

Economic Conditions Snapshot, June 2017

McKinsey Global Survey results

Global executives see geopolitical issues as a rising risk to growth, but they remain more buoyant than downbeat in their outlook for both the global and domestic economies.

The shares of executives citing geopolitical instability and terrorism as threats to the global economy have grown notably, according to McKinsey's latest survey on economic conditions.¹ In every region, geopolitical instability is the risk that respondents most often identify as a threat to near-term global growth. For the long term, they say instability in the Middle East and North Africa and terrorist attacks pose outside threats.

Still, executives remain more positive than negative about the state of the world economy, and they are increasingly buoyant about economic conditions in their home countries. At the same time, respondents in emerging markets and developed markets report new divergences in their views on trade, company profits, and customer demand.

Growing concern over geopolitical instability

For the past year, respondents have identified geopolitical instability as a top risk to global economic growth. But relative to recent surveys, the share citing it has grown to 65 percent—up from half of respondents who cited geopolitical issues in the previous survey, and the largest share in 18 months.²



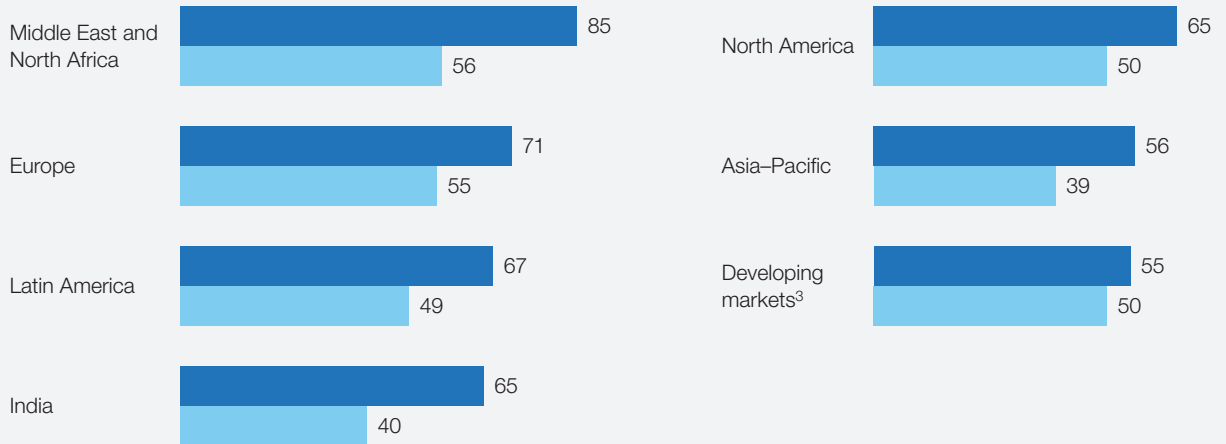
Jean-François Martin

Exhibit 1

In every region, geopolitical instability is cited most often as a threat to global growth—and much more often than in the previous survey.

Geopolitical instability as risk to global economic growth over next 12 months,
% of respondents, by office location

■ June 2017¹
■ Mar 2017²



¹In Middle East and North Africa, n = 57; in Europe, n = 343; in Latin America, n = 106; in India, n = 98; in North America, n = 301; in Asia-Pacific, n = 110; and in other developing markets, n = 146.

