May Macro Brief

Trade skirmishes

May 30, 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 **May 30, 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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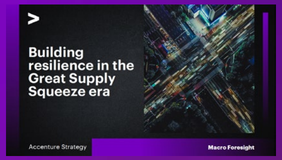

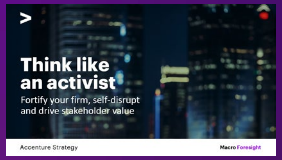

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May 2024
Executive Summary

Global themes

- **Global economic activity remained stable but moderate in May, constrained by still-weak manufacturing, slowing consumer demand, and geopolitical tensions**
  - Elevated interest rates and input costs remain headwinds for the manufacturing sector, with limited relief in sight
  - Softening consumer demand could eventually weigh on otherwise still-robust services activity
  - Economic growth continues to diverge across regions, and geopolitical tensions remain a risk to financial market and price stability and trade
- **The Fed is likely to further delay rate cuts, limiting upside momentum for global growth as financial conditions remain tight**
  - US core inflation decelerated to the slowest rate in three years, but remains elevated compared to the Fed's 2% target; this, along with a robust labor market, likely reinforces the Fed's inclination to postpone rate cuts to later in the year
  - Other central banks are likely to follow the Fed's delay due to concerns over currency depreciation and financial market stability
- **The US has also announced new trade tariffs targeting Chinese EVs, batteries and semiconductors.** While the immediate impact may be minimal, there are potentially serious implications for future trade restrictions across key sectors.

Regional highlights

Americas

- The **US** announced new trade tariffs against China which only affect small share of imports, but signal the adversarial direction that trade relations between the two countries are headed
- **Mexico** has also ramped up tariffs that affect China, in response to US concerns that China is increasingly rerouting trade through Mexico to evade US tariffs

Europe, Middle East and Africa

- The **EU** is likely to announce the results of its anti-subsidy investigation into China electric vehicle imports in June – signaling where the EU's future trade stance with China goes
- In parallel, recent EU central banks surveys have shown a sizeable number of European firms have begun de-risking supply chains from China (~40% in Germany)

Asia-Pacific

- **China**'s trade with US-aligned parts of Asia continues to decline, as MNCs rewire supply chains amid growing trade relations
- Recent surveys and company interviews suggest **Vietnam, Thailand, India, and Singapore** are likely to benefit from this recalibration of supply chains away from China, especially for chips and rare earths

Key considerations and priorities for clients

- The increasing trade restrictions and geopolitical environment are likely not new for most multinationals
- However, **companies must continue to strengthen their resilience capabilities given re-affirmation of where trade relations are heading:**
  - Assess how recent US and future EU trade actions impact their supply chains and ability to sell into markets
  - Develop back-up options to find new capacity in alternative sourcing markets (e.g., Vietnam, Mexico) if trade restrictions worsen
  - Continue to drive n-tier visibility across their supply chain to understand potential suppliers who could be put at risk of new trade restrictions
  - Continue to strengthen geopolitical risk management and trade compliance capabilities (including leveraging GenAI to automate compliance)

Source: Accenture Strategy analysis

Many companies view the latest trade restrictions as continuing the current trajectory of relations, but are unsure of China's response and future US / EU restrictions

What we are hearing from clients regarding recent trade policy developments

US actions

"Should we expect additional trade restrictions before US presidential elections?"

"How could US Department of Commerce target legacy chips? How expansive could trade restrictions be?"

"What effect will trade restrictions have on inflation?"

Actions from others

"What could be the outcomes of the EU's EV anti-subsidy investigation against China?"

"How do the Japanese and Koreans fit into the equation? Are they likely to follow Washington and Brussels?"

China response

"How will China respond to these latest trade restrictions?"

"Will there be further export restrictions on critical minerals? If so, which critical minerals should we be monitoring?"

"Where will China's excess supply of EVs go?"

Operating challenges

"How can we accelerate moving operations to SE Asia? Where is there additional capacity?"

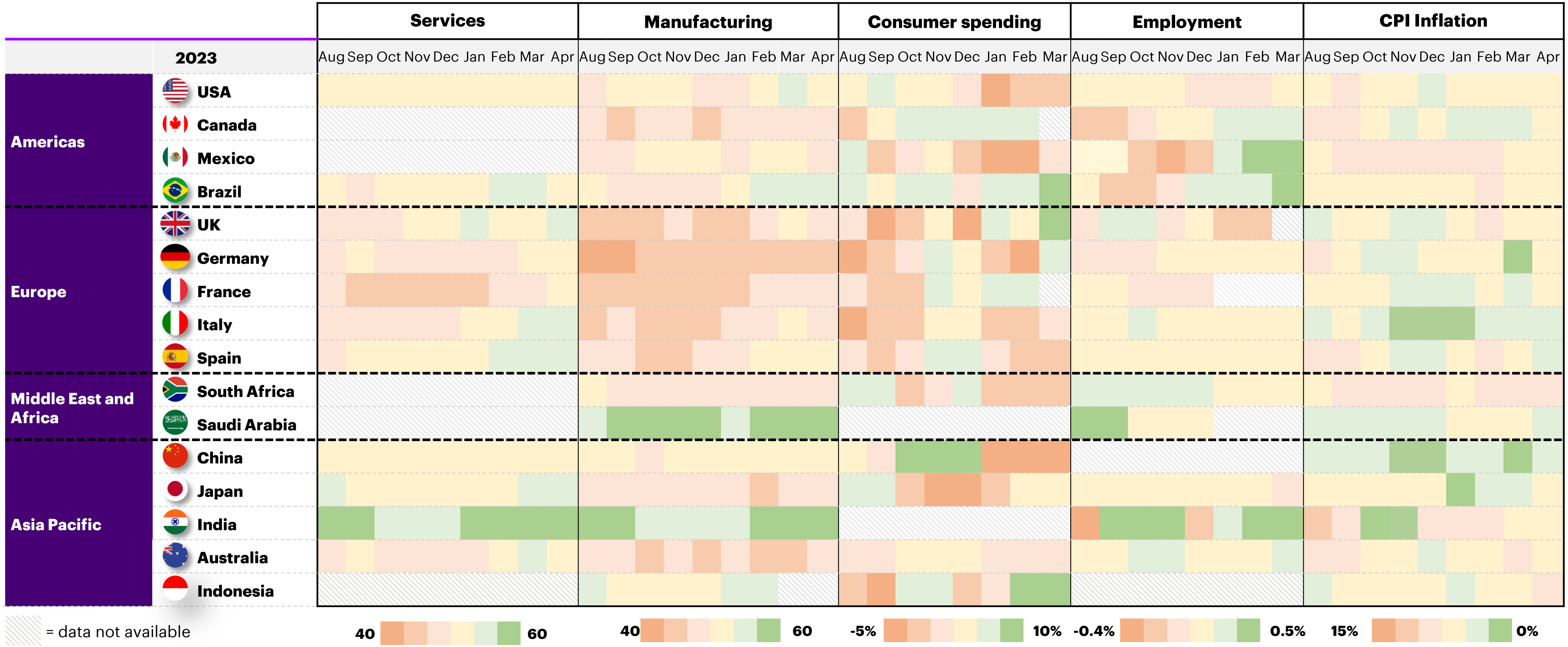
"How mature are suppliers in Vietnam and India?"

Sources: Meetings with companies in 2024, Accenture Strategy analysis

The balance of recent data suggest slow but steady output in most regions, moderating consumer activity, and stabilizing inflation

Country economic momentum snapshot

AS OF MAY 30



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

AS OF APR 25

		Key recent datapoints	Base case outlook	What to watch for
Americas 	US	• Employment growth slowed to 175K in April, down from the 270K average of prior 3 months • Real retail sales fell 0.3% in April, signaling growing pressure on household budgets • Core inflation slowed slightly in April, but the rise in Q1 is feeding higher inflation expectations	• 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 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	• Both headline and core CPI decelerated in April, though elevated housing costs remain a concern • Real retail sales have declined for 2 consecutive months and consumer confidence has softened	• 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	• Exports to US are trending upward while exports to China have been moderating considerably • Inflation continues to ease, nearing pre-pandemic levels	• Rebounding growth from the stagnation at end of 2023 amidst declining inflation and supportive central bank rate cuts	• Strength of agricultural harvest in 2024 despite climate concerns • Ongoing uncertainty regarding planned tax reforms and overall fiscal trajectory
Europe 	UK	• GDP growth rebounded strongly in Q1 (+0.6% QoQ) following a technical recession at the end of 2023, but consumer activity remains subdued • Overall inflation fell below 3% for first time since 2021, but services inflation remains high at 6%	• Improving but-still sluggish 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	• Real GDP increased by 0.2% in Q1 2024, rebounding from a contraction in Q4 2023 • Inflation rate remained at 2.2% in April • Composite PMI index suggest solid growth driven by strong activity in the service sector	• Service activity boost and disinflationary trends likely to stabilize the economy in the coming quarters despite softening industrial and export orders and cautious consumer spending	• Lower tax revenues and budget consolidation to constrain efforts to enhance industrial competitiveness and infrastructure investments
	France	• Real GDP grew by 0.2% in Q1 2024 driven by strong domestic demand • CPI inflation slightly declined to 2.2% in April • Unemployment rate remained stable at 7.5%	• Combination of fiscal budget cuts with increase in external demand and strong private consumption driving low but positive growth	• Fiscal expenditure cuts in response to worsening budget deficit • Policy initiatives to address labor shortages in manufacturing

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

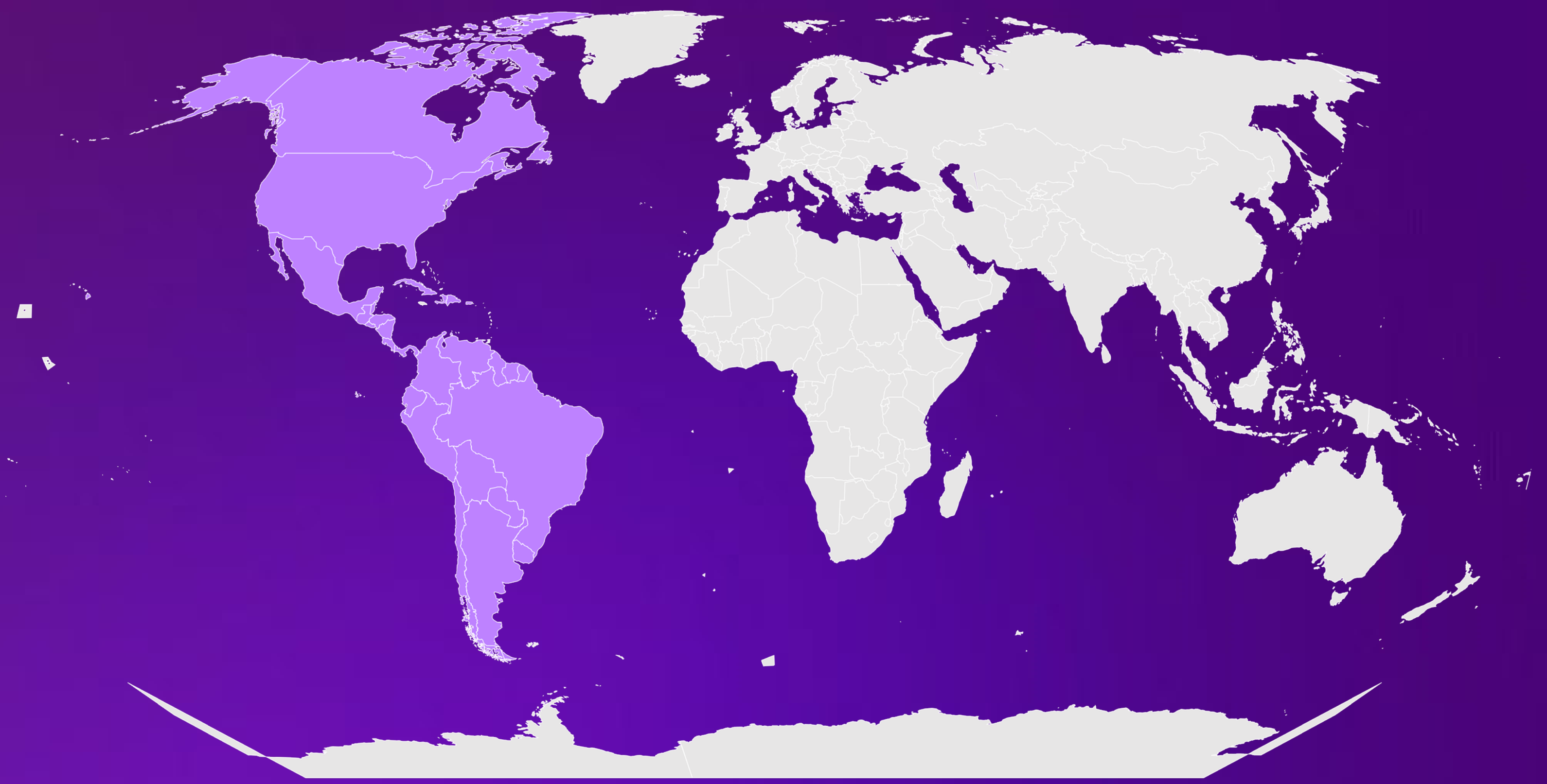
AS OF MAY 25

		Key recent datapoints	Base case outlook	What to watch for
Asia Pacific	China	• Manufacturing PMI expanded for the 6th straight month, driven by autos and telecommunications • Industrial output growth rebounded in April, as manufacturing in government-prioritized subsectors (e.g. EVs, chips) remains strong • Retail sales growth slowed further in April 2024 to its lowest pace since Jul 23	• 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 (e.g. scrapping mortgage floor rates, lowering payment ratios, etc.) • Export performance in targeted “New Three” sectors (EV, batteries, solar)
	Japan	• Manufacturing activity and new export orders remained in contractionary territory in May • Strong foreign demand continues to drive service sector expansion • Real GDP declined 2% (QoQ annualized) in Q1 as consumption fell for 4th consecutive quarter • Yen is at weakest level vs. USD since early 1990s	• GDP growth is expected to remain sluggish in 2024 as negative real income growth continues to weigh on domestic demand and export demand moderates	• Degree of moderation in tourism and auto export growth, especially given the weakening yen • Extent of additional BoJ policy tightening now that it has ended its zero-interest rate policy and yield curve control
	India	• Both manufacturing with services activity continued to expand at rapid pace in April • Consumer confidence improved with an index (PCSI) score at 67.8%, highest amongst 29 countries surveyed this May	• Some moderation in growth 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 the previous few years	• Resilience in domestic demand and strong growth in capital expenditures • Signs of manufacturers or other companies shifting supply chains to India
	Australia	• Manufacturing sector remained in contraction in April, but services are rebounding strongly • Inflation remained sticky in April, hovering at just below 4% YoY	• Growth is likely to remain subdued as cost-of-living pressures and high interest rates continue to weigh on domestic demand	• Wealth effects from recent house prices increases on consumer spend • Extent of imported inflation as the Australian dollar continues to weaken
	Indonesia	• Manufacturing sector grew in May but at a slower pace than in prior months • Other signs of improvement include a steady increase in retail spending and declining unemployment	• 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

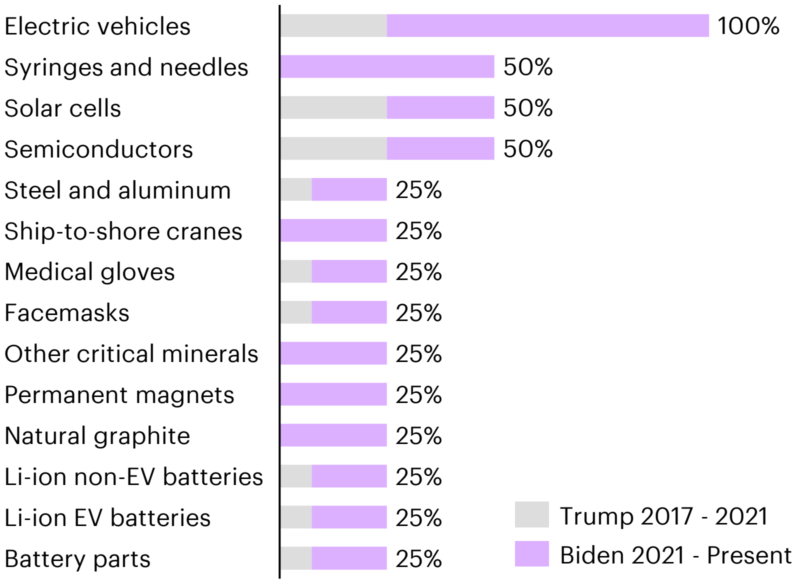


Latest US tariffs on China affect a very small portion of US imports (~0.5%), but signal the likely start of tightening trade restrictions across key sectors

US Section 301 tariffs

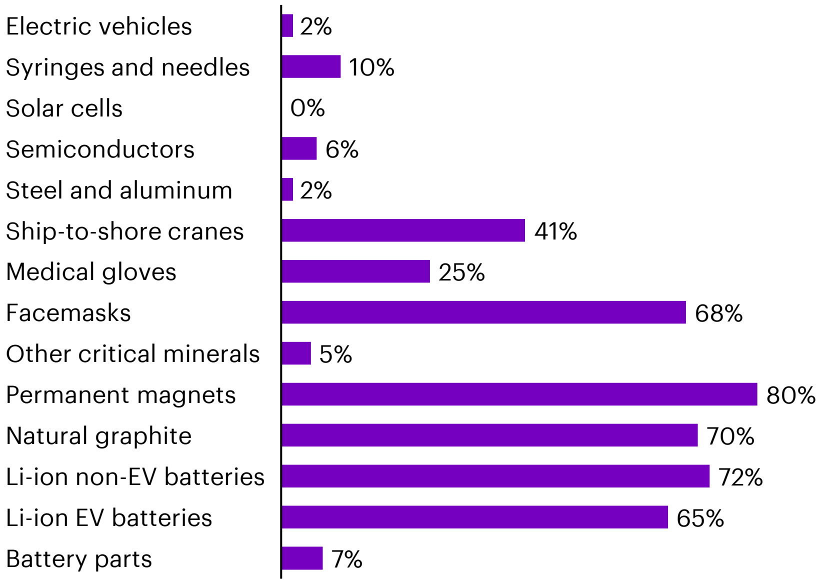
Tariffs on Chinese imports under Trump vs Biden

%



US imports covered by new Section 301 tariffs

China's share of US imports



Implications for corporates

- There is a limited impact in the short-term but an increased risk trajectory in the medium-term
- Continued tension is likely to incentivize companies to search for chip / battery capacity in Asia outside of China
  - Suppliers will have greater bargaining power vs. consumer electronics companies looking for capacity
- If tariffs expand to components, there will likely be a material cost impact for firms reliant on legacy chips (e.g., automotive, consumer electronics, telecoms or aerospace)

Commentary

- The latest round of Section 301 tariffs affect only ~USD 18bn of US imports (out of USD 4tn in total annual imports) vs the USD 350bn targeted by Trump in 2019; furthermore, they mainly target finished goods rather than components/intermediates
- However, the tariffs signal that the direction of US trade policy will become more restrictive in nature and could be a precursor for further restrictions in the future, potentially targeting "legacy" chips and intermediate goods/components
- More critically, in the short term, they give the EU 'air cover' to announce a more hawkish outcome of its EV anti-dumping investigation against China

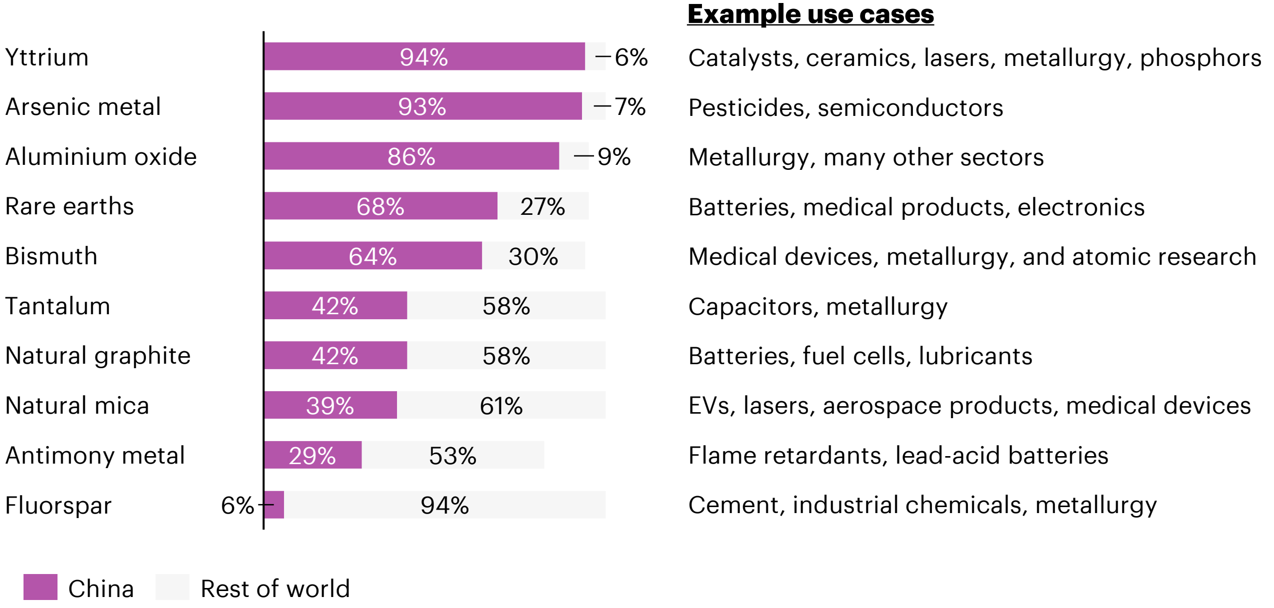
Sources: The White House, Rhodium Group, US International Trade Commission Accenture Strategy analysis

