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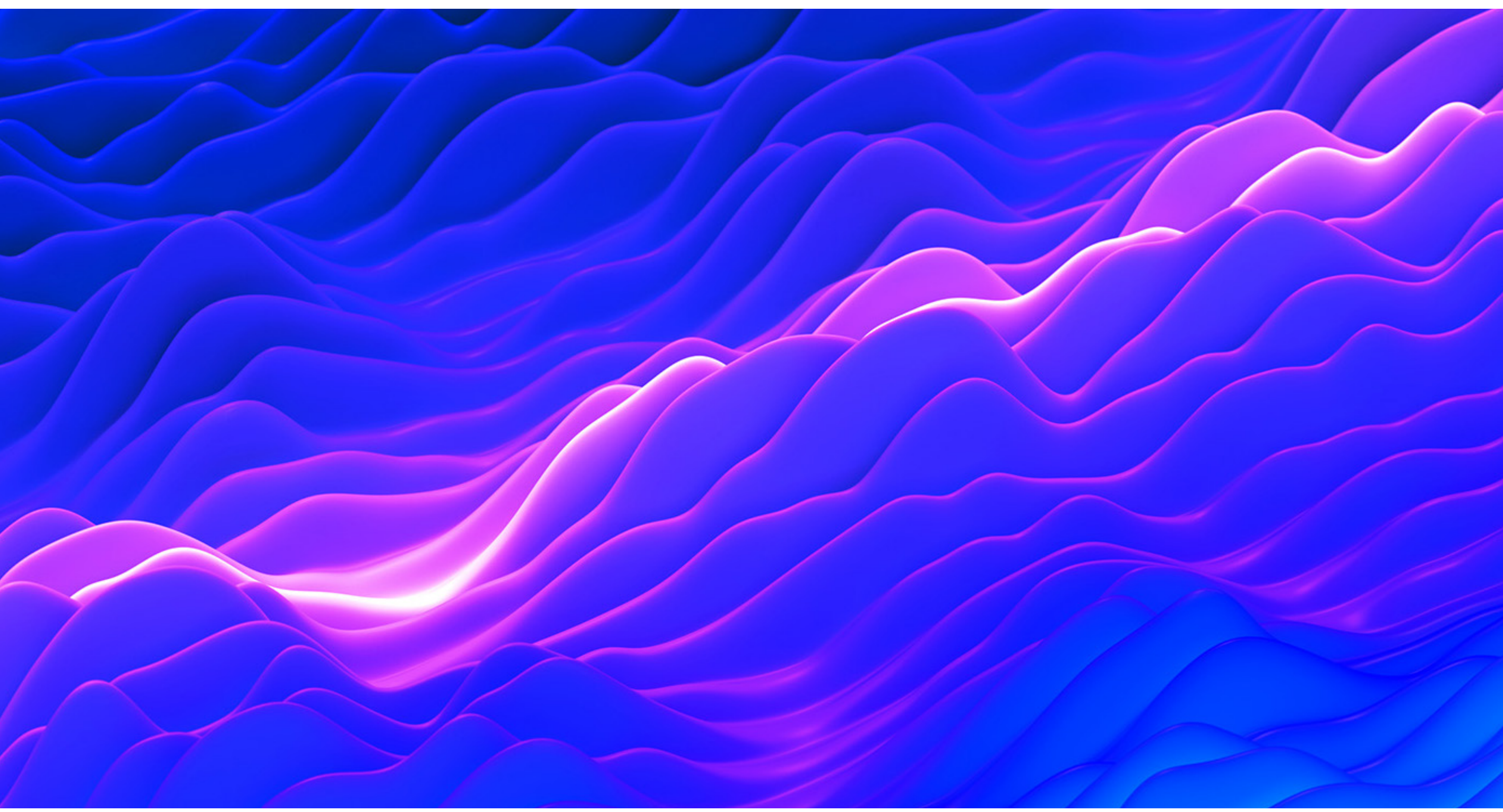
Strategy & Corporate Finance Practice

