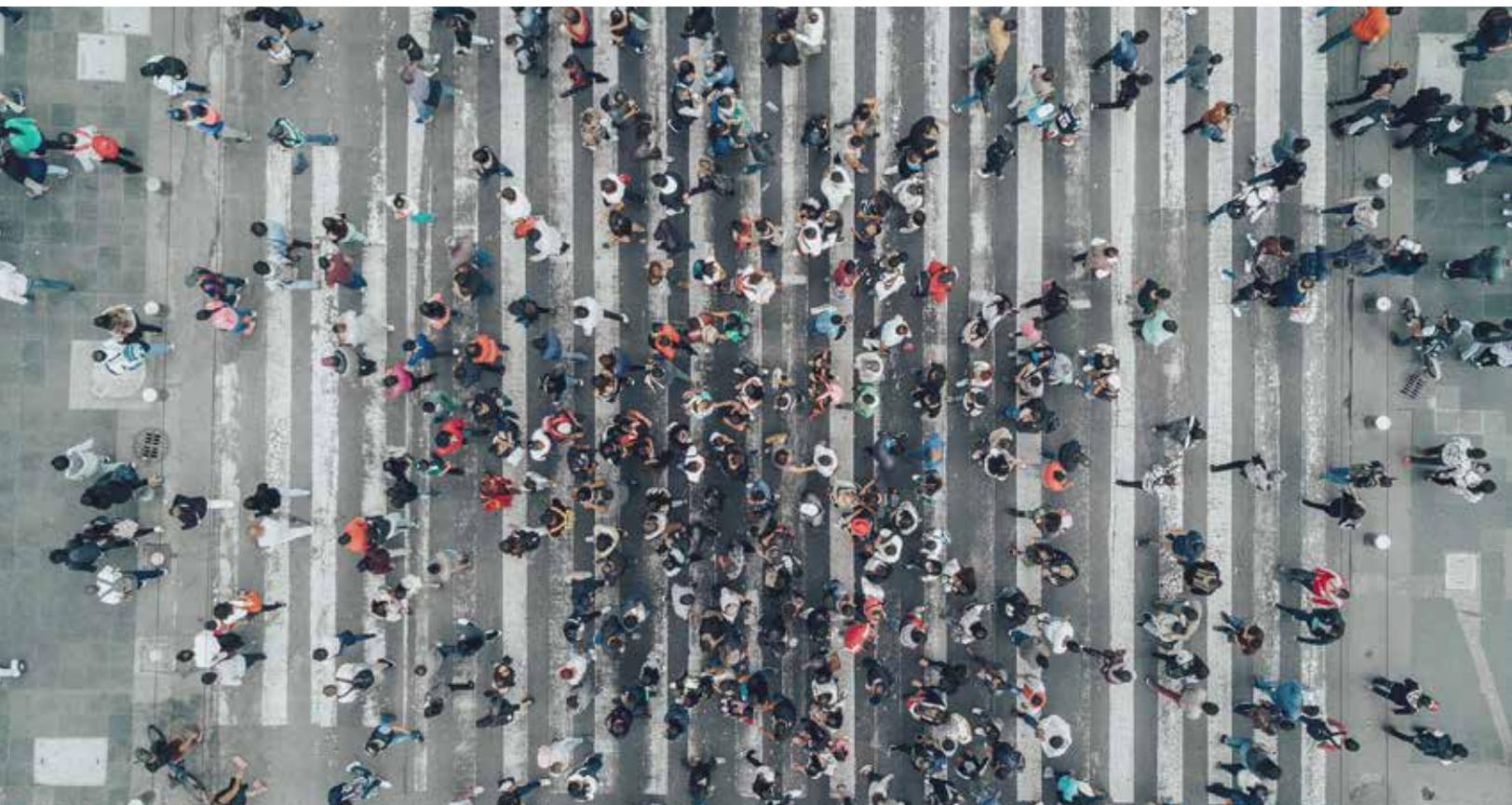


Strategy & Corporate Finance Practice

Economic Conditions Snapshot, December 2019

McKinsey Global Survey results

Respondents' views on the world economy and their countries' conditions turn somewhat brighter. Trade tensions remain the most-cited threat to global growth, while social unrest climbs on the list of concerns.



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The views of respondents to McKinsey's latest survey on economic conditions end the year on a somewhat more upbeat note, moving away from earlier pessimism.¹ While executives still tend to report negative sentiments, a growing share of respondents see current and future global conditions as stable or improving.

