May Macro Brief

Bifurcated economies

May 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.

Each brief includes a summary of global business-relevant macroeconomic developments, and a set of indicators that track the overall health of the economy, business activity and consumers.

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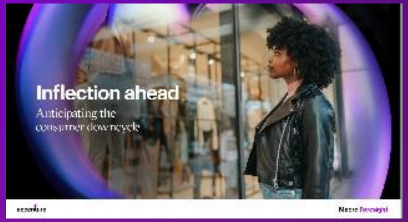

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1 Executive Summary

May 2023
Executive Summary

Common global themes

- **Global growth remained resilient but increasingly uneven in May,** as the divergence between strong services sector performance and weakening industrial activity widened further
  - Over a year of aggressive central bank rate hikes has been driving a wedge between services, which have benefitted from surging post-pandemic demand, and sectors which are more interest rate-sensitive and capital-intensive (e.g., manufacturing and real estate)
  - This **bifurcation of activity** is further along in economies that re-opened earlier (US, Europe) and now also emerging in China
- **Consumer resilience is also starting to show some wobbles.** Recent consumer spending in the US and Europe is decelerating and household savings rates are on the rise; in China, meanwhile, the post-reopening rebound in consumption appears to be losing some steam.
- **While energy and supply chain-related inflation pressures continue to abate, core inflation remains stubbornly high in the US and Europe.** This raises the prospect of additional rounds of central bank rate hikes, despite all the cumulative monetary tightening already in the system.
- **Financial markets remain jittery amidst lingering uncertainty about the US debt ceiling.** Market volatility has risen and corporate bond spreads re-widened. This is adding to financing pressure for companies, on top of the credit tightening already expected due to banking sector stresses.

Regional highlights

- **In the US**, the beginnings of a downshift in US consumer spending are emerging, evidenced by weakening retail sales, lower new orders of consumer goods by manufacturers, declining truck freight activity, and an uptick in bankruptcies among consumer discretionary companies. The likelihood of a tipping point sometime in H2, marked by sharper and sudden cutbacks in consumer spending, is increasing.
- **In Europe**, GDP growth held up better than expected in Q1, but some key economies such as Germany are already in recession, and growth pressures from inflation and the lagged effects of monetary tightening remain pronounced. In the UK, households and firms expect the drag from high interest rates on their finances and spending to intensify over the next 12 months, according to recent surveys.
- **In APAC**, China's economic recovery post-reopening is proving somewhat uneven—consumer spending on services has rebounded strongly, but goods demand has been more muted, manufacturing is contracting, and unemployment continues to rise. Commercial real estate is also facing cyclical pressures in some major APAC cities but appears fundamentally less at risk of a major crisis compared to the US CRE market.

Key considerations and priorities for clients

- **Companies should plan for further moderation of consumer spending in the coming months and a potential inflection point sometime in H2, when the spending drop-off could be more drastic.** Among other challenges, the combination of still-high inflation and slowing consumer demand is likely to make it harder for firms to keep passing on costs, pressuring their margins.
- **The continued stickiness of inflation reinforces the need for companies to incorporate into their planning exercises scenarios where**:
  - central banks raise interest rates further and keep them high for longer than the market is currently pricing
  - stagflation outcomes begin to materialize—i.e., where high inflation continues to persist even as growth slows

Source: Accenture Strategy analysis

Resilience to a sudden or sharp deterioration in the economic outlook—e.g., due to a consumer spending inflection or policy errors—remains a top imperative for companies

Top-of-mind questions for business executives to consider

“Is recent moderation in consumer spending a sign that more drastic cutbacks could be around the corner? How can we get ahead of this inflection point?

“Are we prepared for the likely economic and financial fallout from delays in lifting the US debt ceiling?

“Could the global growth impulse from China’s economic re-opening prove weaker than expected?”

Source: Accenture Strategy analysis

Divergence between services and manufacturing sector performance increased in May, and consumer spending is showing some signs of slowing momentum

Country economic momentum snapshot

AS OF MAY 24

Deteriorating — Indicator — Strengthening

	Services PMI	Manufacturing PMI	Industrial Production	Business Confidence	Consumer Sentiment	Unemployment Rate	Retail Sales	CPI Inflation	Comments
USA*	55.1	48.5	0.9%	Declining	-5.8	3.4%	0.3%	4.9%	• Simultaneous tightening of lending standards and ongoing rate hikes are likely to weigh on economic growth in H2
UK*	55.1	46.9	0.6%	Improving	+3.0	3.9%	0.5%	8.7%	• Surging food prices and growing funding challenges are likely to pressure consumers and businesses in Q2'23
Germany*	57.8	42.9	1.2%	Improving	+3.6	2.8%	-0.7%	7.6%	• Drop in energy prices has led to strong equity performance and likely to spur additional economic activity
France*	52.8	46.1	0.5%	Improving	+1.0	6.9%	0.0%	6.9%	• Strong services activity is likely to support growth, offset by rising producer input costs and a cost-of-living crisis
Italy	57.6	46.8	0.5%	Improving	+0.4	7.8%	-0.1%	8.8%	• 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	57.9	49.0	1.9%	Improving	+5.6	12.9%	0.2%	3.8%	• Recent rebound in tourism has improved growth outlook • Stimulus was announced to address recent drought
China	56.4	49.5	-1.4%	Declining	+2.4	5.2%	1.7%	0.1%	• Economic re-opening post zero-COVID policies is boosting local consumption and services activity
Japan*	56.3	51.9	-0.1%	Improving	+1.8	2.8%	1.0%	3.5%	• Solid domestic consumption and rebounding inbound tourism are supporting growth
Brazil	54.5	44.3	0.2%	Declining	+1.8	8.8%	1.5%	4.2%	• Slower employment growth and tighter lending conditions expected to constrain consumer spending and investments
Australia*	51.8	48.0	0.6%	Improving	-6.8	3.7%	-0.6%	7.1%	• High price pressures and input costs, along with consumer belt tightening, are likely to weigh on pace of recovery
India	62.0	57.2	-0.8%	Declining	+0.5	8.1%	-1.8%	4.7%	• India's economic resilience and continued robust growth remains a bright spot in the global economy

Notes: PMI metrics provided by S&P Global as of April 2023 (below 50=contraction), with markets marked with asterisks reflect latest Flash PMIs (estimates) for May 2023. 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.

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

2 Spotlight developments

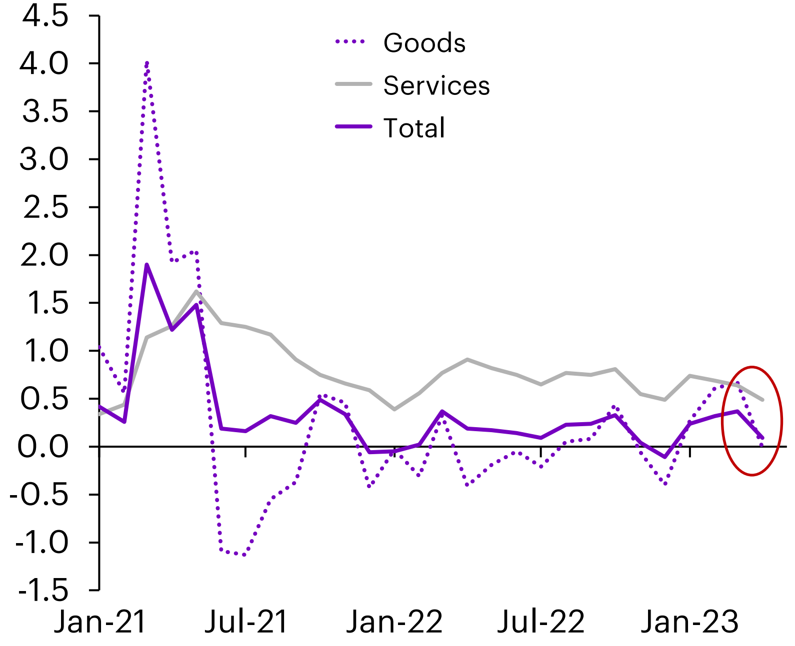
North America

A downshift in US consumer spending is emerging, with an inflection point likely on the horizon in the coming quarters

Recent US consumer spending trends

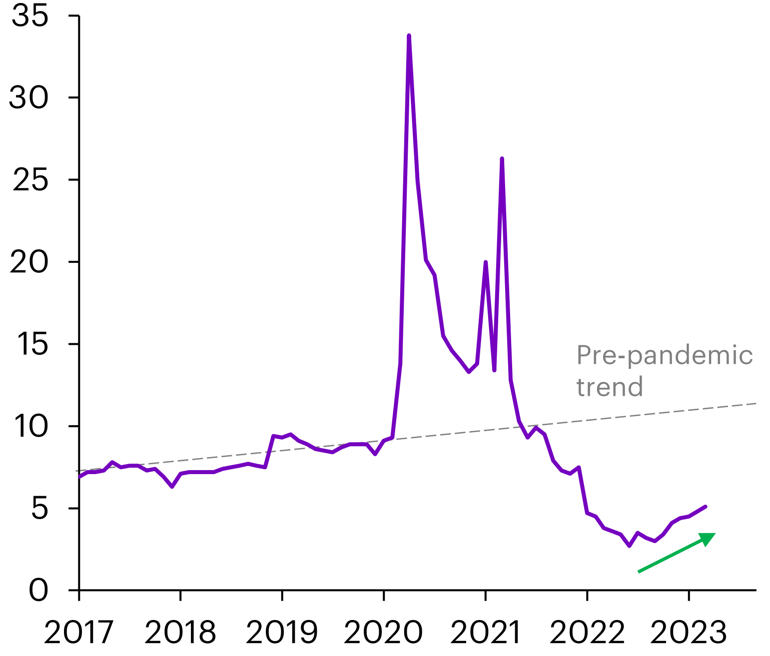
Consumer spending (inflation-adjusted)

3-month moving average % change



Household savings rate

Percent of disposable income



Implications for corporates

- Though still resilient, the US consumer is starting to show cracks in the armor
- Companies should plan for further moderation of consumer spending in the coming months and the possibility of a tipping point sometime in H2, marked by sharp and sudden cutbacks
- The combination of still-high inflation and slowing consumer demand is likely to make it harder for firms to pass on costs, creating further margin pressure
- In this context, more strategic pricing and marketing, underpinned by strong data analytics, will be key, as detailed in Accenture's Inflection Ahead: Anticipating the Consumer Downcycle

Commentary

- Consumer spending momentum (3-month avg. change) decelerated markedly in April, mainly for goods but also key services (hotels and restaurants)
  - This suggests the post-pandemic rebound in services spending, which has been key to recent consumer resilience, may be starting to fade
- Consumer sentiment also deteriorated sharply in early May, falling to its lowest level since November 2022
- The recent rise in households' savings rate is consistent with this spending moderation, though households continue to draw on their excess savings

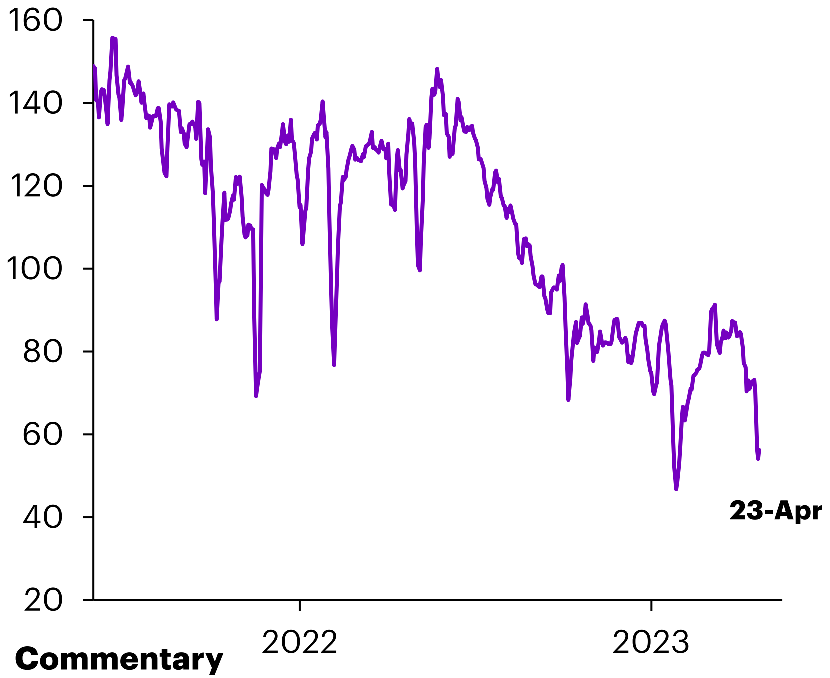
Sources: Bureau of Economic Analysis, Accenture Strategy analysis

The intensifying “freight recession” in the US is another telltale sign of softening demand

Freight activity indicators

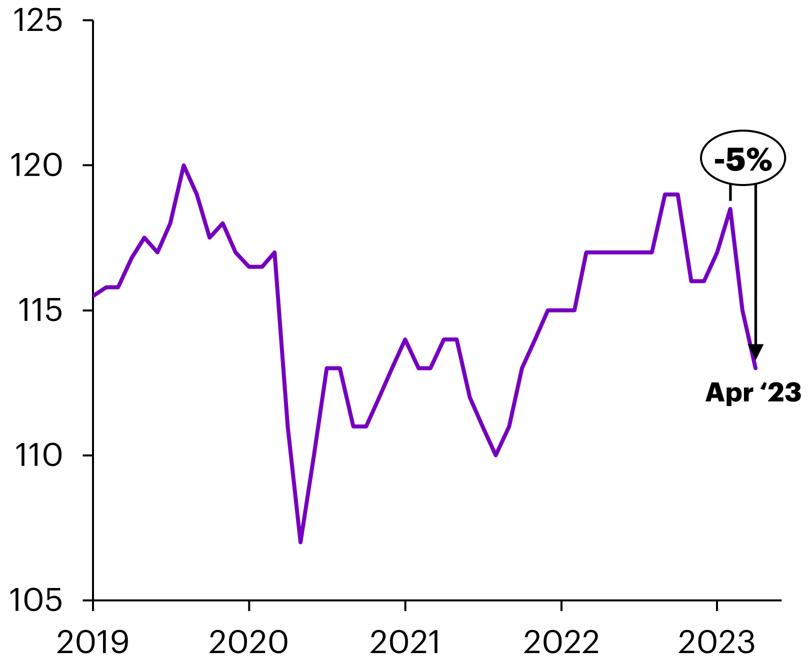
Ocean freight bookings to US

Seven-day index of booked 20-foot equivalent units



ATA truck tonnage index

Index (Seasonally Adjusted 2015=100)



Implications for corporates

- US freight companies are likely to face a further revenue squeeze as freight volumes and rates continue to fall due to weakening goods demand
- On the flip side, non-freight companies could benefit from lower transportation and distribution costs
  - Producer price index (PPI) for truck freight was down 8.6% year-on-year as of April 2023

Commentary

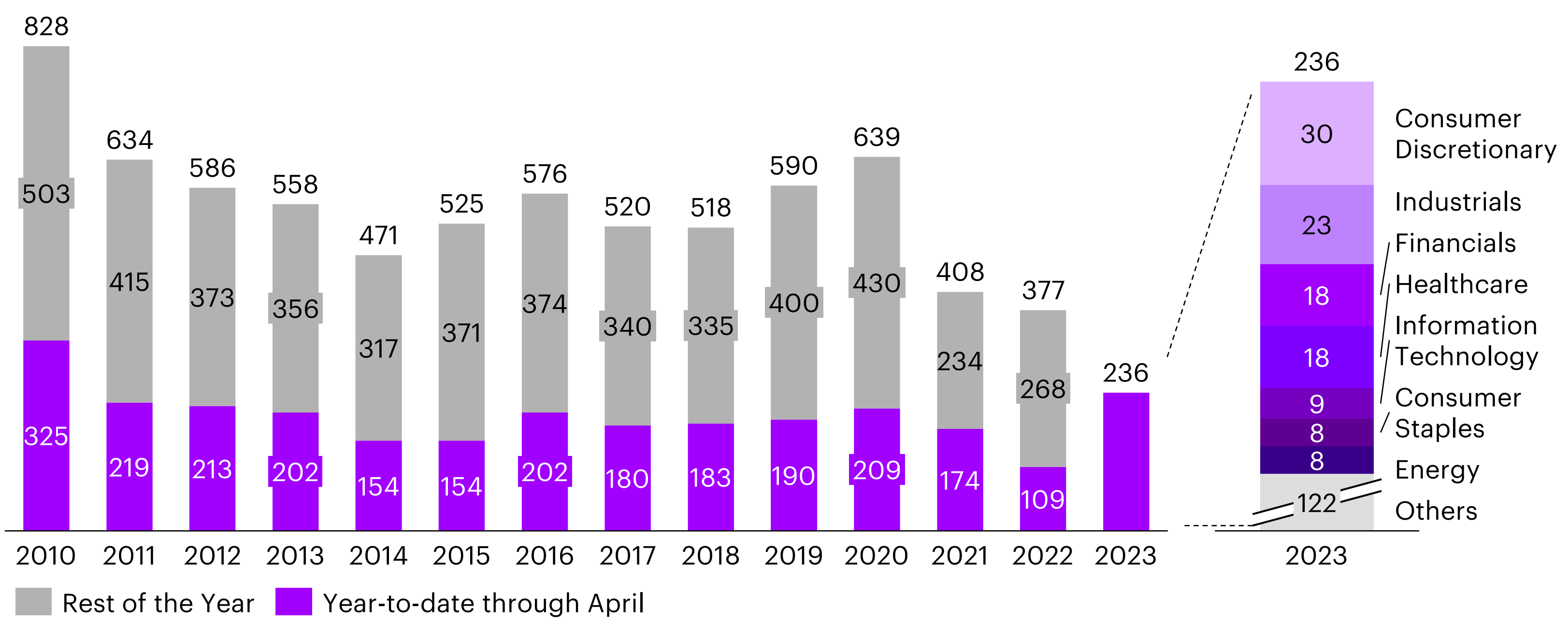
- Ocean freight bookings to the US have dropped by around 20% since early March, as US companies cut back on orders and inventory restocking in anticipation of slowing consumer and industrial goods demand
- Less ocean freight arriving at US ports has translated to lower volumes to be moved overland by truck and rail
  - Trucking tonnage hauled (which accounts for nearly 75% of all domestic freight) fell to its lowest level since late 2021
- Falling diesel demand and prices (down 16% since end-Jan 23, compared to 7% for WTI crude oil) are a further symptom of freight industry weakness

Sources: Freightwaves, American Trucking Association, US Department of Transportation, Accenture Strategy analysis

As financial conditions continue to tighten, corporate vulnerabilities are surfacing and bankruptcies growing at their highest rate in over a decade

