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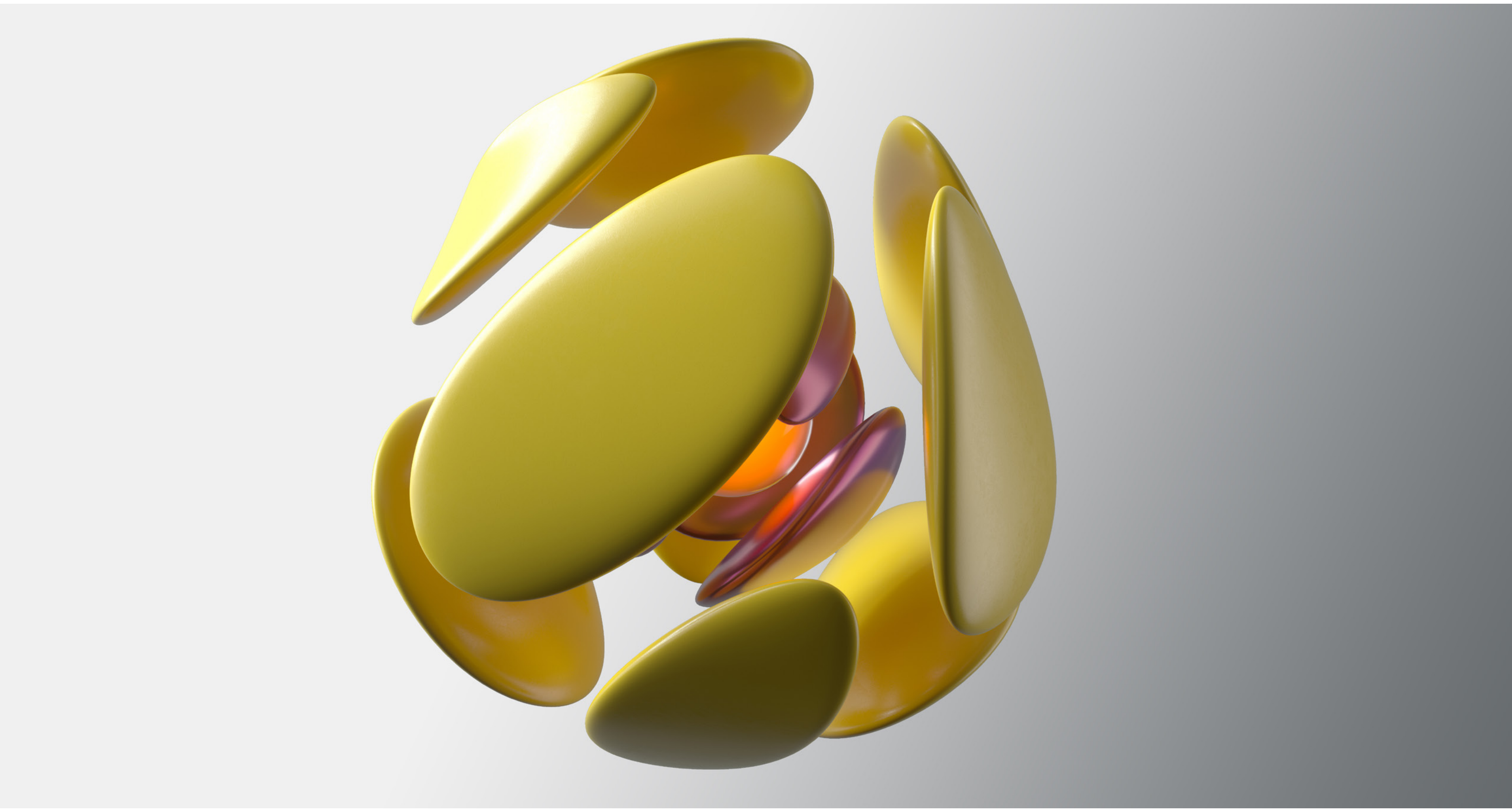
# Global Economics Intelligence executive summary, June 2020

Contraction in industry and consumption slowed in May and June, the trade slump worsened, and regional recoveries in China and Europe proceed haltingly, as the COVID-19 pandemic still surges in the Americas, India, and Russia.





