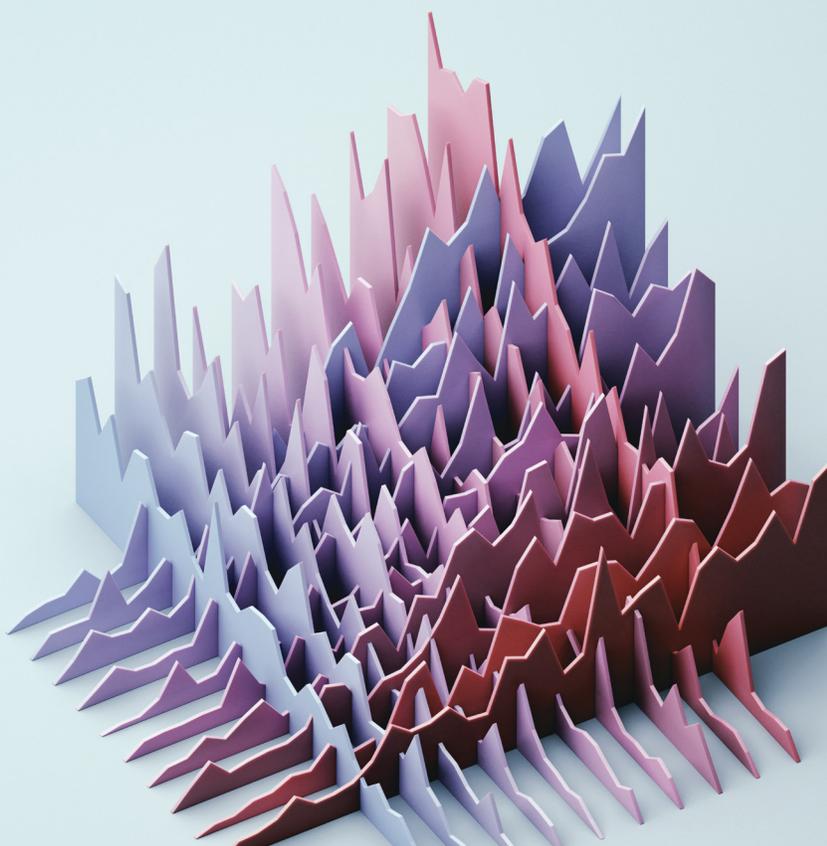


Strategy & Corporate Finance Practice

# Economic Conditions Snapshot, June 2020: McKinsey Global Survey results

A new survey confirms COVID-19's historic effects on the economy and on businesses. While executives report new risks to growth, their overall outlook for the future continues to improve.



**Months into the COVID-19 pandemic**, which continues to affect a growing number of countries and people,<sup>1</sup> the responses to our newest McKinsey Global Survey on economic sentiment confirm the extent of the damage so far.<sup>2</sup> Respondents are much likelier now than in March (52 percent, up from 10 percent) to say their countries' economies have declined substantially in recent months,<sup>3</sup> and more than twice as likely to report substantially worse conditions in the global economy. Across geographies, vast majorities of executives everywhere but Greater China report economic declines in the past six months.<sup>4</sup>

The survey also asked about changes companies have made in response to COVID-19—or plan to make, if they are not yet fully operational. Among the few executives whose businesses are fully operational or weren't affected by COVID-19, the workplace changes they report are similar to the ones all other respondents expect to see once operations resume. When asked about the economy's future, respondents in most regions are increasingly optimistic about economic conditions at home. Of course, new economic threats have emerged. Since the March survey, social unrest has become a greater risk to both global growth and domestic growth, while the coronavirus outbreak is still cited most often. Unemployment is also a growing concern, with much larger shares than in March expecting their countries' unemployment rates to rise further in the coming months.

## **COVID-19's effects to date on the economy**

As economies around the world have been struggling to respond to and then recover from the COVID-19 pandemic, the survey results paint a grim picture

of its effects. Nearly nine in ten executives say conditions in their home economies are worse now than six months ago, which is the largest share to say so since April 2009, several months after the 2008 financial crisis began.<sup>5</sup> Of them, 52 percent report substantially worse conditions, up from 10 percent who said so in March.