US corporate bankruptcies

US bankruptcy filings by year



Implications for corporates

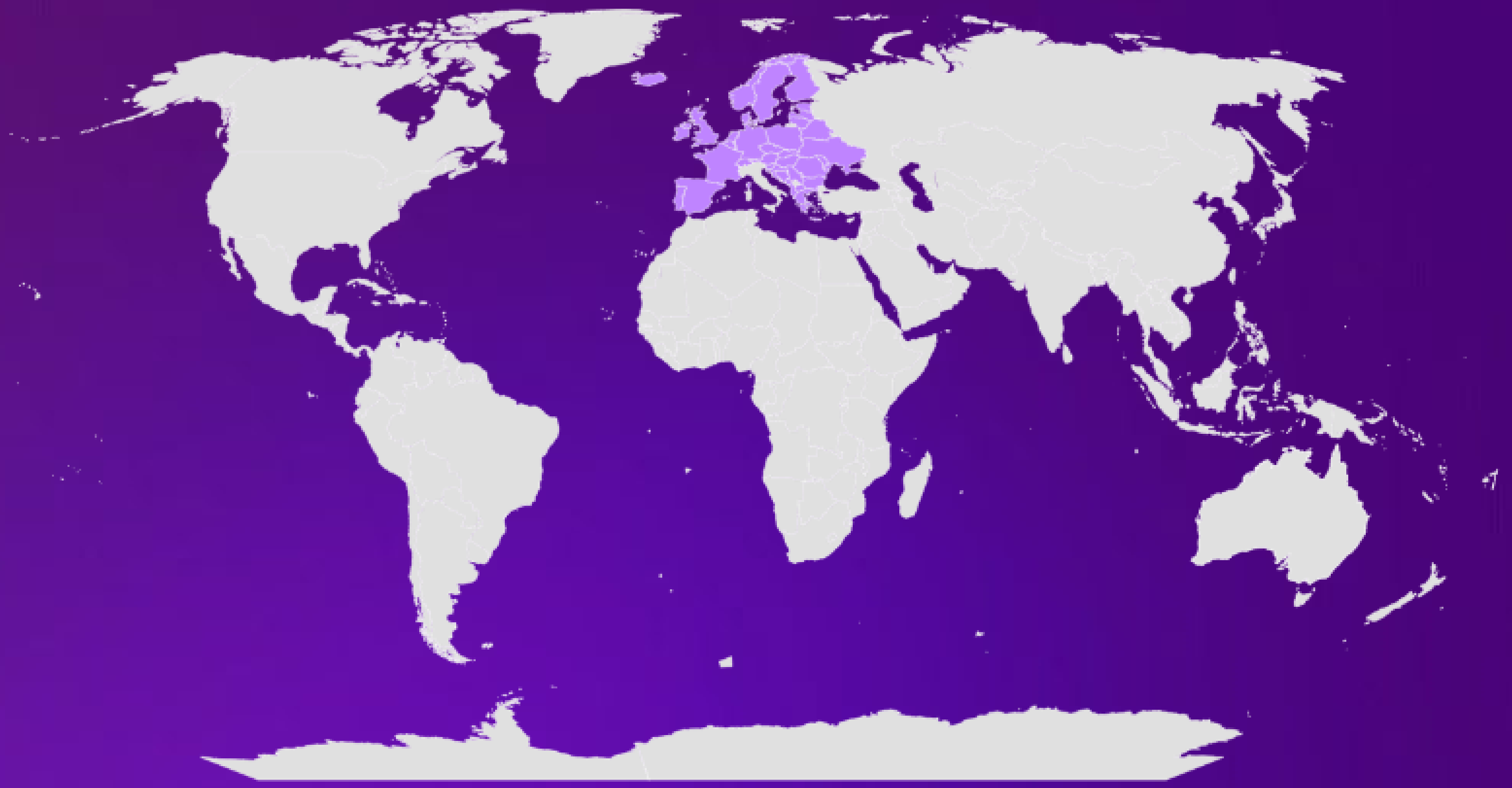
- Over a decade of "cheap" money has enabled many low-growth and highly-indebted companies to stay afloat
- The new normal of high interest rates and sticky inflation will increasingly threaten the financial sustainability of such "zombie" companies, who will be under pressure to
  - tighten operational discipline
  - manage debt levels
  - build resilience against an economic downturn

Commentary

- Corporate bankruptcies have been accelerating and on track to be highest in over a decade, as companies face increasing financial pressures and a slowing economy
- Most of the recent bankruptcies have been in the consumer discretionary sector, a trend that could persist as the consumer spending outlook darkens

Note: Bankruptcy figures include public companies or private companies with public debt with a minimum of $2 million in assets or liabilities at the time of filing, in addition to private companies with at least $10 million in assets or liabilities.
Sources: S&P Global, Accenture Strategy analysis

Europe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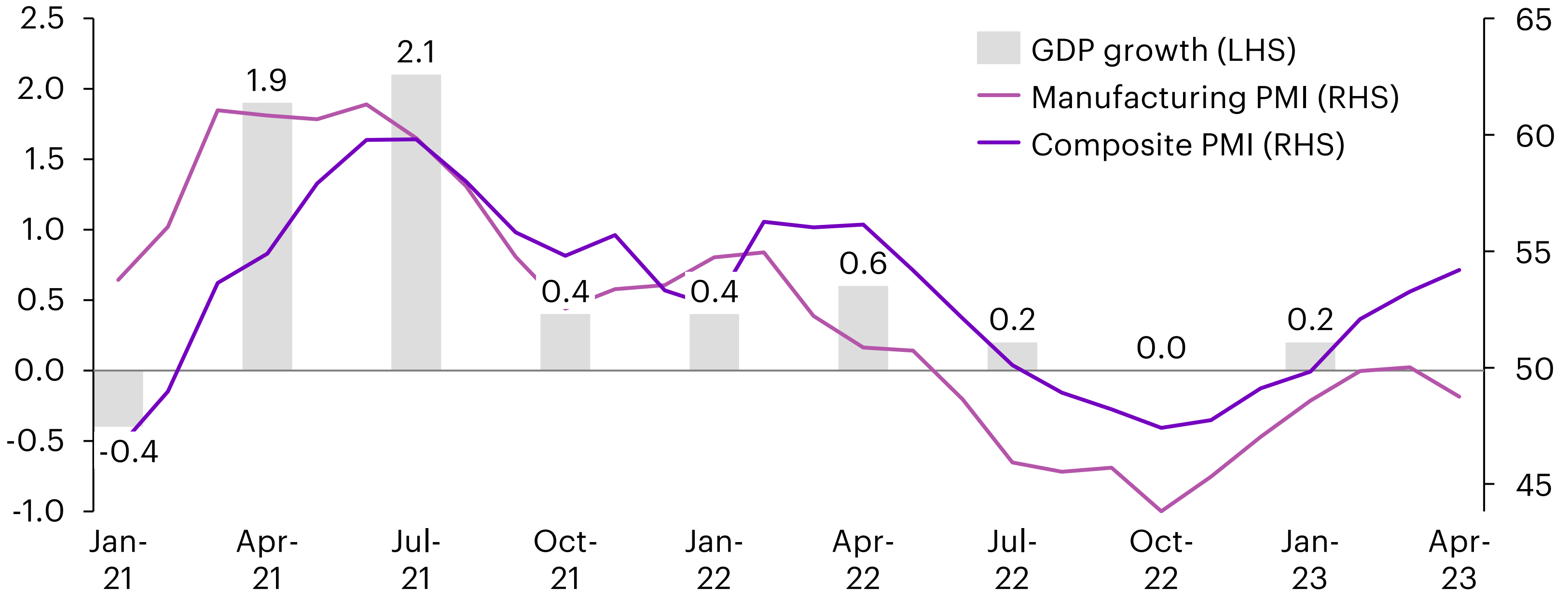
Most European economies have avoided recession thus far, but weak industrial activity and consumer pressures from elevated inflation continue to cloud the outlook

Recent economic growth momentum in Europe

Euro area real GDP growth and PMIs

Real GDP QoQ percent change (LHS); Diffusion index 50 > expansionary (RHS)



Implications for corporates

- Despite the overall European economy proving more resilient than expected, companies should still proceed with caution
  - Amidst still-tight labor markets, inflationary pressures are likely to remain stubborn over the next 12 months
  - As wages are still not rising as fast as inflation, demand is likely to continue slowing
  - Recent weakness in manufacturing is occurring even as global supply chain pressures have eased, suggesting slowing demand, rather than constrained supply, is now the main headwind for manufacturers

Commentary

- The near-term economic outlook in Europe has improved since earlier this year, driven by the strength in services spending, declining energy prices, improved business confidence, a resilient labour market and declining supply chain disruptions
- However, industrial activity continues to contract and faces ongoing headwinds from tightening financial conditions
  - Some key industrial economies such as Germany and Austria are already in recession (recording zero or negative growth in Q4’22 and Q1’23)

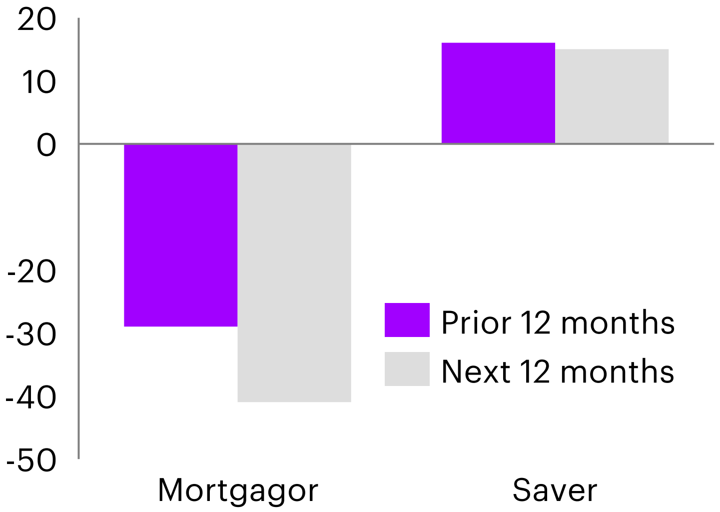
Note: A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month
Sources: European Commission, S&P Global, Accenture Strategy analysis

UK households and companies expect the economic impact of higher interest rates to increase over the next 12 months

Impact of interest rate hikes on UK consumers and businesses

Reported impact of higher interest rates on household finances(1)

Percent



Expected impact of higher interest rates on firms' investment and employment

Percent change over the next 12 months compared to Jan 23

Implications for corporates

- UK households still expect a drag on their finances for at least another 12 months, likely resulting in
  - Lower overall consumer spending
  - Less big-ticket purchases
  - Prioritization of essentials

Commentary

- According to a recent Bank of England survey, UK households expect higher interest rates to increase stress on their finances over the next year
- Conversely, households without mortgages have, and expect to continue to, benefit from higher interest rates
- Firms anticipate that higher interest rates will lead them to cut investments by 8% over the next year
  - This investment squeeze is more pronounced for indebted firms, though firms with no debt expect a relatively larger impact on employment

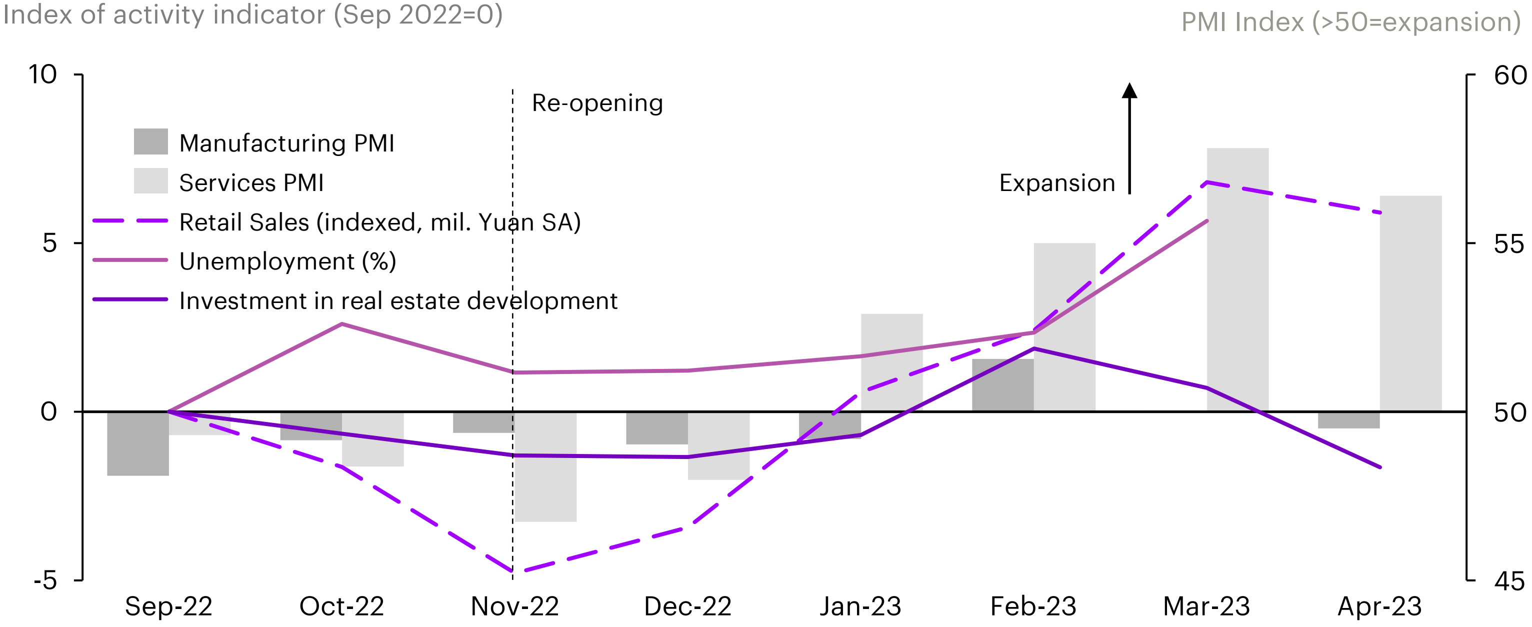
Note (1): Figures are based on the following question: 'What impact has this rise in interest rates had on your household finances in the last twelve months?' and 'What impact do you expect the rise in interest rates to have on your household finances in the next twelve months?'
Note (2): Figures are based on the following question: 'How do you expect changes in interest rates to affect the number of employees that your business has over the next year?' and 'How do you expect changes in interest rates to affect the capital expenditure of your business over the next year?'
Sources: Bank of England, Accenture Strategy analysis

Growth Markets

China's economic recovery post-reopening has thus far been somewhat uneven and less buoyant than expected, creating further downside risks to global growth

High-frequency indicators of economic activity in China

Selected economic indicators before and after re-opening



Implications for corporates

- A weaker-than-expected re-opening boost to Chinese consumer spending and softness in manufacturing and real estate activity have important potential global repercussions
  - A growth drag for major exporters to China (e.g. Germany, Japan)
  - Lower inflationary pressure for consumer goods exported by China
  - Less upward pressure on key global commodities (oil, gas, steel, cement)
  - Uncertainty with respect to Chinese policymakers' response to slower-than-expected growth

Commentary

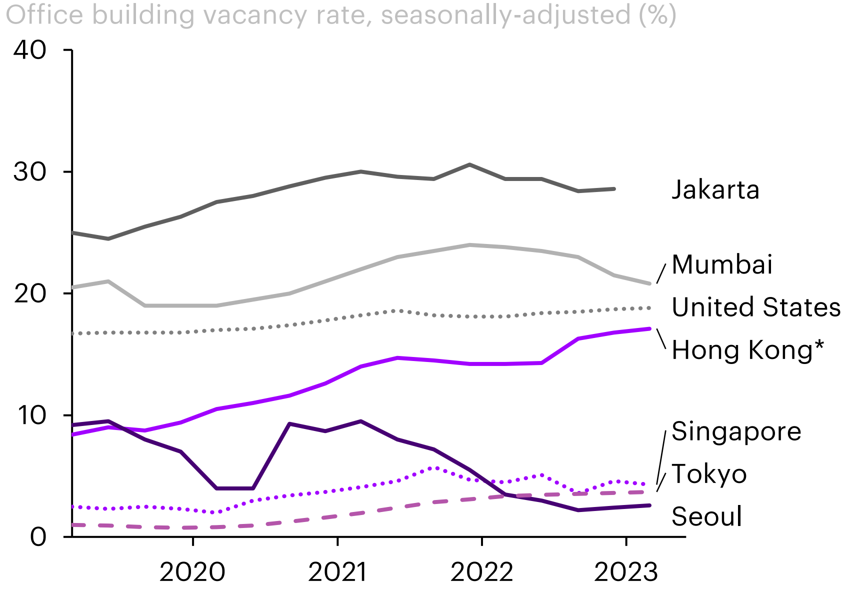
- China's GDP grew by 4.5% year-on-year in Q1'23, beating estimates of 4%, but is still well below pre-pandemic growth rates
- High-frequency economic indicators indicate that despite some positive signs, China's recovery is uneven and has underlying challenges
  - Led by the services sector, composite PMI remains expansionary, but manufacturing lost momentum on weak domestic and export demand
  - Consumer spending appears to have plateaued somewhat after a strong initial post-reopening rebound
  - Despite government financing support in early 2023, the property market has been unable to sustain a recovery and remains under pressure
  - Overall, the rebound in economic activity is not created sufficient jobs to make a dent in growing unemployment (especially among youth)

[1]Retail sales (mil. Yuan, SA) pre-COVID CAGR was 6.5% (2015-2019). Growth since reopening has ranged from 6.7% (Q1'23 vs. Q4'22) to 10.6% (Mar'23 vs. Dec'23)
Sources: S&P Global, Haver Analytics, National Bureau of Statistics China, Accenture Strategy analysis

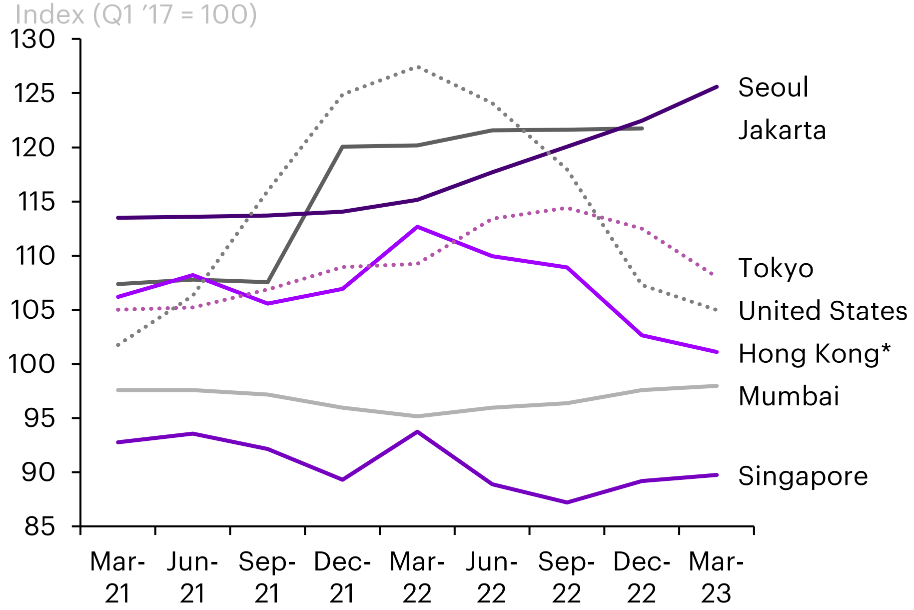
Commercial real estate is facing cyclical pressures in some APAC economies/cities, but appears fundamentally less at risk of a major crisis compared to the US CRE market

APAC commercial real estate

Office space vacancy rates



Commercial property prices



Implications for corporates

- Cyclical downward pressures on CRE prices could create strategic buying opportunities for APAC corporates and property investors, given solid longer-term CRE fundamentals
- A slower-than-expected Chinese economic rebound could dampen the recovery in retail and hospitality CRE
- Some APAC banks could face market pressure based on their CRE exposure (which averages 10% of assets across the region), especially to office properties

Commentary

- APAC commercial real estate (CRE) faces some of the same headwinds as US CRE—high inflation, rising borrowing costs, and slowing economic growth
  - CRE transaction volumes have plummeted as a result (down by 50%+ in Q1 23 in some markets) and property prices are undergoing a correction
- However, the shift to work-from-home has been less pronounced in APAC than in US or Europe, resulting in less overall pressure on office occupancy
  - vacancy rates in most major APAC cities are below those in US and have not risen significantly over past 3 years (Hong Kong is a notable exception)
  - longer-term fundamentals such as growing middle class populations and rising urbanization rates are also supportive of office utilization
- Other APAC CRE segments such as retail and hotels stand to benefit from post-pandemic recovery travel, especially tourism from China

