# October Macro Brief

## Navigating “higher for longer”

**October 30, 2023**

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 **October 27, 2023**.

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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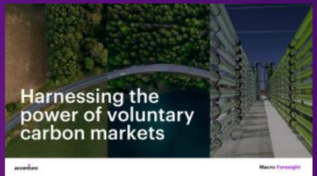



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# Executive Summary

# October 2023
## Executive Summary

| | | | |
|---|---|---|---|
| **Common global themes** | • **Post-pandemic normalization of the global economy continues to be marked by slowing growth, but also increasing geographic divergence**<br>– This divergence reflects, among other things, country differences in: (1) the maturity of services sector rebounds, (2) pass-through of higher rates to economic activity, (3) energy and manufacturing-intensiveness, and (4) exposure to China's economic slowdown<br>– Latest data suggest the US economy continues to be among the most resilient (though growth is likely to downshift in Q4), whereas Europe is again flirting with recession (weighed down by a languishing German economy); India and GCC states remain outperformers.<br>• **Despite their divergent growth trajectories, most major economies are still contending with elevated core inflation.** This is prompting central banks to err on the side of maintaining a tighter monetary policy stance so as not to risk a reversal of disinflation progress achieved thus far.<br>• **As markets have repriced to this likely "higher-for-longer" reality, financial conditions globally have re-tightened.** Most notable has been the run-up in long-term government bond yields throughout October (especially in the US), which is intensifying financing pressures on companies.<br>• **The Israel-Hamas war is contributing to higher geopolitical instability and risk of renewed supply disruptions.** A spread of this conflict to the wider Middle East region could further disrupt energy supplies and regional shipping routes and reverberate around global supply chains. | | |
| **Regional highlights** | **Americas**<br>• Companies in the **US** are facing growing financial pressure from both higher interest rates and commercial insurance costs<br>• In **Brazil**, recently-introduced consumer debt renegotiation programs could help uplift sluggish consumer spending | **Europe, Middle East and Africa**<br>• In **Germany**, the government's "10-point action plan" is the latest among industrial policies globally to boost competitiveness<br>• In the **UK,** higher-for-longer rates could raise risk of another financial stress episode<br>• The **UAE** is receiving record FDI after recent investment reforms and promotion efforts | **Asia-Pacific**<br>• Growing green economy investments in **China** are providing some offset to an otherwise faltering economy<br>• In **Japan,** continued Yen weakness is creating an earnings tailwind for many export-oriented companies |
| **Key considerations and priorities for clients** | • **Companies should plan for scenarios of increasingly-divergent economic and financial outlooks across their geographic markets.** This includes the possibility of certain economies such as the US skirting recession, while others experience deeper downturns, climate-related shocks, or currency and debt crises. Certain regional geopolitical conflicts may also disproportionately impact their more proximate markets.<br>• **A higher interest rate regime reinforces the importance of stronger financial and operating discipline.** Companies with large near-term refinancing needs, recent margin erosion, or unprofitable business models reliant on growth narratives will face the most market pressure.<br>• **Inventory management is also likely to become more challenging in a high cost of capital environment.** Incentives for precautionary stocking in response to greater macro and geopolitical uncertainty will have to be balanced against higher inventory carrying costs. | | |

Source(s): Accenture Strategy analysis

# Companies should assess their exposure to divergent growth trajectories among geographic markets and a higher-for-longer interest rate environment

## Top-of-mind questions for business executives to consider

*"How sensitive is our revenue base to increased divergence in economic trajectories among our key geographic markets?"*

*"Do our debt refinancing needs and securities holdings leave us particularly exposed to rising rates and/or at risk of increased liquidity pressures?"*

*"In a higher-for-longer rate environment, does the supply resilience we gain from a more 'just-in-case' inventory approach outweigh the higher inventory carrying costs?"*

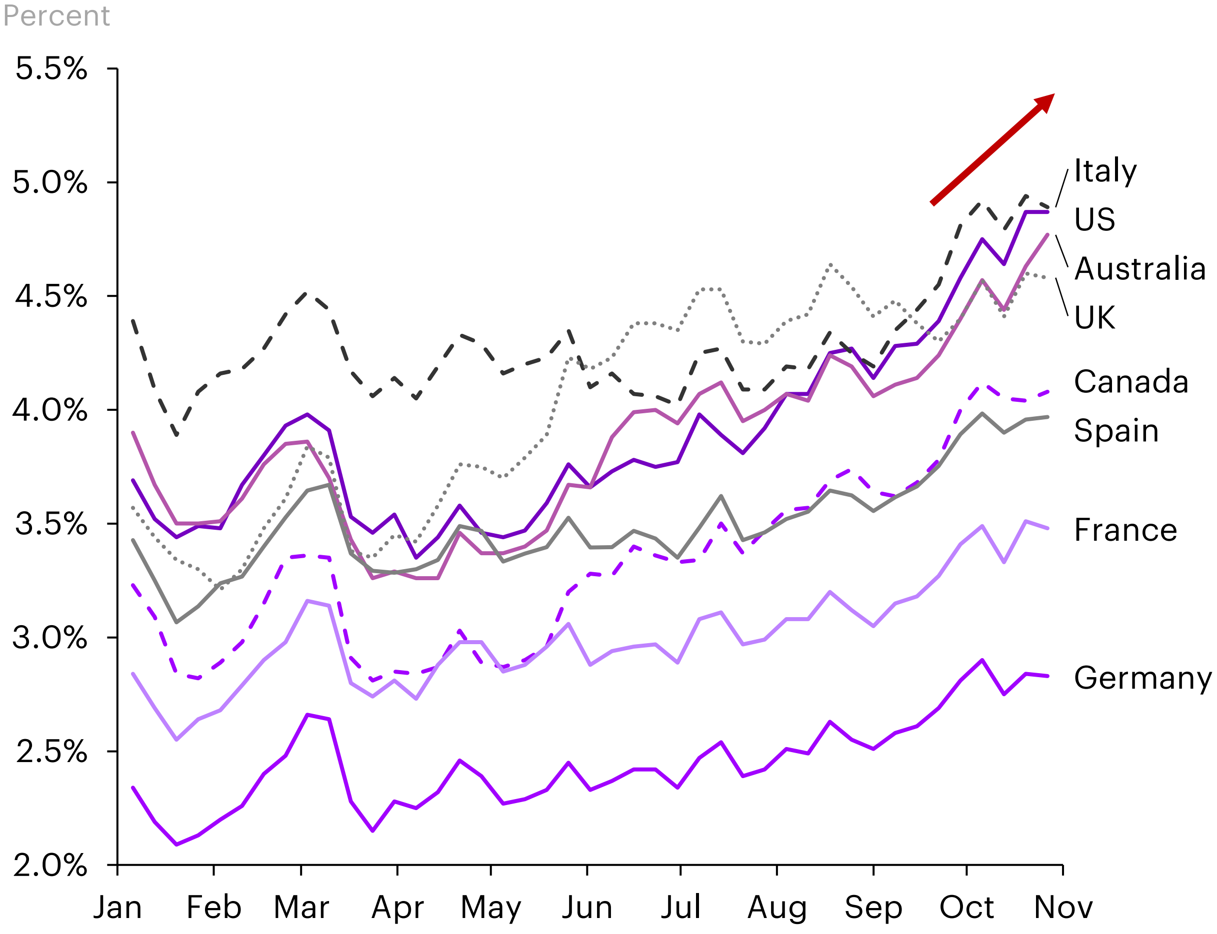
Source(s): Accenture Strategy analysis

# Expectations of "higher-for-longer" rates have steepened yield curves and are placing upward pressure on companies' longer-term financing costs

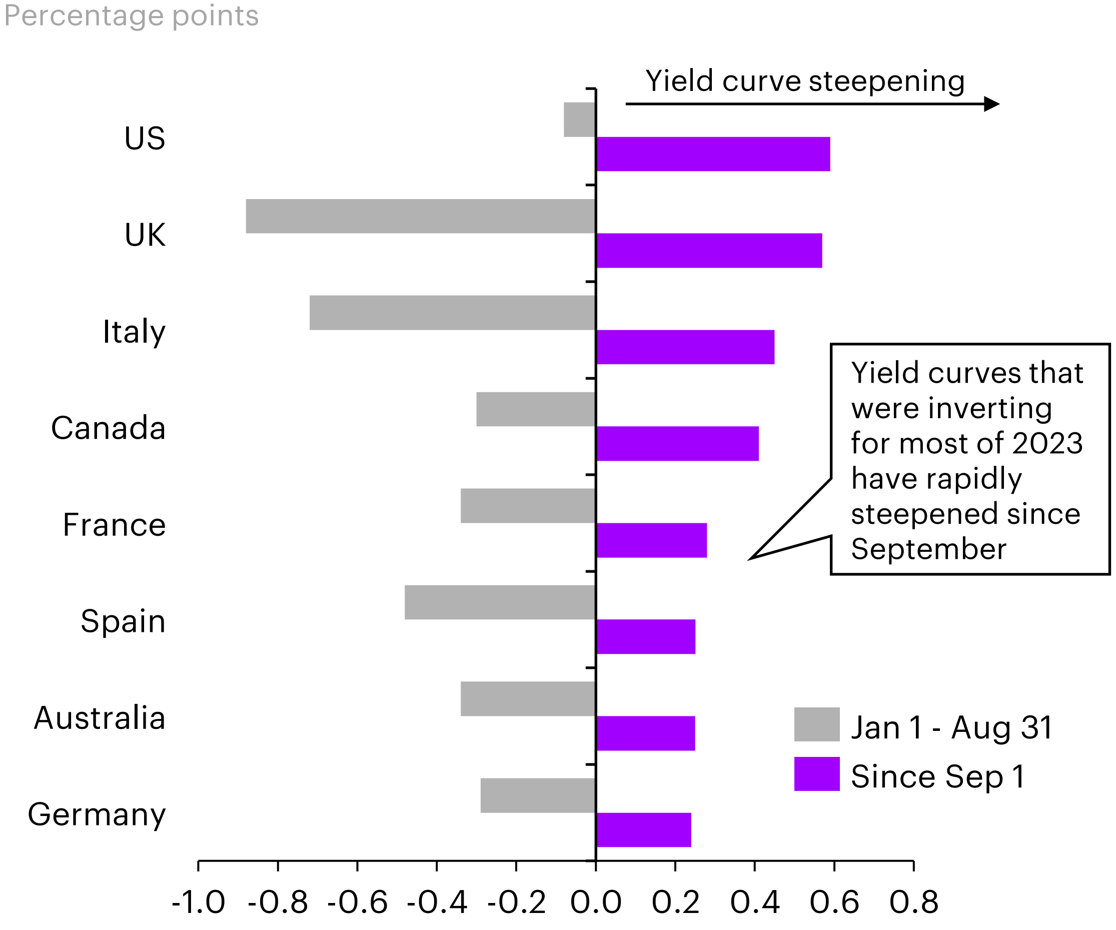
## Recent shifts in long-term yields

**AS OF OCT 27**

### Evolution of 10-year government bond yields in 2023




### Change in spread between 10-year and 2-year govt. bond yields



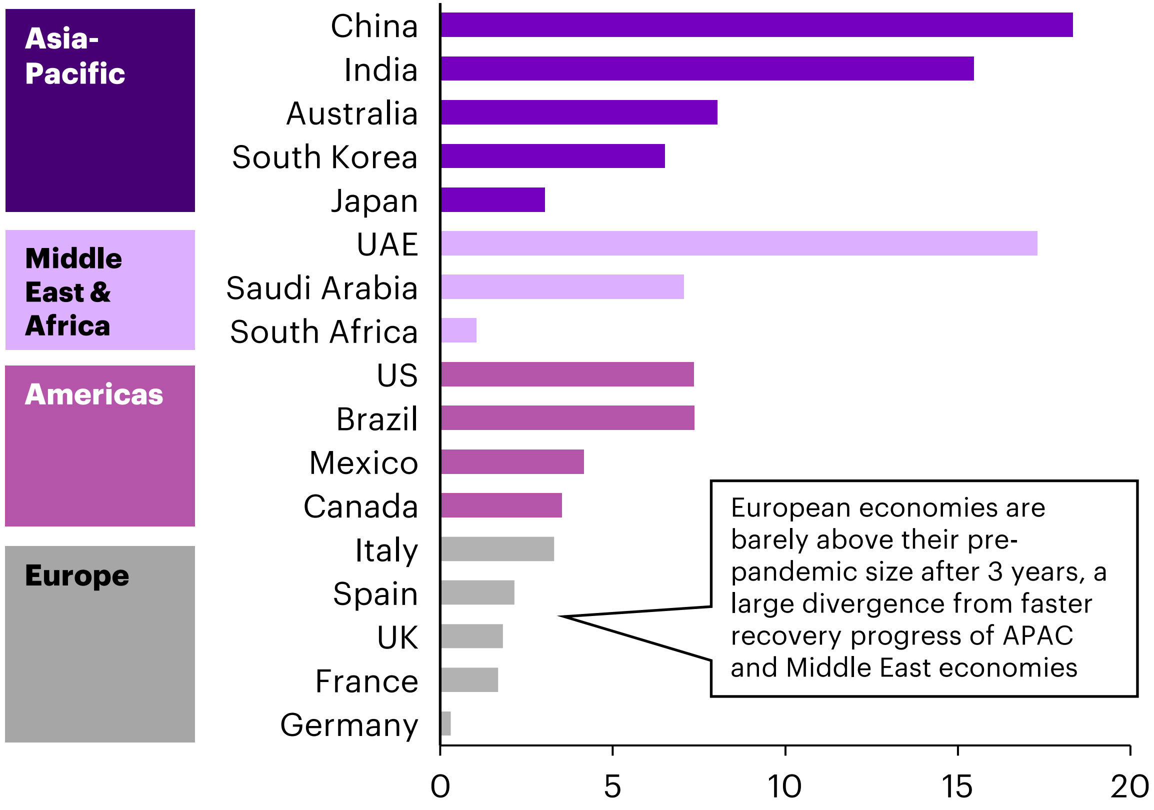

Note: Yield data is as of October 27, 2023.
Source(s): Refinitv, National Central Banks, Accenture Strategy analysis

# Most economies are back to pre-pandemic GDP levels but not to pre-pandemic growth trajectories; slowing growth will amplify shortfalls and drive regional divergence

## GDP recoveries since pandemic

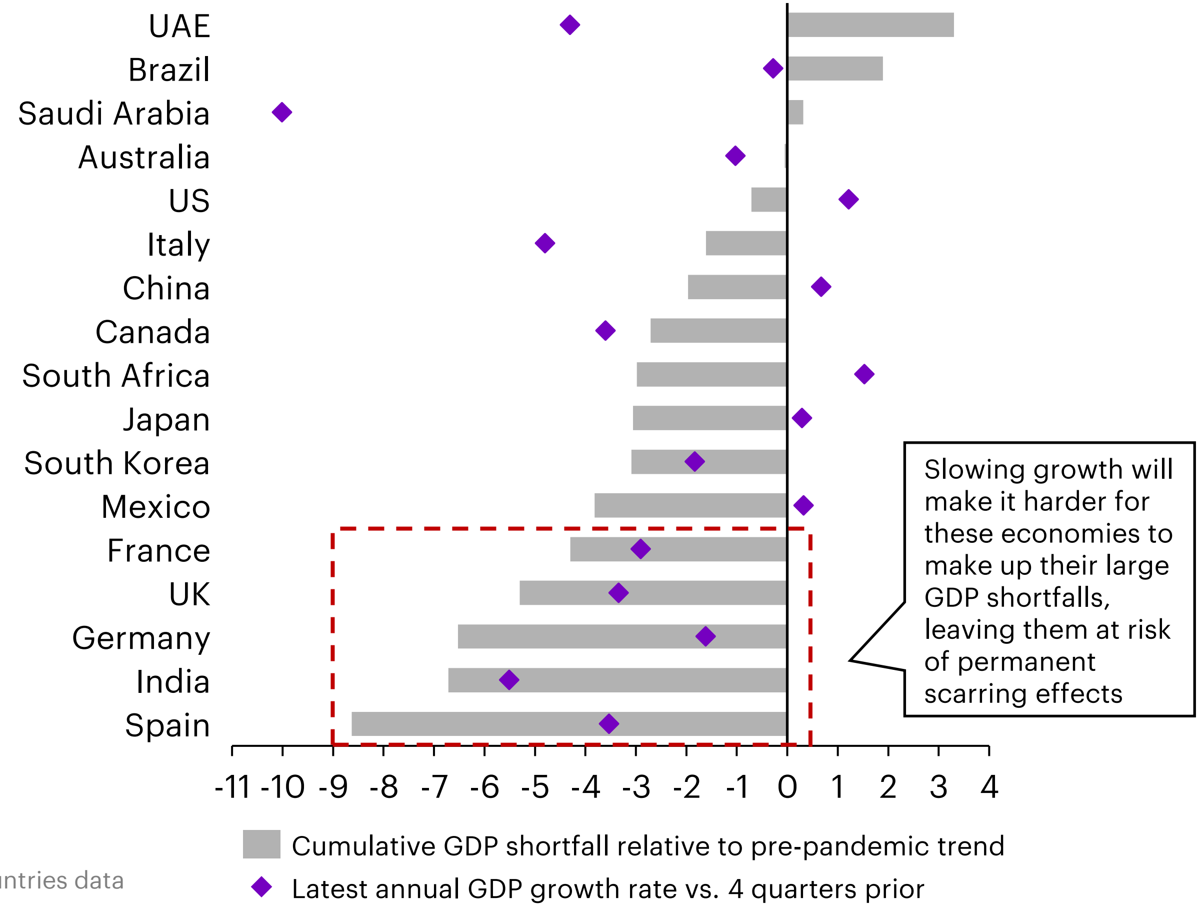
### Latest real GDP level compared to start of pandemic

Difference relative to Q4 2019 real GDP level (percentage points)




### GDP shortfall relative to pre-pandemic growth trend and recent growth momentum

Percentage points

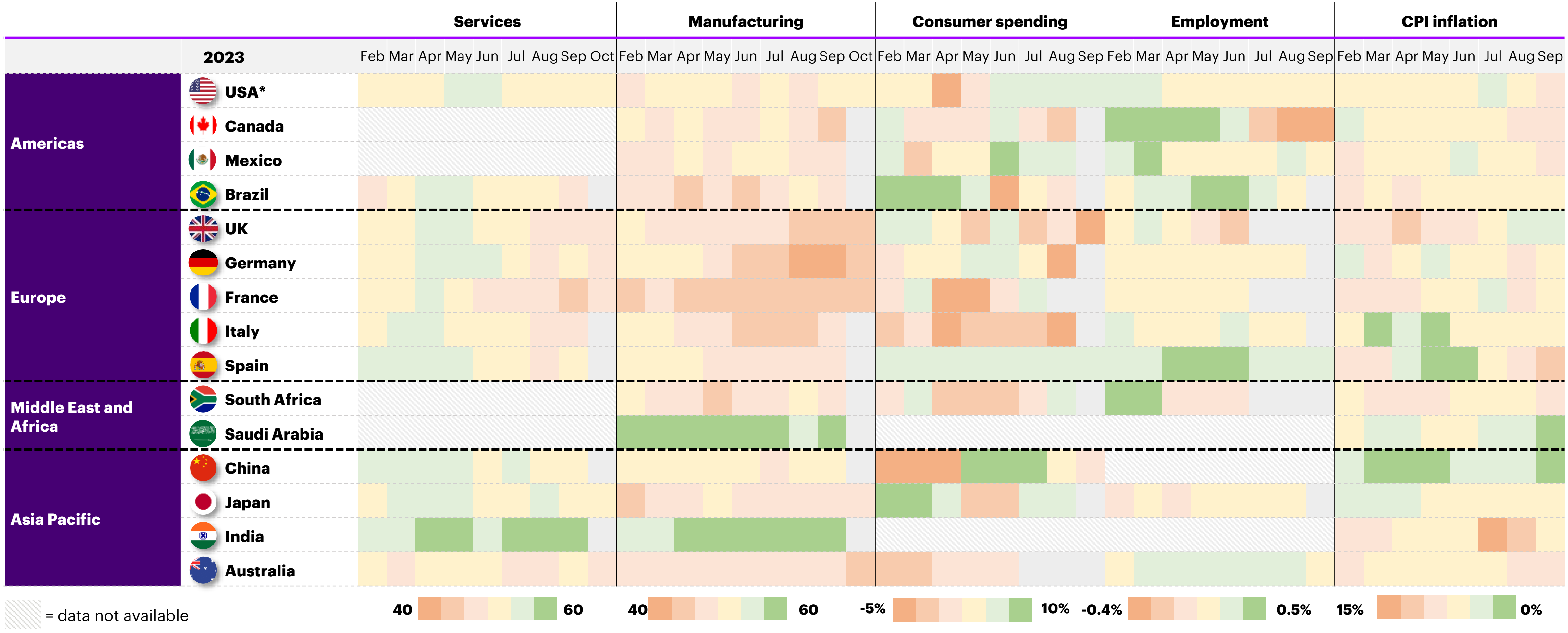



Note: "Latest" data is as of 2023:Q3 for US, Germany, Spain, China and South Korea; for all other countries data is as of 2023:Q2.
Source(s): Haver Analytics, Accenture Strategy analysis

# Latest data points to continued “catch-down” of services to the weakness in manufacturing, as well as ongoing inflation stickiness

## Country economic momentum snapshot

**AS OF OCT 27**




Note(s): 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.

Source(s): S&P Global, Haver Analytics, Accenture Strategy analysis

# A growth downshift remains the base case for the US as consumer and financial headwinds intensify; Europe's slowdown is further along, especially for manufacturing-led economies

## Latest economic outlooks: Americas and Europe

**AS OF OCT 27**

| Region | Country | Key recent datapoints | Base case outlook | What to watch for |
|---|---|---|---|---|
| **Americas** | US | • Strong Q3 GDP growth confirmed that summer-time consumer spending buoyed the economy<br>• Core CPI inflation re-accelerated in September | • Slowing consumer spending and lagged effects of ongoing rate hikes are likely to materially downshift the economy's growth path from Q4 onwards | • Sharper pullback in consumer spend as student loan payments resume in Q4<br>• Economic disruptions from UAW strike and potential government shutdown |
| | Canada | • PMIs and other business surveys suggest further deterioration in activity in recent months<br>• Headline and core inflation eased slightly in Sep | • Tight financial conditions, weakening external demand and housing market distress are expected to keep growth muted in the near term | • The effectiveness of recent tax cuts in stimulating new homebuilding |
| | Brazil | • Central bank cut rates for third consecutive month in Sep despite slight inflation uptick | • Consumer spending supporting growth resilience on the back of strong labor dynamics and stabilizing inflation | • Tax changes from recently approved fiscal reform |
| **Europe** | UK | • Declining trend in retail sales continued in Sep as households struggle with high cost of living<br>• Labor markets tightness is receding, but nominal wage growth remains elevated at nearly 8% yoy | • Growth is likely to slow further in Q4'23/Q1'24 as lagged impacts of high interest rates work their way though economy, particularly through mortgage cost pressures on households | • Recent sharp rise in long-term government bond yields could trigger another financial stress episode |
| | Germany | • Ifo business climate index rose slightly in Oct, reversing a downward trend since Apr 2023 and suggesting marginally improved expectations<br>• Headline inflation fell sharply in Sep to 4.3%, the lowest since the start of the Ukraine war | • A mix of weakness in global manufacturing, slowing export demand from China, high energy costs and housing market distress are likely to keep Germany's economy in a mild recession over the coming quarters | • The three-party coalition government continues to debate whether and how to implement proposed industrial policies to stimulate domestic industry |
| | France | • Inflation remained sticky in Sep at around 5.5%<br>• Manufacturing activity in Oct shrank at a faster pace due to weak demand<br>• Business sentiment worsened in Oct across sectors | • Tepid services activity removes a key growth support pillar, but fiscal support measures and still-high household savings buffers are likely to buttress consumer spending and help the economy skirt recession | • Legislation on an early deadline of annual price negotiation with large manufacturers to force a 5-15% drop in food prices |

Source(s): Accenture Strategy analysis

# China is expected to transition to slower growth path as it confronts structural challenges; Japan and India's recent resilience will be tested in coming quarters as global growth slows

