

A wide-angle landscape photograph of a fjord in Norway. A person stands on a rocky outcrop in the foreground, looking out over the water. The sky is a mix of orange, yellow, and blue, suggesting sunset or sunrise. The mountains are rugged and have some snow patches.

Three CEO insights  
on the economy,  
digital and geopolitics

During our latest roundtable, several CEOs shared their perspectives on the economy, tech investments and geopolitical risks.

## Executive summary

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### In brief

- ▶ Amid the economic slowdown and ongoing inflationary pressures, CEOs across industries are beginning to see signs of a slow recovery.
- ▶ Despite the challenges they're still facing, CEOs are focusing on digital transformation and technology investments.
- ▶ Concerns about geopolitical risks are prompting many CEOs to make structural shifts in their investments around the globe.

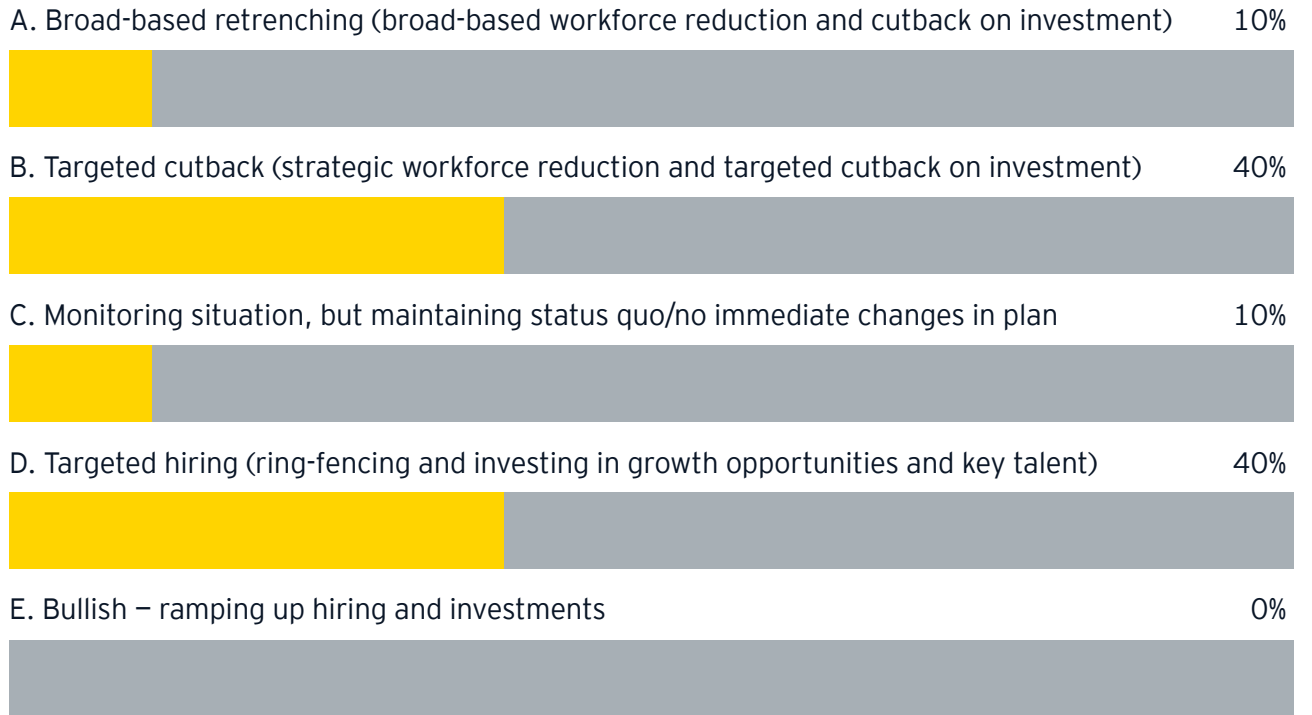
As disruption continues across sectors, a sense of optimism about the opportunities that lie ahead is emerging. By making strategic operational pivots, investing in digitalization and reimagining their global footprint, today's CEOs are unlocking long-term resiliency and value creation.



