Year-end Macro Brief

Into the Fog of Winter

December 8, 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 **December 7, 2023**.

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

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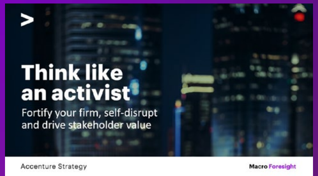

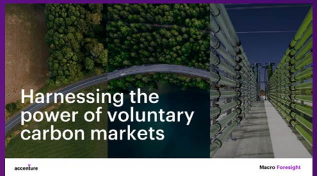

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July: Manufacturing blues
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Contents

Executive Summary

December 2023
Executive Summary

Common global themes

- **As 2023 draws to a close, the global economy is in a relatively stronger state than expected given the headwinds at play throughout the year:**
  - Recent PMIs signal weak but stable momentum in business activity, with services growth stagnant and manufacturing in mild contraction
  - Though still above most central banks' targets, inflation continues to fall on the back of easing energy prices and supply chain pressures
  - Consumer spending is moderating (more so in Europe than in the US) but has yet to show signs of dropping off a cliff
- **Whether this benign trajectory can be sustained is less clear,** primarily because economies are now transitioning from post-pandemic normalization to a more "structural" growth regime challenged by tighter global supply and financial conditions and rising geopolitical tensions.
- **These transition dynamics imply high near-term economic uncertainty, with arguably more downside than upside to the outlook due to:**
  - The lagged effects of monetary policy tightening, which have yet to be fully felt due to favorable private sector cash and debt profiles
  - Ongoing withdrawal of government support measures such as debt service moratoria, insolvency forbearance and energy subsidies
  - Policy uncertainty around budget plans in Argentina, Germany, Italy, UK, and US, among others, and extent of new fiscal stimulus in China
  - Potential resurgence in energy prices due to a cold European winter or supply disruptions from conflict escalation in the Middle East

Regional highlights

Americas

- In the **US,** post-pandemic normalization dynamics suggest more downside than upside to consumer spending, as does consumers' ongoing pessimism about recession risk
- **Argentina's** new "shock therapy" economic policy agenda is likely to drive high near-term uncertainty but carry potential long-term upside

Europe, Middle East and Africa

- In **Germany,** insolvencies are on a rapid ascent as companies wrestle with tight financial conditions and recession
- In the **UK,** the looming public spending contraction needed to fund recent tax cuts is fueling uncertainty about the impact on public services and consumer sentiment

Asia-Pacific

- FDI into **China** turned negative for first time in 25 years as foreign companies' concerns about China's geopolitical risks and economic struggles intensify
- **Japan's** property investment and prices continue to surge amidst weak yen and capital flight from Chinese property

Key considerations and priorities for clients

- **Companies should be prepared for a potential downshift in economic growth at the tail end of 2023 and into early 2024,** including a weaker winter holiday shopping and travel season, and thus consider slimming their inventories or pricing less aggressively amidst softening demand.
- **In the face of heightened economic, financial and geopolitical uncertainty, scenario planning takes on added importance** as both a tool for effective risk management and for anticipating opportunities for tactical M&A and consolidation of market share.
- **As economies transition to a tighter labor, energy and liquidity regime, scenarios where high inflation persists even as demand growth slows increase in likelihood.** Accordingly, companies—especially those in low-margin industries—should consider how they would adapt to structurally higher labor and input cost inflation or manage through greater volatility in energy and commodity prices and financial markets.

Source(s): Accenture Strategy analysis

Companies must be prepared for a "winter of economic uncertainty" as many economies transition from post-pandemic normalization to structurally-weaker growth paths

Top-of-mind questions for business executives to consider

"Do our economic scenarios for planning include possibility of a sharp downshift in growth in early 2024?

"Can we effectively manage the increased volatility in financial and commodity markets that ongoing geopolitical uncertainty is likely to perpetuate?"

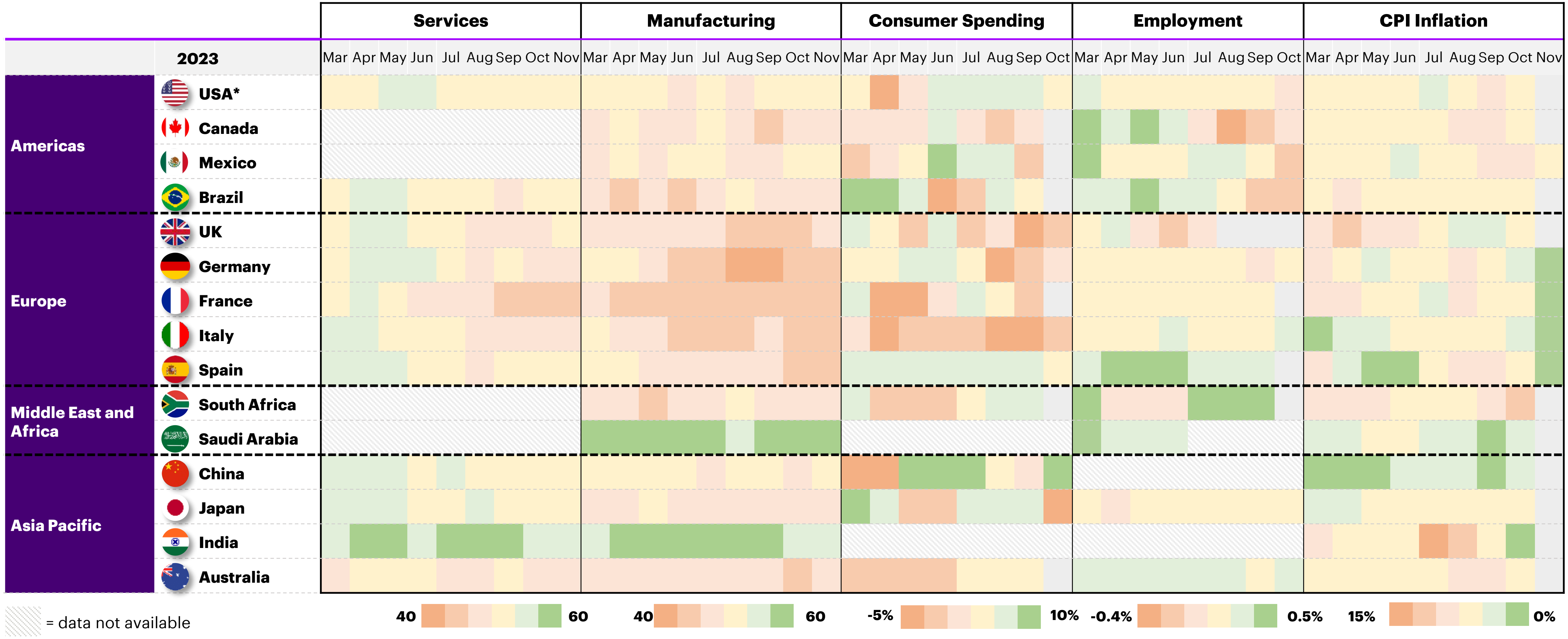
"How much more conservative should we become with pricing in expectation of slowing demand?

Source(s): Accenture Strategy analysis

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

Country economic momentum snapshot

AS OF DEC 7



Note(s): Services and Manufacturing metrics refer to PMI services activity and PMI manufacturing output as provided by S&P Global and may include preliminary "flash" figures, shading is based on most recent result. South Africa and Saudi Arabia manufacturing numbers refer to the whole economy. Consumer spending shading based on real retail sales growth 3MMA percent change except for Australia which is based on Q/Q % change. Employment growth is derived from employment figures as provided by government authorities. CPI uses harmonized figures for Euro Area countries.

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

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

Latest economic outlooks: Americas and Europe

AS OF DEC 7

Region	Country	Key recent datapoints	Base case outlook	What to watch for
Americas 	US	• The UAW strike ended in early November, enabling a rebound in auto production • Headline inflation easer further in Nov to 3.2%	• Slowing consumer spending and lagged effects of ongoing rate hikes are likely to materially downshift the economy's growth path from Q4 onwards	• Rising delinquency rates on consumer credit, especially subprime segments • Economic disruptions from a potential government shutdown
	Canada	• Slight increase in PMIs and other business surveys suggest a softer deterioration in activity in recent months • Headline and core inflation eased slightly in Sep	• Tight financial conditions, weakening external demand and housing market distress are expected to keep growth muted in the near term	• The effectiveness of recent tax cuts in stimulating new homebuilding
	Brazil	• Inflation slowed in October, boosting chances of further interest rate cuts in coming months	• Consumer spending supporting growth resilience on the back of strong labor dynamics and stabilizing inflation	• Tax changes from recently approved fiscal reform
Europe 	UK	• Declining trend in retail sales continued in Oct as consumer finances remain stretched • Headline and core CPI fell sharply in Oct, with largest drop in housing and household services	• Growth is likely to slow further in Q4'23/Q1'24 as lagged impacts of high interest rates work their way though economy, particularly through mortgage cost pressures on households	• Recent sharp rise in long-term government bond yields could trigger another financial stress episode
	Germany	• Ifo business climate rose for a third consecutive month in Nov albeit still at relatively low level • Recent constitutional court ruling to enforce strict compliance of debt brake rule triggered a budget crisis, with immediate spending freeze and far-reaching consequences on fiscal policy	• A mix of weakness in global manufacturing, slowing export demand from China, high energy costs, housing market distress, and now additional fiscal austerity due to court ruling are likely to keep Germany's economy in a mild recession over the coming quarters	• 2024 federal budget plan needs to be revised, with the coalition parties having to agree on potential budget cut and fiscal spending prioritization
	France	• GDP unexpectedly contracted in Q3 at -0.1% amidst weakness in exports and housing investment • Inflation fell in Oct to 4.5%, lowest since Feb '22	• Despite ongoing weakness in both services and manufacturing, fiscal support measures and still-high household savings buffers are likely to buttress consumer spending and keep the economy from falling into a deeper recession	• Sustainability of fiscal support measures in light of tightening funding conditions and deteriorating growth

Source(s): Accenture Strategy analysis

China is expected to transition to slower growth path as it confronts structural challenges; Japan’s resilience is waning and India’s will be tested as global growth slows

Latest economic outlooks: Asia-Pacific

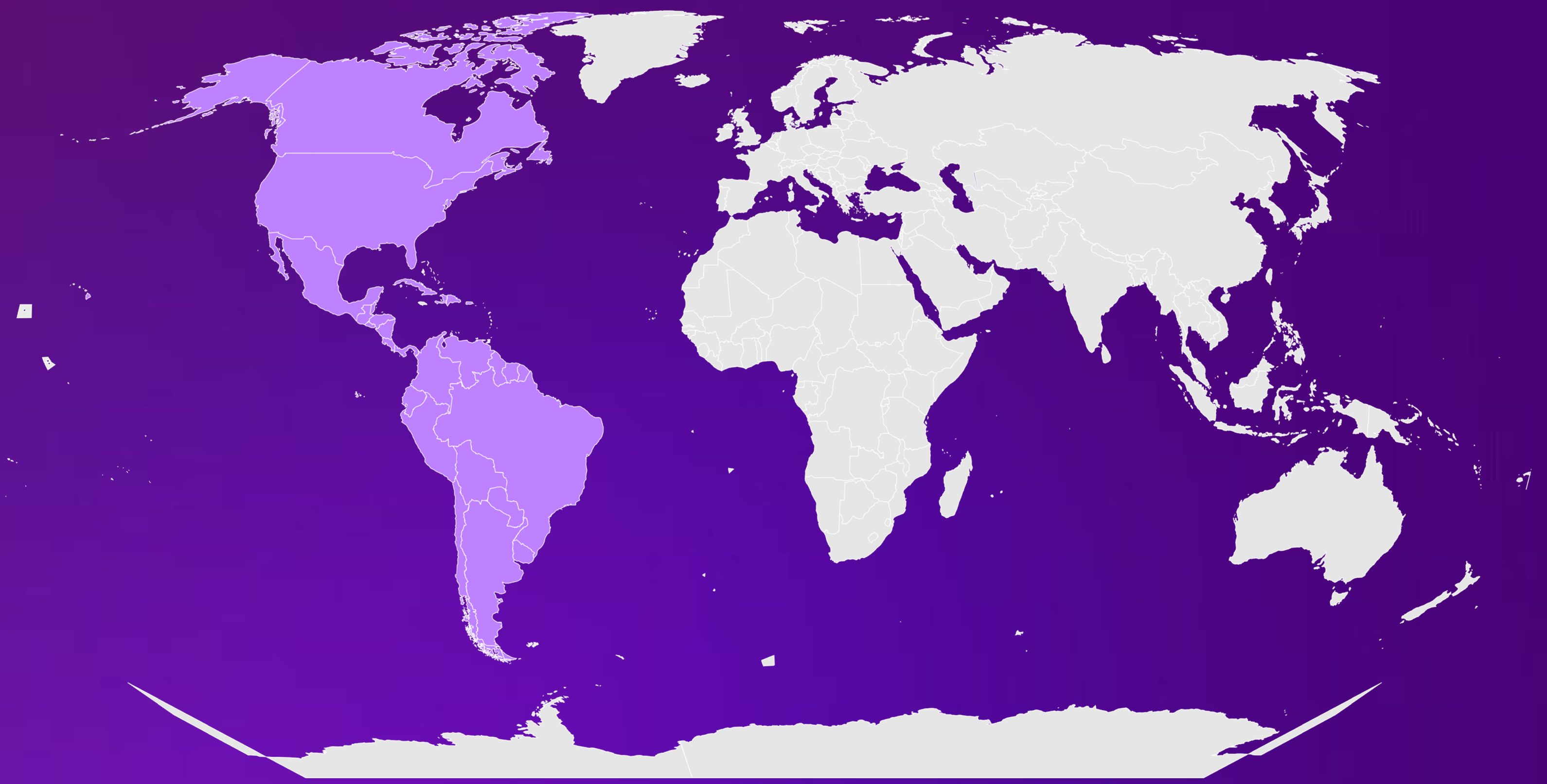
AS OF DEC 7

		Key recent datapoints	Base case outlook	What to watch for
Asia Pacific	China	• Foreign direct investment in China turned negative for the first time in 25 years • Property market remains in freefall, as home sales, prices and investment weakened further in October	• Further growth slowdown in Q4 amidst depressed consumer sentiment and weakening global demand for China’s exports • Ongoing transition to slower medium-term growth as economy contends with structural challenges of troubled property sector, youth unemployment and rising geopolitical frictions	• Extent of government policy support to prop up flagging growth and distressed property market • Financial instability and spillovers as property-related defaults rise
	Japan	• Real GDP contracted -0.7% qoq in Q3 amidst declines in both consumer spending and fixed investment • Inflation remained at just over 3% in October for the sixth consecutive month	• Despite rebounding inbound tourism and the tailwind to exports form a weak yen, the recent negative momentum in domestic demand is likely to keep growth negative in the near-term	• Boost to earnings of export-oriented companies from yen weakness • How quickly the Bank of Japan loosens its yield curve control policy, especially if inflation remains sticky
	India	• Continuation of strong business activity in November, though with ongoing moderation in services • Inflation showed further signs of cooling in October	• Growth is expected to remain robust but moderate slightly amidst slowing external demand and rising oil prices	• Resilience in consumer spending • Signs of manufacturers or other companies shifting supply chains to India
	Australia	• Both manufacturing and services activity (per PMI surveys) contracted further in October	• Growth is likely to remain subdued going into 2024 as cost-of-living pressures and the rise in interest rates continue to weigh on domestic demand	• Impact of positive wealth effects from recent house prices increases on consumer spending • The drag on Australian exports from China’s economic slowdown

Source(s): Accenture Strategy analysis

Spotlight developments

Americas

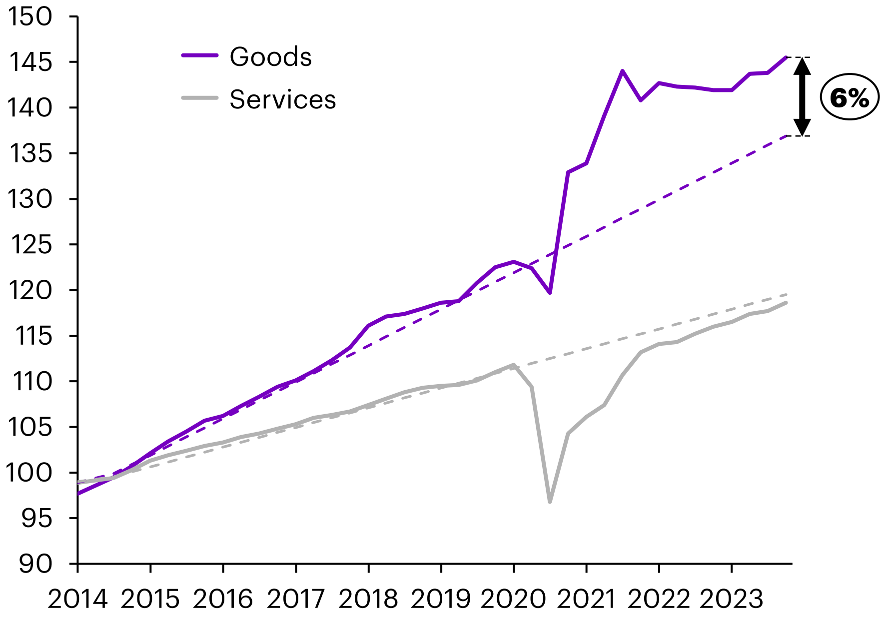


Post-pandemic normalization dynamics continue to suggest more downside than upside to US consumer spending going forward

Looming consumer goods spending adjustment

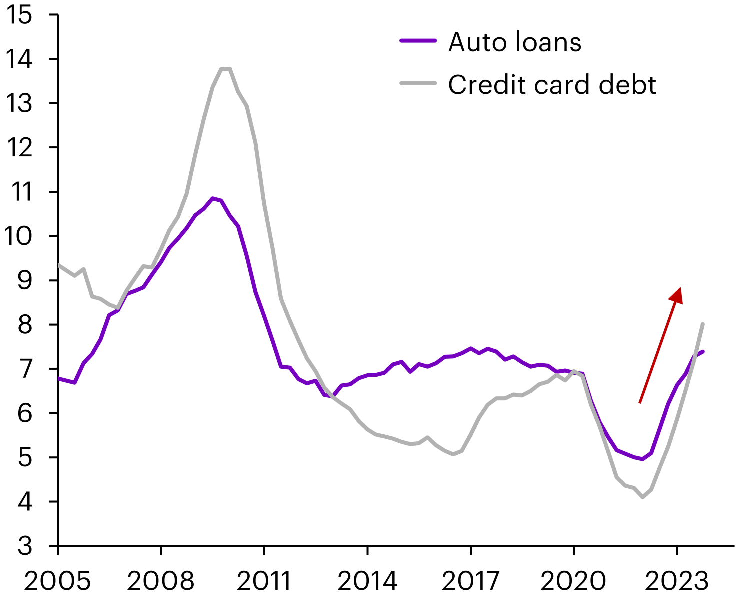
Spending on goods still has room to normalize to its pre-pandemic trend

Real consumer spending on goods vs. services (Index, 2014=100)



Delinquency rates on consumer credit

Newly-delinquent loans (30+ days overdue), % of total



Implications for corporates

- Consumer services companies are likely to see demand growth softening during the winter period as the post-pandemic normalization impulse dissipates
- A downshift in consumer goods demand can also be expected as consumers recalibrate their spending basket to pre-pandemic patterns
- Spending by lower-income consumers, who have comparatively higher financial distress and loan delinquency rates, is likely to see greater retrenchment

Commentary

- After a summer of unleashed pent-up demand on travel, live entertainment and other experiences, the normalization of consumer services spending to its pre-pandemic trend is nearly complete, whereas goods spending remains considerably elevated (6% higher) relative to pre-pandemic norms
- As there is no apparent structural shift that would lead the ratio of consumer spending on goods vs. services to be permanently higher in the future, further compression in goods spending is likely in the coming quarters which, alongside slowing services, should drag down overall consumer spend
- The squeeze on household finances from higher-for-longer rates—already reflected in rising consumer debt distress—is an additional headwind

