Corporate Earnings Monitor

TUESDAY, MARCH 14, 2023

2022 Q4 CORPORATE EARNINGS MONITOR HIGHLIGHTS

- **Global corporate earnings in Q4 2022 came in slightly below expectations, with weak guidance driving further downward revisions to 2023 earnings forecasts.** Fewer firms provided positive earnings guidance and attributed most of the downgrades to expected margin compression and a slowdown in sales growth. Globally, major firms reported a higher share of negative vs. positive earnings per share (EPS) surprises in Q4, the highest level of net negative EPS surprises since the onset of the pandemic.

- **Globally, downward revisions to 2023 earnings forecasts were greater than upward revisions across most regions.** However, upward and unchanged EPS revisions outpaced in China and a few euro area countries. This was due to expectations for positive growth impacts from the reopening in China following the end of Covid lockdowns, and in Europe following a warm winter and somewhat lower recession risks.

- **As a result of elevated input costs and slowing demand in some countries and sectors**, **profit margins have contracted** across most major regions, further pressuring the outlook for earnings this year.

- **Outside of China, 2023 global corporate earnings are expected to moderate significantly following the post-pandemic rebound over the last two years.** Tightening financial conditions and the drag on economic growth remains a headwind to the outlook for global corporate earnings this year.

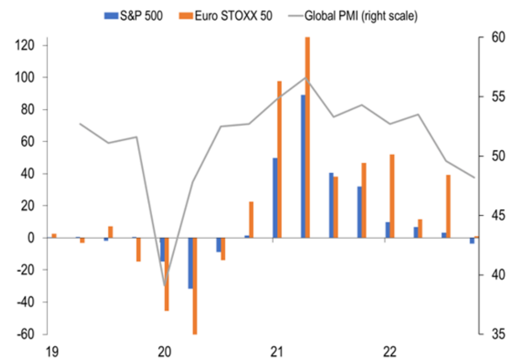
- **Sector-wise, services and transportation sectors outperformed with the trend expected to continue in 2023, while commodity-linked sectors are expected to underperform.** Companies within industries such as air travel and logistics continue to stand out as displaying a strong outlook for sales and demand for labor.

- Going forward, in earnings calls, **managers sounded more optimistic on China and investment intentions, but were incrementally more cautious on demand, profit margins, and currency-related tailwinds.** Corporate layoff announcements were highlighted as a measure to mitigate labor costs, while companies remain optimistic on the growth implications of China's exit from the zero-Covid policy.

- **Companies are focused on the trajectory for corporate profit margins and their recent compression due to slowing sales growth and elevated input costs.** Margin pressures are top of mind for management teams as the share of companies reporting rising input costs remains elevated.

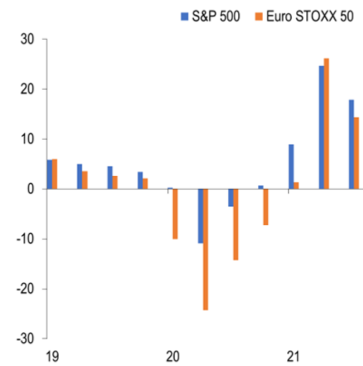
US and European earnings growth is moderating in line with signs of slowing economic growth…

1. **US and European EPS Growth, Year-over-Year**
(Percent left scale, PMI right scale)



…while previously resilient sales growth has started to slow as firms highlight a softening in demand

2. US and European Sales Growth, Year-over-Year
(Percent)



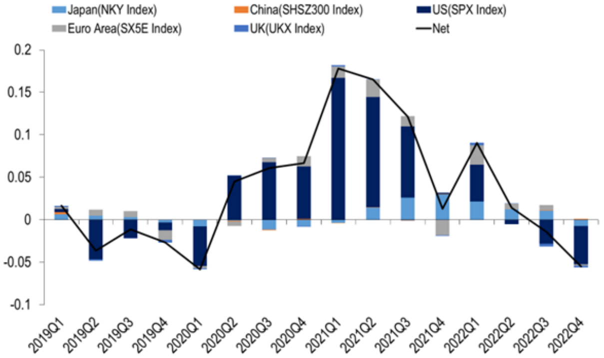
This Monitor was prepared by Harrison Kraus and Thomas Piontek.

