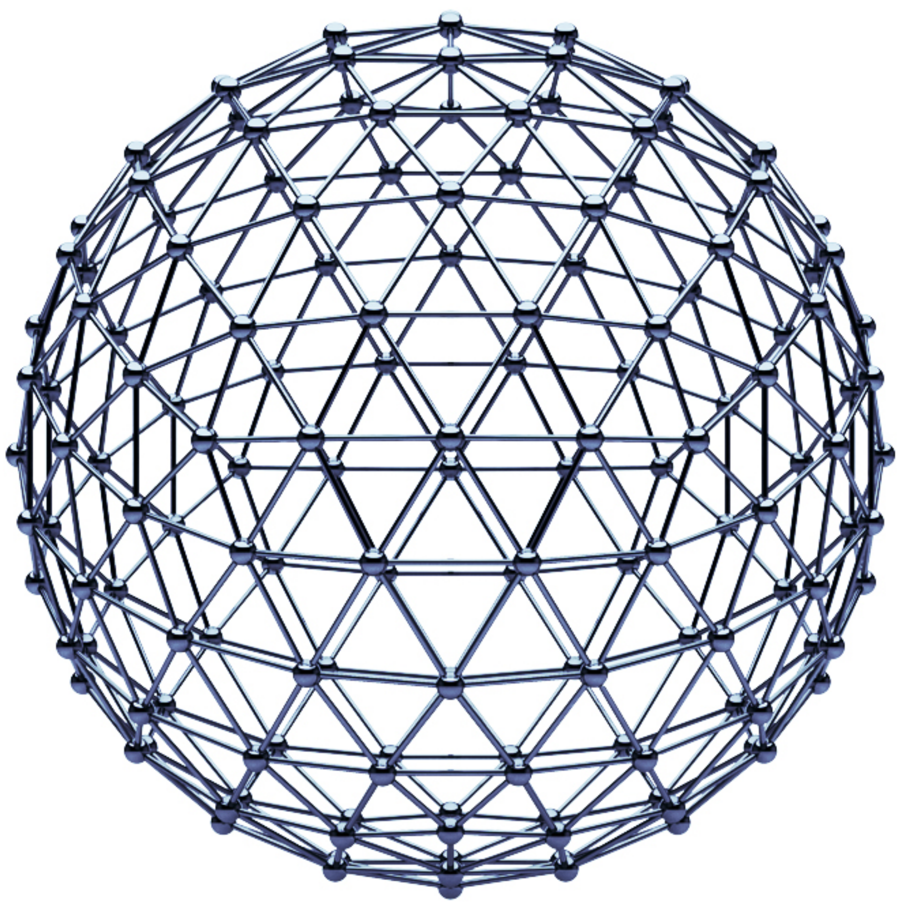
McKinsey & Company

Strategy & Corporate Finance Practice

Economic Conditions Snapshot, December 2020: McKinsey Global Survey results

Executives' views on the economy continue to brighten as they look ahead to 2021.



December 2020

In our latest McKinsey Global Survey on the economy,[1] executives are ending a year of global crisis and profound uncertainty on a relatively positive note. Their views on current economic conditions continue to improve, and their predictions for the future—and for their own companies' prospects—remain much more optimistic than not. Executives in Europe, North America, and developing markets[2] report more acute concerns than others about the economy, and those in Europe remain especially worried about unemployment. But even these respondents are less downbeat than they were in the previous quarter.

