McKinsey Global Survey results

Economic Conditions Snapshot, June 2014

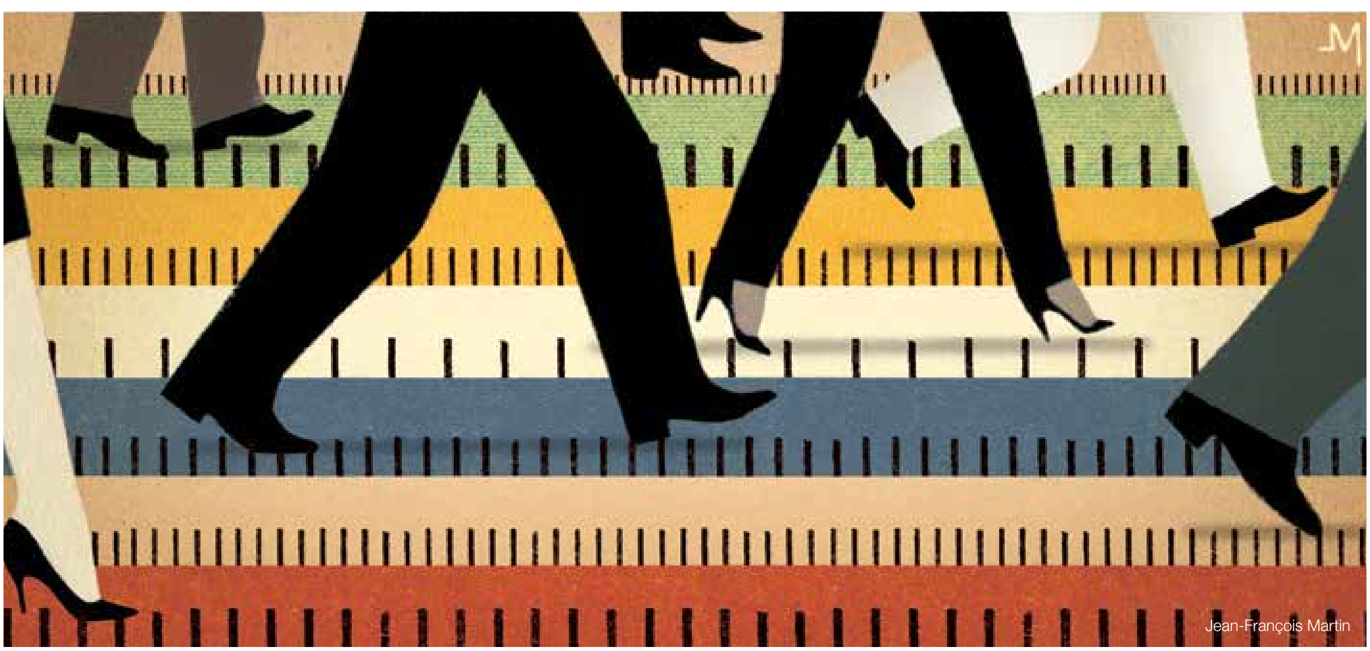
While recent elections have revived executives' optimism in India, those in other emerging markets have concerns about economic conditions at home and their corporate prospects.

After sweeping political changes in recent elections, executives in India report dramatically renewed optimism for their country's economic prospects, even as pessimism persists in other emerging markets. In McKinsey's latest survey on economic conditions,[1] many respondents believe domestic and global conditions have improved and will improve in the coming months. Yet while executives in emerging economies express hope about future conditions in the global economy, they are less optimistic than their developed-economy counterparts about their home markets. This may be due to concerns over inflation, cited as the top risk to growth in Latin America—where unemployment is also a significant issue.

[1] The online survey was in the field from June 9 to June 13, 2014, and garnered responses from 1,701 executives 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.

Surging optimism in India

What a difference an election makes. Following the sweeping victory of Prime Minister Narendra Modi's Bharatiya Janata Party last month, 96 percent of executives in India now expect the country's economy will improve during the next six months—up from 67 per-



