

Centre for the New Economy and Society

Chief Economists Outlook

January 2023

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January 2023

This briefing builds on the latest policy development research as well as consultations and surveys with leading chief economists from both the public and private sectors, organized by the World Economic Forum's Centre for the New Economy and Society.

It aims to summarize the emerging contours of the current economic environment and identify priorities for further action by policy-makers and business leaders in response to the compounding shocks to the global economy from geo-economic and geopolitical events.

The survey featured in this briefing was conducted November-December 2022.

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Executive summary

The January 2023 Chief Economists Outlook comes out amid continuing economic uncertainty and policy challenges of historic proportions. Although there are some grounds for optimism, such as easing inflationary pressures, many aspects of the outlook remain gloomy. Policy-makers continue to confront an array of difficult trade-offs, while households and businesses will need to adapt to persistent headwinds throughout 2023.

Almost two-thirds of respondents consider a global recession to be likely in 2023, including 18% who consider it extremely likely, more than twice as many as in the previous survey in September 2022. However, views are divergent, with a third of respondents considering a global recession to be unlikely this year. Regionally, the situation in Europe and the US is now stark, with 100% of chief economists expecting weak or very weak growth for 2023 in the former and 91% in the latter. Respondents were evenly split over whether labour markets will remain as tight over the coming year given the tepid growth prospects.

War and international tensions continue to shape global economic developments, and every respondent viewed it as likely (73% somewhat, 27% extremely) that patterns of economic activity will continue to shift around the world in line with new geopolitical fissures and faultlines.

Chief economists expect significant regional variation in the inflation outlook for 2023. Although no regions are slated for very high inflation, expectations of high inflation range from 57% of respondents for Europe to just 5% of respondents for China. Following a year of sharp and coordinated central bank tightening, the chief economists surveyed expect the monetary policy stance to remain constant in most of the world this year. However, a majority of respondents expect further tightening in Europe and the US (59% and 55%, respectively).

At the start of 2023, concerns about the cost of living remain acute in many countries. Yet, survey respondents indicate that the cost of living crisis may be close to its peak, with a majority (68%) expecting the crisis to have become less severe by the end of 2023. A similar trend is evident in the energy crisis, with almost two-thirds of respondents optimistic that conditions will have begun to improve by the end of the year.

Around nine out of ten respondents expect both weak demand and high borrowing costs to exert a significant drag on business activity in 2023, with more than 60% also expecting higher input costs to be a significant factor. In response to these challenges, most chief economists expect multinational businesses to cut costs this year, with 86% of respondents saying

they expect businesses to cut operational expenses and 78% expecting workers to be laid off. More than three-quarters (77%) of respondents also expect businesses to optimize their supply chains.

The survey also asked chief economists to highlight any sources of optimism in the current global economic context. Three factors were mentioned repeatedly: the

strength of household balance sheets, the peaking of inflation and the resilience of labour markets. Respondents also highlighted the prospects of a rebound in China following the shift away from zero-COVID policies, as well as economic opportunities in the energy transition, relative resilience in some emerging markets and continued workplace flexibility for knowledge workers.

1. The year ahead

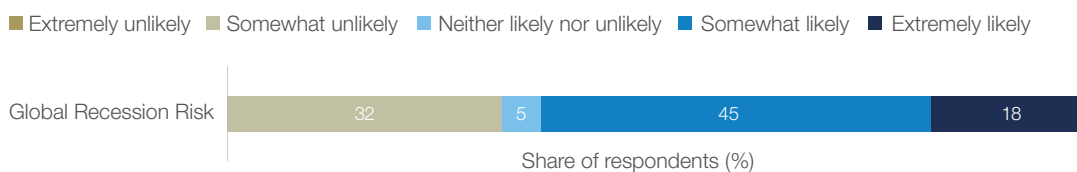
Global recession risk looms

The outlook for the global economy is gloomy, according to the results of the latest survey of chief economists. Global growth prospects remain anaemic, and global recession risk high. Despite some positive signals in the final months of 2022 – an easing of inflationary pressures, a modest uptick in consumer sentiment and stabilization of commodity prices – almost one in five respondents now consider a global recession to be extremely likely in 2023, more than twice as many as in the previous survey in

September 2022. However, 32% also expect a global recession to be extremely unlikely or somewhat unlikely, more than twice as many as in September. This polarized outlook reflects a weakening of growth expectations across most but not all regions and significant continued uncertainty about the effectiveness and duration of tightening policy measures. The International Monetary Fund (IMF) expects around a third of the global economy to enter a recession in 2023, and it has further trimmed its forecast of global gross domestic product (GDP) for the year to 2.7%.¹

Figure 1. Global recession outlook

How likely is a global recession in 2023?



Note: The numbers in the graphs may not add up to 100% because figures have been rounded up/down.

Source: Chief Economists Survey, December 2022

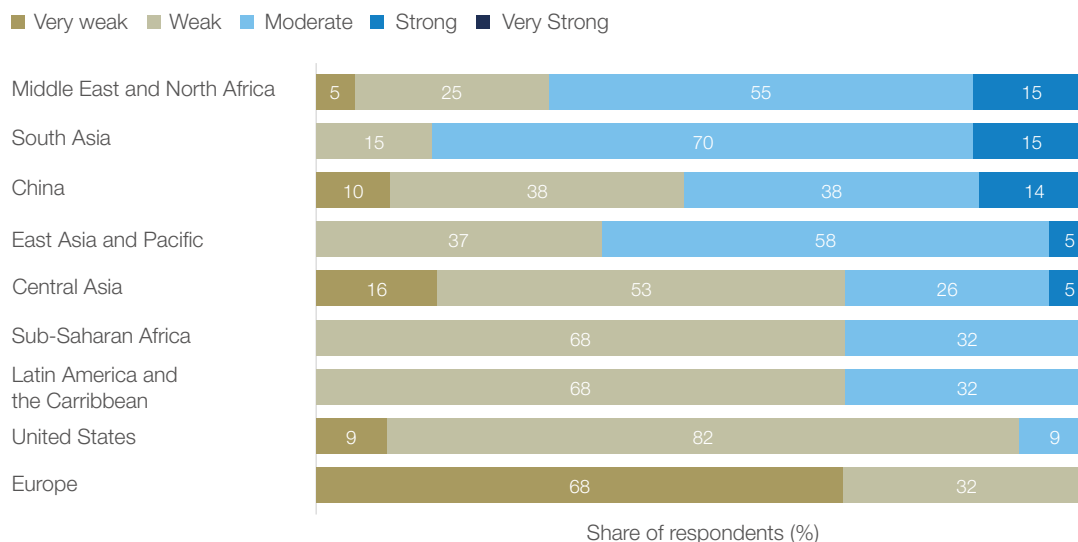
The survey also highlighted significant regional divergence in growth expectations (Figure 2) within a general pattern of weakened expectations relative to the last survey. The situation in Europe and the US is now stark, with 100% of chief economists expecting weak or very weak growth this

