

# Economic Conditions Snapshot, December 2016

McKinsey Global Survey results

In the face of political transitions and concerns over trade, executives expect improvements at home and a stable global economy—with some regional divergences.

As executives look ahead to a new year, they see political transitions as a leading risk to global and domestic growth—and among the more pressing threats to their businesses—in McKinsey's latest survey on economic conditions.<sup>1</sup> In parallel, slowing trade also has risen as a threat to global growth, especially for respondents in China and developed Asia.<sup>2</sup> Despite these uncertainties, executives are more positive than negative about economic prospects at home and, as they have all year long, expect global economic conditions to hold steady. Across regions, though, outlooks can vary. Respondents in China and the United States report increasingly positive expectations for their economies and believe growth rates will improve in coming months, while opinions on the eurozone are mixed. Nearly everyone sees more global volatility on the way.

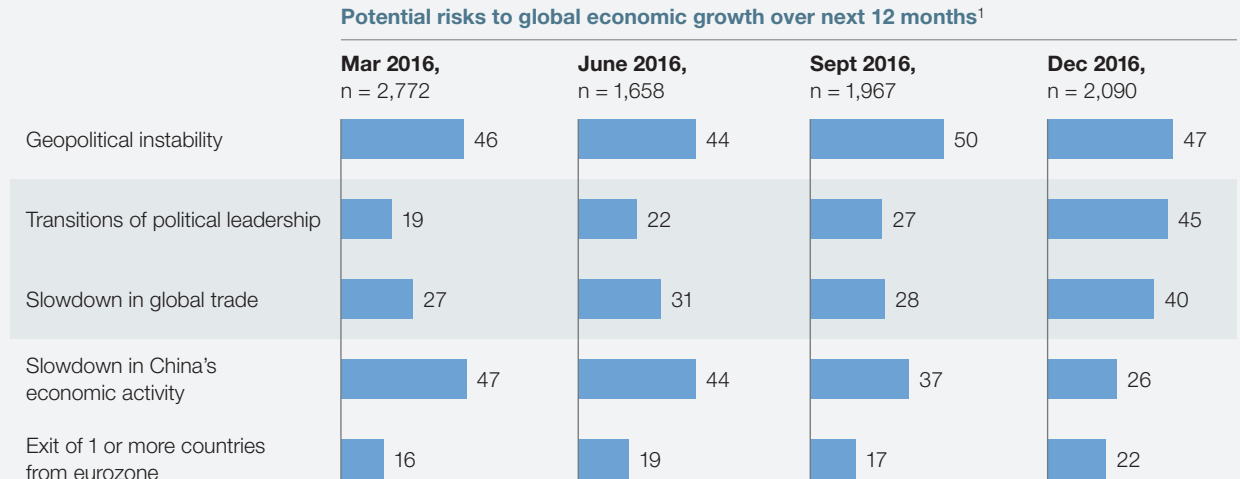
## Political transitions at the fore

In our latest survey, transitions of political leadership have risen in the rankings of threats to global, domestic, and company-level growth in 2017. Political transitions are cited as a global risk by 45 percent of



**Exhibit 1****Over the course of 2016, transitions of political leadership have risen—along with slowing trade—as a risk to global economic growth.**

% of respondents



<sup>1</sup> Out of 16 potential risks the survey offered as answer choices.

all respondents, about twice the share that identified this threat six months ago, while the share citing slowing global trade has also grown in recent months (Exhibit 1).

Among risks to domestic growth, political transitions top the list, as they did three months ago.

Respondents in North America are the likeliest to cite it, continuing a pattern that has been true all year. At least half of respondents in the region (and in the United States more specifically) have identified leadership transitions as a risk in the months preceding the 2016 presidential election, which took place on November 8.

Even at the company level, political transitions have emerged as a top five risk, replacing insufficient government-policy support in the previous survey.<sup>3</sup> This risk continues to be top of mind in Latin America, where respondents are also the likeliest to identify leadership transitions as a global risk. Executives in the region are likelier than the global average (32 percent, compared with 22 percent) to cite such transitions as a risk to their businesses' growth. Three months ago, too, respondents in Latin America reported above-average concerns over the effects of leadership transitions on their companies.

