CHRO BUSINESS OUTLOOK: CHROs EXPECT FAIR CONDITIONS AHEAD

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EXECUTIVE SUMMARY

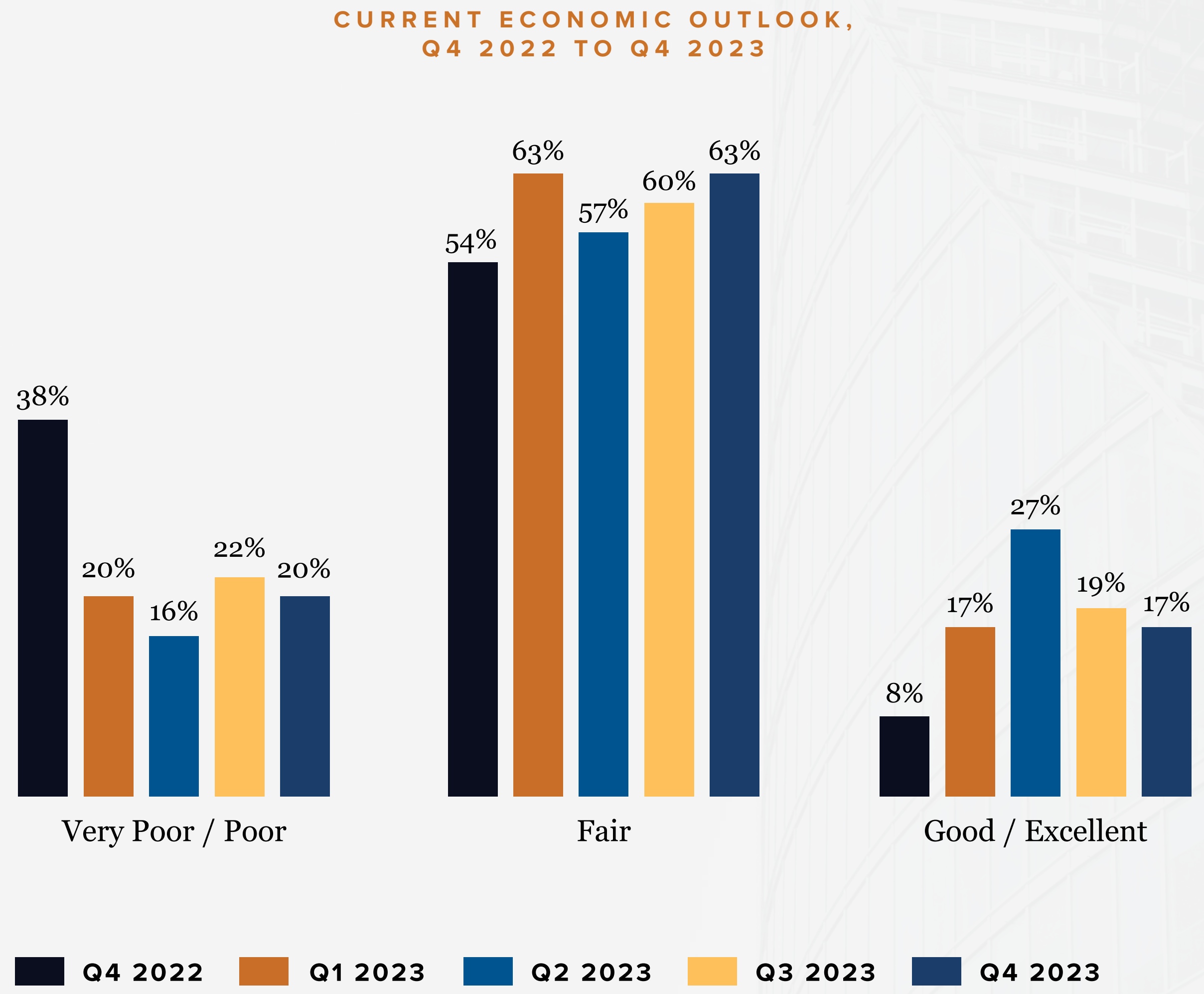
You can sum up CHROs' feelings in a word: "fair." Most of them believe the current economic and employment conditions, as well as six-month forecasts, are neither positive nor negative, but fair.

