Management Solutions
Making things happen

USA outlook report

Third quarter of 2023

R & D

www.managementsolutions.com

Design and Layout

Marketing and Communication Department
Management Solutions

Photographs:

Photographic archive of Management Solutions
iStock

Index

The objective of USA's quarterly report is to provide a comprehensive and summarized overview of the main sectoral indicators of the country, classified by regulated industry, as well as the macroeconomic situation at the end of each quarter.

1. International overview

In 3Q23, the slowdown in the world's major economies intensified due to tighter financial conditions, weak trade growth and lower business and consumer confidence. The outlook is for lower growth in 2024 and inflation is expected to be on target by the end of 2025.

Macroeconomic outlook

- During 3Q23, the Eurozone recorded a slight year-on-year growth of 0.03%, compared to the 0.47% recorded in 2Q23, consolidating the economic stagnation of the zone. Germany recorded its third consecutive quarter of decline, as did Finland and Luxembourg. The average CPI in the Eurozone decreased by 1.25 p.p. compared to 2Q23 to 4.95%, also highlighting the fall in core inflation, while the average unemployment rate remained constant at 6.4%.
- Regarding the American region, the slight economic growth of the Latam[1] region with respect to the previous quarter (1.46% versus 1.22%) was noteworthy, partly due to the recovery of the growth rate of some countries such as Argentina by 2.25 p.p. and Chile by 1.75 p.p. As for the US, growth continued to consolidate at a rate of 2.93% (2.56% in 2Q23). As for inflation, in the US it fell to 3.51%, while the Latam[1] average stood at 20.88% (excluding Argentina (125.89%) the average stood at 5.88%, down from 2Q23 (7.07%)). Unemployment rates on the continent were generally stable compared to the previous quarter's baseline.
- In the Asian region, China continued to post strong growth, but lower than the previous quarter, at 4.90% (6.30% in 2Q23), as did Japan, which reached 1.63% (1.73% in 2Q23).
- For its part, Australia recorded year-on-year growth of 2.05% (2.07% in 2Q23), continuing its economic slowdown, with a relatively stable unemployment rate of around 3.66% and falling but still high inflation, which closed the third quarter of the year at 5.37%.
- South Africa, on the other hand, recorded a negative growth rate of -0.48% (compared to 1.68% in the previous quarter), albeit with a declining inflation rate of 5.02% and a high unemployment rate of almost 33%.
- The IMF expects global growth to decline 3.5% from that recorded in 2022 to an estimated 3.0% in 2023 and to 2.9% in 2024, in the face of the continuing economic drag from rising interest rates as part of central banks' monetary policy to combat inflation. Meanwhile, global inflation is forecast to fall from 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024, while core inflation is expected to decline more gradually. Inflation is expected to reach the target levels of individual central banks by the end of 2025.
- ECLAC forecasts that the economies of the Latin American region will maintain low levels of growth during this and next year, affected by a negative global and very complex regional economic outlook, estimating an average regional GDP growth of 1.7% in 2023, while for 2024 it projects a slight decline to 1.5%. By sub-regions, South America is estimated to grow by 1.2%, Central America and Mexico by 3% and the Caribbean by 4.2%.

