McKinsey&Company

Economic Conditions Snapshot, December 2017

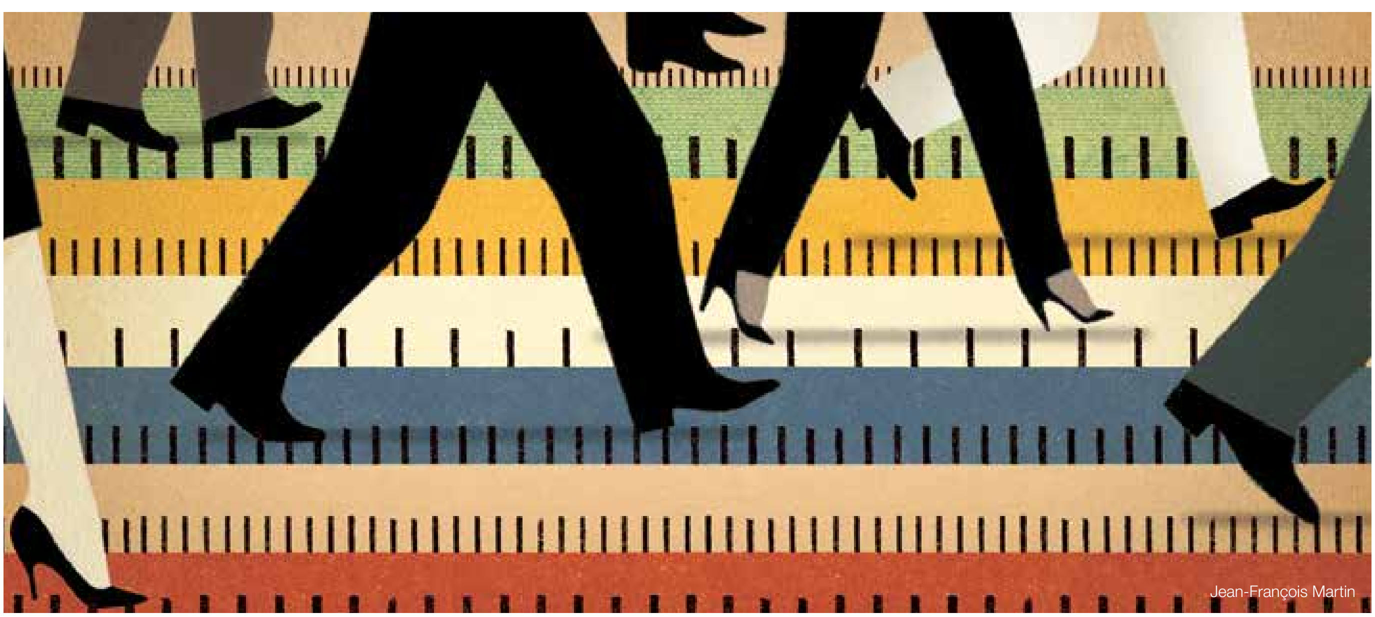
McKinsey Global Survey results

Respondents' economic optimism and confidence in their companies' prospects reach a year-long high, though overinflated asset prices are a growing concern.

After reporting increasingly positive views on the economy throughout 2017, respondents to McKinsey's newest survey on economic conditions are ending the year on an exceptionally cheerful note.[1] Most respondents say that both global and domestic conditions have improved in recent months, and for the months ahead, they are two to three times more likely to believe that conditions will improve than they are to expect declines. Majorities of respondents predict economic growth—worldwide and at home—in the coming months, and that trade will rise between their own countries and the rest of the world. Expectations for companies' growth and demand also have reached new heights. Among possible risks, overinflated asset prices are an increasingly worrisome threat to global growth, while in respondents' home economies, concern about heightened equity prices is on the rise.

