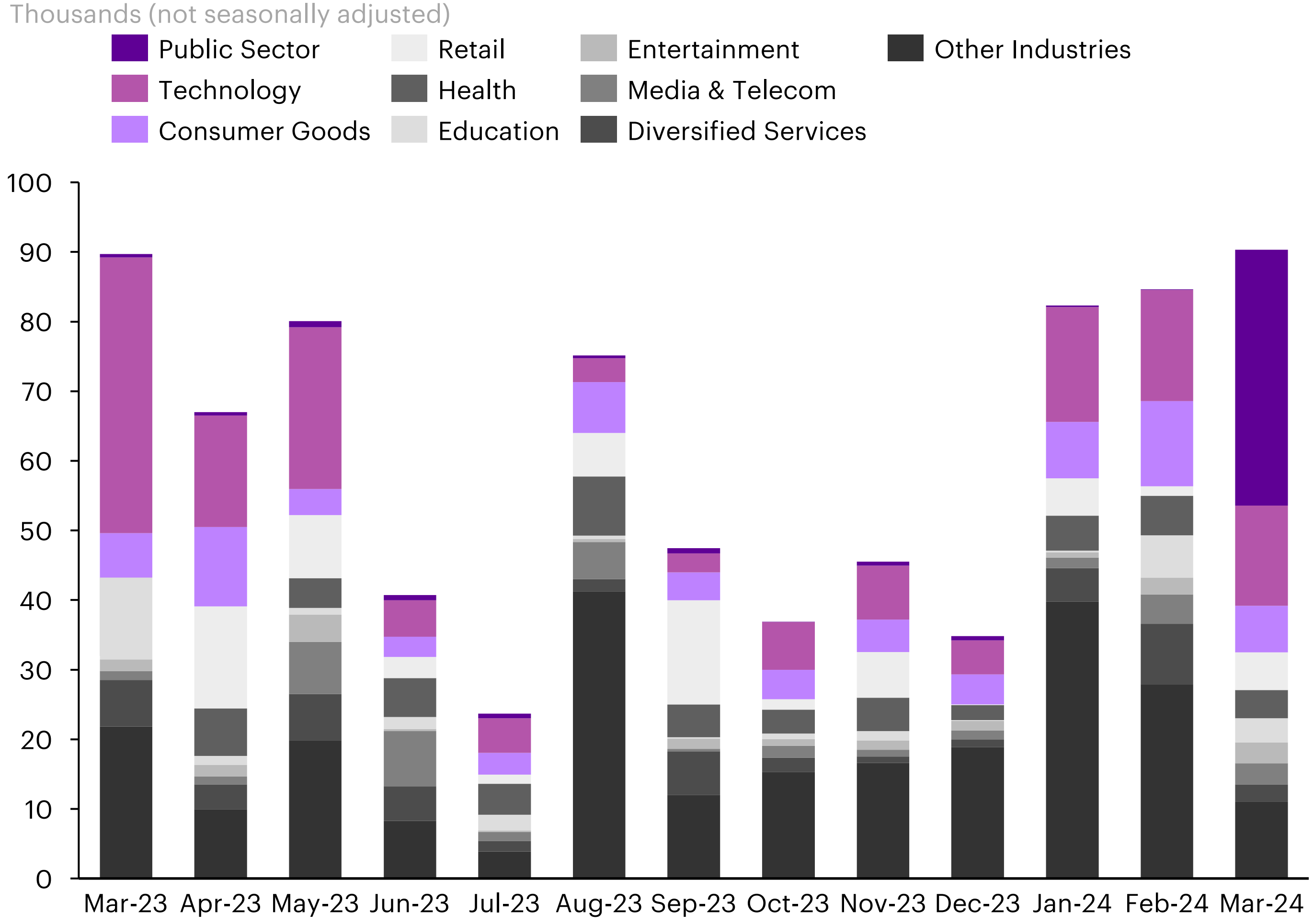
- In the US, employment expanded but at a slightly slower pace than the previous month
- European employment growth has been back in positive territory for 3 consecutive months now

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

Layoffs picked up in March, driven by a wave of public sector job cuts

US corporate layoff tracker

Announced layoffs by sector



Commentary

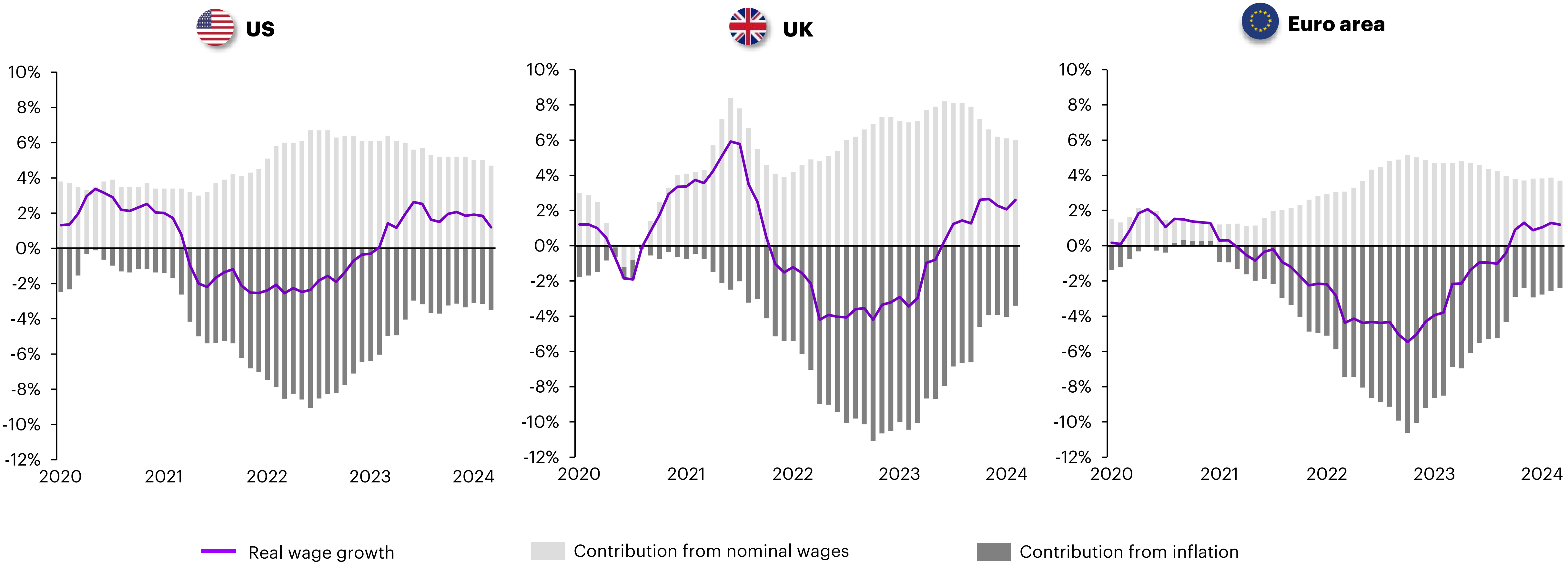
- The Public sector and Technology industry experienced the highest layoffs in March
  - Government announced 10,000 job eliminations from Veterans Affairs and ~24,000 job cuts in the US Army, marking the highest layoffs in a month for any sector since 2011
- In Q1 2024, Financial firms ranked third in the job cuts with 30K (including the surge in January)
- Technology companies cited business restructuring and cost cutting to cover increased expenses as the main reason for the higher number of layoffs

Sources: Challenger Employment Report, Haver Analytics

Real wage growth remained positive across the US, UK, and Euro area, supported by moderating headline inflation