Other indicators and main risks

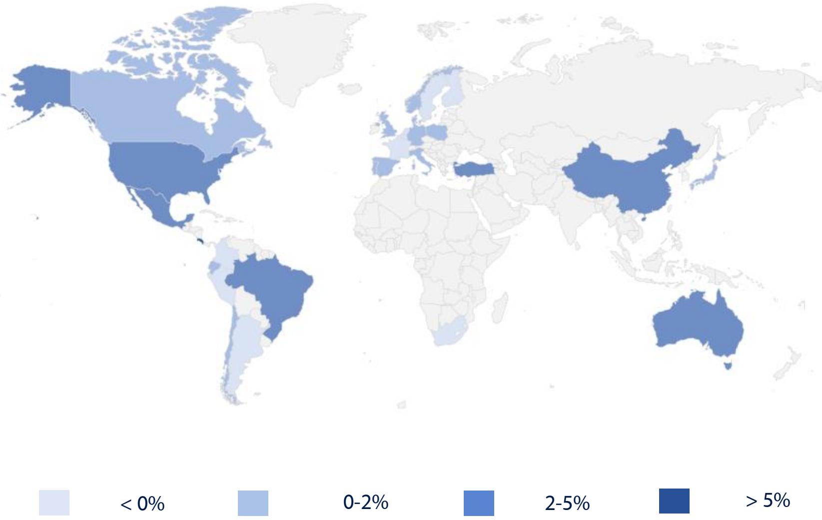
- The euro has depreciated very slightly against the dollar in the last quarter, although it has remained strong, standing at €0.92 per dollar in the third quarter. The OECD expects the US dollar to appreciate against most currencies in the last six months of 2023, aided by the safe-haven effect amid rising geopolitical tensions. Significant currency depreciations have also occurred in some emerging market economies with relatively high or rising inflation.
- However, the main Latin American currencies appreciated slightly against the dollar in 3Q23, with the exception of the Chilean peso and the Argentine peso, whose exchange rate increased compared to 2Q23, to 839.20 Chilean pesos per dollar and 334.66 Argentine pesos per dollar.
- The IMF expects overall debt to increase.

1 The average for Latam countries is based on macroeconomic data for Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru

GDP (%, year-on-year growth)

Europe

BEL	1.40
DEU	-0.40
DNK	0.32
ESP	1.81
FIN	-1.03
FRA	0.56
GBR	0.61
ITA	0.14
LUX	-1.81
NLD	-0.39
NOR	-1.49
POL	0.57
PRT	1.88
SWE	-1.45
UEM*	0.03



America

ARG	-0.78
BRA	2.47
CAN	0.46
CHL	0.66
COL	-0.26
CRI	5.90
ECU	1.40
MEX	3.29
PER	-1.01
USA	3.00
LATAM**	1.46

Oceania

AUS	2.05

Asia

CHN	4.90
JAP	1.63
TUR	4.51

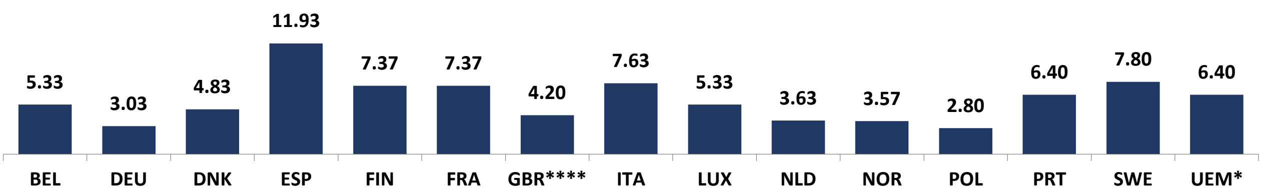
Africa

ZAF	-0.48

Source: OECD data. Non-member central banks.*Economic and Monetary Union **Latin America: average of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru.

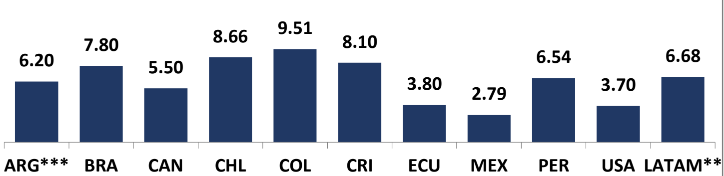
Unemployment rate (%)

EUROPE



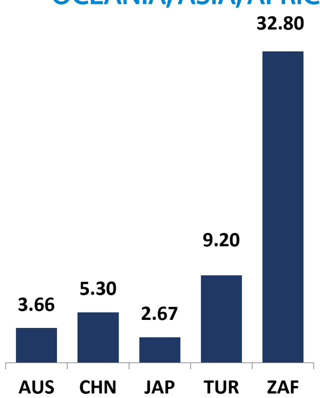
Source: OECD data. Non-member central banks.
*Economic and Monetary Union
****GBR: 2Q23 data, as third quarter data is not available.

AMERICAS



Source: OECD data. Non-member central banks.
**LATAM: average countries of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru
***ARG: 2Q23 data, as third quarter data is not available.