Outside of Greater China, where 45 percent of respondents say the economy is worse now—and a nearly equal share say conditions have improved in recent months—between 88 and 98 percent of respondents in every other region say conditions have worsened (Exhibit 1).

When asked about the global economy, the results are equally gloomy (Exhibit 2). Eighty-eight percent of respondents say the global economy is worse now than it was six months ago, compared with 53 percent in December and 59 percent one year ago.

## **How companies are responding, and their future prospects**

With respect to companies, the results confirm that the pandemic's effects have, of course, been far-reaching. Only 12 percent of respondents say their operations have *not* been affected by COVID-19, and as of the survey, an additional 11 percent say their companies are fully operational again. What's more, a shrinking workforce seems increasingly likely: 39 percent expect their workforce size to decline over the next six months (up from 24 percent in March), which is the highest share to say so since April 2009.<sup>6</sup>

At all other companies, respondents are fairly divided on the timeline to a next normal<sup>7</sup> and views vary greatly by industry (Exhibit 3). On average,

<sup>1</sup> During the days that the survey was in the field (June 1 to June 5, 2020), 578,473 new cases of COVID-19 were confirmed; "WHO coronavirus disease (COVID-19) dashboard," covid19.who.int.

<sup>2</sup> The online survey was in the field from June 1 to June 5, 2020, and garnered responses from 2,222 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.

<sup>3</sup> "Economic Conditions Snapshot, March 2020: McKinsey Global Survey results," March 2020, McKinsey.com.

<sup>4</sup> Greater China includes Hong Kong and Taiwan.

<sup>5</sup> "Economic Conditions Snapshot, April 2009: McKinsey Global Survey results," April 2009, McKinsey.com. In the survey, the question asked how current economic conditions compare with conditions in early September 2008.

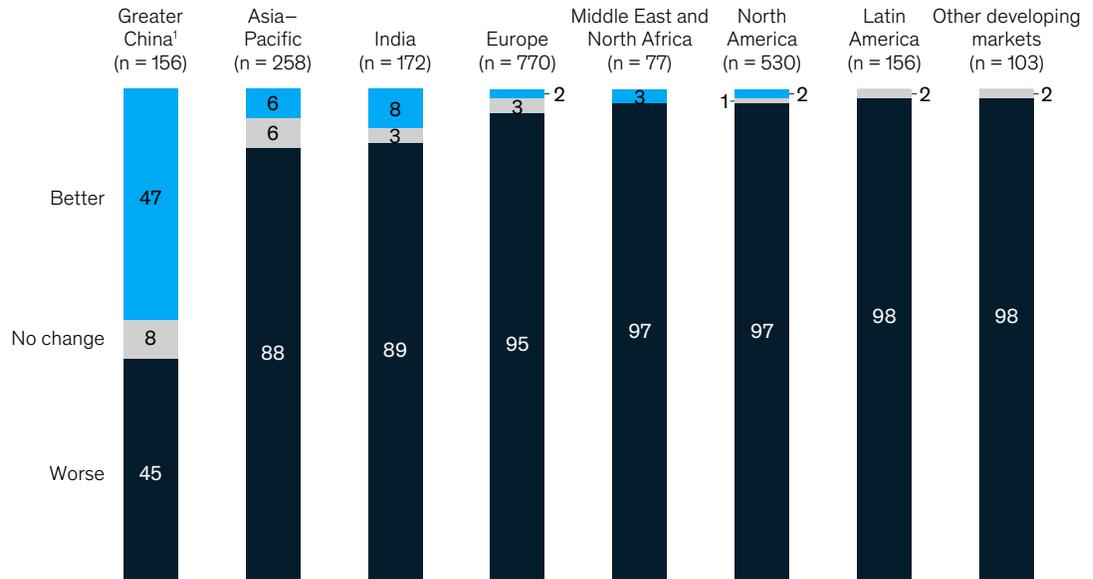
<sup>6</sup> "What executives think about the economy: 2004 to now," March 2020, McKinsey.com.

