McKinsey&Company

Economic Conditions Snapshot, September 2016

McKinsey Global Survey results

Executives in emerging markets are newly optimistic for the future of their home economies, while respondents globally expect stable conditions in the world economy.

For the first time since 2014, executives in emerging markets are more optimistic about their home countries' prospects than are their peers in developed markets—and Latin America is a particular bright spot, according to McKinsey's latest survey on economic conditions.[1] Respondents in the region,[2] long the most downbeat on economic conditions at home, report increasingly positive views on the state of their countries' economies and are among the most bullish on future conditions.

At the same time, executives in Latin America report increasing concerns over political issues at home—none too surprising, since Brazil's Senate voted to impeach President Dilma Rousseff the same week the survey was in the field. Political risks (specifically, leadership transitions and domestic political conflicts) also top the overall list of threats to domestic growth. Despite these risks, respondents predict stability in the global economy in the coming months, with emerging-market respondents again more positive than developed-market executives.

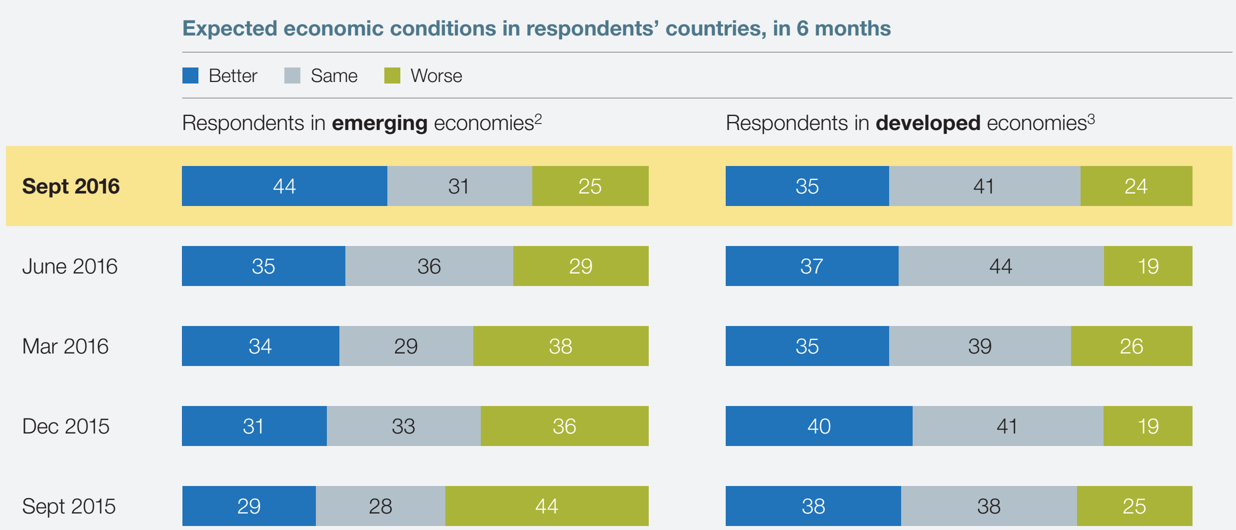
Newfound optimism in emerging markets

When asked about economic conditions in their home economies, executives tend to say conditions have stabilized and will hold steady in the months ahead. The largest share of respondents (44 percent) say domestic conditions are the same now as six months ago, and 38 percent expect conditions at home will stay the same—or improve—over the next few months.

On the whole, emerging-market executives report a more positive outlook than they did in June and relative to their peers in developed markets (Exhibit 1). This is the first survey since December 2014 in which emerging-market respondents have been more optimistic than their peers about their countries' prospects.

