Business perceptions of the key threats to the global economy have shifted significantly, based on our latest Global Risk Survey. Geopolitical tensions – for example, related to Taiwan, Korea, and Russia-NATO – are now believed to pose the greatest risk to the global economy in both the near term and medium term. Banking system concerns have eased but remain elevated.

While businesses continue to see high inflation expectations as a significant near-term risk, they appear more confident that inflation will eventually moderate. Expected inflation over the medium term has fallen significantly, unwinding the rises seen over the past two years.

The survey was completed by 127 businesses from July 6-27.

Our Q3 2023 Global Risk Survey was conducted amid resilient activity data and further signs that policy tightening is yet to have had a significant impact on the economy. Against this backdrop, business growth expectations have remained broadly stable.

However, our latest survey confirms that businesses' perceptions of risks to the global economy have shifted. Geopolitical tensions are now the main focus of concern, both in the near term (Chart 1) and the medium term. Banking system concerns have eased, although 30% of respondents still view either a marked tightening in credit supply or a full-blown financial crisis as the top risk in the near term. Concerns about the outlook for inflation over the medium term have also diminished.

Oxford Economics Global Risk Surveys canvas the views of Oxford Economics' clients, including some of the world’s largest companies. Based on our analysis of the Q1 2020 survey, the participating companies collectively employ around 6 million people and have a total turnover of around US$2 trillion.

Chart 1: Geopolitical risk has replaced a potential credit crunch as the top perceived threat to the global economy

Global Risk Survey: near-term downside risks

- Full-blown financial crisis
- Trade tensions escalate
- Inflation expectations remain elevated
- A marked further tightening in credit supply
- Geopolitical tensions (eg Taiwan, Korea, Russia-NATO)

Source: Oxford Economics
Near-term growth outlook

Sentiment stable

The Q3 Global Risk Survey suggests that business sentiment has remained stable. The proportion of respondents becoming more negative about global growth prospects over the past month is matched by the proportion becoming more positive (Chart 2). Few businesses report becoming either significantly more positive or significantly more negative about the economic outlook.

Chart 2: Business sentiment has remained stable

Looking ahead to the next two years, have you become more positive or more negative about global growth prospects over the past month?

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>June 2023</th>
<th>Latest Global Risk Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significantly more positive</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Slightly more positive</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>No change</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Slightly more negative</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Significantly more negative</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Oxford Economics

Perceived risks remain to the downside

A majority of businesses judge that risks to our baseline global growth forecast are weighted to the downside. While this proportion has increased on the month to 52%, up from 47% previously, only 7% of respondents perceive risks to be heavily weighted to the downside (Chart 3).

Chart 3: A majority of businesses think risks to growth are skewed to the downside

Looking ahead to the next two years, how do you view the risks to our baseline forecast for world GDP growth?

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>June 2023</th>
<th>Latest Global Risk Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risks heavily weighted to the downside</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Risks slightly more than to the downside</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Risks balanced to the baseline</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Risks slightly more than to the upside</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Oxford Economics

Growth expectations have been revised up for 2023 and down for 2024

In line with the pattern of recent revisions to our baseline forecast, businesses have upgraded their growth expectations for this year, but lowered their expectations for next year. The mean expectation for world GDP growth in 2023 is now 2.1%, up 0.1ppt from early March but 0.2ppt below our latest baseline forecast (Chart 4). The mean expectation for 2024 stands at 2.1%, 0.2ppt lower than in the previous survey but slightly above our latest baseline forecast.

Chart 4: Businesses now anticipate a similar pace of growth this year and next

What probability do you place on world growth lying within the following ranges in 2023 and 2024?

Average probability

| Source: Oxford Economics Global Risk Survey |

Near-term inflation outlook

Inflation expectations have fallen back

Recent falls in inflation have been accompanied by greater business confidence that inflation will continue to moderate. Respondents’ mean expectation for world consumer price inflation stands at 3.7% in 2024 (Chart 6), 0.2ppt below our latest baseline forecast.

In addition, medium-term inflation expectations have fallen significantly, back to the level seen two years ago. The mean expectation now stands at 3.1%, 0.4ppt lower than the level in the Q2 survey. However, expected inflation over the medium term still remains 0.3ppt above our baseline forecast.

Chart 5: Businesses have become more confident that inflation will moderate over the medium term

What probability do you place on world consumer price inflation lying within the following ranges in 2024 and the medium term?

