Persistent headwinds

Global Economic Outlook 2022–2024

2H 2022 update

Foreword

When first conducting our outlook in March of this year, we anticipated that the conflict in Ukraine would create severe geopolitical and economic shockwaves with lasting effects. In the intervening six months, this expectation has proven accurate. Sanctions on Russia have escalated, Russia's relations with the West have deteriorated, and disruptions to energy and food markets have become even more severe. As of this writing, contingencies previously considered by some to be far-fetched—such as Russia shutting off natural gas flows to Europe or a rise in political instability in emerging markets—are becoming a reality. Reduced and disrupted flows of Russian oil and gas to Europe and the recent upheaval in Sri Lanka are notable examples. While some indicators now suggest that the worst-case outcomes may have been averted, particularly regarding energy and food supply disruptions at the global level, volatility persists. The implications for the global economy over the next three years remain uncertain at best.

The big question dominating global economic headlines today is if (or, as many would argue, when) a recession is coming. Policymakers, from US Federal Reserve Chair Jerome Powell to IMF Managing Director Kristalina Georgieva, have suggested that a recession in key economies, and potentially at the global scale, is possible. The United States is already in a technical recession, given consecutive contractions in the first two quarters of the year, but there is debate over the scope and implications of the economic slowdown.

Given continued supply chain bottlenecks, rising interest rates, record inflation, and declining consumer sentiment, the macroeconomic outlook has certainly declined since the beginning of the year. Our estimates here suggest global growth this year will be 2.9 percent—a significant downgrade from the corresponding expectation (3.7 percent) in our 1H 2022 forecast. While these projections suggest we will avoid a global recession this year, the drop represents more than a half trillion dollars (around $600 billion) in foregone global output for 2022 alone relative to our more hopeful projections in March.

Compounding the challenge is that the distribution of this growth, downgraded as it is, will be very uneven. Some economies, such as India and China, will grow well above the 2.8 percent global average growth we project over the next three years. Many will fall below it, including advanced economies such as the United States, Canada, and much of Europe.

Our 2022–2024 forecasts suggest that the Asia and Australasia region will experience average annual growth of 4.0 percent, while the Middle East and Africa region will see 3.6 percent. In contrast, the Americas region will be the slowest growing at 1.7 percent average annual growth. Europe's growth level will be 1.9 percent.

As in the past, emerging markets will continue to drive much of global growth. Yet risks such as rising interest rates, debt levels, inflation, and volatile food prices are creating acute headwinds, especially for many smaller emerging markets.

Beyond concerns about recession, inflation is another major challenge facing economies across the world. As the respective headlines attest, several major markets, including the United States, the United Kingdom, and Canada, are experiencing inflation rates not seen in decades. Our estimates suggest that global inflation will grow at roughly 7.8 percent this year and only begin significantly falling in late 2023 and 2024. Many countries are already hiking interest rates in response, which some economists fear could trigger an unexpectedly significant economic contraction. Recent declines in commodity prices, however, give some indication that inflation may be cooling in key economies. A strengthening dollar, driven by higher US interest rates, is having a significant impact on US exporters as well as emerging markets, especially those that hold dollar denominated debt.

Put simply, after all the dislocations associated with the pandemic, the global economy is now encountering persistent headwinds that are unlikely to dissipate in the short term. In addition to offering analysis on global, regional, and country-level economic dynamics, this outlook explores the factors that we believe will have the greatest impact in shaping the trajectory of the economic future. Through scenario analysis and econometric modeling, we offer four distinct—yet plausible—competing futures that could unfold in the next three years. The sooner businesses prepare for these contingencies, the better positioned they will be for whichever potential future emerges.

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

Are we headed toward a global recession? Alas, the jury is still out. Our new baseline forecast suggests that growth this year will equal just 2.9 percent compared with our March forecast of 3.7 percent. Growth is projected to drop further to 1.7 percent in 2023 before rebounding to 3.2 percent in 2024, averaging 2.6 percent over the three-year forecast period. While baseline forecasts do not indicate a recession at the global level, our scenario analysis finds that such a contingency remains possible. Five factors will decisively shape the economic outlook: the course of the Ukraine conflict; disruptions from endemic COVID, especially in emerging markets; US–China relations and their impact on international trade and cooperation; rising protectionism; and the availability of technology and scale of innovation. These factors will determine whether we can avoid a recession and influence the course of inflation, supply chain dynamics, and international trade.

Will inflation last? The question is not so much will inflation last—but rather how long will it persist? According to our forecasts, levels of inflation are unlikely to stabilize before the second half of 2023. Inflation will likely remain high in 2022 owing to strong consumer demand, volatile energy prices, and continuing supply chain troubles. Global inflation has accelerated since our March assessment, soaring past 8.0 percent in the second quarter and remaining above 7.8 percent through the end of this year. Inflation is also outpacing wage growth in major economies, raisings concerns about a wage–price spiral as workers demand higher salaries to keep up with the cost of living. However, despite inflationary and recessionary risks, cooling global commodity prices may ease inflation and supply chain disruptions could improve sooner than anticipated.

To what extent will geopolitics impact the global economic outlook? In addition to the tragic human costs, the conflict in Ukraine has major implications for the global economy. Prices of major commodities, including oil, gas, and wheat, remain volatile, exacerbating inflation. The risk of a global food crisis and subsequent political unrest also remains, especially in already food-insecure nations from Lebanon to Bangladesh. US–China relations are also contributing to economic uncertainty as trade tensions and territorial disputes ratchet up. Put simply, geopolitics has reasserted itself as a central force in shaping the global economic outlook. The need to anticipate and prepare for risk is more pronounced than ever.

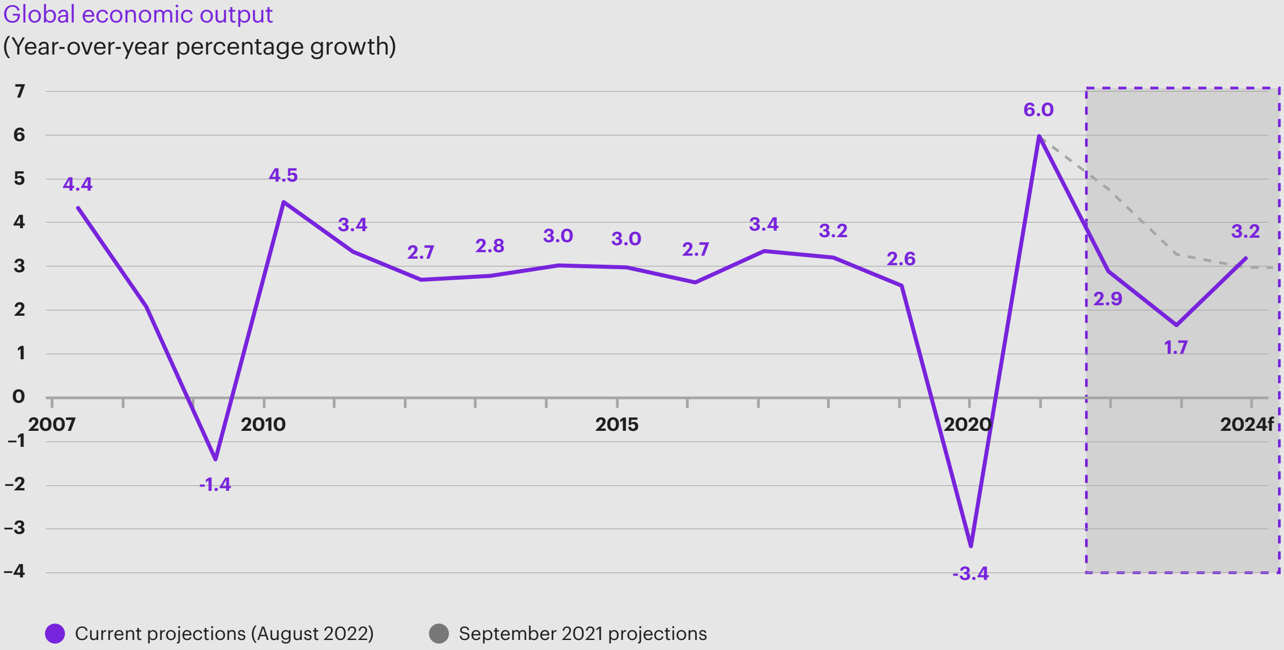
Will rising protectionism slow global economic output? Popular support for protectionism has risen in recent years, and related policies such as Brexit and the US–China trade war have proven costly in GDP terms. The dual crises of COVID-19 and the conflict in Ukraine—and the supply chain disruptions that they have spurred—have only accelerated national movements toward greater self-sufficiency. As major economies pursue these policies and seek greater supply chain resilience, the economic costs of the transition could be high, especially if mishandled. The risks of escalating trade wars—or even autarky—under the banner of promoting national interests cannot be discounted.

