McKinsey&Company

Economic Conditions Snapshot, March 2017

McKinsey Global Survey results

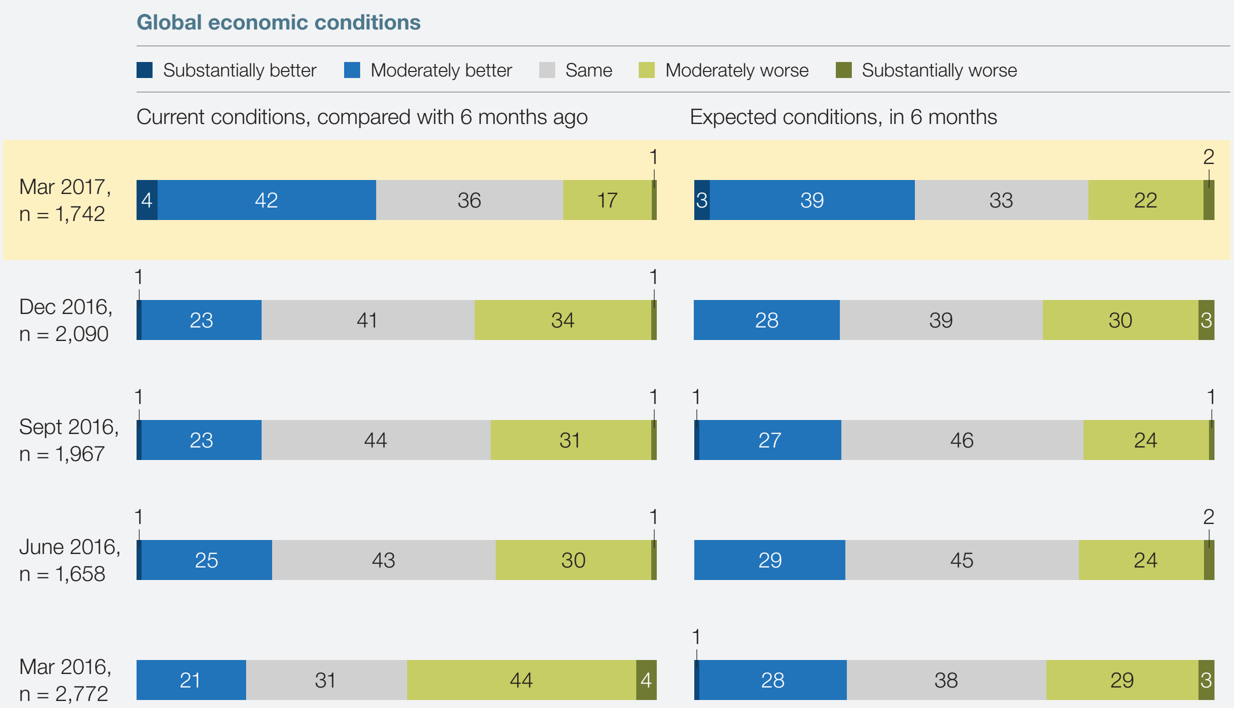
Respondents report renewed optimism on the economy. But political and trade-related risks continue to loom.

Executives are more upbeat about current economic conditions—both globally and in their home countries—than they were for all of 2016, in McKinsey's latest survey on the topic.[1] They are nearly twice as likely as in the past two surveys to say conditions in the world economy have improved in recent months, and they report notable improvements in their home economies, too. Their views on the future, though, are more tempered. Respondents are more optimistic than not about economic prospects but doubt conditions will improve much more than they already have.

Despite the growing bullishness, respondents continue to cite political and trade-related risks most often as threats to growth, as they did in December. Changes in trade policy, which we asked about for the first time in this survey, are an outsize risk in developed economies. They are a particular sore spot in the United States, where respondents are the most likely to cite such changes as a risk to both global and domestic growth. When asked about risks at the company level, the largest share of respondents say regulatory changes are threats to their businesses.

