

# Economic Conditions Snapshot, September 2017

## McKinsey Global Survey results

At the country level, economic optimism has reached a six-year high in our latest survey. Globally, concerns over geopolitics and asset bubbles are on the rise.

In a broad display of economic optimism, for the first time in six years, a majority of respondents to McKinsey's latest survey on economic conditions say their home economies are on the right track.<sup>1</sup> Moreover, nearly as many respondents expect their economies to continue improving in the months ahead. The buoyancy is especially pronounced in developed economies, where respondents' current views on domestic conditions surpass by far what, earlier this year, they expected would be the case now. Their views on the world economy also remain more positive than negative. But in respondents' estimation, geopolitical instability and asset bubbles have become more pressing risks to near-term global growth in the time since our previous survey.

As for the long term, geopolitical instability remains top of mind as a risk to the global economy—carrying associated risks at the company level. In this survey, we asked for the first time about the effects of long-term trends and global forces on respondents' companies. It is perhaps not surprising that more than half of respondents believe the cumulative effects of technological innovation will have the greatest effect on their business over the next ten years. But they also place policy decisions and geopolitical and digital risks among the top-three trends.



### At home, economic optimism reach a six-year peak

Respondents are more bullish about economic conditions in their home economies than they were in the previous survey—a trend that has persisted for all of 2017. This marks the first time since March 2011 that a majority of respondents report improving domestic conditions. On average, 54 percent say economic conditions are better now than they were six months ago, which surpasses expectations from six months ago, when 43 percent of respondents expected improvements by now.

In fact, respondents' views on current conditions have surpassed expectations from March in every region but India and developing markets (Exhibit 1). Positive economic views are particularly prevalent among developed markets, with 55 percent of respondents there saying conditions have improved—up from 41 percent who expected improvements back in March. Their emerging-market counterparts, on the other hand, express a more consistent view: 50 percent there report improvements, compared with 48 percent who expected the same in March.

#### Exhibit 1 In nearly every region, respondents' views on their home economies have surpassed expectations from six months ago.

% of respondents by office location<sup>1</sup>



<sup>1</sup> Figures may not sum to 100%, because of rounding.

<sup>2</sup> For all respondents, n = 1,742; in Europe, n = 601; in Latin America, n = 140; in India, n = 120; in North America, n = 433; in Asia-Pacific, n = 185; and in developing markets, n = 263.

<sup>3</sup> For all respondents, n = 1,407; in Europe, n = 500; in Latin America, n = 128; in India, n = 119; in North America, n = 331; in Asia-Pacific, n = 163; and in developing markets, n = 166.

<sup>4</sup> Includes respondents in China, Middle East, and North Africa.

European respondents—and those in the eurozone in particular—are the most likely to say conditions have improved in recent months, displacing respondents in India as the most upbeat on their home economies. In Europe, 61 percent cite improvements at home, up from 55 percent in June and 44 percent in March. Latin America is also a standout. More than half of respondents there say domestic conditions have improved, twice the share who said so one year ago.

Looking ahead, respondents in India remain the most hopeful among their peers about future conditions at home—although unemployment remains an outsize concern there, as it was in the past two surveys. By contrast, respondents in North America are the most pessimistic about the future of their own economies. Just 37 percent expect economic conditions at home will improve, compared with 48 percent of the global average. On the global economy, too, those in India are the most bullish, which was also true in June and in March.

#### **Geopolitical instability, asset bubbles, and risks to growth**

While optimism about country-level conditions grows, the most common risks to growth remain the same as in the previous survey. Domestic political conflicts and geopolitical instability are identified most often, and political conflicts have topped the list for all of 2017. At the same time, asset bubbles have emerged as a top-three risk to domestic growth. They are particularly top of mind in developing markets,<sup>2</sup> where

