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Strategy & Corporate Finance Practice

Economic conditions outlook, March 2025

Uncertainty about geopolitics and trade now loom equally large as perceived economic disruptions, and surveyed executives express more caution about future conditions and company performance.

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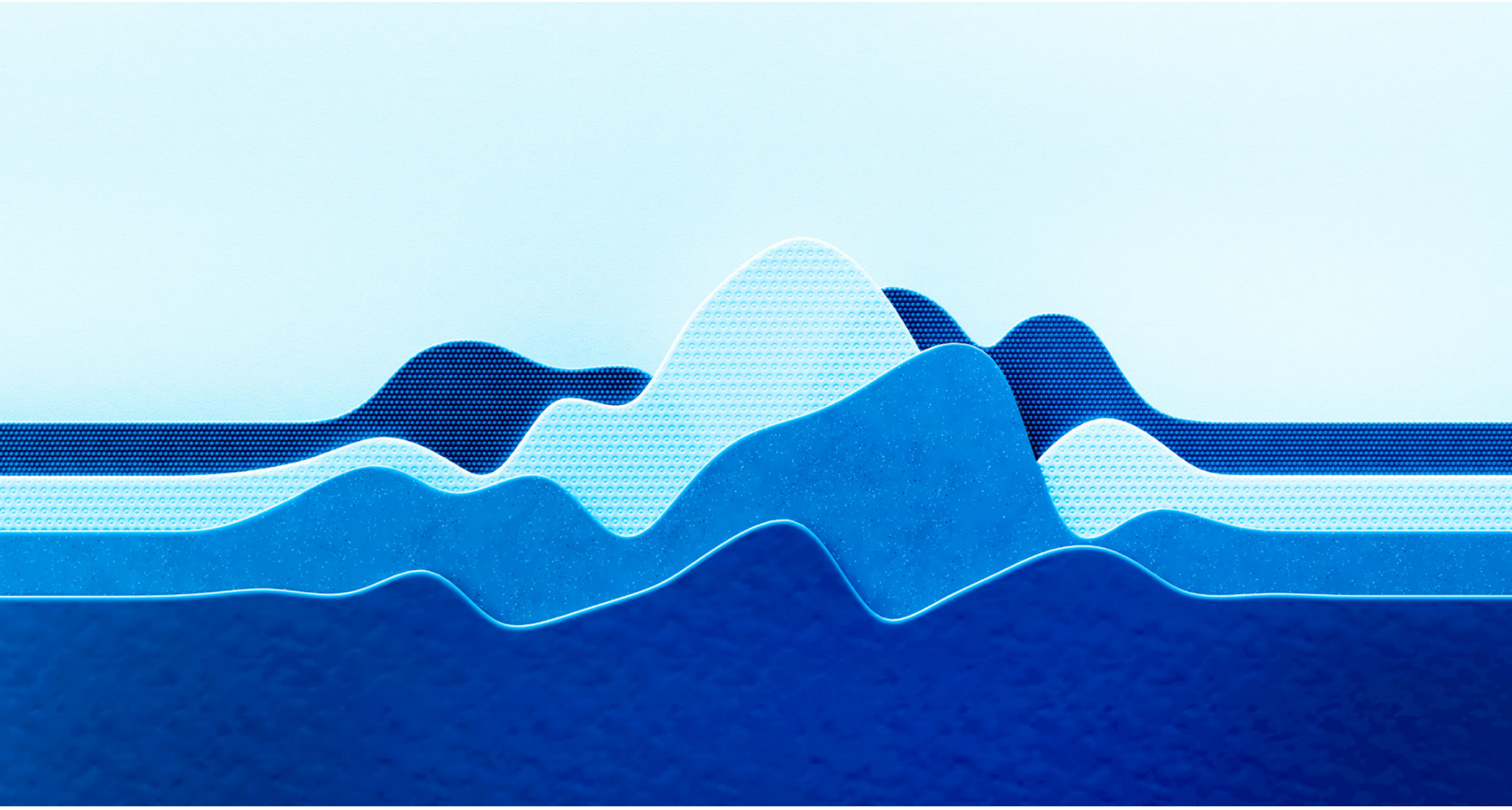


March 2025

So much can change in three months. In the December edition of our quarterly McKinsey Global Survey on economic conditions, respondents' expectations for the global economy were largely stable with the previous quarter and more positive than negative.[1] Now, amid a spate of policy shifts, uncertainty permeates views on the economy in the latest survey. Respondents are now equally likely to see geopolitical instability and changes in trade policy or relationships as disruptive forces, both in the world economy and within their countries. Consequently, respondents report more cautious views this quarter than last quarter on nearly every measure. They are much more likely now than in December to say economic conditions—both globally and in their own countries—will decline, though views differ between respondents in emerging and developed economies. Respondents also are less likely than they have been in recent years to expect their organizations' performance to improve in the months ahead (see sidebar, "Methodology note").

