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McKinsey Global Survey Results:

Economic Conditions Snapshot, August 2009

Executives' optimism about their nations' economies and their companies' prospects continued to grow over the past six weeks, and many companies are focusing more on growth. Yet full recovery, executives say, remains far off.

Executives' optimism about the economy has continued to grow over the past month and a half, according to the results of a *McKinsey Quarterly* survey in the field during the week that US stock markets hit their highest point so far in 2009.[1] More companies are pursuing a range of growth initiatives than were doing so six weeks ago, and the proportion expecting increased profits this year has risen to 40 percent, from 33 percent. Similarly, the share of those saying that their nations' economies have improved since September 2008 has risen, though only to 26 percent, from 20 percent.

More executives—42 percent—pick the description "battered but resilient" for the global economy than any other. Yet their other responses indicate that they see the economy as battered enough to prevent a large-scale economic recovery from arriving anytime soon. The share expecting an upturn to begin in 2009, for example, has fallen to 20 percent, from 28 percent, over the past six weeks, and the percentage of respondents who think that their national economies will be better at the end of the year—37 percent—equals the percentage who think their national economies will be worse.

In addition, this survey asked executives which of their companies' responses to the crisis have been effective and which will continue over the next year, as well as what new activities they'll undertake in the current economic environment. Although 57 percent of the executives in an earlier survey thought their managements' overall response to the crisis had helped their companies,[2] respondents to this survey are more skeptical about the specific actions their companies have taken. Most actions, from cost cutting to restructuring, are thought to have been at best only somewhat effective at helping their companies weather the crisis.

[1] The online survey was in the field July 21–27, 2009, and received responses from 1,920 executives representing all regions, industries, functional specialties, and levels of seniority.

[2] See "Economic Conditions Snapshot, March 2009: McKinsey Global Survey Results," mckinseyquarterly.com, March 2009.

Jean-François Martin

How companies have coped

A strong majority of the companies reduced their operating costs since last September, but only a bit more than half of the respondents say that doing so has been very or extremely effective in helping their companies weather the crisis (Exhibit 1). Far fewer companies have hired talent that would not otherwise have been available, but the majority of those that have done so deem it a very or extremely effective move.

A big part of many companies' lower operating costs came from workforce reductions, but a notable 41 percent of respondents to this survey say their companies haven't had any since last September. There are distinct differences on this point between small, private companies and large, public ones.[3] Half of the executives at the former say their companies have not cut jobs, and fewer than a quarter say they will do so during the rest of 2009. In

[3]Small companies are defined as those with net revenues of less than $1 billion; large companies have net revenues of $1 billion or more.

Exhibit 1

How to cope with the crisis

% of respondents, n = 1,776

Steps company has taken as a result of the global economic turmoil[1]	%	Extent to which each of these steps has been effective in helping company weather current economic turmoil[2]: Extremely/very effective		Somewhat/not at all effective		Don't know
Reduction in operating costs	79	16	37	44	2	2
Restructuring	45	10	31	45	7	7
Reduction in capital investments	43	9	31	50	4	6
Management of pricing	41	10	35	46	5	4
Increase in productivity	39	14	36	47	1	2
Introduction of new products or services to gain market share from weakened competitors	37	11	31	48	4	6
Search for merger or acquisition opportunities	25	8	23	36	22	11
Reduction in spending on philanthropic activities	22	6	13	60	14	6
Hiring of talent that would not have been available otherwise	22	16	40	35	2	7
Exit from certain markets	20	13	28	44	8	6
Increase in hedging	6	10	32	50	4	5

[1]Respondents who answered "other," "no steps," or "don't know" are not shown.
[2]Figures do not sum to 100%, because of rounding.

contrast, nearly three-quarters of executives at large, public companies say they've cut staff, and half say they will cut more this year. The cuts so far have fallen most on frontline employees and support function staff, though at large, public companies, across-the-board cuts were as frequent as those focused on support staff.

A plurality of the respondents says that "battered but resilient" is the best description for the global economy during the rest of 2009.[4] These respondents also identify the top three responses by their companies as changing the mix of their products or services to reach new customers, reconfiguring their organizations to meet future needs, and building or conserving cash reserves. Indeed, regardless of which type of future that companies expect, changing the mix of products or services is a top priority, suggesting that the crisis may be spurring innovation.[5]

[4] Of the respondents, 42 percent chose "battered but resilient." The other choices were "stalled globalization," chosen by 35 percent of respondents; "regenerated global momentum," chosen by 18 percent; and "long freeze," chosen by 5 percent. All of these percentages are consistent with executives' views over the past several surveys.

