

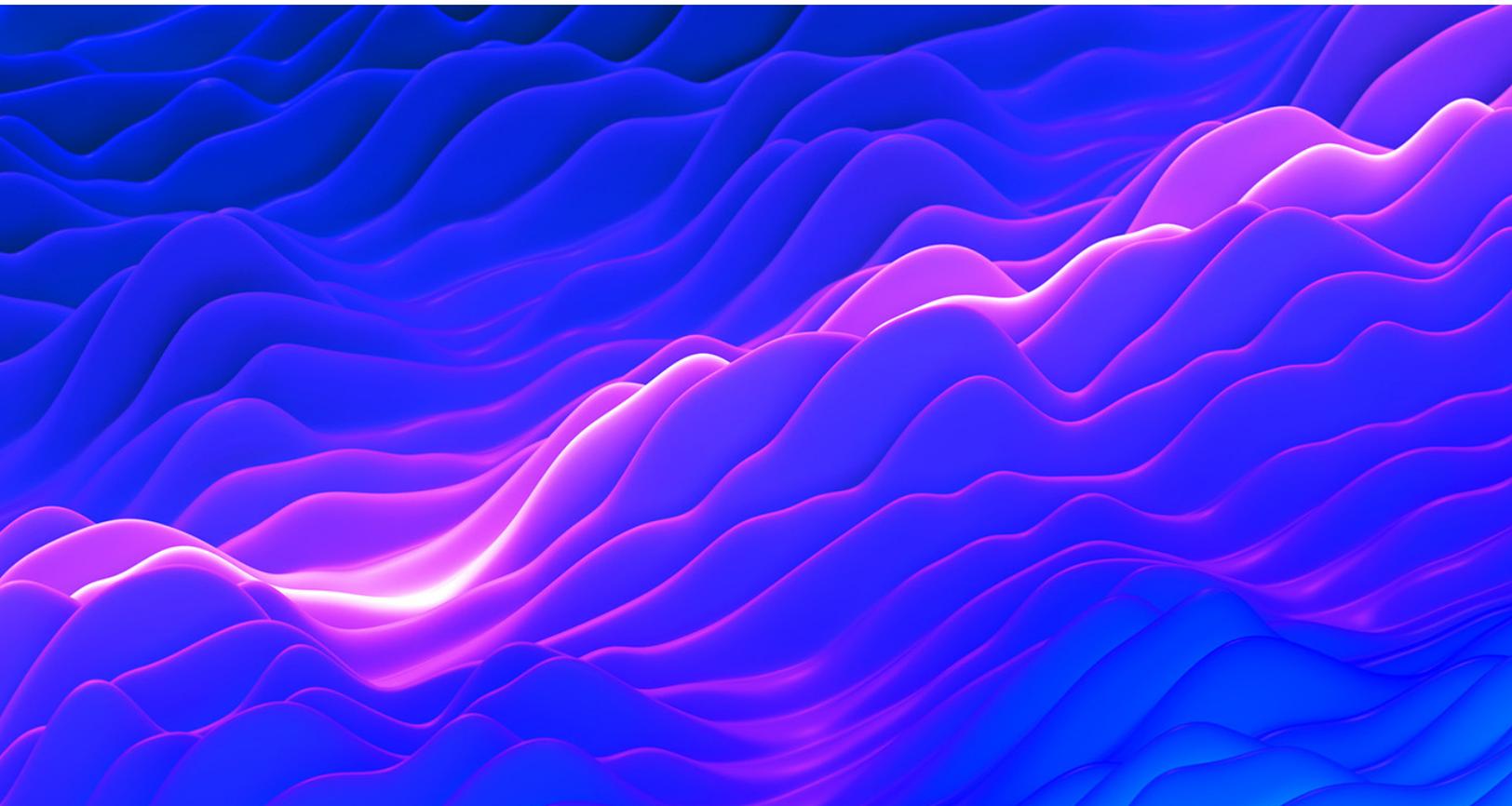
Strategy & Corporate Finance Practice

Economic conditions outlook, September 2024

Executives are less upbeat on current conditions than they were earlier this year, though cautiously optimistic about the months ahead. Political transitions are an increasing concern for countries' economies.

