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Global economic profit bounces back to an all-time high

After years of decline, economic profits rebounded with a vengeance—driven by tech companies, performance in the energy and materials sector, and capital growth in China and North America.

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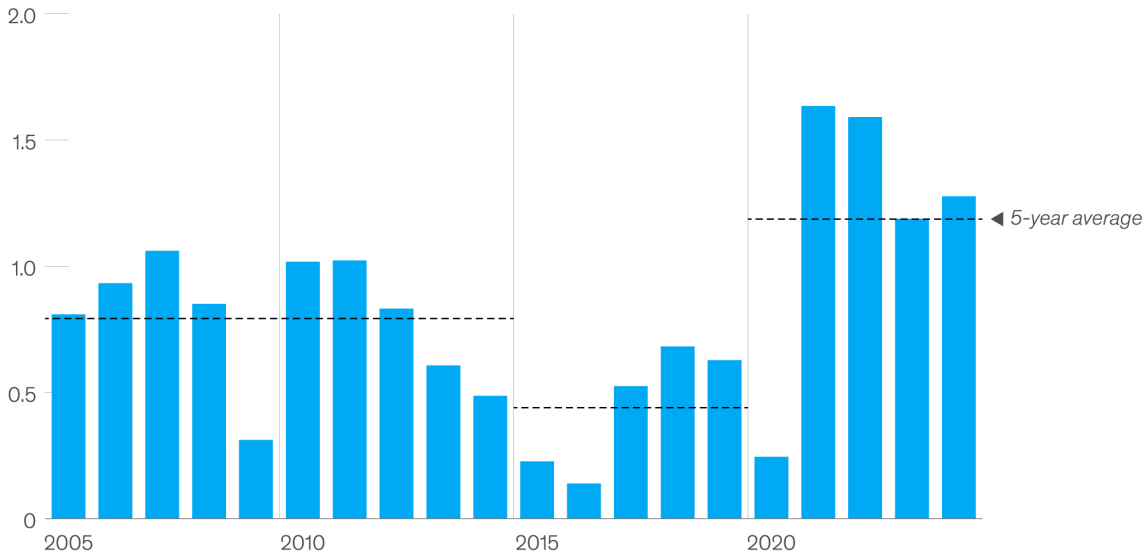
Global economic profit (EP) pools have rebounded over the past four years, reflecting a recharged ability among companies to create value, according to our recent examination of the world's 4,000 largest nonfinancial companies by market capitalization each year starting in 2005.[1]

When adjusted for inflation, and despite the impact of the COVID-19 pandemic, economic profit between 2020 and 2024 increased to about $1.2 trillion per annum—50 percent above levels between 2005 and 2009. This is a notable shift from the past 15 years, when, as our previous research showed, companies' aggregate economic profit—or their profit above the total cost of capital—mostly shrank (Exhibit 1).

Exhibit 1

Since 2021, economic profit has been higher than in the previous 15 years.

Global economic profit,[1] $ trillion (2023 prices)



[1]Including goodwill.
Source: McKinsey Value Intelligence

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[1]We define "economic profit" as the spread between a company's ROIC and its weighted average cost of capital.

Interestingly, global economic profits did not outgrow GDP during this period but rather caught up to it again: The comparison between global EP and GDP was 1.1 percent in 2005–09 and, after dropping to 0.5 percent just before the pandemic years, rebounded to 1.1 percent in 2020–24. Note that we're using data up through 2024; more recent trends relating to tariffs, geopolitics, and other factors that have the potential to affect EP are not reflected here.

Much of this increase ($247 billion) has been driven by the so-called Magnificent Seven companies from the technology sector: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.[2] This is not surprising, given how central tech-enabled and digital solutions have become to companies' business models, products, and processes—and given their importance to people and society at large.

But the relative rebound in global economic profit is not just a technology story; the tale also involves companies in other regions and sectors. For instance, US and Canadian companies outside the technology sector, excluding energy and materials, accounted for $165 billion of the increase. And Mainland Chinese companies, excluding energy and materials, added $67 billion. For their part, companies in the energy and materials sector slightly offset the rebound in economic profit, declining by $71 billion (in aggregate, as it is a complex result of varied performance across regions). All other companies, including all European companies, remained flat (in aggregate) (Exhibit 2).

In this article, we'll take a closer look at the data, but the top-level message from these numbers is clear: There has been no permanent erosion of economic profit; it remains possible to create value—and some companies and regions have succeeded in doing so. It's critical for businesses to create value well above their cost of capital, regardless of industry or region, as this will attract more capital and spur more investment and further growth, enabling winning businesses to truly scale.

