September Macro Brief

Autumn headwinds

September 27, 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 September 25, 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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Executive Summary

Common global themes

- **Economic growth globally continues to trend lower and gathering headwinds suggest further slowing can be expected in Q4:**
  - Latest PMI surveys signal further deterioration in business activity in most major economies, with Europe showing the most weakness
  - Key forces supporting growth earlier in the year have begun to reverse—China's economic recovery has fizzled and the tailwind from "revenge" spending on services (which has been a key counterbalance to declining manufacturing) appears to be on its last legs
- **Energy prices are again turning into a source of inflationary pressure.** The 30% rise in oil prices since June is pushing up headline inflation globally and threatening to set off a new round of downstream price increases. The recent rally in the US Dollar adds further inflation fuel.
- **Amidst persistent inflation and still-tight labor markets, worker strikes are on the rise.** The associated economic disruptions and higher pay settlements could further dent growth and reinforce wage pressures, raising the risk of stagflation outcomes even if recession is avoided.
- **Recent central bank decisions in US and Europe reinforce a "higher rates-for-longer" policy inclination.** With no immediate loosening of financial conditions on the horizon, the lagged effects of past interest rate hikes are likely to bite harder on real economic activity.

Regional highlights

Americas	Europe, Middle East and Africa	Asia-Pacific
• The **US** economy's resilience stands to be tested in Q4 by the UAW strike, a potential government shutdown and re-start of student loan payments • In **Canada**, the distressed housing market is placing growing pressure on consumer spending and major banks • **Mexico**'s record remittances inflows are likely to partially shield economy against a US slowdown	• **Germany's** declining housing market stands to further aggravate pessimistic consumer sentiment and dampen spending • The **UK** faces similar housing woes in both rental and purchase markets • **Saudi Arabia and UAE's** entry into BRICS could strengthen the bloc's oil market power and promote non-USD oil trade	• **China's** recovery continues to disappoint while structural challenges such as youth unemployment, declining population, and a distressed property sector threaten the longer-term economic outlook • **Japan's** fisheries industry is facing a seismic shock after China banned imports of Japanese seafood

Key considerations and priorities for clients

- **Companies should prepare for continued labor cost pressures as workers seek compensation for past real income erosion and re-emerging energy price increases.** Whether this worker bargaining power can be sustained as growth slows and labor markets cool remains to be seen, but the potential persistence of wage "catch-up" dynamics should be considered in companies' scenario planning exercises.
- **China's cyclical economic slowdown, structural growth challenges, and increasingly unpredictable trade relationships highlight the imperative for companies to re-assess their China exposure and business strategy.** A holistic assessment of risks and opportunities related to China's changing economic dynamics can inform the strategic levers companies could consider in response. These include reducing reliance on China as a key market and/or source of production inputs, and product innovation to maintain the top line amidst China market weakness.

Source(s): Accenture Strategy analysis

Planning for slowing global growth and prolonged tightness in financial conditions is an ongoing imperative for companies

Top-of-mind questions for business executives to consider

“What is our exposure to a China economic slowdown and how can we limit potential downside to sales?

“Is our business model and balance sheet resilient to a higher-for-longer interest rate environment?

“What are our talent acquisition and retention priorities if labor cost pressures persist even as economy slows? What can wait until conditions improve?”

Source(s): Accenture Strategy analysis

Going into Q4, the balance of economic forces continues to point to additional slowing of global growth

Key forces driving global economic slowdown

NOT EXHAUSTIVE

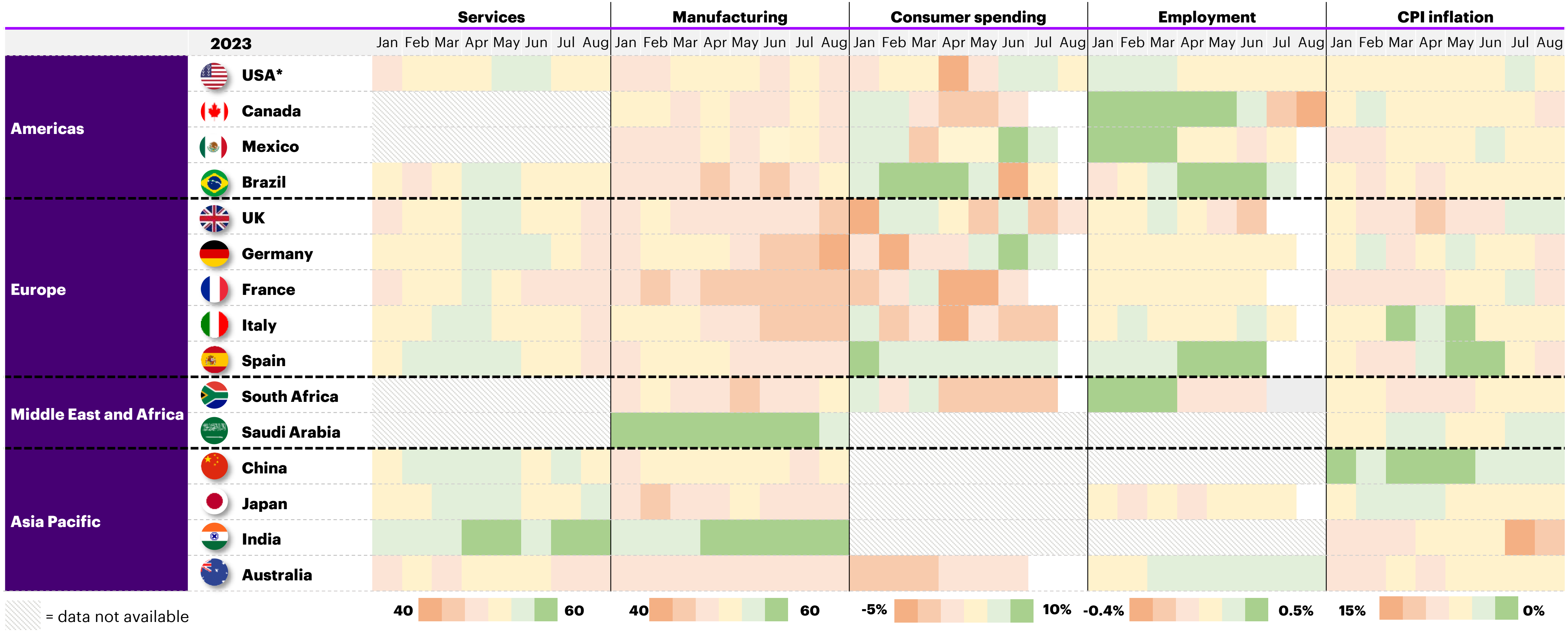
	Forces	Description	Key implications
	**Tight-for-longer financial conditions**	• Lagged effects of accumulated monetary policy tightening continue to work their way through economies	• Continued pressure on highly levered corporates, driving additional bankruptcies • Broader squeeze on consumer spending (beyond rate-sensitive items) and on business CAPEX • Knock-on effects on labor markets (i.e., rise in unemployment) as demand slows
	**Stalling China recovery**	• China's reopening rebound has proven short-lived and economy is now slowing under weight of both cyclical and structural pressures	• Regions (Southeast Asia) and countries (e.g., Germany) with high share of exports to China's will feel strongest growth drag from slowing Chinese economy • Potential financial spillovers to foreign creditors of China's property developers
	**Resurgence in energy prices**	• Crude oil prices are up by nearly 30% since late June amidst dwindling inventories and OPEC+ supply cuts	• Renewed upward pressure on headline CPI inflation • Additional headwinds for energy-intensive manufacturing sectors, which are already in contraction
	**US dollar rally**	• After depreciating 7% from its late 2022 peak during H1 2023, the trade-weighted USD has re-strengthened 3% since July	• Renewed inflation pressures for major importers of US goods and USD-invoiced commodities • Earnings drag on US companies with foreign operations
	**Dissipating services spending tailwind**	• Services spending is normalizing to pre-pandemic levels	• Consumer spending may see a more dramatic drop off in Q4 23/Q1 24 as the boost from pent-up services demand fades • Potential easing of wage pressures in some services sectors that do not have more persistent structural worker shortages

Source: Accenture Strategy analysis

Latest data points to continued global manufacturing woes, moderating services momentum and further cooling of labor markets

Country economic momentum snapshot

AS OF SEP 22



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 mild recession is most likely outcome in US as consumer spending moderates; Europe's slowdown is further along, with squeeze from high rates and energy prices set to intensify

Latest economic outlooks: Americas and Europe

AS OF SEP 25

		Key recent datapoints	Base case outlook	What to watch for
Americas 	US	• Labor market cooled marginally in August, with uptick in the unemployment rate • August inflation crept up on higher energy prices • Consumer credit card and auto loan delinquency rates are rising rapidly	• Slowing consumer spending and lagged effects of ongoing rate hikes are likely to tip economy into recession in early 2024	• Sharper pullback in consumer spend as student loan repayments restart in Oct • Economic disruptions from UAW strike and potential government shutdown
	Canada	• GDP contracted in Q2 amidst government worker strikes and wildfires disruptions to mining • Headline and core inflation accelerated in Aug	• 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 second consecutive month in Aug as inflation remains within target	• Consumer spending supporting growth resilience on the back of strong labor dynamics and stabilizing inflation	• Tax changes from recently approved fiscal reform
Europe 	UK	• BOE paused rate hikes in Sep amidst lower-than-expected recent growth and inflation readings • Labor markets tightness is receding, but wage growth remains elevated	• 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	• Potential persistence of elevated wage growth even as economy slows • Shifts in fiscal policy in aftermath of upcoming general election
	Germany	• Ifo business climate index fell in Aug for a 4th consecutive month • Manufacturing production and exports continued their downward trend in July	• 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	• Government's plan to start structural reform and provide industry support (e.g., "bridge" electricity price)
	France	• CPI inflation moved higher in Aug driven by renewed energy price increases • Services activity deteriorated sharply in Aug/Sep	• 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	• Signs of potential second wave of inflationary pressure • Further increases in household savings rates in response to ongoing economic uncertainty

Source(s): Accenture Strategy analysis

China's growth is expected to downshift as it confronts structural challenges; Japan and India's recent resilience is likely to be tested in coming quarters as global economy slows

Latest economic outlooks: Asia Pacific

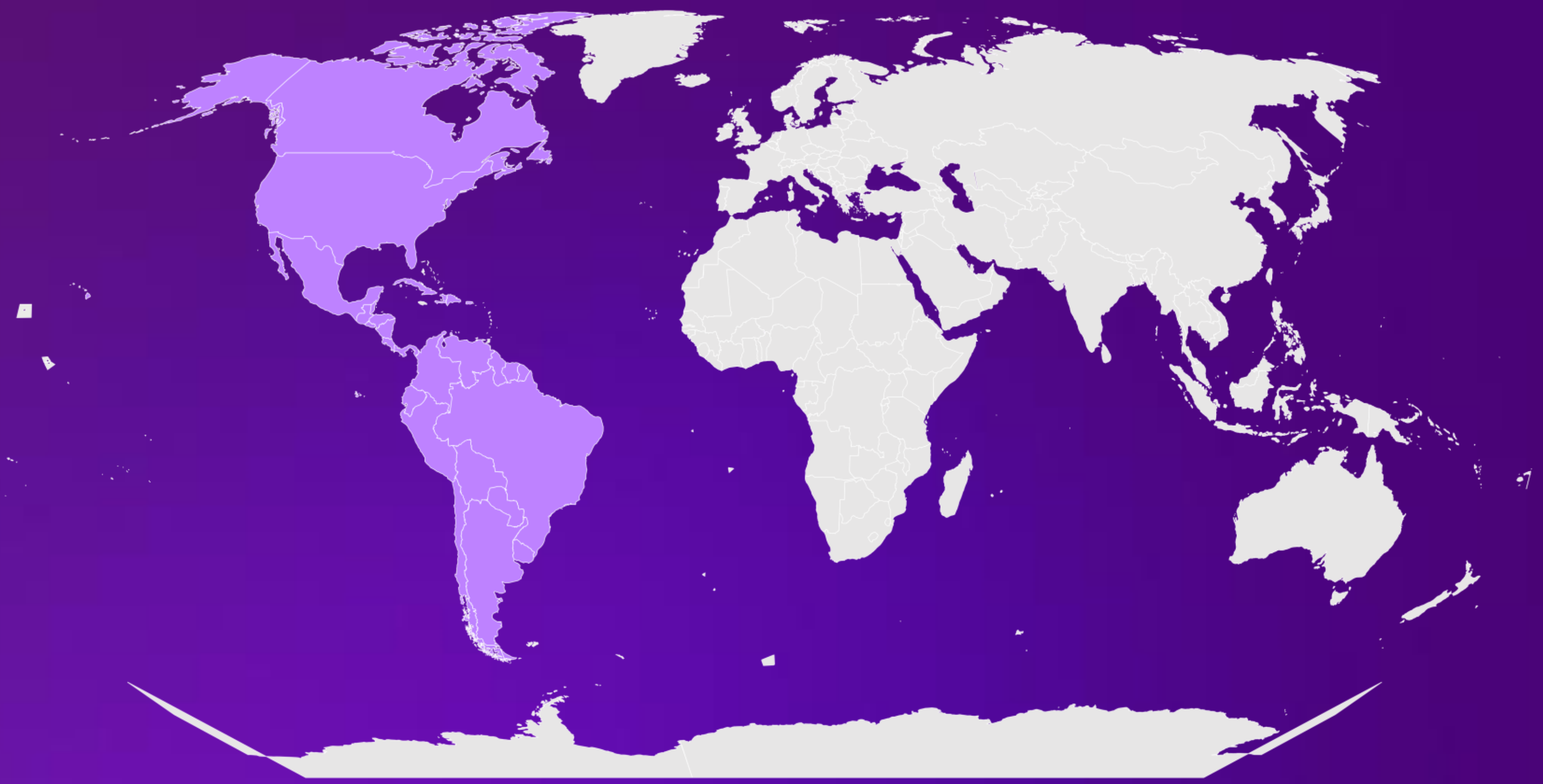
AS OF SEP 25

	Country	Key recent datapoints	Base case outlook	What to watch for
Asia Pacific	China	• Home sales, prices and investment continue to plummet, prompting central bank to cut rates • Broad-based loss in recovery momentum across consumer spending, exports and manufacturing	• Further growth slowdown in Q4 amidst depressed consumer sentiment and weakening global demand for China's exports • 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 • Financial instability and spillovers as property-related defaults rise
	Japan	• Yen falls to the lowest point against USD in 2023 • Persistence of inflation and remark by BOJ on changing monetary policy	• Solid domestic consumption and rebounding inbound tourism are likely to keep growth resilient in the near term	• Continuation of Yen weakness • Stickiness in inflation, particularly in light of recent Shunto wage negotiation outcomes
	India	• Continuation of strong business activity based on latest PMI surveys • Sharp drop in FDI inflows in Q2	• Growth is expected to remain robust but moderate slightly amidst slowing external demand and rising oil prices	• Potential El Nino weather affecting crops and driving up food prices
	Australia	• Both manufacturing and services activity (per PMI surveys) slid into contractionary territory in August	• 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 • The drag on Australian exports from China's economic slowdown

Source(s): Accenture Strategy analysis

Spotlight developments

Americas

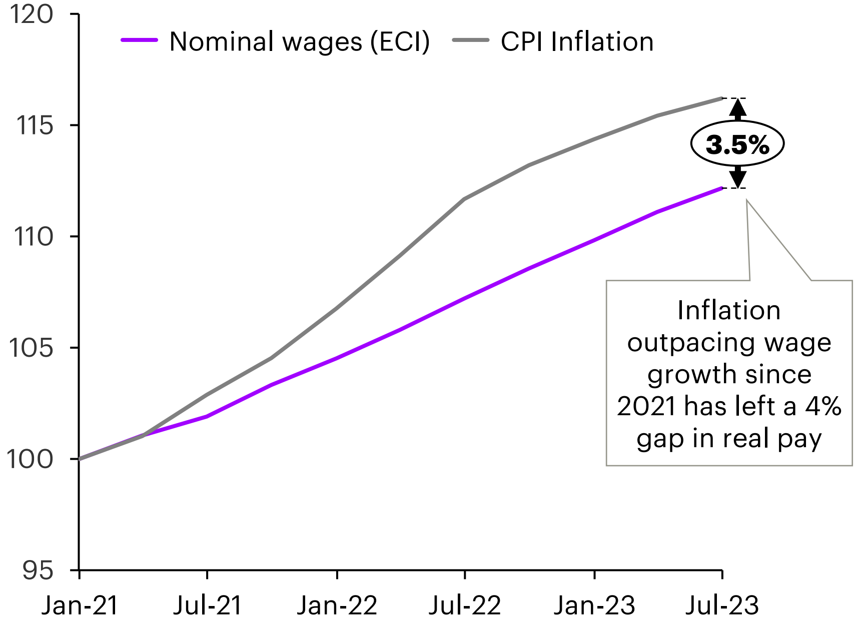


Growing labor unrest in the US is a risk to economic growth in Q4 and a sign that labor cost pressures are unlikely to abate in the near term

Wage catch-up pressures and work stoppages in US

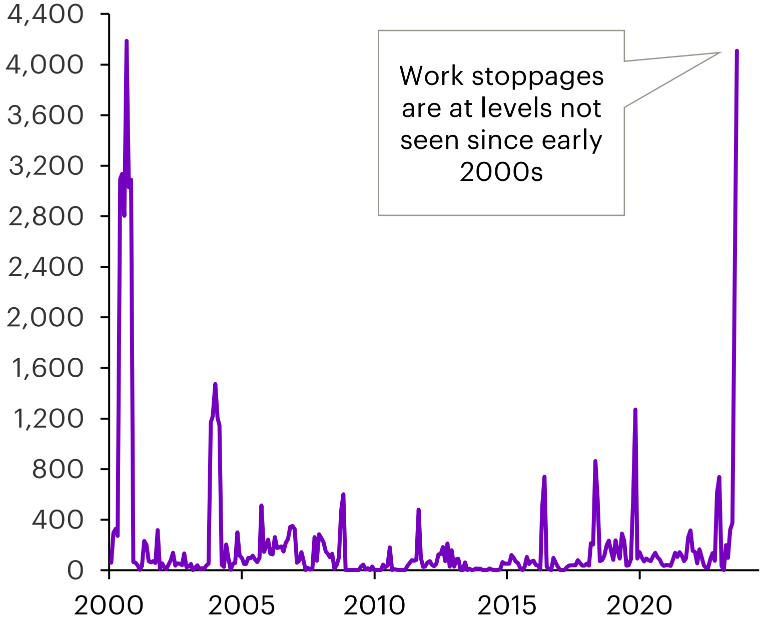
Cumulative real wage gap

Index 100 = Q1 2021



Work stoppages

Days of idleness (in 1,000s) from all work stoppages



Implications for corporates

- Companies should prepare for continued labor cost pressures as workers seek compensation for past real income erosion and resurgent energy prices
- Whether this worker bargaining power can be sustained as growth slows and labor markets cool remains to be seen
  - Potential persistence of wage "catch-up" dynamics should be considered in companies' scenario planning exercises
- Economic disruptions and higher pay settlements resulting from labor unrest could further dent growth and reinforce wage pressures, raising the risk of stagflation even if recession is avoided

Commentary

- Nominal wage growth has begun to outpace inflation in recent periods but, in level terms, there is a significant deficit in real purchasing power that accumulated over past 2 years—this creates ongoing incentives for workers to engage in "catch-up" wage negotiations
- Work stoppages resulting from labor unrest are now at their highest level in two decades and becoming increasingly widespread across industries
  - Strikes thus far in 2023 have taken place in the hospitality, education, film, aviation and automotive sectors
  - The recent UAW strike is a particular threat to GDP growth since the three companies affected account for ~50% of all US auto production

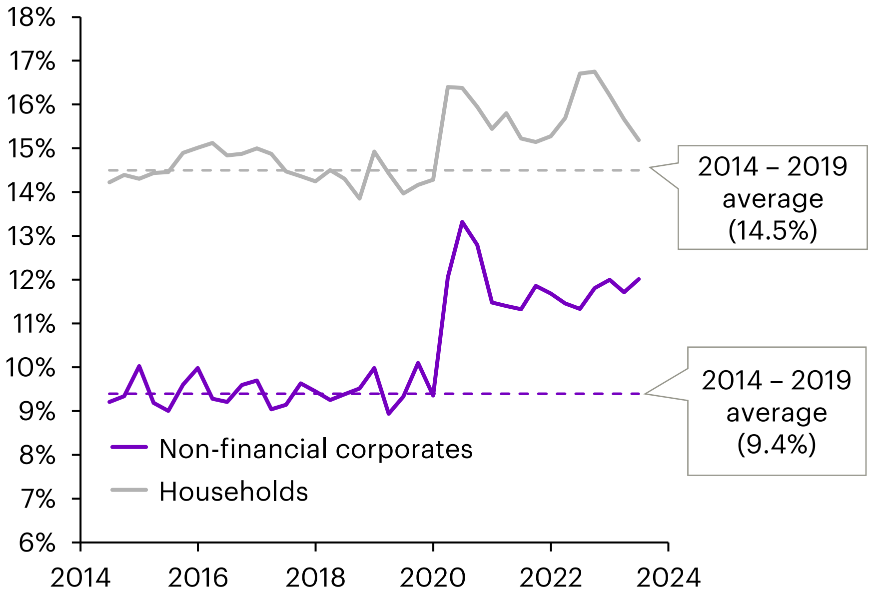
Source(s): Census Bureau, Bureau of Labor Statistics, Goldman Sachs Research, White House, Accenture Strategy analysis

Favorable cash buffers and debt profiles among US households and corporates are delaying the impact of higher interest rates on economic activity

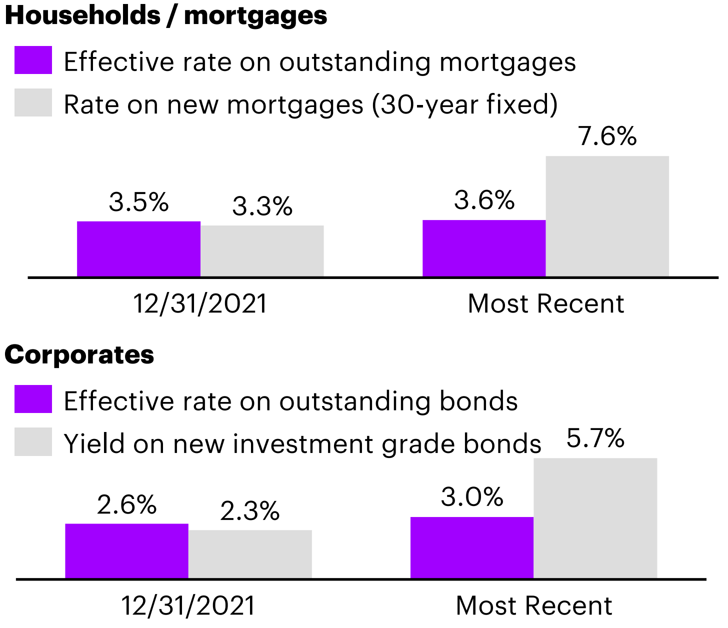
Buffers against tightening financial conditions