year in the former and 91% expecting weak or very weak growth in the latter. This marks a significant deterioration in recent months: at the time of the last survey, the corresponding figures were 86% for Europe and 64% for the US.

¹ IMF, October 2022a.

Figure 2. Economic growth

What is your expectation for economic growth in the following geographies in 2023?



Source: Chief Economists Survey, December 2022

For Europe, this is likely to reflect the deepening impact of the ongoing war in Ukraine as well as the effects of sharp increases in interest rates. The combination of high energy prices, elevated borrowing costs and sluggish demand has even led to instances of industrial capacity being left idle. With about half of the EU steel plants at a standstill as of November 2022 and fertilizer production capacity reduced by 70%, the European industrial sector is facing a challenging year ahead.² The extent of the deterioration in the European outlook is also reflected in the latest round of IMF forecasts: while global growth for 2023 was trimmed by 0.2 percentage points, the forecast for the Eurozone slumped from 1.2% to 0.5%. In the US, the pace and extent of monetary tightening will exert a significant drag on economic activity this year.

The survey results for the 2023 outlook in China are polarized, with almost half

of respondents now expecting weak or very weak growth in China, with the other half expecting moderate or even strong growth. Recent moves to unwind the country's highly restrictive zero-COVID policy are expected to deliver a boost to growth. However, it remains to be seen how disruptive the policy shift will be, particularly in terms of the health impacts of COVID-19's expected rapid spread through the population. A number of additional factors are likely to weigh on China's growth in 2023, such as weak consumer confidence, missing the 5% growth target for 2022 and continued strain in financial markets and the real-estate sector.³

The two strongest regions in 2023 according to the survey are the Middle East and North Africa (MENA) and South Asia. In South Asia, 85% of respondents expect moderate (70%) or strong (15%) growth, a modest improvement since the September edition.

² Mati and Rehman, August 2022 and IMF, September 2022.

Some economies in the region, including Bangladesh and India, may benefit from global trends such as a diversification of manufacturing supply chains away from China.⁴ In MENA, two-thirds of respondents (70%) expect moderate or strong growth in 2023. While this overall proportion has slightly dipped since the September edition, expectations of strong growth have increased from 12% to 15%. Energy exporters in the region continue to benefit from tight commodity markets, but oil prices have fallen by almost 25% since June 2022⁵, and these countries will be vulnerable to the impacts of any slowdown in global growth in 2023.

In the East Asia and Pacific region, 37% of chief economists expect weak growth in 2023, and 63% expect moderate or strong growth, similar to September. However, that broad pattern masks a shift in expectations from strong to moderate growth since the last survey. During that period, the region has seen negative terms-of-trade developments, as well as policy tightening moves that placed increased pressure on households and businesses.⁶

Challenging global financial conditions are also weighing on the economic outlook for Latin America and the Caribbean, and for Sub-Saharan Africa. For both regions, 68% of respondents expect weak growth in 2023. This is a slight improvement for Sub-Saharan African but points to a worsening of conditions for Latin America and the Caribbean.

Inflation moderates, but slowly

Inflation over the last year was stubbornly high and broad-based, but a number of modestly encouraging data releases in the final quarter of 2022 provide some room for optimism over the medium-term inflation outlook in 2023. A range of factors have contributed to a slight easing of the rate of inflation, including rapid and synchronized monetary tightening, stabilization of supply conditions and commodity prices, and an easing of demand pressures. The latest IMF forecast is that global inflation will dip to 6.5% this year from 8.8% in 2022.⁷

3 IMF, October 2022a.

4 Economist Intelligence Unit, December 2022b.

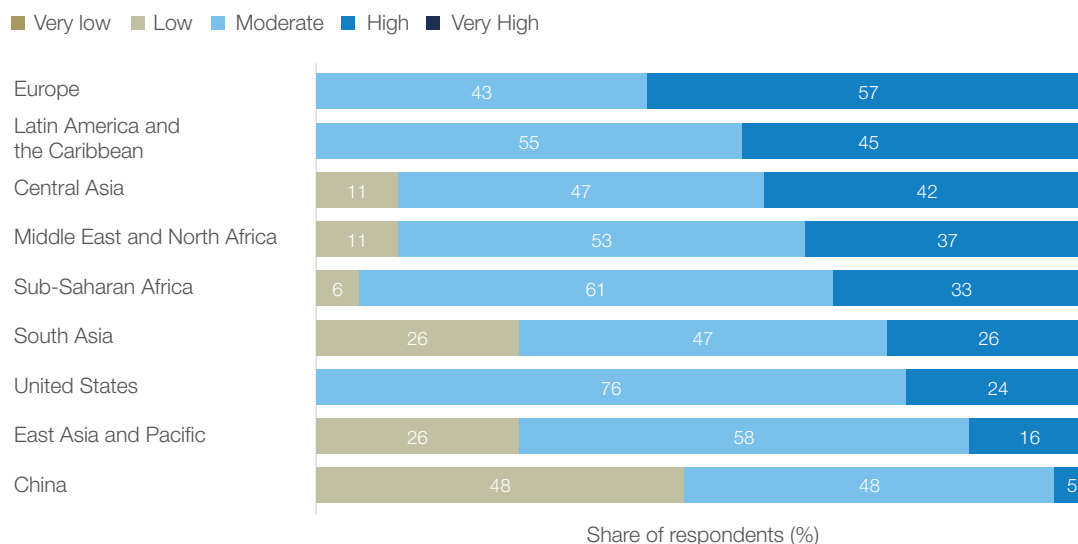
5 Based on World Bank Monthly Commodity prices, November 2022.

