June Macro Brief

The thorn of inflation

June 29, 2023

Accenture Strategy

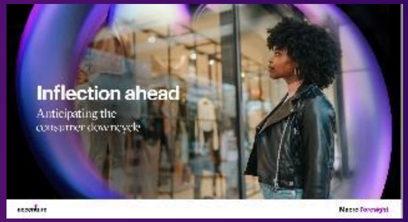
Macro Foresight

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 June 26, 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:

May: Bifurcated economies
April: Waiting for the next shoe to drop
March: Financial fissures emerge

For more information about Macro Foresight, visit www.accenture.com/macroforesight.

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June 2023
Executive Summary

Common global themes

- **Economic momentum weakened globally in June,** reflecting further contraction in manufacturing sectors and some pullback in the services rebound that has propped up growth in recent months:
  - The softening in overall business activity was most pronounced in Europe, according to PMI surveys; revisions to GDP data also painted a bleaker picture of the prior two quarters, suggesting the Euro area has been in a mild recession since Q4'22
  - China's economic recovery stumbled further, as the consumer spending rebound lost more steam and manufacturing continued to stall
- **Ongoing stickiness in inflation, despite slowing growth, is likely to pressure central banks to implement additional monetary tightening.** The US Fed is likely to resume rate hikes after its recent pause, while the ECB and Bank of England already pushed ahead with additional rate hikes.
- **The prospect of further financial tightening, combined with weaker growth and still-high inflation, makes benign scenarios such as soft landings and mild recessions increasingly less likely.** The risk of more extreme outcomes such as stagflation or deep recession is growing.

Regional highlights

- **In the US,** the persistence of inflation is mainly labor cost-driven and services-led, reflecting ongoing tightness in labor and housing markets. The role of corporate profit growth in inflation, which was high during the pandemic, has declined over the past year amidst margin compression. Slower wage growth, rather than a further profit squeeze, will thus likely be more important to stamping out residual US inflation.
- **In Europe,** in contrast, expanding corporate profits appear to be the predominant driver of recent inflation. This suggests that inflation is unlikely to abate without some erosion in firms' margins. In the UK, a correction in the housing market may be another major source of disinflation—BoE rate hikes are already creating mortgage distress, negative wealth effects and a spending squeeze for many households.
- **In Growth Markets**, activism and geopolitics-driven industrial shifts were key themes in June:
  - In Japan, activist activity and corporate governance reform are attracting foreign capital and helping revive the domestic stock market
  - In Australia, the lithium industry continues to boom and take on geostrategic importance as an alternative to China
  - Mexico is benefitting from nearshoring initiatives by US companies and other multinationals seeking to de-risk their supply chains

Key considerations and priorities for clients

- **Companies who successfully protected or grew their margins during earlier stages of this inflation cycle may increasingly struggle to do so as demand slows.** Consumer-facing companies are likely to face particularly strong two-sided margin pressure, as they compete for a more frugal consumer while trying to retain employees in a tight labor market.
- **Building supply chain resilience and de-risking from China will continue to grow in importance:**
  - Activist investors may increasingly demand that companies develop resilience strategies and transformation plans
  - First movers to destinations offering attractive supplier and production diversification opportunities (e.g. Mexico, India, Vietnam, Australia) may reap outsized rewards before other companies follow suit and drive up costs

Source(s): Accenture Strategy analysis

Executives should be aware of the nuances in the inflation landscape to navigate growing challenges to profitability

Top-of-mind questions for business executives to consider

"How resilient is my company's pricing power to slowing consumer demand?"

"Will persistent core inflation feed higher wages and make talent more difficult to compete for?"

"Will central banks be able to tame inflation without triggering a deep recession?"

Source(s): Accenture Strategy analysis

Economic momentum weakened globally, on balance, in June, with some softening in services and consumer spending alongside the ongoing contraction in industrial activity

Country economic momentum snapshot

AS OF JUNE 26

Deteriorating — Indicator — Strengthening

	Services PMI	Manufacturing PMI	Industrial Production	Business Confidence	Consumer Sentiment	Unemployment Rate	Retail Sales	CPI Inflation	Comments
USA*	54.1	46.9	0.6%	Declining	+4.7	3.7%	-0.4%	4.0%	• Simultaneous tightening of lending standards and ongoing rate hikes are likely to weigh on economic growth in H2
UK*	53.7	47.7	0.6%	Improving	+3.0	3.8%	-0.2%	8.7%	• Surging food prices and growing funding challenges are likely to pressure consumers and businesses in Q3'23
Germany*	54.1	44.2	0.8%	Improving	+1.6	2.9%	-0.2%	6.2%	• Germany has been in recession since Q4'22, with languishing industrial activity continuing to drag on growth
France*	48.0	44.2	1.6%	Improving	+0.0	6.9%	0.3%	6.0%	• Sharp recent reversal in services activity removes a key growth support pillar and bodes poorly for growth in H2
Italy	54.0	46.4	-0.5%	Improving	-0.4	7.8%	-0.5%	8.0%	• Low energy prices and lesser reliance on Russian gas may boost energy-intensive sectors such as chemicals and steel • High debt levels make economy vulnerable to rate hikes
Spain	56.7	49.4	0.8%	Improving	+8.5	12.9%	0.5%	2.9%	• Recent rebound in tourism has improved growth outlook • Stimulus was announced to address recent droughts
China	57.1	53.8	-1.4%	Declining	+2.4	5.2%	1.0%	0.2%	• Re-opening recovery has been weaker than expected, prompting central bank to cut rates to support growth
Japan*	54.2	48.4	1.9%	Improving	-0.5	2.6%	0.3%	3.5%	• Solid domestic consumption and rebounding inbound tourism are supporting growth
Brazil	54.1	46.5	0.1%	Declining	-0.5	8.5%	0.3%	3.9%	• Slower employment growth and tighter lending conditions expected to constrain consumer spending and investments
Australia*	50.7	49.1	0.6%	Improving	+0.2	3.6%	-0.6%	7.1%	• High price pressures and input costs, along with consumer belt tightening, are likely to weigh on pace of recovery
India	61.2	62.7	0.5%	Declining	+5.4	7.7%	4.4%	4.3%	• 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 May 2023 (below 50=contraction), with markets marked with asterisks reflect latest Flash PMIs (estimates) for June 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 Jun'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

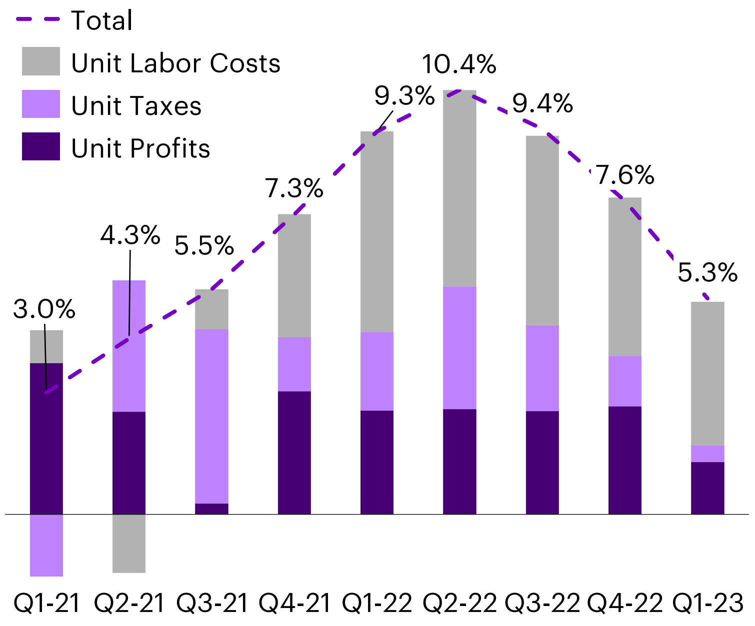
North America

Corporate profit growth was a key driver of US inflation during the pandemic, but labor costs have taken over as the main source of recent price pressures

Role of profit growth in US inflation

Drivers of corporate output price inflation

YoY contribution to inflation in price per unit of GVA



S&P 500 Median Gross Profit Margin Expansion

YoY percentage point growth in gross margins

	2020	2021	2022	YTD Q1-23
Communications	↑	↑	↓	↓
Consumer Disc	↓	↑	↑	↓
Consumer Staples	↑	↓	↓	↓
Energy	↓	↑	↑	↑
Financials	↓	↑	↓	↓
Health Care	↓	↑	↓	↓
Industrials	↓	↑	↓	↑
Information Tech.	→	↑	↓	↓
Materials	↑	↓	↓	↓
Real Estate	↓	↑	↓	→
Utilities	↑	↓	↓	↓

Implications for corporates

- Consumer-facing companies may continue to see margin compression as they compete for a more frugal consumer while trying to retain employees in a tight labor market
  - However, additional corporate margin erosion is unlikely to bring down core inflation much further given it is now predominantly labor cost-driven
- Consumer-facing companies may benefit from diversifying supply chains and re-negotiating vendor contracts
- Industrial suppliers of consumer-facing industries will likely need to plan for loss of negotiating power and knock-on effects of flattening consumer demand

Commentary

- Corporate profits contributed significantly to inflation during the pandemic as companies protected or expanded margins by passing on their costs
- As labor markets tightened and workers demanded greater wage compensation for inflation, labor costs (and their contribution to inflation) grew
- Corporate margins are now being squeezed by these higher labor costs, as well as diminishing ability to pass on cost as consumer demand slows
  - Labor-intensive and consumer-facing companies are thus seeing greatest margin erosion, while energy and industrials margins are resilient

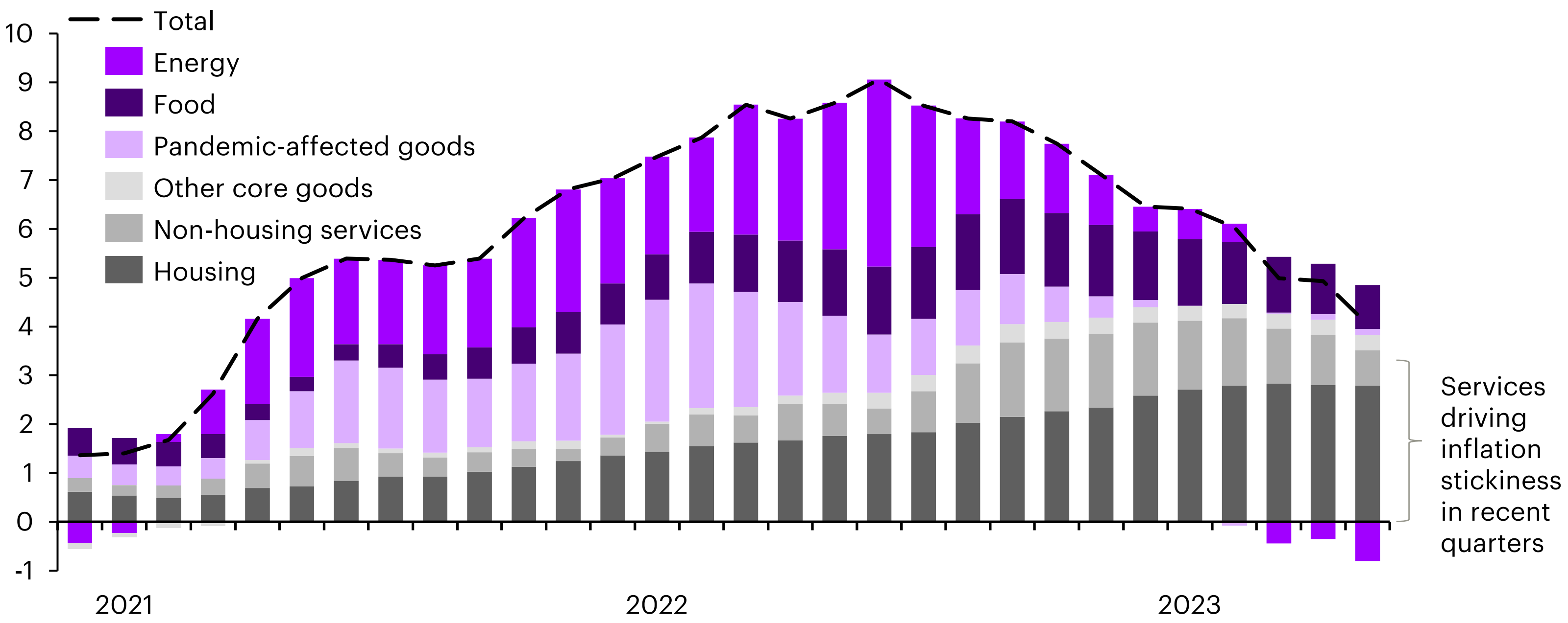
Source(s): S&P Capital IQ, Bureau of Economic Analysis, Bureau of Labor Statistics, Accenture Strategy analysis

As energy and supply chain-related price pressures have abated, the “sticky” parts of inflation are now in labor-intensive services and housing

US inflation cycle dynamics

Drivers of CPI inflation

Contributions to year-on-year change in Consumer Price Index (percentage points)



Implications for corporates

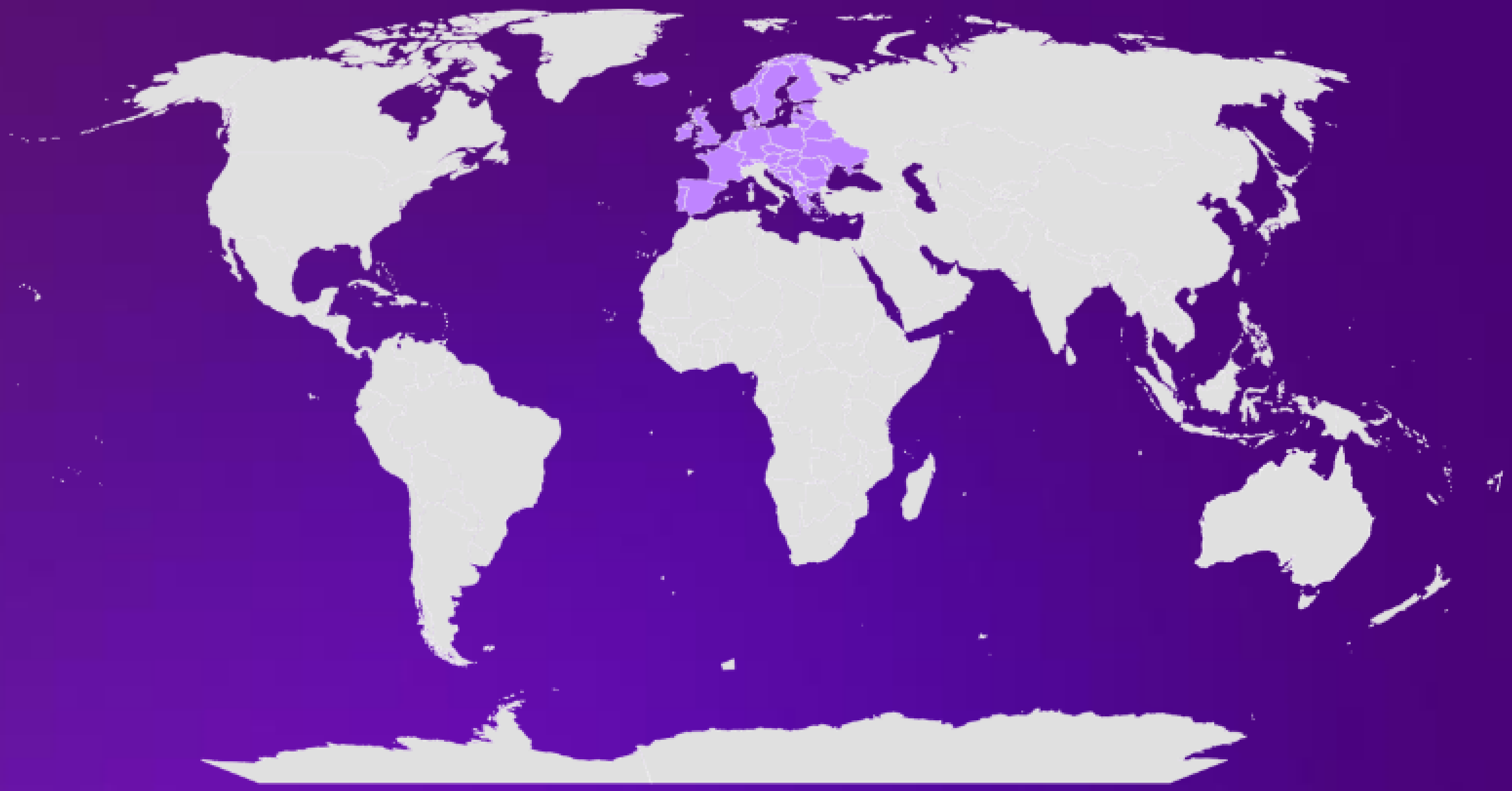
- Continued stickiness in inflation—in the 3-4% range—is likely given ongoing tightness in labor and housing markets
- Companies should plan for such “persistently elevated” inflation scenarios and the corresponding additional monetary tightening that could be expected from the Fed

Commentary

- The inflation waves from supply-constrained goods during the pandemic and from energy due to Russia-Ukraine crisis have now largely subsided
- Residual inflation is currently driven largely by:
  - Housing rents, which remain high due to structural housing supply shortages and low new housing investment amidst high interest rates
  - Services prices, which reflect continued labor market tightness and strength of post-pandemic revenge spending on service

Note(s): Pandemic-affected goods include new and used cars, video, audio and IT equipment, household furniture and appliances, and sports equipment and vehicles.
Source(s): Bureau of Economic Analysis, Accenture Strategy analysis

Europe

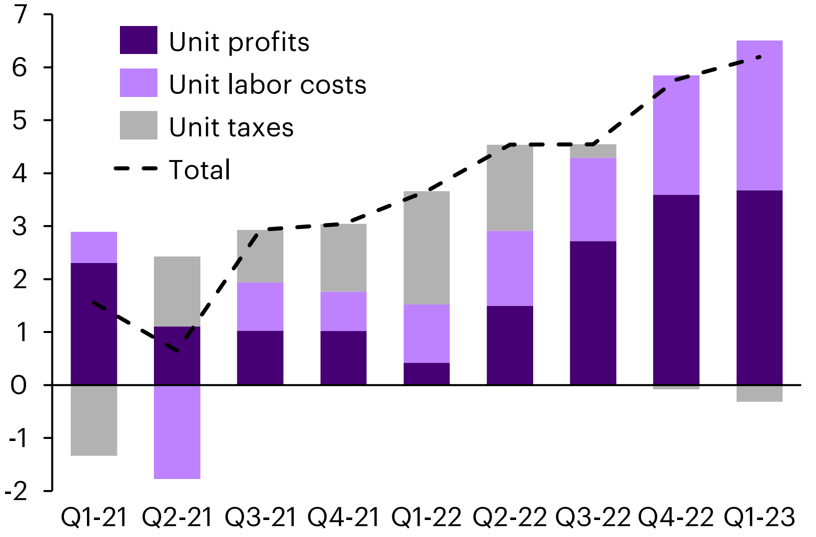


Profit-led inflation is much more prominent in Europe, putting upward pressure on worker wage compensation demands and contributing to stickiness of recent inflation

Euro area and UK profit growth contribution to inflation

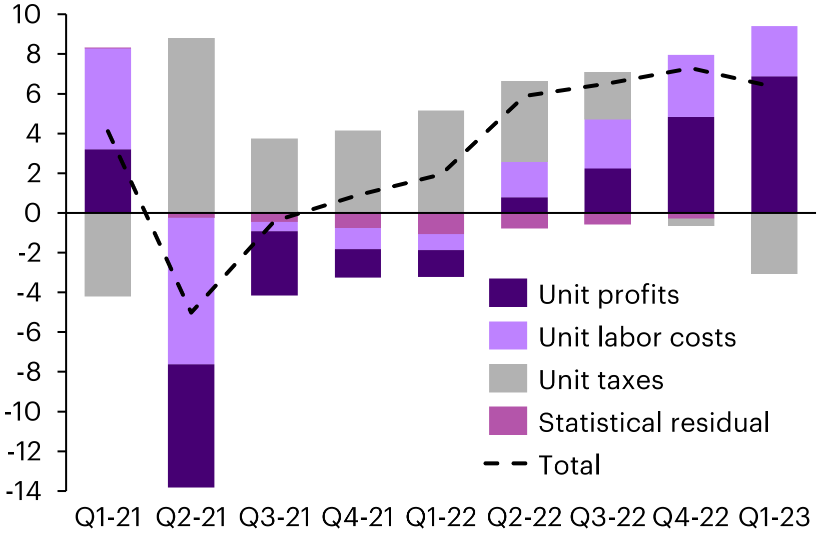
Drivers of Euro area GDP price index inflation

Contributions to YoY percent change in GDP deflator[1]



Drivers of UK GDP price index inflation

Contributions to YoY percent change in GDP deflator[1]



