

Strategy and Corporate Finance Practice

# Economic Conditions Snapshot, March 2019

*McKinsey Global Survey results*

Respondents report an overall wary economic outlook and are increasingly concerned over trade. Yet there are signs of optimism among emerging economies and for companies' prospects.



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**Global executives' views on the economy** remain more gloomy than upbeat for the second quarter in a row.<sup>1</sup> In McKinsey's newest survey, few respondents believe that economic conditions have improved in recent months or will improve in the months ahead. They also share concerns over trade—namely, a recent decrease in trade levels between their home countries and the world and the prominence of trade conflicts as a threat to global growth.<sup>2</sup> Yet the results suggest a glimmer of optimism in emerging economies. For the first time in four surveys, these respondents are more positive than their developed-economy peers about current and future conditions in their home countries, as well as in the world economy. What's more, emerging-economy respondents are

as optimistic as—and in some cases, more hopeful than—others about their companies' business prospects, which respondents across geographies believe to be strong.

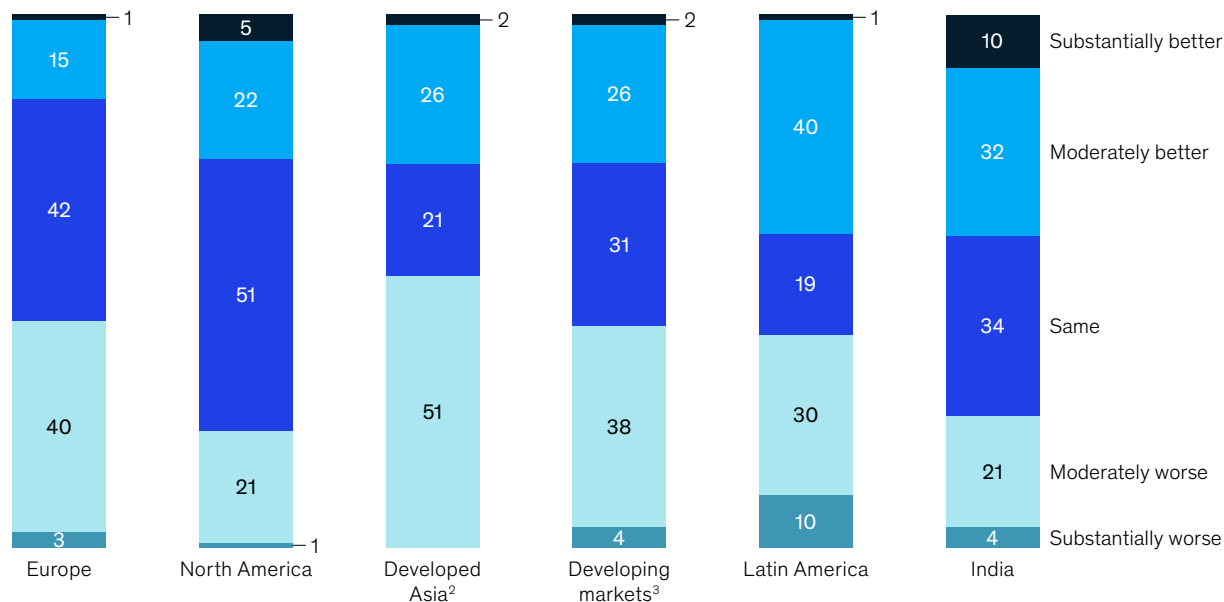
### Amid overall cautious views, some emerging-economy optimism

As in the previous survey, respondents express unfavorable views on the state of their home economies. Just one-quarter of all respondents say current economic conditions at home are better than they were six months ago, while 36 percent say conditions have worsened. By region, the respondents least likely to report improvements are those in Europe and North America (Exhibit 1).<sup>3</sup>

Exhibit 1

## Respondents in Europe, North America, and developed Asia are the least upbeat about the state of their home economies.

**Current economic conditions in respondents' countries, compared with 6 months ago,**  
% of respondents, by office location<sup>1</sup>



<sup>1</sup>Figures may not sum to 100%, because of rounding. In Europe, n = 541; in North America, n = 354; in developed Asia, n = 152; in developing markets, n = 190; in Latin America, n = 112; and in India, n = 133.

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

<sup>3</sup>Includes respondents in China, Middle East, and North Africa.

<sup>1</sup> "Economic Conditions Snapshot, December 2018: McKinsey Global Survey results," December 2018, McKinsey.com.