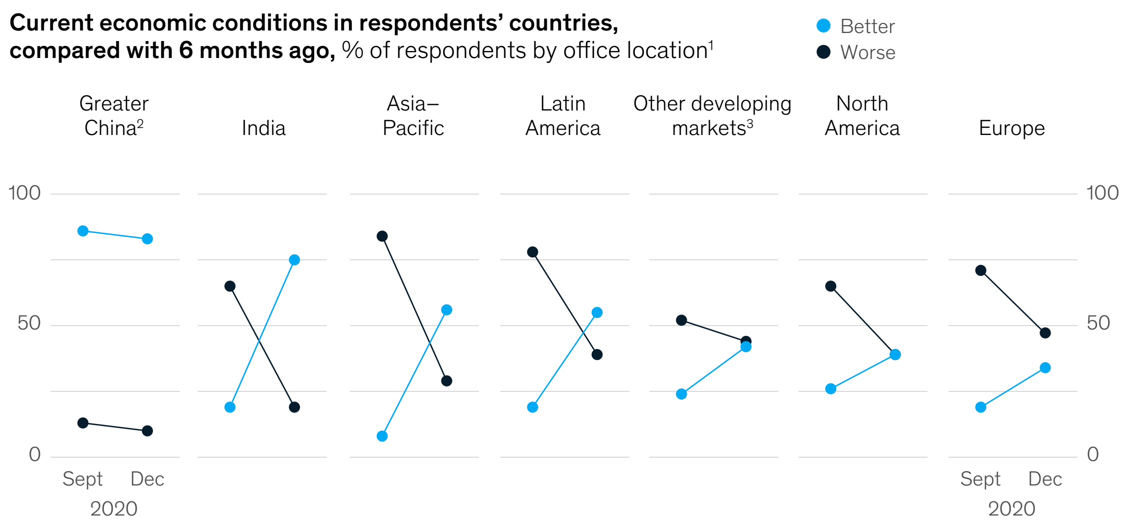
When asked about potential economic risks in the next year, respondents most often name the COVID-19 pandemic as a threat to global and country-level growth. For their companies, respondents cite industry-wide competition and disruptions as growing risks in 2021.

Overall improvements in economic sentiment, with some regional unease

In the latest survey, executives' sentiment about their own economies continues to improve: half of all respondents say conditions at home are better now than six months ago, up from 30 percent in September and 11 percent in June. Across geographies, those in Greater China[3] remain the most positive (as they have been since June), and respondents in every other region more often report improvements than did in the previous quarter (Exhibit 1).

Exhibit 1

Since September 2020, respondents' views on their home economies have improved in nearly every region.



[1]Respondents who answered "the same" are not shown. In Sept 2020, Greater China, n = 103; India, n = 74; Asia–Pacific, n = 136; Latin America, n = 80; other developing markets, n = 84; North America, n = 259; Europe, n = 402. In Dec 2020, Greater China, n = 114; India, n = 101; Asia–Pacific, n = 146; Latin America, n = 95; other developing markets, n = 109; North America, n = 322; Europe n = 495.
[2]Includes Hong Kong and Taiwan.
[3]Includes Middle East, North Africa, South Asia, and sub-Saharan Africa.

[1] The online survey was in the field from November 20 to December 4, 2020, and garnered responses from 1,382 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] Includes Middle East, North Africa, South Asia, and sub-Saharan Africa.
[3] Includes Hong Kong and Taiwan.

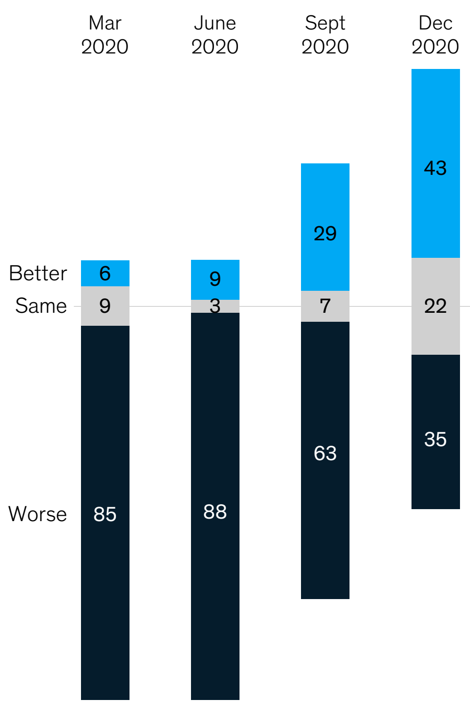
The upturn is most dramatic in India, where three-quarters of respondents report improvements—up from 19 percent three months ago. At the same time, executives in Europe, North America, and developing markets are more downbeat than the rest. Europe and developing markets are the only regions where respondents are much more likely to report worse than improved conditions.

With respect to the world economy, executives' views are the most sanguine they've been in 2020. For the first time this year, respondents are more likely to report improvements than declines (Exhibit 2), and they are much more likely now than in earlier surveys to say conditions have stabilized.

Exhibit 2

For the first time in 2020, respondents are likelier to report improvement than decline in the world economy.

Current conditions in global economy, compared with 6 months ago, % of respondents



Note: Figures may not sum to 100%, because of rounding. In Mar 2020, n = 1,152; in June 2020, n = 2,222; in Sept 2020, n = 1,138; in Dec 2020, n = 1,382.