by *Sven Smit*

with *Jeffrey Condon and Krzysztof Kwiatkowski*



For the first time since March 2020, surveyed executives primarily see the global economy as stable rather than improving. The latest McKinsey Global Survey on economic conditions reveals more cautious sentiments from respondents on both current global conditions and domestic economies than seen in the previous two quarters—though a plurality of respondents expect each to improve in the next six months.¹ While geopolitical instability continues to loom as the top perceived risk to global and domestic growth, in a year when almost half of the world’s population will vote in national elections,² respondents now cite political transitions second-most often as a threat both globally and at home.

Looking at longer-term risks to growth, respondents in all regions see geopolitical instability as the chief global threat in the next ten years. Other areas of greatest concern vary by region, with respondents in Greater China³ pointing to energy-related topics and those in North America focusing on government-related issues.

At the company level, respondents consider it less and less likely that their companies will increase their workforce size, while expectations for profits and customer demand remain relatively positive and stable.

Respondents report less improvement in economic conditions but remain primarily optimistic

Respondents’ assessments of the global economy and their home economies are less upbeat than they were in March and June, with smaller shares reporting improvement (Exhibit 1). However, the share reporting worse conditions in the global economy hasn’t grown dramatically since the previous survey—rather, a larger share of respondents say there has been no change. For the first time since early March 2020, respondents are more likely to report that conditions stayed the same than report that they improved.

Geopolitical instability continues to loom as the top perceived risk to global and domestic growth.

¹ The online survey was in the field from August 28 to September 6, 2024, and garnered responses from 1,203 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.

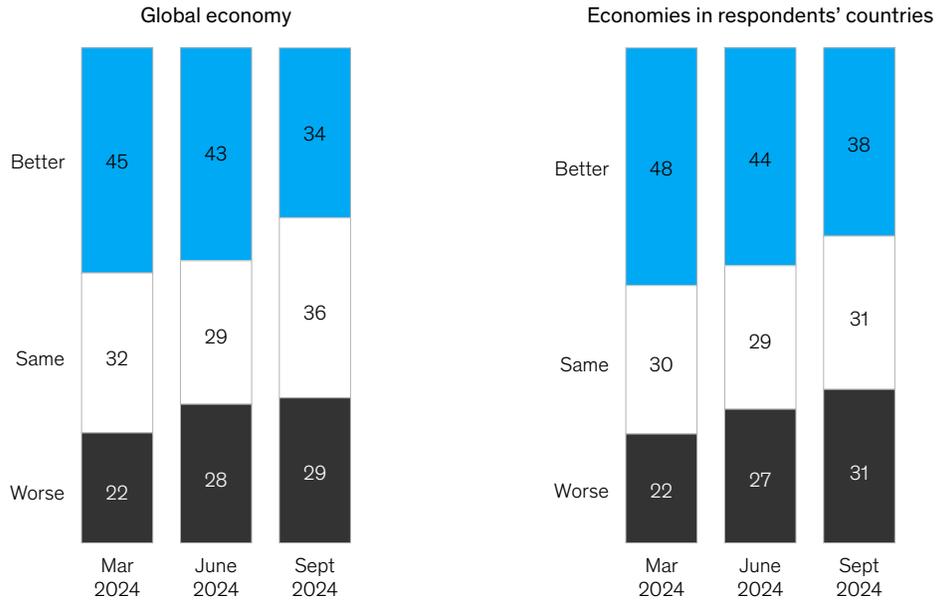
² Mark John and Sumanta Sen, “How this year of elections is set to reshape global politics,” Reuters, July 9, 2024.

³ Includes Hong Kong SAR and Taiwan China.

