# July Macro Brief

## Manufacturing blues

**July 27, 2023**

Accenture Strategy

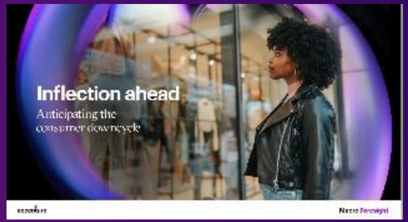
**Macro Foresight**

## 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 July 24, 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.

**Read our latest point of views:**


**See our previous monthly macro briefs:**

**June: The thorn of inflation**
**May: Bifurcated economies**
**April: Waiting for the next shoe to drop**
**March: Financial fissures emerge**

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# 1 Executive Summary

# July 2023
## Executive Summary

**Common global themes**

- **Global manufacturing woes continued to drag down growth in major economies in July:**
  - Both survey-based and "hard" output measures of recent manufacturing activity signal widespread contraction, especially in Europe
  - Forward-looking measures—weaker new orders, inventory restocking and manufacturers' sentiment—suggest further pain on the horizon
  - **Though the cyclical trend in manufacturing is decidedly negative,** emerging competitiveness shifts are improving the longer-term outlook in economies such as the US, which are gearing policy efforts and incentives towards manufacturing
- **In services sectors, slowing momentum in July is consistent with a fading post-pandemic demand impulse and ongoing consumer belt-tightening.** Cooling job growth and lower vacancies in services are further signs that companies may be preparing for more demand softening.
- **Disinflation from lower energy prices and supply chain normalization continues, but this obscures still-elevated underlying price pressures.** Core inflation remains well above-target in the US and Europe and could settle in the 3-4% range once these disinflationary impulses dissipate, reflecting structural cost-push pressures from labor and energy supply challenges and the rewiring of global supply chains for resilience.

**Regional highlights**

- **In the US,** the recent surge in battery and semiconductor facility construction (fueled by the CHIPS Act) is a bright spot in an otherwise flagging manufacturing sector. News that large systemic banks cleared the Fed's latest stress tests is a further source of optimism, but a credit crunch among smaller banks with high commercial real estate exposure is still a risk for small businesses who rely on these banks.
- **In Europe,** Germany appears to be at growing risk of long-term de-industrialization as its key manufacturing sectors (e.g. Automotive) continue to decline under the weight of high energy prices and other structural competitiveness challenges. The UK also faces an uphill battle to revitalize manufacturing, but its recent industrial policies appear to be having more success in attracting some green investments.
- **In Growth Markets**, China's recent restrictions on germanium and gallium exports threaten to create supply challenges and impose switching costs on a wide range of industries globally, notably semiconductor manufacturing. India is one destination attracting interest among semiconductor companies seeking to diversify and de-risk from China, but its domestic semiconductor sector is still in its infancy.

**Key considerations and priorities for clients**

- **Amidst high interest rates and the ongoing cyclical rotation of global demand away from goods, manufacturing companies and their suppliers should prepare for ongoing revenue headwinds.** Though there may be some pockets of demand strength related to industrial policy incentive-funded investments, overall, manufacturers should be considering rationalizing capital budgets and slimming inventories.
- **Companies should be wary of growing complacent about inflation and shifting their planning baselines to "soft-landing" scenarios.** Additional monetary policy tightening and demand destruction may be needed to squeeze residual core inflation out of the system, and the path to this endpoint may exacerbate financial pressures on highly-leveraged and cyclical companies and trigger bankruptcies.

Source(s): Accenture Strategy analysis

# Positioning for a continued downturn in manufacturing and sticky inflation remains a top priority for companies

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

*"How should we be managing inventory levels in the face of slowing manufacturing demand and easing supply chain pressures?"*

*"How will workforce challenges constrain our ability to leverage industrial subsidies for reshoring manufacturing and supply chains?"*

*"What underlying rate of medium-term inflation should we plan for once recent disinflationary impulses dissipate?*

Source(s): Accenture Strategy analysis

# Latest data continues to suggest a challenging global context of declining manufacturing activity, dissipating services strength and some cooling of labor markets

## Country economic momentum snapshot

**AS OF JUL 24**

Deteriorating – Indicator – Strengthening

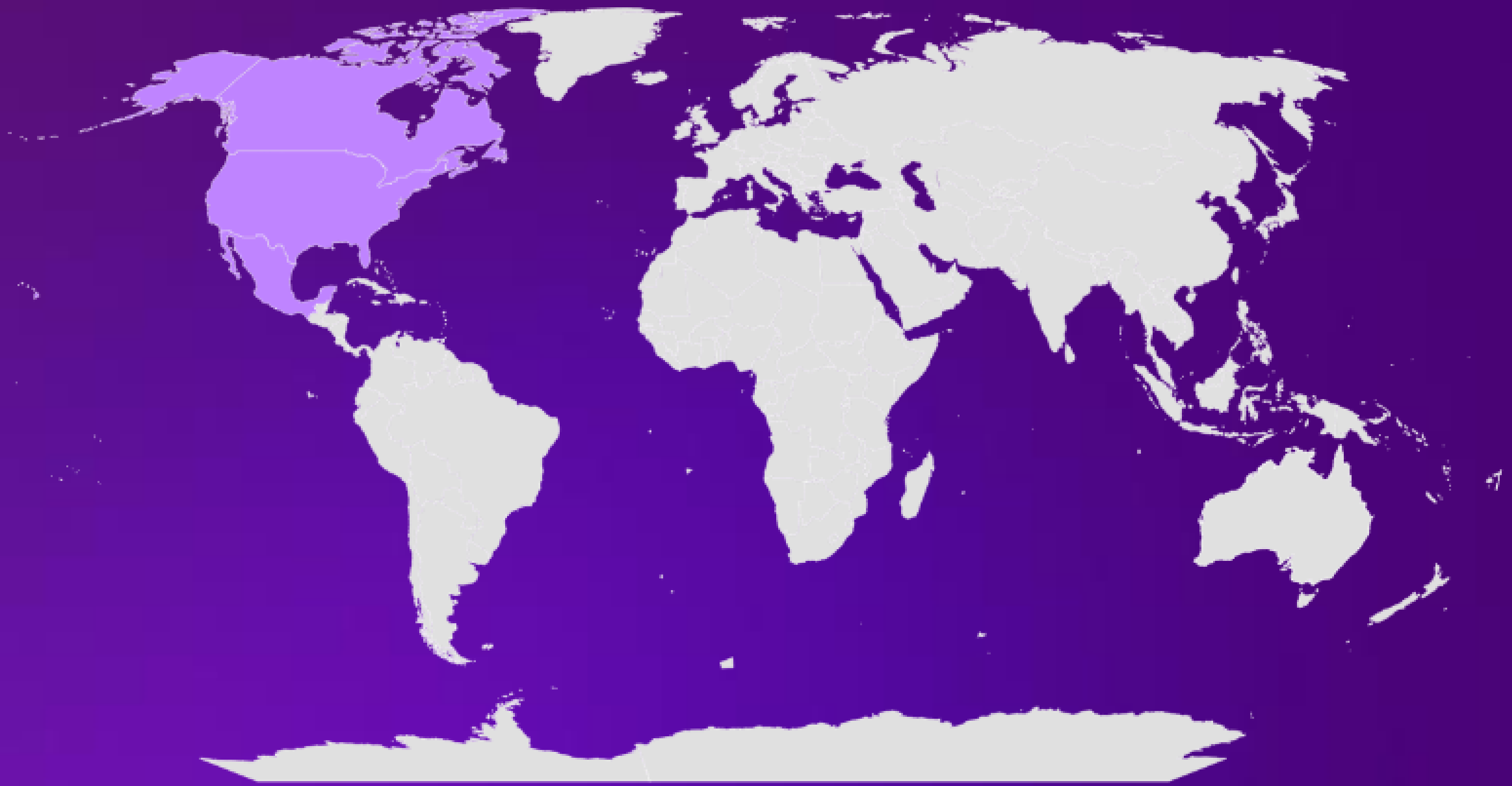
| | Services PMI | Manufacturing PMI | Industrial Production | Business Confidence | Consumer Sentiment | Unemployment Rate | Retail Sales | CPI Inflation | Comments |
|---|---|---|---|---|---|---|---|---|---|
| USA* | 52.4 | 50.2 | 0.0% | Declining | +8.2 | 3.6% | -0.1% | 3.0% | • Slowing consumer spending and lagged effects of ongoing rate hikes are likely to weigh on economic growth in H2 |
| UK* | 51.5 | 46.5 | 0.1% | Improving | -6.0 | 4.0% | 0.5% | 8.0% | • Surging food prices and growing funding challenges are likely to pressure consumers and businesses in Q3'23 |
| Germany* | 52.0 | 41.0 | 0.2% | Declining | -1.0 | 2.9% | 0.4% | 6.9% | • Germany has been in recession since Q4'22, with languishing industrial activity continuing to drag on growth |
| France* | 47.4 | 43.2 | 0.7% | Declining | +2.0 | 6.9% | -0.6% | 5.3% | • Sharp recent reversal in services activity removes a key growth support pillar and bodes poorly for growth in H2 |
| Italy | 52.2 | 42.7 | 0.0% | Declining | +3.5 | 7.6% | -0.1% | 6.7% | • Low energy prices and lesser reliance on Russian gas may boost energy-intensive sectors such as chemicals and steel<br>• High debt levels make economy vulnerable to rate hikes |
| Spain | 53.4 | 49.4 | 0.7% | Improving | +10.9 | 12.9% | 0.7% | 1.6% | • Recent rebound in tourism has improved growth outlook<br>• Stimulus was announced to address recent droughts |
| China | 53.9 | 51.0 | 0.0% | Declining | +2.4 | 5.2% | -0.2% | 0.0% | • Re-opening recovery has been weaker than expected, prompting central bank to cut rates to support growth |
| Japan* | 53.9 | 48.4 | 1.1% | Improving | +0.4 | 2.6% | -0.1% | 3.3% | • Solid domestic consumption and rebounding inbound tourism are supporting growth |
| Brazil | 53.3 | 45.5 | 0.3% | Declining | -0.5 | 8.3% | -0.1% | 3.2% | • Slower employment growth and tighter lending conditions expected to constrain consumer spending and investments |
| Australia* | 48.0 | 50.4 | 0.6% | Declining | +2.1 | 3.5% | -0.6% | 7.1% | • High price pressures and input costs, along with consumer belt tightening, are likely to weigh on pace of recovery |
| India | 58.5 | 61.7 | 0.8% | Improving | +5.4 | 8.1% | -3.1% | 4.8% | • India's economic resilience and continued robust growth remains a bright spot in the global economy |

Note(s): PMI metrics provided by S&P Global as of June 2023 (below 50=contraction), with markets marked with asterisks reflect latest Flash PMIs (estimates) for July 2023. The services PMIs reflects Business Activity Index and is comparable to the Manufacturing Output Index laid out in table. Industrial production data reflects 3-month moving average rate sourced from Haver Analytics. Consumer sentiment data are from EC Consumer (Europe), GfK (UK), University of Michigan (US) and other national surveys (MoM index point change). Business confidence data reflects short-term trends. China's business confidence is as of Sep'22. Unemployment rate and inflation data provided by Haver Analytics (inflation rate is YoY % chg). Retail sales data are based on SA 3-MMA % change in volume or inflation-adjusted values provided by Haver. All data reflects most recent available.

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


# 2 Spotlight developments

# North America

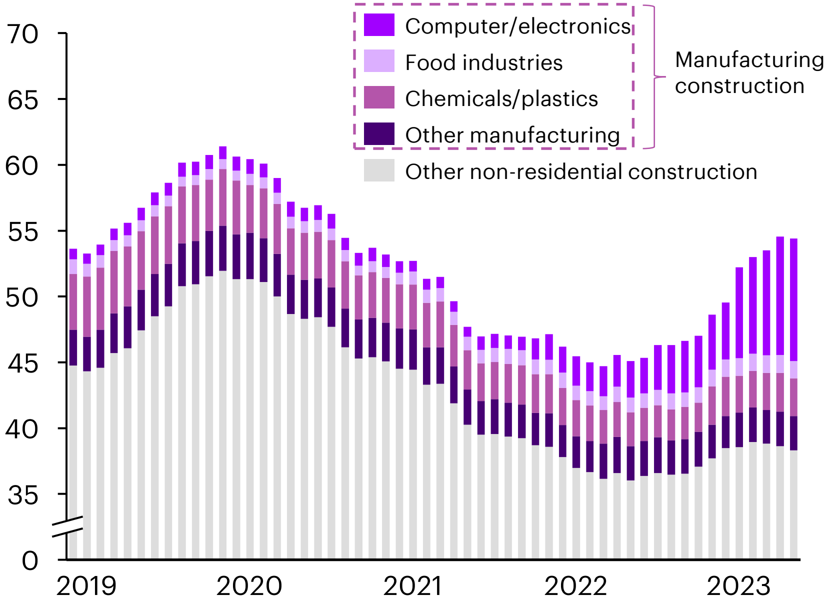


# The recent surge in battery and semiconductor facility construction in the US could help cushion an otherwise flagging manufacturing sector and improve longer-term prospects

## Manufacturing construction momentum in the US

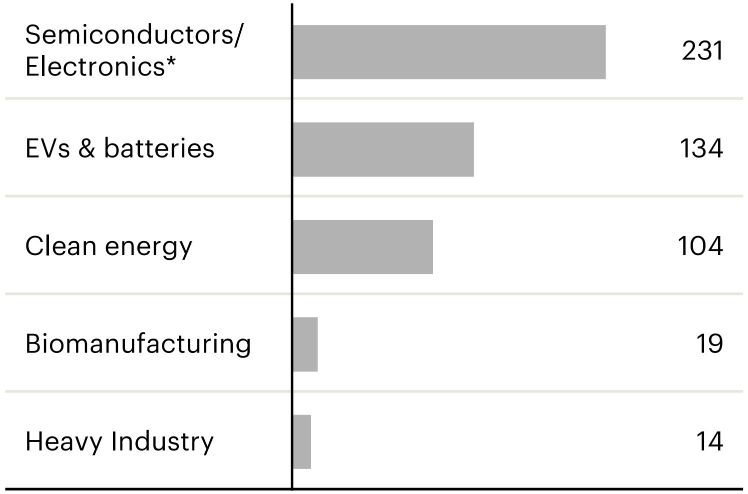
### Real construction spending

USD billion (constant 2022 prices, seasonally adjusted)




### Industrial private investment pipeline

Investments announced since Jan 2021 ($Bn)




**Total** **502**

*Of the USD 231B announced since 2021, roughly $90B has been spent in relevant construction projects

### Implications for corporates

- With strong construction growth and an even stronger pipeline, construction companies should expect some pockets of increasing demand from manufacturers of high technology
- The CHIPS Act and IRA appear to be causing at least some movement of production to the United States
  - companies should weigh these subsidies against those of other countries when planning production and redesigning supply chains
- While subsidies are bringing investment to the United States, training efforts need to keep up with job requirements, especially for emerging technologies

### Commentary

- Recent strength in construction is mainly from manufacturing facilities, specifically for computers and electronics (+116% since Dec 2022)
- This recent construction represents only USD 92bn of roughly USD 500bn in announced “critical” future industry investments since Jan 2021, implying an additional construction demand and employment impulse can be expected over the medium-term
- Workforce challenges, however, may slow the execution of these investments (TSMC cited skilled worker shortages as key reason for delays in opening its chip production facility in Arizona)

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

# Recent Fed stress tests suggest resilience among large systemic US banks, but a credit crunch remains a risk among smaller banks with high commercial real estate exposure

## Small business vulnerability to credit crunch

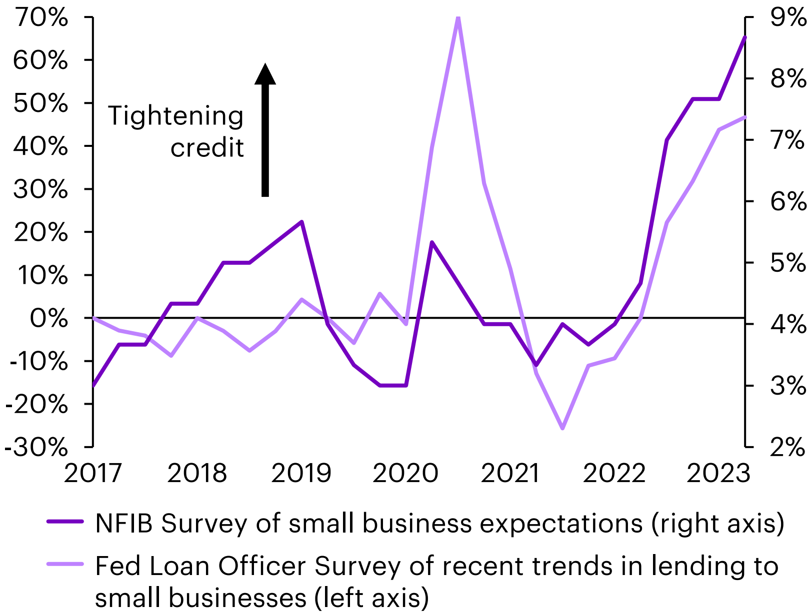
### CRE Loan concentrations, by bank size

CRE Loans as a percent of total assets

| Bank type | Asset Size | CRE percent of assets |
|---|---|---|
| Large Banks | >$250bn | 5.7% |
| Regional Banks | $10bn - $250bn | 18.4% |
| Community Banks | $1bn-$10bn | 32.9% |
| | <$1bn | 19.1% |

### Net tightening of credit to small businesses

Net balance of survey respondents expecting/experiencing tightening lending standards