Trade and geopolitics now carry equal heft as perceived disruptive forces

Changes in trade policy and relationships are now at the forefront, alongside geopolitical instability and conflicts, of perceived disruptions to the world economy as well as in respondents' countries. Geopolitical instability has been the most-cited risk to the global economy for the past three years. But trade has caught up: The share of respondents citing trade-related changes as one of the biggest disruptions to the global economy has more than doubled over the past six months and is now equal to the share pointing to geopolitical instability (Exhibit 1).

Geopolitical instability and trade changes remain the top two most-cited risks to economies in respondents' countries, as was true in December. But, unlike last quarter, now respondents in every region point to either geopolitics or trade as the biggest disruption.[2]

The share of respondents citing trade-related changes as one of the biggest disruptions to the global economy has more than doubled over the past six months.

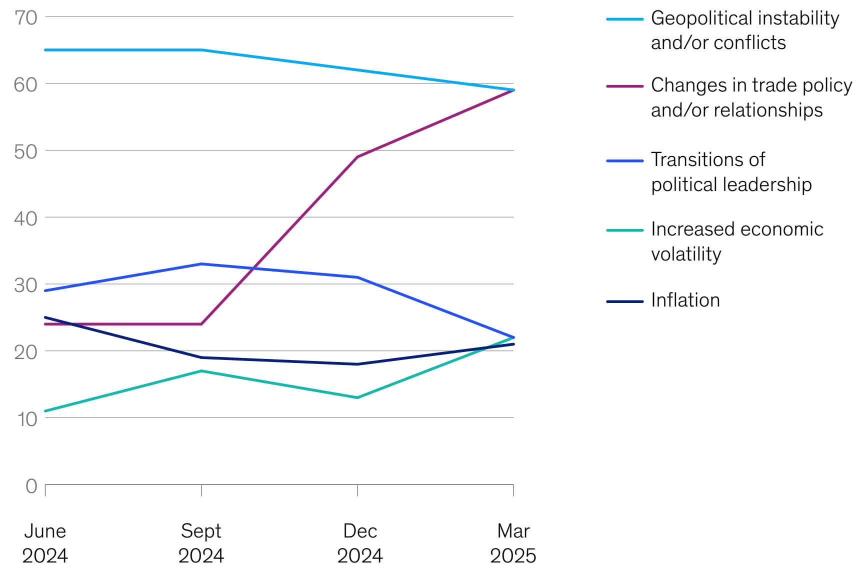
[1] The online survey was in the field from February 26 to March 7, 2025, and garnered responses from 988 participants in 92 nations representing the full range of regions, industries, company sizes, functional specialties, and tenures. To adjust for differences in response rates, the data are weighted based on each respondent's nation, taking into consideration its contribution to the region's share of the global GDP.

[2] In December 2024, respondents in developing markets most often said that inflation would be the biggest risk to their countries' economies.

Exhibit 1

Trade policy changes are now on par with geopolitical instability as the biggest potential disruptive forces in the global economy.

Biggest potential risks to global economic growth, next 12 months,[1]
% of respondents



[1]Out of 15 risks that were offered as answer choices. June 3–7, 2024, n = 927; Aug 28–Sept 6, 2024, n = 1,203; Nov 27–Dec 6, 2024, n = 912; Feb 26–Mar 7, 2025, n = 988.
Source: McKinsey Global Surveys on economic conditions, 2024–25

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Both globally and at home, fewer respondents than in December cite transitions of political leadership as one of the biggest risks. In place of political transitions, increased economic volatility has become a top three most-cited risk to the global economy, while domestic political conflicts round out the top three for respondents' economies. Inflation remains one of the top five perceived risks to the global economy as well as to respondents' economies, as it has been since 2021.[3]