July 2020

**The global economy showed signs of improvement in May 2020,** but June has been a difficult month. Hopes of a steady path to return diminished in recent weeks, as the COVID-19 pandemic continued to surge in the United States, Brazil, Mexico, India, and Russia. Lockdown measures in China, Southeast Asia, and Europe have been successful, but the regional disparities limit economic recovery on a global scale. This has become evident in the recovery modeling of forecasting institutions. The International Monetary Fund now foresees a global GDP contraction in 2020 of –4.9% (from –3% in April). A much larger retreat in developed (–8.0%) than emerging (–3.0%) economies is estimated, mainly because a deep eurozone contraction (–10.5%) and some growth in China (+1%) are projected. The estimates of the World Bank are not far different: both institutions foresee a partial recovery only in 2021 but warn that projections are dependent on the future status of the pandemic.

As growth forecasts are adjusted to the rising negative impact from the COVID-19 pandemic, the soundness of the financial system is set to be sorely tested. It is certainly better capitalized now and better equipped for rapid crisis management than it was in past crises. In the present one, significant, decisive actions by governments and central banks in purchasing assets and lowering interest rates have supported investor confidence and created a less volatile financial environment. Partly because of this, however, a clear disjuncture has opened between real economic activity and the financial markets, especially the stock markets, where values lost in a swift March sell-off are slowly but steadily being won back (Exhibit 1).

Warnings have also been sounded on burgeoning global debt levels. The US Federal Reserve, cognizant of the dangers, applied a round of stress-testing to US banks. Based on the results, the banks were barred from buying back shares, shareholder payouts were restricted, and banks were asked to revise their capital plans. The Fed also estimated that loan losses for large US banks resulting from the pandemic could amount to $700 billion in a worst-case scenario ("double dip" or W-shape recession), pushing banks close to their capital minimums. That scenario is defined by a –13.8% GDP contraction for the United States in 2020 and 13.5% unemployment.

Meanwhile, the most recent economic data reveal a global economy in contraction, with regional results dependent on the timing of the lockdowns and other prophylactic measures and, ultimately, their effectiveness in controlling the COVID-19 pandemic.

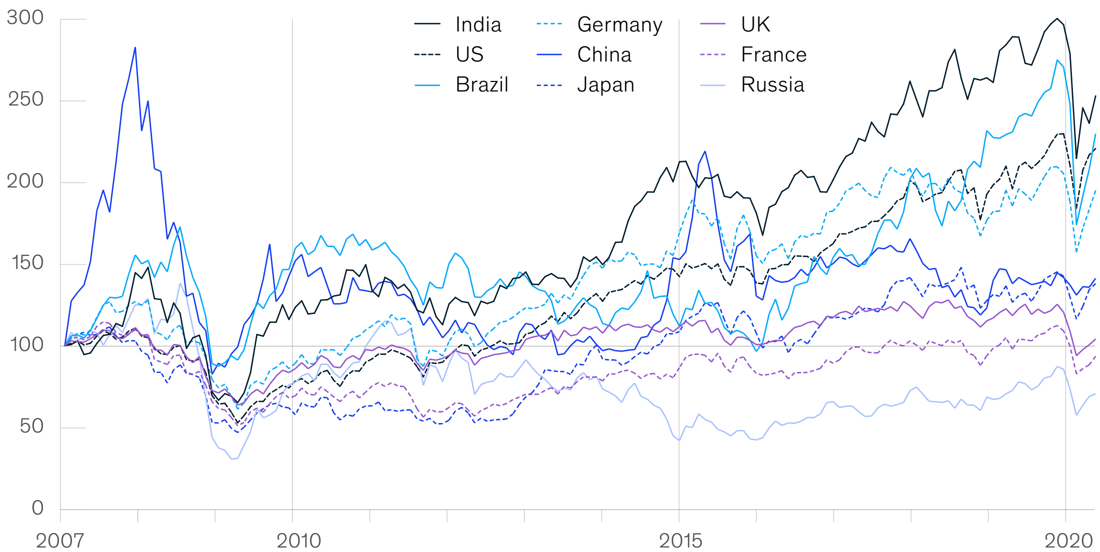
Organisation for Economic Co-operation and Development (OECD) consumer-confidence surveys continued to deteriorate in April: it was the bleakest month for retail sales, which declined steeply. In May, however, the pace of contraction slowed markedly in

## Hopes of a steady path to return diminished in recent weeks, as the COVID-19 pandemic continued to surge in the United States, Brazil, Mexico, India, and Russia.