## Latest economic outlooks: Asia-Pacific

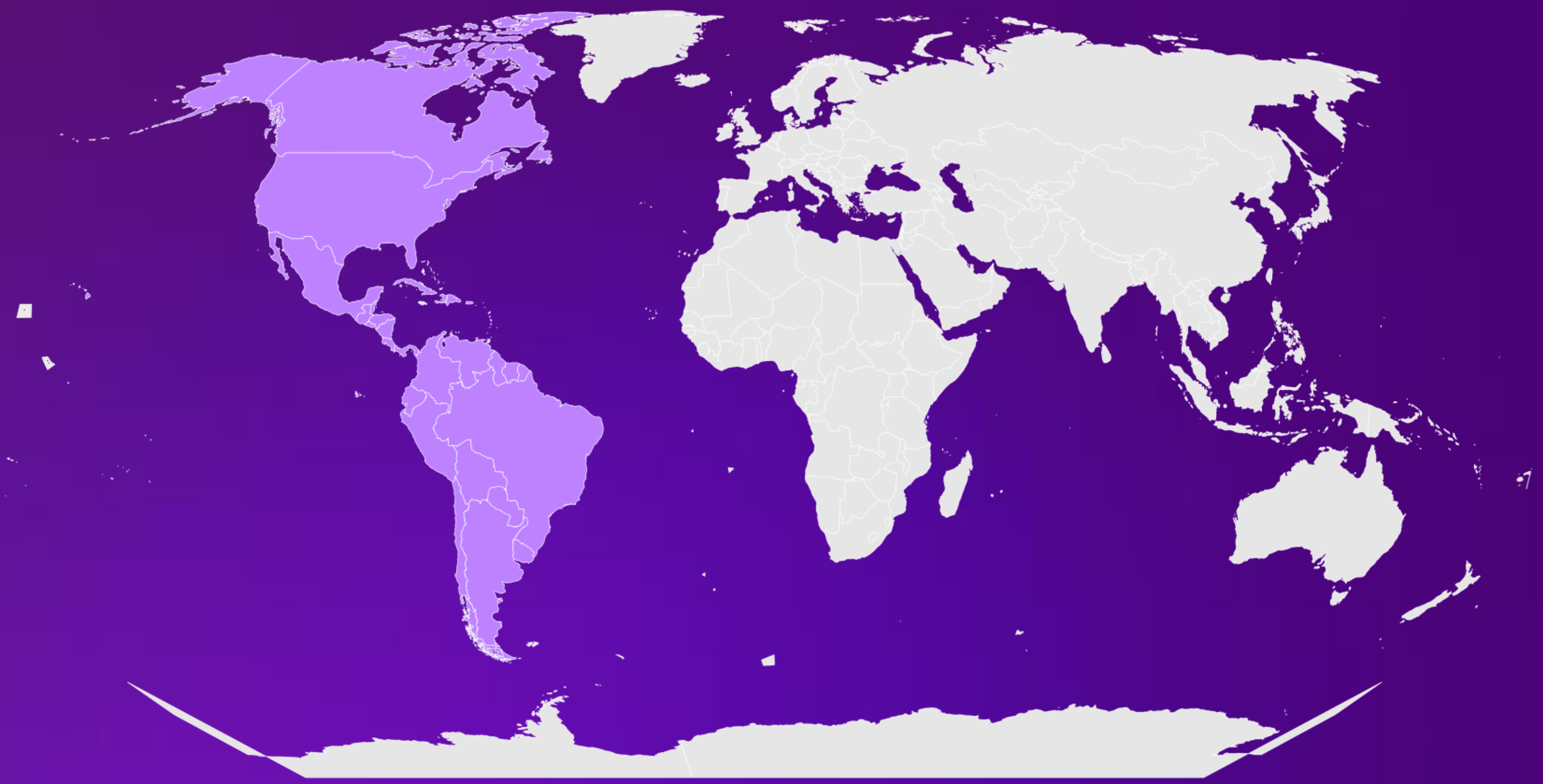
**AS OF OCT 27**

| | | Key recent datapoints | Base case outlook | What to watch for |
|---|---|---|---|---|
| **Asia Pacific** | China | • Higher-than-expected Q3 GDP growth and manufacturing PMI in Oct suggest some stabilization of economy's recent negative momentum<br>• Property market remains in freefall, as home sales, prices and investment weakened further in October | • Further growth slowdown in Q4 amidst depressed consumer sentiment and weakening global demand for China's exports<br>• Ongoing transition to slower medium-term growth as economy contends with structural challenges of troubled property sector, youth unemployment and rising geopolitical frictions | • Extent of government policy support to prop up flagging growth and distressed property market<br>• Financial instability and spillovers as property-related defaults rise |
| | Japan | • Yen depreciated to its lowest level vis-à-vis USD since 1990<br>• Improving business sentiment (per Tankan survey), with confidence among large non-manufacturers reaching highest level since 1991 | • Solid domestic consumption, rebounding inbound tourism, and the tailwind to exports form a weak yen are likely to keep growth resilient in the near term | • Boost to earnings of export-oriented companies from yen weakness<br>• Evidence of stickiness in inflation<br>• How quickly the Bank of Japan loosens its yield curve control policy |
| | India | • Continuation of strong business activity in Sep in both manufacturing and services<br>• Inflation showed further signs of cooling in September | • Growth is expected to remain robust but moderate slightly amidst slowing external demand and rising oil prices | • Resilience in consumer spending<br>• Signs of manufacturers or other companies shifting supply chains to India |
| | Australia | • Both manufacturing and services activity (per PMI surveys) contracted further in October | • Growth is likely to remain subdued over the rest of the year as cost-of-living pressures and the rise in interest rates continue to weigh on domestic demand | • Impact of positive wealth effects from recent house prices increases on consumer spending<br>• The drag on Australian exports from China's economic slowdown |

Source(s): Accenture Strategy analysis


# Spotlight developments

# Americas

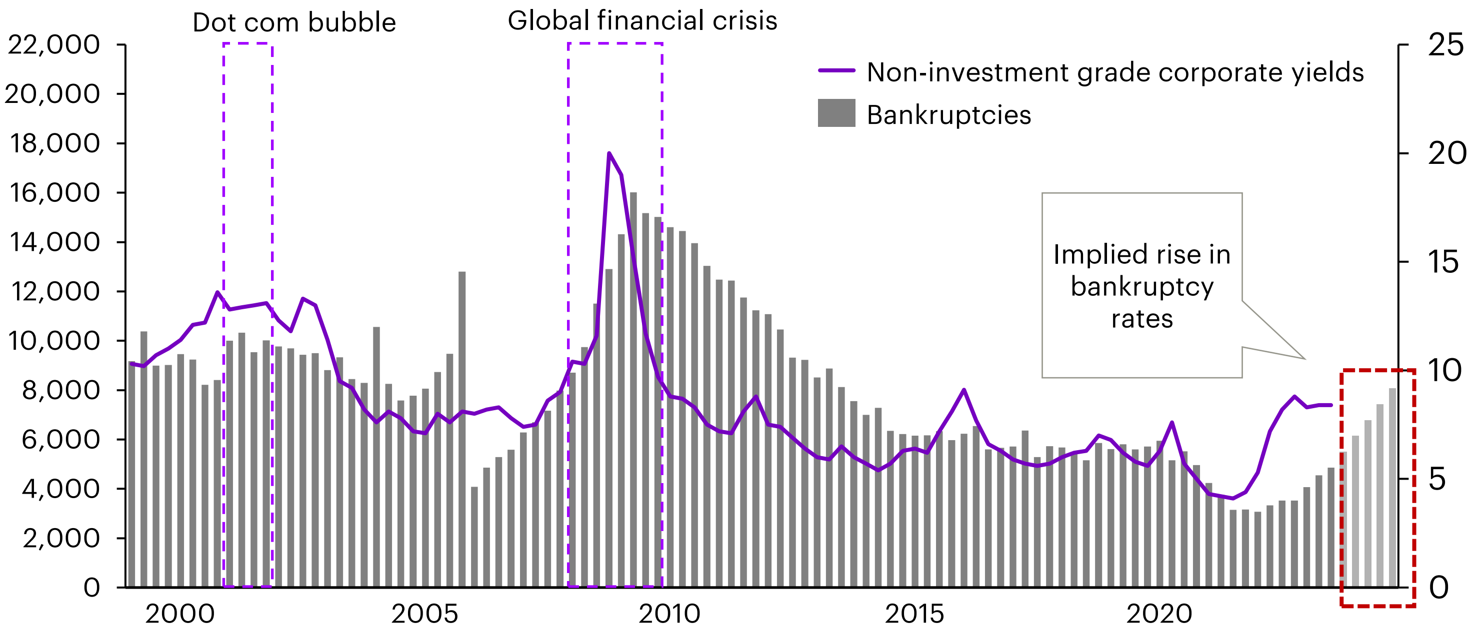


# Historical patterns suggest the high interest rate environment is likely to drive US corporate bankruptcies higher from their artificially-depressed pandemic-time levels

## US bankruptcy trends in prior periods of high rates

### Bankruptcies and non-investment grade corporate yields

Number of bankruptcies (LHS) and yields on below-investment grade corporate bonds (RHS, percent)




**Implications for corporates**

- Highly-leveraged companies should explore debt reduction and reprofiling strategies and prioritize improving financial discipline
- Companies should evaluate credit risk of key counterparties and customers while planning for possibility of longer collection periods and additional bad debt write-offs
- Private equity investors early in their investment period may benefit from waiting to deploy capital as rising corporate distress may offer more attractive entry points further down the road

### Commentary

- Current yields for non-investment grade corporate are associated with bankruptcy levels that are twice as high as the record lows observed today
  - Pandemic-related regulatory forbearance and fiscal and financial support to companies have likely helped keep bankruptcies at bay
- Should policy rates remain elevated while fiscal support is withdrawn and slowing economic growth widens credit spreads and adds pressure to risky company P&Ls, bankruptcy rates could spike over the next 1-2 years

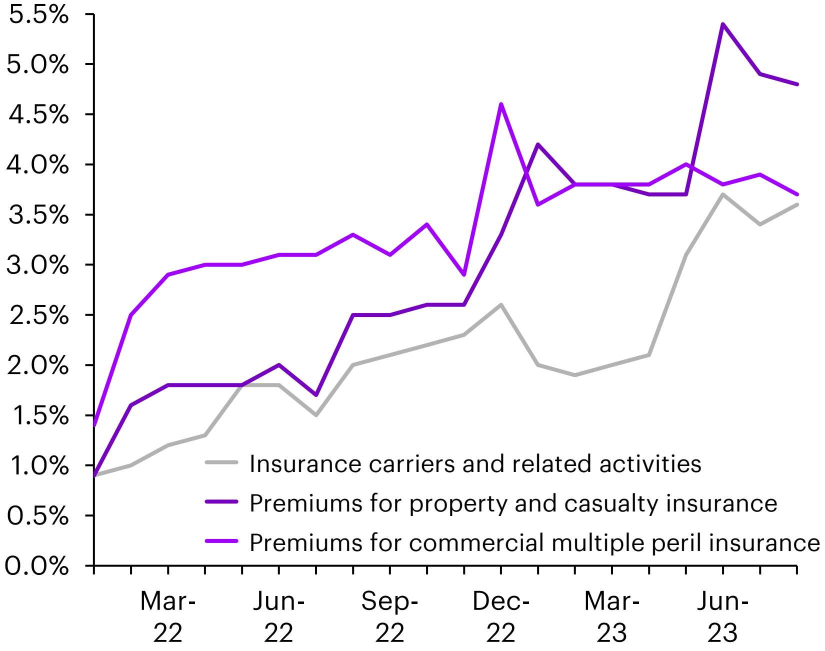
Source(s): ICE data indices, Administrative Office of US Courts, Accenture Strategy analysis

# US companies (particularly those in high-climate risk areas) can expect additional financial pressure from rising commercial insurance rates

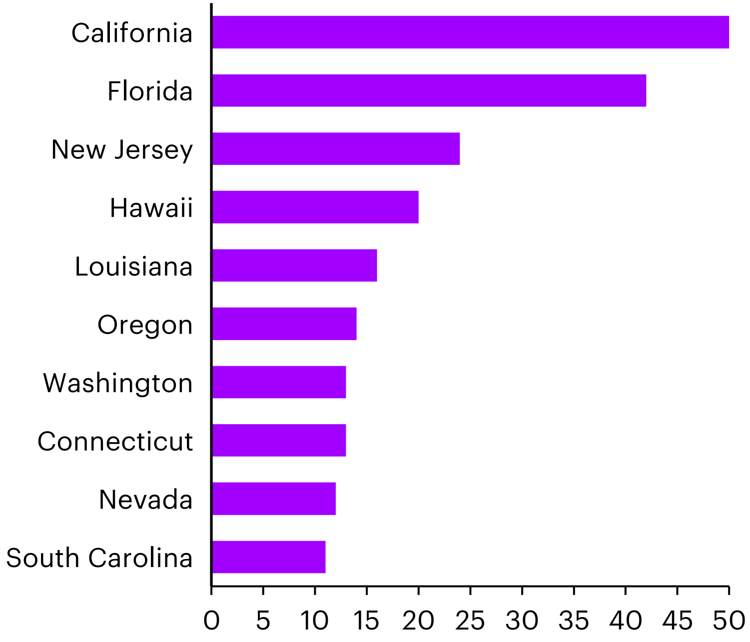
## Insurance rates and climate risk in the US

### Growth in US Insurance Costs

January 2022 – July 2023 YoY% growth




### States with high climate risk (% of counties)




### Implications for corporates

- Key insurance rates for property and autos are elevated and continuing to increase, leading to higher costs for businesses and consumers
- For retail properties in particular, insurance is becoming an increasingly large expense item.
  - Premiums as share of gross revenue have remained above pre-COVID values regardless of geography and risk profile
- Businesses should consider climate risk in long-term site selection and investment decisions, as properties in high climate risk areas—namely metros in FL and CA—are seeing higher insurance increases

### Commentary

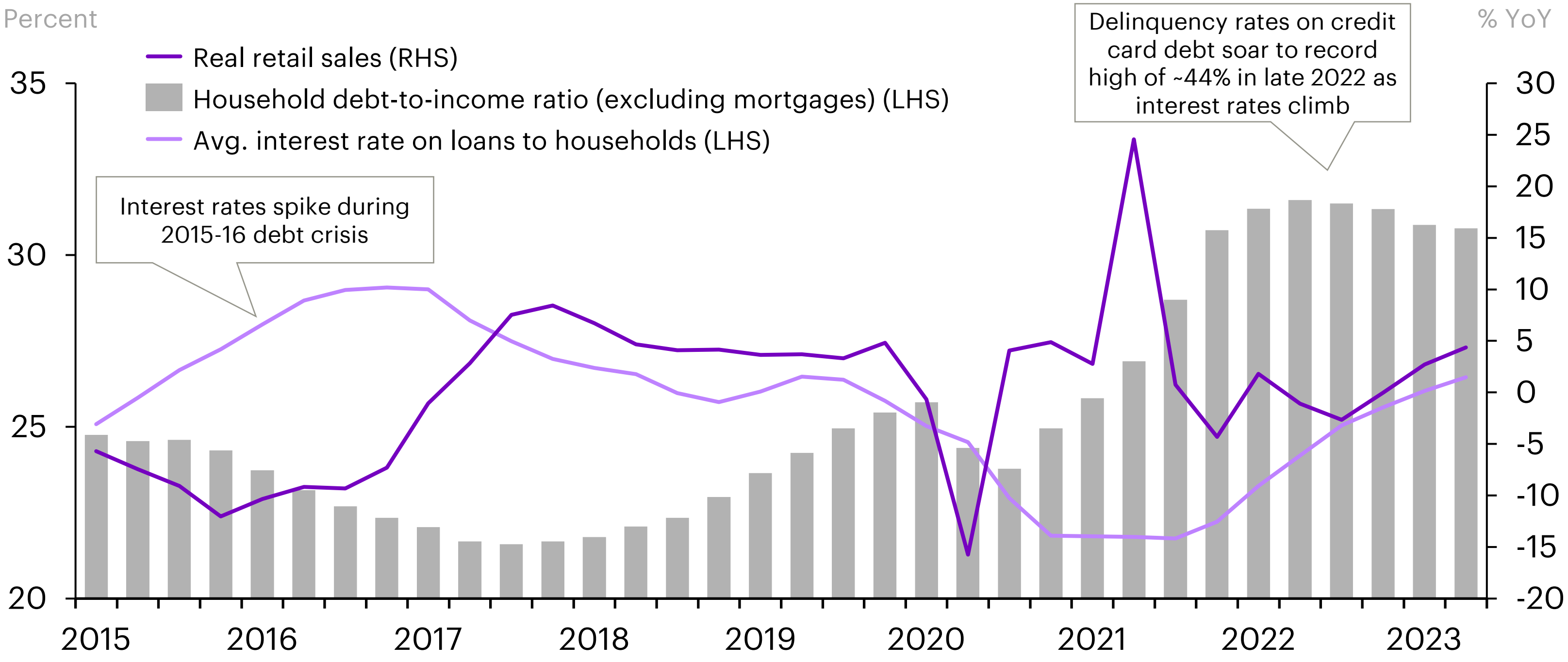
- In the U.S. alone, there have been more >$1B disaster events in the first 8-months of in 2023 than in any entire year previously recorded
- Some large insurers have ceased or limited offering new property insurance in California due to construction cost increases outpacing inflation, rapidly growing catastrophe exposure, and a challenging reinsurance market
- While increases in property and auto prices may be a factor in rising rates, insurance expenses are outgrowing rents in metro areas

Sources: BLS, FEMA, Moody's, NOAA, State Farm

# Brazil's recent consumer debt relief plan could help uplift consumer spending in light of the high debt burdens households currently face

## Debt relief implications for Brazil's consumer spending

### Evolution of retail sales and consumer debt in Brazil




### Implications for corporates

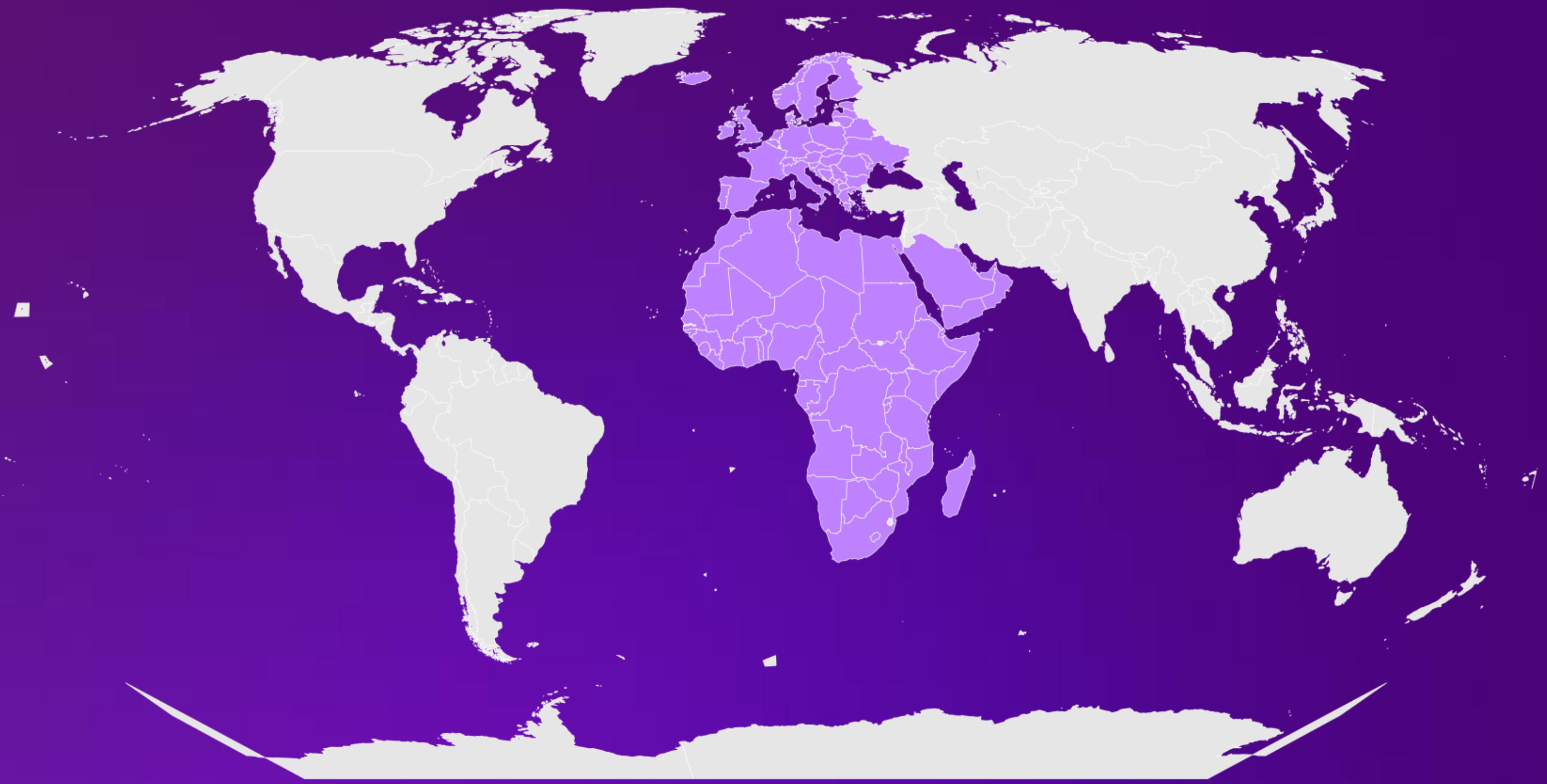
- Low unemployment rates and debt relief for consumers in the low-to-middle income segment could create tailwinds for retail spending
- Consumer discretionary categories could benefit from additional spending power, while financial firms may experience a short-term losses due to forced write-offs on an estimated 1.5 million people (at up to BRL100 each)

### Commentary

- The recently-introduced consumer debt renegotiation programs for delinquent borrowers ("Desenrola" and "Renegocia"), combined with an improving labor market, could help uplift consumer spending
  - The program covers low-to-middle income consumers, representing an income pool of roughly 24% of GDP
- Historically, periods of interest rate spikes have led to sharp declines in Brazilian retail sales as household move to deleverage
  - For example, during Brazil's 2015/16 debt crisis, retail sales plummeted -12% y/y by the end of 2015 as interest rates hit a 10-year high

Source(s): Haver Analytics, Bank of Brazil, Accenture Strategy analysis

# Europe, Middle East and Africa

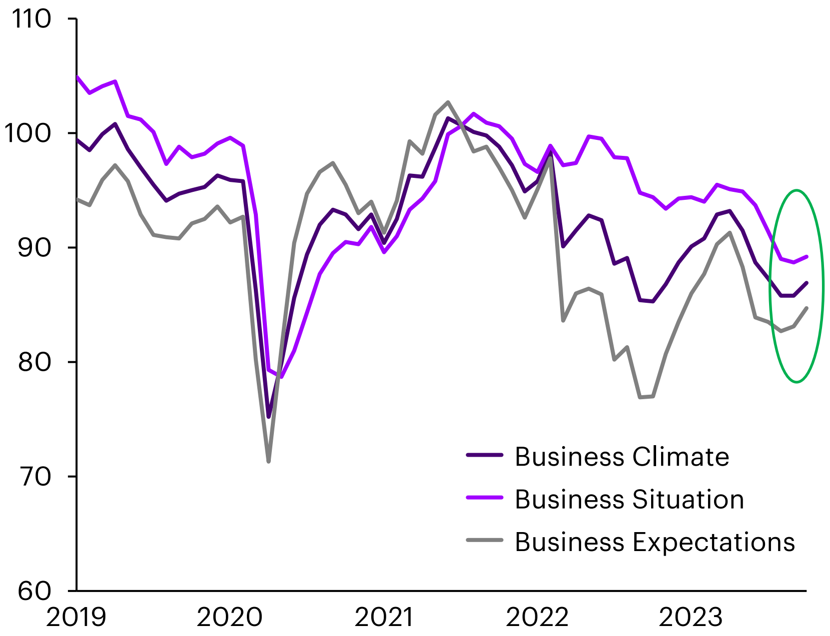


# The German government's latest policy effort to revive industrial competitiveness is likely to face an uphill battle given the economy's widespread structural challenges

## Business sentiment and recent government policy measures

### Ifo survey business sentiment and expectations

Index (2015=100), seasonally adjusted




### Highlights from "10 point action plan"

1. **Growth Opportunities Act**: tax incentive **of ~EUR 7bn/year** for climate-friendly investments by SMEs
2. **Future Financing Act**: financial support of **EUR 1bn/year** to start-ups
3. **Climate and Transformation Fund** (proposed): **>EUR 112bn in 2024** funding to invest in decarbonization
4. **Accelerated planning/approval** processes and **reduced bureaucracy**
5. Improved **energy affordability** via focus on hydrogen network and partnerships

### Implications for corporates

- The industrial policy tilt of this plan is likely to result in both industry winners (e.g. renewable energy and semiconductors) and losers (e.g., energy-intensive manufacturing, chemicals and steel)
- Implementation of reforms could be hampered by increasingly-strained public finances and the challenging politics of a three-party coalition
- It is unclear that such a plan could compensate for some of the structural disadvantages (e.g. high energy costs) that Germany is currently contending with

### Commentary

- The German government's intention to tackle structural economic issues via its "10-point action plan" sends a positive signal to the market and may be contributing to the recent uptick in business confidence, though overall sentiment remains largely pessimistic
- However, many are also viewing it insufficient to address key industry demands (e.g., subsidized "bridge electricity price") and boost the international competitiveness of Germany's domestic industries

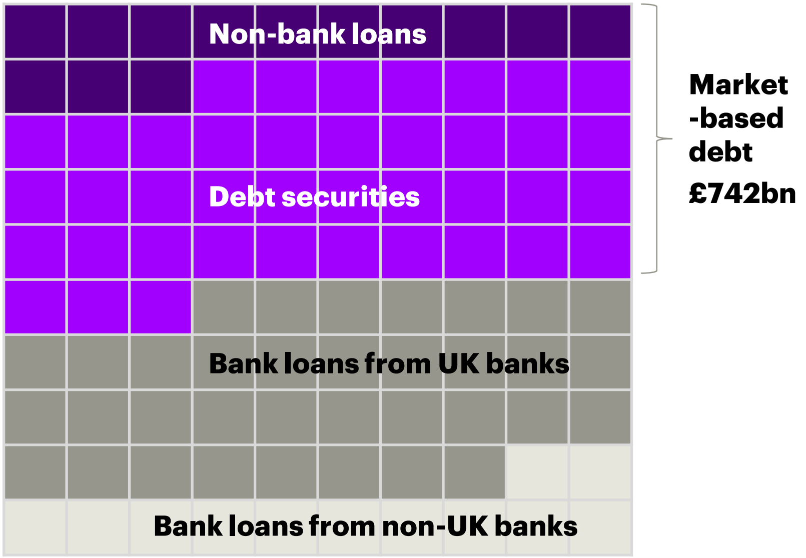
Source(s): Ifo Institute, Accenture Strategy analysis

