

Strategy & Corporate Finance Practice

Economic conditions outlook during turbulent times, December 2022

Sentiments on the global economy have lifted after a negative turn in June, though executives remain uneasy. They continue to see geopolitical conflicts and inflation as top economic threats.



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For the third consecutive quarter, executives responding to the latest McKinsey Global Survey on economic conditions remain more wary about the future of the global economy and their countries' economies than they were at the start of 2022.¹ However, respondents are less likely now than in the previous two surveys to report worsening global conditions—or to expect them in the months ahead. They continue to point to geopolitical conflicts and inflation as the most pressing economic risks over the next year, while concerns about rising interest rates grow domestically.

In the latest survey, we also asked about much longer-term risks: potential global forces that might affect organizations over the next 20 years. Respondents say technical innovation and energy and natural resource

considerations are the two most likely to affect their organizations, and most say their organizations are taking steps to prepare for each of those factors.

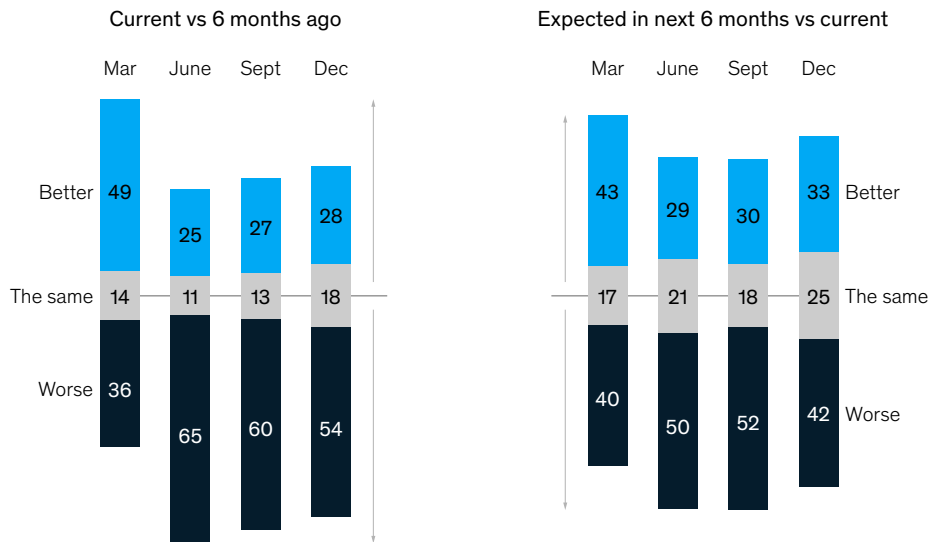
Pessimism over global conditions lessens, but concerns linger

At the outset of 2022, executives were more likely to be positive than negative about current conditions and prospects for the global economy and their countries' economies. Views became more somber in the June survey. Since June, respondents have become less negative about the global economy. They are much more likely now than in June to report improvement or stable conditions and to expect conditions to improve or stay the same over the next six months (Exhibit 1), though they remain

Exhibit 1

Assessments of the global economy remain more downbeat than in early 2022 but are more positive than in June and September.

Global economic conditions, % of respondents¹



¹Figures may not sum to 100%, because of rounding. In Mar 2022, n = 785; in June 2022, n = 899; in Sept 2022, n = 1,247; and in Dec 2022, n = 1,192. Source: McKinsey Global Survey on economic conditions, 1,192 participants at all levels of the organization, Nov 28–Dec 2, 2022

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¹ The online survey was in the field from November 28 to December 2, 2022, and garnered responses from 1,192 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.

more likely to expect declining than improving conditions.

On the other hand, respondents' views on their countries' economies overall remain largely unchanged from the June and September surveys (Exhibit 2). Respondents continue to be about as likely to expect improvement in their economies as they are to expect declining conditions over the coming months. We see just a few notable changes by region. Respondents in North America have grown more likely since June to expect domestic conditions to improve, while the reverse is true among Asia-Pacific respondents.

Continuing concerns about geopolitical conflicts and inflation

Looking at risks to global economic growth over the next 12 months, geopolitical conflicts remain

the top-cited risk for the fourth survey, while inflation continues to be the second-most-cited global threat and the top concern domestically (Exhibit 3).

