

# Economic Conditions Snapshot, June 2018

McKinsey Global Survey results

Respondents' views on economic conditions and growth prospects have tempered. Meanwhile, trade-related changes have become ever more pressing risks to domestic, global, and company growth.



Midway through 2018, respondents around the world express more cautious views than they did in March about the state of the economy and its prospects for the rest of the year. In McKinsey's most recent survey of executives' sentiment on economic conditions,<sup>1</sup> the shares of respondents who say overall conditions are improving and predict that the rate of economic growth will increase are smaller than in the past few surveys. There are some geographic divides, but in contrast to the previous survey's results, these differences do not fall along developed- or emerging-economy lines.<sup>2</sup> Instead, respondents in Latin America report particularly downbeat views, while their peers in North America and India are the most positive about current conditions at home and in the world economy.

Changes in trade policy remain the most cited risk to domestic and global growth, and respondents are increasingly likely to identify the issue as a risk to their companies. Compared with the past three surveys, respondents are less likely to report increases in trade levels between their countries and the rest of the world or that their companies have seen a positive business benefit from changing trade levels. Overall, respondents remain optimistic about their companies' prospects, including the size of their workforces, but they also report significant effects on the workforce—past and expected—from technology-related trends.

### Tempered views on the economy

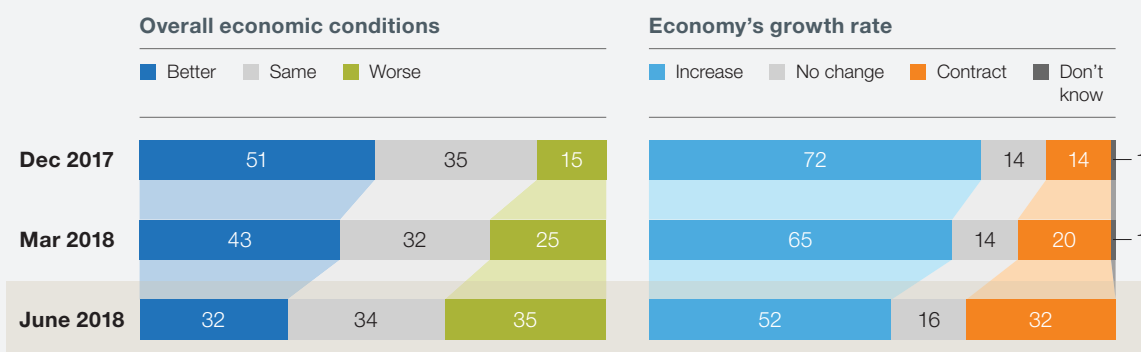
Respondents' opinions on economic conditions and prospects for growth, both global and domestic, are more cautious than they've been in several surveys. Forty percent of respondents—down from 54 percent and 60 percent, respectively, in the past two surveys—say the global economy is in better shape now than six months ago.

What's more, expectations of the world economy's prospects have declined (Exhibit 1). The share of respondents that predict global conditions will worsen now exceeds the share predicting improvements, for

Exhibit 1

## Expectations for the future of the world economy—its overall conditions and its growth rate—have declined.

Expected changes in global economy, in 6 months, % of respondents<sup>1</sup>



<sup>1</sup> Figures may not sum to 100%, because of rounding. In Dec 2017, n = 1,549; in Mar 2018, n = 1,230; and in June 2018, n = 1,648.