# Higher-for-longer rates are likely to renew pressures on the UK's financial system, which has already experienced several flare-ups and bouts of instability over the past year

## UK debt market

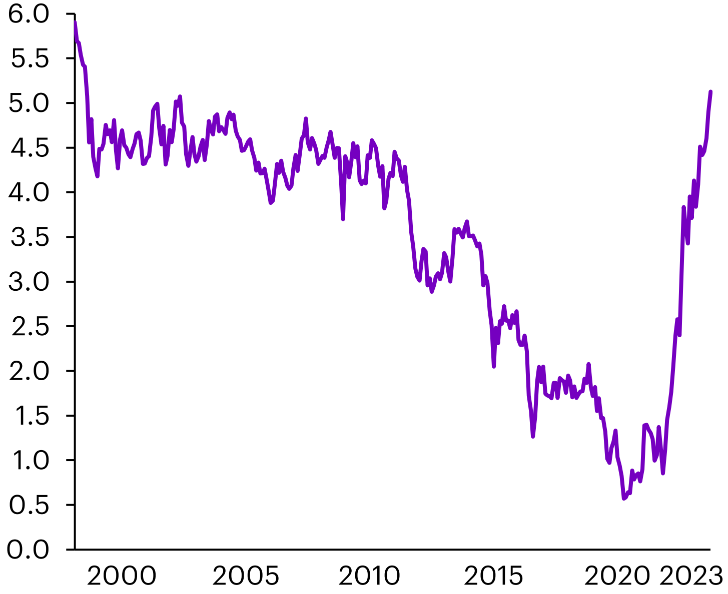
**Composition of UK private non-financial corporate debt**

One segment represents £14bn




**UK government 30-year bond yield**

percent




**Implications for corporates**

- The majority of outstanding fixed-rate UK corporate debt matures in or after 2025, giving firms some time to adapt
  - Firms should consider higher-for-longer rate scenarios in their business plans and assess mitigation options, including WCAP analysis and cost reductions
- With 30-year bond yields at heights not seen since 1998, corporate and financial system resilience to another stress episode may be weakened
  - When assessing risk exposure, corporates should consider potential disruptions in access to finance and other key markets (e.g. commodities)

**Commentary**

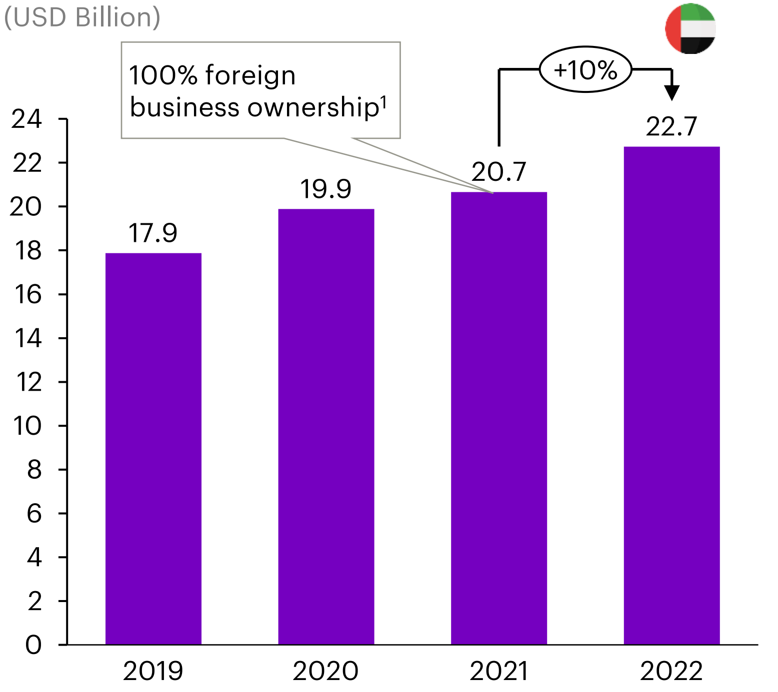
- Recent stress events have highlighted vulnerabilities in the UK's debt markets:
  - March 2020: Initial market reaction to Covid amplified by Non-Bank Financial Intermediates in the "dash for cash"; disruption only abated after policy action from central banks
  - Feb 2022: Russian invasion of Ukraine testing the functioning of commodity markets
  - Sept 2022: UK Government's "Mini budget" triggered rapid repricing of long-dated UK government bonds and forced selling of liability-driven investments

Source(s): Bank of England, Accenture Strategy Analysis

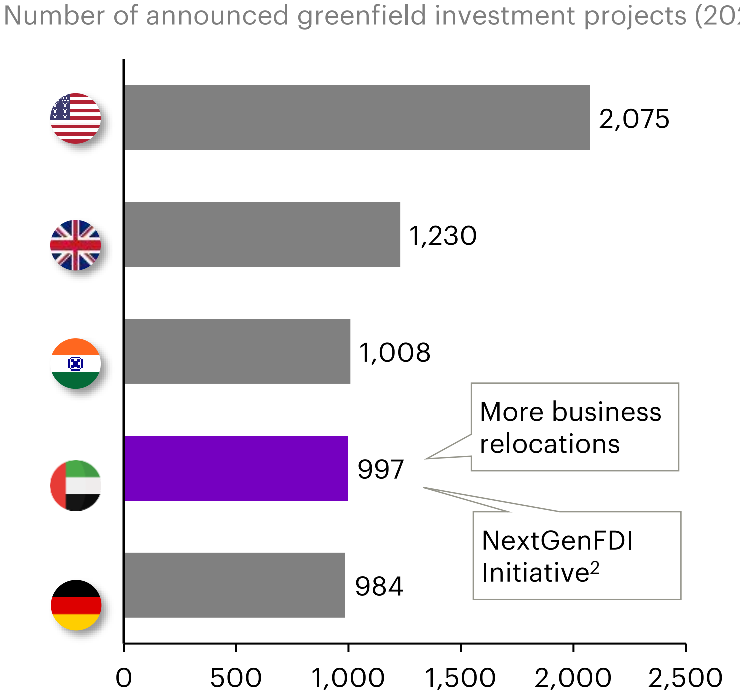
# The UAE is seeing record FDI inflows and even stronger future project pipeline, though this rapid investment influx could create domestic price pressures

## Foreign Direct Investment inflows to the UAE

**FDI into UAE has surged to an all-time high…**




**…attracting world's 4th largest number of projects**




**Implications for corporates**

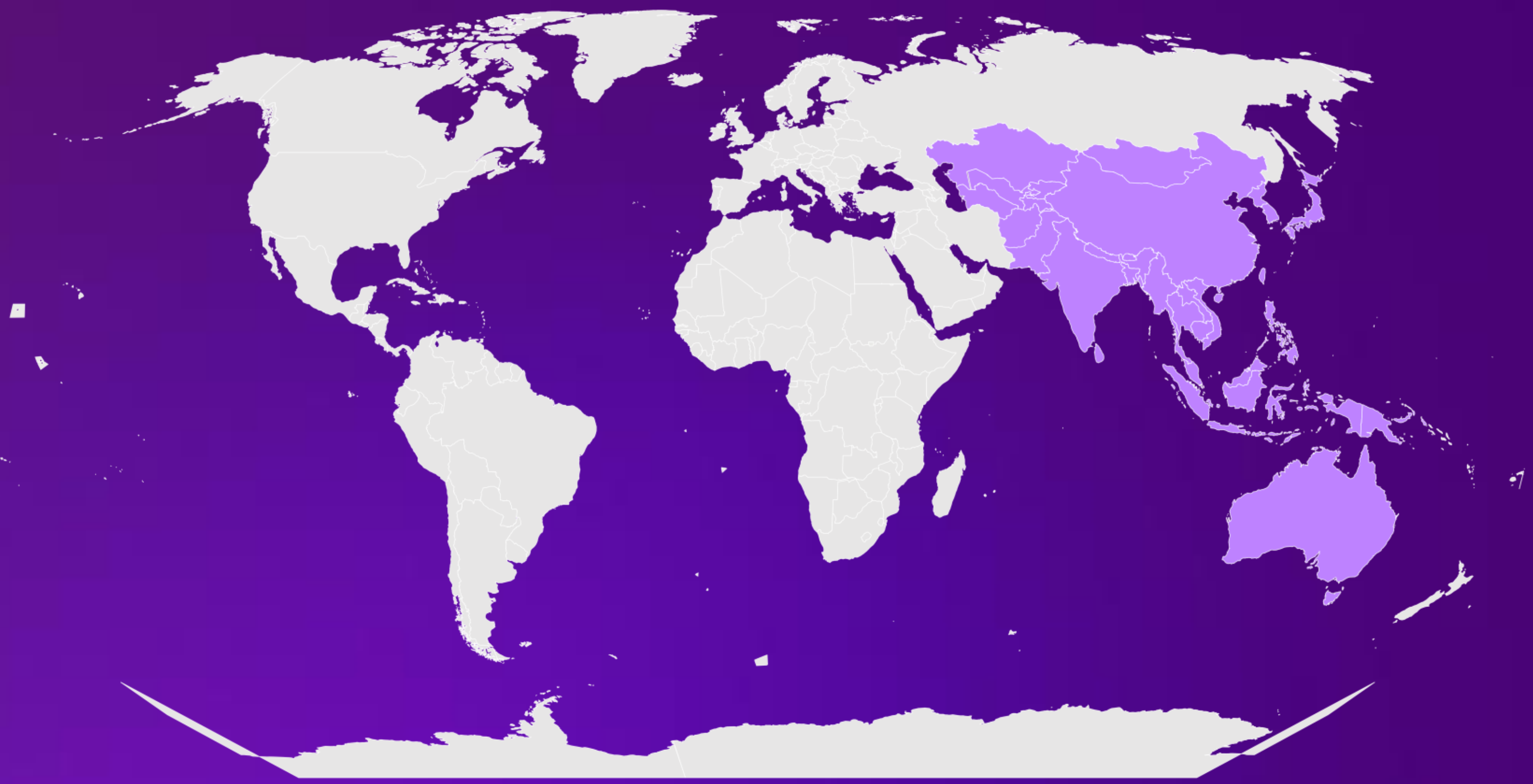
- New investments from foreign corporates could raise competition locally, possibly leading UAE firms to lose market share
- Sustained FDI inflows could put upward pressure on asset prices (incl. real estate) and labor costs if demand surge overwhelms local supply, leading to:
  - Higher expansion costs if companies need to acquire land and buildings to grow
  - Greater competition for labor and need to rely on immigrant workers

**Commentary**

- The UAE led GCC countries in FDI inflows in 2022 (and ranked 16th globally), reflecting ongoing economic diversification and investment promotion efforts (e.g. NextGenFDI, SEZs), with a goal of attracting USD150 billion in by 2031 (over900 greenfield projects were announced in 2022)
- FDI outlook is further supported by measures allowing investors to establish 100% foreign-owned companies, except in strategic national sectors such as Telco and Defense (previously, foreign ownership was capped at 49%)

Note(s): 1/ The UAE Government amended the federal Commercial Companies Law, granting foreign investors full ownership of specific businesses, effective December 2020; 2/ NextGenFDI is a national initiative launched by the Ministry of Economy in July 2022 to attract digitally-enabled businesses
Source(s): UNCTAD World Investment Report 2023, Zawya, Emirates NBD, Accenture Strategy analysis

# Asia Pacific

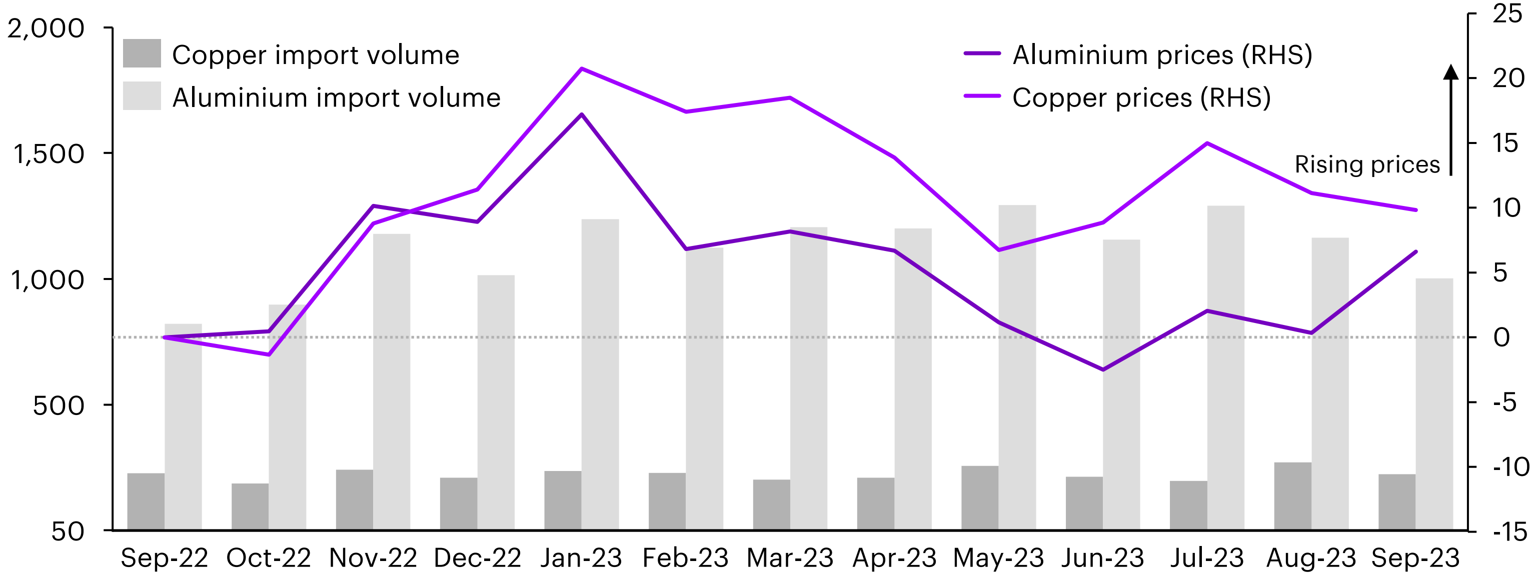


# Demand from China's green economy may be supporting commodity prices despite the negative drag from manufacturing and property sectors

## Chinese green metals demand

### China metal imports and global metal prices

China import volumes in 10K metric tons (LHS); metal prices, indexed (September 2022=0, RHS)




### Implications for corporates

- Prices for key "green" metals may remain elevated, despite the broader slowdown in China, driving continued input cost pressure for Chinese and global companies
- Economic activity in China's sectors related to the green energy transition, such as EVs, solar, and renewables, is likely to continue diverging from traditionally-important growth drivers such as property
- Green metals supply chains may still be subject to geopolitical risks and supply uncertainty if countries weaponize their natural resources (e.g., Chinese restrictions on graphite exports, effective on Dec 1, 2023)

### Commentary

- China's GDP growth slightly exceeded expectations in Q3 of 2023 (to 1.3% quarter-on-quarter compared to 0.8% in Q2), but performance in Q4 may continue to depend on government support as the struggling property and manufacturing sectors drag on growth
- However, China's green industries have shown considerable strength and are driving increased demand for metals critical to the energy transition
  - Solar and renewables investments are boosting copper demand—copper ore and concentrate imports hit historic highs in August (up 10.9% yoy)
  - Battery electric and plug-in hybrid vehicle production grew 37% in the first eight months of 2023 versus the same period in 2022
  - In part due to Chinese demand, aluminum and copper prices have rebounded from their recent declines in Q2 2023

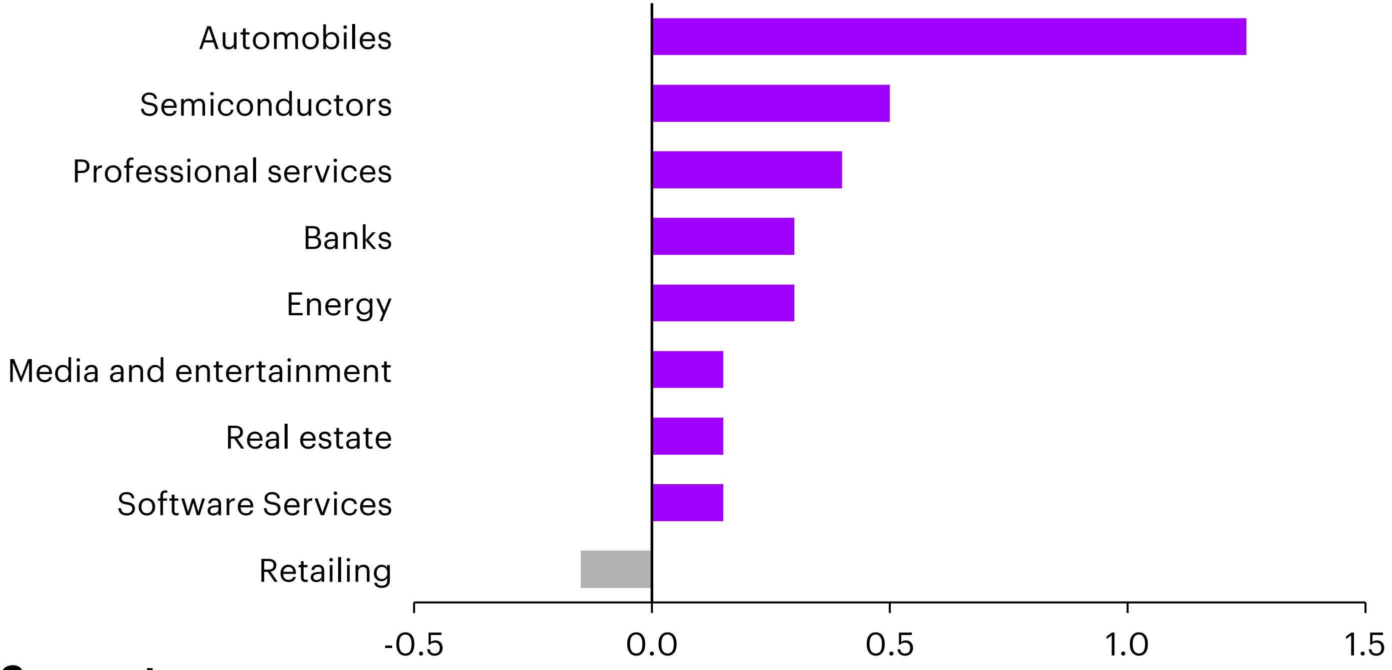
Note: Aluminum and copper price are indexed to 0 on September 2022, where >0 represents rising prices and <0 represents falling prices.
Sources: S&P Global, Haver Analytics, China National Bureau of Statistics and General Administration of Customs, Accenture Strategy analysis

# Most Japanese business sectors are expected to benefit from ongoing yen weakness, as reflected in rising business sentiment among export-oriented sectors

## Business impacts of yen depreciation

**Impact of weak yen on Japanese business sectors' operating income**

One yen depreciation impact on FY2022 operating income, in percent




**Implications for corporates**

- Business sentiment among large Japanese corporates has improved, as the weak yen has corresponded with:
  - Increased profits for export-oriented companies
  - Influx of tourists into Japan
- Export-driven sectors expected to benefit include:
  - automobile, technology hardware, semiconductors, capital goods and materials
  - accommodation and restaurants, due to the boost to tourism (as reflected in improving business sentiment in these sectors in Q3)
- Import-dependent sectors such as smaller manufacturers, where business sentiment remained negative in Q3, may continue to face headwinds as input costs remain elevated in yen terms

**Commentary**

- Since early 2022, the yen has depreciated around 25% vis-à-vis the US dollar and, in October 2023, reached it lowest level since August 1990
- Business sentiment among Japanese manufacturers and non-manufacturers rose for a consecutive second quarter in the Tankan Survey 2023 Q3, with sentiment among large non-manufacturers reaching their highest levels since 1991 as the weak yen and other factors boosted their outlook
- Yen weakness is likely to persist as long as the large interest rate differential between the Bank of Japan and other major central banks remains

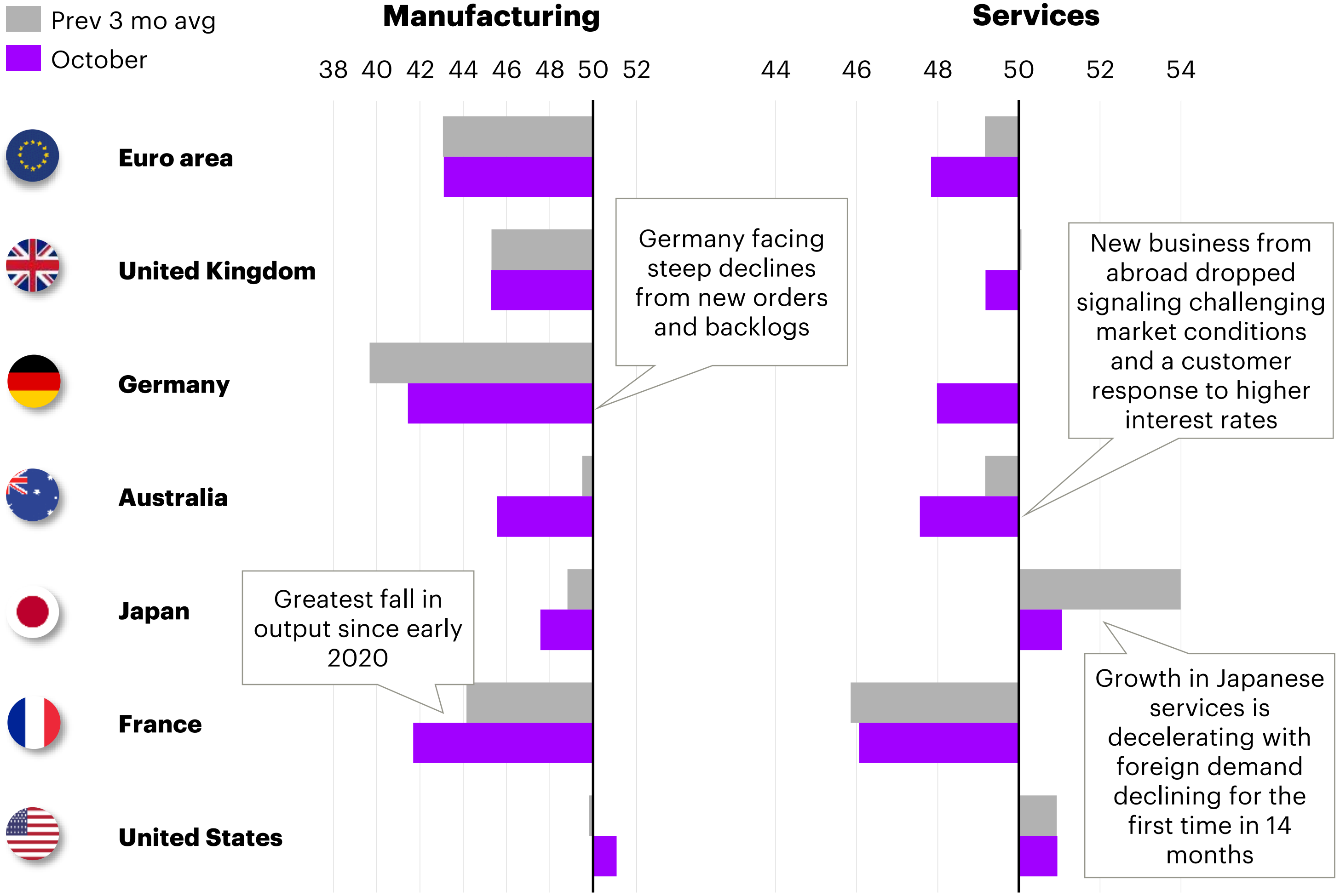
Source(s): Morgan Stanley Research, Bank of Japan Tankan September 2023 Survey, Accenture Strategy analysis