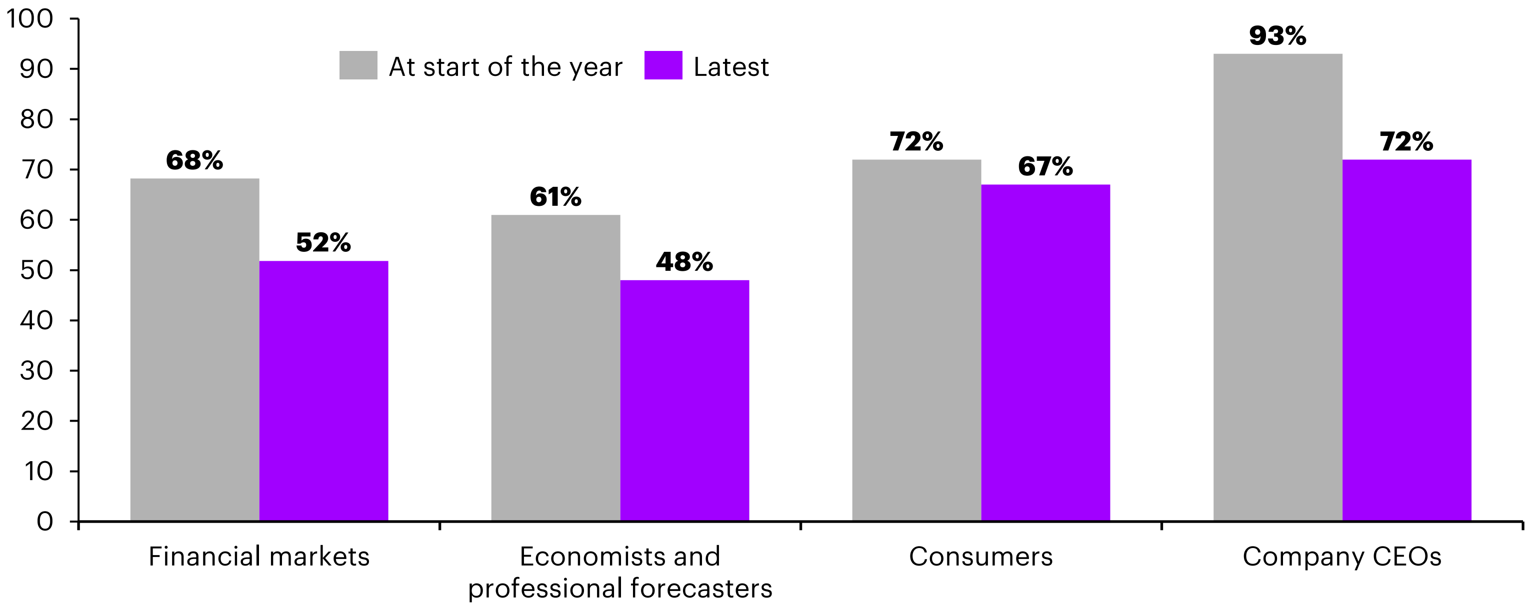
Source(s): Bureau of Economic Analysis, Federal Reserve Board

Dissonant perceptions of recession risk continue to drive high uncertainty, and the greater pessimism among consumers and firms could prove more relevant for future spending

Divergent perceptions of state of the US economy

Recession expectations over the next 12 months

Estimated US recession probability % (financial markets and forecasters) and % of respondents (consumers and CEOs)



Implications for corporates

- Mixed data signals and sentiment among different economic agents continue to perpetuate significant uncertainty, underscoring the importance of scenario planning and robust risk management
- Consumers' ongoing pessimism and concern about the economic outlook could fuel a self-fulfilling negative feedback loop, whereby:
  - Consumers rein in or delay spending
  - Firms cut back on inventories, new orders, and hiring
  - Household incomes deteriorate and trigger further belt-tightening

Commentary

- In recent months, as inflation has continued to cool without major labor market deterioration, the perceived risk of a near-term recession among different economic agents has subsided overall, but a large discrepancy in views and relative optimism remains
  - Consumers and company CEOs see a 20% higher risk, on average, than do financial market participants and professional economists
- Conflicting signals from different economic indicators—e.g., recent job growth figures from the household vs. establishment employment surveys or the growing divergence between GDP and GDI—are also contributing to uncertainty around the "true" health and trajectory of the economy

Note: Recession expectations shown are based on: (1) for financial markets – New York Fed model based on slope of yield curve; (2) for economist and forecasters—median estimate from a panel of forecasters surveyed by Wolters Kluwer Blue Chip Economic Indicators; (3) for consumers—Conference Board consumer survey; and (4) CEOs—Conference Board CEO confidence survey.

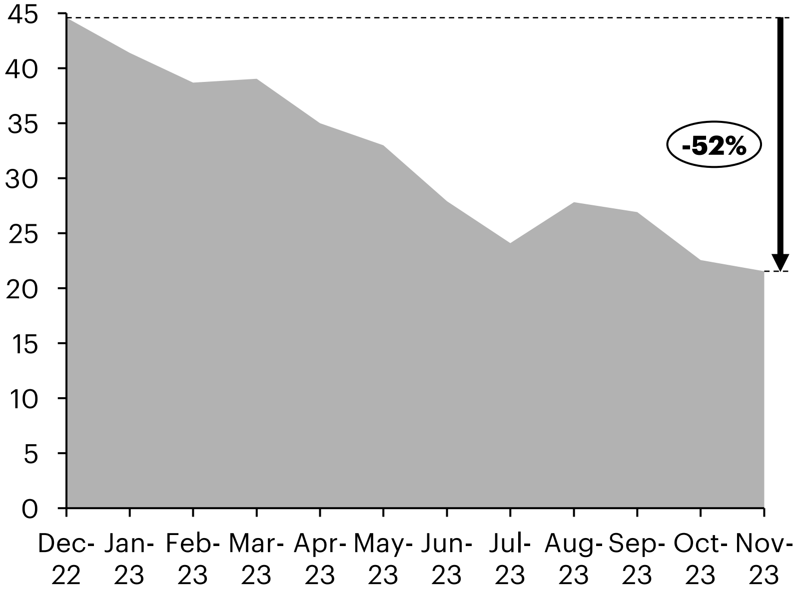
Source(s): Conference Board, Wolters Kluwer, Federal Reserve Bank of New York, Visual Capitalist, Accenture Strategy analysis.

Argentina's new "shock therapy" economic policy agenda is likely to be disruptive and fuel uncertainty in the near term, but potentially with long-term upside if successful

Argentina's uncertain economic path

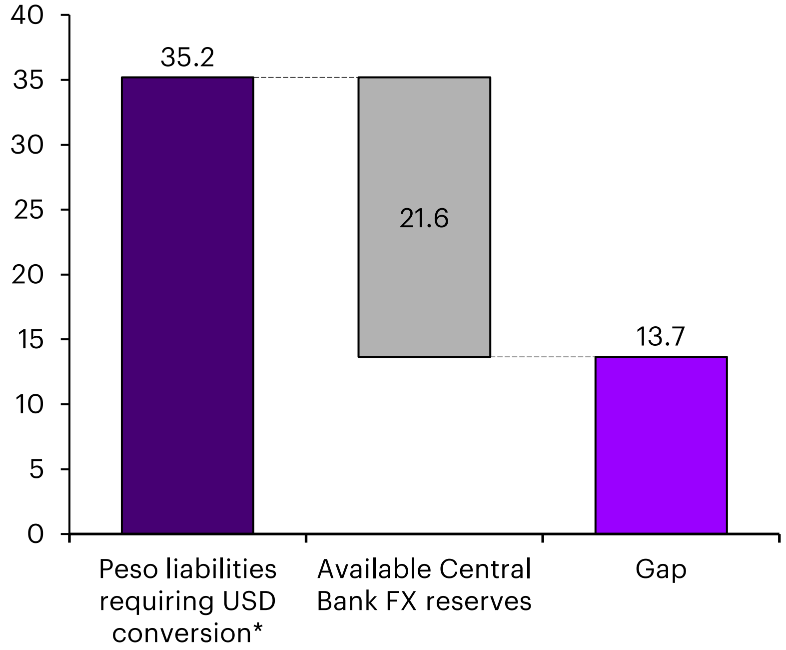
Central Bank of Argentina foreign reserves

USD billion



Estimated USD shortage for dollarization

USD billion (as of end-Nov 2023)



Implications for corporates

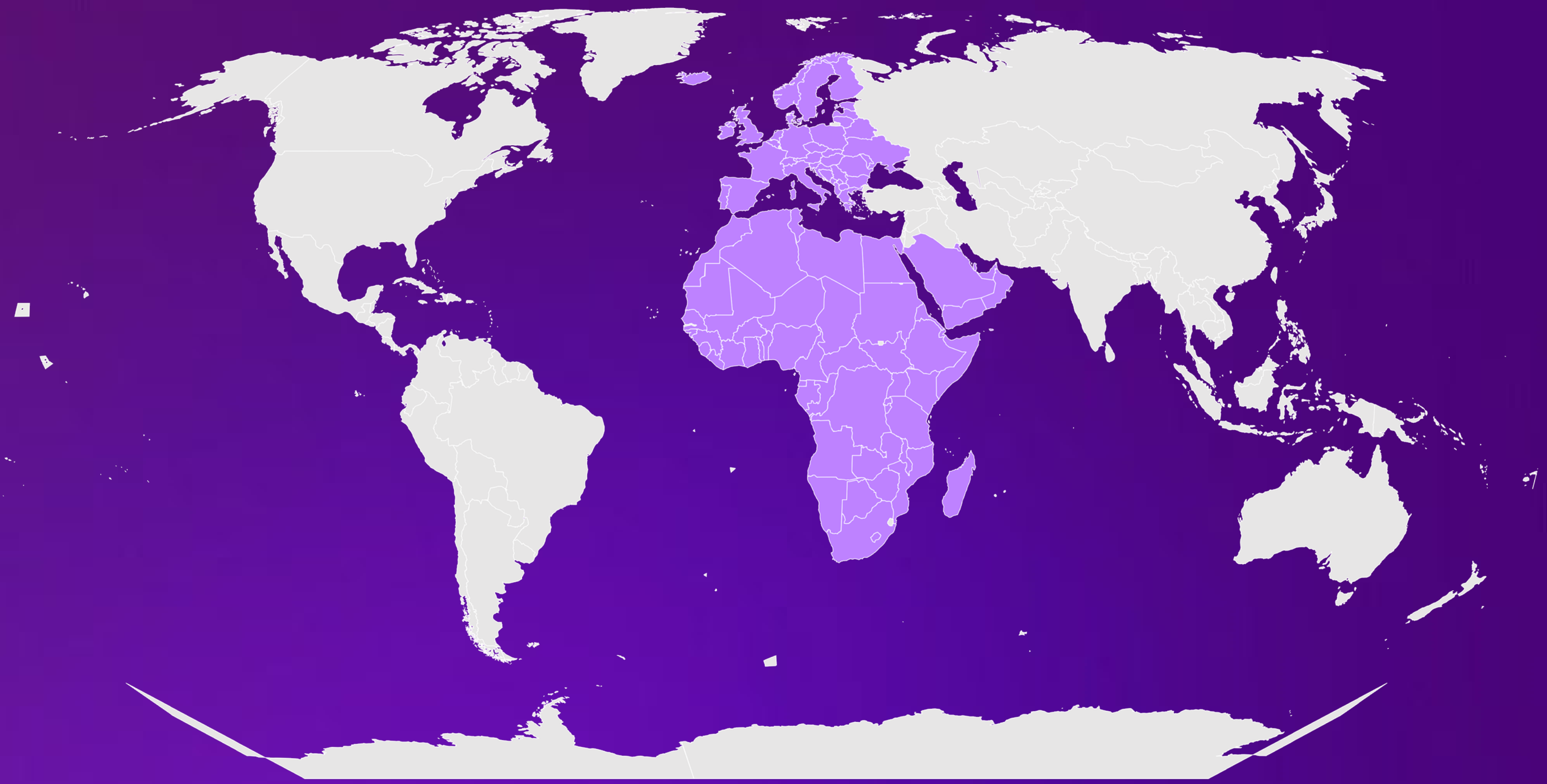
- Local currency depreciation pressures are likely to intensify given the challenges to dollarization, creating further revenue and costs headwinds for local companies
- Companies may benefit from the dismantling of capital, import and pricing controls, but are likely to face depressed domestic demand in the interim as fiscal austerity squeezes consumer finances
- If successful in stabilizing the economy, the planned reforms could help
  - unlock lock significant foreign investment, especially around AI, biotechnology, renewable energy, and lithium industries
  - reduce the cost of doing business and improve corporate profitability

Commentary

- President-elect Milei's new economic plan follows a shock therapy approach, including a 14% of GDP cut to public spending via shuttering several ministries and reducing government subsidies and public jobs
- In parallel, the plan will try to revitalize the private sector through privatization, tax cuts, and elimination of export and capital controls
- Milei's flagship campaign promise to dollarize the economy is likely to prove difficult given dwindling central bank FX reserves, which are currently insufficient to replace Argentina's peso-denominated monetary base and central bank liabilities (~USD32 billion at the free market FX rate) with US dollars
  - in the interim, further currency depreciation to help bolster exports and replenish FX reserves is likely to be needed

* Includes monetary base (pesos in circulation and bank reserves held at Central Bank) plus the Central Bank's short-term liabilities (including LELIQs).
Source(s): Central Bank of Argentina, IMF, Accenture Strategy Analysis

Europe, Middle East and Africa

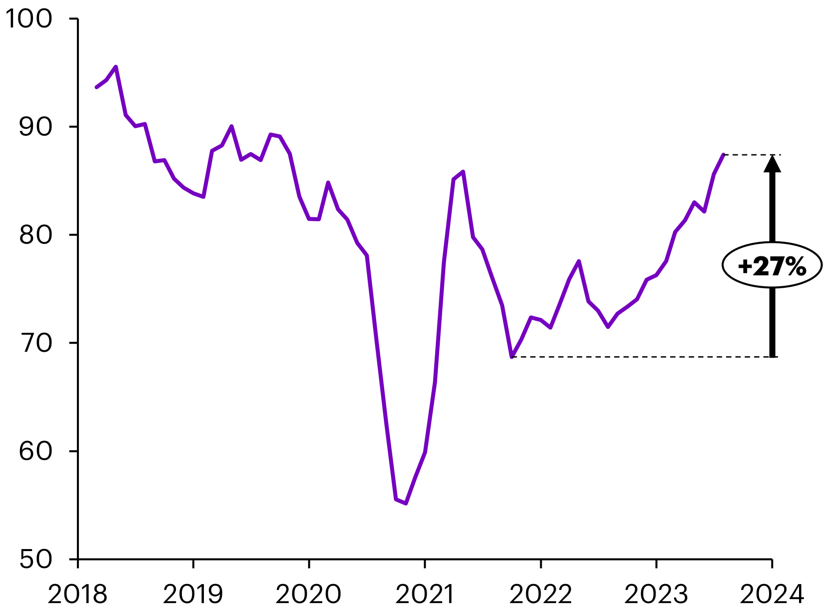


As German companies contend with ongoing inflation and tight financial conditions, the recent upward trend in insolvency filings is likely to persist and weigh on bank asset quality

Business insolvencies and credit standards in Germany

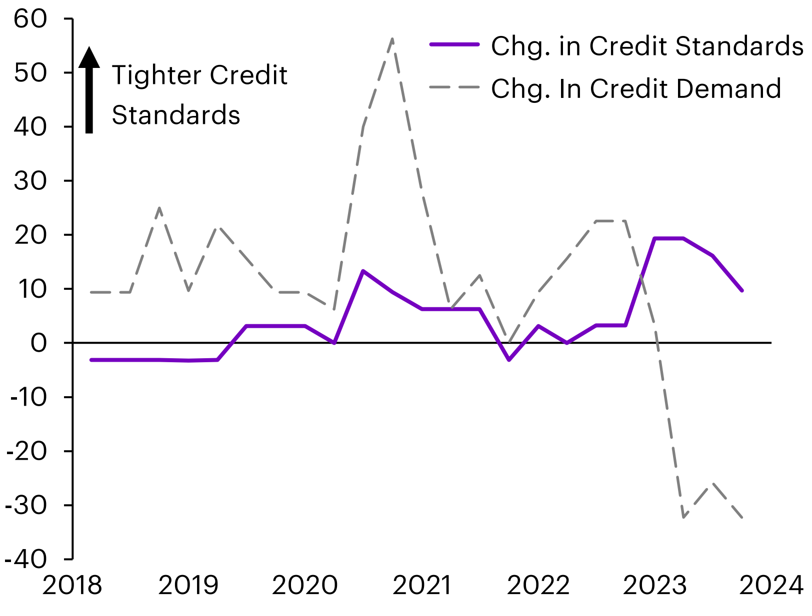
Germany companies filing for bankruptcy

3-month moving average, 2015=100



Credit standards and credit demand in Germany

Bank Lending Survey (BLS) in Germany (%)



Implications for corporates

- The number of insolvencies is expected to continue rising significantly in the coming months mainly driven by
  - cost burdens from high energy and materials prices
  - phasing out of pandemic-time government support measures
  - rising interest costs
- Rising structural changes in the German economy indicate higher credit risks for the financial sector, which could drive up the risk weights for banks
- Turnaround and restructuring (also though M&A) opportunities are expected to see a significant uptick

Commentary

- Pandemic-time government support and forbearance measures suppressed or delayed corporate insolvencies, but filings have been on a steady rise since late 2021 and hit a 29-month high in Aug 2023
- Accordingly, German banks have tightened their credit standards for business lending on what they perceived as rising credit risk
- Amidst these stricter lending standards and higher interest rates, corporate borrowing demand has continued to plummet

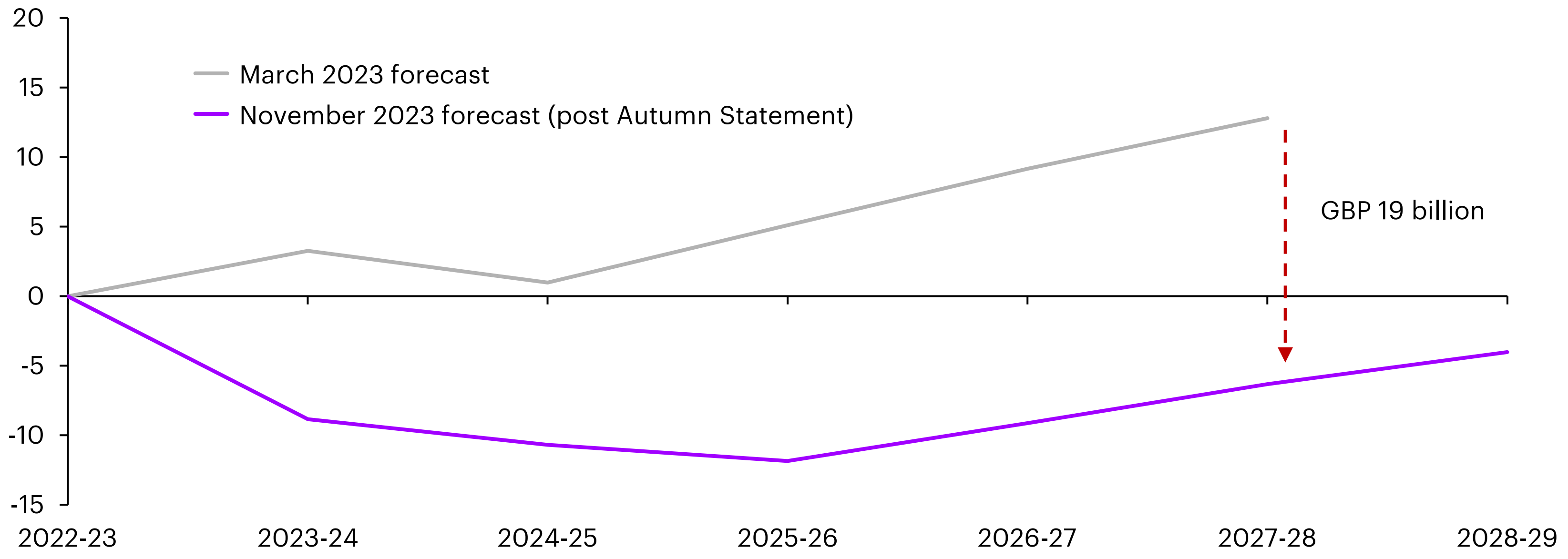
Note: Change in credit standard is calculated by taking a difference of % of banks responding, “tightened standards” and “eased standards”;
Change in credit demand is calculated by taking a difference of % of banks responding, “increased demand” and “lower demand
Source: BLS Survey by Deutsche Bundesbank, Federal Statistics Office (Destatis)

