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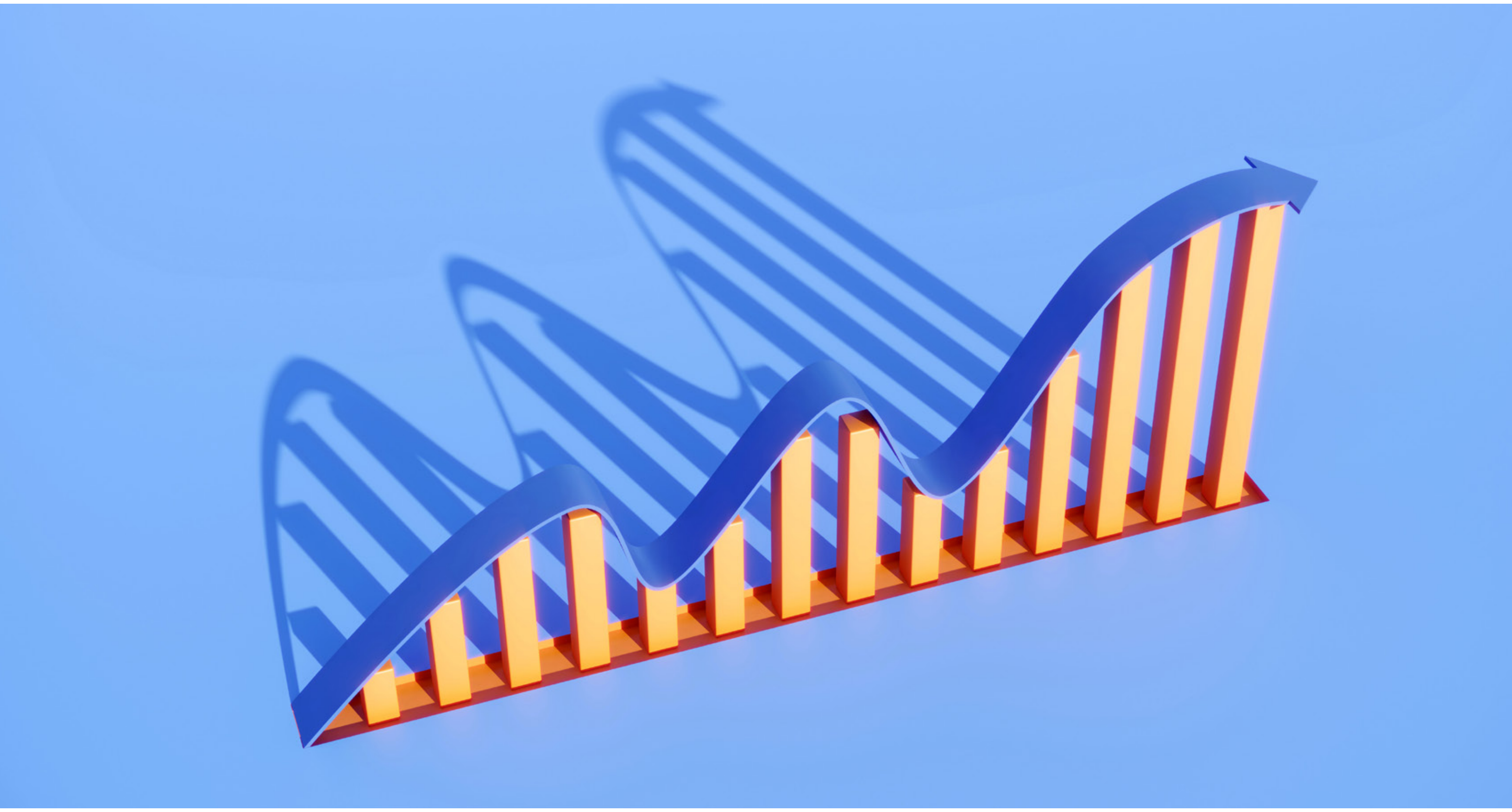
Strategy & Corporate Finance Practice

Economic conditions outlook during turbulent times, June 2023

Economic optimism continues to grow in much of the world, while views on interest rates and potential risks to global growth have shifted since last quarter.