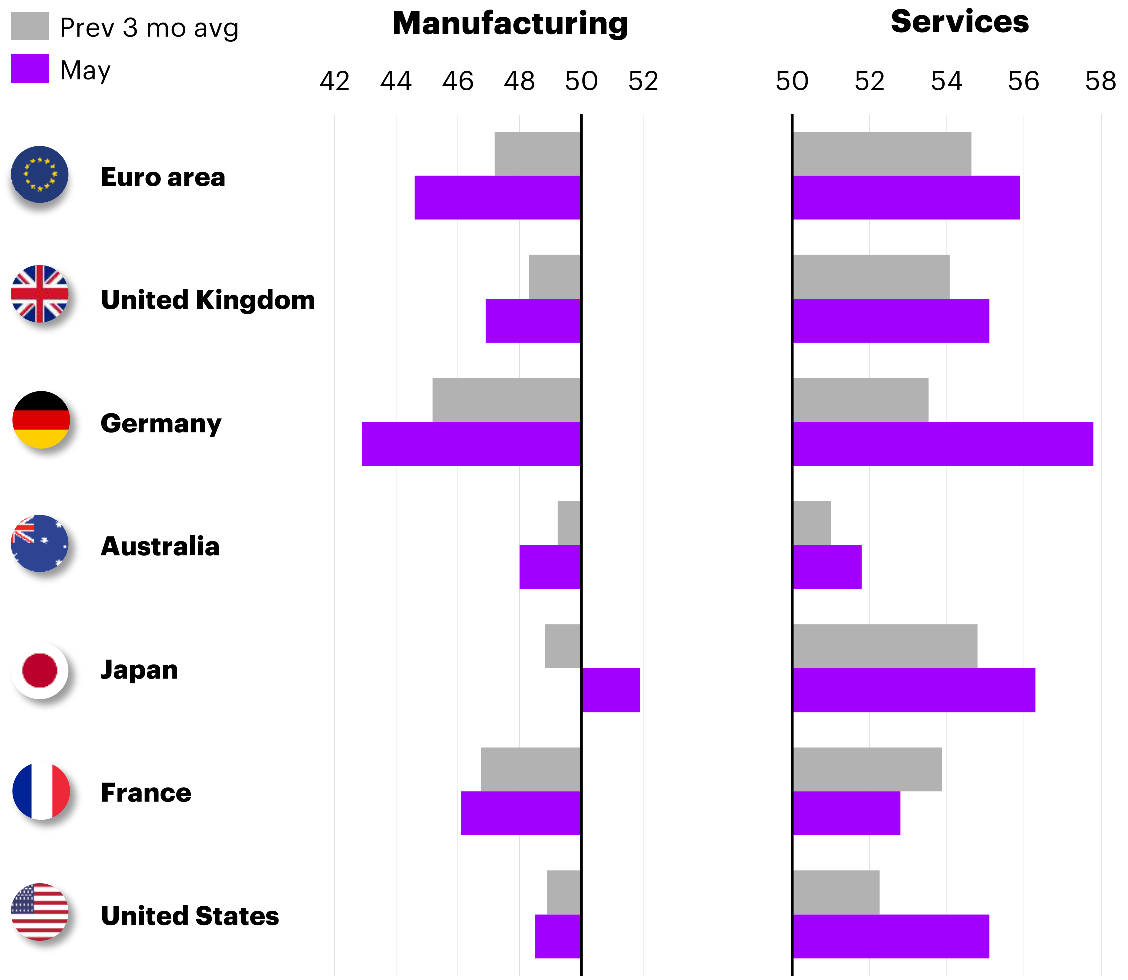
Note: Hong Kong vacancy includes confirmed leasing stock that is currently vacant or becoming vacant over the next 12 months
Source: Haver Analytics, Cushman & Wakefield, JLL, CBRE, MSCI Real Assets, Bank of International Settlements, SCMP, Accenture Strategy Analysis

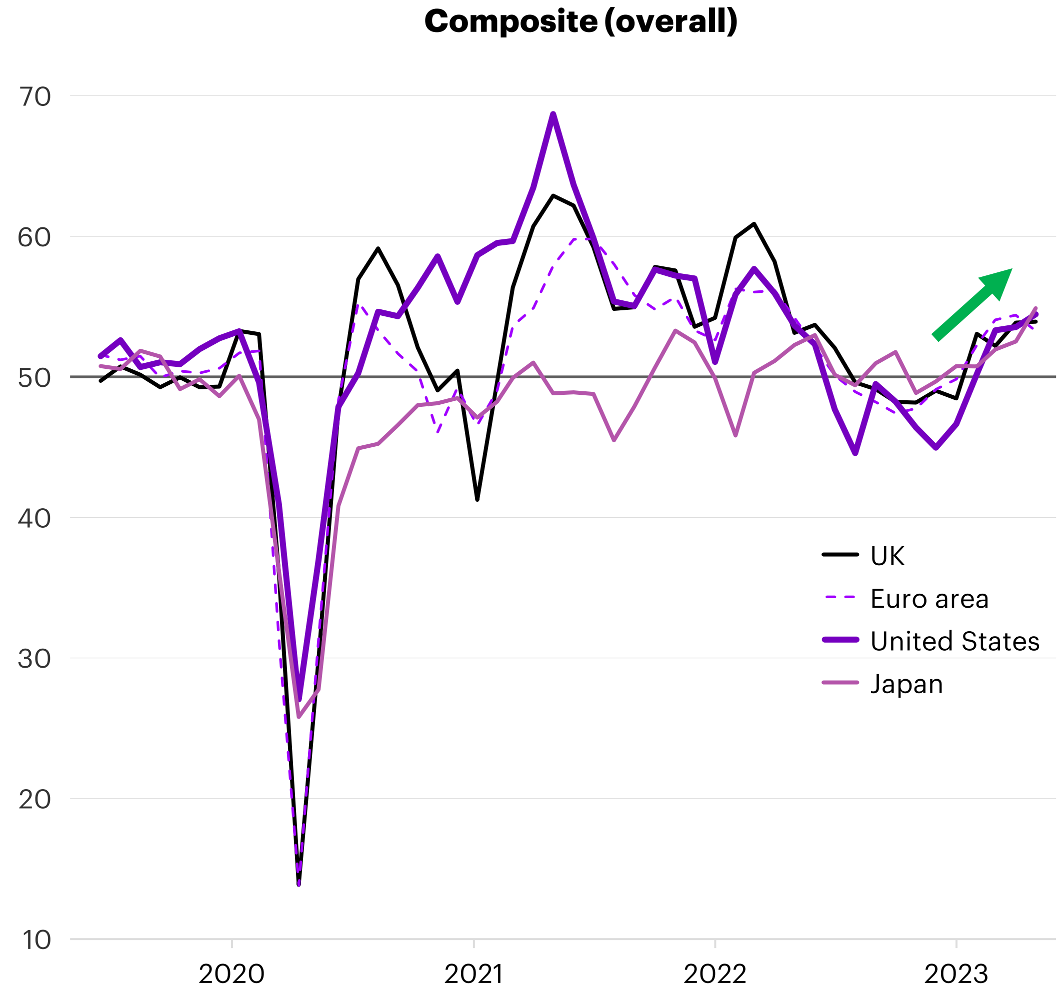
3 | Economic indicator chart pack

Regional and industry activity

The divergence between strong services and contracting manufacturing activity increased further in May; overall growth remains positive for now but the balance could soon shift

May Flash PMI country snapshot





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

Detailed industry-level data (through April only) showed recent growth momentum has been services-led, including a rebound in financial services after the March banking stress

Global Industry PMI snapshot

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

Commentary

- Chemicals output remains in contraction
- Automotives output declined alongside new orders though high output prices are still supporting revenue
- Energy and utilities rebounded slightly after having been in contraction since Feb'22
- Elevated defense spending amidst the ongoing Russia-Ukraine conflict is expected to support demand in the aerospace & defense sectors
- Banking and real estate rallied after acute stresses experienced in March
- Consumer-facing industries, travel, arts & recreation, communications & media and airlines remain key drivers of output growth

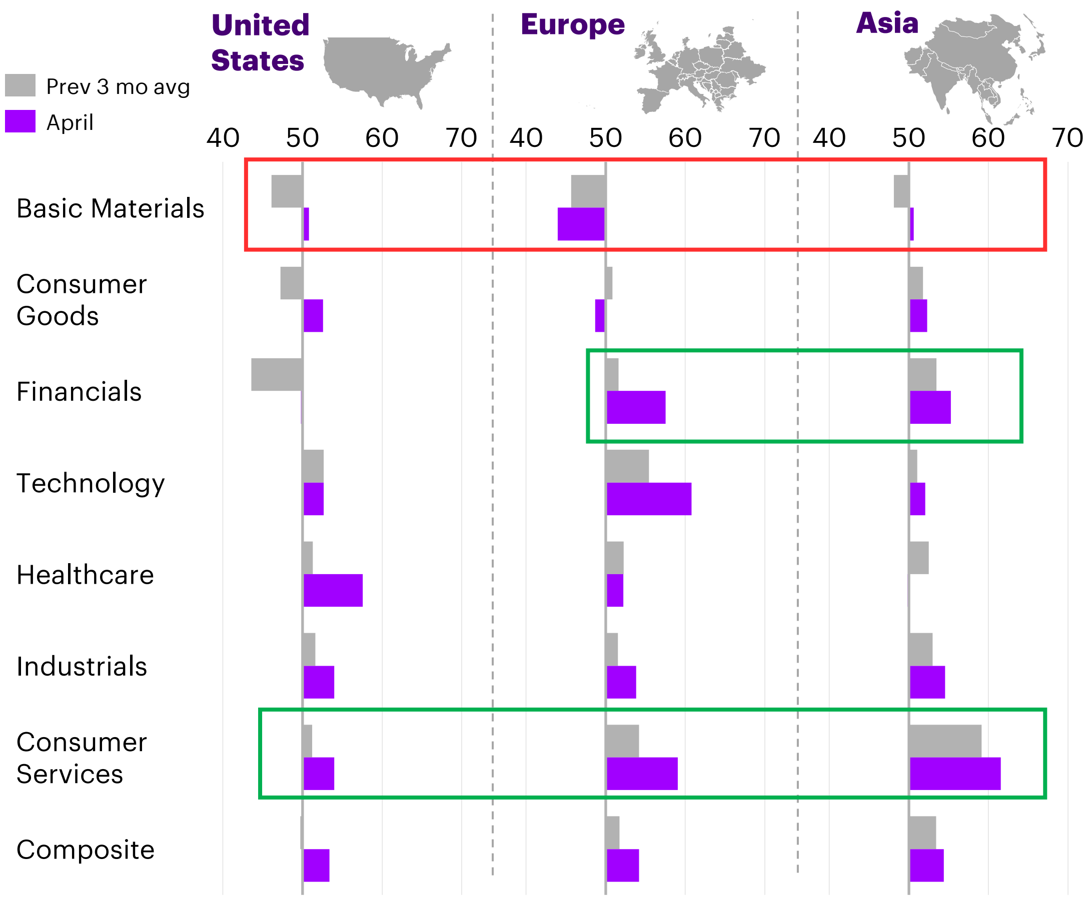
Note: A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month
Sources: S&P Global, Accenture Strategy analysis

Basic materials continue to struggle across geographies, while consumer-facing sectors remain supportive of growth

Regional PMI overviews

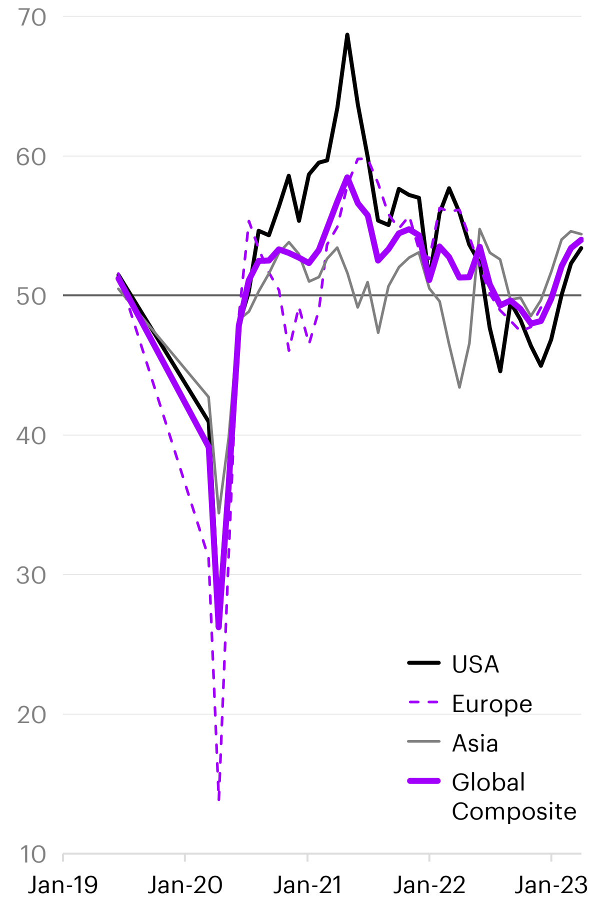
Regional industry performance

Apr'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 banking system, financial sector growth was positive in Apr'23
- Consumer services remain a key growth driver based on strong new orders and expansion of output prices

Note: 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)

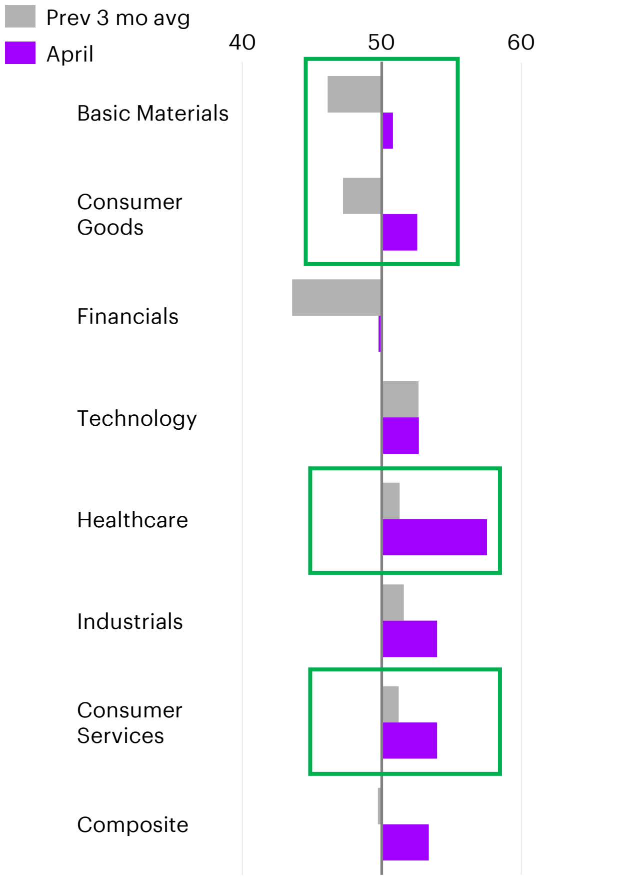
Sources: S&P Global, Accenture Strategy analysis

In the US, basic materials and consumer goods have improved; financials activity continued to contract but at a slower pace compared to the March peak stress period

Regional performance: United States

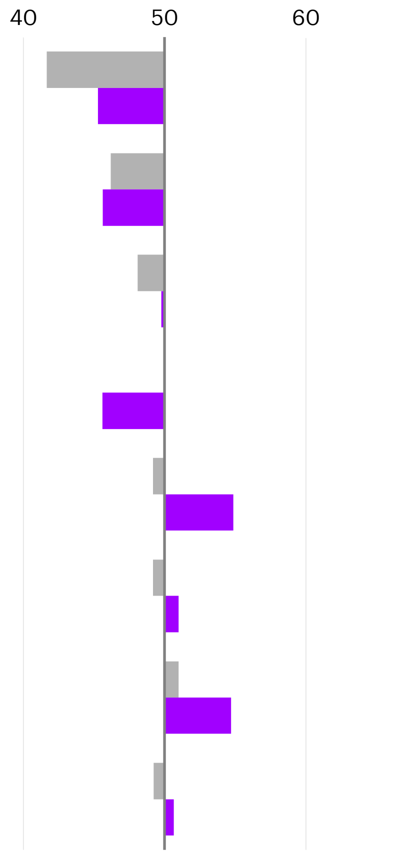
Industry Performance

Output/Activity PMI



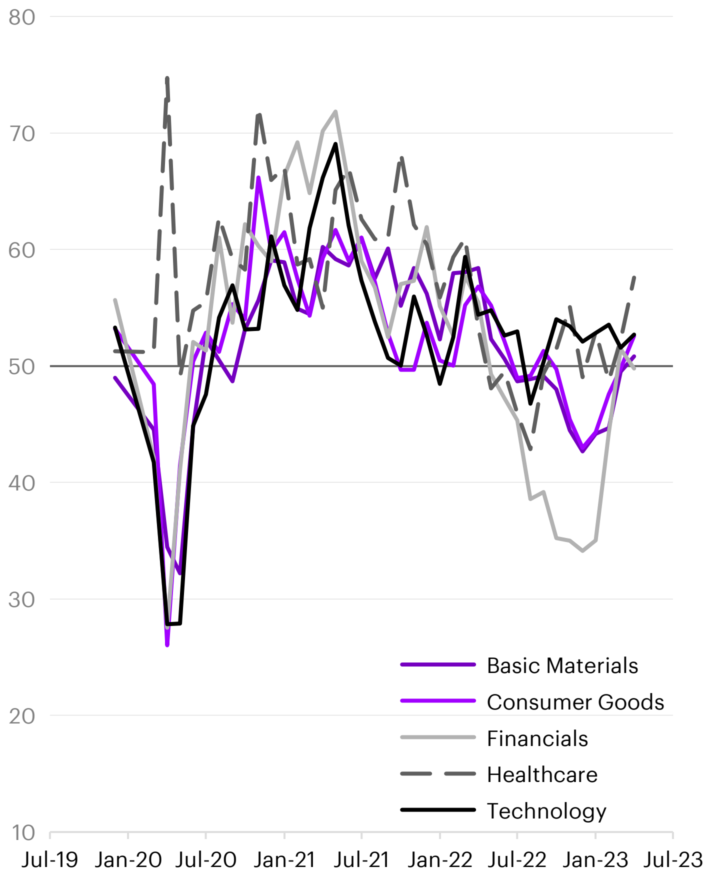
Backlogs of Work

Backlogs of Work



Industry Performance

PMI Output / Activity, selected industries



Commentary

- Basic materials and consumer goods rebounded after declining activity over the past 9 months
- Healthcare was a key growth driver, recording its highest rate of expansion since Mar'22

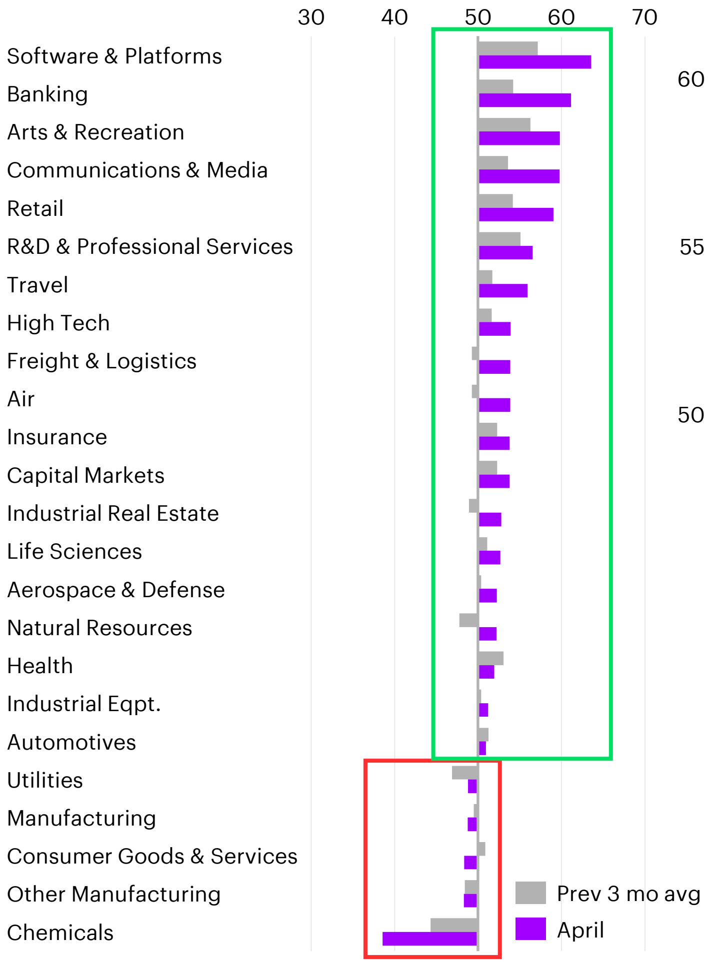
Note: Industry names are aligned with Tier 2 IHS industry classification: Basic Materials (Chemicals, Resources); Consumer Goods (Auto, Beverages & Food, Household & Personal Products); Consumer Services (Media, Tourism & Recreation); Financial Services (Banks, Insurance, Real Estate); Health (Healthcare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