- Inflation remains top-of-mind, as CHROs with negative outlooks point to wages' inability to keep up with recent inflation, even as higher labor costs impact their organizations' bottom lines. The more optimistic CHROs among those projecting fair conditions see signs of interest rates, prices, and inflation stabilizing, but they do not expect marked improvement in the near term.
- The 2024 U.S. election is causing jitters. A few optimists believe the economy is likely to improve in an election year, while others expect that political divisiveness and government ineffectiveness will hinder meaningful improvements to the country's economic and employment conditions. Geopolitical instability is another rising concern this quarter, due to uncertainty about the potential impact of conflicts in the Middle East and Ukraine.
- There are hints of a softening labor market. Although talent competition remains stiff in some professions, several CHROs report that wage stabilization and declining job openings are increasing retention rates in their organizations. Managerial and executive-level positions are the hardest to fill. CHROs project small increases in full-time headcounts and total rewards budgets, while other indicators remain stable.

Most CHROs project that revenue, profits, and capital investments will all see minor increases, except in the service industry, reflecting optimism about stable economic conditions.

THE ECONOMIC ASSESSMENTS & FORECASTS

The Bureau of Economic Analysis reported a revised GDP figure of 4.9% for Q3, the strongest quarter of economic growth since the end of 2021. Despite this positive indicator, nearly two-thirds of CHROs (63%) assess the current state of the economy and the six-month economic forecast as fair. Only 2 in 10 gave a negative rating (20%), and a similar percentage gave a positive rating (17%). In Q2 of 2023, we saw a surge in optimism that gradually deflated as the year went on. On the upside, CHROs concur the economy is better now than it was at this time last year, recording a 9-percentage-point increase in good or excellent ratings combined with an 18-percentage-point decrease in poor or very poor ratings.