[5] For more on innovation in crises, see Tom Nicholas, "Innovation lessons from the 1930s," mckinseyquarterly.com, December 2008.

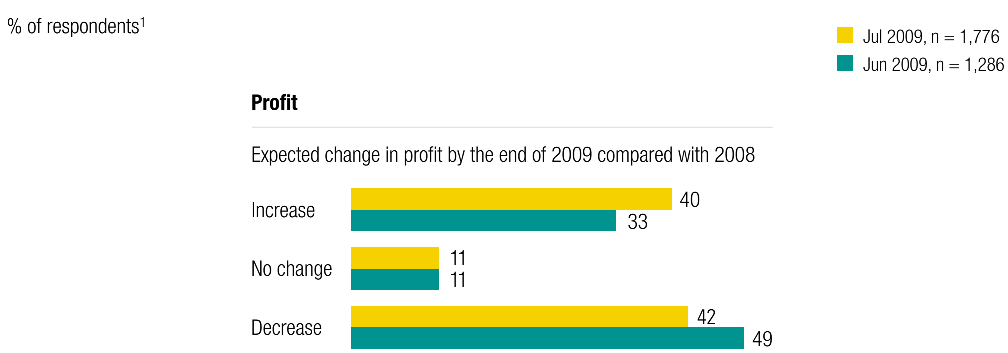
Cautious focus on growth

Just over half of the respondents to this survey say they expect their companies' overall financial position at the end of 2009 to have improved from its current state. More executives now feel optimistic about their companies' 2009 profits now than were so in June, with roughly equal shares currently expecting an increase or a decrease (Exhibit 2).

Although executives at large, public companies and at small, private ones indicate that their organizations have been about equally hard-hit financially by the crisis, executives at the larger companies are much likelier to say their companies have cut jobs.

Exhibit 2

Better profit expectations



[1] Respondents who answered "don't know" are not shown.

Another sign of financial improvement is that while the proportion of companies seeking external funding has remained stable, the share getting all the funds they've sought has risen to above half—53 percent—from 47 percent in June. The share seeking funds to refinance debt has increased since June, consistent with a slight loosening in credit markets generally.

Executives expect their companies to remain financially cautious over the next 12 months—vast majorities of those that have already cut costs or increased hedging, for instance, will continue to do so. Yet they also indicate some room for growth. More than a third of their companies, for example, plan to stop cutting capital investments over that period (Exhibit 3).

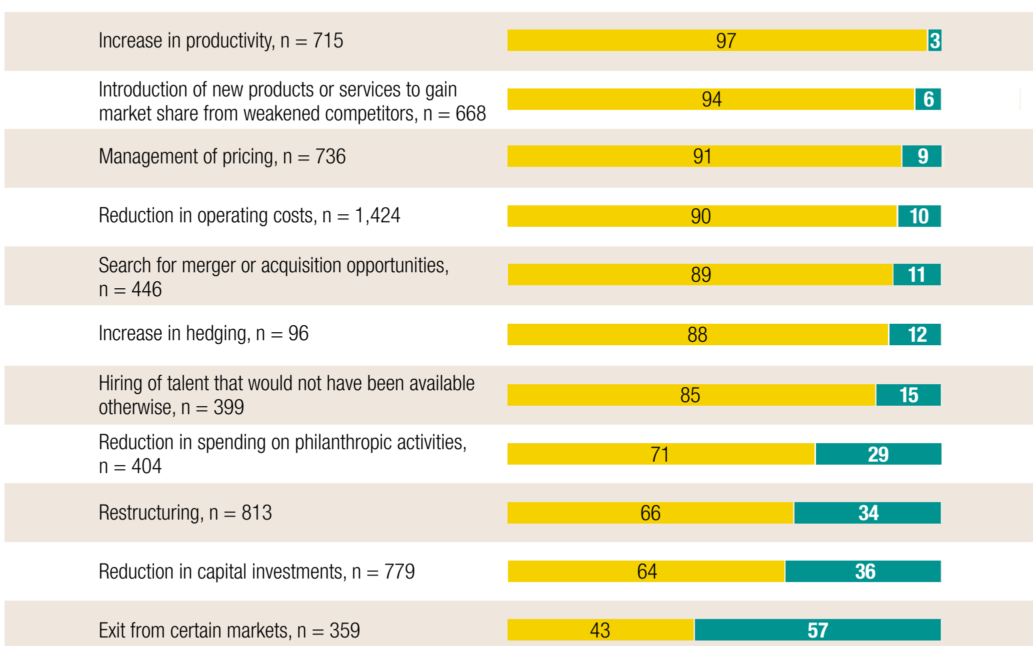
Exhibit 3

To be continued?