Wage growth developments

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

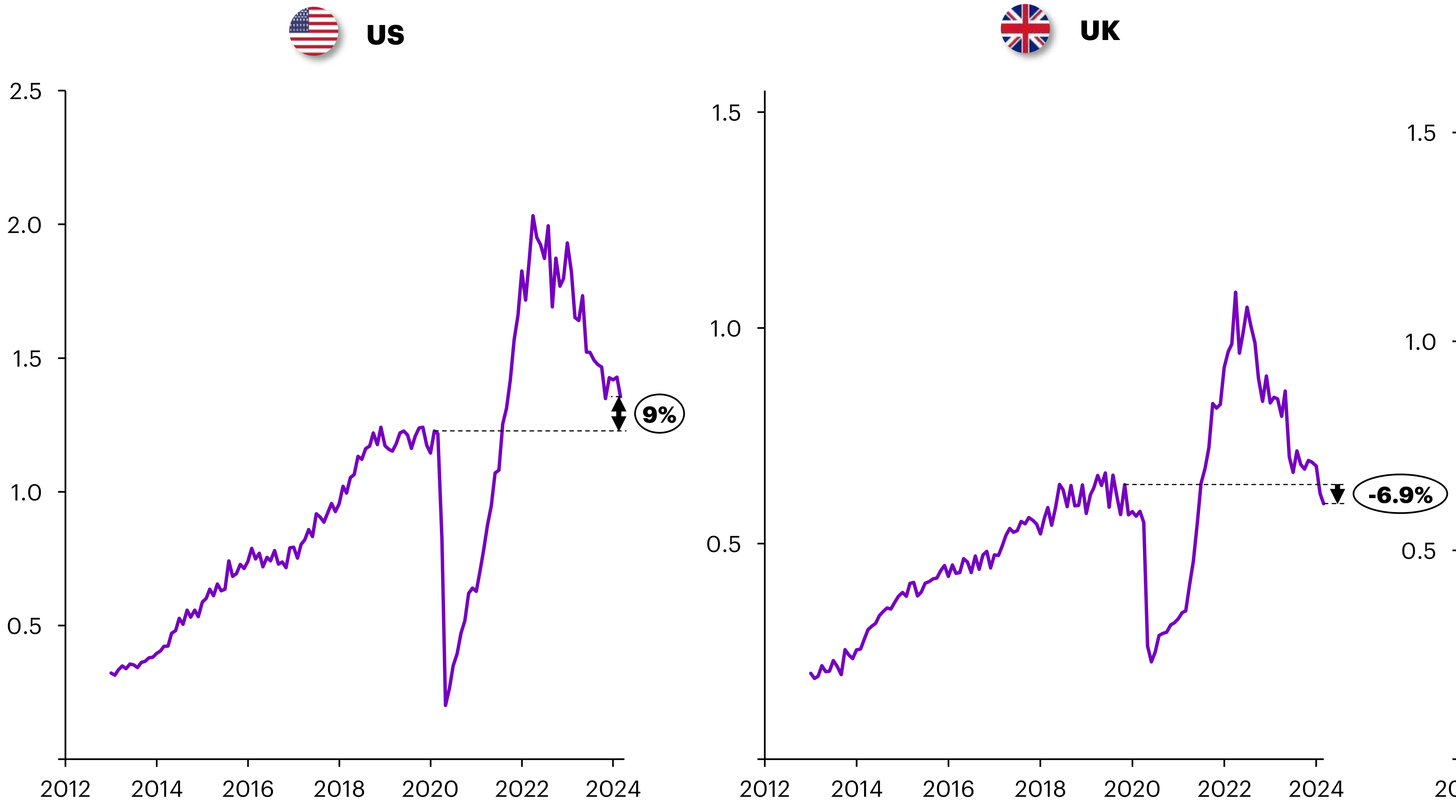


Sources: BLS, ONS, Indeed, Accenture Strategy analysis

Labor market tightness has eased significantly but remains above pre-pandemic norms in the US and parts of Europe

Labor market tightness

Job vacancies per unemployed person



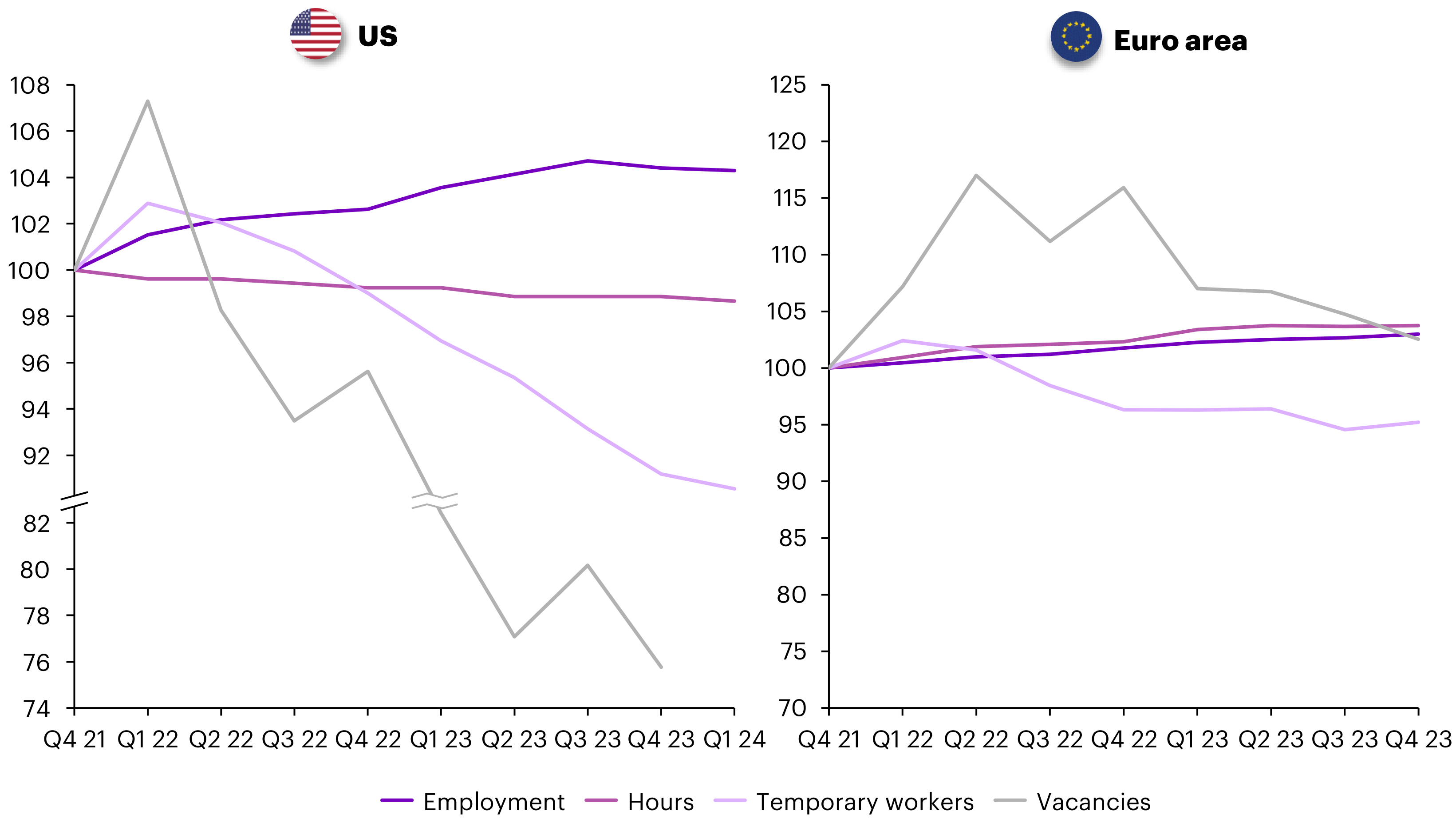
Sources: BLS, ONS, Eurostat

Both in the US and Europe, businesses are still holding onto their workers, and labor market adjustments are primarily occurring through methods other than direct layoffs

Labor market indicators

Recent labor market movements

Index 100 = Q4 2021



Commentary

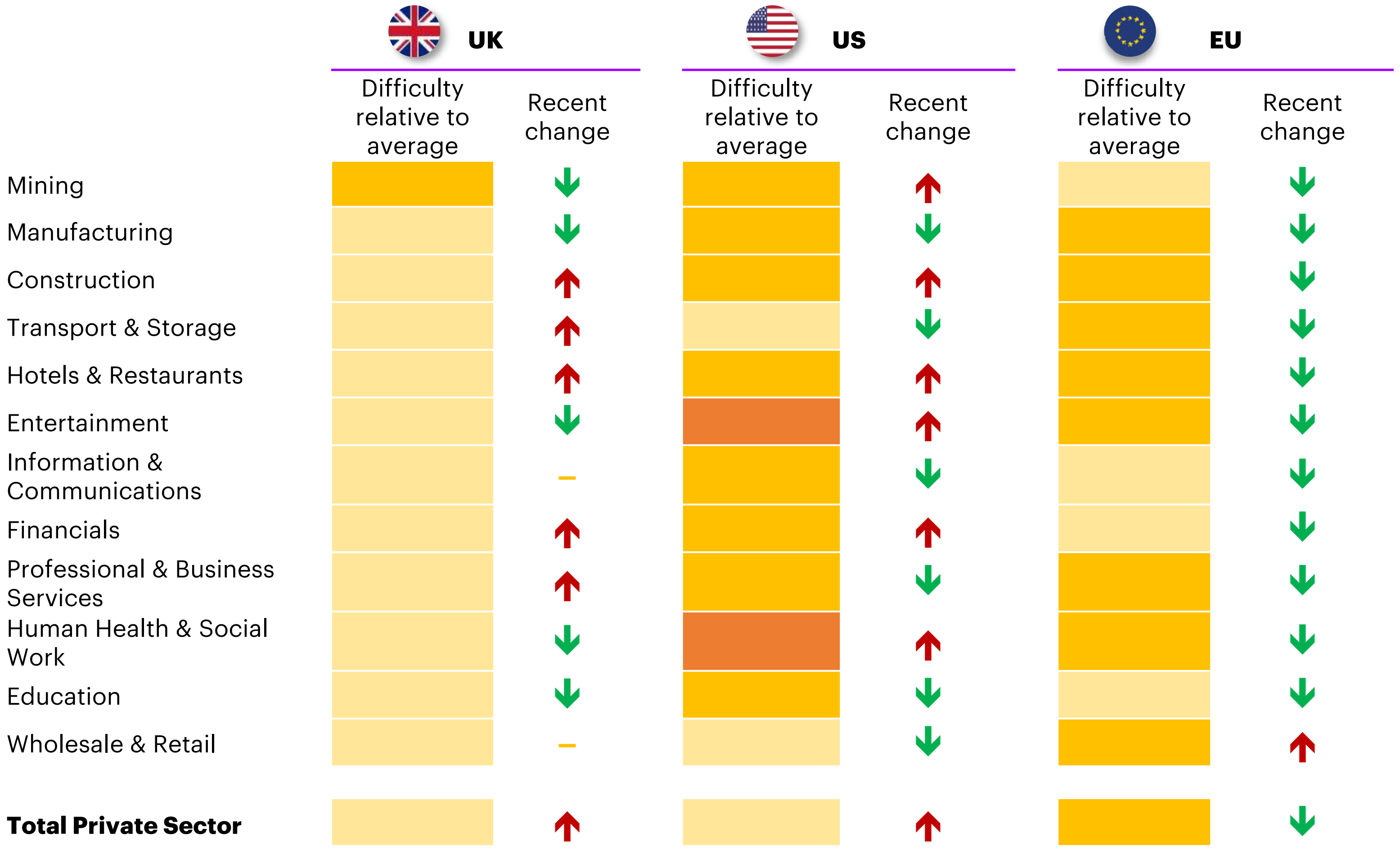
- In the US, employment remains high, yet hours worked, temporary workers, and vacancies are lower than at the end of 2021
- Labor markets in the Euro area didn't tighten as much as those in the US, and they're also slower to loosen in the current environment
  - Recent adjustments in the labor market mainly involve lower vacancies and increased productive hours