Economic conditions outlook, June 2024

Executives' views on the world economy remain more positive than negative, though they believe a recession is increasingly likely. In their own economies, concerns over unemployment are growing.

by Sven Smit
with Jeffrey Condon and Krzysztof Kwiatkowski



June 2024

So far in 2024, survey respondents seem more sanguine about the economy than they were for much of 2023. In our newest McKinsey Global Survey on economic conditions,[1] respondents tend to say that conditions in their countries and globally are improving rather than declining and will continue to improve in the months ahead. Yet they also foresee a few clouds gathering on the horizon.

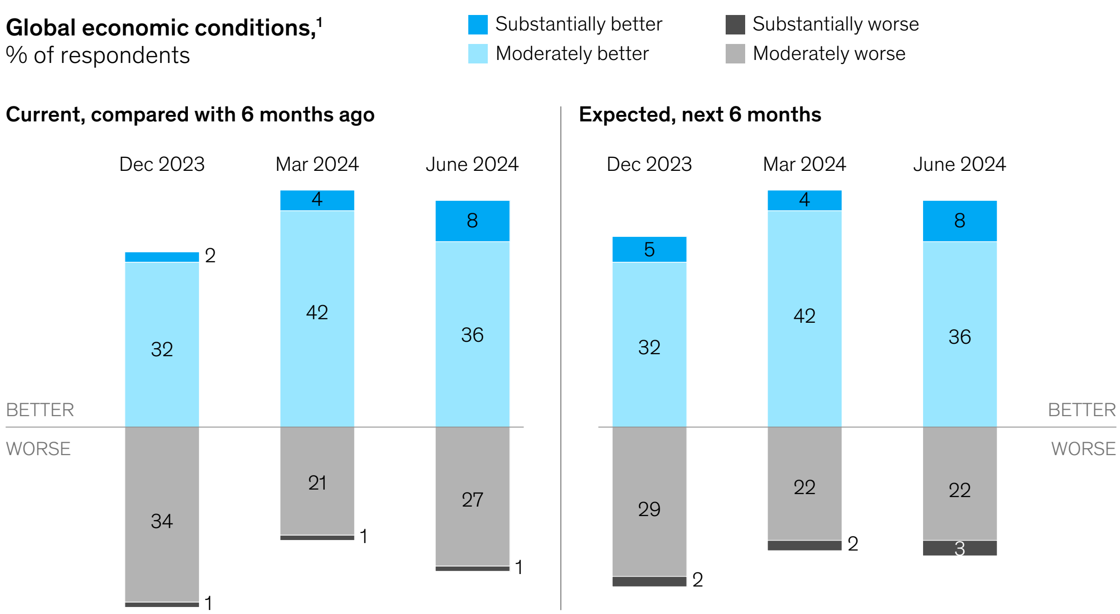
When asked about four near-term scenarios for the global economy, respondents are much more likely now than they were last quarter to choose the two that result in a recession. They also cite changes in trade policy and relationships as a rising threat to global growth. A growing share of respondents expect unemployment rates in their home countries to increase. And in a few regions, a larger percentage than in March predict interest rate hikes in the months ahead. Meanwhile, the company outlook remains positive, if not more moderate than it was in 2023.

Global sentiment holds steady, even as recession expectations grow

After an uptick in good feelings about the global economy between the end of 2023 and the start of 2024, respondents' views on current and future conditions are consistent with our previous surveys—and still more positive than in December (Exhibit 1). Respondents in Greater China,[2] Europe, and India are the most likely to say global conditions have improved in recent months. By contrast, their peers in Asia–Pacific are the most downbeat.

Exhibit 1

As in our previous survey, respondents are more positive than negative about the global economy's current and future states.



[1]Respondents who answered "the same" are not shown. Nov 28–Dec 1, 2023, n = 942; Mar 4–8, 2024, n = 957; June 3–7, 2024, n = 927.
Source: McKinsey Global Surveys on economic conditions, 2023–24

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[1] The online survey was in the field from June 3 to June 7, 2024, and garnered responses from 927 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] Includes Hong Kong and Taiwan.

