McKinsey&Company

Economic Conditions Snapshot, September 2018

McKinsey Global Survey results

Respondents express declining optimism on the economy, especially in emerging markets. The United States gains more attention as a destination for new business opportunities.

SEPTEMBER 2018 • STRATEGY

Jean-François Martin

As they regard economic conditions at home and in the world economy, executives are warier than they have been all year. For the third quarter in a row, respondents to McKinsey's newest survey of executive sentiment share less positive assessments of the economy's current state,[1] and their outlook for the months ahead is also cautious. Expectations for trade activity are declining, trade-related risks are still perceived as top threats to growth, and for the first time this year, less than half expect the rate of economic growth, both at home and globally, will increase over the next six months. The view from emerging economies is particularly down-beat. These respondents offer a more negative overall assessment of the global economy, economic conditions in their own countries, and their companies' prospects. In a few cases, they are also more likely to cite the United States as the country with the best opportunities for their businesses, rather than their home countries or nearby economies.

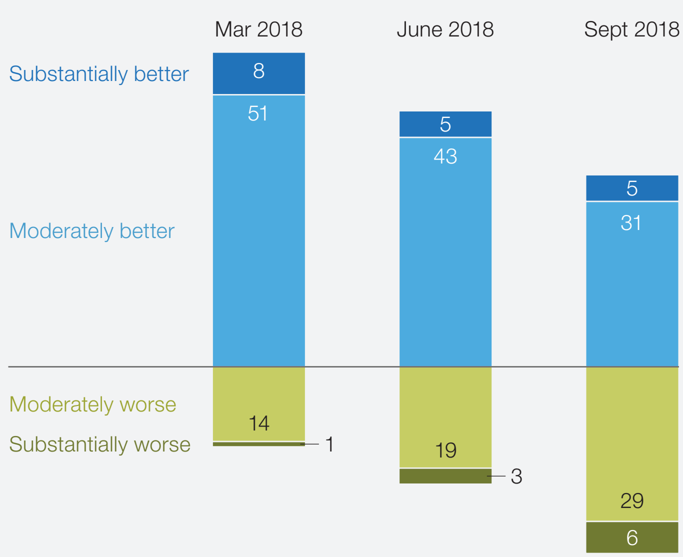
Economic sentiment takes a downward turn

The newest results suggest concern over the momentum of the economy, and respondents' economic sentiments are the most uncertain they have been all year. In their assessment of the global economy, 38 percent of all respondents say conditions have worsened in the past six months, up from 26 percent in June. At 31 percent, the share reporting improvements is even smaller; it's the first time since December 2016 that a larger share of respondents say global economic conditions have worsened than have improved.[2] Sentiment on country-level performance also continues to decline (Exhibit 1). The share of respondents saying conditions in their home economies are worse now than six months ago is nearly equal to the share saying conditions are better.

Exhibit 1

Respondents' sentiment about conditions in their home economies continues to decline.

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



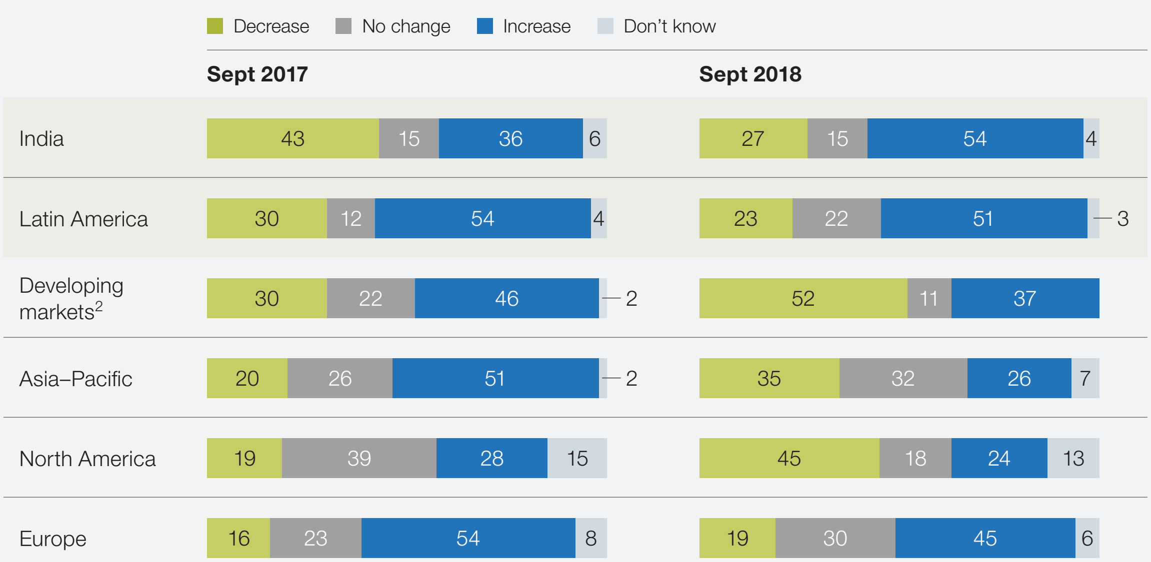
[1] Respondents who answered "the same" are not shown. In Mar 2018, n = 1,230; in June 2018, n = 1,648; and in Sept 2018, n = 1,158.

