

Strategy & Corporate Finance Practice

Economic conditions outlook, March 2022

Worries about geopolitical conflicts, among other risks to growth, now exceed executives' concerns about the COVID-19 pandemic. Overall economic optimism continues to decline.



Geopolitical instability is now cited as the top risk to both global and domestic economies in our latest McKinsey Global Survey on economic conditions.¹ That's the consensus among executives worldwide, who have cited the COVID-19 pandemic as a leading risk to growth for the past two years.

Our quarterly survey was launched four days after the invasion of Ukraine, and executives express uncertainty and concern about its impact on the economy. About three-quarters of respondents cite geopolitical conflicts as a top risk to global growth in the near term, up from one-third who said so in the previous quarter.² Meanwhile, the share of respondents citing the pandemic as a top risk fell from 57 to 12 percent, as much larger percentages now identify energy prices and inflation as threats to the global economy.

At the same time, overall sentiment about the economy remains largely positive, but it continues to trend downward. For the third quarter in a row, respondents are less likely than in the previous one to report that economic conditions in their respective countries and across the globe are improving. They are also less likely to believe that either global or domestic conditions will improve in the months ahead. The near-term economic outlook is especially gloomy among respondents in developed economies, whose views are increasingly downbeat compared with their emerging-economy peers.

Geopolitical conflict overshadows all other risks to growth

According to the survey results, executives expect that the economic effects of the invasion of Ukraine will be strongly felt. Seventy-six percent of all respondents cite geopolitical instability and/or conflicts as a risk to global economic growth over the next 12 months, and 57 percent cite it as a threat to growth in their home economies (Exhibit 1).

Executives see geopolitical instability as the top risk to both global and domestic growth in every geography except Greater China,³ where respondents most often cite the COVID-19 pandemic. Thirty-nine percent of respondents there say the pandemic is a threat to domestic growth, compared with 5 percent of all other respondents.

Nearly two years after COVID-19 was declared a global pandemic,⁴ this is the first time our respondents have *not* cited the pandemic as the top risk to growth in the global economy (Exhibit 2).

¹ The online survey was in the field from February 28 to March 4, 2022, and garnered responses from 785 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 "Economic conditions outlook, 2021," McKinsey, December 21, 2021.

³ Includes Hong Kong and Taiwan.

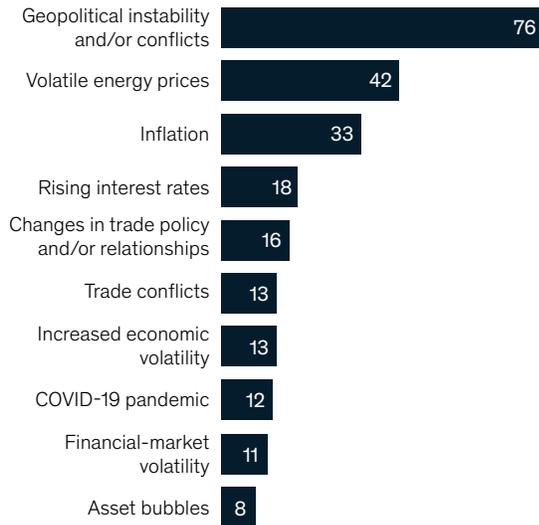
⁴ "Timeline: WHO's COVID-19 response," World Health Organization, updated January 25, 2021.

Exhibit 1

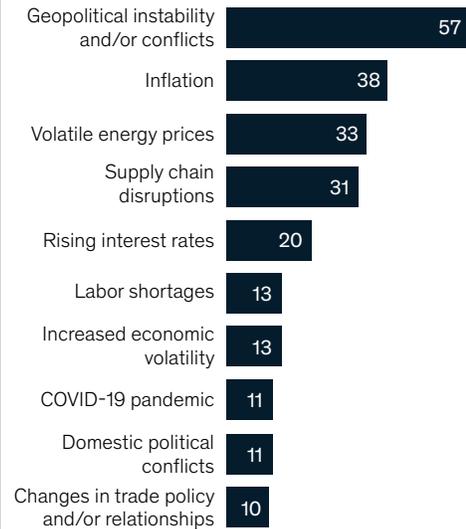
Geopolitical conflicts now loom large as a risk to both global and domestic economic growth.

