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BUSINESS

At Davos, Mood Is Somber as Many CEOs Question Economy's Future

Business leaders at the World Economic Forum worry about a possible recession, even as some see reason for optimism

The town of Davos in Switzerland is seen on the opening day of the World Economic Forum, where politicians and top executives are gathered.

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By Chip Cutter Follow *and Sam Schechner* Follow

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DAVOS, Switzerland—The end of the free-money era has put a chill in the Swiss mountain air.

Business leaders and economists gathered here this week for the World Economic Forum's annual event say they see the world buffeted by inflation and the high interest rates that central banks have pushed through to combat it—and the threat of recession as those rates choke at least some demand. That is leading some of the world's biggest companies to hold their breath—and their spending—ahead of an uncertain year.

The question they are raising is whether rising inflation, sparked in part by Russia's invasion of Ukraine, has peaked. That could, as some business leaders hope, presage a soft economic landing. Alternatively, another rise in interest rates could lead to a more prolonged downturn.

Many businesses are cutting costs—and in some cases jobs—to be prudent, several business leaders said. But a number are also holding out hope that they won't need to cut too deeply to take advantage of what some expect could be a rebound this year if major economies skirt a recession.

"The mood is somber," said Nick Studer, CEO of the Oliver Wyman Group consultancy, who has attended meetings in Davos for years. "At the same time, you've got a lot of people hoping that the U.S. and the U.K. environment—if it's recessionary—is either short or shallow."

Whether the U.S. dips into a recession this year remains an open question, many business leaders say. Executives have been preparing for the possibility for months, even as consumer spending has remained fairly strong and the unemployment rate stood at a historically low 3.5% in December.

"I haven't heard in 30 years being in business of people talking about the recession for so long," said Christophe Beck, chairman and chief executive officer of Ecolab Inc., a provider of services and products used in water treatment, cleaning and infection prevention. "We will get ready for it in a way and it might not even happen."

Business leaders also are watching a handful of risks that could reset their calculus. Those include the potential for conflict between China and the U.S. over Taiwan and the possibility of an impasse in the divided U.S. Congress over raising the country's debt ceiling—threatening a U.S. government default.

Issues that caused headaches for business leaders throughout the pandemic, such as supply-chain snarls or construction delays, aren't fully resolved, either, said Stanley Bergman, CEO of dental-products supplier Henry Schein Inc.

Managing through the current economic climate is also complicated by the fact that some in business have little experience operating in periods of rising interest rates.

"If you talk to people on Wall Street who are 35 years and younger, they think it's the end of the world," Mr. Bergman said. "You talk to people 50 and over, we've been through this many times."

Wage inflation is also stabilizing, making it less of an issue than earlier in the pandemic, said Annette Clayton, chief executive of North American operations at Schneider Electric SE, a Europe-headquartered energy-management and automation company. A slowdown in hiring in tech has also made it easier for other companies to woo workers, she added.

“You’re competing a lot less with an Amazon factory, Amazon distribution center than you were just a year ago,” Ms. Clayton said.

People stand outside an exhibit at Davos, Switzerland. The war in Ukraine is adding to uncertainty about the coming year.
PHOTO: KYODONEWS/ZUMA PRESS

In talking with clients, executives at McKinsey & Co. say they have noticed a shift. Last summer, with high oil prices and inflation rippling through the economy, many business leaders considered whether they should pause some projects and priorities, said Bob Sternfels, the firm’s global managing partner. “The sentiment now is: I have to move,” Mr. Sternfels said. Many want to take action to seize on new technology or respond to climate change, he said.

Some see the downturn getting worse—particularly for big tech companies that grew into juggernauts in a free-money era and are now pivoting to austerity and layoffs. Those companies are striking a more subdued tone at Davos this year.

“Davos was built on the idea that the world was getting better and more global and more honest and more tolerant and the economy worked better because of that,” said Alex Karp, chief executive of Palantir Technologies Inc. “Well, it doesn’t look like we’re living there anymore,” he said, adding that “you see the results of that in firing and restructuring.”

Though political tensions remain between Washington and Beijing, some executives say they have underappreciated how China’s reopening could help their businesses. Those with operations on the ground in China have expressed optimism to peers that results there this year could be better than forecast. “There is without doubt a view that China will open up faster than some people anticipated,” said Tim Ryan, U.S. chairman at professional-services firm PricewaterhouseCoopers LLP, who has had conversations with executives across industries in recent days.

At the same time, many executives realize that war in Ukraine and other geopolitical issues remain out of their control. “That gets them down,” Mr. Ryan said.

Not all executives hold a dour outlook about the global economy at the annual confab. The economies of India and countries in the Middle East are performing well, and in the U.S., unemployment remains low and many households are still able to book flights and travel, said C.P. Gurnani, chief executive of India-based information-technology company Tech Mahindra Ltd. Mr. Gurnani said he traveled to Europe expecting people to be more downbeat about their economic prospects, but “it’s not that negative.”

“I think we are talking ourselves into recession,” he said. “I look at the data, and it’s not bad.”

—Bowdeya Tweh and Greg Ip contributed to this article.

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