Photo by Sarah Adam, Kearney, Dubai

Uncharted territory

Global Economic Outlook 2025–2027: 1H 2025

Kearney Foresight
Global Business Policy Council

KEARNEY

KEARNEY FORESIGHT

Global Business Policy Council

The Global Business Policy Council, part of the Kearney Foresight network, is a leading voice on business-environment research and policy. Since its first CEO Retreat in 1992, the Council has provided strategic foresight services for the world's top executives and government officials. Through public-facing thought leadership, exclusive global forums, and advisory services, the Council helps decipher complex geopolitical, economic, social, and technological shifts, creating clarity for CEOs and government leaders around key developments and trends for immediate impact and lasting advantage.

Our latest scenario analysis suggests unprecedently high levels of uncertainty and growing economic fragmentation, creating simultaneous challenges and opportunities for businesses.

Foreword

The opening months of 2025 have been defined by extraordinarily high levels of volatility transforming the global economic outlook. Baseline projections earlier in the year suggested falling inflation and stabilizing global growth, but the potential now for wildcard events—from rising protectionism and tariff proliferation to step-change advances in AI and other emerging technologies—all suggest further global economic disruption. As Pierre-Olivier Gourinchas, chief economist of the International Monetary Fund, noted in April, "The surge in policy uncertainty is a major driver of the economic outlook. If sustained, the increase in trade tensions and uncertainty will slow global growth significantly."

As we assess the outlook for the next three years, the conclusion is inescapable: we are now entering uncharted territory. As the global economy moves beyond the post-pandemic period, the foreseeable future is likely to be shaped by an increasingly fragmented economic landscape. That view is shared by the members of the World Economic Forum's Chief Economists Group, 94 percent of whom indicated they expect more fragmentation over the next three years, driven primarily by geopolitical rivalries and domestic policy decisions. Such fragmentation is likely to create additional barriers to labor mobility and the transfers of technology and data, exacerbating existing labor and skill shortages.

Sharp escalations in protectionist trade measures—a reflection of such broader fragmentation—are already creating economic headwinds. While such policies are often intended to build domestic resilience and protect strategic industries, they also carry downside risks. Implemented poorly, they can stifle competition, undermine productivity and trade growth, disrupt supply chains, lower investment, and deepen the economic gap between emerging and advanced economies. From a consumer perspective, rising fragmentation could contribute to lower growth levels, a resurgence in inflation, and higher costs for consumers and businesses.

Despite these challenges, our outlook also identifies areas of opportunity. Advances in generative AI and quantum computing could serve to boost productivity gains. And some regions may emerge with a comparative advantage in the shifting operating environment. Our baseline projections suggest that the Middle East and Africa, powered by the United Arab Emirates and Saudi Arabia, will edge ahead of Asia and Australasia as the fastest-growing region in the world, maintaining steady growth amid global trade turmoil.

Nevertheless, our baseline projections reflect downgraded prospects for global output growth in the short term amid rising complexities. To explore how key factors, including geopolitics, industrial policy and tariffs, and technology, could shape the trajectory of economic performance, we have created an original set of scenario narratives examining plausible economic futures through 2027. Combined with econometric modeling and output growth projections, these scenarios offer an assessment of the range of potential economic futures relevant to business leaders.

While we may be entering uncharted territory defined by volatile headwinds and high levels of uncertainty, strategic leaders are fortifying their businesses for what lies ahead and pinpointing areas of opportunity. It is in this spirit that we offer this scenario-based assessment of the global economic outlook and corresponding implications for business.

As always, we welcome your views on our analysis.

Erik R. Peterson
Partner and managing director
Global Business Policy Council
Kearney

Summary of key conclusions

What is the three-year economic outlook? The baseline global growth outlook through 2027 reflects a marked deceleration from prior forecasts, driven in large part by US tariff announcements, rising geopolitical risk, and broader economic policy uncertainty. A decline to 2.3 percent global output growth is anticipated for this year and next, followed by a modest rebound to 2.9 percent in 2027. Our latest projections suggest 2025–2027 average growth of 2.5 percent, marking a decline from the 2.8 percent projected in January.

What will happen to global inflation? Global inflation is projected to ease throughout the forecast period (2025–2027) relative to the inflationary spikes of 2022 and 2023. Inflation is expected to average 2.2 percent in developed markets and 4.0 percent in emerging markets, with these higher rates attributed to more volatile currency fluctuations and other structural factors, including political instability.

Which region will contribute the most to global economic growth through 2027? The Middle East and Africa emerges as the fastest-growing region in the world, with anticipated average output of 3.6 percent despite global trade turmoil. Asia and Australasia follows close behind, with 2025–2027 average output growth of 3.5 percent. Growth in the Americas will average 1.9 percent, a marked decline compared to January projections of 2.5 percent. Europe and Eurasia remains the slowest-growing region, with projected average growth of just 1.2 percent over the forecast period.

What factors will shape the economic outlook through 2027? Five factors will be especially important in determining the future of the global economy: geopolitical risk, industrial policy and tariffs, institutional stability, technological disruption, and environmental degradation.

What is the global sectoral outlook? While trade volatility is slated to impact every sector to some degree, services and construction are expected to be relatively insulated. On the other hand, the textile and motor vehicles industries could see significant downside risk if tariffs persist.

What does scenario analysis suggest? While these five factors will shape the economic trajectory, scenario-based econometric modeling suggests elevated levels of downside risk. Three of four scenarios fall below baseline projections of 2.5 percent average output growth through 2027, with the weakest growth projections falling to average growth of -1.8 percent over the forecast period.

How can businesses prepare for the changing economic outlook? To navigate the high levels of economic uncertainty, strategic businesses will diversify global operations, monitor and seek opportunities to leverage industrial policies, invest in innovation, and pursue workforce upskilling and reskilling programs to keep pace with labor and technology shifts.

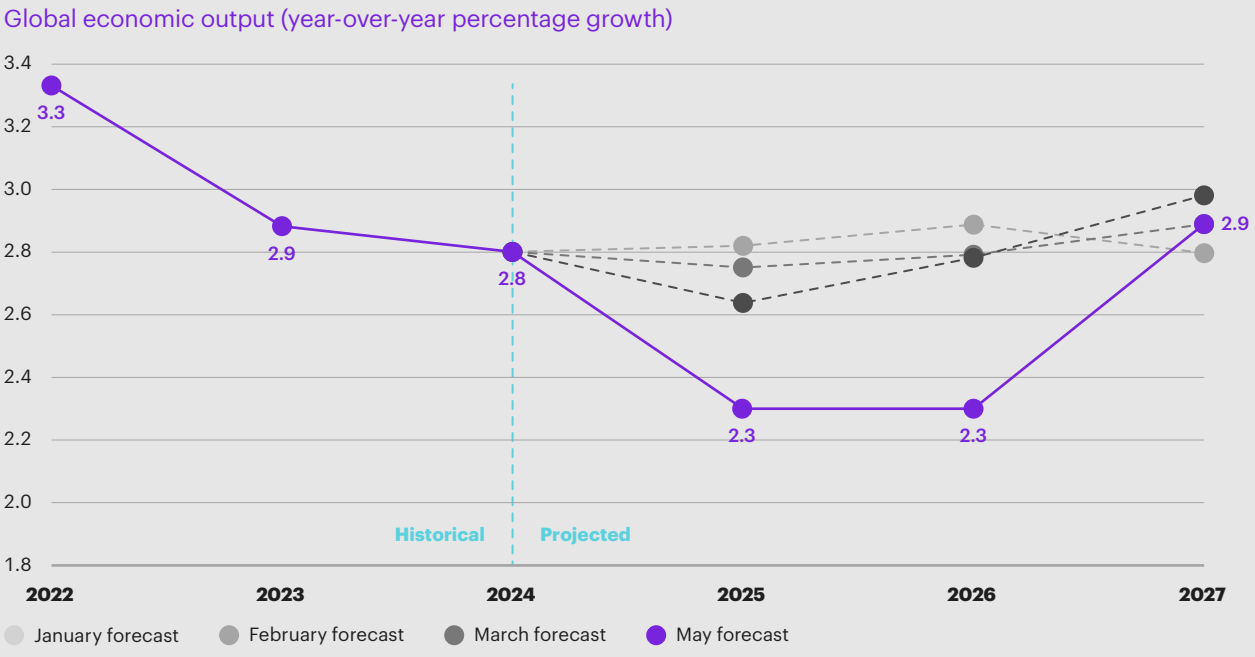
What is the three-year economic outlook?