6 IMF, October 2022a.

7 Ibid.

Figure 3. Inflation

What is your expectation for inflation in the following geographies in 2023?



Source: Chief Economists Survey, December 2022

According to the latest survey, chief economists see significant regional variation in the inflation outlook for 2023. Although no regions are slated for very high inflation, expectations of high inflation range from 57% of respondents for Europe to just 5% of respondents for China. The direction of changes in responses since the last edition differs from region to region. For example, the proportion of respondents expecting high inflation in Europe has increased from 47% to 57% since September, while for the US, it has declined sharply from 43% to 24%.

The expectation is for moderate inflation throughout 2023 in several regions: Sub-Saharan Africa (61%), East Asia and Pacific (58%), MENA region (53%) and South Asia (47%). By contrast, in Latin America and the Caribbean and Central Asia, relatively high

shares of respondents expect high inflation (45% and 42%, respectively). This is likely to reflect a combination of supply chain disruptions from the war in Ukraine as well as the continuing impact of spikes in food and fuel prices during 2022.⁸

China is an outlier in the other direction, with almost half of respondents (48%) expecting low inflation (up from 28% in September). As noted above, however, the short-term outlook for the Chinese economy is clouded by uncertainty surrounding the speed of the country's removal of pandemic restrictions. If a full re-opening leads to a sharp recovery in economic activity, it would be likely to push Chinese prices significantly higher than previously seemed likely, as well as adding new impetus to global inflationary pressures.⁹

⁸ IMF, September 2022.

⁹ Goldman Sachs, November 2022; Curran, December 2022.

Policy-makers face trade-offs

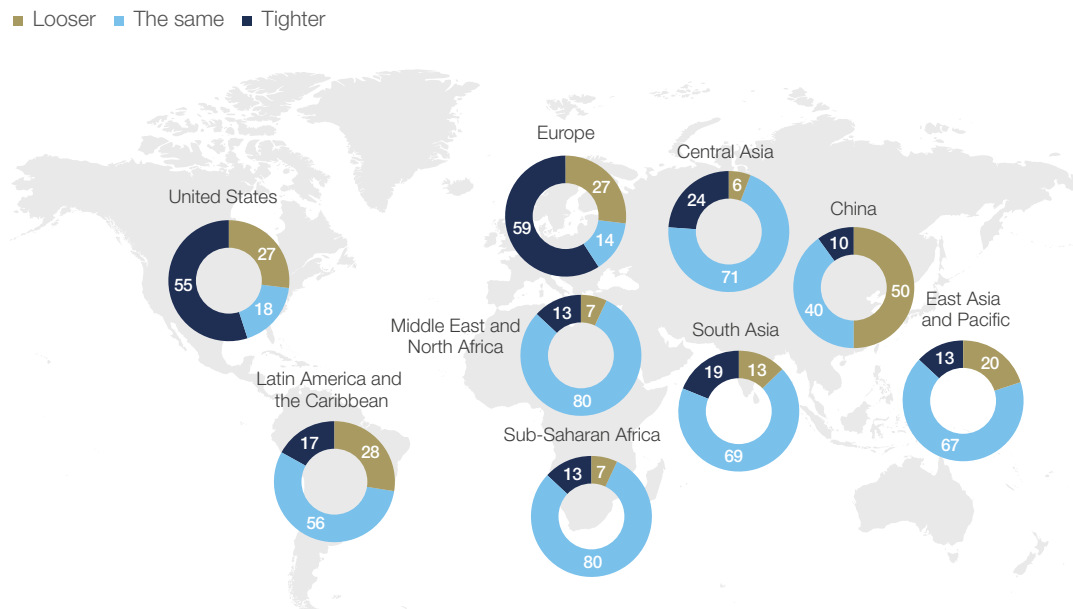
The global backdrop of weak growth and persistently high (albeit moderating) inflation presents policy-makers with challenges of historic proportions at the start of 2023. Chief among these will be the need to bring inflation much closer to the 2% target without choking off growth, but the challenges run deeper. Accumulated societal strains from the last years as well as climate mitigation and adaptation present pressing investment needs in numerous countries.

In the immediate term, central banks are the key economic decision-makers.

Following a year of sharp and coordinated tightening, the chief economists surveyed expect the monetary policy stance to remain constant in most of the world this year (see Figure 4). In Europe and the US, a majority of respondents (59% and 55%, respectively) expect further tightening in 2023. The Federal Reserve and the European Central Bank have both indicated that such additional tightening is on the way, but it is notable that the two banks' most recent rate increases in December were smaller, at 50 basis points, than previous 75 basis point hikes in the current tightening cycle. Nonetheless, a quarter of respondents expect looser monetary policy in the US and Europe by the end of 2023.

Figure 4. Monetary policy

A year from now, what is your expectation for monetary policy in the following geographies?



Source: Chief Economists Survey, December 2022

Policy-makers face a dilemma between tightening too much and too little. Tightening too much may lead to a deep and/or prolonged recession causing unnecessary harm to households and businesses. Yet tightening too little can be worse, causing continued cost of living and high input costs, and potentially even steeper monetary tightening at a later date to restore price stability. The timing of easing off monetary tightening also poses a dilemma. The IMF points to the example of the US Federal Reserve in the late 1970s, under the leadership of Paul Volcker, when interest rates were cut after a significant phase of interest rate rises, only for a further sharp tightening phase to ensue when inflation accelerated again.¹⁰ So while there are signs that monetary tightening is having its desired effect – for example, at the time of writing the US has recorded five consecutive months of declining inflation, while Eurozone inflation expectations appear relatively well anchored over a three-year horizon¹¹ – caution is required in determining when policy can be loosened again.