Exhibit 1 **Emerging-market executives are increasingly optimistic about their home economies and are even more bullish than their developed-market peers.**

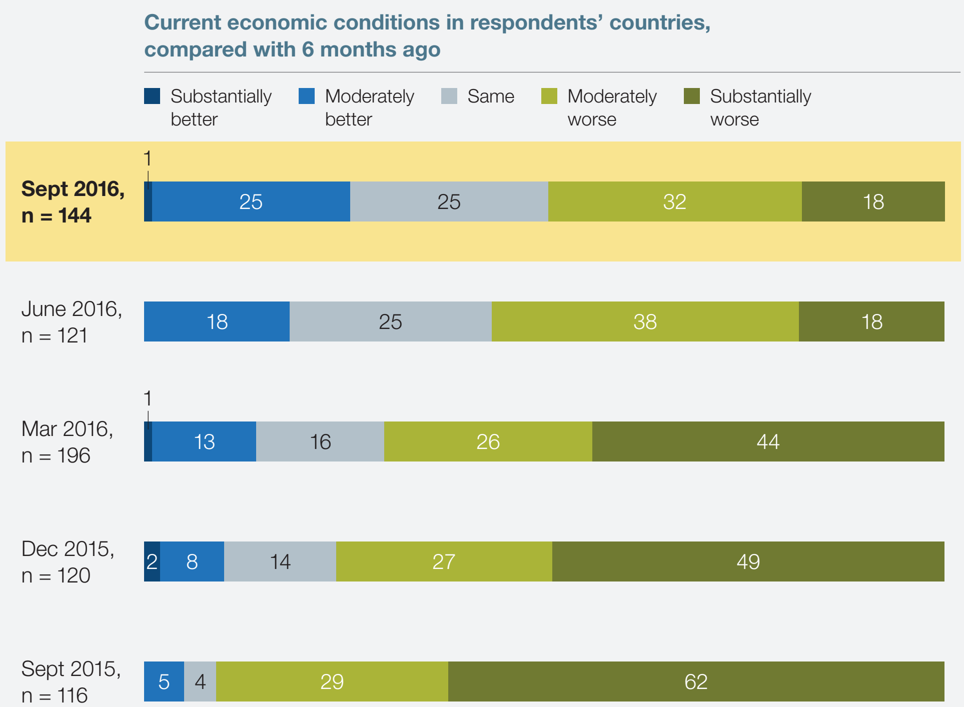
% of respondents,[1] by office location



[1] Figures may not sum to 100%, because of rounding.
[2] Sept 2016, n = 594; June 2016, n = 510; Mar 2016, n = 790; Dec 2015, n = 549; and Sept 2015, n = 363.
[3] Sept 2016, n = 1,373; June 2016, n = 1,148; Mar 2016, n = 1,982; Dec 2015, n = 1,464; and Sept 2015, n = 1,498.

Exhibit 2 **In Latin America, executives report steadily growing optimism about the state of their home economies.**

% of respondents in Latin America[1]