**Trade's receding tide**

Slowing global trade is cited by 40 percent of respondents, up from 28 percent in September, as a risk to global growth. This is the largest share identifying slowing trade as a risk to the world economy since we

began asking about it in March of this year. The emerging concern coincides with the revised outlook of the World Trade Organization (WTO) for 2016.<sup>4</sup> The WTO estimates the rate of world trade growth at 1.7 percent for the year (down from a forecast of 2.8 percent made in April), and noted that its new estimate represents the slowest trade growth since the financial crisis.

Across regions, those in China and developed Asia are the most concerned; executives in both geographies cite slowing global trade most often, and much more often than their peers do. At the same time, their fears over slowing growth in China seem to have subsided—or at least to have become less acute, relative to other domestic or global risks. Just one-quarter of respondents in China (compared with 53 percent in the last survey) cite slowing growth in the country as a global economic risk.

Given their growing concerns over trade, it's not surprising that respondents in these regions are much likelier than average to report declining trade levels over the past year (Exhibit 2). In contrast, those in Europe are likeliest to say trade has increased.

When asked about the effects of changing (either increasing or decreasing) trade levels on their companies' business in the past year, executives tend to report no effect. By region, though, respondents in developed Asia, Latin America, and the Middle East are more likely to see a negative effect than a positive one; the opposite is true of executives in Europe and India. And when asked about future levels of trade, executives in North America are the likeliest across regions to expect trade will decline in the next six months. Forty-six percent say so, compared with 34 percent of the total average. Respondents in Asia, too, are likelier than average to expect declining trade in the coming months.

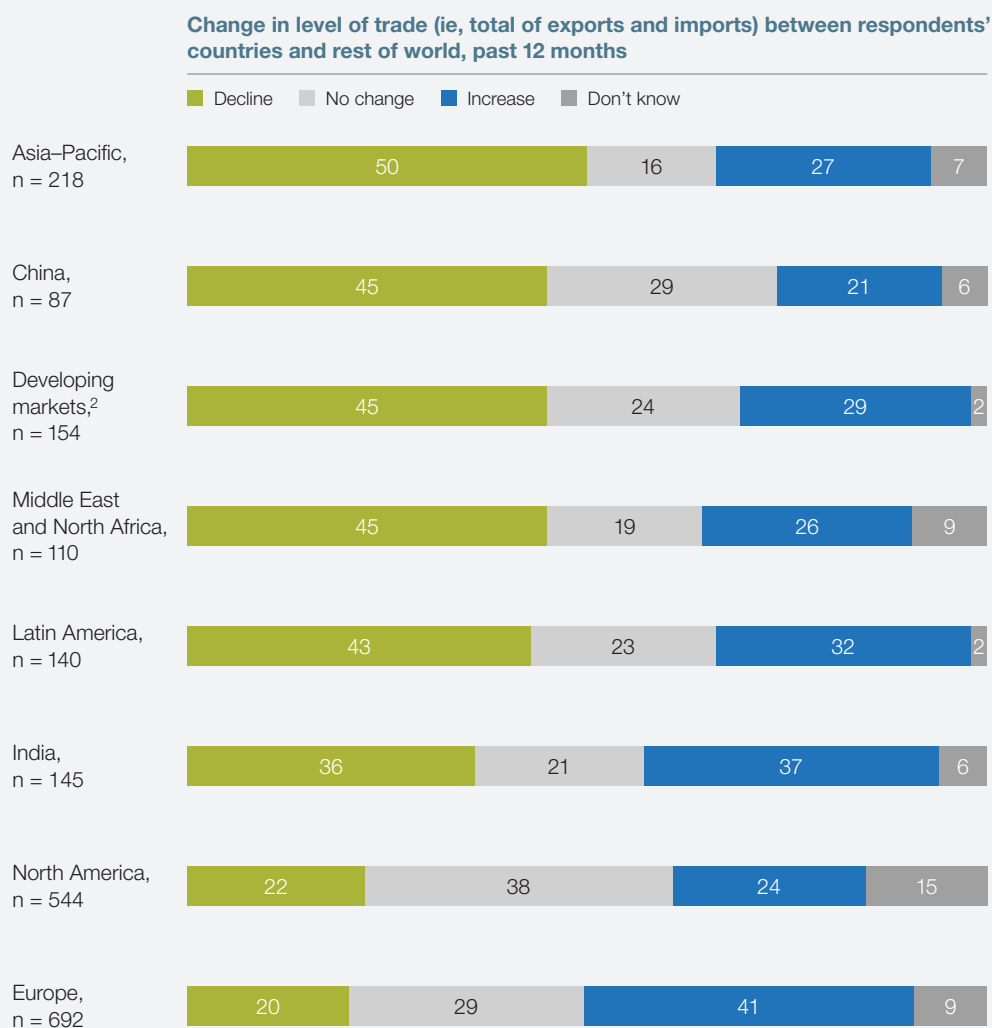
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Slowing trade has risen as a risk to global growth over the course of the year—and executives in Asia are the most likely to report declining trade levels between their countries and the rest of the world.

