

Soft Landings Can Come with Hard Challenges

To BCG's network around the world,

I checked in with BCG's Chief Economist Philipp Carlsson-Szlezak the other day. We spent some time looking back over his views on global macroeconomics from the past couple years—occasionally captured here in the Weekly Brief as well as in many articles he published for [Fortune](#) and [Harvard Business Review](#) with BCG colleague Paul Swartz. Philipp's opinions in this period have often run contrary to some of the biggest, splashiest, most negative headlines—including his emphasis on the strength of the US economy and particularly his predictions about inflation. But I'm pleased to report that he got much of the fast-changing picture right.

Faith in a Healthy Macroeconomic Regime

In this email back in March 2021, when fears about inflation were beginning to boil, I reported on Philipp's message that the doomsday headlines were overblown. We were hearing a lot, for example, about our inevitable march toward 1970s-style inflation, a narrative Philipp was happy to contradict, pointing out today's very different structural context and the unlikelihood of a regime break.

What he [consistently said](#) was that the Fed would act decisively so that inflation would not get out of control, raising interest rates to keep the economy in check. A "sustained and orderly tightening," combined with robust consumer balance sheets and employers highly focused on attracting and retaining talent, meant the clear possibility of a soft landing instead of a forced recession, which many economists had been describing as a done deal.

Of course, what we didn't foresee was Russia's attack on Ukraine, with its energy and raw materials disruptions, or the severity of China's pandemic lockdowns, both of which exacerbated the challenges of navigating inflation and heightened economic uncertainty. This may have delayed a return to a more normal environment. But since Q4 2022 in the US and Europe and the start of 2023 in China, momentum on the economies appears to be moving in the right direction.

This is not an "I told you so" moment. Though inflation has turned into rapid disinflation, it's not over yet. The disinflation we've seen so far is materially driven by energy and durable goods. Core services inflation has not budged much, and we'll need to see movement there before we're completely out of the woods and interest rates can fall.

Wage pressures, while easing, are still considerable. There's less tolerance for pricing moves. And we face the prospect of slower growth overall. Business leaders need to find opportunities for margin expansion and growth in a still uncertain landscape.

How? For most companies, we are talking about three pillars:

First, a focus on resilience and agility. If these last three years have taught us anything, it's the need to be prepared for shocks—pandemics, weather, macroeconomics, geopolitics. That requires better data, tools, and processes to sense and react more effectively, coupled with productivity to stay stronger in tougher environments.

Second, a massive innovation push. Absent pricing power, growth and margin expansion will often come down to innovation. Advances in digital and AI are leading to new paths toward deeper relationships with customers and more customized offerings. The huge transition underway to a decarbonized economy is revealing new vectors for growth. And deep tech is offering new midterm opportunities. Distractions made it easy to lose sight of a hard-core innovation agenda in 2022, but this will be a critical determinant of value creation in the remainder of this decade

Finally, Talent, Talent, Talent. It's been so encouraging over the past year to see companies valuing their people and not succumbing to the temptation of preemptive layoffs, despite so much negative news about an impending recession. There have been some cuts in tech, in part to correct for past overhiring, and reactions in parts of finance. But leaders are increasingly appreciating that investing in talent will be fundamental to thriving in the years ahead, even at the cost of some near-term financial pressures. We can't respond to the first two pillars above without real

dedication to this third one.

The bottom line is that we can feel some real optimism about the economy, but even a soft landing will bring plenty of challenges for business: decreased pricing power, slower profit growth, and lingering high wages. And, of course, we can't predict the shocks to come. But we can stay grounded amid a lot of noise and focus on what matters.

Until next time,



Rich Lesser
Global Chair

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