Household and corporate cash buffers

Cash as a percentage of financial assets



Debt stocks are repricing very gradually



Implications for corporates

- Companies should be wary of over-indexing on a soft landing scenario, as the growth squeeze from high interest rates is likely to accelerate as households and corporates run down cash buffers
  - For households, the resumption of student loan payments in October is likely to further eat into excess savings and squeeze spending
- Even companies with strong cash positions should consider stress testing their liquidity to potential business disruptions from worker strikes and a possible federal government shutdown

Commentary

- Though dwindling, households' stock of excess savings remains at an estimated USD 1.1 trillion, while non-financial corporate cash buffers are above historical averages (even ticking up again recently); rising interest rates have boosted the return on these cash stockpiles
- Favorable debt profiles are also delaying the pass-through of higher market interest rates to overall (effective) debt service costs
  - 85% of US household mortgages are fixed rate and 60% are locked in at long-term rates below 4%, compared to current rates of 7%+
  - Among non-financial S&P 500 companies, only 8% of debt is maturing in 2023 and 2024 and nearly 50% after 2030

Note: Analysis of top 2000 companies by market capitalization for companies with a reported revenue as of CQ1 2018
Source(s): Census Bureau, BLS, Federal Reserve, Goldman Sachs, FHFA, S&P Capital IQ, Bank of America Merrill Lynch, Accenture Strategy analysis

Distress in both residential and commercial real estate markets is an intensifying headwind for the Canadian economy

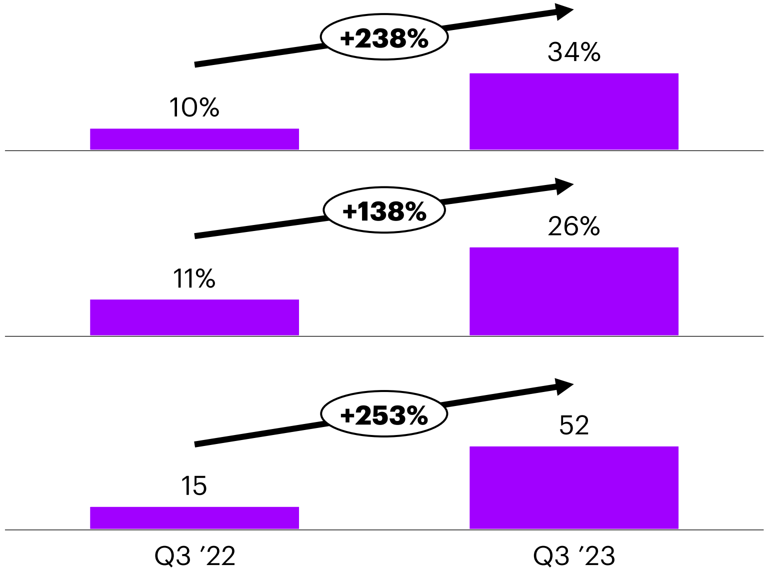
Financial pressures on Canadian banks

Negatively amortizing mortgages

Size of residential mortgage portfolio and portion in "negative amortization" for 3 of Canada's largest banks

Provisions for credit losses

Provisions for credit losses as a percentage of net income



Implications for corporates

- Financial pressures on households from mortgage payments are likely to further weigh on consumer spending and raise default risks for other household debt categories (e.g., personal, auto and credit cards)
- Forced selling of homes is likely for households that default; this could put further downward pressure on house prices
- As banks absorb these growing credit losses, additional pullback in lending to the real economy can be expected

Commentary

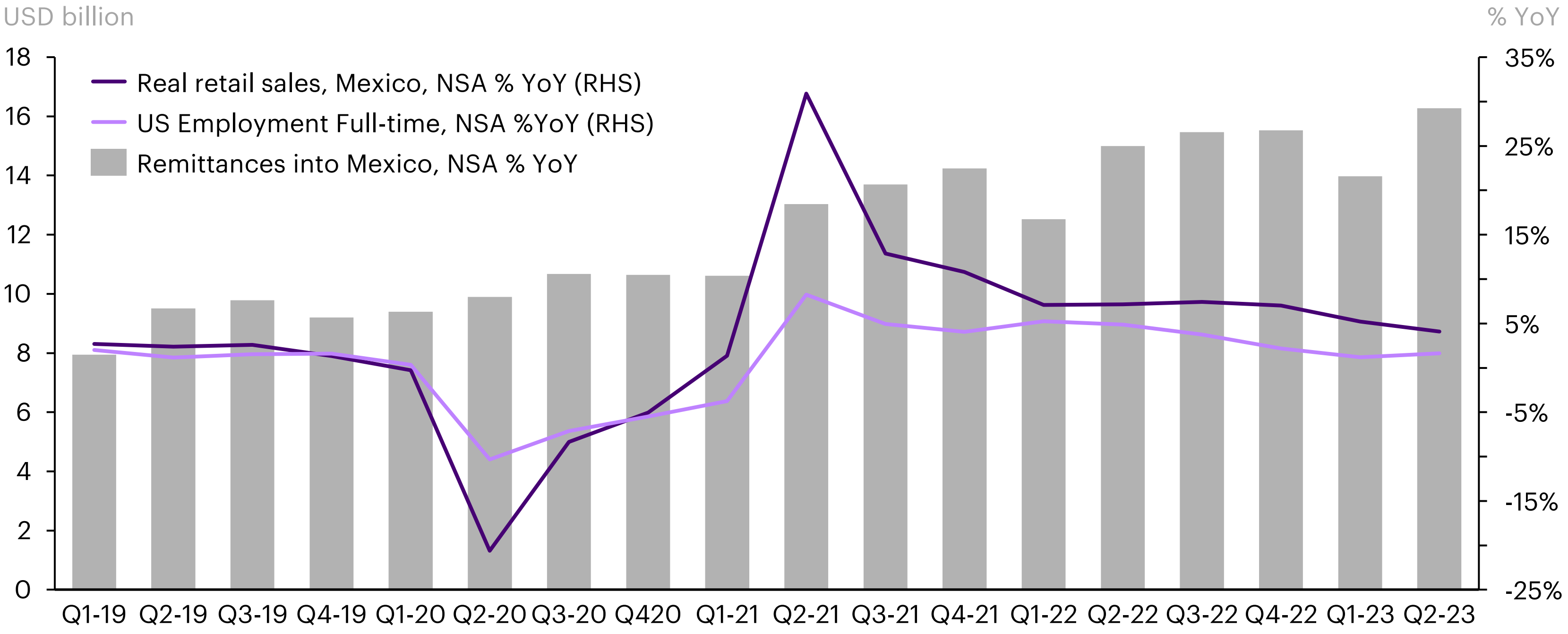
- Mortgages where the contractual payment amount is lower than the interest owed and the difference is added to the principal balance (i.e., negative amortization) are growing in Canada, signaling increased difficulties for households to remain current on their mortgage obligations
- Housing-related pressures on households are likely to intensify as a third of mortgages are expected to be refinanced at higher rates from mid-2023 to 2024, while household disposable incomes are still ~3% below pre-pandemic levels
- The combination of deteriorating mortgage performance and exposure to distressed commercial real estate (CRE) is driving a rapid increase in Canadian banks' loan losses, weighing on both P&L and appetite for new lending

Source(s): Company reports, Accenture Strategy analysis

Mexico’s record high remittances have kept consumer spending resilient in the face of high inflation, but a cooling US labor market could turn the tide

Remittance inflows to Mexico

Recent dynamics of remittances and consumer spending in Mexico



Implications for corporates

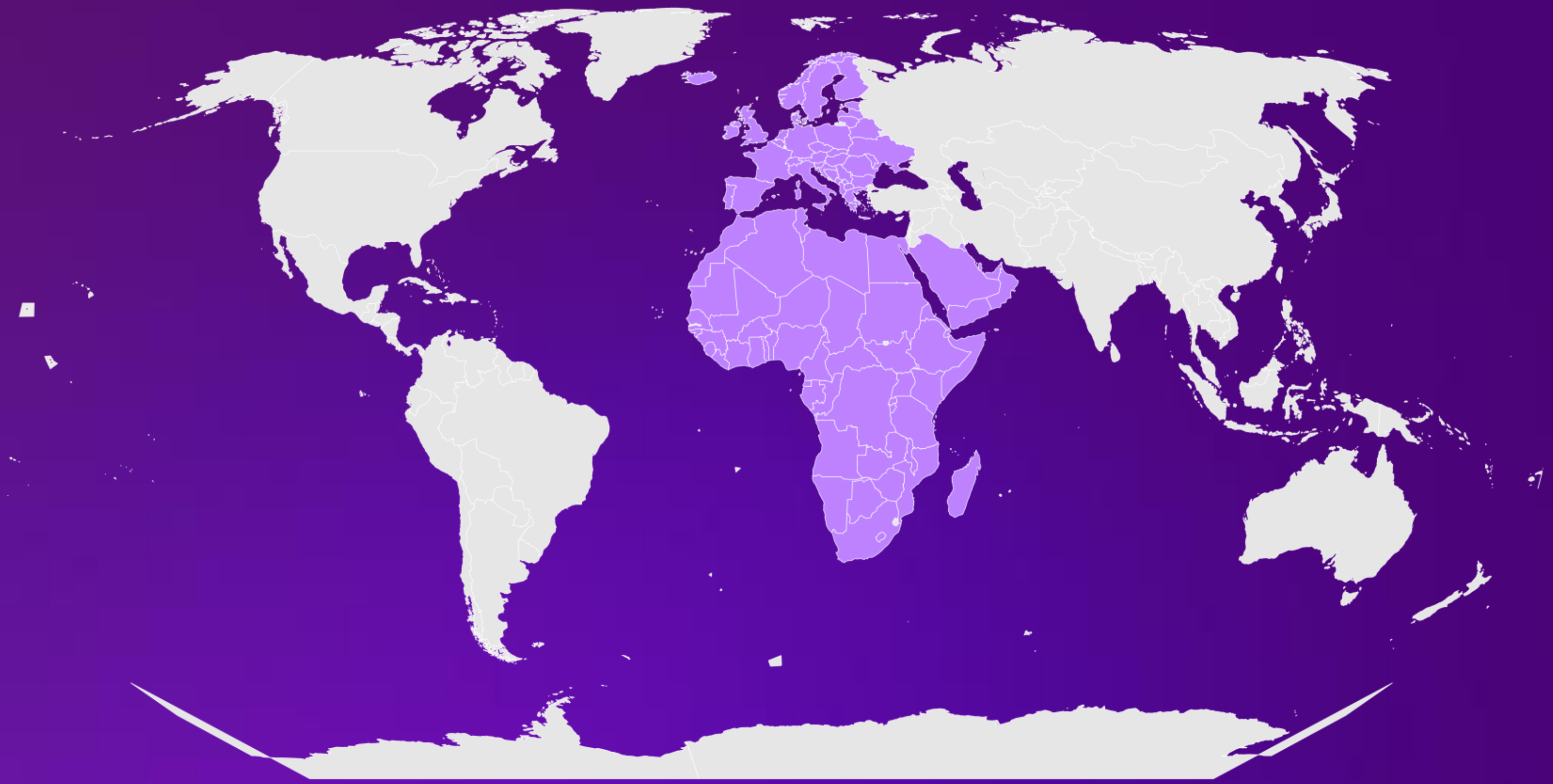
- Strong recent remittance inflows to Mexico are expected to keep consumer spending resilient through rest of 2023
- Retail firms in Mexico are likely to retain fairly strong pricing power in mass discretionary spending in light of households’ strong income position
- Middle- to- low-income Mexican consumers may become more price-sensitive in 2024 as a rise in unemployment in the U.S. is likely to curb remittance inflows into Mexico

Commentary

- Remittance inflows to Mexico reached a record high of $16.3 billion in Q2 ’23, benefitting from continued strength in US labor market
  - Money sent from US accounts for 96% of total remittances and provides buffer against a drop in domestic manufacturing or tourism
  - Boost from remittances to Mexican households' purchasing power has been partly offset by USD/MXN appreciation over past 6 months
- Future remittance inflows may soften as US labor market cools, depending on the sectors where employment deterioration is concentrated

Note(s): Mexico’s real retail sales volumes, NSA, 2018=100, quarterly aggregation by Haver Analytics and YoY % Growth
Source(s): Haver Analytics, Banco de México, Accenture Strategy analysis

Europe, Middle East and Africa

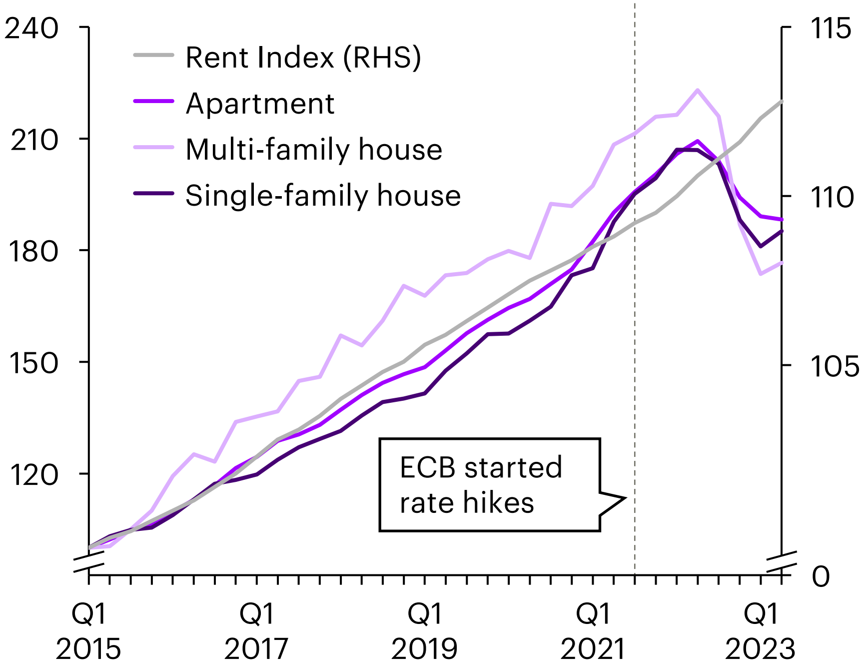


German house prices might have bottomed out for now, but resulting negative wealth effects and still-high rent costs will continue to weigh on consumer spending

German residential housing market

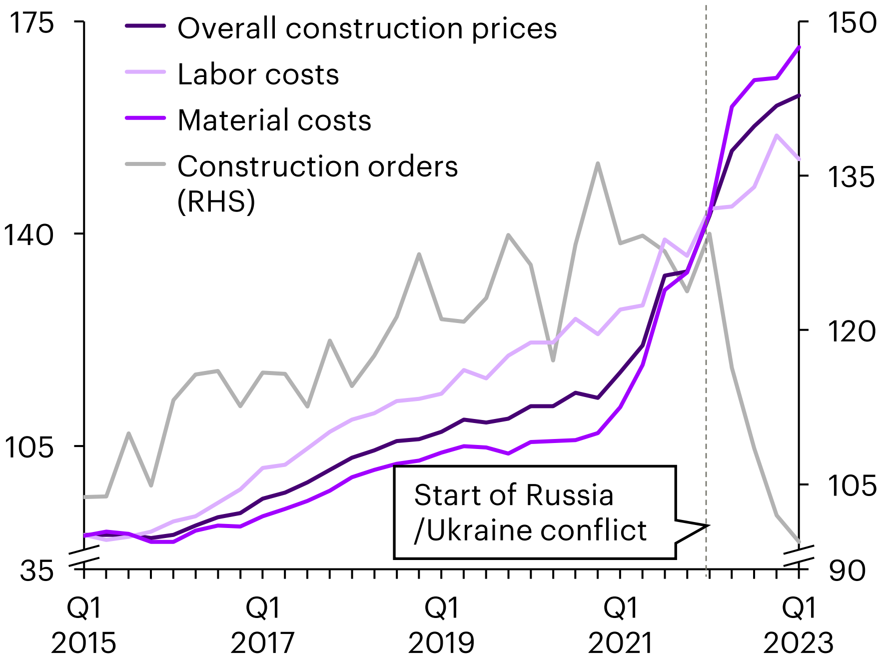
Residential housing prices and rental costs

Quarterly Index, 2015=100



Residential construction prices and orders

Quarterly Index, 2015=100



Implications for corporates

- Consumer spending is likely to come under increasing pressure from housing-related drags, e.g.,
  - Shortages in supply of affordable housing further aggravating pessimistic consumer sentiment
  - Consumer belt-tightening due to negative wealth effects from falling house prices
- Fiscal support to stimulate housing construction focuses strongly on energy efficiency, creating opportunities for companies with innovative energy solutions and technologies

Commentary

- The steep rental price increase in recent years has eaten into households' disposable income (Germany has lowest homeownership rate in EU—49.5%)
  - ruling party SPD recently announced to introduce a nationwide 3-year rent break
- The sharp recent fall in housing prices halted in Q2 amidst a widening supply shortage relative to demand (exacerated by rising construction costs) and expectations that ECB has reached end of its rate hiking cycle

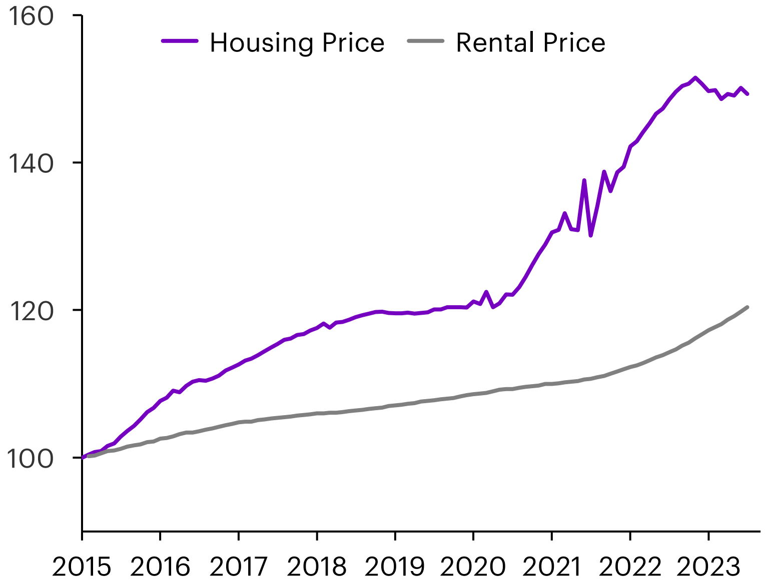
Source(s): German Real Estate Index (GREIX), Eurostat, Haver analytics, Accenture Strategy analysis

UK house purchase prices have stalled in recent quarters and longer-term supply restrictions are likely to limit further downward pressure on prices

UK residential housing market

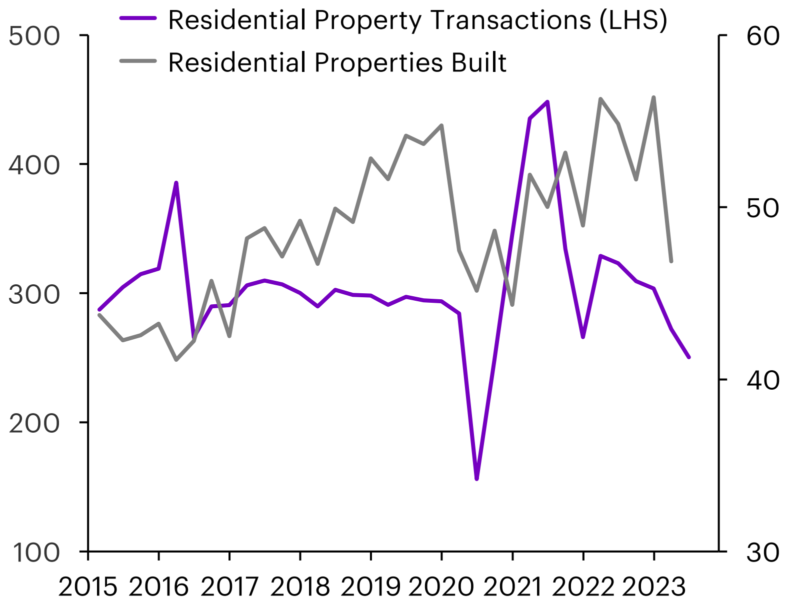
Residential housing purchase and rental prices

Monthly Index, Jan 2015=100



Residential market demand and supply

Thousands



Implications for corporates

- Higher interest rates and mortgage payments are being passed through to renters in many cases
  - This reduces disposable incomes and will likely curtail consumer spending in the coming months
- Slower homebuying activity is also likely to impact related consumption such as furnishings and home improvements
- Some investors may shift away from the housing market given diminished returns
  - Buy-to-let investors, in particular, may find higher yields in other assets like bonds
  - This could further dampen housing investment

Commentary

- UK housing market faces ongoing pressure as interest rates remain elevated after two years of increases and construction materials and labor costs remain high
- However, an extended housing market crash may be avoided due to structural housing shortages in major cities and robust institutional and foreign buyer demand to absorb properties if prices fall further

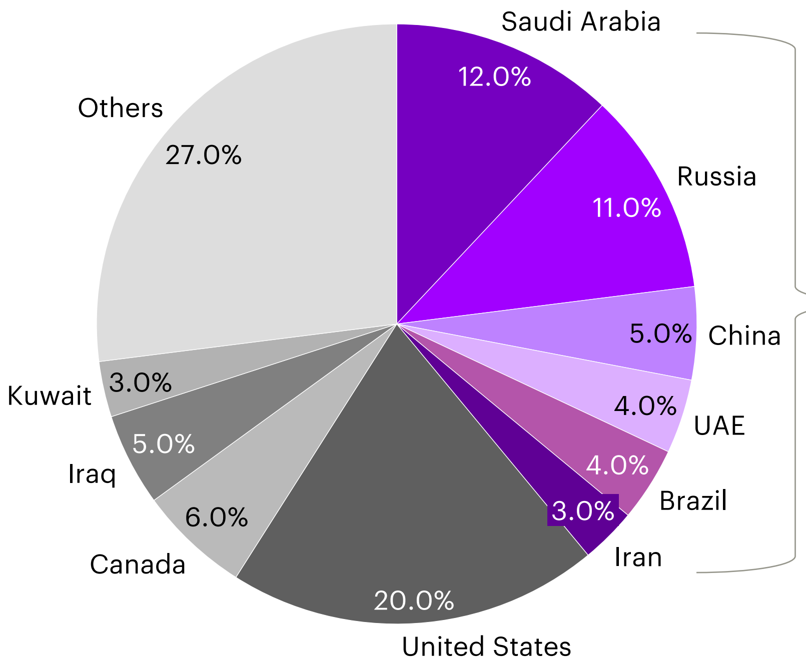
Source(s): ONS UK, Accenture Strategy analysis

The recent expansion of BRICS to include Saudi Arabia and UAE could lead to further realignments in global commerce, oil market power and the use of the USD in trade

Oil production by country

10 largest oil producers and share of total world oil production in 2022

%, share of total production, 2022



The combined market share of existing and new BRICS member countries is now at **39%**

