

Strategy and Corporate Finance Practice

# Economic Conditions Snapshot, June 2019

*McKinsey Global Survey results*

Executives' sentiments on the global economy are the lowest in years, amid growing concerns over trade conflicts. Meanwhile, their expectations about conditions at home remain more negative than positive.



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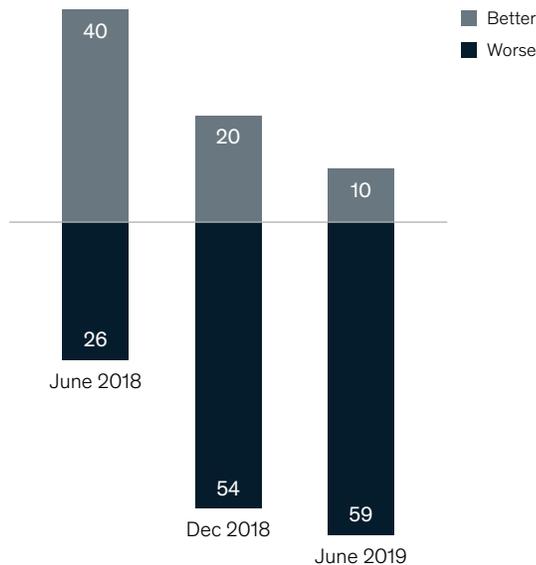
**Executives' views of the global economy** are more downbeat than they have been in years, and few expect improvements in the months ahead, according to McKinsey's latest survey on economic conditions.<sup>1</sup> In fact, in every region, respondents are more likely to say conditions in the global economy *and* their home countries have declined in recent months. What's more, for the first time since we began asking about expectations for the global economy in 2011, a majority of respondents say they expect the economy to worsen in

the next six months. Concerns about trade have grown since the previous survey, and a rising share of respondents predict that the level of trade between their home countries and the world will decline over the next year. Among regions, there are some bright spots: respondents in Latin America and India offer more positive expectations than their peers elsewhere on trade levels and their economies' prospects. Meanwhile, those in developed Asia are particularly glum across a range of macroeconomic and company-level issues.<sup>2</sup>

Exhibit 1

### The share of respondents saying the global economy is worse than six months ago has more than doubled over the past year.

**Current global economic conditions**, compared with 6 months ago, % of respondents<sup>1</sup>



<sup>1</sup> Respondents who answered "the same" or "don't know" are not shown. In June 2018, n = 1,648; in Dec 2018, n = 1,037; and in June 2019, n = 1,188.

### Cautious views of the global economy

The share of respondents reporting recent declines in global economic conditions has not been this large in several years, and their expectations for the next six months are no more positive. Nearly six in ten respondents in June say current conditions in the global economy are worse now than six months ago—the largest share to say so since September 2015.<sup>3</sup> Compared with one year ago, the share of respondents reporting declines in the global economy has more than doubled (Exhibit 1).

When asked about the next six months, respondents are similarly wary: 57 percent say they expect global economic conditions to decline in the next six months—a larger share than has said so in any survey since we began asking about future conditions in the global economy in March 2011.<sup>4</sup> In contrast with the previous survey,<sup>5</sup> respondents in every region are now more likely to expect the world economy to decline than to improve.

Concerning the expected rate of global growth, the share of pessimistic responses is larger than we have seen previously. For the first time since we began asking about changes in the global economy's growth rate, a majority of respondents predict that the growth rate will slow in the next

<sup>1</sup> The online survey was in the field from June 3 to June 7, 2019, and garnered responses from 1,188 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.

<sup>2</sup> Developed Asia includes respondents in Australia, Hong Kong, Japan, New Zealand, the Philippines, Singapore, and South Korea.

<sup>3</sup> "Economic Conditions Snapshot, September 2015: McKinsey Global Survey results," September 2015, McKinsey.com.

<sup>4</sup> "Economic Conditions Snapshot, March 2011: McKinsey Global Survey results," March 2011, McKinsey.com.

<sup>5</sup> "Economic Conditions Snapshot, March 2019: McKinsey Global Survey results," March 2019, McKinsey.com.

six months.<sup>6</sup> Whereas in March 2019, 44 percent of respondents said they expected the growth rate to slow, now 55 percent say so.