### Implications for corporates

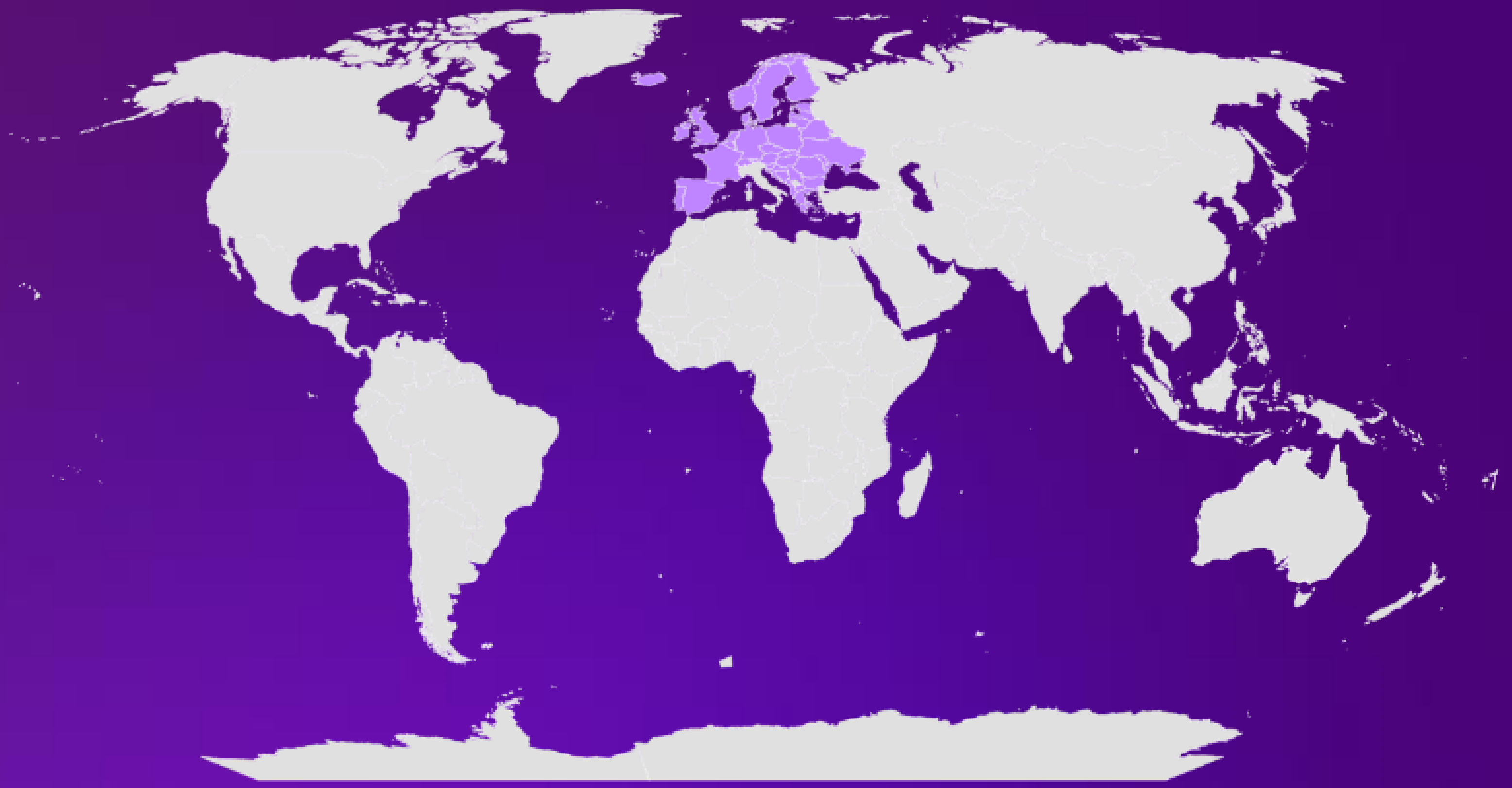
- Smaller banks should consider conducting additional stress tests beyond those required by regulation, incorporating the Fed's latest scenarios
- Small businesses heavily dependent on smaller banks should consider diversifying their sources of capital, where possible, and proactively assessing lending partner and counter party risk
- Companies with distressed real estate assets and tightening access to finance may be under particular pressure to slash capital budgets and postpone investments

### Commentary

- Recent Fed stress tests suggest that global systemically-important banks are able to withstand even a severely adverse macroeconomic scenario where, among other shocks, real GDP falls by 8.75%, unemployment rate rises 6.5 p.p., equity prices decline 45% and commercial property prices 40%
- Smaller banks were not covered by these stress tests, however, and are likely more vulnerable given their higher exposure to the troubled CRE sector
- Even mild recession scenarios could trigger a pullback in lending by these banks and a credit crunch for their customer base, which tends to be predominantly small businesses who have limited other (cost-comparable) options for financing

Source(s): Federal Reserve, FDIC, Accenture Strategy analysis

# Europe

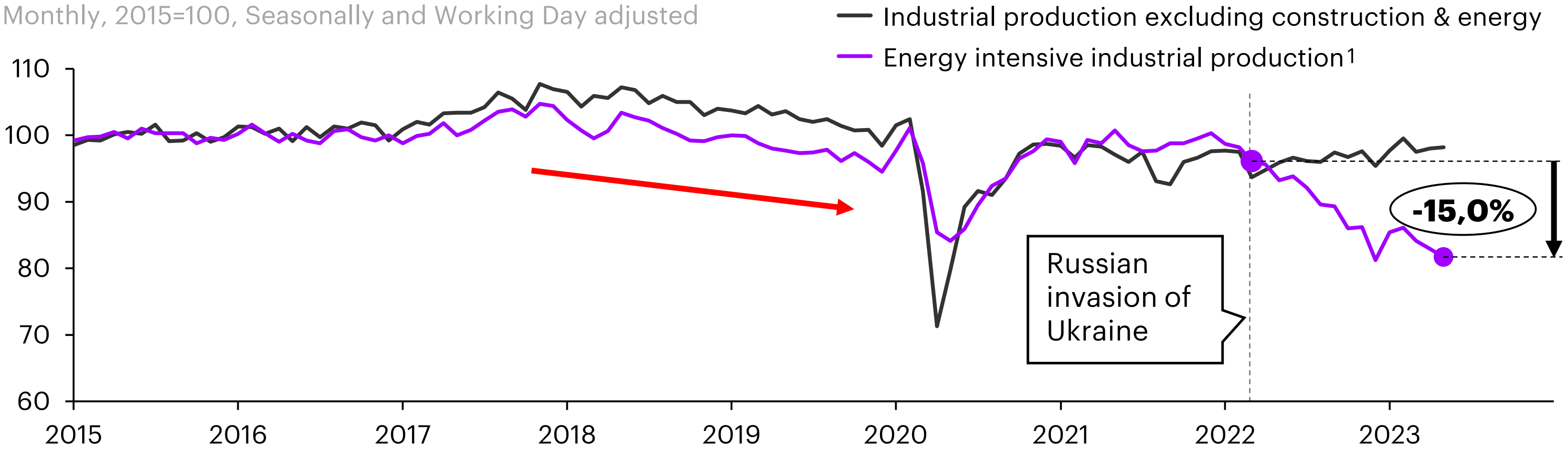


# Signs of German de-industrialization were already emerging prior to the pandemic but now appear to be intensifying as competitiveness in key industries comes under pressure

## Manufacturing decline in Germany

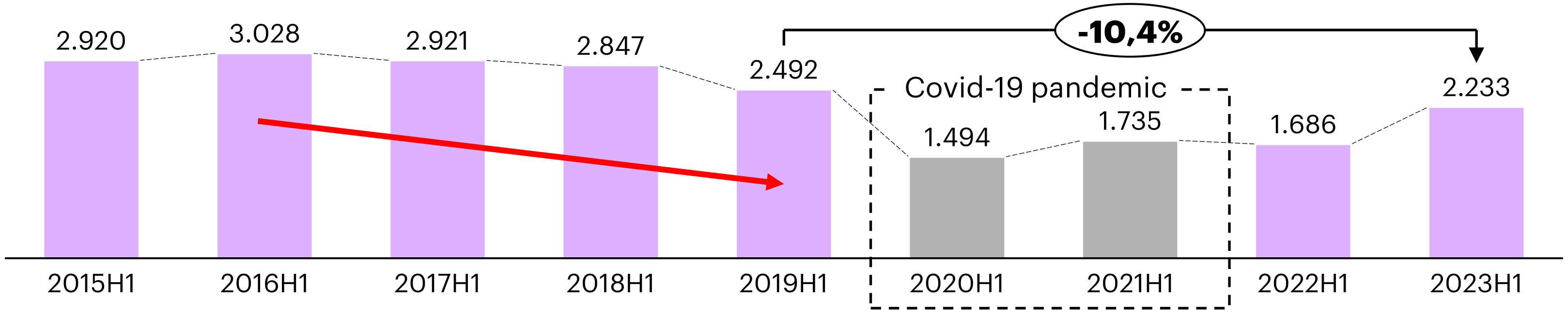
### German domestic industrial production

Monthly, 2015=100, Seasonally and Working Day adjusted




### German domestic passenger vehicles production

Thousand, NSA




**Implications for corporates**

- German government proposed in May to cap electricity price for energy-intensive producers until 2030, which could help sustain their global competitiveness during their energy transition period
- German auto producers are largely behind Chinese/US competitors in the EV segment and now starting to lose market share in Europe and China
- Germany's export-oriented industrial production faces long-term structural challenges due to
  - shortage of skilled labor
  - high corporate tax
  - bureaucracy/excessive regulation
  - reconfiguration of global production network
- Opportunities for international companies lie in strategic sectors (e.g., semiconductors) and tech/digital-driven areas (e.g., industrial metaverse)

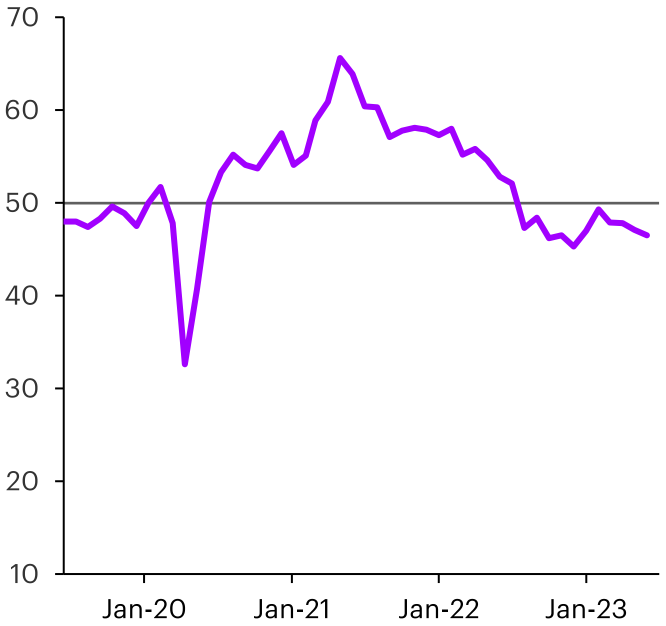
Note(s): 1) Incl. 5 industry branches: Manufacture of chemical products (C20), Metal production and processing (C24), Manufacture of glassware, ceramics, stone and earth processing (C23), Manufacture of paper, cardboard and goods made from them (C17) and Coking plant and petroleum processing (C19)
Source(s): Haver Analytics, Accenture Strategy analysis

# The UK also faces an uphill battle to revitalize manufacturing, but its recent industrial policies are attracting some green investments and creating a medium-term tailwind

## UK manufacturing outlook

### UK Manufacturing PMI

Index, seasonally adjusted (>50=expansion)




### Medium-term trends in key manufacturing sectors

.

| | |
|---|---|
| **Aerospace & Defence** | **Govt's USD 218M aerospace R&D** and **USD 6.4B defense commitment** boosts jobs, businesses and exports |
| **Automotives** | **Govt's USD 500M commitment, Tata's USD 5B EV gigafactory** and **a maturing ecosystem** support EV growth |
| **Chemicals** | **Elevated costs** for energy, labor and feedstock continue to impact the industry performance |
| **Semiconductors** | **UK govt's USD 1.3B commitment** to improve infrastructure, increase R&D and remove supply chain issues |
| **Food & Beverages** | **CPTPP to benefit F&B trade** by increasing access to export markets and essential imports |

### Implications for corporates

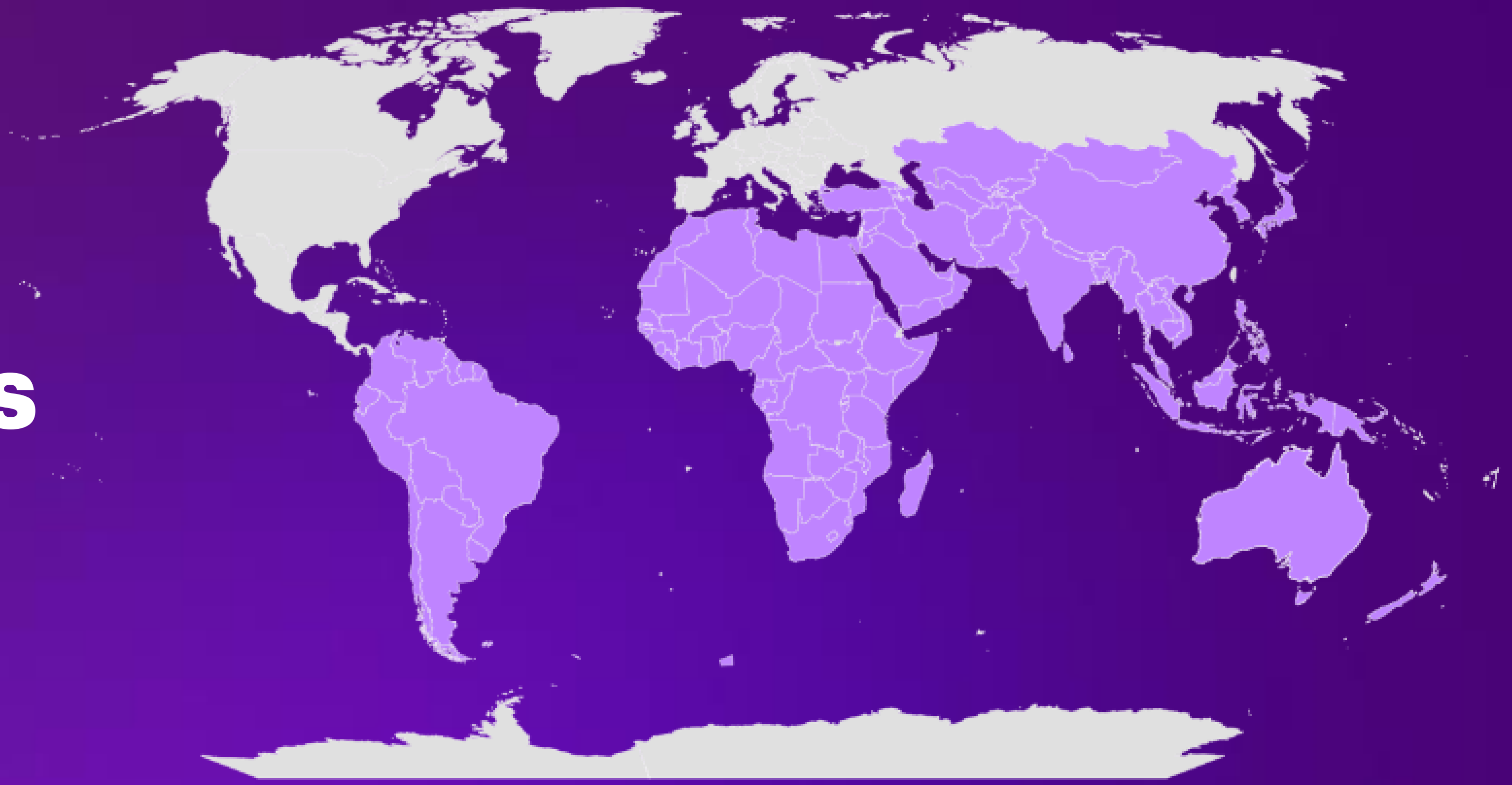
- In the short-term, manufacturers are likely to continue grappling with headwinds from:
  - High costs
  - Shortages of skilled labor
  - Limited access to export markets
- Nevertheless, medium-term tailwinds exist for select sub-sectors on the back of a government policy push, maturing ecosystem, and long-term demand outlook
- Companies should continue to focus on growth potential while being cognizant of headwinds

### Commentary

- Cyclical momentum in UK manufacturing remains firmly negative—output has been contracting since mid-2022 despite easing supply chain pressures
- The raft of government support programs to the sector is beginning bear some early fruit, however:
  - BP, Envision AESC, Britishvolt and Tata have recently announced large UK investments in battery manufacturing and EV charging infrastructure

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

# Growth Markets

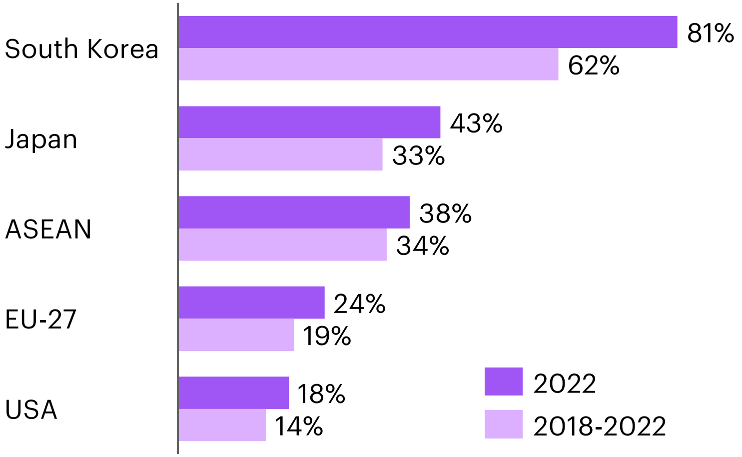


# China’s recent restrictions on germanium and gallium exports could create supply challenges and impose switching costs on a wide range of industries

## China’s global importance as critical minerals supplier

### China strategic mineral exports[1]

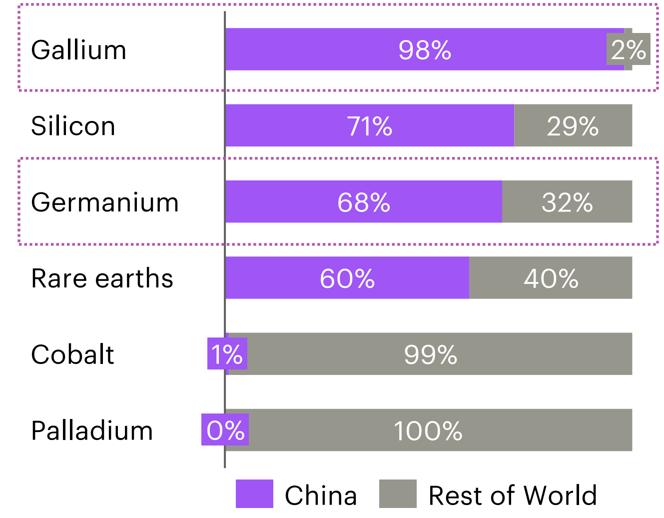
Share of strategic mineral imports sourced from China, including gallium & germanium (%)




**>50%** of US gallium imports come from China (2018-2021)

### China strategic mineral production

Share of global production (%, 2021)




### Implications for corporates

- Corporates may face increased costs and near-term supply constraints as alternative sources remain limited, especially in East Asia and ASEAN
- Pressure on companies to de-risk their strategic commodities supply[2] from China is likely to intensify
  - South Korean companies have a particularly strong impetus given recent disruptions resulting from Chinese export restrictions (e.g., 2021 Diesel Exhaust Fluid crisis)
- Industries which rely on gallium may face more significant constraints, particularly semiconductor manufacturers and end-users (e.g., automotive, defense and aerospace)
- Industries which rely on germanium (e.g., fiber optics, solar) may see more limited constraints, as substitutes and alternate suppliers are more readily available than for gallium

### Commentary

- Finding alternative suppliers to China is likely to be harder for gallium than for germanium, as 30% of global germanium supply is from recycled materials
- Key industries using gallium & germanium include automotive, chemicals, defense & aerospace, electronics, green tech (solar, EV) & semiconductors
- In the US, the integrated circuits and optoelectronics industries account for 99% of domestic gallium consumption (74% and 25%, respectively)

