McKinsey & Company

Strategy & Corporate Finance Practice

Economic conditions outlook, September 2022

In stormy weather, survey respondents maintain realism about the global economy. While geopolitical conflicts and inflation remain top of mind, concerns about energy volatility predominate in Europe.

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September 2022

In September, respondents in most regions cite inflation as the main risk to growth in their home economies for the second quarter, according to the latest McKinsey Global Survey on economic conditions.[1] Geopolitical instability and conflicts remain a top concern as well, most often cited as the greatest risk to global growth over the next 12 months. Responses assessing the global economy are primarily downbeat, as they were in the last survey. Regional divergence in outlooks has emerged, as respondents in Europe express deeper concerns over energy price volatility and more somber views about their domestic economies. Respondents in North America, on the other hand, were less negative about their countries' current economies than in the previous survey.

Regional differences also appear when private-sector respondents report on the cost increases that are most affecting their companies. Respondents in Europe most often cite the impact of rising energy prices, while those in India and North America tend to point toward wage increases. Overall, nine out of ten respondents say their companies have seen cost increases in the past six months, and a majority have raised the prices of their products or services. Most also foresee their organizations' operating expenses increasing in the coming months.

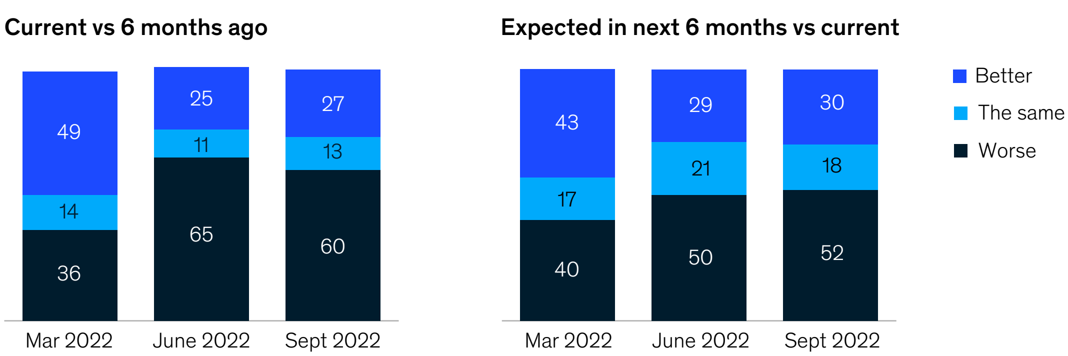
Views on global conditions remain downbeat

After a particularly negative assessment of economic conditions in the June survey, responses to the latest survey are almost as gloomy (Exhibit 1). Looking toward the future, pessimism remains consistent with the previous findings, with about half of respondents expecting global conditions to weaken in the next six months.

Exhibit 1

Assessments of the global economy remain gloomy, and expectations for the future haven't brightened.

Global economic conditions, % of respondents[1]



[1] Figures may not sum to 100%, because of rounding. In Mar 2022, n = 785; in June 2022, n = 899; and in Sept 2022, n = 1,247.

[1] The online survey was in the field from August 29 to September 2, 2022, and garnered responses from 1,247 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.

Respondents' takes on the global economy vary significantly by region, however. Those in Europe and North America offer a grim view of both current and future global conditions, whereas those in Greater China[2] are primarily positive about the present and the future. Overall, for the third quarter this year, geopolitical instability and conflicts remain the most-cited risk to global economic growth, and inflation remains the second-most-cited threat. In a change from June, volatile energy prices have superseded supply chain disruptions as the third-most-cited global risk.

Inflation remains top of mind—except in Europe and Greater China

Respondents' concerns about supply chain disruptions as domestic economic risks have also diminished since the previous survey. Supply chain challenges are now the fifth-most-cited risk to respondents' home economies, surpassed by concerns about rising interest rates. Inflation remains the most-cited risk to domestic economies for the second quarter, followed by volatile energy prices and geopolitical instability and conflicts. In all locations but Europe and Greater China, inflation is the most-cited threat to respondents' economies over the next 12 months (Exhibit 2). In Europe, volatile energy prices and inflation are the growth risks cited most often, with geopolitical instability or conflicts a more distant third. In Greater China, the COVID-19 pandemic remains the most reported risk, cited by nearly half of respondents for the second quarter in a row.

