

USA outlook report

Second quarter of 2023



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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.

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1. International overview

In 2Q23, the global economy slowed down because of persistent inflation - especially core inflation - and the resulting tightening of monetary policy by major central banks. Growth is expected to be subdued in 2023 and inflation to reach target levels by the end of 2025.

Macroeconomic outlook

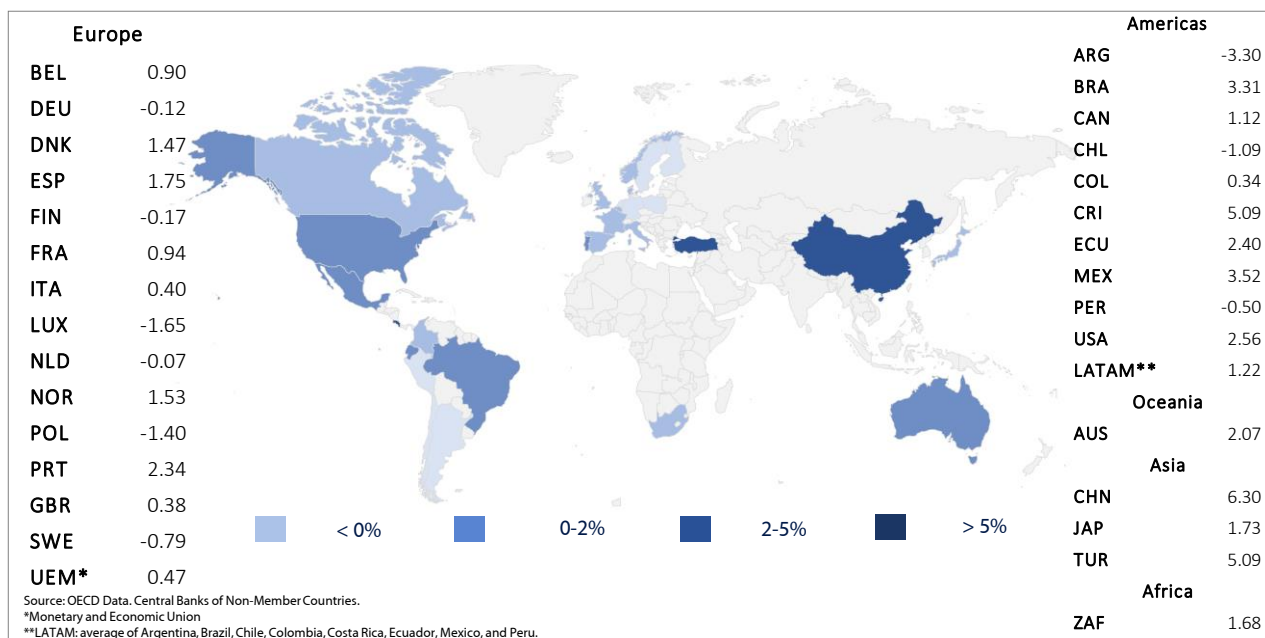
- ▶ During 2Q23, the euro zone registered growth of 0.47%, compared to 1.30% in 1Q23, consolidating the economic stagnation of the area. Of note is the case of Germany, which recorded a decline for the second consecutive quarter and high inflation. The euro zone's average CPI fell to 6.20%, almost 2 p.p. less than in 1Q23 (8.01%), although concerns remain about the persistence of core inflation, while the average unemployment rate declined slightly to 6.4%.
- ▶ Of note in the Americas was the slowdown in the Latam¹ region compared to the previous quarter (1.22% vs. 2.12%), with countries with negative growth rates such as Argentina, Chile and Peru. In contrast, the US continued to stand out, consolidating its growth with a rate of 2.56% (1.62% in 1Q23). Inflation in the US fell to 3.97%, while the Latam¹ average was 20.31% (excluding Argentina (113%), the average was 7.07%). On the continent, unemployment rates were generally stable compared to the previous quarter's reference values.
- ▶ In the Asian region, the reopening of China after the removal of Covid-19 restrictions strengthened economic growth in the region. The growth rate in China was 6.30% (4.50% in 1Q23) and 1.73% in Japan (1.79% in 1Q23).
- ▶ Australia recorded growth of 2.07% (2.27% in 1Q23), continuing its economic slowdown, with a relatively stable unemployment rate of around 3.6% and falling but still high inflation, which closed the second quarter of the year at 6.03%.
- ▶ South Africa, on the other hand, recovered from the decline in its growth rate to 1.68% (compared to 0.18% in the previous quarter), with inflation down at 6.45% and unemployment high at almost 35%.
- ▶ The IMF expects global growth to slow from the recorded 3.5% in 2022 to the 3.0% estimated by the organisation for both 2023 and 2024, in the face of the economic drag from central banks continuing to raise policy rates to combat inflation. Global inflation is projected to fall from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024, while core inflation is expected to decline more gradually. Inflation is expected to reach target levels by the end of 2025.
- ▶ ECLAC expects the region's economies to maintain low levels of growth this year and next, affected by a negative global and very complex regional economic outlook, estimating regional average GDP growth of 1.7% in 2023, while for 2024 it projects a slight decline to 1.5%. By sub-region, South America is estimated to grow by 1.2%, Central America and Mexico by 3%.