Exhibit 1 **Executives have grown more bullish on current conditions in the global economy—and on its future prospects.**

% of respondents[1]



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

A turnaround in global views, though geopolitical and trade concerns prevail

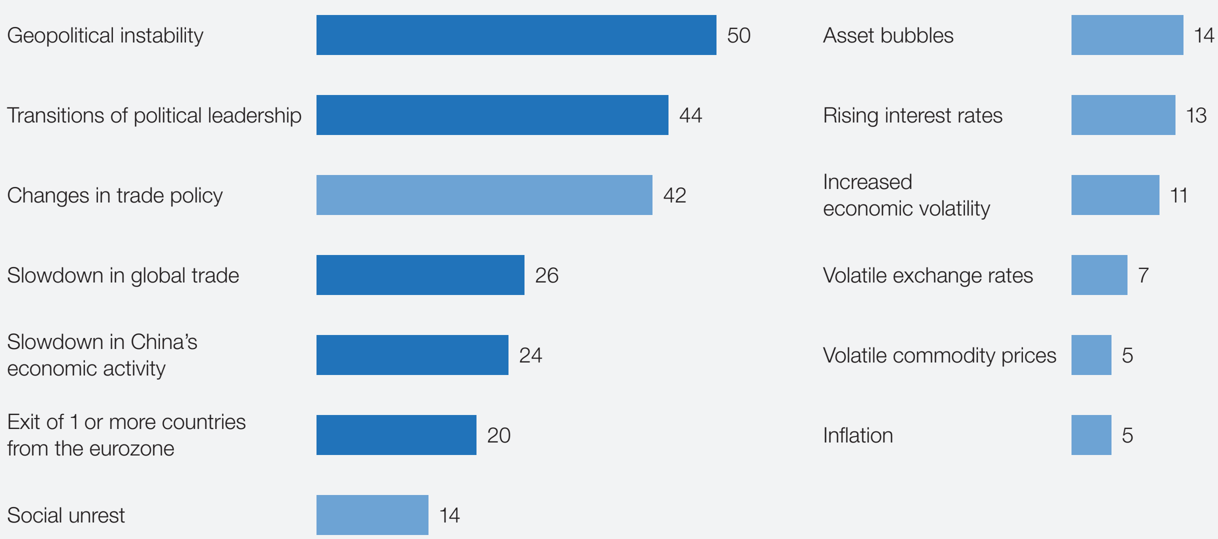
Overall, executives are much more bullish about the global economy than they were for all of 2016 (Exhibit 1). Nearly half of them say conditions in the world economy are better now than they were six months ago—far surpassing expectations from six months prior, when only 28 percent expected improvements. While they are also more optimistic about the world economy's prospects, respondents aren't convinced that the future will be much rosier. Forty-two percent believe conditions will improve, a slightly smaller share than say conditions have improved in recent months. Across regions, respondents in developed economies are less upbeat about the future than they are about current conditions. In Asia–Pacific, for example, almost half of respondents say global conditions have improved in recent months, but only one-third predict further improvements in the next six months.

Exhibit 2 **Geopolitical, political, and trade-related risks remain the most common threats to global growth, as they were in the previous survey.**

% of respondents,[1] n = 1,742

Top 5 risks in Dec 2016 survey
All other risks

Potential risks to global economic growth over next 12 months



[1] Respondents who answered "other," "no particular risk," or "don't know" are not shown.

Despite this newfound positivity, the same issues that executives identified three months ago as threats to global growth—geopolitical instability, politics, and trade—still loom (Exhibit 2). Geopolitical instability has been the most identified risk for the past three surveys. A slowdown in global trade—which rose on the list of risks in December—is now less of a concern, while more than four in ten respondents cite changes in trade policy, which we asked about for the first time. Policy changes are especially top of mind for executives in North America, Latin America, and Asia–Pacific.

Other responses suggest a growing sanguinity about the pace of global trade. Executives are more likely to say that trade between their home countries and the rest of the world has increased in the past 12 months, rather than stayed the same or decreased. Views on trade are especially positive in Asia–Pacific. Just three months ago, respondents in the region were the likeliest to report *declining* trade: half of respondents there said trade levels had declined, compared with one-third of all respondents. Now they are twice as likely to say trade has increased than declined, much less likely than in December to say the change in trade levels has harmed their business (16 percent now, down from 43 percent), and likelier to believe trade levels will increase rather than decrease in the year ahead.

Their peers in North America, though, are much less optimistic. Respondents in the region are the least likely to say trade levels have increased in the past 12 months—followed closely by those in the Middle East and North Africa and in other developing markets, who tend to report declining trade. Looking ahead, they are the most likely to expect decreasing trade levels. Fifty-two percent in North America predict trade between their home countries and the world will decline in the next year, compared with a global average of 35 percent.