The responses also signal increasingly cautious views on trade: 36 percent of respondents say that in the past year, the level of trade between their home countries and the rest of the world has decreased, up from 22 percent who said so in June. In a few regions (North America, most notably), respondents have reported sizable declines in their countries' trade levels in the past two surveys. By contrast, those in India and in Latin America are the most likely to report an increase in trade levels, and they are the only two groups less likely to report declines in this survey than they were one year ago (Exhibit 2).

Exhibit 2

Across regions, those in India and Latin America report the most positive trade outcomes since last year.

Change in level of trade between respondents' countries and rest of world, past 12 months, % of respondents,[1] by office location



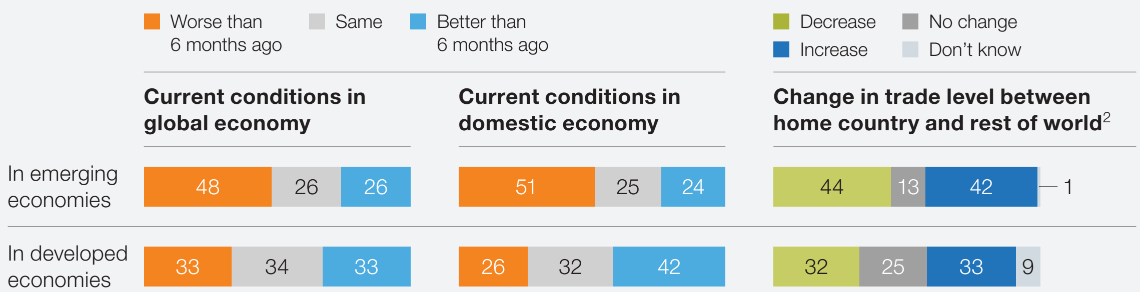
[1] Figures may not sum to 100%, because of rounding. In Sept 2017, India n = 119; Latin America n = 128; developing markets n = 166; Asia–Pacific n = 163; North America n = 331; and Europe n = 500. In Sept 2018, India n = 84; Latin America n = 79; developing markets n = 150; Asia–Pacific n = 130; North America n = 284; and Europe n = 431.

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

Exhibit 3

Overall, emerging-economy respondents are more downbeat than their peers about the economy and trade.

% of respondents,[1] by office location



[1] Figures may not sum to 100%, because of rounding. In emerging economies, n = 313; in developed economies, n = 845.
[2] Past 12 months.