Most European industries recorded growth in April, notably consumer-facing services, but manufacturing activity (especially Chemicals) continues to contract

Regional performance: Europe

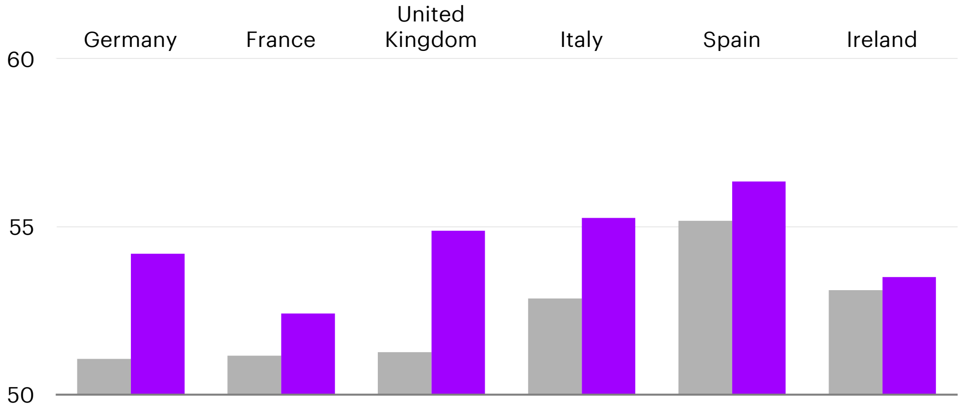
Industry Performance

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



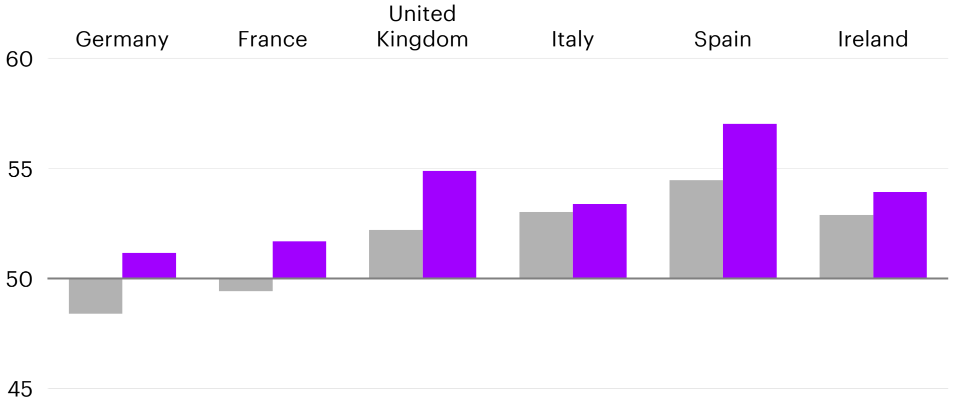
Country Performance

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



New Orders Index

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



Commentary

- Output growth improved in April across major European economies, moving into positive territory (relative to recent 3-month average)
- Software and platforms have shown strong output growth, propelled by new orders (highest growth in 25 years) and job creation
- Consumer facing services such as entertainment, retail, travel all recorded strong growth

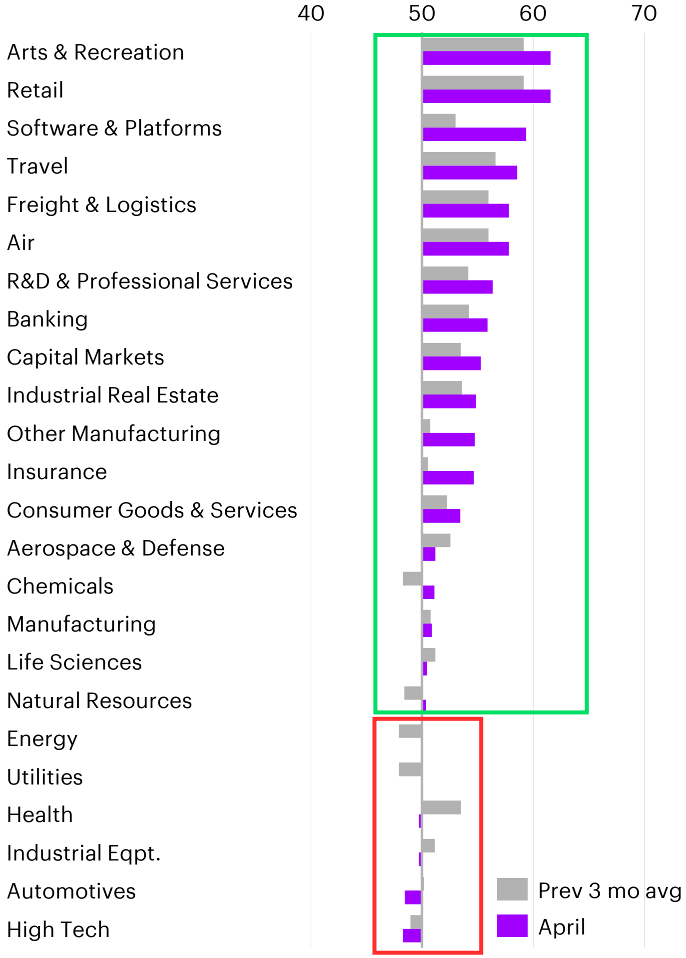
Sources: S&P Global, Accenture Strategy analysis

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

Regional performance: Asia-Pacific

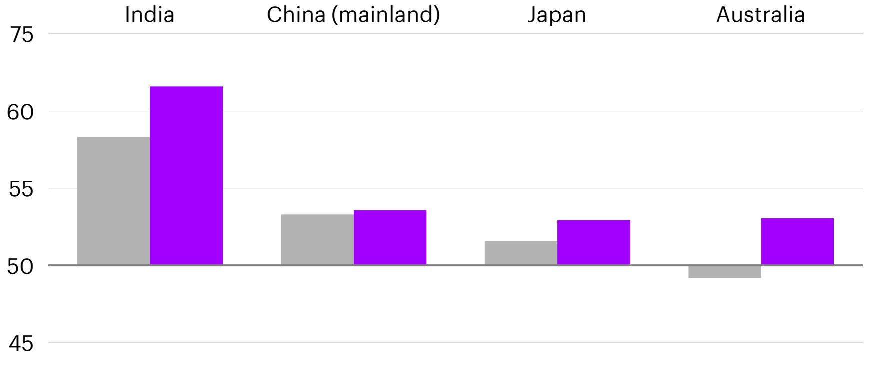
Industry Performance

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



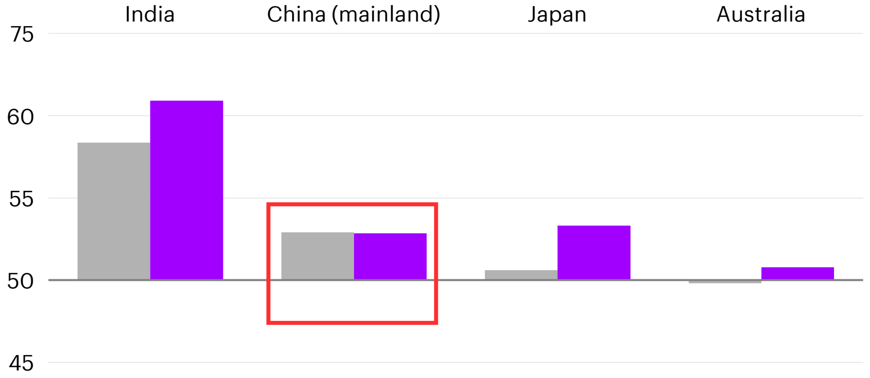
Country Performance

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



New Orders Index

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



Commentary

- India continued its impressive growth in output for both manufacturing and services while orders, output and new business all improved
- China's economic re-opening continues to progress while services sector drove overall output growth
- In Japan, output and new orders both expanded despite weak exports
- While new orders in the Australian manufacturing sector continue to fall, activity in the services sector has held up well

Sources: S&P Global, Accenture Strategy analysis

Manufacturing in Thailand experienced record growth in April, but continued to contract in Malaysia, Vietnam and Taiwan

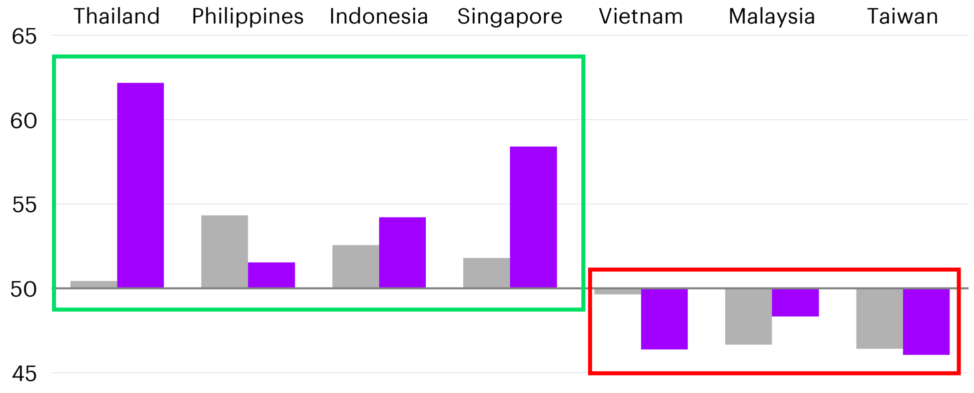
Regional performance: Southeast Asia

Manufacturing Performance

Apr'23 vs Previous 3 Month Average, Manufacturing PMI

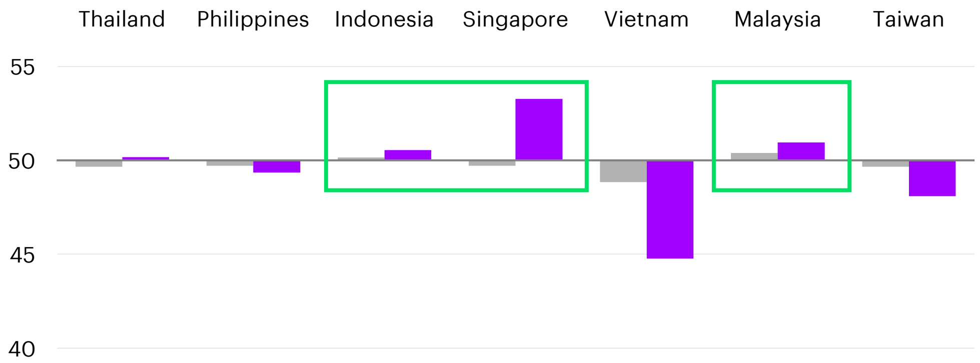
Manufacturing New Orders

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



Manufacturing Employment

Apr'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 softened in April relative to the recent 3-month average
- Vietnam's manufacturing sector contracted in April as new orders and output fell
- Businesses in Taiwan witnessed output and new orders decline at faster rates, though expectations for the future outlook turned positive the first time in a year

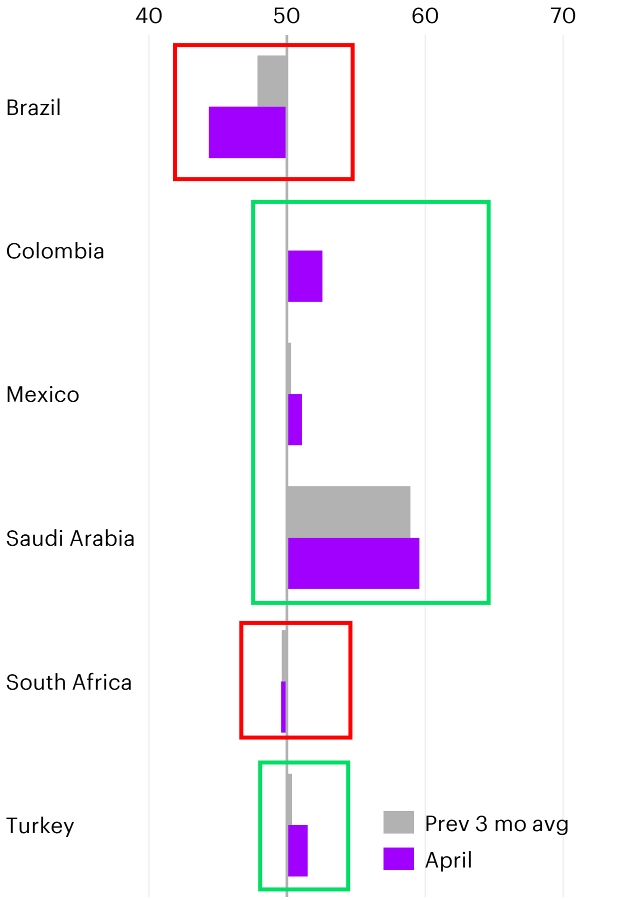
Note: Performance for Singapore covers the whole economy
Sources: S&P Global, Accenture Strategy analysis

Saudi Arabia extended its growth gains, while Brazil continued to lose momentum

Regional performance: Other emerging markets

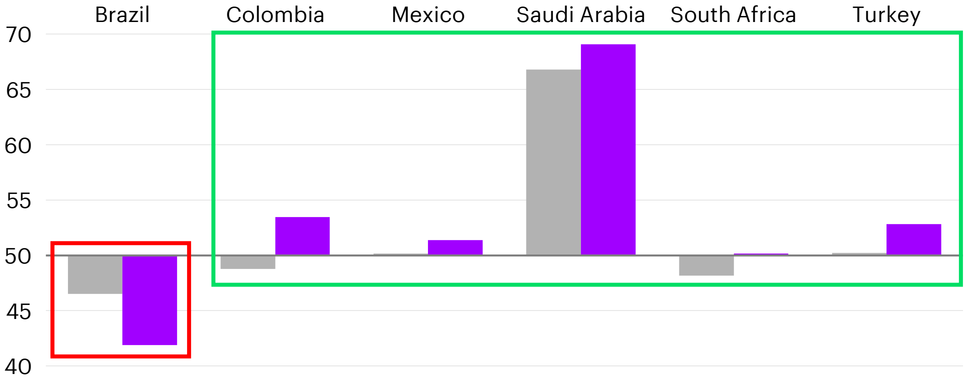
Manufacturing Performance

Apr'23 vs Previous 3 Month Average, Manufacturing PMI



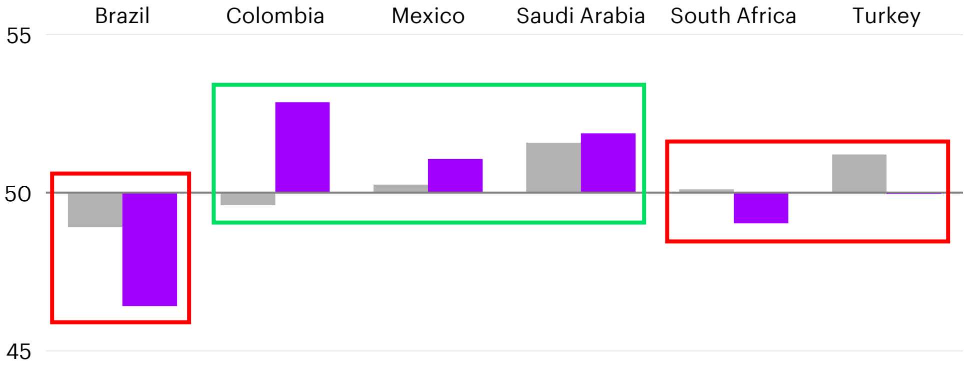
Manufacturing New Orders

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



Manufacturing Employment

Apr'23 vs Previous 3 Month Average, Employment PMI



Commentary

- In Brazil, weak demand and policy concerns continue to drag on the manufacturing industry
- Colombia experienced a rebound in economic activity, with increased new orders and employment
- Manufacturing in Mexico expanded as stronger new orders offset declining exports
- Saudi Arabia's business activity continues to expand, reflecting strong new orders though exports contracted in April
- Manufacturing output contracted in South Africa as input cost inflation remains a key challenge
- Earthquake aftermath and retirement age regulations have led to a reduction in employment in Turkey, despite expanding output

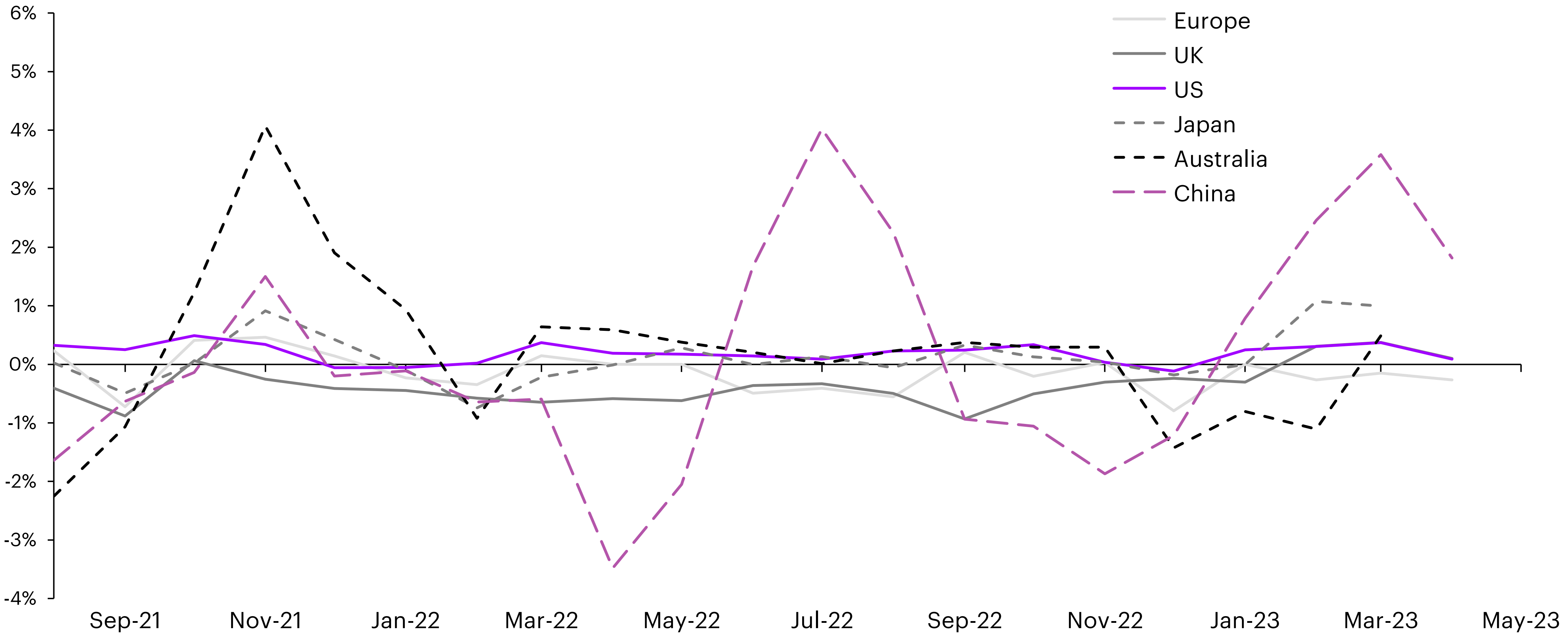
Note: South Africa and Saudi Arabia PMI is for the whole economy
Sources: S&P Global, Accenture Strategy analysis