The implied public spending contraction needed to fund the UK government's recent tax cuts puts pressure on key public services and could further strain household finances

Public services spending squeeze in the UK

Expected reduction in UK real government departmental spending (OBR forecasts)

GBP billion, 2022-23 prices



Implications for corporates

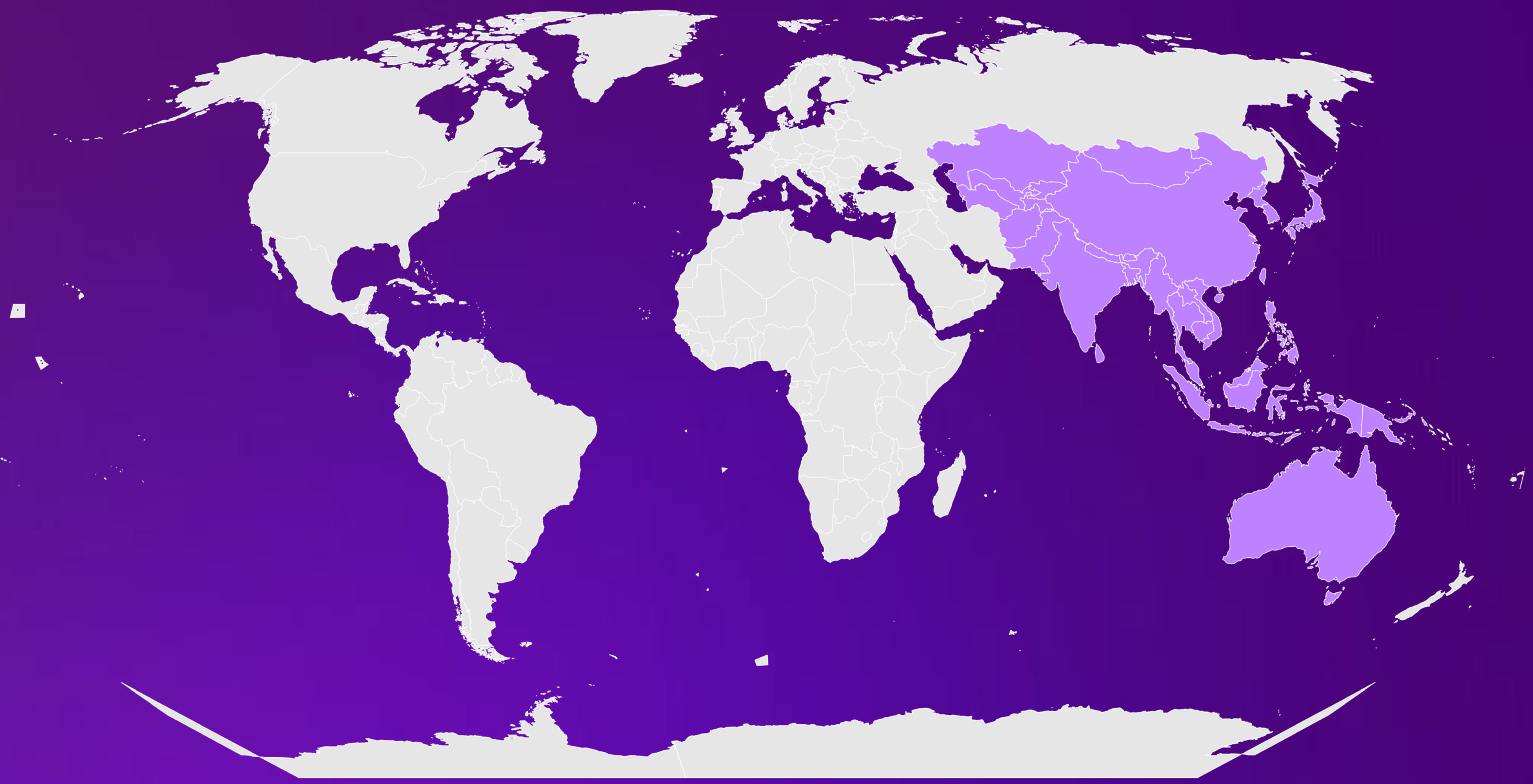
- Potential contraction in public services risks shifting responsibility and costs more onto households and businesses
- This could result in
  - companies having to divert spending from potentially more productive uses in the wider economy to fill gaps left by public funding cuts (e.g., insurance premiums, private hired services)
  - negative potential impact on staff productivity (e.g., due to increased care responsibilities)
  - erosion of consumer confidence and local investment appetites (e.g., Council investments in economic development)

Commentary

- In the UK Office of Budget Responsibility's (OBR) latest budget forecast, the combination of measures announced in the recent Autumn Statement (including tax cuts) and higher than expected inflation suggest that:
  - in real terms, departmental government spending is set to be GBP 19.1 billion lower by 2027-28 relative to what OBR had projected in March 2023
  - to stay within the overall long-term spending envelope set by the Treasury, "unprotected" department spending—which includes public services such as courts, prisons, local government-administered social care—would need to fall by 2.3 per cent a year in real terms from 2025-26 onwards

Source: Office for Budget Responsibility (OBR), Nov '23 Economic and Fiscal Outlook, Accenture Strategy analysis.

Asia Pacific

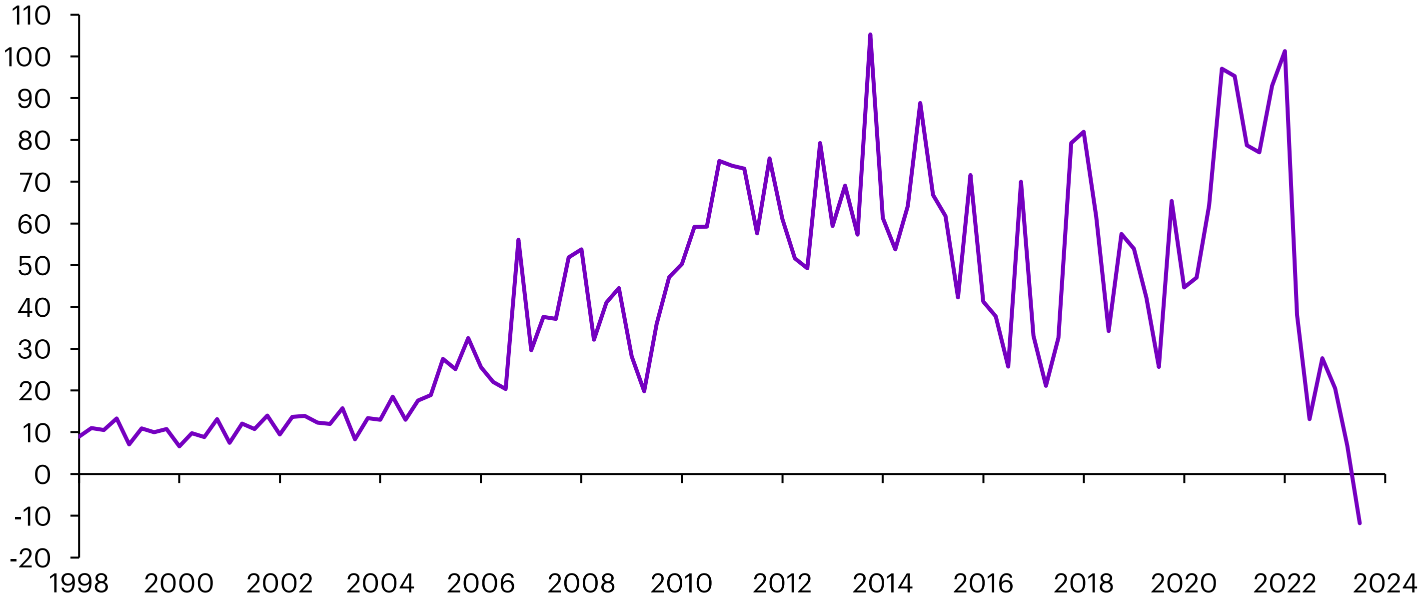


Foreign direct investment in China is turning negative for the first time in 25 years amidst geopolitical tensions, weak domestic demand and yield differentials with other economies

Declining FDI in China

Foreign direct investment in China

China: BOP Net Inward Direct Investment Liabilities (quarterly flows, USD billions, NSA)



Implications for corporates

- Companies that source from China may continue to see their suppliers shifting to other low-cost geographies such as Vietnam, India, Mexico, Indonesia, and Bangladesh
- Companies that continue to operate in or make new investments in China may see:
  - More limited domestic market growth, as negative investor sentiment adds to continued weakness in the property sector and subdued external demand
  - Greater difficulty raising capital, as investors shift away from China-focused VC and PE
  - Government policies to promote investment such as tax holidays or liberalized capital flows
  - Opportunities for M&A as other investors sell their assets in China

Commentary

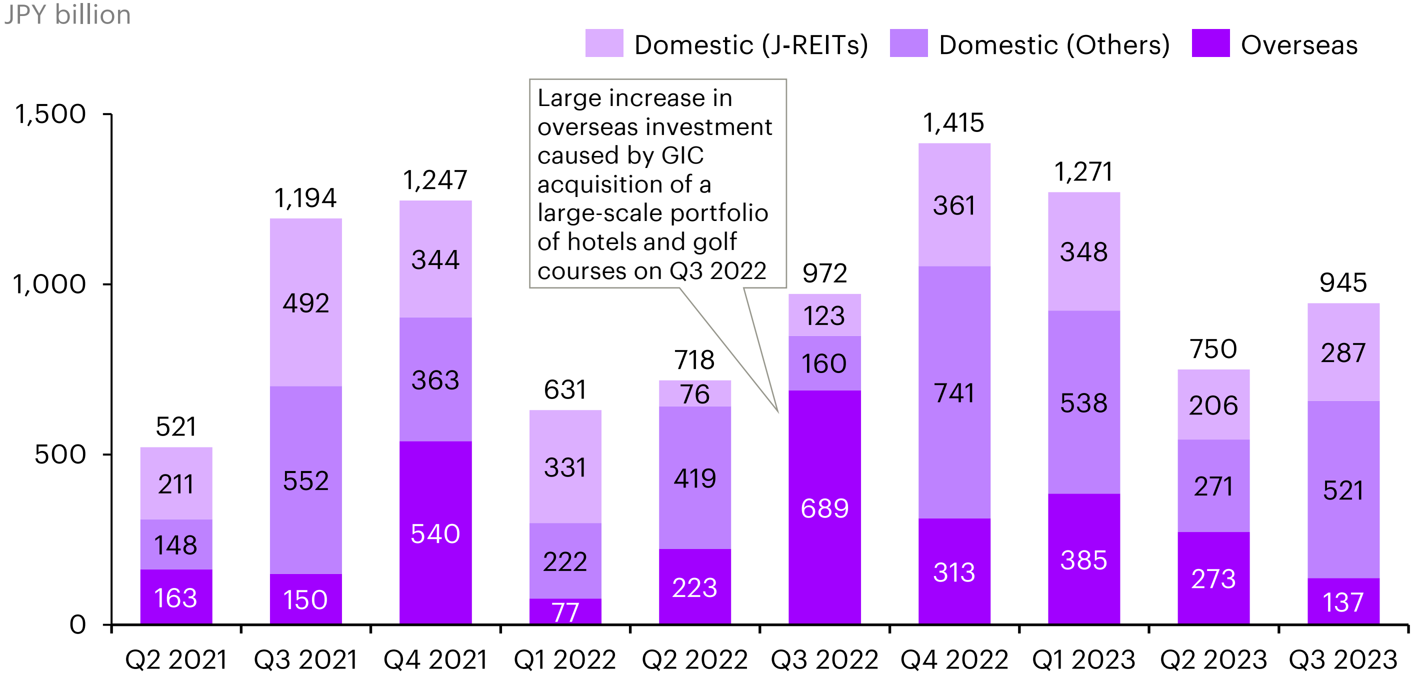
- The net FDI outflow of USD 11.8 billion in Q3 2023 (the first one in at least 25 years of available data) suggests increasingly more foreign companies are divesting existing assets or refraining from reinvesting profits back into China
- Widening interest rate differentials between China and the US/other advanced economies have also driven capital flight from China, putting additional pressure on the yuan and China's economic outlook
- The Chinese government is ramping up efforts to attract and retain FDI by improving the operating environment for foreign companies, including liberalizing cross-border capital transfers for companies and investors operating in free trade zones in Beijing and Shanghai

Source: Haver, China State Administration of Foreign Exchange (SAFE), Accenture Strategy analysis

Japan's property market continues to heat up as investors take advantage of the weak yen, low interest rates and souring property sentiment in China, but rising prices have downside

Property investment in Japan

Japan real estate transaction values by investor type



Implications for corporates

- Real-estate dependent industries in Japan, such as construction and property development, are likely to continue to benefit from rising property prices
- Tourism-related sectors are likely to continue to benefit from increased inbound tourists, but may see higher leasing costs as property prices rise
- Japanese corporate profit margins may be squeezed, especially those with larger domestic footprints, as costs associated with operations and rental expenses increase
- Real estate investment companies may see an increased value of their Japanese portfolios while multinational corporates with subsidiaries in Japan may face higher operational costs

Commentary

- Total foreign investment in Japanese real estate rose 45% in the first half of 2023 versus the same period in 2022, as investors took advantage of favorable lending rates and a weak yen
- Investment in Japanese real estate is driven in part by cooling investment sentiment in China amid the economic slowdown and property market crisis there, as well as a slump in other APAC property markets such as Singapore
- Transaction values for foreign investors purchasing J-REITs have been rising, and have grown by 41% since the start of 2023

Note: Transaction volume covers deals worth JPY 1.0 billion or more, excluding land transactions and property acquisitions at the time of J-REIT IPO
Source: CBRE, Wall Street Journal, Accenture Strategy analysis

Economic indicator chart pack

Regional and industry activity

Business activity momentum remains weak but generally stable or improving in the US and Europe, while Japan and Australia are seeing further deterioration

PMI survey country snapshot

Note(s): A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month, most recent results may include preliminary flash figures

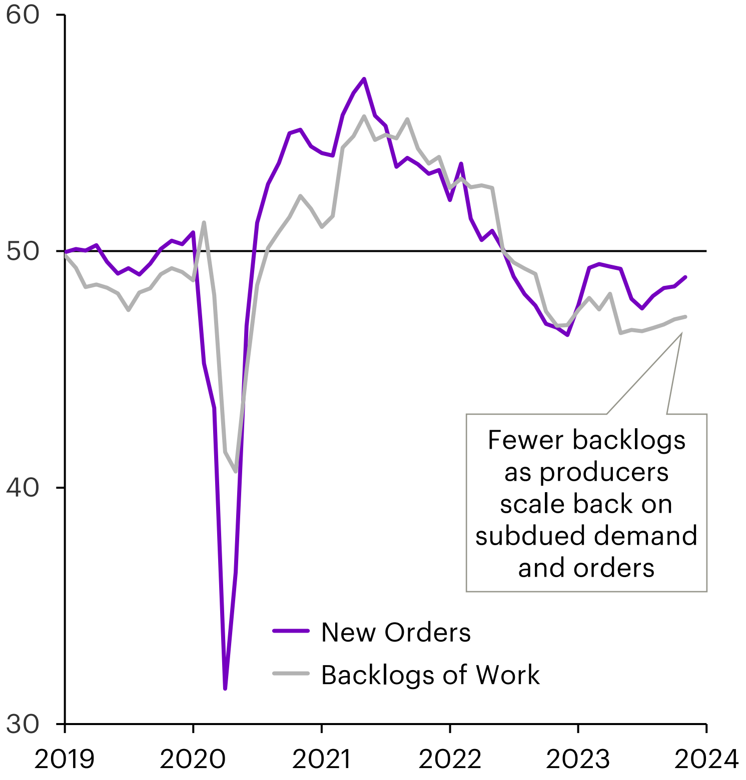
Source(s): S&P Global, Accenture Strategy analysis

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

Leading indicators of global manufacturing momentum

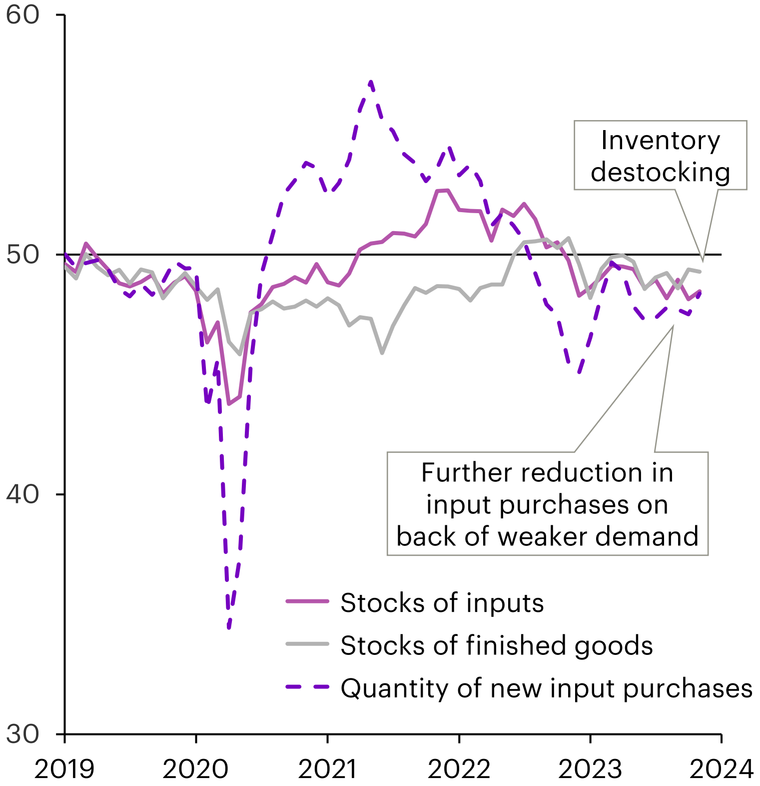
In the face of declining new orders...

Diffusion indexes (SA, 50+=Expansion)



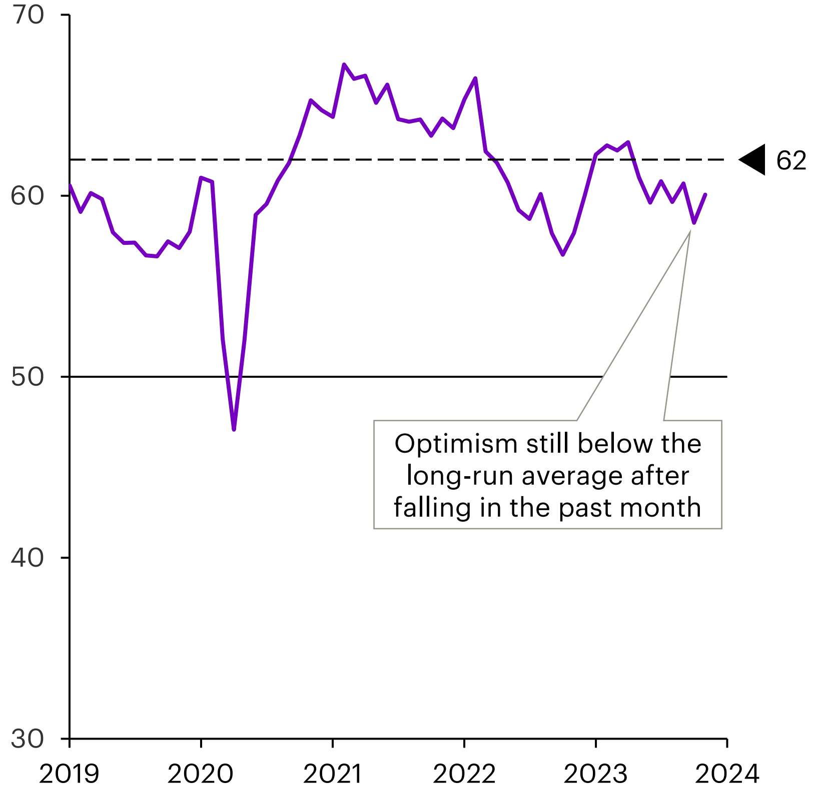
..manufacturers refrain from restocking..

