July Macro Brief

Normalizing labor markets

July 26, 2024

Accenture Strategy

Macro Foresight

About this document

The monthly brief is intended to inform executive teams, boards and investors on the state of the economy. It has been prepared based on data as of **July 25, 2024**.

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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June: Manufacturing health check
May: Trade skirmishes
April: Navigating choppy waters
March: The productivity imperative

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Executive Summary

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Global themes

- **Going into the second half of the year, the global economy broadly remains on a trajectory of normalization and moderation:**
  - Disinflation has progressed further, manufacturing is sluggishly emerging from its troughs, and consumer spending has slowed gradually
  - Accordingly, most central banks globally are now pivoting towards interest rate cuts, though it is important to keep these in perspective—structural shifts (e.g., greater supply-side risks, investment needs for GenAI) will put a floor on rates at much higher levels than pre-pandemic
- **Labor markets are normalizing, albeit slowly, as demand from employers cools, but supply remains tight compared to pre-pandemic levels:**
  - Residual labor market tightness appears relatively higher in advanced economies (notably US and Germany) than in emerging markets, and at greater risk of becoming more entrenched due to the demographic challenges many of these advanced economies face
  - Wage growth has thus been slow to moderate, reinforcing labor cost pressures but also supporting real incomes and consumer resilience
- **Global economic sentiment remains vulnerable and uncertainty high in anticipation of potential policy changes in the coming months.** Any potential uplift from forthcoming interest rate cuts will take some time to propagate through the economy, while lingering political uncertainty is likely to weigh on business sentiment and investment, limiting the upside to global growth in the second half of this year.

Regional highlights

Americas

- The **US** labor market appears to be normalizing from extreme tightness as supply of foreign workers increases, but shortages persist in high-skilled business services sector
- **Mexico's** growing pool of high-skilled talent is helping alleviate some labor challenges for US companies in the short term, but could reshape longer-term skills demand in US market

Europe, Middle East and Africa

- Across **Europe**, a secular decline in working hours, coupled with demographic decline, continue to create labor supply challenges for companies and encourage labor hoarding
- **Germany's** skilled labor shortages are particularly pronounced, amplified by the rise in part-time work, and concentrated in services and in the easter part of the country

Asia-Pacific

- Labor shortages are putting pressure on companies in **Japan** to hike wages, adding to existing cost pressures from a weak yen and elevated overall inflation
- **South Korea's** rigid labor market and rapidly rising labor costs are creating significant challenges for multinational companies

Key considerations and priorities for clients

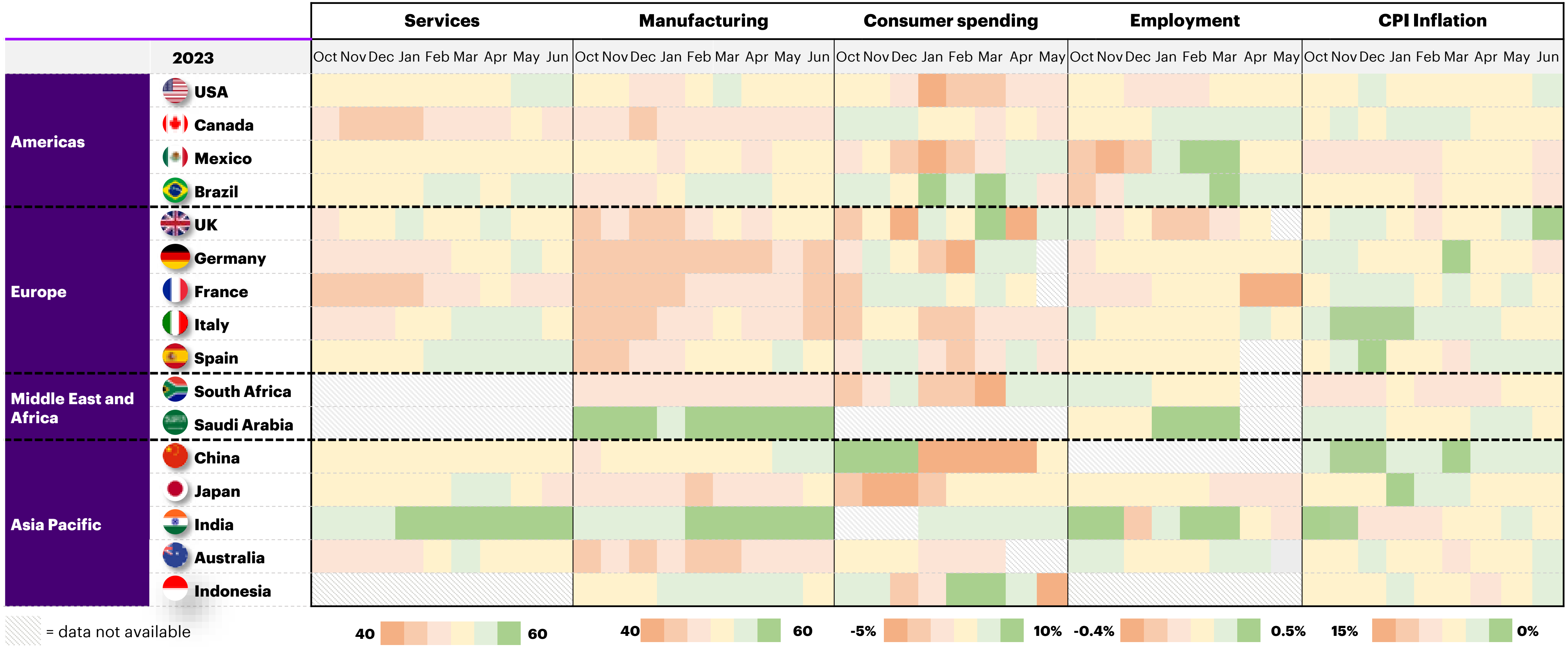
- **Companies should expect labor costs to remain elevated as wage growth holds above the pre-pandemic pace for the foreseeable future.** This may challenge certain companies who were relying on labor cost moderation to relieve margin pressures, and force some to consider unwinding labor hoarding strategies and offloading less productive workers.
- **Tapping into global labor pools may become increasingly difficult amidst geopolitically motivated restrictions on immigration, creating talent deficits in economies with aging/declining populations and surpluses in those with young and educated populations.** Companies must prepare for scenarios where cross-border labor sourcing becomes increasingly constrained and domestic labor productivity (e.g., via GenAI) becomes the primary lever for managing talent shortages and labor costs.

Source: Accenture Strategy analysis

The balance of recent data globally suggest solid services momentum, ongoing weakness in manufacturing activity, stable consumer spending, and leveling inflation

Country economic momentum snapshot

AS OF JULY 25



Notes: 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. Mexico Services refers to Business Climate Index: Non-mfg. Consumer spending shading based on real retail sales growth 3MMA percent change except for Australia which is based on Q/Q % change and India which is based on 3MMA of Y/Y% change. Employment growth is derived from employment figures as provided by government authorities. CPI uses harmonized figures for Euro Area countries.

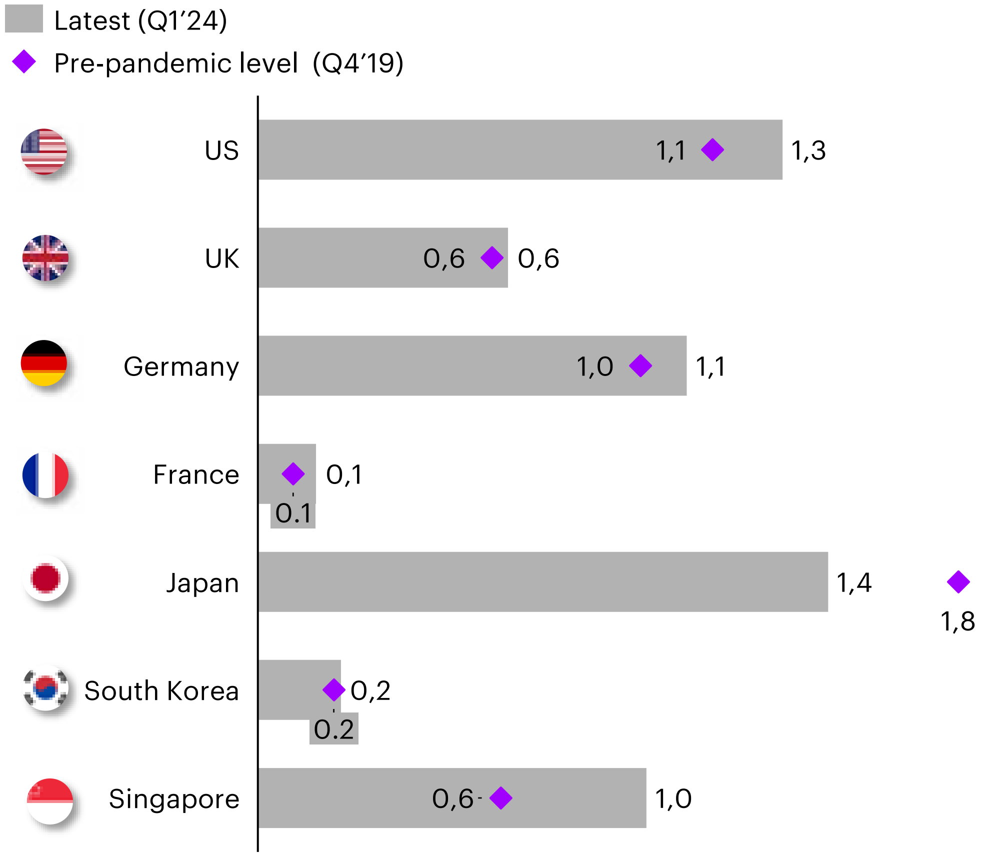
Sources: S&P Global, Haver Analytics, Accenture Strategy analysis

Labor market tightness remains relatively higher in US and parts of Europe, with risks that some of it may become structural amidst aging workforces and slowing population growth

Global labor markets tightness

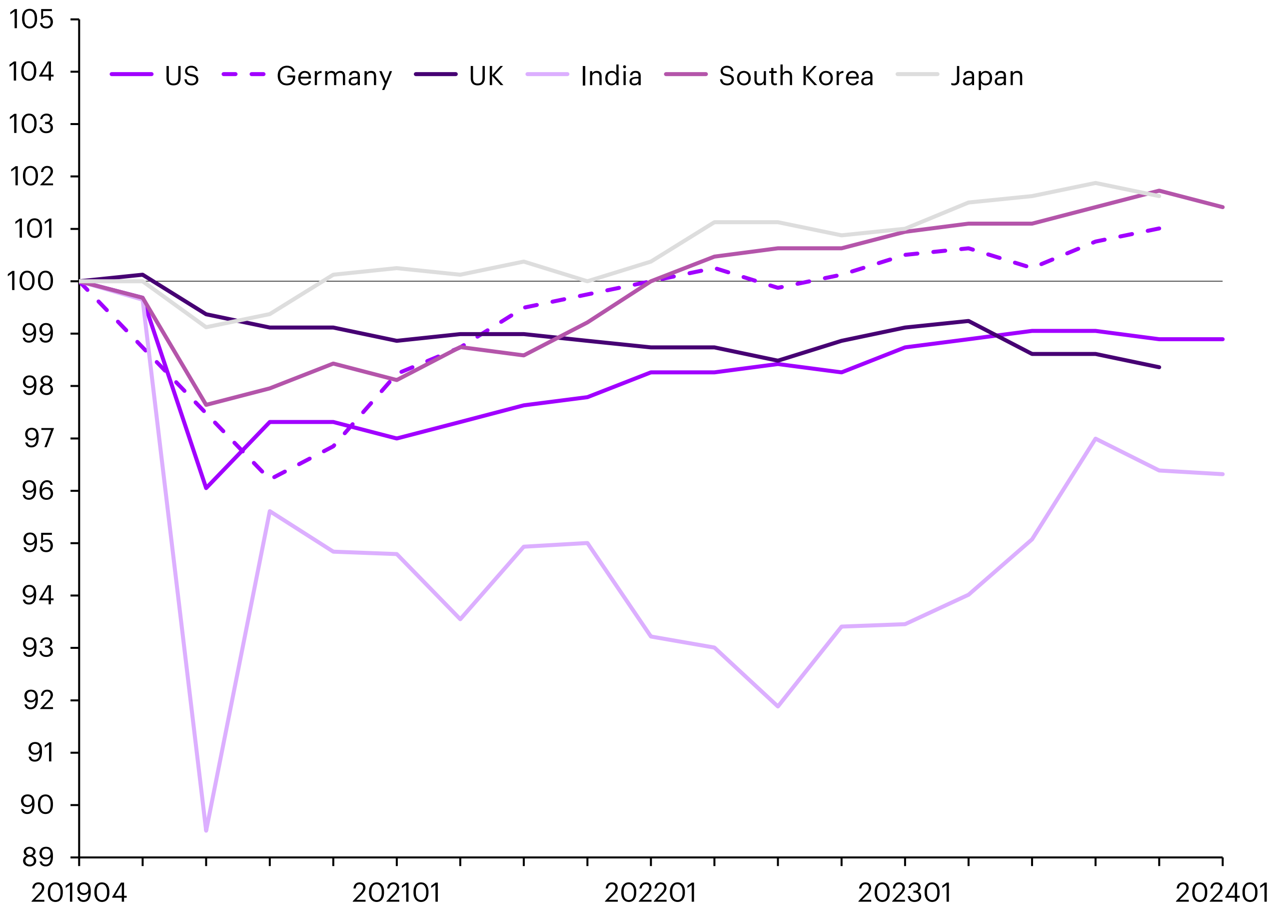
Labor market tightness

Job vacancies per unemployed person



Labor supply recovery in major economies

Labor force participation rate, index Q4 2019 = 100



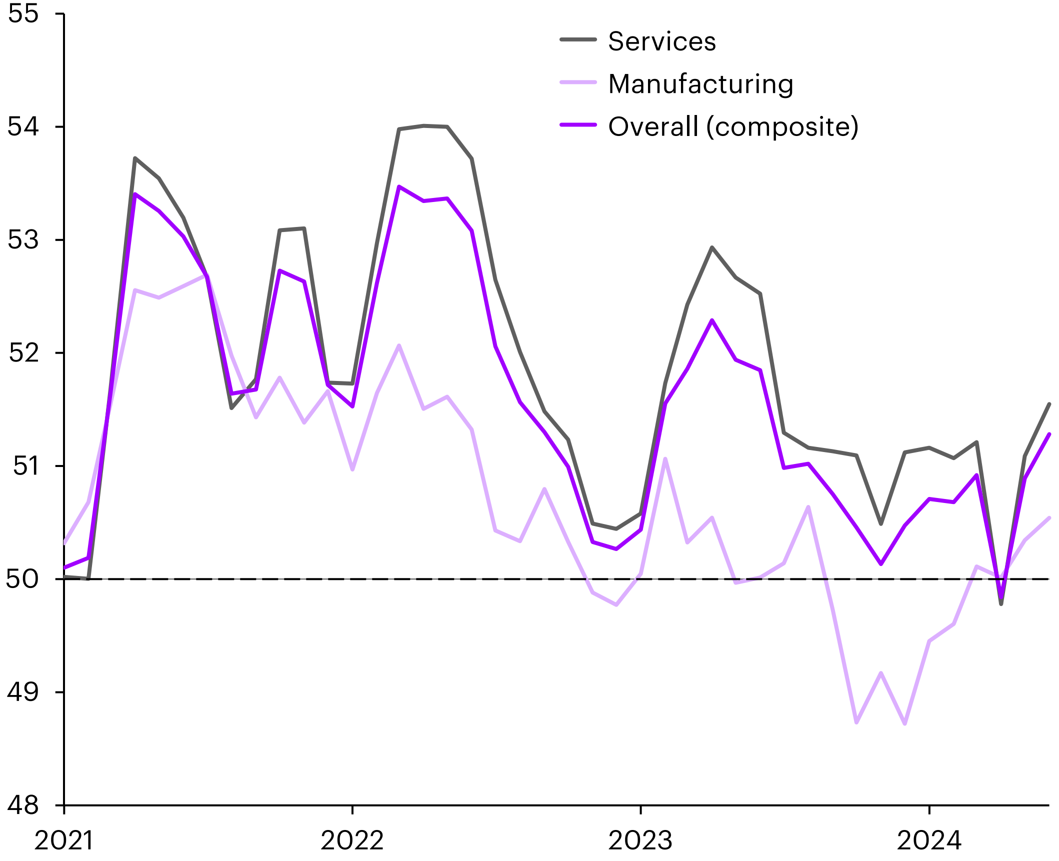
Sources: Haver Analytics, Accenture Strategy analysis

Globally, employment continues to grow across manufacturing and services, albeit with stark regional differences and at a slower pace than a year ago

Global PMI employment growth

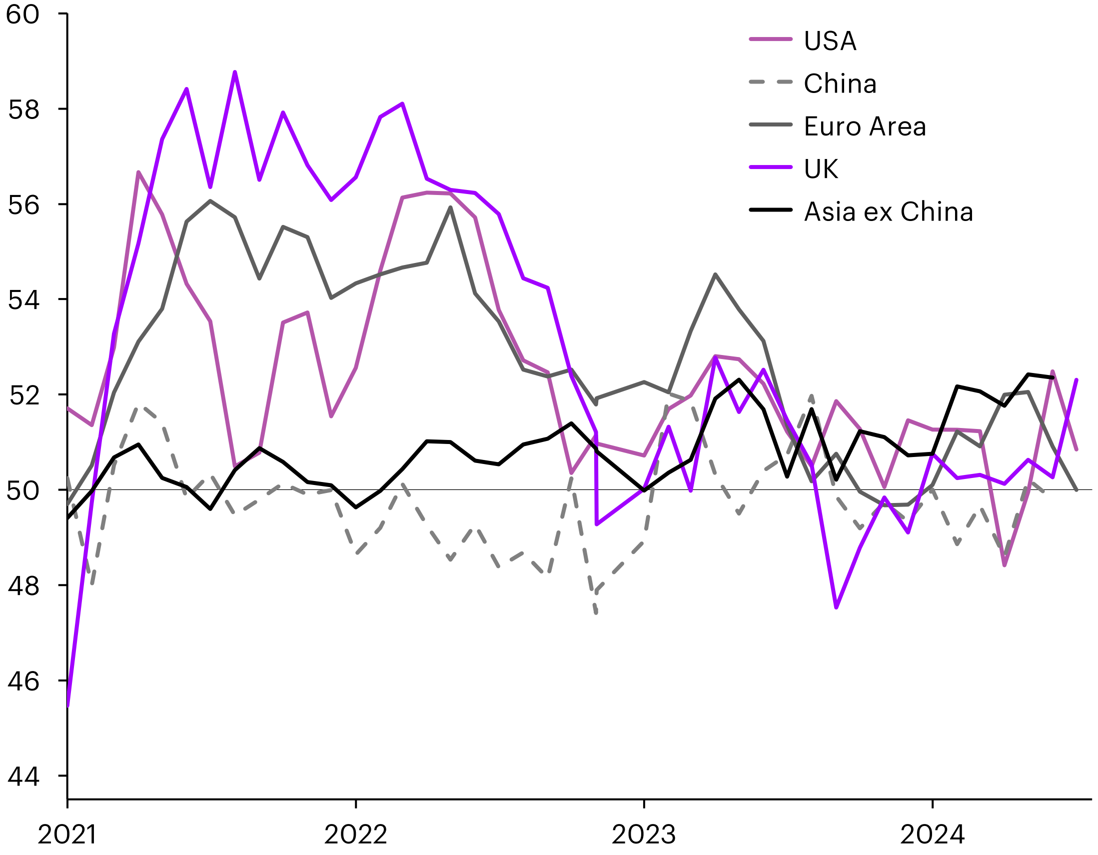
Global PMI Employment Index

Index (>50=expanding employment)



Regional Composite PMI Employment Index

Index (>50=expanding employment)



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

A consumer-led growth downshift alongside slowing inflation remains base case for the US economy; continued stagnation or mild recessions are still likely throughout Europe

