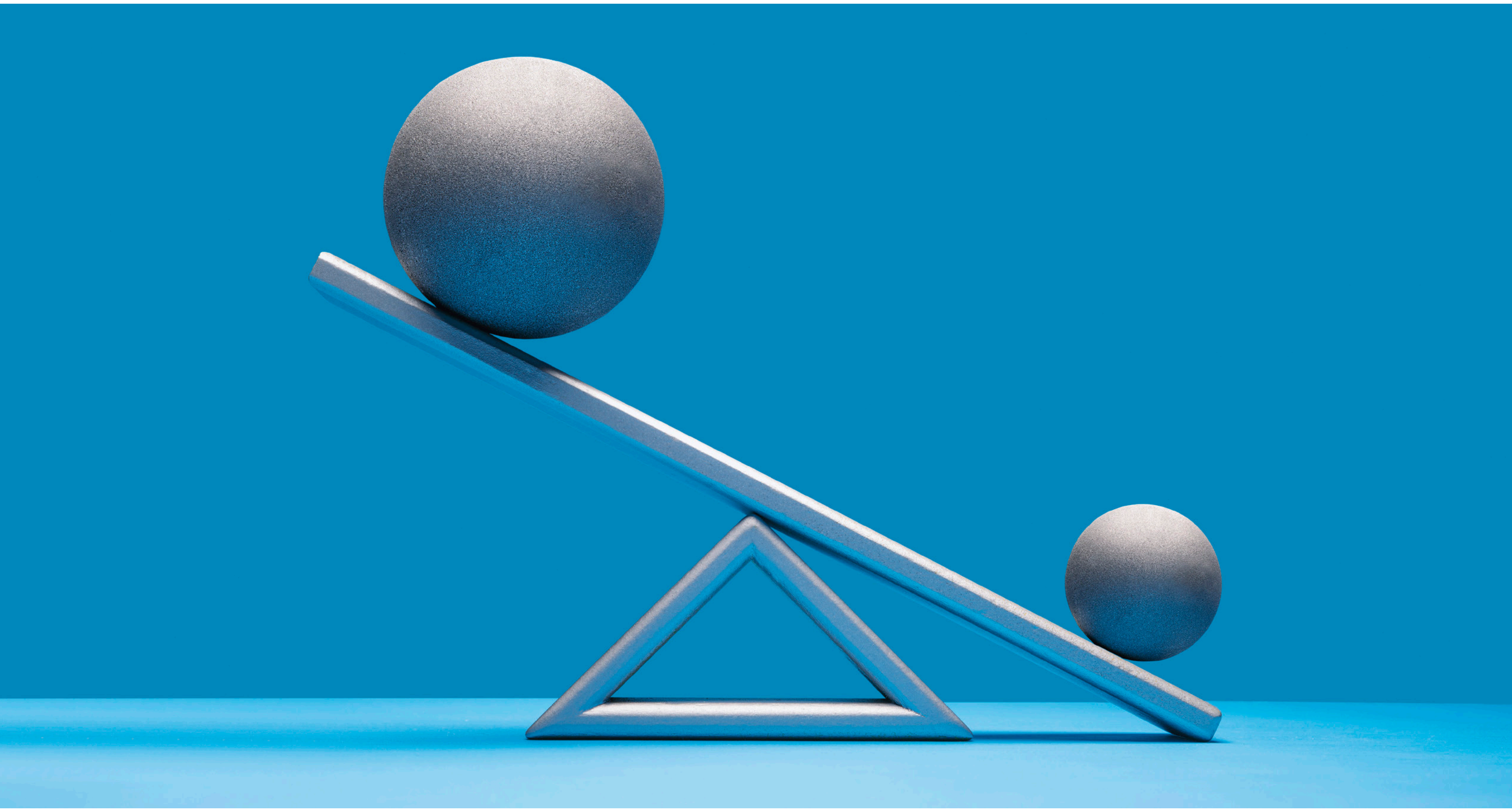
Strategy & Corporate Finance Practice

Economic conditions outlook, June 2021

Executives' overall views on the economy continue to improve. As more and more economies are recovering from the pandemic, perceptions of potential risks are evolving.



