

Economy Watch

CEO Confidence & China Outlook

June 15, 2022



Some of the critical questions and issues we will be answering today

- What is The Conference Board's current outlook for the US and global economy?
- What are CEO's perceptions and expectations about business and industry conditions around the world?
- How has the Chinese economy been impacted by the recent wave of COVID-19 infections?
- What is the outlook for China's economy in 2022 and 2023?



Today's Speakers



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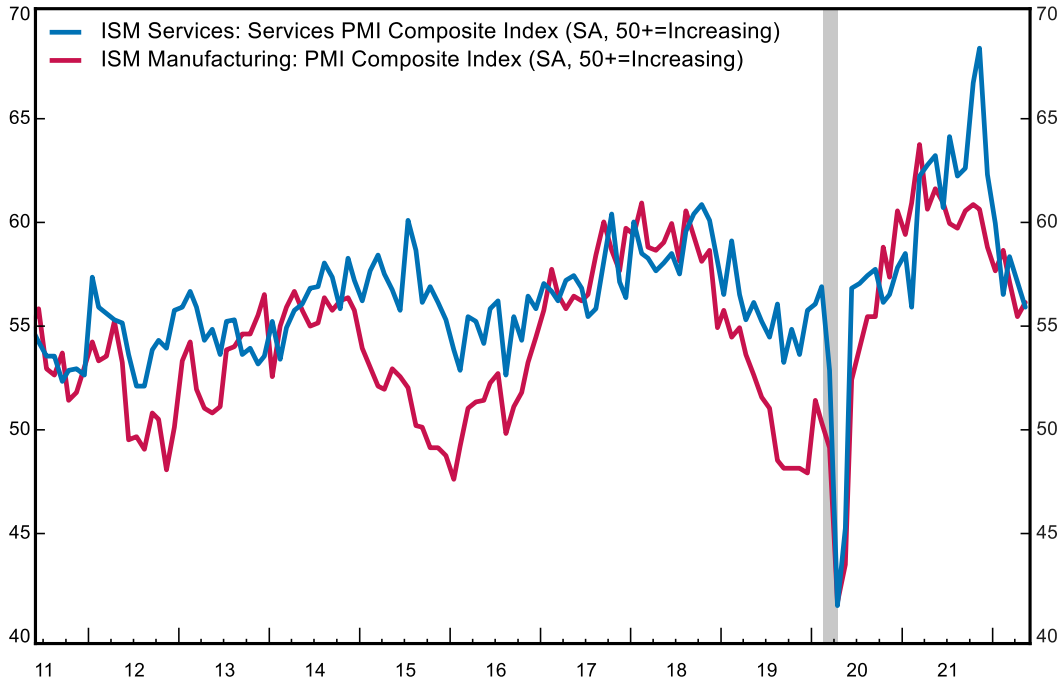
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US Economic Outlook

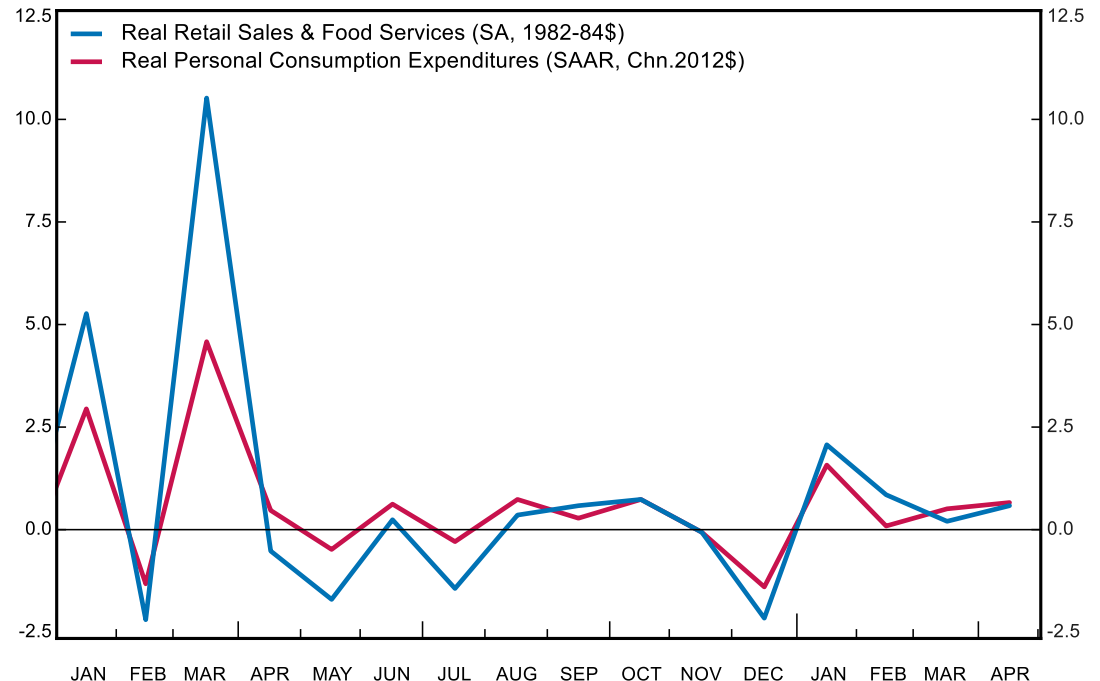
Real economic activity continues to expand, despite headwinds

ISM Manufacturing & Services PMI (Expansion > 50)



Source: Institute for Supply Management

Real Retail Sales & Personal Consumption Exp. (%m/m)