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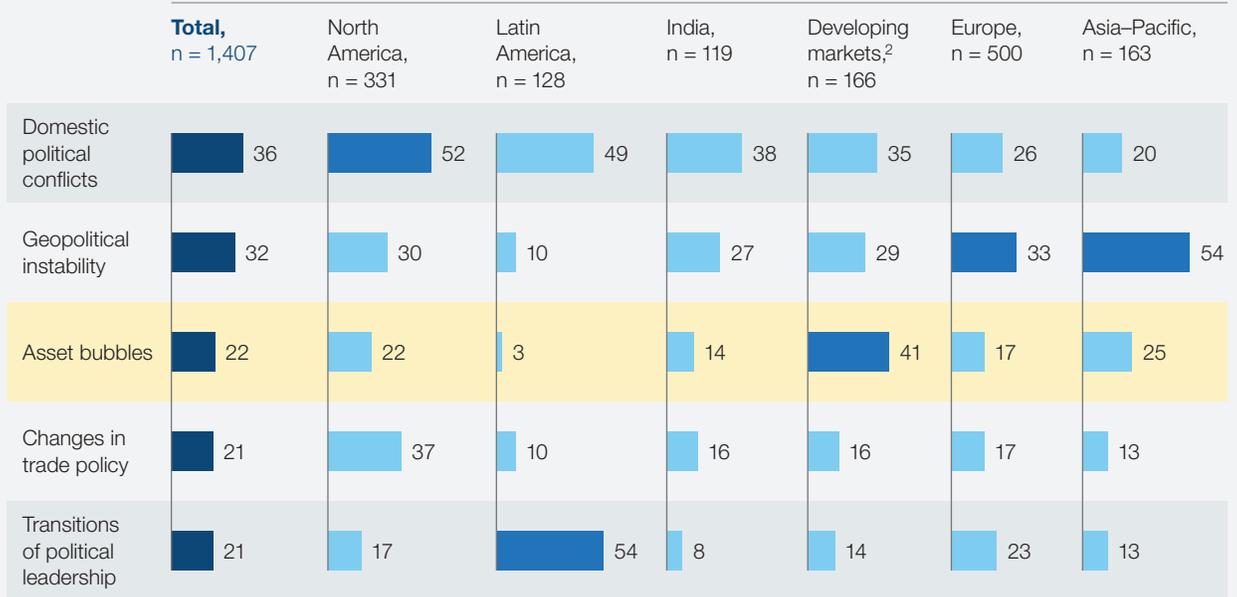
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**Exhibit 2 Asset bubbles have emerged as a top-three risk to country growth, and they are cited most often by respondents in developing markets.**

% of respondents, by office location

■ Most frequently cited risk in region  
■ All other risks

Potential risks to domestic economic growth over next 12 months<sup>1</sup>



<sup>1</sup> Out of 15 potential risks that were presented as answer choices. Risks are arranged in descending order left to right, based on total-level responses to question; top risk in India is impact of technology on jobs (cited by 42%).

<sup>2</sup> Includes China, Middle East, and North Africa.

respondents cite them most often and more than their peers in any other region (Exhibit 2). When asked about specific speculative bubbles in their home economies, respondents most often said they expect a real-estate bubble in the next year. Real-estate bubbles are an even greater concern for respondents in developing markets, three-quarters of whom (compared with 47 of the global average) say a real-estate bubble is most likely to develop. In India and North America, meanwhile, respondents cite equity bubbles far more often than others: 45 percent and 37 percent, respectively, compared with an average of 21 percent.

**Exhibit 3 The share of respondents citing geopolitical instability as a risk to global growth continues to grow.**

% of respondents



<sup>1</sup> Out of 14 potential risks that were presented as answer choices.

Asset bubbles are also gaining as a risk to global growth, according to respondents; again, those in developing markets are the most likely among their peers to cite them. But overall, executives are still far more likely to cite geopolitical instability as a global risk, and the share saying so continues to grow (Exhibit 3). Seventy-two percent identify geopolitical instability as a risk to growth, the largest share to say so in nearly two years, and those in Europe are the most likely across regions to cite it. Changes in trade policy are cited second most often—although far less often than geopolitical instability—and selected most frequently in North America.