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## Exhibit 2 Respondents in Asia are the most likely across regions to report declining trade levels in the past year.

% of respondents, by office location<sup>1</sup>



<sup>1</sup> Figures may not sum to 100%, because of rounding.

<sup>2</sup> Includes developing-market countries apart from China, those in Latin America, and those in Middle East and North Africa (ie, developing-market countries in Asia, Caribbean, and sub-Saharan Africa).

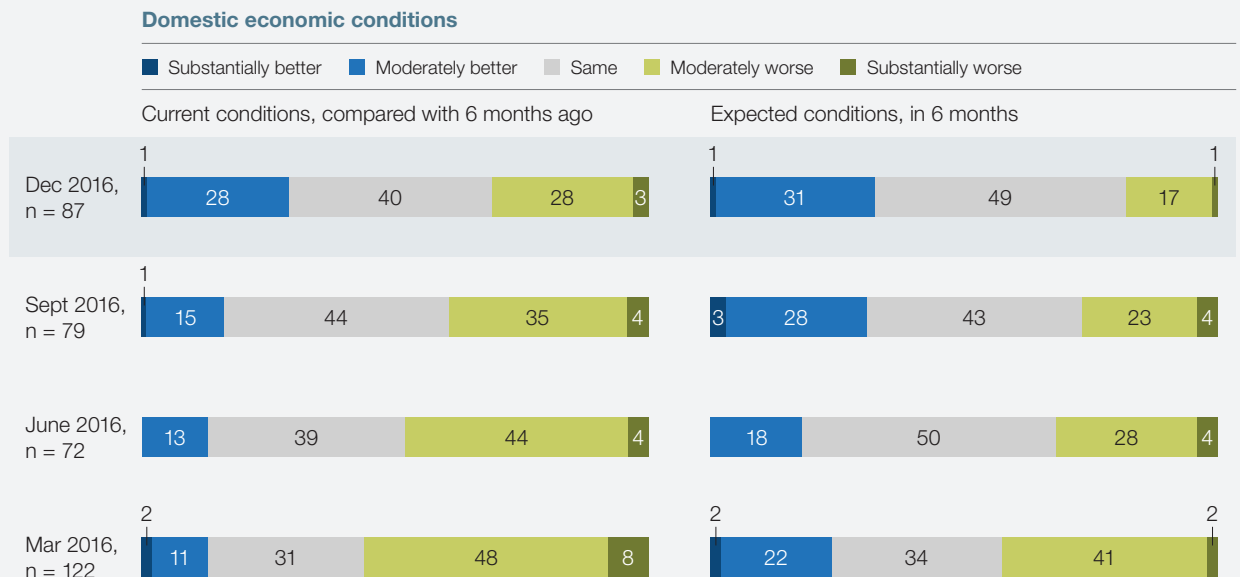
### Views on China and the United States grow more bullish—and for the eurozone, remain mixed

On the whole, executives are sanguine about their home economies' prospects and prudent about conditions in the global economy, which they expect will hold steady in the new year. At the regional level, though, some differences emerge. As China's slowing growth has become a less pressing economic risk, executives there also report growing confidence (Exhibit 3).

Respondents in China are much likelier now than they've been all year to say economic conditions at home have improved in the past six months: 29 percent say so, more than twice the share that said the same in June or March. And while these respondents most often expect stable conditions in coming months, they are increasingly optimistic about the future. Globally, executives are also bullish on China's prospects. Fifty-three percent of all respondents (and 64 percent of those in China) believe that in 2017, China will hit the annual growth targets of its current five-year plan.

#### Exhibit 3 In China, executives are increasingly positive on the current state and future prospects of their economy.