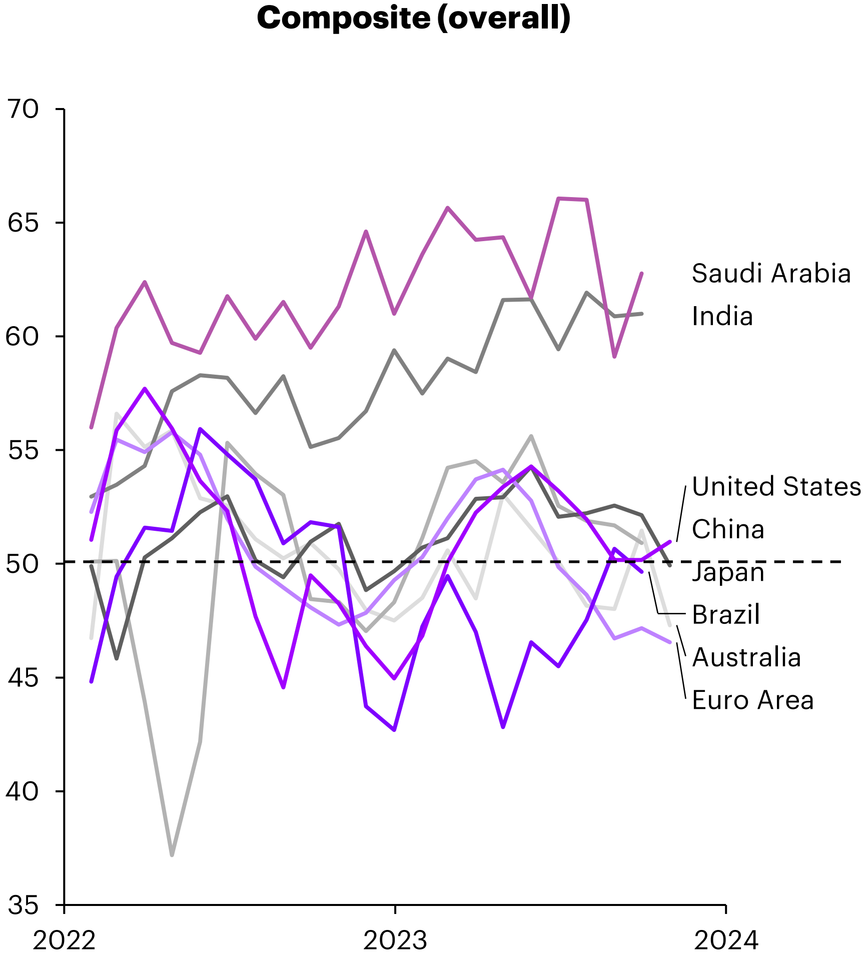
# Economic indicator chart pack

# Regional and industry activity

# Services activity is now contracting across Europe and moderating in the US and Japan alongside continued challenges to manufacturing

## Flash PMI survey country snapshot



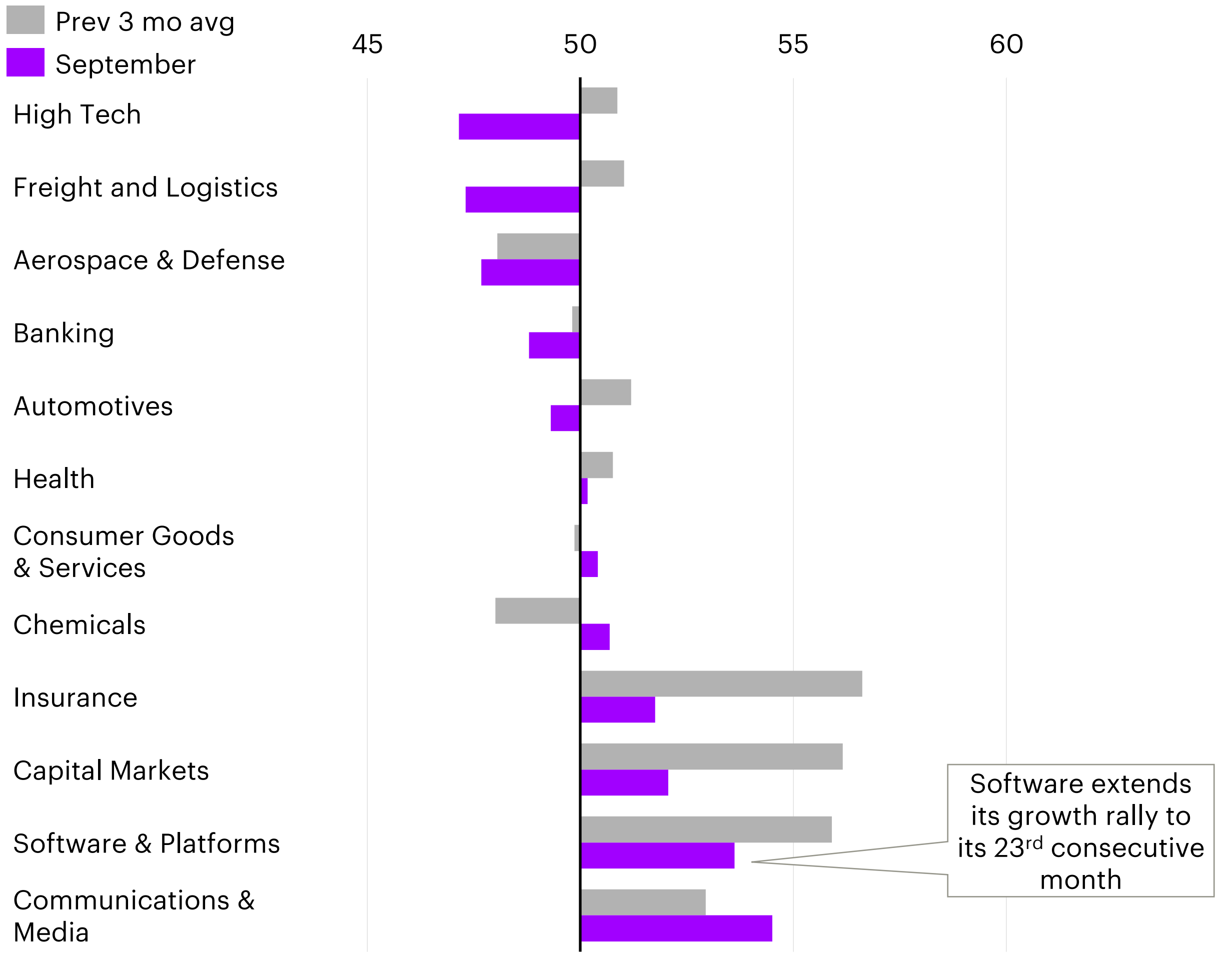



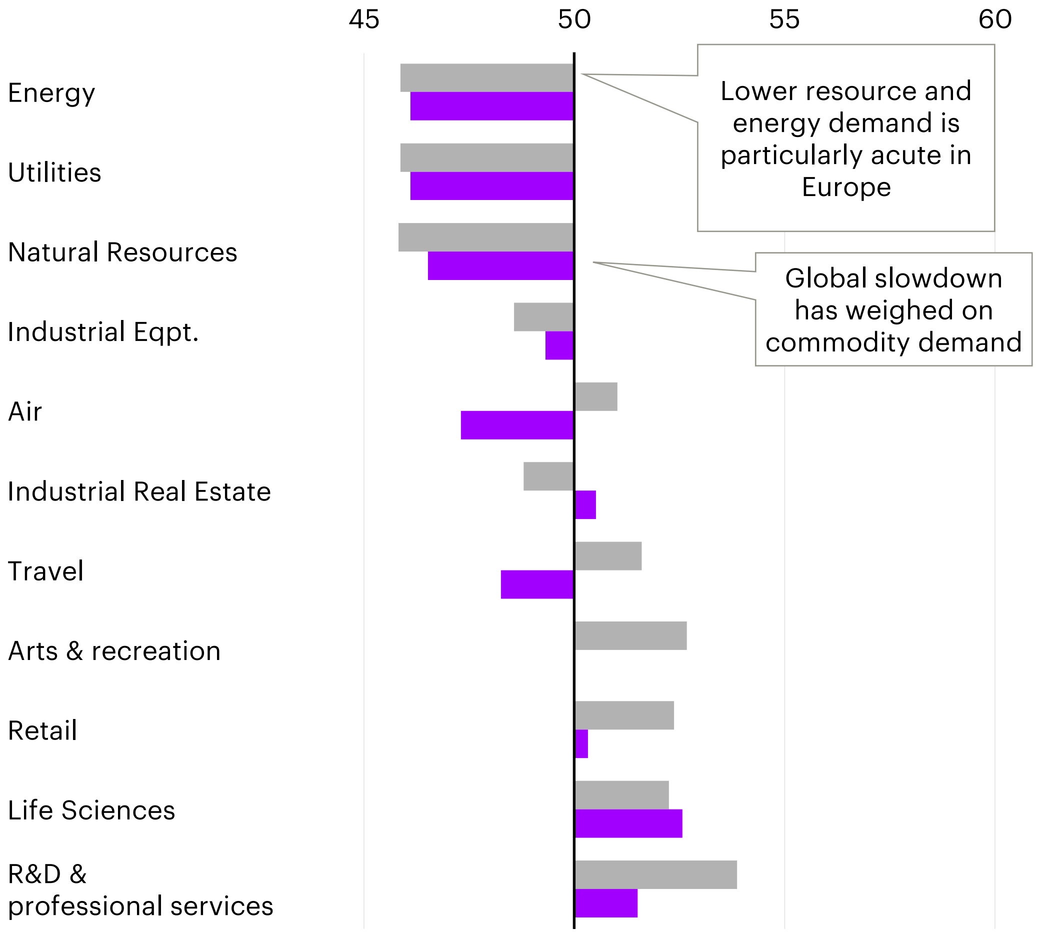

Note(s): A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month, most recent results may include preliminary flash figures
Source(s): S&P Global, Accenture Strategy analysis

# September data pointed to continued weaknesses in goods-heavy industries, including technology equipment, freight, and natural resources

## Global Industry PMI snapshot

### Sep'23 vs Previous 3 Month Average, PMI Output / Activity



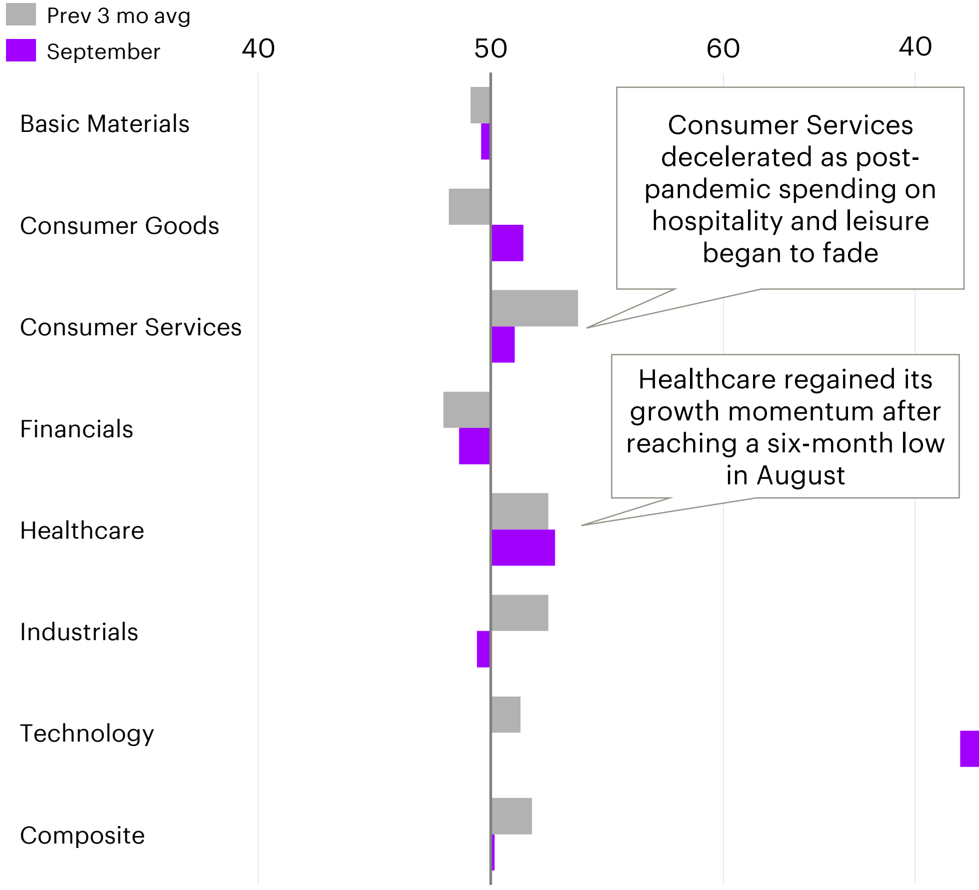

Note(s): A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month
Source(s): S&P Global, Accenture Strategy analysis

# In the US, only three sectors—consumer goods, consumer services, and healthcare—are seeing positive recent growth while backlogs continue to fall across sectors

## Regional performance: United States

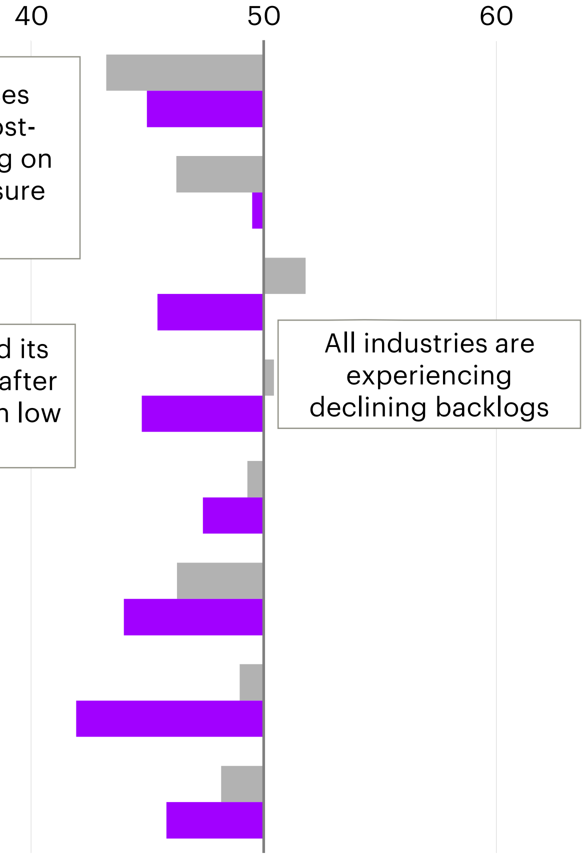
### Industry Performance

Output/Activity PMI



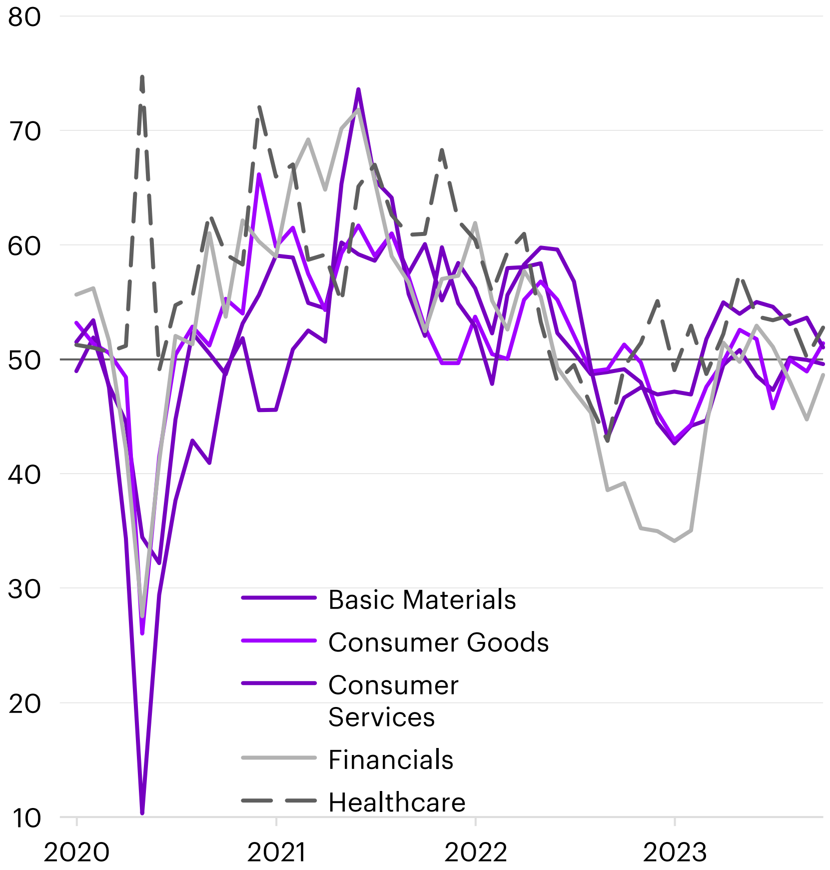

### Backlogs of Work

Backlogs of Work




### Industry Performance

PMI Output / Activity, selected industries



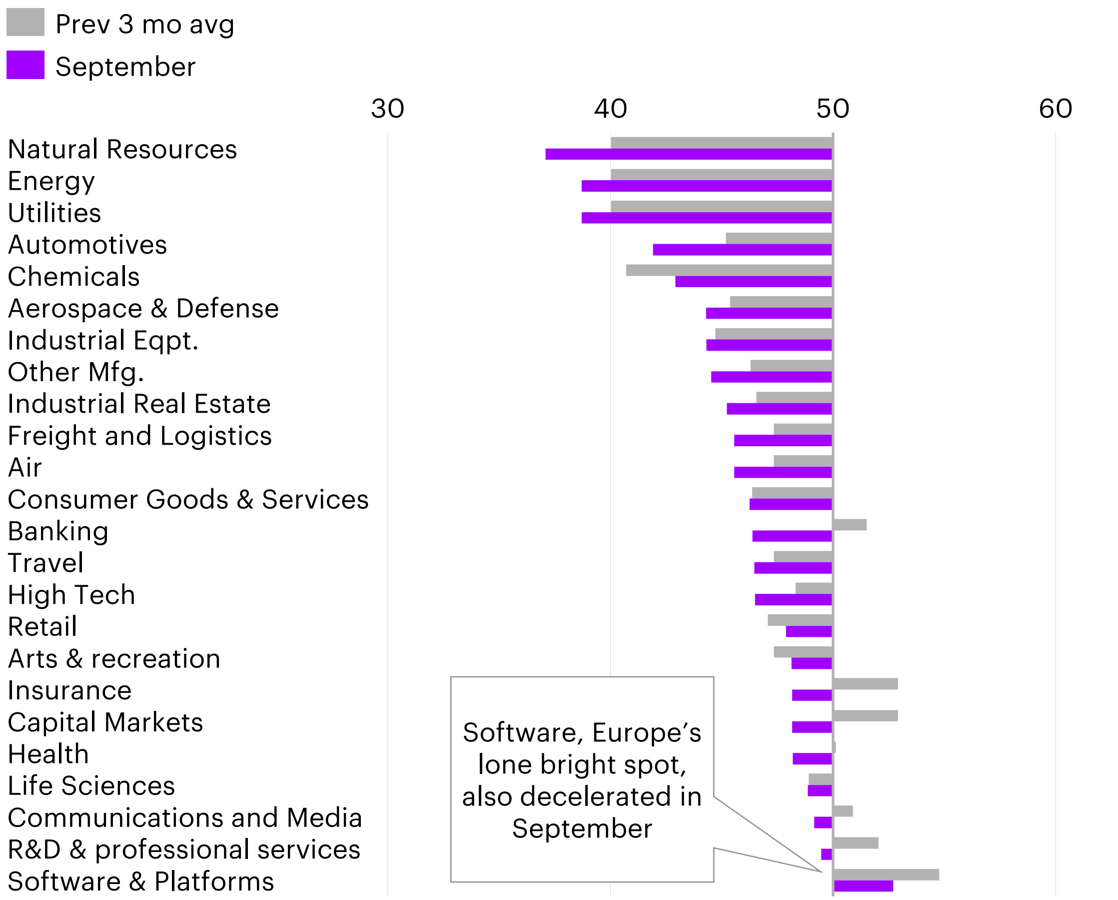

Note(s): Industry names are aligned with Tier 2 IHS industry classification: Basic Materials (Chemicals, Resources); Consumer Goods (Auto, Beverages & Food, Household & Personal Products); Consumer Services (Media, Tourism & Recreation); Financial Services (Banks, Insurance, Real Estate); Health (Healthcare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