A buoyant global outlook, amid growing concern over asset bubbles

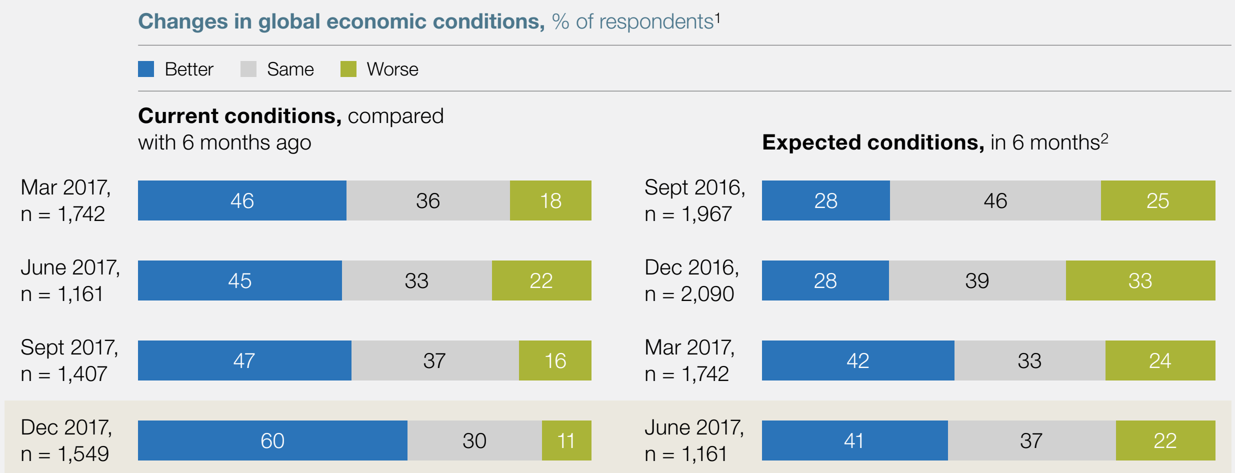
Respondents' views on the global economy are the most enthusiastic they have been in 2017—and have far exceeded earlier expectations (Exhibit 1). Six in ten respondents say global economic conditions are better now than they were six months ago; in the June survey, only four in ten predicted economic conditions would be better by now. Across regions, respondents in developed Asia are the cheeriest



Jean-François Martin

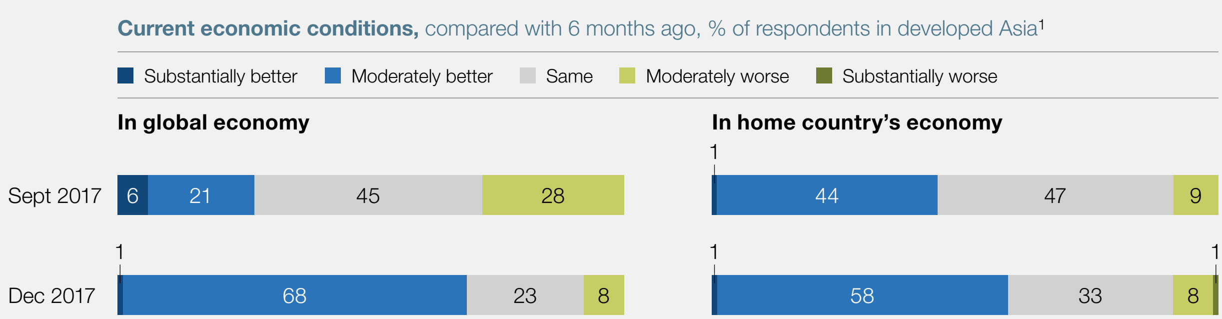
about the state of the global economy—and much more so than they were in the previous survey (Exhibit 2).[2] Compared with three months ago, they are also much cheerier about current conditions in their home economies.

Exhibit 1 **Respondents’ views on the global economy are increasingly positive and far surpass expectations from six months prior.**



[1] Figures may not sum to 100%, because of rounding.
[2] Results in this chart are from surveys that ran 6 months earlier than results in chart at left.

Exhibit 2 **In developed Asia, respondents are especially cheery—and much cheerier than three months ago—on current economic conditions.**



[1] Includes respondents in Australia, Hong Kong, Japan, New Zealand, Philippines, Singapore, South Korea, and Taiwan. In Sept 2017, n = 163; in Dec 2017, n = 155.