Implications for corporates

- As the economic outlook becomes increasingly uncertain, business executives are likely to face increased pressure from investors to preserve margins
- As consumers' ability to absorb further price increases dwindles (e.g., due to diminishing excess savings), companies will increasingly need to focus on driving cost efficiencies
- If consumers perceive a company as be overly self-serving, it could significantly impact brand value

Commentary

- The demand-pull and cost-push inflation of 2021 and 2022, respectively, no longer appear to be the primary drivers of consumer price increases in the Euro area and UK
- Corporate profit expansion has now become the leading contributor to inflation, alongside rising labor cost pressures (which in part are likely fueled by workers demanding greater compensation for the perceived profit-led inflation)
- Together, these trends threaten to perpetuate a wage-and profit-price spiral and drive further monetary policy tightening

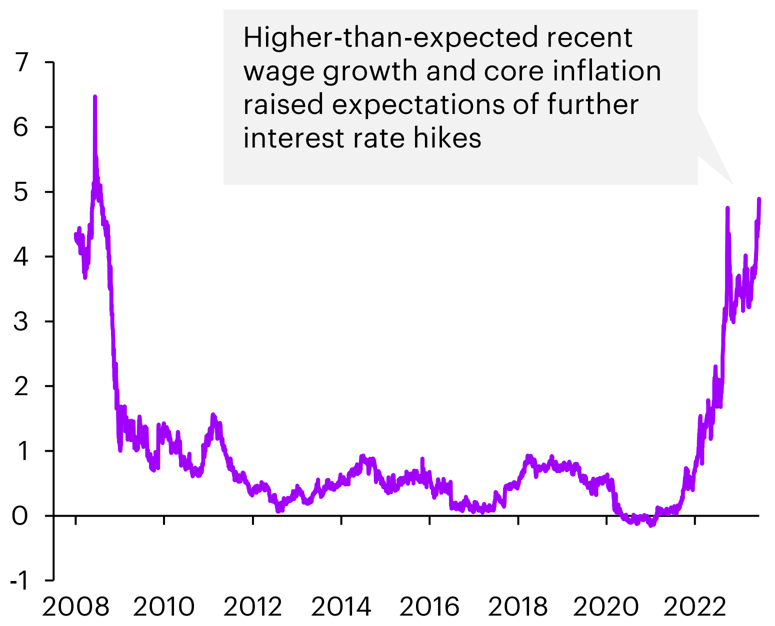
Note(s): (1) Indicates the share of value added during the production process remunerating capital and is the complement of the share of wage costs
Source(s): Eurostat, ECB, S&P Capital IQ, Accenture Strategy analysis

A major real estate correction is looking increasingly likely in the UK as mortgage rates continue to rise—this could further pressure households and endanger financial stability

UK interest rates and property market lending

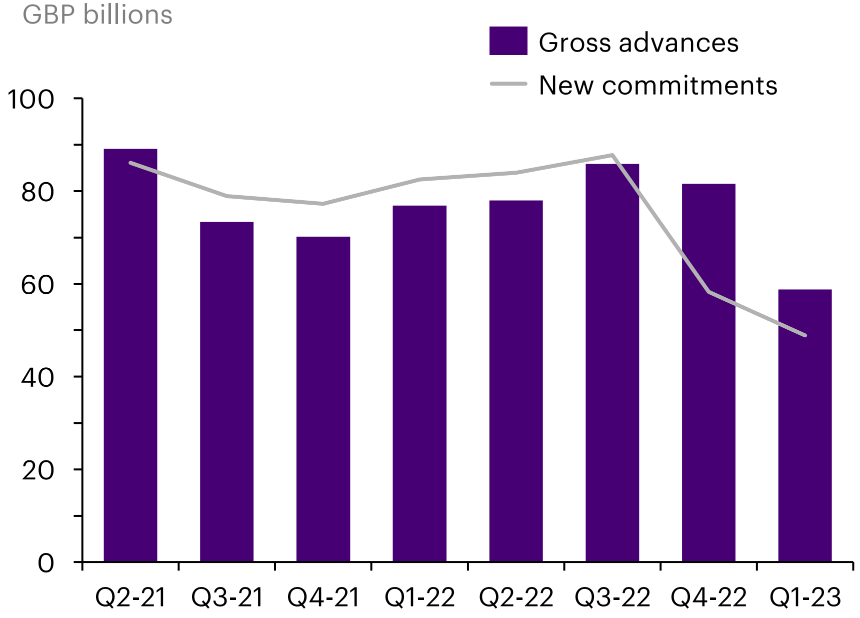
UK 2-year government bond yield

Percentage



UK mortgage lending

GBP billions



Implications for corporates

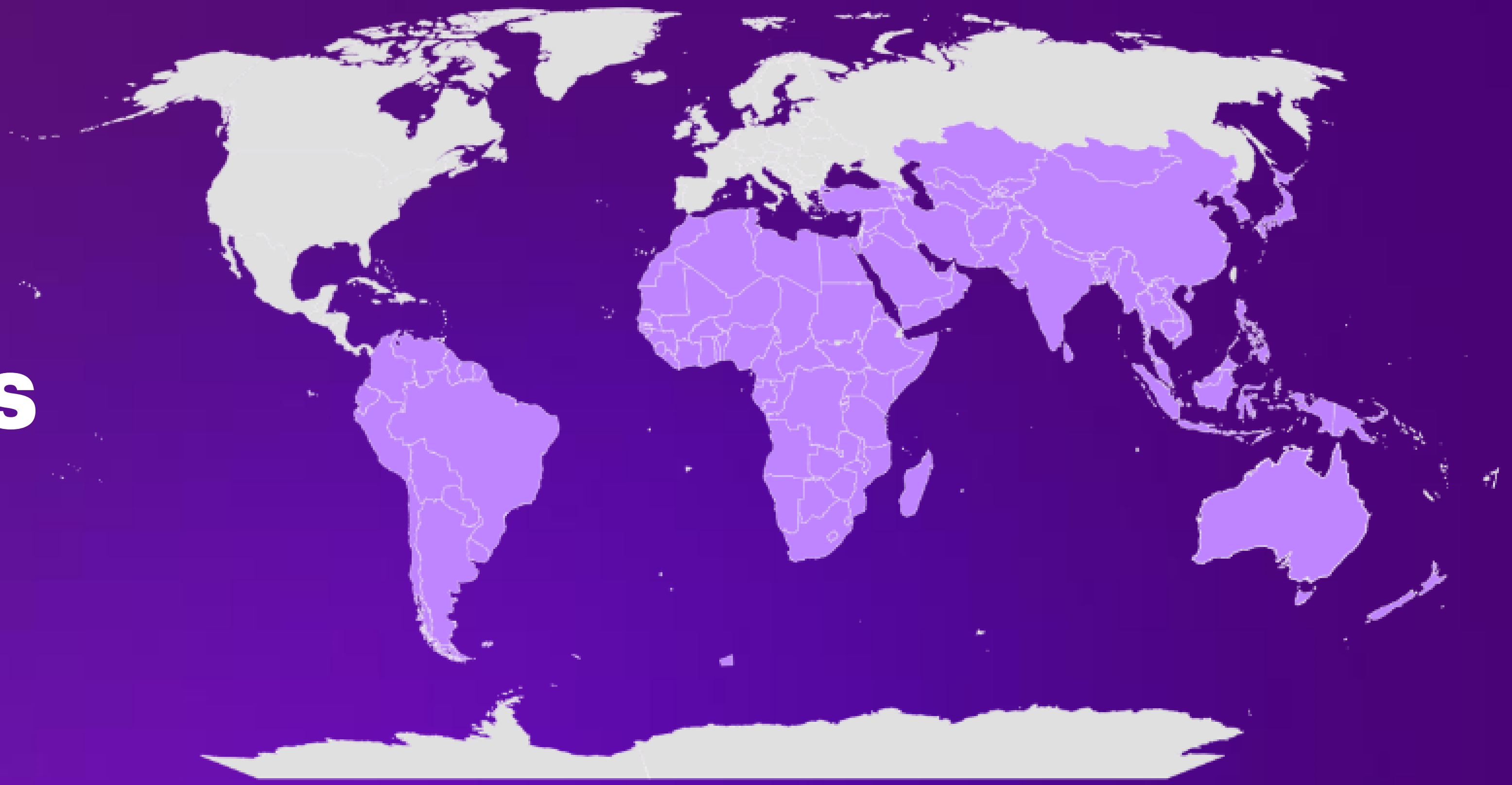
- Falling house prices could cause negative wealth effects whereby declining perceived wealth leads to consumer belt tightening
- This is likely to impact low-middle income consumers the most, as they have a greater share of their wealth tied to housing
- The threat of mortgage defaults is also increasing, which could have ripple effects in the financial industry

Commentary

- A rise in both core inflation and wage growth in May put extra pressure on the Bank of England to further increase interest rates (by 50 bps)
- Borrowing costs for the UK government are also rising, causing mortgage rates to increase further, restricting lending and depressing property values

Source(s): Thomson Reuters, Bank of England, Accenture Strategy analysis

Growth Markets

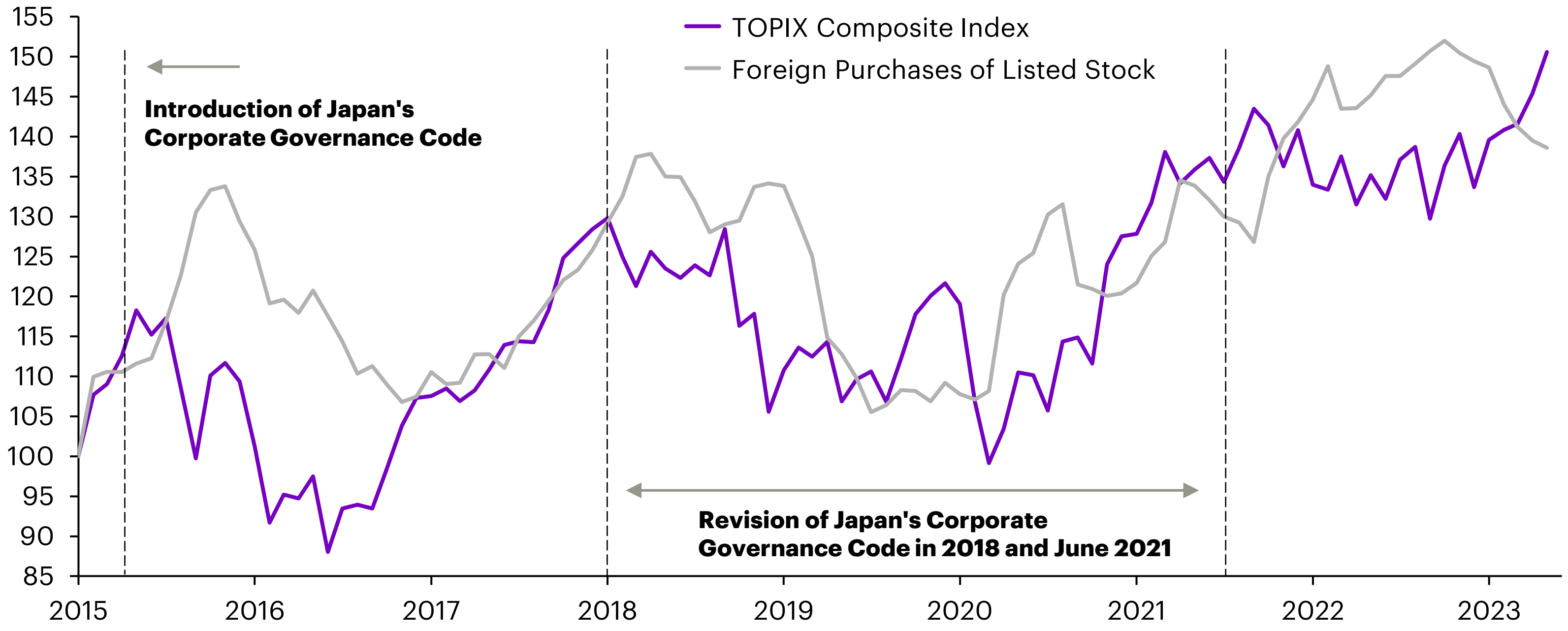


Activist investor movement and corporate governance reform in Japan have revived the Japanese stock market, which recently hit its highest level in 33 years

TOPIX and foreign stock purchases

TOPIX composite and foreign purchases of listed stocks index

Monthly TOPIX Index (100=Jan 2015) and Foreign Purchases (5-month moving average)



Implications for corporates

- Management teams should "think like activists" to improve the attractiveness of investments while safeguarding against activist pressure
- Executives need to weigh investments in governance and ESG in the context of a complex and challenging global macroeconomic environment
- Japanese corporates should also proactively review their business performance, operations and strategy on a quarterly basis to assess their vulnerabilities

Commentary

- Recent revisions to Japan's Corporate Governance Code, aimed at promoting sustainable growth, have attracted activist investors and foreign capital
- TOPIX Composite Index and 5 months moving average of foreign purchase of listed stock demonstrate correlated movement
- TOPIX hit a 33-year high in May 2023

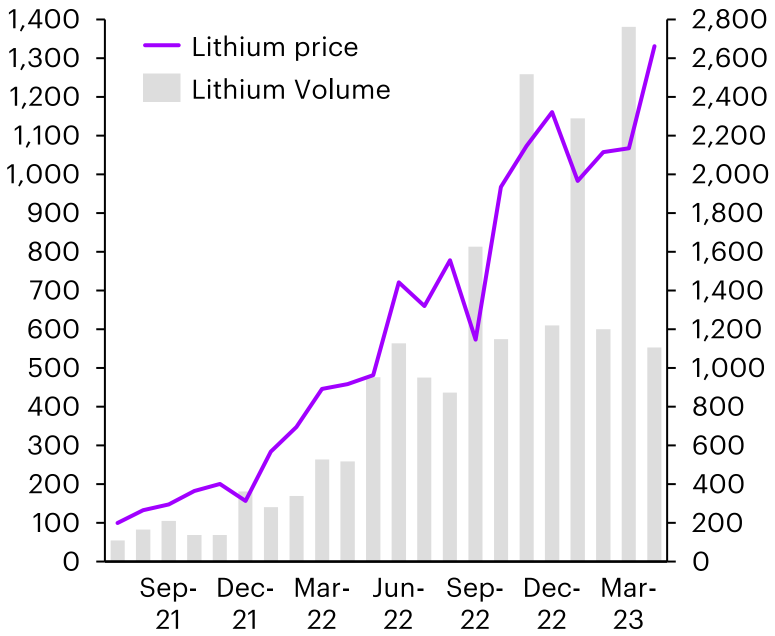
Note(s): (1) TOPIX composite and foreign purchase of listed stocks values are indexed to 100 in January 2015 (2) Foreign Purchases of Listed Stock computed on 5 months moving average
Source(s): Haver Analytics, Accenture Strategy analysis

Australia's lithium exports continue to climb in value and volume, as demand for minerals key to EVs remains robust despite a weakening global economic outlook

Australia lithium exports

Australia lithium export volume and prices

Left axis, Index of metals prices (Jul 2021=0); right axis, export volume (Million, A$)



Recent investment history

Key developments

Feb-22	Liontown signs 5-year lithium concentrate supply deal with Tesla
Jun-22	Liontown signs 5-year lithium concentrate supply deal with Ford
Oct-22	SK On signs 10-year lithium deal with Lake Resources after acquiring 10% stake
Jan-23	Idemitsu invests in Delta Lithium, Piedmont Lithium signs 5-year lithium concentrate supply deal with Tesla
May-23	$10.6bn merger between Australian company Allkem and US rival Livent

Implications for corporates

- Global EV and battery producers could explore opportunities to:
  - Increase investments in Australia's lithium market as it grows in importance for battery production
  - Evaluate vertical integration opportunities to secure lithium supply
  - Take advantage of Australian government initiatives to finance lithium investments and bolster refining capabilities

Commentary

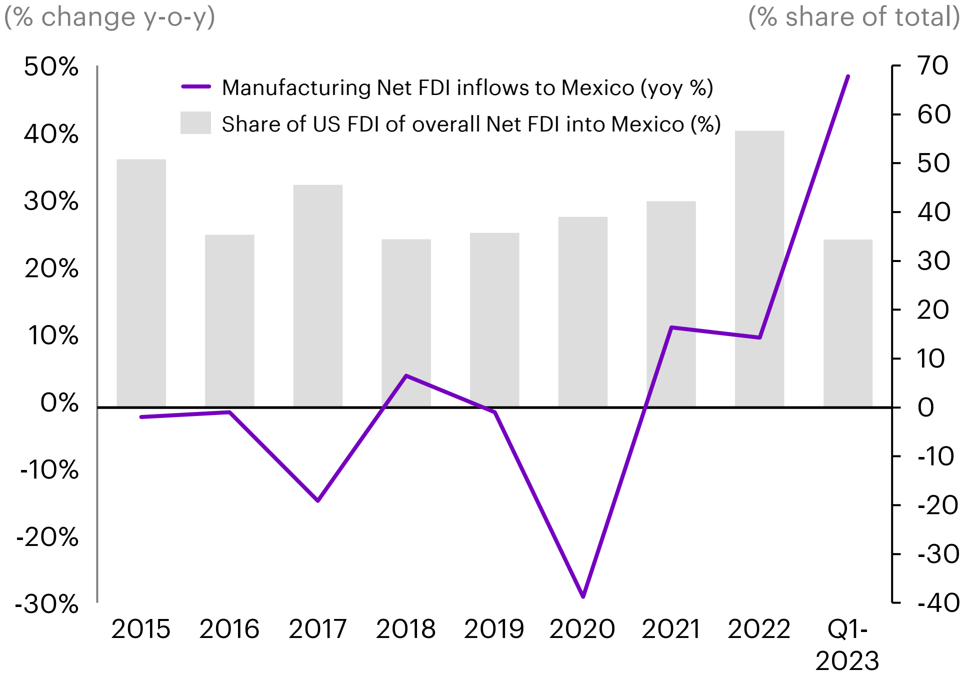
- Australia is the world's biggest lithium supplier and mines 53% of the world's lithium supply, with more than 90% exporting to China
- In 2021, the world's top importers of lithium included China ($583M), South Korea ($326M) and Japan ($164M)
- Australia expects its volume of lithium exports to triple from 2022 to 2023

Note(s): Lithium prices based on unit values of Australian lithium concentrates exports (indexed values)
Source(s): Haver Analytics, Australia Department of Industry, Science, Energy and Resources, FT, Accenture Strategy analysis

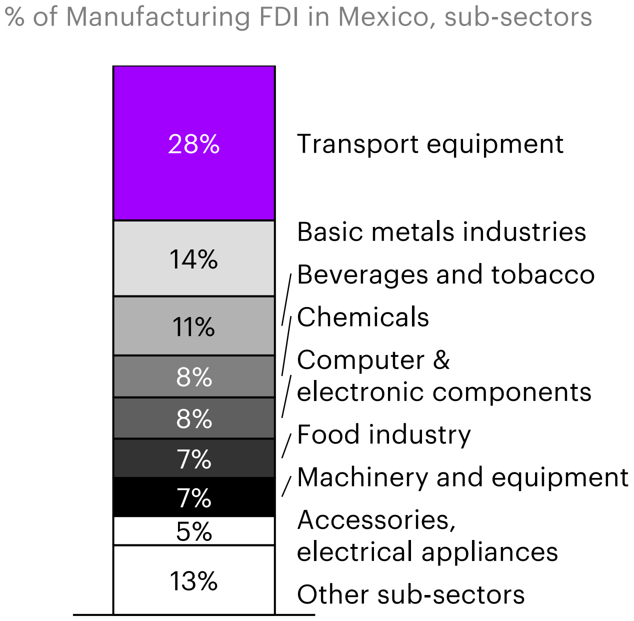
Mexico's manufacturing sector is benefitting from nearshoring initiatives by US companies and other multinationals companies seeking to de-risk their supply chains

Manufacturing relocation to Mexico

Net FDI into Mexico manufacturing sector



Breakdown of FDI in manufacturing[1]



Implications for corporates

- Multinationals who are actively seeking to relocate their operations will need to
  - Reconfigure suppliers, distribution and transportation networks
  - Reimagine end-to-end procurement and create a resilient supply base
  - Understand location differences and see how each aligns with operations
  - Identify strategic partnerships
  - Build agile, digital supply chain networks, resilient to challenging times and unforeseen shocks

Commentary

- Amidst rising geopolitical tensions, multinational companies are under pressure to de-risk supply chains and seek alternative production bases
- Mexico—with proximity to strategic U.S. supply chain routes (i.e. auto), low FX exchange risk for income repatriation, and a relatively low labor cost—has been attracting increased interest as a nearshore alternative to traditional low-cost manufacturing centers in Asia
  - Manufacturing FDI into Mexico in Q1'23 (USD 9.9bn) grew by roughly 50% compared to Q1'22
  - A larger share of this recent inward FDI is coming from non-US markets