Sources: Bureau of Labor Statistics, JP Morgan Research, White House, Accenture Strategy analysis

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

Relative difficulty of hiring by sector

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



Commentary

- Hiring challenges are notable in the entertainment and human health sectors across the US, UK, and EU
- While the UK and EU have seen some relief, hiring difficulties persist in the US, especially in construction, entertainment, and human health & social work

Difficulty finding labor (relative to long-term average)

More difficult — Less difficult

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

Inflation

Disinflationary momentum has reversed in the US and parts of Europe, but continues across APAC

CPI inflation rates and trends

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

Country	YoY Inflation Rate	Change from previous month's rate (percentage points)	
United States	3.5%	0.3%	↑
United Kingdom	3.2%	-0.3%	↓
Canada	2.9%	0.1%	↑
Germany	2.3%	-0.4%	↓
France	2.3%	-0.9%	↓
Italy	1.3%	0.4%	↑
Spain	3.0%	0.0%	↑

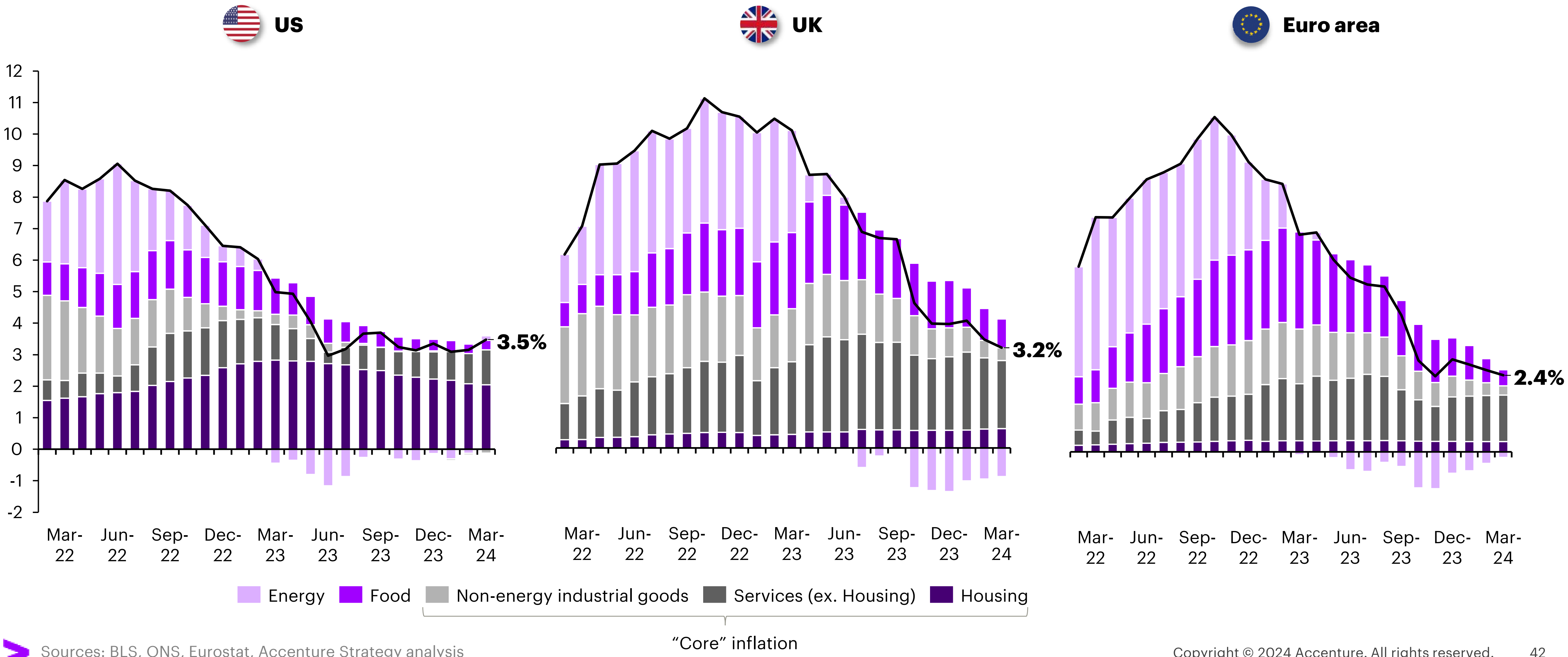
Country	YoY Inflation Rate	Change from previous month's rate (percentage points)	
China	0.1%	-0.6%	↓
Japan	2.7%	-0.1%	↓
Brazil	3.9%	-0.6%	↓
India	4.9%	-0.2%	↓
Singapore	2.7%	-0.5%	↓
Korea	3.1%	0.0%	↓

Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

Core inflation is re-accelerating slightly in the US and still above target levels in Europe, reflecting ongoing stickiness in services prices

Drivers of recent CPI inflation

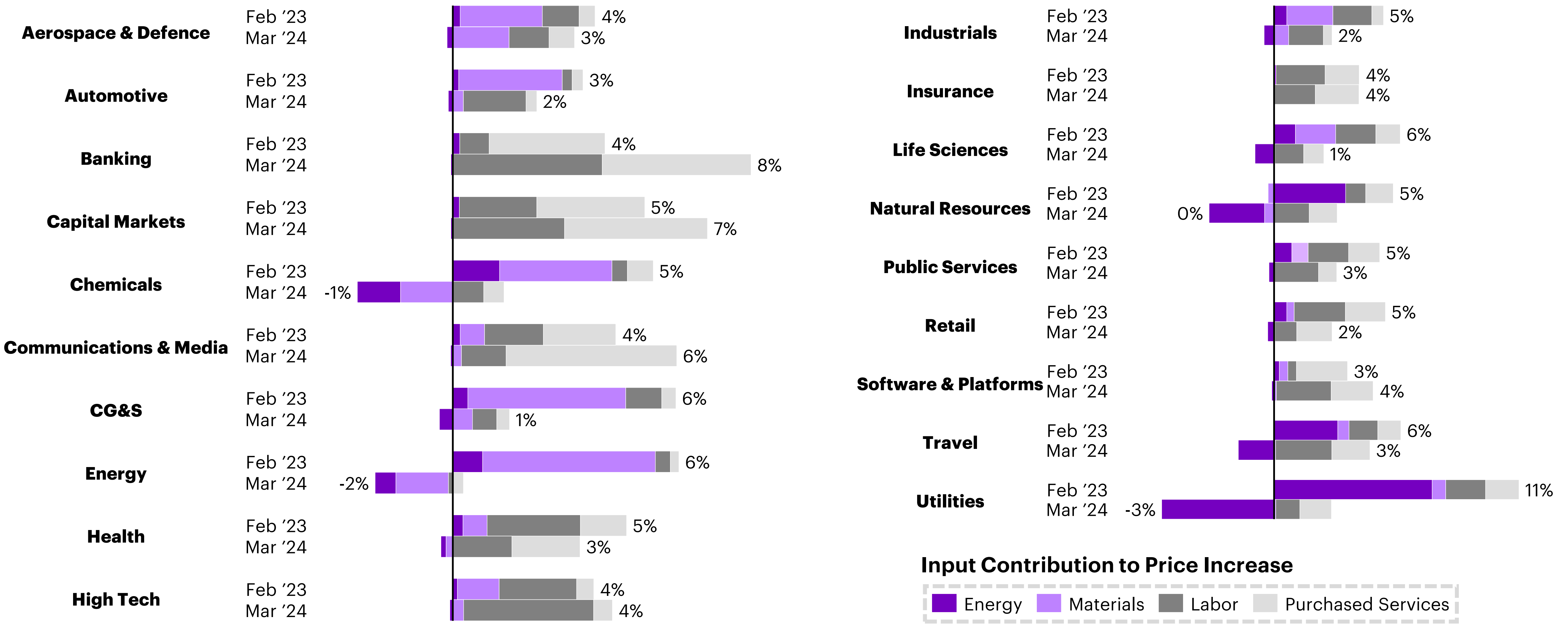
Year-on-year % change and % point contributions from major goods and services categories