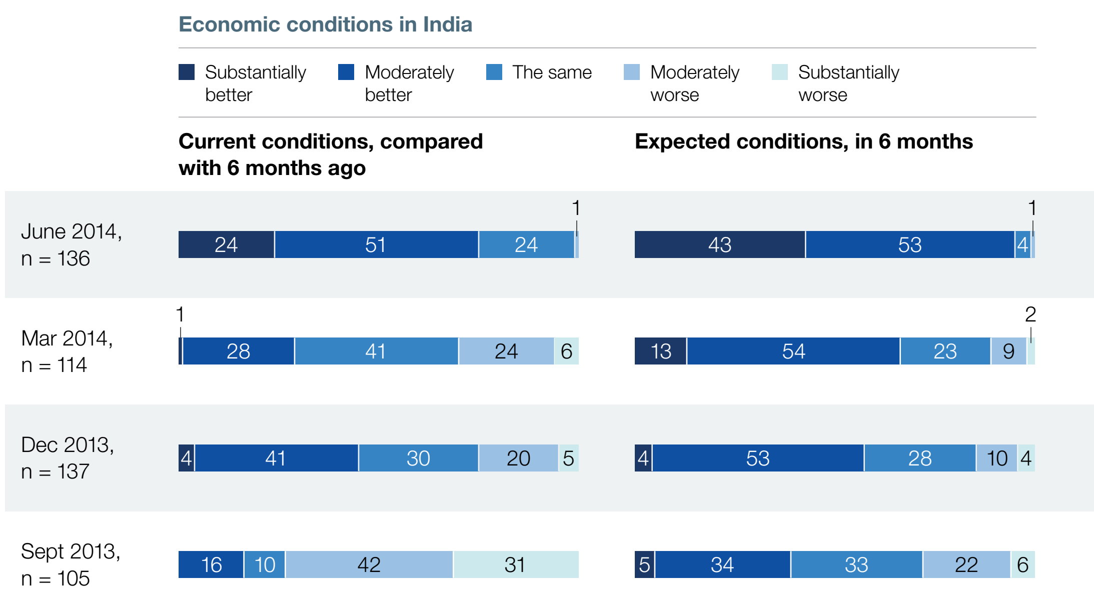
Jean-François Martin

cent who said the same just three months ago (Exhibit 1). After months of tepid (and even low) expectations for the Indian economy, three-quarters of executives there say economic conditions are better now than they were six months ago, up from 29 percent in March. We saw a similar upswing in sentiment after India's last general election, in 2009. Less than one-fifth of respondents in the country believed that conditions had improved in the six months before that election; in June 2009, one month after polls closed, 72 percent of executives said the same.

Exhibit 1

Economic expectations surge in India.

% of respondents[1] located in India



[1] Figures may not sum to 100%, because of rounding.

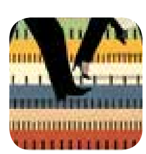


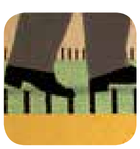
Exhibit 2

In India, concern over policy and political issues has waned.

% of respondents[1] located in India

Potential risks to domestic economic growth in India, next 12 months	Dec 2013, n = 137	Mar 2014, n = 114	June 2014, n = 136
Inflation	56	52	69
High commodity prices	22	25	49
Lack of access to credit	12	6	24
Increased volatility of exchange rates	30	22	21
Domestic political conflicts	31	34	18
Insufficient government-policy support	39	41	18
Low consumer demand	12	12	16
Transitions of political leadership	62	65	16
Increased economic volatility	11	16	14
New asset bubbles	8	5	13
Geopolitical instability	6	11	12
One or more sovereign-debt defaults	0	1	0

[1] Respondents who answered "other," "no particular risk," or "don't know" are not shown.



Executives in India are positive on other fronts. Fully half of respondents expect their country's unemployment rate will decrease in the next six months, compared with 30 percent of all respondents expecting the same. They are also less concerned about political tensions, at least as threats to near-term growth (Exhibit 2). In our March and December surveys, executives in India identified transitions of political leadership, domestic political conflicts, and insufficient government-policy support among the top risks to domestic growth. Now less than one-fifth identify any of these policy and political issues as possible risks.

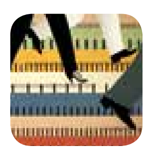
It's not all good news, however. Respondents in India most often cite inflation as a threat to domestic growth, with commodity and energy prices identified as the primary factors that make it a risk. Inflation is also top of mind in Latin America, where 53 percent of respondents say it's a risk, compared with the global average of 21 percent. And while most executives in India expect their inflation rate will stay the same or decrease over the next six months, those in Latin America and developed Asia[2] are the most likely to expect inflation rates in their countries will increase.

Continued confidence and regional divides

Across regions, many executives agree that economic conditions are improving and will continue to do so in the coming months. At the country level, they are twice as likely to say current conditions at home have improved than to say conditions have worsened. Looking ahead, 53 percent expect conditions will improve in the next six months. While geopolitical instability still poses the biggest threat to global growth,[3] as it did in March, executives

[2] Australia, Hong Kong, Japan, New Zealand, the Philippines, Singapore, South Korea, and Taiwan.

[3] Sixty percent of all respondents cite geopolitical instability as a top risk to global economic growth in the next 12 months. During the week the survey was in the field, a group of militants defeated Iraqi military forces and took control of Mosul, the country's second-largest city—one week after militants invaded Samarra, another city in Iraq.