Are we heading toward a global recession?

As we enter the final quarter of 2022, the myriad headwinds facing the global economy are proving persistent. The Russia–Ukraine conflict created seismic shocks in global supply chains, especially in food and agriculture and energy, and harsh sanctions on Russia now include an EU embargo on seaborne oil imports and further restrictions on business activities in the country. At the same time, inflation is up globally, reaching a 40-year high in the United States in June, though cooling slightly in July.

The COVID-19 virus, despite becoming more endemic in several economies, is also still with us, and on-again, off-again lockdowns in major Chinese cities have created more disruptions to global supply chains. To make matters worse, high debt is impacting Latin America and Africa. As a result of these factors, we now anticipate a decline in global output to 2.9 percent this year, down from our 1H 2022 forecast of 3.7 percent in early March and from the 4.8 percent annual growth we projected in September 2021—pre-Omicron and the Russia–Ukraine conflict. Growth will drop further to 1.7 percent in 2023 before rising slightly to 3.2 percent 2024, averaging 2.6 percent annually during our forecast period (see figure 1).

Figure 1
Economic output is expected to be lower than previous projections



Sources: Oxford Economics August 2022 forecast; Kearney analysis

To be sure, developments in the first half of the year have set back expectations of a recovery. The US stock market remains down year to date after closing out its worst performing half of a year since 1970. Compounding this challenge, the great shortage of supplies and workers since the first quarter has contributed to persistently challenging inflationary pressures. Consumers are expressing frustration at not only higher prices, but also poorer-quality products and services as companies resize packaging and cut corners to minimize the impact of rising costs. As forced quarantines and school closures have resulted in more workers, especially women, leaving their jobs, global unemployment is projected to hover at 5.6 percent this year, declining slightly to 5.4 and 5.1 percent over the next two years, respectively.

In addition, Russia's continued military activity in Ukraine has prolonged the profound sense of geopolitical unease in Europe and globally, all while contributing to rising food insecurity as Ukraine and Russia together make up 12 percent of global calories traded. Indeed, food prices soared when the conflict began in March, reaching their highest level since the Food and Agriculture Organization put into place key indices in 1990. Since then, prices have dropped considerably but remain more than 7.9 percent higher than last year as of August. Further, the International Monetary Fund warns that changes in global commodity prices can take up to a year before they are felt in local markets, suggesting the full impact of such food price volatility has yet to be realized.

The ongoing energy crisis sparked by Russia's actions in Ukraine is dampening the outlook for a macro-economic recovery. Russian gas exports to Germany have dropped significantly, with Gazprom halting traffic on the large Nord Stream I pipeline as of this writing. Reduced gas supplies and the possibility of halted gas flows from Russia prompted EU members to adopt a voluntary plan to reduce gas demand by 15 percent from August 2022 to March 2023 over the year prior. In the meantime, gas prices continue to soar as supply fears persist. Worries of a recession in Germany are growing, with the ifo Business Climate Index falling in July to its lowest value since June 2020 amid higher energy prices and the threat of a gas shortage. Asia is facing similar energy challenges. Spot prices for liquefied natural gas (LNG) reached near record levels in August amid fears that Europe may hoard supplies ahead of winter.

As forced quarantines and school closures have resulted in more workers leaving their jobs, global unemployment is projected to hover at 5.6 percent this year.

Beyond energy volatility, the rise in inflation poses another significant risk to the global economy. Though appearing to slow in recent weeks, inflation will likely remain high in 2022 on the back of strong consumer demand, volatile energy prices, and continuing supply chain troubles. Since our last assessment in March, global inflation has accelerated, surpassing 8.0 percent in the second and third quarters and remaining above 7.8 percent through the end of the year—far above previous baseline projections of 6.3 percent for the second quarter and 5.3 percent for the second half of the year. Rates are not expected to stabilize until the second half of 2023 (see figure 2).

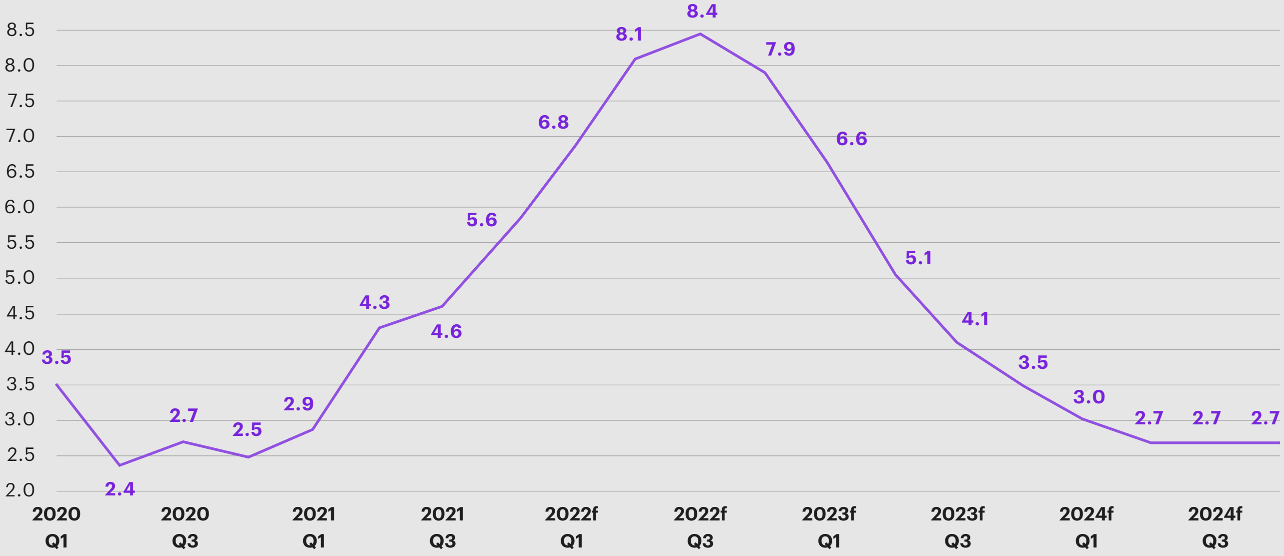
The US Federal Reserve and many other central banks have increased interest rates to try to tame inflation. The central bank actions have been generally well-synchronized. Yet some worry the public has not been prepared for what may be required to control rising prices. As a senior economist at Kearney's 2022 CEO Retreat noted, central banks run the risk of tightening too much and precipitating a second wave of disinflationary policy and economic contraction. Inflation is also outpacing wage growth in major economies, raisings concerns about a wage price spiral as workers demand higher salaries to keep up with the cost of living.

US interest rate hikes are also causing the dollar to strengthen, even to the point of reaching parity with the euro in July for the first time in 20 years. This is ringing alarm bells for not only US exporters, which are already reporting a drop in profits, but also emerging markets, many of which hold dollar-denominated debt and have seen their local currencies depreciate, triggering further inflation. More hikes are possible and may even be likely, especially if inflation remains stubborn. While such rate adjustments might be necessary, they also raise the risks of a crash landing and a debt crisis.