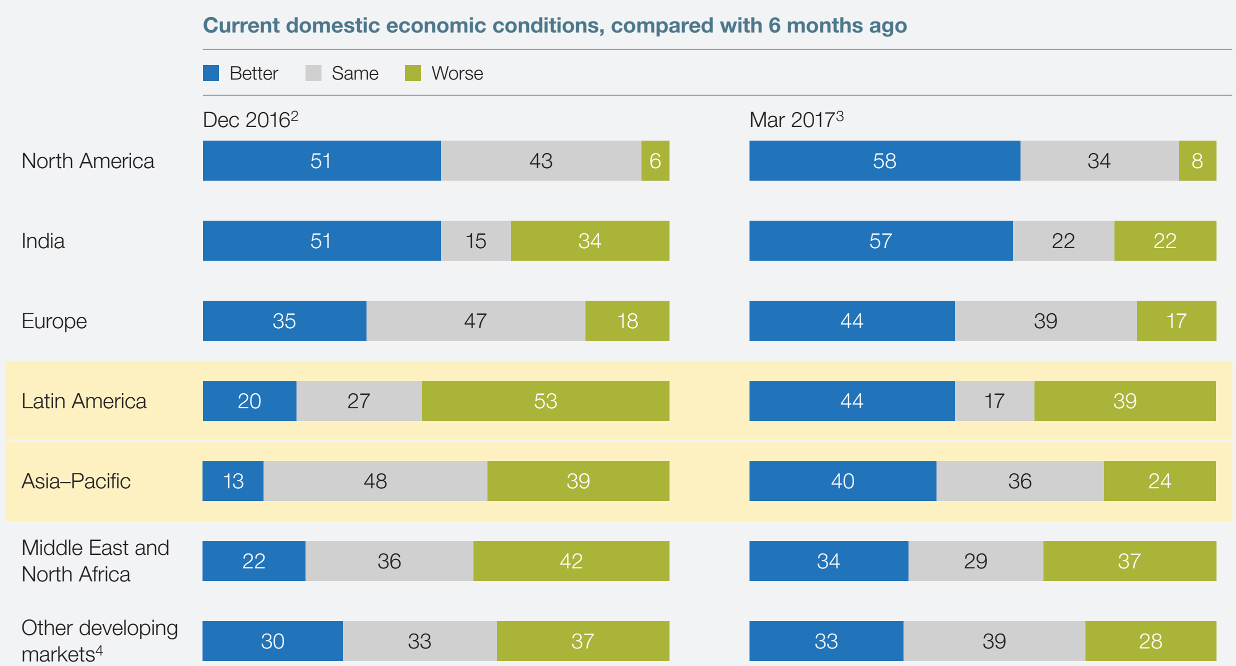
Steady buoyancy and consistent political concerns at home

As we saw at the global level, executives are increasingly positive about conditions at home. Forty-five percent of all respondents say domestic economic conditions are better now than six months ago, up from 35 percent in December and 30 percent in September. In addition, respondents in all but one region—the Middle East and North Africa—report improvement more often than decline (Exhibit 3).

Exhibit 3

Views on current domestic conditions are more positive in every region, with the biggest upturns in Asia–Pacific and Latin America.

% of respondents by office location[1]



[1] Figures may not sum to 100%, because of rounding.
[2] In North America, n = 544; in India, n = 145; in Europe, n = 692; in Latin America, n = 140; in Asia–Pacific, n = 218; in Middle East and North Africa, n = 110; and in other developing markets, n = 241.
[3] In North America, n = 433; in India, n = 120; in Europe, n = 601; in Latin America, n = 140; in Asia–Pacific, n = 185; in Middle East and North Africa, n = 81; and in other developing markets, n = 182.
[4] Includes China.