Consumer spending

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

Consumer spending trends

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

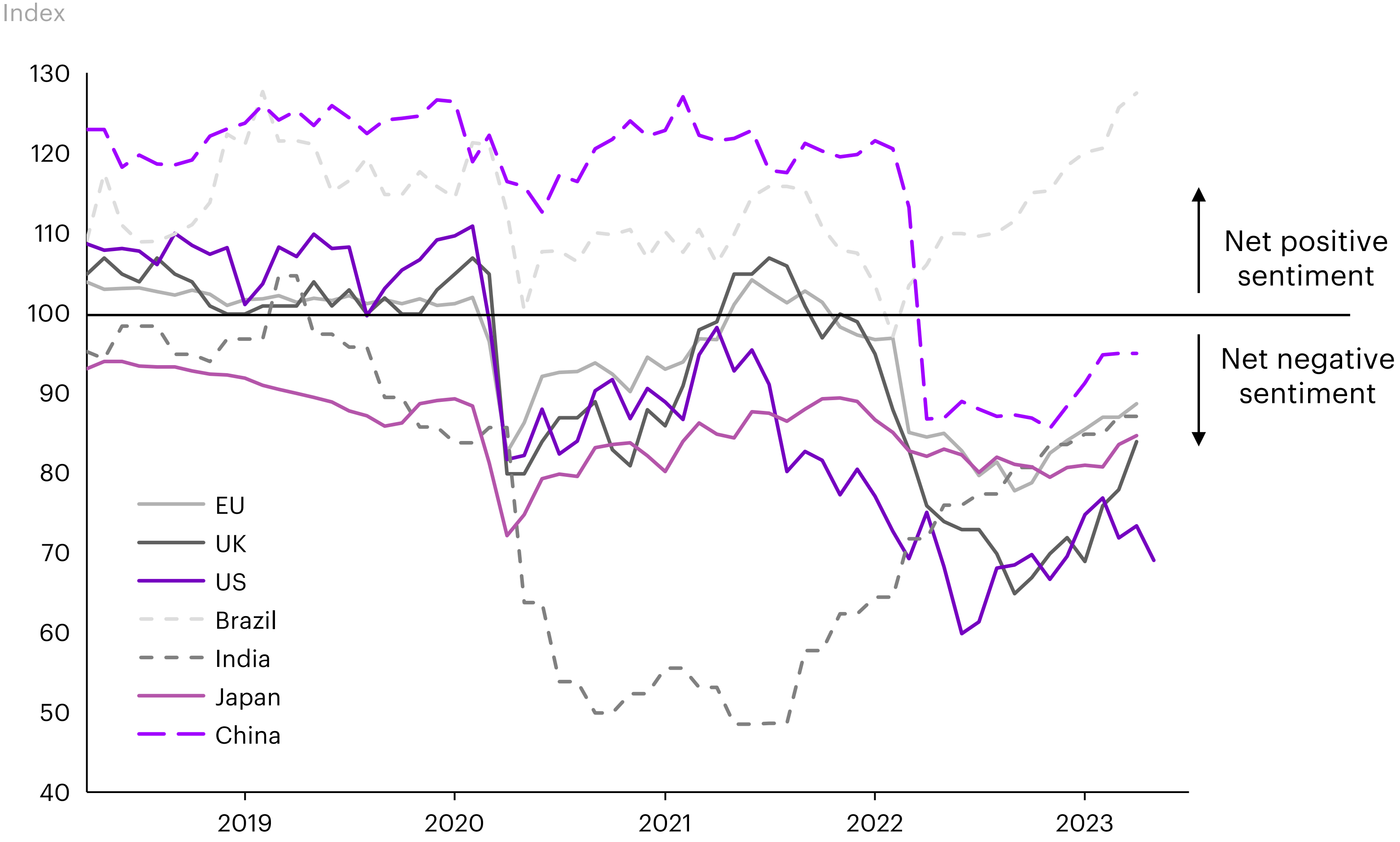


Notes: Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area, UK, Canada, Japan, Australia, and China series data is retail sales.
Sources: BEA, BLS, Eurostat, ONS, Haver analytics, Accenture Strategy analysis

Consumer sentiment globally remains largely pessimistic, and deteriorated further in the US in May

Consumer sentiment remains low

Indicators of overall consumer sentiment



Notes: All series have been rebased from their original reported levels to a central point of 100.
UK data from GfK Survey. US data from Michigan Survey
Sources: EC Consumer Surveys, GfK Survey, University of Michigan Survey, Fecomercio, China National Bureau of Statistics, Reserve Bank of India, Japan Cabinet Office, WSJ

Commentary

- The milder-than-expected winter has contributed to easing of energy prices and improved consumer confidence across Europe
- The now year-long trend of improving consumer confidence in India and Brazil continues
- Sentiment among US consumers has been on a downward slide since February 2023, reflecting growing pessimism about the economic outlook

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

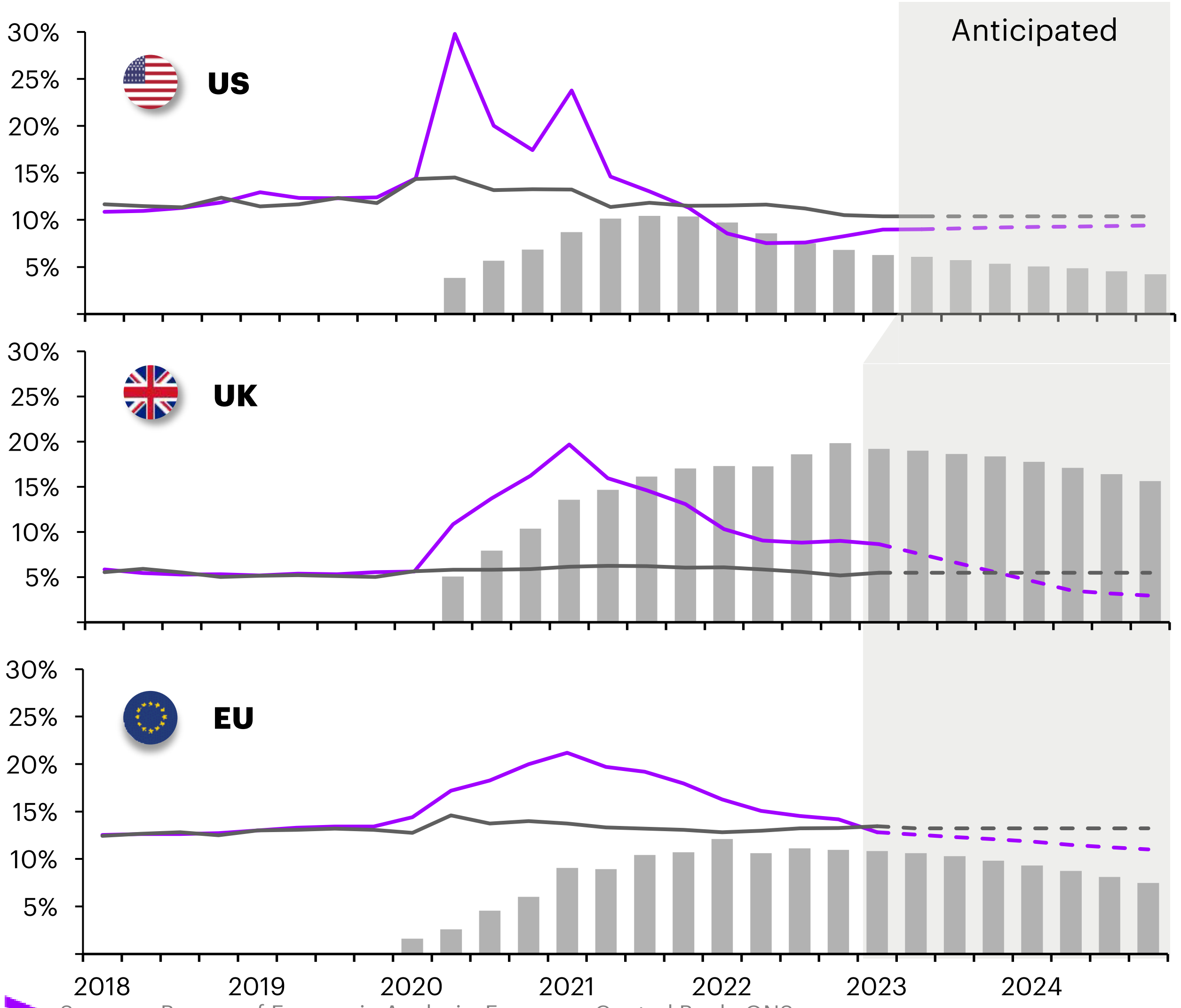
AS OF MAY 29

		US		UK		Germany		France	
		Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change	Prior 6 months	Latest monthly change
Goods	Groceries	-0.4%	0.3%	-2.0%	-0.8%	-3.0%	-2.1%	-2.1%	-0.1%
	Motor vehicles	5.3%	2.2%	11.5%	-1.3%	11.7%	4.2%	7.7%	2.4%
	Furniture	0.1%	1.3%	-1.5%	2.6%	-4.0%	-1.0%	2.1%	-2.8%
	Electronics	3.6%	1.9%	0.2%	3.4%	1.8%	-2.9%	1.3%	2.1%
	Footwear & apparel	-0.3%	-0.2%	4.2%	-1.8%	1.2%	-6.6%	4.7%	1.5%
	Fuel	0.5%	-0.6%	-1.1%	0.2%	-3.5%	-0.9%	0.6%	-1.0%
Services	Transportation	-0.9%	1.3%	-2.0%	-1.6%	1.4%	-2.6%	1.4%	-2.9%
	Entertainment	1.9%	1.3%	-0.3%	1.4%		n/a	4.1%	-2.0%
	Dining out and hotels	1.3%	0.1%	-1.0%	-0.8%	-3.8%	3.0%	1.1%	0.5%
	Information services	1.0%	0.2%	1.9%	-1.1%	2.9%	2.7%	4.2%	-0.2%
	Telecom	0.1%	0.2%	9.0%	0.2%	3.5%	5.7%	2.7%	-0.5%

Notes: 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.
Sources: 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

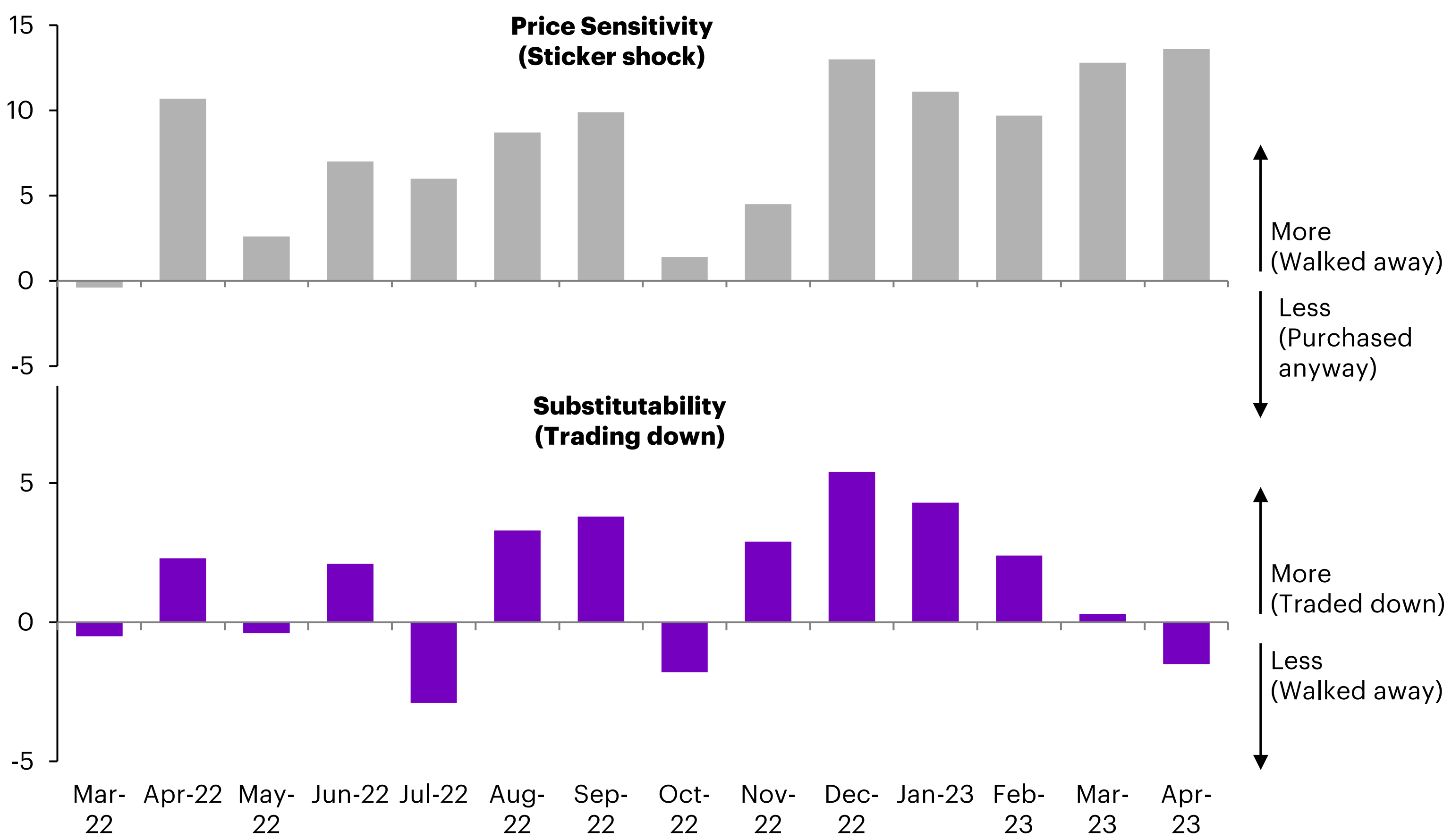
- When economies closed at the beginning of the pandemic savings rate climbed to all time highs. As the pandemic progressed, consumers continued to amass savings
- Here we have estimated how those excess savings (the difference between the observed savings rate and that which would have been predicted by prevailing economic conditions) have accumulated over time
- We expect the US consumer will continue to wind down those savings until overall savings return to normal levels
- European consumers have been slower to spend against those accumulated savings though we expect that they will start to wind down those savings levels into 2023 and 2024

Sources: Bureau of Economic Analysis, European Central Bank, ONS

US consumers report the highest levels of price sensitivity and inability to trade down since the beginning of 2023, taking a toll on household budgets as elevated inflation persists

US consumer behavior in the face of inflationary pressures

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



Note: 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.
Sources: Morning Consult Economic Intelligence, Accenture Strategy analysis

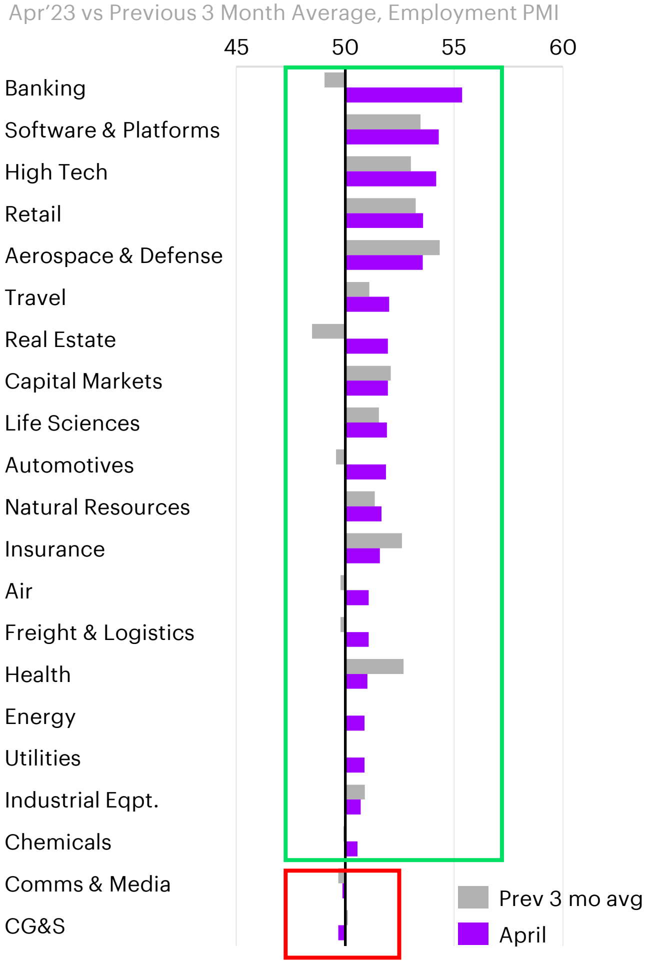
Commentary

- Reported price sensitivity peaked in April 2023 following the third consecutive increase
  - 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—has been declining for the fifth consecutive month in April 2023
  - This could reflect consumers walking away from the purchase as prices of substitutable products have also become cost-prohibitive

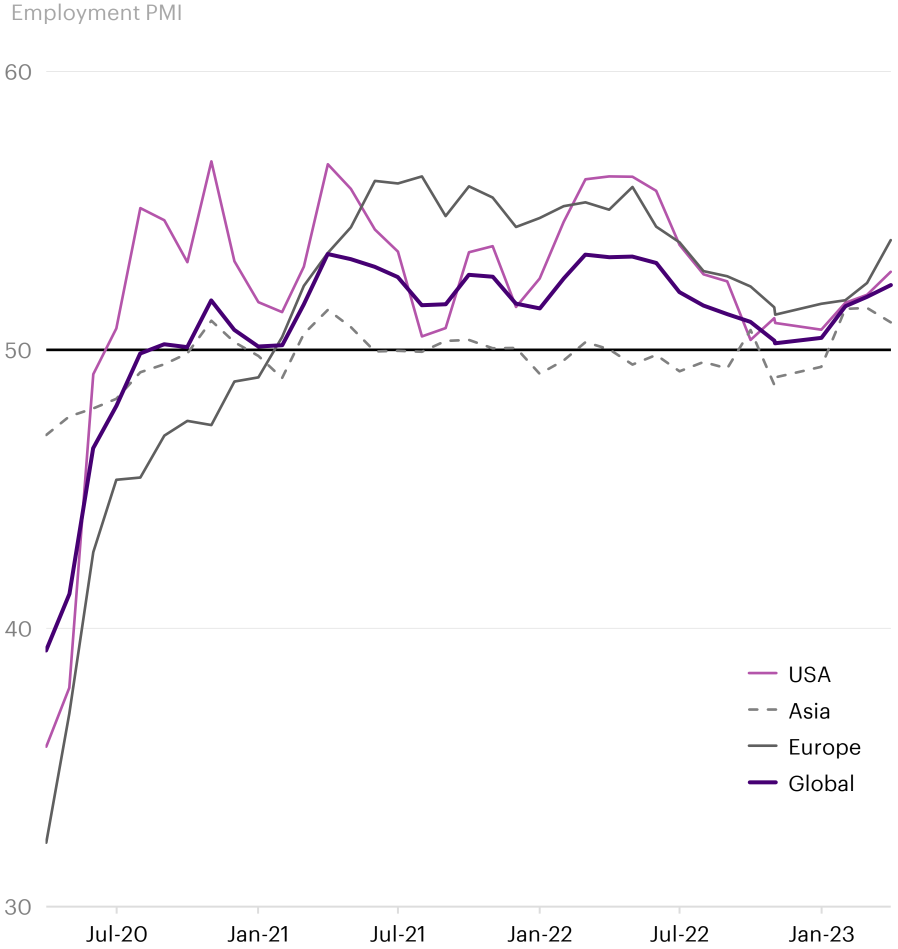
Labor markets

Global labor market stability continued in April across most sectors and major economies
Labor markets: Global overview

