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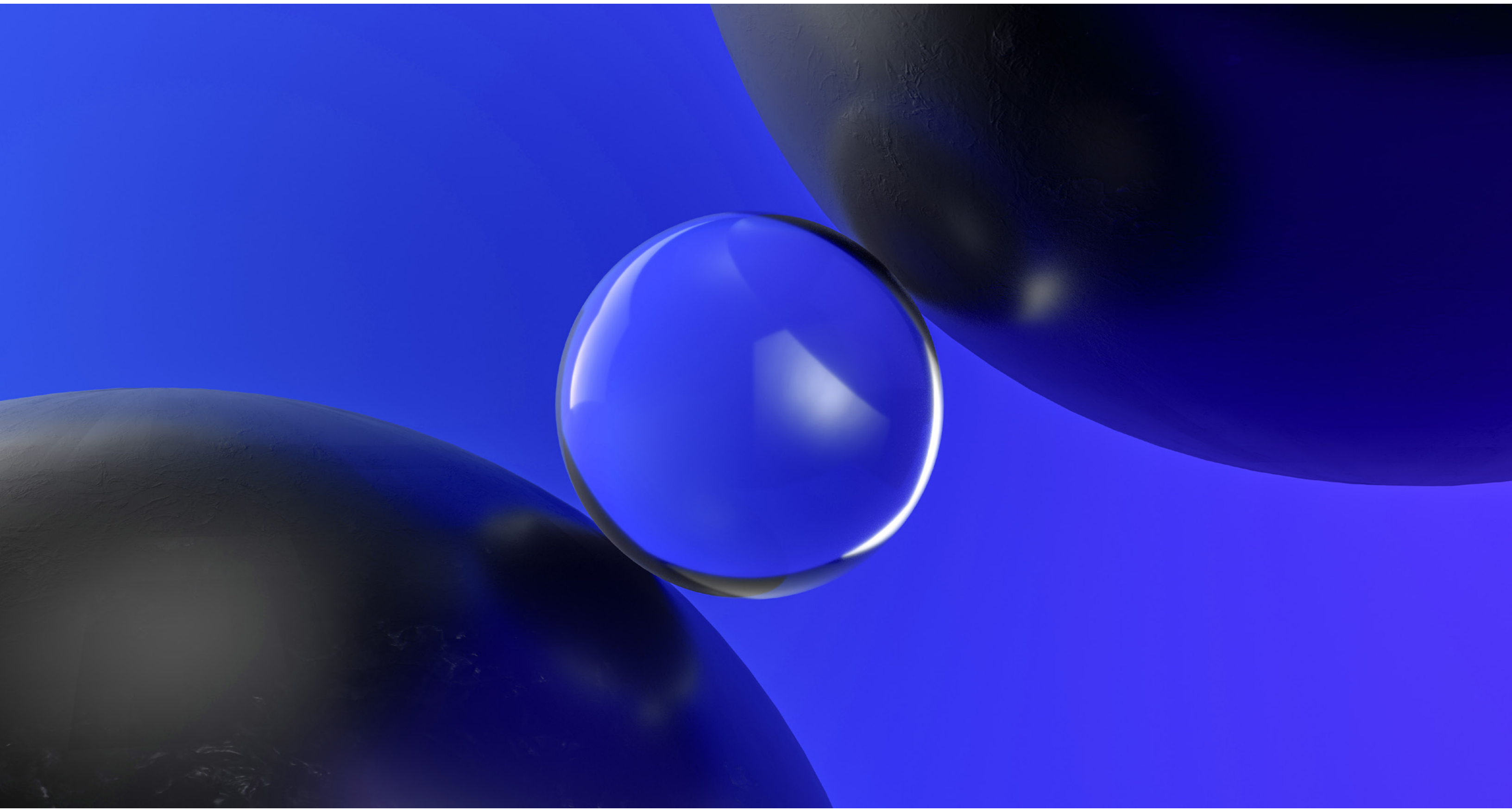
Global Economics Intelligence executive summary, May 2020

The European Union, the United States, and China advance extraordinary measures to counter effects of the coronavirus lockdowns; with the pandemic still spreading, countries weigh risks of reopening



July 2020

The number of confirmed global coronavirus cases approached six million at the end of May 2020, with 360,000 deaths. The virus has lately spread quickly in Brazil and Russia, and in the United States, the death toll passed 100,000. Governments continue to weigh the economic damage of preventative lockdowns against the risks to public health that reopening poses.

The pain caused by the shuttering of economies increases daily for individuals and businesses. The pressure to reopen is mounting amid continuing viral spread in some regions and the danger of recurring outbreaks in others. In the United States, for example, tens of millions have filed for unemployment benefits since the lockdowns began to take effect there in mid-March. By the fourth week in May, total new filings approached 41 million. The official unemployment rate was 14.7% in April, the highest post–World War II level, with real unemployment likely to be much higher. The same can be said of Brazil, where even government sources are forecasting much higher unemployment than the present high reported rate of 12.2%.