Other indicators and main risks

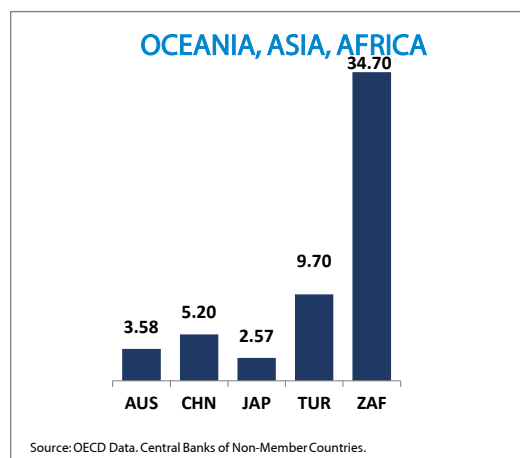
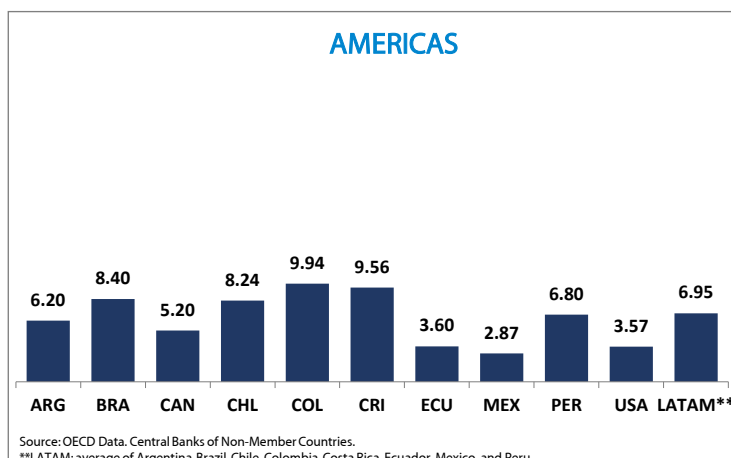
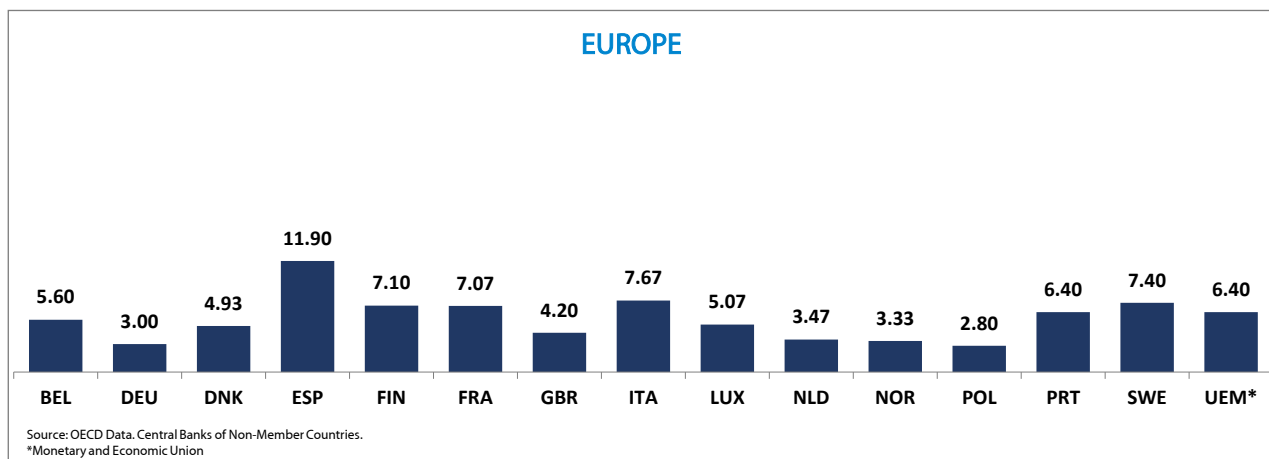
- ▶ The euro consolidated its recovery against the dollar from its decline in 2022. The dollar has become less attractive against the euro because of the interest rate hike cycle of both central banks, the outlook for economic recovery in both regions (expected to be slower in the US) and the government's plan to reduce the US fiscal deficit by raising taxes.
- ▶ The main Latin American currencies also strengthened against the dollar, except for the Argentine peso, whose exchange rate rose from 1Q23 to 239.33 pesos per dollar, a consequence of the region's runaway inflation.
- ▶ The IMF warns that global debt reached 238% of world GDP (+9 p.p. since 2019) and urges governments to take urgent action to reduce long-term debt vulnerabilities and offers specific recommendations for public and private sector debt.