Latest economic outlooks: Americas and Europe

AS OF JULY 25

		Key recent datapoints	Base case outlook	What to watch for
Americas 	US	• Real GDP growth rose 2.8% in Q2, up from 1.4% in Q1, as goods consumption rebounded • Retail sales excluding autos increased 0.4% in June, the fastest pace since March • Headline CPI fell 0.1% in June, reflecting a drop in energy prices, while core CPI was unchanged	• A “weakflation” scenario, characterized by consumer-led downshift in growth and persistence of above-target inflation due to supply-side cost pressures	• Slow pace of disinflation, but approaching the Fed’s first rate cut • Consumer spending inflection, led by lower-income households • Increasing uncertainty as the presidential election looms
	Canada	• The unemployment rate ticked up to 6.4%, the highest since Jan 2022 as job growth stalled • CPI slowed 0.1% in June as decelerating goods inflation offset a rise in services	• Tight financial conditions, weakening external demand and housing market distress are expected to keep growth muted in the near term	• BoC is officially in rate-cutting mode, with 2-3 more cuts expected in 2024 • Further bankruptcies now that govt. loan repayment deadline has passed
	Brazil	• The real has depreciated more than 10% against the USD since January, pressuring rate cuts • Inflation increased less than expected in June, though food prices remain a concern	• Rebounding growth from the stagnation at end of 2023 amidst declining inflation and supportive central bank policy	• Strength of agricultural harvest in 2024 despite climate concerns • Ongoing uncertainty regarding planned tax reforms and overall fiscal trajectory
Europe 	UK	• GDP rebounded in May, up 0.4% after falling flat in the prior month, driven by services sector • Inflation held steady at the BOE’s 2% target in again in June, despite sticky services inflation	• Improving but-still sluggish growth expected for rest of the year amidst ongoing manufacturing weakness and housing affordability pressures on consumers	• Timing of BOE rate cuts given loosening labor market and falling inflation • Change to fiscal policy path in aftermath of upcoming election
	Germany	• CPI inflation rate stood at 2.2% in June • Manufacturing PMI fell in June as output and new orders contracted faster after easing in May • Ifo business climate index fell for third consecutive month in July	• Slowing inflation fostering domestic demand and export sector recovery likely to bolster the economy in the coming quarters held back by low public investment spending and sluggish digitalization	• Budget change for 2025 after Parliament consultation following intensive coalition negotiations • Reform progress on industry policy and infrastructure until next federal election
	France	• CPI inflation fell slightly to 2.2% in June • Economic growth exceeded forecasts (+0.3%) during Q2, signaling pre-political crisis resilience • Business confidence fell by 5 points to 94 amid political turmoil caused by the snap elections	• Recent elections caused a sell-off in equities and debt over fears of a populist government, possibly leading to short-term disruption, but the economy is still expected to grow moderately	• The inconclusive parliamentary elections are complicating the formation of a new government • Paris faces pressure to comply with EU spending rules and cut its deficits

Source: Accenture Strategy analysis

APAC economies are expected to continue to diverge as India and Indonesia expand but Australia and others face sluggish demand and inflationary pressures

Latest economic outlooks: Asia-Pacific

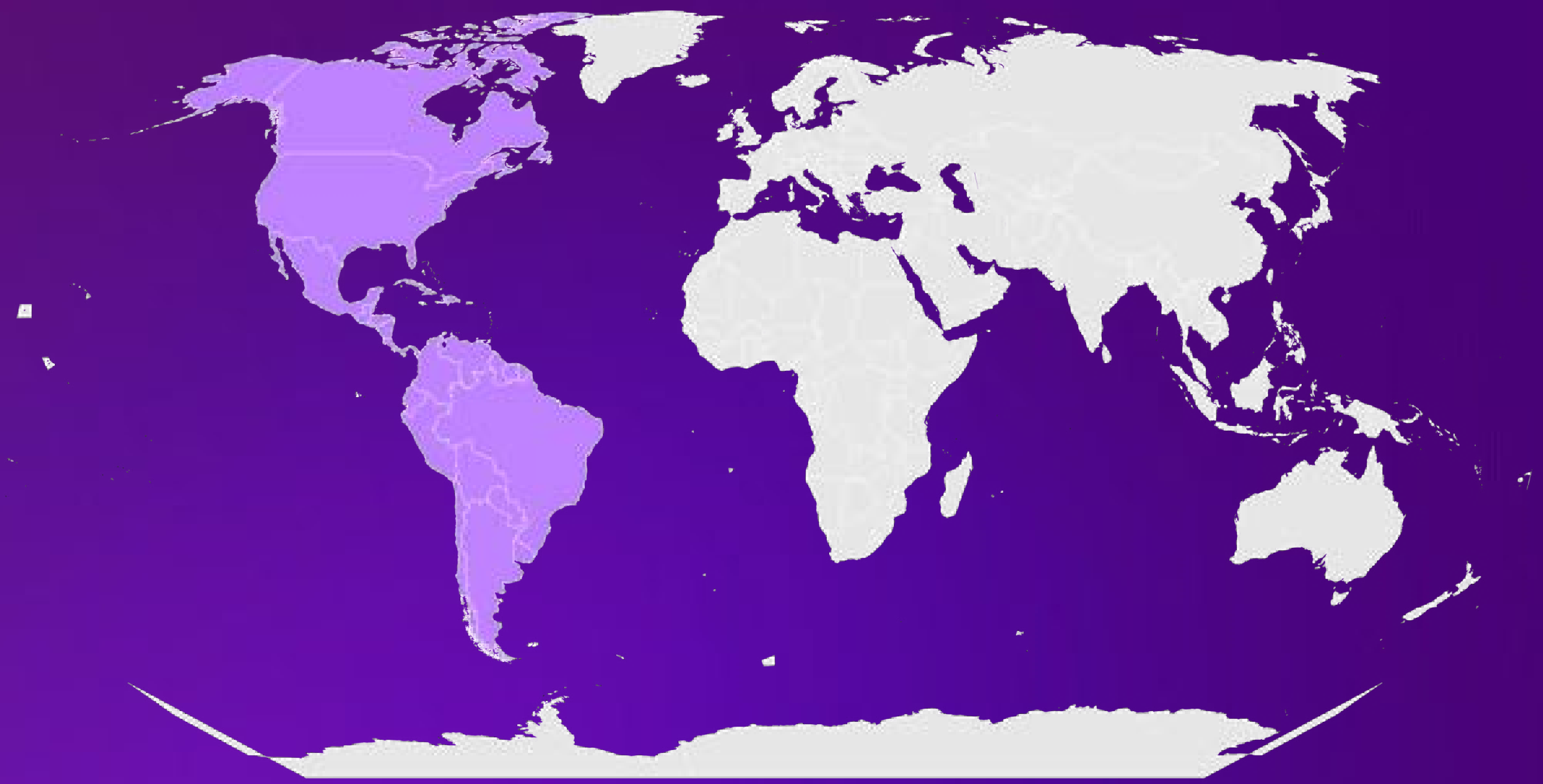
AS OF JULY 25

		Key recent datapoints	Base case outlook	What to watch for
Asia Pacific	China	• China's economic growth slowed to 4.7% in Q2, falling short of the consensus forecast of 5.1% and the Q1 pace at 5.3% • The People's Bank of China lowered the policy interest rate on 7-day reverse purchase agreements from 1.8% to 1.7% and the one-year loan prime rate from 3.45% to 3.35%	• Subdued consumer confidence amid property sector challenges, soft external demand and limited policy stimulus in the near-term • Growth continues to trend down towards the slower (3-4%) potential rate associated with China’s materializing structural challenges	• Extent of government policy support to prop up flagging growth and distressed property market • Export performance in targeted “New Three” sectors (EV, batteries, solar) • Detailed policy guideline from the Third Plenum
	Japan	• Core inflation rate rose 2.6% in June, staying above 2% BOJ’s target following 2.5% in May • Manufacturing PMI rose above 50 in June for the first time since May 2023 • Yen weakness stabilized after lower-than-expected inflation reading from US in July	• GDP growth is expected to remain sluggish in 2024 as negative real income growth continues to weigh on domestic demand and export demand moderates	• Degree of moderation in tourism and auto export growth, especially given the weakening yen • Continuation of Japanese yen’s weakness past 160 as speculation of BOJ intervention abounds
	India	• India’s manufacturing and services PMIs held solid above 60 in June • The IMF raised its forecast for India’s GDP growth from 6.8% to 7.0% in 2024	• Some moderation in growth amidst slowing global demand, but still enough to maintain India’s position as one of the fastest-growing major economies in 2024, continuing the trend from the previous few years	• Resilience in domestic demand and strong growth in capital expenditures • Modi government’s budget allocation and policies in post-election
	Australia	• The manufacturing PMI slowed in June to 46.8 amidst softer demand • The services PMI held steady at 51.2 in June, staying above 50 for the 5th consecutive month	• Growth is likely to remain subdued as cost-of-living pressures and high interest rates continue to weigh on domestic demand	• Wealth effects from recent house price increases on consumer spend • Extent of imported inflation as the Australian dollar continues to weaken
	Indonesia	• Manufacturing activity in June grew at the slowest pace in more than a year as exports fell for the fourth straight month	• Growth is expected to be resilient in 2024 as inflation pressures ease slightly and consumer spending remains relatively strong • Headwinds remain from slowing external demand and persistently elevated interest rates	• Potential economic policy shifts when the new President-elect takes office • Continued measures to manage sluggish external commodities demand and inflation in food prices

Source: Accenture Strategy analysis

Spotlight developments

Americas

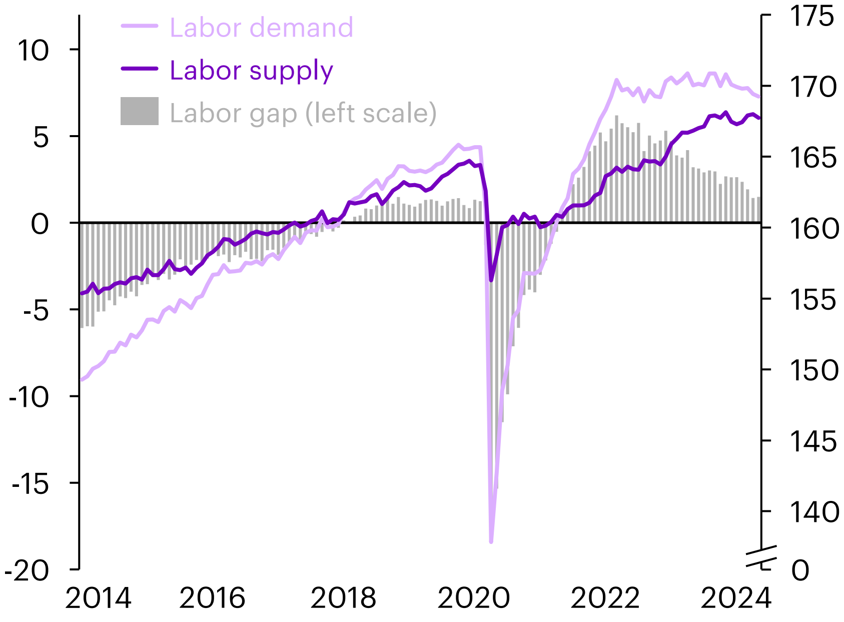


US labor market tightness has eased considerably and is close to pre-pandemic levels, but this rebalancing has not been broad-based and mainly reflects surge in immigration

Supply and demand rebalancing in the US labor market

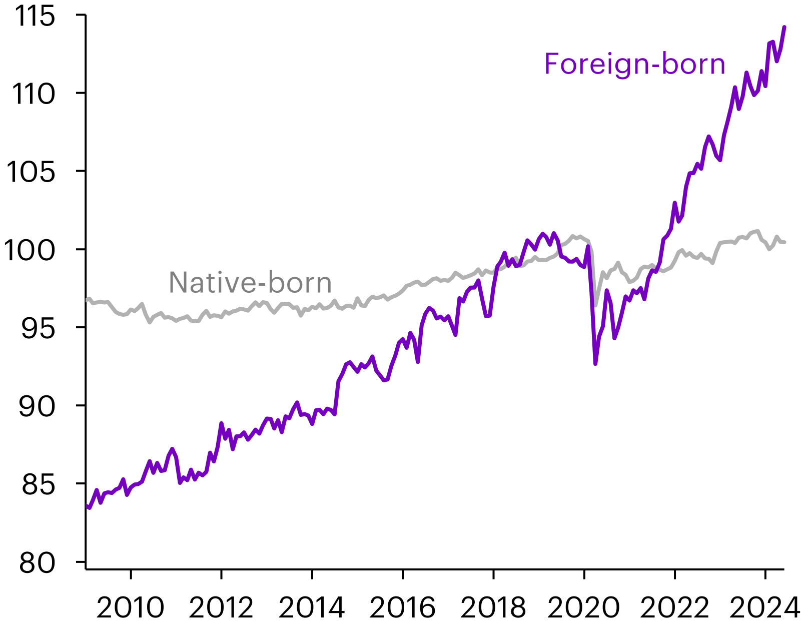
Labor supply[1] and demand[2]

In millions



Native vs foreign-born labor force

Index, 2019=100



Implications for corporates

- An influx of available workers allows businesses to be more selective in the hiring process, and provides more employer leverage on wages, though this is highly variable across skill levels and industries
- For mid-level jobs, businesses can consider applying automation and equipping existing workers with digital tools to improve output and productivity

Commentary

- The US economy added an average of nearly 220K nonfarm payrolls per month in 1H24, only slightly below the 250K average in 2023.
- However, ~60% of job gains have been in services sectors such as government, healthcare and education, the latter of which were most affected during the pandemic and are normalizing, thus overstating the degree of underlying strength in job growth
- Growth in labor supply has been driven almost exclusively by foreign-born workers—although the foreign-born unemployment rate is similar to that of native born (near 4.2%); the labor force participation rate is much higher for foreign-born workers (67% vs 62.1% for native-born)

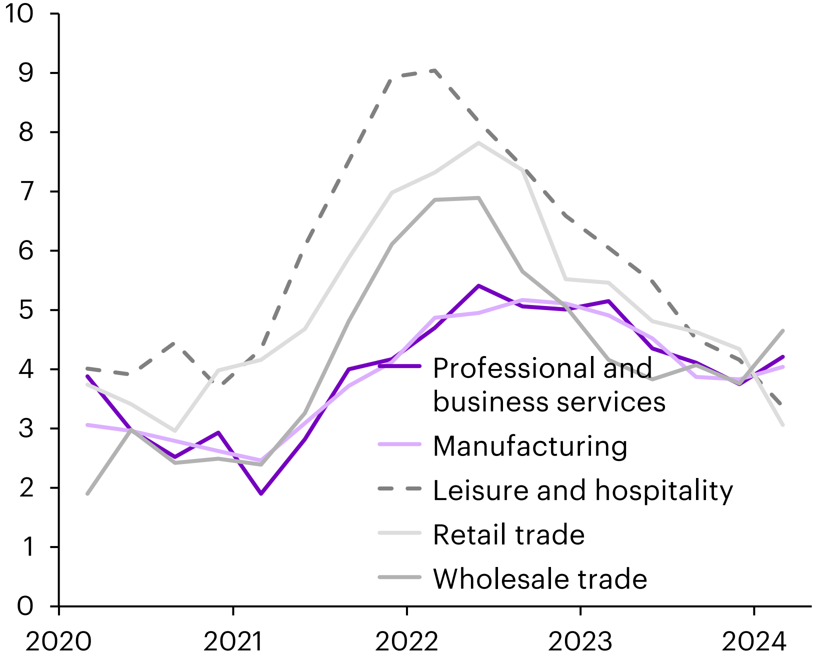
Note: (1) Supply is represented by total labor force; (2) Demand is the sum of employment and total job openings
Sources: Current Population Survey, Federal Reserve Bank of Dallas, BLS, ING, Accenture Strategy analysis

Wage pressures appear to be slowing in mid-to-lower skilled sectors where foreign-born labor is concentrated, while they remain elevated in others due to persistent shortages

US labor market breakdown by industry

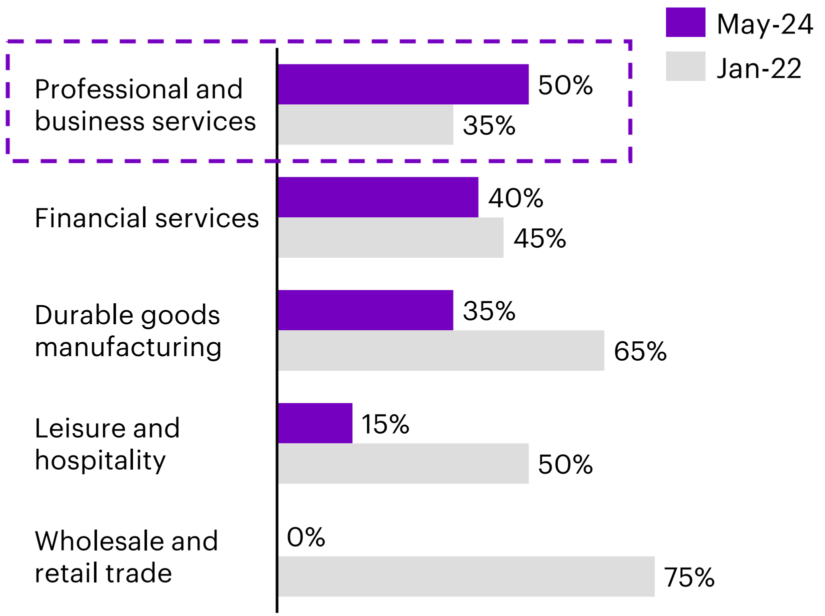
Wage growth by industry

Employment cost index, YoY %



Labor shortages by industry

Share of unfilled job openings



Implications for corporates

- For impacted industries, businesses can consider increasing labor pools in a variety of ways, including:
  - Offering tailored incentives, e.g., family and childcare support
  - Utilizing flexible labor model, e.g., on-demand labor platform, engaging retirees ("un-retiring")
  - Leveraging work-from-home where possible
  - Considering second-chance hiring
  - Expanding visa programs for foreign workers
  - Investing in re/up-skilling
  - Engaging in automation

Commentary

- Foreign-born workers have historically filled low-to-mid skilled occupations (e.g., services and construction)
  - This has helped to relieve tightness and wage pressures in these sectors—e.g., leisure and hospitality, where wage growth has slowed considerably over the past year, compared to industries such as manufacturing and professional services where wage growth remains elevated
  - Slowing wage growth in these lower-skilled sectors is likely contributing to the recent weakness in consumer spending among lower-income consumers, as compared to the relative resilience of higher-income groups

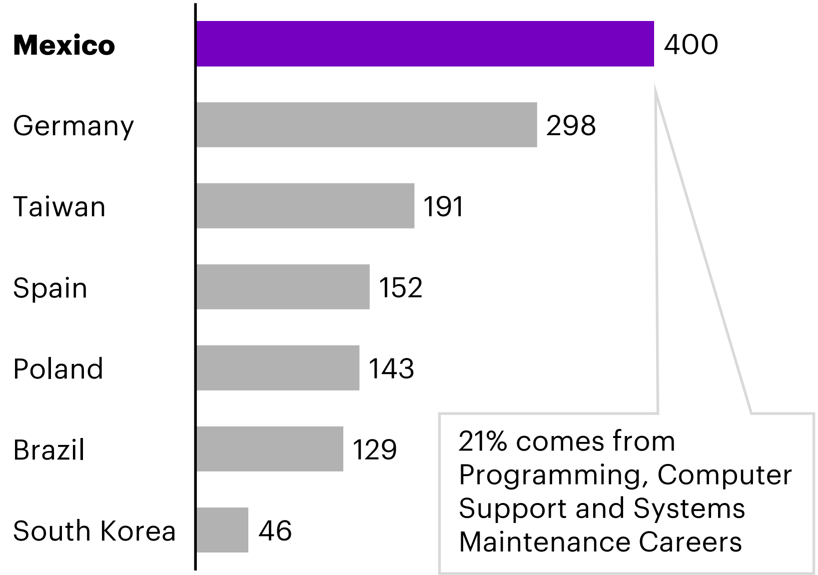
Sources: BLS, Census Bureau, US Chamber Analysis, BLS, Accenture Strategy analysis

Mexico's growing pool of high-skilled talent is helping alleviate some labor challenges for US companies in the short term, but could reshape longer-term skills demand in US market

US-Mexico jobs and high-skill labor shifts

Graduates in technical[1] education in 2020

Total number of graduates in OECD countries, in thousands



Recent US tech investments in Mexico

2022 to current (non-exhaustive)

Example	Description
Leading global software and platform company	• Announced plans to relocate "core team" (which includes key engineering talents) to Mexico and India • Opened an Engineering Center of Excellence in Mexico City
Large semiconductor manufacturing company	• Announced plans to open a new engineering and operations center in Mexico
Large US rideshare company	• Opened a software engineering center in Mexico City in 2022