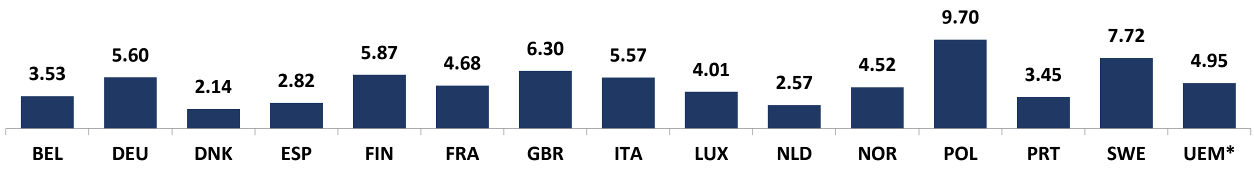
OCEANIA, ASIA, AFRICA



Source: OECD Data. Central Banks of Non-Member Countries.

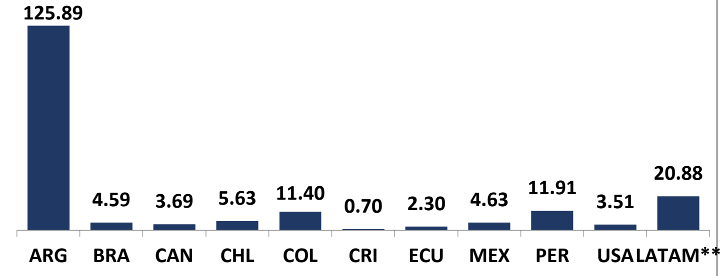
Inflation rate (%)

EUROPE



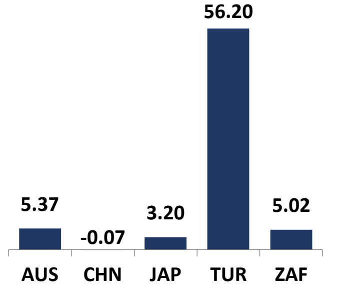
Source: OECD Data. Central Banks of Non-Member Countries.
*Monetary and Economic Union

AMERICAS



Source: OECD Data. Central Banks of Non-Member Countries
**LATAM: average of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Peru

OCEANIA, ASIA, AFRICA



Source: OECD Data. Central Banks of Non-Member Countries

Global Ratings and Exchange Rates

LONG-TERM RATES 3Q23

	MOODY'S	S&P	Fitch
		EUROPE	
BEL	Aa3	AA	AA-
DEU	Aaa	AAA	AAA
DNK	Aaa	AAA	AAA
ESP	Baa1	A	A-
FIN	Aa1	AA+	AA+
FRA	Aa2	AA	AA-
ITA	Baa3	BBB	BBB
LUX	Aaa	AAA	AAA
NLD	Aaa	AAA	AAA
NOR	Aaa	AAA	AAA
POL	A2	A-	A-
PRT	A3 ▲	BBB+	BBB+
GBR	Aa3	AA	AA-
SWE	Aaa	AAA	AAA
		AFRICA	
ZAF	Ba2	BB-	BB-
		OCEANIA	
AUS	Aaa	AAA	AAA
		ASIA	
CHN	A1	A+	A+
JAP	A1	A+	A
TUR	B3	B	B
		AMERICAS	
ARG	Ca	CCC-	C
BRA	Ba2	BB-	BB-
CAN	Aaa	AAA	AA+
CHL	A2	A	A-
COL	Baa2	BB+	BB+
CRI	B1 ▲	BB- ▲	BB-
ECU	Caa3	B-	B-
MEX	Baa2	BBB	BBB-
PER	Baa1	BBB	BBB
USA	Aaa	AA+	AAA

▲ Increased from 2Q23 ▼ Decreased from 2Q23

Source: Investing

EXCHANGE RATES 3Q23 ($*)