China's response to US tariffs is likely to be asymmetrical and target parts of the US economy where it has leverage e.g., critical minerals or agriculture

US tariffs risk sparking retaliation from China

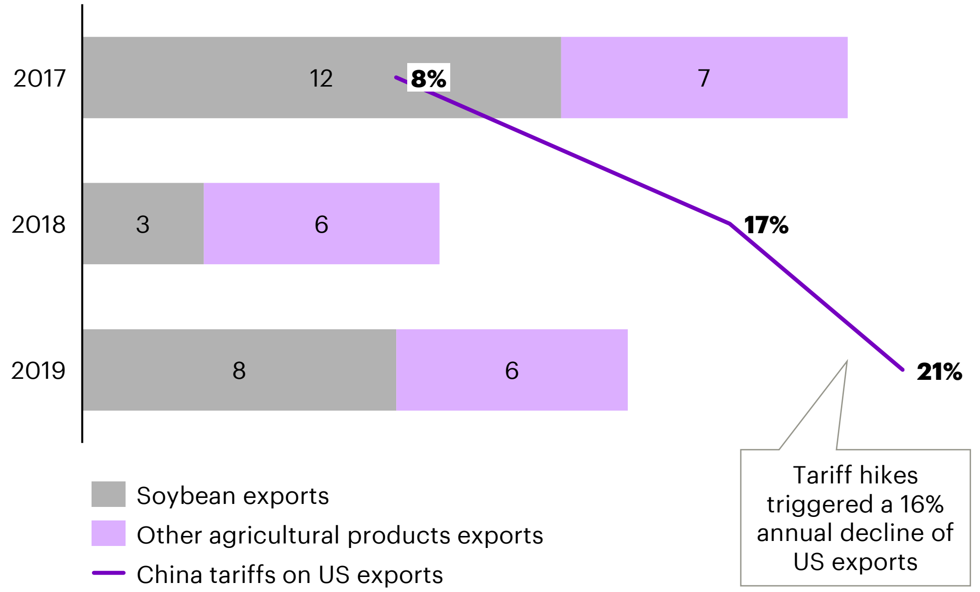
US import reliance on critical minerals and their applications

US import reliance on China, by mineral (% of total category imports), 2019-2023



Effect of China tariffs on US agricultural exports

US exports to China (USD billion) and China tariffs (%)



Commentary

- Retaliatory Chinese tariffs have resulted in a 12 percent decline in US goods and services exports to China since 2017, with estimates indicating that:
  - The tariffs led to nearly 300,000 US job losses from mid-2018 to mid-2019
  - US-listed firms lost USD 1.7tn in market capitalization and saw a 0.3% reduction in investment growth
- This time around, China could restrict exports of items the US heavily depends on, such as manufacturing equipment and solar wafers, affecting US manufacturing and clean tech sectors

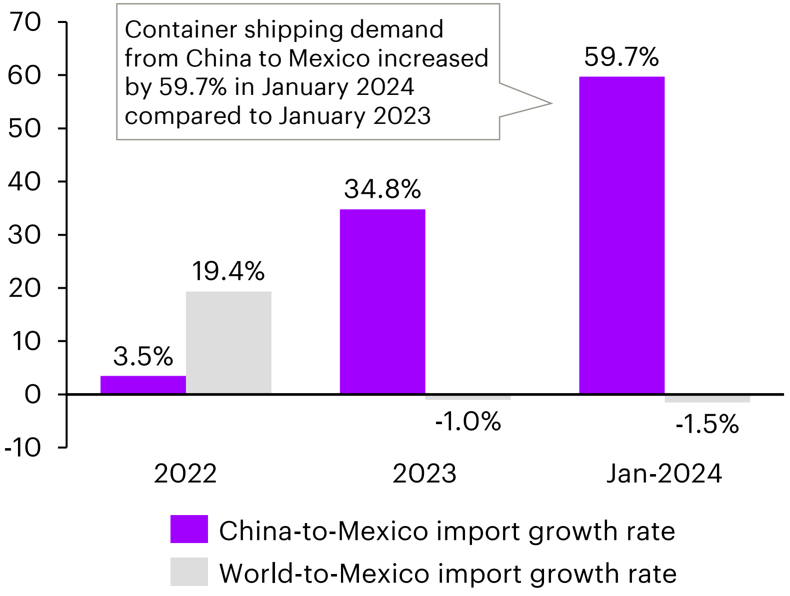
Sources: US Department of the Interior, US Census Bureau, US Department of Agriculture, New York Federal Reserve, Accenture Strategy analysis

China has dramatically increased its exports to Mexico, suggesting that products may still reach the US via alternative routes; Mexico is responding with trade restrictions on China

Chinese imports to Mexico and tariff response

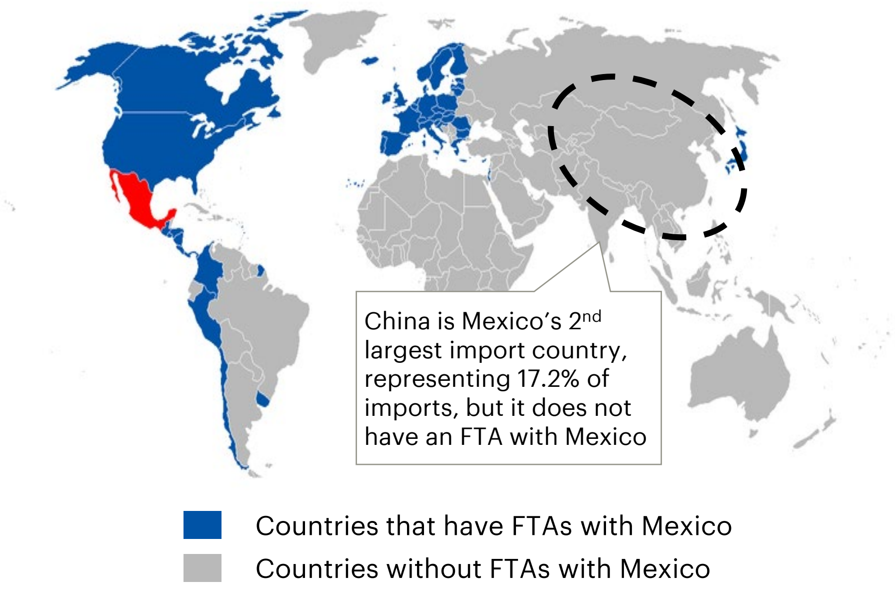
Mexican imports from China are skyrocketing

Y-o-Y import growth rate (%)



Mexico has targeted non-FTA countries with tariffs

Mexico's Free Trade Agreements (FTAs)



Implications for corporates

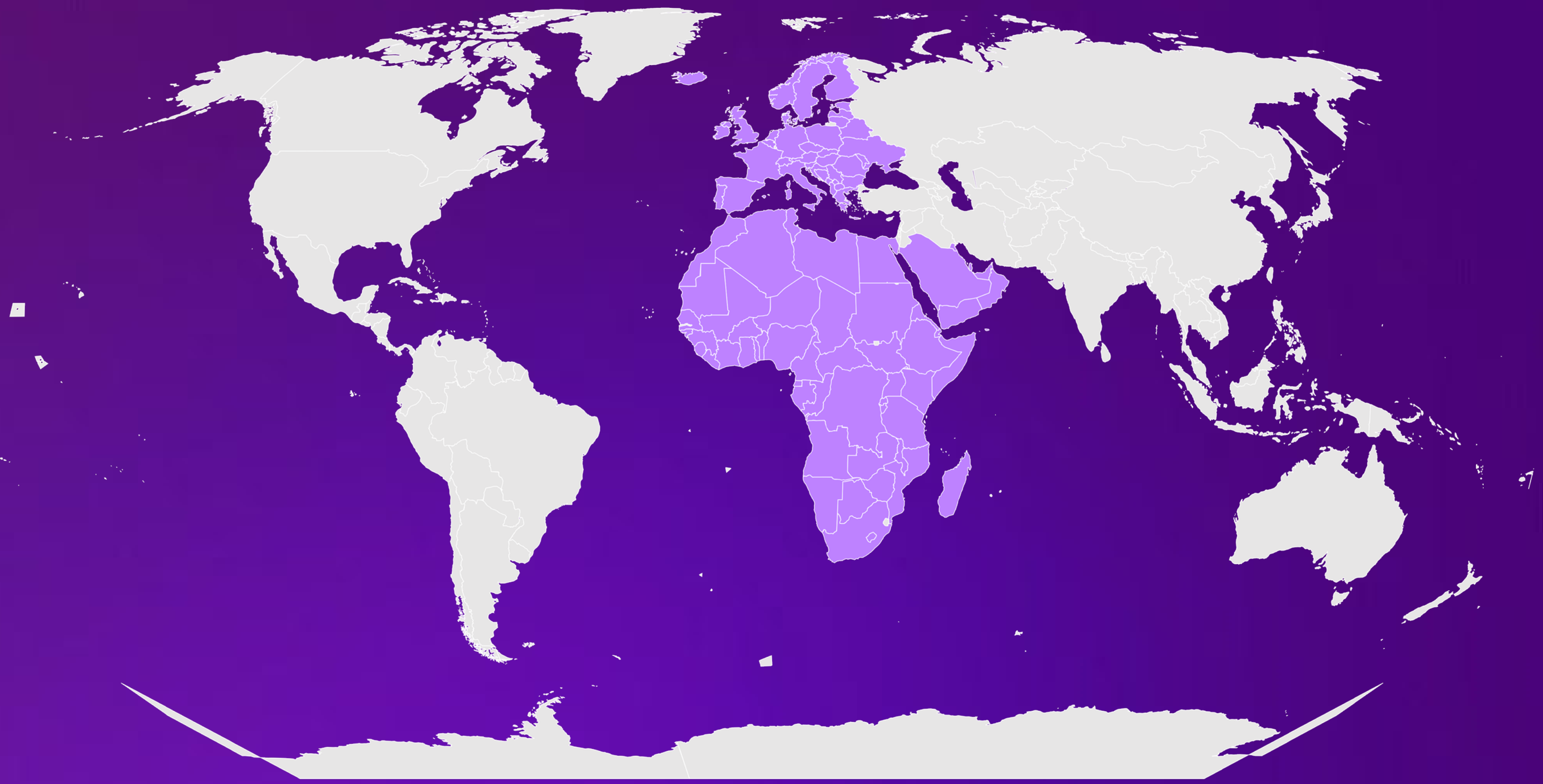
- It is important for companies to develop full visibility of their supply chains (i.e., n-tier) to ensure compliance with tightening trade restrictions
- In addition, companies must continue to strengthen their government relations and compliance capabilities

Commentary

- Mexico has recently overtaken China as the leading exporter to the US, but its imports from China have surged in parallel; this is a potential sign that China is increasingly using Mexico as a production base to access the US market
- Possibly responding to the pressure from the US, the Mexican government established temporary import tariffs ranging from 5-50% on 544 HS codes effective for two years beginning April 23, 2024; the import duties apply to countries with no FTA with Mexico such as China, Brazil and Indonesia

Sources: Xeneta, Financial Times, International Trade Administration, Accenture Strategy analysis

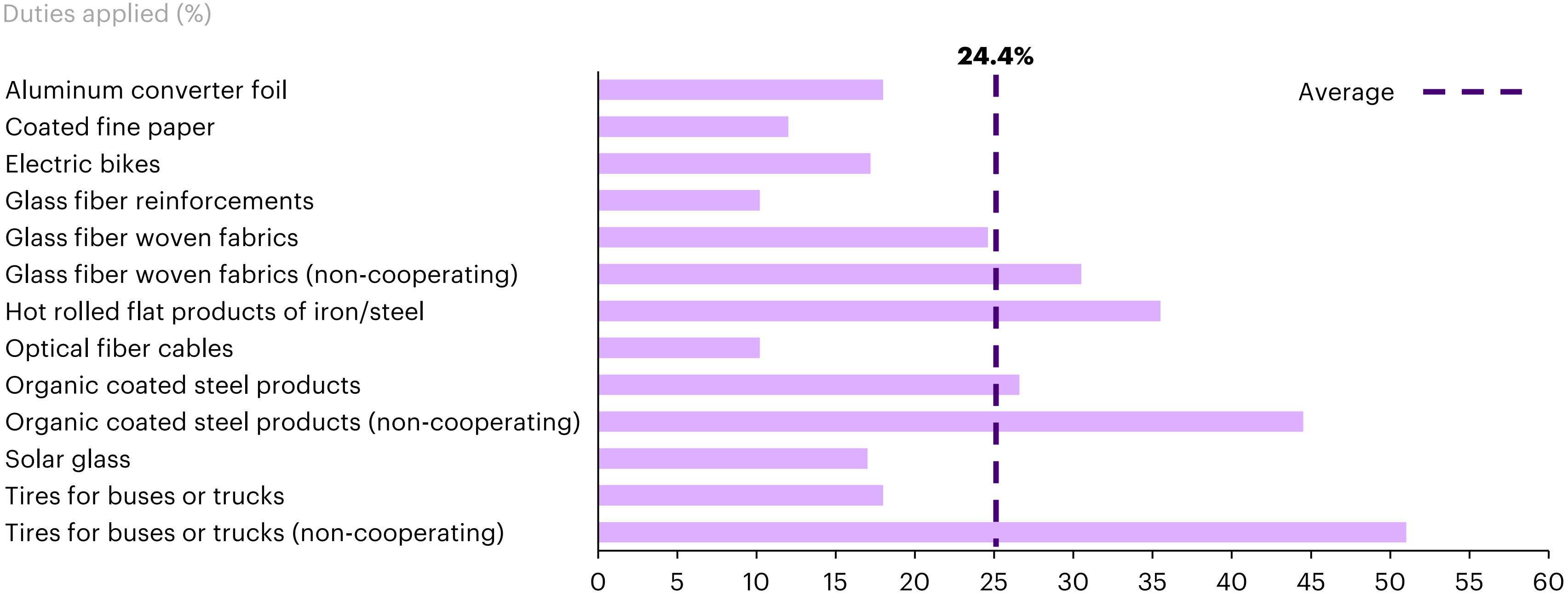
Europe, Middle East and Africa



The EU, bolstered by latest US tariff actions, is expected to apply duties of between 15-30% on Chinese EVs, based on analysis of previous import duties and expert interviews

What could come next on antidumping policies in EU

The EU has historically imposed countervailing duties of 15-30% on Chinese imports



Implications for corporates

- Although the investigation is focused on Chinese automotive companies, it could have 2nd order effects for Western firms
  - A 15-30% duty could make Western OEMs using China as a production hub uncompetitive in Europe
- China could reciprocate against the EU targeting sectors where it has leverage—e.g., agriculture, food & beverage

Commentary

- In late 2023, the EU Commission launched its largest trade case against China in history, an anti-subsidy investigation focused on EVs. The Commission is focused on three Chinese companies but will impose a weighted average duty on other exporters such as Tesla
- The EU is expected to find that Chinese EV companies have benefited unfairly from subsidies, and initiate draft countervailing duties by early July

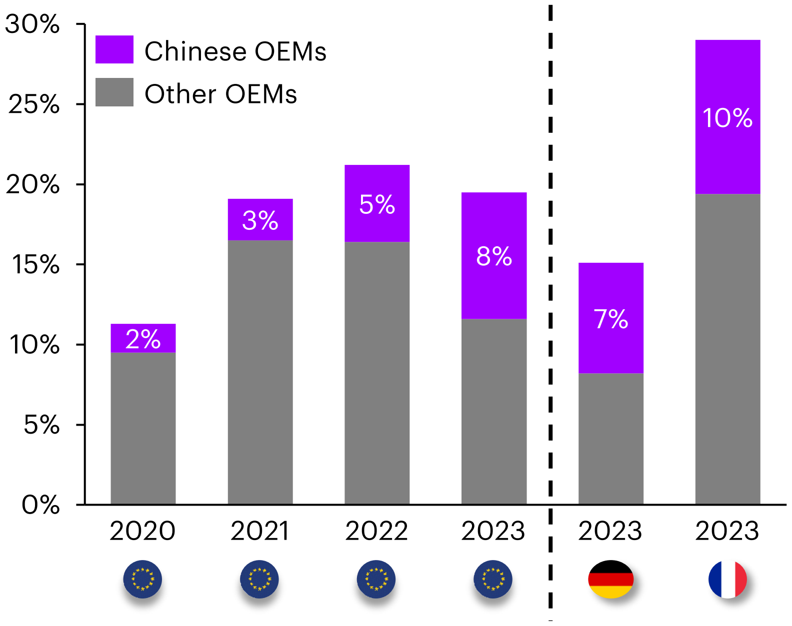
Sources: EU Commission, Rhodium Group, Accenture Strategy analysis

EU tariffs on subsidized EVs from China could counteract dumping and mitigate price competitiveness, but also pose a threat to an auto industry deeply linked with China

Automotive industry in the EU

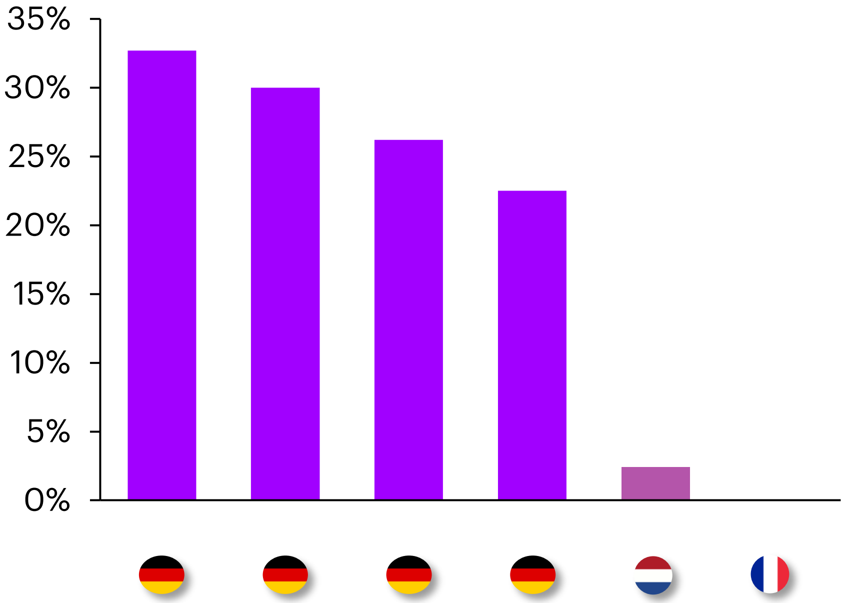
Chinese BEV sales in the EU and large markets

Share of the corresponding BEV market



EU carmakers exposure in China

China EBIT contribution (%), OEMs nationality



Implications for corporates

- Western OEMs should stress test several scenarios:
  - Where they are "crowded out" of the Chinese market if trade tensions escalate
  - How competitive Chinese OEMs remain after duties are enforced by the EU
- In addition, companies should monitor risks to wider mobility infrastructure as a result of escalating trade tensions—e.g., charging infrastructure, component inputs

Commentary

- Chinese OEMs are targeting Europe due to slowing domestic EV demand and US trade challenges; German OEMs, particularly in the premium segment, face higher risks from potential higher tariffs on Chinese EVs and retaliatory measures, as other countries focus on defending market shares
- Given the importance of automotive sector for German manufacturing, any retaliatory measures could have material impacts on the wider economy

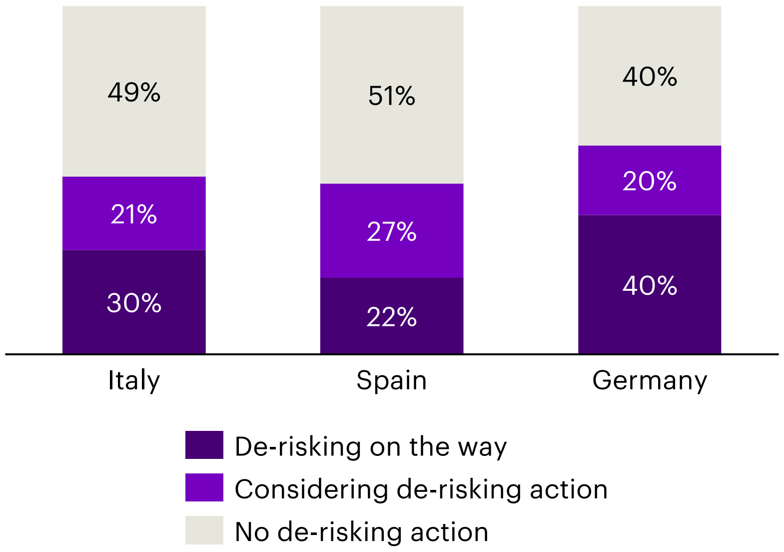
Sources: T&E, Bloomberg, Federal Statistics Office (Destatis), Rhodium Group, Accenture Strategy analysis

EU central bank surveys show that many firms are implementing de-risking strategies to reduce China dependency, mainly by substituting Chinese suppliers with others in the EU

Supply chain de-risking by European companies

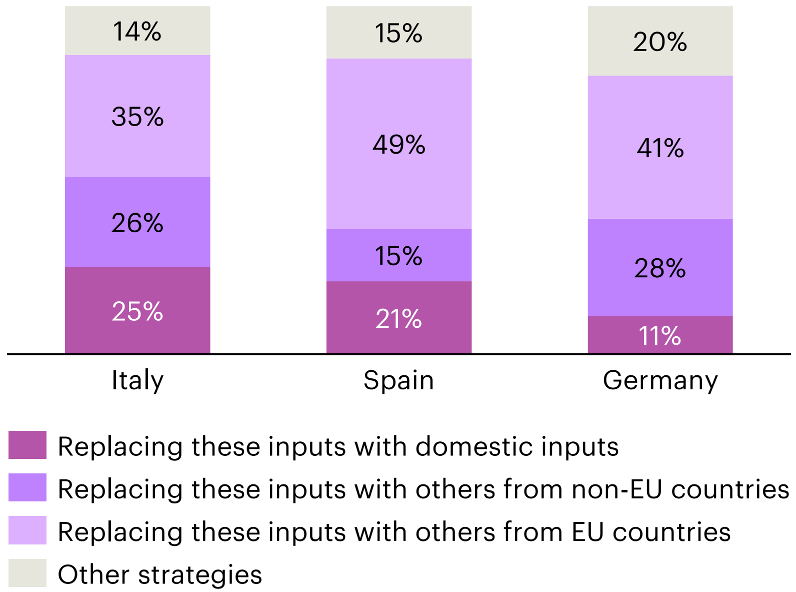
De-risking strategies of EU firms exposed to China