June 2021

Positive momentum continues to build in many respondents' home countries and in the world economy, according to our latest McKinsey Global Survey on economic conditions.[1] Yet by geography, the results reveal starkly different sentiments between developed economies (where more countries are experiencing or anticipating a recovery) and emerging economies (where several regions face ongoing public-health challenges).[2] Executives in developed economies now report much more positive views than their counterparts—a reversal from the first year of the pandemic—as well as new threats to growth. As the pandemic recedes as an outsize and largely universal risk to the economy, respondents believe that inflation and supply-chain disruptions are emergent.

Still, executives in all geographies continue to report an increasingly positive outlook on the economy and believe that their companies' prospects have never been brighter.

The risk landscape shifts, and varies by region

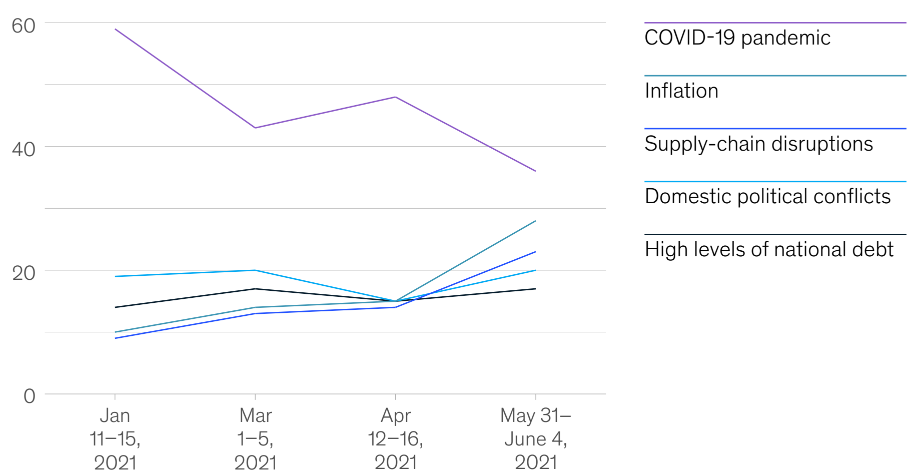
With the second pandemic year well underway, the economic recovery is gaining momentum—or is expected to—in many parts of the world. But the latest survey results suggest that new pain points are emerging (Exhibit 1).

The COVID-19 pandemic still tops the list of risks to economic growth in respondents' countries, but the share of executives saying so has declined significantly. Compared with April, respondents in

Exhibit 1

As the pandemic recedes as an outsize risk to growth, inflation and supply-chain disruptions are more top of mind for respondents.

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



[1]Out of 18 risks that were presented as answer choices. Jan 2021, n = 1,025; Mar, n = 1,018; Apr, n = 1,199; June, n = 1,010.

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[1] The online survey was in the field from May 31 to June 4, 2021, and garnered responses from 1,010 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] For more on the state of the economy, see "Global Economics Intelligence executive summary, May 2021," June 9, 2021, McKinsey.com.

With the economic recovery gaining momentum in different parts of the world, more respondents are citing risks to growth other than the pandemic.

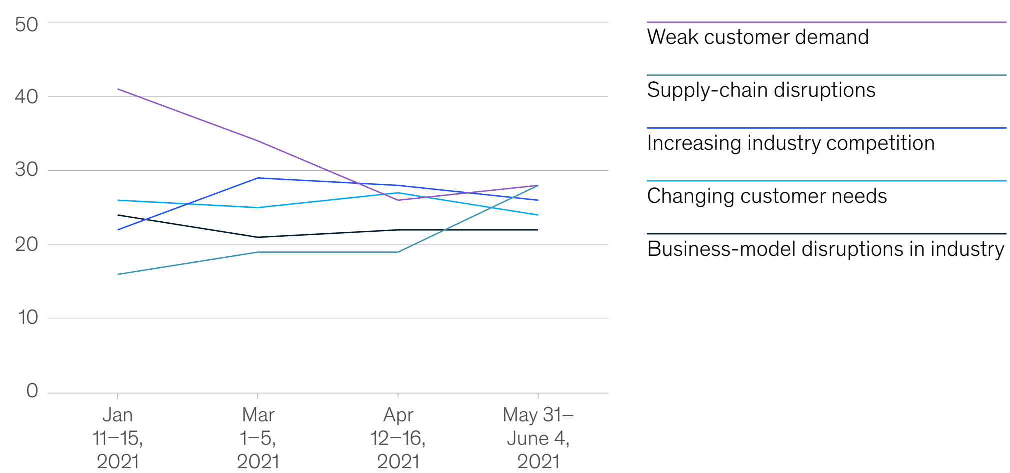
developed economies also consider the pandemic a much less acute concern. Twenty-eight percent of them cite the pandemic as a risk to domestic growth, compared with half of their emerging-economy peers. In the previous survey, 65 percent in developed economies identified the pandemic as a risk to their countries' growth.