Respondents are cautious about current and future conditions

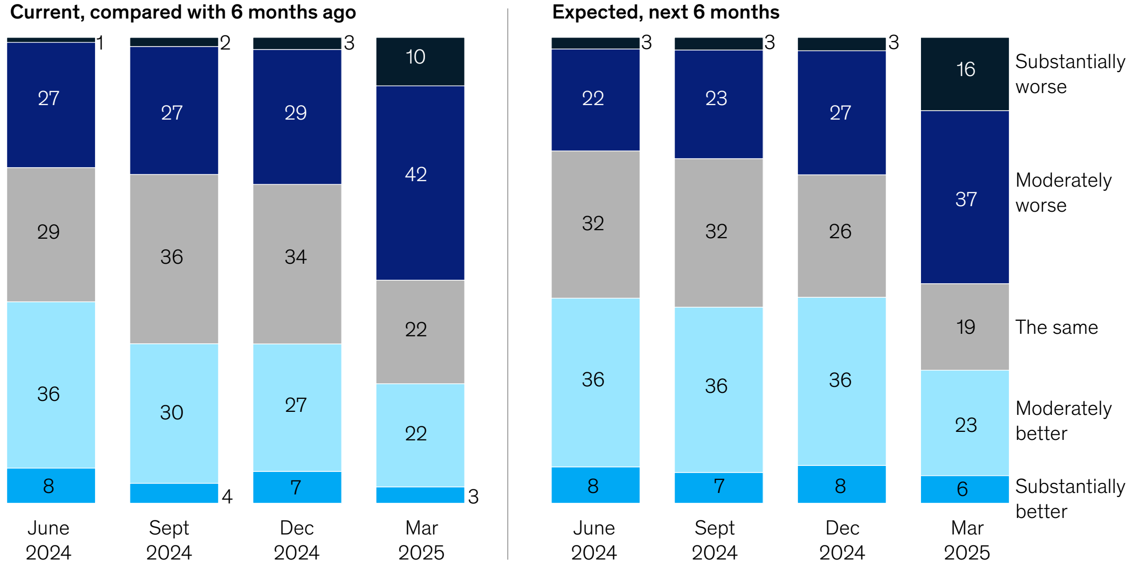
Over the past year, smaller shares of respondents have reported improvement in global economic conditions (Exhibit 2). For the first time since March 2023, the share saying conditions are worse than six months ago is larger than the share reporting improvement. Similarly, when asked about their own countries, about one-third of respondents say conditions have improved, the smallest share since September 2020.

[3] Inflation has been a top five risk to the global economy since March 2021 and to respondents' domestic economies since June 2021.

Exhibit 2

Respondents are more cautious about the global economy's current and future states than they were in recent quarters.

Global economic conditions,[1] % of respondents



Note: Figures may not sum to 100%, because of rounding.
[1]Out of 15 risks that were offered as answer choices. June 3–7, 2024, n = 927; Aug 28–Sept 6, 2024, n = 1,203; Nov 27–Dec 6, 2024, n = 912; Feb 26–Mar 7, 2025, n = 988.
Source: McKinsey Global Surveys on economic conditions, 2024–25

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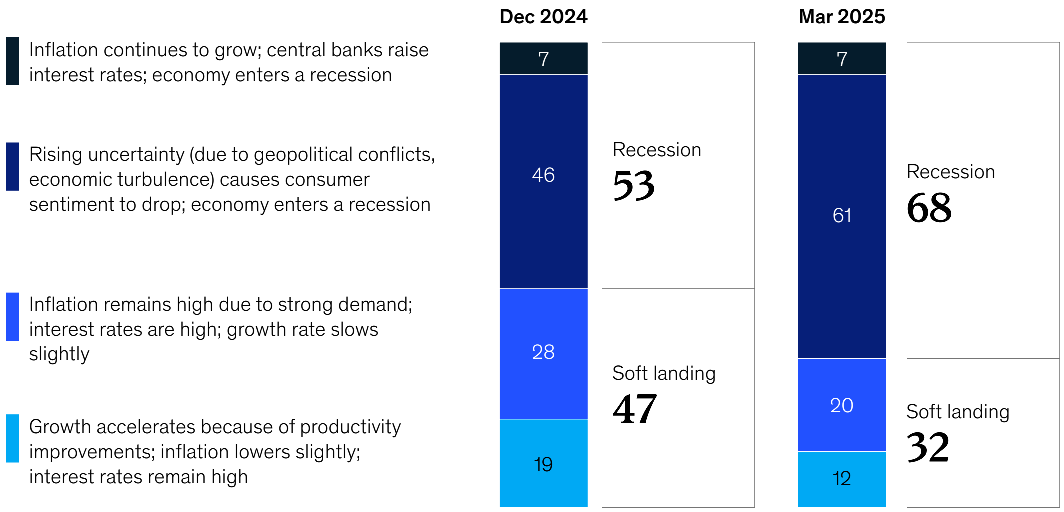
What's more, for the first time since December 2022, the share of respondents expecting global conditions to worsen over the next six months is larger than the share expecting improvement. Additionally, respondents see a global recession as increasingly likely. When we asked last quarter about four scenarios for the world economy in 2025 to 2026, 53 percent of respondents chose one of two recession scenarios as the most likely to occur. Now, nearly seven in ten rank a recession scenario as most likely (Exhibit 3). The largest share of all respondents, 61 percent, cite a demand-led recession, in which rising uncertainty causes consumer confidence to drop.