Fiscal policy-makers face significant challenges too, not least because of the greatly reduced fiscal space in the wake of exceptional government expenditure during the COVID-19 pandemic. Many governments have seen their borrowing

costs rise significantly in the face of global monetary tightening, highlighting the close interlocking of fiscal and monetary trends at present, as well as the dilemma many governments face between immediate investment needs and constraints on fiscal revenues.¹² Even where spending is possible, governments need to address multiple current societal and climate challenges through medium- to long-term investments in health, education, care, infrastructure and energy to boost resilience without setting off a vicious cycle of overheating and higher costs. There are political pressures too, with the risk that fiscal tightening could trigger an electoral backlash at a time of economic strain for many households.¹³

In the latest survey, respondents largely expect continuity in fiscal policy. In Europe, however, a plurality of respondents (41%) expect policy to tighten over the next year. China is an outlier on both monetary and fiscal policy expectations. Almost two-thirds (65%) of respondents expect fiscal policy to loosen, while 50% expect monetary policy to loosen. This suggests a firm view that policy support is needed to revive growth in China and that current low levels of inflation create more space for such policy moves than in most other countries or regions.

¹⁰ IMF, October 2022a.

¹¹ ECB, 7 December 2022.

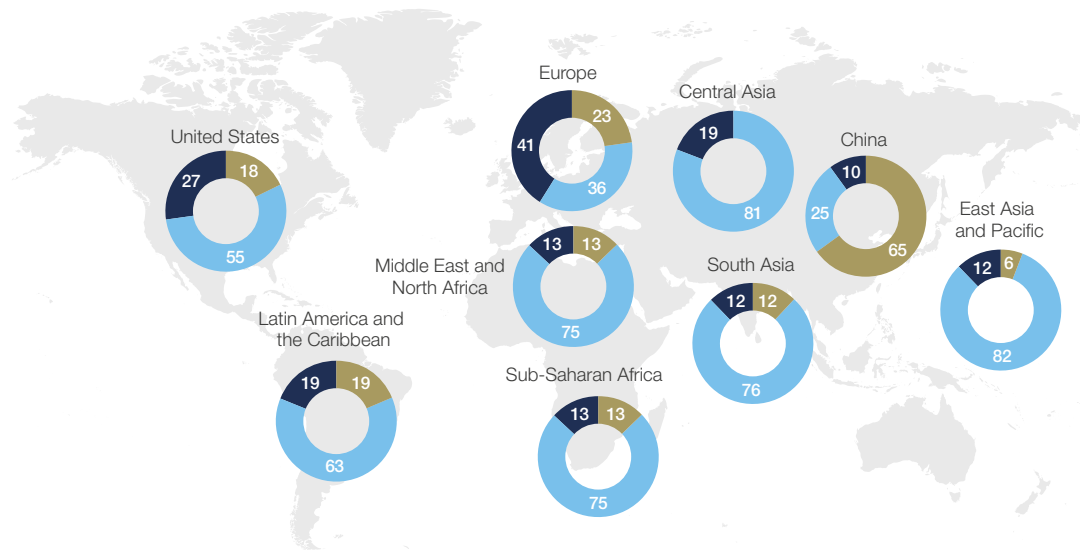
¹² MF, October 2022b.

¹³ Gabriel, Klein, Pessoa, July 2022.

Figure 5. Fiscal policy

A year from now, what is your expectation for fiscal policy in the following geographies?

■ Looser ■ The same ■ Tighter



Source: Chief Economists Survey, December 2022

2. Energy and food crises

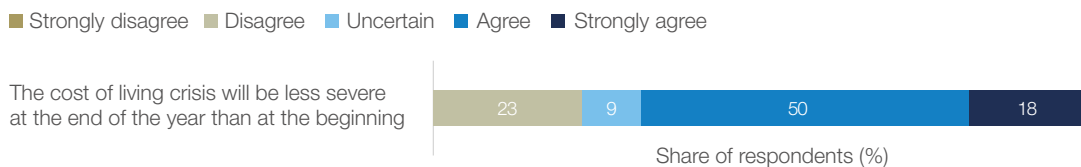
A potential peak in the cost of living

The September 2022 edition of the Chief Economists Outlook highlighted the intensifying human impact of the cost of living crisis, with plunging real wages leading to worsening poverty and more widespread social unrest.¹⁴ At the start of 2023, these concerns are still evident, and many households confront a dual challenge

of facing relatively high costs for basics such as heating and eating, at the same time as feeling the effects of monetary policy designed to curtail inflation in the longer term. However, survey respondents indicate that the cost of living crisis may be close to its peak as policies begin to take their full effect, and a majority (68%) expect the crisis to be less severe by the end of 2023 (see Figure 6).

Figure 6. Cost of living

Looking ahead to 2023, do you agree/disagree with the following statement?



Source: Chief Economists Survey, December 2022

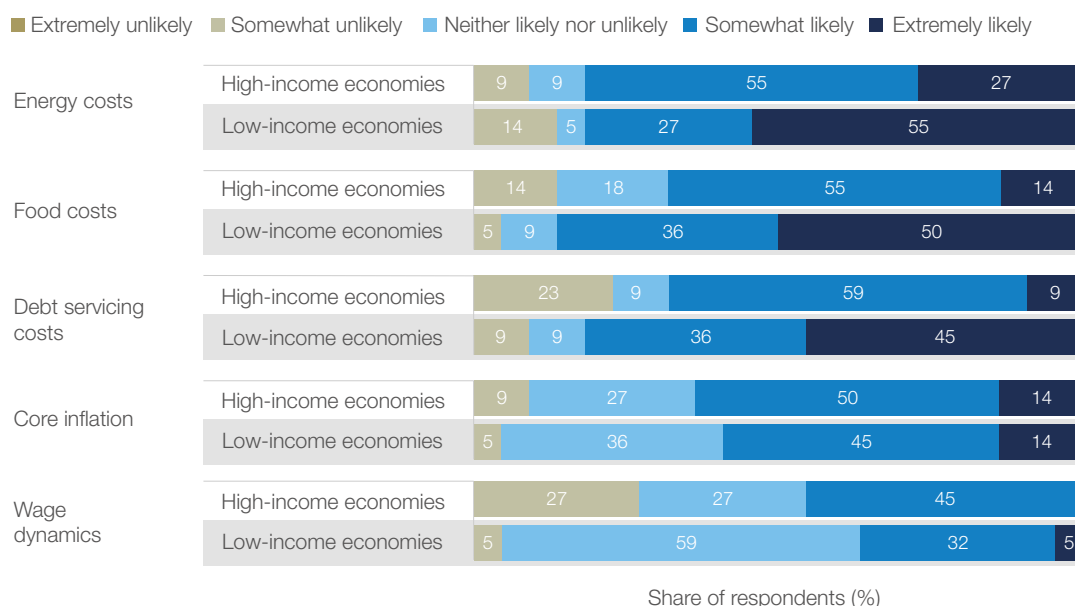
However, the continuing impact of the cost of living crisis should not be underestimated. A majority of respondents are of the view that energy and food costs will continue to have an adverse impact on households in both high- and low-income countries throughout 2023 (see Figure 7). Looking