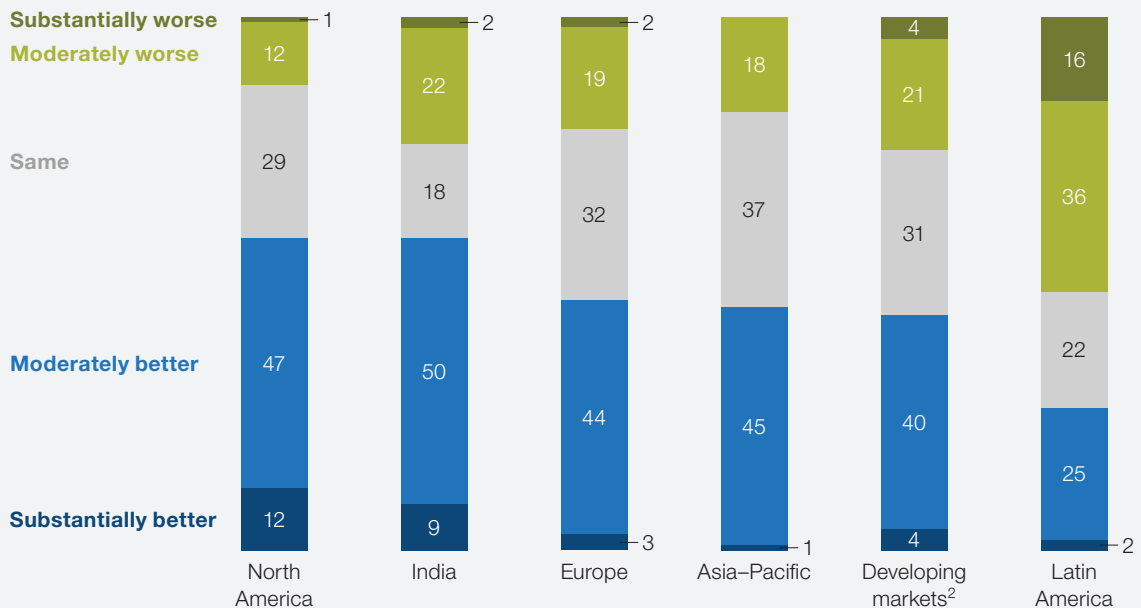
the first time since December 2016. Likewise, their views on global growth rates also have become more tempered. Respondents are more than twice as likely as they were six months ago (32 percent, up from 14 percent) to predict that the rate of global growth will slow in the next six months—though a majority still expect an increase. One exception is in Europe, where just 43 percent of respondents, compared with 55 percent of all others, believe the global growth rate will increase.

As to their home economies, respondents remain on the optimistic side—although for the first time in a year, less than a majority say economic conditions have improved in recent months. Those in North America and in India are the most upbeat across regions, and those in Latin America are the least so (Exhibit 2). Only 27 percent in Latin America cite improvements, compared with 52 percent who report declines—a dramatic change from three months ago, when respondents in the region were among the most optimistic.<sup>3</sup>

Exhibit 2

## Respondents in North America and India are the most upbeat about their current economies, and those in Latin America the least so.

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



<sup>1</sup> Figures may not sum to 100%, because of rounding. In North America, n = 398; in India, n = 123; in Europe, n = 605; in Asia-Pacific, n = 186; in developing markets, n = 200; and in Latin America, n = 116.

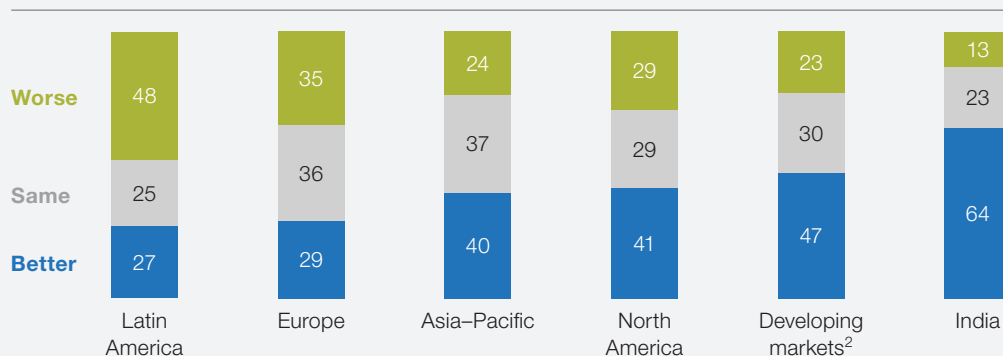
<sup>2</sup> Includes respondents in China, Middle East, and North Africa.