As we saw in the previous quarter, emerging-market executives remain more positive than their developed-economy peers about the global economy. In emerging markets,[4] respondents are more than twice as likely to report improved global conditions as declines (58 percent, versus 26 percent), while in developed economies, a larger share of respondents report worse conditions (40 percent) than improvements (34 percent) in the world economy.

A brighter outlook for 2021

Looking ahead to next year, respondents' economic expectations are increasingly positive: 63 percent say their countries' economies will be better six months from now, up from 54 percent who said the same in mid-October.[5] Across regions, respondents in Greater China and India are the most positive, as they were in the past three surveys. Even in Europe and North America, where respondents are not as upbeat as their peers about *current* economic conditions, majorities of executives predict that conditions at home will improve in the next six months.

Meanwhile, the global outlook has bounced back. After some peaks and valleys in recent surveys, 61 percent of respondents now predict global conditions will improve in the months ahead (Exhibit 3). What's more, respondents are the likeliest they have been in the last three years to expect the global economy's growth rate will increase. Sixty-eight percent predict increasing growth now, with only 24 percent predicting a contraction—the smallest share to say so all year.

Executives also remain optimistic, and increasingly so, about their companies' prospects. For the first time this year, respondents are more likely to say the size of their workforces will increase than to predict a decrease (Exhibit 4). Thirty-four percent predict a growth in workforce size, up from 29 percent in September and 19 percent in June.

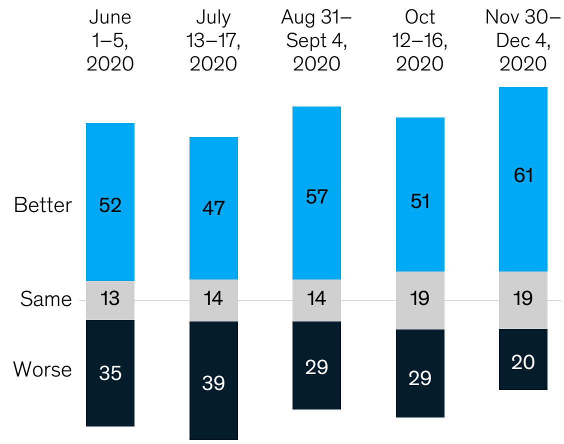
Expectations for growth are most likely in every region except for developing markets and for Europe, where executives report broader employment concerns. Respondents' overall expectations for

[4] Includes ASEAN, China, India, Latin America, and other developing markets.
[5] "The coronavirus effect on global economic sentiment," October 2020, McKinsey.com.

Exhibit 3

Respondents' outlook for the global economy has again improved, after peaks and valleys in recent survey results.

Expected conditions in global economy, next 6 months, % of respondents

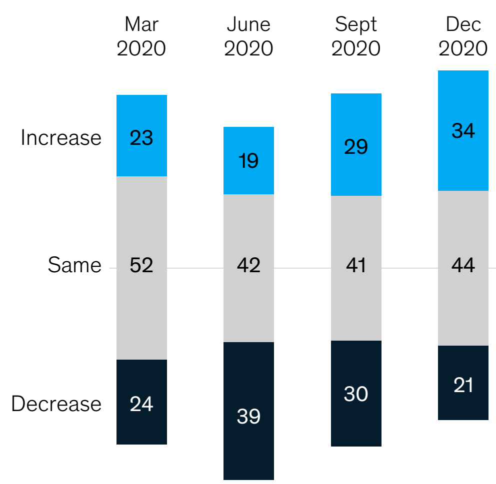


Note: Figures may not sum to 100%, because of rounding. In June 2020, n = 2,222; in July 2020, n = 2,112; in Sept 2020, n = 1,138; in Oct 2020, n = 2,264; in Dec 2020, n = 1,382.

Exhibit 4

Respondents are more likely to predict growth than decline in their companies' workforce size.

Expected changes in organizations' workforce size, next 6 months, % of respondents



Note: Figures may not sum to 100%, because respondents who answered "don't know" are not shown. In Mar 2020, n = 1,152; in June 2020, n = 2,222; in Sept 2020, n = 1,138; in Dec 2020, n = 1,382.

unemployment have tempered since the last two quarters; for the first time since March, respondents are more likely to expect a steady or declining unemployment rate in their home countries than to predict an increase. However, 63 percent of executives in Europe say their countries' unemployment rates are likely to increase over the next six months, compared with just 41 percent of respondents in the rest of the world.