EUROPE	3Q22	4Q22	1Q23	2Q23	3Q23	2023
EUR	1.00	0.97	0.93	0.92	0.92	0.92
DKK	7.59	6.95	6.91	6.85	6.85	6.86
NOK	10.91	9.80	10.27	10.81	10.48	10.56
SEK	11.09	10.45	9.58	10.63	10.81	10.35
GBP	1.12	1.21	0.82	0.80	0.79	0.81
PLN	4.96	4.38	4.36	4.15	4.14	4.23
AMERICAS	3Q22	4Q22	1Q23	2Q23	3Q23	2023
ARG	135.79	176.71	197.70	239.22	334.66	219.09
BRL	5.41	5.29	5.10	4.94	4.89	5.00
CLP	965.90	849.41	805.80	805.20	839.20	796.01
COP	4,597.52	4,849.39	4,725.30	4,438.83	4,043.78	4,611.09
PER	3.99	3.80	3.79	3.66	3.66	3.71
MXN	20.10	19.50	18.38	17.59	17.06	17.88
AFRICA	3Q22	4Q22	1Q23	2Q23	3Q23	2023
ZAR	18.15	17.00	17.76	18.94	18.64	18.82
OCEANIA	3Q22	4Q22	1Q23	2Q23	3Q23	2023
AUS	1.56	1.47	1.47	1.51	1.53	1.49
ASIA	3Q22	4Q22	1Q23	2Q23	3Q23	2023
RMB	7.11	6.90	6.85	7.09	7.24	6.93
TRY	18.21	18.62	18.94	22.09	26.81	19.40

Source: Investing. OECD projections, November 2023.
*The base currency used is the US dollar against each local currency quoted

2. Macroeconomic view

In the third quarter of 2023, GDP growth stood at 3%, driven by positive growth in all components of domestic demand. Although GDP continues to accelerate, the general consensus is that it will slow down in line with long-term sustainable levels of growth and inflation.

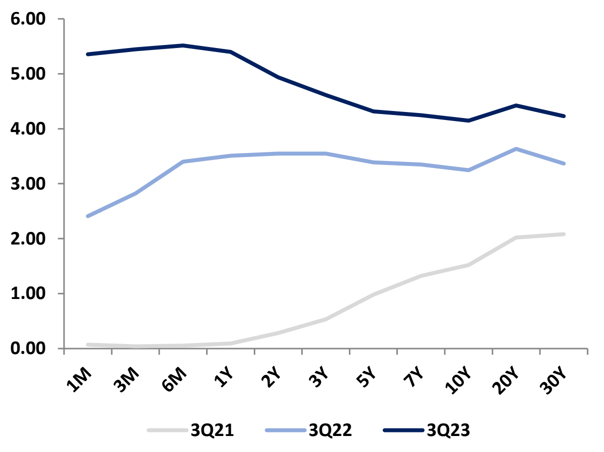
Main Macroeconomic Indicators (%)

ACTIVITY	3Q22	4Q22	1Q23	2Q23	3Q23	Var. p.p.2Q23	Var. p.p.3Q22	2023	2024
GDP	**1.71**	**0.65**	**1.72**	**2.38**	**3.00**	0.62	1.29	**2.36**	**1.54**
DOMESTIC DEMAND	8.68	8.43	9.24	9.03	2.48	-6.55	-6.20	1.77	1.56
HOUSEHOLD CONSUMPTION	1.88	1.17	2.12	1.82	2.33	0.51	0.45	2.19	1.50
PUBLIC CONSUMPTION	-0.61	0.25	2.13	2.72	3.26	0.54	3.87	2.60	0.79
CAPITAL FORMATION	11.67	6.72	3.96	9.32	3.59	-5.73	-8.08	1.45	1.74
EXTERNAL DEMAND									
EXPORTS	11.07	4.28	7.28	2.10	-0.22	-2.32	-11.29	2.55	1.88
IMPORTS	8.21	2.13	-0.99	-3.89	-1.47	2.42	-9.68	-1.50	1.90
INFLATION									
CPI	**8.33**	**7.10**	**5.80**	**3.97**	**3.51**	-0.46	-4.82	**4.17**	**2.83**
LABOUR MARKET									
UNEMPLOYMENT RATE	**3.53**	**3.60**	**3.50**	**3.57**	**3.70**	0.13	0.17	**3.63**	**4.06**
EMPLOYMENT*	**3.47**	**2.22**	**1.76**	**1.77**	**1.77**	0.00	-1.70	**1.77**	**0.46**

*The employment variable represents the year-on-year change in employment growth. Source: International Labour Organization (ILO).
Source: Organisation for Economic Co-operation and Development (OECD), Projections OECD September 2023.
3Q23 data not available for employment.