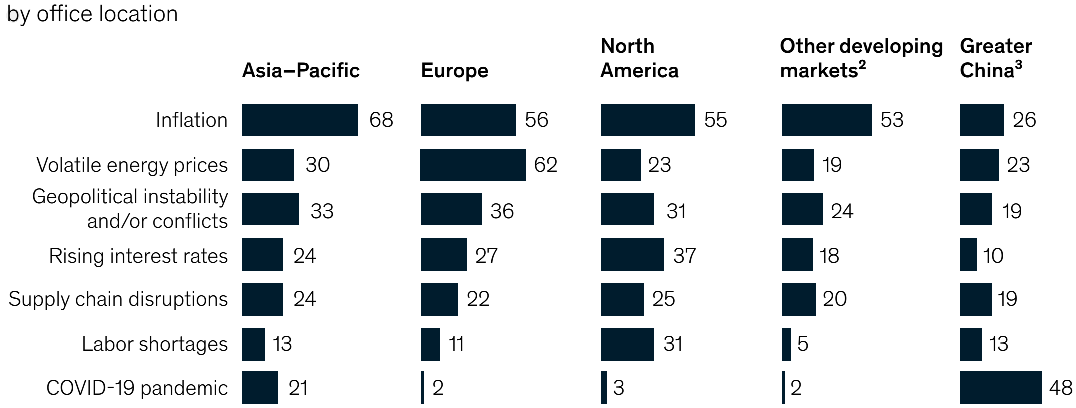
As unease heightens in Europe, optimism builds in North America

Similar to the June survey, four in ten respondents say economic conditions in their countries have improved over the past six months. However, the findings show new regional divergence (Exhibit 3).

Exhibit 2

Inflation remains top of mind as a risk to respondents' economies, except in Europe and Greater China.

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



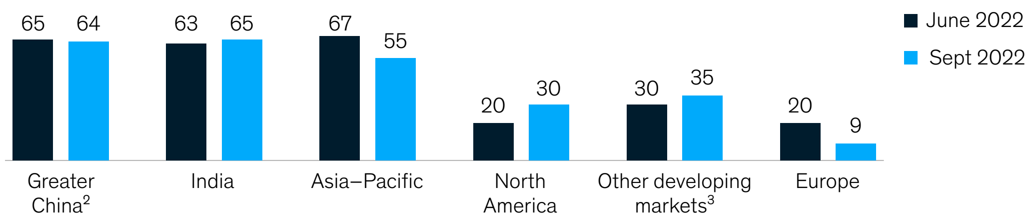
[1]Out of 18 risks that were presented as answer choices. Risks are ordered from the first- to seventh-most-cited overall answer.
[2]Includes Latin America, Middle East, North Africa, South Asia, and sub-Saharan Africa.
[3]Includes Hong Kong and Taiwan.

[2] Includes respondents in Hong Kong and Taiwan.

Exhibit 3

Respondents in Europe and Asia–Pacific are less likely than in June to report improving economies, while the reverse is true in North America.

Respondents who say economic conditions in their countries are better than 6 months ago,[1] % by office location



[1]Respondents who answered "the same" or "worse" are not shown. In the June 2022 survey, in Greater China, n = 88; in India, n = 62; in Asia–Pacific, n = 89; in North America, n = 246; in other developing markets, n = 109; and in Europe, n = 305. In the Sept 2022 survey, in Greater China, n = 107; in India, n = 93; in Asia–Pacific, n = 125; in North America, n = 290; in other developing markets, n = 208; and in Europe, n = 424.
[2]Includes Hong Kong and Taiwan.
[3]Includes Latin America, Middle East, North Africa, South Asia, and sub-Saharan Africa.

Responses in Europe are more downbeat than earlier this year, with more than three-quarters of respondents now reporting that their economies have worsened. At the same time, in North America—where sentiment was closely aligned with Europe's in the previous two quarters—respondents have become more positive since the previous survey. In Greater China, India, and Asia–Pacific, a majority say their economies have improved. But in Asia–Pacific, optimism has faltered. Respondents there are much less likely than in the previous survey to say that their countries' economies have improved.

Expectations about the next six months also vary by region. Respondents in Europe and Asia–Pacific are less likely than in June to expect their countries' economies to improve, while respondents in other developing markets have become more hopeful. Overall, respondents are about as likely to expect their countries' economies to improve as to worsen in the next six months, as was also true in the previous survey.