% of respondents[1]

Continue Discontinue

What steps, if any, will your company continue or discontinue taking in the next 12 months?



[1]Respondents who answered "don't know" are not shown.

Indeed, almost all of the companies are now actively seeking growth, and more are doing so in more ways than they were just six weeks ago (Exhibit 4). Among specific actions companies might take in response to the crisis but haven't yet, many more plan to introduce new products or services or to search for M&A opportunities than plan to start cost cutting or other defensive actions. This finding indicates both that most companies have cut costs already and that more are seeing opportunities.

However, these hopes for growth remain tempered. For example, compared with six weeks ago, a much smaller share of respondents now expect demand for their companies' products or services to decrease, but the share expecting an increase has barely ticked up. The biggest rise is in the proportion of executives expecting demand to stay the same.

The economy at large

Overall, thinking about financial and other effects of the crisis and their companies' current position, just over two-thirds of respondents expect their companies to emerge from the crisis stronger. When that will happen is much less clear. While executives indicate that the economy as a whole is healthier now than it has been in some time, they don't expect much further improvement soon.

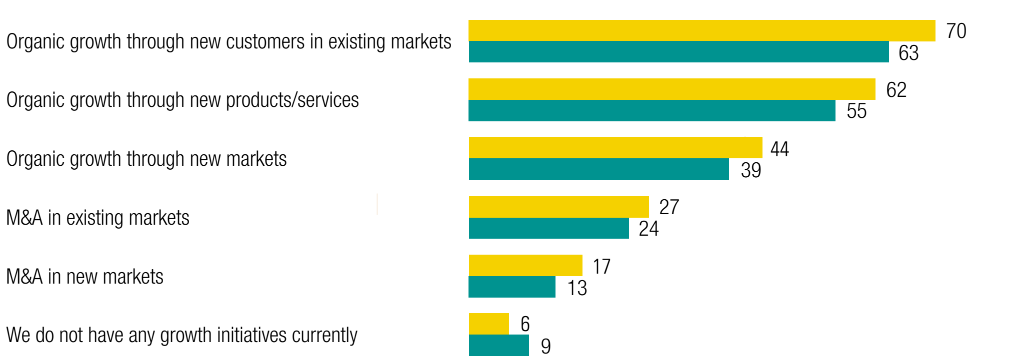
Exhibit 4

Actively seeking growth

% of respondents[1]

Jul 2009, n = 1,776
Jun 2009, n = 1,404

How, if at all, is your company seeking growth?



[1]Respondents who answered "don't know" are not shown.