<sup>7</sup> Kevin Sneader and Shubham Singhal, "From thinking about the next normal to making it work: What to stop, start, and accelerate," May 2020, McKinsey.com.

Exhibit 1

**Outside of Greater China, clear majorities of respondents report declining conditions in their home economies.**

**Current economic conditions in respondents' countries, compared with 6 months ago,**  
% of respondents



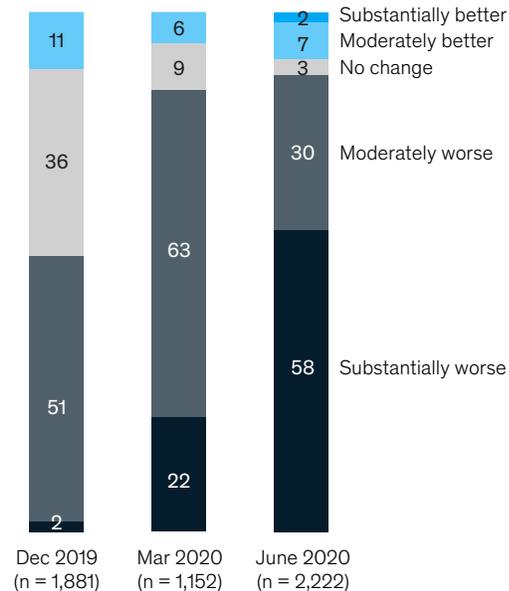
<sup>1</sup>Includes Hong Kong and Taiwan.

Exhibit 2

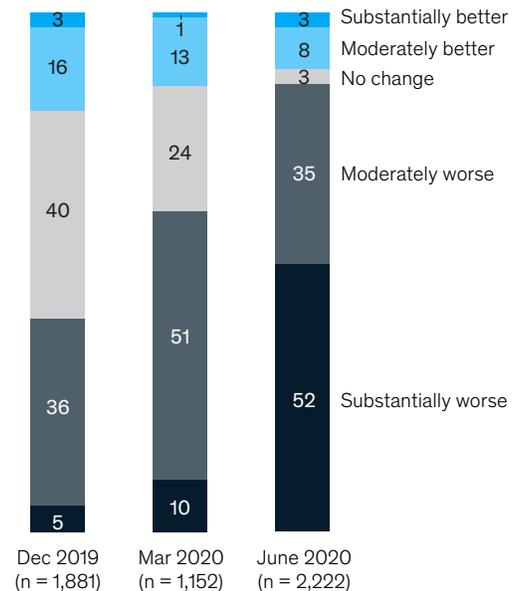
**Overall sentiment paints a grim picture of COVID-19's economic effects in the past six months.**

**Current economic conditions, compared with 6 months ago, % of respondents<sup>1</sup>**

**Global economy**



**Respondents' countries**



<sup>1</sup>Figures may not sum to 100%, because of rounding.

about one-third say their companies will be fully operational before the end of the year, while an additional 36 percent expect it will take until 2021. Executives in automotive and assembly are the most likely to report some effect on their business, while those in travel, transport, and logistics expect the longest return; over half say it will take until 2021 to be fully operational again. On the other end are respondents in electric power and natural gas, who are the most likely to say they're already operational or that business activities haven't decreased since the COVID-19 crisis began.

We also asked about the biggest changes—to date, or expected—once companies are fully operational, and respondents cite the same changes whether or not their businesses are already at that point (Exhibit 4). The most commonly cited changes are a larger share of virtual or remote work, accelerating adoption of business technologies, and the