Exhibit 3

Respondents are more likely to predict a near-term recession than they were last quarter.

Share of respondents ranking each global scenario as the most likely to occur in 2025–26,[1] %



[1]Figures were calculated after removing respondents who answered "don't know" or did not rank any scenario as likely to occur.
Source: McKinsey Global Surveys on economic conditions, 2024–25

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Respondents remain more optimistic about the state of their own economies than about the global economy. They continue to see improvement in their countries as more likely than declining conditions. However, the share expecting improvement (39 percent) is the smallest since June 2022, and half of respondents predict increasing unemployment in their countries—the largest share since September 2020. Respondents in North America are the most likely to expect growing unemployment: 77 percent predict it, compared with 48 percent in December.

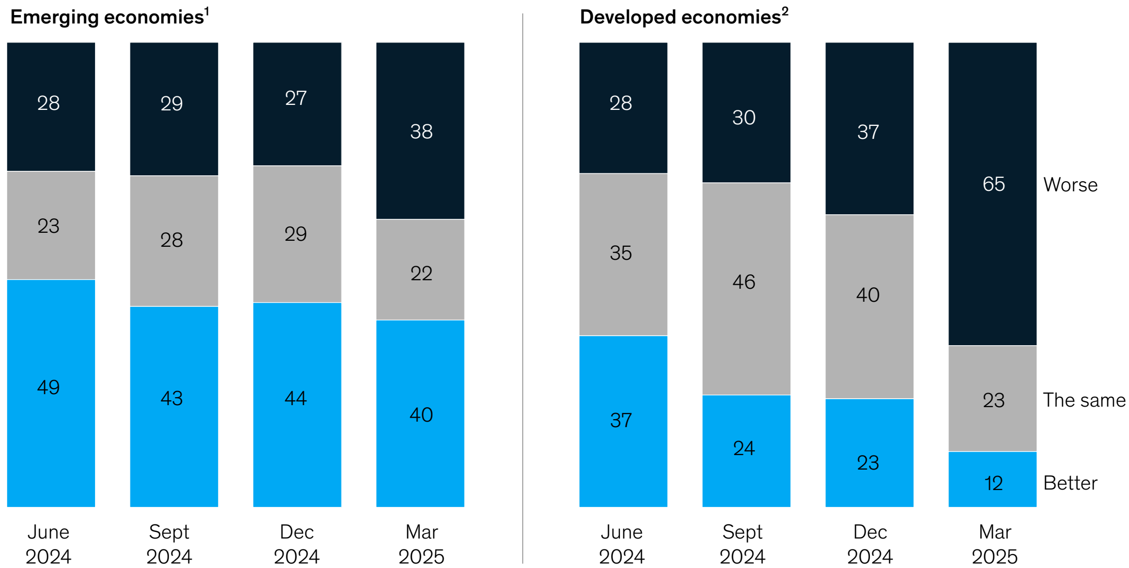
Respondents in emerging economies remain more upbeat

A closer look at the survey findings reveals a growing gap between sentiments in emerging economies, where the views are brighter, and those in developed economies. Respondents in emerging economies are much more likely than peers in developed economies to say global economic conditions have improved (Exhibit 4), and they are half as likely to predict declining conditions in the months ahead. Furthermore, respondents in developed economies are twice as likely as those in emerging economies to say their countries' economies have weakened in the past six months—and they are more than twice as likely to expect worsening conditions in the next six.