at global consumer price inflation data, the food and energy categories recorded the sharpest price increases in 2022, pushed up by a confluence of factors including war, multiple supply chain shocks and commodity market disruption.

¹⁴ World Economic Forum, September 2022.

Figure 7. Living standards

Which of the factors below are likely to have a significant adverse impact on living standards in 2023?



Source: Chief Economists Survey, December 2022

On food costs, there is a notable divergence in the expected impact between high- and low-income countries. This is reflected in the much higher proportion of chief economists saying that food costs are extremely likely to have significant adverse impact in low-income economies (50%) compared to high-income economies (14%). Overall, an adverse impact on living standards from food costs is expected by 69% in high-income economies and 86% in low-income economies. This is also evident in the hard data, with low-income countries recording food price inflation of 29%, compared to a global average of 19%.¹⁵ The World Food Programme now estimates up to 222 million

people to face acute food insecurity in 2023 – a sharp increase from 193 million in 2021 – with 45 million on the brink of famine.¹⁶ However, there are some reasons for optimism about food price trends. For example, the Food and Agriculture Organization (FAO) Food Price Index recently returned to the same level as before the invasion of Ukraine, following the extension of the Black Sea deal that facilitates exports of grain from Ukraine's ports.¹⁷ On energy costs, over 80% of respondents expect a significant adverse impact in both developing and developed economies.

¹⁵ IMF Data, November 2022.

¹⁶ WFP and FAO, September 2022.

¹⁷ FAO, November 2022.

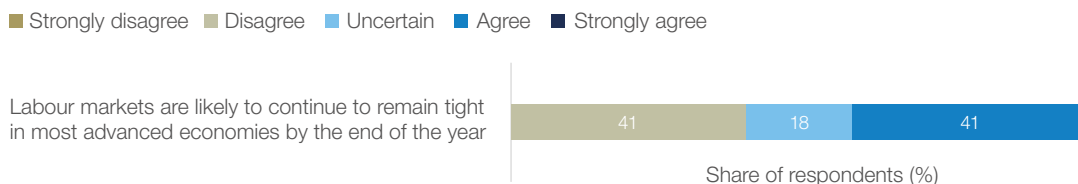
In addition to rising prices for goods and services, significant increases in borrowing costs are beginning to place an additional strain on household finances. According to the survey results, there is again a significant divergence between the impact in high-income and low-income economies. In the former, 68% of respondents expect debt servicing costs to have an adverse impact, but only 9% say this is extremely likely rather than somewhat likely. For low-income economies, a total of 81% expect an adverse impact, and a much higher proportion (45%) see this as extremely likely.

On the income side of the cost-of-living squeeze, the respondents expect wage dynamics to have a relatively less adverse impact on households than other cost categories (see Figure 7). Global wages data are patchy and subject to a significant lag, but the latest estimates from the

International Labour Organization (ILO) point to global real wage growth dropping from an average of 1.8% in 2021 to register a year-on-year decline of 0.9% in the first half of 2022.¹⁸ According to these data, real wages slumped sharply in North America and the EU during this period, falling by 3.2% and 2.4%, respectively, while most other regions recorded slow real wage growth rather than declines.¹⁹ Relatively tight labour markets in Europe and North America helped to limit the decline of real wages, while reopening various sectors after lockdowns has led to wage growth, albeit from low levels, in several developing economies. However, chief economists are split over whether labour markets will remain as tight over the coming year given the tepid growth prospects, posing a significant potential risk to the expectation of the cost of living crisis ebbing by year-end.

Figure 8. Labour markets

Looking ahead to 2023, do you agree/disagree with the following statement?



Source: Chief Economists Survey, December 2022

18 ILO, November 2022.
19 Ibid.

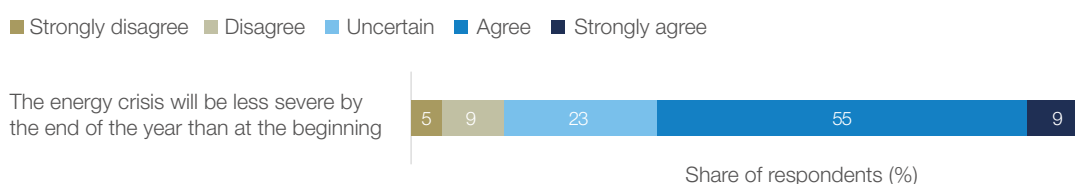
Progress on the energy emergency

Turning to the energy crisis, the majority of respondents (64%) show optimism about the overall trajectory of the crisis in 2023, while also highlighting the need for

numerous short-term and long-term policies to deal with challenges that remain to be resolved. Oil prices have fallen back to pre-war levels, but the same is not true of global gas prices, which in November 2022 were 321% higher than two years previously.²⁰

Figure 9. Energy crisis

Looking ahead to 2023, do you agree/disagree with the following statement?