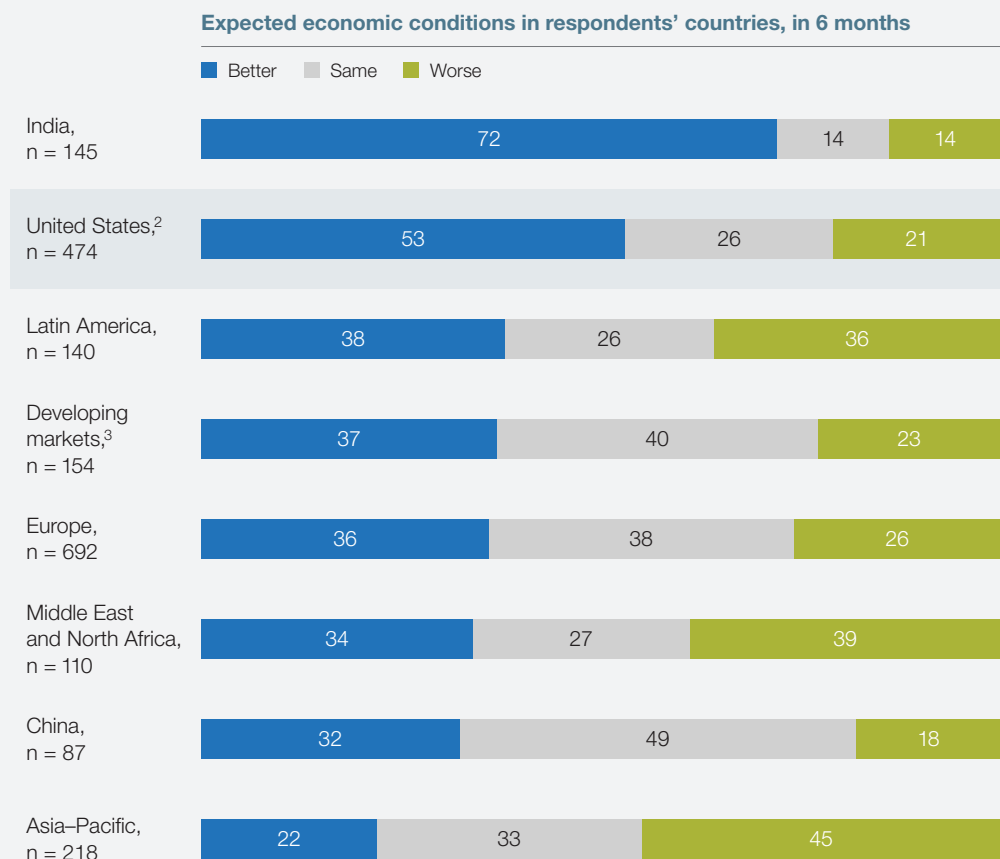
% of respondents in China<sup>1</sup>



<sup>1</sup> Figures may not sum to 100%, because of rounding.

**Exhibit 4      Respondents in the United States report some of the most bullish expectations for their economy, despite the prevalence of political risks.**

% of respondents, by office location<sup>1</sup>



<sup>1</sup> Figures may not sum to 100%, because of rounding.

<sup>2</sup> For all respondents in North America region (n = 544), percentages are identical to those from respondents in United States.

<sup>3</sup> Includes developing-market countries apart from China, those in Latin America, and those in Middle East and North Africa (ie, developing-market countries in Asia, Caribbean, and sub-Saharan Africa).