**Exhibit 3**

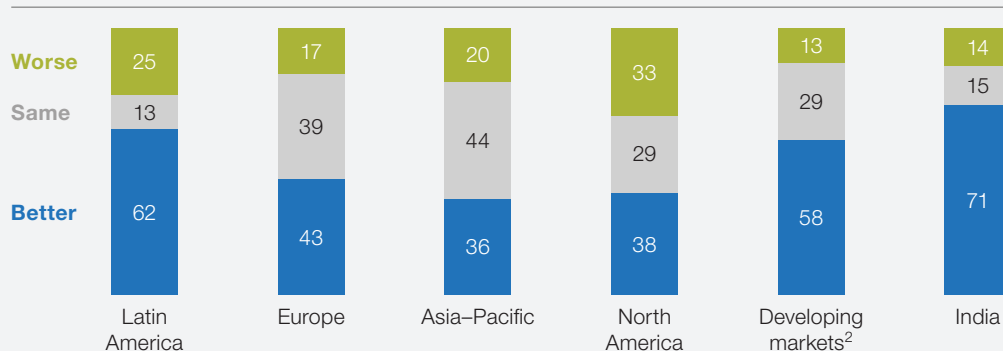
**Respondents in Latin America and Europe report the most cautious outlook—and much more so than in March—for their home countries.**

**Expected changes in domestic economic conditions,**  
in 6 months, by office location, % of respondents<sup>1</sup>

**June 2018**



**Mar 2018**



<sup>1</sup> Figures may not sum to 100%, because of rounding. In March 2018, Latin America n = 87; in Europe, n = 475; in Asia-Pacific, n = 124; in North America, n = 311; in developing markets, n = 148; and in India, n = 85. In June 2018, Latin America n = 116; in Europe, n = 605; in Asia-Pacific, n = 186; in North America, n = 398; in developing markets, n = 220; and in India, n = 123.

<sup>2</sup> Includes respondents in China, Middle East, and North Africa.

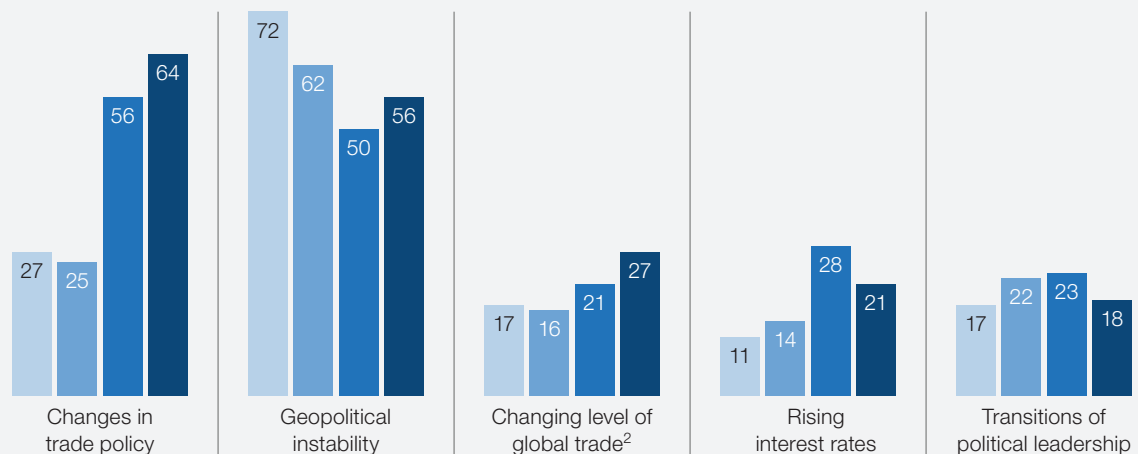
Looking ahead, the outlook on respondents' home economies is even more cautious. Compared with previous surveys, they are more likely now to expect their countries' growth rates will contract. At the same time, just 38 percent predict that domestic conditions will improve over the next few months, down from 47 percent in March and 49 percent in December 2017. Respondents in Latin America and Europe are the least likely across regions to expect improvements, and much less likely than they were in the previous survey (Exhibit 3).