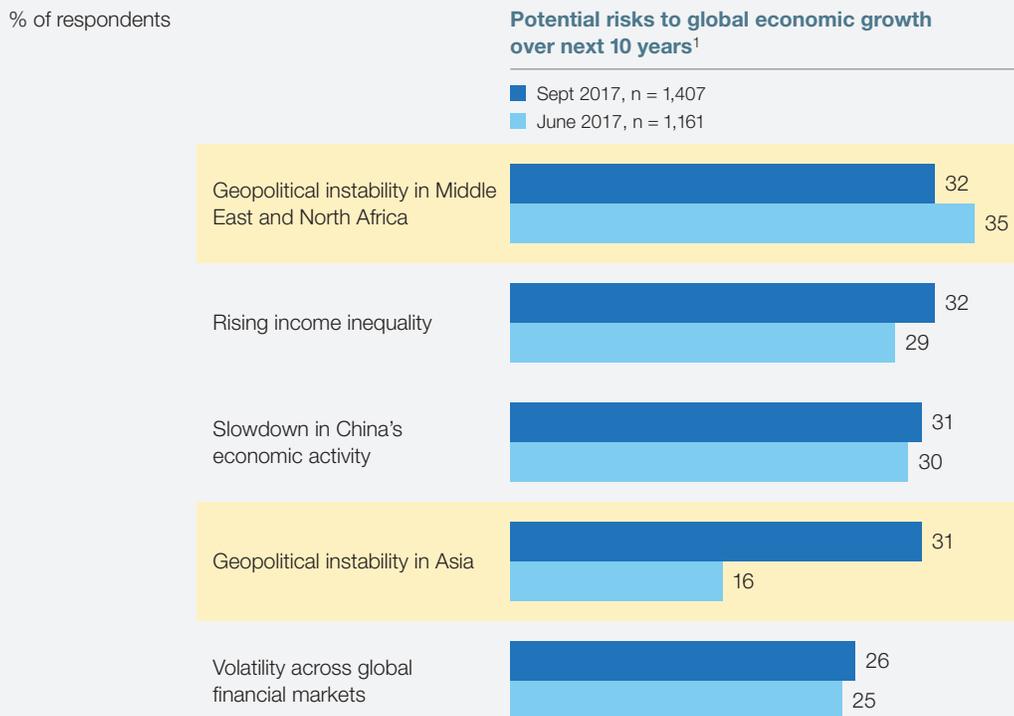
When asked about trade levels between their own countries and the rest of the world, growing shares of respondents continue to report increasing trade. The responses vary greatly by region, though. Respondents in Europe and in Latin America are the most bullish on trade (more than half in each region cite growth in trade levels). On the other end of the spectrum, more than four in ten respondents in

India say trade levels have decreased in the past year. Even still, those in India remain optimistic on trade flows. As we saw in March and June, they are the most likely respondents (along with their peers in Latin America) to expect that trade levels between their country and the rest of the world will increase in the months ahead.

**For the longer term, geopolitical and technological issues are top of mind**

When asked about risks to global growth in the next decade, geopolitical instability in the Middle East and North Africa and income inequality are cited equally often (Exhibit 4). Meanwhile, the share citing geopolitical instability in Asia has nearly doubled (31 percent, up from 16 percent) since the previous survey, although it's not a particularly acute concern for people in that region.

**Exhibit 4 Geopolitical instability—in Asia as well as the Middle East and North Africa—ranks high as a risk to long-term growth in the world economy.**



