

McKinsey Global Survey results

Economic Conditions Snapshot, March 2015

While global views hold steady, executives report continued worries over geopolitical instability and emergent issues in the eurozone. Those in China are glummer than most about conditions at home.

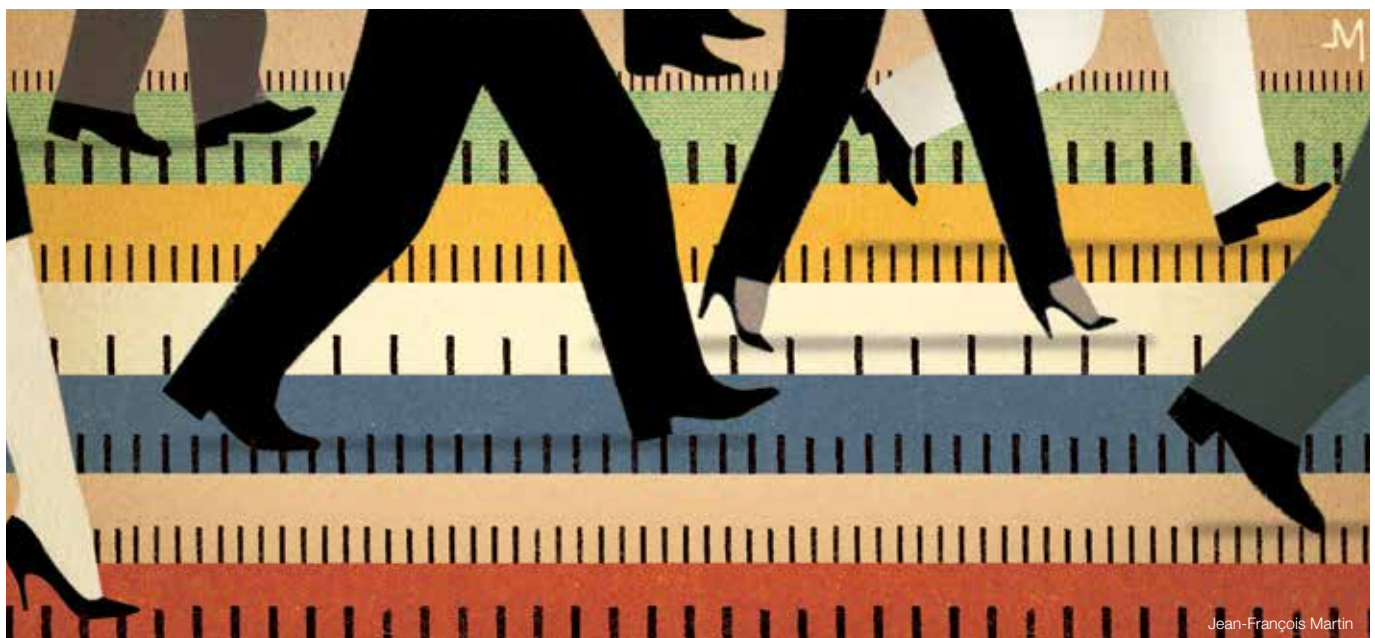
Most executives believe that global GDP will grow at the same rate this year as it did in 2014, according to McKinsey's latest survey on economic conditions.¹ At the regional level, though, the responses suggest less certainty. In China, executives are notably downbeat about their home economy. The largest shares believe that economic conditions have declined over the past six months—and that conditions will worsen still in the coming months. Elsewhere, respondents in Europe indicate that geopolitical instability is top of mind as a risk to both domestic and global growth, while executives outside Europe report emerging worries over potential debt defaults and the exit of countries from the eurozone.

Glum expectations from China

In China, executives are notably downbeat on current and future conditions at home—behind only their peers in Latin America, who have reported the most negative views on their own economies since December 2013. Respondents there are twice as likely as the global average to say domestic economic conditions have worsened in the past six months, and nearly twice as likely to expect conditions will be worse six months from now.²

¹ The online survey was in the field from March 2 to March 6, 2015, and garnered responses from 2,283 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.