Diffusion indexes (SA, 50+=Expansion)



...highlighting a gloomier 12-month outlook

Manufacturing future output (NSA, 50+=Expansion)



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

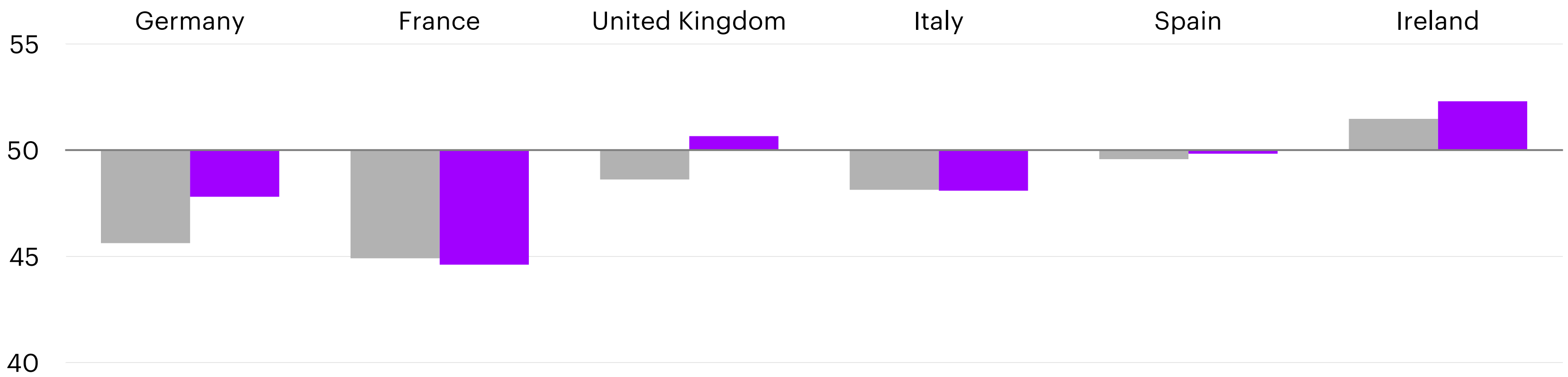
Source(s): Haver Analytics, S&P Global, Accenture Strategy analysis

Business activity downturn eased slightly in November across Europe, with UK and Ireland showing signs of expansion

Regional performance: Europe

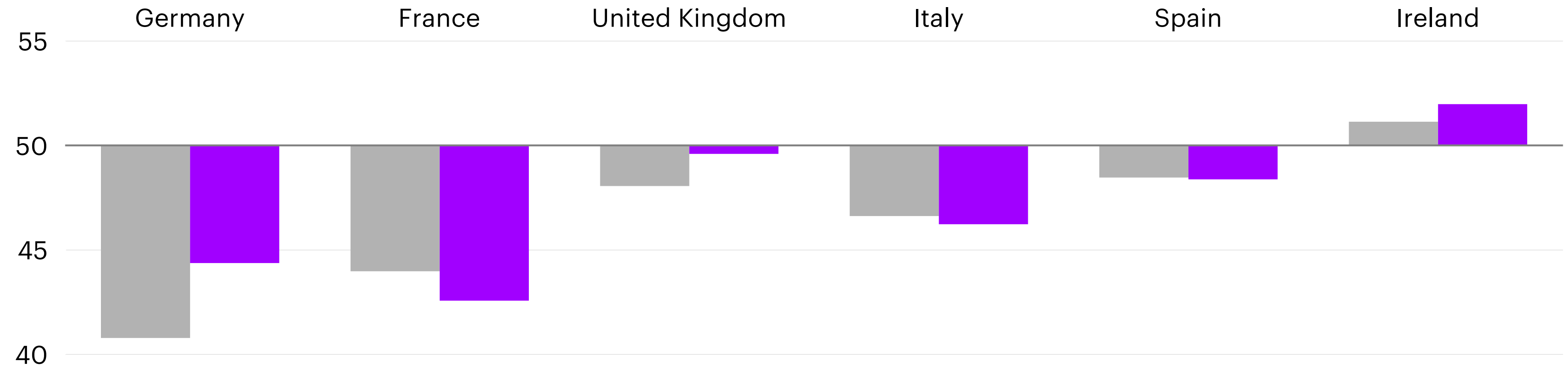
Output/activity

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



New Orders

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



Commentary

- New orders in November dropped in Italy, Spain and France while downturn slowed for Germany, UK and Ireland in (relative to recent 3-month average)
- Faster increase in service activity drove an overall return to growth in Ireland, with help from the manufacturing sector as production stabilized
- The slight recovery in UK private sector output was driven by growth in the service economy, with manufacturing production declining marginally

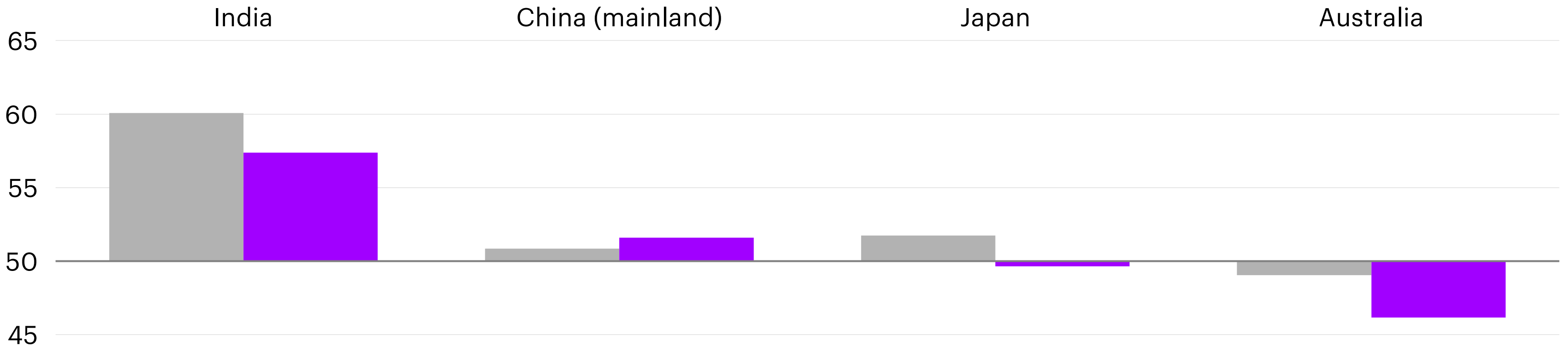
Source(s): S&P Global, Accenture Strategy analysis

India continues to show the strongest growth momentum within Asia-Pacific, while conditions deteriorated further in Australia

Regional performance: Asia-Pacific

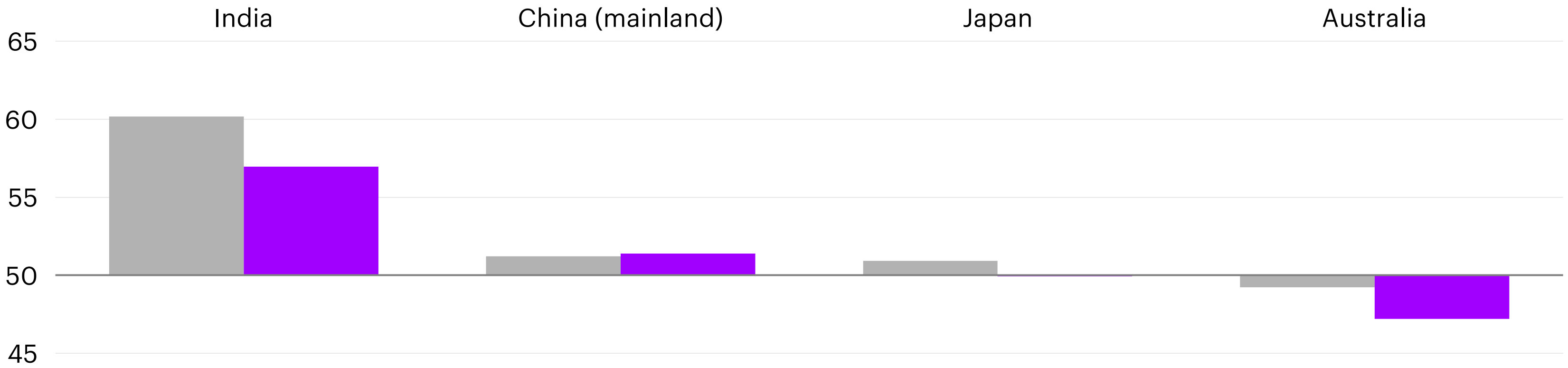
Country performance

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



New Orders Index

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



Commentary

- In India, new export orders for services firms grew at the slowest pace since June
- In China, overall services and manufacturing growth has been stable at a slightly positive rate since August
- In Australia, both manufacturing and service sectors recorded sharper contractions in new orders as conditions remained weak

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

Manufacturing growth remains mixed across Southeast Asia, with Singapore, Indonesia, and the Philippines continuing to outperform others

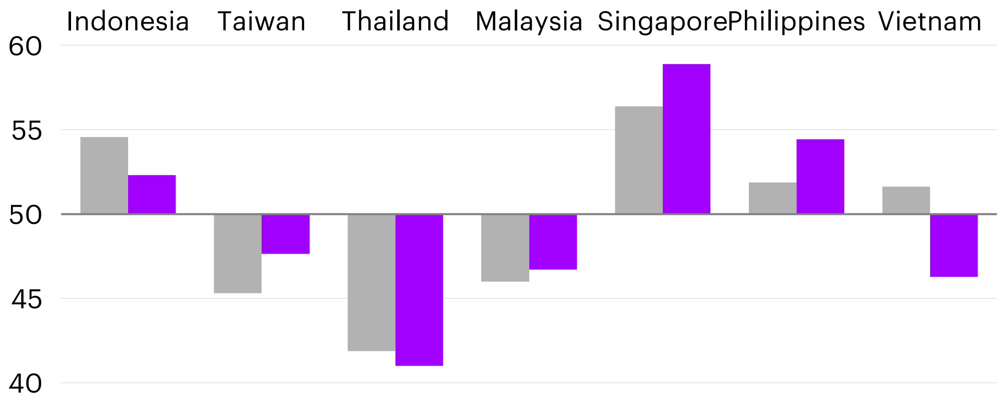
Regional performance: Southeast Asia

Manufacturing Performance

Nov '23 vs Previous 3 Month Average, Manufacturing Output

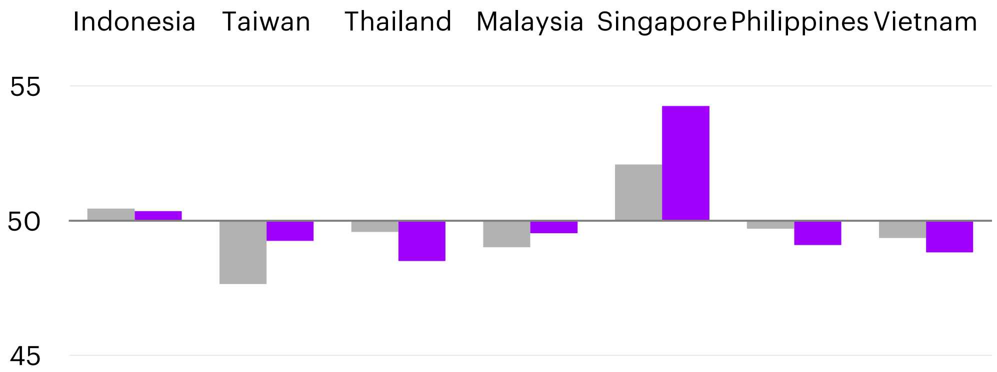
Manufacturing New Orders

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



Manufacturing Employment

Nov '23 vs Previous 3 Month Average, Employment PMI



Commentary

- Singaporean firms saw new business growth towards the end of 2023, driving higher overall activity and faster employment growth
- New order growth in Indonesia slowed in November
- Vietnam's manufacturing sector contracted in November for a third consecutive month as new export orders declined

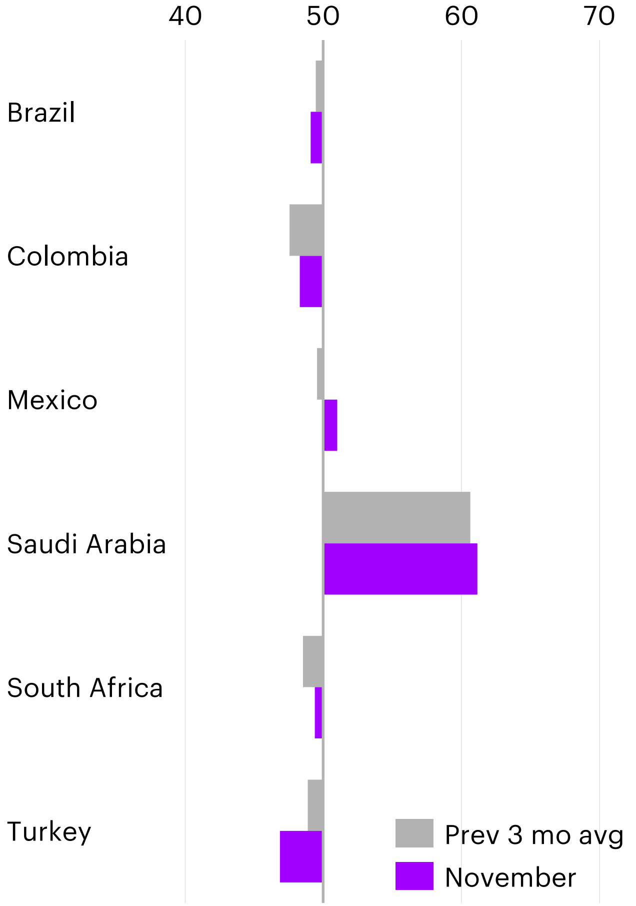
Note(s): Performance for Singapore covers the whole economy
Source(s): S&P Global, Accenture Strategy analysis

Saudi Arabia's growth continues to flourish while Turkey and Colombia struggle

Regional performance: Other emerging markets

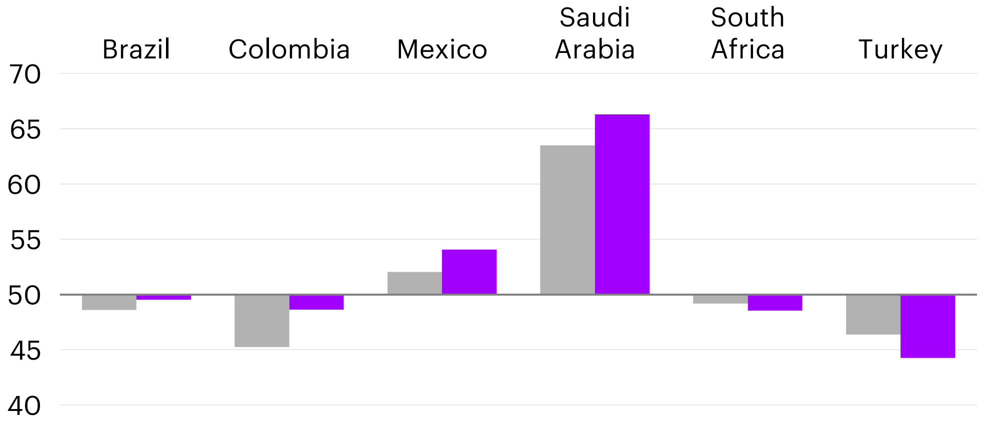
Manufacturing Performance

Nov '23 vs Previous 3 Month Average, Manufacturing PMI



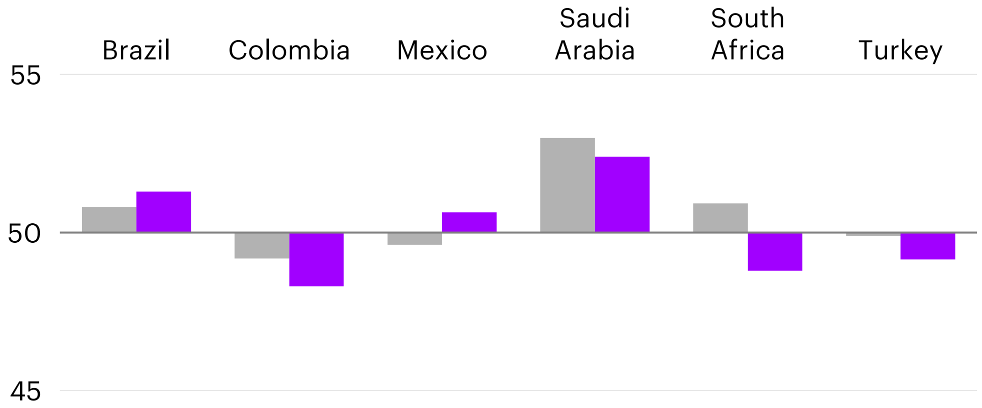
Manufacturing New Orders

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



Manufacturing Employment

Nov '23 vs Previous 3 Month Average, Employment PMI



Commentary

- Brazil's factory activity witnessed a slower contraction as both output and new orders momentum improved
  - Companies hired additional staff, with the rate of job creation being the strongest in a year
- Business activity in Saudi Arabia's non-oil private sector economy remained robust in November, driven by a sharp rise in client orders and output amid continued economic momentum in the kingdom
- Production fell Turkey at fastest rate in a year as manufacturers faced weakening demand and some difficulties securing raw materials due to the conflict in the Middle East region
  - Firms scaled back staffing and inventories of inputs and finished goods amidst reduced output requirements

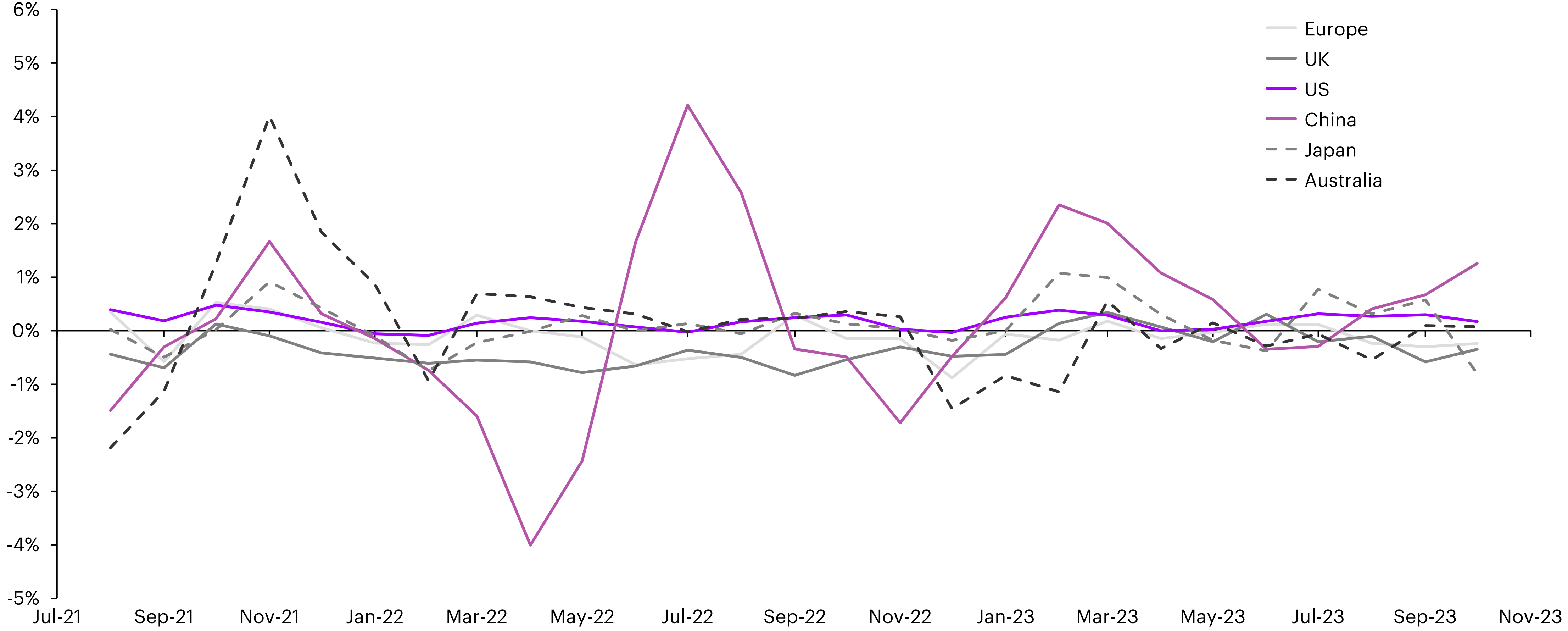
Note(s): South Africa and Saudi Arabia PMI is for the whole economy
Source(s): S&P Global, Accenture Strategy analysis

