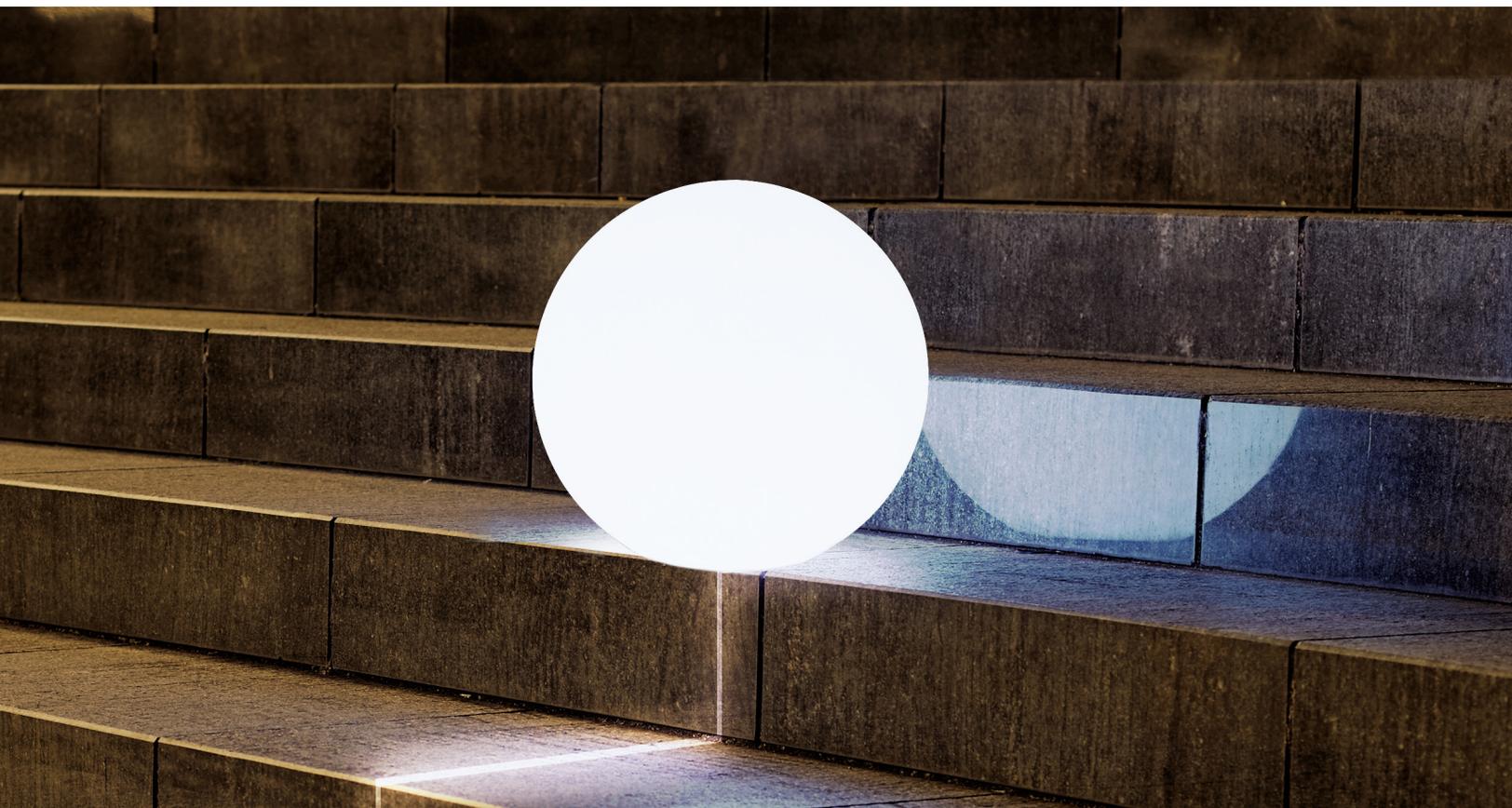


Strategy & Corporate Finance Practice

Economic conditions outlook, September 2021

Executives' sentiment on economic conditions continues to be positive, even as concerns mount—yet again—over the pandemic's threat to growth.