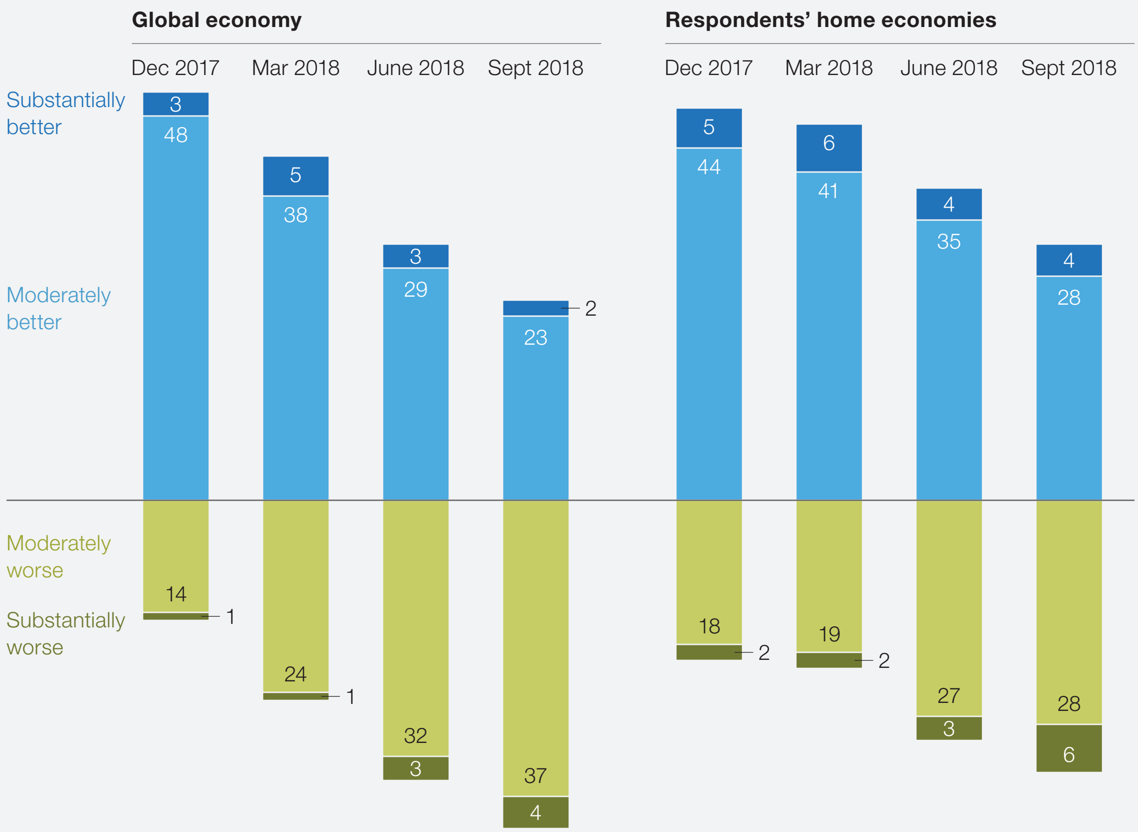
Still, on all of these measures, respondents in emerging economies are notably more negative than their developed-economy peers (Exhibit 3). Overall, they are much more likely than their counterparts to say global conditions and conditions in their home economies have worsened in recent months. This is especially true in Latin America, where just six months ago, 62 percent of respondents believed conditions in their countries would be better by now. Just 17 percent say conditions have improved during that time. When asked about trade levels, emerging-economy respondents overall are most likely to report increases in the past year.[3] Yet those in this group are also more likely than their peers to report declining trade: 44 percent do so, compared with 32 percent in developed economies.

Overall, emerging-economy respondents are much more likely than their counterparts to say global conditions and conditions in their home economies have worsened in recent months.

Exhibit 4

Steadily smaller shares of respondents believe that economic conditions will improve over the next few months.

Expected change in economic conditions, next 6 months, % of respondents[1]



[1] Respondents who answered "the same" are not shown. In Dec 2017, n = 1,549; in Mar 2018, n = 1,230; in June 2018, n = 1,648; and in Sept 2018, n = 1,158.

Waning optimism

Looking ahead, respondents also report a progressively less positive outlook on the economy. Compared with the past two surveys, smaller shares predict that the global economy and their home economies will be better in six months than they are now (Exhibit 4). Nevertheless, respondents across regions feel more positive about their future than the present—except in Europe and in North America (and in the United States specifically). In North America, respondents report much more buoyant views than their peers on current conditions: 53 percent say their economies are in better shape now than six months ago, compared with 30 percent of all other respondents. But they are much more negative about their home countries' prospects. Just 28 percent in the region believe future conditions will continue to improve, and a slightly larger share predict that domestic conditions will worsen.

And while respondents still tend to expect the economy's growth rate will increase rather than contract, their overall optimism about economic growth continues to decline. Currently, 44 percent expect the global economy's growth rate will increase in the next six months (and 39 percent expect a contraction), down from 65 percent six months ago. Forty-seven percent say the same for their home economies, down from 61 percent six months ago. On their countries' trade prospects, too, there is a marked decline in expectations. Forty-six percent expect trade levels will decrease in the next year, a share that has grown steadily since December 2017, when half that share expected trade would decrease.

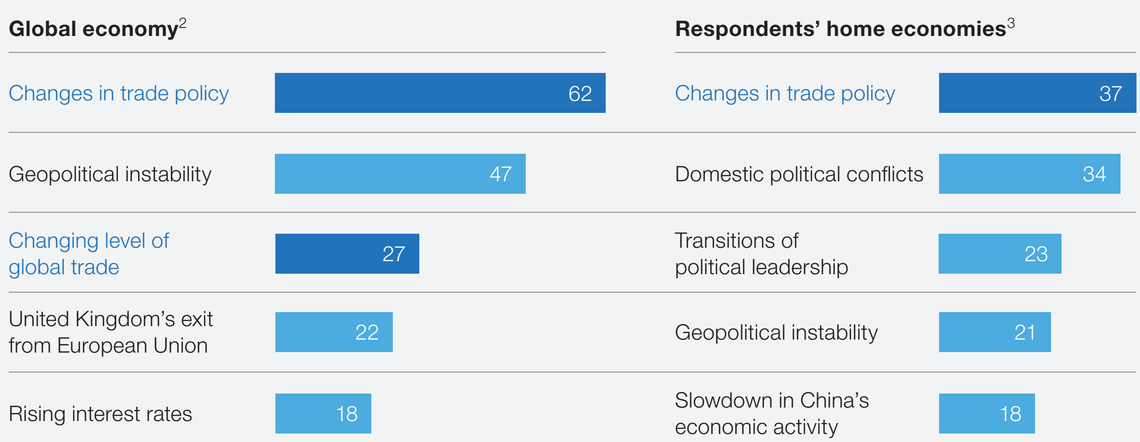
This result may not be surprising, as trade issues still prevail as the perceived top threats to economic growth. As in our previous survey, trade-policy changes and changing levels of trade are cited first and third on the list of potential global risks, and trade-policy changes continue to top the list of threats to domestic growth (Exhibit 5). At the same time, a few other risks have come to the fore. The shares of respondents citing exchange-rate volatility as a global and a domestic risk have increased since June, with emerging-market respondents expressing greater concern. Volatile exchanges are cited as a domestic risk by 26 percent in this group, compared with 7 percent in developed economies—and up from 13 percent of emerging-economy respondents in June.