Source: Chief Economists Survey, December 2022

The expectation that the energy crisis will be less severe by the end of 2023 reflects the current stress-testing and improvement of systems and processes, diversification of energy supply sources, improved energy efficiency and changing patterns of consumption. Progress in a range of these areas is already evident in Europe, for example, including a tripling of gas reserves, the securing of new supply deals, and a trimming of gas consumption by 15%.²¹

Nevertheless, the crisis remains far from resolved. The survey asked chief economists for their views on the

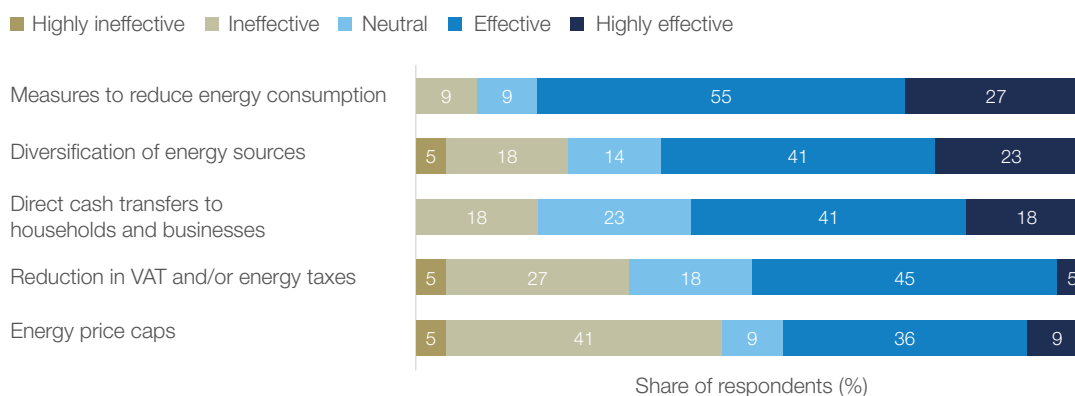
effectiveness of a range of options designed to deal with short-term and long-term challenges posed by the crisis for energy-importing countries. Of the short-term measures, reduction of energy consumption is the preferred one, with 55% of respondents describing it as effective and a further 27% as highly effective (see Figure 10). In addition to easing immediate pressure on the energy system and helping to avoid the worst-case scenario of blackouts, reducing energy consumption also minimizes the work that needs to be done by other policy responses.

²⁰ Based on World Bank Monthly Commodity prices, November 2022.

²¹ European Commission, November 2022.

Figure 10. Energy policy to address the crisis

In the short term, which policy approaches are likely to be effective in tackling the energy crisis in net energy-importing economies?



Source: Chief Economists Survey, December 2022

Most of the other policy approaches considered by the chief economists were also viewed as being effective or highly effective by the majority. However, the use of energy price caps stands out as the most contested option, with an almost equal split between those viewing caps as effective and as ineffective. This is unsurprising given the intensity of debate that has surrounded the introduction of a price cap for gas in the EU, including concerns about its potential implications for the financial stability of the Eurozone.²² The EU gas price cap, as well as a G7 oil price cap, were approved in December 2022, and it will be some months before there is clear evidence as to their effectiveness.²³

On long-term energy policies, chief economists were asked to focus on the

effectiveness of various measures in terms of achieving energy security for net-importing economies (see Figure 11). Reducing consumption again features prominently, with 86% viewing it as an effective strategy, but is in third place overall. Improved energy efficiency is the clear frontrunner, with unanimity among respondents as to its effectiveness in the long term. This is in line with the International Energy Agency (IEA) view that energy efficiency is central to the shift that needs to take place in advanced economies.²⁴ Many countries, particularly in Europe, have already begun to move in this direction in response to the crisis. Germany, for example, has introduced higher efficiency standards for new buildings,²⁵ and France launched its “Energy Sobriety” plan in October 2022.²⁶

22 ECB, 2 December 2022.

23 Council of the EU, 19 December 2022; Council of the EU, 3 December 2022.

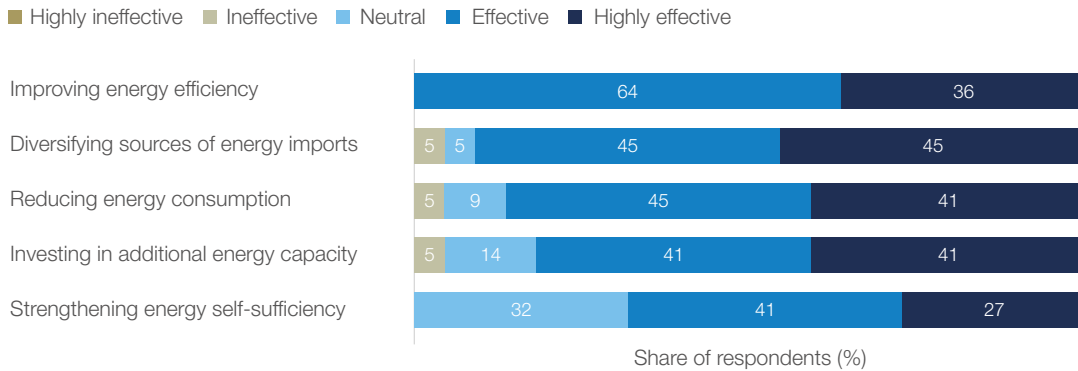
24 International Energy Agency (IEA), November 2022.

25 Sgaravatti, Tagliapietra, Zachmann, November 2022

26 Government of France, October 2022.

Figure 11. Long-term energy security

Which policy approaches are likely to be most effective for achieving long-term energy security in net energy-importing economies?