Exhibit 4

## A growing share of respondents cite changes in trade policy most often as a risk to global growth.

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

■ Sept 2017 ■ Dec 2017 ■ Mar 2018 ■ June 2018



<sup>1</sup> Out of 13 potential risks that were presented as answer choices. In Sept 2017, n = 1,407; in Dec 2017, n = 1,549; in Mar 2018, n = 1,230; and in June 2018, n = 1,648.

<sup>2</sup> In Sept and Dec 2017, answer choice was "slowdown in global trade."

### Trade-related concerns persist

For the second survey in a row, changing trade policy is cited most often as a threat to global economic growth. Changes in trade policy are cited by 64 percent (Exhibit 4), up from 56 percent previously and twice the share that said so one year ago. Trade-policy changes are the most commonly cited risk in all regions and by respondents in both developed and emerging economies. A related risk, changing levels of global trade, is identified by 27 percent of respondents. It's now the third most common threat; in March, it was cited sixth.

As a risk to domestic growth, trade-policy changes also continue their climb and have overtaken political issues—that is, domestic political conflicts and transitions of political leadership—as the most commonly cited risk. As in the previous survey, changing trade policy is an outsize concern in North America.

In this survey, so are domestic political conflicts, which are cited more often than average in India, Latin America, and North America.

Furthermore, after a year of increasingly positive views about trade levels between respondents' countries and the rest of the world, sentiment has taken a downward turn. A plurality of respondents continue to report that trade levels have increased in the past year. But the share saying so now is smaller than in the past

three surveys, and their predictions of future trade levels are increasingly pessimistic (Exhibit 5). Forty-one percent of respondents expect trade levels will decline in the next year, the largest share to say so since we first asked this question in December 2016. Now, respondents are more likely to expect declining rather than increasing trade.

Even respondents in emerging economies are less enthusiastic about trade than they’ve been in past surveys. Three months ago, 60 percent of these respondents said trade between their own countries and others had increased, compared with 49 percent of their developed-economy peers. But in the newest survey, that gap has narrowed: 45 percent in emerging economies and 40 percent in developed economies report increasing trade levels. Looking ahead, those in North America—who are also the most likely to cite trade-policy changes as a threat to domestic growth—remain the most downbeat about their countries’ trade prospects, and increasingly so.<sup>4</sup>