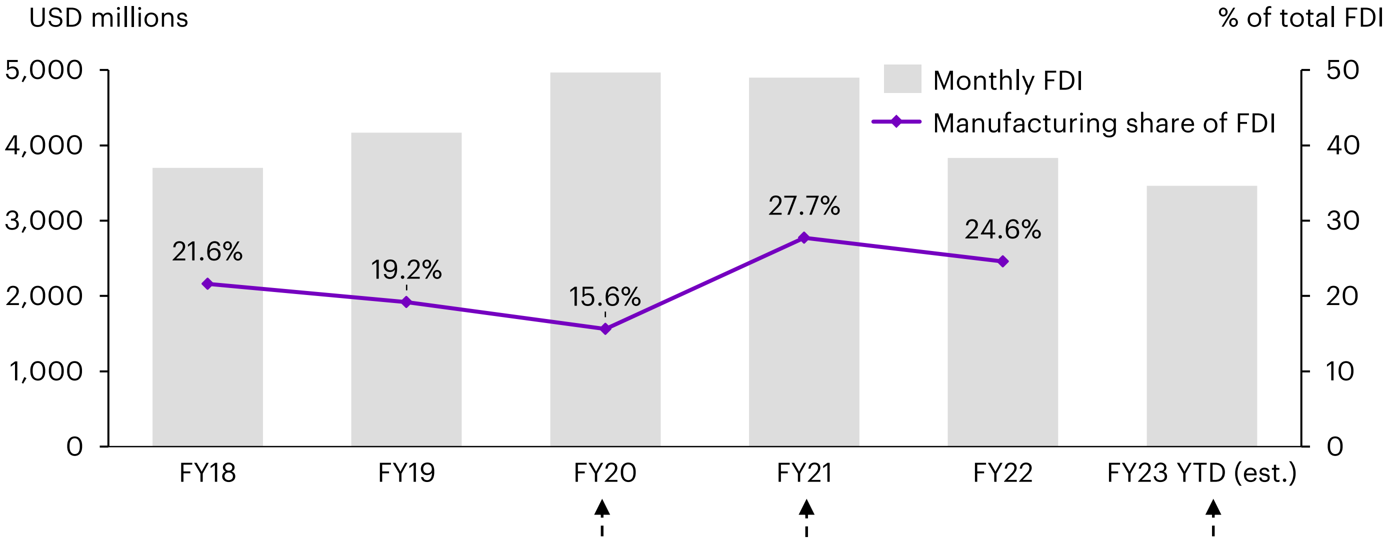
Note(s): (1) Minerals grouped in the same trade category as gallium and germanium: niobium "columbium", indium, and vanadium. Import share calculated based on HS codes 811292 and 811299 (2) Per the Accenture Global Agile & Resilient Supply Chain Research – 2023 study, corporates source the majority of their strategic commodities (55%) from a single supplier
Source(s): US Geological Survey, UN Trade Map, US-China Economic and Security Review Commission, Accenture Research, Accenture Strategy

# India is attracting growing interest and investment in semiconductor manufacturing, but the domestic industry is still in early development stages

## Semiconductor manufacturing in India

### Manufacturing supply chain diversification to India[1]

Average monthly foreign direct investment inflows




**Dec'21:** Indian government approves USD 10bn scheme to attract semiconductor manufacturing

**Feb'22:** Foxconn and Vedanta announce USD $19.5B venture to manufacture chips and display panels

**Jun'23:** Micron announces USD 825mn investment in chip assembly and test facility

**Jul'23:** Foxconn announces withdrawal from JV with Vedanta

### Implications for corporates

- India has an attractive value proposition for companies seeking to diversify their semiconductor supply chain given expanding investment incentives and a low-cost and IT-savvy workforce
- However, big anchor investors (e.g., Foxconn) who could catalyze the industry's growth may be deterred by various structural challenges, including
  - Red-tape and bureaucracy
  - Underdeveloped infrastructure
- In the short-term, corporates could therefore consider India for non-manufacturing semiconductor functions (e.g., assembly and testing) until more sophisticated domestic manufacturing capacity is developed

### Commentary

- The Indian government announced a USD 10 billion scheme in 2021 to boost semiconductor manufacturing, initially focusing on leading edge chips (<24 nanometers) but has recently broadened the scope to cover less advanced (e.g. 40 nanometer) chips
- Micron announced a USD 825 million investment in a semiconductor assembly and testing facility, which the Indian government aims to operationalize by December 2024

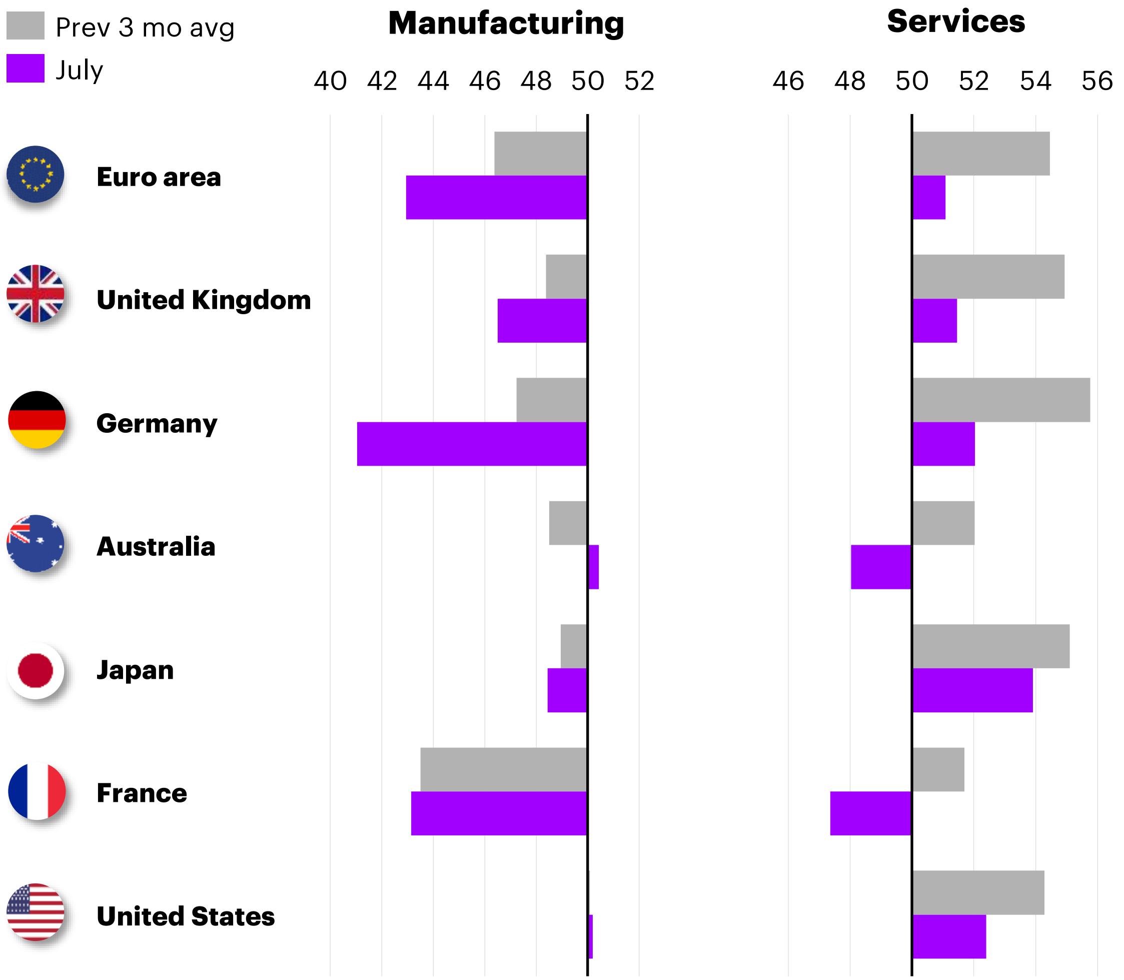
Note(s): (1) India's fiscal year ends 31 March. FY23 YTD is estimated by using data from April and May 2023.
Source(s): Haver, Reserve Bank of India, Accenture Strategy analysis

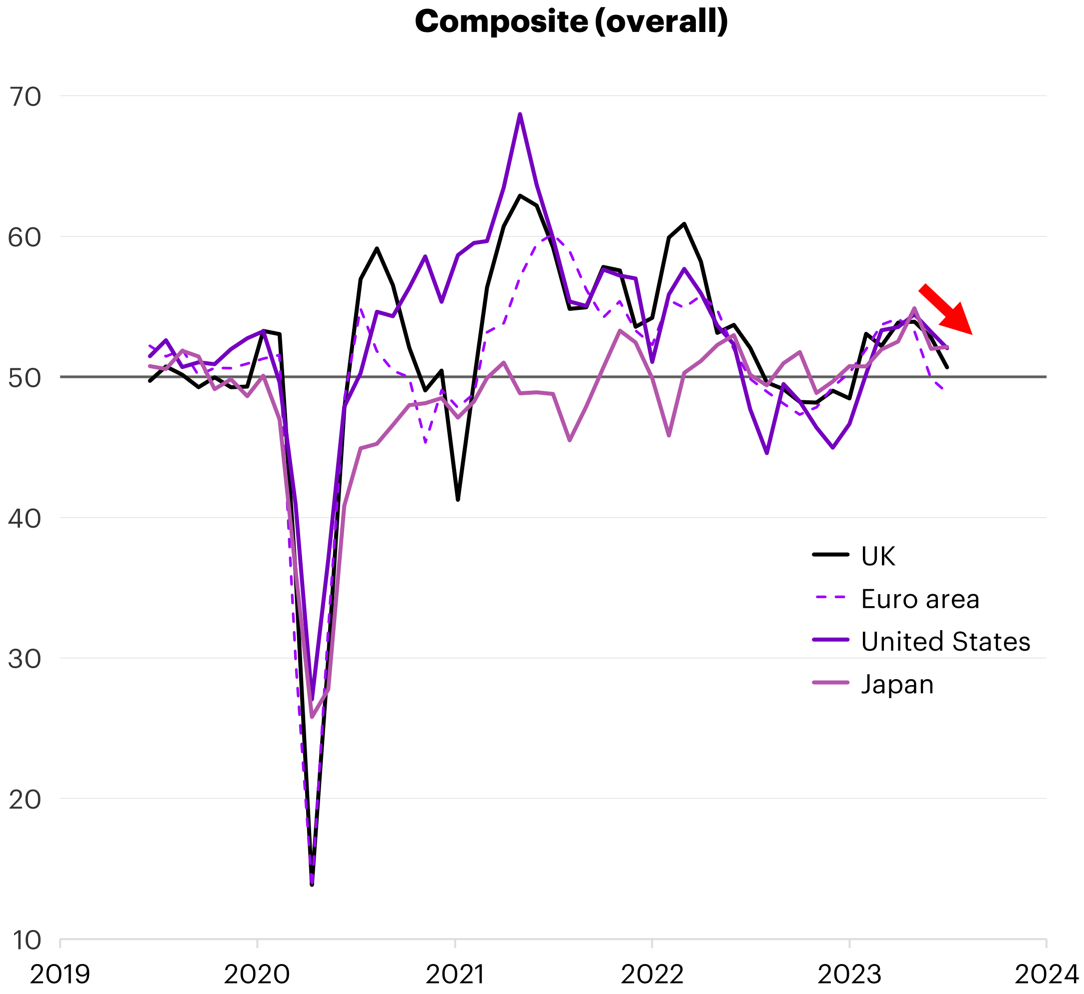
# 3 Economic indicator chart pack

# Regional and industry activity

# Growth in major economies continued to decelerate in July on the back of ongoing manufacturing struggles and further moderation in services

## July Flash PMI output country snapshot



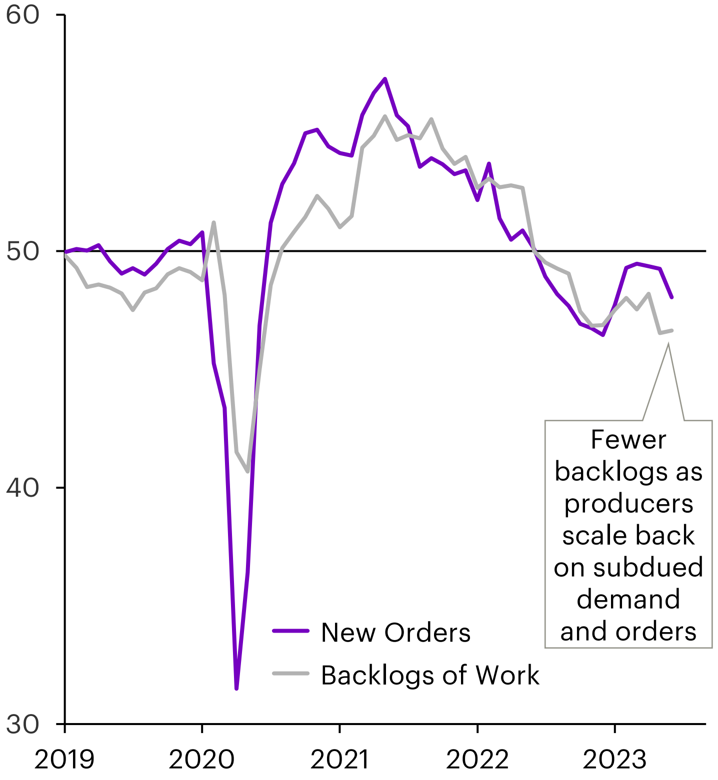

Note(s): A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month
Source(s): S&P Global, Accenture Strategy analysis

# Forward-looking manufacturing indicators such as declining new orders, slower inventory restocking and deteriorating output expectations point to more weakness on the horizon

## Leading indicators of global manufacturing momentum

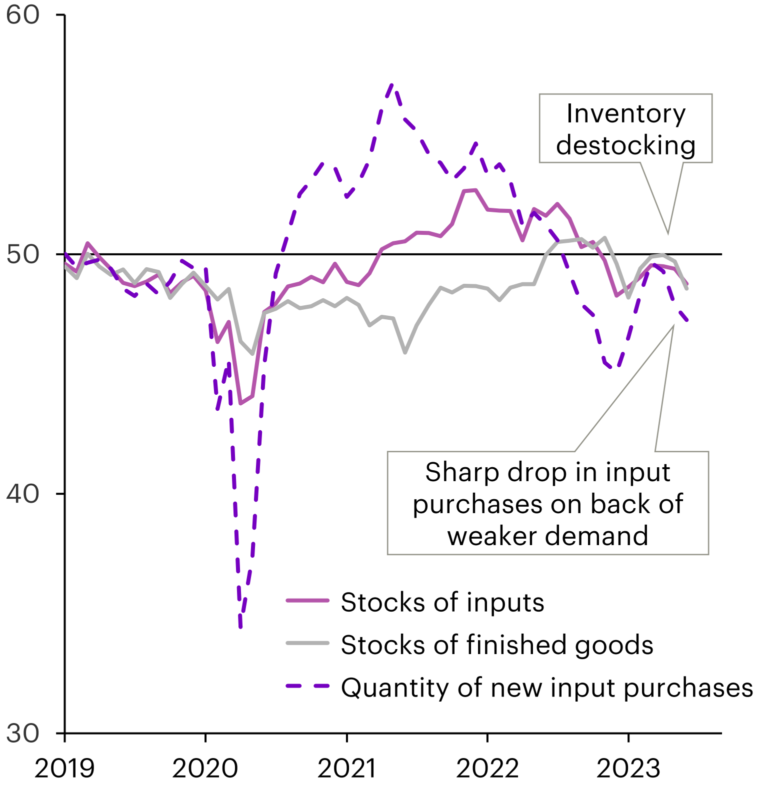
### In the face of declining new orders...

Diffusion indexes (SA, 50+=Expansion)



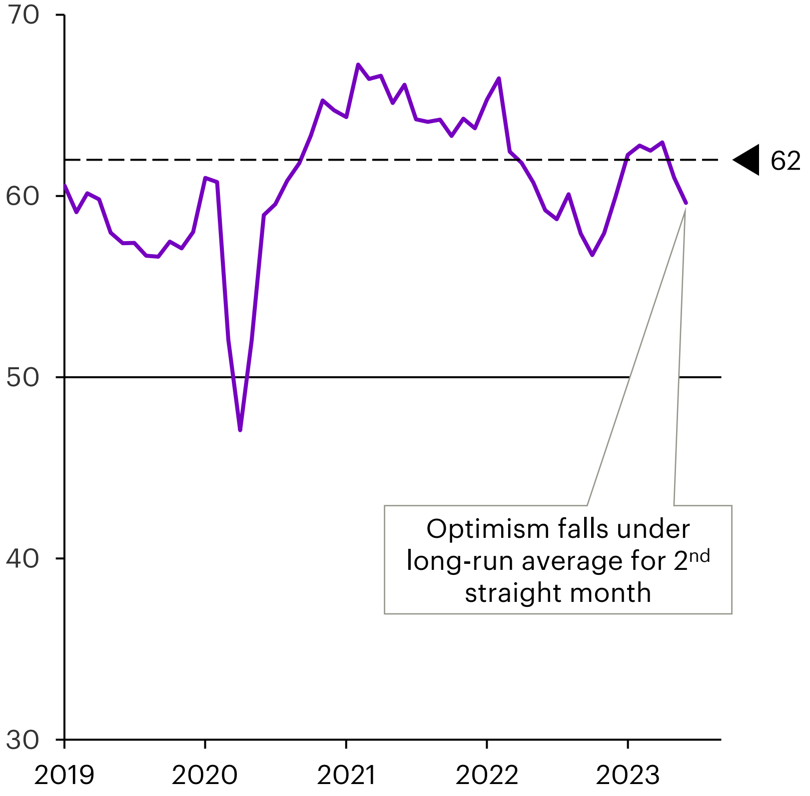

### ..manufacturers refrain from restocking..

Diffusion indexes (SA, 50+=Expansion)




### ...highlighting a gloomier 12-month outlook

Manufacturing future output (NSA, 50+=Expansion)



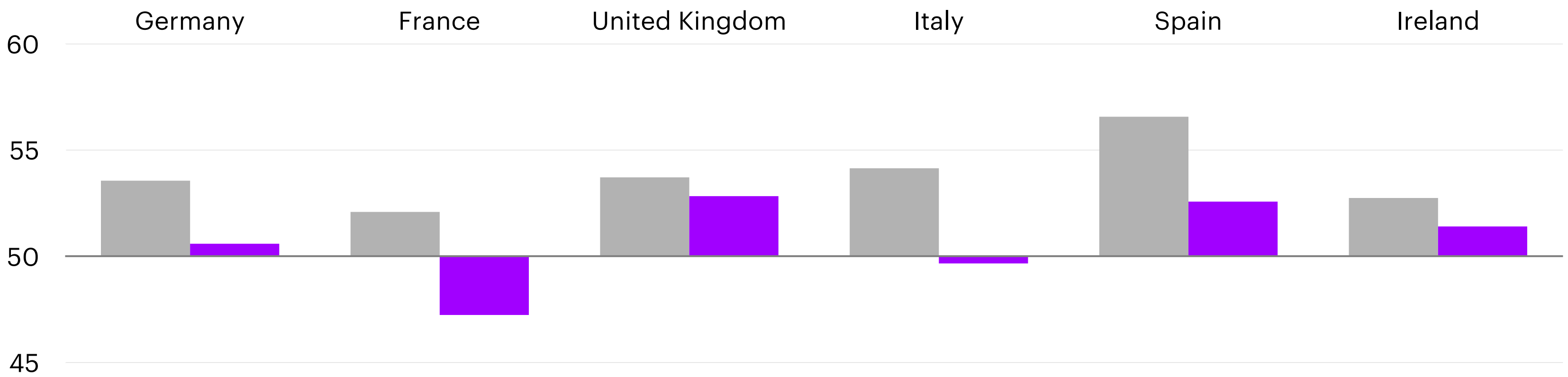

Note(s):
1/ Data reflects global diffusion indexes, which are GDP-weighted averages in over 40 countries incl. US (21.6%), China (12.7%), Japan (7.7%), Germany (3.6%), UK (3.5%), and India (3.3%), among others. Annual weights are based on Gross Value Added (GVA) in the manufacturing sector in constant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