Implications for corporates

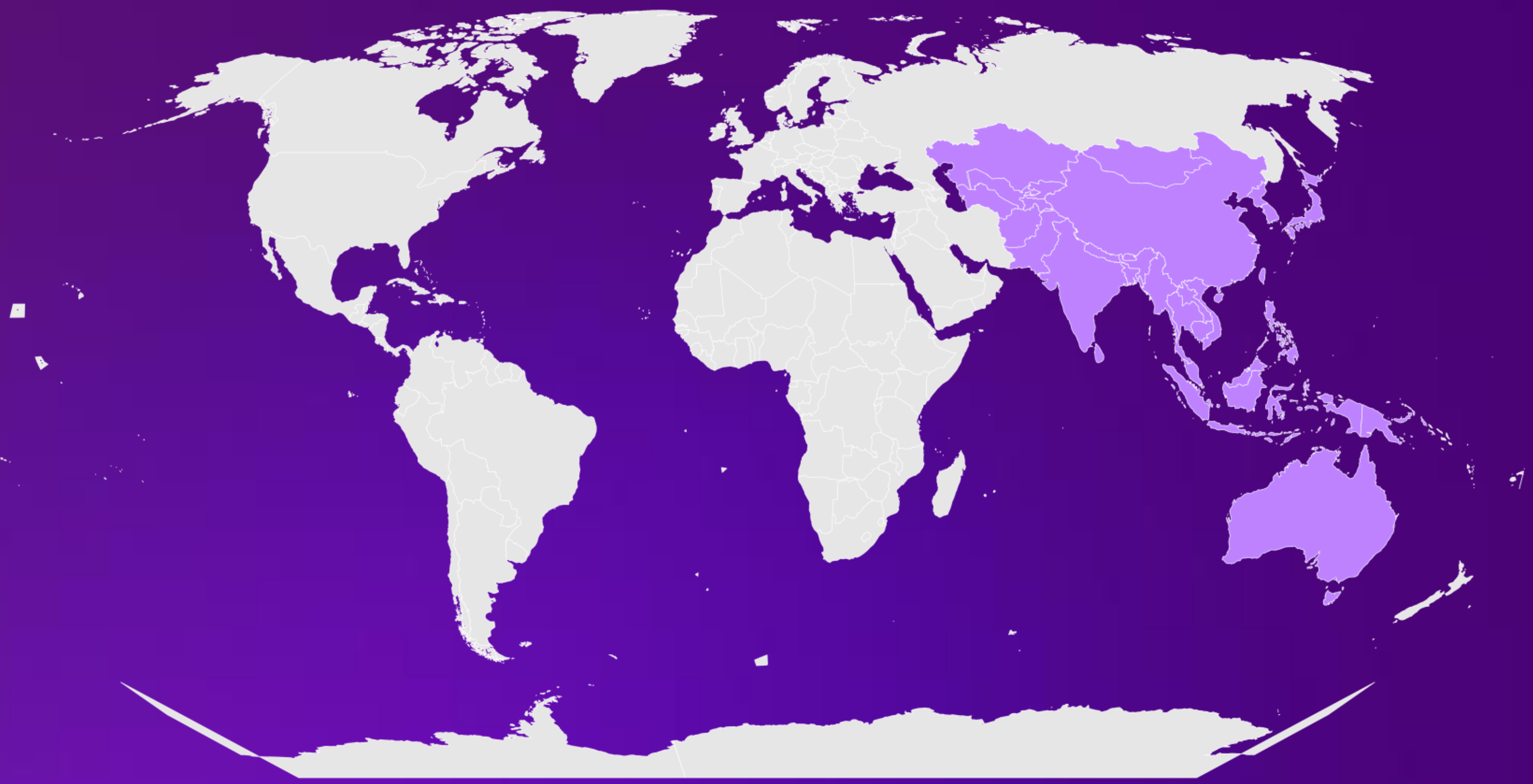
- Expansion of membership gives existing member states various benefits, including increased investment and trade opportunities
  - BRICS-based companies will have more business opportunities in developing infrastructure in the Middle East
- The newly expanded BRICs may promote the use of non-USD currencies in international trade for oil or other products, which could facilitate
  - Use of RMB denominated contracts
  - Growth in offshore RMB markets

Commentary

- Saudi Arabia and the UAE were admitted to BRICs on August 2023, along with Egypt, Argentina, Iran and Ethiopia
- The expansion of the BRICS group is likely to deepen partnerships among member countries, including in the areas of infrastructure development and resource production
- With three of the new joiners being major oil producers (KSA, UAE and Iran), the oil market power of the BRICS may also grow

Source(s): Census Bureau, Bureau of Labor Statistics, Goldman Sachs Research, White House, Accenture Strategy analysis
Note(s): Oil includes crude oil, all other petroleum liquids and biofuels

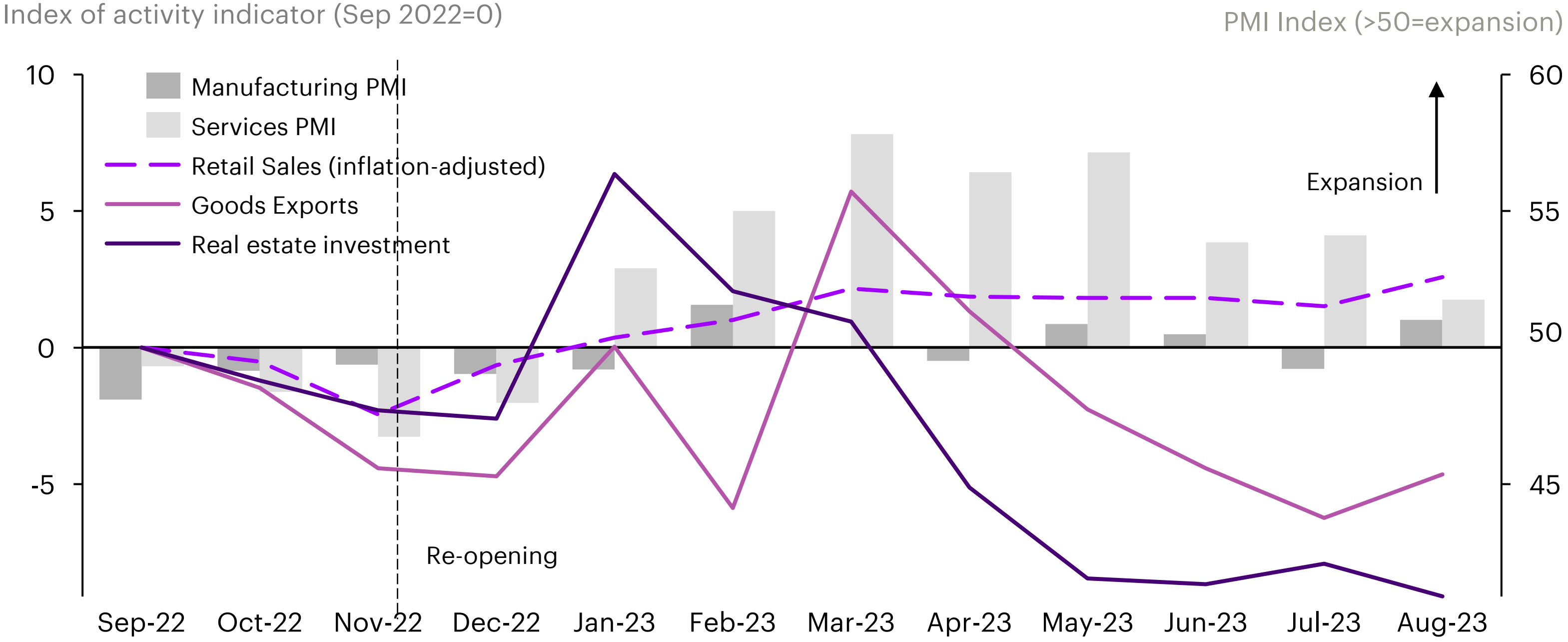
Asia Pacific



After a short-lived rebound earlier in the year, China's economy has lost considerable momentum and faces a slew of structural challenges going forward

High-frequency indicators of economic activity in China

Selected economic indicators before and after re-opening



Implications for corporates

- China's economic slowdown has important potential global repercussions
  - A growth drag for major exporters to China (e.g., Germany, Japan)
  - Potentially long-term deflationary pressure for consumer goods exported by China
  - Downward pressure on key global commodities (oil, gas, steel, cement)
  - Looser domestic monetary policy, which could lead to yuan depreciation

Commentary

- China's GDP growth slowed significantly in Q2 of 2023 (to 0.8% quarter-on-quarter compared to 2.2% in Q1)
- High-frequency economic indicators for Q3 indicate continued weakness in growth momentum
  - Services growth slowed further and manufacturing activity remained anemic (in part due to weak export demand)
  - Consumer spending remained largely flat since its initial post-reopening rebound in Q1
  - The property market continues to face significant pressure and represents the biggest structural drag on the Chinese economy

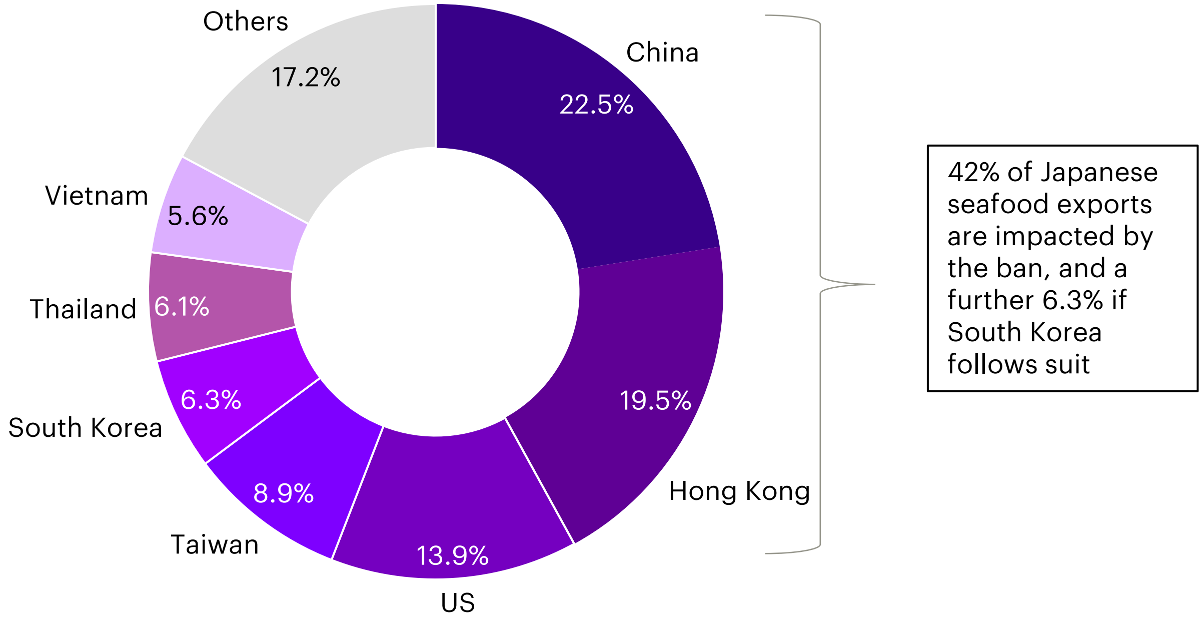
Note: Retail sales (mil. Yuan, SA) pre-COVID CAGR was 6.5% (2015-2019). Growth since reopening has ranged from 6.7% (Q1'23 vs. Q4'22) to 10.6% (Mar'23 vs. Dec'23). Youth unemployment data stopped being published from July 2023 onwards.
Sources: S&P Global, Haver Analytics, National Bureau of Statistics China, Accenture Strategy analysis

China's ban on seafood imports from Japan is a seismic shock to Japan's fisheries industry and the latest example of economic fallout from rising geopolitical tensions

Japanese seafood exports at risk

Japanese seafood exports by destination country

%, share of total of 387.3 billion yen (USD 2.6 billion), 2022



Implications for corporates

- Japanese seafood exporters may be able to secure alternative markets such as the US or EU, which removed restrictions on food imports from Japan in 2021 and 2023, respectively
- Other global sectors may also be at risk from the seafood bans or from further trade escalation, including:
  - Chinese consumer goods firms that process Japanese seafood (Japanese seafood represented <4% of total 2022 seafood imports)
  - Tourism in China, Japan and South Korea
  - Manufacturing, if the bans are escalated to strategic competition
- Companies need to prepare for the growing unpredictability and potential business value at risk to trade restrictions and sanctions by
  - Assessing their exposure to China
  - De-risking and diversifying exposure

Commentary

- China and Hong Kong banned imports of Japanese seafood after Japan released treated water from the Fukushima nuclear plant into nearby waters
- While critical for Japan's fisheries industry, seafood exports to China and Hong Kong have limited bearing on Japan's broader economy—they represent only 0.17% of Japan's total exports
- Japan's government has pledged 100 billion yen (USD 683 billion) to support the fisheries industry, including 80 billion yen (USD 543 million) to develop new sales channels and store excess frozen fish and 20.7 billion yen (USD 141 million) in emergency funds

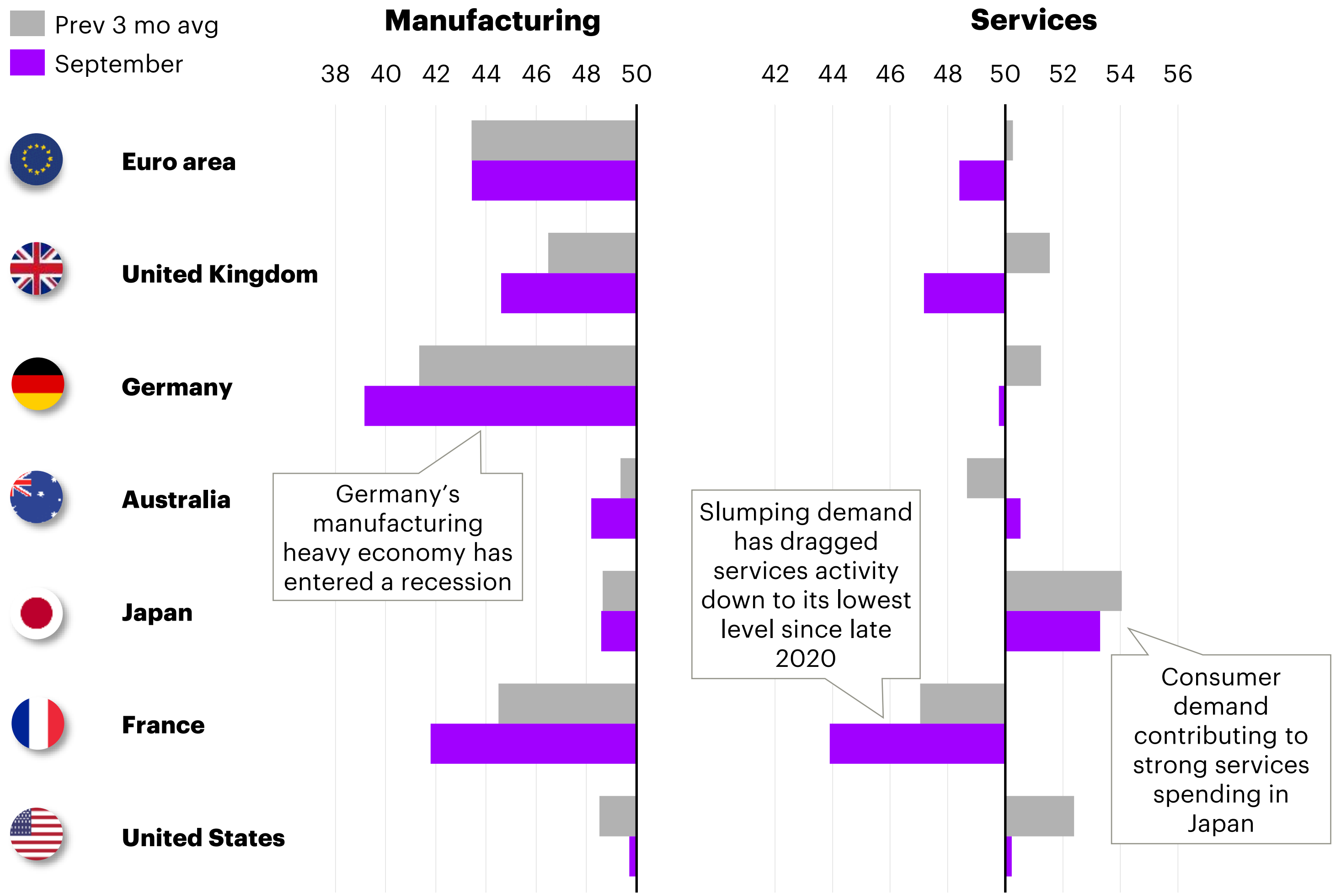
Sources: Nikkei, Washington Post, Reuters, Japan Fisheries Agency, report on Trends in Japanese Fisheries Since 2021, Accenture analysis

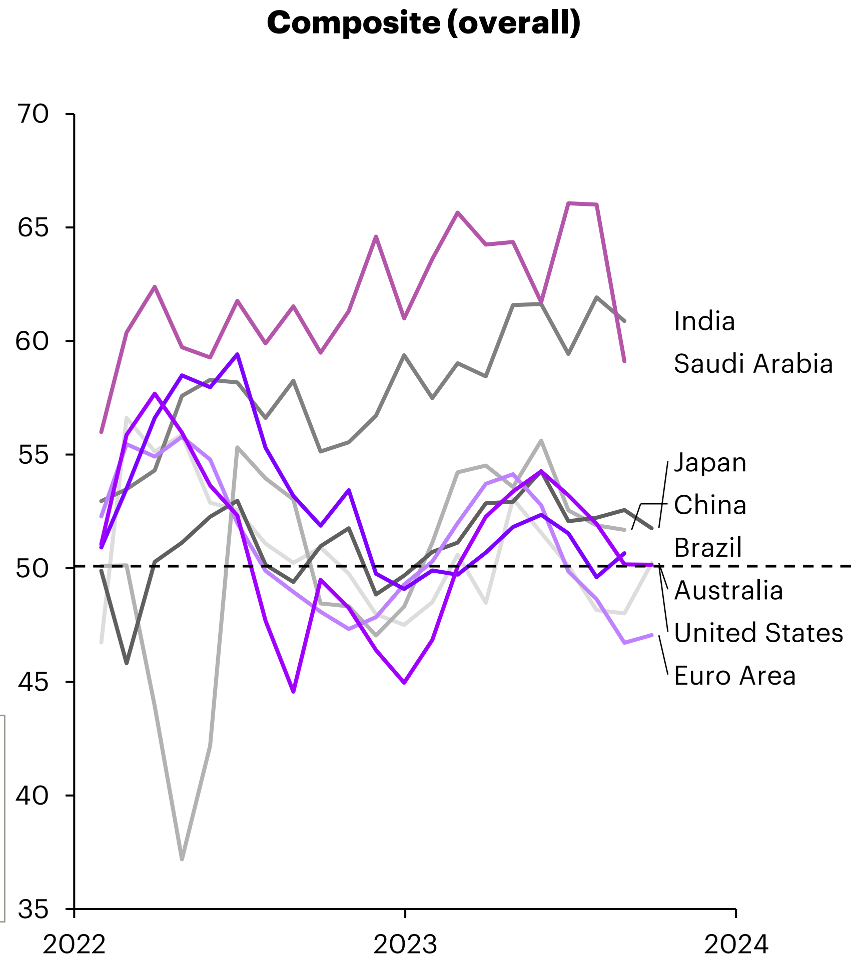
Economic indicator chart pack

Regional and industry activity

Growth momentum continued to trend lower in September, reflecting a downshift in services activity alongside further deterioration in manufacturing

Flash PMI survey country snapshot



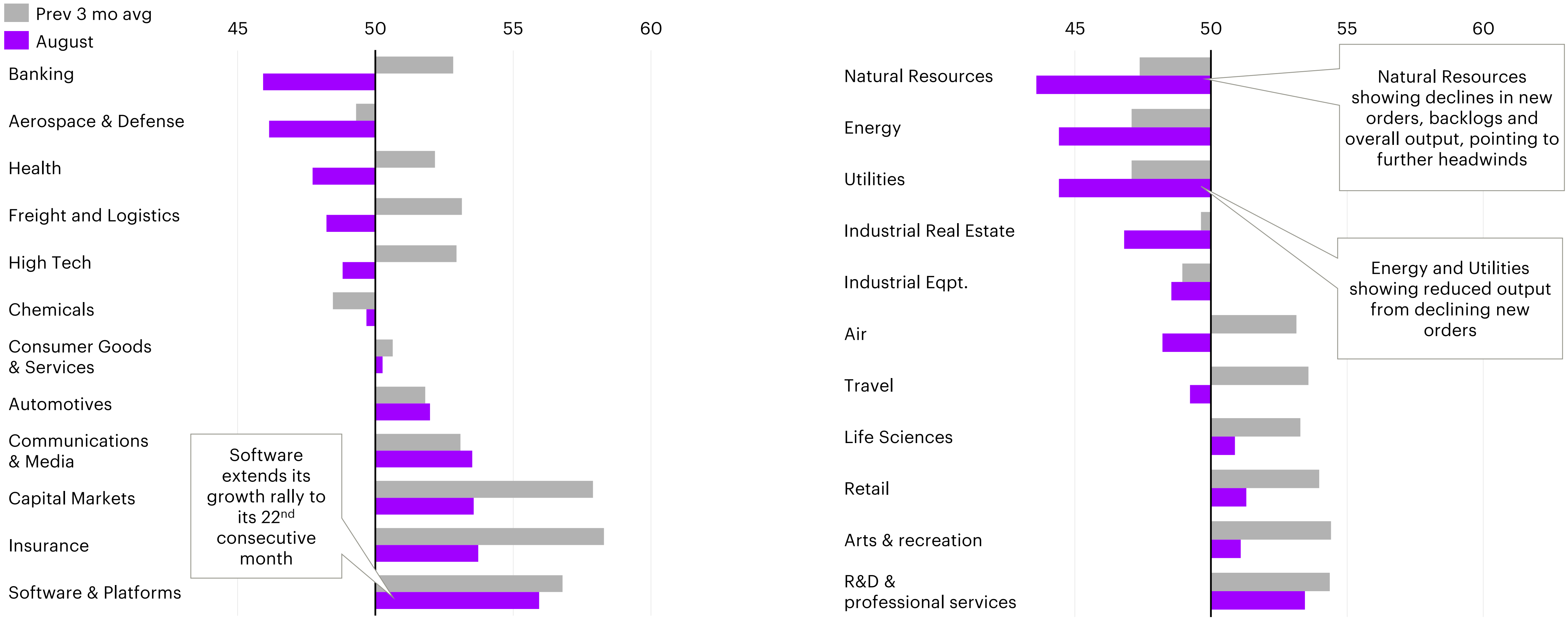


Note(s): A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month, most recent results may include preliminary flash figures
Source(s): S&P Global, Accenture Strategy analysis

Detailed industry-level data (through August) is pointing to slowing growth across the board