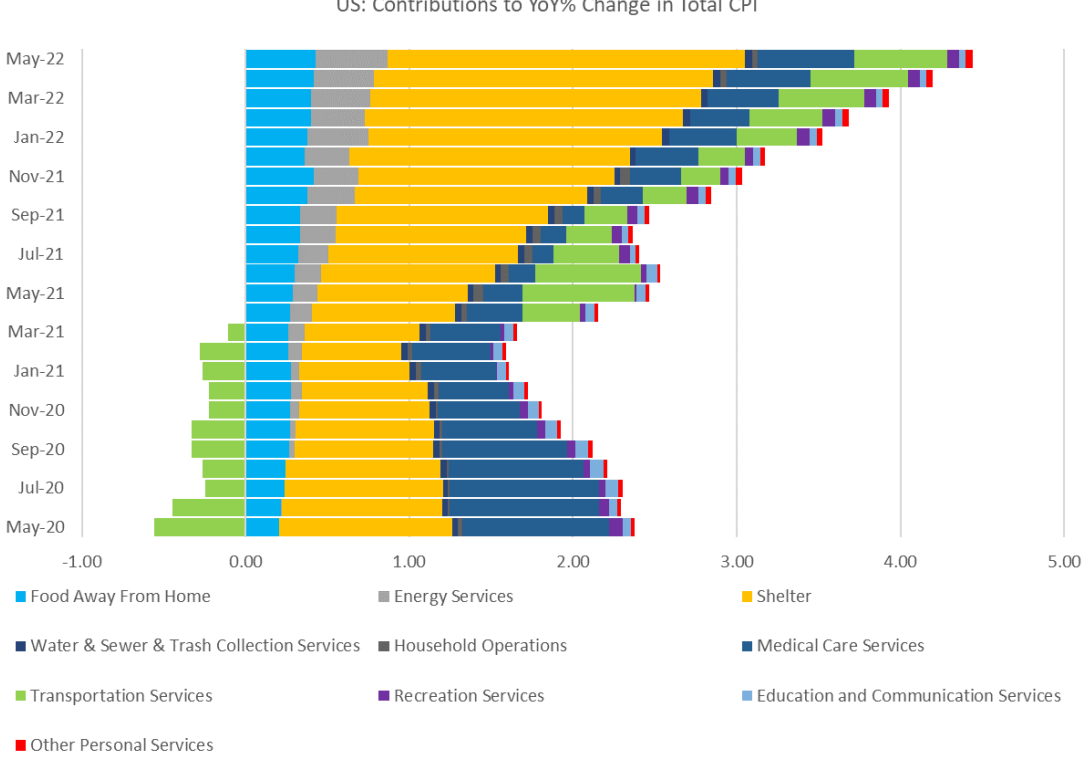
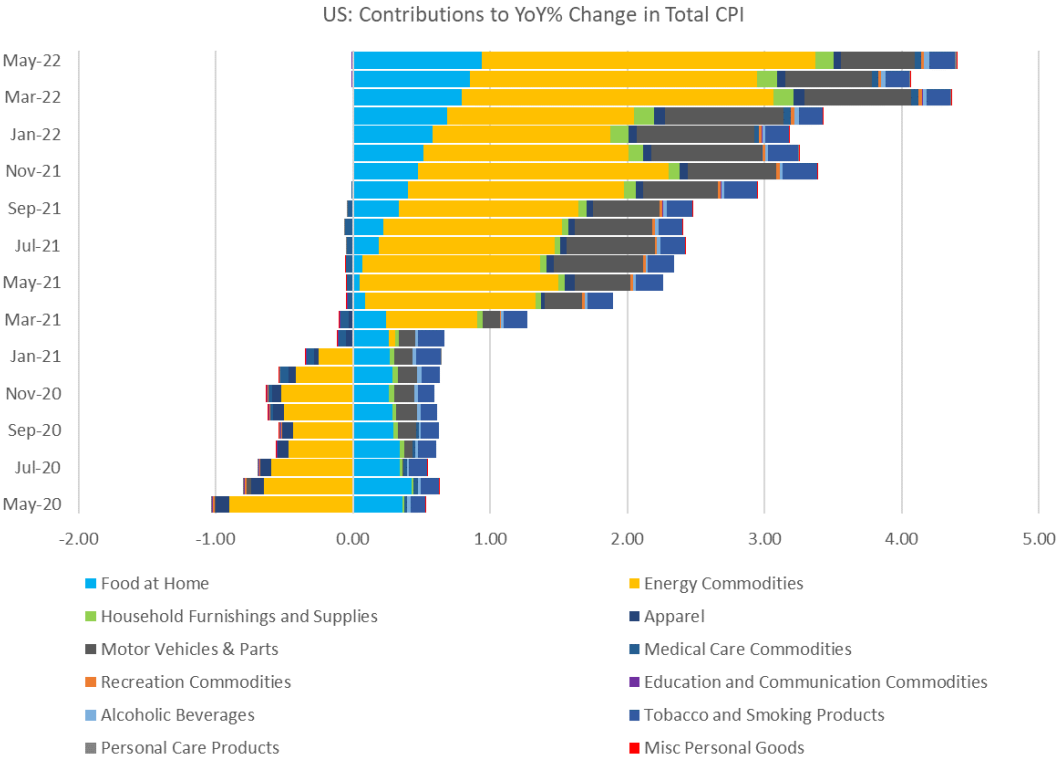
Sources: C/BLS/H, BEA

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- Businesses in both manufacturing and services are continuing to report growth.
- Despite headwinds from high inflation and rising interest rates, US consumers are continuing to spend more.



Numerous forces driving US inflation rates to four-decade highs



- Biggest drivers of inflation are currently: energy prices, food prices, and shelter prices.
- Underlying themes pushing prices higher: excess demand (and shift from goods to services), supply constraints (geopolitical disruptions), wages (tight labor market)

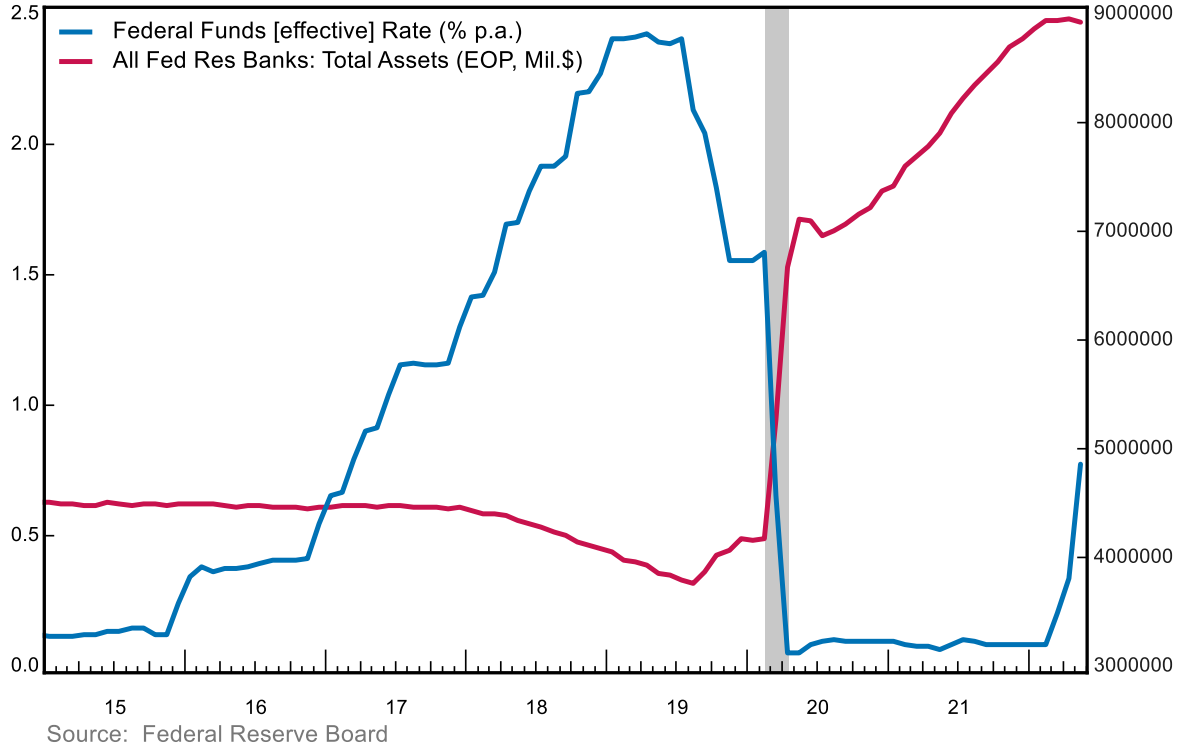


Fed tightening: threading a needle?

Meeting	Fed Funds Lower	Fed Funds Upper	Delta
January	0.00	0.25	0.00
March	0.25	0.50	0.25
May	0.75	1.00	0.50
June	1.25	1.50	0.50
July	1.75	2.00	0.50
September	2.00	2.25	0.25
November	2.25	2.50	0.25
December	2.50	2.75	0.25

- The Federal Reserve hiked rates by 50 basis point in May, it's second hike this year.
- 50 bps hike in June and July likely.
- 25 bps hikes for the remainder of 2022.
- Furthermore, Fed has begun Quantitative Tightening and will reduce balance sheet over foreseeable future.