¹ The average for Latam countries is composed from macroeconomic data for the countries of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru.

GDP (% , year-on-year growth)

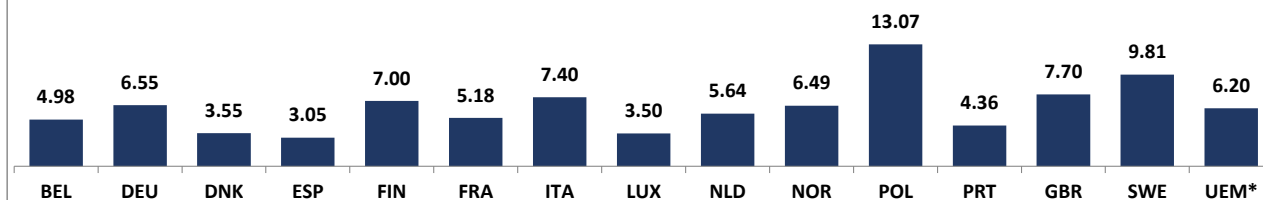


Unemployment rate (%)



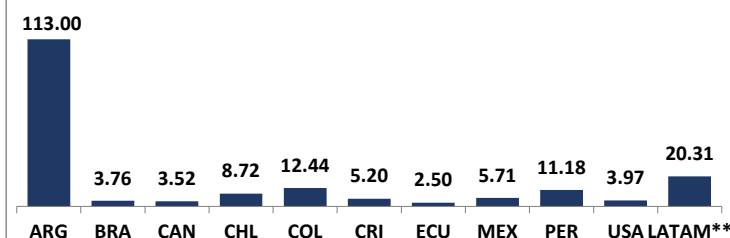
Inflation rate (%)

EUROPE



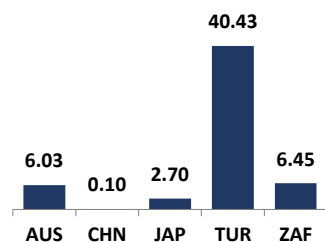
Source: OECD Data, Central Banks of Non-Member Countries.
*Monetary and Economic Union

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 2Q23

	MOODY'S	S&P	Fitch
EUROPE			
DEU	Aaa	AAA	AAA
BEL	Aa3	AA	AA-
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	Baa2	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	B2	B+	BB-
ECU	Caa3	B-	B-
MEX	Baa2	BBB	BBB-
PER	Baa1	BBB	BBB
USA	Aaa	AA+	AAA

▲ Increased from 1Q23 ▼ Decreased from 1Q23

Source: Investing.