Exhibit 1

Since March, respondents have become less upbeat about the conditions in the global economy and in their own economies.

Current global and domestic economic conditions, compared with 6 months ago, % of respondents¹



Note: Figures may not sum to 100%, because of rounding.
¹Mar 4–8, 2024, n = 957; June 3–7, 2024, n = 927; Aug 28–Sept 6, 2024, n = 1,203.
 Source: McKinsey Global Surveys on economic conditions, 2024

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When reporting expectations for the next six months, respondents paint a somewhat cheerier picture for both the global economy and their own countries' economies compared with the current state. Expectations are consistent with March and June's findings, with the largest share—42 percent of respondents—expecting the global economy to improve and smaller groups expecting stable or declining conditions. Respondents' expectations for their countries' economies over the next six months are also largely aligned with the two previous quarters, with 47 percent expecting improvement—nearly double the share who say their economies will worsen. In every region, a larger share of respondents expects conditions to improve than the share expecting them to decline. Respondents in India and Greater China are the most positive about conditions in their economies over the next six

months—and have been all year—while respondents in the rest of Asia–Pacific have become increasingly pessimistic. Just 37 percent of respondents there expect improvement in their economy, compared with 62 percent who said so in March.

Geopolitical instability and political transitions are perceived as top threats globally and at home

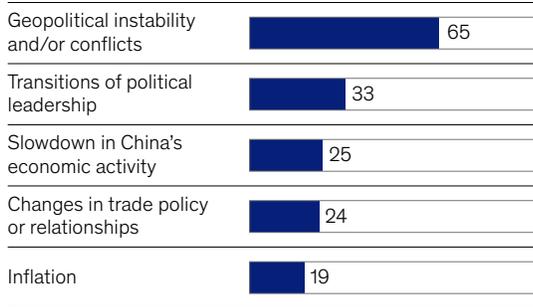
Rarely in this quarterly research do we see alignment between the most-cited risks to global growth and to domestic economies. Yet, for the first time in 2024, respondents view geopolitical instability or conflicts and transitions of political leadership, respectively, as the chief concerns both globally and at home in the year ahead, with other cited threats also relating to politics (Exhibit 2).

Exhibit 2

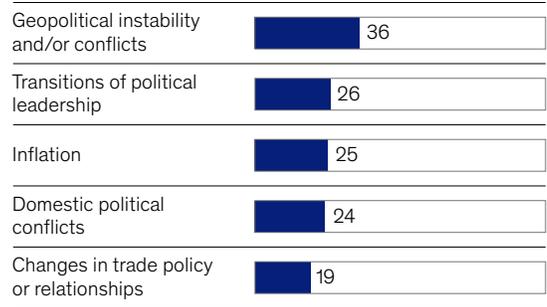
Many of the most-cited risks to global and domestic growth relate to politics.

Biggest potential risks to global growth and domestic economic growth in next 12 months,
% of respondents (n = 1,203)

Risks to global growth¹



Risks to domestic growth²



¹Out of 15 risks that were offered as answer choices.

²Out of 17 risks that were offered as answer choices.

Source: McKinsey Global Survey on economic conditions, Aug 28–Sept 6, 2024

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Geopolitical instability or conflicts, the most-cited global risk since March 2022, is the top concern for global growth among respondents in each region, while transitions of political leadership is the second-most cited for the third quarter in a row. For risks to domestic growth, geopolitics remains the most-cited risk to respondents' economies for the fourth quarter, and political transitions is now the second-most-cited risk, up from third in the previous quarter, as many countries hold elections this year. Respondents in North America and Asia-Pacific most often point to political transitions as a threat to domestic growth (Exhibit 3).

Views diverge on inflation. Inflation has dropped from the third-most-cited global risk in June to

the fifth, with respondents more often sharing concerns about a slowdown in China's economy and changes in trade policy and relationships. At the same time, inflation has risen from the fourth-most-cited domestic risk to the third. Inflation is the primary concern cited by respondents in developing markets,⁴ whereas in June, it was their fourth-most-cited risk. Conversely, concerns about inflation have lessened among respondents in North America, where, at the time the survey was in the field, more than three-quarters of respondents expected to see interest rates decrease in the months ahead.⁵ (The US Federal Reserve cut its key rate by half a percentage point on September 18, 2024.)