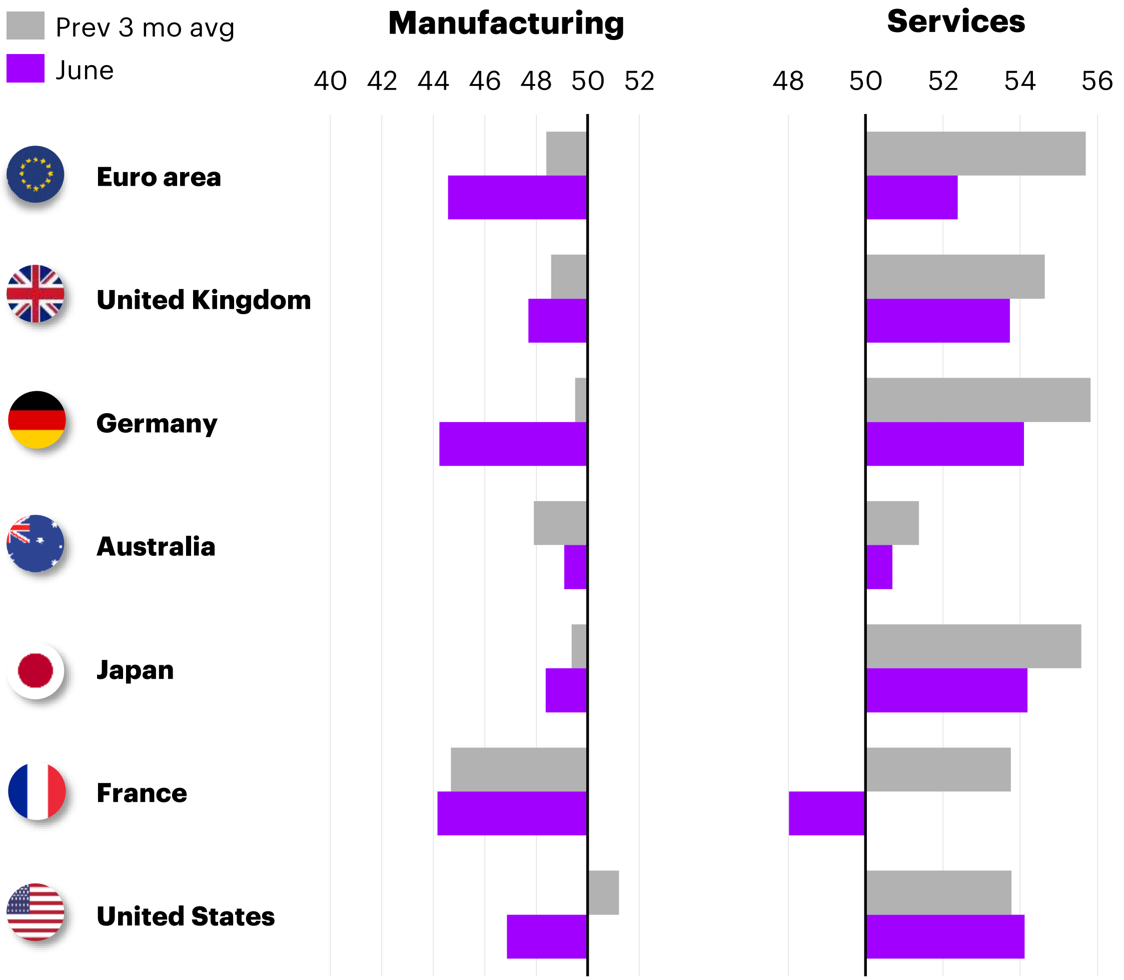
Note(s): (1) average share across 15 quarters since Q1 '2020 until the latest available figures or Q1 '2023
Source(s): Haver Analytics, Institute for Supply Management, Accenture Strategy analysis

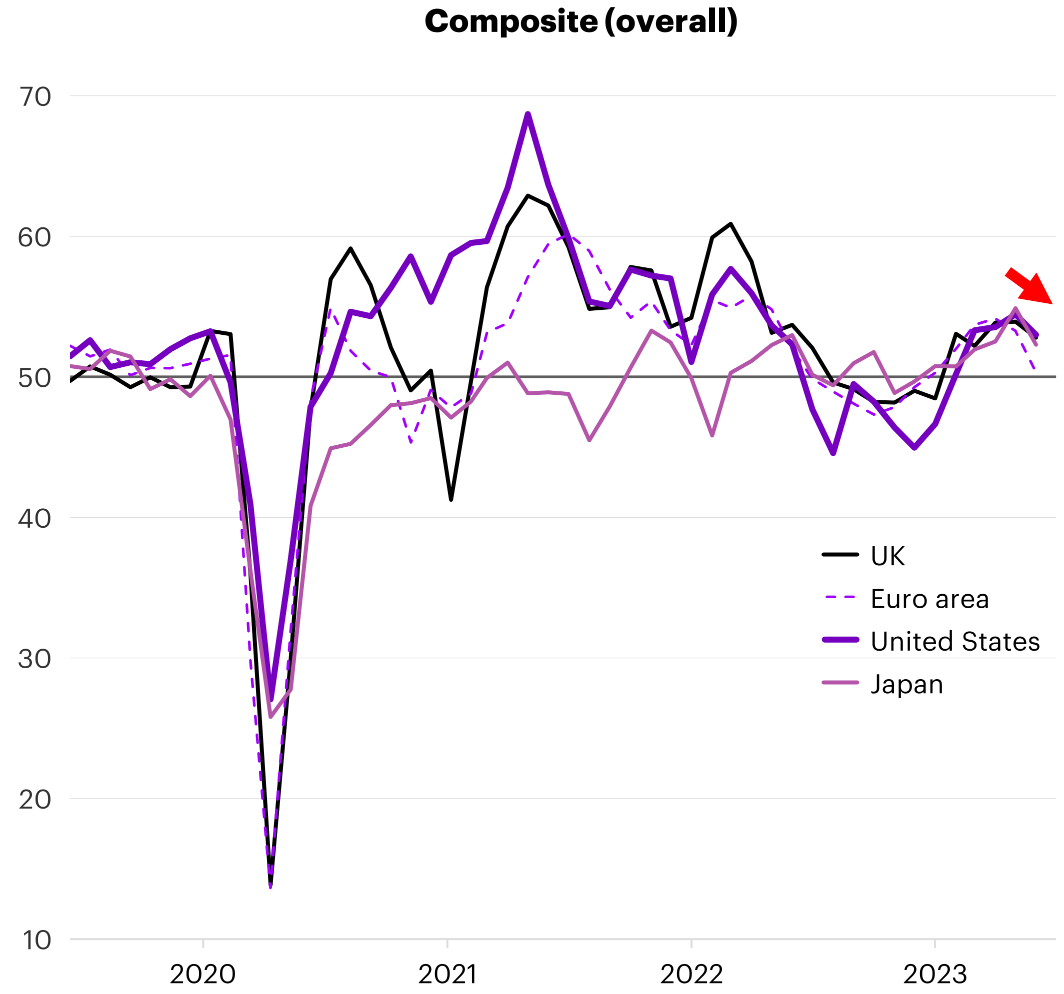
3 Economic indicator chart pack

Regional and industry activity

Further deterioration in manufacturing and some softening of services momentum drove an overall deceleration of business activity in June

June Flash PMI country snapshot



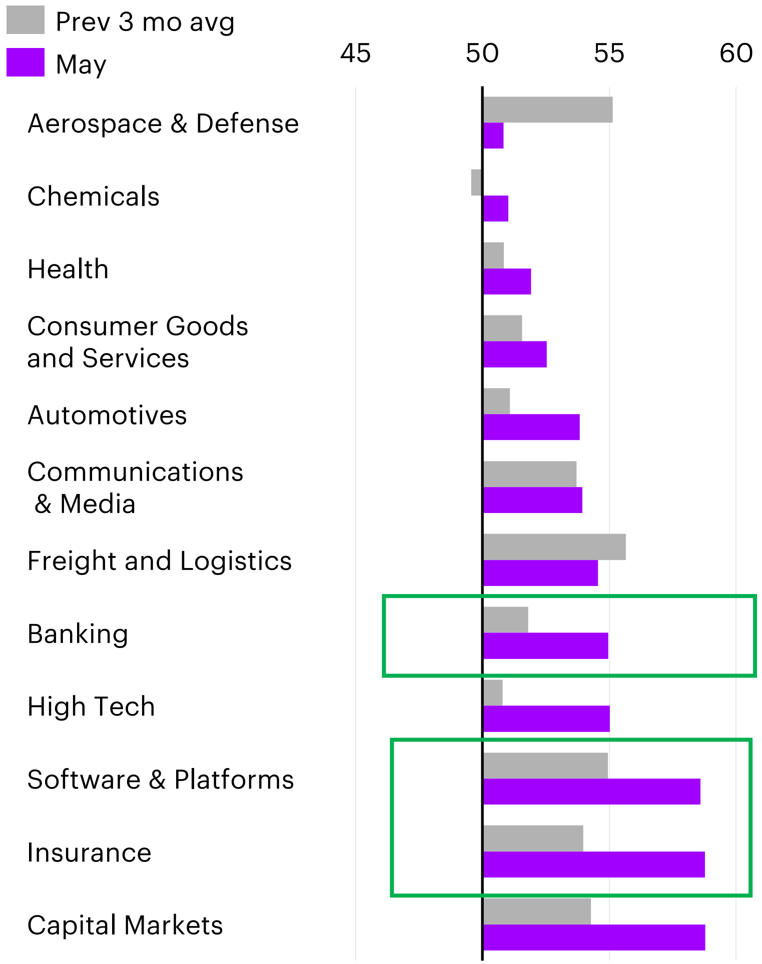


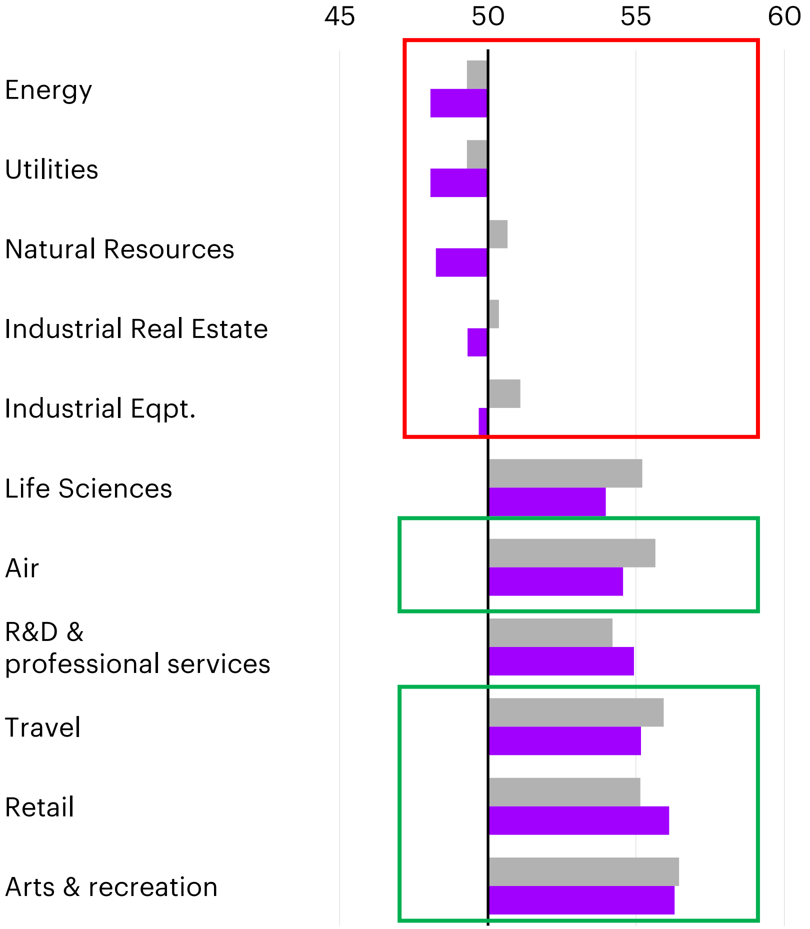
Note(s): A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month
Source(s): S&P Global, Accenture Strategy analysis

Detailed industry-level data (through May) showed recent growth momentum has been technology and services-led, while energy and industrial sectors struggled

Global Industry PMI snapshot

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





Commentary

- Key consumer-facing industries—air, travel, retail and entertainment—all registered expansion in May
- Software & platforms output grew at the fastest pace in 5 years with strong new order growth
- In the financials sector, banking and insurance posted strong growth as new orders rose sharply.
- Industrial real estate contracted as pressure on the sector from high interest rates builds
- Energy and Utilities have been in contraction since Mar'22 with only one reprieve in Apr'23
- Industrial equipment output has deteriorated due to decrease in new orders

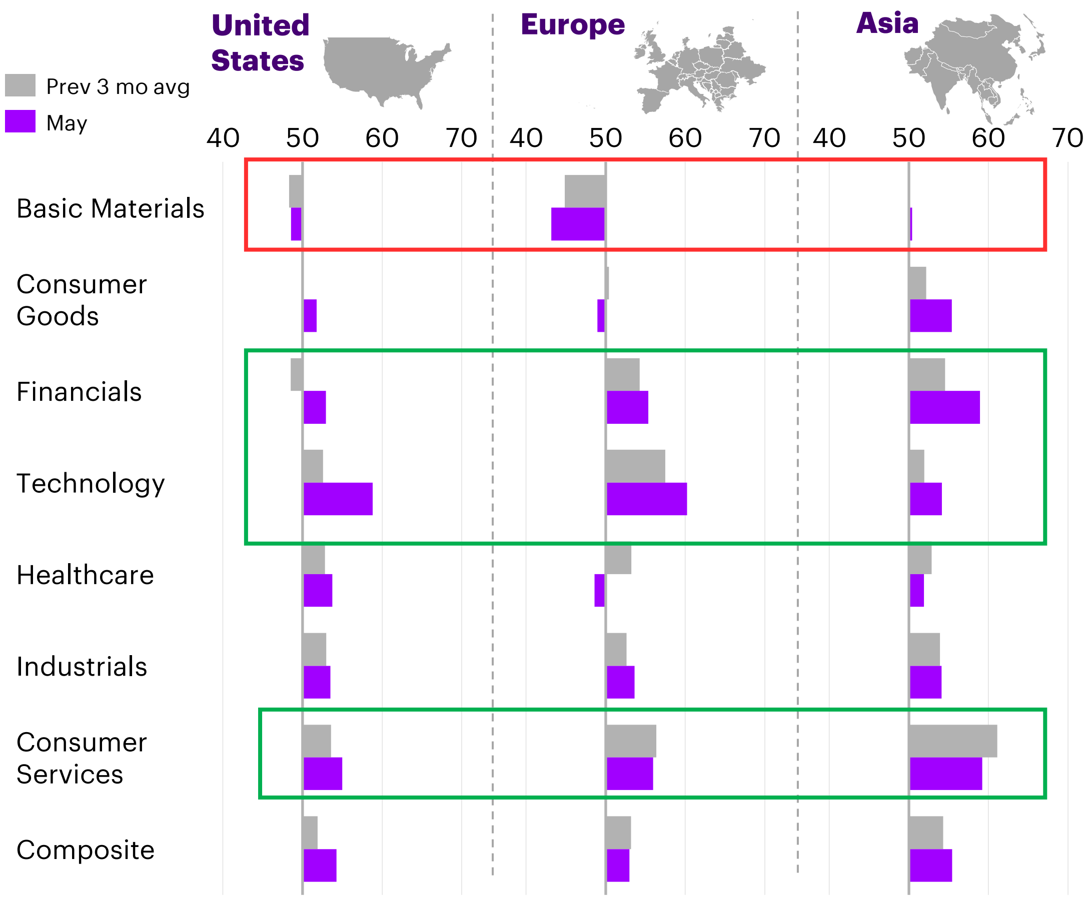
Note(s): A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month
Source(s): S&P Global, Accenture Strategy analysis

Basic materials continue to struggle across geographies, while technology and consumer services are holding strong

Regional PMI overviews

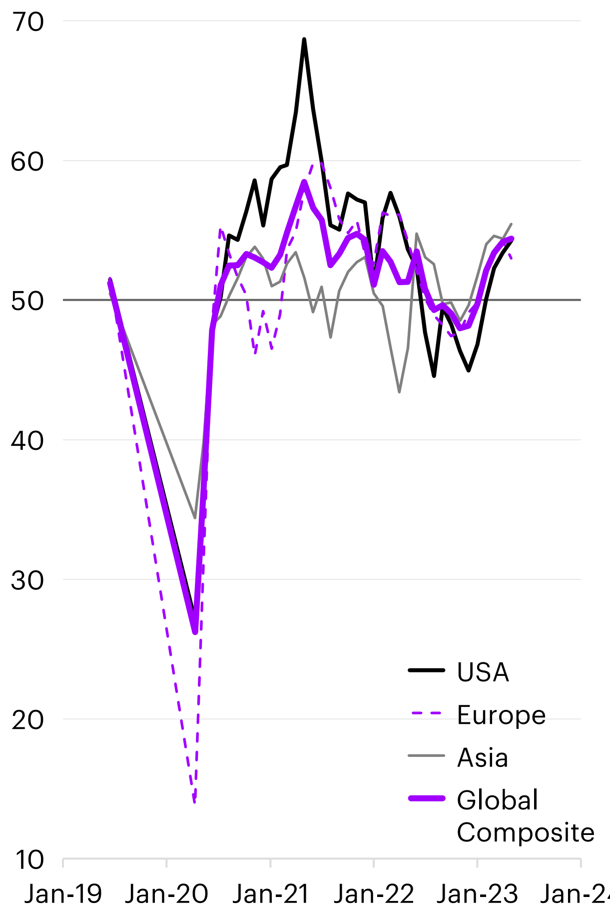
Regional industry performance

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



Regional performance

Composite PMI Output / Activity



Commentary

- Basic Materials continues to struggle with lower backlogs and lower output prices
- Despite recent stresses in the US banking system, financial sector remains resilient for now, with positive growth in May
- Consumer services remain a key growth driver based on strong new orders and expansion of output prices
- Technology is a strong driver of growth across all three geographies

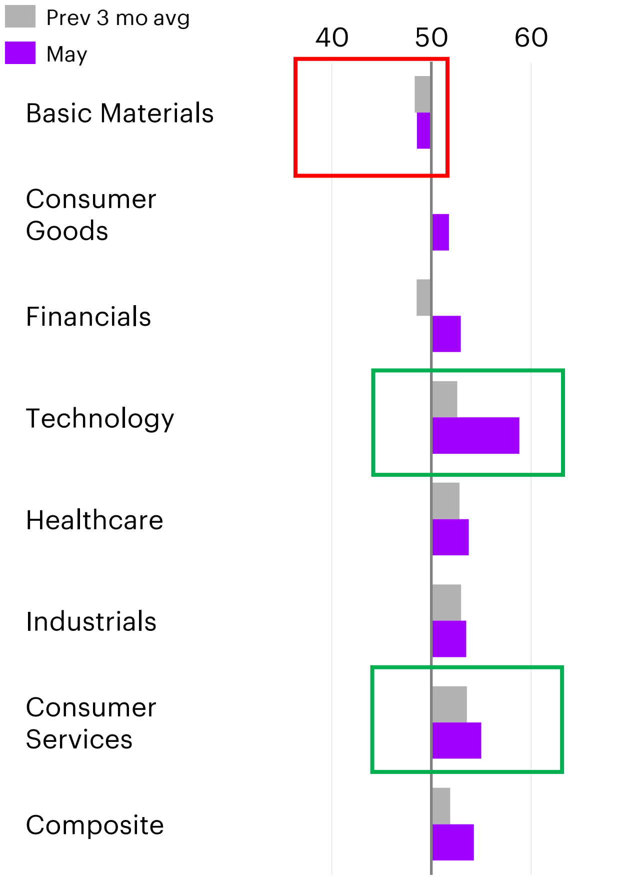
Note(s): Industry names are aligned with Tier 2 IHS industry classification: Basic Materials (Chemicals, Resources); Consumer Goods (Auto, Beverages & Food, Household & Personal Products); Consumer Services (Media, Tourism & Recreation); Financial Services (Banks, Insurance, Real Estate); Health (Healthcare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

In the US, technology activity has seen a resurgence and consumer services continue to benefit from pent-up post-pandemic demand