Fed Funds Rates and Fed Balance Sheet



The Conference Board US Economic Forecast: Stagflation but no Recession

THE CONFERENCE BOARD US ECONOMIC OUTLOOK, 2020-2021-2022-2023 Percentage Change, Seasonally Adjusted Annual Rates*

	2020				2021				2022				2023				2019*	2020	2021	2022*	2023*
	I Q*	II Q*	III Q*	IV Q*	I Q*	II Q*	III Q*	IV Q*	I Q*	II Q	III Q	IV Q	I Q	II Q	III Q	IV Q					
Real GDP	-5.1	-31.2	33.8	4.5	6.3	6.7	2.3	6.9	-1.5	2.1	1.8	1.6	1.5	1.8	2.1	2.2	2.3	-3.4	5.7	2.3	1.8
Real GDP (YoY)	0.6	-9.1	-2.9	-2.3	0.5	12.2	4.9	5.5	3.5	2.4	2.3	1.0	1.8	1.7	1.8	1.9	2.3	-3.4	5.7	2.3	1.8
Real disposable income	3.1	48.5	-16.6	-8.3	54.7	-29.1	-4.1	-4.5	-6.7	-3.0	-1.0	0.0	1.0	1.2	1.2	1.3	2.3	6.2	2.3	-5.9	0.4
Real consumer spending	-6.9	-33.4	41.4	3.4	11.4	12.0	2.0	2.5	3.1	3.0	1.9	1.4	1.2	1.1	1.3	1.7	2.2	-3.8	7.9	3.1	1.5
Residential investment	20.3	-30.8	60.0	34.4	13.3	-11.7	-7.7	2.1	0.4	-1.0	-1.0	0.0	0.0	0.0	1.0	1.0	-0.9	6.8	9.2	-1.6	0.0
Nonresidential investment	-8.1	-30.3	18.7	12.5	12.9	9.2	1.6	2.9	9.2	5.7	5.0	3.2	3.0	3.3	3.7	3.4	4.3	-5.3	7.4	5.5	3.6
Inventory change (bln chn '12\$)	-30	-253	25	89	-88	-169	-67	193	150	100	65	45	30	25	25	20	75	-42	-33	90	25
Total gov't spending	3.7	3.9	-2.1	-0.5	4.2	-2.0	0.9	-2.6	-2.7	1.0	2.0	3.6	4.0	4.2	4.4	4.4	2.2	2.5	0.5	-0.5	3.6
Exports	-16.3	-59.9	54.5	22.5	-2.9	7.6	-5.3	22.4	-5.4	7.1	6.1	3.0	2.0	2.5	3.5	3.5	-0.1	-13.6	4.5	4.5	3.4
Imports	-13.1	-53.1	89.2	31.3	9.3	7.1	4.7	17.9	18.3	4.0	3.0	2.0	2.0	2.0	3.0	3.0	1.1	-8.9	14.0	10.0	2.5
Unemployment rate (%)	3.8	13.0	8.8	6.8	6.2	5.9	5.1	4.2	3.8	3.6	3.5	3.3	3.2	3.1	3.1	3.1	3.7	8.1	5.4	3.6	3.1
PCE Inflation (%Y/Y)	1.7	0.6	1.2	1.2	1.8	3.9	4.3	5.5	6.3	6.6	6.3	4.2	3.4	3.0	2.9	2.7	1.5	1.2	3.9	5.8	3.0
Core PCE Inflation (%Y/Y)	1.8	1.0	1.5	1.4	1.7	3.4	3.6	4.6	5.2	5.9	5.1	4.4	3.4	2.9	2.8	2.6	1.7	1.4	3.3	5.2	2.9

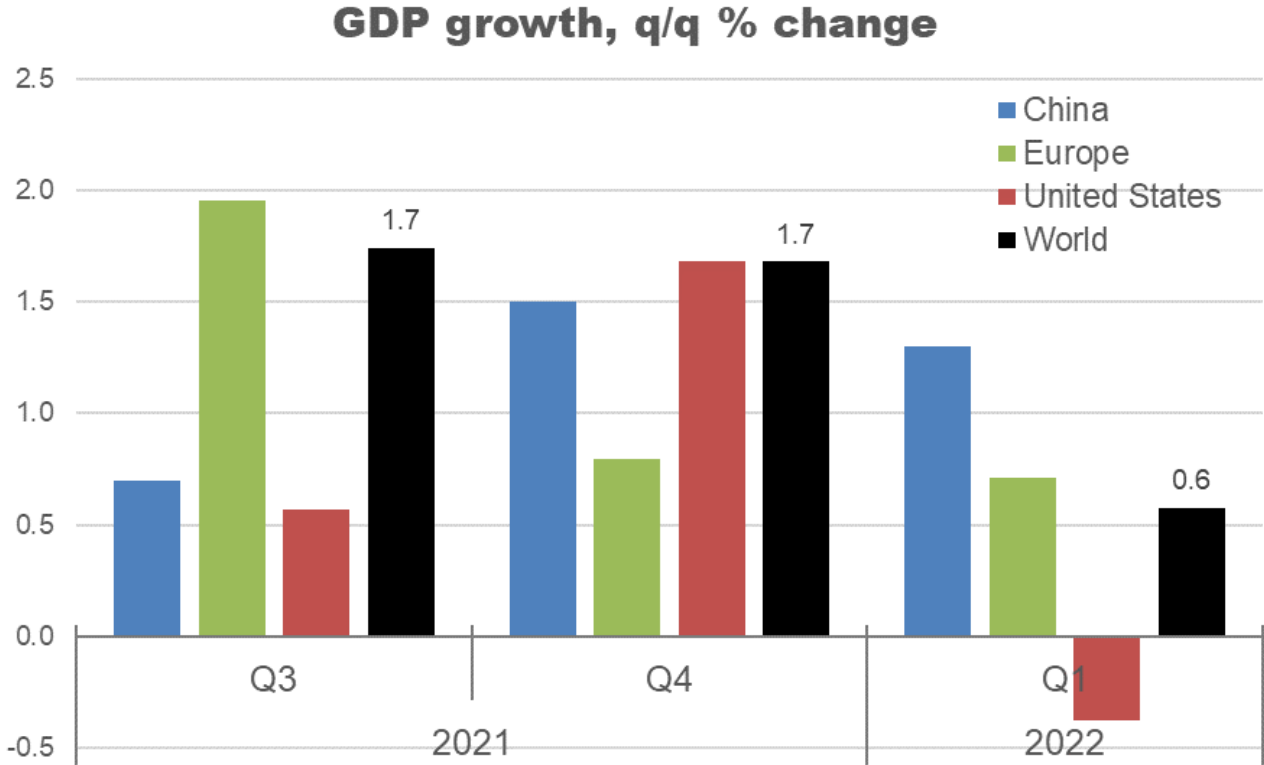
Source: The Conference Board

*Units: Quarterly growth rates are QoQ SAAR unless otherwise noted.
Annual growth rates are year-over-year unless otherwise noted



