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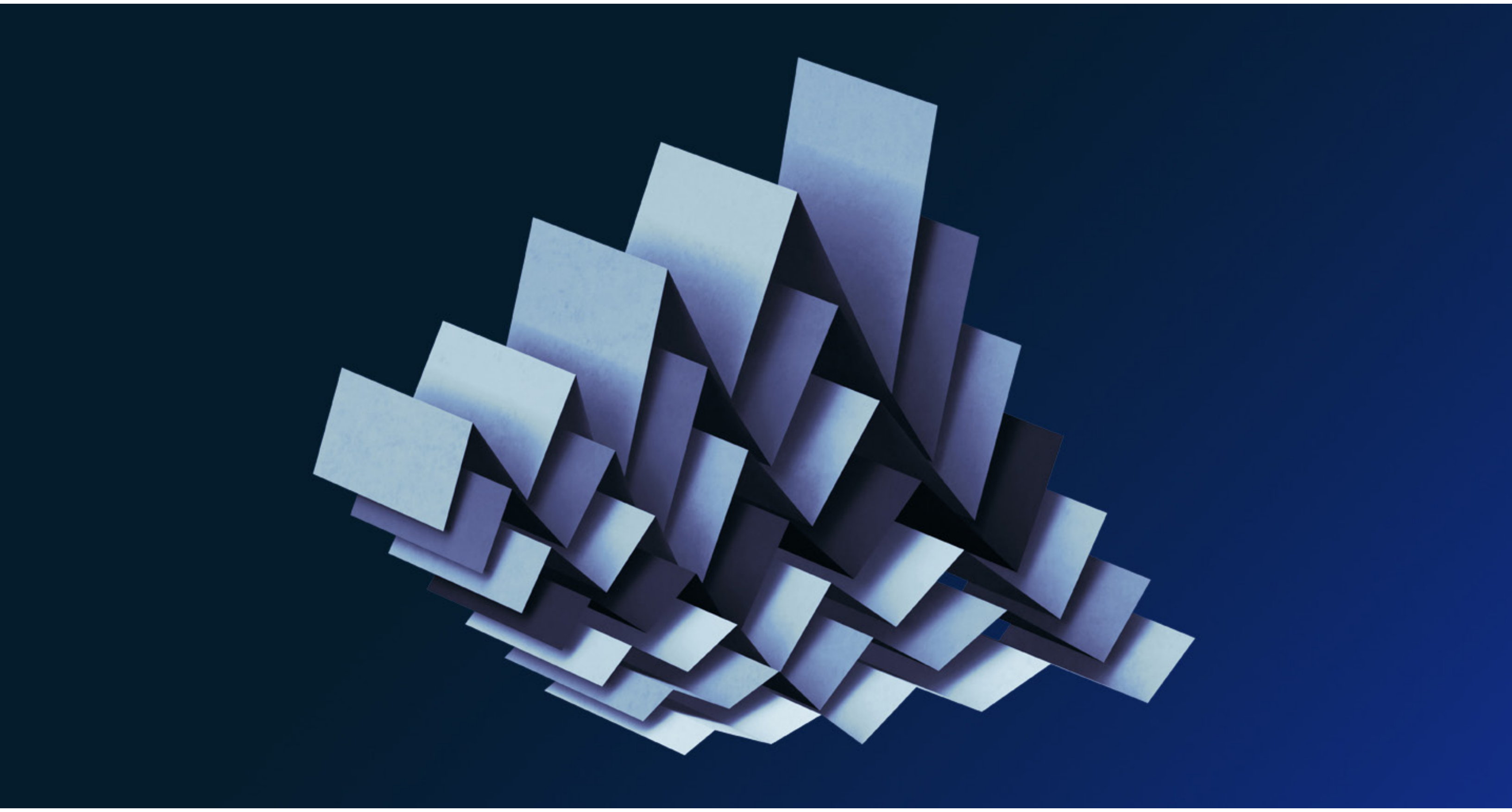
Strategy & Corporate Finance Practice

Economic Conditions Snapshot, September 2020: McKinsey Global Survey results

Executives are more hopeful about the economy—and their own companies' performance—than they have been since the COVID-19 crisis began. Yet, operational and employment challenges remain.