Softer 2022Q4 Earnings and Cautious Guidance Drives Downward Revisions to 2023 Earnings

In Q4, global earnings surprises turned net negative for first time since the beginning of the pandemic

3. Q4 EPS Surprise Magnitude, by Index

(Market-cap weighted net EPS surprise)

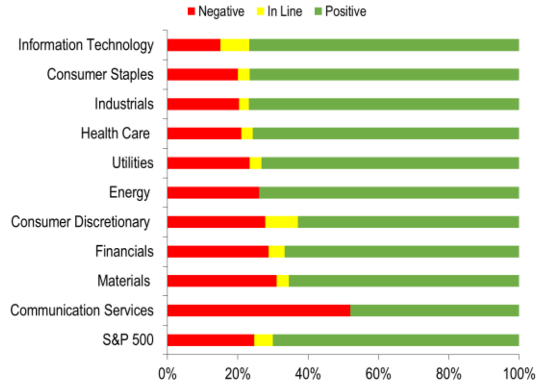


- Globally, a higher percentage of large-cap firms reported negative vs. positive EPS surprises in Q4.
- More negative than positive EPS surprises has been a trend following the initial rebound from the pandemic, and 2022Q4 was the highest level of net negative EPS surprises since the onset of the pandemic.

In the US, positive earnings surprises were lower with cyclically sensitive sectors underperforming

4. US 2022Q4 EPS Surprises by Sector

(Percent of firms)

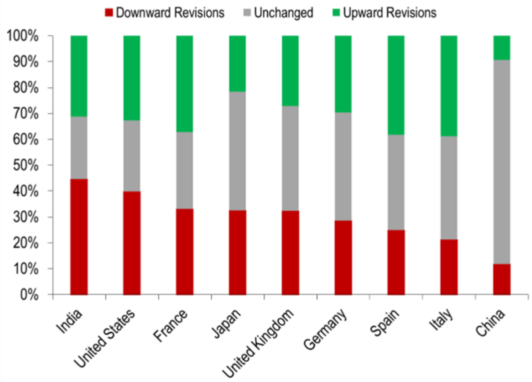


- Earnings positively surprised at about 70% of S&P 500 firms, down from closer to 80% during 2021 and through the first half of 2022.
- The biggest negative surprises have come from economically sensitive sectors such as consumer discretionary and telecom, while the energy sector looked weaker amidst softer commodity prices.

Globally, downward revisions to 2023 earnings forecasts outpaced upward revisions across most regions

5. 2023 EPS Revisions

(Percent of total revisions)

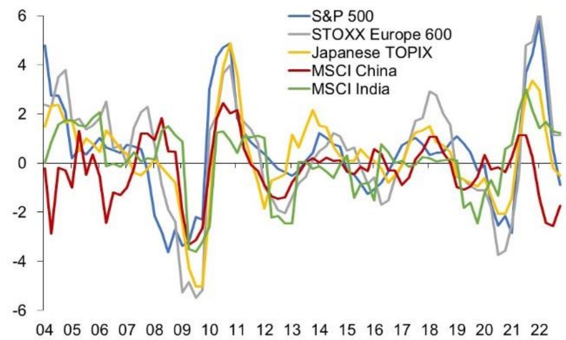


- Analysts' EPS revision momentum for 2023 has turned negative across most countries.
- However, upward and unchanged EPS revisions outpaced in China and a few euro area countries due to expectations for positive growth impacts from the reopening in China following the end of Covid lockdowns, and in Europe following a warm winter and somewhat lower recession risks.

Profit margin compression continues due to slowing sales growth and elevated input costs

6. Profit Margins

(Percentage points, four-quarter change)



- Worries about the global economic outlook and persistent margin pressures from higher costs and now slowing demand have weakened profitability.
- Overall, companies reported less optimism than in Q3 about maintaining their high a level of pricing power, with more firms expecting margins to shrink incrementally going forward.

Sources: Bloomberg L.P.; FactSet; Refinitiv Eikon Datastream IBES; and IMF staff calculatons.
Note: The analysis pertains to large, publicly traded firms.