Global Industry PMI snapshot

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



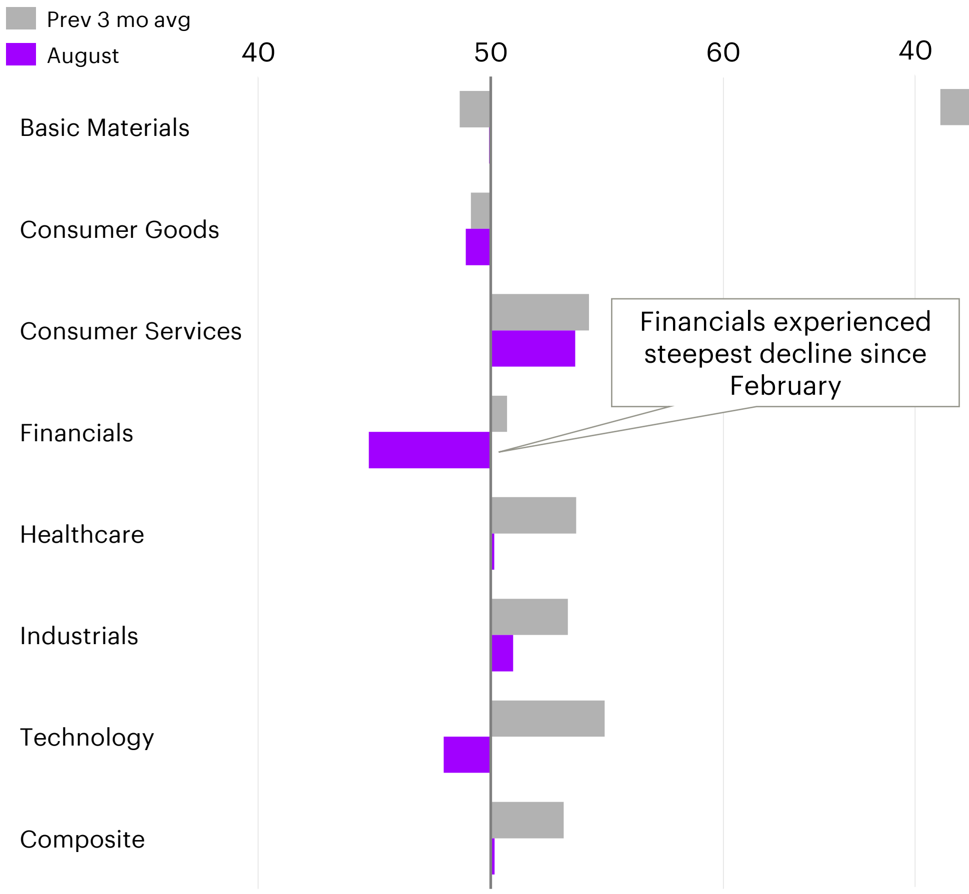
Note(s): A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month
Source(s): S&P Global, Accenture Strategy analysis

In the US, only three sectors—consumer services, healthcare and industrials—are seeing positive recent growth; backlogs of work continue to fall across sectors

Regional performance: United States

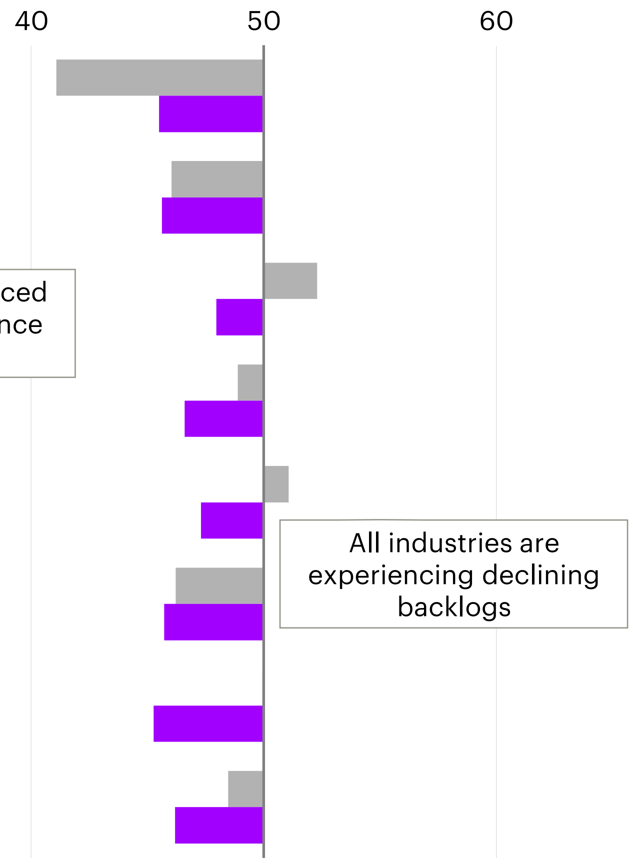
Industry Performance

Output/Activity PMI



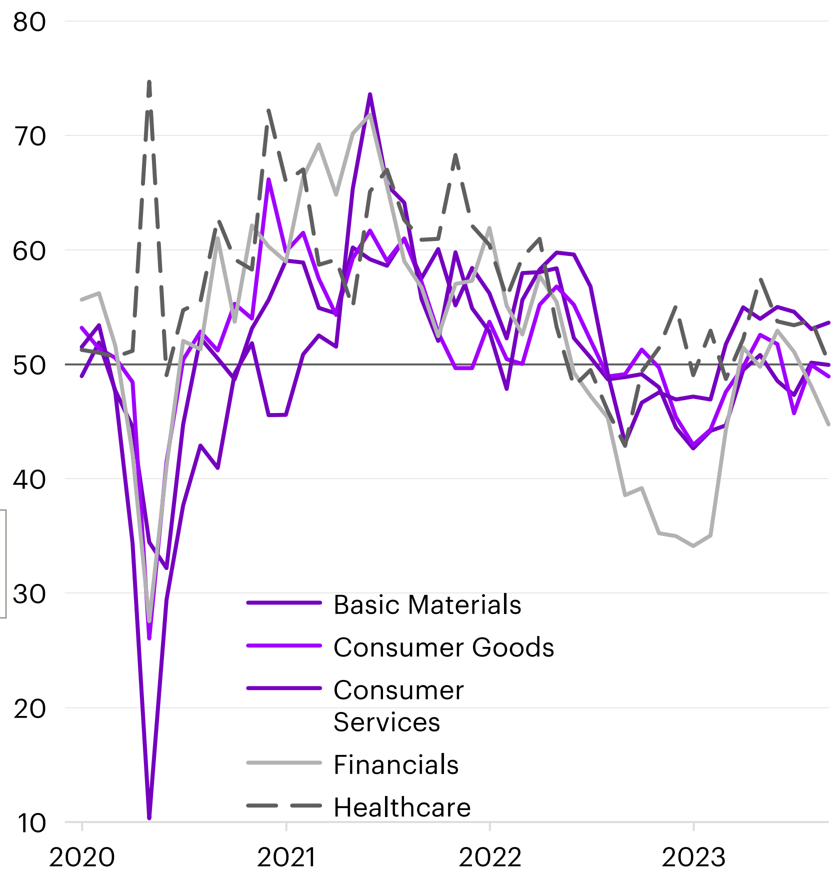
Backlogs of Work

Backlogs of Work



Industry Performance

PMI Output / Activity, selected industries



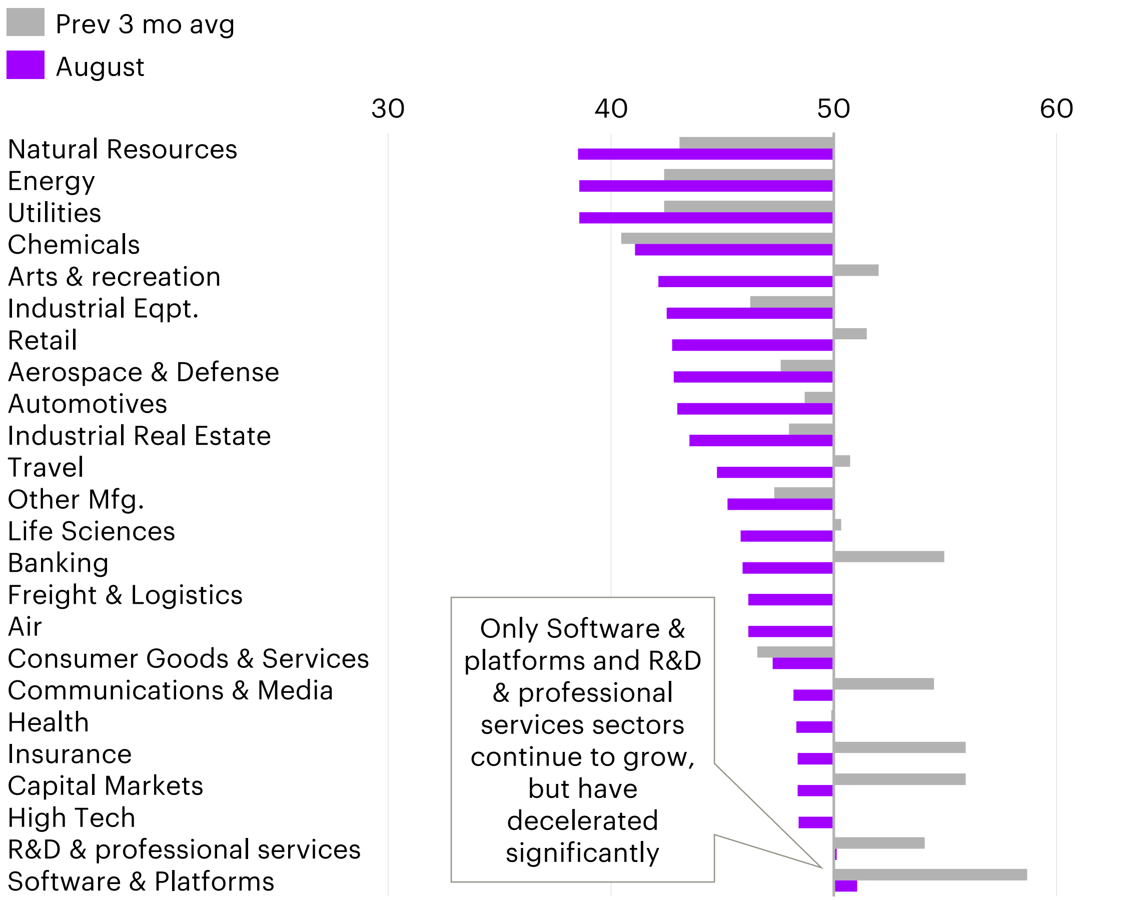
Note(s): Industry names are aligned with Tier 2 IHS industry classification: Basic Materials (Chemicals, Resources); Consumer Goods (Auto, Beverages & Food, Household & Personal Products); Consumer Services (Media, Tourism & Recreation); Financial Services (Banks, Insurance, Real Estate); Health (Healthcare 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 went into contraction in August

Regional performance: Europe

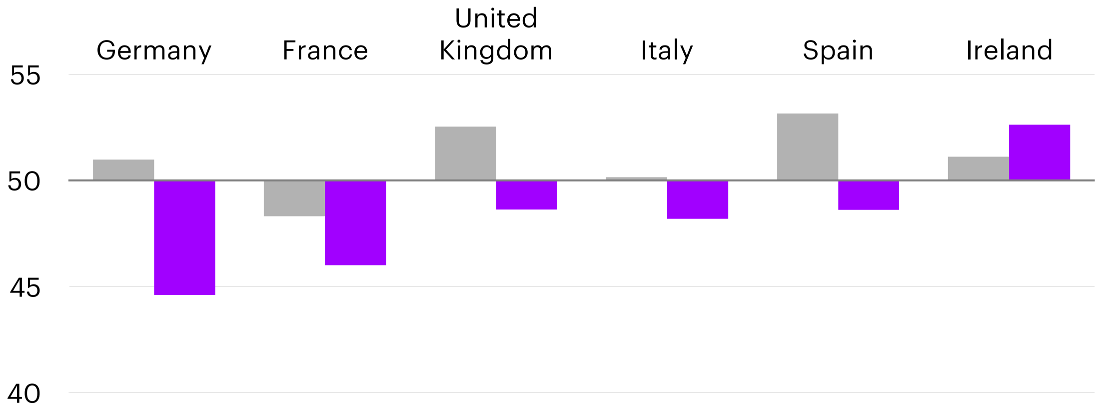
Industry Performance

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



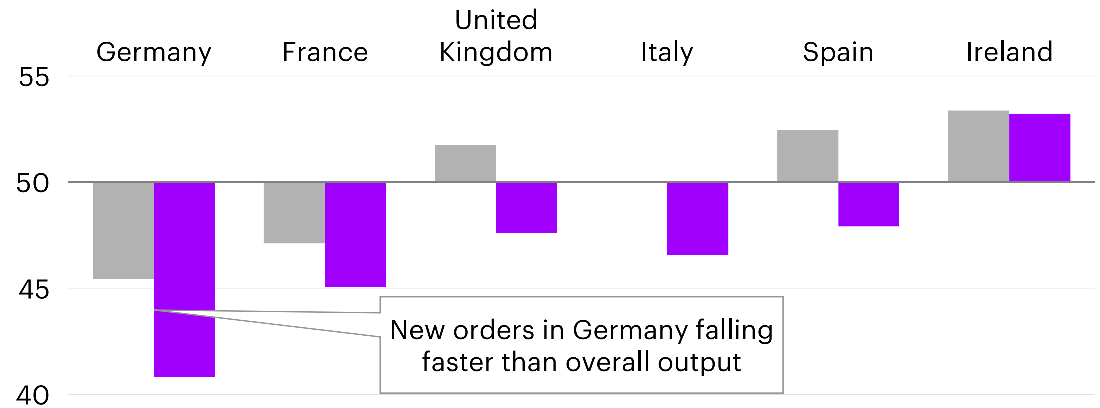
Country Performance

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



New Orders Index

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



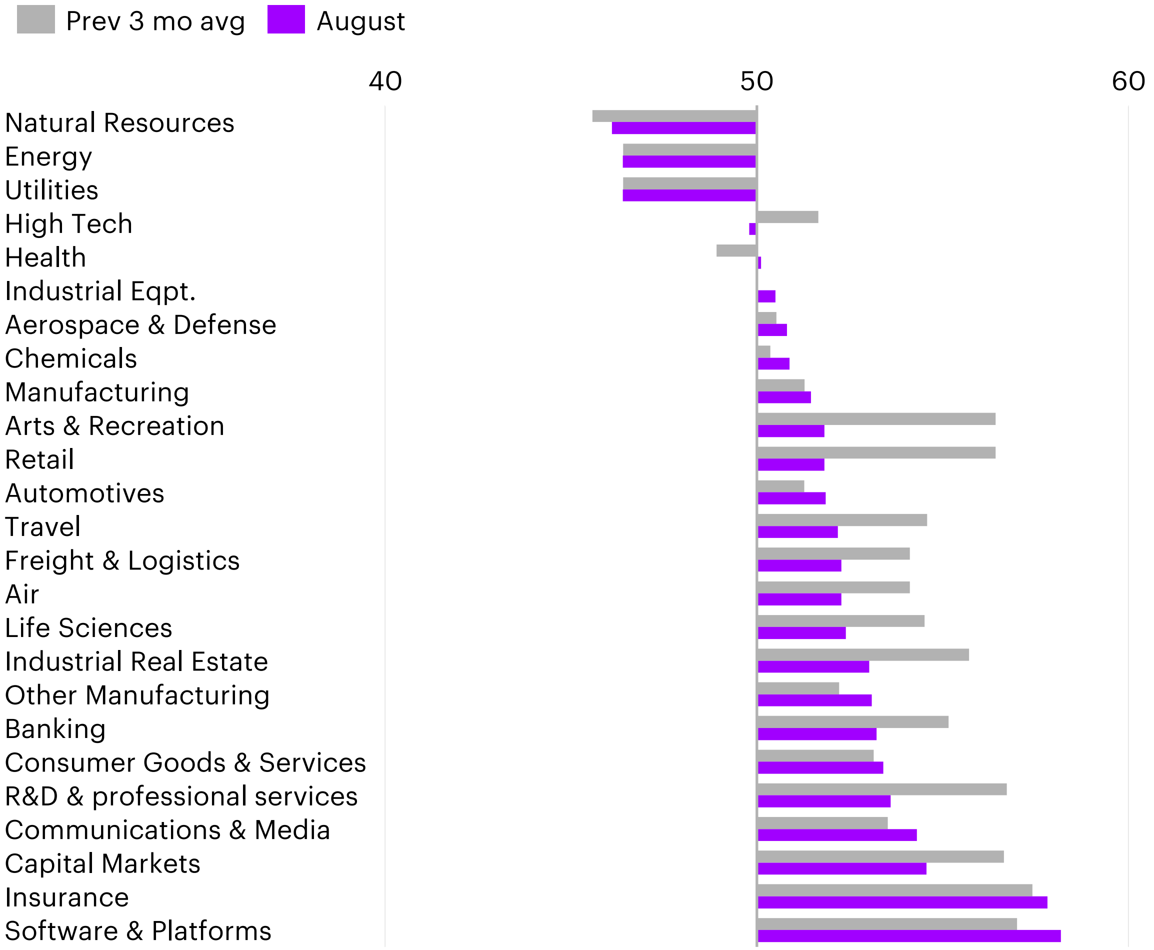
Source(s): S&P Global, Accenture Strategy analysis

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

Regional performance: Asia-Pacific

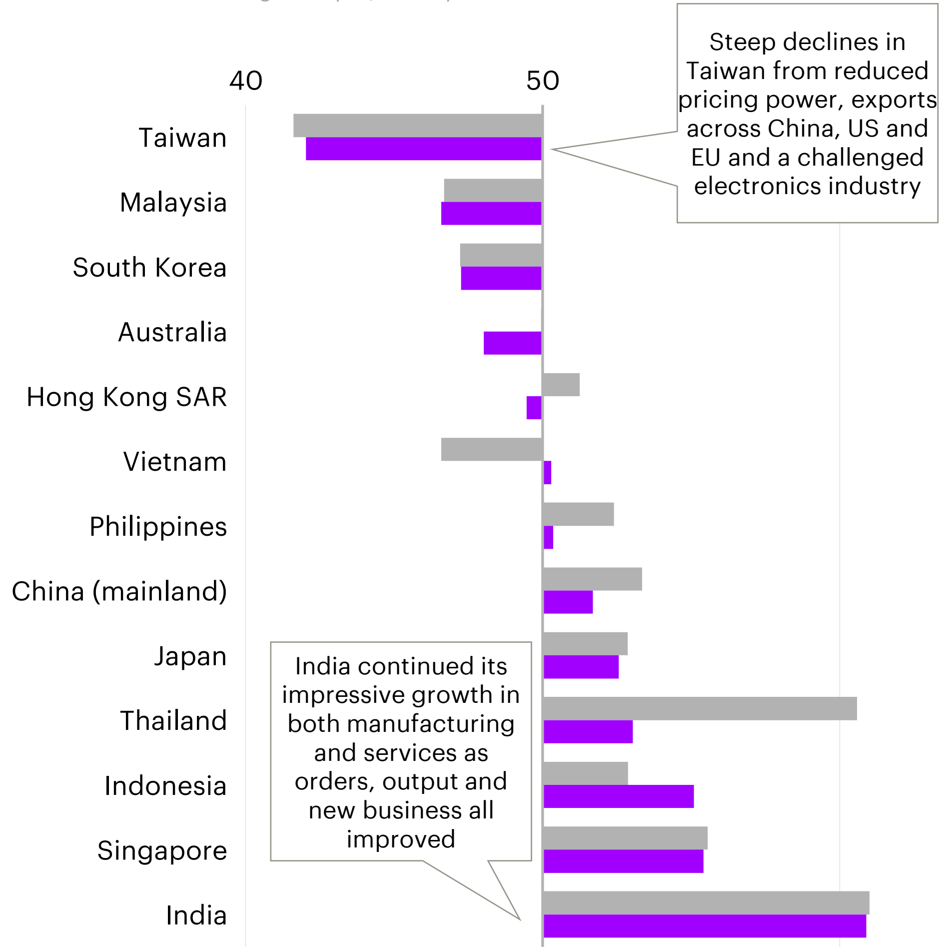
Industry Performance

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



Country Performance

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



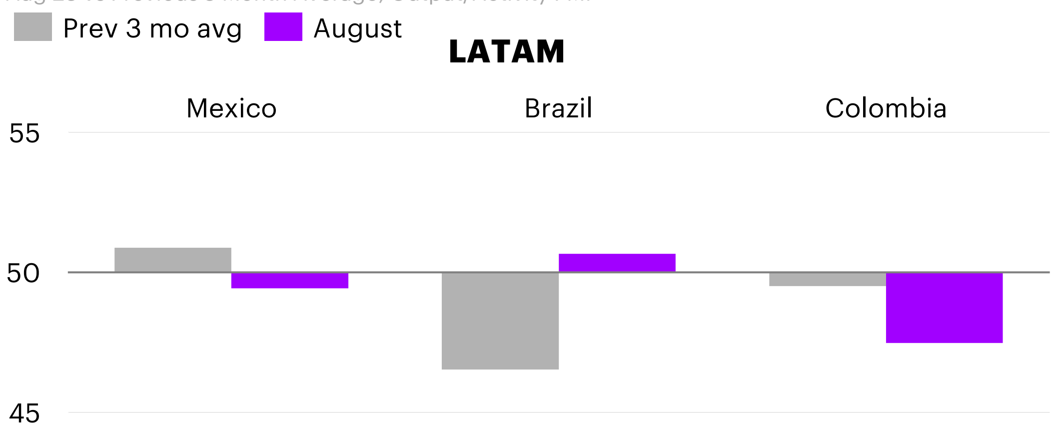
Source(s): S&P Global, Accenture Strategy analysis

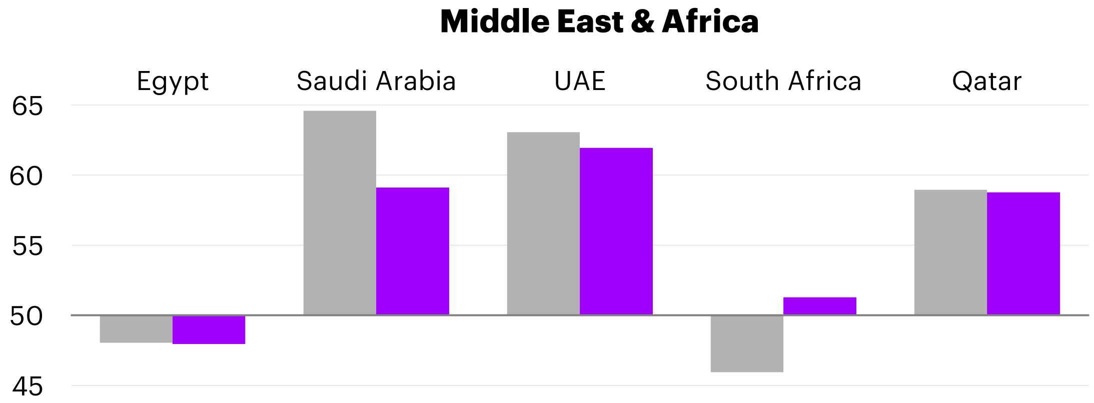
Mexico and Colombia witnessed output contraction while Saudi Arabia and UAE's impressive growth has started to decelerate somewhat