Global Economic Outlook

Global growth up until the first quarter of this year has been relatively robust

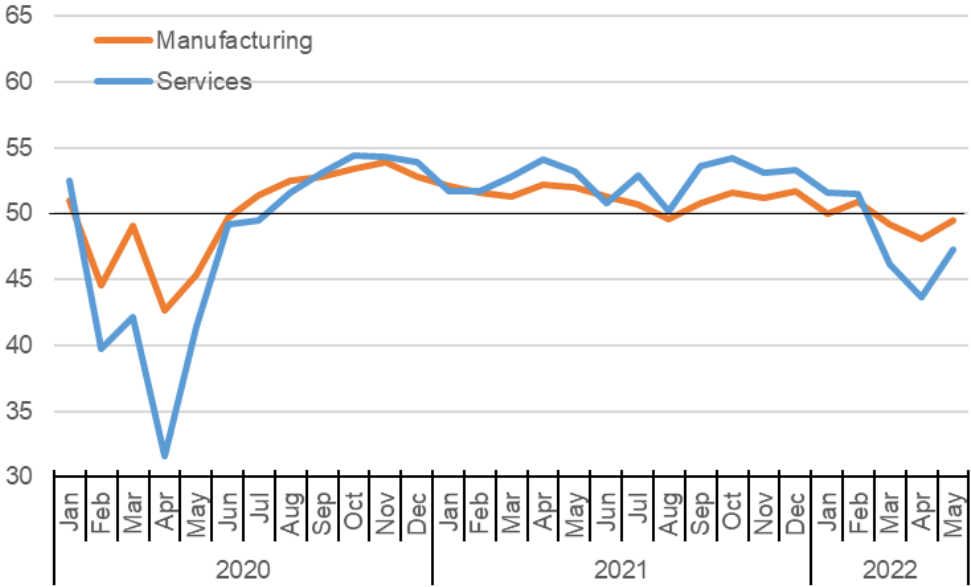


Note: Global GDP growth is a weighted aggregate of 73 economies, using nominal GDP converted using purchasing power parities.
Source: The Conference Board calculations based on official source data.

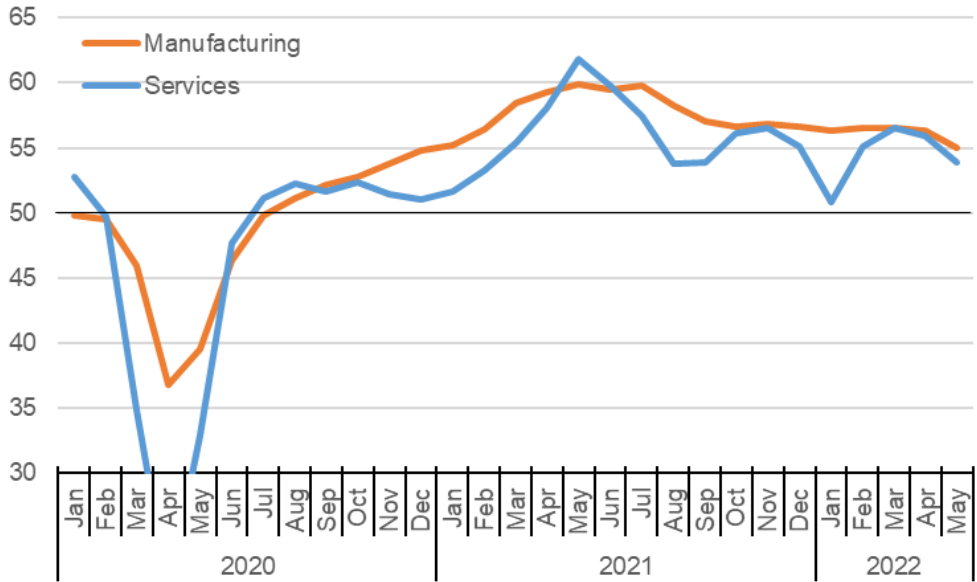


Overall activity through May suggest continued expansion despite headwinds

Emerging Markets PMI (50=neutral)



Mature economies PMI (50=neutral)

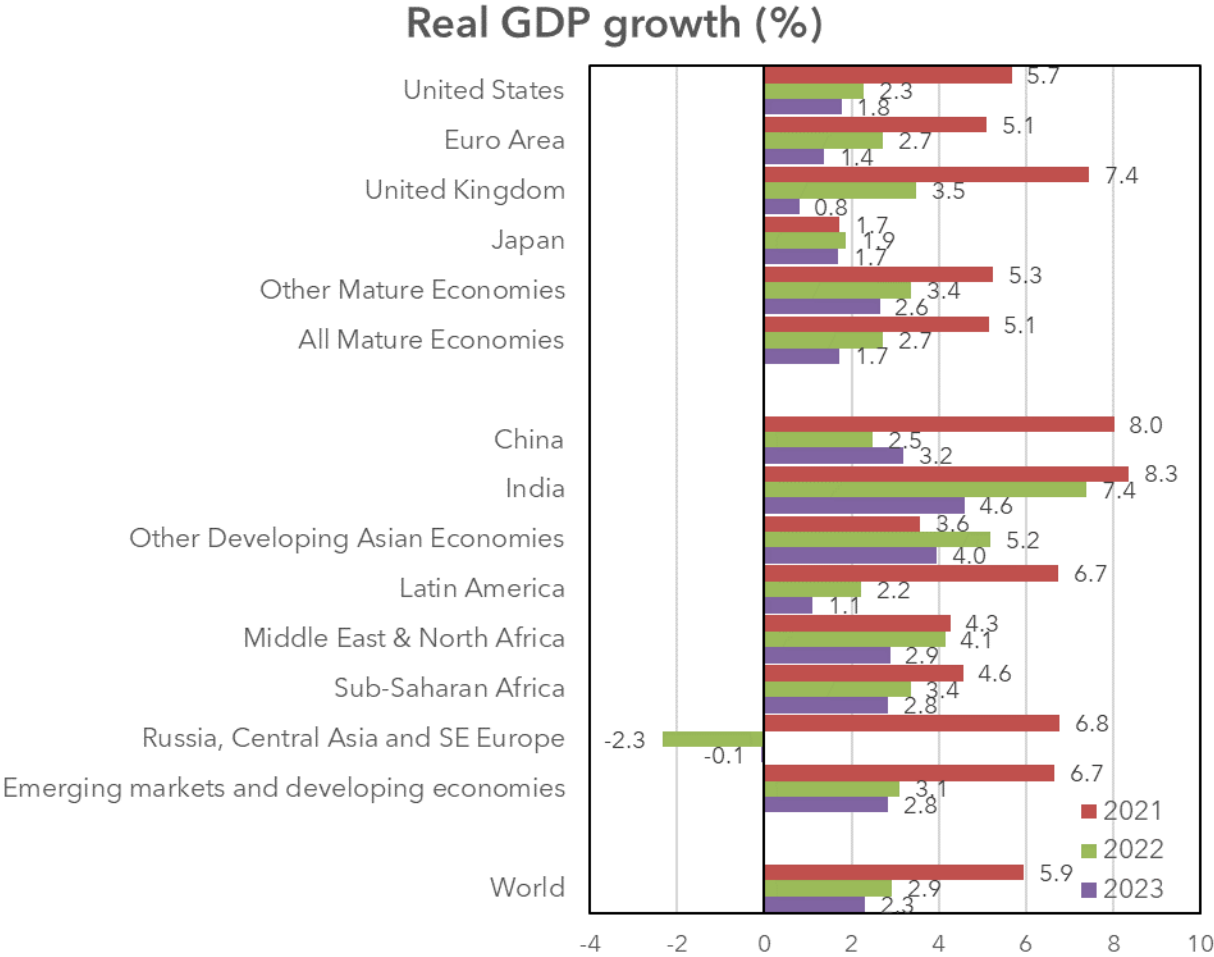


Source: S&P Global; sourced through Haver analytics



Global growth will slow this year and next, but likelihood of recession still relatively low