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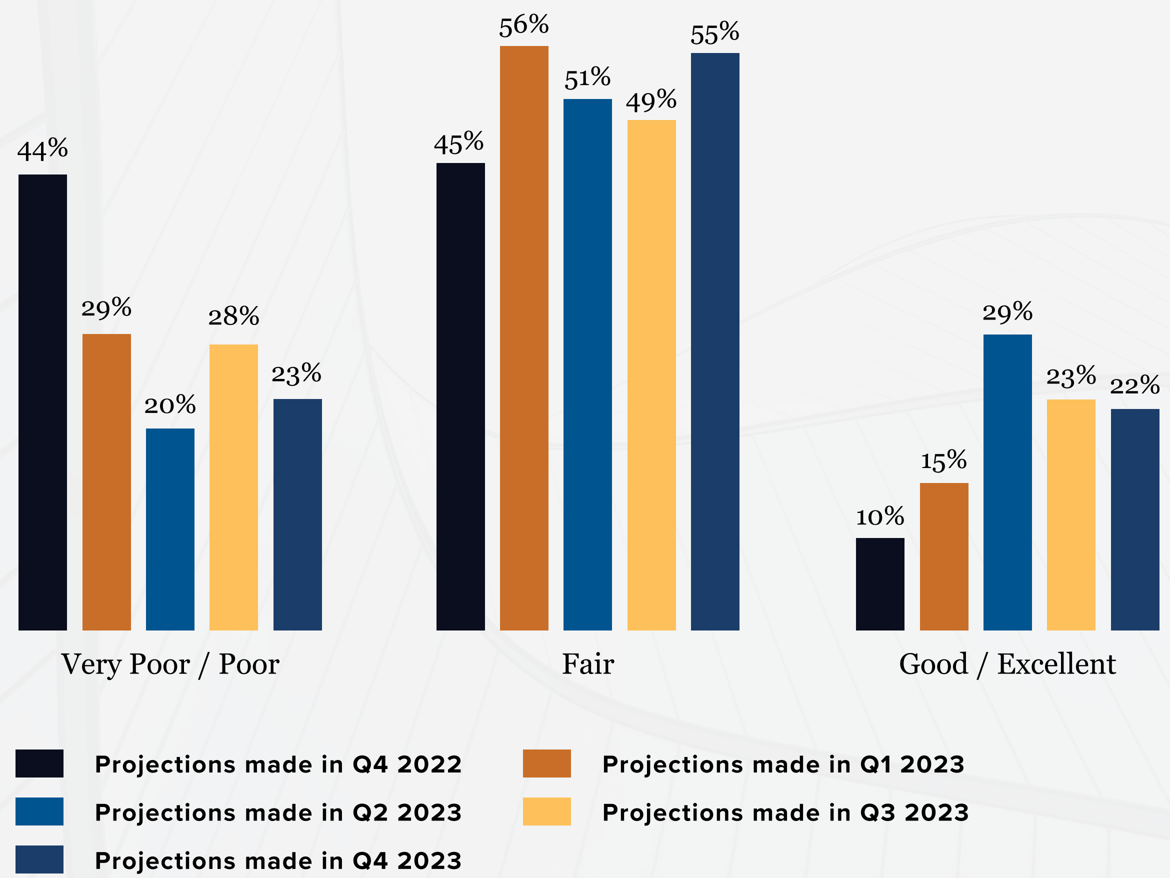
While some economic forecasters are still projecting a mild recession and a few are even bullish about growth, 55% of CHROs are anticipating fair conditions over the next six months. The percentages of respondents who expect conditions to move in negative or positive directions are almost identical, at 23% and 22%, respectively. Compared to Q3, this is a more moderate outlook, as negative projections have declined by 5 percentage points while fair projections have risen by 6 percentage points. Furthermore, these projections are markedly better than they were in Q4 2022 and Q1 2023.

Interestingly, CHROs who work for large and extra-large organizations have a much stronger consensus that conditions will remain fair compared to their counterparts in small and midsize organizations, who are more likely to predict better or worse conditions to come. This suggests that certain pockets of the economy are outpacing others, with corresponding effects on leaders' outlooks.

SIX-MONTH ECONOMIC FORECAST, Q4 2022 TO Q4 2023



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ECONOMIC FORECAST DRIVERS

DRIVERS OF A ***NEGATIVE*** ECONOMIC FORECAST

According to one respondent with a negative economic forecast,

> **There is a lot of global turmoil, prices keep soaring, and salaries aren't keeping pace.**

INFLATION AND INTEREST RATES

Inflation is the mantra repeated by about half of CHROs (51%) who provided open-ended responses explaining their negative ratings. Another quarter mentioned the related issue of interest rate hikes that are designed to cool inflation but are increasing the cost of borrowing money and doing business in the short term. According to 19% of CHROs with negative ratings, organizations are reaching the tipping point where they can no longer pay wages that compensate for the rising cost of everyday necessities.

ELECTION CONCERNS AND GLOBAL UNREST

The upcoming election is bringing uncertainty, tension, and less confidence in the economy (20% of those with negative responses). A handful of CHROs specifically said the political divisiveness of an election year is preventing government progress on major issues. In the face of two active global conflicts, jitters about the geopolitical situation are also starting to surface.