Source: Chief Economists Survey, December 2022

Among the other policy options presented, diversification of sources of energy imports was seen as the second most effective option – 90% view it as effective, including 45% as highly effective, the largest proportion for any of the options. This option will be crucial in Europe even in the short term. The EU’s ban on oil-product imports from Russia takes effect in February 2023, while reserves of natural gas are

projected to be depleted by March 2023.²⁷ Although the war in Ukraine is central to the energy crisis in Europe, global security-of-supply concerns in 2023 are unlikely to be driven only by developments in the war. For example, if China’s easing of its zero-COVID restrictions is successful, it is likely to push up demand for liquified natural gas (LNG) and oil products, including diesel, which is becoming increasingly scarce.²⁸

27 IEA, October 2022.

28 The Economist, November 2022.

3. Business in the new landscape

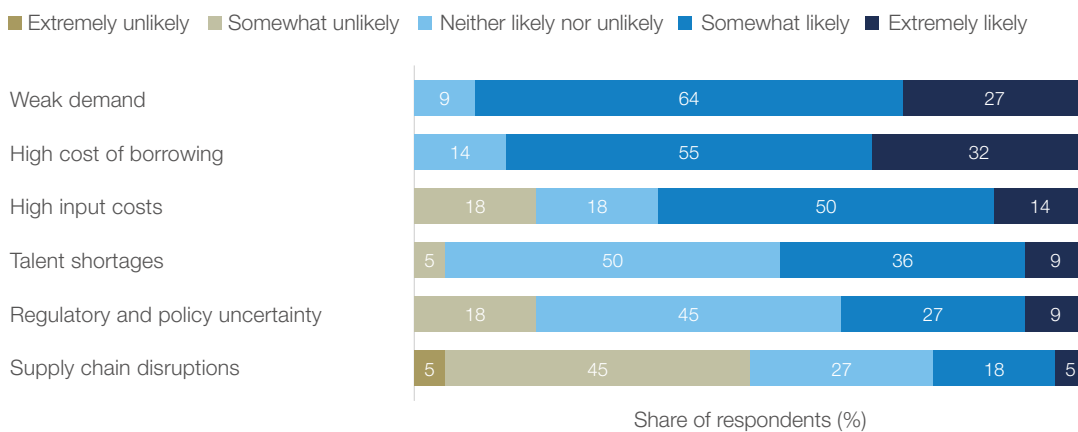
Expectations of rough terrain

As the world puts another tumultuous year behind it, chief economists were asked for their views about some of the likely headwinds that businesses in particular are going to face in 2023 (see Figure 12). They were also asked about the most effective responses to these headwinds and sources of optimism, which are addressed in the next section.

Among the headwinds, weak demand, higher interest rates and higher input costs stand out. Nine out of ten respondents expect weak demand to exert a significant drag on business activity this year, and almost the same proportion (87%) expect the same of elevated borrowing costs. Over 60% expect higher input costs to exert a significant drag. The start of 2023 represents the triple challenge of continued relatively high prices of key inputs meeting tightening monetary policy and weakening demand.

Figure 12. Challenges to business activity

Which of the factors below are likely to exert a significant drag on business activity in 2023?



Source: Chief Economists Survey, December 2022

Energy prices are a key factor here, which in turn means that Europe will be particularly exposed owing to the impact of the war in Ukraine. According to one recent estimate, the rate of increase of European input costs is set to outpace those of other advanced economies by as much as 20 percentage points from this year, threatening the competitiveness of the region's producers and running the risk of diverting supply chains and business activity away from the region.²⁹

The results are less definitive for the other potential business headwinds that respondents considered. Talent shortages were cited by 45% of respondents as being somewhat or extremely likely to exert a drag on business activity, a slightly lower proportion than the 55% who were neutral or viewed it as unlikely to have an adverse business impact. In part, this may reflect the fact that global labour market conditions vary widely, and while there may be some markets where conditions are exceptionally tight – in the US, there are currently 1.7 job

openings per unemployed person³⁰ – this is not the case more widely. Additionally, as businesses look towards cost-cutting measures, talent availability is expected to be a lower-order concern.

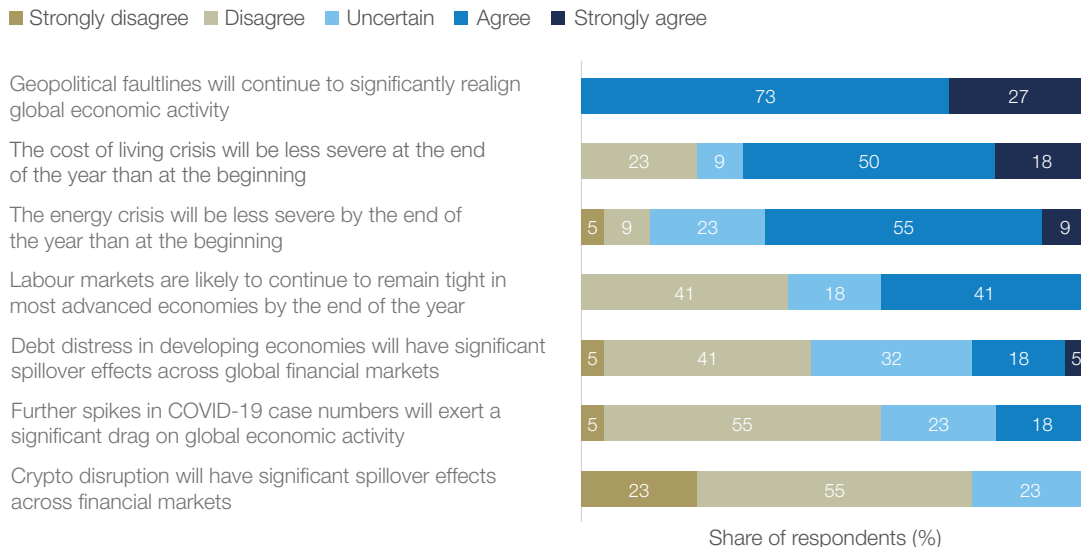
Asked about regulatory and policy uncertainty, a lower proportion of respondents (36%) said that they expect this to exert a drag on business activity, compared to the 63% who were neutral on the question or who disagreed that there would be an adverse impact. Efforts by policy-makers to restore some level of policy certainty after the turbulence of the last years have been relatively effective. Finally, when it comes to the business impact of supply chain disruptions in 2023, only 23% expect a significant effect on business activity, while 50% consider it either somewhat unlikely or extremely unlikely that there will be a significant adverse impact, reflecting significant stabilization after COVID-19 restrictions and integration of war-related disruptions in business planning.

²⁹ Economist Intelligence Unit, October 2022.

³⁰ Bureau of Labor Statistics, January 2023.

Figure 13. The year ahead

Looking ahead to 2023, do you agree/disagree with the following statements?