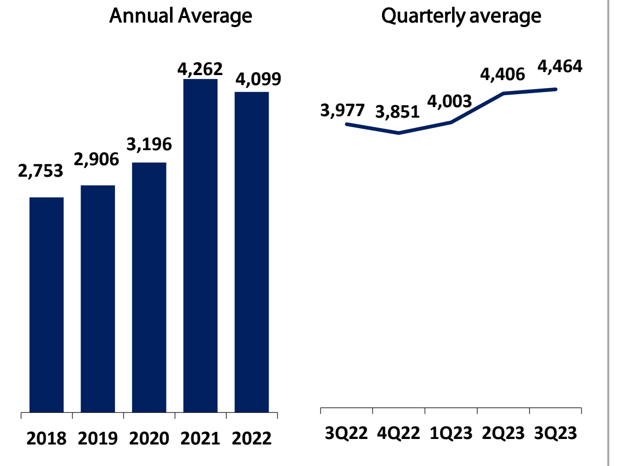
- Much of the pattern from the last quarter is also reflected in 3Q23: a steady increase in GDP, supported by a rise in private consumption growth (2.33%) and public consumption (3.26%). The September OECD interim report raises GDP forecasts for 2023 and 2024, indicating the resilience of the economy in 2023 and the moderating effect the tightening of financial conditions will have in 2024.
- Inflation trended down this quarter, but the decline was not as substantial as in the previous quarter (-0.46 p.p. quarter-on-quarter difference against -1.84 p.p. previously). The core inflation forecast remains unchanged at 4.2%. However, the strength of the labor market could push up wages, with a consequent rise in costs and prices.
- Treasury yields have risen to levels not seen in the last two decades. Short-term Treasury bonds have generated yields above 5%, attracting investors to the bond market. As anticipated, the yield curve remains inverted, making longer-term bonds less attractive. The S&P 500 showed resilience, reflecting slight growth in 3Q23 after the positive rebound in the previous quarter.

Treasury Yield Curves Rates (%)



Source: Investing

S&P 500



Source: Investing

3. Banking sector

In 3Q23, the FDIC stated the continued resilience of the banking sector. Despite high net income, stable asset quality metrics and a strong capital position, banks still faced a variety of risks. The two most notable risks are the increasing of market interest rates and the strengthening of geopolitical unpredictability.

BANKING SECTOR CONTEXT 3Q23 (%)

BUSINESS	3Q22	4Q22	1Q23	2Q23	3Q23	Var. p.p. 2Q23	Var. p.p. 3Q22
TOTAL LOANS*	10.06	15.73	7.41	4.29	2.67	-1.62	-7.39
TOTAL DEPOSITS*	1.00	-2.47	-5.97	-4.70	-4.16	0.54	-5.15
LTD RATIO	61.04	62.62	64.08	64.84	65.39	0.54	4.35
EFFICIENCY							
EFFICIENCY RATIO	59.17	58.19	54.00	55.04	55.52	0.48	-3.65
RISK							
PROVISIONS**	30,941,282	51,571,393	20,731,614	42,184,004	61,686,222	46.23	99.37
NPL RATIO	0.72	0.73	0.75	0.76	0.82	0.06	0.10
SOLVENCY* **							
CET 1	15.95	15.85	16.04	15.98	16.05	0.07	0.10
LEVERAGE RATIO	10.83	10.96	11.05	11.19	11.32	0.13	0.49
LCR	202.83	180.84	160.89	132.90	121.82	-11.08	-81.01
FED INTEREST RATES							
INTEREST RATES	3.25	4.50	5.00	5.25	5.50	0.25	2.25

Sources: Federal Deposit Insurance Corporation (FDIC). FED interest rates: Investing
*The values for loans and deposits reflect their year-over-year growth rates
**Provisions are expressed in millions of US dollars. Variations are expressed as a percentage and represent the year-on-year growth in provisions.
***CET 1 ratio measured as fully-loaded and Leverage ratio as fully phased-in definition of Tier 1.