Meanwhile, the shares citing inflation—the second-most-common risk, identified nearly twice as often as in April—and supply-chain disruptions, have increased. Inflation has also risen in the ranks as a risk to growth in the *global* economy. It is now cited by 28 percent of respondents, up from 12 percent in March and 8 percent in December 2020—though on average, responses show that the pandemic remains a much bigger threat to global growth than anything else. At the same time, respondents say supply-chain disruptions pose a greater risk to their companies' growth than in prior surveys (Exhibit 2). These

Exhibit 2

Respondents cite supply-chain disruptions as a top risk to their companies' growth and a more acute concern than before.

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



[1]Out of 15 risks that were presented as answer choices; question was asked only of respondents in private-sector companies. Jan 2021, n = 913; Mar 2021, n = 916; April 2021, n = 1,085; June 2021, n = 928.

disruptions now tie with weak customer demand as the most-common risk to company growth, cited by 28 percent—and up from 16 percent to 19 percent earlier this year.

By region, executives' views on the biggest risks to growth at home have also shifted. In North America, respondents most often cite inflation as a risk to growth (45 percent say so), followed by supply-chain disruptions, domestic political conflicts, and rising taxes. And in Latin America, respondents cite domestic political conflicts more than the pandemic (43 percent, versus 32 percent).

While unemployment concerns are ebbing on average—even in Europe, where since September 2020 respondents have been much more likely than others to expect rising unemployment—the picture is more mixed in a few geographies. Respondents in Asia–Pacific, India, and Latin America are nearly evenly split between those who expect the unemployment rates in their countries to increase and to decrease.

Executives also believe that interest rates are poised to rise. Just over half of all respondents believe that their countries' interest rates will increase in the next six months, up from 38 percent in the previous quarter. But respondents' views vary significantly by region. In North America, 70 percent expect rising interest rates, followed by their peers in Latin America (64 percent), while in India, only 22 percent say the same.

Economic progress continues at home in most geographies—and in the global economy

On average, and everywhere but India and developing markets (including the Middle East, North Africa, South Asia, and sub-Saharan Africa), executives' sentiment about their home economies continues to brighten. Seventy-three percent of all respondents say that conditions in their own economies are better now than they were six months ago, up from 53 percent in the previous quarter, which marked the first time in three years that a majority of respondents reported improving conditions at home.

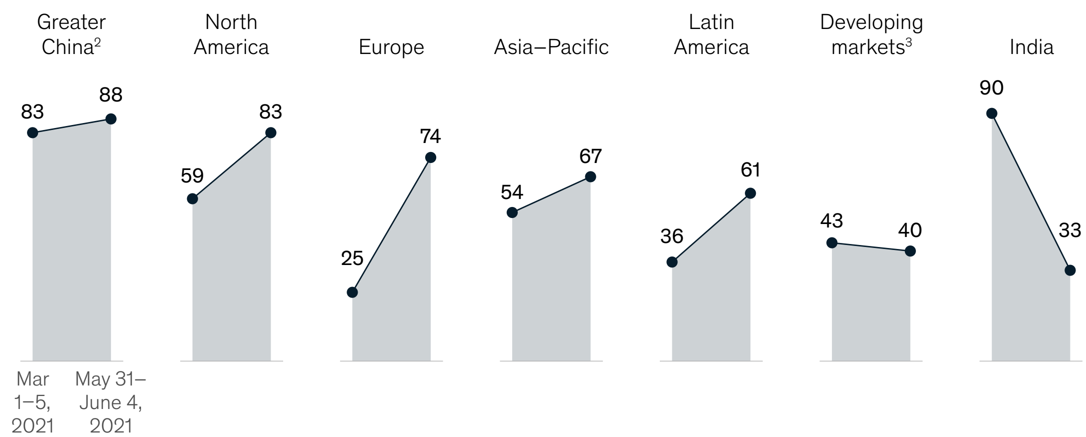
In many regions, majorities of respondents (and larger shares than in March) say their home economies have improved in recent months—most notably in Europe, where respondents are nearly three times as likely as in March to report improvements (Exhibit 3). By contrast, one-third of executives in India report improved conditions, down from 90 percent who said so last quarter. In developing markets, 40 percent of respondents say their home economies have improved, while 55 percent report worsening conditions.