Insofar as they are able, most countries are advancing extraordinary policy measures and large stimulus packages to counter the severe economic distress. The International Monetary Fund estimates that governments globally have so far extended $9 trillion in fiscal support, which will expand debt burdens significantly around the world, even as tax revenue is set to fall because of expected contractions in GDP.

In Europe, the economic damage and the proposed remedies are prompting leaders to consider the question of a deeper union. President Macron and Chancellor Merkel agreed on a crisis-response plan valued at €500 billion, to be distributed in the form of grants to the hardest-hit sectors and regions, rather than loans. This aspect of the proposal represents a directional shift for Germany and seems to have paved the way for a subsequent proposal by the European Commission. The plan would see member states jointly raising €750 billion, possibly within a shared budget paid through common taxes. “This is Europe’s moment,” European Commission president Ursula von der Leyen remarked in her announcement.

The latest economic data have begun to reveal the widespread damage caused by the lockdowns. The level of decline broadly matches the expectations of most economists; in some sectors and regions, the damage is more severe than was experienced during the financial crisis of 2008–09. Unlike that crisis, however, the coronavirus pandemic did not arise from an economic cause, and the lockdowns struck a global economy and financial system that was fundamentally sound. Some analysts suggest that the preexisting resilience will help abbreviate the recovery period.

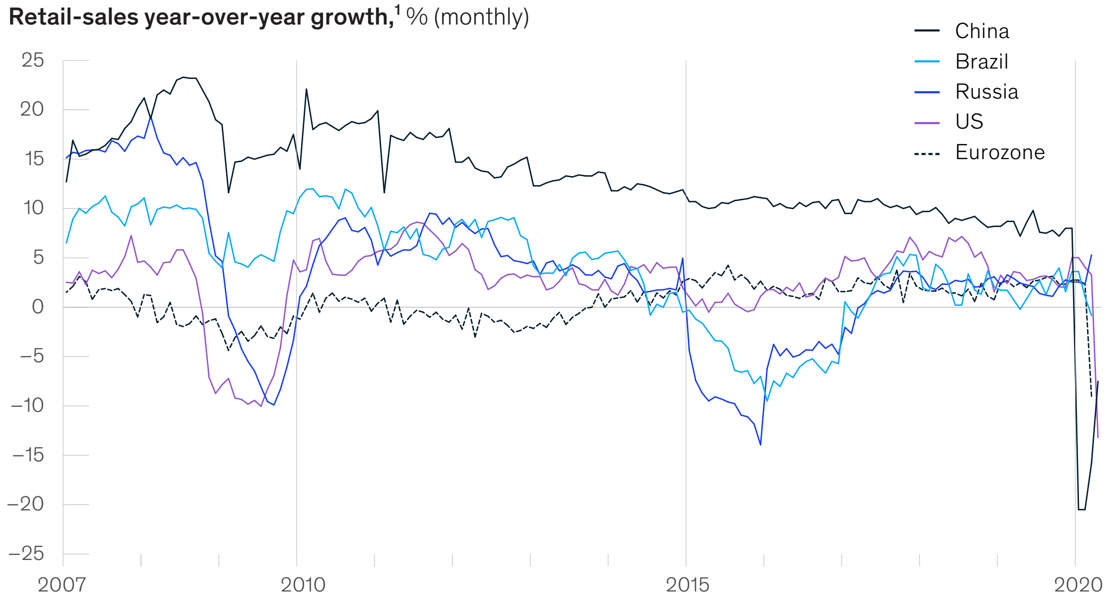
In March and April, the consumer-confidence indicators of the Organisation for Economic Co-operation and Development (OECD) plunged in surveyed economies. The most recent reading available for China, in February, marked a similar downturn. Retail sales also contracted sharply in China, the eurozone, and the United States (Exhibit 1).

In the United States, the official unemployment rate was 14.7% in April, the highest post–World War II level.

Exhibit 1

Retail sales contracted sharply in China, the eurozone, and the United States in March and April amid coronavirus restrictions.

Retail-sales year-over-year growth,[1] % (monthly)



[1]Data for Brazil, eurozone, and Russia through Mar 2020.
Source: Banco Central do Brasil; Eurostat; National Bureau of Statistics of China; Russian Federal State Statistics Service; US Census Bureau; McKinsey Global Economics Intelligence analysis

Global purchasing managers' indexes (PMIs) plummeted in April: the global manufacturing index measured the biggest monthly drop since 2008, and the services reading was the lowest ever recorded (Exhibit 2). Among individual economies, the manufacturing PMIs for most indicated a sharp contraction in April. Only China's PMI stayed around the expansion mark of 50, as China has already entered and emerged from its lockdowns. The withering effects of these lockdowns are especially on display in the services PMIs: all surveyed economies but China's experienced dramatically low readings. The services PMI for India was 5.4 (that is not a typographical error but rather the lowest mark ever reached by a PMI, and it indicates almost no significant activity). In the United States, the IHS Markit PMI was 26.7 in April, an all-time low, and 36.9 in May.