# Business activity decelerated across most major European economies, with outright contractions in France and Italy

## Regional performance: Europe

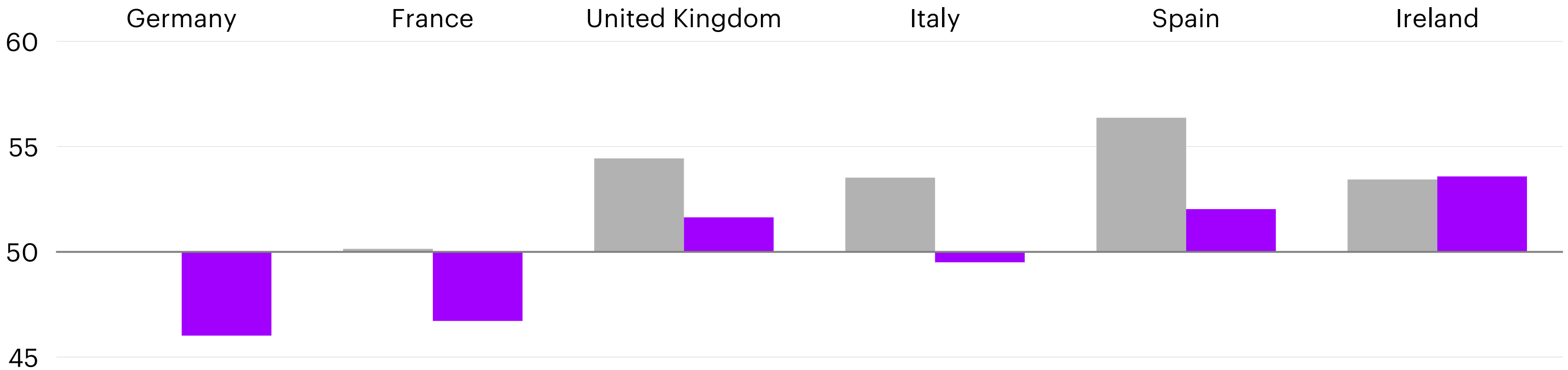
### Output/activity

June'23 vs Previous 3 Month Average, Output/Activity PMI (>50=expansion)




### New Orders

June'23 vs Previous 3 Month Average, New Orders PMI (>50=expansion)




### Commentary

- New orders dropped in Germany, Italy and France while growth slowed for UK and Spain in June (relative to recent 3-month average)
- Manufacturing has been a drag on economic activity in each of these major European countries

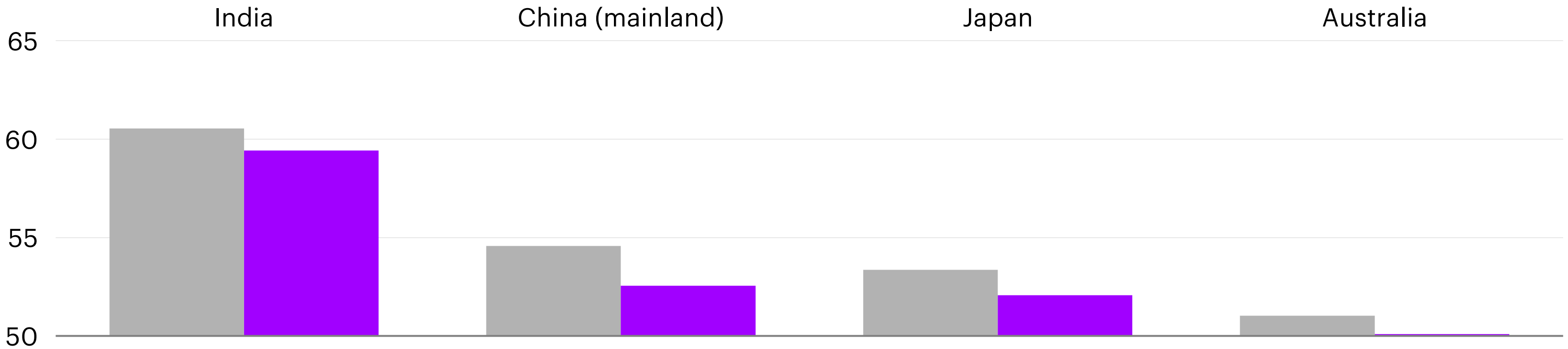
Source(s): S&P Global, Accenture Strategy analysis

# India continues to show the strongest growth momentum within Asia-Pacific, while the economic rebound in China is sputtering

## Regional performance: Asia-Pacific

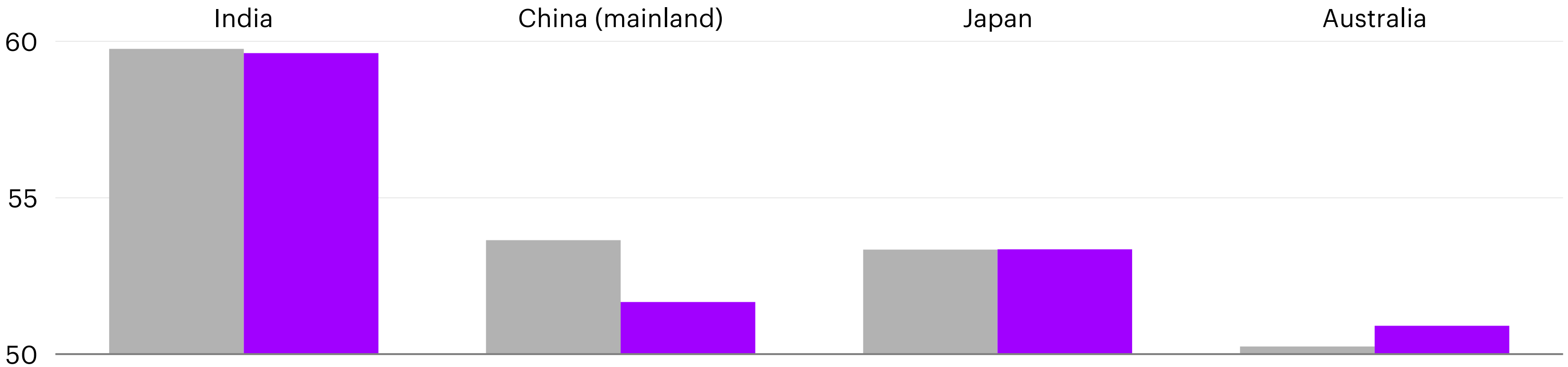
### Country Performance

June'23 vs Previous 3 Month Average, Output/Activity PMI (>50=expansion)




### New Orders Index

June'23 vs Previous 3 Month Average, New Orders PMI (>50=expansion)




### Commentary

- In India, new export orders rose sharply for June although slower than recent months
- China's manufacturing & services saw a slower rise in activity due to softening demand
- In Japan, manufacturing output and new orders growth slowed, as incoming business retracted

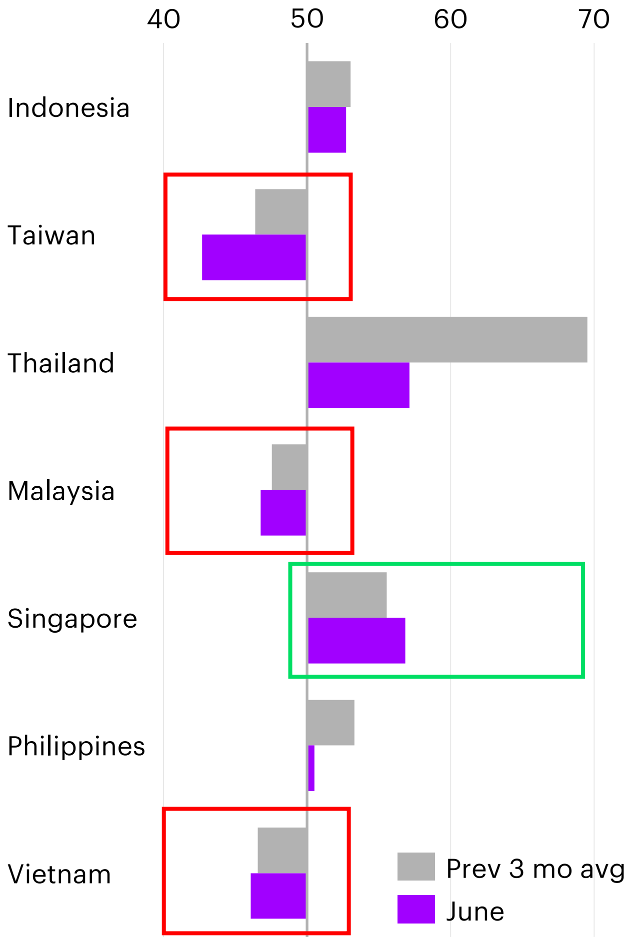
Source(s): S&P Global, Accenture Strategy analysis

# Singapore and Indonesia saw rises in new orders in June, while Taiwan continues to experience declining output and new orders

## Regional performance: Southeast Asia

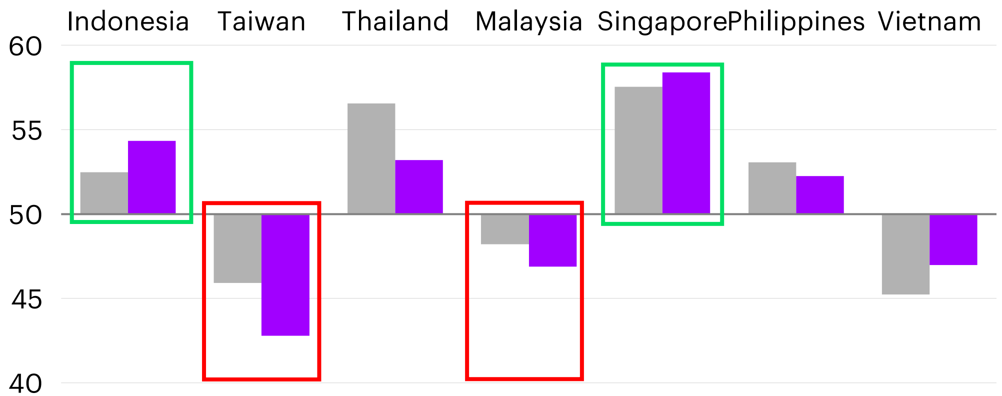
### Manufacturing Performance

Jun'23 vs Previous 3 Month Average, Manufacturing Output



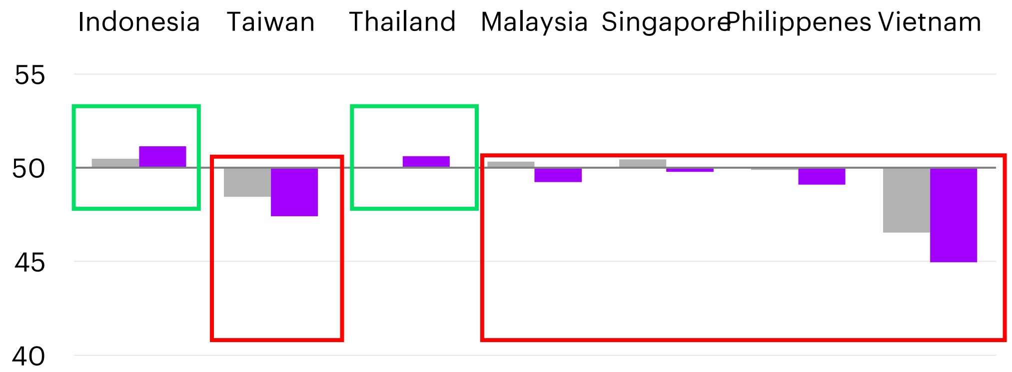

### Manufacturing New Orders

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




### Manufacturing Employment

Jun'23 vs Previous 3 Month Average, Employment PMI




### Commentary

- Singaporean firms saw healthy increases in output and new orders
- New order growth in Indonesia picked up in June
- Thailand maintained positive but slowing manufacturing momentum as new orders rose for a 3rd straight month in June
- Vietnam's manufacturing sector contracted in June as new orders and output fell
- Businesses in Taiwan continue to witness output and new orders declines, driven by weak consumer demand across key export markets

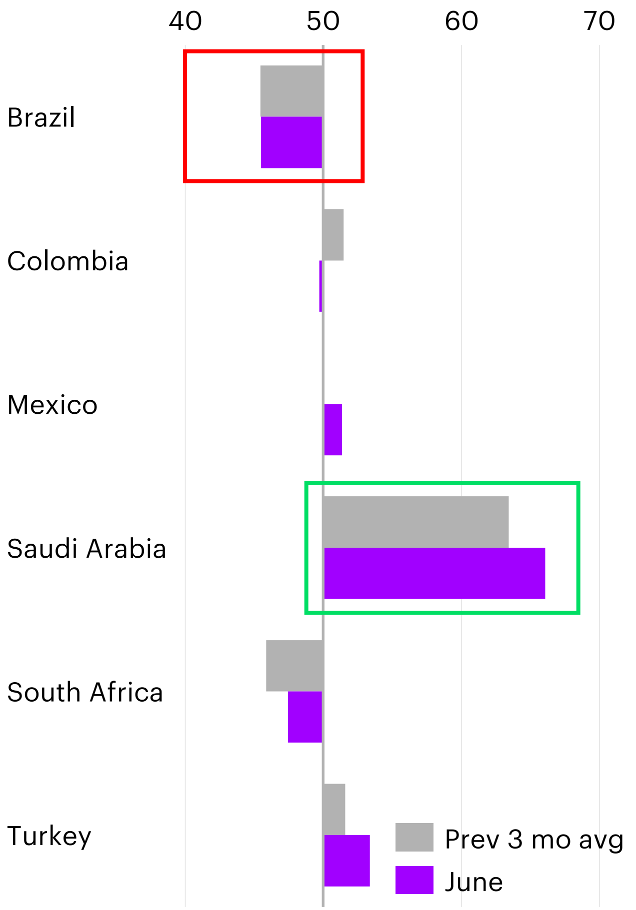
Note(s): Performance for Singapore covers the whole economy
Source(s): S&P Global, Accenture Strategy analysis

# Saudi Arabia's growth continues to flourish while Brazil and South Africa struggle

## Regional performance: Other emerging markets

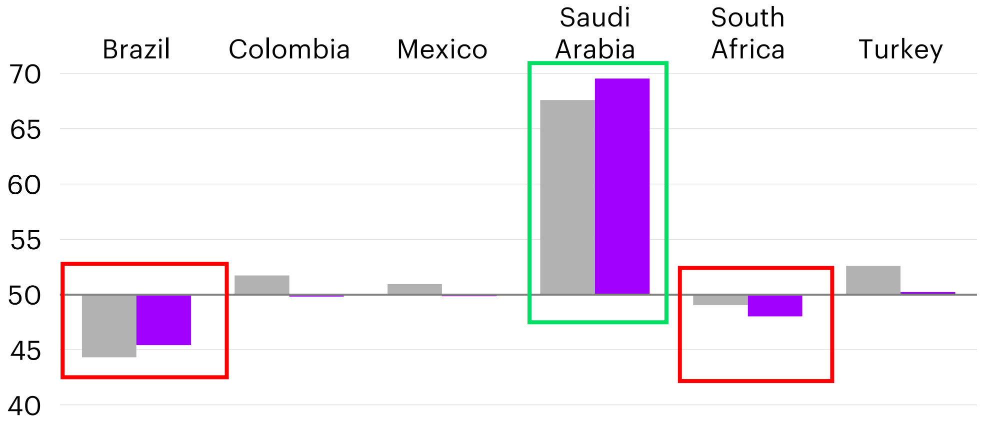
### Manufacturing Performance

Jun'23 vs Previous 3 Month Average, Manufacturing PMI



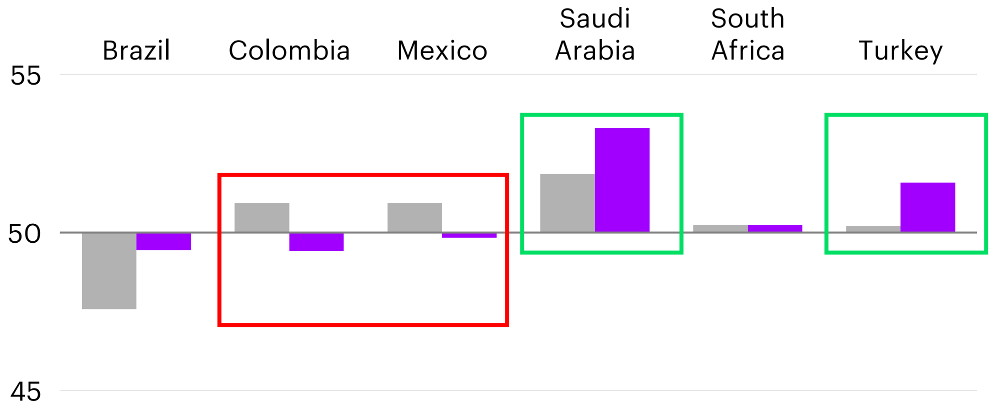

### Manufacturing New Orders

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




### Manufacturing Employment

May'23 vs Previous 3 Month Average, Employment PMI




### Commentary

- In Brazil, weak demand and policy concerns continue to weigh on the manufacturing industry
- Saudi Arabia's business activity continues to expand, reflecting strong new orders and exports
- Turkey witnessed an uptick in both output and employment as consumer demand strengthened post-earthquake

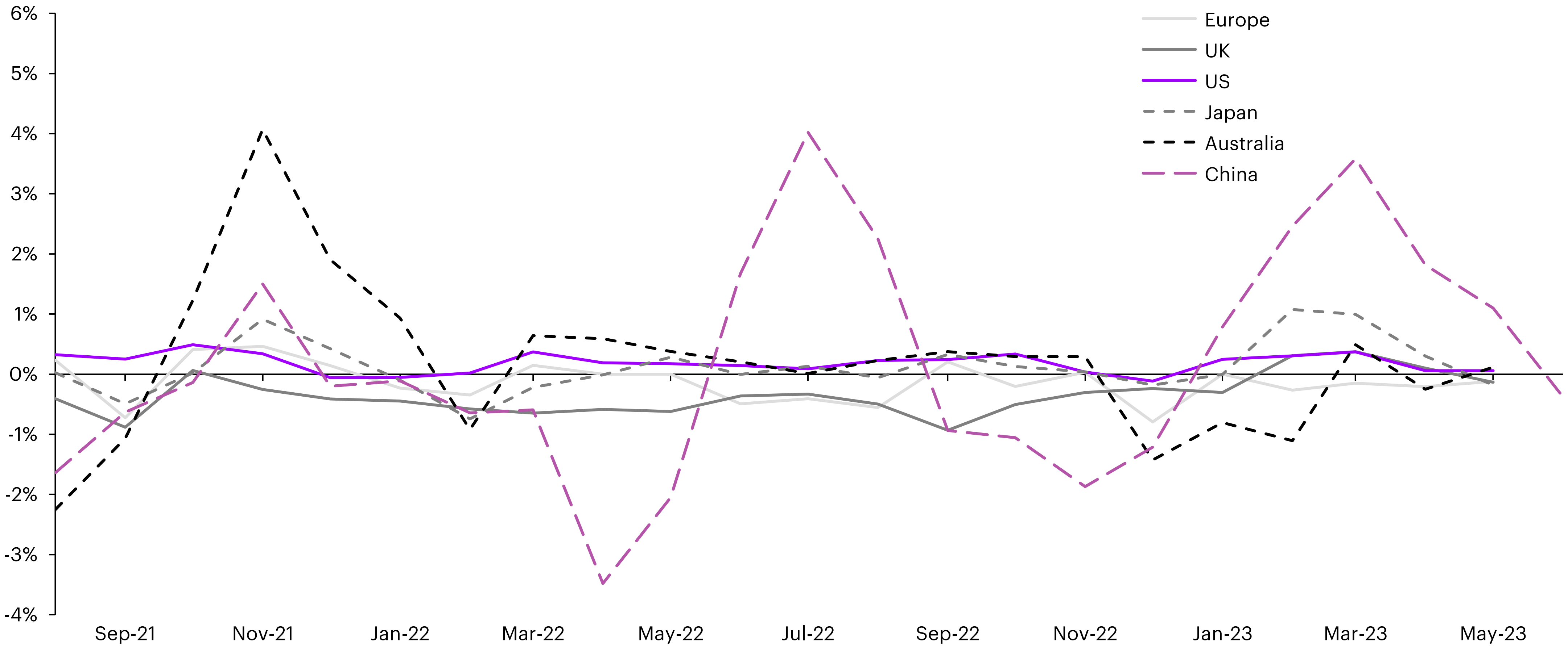
Note(s): South Africa and Saudi Arabia PMI is for the whole economy
Source(s): S&P Global, Accenture Strategy analysis