Exhibit 1

## Globally, stock markets continued to perform well in May and June after a pandemic-triggered plunge in March.

**Equity markets,**[1] index (monthly; 2007 = 100)




**Equity markets,**[1] % change (monthly)

Significant decrease | Decrease | No change | Increase | Significant increase

| | US | UK | Germany | France | Japan | China | India | Brazil | Russia |
|---|---|---|---|---|---|---|---|---|---|
| June[2] | 1.8 | 3.6 | 6.4 | 6.0 | 2.7 | 4.0 | 7.1 | 10.5 | 2.5 |
| May[3] | 4.5 | 3.0 | 6.7 | 2.7 | 8.3 | –0.3 | –3.8 | 8.6 | 8.4 |

[1]Brazil: Bovespa; China: SSE Composite Index; France: CAC 40; Germany: DAX; India: BSE Sensex-30; Japan: Nikkei 225; Russia: RTS Index; UK: FTSE 100; US: S&P 500.
[2]Data through May 29–June 19, 2020.
[3]Data through Apr 30–May 29, 2020.
Source: Haver Analytics; McKinsey Global Economics Intelligence analysis

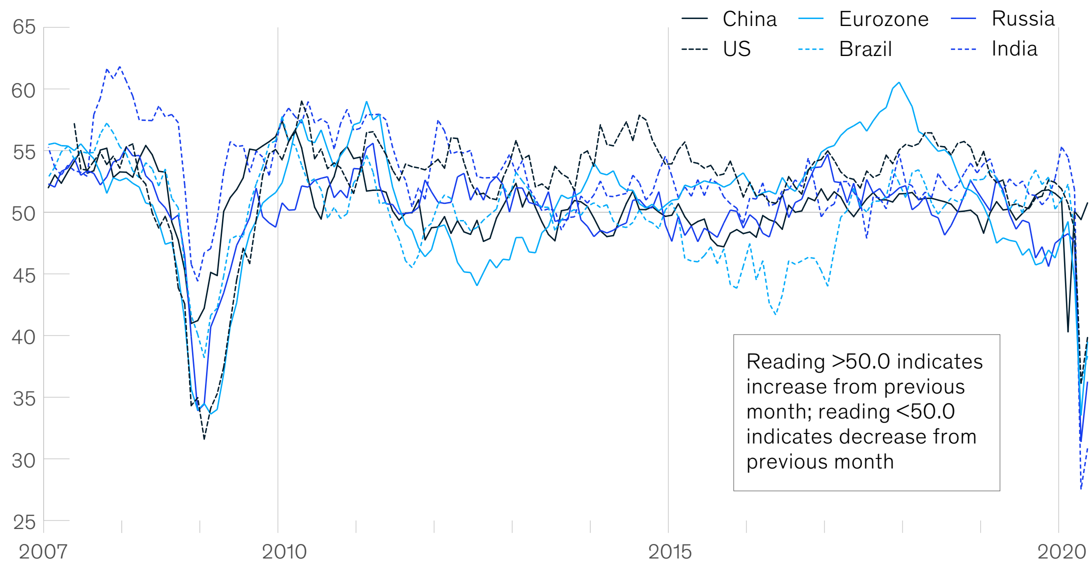
the United States and China. The global purchasing managers' indexes (PMIs) for both manufacturing and services improved in May, but still indicate contraction. PMIs for individual surveyed economies reveal that only China experienced growth, with a moderate expansion indicated in manufacturing (50.7) but a robust jump in services (55.0); elsewhere, the pace of contraction merely slowed (Exhibit 2).