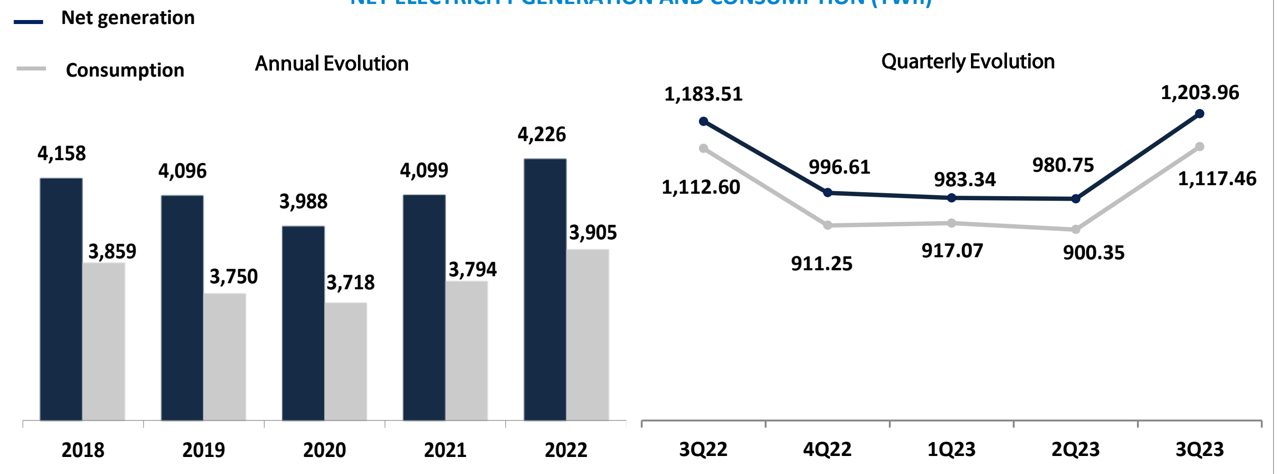
- In 3Q23, year-over-year total loans growth rate decreased by 1.62 p.p. compared to the previous quarter, and decreased by 7.39 p.p. in comparison to 3Q22. YOY total deposits growth rate decreased by 5.15 p.p. if compared to the same quarter of last year. Moreover, the FDIC indicates that the volume of deposits decreased for the sixth consecutive quarter, since March 2022 until September 2023, both in national and foreign offices.
- The LTD ratio rose in comparison to the previous quarter by 0.54 p.p. and by 4.35 p.p. in comparison to 3Q22.
- The efficiency ratio for 3Q23 was 55.52%, which represents a worsening of 0.48 p.p. from the previous quarter, whereas it improved 3.65 p.p. from the same quarter of the previous year.
- Non-performing loans increased during 3Q23 by a 0.06 p.p. change compared to 2Q23, reaching 0.82% and increased 0.10 p.p. if compared to 3Q22.
- CET1 increased 0.10 p.p. compared to 3Q22, bringing the rate to 16.05%. The leverage ratio increased 0.49 p.p. compared to 3Q22, increasing to a total of 11.32% during the third quarter of 2023. The average LCR worsened by 81.01 p.p. YOY, decreasing to 121.81%.
- Interest rates of the Federal Reserve continued to rise and amounted to 5.50% in 3Q23, an increase of 0.25 p.p. from 2Q23 levels. The Fed committee said it will consider the cumulative tightening of monetary policy, however, this comes with delays in which monetary policy affects inflation and economic and financial developments when deciding on new rate hikes, which has reached 2.25 p.p. in the cumulative YOY.

4. Energy sector

The EIA predicts an increase in US liquid fuel consumption for 2023 and 2024 driven by non-economic factors. Specifically, consumption growth in 2023 is led by gasoline and jet fuel, rebounding from pandemic-induced declines. During 3Q23, oil consumption decreased to 1,873.94 million barrels, a 0.50% decline from 3Q22.