- Global growth for 2022 expected at 2.9% (including carry-over effect of 2.2 ppt), and 2.3% for 2023
- Growth is slowing due to various factors including shocks to supply (labor and materials) fading reopening dynamics and monetary policy normalization
- Key risk is inflation: weighing on consumer spending and inflation expectations – leading to faster tightening of monetary policy

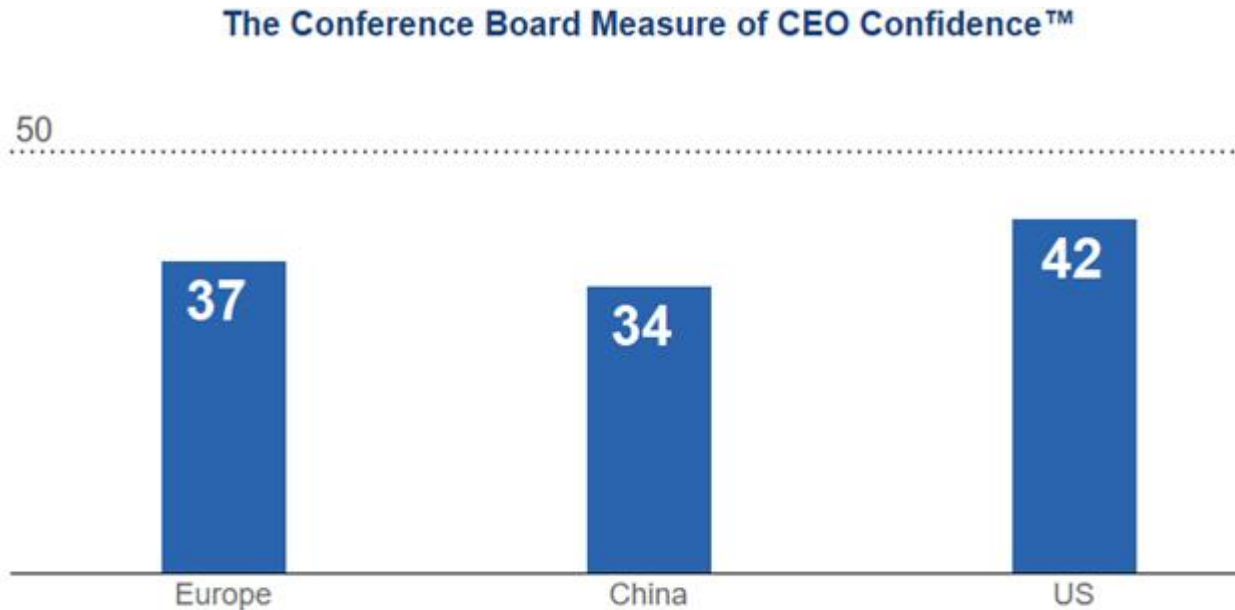


Note: Regional aggregates are constructed using nominal PPP converted GDP data.
 Source: [The Conference Global Economic Outlook \(June 2022\)](#)



Global CEO Confidence Results

CEOs globally are negative about the outlook over the next six months



Source: The Conference Board

Note: A reading below 50 denotes more negative than positive responses. In Europe, 56 CEOs and Chairs, members of the European Round Table of Industrialists, participated in the survey, which was in the field from 12 to 26 April. In China, 30 China CEOs of U.S. and European multinational companies operating in China were surveyed from 14 to 28 April. In the U.S. the survey was conducted in collaboration with The Business Council; 133 U.S.-based CEOs were surveyed from April 25 to May 9, 2022

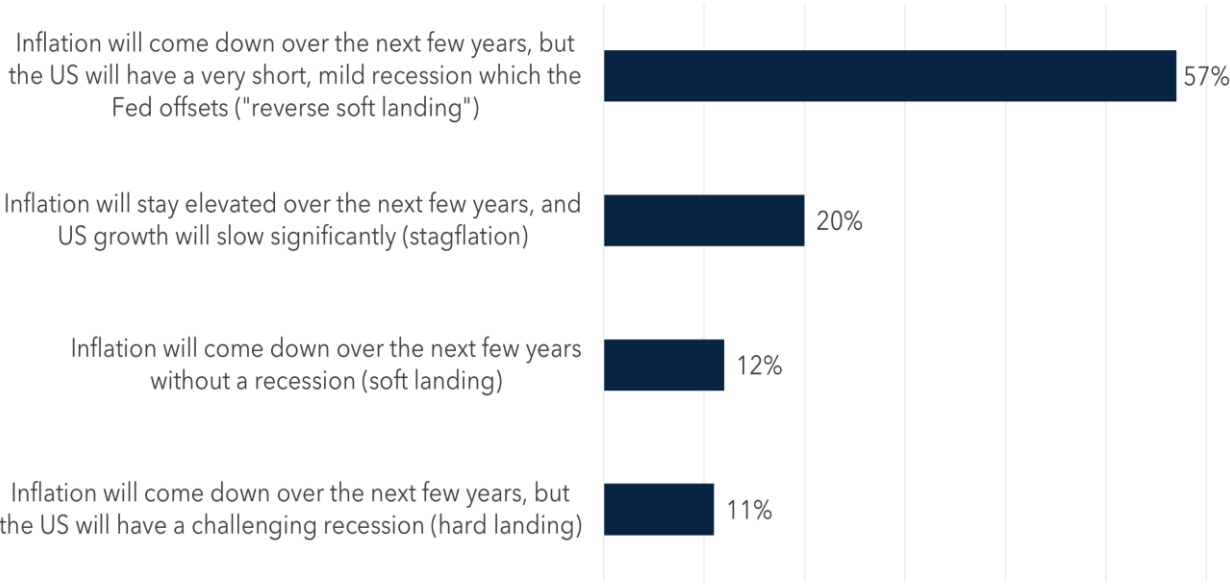
- Six months ago, CEOs were looking at a strong global economy which was dealing with its supply constraints
- The war in Ukraine led to new supply chains issues, high energy prices, increased inflation, declining consumer confidence, geopolitical risks
- Yet, strengths in the economy are underestimated in the US and Europe, overestimated for China



US: The outlook looks better from Main Street than from Wall Street

- A majority of CEOs expect a mild recession to follow Fed tightening
- Despite negative growth in Q1, we don't expect an imminent recession, but downside risks continue to rise
- Upsides: impact of fiscal spending on infrastructure and a strong labor market that can support demand

The Federal Reserve is starting to tighten monetary policy.
What do you expect to be the most likely outcome for the US economy?