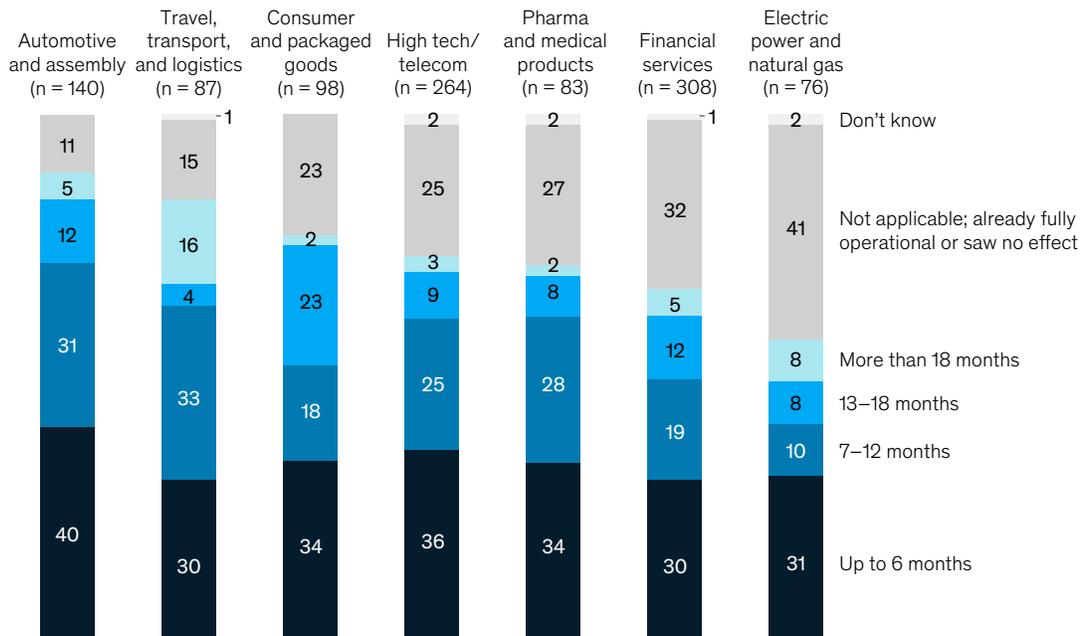
likelihood that digital channels will serve a larger share of customers. But depending on where the company is based, some changes seem likelier than others. For businesses headquartered in developed economies, respondents most often expect virtual or remote work (63 percent, compared with 41 percent at emerging-economy companies) once their businesses are operational again, while those at emerging-economy firms more often cite different M&A and divestment strategies (27 percent, versus 16 percent) and reconfiguring their geographic footprint (24 percent, versus 14 percent).

Unsurprisingly, then, technology and related disruptions figure significantly as risks to as well as opportunities for company growth.<sup>8</sup> Weak consumer demand remains the most common risk to company growth. But the share citing business-model disruptions in their industries has increased

Exhibit 3

### The timeline for returning to full operations in the wake of COVID-19 varies widely by industry.

When respondents' businesses will be fully operational again, by industry, % of respondents<sup>1</sup>



<sup>1</sup>Figures may not sum to 100%, because of rounding.

<sup>8</sup> For more on companies' adoption of digital technologies as a result of COVID-19, see Aamer Baig, Bryce Hall, Paul Jenkins, Eric Lamarre, and Brian McCarthy, "The COVID-19 recovery will be digital: A plan for the first 90 days," May 2020, McKinsey.com.

Exhibit 4

**Whether their companies are operational again or not, executives report the same workplace changes as a result of COVID-19.**

**Most significant changes to operations and business environment resulting from COVID-19, % of respondents**

	Changes to date, since the organization has become fully operational again <sup>1</sup>	Expected changes, once the organization is fully operational <sup>2</sup>
Execute a larger share of our work virtually and remotely	63	56
Accelerate our adoption of business technologies (eg, digitization, AI, automation)	48	50
Digital channels serve a larger share of our customers	32	41
Consolidate at least some of our operations across and/or within geographies	7	23
Pursue different M&A and/or divestment strategies, based on industry trends	5	19
Reconfigure the geographic footprint of the markets we serve	5	17
Become a more capital-intensive organization	4	8
Relocate a material share of our supply chain	3	11
Relocate a material share of our operations	1	6

<sup>1</sup>Question was asked only of respondents who said their organizations are fully operational already or that their business activities have not decreased because of COVID-19; n = 211. Respondents who answered "other" or "don't know" are not shown.

<sup>2</sup>Question was asked only of respondents who said their organizations are not yet fully operational; n = 1,481. Respondents who answered "other" or "don't know" are not shown.

since the April and May surveys, as has the share citing the fast pace of technological changes.<sup>9</sup> With respect to opportunities for growth, the shift to new technologies is cited most often, by 35 percent of respondents, up from 26 percent in March.