# Consumer spending

# Recent consumer spending growth continues to moderate across most major economies, and has turned negative in China where the post-reopening rebound has fizzled

## Consumer spending trends

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

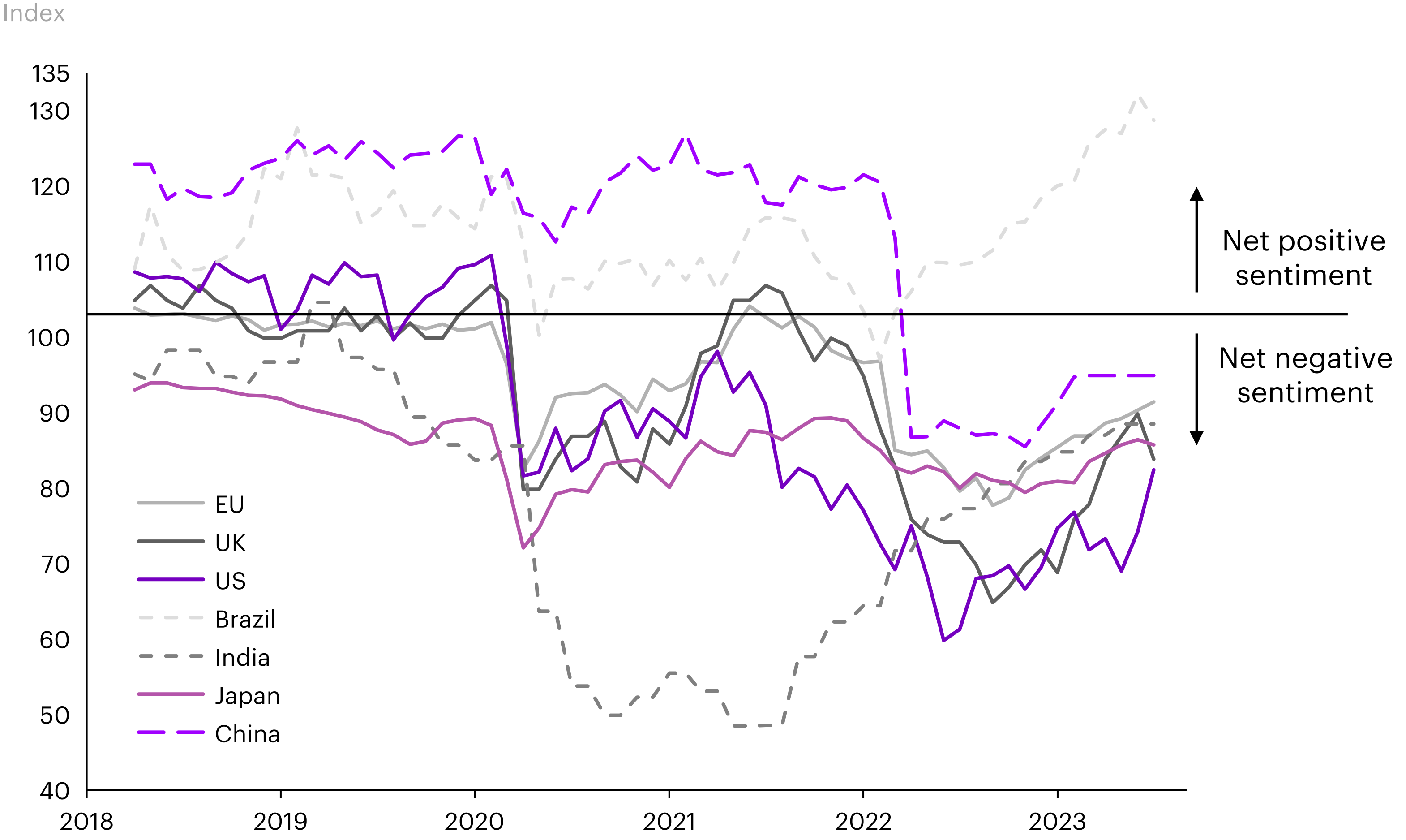



Note(s): Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area, UK, Canada, Japan, Australia, and China series data is retail sales.
Source(s): BEA, BLS, Eurostat, ONS, Haver analytics, Accenture Strategy analysis

# 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
- The year-long trend of improving consumer confidence in India continues
- Sentiment among US consumers improved noticeably in July but has been somewhat volatile since the start of the year

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 is beginning to weaken in key categories that were a source of resilience in H1 2023, including services and autos

## Consumer spending trends by goods and services category

**AS OF JULY 20**

| | | US | | UK | | Germany | | France | |
|---|---|---|---|---|---|---|---|---|---|
| | | Prior 6 months | Latest monthly change | Prior 6 months | Latest monthly change | Prior 6 months | Latest monthly change | Prior 6 months | Latest monthly change |
| **Goods** | Groceries | -0.6% | 0.1% | -1.9% | -0.5% | -2.7% | -0.7% | -3.2% | -2.4% |
| | Motor vehicles | 6.2% | -4.3% | 7.8% | -3.0% | 6.3% | -3.1% | 5.3% | -1.2% |
| | Furniture | 0.0% | 1.0% | -1.2% | 0.8% | -3.4% | -2.7% | 2.5% | -1.2% |
| | Electronics | 4.0% | 0.0% | -5.3% | 10.7% | 1.8% | 2.2% | 0.1% | 0.1% |
| | Footwear & apparel | -1.0% | -0.3% | 2.5% | -0.4% | -1.7% | 10.4% | -0.2% | 1.9% |
| | Fuel | 1.3% | 0.4% | -1.1% | 1.7% | -3.0% | -2.8% | -3.0% | -9.0% |
| **Services** | Transportation | -0.1% | 1.5% | -3.6% | 0.1% | 0.4% | -2.0% | -0.6% | -1.3% |
| | Entertainment | 2.3% | -0.3% | 0.0% | 1.9% | n/a | | 2.7% | -0.5% |
| | Dining out and hotels | 0.9% | -0.2% | -0.2% | -1.0% | -4.5% | -1.8% | -1.6% | 0.2% |
| | Information services | 0.8% | 0.4% | 2.6% | 0.3% | 4.1% | -3.4% | 3.0% | 0.2% |
| | Telecom | 0.1% | 0.4% | 8.6% | -0.1% | -0.5% | -0.6% | 0.8% | 2.7% |

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

# Accenture's latest Consumer Pulse Survey suggests majority of global consumers are pessimistic about the economic outlook and intend to trim non-essential spending

## Forward-looking consumer sentiment

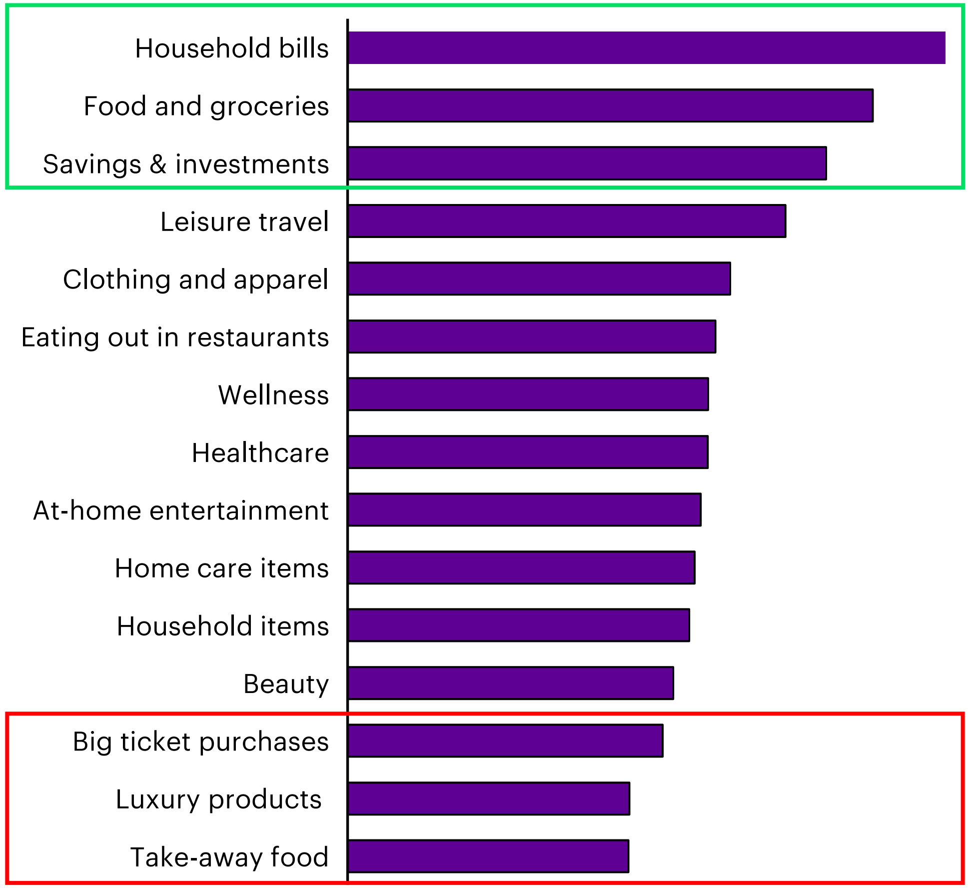
### As consumers become less optimistic about economy…

% of population "concerned" about national economy in 6-12 months[1]

| | | |
|---|---|---|
| Spain | 81.5 | More pessimistic than global average |
| UK | 75.1 | |
| Mexico | 73.8 | |
| Japan | 72.3 | |
| USA | 69.2 | |
| Italy | 68.8 | |
| Australia | 68.5 | |
| Brazil | 68.5 | |
| Canada | 66.5 | |
| France | 66.5 | |
| **Global** | **66.1** | |
| Germany | 63.0 | Less pessimistic than global average |
| Singapore | 52.5 | |
| India | 51.5 | |
| UAE | 29.5 | |
| Saudi Arabia | 26.3 | |

### … they intend to prioritize non-discretionary spending

% of population who will spend more on, by category, over next 12 months




### Commentary

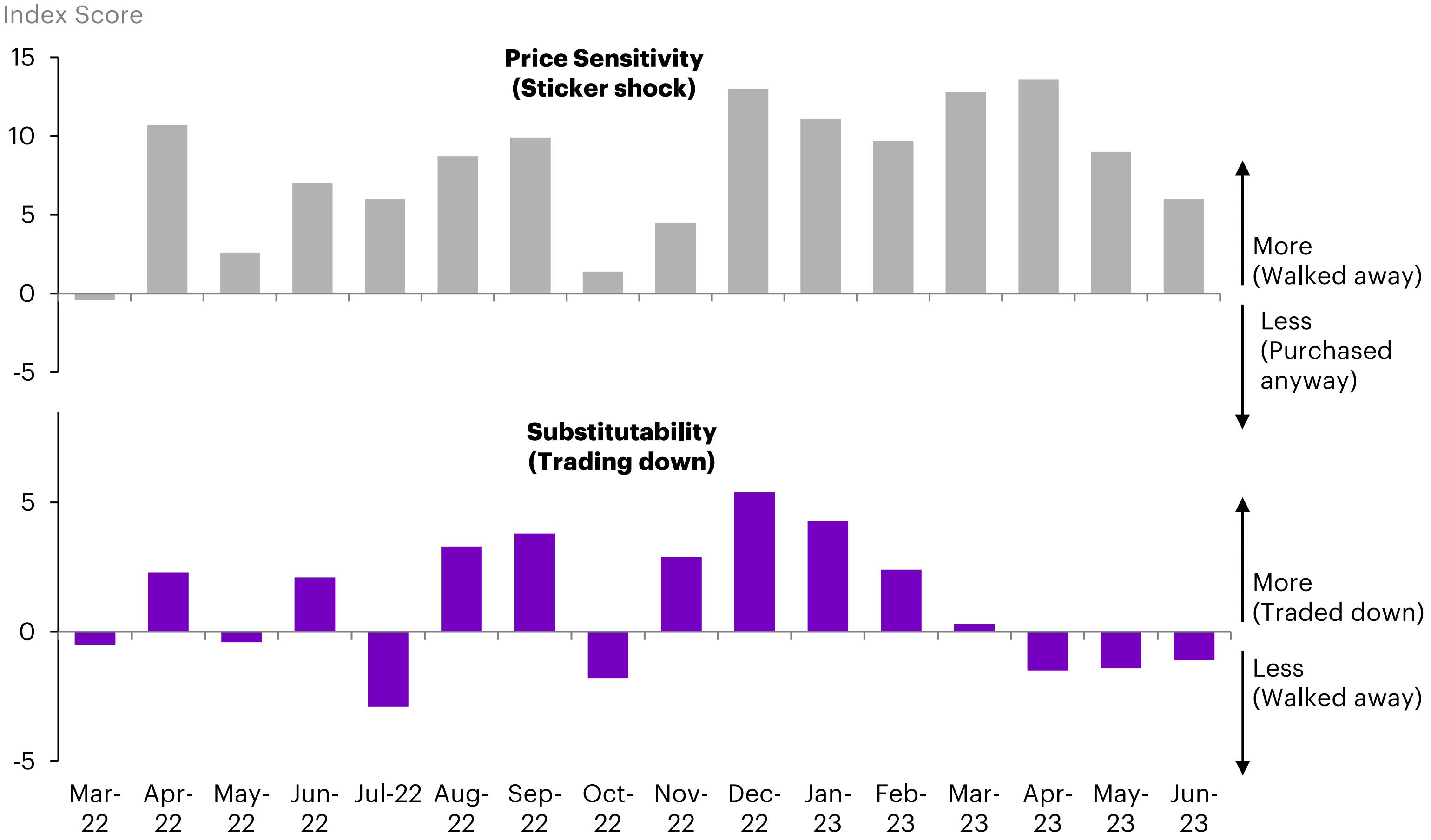
- Around 7 in 10 (66%) surveyed consumers are concerned or very concerned about economic outlook over the next 6-12 months
- On balance, they intend to prioritize spending on necessities and allocate more to savings and investments
- However, sentiment and intentions differ depending on their "mindset"
  - Around 49% of consumers falls into two mindsets that are likely to maintain or increase spend on most discretionary categories (i.e. Leisure travel)
  - Younger consumers tend to be more resilient spenders than older counterparts
- Overall, the Pulse survey reinforces that companies should plan for further moderation of consumer spending and a potential tipping point later in H2, marked by sharp and sudden cutbacks
- In this context, more strategic pricing and marketing, underpinned by strong data analytics, will be key[2]

Note(s): 1/ Data is based on Accenture's Consumer Pulse Survey 2023 (Link) that offers insights into consumer outlook, sentiment and behaviors. Accenture survey is based on a representative sample of 10,100 consumers from 16 countries, conducted online, between March 2 and March 22, 2023 2/ Accenture's Macro Foresight thought leadership on anticipating the consumer downcycle (Link)
Source(s): Accenture Research, Accenture Strategy analysis

# Amidst persistent inflation, US consumers continue to report elevated price sensitivity and greater tendency to walk away from purchases rather than trading down

## 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**

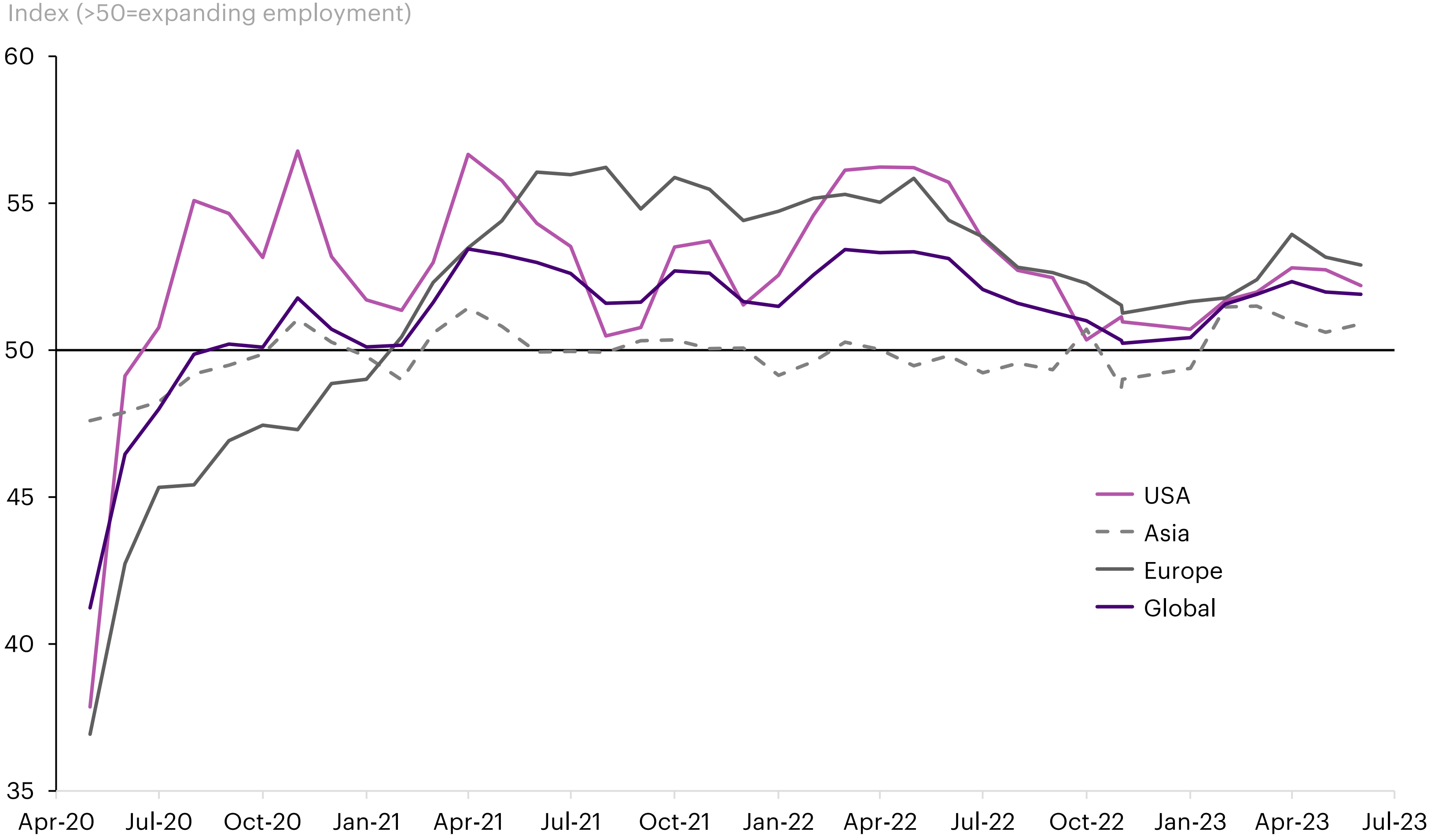
- Reported price sensitivity inched down again in June after reaching a peak in April
  - Most of the price sensitivity alleviation stemmed from housing amid pent-up demand rather than price relief
  - The share of consumers who walked away from a higher-than-expected purchase price exceeded the share 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 third consecutive month
  - Slight improvement came about due to more trading down behavior for new and used car purchases and better inventory levels for substitutable goods