Amid ongoing uncertainty across the macro and geopolitical landscape, we again convened our virtual CEO roundtable, where CEO participants from several industries discussed a range of topics that are top of mind for boards and the C-suite, including managing through inflation and recession, energy, digital and much more.

While the mood among this group when it last met in July 2022 was broadly one of concern around rising interest rates and a possible recession, a sense of hope about what's to come emerged during our February 2023 gathering. Collectively, the CEOs' outlook for 2023 is informed by the economic slowdown, inflation and mixed data on the economy. As such, roundtable attendees also shared insights into how they're staying the course in today's often volatile business environment.

## Question 1 How are you feeling about the economic outlook for the year ahead?



# Economic outlook

EY-Parthenon Chief Economist Gregory Daco kicked off the roundtable with an overview of the economic outlook in four key areas:

## Global growth dynamics

Given today's elevated inflation and the rapid tightening of global monetary policy, we are in the midst of an economic slowdown. But we're also seeing positive developments across the globe, including accelerating growth in China and India, easing fears around the energy supply in Europe and labor market resiliency in the US.



## Wage growth

As wage growth moderates and becomes less broad-based, more compression is expected in the months ahead as the labor market rebalances. Despite this, cost pressures continue in this tight labor market, with unemployment in the US at 3.4% (a 53-year low).

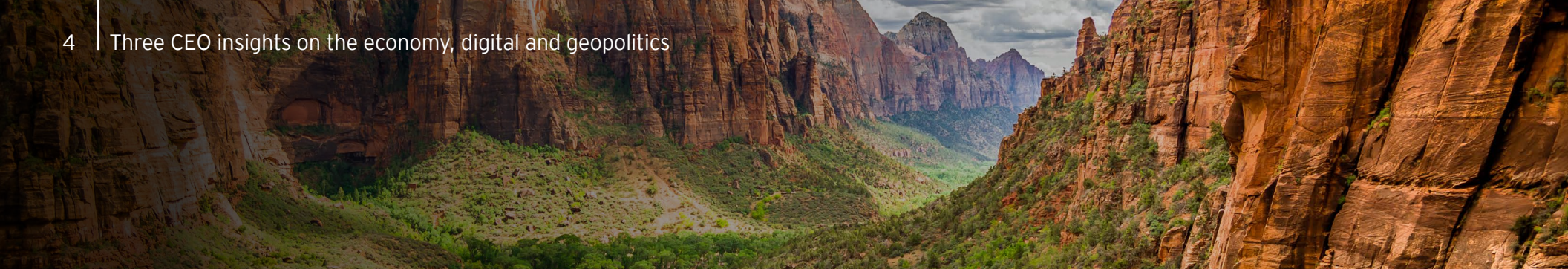
## Inflation

Inflation has declined from its 9% peak in June 2022 to about 6.4% in January 2023 and likely will continue to fall into 2024 due to slowed economic activity, rapid tightening from the Fed and easing supply chains. However, it may ultimately stabilize above the Fed's target of 2%.



## Monetary policy and interest rates

With rate cuts from the Fed unlikely in the near term and additional rate increases on the horizon, this historically rapid tightening cycle is expected to continue. One area to watch: the Fed's focus on quickly evolving economic data in this volatile economic environment may be risky.