And after reporting record pessimism on expected demand and profits two months ago, executives' outlook on both fronts is tempering (Exhibit 5). Respondents are more likely to expect demand will increase than decrease, while two months ago, the opposite was true. Views on company profits are still more negative than positive, but the share expecting higher profitability continues to grow.

**A cautiously optimistic outlook**

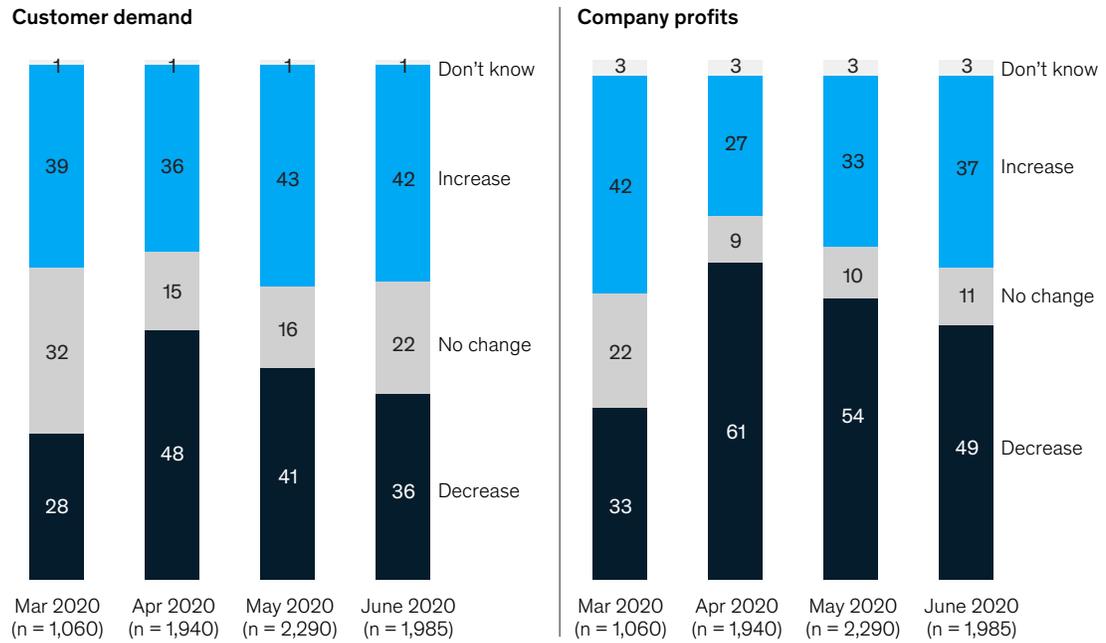
While executives' views on the economy's current state are decidedly downbeat, their outlook for the future continues to improve. Fifty-two percent believe the world economy will be better six months from now, a share that has continued to climb all year and is the highest it's been since June 2014. One-half of respondents say the same for their home economies; in May, 43 percent said so, up from 36 percent in April and 26 percent in March. Outside of Greater China, Latin America, and India—where respondents' outlooks have held steady—executives in every other region are more likely than one month ago to expect improvements (Exhibit 6).

<sup>9</sup> Twenty-four percent of respondents cite business-model disruptions in the June survey, up from 17 percent in April and May; 12 percent cite technological changes in June, up from 7 percent in April and May. In our past three surveys, a coronavirus outbreak was listed as a risk to company growth and selected by 53 percent of respondents in March 2020, and 37 percent of respondents in April and May 2020. In the June 2020 survey, we removed it from the list of potential risks (14 in total).