Just 19 percent of respondents there report improvements in the world economy, down from 59 percent who said the same three months ago.

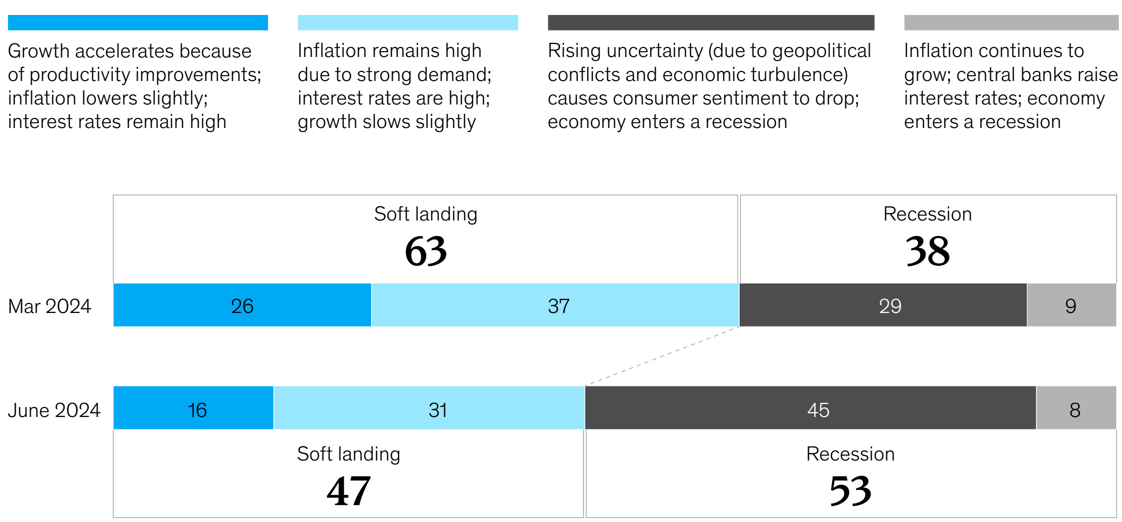
Despite their relative positivity, respondents also believe a recession seems increasingly likely (Exhibit 2). When we asked last quarter about four scenarios for the world economy in 2024–25,[3] 38 percent of respondents chose one of two recession scenarios as the most likely to occur. Now, more than half rank a recession scenario as most likely. The largest share of all respondents, 45 percent—up from 29 percent in March—cite a demand-led recession, where rising uncertainty causes consumer sentiment to plummet. Across the regions surveyed, a demand-led recession is the prevailing view in both Europe and India. Respondents cite a scenario of high inflation and slowing growth second-most often, which those in Greater China and North America rank as the most likely one.

When asked about the risks to global growth, respondents continue to most often cite geopolitical instability (the most-cited risk since March 2022) and transitions of political leadership. At the same time, concerns over trade policy (cited by 24 percent, up from 14 to 18 percent throughout 2023) and inflation appear to be on the rise (Exhibit 3). Changes in trade policy and relationships are especially top of mind in Greater China, where 35 percent of respondents say trade-related developments are a threat to growth.

Exhibit 2

Respondents are much more likely to predict a near-term recession than they were last quarter.

Share of respondents ranking each global scenario[1] as the most likely to occur in 2024–25,[2] %



[1]For the June 2024 survey, we revised the descriptions of the four scenarios for clarity. But the overall framework and key elements of each scenario remained consistent between quarterly surveys.
[2]Figures may not sum to 100%, because of rounding. Figures were calculated after removing respondents who answered "don't know" or did not rank any scenario as likely to occur. Mar 4–8, 2024, n = 927; June 3–7, 2024, n = 901.
Source: McKinsey Global Surveys on economic conditions, 2024