July 2023

For the first time in more than a year, global executives are more positive than negative about conditions in the economy. In our latest McKinsey Global Survey on economic conditions,[1] respondents share brighter views about the current state of their own countries' economies and the world economy, as well as an increasingly optimistic global outlook. While geopolitical instability and inflation still predominate as risks to both domestic and global growth, respondents note some emergent risks to growth in the world economy. Their responses also suggest an evolving perspective on the interest rate environment, with the smallest share of executives since June 2021 expecting their countries' interest rates to increase.

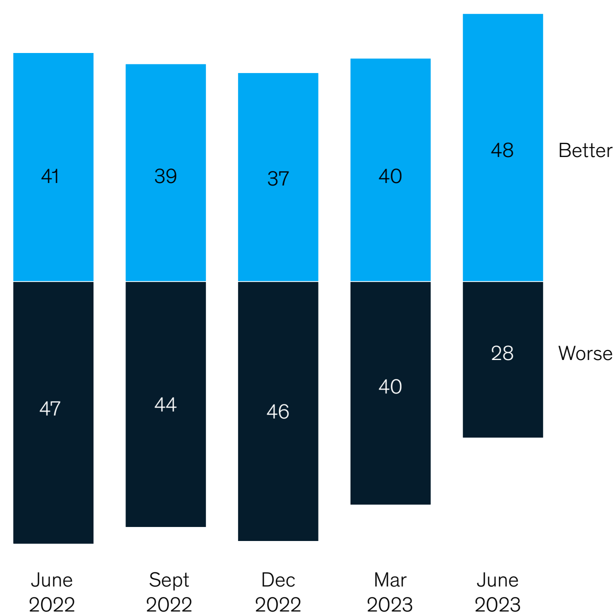
Improving views on domestic conditions, with some regional differences

Overall, respondents report more positive views on their home economies than they have in the past year (Exhibit 1). Forty-eight percent say economic

Exhibit 1

Respondents report more positive views on their home economies than they have in the past year.

Current economic conditions in respondents' countries, compared with 6 months ago,[1] % of respondents



[1]Respondents who answered "the same" are not shown. June 6–10, 2022, n = 899; Aug 29–Sept 2, 2022, n = 1,247; Nov 28–Dec 2, 2022, n = 1,192; Mar 27–31, 2023, n = 871; June 5–9, 2023, n = 1,044.
Source: McKinsey Global Surveys on economic conditions, 2022–23

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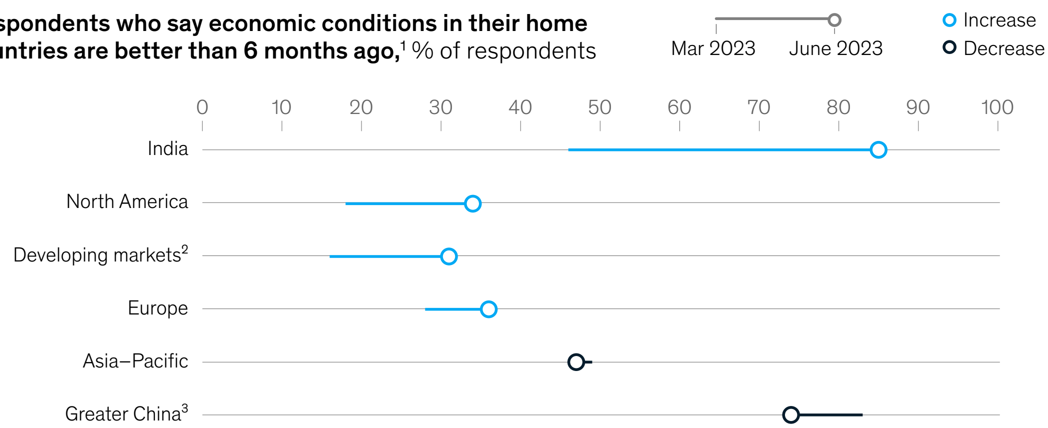
[1] The online survey was in the field from June 5 to 9, 2023, and garnered responses from 1,044 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

Exhibit 2

By region, respondents report varied views on the state of their home economies—and some notable changes since last quarter.

