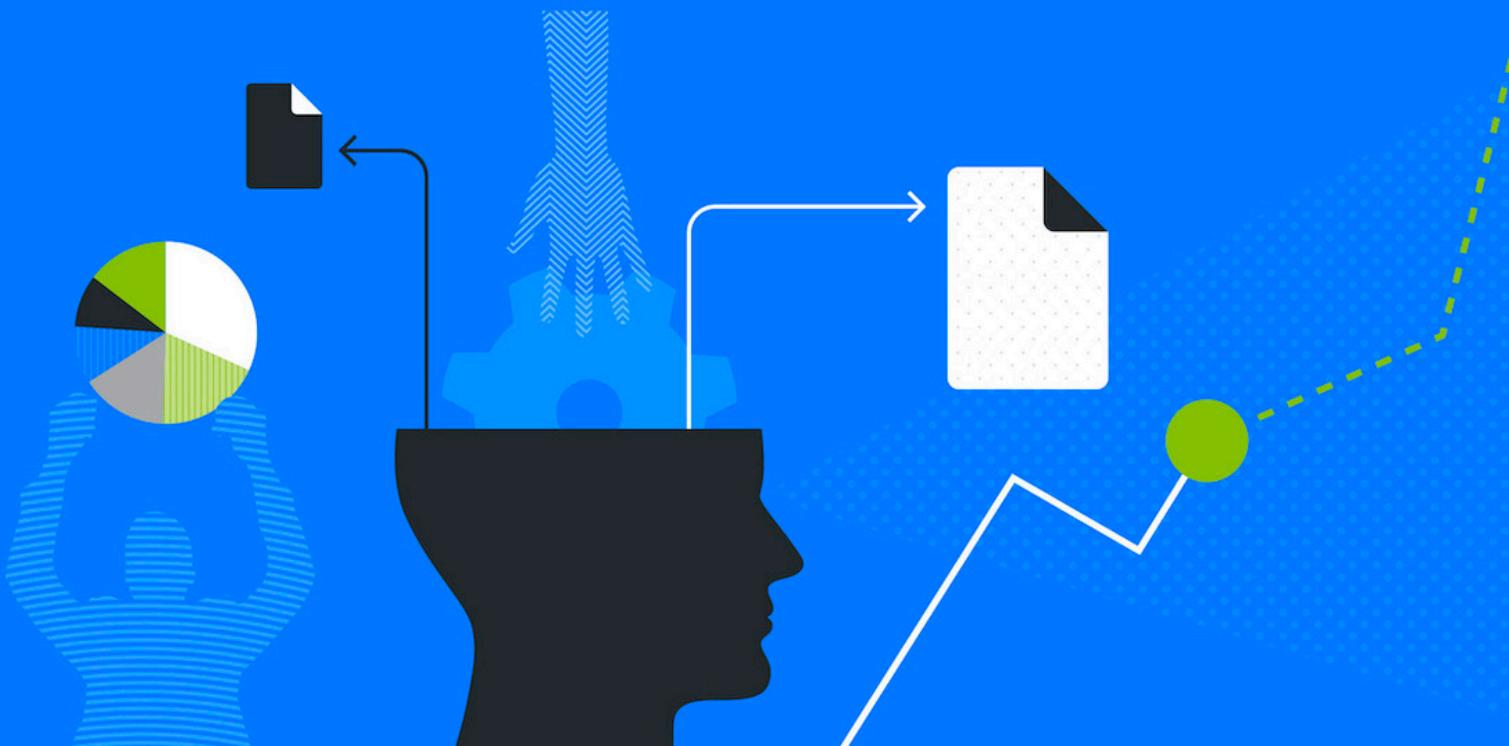


prevedere

3 economic trends to watch when scenario planning in 2023



3 economic trends to watch when scenario planning in 2023

For the last two years, the economy hasn't just been volatile, its activity has been unprecedented. So despite the projected contraction through the rest of this year, 2023 is going to mark a return to more normalcy from the pandemic simply because it should only be volatile and not unprecedented.

