McKinsey&Company

Economic Conditions Snapshot, March 2016

McKinsey Global Survey results

Executives' optimism wanes—suggesting concern about where the economy's heading in 2016—while their company views hold steady. A common worry is slowing growth in China, which many cite as a threat to global growth.

Executives' outlook on the economy is cautious and uncertain in McKinsey's first survey of the year on economic conditions.[1] Compared with the previous survey in December, when opinions took a buoyant turn, respondents are now more likely to report negative than positive views on both global and domestic economic conditions. This downward turn is especially pronounced in developed markets, where, in the second half of 2015, executives were much more bullish than their peers in emerging markets. At the same time, their expectations for their companies remain strong. Eight in ten executives expect that demand for their companies' products and services will grow or stay the same in the coming months, and a majority believe (as they have in every survey since 2011) their companies' profits will increase.

By contrast, there are broad concerns about China and how its growth might affect the world economy. Executives most often cite slowing growth in China (which we asked about for the first time) as a threat to global economic growth in the next year, and a top-five threat to growth in executives' own countries. As a global risk, it ranks almost evenly with geopolitical instability, which was the most common risk in the past eight surveys.


Jean-François Martin

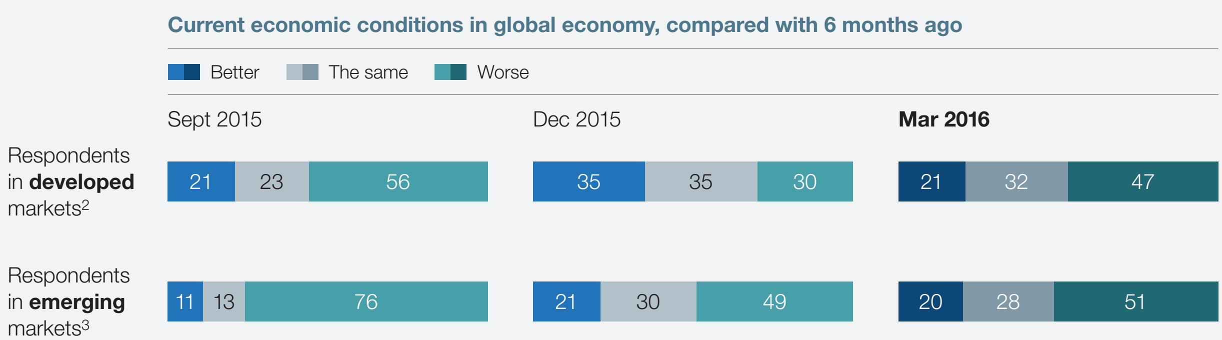
Mixed signals on economic conditions

In our December 2015 survey, respondents reported a much rosier view of the global economy than we saw three months prior. But the latest results indicate that executives' budding optimism has waned—or perhaps that executives have been struggling to discern which way the economic tides will turn. Only one in five executives say conditions in the world economy have improved in the past six months, down from 31 percent in December. Nearly half (48 percent) now say conditions have worsened, up from 36 percent in the previous survey.

Different from previous surveys, developed-market executives are equally likely to be negative (rather than positive) as their emerging-market peers; three and six months ago, they were much more bullish than emerging-market executives (Exhibit 1). This shift is likely driven by respondents in developed Asia, who

Exhibit 1 **In contrast to prior surveys, developed- and emerging-market respondents are equally likely to be negative (rather than positive) on the world economy.**

% of respondents, by office location[1]



[1] Figures may not sum to 100%, because of rounding.
[2] Sept 2015 = 1,338; Dec 2015 = 1,464; Mar 2016 = 1,982.
[3] Sept 2015 = 550; Dec 2015 = 549; Mar 2016 = 790.

are particularly pessimistic: 56 percent of respondents there say the global economy is worse now than it was six months ago, similar to the shares who say so in China, Latin America, and the Middle East and North Africa.