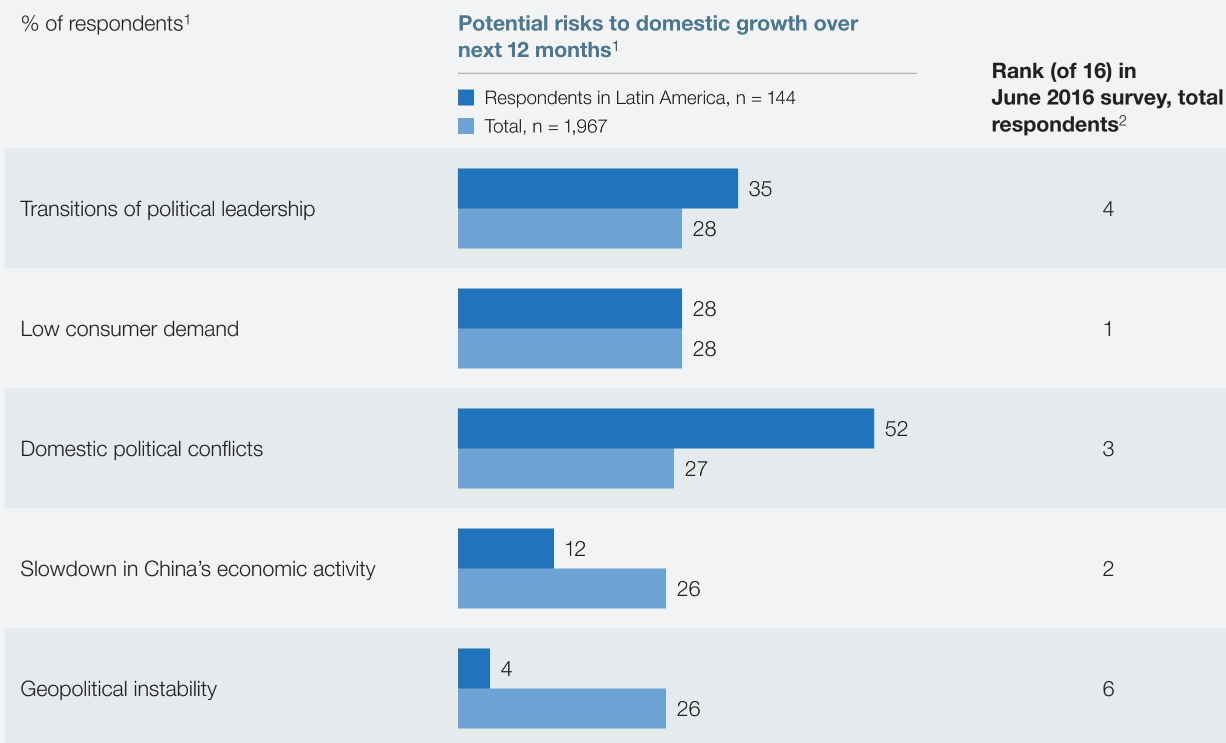


[1] Figures may not sum to 100%, because of rounding.

Across emerging markets, responses from Latin America suggest steadily climbing optimism. Executives in this region have long been the most downbeat about the state of their home economies, but the share believing that domestic conditions are better now than six months ago has gradually risen. One year ago, only 5 percent of executives said conditions had improved; now 26 percent—nearly even with the global average of 30 percent—report improvement (Exhibit 2).

Looking ahead, 51 percent in Latin America believe conditions will improve in the coming months—a share that's much greater than the global average (38 percent) and second only to India, where 91 percent of executives expect better conditions. One year ago, just 13 percent of respondents in Latin America expected improvements. Their peers in China also are more optimistic than they've been in past surveys: 31 percent of executives there predict improvements at home in the next six months, up from 18 percent in June.

Exhibit 3 **Political risks to domestic growth have grown since June and are an outsize concern in Latin America.**



[1] Out of 16 risks that were presented as answer choices.
[2] In June 2016, n = 1,658.

Political (and geopolitical) risks at the fore

On the list of risks to domestic growth, political concerns have risen to the top overall and in Latin America (Exhibit 3). In Latin America—and during the week that Brazilian president Dilma Rousseff was impeached—52 percent of executives cite domestic political conflicts (up from 43 percent in June) as a risk to growth, and roughly one-third cite political transitions. Their peers in North America, too, cite leadership transitions and domestic political conflicts most often as domestic risks, as they've done throughout 2016. What's more, respondents in Latin America are more than twice as likely as others to identify political transitions and conflicts as top risks to company-level growth.

Political transitions rank among the top five risks to global growth, too. Furthermore, the share citing this risk has grown steadily over time: from 10 percent a year ago to 27 percent now. Executives in every region but China cite geopolitical instability most often as a threat to global economic growth, while those in China (53 percent) are most likely to cite slowing growth in their home country.

Three months after the United Kingdom voted to leave the European Union, only 17 percent of respondents identify the exit of one or more countries from the eurozone as a potential threat to global growth. Respondents in the eurozone are as likely as everyone else to identify eurozone exits as a concern. And globally, the share citing this concern nearly equals the 19 percent of executives who cited it in June.