September 2020

Six months after WHO declared COVID-19 to be a global pandemic,[1] the responses to our latest McKinsey Global Survey on economic sentiment suggest a shift toward optimism.[2] Executives are about three times more likely than in June to say economic conditions have improved at home and globally, though roughly six in ten respondents describe the economy as worse now than it was six months ago. The mood is especially positive in Greater China, where the share of respondents reporting improved domestic conditions has grown dramatically since June.

Likewise, executives' expectations for the economy's prospects, and for demand and profitability at their companies, are increasingly upbeat. For the first time this year, majorities of respondents predict that both demand and profits will increase in the months ahead. Even so, respondents are equally likely to expect their workforces will shrink as they are to predict growth. Most predict that the unemployment rates in their countries will continue to increase, and they report that their companies are resuming operations more slowly than they expected back in June.

The results also suggest changing views about COVID-19's impact on GDP, at least close to home. When asked which of the nine COVID-19-related scenarios is most likely, respondents continue to pick the same scenario for the global economy as they have since the spring: A1, characterized by partially effective policy and public-health responses and a yearslong economic recovery. But for their own economies, respondents now select a scenario that involves virus containment, sector damage, and a lower growth rate over the long term (B1) most often.

Positive shifts in economic sentiment

While most executives still say the economy has worsened in the past six months, the latest responses suggest that moods are shifting—and in a more positive direction. They are roughly three times more likely than in June to say conditions in their home countries *and* in the global economy are better now than six months ago (Exhibit 1).

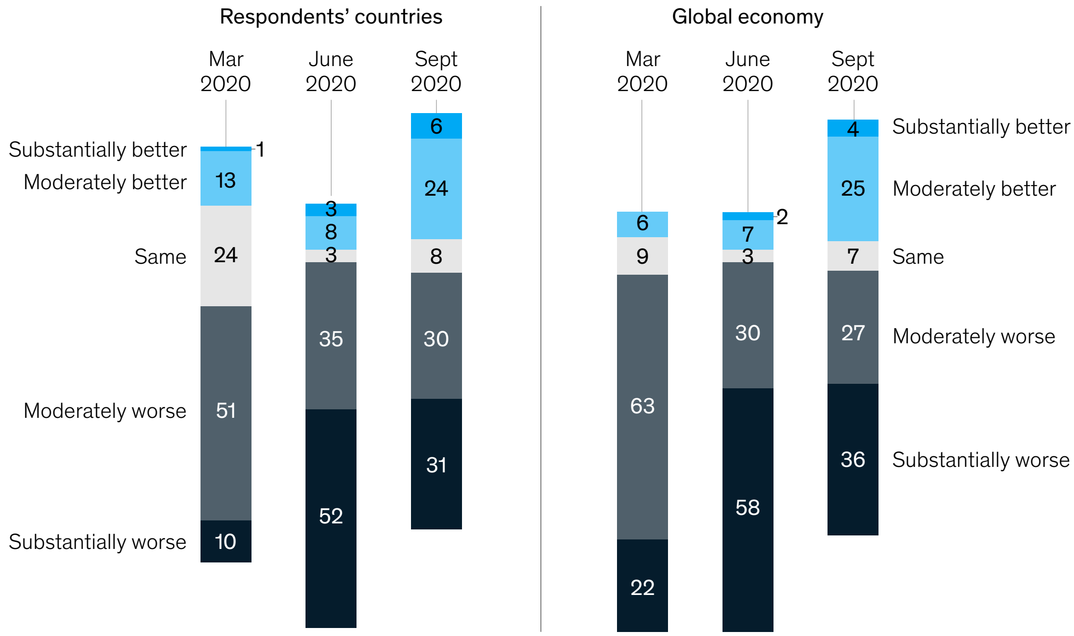
Executives' expectations for the economy's prospects, and for demand and profitability at their companies, are increasingly upbeat. For the first time this year, majorities of respondents predict that both demand and profits will increase in the months ahead.

