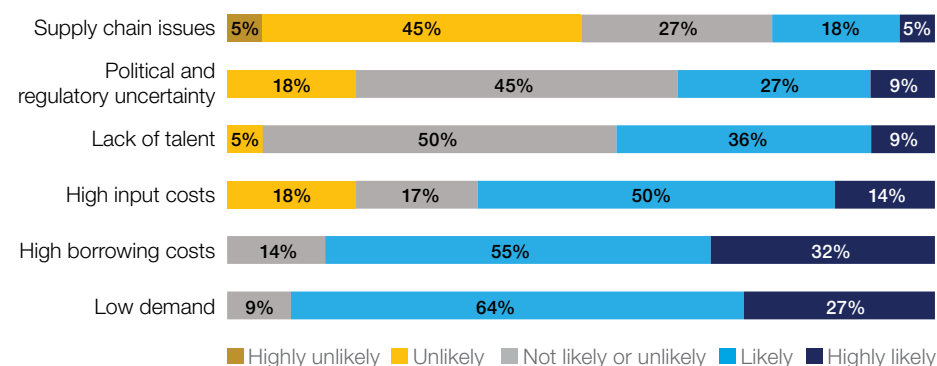


In this edition of the Economic Brief, we focus on what 2023 may have in store from three different perspectives: that of chief economists, that of CEOs and that of the markets. We will see that the views are not necessarily consistent between them, with the macroeconomic context making any projection exercise difficult to complete.

CHIEF ECONOMISTS

Upcoming difficulties seem to be low demand and high costs

What factors in particular are likely to damage activity in 2023?



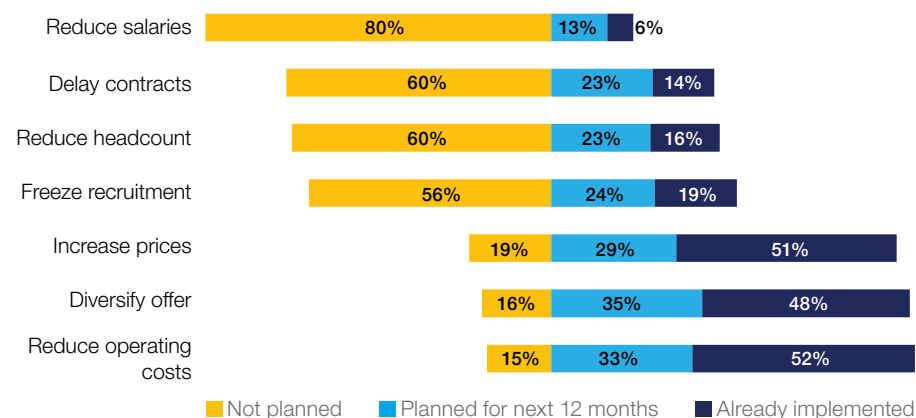
Sources: Accuracy & Chief Economist Survey (WEF)

of inflation forecast for the year: high costs are dampening demand and central banks are fighting inflation through interest rate hikes, raising borrowing costs.

CEOs

How to adapt to a complex economic environment?

Which of the following options would you consider implementing to cope with the economic volatility of the next 12 months?



Sources: Accuracy & PwC Survey CEO

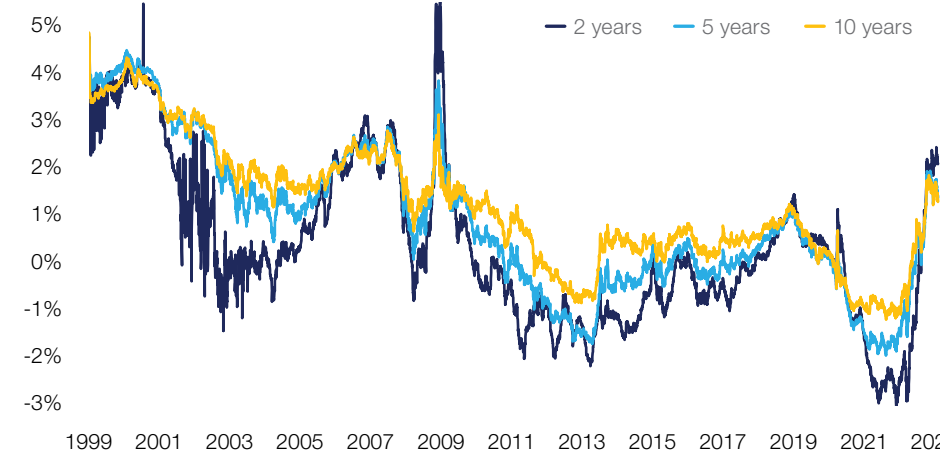
to diversify their offers, increase prices or indeed reduce other operating costs. This may well be a reflection of tight labour markets and the desire to maintain workforces.