Source: Chief Economists Survey, December 2022

However, geopolitical trends overall are expected to continue to redraw the map of global economic activity: every respondent viewed it as likely (73% somewhat, 27% extremely) that economic activity will continue to reallocate around the world in line with new geopolitical fissures and faultlines. This wider economic impact channels through trade, investment, labour and technology flows, creating myriad challenges and opportunities for business, even as supply chain disruptions are seen to impose a relatively low drag on business activity in the coming year. At the other end of the spectrum, the fall of the cryptocurrency sector is expected to have relatively little spillover into wider financial markets and the majority of chief economists do not expect further economic disruption from COVID-19. Only a quarter of respondents expect debt distress in developing economies to have wider contagion in global financial markets.

The survey also asked the chief economists to highlight any potential source of optimism in the current global economic context. Half of the responses touched on three factors related to the cost of living crisis: the strength of household balance sheets, the peaking of inflation and the resilience of labour markets. Results indicate that chief economists expected the outcomes of the latest shocks to have been worse, the impending downturn to be relatively short-lived and the current resilience to form a cornerstone of future recovery.

Respondents also highlighted the prospects of a rebound in China following the shift away from zero-COVID policies, economic opportunities in the energy transition and diversified supply chains, relative resilience in some emerging markets, and continued workplace flexibility for knowledge workers. Responses did not indicate signs of optimism about global reintegration and recovery in trade, cementing the impression of a low-growth, low-investment outlook for 2023.

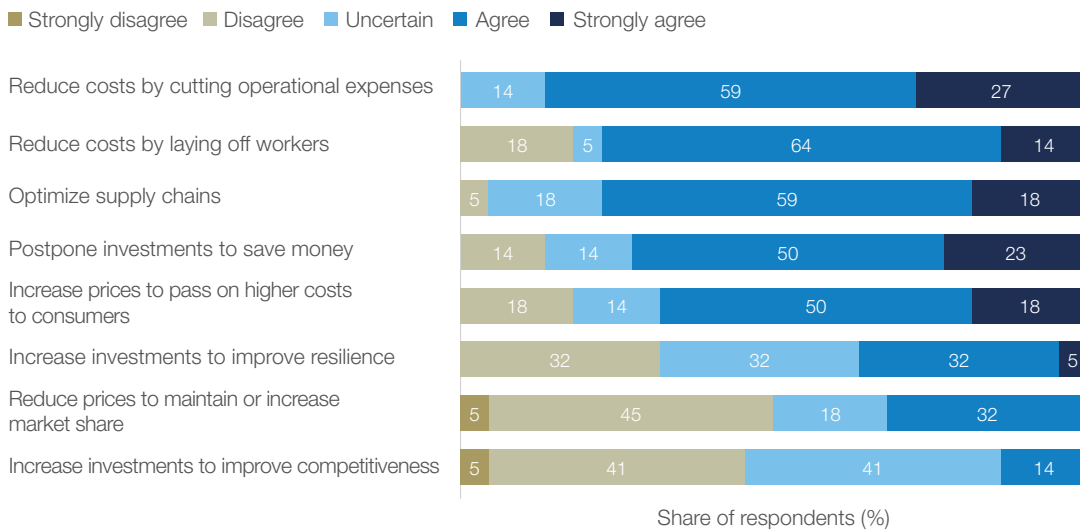
Defensive strategies

In response to the headwinds in 2023, the majority of chief economists expect multinational businesses to cut costs, with 86% of respondents saying they expect businesses to cut operational expenses. This is in line with a growing number of corporate announcements of cost-cutting programmes since September 2022. High-profile examples include FedEx³¹, which is grappling with a post-pandemic fall-off in demand, and Intel, which has announced plans to cut costs by \$3 billion in 2023

and by \$10 billion over the next three years.³² In addition, 78% of respondents expected businesses to cut costs by laying off workers. There are already numerous examples of significant layoffs in the final months of 2022, such as an estimated decline of 13% in Meta’s workforce and multiple other global businesses announcing cuts to their workforces, including giants such as Amazon, Walmart, Goldman Sachs, Citigroup and Barclays.³³ These expectations confirm continued uncertainty about the future strength of the labour market.

Figure 14. Strategy choices

How do you expect multinational companies to respond to potential economic headwinds in 2023?



Source: Chief Economists Survey, December 2022

31 FedEx, September 2022; FedEx, December 2022.

32 Intel, October 2022.

33 The Economist, December 2022.

More than three-quarters (77%) of respondents expect businesses to respond to headwinds by optimizing their supply chains. This is closely in line with the findings of the September edition around the need for supply chain localization and diversification and reiterates the finding discussed above that respondents do not expect supply chains to be a significant drag on activity this year as they make these adjustments.

About two-thirds of respondents (68%) expect prices to be increased by businesses so that input costs can be passed on to consumers. This reflects the significant pricing power that many companies enjoy during this period of higher consumer prices, with the net prices being charged by some major companies rising by as much as 11%.³⁴ When asked to assess an opposite strategy, in which businesses reduce prices to maintain or increase market share, this was deemed likely by only 32%.

Almost three-quarters of chief economists (73%) said they expect businesses to postpone investments in 2023 in order to save money. Much smaller proportions see it as likely that businesses will increase

investments designed either to boost competitiveness (14%) or to increase resilience (37%). This is consistent with lessons from the 2008 financial crisis when improvements in margins through defensive strategies were deemed to be more effective in helping businesses to withstand economic headwinds compared to growth strategies.³⁵

The survey also asked chief economists what strategies businesses might adopt in the face of rising interest rates and mounting geopolitical tension. Regarding rising interest rates, the majority of responses include greater focus on balance sheet health, deleveraging and reduction of investments. However, a significant set of responses viewed higher interest rates as a transitory investment rather than a shift into a new longer-term era signalling the end of cheap money. In the case of more complex geopolitics and reduced global integration, chief economists expected lower cross-border investment, a shift to “just in case” strategies, and maintenance of diversification and localization mix. Based on these trends, the overall impact on prices, efficiency and growth in the medium term will be significant.

³⁴ Hart, July 2022.

³⁵ McKinsey, December 2022.

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