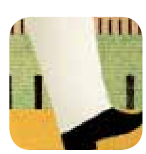


maintain a positive view of conditions—both current and future—in the world economy. In most geographies, respondents' views on current global conditions have either met or surpassed their expectations from six months ago (Exhibit 3).

Exhibit 3

In most regions, assessments of the global economy either meet or exceed earlier expectations.

[1] Respondents who answered "the same," "moderately worse," or "substantially worse" are not shown.
[2] Includes China.
[3] In India, n = 137; in Europe, n = 528; in Asia–Pacific, n = 180; in North America, n = 416; in Developing markets, n = 166; and in Latin America, n = 72.
[4] In India, n = 136; in Europe, n = 549; in Asia–Pacific, n = 201; in North America, n = 444; in Developing markets, n = 268; and in Latin America, n = 103.



In their overall bullishness, executives in India stand apart from respondents in all other regions—even their peers in China, Latin America, and other emerging markets, whose responses differ notably from those in developed markets. When it comes to the global economy, executives in emerging markets are more positive about future conditions than their developed-market peers. In contrast, executives in developed markets are much more upbeat about their home economies, particularly on current conditions. Emerging-market respondents are more negative than positive, as they have been for the past few months (Exhibit 4).

Exhibit 4

Country-level views remain much more positive in developed markets than in emerging economies.

% of respondents,[1] by office location

Better / The same / Worse

Current conditions in respondents' countries, compared with 6 months ago

	Sept 2013			Dec 2013			Mar 2014			June 2014		
	Better	The same	Worse	Better	The same	Worse	Better	The same	Worse	Better	The same	Worse
Developed economies[2]	49	38	13	50	33	17	48	32	20	54	30	16
Emerging economies[3]	26	32	41	32	32	37	29	34	37	30	32	38

[1] Figures may not sum to 100%, because of rounding.
[2] In Sept 2013, n = 921; in Dec 2013, n = 1,124; in Mar 2014, n = 1,037; and in June 2014, n = 1,194.
[3] In Sept 2013, n = 307; in Dec 2013, n = 375; in Mar 2014, n = 365; and in June 2014, n = 507.

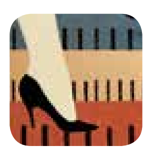
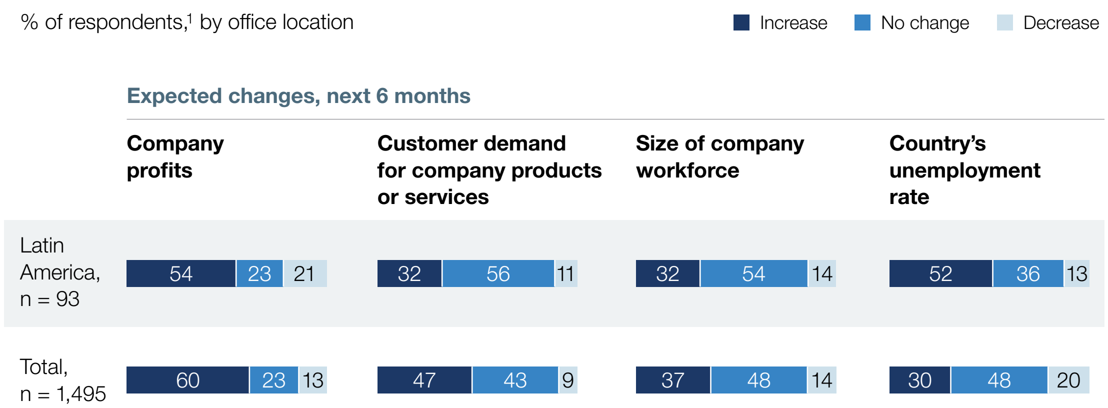


Exhibit 5

In Latin America, respondents are more downbeat than others about the prospects for their companies—and employment overall.



[1] Respondents who answered "don't know" are not shown, so figures may not sum to 100%.

Company concerns in Latin America

In Latin America, where executives are the most negative about conditions in their own economies, company-level views are downbeat as well. Compared with their peers in other regions, respondents in Latin America are the most likely to believe their companies' profits will decrease; they are twice as likely to say so now as in December.

Only one-third of executives there expect demand for their companies' products and services will increase, compared with 47 percent of all respondents (Exhibit 5). And along with respondents in Europe, those in Latin America are the least likely across regions to expect their companies' workforces will grow in the coming months. More than half also expect that the unemployment rates at home will increase. These results are in stark contrast to the global responses, where executives report tempered but positive views on their companies' prospects.