[1] "Timeline: WHO's COVID-19 response," July 30, 2020, who.int.
[2] The online survey was in the field from August 31 to September 4, 2020, and garnered responses from 1,138 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

Exhibit 1

The shares of respondents reporting improvements in their own economies and the global economy have nearly tripled since June.

Current economic conditions, compared with 6 months ago, % of respondents[1]



[1]Figures may not sum to 100%, because of rounding. Mar 2020, n = 1,152; June 2020, n = 2,222; Sept 2020, n = 1,138.

By geography, respondents in Greater China remain the most positive about their home economies, with an overwhelming 86 percent reporting improved conditions. And even there respondents report a huge jump since June, when 47 percent said the same. After Greater China, respondents in North America (26 percent) and developing markets,[3] including the Middle East and North Africa (24 percent), are the most likely to report improvements.

On the global economy, the results also suggest that executives in emerging economies are increasingly positive compared with their developed-economy peers (Exhibit 2).[4] In emerging economies, 44 percent of respondents say global conditions have improved in recent months—twice the share in developed economies who say the same, and a bigger gap between the two groups than we saw in June and in March.

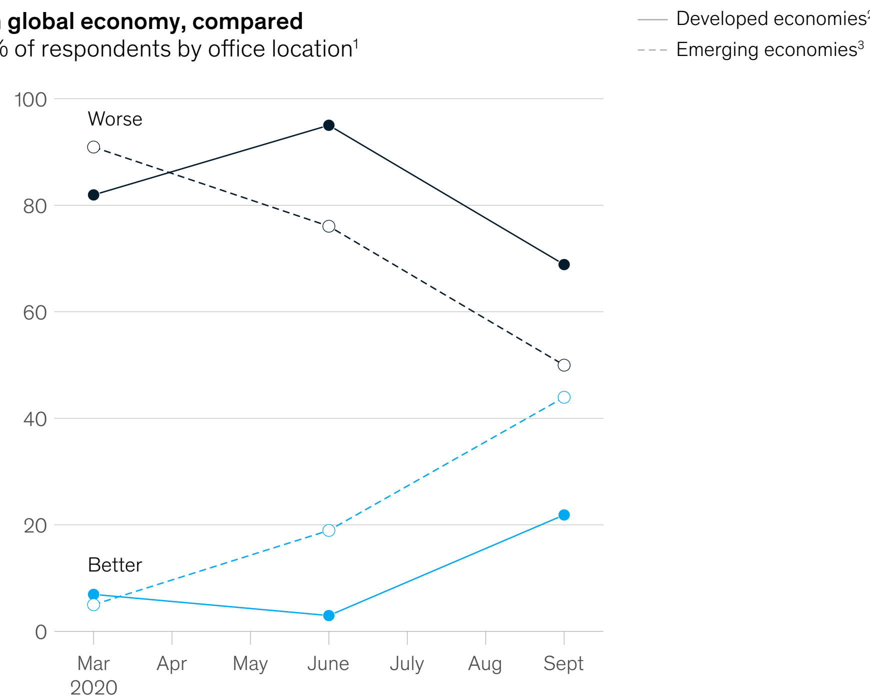
We see even more positivity in respondents' expectations for the future. More than half say economic conditions in their own economies will be better six months from now, while 30 percent say they'll worsen. It's the smallest share all year to expect declining conditions. And except for developing markets, respondents in every region are more likely to predict that conditions will improve than that conditions will worsen (Exhibit 3). This is even true of those in North America where, between June and July, respondents' outlooks took a negative turn.[5]

[3] Includes respondents in the Middle East, North Africa, South Asia, and Sub-Saharan Africa.
[4] "Emerging economies" includes Greater China, India, Latin America, and other developing markets, including the Middle East and North Africa. "Developing economies" includes developed Asia, Europe, and North America.
[5] "The coronavirus effect on global economic sentiment," July 2020, McKinsey.com.