Implications for corporates

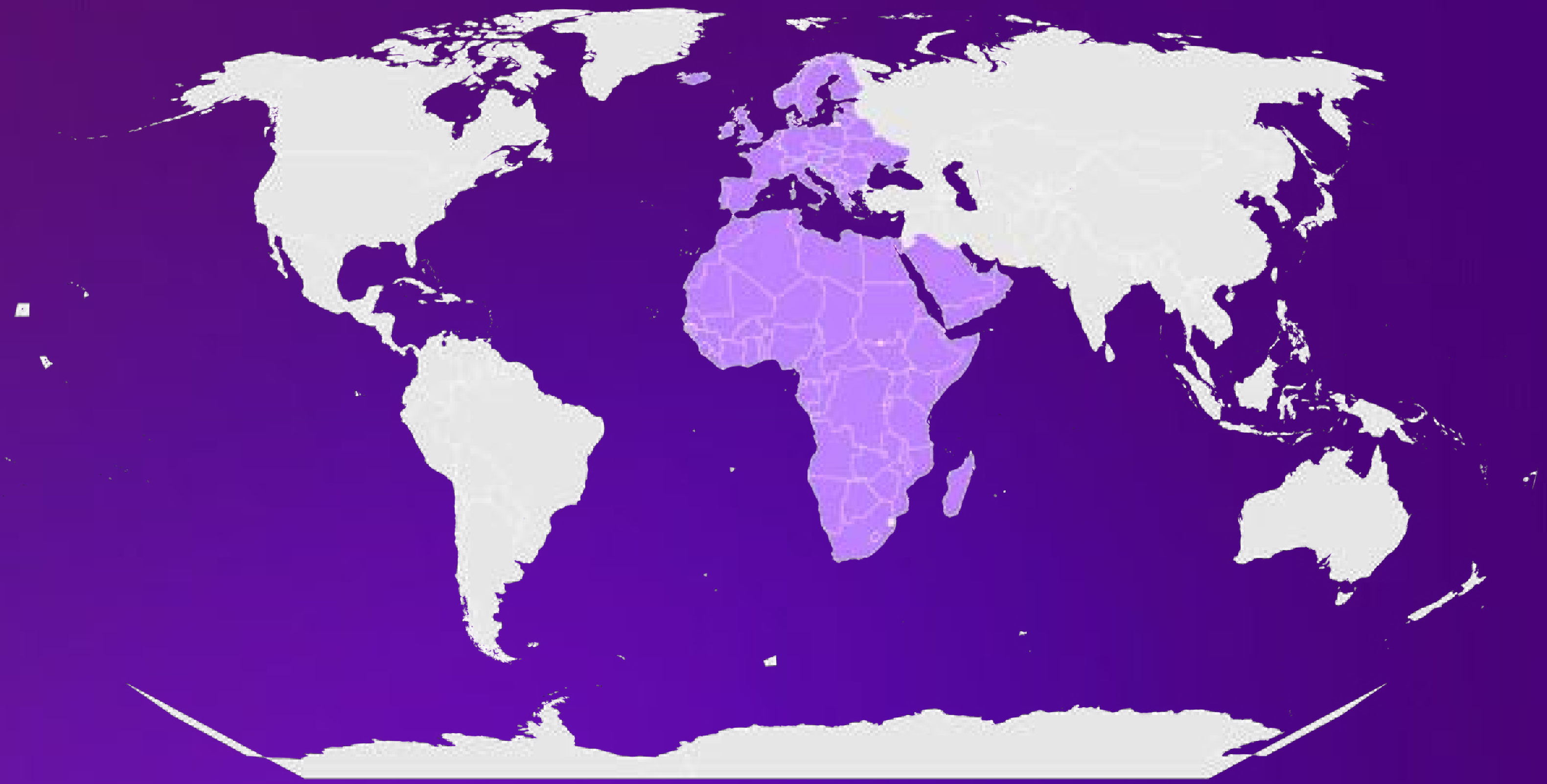
- A rise in the use of cross-border teams highlights an increasing need for continued investments in digital collaboration tools to help companies leverage lower labor costs in Mexico, even for high-skill roles, while simultaneously dealing with existing talent shortages in the US
- Businesses will need an innovative talent management strategy to compete and retain a skilled workforce, both in the US and abroad
  - Human resources operations will be key to successful onboarding and retention

Commentary

- US companies are increasingly looking to establish R&D centers in Mexico, suggesting a shift towards high-end engineering from traditional manufacturing roles
  - Mexico has a large pool of readily available engineering talent, especially in software development and engineering
  - There is also a strong push for government investment in STEM to further grow the talent pool in Mexico
  - Geographical proximity and similar time zone allows for US and Mexican corporate teams to collaborate in real-time

Note: (1) Technical education at the secondary level is composed of the following subsystems: General Directorate of Industrial and Service Technological Education (DGETI), College of Scientific and Technological Studies (CECyTEs), General Directorate of Agricultural and Livestock Technological Education and Marine Sciences (DGETAyCM) and the National College of Technical Professional Education (Conalep); (2) The data for Taiwan was extracted from the statistical yearbook of the Republic of China 2021, edited in 2022.
Sources: Companies press releases, Govierno De Mexico, Mexico Secretariat of Economy, OECD, Accenture Strategy analysis

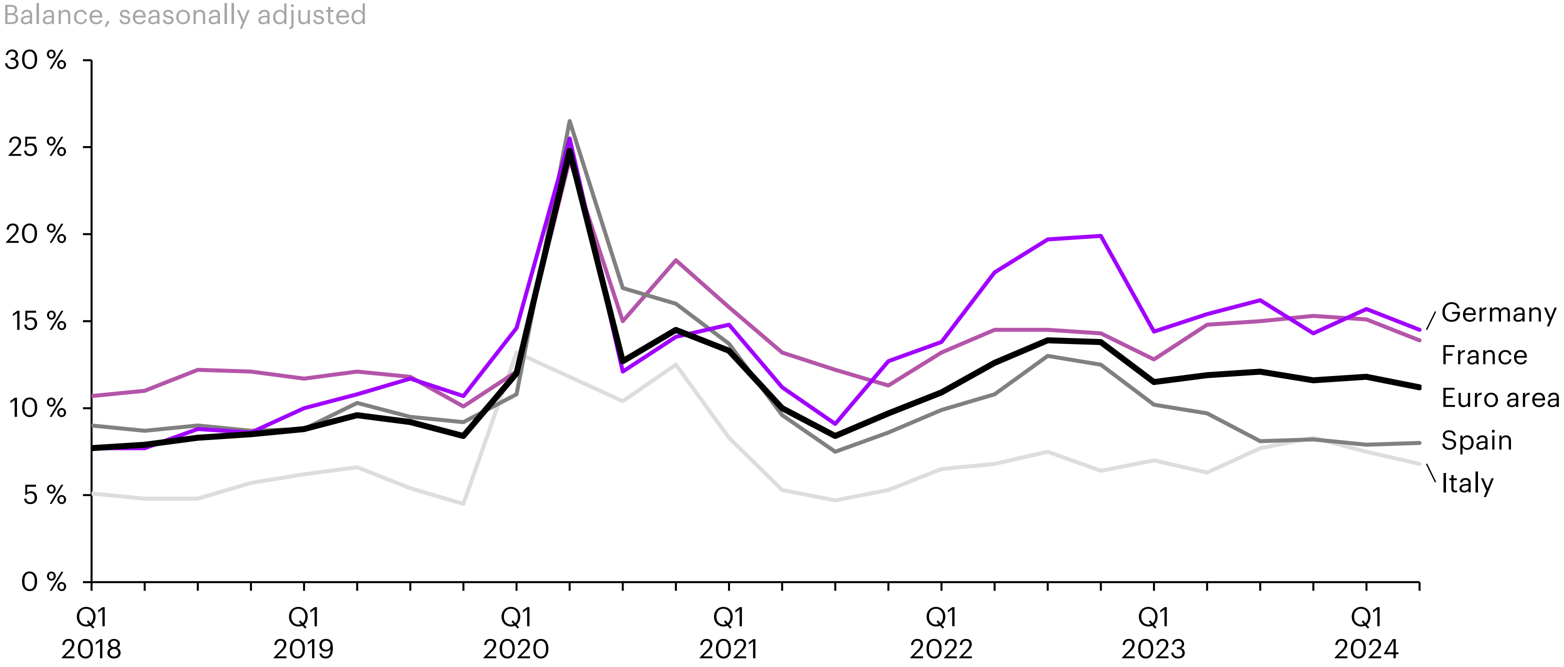
Europe, Middle East and Africa



A secular decline in working hours, coupled with demographic decline, continue to create labor supply challenges for European companies and encourage labor hoarding

European labor hoarding trends

Labor hoarding across major Euro area economies*



Implications for corporates

- In light of a trend towards less working hours and labor hoarding, EU companies should consider:
  - greater openness to flexible work arrangements, including remote work
  - adjusting operations to accommodate shorter hours, including shift adjustments and investments in automation
  - fostering employee morale and engagement, including flexible scheduling with recognition and career programs

Commentary

- During the pandemic, government job retention programs increased labor hoarding and kept unemployment low
- While degree of labor hoarding has fallen significantly from pandemic-time peaks, it remains somewhat elevated, underpinned by lingering skilled labor shortages, high job vacancy rates, a shrinking workforce, and higher levels of sick leave
  - the ongoing secular decline in employee working hours across the EU further amplifies these labor supply challenges

* The Labor Hoarding Indicator reports the (weighted) percentage of firms that expect their output to decrease but their employment to increase or remain unchanged.

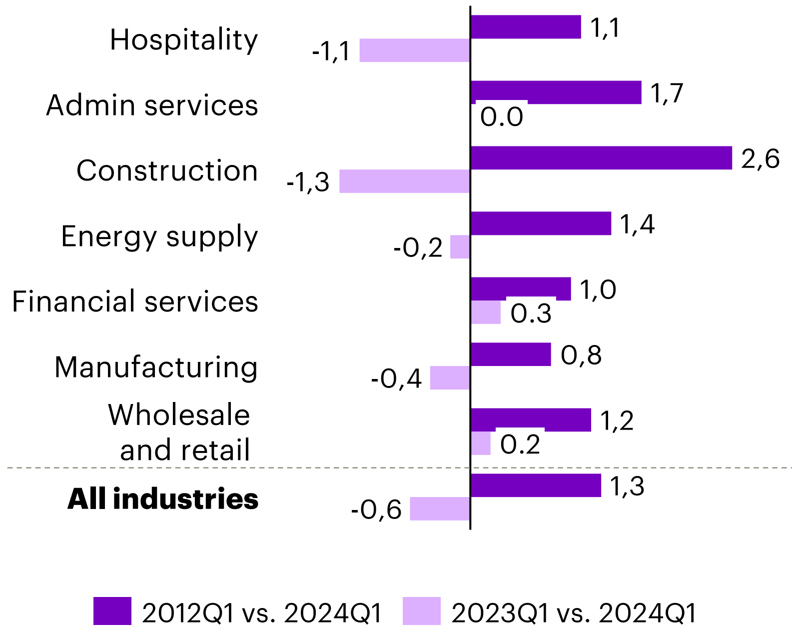
Sources: European Commission, Eurostat, ECB, Haver, Accenture Strategy analysis

Despite a temporary alleviation of labor shortages during its recent economic downturn, Germany still faces structural labor challenges, exacerbated by the rise in part-time work

German labor market trends

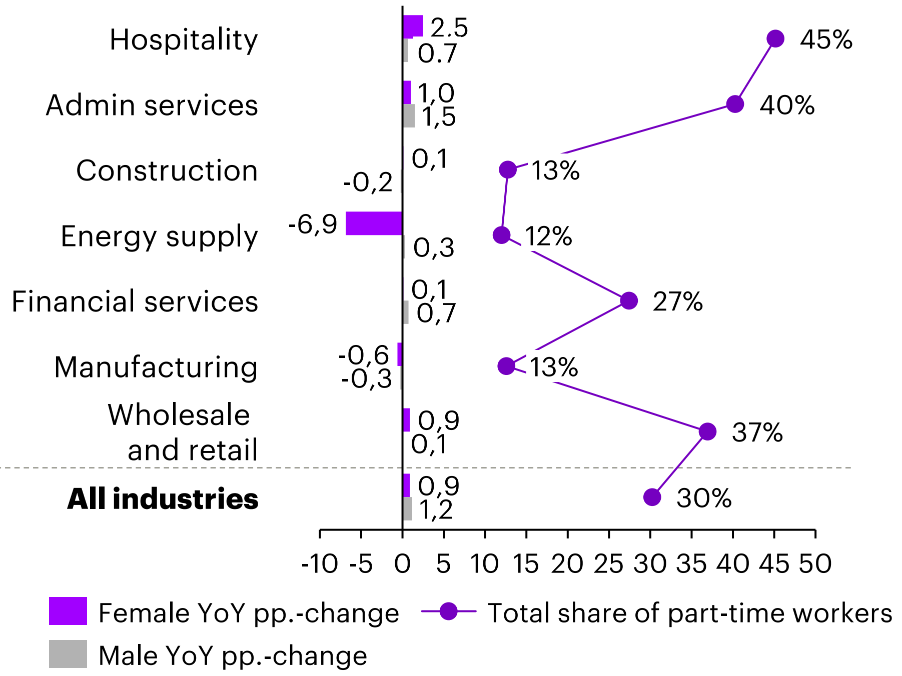
Job vacancy rate

Percentage points change



Part-time work

% of part-time workers (2023) and p.p. change since 2022



Implications for corporates

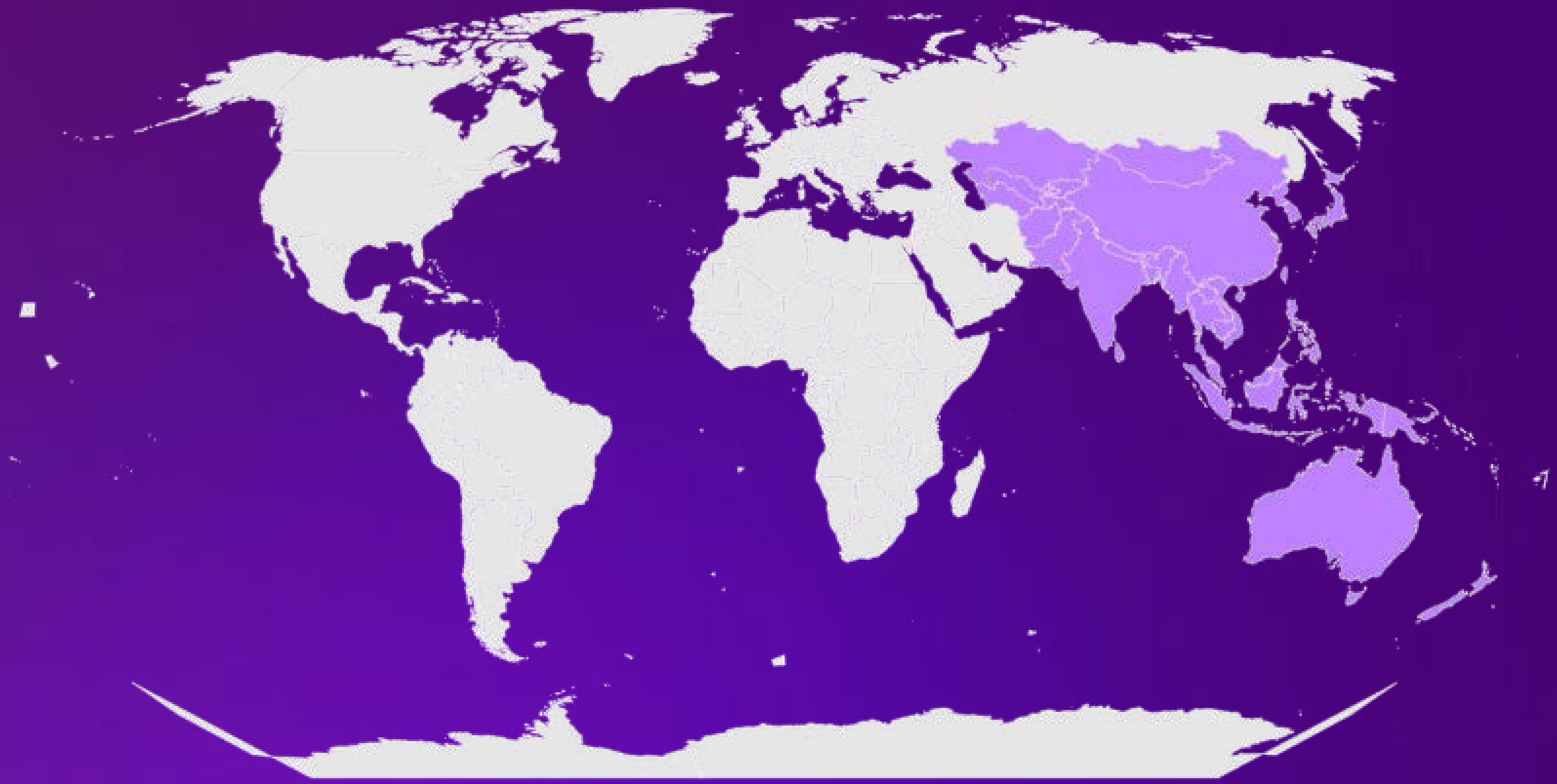
- Flexible work options—e.g., hybrid models or compressed workweeks—could help make full-time work more attractive and help retain skilled workers
- Streamlining operations and digitalization may enhance productivity and compensate for a shrinking workforce
- Proactive Qualification Policies, continuous learning and development programs can keep the workforce adaptable to technological changes
- Location strategy of long-term investments should consider regional demographic decline

Commentary

- Despite some reprieve due to recent economic recession, Germany continues to grapple with a shortage of skilled labor, driven by demographic shifts and a steadily increasing share of part-time employment; this structural challenge is particularly concentrated in the services sectors and eastern part of the country
- Women are more likely to work part-time due to a shortage of childcare options, perceived tax disadvantages and traditional caregiving roles that still often fall on females; at the same time, male employees, especially in western Germany, are also increasingly reducing working hours to part-time
- From a policy perspective, the government is working on new tax schemes to incentivize both German and immigrant workers to switch to full-time employment

Sources: Eurostat, Accenture Strategy analysis

Asia Pacific

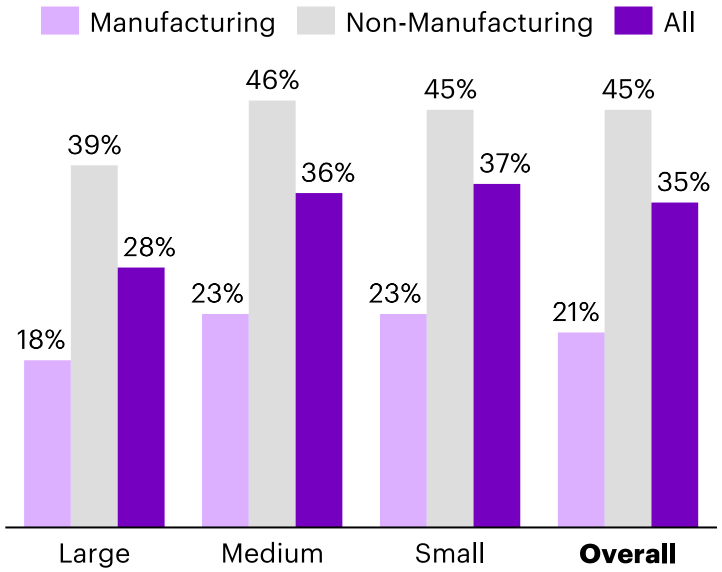


Labor shortages are putting pressure on Japanese companies to hike wages, even for small- and medium-sized firms that have been struggling under recent inflation pressures

Labor shortage and wage growth dynamics in Japan

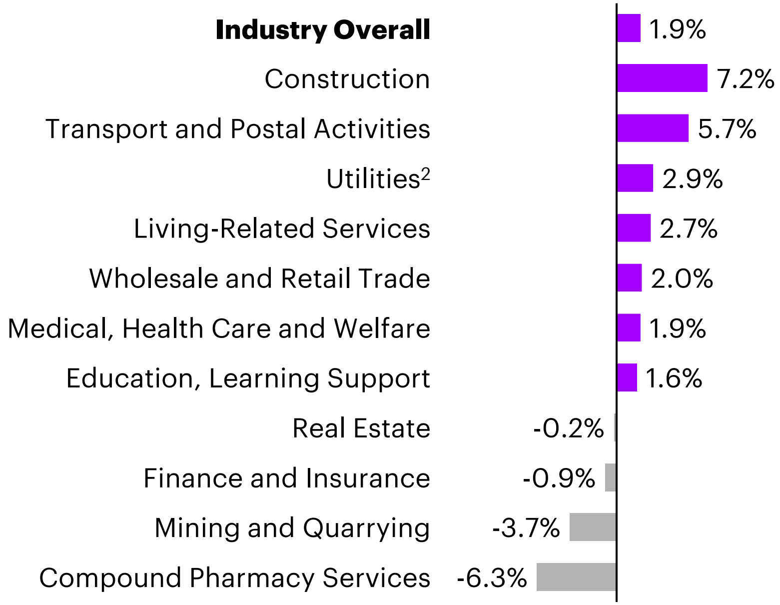
Significant labor shortage[1] among SMEs

Percent difference between # of firms reporting insufficient vs. excessive employment



Japan wage growth by industry

YoY change in cash earnings (%), May 2024



Implications for corporates

- Japanese SMEs, which are already grappling with a weak yen and inflation, are facing increasing pressure to hike wages, which could further erode their competitiveness and profit margins
  - SMEs have increased their wages 4.7% thus far 2024, compared to 5.3% among large corporates
- SMEs may need to streamline their operations to fund wage increases, such as closing unprofitable branch/business or automating existing processes
- MNCs operating in Japan may need to explore more flexible talent management and employee benefits to attract and retain talent

Commentary

- Average earnings per worker in Japan surged by 1.9% YoY in May'24, marking the highest increase since Jun'23 (post the Shunto negotiations, which raised base pay by 5.2%) and to the highest level in 33 years; wage growth now exceeds projections for core CPI inflation of 1.9% in 2024 and 2025
- The Shunto negotiations typically involve large corporations, but wage hikes are also gaining momentum among Japanese SMEs due to labor shortages and demographic challenges (a declining birthrate, an aging population, and skilled worker outflows)
  - The aging challenge and need for young workers is particularly pronounced in industries such as construction and transportation—it has led to the highest wage hikes for these labor-intensive sectors relative to other sectors