Despite inflationary and recessionary risks, recent signs in the global economy indicate some return to stabilization. Cooling global commodity prices could ease inflation, and supply chain disruptions might recede sooner than anticipated. Moreover, labor markets remain strong in the United States, Europe, and many parts of Asia. Of course, much uncertainty remains, and significant headwinds persist. We may yet avoid a global recession while taming inflation and supply chain challenges, but this outcome is far from preordained.

Figure 2
Levels of inflation are unlikely to stabilize before the second half of 2023

Global Consumer Price Index
(Percent change year-over-year, 2010=100)



Sources: Oxford Economics; Kearney analysis

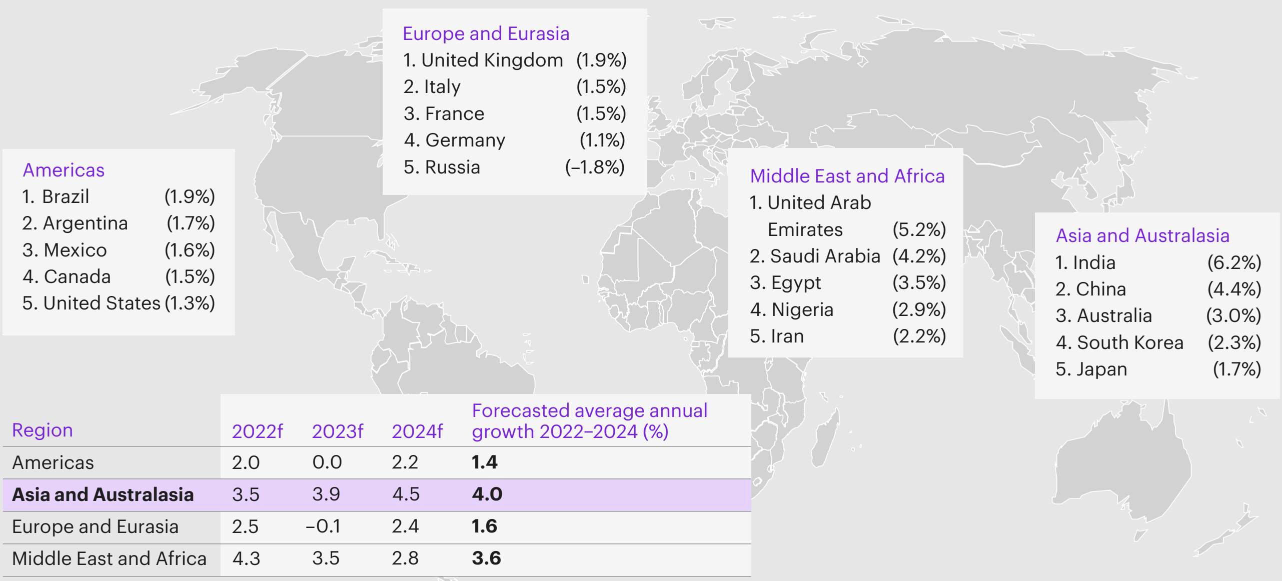
Regional and country-level projections

In this complex risk environment, our regional analysis finds that **Asia and Australasia** will continue to lead the world in output growth over the next three years, averaging 4.0 percent (see figure 3). China's growth is expected to slow considerably in 2022 to 3.2 percent, down drastically from our March projection of 4.9 percent owing to sustained COVID lockdowns, slowed manufacturing activity, and a slumping real estate market, among other causes. Growth is projected to increase to 4.9 percent in 2023 and stabilize at 5.2 percent in 2024, averaging 4.4 percent during the three-year forecast period.

This puts China's 2022 growth below India, which is forecast to grow at 7.3 percent. India's forecast can be attributed to strong domestic demand, economic policy reforms, global supply chain diversification, and a young workforce—though inflation could still dampen the outlook. Growth during the forecast period is expected to slow somewhat to 4.4 percent in 2023 but average 6.3 percent from 2022–2024. Japan, however, is projected to grow at just 1.6 percent in 2022. While still modest, this does represent an improvement from our March projection of 1.4 percent and reflects increasing levels of domestic consumption as well as high levels of COVID-19 vaccinations. And in Australia, growth is projected to reach 3.8 percent this year and average 3.0 percent during the next three years amid resilient economic activity and elevated global commodity prices, though inflation remains a top concern for policymakers. This marks a significant increase from March forecasts, which projected 2.4 percent annual growth for the year.

Figure 3
Asia is leading the world in global output

Largest national economies by region
(Average annual GDP growth; countries ranked in order of fastest average growth)



Region	2022f	2023f	2024f	Forecasted average annual growth 2022–2024 (%)
Americas	2.0	0.0	2.2	**1.4**
Asia and Australasia	3.5	3.9	4.5	**4.0**
Europe and Eurasia	2.5	–0.1	2.4	**1.6**
Middle East and Africa	4.3	3.5	2.8	**3.6**

Sources: Oxford Economics, Business Insider; Kearney analysis

The **Americas** along with the **Europe and Eurasia** regions are projected to have comparatively lower output over the next three years, with respective average growth rates for 2022–2024 of 1.4 and 1.6 percent. Growth in the United States is down since March, with recent projections showing baseline growth of 1.7 percent in 2022—from 3.4 percent earlier in the year. Because of continuing labor and supply shortages and elevated prices, we have downgraded the three-year projected average growth rate in the United States to be 1.3 percent, as the economy is forecast to drop to flat (0.0 percent) growth in 2023, before rebounding slightly to 2.1 percent in 2024. Despite these weaker growth projections, the United States is still expected to power much of the post-pandemic economic recovery and will remain the world's largest economy throughout the forecast period. Canada will see similar patterns in growth levels, falling from 2.9 percent in 2022 and then into a contraction in 2023 (–1.1 percent), before rebounding to 2.8 percent growth in 2024. While the country's real estate, financial services, and technology sectors are picking up, Canada is still facing economic headwinds amid rising prices and interest rates. The 2022 outlook for Latin America is less rosy than our March forecasts suggested, though growth in major economies such as Brazil, Mexico, and Argentina could be supported by increasing exports of energy and food stuffs in an elevated price environment. Growth during the forecast period is projected to average 1.6 percent in Mexico and 1.9 percent in Brazil.

In Europe, the continued economic uncertainties surrounding the conflict in Ukraine, especially those associated with reduced energy supplies from Russia, will dampen the region's economic outlook for the foreseeable future. The United Kingdom is projected to see growth drop from 3.6 percent in 2022 to just 0.1 percent in 2023—reflecting squeezed household spending as a result of double-digit inflation. Output projections for Germany have also declined since the first quarter, with growth now estimated at 1.3 percent in 2022 (down from 2.4 percent). As the economy continues to confront soaring energy prices, the country is projected to enter into a contraction (-0.8 percent) in 2023 before recovering to 2.9 percent growth in 2024. In this environment, many large exporting industries in Germany are under severe strain without the relatively cheap energy they had relied on previously. Indeed, a survey of 3,500 companies recently carried out by Germany's Chambers of Industry and Commerce (DIHK) found that 16 percent were either reducing production or partially discontinuing business operations because of high energy prices.

Without question, the Russian economy is experiencing the most dramatic headwinds as sanctions escalate and the country becomes more isolated. Though oil revenues have risen above pre-February levels, the costs of the conflict in Ukraine are significant. In March, we projected the Russian economy would contract by 0.7 percent in 2022 before returning to flat growth (0.0 percent) in 2023 and 2.8 percent in 2024, averaging 0.7 percent over the forecast period. In this update, we now believe this year's contraction will reach 3.9 percent, and the economy will shrink a further 3.6 percent in 2023. Only in 2024 will growth return, to 2.3 percent—far below levels needed to offset such significant losses the previous two years. Average growth for Russia during the forecast period is expected to equal –1.8 percent.