Exhibit 2

On the global economy, executives in emerging economies are increasingly positive compared with their developed-economy peers.

Current conditions in global economy, compared with 6 months ago, % of respondents by office location[1]



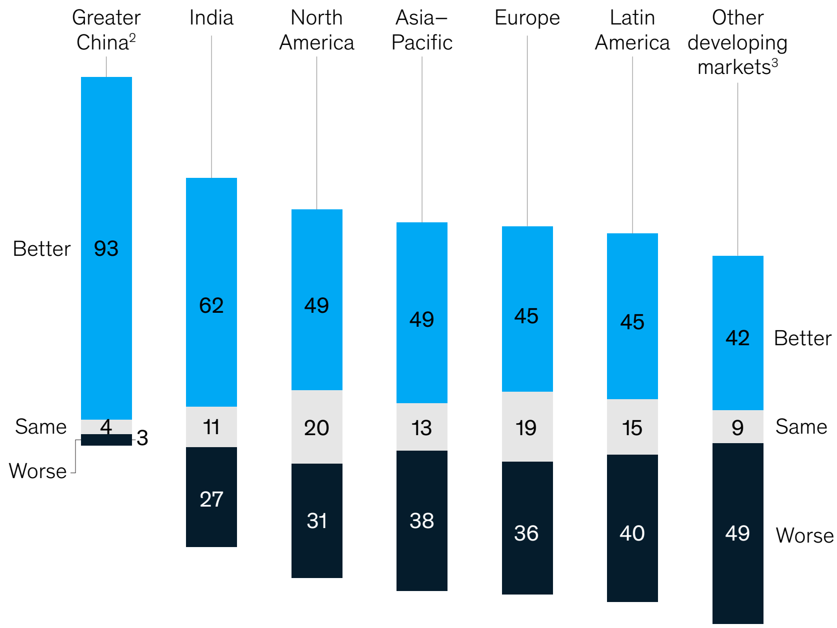
[1]Respondents who answered "same" are not shown.
[2]Mar 2020, n = 815; June 2020, n = 1,541; Sept 2020, n = 779.
[3]Mar 2020, n = 337; June 2020, n = 681; Sept 2020, n = 359.

Respondents in nearly every region are more likely to predict that domestic economic conditions will improve than that conditions will worsen.

Exhibit 3

In nearly every region, respondents have a more optimistic outlook on their own economies.

Expected economic conditions in respondents' countries, next 6 months,
% of respondents by office location[1]



[1]Greater China, n = 103; India, n = 74; North America, n = 259; Asia–Pacific, n = 136; Europe, n = 402; Latin America, n = 80; other developing markets, n = 84.
[2]Includes Hong Kong and Taiwan.
[3]Includes Middle East, North Africa, South Asia, and sub-Saharan Africa.

The share of respondents predicting improvements in the global economy has also grown over the past few months (Exhibit 4). Now 57 percent say so, compared with 52 percent in June and 25 percent in March.

Again, emerging-economy respondents report more positive views on the global economy than their peers. Seventy-three percent expect global conditions to improve in the next six months, compared with 49 percent in developed economies—a much greater gap than previous surveys this year, when executives reported more similar views.