Regional performance: United States

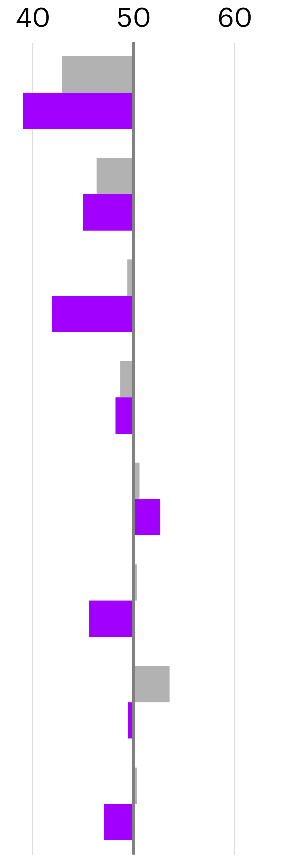
Industry Performance

Output/Activity PMI



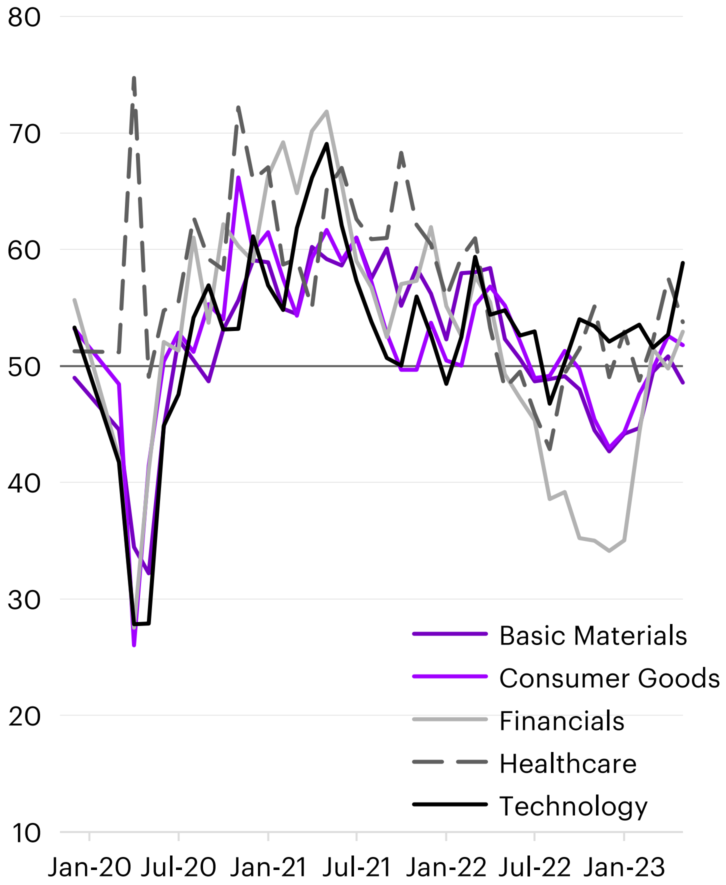
Backlogs of Work

Backlogs of Work



Industry Performance

PMI Output / Activity, selected industries



Commentary

- Basic materials registered an output decline after rebounding in Apr'23
- Technology has grown at the fastest pace since Apr'22
- Consumer services continue to maintain a healthy growth pace on the back of post-pandemic demand tailwind

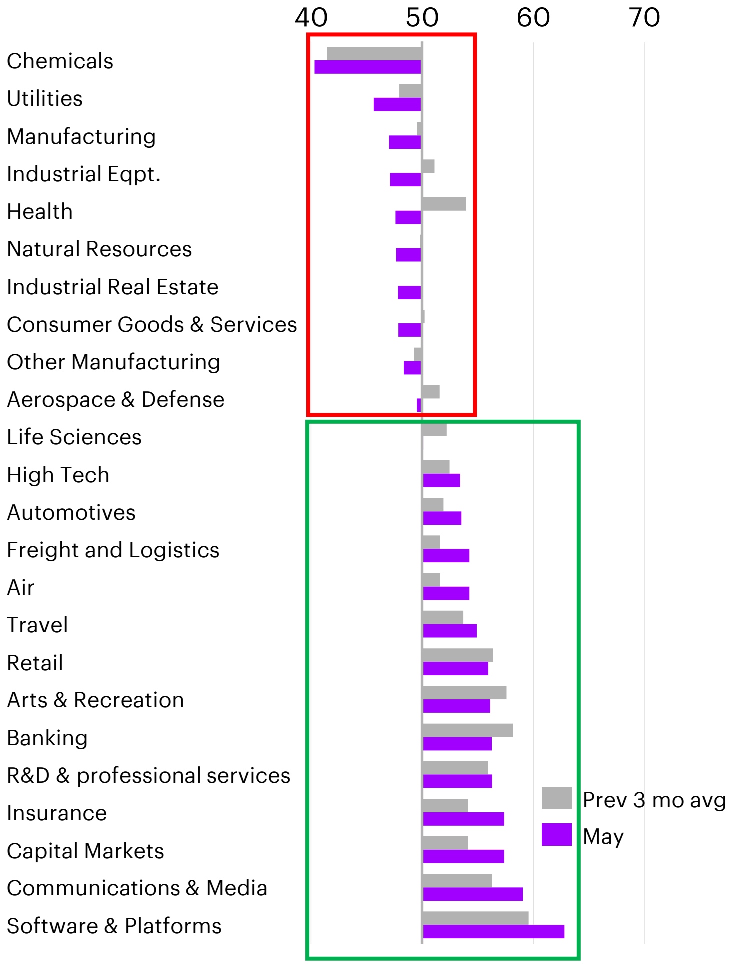
Note(s): Industry names are aligned with Tier 2 IHS industry classification: Basic Materials (Chemicals, Resources); Consumer Goods (Auto, Beverages & Food, Household & Personal Products); Consumer Services (Media, Tourism & Recreation); Financial Services (Banks, Insurance, Real Estate); Health (Healthcare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

Many capital-intensive European industries went into contraction in May; however, consumer-facing services, software & platforms, and banking continue to perform well

Regional performance: Europe

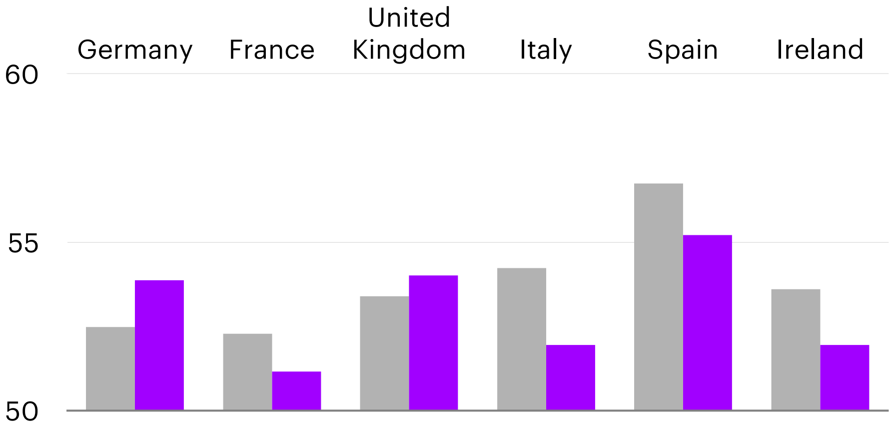
Industry Performance

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



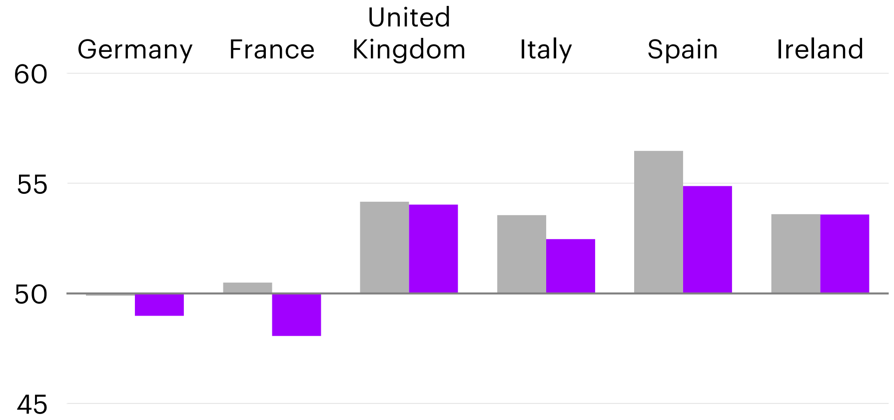
Country Performance

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



New Orders Index

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



Commentary

- 10 industries went into contraction in May'23 as compared to 5 in Apr'23
- Software & platforms continues to show strong output growth, propelled by new orders and job creation
- Consumer-intensive services such as entertainment, retail, and travel continue to record strong growth
- New orders dropped in Germany and France while growth slowed for other major economies in May (relative to recent 3-month average)

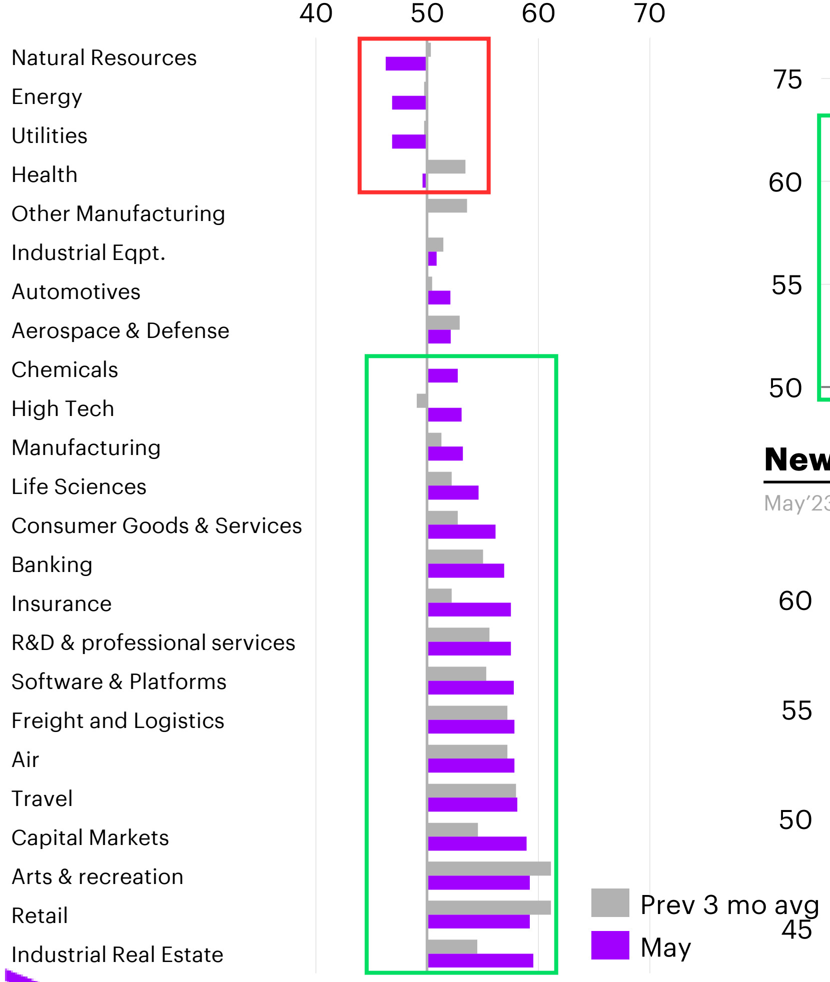
Source(s): S&P Global, Accenture Strategy analysis

Consumer-focused sectors led growth in Asia-Pacific, with India showing the strongest growth momentum

Regional performance: Asia-Pacific

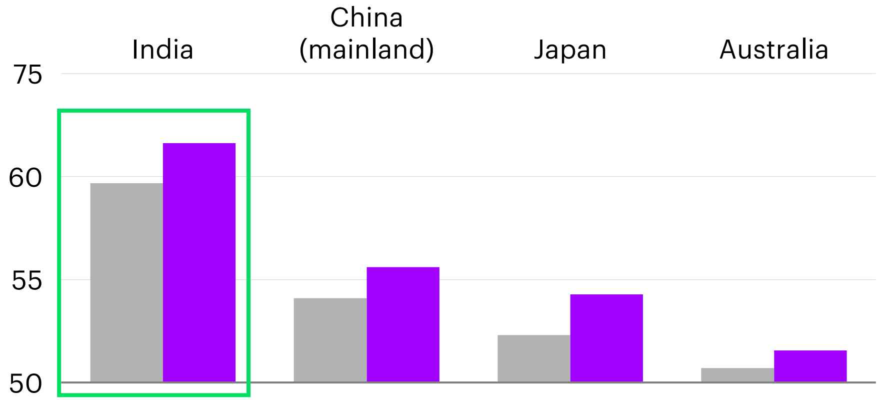
Industry Performance

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



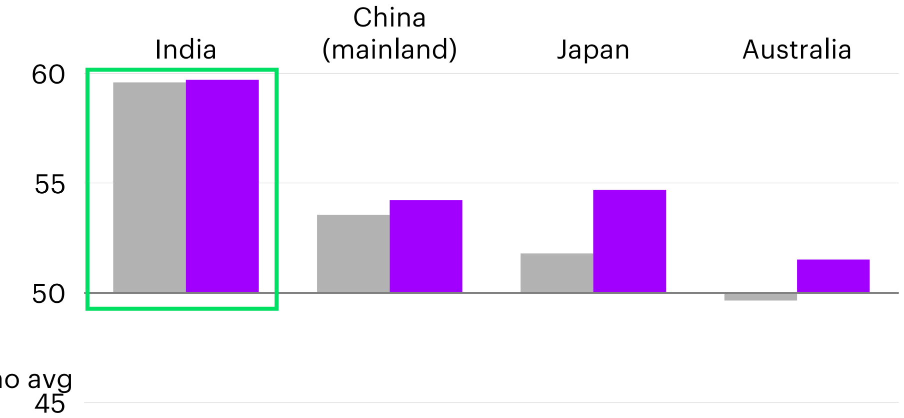
Country Performance

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



New Orders Index

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



Commentary

- India continued its impressive growth in both manufacturing and services, as orders, output and new business all improved
- China's manufacturing growth remained largely stagnant in May'23 while services drove overall output growth
- In Japan, manufacturing output and new orders expanded following renewed optimism, while services growth benefitted from removal of post-pandemic restrictions
- New orders and output for Australia expanded on the back of the services sector

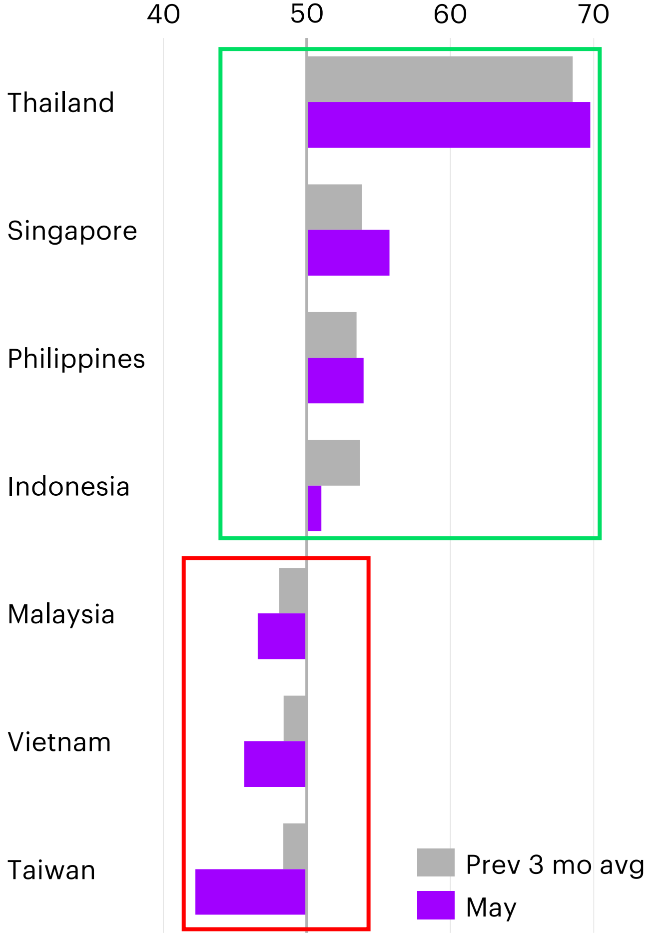
Source(s): S&P Global, Accenture Strategy analysis

Singapore saw a steep rise in new orders in May, while Taiwan continues to experience declining output and new orders

Regional performance: Southeast Asia

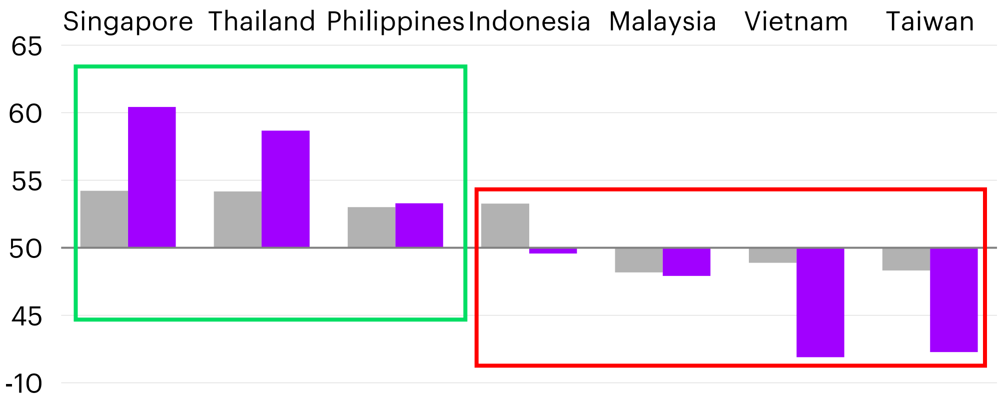
Manufacturing Performance

May'23 vs Previous 3 Month Average, Manufacturing Output



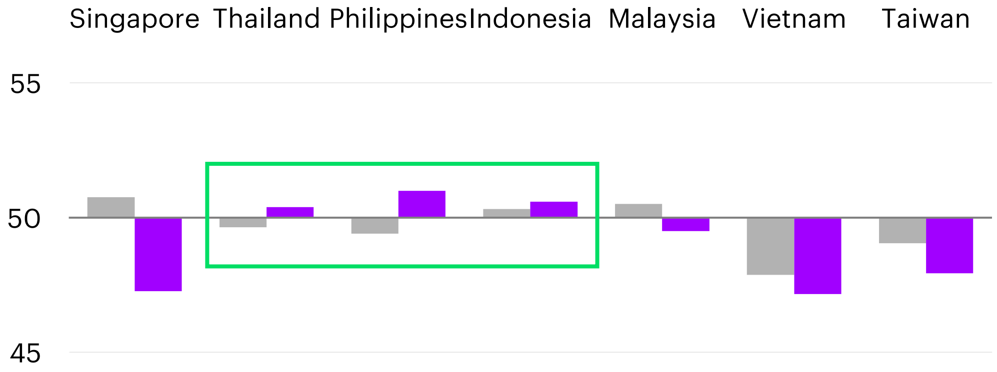
Manufacturing New Orders

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



Manufacturing Employment

May'23 vs Previous 3 Month Average, Employment PMI



Commentary

- Thailand continues to build on strong manufacturing momentum, with record output growth in April
- Singaporean firms also saw steep increases in output and new orders
- Output and new order growth in the Philippines picked up in May, while employment rose for the first time after Feb'23
- Vietnam's manufacturing sector contracted in May 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

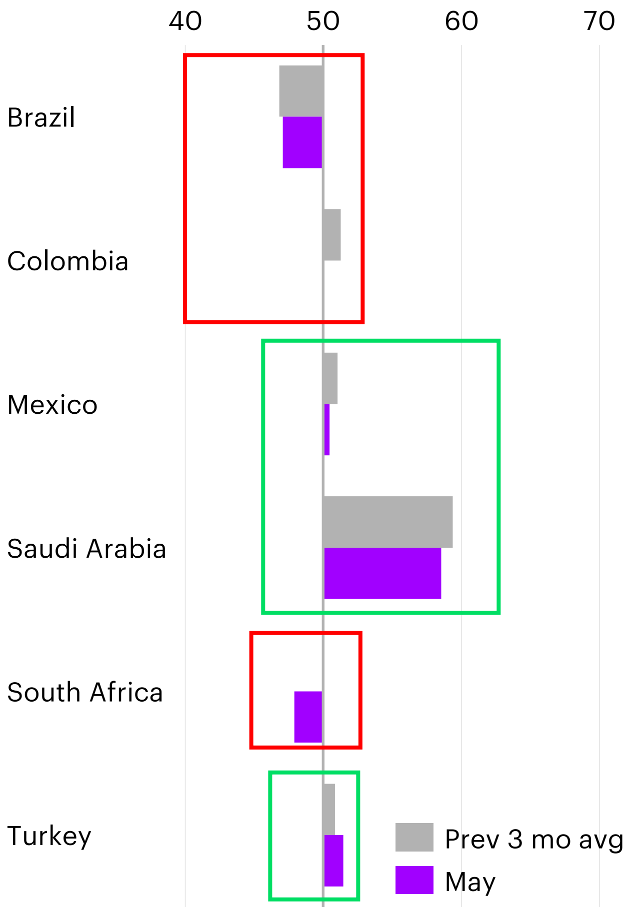
Note(s): Performance for Singapore covers the whole economy
Source(s): S&P Global, Accenture Strategy analysis

Saudi Arabia's growth continues to flourish while Brazil continued to lose momentum