The Middle East and Africa will experience an average growth rate of 3.6 percent between 2022 and 2024. Fueling the Middle East's dynamism will be elevated oil prices for commodity-exporting economies as well as large-scale investment projects and increasing non-energy exports. The United Arab Emirates is projecting strong average growth of 5.2 percent over the next three years, which is up from our March forecast, likely driven by increasing oil prices and high business confidence. Within Africa, there will be some bright spots as oil exporters enjoy larger returns, though debt burdens amid tightening global financing conditions could prove troublesome. Nigeria is benefitting from strong performance in the energy, services, and agricultural sectors, with GDP expected to grow by 2.7 percent this year, which is up from a March baseline forecast of 2.5 percent and will average 3.0 percent over the forecast period. These improvements are likely driven by an improving trade balance and GDP growth transferring to other non-oil sectors.

Nevertheless, high inflation, low COVID-19 vaccination rates, and food price volatility will weigh on the region's recovery. Rising food insecurity and the potential for further malnutrition and hunger are growing challenges for the region. Since some markets in Africa and the Middle East are highly reliant on both Russia and Ukraine for food supplies (especially wheat), the conflict's trajectory will prove significant. Elevated food and energy prices threaten to damage social stability as lower-income countries are disproportionately impacted. Indeed, populations in several countries, including Iran, Iraq, Lebanon, Kenya, and South Africa, are already protesting against high food and energy prices.

Key factors shaping the economic outlook

Over the next three years, a few factors could have an outsized impact on the direction of the global economy:

Conflict in Ukraine. In addition to the tragic human costs, the conflict in Europe has major implications for the global economy. Much uncertainty remains regarding the duration of the conflict and potential outcomes. Prices of major commodities, including oil, gas, and wheat, have proven especially volatile, exacerbating already-high levels of inflation. Costly sanctions imposed on Russia have already taken a toll on the economy. Second-order effects are also significant—the risk of a global food crisis and subsequent political unrest remains, especially in already food-insecure nations from Lebanon to Bangladesh.

Endemic COVID. While much of the world appears to be adapting to life with the virus, pandemic-related disruptions will likely persist. Future lockdowns in China, for example, may further disrupt global supply chains, and the ability of vaccines and treatments to adapt to new variants remains to be seen. While the extent of disruptions seen in the earlier stages of the pandemic are unlikely to reemerge, endemic COVID could continue to cause economic setbacks. In developing countries, limited vaccine access and adoption could worsen the spread of future waves, denting the economic recovery.

US–China relations. Growing tensions between Beijing and Washington—whether as a result of geopolitical rivalry, trade tensions, territorial disputes, or other areas of potential conflict—have obvious and significant economic implications. They have weakened the global responses to COVID-19 and climate change and show little sign of improving. How relations unfold over the next few years will shape the global economic outlook and the structure of the global economy.

Rising protectionism. Backlash against globalization and free trade has fueled the rise of populist leaders in major economies around the world who are advancing protectionist policies. The rise of protectionism has profound implications for the nature of the global economy as well as supply chains and the trajectory of globalization. As countries seek greater levels of self-sufficiency and supply chain resilience, the economic costs of the transition could be high, especially if not handled well. The risks of escalating trade wars—or even a degree of autarky—under the banner of promoting national interests cannot be discounted.

Technology innovation and accessibility. Emerging technologies such as artificial intelligence and automation stand to make logistics more efficient and boost productivity, mitigating some of the harsh impacts of disrupted supply chains and worker shortages. Will this technology be widely shared across the world? Or will a select group of countries erect barriers to protect competitive advantages gained through these technologies? The rate of technological innovation and its availability across borders will be a crucial factor in the global economic recovery.

Endemic COVID could continue to cause economic setbacks.

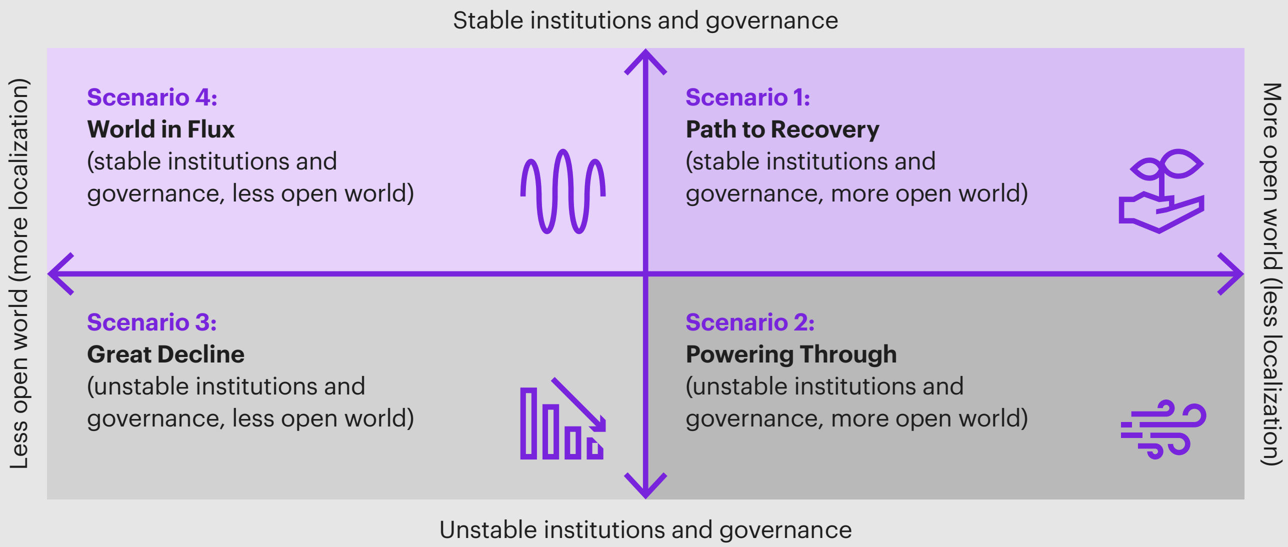
Where might we be going?

In light of the high degree of uncertainty that now applies to the global economic outlook, we have complemented baseline forecasting with the development of macro scenarios intended to capture these factors. Set out here are what we consider to be four plausible yet divergent paths that the global economy could take over the next three years. While these are not predictions, they do represent futures that could come to fruition—depending on how the key factors above unfold. Two primary drivers form the architecture of these scenarios, each selected because of their high impact, high uncertainty, and mutual independence from one another (see figure 4). The first, **the level of global openness**, measures the extent of localization in the world, ranging from modest localization requirements to more dramatic levels of protectionism. The second, **the stability of institutions and governance**, measures the extent to which institutions and governments can navigate the multitude of exogenous shocks they face.

Our view is that it is possible to identify a plausible range of potential futures by exploring the four alternate visions that emerge with contrasting permutations. In **Path to Recovery**, the global economy rebounds thanks to a combination of effective governance, successful diplomacy, and an increase in international trade and investment. In **Powering Through**, the global economy manages to improve despite growing cracks in institutions and persistent geopolitical tensions. A rebound in trade boosts short-term performance, but concerns about long-term stability continue to mount. In **Great Decline**, the world struggles from a combination of ineffective national policies alongside a sharp rise in protectionism as well as failing international institutions. And in **World in Flux**, after a period of pronounced instability, a turnaround in national and international governance facilitates a major rewiring of the global economic order. In response to exogenous shocks, supply chains are shortened, and the world shifts away from globalization.

Figure 4
The global economic outlook will be shaped by the levels of global openness and the stability of institutions and governance.

Global Economic Outlook 2022–2024 scenarios



Source: Kearney analysis

By using econometric modeling, we have quantified the impact of each scenario on global and regional growth. As noted above, baseline projections suggest global growth will average 2.6 percent over the three-year forecast period. Our scenario analysis finds that this number could range from as low as 1.0 percent to as high as 3.2 percent, depending on how effectively the world can address the aforementioned drivers and factors (see figure 5).