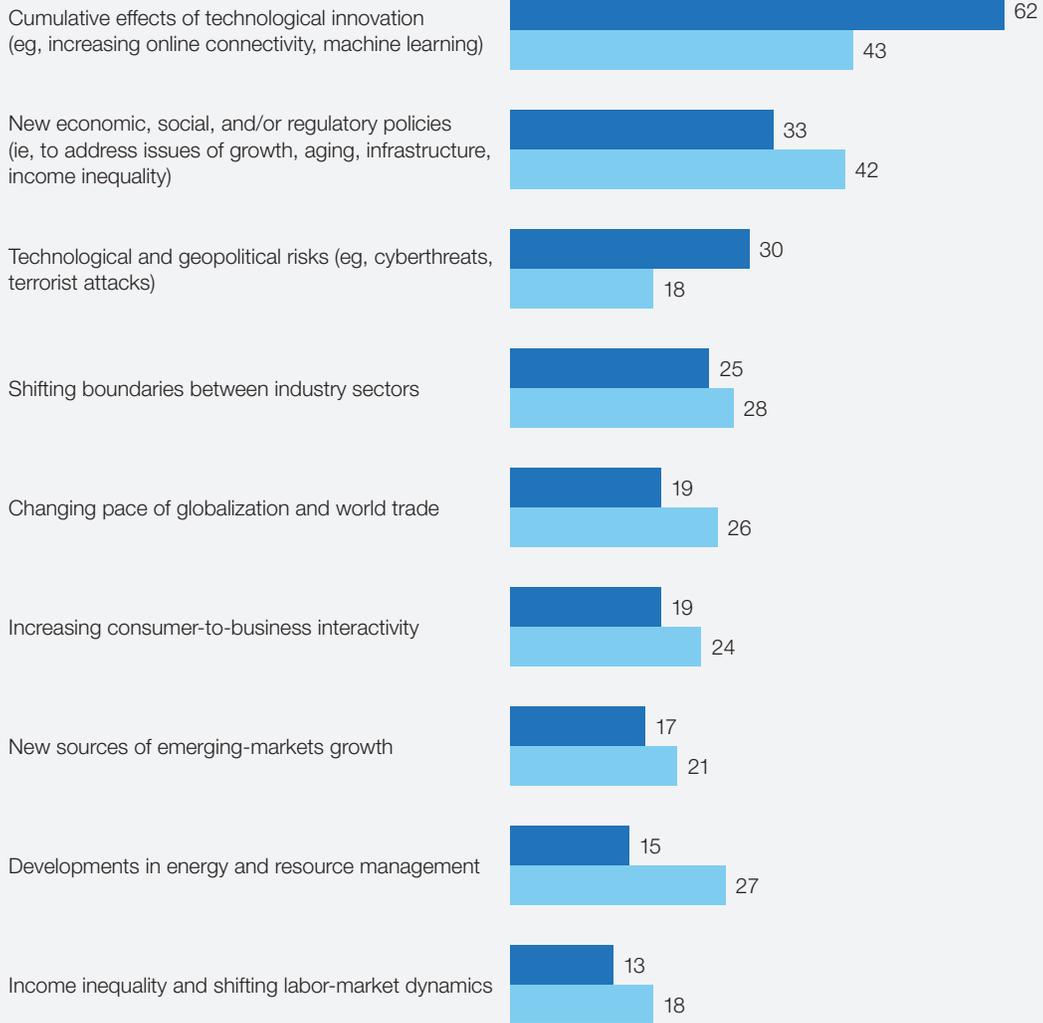
<sup>1</sup> Out of 16 potential risks that were presented as answer choices.

**Exhibit 5 On long-term trends that could affect respondents' businesses, developed-economy and emerging-economy views diverge.**

% of respondents, by office location

■ Respondents in developed economies, n = 906  
 ■ Respondents in emerging economies, n = 384

**Long-term trends with biggest potential effect on companies' business over next 10 years**



<sup>1</sup> Question was asked only of respondents at private-sector companies (n = 1,290), and respondents who answered "don't know" are not shown.

And when asked for the first time about long-term trends and the potential effects on their business, more than half of all respondents cite the cumulative effects of technological innovation—identified most often by respondents in every region except for those in developing markets. The second most common trend is new economic, social, and regulatory policies, and third is geopolitical and digital risks, such as cyberthreats or terrorist attacks.

The results also suggest some clear divergences between views in developed economies and emerging economies. The technology trends are more relevant to respondents in developed economies, while new policies and developments in energy and resource management are more top of mind in emerging economies (Exhibit 5). ■

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<sup>1</sup> The online survey was in the field from August 28 to September 1, 2017, and garnered responses from 1,407 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> Includes respondents in China, the Middle East, and North Africa.

The contributors to the development and analysis of this survey include **Sven Smit**, a senior partner in McKinsey's Amsterdam office.

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