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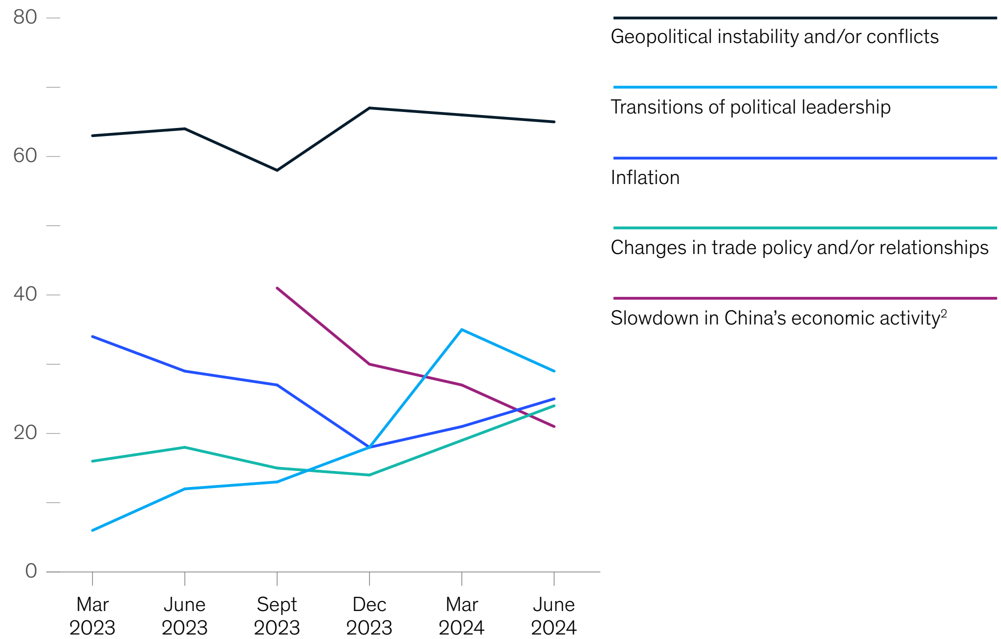
[3] For the June 2024 survey, we revised the descriptions of the four scenarios for clarity. But the overall framework and key elements of each scenario remained consistent between quarterly surveys.

Exhibit 3

Changes in trade policy are cited more often now as a risk to global growth.

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



[1]Out of 15 risks that were offered as answer choices. Mar 27–31, 2023, n = 871; June 5–9, 2023, n = 1,044; Aug 31–Sept 8, 2023, n = 997; Nov 28–Dec 1, 2023, n = 942; Mar 4–8, 2024, n = 957; June 3–7, 2024, n = 927.
[2]"Slowdown in China's economic activity" was not included in the list of potential risks in the Mar 2023 and June 2023 surveys.
Source: McKinsey Global Surveys on economic conditions, 2023–24

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Along with inflation, trade policy changes are the top risk in the region.[4]

In respondents' countries, the focus on unemployment grows, while sentiment stays largely positive

Compared with the recent past, respondents in several economies are more likely to expect a rise in unemployment. Globally, 41 percent predict their countries' unemployment rates will increase in the next six months, equal to the share who expect rates to hold steady—up from 34 percent and 37 percent, respectively, in the past two quarters. Respondents in Greater China are the likeliest to say so, though we also see fast-growing concerns elsewhere in the world (Exhibit 4). Most notable is the change in Asia–Pacific, where 40 percent of respondents anticipate a rise in unemployment—nearly twice the share that said so in March.