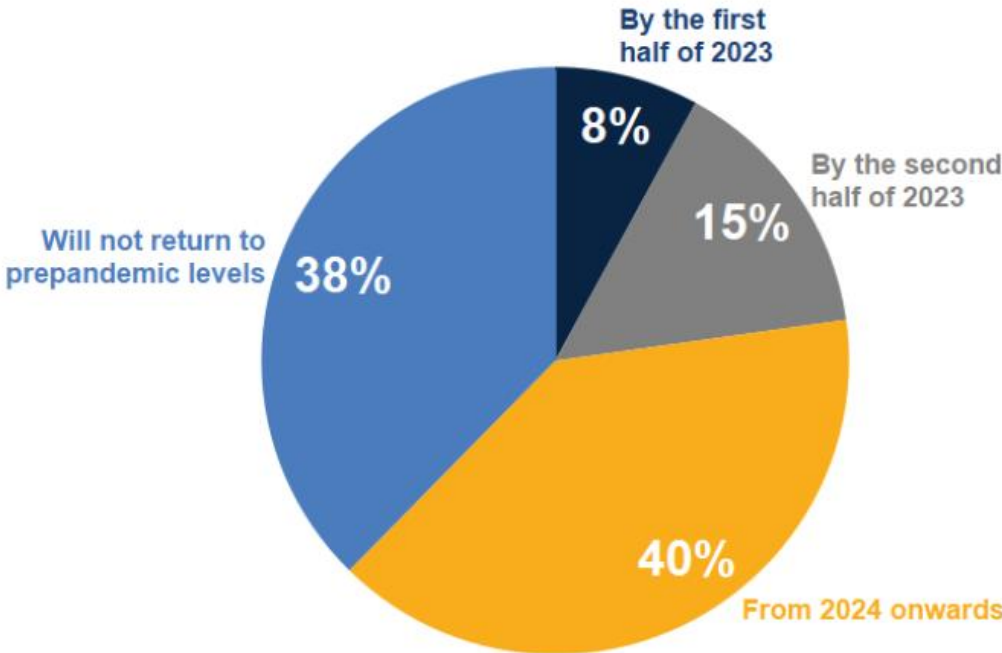
Source: The Conference Board, The Business Council

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Europe: Rising energy prices represent an opportunity (from a climate action perspective)

When do you expect energy prices to return to 2019 (prepandemic) levels?



- More than a third of CEOs in Europe do not expect energy prices to drop back to prepandemic levels at any point in time.
- Despite the challenge, two-thirds of respondents say they do not expect any significant slowing of Europe’s efforts to reduce greenhouse gas emissions by 55 percent in 2030.
- Many feel that corporate and government climate actions are more likely to accelerate than decelerate over the medium term

Note: 48 CEOs responded to this question
Source: The Conference Board Measure of CEO Confidence for Europe by ERT, 2022 H1



Rising production costs: To pass or not to pass it on to consumers? To absorb or not to absorb into profit margins?

Yes, the majority of CEOs say that they are passing higher costs down to consumers.

They do not intend to absorb the hit in their profit margins

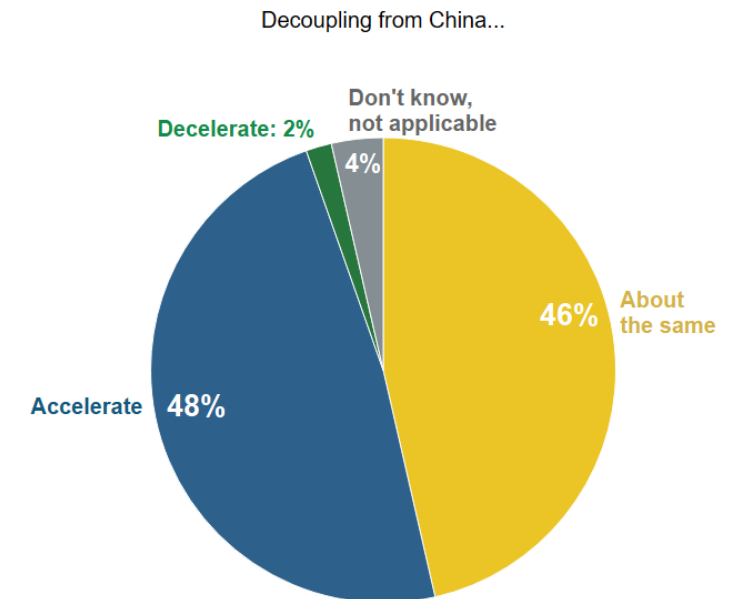
- In Europe: Passing part of rising costs to consumers/end users is already done or underway, according to 84 percent of CEOs
 - ✓ 51 percent of respondents say they are planning to also absorb price increases into profit margins, but for 40 percent of respondents this is not part of the strategy.
- In China: Passing part of rising input costs to consumers/end users is already done or underway say 60 percent. Only 20 percent say price increases are not part of their strategy.
 - ✓ 40% say they are planning to absorb price increases into profit margins, but 47 percent of respondents say this is not part of their strategy.
- In the US: the strategy to pass rising input costs to consumers dominates over absorbing it into profit margins



Reducing strategic dependences will likely result in a world divided into competing economic blocs, but decoupling is not easy to achieve

- 60% of China CEOs are investing to expand capacity in China, 51% of Europe CEOs are investing to create more production capacity within Europe
- Does sourcing more in Europe mean reducing dependency on Chinese suppliers? Not necessarily. 44 percent of respondents in Europe is not currently considering reducing dependency on Chinese suppliers as a strategy.
- Despite growing concerns about Taiwan, CEOs in the China survey group say they are not planning to shift supply chains away from Taiwan.
- Four out of five respondents in Europe expect an acceleration in the division of the world into competing economic blocs in the next five years.
- 48 percent of respondents in Europe think decoupling from China will accelerate, while 46 percent expect decoupling to proceed at about the same speed as now, *i.e. slowly!*

How do you think the war in Ukraine will impact the following trends over the next five years?



Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT, 2022 H1

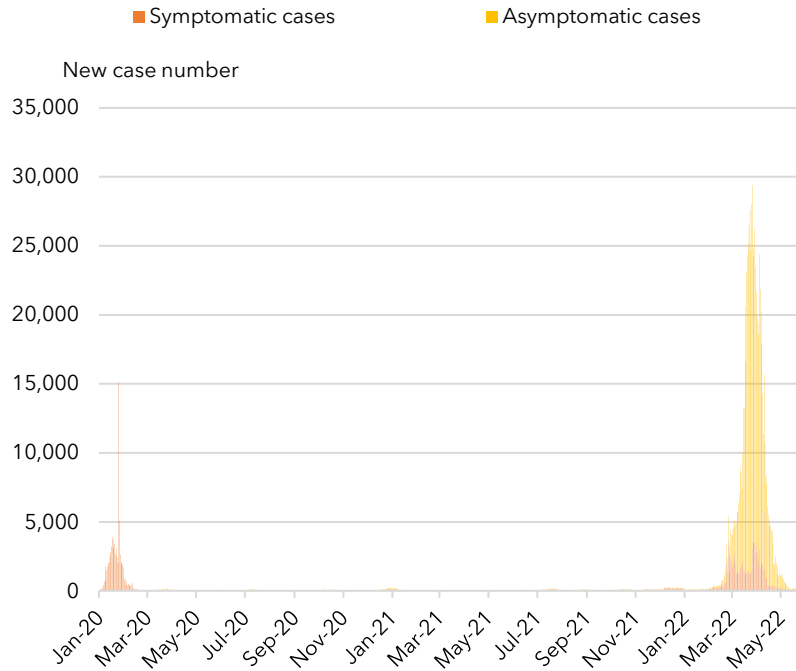


Chinese Economic Outlook

How much economic damage in Q2?