Falling year-over-year materials and energy prices have reduced some cost pressures while labor continues to drive costs higher

Recent input cost inflation by industry

LTM year-over-year % change in input costs and contributions (percentage points) from key inputs, 2024

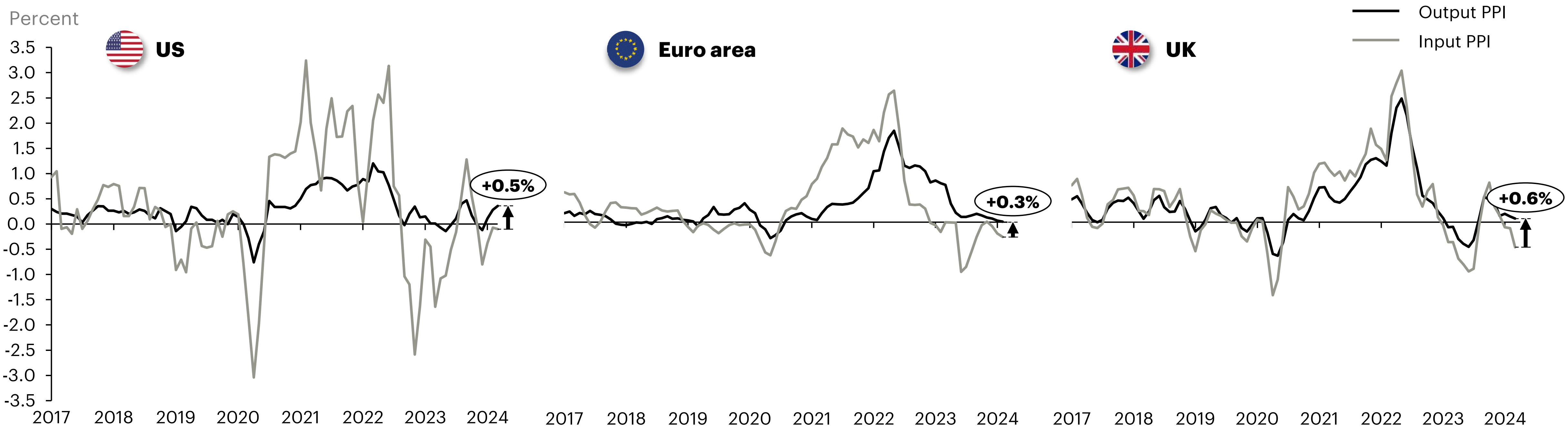


Notes: Wage data as of Jan’23; Energy prices as of Jan’24 for Natural Gas, Jan’24 for Electricity and Mar’24 for Others; Materials and Purchased Services PPI price increases as of Mar’24.
Sources: BLS, BEA, EIA, EPA, Accenture Strategy analysis

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

Company input cost pass-through trends

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



Commentary

- The gap between cost increases for intermediate inputs (input PPI) and the change in producer selling prices for final goods (output PPI) is an approximate indicator of the extent to which producers have been absorbing their input costs increases
- Even with decreased costs and normalized supply chains, companies are maintaining high prices, likely due to margins

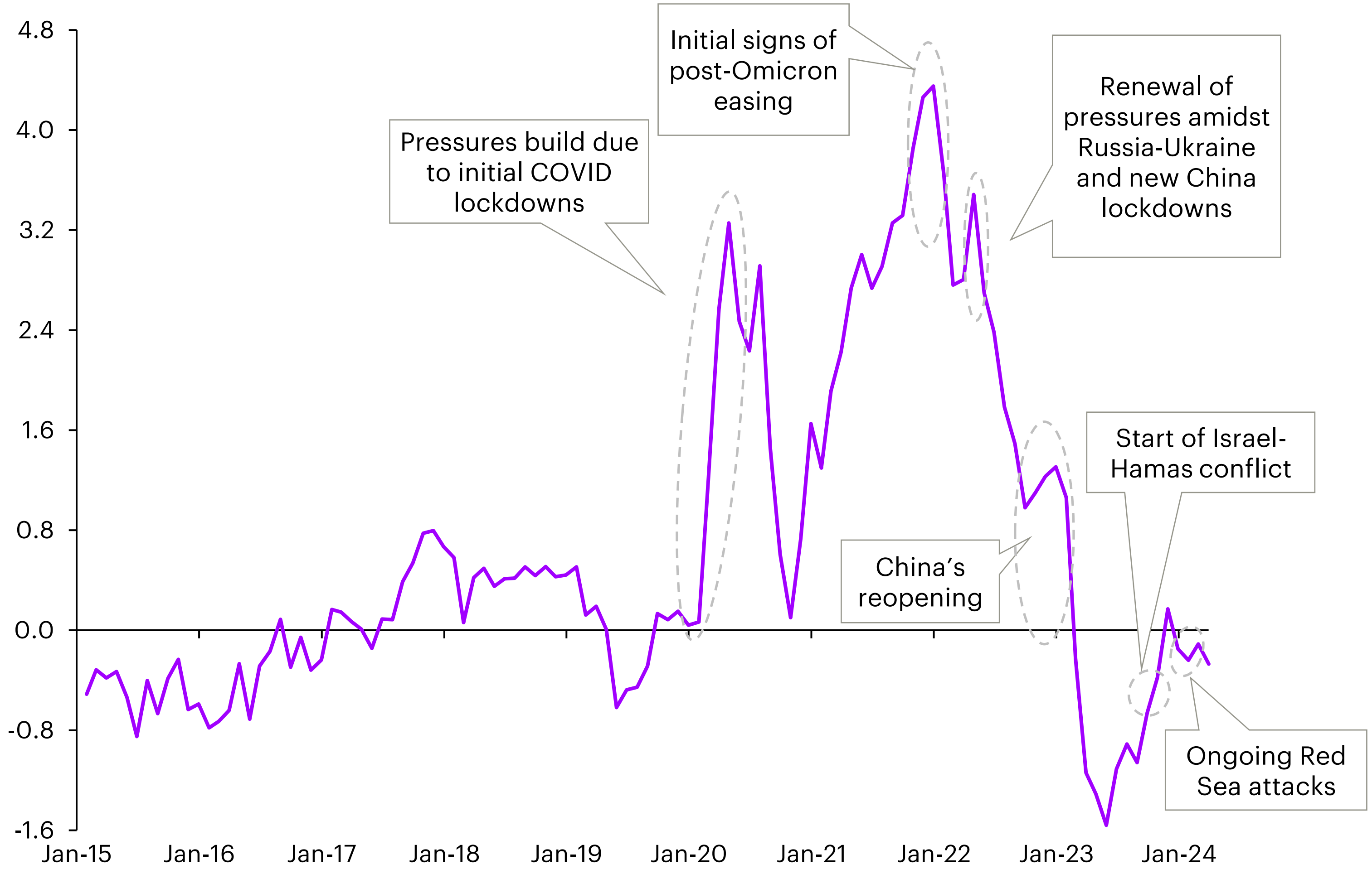
Notes: 1) Figures in bold represent absolute percentage point difference between intermediate and final demand PPI YoY % values; higher positive values imply greater pass through to final producer selling prices, while larger negative values imply lower pass through. 2) US data is based on production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

Supply chains

Global supply chain pressures are near their pre-pandemic average but worries are rising due to ongoing disruptions to maritime shipping

Global Supply Chain Pressure Index

Standard deviations from long-term average (=0)



Commentary

- Going forward, supply chains face risks from an escalation of Red Sea attacks and container ship seizures near the Strait of Hormuz, which could disrupt the flow of goods on key trade routes linking Europe and Asia
  - Markedly, the vessel traffic of Suez Canal dropped by 51% year-on-year in the first three weeks of March, impacting about 13% of global seaborne trade and adding ~ 10% to the sailing distances
  - Full closure of the Strait of Hormuz by Iran would significantly disrupt global trade, particularly impacting Middle East container flows and raising shipping costs
- Ongoing drought conditions at the Panama Canal are also affecting shipping times and costs