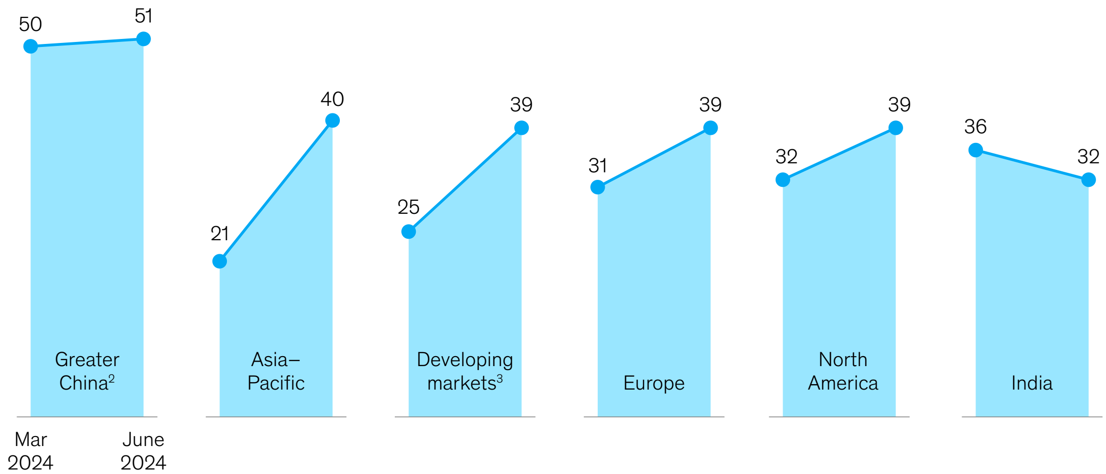
Respondents' concern over unemployment as a threat to overall country growth is not especially acute compared with other risks; just 11 percent of respondents identify it as a risk. But this marks the

[4] On May 14, 2024, US President Joe Biden announced that the United States would increase tariffs on various Chinese imports, including electric-vehicle batteries, computer chips, and medical products. For more information, see Trevor Hunnicutt and Steve Holland, "Biden sharply hikes US tariffs on an array of Chinese imports," Reuters, May 14, 2024.

Exhibit 4

In multiple regions, growing shares of respondents believe the unemployment rates in their countries will increase.

Share of respondents expecting their countries' unemployment rate to increase, next 6 months,[1]
% by office location



[1]Respondents who answered "stay the same," "decrease," or "don't know" are not shown. Mar 4–8, 2024, n = 957; June 3–7, 2024, n = 927.
[2]Includes Hong Kong and Taiwan.
[3]Includes Central and South America, Middle East, North Africa, South Asia, and sub-Saharan Africa.
Source: McKinsey Global Surveys on economic conditions, Mar 4–8, 2024, and June 3–7, 2024

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largest share of respondents to cite unemployment since July 2021.[5]

The top four threats to domestic growth are the same as in March, though weak demand edged out high levels of national debt as the fifth-most-cited risk. Among them, the most significant risks vary greatly by region (Exhibit 5). Geopolitical instability is cited most often in Europe, domestic political conflicts most often in India, and weak demand most often in Asia–Pacific, where respondents are twice as likely as the global average to choose it. And while interest rate concerns began to ebb in December 2023, respondents in some regions are now more likely to expect an increase. In Greater China and in developing markets,[6] 46 percent and 35 percent of respondents, respectively, believe their countries' interest rates will rise in the next six months. In the previous survey, 39 percent in Greater China and 19 percent in developing markets said the same.

Still, respondents remain generally more positive than negative about their own economies, as they have been for the past 12 months. Forty-four percent say economic conditions in their countries have improved, while another 27 percent say conditions have worsened.

Looking ahead to the next six months, respondents are twice as likely to believe that domestic conditions will improve than that they will worsen—and it's a smaller share (48 percent) than said so in March. Respondents in developing markets