<sup>2</sup> The online survey was in the field from March 4 to March 8, 2019, and garnered responses from 1,482 participants 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>3</sup> Developed Asia includes respondents in Australia, Hong Kong, Japan, New Zealand, the Philippines, Singapore, South Korea, and Taiwan.

Overall views on the world economy also remain more gloomy than buoyant. Just 16 percent of respondents report improved global conditions in recent months. Looking ahead, only 19 percent predict global economic conditions will improve in the next six months, compared with 45 percent who believe conditions will worsen. What's more, when asked specifically about the rate of global growth, the share of respondents expecting higher growth rates has been shrinking (Exhibit 2). Just 34 percent say so now, while roughly two-thirds of respondents said the same one year ago. At the

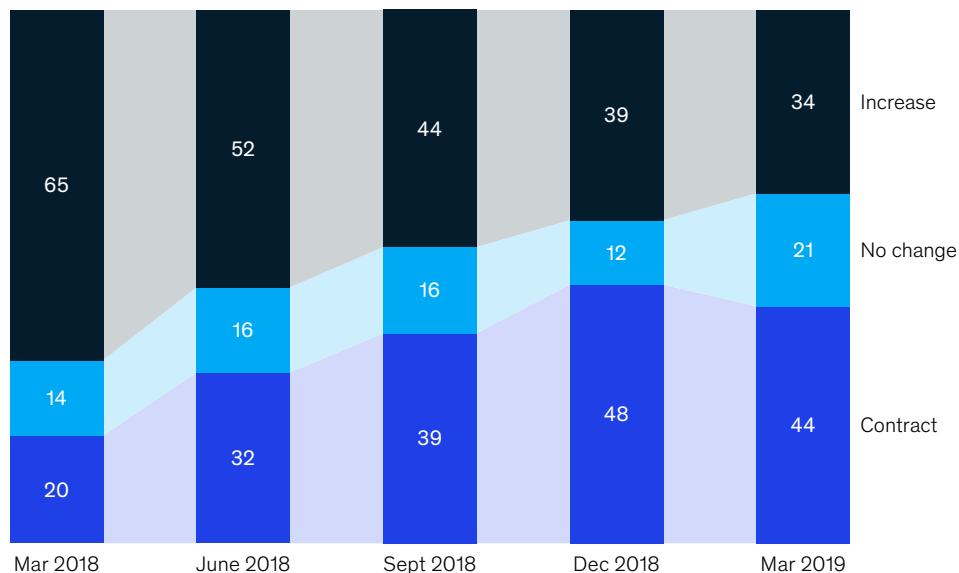
same time, the share expecting the global growth rate to contract is down slightly since the previous survey—while the share expecting no change has increased.

Still, in a turnaround from the past three surveys, respondents in emerging economies report more upbeat views of the economy—both at home and globally—than their counterparts in developed economies. One-third of emerging-economy respondents, compared with 22 percent of their developed-economy peers, say conditions in

Exhibit 2

**In the past year, respondents have become less and less likely to expect an increase in the world economy's growth rate.**

**Expected change in global economy's growth rate, next 6 months, % of respondents<sup>1</sup>**



<sup>1</sup> Respondents who answered "don't know" are not shown, so figures may not sum to 100%. In Mar 2018, n = 1,230; in June 2018, n = 1,648; in Sept 2018, n = 1,158; in Dec 2018, n = 1,037; and in Mar 2019, n = 1,482.

their home economies have improved in the past few months. This is in contrast with earlier surveys, in which the shares reporting improved conditions were larger or roughly equal in developed economies compared with emerging ones (Exhibit 3). On the world economy, too, emerging-economy respondents offer rosier assessments than their peers, with only 36 percent—compared with 48 percent in developed economies—saying that global economic conditions have worsened in the past six months.