In April, trade momentum slowed in all surveyed economies on an annual basis; China showed improvement on a monthly basis. The CPB World Trade Monitor registered its largest-ever monthly decline, of –12.1%, in April, after a smaller contraction of –2.4% in March (–1.4% initial estimate). The Container Throughput Index dropped to 108.9 in April, having improved to 110.3 in March (from 105.5 in February). Handling in Chinese ports

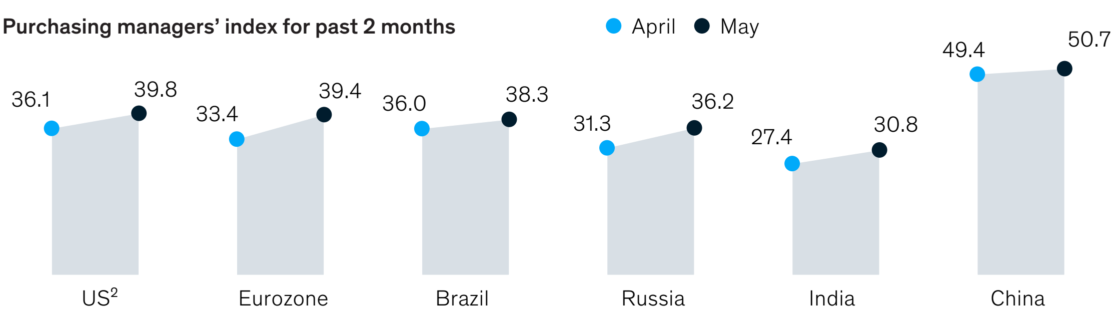
Exhibit 2

## China is the only surveyed country that experienced manufacturing growth in May; elsewhere, the pace of contraction slowed.

**Purchasing managers' index (manufacturing)[1]**




**Purchasing managers' index for past 2 months**




[1]Diffusion index, seasonally adjusted (monthly).
[2]Institute for Supply Management and IHS Markit purchasing managers' indexes for US give conflicting readings, with former showing contraction and latter showing expansion.
Source: IHS Markit; McKinsey Global Economics Intelligence analysis

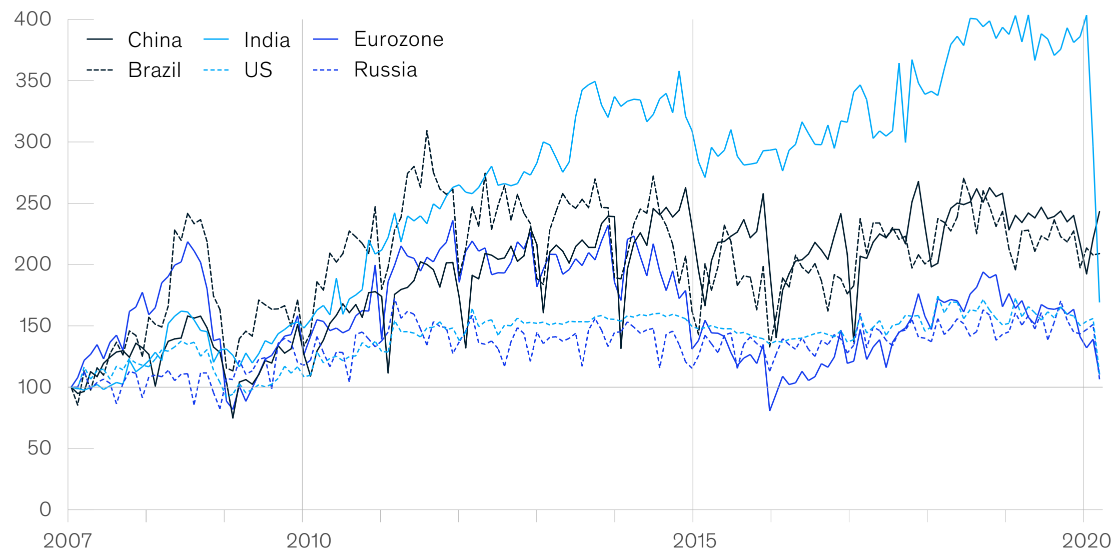
in April was 2.5% below the previous month's level, and it was also lower in ports of the other countries (Exhibit 3).

Unemployment rates increased in many surveyed countries as lockdown measures took hold, businesses closed, and companies reduced their workforce. The US economy has experienced massive unemployment at levels not seen since the Great Depression of the 1930s. In the three months between March 21 and June 20, 47.3 million workers had filed unemployment-insurance claims. Although the number of claims has decreased, it is still at a weekly level (nearly 1.5 million) that is more than double that of the worst weeks in the previous 50 years.