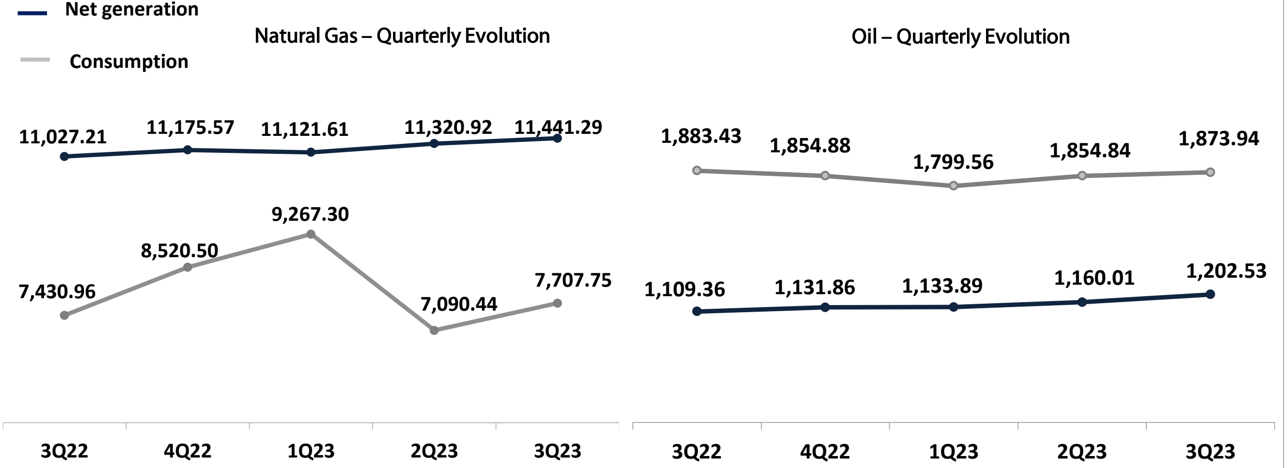
- During 3Q23, net electricity generation was 1,203.96 TWh. On a year-over-year basis, production increased by 1.73% compared to 3Q22. Electricity consumption was 1,117.46 TWh during 3Q23, with an increase of 0.44% compared to 3Q22 and a 24.11% increase compared 2Q23.
- The domestic natural gas production had a year-over-year increase of 3.76%. Moreover, natural gas consumption experienced a year-over-year increase of 3.72%, bringing the total consumption levels to 7,707.75 billion cubic feet, which was also 8.71% higher than in the previous quarter.
- Oil consumption continues to exceed production levels; however, its production experienced a year-over-year growth of 8.40%, while the oil consumption decreased by 0.50%.

NET ELECTRICITY GENERATION AND CONSUMPTION (TWh)



Source: Energy Information Administration (EIA). Consumption data corresponds to retail sales to ultimate customers of electricity.

NATURAL GAS AND OIL PRODUCTION AND CONSUMPTION (Billion cubic feet and million barrels)



Source: Energy Information Administration (EIA).

5. Glossary

- **BUSINESS VOLUME:** The business volume is the set of activities that generate income for a bank, formed by financing (loans) plus customer resources (deposits).
- **CET 1:** Common Equity Tier 1 capital is the highest quality of regulatory capital, as it absorbs losses immediately when they occur.
- **COVERAGE RATIO:** It is a ratio that informs us about the protection that financial entities have against the unpaid loans of their clients. It is represented as the total provisions that the entity has over the total doubtful loans.
- **CPI:** The consumer price index is an indicator that measures the variation of prices of a basket of goods and services in a specific location during a certain period of time.
- **EFFICIENCY RATIO:** It is a ratio that measures the productivity of an entity. It is the result of the quotient between operating expenses and gross margin. In other words, it relates the income obtained with the expenses necessary for its achievement. As a conclusion, an entity will be more efficient the lower its efficiency ratio.
- **GDP:** Gross Domestic Product (GDP) is an economic indicator that reflects the monetary value of all final goods and services produced by a territory in a certain period of time. It is used to measure the wealth generated by a country.
- **GM/ATAs:** Gross Margin / Average Total Assets. Gross margin is composed of the set of revenues generated by a financial entity in its activity.
- **LEVERAGE RATIO:** The Tier 1 leverage ratio measures a bank's core capital relative to its total assets. The numerator consists of the most stable and liquid capital, as well as the most effective at absorbing losses during a financial crisis or recession. The denominator is a bank's total exposures, which include its consolidated assets, derivative exposures and certain off-balance sheet exposures.
- **LCR (Liquidity Coverage Ratio):** this ratio measures a bank’s liquidity. It is calculated as the institution total liquid assets divided by its short-term obligations.
- **LTD RATIO:** The loan-to-deposit ratio (LDR) is used to evaluate a bank's liquidity by comparing the total loans of a bank with the total deposits during the same period.
- **NON-PERFORMING LOANS (NPL) RATIO:** The non-performing loan (NPL) ratio is an indicator used to measure the volume of operations that have been considered non-performing, in relation to the volume of loans and credits granted by said entity.
- **OE/ATAs:** Operating Expenses / Average Total Assets. Operating expenses are those that an entity incurs during the exercise of its activity.
- **OECD:** Organization for Economic Cooperation and Development.
- **p.p.**: percentage points.
- **ROA:** An indicator that measures the profitability of a company in relation to its total assets. It indicates the return that is being obtained for its assets. It is calculated as the quotient between profit and total assets. The profit used is that obtained before taxes and interests.
- **ROE:** Financial profitability is also known as return on equity, which relates the net profits obtained in a given investment operation with the own resources.

