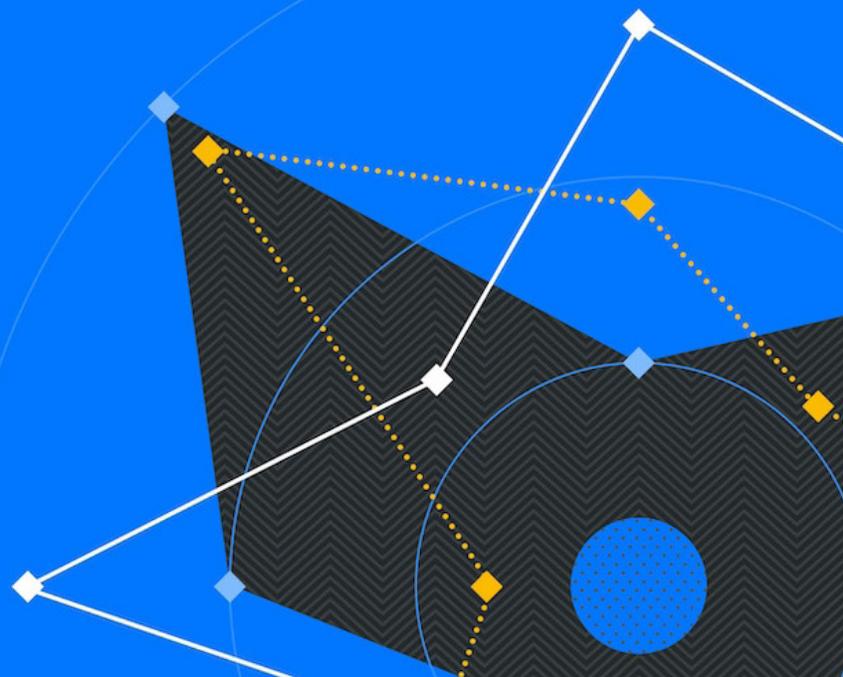


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Three scenarios for economic recovery

RecoveryWatch: 2022-2023 Recession outlook



Executive summary

A recession looms large on the horizon of the U.S. economy. Amid the current economic uncertainty and volatility, confusion is only being fueled by the most recent economic numbers and the conflicting narratives being presented in the media.

In order to accurately plan for this uncertain market activity, CFOs are evolving their forecasting process and methodology.

73% of CFOs have stepped up their forecasting frequency since the pandemic

77% of CFOs are focusing more on scenario modeling

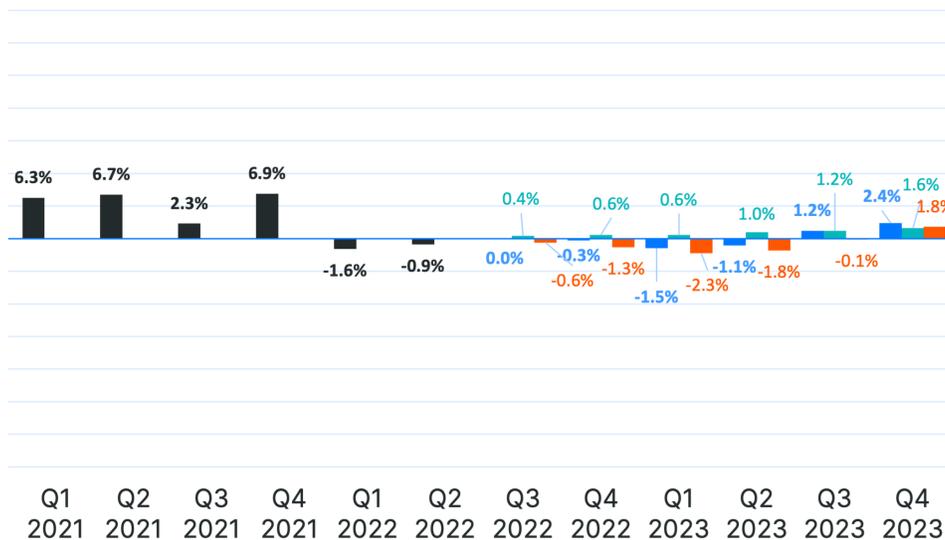
(Source: Airbase)

Within Prevedere's methodology of Applied Predictive Planning, our economist team has developed three plausible macroeconomic scenarios for the remainder of 2022 and into 2023 that will help guide business leaders and FP&A teams as they develop their plans for the next year.