Respondents who say economic conditions in their home countries are better than 6 months ago,[1] % of respondents



[1]Respondents who answered "the same" or "worse" are not shown. In Mar 27–31, 2023, n = 871; June 5–9, 2023, n = 1,044.
[2]Includes Latin America, the Middle East, and North Africa.
[3]Includes Hong Kong and Taiwan.
Source: McKinsey Global Surveys on economic conditions, 2023

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conditions at home have improved in the past six months, up from 40 percent last quarter.

At the same time, there are some notable changes and differences by region—namely, in India (Exhibit 2). Respondents there report a much more bullish view on the state of their economy than they did in March: 85 percent say conditions are better now than six months ago, versus 46 percent who said the same in March. They are also much more positive about conditions at home than peers in other geographies.

By contrast, the domestic economic outlook has held steady since the last survey, with nearly half of all respondents believing conditions will improve in the next six months. Also consistent with last quarter's results: inflation, geopolitical instability and conflicts, and rising interest rates are still the top three risks to economic growth at home.[2]

Evolving views on the interest rate environment

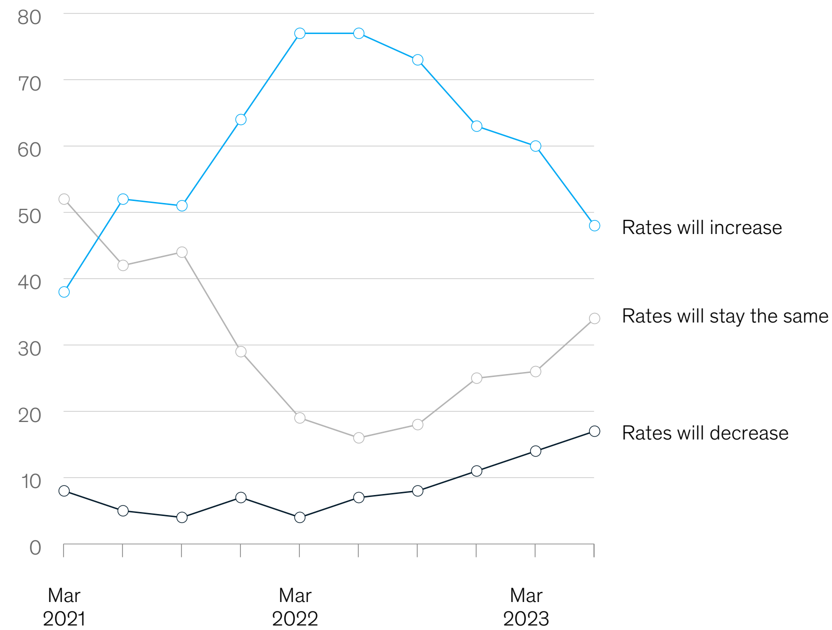
Although interest rates remain a top three risk to growth at home, other results suggest a shift in respondents' perceptions on the topic. For the first time since June 2021, less than half of all respondents believe their home countries' interest rates will increase in the coming months (Exhibit 3).

[2] Of 17 potential risks to economic growth in their countries over the next 12 months, 35 percent of all respondents cite inflation, 34 percent cite geopolitical instability and/or conflicts, and 21 percent cite rising interest rates.

Exhibit 3

The smallest share of respondents in two years believe their countries' interest rates will continue to increase.

Expected changes in countries' interest rates, next 6 months,[1]
% of respondents



[1]Respondents who answered "don't know" are not shown. In June 2023, n = 1,044.
Source: McKinsey Global Surveys on economic conditions, 2021–23

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While respondents in emerging economies are more likely to expect the same or lower rates than their developed-economy peers (61 percent versus 42 percent), even those in Europe and North America are less likely to expect rate increases now than they were last quarter or throughout

Respondents share more positive views on their own economies, and the global economy, than they have in the past year.

2022. We also asked about the likelihood that central banks will continue to raise interest rates to control inflation, and 61 percent of all executives believe it's somewhat or very likely—even if their home countries were to enter a time of severe recession, rising financial-system stress, and increasing unemployment.

As global optimism grows, new risks surface

Executives' views on the world economy are brightening as well, with a steadily growing share of respondents reporting improved global conditions and a positive outlook for the months ahead (Exhibit 4).

