

Strategy & Corporate Finance Practice

Economic conditions outlook, December 2021

Executive sentiment ends the year on a generally positive note, with most survey respondents expecting 2022 to bring better economic conditions despite heightened risks from the pandemic and inflation.



Respondents to the latest McKinsey Global Survey on the economy end a largely optimistic year with mostly positive assessments of current conditions as well as expectations for 2022.¹ These relatively upbeat outlooks, both for the global economy and for respondents' countries, come despite a resurgence in concerns about the state of the COVID-19 pandemic: countries across Europe and North America had been reporting rising case numbers since early October,² and WHO declared the Omicron variant to be one of concern just days before the survey launched.³ Respondents—particularly those in Latin America and North America—also see inflation as a pressing economic threat, along with rising interest rates. Nearly two-thirds of respondents expect increasing rates in their countries in the first half of 2022—the largest share we've seen to date in our surveys.

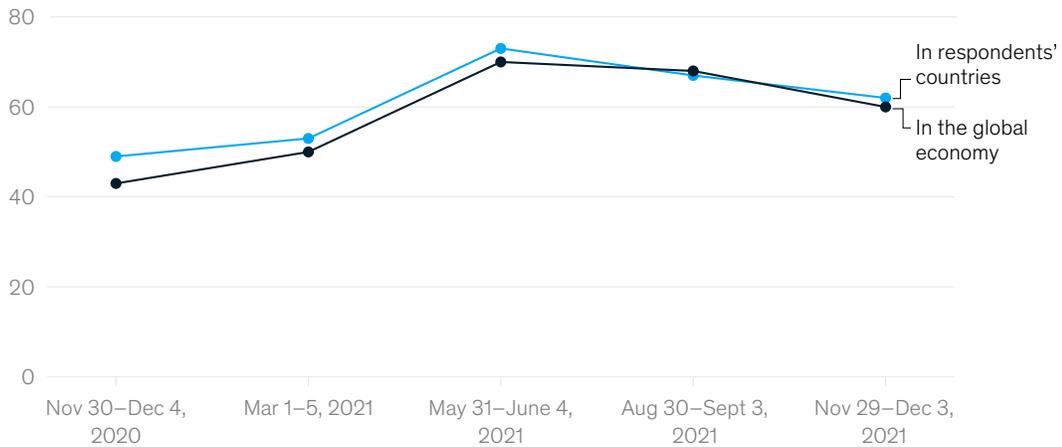
The year ends with positive sentiments but less optimism than midyear

A majority of respondents say conditions in the global economy are better than they were six months ago, as has been true throughout 2021. The current share, 60 percent, is much larger than the 43 percent who reported improved conditions one year ago, though executives' positivity has tempered since June (Exhibit 1). Respondents' assessments of their countries' economies tell a similar story. Sixty-two percent say country conditions are better than they were six months ago, up from 49 percent who said at the end of 2020 that their economies had improved.

Exhibit 1

Positive assessments of the economy remain more common than at the end of 2020, after peaking in June.

Respondents who say conditions in the economy are better now than 6 months ago,¹
 % of respondents



¹In Dec 2020, n = 1,382; Mar 2021, n = 1,018; June 2021, n = 1,010; Sept 2021, n = 958; Dec 2021, n = 955. Respondents who answered "the same" or "worse" are not shown.

¹ The online survey was in the field from November 29 to December 3, 2021, and garnered responses from 955 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 "Global Economics Intelligence executive summary, November 2021," McKinsey, December 6, 2021.

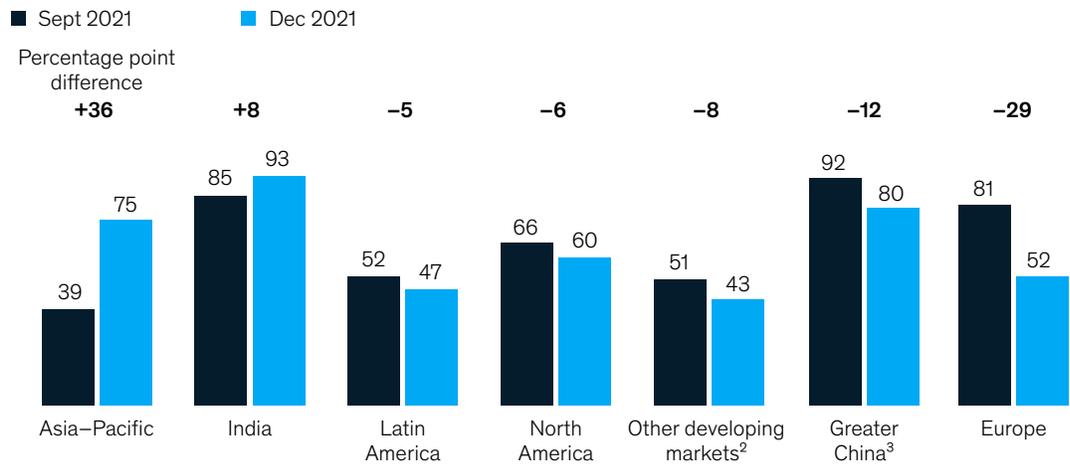
³ "Classification of Omicron (B.1.1.529): SARS-CoV-2 variant of concern," WHO, November 26, 2021.