In this report, we outline an initial scenario to serve as the baseline, which is accompanied by an optimistic outlook and a pessimistic one (see chart below).

Real Gross Domestic Product

■ Baseline ■ Optimistic ■ Pessimistic



(Source: Bureau of Economic Analysis, Prevedere Forecast)

Baseline scenario

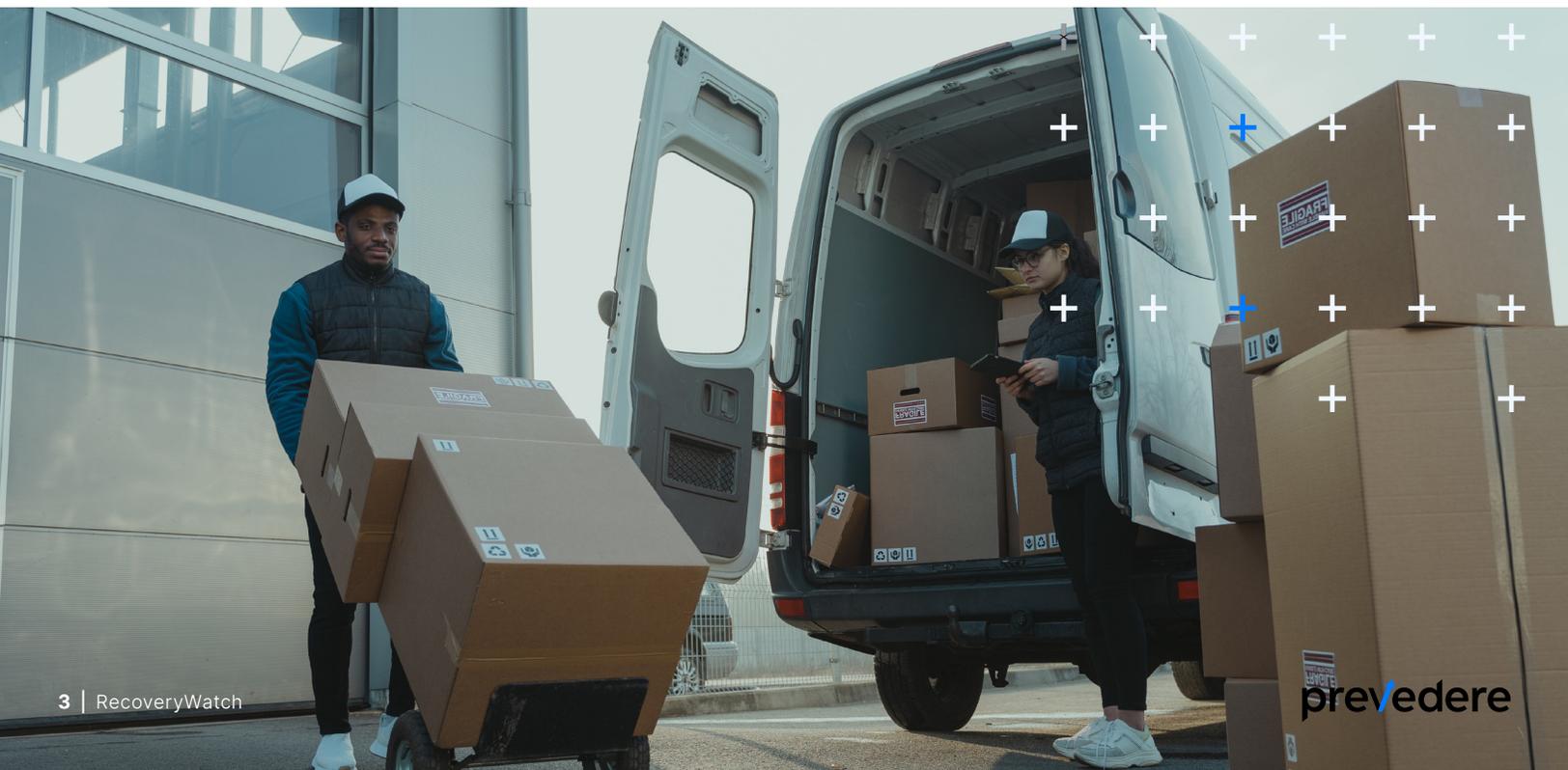
The most probable course and direction of the economy over the next 12 months, we will see a mild, short recession set in by the end of 2022.