Average probability

Source: Oxford Economics
Key risks

Geopolitical tensions are a key near-term concern

The latest survey points to a shift in businesses’ perceptions of the key risks to the global economic outlook. The top perceived downside risk in the near term is now geopolitical tensions – for example, related to Taiwan, Korea, and Russia-NATO. The risk is cited by 36% of businesses (Chart 6).

Back in April’s Q2 survey, nearly half of respondents viewed either a marked tightening in credit supply or a full-blown financial crisis as the top risk in the near term. These concerns eased in the Q3 survey, although 30% still cite either of these banking system-related risks.

Chart 6: Geopolitical tensions are now seen as the top near-term risk

What do you see as the top three downside global economic risks over the next two years?

- Supply chain disruption (eg Taiwan, Korea, Russia-NATO)
- Severe energy market disruption
- Climate change
- Full-blown financial crisis
- Trade tensions escalate
- Inflation expectations remain elevated
- A marked further tightening in credit supply
- Geopolitical tensions (eg Taiwan, Korea, Russia-NATO)

% of respondents citing as top risk

April 2023
Latest Global Risk Survey

Source: Oxford Economics

Medium-term geopolitical concerns remain prominent

Looking ahead to the next five years, geopolitical tensions are still seen as the top global economic risk. As reported last quarter, more than three-fifths of respondents view geopolitical risks as a very significant risk to the global economy over the medium term (Chart 7).

An intensification of geopolitical tensions could potentially trigger significant deglobalisation of trade and the financial system. The risk of deglobalisation is the third most cited risk in the latest survey, viewed as a very significant risk by 23% of respondents.

Banking system-related concerns have eased over the medium term, as well as in the near term. But banking risks remain among the top risks. Overall, 38% of businesses view either a marked tightening in credit supply or a full-blown financial crisis as a very significant risk over the medium term.

Chart 7: Geopolitical and banking risks remain prominent in the medium term

Looking ahead to the next five years, how serious are the following medium-term global economic risks?

- EM recovery disappoints
- Persistent supply chain disruption
- A marked further tightening in credit supply
- Climate change
- Successful China Covid reopening
- Persistent supply chain disruption
- A marked tightening in credit supply
- Secular stagnation in advanced economies
- Deglobalisation of trade and financial systems
- Geopolitical tensions (eg Taiwan, Korea, Russia-NATO)
- Inflation expectations remain elevated
- Full-blown financial crisis
- Persistent supply chain disruption
- Severe energy market disruption

% of respondents citing as very significant risk

Source: Oxford Economics

Businesses increasingly see consumer spending as key upside

Whereas previous surveys this year pointed to a range of potential sources of stronger growth, the Q3 survey suggests that businesses increasingly view consumers as key. Almost a third of respondents (31%) now see buoyant consumer spending – for example, supported by the run-down of excess savings accumulated during the pandemic – as the top upside risk for the global economy in the near term (Chart 8).

While early policy rate cuts remain among the top upside risks (cited by a quarter of those surveyed), businesses appear to see less chance of a China-driven upturn. The proportion of businesses citing a successful reopening in China as the top global upside has almost halved over the past three months (cited by 10%, down from 19% in Q2).

Chart 8: Businesses increasingly see consumer-led recovery as the key potential upside

What do you see as the top upside global economic risks over the next two years?

- Successful China Covid reopening
- Early end to supply-chain crisis
- Productivity picks up globally
- Reduced energy market disruption
- Early policy rate cuts
- Buoyant consumer spending (eg amid excess savings, strong labour markets)
- Successful China Covid reopening
- Early end to supply-chain crisis
- Productivity picks up globally
- Reduced energy market disruption
- Early policy rate cuts
- Buoyant consumer spending (eg amid excess savings, strong labour markets)

% of respondents citing as top risk

Source: Oxford Economics
Box 1: METHODOLOGY

The latest quarterly survey was conducted between July 6-27. It was completed online by 127 businesses, primarily Oxford Economics' clients, and covered a wide range of sectors and geographical regions. The largest sectors by number of respondents were financial institutions (39%) and industrial manufacturing and materials (16%). By region, Europe (40%) and North America (22%) were most dominant, though 22% of respondents reported that their business was multinational rather than having a primary geographical focus.

The distribution of responses within expected world GDP growth buckets is assumed to be even. Reported percentages in the survey may not sum to 100% due to rounding.