⁴ Includes Central and South America, the Middle East, North Africa, South Asia, and sub-Saharan Africa.

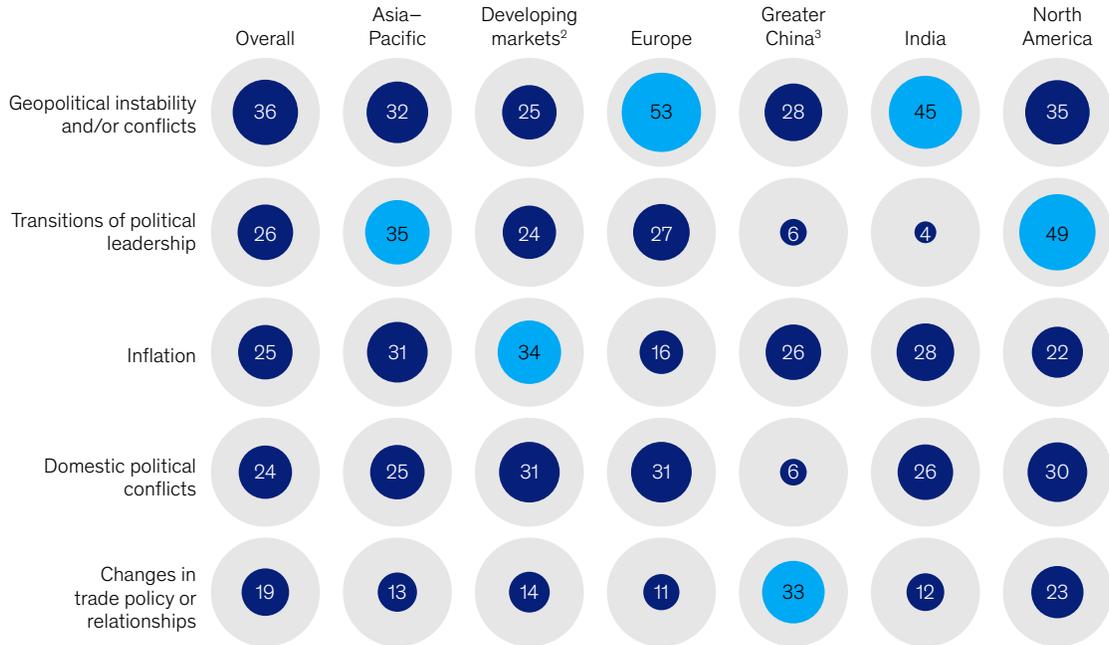
⁵ "Fed's Bostic warns against keeping restrictive policy stance for too long," Reuters, September 4, 2024.

Exhibit 3

While geopolitical instability is the most-cited threat to domestic growth overall, concerns vary by geography.

Biggest potential risks to economic growth in respondents' countries in next 12 months, by office location, % of respondents¹

● Gray circle size = 100%
● Most-cited risk in given region



¹Out of 17 risks that were offered as answer choices. Total, n = 1,203; Asia-Pacific, n = 127; developing markets, n = 218; Europe, n = 325; Greater China, n = 122; India, n = 74; North America, n = 336.

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

³Includes Hong Kong SAR and Taiwan China.

Source: McKinsey Global Survey on economic conditions, Aug 28–Sept 6, 2024

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Changes in trade policy—a commonly cited risk to global growth in the two most recent surveys—is now also a top five domestic concern for the first time since December 2019. That increase in attention is driven largely by responses in Greater China, where trade is newly top of mind.