Eighteen months into the COVID-19 pandemic, executives' responses to our latest McKinsey Global Survey suggest that they believe the economy is on track toward a recovery.¹ Throughout 2021, their views have, on average, been consistently positive: the economy is improving, and the future is brighter still. Compared with one year ago, respondents are more than twice as likely to say economic conditions in their home countries are better now than they were six months ago.

Yet with the Delta variant affecting so many parts of the world, worries over the pandemic's effects on the economy have resurfaced—just one quarter after a historically low share of respondents cited it as a risk to domestic economic growth.² Respondents are also more likely to identify supply-chain disruptions and inflation as risks. Compared with respondents in emerging economies, their peers in developed economies more often cite all three of these issues as threats to growth. They are also generally less upbeat about the economy and about their own companies' prospects in the months ahead.³

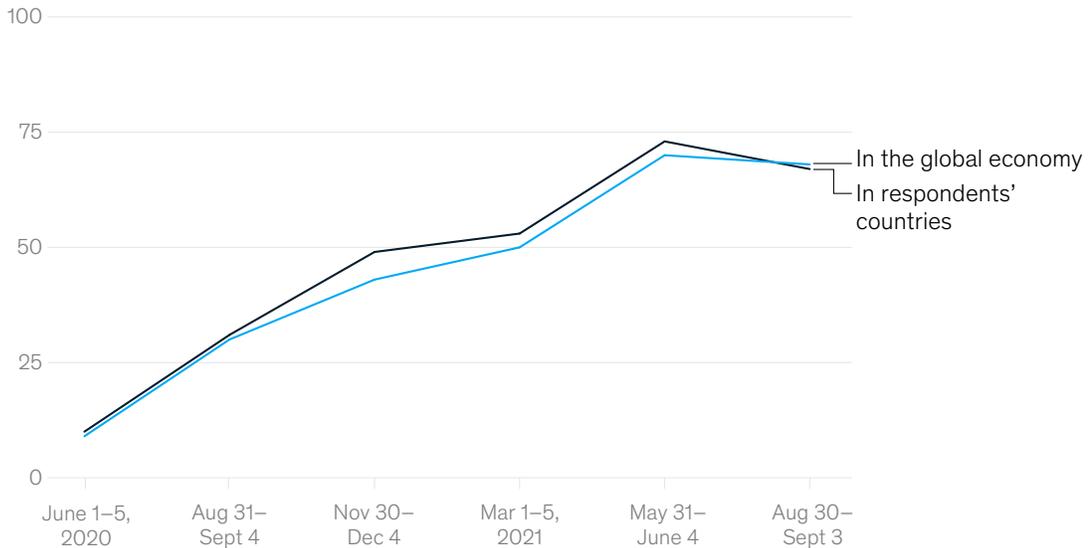
Overall sentiment is consistently positive

Respondents in our latest survey continue to report largely positive views on the economy, at home and globally. Although after several consecutive surveys showing increasing confidence, the shares reporting improvements did not grow since last quarter (Exhibit 1). Sixty-seven percent of all respondents say conditions in their own economies have improved, down from 73 percent in June.

Exhibit 1

After several surveys of increasingly upbeat views, the shares reporting an improvement in economic conditions did not grow since last quarter.

Respondents who say economic conditions are better now than 6 months ago,¹ %



¹ In June 2020, n = 2,222; Sept 2020, n = 1,138; Dec 2020, n = 1,382; Mar 2021, n = 1,018; June 2021, n = 1,010; Sept 2021, n = 958. Respondents who answered "the same" or "worse" are not shown.

¹ The online survey was in the field from August 30 to September 3, 2021, and garnered responses from 958 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 outlook, June 2021," June 29, 2021, McKinsey.com.