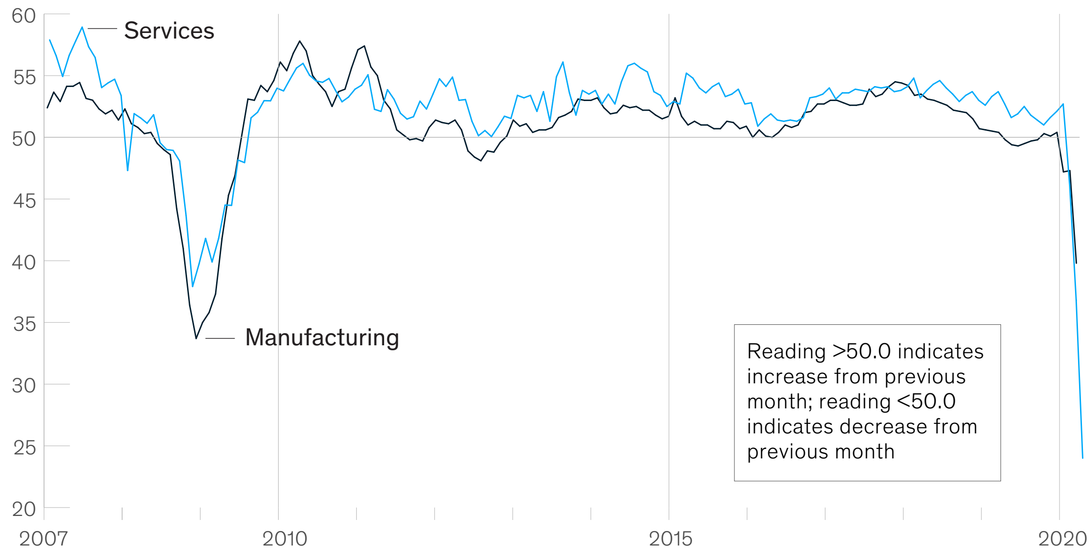
The CPB World Trade Monitor recorded a contraction in trade volumes of –1.4% in March (month over month). Stronger declines are expected for April and May, when the lockdowns took hold in many large economies. Trade momentum declined overall in March (annual basis); China experienced a monthly export rebound, however, while imports and exports declined sharply in the eurozone and severely in India. The Container Throughput Index rose to 111.2 in March (from 105.3 in February) before falling back to 108.9 in April (Exhibit 3). Chinese ports restored operations, but many ports around the world remain subject to coronavirus restrictions, and production is subdued the world over.

In surveyed economies, advanced and developing, consumer-price growth slowed, while producer prices declined. Precious-metal prices continue to

Exhibit 2

Global purchasing managers' indexes plummeted in April; for manufacturing, the drop was the biggest since 2008; for services, the reading was the lowest ever.

JPMorgan Global Purchasing Managers' Index[1]

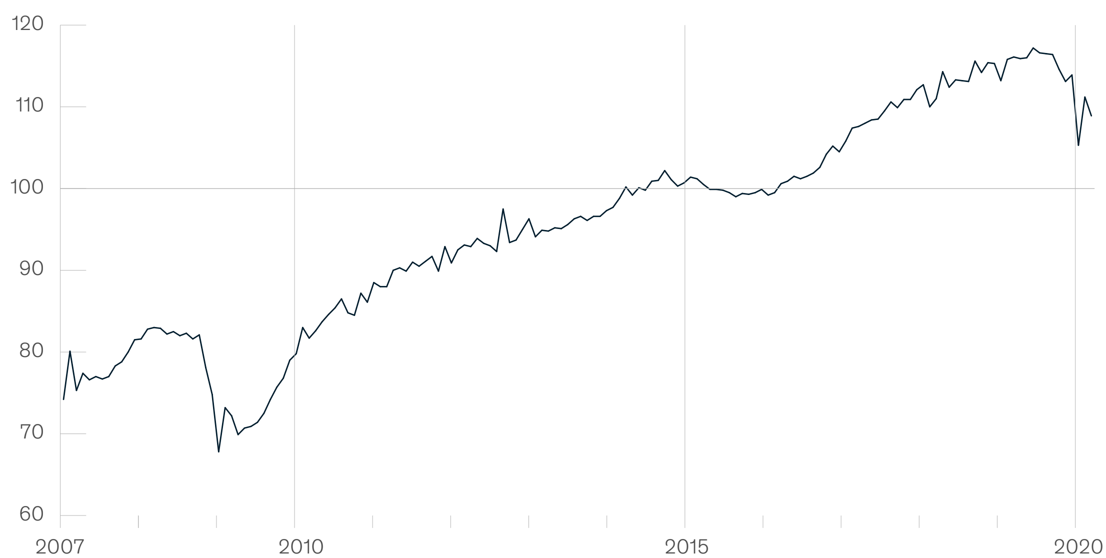


[1]Diffusion index, seasonally adjusted (monthly).
Source: IHS Markit; McKinsey Global Economics Intelligence analysis