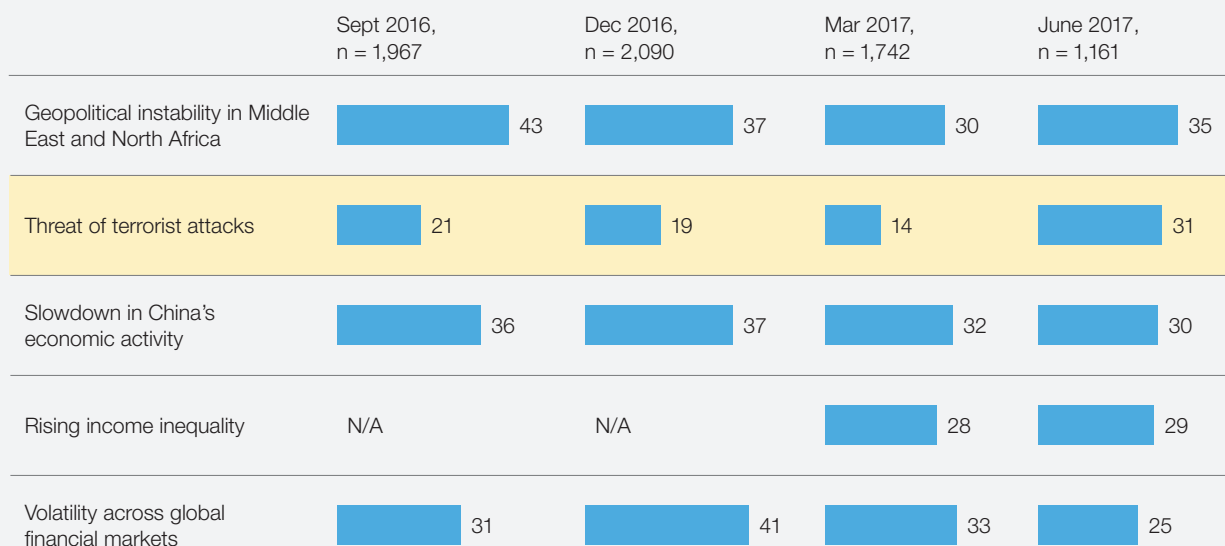
²In Middle East and North Africa, n = 81; in Europe, n = 601; in Latin America, n = 140; in India, n = 120; in North America, n = 433; in Asia-Pacific, n = 185; and in other developing markets, n = 182.

³Includes respondents in China.

As a risk to growth in the next 12 months, geopolitical issues are cited most often by respondents in every region, with the biggest share in the Middle East and North Africa (Exhibit 1). Overall, transitions of political leadership and changes in trade policy remain top-three risks, as they were in March, while social unrest has emerged as a top-five risk for the first time. Respondents in developed Asia, India, and North America are the most likely to cite it. In fact, the share in Asia identifying social unrest as a global risk has more than doubled since March (32 percent cite it now, up from 14 percent three months ago) and tripled in other developing markets (12 percent now, up from 4 percent).³

Exhibit 2 Executives are more likely than ever to identify terrorist attacks as a threat to long-term global growth.

Potential risks to global economic growth over next 10 years,¹
% of respondents



¹ Out of 16 potential risks the survey offered as answer choices.

In the long term, too, respondents report outsize concern over geopolitical instability, specifically in the Middle East and North Africa. Terrorist attacks have become the number-two concern, with executives citing this threat more often than in any previous survey (Exhibit 2).⁴ Thirty-one percent of respondents identify terrorist attacks as a threat to global growth in the next decade, more than double the share who said so in the previous survey.

Across regions, executives in the Middle East and North Africa, Europe, and North America are the most likely among their peers to cite geopolitical instability as a long-term risk to global growth, as well as rising income inequality, which remains a top-five risk for the long term. Respondents in developed Asia, meanwhile, most often express concern about terrorist attacks; they are five times likelier to cite it now than they were in March.