Regional performance: Other emerging markets

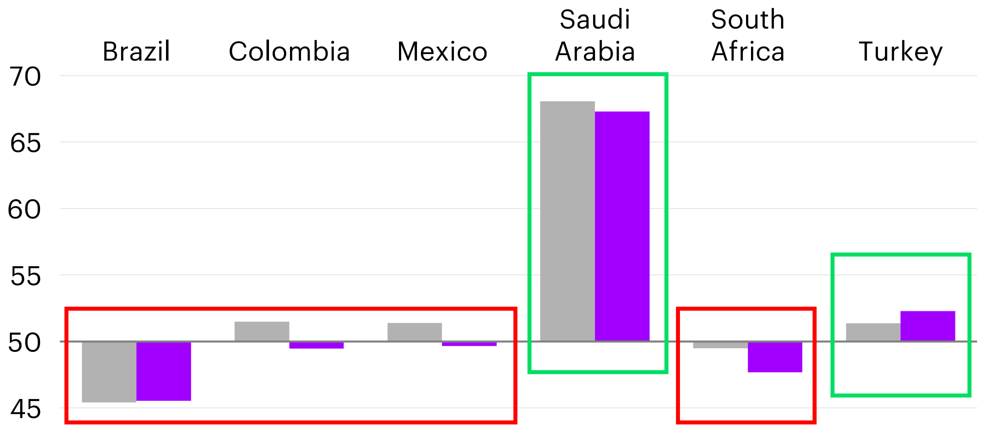
Manufacturing Performance

Mayr'23 vs Previous 3 Month Average, Manufacturing PMI



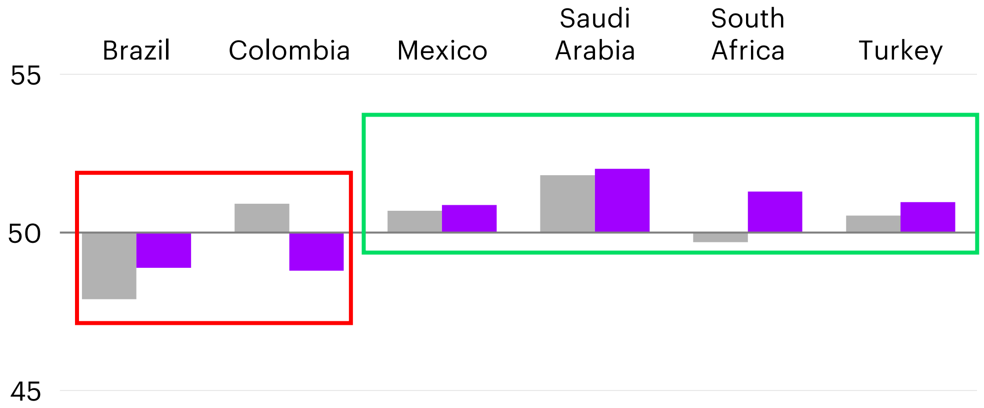
Manufacturing New Orders

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 drag on the manufacturing industry
- Colombia's manufacturing faced a downturn in May, with reduced new orders and employment
- Manufacturing in Mexico slowed from new orders and weak consumer demand
- Saudi Arabia's business activity continues to expand, reflecting strong new orders as exports expanded in May
- Manufacturing output contracted in South Africa as input cost inflation remains a key challenge
- Turkey witnessed an uptick in both output and new orders as consumer demand strengthened post earthquake

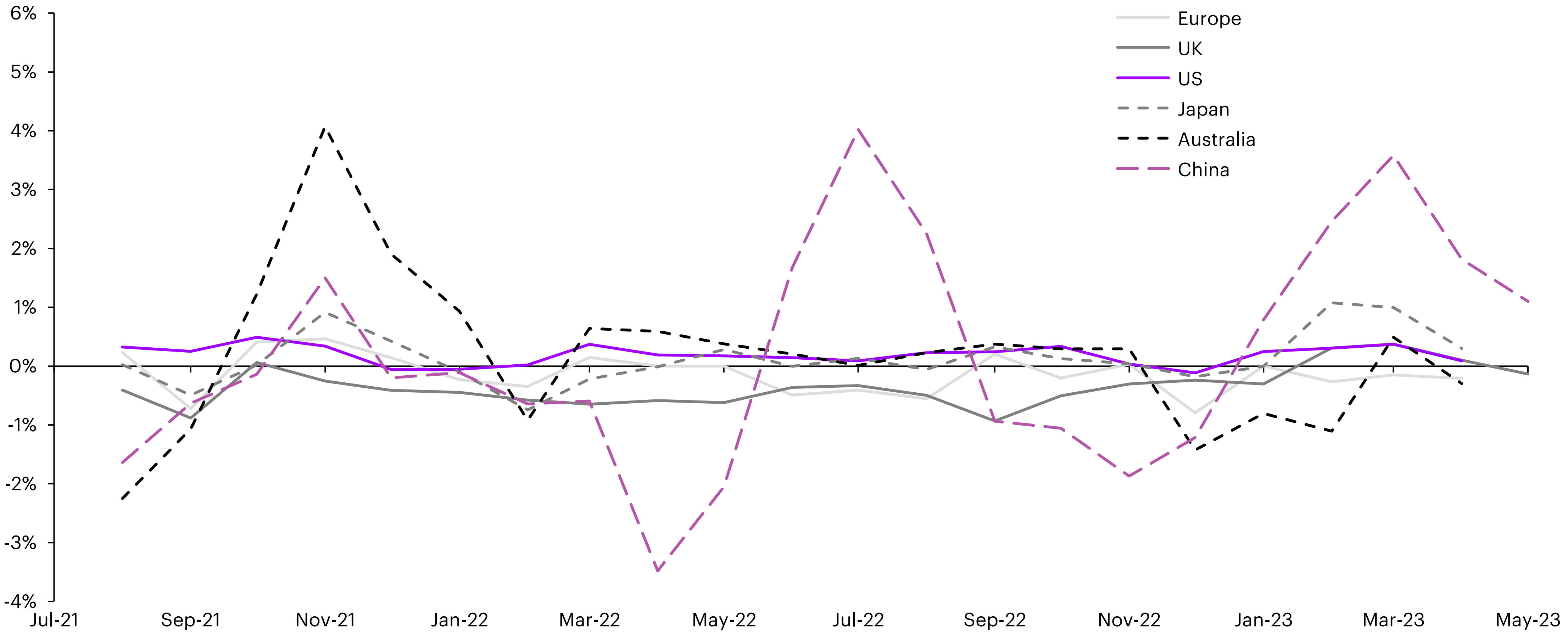
Note(s): South Africa and Saudi Arabia PMI is for the whole economy
Source(s): S&P Global, Accenture Strategy analysis

Consumer spending

Recent consumer spending growth is moderating across most major economies, including in China, where the post-reopening rebound has lost momentum

Consumer spending trends

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

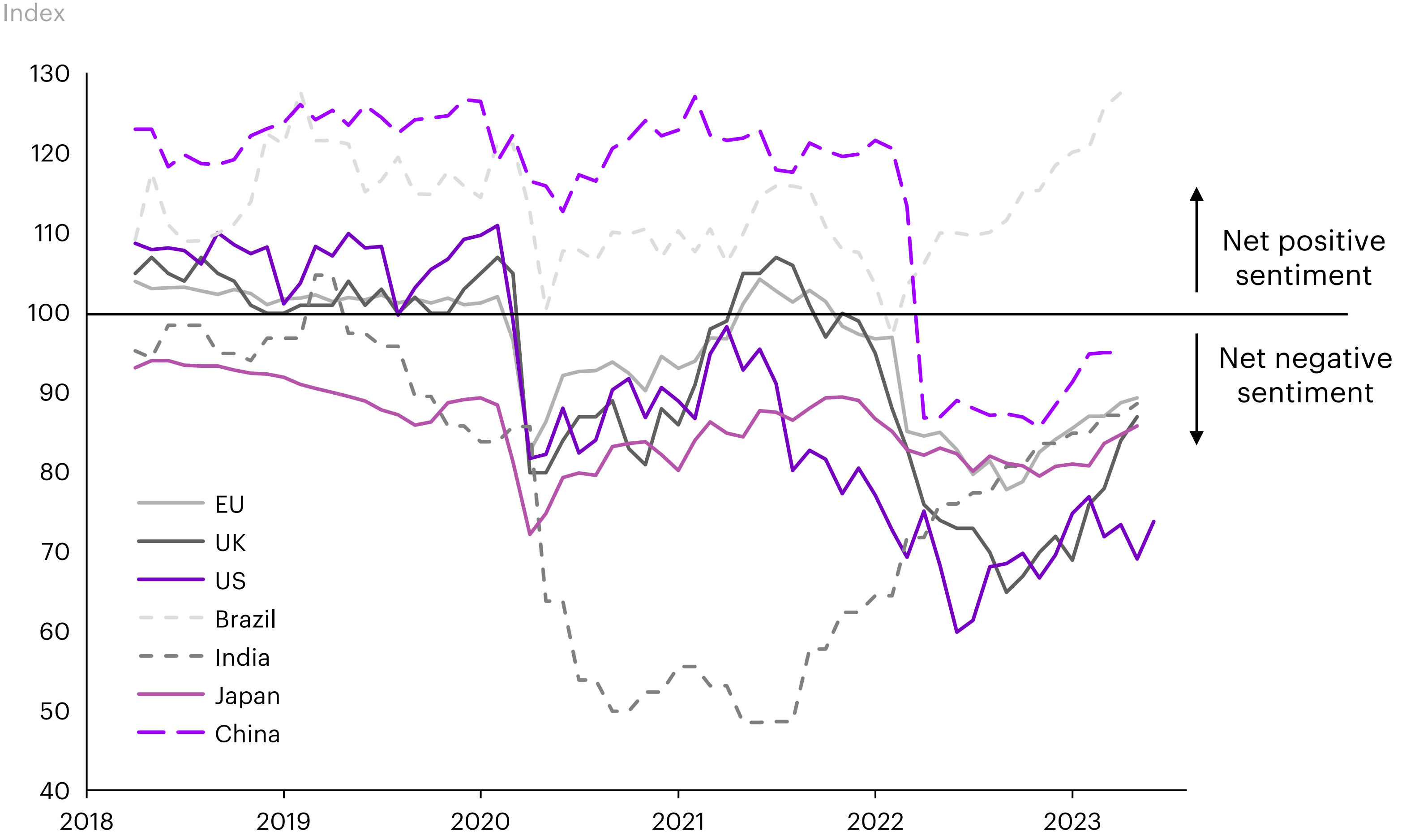


Note(s): Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area, UK, Canada, Japan, Australia, and China series data is retail sales.
Source(s): BEA, BLS, Eurostat, ONS, Haver analytics, Accenture Strategy analysis

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 the past 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 somewhat in June but remains notably lower than at 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

Recent consumer resilience is still primarily in services spending categories, though auto spending has also been buoyant as vehicle supply bottlenecks have improved

Consumer spending trends by goods and services category

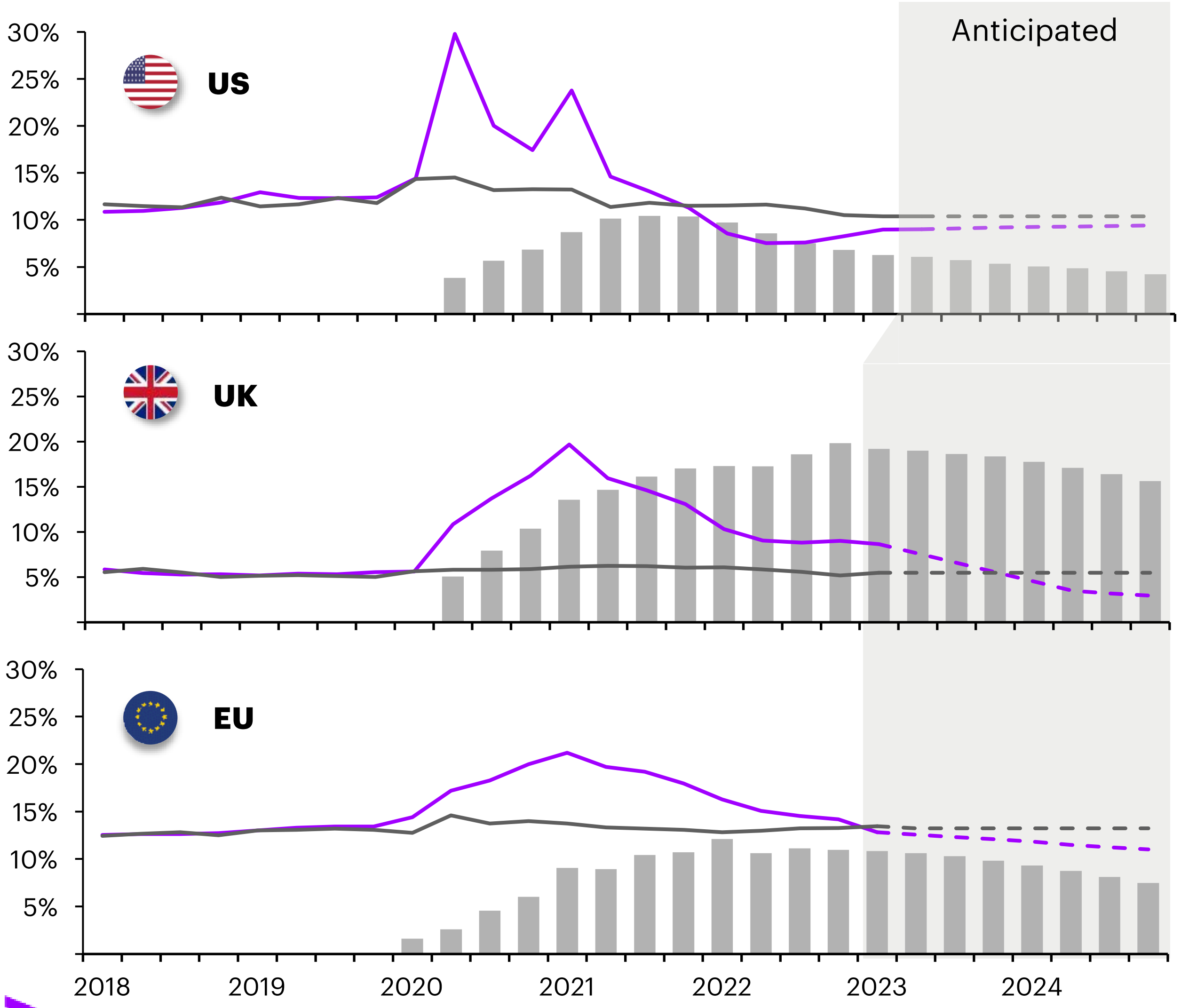
AS OF JUNE 26

		US		UK		Germany		France	
		Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change
Goods	Groceries	-0.4%	0.3%	-1.9%	-0.5%	-2.6%	-0.8%	-2.8%	-0.6%
	Motor vehicles	5.3%	2.2%	7.7%	-3.2%	9.2%	-5.9%	6.6%	0.9%
	Furniture	0.1%	1.3%	-1.2%	0.8%	-3.3%	-0.5%	2.3%	-0.3%
	Electronics	3.6%	1.9%	-5.3%	10.7%	1.8%	-2.1%	0.5%	-0.8%
	Footwear & apparel	-0.3%	-0.2%	2.5%	-0.4%	0.0%	-5.0%	1.4%	-2.8%
	Fuel	0.5%	-0.6%	-1.1%	1.7%	-2.7%	-2.3%	0.3%	9.2%
Services	Transportation	-0.9%	1.3%	-3.1%	0.5%	0.7%	2.7%	1.0%	0.2%
	Entertainment	1.9%	1.3%	-0.8%	0.2%		n/a	4.1%	1.2%
	Dining out and hotels	1.3%	0.1%	-0.5%	1.8%	14.1%	-1.1%	-0.5%	-1.8%
	Information services	1.0%	0.2%	2.5%	1.4%	3.0%	2.7%	3.6%	1.1%
	Telecom	0.1%	0.2%	9.8%	0.6%	-0.6%	2.0%	2.2%	-0.7%

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

The US consumer has been resilient to date, but caution is warranted amid rising household savings rates and drawdown of accumulated excess savings

Household savings dynamics



Commentary

- When economies closed at the beginning of the pandemic savings rate climbed to all time highs. As the pandemic progressed, consumers continued to amass savings
- These excess savings (the difference between the observed savings rate and that which would have been predicted by prevailing economic conditions) peaked in early 2022 but have been diminishing gradually ever since
- US consumers are likely to to wind down those savings until overall savings return to normal levels
- European consumers have been slower to spend against those accumulated savings, but are likely to start winding down those savings levels into 2023 and 2024

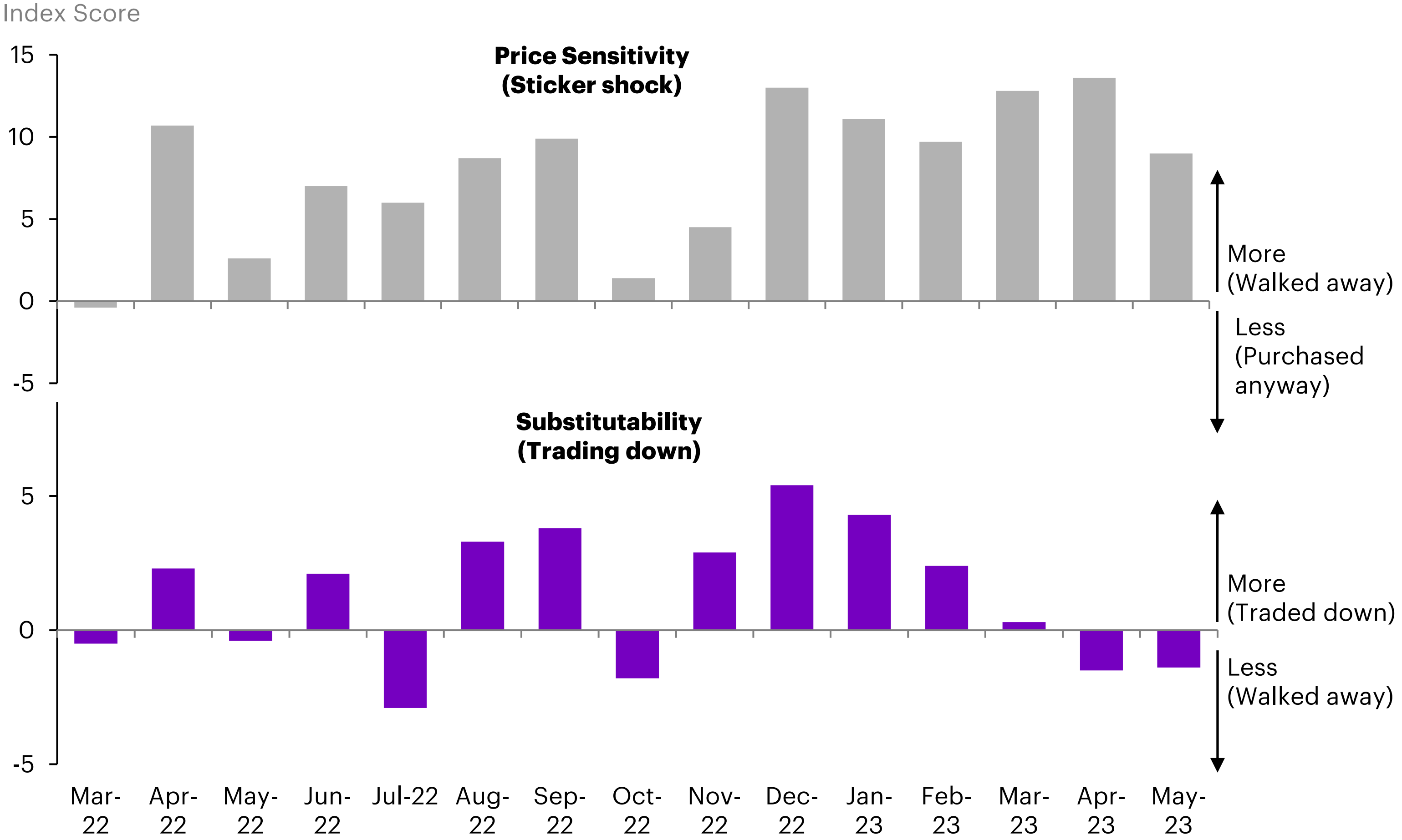
Actual savings rate
Model-predicted trend savings rate
Cumulative excess savings (% of annual disposable income)

Source(s): Bureau of Economic Analysis, European Central Bank, ONS

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

US consumer behavior in the face of inflationary pressures

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



Commentary

- Reported price sensitivity inched down slightly in May from April's peak
  - Most of the price sensitivity alleviation stemmed from housing
  - The share of consumers who walked away from a higher-than-expected purchase exceeded the share who purchased anyway
  - This reflects elevated price pressures straining consumer's purchasing power
- 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 second consecutive month
  - Negative substitutability could reflect a higher share of either consumers purchasing product anyway or walking away from the purchase all together