Likewise, respondents report significant improvements in the world economy, with 70 percent saying global economic conditions are better now than they were six months ago—the largest share to say so since we began asking the question more than ten years ago. And while emerging-economy respondents have been much more positive about the global economy than their developed-economy peers throughout the pandemic, their views are now nearly the same (Exhibit 4).

Exhibit 3

In most regions, a majority of respondents say their home economies have improved in recent months.

Share of respondents who say economic conditions in their countries are better than 6 months ago,[1] region by office, %

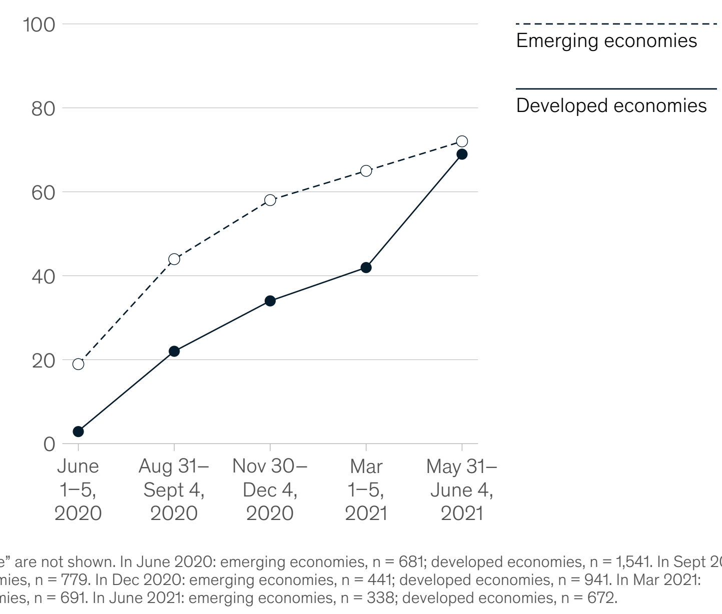


[1]Respondents who answered "the same" or "worse" are not shown. In Mar 2021: Greater China, n = 117; North America, n =210; Europe, n = 377; Asia–Pacific, n = 108; Latin America, n = 67; developing markets, n = 70; India, n = 69. In June 2021: Greater China, n = 114; North America, n = 203; Europe, n = 362; Asia–Pacific, n = 109; Latin America, n = 62; developing markets, n = 79; India, n = 81.
[2]Includes Hong Kong and Taiwan.
[3]Includes Middle East, North Africa, South Asia, and sub-Saharan Africa.

Exhibit 4

The gap between emerging-economy and developed-economy views on global conditions has narrowed.

Share of respondents who say conditions in the global economy are better than 6 months ago,[1] region by office, %



[1]Respondents who answered "the same" or "worse" are not shown. In June 2020: emerging economies, n = 681; developed economies, n = 1,541. In Sept 2020: emerging economies, n = 359; developed economies, n = 779. In Dec 2020: emerging economies, n = 441; developed economies, n = 941. In Mar 2021: emerging economies, n = 327; developed economies, n = 691. In June 2021: emerging economies, n = 338; developed economies, n = 672.