# Labor markets

# Labor markets may be at a turning point as employment growth in June slowed across all major economies

## Labor markets: Global overview

### Aggregate PMI Employment Index




### Commentary

- Employment growth decelerated globally in June
- The ongoing employment strength in services sectors will be key to watch in H2 as wage pressures in those industries contribute to stickier inflation

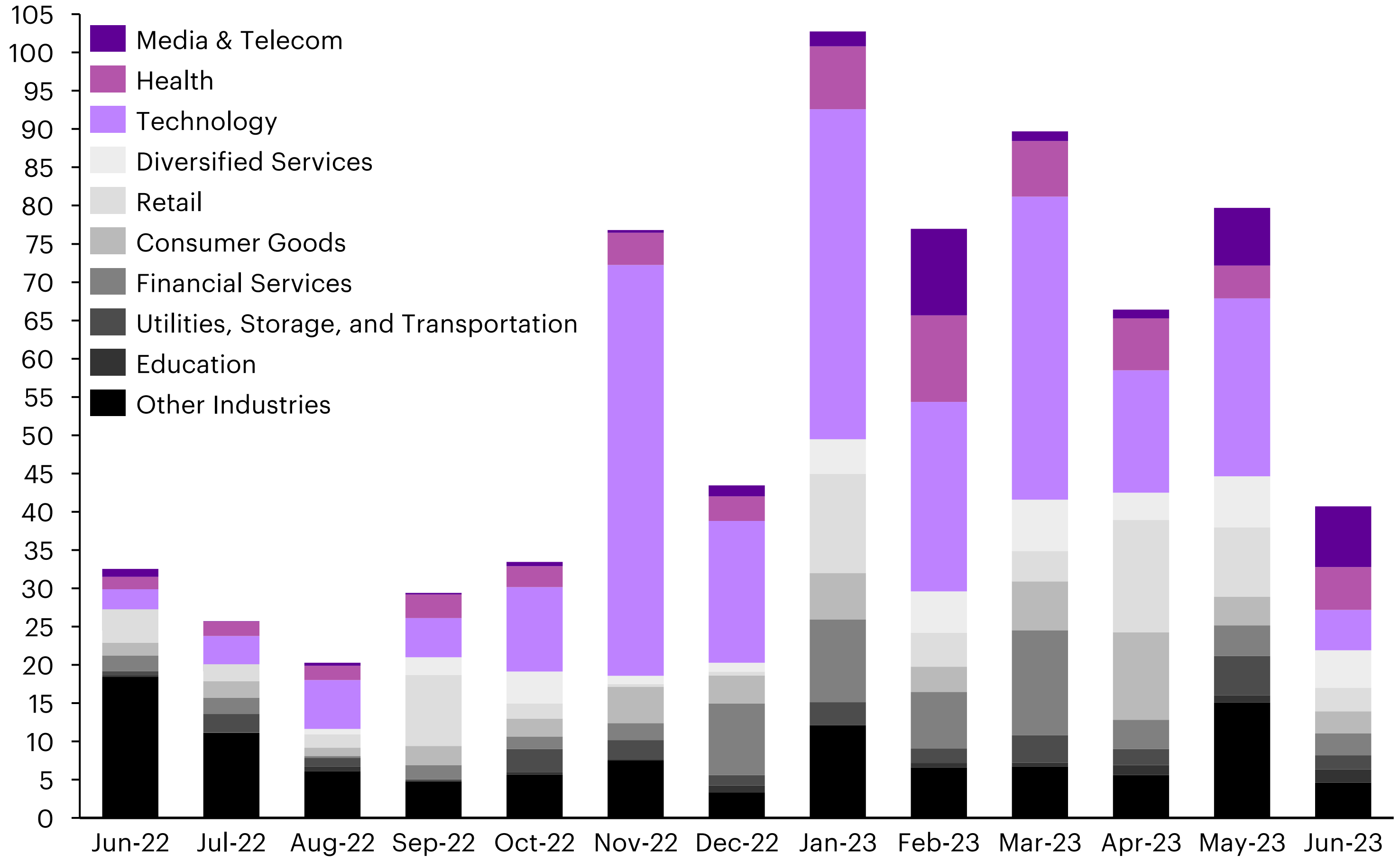
Source(s): S&P Global, BLS, Accenture Strategy analysis

# The pace of US layoffs roughly halved in June, with a significant decrease in tech layoffs

## US corporate layoff tracker

### Announced layoffs by sector

Thousands (not seasonally adjusted)




### Commentary

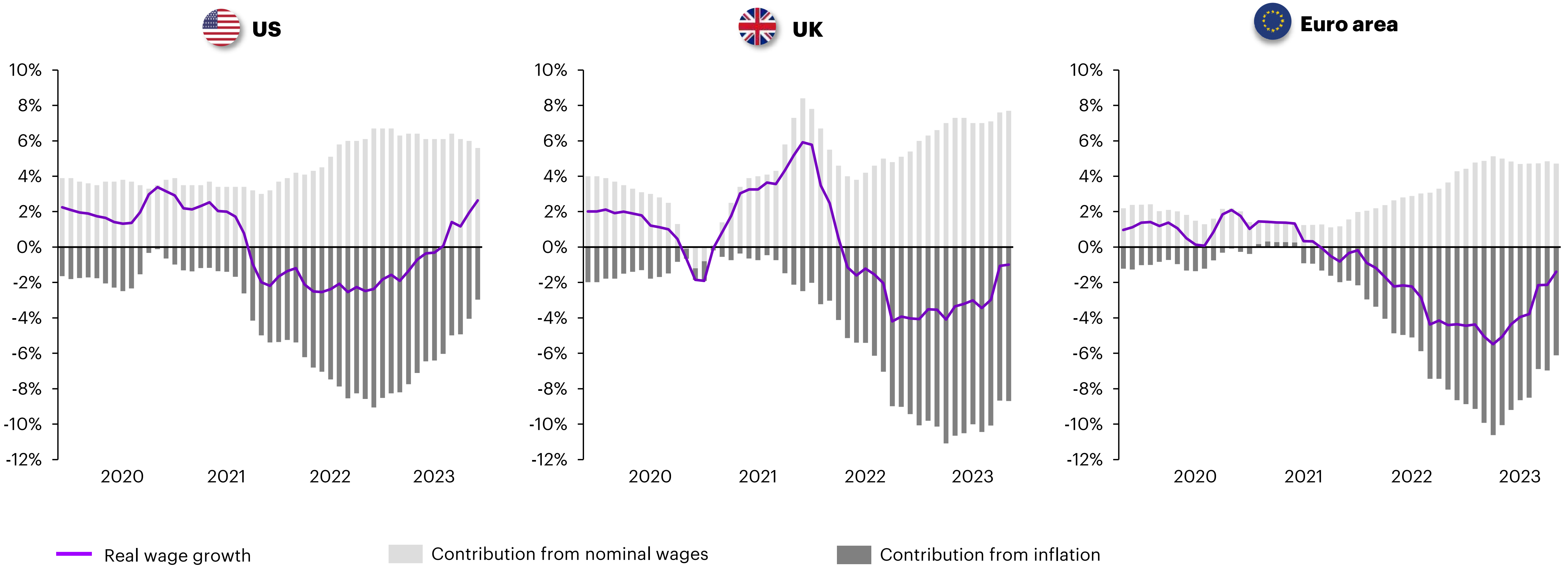
- Overall layoffs have slowed largely due to reduced layoffs in tech
- Media & Telecom, Health, and Technology layoffs remain elevated
- Financial services layoffs remain muted after a surge during recent bank failures

Source(s): Challenger Employment Report, Haver Analytics

# Real wage growth is increasingly positive in the US amidst recent easing of inflation, but remains persistently negative across Europe

## Wage growth developments

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




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

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

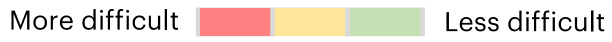
## Relative difficulty of hiring by sector

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


**Commentary**

- Across geographies, hiring difficulties remain most pronounced in services sectors, including healthcare, professional services, and leisure and hospitality
- Overall hiring difficulties relative to historical norms are highest in the US, as compared to UK and Europe
  - In the US difficulties worsened in transportation & storage, hotels & restaurants, entertainment, and human health & social work

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




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 globally in June, but current rates are still elevated

## CPI Inflation

### Latest overall CPI inflation rates and trends

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

| Country | YoY Inflation Rate | Change from previous month's rate (percentage points) |
|---|---|---|
| United States | 3.0% | -1.0% ↓ |
| United Kingdom | 8.0% | -0.7% ↓ |
| Canada | 2.8% | -0.5% ↓ |
| Germany | 6.9% | 0.7% ↑ |
| France | 5.3% | -0.7% ↓ |
| Italy | 6.7% | -1.3% ↓ |
| Spain | 1.6% | -1.3% ↓ |

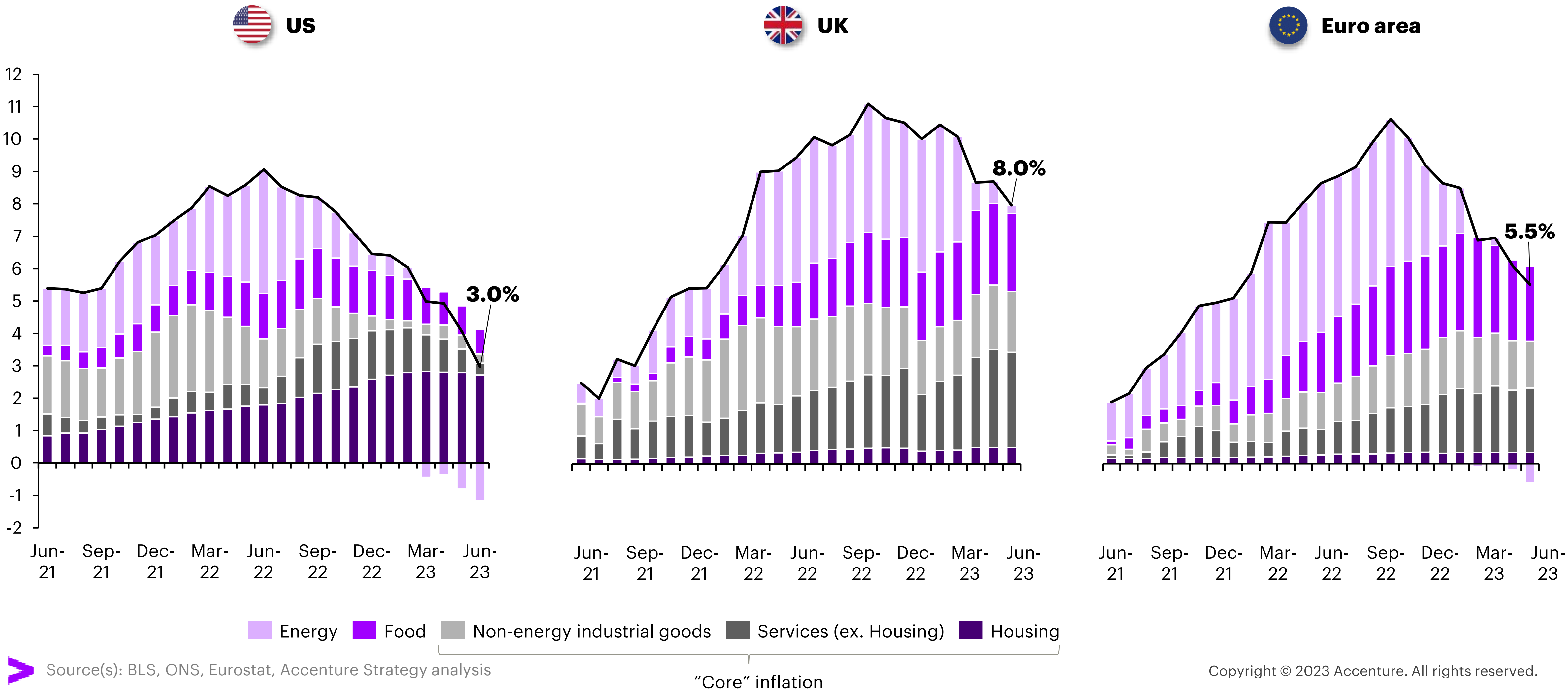
| Country | YoY Inflation Rate | Change from previous month's rate (percentage points) |
|---|---|---|
| China | 0.0% | -0.2% ↓ |
| Japan | 3.2% | -0.3% ↓ |
| Brazil | 3.2% | -0.8% ↓ |
| India | 4.8% | 0.5% ↑ |
| Singapore | 5.1% | -0.7% ↓ |
| Korea | 2.7% | -0.6% ↓ |

Source(s): Haver Analytics, Accenture Strategy analysis

# In June, lower energy prices continued to be a key source of disinflation for the US and Europe; food and core inflation have declined slightly but remain elevated

## Drivers of recent CPI inflation

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

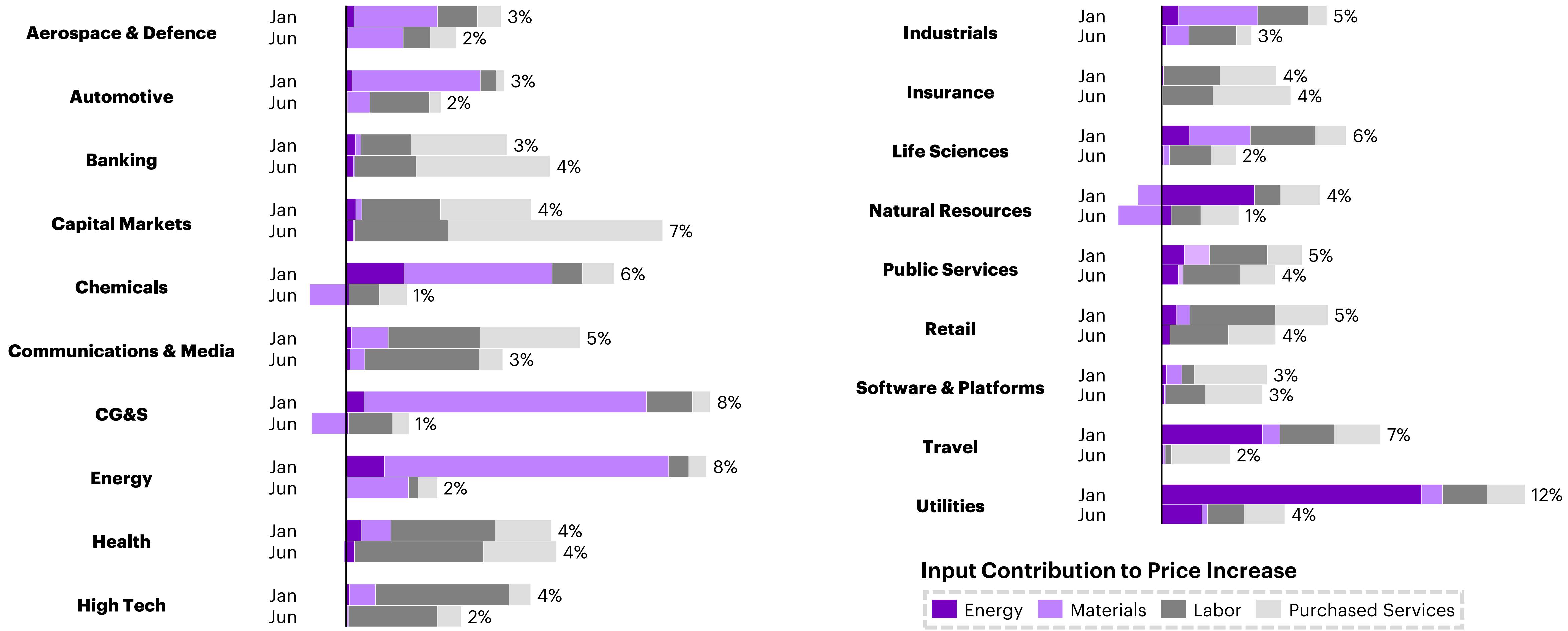



Source(s): BLS, ONS, Eurostat, Accenture Strategy analysis

# Falling material 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**

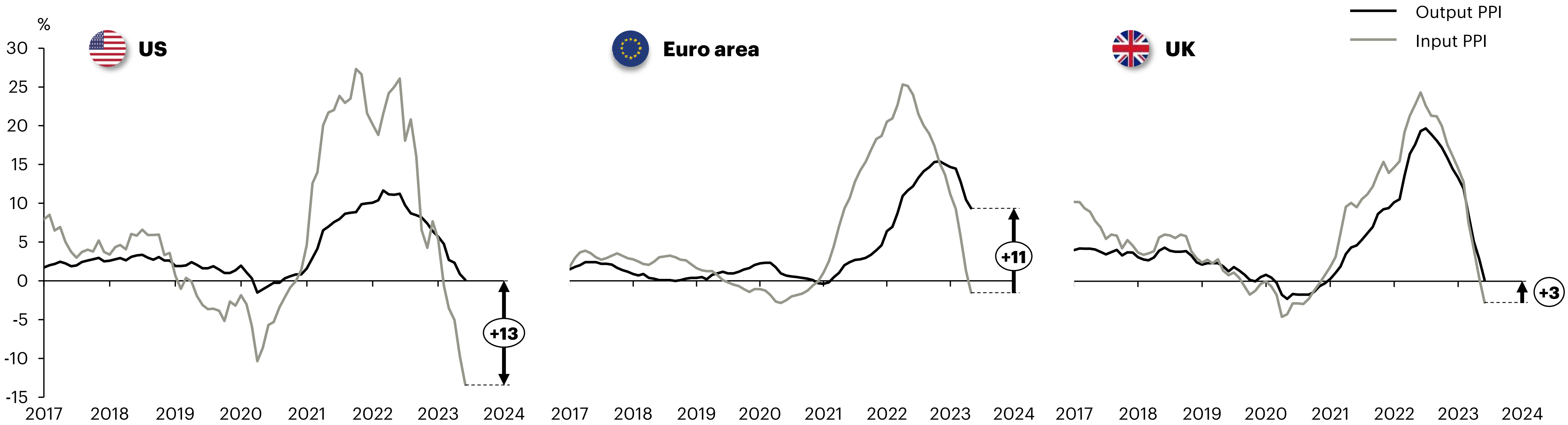



Note(s): Wage data as of May'23; Energy prices as of Jun'23 for Natural Gas, April'23 for Electricity and Jun'23 for Others; Materials and Purchased Services PPI price increases as of June'23.
Source(s): BLS, BEA, EIA, EPA, Accenture Strategy analysis

# US and European companies continue to be able to pass on their input costs to along to consumers

## Company input cost pass-through trends

### Producer price indices (PPI) for intermediate inputs and final outputs, YoY % change




**Commentary**

- The gap between cost increases for intermediate inputs (input PPI) and the change in producer selling prices for final goods (output PPI) is an approximate indicator of the extent to which producers have been absorbing their input costs increases
- In the US, UK, and Euro area, corporate margins have been restored as intermediate input inflation pressures ease