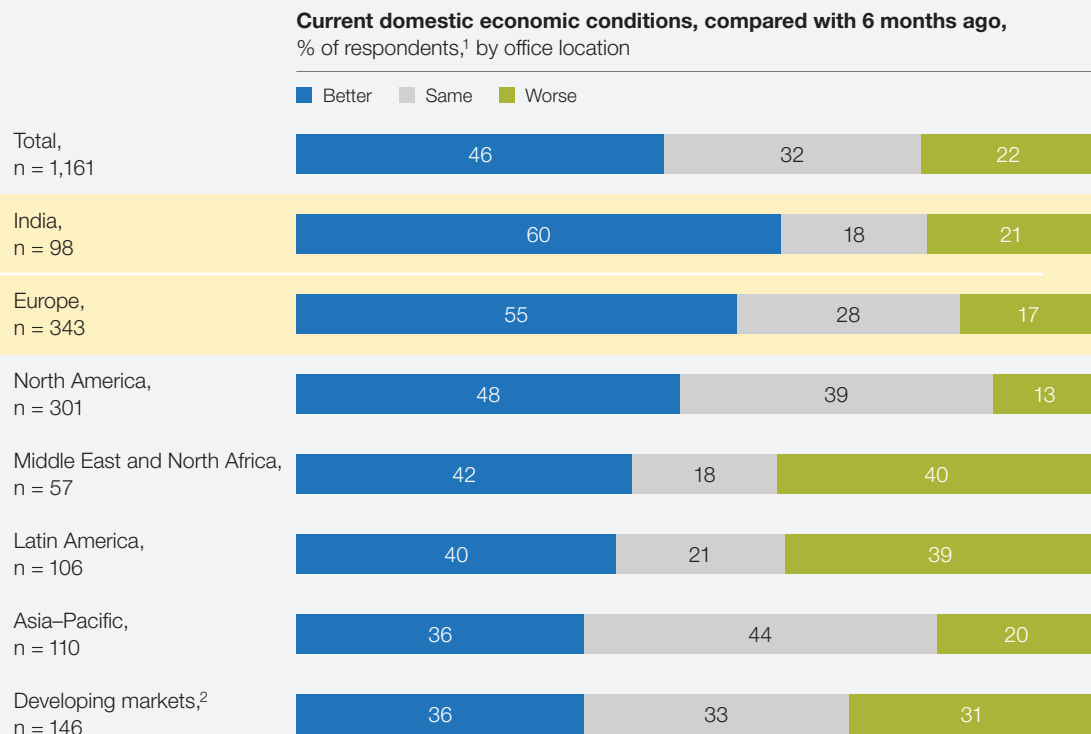
Economic views remain more upbeat than gloomy

These emerging risks, though, don't seem to have dampened executives' views on the economy as a whole. Respondents are as bullish on the global economy as they were three months ago: nearly half say global economic conditions have improved in the past six months. On the global economy's prospects, too, respondents are more positive than negative. Nearly equal shares of executives say global conditions have improved (45 percent) and expect conditions will continue improving in the next six months (41 percent).

Looking further out, respondents report some newfound optimism about the world economy's long-term prospects. For the past two years, when asked about four potential scenarios for economic growth in the next decade,⁵ executives more often identified the two scenarios characterized by low or weak global growth than the two higher-growth scenarios. Now respondents are equally divided between those who say the higher-growth scenarios are likeliest and those predicting weaker growth. The most popular scenario, selected by 39 percent of respondents (up from 33 percent in March and December), is “pockets of growth,” which is characterized by high but uneven and volatile global growth. Those in India are the most likely across regions to rank “pockets of growth” as the likeliest scenario (48 percent do so); they are also the most likely to believe global conditions will improve in the next few months.

With respect to their home economies, respondents continue to report more positive than negative views (Exhibit 3). Executives in India, who have long been the most upbeat, remain more positive than average about domestic conditions. But they are followed closely by their peers in Europe, 55 percent of whom say conditions at home have improved; those in the eurozone, where two-thirds cite

Exhibit 3 Respondents remain more positive than negative about conditions in their home economies, especially in India and in Europe.



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

² Includes respondents in China.

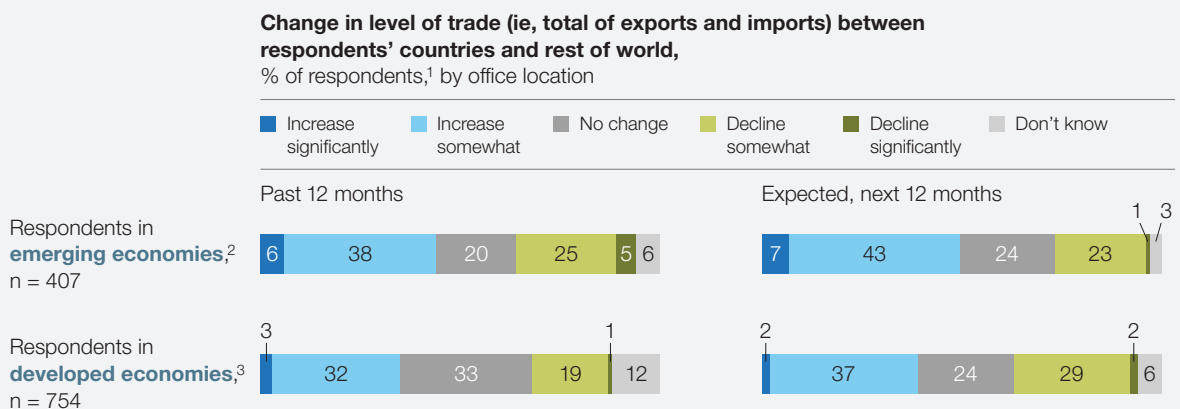
improvements, are even more bullish. On the other end are executives in Latin America, the most likely respondents to say conditions have worsened: 39 percent say so, compared with the global average of 22 percent. Still, executives in the region are much more positive about current conditions than they were six months ago.