The baseline global growth outlook through 2027 has been significantly impacted by rising economic policy uncertainty, particularly following US announcements in April regarding universal 10 percent tariffs and additional "reciprocal" tariffs calculated on the basis of bilateral trade deficits. The subsequent market and economic volatility have resulted in steady downgrades to growth projections (see figure 1). Since the beginning of the year, growth forecasts by Oxford Economics have been downgraded in each subsequent month—in January, global growth for 2025–2027 was projected to be 2.8 percent. May forecasts suggest average growth of 2.5 percent, well below pre-pandemic levels, when output regularly exceeded 3 percent.

While the potential for new trade deals may create opportunities for tailwinds, US policy volatility and heightened trade tensions will continue to shape the overall trajectory for global growth. Earlier this year, International Monetary Fund (IMF) chief economists warned of the growing "divergence between the United States and the rest of the world," arguing that such shifts may lead to longer-term market disruptions. The effects of such divergence in US trade policy appear to be manifesting, with the IMF raising the alarm that uncertainty over global trade policies is "off the charts" and set to undercut growth, push up prices, and disrupt financial markets. The outlook from the World Trade Organization (WTO) is also cautionary. Having previously projected global goods trade to expand by 2.7 percent in 2025, the WTO now forecasts it will fall by 0.2 percent.

Structural challenges may create additional headwinds. Beyond fragmented trade and the proliferation of tariff and industrial policies, intensifying geopolitical conflict, and disruptive fiscal policy adjustments are likely ahead. The confluence of these challenges has led economists across economic and financial institutions to downgrade 2025 growth prospects relative to January, including the IMF's World Economic Outlook (from 3.3 to 2.8 percent), the Peterson Institute (3.2 to 2.7 percent), and S&P Global (from 2.5 to 2.2 percent), among others.

Figure 1
Baseline growth is projected to average 2.5 percent through 2027



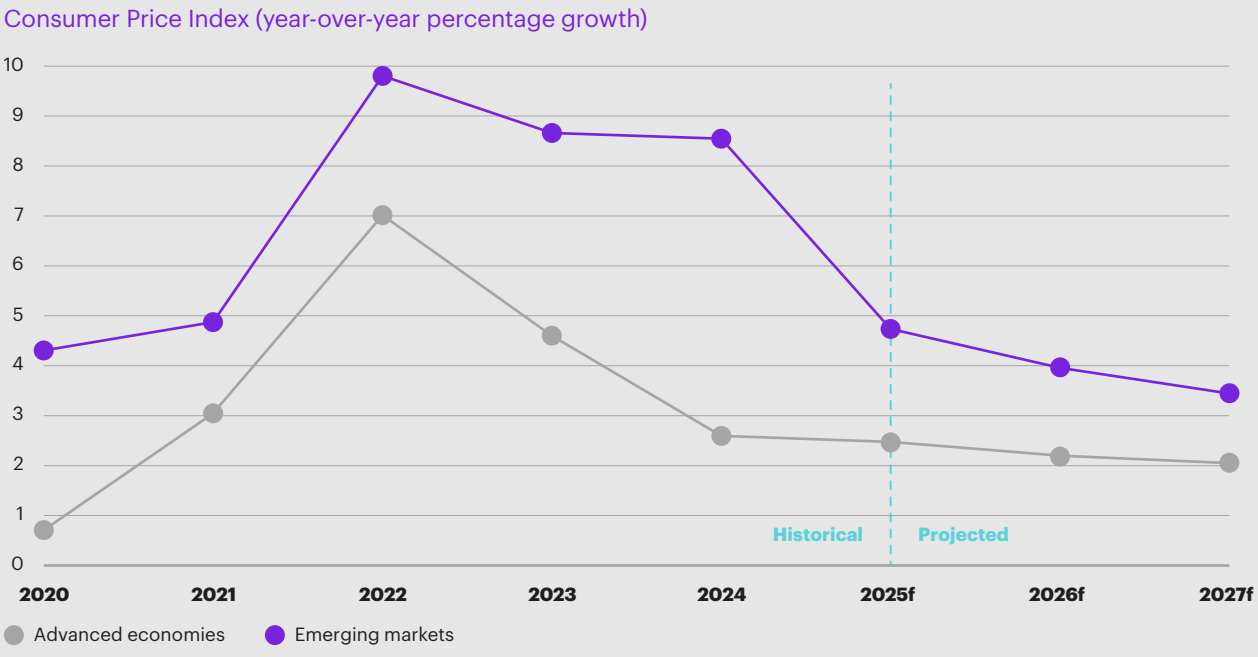
Sources: Oxford Economics; Kearney analysis

What does the outlook suggest for inflation?

Despite increased economic policy uncertainty, baseline projections continue to suggest that global inflation will ease throughout the forecast period relative to the inflationary spikes of 2022 and 2023. In advanced economies, inflation, as measured by Consumer Price Index, is expected to average 2.2 percent from 2025 to 2027, converging closer to target inflationary levels (see figure 2). In emerging markets, inflation is relatively higher, expected to average 4.0 percent owing to a combination of structural factors, including higher public debt, currency volatility, and domestic political challenges. Though the global disinflation process is underway, tariffs have moderated the pace and pushed inflation projections higher. The IMF cautions that the implementation of tariffs could disrupt the projected fall in inflation levels and hinder the shift toward easing monetary policy.

Though the global disinflation process is underway, tariffs have moderated the pace and pushed inflation projections higher.

Figure 2
Levels of inflation are projected to fall throughout the forecast period



Sources: Oxford Economics; Kearney analysis

Which region will contribute the most to global economic output through 2027?

