Economic and hiring outlook, Second Quarter 2008: A McKinsey Global Survey

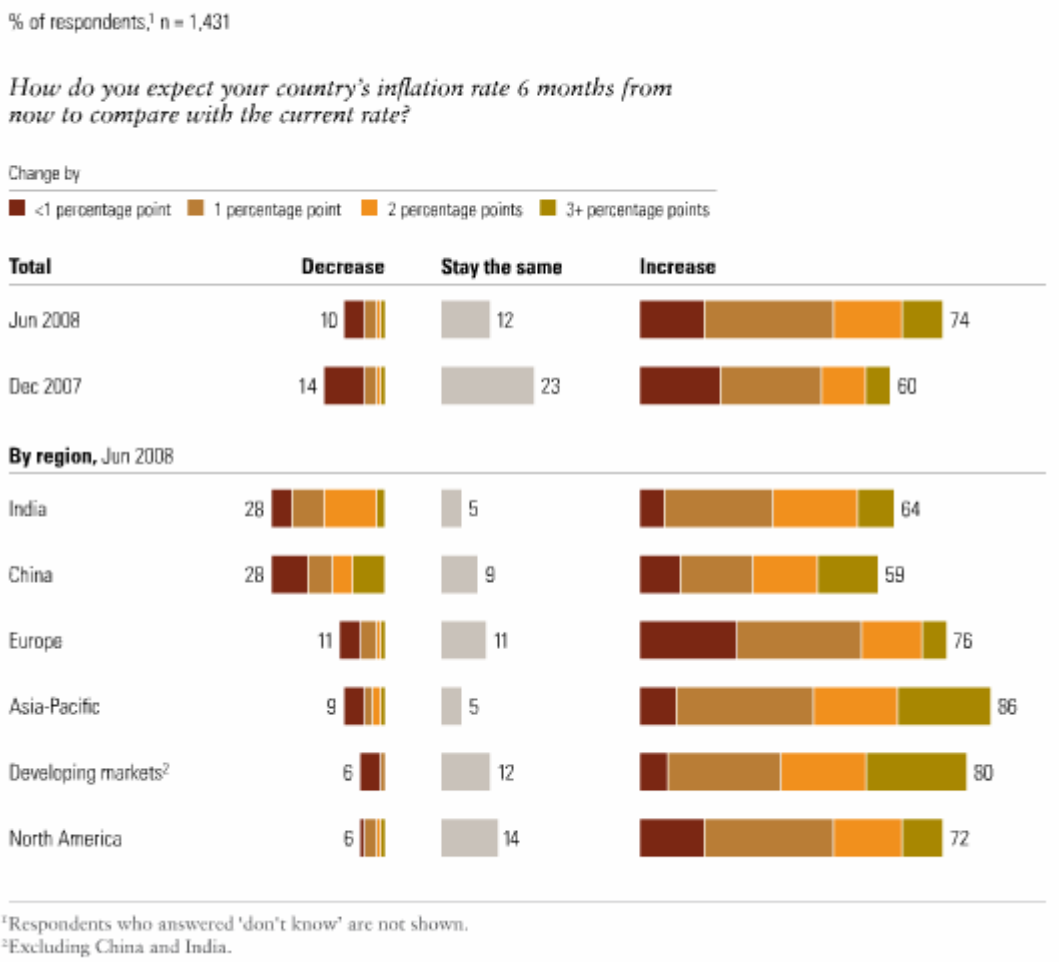
Executives say that their companies can't raise prices to match inflation. Manufacturers— and executives in China—are the only exceptions.

Executives around the world feel stymied by current economic conditions: although most respondents face rising inflation, almost half don't expect their companies to raise prices over the next six months, according to the latest McKinsey Global Survey.1 Furthermore, a significant number of executives aren't sure whether their companies will raise prices, suggesting that many find it difficult to project even near-term economic changes.

The survey highlights just how much expectations of inflation have escalated over the past six months as food and energy prices have continued to rise: almost three-quarters of the executives now expect higher inflation, up from 60 percent (Exhibit 1). To make matters worse, more than 70 percent say that input costs have already increased (Exhibit 2). A quarter say that these costs rose in a range from 11 to 20 percent over the past six months.