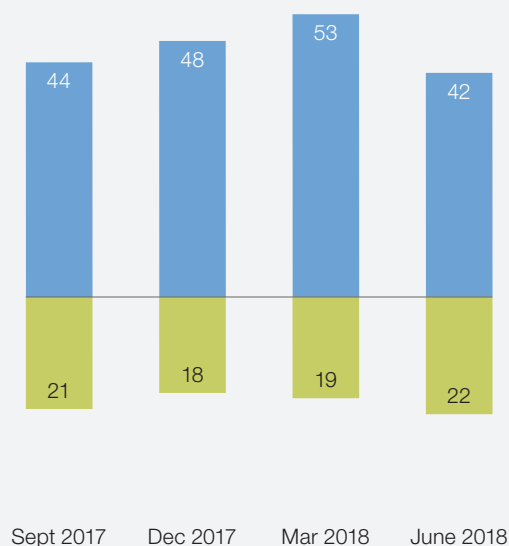
**Exhibit 5**

## **Views on trade levels have taken a downward turn, and respondents are even less optimistic when they look ahead.**

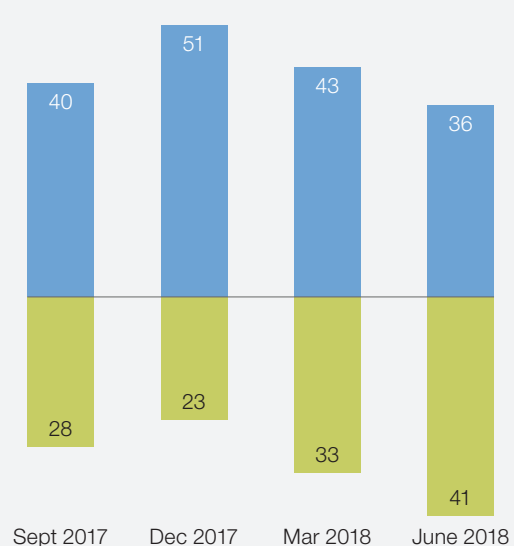
**Change in level of trade between respondents’ countries and rest of world,**  
% of respondents<sup>1</sup>

■ Increase  
■ Decline

### **Past 12 months**



### **Expected, in next 12 months**



<sup>1</sup> Respondents who answered “no change” or “don’t know” are not shown. In Sept 2017, n = 1,407; in Dec 2017, n = 1,549; in Mar 2018, n = 1,230; and in June 2018, n = 1,648.

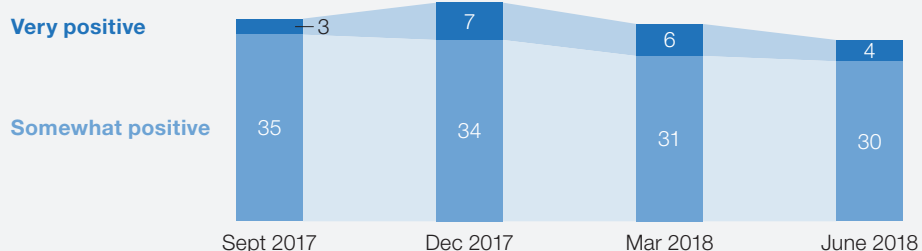


Exhibit 6

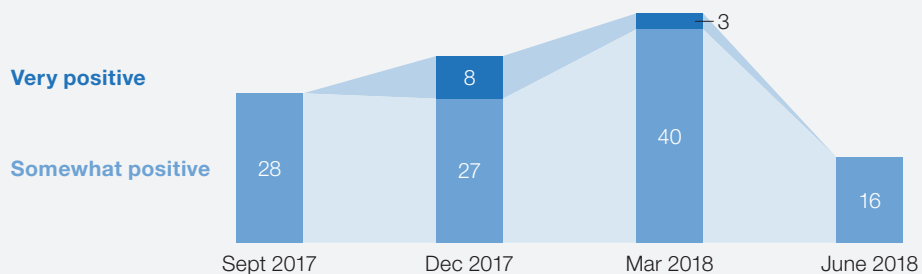
**In Latin America and North America, respondents are less convinced—and less so than average—of trade’s positive business effects.**