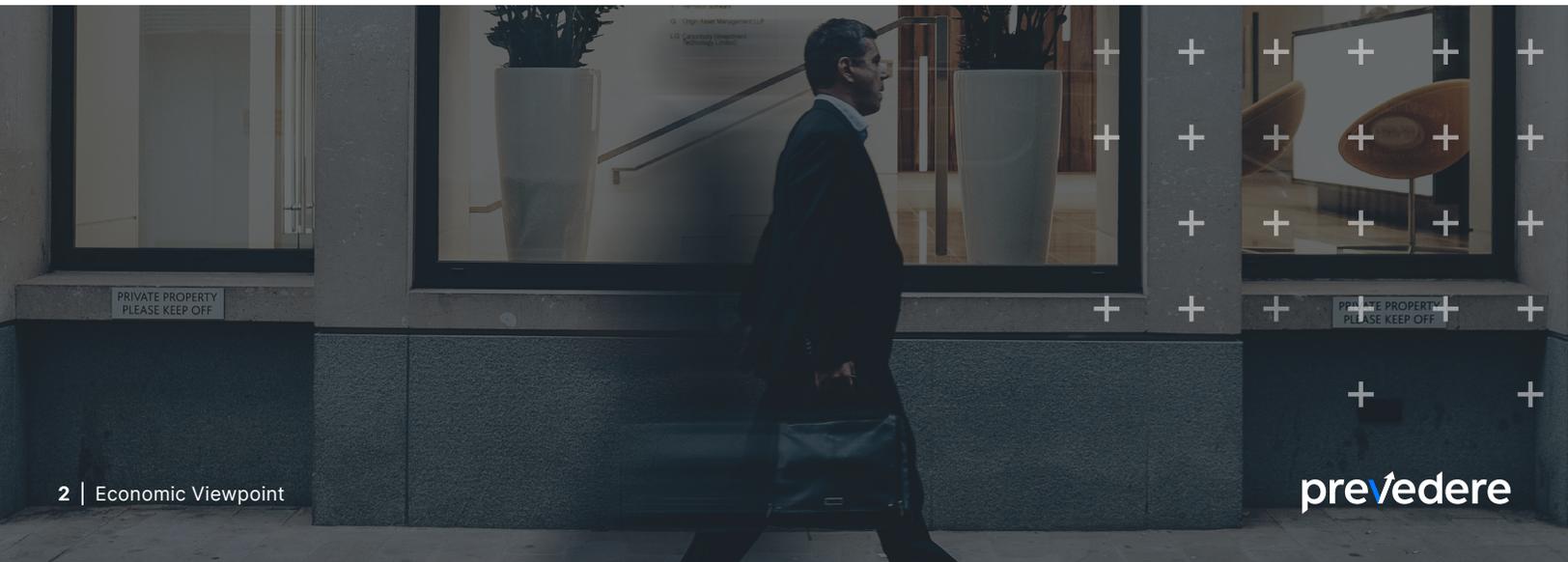
Common practices for integrating historical data into forecasting models will have increased reliability. But, the continued market uncertainty will make scenario planning a necessity for corporate financial professionals to sufficiently lead their company through the turbulence of recession and economic recovery in the next year.

The Prevedere economist team identified the following three trends that will be key to include in scenario planning activities for 2023:

Inflation is sticky and lasting

Any thought that inflation would be transitory has been removed from all planning. At this point, it would be hard to believe that it could go away easily, painlessly, or quickly. In developing plans for next year, business leaders should expect that there will be elevated inflationary pressures throughout 2023 relative to recent history.

Those pressures could prove to exacerbate the challenges faced by many businesses as the Federal Reserve has proven its willingness to push the economy into a deeper contraction in order to get inflation under control. Prevedere's economist team has flagged inflation as a critical theme throughout the next year, which makes it a key trend to include within all scenario planning. The expectation is that inflation will most likely moderate within the next year, but still stay above the Federal Reserve's goal of a 2%-2.5% rate.





Commodity prices

While most commodity or input prices have recently come down from their peak, they still remain high compared to historical standards and there shouldn't be an expectation that prices will definitely continue to fall. Since the fluctuation of commodity prices has been directly related to inflation, it shouldn't be a surprise that this trend will continue to impact businesses throughout the next year. It is imperative for corporate finance professionals to closely track these prices as there are some potential hurdles that could send prices spiking again.

Theoretically, if demand continues to slow as we expect in the cooling economy, then commodity prices will likely move lower as well. But, the current volatile economic market is providing multiple reasons that current events or even potential black swan events could throw the commodities market back into flux.

We have already seen continued geopolitical uncertainty play a significant role in the last few years, and currently, there is no end in sight for the conflict in Russia and Ukraine. On its own, this situation can significantly influence energy markets and further constrain parts of the global supply chain. Then add the potential impact of additional major lockdowns in China again or the pending union strike by rail workers, among other potential disruptors, and it is not hard to imagine that prices could skyrocket again.