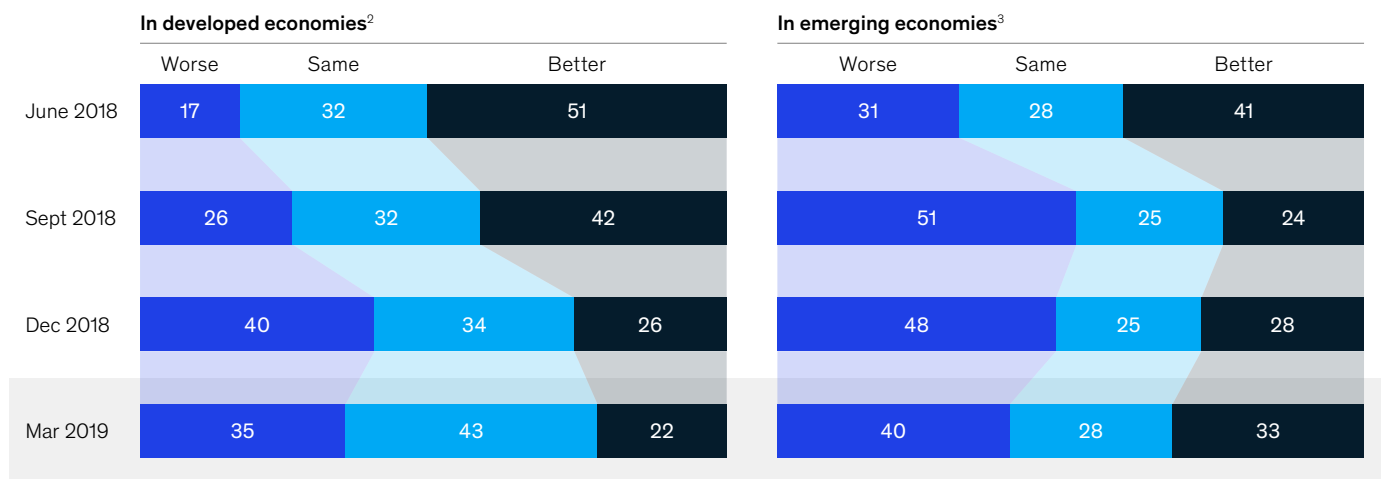
In the two groups' outlooks for the months ahead, there's an even clearer rift. Respondents in emerging economies are twice as likely as those in developed economies to expect their countries' economic prospects will improve in the next six months. Larger shares of emerging-economy respondents—52 percent, compared with 36 percent of their peers—expect their countries' growth rates will increase in the months ahead. And when asked about the global economy's prospects, respondents report similarly divided views.<sup>4</sup>

Exhibit 3

## For the first time in four surveys, respondents in emerging economies report more upbeat views about domestic economic conditions than their peers.

**Current economic conditions in respondents' countries, compared with 6 months ago,**

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



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

<sup>2</sup> In June 2018, n = 1,189; in Sept 2018, n = 845; in Dec 2018, n = 710; and in Mar 2019, n = 1,047.

<sup>3</sup> In June 2018, n = 459; in Sept 2018, n = 313; in Dec 2018, n = 327; and in Mar 2019, n = 435.

<sup>4</sup> Twenty-six percent of respondents in emerging economies expect global economic conditions will improve in the next six months, compared with 16 percent of those in developed economies; 35 percent in emerging economies expect global conditions will worsen, compared with 49 percent in developed economies.

## Global concerns over trade

The newest results suggest that trade is becoming a more significant pain point for the year ahead. When asked about changing trade levels between their home countries and the rest of the world, respondents are more likely to report a decline than they were in all of 2018 (Exhibit 4)—and since we began asking the question, in December 2016.<sup>5</sup> Across regions, respondents in North America are the most likely to report a decline (56 percent,

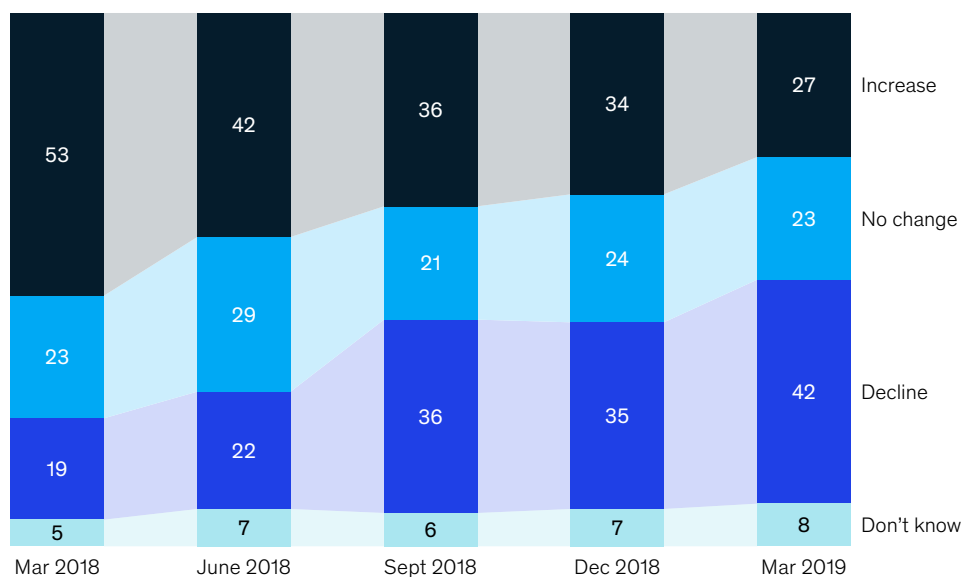
up from 44 percent in the previous survey), followed by their peers in developing markets.<sup>6</sup> Respondents in India are most likely to report an increase.

