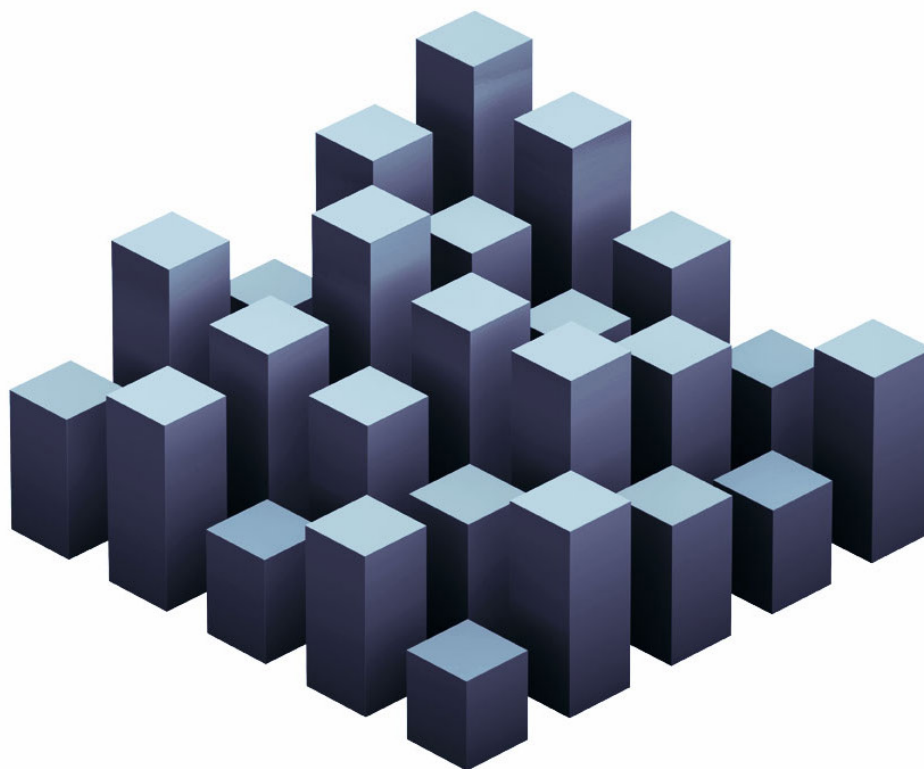


Strategy & Corporate Finance Practice

Global Economics Intelligence executive summary, October 2020

Economic recovery is sustained by manufacturing, trade, and the consumer sector; public health has been restored in China while European countries impose new restrictions amid rising COVID-19 levels.



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A global economic recovery was generally sustained in October, as output continues to improve incrementally from the deep trough reached in the pandemic-triggered lockdowns earlier in the year. Manufacturing and trade have taken the lead globally; the consumer sector has been slower off the mark, but a revival is now clearly visible in the data. China has restored public health (and normal social activity) within its borders; it has also measured economic expansion of 4.9% for the third quarter. Forecasting institutions believe that China will be the only economy to achieve positive growth in 2020 overall. The eurozone and the United States each measured strong third-quarter growth at 12.7% and 7.4%, respectively, but deeper contractions earlier in the year left both Western economies smaller than they were at the end of 2019 (the eurozone by 4.5% and the US by 3.5%).

Among our surveyed economies, only China has attained control over COVID-19 incidence. In recent weeks, new cases and deaths have risen sharply across Europe; the governments of France and