Exhibit 4

Respondents in emerging economies continue to share brighter views on global conditions than do respondents in developed economies.

Global economic conditions compared with 6 months ago, % of respondents



[1]June 3–7, 2024, n = 356; Aug 28–Sept 6, 2024, n = 485; Nov 27–Dec 6, 2024, n = 363; Feb 26–Mar 7, 2025, n = 355.
[2]June 3–7, 2024, n = 571; Aug 28–Sept 6, 2024, n = 718; Nov 27–Dec 6, 2024, n = 550; Feb 26–Mar 7, 2025, n = 633.
Source: McKinsey Global Surveys on economic conditions, 2024–25

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Respondents in emerging economies are much less likely than those in developed economies to predict a recession in the global economy. Like respondents in developed economies, they view geopolitical instability and changes in trade policy as the top two biggest disruptions to both global and domestic economies, but smaller shares of respondents in these regions point to those two issues. Instead, they are much more likely than other respondents to see volatility in the financial markets as a global and domestic risk.

Company leaders train their focus on geopolitics and potential changes in trade policy

Geopolitics are also top of mind as a potential disruption to companies' performance. For the first time since March 2022, private sector respondents view geopolitical instability and conflicts as the most likely risk to companies' growth.[4] Geopolitical instability has overtaken weak demand—the most-cited risk in the previous three quarters—as a cited disruption, followed closely by changes in the trade environment and trade relationships. The share citing changes in trade as one of the biggest risks to company performance over the next 12 months is nearly double the share citing the same six months ago.

[4] Data collection for the March 2022 edition of the survey began four days after Russia invaded Ukraine.

However, some respondents see potential disruptions in trade as more of an opportunity than a risk for their companies. Twenty-three percent say potential disruptions in trade and trade policy are more of an opportunity, while 27 percent see the opportunity and risk as equivalent. Respondents in North America and Europe are more likely to view trade changes as a risk, whereas respondents in Greater China are much more likely than others to view it as an opportunity for their organizations.

While respondents remain more likely to expect improvement than decreasing profits and demand, the share expecting positive changes is the smallest in years. Fifty-five percent expect their companies' profits to increase in the next six months, the smallest share since September 2022. And while the share of respondents expecting customer demand for their companies' products or services to increase is the smallest since June 2020 (46 percent expect increasing demand), they remain more than twice as likely to expect improving demand than decreasing demand. What's more, the share expecting their companies' workforces to grow is the smallest since the June 2020 survey.[5]

[5] Twenty-eight percent expect increasing workforce size, while 46 percent of respondents expect no change in the next six months.

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Methodology note

This goal of this survey is to gather and analyze data on business professionals' sentiments about the economic landscape—globally and in their own countries—and about expected changes at their organizations. To ensure that our sample of respondents from around the world accurately represents the distribution of global economic activity, we previously employed a country-based weighting scheme that reflects global GDP (based on purchasing-power parity). With this approach, an individual country could have a more variable influence on the global data set.

For this iteration of the longitudinal survey, we have transitioned to a region-based weighting scheme that still reflects global GDP (based on purchasing-power parity). This new approach limits the over- and underrepresentation of individual countries (to moderate the influence of any one country on the global average) and improves the overall weighting efficiency of the data set, resulting in a more balanced representation. The transition to region-based weighting is intended to enhance the quality of the data reported by keeping weighting to a minimum.

In this research, we group countries into the following regions: Asia–Pacific (excluding Greater China and India), Central and South America, Europe, Greater China, India, Middle East and North Africa, North America (including Mexico), and other developing markets.

In this article, the changes to the weighting approach do not significantly change the reported findings. In most cases, the new values of the weights change the global averages by two percentage points or fewer. In only one survey question—about the biggest perceived risks to global economic growth in the next 12 months—do we see the weighting affecting the global average. Using the region-based scheme, "geopolitical instability and/or conflicts" and "changes in trade policy and/or relationships" are each cited by 59 percent of respondents. With the country-based scheme, "changes in trade policy and/or relationships" is cited by 57 percent of respondents, and "geopolitical instability and/or conflicts" by 56 percent.