Meanwhile, a growing share of respondents say the effect of changing trade levels on their companies' business has been negative. Thirty-six percent now report adverse effects on the business, up from 25 percent in September and 17 percent one year ago.

Exhibit 4

## Growing shares of respondents report declining levels of trade between their home countries and the rest of the world.

Change in trade level between respondents' countries and rest of world, past 12 months, % of respondents<sup>1</sup>



<sup>1</sup>Figures may not sum to 100%, because of rounding. In Mar 2018, n = 1,230; in June 2018, n = 1,648; in Sept 2018, n = 1,158; in Dec 2018, n = 1,037; and in Mar 2019, n = 1,482.

<sup>5</sup> "Economic Conditions Snapshot, December 2016: McKinsey Global Survey results," December 2016, McKinsey.com.

<sup>6</sup> Includes respondents in China, the Middle East, and North Africa.

Trade also is top of mind as a risk to macro-economic growth. Nearly two-thirds of respondents cite trade conflicts, one of several risks we had not asked about in previous surveys, as a threat to global economic growth in the next 12 months (Exhibit 5). The threat of trade conflicts is followed by geopolitical instability and changes in trade policy, the latter of which was the most-cited risk to global growth throughout 2018. By geography, respondents in emerging economies are likelier than their developed-economy peers (70 percent, compared with 61 percent) to cite trade conflicts as a risk to global growth, though it is the threat cited most often among each group. Overall, respondents also identify changes in trade policy as a top-two risk to growth in their home countries, as it was for all of 2018.

### Promising company prospects

When asked about the future of their own organizations, respondents report an overall buoyant outlook. Predictions for workforce size remain more

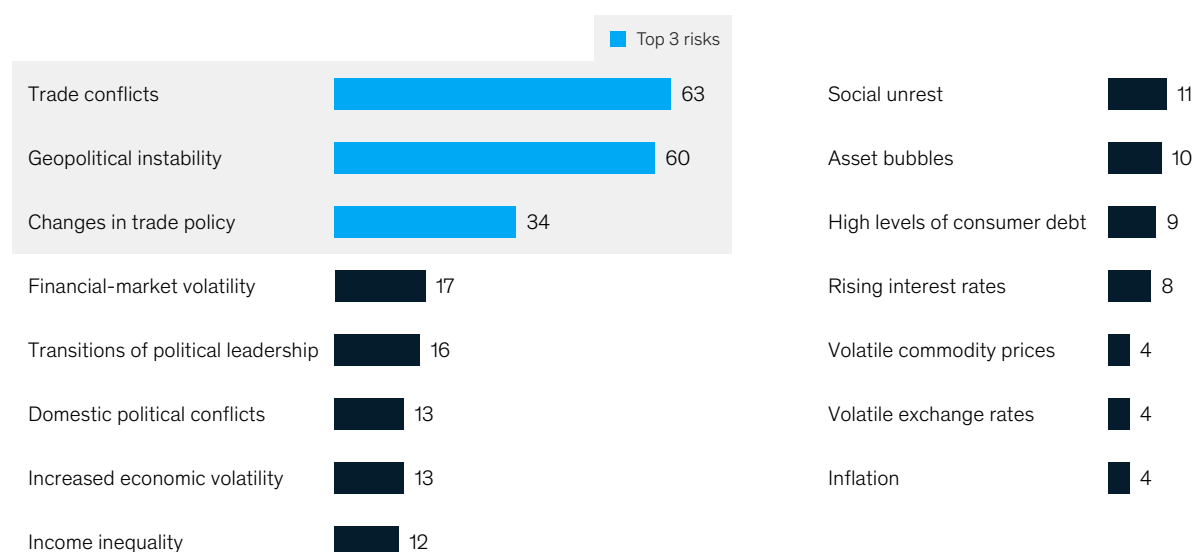
positive than negative, and expectations for future demand are high: 56 percent of all respondents expect that demand for their companies' offerings will increase in the next six months. Hopes for profits also are higher than they were previously, with 64 percent of respondents predicting their companies' profits will increase over the next six months—up from 58 percent in the past two surveys.