EXHIBIT 1

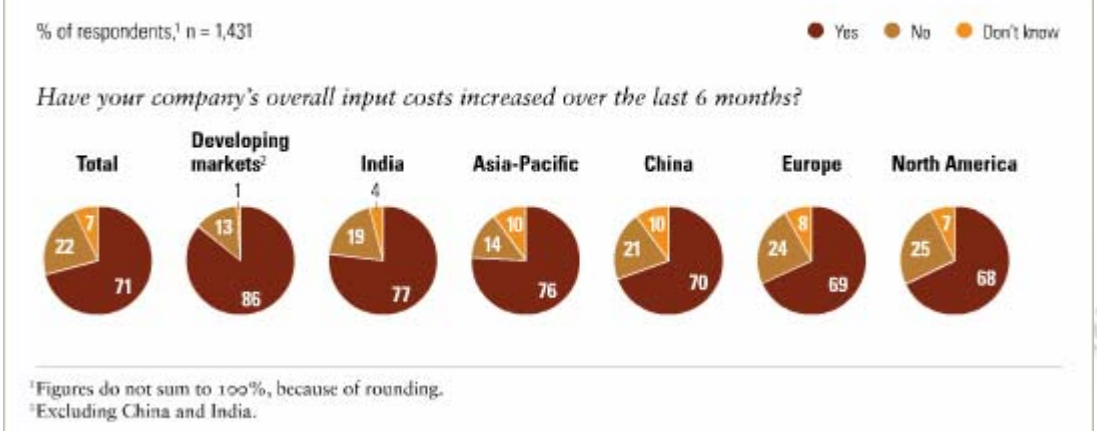
Inflation everywhere



[1]Respondents who answered 'don't know' are not shown.
[2]Excluding China and India.

EXHIBIT 2

More expensive inputs

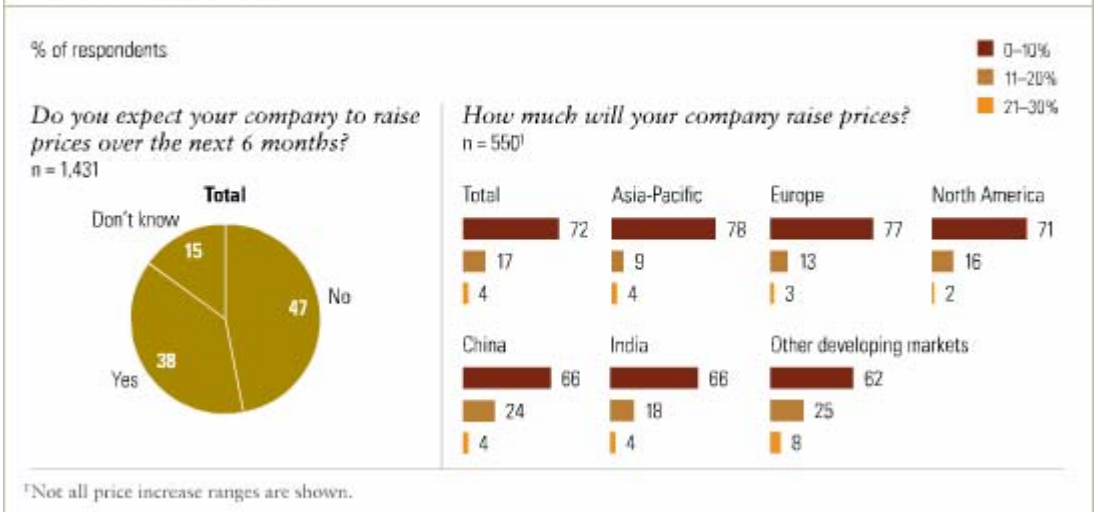


[1]Figures do not sum to 100%, because of rounding.
[2]Excluding China and India.

Not surprising, executives in manufacturing have been hardest hit—almost 90 percent report an increase in the cost of inputs. Executives in this sector cite rising energy costs as the global problem that had the greatest effect on the economic condition of their companies; the respondents overall, though concerned about inflation, chose the economic slowdown. Despite all this, executives say that the prices their companies charge won't keep pace with inflation (Exhibit 3). Just 37 percent of the respondents indicate that their companies raised prices in the past six months; 38 percent expect to be able to raise them over the next six. Only in the manufacturing sector—which suffered most from the rising cost of inputs—did a majority of the respondents say that their companies had raised prices and will continue to do so.