Consumer spending

Consumer spending continues to moderate in most major economies, though it improved slightly in China

Consumer spending trends

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

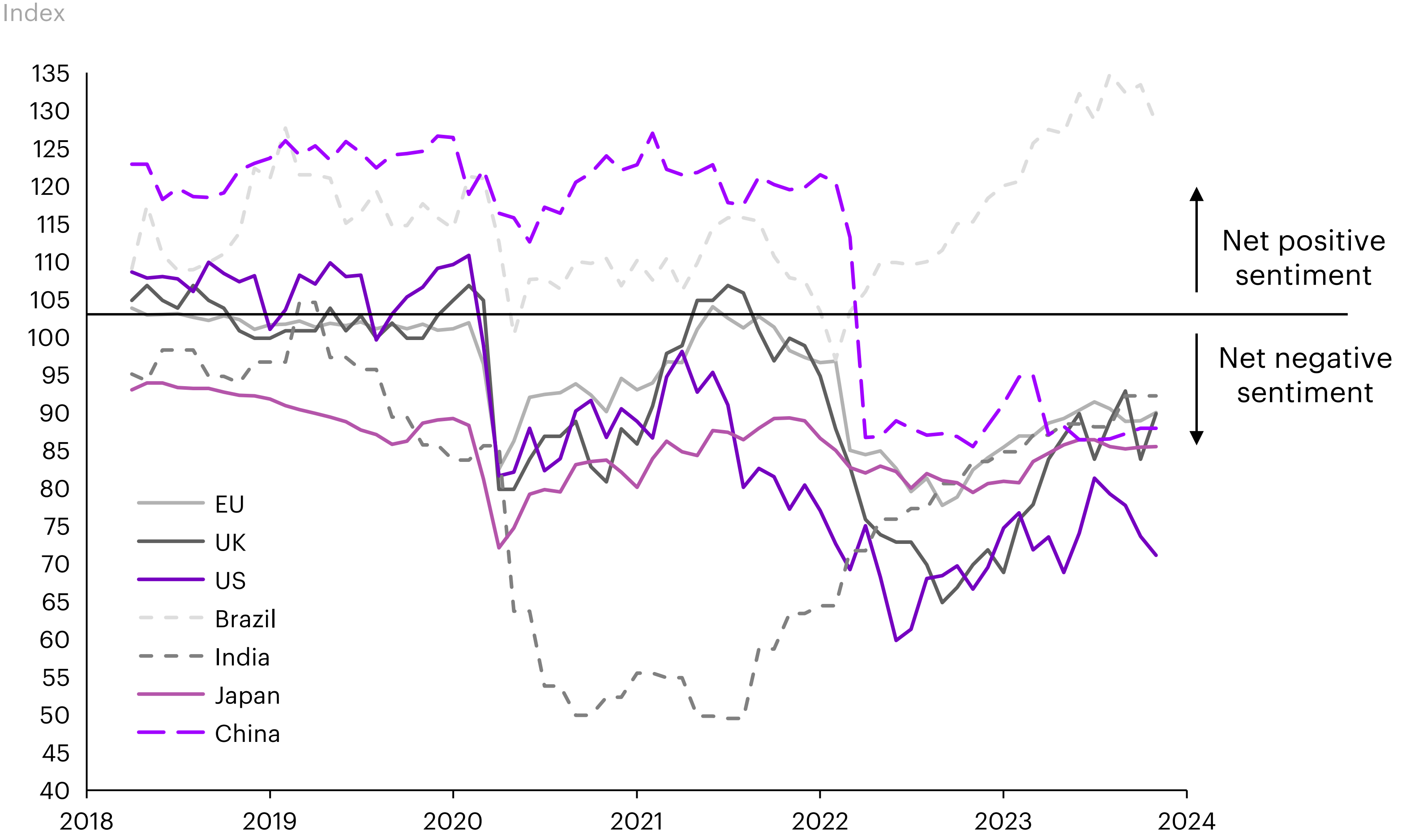


Note(s): Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area, UK, Canada, Japan, Australia, and China series data is retail sales.
Source(s): BEA, BLS, Eurostat, ONS, Haver analytics, Accenture Strategy analysis

Consumer sentiment remains largely pessimistic globally, and deteriorated further in November in most economies

Consumer sentiment

Indicators of overall consumer sentiment



Commentary

- In the US, sentiment deteriorated for the fourth consecutive month amid persistent worries about inflation, higher borrowing costs, and the uncertain political environment
- British consumers have turned more optimistic about the outlook for the economy and their personal finances this month in the face of encouraging news about falling inflation

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 spending moderation in US and Europe has been concentrated in goods though services demand is also now softening

Consumer spending trends by goods and services category

AS OF DEC 6

		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%	0.0%	-0.8%	-0.3%	0.8%	-2.7%	-2.4%	1.5%
	Motor vehicles	0.1%	-0.8%	-5.1%	-0.8%	0.6%	-0.9%	7.1%	0.9%
	Furniture	1.6%	-0.6%	0.8%	-1.7%	-4.3%	0.9%	-5.3%	-5.3%
	Electronics	8.9%	1.3%	-1.1%	-0.8%	0.1%	-2.1%	0.4%	1.7%
	Footwear & apparel	-0.2%	-0.3%	-4.3%	-0.9%	-0.2%	14.7%	0.4%	-0.8%
	Fuel	1.4%	2.9%	-0.7%	-1.9%	-1.0%	-3.4%	-5.4%	-1.5%
Services	Transportation	1.8%	0.1%	-2.2%	-0.6%	4.4%	1.1%	-1.1%	-0.9%
	Entertainment	0.6%	-0.6%	5.4%	3.0%		n/a	3.9%	-2.4%
	Dining out and hotels	1.7%	0.4%	2.5%	0.6%	0.5%	2.0%	2.2%	0.4%
	Information services	2.4%	0.6%	1.4%	0.4%	1.6%	4.1%	4.1%	1.5%
	Telecom	1.8%	0.4%	0.6%	0.0%	1.7%	2.0%	6.0%	2.4%

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

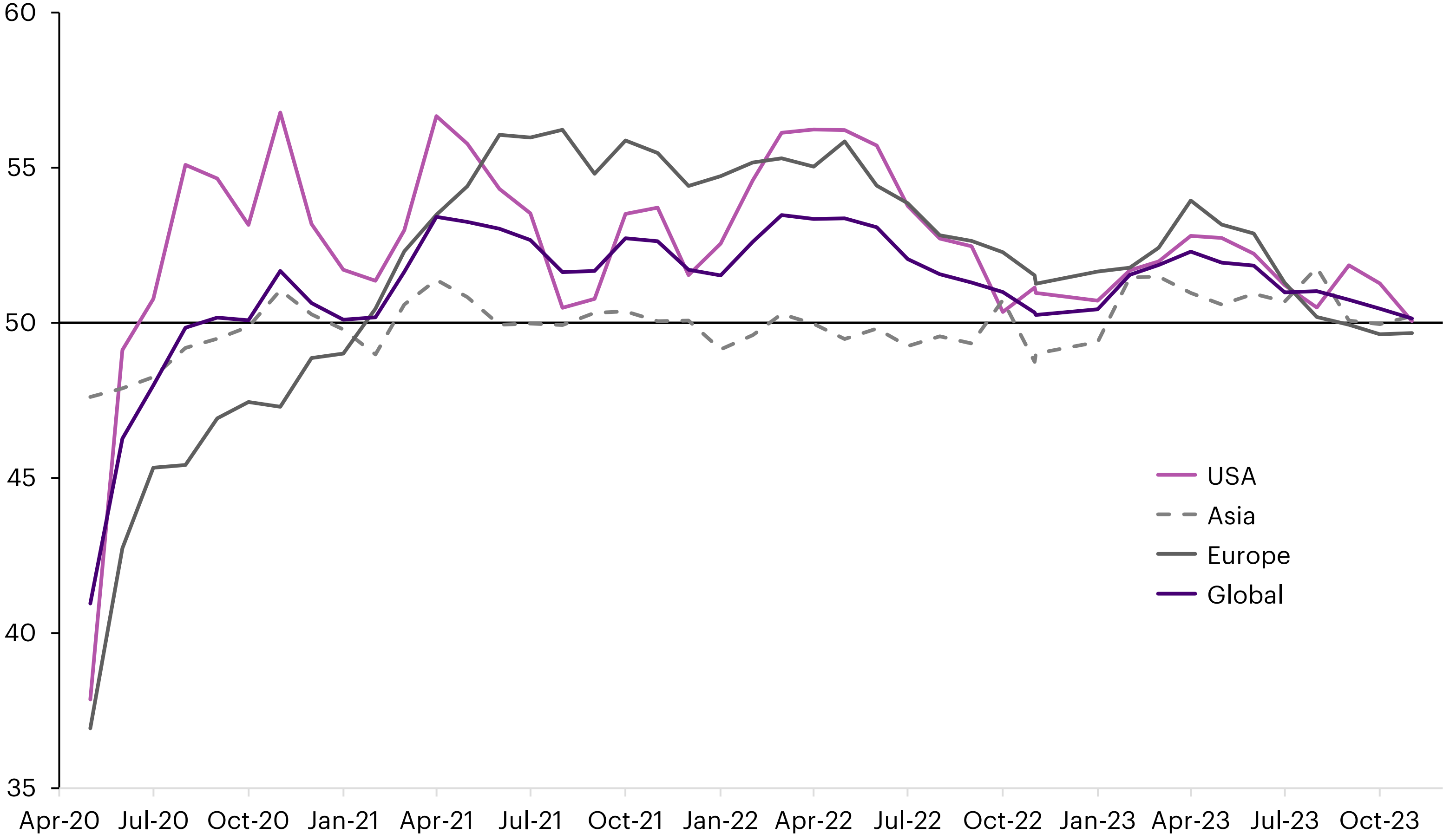
Labor markets

Labor markets may be at a turning point as employment growth continues to decelerate in all major geographies

Employment growth

Aggregate PMI Employment Index

Index (>50=expanding employment)



Commentary

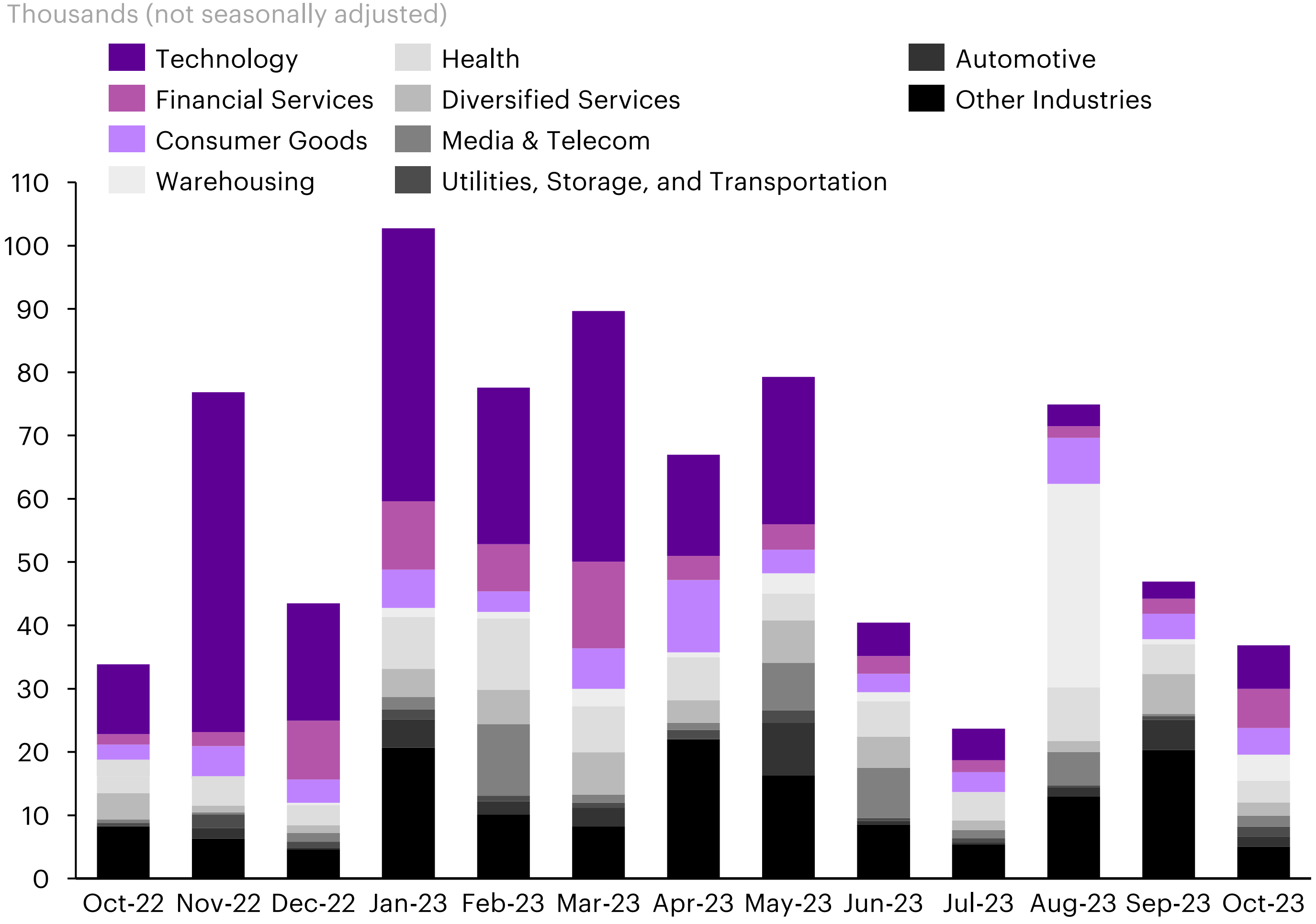
- In the US, employment growth decelerated in November
- Europe witnessed a marginal contraction in employment for the third consecutive month

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

US layoffs dropped for a second consecutive month in October after a surge in August

US corporate layoff tracker

Announced layoffs by sector



Commentary

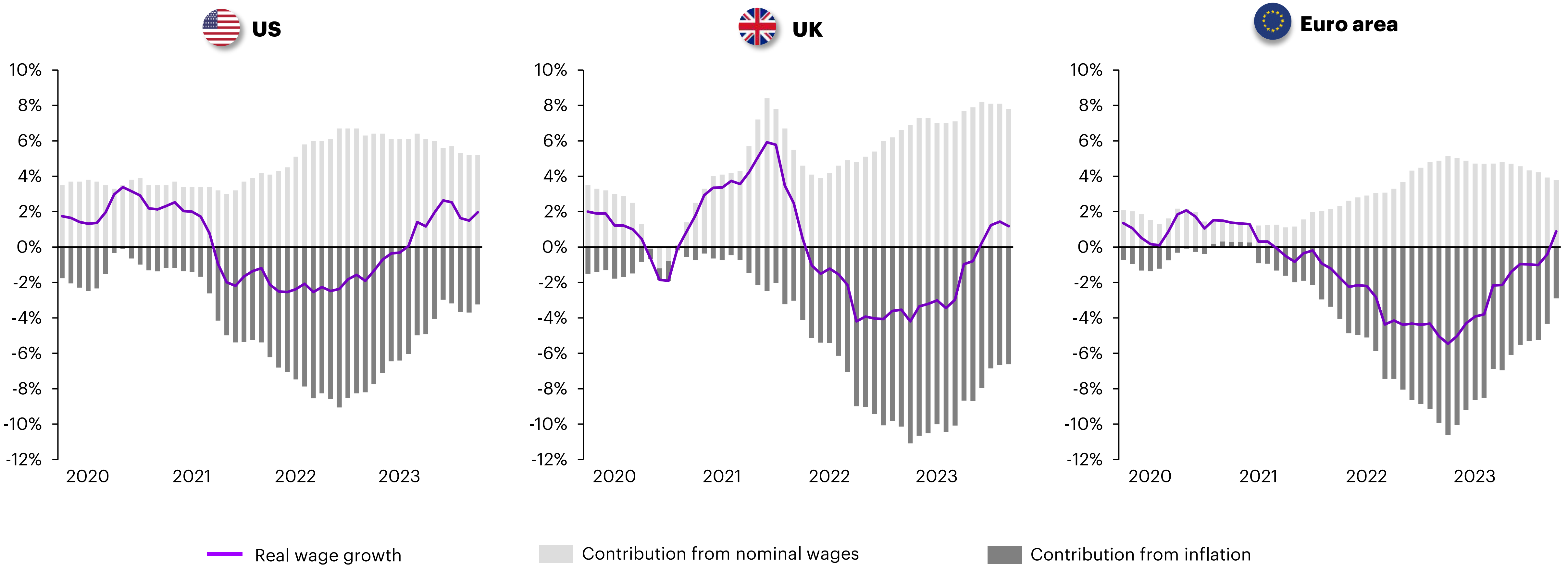
- The Technology sector led all industries in layoffs in October
  - So far, 2023 is the second-highest year for Technology sector cuts, following 2001
- Financial companies announced the second-highest number of cuts in October since March
- Warehousing witnessed the largest increase in August, largely attributed to the bankruptcy of Yellow Corp, which put 30K+ employees out of work

Source(s): Challenger Employment Report, Haver Analytics

Real wage growth is now in positive territory across the US, UK and Euro area amidst subsiding inflation