Exhibit 3

The Container Throughput Index rose to 111.2 in March (105.3 in February) before falling back to 108.9 in April; Chinese ports restored operations.

RWI/ISL Container Throughput Index, index (2015 = 100)[1]



Note: Container Throughput Index provides timely information on short-term trends in international trade. Database covers 72 ports, which handle ~60% of world container throughput. Monthly data do not include figures for Antwerp, Dubai, or Rotterdam. Data are seasonally and working-day adjusted.
[1]ISL = Institute of Shipping Economics and Logistics; RWI = RWI–Leibniz-Institut für Wirtschaftsforschung. In Jan 2020, RWI/ISL Container Throughput Index changed its base year to 2015.
Source: RWI/ISL; McKinsey Global Economic Intelligence analysis

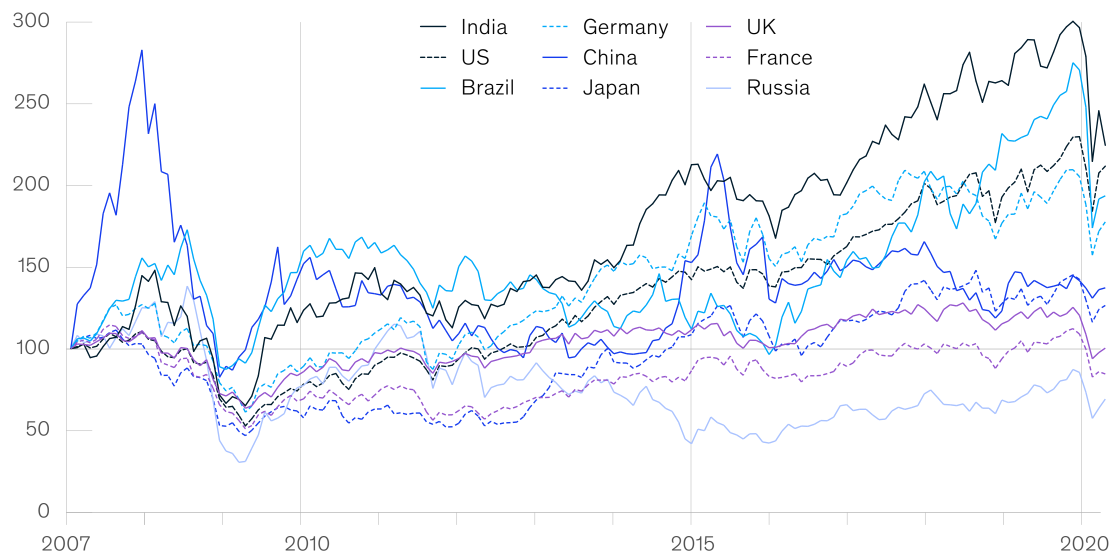
surge in a low-interest environment. The price of gold has climbed nearly $200 per ounce since the beginning of 2020; at more than $1,700, it is nearing its historic high. Oil and other energy markets gained some momentum as demand began to return and oil producers start to limit production. The Brent price hovered near $35 per barrel at the end of May. Food prices, however, retreated slightly in April—the third month of decline.

After equity markets' strong performance in April, they made slighter gains in May; only in France and India did stocks lose ground overall (Exhibit 4). The volatility index for stocks (VIX) and other volatility indexes eased in May. Currency values were mostly stable in May, except for the Brazilian real, which lost 7.3% against the US dollar. Government-bond yields were broadly stable, as well, and remain very low. Policy interest rates continue on their downward trend globally, with Brazil and India cutting interest rates in May to support their economies.

Exhibit 4

After a strong performance in April, equity markets made slighter gains in May; only in France and India did stocks lose ground overall.

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
May[2]	2.0	2.8	3.3	–1.6	2.0	0.8	–8.6	1.0	8.9
April[3]	12.7	4.0	9.3	4.0	6.7	4.0	14.4	10.3	10.9

[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 Apr 30–May 20, 2020.
[3]Data through Mar 31–Apr 30, 2020.
Source: Haver Analytics; McKinsey Global Economics Intelligence analysis

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 May 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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