Our analysis suggests that key indicators such as unemployment rates, exports, and private consumption will also vary dramatically (see figure 6 on page 11). Unemployment rates range from a three-year average of 5.1 percent in our best-case scenario to 6.1 percent in our worst-case scenario. And the export growth rate ranges from a three-year average high of 5.4 percent in the Path to Recovery scenario to a meager 0.3 percent in Great Decline. Finally, private consumption reaches a three-year best-case average growth rate of 3.4 percent compared with just 0.9 percent in the worst case.

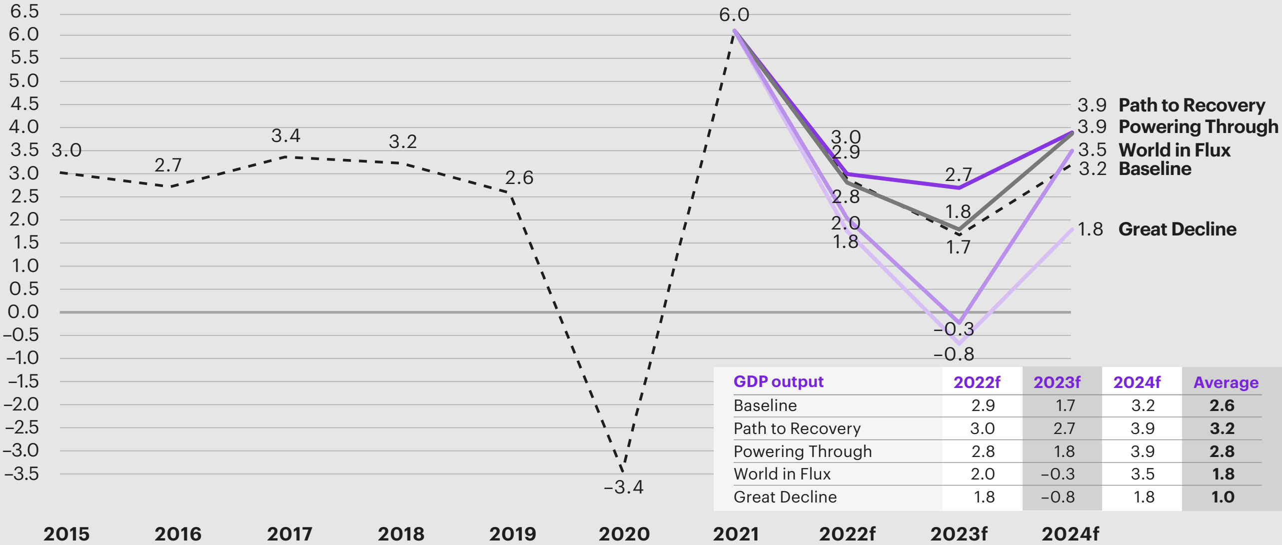
Baseline projections suggest global growth will average 2.6 percent over the next three years.

Figure 5

Scenario analysis suggests persistent uncertainty with a downside bias.

Global economic output, 2015–2024

(Year-on-year percentage growth)



GDP output	2022f	2023f	2024f	Average
Baseline	2.9	1.7	3.2	**2.6**
Path to Recovery	3.0	2.7	3.9	**3.2**
Powering Through	2.8	1.8	3.9	**2.8**
World in Flux	2.0	–0.3	3.5	**1.8**
Great Decline	1.8	–0.8	1.8	**1.0**

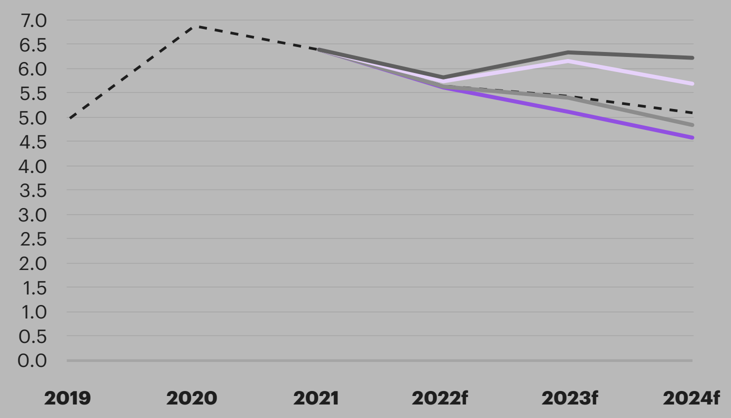
Sources: Oxford Economics; Kearney analysis

Figure 6

Each scenario suggests significantly different pathways for unemployment, exports, and consumption levels.

Unemployment rate

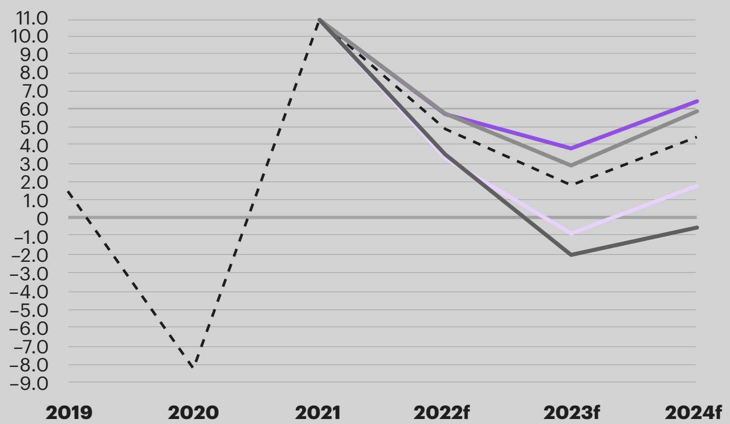
Level values (%), world



Scenario	Average 2022–2024
Baseline	5.4
Path to Recovery	5.1
Powering Through	5.3
World in Flux	5.8
Great Decline	6.1

Exports of goods and services

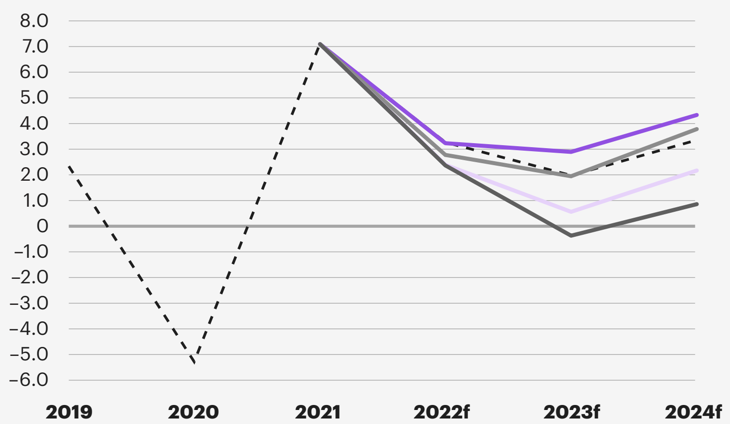
% change, y/y, world



Scenario	Average 2022–2024
Baseline	3.8
Path to Recovery	5.4
Powering Through	4.9
World in Flux	1.4
Great Decline	0.3

Private consumption

% change, y/y, world



Scenario	Average 2022–2024
Baseline	2.8
Path to Recovery	3.4
Powering Through	2.8
World in Flux	1.7
Great Decline	0.9

● Baseline ● Path to Recovery ● Powering Through ● World in Flux ● Great Decline

Source: Kearney analysis

Scenario 1: Path to Recovery

Stable institutions and governance; a more open world and less localization

In Path to Recovery, the global economy rebounds thanks to a combination of effective governance, successful diplomacy, and an increase in international trade and investment (see figures 7 and 8 on page 13 and 14). The global economy reaches 3.0 percent output growth in 2022 and maintains 2.7 and 3.9 percent output growth in 2023 and 2024, respectively. Through extensive diplomacy, a negotiated settlement is reached in Ukraine, dramatically curbing levels of violence in the country. While intermittent violence continues to take place, the risks of an escalation of the conflict in and beyond Ukraine—at least in the short term—diminish. Furthermore, Ukraine manages to restore much of its pre-war export capacity, especially in agriculture, improving stability in global chains and alleviating the global food crisis. Some Western sanctions are eased. In addition, energy markets grow more efficient, accelerating new connections between regions. Germany builds out LNG terminals, Norway's gas exports become better connected to other parts of Europe, and oil exports from resource-rich countries such as Argentina increase.

