MARCH 2015

The outlook for global growth in 2015

Luis Enriquez, Ina Kota, and Sven Smit

Despite tempered expectations, most forecasters see strong growth ahead, accelerating in 2016. As our Global Economics Intelligence team reports, executives are focusing on divergent opportunities.

Leading forecasters estimate that the world economy will grow by between 2.8 and 3.8 percent this year—about one percentage point lower than last year's consensus forecasts. Yet as monitors of the global economy lower their expectations for 2015, executives are increasingly focusing on opportunities presented by diverging growth rates among regions, countries, and even sectors. This means an essential element of strategic and financial planning for 2015 and beyond is taking closer account of critical regional trends and risks, with sensitivity to key economic indicators and government policy responses.

McKinsey's Global Economics Intelligence (GEI) team closely tracks forecasts of leading financial institutions and multilaterals. By the latest estimate of the International Monetary Fund (IMF), in October 2014, world GDP growth was measured at 3.3 percent for 2014.[1] For 2016, the IMF and other organizations have lowered previous global GDP growth projections to 3.1 to 4.1 percent (Exhibit 1). Most forecasters expect a robust US economy to continue to lead the way, and the eurozone's new program of quantitative easing is a sign the region is ready for expansion. And while falling oil prices weigh heavily on growth prospects for commodities-dependent Brazil and Russia, China and India are benefiting from easing inflationary pressures.

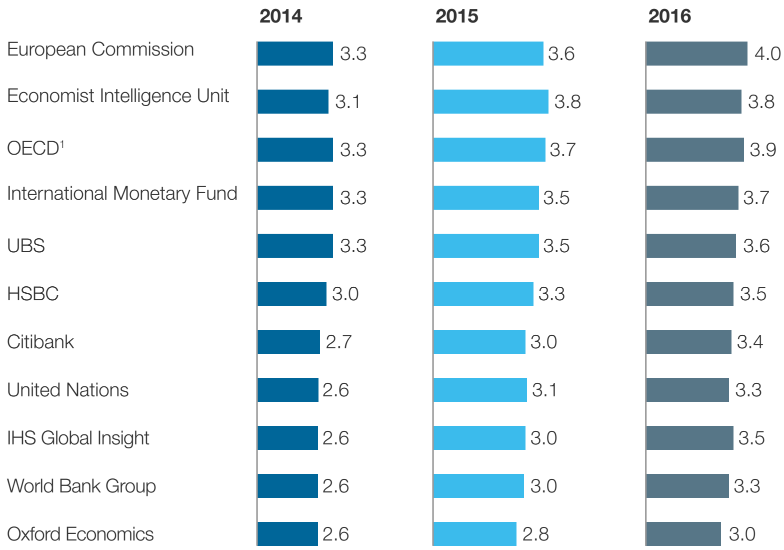
Market volatility is being stoked in part by the steep decline in oil prices, which will adversely affect oil producers while benefiting consumers. Although the net impact of the lower prices will differ by country, a very rough estimate of the potential consumer savings is nearly $450 billion,[2] which represents a considerable transfer of wealth from producing to consuming countries.[3] In addition, while executives were confident about their own companies, "geopolitical instability" was cited as the leading risk to global growth in McKinsey's global survey of nearly 1,700 business leaders at the end of 2014.[4]

[1] According to International Monetary Fund estimates from October 2014, global GDP equaled approximately $78 trillion in 2014, with 1 percent roughly equivalent to $780 billion.
[2] The estimate is based on a comparison of global oil demand for the second half of 2014, with the price difference between June 2014 ($108 per barrel) and December 2014 ($55 per barrel).
[3] For more, see Scott Nyquist, "A cheat sheet on lower oil prices," February 2015, mckinsey.com.
[4] See "Economic Conditions Snapshot, December 2014: McKinsey Global Survey results," December 2014, mckinsey.com.

Exhibit 1 Global GDP forecasts anticipate gradual strengthening in 2015 and 2016.

Global GDP forecasts by leading organizations range between 2.8% and 3.8% for 2015, with slightly better growth rates in 2016.

GDP growth forecasts made in January 2015, %



[1]Organisation for Economic Co-operation and Development.

Source: Citibank; Economist Intelligence Unit; European Commission; HSBC; IHS Global Insight; International Monetary Fund; Organisation for Economic Co-operation and Development; Oxford Economics; UBS; United Nations; World Bank Group; McKinsey Global Economics Intelligence analysis

Region by region

The first GEI reports of 2015 show the following regional pictures emerging (for a comparative snapshot, see Exhibit 2).