When respondents identify risks to global economic growth in the year ahead, they most often cite trade conflicts, as they did in the March survey. Further, the share citing trade conflicts as a risk has increased since March (Exhibit 2). As in the previous survey, geopolitical instability is the second most commonly cited risk to growth, followed by changes in trade policy. Like trade conflicts, changes in trade policy are cited by a larger share now than three months ago.

**For home economies, modest expectations amid concerns about trade**

While respondents appear less downbeat about their home economies than about global conditions, their assessments are more negative than positive:

22 percent of respondents say conditions are better now than six months ago, while 43 percent say their economies have declined—in line with the results from three and six months ago. In contrast to the earlier surveys, larger shares of respondents in every region now say conditions have declined than say their economies have improved.

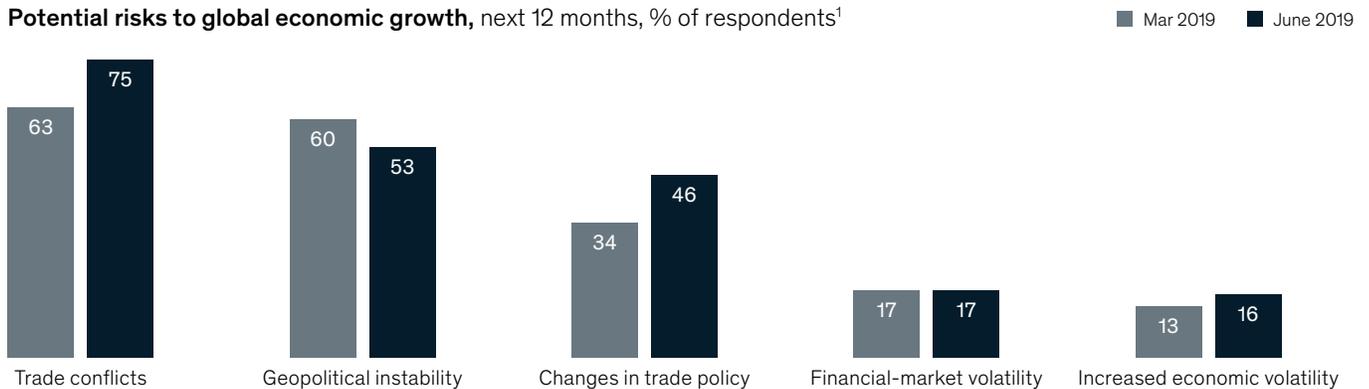
In the next six months, respondents continue to be more likely to predict their home economies will worsen than to predict improvement, as they have been since September 2018. The only regions where respondents are more likely to expect improvements than worsening conditions are India and Latin America.

Since the previous survey, concerns over trade-policy changes as risks to near-term domestic growth have grown. Policy changes are now cited most often, with 47 percent of respondents saying changes in trade policy are risks to their

Exhibit 2

**The share of respondents citing trade conflicts as a top risk to global economic growth has grown since March 2019.**

Potential risks to global economic growth, next 12 months, % of respondents<sup>1</sup>



<sup>1</sup> Out of 15 risks that were presented as answer choices. In Mar 2019, n = 1,482; in June 2019, n = 1,188.

<sup>6</sup> "Economic Conditions Snapshot, December 2017: McKinsey Global Survey results," December 2017, McKinsey.com.

countries' growth in the next year—up from about one-third who said so in March 2019 (Exhibit 3).

As in the past two surveys, larger shares of respondents say trade levels between their countries and the rest of the world declined than increased over the past year. What's more, respondents who report changing trade levels are three times more likely to say those changes had a negative effect on their business than to report a positive

impact. This is a decline from March, when respondents were twice as likely to report negative effects than positive ones.

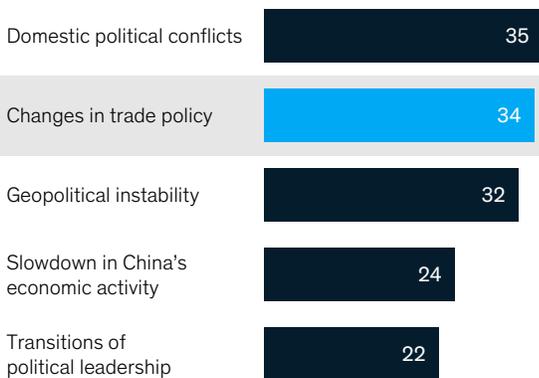
Looking ahead, expectations for future trade levels also have declined since the previous survey. Nearly half of respondents predict the level of trade between their countries and the rest of the world will decline over the next year (Exhibit 4). This is the largest share to say so since 2016, when we first