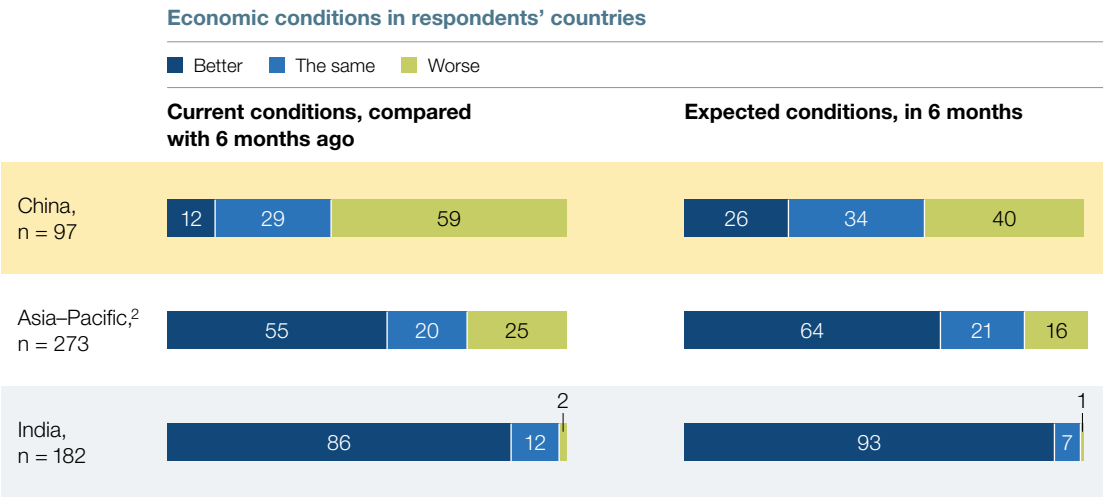
² The survey was in the field the same week that Premier Li Keqiang, at an annual parliamentary meeting, announced an annual growth target of 7 percent for 2015, after posting a 7.4 percent growth rate in 2014—the lowest in China in 24 years.



Jean-François Martin

Exhibit 1
Compared with their peers across Asia, executives in China report much more negative views on their home economy.

% of respondents,¹ by office location



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

²Australia, Hong Kong, Japan, New Zealand, the Philippines, Singapore, South Korea, and Taiwan.

Even compared with responses from the rest of Asia, China is an outlier (Exhibit 1). In developed Asia,³ respondents' views have rebounded since December. Fifty-five percent now say conditions are better than six months ago, up from 14 percent in the previous survey—and compared with 12 percent who say so in China. Executives in India remain overwhelmingly positive on domestic conditions, as they have been since last June.⁴

Interestingly, executives across Asia are more concerned than those in China about slowing Chinese growth as a shock to the *global* economy. Only 26 percent of respondents in China say a slowdown there is very or extremely likely to shock the world economy in the next year, compared with 40 percent in developed Asia.

³Australia, Hong Kong, Japan, New Zealand, the Philippines, Singapore, South Korea, and Taiwan.

⁴"Economic Conditions Snapshot, June 2014: McKinsey Global Survey results," June 2014, mckinsey.com. The survey was in the field a month after the decisive victory of Prime Minister Narendra Modi's Bharatiya Janata Party.



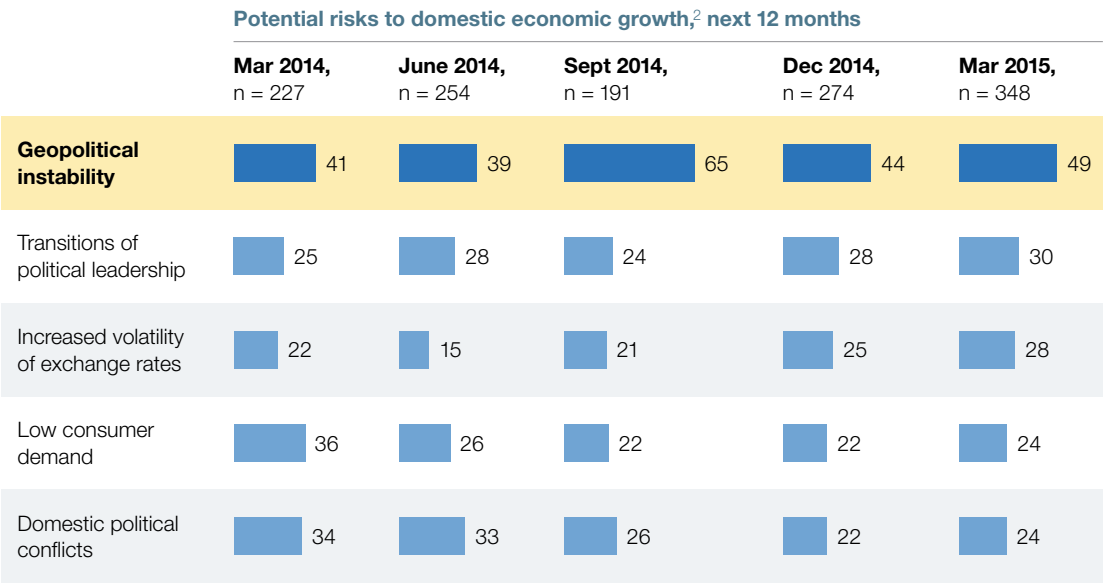
Recurring (and emergent) risks to growth

When asked about threats to growth in the world economy, executives in all regions agree—for the fifth survey in a row—that geopolitical instability poses an outsize risk. The risk is more acute in Europe, where respondents cite instability more often than others as both a global and domestic threat. And in non-eurozone Europe,⁵ geopolitical issues are especially top of mind. Fully one year after the Crimean parliament voted to secede from Ukraine and join Russia, non-eurozone respondents continue to identify instability most often as a risk to domestic growth (Exhibit 2).