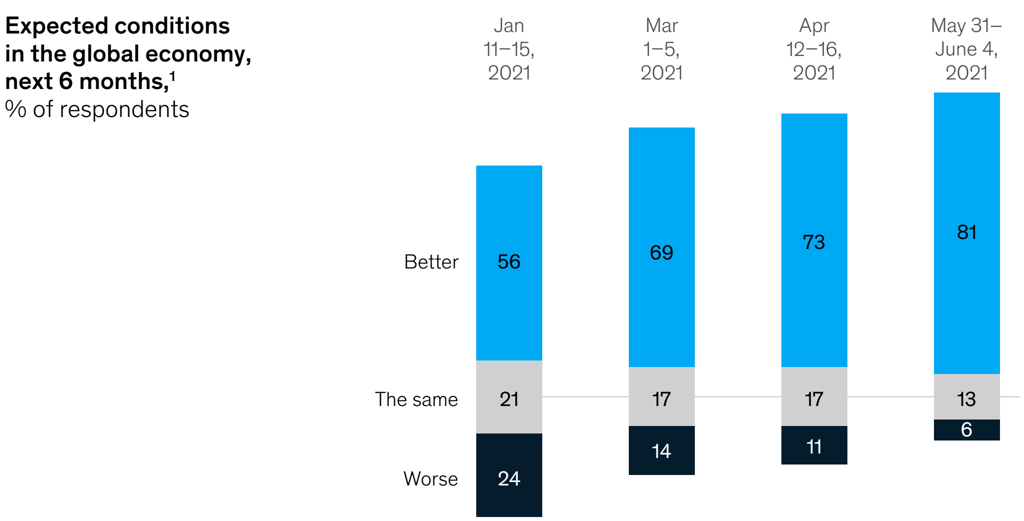
While emerging-economy respondents have been much more positive about the global economy than their developed-economy peers throughout the pandemic, their views are now nearly the same.

Executives are more optimistic than ever

When asked about the months ahead, respondents report an even more positive outlook. Seventy-nine percent expect conditions in their home countries to improve in the next six months, and a majority of respondents in each region—even in India and other developing markets—expect improvements. Their global outlook is even more positive, and increasingly so, with 81 percent predicting improvements in the months ahead (Exhibit 5).

Exhibit 5

Throughout 2021, executives' outlook on the global economy has been increasingly optimistic.



[1]Figures may not sum to 100%, because of rounding. January 2021, n = 1,025; March 2021, n = 1,018; April 2021, n = 1,199; and June 2021, n = 1,010.

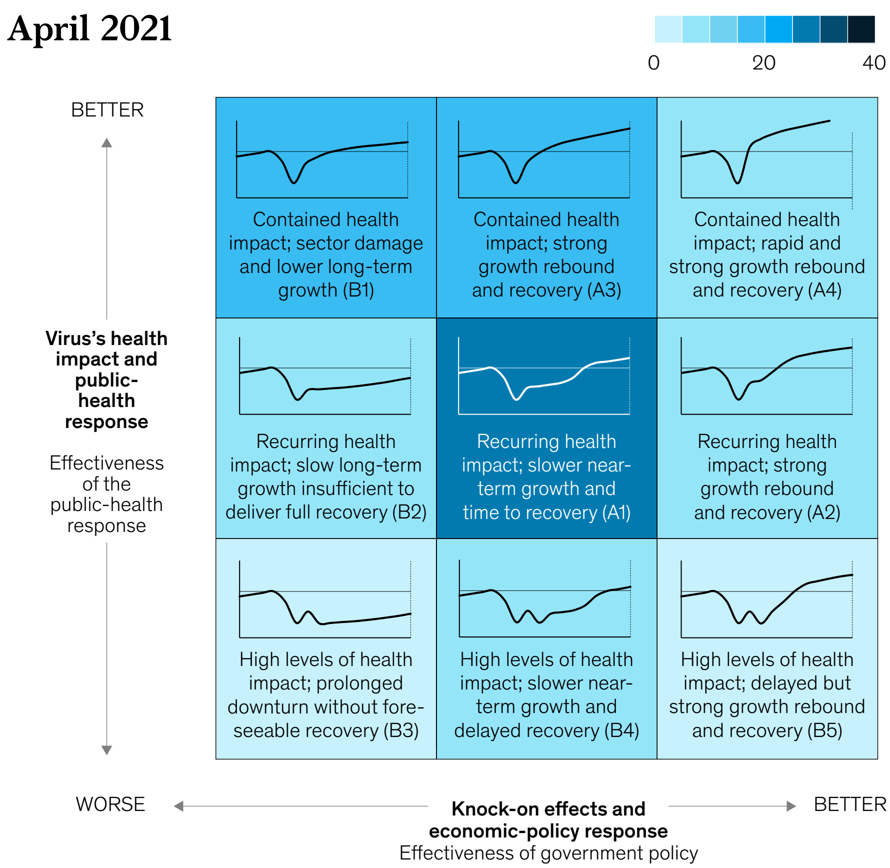
In another sign of optimism, respondents have chosen a more growth-oriented scenario as the likeliest outcome for their own economies—and compared with April, all three of the scenarios involve effective control of COVID-19, rather than recurrences of or failures to contain the virus (Exhibit 6).