# Almost all European industries contracted in September

## Regional performance: Europe

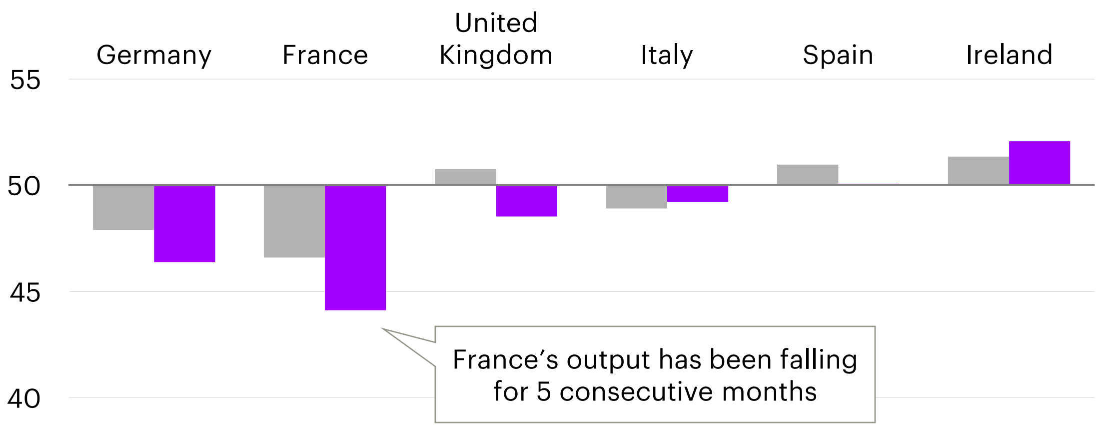
### Industry Performance

Sep'23 vs Previous 3 Month Average, Output/Activity PMI



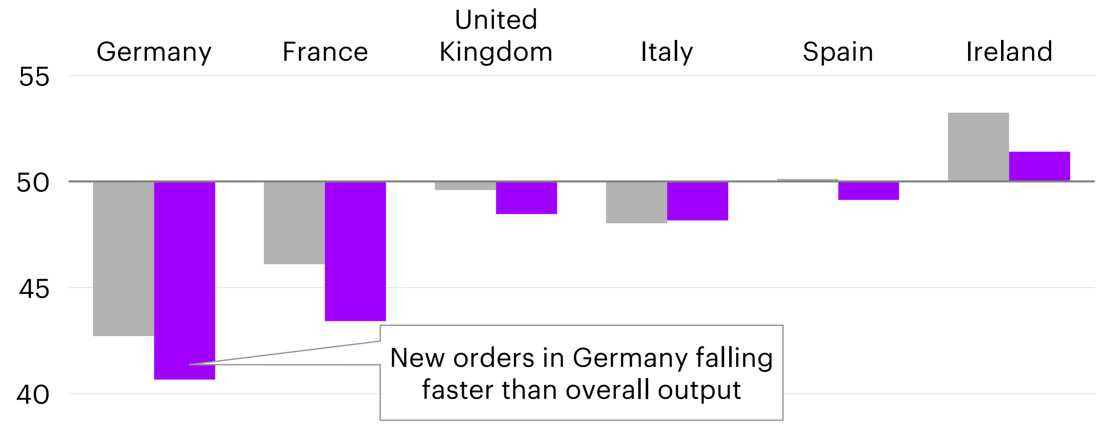

### Country Performance

Sep'23 vs Previous 3 Month Average, Output/Activity PMI




### New Orders Index

Sep'23 vs Previous 3 Month Average, New Orders PMI



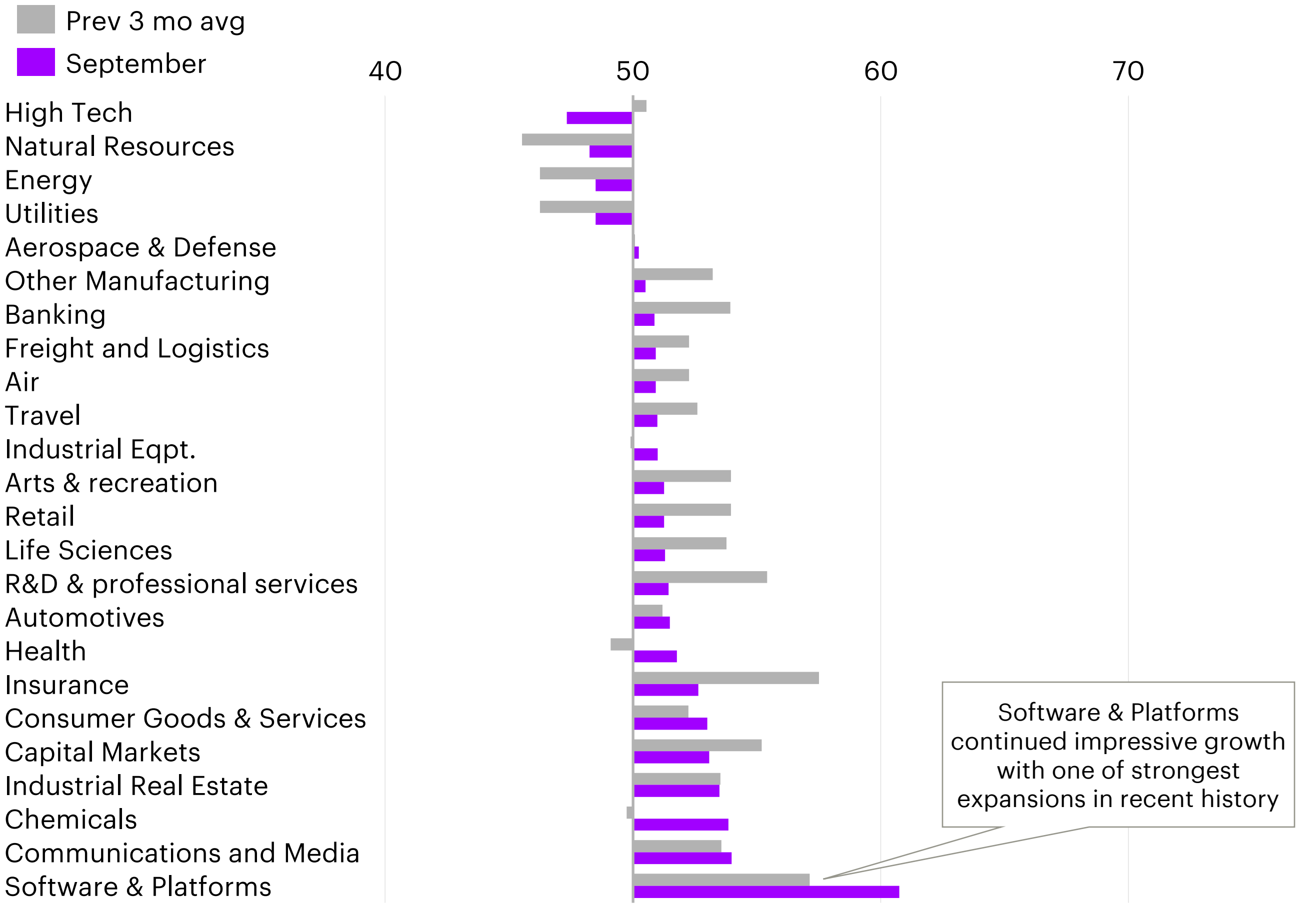

Source(s): S&P Global, Accenture Strategy analysis

# Most sectors registered expansion in Asia-Pacific, with India showing the strongest growth momentum

## Regional performance: Asia-Pacific

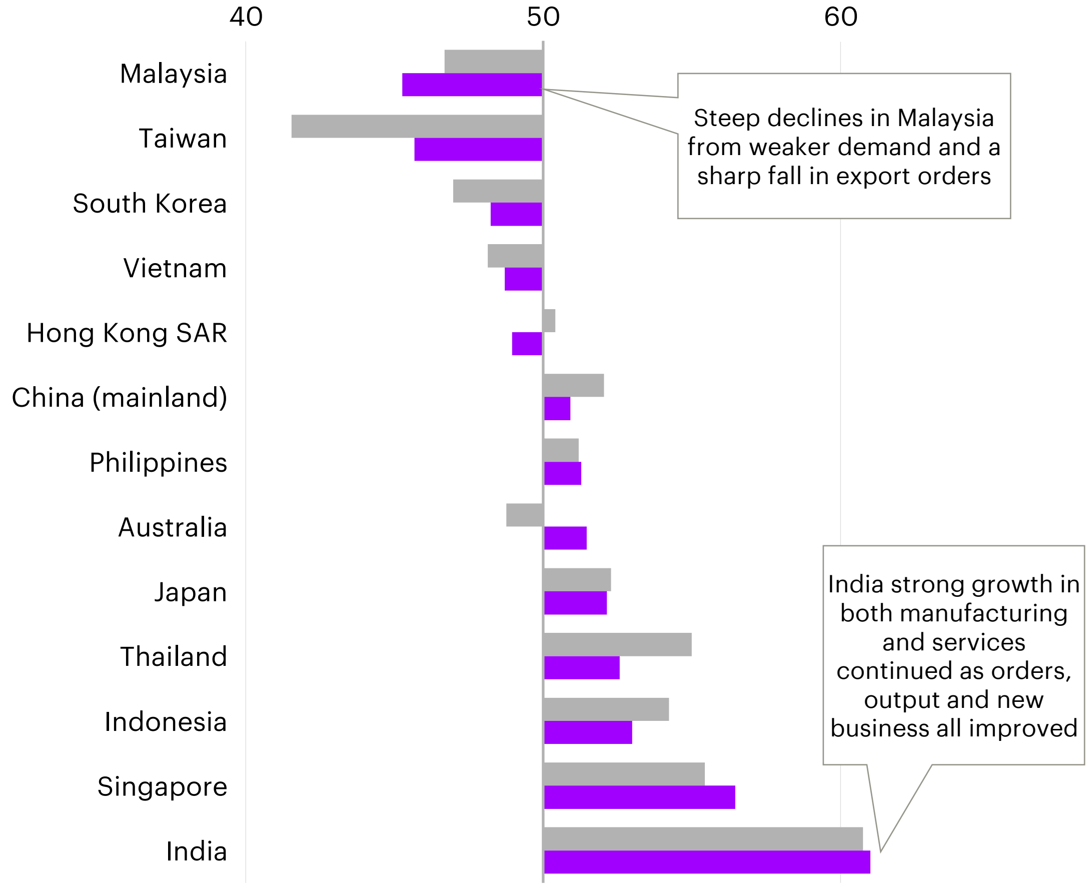
### Industry Performance

Sep’23 vs Previous 3 Month Average, Output/Activity PMI




### Country Performance

Sep’23 vs Previous 3 Month Average, Output/Activity PMI



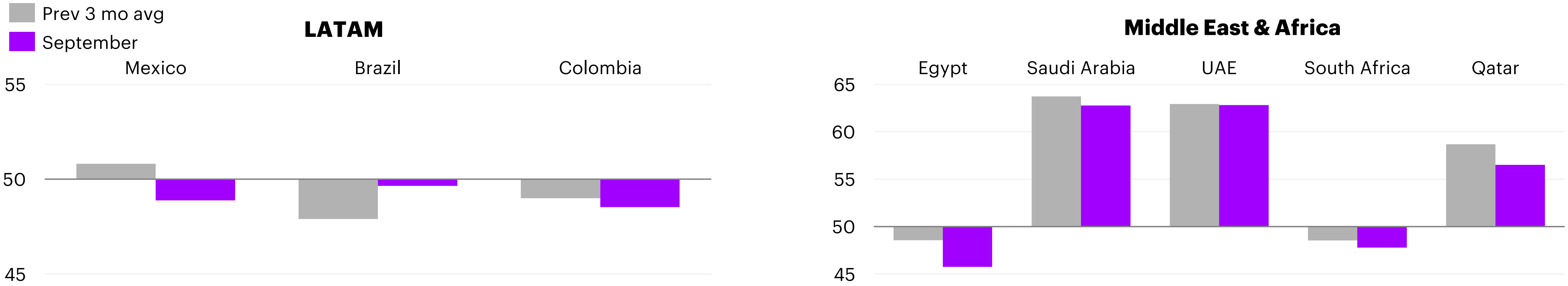

Source(s): S&P Global, Accenture Strategy analysis

# Major LATAM economies witnessed output contraction while Saudi Arabia, Qatar & UAE's strong growth continues

## Regional performance: LATAM and MEA

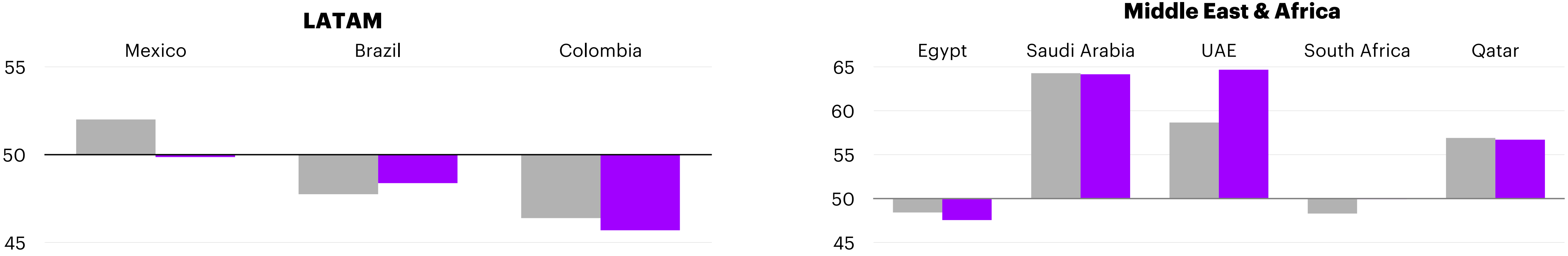
### Output/Activity

Sep'23 vs Previous 3 Month Average, Output/Activity PMI




### New Orders

Sep'23 vs Previous 3 Month Average, Output/Activity PMI



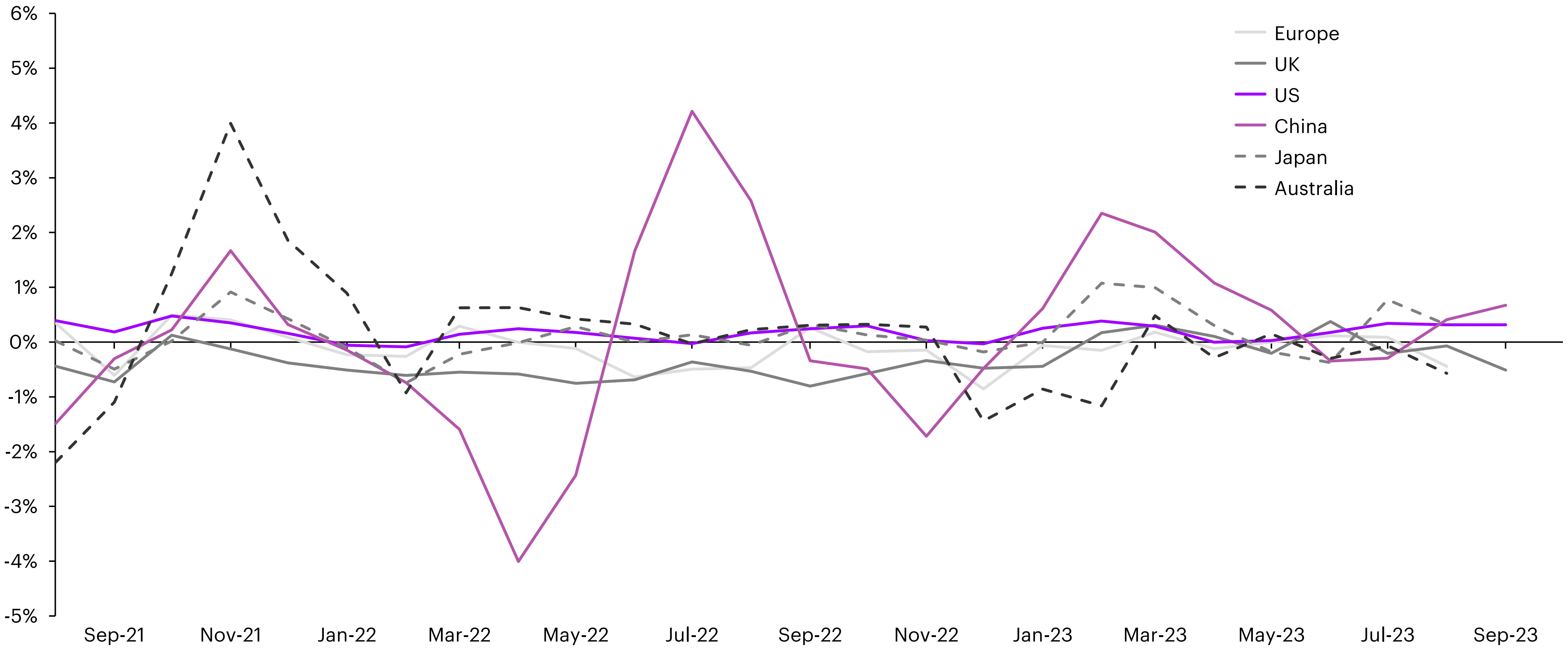

Source(s): S&P Global, Accenture Strategy analysis

# Consumer spending

# Recent consumer spending growth continues to moderate across most major economies

## Consumer spending trends

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

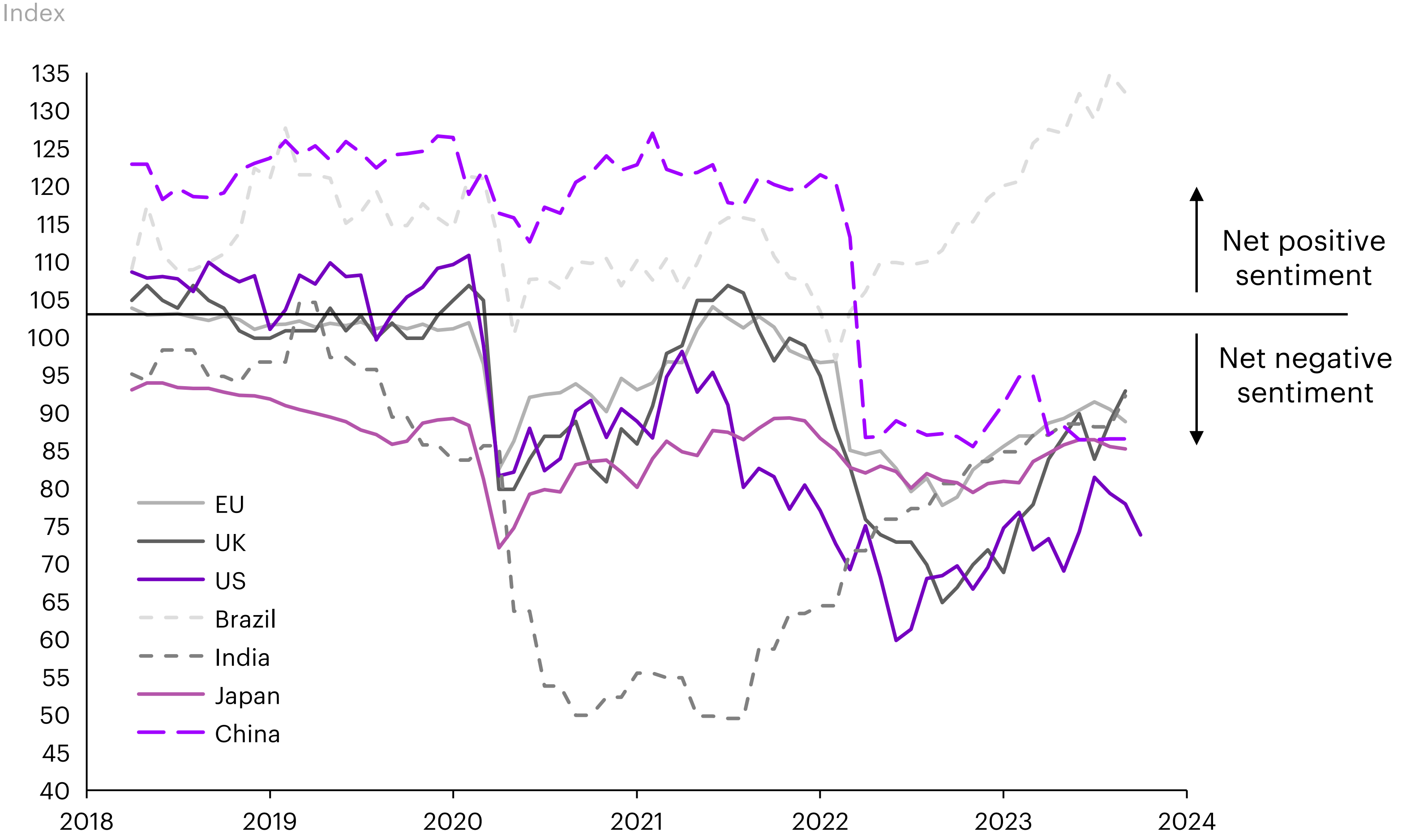



Note(s): Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area, UK, Canada, Japan, Australia, and China series data is retail sales.
Source(s): BEA, BLS, Eurostat, ONS, Haver analytics, Accenture Strategy analysis

# Consumer sentiment remains largely pessimistic across major economies and has begun to deteriorate again in the US after its summer-time rebound

## Consumer sentiment

**Survey-based measures of overall consumer sentiment**




**Commentary**

- Consumer sentiment in the US has deteriorated sharply over past 3 months, retracting earlier improvements
- Expectation of increasing inflation impacted consumer confidence across Europe
- Consumer sentiment in UK reached its highest level in 20 months as wage growth started to outstrip inflation
- Consumer confidence in India continues to improve

Note(s): 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
Source(s): EC Consumer Surveys, GfK Survey, University of Michigan Survey, Fecomercio, China National Bureau of Statistics, Reserve Bank of India, Japan Cabinet Office, WSJ

# Increasingly fewer consumer spending categories are showing sequential growth, with most of the strength concentrated in the US

## Consumer spending trends by goods and services category

**AS OF OCT 25**

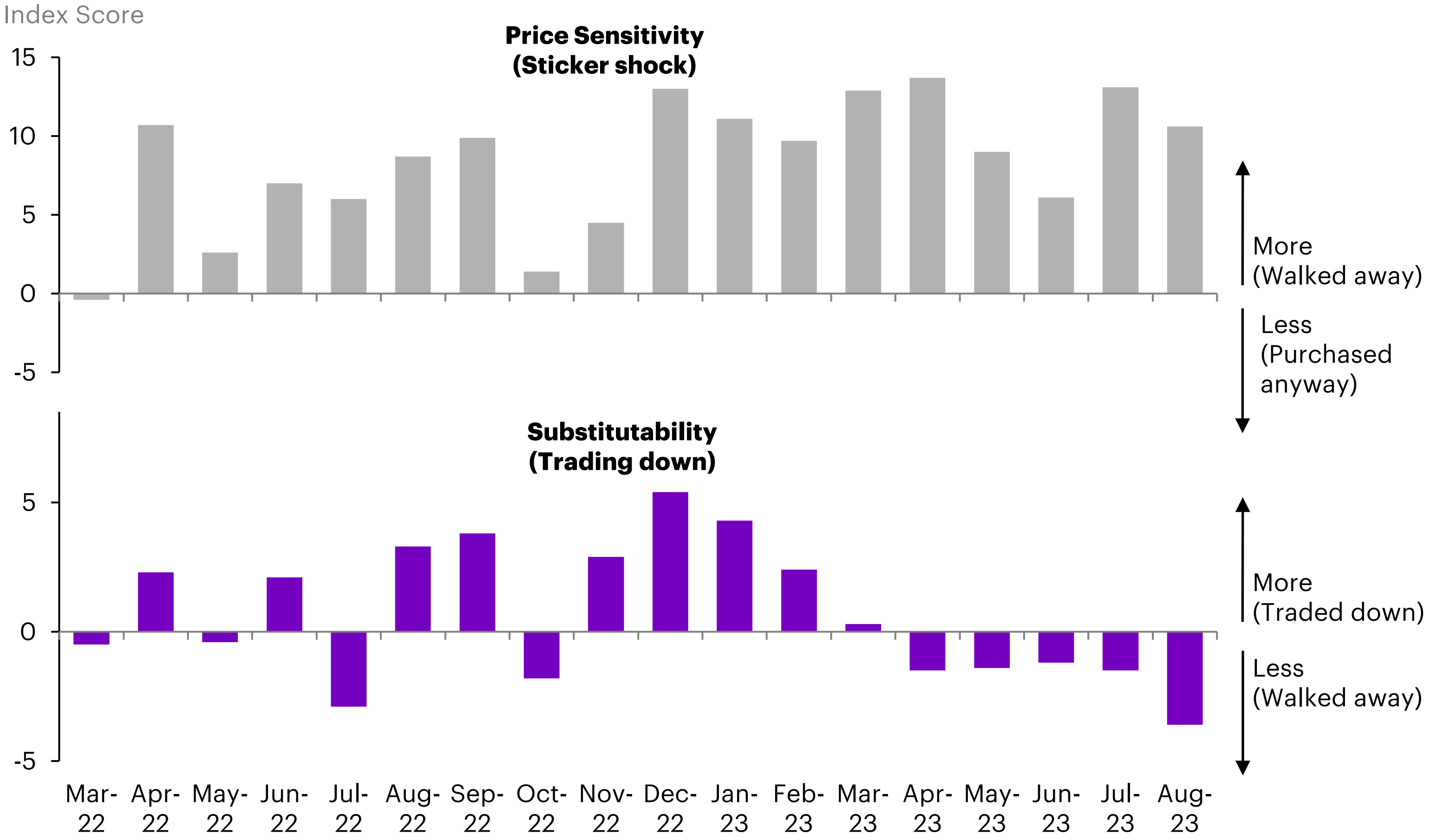
| | | US | | UK | | Germany | | France | |
|---|---|---|---|---|---|---|---|---|---|
| | | Prior 6 months | Latest monthly change | Prior 6 months | Latest monthly change | Prior 6 months | Latest monthly change | Prior 6 months | Latest monthly change |
| **Goods** | Groceries | 0.1% | 0.1% | -0.7% | 0.2% | -0.1% | -1.3% | -3.3% | -1.7% |
| | Motor vehicles | 1.2% | 2.8% | -7.4% | 5.1% | 2.0% | 2.2% | 4.0% | -0.3% |
| | Furniture | 1.1% | 0.7% | 4.5% | -3.1% | -3.9% | 1.3% | -2.5% | -0.9% |
| | Electronics | 8.7% | -1.1% | -7.0% | 5.3% | -0.1% | -0.5% | 0.0% | 2.6% |
| | Footwear & apparel | -0.9% | 0.5% | -3.0% | -1.7% | -1.1% | -2.5% | -0.1% | 0.1% |
| | Fuel | 1.6% | -3.1% | -0.9% | 0.8% | 0.9% | -2.3% | -4.0% | -0.8% |
| **Services** | Transportation | 1.0% | 1.4% | -2.7% | 0.6% | 4.7% | -2.3% | -1.3% | 2.7% |
| | Entertainment | 1.4% | -0.7% | 6.1% | -7.4% | n/a | | 3.2% | -5.2% |
| | Dining out and hotels | 0.8% | 0.4% | 2.3% | 0.1% | -1.7% | -2.1% | 1.4% | -2.3% |
| | Information services | 1.2% | 0.5% | 1.4% | 1.0% | 1.1% | -3.5% | 3.9% | 0.8% |
| | Telecom | 0.6% | 0.4% | 2.0% | -1.5% | 1.5% | -1.8% | 5.2% | 2.1% |

Note(s): 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.
Source(s): BEA, BLS, ONS, National Institute of Statistics and Economic Studies, Federal Statistical Office

# Amidst persistent inflation, US consumers continue to report price sensitivity and a high tendency to walk away from purchases

## US consumer behavior in the face of inflationary pressures

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




**Commentary**

- Reported price sensitivity decelerated in Aug '23 from July's near 2023 peak level amidst moderating inflation; however:
  - Elevated prices continue to pressure consumer budgets, deterring further purchases
  - Indeed, the share of consumers who walked away from a higher-than-expected purchase price exceeded the share who purchased anyway
- Similarly, the share of consumers who trade down—i.e., opt for a lower-priced substitute product or service rather than foregoing purchase altogether—came in negative territory in Aug for fifth consecutive month
  - This partly reflects less availability of affordable product substitutes

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

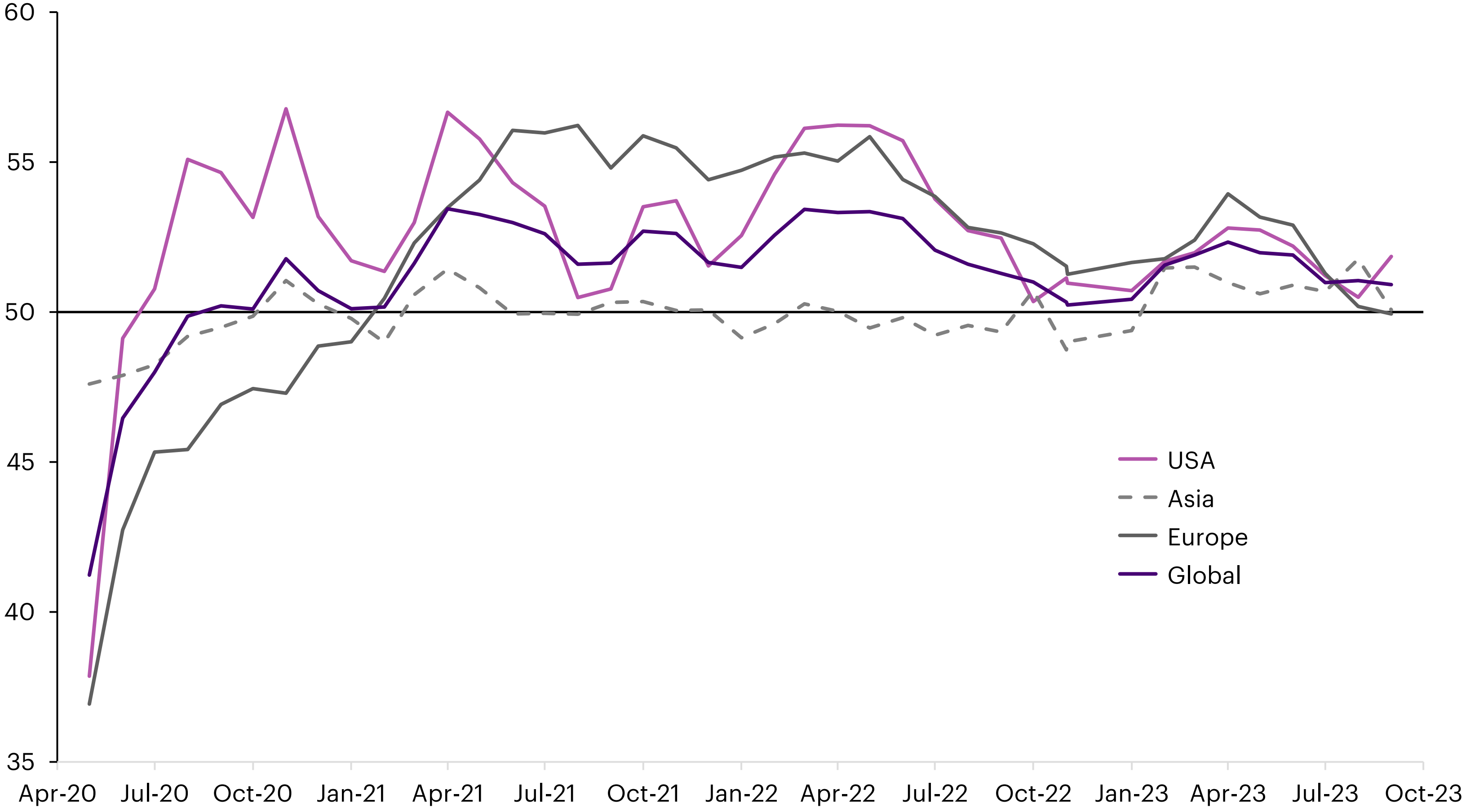
# Labor markets

# Employment growth globally is edging close to negative territory, though US labor market resilience continues to surprise to upside