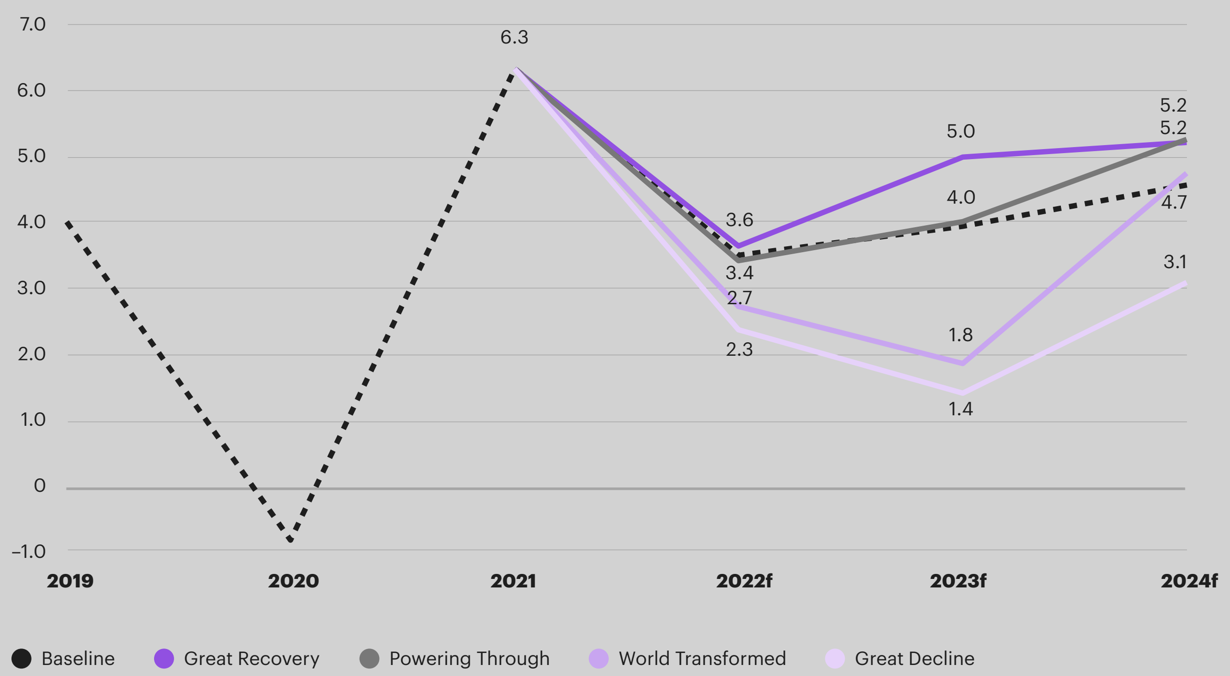
Alongside these geopolitical shifts, COVID-19 becomes endemic. International institutions and governments take notable strides to advance both improved treatment capabilities and dissemination of updated vaccines, fostering improved global cooperation in confronting the crisis. These developments, alongside reduced violence in Ukraine, help facilitate an operating environment of growing trade and investment flows. Several key markets, including those in the Americas and Asia, step back from pursuit of protectionist policies to instead focus on quick growth opportunities through trade. This is highlighted by a decrease in US–China trade tensions, stemming from a diplomatic recommitment to establish avenues of constructive cooperation in both Washington and Beijing. While distrust between the two capitals persists and overall levels of global trade remain still below pre-pandemic levels, the free flow of goods, services, and people is increasing.

Further, a revitalized and more robust World Trade Organization and renewed dedication of the international community to trade in goods and services bolsters international commerce as rules are better defined and enforced to meet the realities of the economy. The supply chain dislocations that defined much of 2021 and 2022 also show signs of dissipating, enabled in no small part by continued technological advancements. New innovations, particularly in AI and cloud computing, are shared by allies around the world and lead to more efficient logistics. Inflation persists but proves less disruptive as supply chains stabilize and supply–demand balances improve. Central banks, for the most part, manage to strike an appropriate balance between tightening monetary policy and maintaining economic growth.

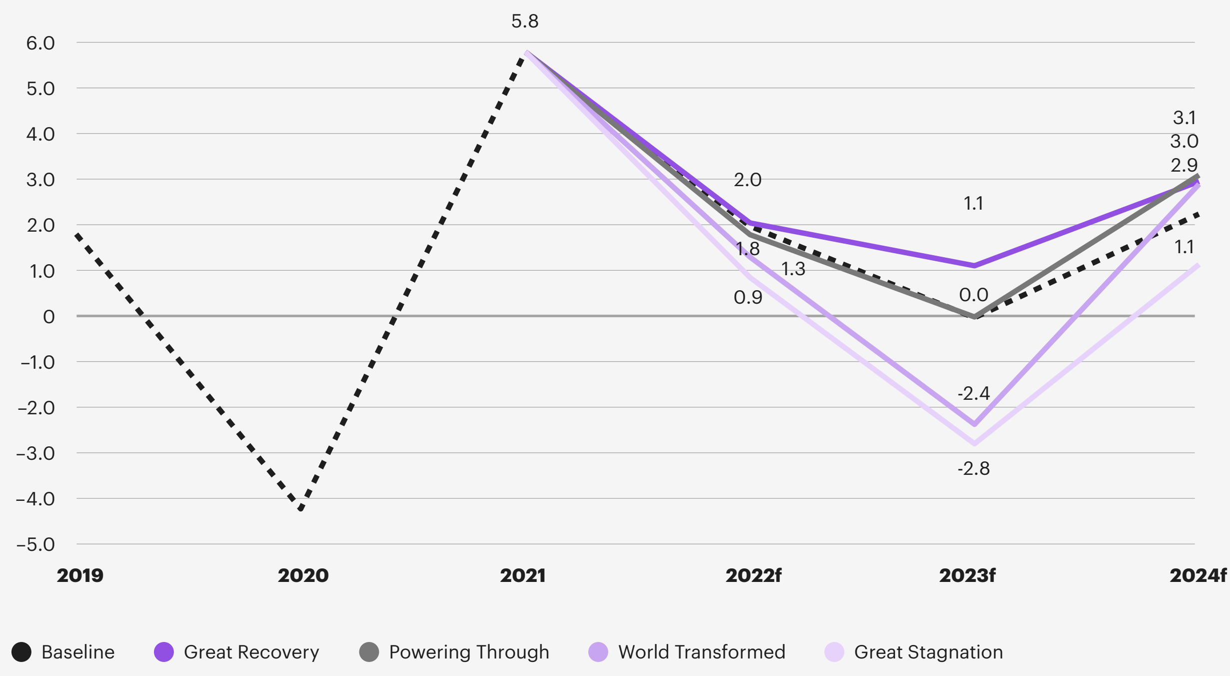
In Path to Recovery, the global economy reaches 3.0 percent output growth in 2022.