Exhibit 5

**Respondents' expectations for demand and profits are increasingly positive.**

Expected changes at respondents' companies, next 6 months, % of respondents<sup>1</sup>

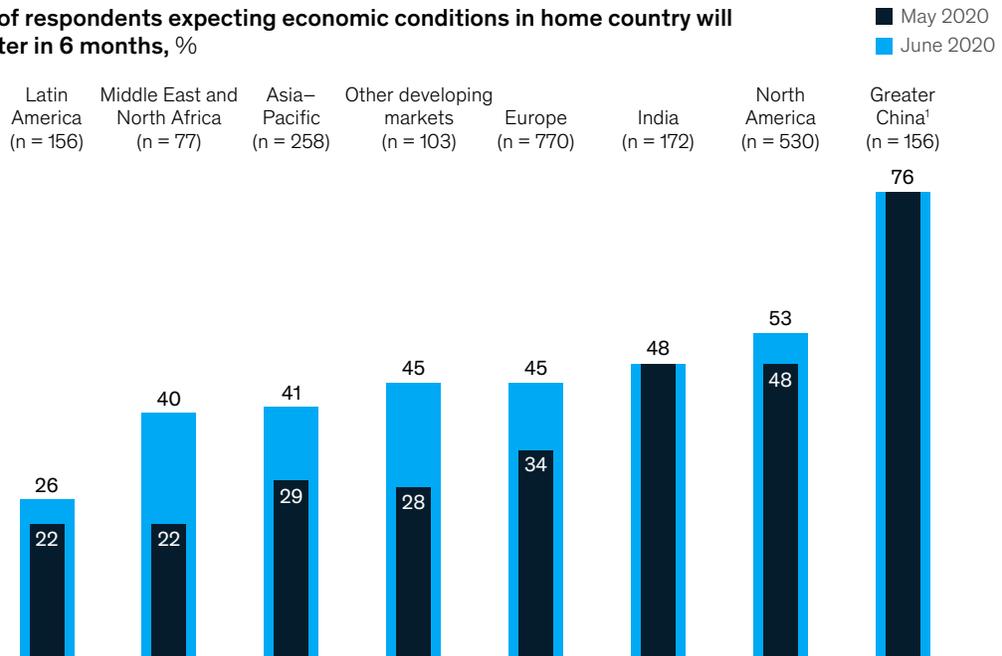


<sup>1</sup>Figures may not sum to 100%, because of rounding. Questions were asked only of respondents working for private-sector organizations.

Exhibit 6

**In many regions, the outlook for executives' home countries has improved since last month.**

Share of respondents expecting economic conditions in home country will be better in 6 months, %



<sup>1</sup>Includes Hong Kong and Taiwan.

When asked about COVID-19's effects on global GDP, respondents continue to choose two of the more optimistic scenarios, as they did in April and May. Out of nine scenarios, they most often pick A1 (in which public-health and economic-policy interventions are partially effective, and the return to precrisis levels of GDP, income, and corporate