6. Appendix

MACROECONOMIC OVERVIEW

- Bureau of Labor Statistics (BLS): http://www.bls.gov
- Bureau of Economic Analysis (BEA): http://www.bea.gov
- Federal Deposit Insurance Corporation (FDIC): https://www.fdic.gov/
- Federal Reserve USA: http://www.federalreserve.gov/
- Organisation for Economic Co-operation and Development, (OECD): http://www.oecd.org/home/
- US Department of Treasury https://home.treasury.gov/

FINANCIAL SECTOR

- Federal Deposit Insurance Corporation: http://www.fdic.com

ENERGY SECTOR

- Energy Information Administration (EIA): https://www.eia.gov/

ACRONYMS

- DEU - Germany
- BEL - Belgium
- DIN - Denmark
- ESP - Spain
- FIN - Finland
- FRA - France
- ITA – Italy
- LUX - Luxembourg
- NLD - Netherlands
- NOR - Norway
- POL - Poland
- PRT - Portugal
- GBR- United Kingdom
- SUE – Sweden
- TUR - Turkey
- ARG - Argentina
- BRA - Brazil
- CAN – Canada
- CHL - Chile
- COL - Colombia
- CRI - Costa Rica
- ECU - Ecuador
- MEX - Mexico
- PER - Peru
- USA- United States
- AUS - Australia
- CHN - China
- JAP – Japan
- ZAF - South Africa
- UEM- European Monetary Union

Our goal is to exceed client expectations, becoming their trusted partners

Management Solutions is an international consulting services firm focused on business, risk, finance, organization and process consulting, both in their functional components and in the implementation of related technologies.

With a multidisciplinary team (functional, mathematical, technical, etc.) of more than 3,600 professionals, Management Solutions operates through 45 offices (20 in Europe, 21 in America, 2 in Asia, 1 in Africa, 1 in Oceania).

To meet these requirements, Management Solutions structures its activities by industry (Financial Institutions, Energy, Telecommunications, Consumer Products and Industry, Government and Construction), grouping together a wide range of areas of specialization, including Strategy, Sales and Marketing Management, Organization and Processes, Risk Management and Control, Management and Financial Reporting and New Technologies.

Patricia Pajuelo Gaviro
Partner at Management Solutions
patricia.pajuelo@msnorthamerica.com

Manuel Ángel Guzmán Caba
Partner at Management Solutions
manuel.guzman@managementsolutions.com

Management Solutions
Tel. +(1) 212 626 6640
Fax. +(1) 212 626 6641
www.msnorthamerica.com

Management Solutions, Professional Consulting Services

Management Solutions is an international consulting firm whose core mission is to deliver business, risk, financial, organisation, technology and process-related advisory services.

For further information please visit **www.managementsolutions.com**

Follow us at:

Madrid Barcelona Bilbao Coruña Málaga London Frankfurt Düsseldorf Paris Amsterdam Copenhagen Oslo Stockholm Warszawa Wrocław Zürich Milano Roma Bologna Lisboa Beijing İstanbul Johannesburg Sydney Toronto New York New Jersey Boston Pittsburgh Atlanta Birmingham Houston SJ de Puerto Rico San José Ciudad de México Monterrey Querétaro Medellín Bogotá Quito São Paulo Rio de Janeiro Lima Santiago de Chile Buenos Aires

www.managementsolutions.com