Regional performance: LATAM and MEA

Output/Activity

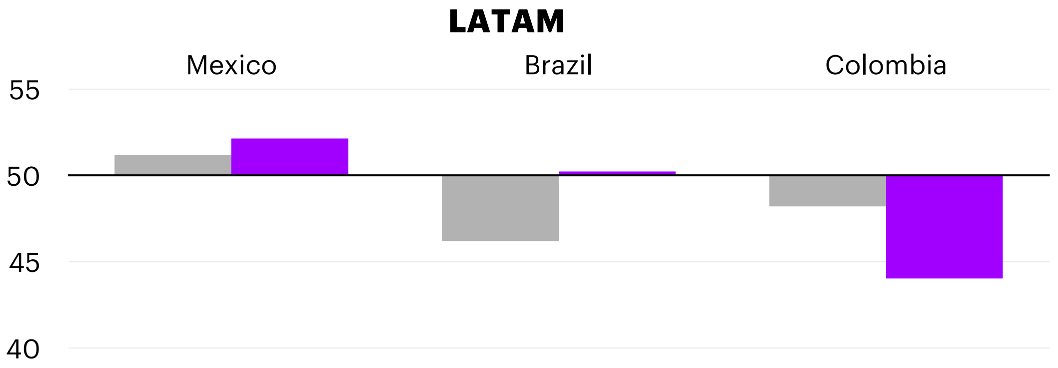
Aug'23 vs Previous 3 Month Average, Output/Activity PMI

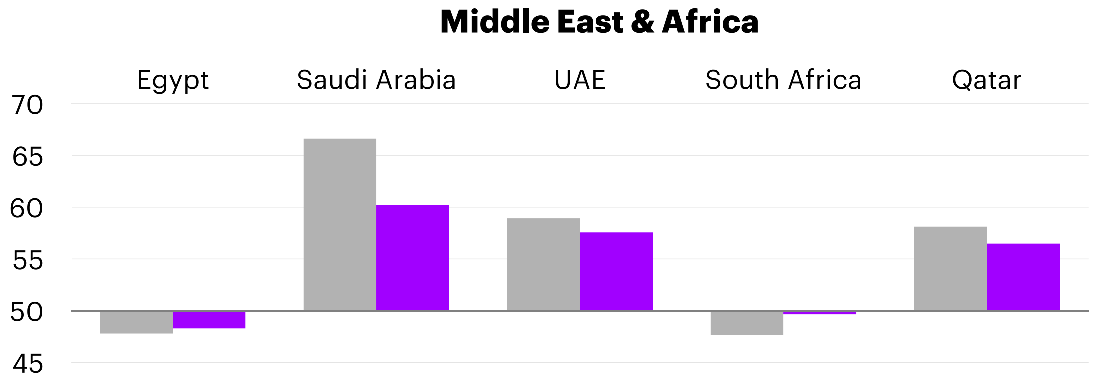




New Orders

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





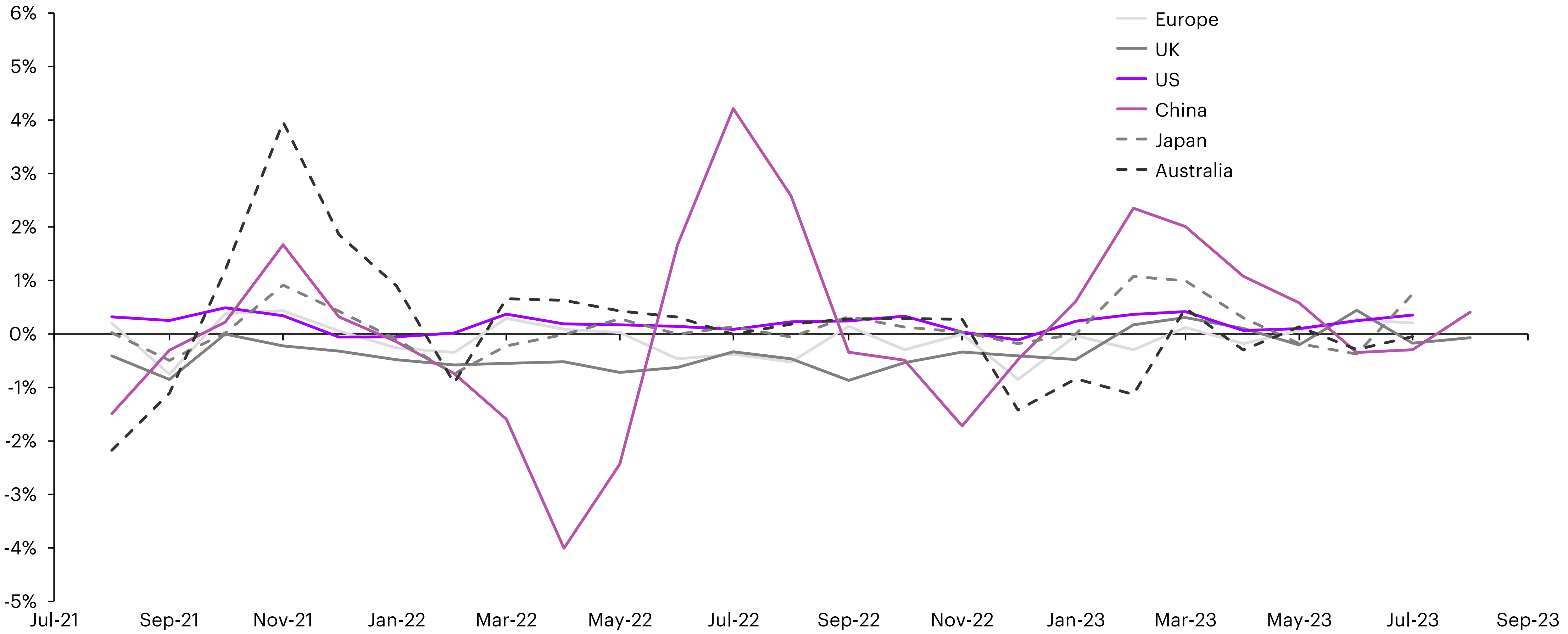
Source(s): S&P Global, Accenture Strategy analysis

Consumer spending

Recent consumer spending growth continues to moderate across most major economies, but has turned mildly positive in China after two months of decline

Consumer spending trends

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

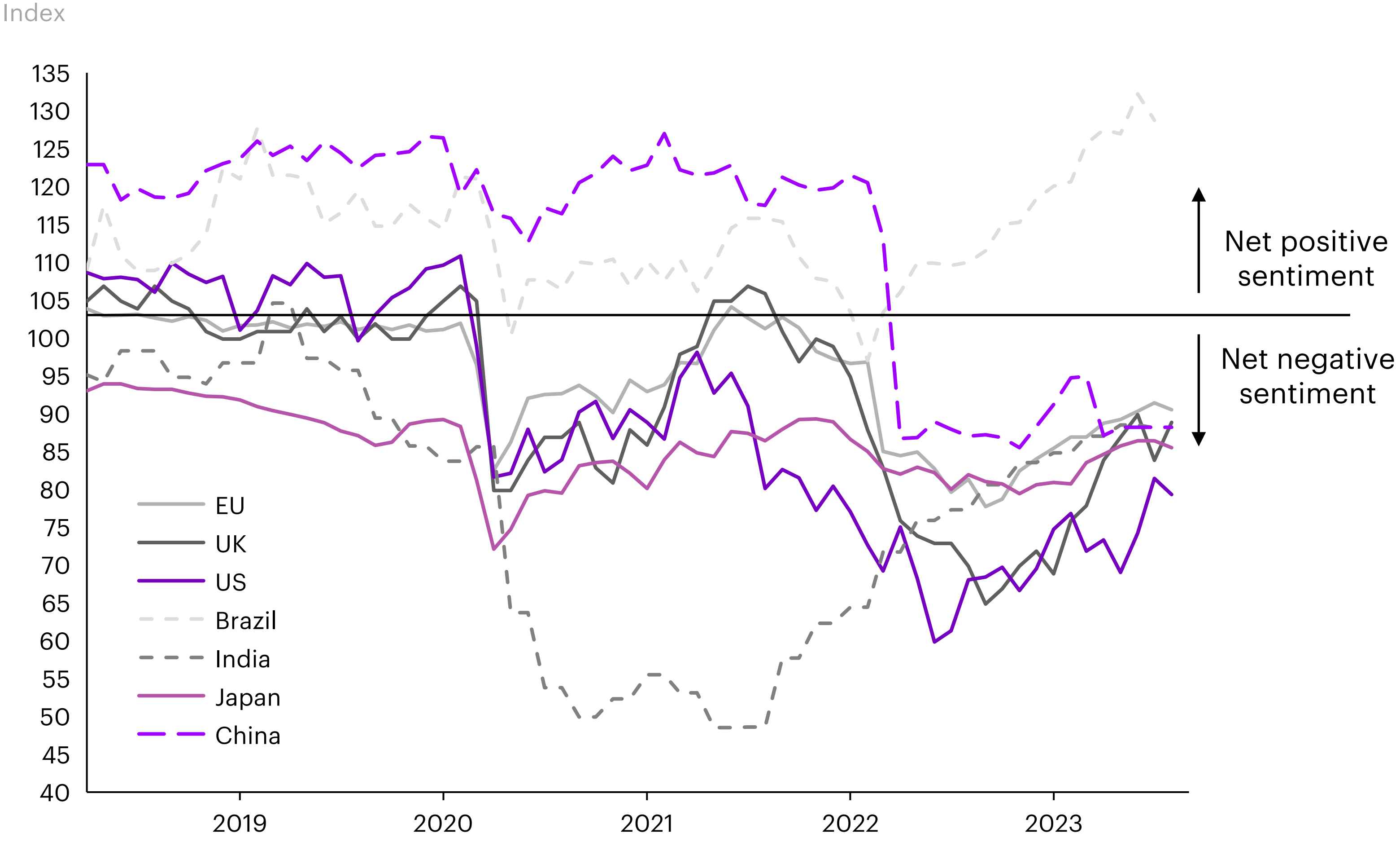


Note(s): Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area, UK, Canada, Japan, Australia, and China series data is retail sales.
Source(s): BEA, BLS, Eurostat, ONS, Haver analytics, Accenture Strategy analysis

Consumer sentiment globally remains largely pessimistic, but has shown some improvement recently

Consumer sentiment remains low

Indicators of overall consumer sentiment



Commentary

- Easing energy prices and food inflation improved consumer confidence across Europe
- Consumer sentiment in UK reached its highest level in 15 months due to positive expectations for the economy
- 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

Consumer spending has been contracting in key European markets while remaining resilient in the United States

Consumer spending trends by goods and services category

AS OF SEP 10

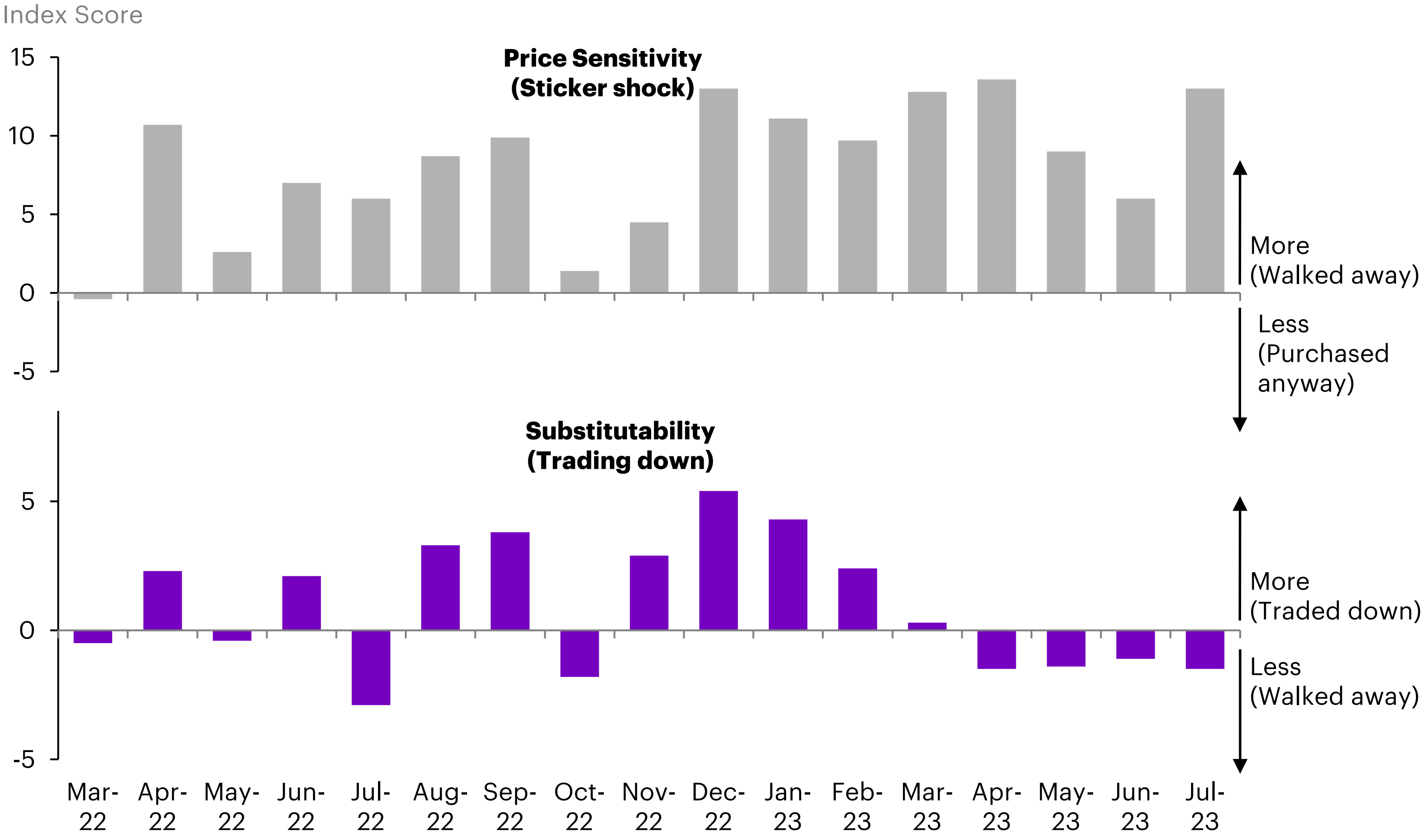
		US		UK		Germany		France	
		Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change
Goods	Groceries	-0.2%	0.5%	-0.9%	-2.7%	-1.7%	2.0%	-3.3%	3.9%
	Motor vehicles	6.0%	0.6%	2.7%	-1.0%	1.3%	1.4%	5.0%	0.1%
	Furniture	0.6%	1.1%	-1.4%	-5.2%	-4.4%	0.1%	2.0%	-1.6%
	Electronics	6.3%	3.6%	-6.5%	-2.4%	0.8%	-4.2%	-0.4%	3.0%
	Footwear & apparel	-1.8%	1.5%	-0.5%	-2.2%	2.1%	-1.3%	0.2%	1.1%
	Fuel	2.6%	-1.6%	-1.1%	0.6%	-2.3%	-0.9%	-3.9%	0.9%
Services	Transportation	1.7%	0.4%	-3.0%	0.0%	2.9%	-0.5%	-0.8%	-2.5%
	Entertainment	1.8%	-0.5%	2.3%	-0.5%	n/a		3.8%	1.0%
	Dining out and hotels	0.4%	1.1%	0.6%	1.5%	-0.7%	-0.4%	1.5%	1.4%
	Information services	0.5%	0.5%	2.5%	1.3%	1.3%	0.5%	3.5%	0.7%
	Telecom	-0.2%	0.4%	6.0%	-0.5%	1.0%	0.8%	4.9%	-1.1%

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 high prices, US consumers continue to report price sensitivity and more 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



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

Commentary

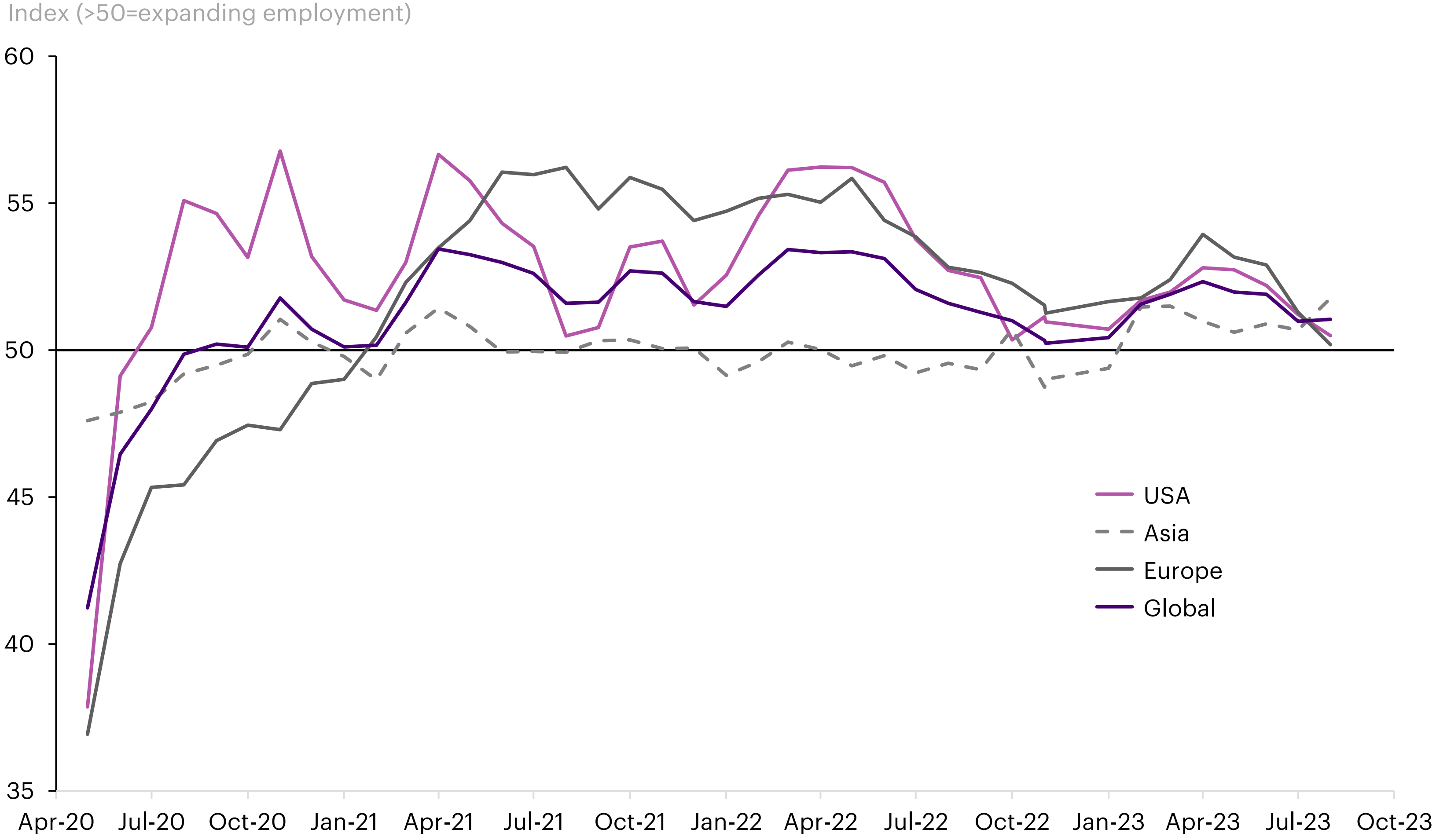
- Reported price sensitivity surged to near April '23 peak in July despite of lower inflation data
  - Elevated prices keep on pressuring consumer budgets, deterring further purchases
  - Indeed, the share of consumers who walked away from a higher-than-expected purchase price exceeded the share who 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 for the fourth consecutive month
  - This partly reflects less availability of affordable product substitutes

Labor markets

Labor markets may be at a turning point as employment growth continues to decelerate

Employment growth

Aggregate PMI Employment Index



Commentary

- Employment growth continued to decelerate in August for US and Europe, while Asia and global numbers saw a bit of a rise
- The ongoing employment strength in services sectors will be key to watch in H2 as wage pressures in those industries contribute to stickier inflation

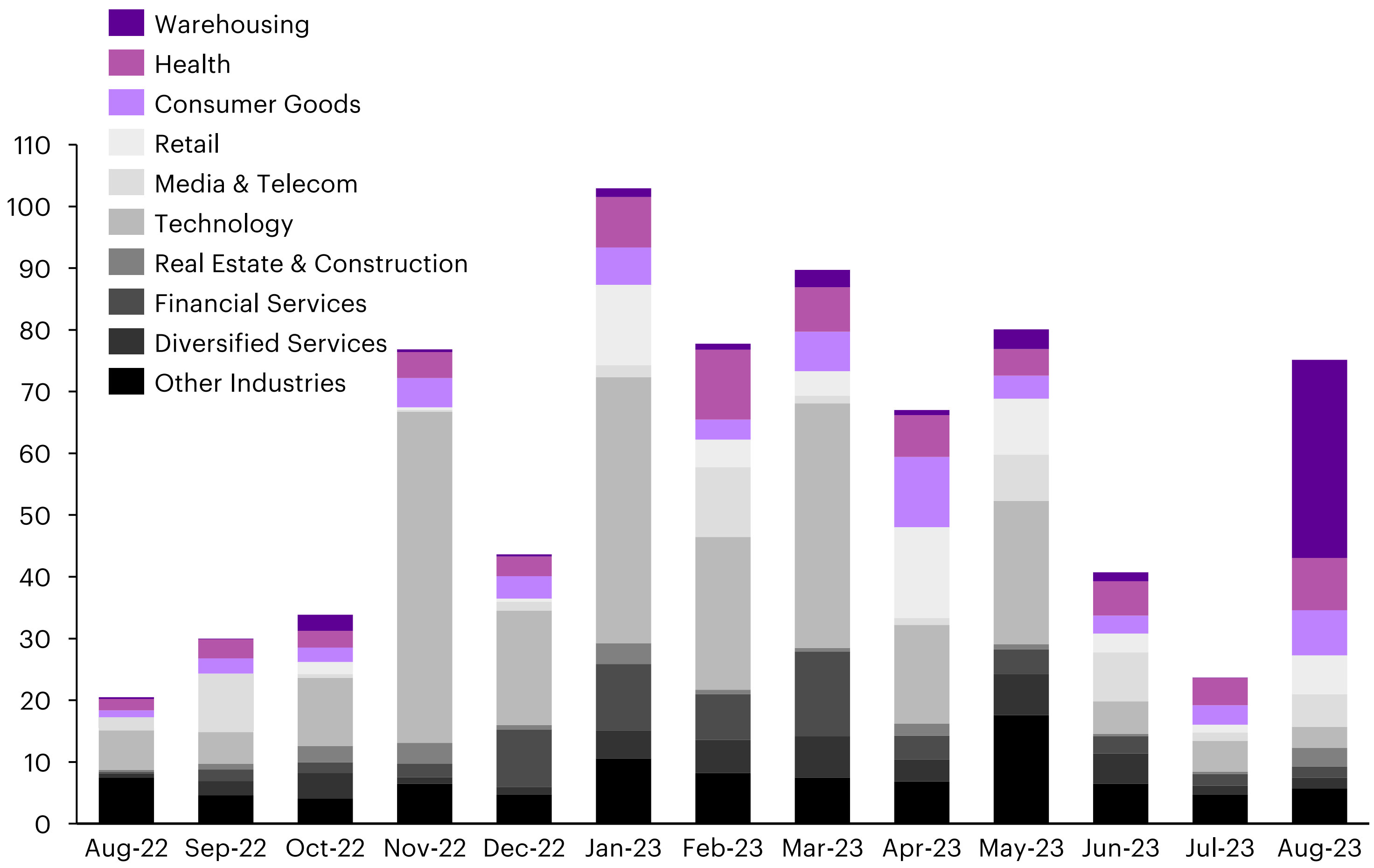
Source(s): S&P Global, BLS, Accenture Strategy analysis