The Magnificent Seven

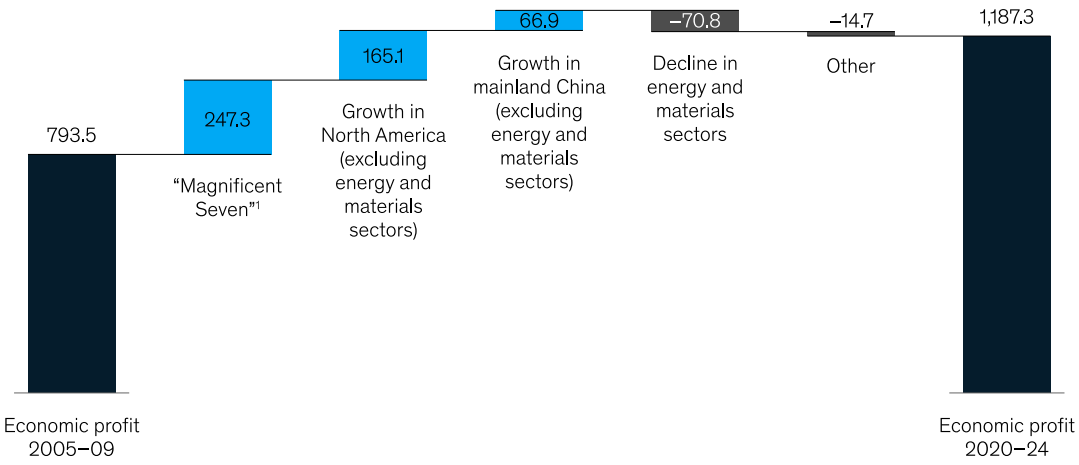
These seven tech companies are well known for having created significant increases in shareholder returns over the past decade; a look at the trajectory of economic profit among these companies can help explain why (Exhibit 3). The Magnificent Seven collectively realized $247 billion in economic profit between 2020 and 2024—a staggering 840 percent increase over the past 15 years. That $247 billion accounts for almost a quarter of all the economic profit generated globally. The Magnificent Seven realized an 852 percent increase in invested capital over the same period, with very high profitability. ROIC among these companies has declined somewhat recently, given the need for tech players to make significant capital investments in data centers and other infrastructure requirements. Still, ROIC among the Magnificent Seven remains much higher than for the average company (41 percent between 2020 and 2024 compared with 10 percent for others between 2020 and 2024).

[2] The term "Magnificent Seven" refers to the group of top-performing technology stocks: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla. The term was adopted by stock analysts and business reporters in 2023 and continues to be used today.

Exhibit 2

A range of factors are increasing global economic profit.

Change in global economic profit between 2005–09 and 2020–24, $ billion (2023 prices)

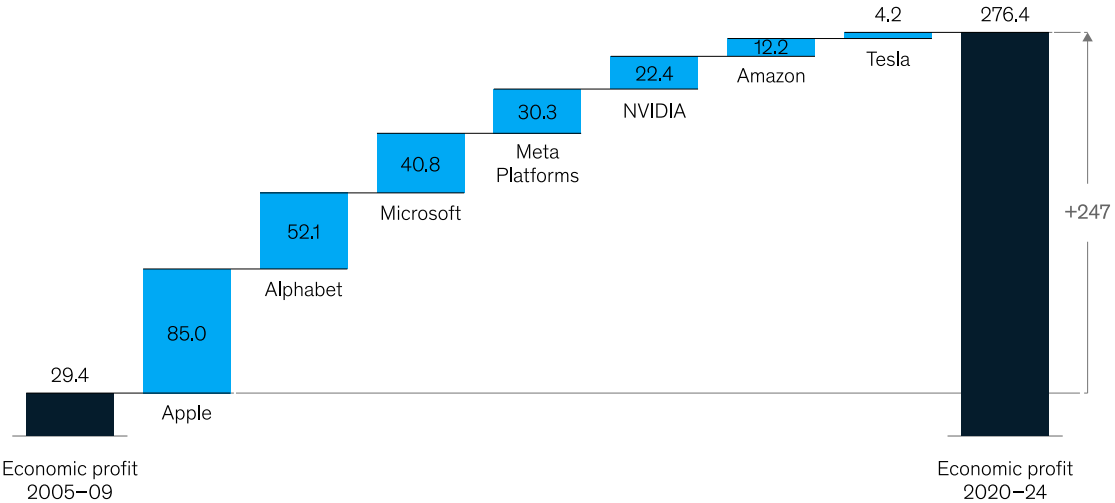


[1]Refers to group of top-performing technology stocks: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla. Stock analysts and business reporters adopted term in 2023, and its use continues.
Source: McKinsey Value Intelligence

Exhibit 3

The so-called Magnificent Seven added $247 billion to global economic profit from 2020 to 2024.

