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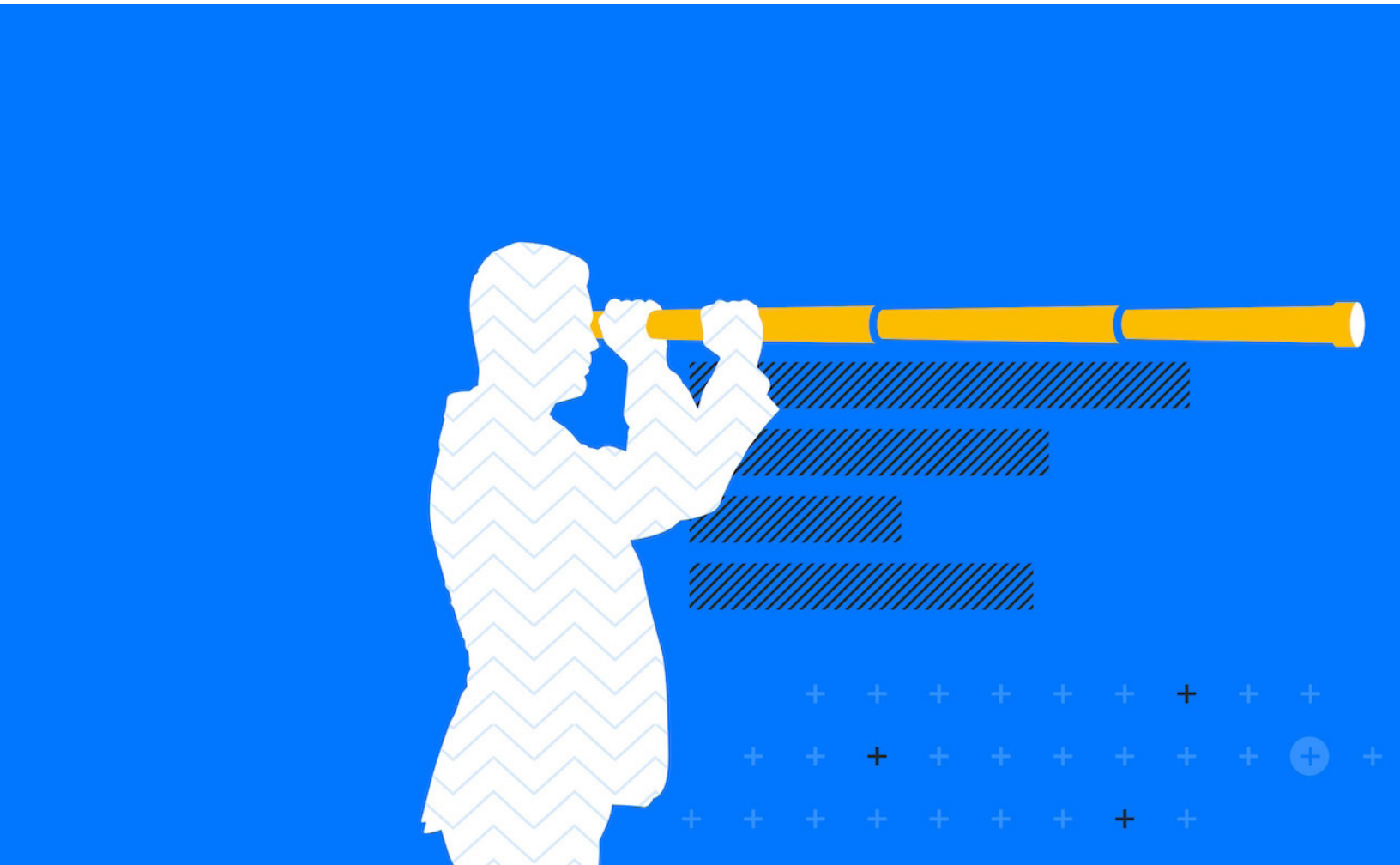
Five keys to forecasting through a recession and planning for recovery in 2023