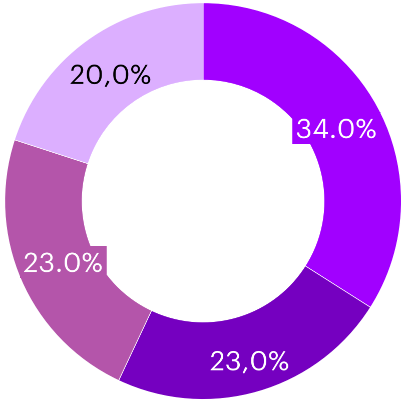
Note: (1) Difference of the number of enterprise reporting insufficient employment and those reporting excessive employment; (2) Utilities is electricity, gas, heat supply and water; living related expenses includes personal services and amusement services; SMEs are companies with< 300 employees
Sources: Bank of Japan, JTUC-RENGO, Japan Ministry of Health, Labour & Welfare, KEF, Nikkei Asia, Statista, Haver, Accenture Strategy analysis

South Korea's rigid labor market and rapidly rising labor costs are creating significant challenges for multinational companies

Labor market challenges in South Korea

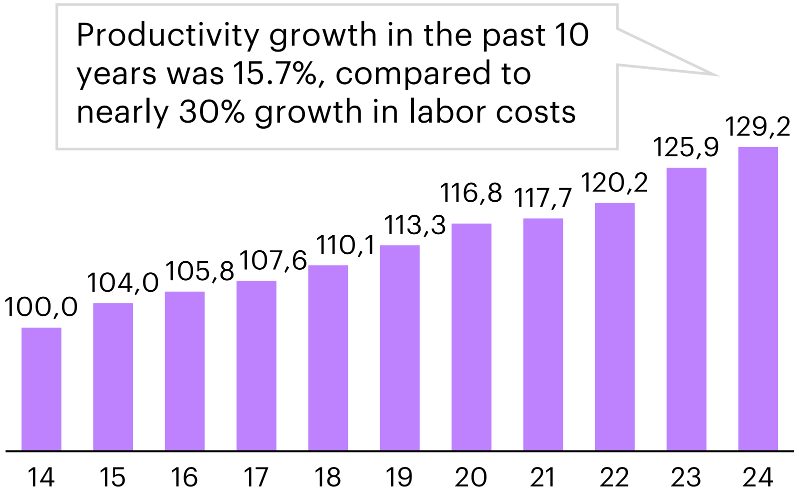
Foreign company views on labor market risks

Survey of 200 foreign companies, Dec 2023, % respondent



Labor costs are rising faster than productivity

Unit labor costs (index 2014 = 100)



Implications for corporates

- Rigid labor markets may prompt companies to seek out operational improvements, flexible talent management and automation
- Frequent labor strikes may significantly disrupt supply chains, leading to delays in production and delivery schedules and affecting a company's ability to meet contractual obligations and customer demands
- An increasing number of Korean companies have relocated their production and operations overseas, such as Samsung and Hyundai, a trend which may continue

Commentary

- Labor unions at leading chip makers, shipbuilding and automobile firms in South Korea have staged strikes over demands for better pay, additional leave and enhanced employee bonus systems
- More than half of foreign companies feel rigidity is a significant risk in the South Korean labor market, with 36.5% assessing Korea's labor market as more rigid compared to their home countries, according a survey by Korea Enterprises Federation (KEF)
- At the same time, unit labor costs have risen significantly over the past decade, partially driven by a 60% increase in the minimum wage from 2017-2024 (from 6,470 won to 10,030, or USD 4.66 to 7.23); for comparison, the US minimum wage is USD 7.25 per hour

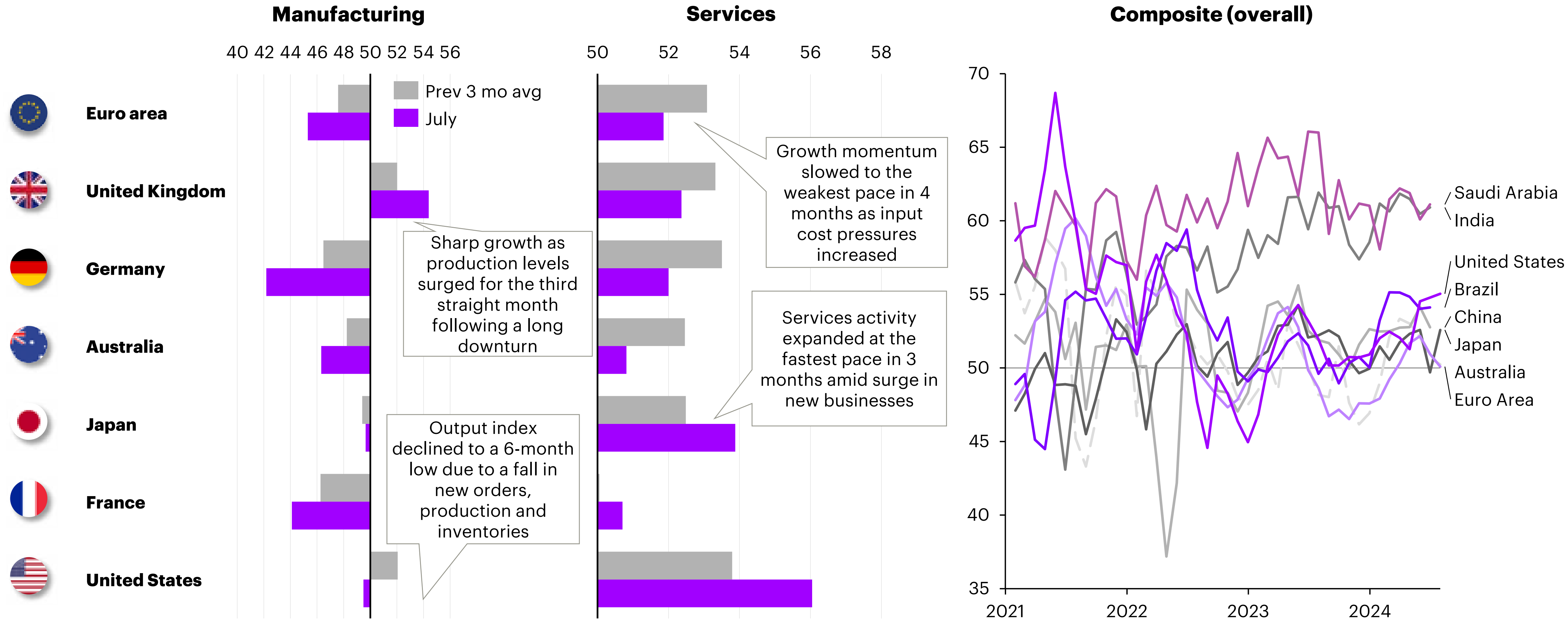
Note: Companies surveyed were having 100 or more employees; unit labor cost is calculated as ratio of total labor costs per hour worked to output per hour worked; 1 USD – 1386.96 Won.
Sources: 2023 KEF Survey on FDI Companies, Korean Statistical Information Service, CEIC, Korea Economic Research Institute, US Department of labor, Accenture Strategy analysis

Economic indicator chart pack

Regional and industry activity

Manufacturing in Europe continues to contract, whereas the UK saw modest growth; the services sector continues thriving, with the exceptions of France and Japan

June Flash PMI survey country snapshot



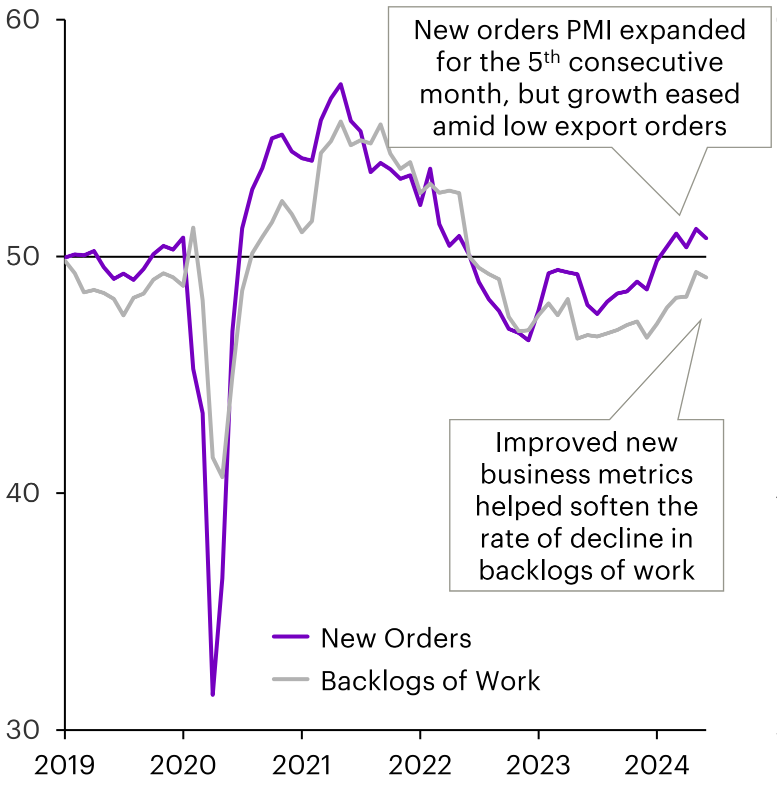
Note: A survey score above 50 indicates expansionary business activity and a score below indicates business activity contracted that month, most recent results may include preliminary flash figures
Sources: S&P Global, Accenture Strategy analysis

Global manufacturing continues to face uncertain demand conditions, as reflected by only a modest uptick in new orders and declining stock purchases

Leading indicators of global manufacturing momentum

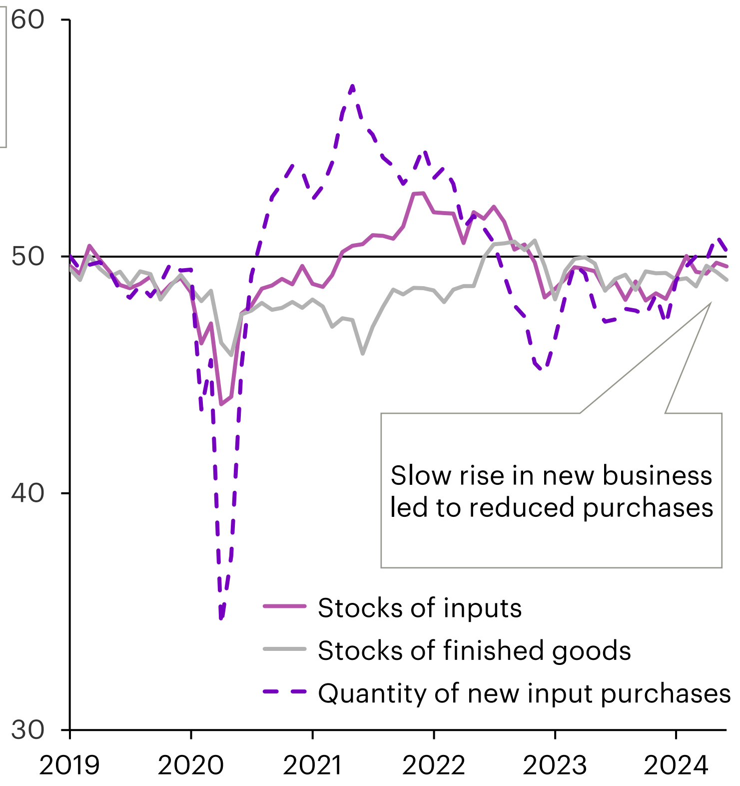
Eased new orders growth…

Diffusion indexes (SA, 50+=Expansion)



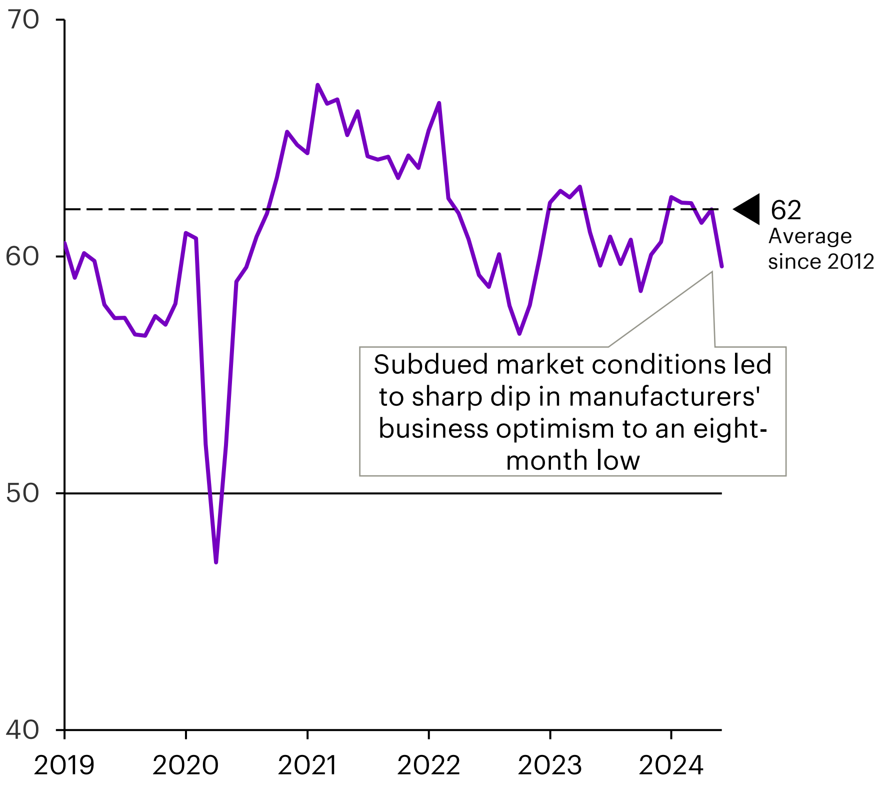
…with muted input purchases …

Diffusion indexes (SA, 50+=Expansion)



…led to low optimism for the 12-m outlook

Manufacturing future output (NSA, 50+=Expansion)



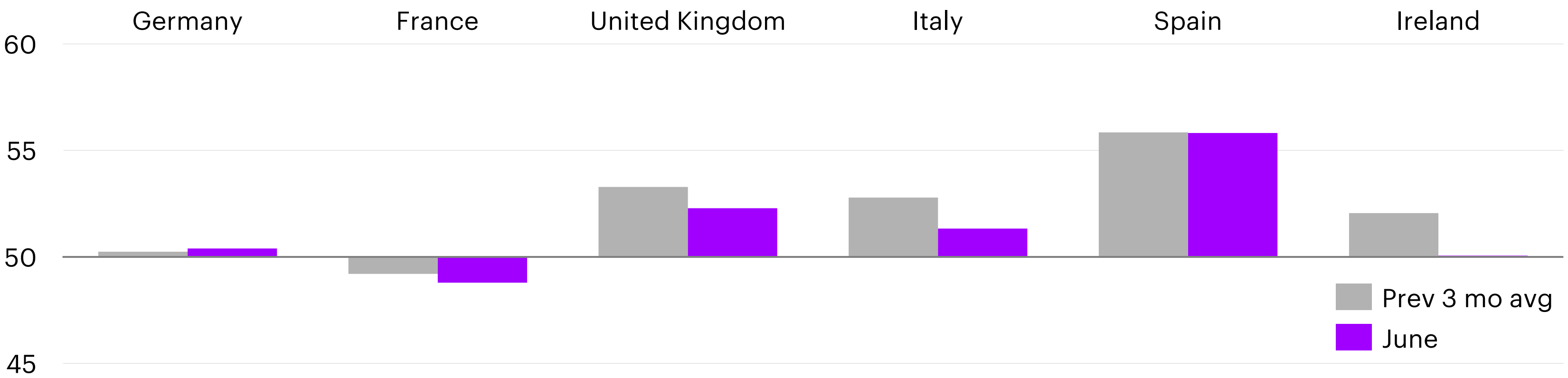
Notes:
(1) Data reflects global diffusion indexes, which are GDP-weighted averages in over 40 countries incl. US (21.6%), China (12.7%), Japan (7.7%), Germany (3.6%), UK (3.5%), and India (3.3%), among others. Annual weights are based on Gross Value Added (GVA) in the manufacturing sector in constant 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.
Sources: Haver Analytics, S&P Global, Accenture Strategy analysis

Services activity strengthened across Europe but remained subdued in France, with new orders contracting in several regions

Regional performance: Europe

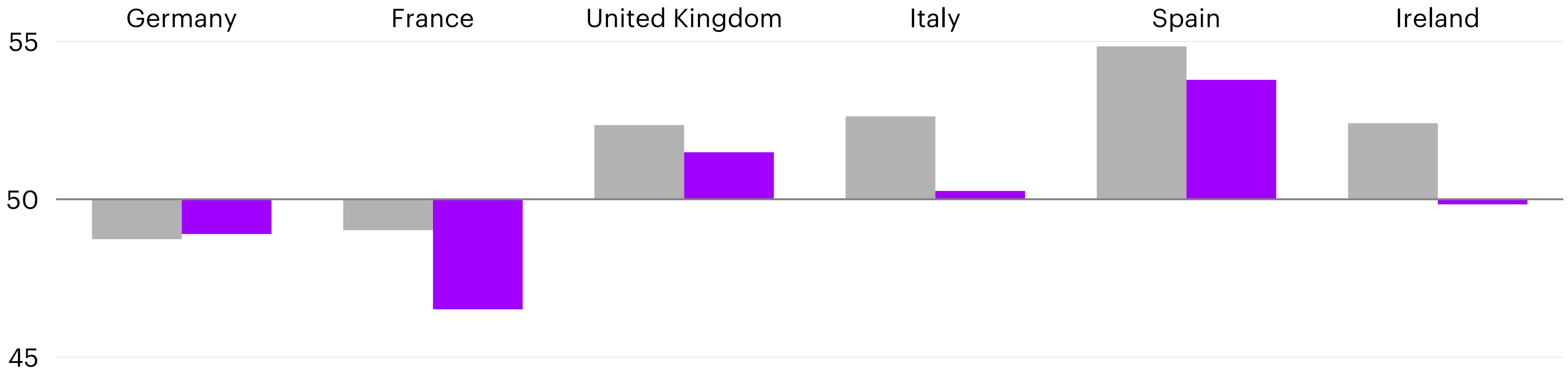
Output/activity

June'24 vs Previous 3 Month Average, Composite Output/Activity PMI (>50=expansion)



New Orders

June'24 vs Previous 3 Month Average, Composite New Orders PMI (>50=expansion)



Commentary

- In June, the European private sector contracted again in certain manufacturing sectors, while service-based segments continued to drive expansion
- In France, business activity continued to decline due to a sustained reduction in new business, leading to a downturn in consumer demand, weakening sales performance in the services sector
- In the UK, the private sector grew at a slower pace than in the previous month, but the manufacturing sector experienced robust growth amid high demand for consumer, intermediate and investment goods from domestic customers
- Germany's private sector saw mild growth in June, with expansion in the services sector offset by a fresh setback in manufacturing due to a sharp decline in new orders

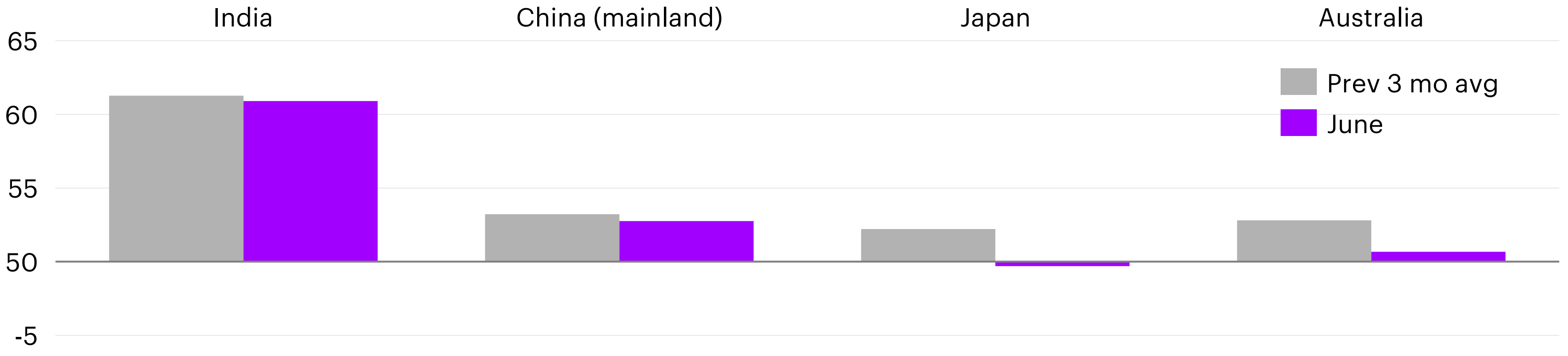
Sources: S&P Global, Accenture Strategy analysis

In the Asia-Pacific region, India's growth rebounded after a May downturn, while Japan's growth momentum decelerated amid stagnant demand