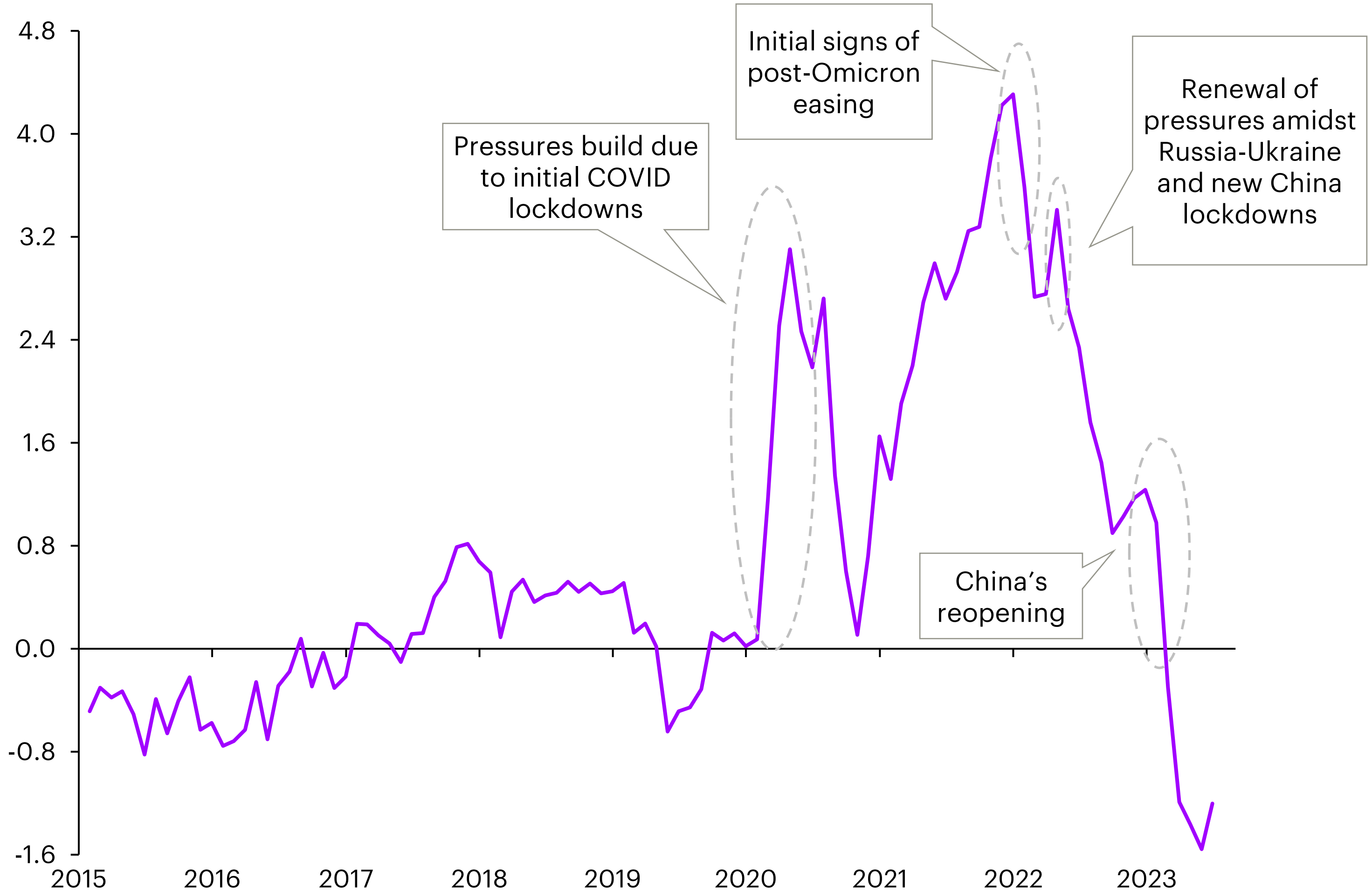
Note(s): 1) Figures in bold represent absolute percentage point difference between intermediate and final demand PPI YoY % values; higher positive values imply greater pass through to final producer selling prices, while larger negative values imply lower pass through. 2) US data is based on production 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 at their lowest level since 1997

## 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

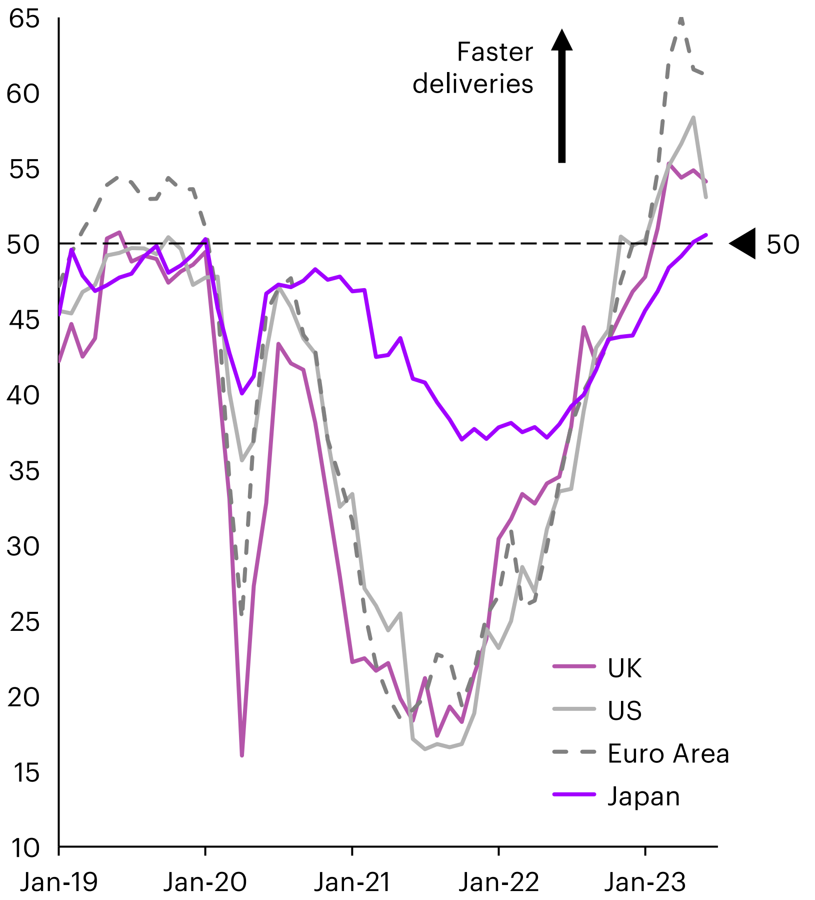
Source(s): Federal Reserve Bank of New York, Global Supply Chain Pressure Index, Accenture Strategy analysis

# Softening demand and fewer new manufacturing orders in the US and Europe have shortened supplier delivery lead times and eased backlogs

## Suppliers' delivery times and backlogs of work

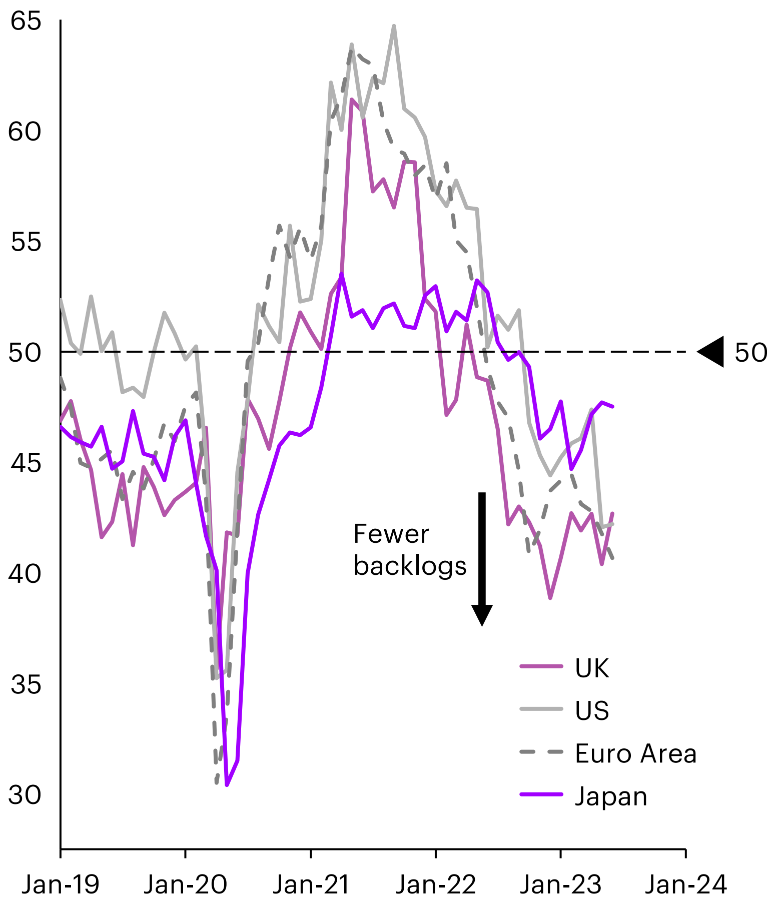
### Suppliers' Delivery Times

Seasonally adjusted, 50+ = Increase




### Manufacturing Backlogs of Work

Seasonally adjusted, 50+ = Increase




### Commentary

- Supplier delivery times decelerated slightly in June for US, UK and Europe
- Faster delivery times reflect greater supply availability and fewer bottlenecks, helping manufacturers to clear backlogs
  - Across the US, Europe and Japan manufacturing backlogs declined as new orders fell

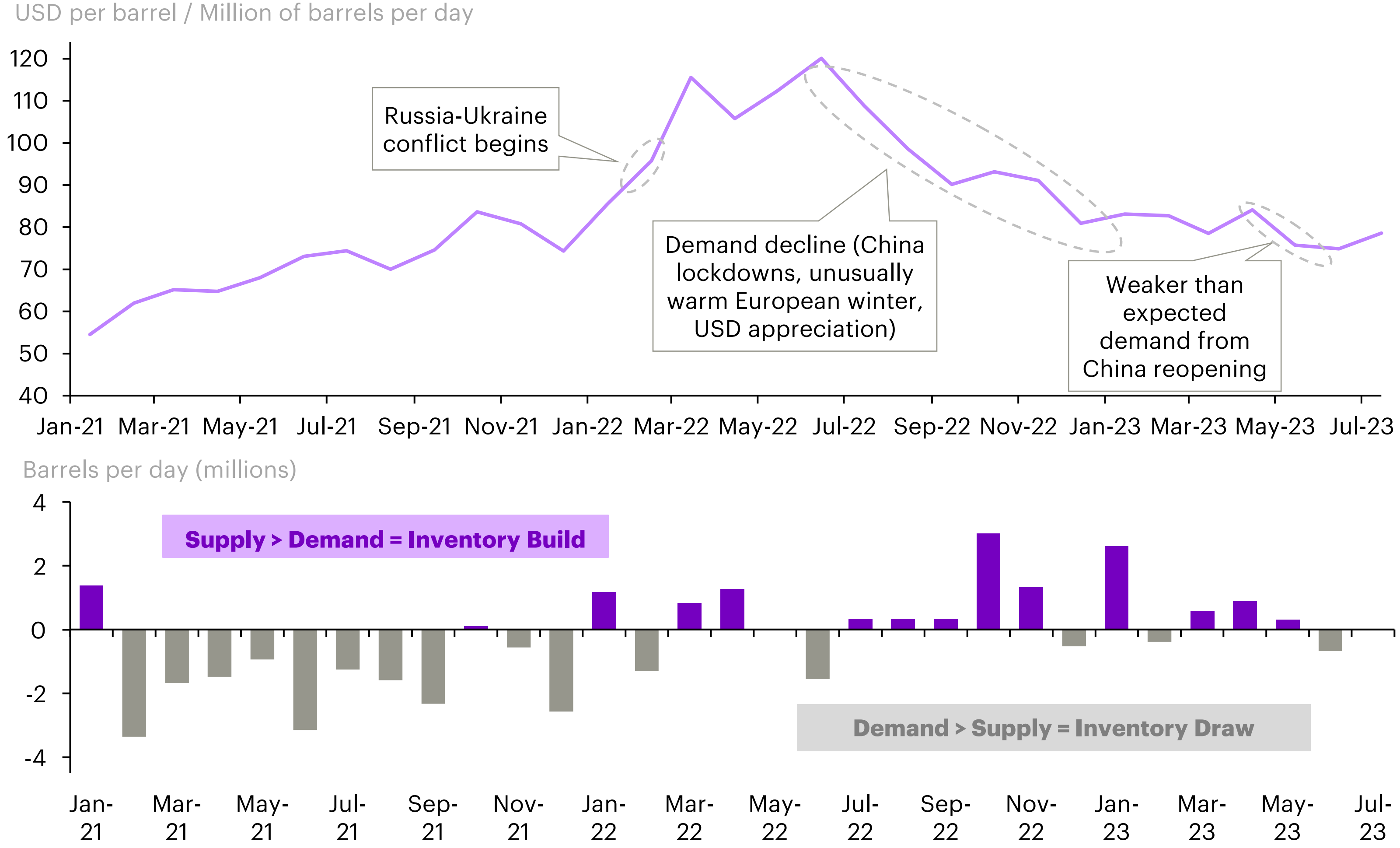
Source(s): CIPS/S&P Global, Haver Analytics, Thomson Reuters, Accenture Strategy analysis

# Energy and commodities

# Oil prices retreated further in June amidst weaker global manufacturing activity, stalled economic recovery in China, and higher Russian and Iranian crude exports

## Crude oil prices and inventories

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




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

**Drivers of energy prices in 2023**

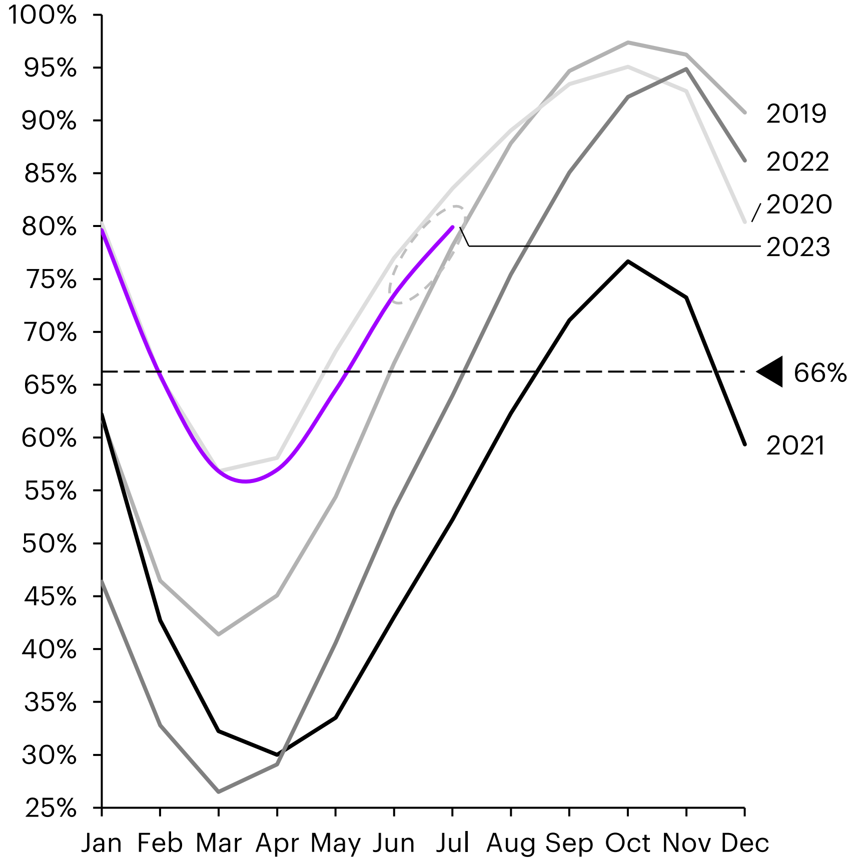
- Brent crude oil prices have been bouncing around the USD 75-80 range since May, reflecting an ongoing push and pull from:
  - Deepening contraction in industrial activity and slowing services growth
  - Rising summer-time travel demand
  - Supply increase from higher Iranian and Russian oil exports
- Going forward, supply and demand fundamentals continue to suggest upward price pressures
  - OPEC+ stated in June that it will extend oil output cuts until 2024
  - Disincentives to new investment by energy companies due to volatile prices and higher cost of capital
  - Demand tailwind from China's ongoing economic re-opening

# EU gas prices slumped to a near two-year low as Norwegian gas supply recovered and industrial activity remains subdued

## EU natural gas reserves and prices

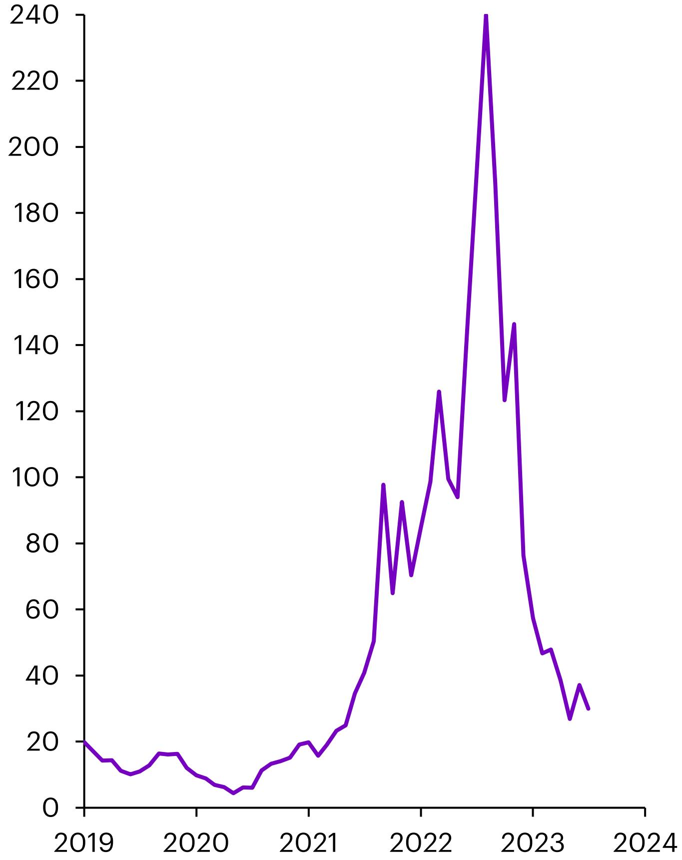
### European gas reserves are relatively high at 80%...