Views on conditions at home are also more tempered overall in this latest survey, as a larger share of respondents say their economies are unchanged from—as opposed to worse than—six months ago.² In Latin America and in India, where executives are likeliest to report that present conditions have declined, respondents most clearly predict improvement in the months ahead.

Among perceived risks to global and domestic growth, trade conflicts and trade-policy changes remain at the fore, but social and political risks

have risen on the list of commonly cited threats. Respondents identify social unrest as a global risk more often than they have all year, and they are more likely now than in the previous survey to say domestic political conflicts and transitions of political leadership are a top threat to their countries' economies.

Though still cautious, views on the world economy grow more favorable

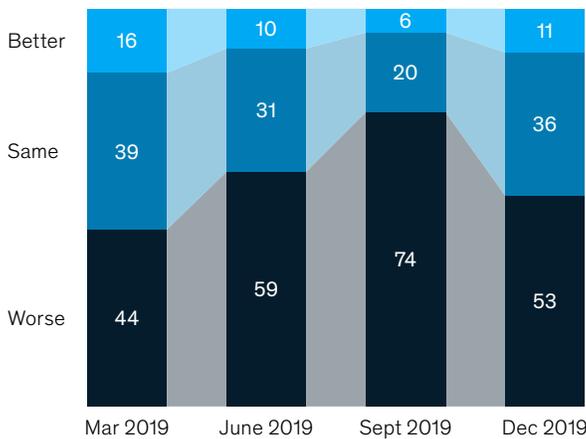
Views on the world economy remain more downbeat than cheerful overall. For the sixth quarter in a row, a larger share of respondents say the world economy has worsened than improved in the past six months. But the year's negative trend has reversed: for the first time in 2019, respondents are more likely than in the previous survey to say conditions have stayed the same or improved, and are much less likely to say conditions have declined (Exhibit 1).

Exhibit 1

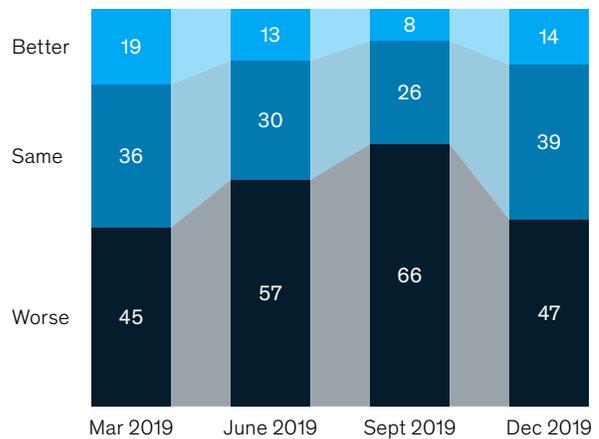
Sentiments about current and future global conditions have stabilized.

% of respondents¹

Current global economic conditions, compared with 6 months ago



Expected conditions, next 6 months



¹Figures may not sum to 100%, because of rounding. In Mar 2019, n = 1,482; in June, n = 1,188; in Sept, n = 1,363; and in Dec, n = 1,881.

¹ The online survey was in the field from December 2 to December 6, 2019, and garnered responses from 1,881 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 Snapshot, September 2019," September 2019, McKinsey.com.

Whereas three-quarters of respondents in September described conditions as having declined, that number fell to 53 percent in this latest survey, similar to the level one year ago.

Expectations for the months ahead also have shifted in a positive direction. In a change from the two previous surveys, fewer than half of respondents expect global conditions to worsen in the next six months. They are more likely than respondents were three and six months ago to expect conditions to remain unchanged.

Similarly, when asked specifically about the rate of global growth, the share of respondents saying they expect contraction has decreased for the first time this year (Exhibit 2). Further, the share

expecting an increase in the growth rate has nearly doubled since the previous survey.