EXCHANGE RATES 2Q23 (\$*)

EUROPE	2Q22	3Q22	4Q22	1Q23	2Q23	2023
EUR	0.94	1.00	0.97	0.93	0.92	0.92
DKK	7.10	7.59	6.95	6.91	6.85	6.86
NOK	9.85	10.91	9.80	10.27	10.81	10.56
SEK	10.24	11.09	10.45	0.10	10.63	10.35
GBP	1.22	1.12	1.21	0.82	0.80	0.81
PLN	4.48	4.96	4.38	4.36	4.15	4.23
AMERICAS						
ARG	117.95	135.79	176.71	197.70	239.22	219.09
BRL	5.23	5.41	5.29	5.10	4.94	5.00
CLP	928.98	965.90	849.41	805.80	805.20	796.01
COP	4,161.04	4,597.52	4,849.39	4,725.30	4,438.83	4,611.09
PER	3.79	3.99	3.80	3.79	3.66	3.71
MXN	20.13	20.10	19.50	18.38	17.59	17.88
AFRICA						
ZAR	16.27	18.15	17.00	17.76	18.94	18.82
OCEANIA						
AUS	1.45	1.56	1.47	1.47	1.51	1.49
ASIA						
RMB	6.70	7.11	6.90	6.85	7.09	6.93
TRY	16.33	18.21	18.62	18.94	22.09	19.40

Source: Investing, OECD projections, June 2023.

*The base currency used is the US dollar against each local currency quoted.

2. Macroeconomic view

The US economy performed better than expected, despite a sluggish start to business investment. Private spending held up and inflation continued to fall. The debt ceiling crisis was resolved in June with minimal impact. Public spending restraint could reduce GDP in the coming cycles.

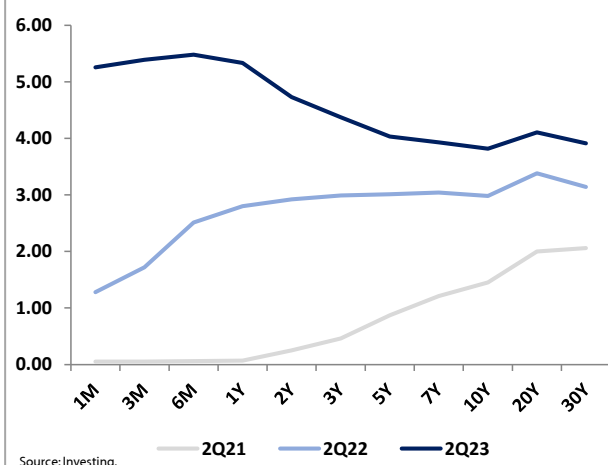
Main Macroeconomic Indicators (%)

ACTIVITY	2Q22	3Q22	4Q22	1Q23	2Q23	Var. p.p.1Q23	Var. p.p.2Q22	2023	2024
GDP	1.80	1.94	0.88	1.62	2.56	0.95	0.76	1.56	0.96
DOMESTIC DEMAND	1.83	1.82	1.55	2.32	2.39	0.07	0.57	1.03	0.89
HOUSEHOLD CONSUMPTION	2.37	2.19	1.67	2.25	2.27	0.01	-0.10	2.24	1.04
PUBLIC CONSUMPTION	-0.73	0.02	0.97	2.63	3.01	0.37	3.74	2.34	0.35
CAPITAL FORMATION	5.38	1.36	-3.18	-6.58	-1.59	4.99	-6.97	-1.28	0.77
EXTERNAL DEMAND									
EXPORTS	7.33	11.34	4.62	7.11	1.49	-5.62	-5.84	3.95	3.58
IMPORTS	11.23	7.39	1.46	-2.03	-4.75	-2.72	-15.98	-0.16	2.56
INFLATION									
CPI	8.64	8.33	7.10	5.80	3.97	-1.84	-4.66	4.22	2.58
LABOUR MARKET									
UNEMPLOYMENT RATE	3.62	3.53	3.70	3.87	3.57	-0.30	-0.05	3.70	4.37
EMPLOYMENT*	4.40	3.47	2.22	1.76	1.77	0.02	-2.63	1.29	-0.44