% of manufacturing companies exposed to China



EU firms implementing de-risking actions

% of manufacturing companies implementing de-risking actions



Implications for corporates

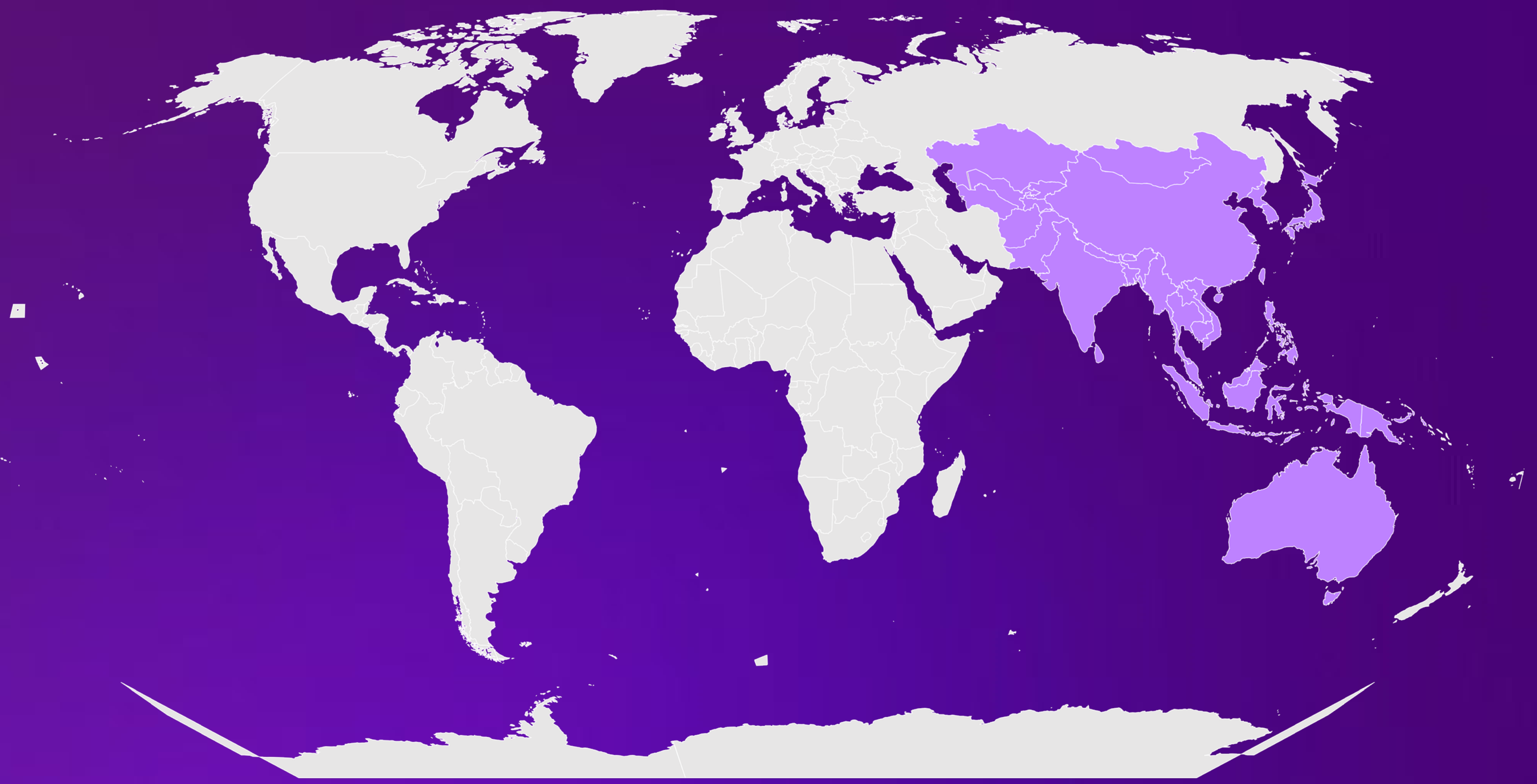
- Increasing diversification and resilience of supply chains comes with a cost, which companies will be compelled to pass through to consumers
- About 50% of the large multinational companies implementing de-risking strategies expect upward pressures on their selling prices in the next five years
- An additional key channel of disruption to business activity would be the loss of access to Chinese inputs, which could increase costs and incidents of stock-outs in value chains and also affect companies with no direct China link

Commentary

- The sample of firms reached by the national surveys, about 14,000 in total, is representative of the German, Italian, and Spanish economies
- The national surveys reveal that a sizable share of companies have already implemented strategies to reduce their sourcing risk from China or are considering doing so by the end of 2024; there is still a high share of companies which are neither de-risking nor considering taking action yet
- These companies are often dealing with hard-to-substitute critical inputs, which would take the longest to be replaced
- The substitution of Chinese suppliers with EU suppliers ('EU-shoring') is the most frequent de-risking strategy among firms in all three countries

Sources: Banca d'Italia, Deutsche Bundesbank and Banco de España, CEPR, Accenture Strategy analysis

Asia Pacific

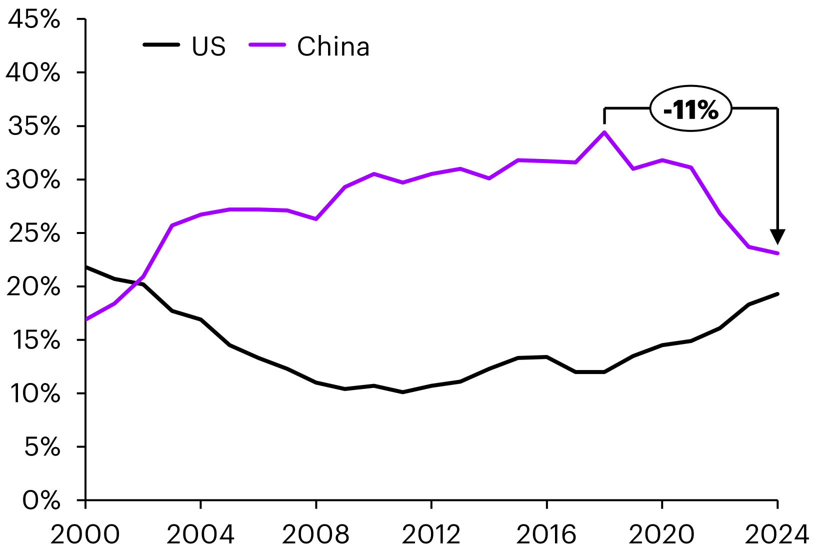


China's trade with US-aligned parts of Asia has been declining in recent years, reflecting a reorientation of supply chains amidst escalating trade relations

Reorientation of Asia exports from China to US

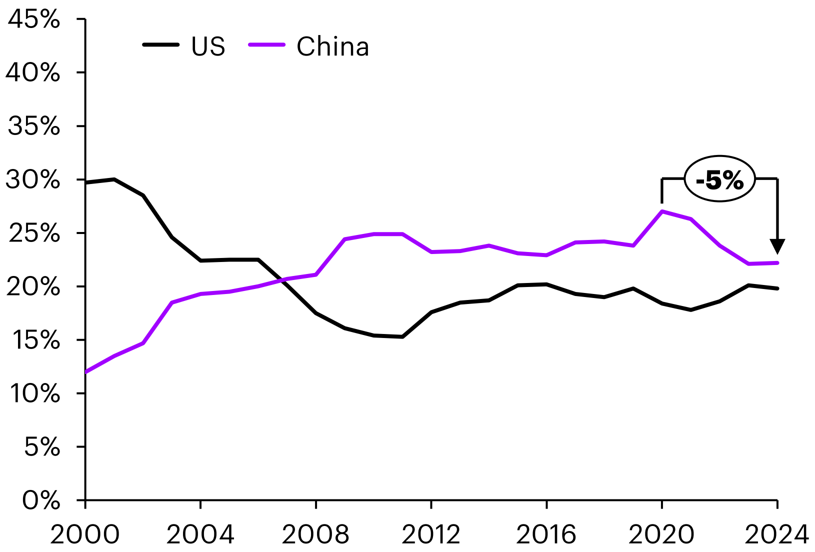
South Korean exports shift from China to the US

Share of South Korea's exports, by destination (%)



Japan has also seen a significant if lesser move

Share of Japan's exports, by destination (%)



Implications for corporates

- Corporates need to evaluate how much additional resiliency to build to mitigate future risk exposures
  - What are the trade-offs and the business case for diversifying?
- Companies must assess two key questions to protect margins:
  - How can resiliency costs be offset?
  - Can they rethink their portfolio strategy to fundamentally change operations in China?

Commentary

- US efforts to force a "friend-shoring" of supply chains away from China appears to be having some impact, with MNCs choosing to expand in countries other than China, while only 13% of European firms already based in China say that China is a top destination for investment
- The most significant shifts can be seen for geo-strategic technologies and their inputs, with MNC's looking to Southeast Asia for production
- China has avoided being cut out entirely as Chinese firms have aggressively ramped up their own investment across Asia, in part to respond to the reshoring of supply chains but also in an attempt to avoid US tariffs

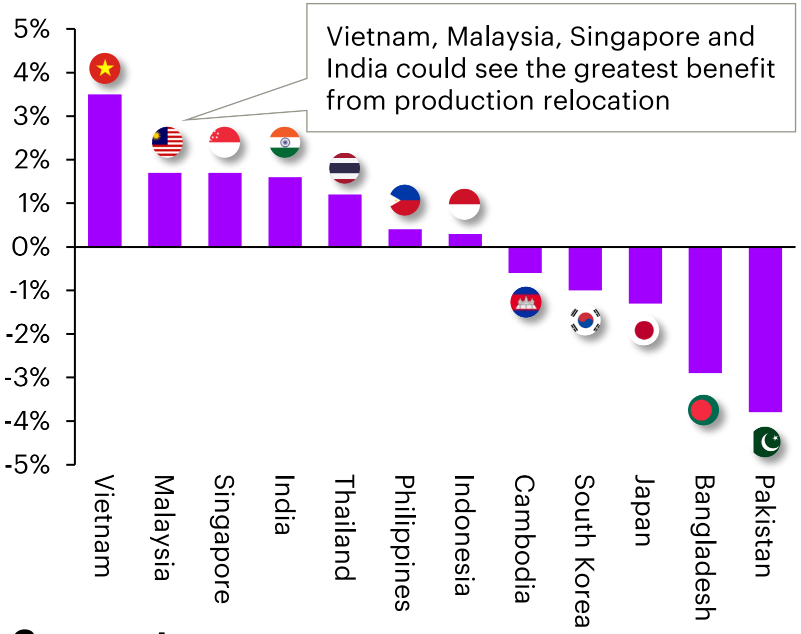
Sources: Bloomberg, Accenture Strategy analysis

Southeast Asian countries will benefit the most from companies looking to relocate production away from China or substitute imports from either the US or China

Southeast Asia tailwinds

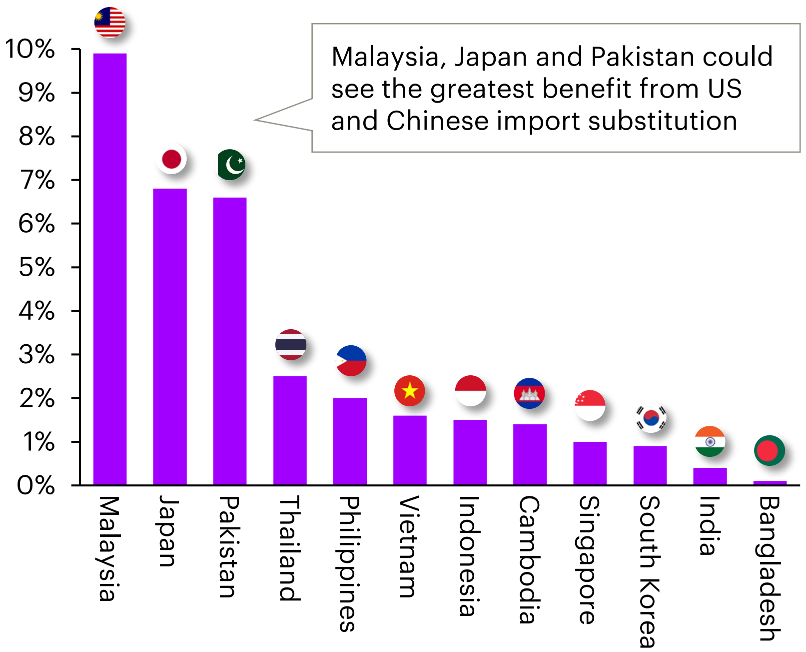
Winners from production relocating out of China

Aggregated NPRI (Net Production Relocation Index) scores



Winners from US/China import substitution

Aggregated NISI (Net Import Substitution Index) scores



Implications for corporates

- When evaluating alternative markets for sourcing and prior to developing production capacities away from China, companies should look for an extensive Tier-N supplier presence in these markets
- Companies should consider local factors such as political stability, quality of infrastructure, labor competitiveness and ease of doing business
- Vietnam and Thailand have seen an influx of FDI due to tax and other incentives

Commentary

- Countries that are likely to be "winners" tend to benefit from one or two specific products (e.g. Malaysia will benefit from trade in electronic integrated circuits, liquefied natural gas and communication apparatus, cotton yarn in Pakistan and "units of automatic data processing" in Thailand)
- Despite these potential tailwinds, Asian countries play a significant role in the component supply chain for China's export assembly industry; given that the U.S. is the primary export destination for these products, Asian countries face an indirect headwind overall
- Asia also benefits from companies investing in capital goods production, and could be impacted if MNCs delay plans in response to rising protectionism

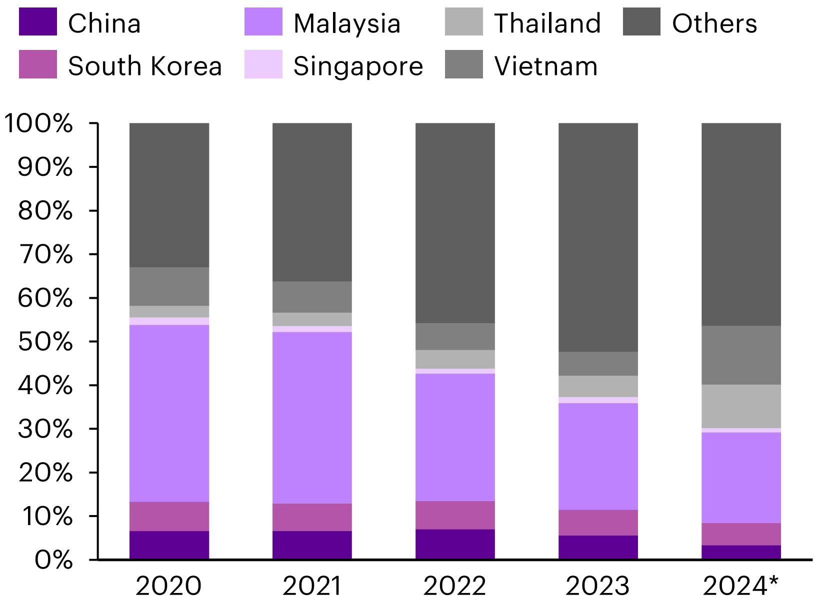
Sources: Nomura Global Economics, International Trade Centre, Accenture Strategy analysis

US tariffs on China present opportunities for other APAC countries to expand their trade and strengthen semiconductor/rare earth material supply chains with the US

Semiconductor and rare earth material trade partners of the US

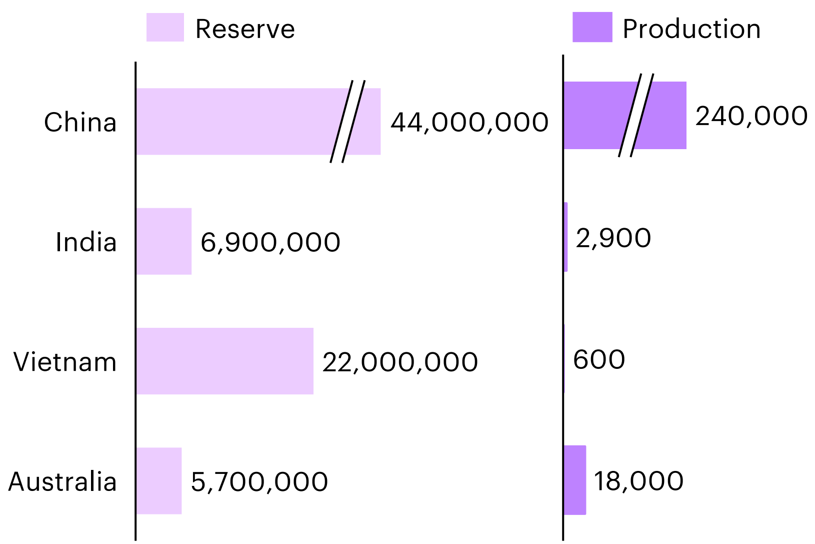
Shifting semiconductor supply chains

US import of semiconductors by top countries, % of total



China dominated rare earth elements in 2023

Reserve vs production for rare earths, tons



Implications for corporates

- Increased US tariffs on Chinese imports present opportunities in semiconductor diversification for:
  - Singapore as a R&D and production hub
  - India as a center for backend assembly and packaging
- Impending tariffs by end of 2024 on imports of rare earth elements are likely to increase US sourcing from other traditional partners like Australia and India, where production is already established
- For EVs, the risk remains limited, as only a handful of companies from China have direct exports to the US

Commentary

- The recent US tariffs on China highlight the vulnerability of rare earths sourcing, as 72% of US total imports was from China between 2019 and 2022
- With tariffs set to begin in late 2024, diversifying critical mineral sources becomes crucial for the US
- US push for diversification presents an opportunity for APAC countries, including:
  - Australia and India, with their significant untapped reserves and production capacity, such as US $850 million funding for rare earth projects
  - South Korea as part of Chip 4 alliance, and Vietnam with funding aids from CHIPS Act, for semiconductor

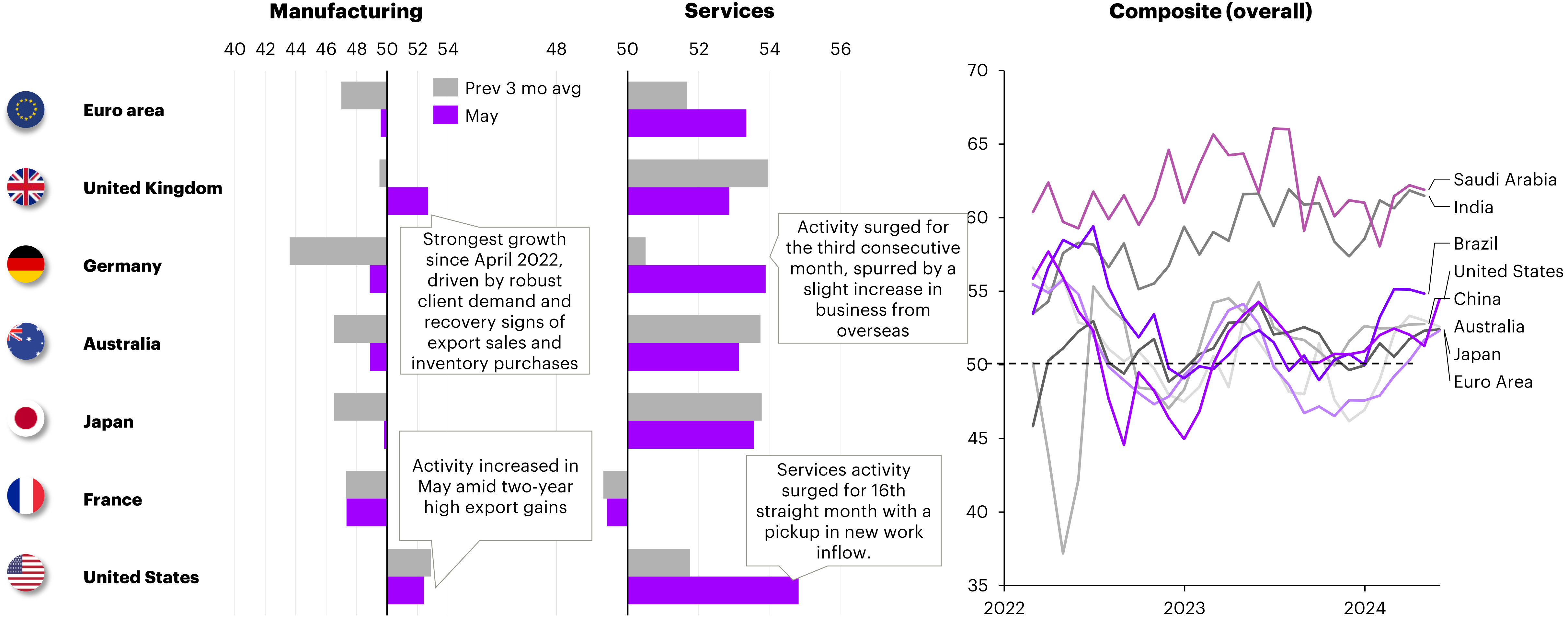
Note: 2024 value based up to April 2024
Source(s): US Geological Survey, Haver, Accenture Strategy analysis