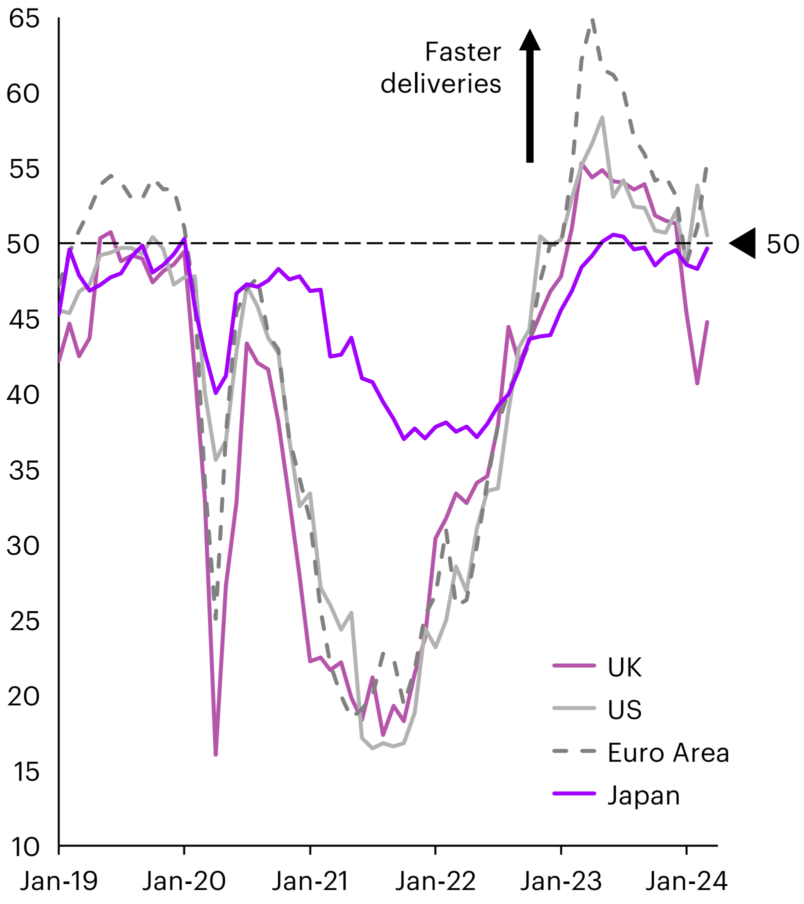
Sources: Federal Reserve Bank of New York, IMF, Global Supply Chain Pressure Index, Accenture Strategy analysis

In March, global shipping times improved modestly, indicating some moderation of the supply disruptions related to the Red Sea crisis

Suppliers' delivery times and backlogs of work

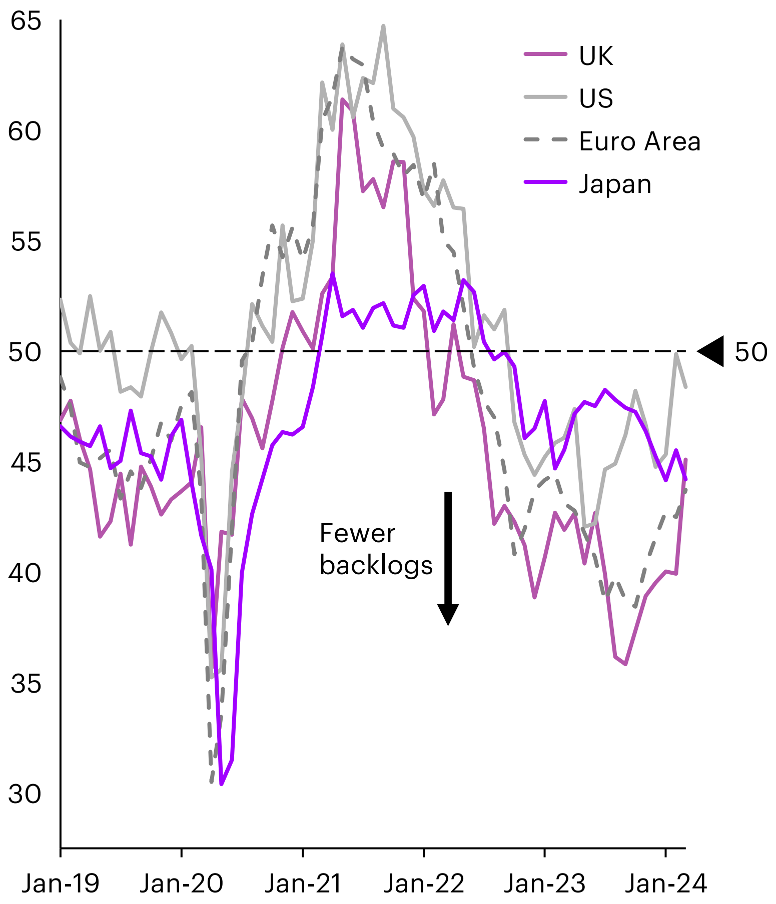
Suppliers' Delivery Times

Seasonally adjusted, 50+ = Increase



Manufacturing Backlogs of Work

Seasonally adjusted, 50+ = Increase



Commentary

- Supplier delays were mainly attributed to extended international shipping durations as vessels were redirected from the Suez Canal in February following the Houthi attacks in the Red Sea
- The Baltimore bridge collapse has exacerbated supply chain challenges for the US, with trade in autos, coal, and machinery likely to be the hardest hit
- In Japan, work backlogs decreased as weak customer demand allowed firms to fulfill existing orders
- In the US, employment continued to rise, aiding firms in reducing their backlog
- UK backlogs decreased for the twenty-third month, while in the Euro area, backlogs were reduced despite nine months of falling employment

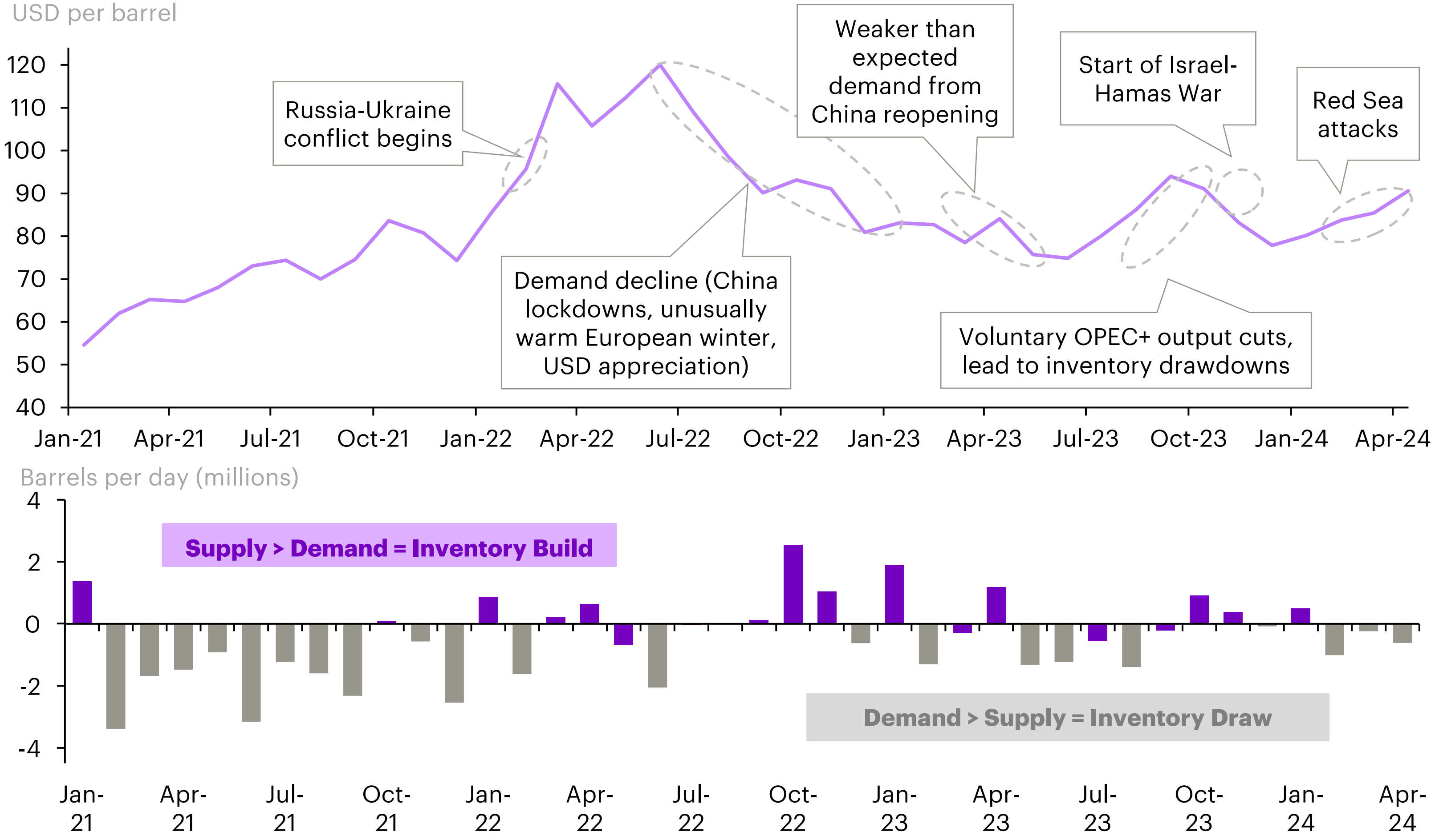
Sources: CIPS/S&P Global, Haver Analytics, Thomson Reuters, Accenture Strategy analysis