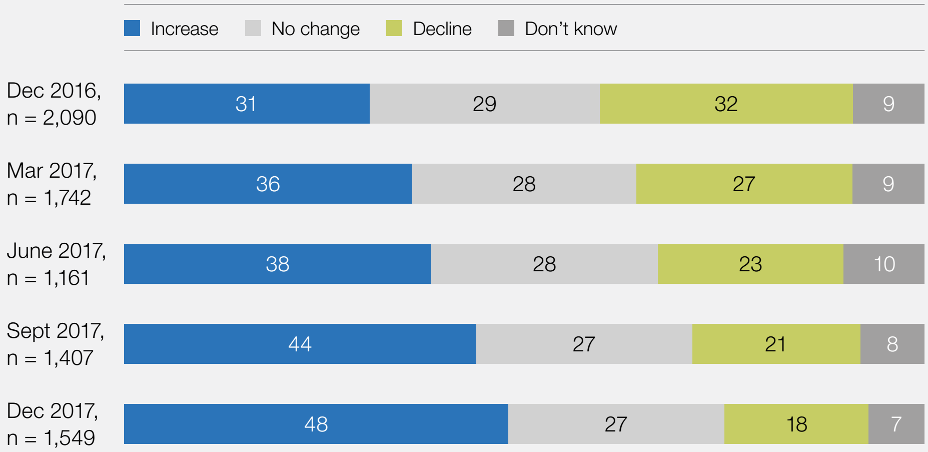
What's more, the outlook on the world economy's prospects is ever more optimistic. Fifty-one percent of respondents expect global conditions will improve in the next six months, compared with 42 percent in the previous survey and 28 percent who said so one year ago. When asked for the first time about the global economy's growth rate, an even larger share—72 percent—expect it will increase over the next six months. By contrast, only 14 percent predict the global growth rate will contract.

Even over the long term, respondents are more confident than not in the global economy's momentum. When asked to assess the likelihood of four global scenarios in the next decade,[3] 51 percent cite the two scenarios involving higher growth as most likely, while only 18 percent cite "rolling regional crises," the scenario characterized by the lowest levels of growth. Back in March, the lowest-growth scenario was ranked most likely by one-quarter of respondents.

At the same time, opinions on trade also have grown rosier. Nearly half of respondents now say the level of trade between their home countries and the rest of the world has increased in the past year (Exhibit 3). Looking ahead, 51 percent expect trade levels will increase in 2018—up from 32 percent one year ago,

Exhibit 3 **In the past year, respondents report ever-rosier views on the levels of trade between their home countries and the rest of the world.**

Change in level of trade between respondents' countries and rest of world, past 12 months,[1] % of respondents



[1] Figures may not sum to 100%, because of rounding.

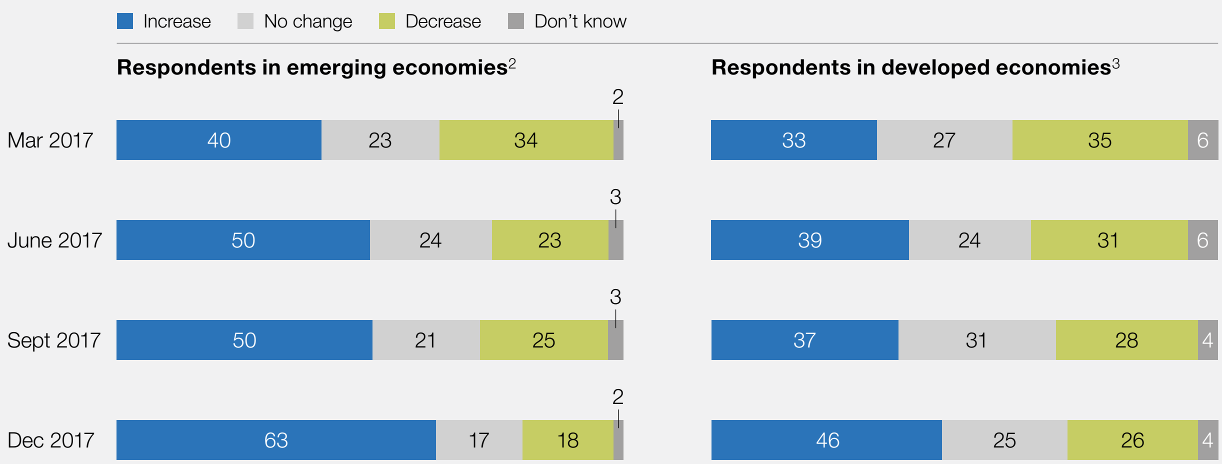
when we first asked the question. Respondents in emerging economies are more optimistic about their countries' trade prospects than their developed-economy peers, a pattern that has been true all year (Exhibit 4).