DRIVERS OF A ***FAIR*** ECONOMIC FORECAST

According to one respondent with a fair economic forecast,

> **While I'm not overly optimistic about the economy and employment, I don't think we're heading into a deep recession either. So, I'm taking a middle-of-the-road approach.**

INFLATION LEVELS OFF AS INTEREST RATE HIKES PAUSE

Inflation was again a common theme (37% of responses), but this group tended to see the proverbial glass as half full. While prices are certainly still high, inflation is not increasing at the rate it was in 2022. Some CHROs suggested they would have given the economic outlook a higher rating if not for persistent inflation, while others pointed out that economic indicators have not changed much recently and don't appear poised to change soon. According to 17% of CHROs with a fair forecast, current borrowing conditions remain challenging, but the Federal Reserve's decision to pause interest rate hikes offers some hope.

POLITICS AND OVERSEAS TURMOIL

For about a third of CHROs who say conditions will be fair (32%), the upcoming U.S. election combined with the war in Ukraine and the volatile situation in the Middle East either temper their optimism or make the future difficult to predict. In general, they expect little to change on the economic front until after the election and express concern that the conflicts overseas could affect the entire global economy.

DRIVERS OF A ***POSITIVE*** ECONOMIC FORECAST

According to one respondent with a positive economic forecast,

> **Inflation is coming down, a soft landing instead of a recession is seeming to be more likely, [and] unemployment is still low.**

INFLATION IS STABILIZING, LEADING TO PAUSES IN INTEREST RATE HIKES

More than a third (36%) of CHROs who provided an open-ended response and said conditions were positive mentioned inflation either leveling off or beginning to drop. Many expect interest rates to follow suit eventually. The difference between those who gave a positive forecast versus a fair one comes down to how close the light at the end of the economic tunnel appears to be.

FAVORABLE EMPLOYMENT CONDITIONS

Projections that higher interest rates would result in job losses largely have not materialized, as the unemployment rate dropped from 3.9% to 3.7% in November and remained at that rate in December, according to the Bureau of Labor Statistics. Of the 80 CHROs giving positive economic forecasts, the largest share (19%) cites the low unemployment rate as a signal of a strong economy. Some CHROs (13% of those who said conditions were positive) are seeing a robust job market, while 10% of responses mention that workforces are stabilizing as employees feel less inclined to quit in search of more lucrative employment elsewhere.