% of storage capacity




### ...EU gas prices at their 2nd lowest in 24 months

TTF Gas (EUR per megawatt-hour)




### Commentary

- Natural gas prices in Europe reached their second-lowest level in 24 months in July, as Norwegian supplies resumed following regular maintenance activities
  - Warmer weather in Asia and EU may lead to fierce competition for fuel imports (i.e., for cooling) and increase near-term price pressures
  - Ample storage levels are driven by traders refilling ahead of the 2023-24 winter season to meet EU's end-October 90% storage target
  - Norway is currently Europe's single largest gas supplier
- 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

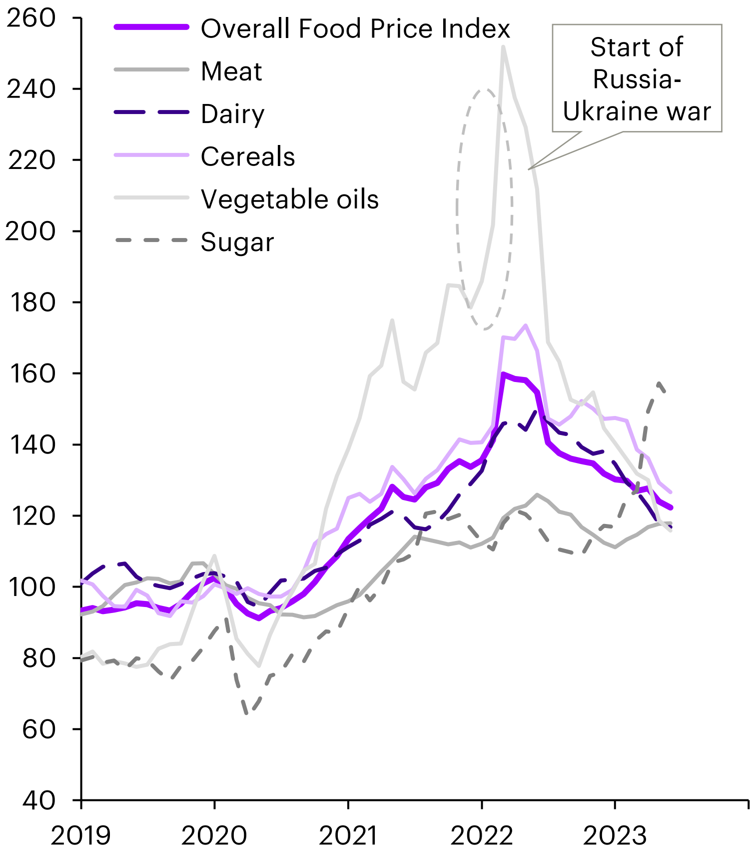
Note(s): Dutch TTF Natural Gas Futures front-month contract. TTF stands for Title Transfer Facility, which is a virtual trading hub for natural gas in Europe. TTF prices represent the average monthly price of natural gas traded at this hub and are considered a benchmark for natural gas prices in Europe.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

# Overall food prices hit a 26-month low in June, led by declining prices for vegetable oils, cereal and sugar

## Food and fertilizer prices

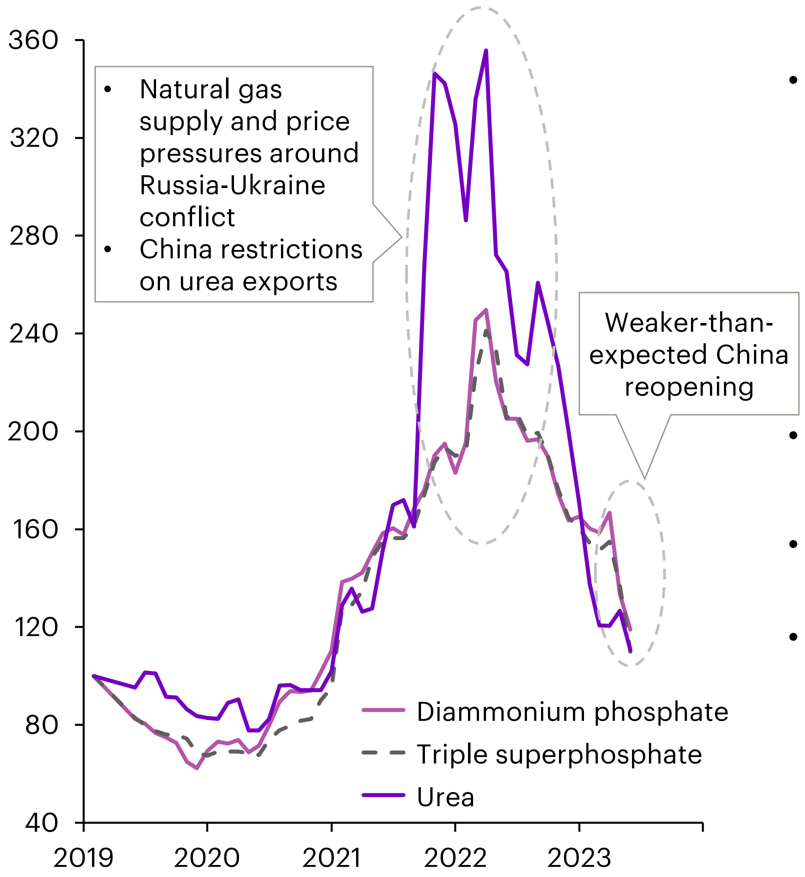
### Food prices

Index, 2014-2016 = 100




### Fertilizer prices

Index, Jan 2019 = 100




### Commentary

- Global food prices continued to fall in June to their lowest levels in two years
- Sugar prices fell in June for first time after four straight months of price increases
  - Better-than-expected 2023/24 sugarcane harvest in Brazil and subdued global import demand
  - Prices were supported over concerns about the potential impact of El Niño weather patterns on sugarcane crops
- Vegetable oil prices fell in June to their lowest levels since November 2020
- Fertilizer prices, especially DAP, continued to fall amidst sustained lower input costs
- Food prices are likely to face renewed upward pressure following the lapse of the UN-brokered Black Sea Grain Initiative
  - Pressure like to be most pronounced in wheat, barley, rapeseed and sunflower oil markets

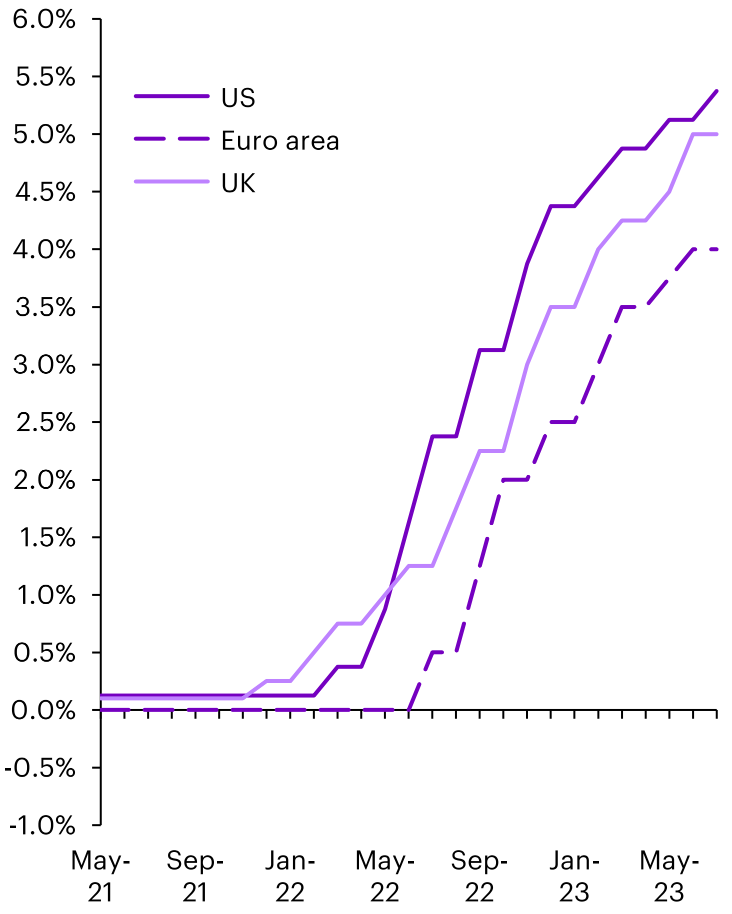
Note(s): (a) Food Price Index is a measure of the monthly change in international nominal prices of a basket of food commodities (b) Fertilizers include DAP (diammonium phosphate), TSP (triple superphosphate), and Urea.
Source(s): World Bank, UN FAO, USDA, Accenture Strategy analysis

# Financial markets

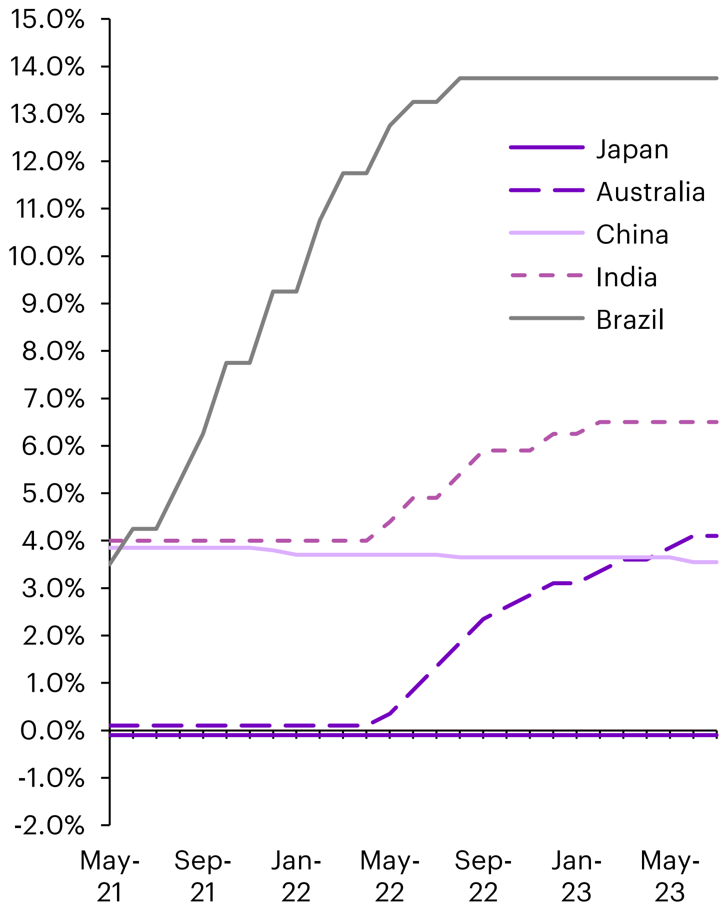
# Central banks globally continue to hike interest rates to combat inflation

## Monetary policy tightening across major economies

### US, UK and Euro area policy rates




### Policy rates for other major economies




### Commentary

- The Fed resumed rate hikes in July after a pause in June, with more hikes likely on the horizon depending on the strength of upcoming economic data
- The European Central Bank continues to raise rates and revised up its inflation projections, signaling that its policy stance may still not be sufficiently restrictive to tame inflation
- The Bank of England accelerated its pace of rate hikes in June, and markets are expecting continued monetary tightening as core inflation and rising wages point to a “stickier” inflationary environment
- China, in contrast, cut its key Loan Prime Rates in June in an effort to support its flagging post-reopening recovery
- 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

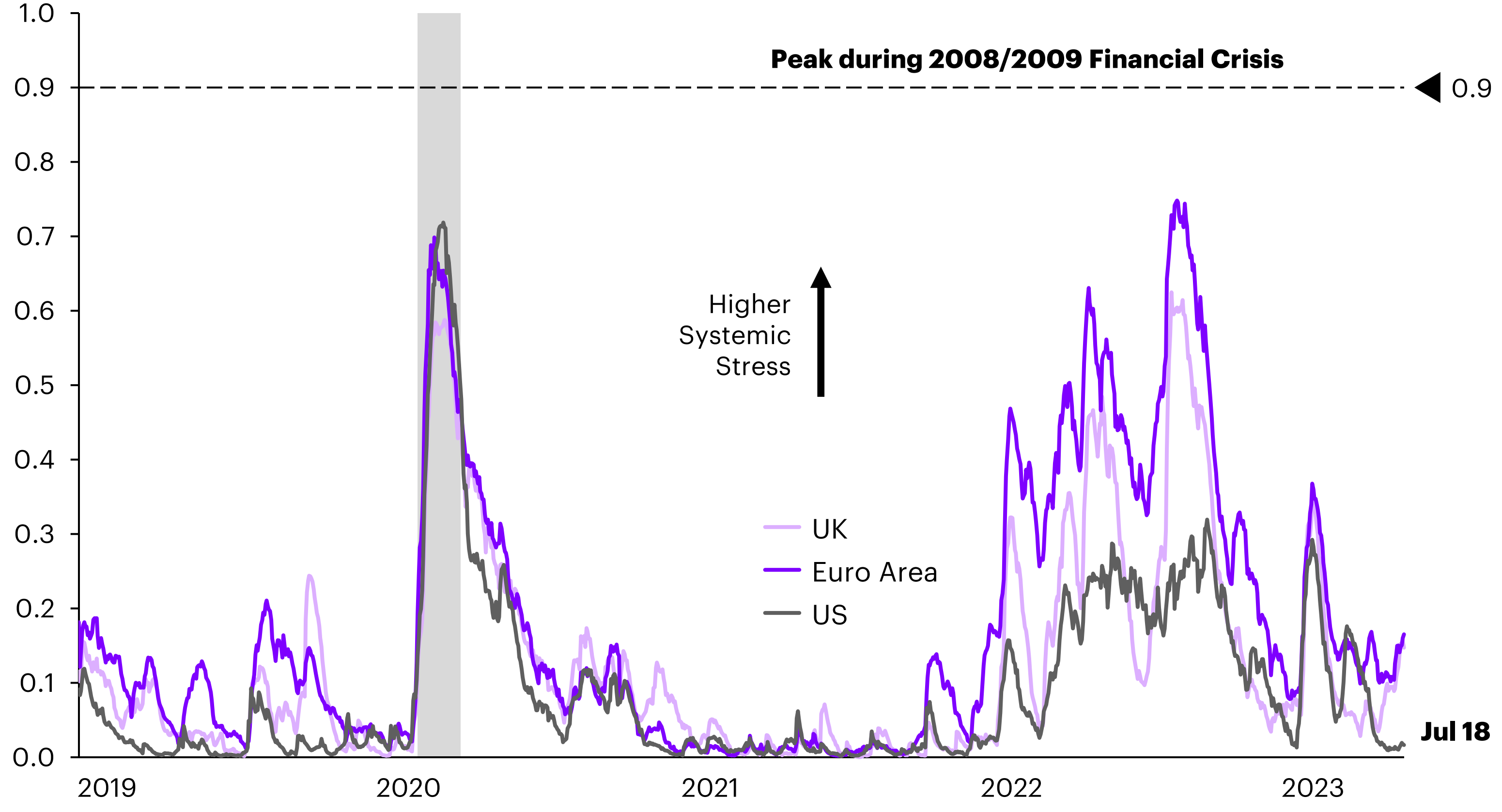
Source(s): Federal Reserve Bank, European Central Bank, Bank of England, Bank of Japan, Reserve Bank of India, Central Bank of Brazil, Reserve Bank of Australia, People's Bank of China, Accenture Strategy Analysis

# 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
  - Sustained interest rate hikes
  - 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

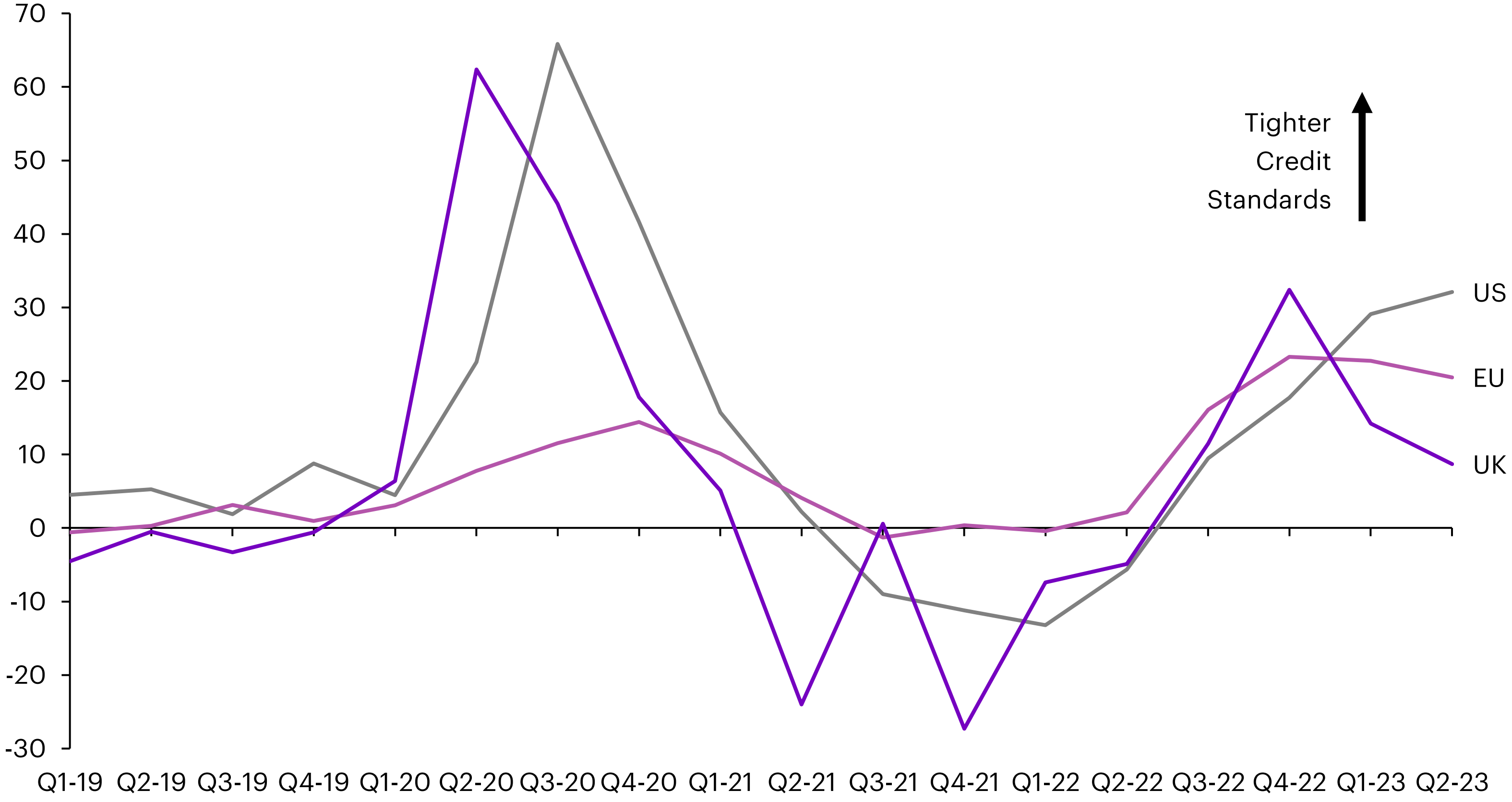
Source(s): Haver Analytics, European Central Bank, Accenture Strategy analysis

# 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 almost all sectors in July, with only financials remaining slightly north of recent period average

## US corporate bond spreads

| Sector | Recent avg. Z-spread* (Basis Points) | Change relative to pre-banking stress average* (as of July 20, 2023) (Change in Basis Points relative to recent average) |
|---|---|---|
| **Financials** | 105 | 1 |
| **Utilities** | 145 | -7 |
| **Telecommunications** | 144 | -8 |
| **Real Estate** | 161 | -12 |
| **Consumer Discretionary** | 126 | -14 |
| **Information Technology** | 87 | -17 |
| **Materials** | 168 | -19 |
| **Energy** | 187 | -20 |
| **Industrials** | 124 | -21 |
| **Health care** | 111 | -21 |
| **Consumer staples** | 115 | -23 |
| **All Investment Grade** | 143 | -13 |
| **All High-Yield** | 369 | -116 |

**Commentary**

- Corporate bond spreads in the US rose sharply in March 2023 in response to growing banking system stress
- However, perceived credit risk retreated for almost all sectors in July as concerns over cross-sector contagion receded
- A reemergence of sector-wide spread widening could translate into
  - Tougher refinancing terms
  - Increases in corporate defaults
  - Restructurings, especially among highly-leveraged entities

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
*Average spread calculation ranges from March 8, 2022 until 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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Accenture is a leading global professional services company that helps the world's leading businesses, governments and other organizations build their digital core, optimize their operations, accelerate revenue growth and enhance citizen services— creating tangible value at speed and scale. We are a talent and innovation led company with 738,000 people serving clients in more than 120 countries. Technology is at the core of change today, and we are one of the world's leaders in helping drive that change, with strong ecosystem relationships. We combine our strength in technology with unmatched industry experience, functional expertise and global delivery capability. We are uniquely able to deliver tangible outcomes because of our broad range of services, solutions and assets across Strategy & Consulting, Technology, Operations, Industry X and Accenture Song. These capabilities, together with our culture of shared success and commitment to creating 360° value, enable us to help our clients succeed and build trusted, lasting relationships. We measure our success by the 360° value we create for our clients, each other, our shareholders, partners and communities. Visit us at www.accenture.com.

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