The **Middle East and Africa** emerges as the fastest-growing region in the world, buoyed by its relative resilience to the economic fallout from US tariffs. The region's 2025–2027 average growth forecast edges ahead of Asia and Australia by 0.1 percent, with anticipated average output of 3.6 percent (see figure 3 below and figure 4 on page 6). The United Arab Emirates (UAE) leads the five fastest-growing large economies in the region, with anticipated average growth of 4.9 percent over the forecast period. Strong domestic activity, limited direct tariff exposure, projected easing of OPEC+ production cuts, among other developments, are expected to keep near-term economic growth healthy. Saudi Arabia follows the UAE with 4.8 percent average GDP growth. Though oil revenues will likely decline in Saudi Arabia as oil prices decrease, Vision 2030-driven non-oil sector growth, backed by government investment, is projected to encourage robust spending and enhance economic prospects.[1]

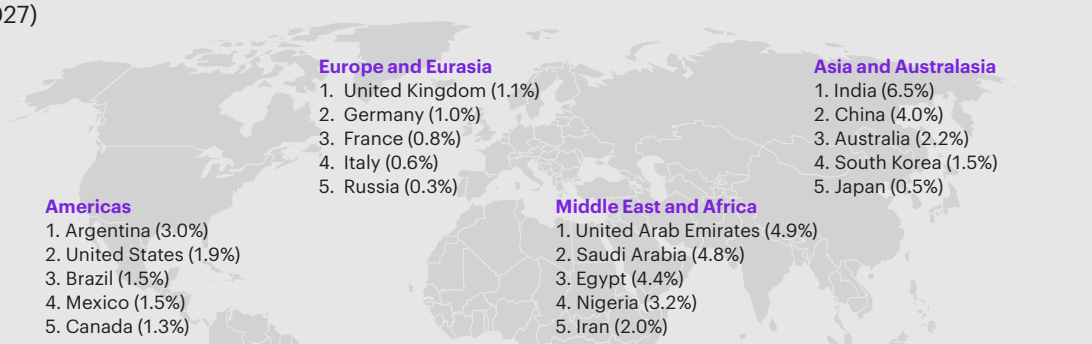
Leading Gulf Cooperative Council countries are poised to benefit from an expanded role on the global diplomatic stage. Leveraging growing international influence and warm relations with the United States, the region is well-positioned to navigate the complexity of a rapidly evolving trade environment. The region's vast oil reserves are an asset, offering not only a strong position in trade negotiations, but also a potential vulnerability if oil prices are to lower amid weaker global demand.

Asia and Australasia slips marginally behind the Middle East and Africa in terms of output growth, largely a function of growth trajectories disrupted by trade tariffs. The region is projected to have a 2025–2027 average growth rate of 3.5 percent. India and China continue to drive much of this growth, though both markets face potential challenges such as poor industrial growth and weak consumer confidence, respectively.

[1] Saudi Arabia Country Economic Forecast, Oxford Economics, 31 March 2025

Figure 3
The Middle East and Africa is anticipated to be the world's fastest-growing region

Regions driving economic output
(average annual GDP growth of largest regional economies; countries ranked in order of fastest average growth, 2025–2027)



Region	2025f	2026f	2027f	Forecasted average annual growth 2025–2027 (%)
Americas	1.3	1.6	2.7	**1.9**
Asia and Australasia	3.5	3.4	3.6	**3.5**
Europe and Eurasia	1.3	0.9	1.5	**1.2**
Middle East and Africa	3.3	3.9	3.6	**3.6**

Sources: Oxford Economics; Kearney analysis

Figure 4

Twelve of the 20 largest regional economies are projected to experience slower growth in 2025 than they did in 2024

Growth by country in 2025 compared with 2024
(Change in GDP by largest regional economies)

Source: Oxford Economics, Kearney analysis

India remains the world's fastest-growing large national economy with projected average GDP growth of 6.5 percent throughout the forecast period. Despite some headwinds, including slowing Q1 2025 growth and weakening private consumption, India benefits from relatively low levels of inflation, investment growth, as well as strong employment levels.

China's outlook is also shifting. After routinely achieving growth levels of well over 6 percent for much of the 2000s, the country appears to be entering a new economic period marked by growth projected to average just 4 percent over the 2025–2027 forecast period. Beyond the headwinds and uncertainty caused by US tariffs, structural issues are behind this decline, including the ongoing property crisis and high local government debt levels, among others. However, resilient retail activity and manufacturing strength, both priority areas for additional domestic stimulus programs, may serve to offset some of these challenges.

South Korea and Japan face a far less favorable outlook in the face of US trade tariffs. Anemic growth is projected to continue, with expected average growth rates of just 1.5 percent in South Korea and 0.5 percent in Japan. South Korea is facing weakened economic prospects, in part because of weakening private consumption and a slowdown in business investment due to geopolitical uncertainty and US trade policy. And though Japan is expected to see a modest recovery to 0.8 percent growth in 2025—up from a contraction of 0.1 percent in 2024—a weak yen, aging demographics, and low expectations for exports and business investments because of tariffs are likely to keep longer-term growth rates under 1 percent.[2]

The **Americas** is projected to see 1.9 percent expected average growth between 2025 and 2027. In a striking comeback, Argentina is expected to lead the growth of the region's five fastest-growing large economies, with projected average output growth of 3.0 percent over the forecast period (up from a 1.7 percent contraction in 2024). Increases in foreign direct investment inflows following regulatory reforms fuel this growth, alongside strong consumption and the April approval of a $20 billion extended arrangement with the IMF.

The United States faces an acute slowdown, with average growth expected at just 1.9 percent amid sweeping tariff-related policy shifts. Growth is expected to fall sharply to 1.3 percent in 2025 but will somewhat stabilize in 2026 and 2027, projected to reach 1.7 and 2.8 percent, respectively—representing a 2 percent lower GDP level than March forecasts. Rising national debt—on track to reach a record high of more than 106 percent in 2029—risks dampening longer-term growth prospects.

Canada is projected to experience average growth of 1.3 percent over the forecast period—the lowest of the top five economies in the Americas. A deepening recession and weaker global demand amid uncertainty weigh on the outlook.[3] And Mexico is anticipated to grow just 1.5 percent over the forecast period. The IMF's downward revision across Latin America and the Caribbean is largely due to the significant downgrade in growth in Mexico resulting from the impact of tariffs and tightening of financing conditions.

Europe and Eurasia is projected to be the slowest-growing region, with average output of just 1.2 percent over the forecast period. Key challenges impacting the outlook include ongoing global trade frictions alongside longer-term competitiveness challenges, geopolitical volatility, and fiscal policy issues. The relative success of new strategic efforts, such as the European Commission's Competitiveness Compass, to reduce red tape, encourage investment, and bolster innovation and resilience, will shape the region's economic trajectory.

[2] Japan Country Economic Forecast, Oxford Economics, 28 March 2025
[3] Canada Country Economic Forecast, Oxford Economics, 17 April 2025

Though the five fastest-growing large economies in Europe are all facing lower growth prospects, the United Kingdom leads the pack with projected output growth of 1.1 percent between 2025 and 2027. Despite a better-than-expected performance in Q1 2025 and the continued strength of the pound, the outlook has been damaged by US tariffs and falling demand for UK exports.

Germany and France are expected to see anemic average 2025–2027 growth of 1 percent and 0.8 percent respectively. Historically a regional powerhouse, Germany has been facing economic challenges in recent years, experiencing GDP contractions of 0.1 and 0.2 percent in 2023 and 2024, respectively. Multiple challenges contribute to this outlook, including trade uncertainty, specifically those targeting the automobile sector. However, Germany's decision to release the debt break to enable additional spending in defense and infrastructure marks a sea change in fiscal policy with the potential to offset some of the headwinds in the external operating environment. In France, wage increases have helped households outpace inflation. US tariffs are likely to weigh on business confidence and could disrupt labor markets, though the country remains less exposed to targeted sectors, such as automobiles and pharma, compared with some of its neighbors.

Which sectors will perform best (and worst) in a volatile global economy?