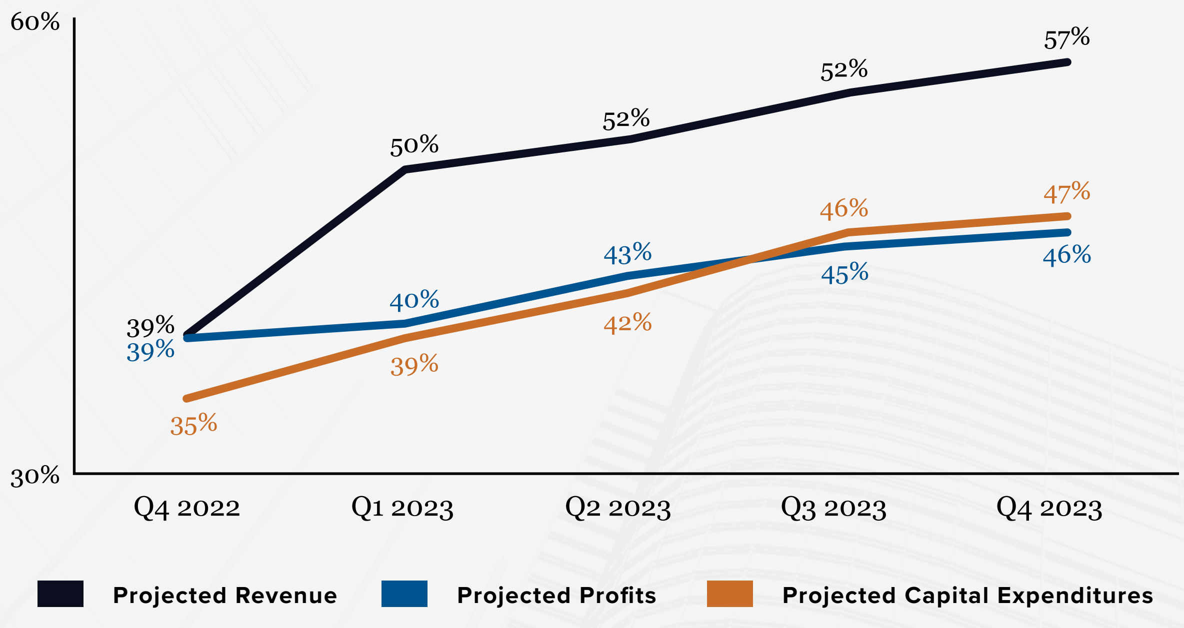
ORGANIZATIONAL-LEVEL INDICATORS

Most CHROs are expecting their organizations to stay the course in Q1 2024. Nearly 6 in 10 expect an increase (of any size) in revenue, while slightly less than half expect an increase in profits (47%) or capital expenditures (46%). These figures have remained quite stable from Q3, though a marginal upward trend is noticeable across all of 2023. Just as important, perhaps, is the fact that roughly 10% or less expect major decreases in any of these indicators. CHROs in the service industry are notably more negative than their colleagues in all other industries, with 39% predicting no growth in profits, compared to 24% in other sectors.

SIX-MONTH FORECASTS OF ORGANIZATIONS' FINANCIAL HEALTH (% OF CHROs)

	Increase of over 20%	Increase of 10%-20%	Increase of less than 10%	No change	Decrease of less than 10%	Decrease of 10%-20%	Decrease of over 20%
Revenues	2%	19%	35%	27%	9%	4%	3%
Profits	3%	12%	32%	34%	11%	6%	3%
Capital expenditures	3%	15%	28%	35%	11%	6%	3%