Regional performance: Asia-Pacific

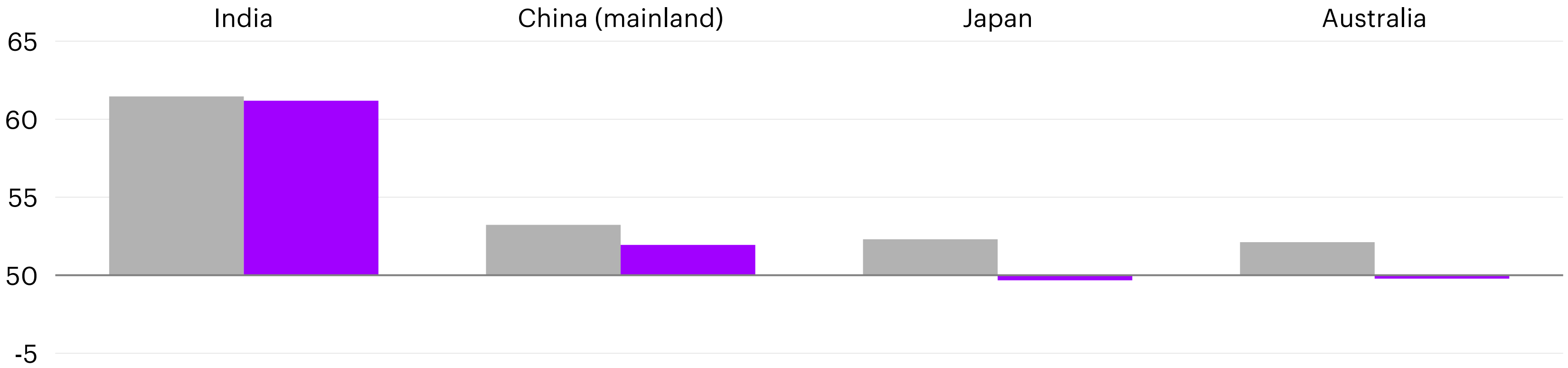
Country performance

June'24 vs Previous 3 Month Average, Composite Output/Activity PMI (>50=expansion)



New Orders Index

June'24 vs Previous 3 Month Average, Composite New Orders PMI (>50=expansion)



Commentary

- India's private sector output experienced notable growth, fueled by a sharp increase in manufacturing output, particularly within the consumer goods segment
- The services sector in India also expanded, recovering from May's five-month low, driven by a stronger rise in new orders and remarkable growth in international sales
- In China, business activity continued to strengthen for the eighth consecutive month, albeit at a slower rate than in May
- The manufacturing sector in China outpaced services, with output growing at the fastest rate in two years, and firms in the consumer segment seeing especially strong output growth
- Japan's private sector experienced a decline in business activity for the first time in seven months, as a slowdown in services activity outweighed a slight increase in manufacturing output

Sources: S&P Global, Accenture Strategy analysis

Manufacturing strengthened across Southeast Asia, led by a surge in Singapore, while new orders remained subdued in Thailand and Malaysia

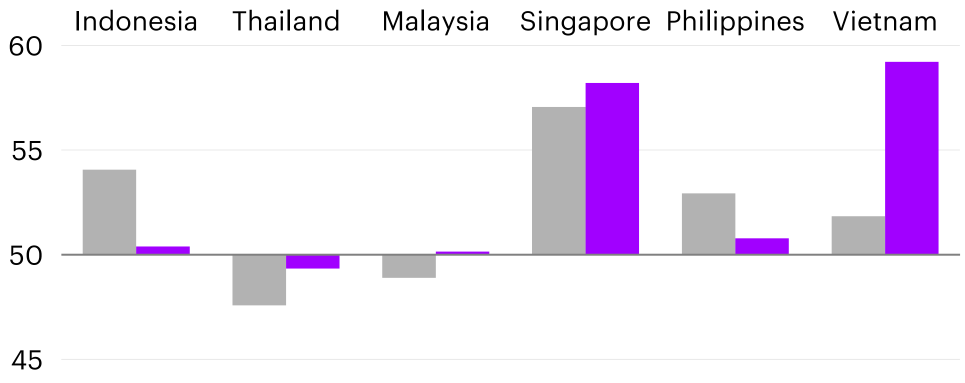
Regional performance: Southeast Asia

Manufacturing Performance

June'24 vs Previous 3 Month Average, Manufacturing Output

Manufacturing New Orders

June'24 vs Previous 3 Month Average, Manufacturing New Orders PMI



Manufacturing Employment

June'24 vs Previous 3 Month Average, Manufacturing Employment PMI

Commentary

- In June, Thailand's manufacturing sector reported the strongest improvement in business conditions over the past year
  - Output surged at its highest rate since May'23, while new order volumes, though stabilizing, remained subdued
- Singapore's private sector growth surged in June, with business activity reaching a 20-month high
  - New business increased, corroborated by robust underlying demand and enhanced business development efforts by domestic firms, fueling the rise in sales
- Vietnam's manufacturing sector growth was driven by rising demand, competitive prices and new export orders
- Malaysia's manufacturing sector held steady at the end of Q2'24, with new orders rising due to increased exports, but overall demand stayed weak and business confidence hit a ten-month low

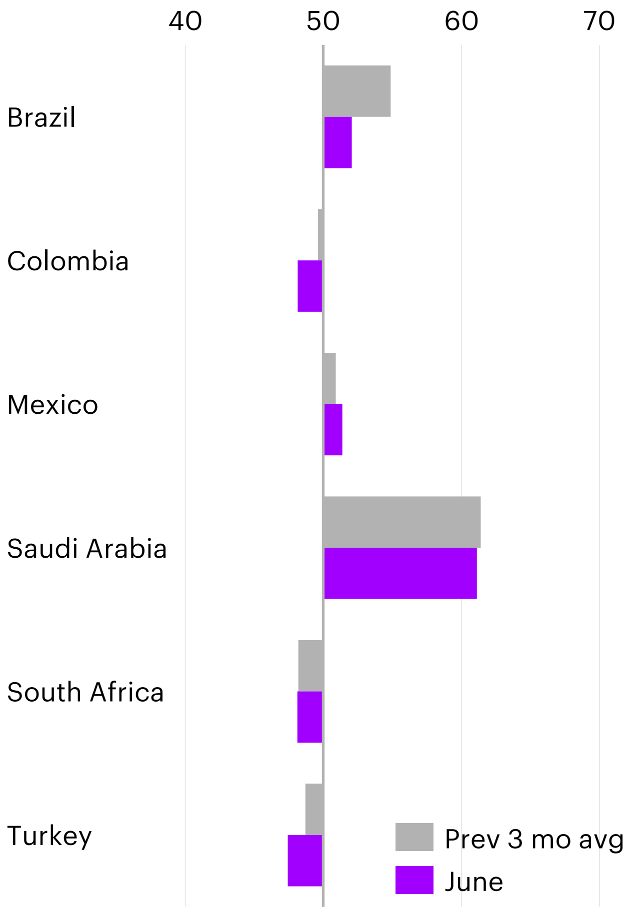
Note: Performance for Singapore covers the whole economy
Sources: S&P Global, Accenture Strategy analysis

Brazil's manufacturing activity was weighed down by currency depreciation and the flood crisis, whereas political uncertainty caused a sharp decline in South Africa's output

Regional performance: Other emerging markets

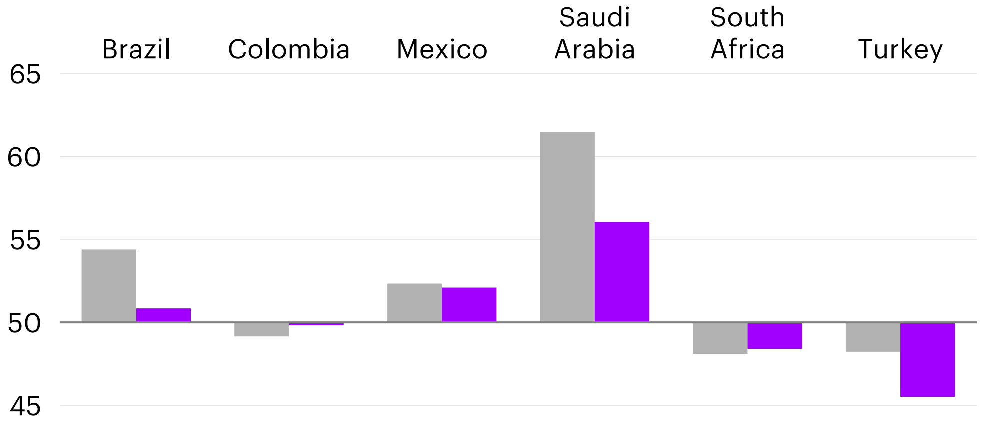
Manufacturing Performance

June'24 vs Previous 3 Month Average, Manufacturing Output



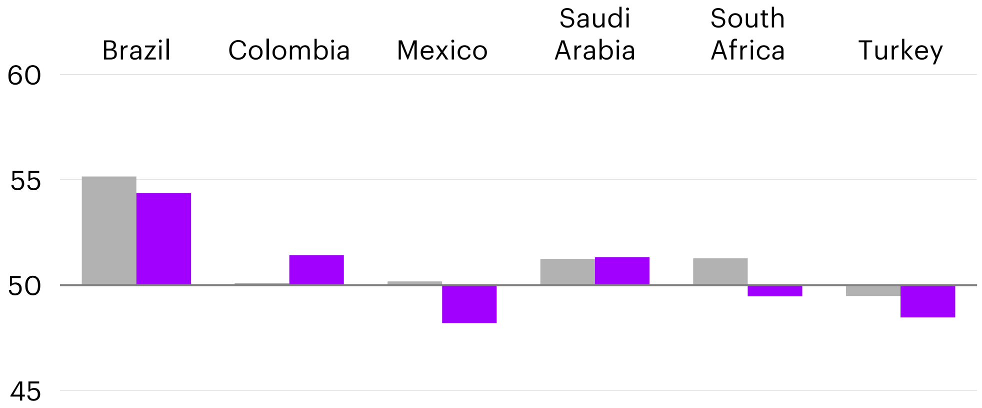
Manufacturing New Orders

June'24 vs Previous 3 Month Average, Manufacturing New Orders PMI



Manufacturing Employment

June'24 vs Previous 3 Month Average, Manufacturing Employment PMI



Commentary

- In June, Brazilian manufacturing activity saw subdued growth, weighed down by backlogs in production, while new sales growth was hampered by adverse economic conditions, currency weakness, and order postponements following the flood crisis
- Mexico's manufacturing output experienced a slight uptick, driven by an increase in factory orders amid favorable demand trends, enhanced client confidence, and the finalization of pending contracts
- However, weak business confidence and policy uncertainties led Mexican firms to shift permanent full-time workers to part-time, causing the sharpest drop in factory employment in over two years
- South Africa's business conditions declined for the first time in three months, driven by a sharp fall in output and new business as election uncertainty among firms is on the rise

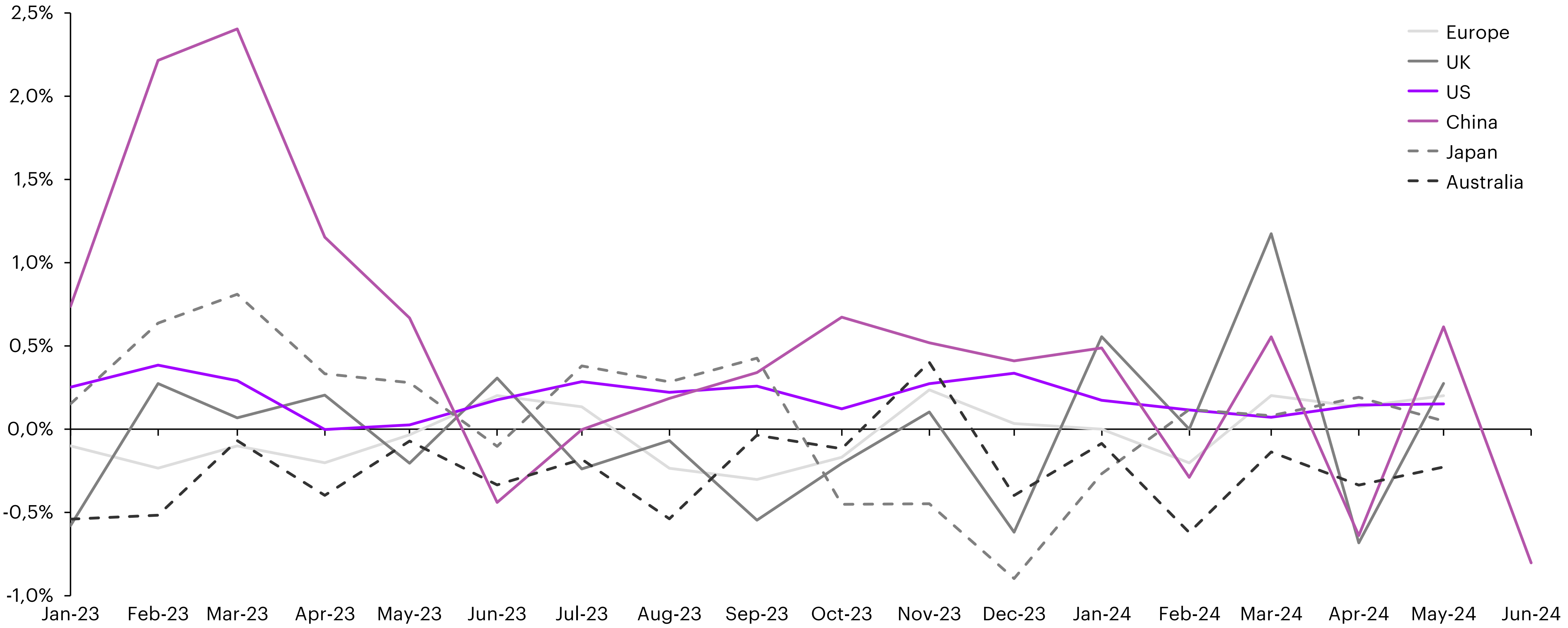
Note: South Africa and Saudi Arabia PMI is for the whole economy
Sources: S&P Global, Accenture Strategy analysis

Consumer spending

Consumer spending improved in most major economies towards the end of Q2, except for Japan and China, which both saw a downturn

Consumer spending trends

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



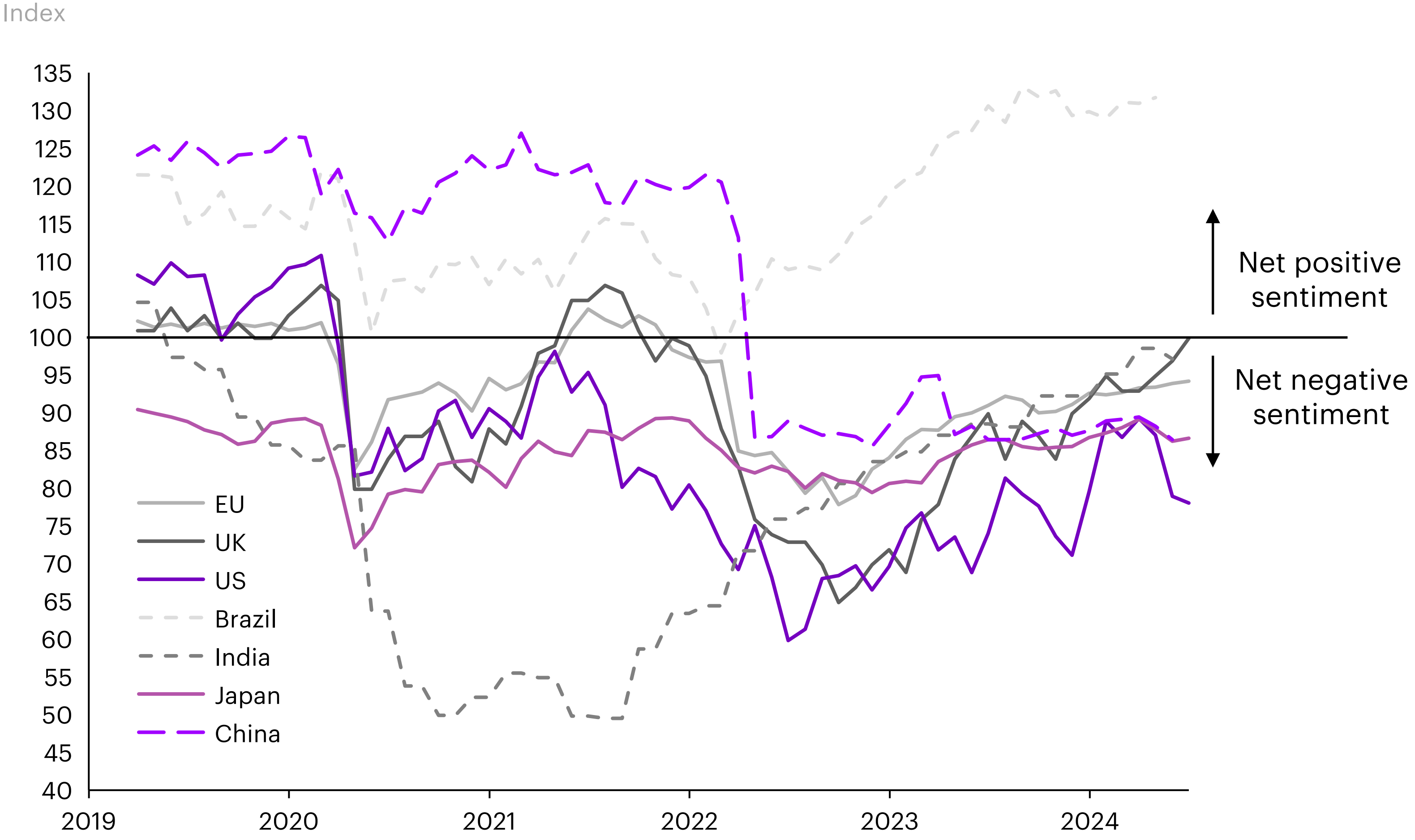
Note: Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area, UK, Canada, Japan, Australia, and China series data is retail sales.

Sources: BEA, BLS, Eurostat, ONS, Haver analytics, Accenture Strategy analysis

While optimism rises in the UK, Europe and Japan, the US has seen a notable drop in consumer sentiment since the beginning of 2024

Consumer sentiment

Indicators of overall consumer sentiment



Commentary

- In June, UK consumer sentiment improved for the third consecutive month due to increased intentions to make major purchases and overall a more positive economic outlook for the coming 12 months
- Consumer confidence improved slightly in the EU, with better views on household finances and major purchase intentions, but expectations about the general economic situation and household finances stayed mostly unchanged
- In the US, consumer sentiment declined for the fourth consecutive month as personal finances dipped, with growing concerns over high prices and weakening incomes, along with rising uncertainty related to upcoming elections
- Japan saw an increase in consumers' willingness to purchase durable goods as well as improved views on income growth, leading to a slight rise in consumer sentiment for the month

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, Accenture Strategy analysis

US consumer spending improved towards the end of Q2, driven by healthcare and prescription drugs, while UK spending fell due to cold weather and the cost-of-living crisis

Consumer spending trends by goods and services category

AS OF JULY 15

		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	0,3%	-0.1%	-1,2%	1.2%	-0,8%	-1.1%	0,7%	-1.2%
	Motor vehicles	-2,7%	-0.1%	-7,9%	3.0%	0,7%	-1.5%	-0,5%	2.8%
	Furniture	0,8%	0.9%	-5,8%	6.2%	-5,2%	2.4%	-2,9%	0.3%
	Electronics	3,1%	3.2%	43,9%	8.0%	-0,4%	4.2%	2,9%	-1.2%
	Footwear & apparel	1,4%	1.1%	-3,0%	5.4%	-1,5%	-5.5%	0,2%	-3.6%
	Fuel	-1,7%	1.3%	1,5%	2.8%	1,9%	-2.2%	4,1%	-1.5%
Services	Transportation	0,9%	1.4%	4,9%	0.7%	-4,1%	-6.9%	1,7%	6.4%
	Entertainment	1,2%	0.3%	2,2%	1.2%		n/a	2,2%	1.8%
	Dining out and hotels	0,4%	-0.5%	0.2%	2.4%	-1,8%	-1.5%	0,9%	-0.4%
	Information services	1,3%	0.6%	0.2%	-1.4%	2,4%	-6.3%	0,5%	2.4%
	Telecom	0,6%	0.3%	1,2%	1.2%	0,5%	-2.2%	-0,5%	4.2%