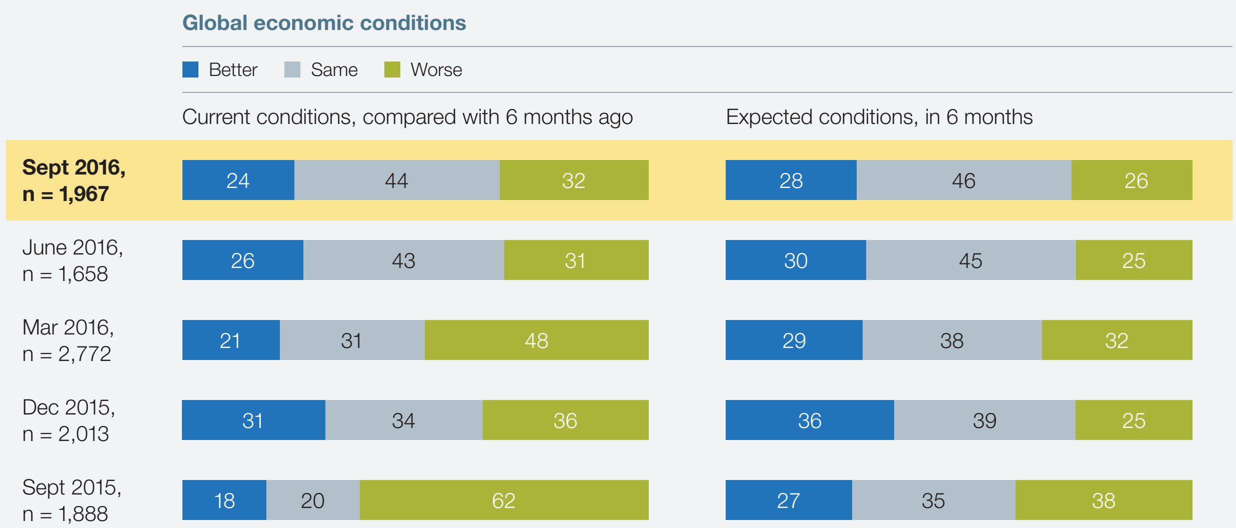
Global views hold steady

Three months after the Brexit referendum, a decision that took much of the world by surprise, the latest results indicate that respondents' views on the global economy have changed little. As in our previous survey, conducted a few weeks before the vote, executives are most likely to say that global conditions have stayed the same in the past six months and that conditions will remain steady in the months ahead (Exhibit 4).

Exhibit 4

As they did three months ago, executives tend to believe that conditions in the world economy are steadying.

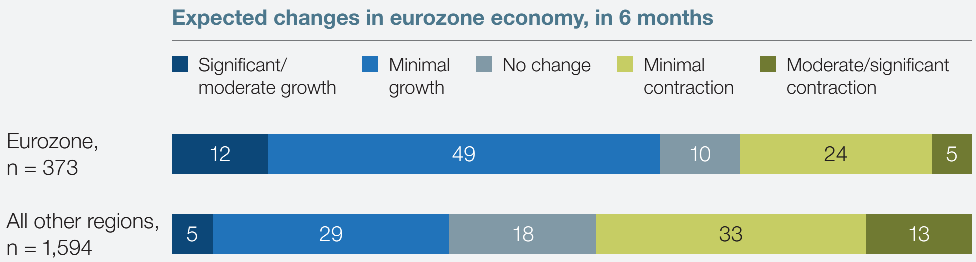
% of respondents[1]



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

Exhibit 5 **Few respondents overall expect dramatic changes in the eurozone economy, but those in the region are likelier than others to predict growth.**

% of respondents, by office location[1]



[1] Respondents who answered "don't know" are not shown, so figures may not sum to 100%.

In their views on the world economy, executives in emerging markets are again more optimistic than their developed-market peers. Thirty-five percent of emerging-market respondents expect global conditions will improve in the next six months, compared with one-quarter of those in developed markets—and those in Latin America are the most optimistic. At the other end of the spectrum is North America, where only 17 percent expect improvements in the world economy, though twice as many expect improvements in their home economies.

With respect to certain geographies—specifically, the eurozone and China—few executives expect dramatic changes in the near future. Executives tend to expect that over the next six months, the eurozone's economy is likely to see either minimal growth (32 percent) or minimal contraction (31 percent). But those *in* the eurozone are likelier than others to expect growth (Exhibit 5). On China's prospects in the next year, respondents overall are, as they were in June, more positive than not. Forty-six percent of all respondents (and 53 percent in China) say it is very or somewhat likely that the country will hit the 2016 targets of its current five-year plan. ■

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[1] The online survey was in the field from August 29 to September 2, 2016, and garnered responses from 1,967 executives 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] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Paraguay, Peru, Uruguay, and Venezuela.

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