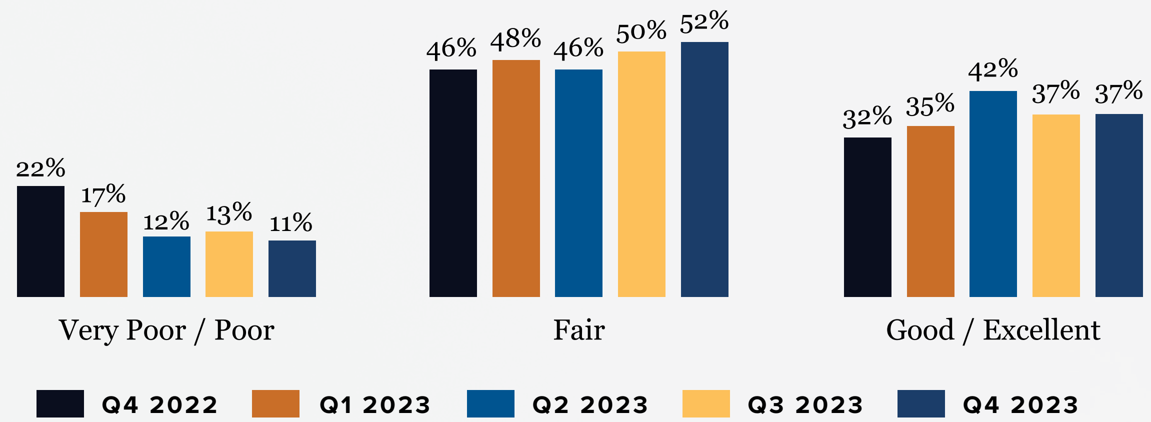
PERCENT OF CHROs FORECASTING INCREASES IN ORGANIZATION-LEVEL INDICATORS



EMPLOYMENT REMAINS HEALTHY

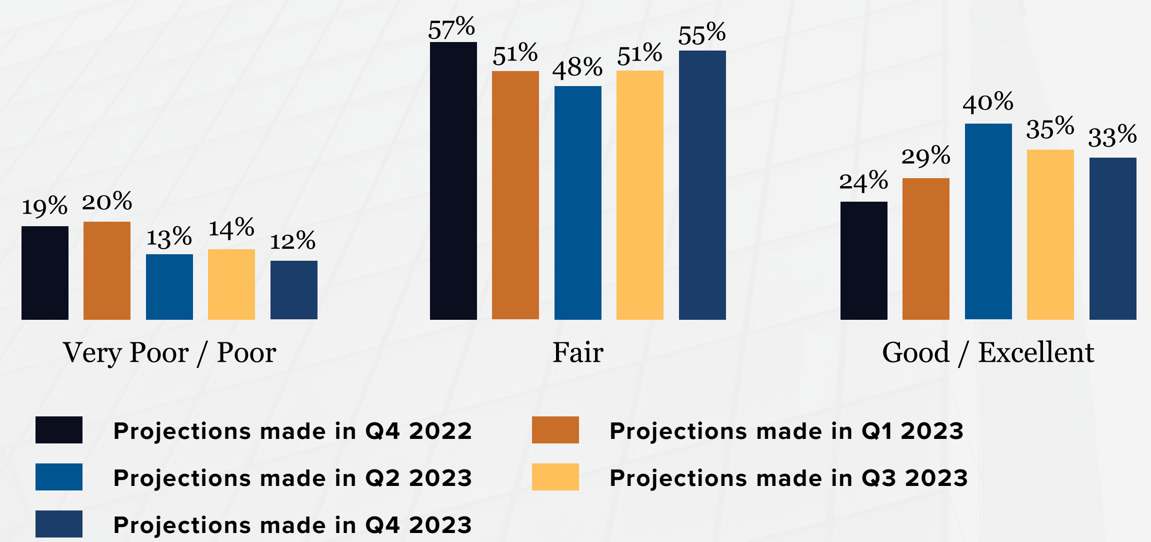
CHROs continue to see a strong labor market, with 37% rating current employment conditions as good or excellent and 52% rating them fair. These numbers are nearly unchanged from Q3, except for a 2-percentage-point shift away from very poor or poor toward fair ratings.

CURRENT EMPLOYMENT OUTLOOK, Q4 2022 TO Q4 2023



The trend in employment forecasts over 2023 suggests a possible softening in the labor market, with a modest shift away from either positive or negative to fair assessments. On the positive side, CHROs are less pessimistic since the start of 2023 (6 percentage points less).

SIX-MONTH EMPLOYMENT FORECAST, Q4 2022 TO Q4 2023



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EMPLOYMENT FORECAST DRIVERS

DRIVERS OF A ***NEGATIVE*** EMPLOYMENT FORECAST

Notably, only 12% of CHROs rated the employment outlook as poor or very poor. According to one respondent with a negative employment forecast,

> **Quality candidates … seem to be staying put in their current roles. Those that are looking are either not qualified or too high-priced based on their background and qualifications.**

SHALLOW TALENT POOLS

Of CHROs anticipating a negative forecast, the largest share (27%) reported continued difficulty finding and successfully recruiting qualified candidates. Those in the health care, manufacturing, and service industries are feeling particular pain.

INCREASED LAYOFFS OR POTENTIAL LAYOFFS IN 2024

Due partly to compensation pressures and partly to ongoing murmurs of a possible recession in the first half of 2024, about a quarter of CHROs who anticipate a negative forecast are already seeing or expecting to see downsizing (22%). However, while these expectations may align with certain pockets of the economy, recent national-level data paints a different picture. The layoff rate in November 2023 was at its lowest level since December 2022, and there were 1.4 job openings for each person seeking work.