EXHIBIT 3

No pricing power



[1]Not all price increase ranges are shown.

A startling proportion of the executives aren't sure what pricing policy their companies will follow, suggesting that energy costs and the ongoing credit crunch have made even short-term planning difficult. Fifteen percent of all respondents say that they don't know if their companies will raise prices during the next six months. Among respondents at public companies and the largest companies,2 the uncertainty is even more acute: 22 and 21 percent, respectively, are not sure if they can raise prices in the near term. Nearly a quarter of those who expect inflation to rise by three percentage points or more aren't sure if the prices their companies charge will keep pace.

In China, however, nearly half of all respondents do expect their companies to raise prices—about a quarter of them by 11 to 20 percent. Even so, inflationary expectations have eased there; though 59 percent of executives in China expect higher inflation, that is 10 percent fewer than did so just three months ago. Indeed, rising prices from a country that is generally seen as a low-cost manufacturer may be driving some of the inflationary expectations of executives elsewhere.Six months ago, 37 percent of the respondents expected economic conditions in their countries to worsen; today, 64 percent say that they have (Exhibit 4). The strain, which is clear across regions, is most notable in Asia's developed countries, where inflationary expectations are highest: six months ago, only 26 percent of the executives there expected economic conditions to worsen, but 71 percent now say that they did. In general, the near-term outlook continues to be bleak: 43 percent of the respondents overall expect things to get worse (Exhibit 5), up five percentage points from six months ago. Yet in North America, the percentage of executives expecting conditions to deteriorate (37 percent) is lower than it was then (46 percent).

EXHIBIT 4

Deteriorating conditions

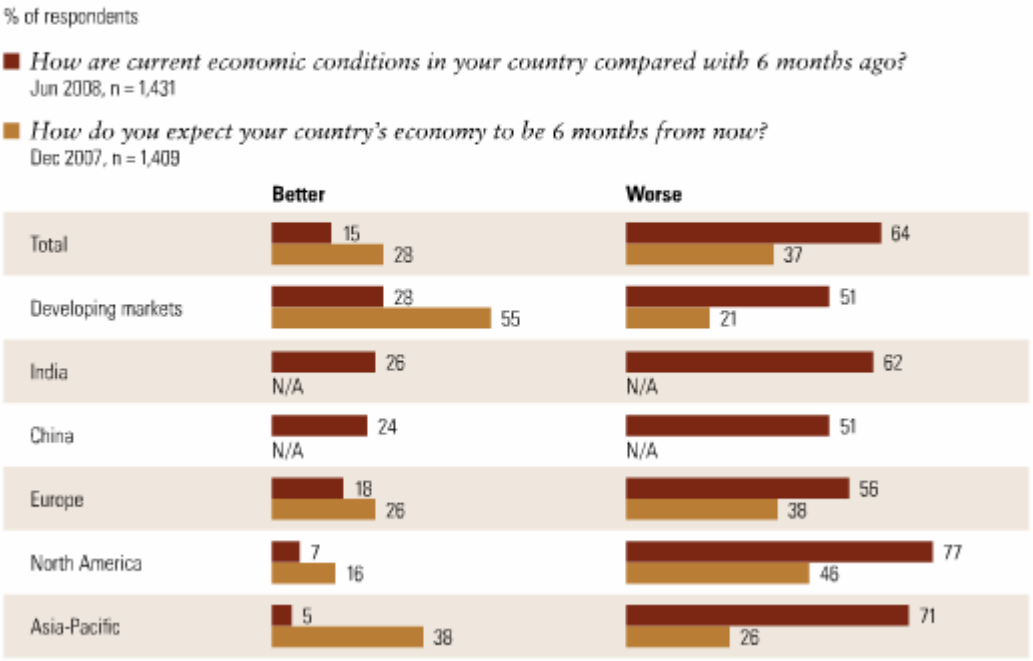
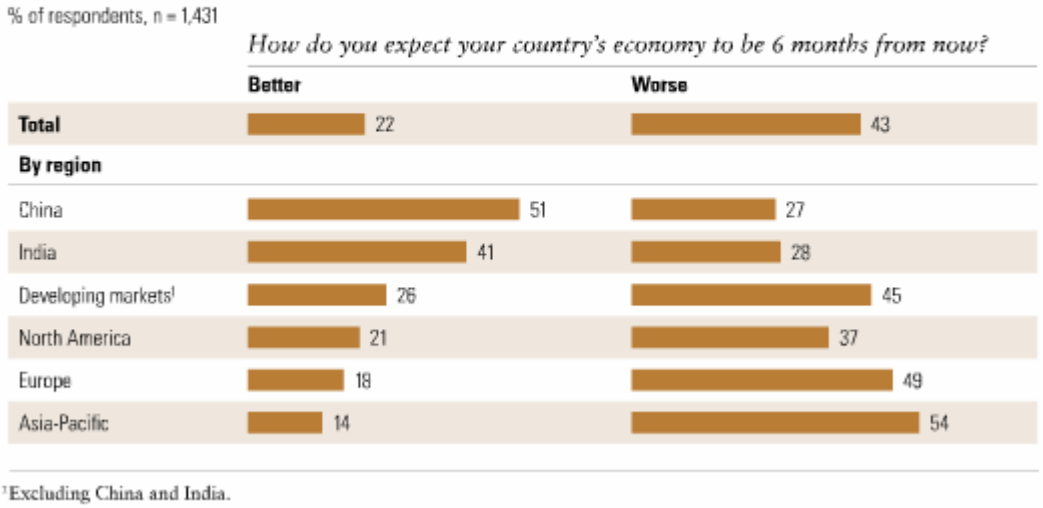