Looking ahead, respondents tend to be pessimistic: while 29 percent believe global conditions will improve in the next six months, 32 percent expect conditions will worsen. Respondents were also downbeat six months ago, when they were likeliest to predict that conditions would be worse by now. So, based on the latest responses about current conditions, those wary expectations for the global economy have borne out (Exhibit 2).

Exhibit 2 **Executives' assessments of the global economy resemble the predictions made six months ago.**

% of respondents

Global economic conditions

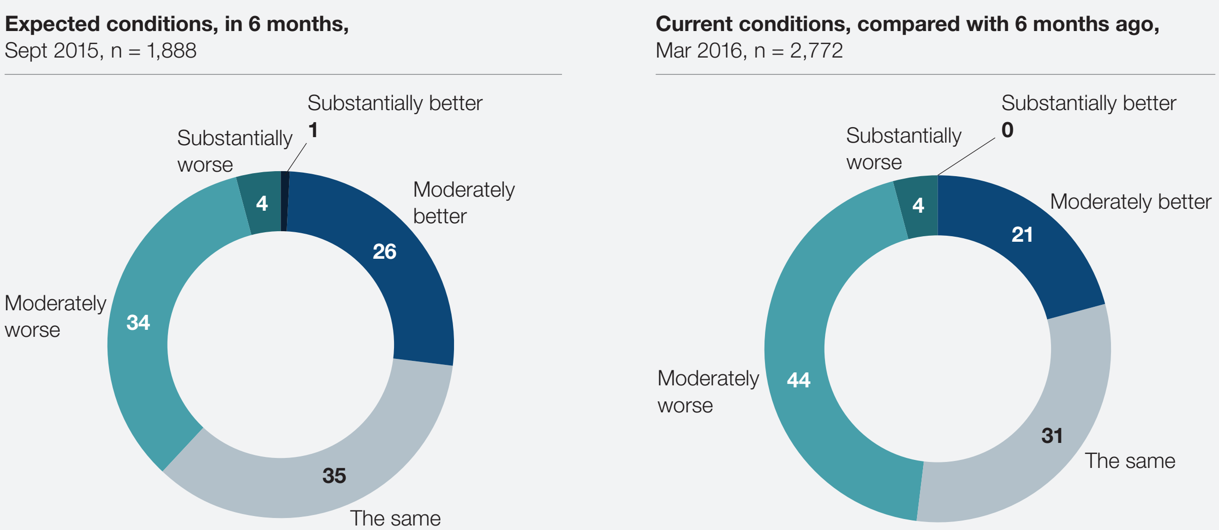
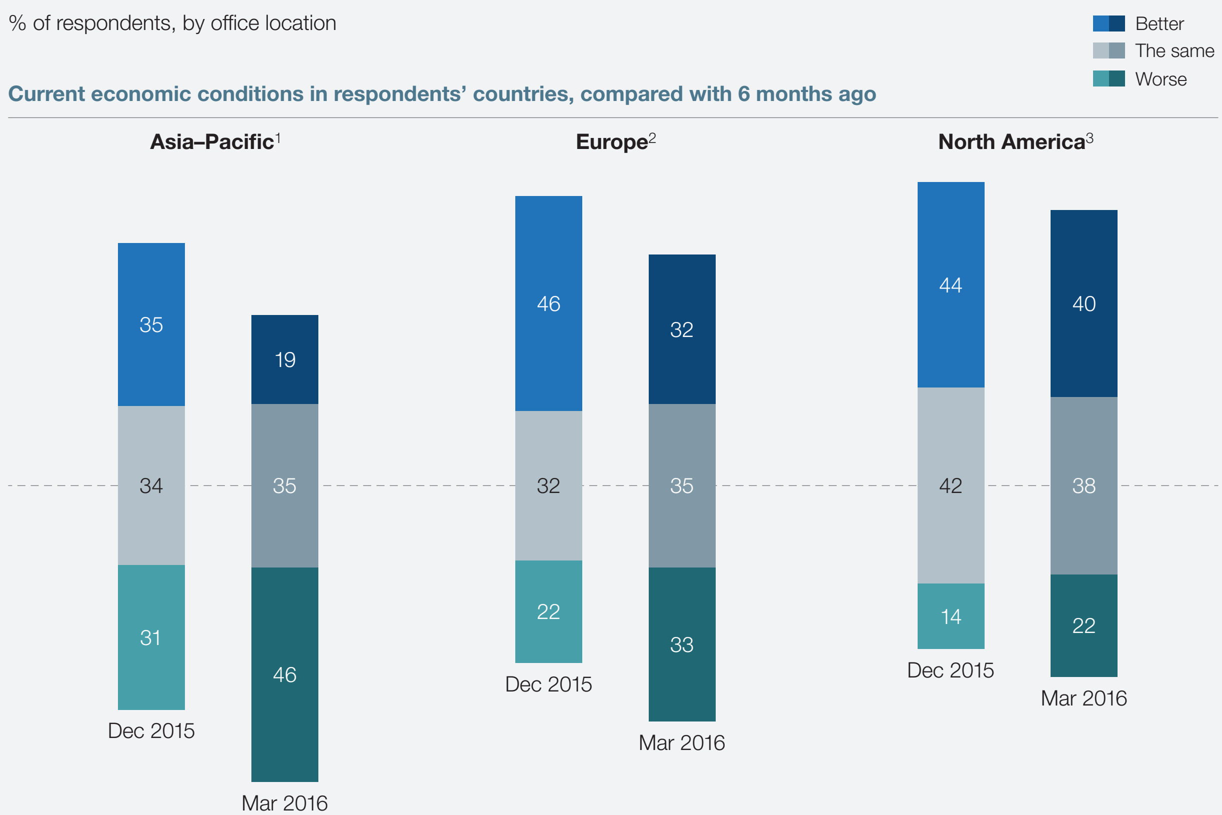