DRIVERS OF A ***FAIR*** EMPLOYMENT FORECAST

The majority of CHROs (55%) are anticipating fair conditions. A portion simply do not expect much to change before the November elections. According to one respondent with a fair employment forecast,

> **While the job market remains tight, companies are continuing to hire.**

SALARY DEMANDS ARE BECOMING MORE REALISTIC, BUT DIFFICULTIES REMAIN ON THE RETURN-TO-OFFICE FRONT

Twelve percent of CHROs with fair forecasts say that salary demands from employees and applicants are becoming more reasonable. However, they mention that applicants are still firm on their expectations for remote or hybrid work options.

LAYOFFS AND BUDGET CONSTRAINTS

Due to economic factors, 10% of CHROs with fair forecasts report increased layoffs and budget constraints coming into 2024. Consistent with this notion, some corporate technology leaders report that savings and cost control are priorities this year, according to The Wall Street Journal.

DRIVERS OF A ***POSITIVE*** EMPLOYMENT FORECAST

The one-third of CHROs who believe the employment outlook is good or excellent mention similar issues as their colleagues who rated the outlook fair. The distinction lies more in their level of optimism, rather than the issues they identified. According to one respondent with a positive employment forecast,

> “[We] have been able to hire good, qualified candidates. [It’s the] first time in two years that we are fully staffed. Employees are not threatening to leave at every turn.”

JOB OPPORTUNITIES AND LOW UNEMPLOYMENT

Unemployment rates remain low, and despite a slight decrease in job openings in the second half of 2023, plenty of jobs remain available. Of the CHROs offering positive forecasts, 17% specifically cited the low unemployment rate as a positive indicator. Another 13% reported seeing more qualified candidate pools and having more success filling open positions.

WAGE STABILIZATION AND BETTER RETENTION RATES

As wages are stabilizing and job prospects are becoming less rosy, employee retention rates are increasing, according to 11% of CHROs with positive forecasts.

HR INDICATORS

Organizations remain in a holding pattern, waiting for economic indicators and national election results to guide their next steps. For all measures except full-time staffing levels and total rewards budgets, the largest share of CHROs report “no change.”

Despite persistent rumors of economic contraction in 2024, the percentage of CHROs expecting to increase full-time staffing levels in the next six months is virtually unchanged this quarter, at 53%. Only 13% anticipate downsizing, suggesting that layoffs are likely to be restricted to pockets of the economy. Nonprofit organizations are significantly less likely than their for-profit counterparts to project staffing increases (44% to 59%), continuing a long-term labor trend.

Supporting CHROs’ impressions that candidate pools are becoming more robust, between Q3 and Q4, the percentage anticipating an increase in time-to-fill dropped 4 percentage points (to 31%) while the share expecting no change in this metric increased by 11 percentage points (to 56%). Conditions are still far from favorable for employers, but they are moderating.

Budget-wise, the majority of CHROs are planning to increase their organization’s total rewards budget (58%) while maintaining their recruitment budget (59%). This aligns with findings from the 2023-24 SHRM State of the Workplace report, which indicate that organizations are turning their emphasis from recruiting new hires to supporting and developing their current workforce. Just as CHROs report positive indicators on the turnover front in their comments regarding employment forecasts, they are also more likely to say employee retention was better in 2023 compared to 2022.

PROJECTIONS FOR HR INDICATORS OVER THE NEXT SIX MONTHS

	Increase of over 20%	Increase of 10%-20%	Increase of less than 10%	No change	Decrease of less than 10%	Decrease of 10%-20%	Decrease of over 20%
Number of full-time employees	2%	15%	37%	34%	9%	4%	1%
Time-to-fill	2%	13%	16%	56%	11%	2%	0%
Total rewards budget	1%	12%	45%	35%	4%	2%	<1%
Recruiting budget	1%	6%	25%	59%	5%	2%	2%
eNPS/employee engagement	1%	5%	27%	56%	10%	2%	1%
Overall productivity	1%	8%	32%	49%	8%	1%	1%