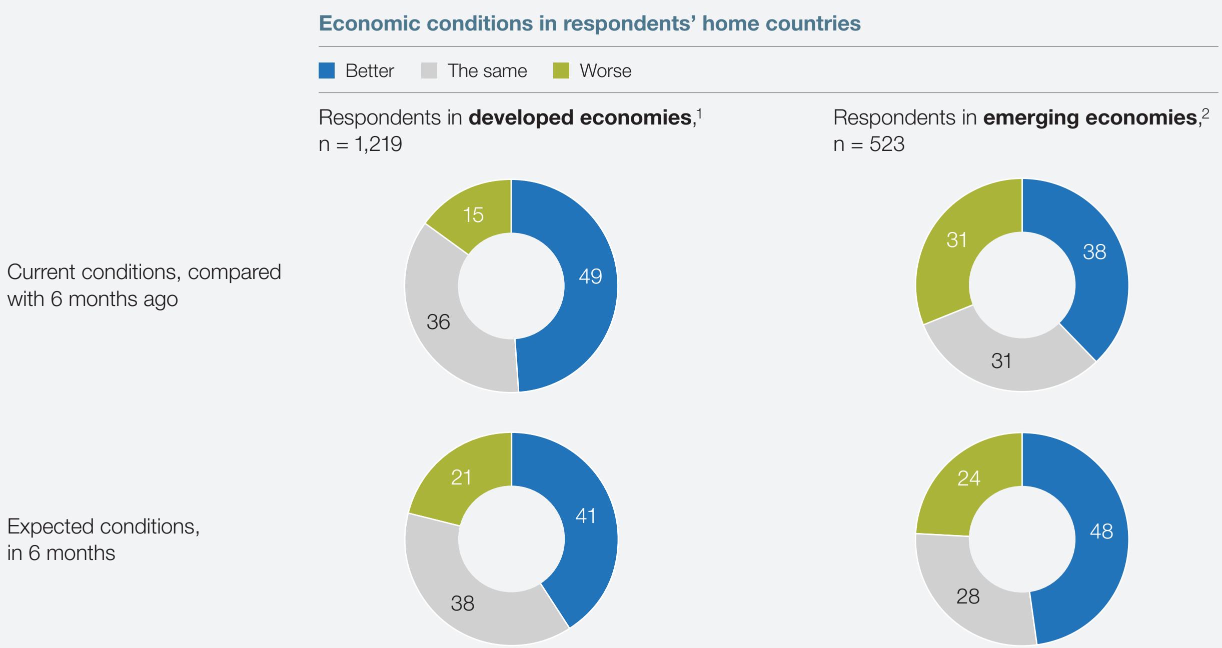
Those in North America and in India are the most positive about conditions at home, which was also true in the previous survey, and respondents in Latin America and Asia–Pacific are two and three times likelier now to report improving conditions.

Looking ahead, executives are just as likely (43 percent) to say that future conditions will be better. And while developed-economy respondents are likelier than their peers elsewhere to say current conditions have improved, emerging-market respondents are more optimistic about the future (Exhibit 4).

Exhibit 4

Developed-economy respondents are more bullish on current conditions at home, while their emerging-economy peers are more optimistic about their home countries' prospects.

% of respondents by office location



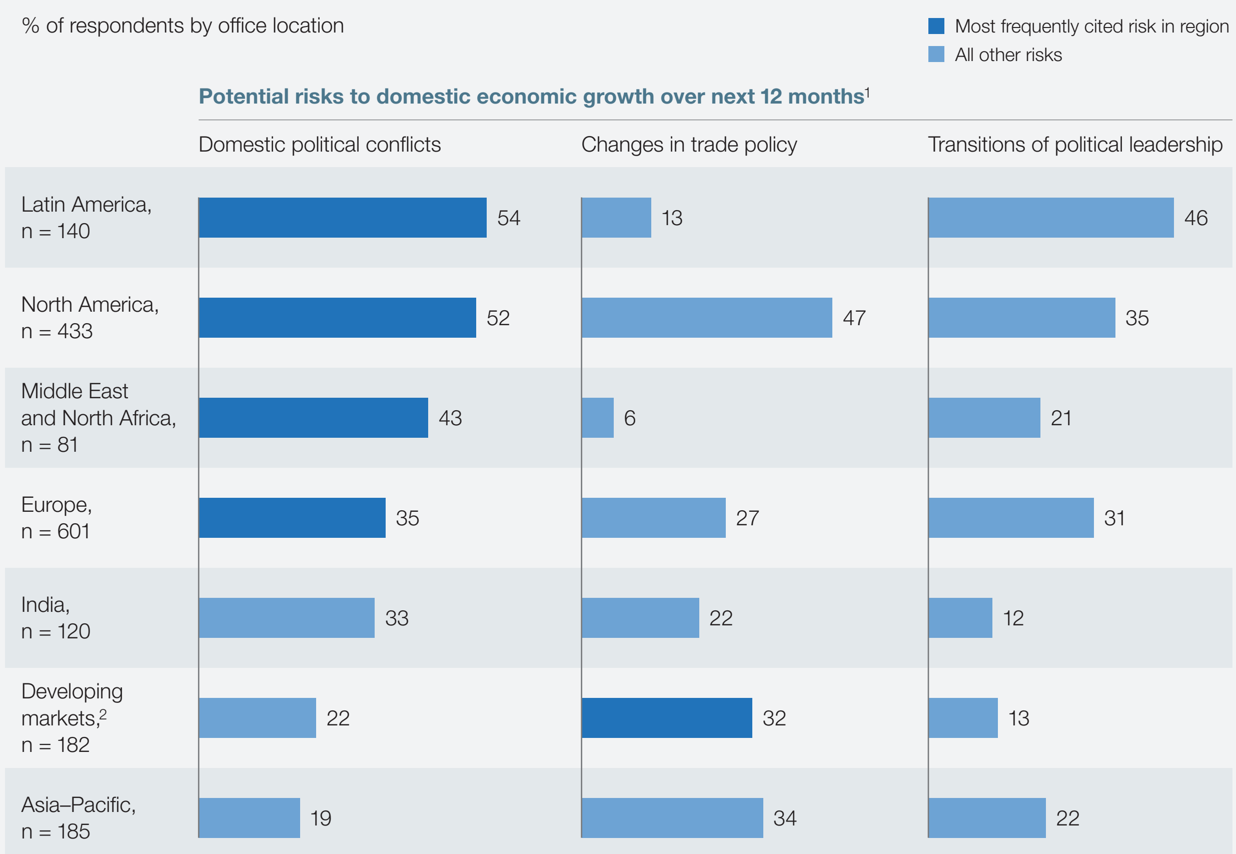
[1] Includes respondents in Asia–Pacific, Europe, and North America.
[2] Includes respondents in China, India, Latin America, Middle East and North Africa, and other developing markets.