⁵ Andorra, Bosnia and Herzegovina, Bulgaria, Czech Republic, Denmark, Gibraltar, Hungary, Iceland, Lithuania, Norway, Poland, Romania, Russia, Sweden, Switzerland, Turkey, and Ukraine.

Exhibit 2
In non-eurozone Europe, geopolitical instability persists as a top threat to domestic growth.

% of respondents located in non-eurozone Europe¹



¹ Andorra, Bosnia and Herzegovina, Bulgaria, Czech Republic, Denmark, Gibraltar, Hungary, Iceland, Lithuania, Norway, Poland, Romania, Russia, Sweden, Switzerland, Turkey, and Ukraine.

² Out of 12 risks that were presented as answer choices. The 5 risks above were selected most often by non-eurozone respondents in the newest survey (Mar 2015).



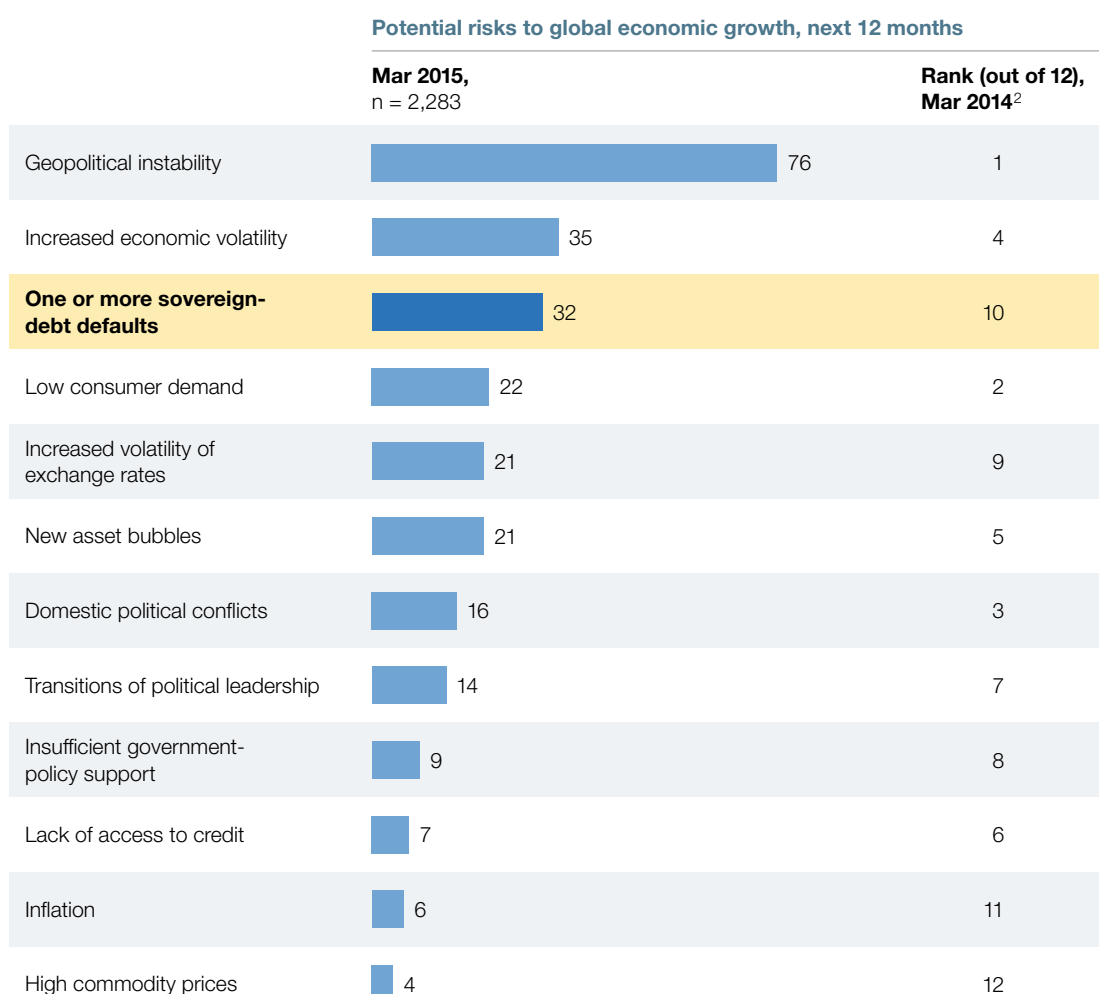
⁶Rebecca Christie, Nikos Chrysoloras, and Vassilis Karamanis, "Greece struggles to make debt math work in bailout standoff," *Bloomberg Business*, March 4, 2015, bloomberg.com.