Five keys to forecasting through a recession and planning for recovery in 2023

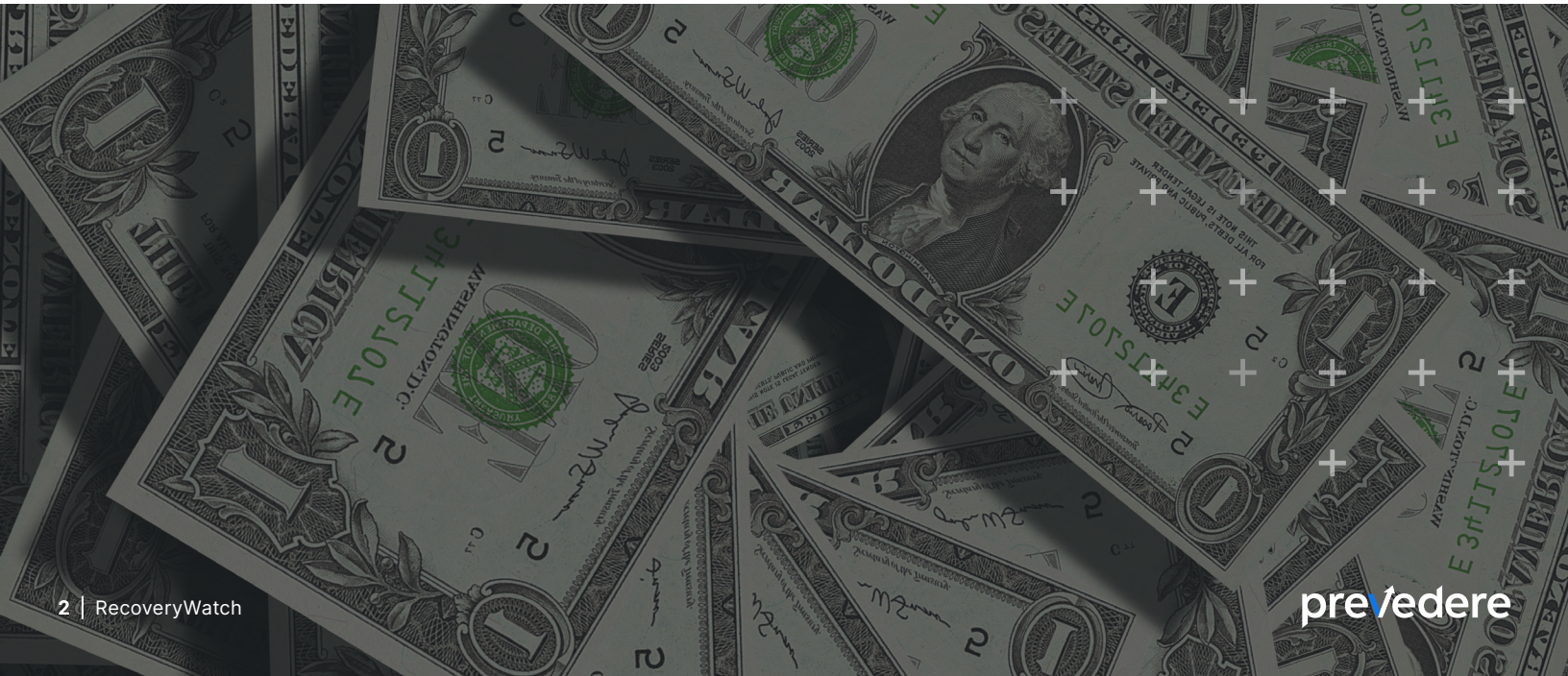
Economic contraction is expected to continue over the next four to six months, as key leading indicators like Consumer Sentiment, Real Disposable Personal Income and GDP, among others, are trending downward or starting to bottom out.

Based on historical data of past economic cycles and recessions, as well as what key leading indicators are projecting, our baseline scenario indicates that we can expect to reach the lowest point of the current recession around Q1 of 2023.

As business leaders and FP&A executives consult the economic indices to forecast through the current period of contraction and ultimately for acceleration on the other side, it is essential to consider these five keys in order to make their scenarios actionable for guiding the planning for their organization:

1. We are not in a financial crisis.

In monitoring key leading indicators, there is no indication of a major hurricane event on the horizon that would buckle the economy in the same way as the financial crisis and 2008 recession, for example. Rather, we are looking at conditions similar to the 2001 recession in terms of the depth of contraction to anticipate.



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2. Understand how your business relates to the overall economic business cycle.

Does your business have a pro-cyclic (positive) or counter-cyclic (negative) relationship to the economy? Will recessionary conditions be good or bad for your business? For example, is there a value product offering in your roster that may not get enough attention during times of prosperity and economic growth, but during a recession may present an opportunity to gain market share as consumers become more budget conscious?

3. Identify the right indicators to be monitoring for your business.

Certain indicators are reliably used to track the economy holistically; however, these are not necessarily the top indicators for certain industries or an individual company. Understanding, identifying and being able to quantify the impact of the leading external indicators for your specific industry or business is a critical part of the planning process.

The right software can automate this at scale, but it is possible to do this manually on a smaller scale. Start with a small group of indicators that are hypothesized to be drivers of your business using historical performance data and goals for future performance. Gather the data and use tools to test for the relationship, and remember, you are not just looking for correlation, but leading and lagging relationships between performance and external factors. Lastly, develop a process to routinely update, review and assess that information at least once a month.

4. Continuously check and monitor key leading indicators and your own business leading indicators.

With the leading indicators for your business identified, it's critical to be monitoring their performance and any other key external factors on a regular monthly basis at the very least. Many economic indices release new data every month; however, some do more frequently. During highly volatile and uncertain times, businesses should be revisiting plans and closely monitoring the external factors that indicate when change is coming.