As for risks, concerns about asset bubbles have continued their rise. Thirty-one percent of respondents identify asset bubbles as a risk to global growth in the next year, continuing that risk's steady climb up the list since last December, when only 8 percent of respondents cited it.[4] Asset bubbles are more often selected in developed economies than in emerging ones, particularly in developed Asia, where half of

Exhibit 4

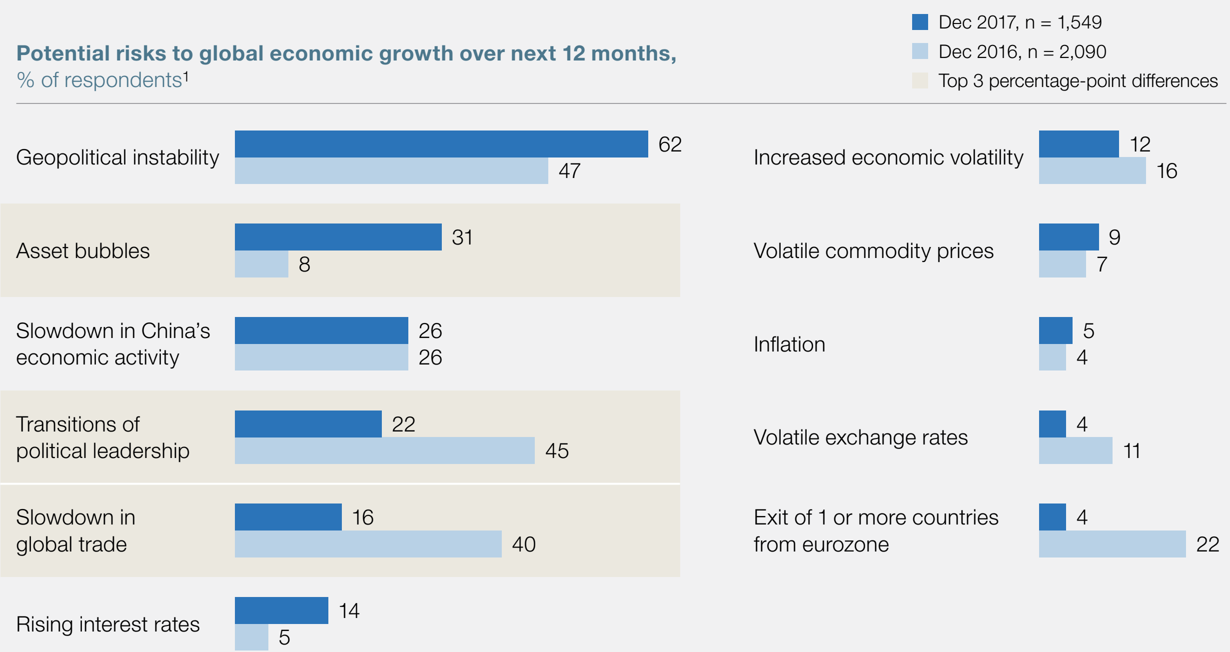
All year long, respondents in emerging economies have been more optimistic than their peers about the growth of trade.

Expected change in level of trade between respondents' countries and rest of world,
next 12 months,[1] % of respondents by office location



[1] Figures may not sum to 100%, because of rounding.
[2] Includes respondents in China, India, Latin America, Middle East and North Africa, and other developing markets. In Mar, n = 523; in June, n = 407; in Sept, n = 413; and in Dec, n = 448.
[3] Includes respondents in Asia–Pacific, Europe, and North America. In Mar, n = 1,219; in June, n = 754; in Sept, n = 994; and in Dec, n = 1,101.

Exhibit 5 **Over the past year, the landscape of risks to global growth has meaningfully changed.**



[1] Respondents who answered any of 3 options that were not offered in the Dec 2016 survey ("changes in trade policy," "United Kingdom's exit from European Union," and "social unrest"), "other," "no particular risk," and "don't know," are not shown. In Dec 2017, 25% of respondents selected "changes in trade policy," 20% selected "United Kingdom's exit," and 17% selected "social unrest."

respondents cite asset bubbles as a threat to growth. Other risks have shifted meaningfully since one year ago (Exhibit 5), though geopolitical instability still tops the list of potential threats to global growth over the next year—as it has since September 2016.[5]