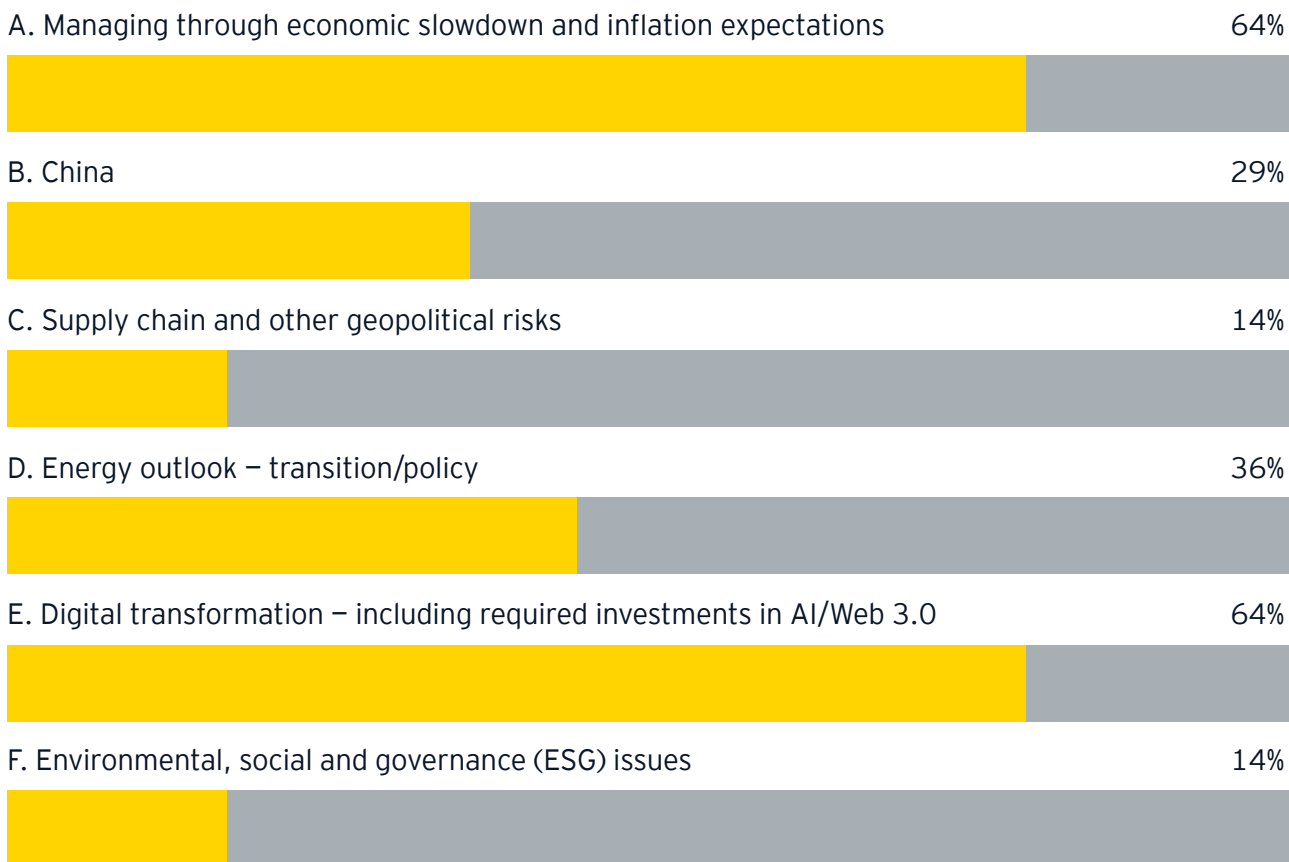


## CEO insights

Fresh from the World Economic Forum's annual meeting in January 2023, EY Global Chairman and CEO Carmine Di Sibio then summarized a few of the key themes he's discussed recently with other CEOs and at Davos, including inflation and the slowdown in economic growth, the geopolitical landscape (e.g., China, Ukraine), supply chain, talent, and AI and digitalization. "I will tell you, from what we're seeing in terms of our clients, many of [them] are taking this time to really look at where they need to be in the future," he noted.

With that, the conversation opened up to the group to explore the key opportunities and challenges that participants and their industries are facing. Below are three key insights from the topics prioritized for discussion by the CEOs in attendance.