Energy and commodities

Oil prices remained on an upward trajectory in April, amid elevated geopolitical risks and tighter supply

Crude oil prices and inventories

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



Drivers of energy prices in 2024

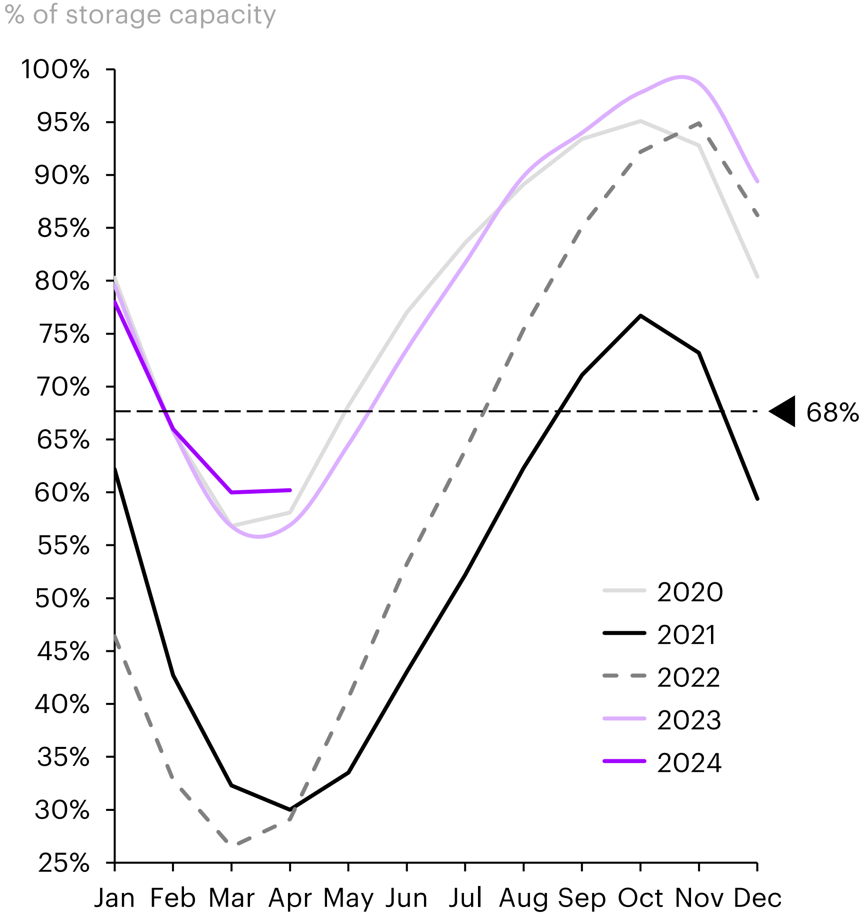
- Early April saw a rise in benchmark crude oil prices due to sustained output cuts by OPEC+ countries until Q2 2024
- Prices increased in mid-April as Middle East tensions between Iran and Israel escalated
- Supply and demand fundamentals indicate ongoing upward price pressure, with
  - Risk of further supply disruptions heightened by potential blockage in the Strait of Hormuz – which controls more than one quarter of global maritime oil trade
  - Higher-than-expected factory output and a rise in crude oil refinery throughput in China imply stronger demand prospects

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

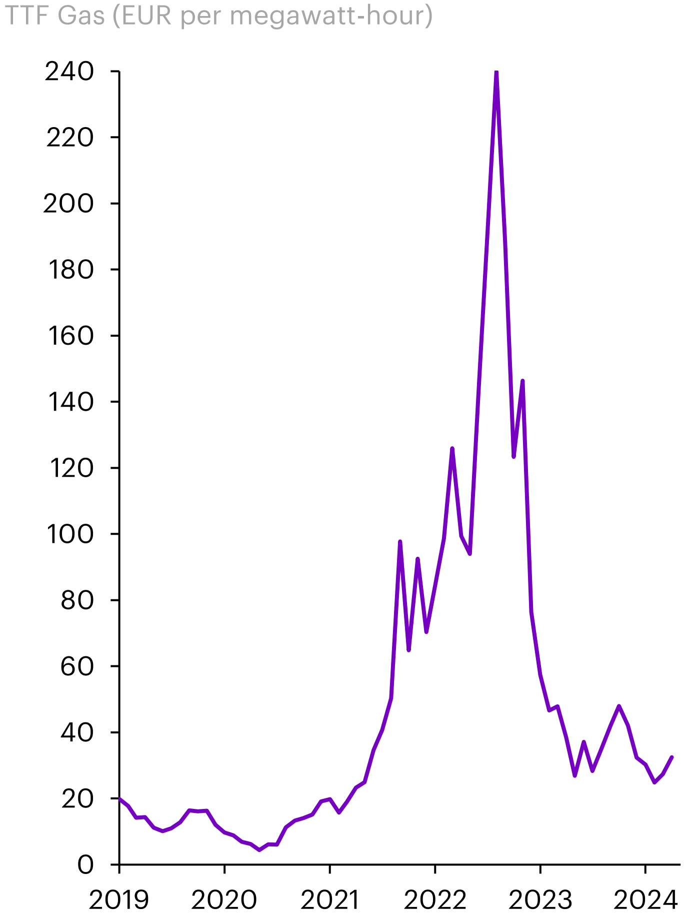
EU gas prices surged to a new high in March amidst mounting concerns over potential supply disruptions stemming from conflicts in the Middle East

EU natural gas reserves and prices

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



and prices rising amidst supply disruptions



Commentary

- Europe ended the winter with a record volume of gas in storage
  - Storage facilities across the EU and the UK were 58% full on March 31st compared to 56% for the same period in 2023 and 26% in 2022
- Natural gas prices in Europe hit their highest level in 3 months amidst
  - Increasing risk of supply disruptions following escalating conflicts in Middle East
  - Falling gas consumption in response to mild winter and high fill level of all storage facilities in Europe

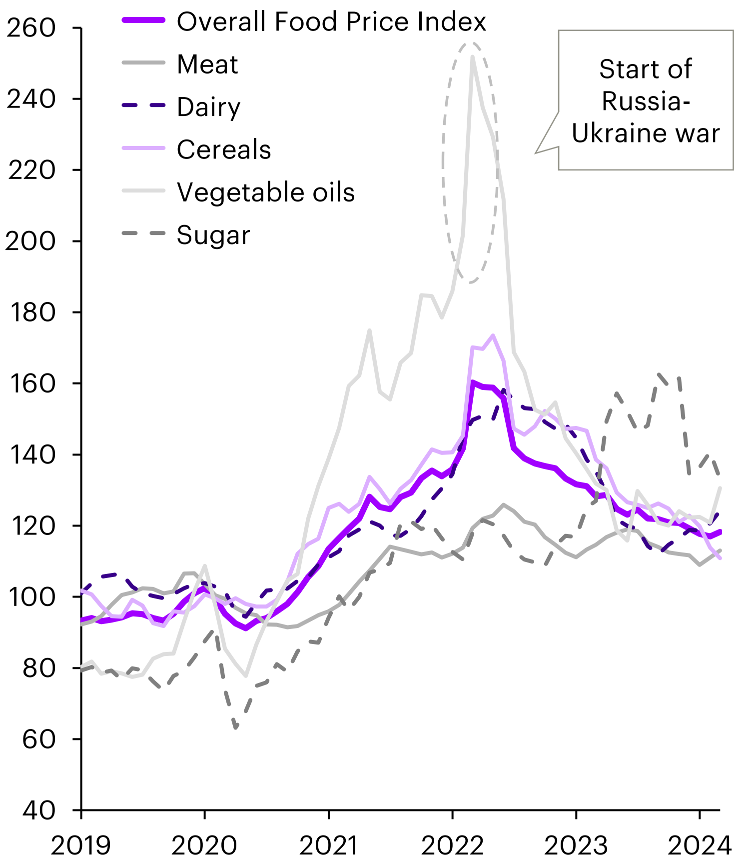
Notes: Dutch TTF Natural Gas Futures front-month contract. TTF stands for Title Transfer Facility, which is a virtual trading hub for natural gas in Europe. TTF prices represent the average monthly price of natural gas traded at this hub and are considered a benchmark for natural gas prices in Europe.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

Overall food prices rose marginally in March, while fertilizer except DAP prices saw a minor decrease