Figure 7
Regional output for the Americas and for Asia and Australasia

Asia and Australasia output growth
(% change)

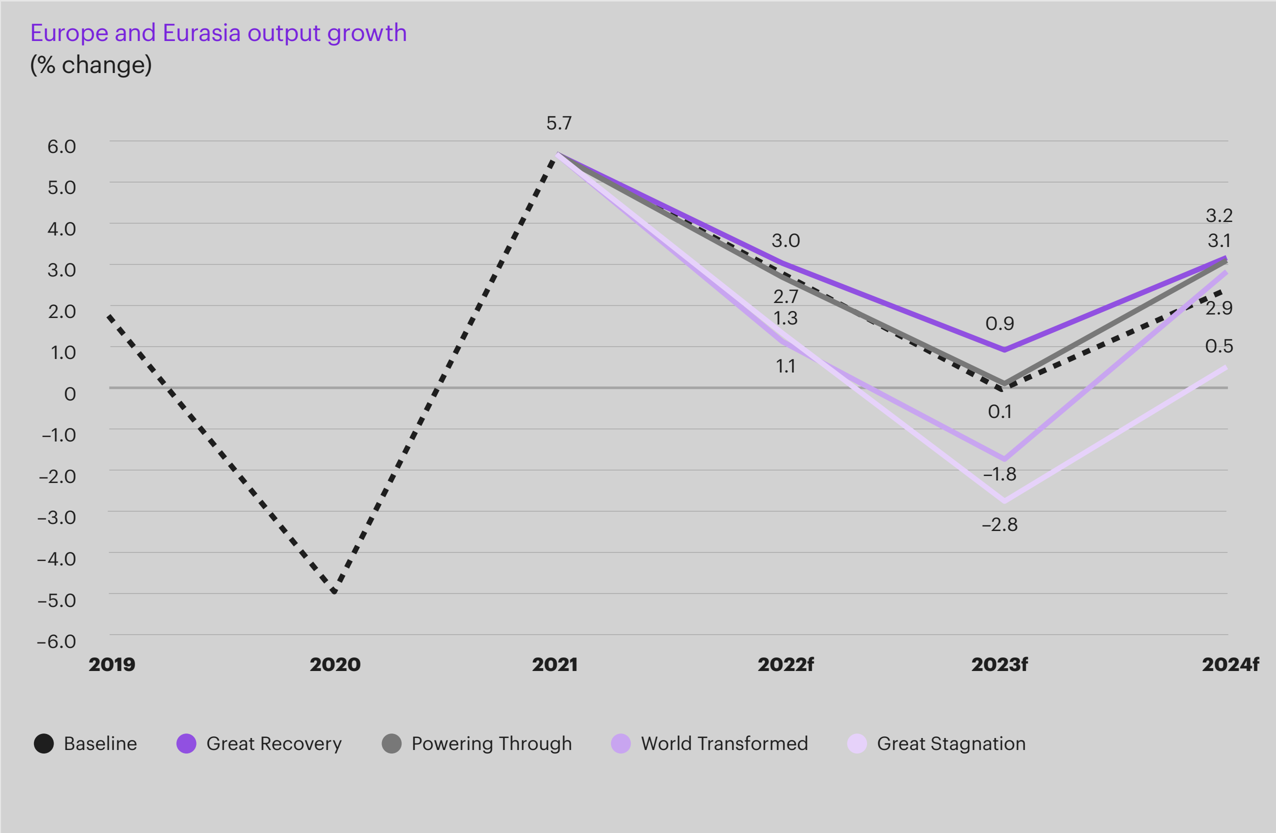


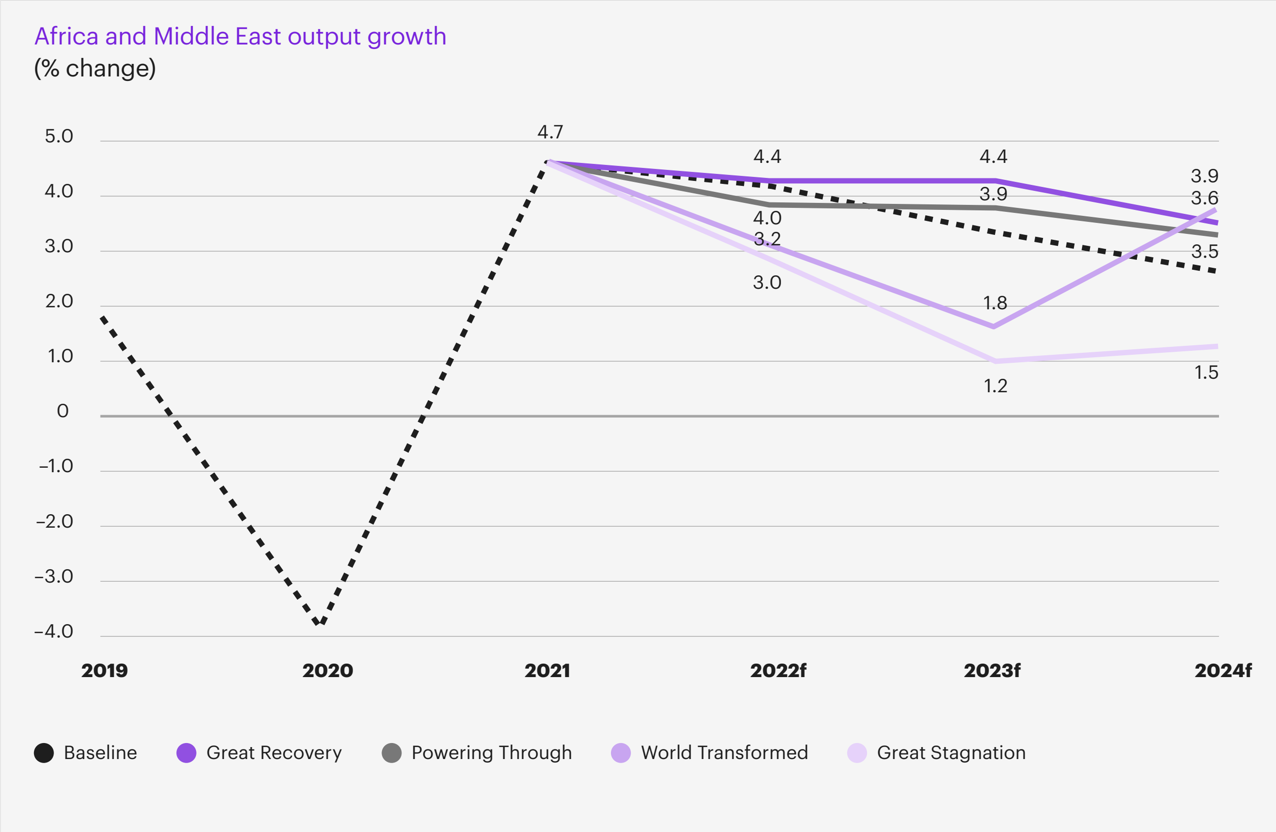
Americas output growth
(% change)



Source: Kearney analysis

Figure 8
Regional output for Europe and Eurasia as well as for Africa and the Middle East





Source: Kearney analysis

Scenario 2: Powering Through

Unstable institutions and governance; a more open world and less localization

In Powering Through, the global economy improves despite growing cracks in institutions and persistent geopolitical tensions. A rebound in trade boosts short-term performance, but concerns about long-term stability intensify. The economy grows at 2.8 percent in 2022 and 1.8 percent in 2023 before recovering to 3.9 percent in 2024. The conflict in Ukraine remains entrenched. While the intensity of fighting has fallen from that seen in spring 2022, hostilities continue as both sides try to pare back the other's gains. New COVID variants emerge but are generally less deadly and result in fewer shutdowns and supply chain disruptions. Several economies move to jump-start growth despite the lingering pandemic through policies to promote the free flow of labor, goods, and services. Intermittent supply chain disruptions occur but generally improve from the most severe disruptions experienced in 2021 and 2022.

International institutions have largely failed to contend with the major geopolitical and health challenges of the day, and public confidence and support for these bodies continue to erode. Similarly, signs of growing volatility in domestic politics in key economies, including in the United States, United Kingdom, and France, are becoming more evident. Efforts to improve US–China relations falter, increasing the risk of an acceleration of economic decoupling—or worse—in the medium term. Similarly, the risk that Russia might trigger a major and more widespread conflict in Europe intensifies.