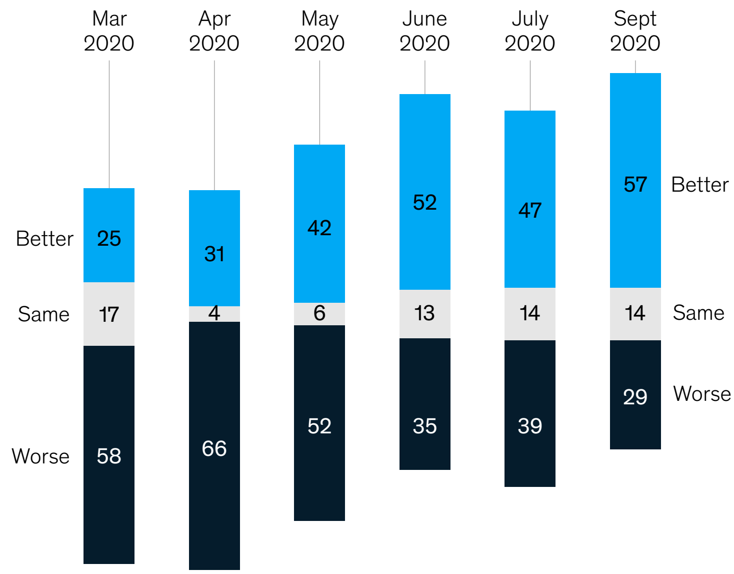
Amid high corporate expectations, there's still work to be done at the company level

Since COVID-19 was declared a global pandemic, executives have reported an increasingly upbeat outlook for their companies' profits and demand for their offerings—a trend that continues in the latest survey. For the first time in 2020, majorities of respondents expect their companies' profits and demand for their offerings will increase in the next six months. When asked about the timeline for their companies' return to full operations, a growing share (17 percent, up from 12 percent in June) say they are working at full capacity again.

Exhibit 4

A growing share of respondents believe global economic conditions will improve in the months ahead.

Expected global economic conditions, next 6 months, % of respondents[1]



[1]Figures may not sum to 100%, because of rounding. Mar 2020, n = 1,152; Apr 2020, n = 2,121; May 2020, n = 2,514; June 2020, n = 2,222; July 2020, n = 2,112; Sept 2020, n = 1,138.

At the same time, companies that are not yet at full capacity appear to be resuming operations more slowly than expected back in June (Exhibit 5). Respondents are more likely now than in June to predict a timeline of 13 months or more to become fully operational again (31 percent, up from 23 percent), even though we are three months further along in time.[6]

Workforce size and unemployment are also ongoing concerns, according to respondents. Throughout 2020, they have been equally or more likely to say their companies' workforces will shrink rather than grow. This comes after years of anticipating that increases in workforce size were more likely than decreases (Exhibit 6). In the latest survey, about three in ten respondents expect either an increase or a decline, with the largest share (41 percent) saying head count will hold steady.[7]

Workforce size is an even bigger worry in developed economies than elsewhere. Respondents in developed economies are more likely than their emerging-economy counterparts to predict a decrease in workforce size (33 percent, compared with 23 percent), whereas in June and in March, they were nearly equally likely to expect a decline.

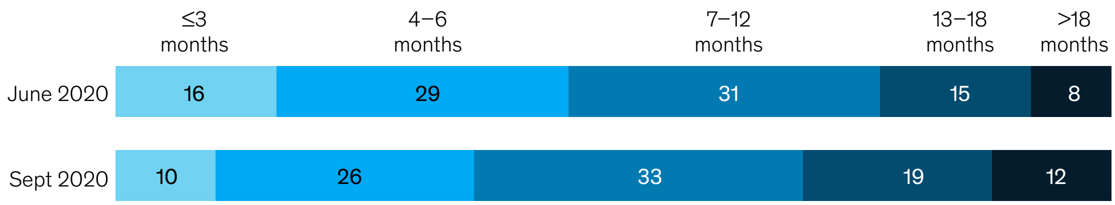
As we saw three months ago, more than half of all respondents expect the unemployment rates in their countries will increase. By geography, executives in Europe are most likely to say so; 79 percent in that region predict that unemployment will rise in the months ahead.