Food and fertilizer prices

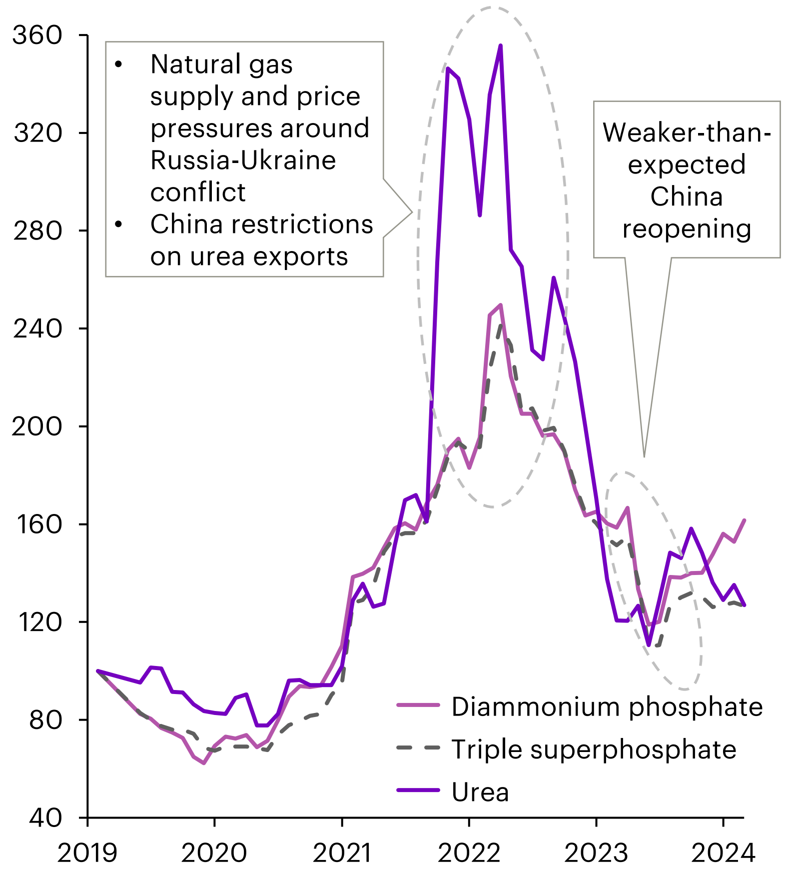
Food prices

Index, 2014-2016 = 100



Fertilizer prices

Index, Jan 2019 = 100



Commentary

- Food commodity prices rose in March following a seven-month decline, with increases in dairy products, meat, and vegetable oil prices offsetting slight decreases in sugar and cereals prices
- Vegetable oil prices grew by 8% from February to one-year high, driven by:
  - Tight supply-demand balance, as leading producing countries experienced seasonally lower outputs, coinciding with strong domestic demand in Southeast Asia
  - Robust demand for soy oil from US and Brazil in biofuel sector
- In Fertilizer, DAP prices saw a slight upward movement due to trade restrictions by China, resulting in a supply deficit in the global market. However, the government resumed exporting DAP in the second half of March 2024

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

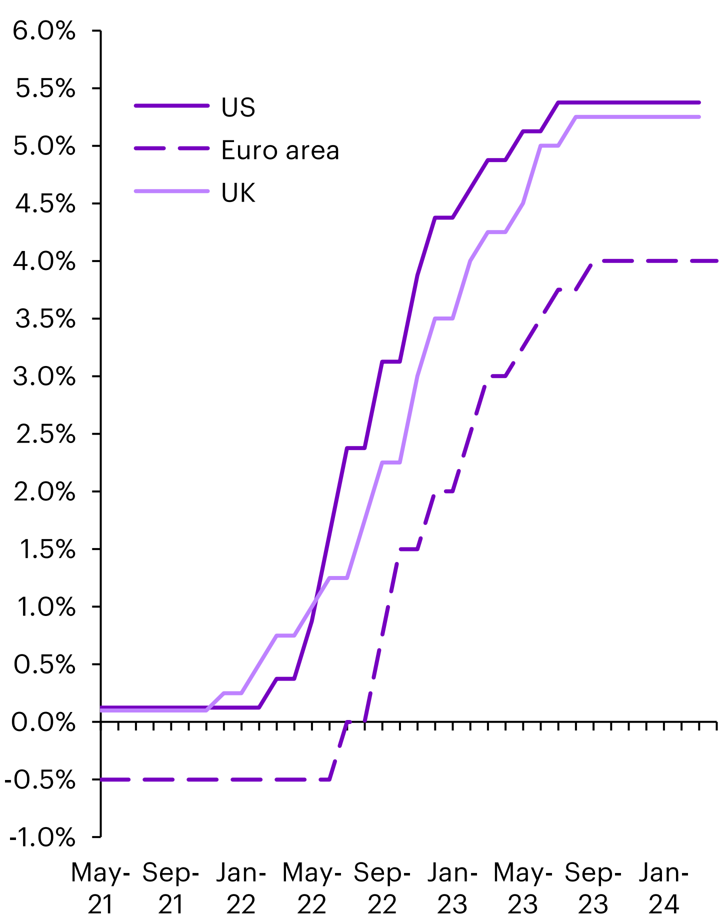
Financial markets

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

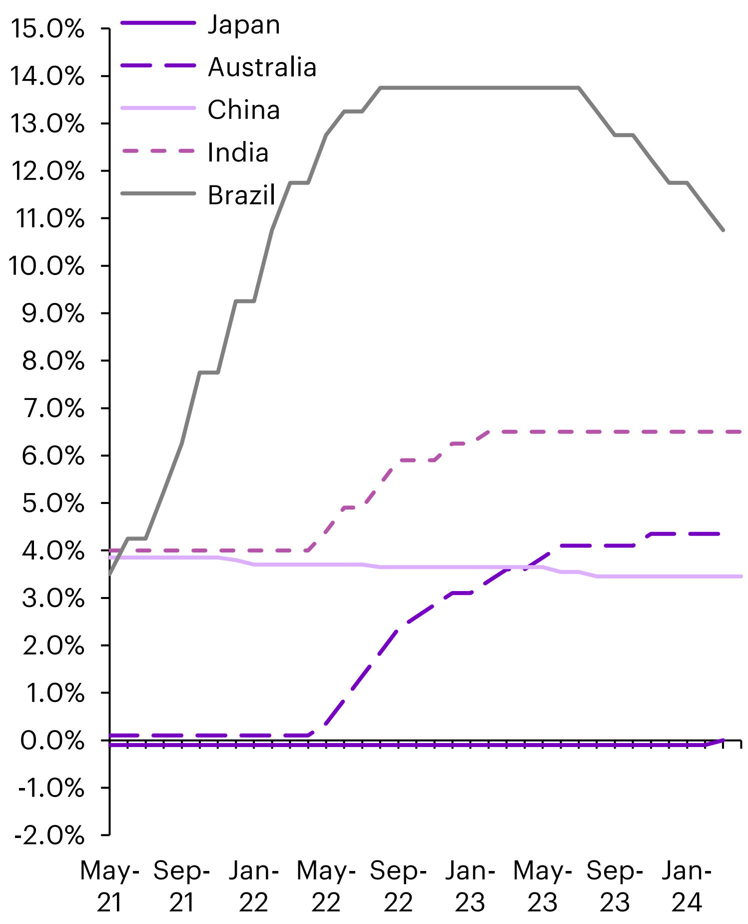
Monetary policy across major economies

AS OF APR 25

US, UK and Euro area policy rates



Policy rates for other major economies



Commentary

- The US Fed kept interest rates unchanged on March 20 ‘24 and recently signaled a longer restrictive policy stance
- The ECB kept interest rates unchanged in April, deeming them effective in combating inflation; however, they signaled a potential interest rate cut in June as inflation gradually returns to the 2% target
- The Bank of England held its policy rate steady in March and projects CPI inflation to return to its 2% target sometime in Q2’24
- The Bank of Japan ended its negative interest rate policy in March and implemented the country's first interest rate hike in 17 years
- Brazil's central bank cut its benchmark rate by another 50bp in March, for a sixth consecutive month, as inflation continues to ease