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

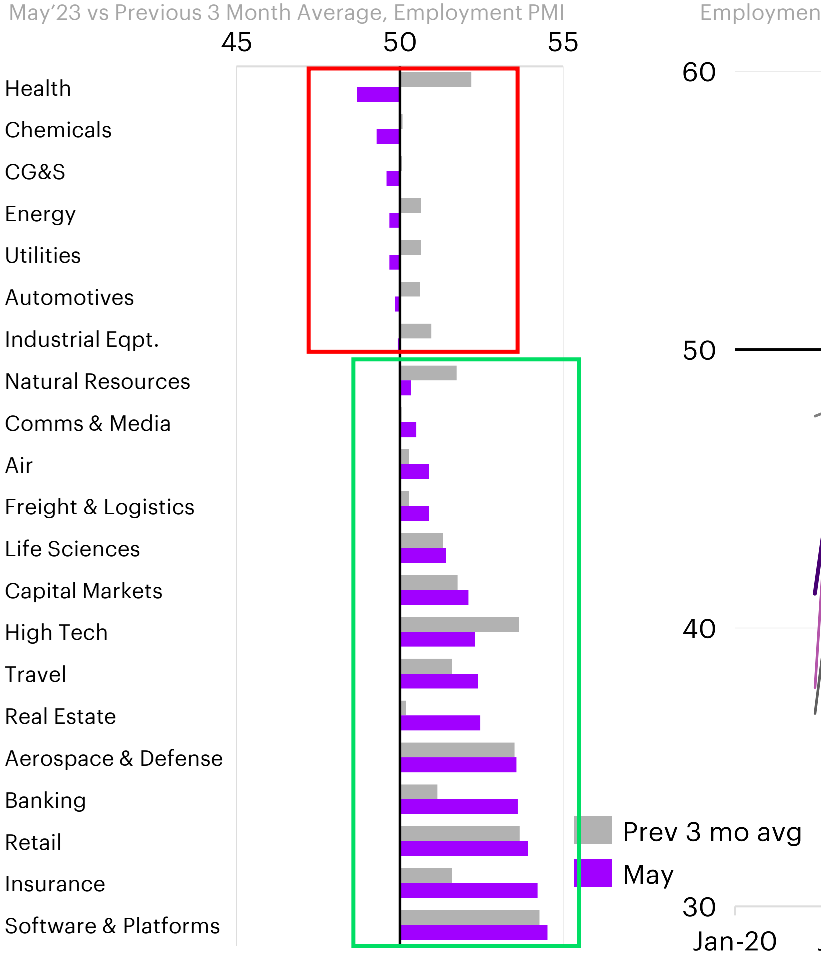
Source(s): Morning Consult Economic Intelligence, Accenture Strategy analysis

Labor markets

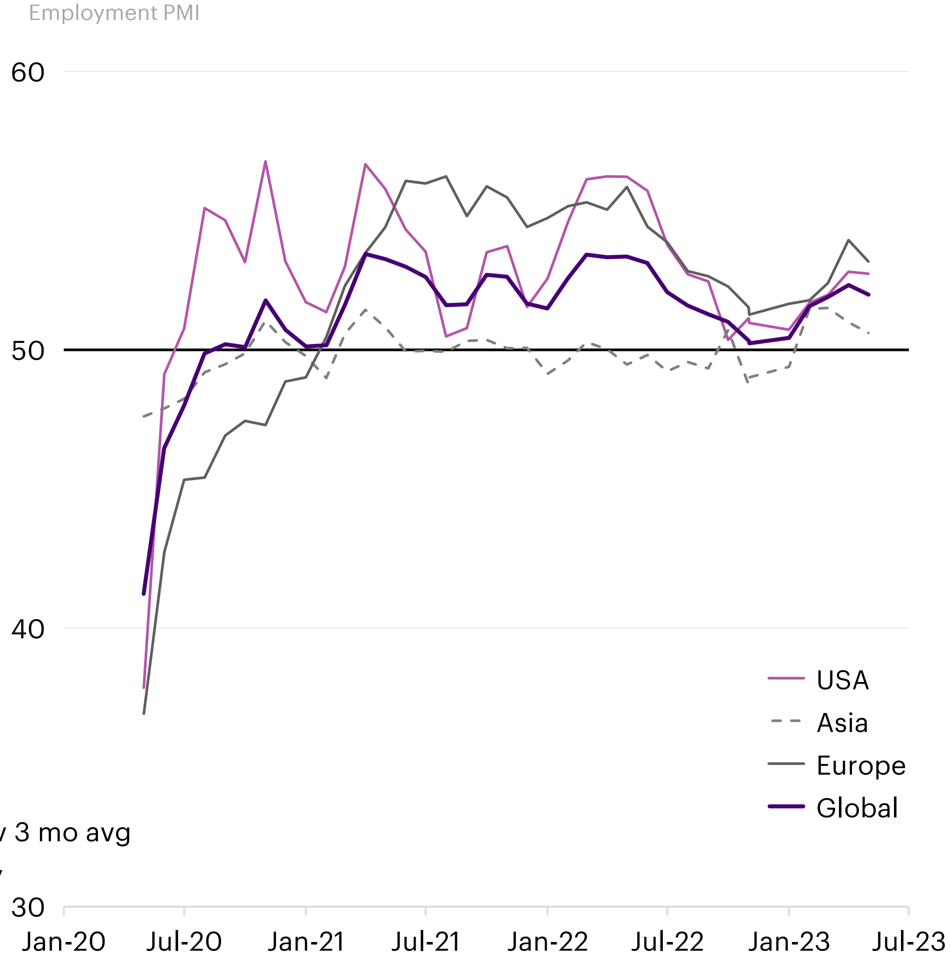
Labor markets may be at a turning point as employment growth in May slowed across all major economies

Labor markets: Global overview

Global PMI Employment Index



Aggregate PMI Employment Index



Commentary

- Employment growth across all major economies remained positive but weakened in May
- The ongoing employment strength in services sectors will be key to watch in H2 2023 as wage pressures in those industries contribute to stickier inflation
- Despite stress in the sector, banking employment has remained robust in May

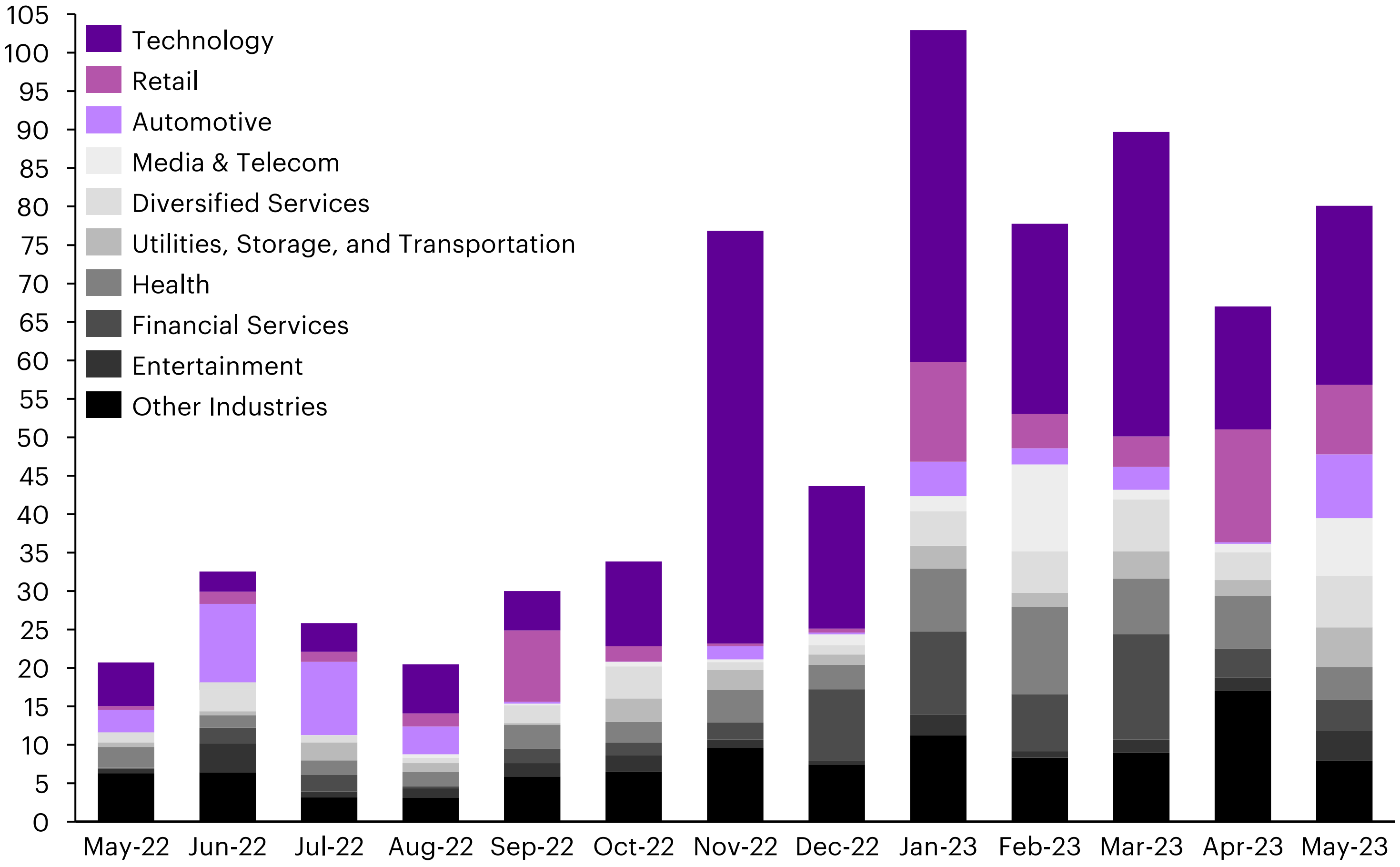
Source(s): S&P Global, BLS, Accenture Strategy analysis

The pace of US layoffs picked up again in May, notably in the technology and automotive sectors

US corporate layoff tracker

Announced layoffs by sector

Thousands (not seasonally adjusted)



Comments

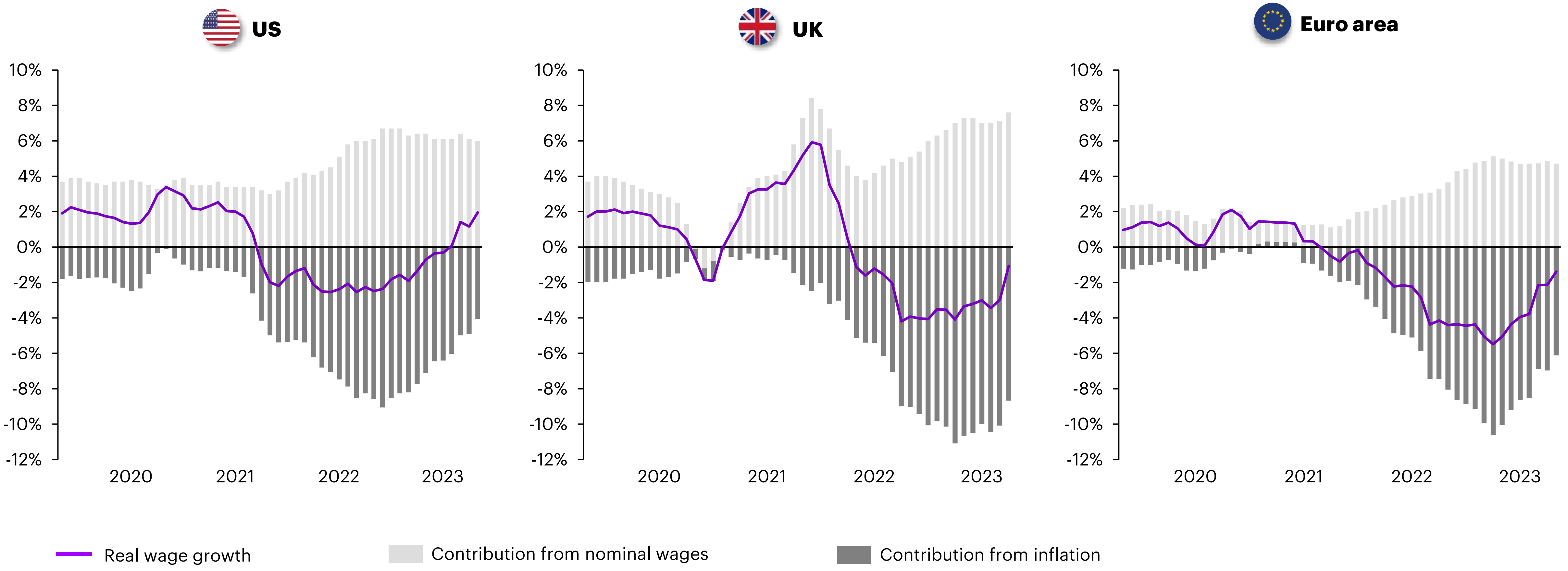
- Tech layoffs rose at an increased pace in May, after tapering in April, due to softening demand and looming economic uncertainty
- Automotive layoffs have risen sharply as manufacturers are cutting jobs in an effort to lower costs
- Financial services layoffs have also tapered off after a surge during recent bank failures

Source(s): Challenger Employment Report, Haver Analytics

Real wage growth has turned 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)

Comments

- Across geographies, hiring difficulties remain most pronounced in the healthcare, professional services, leisure and hospitality industries
- Overall hiring difficulties relative to historical norms are highest in the US, as compared to UK and Europe
  - In the US difficulties worsened in entertainment, health, construction, transportation & storage, and financials

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 globally in May, 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	4.0%	-0.9% ↓
United Kingdom	8.7%	0.0% →
Canada	4.3%	-0.2% ↓
Germany	6.2%	-1.4% ↓
France	6.0%	-0.9% ↓
Italy	8.0%	-0.7% ↓
Spain	2.9%	-0.9% ↓

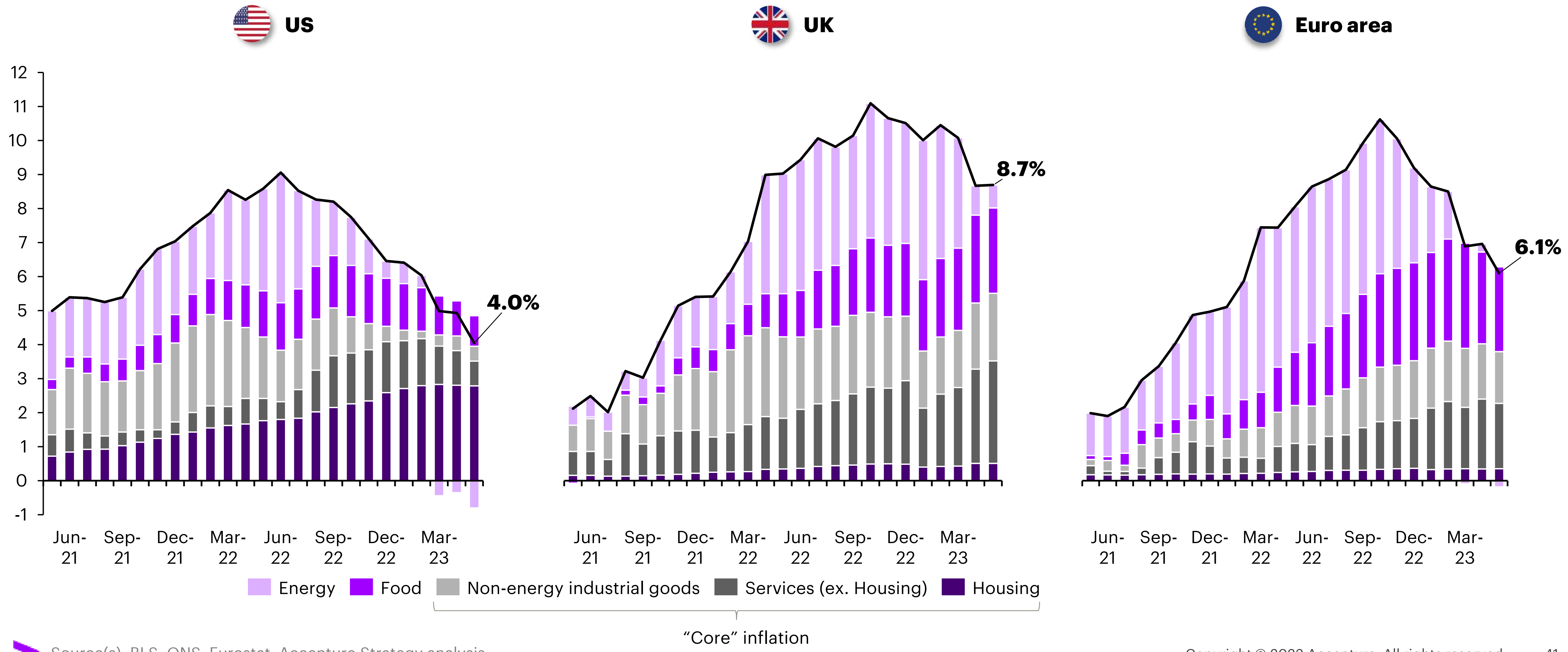
Country	YoY Inflation Rate	Change from previous month's rate (percentage points)
China	0.2%	0.1% ↑
Japan	3.5%	0.3% ↑
Brazil	3.9%	-0.3% ↓
India	4.3%	-0.4% ↓
Singapore	5.7%	0.2% ↑
Korea	3.3%	-0.4% ↓

Source(s): Haver Analytics, Accenture Strategy analysis

In May, lower energy prices continued to be a source of disinflation for the US and Europe; food and core inflation remain elevated and sticky and rose further in the UK

Drivers of recent CPI inflation

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

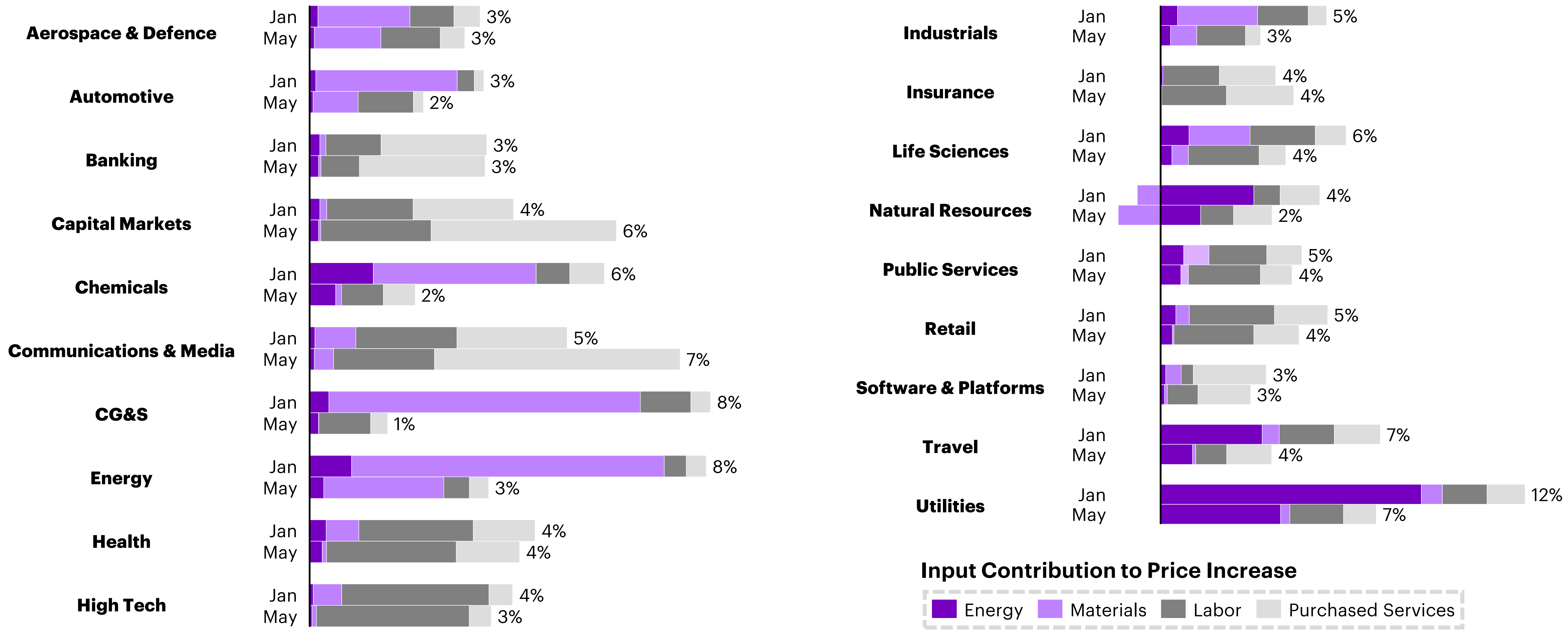


Source(s): BLS, ONS, Eurostat, Accenture Strategy analysis

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

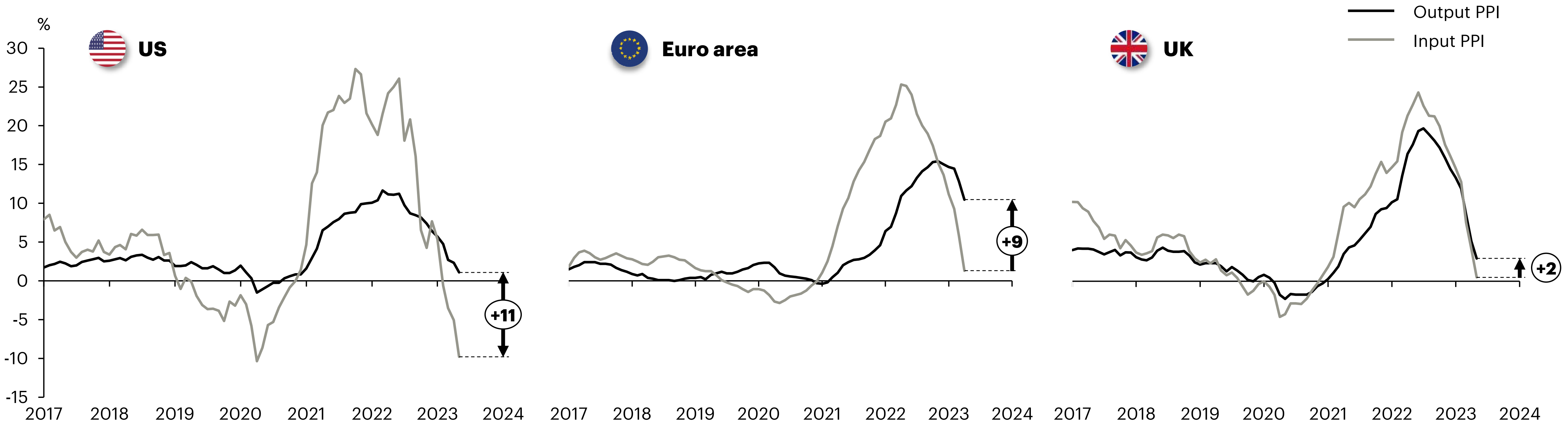


Note(s): Wage data as of April'23, Energy prices as of May'23 and March'23 for Electricity, Materials and Purchased Services PPI price increases as of May'23
Source(s): BLS, BEA, EIA, EPA, Accenture Strategy analysis