Our first point of view comes from chief economists, via the Chief Economist Survey at the World Economic Forum. They seem generally pessimistic on the outlook for the year, with almost two thirds predicting a global recession. When asked what factors might have a significant impact on the year's activity, two considerations vastly outweighed the others: the low level of demand, with 91% of respondents thinking it likely or highly likely; and high borrowing costs, with 86% thinking it likely or highly likely. These elements are linked to the high levels

Our second point of view comes from CEOs, via PwC's annual survey of the CEOs of major companies. The survey shows that CEOs are most preoccupied by inflation, macroeconomic volatility and geopolitical tensions for the year ahead and these items remain high on their worries for the next five years, joined by cyber risks and global warming. As shown opposite, the solutions favoured by CEOs to manage these issues have changed tack compared with times of previous crises: instead of planning to reduce payroll, through either reducing salaries and headcount or delaying recruitment, they seem more inclined

MARKETS

United States: development of real interest rates suggests the normalisation of growth conditions

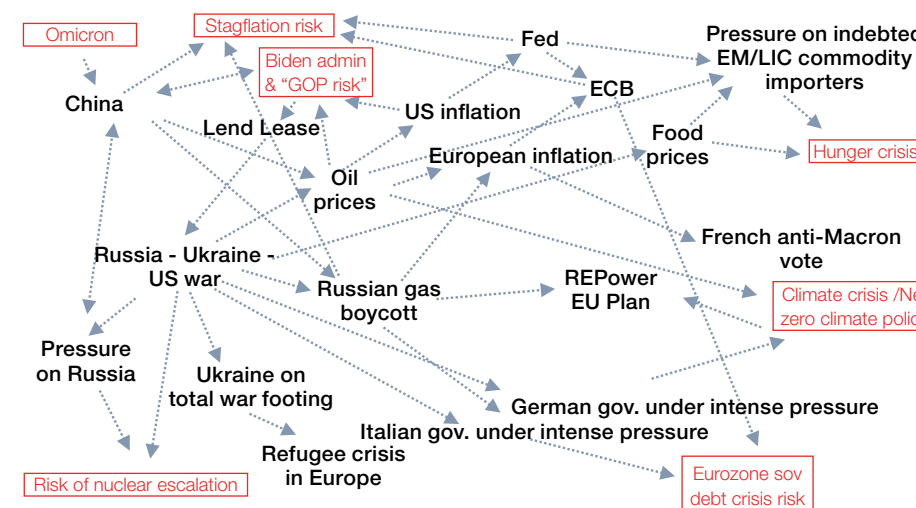


Sources: Accuracy & Macrobond

But the situation is not necessarily so clear cut. If we look at the US in particular, the signals coming from its economy are muddled: on the positive side, we have, for example, employment figures and financial conditions; on the negative side, Big Tech forecasts and housing sales, among others; and on the mixed side, salary increases and corporate profits, to name but a few. Making a real assessment of the year ahead is therefore no easy task.

Our last point of view comes from the markets, which appear to show a process of normalisation well under way and set to continue for the year. Inflation is falling, unemployment is low, interest rates are hardly rising, budgets are less restricted, the Chinese economy is restarting, and more. The graph opposite shows this trend beginning for real interest rates in the US.

The polycrisis concept applied today



Source: Adam Tooze (June 2022) based on Edgar Morin

At the World Economic Forum in Davos in January 2023, the concept of the polycrisis was on everyone's lips. This concept, originally put forward by the French theorist Edgar Morin but reprised by the historian Adam Tooze in his article last year, speaks to the amalgamation of crises that trigger other crises in interconnected systems, exacerbating the situation as a whole. The image opposite shows a simplified representation of what a polycrisis might look like today; we can see how each element is intertwined with others and how tangled the situation has become. This, combined with the volatility of the economic situation, means that any sense of visibility for the year(s) ahead is poor.

In this edition, we have seen the front-of-mind issues for chief economists and CEOs for 2023, and we have attempted to decipher the signals emitted by the markets to provide an idea of what the year ahead might bring. However, as demonstrated by the concept of the polycrisis, the multiple crises taking place today and their impacts on the interconnected systems of the global economy mean that any such forecasting exercise may well be in vain.