In response to inflation, there will be a rapid deceleration of demand for goods during this period from both businesses and consumers.

Within the baseline scenario, the following situations should be considered:

- Consumer spending, industrial production, manufacturing output, and business investments will experience a minor contraction as consumers and businesses alike struggle to mitigate rising costs.
- Wage growth will slow and a gradual increase in the unemployment rate should be expected around this time as more workers re-enter the labor market to seek relief from rising food and energy prices.
- While the worst of the global supply chain issues have passed, the stress caused by covid-related restrictions and geopolitical tensions will continue to linger.

While this scenario presents a rather negative outlook for the economy, recessionary conditions will be mild and only extend into early 2023. As such, this dip should reach it's bottom in Q2 2023.



Pessimistic scenario

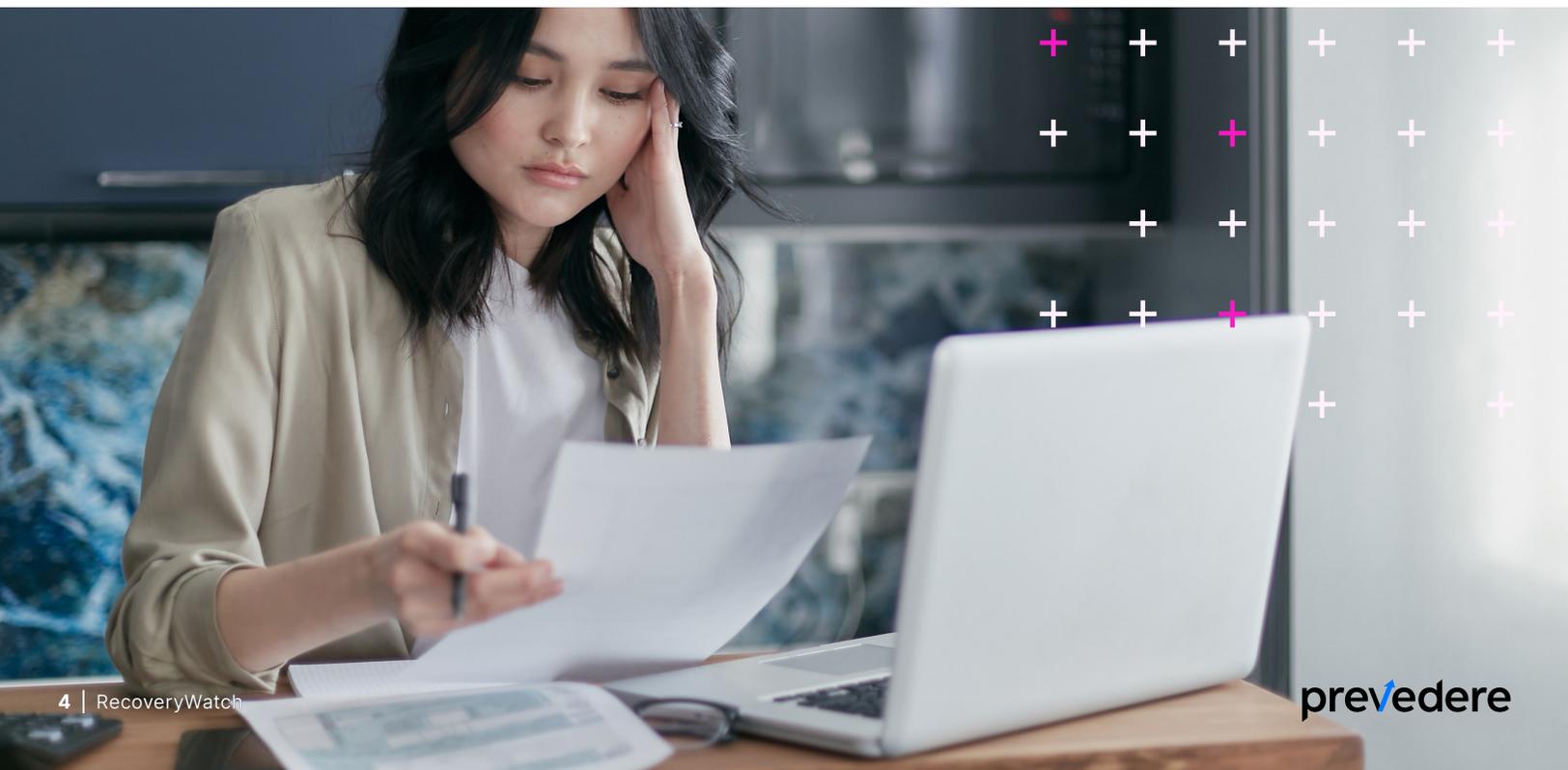
A slightly more pessimistic economic scenario assumes the U.S. economy is currently in a recession and that these conditions will continue in the second half of 2022 and extend through the first half of 2023.