[6] Figures were recalculated after removing the following responses to the question: "not applicable; we are fully operational already," "not applicable; our business activities have not decreased because of COVID-19," and "don't know."
[7] Our question on expected changes in workforce size was asked of all respondents, including those working at nonprofit organizations and government agencies or departments. The questions on consumer demand and profits were asked only of private-sector respondents.

Exhibit 5

Among companies that aren't at full capacity, few respondents say their companies have made progress on returning to full operations.

When organizations are expected to be fully operational again, % of respondents[1]

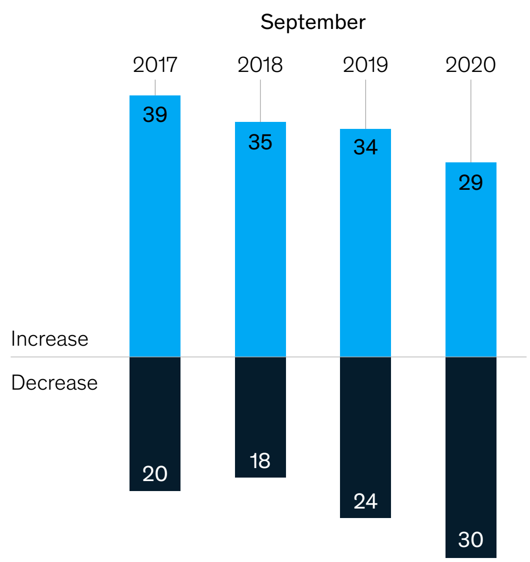


[1]Figures were recalculated after removing the following responses (and may not sum to 100%, because of rounding): "not applicable; we are fully operational already," "not applicable; our business activities have not decreased because of COVID-19," and "don't know." In June 2020, 25% of all respondents gave one of these answers; in Sept 2020, the share is 32%. June 2020, n = 1,642; Sept 2020, n = 763.

Exhibit 6

Expectations for workforce changes are divided between growth and decline, after years of predicting an increase in workforce size.

Expected changes in company's workforce size, next 6 months, % of respondents[1]



[1]Respondents who answered "stay the same" are not shown. Sept 2017, n = 1,407; Sept 2018, n = 1,158; Sept 2019, n = 1,363; Sept 2020, n = 1,138.

An evolving view on COVID-19 scenarios

Since we began asking in the spring about nine scenarios for COVID-19's economic effects, respondents have tended to choose a middle-of-the-road outcome as most likely: scenario A1, in which there are regional recurrences of the virus, a muted recovery, and slower longer-term growth. In the past two surveys, A1 was cited as the likeliest outcome for the global economy and for respondents' home economies.

While A1 remains likeliest for the global economy, a larger share of respondents now select scenario B1 (virus containment, sector damage, and a lower growth rate over the long term) as a potential global scenario. It's now ranked first by 21 percent of respondents, up from 13 percent in mid-July and 16 percent in June. In July's survey, a more pessimistic scenario (B2, in which the virus recurs and economic-policy interventions cannot deliver a full recovery to precrisis levels) followed A1 as second most likely. While B2 is no longer ranked second, a nearly equal share of respondents (19 percent, versus 20 percent in July) now say B2 is most likely for the global economy.

With respect to their home economies, executives now choose B1 as the most likely scenario, replacing A1 in prior surveys. By geography, those in Greater China and in the rest of Asia–Pacific now cite B1 most often (31 percent and 30 percent, respectively, rank it most likely). In Greater China, this is a departure from the past two surveys, where scenario A3 (in which the virus is contained and growth returns) is the likeliest.

The survey content and analysis were developed by **Alan FitzGerald**, a director of client capabilities in McKinsey's New York office; **Vivien Singer**, a capabilities and insights expert at the Waltham Client Capability Hub; and **Sven Smit**, a senior partner in the Amsterdam office.

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