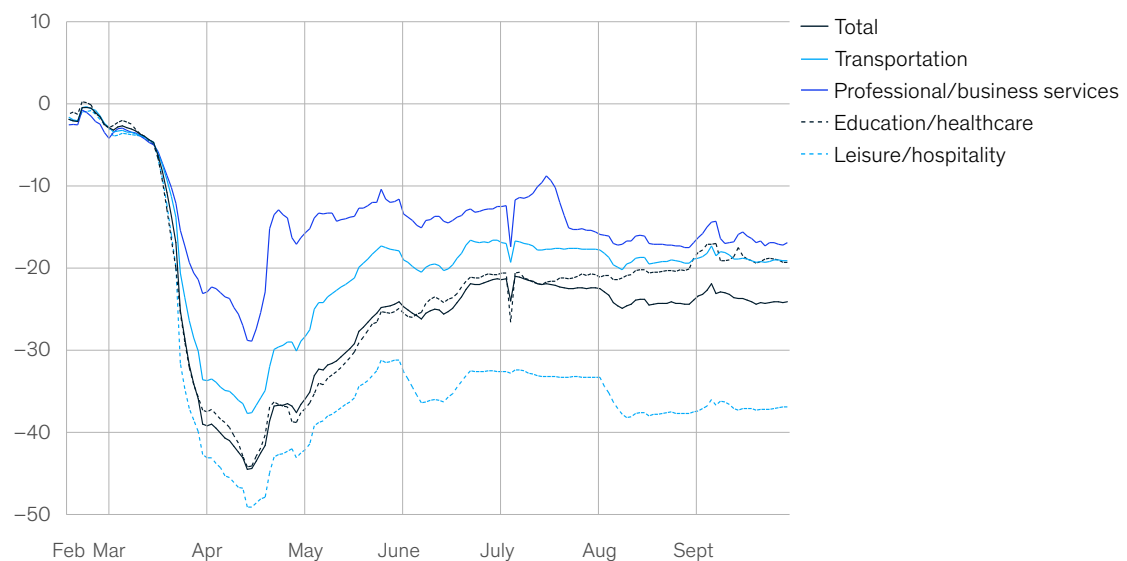
Germany have taken the lead in announcing new restrictions. In the United States, India, and Brazil, governments remain in reopening mode despite high or resurging COVID-19 levels.

Amid public-health uncertainties, executive respondents to McKinsey's survey of economic conditions in October expressed balanced views, more positive than negative, for their companies and their national economies. Views were less optimistic for the global economy, however. These respondents represent companies of all sizes. The particular views of small and medium-size enterprises (SMEs)—those with fewer than 250 employees—were sought out in other recent research. In Europe, this segment accounts for more than two-thirds of the workforce and more than half the economic value added.¹ In a dedicated McKinsey survey, European SME respondents described their difficulties. Few were optimistic about economic prospects, and most worry that their business will not survive the next 12 months.

Exhibit 1

Small and medium-size enterprises have borne the brunt of the economic crisis stemming from the COVID-19 pandemic.

Share of small businesses in the United States that closed, February to September 2020,
% difference from baseline (7-day moving average)



Source: Womply–Opportunity Insights, Haver Analytics

¹ Eurostat data; economic value added is calculated as turnover, plus capitalized production, plus other operating income, plus or minus the changes in stocks, minus the purchases of goods and services.

From the United States, data have been collected showing that one-quarter of SMEs have remained closed through September (Exhibit 1). Related data, also from the United States, reveal that 20% of low-income jobs have been eliminated in this crisis, four times the rate for medium-income jobs, while high-income positions have been little affected (Exhibit 2).

Turning to the most recent global data, the OECD consumer-confidence survey showed gradual improvement in September, though the reading remains below pre-COVID-19 levels. Consumer spending has rebounded in all surveyed economies except in Russia; retail sales in China have grown but at a slower pace than China's overall investment-led expansion.

In September and October, global purchasing managers' indexes (PMIs) for both manufacturing and services continued to show expansion. Among individual surveyed economies, manufacturing PMIs are in expansion territory (above 50.0) except in Russia; Brazil's manufacturing PMI readings of 64.7