Change in global economic profit from 'Magnificent Seven'[1] between 2005–09 and 2020–24, $ billion (2023 prices)



[1]Refers to group of top-performing technology stocks: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla. Stock analysts and business reporters adopted term in 2023, and its use continues.
Source: McKinsey Value Intelligence

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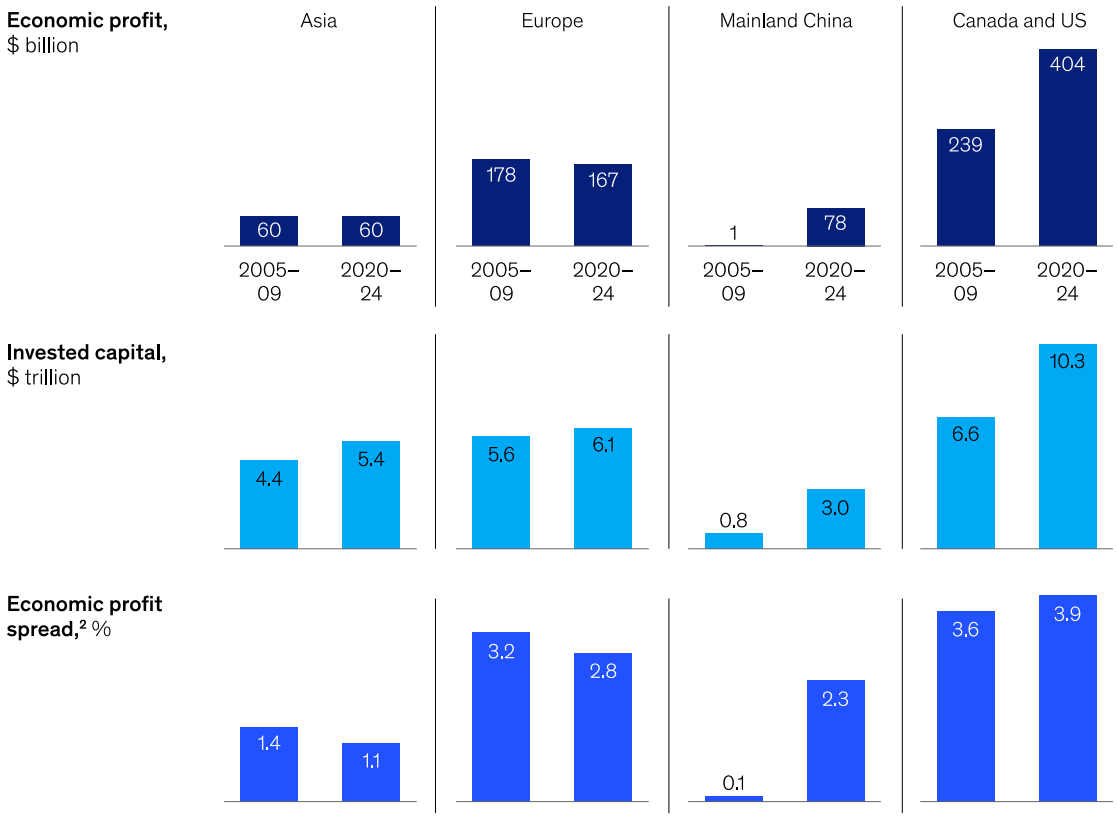
Regional trends

If we put the Magnificent Seven companies and the cyclical energy and materials sector to the side for a moment, we can get a more nuanced picture of the amount of value global companies created above the cost of capital. For instance, in our review of economic profit expansion in four of the world's largest regions—excluding Africa, Latin America, and the Middle East—we see that economic profit in North America grew 165 percent, from $239 billion to $404 billion, between 2005–09 and 2020–24. The region experienced a 55 percent increase in invested capital, likely because of its relatively high net profitability, or economic spread,[3] compared with Asia, Europe, and mainland China (Exhibit 4).

Exhibit 4

North American companies realized growth in economic profit, invested capital, and economic profit spread from 2020 to 2024.

Financial trends, by region[1]



[1]Excluding Africa, Latin America, and Middle East; "Magnificent Seven" companies; and businesses in energy and materials sectors.
[2]ROIC minus weighted average cost of capital.
Source: McKinsey Value Intelligence

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[3] "Economic spread" is defined as the return on invested capital minus the weighted average cost of capital.

This growth in economic profit in North America was primarily propelled by activity in consumer goods ($62 billion), pharmaceuticals and medical products ($47 billion), and industrials ($20 billion).

Meanwhile, mainland China, excluding its energy and materials sector, contributed $77 billion in annual economic profit to the world over the past 15 years. Growth in economic profit was created by consumer products ($47 billion), technology and media ($21 billion), and pharmaceuticals and medical products ($10 billion). Invested capital in this part of the world almost quadrupled to about $3 trillion, but what really drove the increase in economic profit was the corresponding increase in profitability: The economic profit spread, or the difference between ROIC and the cost of capital, is now at 2.3 percent after being close to zero in earlier years.