## Employment growth

### Aggregate PMI Employment Index

Index (>50=expanding employment)




### Commentary

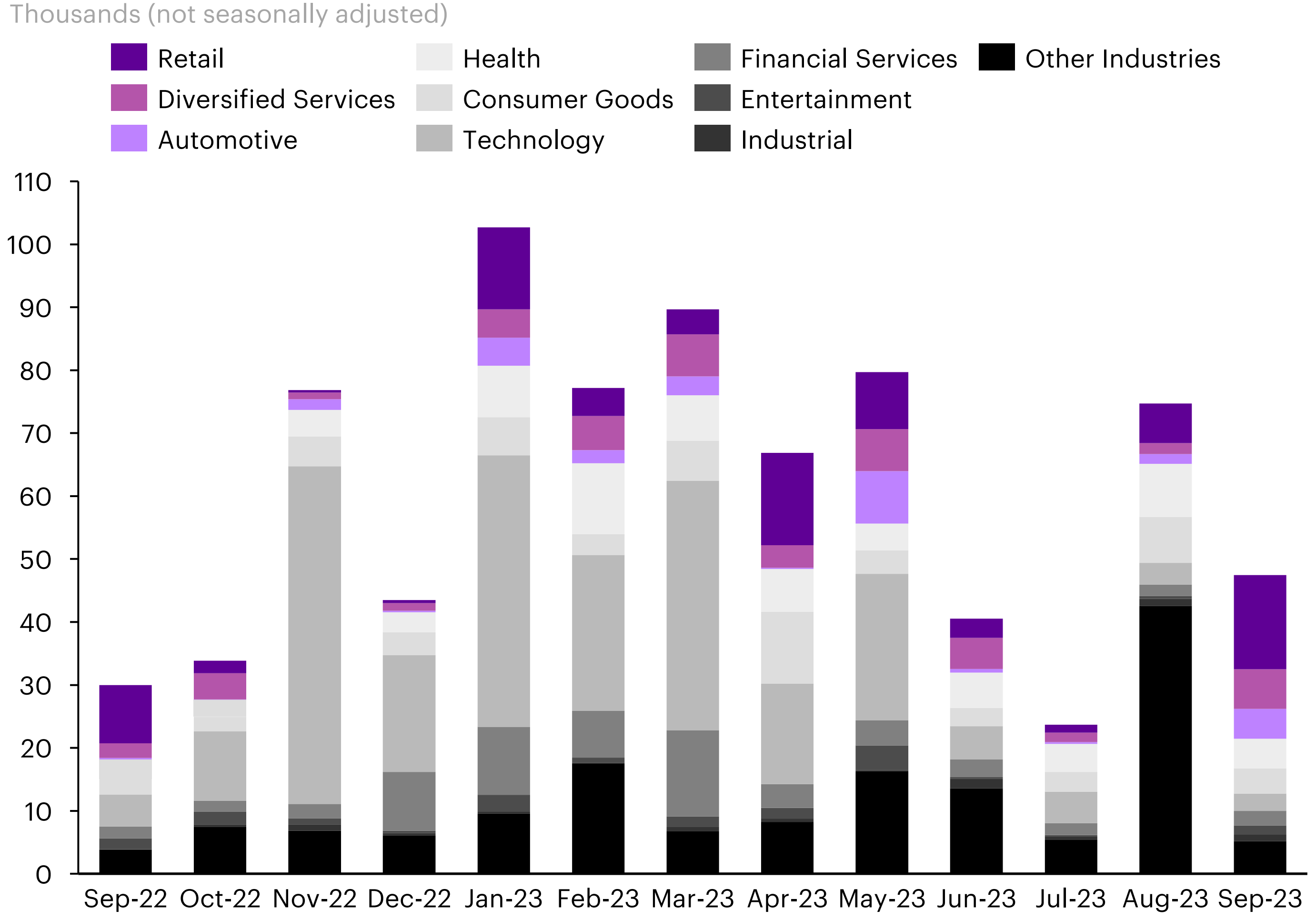
- Employment growth re-accelerated in the US while it continued to decelerate in Europe and Asia
- In Europe, employment contracted for the first time since Jan 2021

Source(s): S&P Global, BLS, Accenture Strategy analysis

# US layoffs dropped in September after a surge in August

## US corporate layoff tracker

### Announced layoffs by sector




### Commentary

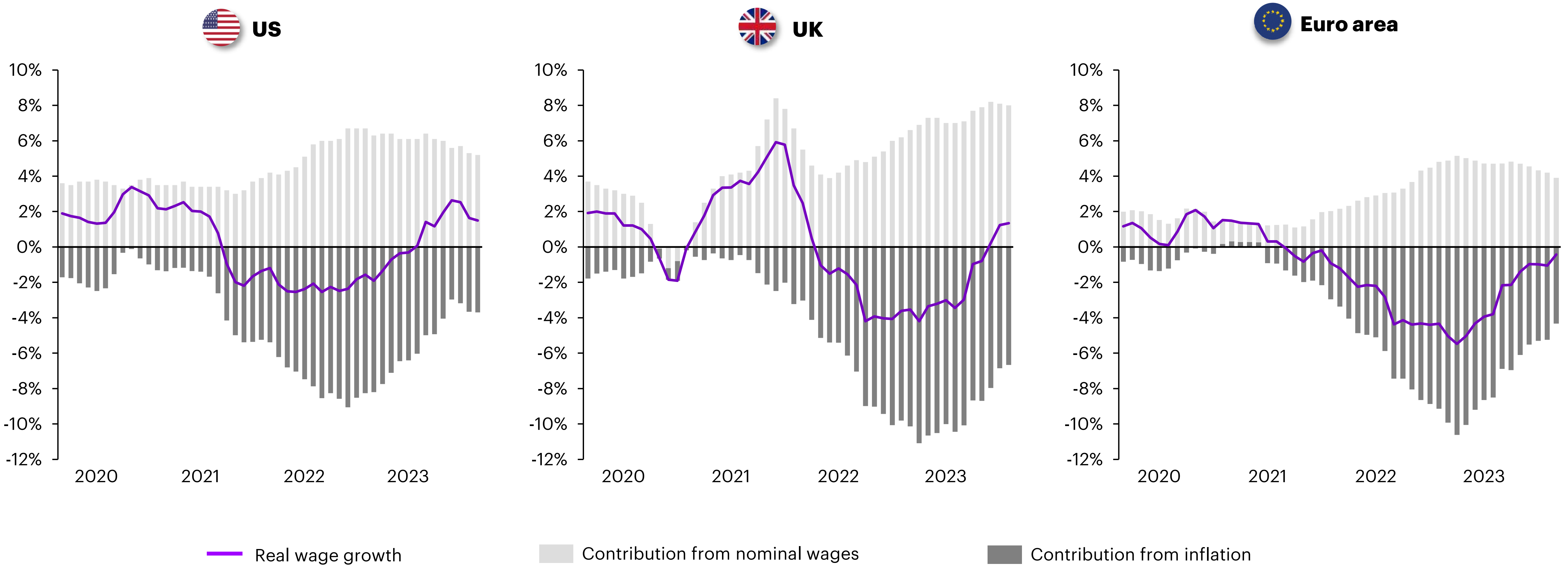
- Warehousing witnessed the biggest hike in August, largely attributed to the bankruptcy of Yellow Corp, which put 30K+ employees out of work
- In September, retail layoffs doubled month-over-month, while Automotive and Diversified Services were 3.5x and 3x respectively over August numbers

Source(s): Challenger Employment Report, Haver Analytics

# Real wage growth is positive in the US and UK amidst moderating inflation, but remains slightly negative in the Euro area

## Wage growth developments

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

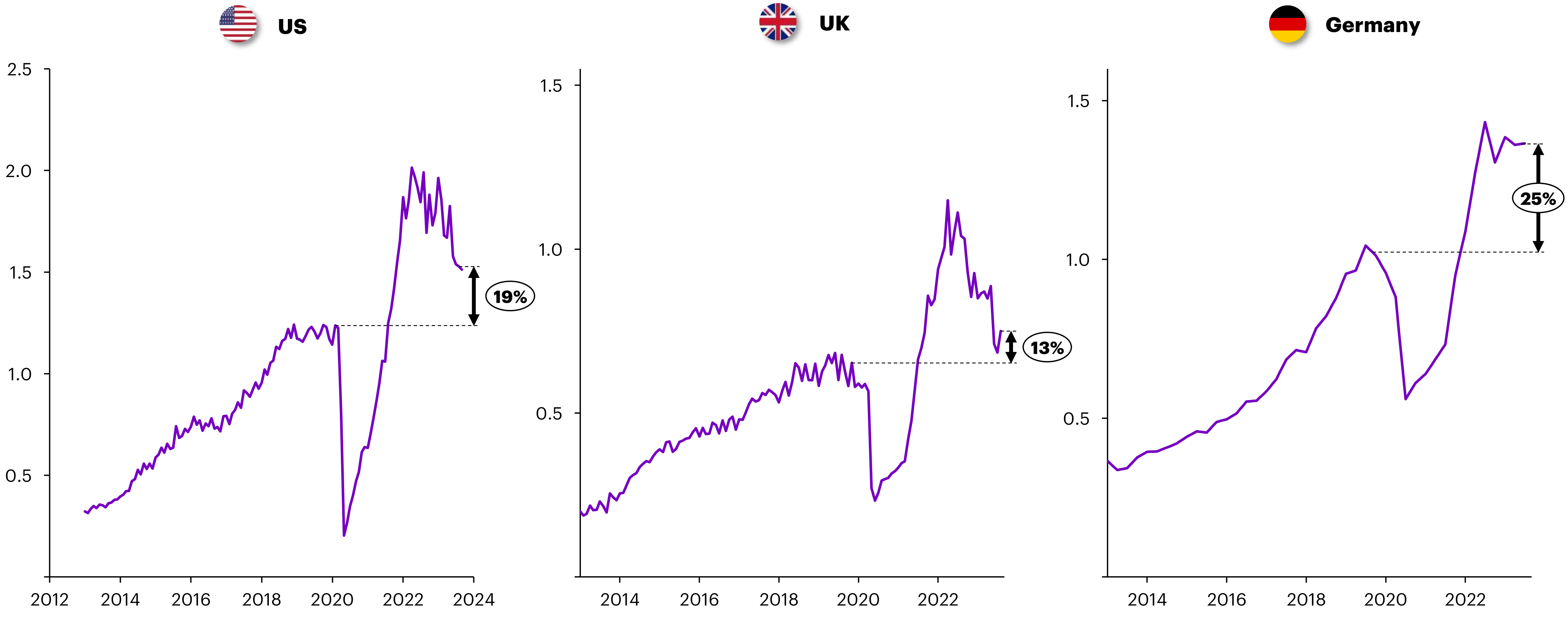



Source(s): BLS, ONS, Indeed, Accenture Strategy analysis

# A difficult hiring environment (relative to pre-pandemic norms) persists across US and Europe, though labor markets are showing some signs of cooling

## Labor market tightness

**Job vacancies per unemployed person**



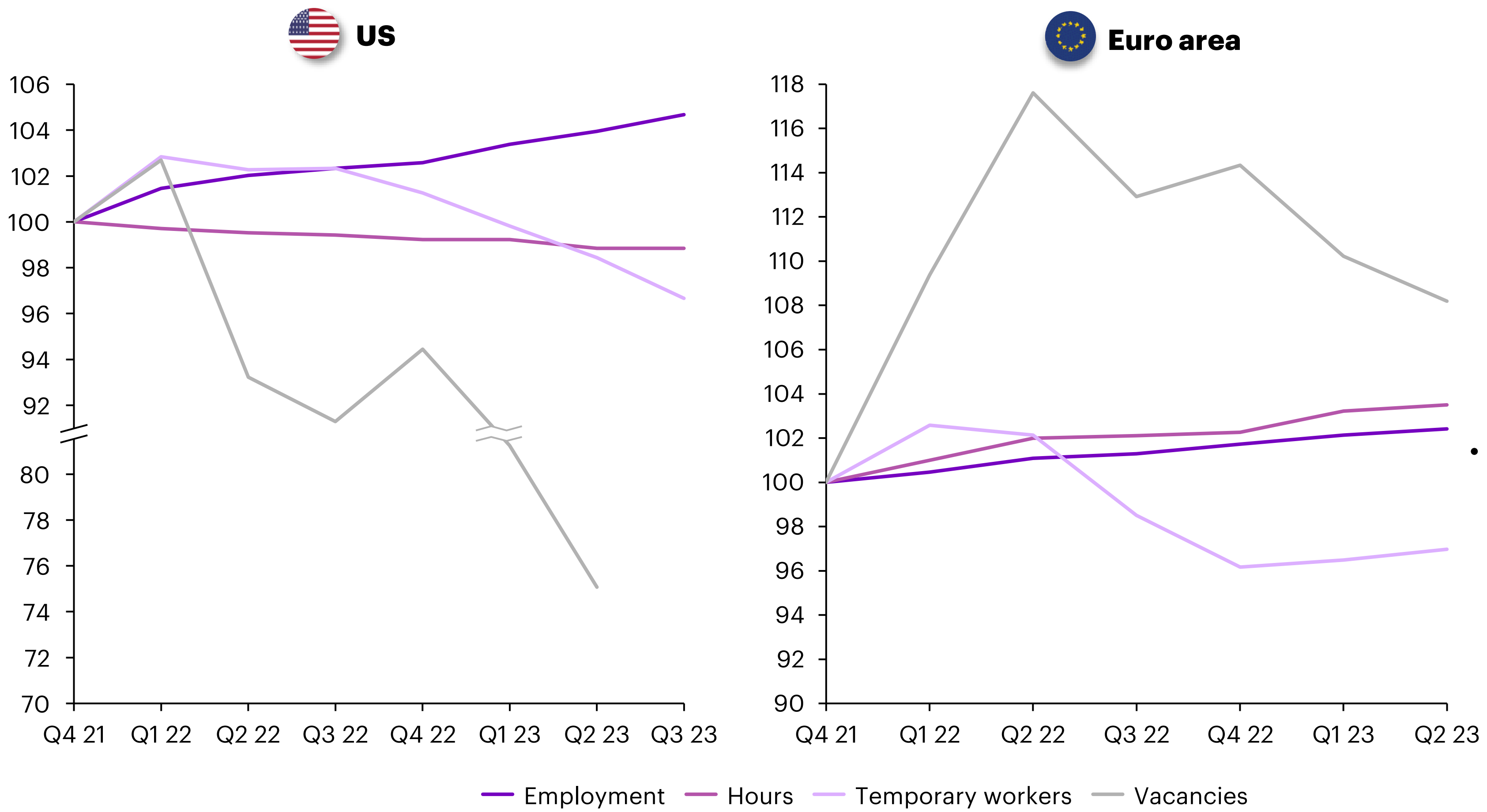

Source(s): BLS, ONS, Eurostat

# In both US and Europe, worker hoarding remains prevalent and labor market adjustment is happening mainly through channels other than outright layoffs

## Labor market indicators

### Recent labor market movements

Index 100 = Q4 2021




### Commentary

- While employment continues to rise in the US, companies have been reducing hours and temporary workers to adjust to lower levels of demand
  - Companies have also reduced vacancies contributing to easing labor markets
  - While cooling labor markets may point to a soft landing, the risk remains that an easier recruiting environment could motivate deeper cuts to full-time workforces
- Just as labor markets in the Euro Area never quite reached the same levels of tightness witnessed in the US, they are slower to loosen in the current environment
  - Vacancies and the use of temporary workers are showing recent declines pointing to near-term headwinds to employment

Source(s): Census Bureau, Bureau of Labor Statistics, Goldman Sachs Research, White House, Accenture Strategy analysis

# Talent shortages remain most pronounced in the US and in services sectors across Europe

## Relative difficulty of hiring by sector

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

| | UK | | US | | EU | |
|---|---|---|---|---|---|---|
| | Difficulty relative to average | Recent change | Difficulty relative to average | Recent change | Difficulty relative to average | Recent change |
| Mining | | ↑ | | ↑ | | ↓ |
| Manufacturing | | ↑ | | ↑ | | ↑ |
| Construction | | ↓ | | ↓ | | ↓ |
| Transport & Storage | | → | | ↓ | | ↓ |
| Hotels & Restaurants | | → | | ↓ | | ↓ |
| Entertainment | | ↓ | | ↓ | | ↑ |
| Information & Communications | | ↓ | | ↑ | | ↓ |
| Financials | | ↓ | | ↑ | | ↑ |
| Professional & Business Services | | ↓ | | ↑ | | ↑ |
| Human Health & Social Work | | ↓ | | ↑ | | ↓ |
| Education | | ↓ | | ↑ | | ↑ |
| Wholesale & Retail | | → | | ↓ | | ↓ |
| **Total Private Sector** | | ↓ | | ↑ | | ↓ |

**Commentary**

- Hiring is most difficult in the healthcare and hospitality industries across the US, UK and EU
- Overall hiring difficulties relative to historical norms are highest in the US, as compared to UK and EU

**Difficulty finding labor (relative to long-term average)**

More difficult — Less difficult

Note(s): 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.

Source(s): ONS, Eurostat, BLS, Haver Analytics, Accenture Strategy analysis

# Inflation

# Recent disinflationary trends have moderated as core inflation remains elevated worldwide

## 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 | 3.7% | 0.0% | → |
| United Kingdom | 6.6% | 0.0% | → |
| Canada | 3.7% | -0.2% | ↓ |
| Germany | 4.3% | -2.1% | ↓ |
| France | 5.7% | -0.1% | ↓ |
| Italy | 5.6% | 0.1% | ↑ |
| Spain | 3.3% | 0.9% | ↑ |

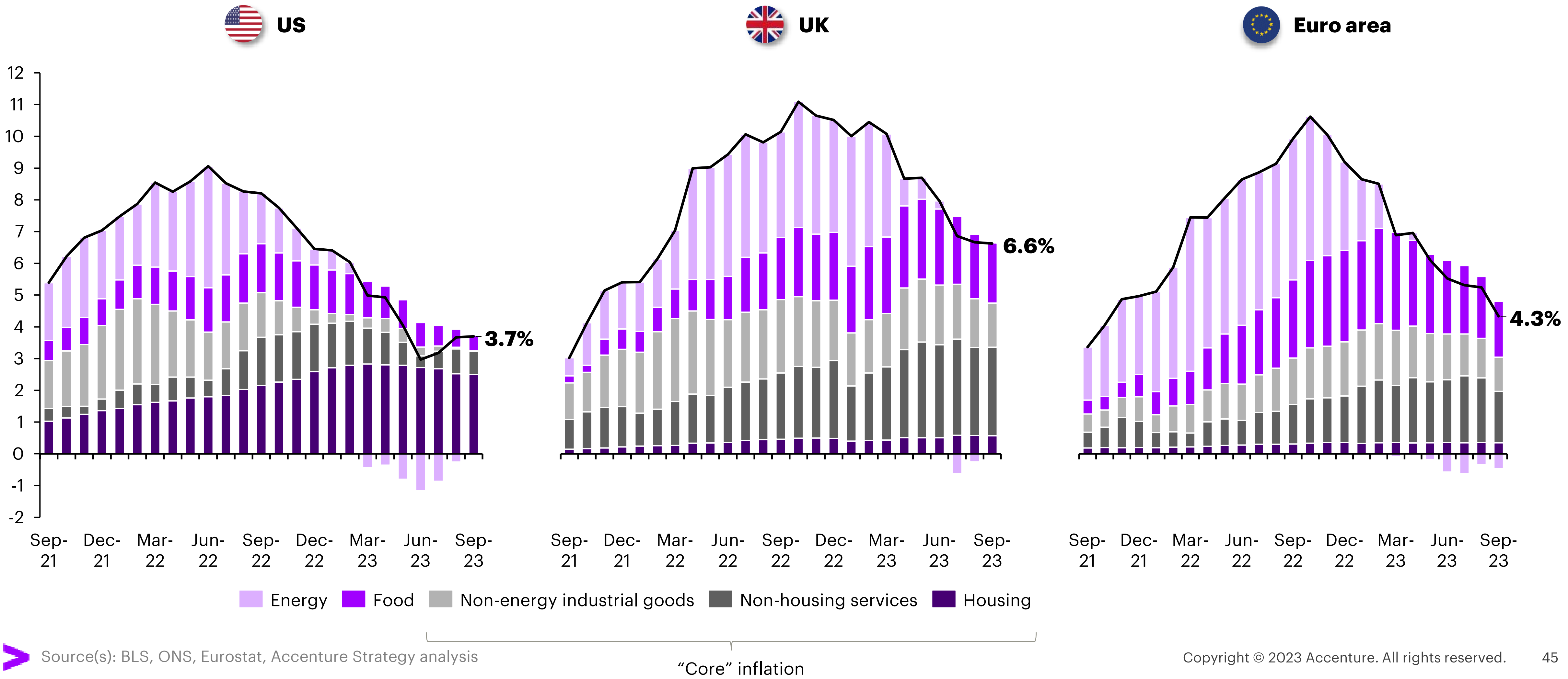
| Country | YoY Inflation Rate | Change from previous month's rate (percentage points) | |
|---|---|---|---|
| China | 0.0% | -0.1% | ↓ |
| Japan | 3.0% | -0.1% | ↓ |
| Brazil | 5.2% | 0.6% | ↑ |
| India | 5.0% | -1.8% | ↓ |
| Singapore | 4.1% | -0.1% | ↓ |
| Korea | 3.7% | 0.3% | ↑ |