Going Forward, Key Risks are Elevated Input Costs and Slowing Demand Amid Tighter Policies

Global earnings growth is expected to moderate significantly in 2023

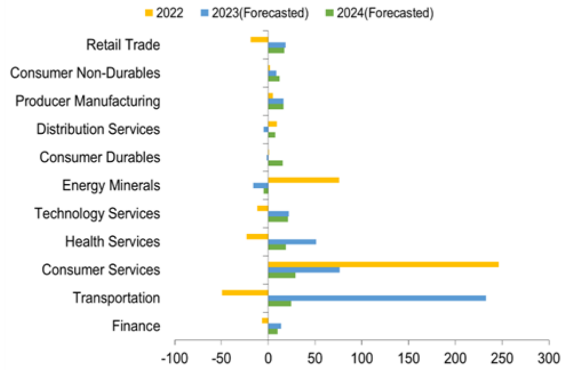
7. Actual and Projected Global EPS Growth by Country
(Year-over-year percent change)

	EPS Growth		
	2022	2023e	2024e
MSCI World	10%	1%	10%
USA	6%	1%	12%
Europe	17%	1%	7%
Eurozone	20%	1%	8%
UK	24%	-4%	3%
Germany	9%	0%	11%
France	29%	0%	6%
Spain	37%	-1%	4%
Italy	28%	-3%	2%
Japan	43%	8%	3%
China	7%	15%	14%
EM	8%	-3%	16%

- Most major economic regions are expected to see low or negative earnings growth in 2023 before rebounding in 2024.
- A strong growth uplift is expected to support earnings in China in response to the unexpectedly quick end to the country's zero-Covid policy.

Services and transportation sectors remain resilient while energy sector expectations pulled back amid lower prices

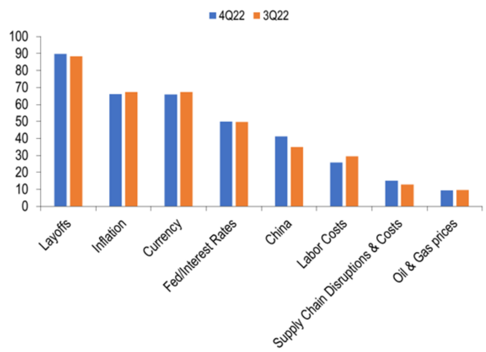
8. Actual and Projected Global EPS Growth by Sector
(Year-over-year percent change)



- Companies within industries such as air travel and logistics continue to stand out as displaying a strong outlook for sales and demand for labor.
- Consumer services sectors are expected to sustain the momentum of the post-pandemic recovery and benefit further from the reopening in China.

Managers have pointed to cost cutting through layoffs, but remain concerned about high labor and input costs…

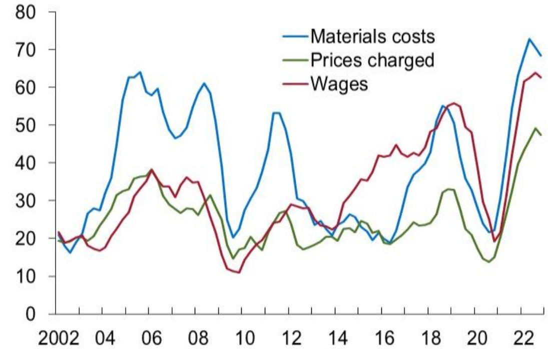
9. Percentage of Times Key Words Are Used in S&P 500 Earnings Calls
(Percent)



- As supply chain issues and energy prices recede, Q4 earnings calls have been focused on wage inflation as a major headwind to margins.
- Sentiment on the global economic outlook improved slightly as companies sounded more optimistic on China re-opening and future investment intentions.
- But firms' also remained cautious on the demand outlook, margins, and currency-related tailwinds.

…as the share of US companies reporting rising materials and labor costs remains elevated

10. US Business Conditions Survey: Net Share of Respondents Reporting Rising Components (Four-quarter moving average, percent)



- Companies are focused on the trajectory of profit margins and their recent compression due to slowing sales growth and elevated input costs.
- The share of companies reporting rising materials and labor costs appears to have peaked mid-last year, but remains high compared to history.
- An increasing number of companies plan to put measures in place to mitigate the impacts from elevated input costs.

Sources: Bloomberg Finance L.P.; FactSet; MSCI; NABE; Refinitiv Eikon Datastream IBES; and IMF staff calculatons.
Note: The analysis pertains to large, publicly traded firms