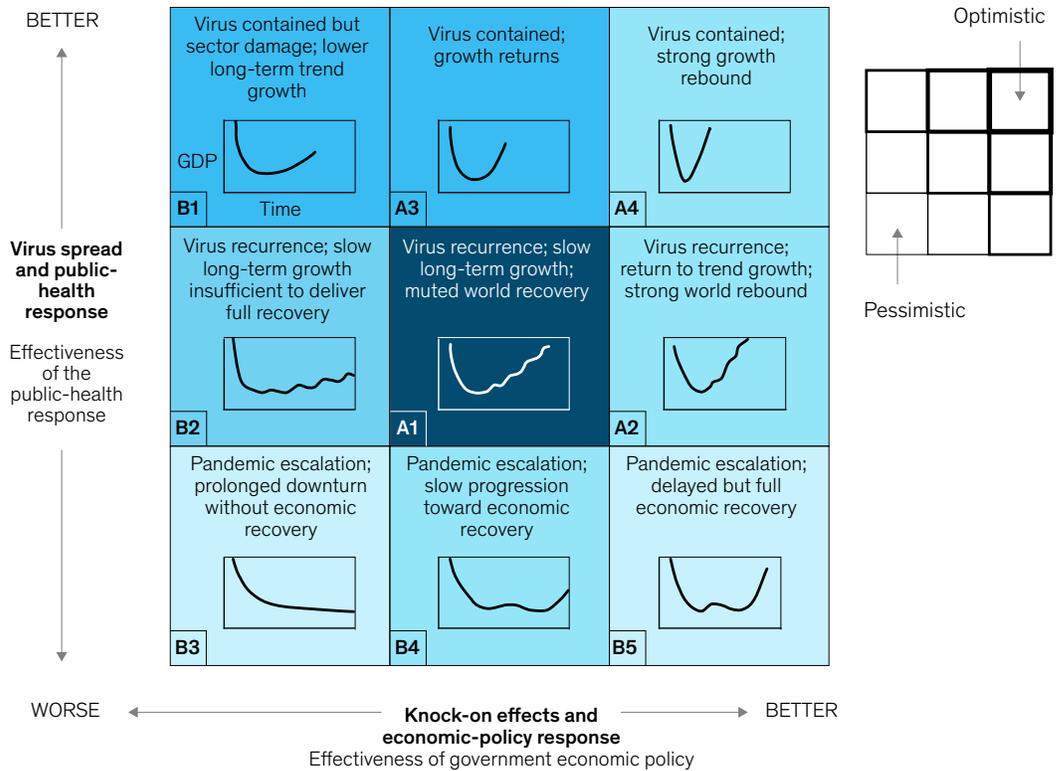
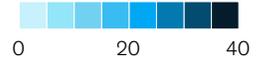
earnings will take time) and A3 (a stronger scenario, in which the virus is contained and growth returns slowly to precrisis levels).<sup>10</sup> When asked how these scenarios might play out in their own countries, executives are more positive. The largest share (23 percent) rank A3 as the likeliest outcome for their home economies (Exhibit 7).

Exhibit 7

### When asked about COVID-19 scenarios, respondents expect more positive outcomes for their own countries than the global economy.

Most likely scenario for COVID-19's impact on GDP, % of respondents (n = 2,174)

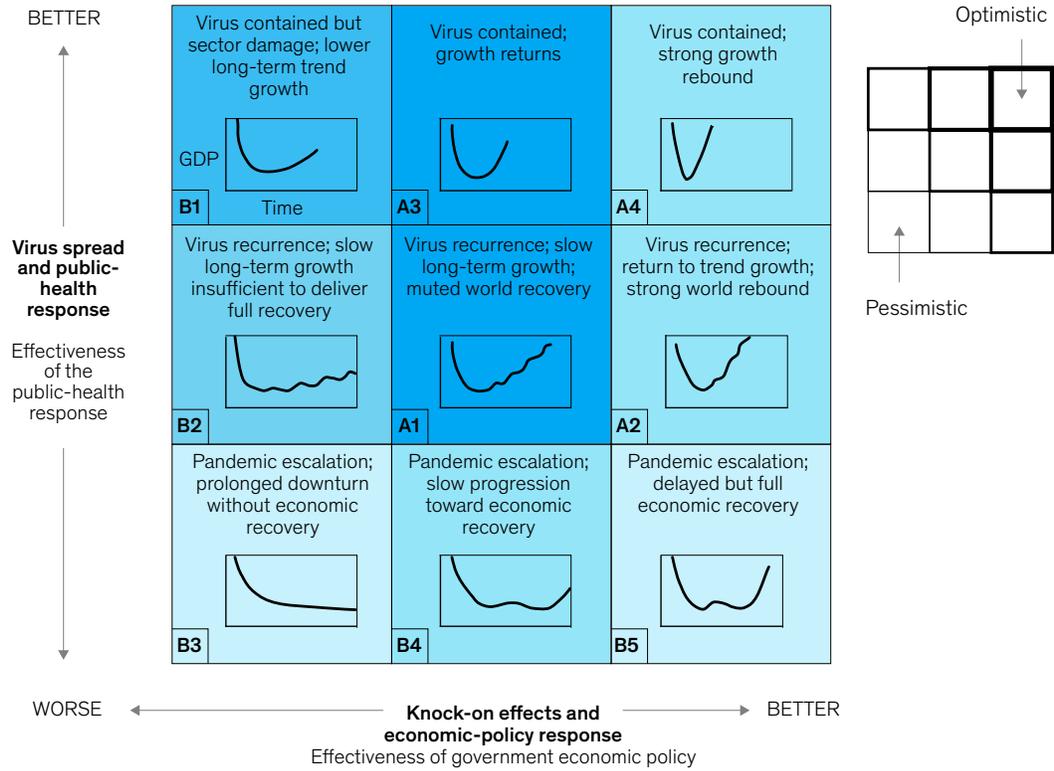
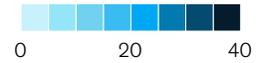
#### Global economy



<sup>10</sup> For more on COVID-19 scenarios, see "Crushing coronavirus uncertainty: The big 'unlock' for our economies," May 2020, McKinsey.com.