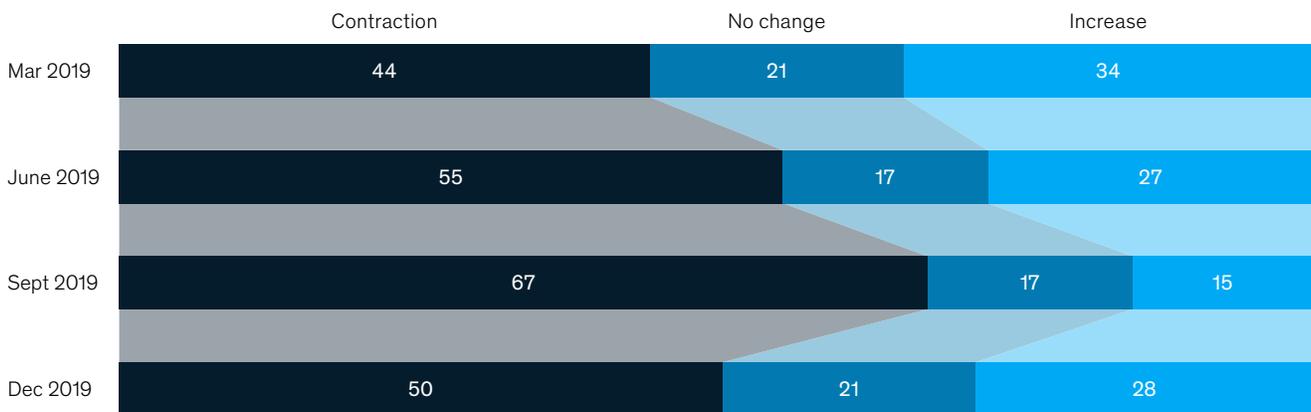
Shifting sentiment at home

Respondents' views on current conditions in their countries also have moderated, though the share reporting improvement hasn't grown. About four in ten say economic conditions have worsened in their countries in the past six months, down from 53 percent who said so in September but about the same as in the prior three surveys. The same share, 40 percent, say conditions have stayed the same, up from 30 percent in the previous survey. Meanwhile, the share reporting improvement in their economies—about one in five—has remained consistent since the June survey.³

Exhibit 2

For the first time this year, expectations for the global economy's growth rate have turned more favorable.

Expected change in global economy's growth rate, next 6 months, % of respondents¹



¹ Figures do not sum to 100%, because respondents who said "don't know" are not shown. In Mar 2019, n = 1,482; in June, n = 1,188; in Sept, n = 1,363; and in Dec, n = 1,881.

³ "Economic Conditions Snapshot, June 2019," June 2019, McKinsey.com.

As was true in the previous survey, respondents in Latin America are the most sanguine about current conditions (Exhibit 3). Respondents in India and other developing markets remain more likely to express negative views than those in other regions. For the second quarter in a row, nearly eight in ten respondents in India say conditions there have worsened, and about six in ten in developing markets say the same.

Respondents in North America and Europe are less likely than those elsewhere to say conditions at home have declined. But as they look ahead to the next six months, they are among the least optimistic, along with respondents in developing markets.

Overall, respondents are less likely than in September to expect their countries' economies to worsen. Forty-three percent expect conditions to decline in the first half of 2020, down from 51 percent who predicted declining conditions in September. Yet

views remain more negative than positive: one-quarter expect their economies to improve, in line with the previous survey, and the remainder expect no change.

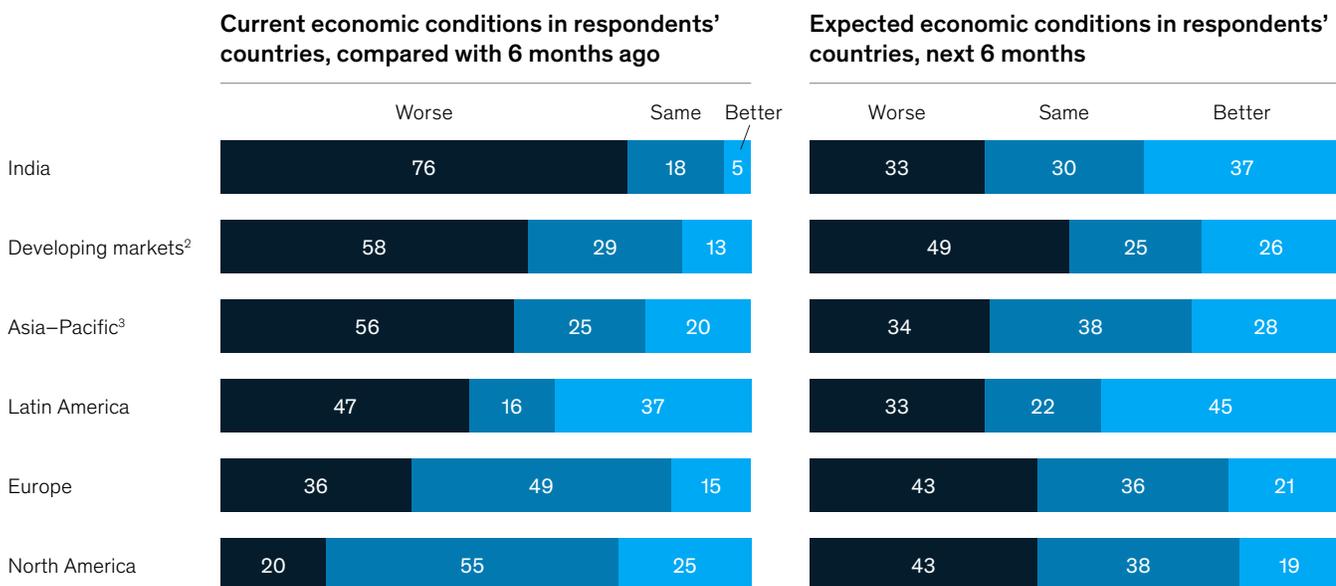
Across regions, respondents in Latin America are the most positive about their countries' prospects for the second survey in a row. Forty-five percent say they expect improvement in their economies—a similar share as in September. Similarly, these respondents are the most likely to expect their countries' growth rates to increase, and for their unemployment rates to decrease.