Meanwhile, respondents note some new risks, as well as opportunities, for the year ahead. The most commonly cited risks to company growth are ones we had not asked about in previous surveys: policy and regulatory changes (33 percent) and weakening customer demand (30 percent). Emerging-economy respondents cite weakening demand and policy and regulatory changes more often than their peers elsewhere, while scarcity of talent is a greater concern among developed-economy respondents. When asked to identify the best opportunities for companies in the next 12 months, the most common answer

Exhibit 5

## A new risk—trade conflicts—tops the list of potential threats to global growth in the next year.

Potential risks to global economic growth, next 12 months, % of respondents<sup>1</sup>



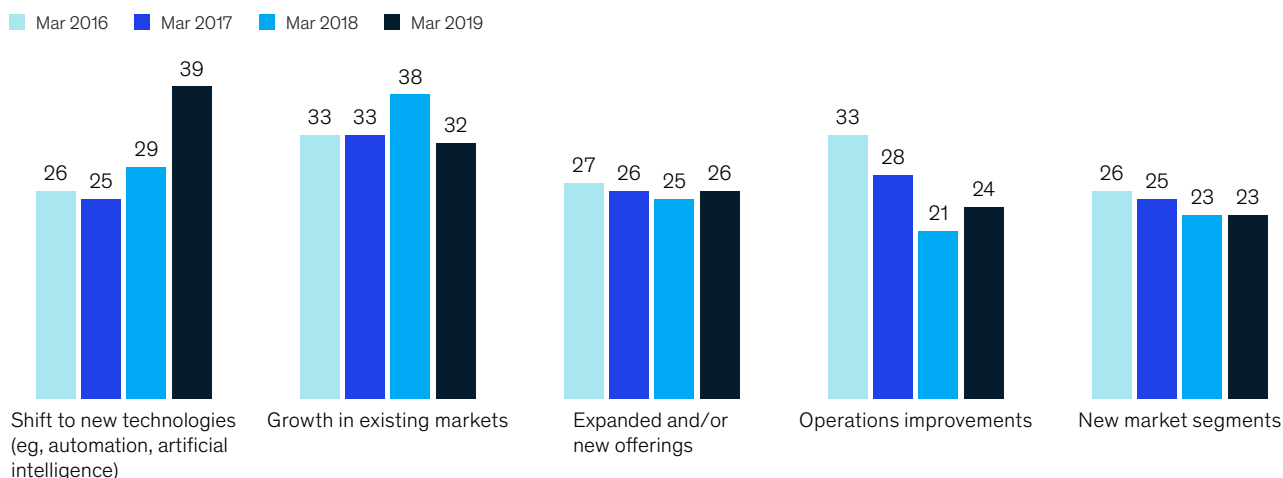
<sup>1</sup> Respondents who answered "other," "no particular risk," or "don't know" are not shown; n = 1,482.



## Exhibit 6

### For the first time, a shift to new technologies has emerged as the top opportunity for growth at respondents' companies.

Potential opportunities for growth at respondents' companies, next 12 months, % of respondents<sup>1</sup>



<sup>1</sup> Out of 12 potential opportunities that were presented as answer choices in Mar 2019 survey; question was asked only of respondents working at private-sector organizations. In Mar 2016, n = 2,544; in Mar 2017, n = 1,570; in Mar 2018, n = 1,123; and in Mar 2019, n = 1,338.

is the shift to new technologies (Exhibit 6), which was cited most often for the first time since we began asking the question three years ago.

We also asked about companies' investment decisions, and, since 2017, the results suggest that investment budgets are increasing. Half of respondents say their budgets, as a share of company revenue, have increased in the past three years. Two years ago, when we last asked these questions, 43 percent of respondents said the same.

Nevertheless, the results suggest that the supply of attractive investments is outpacing companies' capacity to invest. Only one in five respondents say the current supply of investments is about equal to their investment ability. In contrast, 45 percent say there are more opportunities than can be funded, and just 18 percent report fewer oppor-

tunities than can be funded, which is a more common problem for companies based in emerging economies than in developed ones. Among respondents reporting a surplus of opportunities, respondents most often say the things keeping their companies from investing are insufficient funds, lack of capabilities to execute the investment, and risk aversion within the company. Risk aversion also is a top barrier among respondents reporting scarce opportunities, along with uncertainty about the investment's future relevance and political uncertainty in the company's home country.

The main reasons given for potential increases in investment budgets remain the same as two years ago. Over half of respondents say their companies would increase the investment budget to develop new offerings, and 40 percent say they would budget more to improve sales.

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