US layoffs spiked in August as companies focused on reducing expenses, with a significant increase in warehousing layoffs

US corporate layoff tracker

Announced layoffs by sector

Thousands (not seasonally adjusted)



Commentary

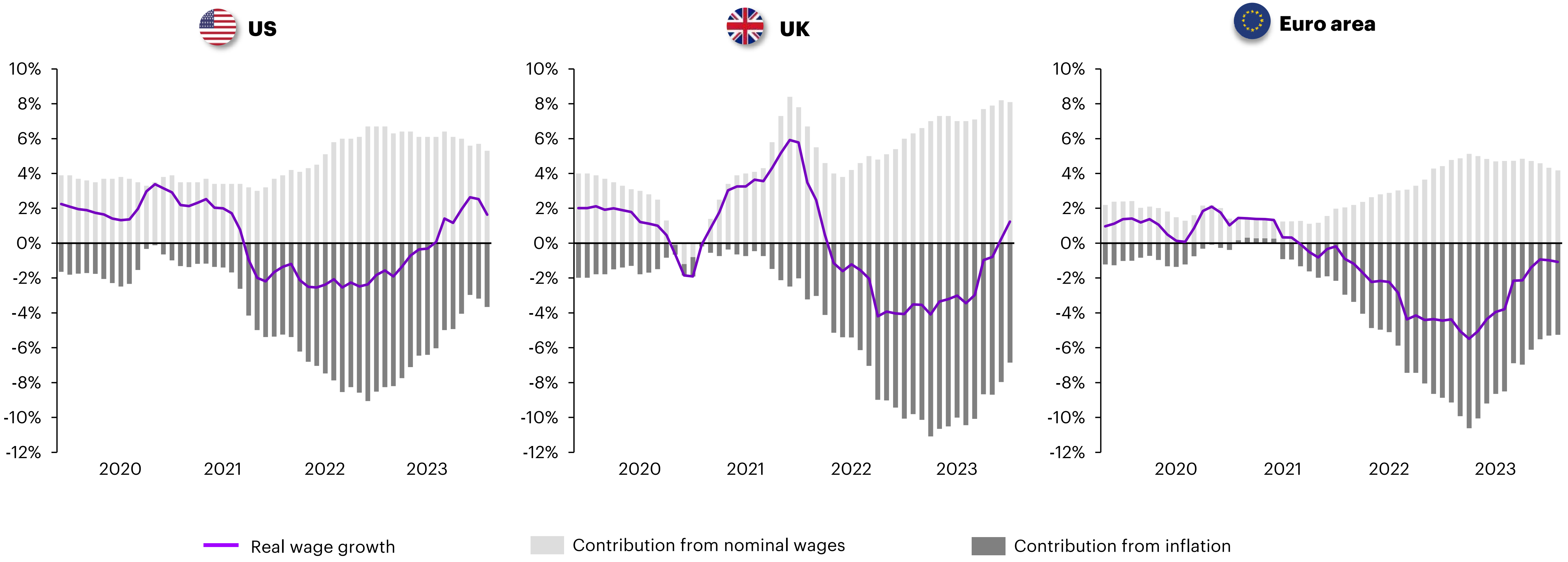
- Warehousing witnessed the biggest hike, largely attributed to the bankruptcy of Yellow Corp, which put 30K+ employees out of work
- Health and Consumer Goods layoffs doubled month-over-month, while Retail and Media & Telecom were 5x and 4x respectively over July numbers
- Technology saw the lowest number of layoffs in 12 months

Source(s): Challenger Employment Report, Haver Analytics

Real wage growth is increasingly positive in the US and UK amidst recent easing of inflation, but remains persistently 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

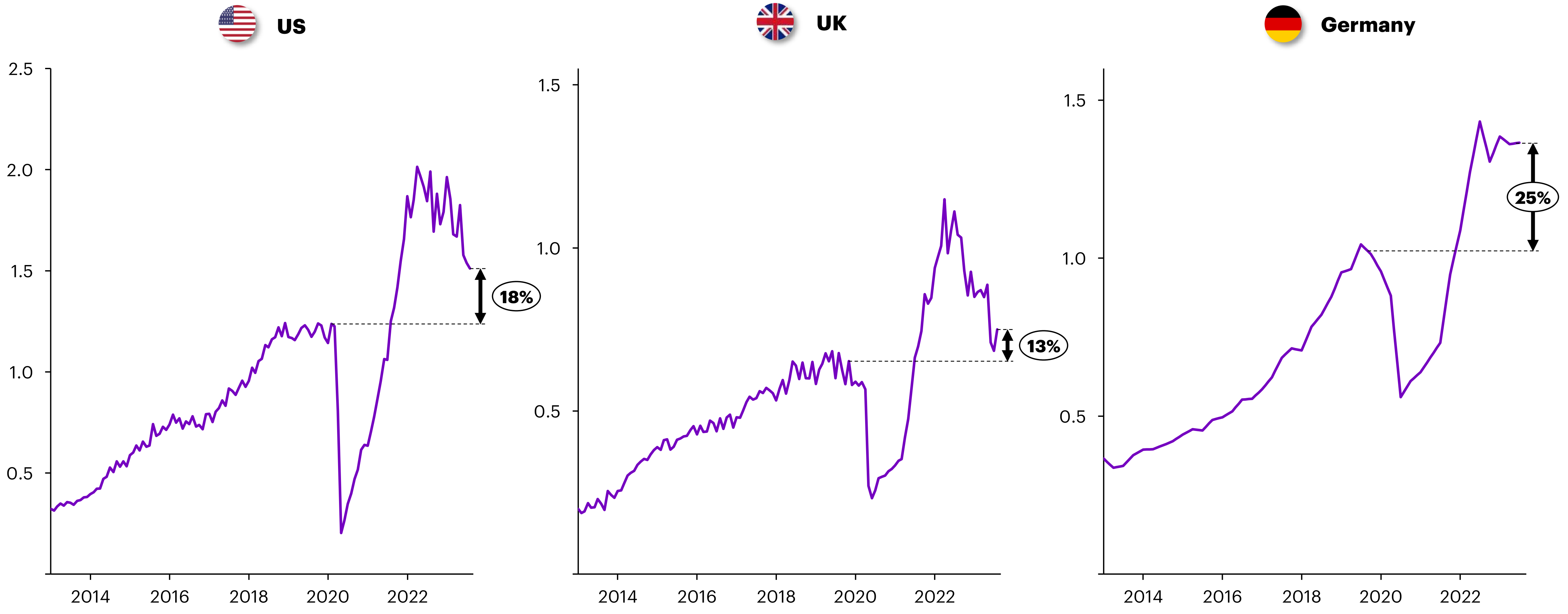


Source(s): BLS, ONS, Indeed, Accenture Strategy analysis

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



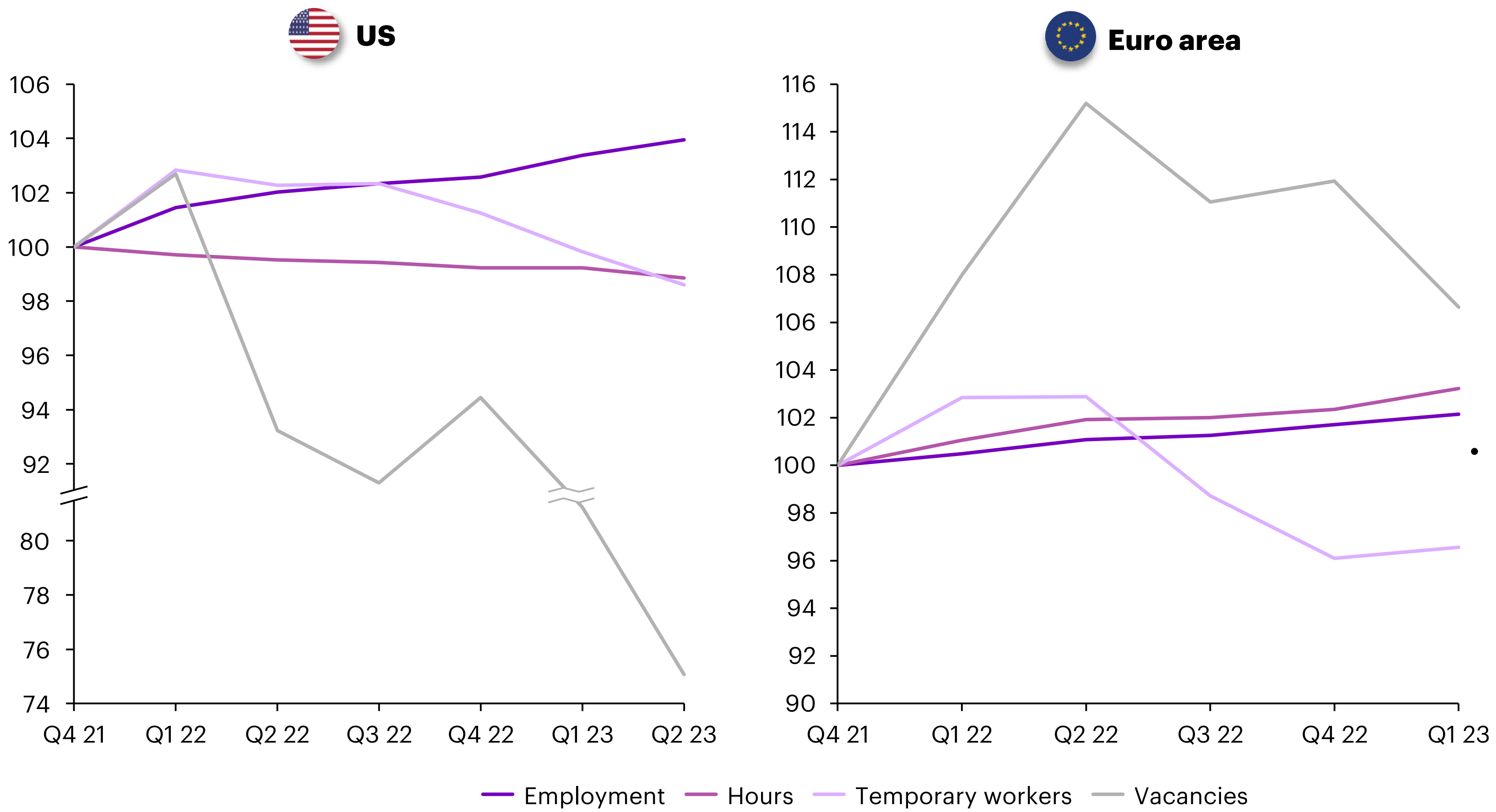
Source(s): BLS, ONS, Eurostat

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

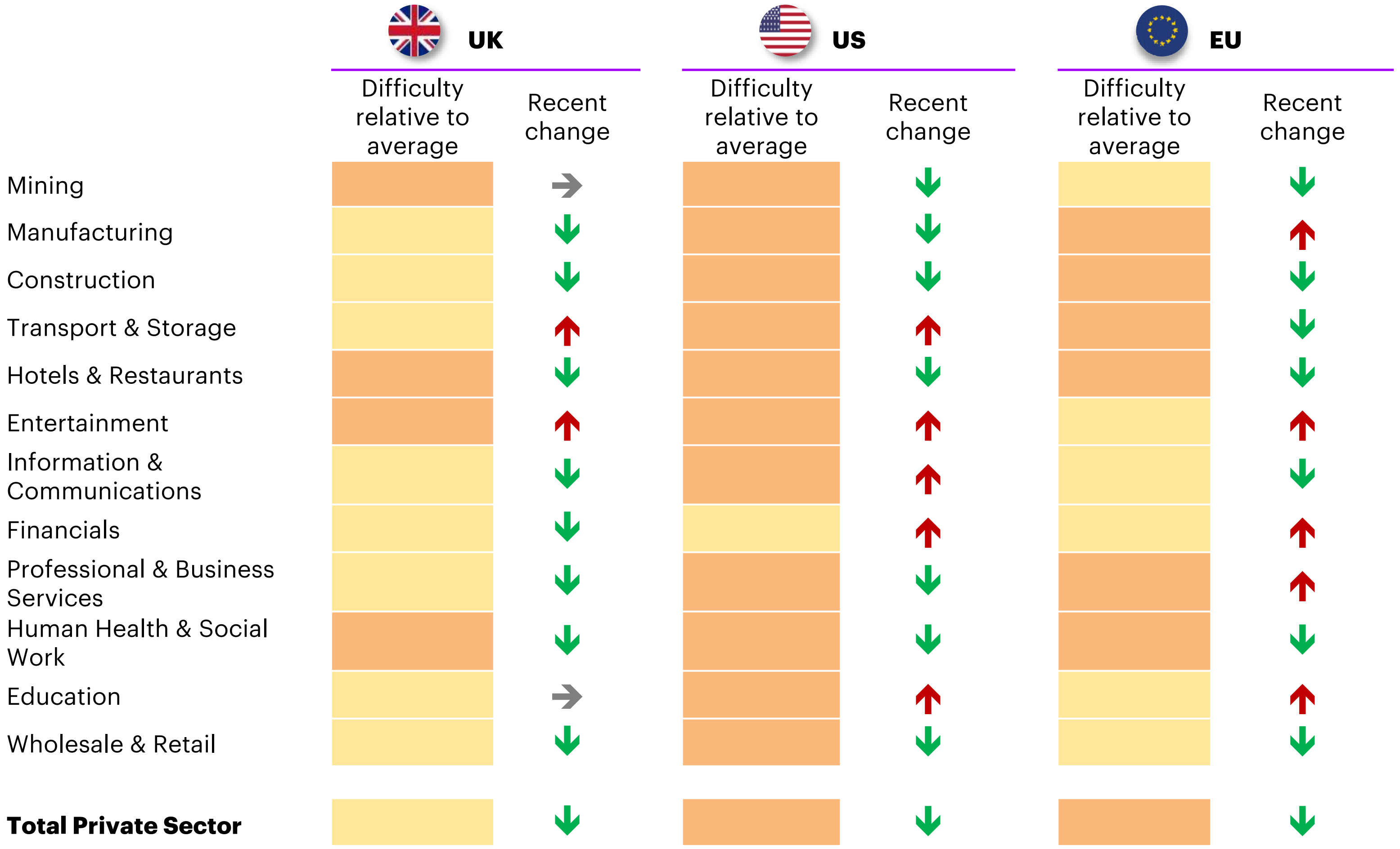
- While employment continues to rise in the US, companies have been reducing hours and temporary workers to adjust to lower levels of demand
  - Companies have also reduced vacancies contributing to easing labor markets
  - While cooling labor markets may point to a soft landing, the risk remains that 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 services sectors, especially in US where hiring difficulties for hospitality, transport and entertainment continue to increase

Relative difficulty of hiring by sector

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



Commentary

- Hiring difficulties are pronounced in entertainment industry across the US, UK and EU
- Overall hiring difficulties relative to historical norms are highest in the US, as compared to UK and EU
  - In EU, difficulties worsened in manufacturing and professional & business services

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

Easing energy prices and supply chain pressures provided further inflation relief in August, but current rates are still elevated

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%	0.5% ↑
United Kingdom	6.7%	-0.1% ↓
Canada	3.9%	0.4% ↑
Germany	6.4%	-0.3% ↓
France	5.7%	0.7% ↑
Italy	5.5%	-0.8% ↓
Spain	2.4%	0.3% ↑

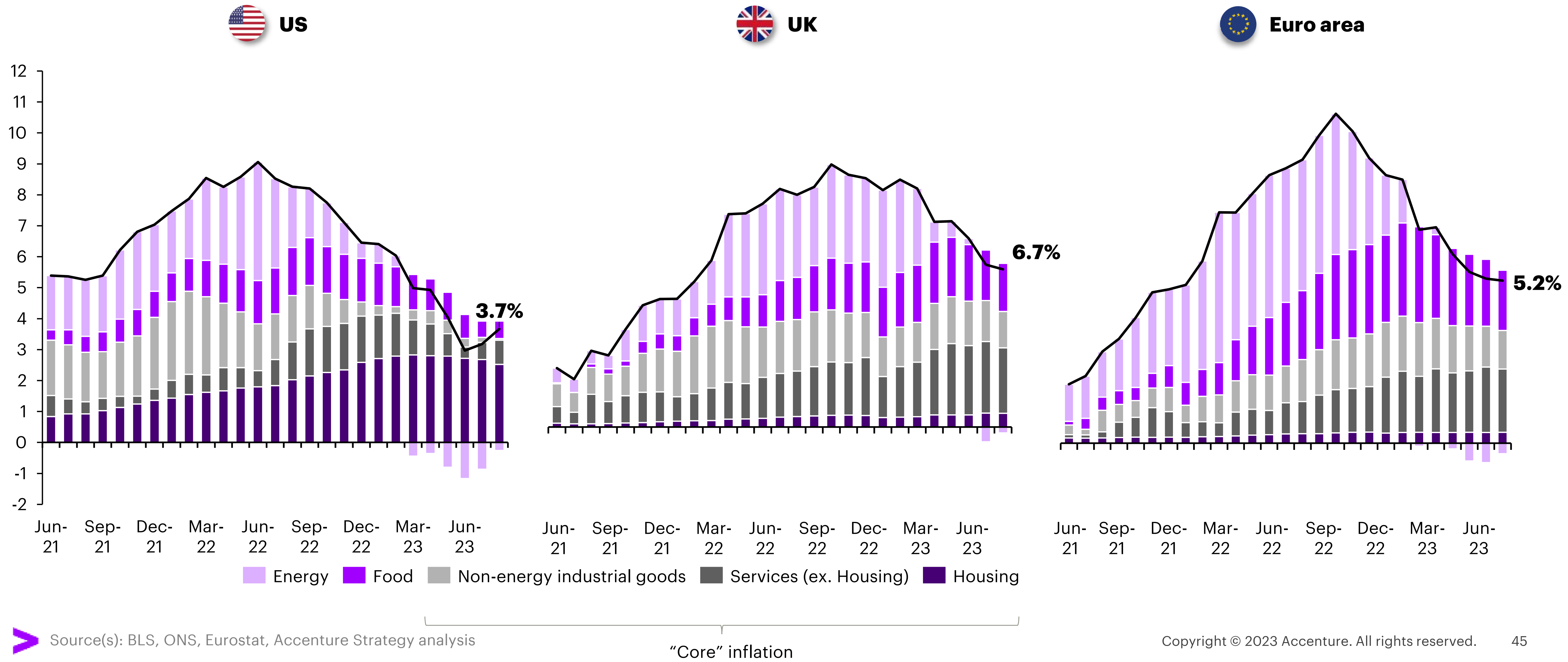
Country	YoY Inflation Rate	Change from previous month's rate (percentage points)
China	0.1%	0.4% ↑
Japan	3.2%	0.0% →
Brazil	4.6%	0.6% ↑
India	6.8%	-0.6% ↓
Singapore	4.0%	-0.4% ↓
Korea	3.4%	1.2% ↑

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

Recent disinflationary momentum is moderating amidst renewed energy price increases and continued stickiness in core inflation

Drivers of recent CPI inflation

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

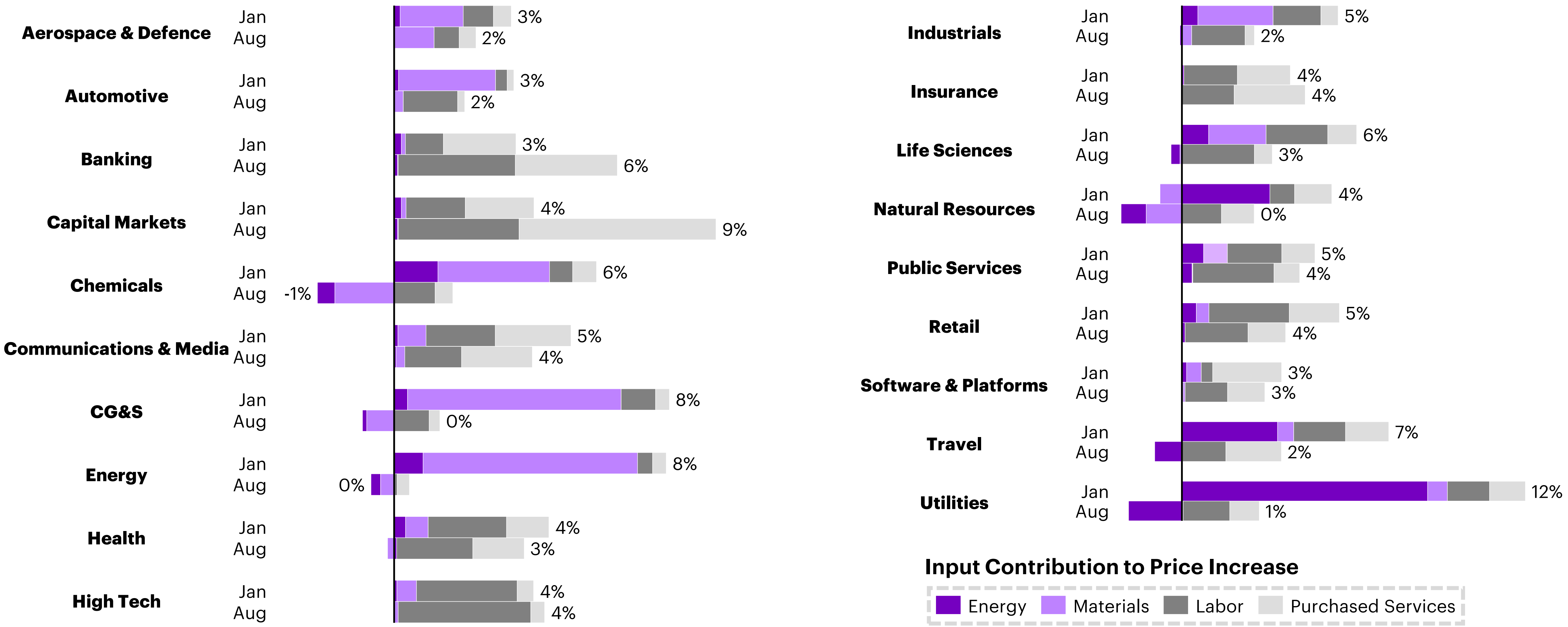


Source(s): BLS, ONS, Eurostat, Accenture Strategy analysis

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

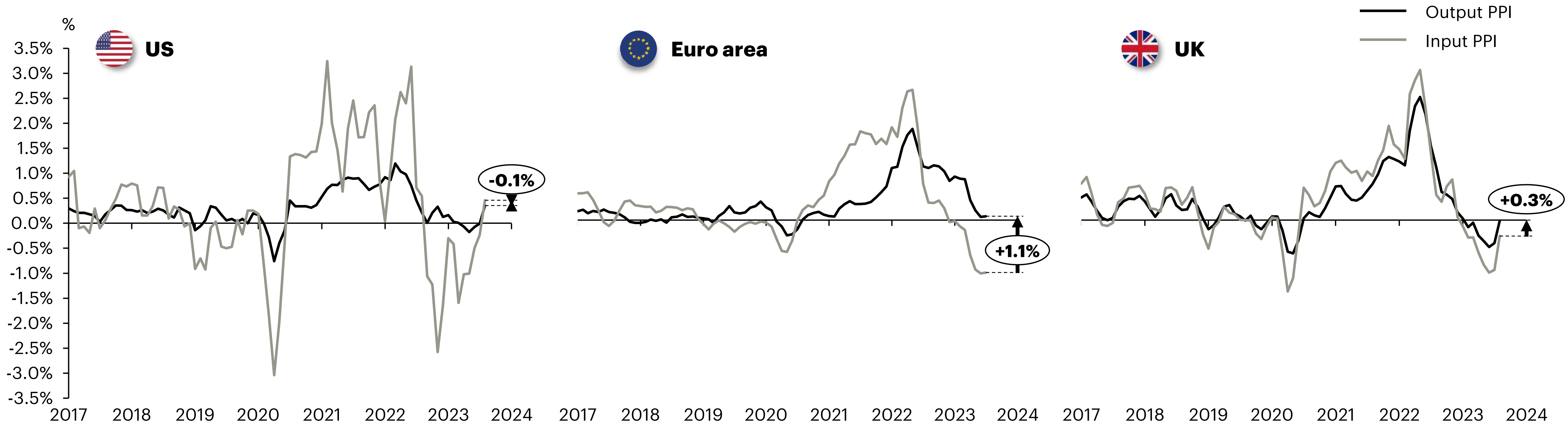


Note(s): Wage data as of Jul'23; Energy prices as of Aug'23 for Natural Gas, Jun'23 for Electricity and Aug'23 for Others; Materials and Purchased Services PPI price increases as of Jul'23.
Source(s): BLS, BEA, EIA, EPA, Accenture Strategy analysis