Global PMI Employment Index



Aggregate PMI Employment Index



Commentary

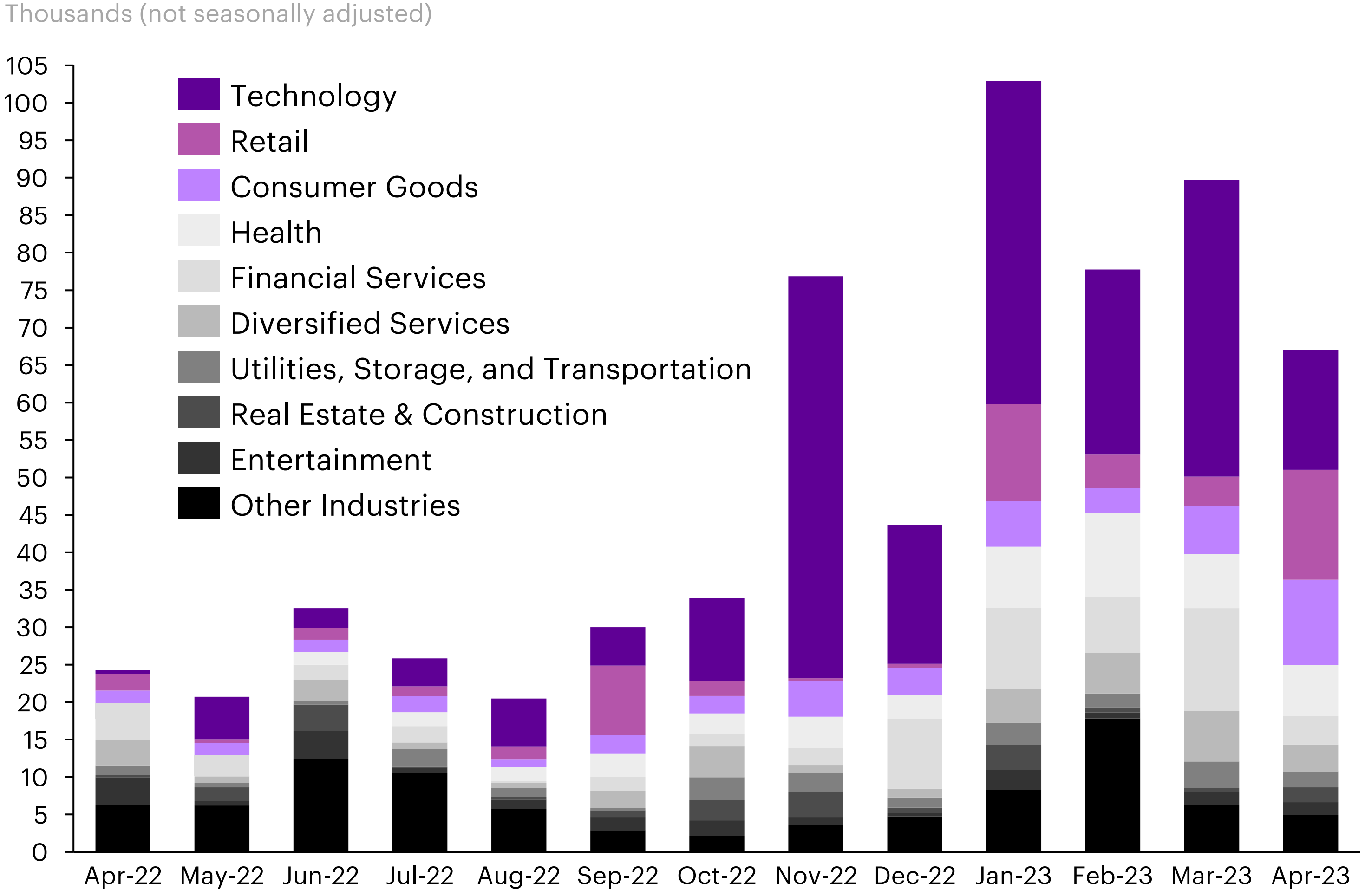
- Employment growth in Asia remained positive but weakened in April
- The ongoing employment strength in services sectors will be key to watch in 2023 as wage pressures in those industries contribute to stickier inflation
- Despite stress in the banking sector, employment rebound strongly in April

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

The pace of US layoffs slowed in April, notably in the technology and financial services sectors

US corporate layoff tracker

Announced layoffs by sector



Comments

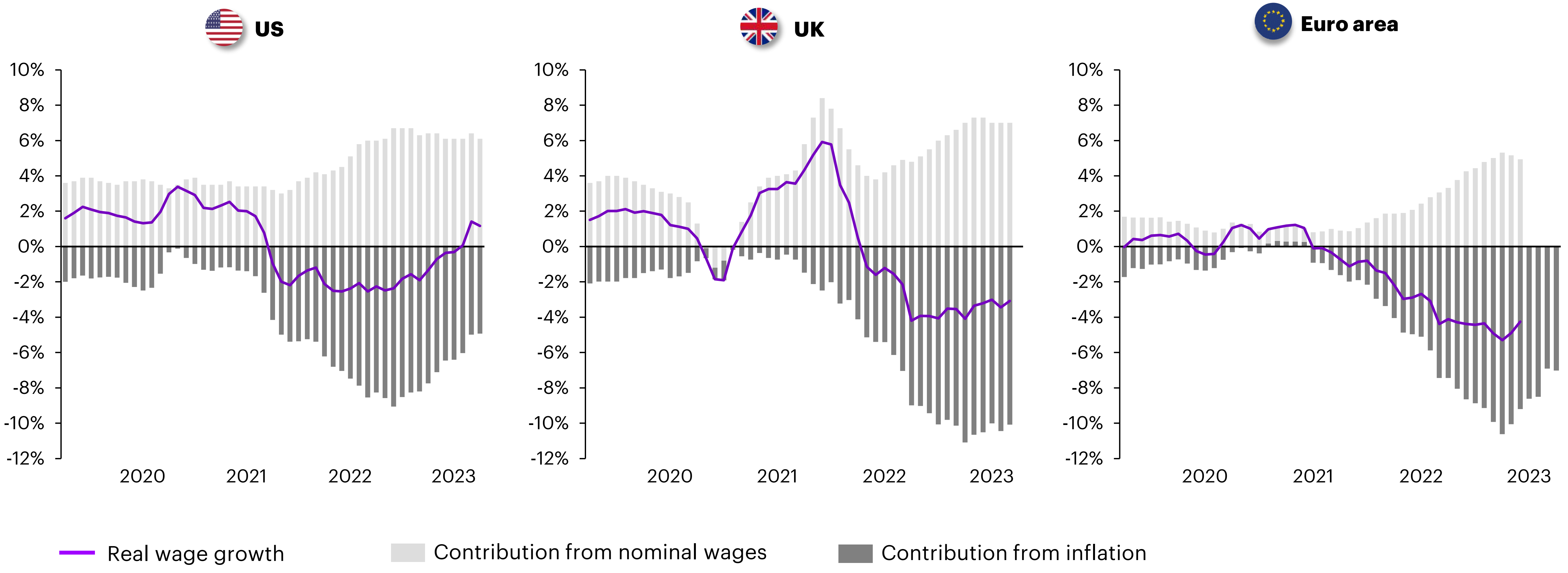
- Tech layoffs continue though at a slightly lower pace, likely due to the frontloading of layoff announcements in the earlier part of the year
- Financial services layoffs have also tapered off after a surge during recent bank failures
- Consumer goods and retail companies are announcing layoff plans in expectation of slowing consumer demand

Sources: 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

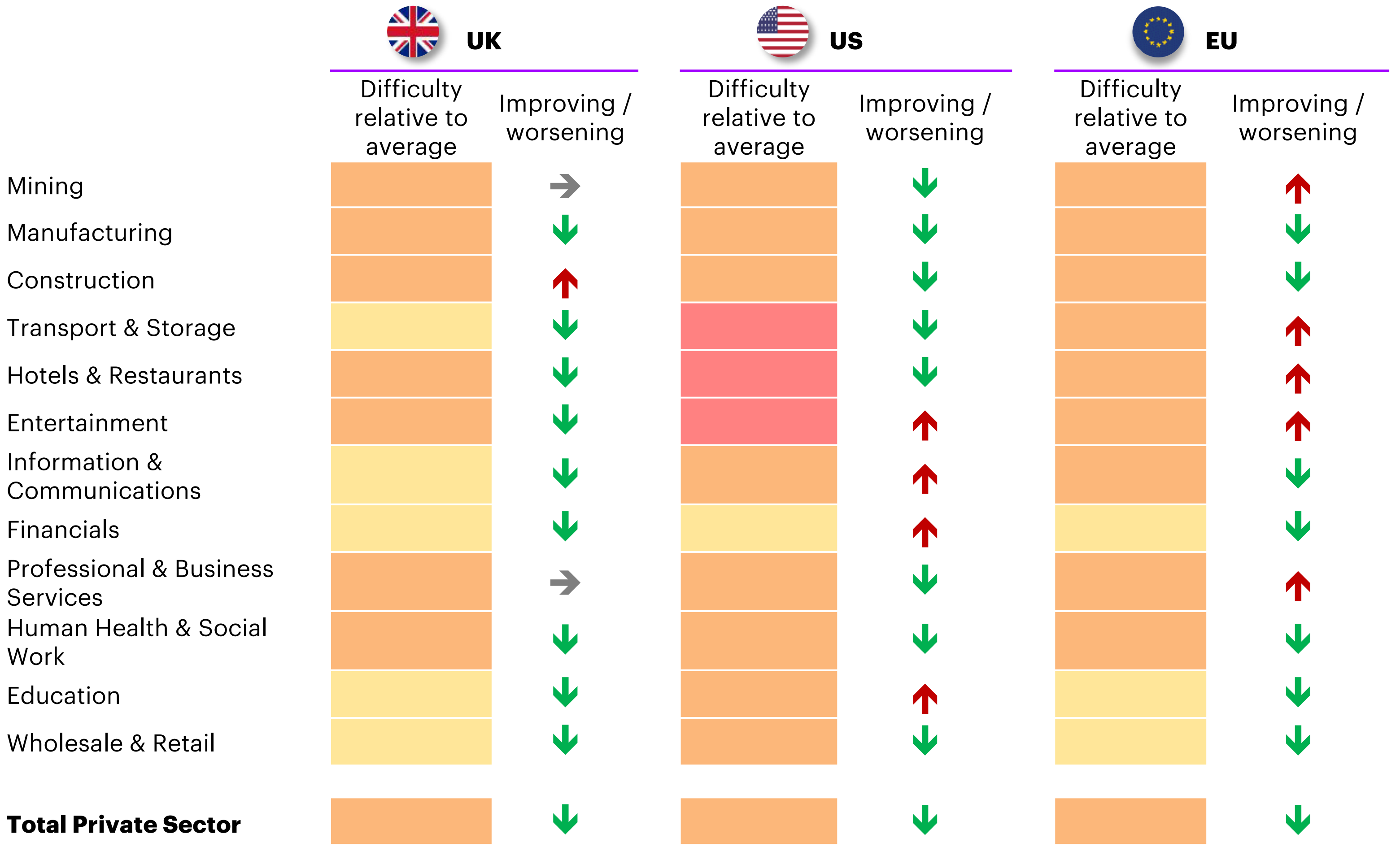


Sources: BLS, ONS, Indeed, Accenture Strategy analysis

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, 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, Info & Comms, and Financials

Difficulty finding labor (relative to long-term average)

More difficult  Less difficult

Notes: Hiring difficulty in each sector is assessed by comparing average job vacancy rate in that sector over recent 3 months to its long-term pre-pandemic average (2012-2019). The recent trend (improving/worsening) is based on comparison of latest job vacancy rate to its average over the prior three months. UK and US analysis is based on monthly data, and EU on quarterly data.

Sources: ONS, Eurostat, BLS, Haver Analytics, Accenture Strategy Analysis

Inflation

Easing energy prices and supply chain pressures provided further inflation relief globally in April, but current rates are still elevated, except in China

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	4.9%	-0.1%
United Kingdom	8.7%	-1.4%
Canada	4.3%	-0.2%
Germany	7.7%	-1.5%
France	6.9%	0.2%
Italy	8.8%	0.9%
Spain	3.8%	0.8%

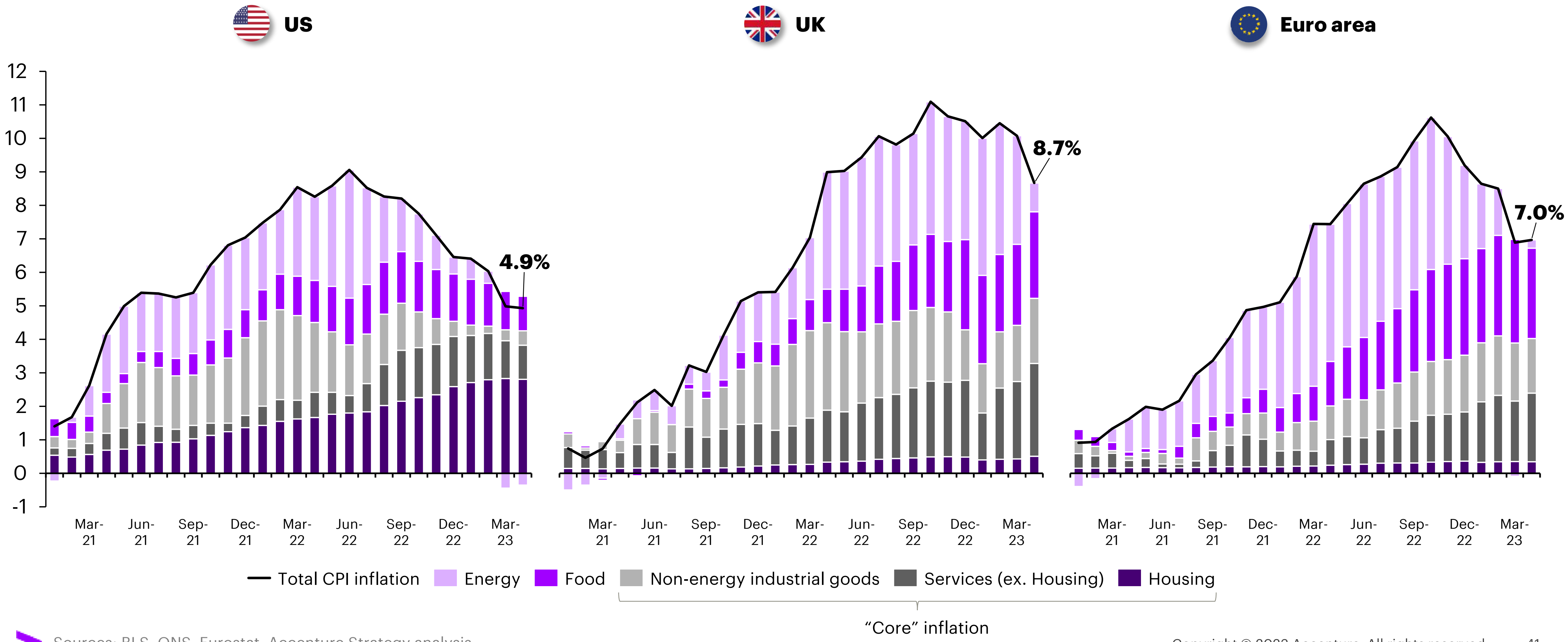
Country	YoY Inflation Rate	Change from previous month's rate (percentage points)
China	0.1%	-0.6%
Japan	3.2%	-0.1%
Brazil	4.2%	-0.5%
India	4.7%	-1.0%
Singapore	5.5%	-0.8%
Korea	3.7%	-0.6%

Sources: Haver Analytics, Accenture Strategy analysis

In April, lower energy prices continued to be a source of disinflation for the US and Europe; food and core inflation remain elevated and sticky, however

Drivers of recent CPI inflation

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

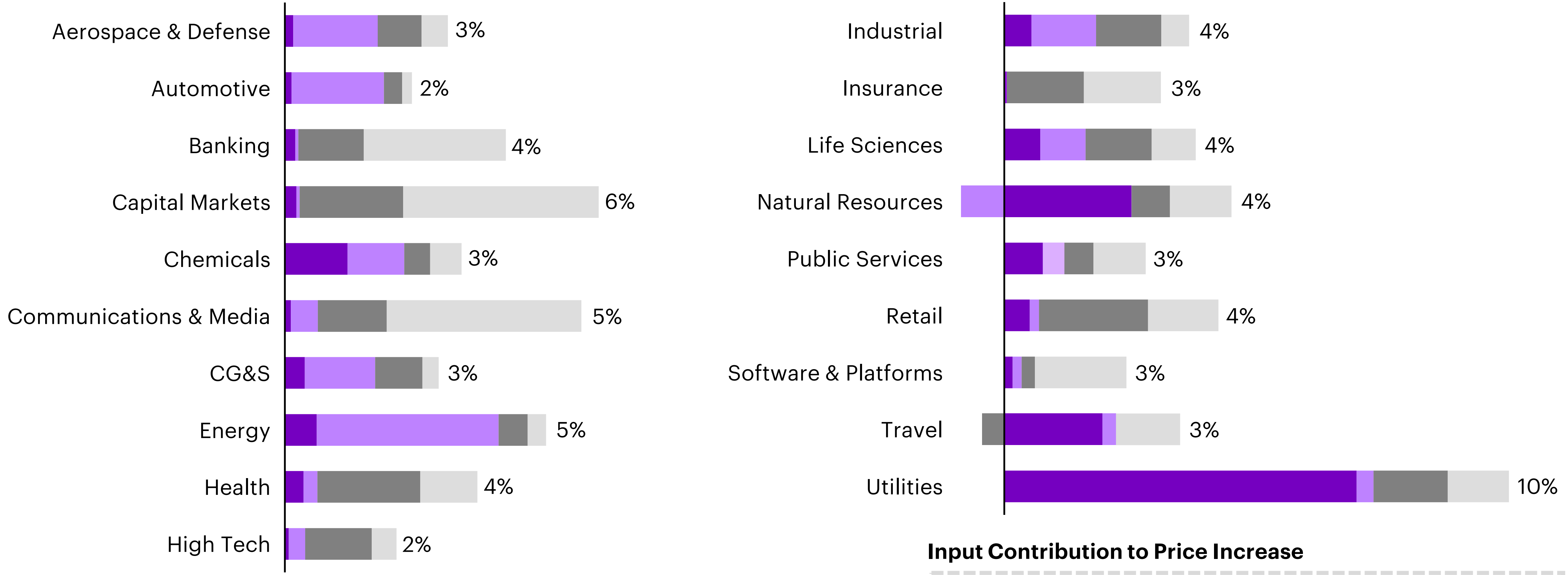


Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

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

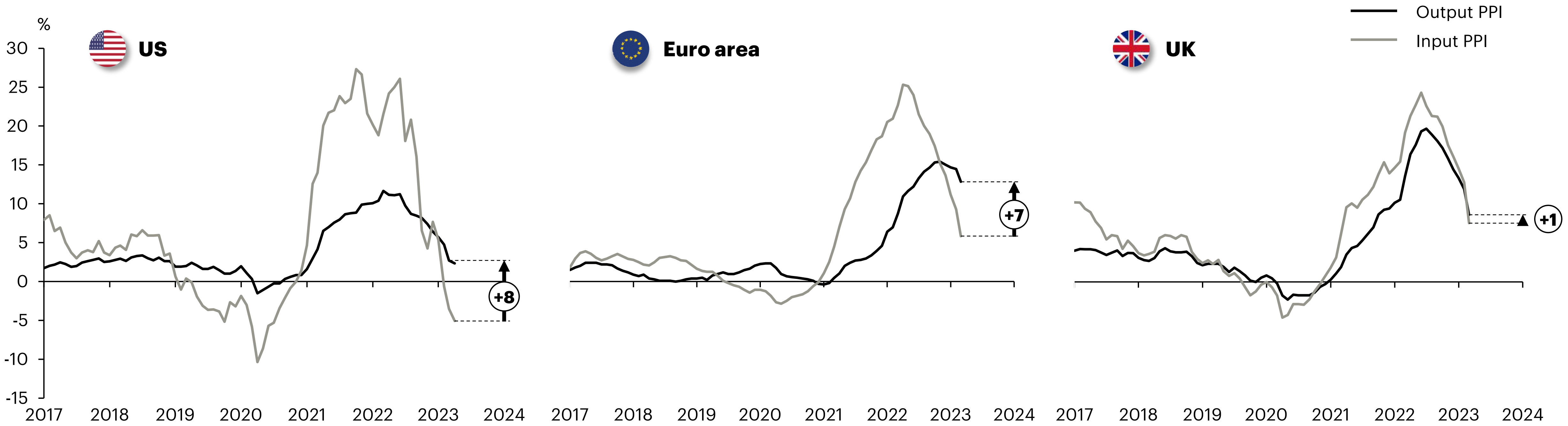


Note: Wage data as of 3/23, energy prices as of 4/23, Materials and Purchased Services PPI price increases as of 4/23
Sources: BLS, BEA, EIA, EPA, Accenture Strategy analysis

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**

Notes: 1) Figures in bold represent absolute percentage point difference between intermediate and final demand PPI YoY % values; higher positive values imply greater pass through to final producer selling prices, while larger negative values imply lower pass through. 2) US data is based on production flow classification for PPI, where Stage 2 intermediate inputs (shown in chart) feed into stage 3 production, stage 3 outputs serve as inputs to stage 4 production, and stage 4 provides inputs to final demand goods/services.