Source(s): BLS, ONS, Eurostat, Accenture Strategy analysis

# Rebounding energy prices and sticky core inflation are keeping inflation above target in the US and Europe

## Drivers of recent CPI inflation

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

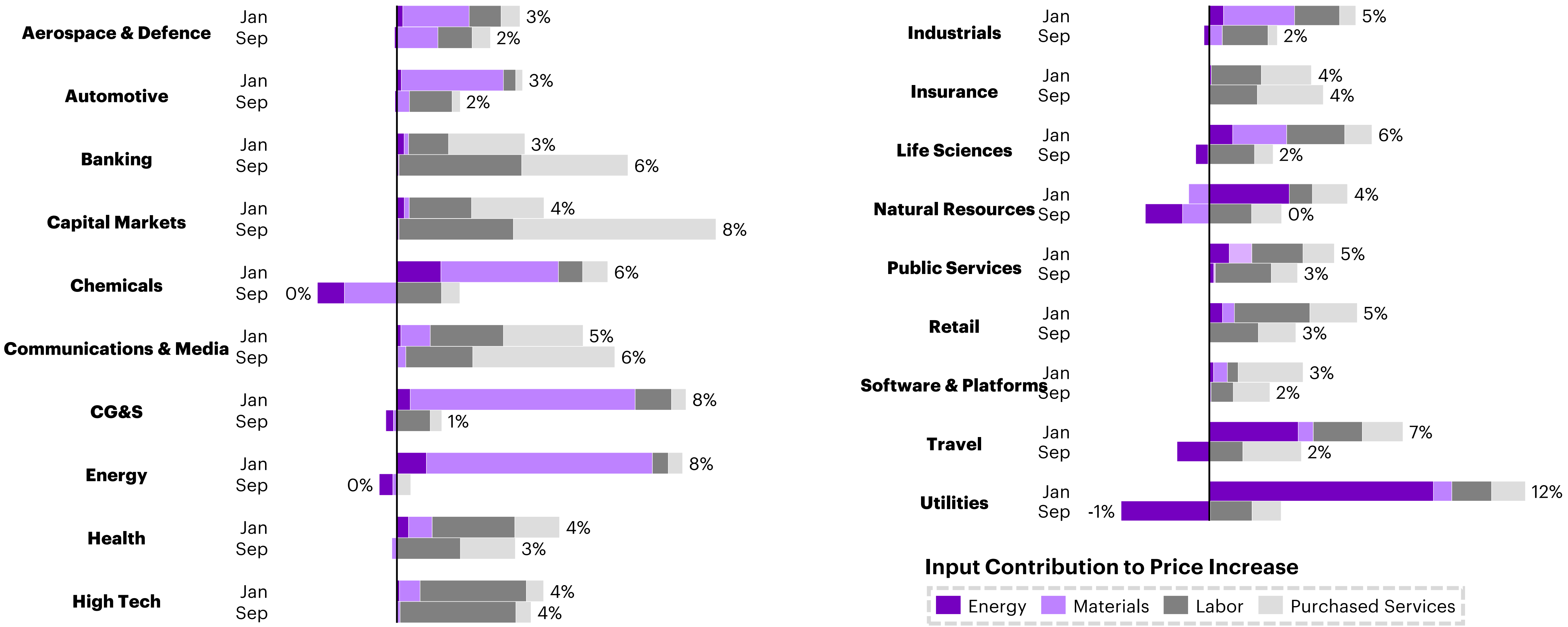



Source(s): BLS, ONS, Eurostat, Accenture Strategy analysis

# Falling year-over-year materials and energy prices have reduced some of the input cost pressures across industries

## Recent input cost inflation by industry

**LTM year-over-year % change in input costs and contributions (percentage points) from key inputs, 2023**

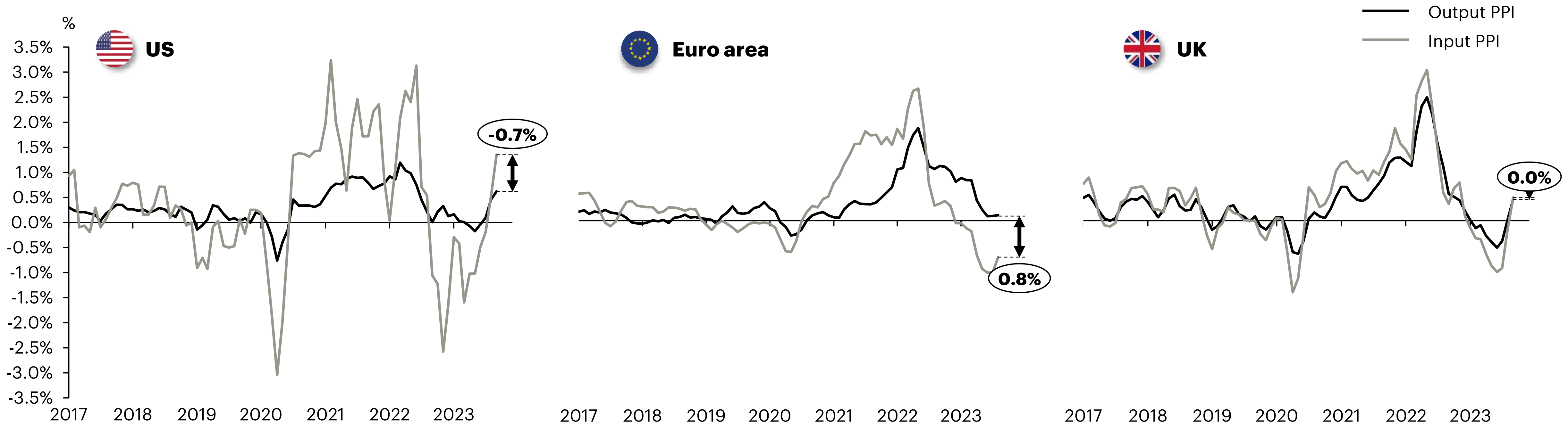



Note(s): Wage data as of Jul'23; Energy prices as of Aug'23 for Natural Gas, Jun'23 for Electricity and Aug'23 for Others; Materials and Purchased Services PPI price increases as of Jul'23.
Source(s): BLS, BEA, EIA, EPA, Accenture Strategy analysis

# European companies continue to be able to pass along their input costs while US companies appear to be allowing some margin compression

## 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 cost increases
- In the UK and Euro area corporate margins have been restored as intermediate input inflation pressures ease

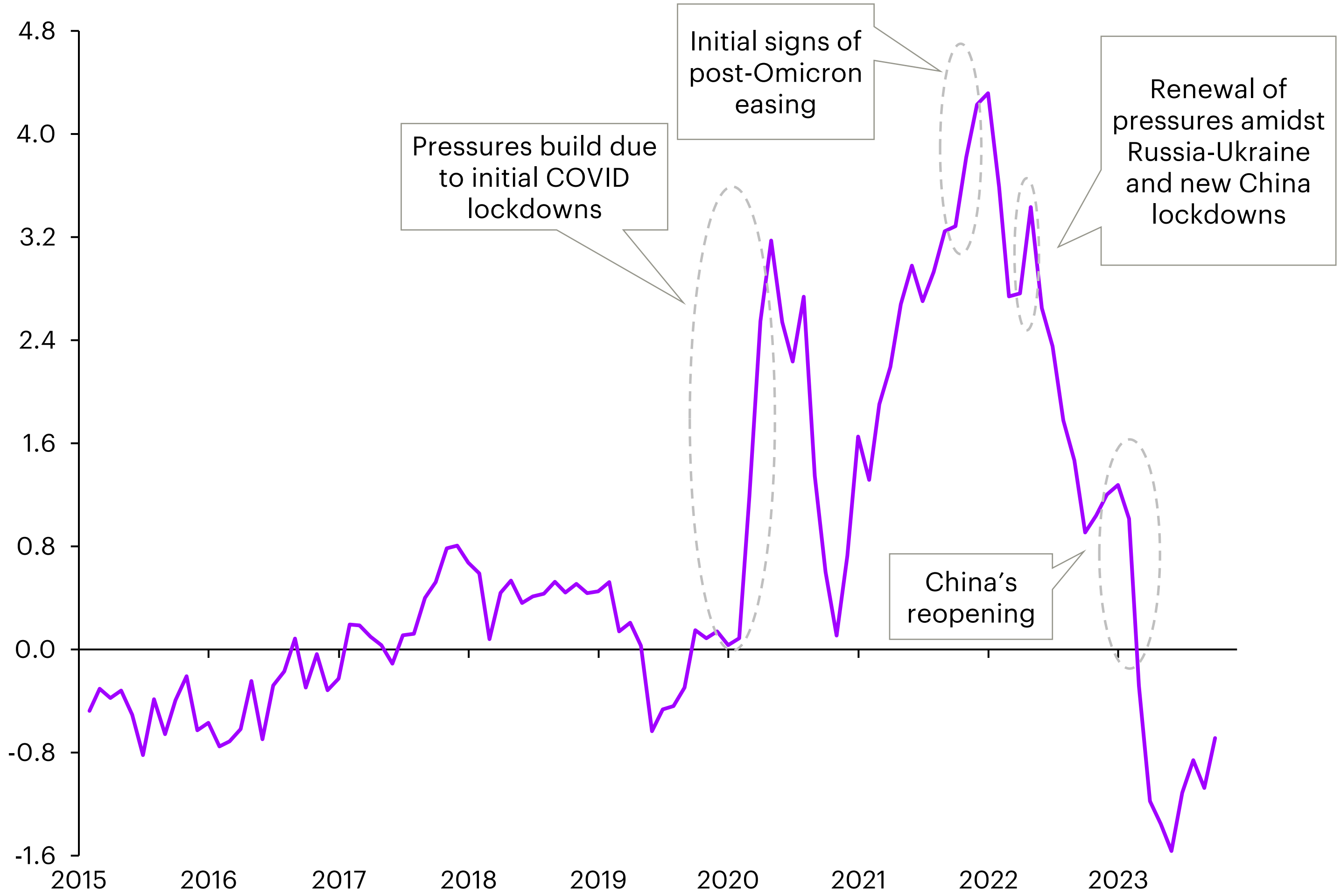
Note(s): 1) Figures in bold represent absolute percentage point difference between intermediate and final demand PPI YoY % values; higher positive values imply greater pass through to final producer selling prices, while larger negative values imply lower pass through. 2) US data is based on production 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.
Source(s): BLS, ONS, Eurostat, Accenture Strategy analysis

# Supply chains

# After easing substantially since January, global supply chain pressures are settling near their long-term pre-pandemic average

## Global Supply Chain Pressure Index

**Standard deviations from long-term average (=0)**




**Commentary**

- Supply chain pressures are settling near their long-run pre-pandemic average
- Going forward, risks are on the upside from potential escalation of a Middle East conflict
  - Backlog at the Israeli ports of Haifa and Ashdod
  - Impact on key shipping choke points, including the Suez Canal in Egypt and Strait of Hormuz
  - Spike in freight rates and insurance premiums

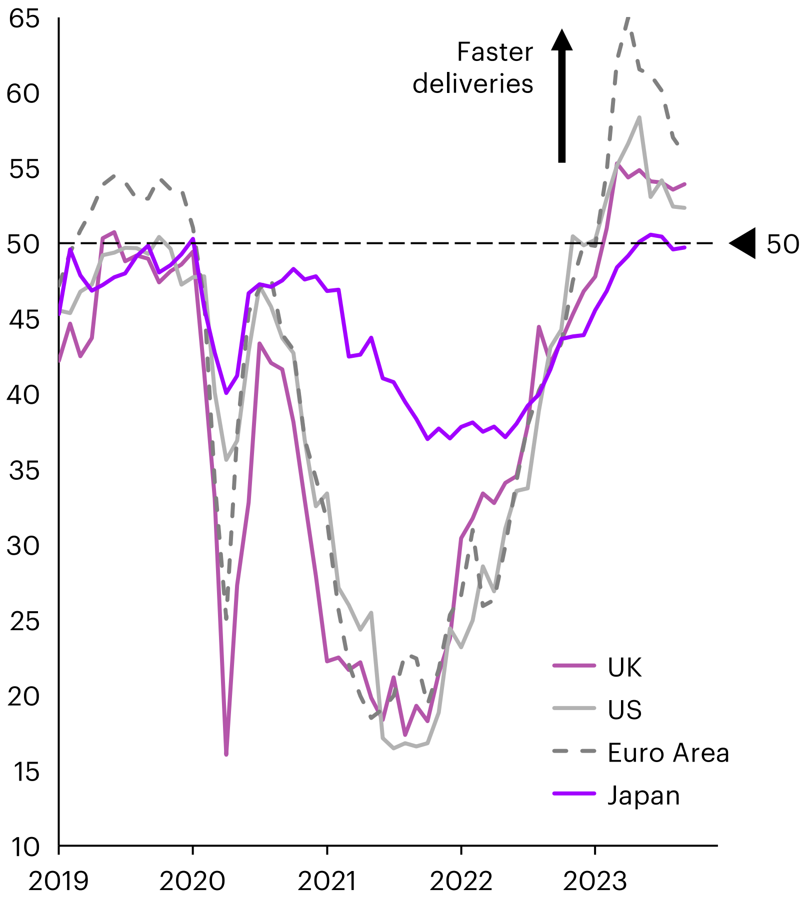
Source(s): Federal Reserve Bank of New York, Global Supply Chain Pressure Index, Accenture Strategy analysis

# Softening demand and a sharp decline in new orders in the US and Europe have shortened supplier delivery lead times and eased backlogs

## Suppliers' delivery times and backlogs of work

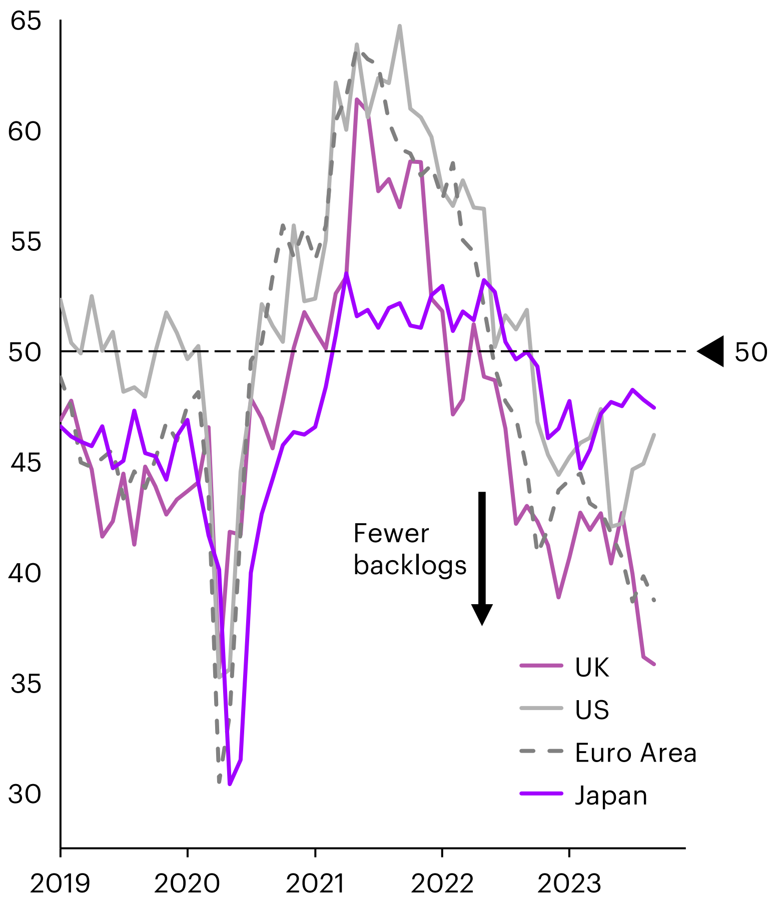
### Suppliers' Delivery Times

Seasonally adjusted, 50+ = Increase




### Manufacturing Backlogs of Work

Seasonally adjusted, 50+ = Increase




### Commentary

- The quickening of delivery times decelerated in the US, Euro area and UK in Sep '23 though they continue to improve
- Faster deliveries reflect greater supply availability and fewer bottlenecks, helping manufacturers to clear backlogs
  - Across the UK, Europe and Japan manufacturing backlogs declined as new orders fell

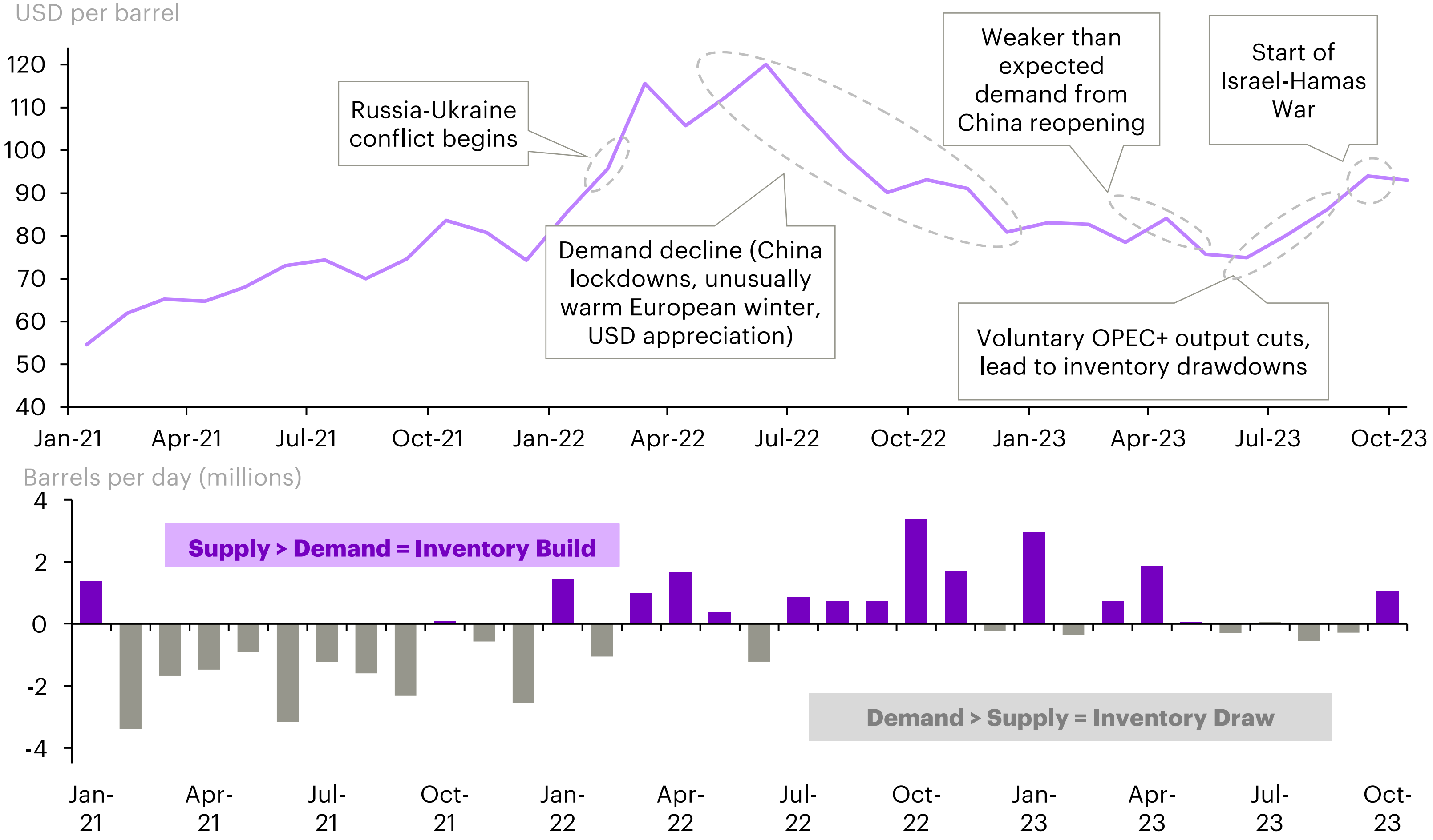
Source(s): CIPS/S&P Global, Haver Analytics, Thomson Reuters, Accenture Strategy analysis

# Energy and commodities

# Fears over a broadening conflict in the Middle East drove oil prices higher since early October though the increase was dampened somewhat by weaker demand prospects

## Crude oil prices and inventories

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




**Commentary**

- Crude oil prices rose in October over fears that the Israel-Hamas war would escalate and spill-over into wider region
- However, the surge in oil prices was counterbalanced by concerns over slowing global demand
- Going forward, supply and demand fundamentals continue to suggest upward price pressures, with
  - OPEC+ voluntary output cuts to support oil prices likely to continue into 2024
  - Potential near-term supply disruptions and long-term damages to O&G infrastructure if war tensions in the Middle East escalate

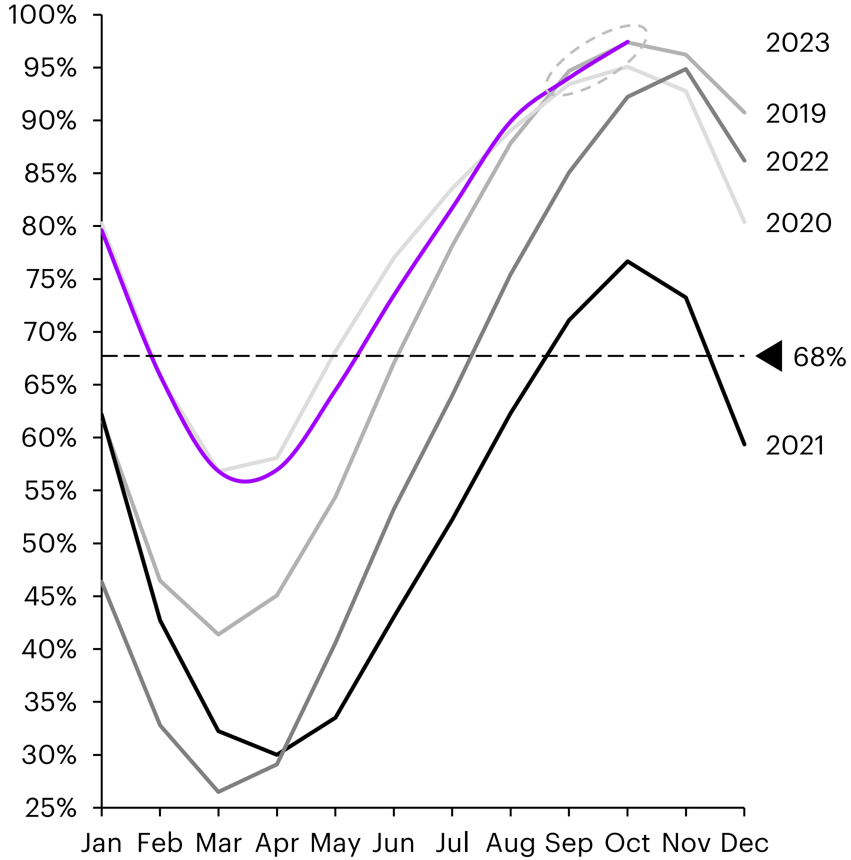
Note(s): Monthly average of crude oil price UK Brent 38` API (USD per barrel)
Source(s): Energy Information Agency, World Bank, Bloomberg, Haver Analytics, Accenture Strategy analysis

# EU gas prices rose to their highest levels so far in 2023 in October due to production stoppages and growing supply concerns in Europe

## EU natural gas reserves and prices

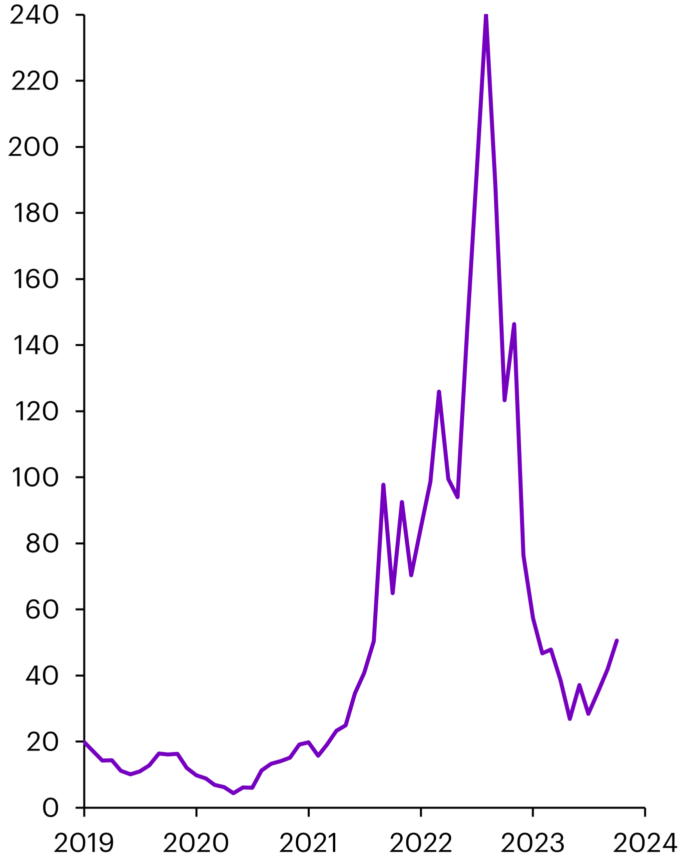
**European gas reserves are relatively high at 97%...**

% of storage capacity




**with prices rising on supply-side pressures**

TTF Gas (EUR per megawatt-hour)




**Commentary**

- Natural gas prices in Europe rose to an 8-month high in October after concerns over supply-side shocks, including:
  - Production stoppage at Chevron's offshore Tamar natural gas field as Israel-Hamas conflict evolves (this field provides around 70% of Israel's energy needs and will restrict direct and indirect gas exports to EU)
  - Ongoing union strikes at LNG facilities in Australia, impacting around 6% of global LNG supply
- Going forward, EU gas prices could further increase, amidst rising risks of a
  - Prolonged Israel-Hamas conflict and potential escalation to the wider Middle East region
  - Intensifying global competition for the fuel ahead of winter season

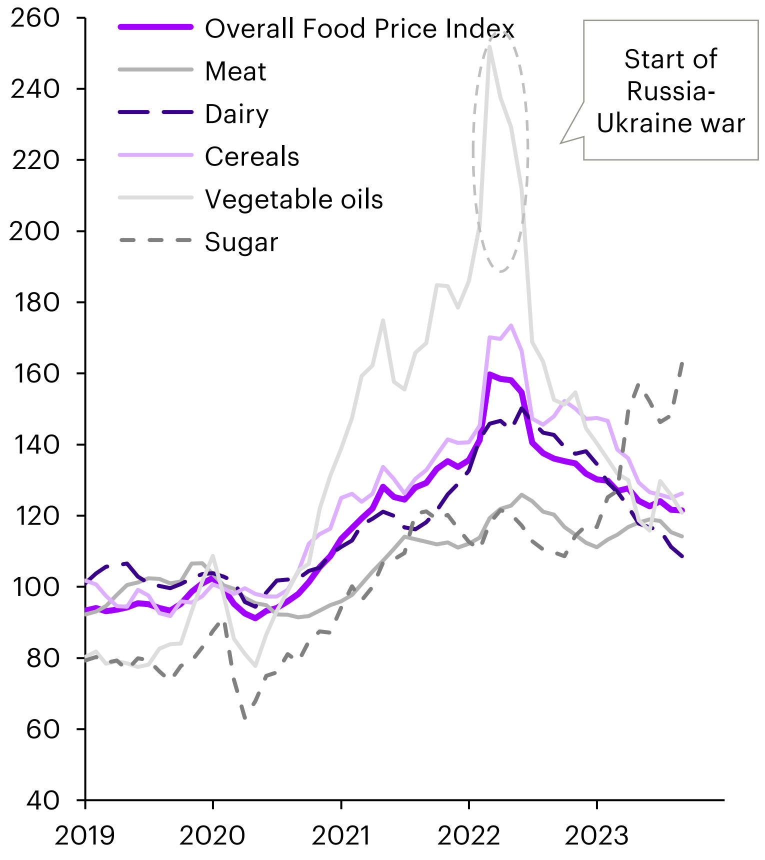
Note(s): Dutch TTF Natural Gas Futures front-month contract. TTF stands for Title Transfer Facility, which is a virtual trading hub for natural gas in Europe. TTF prices represent the average monthly price of natural gas traded at this hub and are considered a benchmark for natural gas prices in Europe.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