*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 June 2023.

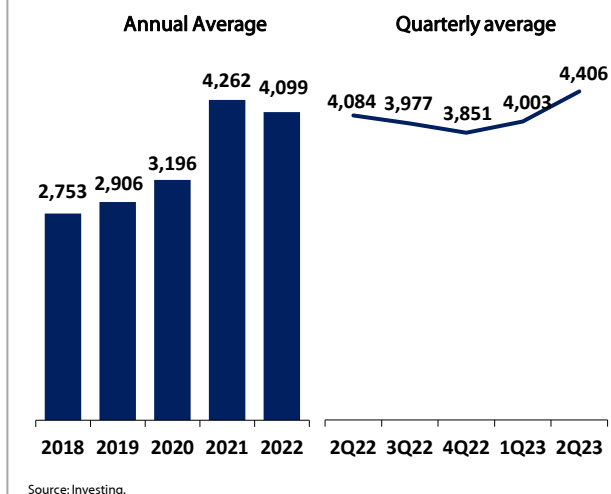
- ▶ This quarter's favorable 2.56% GDP growth can be attributed to domestic demand increases (2.39%) and external demand decline (imports, -4.75%). Public consumption rose over 3% and household consumption maintained its positive pattern. The labor market remains relatively healthy, with an unemployment rate of 3.57%.
- ▶ Inflation continued to trend lower as it dips below 4% in 2Q23 helped by falling energy prices and the tightened monetary policy. Inflation level in the core services is persistent and the overall level is still far from the Fed's targeted 2% level.
- ▶ Federal Reserve interest rate efforts continued with new interest increases in the March and May Federal Open Market Committee (FOMC) meetings. The market still expects moderate rises in the coming months.
- ▶ The yield curve will continue to see an inversion for the foreseeable future. The S&P 500 has experienced a strong turnaround year after poor performance in 2022. This may result in the index outperforming the projections from earlier this year.

Treasury Yield Curves Rates (%)



Source: Investing.

S&P 500



Source: Investing.

3. Banking sector

In 2Q23, FDIC stated that crucial metrics within the banking industry showed positive trends. Despite high net income and stable asset quality metrics, banks faced challenges such as, tightening net interest margins and funding pressures for two consecutive quarters. However, the industry maintained strong capitalization levels as reported by the FDIC.

BANKING SECTOR CONTEXT 2Q23 (%)							
BUSINESS	2Q22	3Q22	4Q22	1Q23	2Q23	Var. p.p. 1Q23	Var. p.p. 2Q22
TOTAL LOANS*	8.72	10.06	15.73	7.41	4.29	-3.12	-4.43
TOTAL DEPOSITS*	4.44	-5.13	-2.47	-5.97	-4.70	1.27	-9.14
LTD RATIO	59.26	64.98	62.62	64.08	64.84	0.77	5.59
EFFICIENCY							
EFFICIENCY RATIO	59.34	59.17	58.19	54.00	55.04	1.04	-4.30
RISK							
PROVISIONS**	16,287,318	30,941,282	51,571,393	20,731,614	42,184,004	103.48	159.00
NPL RATIO	0.75	0.72	0.73	0.75	0.76	0.01	0.01
SOLVENCY***							
CET 1	16.86	15.95	15.85	16.05	15.99	-0.06	-0.87
LEVERAGE RATIO	10.53	10.83	10.96	11.06	11.19	0.13	0.66
LCR	219.63	202.83	180.84	160.87	132.92	-27.95	-86.71
FED INTEREST RATES							
INTEREST RATES	1.75	3.25	4.50	5.00	5.25	0.25	3.50

