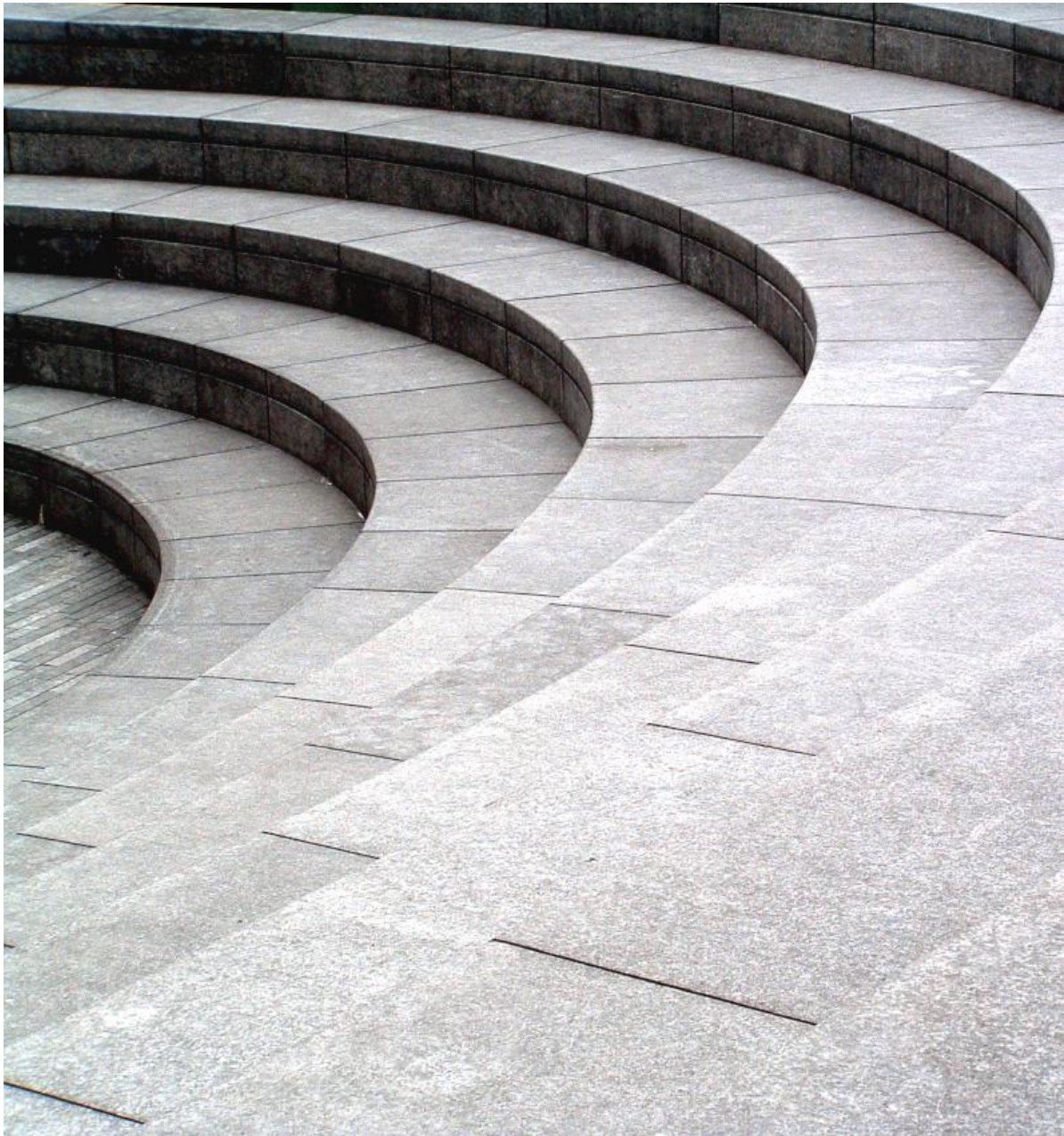


January 2023

Themes for 2023

Views from around the Market



Predictions are notoriously hard; however, we have outlined below some thoughts gained from conversations with key people in their industries. 2020/21/22 brought events that would have seemed unlikely to most including a pandemic, war, and economic instability.

After the challenges of 2020 and 2021, the world had hoped that 2022 was going to bring stability and a chance to rebuild. War in Ukraine, energy supply/prices and inflation destroyed that hope particularly for the UK, where the Autumn industrial strikes look set to continue in 2023. The death of the Queen removed a constant presence in the lives of most of the population, not just in the UK but worldwide. As President Macron said, "she was your Queen but to everyone else she was the Queen". The UK also found itself registering two quarters of negative growth at the end of 2022 which will undoubtedly impacted on prospects for a second half upturn in 2023.

Globally, events such as the football World Cup brought some distraction and for certain nations a real coming together and cause for celebration. However, parts of the globe finished 2022 suffering from weather conditions associated with global warming, such as higher temperatures and a lack of snow in the Alps.

In the context of the above Hoggett Bowers talked to several business leaders, from across all sectors and organisational sizes as well as national and international businesses, asking them for their thoughts on the main themes for 2023. Please see below a summary of their thoughts:

PEOPLE

Wage growth across all sectors is expected but at differing levels, with continued industrial unrest and strike action to key services in the UK and other OECD countries.

The stress on the individual worker around inflation, and in particular increasing energy prices, will undoubtedly impact on behaviour and performance. Several industries have already reported rises in minor accidents, often associated with distraction due to stress.