Likewise, the share of executives expecting improvements in the months ahead continues to grow; nearly half of all respondents (45 percent) now say so. Again, those in Europe are among the most optimistic: half of executives there predict conditions in their home economies will improve, up from 38 percent who said so in March. Meanwhile, respondents in North America are the least likely to say they expect improvements. Only 38 percent of executives now say so, compared with 48 percent in March and 53 percent in December. And though respondents in India report clear optimism, employment is a noteworthy concern. Four in ten executives there expect the unemployment rate will increase, up from 28 percent of respondents who said so six months ago. Respondents in India, along with their peers in other developing markets, are also the likeliest to expect their country's workforce will shrink over the next six months.

How the divide between emerging and developed markets is changing

Trade is one issue where the respective realities and challenges that respondents face in emerging and developed markets is evolving. Slowing trade was a commonly cited risk to global growth in the past five surveys. When asked about trade levels outright in March and December, respondents in emerging economies were much likelier than their developed-economy peers to report declining trade levels between their home countries and the rest of the world. Now the balance seems to have shifted (Exhibit 4).

Exhibit 4 Emerging-market respondents now report a brighter view on trade levels—and a more optimistic outlook—than their developed-market peers.



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.

³ Includes respondents in Asia-Pacific, Europe, and North America.

Forty-four percent of emerging-market executives (up from 29 percent in March) say trade levels have increased, compared with 35 percent of developed-market executives who say the same.

What's more, emerging-market respondents are more upbeat than their peers about future trade prospects, and they are less likely to cite changes in trade policy as a risk to domestic growth, which was also true in March. Yet emerging-market respondents are more likely than their counterparts to say changing trade levels have negatively affected their companies' business, which we also saw in the past two surveys: 35 percent of emerging-market respondents report a negative impact, compared with 20 percent in developed markets.

A shifting landscape between emerging and developed economies is also evident at the company level. For the first time since March 2016, a larger share of emerging-market executives than developed-market executives predict their companies' profits will increase in the next six months. At the regional level, those in India and in other developing markets are the most bullish on their companies' prospects.

And while emerging-market executives are just as likely as their peers to expect demand for their products and services will increase in the coming months, they are nearly twice as likely as developed-market respondents to expect demand will shrink (Exhibit 5). Executives in emerging markets are also more likely than others to cite decreasing demand as a risk to company-level growth in the next year. ■

Exhibit 5 Executives in emerging markets are as likely as their peers to expect increasing customer demand, but remain about twice as likely to expect a decline.



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

²Includes respondents in China, India, Latin America, Middle East and North Africa, and other developing markets. In Dec 2016, n = 583; in Mar 2017, n = 475; and in June 2017, n = 360.

³Includes respondents in Asia-Pacific, Europe, and North America. In Dec 2016, n = 1,289; in Mar 2017, n = 1,095; and in June 2017, n = 650.

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- ¹ The online survey was in the field from June 5 to June 9, 2017, and garnered responses from 1,161 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 In December 2015, 81 percent of executives cited geopolitical instability as a potential risk to global growth. See "Economic Conditions Snapshot, December 2015: McKinsey Global Survey results," December 2015, McKinsey.com.
- ³ "Other developing markets" includes respondents in China.
- ⁴ "Threat of terrorist attacks" was first offered as an answer choice in the March 2016 survey, when 14 percent of all respondents cited it as a potential risk to global growth over the next ten years.
- ⁵ For more on the topic, see "Shifting tides: Global economic scenarios for 2015–25," September 2015, McKinsey.com.

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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