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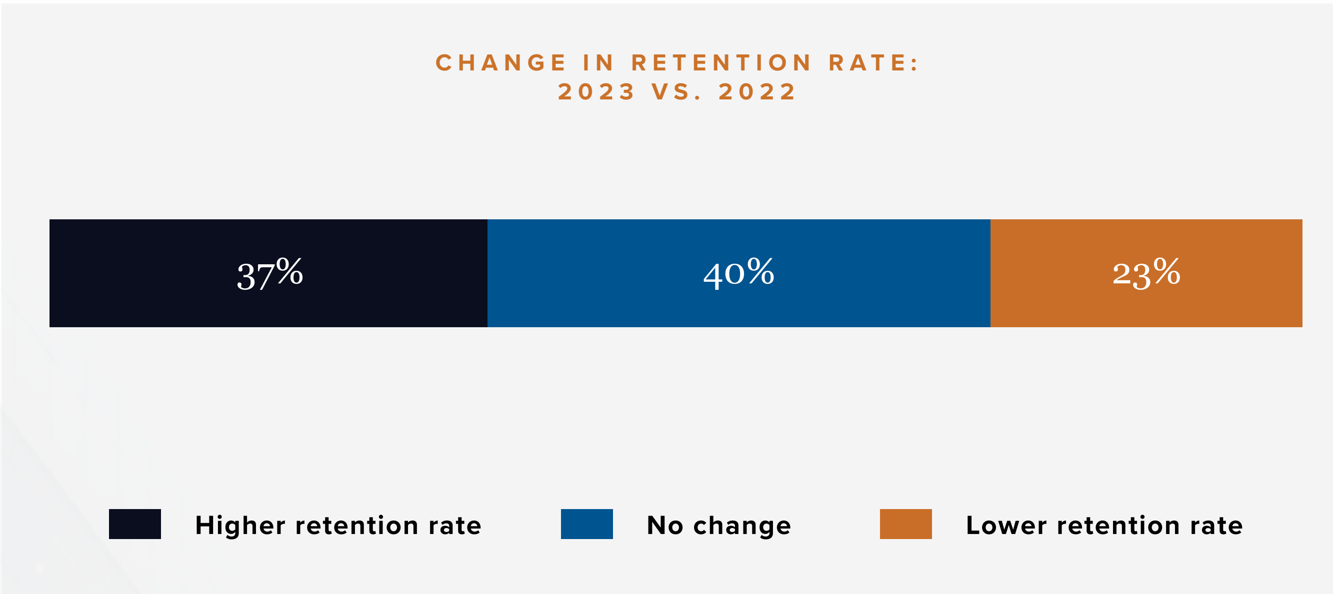
Just as CHROs report positive indicators on the turnover front in their comments regarding employment forecasts, they are also more likely to say employee retention was better in 2023 compared to 2022. This aligns with the pattern of monthly quit rates, which peaked at 3% in early 2022 and steadily decreased to 2.2% as of December 2023.



CONCLUSION

Overall, organizations are approaching 2024 very cautiously, not anticipating changes to HR metrics except a small increase in full-time headcount and some diversion of dollars from recruiting toward total rewards. CHROs' assessment of the economy in Q4 2023 mirrors where it was in Q1 2023. Their economic forecast has trended toward fair, as organizations hesitate to predict which direction the economy will head in 2024. On the employment side, most CHROs think conditions are fair-to-positive and will continue to be so. Some report that the labor market has cooled just enough to disincentivize quitting, boosting retention rates. Given the combination of economic and political uncertainty in 2024, CHROs are likely to continue hesitating to predict changes for at least the first half of the year.

METHODOLOGY

The CHRO Business Outlook survey is a research program conducted quarterly. A total of 376 surveys were completed from Nov. 17 to Nov. 22, 2023. The survey was fielded electronically using the SHRM Voice of Work Research Panel to U.S.-based CHROs and senior HR executives. C-suite officers or vice presidents accounted for 96% of respondents. Respondents represented organizations of all sizes, and 49% worked for organizations with 250+ employees.