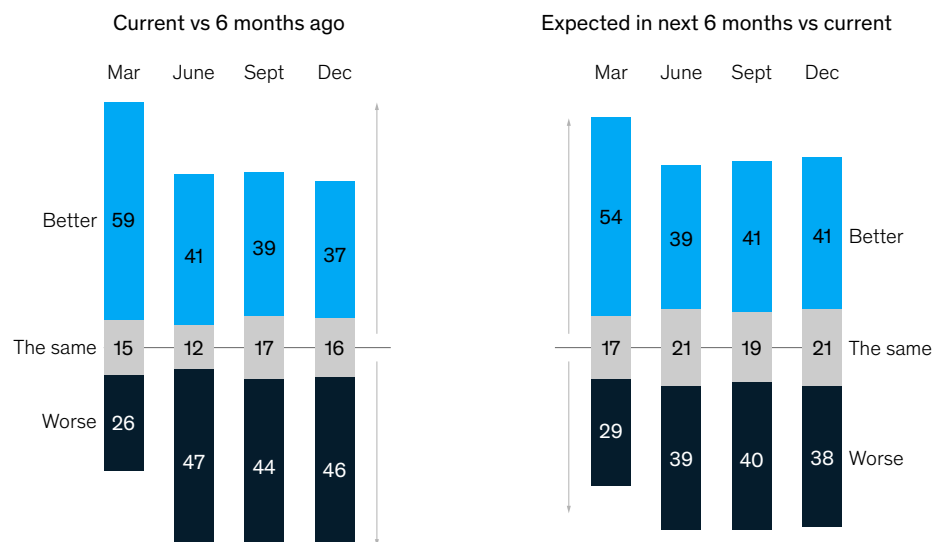
As 2022 comes to an end, the latest survey shows rising interest rates as a growing concern domestically, surpassing concerns over energy price volatility, the second-most commonly cited risk in June and September. Most respondents (63 percent) expect interest rates in their countries to increase over the next six months.

The latest survey shows regional shifts in what respondents see as the main risks to their countries' growth. Among respondents in Europe, the risk from volatile energy prices reported in September has dropped from the top concern to the third-most-cited risk among respondents in the latest survey, behind inflation and geopolitical

Exhibit 2

Survey respondents' views on their countries' economies are largely unchanged since June.

Economic conditions in respondents' countries, % of respondents¹

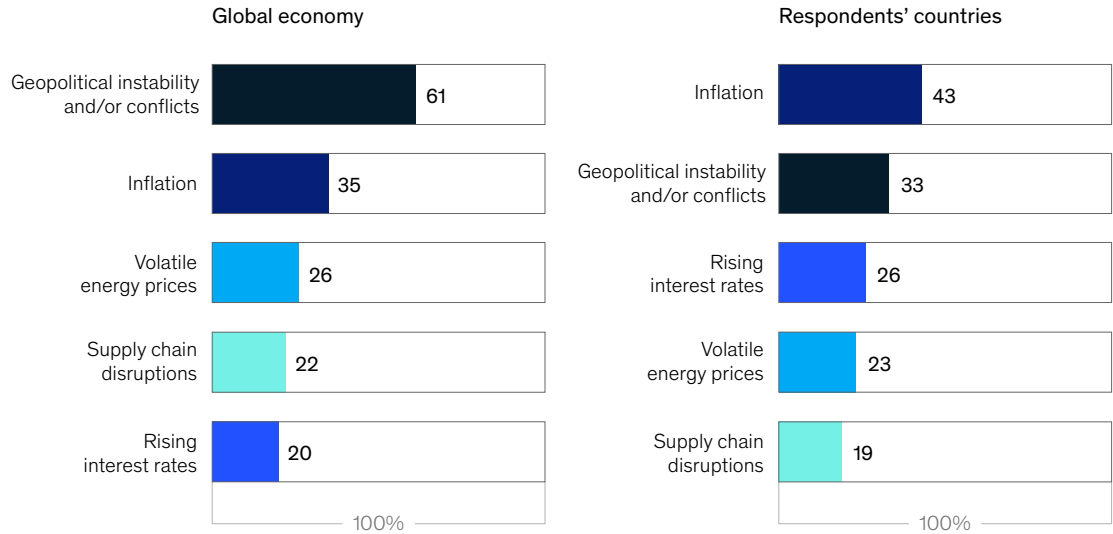


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Exhibit 3

Geopolitical instability and inflation remain survey respondents' top-cited risks to economic growth globally and domestically.

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



¹Out of 18 risks that were presented as answer choices; n = 1,192.
Source: McKinsey Global Survey on economic conditions, 1,192 participants at all levels of the organization, Nov 28–Dec 2, 2022

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instability (Exhibit 4). In Asia–Pacific, as more interest rate hikes hit the market, respondents are now almost twice as likely as in September to cite rising interest rates as a risk. Greater

China remains an outlier as the only region in which respondents most often cite the COVID-19 pandemic as a top risk, followed by inflation.²