Despite these mounting risks, growth does rebound marginally in the short term. Falling commodity prices amid increased trade and moderated consumer demand serve to bring inflation down from its peak in Q3 2022. Labor and other input costs fall for businesses, and advanced manufacturing technologies help improve efficiencies in major markets. Companies seize on these opportunities to boost short-term growth. The global economy, therefore, is powering through a slow pandemic recovery. Still, geopolitical volatility continues to rise, and questions remain as to how long the present course can be sustained.

In Powering Through, public confidence and support for international institutions continue to erode.

Scenario 3: Great Decline

Unstable institutions and governance; less open world and less localization

In Great Decline, conditions deteriorate sharply due to a combination of governmental crises and failing international institutions alongside a sharp rise in protectionism. Growth falls to 1.8 percent in 2022 and contracts to -0.8 in 2023 before returning to low growth of 1.8 percent in 2024. The pandemic persists in varying degrees in countries around the world, with intermittent outbreaks brought about by new variants that outpace vaccines and treatments. These developments sometimes result in new lockdowns and supply chain disruptions, particularly in China as it continues to adhere to its strict zero-COVID policy.

Compounding the economic turbulence, central banks overreach in tightening monetary policy, reducing inflation somewhat but sending the global economy into contraction. Mounting frustrations with the economy and the status quo, particularly as inflation continues to outpace wage increases in major economies, lead to a surge in support for nationalist and protectionist leaders—regardless of their competence or government experience.

Many of the new protectionist policies are severe and implemented in haste, causing sharp disruptions to domestic and regional economies. These shocks curb spending on R&D and slow the rate of innovation and the spread of advanced manufacturing technologies. Supply chain inefficiencies persist. Some leaders respond to failing domestic economic policies by escalating hostile rhetoric about rival countries to displace the blame. Tensions between the United States and China as well as between the West and Russia reach new highs.

The conflict in Ukraine has profound ripple effects that extend beyond the continent, including spikes in oil, gas, and food prices that drive persistent inflation despite weak or even negative economic growth. These dynamics amplify the global food crisis, leaving tens of millions of people in hunger and fueling political instability in many developing countries. Global trade and FDI flows are fragmented, and the free flow of labor slows considerably.

In Great Decline, frustrations with the economy and the status quo lead to a surge in support for nationalist and protectionist leaders.

Scenario 4: World in Flux

Stable institutions and governance; less open world and more localization

In World in Flux, effective governance and reformed international institutions help facilitate a major rewiring of the global economy. In response to multiple exogenous shocks, starting with the pandemic and the conflict in Ukraine, supply chains are shortened, and many major economies take profound steps away from continued globalization. The result is slower growth in the short term but some positive signs of recovery later in the forecast period as the global economy begins to adjust to a deglobalized world. Global output growth falls to 1.8 percent in 2022 and further to –0.3 percent in 2023 before rebounding to 3.5 percent in 2024.

While the threat of COVID-19 recedes in 2022 as the virus becomes endemic in many countries, the legacy of the pandemic is profound. Industrial policies and efforts to build national self-sufficiency are supercharged, with leaders in major economies vowing to "never again" let key sectors of their economies be exposed to the risks of global supply chains. This triggers a series of major reform efforts by governments to find ways to build more resilient economies, with international institutions helping to facilitate the exchange of ideas and best practices. Public–private partnerships become more common as governments seek to better understand the needs and requirements of industries, particularly those deemed to be national security priorities, such as semiconductors.

As a result of such public–private collaborations, governments invest strategically in vital industries and work to build capable domestic workforces. The results are uneven and painful at times, often resulting in short-term economic hardship. As supply chains are remade, there are noteworthy disruptions. Levels of trade decrease, and consumer costs rise. Yet despite these developments and slowing growth, the transition is generally handled in a competent manner, fueling an overall sense of optimism. Once established, shorter supply chains prove to be more resilient, even if companies often must accept maintaining larger inventories and higher overhead costs.

US–China relations become less strained as both countries focus on strengthening geopolitical and economic ties in their respective regions. Bilateral trade between the two countries declines, but hostile rhetoric and the risk of overt conflict appear to be receding. Russia has largely withdrawn from the international system and focuses inward as it contends with significant domestic economic and political fallout from the conflict in Ukraine. From a global perspective, the geopolitical and economic effects of the conflict have been transformational and, in many ways, marked the end of globalization as it had been before. Despite significant challenges in rewiring the global economy, there are some signs of recovery and greater economic resilience in 2024. Competent governance and institutions have helped provide some hope that the global economy is growing more resilient to exogenous shocks.

In World in Flux, many major economies take profound steps away from globalization.

Conclusion and implications for business

The global economy is facing persistent headwinds, many of which are likely to continue well beyond our forecast period. At present, supply chain disruptions and record inflation are fueling consumer pessimism in the economic outlook. Indeed, our reassessment finds that much of this pessimism is well-founded: there have been precipitous drops in our projections for global output at the global, regional, and country level. Navigating such a challenging environment makes it imperative for businesses to anticipate and plan for a range of potential economic futures.

As our scenario analysis suggests, the differences can be quite stark. While events are unlikely to unfold in precisely the manner depicted in our scenarios, the competing futures in our assessment do provide illustrative examples of the types of factors that strategic businesses need to monitor. For these reasons, we continue to believe—as reflected in our analysis last March—that organizational agility and a capacity to reassess supply chain exposure remain top priorities for businesses with strategic perspectives.

More specifically, the following business implications should be top of mind:

Prioritize organizational agility. Operational resiliency will be the name of the game for companies over the next few years. To minimize the uncertainty shrouding the global economic architecture, strategic businesses will ensure that they have robust risk preparedness and management programs in place. This means preparing for everything from minor inconveniences such as shipping delays to worst-case scenarios ranging from another pandemic to cybersecurity threats to a major conflict. Actively monitoring developments and even engaging in "purple team" exercises to simulate a company response to a geopolitical event or cyberattack can prove helpful.

Reassess supply chain exposure. From pushing for greater localization of manufacturing operations to boosting the use of technology to improve productivity, companies are streamlining their supply chains to alleviate product shortages and increase efficiency. Doing so will only become more urgent over the next few years as geopolitical risks, economic issues, and even climate risks converge to create more pressure on international trade and operations.

Anticipate an even stronger dollar. As the US Federal Reserve mulls more interest rate hikes and the macroeconomic outlook darkens, a strong dollar may become the norm in the next three years. For US exporters, this could mean weaker sales, and companies may need to recalibrate to improve domestic revenues to compensate. For the rest of the world, especially emerging markets, weaker currencies could boost exports but strain governments as currencies depreciate, potentially triggering further inflation and unsustainable debt levels.

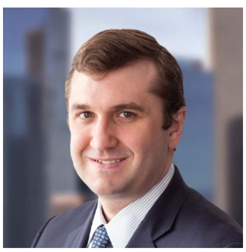
Boost flexibility amid lasting inflation. Inflation is driving up input prices in industries across the board. Strategic businesses will pivot to less price-volatile materials. In manufacturing, for example, different metals are sometimes suitable for a particular product, or an adhesive might be able to replace a metal fastener.

Commit to transparency with consumers. The convergence of higher prices, slow delivery times, and overall economic uncertainty are weighing heavily on consumer spending throughout the world. Companies that acknowledge the headwinds that both they and their customers are facing will build respect and can gain reputational and monetary rewards. This can mean initiatives from making current input prices public to informing the consumer base of employee wage increases.

Authors

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

Paul Laudicina
Chairman emeritus of Kearney and founder of the Global Business Policy Council, Washington, D.C.
paul.laudicina@kearney.com



Terry Toland
Consultant, Washington, D.C.
terry.toland@kearney.com

The authors would like to thank Gabriella Huddart and Kevin Wolfe for their valuable contributions to this report.

As a global consulting partnership in more than 40 countries, our people make us who we are. We're individuals who take as much joy from those we work with as the work itself. Driven to be the difference between a big idea and making it happen, we help our clients break through.

kearney.com

kearney.com

KEARNEY
Global Business Policy Council