Potential risks to economic growth, next 12 months, % of respondents (n = 785)

In global economy¹



In respondents' countries²



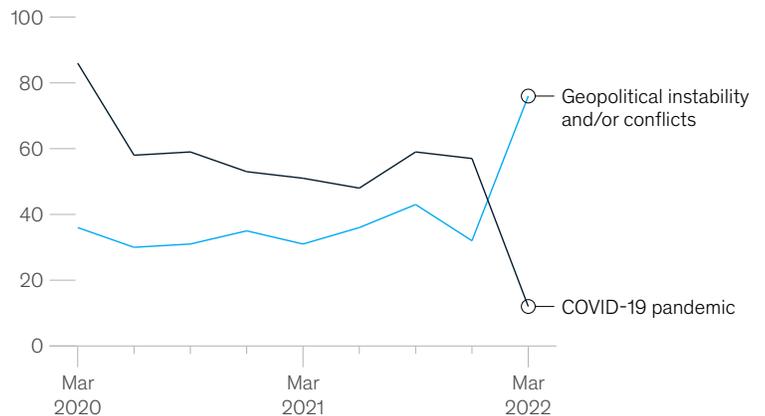
¹Out of 17 risks that were presented as answer choices.

²Out of 18 risks that were presented as answer choices.

Exhibit 2

For the first time in two years, the pandemic has not been cited as the top risk to global growth.

Potential risks to global economic growth, next 12 months,¹ % of respondents



¹In Mar 2020, n = 1,152; in June 2020, n = 2,222; in Sept 2020, n = 1,138; in Dec 2020, n = 1,382; in Mar 2021, n = 1,018; in June 2021, n = 1,010; in Sept 2021, n = 958; in Dec 2021, n = 955; and in Mar 2022, n = 785.

Overall sentiment continues to wane

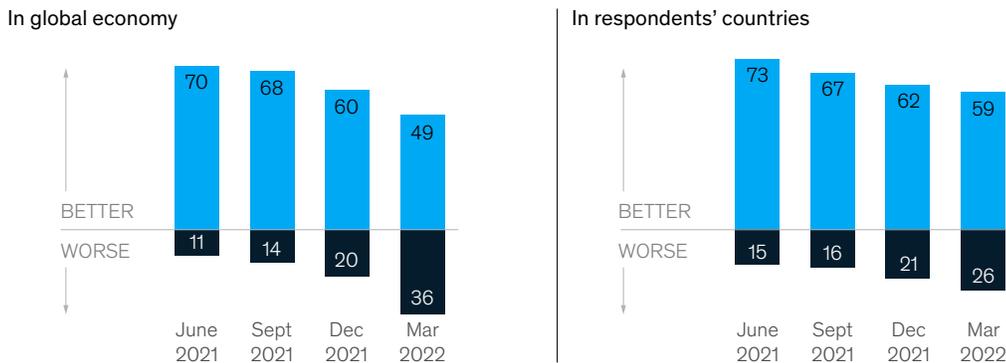
While respondents tend to report improving—rather than worsening—conditions in the global economy and in their home countries, the percentages of executives saying so continue to decrease over time (Exhibit 3).

Their outlook for the next six months is even more downbeat, especially for the global economy (Exhibit 4). Forty-three percent of respondents believe the global economy will improve over the next six months, a share that's nearly equal to the 40 percent who think conditions will worsen. This month's result also marks the first time since July 2020 that less than a majority of respondents feel optimistic about the global economy's prospects.

Exhibit 3

A continually shrinking share of executives say economic conditions have improved in recent months.

Current economic conditions compared with 6 months ago,¹ % of respondents

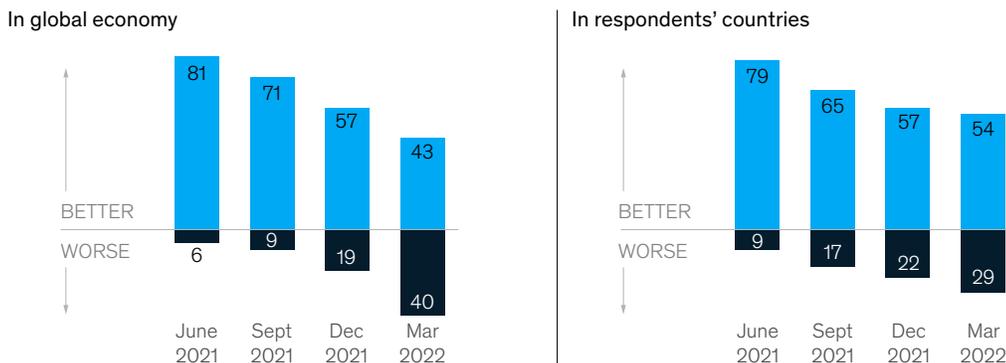


¹Respondents who answered "the same" are not shown. In June 2021, n = 1,010; in Sept 2021, n = 958; in Dec 2021, n = 955; and in Mar 2022, n = 785.