EXHIBIT 5

Bleak near-term outlook

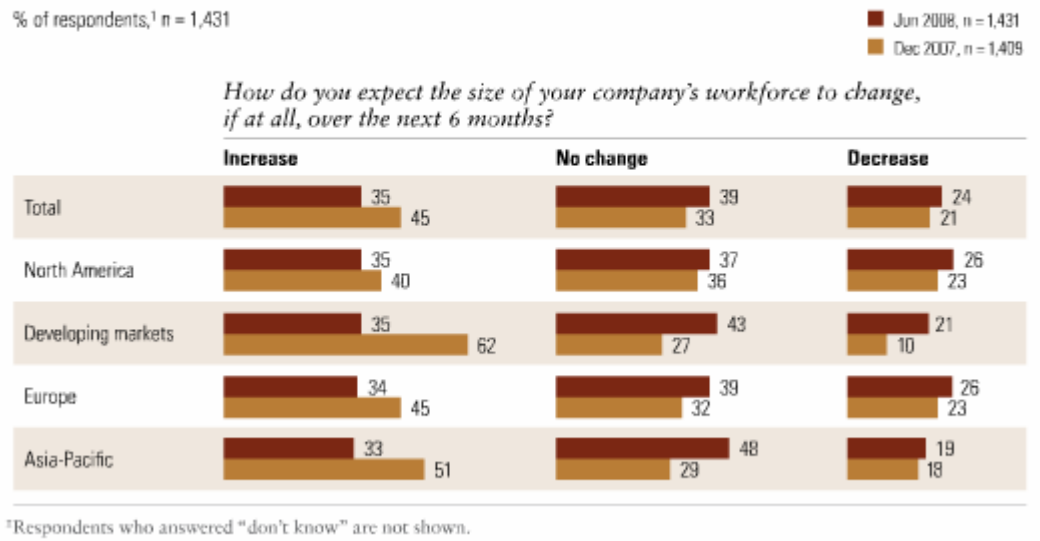


[1]Excluding China and India.

Hiring prospects started creeping downward at that time. Today, more executives say that hiring will remain steady (39 percent) than increase (35 percent), except in India and in the high-tech and telecom sectors. The percentage of executives who expect their companies to do more hiring has dropped by 10 percentage points from its level six months ago (Exhibit 6).

EXHIBIT 6

Hiring stalls



[1]Respondents who answered "don't know" are not shown.

Notes

1The McKinsey Quarterly conducted the survey in June 2008 and received responses from 1,431 executives around the world. The data were weighted to reflect the proportional representation of segments in the total population.

2Companies with $1 billion or more in revenue.

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