Inventory planning

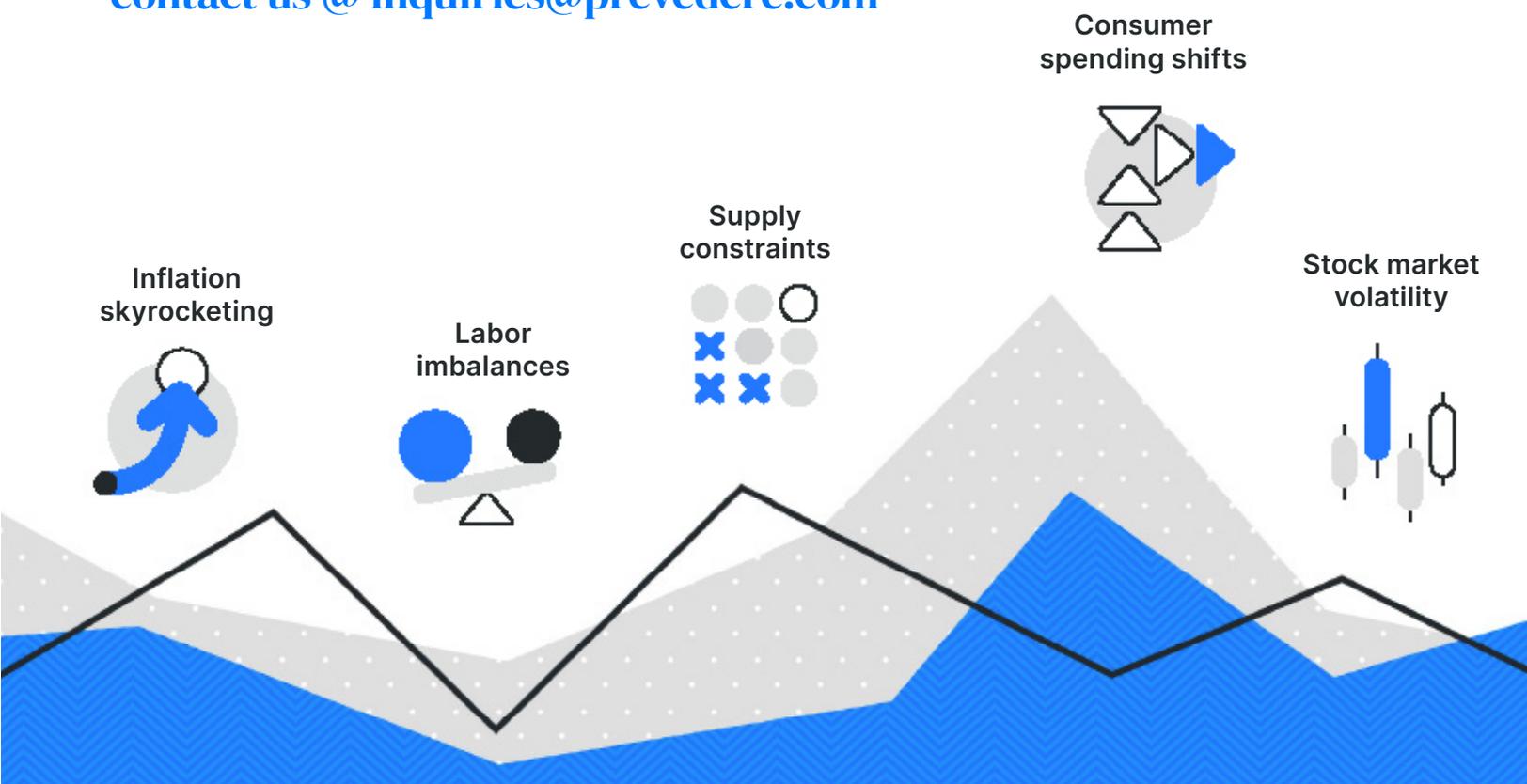
Many retailers have been facing the challenge of inventory surplus as the strength of the consumer has weakened during 2022. In fact, there almost seemed to be a perfect storm in which supply chain pressures seemed to finally ease just as consumer spending power started to fall. As these retailers have started to engage in new strategies to sell these items, it will be just as important that they have their inventory restocked at the point that consumers are ready to start spending again.

The most important thing will be for business leaders not to think about this problem linearly. In order to time this correctly, it will be imperative to develop a 3-month forecast that identifies the point when the economy will bottom out. This will give businesses ample time to prepare for success when the economy eventually rebounds in 2023.

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.

Learn more at Prevedere.com or contact us @ inquiries@prevedere.com



Thank you

prevedere

Contact: (888) 686-7746 or inquiries@prevedere.com