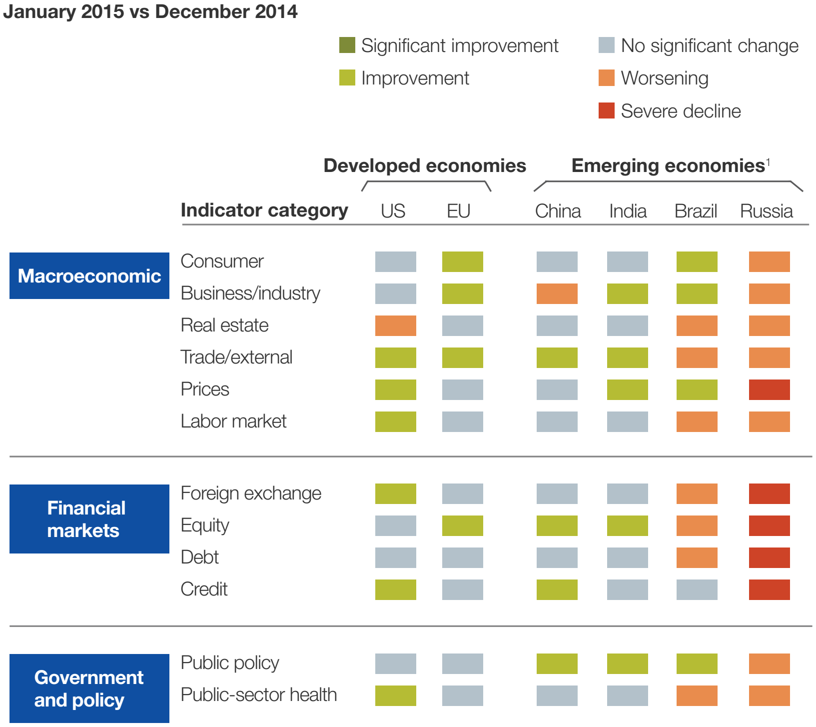
The **US economy** has momentum from stronger-than-expected growth at the end of 2014. Consumer sentiment and trade activity increased, the unemployment rate fell to 5.6 percent in January, and financial markets benefited from upbeat investor sentiment. However, retail sales dipped in December, and real wages continued to stagnate. The US economy has overcome a number of hurdles to see its way clear to a deeper and stronger recovery: the range of growth forecasts exceeds 3 percent for 2015.

In the **eurozone,** macroeconomic conditions are improving after sluggish growth last year. Even with a depreciating euro, deflation, and financial pressures hitting smaller economies, the underlying real economy appears to be gaining. A brighter picture is reflected in consumer sentiment, manufacturing, and trade—thanks especially to lower energy prices. If negotiations with Greece are effectively managed, the eurozone could be well positioned to benefit from Europe's looser monetary policy, evident recovery in several of the region's economies, and low or falling oil prices. Monetary uncertainty persists. The euro continues to depreciate against the dollar, falling sharply when the Swiss franc was unpegged on January 15. The European Central Bank has since announced that asset purchases would be expanded to €60 billion a month until September 2016. GDP growth forecasts for the eurozone in 2015 have been lowered slightly, with most estimates coming in above 1 percent.

Exhibit 2 Indicators show steadiest improvement in developed economies.

Advanced economies continued to improve in January, while Brazil and Russia weakened.

Macroeconomic, financial-market, and government and policy indicators: January 2015 vs December 2014



[1]Data not yet released for Russia consumer and labor markets and for India trade.

Source: McKinsey Global Economics Intelligence analysis

China and India have both experienced broad improvements in macroeconomic conditions, especially as low energy prices eased inflationary pressures and import bills. Financial markets gained in China but remained volatile in India. Forecasts for both countries have been tempered slightly for 2015. For China, the economy is slowing in line with expectations, with most projections approaching 7 percent growth for 2015 and 6.3 percent in 2016. Conditions in India appear to be improving, and growth through 2016 is forecast at around 6.5 percent.

Brazil is struggling, but inflation has eased recently. The central bank remains cautious and has raised its overnight rate by 50 basis points. Trade and fiscal deficits posed new challenges for the newly elected government, as a possible debt downgrade looms. Most forecasts for Brazil's GDP in 2015 were lowered, with a range of less than 1 percent.

Russia's economic conditions worsened noticeably, as consumer confidence hit a five-year low and indicators for manufacturing and trade both fell. Inflation soared to 11.4 percent on an annual basis, as the ruble lost nearly half its value over the past 12 months. Most GDP forecasts for Russia in 2015 have been cut sharply, ranging from zero growth to a contraction of 0.7 percent.

• • •

Even the lowered global-growth estimates of more than 3 percent in 2015 and 2016 remain well above the historical average of 1.8 percent annual growth during the past 50 years.[5] But executives remain wary of macroeconomic and geopolitical risks, including oil and gas price volatility and its impact both on major exporting economies, Russia foremost, and on consuming economies, including Europe, Japan, and the United States. Other significant risks are the conflict between Russia and Ukraine, with its European and global ramifications; China's downshifting economic pace, which has implications for global trade; the effects on foreign exchange levels and capital availability of diverging monetary-policy actions by central banks around the world; and Greece's unresolved status in the eurozone, which raises significant questions about the economic future of Europe and the global economy.

[5] For more on historical global GDP growth and a comprehensive McKinsey Global Institute analysis of growth for the long term, see Richard Dobbs, Jaana Remes, and Jonathan Woetzel, "Where to look for global growth," *McKinsey Quarterly*, January 2015, mckinsey.com.

Luis Enriquez is a director in McKinsey's Brussels office, **Ina Kota** is a specialist in the New York office, and **Sven Smit** is a director in the Amsterdam office; all are leaders in McKinsey's Global Economics Intelligence group.