Economic indicator chart pack

Regional and industry activity

Manufacturing continues to contract across Europe but is rebounding in the US and UK – the services sector exhibited resilience, though France experienced a slight downturn

Flash PMI survey country snapshot



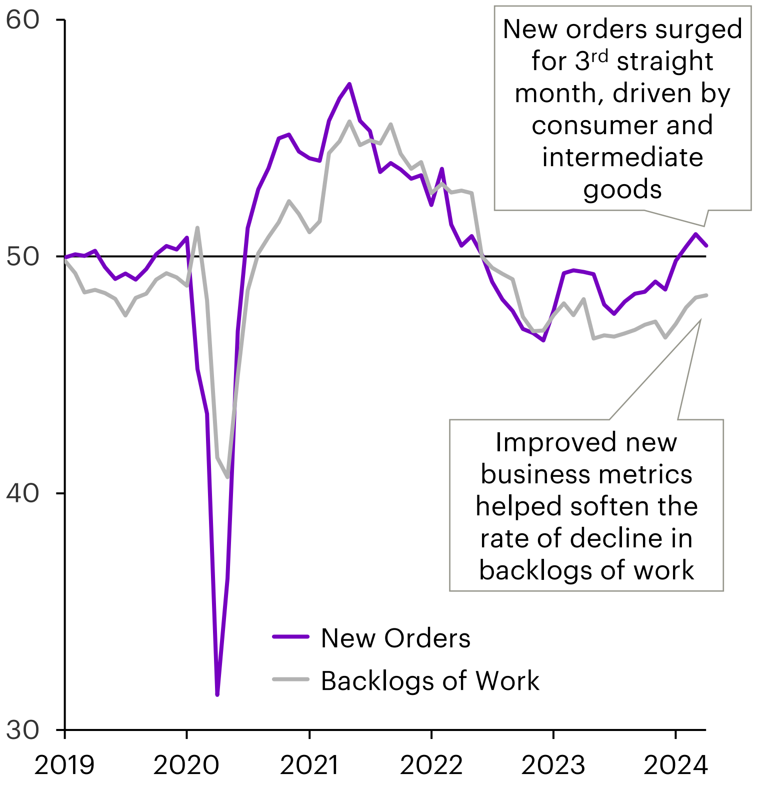
Note: A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month, most recent results may include preliminary flash figures
Sources: S&P Global, Accenture Strategy analysis

Forward indicators signal a rebound in manufacturing globally, as inventory reduction efforts abate, culminating in a third consecutive monthly increase in new orders

Leading indicators of global manufacturing momentum

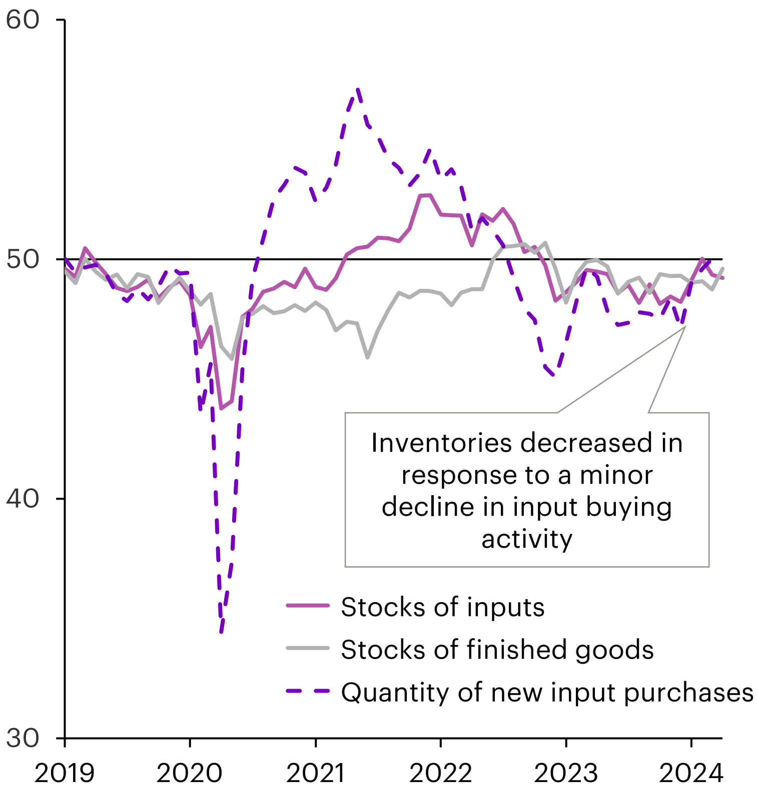
New order intake returns to growth…

Diffusion indexes (SA, 50+=Expansion)



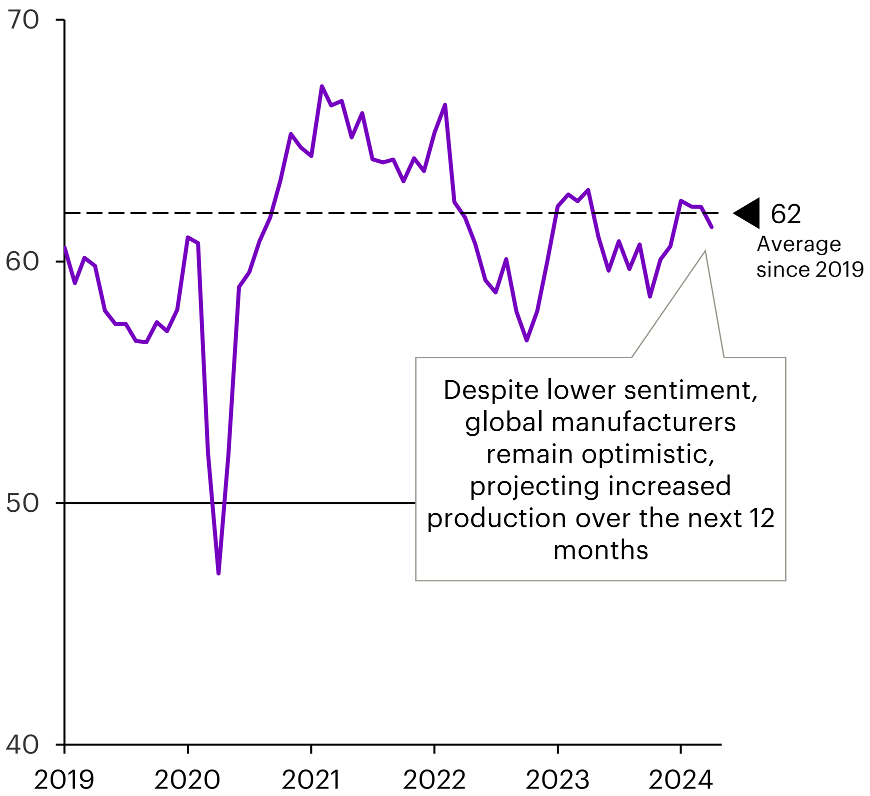
…but input purchases declined …

Diffusion indexes (SA, 50+=Expansion)



…lowering 12-m outlook optimism

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.

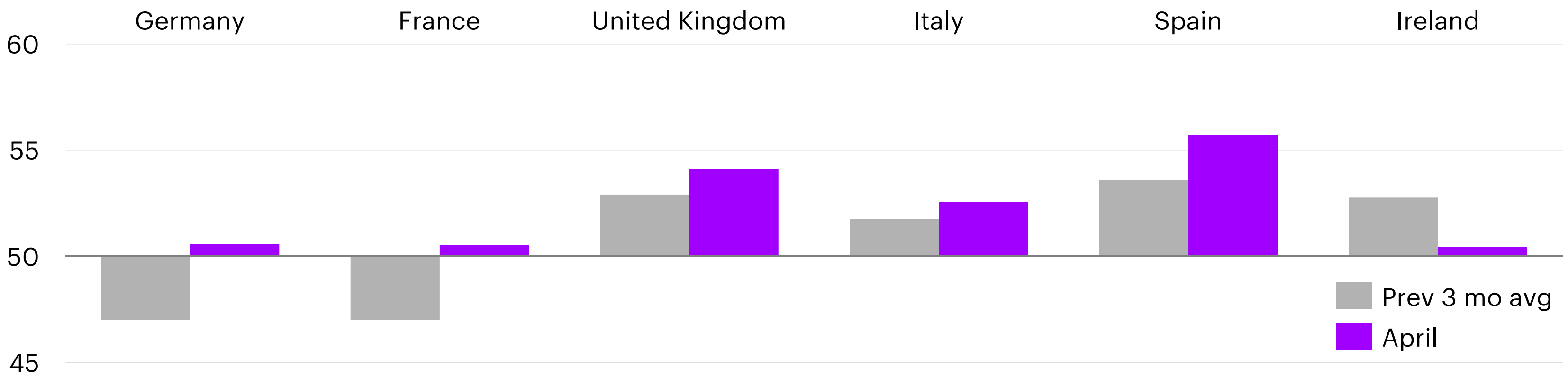
Sources: Haver Analytics, S&P Global, Accenture Strategy analysis

Business activity improved throughout Europe, although new orders growth remained subdued for France and Germany

Regional performance: Europe

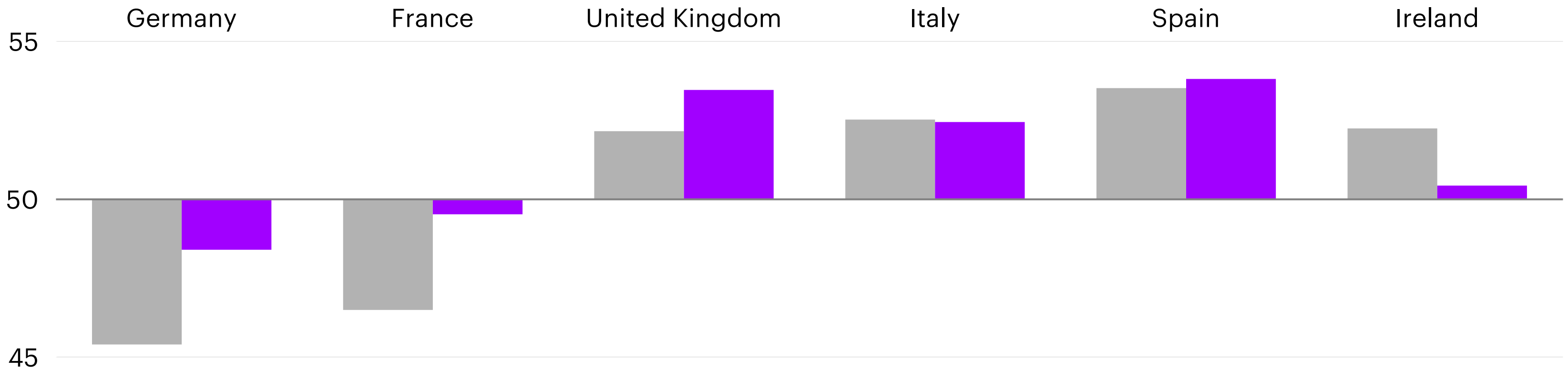
Output/activity

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



New Orders

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



Commentary

- In April, new orders expanded in the UK, Italy, Ireland, and Spain, but continued to contract in France and Germany, albeit at a lesser pace compared to the recent 3-month average
- In Germany, business activity expanded for the first time in ten months, driven by a substantial increase in demand for services. Output in the manufacturing sector remains weak
- In the UK, the private sector experienced stronger output than in prior months, as service providers reported a faster rise in new order while goods producers experienced a renewed downturn
- Spain's private sector saw robust growth in April, reaching a one-year high. However, new order growth softened in large part due to slower gains in the service sector's demand for new business

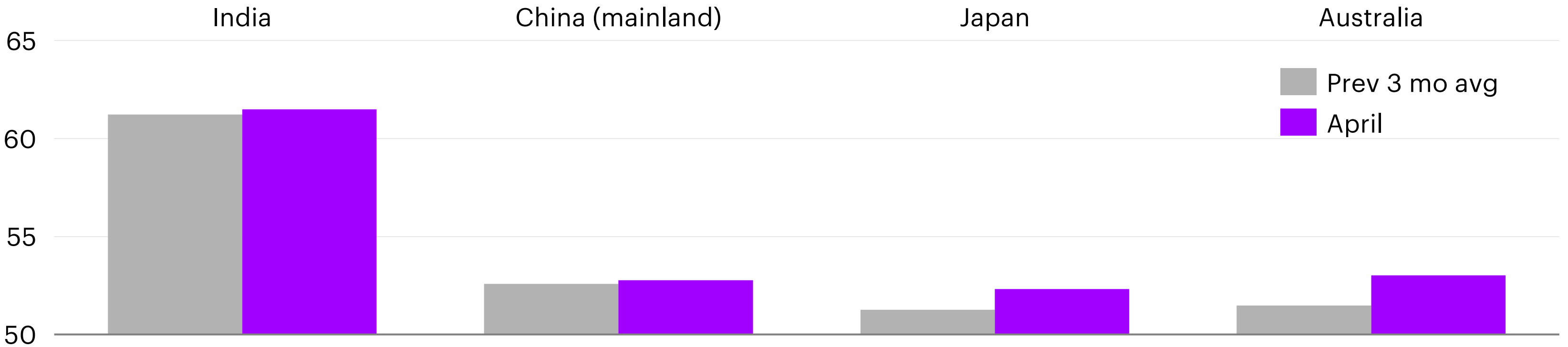
Sources: S&P Global, Accenture Strategy analysis

India continues its growth momentum rally in the Asia-Pacific region, while Japan achieved its highest business output level since August 2023

Regional performance: Asia-Pacific

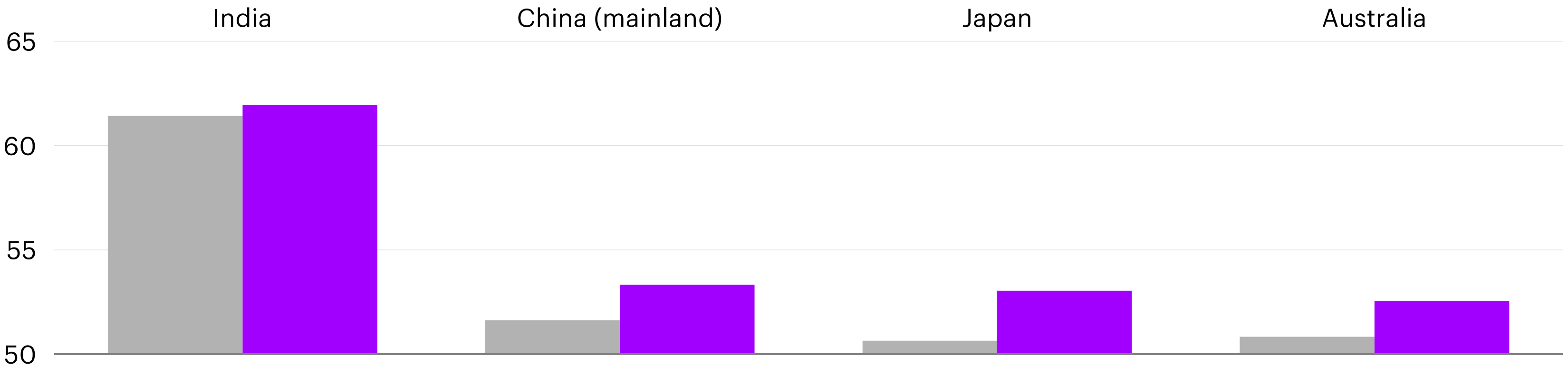
Country performance

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



New Orders Index

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



Commentary

- India's private sector continued to witness strong growth in April. Manufacturers reported a stronger increase in new business intakes compared to service providers, though both sectors expanded at a healthy pace
- In China, business activity continued to strengthen for the sixth consecutive month as output growth accelerated in the manufacturing sector. The services sector continued to expand, but at a slower pace
- Japan's private sector growth in April was mostly driven by the services sector, while manufacturing declined again
  - — Service providers observed an increase in new business volume, buoyed by improving domestic economic conditions and robust customer demand

Sources: S&P Global, Accenture Strategy analysis

Manufacturing expanded across most of Southeast Asia, with only Thailand and Malaysia showing signs of contraction

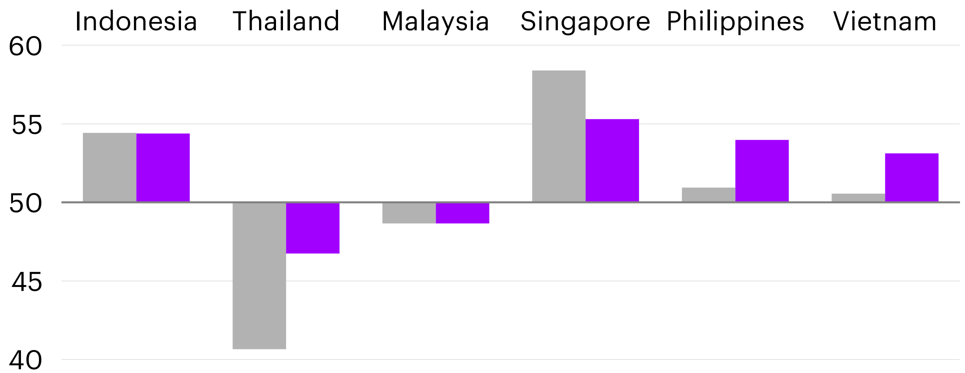
Regional performance: Southeast Asia

Manufacturing Performance

Apr '24 vs Previous 3 Month Average, Manufacturing Output

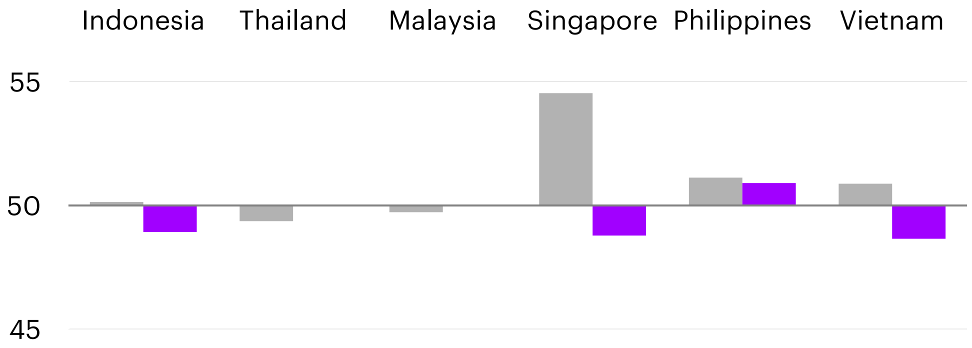
Manufacturing New Orders

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



Manufacturing Employment

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



Commentary

- Indonesia's manufacturing sector expanded in April, marking the current growth streak to 32 months
  - Strong domestic demand pushed growth in new orders and output
  - Mild capacity pressure coupled with decreased business confidence led to temporary layoffs
- Singapore's private sector output expanded in April due to improved demand conditions; however, employment decreased since March due to resignations
- In April, Vietnam's manufacturing sector growth increased sharply (incl. new orders), the fastest since August 2022. However, recent market instability led to a three-month low in confidence
- The manufacturing sector in Philippines showed its strongest improvement in operating conditions in five months, as new orders increased due to favorable demand conditions

Note: Performance for Singapore covers the whole economy

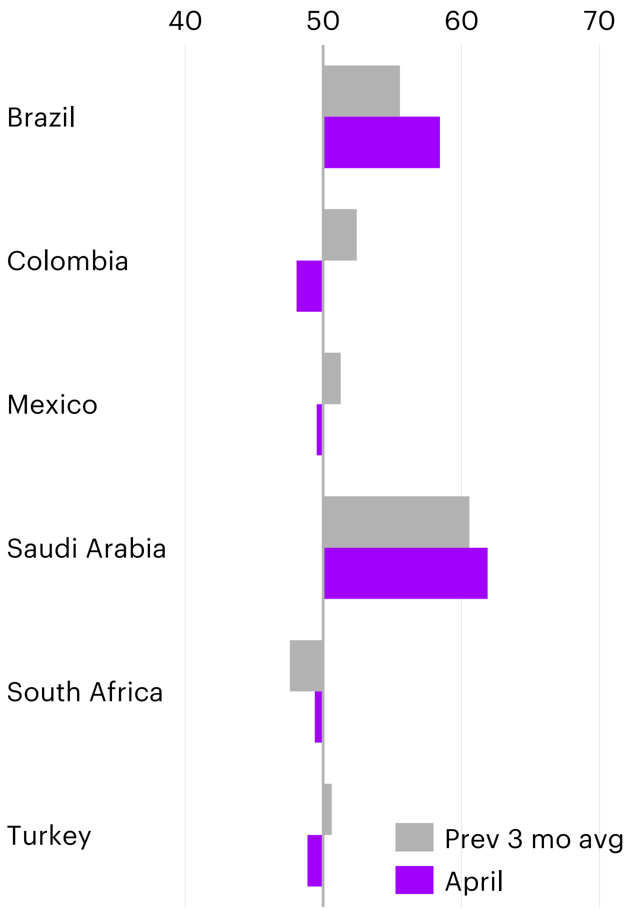
Sources: S&P Global, Accenture Strategy analysis

Manufacturing activity in Brazil continues to build on its strong domestic demand and new export growth, while an uptick in Saudi Arabia, reflects strong domestic demand