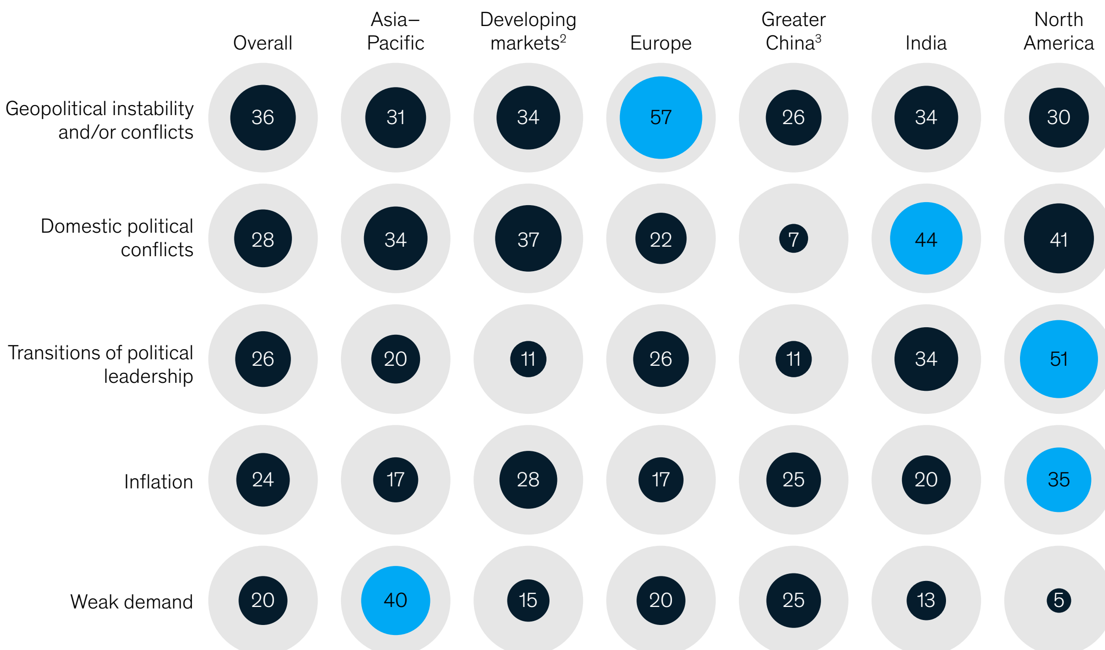
[5] In our July 2021 survey (July 12–16, 2021), 13 percent of all respondents said unemployment was one of the biggest potential risks to their countries' growth over the next 12 months.
[6] Includes Central and South America, the Middle East, North Africa, South Asia, and sub-Saharan Africa.

Exhibit 5

Among the top five threats to domestic growth, the magnitude of each risk varies greatly by geography.

Biggest potential risks to economic growth in respondents' countries, next 12 months,[1] by office location, % of respondents

Gray circle size = 100%
Region where highest % selected given risk



[1]Out of 17 risks that were offered as answer choices. Total, n = 927; Asia–Pacific, n = 84; developing markets, n = 105; Europe, n = 250; Greater China, n = 127; India, n = 82; North America, n = 274.
[2]Includes Central and South America, Middle East, North Africa, South Asia, and sub-Saharan Africa.
[3]Includes Hong Kong and Taiwan.
Source: McKinsey Global Survey on economic conditions, June 3–7, 2024

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are notably more optimistic about the future than about present conditions in their countries. Respondents in Europe and North America, however, report a slightly less enthusiastic view of the future than of current conditions.

The company outlook remains cautiously optimistic

As we saw in the March survey, private sector respondents report largely positive expectations for their companies' prospects—if not more modest ones, compared with 2023. Fifty-six percent believe their companies' profits will increase in the next six months, though that's down from 61 percent in March and 60 percent in December 2023. It's also the smallest share to say so in nearly two years.

Likewise, the 49 percent who expect demand for their companies' offerings to grow is the smallest share since July 2020, down from 57 percent six months ago. And as we saw in the past two quarters, respondents most often expect that the size of their companies' workforce will stay the same in the near term. Forty-three percent say so, followed by one-third who expect their companies' head counts to grow.

We also asked respondents about potential investment opportunities: namely, which markets present the best opportunities for their companies' growth in the next year. Among respondents who provided an answer,[7] the United States is the most-cited location (by 35 percent), followed by China and India (13 percent each), and Germany and Singapore (7 percent each).

[7] Figures were calculated after removing respondents who answered "don't know" in the question (59 percent of the total sample).

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