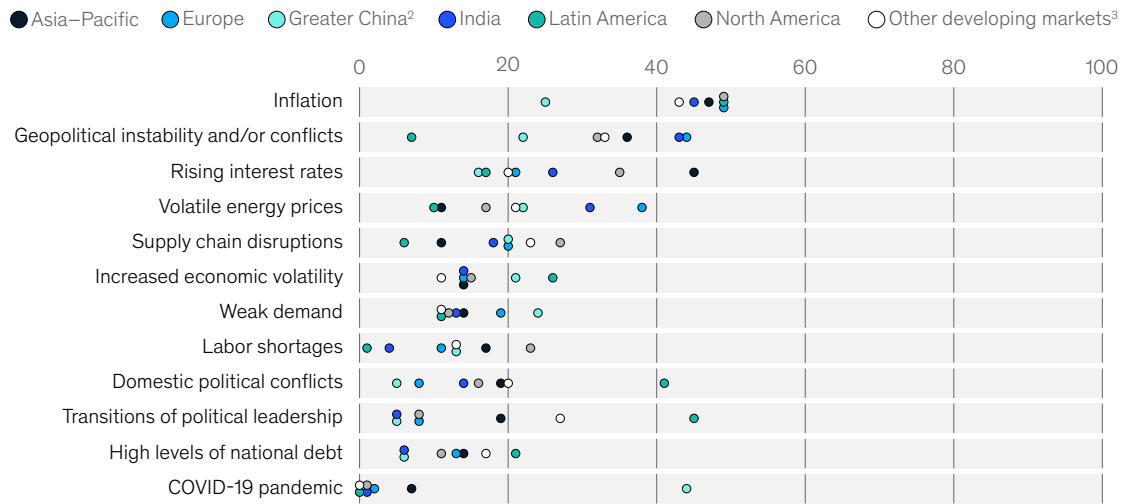
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² Greater China includes Hong Kong and Taiwan. The survey was in the field the week before the Chinese government announced a rollback of COVID-19 policies that used lockdowns to limit the spread of the virus.

Exhibit 4

Inflation continues to be top of mind as a risk to survey respondents' domestic economies in all regions except Greater China.

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



¹Out of 18 risks that were presented as answer choices. In Asia–Pacific, n = 126; in Europe, n = 405; in Greater China, n = 111; in India, n = 84; in Latin America, n = 70; in North America, n = 304; and in other developing markets, n = 92.
²Includes Hong Kong and Taiwan.
³Includes Middle East, North Africa, South Asia, and sub-Saharan Africa.
 Source: McKinsey Global Survey on economic conditions, 1,192 participants at all levels of the organization, Nov 28–Dec 2, 2022

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Preparations to tackle global forces in the coming decades

When thinking about the externalities that might have the greatest effects on organizations over the next 20 years, respondents most often point to technical innovation, followed by energy and natural resource considerations—and, of the potential forces that could affect organizations, those are the two that respondents most often say their organizations are taking significant steps to prepare for (Exhibit 5). The survey also shows some regional differences in organizations'

preparations. Respondents in Greater China, for example, are much more likely than others to say their organizations are taking significant steps to prepare for changes in the world order, such as multipolarity or regionalization, as well as energy and natural resource considerations such as net-zero initiatives. Respondents in Greater China and in other countries in Asia–Pacific are more likely than others to say their organizations are taking significant steps to prepare for financial changes as a result of debt, currency fluctuation, and new growth.

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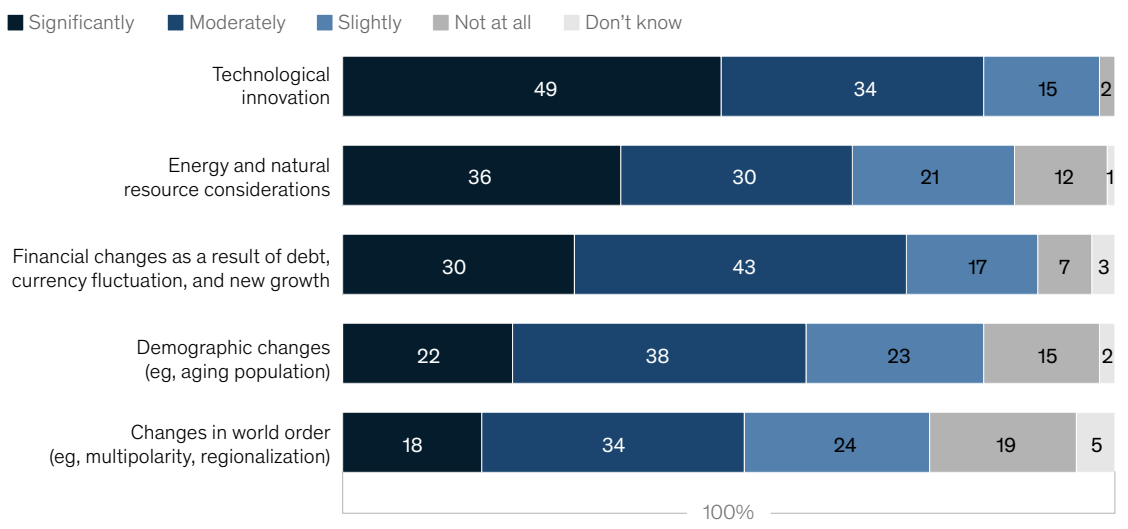


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Exhibit 5

Organizations are preparing for the global forces that survey respondents see as most likely to affect their organizations in the coming decades.

Extent to which respondents' organizations are preparing for given potential global force, % of respondents



Source: McKinsey Global Survey on economic conditions, 1,192 participants at all levels of the organization, Nov 28–Dec 2, 2022

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