European and UK companies continue to be able to pass along their input costs, while US companies appear to be allowing some compression in margins

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

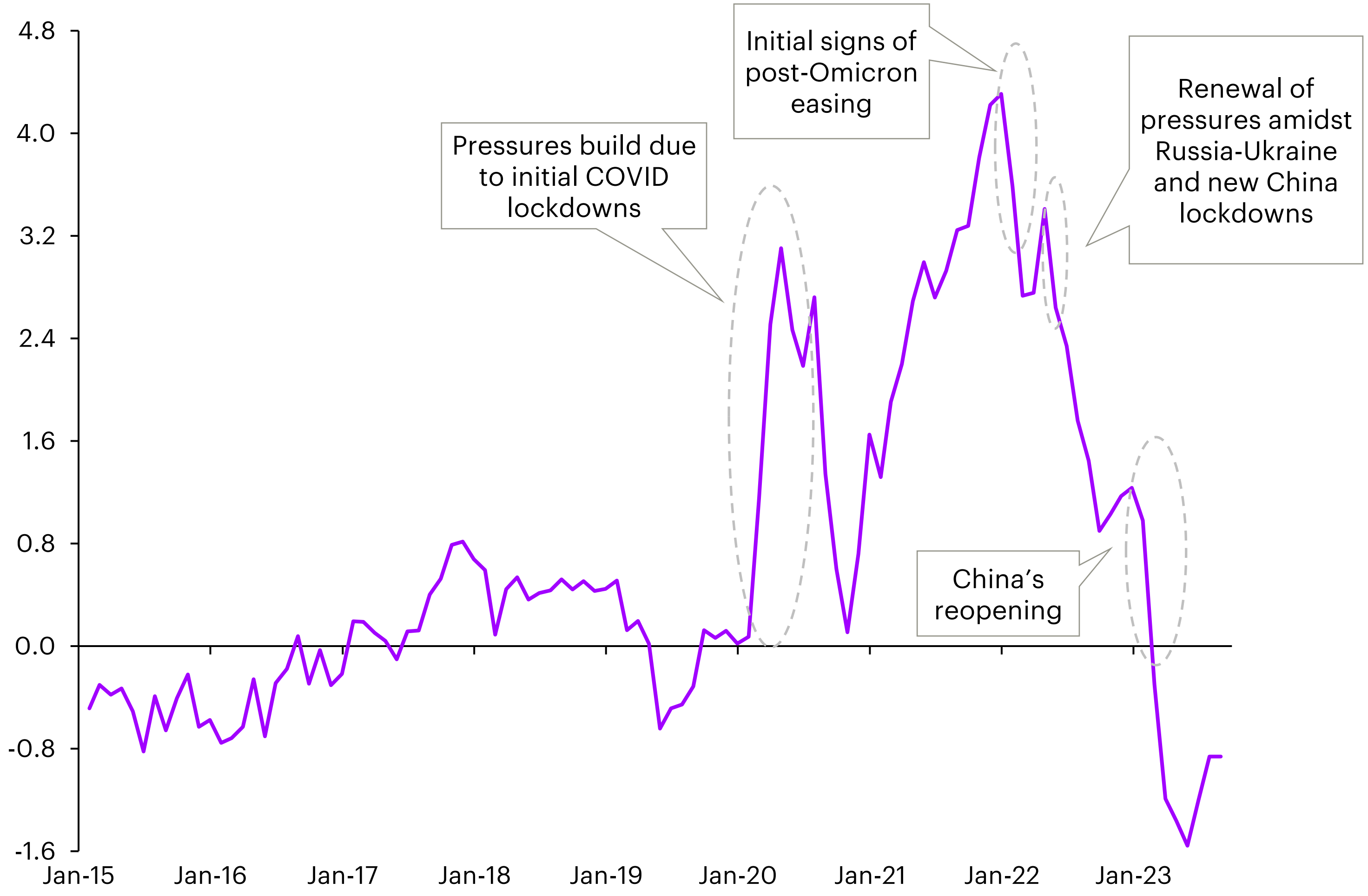
Note(s): 1) Figures in bold represent absolute percentage point difference between intermediate and final demand PPI YoY % values; higher positive values imply greater pass through to final producer selling prices, while larger negative values imply lower pass through. 2) US data is based on production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

Global supply chain pressures continue to ease and are now below pre-pandemic levels and near their record historical lows

Global Supply Chain Pressure Index

Standard deviations from long-term average (=0)



Commentary

- Easing supply chain pressures should continue to have a disinflationary impact on goods prices and help support global trade flows

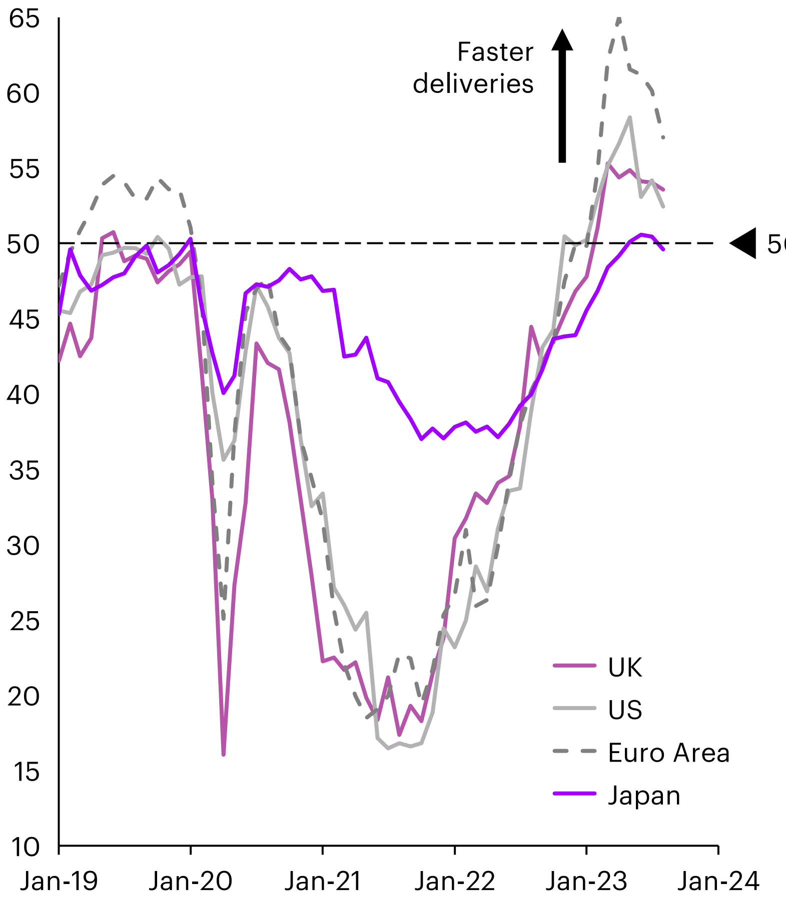
Source(s): Federal Reserve Bank of New York, Global Supply Chain Pressure Index, Accenture Strategy analysis

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

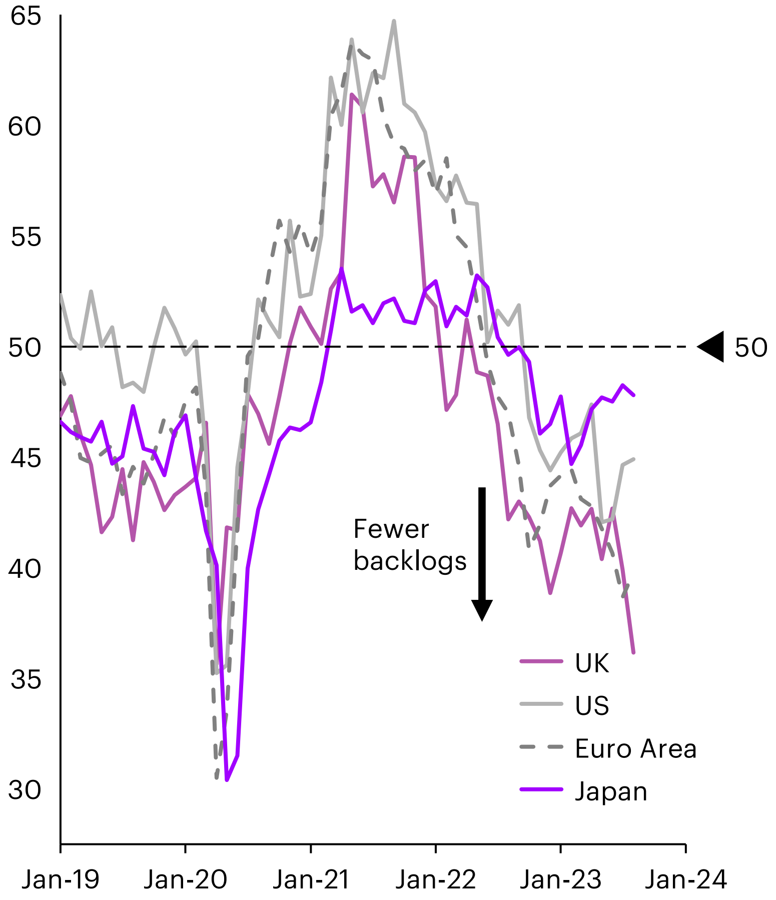
Suppliers' Delivery Times

Seasonally adjusted, 50+ = Increase



Manufacturing Backlogs of Work

Seasonally adjusted, 50+ = Increase



Commentary

- Supplier delivery times decelerated across US, UK & Europe in August
- Japan faced renewed supply pressures in August with delivery times increasing for the first time in 4 months
- Faster delivery times reflect greater supply availability and fewer bottlenecks, helping manufacturers to clear backlogs
  - Across the US, UK, Europe and Japan manufacturing backlogs declined as new orders fell

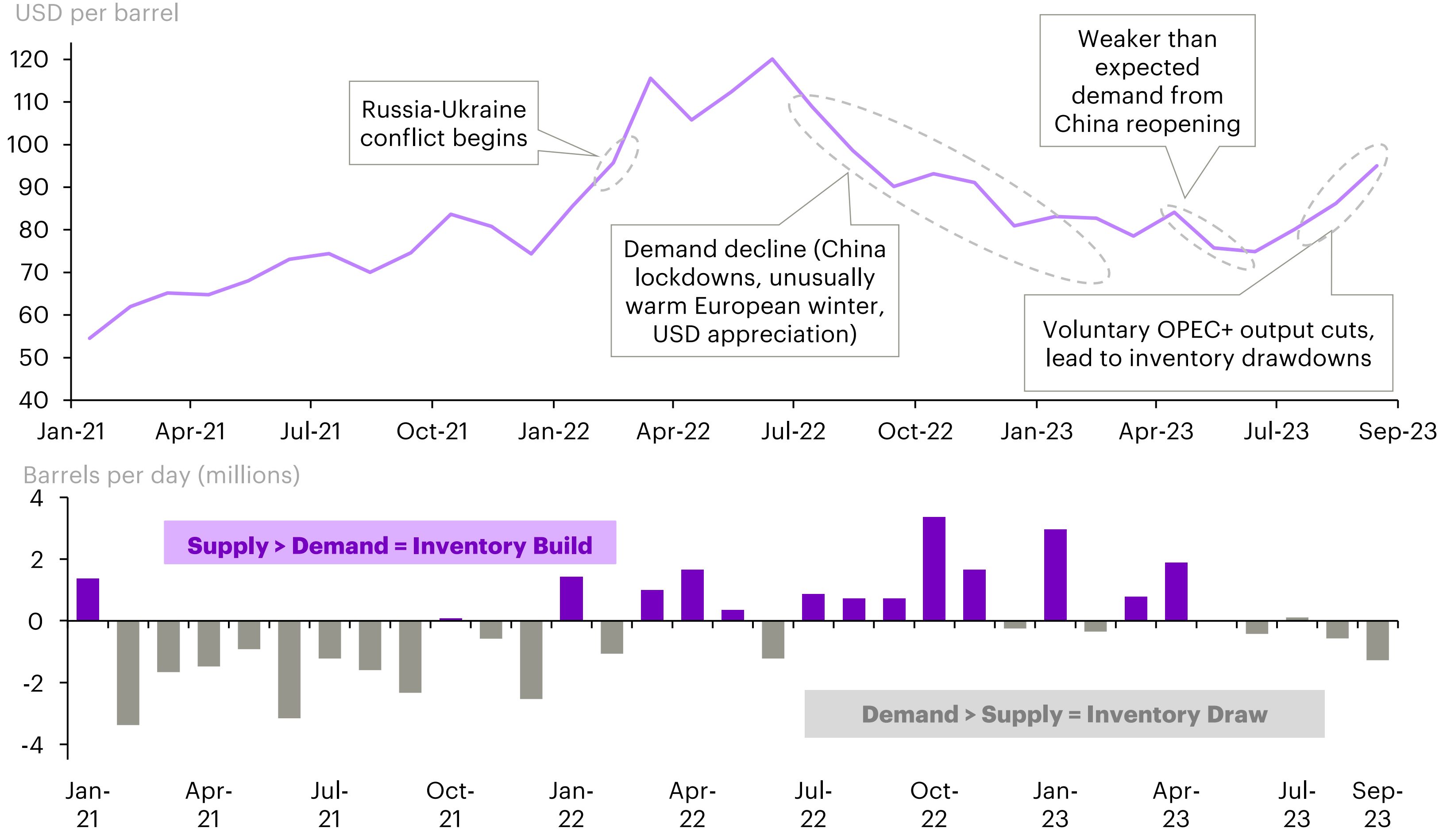
Source(s): CIPS/S&P Global, Haver Analytics, Thomson Reuters, Accenture Strategy analysis

Energy and commodities

Oil prices surged to a 10-month high in September on the back of OPEC+ supply cuts and inventory drawdowns that outweighed softening demand

Crude oil prices and inventories

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



Drivers of energy prices in 2023

- Brent oil prices rose to their highest level since November 2022 amidst ongoing pull and push market forces:
  - OPEC+ extended its oil output cuts to support oil prices into 2024
  - Lower exports from Saudi Arabia
  - Decline in global inventories
  - Seasonal demand uptick from Summer travel
- Going forward, supply and demand fundamentals continue to suggest upward price pressures
  - Disincentives to new investment by energy companies due to volatile prices and higher cost of capital
  - Demand tailwind from China's stalled economic re-opening

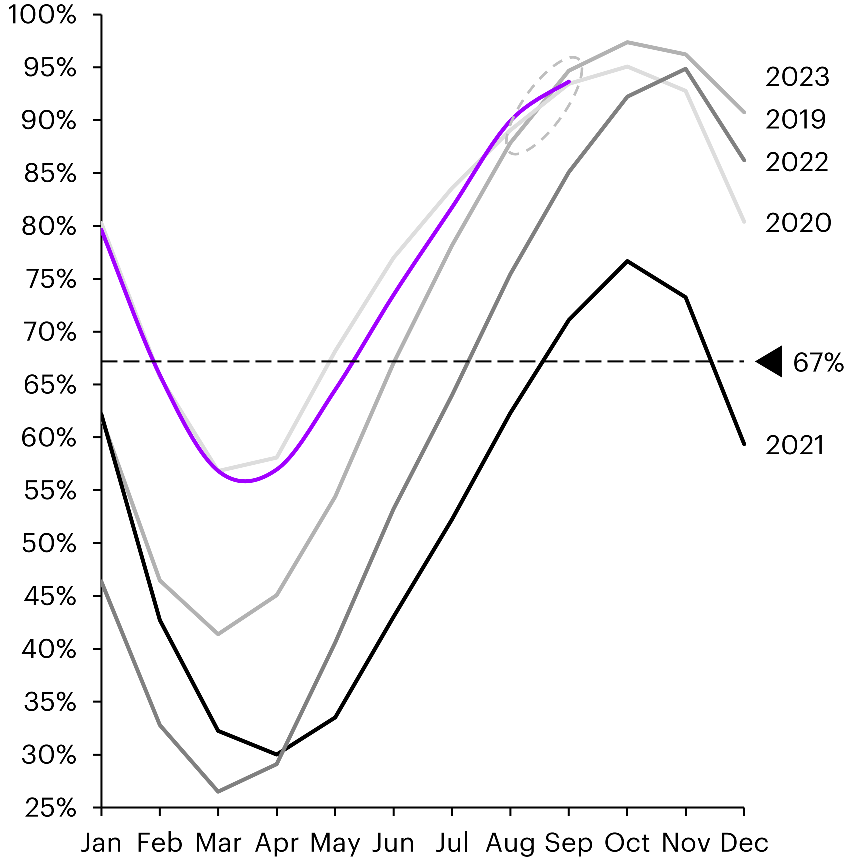
Note(s): Monthly average of crude oil price UK Brent 38` API (USD per barrel)
Source(s): Energy Information Agency, World Bank, Bloomberg, Haver Analytics, Accenture Strategy Analysis

EU gas prices are on a renewed upswing since mid-July amidst EU and Australian supply shocks and sizeable demand planned from China

EU natural gas reserves and prices

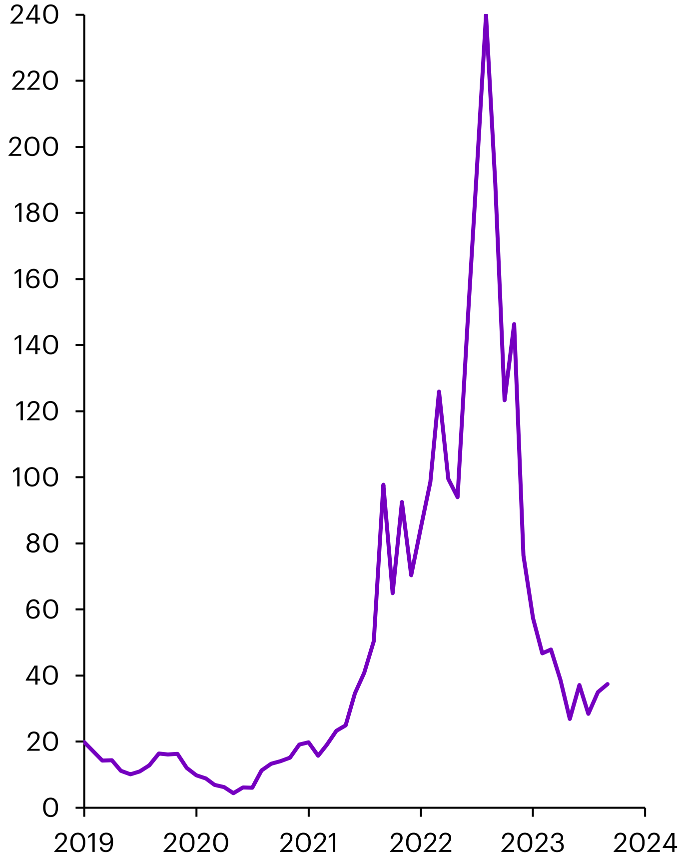
European gas reserves are relatively high at 94%...