US and European companies are increasingly passing on their input costs 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 and Euro area, corporate margins are being restored as intermediate input inflation pressures ease
- UK companies are also now fully passing on their input costs

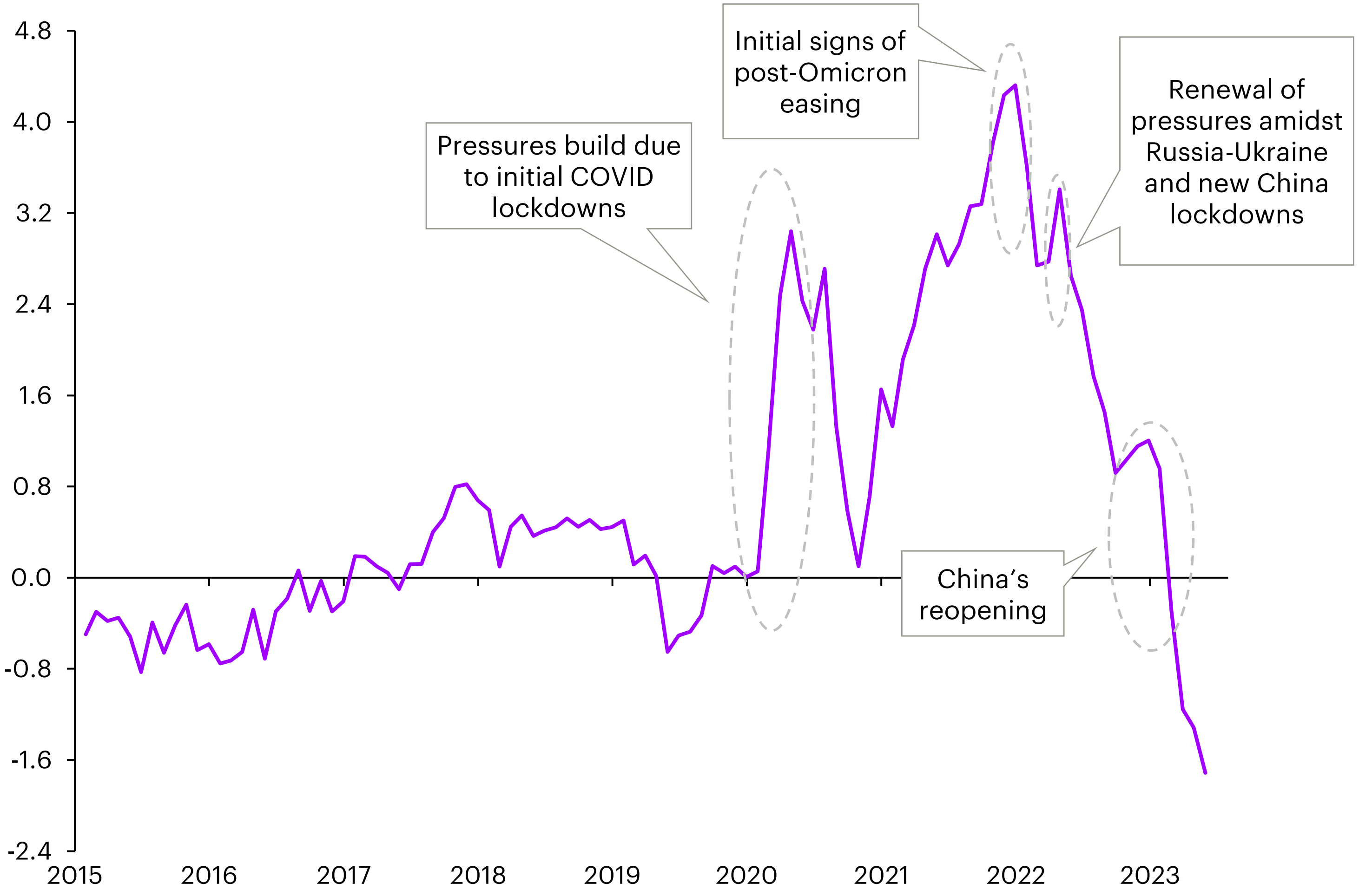
Note(s): 1) Figures in bold represent absolute percentage point difference between intermediate and final demand PPI YoY % values; higher positive values imply greater pass through to final producer selling prices, while larger negative values imply lower pass through. 2) US data is based on production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

- Global supply chain pressures continued to ease in May led by UK backlogs and Taiwan delivery times
- Easing supply chain pressures should have a disinflationary impact on goods prices and help support global trade flows

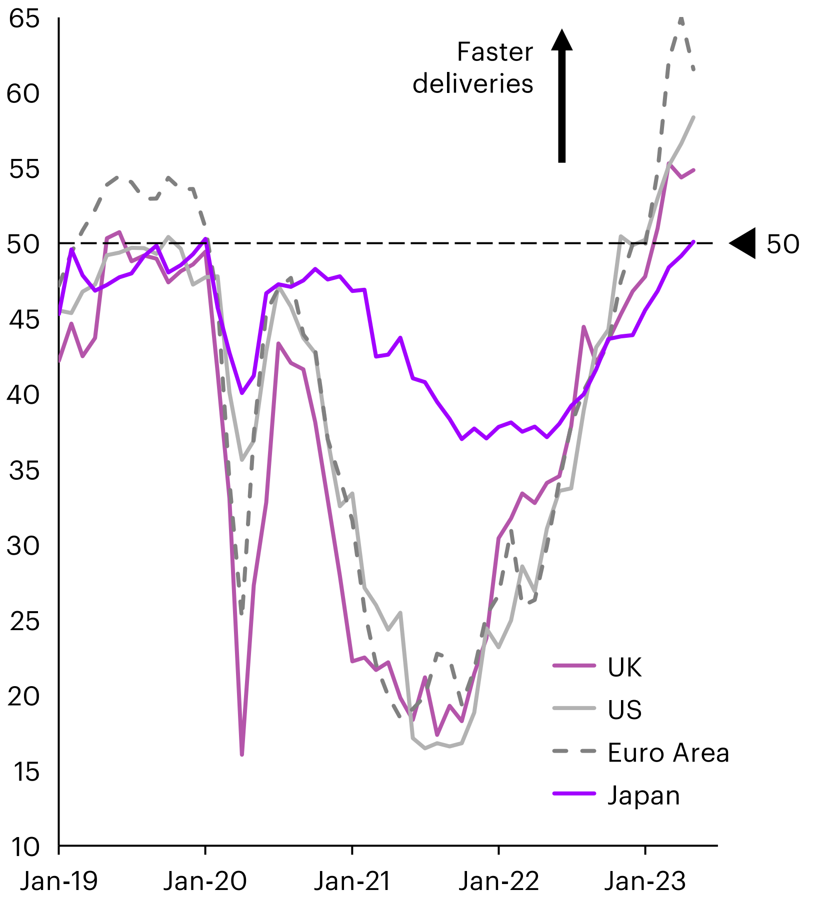
Source(s): Federal Reserve Bank of New York, Global Supply Chain Pressure Index, Accenture Strategy analysis

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

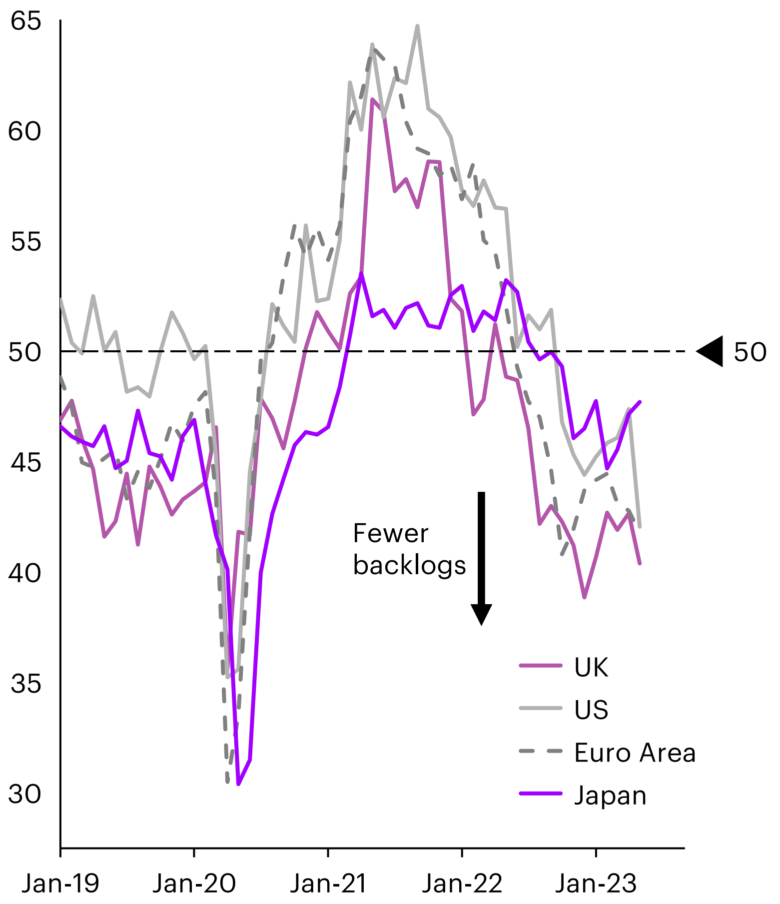
Suppliers’ Delivery Times

Seasonally adjusted, 50+ = Increase



Manufacturing Backlogs of Work

Seasonally adjusted, 50+ = Increase



Commentary

- Supplier delivery times have further improved in May across major economies
- Faster delivery times reflect greater supply availability and fewer bottlenecks, helping manufacturers to clear backlogs
  - A drop in new orders is behind the shorter delivery lead times in Europe
  - US manufacturing backlogs declined at fastest pace in 3 years
  - Average delivery lead times in Japan shortened for first time since Jan ’20, due to better materials availability
  - Manufacturers in Japan had fewer backlogs for the 8th consecutive month, but declining at a slower pace as new orders reached 13-month high

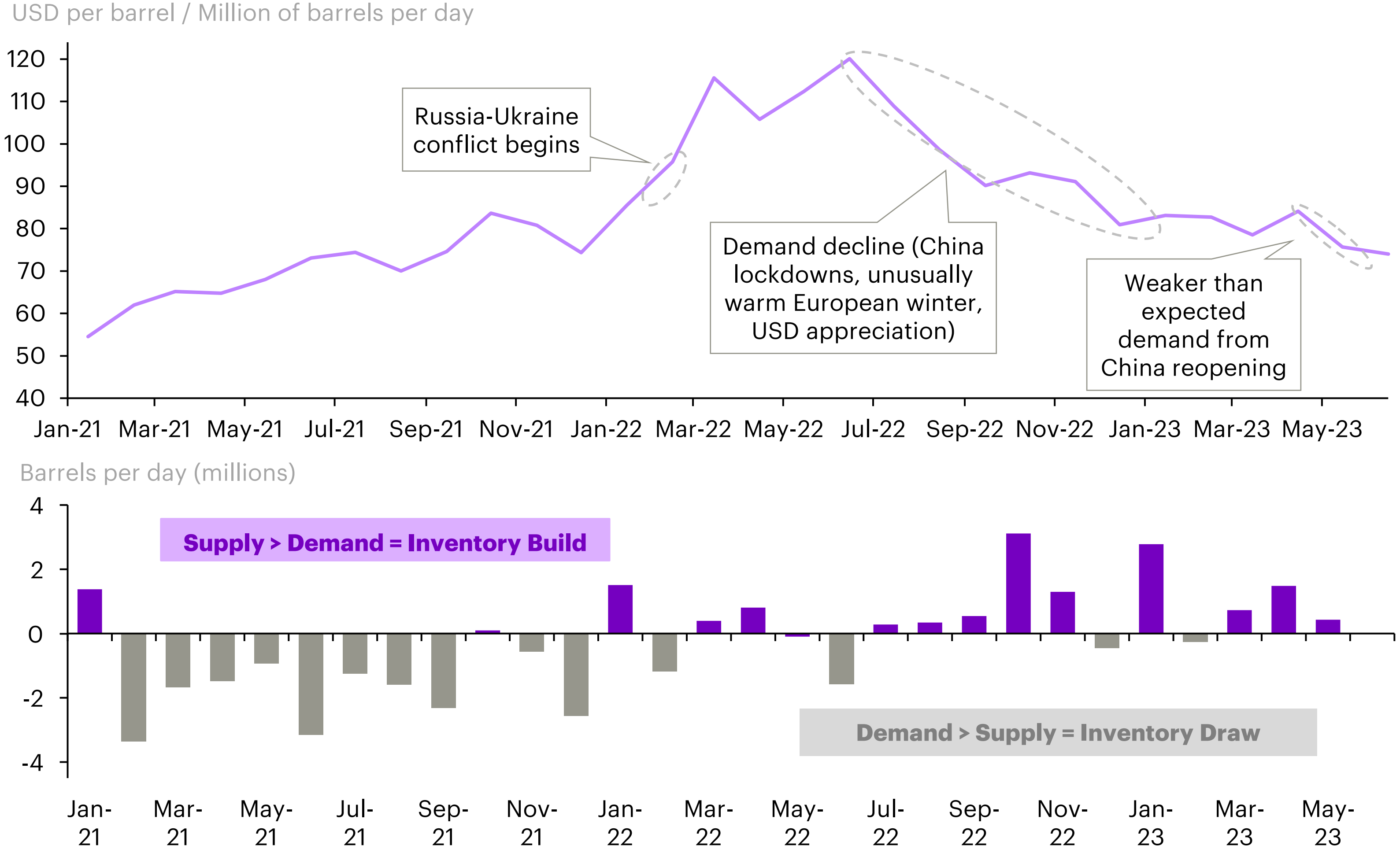
Source(s): CIPS/S&P Global, Haver Analytics, Thomson Reuters, Accenture Strategy analysis

Energy and commodities

Oil prices retreated further in June amid weakening global manufacturing activity and a slower-than-expected economic recovery in China

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

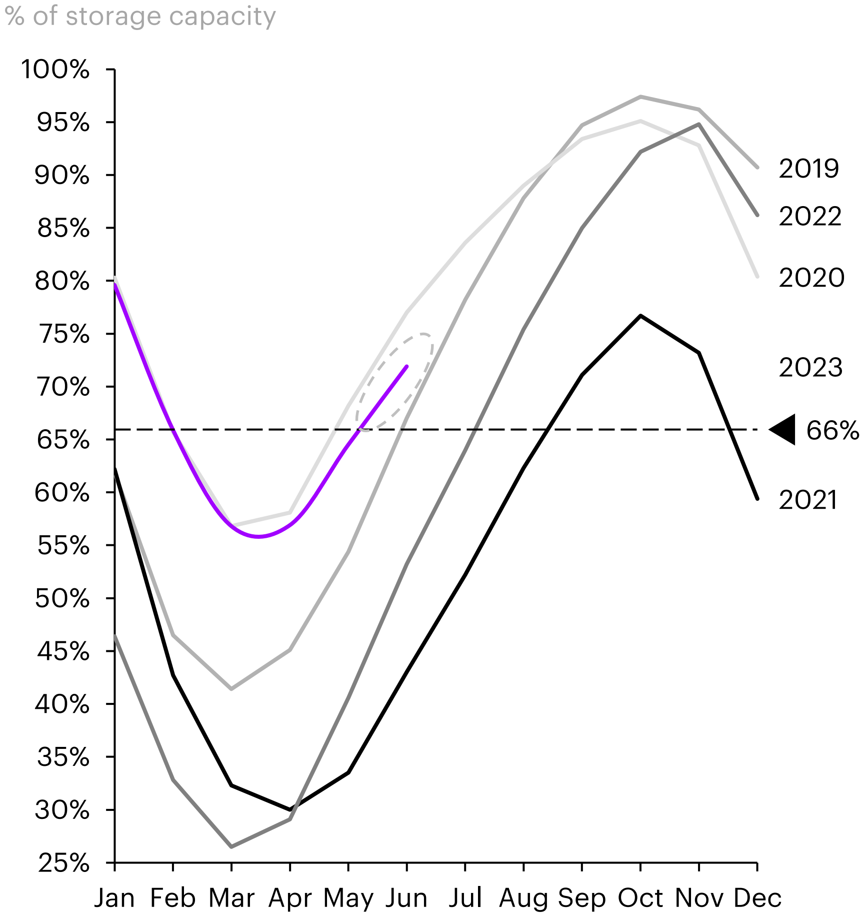
Drivers of energy prices in 2023

- Brent crude oil prices edged lower in June, mainly as demand headwinds intensified
  - Contraction in industrial activity deepened and services growth momentum softened
  - China is likely to decrease oil imports as its onshore inventory levels reach near two-year high
  - Surge in Iranian oil exports supports the overall price decline
- 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
  - Demand tailwind from China's ongoing economic re-opening
  - Disincentives to new investment by energy companies due to volatile prices and higher cost of capital

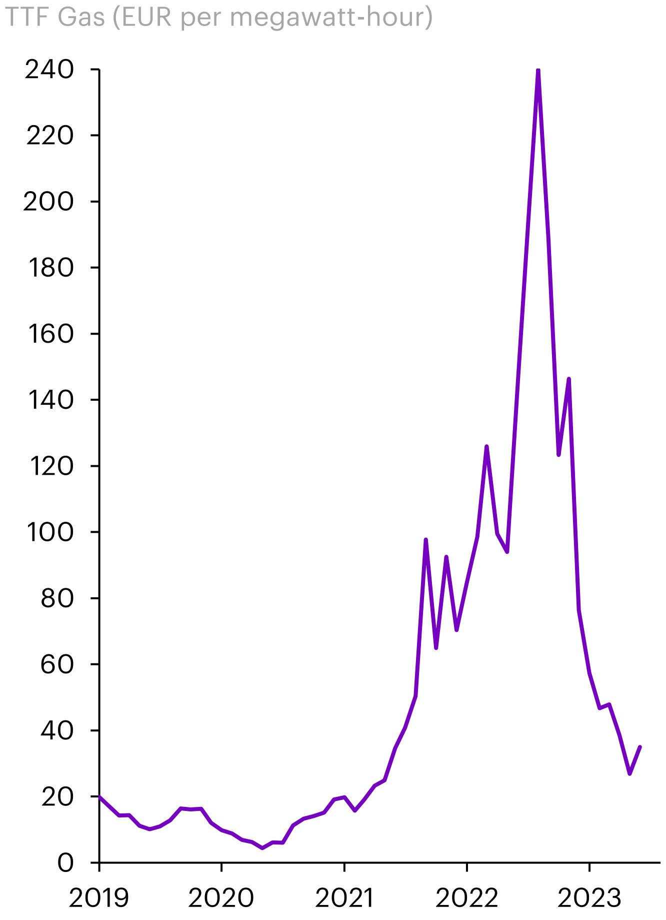
EU gas reserves are growing ahead of next winter and currently sit at near-record levels

EU natural gas reserves and prices

European gas reserves are relatively high at 72%...