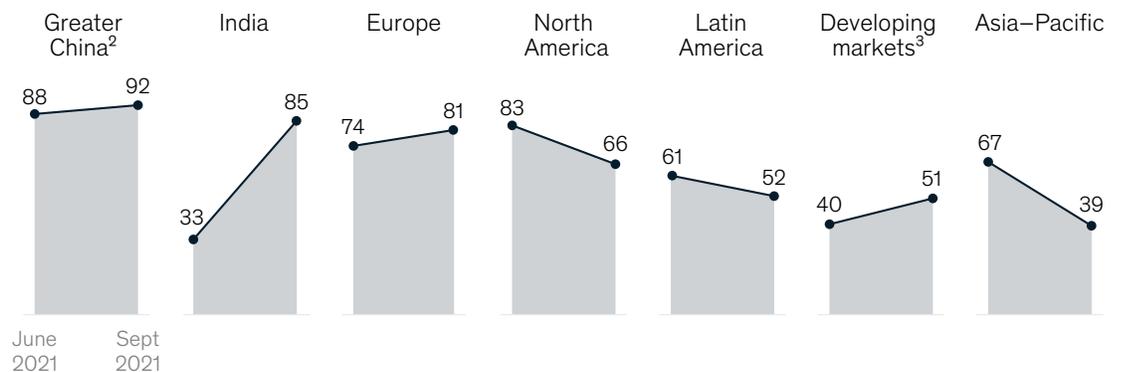
³ Includes Middle East, North Africa, South Asia, and sub-Saharan Africa.

Across geographies, majorities of respondents in every region but Asia–Pacific (where views are much more downbeat now than in June) say economic conditions in their home countries have improved in the past six months (Exhibit 2). Most notably since last quarter: sentiments in India have bounced back dramatically. Eighty-five percent of executives there now report improvements in their economy, up from 33 percent who said so previously. And while respondents in North America are less bullish than they were in June, two-thirds of respondents there still say conditions are better now than six months ago.

Exhibit 2

In nearly every region, most respondents say their home economies are better now than six months ago—with a dramatic upturn in India.

Respondents who say economic conditions in their home countries are better than 6 months ago,¹ %



¹ Respondents who answered “the same” or “worse” are not shown.

² Includes Hong Kong and Taiwan.

³ Includes Middle East, North Africa, South Asia, and sub-Saharan Africa.

Meanwhile, expectations for improved economic conditions are holding steady, or even declining. Respondents are just as likely as in our July survey (71 percent) to predict that conditions in the global economy will improve in the next six months, down from an all-time high of 81 percent who said so in the previous quarter.⁴ When asked about their countries’ economic prospects, 65 percent of respondents now say they expect improvements in their home economies, down from a range of 73 percent to 79 percent who have said so since March 2021. In some regions (namely, Europe and North America), views on the economy’s prospects are less buoyant than views on its present state. Fifty-one percent of respondents in North America believe economic conditions at home will improve in the next six months, compared with 66 percent who report improvements in the *past* six months.

⁴ Since March 2011, we have asked respondents how they expect conditions in the global economy to change over the next six months. In the COVID-19 pandemic’s second year, record shares of respondents have predicted improvements in the global economy (starting in March 2021, with 69 percent of respondents); before then, the largest share to predict improvements was in December 2020 (62 percent).

The economic risk of the COVID-19 pandemic resurfaces

Respondents increasingly see the COVID-19 pandemic as a threat to future economic growth in their countries. Last quarter, just 36 percent cited the pandemic as a risk to domestic growth over the next year—the smallest share to say so since we began asking in March 2020. Now 49 percent of respondents say the same, up from 42 percent in our July survey.