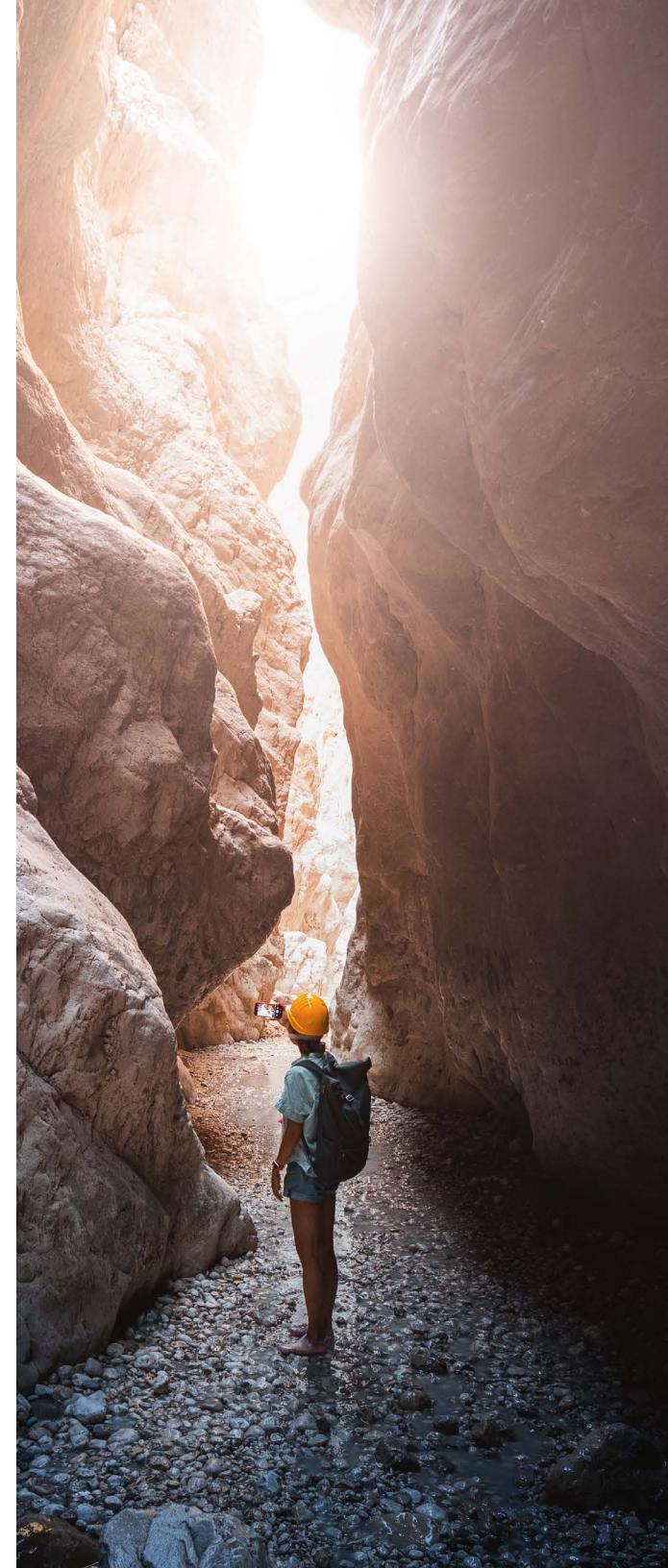
## Question 2 What topics would you prioritize for today's discussion?



# 1 Managing through the economic slowdown and inflation are top of mind for most CEOs.

The CEOs in attendance have continued to manage through a highly disruptive and uncertain period over the last several years. They shared some of the industry-specific successes and pain points they're experiencing as the effects of the slowdown and inflation are seen across industries:

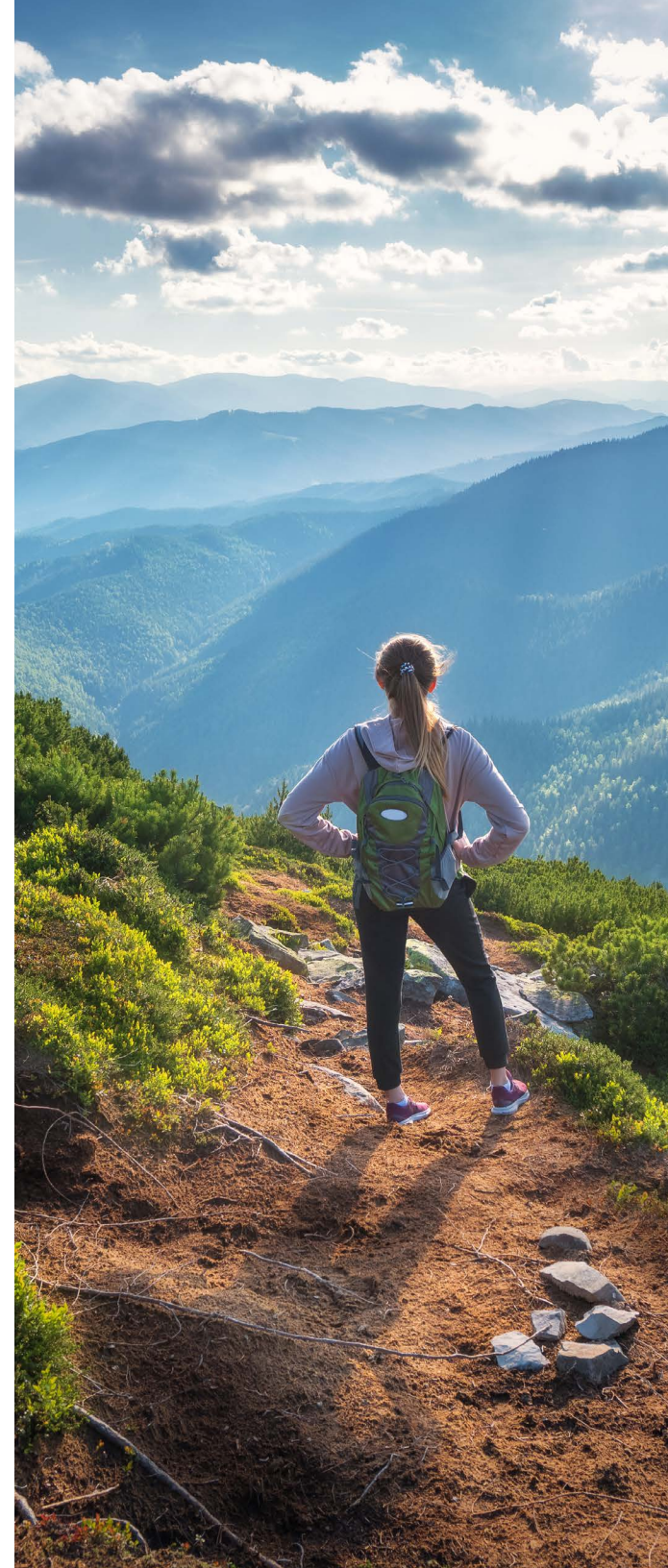
- ▶ **Industrial and chemicals.** Roundtable CEOs from this sector were cautiously optimistic about the road ahead. "Many companies have decrements that are about 50%. ... We laid out a very credible plan on how we could keep the decremental margins for a couple of quarters in that range, and then everyone's expecting to bounce back pretty strong on the electronics side of our business, which is our consumer-facing," noted one CEO of a global multi-industrial company. The CEO also added that if the company can hold on to price increases and inflation moderates, margins will improve. Another leading strategy mentioned is managing back-office and general and administrative costs while protecting R&D and other investments.
- ▶ **Health care.** Talent continues to be a key concern in health care. Amid ongoing staffing shortages across the health ecosystem, industry leaders are concerned about challenges around attracting and retaining not only nurses but also pharmacists and pharmacy techs, physicians and other skilled workers. "... the clinical labor shortage – it's short-term cost pressure for hospitals, but I think it's really long-term a patient care issue," said the CEO of an American pharma distribution company and health care services provider.
- ▶ **Life sciences.** Geopolitical challenges continue to complicate the sourcing of active pharmaceutical ingredients (APIs), prompting some pharma leaders to consider geographic and strategic alternatives. In addition, the industry will be watching the impact of the Inflation Reduction Act on investments in small molecules and biologics. While key activities such as IPOs and new launches are down for smaller life sciences companies, the sector is starting to see signs of slow recovery from the February 2021 downturn. "I think, on the good news front from an industry perspective, we've never been in a better place with innovation, with the tools we have ... in new diseases, like brain health and others," noted the CEO of a US biopharma company.