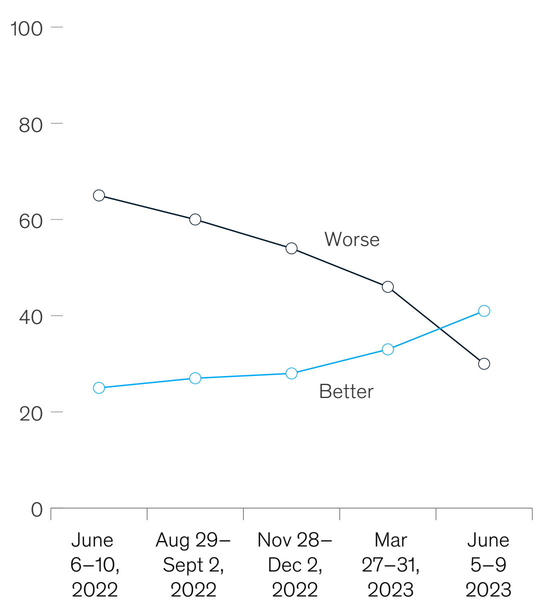
And while they continue to cite geopolitics and inflation as top risks to global growth, respondents have identified some newly emerging threats. The percentages citing income inequality and transitions of political leadership have all grown since our March survey, while the percentages concerned about financial-market volatility and inflation (which remains a top two risk) have ebbed (Exhibit 5).

Exhibit 4

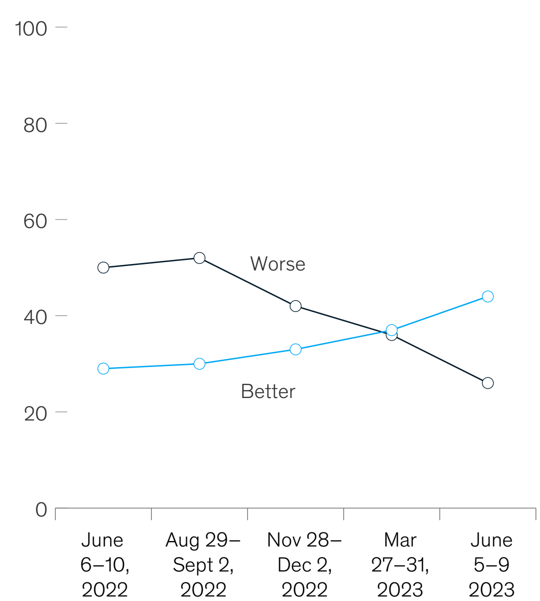
Respondents are increasingly optimistic about current and future conditions in the world economy.

Global economic conditions, % of respondents[1]

Current conditions compared with 6 months ago



Expected conditions, next 6 months



[1]Respondents who answered "the same" are not shown. In June 6–10, 2022, n = 899; Aug 29–Sept 2, 2022, n = 1,247; Nov 28–Dec 2, 2022, n = 1,192; Mar 27–31, 2023, n = 871; June 5–9, 2023, n = 1,044.
Source: McKinsey Global Surveys on economic conditions, 2022–23