**Effects of changing trade levels on companies’ business,**  
past 12 months, % of respondents<sup>1</sup>

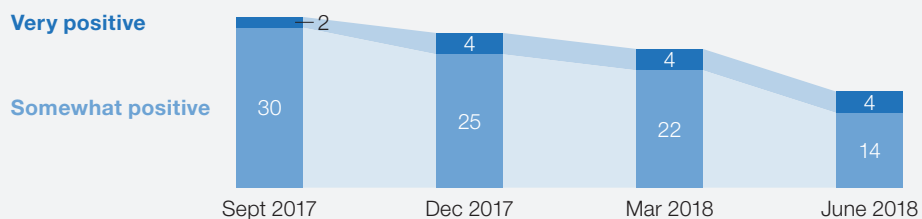
**Total**



**Latin America**



**North America**



<sup>1</sup> Respondents who answered “no effect,” “somewhat negative,” “very negative,” or “don’t know” are not shown. This question was asked only of private-sector respondents who reported some change in trade levels (either increase or decline) between their home countries and the rest of the world in the past 12 months. In Sept 2017, total n = 859, Latin America n = 100, and North America n = 135; in Dec 2017, total n = 924, Latin America n = 89, and North America n = 187; in Mar 2018, total n = 778, Latin America n = 71, and North America n = 135; in June 2018, total n = 944, Latin America n = 82, and North America n = 164.

### Shifting tides at the company level

Trade-related changes have implications for companies, too, and the latest results suggest that these effects are evolving. Changes in the trade environment continue to rise as a risk to company-level growth: they are now cited third (formerly, fifth) most often by respondents. And while most respondents' companies tend to be immune from shifting trade levels at the country level, a growing share say the effects on their business have been negative: 22 percent say so now, up from 17 percent and 14 percent in the past two surveys. Respondents in developed Asia are the most upbeat about the business effects: 52 percent report a positive effect from changing trade levels. Conversely, their peers in Latin America and North America are the least likely—and much less likely than the global average—to report business benefits. In fact, respondents in the Americas are warier now of trade's effects than they've been in recent months (Exhibit 6).

Still, respondents in these—and all—regions expect no meaningful hits to their business in the near term. Overall expectations for profits and demand remain high: 58 percent of respondents in Latin America and 68 percent in North America (compared with 62 percent of the global average) predict that their companies' profits will increase in the next six months.

While expectations for workforce size are holding steady and remain more positive than negative,<sup>5</sup> other results suggest that major workforce changes—thanks to technology—are already under way. Seven in ten respondents say that in the past five years, advances in digitization and/or automation have affected some portion of their companies' workforce (that is, created a need for retraining or replacement), and respondents from larger companies report an even greater effect to date.<sup>6</sup> Looking ahead to the next five years, nearly all respondents (94 percent) expect technology-related skill gaps will emerge.

Few companies are ready to handle these skill gaps, though. Thirty-nine percent of respondents say their companies are unprepared to deal with skill issues, and only one-third say addressing these gaps is a top or top five priority for their organizations. The biggest barrier to doing so, respondents say, is their current human-resources infrastructure, which isn't able to support a new strategy for addressing these gaps. Finally, the results suggest that these workforce changes are a universal issue. Across regions, respondents in emerging and developed economies report similar experiences and views on the effects of automation and digitization on their workforces, the extent to which their companies are—or are not—prioritizing potential skill gaps related to technology trends, and their preparedness to address these gaps. ■

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<sup>1</sup> The online survey was in the field from June 4 to June 8, 2018, and garnered responses from 1,648 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>2</sup> "Economic Conditions Snapshot, March 2018," March 2018, McKinsey.com.

<sup>3</sup> In the March 2018 survey, 64 percent of respondents in Latin America said economic conditions in their home countries had improved in the past six months, and 21 percent said conditions had declined.

<sup>4</sup> In this survey, 63 percent of respondents in North America predict that trade levels between their countries and the rest of the world will decline in the next 12 months. In March 2018, 58 percent of respondents in the region said the same; in December 2017, 37 percent; and in September 2017, 34 percent.



- <sup>5</sup> In this survey and in March 2018, 44 percent of all respondents predicted that the size of their companies', departments', or agencies' workforces would stay the same in the next six months; 38 percent expected an increase in workforce size; and 17 percent expected a decrease.
- <sup>6</sup> At companies with annual revenue of at least \$1 billion, 77 percent of respondents say at least 1 percent of their workforce has needed retraining or replacement in the past five years, due to advances in automation and digitization. At companies with revenue of less than \$1 billion, 69 percent say the same.

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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