# Overall food prices hit a 30-month low in September while fertilizer prices held steady

## Food and fertilizer prices

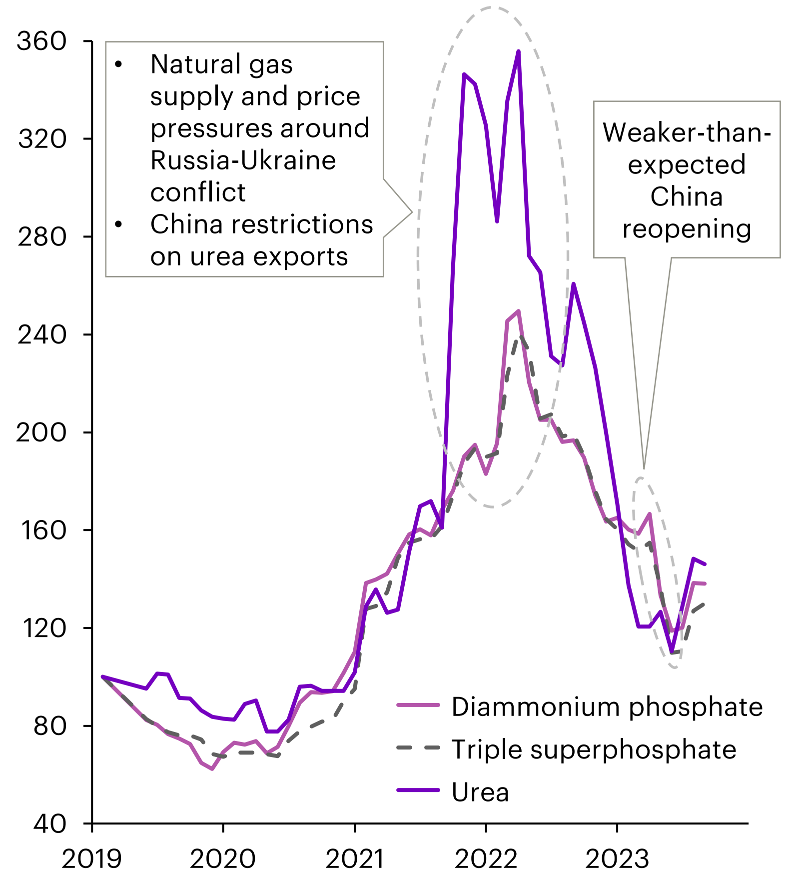
### Food prices

Index, 2014-2016 = 100




### Fertilizer prices

Index, Jan 2019 = 100




### Commentary

- Global food prices fell in Sep '23 to their lowest level in 30 months amidst weak global import demand and ample supply
- Price declines were evident across all categories, except for Sugar and Cereals
- Sugar prices surged amidst
  - Tighter supply from Thailand and India in the 2023/24 harvest season (i.e. El Niño weather pattern)
  - Higher prices for crude oil
- Fertilizer prices steadied in September with offsetting concerns over
  - Chinese export curbs (i.e. urea)
  - Higher energy prices
  - Weaker global demand

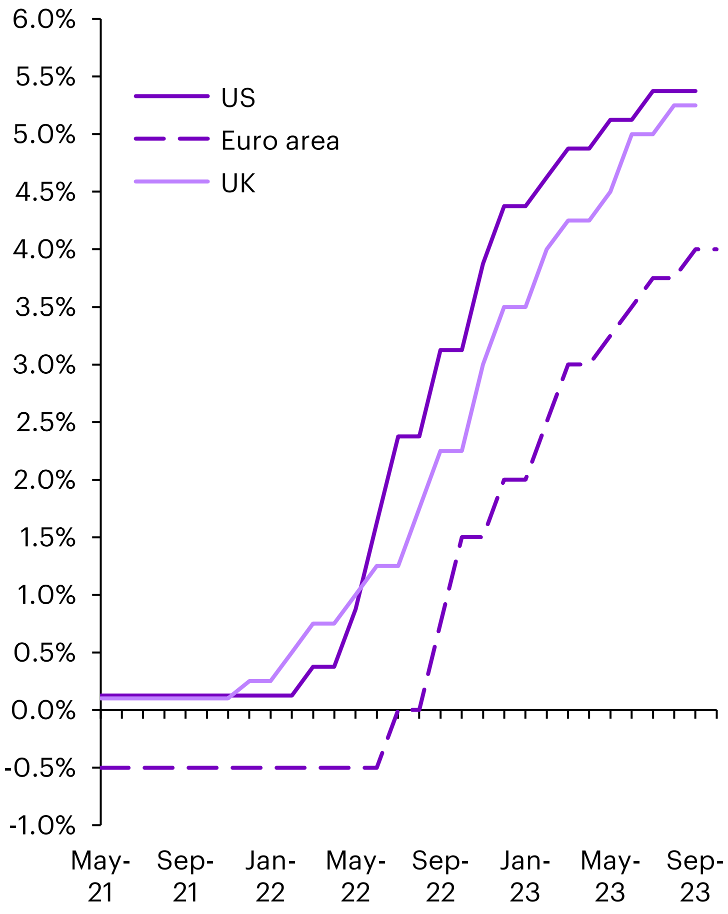
Note(s): (a) Food Price Index is a measure of the monthly change in international nominal prices of a basket of food commodities (b) Fertilizers include DAP (diammonium phosphate), TSP (triple superphosphate), and Urea.
Source(s): World Bank, UN FAO, USDA, Bloomberg, Accenture Strategy analysis

# Financial markets

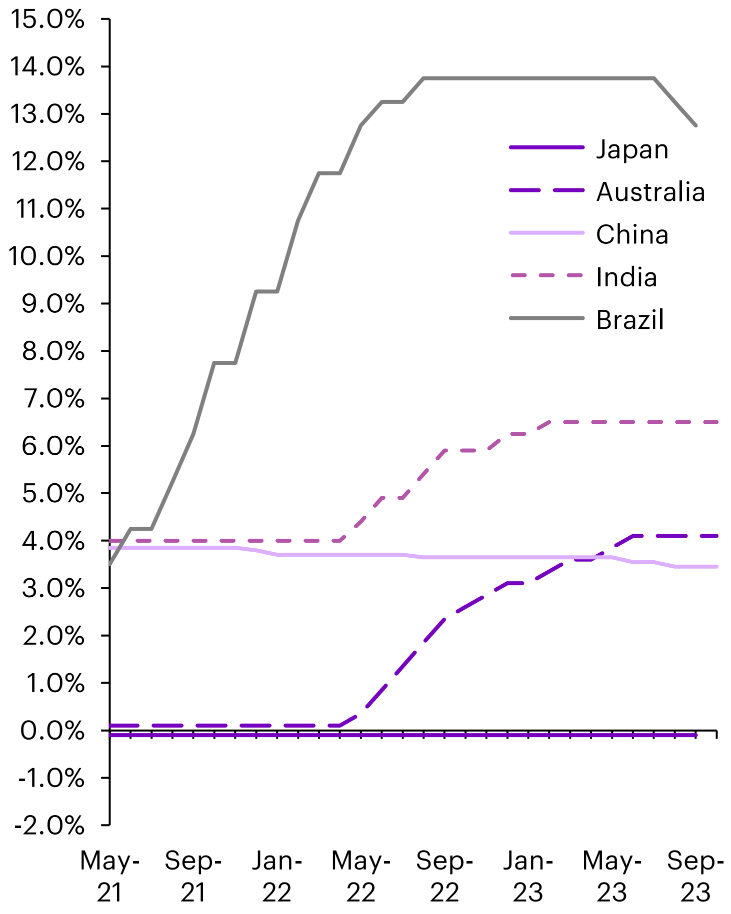
# Most central banks are pausing further rate hikes while they evaluate evolving conditions

## Monetary policy across major economies

### US, UK and Euro area policy rates




### Policy rates for other major economies




### Commentary

- The Fed left rates unchanged in September but signaled that another rate hike before year-end is possible
- The ECB kept its key policy rates unchanged in October and signaled that its September hike may have been its last, as the Euro area economy is slowing and could dip into recession
- The Bank of England maintained policy rates in September as UK contends with one of the highest inflation rates among major economies
- The Bank of Japan maintained its loose policy stance, though inflation concerns are fueling expectations that it may soon revise its longstanding yield curve control (YCC) framework
- Brazil's central bank cut its benchmark rate by 50 basis points in September due to the improving inflation outlook

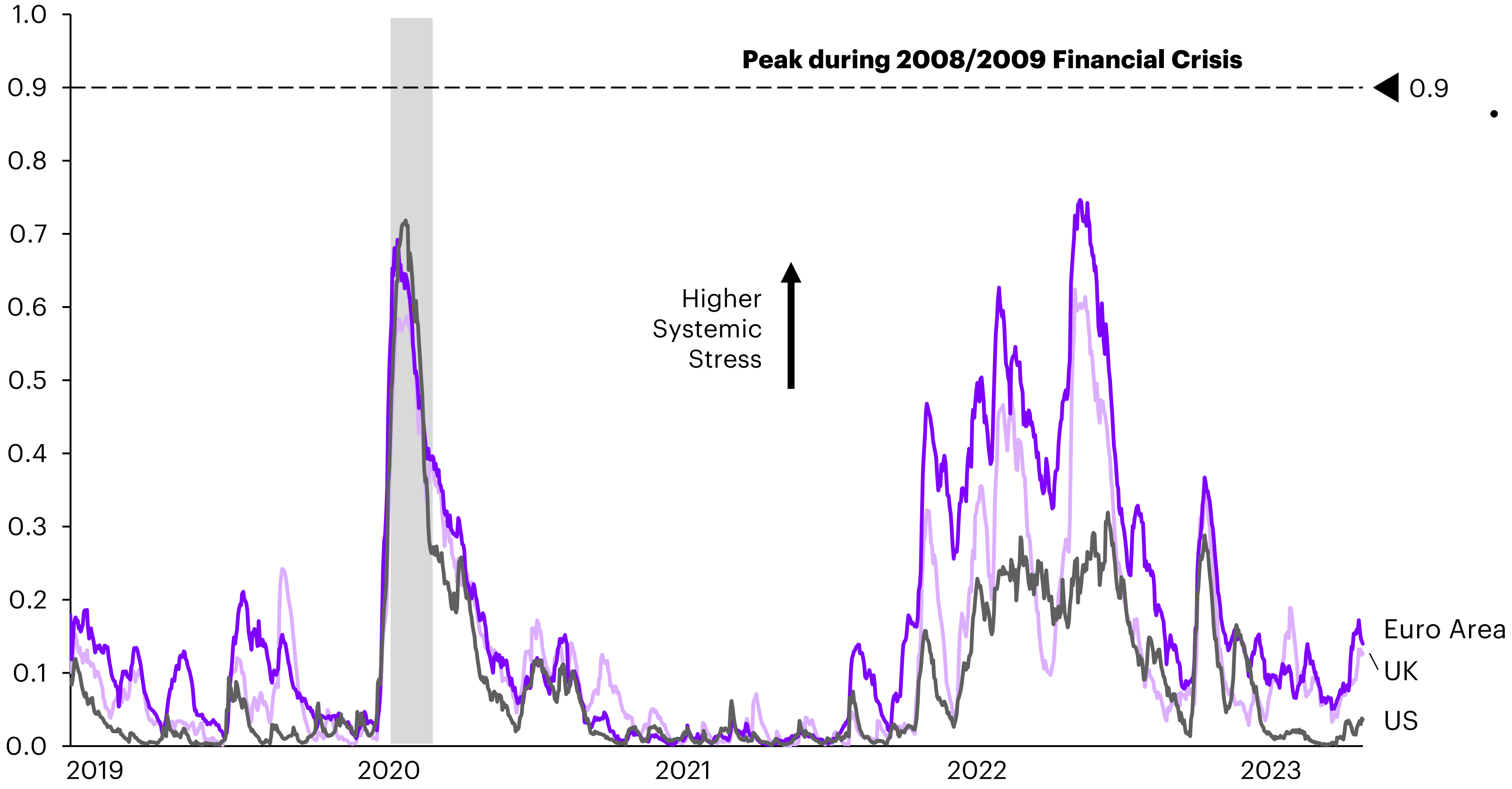
Source(s): Federal Reserve Bank, European Central Bank, Bank of England, Bank of Japan, Reserve Bank of India, Central Bank of Brazil, Reserve Bank of Australia, People's Bank of China, Accenture Strategy analysis

# Systemic financial stress in major economies has generally remained subdued since peaking during the wave of bank failures earlier in the year

## Systemic financial stress indicators

### Composite Indicator of Systemic Stress Index

(No Stress = 0, High Stress = 1)




### Commentary

- Systemic stress levels in the US and Europe ticked up in October but remain below their recent peak in March 20 23
- Elevated financial pressure is likely in the fourth quarter of 2023 amid
  - Interest rate uncertainty
  - Growing prospects of an economic downturn
  - Emerging vulnerabilities in sectors where banks have large exposure (e.g., commercial real estate)
  - Heightened geopolitical tensions

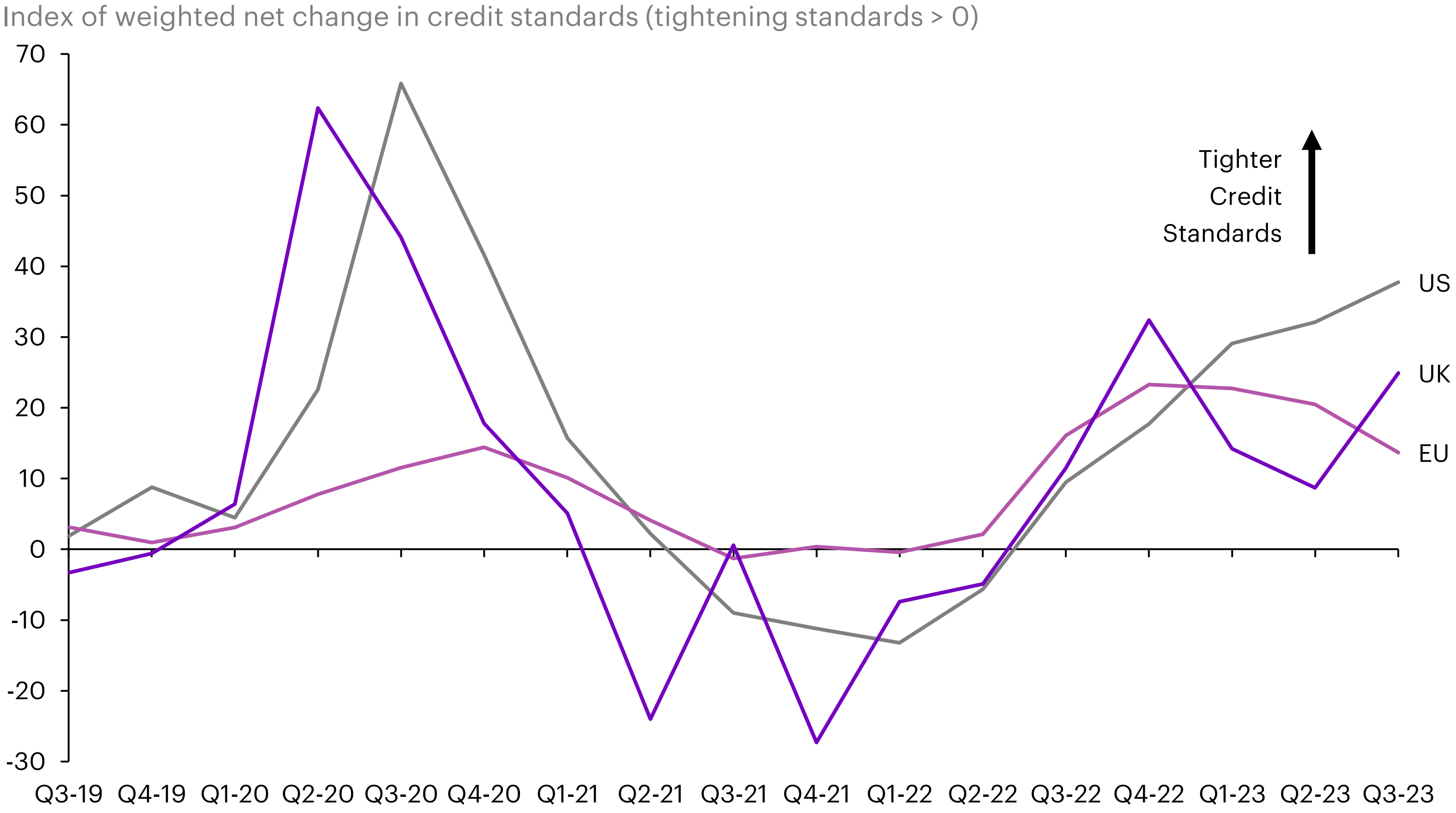
Note(s): (1) The composite indicator of systemic stress consists of market-based financial stress measures that namely covers the financial intermediaries' sector, money markets, equity markets, bond markets and foreign exchange markets (2) Grey shading reflects U.S. recession

Source(s): Haver Analytics, European Central Bank, Accenture Strategy analysis

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

## Restrictiveness of banks' lending standards

### Banks are tightening their credit standards in tandem with monetary tightening




### Commentary

- Monetary policy tightening since early 2022 has already been leading banks to scale back lending and tighten their credit standards
- US banks reported additional tightening of credit standards in Q3 '23 from the banking sector stresses and failures that begun in mid-March 2023
- In the EU, lending standards remained tight in Q3' 23 but loosened slightly from Q2
- UK banks tightened standards in Q3 '23 after two consecutive quarters of loosening credit
- Growing market and regulatory pressures in the aftermath of recent bank failures could prompt banks to further reduce risk-taking and increase their provisions for credit losses
- An intensifying credit crunch could raise the risk of more severe recession outcomes via a squeeze on household and corporate funding

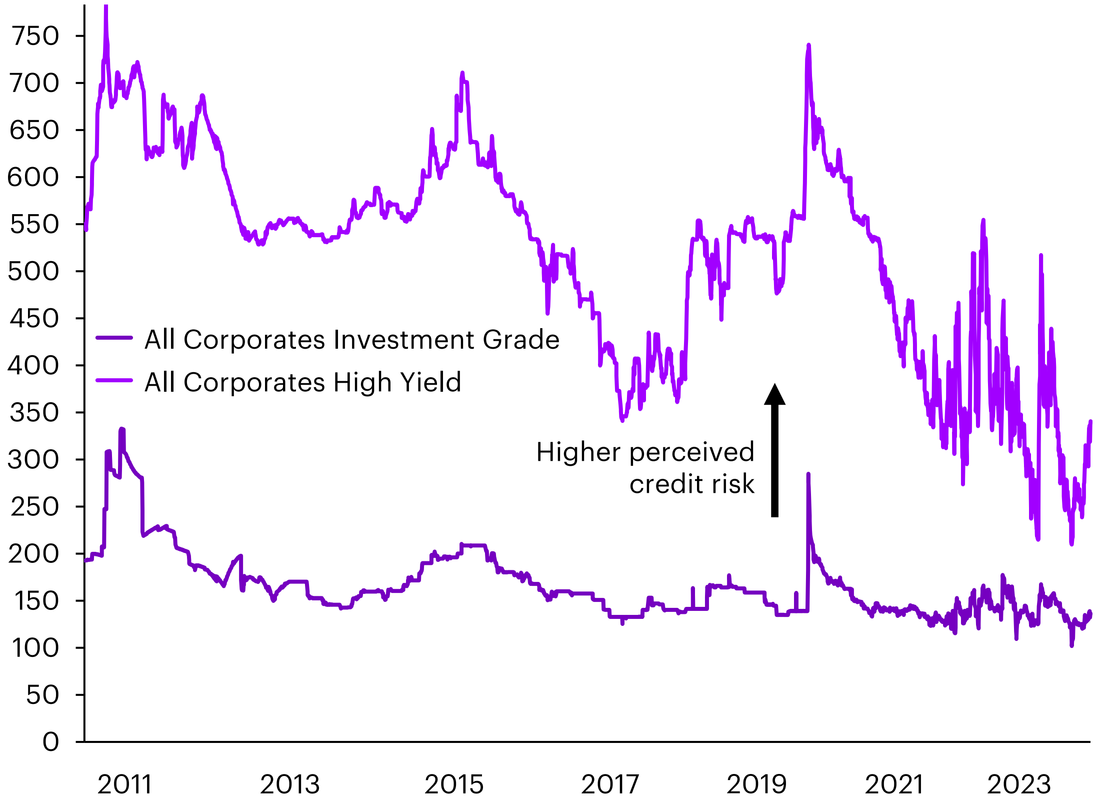
Note(s): The date of each datapoint refers to the quarter in which the bank lending survey was conducted but reports the assessment of credit conditions in the prior quarter. Lending standards for US and EU reflect a weighted index constructed using select survey questions to measure tightening or loosening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

# Perceived credit risk has increased across all sectors in October, but corporate bond spreads remain below their 2023 peaks and pre-pandemic averages

## US corporate bond spreads

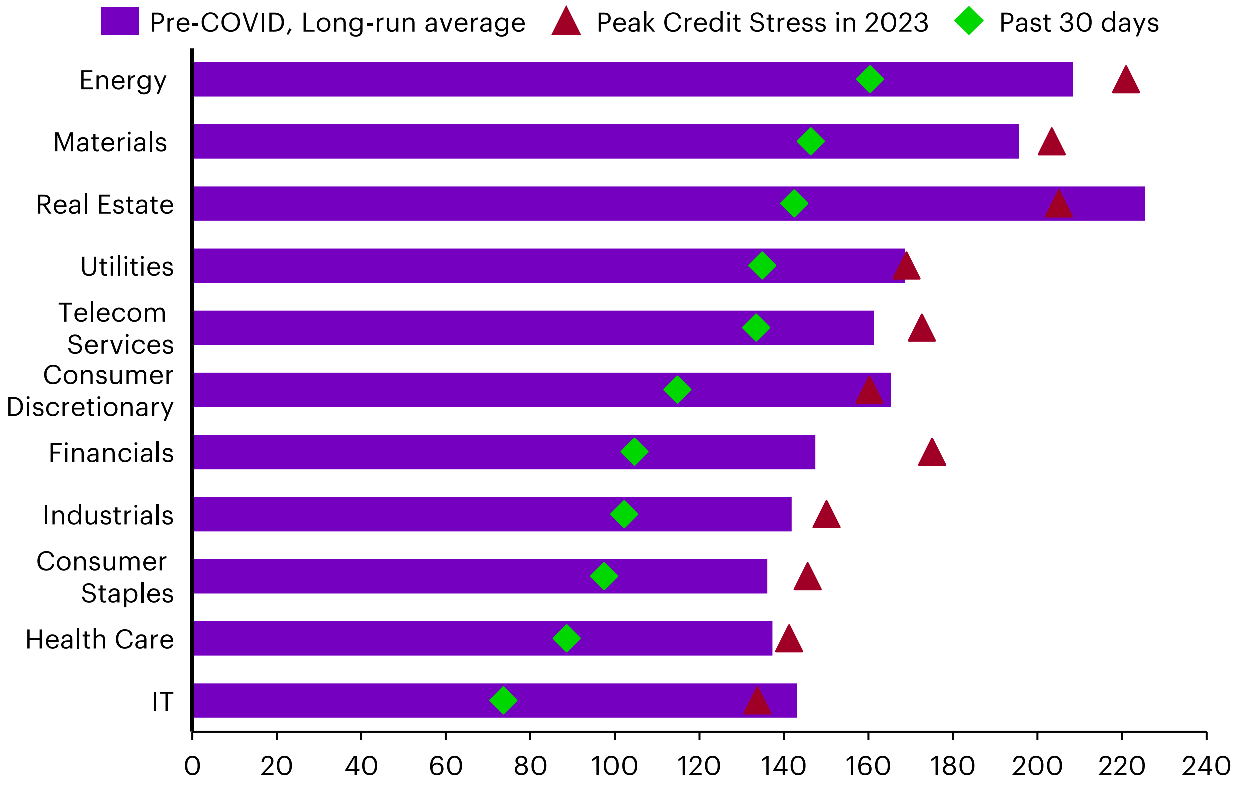
### Drop in IG and HY credit risk premium to near lowest level in 2023

Z-Spreads, Basis Points, average




### Sector view of long-run credit risk vs. peak levels in 2023

Investment Grade Spreads, basis points, average




Note(s): Z-spreads (semi-annual compounding) data reflect investment grade (IG) US 10-Yr corporate bonds for each sector. IG and high-yield series reflect bonds with maturity tenor of 10 years. Pre-COVID long-run average ranges from June 2011 until December 2019. Average spread calculation are daily averages for each period. Corporate bond spreads in the US rose sharply in March 2023 in response to growing banking system stress that came to light on March 9, 2023, the day after the first US regional bank fallout. Z-spread, a relative measure to spot Treasuries, primarily considers credit risk, and its calculation is indirectly impacted by liquidity and prepayment risks.

Source(s): S&P Capital IQ, Accenture Strategy analysis

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