We also asked all respondents about the US economy's prospects, and views vary widely from region to region. Respondents in the United States are more optimistic than not, with 49 percent predicting the economy will improve in the next six months. The most bullish are their peers in Asia–Pacific and developing markets: 63 percent and 56 percent, respectively, expect improvements. The most skeptical of the US economy's prospects are executives in Europe and Latin America. Only 35 percent in each region believe US conditions will improve.

When respondents identify risks to domestic growth, political risks are top of mind (as they were in December), along with a new option, changes in trade policy (Exhibit 5). Changes in trade policy are an

Exhibit 5

Overall, and within several regions, political conflicts are the most commonly cited risk to domestic economic growth.



[1] Out of 15 risks that were presented as answer choices. Risks are arranged in descending order left to right, based on total-level responses to question; top risk in India is impact of technology on jobs (cited by 36%) and top risk in Asia–Pacific is slowdown in China's economic activity (40%).
[2] Includes China.

outsize risk in developed markets, where respondents are more likely than their emerging-market peers to express concern over it—and especially in the United States, where 47 percent of respondents (compared with 27 percent of all others) cite it. Another new risk, the impact of technology on jobs, is cited most often by respondents in India.

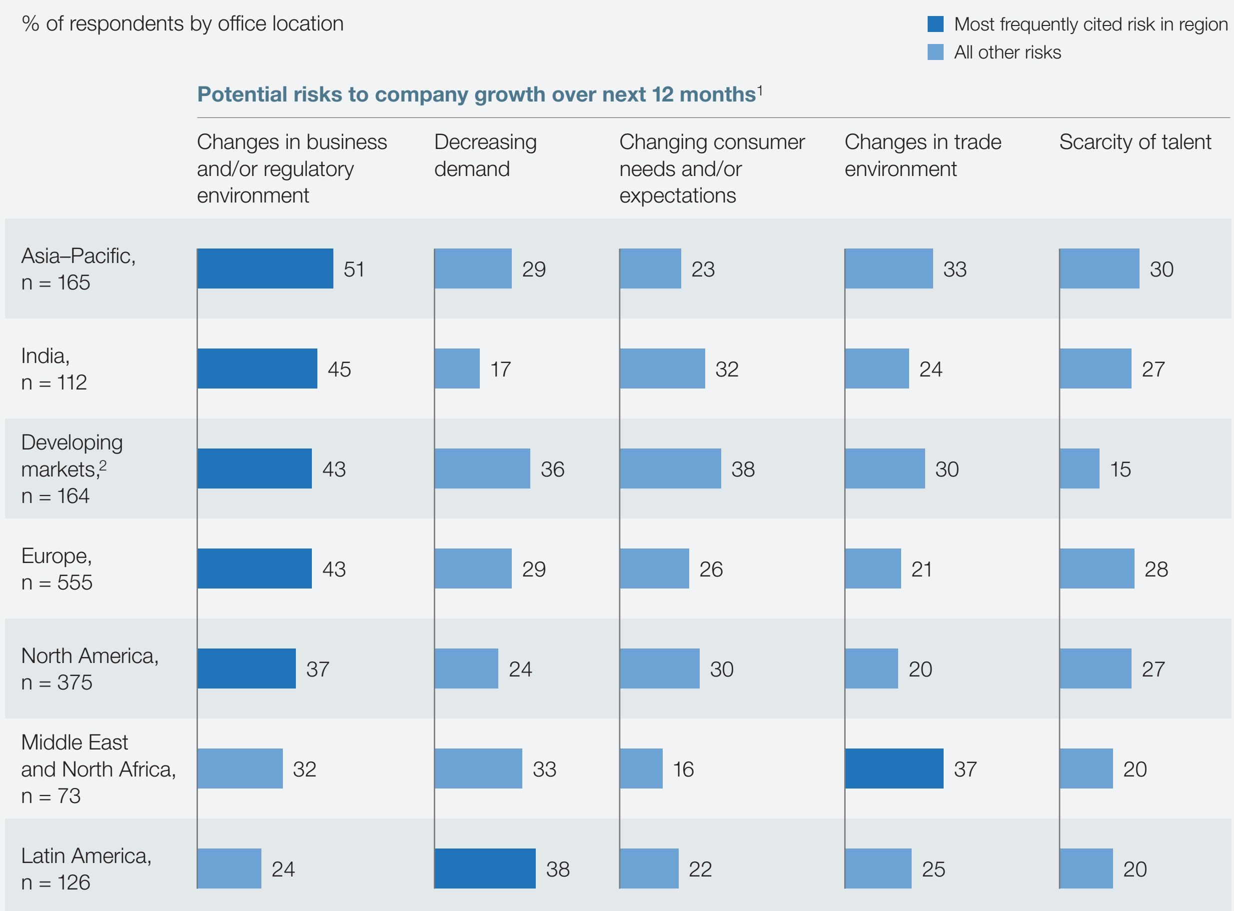
At the company level, new pain points

One year ago, we began asking executives about company-level risks to and opportunities for growth, and the risk landscape has shifted somewhat since. In March 2016, the most commonly cited risks were changing consumer needs, low demand, and scarcity of talent—and the shares of executives naming each one have decreased in the past year. Roughly one-third of respondents identified scarcity of talent as a risk 12 months ago, while just one-quarter cite it in the latest survey. Now the largest share of executives cite changes in the business and regulatory environment (41 