Wage growth developments

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

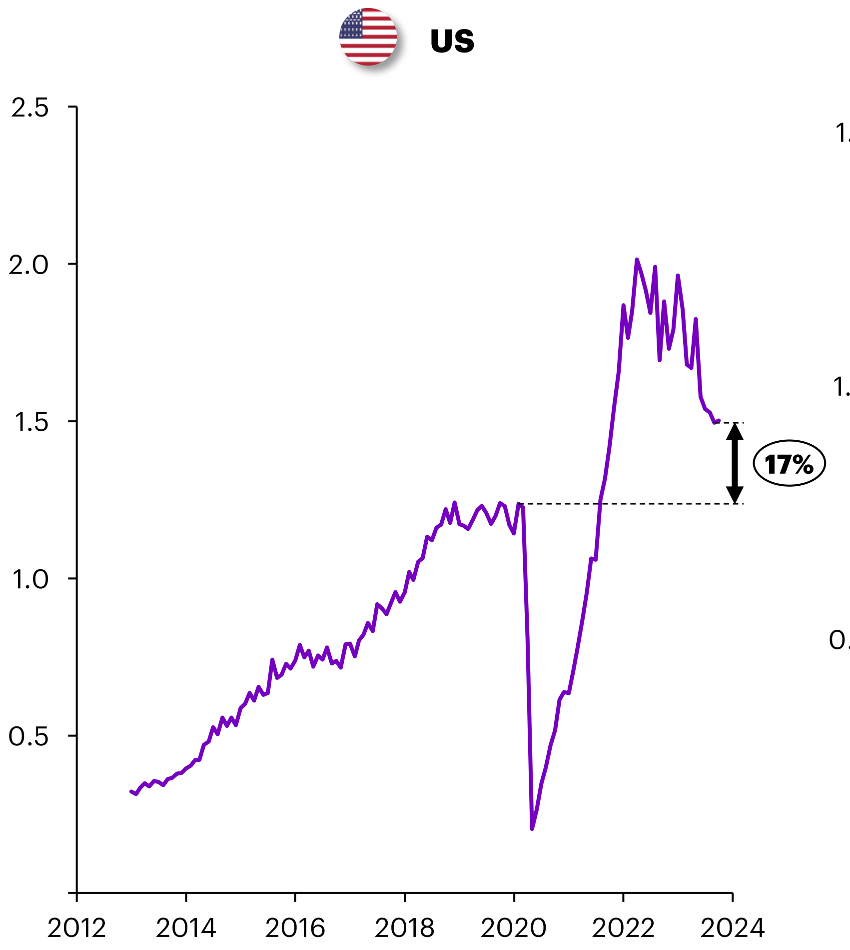


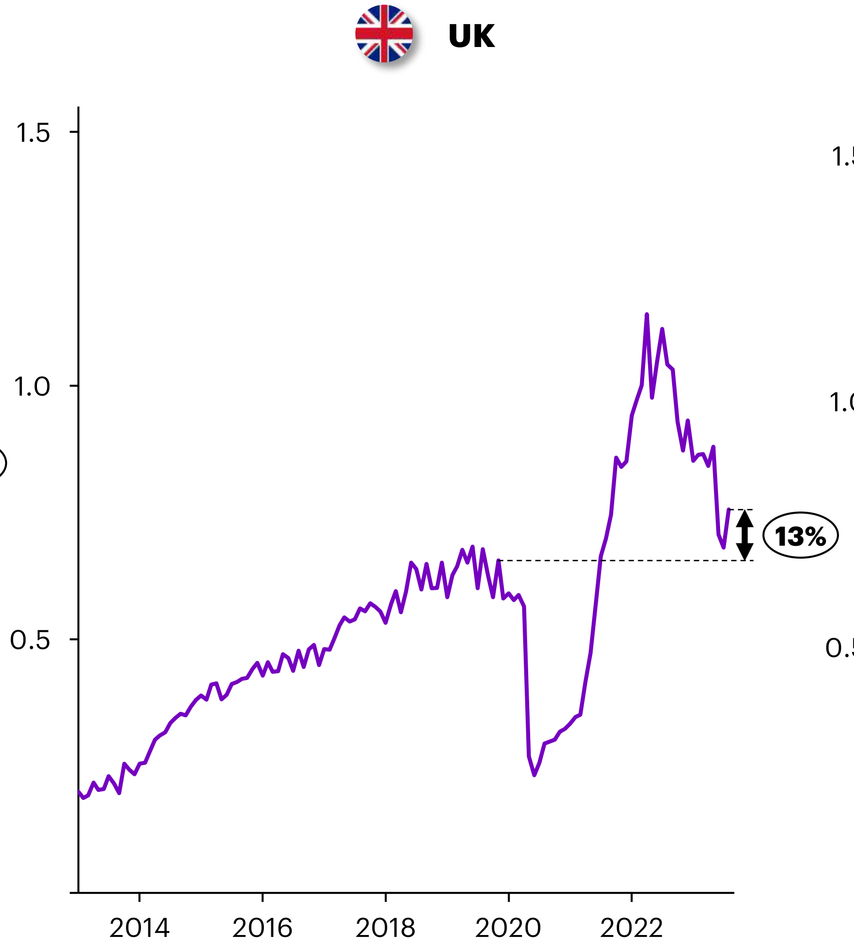
Source(s): BLS, ONS, Indeed, Accenture Strategy analysis

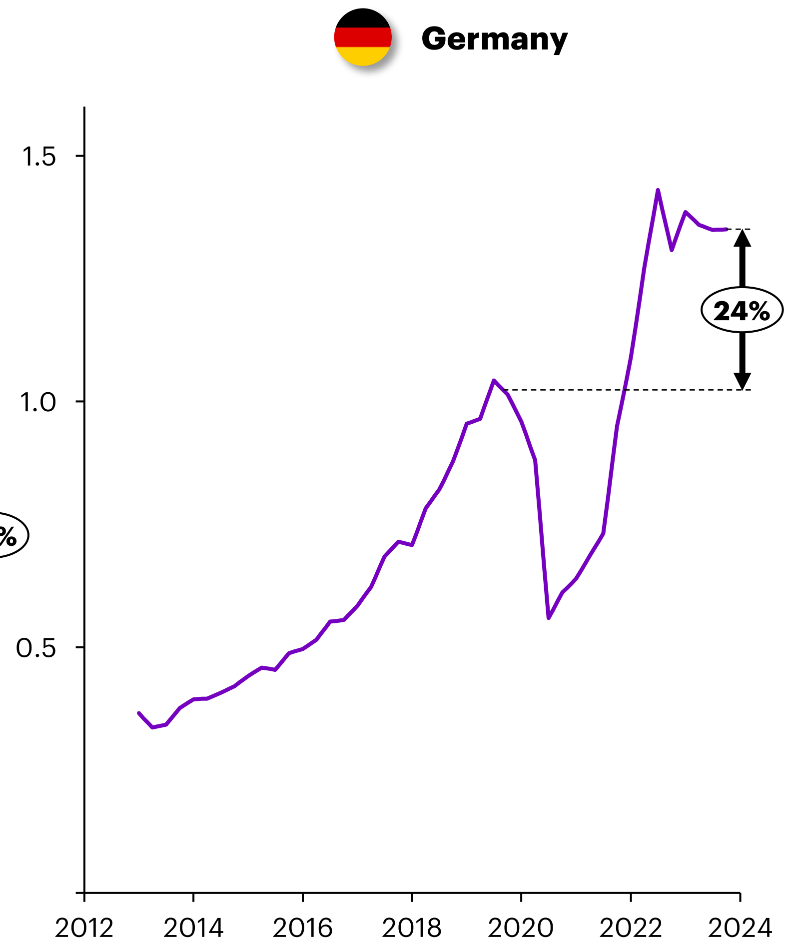
A difficult hiring environment (relative to pre-pandemic norms) persists across US and Europe, though labor markets are showing some signs of cooling

Labor market tightness

Job vacancies per unemployed person







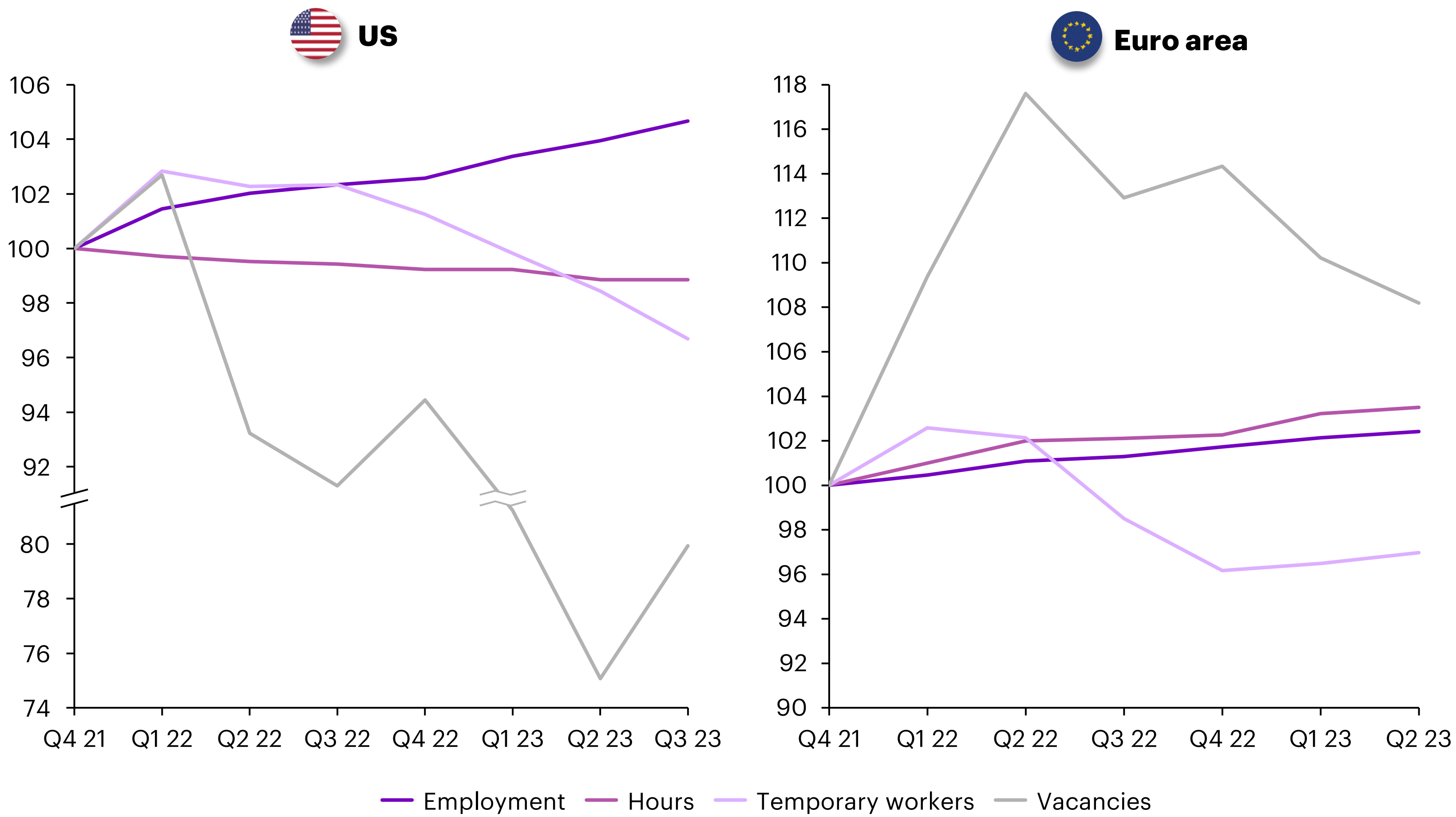
Source(s): BLS, ONS, Eurostat

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

Labor market indicators

Recent labor market movements

Index 100 = Q4 2021



Commentary

- While employment continues to rise in the US, companies have been reducing hours and temporary workers to adjust to lower levels of demand
  - Job openings increased in Q3, pointing to persistent labor market tightness
  - Quitting activity has normalized to pre-pandemic levels consistent with a tight labor market and companies generally remain reluctant to fire workers
- Just as labor markets in the Euro Area never quite reached the same levels of tightness witnessed in the US, they are slower to loosen in the current environment
  - Lower vacancies and use of temporary workers continue to be main channels of recent labor market adjustment

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

Talent shortages remain most pronounced in the US while improving in the service sectors across UK and the EU

Relative difficulty of hiring by sector

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

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

Commentary

- Hiring difficulties are pronounced in the healthcare and entertainment industry across the US, UK and EU
- While the difficulties have eased in the UK and EU area, they are still pronounced in the US

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

Headline inflation sees moderate disinflationary momentum as core inflation continues its downward trend worldwide

CPI inflation rates and trends

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

Country	YoY Inflation Rate	Change from previous month's rate (percentage points)
United States	3.2%	-0.5%
United Kingdom	4.6%	-2.0%
Canada	3.1%	-0.2%
Germany	3.0%	-1.3%
France	3.8%	-1.1%
Italy	0.7%	-3.9%
Spain	3.3%	0.2%

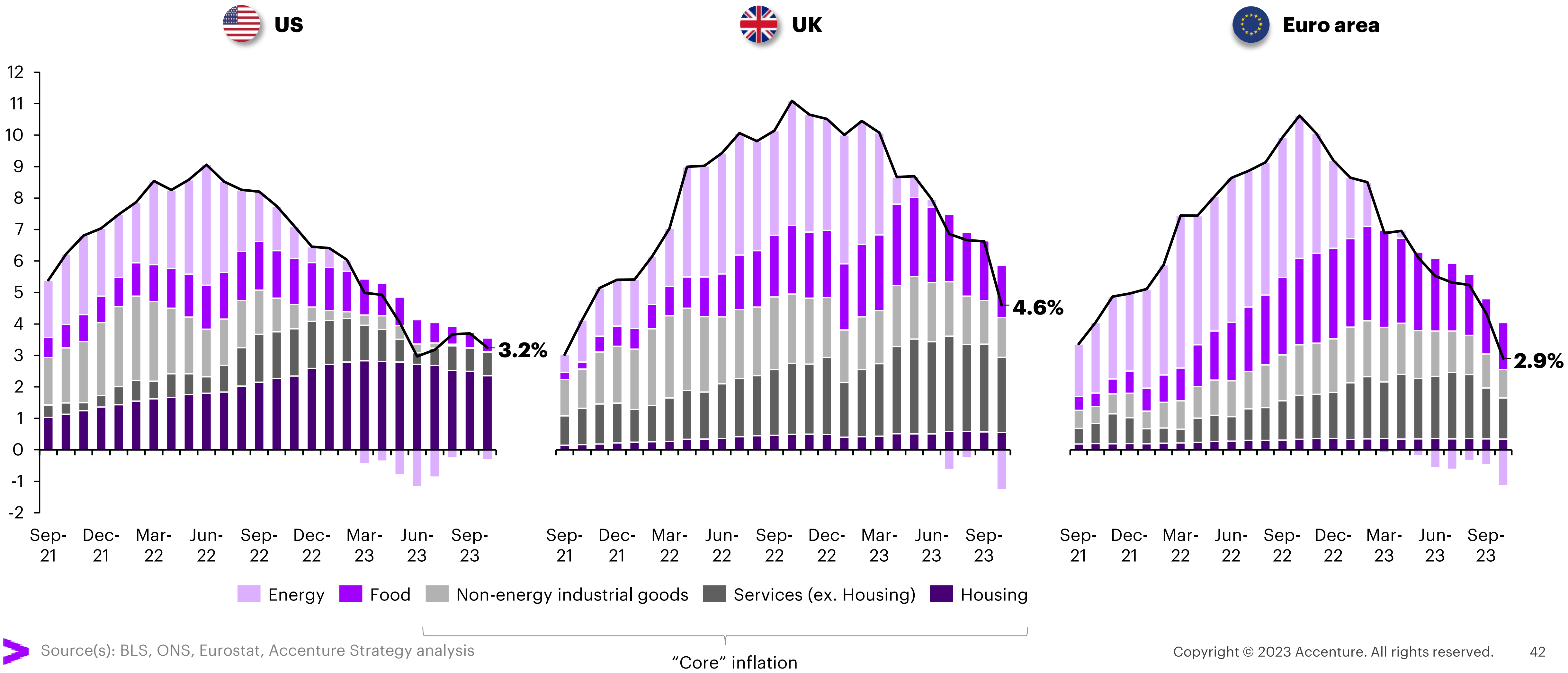
Country	YoY Inflation Rate	Change from previous month's rate (percentage points)
China	-0.2%	-0.2%
Japan	3.3%	-0.2%
Brazil	4.8%	-0.4%
India	4.9%	-0.2%
Singapore	4.7%	0.1%
Korea	3.3%	0.1%

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

Disinflationary momentum has stabilized somewhat in the US but continues more forcefully in Europe, mainly on the back of lower energy prices

Drivers of recent CPI inflation

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

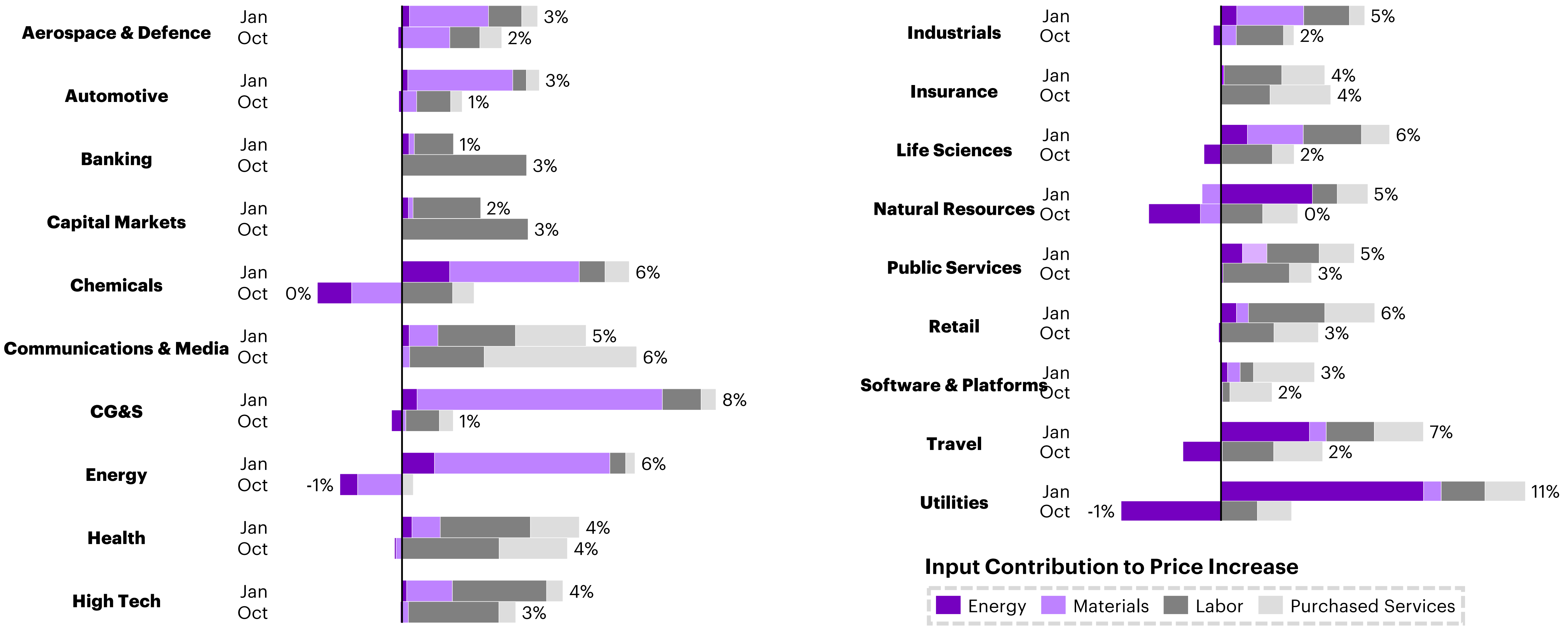


Source(s): BLS, ONS, Eurostat, Accenture Strategy analysis

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

Recent input cost inflation by industry

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

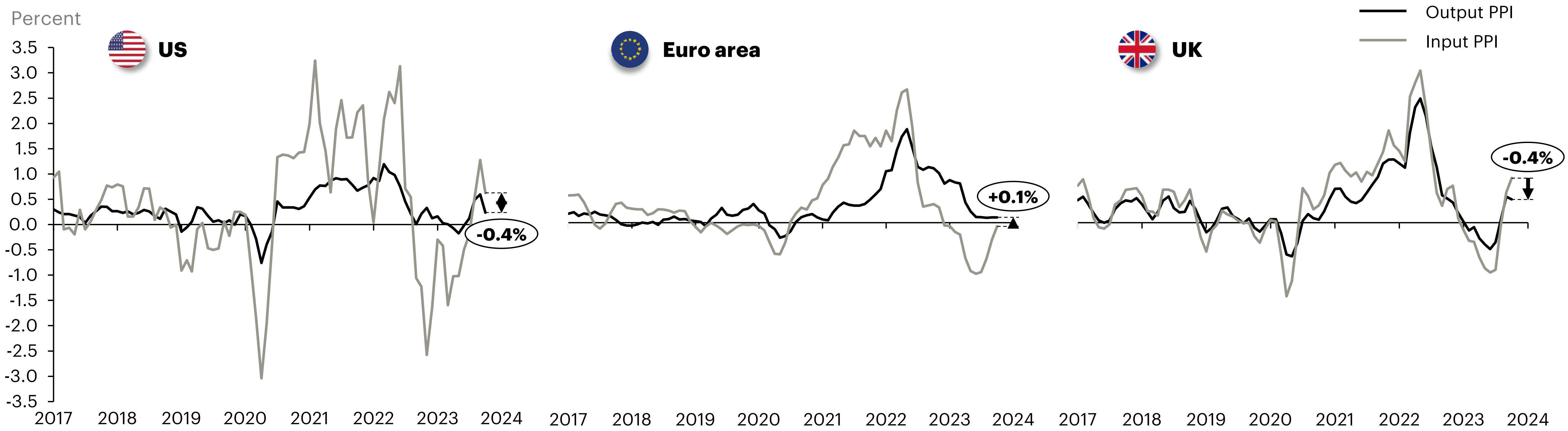


Note(s): Wage data as of Sep'23; Energy prices as of Oct'23 for Natural Gas, Aug'23 for Electricity and Oct'23 for Others; Materials and Purchased Services PPI price increases as of Oct'23.
Source(s): BLS, BEA, EIA, EPA, Accenture Strategy analysis