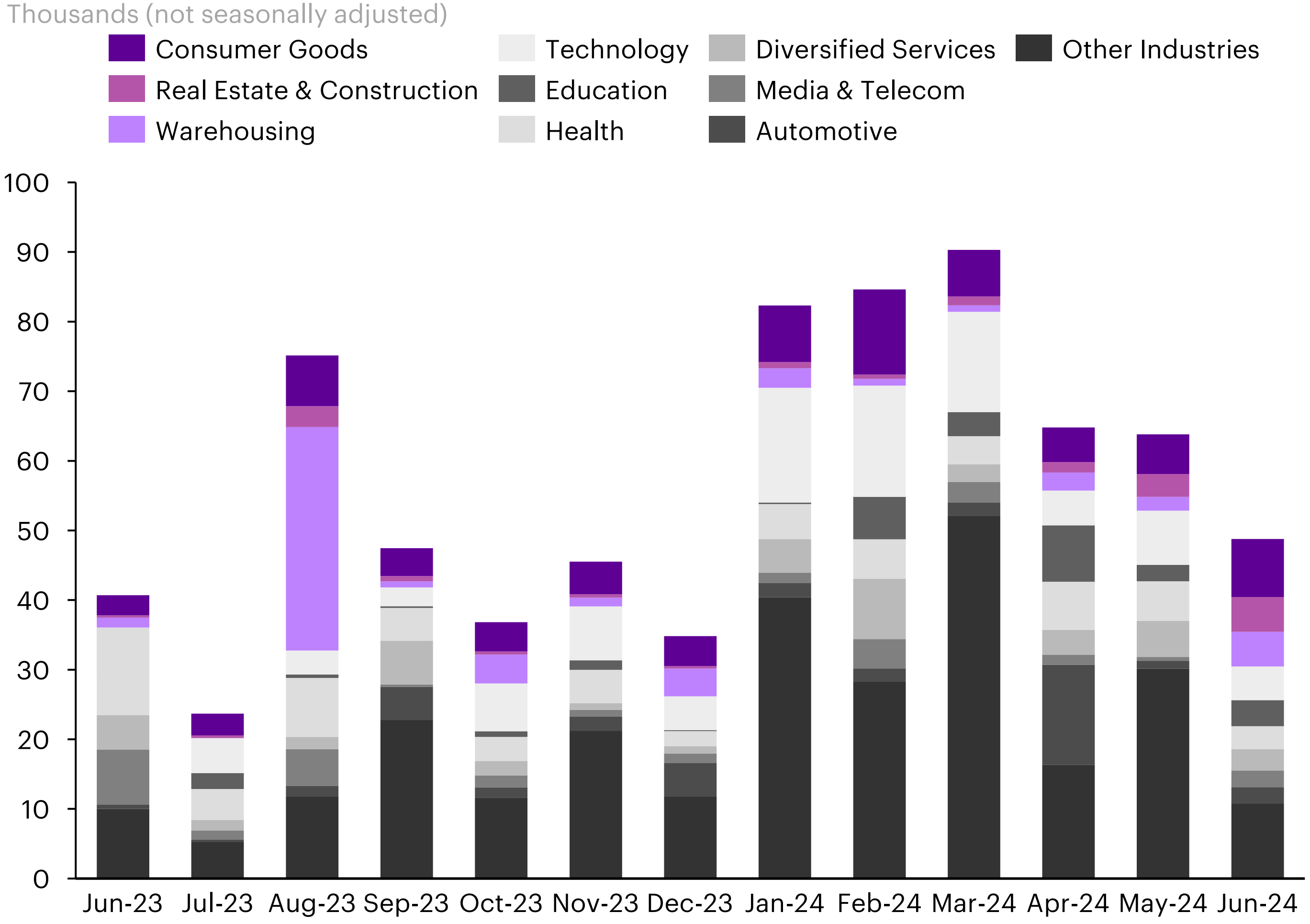
Notes: (1) UK's previous 6-Months includes a stronger than normal holiday season. (2) Spending figures are inflation-adjusted. (3) Consumer spending series for US is personal consumption expenditures (PCE); for Euro Area and UK, series data is retail sales, motor vehicles sales/registrations, and services turnover. (4) Some European services data may include B2B spending. (5) 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, Accenture Strategy analysis

Labor markets

US layoffs cooled in June, to the lowest since December, though the construction and consumer goods sectors saw the most significant increase

US corporate layoff tracker

Announced layoffs by sector



Commentary

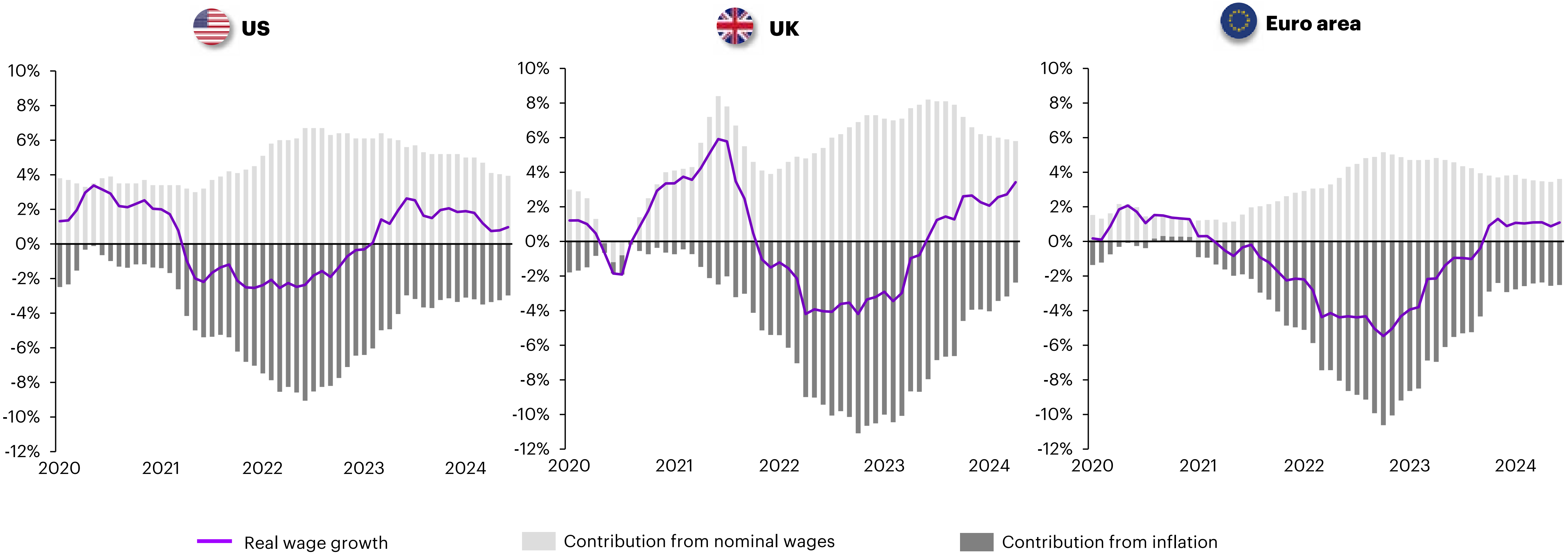
- US employers announced 23.6% fewer job cuts in June compared to the previous month, the fewest since December but still higher than in the same month last year
- Job cuts in June are typically lower as most firms are midyear or at the end of their fiscal years – months following fiscal year ends tend to see a spike in cuts as those plans are implemented
- This month, companies primarily cited "Cost-Cutting" and "Market/Economic conditions" as the reasons for job cuts
- Consumer goods firms led all cuts in June with 8,344 layoffs, followed by real estate and construction companies, which announced 5,006 layoffs, up 53% from the 3,267 announced in May
  - In consumer goods, layoffs were primarily driven by consumer products (5,311 vs. 3,588 in June) and electronics firms (1,434 vs. 140 in June)
  - The reduction in job cuts in real estate was offset by an 18-fold increase in layoffs in construction

Sources: Challenger Employment Report, Haver Analytics, Accenture Strategy analysis

Real wage growth stayed positive in the US, UK and Euro area, while Europe's nominal wage growth increased for the first time in seven months

Wage growth developments

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

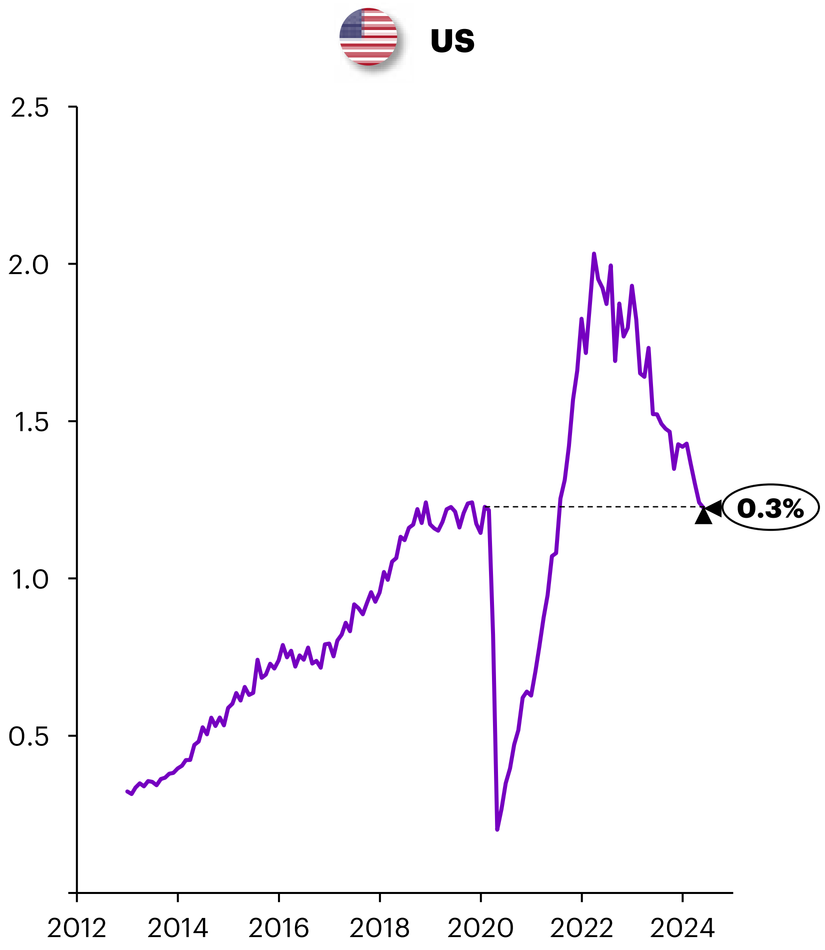


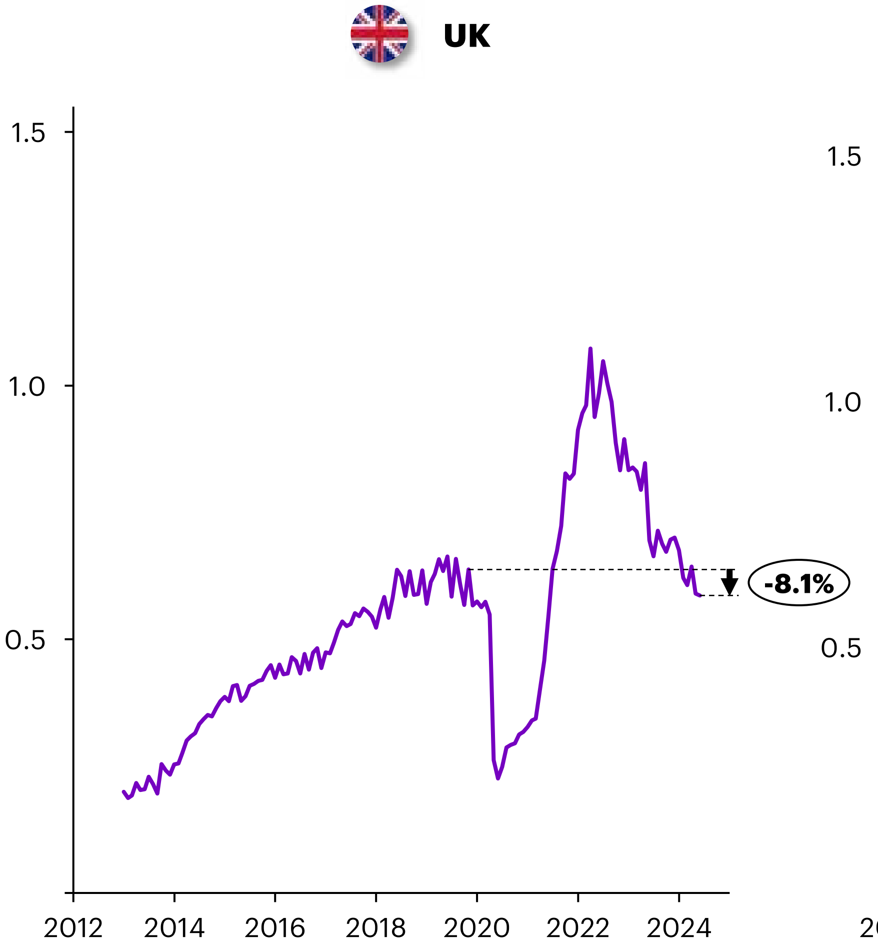
Sources: BLS, ONS, Indeed, Accenture Strategy analysis

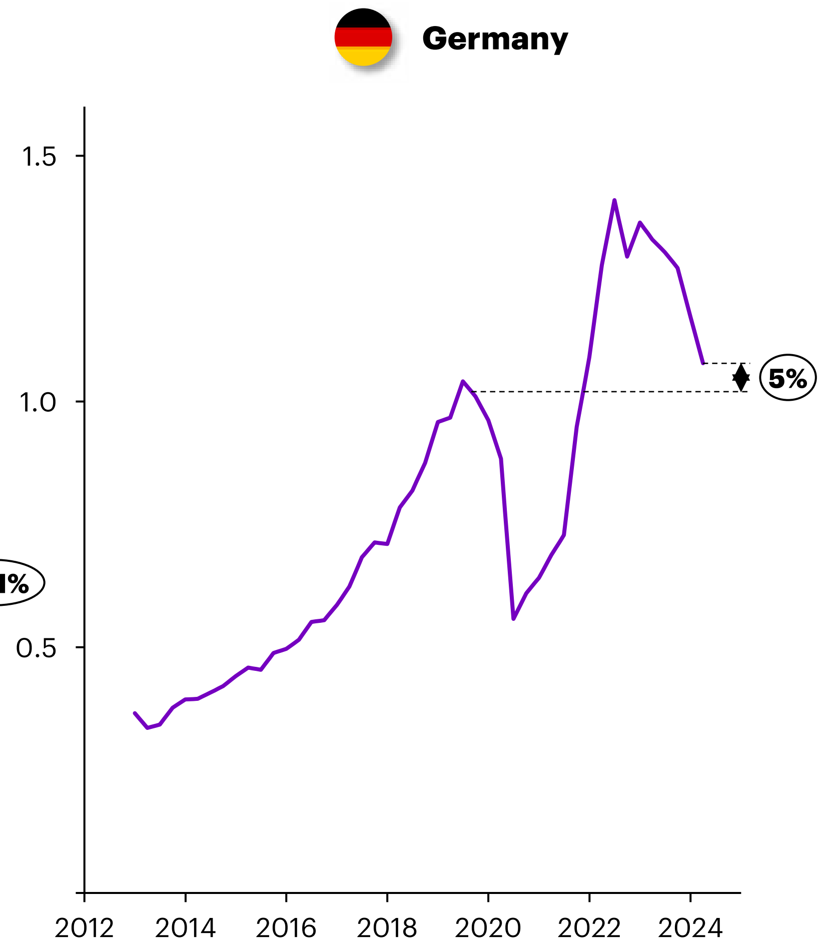
Labor market tightness eased in the US, UK and Germany, with the UK seeing a significant loosening as job vacancies declined, driven by diminishing demand in retail and hospitality

Labor market tightness

Job vacancies per unemployed person







Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

Talent shortages improved in the US and EU, while remaining steady across the UK – hiring within hotels and restaurants became easier across all three regions

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

- Total private sector hiring difficulties eased or remain unchanged across all three regions
- Hiring challenges in construction, human health and social work services eased but remain challenging across the US and UK whereas hiring across the manufacturing sector became more difficult
- While hiring in the entertainment sector become more difficult in the UK and US, the situation eased in the EU
- Services like hotels and restaurants and wholesale and retail encountered a decline in hiring difficulty across all the regions

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

Disinflationary momentum continued in the US and some regions of Europe but reversed in emerging countries

CPI inflation rates and trends

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

Country	YoY Inflation Rate	Change from previous month's rate (percentage points)
United States	3,0%	-0.3% ↓
United Kingdom	2,0%	0.0% ↓
Canada	2,7%	-0.1% ↓
Germany	2,5%	-0.2% ↓
France	2,5%	-0.1% ↓
Italy	1,0%	0.2% ↑
Spain	3,6%	-0.2% ↓

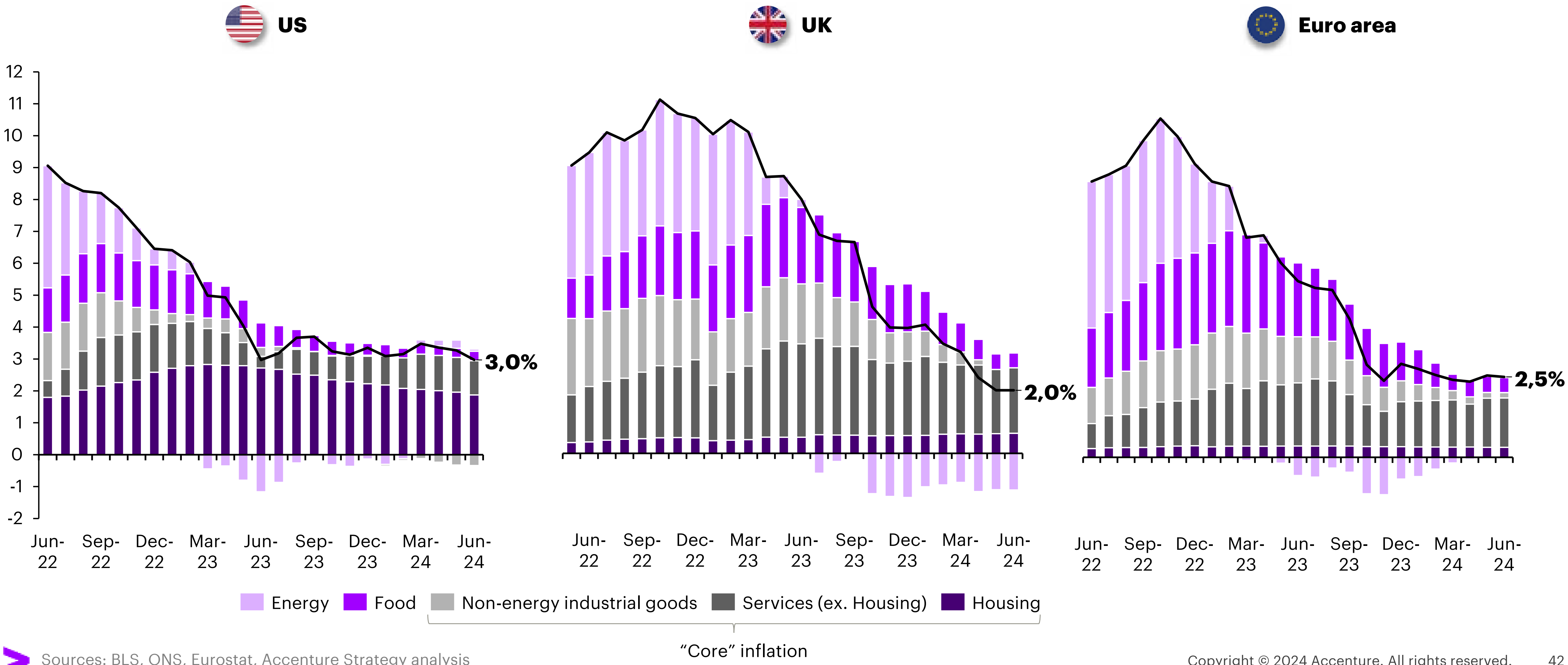
Country	YoY Inflation Rate	Change from previous month's rate (percentage points)
China	0,2%	-0.1% ↓
Japan	2,8%	0.0% ↑
Brazil	4,2%	0.3% ↑
India	5,1%	0.3% ↑
Singapore	2,4%	-0.7% ↓
Korea	2,4%	-0.2% ↓

Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

In June, inflation eased across all US, UK and Euro area with a third consecutive monthly deceleration in the US, while core inflation increased in UK