Exhibit 5

Trade-related risks still predominate as top risks to global and domestic growth.

Potential risks to economic growth, next 12 months, % of respondents[1]

Trade-related risks



[1] n = 1,158.
[2] Out of 13 risks that were presented as answer choices.
[3] Out of 16 risks that were presented as answer choices.

Growing business opportunities in the United States—and concerns in emerging economies

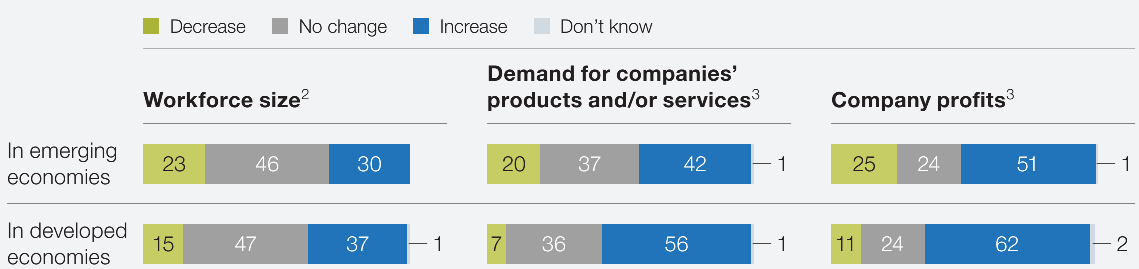
For the third quarter in a row, we have asked private-sector respondents which countries will provide their companies with the biggest opportunities for growth in the next year. Six months ago, respondents tended to cite their own countries or those in nearby markets.[4] But the latest results suggest that the best opportunities seem to be shifting away from local emerging economies (China and Brazil, for example) and toward developed economies, such as the United States. Respondents in developed Asia now identify the United States most often—and more often than China (33 percent, down from 55 percent in June) or even Japan, the two countries they cited most often in the past two surveys. In India, respondents now also cite the United States more often than their home country, which they identified most often in the past two surveys. And in Latin America, respondents are less likely to cite Brazil now than in March, though in both Latin America and in North America, Mexico has become a more attractive destination for business.

When asked about their own companies' prospects, respondents remain more positive than negative, in contrast to their broader economic views. Yet since the previous survey, emerging-economy respondents have noted a few new pain points at the company level (Exhibit 6). On the employee front, emerging-economy respondents are more likely than their peers to expect their workforce size will decrease in the months ahead. In the past two surveys, the two groups were much more aligned: for example, six months ago, 17 percent

Exhibit 6

In emerging economies, respondents are less optimistic than their peers about their companies' prospects.

Expected changes at respondents' companies, next 6 months, % of respondents[1]



[1] Figures may not sum to 100%, because of rounding.
[2] In emerging economies, n = 313; in developed economies, n = 845.
[3] This question was asked only of respondents at private-sector firms. In emerging economies, n = 281; in developed economies, n = 740.

in each group predicted a workforce decline. Their expectations for consumer demand are also more cautious, compared with the previous survey and with their developed-economy peers. And the same is true of their outlook on profits. One-quarter predict that company profits will decrease in the next six months, more than double the share who said so six months prior. ■

---

1 The online survey was in the field from September 3 to September 7, 2018, and garnered responses from 1,158 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, December 2016," December 2016, McKinsey.com.

3 "Emerging-economy respondents" includes those located in China, India, Latin America, the Middle East, North Africa, and other developing markets.

4 "Economic Conditions Snapshot, March 2018," March 2018, McKinsey.com.

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

He wishes to thank Alan FitzGerald and Vivien Singer for their contributions to this article.