Interestingly, amid the rising positivity in other results, respondents' views on nine crisis-related economic scenarios are holding fairly steady over time.[6] As in the previous survey, scenario A1 (characterized by localized recurrences of the virus and partially effective economic-policy responses) is cited most often as the likely scenario for the global economy and for respondents' own economies. This is true even in Europe and North America, where respondents report more negative overall sentiment than their peers.

That said, the share of executives selecting A1 as the most likely global scenario has declined in the latest survey. One-quarter of all respondents now identify it as most likely, down from the 31 to 36 percent who have said so since our April 2020 survey. After A1, the largest share of respondents cite B1 as the most likely global scenario (20 percent), then B2 (cited by 16 percent).

The risks ahead

When asked about macroeconomic threats to growth in the next year, the COVID-19 pandemic remains atop the list for country-level and global economic growth. The pandemic is now identified more often as a risk to country growth than it was in the September and June surveys (now cited by 51 percent, up from 43 percent and 46 percent, respectively). It is followed by rising national debt and decreasing demand (tied at 23 percent). At the same time, social unrest has fallen out of the top-five risks, where it was in the past two quarters.

While COVID-19 is cited most often across regions as a threat to respondents' home economies, the number-two risks vary. Executives in Asia–Pacific and Europe cite decreasing demand second most often. In North America and Latin America, domestic political conflicts follow the pandemic. The number-two threat in Greater China and India is inflation, and in other developing markets, it is geopolitical instability.

For the first time this year, respondents are more likely to report improvements in the global economy than declines, and much more likely now than in earlier surveys to say global conditions have stabilized.

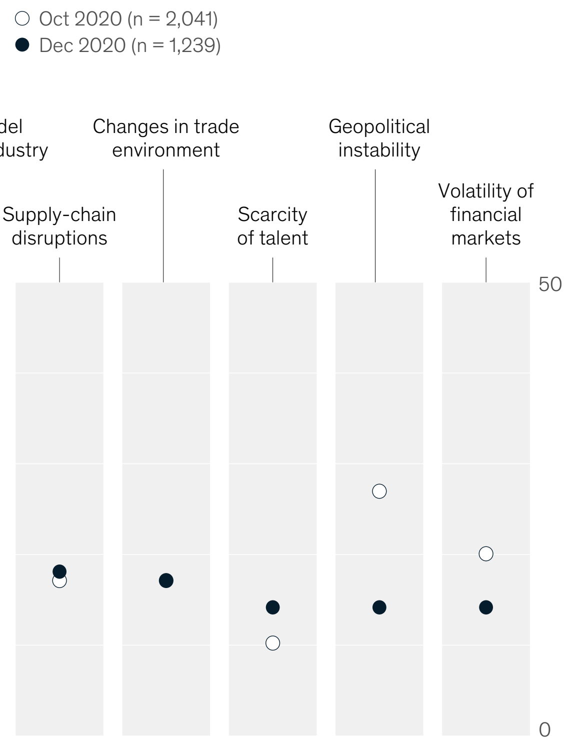
[6] Between the October and December surveys, McKinsey updated the GDP predictions for its nine COVID-19 economic scenarios to reflect GDP changes to date since March 2020, when the scenarios were first developed. For more on the original scenarios, see Kevin Buehler, Arvind Govindarajan, Ezra Greenberg, Martin Hirt, Susan Lund, and Sven Smit, "Safeguarding our lives and our livelihoods: The imperative of our time," March 2020, McKinsey.com.

Responses to our latest survey also suggest some shifts in the top risks to growth at respondents' own companies (Exhibit 5). Weakening demand and changing customer needs remain the top-two risks, as they have been in the previous four surveys. But the share of respondents citing demand concerns is the lowest it has been since March, and concerns over geopolitical instability and financial-market volatility are selected less often than in October. At the same time, industry competition has risen in the ranks: it's now selected fourth most often, compared with ninth in October. Competition and another industry-wide issue, business-model disruptions within respondents' sectors, together are now cited by 44 percent of respondents, up from 34 percent previously.

Exhibit 5

Respondents' concerns about potential risks to company growth have shifted since the previous survey.

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



[1]Out of 16 risks that were presented as answer choices.

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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