Drivers of recent CPI inflation

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

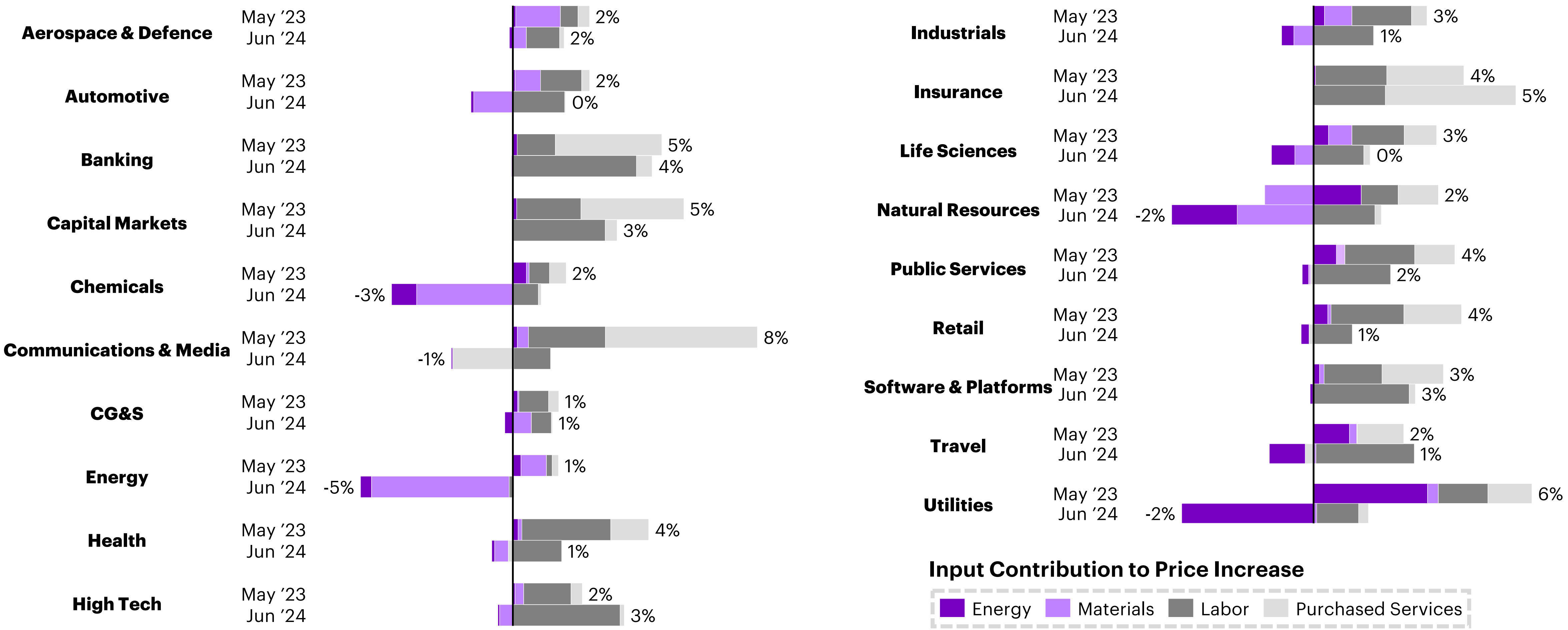


Sources: BLS, ONS, Eurostat, Accenture Strategy analysis

Falling materials and energy prices, along with a steady decline in the purchase price index, have alleviated some cost pressures, though labor costs continue to surge

Recent input cost inflation by industry

LTM year-over-year % change in input costs and contributions (percentage points) from key inputs, 2024

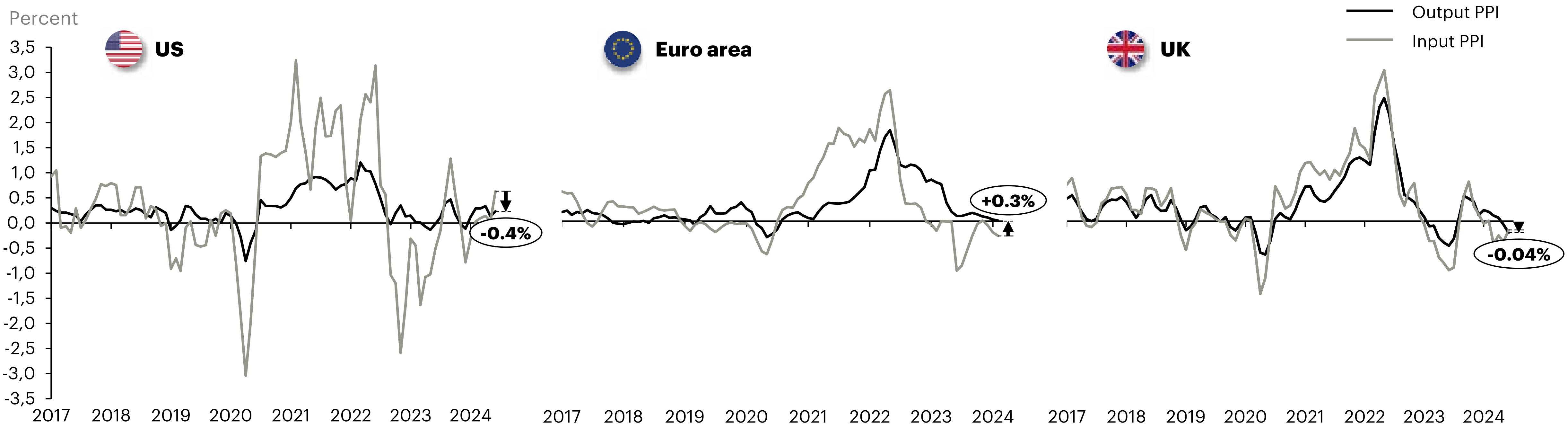


Notes: Wage data as of May’24; Energy prices as of Mar’24 , Natural Gas Prices and Electricity Prices as of Apr’24 and others as of Jun’24; Materials and Purchased Services PPI price increases as of Jun’24; Sources: BLS, BEA, EIA, EPA, Accenture Strategy analysis

In the US, producer price inflation for intermediate input goods hit the highest since January 2023, while the rise in final demand was restrained by slow demand for goods

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 US, the negative gap between output and input PPI suggested that even with increased production costs, companies are not fully passing through those costs to consumers

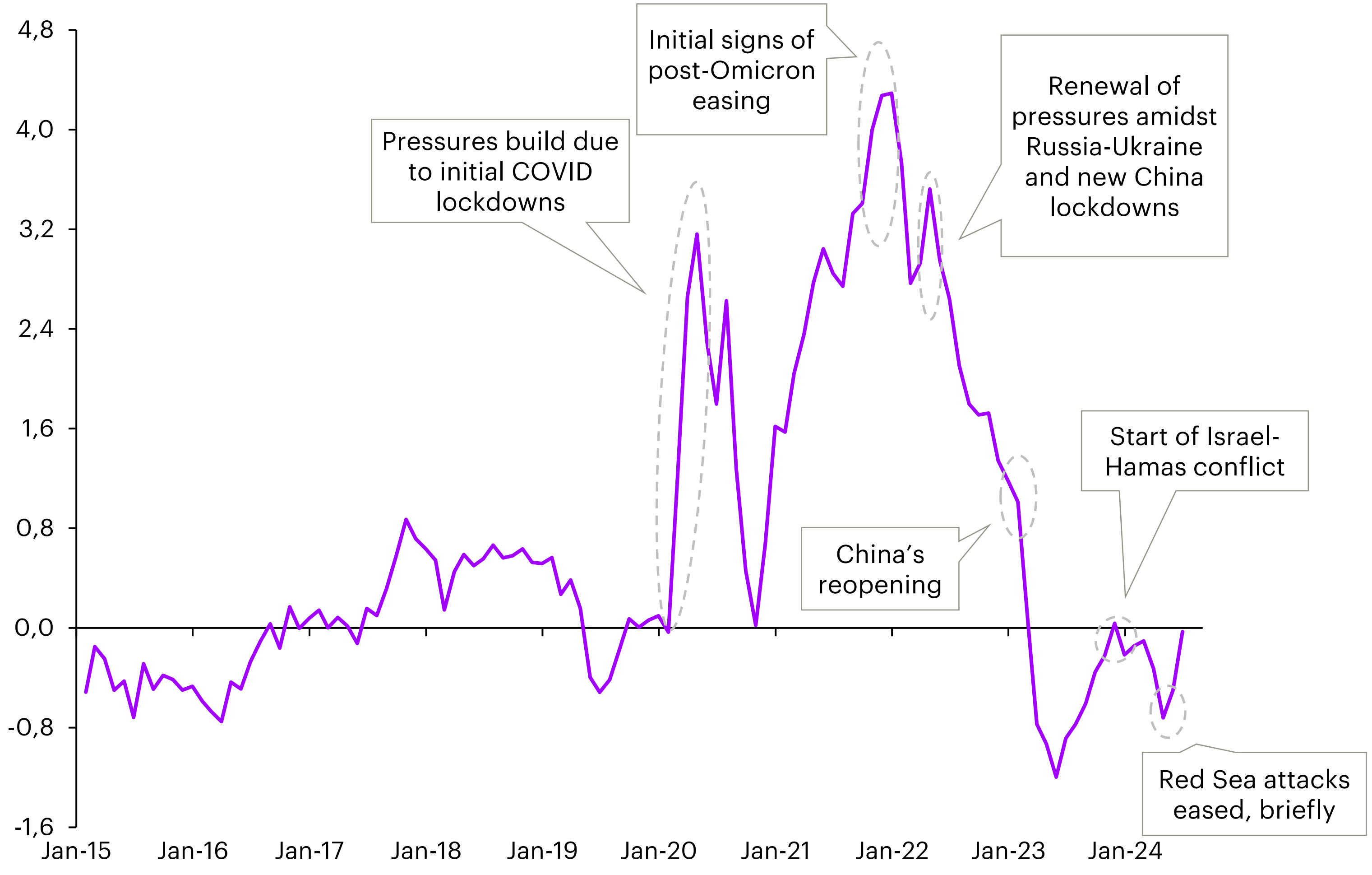
Notes: (1) Figures in bold represent absolute percentage point difference between intermediate and final demand PPI YoY % values; higher positive values imply greater pass through to final producer selling prices, while larger negative values imply lower pass through. (2) US data is based on production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

Supply chains

Global supply chain pressures intensified in June due to escalating attacks in the Red Sea, leading to increased diversions and heightened capacity shortages

Global Supply Chain Pressure Index

Standard deviations from long-term average (=0)



Commentary

- Global supply chain pressures increased in June amid renewed attacks on vessels in the Red Sea
- However, transit delays at most US West Coast ports improved, while East and Gulf Coast ports saw marginal increases
- This rising supply chain pressure led to
  - A surge in ocean freight rates driven by robust U.S. import demand
  - Reduced capacity as ships undertook extended voyages to bypass the Red Sea and Suez Canal, reducing available capacity by 15-20% in Q2'24
- Looking ahead, supply chains face sustained risks as the Red Sea shipping disruptions extend beyond the region, adding weeks to transit times and approximately $1 million in fuel costs per voyage, according to the Navy Times

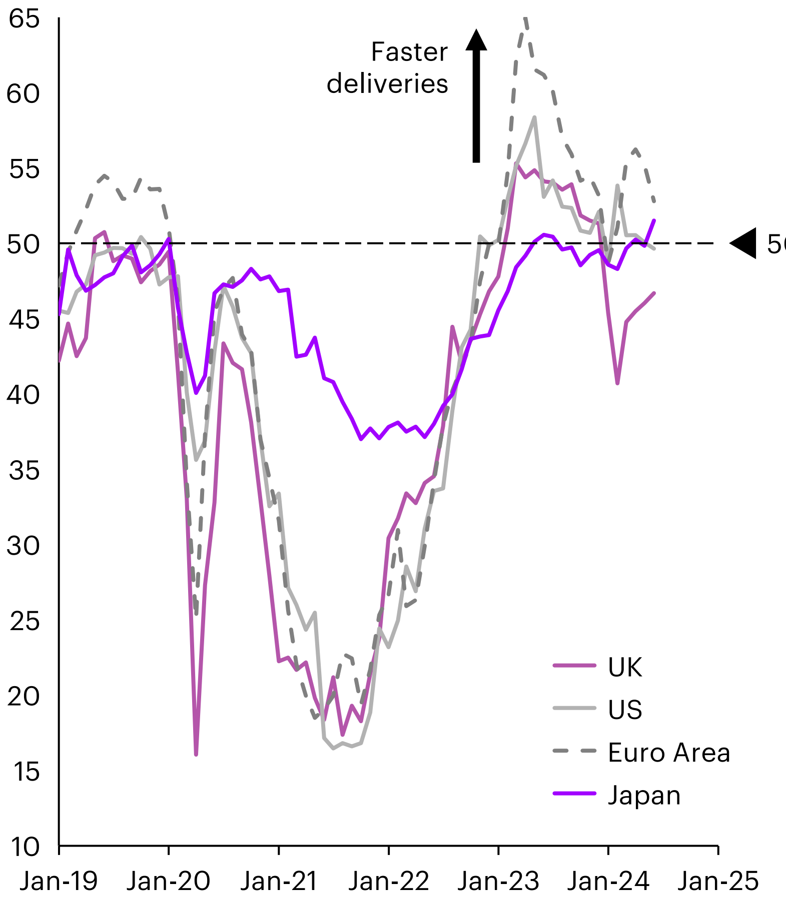
Sources: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, IMF, Accenture Strategy analysis

In June, global shipping times saw a marginal rise amid ongoing vessel diversions and port congestions

Suppliers’ delivery times and backlogs of work

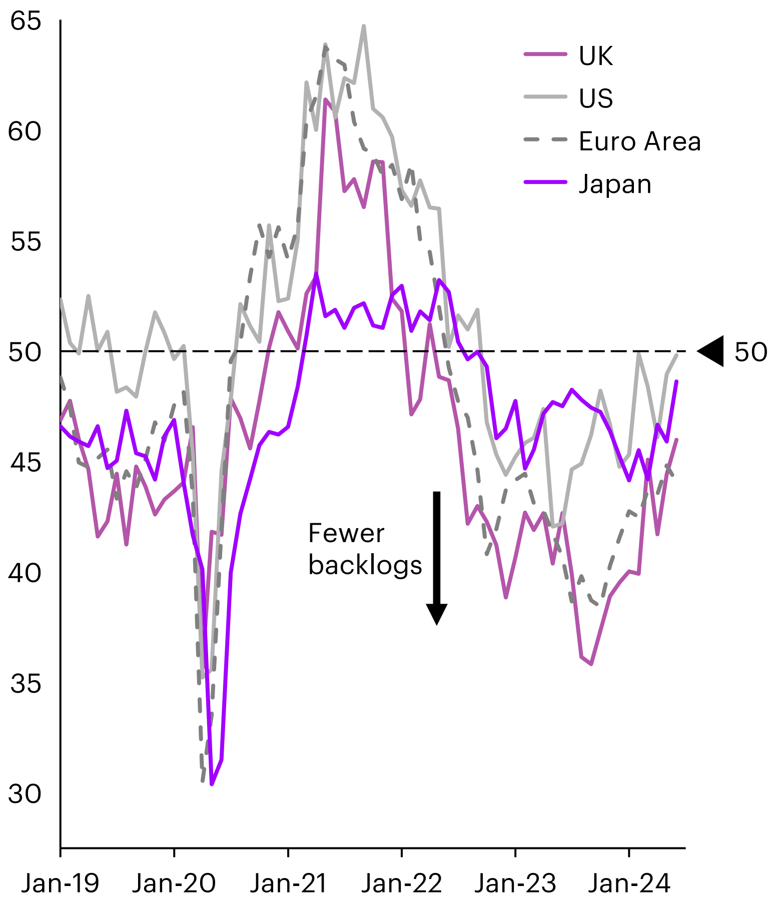
Suppliers’ Delivery Times

Seasonally adjusted, 50+ = Increase



Manufacturing Backlogs of Work

Seasonally adjusted, 50+ = Increase



Commentary

- Supplier delivery times decreased in June for the UK and Japan, but continued to rise in the US and Euro Area
- In the US, suppliers' delivery times lengthened for the first time in five months due to shipping disruptions, port congestion, and staff shortages at vendors
- Japan saw a reduction in backlogs as total new orders and international sales contracted
- In the Euro Area, weaker sales and increased spare capacity among manufacturers indicated the completion of backlogged work
- In the UK, a surge in new orders boosted production volume, leading to a rise in backlogs of work.

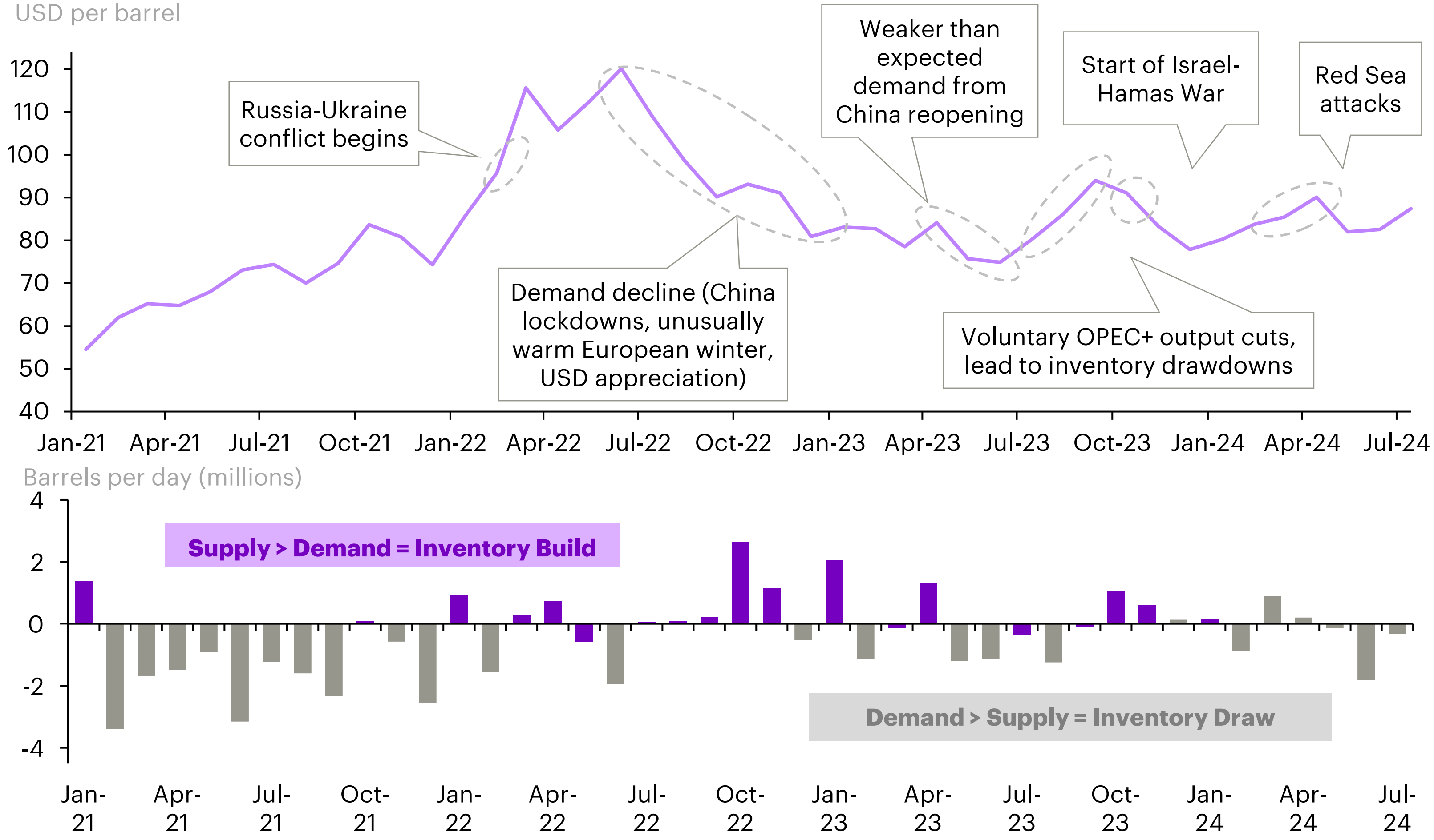
Sources: CIPS/S&P Global, Haver Analytics, Thomson Reuters, Accenture Strategy analysis

Energy and commodities

Early July witnessed a sharp spike in oil prices, buoyed by global inventory reductions, escalating geopolitical tensions, and heightened summer demand

Crude oil prices and inventories

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



Drivers of energy prices in 2024

- Brent crude oil prices increased in the first week of July, bolstered by a larger-than-anticipated weekly decline in U.S. crude stockpiles, though prices were trending down again by mid-month
- U.S. crude inventories plummeted by 4.9 million barrels in early July, significantly exceeding analysts' forecasted decline of 30,000 to 4.4 million barrels
- Recent upward pressure on crude oil prices stems from:
  - Anticipation of global oil inventories plunging during the summer in the northern hemisphere
  - Drone attacks on Russia's oil refineries
- Supply and demand fundamentals indicate upward movement due to:
  - Escalating tensions in the Middle East
  - Persistent withdrawals from global oil inventories, creating demand-side pressure

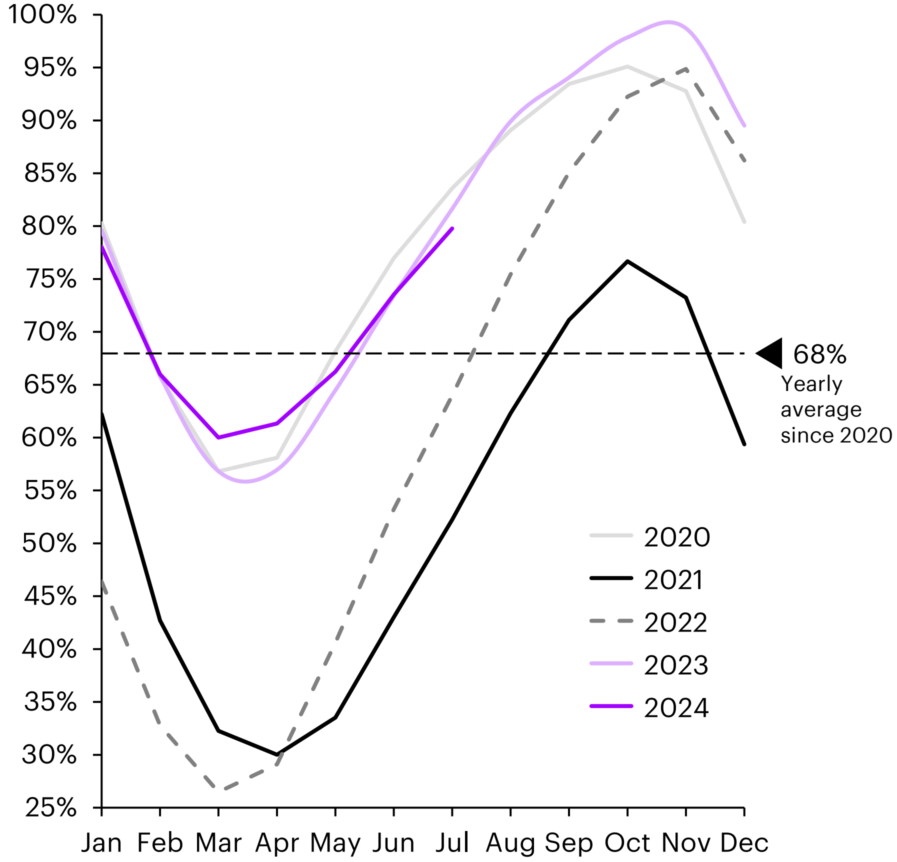
Note: Monthly average of crude oil price UK Brent 38`API (USD per barrel)
Sources: Energy Information Agency, World Bank, Bloomberg, Haver Analytics, Accenture Strategy analysis