This scenario assumes that a self-fulfilling prophecy of economic contraction occurs as negative consumer sentiment intensifies the slowdown in overall spending. The expectation will be that economic contraction dives a bit deeper than the baseline scenario and recessionary conditions continue into the third quarter of 2023.

Within the pessimistic scenario, the following situations should be considered:

- There will be a slowdown in both consumer and business consumption.
- The downturn in activity and lowering demand will lead to a sharp fall in prices.
- Unemployment rates will rise as layoffs accelerate as businesses look to manage costs and uncertainty.

In this pessimistic scenario, the economy will not reach the bottom of the recession until until the latter half of 2023. As a result, economic recovery will only begin towards the beginning of the second half of next year.



Optimistic scenario

A stagflation scenario is possible if the economy stays flat despite prices remaining high overall.

As a result, there should still be an expectation that consumer spending power will be limited, however, domestic supply chain bottlenecks will ease thanks to slowing demand for goods and increasing availability of key inputs. But even in this optimistic scenario, economic growth will drastically decelerate and real GDP growth will nearly come to a halt.

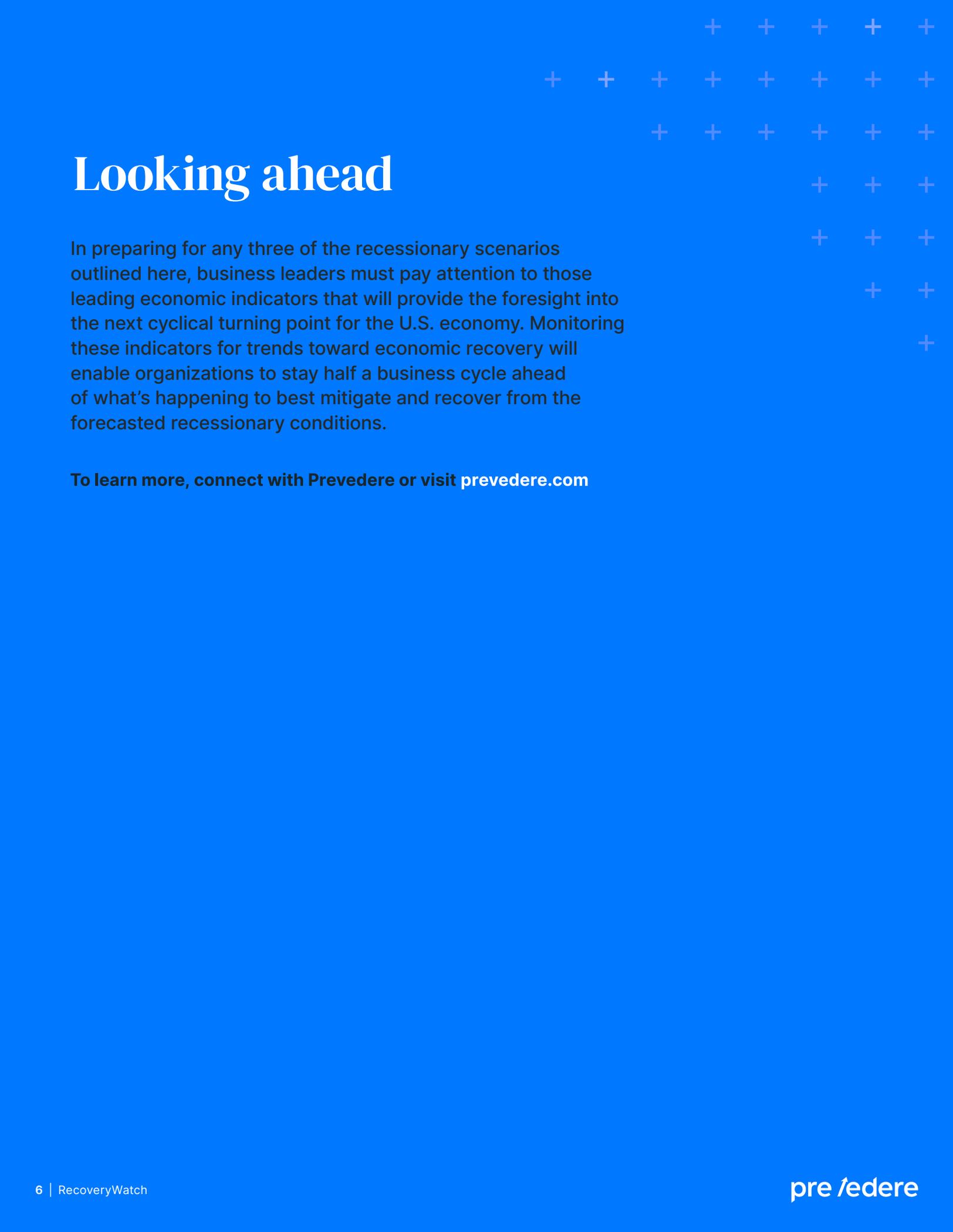
Within the optimistic scenario, the following situations should be considered:

- Global supply chains will remain stressed in contrast to domestic easing.
- Job openings will start to decrease as business activity slows.
- Wage growth continues to grow but does not outpace rising prices, limiting the consumer's real spending power.

Even under the best circumstances, the economy will have little upward momentum to begin the new year. However, unlike both the baseline and pessimistic scenarios, the economy would not experience accelerated contraction.

As such, it is inevitable that the economy will start 2023 under the cloud of recession but in the most optimistic scenario these conditions will begin to dissipate in Q1 2023 and economic reacceleration would begin by Q2.





Looking ahead

In preparing for any three of the recessionary scenarios outlined here, business leaders must pay attention to those leading economic indicators that will provide the foresight into the next cyclical turning point for the U.S. economy. Monitoring these indicators for trends toward economic recovery will enable organizations to stay half a business cycle ahead of what's happening to best mitigate and recover from the forecasted recessionary conditions.

To learn more, connect with Prevedere or visit prevedere.com

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