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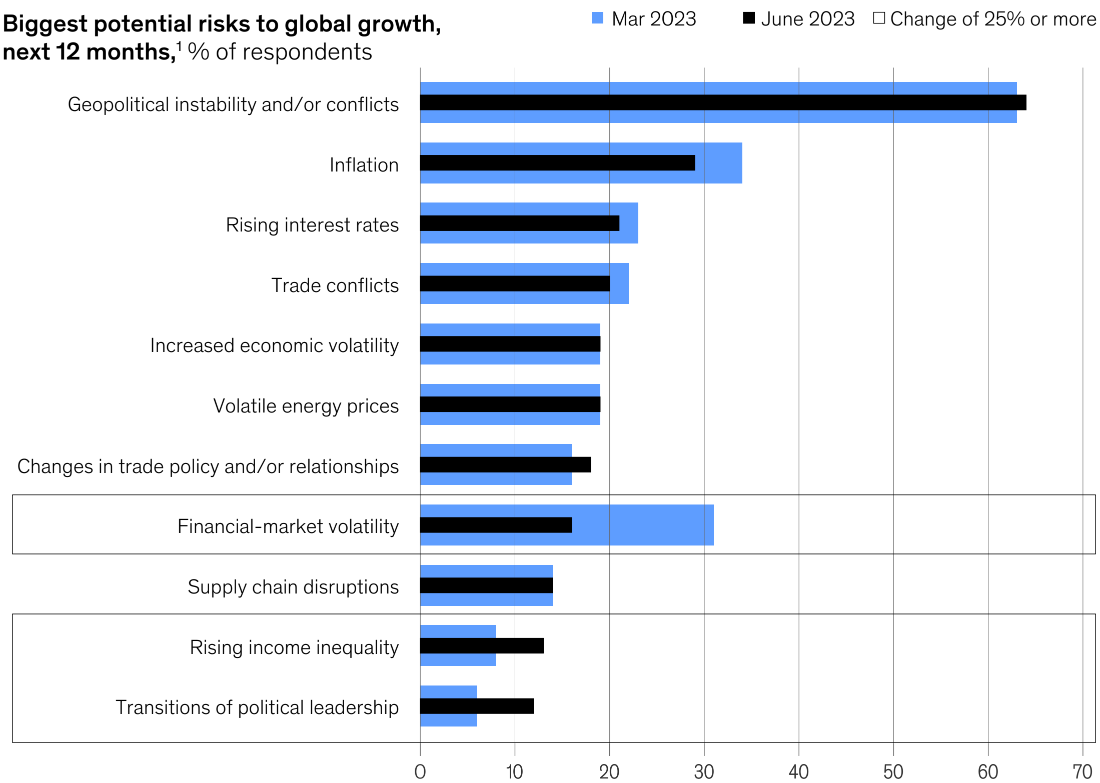
Exhibit 5

While geopolitics and inflation still loom as top threats to global growth, the risk landscape has evolved since last quarter.

Biggest potential risks to global growth, next 12 months,[1] % of respondents



[1]Out of 15 risks that were presented as answer choices. In Mar 2023, n = 871; in June 5–9, 2023, n = 1,044.
Source: McKinsey Global Surveys on economic conditions, 2023

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For the first time, we also asked respondents about four scenarios for how the global economy and balance sheet might evolve over the long term,[3] and their answers suggest a high degree of uncertainty about the economic path forward (Exhibit 6). More than 20 percent of respondents rank three of the four as most likely to occur, with the largest share (30 percent) citing "Balance sheet reset"—characterized by fiscal and monetary tightening and financial-system stress that leads to drawn-out deleveraging and a "lost decade" of growth—as the likeliest scenario. It's followed closely by "Higher for longer" (29 percent), which involves stronger consumer demand and higher investments (both of which keep interest rates and inflation high), solid growth, and a lower value of real wealth due to inflation.

[3] For more, see "The future of wealth and growth hangs in the balance," McKinsey Global Institute, May 24, 2023.

Exhibit 6

Respondents report mixed feelings about four scenarios for the global economy's longer-term future.

Respondents ranking scenario as most likely, % of respondents

Scenario	%	What would happen	What it means
Return to past era Like US post–global financial crisis, late 2000s–2010s	16	Back to weak investment and a glut of savings	Sluggish growth, rising wealth on paper, growing balance sheet risk
Higher for longer Like US post–oil shock, 1970s	29	Strong desired investment and consumption despite headwinds to growth	Gains in nominal but loss in real wealth
Balance sheet reset Like Japan post-real-estate bubble, 1990s	30	Fiscal and monetary tightening; financial system "accidents"	Asset correction and balance sheet stress
Productivity acceleration Like US post–World War II, late 1940s–1950s	24	Technology deployment and productive investment	Growth in real wealth, declining balance sheet risk

Source: McKinsey Global Survey on economic conditions, June 5-9, 2023, n = 1,044

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The survey content and analysis were developed by **Jeffrey Condon,** a senior knowledge expert in McKinsey's Atlanta office; **Krzysztof Kwiatkowski,** a capabilities and insights expert at the Waltham Client Capabilities Hub; and **Sven Smit,** chair of insights and ecosystems, chair of the McKinsey Global Institute, and a senior partner in the Amsterdam office.

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