...and EU gas prices at 2nd lowest in 24 months



Commentary

- Natural gas prices in Europe remain at low levels amid weaker industrial demand, milder temperatures and strong storage fundamentals
  - Ample storage levels are driven by traders refilling ahead of the 2023-24 winter season
  - Warmer weather in Asia and EU may lead to fierce competition for fuel imports (i.e., for cooling) and increase near-term price pressures
- EU countries recently reached a provisional agreement 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

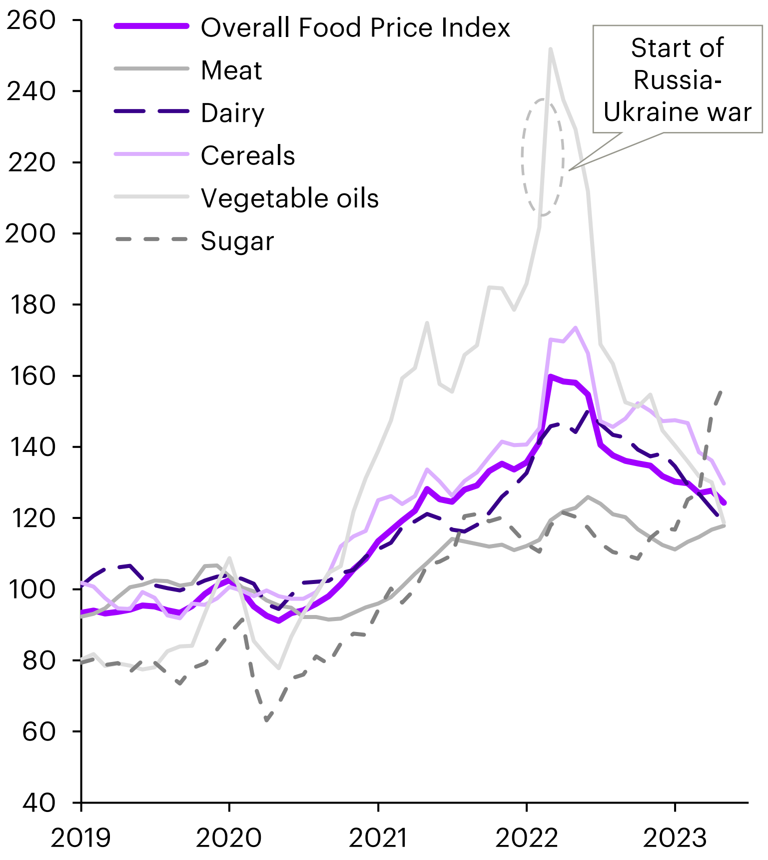
Note(s): Dutch TTF Natural Gas Futures front-month contract. TTF stands for Title Transfer Facility, which is a virtual trading hub for natural gas in Europe. TTF prices represent the average monthly price of natural gas traded at this hub and are considered a benchmark for natural gas prices in Europe.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

Overall food prices hit a 25-month low in May as global supplies of vegetable oils, cereals and dairy outstripped demand

Food and fertilizer prices

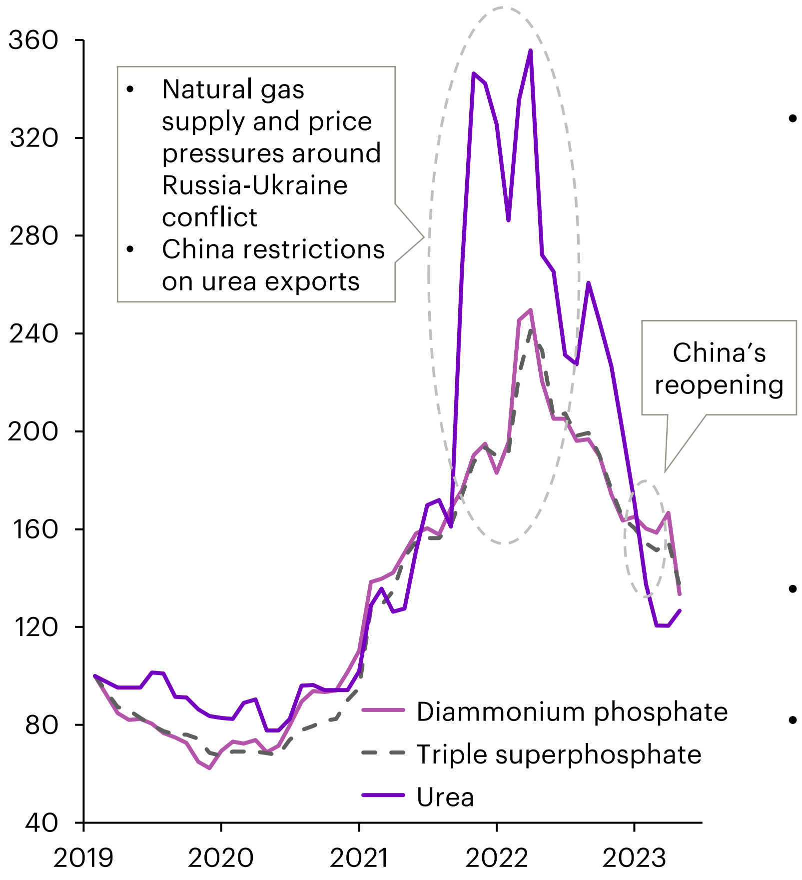
Food prices

Index, 2014-2016 = 100



Fertilizer prices

Index, Jan 2019 = 100



Commentary

- Global food prices fell in May'23 to their lowest level in two years as demand for oils, cereals and dairy has weakened
- Sugar prices continued to rise for the fourth consecutive month in May:
  - Suppliers are concerned about 2023/24 harvest and crop yields posed by El Nino weather patterns
  - Shipping delays amid strong competition from soybean and maize in Brazil weighed on sugar prices
  - However, improved weather conditions in Brazil and lower fuel prices may limit the price increase
- Fertilizer prices, especially DAP, fell sharply in May amidst sustained lower input costs
- In near-term, food prices will also be shaped by the fate of the UN-brokered Black Sea Grain Initiative, which is set to lapse in July but could be extended

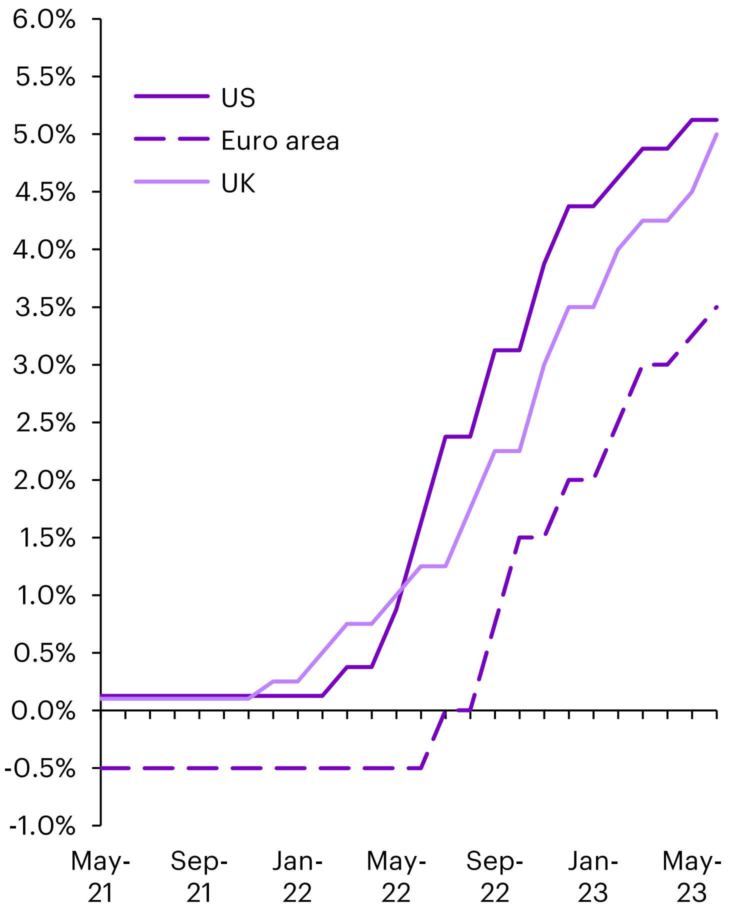
Note(s): (a) Food Price Index is a measure of the monthly change in international nominal prices of a basket of food commodities (b) Fertilizers include DAP (diammonium phosphate), TSP (triple superphosphate), and Urea.
Source(s): World Bank, UN FAO, USDA, Accenture Strategy analysis

Financial markets

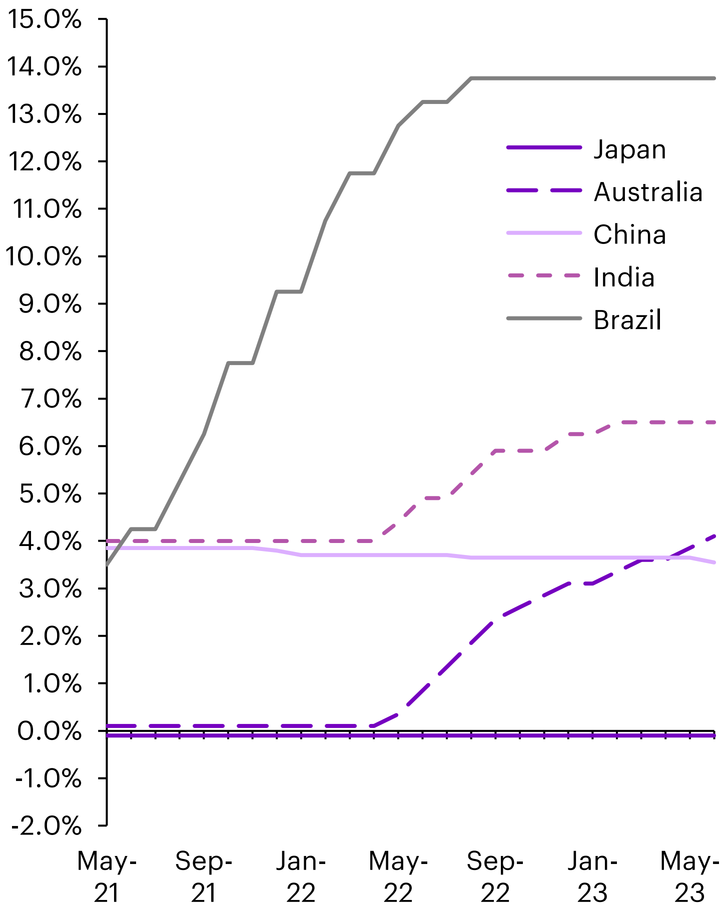
Central banks globally continue to hike interest rates to combat inflation

Monetary policy tightening across major economies

US, UK and Euro area policy rates



Policy rates for other major economies



Commentary

- In June, the US Fed paused rate hikes after 10 consecutive hikes but hinted that more rate hikes are likely to follow in 2023
- 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

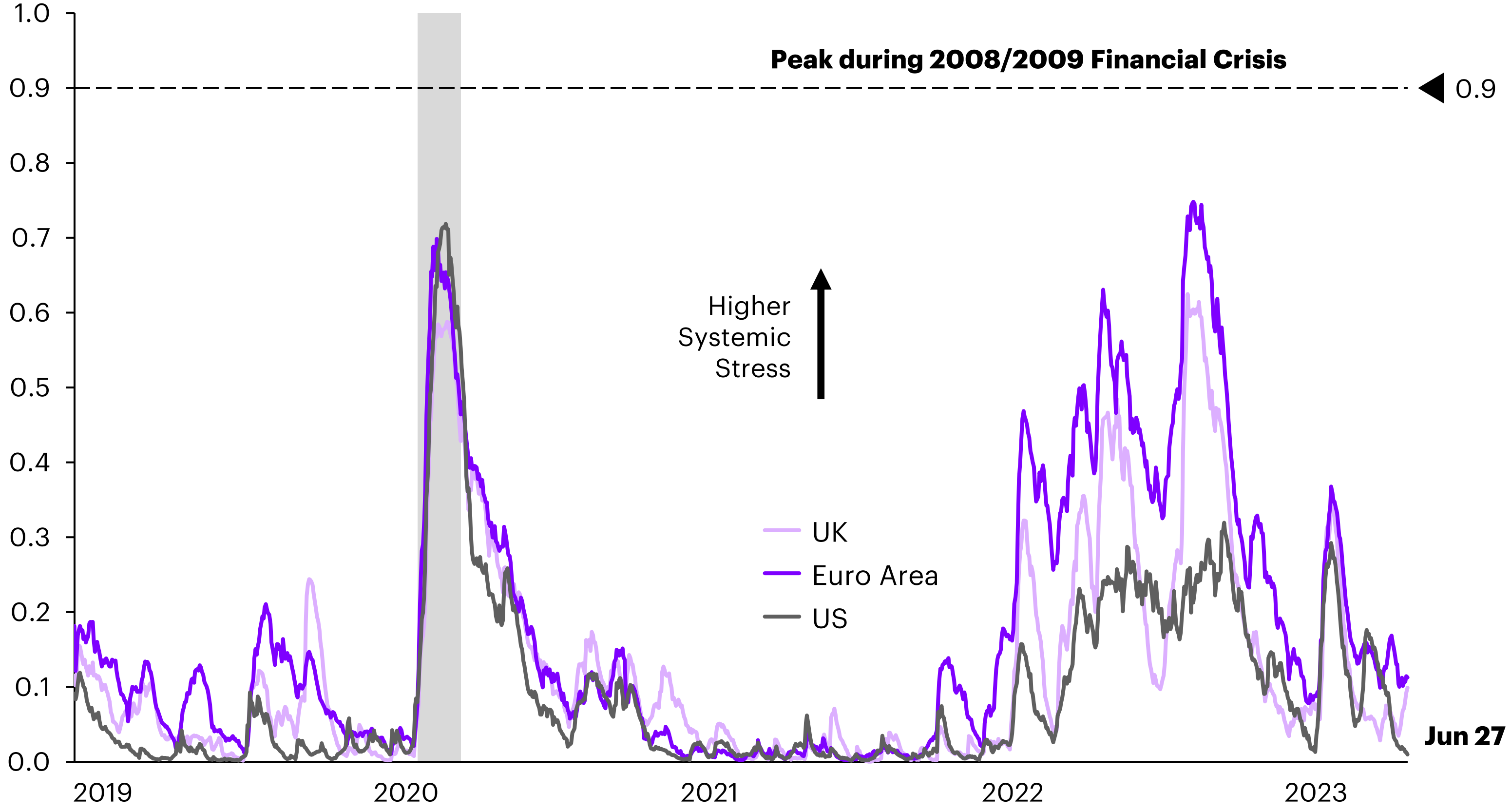
Source(s): Federal Reserve Bank, European Central Bank, Bank of England, Bank of Japan, Reserve Bank of India, Central Bank of Brazil, Reserve Bank of Australia, People's Bank of China, Accenture Strategy Analysis

Systemic financial stress in major economies was on the rise again in May owing to another bank failure, but largely receded again in June (except in UK)

Systemic financial stress indicators

Composite Indicator of Systemic Stress Index

(No Stress = 0, High Stress = 1)



Commentary

- After recovering from the impact of bank failures in March, systemic stress levels in the US and Europe were on the rise again in May as another bank failure rattled the financial system
- Elevated financial pressure is nonetheless expected going into 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

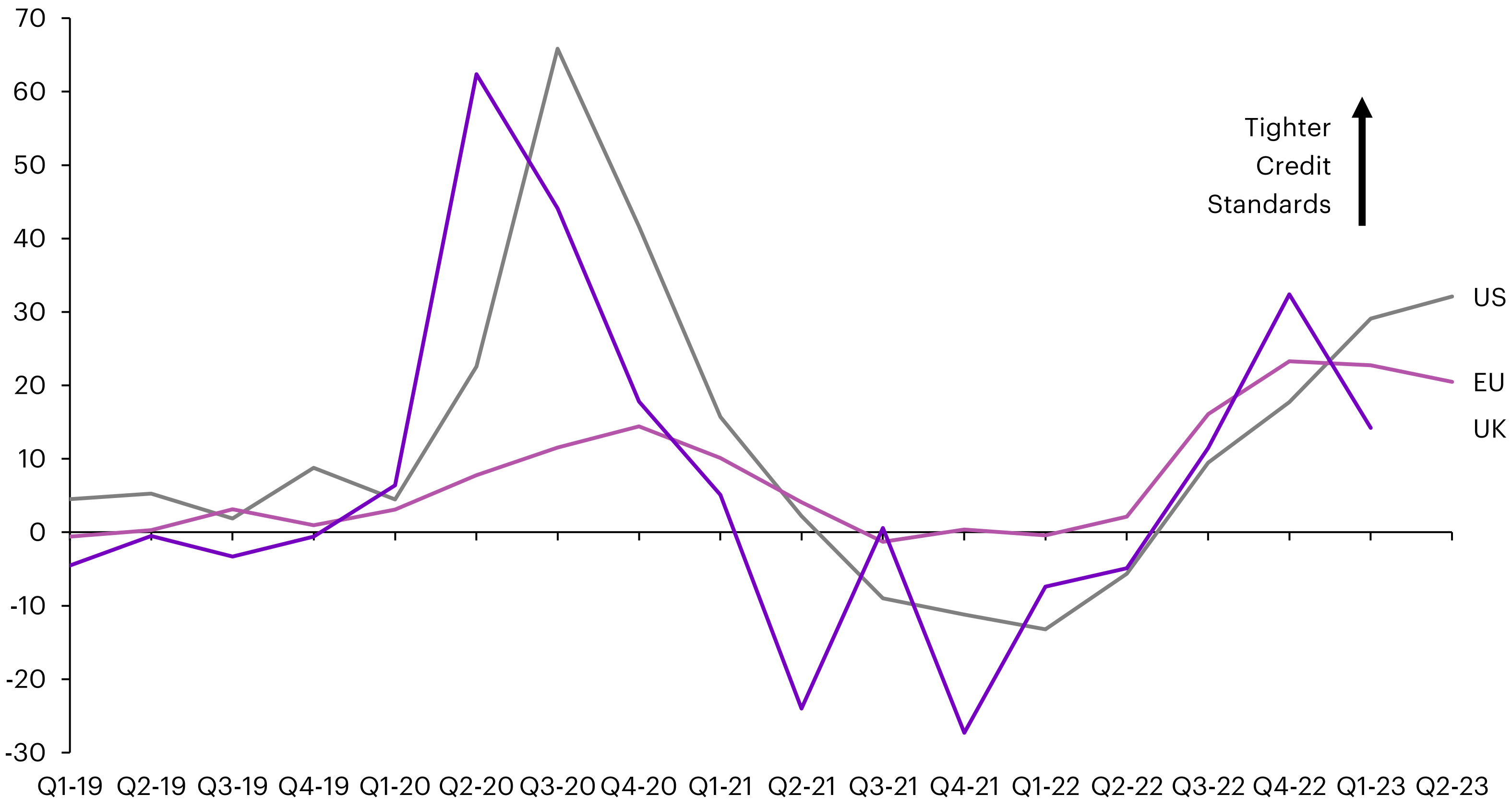
Source(s): Haver Analytics, European Central Bank, Accenture Strategy analysis

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
  - This survey captures changes in banks' credit standards in response to the banking sectors stresses and failures that begun in mid-March 2023
- In the EU, lending standards remained tight in Q2' 23 but loosened slightly from Q1 (UK credit standards data for Q2 is not yet available)
- 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 across most sectors eased in June, but remains elevated for financials

US corporate bond spreads

Sector	Recent avg. Z-spread* (Basis Points)	Change relative to pre-banking stress average* (as of June 20, 2023) (Change in Basis Points relative to recent average)
Financials	105	14
Real Estate	161	1
Utilities	145	1
Consumer Discretionary	126	-3
Energy	187	-5
Telecommunications	144	-6
Materials	168	-9
Information Technology	87	-9
Industrials	124	-11
Health care	111	-15
Consumer staples	115	-17
All Investment Grade	143	-4
All High-Yield	369	-82

Commentary

- Corporate bond spreads in the US rose sharply in late March in response to growing banking system stress
- However, perceived credit risk receded for most sectors in June as investor concerns over cross-sectoral contagion risks from banking stresses appeared to subside, for the time being
  - Risk remains above-average in financials and other interest-rate sensitive sectors such as real estate
- 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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Chris Tomsovic
Global Lead, Macro Foresight
Chris.Tomsovic@Accenture.com

Nick Kojucharov
North America Lead, Macro Foresight
Nick.Kojucharov@Accenture.com

Aditya Harit
Europe Lead, Macro Foresight
Aditya.Harit@Accenture.com