But sovereign-debt defaults have also emerged as a global risk in this survey (Exhibit 3). Executives are more than twice as likely to cite debt defaults now as they were one year ago—perhaps not surprisingly, given ongoing issues with Greek debt.⁶ Interestingly, respondents in Europe are not any more concerned about defaults or the state of the eurozone than their

Exhibit 3

Debt defaults have risen as a risk to global growth.

% of respondents¹



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

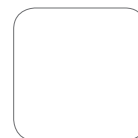
²In Mar 2014, n = 1,403.

peers in other parts of the world. Compared with the global average of 32 percent, 29 percent of executives in the eurozone and 35 percent in non-eurozone Europe cite sovereign debt as a threat to global growth.

One in five executives—more than twice the share in December—now believe the exit of countries from the eurozone is very or extremely likely to shock the world economy in the next year. Only 17 percent in Europe say the same, though views differ between those inside and outside the eurozone: 10 percent in the eurozone say it's very or extremely likely, compared with 27 percent of non-eurozone respondents.

Global prospects hold steady

On the whole—and despite persistent geopolitical risks—executives have reported consistent views on the global economy in the past three surveys. The largest share (40 percent) now say conditions have stayed the same over the past six months. Over the next six months, nearly equal shares of executives expect global conditions will either hold steady or improve. They report a similarly modest outlook when asked about global GDP growth in 2015: just over half of respondents expect the rate of growth will hold steady and be the same as it was in 2014, while 16 percent believe the growth rate will be higher.

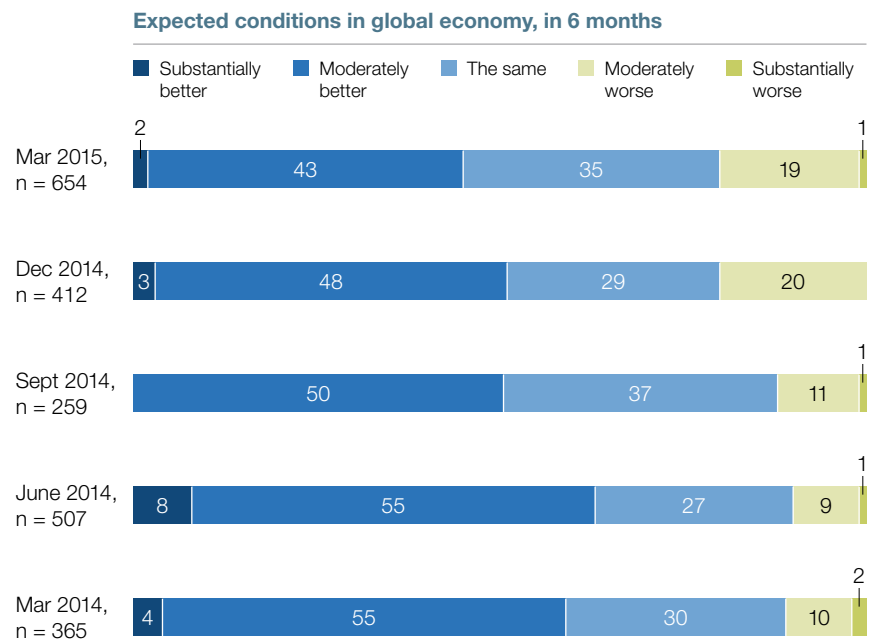


What's changed since December is that views from developed-market and emerging-market respondents seem to be converging: executives in emerging markets are less upbeat on current global conditions than they were three and six months ago. Looking ahead, these executives are as optimistic about future global conditions as they've been in the past two surveys—but less so than in the first half of 2014, when they were about half as likely as they are now to expect declining conditions (Exhibit 4).

Exhibit 4

Emerging-market optimism for the global economy has declined since the first half of 2014.

% of respondents¹ located in emerging markets



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



Among regions, respondents in North America still report the gloomiest views on both current *and* future global conditions (also true in the second half of 2014) and those in India remain the most bullish. Of their peers, executives in India are also the most likely to expect global GDP to grow faster this year than it did in 2014: 40 percent of respondents there believe the rate of growth will be higher, more than twice the global average. 

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