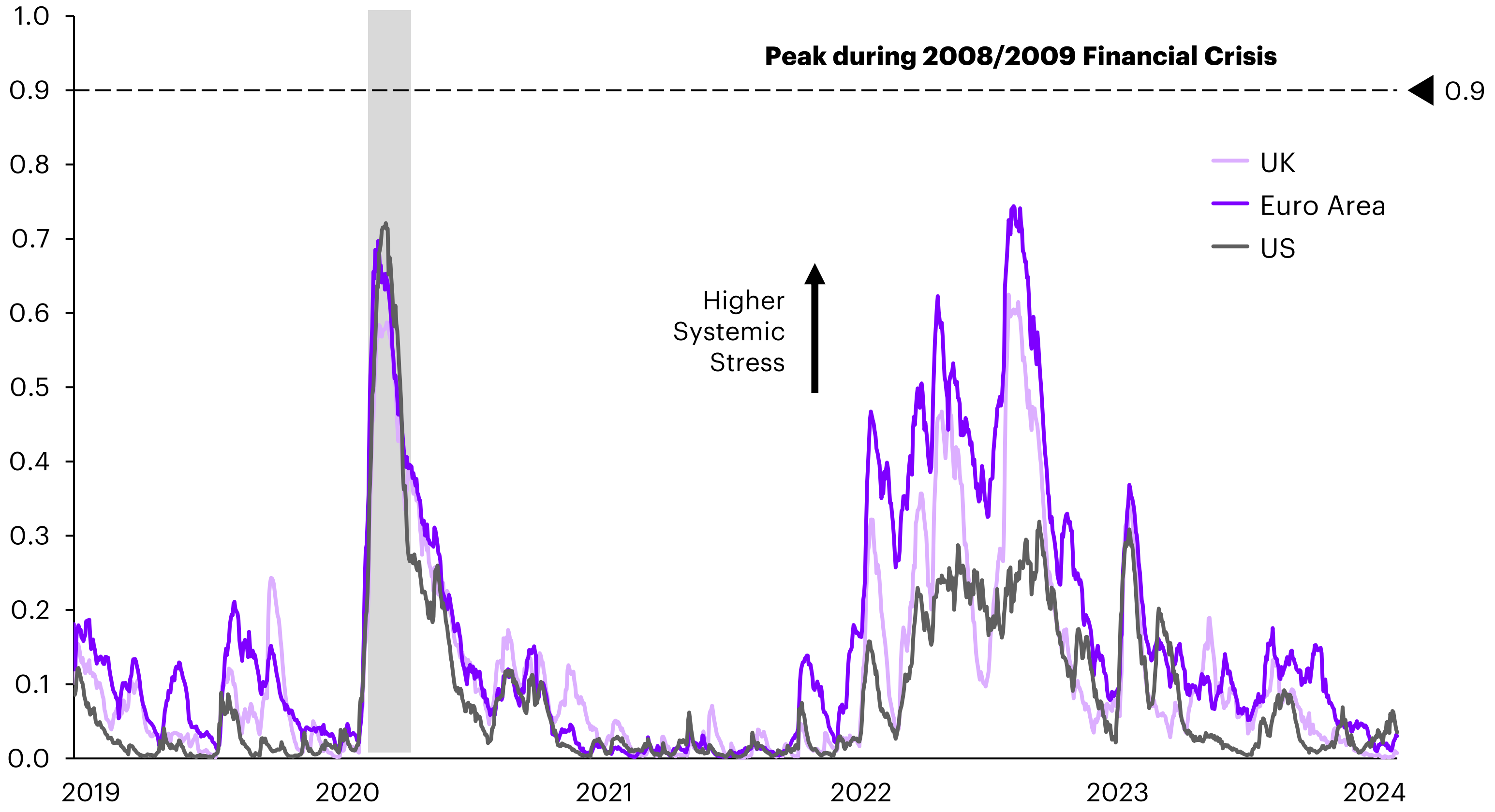
Source(s): Haver Analytics, Federal Reserve Bank (US Fed), European Central Bank (ECB), Bank of England, Bank of Japan, Reserve Bank of India Central Bank of Brazil, Reserve Bank of Australia, People's Bank of China, Reuters, Accenture Strategy analysis

Systemic financial stress in major economies has largely subsided since the wave of bank collapses in early 2023 but risks remain on the upside as geopolitical tensions intensify

Systemic financial stress indicators

Composite Indicator of Systemic Stress Index

(No Stress = 0, High Stress = 1)



Commentary

- Systemic stress levels in the UK and Europe continue to decline from the peak reached amidst several bank fallouts in March 2023
- Financial pressures are expected to stabilize in the near term driven by a
  - Disinflationary trend and anticipated easing of monetary policies in H2 '24
- However, risks remain on the upside due to
  - Rising geopolitical tensions (e.g. trade disruptions, sanctions, and escalation of war in the Middle East)
  - Distress in sectors where banks have substantial exposure, such as commercial real estate
  - Growing sovereign debt vulnerabilities

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

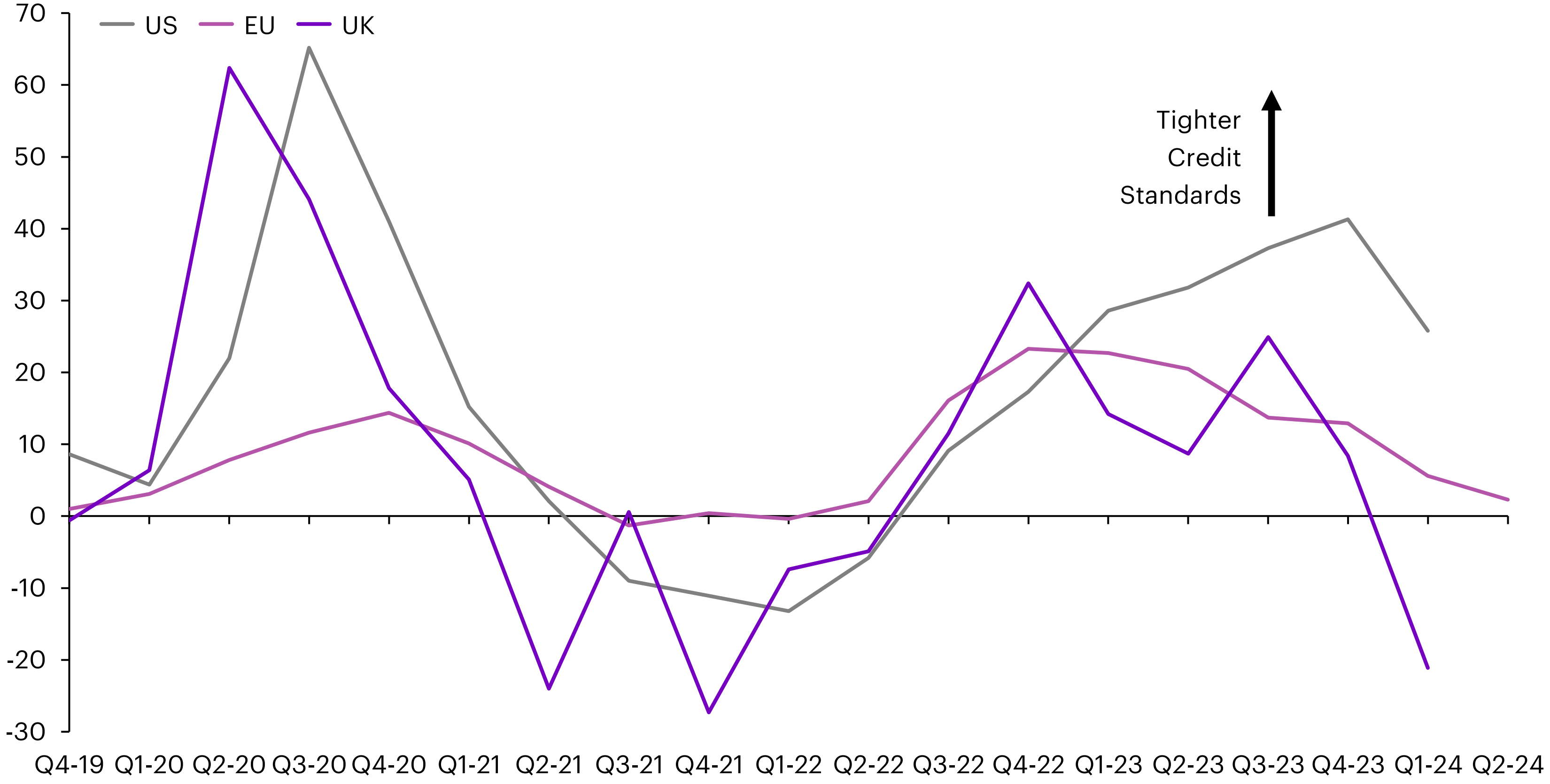
Sources: Haver Analytics, European Central Bank, Accenture Strategy analysis

US and EU banks are still tightening lending standards (albeit at slower pace), while UK banks relaxed standards for first time in nearly two years

Restrictiveness of banks' lending standards

Banks are tightening their credit standards in tandem with monetary tightening

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



Notes: The date of each datapoint refers to the quarter in which the bank lending survey was conducted but reports the assessment of credit conditions in the prior quarter. Lending standards for US and EU reflect a weighted index constructed using select survey questions to measure tightening or loosening standards to both households and enterprises. UK lending standards series based on inverted series of use of credit scoring
Sources: Haver Analytics, EU Bank Lending Survey, BoE, Board of Governors of the Federal Reserve System, Accenture Strategy analysis

Commentary

- Monetary policy tightening since early 2022 has been leading banks to scale back lending and tighten their credit standards
- US banks further tightened lending standards amid falling loan volumes in March 2024
- In the EU, credit standards for loans to firms tightened in the first quarter of 2024 though they eased on loans to households for house purchase
- UK banks reported looser credit conditions to households in Q1 '24, the first such instance since Q2 '22

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

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

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