Regional performance: Other emerging markets

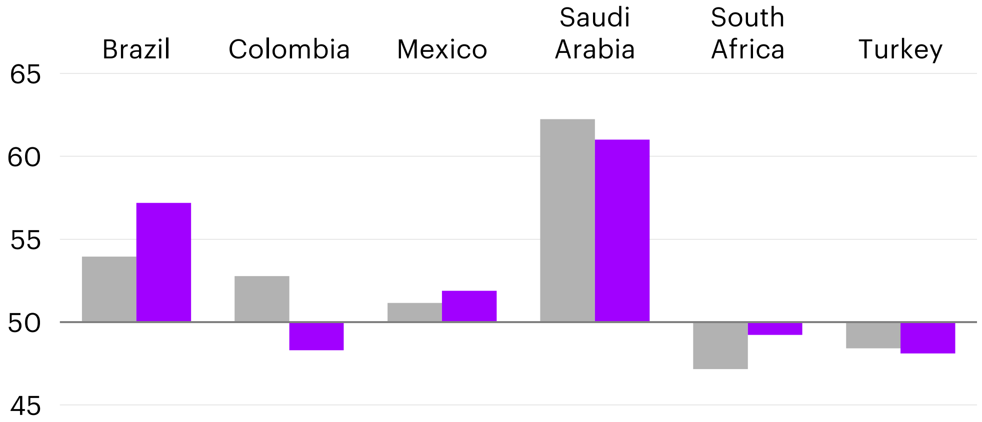
Manufacturing Performance

Apr '24 vs Previous 3 Month Average, Manufacturing Output



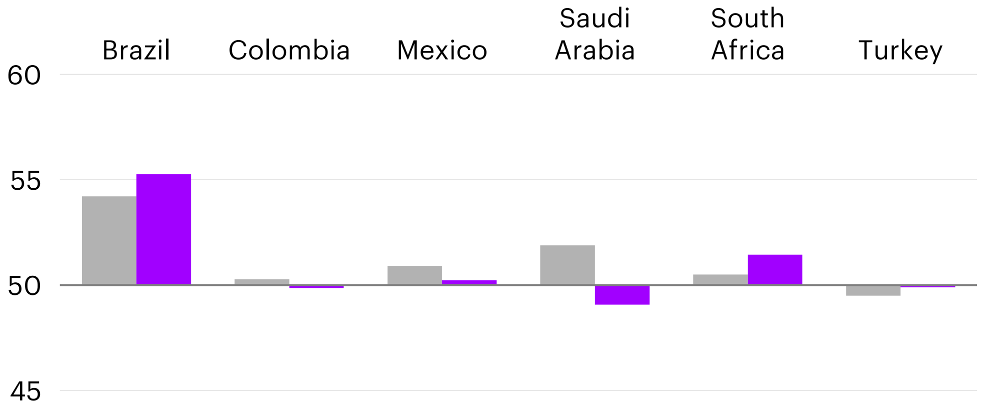
Manufacturing New Orders

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



Manufacturing Employment

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



Commentary

- In April, Brazilian manufacturing activity experienced a significant surge, with new orders rising at the sharpest pace in nearly three years
- Exports also rose for the first time in over two years, boosted by rising sales across Asia, Europe, Latin America, and the US
- Mexico's manufacturing output shifted from expansionary territory to recessionary for the second time in 2024. Although new order intakes continued to increase, competition from mainland China and subdued overseas demand resulted in a renewed decline in production volumes
- Saudi Arabia exhibited faster growth in the private sector, driven by strong demand conditions as orders from domestic markets improved
- South African business conditions steadied, with marginal decreases in output and new orders amid a reduction in load shedding

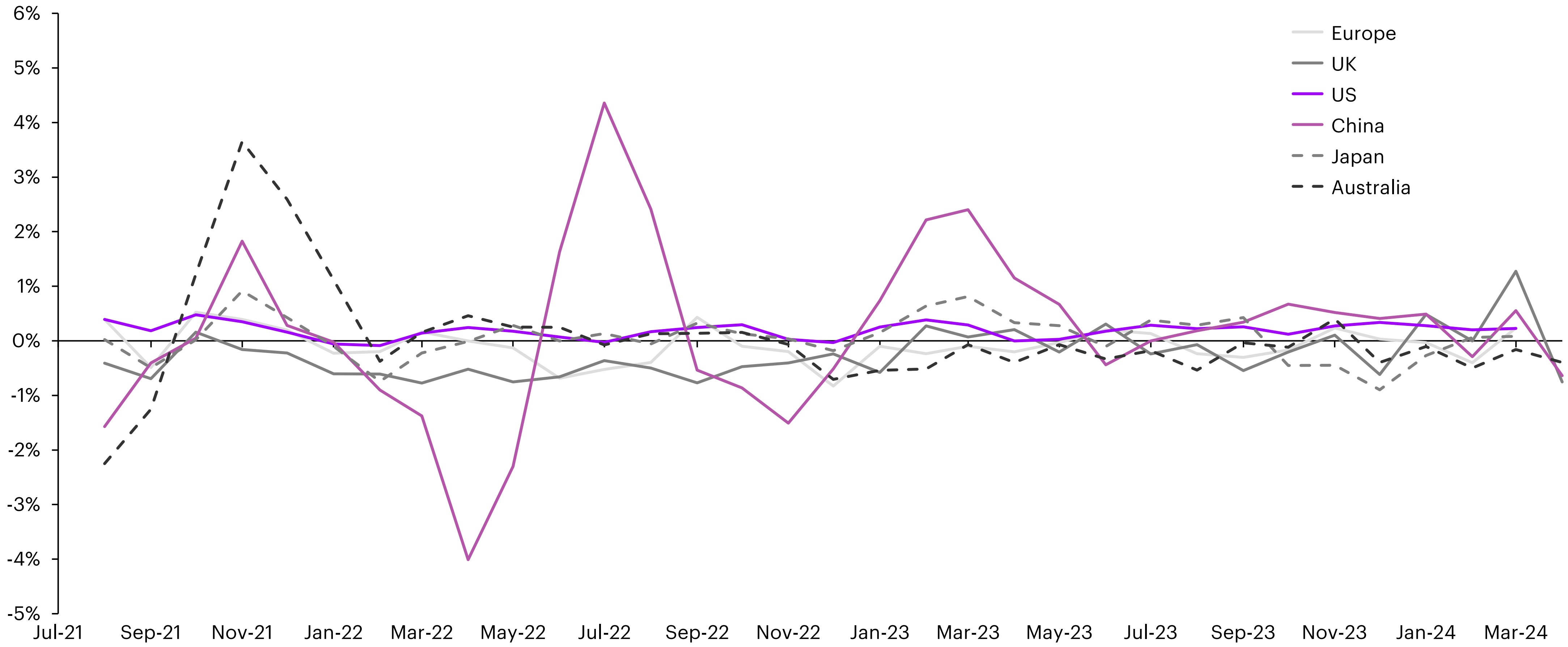
Note: South Africa and Saudi Arabia PMI is for the whole economy
Sources: S&P Global, Accenture Strategy analysis

Consumer spending

Consumer spending remains subdued across most major economies, although the UK saw a notable rebound in March, while China witnessed another decline in April

Consumer spending trends

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



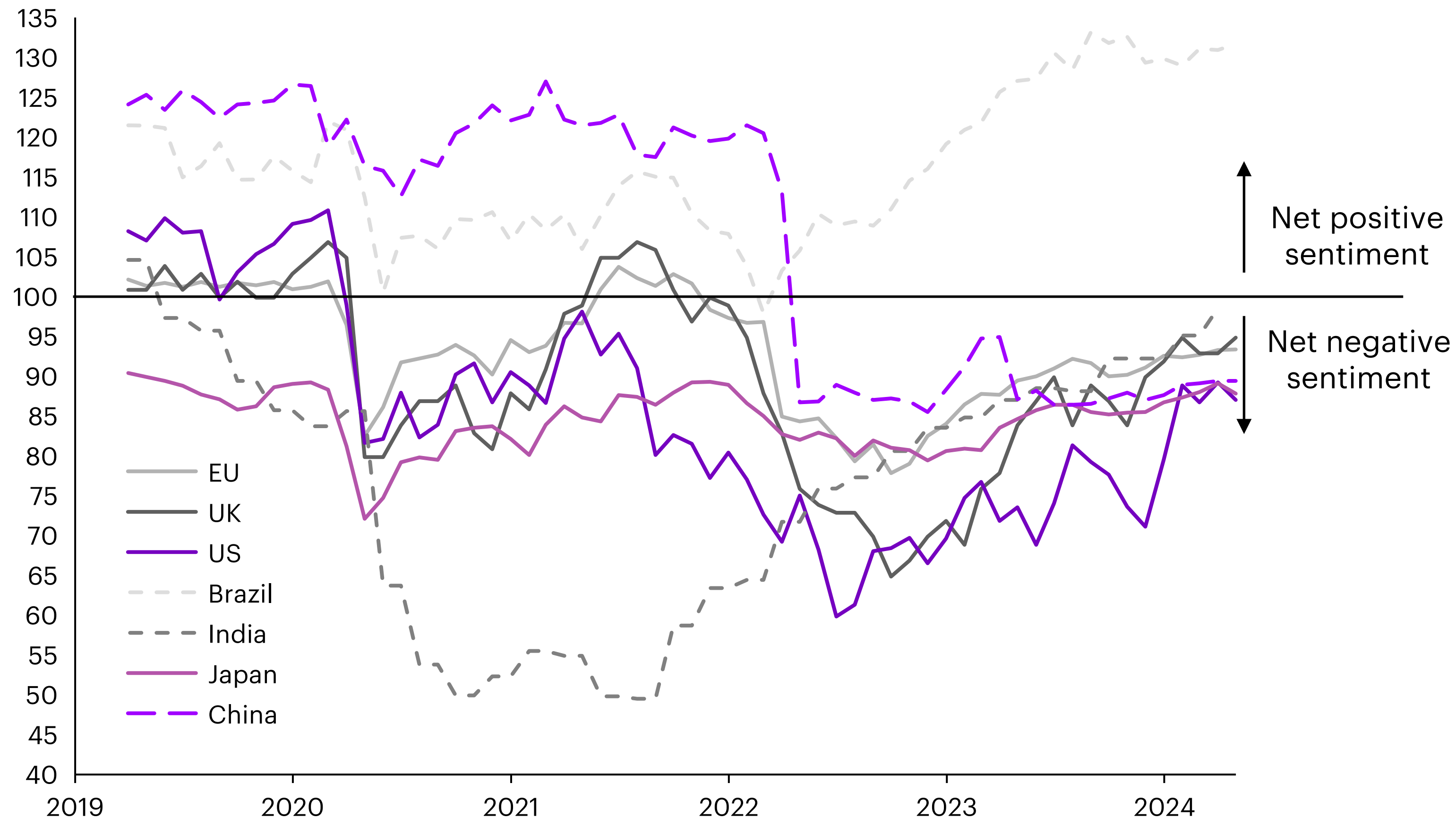
Note: Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area, UK, Canada, Japan, Australia, and China series data is retail sales.
Sources: BEA, BLS, Eurostat, ONS, Haver analytics, Accenture Strategy analysis

Global consumer sentiment remains largely pessimistic, with slight improvements in the UK and Europe driven by low inflation and anticipated tax cuts

Consumer sentiment

Indicators of overall consumer sentiment

Index



Commentary

- Consumer sentiment in the UK and Europe continued to rise in April, driven by the effects of lower inflation on household budgets and the anticipation of additional tax cuts
- In the US, consumer sentiment dropped in April after a brief rise in March, with consumers becoming more cautious about the current labor market situation, business conditions, job availability and income
- Consumer sentiment in Japan fell to a three-month low, driven primarily by a significant decline in households' willingness to purchase durable goods, followed by concerns about overall livelihood

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, Accenture Strategy analysis

Consumer spending on services rebounded in Germany and France but cooled in the UK as businesses passed through rising labor costs to customers.

Consumer spending trends by goods and services category

AS OF MAY 29

		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	0.6%	1.1%	-0.7%	-0.7%	-1.1%	2.0%	0.9%	0.9%
	Motor vehicles	-1.7%	0.8%	-5.4%	-11.9%	0.7%	4.2%	3.0%	3.7%
	Furniture	1.6%	0.8%	-6.3%	-7.8%	-5.7%	-2.4%	-4.1%	-0.1%
	Electronics	5.5%	1.6%	37.8%	0.7%	0.1%	-2.7%	4.1%	0.6%
	Footwear & apparel	2.3%	-0.6%	-3.1%	-5.1%	1.0%	-2.3%	0.0%	0.6%
	Fuel	-0.5%	4.3%	1.0%	-4.9%	1.1%	-0.9%	0.1%	-0.4%
Services	Transportation	1.7%	-0.7%	2.5%	-0.2%	-2.8%	3.7%	1.0%	-5.2%
	Entertainment	1.0%	1.1%	0.0%	-3.1%		n/a	1.5%	1.1%
	Dining out and hotels	2.2%	0.3%	-0.4%	2.8%	-1.0%	1.3%	3.0%	2.6%
	Information services	2.8%	0.5%	-1.6%	-0.2%	2.6%	2.8%	1.0%	0.8%
	Telecom	2.9%	-0.1%	-0.2%	-2.6%	1.4%	5.5%	1.6%	4.0%

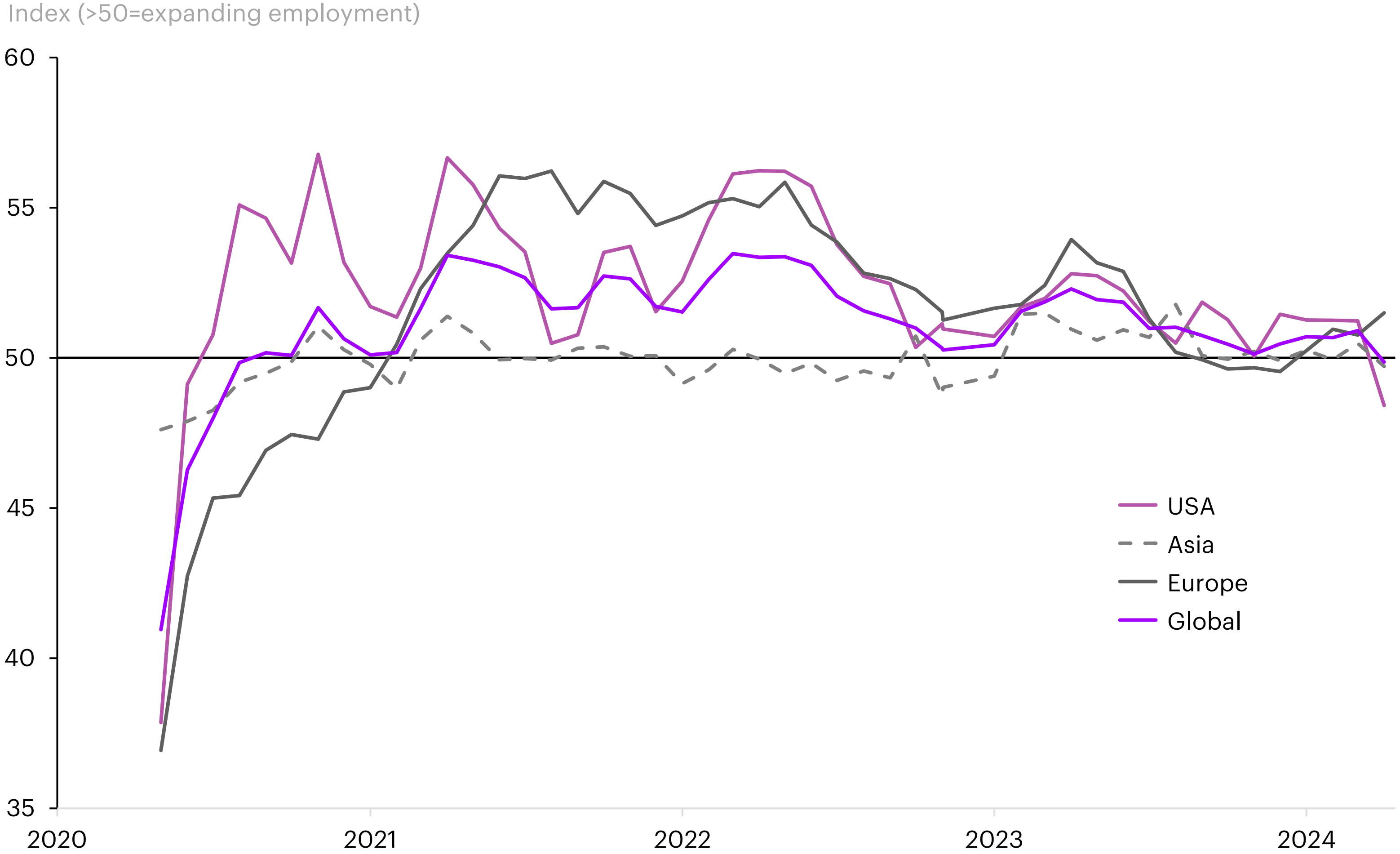
Notes: 1. UK's previous 6-Months includes a stronger than normal holiday season. 2. Spending figures are inflation-adjusted. 3. Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area and UK, series data is retail sales, motor vehicles sales/registrations, and services turnover. 4. Some European services data may include B2B spending. 5. 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, Accenture Strategy analysis

Labor markets

In April, the global labor market saw a slight contraction, led by declines in the US automotive sector, while Europe experienced accelerated employment growth

Employment growth

Aggregate PMI Employment Index



Commentary

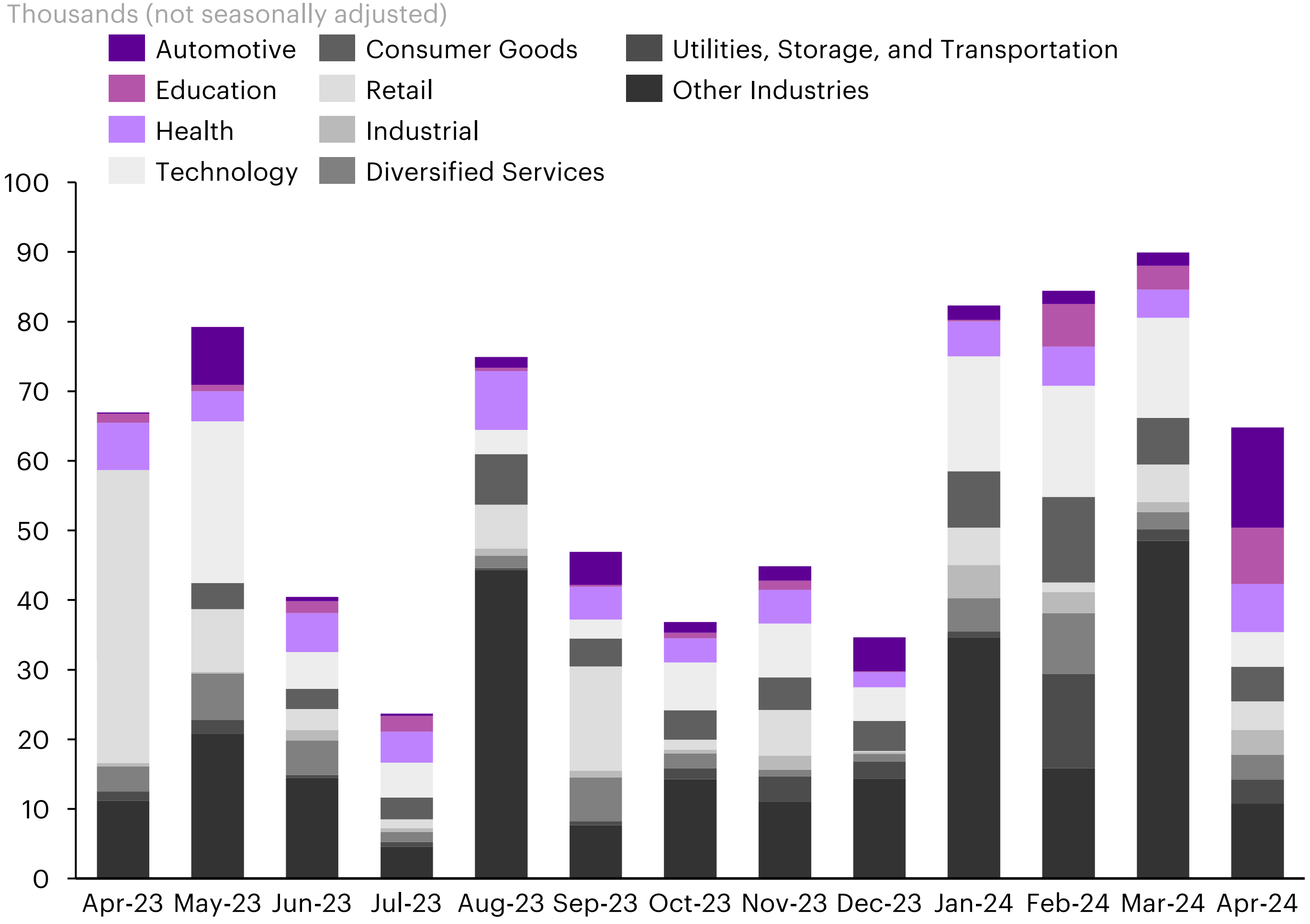
- In April, global employment slightly declined for the first time since August 2020
- In the US, employment declined in Q2 2024 for the first time since June 2020, driven by signs of weakening demand impacting hiring plans among companies
- Job creation in Europe increased at the fastest rate since mid-2023, primarily due to an upsurge in the services sector

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

Layoffs subsided in April, although the automotive sector witnessed the most significant cuts, followed by an unexpected cuts to jobs in education