Exhibit 5

Trending toward improvement

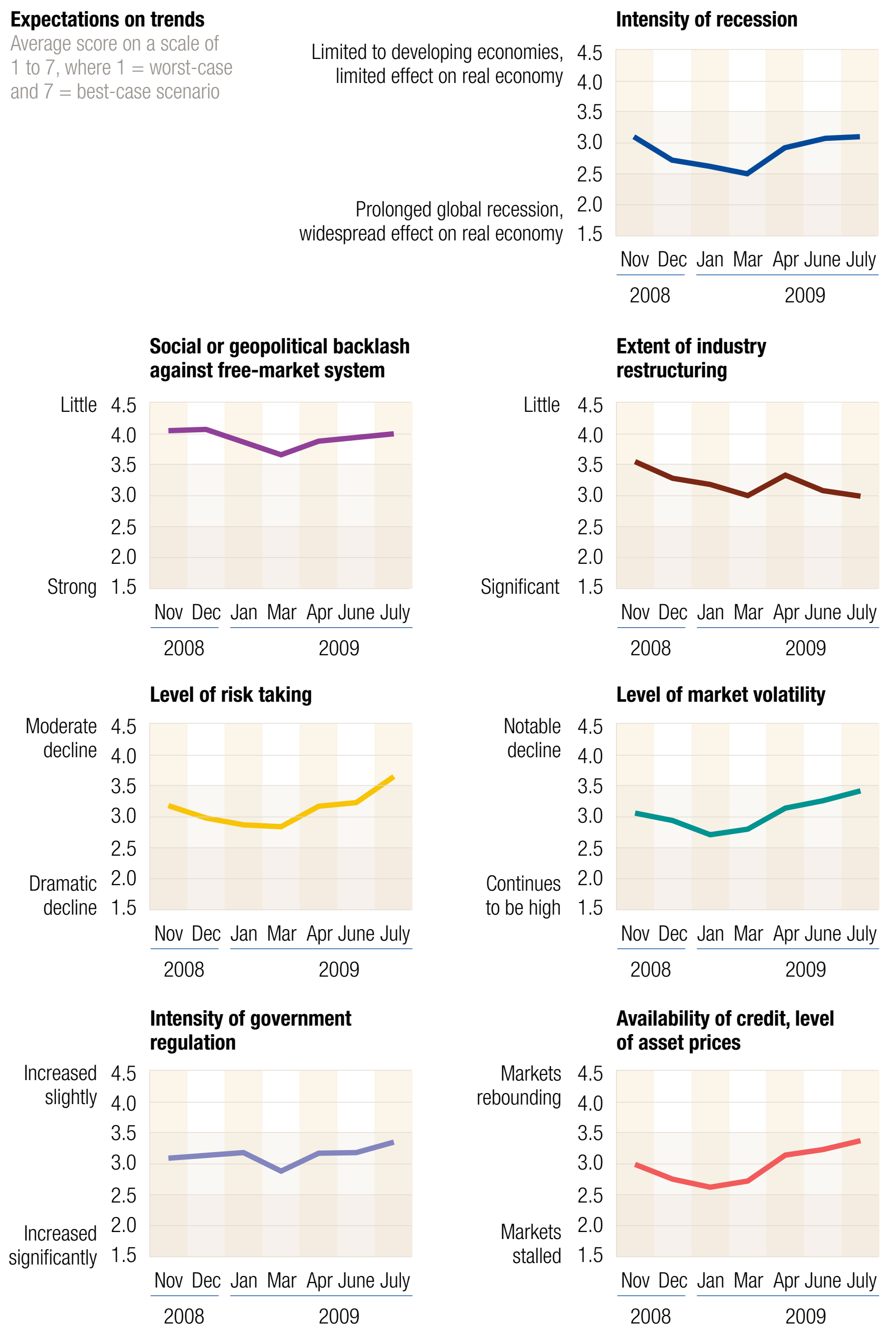
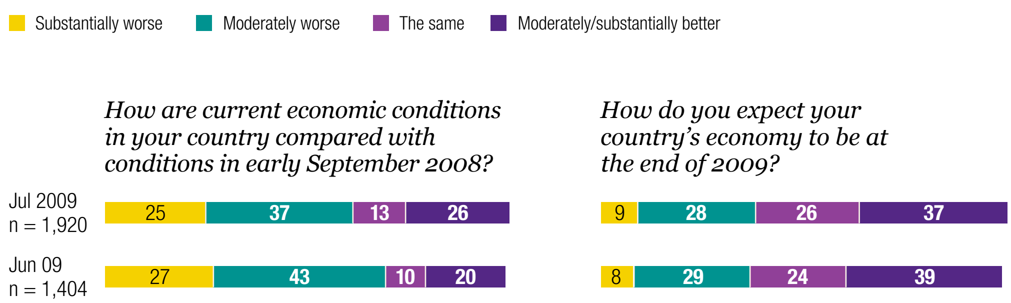


Exhibit 6

Tempered optimsm

% of respondents[1]



[1]Figures may not sum to 100%, because of rounding.

Respondents' views on a range of trends affecting businesses and the economy are slightly more optimistic overall than they were in June, and notably more optimistic than they were in March, the low point (Exhibit 5). Similarly, the share of executives saying that their nations' economies are better off now compared with last September is notably larger than it was six weeks ago. But the share expecting improvement in economic conditions by the end of 2009 has barely changed (Exhibit 6) and more than twice as many executives still expect their nations' GDPs to fall in 2009 as to rise. (However, the share expecting a fall has dropped slightly, to 63 percent, from 67 percent.)

Although 37 percent of the respondents do expect economic conditions to be better at the end of this year than they are now, conditions are so poor that only 20 percent of all respondents expect an actual economic upturn in 2009, a fall of eight percentage points in six weeks. Even when stock markets are booming, it seems, executives think there's still a long way to go.

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