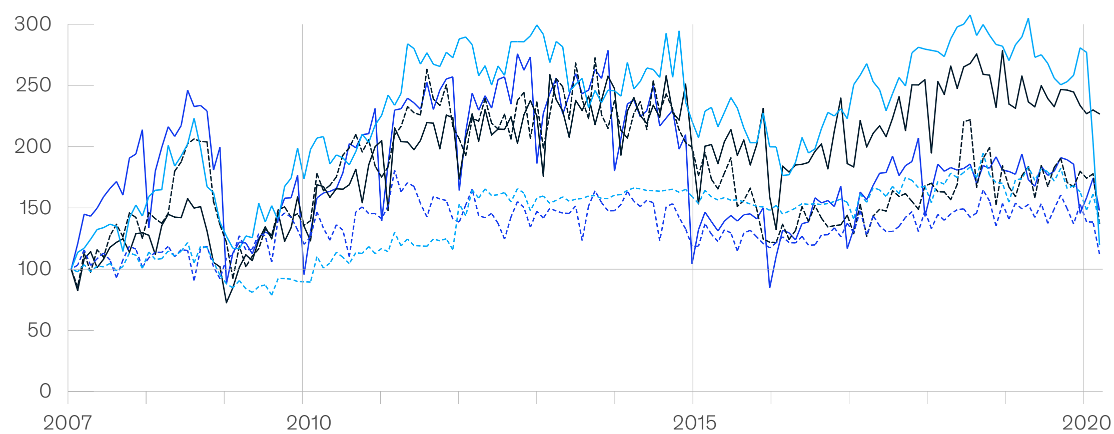
Exhibit 3

## In April, trade momentum slowed in all surveyed economies on an annual basis; China showed improvement on a monthly basis.

**Total exports,** index (monthly; 2007 = 100)




**Total imports,** index (monthly; 2007 = 100)




**Trade index,** % change

Significant decrease | Decrease | No change | Increase | Significant increase

| | Exports | | | | | | Imports | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | US | Eurozone | China | Brazil | India | Russia | US | Eurozone | China | Brazil | India | Russia |
| Previous month[1] | –28.9 | –29.6 | 10.1 | 0.5 | –42.9 | –20.7 | –14.9 | –18.9 | –1.4 | –22.8 | –41.3 | –15.1 |
| 12 months[2] | –4.6 | –1.4 | –6.4 | –7.8 | –7.9 | –12.2 | –4.2 | –3.4 | –7.4 | –4.1 | –13.3 | 0.7 |

Note: Exports and imports are not seasonally adjusted.
[1]Data for Apr 2020 vs Mar 2020.
[2]Data for May 2019–Apr 2020 vs May 2018–Apr 2019.
Source: Haver Analytics; national statistical websites; McKinsey Global Economics Intelligence analysis

In May, inflation for consumers eased in both developed and emerging economies, while producer prices fell for most surveyed countries; food prices have also been on a downward trend globally. The prices of industrial commodities edged up as economic activity increased in June, especially in China. Oil prices revived to $39 and $41 per barrel (WTI Crude and Brent), as demand increased and a production agreement, since extended through July, was concluded by the Organization of Petroleum Exporting Countries (OPEC) and Russia.

While equity markets continued to recover and the oil price somewhat revived, volatility remained at elevated levels in May and June. Yields increased for government bonds issued by China and Brazil, while remaining stable or decreasing in other surveyed economies. Central banks in Brazil and Russia cut policy interest rates in June to support economic recovery.

McKinsey's Global Economics Intelligence (GEI) provides macroeconomic data and analysis of the world economy. Each full monthly release includes an executive summary on global critical trends and risks as well as focused insights on the latest national and regional developments. View the full report for June 2020 on McKinsey.com. Detailed visualized data for the global economy, with focused reports on selected individual economies, are also provided as PDF downloads on McKinsey.com. The reports are available free to email subscribers and through the McKinsey Insights app. To add a name to our subscriber list, visit McKinsey.com. GEI is a joint project of McKinsey's Strategy & Corporate Finance Practice and the McKinsey Global Institute.

The data and analysis in McKinsey's Global Economics Intelligence are developed by **Alan FitzGerald**, a director of client capabilities in McKinsey's New York office; **Krzysztof Kwiatkowski**, a capabilities and insights specialist at the Waltham Client Capability Hub, where **Vivien Singer** is a capabilities and insights expert; and **Sven Smit**, a senior partner in the Amsterdam office.

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