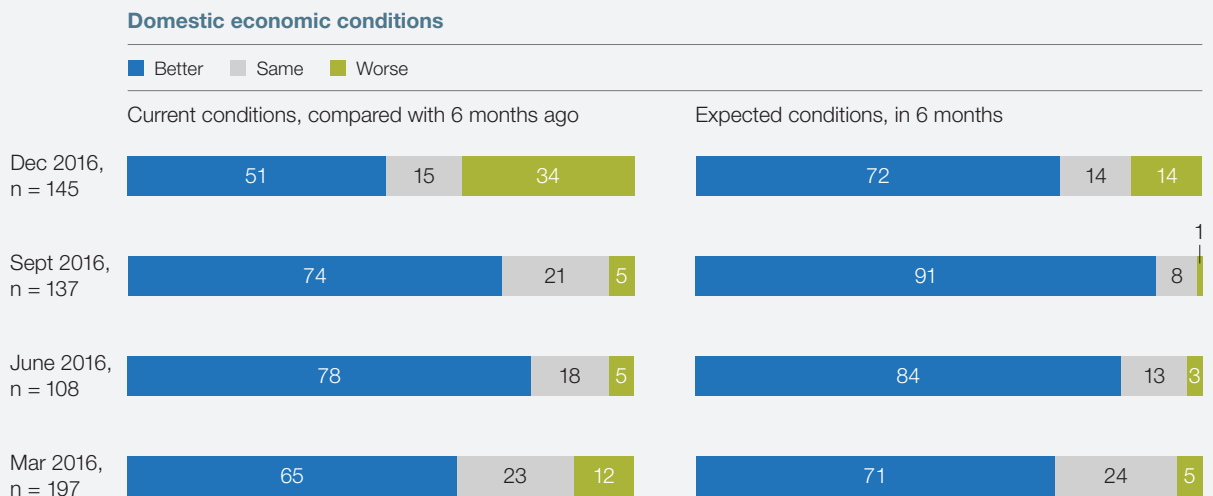
In the United States, views on overall economic prospects for the nation are rosy, despite the outsize concerns over political transitions that executives there cite. When asked about future economic conditions at home, respondents in the United States are much likelier to expect improvements than their peers—except for those in India, who have been the most bullish for the past 12 surveys (Exhibit 4). As with China, executives around the world are optimistic about US growth: 65 percent of all respondents (and 69 percent in the United States) expect at least a minimal increase in the country's growth rate in the next six months.

Elsewhere, economic prospects seem more mixed and less certain. Within the eurozone, for example, respondents are more positive than negative about future conditions in their home countries—and they’ve been more upbeat than gloomy about future conditions all year long.<sup>5</sup> Executives in the eurozone also predict their overall economy will grow: 53 percent expect at least a minimal increase in the eurozone’s growth rate in the next six months. Globally, though, respondents are much more pessimistic about this region. Only 35 percent expect the eurozone’s growth rate to increase; a similar share said so in September, when eurozone respondents were also much more optimistic than their peers in other regions.

In India, respondents—who have long reported exceptionally positive views—remain buoyant, though notably less so than in recent surveys. They are still much likelier than average to report improved economic conditions at home and to expect continued improvements. But the shares now saying so have declined from earlier this year (Exhibit 5). Three months ago, three-quarters of executives in India reported improved conditions at home, and 91 percent said they expected future conditions would improve. Now, only 51 percent and 72 percent, respectively, say the same.<sup>6</sup>

**Exhibit 5 Executives in India, who have long viewed their domestic economy more favorably than their peers elsewhere, are less positive now than in past surveys.**

% of respondents in India<sup>1</sup>



<sup>1</sup>Figures may not sum to 100%, because of rounding.

And while executives' overall expectations for the world economy are tempered, most respondents foresee increasingly volatile conditions. Fully 70 percent believe the level of global economic volatility will increase in the next 12 months, and majorities in every region expect more volatility rather than less. The largest share to say so is in North America, and the results suggest diverging views from developed and emerging markets: 76 percent of developed-market respondents expect volatility to increase, while only 60 percent of their emerging-market peers say the same. ■

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<sup>1</sup> The online survey was in the field from November 28 to December 2, 2016, and garnered responses from 2,090 executives representing the full range of regions, industries, company sizes, functional specialties, and tenures. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

<sup>2</sup> Australia, Hong Kong, Japan, New Zealand, the Philippines, Singapore, South Korea, and Taiwan.

<sup>3</sup> When asked about the biggest potential risks to company growth over the next 12 months, 33 percent of all respondents cite either "changing consumer needs and/or expectations" or "low consumer demand," 27 percent cite "scarcity of talent," 24 percent cite "fast pace of technological changes in our industry," and 22 percent cite "transitions of political leadership."

<sup>4</sup> "Trade in 2016 to grow at slowest pace since the financial crisis," World Trade Organization, September 27, 2016, [wto.org](http://wto.org).

<sup>5</sup> The survey was conducted in the week before Italy's December 4 referendum on constitutional changes (which Italians voted against) and Prime Minister Matteo Renzi's subsequent resignation.

<sup>6</sup> The survey was conducted three weeks after Prime Minister Narendra Modi announced a demonetization policy, which took effect November 9. We asked respondents in India about the policy's effects to date on their companies' business, and nearly one-third report a moderate or significant impact.

The contributors to the development and analysis of this survey include **Sven Smit**, a senior partner in McKinsey's Amsterdam office.

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