Exhibit 3

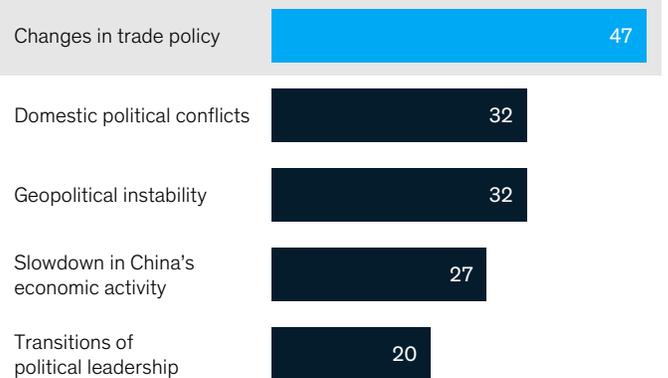
### Trade-policy changes have become the most-cited risk to domestic growth.

Potential risks to domestic economic growth, next 12 months, % of respondents<sup>1</sup>

#### Mar 2019



#### June 2019

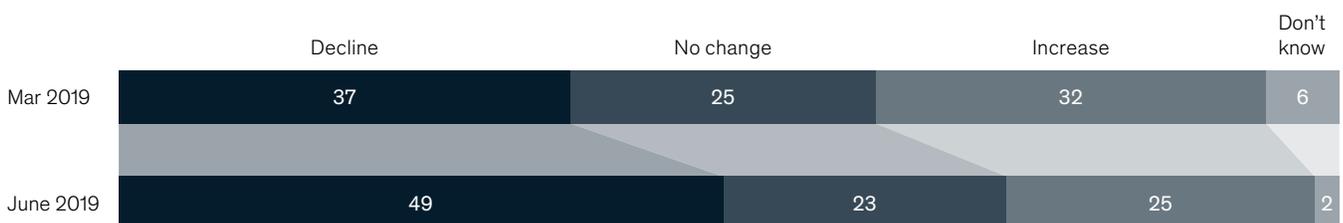


<sup>1</sup> Out of 16 risks that were presented as answer choices. In Mar 2019, n = 1,482; in June 2019, n = 1,188.

Exhibit 4

### Expectations for future trade levels have declined since the previous survey.

Expected change in level of trade between respondents' countries and rest of world, next 12 months, % of respondents<sup>1</sup>



<sup>1</sup> Figures may not sum to 100%, because of rounding. In Mar 2019, n = 1,482; in June 2019, n = 1,188.

asked this question. By region, majorities of the respondents in Latin America and in India say trade will increase in the year ahead. But in all other regions, respondents are much more likely to expect a decline than an increase.

**Developed Asia’s pronounced pessimism**

Respondents in developed Asia offer notably gloomier views, compared with the previous survey and with their peers elsewhere, about the world economy, conditions at home, and their companies. Not only are they more likely now than three months

ago to say the world economy has worsened (Exhibit 5), they are more likely to say so than respondents in any other region. Similarly, these respondents are more than three and a half times likelier to say they expect the growth rate of the global economy to slow down than to say they expect it to increase—and more likely to say so than respondents in any other region.

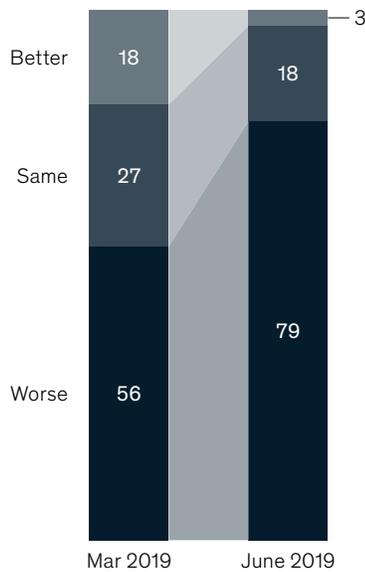
Developed Asia also is the region where the largest share of respondents—59 percent—say conditions in their home economies have declined over the past six months. Whereas in March, respondents