Euro area companies continue to be able to pass on their input costs while US and UK companies appear to be allowing some margin compression

Company input cost pass-through trends

Producer price indices (PPI) for intermediate inputs and final outputs, 3 month moving average % change



Commentary

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

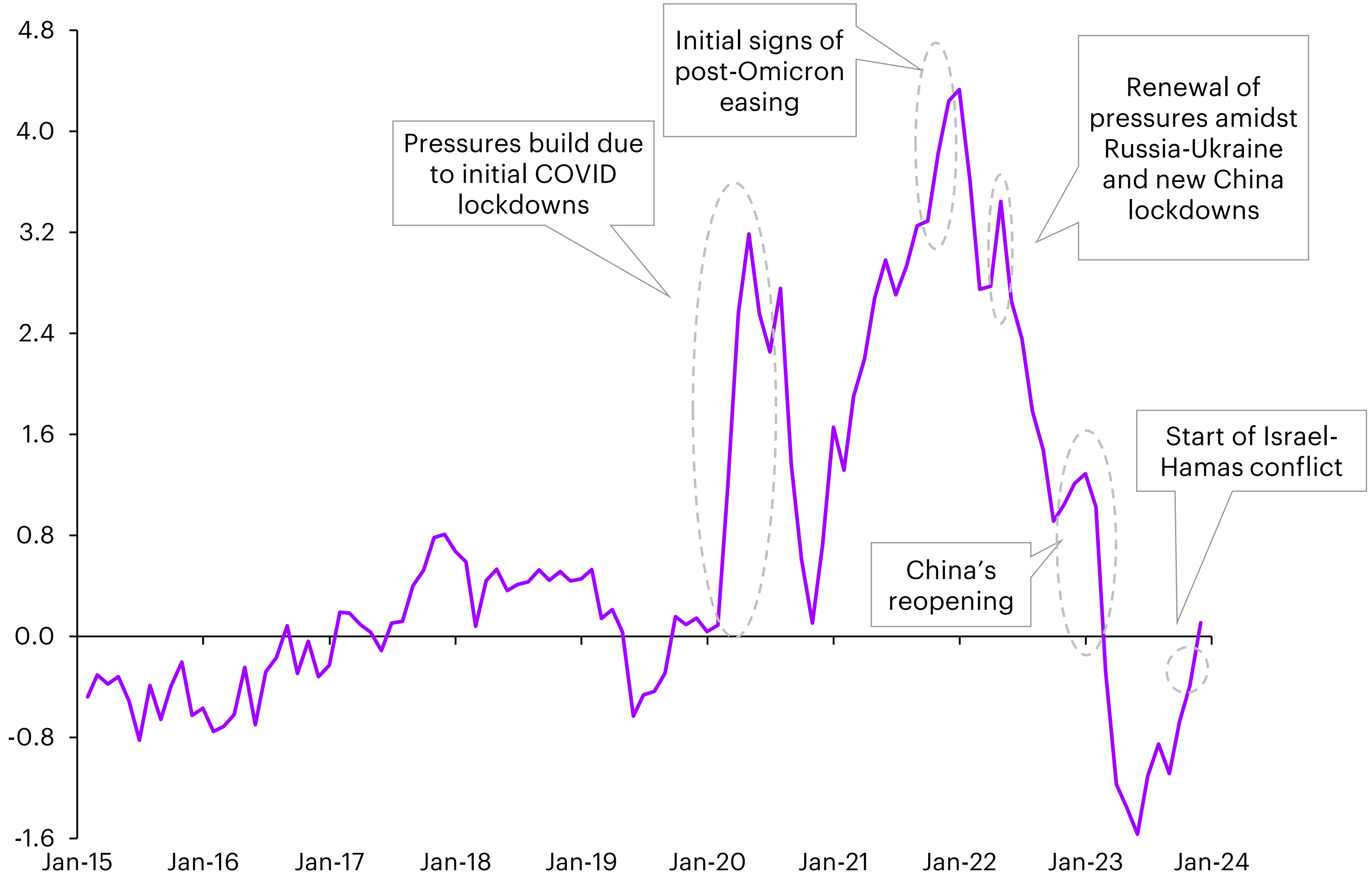
Note(s): 1) Figures in bold represent absolute percentage point difference between intermediate and final demand PPI YoY % values; higher positive values imply greater pass through to final producer selling prices, while larger negative values imply lower pass through. 2) US data is based on production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

Supply chains

After easing substantially since January, global supply chain pressures have now normalized to their pre-pandemic average

Global Supply Chain Pressure Index

Standard deviations from long-term average (=0)



Commentary

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

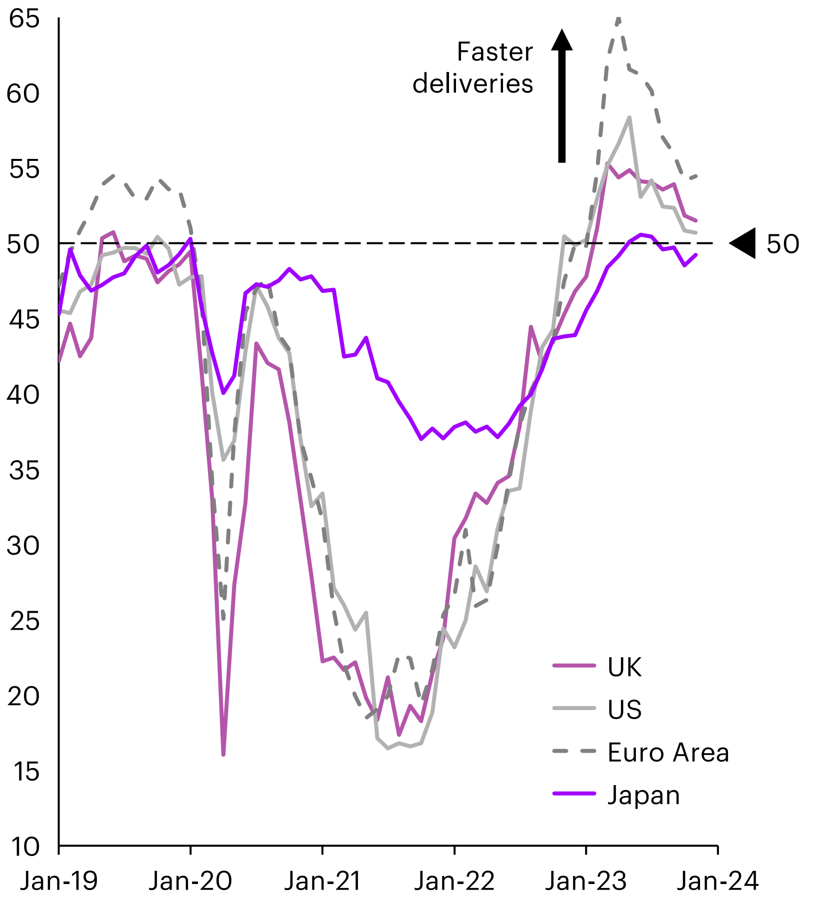
Source(s): Federal Reserve Bank of New York, Global Supply Chain Pressure Index, Accenture Strategy analysis

Softening demand and ongoing declines in new orders in the UK and Europe have shortened supplier delivery lead times and eased backlogs

Suppliers' delivery times and backlogs of work

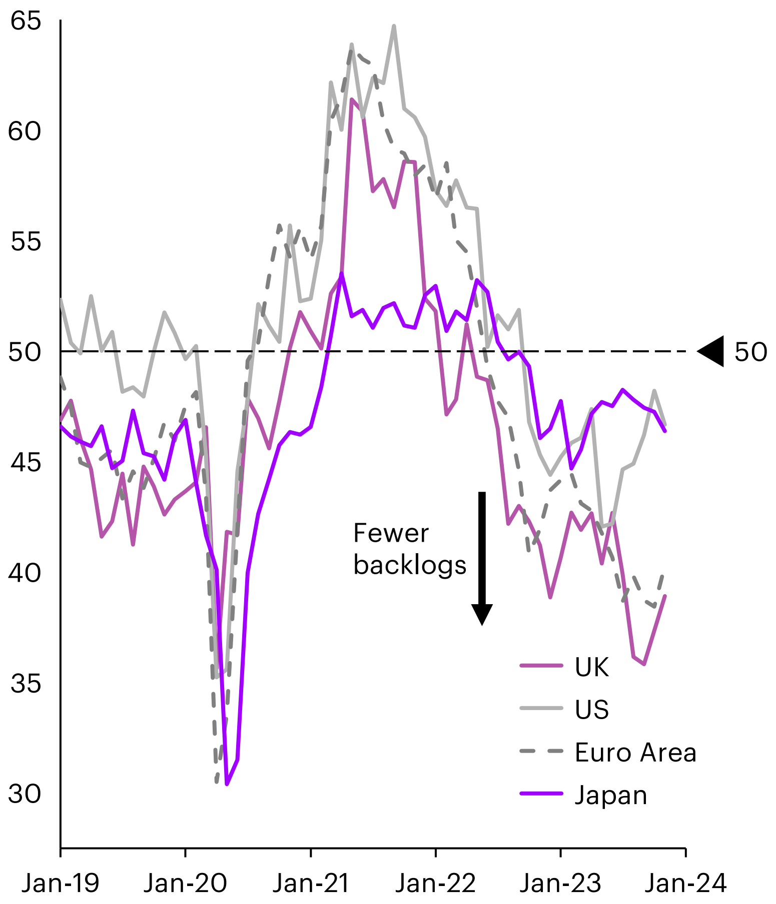
Suppliers' Delivery Times

Seasonally adjusted, 50+ = Increase



Manufacturing Backlogs of Work

Seasonally adjusted, 50+ = Increase



Commentary

- Supplier delivery times stabilized across the US, Europe and Japan in November
- Faster delivery times reflect greater supply availability and fewer bottlenecks, helping manufacturers to clear backlogs

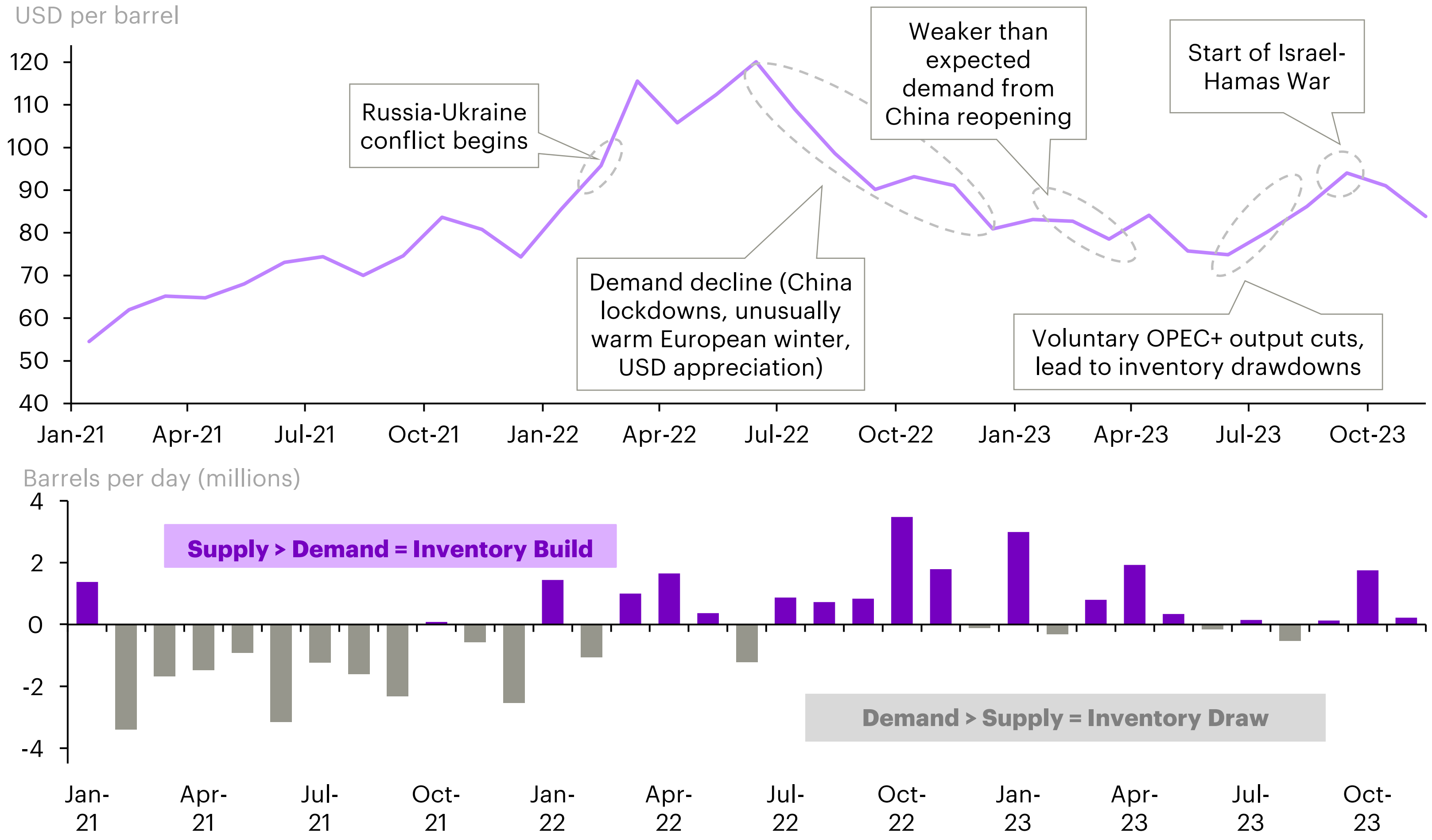
Source(s): CIPS/S&P Global, Haver Analytics, Thomson Reuters, Accenture Strategy analysis

Energy and commodities

Oil prices slid in November as market concerns shifted from supply risks to the global economy and weakening oil demand

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

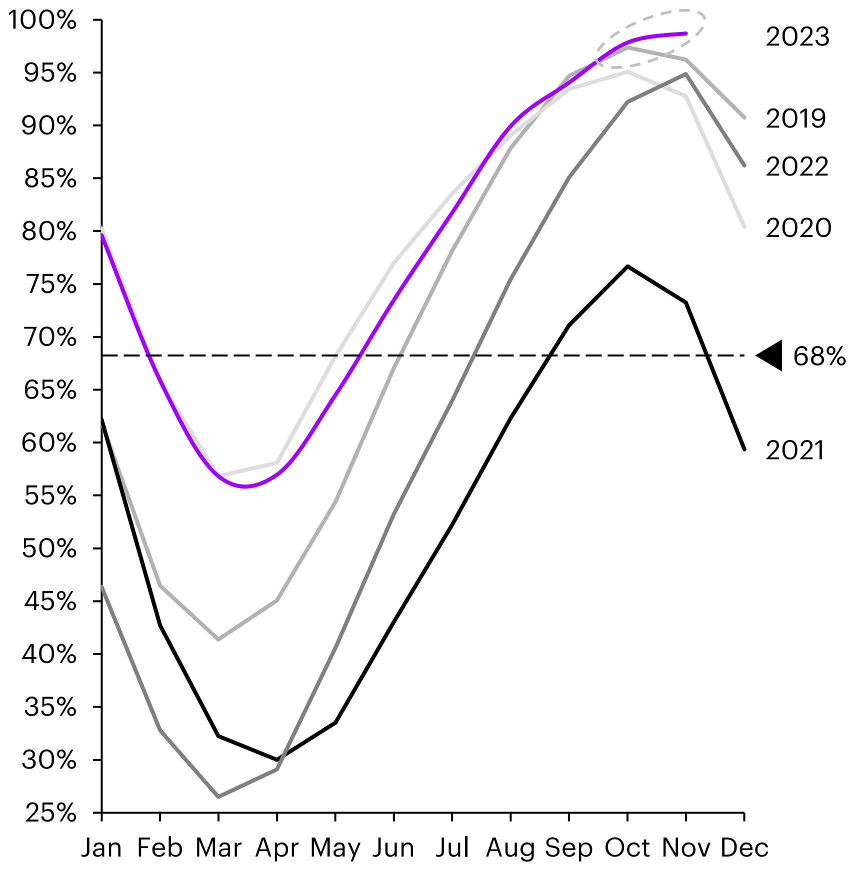
- Oil prices fell in November as the concerns about the Israel-Hamas war disrupting oil supplies—which drove up prices in October—subsided somewhat, for the time being
- Going forward, upside and downside pressures to prices appear broadly balanced, with:
  - Concerns over slowing global demand growth weighing on prices
  - The likely continuation of OPEC+ output cuts into 2024 supporting prices

EU gas prices dipped slightly in December and are facing less upward price pressures amidst record storage levels and slowing economic growth

EU natural gas reserves and prices

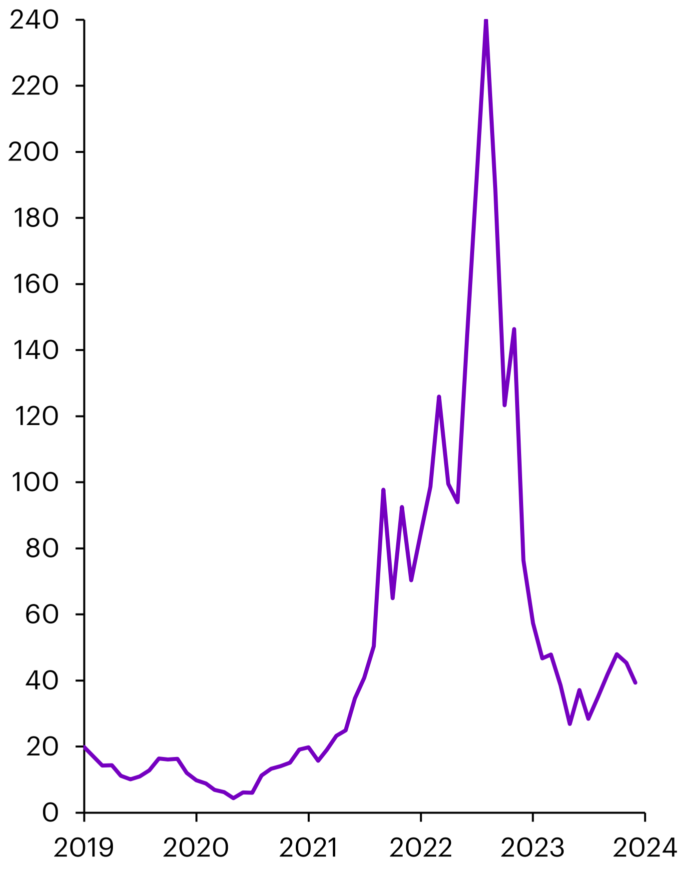
European gas reserves are relatively high at 97%...