We asked about nine scenarios on the pandemic's economic impact, and for the first time since July 2020, A3 (characterized by containment of the virus's public-health impacts and a strong growth rebound and recovery) is cited most often—by 25 percent of respondents, up from 17 percent who said so in April. A3 replaces A1 (localized recurrences of the virus's impact on health and slower near-term growth) as the most likely scenario. Only 19 percent of respondents now rank A1 as most likely, down from 29 percent previously.

Exhibit 6

Respondents now rank three virus-containment scenarios as more likely—a change from the previous survey.

Scenarios for the COVID-19 pandemic's impact on GDP in respondents' countries,[1] % of respondents who rank each scenario as most likely

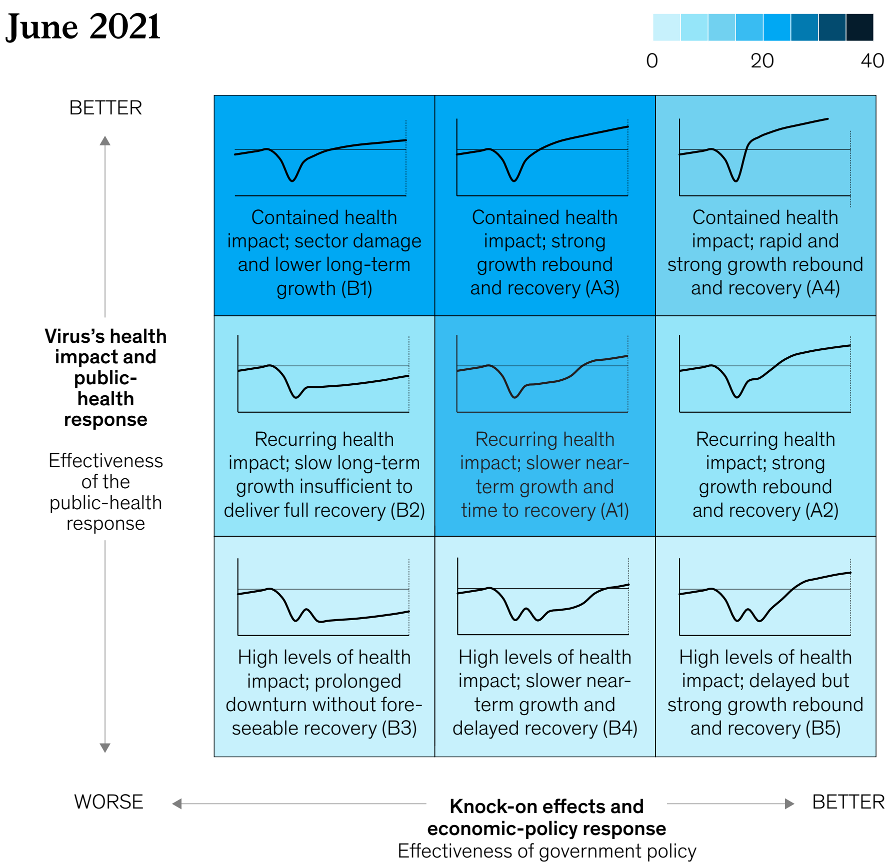


[1]April 2021, n = 1,158; June 2021, n = 974.

Exhibit 6 (continued)

Respondents now rank three virus-containment scenarios as more likely—a change from the previous survey.

Scenarios for the COVID-19 pandemic's impact on GDP in respondents' countries,[1] % of respondents who rank each scenario as most likely



[1]April 2021, n = 1,158; June 2021, n = 974.

Finally, respondents say that their own companies' prospects continue to improve. An increasing share expect that their workforce sizes will grow in the next few months, while 74 percent expect that company profits *and* demand for their companies' offerings will increase in the next six months. On the demand front, this is the largest share to predict an increase since we began asking the question in April 2009.

The contributors to the development and analysis of this survey include **Alan FitzGerald**, a director of client capabilities in McKinsey's New York office; **Vivien Singer**, a capabilities and insights expert at the Waltham Client Capabilities Hub; and **Sven Smit**, a cochair and director of the McKinsey Global Institute and a senior partner in the Amsterdam office.

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