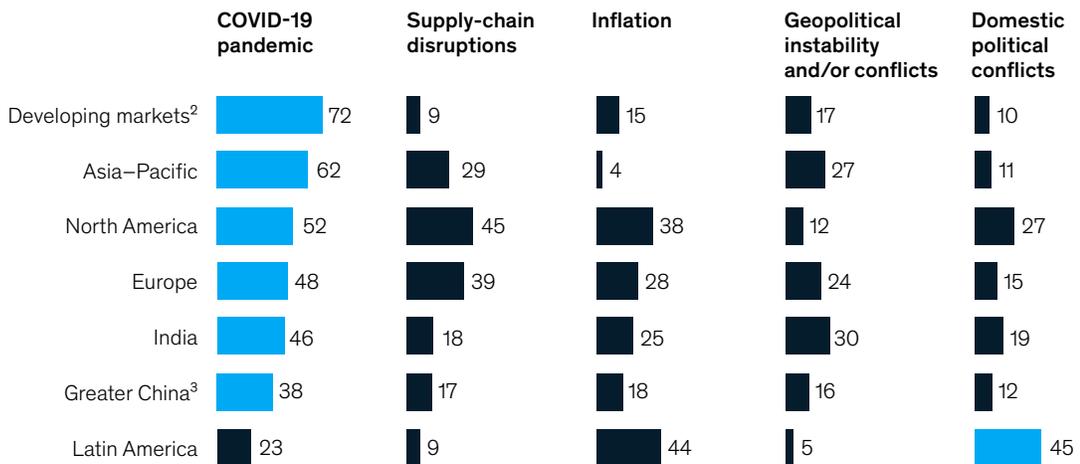
The pandemic is followed by supply-chain disruptions and inflation, which were also among the top three risks to domestic growth in the past two surveys. By region, the pandemic is the top risk to growth in every region except Latin America and cited most often by those in developing markets and Asia–Pacific (Exhibit 3).

Exhibit 3

In most parts of the world, the COVID-19 pandemic poses the biggest risk to domestic growth.

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

■ Top cited risk



¹ Out of 18 risks that were presented as answer choices. Developing markets, n = 59; Asia–Pacific, n = 141; North America, n = 197; Europe, n = 331; India, n = 67; Greater China, n = 92; Latin America, n = 71.

² Includes Middle East, North Africa, South Asia, and sub-Saharan Africa.

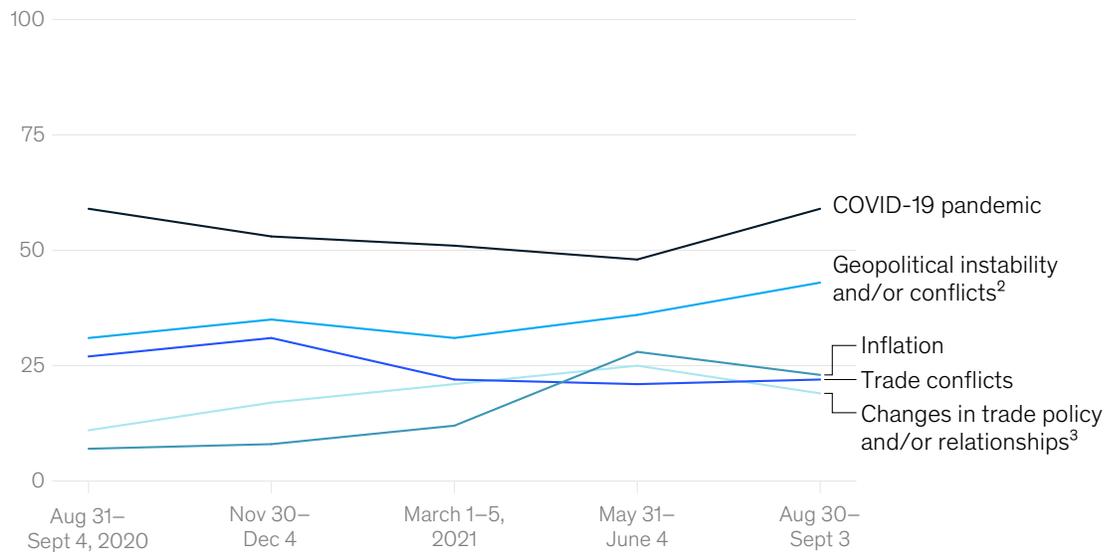
³ Includes Hong Kong and Taiwan.