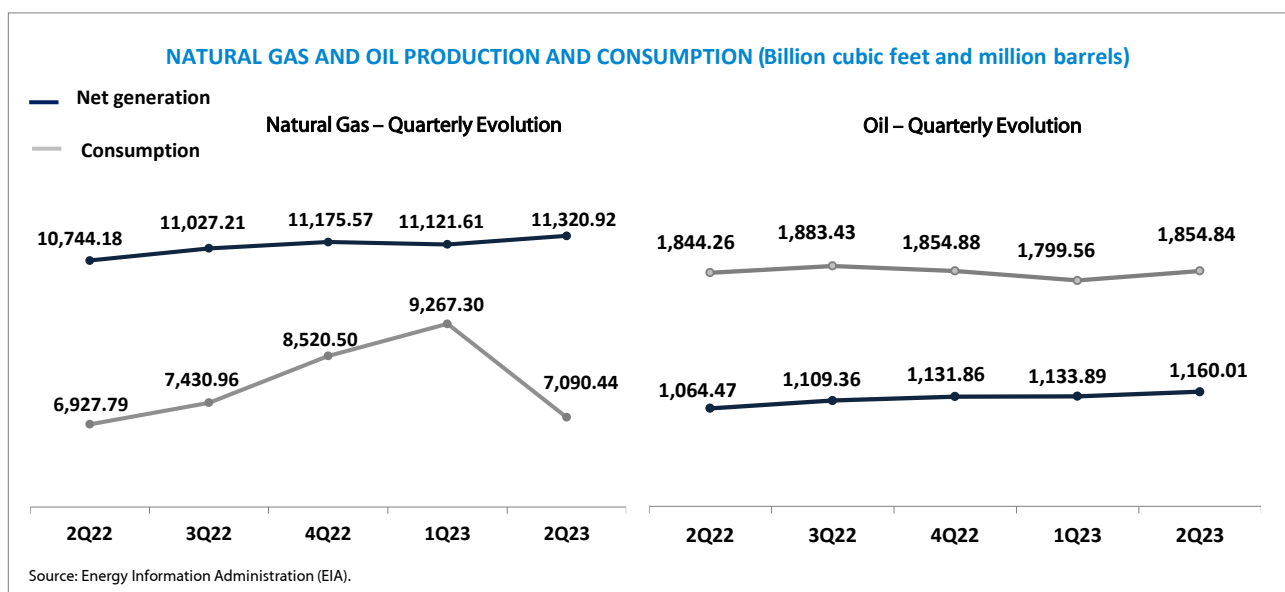
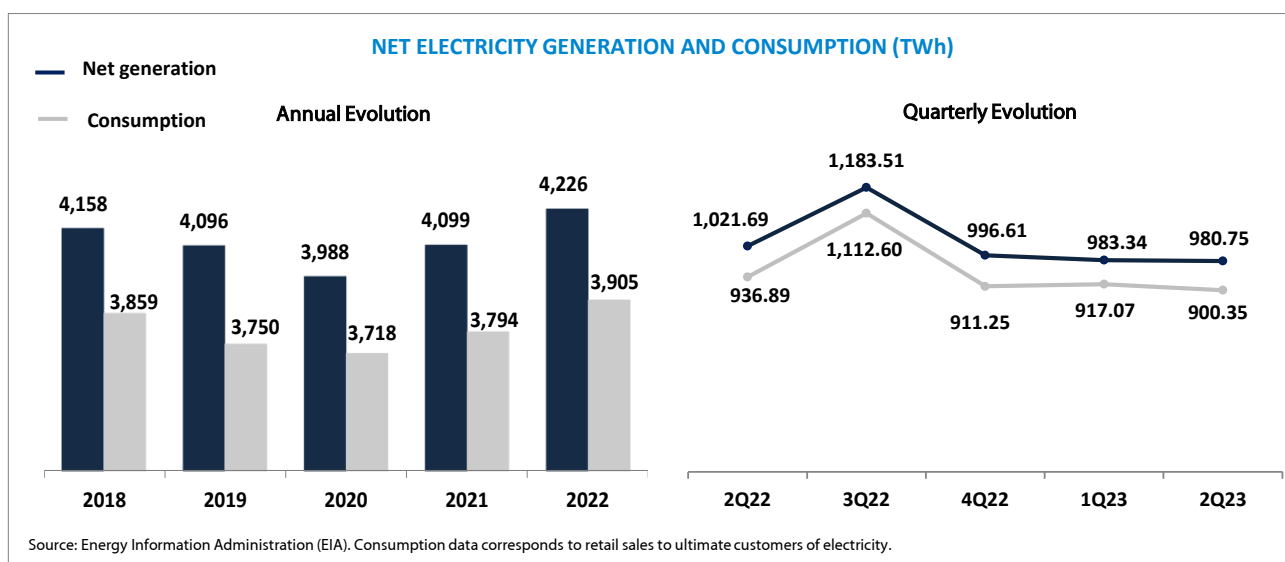
Sources: Federal Deposit Insurance Corporation (FDIC). FED interest rates: Investing
 *The values for loans and deposits reflect their year-over-year growth rates
 **Provisions are expressed in millions of US dollars. Variations are expressed as a percentage and represent the year-on-year growth in provisions.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