5. Look for the turning point to start planning for recovery.

Use leading indicators to plan one-half a business cycle ahead. Trust when the majority of indicators are moving in one direction, such as calling for the trough of this economic cycle. It is also important to be willing to plan and drive action even as others in the space are still fixating on economic decline. Headlines may be overtly negative in terms of their analysis of the current economic outlook as we enter the bottom part of the recession; however, by that point in time, businesses need to be planning for the reacceleration that inevitably follows in every economic cycle.

Conclusion

Forecasting and business planning during a recession can certainly be challenging. Business leaders and FP&A executives can best plan for future performance and mitigate the impact of an economic contraction by identifying and continuously monitoring the leading indicators that are most relevant to their business performance.

By trusting that data as a harbinger of what's to come in the economy, organizations are able to stay ahead of what's happening currently and take full advantage of the opportunities they can see coming long before the competition.

With today's rapidly changing market conditions, do you really know what external forces affect your organization, when and by how much?

Add a layer of confidence to your future planning with Prevedere Advanced Predictive Planning.

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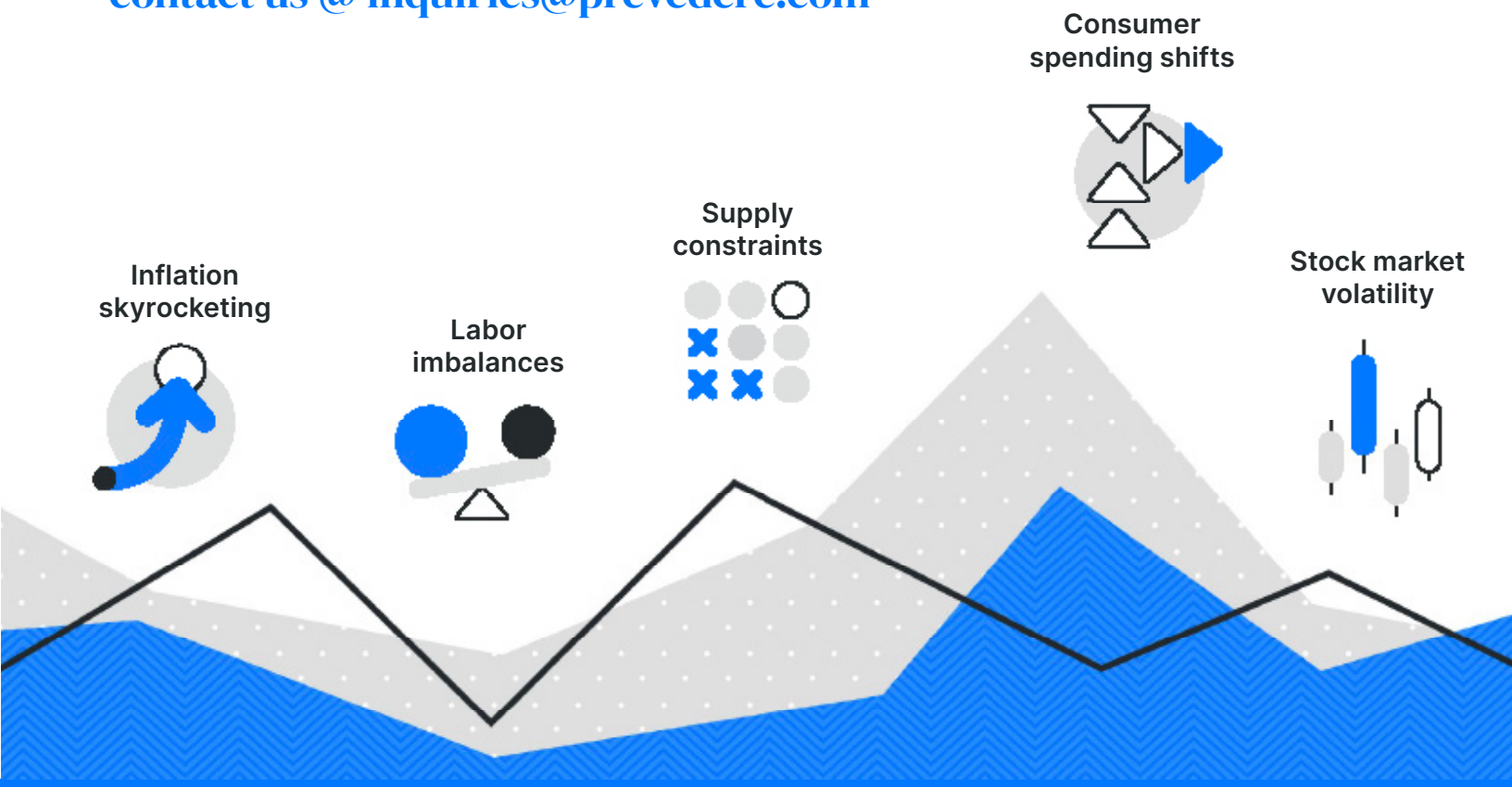

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Thank you

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