US corporate layoff tracker

Announced layoffs by sector



Commentary

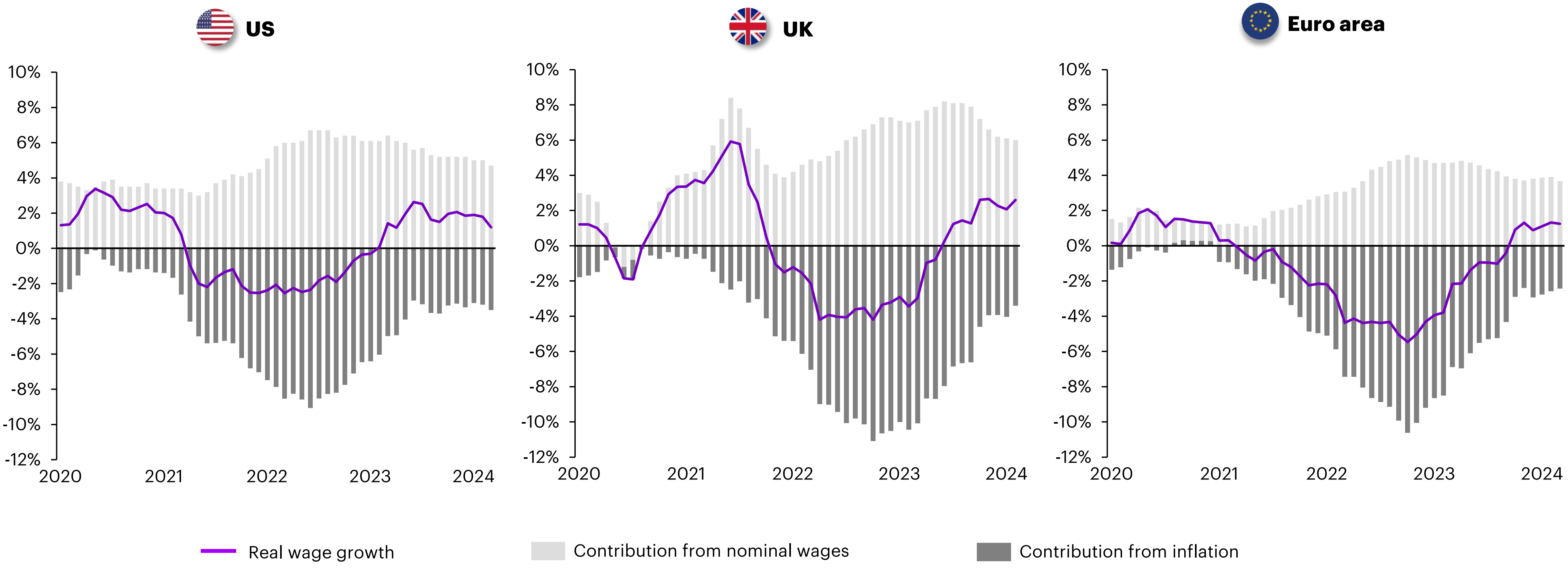
- The Automotive industry experienced the highest layoffs in April
- Automotive giant Tesla announced plans to cut 14,000 jobs, constituting 10% of its global workforce
- Schools and universities, which typically engage in hiring and budget planning in April, experienced the second-highest number of job cuts due to:
  - Federal pandemic aid for K-12 schools ending in 2024
  - Rising labor costs and budgetary constrains on retention and recruitment
- The Health sector (both hospitals and pharma companies) saw ~71% month-on-month rise in layoffs and cited financial and operational challenges as the main reason for the higher number of layoffs

Sources: Challenger Employment Report, Haver Analytics, Accenture Strategy analysis

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

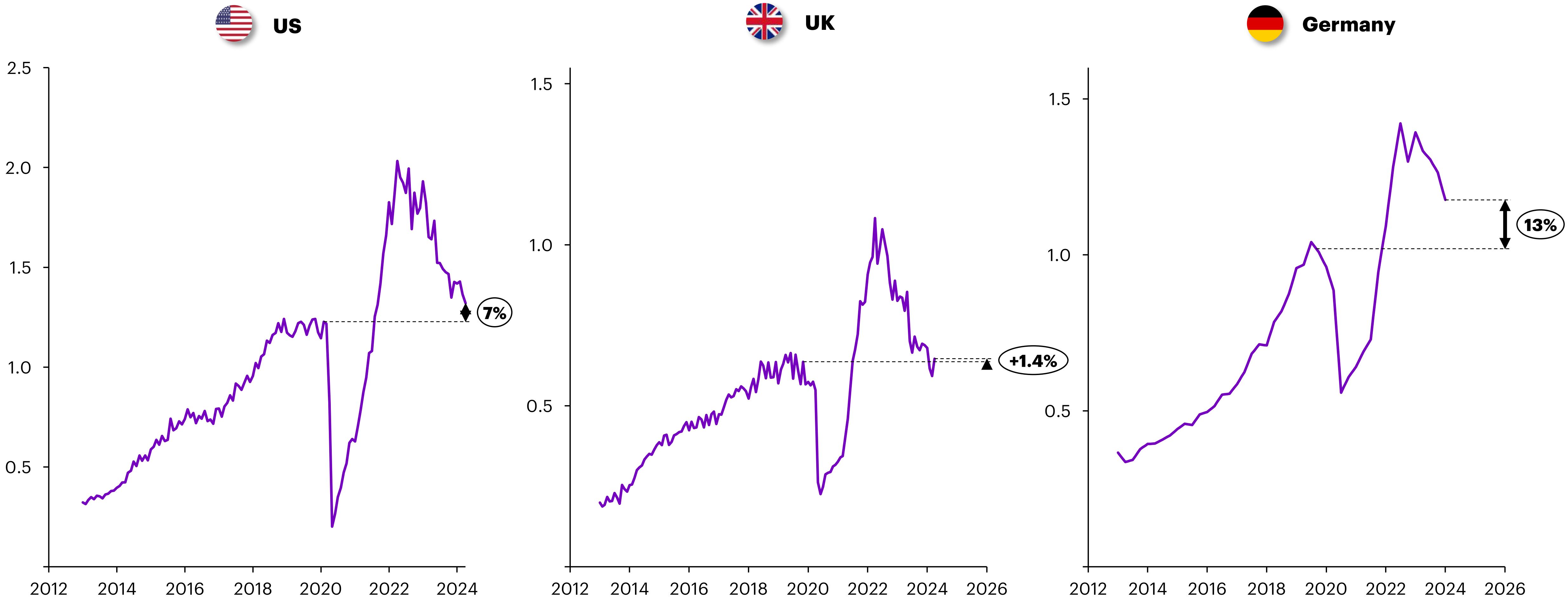


Sources: BLS, ONS, Indeed, Accenture Strategy analysis

Labor tightness remains well above pre-pandemic levels in Germany, while the US and UK are more closely approaching pre-pandemic norms.

Labor market tightness

Job vacancies per unemployed person



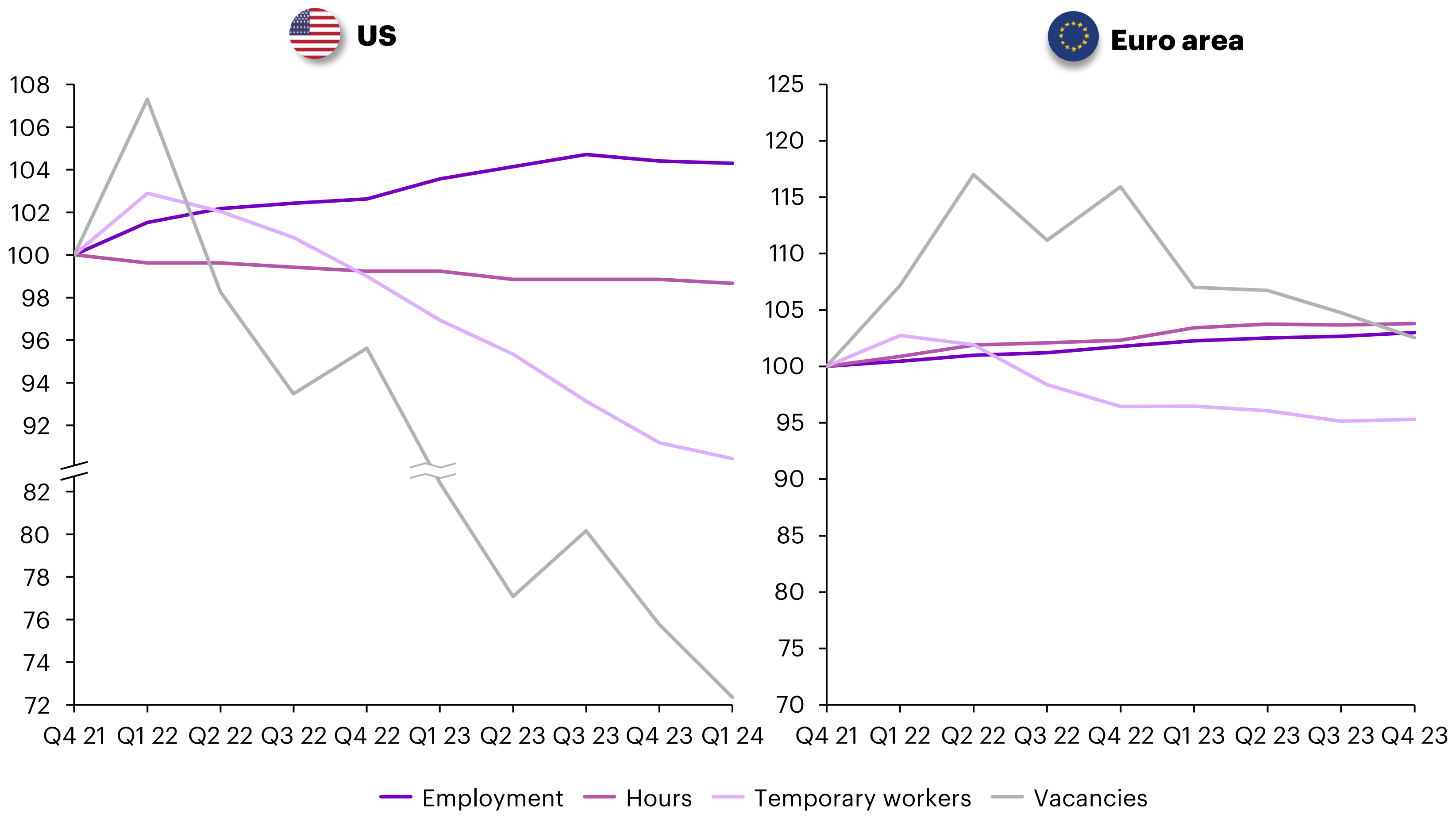
Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

In both the US and Europe, businesses are retaining their workforce, with labor market adjustments mainly taking place through methods other than layoffs

Labor market indicators

Recent labor market movements

Index 100 = Q4 2021



Commentary

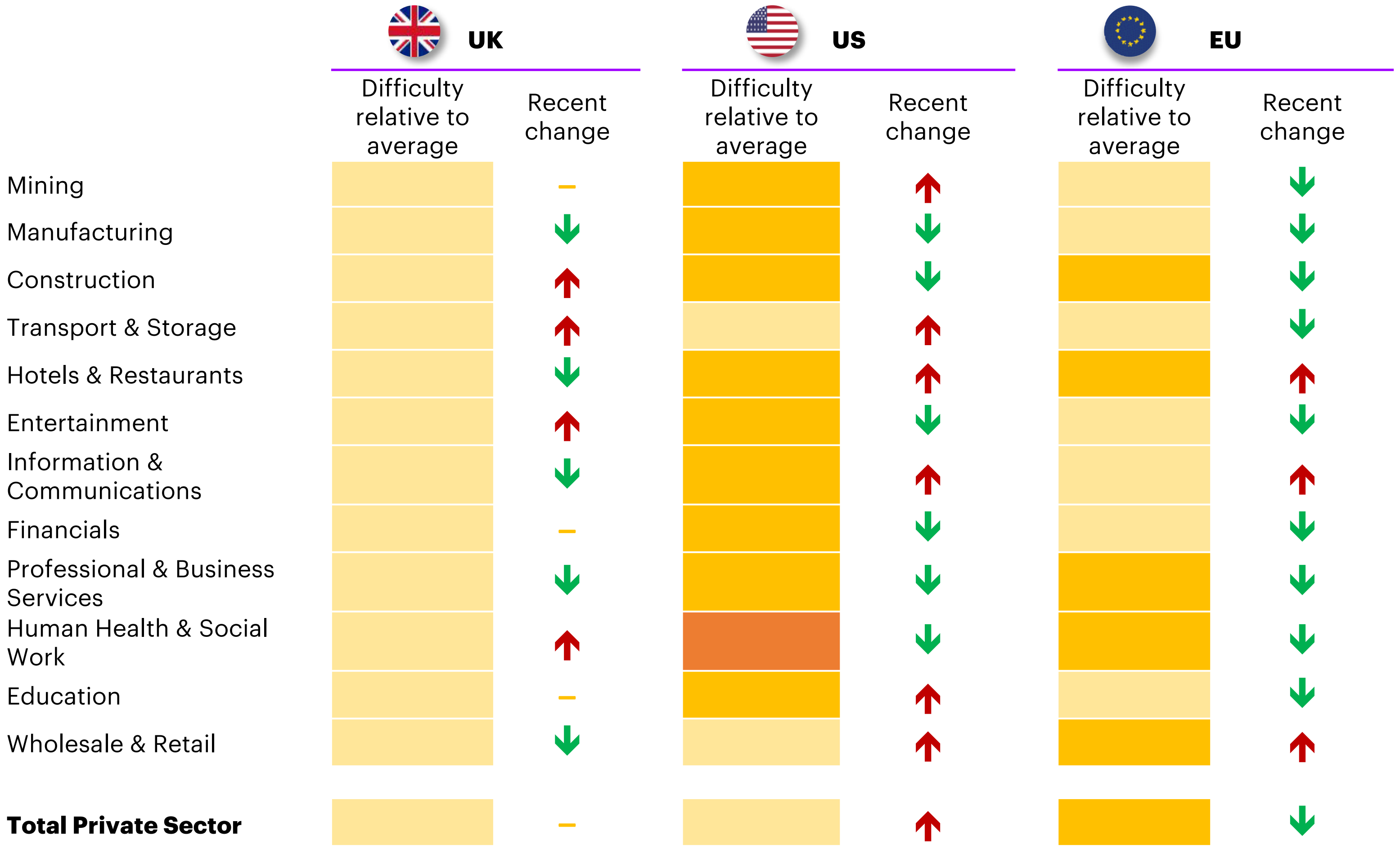
- In the US, employment levels remain elevated compared to the end of 2021, but all four labor market indicators saw a slight decline in Q1 2024 compared to Q4 2023
- Labor markets in the Euro area didn't tighten as much as those in the US, and they're also slower to loosen in the current environment
  - 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 persist in the US, but continue to improve across the EU – hiring within human health and social work remains challenging across all three regions

Relative difficulty of hiring by sector

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



Commentary

- Hiring in the construction and human health and social work remains challenging across the US, UK and Europe
- While the mining sector encountered greater hiring difficulties in the US, the situation eased in the UK and Europe

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

UK inflation fell to its lowest level in nearly three years, driven by a reduction in the cap on household energy bills

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	3.4%	-0.1% ↓
United Kingdom	2.4%	-0.8% ↓
Canada	2.7%	-0.2% ↓
Germany	2.4%	0.1% ↑
France	2.4%	0.1% ↑
Italy	1.1%	-0.2% ↓
Spain	3.6%	0.6% ↑

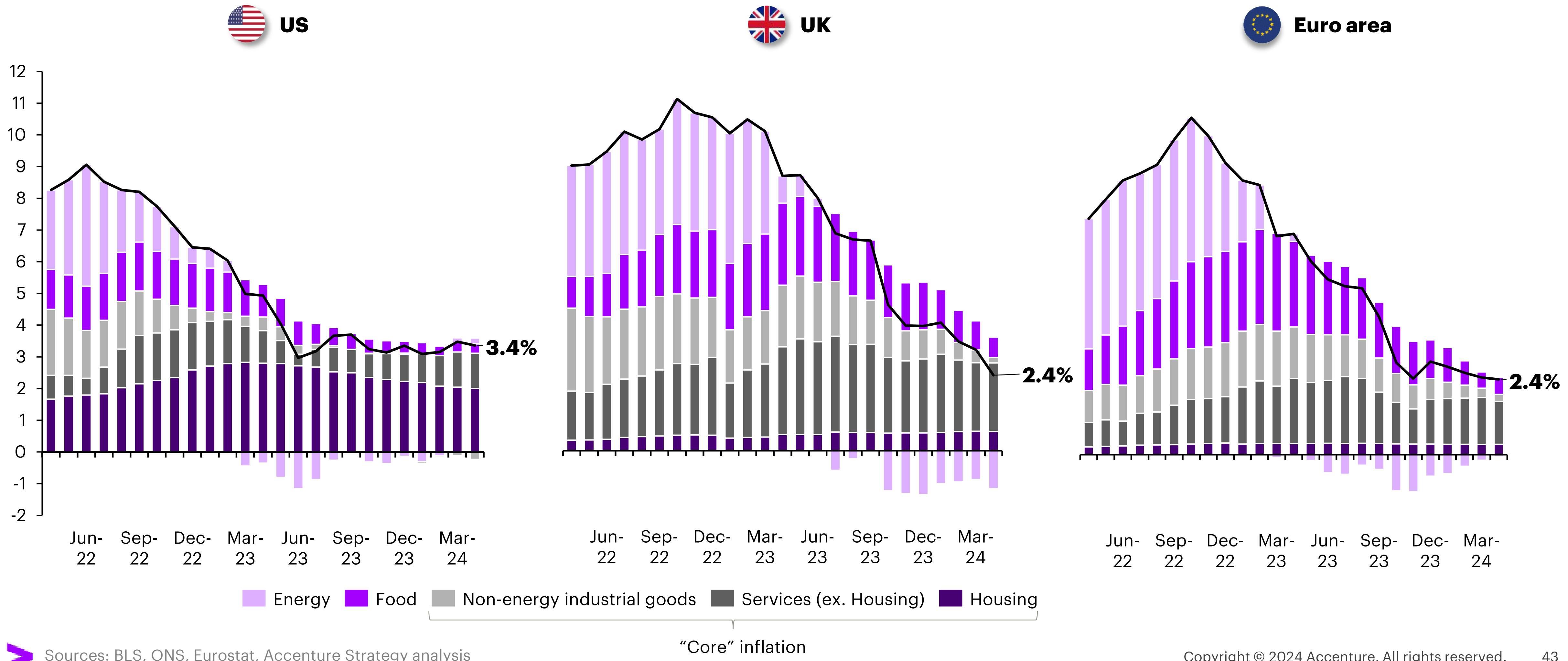
Country	YoY Inflation Rate	Change from previous month's rate (percentage points)
China	0.3%	0.2% ↑
Japan	2.5%	-0.2% ↓
Brazil	3.7%	-0.2% ↓
India	4.8%	0.0% ↓
Singapore	2.7%	0.0% ↑
Korea	2.9%	-0.2% ↓

Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

US core inflation saw its lowest annual rise in 3 years, while also continuing to cool in the UK – prices in Europe stabilized in March reflecting ongoing stickiness in services prices

Drivers of recent CPI inflation

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

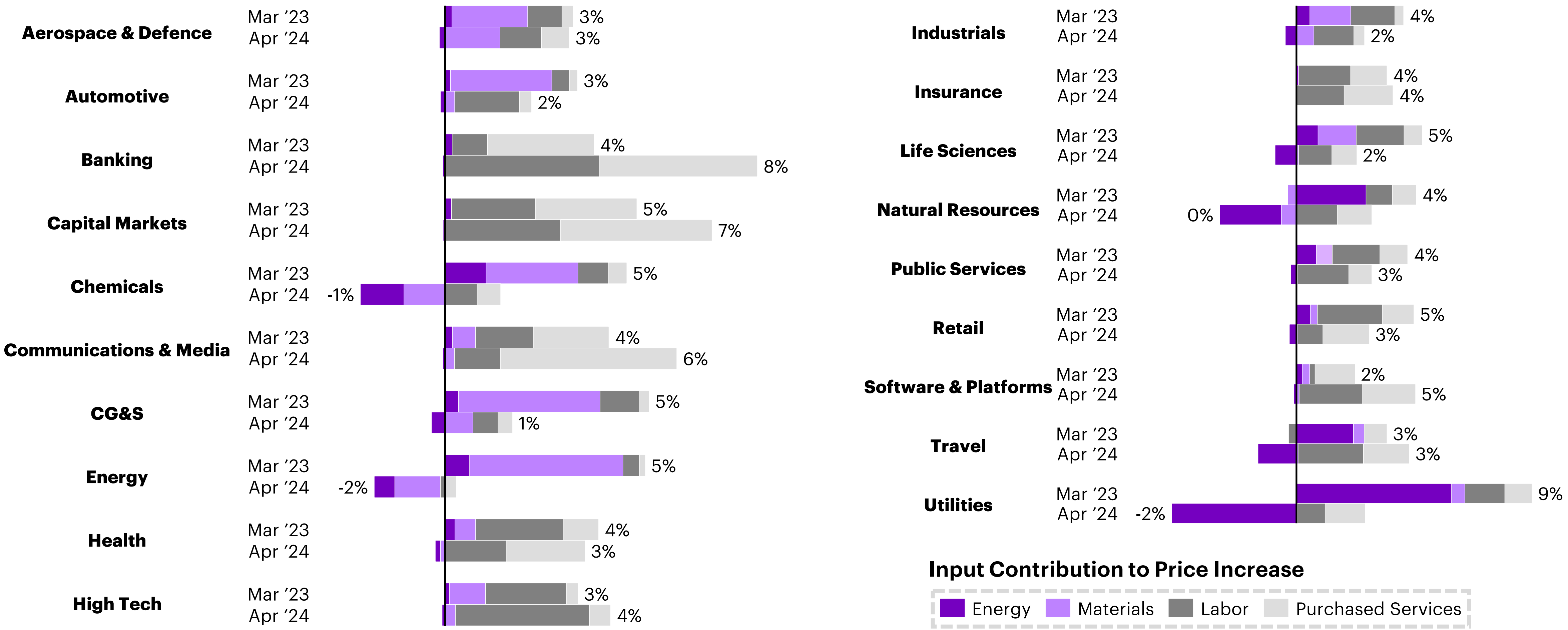


Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

Declining year-over-year materials and energy prices have alleviated some cost pressures, but labor costs continue to rise