Exhibit 5

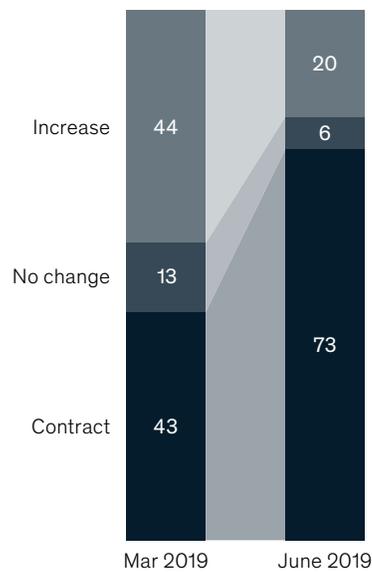
**Respondents in developed Asia report a more negative view on the world economy and future global growth now than in the previous survey.**

% of respondents in developed Asia<sup>1</sup>

**Current global economic conditions, compared with 6 months ago<sup>2</sup>**



**Expected change in global economy’s growth rate, next 6 months<sup>3</sup>**



<sup>1</sup>Includes respondents in Australia, Hong Kong, Japan, New Zealand, Philippines, Singapore, and South Korea. In Mar 2019, n = 152; in June 2019, n = 144.

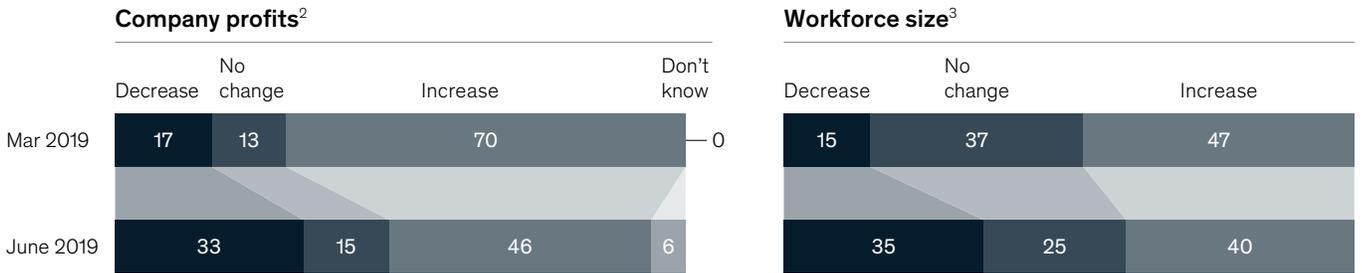
<sup>2</sup>Figures may not sum to 100%, because of rounding.

<sup>3</sup>Figures may not sum to 100%, because respondents who said “don’t know” are not shown.

Exhibit 6

**In developed Asia, respondents' expectations for their companies have dipped since March 2019.**

**Expected changes at respondents' companies, next 6 months, % of respondents in developed Asia<sup>1</sup>**



<sup>1</sup>Includes respondents in Australia, Hong Kong, Japan, New Zealand, Philippines, Singapore, and South Korea.

<sup>2</sup>Question was asked only of respondents at private-sector companies; figures may not sum to 100%, because of rounding. In Mar 2019, n = 134; in June 2019, n = 121.

<sup>3</sup>Figures may not sum to 100%, because respondents who said "don't know" are not shown. In Mar 2019, n = 152; in June 2019, n = 144.

in the region were about twice as likely to report a decline than an improvement, they are now more than five times as likely to say so.

In regard to trade levels, respondents in developed Asia are more likely now than in March to report declining trade between their countries and the rest of the world: 60 percent now say so, compared with 46 percent in the previous survey. This is the second survey in a row in which respondents in the region are more likely than their peers elsewhere to say changes in the level of trade have had a negative effect on their business.

Respondents in developed Asia also report lower expectations for their companies. They are less likely than those in other regions—and less likely than the region's respondents in March—to predict their companies' profits will increase in the next six months (Exhibit 6). And in a change from March, respondents in the region also report the most negative workforce-size expectations of any region: more than one-third now predict that their workforces will decrease in the coming months, compared with a global average of 23 percent.

The survey content and analysis were developed by **Alan FitzGerald**, a director of research in McKinsey's New York office; **Vivien Singer**, a knowledge expert in the North America Knowledge Center; and **Sven Smit**, a senior partner in the Amsterdam office.

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