% of storage capacity



with prices dipping amidst slowing demand

TTF Gas (EUR per megawatt-hour)



Commentary

- Record inventories combined with recent mild winter weather have delayed the usual drawdown on gas reserves that occurs around this time of the year
- Natural gas prices in Europe dipped slightly in early December, with chances of further contraction driven by
  - Slowdown in demand driven by contraction in the global economy, and especially in the Euro area economy
  - Fears subsiding over supply chain disruptions related to the spread of the Israel-Hamas war to the broader Middle East
  - Chevron's offshore Tamar natural gas field resuming operations that were halted due to the Israel-Hamas conflict

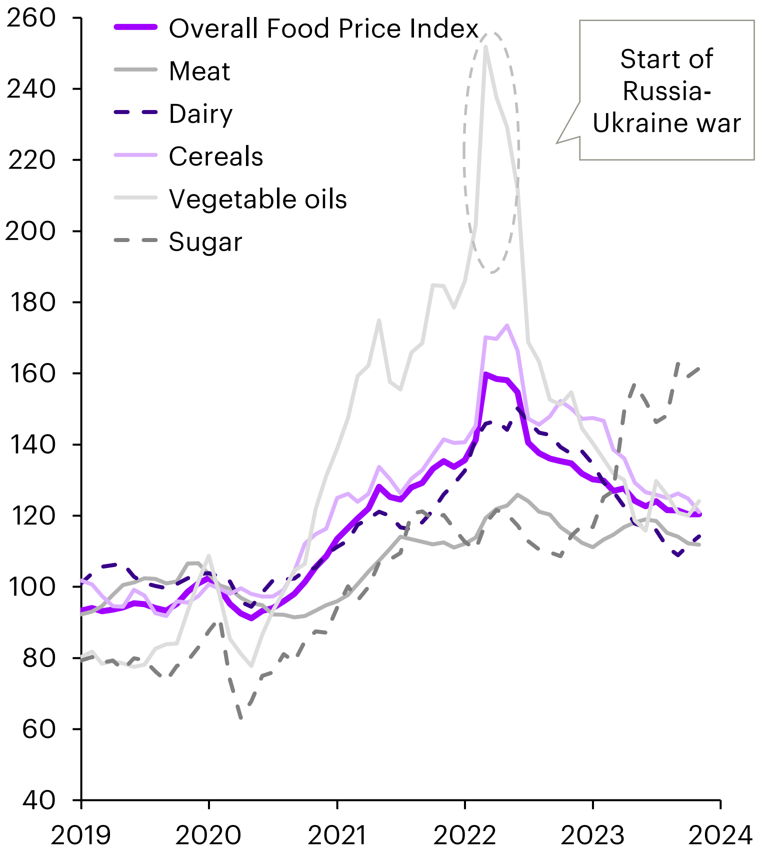
Note(s): Dutch TTF Natural Gas Futures front-month contract. TTF stands for Title Transfer Facility, which is a virtual trading hub for natural gas in Europe. TTF prices represent the average monthly price of natural gas traded at this hub and are considered a benchmark for natural gas prices in Europe.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

Overall food and fertilizer prices held steady in November

Food and fertilizer prices

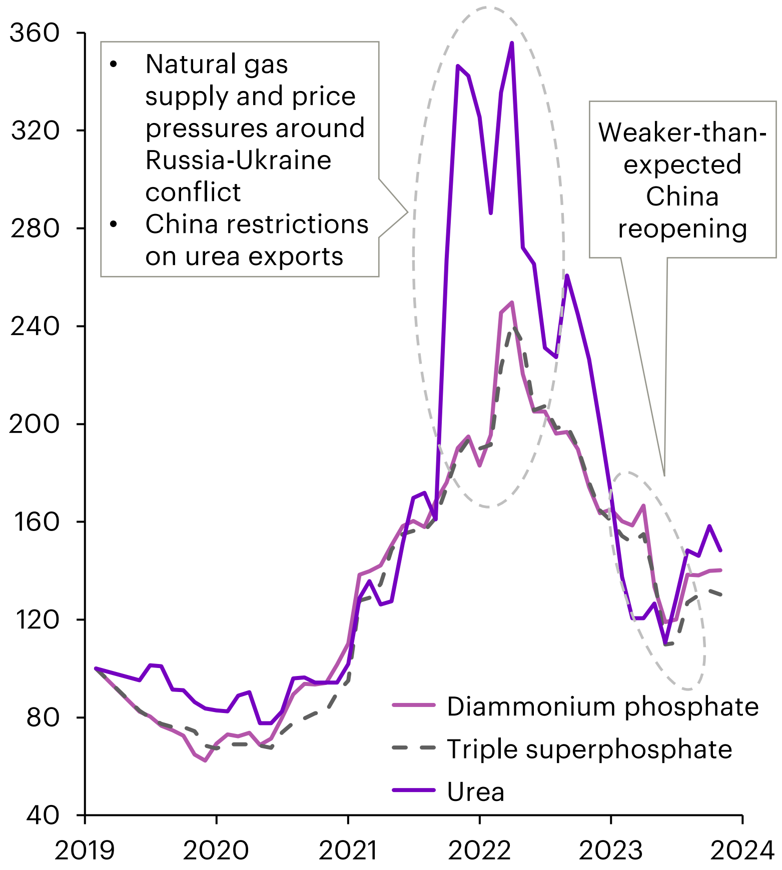
Food prices

Index, 2014-2016 = 100



Fertilizer prices

Index, Jan 2019 = 100



Commentary

- Overall food commodity prices were broadly stable in November, reflecting offsetting increases in the prices of dairy, vegetable oils and sugar and declines in the prices of meat and cereals
- Dairy prices were up for the second consecutive month after 9 months of decline on the back of
  - Surging import demand
  - Concerns over El Niño impact

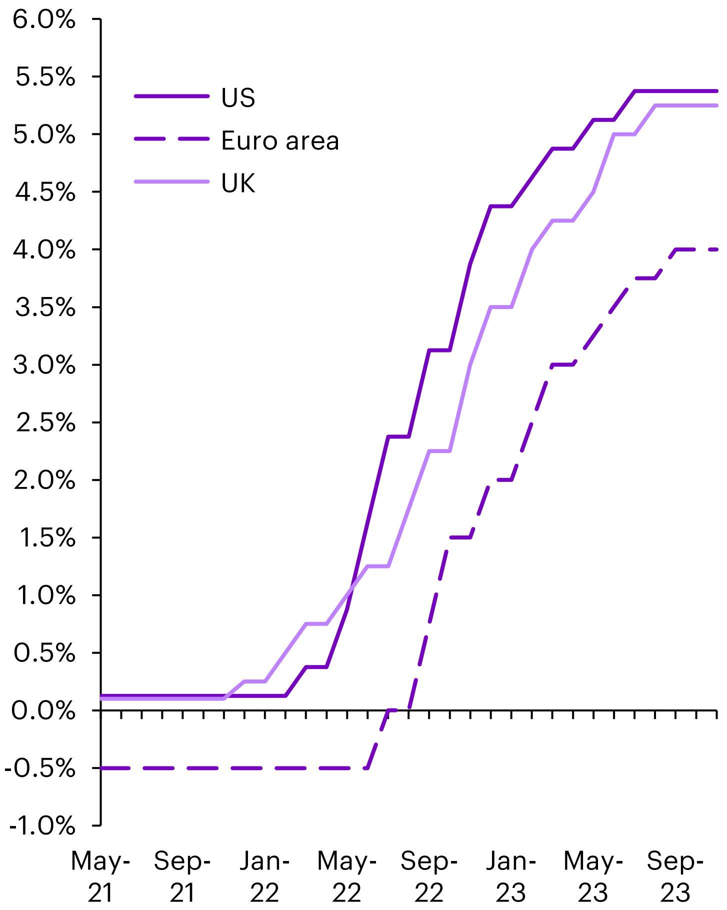
Note(s): (a) Food Price Index is a measure of the monthly change in international nominal prices of a basket of food commodities (b) Fertilizers include DAP (diammonium phosphate), TSP (triple superphosphate), and Urea.
Source(s): World Bank, UN FAO, USDA, Bloomberg, Accenture Strategy analysis

Financial markets

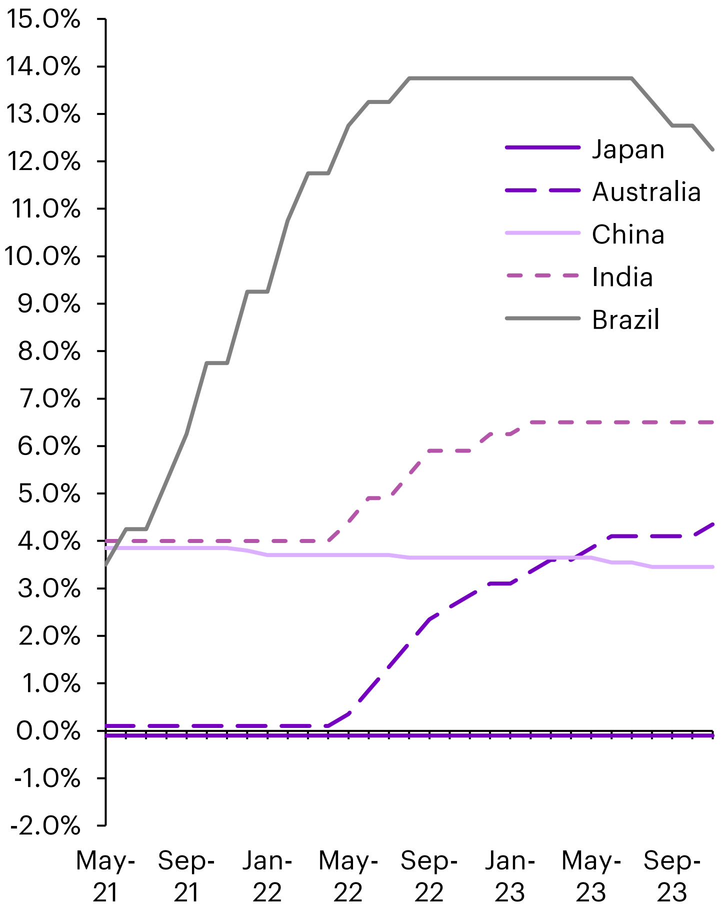
Most central banks are pausing further rate hikes while they evaluate evolving conditions

Monetary policy across major economies

US, UK and Euro area policy rates



Policy rates for other major economies



Commentary

- The Fed left rates unchanged in November but signaled that additional rate hikes are not off the table
- The ECB kept its key policy rates unchanged at its most recent October meeting and signaled that its September hike may have been its last, as the Euro area economy flirts with recession
- The Bank of England held its policy rate steady in November as UK contends with one of the highest inflation rates among major economies
- The Bank of Japan maintained its loose policy stance, though inflation concerns are fueling expectations that it may soon revise its longstanding yield curve control (YCC) framework
- Brazil's central bank cut its benchmark rate by another 50bp in November due to the improving inflation outlook
- Reserve Bank of Australia paused in December after a 25bp hike in November

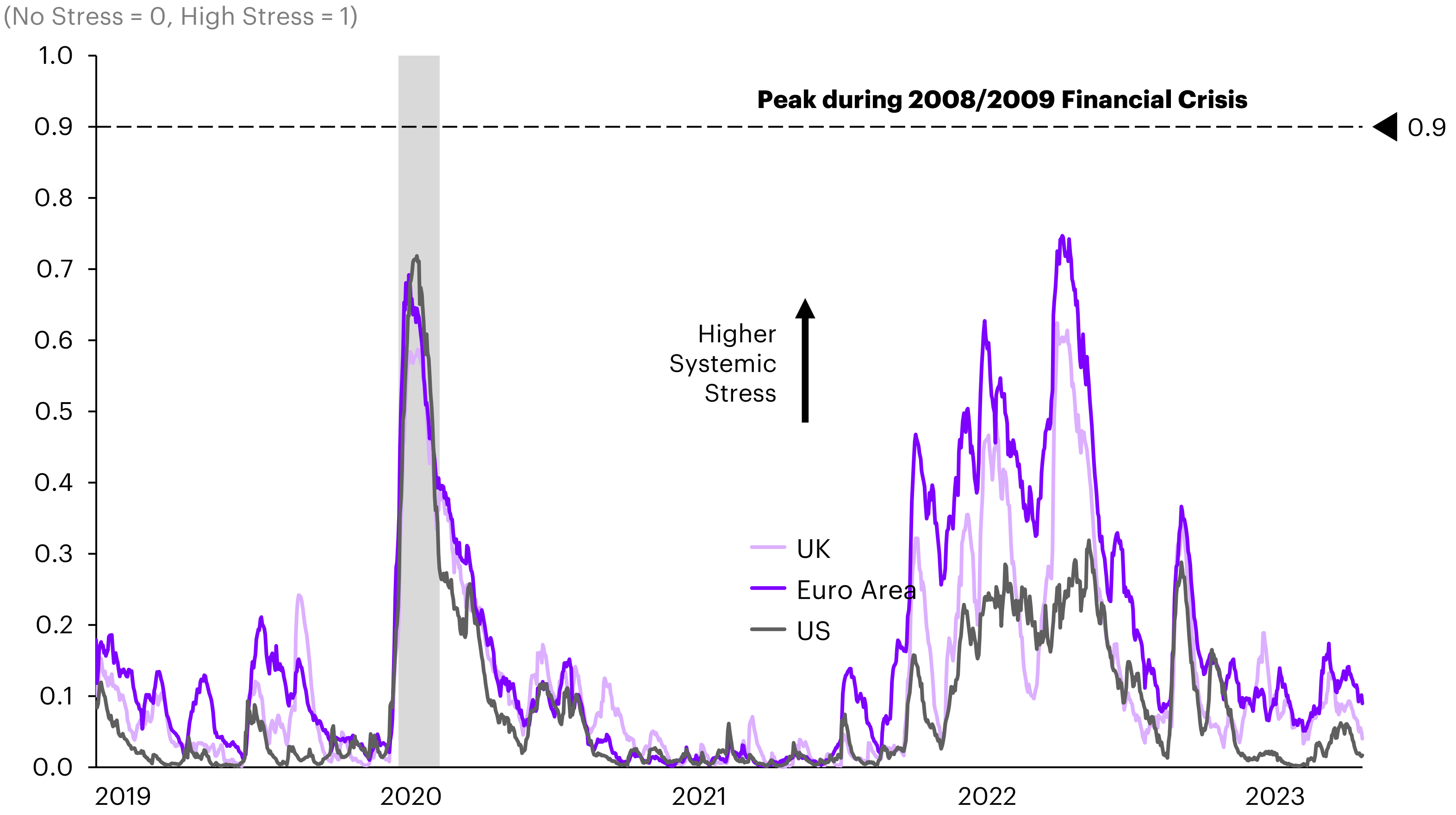
Source(s): Federal Reserve Bank, European Central Bank, Bank of England, Bank of Japan, Reserve Bank of India, Central Bank of Brazil, Reserve Bank of Australia, People's Bank of China, Accenture Strategy analysis

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

Systemic financial stress indicators

AS OF DEC 7

Composite Indicator of Systemic Stress Index



Commentary

- Systemic stress levels in the US and Europe remain below their recent March 2023 peak
- Elevated financial pressures are likely going into 2024 amid
  - Ongoing interest rate uncertainty
  - Growing prospects of an economic downturn
  - Emerging vulnerabilities in sectors where banks have large exposure (e.g., commercial real estate)
  - Heightened geopolitical tensions

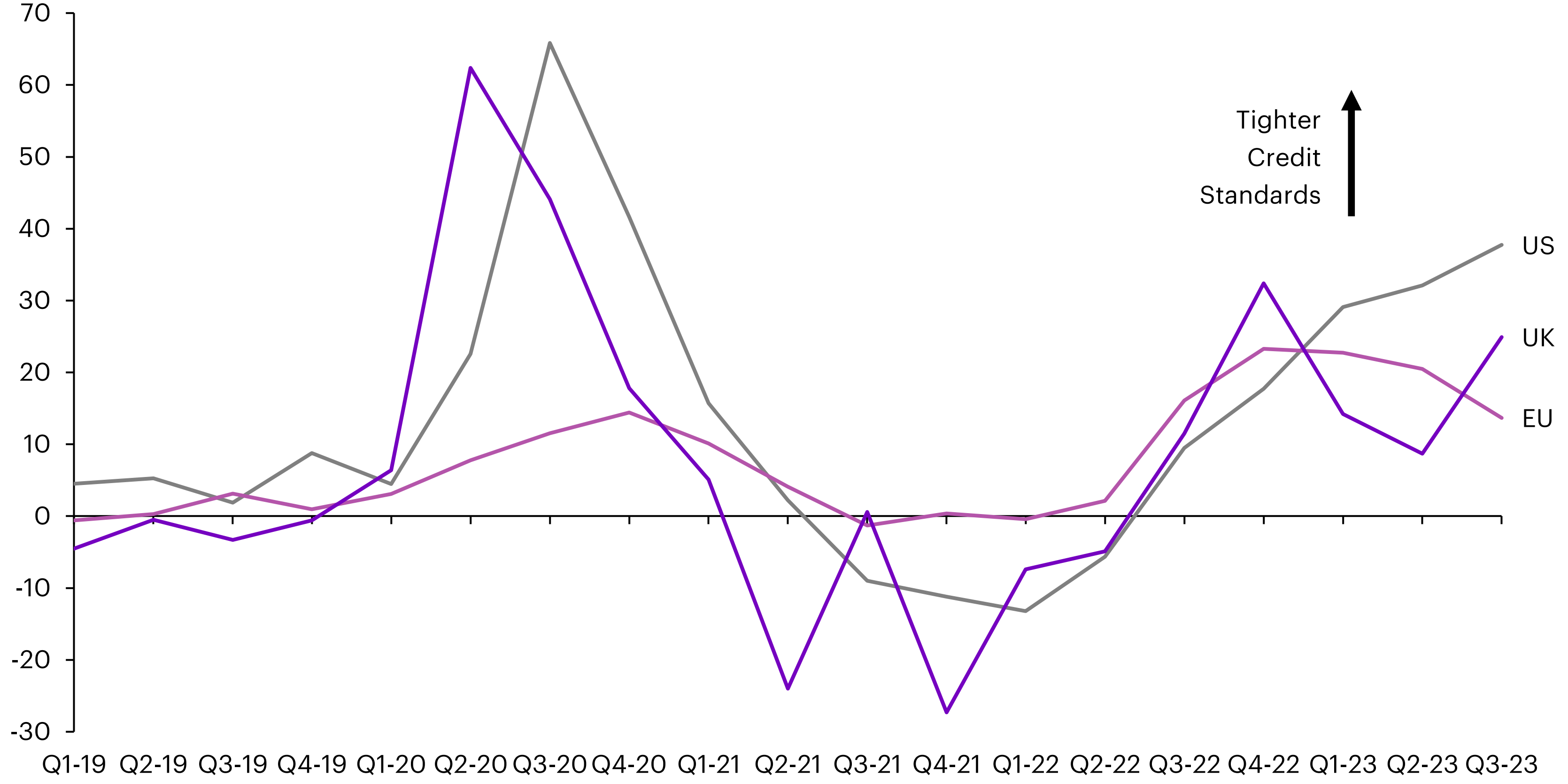
Note(s): (1) The composite indicator of systemic stress consists of market-based financial stress measures that namely covers the financial intermediaries sector, money markets, equity markets, bond markets and foreign exchange markets (2) Grey shading reflects U.S. recession
Source(s): Haver Analytics,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

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

Restrictiveness of banks’ lending standards

Banks are tightening their credit standards in tandem with monetary tightening

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 tightened standards for all kinds of business and consumer loans while demand for most types of loans weakened, and growth for all types of loans slowed
- In the US and the UK, lending standards remained tight in Q3’23, reaching their highest points in 2023
- 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

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.

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

About Accenture Strategy
Accenture Strategy works with boards, CEOs and C-suite executives to create 360° value for all stakeholders by defining and answering their most strategic business questions—including growth, profitability, technology-driven transformation, mergers and acquisitions (M&A), operating models and sustainability—with insights from AI and data science, combined with deep industry and function expertise. Visit us at www.accenture.com/strategy.

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