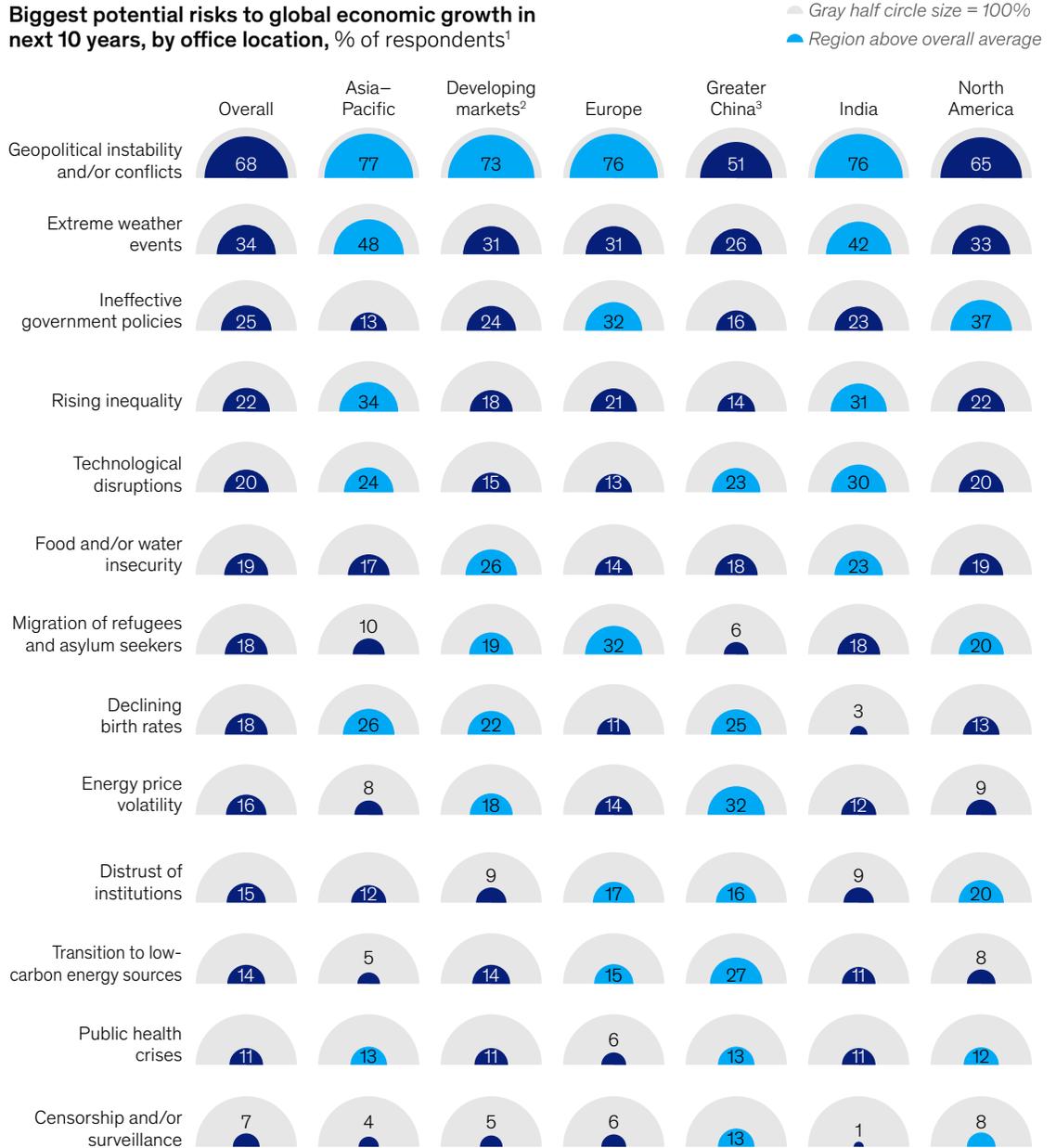
Geopolitical instability is also a longer-term concern for respondents