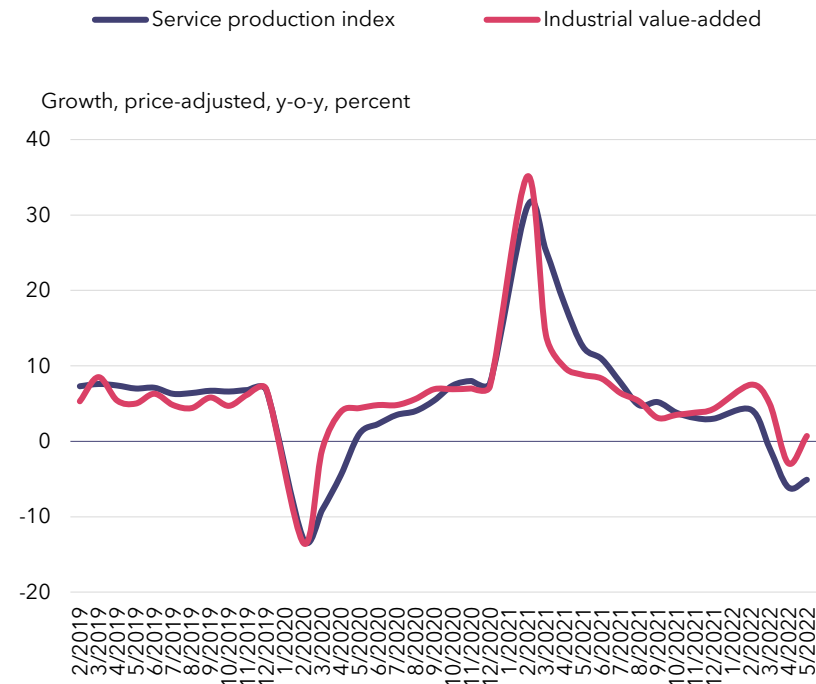
April and May probably had negative growth, and a full recovery in production growth in June is difficult

New COVID cases has been declining since mid-April, but loosening of restrictions is slow ...



Sources: National Health Commission, CEIC, The Conference Board

The worst might be over in April, but GDP growth in Q2 might turn negative ...



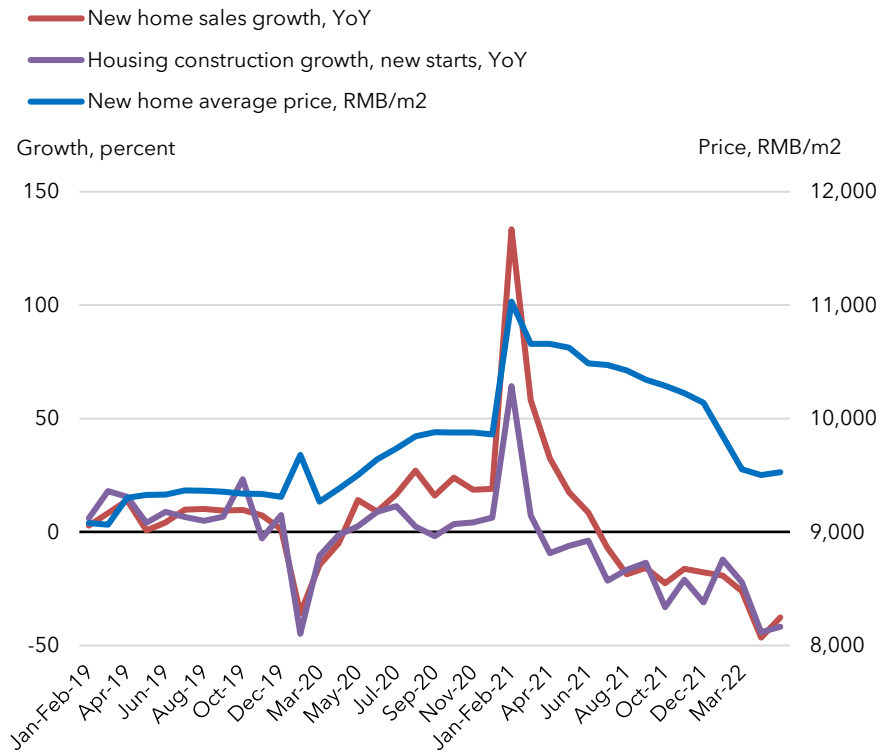
Sources: NBS, CEIC, The Conference Board



How is this time different from the 2020 recovery?

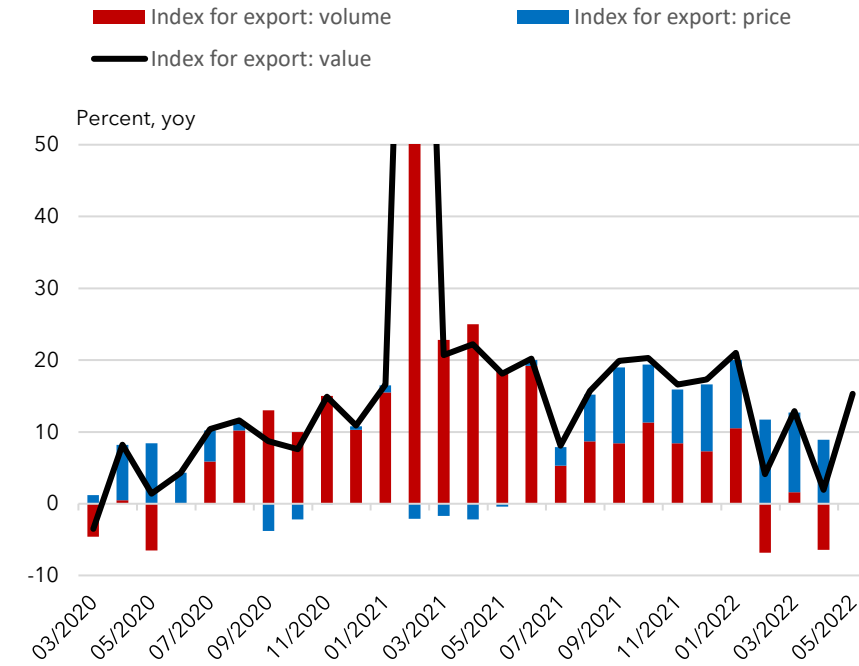
In 2020 real estate sector was booming, and exports were surging in response to global COVID-related demand. Both growth drivers are now spent

Housing market is in a deep downturn ...



Sources: NBS, CEIC, The Conference Board

China's export growth is moderating as expected...