Economic policy uncertainty more broadly, and US tariffs specifically, are projected to result in a shallow recession in global industry, though growth will remain positive in annual terms. The largest forecast downgrades can be seen in the United States, where industrial output is on pace to shrink by 0.8 percent in both 2025 and 2026. Further, tariff-induced price increases risk weakening goods demand, and elevated uncertainty will weigh heavily on investment-led sectors. Activity is projected to weaken sharply in sectors reliant on imported inputs, such as automotives (see figure 5 on page 9). Global services will be more insulated overall, but service sectors that support manufacturing and trade, such as ocean freight and logistics, will also see slowing growth.[4]

Within the consumer goods industry, food, beverages, and tobacco will fare relatively well given the sector's strong domestic focus and shorter supply chains. However, the textiles and clothing sector is poised to be hit particularly hard by US tariffs, given that the tariffs will likely be passed on to the end consumer. These dynamics will likely push buyers into secondhand clothing markets or, more concerning, into purchasing counterfeit goods.

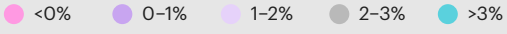
Investment goods will also face changes. Given the globally integrated nature of the aerospace supply chain, tariff hikes in the United States will cause disruption and uncertainty throughout the sector. Slow economic growth and high inflation have caused consumers to reduce travel spending—representing another hit to the industry.[5] And the global motor vehicles and parts sector is slated to be hit particularly hard in the short term, with an anticipated decline of 1.8 percent in 2025 and 2.1 percent in 2026. Though the United States partially eased auto tariffs at the end of April, this reprieve will likely be temporary.

[4] Oxford Economics Global Industry Briefing: Global: US tariff hikes to cause global industrial recession, 25 April 2025
[5] Oxford Economics Monthly Industry Briefings: Trade War likely to produce a short global industrial recession, April 2025

Figure 5
Sector heat map

Global industry performance projections
Production, value-added output, real $, % change year over year

Key sector	% of GDP (2025)	2024	2025f	2026f	2027f
GDP	**100.0**	2.8	2.3	2.3	2.9
Industrial production	**22.0**	2.6	1.6	1.6	2.9
Manufacturing	17.5	2.8	1.5	1.4	3.0
— Consumer goods	5.3	2.9	2.1	1.7	2.9
— Food, beverages, and tobacco		3.0	2.9	2.6	3.1
— Textiles, leather, and clothing		1.7	1.9	0.4	2.1
— Pharmaceuticals		2.8	3.3	1.7	3.4
— Investment goods	5.4	0.7	0.6	0.8	2.9
— Mechanical engineering		–0.6	0.2	1.4	3.8
— Motor vehicles and parts		0.5	–1.8	–2.1	0.5
— Aerospace		3.3	2.1	0.6	4.1
— Intermediate goods	6.9	4.4	1.8	1.7	3.1
— Chemicals, excluding soaps		4.2	0.9	2.0	3.6
— Basic metals		4.1	2.3	0.7	2.2
— Rubber and plastics		2.5	1.7	0.2	2.3
Utilities	2.2	2.8	3.1	3.5	3.6
Extraction	2.3	0.6	0.8	1.0	1.1
Construction	**5.1**	2.7	1.0	2.6	2.8
Agriculture	**4.0**	2.9	1.7	1.5	1.9
Services	**68.8**	2.9	2.5	2.5	2.8



Sources: Oxford Economics; Kearney analysis

The impact of tariffs on construction will largely be indirect, as most global economies are not heavily exposed to the United States in terms of trade of construction inputs. Most of the impact will come from the weakened global investment outlook in the near term amid rising business uncertainty. Nonresidential investment will likely be the most heavily impacted subsector, with its forecast for 2025 being cut from 1.1 to 0.5 percent. Industrial projects are likely to be most affected owing to their connection to manufacturing and export markets.

Though many businesses across sectors are foregoing forecasting of future performance, citing the futility of the activity in this extremely volatile global economic environment, strategic executives will engage in scenario planning to explore multiple possible futures for the global economy and how their sector and company could be impacted (see scenarios below).

Strategic executives will engage in scenario planning to explore multiple possible futures for the global economy.

What factors will shape the economic outlook through 2027?

Five factors will be especially important in determining the future of the global economy through 2027:

Geopolitical risk. Geopolitical fault lines are shifting as countries around the world reassess traditional allies and strategic partners. Blackrock's Geopolitical Risk dashboard rates rising global trade protectionism, escalating conflict in the Middle East, rising tensions in the South China Sea, an escalation of global technology decoupling, and major cyber and terror attacks as "high" likelihood risk events. Each of these developments will shape the economic outlook as a shifting global order will transform trade relationships, global markets, and the broader economic environment.

Industrial policy and tariffs. Geopolitics, along with the experience of the COVID-19 pandemic, have contributed to a global rise in industrial policy over the past five years. Indeed, in the first four months of 2025 (including US tariff announcements on April 2), the number of new interventions—including subsidies, tariffs, and export-related measurements—already surpassed those in all of 2024. China, the European Union, and the United States have each developed their own types of industrial policy in the past decade. At its best, industrial policy can build domestic self-sufficiency, promote national security, and protect domestic businesses and products. But it can also encourage harmful retaliation and greatly restrict international trade. The extent and nature of these policies will have profound implications for the economic outlook—for better or for worse.

Institutional stability. Domestic and international institutions are tasked with solving increasingly complex challenges in an environment defined by rising economic inequality and eroding public trust. Richard Edelman highlighted this issue earlier this year when he published his 25th Trust Barometer, noting that "the multi-decade erosion of trust in institutions has turned into an avalanche." As trust declines in institutions—from governments and media to financial entities and international organizations—the ability to develop unified responses to complex challenges becomes much more difficult. Institutions that fail to garner popular support can negatively impact both the business operating environment and the nature of economic activity. Additionally, rising corruption can distort incentives for business and government leaders, hindering long-term growth. In this increasingly complex and volatile environment, the need for effective and stable institutions to navigate these challenges has never been greater, carrying profound implications for the trajectory of global growth.

Technological disruption. Technology innovation continues to reshape the global economy. IDC Research projects that business spending on AI alone will contribute $19.9 trillion to the global economy and account for 3.5 percent of global GDP by 2030. And Juniper Research forecasts that quantum computing could unlock $9.4 billion in commercial revenue in 2030—up from $2.7 billion in 2024. As beneficial to the global economy as rapid technological innovation is, it also can bring some downside risks. For example, cryptocurrency's decentralization can make it a tool for sanctions evasion and criminal activity. And increased automation drives efficiency gains but also risks labor force displacement at scale. The net effects of these and other technological gains on the economic outlook are a major wildcard.

Environmental degradation. It's official: 2024 was the hottest year on record and likely the first with a global mean temperature of more than 1.5°C above average. The past 10 years (2015–2024) have been the warmest on record, signaling intensifying and persistent climate challenges. The European Union estimates that between 1980 and 2023, weather and climate-related extremes prompted economic losses of assets estimated at €738 billion in the EU alone, and the overall cost of climate disasters since 1970 is estimated to be $4.3 trillion. Climate crises such as extreme temperatures, droughts, floods, pollution, and agricultural loss will continue to plague the planet, with Southeast Asia and Africa most at risk. These dynamics carry serious global economic repercussions, especially if policymakers do not act swiftly and in a coordinated manner to address them.

Where might we be going?