- ▶ In 2Q23, YOY total loans growth rate decreased by 3.12 p.p. compared to the previous quarter, and decreased by 4.43 p.p. in comparison to 2Q22. YOY total deposits growth rate increased by 1.27 p.p. compared to 1Q23 and decreased by 9.14 p.p. if compared to the same quarter of last year. FDIC indicates that, although total deposits decreased for the fourth consecutive quarter, deposit outflows moderated significantly compared to the large outflows reported last quarter when the industry experienced significant stress and two regional banks failed.
- ▶ The LTD ratio rose in comparison to the previous quarter by 0.77 p.p. and by 5.59 p.p. in comparison to 2Q22.
- ▶ The efficiency ratio for 2Q23 was 55.04%, which is an increase of 1.04 p.p. from the previous quarter, whereas it has improved 4.30 p.p. from the same quarter of the previous year.
- ▶ Non-performing loans stayed relatively the same during 2Q23 with only a 0.01 p.p. change compared to 2Q22, reaching 0.76%.
- ▶ CET1 decreased 0.87 p.p. compared to 2Q22, bringing the rate to 15.99%. The leverage ratio increased 0.66 p.p. compared to 2Q22, increasing to a total of 11.19% during the second quarter of 2023.
- ▶ Interest rates of the Federal Reserve continued to rise and amounted to 5.25% in 2Q23, an increase of 0.25 p.p. from 1Q23 levels. The Fed committee said it will consider the cumulative tightening of monetary policy, the delays with which monetary policy affects economic activity and inflation, and economic and financial developments when deciding on further rate hikes, which has reached 3.50 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 2Q23, oil consumption reached 1,854.84 million barrels, a 0.57% increase from the same quarter last year.

- ▶ During 2Q23, net electricity generation was 980.75 TWh. On a year-over-year basis, production lowered by 4.01% compared to the same quarter. Electricity consumption was 900.35 TWh during 2Q23, with a decrease of 3.90% compared to 2Q22 and a 1.82% decrease compared 1Q23.
- ▶ The domestic natural gas production had a year-over-year increase of 5.37%. Moreover, natural gas consumption experienced a year-over-year increase of 2.35%, bringing the total consumption levels to 7,090.44 billion cubic feet, which is however 23.49% lower than in previous quarter.
- ▶ Oil consumption continues to exceed production levels; however, its production experienced a year-over-year growth of 8.97%, while the year-over-year growth of oil consumption reaches only 0.57%.



5. Glossary of terms

- ▶ **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>
- ▶ Federal Reserve USA:
<http://www.federalreserve.gov/>

ENERGY SECTOR

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

ACRONYMS

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



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