Exhibit 3

Across developed markets—and in Asia, especially—executives are less upbeat about the state of their home economies than they were three months ago.



[1] Dec 2015 = 207; Mar 2016 = 294.
[2] Dec 2015 = 709; Mar 2016 = 954.
[3] Dec 2015 = 548; Mar 2016 = 734.

Regarding their home economies, developed-market respondents continue to be more positive than their emerging-market peers. But overall, responses from developed markets suggest growing concerns at home (Exhibit 3). In developed Asia, respondents are again more negative than most others: 46 percent in that region say domestic economic conditions have worsened in recent months, up from 31 percent in December—but similar to the share (40 percent) there who, in September, predicted that conditions would be worse by now. Looking to the months ahead, developed-market executives most often expect that conditions in their home economies will hold steady; in emerging markets, respondents most often to predict further decline.

China in focus

One year ago, executives in China reported a notable shift in expectations for their own economy—a gloominess about domestic conditions that respondents there expressed throughout 2015. In the latest survey, those in China remain mostly downbeat: 57 percent say economic conditions at home have worsened in the past six months, while only 12 percent say conditions are better. And now unemployment has emerged as a concern. Just over half of respondents in China believe the Chinese unemployment rate will increase in the next six months, up from 35 percent in December.

When we asked *all* executives about the likelihood that China will meet the growth targets in its newest five-year plan, for 2016 to 2020, they are about as skeptical as in December. Only 37 percent say it's likely—and 53 percent believe it's unlikely—that the plan's targets of 6.5 percent annual growth will be met. Those in China, though, remain more optimistic than everyone else: they're almost four times likelier than all other executives to say meeting these targets is very likely (Exhibit 4).

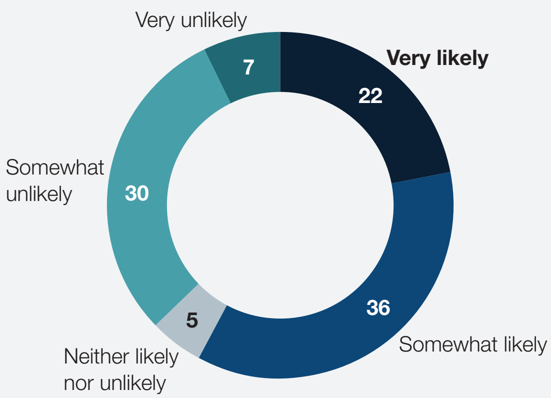
Exhibit 4

Compared with peers elsewhere, executives in China are much more optimistic that the Chinese economy will meet its growth targets in the next few years.