percent), which is new to the list. One-quarter of respondents identify another new option: changes in the trade environment. Regulatory changes are the top concern in several regions (Exhibit 6), while respondents in Latin America most often express concern with decreasing demand, and those in the Middle East and North Africa with changes in the trade environment.

When asked about regulatory and trade changes as *opportunities* for their businesses' growth, these two issues fall near the bottom of the list. They are cited by 12 percent and 5 percent, respectively, of all respondents. Executives in the United States, however, are twice as likely as all others (20 percent, compared with 10 percent) to identify changes in the regulatory and business environment as an opportunity. Globally, the opportunities that top the list are the same as a year ago: growth in existing markets, operations improvements, and expanded and/or new offerings.

Executives in the United States are twice as likely as all others to identify changes in the regulatory and business environment as an opportunity for their companies.

Exhibit 6 **When asked about threats to company growth, respondents identify a new risk: changes in their business and regulatory environment.**



[1] Out of 14 risks that were presented as answer choices. Risks are arranged in descending order left to right, based on total-level responses to question.
[2] Includes China.

And while low demand remains a widely cited risk, other results suggest that overall expectations for demand are actually up. For the first time since June 2015, a majority of respondents predict that demand for their companies' products or services will increase in the next six months. Across regions, respondents in India report the most bullish expectations for demand: 71 percent predict an increase, up from 54 percent there who said so in December.

[1] The online survey was in the field from March 6 to March 10, 2017, and garnered responses from 1,742 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.

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

They wish to thank Alan FitzGerald and Vivien Singer for their contributions to this article.