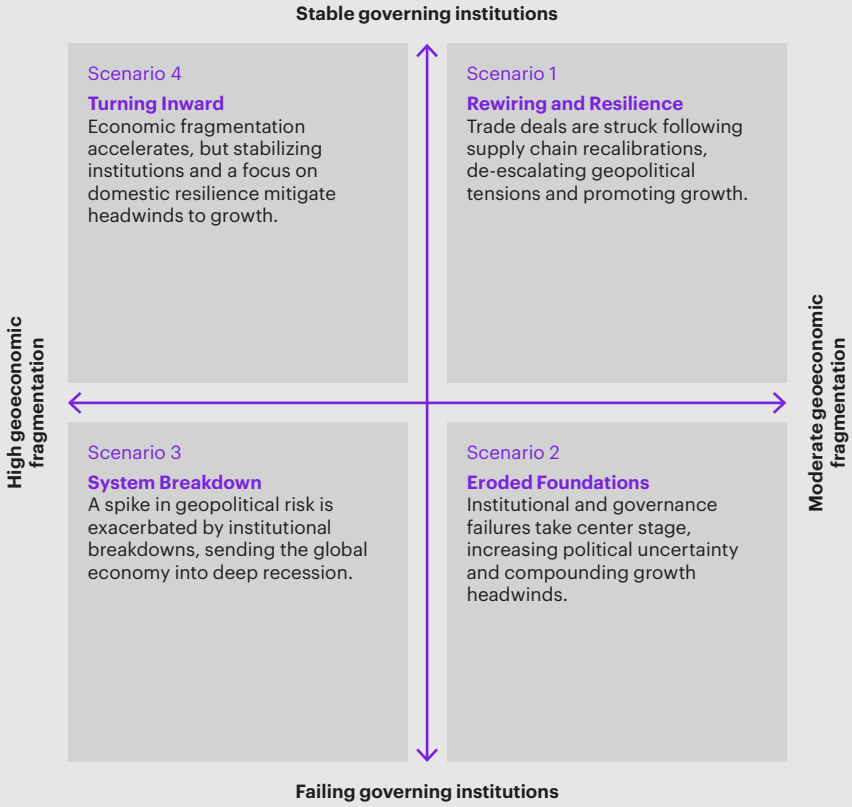
To account for the high degree of uncertainty in the economic outlook, we have developed four distinct scenarios for our 1H 2025 Outlook (see figure 6 on page 12). These scenarios—contrasting visions of what might happen over our three-year forecasting period—showcase alternative futures relative to our baseline projections. Each scenario narrative accounts for the range of dynamic change in the five factors that we believe will shape the economic outlook (see above).

Two forces of change are at the core of these scenarios. These were selected because of their high impact, high uncertainty, and independence from one another. The first, **the level of geoeconomic fragmentation**, depicts the extent of disruption to cross-border cooperation and coordination, ranging from moderate to high. This force carries significant implications for national security as well as economic factors, such as trade and the free movement of goods, services, and people. The second, **stability of governing institutions**, measures the degree to which governing institutions can address economic challenges in a steady, effective manner (stable governing institutions) compared with a more disruptive and volatile fashion (failing governing institutions). The four narratives that follow are not predictions, but they do represent a plausible range of potential futures for which strategic leaders can plan.

With economic modeling, we have quantified the impact of each of these scenarios on growth at the global and regional levels. As noted, baseline projections suggest global growth will average 2.5 percent over the three-year forecast period. Yet our analysis finds that this number could range from as low as -1.8 percent to as high as 2.6 percent, depending on how effectively the world can address the aforementioned factors shaping the global economy (see figure 7 on page 12).

Figure 6

Four alternate futures, 2025–2027

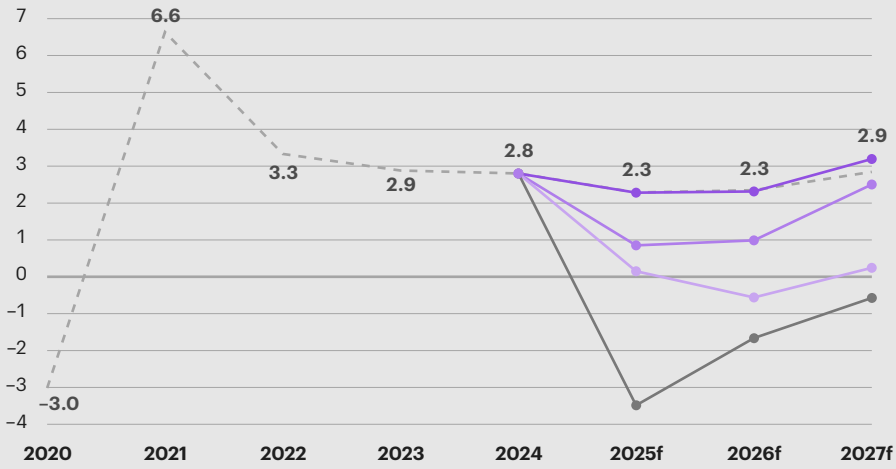


Source: Kearney analysis

Figure 7

Global growth is expected to average 2.5 percent over the three-year forecast period

Global economic output, 2020–2027
(year-on-year percentage growth)



Baseline
Rewiring and Resilience
Turning Inward
Eroded Foundations
System Breakdown

GDP output	2025f	2026f	2027f	Average 2025–2027
Baseline	2.3	2.3	2.9	**2.5**
Rewiring and Resilience	2.3	2.3	3.2	**2.6**
Turning Inward	0.9	1.0	2.5	**1.5**
Eroded Foundations	0.2	–0.6	0.2	**0.0**
System Breakdown	–3.5	–1.7	–0.6	**–1.8**

Sources: Oxford Economics; Kearney analysis

Our research also suggests that key indicators such as unemployment rates, exports, and private consumption will vary dramatically (see figure 8). Unemployment rates range from a three-year average of 5.2 percent in the best-case scenario, Rewiring and Resilience, to 6.8 percent in the worst-case scenario, System Breakdown. And the export growth rate ranges from a three-year average high of 0.4 percent to a striking -12.4 percent, respectively—almost 2.5 percent lower than the -10.0 percent decline during the 2009 financial crisis and a clear indication of the volatility tariffs can cause. Finally, private consumption reaches a three-year best-case average growth rate of 2.7 percent compared with just -3.8 percent in the worst case.

The scenarios also carry distinct implications at the regional level. While baseline levels of growth for Asia and Australasia are anticipated to average 3.5 percent over the forecast period, our analysis suggests this could be as high as 3.7 percent or as low as 0.1 percent depending on the scenario that unfolds. Growth in the Americas, however, is projected to reach only baseline levels as a best case and fall well behind in the worst-case scenario, averaging as little as -3.8 percent over the forecast period (see figure 9 on page 14).

In Europe and Eurasia, growth could average up to 1.4 percent or contract by 3.4 percent, compared with the baseline output growth projection of 1.2 percent. And in Africa and the Middle East, a projection of 3.8 percent is anticipated to be the best case for the region, whereas growth could decline to -1.1 percent in the worst case (see figure 10 on page 14).