Respondents in India, Greater China,⁴ and Asia–Pacific were the most likely to express positive views on the trajectory of domestic conditions, with at least three-quarters of respondents in each location reporting improvements compared with six months ago. By contrast, less than half of respondents in Latin America and other developing markets⁵ say their countries' economies have improved (Exhibit 2). In Asia–Pacific, that is a dramatic change from the September survey, when respondents there were the most negative of any region. Conversely, respondents in Europe have become much less upbeat since September.

Exhibit 2

Respondents in Asia–Pacific are more likely than in September to report improved conditions in their countries; the opposite is true in Europe.

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



¹Respondents who said "stay the same," "decrease," or "don't know" are not shown.

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

³Includes Hong Kong and Taiwan.

Respondents' views trace a similar arc when they look ahead to the next six months. Most (57 percent) expect both the global economy and their countries' economies to improve, though this proportion has declined since the summer (Exhibit 3). The shares of respondents predicting economic improvements, both globally and domestically, are similar in size to those in the December 2020 survey who expected improvement. As is true with current views on domestic conditions, respondents in India, Greater China, and Asia–Pacific are the most optimistic: more than three-quarters in each of those locations predict improvements in their countries. Just 26 percent in Latin America say the same.

Respondents' expectations for their own companies, too, are still largely positive even after trending downward since the summer. Sixty-four percent expect customer demand to increase in the next six months, down from 74 percent in the June survey. Nearly two-thirds of respondents expect profits to increase, compared with 74 percent in June and September.

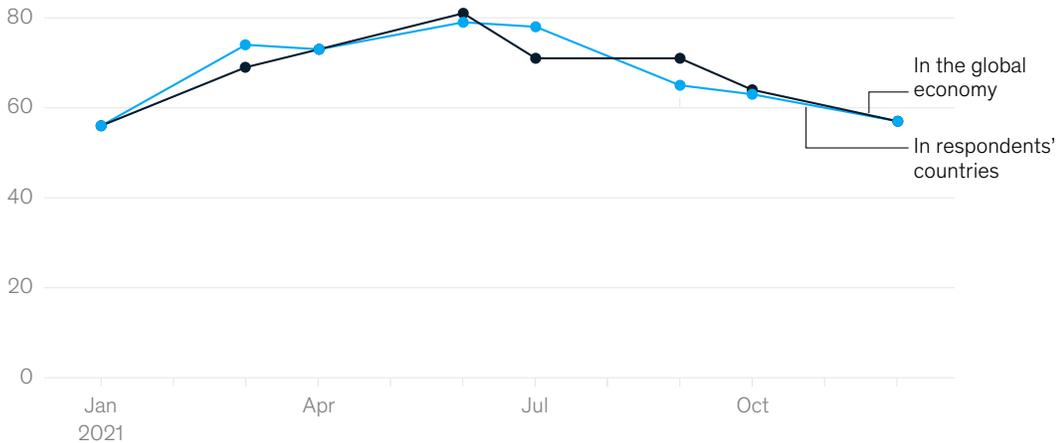
⁴ Includes respondents in Hong Kong and Taiwan.

⁵ Includes respondents in Middle East, North Africa, South Asia, and sub-Saharan Africa.

Exhibit 3

Expectations for the global economy and respondents' home countries ended the year where they started in January.

Respondents who expect economic conditions to improve in the next 6 months,¹ %



¹In Jan 2021, n = 1,025; Mar 2021, n = 1,018; April 2021, n = 1,199; June 2021, n = 1,010; July 2021, n = 1,002; Sept 2021, n = 958; Oct 2021, n = 902; Dec 2021, n = 955. Respondents who answered "the same" or "worse" are not shown.

Renewed concerns about COVID-19 as an economic threat

The COVID-19 pandemic remains the most-cited risk to the global economy over the next 12 months, as it has been since the WHO declared the outbreak a pandemic in March 2020. In a change from the October survey, respondents have once again cited the pandemic as a risk to domestic growth more than any other factor, as they have since early 2020. In October, before the Omicron variant emerged, supply-chain challenges briefly replaced the pandemic as the top risk.

The latest survey also asked executives to choose the likeliest of nine scenarios for the pandemic's economic and health impact, both globally and in respondents' countries. Compared with the October survey, a larger share selected global and domestic scenarios with recurrences of the COVID-19 virus than scenarios with effective control of the virus's spread.