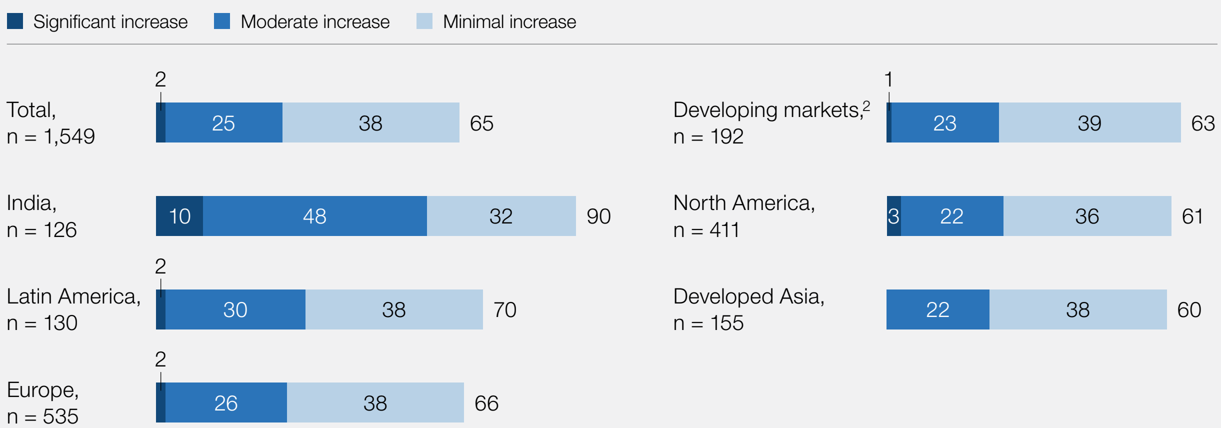
Domestic conditions continue to improve

With respect to the state of their home economies, respondents are ever more sanguine. Fifty-seven percent of all respondents say conditions at home improved in the past six months, and 49 percent predict conditions will improve in the next six months, the largest shares to say so in 2017. An even higher share, 65 percent, predict that the growth rates of their home economies will increase in the next six

Exhibit 6

Large shares of respondents in every region—and India in particular—believe their countries are poised for growth.

Expected growth rate of respondents' home economies, next 6 months, % of respondents[1]



[1] Respondents who answered "no change," "minimal contraction," "moderate contraction (ie, a recession)," "significant contraction (ie, a depression)," and "don't know" are not shown.
[2] Includes respondents in China, Middle East, and North Africa.

months; across regions, those in India are the most optimistic (Exhibit 6). Likewise, and continuing a pattern we have seen all year long, respondents in India express the most hope that their economy will improve in the coming months. By contrast—and as in June and September—those in North America are the most likely to expect conditions will worsen, though their outlook is more positive than negative.

Compared with the previous survey, respondents are focused on the same risks to domestic growth but in a slightly different order of likelihood. Continuing to top the list of risks to their countries' growth are domestic political conflicts. This risk is followed by transitions of political leadership, up from fifth place in September and cited most often in Latin America. Asset bubbles remain a top-three risk to overall growth. But a larger share of respondents than in September say equity bubbles are likely to develop in the next year. Concern about equity bubbles is most acute in India and in North America. Fifty-two percent and 48 percent in these regions, respectively, cite equity bubbles, compared with 27 percent of all respondents.

Optimism on demand and profits

The results suggest that respondents are more hopeful about their companies' prospects in 2018 than they have been in several years. When asked about potential demand for their companies' products and services, 61 percent of private-sector respondents say they expect an increase in the next six months. It's the largest share to say so since we began asking in 2009, and respondents in emerging economies are especially cheery. Sixty-six percent of them predict demand will increase, compared with 58 percent who say so in developed economies.

Respondents also report an exceptionally positive outlook on profits: 67 percent expect their companies' profits will increase, which is the largest share to say so since December 2014. By contrast, respondents are about as likely to predict that the size of their workforces will remain the same or grow over the next few months. ■

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[1] The online survey was in the field from November 27 to December 1, 2017, and garnered responses from 1,549 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.

[2] Developed Asia includes respondents in Australia, Hong Kong, Japan, New Zealand, Philippines, Singapore, South Korea, and Taiwan.

[3] The four scenarios, from highest to lowest growth and economic convergence, are "global synchronicity" (rapid, globally distributed growth underpinned by broadening increases in productivity), "pockets of growth" (uneven and volatile but high global growth), "global deceleration" (low but more stable global growth), and "rolling regional crises" (volatile and weak global growth). For more, see Jonathan Ablett, Luis Enriquez, and Sven Smit, "Shifting tides: Global economic scenarios for 2015–25," September 2015, McKinsey.com.

[4] In March 2017, 14 percent of respondents cited asset bubbles as a risk to global growth in the next 12 months; in June 2017, 17 percent; and in September 2017, 24 percent.

[5] Respondents were asked to select three potential risks out of 14 that were offered as answer choices. Eleven of the 14 risks in the newest survey were also included as answer choices in December 2016.

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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