Natural gas prices plummeted in the EU in July amid high inventories, but constrained by supply disruptions from Norway and rising geopolitical tensions

EU natural gas reserves and prices

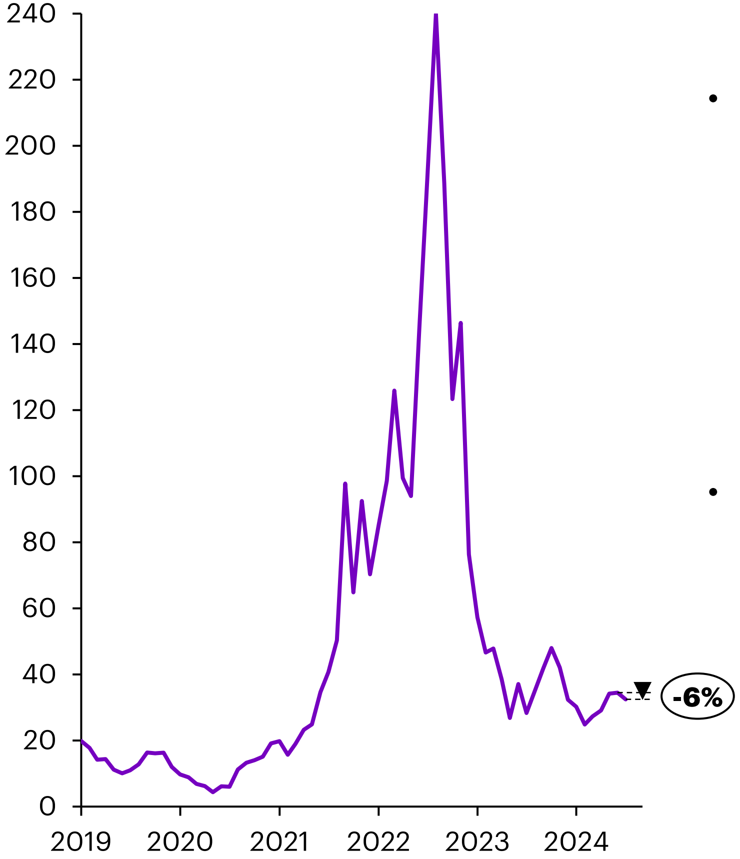
European gas reserves are relatively high at 80%...

% of storage capacity



As prices are falling due to high inventories

TTF Gas (EUR per megawatt-hour)



Commentary

- Natural gas prices plummeted in July to a three-month low as EU gas storage neared capacity
- In Europe, natural gas prices are exhibiting a bearish trend outlook amidst:
  - Forecasts that storage sites will reach full capacity before the end of October
  - A weaker-than-expected global growth outlook, especially in East Asia and the Pacific, signaling reduced demand for natural gas
- However, the drop is expected to be constrained due to:
  - The expiration of the Russian gas transit deal through Ukraine in December 2024
  - A tighter LNG market, making the European gas system vulnerable to Norway or US outages

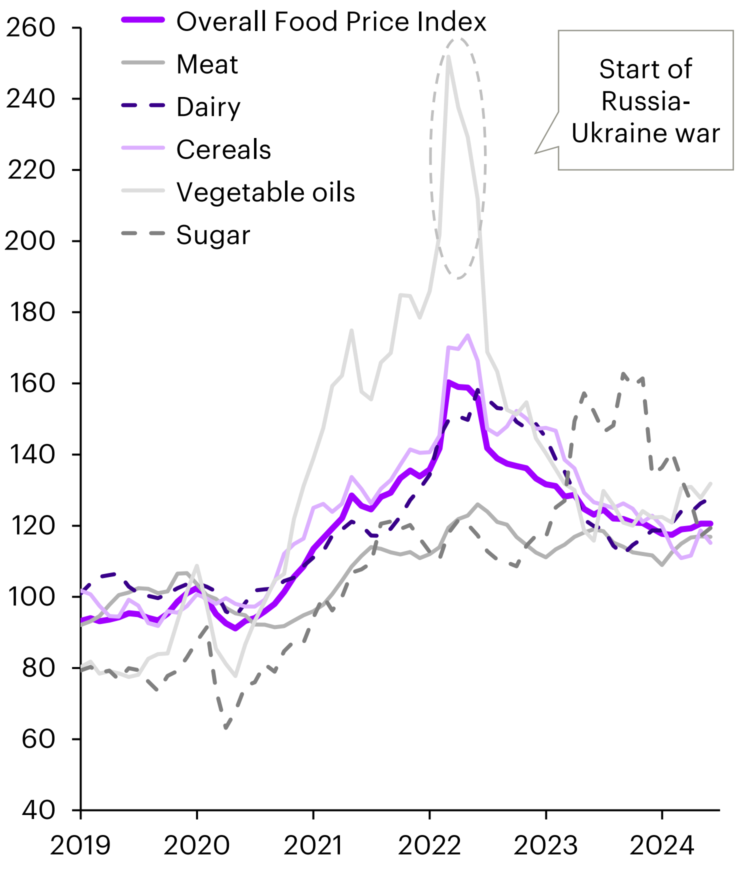
Notes: Dutch TTF Natural Gas Futures front-month contract. TTF stands for Title Transfer Facility, which is a virtual trading hub for natural gas in Europe. TTF prices represent the average monthly price of natural gas traded at this hub and are considered a benchmark for natural gas prices in Europe. The most recent TTF monthly data point reflects the average daily prices up to the publication date.
Sources: Gas Infrastructure Europe, Bloomberg, European Council, Reuters, Investing.com, Accenture Strategy analysis

In June, global food prices remained mostly steady but still below year-ago levels, while fertilizer prices continue to rise due to geopolitical uncertainty

Food and fertilizer prices

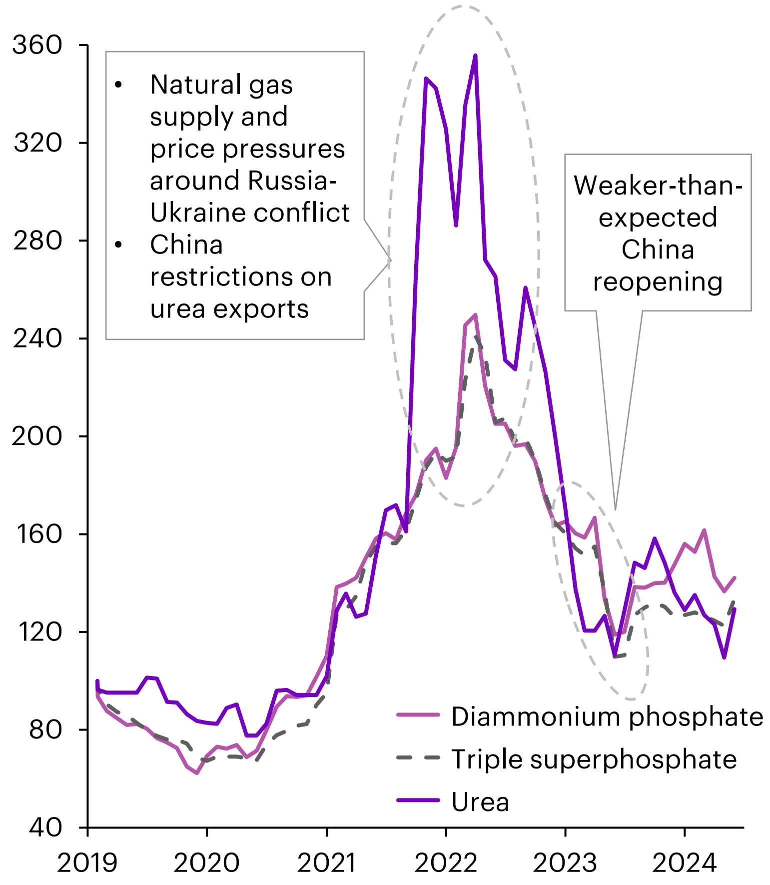
Food prices

Index, 2014-2016 = 100



Fertilizer prices

Index, Jan 2019 = 100



Commentary

- In June, food commodities prices remained steady, with a dip in meat and cereals, offsetting a rise in vegetable oils, dairy products and sugar prices
- Cereal prices dropped 3% from May, holding 9% below June 2023 levels, reflecting the seasonal pressure from ongoing harvests in the northern hemisphere
- Vegetable oil prices jumped 3.1% for the month, marking the highest level since March 2023, driven by higher quotations across palm, soy and sunflower oils amid rising demands from the biofuel sector in the Americas and declining export availabilities in the Black Sea region
- Most fertilizer prices edged upwards in June; urea prices rose by 18% due to geopolitical uncertainties around Russia and China, the major exporters of urea

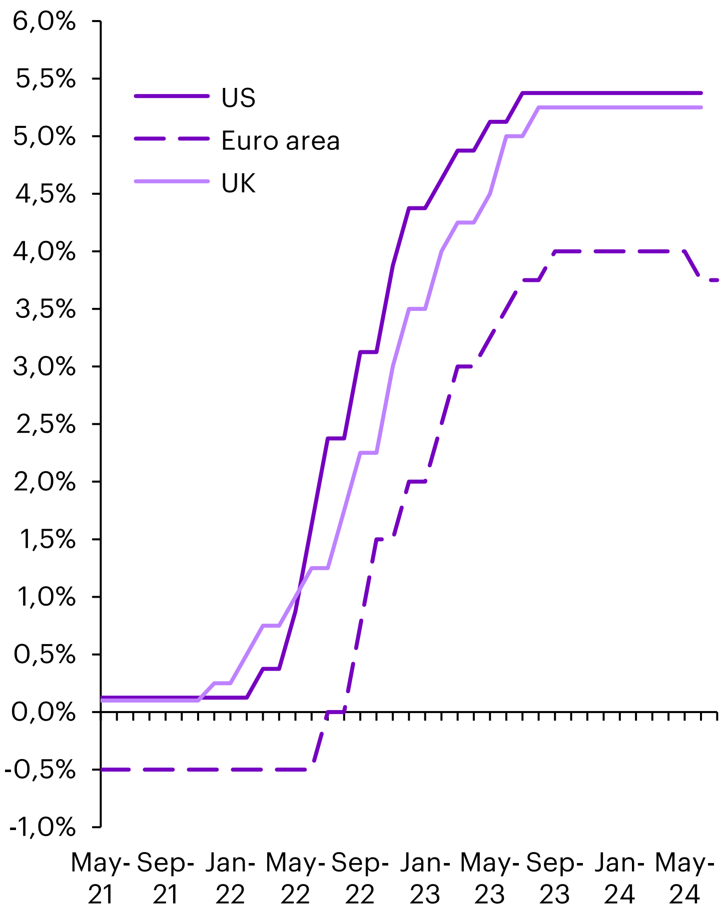
Notes: (1) Food Price Index is a measure of the monthly change in international nominal prices of a basket of food commodities (2) Fertilizers include DAP (diammonium phosphate), TSP (triple superphosphate), and urea.
Sources: World Bank, UN FAO, USDA, Accenture Strategy analysis

Financial markets

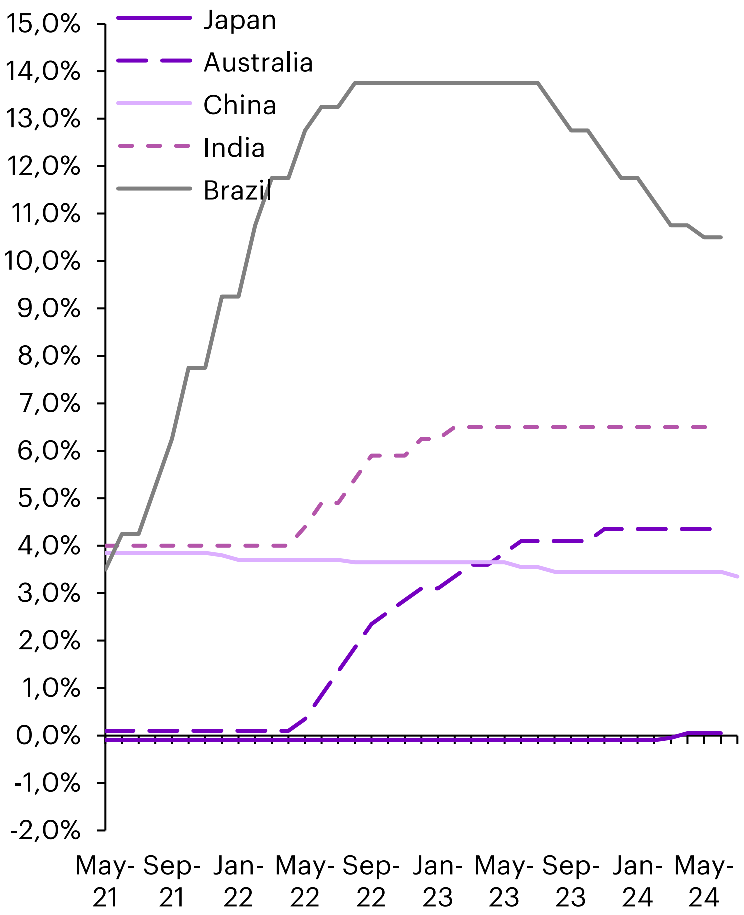
Central banks have signaled more easing policies as disinflation continues, with the US Fed hinting at a September rate cut and China implementing its first rate cut in a year

Monetary policy across major economies

US, UK and Euro area policy rates



Policy rates for other major economies



Commentary

- The Federal Reserve maintained interest rates in June. However, in mid-July, Fed officials hinted at a possible rate cut in September, citing improved inflation and a better-balanced labor market
- On July 18th, the ECB left its main interest rates unchanged, following a rate cut in June—the first since their rate hike cycle ended in September 2023
- The Bank of England kept its policy rate steady in June, though inflation has reached the 2% target and therefore a rate cut could may be warranted in the coming months
- The People's Bank of China reduced its major short and long-term interest rates on July 22nd, marking its first rate cut since August last year

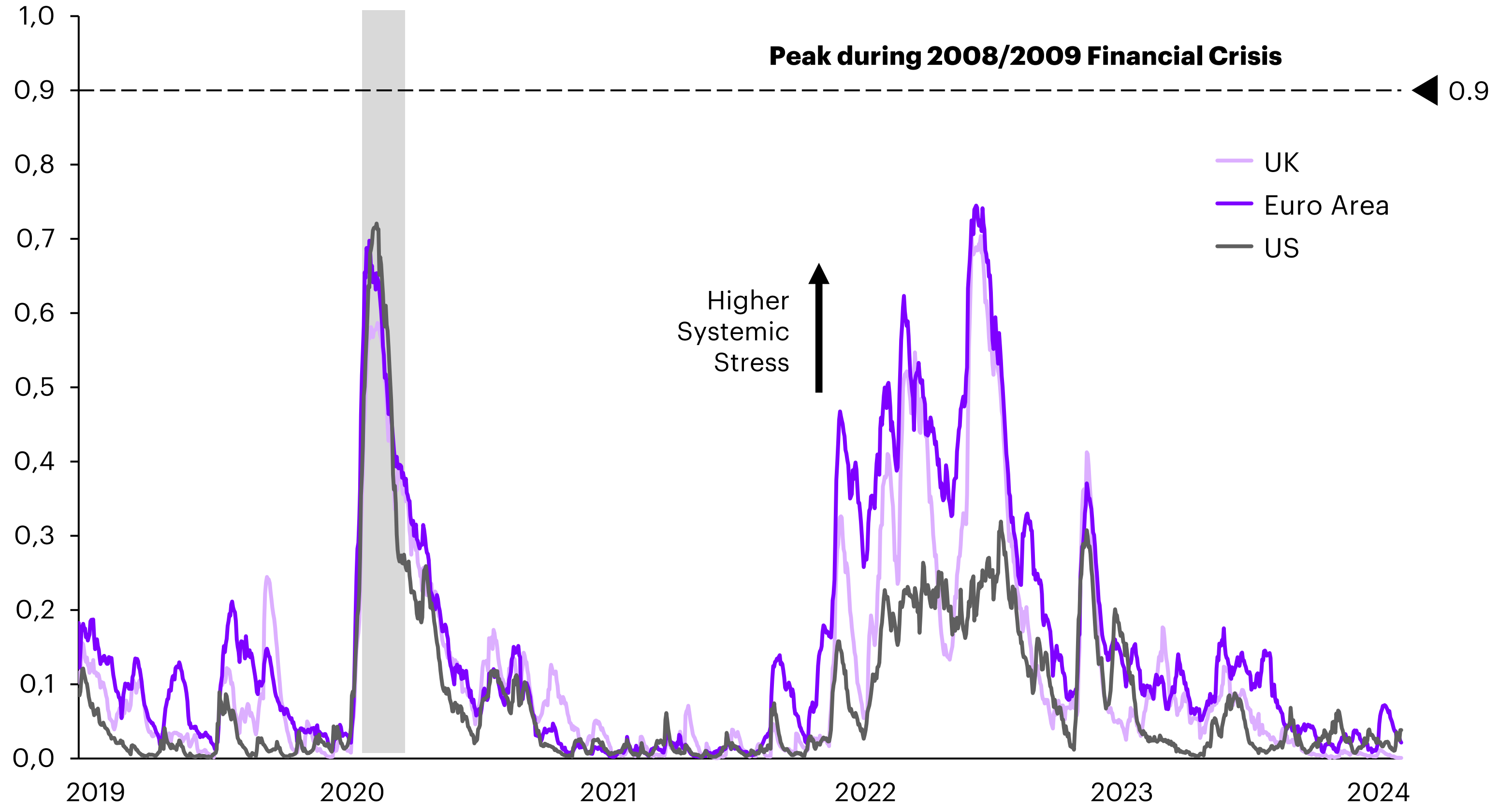
Sources: Haver Analytics, Federal Reserve Bank (US Fed), European Central Bank (ECB), Bank of England, Bank of Japan, Reserve Bank of India, Central Bank of Brazil, Reserve Bank of Australia, People's Bank of China, Reuters, Accenture Strategy analysis

Systemic financial stress increased marginally in the US due high interest rates and political uncertainty, but remains below the wave of bank collapses level in early 2023

Systemic financial stress indicators

Composite Indicator of Systemic Stress Index

(No Stress = 0, High Stress = 1)



Commentary

- Systemic stress has diminished in the UK and Euro Area, but persisted at a two-month peak amid growing signs of higher living costs and elevated political uncertainty over the 2024 elections
- Financial pressure remained steady with anticipated monetary policy easing in 2H ’24, yet vulnerabilities persist amid:
  - Growing interest rate uncertainty
  - Rising energy and food price inflation in many countries
  - Heightened geopolitical tensions
  - Ongoing vulnerabilities in sectors where banks have large exposure (e.g., commercial real estate)

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

Credit standards eased to their lowest levels since Q3’22 in the EU and Q1’23 in the US, while the UK saw a tightening after a brief relaxation in Q1’24

Restrictiveness of banks’ lending standards

Banks are adjusting their credit standards in tandem with monetary policy

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

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

Commentary

- US banks reported less credit tightening in Q2 2024, driven by an easing of lending standards for consumers and CRE loans. However, credit standards for Commercial and Industrial Loans remained tighter
- EU banks reported an easing of lending standards in Q2’24, though there was a slight further tightening of credit standards for loans or credit lines to enterprises
- Banks reported a moderate net easing of credit standards for household loans for home purchases, but a moderate net tightening for consumer credit
- UK lenders reported marginally higher credit tightening in Q2 2024. Demand for secured lending for house purchases and unsecured lending increased, while demand for corporate lending remained unchanged.

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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 – helping clients distill complex macro trends into simple, pragmatic recommendations which drive value.

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Chris Tomsovic
Global Lead, Macro Foresight
Chris.Tomsovic@Accenture.com

Nick Kojucharov
US Lead, Macro Foresight
Nick.Kojucharov@Accenture.com

Terry Hammond
London, UK
Terry.Hammond@Accenture.com

Jane Xu
Frankfurt, Germany
Jane.Xu@Accenture.com

Pablo Gonzalez Alonso
Washington, USA
P.A.Gonzalez.Alonso@Accenture.com

André de Silva
Singapore
Andre.De.Silva@Accenture.com