Concerns mount over companies' prospects

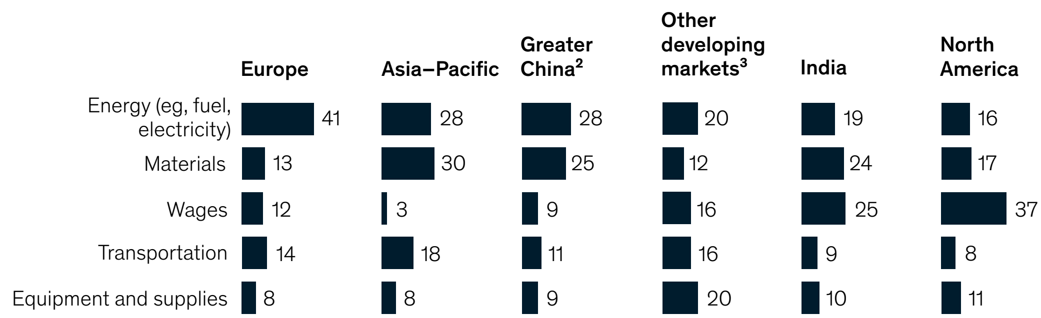
The latest survey asked private-sector respondents about the challenges their companies are facing and their expectations for the coming months. Nine in ten respondents say their companies have experienced cost increases in the past six months. The largest share of responses point to rising energy prices—which include electricity as well as fuel—as having the biggest impact, followed by increases in the costs of materials.

The concerns over various types of cost increases vary by region (Exhibit 4). In Europe, respondents primarily point to rising energy costs, whereas wage increases are of top concern in India and North America. Consistent across all regions, respondents say their companies have raised the prices of their products or services in the past six months. Looking ahead, 71 percent of respondents expect their companies' operating expenses to be greater next year than they were last year.

Exhibit 4

Companies have experienced a range of cost increases, and the ones with the biggest impact vary by region.

Area in which organization has been most affected by cost increases, past 6 months,[1] % of respondents, by office location



[1]Out of eight options given as answer choices. Segments are ordered from the first- to fifth-most-cited overall answer.
[2]Includes Hong Kong and Taiwan.
[3]Includes Latin America, Middle East, North Africa, South Asia, and sub-Saharan Africa.

What's more, expectations for companies' profits and customer demand are the most downbeat that they have been since July 2020. Just 51 percent expect profits to increase, down from 65 percent six months ago. The same share—51 percent—expect demand for their companies' goods or services to increase.

While concerns over the effects of supply chain disruptions on global and domestic growth have eased since the previous survey, those disruptions remain top of mind as a risk to company growth for the second quarter (for more on how respondents expect their supply chains to change, see sidebar, "A note on the state of globalization"). Furthermore, a majority of respondents working in manufacturing—

A note on the state of globalization

For the first time, the McKinsey Global Survey on economic conditions asked respondents how they expect cross-border trade levels in the next three to five years to compare with the levels in the past three to five years. Forty-five percent say they expect lower trade levels, while 38 percent expect increased international trade.

Respondents in developed economies are much more likely than emerging-economy respondents to expect trade levels to decline. We also asked respondents how they expected their companies' supply chains to change over the same period. Forty-four percent say their companies' supply chains will either become more regional or more local, concentrating within the countries or municipalities in which they operate.[1] By comparison, just 24 percent of respondents say their companies' supply chains will become more global—that is, interregional.

[1] Twenty-seven percent expect their companies' supply chains to become more regional, and 17 percent expect them to become more local. The other 32 percent expect no change or answered, "don't know."

including those in automotive and assembly, aerospace and defense, advanced electronics, and semiconductors—or retail report that their companies' inventory levels are not ideal. One-third say they have too much inventory, while 21 percent say levels are too low. Looking specifically within the consumer goods and retail sector, respondents are just as likely to report too little inventory as too much, while a plurality say their inventory levels are about right. Of the respondents in all manufacturing and retail industries reporting nonoptimal levels, nearly three-quarters expect their organization to achieve optimal levels within the next 12 months.

The survey content and analysis were developed by **Jeffrey Condon,** a senior knowledge expert in McKinsey's Atlanta office; **Krzysztof Kwiatkowski** and **Vivien Singer,** both capabilities and insights experts at the Waltham Client Capabilities Hub; and **Sven Smit,** the chair and director of the McKinsey Global Institute and a senior partner in the Amsterdam office.

Designed by McKinsey Global Publishing