Recent input cost inflation by industry

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

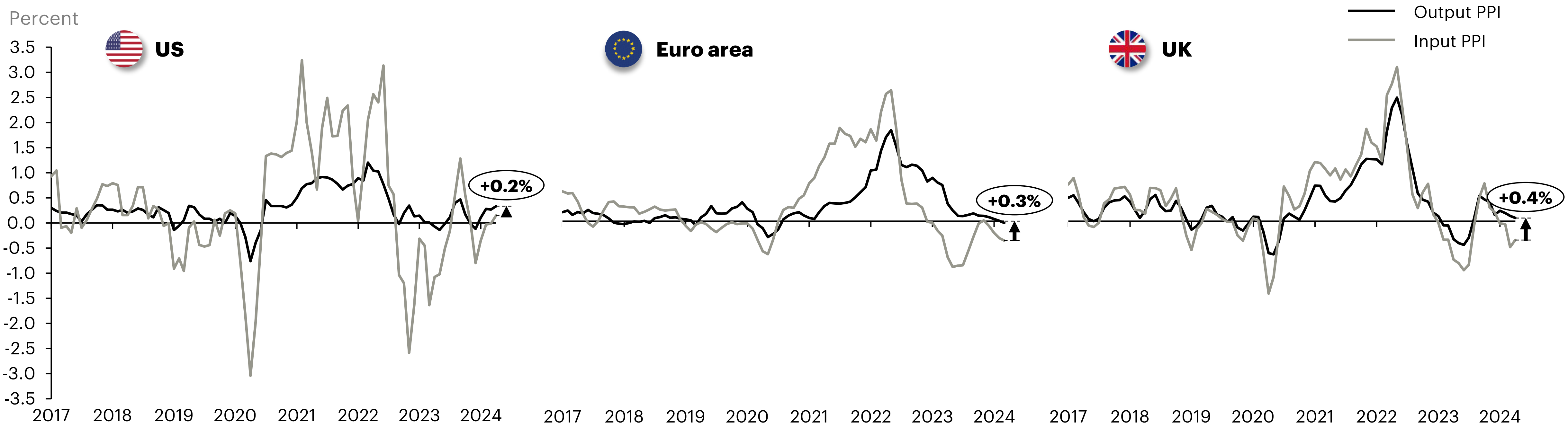


Notes: Wage data as of Mar'23; Energy prices as of Feb'24 for Natural Gas, Feb'24 for Electricity and Apr'24 for Others; Materials and Purchased Services PPI price increases as of Apr'24.
Sources: BLS, BEA, EIA, EPA, Accenture Strategy analysis

In the US, higher energy demand drove up final demand goods prices, whereas in the UK, the rise was driven by increasing refined petroleum prices

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
- Despite reduced costs and stabilized supply chains, companies are keeping prices high, likely due to profit margins

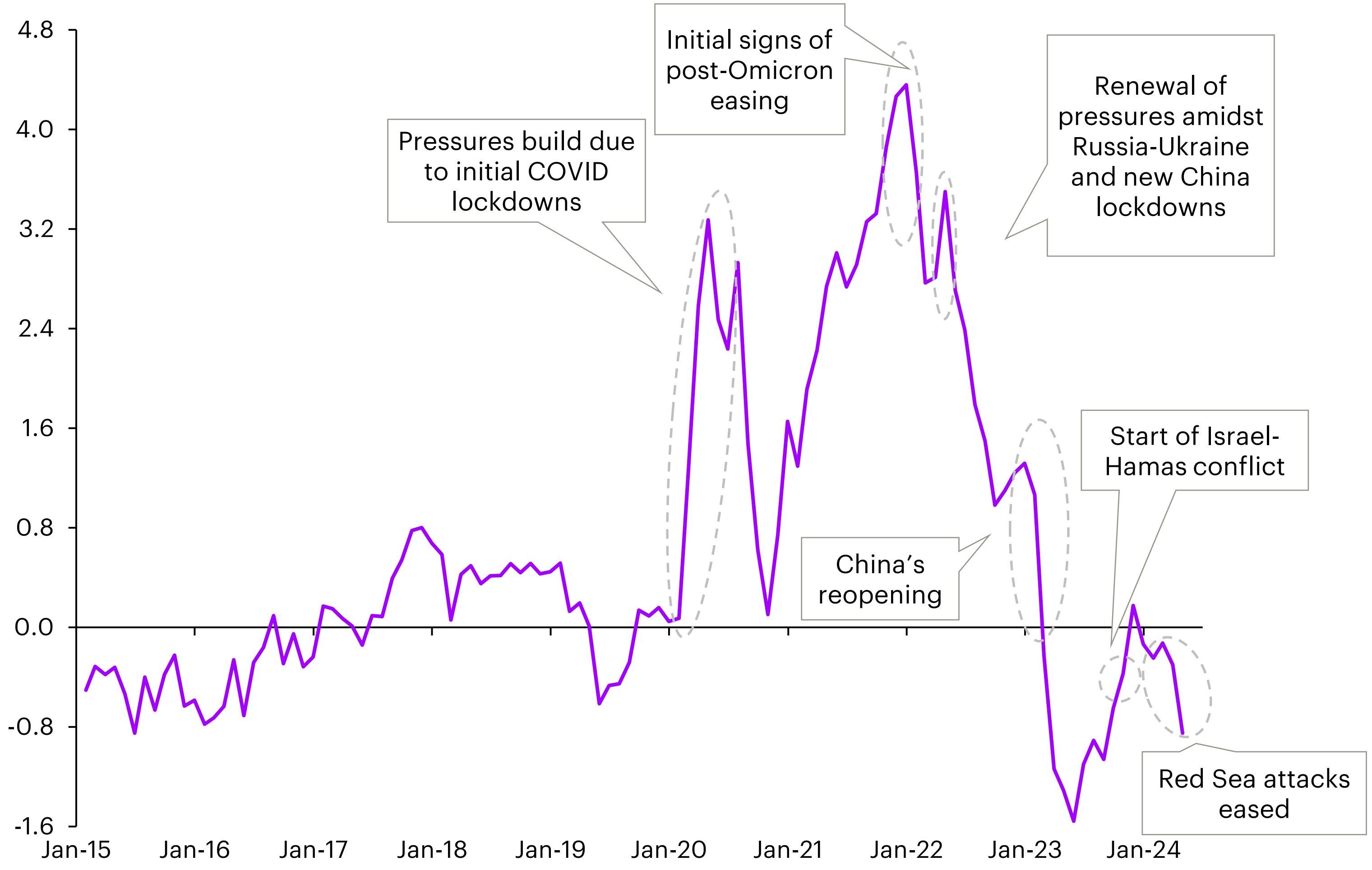
Notes: 1) Figures in bold represent absolute percentage point difference between intermediate and final demand PPI YoY % values; higher positive values imply greater pass through to final producer selling prices, while larger negative values imply lower pass through. 2) US data is based on production 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 easing with reduced Middle East tensions, but Red Sea diversions may persist into late 2024 and possibly 2025

Global Supply Chain Pressure Index

Standard deviations from long-term average (=0)



Commentary

- Global supply chain pressures are returning to their long-term pre-pandemic levels
- Shipping conditions at the Panama Canal are improving as increased rainfall has alleviated the drought, leading to better daily transit availability
- Looking ahead, supply chains face sustained risks as the area vulnerable to attacks in the Red Sea expands. This could result in
  - Renewed concerns over attacks in key trade routes linking Europe and Asia via the Suez Canal and a capacity hit of 15-20% for the shipping industry during Q2 2024
  - Continued diversion of vessel traffic from Suez Canal to the Cape of Good Hope, adding 10 days to journey times and increasing fuel costs by 40%

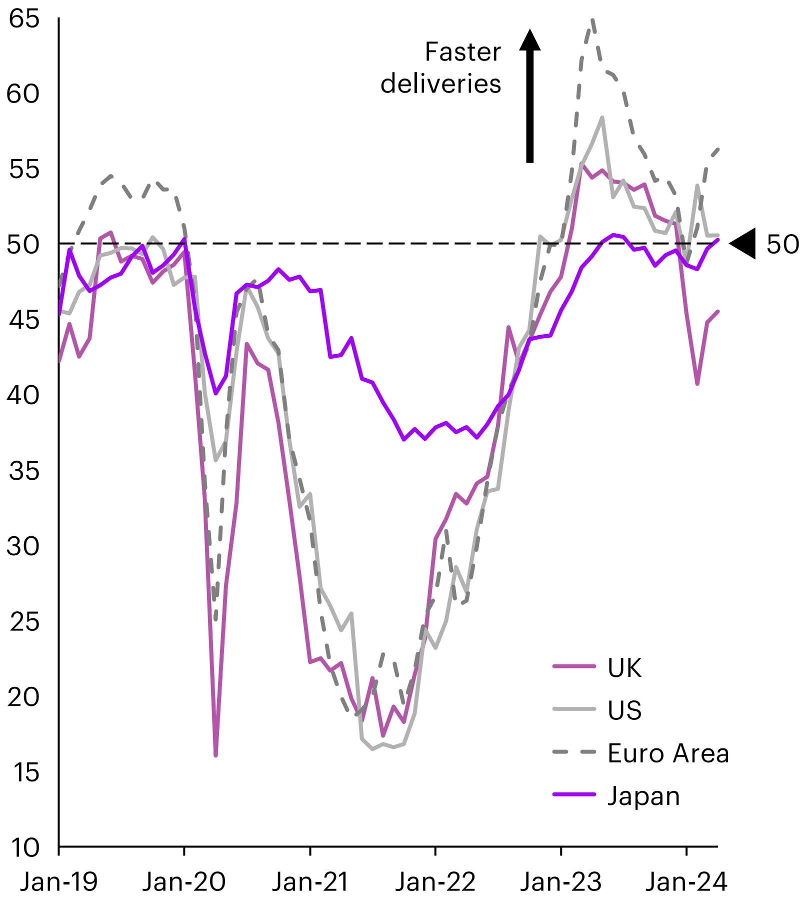
Sources: Federal Reserve Bank of New York, IMF, Global Supply Chain Pressure Index, Accenture Strategy analysis

In April, global shipping times improved slightly but remained high due to expected reroutes around Southern Africa instead of using the quicker Suez Canal and Red Sea route

Suppliers' delivery times and backlogs of work

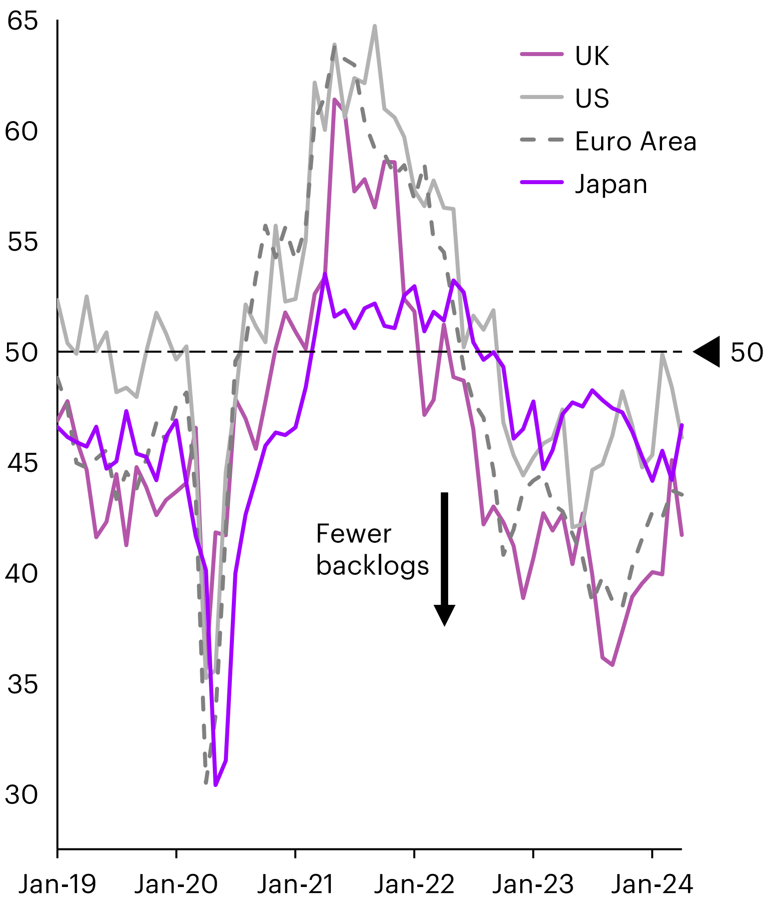
Suppliers' Delivery Times

Seasonally adjusted, 50+ = Increase



Manufacturing Backlogs of Work

Seasonally adjusted, 50+ = Increase



Commentary

- The supplier deliveries index improved in April for two consecutives months suggesting a gradual return of supply chain to pre-pandemic norms
- However, it remains below the 2023 peak as the international shipping diversions continues, following recent Houthi attacks in the Red Sea
- Backlogs of work in Japan decreased to their lowest contraction since November 2023, as subdued customer demand enabled firms to fulfill existing orders
- In Euro Area, the pace of backlogs of work clearance increased in April after hitting a 12 months low in March
- UK observed a significant decrease in backlogs of work in April as compared to May. However, the decline was only marginal in the US

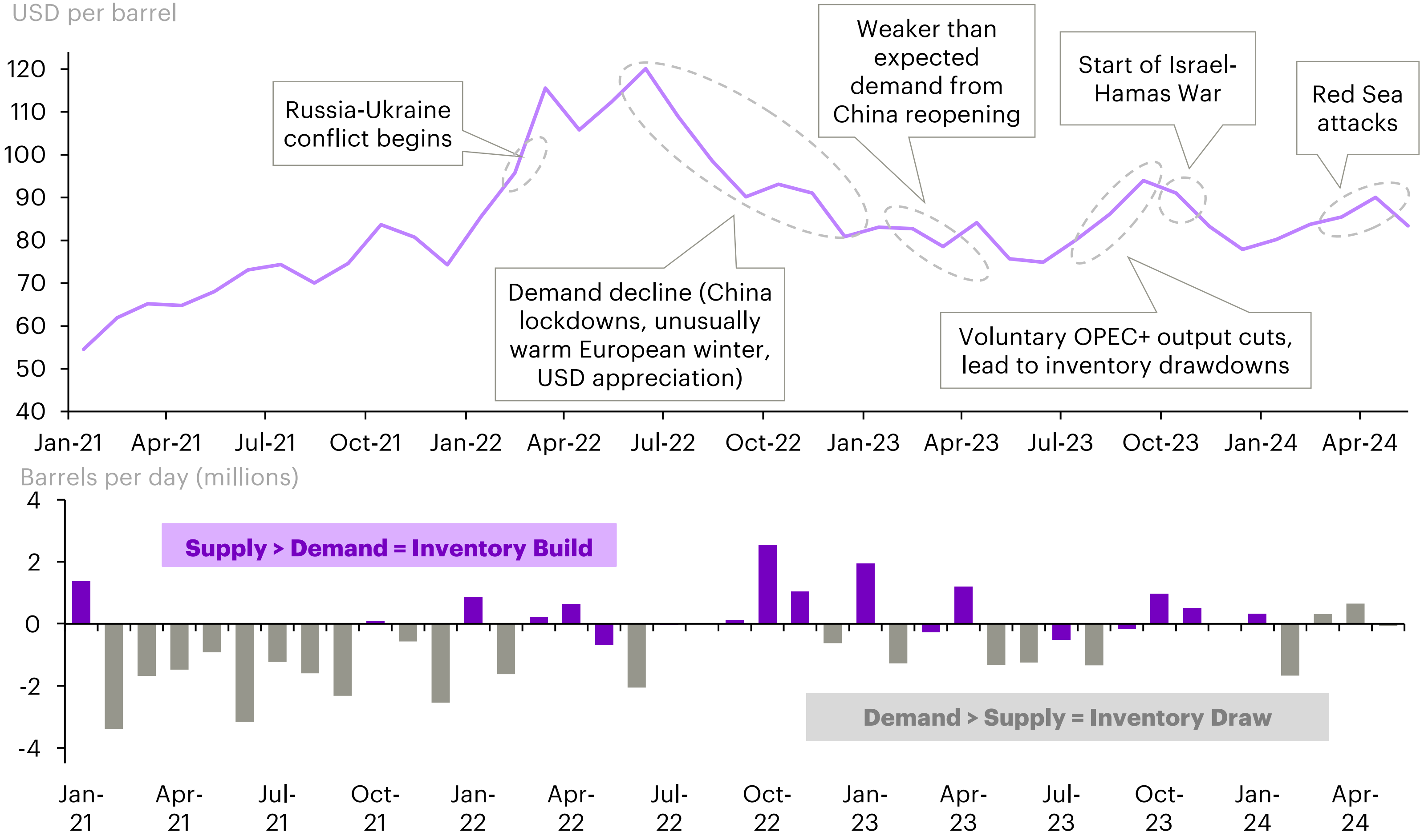
Sources: CIPS/S&P Global, Haver Analytics, Thomson Reuters, Accenture Strategy analysis

Energy and commodities

Oil prices have eased in May with non-OPEC output rising, but continue to remain elevated due to heightened geopolitical risks and tighter supply

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, Bloomberg, Haver Analytics, Accenture Strategy analysis

Drivers of energy prices in 2024

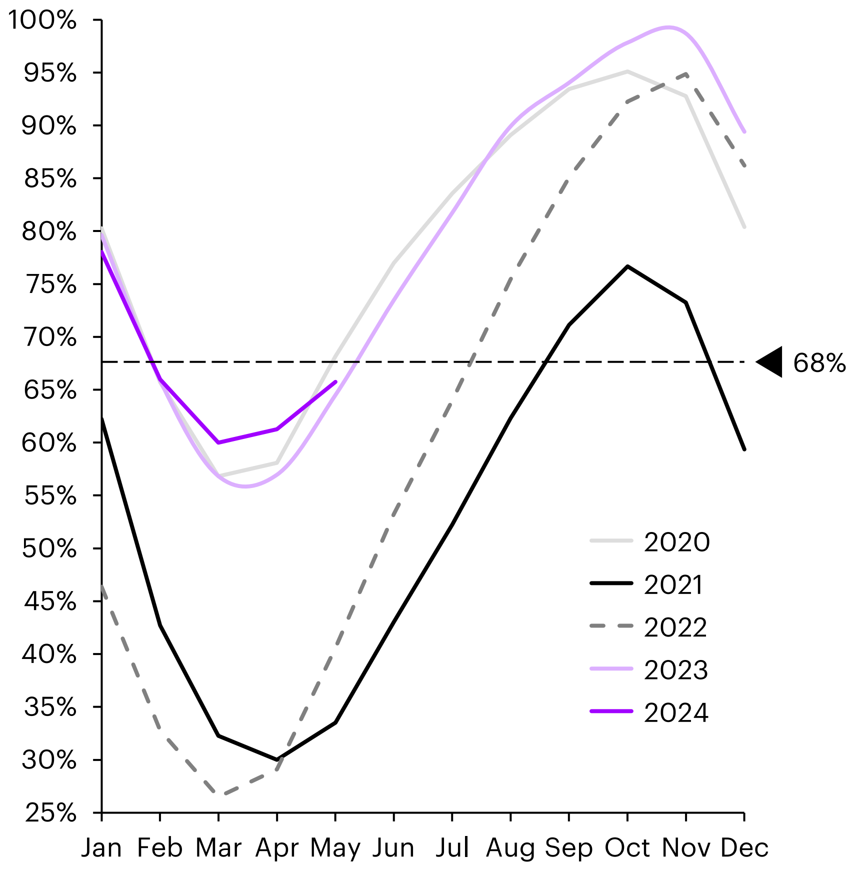
- The brent crude oil price fell in early May as production cut by OPEC countries was compensated by Non-OPEC+ output
- However, April saw a rise in spot price of brent crude oil for the fourth consecutive month
- Prices increased in April was more attributed to the production cuts by OPEC+ countries and heightened conflict in Middle-East
- Supply and demand fundamentals indicate sideward movement, amid
  - China’s oil import remaining relatively unchanged compared to last year levels
  - Easing tensions over a broader Middle East conflict
  - High global oil stock backed by non-OECD inventories

Natural gas prices surged in the EU in May due to supply issues but are expected to stabilize with ample inventories and increased injection efforts

EU natural gas reserves and prices

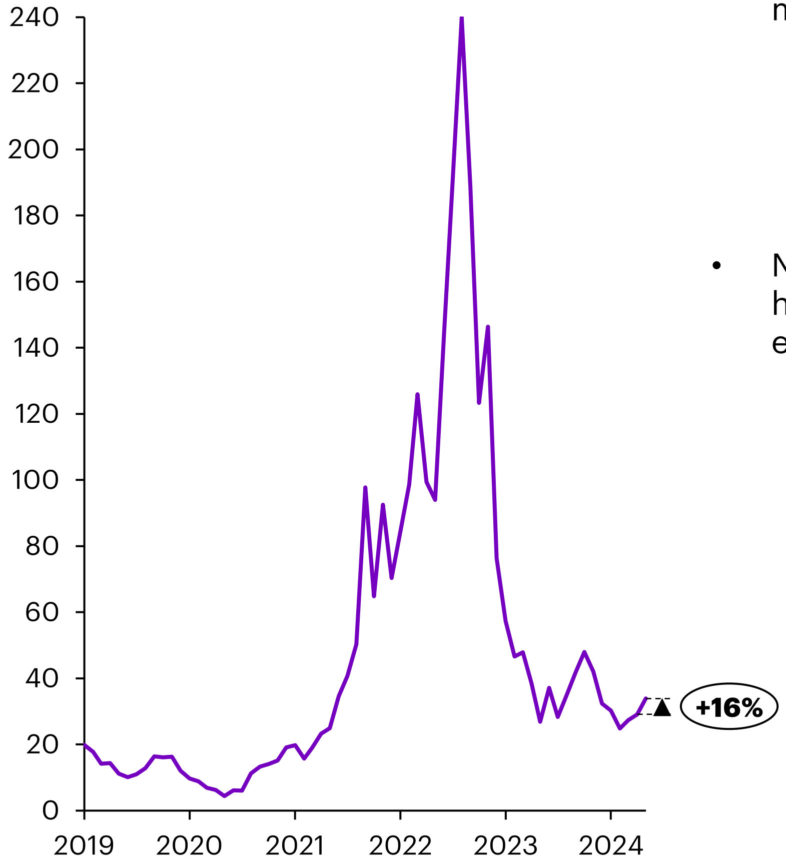
European gas reserves are relatively high at 62%...