% of storage capacity



with prices rising on supply-side pressures

TTF Gas (EUR per megawatt-hour)



Commentary

- Natural gas prices in Europe rose in August and into September after growing concerns of market shocks, including:
  - Recent union strikes leading to supply stoppages at LNG plants in Australia
  - An extended maintenance outage at Norway's Troll field (Western Europe's largest), which had taken supply offline since late August
  - China Sinopec's tender bid for 25 LNG cargoes on a delivered ex-ship basis between Oct and end-2024
- EU countries reached a provisional agreement in mid-2023 to:
  - Raise renewable energy target from 32% to 42.5% of EU's energy consumption by 2030
  - Reduce reliance on gas imports and increase energy security via renewables and low-carbon energy

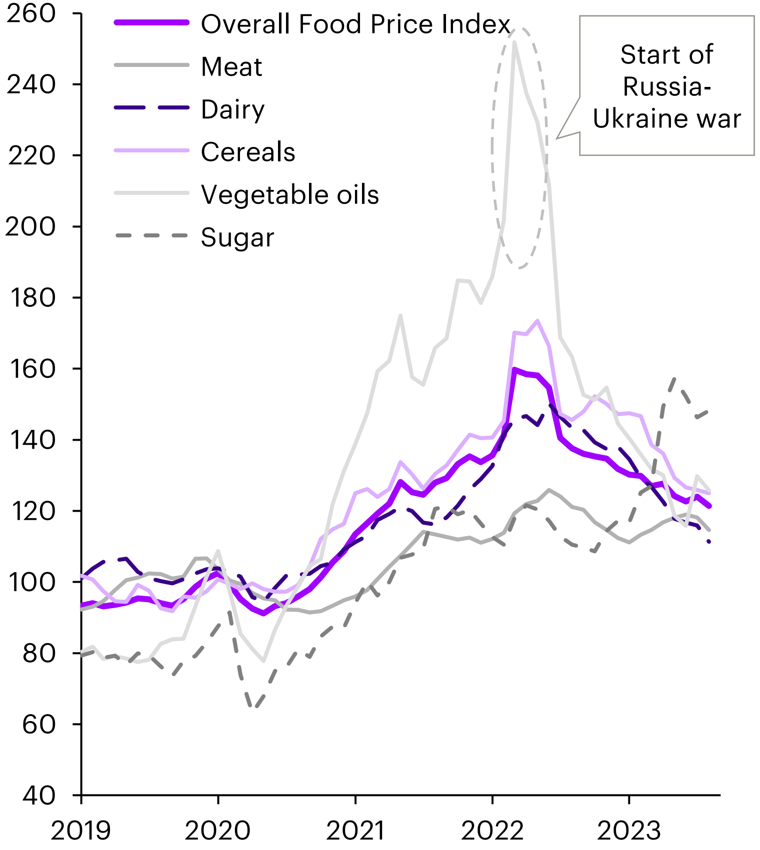
Note(s): Dutch TTF Natural Gas Futures front-month contract. TTF stands for Title Transfer Facility, which is a virtual trading hub for natural gas in Europe. TTF prices represent the average monthly price of natural gas traded at this hub and are considered a benchmark for natural gas prices in Europe.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

Overall food prices hit a 29-month low in August, while fertilizer prices rose amidst signs of export curbs and higher feedstock

Food and fertilizer prices

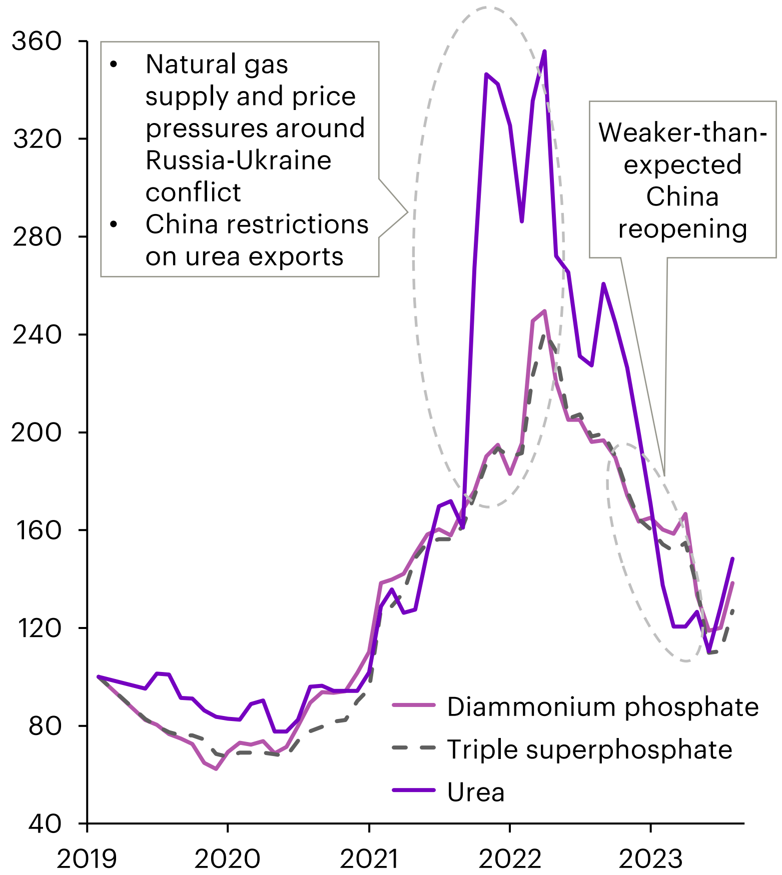
Food prices

Index, 2014-2016 = 100



Fertilizer prices

Index, Jan 2019 = 100



Commentary

- Global food prices fell to their lowest in 29 months in Aug '23 amidst weak global import demand and ample supply
- Declines in prices were pronounced across all categories except for Sugar, where there are concerns over El Niño weather impacting sugarcane crop yields
- Vegetable oil prices also fell in part due to cyclical supply from Southeast Asia
- China's tightening grip on urea exports will likely limit global supplies and push up global prices and farming costs (i.e., India)
- Fertilizer prices also increased in tandem with rising cost of feedstock (i.e., upstream natural gas and ammonia)

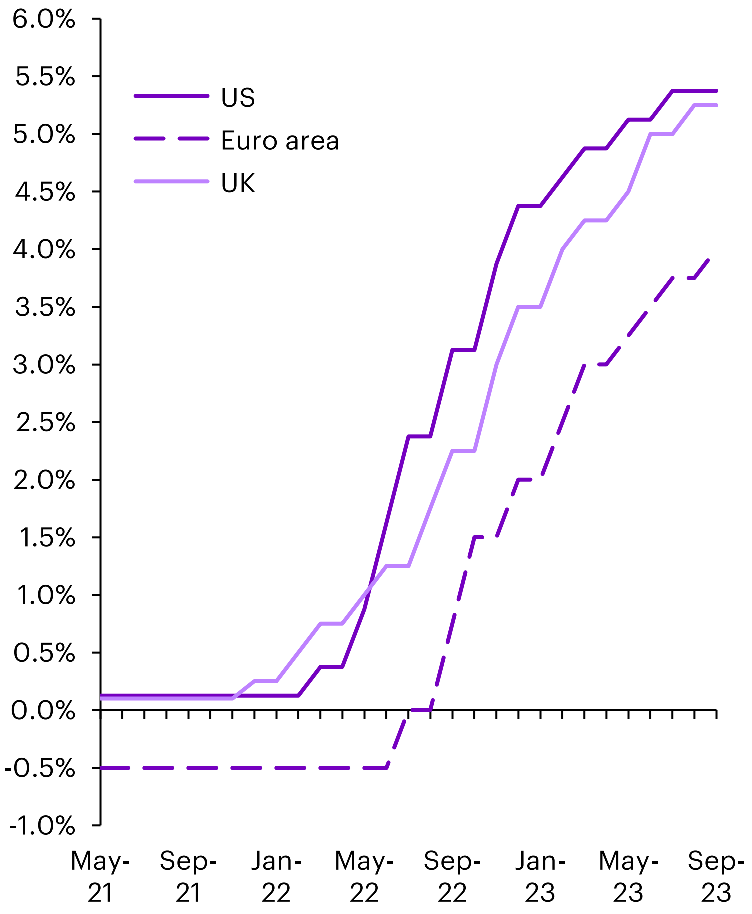
Note(s): (a) Food Price Index is a measure of the monthly change in international nominal prices of a basket of food commodities (b) Fertilizers include DAP (diammonium phosphate), TSP (triple superphosphate), and Urea.
Source(s): World Bank, UN FAO, USDA, Bloomberg, Accenture Strategy analysis

Financial markets

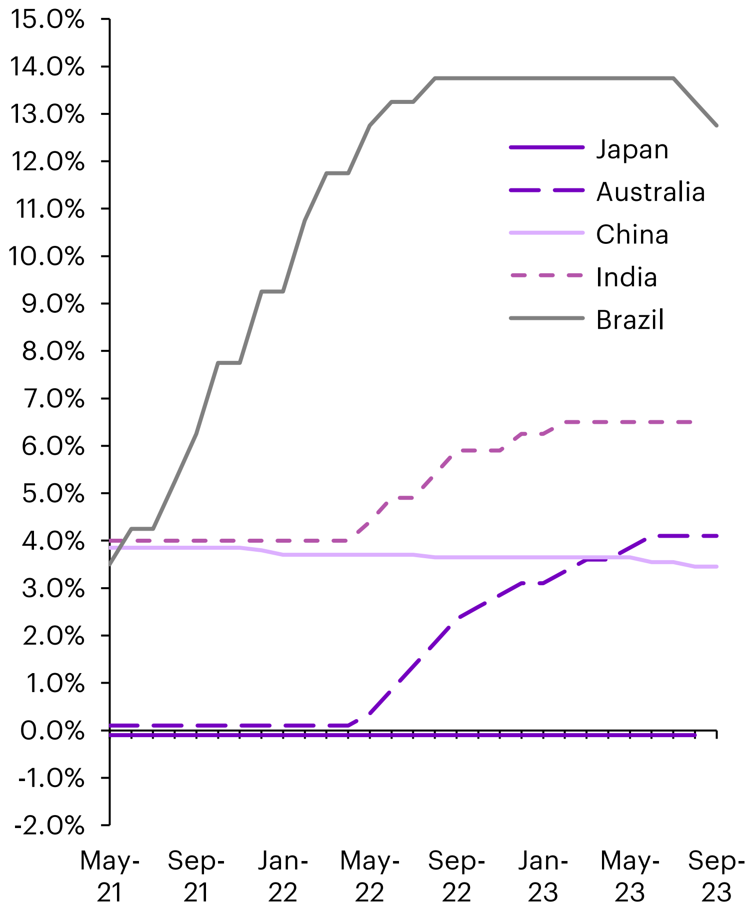
Most central banks are pausing further rate hikes while they evaluate evolving conditions

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 likelihood of another rate hike before year-end
- The European Central Bank raised rates in September after a pause in August and is likely to hold the stance as inflation slowly steadies in the Euro area
- The Bank of England maintained policy rates in September as it contends with one of the largest 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 has cut its policy rate a full percentage point since July as it reacts to more favorable inflation numbers

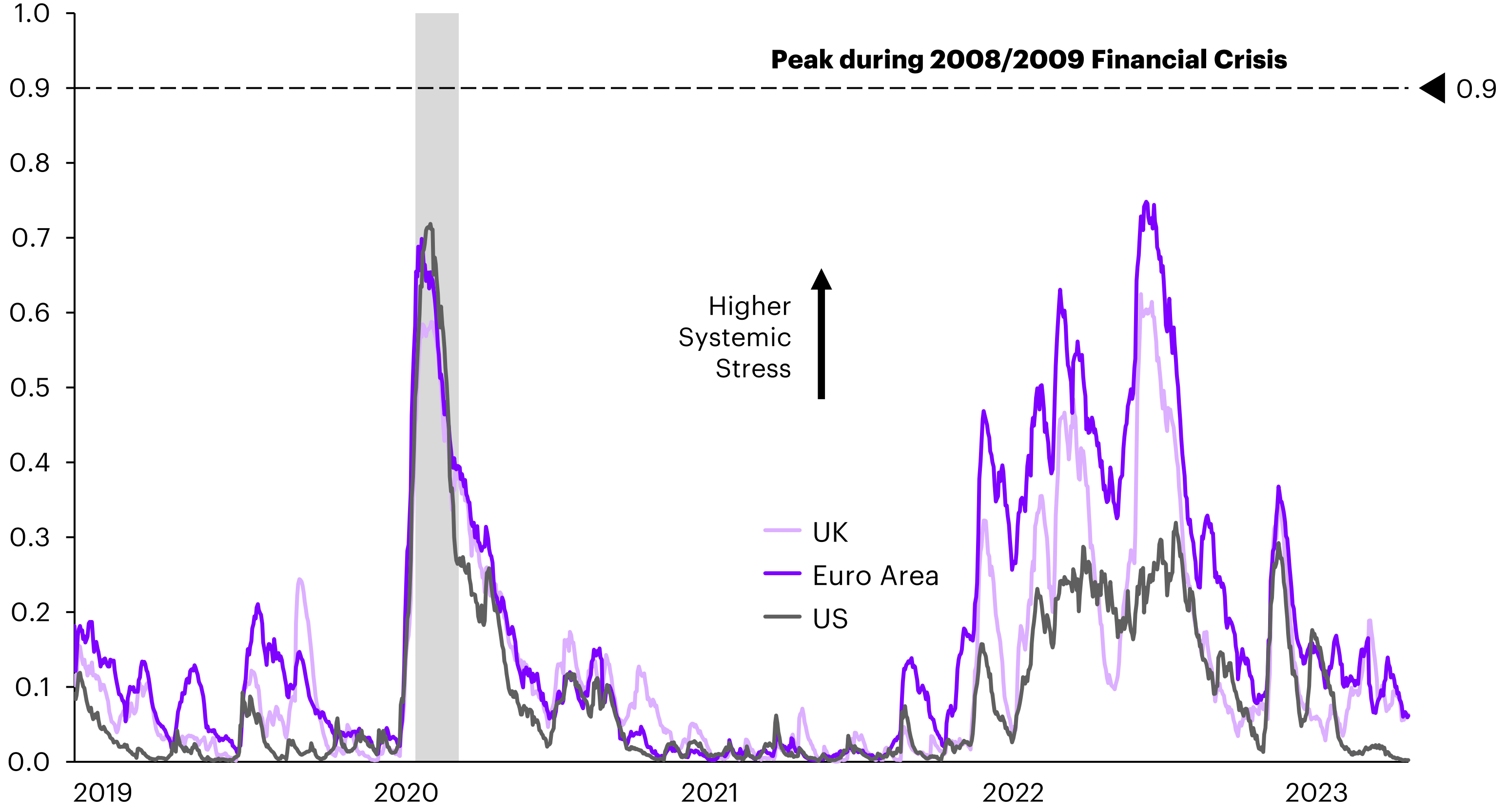
Source(s): Federal Reserve Bank, European Central Bank, Bank of England, Bank of Japan, Reserve Bank of India, Central Bank of Brazil, Reserve Bank of Australia, People's Bank of China, Accenture Strategy Analysis

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 remain below their recent peak in March 2023
- Elevated financial pressure is nonetheless expected in the second half 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)

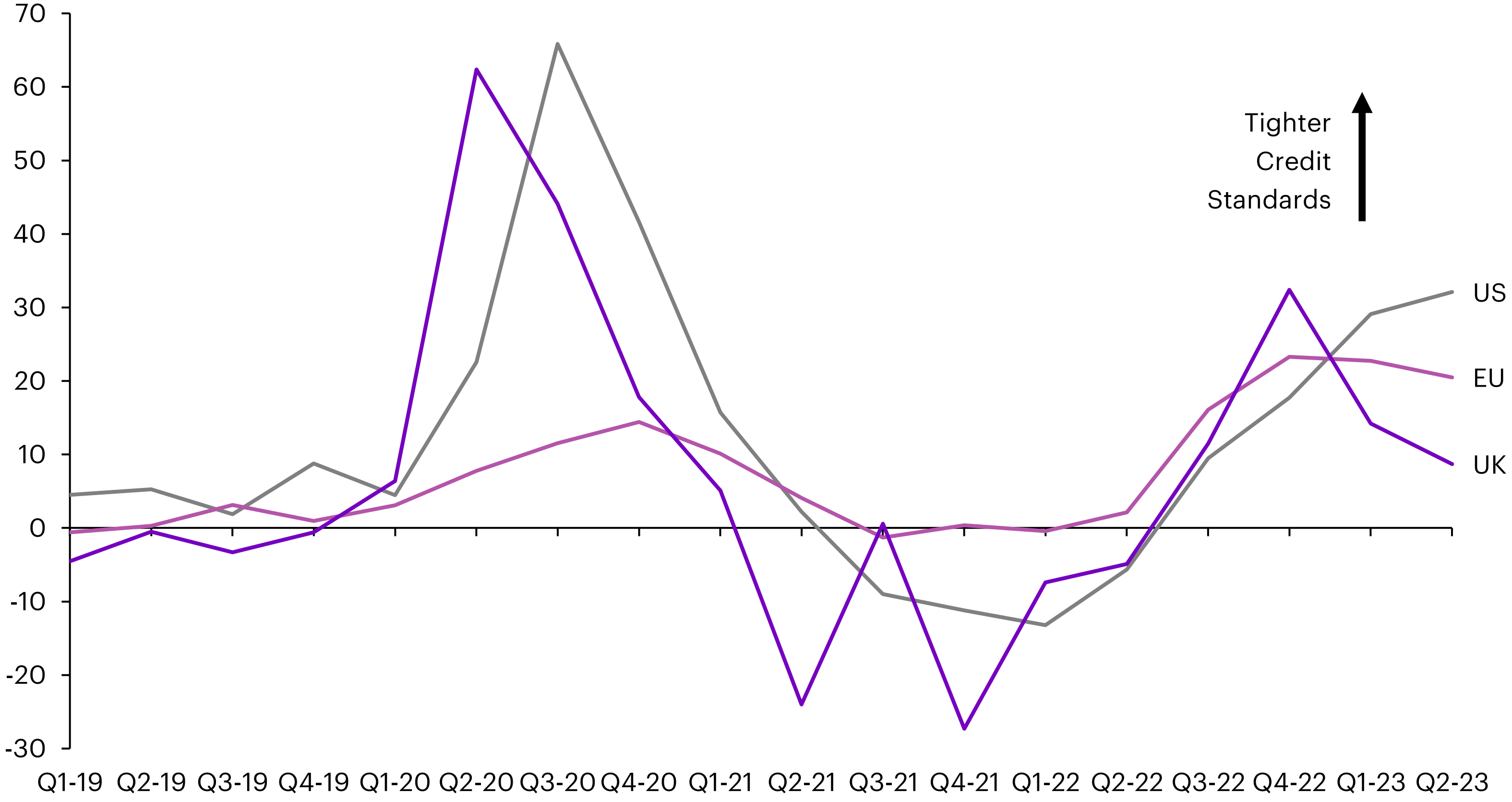
Note(s): (1) The composite indicator of systemic stress consists of market-based financial stress measures that namely covers the financial intermediaries sector, money markets, equity markets, bond markets and foreign exchange markets (2) Grey shading reflects U.S. recession
Source(s): Haver Analytics,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

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



Commentary

- Monetary policy tightening since early 2022 has already been leading banks to scale back lending and tighten their credit standards
- US banks reported additional tightening of credit standards in Q2 '23 from the banking sector stresses and failures that begun in mid-March 2023
- In the EU and the UK, lending standards remained tight in Q2' 23 but loosened slightly from Q1
- 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

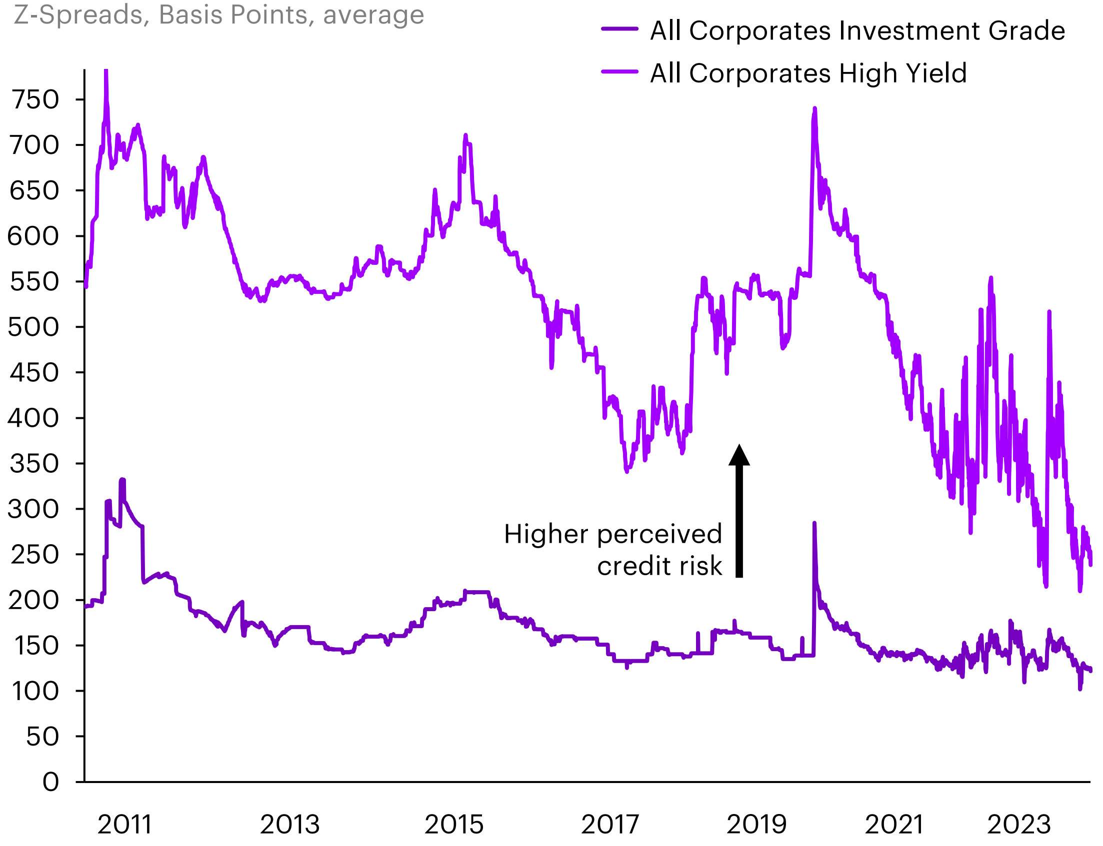
Note(s): The date of each datapoint refers to the quarter in which the bank lending survey was conducted but reports the assessment of credit conditions in the prior quarter. Lending standards for US and EU reflect a weighted index constructed using select survey questions to measure tightening or loosening 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 receded across all sectors in September, with corporate bond spreads now below their 2023 peaks and pre-pandemic averages

US corporate bond spreads

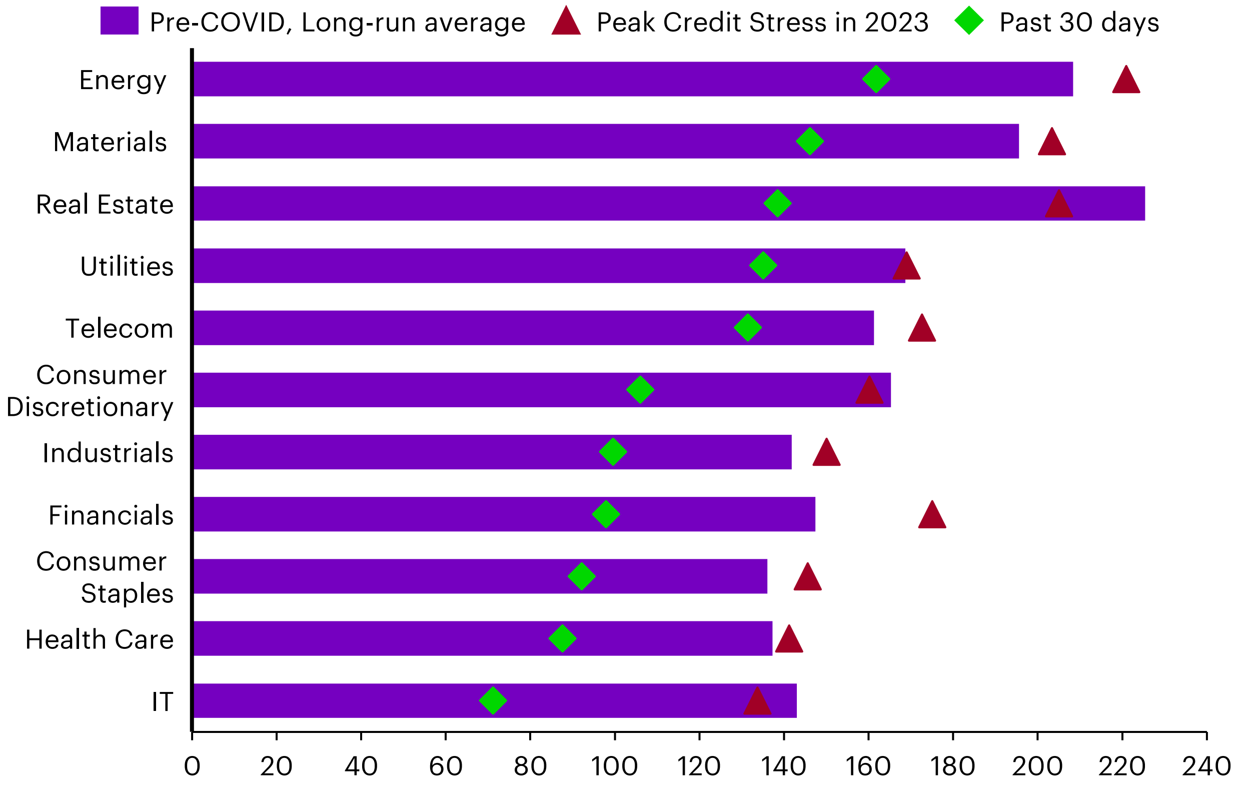
Drop in IG and HY credit risk premium to near lowest level in 2023

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

About Accenture Macro Foresight

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

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

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