

CEO survey: US CEOs brace for a recession of unknown magnitude

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A note from Mitch Berlin, EY Americas Vice Chair - Strategy and Transactions

CEO survey: US CEOs brace for a recession of unknown magnitude

The January 2023 EY CEO Outlook survey finds US CEOs universally anticipating a recession but preparing for the unexpected.

As we enter 2023, corporate leaders are already braced for a recession. The only mystery is what final form the downturn will take: Mild or deep – and will the US weather the storm better than the rest of the world? Other economic and geostrategic subplots add uncertainty to the story: Will supply chain issues continue to be a disrupter? Will the war for talent finally ease? Will a new geopolitical cataclysm, beyond the ongoing war in Ukraine, further shake global confidence? It would be a thriller worthy of Agatha Christie if it wasn't happening to all of us in real time.

Our latest quarterly CEO survey finds US CEOs operating with certainty while leaning into the mystery. With an all-but-unanimous 99% expecting an economic downturn, and roughly half saying the recession will be mild domestically, CEOs are factoring this gathering storm into their strategic models and keeping their options open. Deal pipelines are still notably full, but executives are deploying capital very judiciously. In this market, it's one thing to consider inorganic growth options, but quite another to pull the trigger.

Joint venture intentions higher than M&A

When it comes to mergers and acquisitions (M&A), 63% of our respondents say they will pursue a deal in the next 12 months, much higher than the 46% globally who plan to pursue an acquisition. This fairly robust US number may in part reflect a recent easing in asset valuations and may also reflect pent-up demand. US deal volumes are down 16.5% through November from the same period a year earlier, while globally, nonfinancial companies have just under US\$2 trillion in cash and short-term instruments on their balance sheets. Private equity (PE) companies, which have slowed their deal pace in recent months, are even more likely to pursue an acquisition, with 69% of PE portfolio company CEOs saying they would pursue M&A.

Across US sectors, 68% of financial services, 63% of consumer products and retail, 61% of advanced manufacturing and mobility (AM&M) and 58% of technology, media and telecoms (TMT) CEOs plan to pursue M&A. Still, with regulatory pressure mounting against megadeals in both the US and Europe, M&A in 2023 may be more targeted than transformative.

In fact, the more telling survey result is the considerably larger percentage of US CEOs pursuing joint ventures or strategic alliances (73%) – arguably the less risky option. The TMT sector is among the leaders in that measure (71%) after lagging in M&A intention. Even divestment plans at 44% – a notably high percentage – suggest that many companies will sooner right size or restructure rather than bulk up. AM&M leads in terms of divestment plans at 48%.

Overall, a remarkable 97% tell us they are considering restructuring opportunities, including identifying underperforming business units for improvement or divestment. If 2023 turns out as many expect, CEOs will have ample opportunity to get their houses in order.

63%

say they will pursue a deal in the next 12 months.

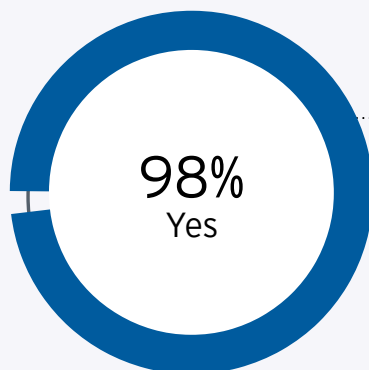
73%

of US CEOs say they are pursuing joint ventures or strategic alliances.

Q Do you expect to actively pursue any of the following transaction initiatives over the next 12 months?

The respondents were allowed to select multiple responses.

(2% of respondents chose "No")



Joint ventures or strategic alliances with third parties

73%

Mergers and acquisitions (M&A)

63%

Divestments

44%

Talent pressure eases, but workplace flexibility remains

The talent outlook also seems to have turned a corner. Attrition rates have dropped considerably, reducing talent churn, and executives are no longer discussing the so-called Great Resignation. In fact, EY-Parthenon teams forecast the unemployment rate will average 4.9% in 2023 and peak at 5.2% in the third quarter, an increase from 3.7% in November. This loosening may be reflected in our CEO survey as scarcity and cost of talent dropped among key business risks – only 12% consider it a primary risk – and only about one-third identify talent investment as essential to emerging from a potential downturn. However, the shift to flexible work arrangements appears to be better established: 63% of executives agree that flexible working is increasingly critical to reducing employee churn and attracting new talent. Even if employees are no longer in the driver's seat, the rules of the road have changed.

No two business cycles are alike. But what makes this anticipated correction particularly unusual is the stockpile of capital corporates and PE firms amassed before the US Federal Reserve began laddering up interest rates to tame inflationary pressure. Combine that with still historically low unemployment and the lingering impacts of the pandemic. Indeed, a clear majority of executives tell us they expect this downturn to be different: exacerbated by geopolitical tensions, supply chain disruption, talent shortages and ongoing pandemic-related issues.

Even with only a couple of those negative impacts, CEOs would have their work cut out for them navigating the contours of 2023's business climate. Still, now is the time for companies to be poised for growth and ready to move when the time is right. The mystery at the heart of the next recession will be revealed soon enough – but to quote both a Beatles song and a recent hit movie, for now it's like looking through a glass onion.

59%

say the downturn will be different from previous slowdowns; exacerbated by geopolitical tensions, supply chain disruption, talent shortages and ongoing pandemic-related issues.

About the survey

The *EY 2023 CEO Outlook Survey* aims to provide valuable insights on the main trends and developments impacting the world's leading companies as well as business leaders' expectations for future growth and long-term value creation.

It is a regular pulse survey of CEOs from large companies around the world, conducted by Longitude Research Limited, a Financial Times company.

In November 2023, Longitude surveyed on behalf of the global EY organization a panel of 1,200 CEOs in 10 countries and across six industries. Respondents represented the following industries: advanced manufacturing and mobility, consumer products and retail, energy and resources, financial services, health sciences and wellness, technology, media and telecoms.

- ▶ Surveyed companies' annual global revenues were as follows: less than US\$500m (20%), US\$500m-US\$999.9m (20%), US\$1b-US\$4.9b (30%) and greater than US\$5b (30%).
- ▶ The CEO Imperative Series provides critical answers and actions to help CEOs reframe their organization's future. For more insights in this series, visit ey.com/en_gl/ceo.

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