**Most likely scenario for COVID-19's impact on GDP, % of respondents (n = 2,167)**

**Respondents' countries**



Despite the relative optimism, new risks to growth continue to emerge amid COVID-19. The coronavirus outbreak remains the top threat to both global and domestic growth, as it was in March.<sup>11</sup> But social unrest has risen in the ranks. As a global risk, it is cited third most often (31 percent, up from 11 percent three months ago) and at the country level it is a top-five risk, cited by 23 percent of all respondents—up from 10 percent previously.

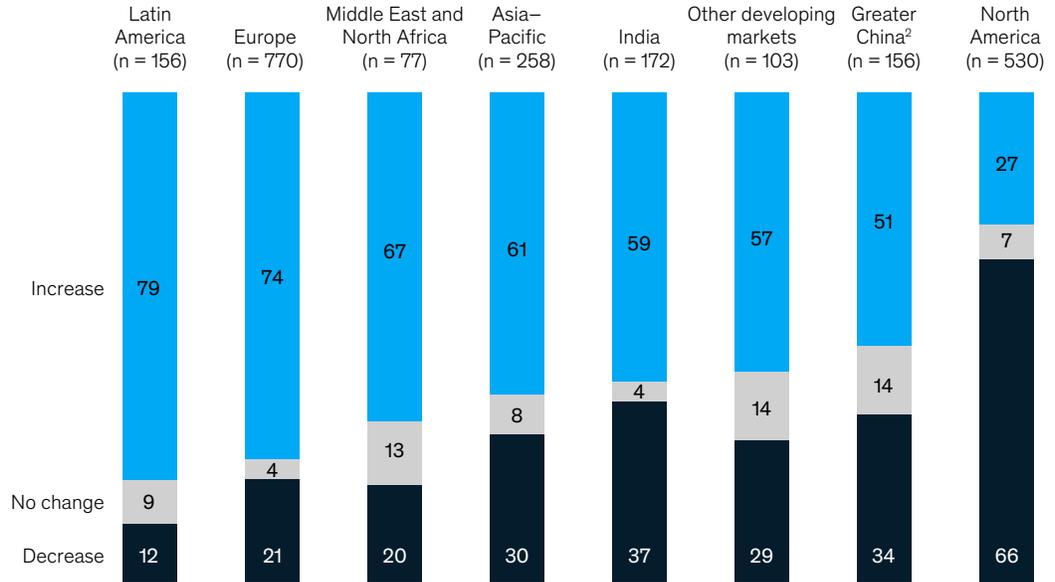
Unemployment is a growing concern as well. Fifty-five percent of executives expect an increase in their home countries in the next six months, up from 44 percent in March and 35 percent in December 2019. In fact, in every region except for North America, a majority of respondents expect their countries' unemployment rates will increase (Exhibit 8). Worries are especially acute in Latin America and in Europe, where 79 percent and 74 percent, respectively, expect increasing unemployment.

<sup>11</sup> In the June survey, 58 percent of respondents say the coronavirus is the top risk to global growth, and 46 percent cite it as the top risk to domestic growth. In March, 86 percent cited the coronavirus as a global risk and 67 percent cited it as a domestic risk.

Exhibit 8

**In most regions, respondents expect their countries' unemployment rates will increase.**

**Expected changes in unemployment rates, next 6 months, % of respondents<sup>1</sup>**



<sup>1</sup>Figures may not sum to 100%, because respondents who said "don't know" are not shown.  
<sup>2</sup>Includes Hong Kong and Taiwan.

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