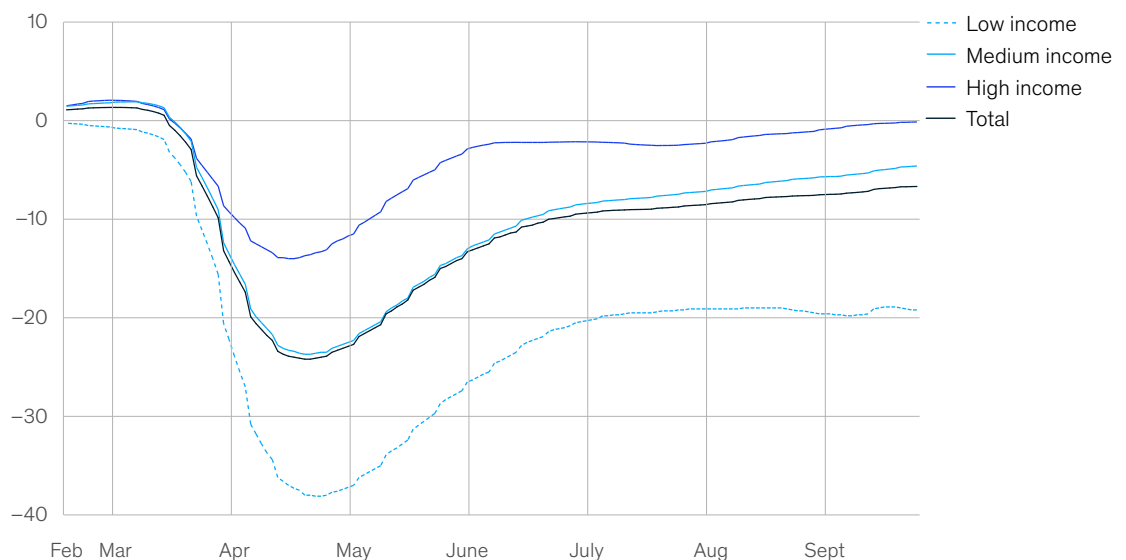
and 64.9 in August and September, respectively, are the highest in its history. Services PMIs indicate expansion in most surveyed economies, with the eurozone lagging; India's services PMI, which had been deep in the contraction zone, returned to near the expansion line.

By most indications, trade improved in August. The CPB World Trade Monitor recorded trade growth of 2.5%, after 5.0% growth in July; by this measure, world trade is now 3.0 to 4.0% below pre-COVID-19 levels. Individual economies recorded a loss of trade momentum in August, however. The eurozone measured a large decline due to seasonal factors and pandemic-related distortions. The Container Throughput Index continued to rise in August, reaching 116.1 (compared with 115.2 in July). This indicator shows that cargo handling in Chinese ports declined slightly but handling outside China improved once again. A flash estimate for September, furthermore, reached 119.7, which is the all-time high for this index.

Exhibit 2

Nearly 20 percent of low-income jobs have been eliminated in the COVID-19 crisis; higher-income jobs have been far less affected, if at all.

US employment by income segment,
% difference from baseline (7-day moving average)



Source: Opportunity Insights, Haver Analytics

Unemployment rates increased in the eurozone (8.1% in August) and Brazil (13.8% as of July); in the United States, the rate is still high (7.9% in September) but has been steadily declining.

Among surveyed developed economies, price indexes edged up in the United States while remaining in deflationary territory in the eurozone. In emerging economies (except China), consumer price inflation accelerated. Prices for agricultural products surged by 8% in October. Food prices continue to climb, driven by cereals and food oils. In India, persistently high food-price inflation has been a cause of hardship.

Gold prices were stable in October, oscillating between \$1,890 and \$1,920 per ounce. Energy prices were also stable in October; oil prices hovered around \$40 per barrel (Brent). Industrial metals prices gained some momentum due to strong demand from China.

Equity markets lost ground in September but recovered in October; toward the end of the month

political and public-health uncertainties restarted a downtrend. The Russian ruble and Brazil's real continue to depreciate against the US dollar; the Chinese yuan has gained strength. Yields on government bonds continued their downward trend except in China, where yields have been gradually increasing.

While confronting the tragedy and vicissitudes of the COVID-19 pandemic, business planners and policy makers have also been contending with uncertainties arising from the 2020 US elections. The direction of US politics was a factor in the deliberations of China's top policy-making body, the Central Committee of the Communist Party, at its Fifth Plenum, held at the end of October. At this meeting, a program for the 14th Five-Year Plan (2021–25) was outlined, along with long-term development objectives for 2035. Self-reliance was an overarching theme. Speeches and documents took note of the shift in US policy toward China while laying out China's plans to achieve economic and technological independence.

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 October 2020 on [McKinsey.com](https://www.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](https://www.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](https://www.mckinsey.com). GEI is a joint project of McKinsey's Strategy & Corporate Finance Practice and the McKinsey Global Institute.

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