The pandemic is now considered a more acute risk to global growth as well, after the share citing it has steadily declined in the past year (Exhibit 4). It's cited by 59 percent of all respondents as a top risk to global economic growth, followed by geopolitical instability (43 percent)—which has also risen in the ranks in the latest survey.

Exhibit 4

Concerns about the COVID-19 pandemic as a risk to global growth have returned.

Potential risks to growth in global economy, next 12 months,¹ % of respondents



¹ Out of 16 risks that were presented as answer choices; in Sept 2020, n = 1,138; Dec 2020, n = 1,382; Mar 2021, n = 1,018; June 2021, n = 1,010; Sept 2021, n = 958.

² Until 2021, the answer choice was "Geopolitical instability."

³ Until 2021, the answer choice was "Changes in trade policy."

In developed economies, perceptions are less positive

The latest results suggest that last quarter's outsize optimism among developed-economy respondents—who, in June, reported much more positive sentiment than their peers in emerging economies—was short lived. Now, respondents in emerging economies are again more likely to say that conditions have improved in their home economies, continuing the upward trend we've seen for much of the pandemic (Exhibit 5); that conditions have improved in the world economy; and that they believe domestic and global conditions will improve further in the months ahead.

Exhibit 5

Emerging-economy executives continue to report increasingly positive views about their home countries, in contrast to their developed-economy peers.

Respondents who say economic conditions in their home countries are better than 6 months ago,¹%



¹ Respondents who answered “the same” or “worse” are not shown.

This is true despite greater concerns over unemployment in emerging economies. On average, respondents still expect that a decrease in their countries’ unemployment rates is more likely than an increase.⁵ Yet in emerging economies, 45 percent of executives believe their unemployment rates will increase, versus 18 percent in developed economies who say so. We saw similar results in July, when emerging-economy respondents were more than twice as likely as developed-economy respondents to expect their unemployment rates to rise.

With respect to risks, the COVID-19 pandemic is also seen as a more prominent threat to growth within developed economies. Fifty-two percent of executives in those economies cite the pandemic as a risk to growth in their own countries, compared with 45 percent in emerging economies. It’s nearly double the share who said so last quarter, when only 28 percent of developed-economy respondents—versus 50 percent in emerging economies—cited the pandemic.

⁵ Forty-five percent of all respondents say they expect that the unemployment rate in their home countries will decrease in the next six months, and 27 percent expect it will increase. In our July survey, 54 percent expected unemployment to decrease, while 26 percent expected it to increase.

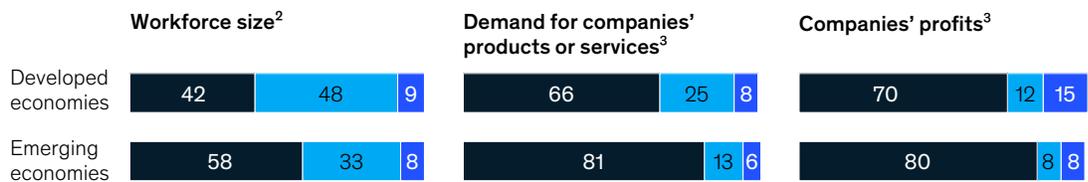
Finally, respondents in developed economies are less bullish than others on the company front (Exhibit 6). They are much less likely than their emerging-economy peers to expect the size of their companies' workforces to increase in the next six months, to expect an increase in demand for their companies' products and services, and to expect an increase in company profits.

Exhibit 6

Respondents in developed economies are less bullish than others about their companies' prospects.

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

■ Increase ■ Stay the same ■ Decrease



¹ Respondents who answered "don't know" are not shown.

² Developed economies, n = 643; emerging economies, n = 315.

³ Question was asked only of respondents in private-sector companies. Developed economies, n = 572; emerging economies, n = 294.

The survey content and analysis were developed by **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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