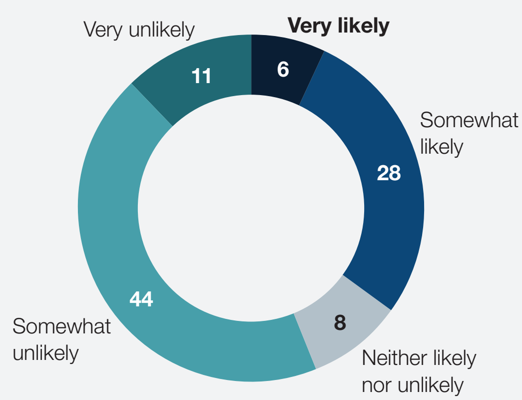
% of respondents,[1] by office location

Likelihood of China meeting targets of its 5-year plan (for 2016–20)[2]

Respondents in China,
n = 122



Respondents in all other locations,
n = 2,650



[1] Respondents who answered "don't know/prefer not to answer" are not shown, so figures may not sum to 100%.
[2] China's 13th 5-year plan calls for at least 6.5 percent annual growth from 2016 to 2020.

For the first time, we also asked executives (both in and out of China) about slowing economic activity in the country as a risk to both global growth and growth in their home economies. Executives agree that, in the short run, the slowdown in China has far-reaching implications for the world economy. Asked to identify potential risks to global growth in the next year, respondents are likeliest to cite the slowdown in China—it's cited most often in every region but Europe—followed closely by geopolitical instability, which topped the list of global risks in our past eight surveys (Exhibit 5). When executives consider the longer run, responses differ more by region. For respondents in developed economies, the likeliest threats to global growth over the next decade are instability in the Middle East and North Africa and debt defaults, while their peers in emerging markets more often point to the withdrawal of foreign investments and the volatility of oil prices.