On the question of growth rates, respondents are less likely than in the previous survey to expect their countries' growth rates to contract in the months ahead: 43 percent say so, compared with 51 percent in September. These findings resemble those from December 2018 through June of this year.

Exhibit 3

Respondents in India and Latin America—who are the least and most upbeat on current domestic conditions—are the most positive about the months ahead.

% of respondents, by office location¹



¹ Figures may not sum to 100%, because of rounding. In India, n = 169; in developing markets, n = 241; in Asia-Pacific, n = 205; in Latin America, n = 134; in Europe, n = 711, and in North America, n = 421.

² Includes respondents in China, Middle East, and North Africa.

³ Includes respondents in Australia, Hong Kong, Japan, New Zealand, Philippines, Singapore, South Korea, and Taiwan.

Concerns over trade remain high, and social unrest emerges as a threat

Trade concerns remain center stage for executives, and half of respondents say trade levels between their countries and the rest of the world have declined over the past year. About one in five report an increase in trade—in line with September’s findings. But a smaller share than in the previous survey expect trade levels to decrease in the year ahead: 43 percent, compared with 52 percent in September.

Trade conflicts top the list of cited risks to global economic growth over the next year, as they have throughout 2019 (Exhibit 4). Sixty-five percent of respondents cite this risk, down from 73 percent in September and three-quarters in June.

Similarly, for the third quarter in a row, trade-policy changes are the most commonly cited risk to domestic growth. Nearly four in ten say it is a top risk. As has been true throughout 2019, changes in trade policy remain an outsize concern in North America, where 53 percent of respondents say they are a threat. That is down from 63 percent in the region saying so in September.

Other top risks to global and domestic growth have reemerged. For the first time since September 2017, social unrest is among the top five most cited global risks. The share of respondents citing unrest—20 percent—has doubled since September, and the percentage in developed Asia-Pacific and Latin America deeming it a risk has more than tripled. Overall, social unrest continues to rank

Exhibit 4

Trade-related risks still predominate as threats to global and domestic growth, but social and political risks have risen on the list of commonly cited threats.

Potential risks to economic growth, next 12 months, % of respondents¹



¹ n = 1,881.

² Out of 15 risks that were presented as answer choices.

³ n = 1,363.

⁴ Out of 16 risks that were presented as answer choices.

below trade conflicts, geopolitical risks, and trade-policy changes, which have been the top concerns throughout 2019.

Looking at the risks affecting respondents' countries, political risks have become more top of mind in recent months. Domestic political conflicts are the second most commonly cited risk, behind trade-policy changes and overtaking geopolitical instability as a concern since the previ-

ous survey. Furthermore, 34 percent say these conflicts are a threat, up from 28 percent who said so in September. As has been true throughout the year, political conflicts are of outsize concern in Latin America, where they are the most commonly cited risk, identified by 52 percent of respondents. In addition, transitions of political leadership are again listed among the top five perceived threats to respondents' economies, as they were in March and June.

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⁴ Companies with average annual revenues of \$500 million or more, of which more than 20 percent come from outside the headquarters country.
⁵ Companies' globalization strategies include their investment plans, sourcing, supply-chain management, and the extent of their global footprint.