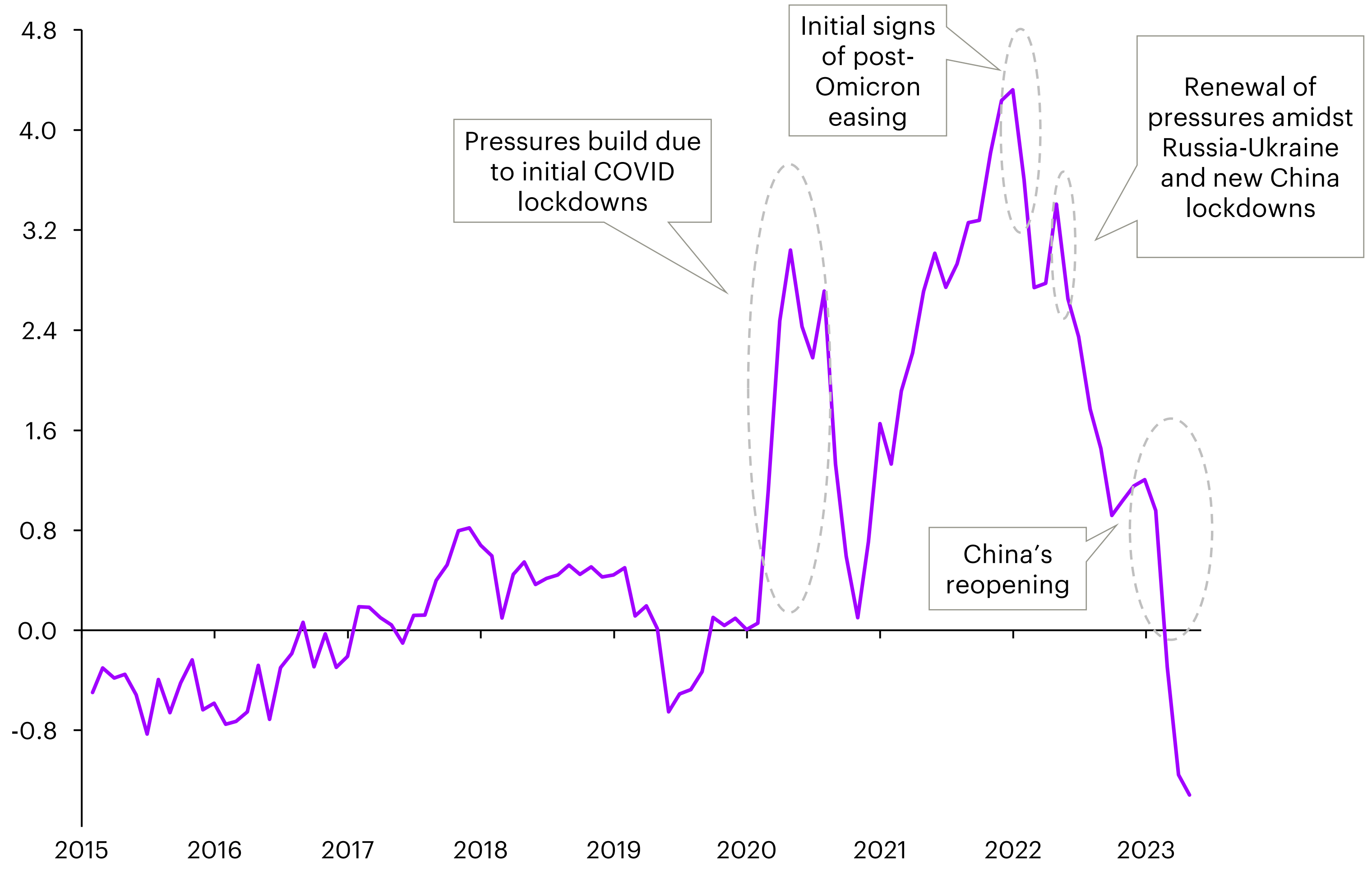
Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

Supply chains

Global supply chain pressures are now below pre-pandemic levels and at a 13-year low

Global Supply Chain Pressure Index

Standard deviations from long-term average (=0)



Commentary

- Global supply chain pressures continued to ease in April led by European delivery times
- Easing supply chain pressures should have a disinflationary impact on goods prices and help support global trade flow

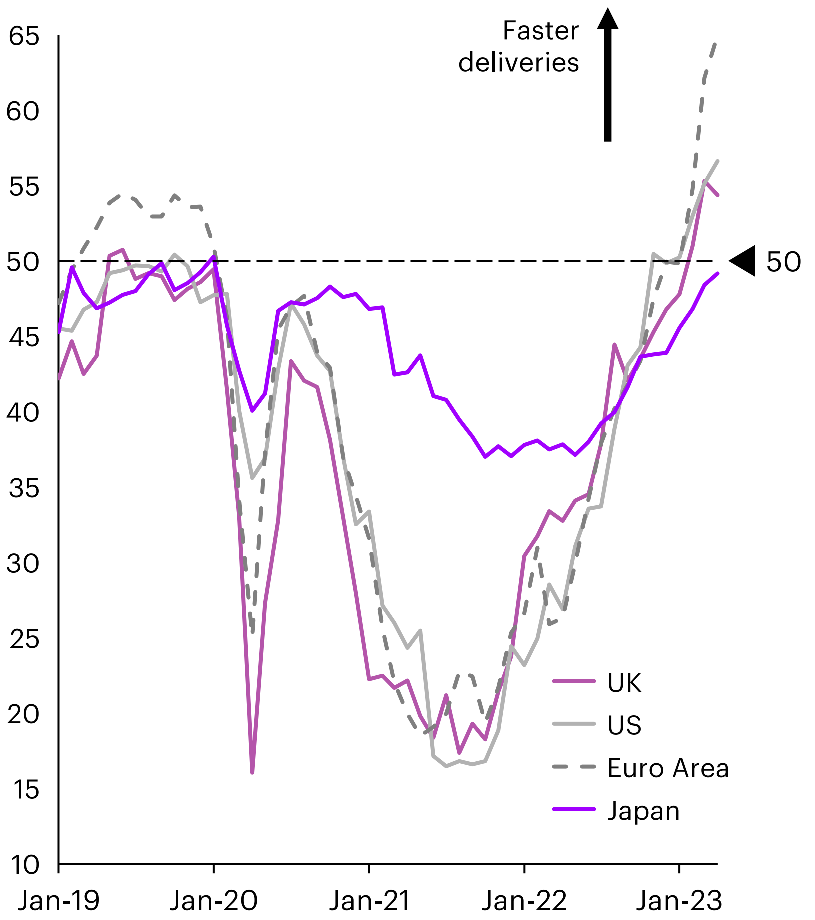
Sources: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, Accenture Strategy analysis

Softening demand and reduced manufacturing output in the US and Europe have shortened supplier delivery lead times and backlogs

Suppliers' delivery times and backlogs of work

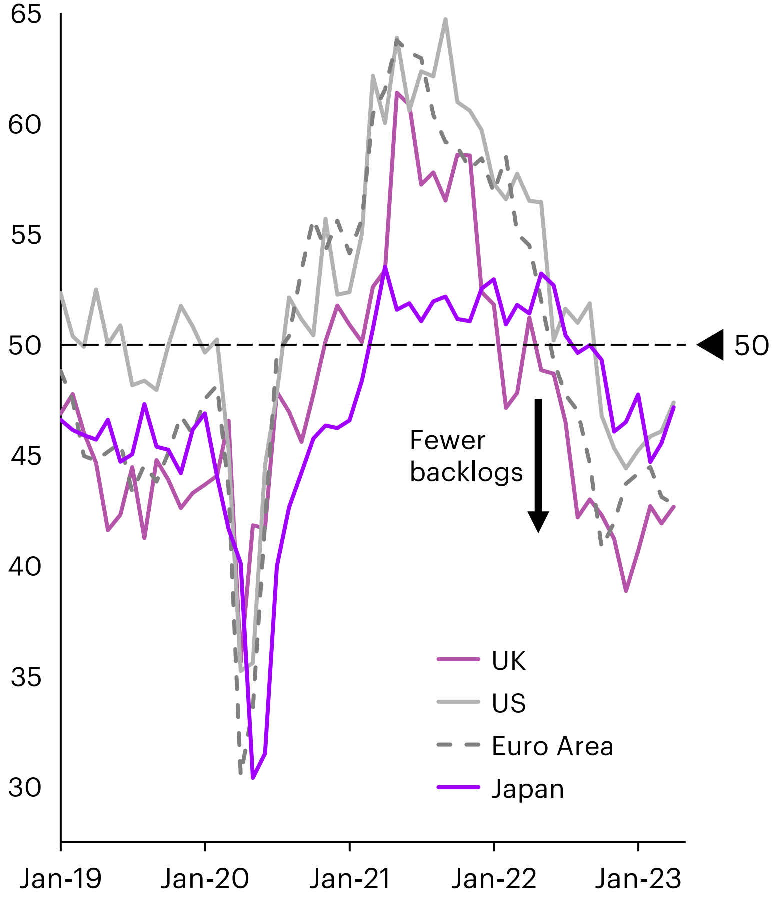
Suppliers' Delivery Times

Seasonally adjusted, 50+ = Increase



Manufacturing Backlogs of Work

Seasonally adjusted, 50+ = Increase



Commentary

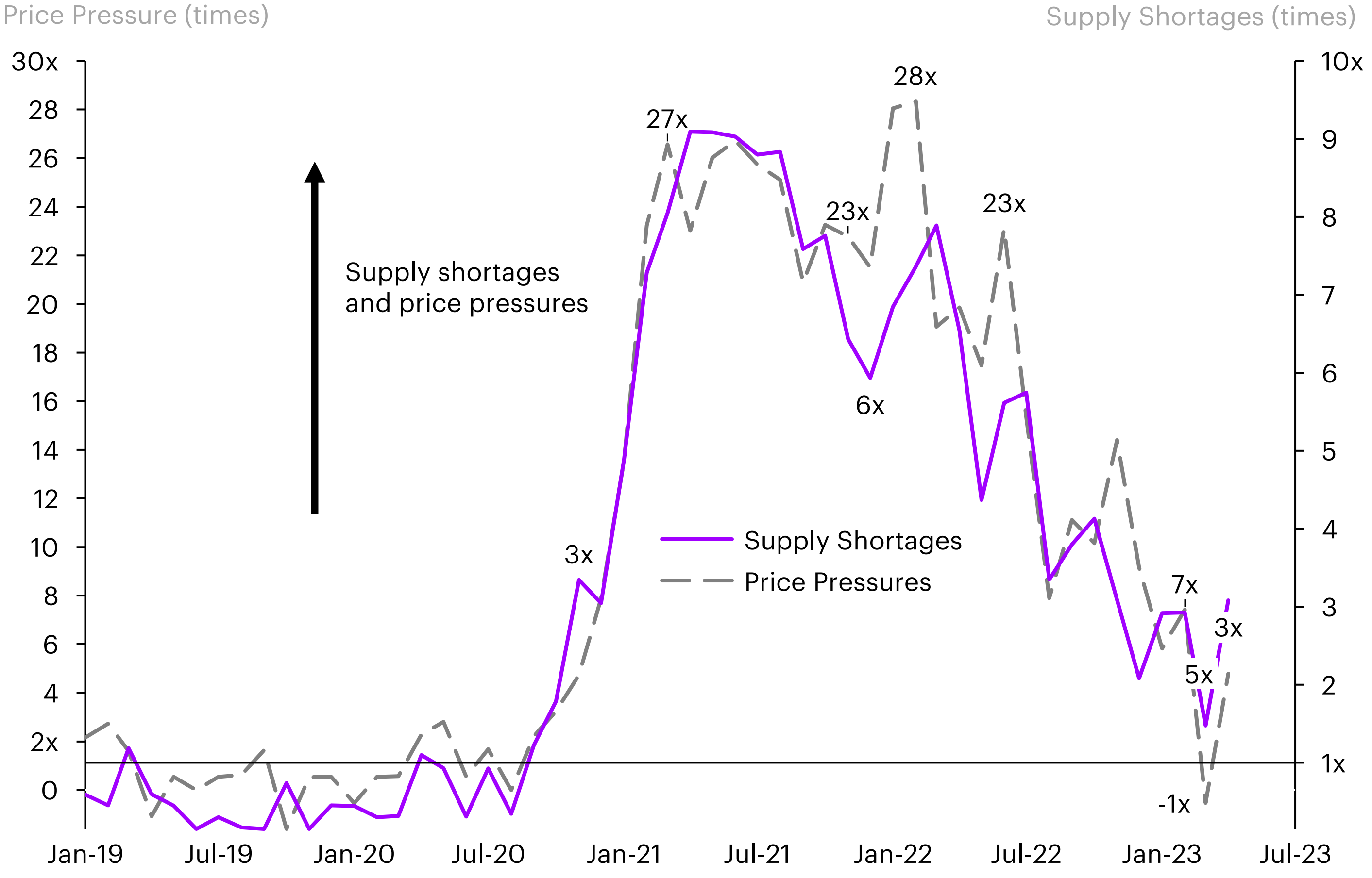
- Supplier delivery times improved further in April, reflecting greater supply availability and fewer bottlenecks
- Weakening demand is behind the shorter delivery lead times in Europe, allowing firms to work through backlogs
- Weaker demand for materials in the US drove improvement in lead times, the fastest improvement on record
  - Manufacturers are implementing cost cutting initiatives, with cutbacks in input purchases
- Easing transportation delays and better materials availability are improving delivery lead times in Japan, enabling efficiencies
- Japanese manufacturers expect a rise in production this year as supply chain conditions improve

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

Some semiconductor supply and price pressures resurfaced in April, though this is most likely just monthly volatility given the clear recent downward trend

Semiconductor supply chain pressures

Global Semiconductor Supply Shortages and Price Pressures



Commentary

- Semiconductor supply shortages worsened month-on-month in April 2023, after easing in March, with shortages at 3 times the long-run average since 2005
- Global semiconductor sales declined by 21.3% year-on-year in Q1'23, mainly driven by macroeconomic headwinds and market cyclicality
  - Sales in China dropped by 34% year-on-year, followed by other Asia Pacific (-22.%), the Americas (-16.4%), Japan (-1.3%) and EU (-0.7%)
  - On an annual basis, global semiconductor sales are expected to drop nearly 11% in 2023
- In parallel, several semiconductor manufacturers (i.e. Samsung Electronics) initiated capital spending and production cuts in anticipation of weakening demand

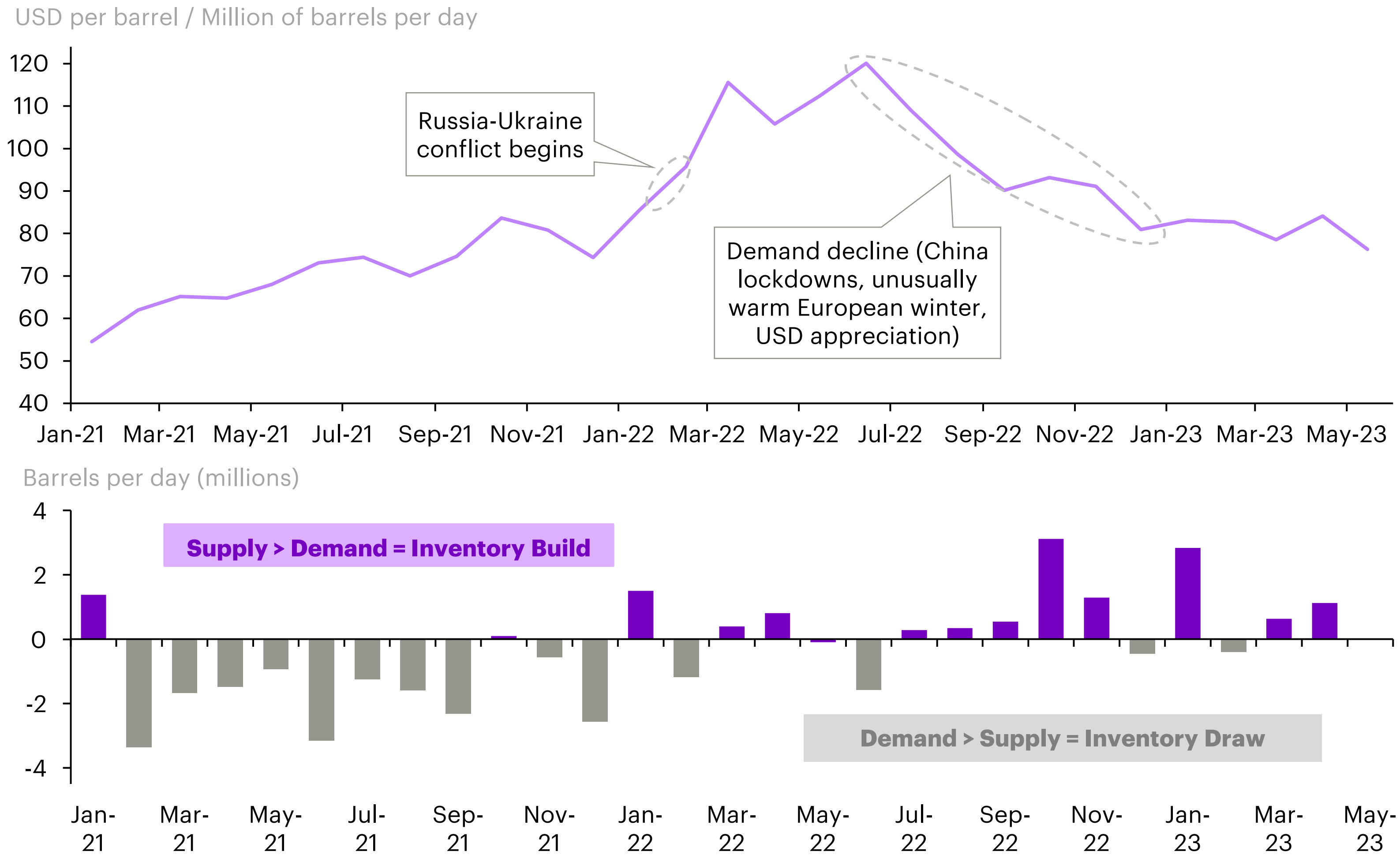
Note: Multiples are derived from monthly survey responses of over 10,000 manufacturing companies conducted by IHS Markit with index value of 1.0x means that supply shortages are in line with the long-run average since 2005
Sources: IHS Markit, S&P Global, Semiconductor Industry Association, Gartner, Sourcengine, Accenture Strategy analysis

Energy and commodities

Oil prices retreated in May amidst weakening global manufacturing performance and market jitters over the US debt ceiling and broader economic outlook