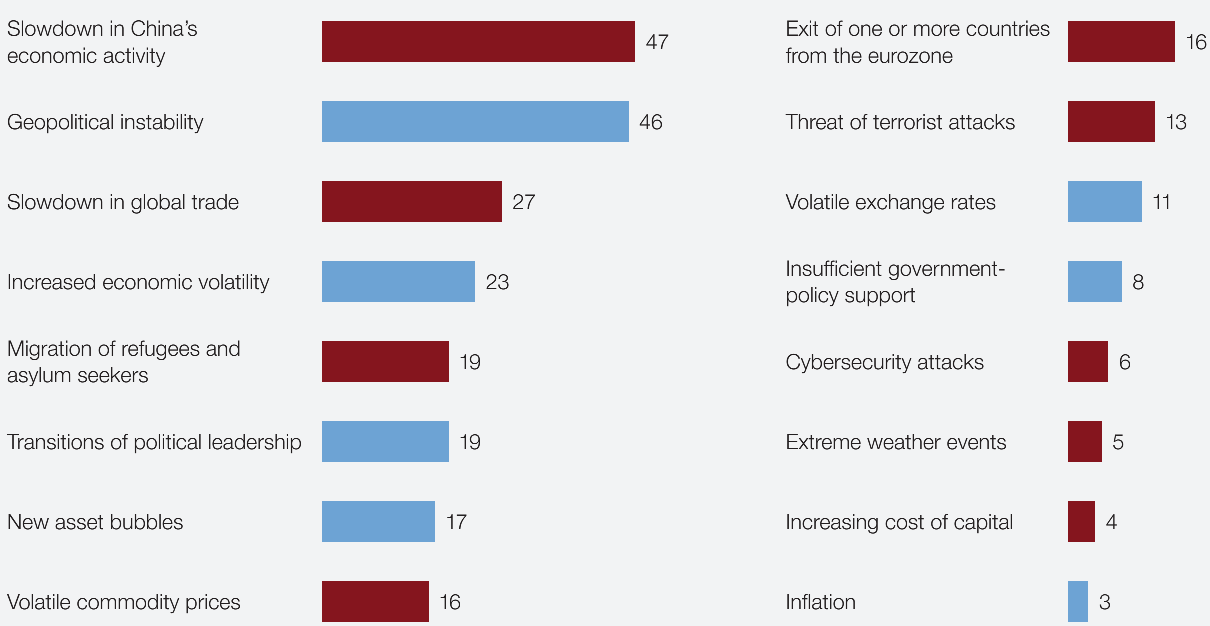
Exhibit 5

Slowing growth in China, along with several other new risks, tops the list of threats to near-term global growth.

% of respondents,[1] n = 2,772

New risks in Mar 2016 survey
All other risks

Potential risks to global economic growth over next 12 months



[1] Respondents who answered "other," "no particular risk," or "don't know" are not shown.

On the domestic front, executives also rate slowing growth in China among the top risks to growth in their home countries. It's cited by one-quarter of all respondents and is an outsize worry in developed Asia (61 percent) and China (45 percent). In the remaining regions, other challenges loom larger. In the Middle East and North Africa, respondents most often cite geopolitical instability, while political issues—either domestic political conflicts or political transitions—are top of mind everywhere else.

Interestingly, at the company level, executives in China report a different, more positive picture. While expectations for workforce growth have declined in several regions since December (especially in Latin America, developed Asia, and even India), respondents in China are more optimistic that their workforce size will grow in the coming months. Thirty-two percent say so, up from one-fifth three months ago. They report similarly upbeat views of consumer demand for their products and services and their companies' profits,[2] which are in line with overall strong company expectations in other parts of the world.

Company-level risks and opportunities

On average, executives' expectations for their own organizations—future demand, profits, workforce changes, and new investment or deal opportunities—have held steady (and been mostly positive) over several years' worth of surveys. So to better understand what's going on at the company level, we asked about specific factors affecting company growth: where respondents see risks and opportunities for their organizations in the coming year.

For both questions, the results vary greatly by region and by industry. The most common risks to growth in the next 12 months are changing consumer expectations and low consumer demand—even though, when asked separately about demand for their products and services in the next six months, respondents overwhelmingly expect demand will grow or hold steady.

> While executives are optimistic that demand for their companies' products and services will grow or at least hold steady in coming months, they also cite low demand most often as a possible risk to company growth.

Exhibit 6 **Across industries, views on the biggest risks to company growth diverge.**

[1] Out of 9 risks that were presented as answer choices. The risks are arranged in descending order left to right, based on the total-level responses to the question.

Across regions, respondents report outsize concerns. Executives in developed Asia cite changing consumer needs more often than others, while the pace of technological change is a bigger issue in India than it is elsewhere, and scarcity of talent is a greater risk in China. And across industries, low consumer demand is a greater risk in retail and transportation, while the scarcity of talent is a bigger issue in professional services and in high tech and telecom (Exhibit 6).

Overall, the most frequently cited opportunities are operations improvements—especially in retail and transportation—and growth in existing markets. By industry, the results suggest that partnerships and joint ventures offer greater growth potential in the next year for transportation companies, and that M&A is a greater opportunity in healthcare and pharma than in other sectors. In financial services and in high tech and telecom, executives are much likelier than others to cite shifts to new technologies as an opportunity in the next year. ■

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[1] The online survey was in the field from March 7 to March 11, 2016, and garnered responses from 2,772 respondents 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] Four in ten respondents in China believe demand for their companies' products and services will increase in the next six months, up from one-quarter who said so in December 2015; 64 percent of executives in China predict their companies' profits will increase in the next six months, up from 48 percent in December 2015.

The contributors to the development and analysis of this survey include **Luis Enriquez**, a director in McKinsey's Brussels office, and **Sven Smit**, a director in the Amsterdam office.

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