Figure 8
Scenario implications for unemployment, exports, and consumption

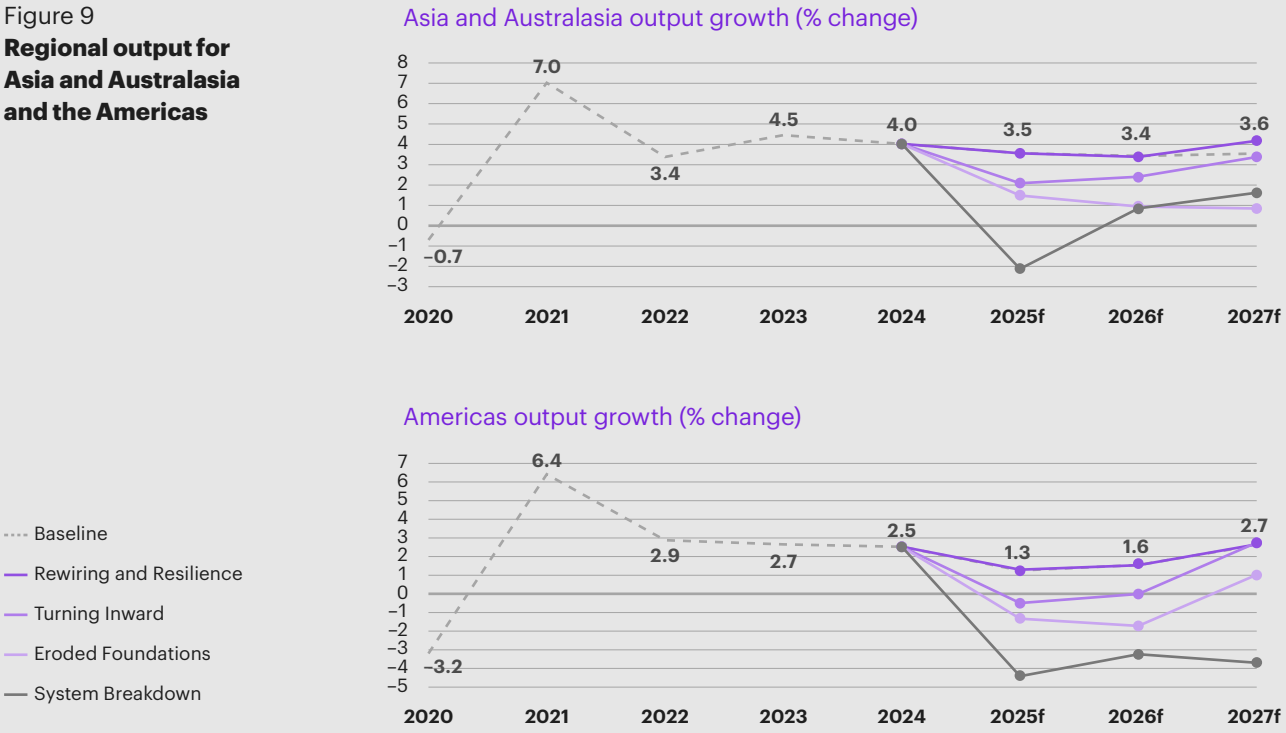
- Baseline
- Rewiring and Resilience
- Turning Inward
- Eroded Foundations
- System Breakdown

GDP output	Average 2025–2027	Average 2025–2027	Average 2025–2027
Baseline	**5.2**	**0.4**	**2.4**
Rewiring and Resilience	**5.2**	**0.3**	**2.7**
Turning Inward	**5.7**	**–2.4**	**0.8**
Eroded Foundations	**6.1**	**–4.8**	**–1.5**
System Breakdown	**6.8**	**–12.4**	**–3.8**

Sources: Oxford Economics; Kearney analysis

Figure 9

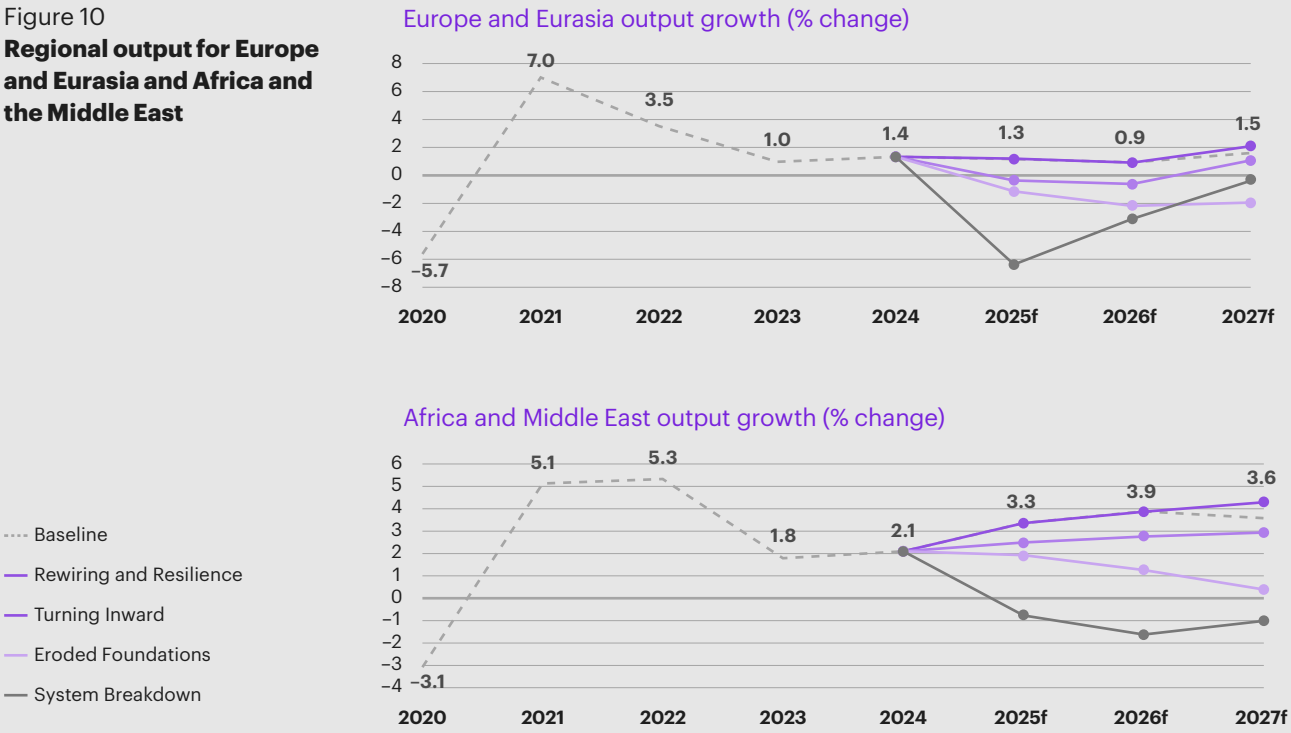
Regional output for Asia and Australasia and the Americas



Sources: Oxford Economics; Kearney analysis

Figure 10

Regional output for Europe and Eurasia and Africa and the Middle East



Sources: Oxford Economics; Kearney analysis

Scenario 1: Rewiring and Resilience

Trade deals are struck following supply chain recalibrations, de-escalating geopolitical tensions and promoting growth.

In Rewiring and Resilience, geopolitical fragmentation moderates following the spike in trade uncertainty in the first half of 2025. Government leaders opt to pull back from brinksmanship and a series of new trade deals are struck between the US and several partners, including the EU, and several Asian countries, including India. This cooling of trade tensions triggers both supply chain recalibrations and a renewed push to **deescalate geopolitical tensions**. While US–China competition remains heated, the de-escalation of conflicts in Europe and the Middle East yields something of a peace dividend that supports growth.