% of storage capacity



and prices rising amidst supply disruptions

TTF Gas (EUR per megawatt-hour)



Commentary

- Natural gas prices surged ~16% month-on-month in May due to
  - Reduced gas supplies from Norway
  - Late winter spell across large part of Europe
  - Intense price competition from Asia
- Natural gas prices in Europe hit their highest level in 6 months and are expecting a bullish outlook further amidst
  - Tightened supply caused by ongoing maintenance in Norway and the Atlantic, which could lead to price pressure in the third quarter when injection increases
  - Increasing seasonal demand from Asia as heat waves spurred across the region
  - Low fuel availability in landlocked countries like Austria and Slovakia as the contract for Russian gas flow to Europe expires in 2024

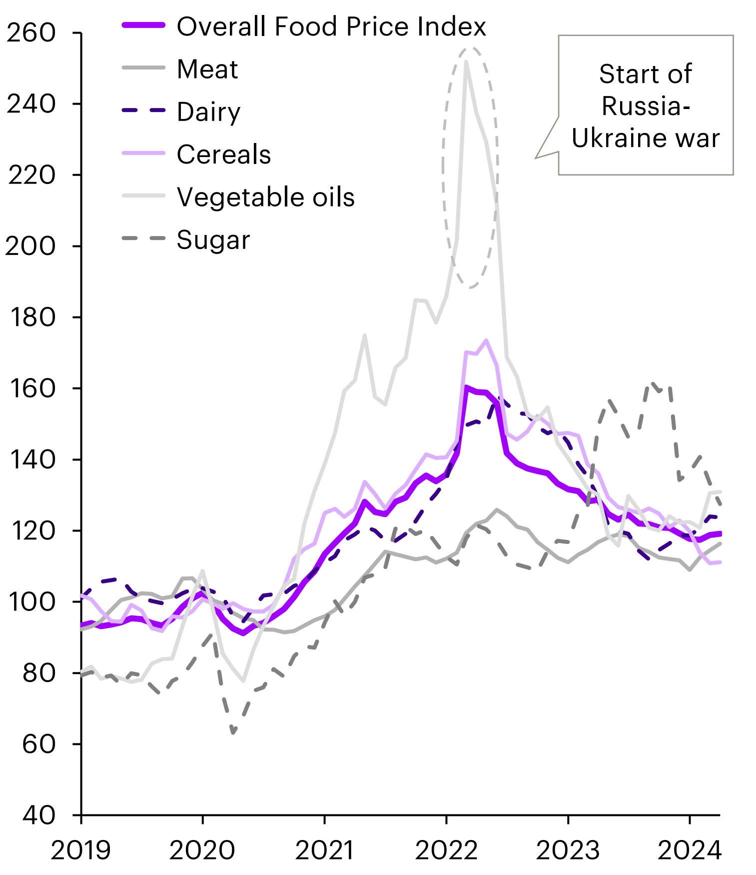
Notes: Dutch TTF Natural Gas Futures front-month contract. TTF stands for Title Transfer Facility, which is a virtual trading hub for natural gas in Europe. TTF prices represent the average monthly price of natural gas traded at this hub and are considered a benchmark for natural gas prices in Europe. 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

In April, global food prices edged up slightly, while DAP fertilizer prices plummeted due to oversupply from China

Food and fertilizer prices

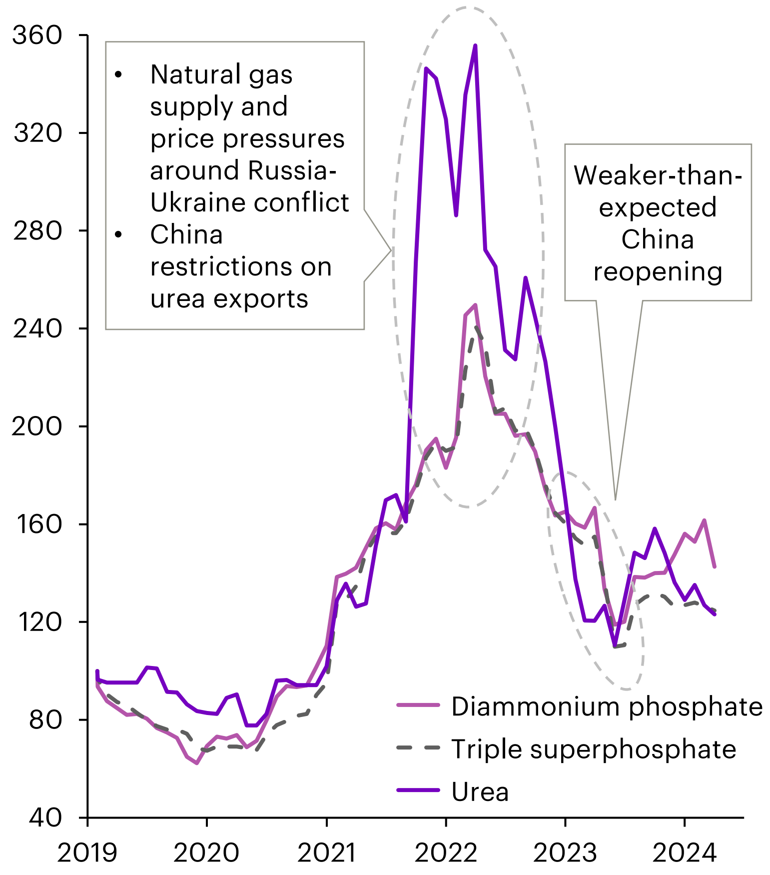
Food prices

Index, 2014-2016 = 100



Fertilizer prices

Index, Jan 2019 = 100



Commentary

- In April, food commodities prices experienced an uptick, notably in cereals, meat, and vegetable oils, although there were marginal declines in dairy and sugar prices
- Sugar prices witnessed a 4.4% decrease compared to March, marking a significant 14.7% drop from April 2023 value, driven by
  - Enhanced sugar outputs in both India and Thailand surpassed earlier expectations
  - Favorable rainfall in Brazil during late March and early April, following an extended period of drought
  - The depreciation of the Brazilian Real against the US Dollar
- In Fertilizer, DAP prices dropped by 12% due to lift of export restrictions in China whereas Urea averaged at 3% down price than March due to reduced costs of crucial raw material Ammonia

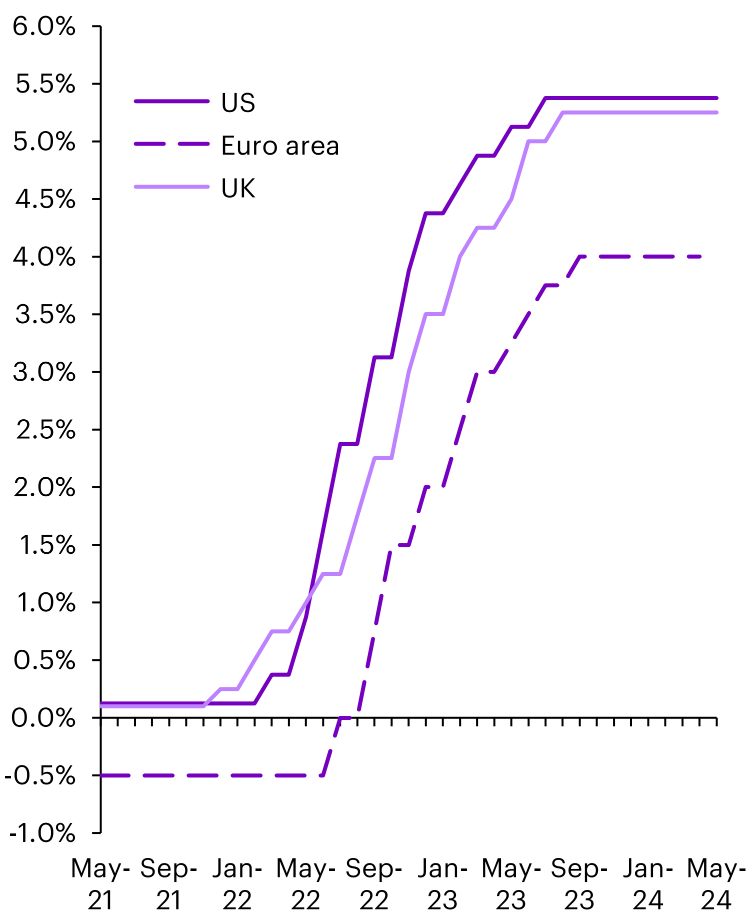
Notes: (a) Food Price Index is a measure of the monthly change in international nominal prices of a basket of food commodities (b) Fertilizers include DAP (diammonium phosphate), TSP (triple superphosphate), and Urea.
Sources: World Bank, UN FAO, USDA, Fitch Ratings, Accenture Strategy analysis

Financial markets

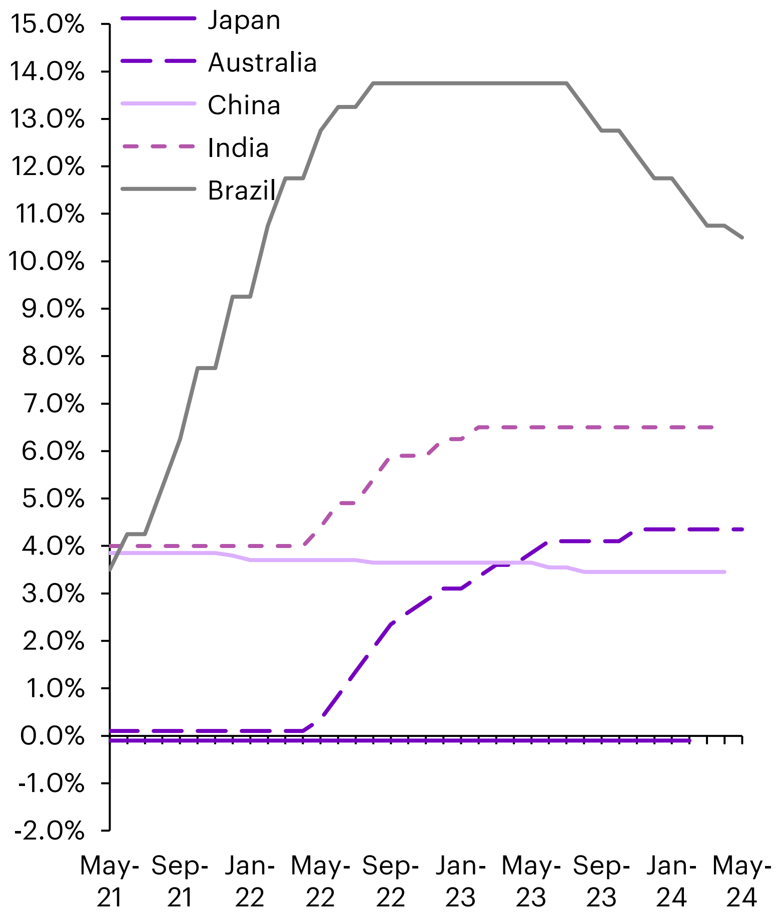
As inflation nears target levels, most central banks are keeping monetary policies steady, but the European Central Bank is hinting at rate cuts ahead of others

Monetary policy across major economies

US, UK and Euro area policy rates



Policy rates for other major economies



Commentary

- The US Fed held interest rates steady on May 2nd '24 for the sixth consecutive time and are unlikely to cut rates until after summer
- The ECB indicated its intention to lower interest rates from historic highs in early June, as inflation gradually returns to the 2% target. This move positions it as one of the first major central banks to suggest such action
- The Bank of England held its policy rate unchanged in May and projects CPI inflation to return to its 2% target in near term but increase slightly to 2.5% in H2 2024
- Brazil's central bank opted for a smaller cut in its benchmark rate of 25bp in May, for a seventh consecutive month, as the disinflation rate eased

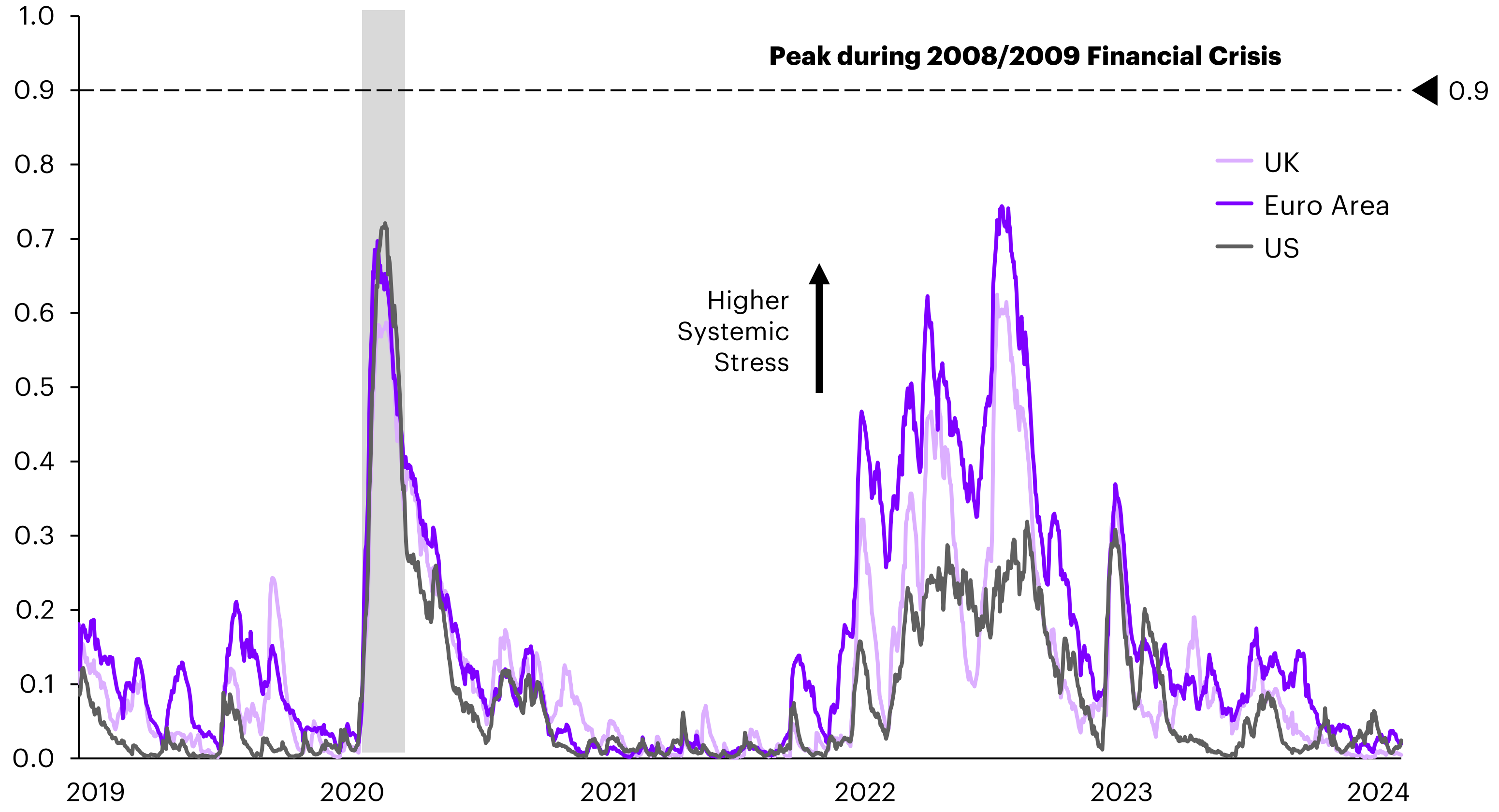
Sources: Haver Analytics, Federal Reserve Bank (US Fed), European Central Bank (ECB), Bank of England, Bank of Japan, Reserve Bank of India, Central Bank of Brazil, Reserve Bank of Australia, People's Bank of China, Reuters, Accenture Strategy analysis

Systemic financial stress in major economies has largely subsided since the wave of bank collapses in early 2023 but risks remain on the upside due to high political uncertainties

Systemic financial stress indicators

Composite Indicator of Systemic Stress Index

(No Stress = 0, High Stress = 1)



Commentary

- Systemic stress levels in the UK reached its lowest level since 2022 exhibiting financially stable conditions
- In Europe, systemic stress levels 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
  - Increasing political uncertainty as countries with more than half of the global population have elections in 2024
  - Elevated risk as potential distress due to trade restrictions increases
  - Distress in sectors where banks have substantial exposure, such as commercial real estate

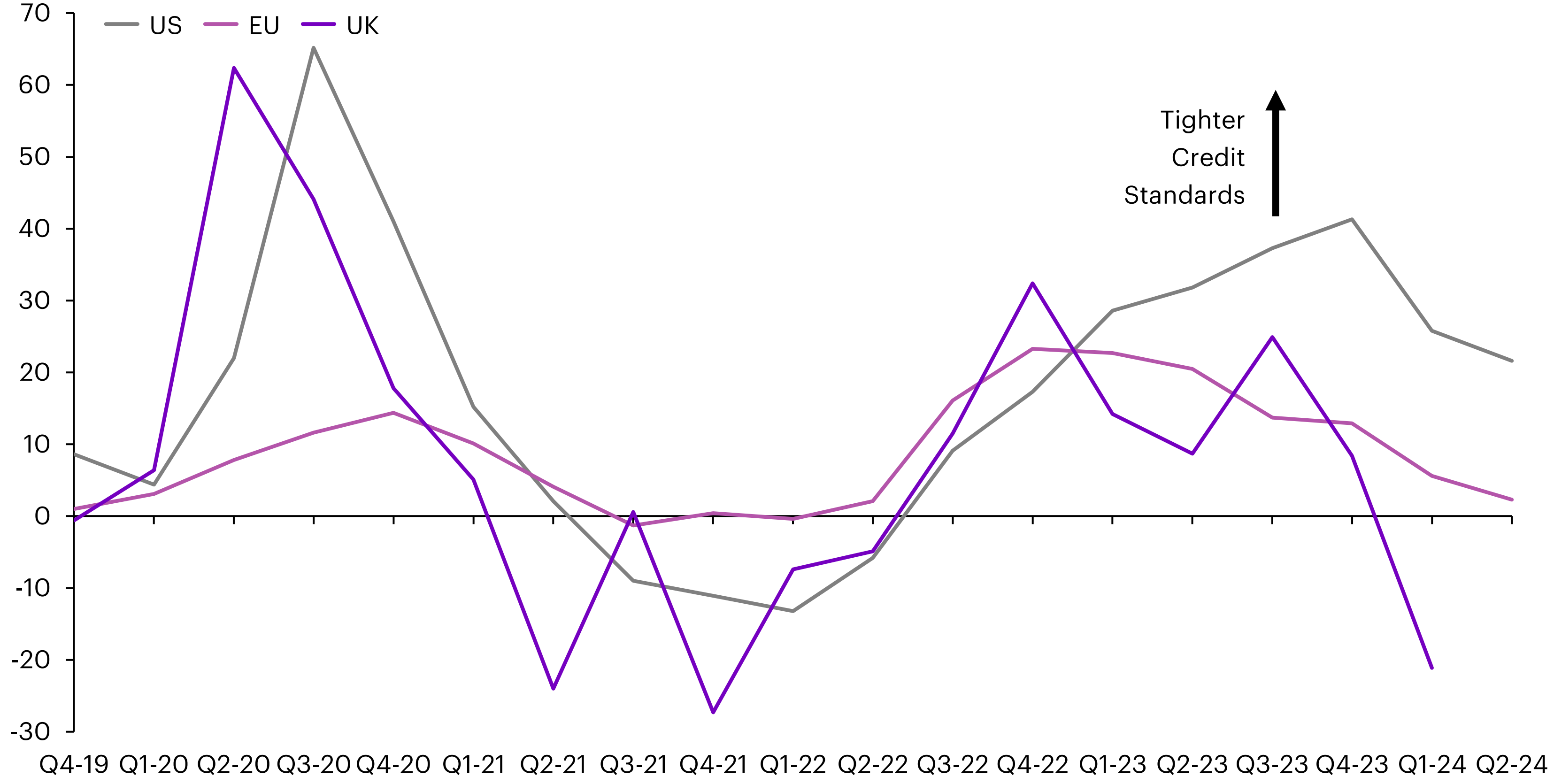
Notes: (1) The composite indicator of systemic stress consists of market-based financial stress measures that namely covers the financial intermediaries sector, money markets, equity markets, bond markets and foreign exchange markets (2) Grey shading reflects U.S. recession
Sources: Haver Analytics,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

Credit standards remain tight across the US and EU, while UK banks loosened standards for the 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)



Commentary

- US banks reported lesser credit tightening than in Q4 2023. Regarding business loans, banks reported tighter standards and weaker demand across all commercial real estate (CRE) loan categories
- For loans to households, banks reported credit tightening and weaker demand across residential real estate (RRE), home equity lines of credit, credit card, auto, and other consumer loans
- In the EU, credit standards for loans to consumers tightened in Q1 2024 as the share of rejected loan applications increased for both consumer credit and mortgage
- UK lenders reported looser credit tightening in Q1’24 amid increasing availability of secured credit to households and unchanged standards of loans to corporate

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

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 – helping clients distill complex macro trends into simple, pragmatic recommendations which drive value.

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