Exhibit 4

According to respondents, the outlook for the global economy is especially gloomy.

Expected economic conditions, next 6 months,¹ % of respondents



¹Respondents who answered "the same" are not shown. In June 2021, n = 1,010; in Sept 2021, n = 958; in Dec 2021, n = 955; and in Mar 2022, n = 785.

And while executives overwhelmingly cite geopolitical conflicts as a risk to economic growth, rising interest rates are a growing concern as well. Interest rates are among the top five risks to near-term growth in the global economy (for the second survey in a row) and in respondents' home countries—and the share of respondents expecting a significant increase in near-term interest rates has more than doubled since the previous quarter. Across regions, executives in North America and in Europe are the most likely to expect interest rates to rise rather than hold steady or decrease.

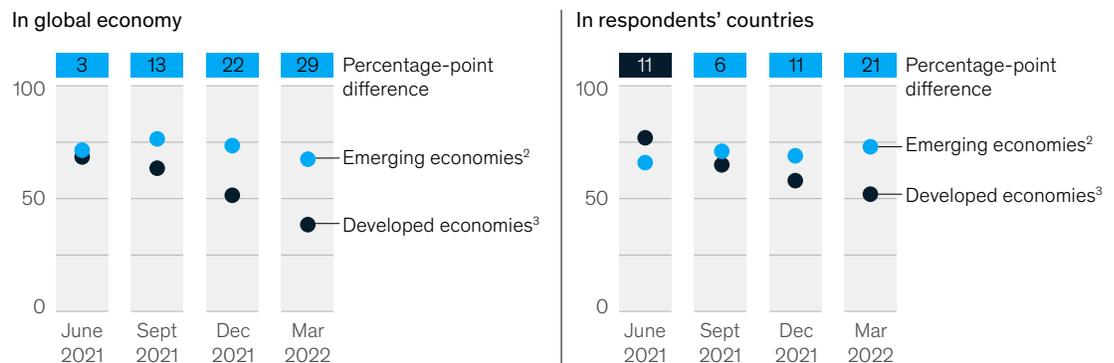
The divide between developed and emerging economies grows

For the third quarter in a row, the survey results suggest a widening gap in optimism between developed-economy and emerging-economy respondents. In developed economies—where respondents cite geopolitical conflicts as a risk to growth more often than their peers do—sentiment is declining at a faster rate than in emerging economies. Only 52 percent of developed-economy respondents, versus 73 percent of their emerging-economy peers, say economic conditions at home have improved in recent months. In our two previous surveys, the gap was much smaller (Exhibit 5).

Exhibit 5

The results suggest a growing gap in optimism between developed-economy and emerging-economy respondents.

Respondents who say economic conditions are better now than 6 months ago,¹ % by office location



¹ Respondents who answered "the same" are not shown.
² In June 2021, n = 338; in Sept 2021, n = 315; in Dec 2021, n = 307; and in Mar 2022, n = 264.
³ In June 2021, n = 672; in Sept 2021, n = 643; in Dec 2021, n = 648; and in Mar 2022, n = 521.

This trend is also evident in respondents' views on the global economy. This month, just 39 percent of developed-economy respondents say global economic conditions have improved in recent months, compared with 68 percent in emerging economies. Respondents in developed economies also report a more downbeat outlook for the coming months: only 36 percent believe conditions in the global economy will improve in the near term, versus 55 percent of their emerging-economy peers.

The survey content and analysis were developed by **Alan FitzGerald**, a director of client capabilities in McKinsey's New York office; **Vivien Singer**, a capabilities and insights expert at the Waltham Client Capabilities Hub; and **Sven Smit**, the chair and director of the McKinsey Global Institute and a senior partner in the Amsterdam office.

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