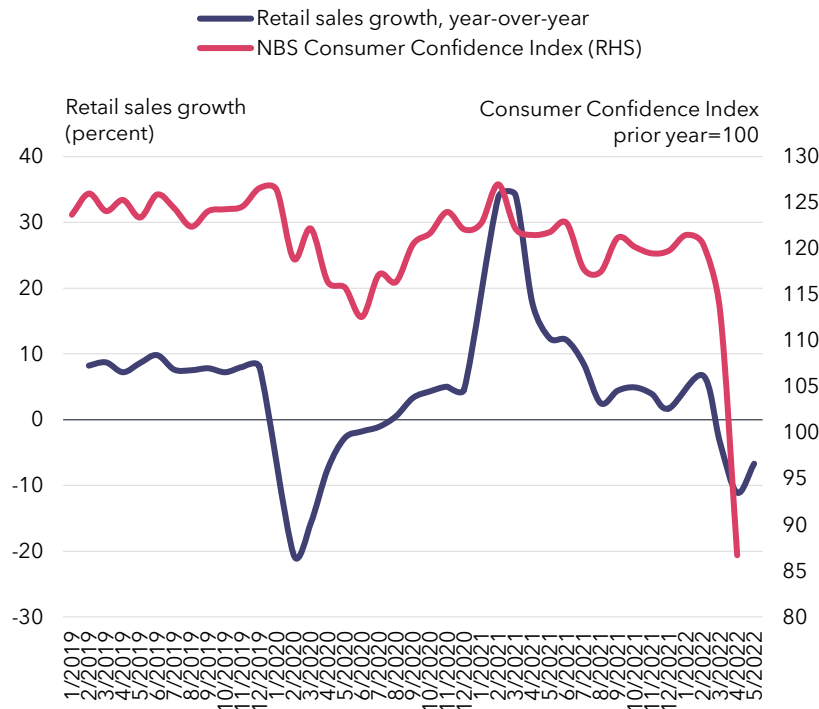


Sources: GAC, CEIC, The Conference Board



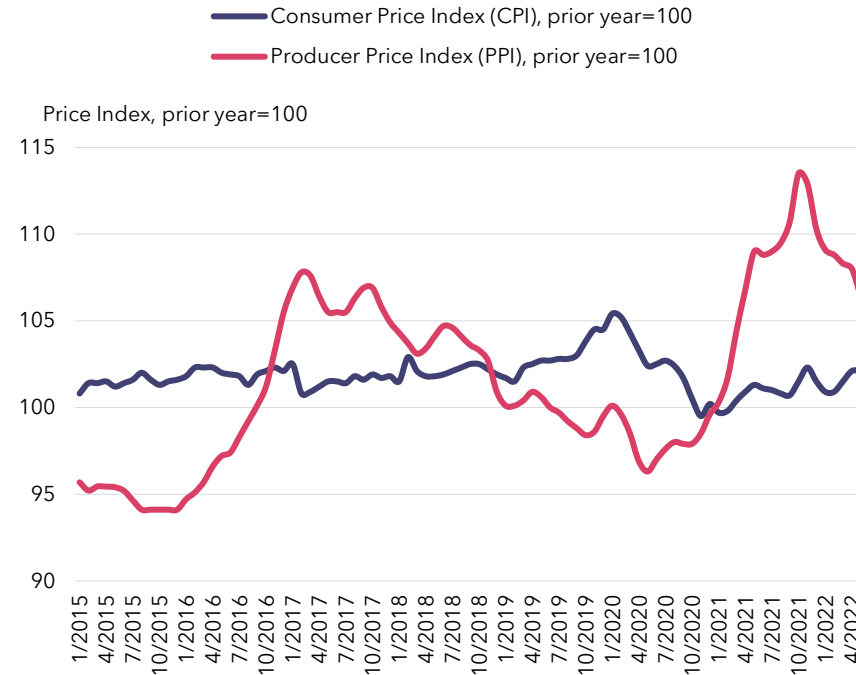
Declining income growth and rising consumer inflation will weigh on retail sales recovery

Consumer confidence is weaker than in 2020...



Sources: NBS, CEIC, The Conference Board

Consumer Price Inflation is expected to continue rising...



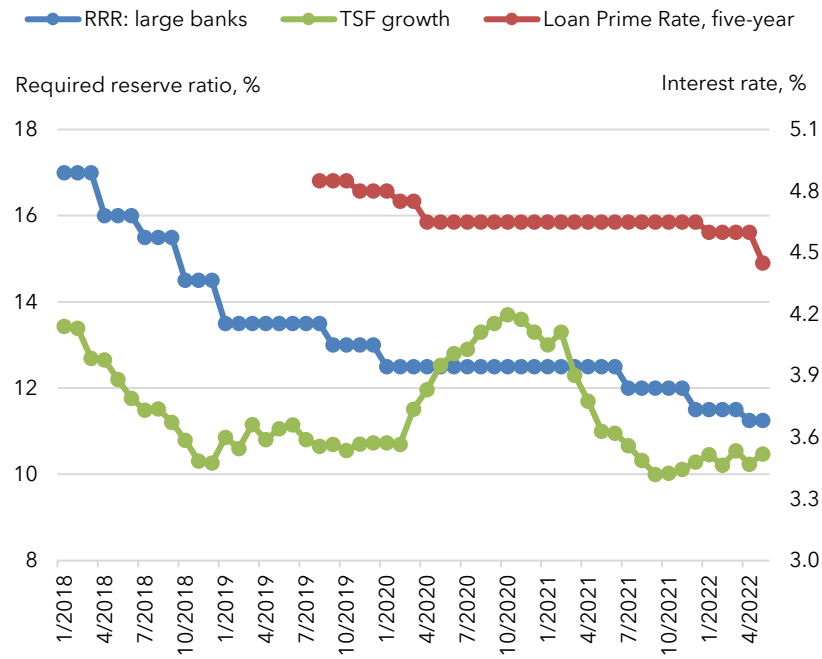
Sources: NBS, CEIC, The Conference Board



How much more policy support can be expected?

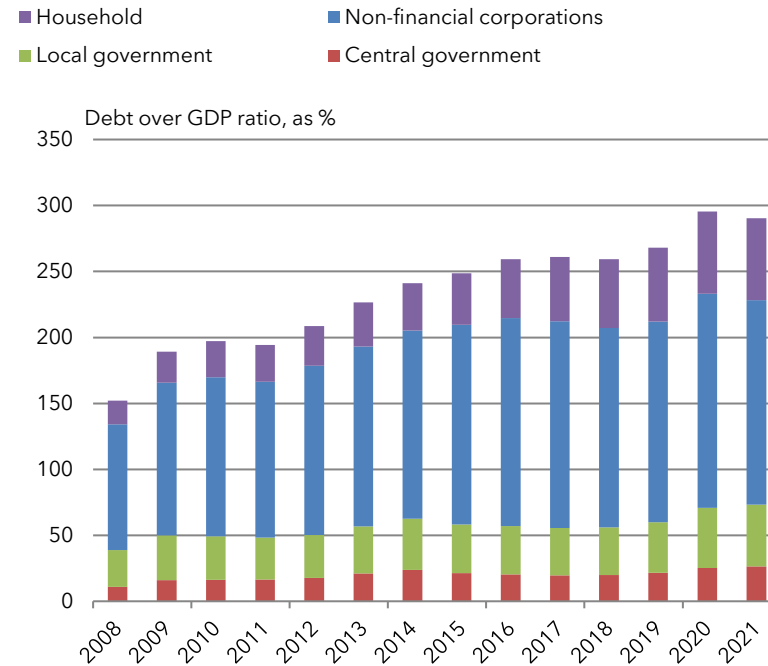
New measures introduced in May to spur demand for housing and cars. More support is expected until the housing market stabilizes

A rate cut for long-term loans was to guide ample liquidity into mortgage and fixed investment ...



Sources: PBoC, CEIC, The Conference Board

Aggregate leverage ratio declined in 2021 but the governments leveraged up; the same may happen in 2022...



Source: Center for National Balance Sheets (CNBS)



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Moderator



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