Undoubtedly many senior leadership teams have given their all during the challenges of recent years, with a number of these individuals going into 2023 who are still exhausted from recent efforts. Given the economic backdrop in 2022, many organisations are unable to pay bonuses or are paying smaller bonuses. This may have a direct impact on retention with many businesses worried that not only may they lose key people to competitors but that some senior executives may decide on totally different career directions, be in plural or full retirement. Other employers are expressing concerns that the GREAT RESIGNATION may change to the SILENT RESIGNATION with despondent employees doing the job but not delivering to the same standards. Against a backdrop of shortage of talent, the above presents a real challenge.

Labour shortages are not limited to the UK or OECD countries. As an example, Nigeria is experiencing a brain drain to countries such as the UK and Canada.

There are also the wider questions as to whether current social unrest and activism will ultimately challenge capitalism and all the implications this brings. Similarly, there are clear indications that Generation Z are losing faith in those institutions respected by previous generations, which again impacts on the corporate world.

POST BREXIT

The Chancellor has announced reform of the prudential regulatory regime for the UK Insurance and long-term savings sector, which has been generally welcomed by the sector. A reduction in risk margin should allow for a significant increase in investment in UK assets and infrastructure, which will hopefully include UK social infrastructure and green energy supply. Conversely the loosening of capital buffers will inevitably increase risks and new investments may simply be hoarded.

There is also post Brexit positioning of the UK on the world stage. Other countries are now criticising the UK where previously the UK has been vocal. The UK has yet to record any tangible trade growth and advantages outside of Europe in the wake of losing EU status.

ENERGY

Security of energy supply remains a huge issue, as Western countries prioritise supply over environmental concerns. Activism remains, coupled with accusations of green washing. Gas markets will remain strong until 2025, as gas is now acceptable in the "energy transition" as is nuclear.

The nuclear renaissance will become a larger part of the UK energy discussion in 2023, as Sizewell C was granted Government approval in November 2022. Likewise, the potential of nuclear SMRs should gain clarification over the year.

The Energy Networks Association (ENA) has recently announced that the UK's gas grid will be ready to start blending hydrogen around the country from 2023. This will allow the UK's gas grid companies will be able to meet government's target for Britain's network of gas pipes to be ready to deliver 20% hydrogen to homes and businesses around the country from 2023.

Carbon trading is a hot topic with a balanced view as to whether the buying and selling of carbon credits drives the right behaviour and the ethos of sustainability. There are many competing agendas by business segment and within companies between departments. The apparent carbon neutral World Cup in Qatar has been achieved through enormous volumes of carbon trading.

SUSTAINABILITY

There is a general view that self-reporting of ESG metrics is problematic, however establishing a reporting framework and regulatory oversight is a major challenge and, whilst there is movement

towards uniform reporting, this seems unlikely to change in 2023.

Sustainability will remain important in 2023 and will continue to grow. However, affordability and pragmatism will balance evangelism. OECD consumers still have the choice of conscious spend.

Most Western European countries will continue to prioritise secure energy supply over lower carbon options, as the economic cost of outage outweighs some 'green options' and voters anxiety.

THE CONSUMER

Many B2C businesses are awaiting greater insight into how Consumer spending patterns may change considering spiralling energy costs and inflation. We may see shrinkflation/ smaller packet sizes. Whatever the consumer decides the emphasis for most businesses will be on retaining customer loyalty. This loyalty will need to be achieved through the delivery of value for money and consistent experience /high standards.

Many FS clients were reporting that despite the economic challenges there was no real deterioration in loan book in 2022, almost giving the impression of a phoney war. However, there are predictions of defaulting in 2023 and here there is a need to identify and deal humanely with vulnerable customers. This dealing will impact on trading and brand image going forward.

THE WORKPLACE/ HYBRID WORKING

Hybrid working is clearly with us to stay, with several businesses reporting an increase in the number of home-based contracts issued during 2022.

Most organisations are viewing the actual detail of the hybrid model as evolving, particularly given how transport disruption impacted on commuting in the final weeks of 2022. Changes in the purpose of the office and how employees themselves wish to use the office may well become clearer during 2023.

Wider issues such as culture, wellbeing and training /development resulting from hybrid working are predicted to remain very much on the agenda for many organisations in 2023.

Several businesses raised the potential impact of hybrid working on D&I going forward. On one level an ability to work from home is attractive to parents, with this initially seen as advantageous for the careers of working mothers. Many parents have now cancelled their previous childcare support. However, should changes in the economy see some return to the office the question arises as to which parent remains at home and which returns to the office. In the instance that mothers stay at home more frequently than fathers there is the question that presentism may consciously or subconsciously impact future promotions and gender balance, unless decisive action is taken by employers.

THE WORLD STAGE

No G7 Country has planned elections during 2023, which may bring an element of political stability and

consistent behaviour to some, in a world characterised by increased complexity and more frequent economic trauma.

The geopolitical landscape is impacting on supply chain, including the decision between globalisation v local/regionalisation. This weaponisation of trade, be it energy, food, semi-conductors, rare earth elements etc is predicted to play out on the international stage in 2023.

Persistent, rampant inflation in some countries (e.g., Argentina/Turkey), alongside increasing interest rates in OECD economies will continue to put pressure on living standards and consumer spending. Whilst some countries are immune to the energy crisis which prevails in Europe, most are affected by double digit food cost inflation.

The re-emergence of global task forces within multinational conglomerates in 2022 will no doubt persist in 2023 as they seek to leverage the insights from across the world to maximise companywide opportunities, be more efficient and face into common challenges.

Given how it changed in the world in 2020 & 2021, it is impossible not to include the re-emergence of Covid in China as the restrictions are lifted and its potential to impact globally.

Conclusion

We all know that we live within a ever changing world and it will be interesting to see over the next 12 months which predications become reality and have the greatest impact on 2023. In association with this, new opportunities will develop which agile, forward thinking organisations will embrace against a backdrop of enhanced purpose and looking after their people.