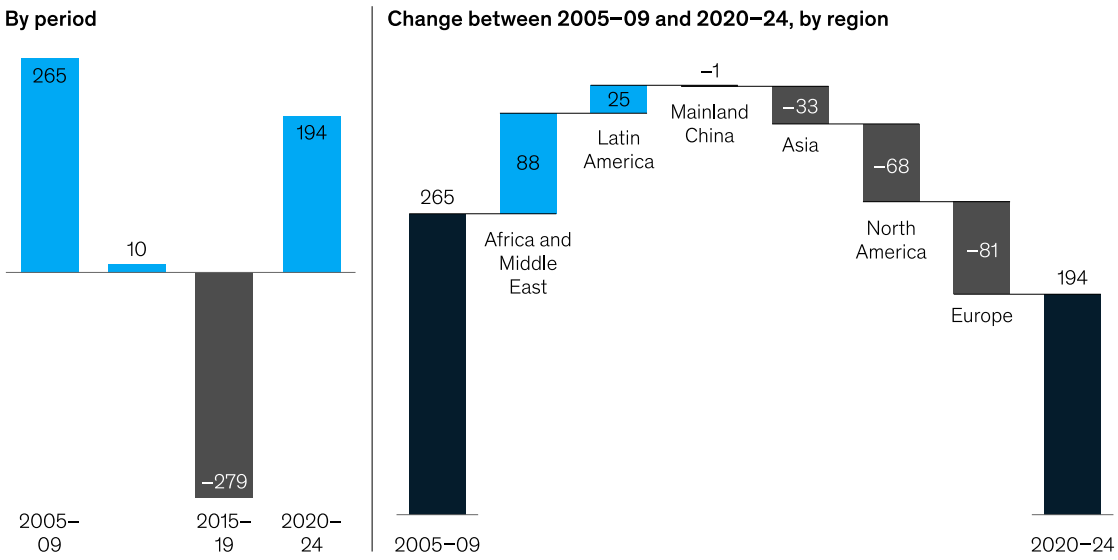
Industry performance

Of course, not everyone contributed evenly to the global rebound in economic profit. We set it aside earlier, but one sector that warrants special attention because of its price-driven volatility is energy and materials. It experienced an overall decrease of $71 billion in economic profit between 2005–09 and 2020–24, though we did observe a rebound from much lower lows between 2015 and 2019. The most significant drops were in Asia (–$33 billion), Europe (–$81 billion), and North America (–$68 billion). Of course, these were offset by substantial increases in economic profit in Latin America ($25 billion) and the Middle East ($88 billion) (Exhibit 5).

Exhibit 5

Aggregate economic profit in the energy and materials sectors rebounded from cyclical lows and shifted among regions.

Global economic profit from energy and materials sectors, $ billion (2023 prices)



Note: Figures do not sum, because of rounding.
Source: McKinsey Value Intelligence

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At a regional level, net profitability declined over the past 15 years in Africa, Asia, Europe, and the Middle East. As a result, the amount of invested capital grew more slowly in those places than in mainland China and North America. At an industry level, there was considerable growth in economic profit among Asian industrials, European industrials, and European consumer companies, but some erosion among European and Asian telcos.

Economic profit has seemingly recovered from a financial crisis, a global pandemic, and other macroeconomic shocks and increased to new heights. Within this recovery, we are seeing profound shifts in profit pools: North America is playing a dominant role in the rebound, accounting for 86 percent of the growth in EP over the past five years. China has turned around its performance, and energy and materials companies in Africa, Latin America, and the Middle East are blossoming. The rest of Asia is on a slower trajectory, and Europe is in decline.

Whether or not the rebound in EP takes hold for the longer term will depend on several factors, including whether the Magnificent Seven can continue to outperform as well as the trajectory of capital growth and profitability in Europe, mainland China, and North America. Particularly in Europe, business and government leaders will need to find ways to circumvent or remove barriers to investment that are preventing growth—chief among them, higher energy costs (given European countries' heavy reliance on imports), country-specific business and labor regulations, and exposure to global geopolitical risk.[4]

What's clear is that global leaders should continue to pursue strategies that allow their organizations to create value above cost of capital—for instance, allocating resources toward energy capacity, transition, and innovation; creating conditions for growth (scaling flagship products or companies); rethinking executive compensation; or controlling the growth of goodwill and intangible capital on corporate balance sheets.

Regardless of the path, leaders should start the journey toward increased EP now.

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This article was edited by Roberta Fusaro, an editorial director in the Boston office.

[4] "Investment: Taking the pulse of European competitiveness," McKinsey Global Institute, June 20, 2024.