- ▶ **Consumer products and manufacturing.** For consumer products and manufacturing companies, inflation, supply chain and inventory surplus challenges continue. “We have a pretty sophisticated algorithm on our inflationary impact,” noted a CEO of a US-based electrical products manufacturer and distributor, “and while inflation’s impact may be moderating, we still see long lead times and supply chain challenges in supplying key infrastructure projects.”
- ▶ **Energy.** After an unusually mild winter in Europe, fears around supply shortages and disruption, rising energy prices and an exacerbated cost-of-living crisis have mostly not materialized. According to a global energy company CEO, oil prices are currently lower than expected: “Last year, between June and December, oil prices went from \$120 WTI per barrel to about \$70. We’re at \$78 right now.” Despite this, they said, many expect oil prices to trend higher as demand in China and global travel increase. Natural gas prices, on the other hand, are expected to remain low. However, the impact downstream for electric and gas utility consumers has been substantial price

increases. “On the heating side, our consumers saw 40% to 50% increases year over year in their home and business heating bills. That’s an enormous impact,” shared an electric utility and natural gas company CEO. This executive also noted the confluence of regulatory pressures to lead on clean energy with political pressures to mitigate the related pricing impacts. “And so that push and pull on policy, both at the state level and the federal level, has been really challenging for organizations like ours,” they continued.

- ▶ **Real estate.** According to the CEO of a large real estate investment trust (REIT) based in the US, the commercial real estate (CRE) industry is currently experiencing a “flight to quality.” Like other industries, CRE continues to experience delays and other challenges related to supply chain while also experiencing declines in pricing and occupancy in commercial buildings as companies try to settle into a new normal on office space requirements.



## 2 Most CEOs are doubling down on digital transformation and technology investments.

The CEOs who joined our virtual roundtable shared that they have no intention of cutting back on strategic technology-related investments. In fact, several attendees expressed excitement about the potential benefits of leveraging continued investments in digital, including improved business productivity, innovation and enhanced customer engagement. As the CEO of the electrical products manufacturer and distributor noted, “We have huge technology investments around automation and some of the other AI structures in our organization because I think [there] is a structural problem with labor long-term, especially around jobs that don’t require a lot of human judgment.” Similarly, the worker shortage and lack of a robust talent pipeline in health care are motivating some industry leaders to turn increasingly to automation, telehealth and other emerging models.

In addition to the labor component around digital investments, other roundtable participants referenced the importance of digitalization in customer engagement: “We look at this next generation of young adults and kids who will drive innovation and the need to service them in a different way,” noted the CEO of a large US-based REIT. On the cryptocurrency front, one asset management company CEO shared their optimism around the continuing professionalization of the asset class as real-world applications for crypto beyond speculative investment continue to grow, and Washington purportedly prepares legislation and other guidance in the evolving space.

## 3 Implementing structural and business model changes to address geopolitical risks is another top priority for CEOs.

A number of CEO attendees raised concerns about today’s geopolitical risks. For example, one CEO shared that they had recently walked away from a deal in the China region due to intellectual property (IP) challenges and pressures. Another said that their company is making structural shifts in its investments by moving away from China to neighboring countries, noting the broader structural shift in the supply chain to nearshoring and “friend-shoring” (i.e., manufacturing in and sourcing from countries whose values align with those of the company). We also noted a significant shift in sentiment among the CEOs in attendance compared to that of a year or even six months ago. Namely, they were more vocal during this latest session about airing concerns around the nature of relationships between governments, noting an increased sense of urgency to evaluate and address the related risks and implications for their own businesses. “... it sounds like this is only going to ratchet up going forward versus calming anything down,” said EY Global Chairman and CEO Carmine Di Sibio.



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