Against this backdrop, governing institutions focus on promoting steady governance at home. Many of the **industrial policies** that were expanded and accelerated during and after the COVID-19 pandemic remain, and governments continue to revise and focus these efforts on strategic industries to bolster domestic resilience and reinforce supply chain capabilities. Many tariff policies are moderated after trade deals are reached in the second half of 2025 and early 2026, allowing businesses to gradually adjust supply chains and seek new sourcing opportunities.

With the backing of industrial policy domestic spend, **technology disruption** continues apace. Significant productivity and efficiency gains are realized following rapid advances in AI, enhancing existing and creating new avenues for growth. Governments in large economies, led by the United States and China, increase their R&D investments in AI and other emerging technologies—including quantum computing, biotechnology and synthetic biology, and advanced robotics.

Competition between the United States and China to achieve tech supremacy in these new technologies is intense. Efforts to restrict access to advanced chips from the West into China are in place, but Beijing and other emerging markets are nevertheless able to make significant innovation advances. While topline AI capabilities in China, India, and other countries in the Global South are marginally behind those in the West, they are often achieved at exponentially lower costs. Some Western countries push for new standards and regulations in the ethical use of AI and other emerging technologies, but these efforts tend to be non-binding. Nevertheless, improved technological capabilities generally spark greater efficiencies and productivity, enhancing economic growth in several countries across the spectrum of development.

Leaders seek to strike a balance to improve immigration controls while also facilitating the flow of skilled workers into their countries. In the United States, this includes an expansion of the H1B visa program, specifically targeting workers in STEM fields and those working on emerging strategic technologies. Issuing green cards to foreign-born students achieving advanced degrees in these fields are prioritized. The results are noteworthy, accelerating technological innovations in key fields, including AI and quantum computing.

Despite these tailwinds, extreme weather and **environmental degradation** continues to prove disruptive. International cooperation efforts to reduce carbon emissions and combat climate change struggle to reach binding agreements that deliver real change. That said, consumer demand for energy-efficient products and electric vehicles remains robust. Private-sector actors around the world, often with support from federal or state-level subsidies, make advances in renewable technologies. Investments are more evenly split between climate change mitigation and adaptation efforts, including more funding for climate-resilient infrastructure. This is an area where international cooperation pays dividends, with more cross-border knowledge sharing of best practices in hardening infrastructure for extreme weather.

Despite these environmental challenges and moderate geoeconomic fragmentation, the combination of reduced geopolitical risk, technological innovation, and effective institutions are sufficient to edge economic growth through 2027 slightly above baseline levels. Output growth averages 2.6 percent through the forecast period.

Scenario 2: Eroded Foundations

Institutional and governance failures take center stage, increasing political uncertainty and compounding growth headwinds.

In Eroded Foundations, **governing institutions are constrained** by dwindling finances, historic debt, and rising interest rate volatility. Ineffective and corrupt governance spreads as leaders struggle to address acute domestic challenges, including the need to rebuild aging infrastructure and respond effectively to extreme weather events and costly **environmental degradation**. Corruption is exacerbated by the spread of untraceable digital currencies and AI-enabled disinformation campaigns, fueling confusion and creating incentives for government and business leaders that are often at odds with citizen and consumer needs. Unfair competition practices and operational inefficiencies raise consumer costs and disincentivize risk-taking and long-term strategic investments by business leaders, fueling increased levels of domestic inequality in key markets, including the United States.

Amid persistent elevated **geopolitical risk**, governments in the United States, European Union, and China pursue **industrial policies** to build domestic resilience and reduce risks of supply chain disruption. However, corruption mars the implementation of these policies as government grants and funding is awarded based on connections to leaders in power rather than on project efficiency and value. These issues, combined with complex regulations and red tape, slow many projects to a halt.

Tariff negotiations are pursued, resulting in some pauses and modest reductions, but this proves to be a grinding and uneven process. While some carveouts are granted for select industries, often to those with direct ties to governing officials and decision-makers, others are faced with additional cost burdens and inefficiencies. These dynamics fuel confusion in global supply chains as businesses struggle to keep pace with shifting regulatory requirements and tariff restrictions. For many, the result is logistical bottlenecks, supply disruptions of goods and materials, production delays, and inflationary pressures that create headwinds to broader economic growth.

Despite institutional governance challenges, **technology innovation** advances, albeit in an uneven fashion. Levels of government R&D investment fall, but private-sector investment continues apace, with the world's leading technology giants—particularly those with close relationships with governments in power—benefitting from limited regulations and minimal government interference. Large and connected companies assert their dominance at the expense of start-ups and smaller players. Cross-border divides become more acute in this environment as countries with existing technology infrastructure are better positioned to capitalize on the advantages brought about by AI and other new innovations.

The net effect is a world in which the challenges and inequities brought about by elevated levels of public- and private-sector corruption outweigh the benefits of select well-connected multinationals performing well. Ordinary citizens grow more frustrated as they see their spending power decline in an environment defined by growing disinformation and volatility, with growth projected to average just 0.0 percent through the forecast period.

Scenario 3: System Breakdown

A spike in geopolitical risk is exacerbated by institutional breakdowns, sending the global economy into deep recession.

In System Breakdown, **geopolitical risk** spikes as an all-out tariff war threatens to boil over into broader conflict. The widespread implementation of tariffs by the United States on several trading partners—competitors and allies alike—yields retaliatory tariffs and roils markets. The fast-moving nature of these policies, which can sometimes materialize overnight, result in ruptured trade relationships and **institutional breakdowns** as leaders struggle to address these challenges. With little time to react and respond, companies around the world face supply chain shortages and a range of operational challenges. Many small businesses that depend on imports do not survive the uncertainty and confusion. Global supply chains fail to manage operational challenges, and face unprecedented costs, confusion, and stress.

Industrial policies to enhance domestic resilience and encourage domestic manufacturing are frequently announced but often lack funding, proper implementation planning, or the backing of functional institutions. As a result, they broadly fail to deliver on their promise to reinforce strategic sectors, including medical supplies and semiconductors. Aging infrastructure in many advanced economies, including the United States and European Union, remains unaddressed in a low-growth environment, creating additional headwinds to the smooth functioning of domestic economies. The uneven implementation and poor execution of infrastructure investment projects results in half-built roads and, in some instances, literal bridges to nowhere.

The combination of this lack of infrastructure, geopolitical volatility, and failed industrial policies creates significant headwinds to rates of **technology innovation**. Amid depressed economic growth, levels of both public- and private-sector R&D investment also fall precipitously.

More restrictive immigration policies also contribute to the innovation slowdown, slowing the cross-border exchange of ideas and talent. Some demographic trends are exacerbated by these policies. The strains caused by aging and shrinking workforces in developed countries, including the United States, France, and Japan, increasingly show by the end of the decade. In tandem, many emerging markets struggle with large populations of youth and limited job opportunities in an environment of weak economic growth and limited mobility. Lacking other opportunities, many young men—in developed and emerging markets alike—turn to crime and extremist groups.

These trends are exacerbated by continued extreme weather events and **environmental degradation**. Governing institutions struggle to respond to these challenges, and humanitarian crises emerge as a result. Massive displacement of peoples and spikes in climate refugees, particularly in the Sahel and sub-Saharan Africa, become more routine. Developed markets fare only marginally better as deep societal divisions over the root causes and reasons behind extreme weather events undermine coherent policy responses.

Taken in combination, the global economy in System Breakdown is facing compounding challenges and deep recession with few simple solutions. Growth averages -1.8 percent through the forecast period, with limited optimism for a turnaround in the short or medium term.