Respondents see geopolitical instability as a top threat to the global economy not only in the short term but also in the longer term. Just over two-thirds of respondents see geopolitical risks

as a global concern over the next ten years—the same share seen in earlier 2024 surveys. One of the newest findings is that rising inequality is of increasing concern for the longer term; it is now one of the five most-cited risks for the first time in 2024. The latest data also show that the primary long-term threats are viewed very differently across regions (Exhibit 4). Inequality is of outsize concern in Asia-Pacific and India, and so are extreme weather events. Ineffective government policies and distrust of institutions, meanwhile, are considered larger risks by respondents in North America and Europe than they are by peers elsewhere, and respondents in Europe also cite migration of refugees and asylum seekers as a risk much more often than others do.

Exhibit 4

In every region, geopolitical instability is the most commonly cited threat to long-term growth, while perceptions of other risks vary.



¹ Respondents who said "other" or "don't know/not applicable" are not shown. Total, n = 1,203; Asia-Pacific, n = 127; developing markets, n = 218; Europe, n = 325; Greater China, n = 122; India, n = 74; North America, n = 336.

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

³ Includes Hong Kong SAR and Taiwan China.

Source: McKinsey Global Survey on economic conditions, Aug 28–Sept 6, 2024

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Energy price volatility and [transitions to low-carbon energy sources](#) are outside concerns for respondents in Greater China.

Muted expectations for company performance and workforce growth

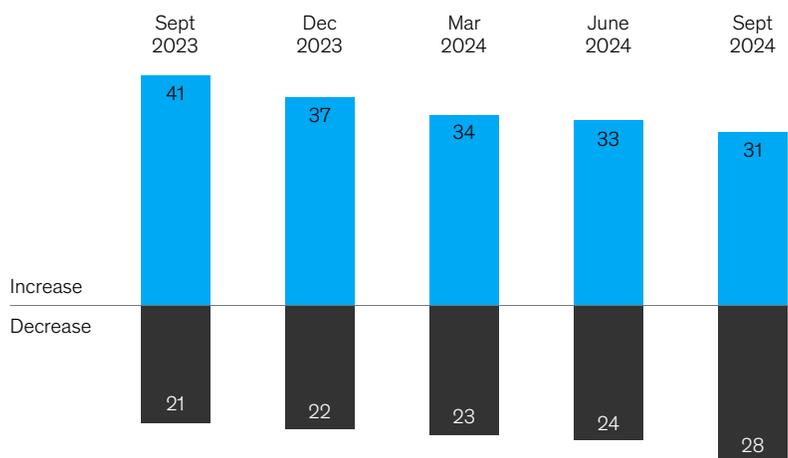
Private sector respondents' expectations for companies' performance have held steady since the previous quarter, remaining cautiously optimistic. About half of respondents continue to expect customer demand for their companies' products or services to increase in the months ahead, and 58 percent expect profits to increase—in line with the share of respondents who said

so in the past three quarters. Yet, since last September, respondents have become less likely to expect their companies to expand the size of their workforce (Exhibit 5). Whereas one year ago, respondents were twice as likely to expect an increase than a decrease in the number of employees at their companies, now they are about equally likely to expect a growing or shrinking workforce. Looking by industry, respondents working in consumer goods and retail, energy and materials, and healthcare and pharmaceuticals are more likely to expect a decrease than an increase in head count, whereas in June, only respondents in energy and materials leaned toward expecting a decrease.

Exhibit 5

Over the past year, private sector respondents have become less likely to expect their employers' workforce size to increase.

Expectations for changes in workforce size at respondents' companies in next 6 months, % of private sector respondents¹



¹Respondents who answered "stay the same" or "don't know" are not shown. Aug 31–Sept 8, 2023, n = 787; Nov 27–Dec 1, 2023, n = 861; Mar 4–8, 2024, n = 868; June 3–7, 2024, n = 849; Aug 28–Sept 6, 2024, n = 1,097. Source: McKinsey Global Surveys on economic conditions, 2023–24

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