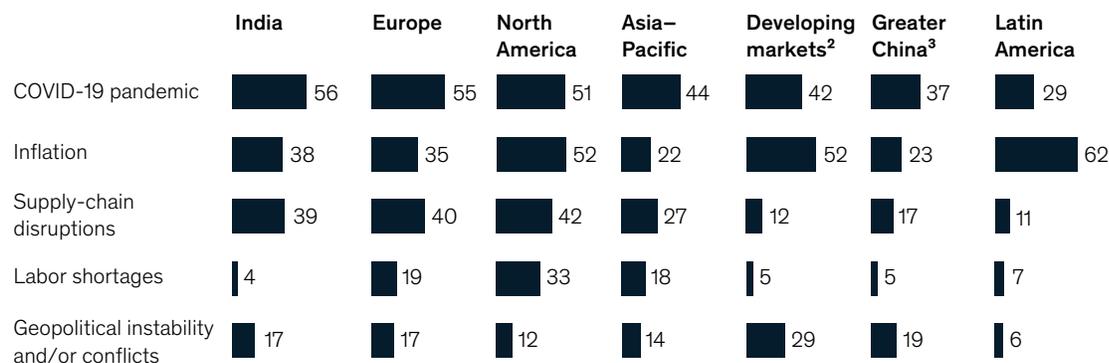
Respondents also commonly express concerns about inflation. For the first time since June 2012, when we began asking about inflation as a risk to global growth, respondents selected it as one of the top two most-cited risks. Inflation also ranks second, behind the pandemic, as a risk to domestic growth. Respondents in Latin America were most apt to call inflation a threat to domestic growth, as in October. Inflation has also become the primary concern of those in North America and developing markets (Exhibit 4). These concerns mark a striking change from one year ago, when geopolitical instability and high levels of national debt loomed as the second-most-cited threats to global and domestic growth, respectively, behind the pandemic.

Respondents also see rising interest rates as an economic threat in the months ahead. For the first time since December 2018, rising interest rates are one of the five most-cited concerns for the global economy. Nearly two-thirds of respondents expect increasing rates in their countries in the next six months—the largest share ever captured in the survey, which first asked about interest rates in December 2016. Respondents in North America and Europe are much more likely now than in September to expect rising rates, whereas those in Greater China are now less likely to predict an increase (Exhibit 5).

Exhibit 4

In every region, the pandemic and inflation are considered top risks to domestic growth.

Potential risks to growth in domestic economies, next 12 months,¹ % of respondents



¹Out of 20 risks that were presented as answer choices. India, n = 71; Europe, n = 367; North America, n = 188; Asia-Pacific, n = 95; developing markets, n = 64; Greater China, n = 105; Latin America, n = 65.

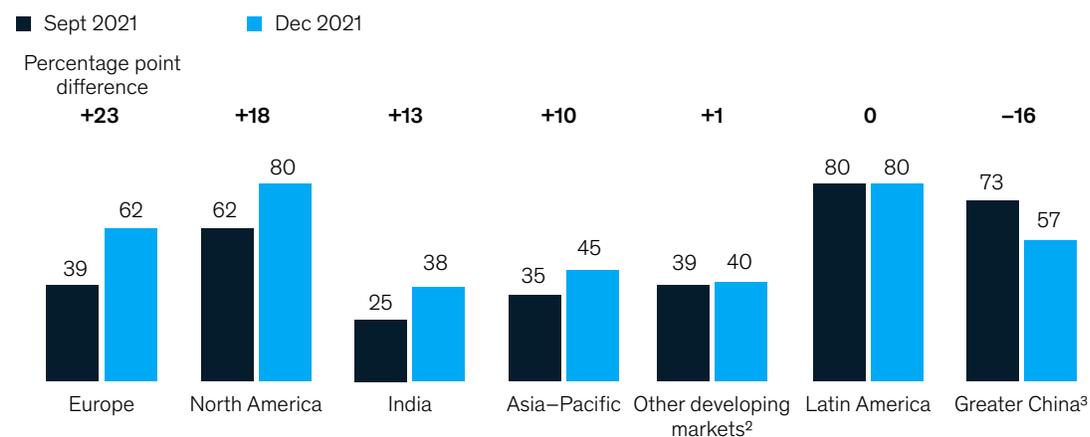
²Includes Middle East, North Africa, South Asia, and sub-Saharan Africa.

³Includes Hong Kong and Taiwan.

Exhibit 5

Respondents in Europe and North America are much more likely now than last quarter to expect rising interest rates.

Share expecting interest rates to increase in their countries, next 6 months,¹ % of respondents



¹Respondents who said "stay the same," "decrease," or "don't know" are not shown.

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

³Includes Hong Kong and Taiwan.

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