Crude oil prices and inventories

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



Drivers of energy prices in 2023

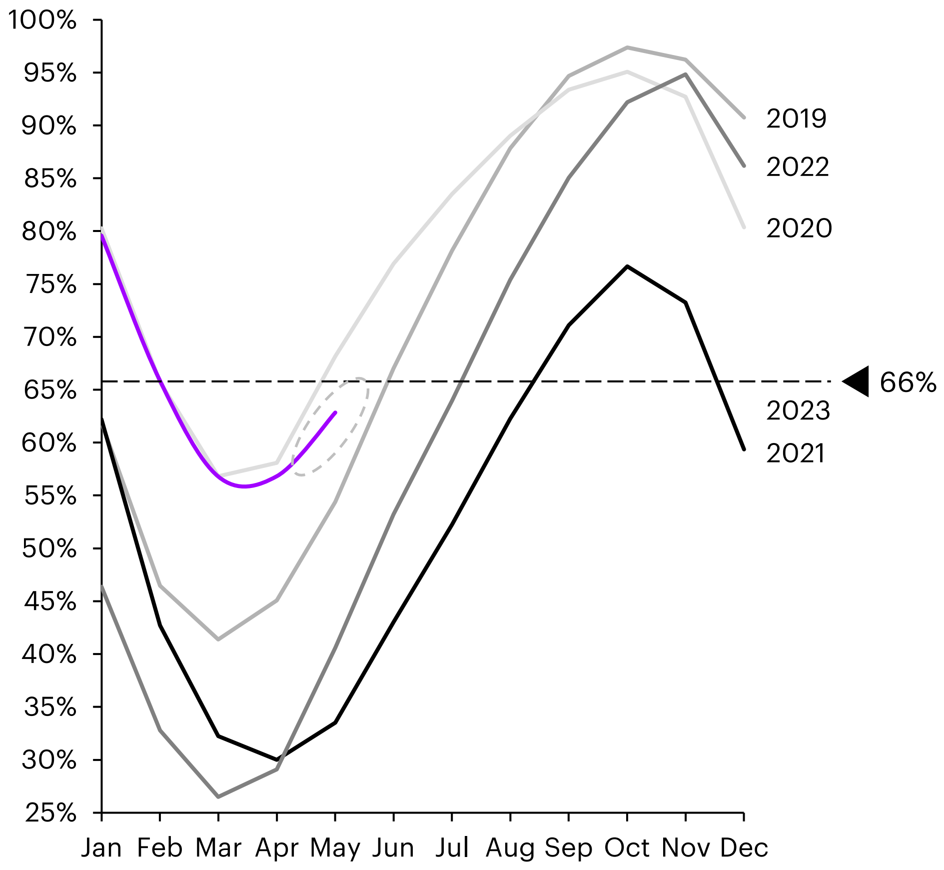
- Brent crude oil prices edged lower in May, as demand headwinds outweighed supply tailwinds:
  - Diminishing oil demand prospects as industrial activity contracts and the consumer outlook darkens
  - Concerns over global economic repercussions from US failing to reach debt ceiling deal
  - OPEC+ plans to cut around 1.2 million barrels per day, which likely limited the overall price decline
- Going forward, supply and demand fundamentals continue to suggest upward price pressures
  - Demand tailwind from China's ongoing economic re-opening
  - Disincentives to new investment by energy companies due to volatile prices, high cost of capital
  - Disincentives to holding high inventory buffers (due to higher cost of capital)

Note: Monthly average of crude oil price UK Brent 38` API (USD per barrel), with May data averaged through May 25, 2023. May inventory data is not yet finalized.
Sources: Energy Information Agency, World Bank, Haver Analytics, Financial Times, Accenture Strategy Analysis

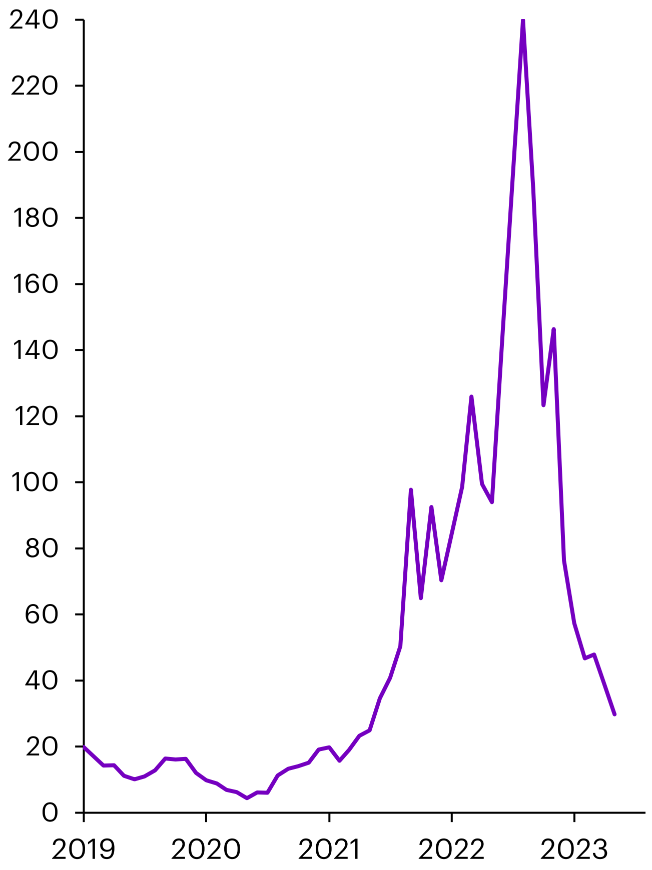
EU gas reserves are growing ahead of next winter and currently sit at near-record levels

EU natural gas reserves and prices

European gas reserves are relatively high at 63%...



...and EU gas prices at lowest since mid-2021



Commentary

- Natural gas prices in Europe continue to fall amidst weaker demand from milder temperatures and strong supply and storage fundamentals
  - Ample storage levels are driven by traders refilling ahead of the 2023-24 winter season
- Russia's pipeline flows to Europe are still 90% lower than prior to the invasion of Ukraine, a result of EU bans on energy imports from Russia
- Many European countries intend to increase mix of renewables and diversify sources of natural gas supply to reduce reliance on Russian imports
  - EU countries are expected to raise the bloc's renewable energy target from 32% to 42.5% of the energy mix by 2030

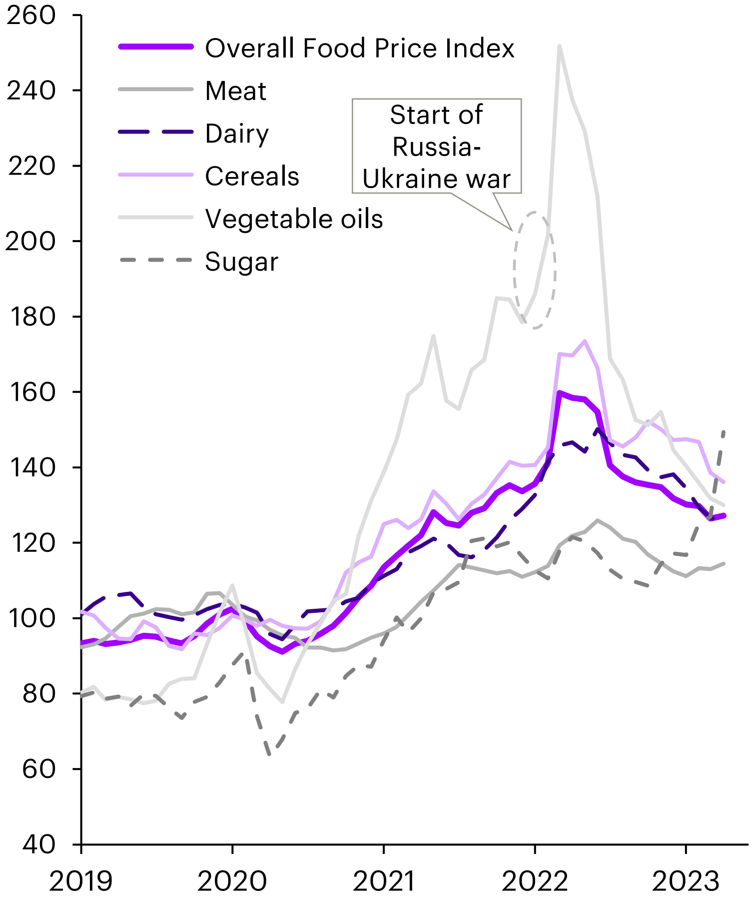
Note: Dutch TTF Natural Gas Futures front-month contract. TTF stands for Title Transfer Facility, which is a virtual trading hub for natural gas in Europe. TTF prices represent the average monthly price of natural gas traded at this hub and are considered a benchmark for natural gas prices in Europe.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

Overall food prices rose slightly in April; geopolitical tensions, Chinese demand and further climate disruptions could renew upward pressures

Food and fertilizer prices

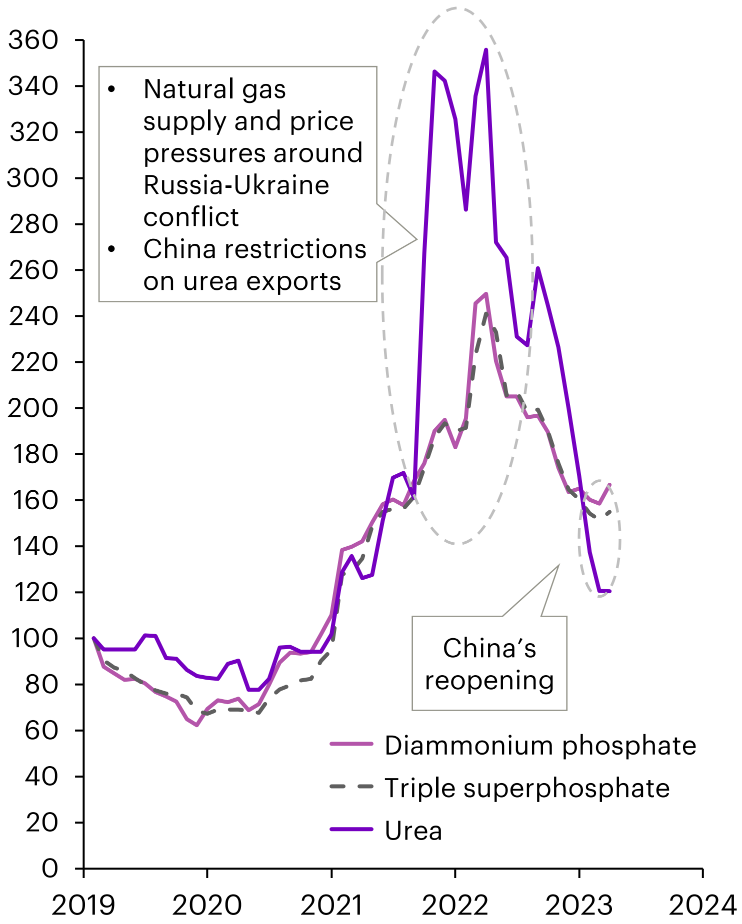
Food prices

Index, 2014-2016 = 100



Fertilizer prices

Index, Jan 2019 = 100



Commentary

- Global food commodity prices rose slightly in April 2023, though they remain lower than pandemic era highs, benefitting from declining costs of energy and fertilizers since mid-2022
  - Sugar prices continue to rise, prompting many international buyers to delay purchases
  - Brazil continues to struggle with an overwhelmed transport system ahead of its sugar harvest
- Further broad easing in food prices may be constrained by:
  - Escalation of Russia-Ukraine conflict that may affect crop and fertilizer production
  - Recent disease outbreaks (e.g., avian flu in India) affecting livestock

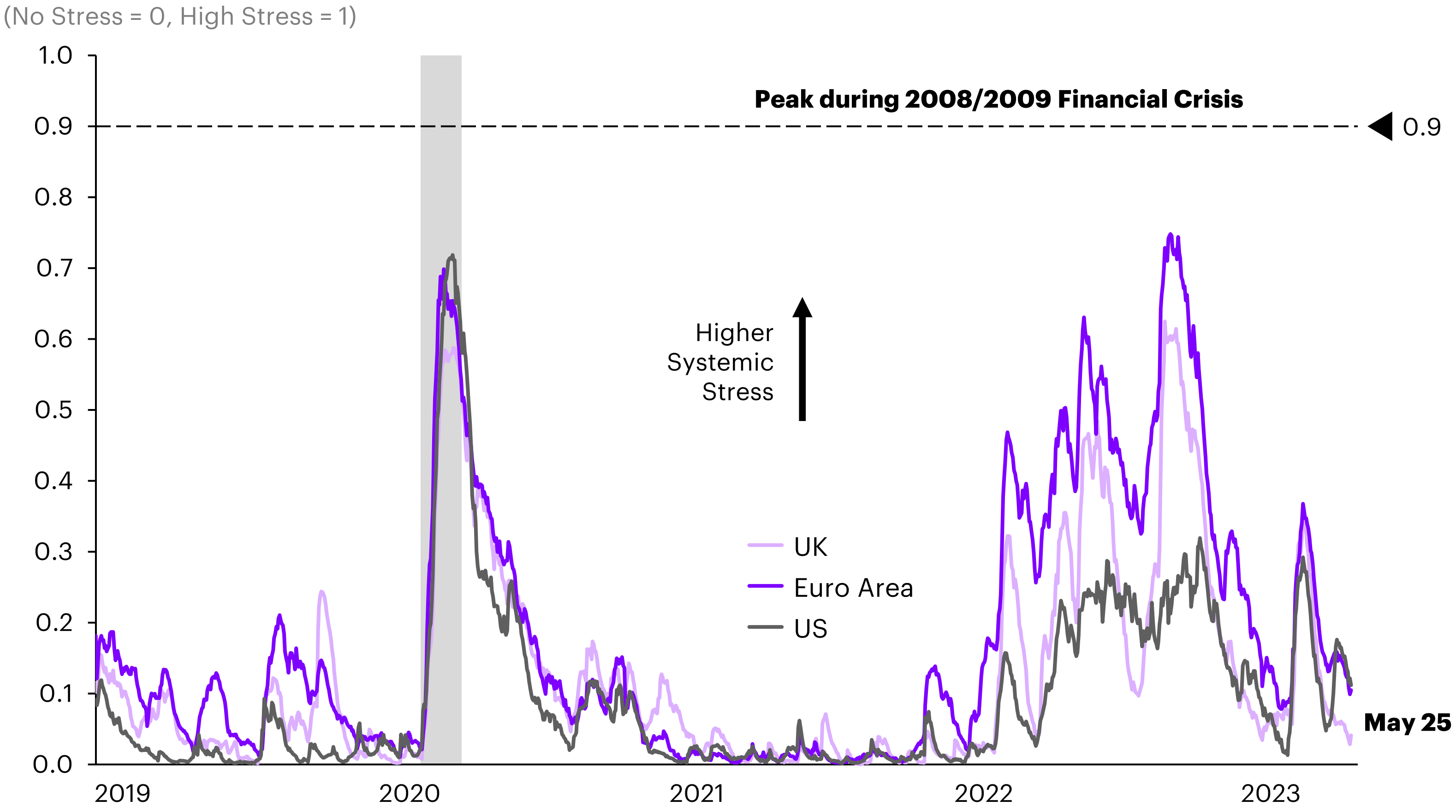
Note: Food Price Index is a measure of the monthly change in international prices of a basket of food commodities
Sources: World Bank, UN FAO, USDA, Accenture Strategy analysis

Financial markets

Systemic financial stress in major economies has eased since mid-March, despite jitters in US bond markets related to the US debt ceiling standoff

Systemic financial stress indicators

Composite Indicator of Systemic Stress Index



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

Commentary

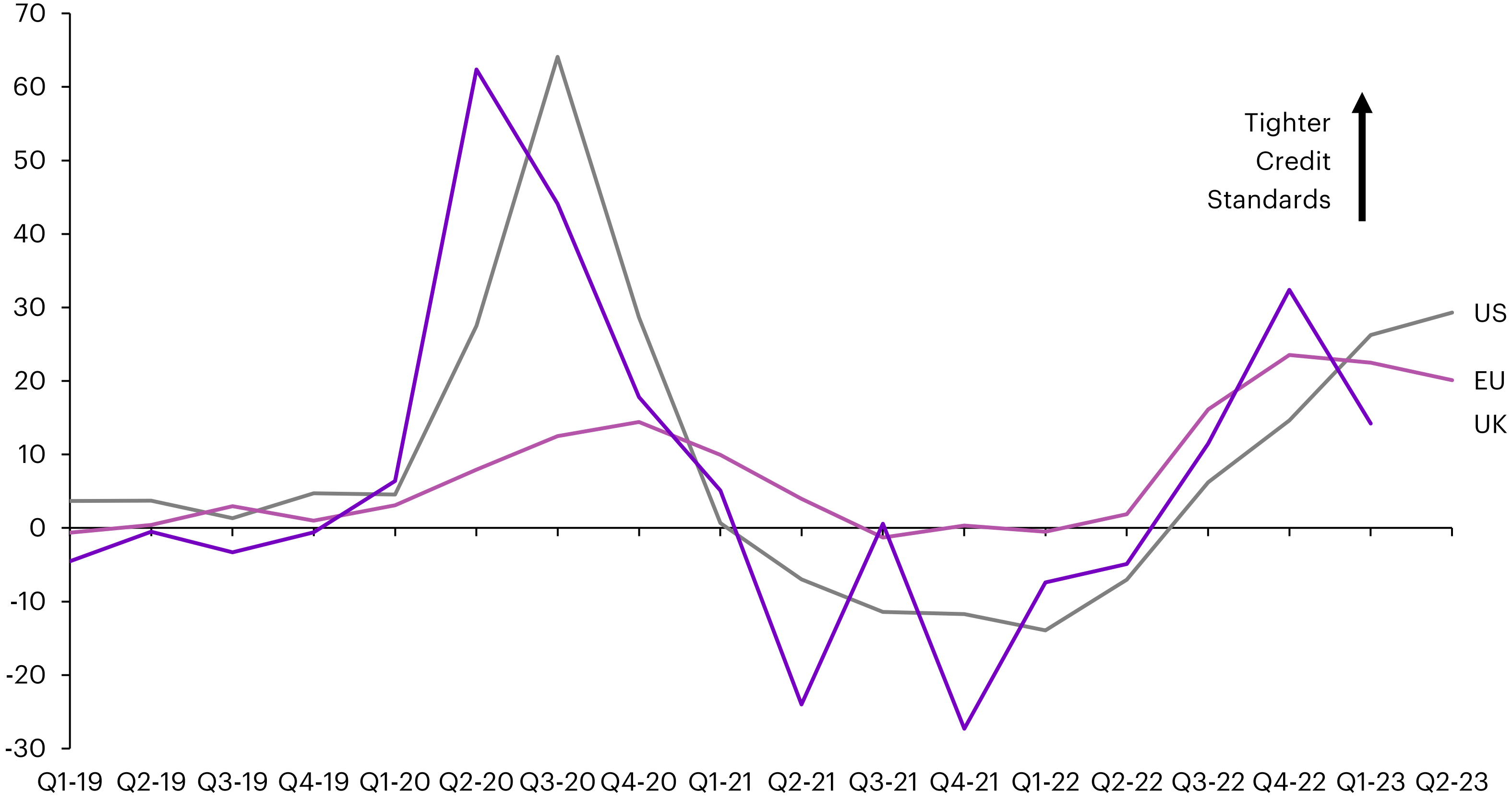
- After surging in March amidst the fallout from bank failures, systemic financial stress levels across the US and Europe have subsided significantly
- Elevated financial pressure is nonetheless expected going into the second half of 2023 amidst
  - Sustained interest rate hikes
  - Growing prospects of an economic downturn
  - Emerging vulnerabilities in sectors where banks have large exposure (e.g., commercial real estate)

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 Q1 2023
  - This survey was conducted in early April and thus captures only initial changes in banks' credit standards in response to the banking sectors stresses and failures that begun in mid-March
- In the EU, lending standards in Q1 remained tight but stable (UK credit standards data for Q1 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 and investment

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

In the wake of recent banking stress and the US debt ceiling standoff, higher-than-average corporate credit risk is perceived in nearly all sectors, especially financials and real estate

US corporate bond spreads

Sector	Recent avg. Z-spread* (Basis Points)	Change relative to pre-banking stress average* (as of May 18, 2023) (Change in Basis Points relative to recent average)
Financials	104	41
Real Estate	161	23
Consumer Discretionary	126	10
Information Technology	87	7
Telecommunications	144	6
Health care	111	6
Energy	187	6
Materials	168	6
Utilities	145	5
Industrials	124	-1
Consumer staples	115	-3
All Investment Grade	143	10
All High-Yield	368	1

Commentary

- Corporate bond spreads in the US rose sharply in late March in response to growing banking system stress
- Perceived credit risk receded moderately in April but reemerged for most sectors in May
  - Risk remaining above-average in financials and other interest-rate sensitive sectors such as real estate
  - Risks in consumer discretionary are on the upside as the financial squeeze on consumers starts to weigh on their spending prospects
- A reemergence of sector-wide spread widening could translate into
  - Tougher refinancing terms
  - Increases in corporate defaults
  - Restructurings, especially among highly-leveraged entities

Note: 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.

Sources: S&P Capital IQ, Accenture Strategy analysis

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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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