Scenario 4: Turning Inward

Economic fragmentation accelerates, but stabilizing institutions and a focus on domestic resilience mitigate headwinds to growth.

In Turning Inward, the pace of economic fragmentation accelerates as the use of tariffs and export controls are complemented with expansive new **industrial policies** focused on protecting domestic industry—particularly in the United States, China, and the European Union. This focus on domestic priorities fuels isolationist sentiments, weakening alliances, curtailing external aid programs, and **elevating geopolitical risk**.

However, **steady government leadership** serves to stabilize volatility where possible, mitigating the worst economic impacts of rising trade fragmentation. New industrial policies include incentives for supply chain reshoring, helping to ease the transition to a new domestic-oriented policy regime by creating a cushion to reduce disruption and limit costs pressures on supply chain operations. While the proliferation of protectionist measures creates headwinds to growth and introduces short-term inefficiencies, new avenues of trade ultimately emerge along geopolitical fault lines. Global supply chains must adjust accordingly, yielding increased nearshoring and reshoring to support domestic resilience.

This is particularly the case in **technology** and other strategic sectors. Governments prioritize strengthening domestic capabilities in these areas, particularly amid increased decoupling and geopolitical tensions. In the United States, this includes a focus on training and building domestic fabs for semiconductors, alongside significant public- and private-sector investments into next-generation technologies such as AI. While rates of innovation slow in the short term owing to reduced cross-border collaboration, these investments ultimately pay off. Tech-driven increases in efficiency and productivity help partially offset the disruptions caused by a more fragmented and decoupled geopolitical and economic operating environment.

China also makes significant gains in AI despite efforts of Western partners to slow its access to new chips through export restrictions and tariffs, among other measures. In a more divided world, technology spheres of influence emerge with Beijing making inroads in many countries in the Global South by offering its technologies at lower rates than their western equivalents. Such partnerships serve to keep emerging markets from falling significantly behind in a new age of AI.

Extreme weather and **climate events** continue to cause economic disruptions, though cross-border cooperation declines. The regulatory landscape also varies wildly by geography. Some large developed markets, including the United States, relax environmental standards, leaving the matter to states and the private sector. In contrast, the European Union drives ahead with the world's most stringent environmental requirements to reduce emissions and lead in climate change mitigation strategies. Outside the EU, most governments instead focus on investing in domestic climate-resilient infrastructure. This produces uneven results, as developed countries with deeper pockets for public- and private-sector investments pull farther ahead of emerging markets, which bear the brunt of climate change most acutely. Broader shifts away from climate mitigation and toward climate adaptation efforts raise questions about the longer-term trajectories of these inequalities.

While increased trade fragmentation creates significant headwinds, steady and effective governance—supported by technological gains—serve to partially mitigate losses, particularly in developed economies. Nevertheless, these losses remain profound and economic output averages 1.5 percent over the forecast period.

Conclusion and implications for business

Can Rewiring and Resilience be realized? Or, at the very least, can System Breakdown be avoided? Our scenarios reveal that the trajectory of the five factors shaping the global economic outlook—and their interplay—will be determinative (see figure 11). Yet, importantly, the scope of uncertainty remains wide as we enter uncharted territory in the economic outlook.

Our baseline forecast suggests an era marked by economic fragmentation, but the risk landscape will continue to evolve—likely in unexpected directions. This creates both challenges and opportunities for businesses. The following strategic actions offer some general guidance for business leaders in navigating an uncertain operating environment:

Diversify global operations. As mounting protectionist policies and tariffs threaten trade relationships, firms should consider diversifying strategic partnerships and adapting supply chains to hedge against risk. Companies such as Microsoft, Dell, and Stanley Black & Decker have shifted away from China and toward other regional partners, including Indonesia and Vietnam. And in April, Nvidia announced plans for a $500 billion investment in US chip manufacturing, shifting key operations out of China. In a more volatile trade environment, strategic firms will hone a range of global relationships, diversifying operations to avoid overexposure to any one market.

Figure 11

The scenarios represent the diverse range of ways in which key uncertainties may unfold through 2027 and their implications for business

	Scenario 1: Rewiring and Resilience Stable institutions Moderate geoeconomic fragmentation	**Scenario 2: Eroded Foundations** Failing institutions Moderate geoeconomic fragmentation	**Scenario 3: System Breakdown** Failing institutions High geoeconomic fragmentation	**Scenario 4: Turning Inward** Stable institutions High geoeconomic fragmentation
Geopolitical risk	Global conflicts deescalate. US–China tensions remain elevated.	Risk persists as governance failures derail diplomatic efforts.	Geopolitical risk surges amid a spike in trade tensions.	Geopolitical risk is elevated amid rising isolationism.
Institutional stability	Steady governance supports operational stability.	Corruption spreads and governance structures fail to reign in debt crisis.	Poor governance creates instability for business.	Steady domestic governance mitigates economic losses.
Industrial policy and tariffs	Tariff measures are moderated as deals are reached.	Industrial policy measures are unevenly applied, and historic debt constrains efforts.	Tariff wars spiral while industrial policies fail to achieve goals.	Industrial policies expand, focusing on promoting and protecting domestic industries.
Technological disruption	AI-driven productivity and efficiency gains help offset losses from tariffs.	AI-driven disinformation and untraceable currencies fuel corruption and uncertainty.	Volatility, lack of infrastructure, and failed industrial policies create headwinds to innovation.	There is a spike in government-supported R&D, but limited global collaboration creates inefficiencies.
Environmental degradation	Advances in green tech serve to offset worst impacts.	Inequality rises in efforts to develop climate-resilient infrastructure.	Climate change and extreme weather drive significant economic losses.	A fragmented policy approach to climate change limits carbon reduction efforts.

Source: Kearney analysis

Monitor and leverage industrial policies. As they continue to proliferate globally, strategic companies will actively monitor industrial policies in countries they operate within—and plan accordingly. This includes identifying industrial policy investments in countries along their supply chains, particularly in areas such as advanced technology, manufacturing, and clean energy—the areas where tax benefits, subsidies, and funding are often focused. Tracking tariffs and export controls can help avoid unnecessary taxation and export challenges. With this monitoring capacity, firms will be better positioned to adapt supply chains to respond to protectionist trade efforts, forge strategic private–public partnerships, and capitalize on funding and tax benefits.

Invest in innovation—and prepare your workforce accordingly. In a volatile economic environment, transformative technologies such as AI, machine learning, and automation can boost operational efficiency and organizational resilience. Companies that fail to adjust are likely to rapidly fall behind the competition. Yet to get the most from these technologies, corresponding investments in upskilling and reskilling workers will be essential. Such efforts can not only equip employees with the necessary skills to leverage advanced systems but also foster a culture of readiness and agility—essential traits to successfully navigate the uncharted territory in which we find ourselves.

Authors

Erik Peterson
Partner and managing director of the Global Business Policy Council, Washington, D.C.
erik.peterson@kearney.com

Terry Toland
Principal, Global Business Policy Council, Washington, D.C.
terry.toland@kearney.com

The authors would like to thank Gabriella Werner and Kathleen Harrington for their valuable contributions to this report.

Since 1926, Kearney has been a leading management consulting firm and trusted partner to three-quarters of the Fortune Global 500 and governments around the world. With a presence across more than 40 countries, our people make us who we are. We work impact first, tackling your toughest challenges with original thinking and a commitment to making change happen together. By your side, we deliver—value, results, impact.

kearney.com

KEARNEY