

Strategy & Corporate Finance Practice

Global Economics Intelligence executive summary, September 2020

As China returns to near-normal activity, many economies experience an industrial revival led by manufacturing and trade; the public-health crisis remains an impediment to faster growth.



Industry came to life in the past two months in many surveyed economies. In China, economic output has been climbing in positive territory since April; in August, production growth was 5.6% above 2019 levels. In the United States, where production fell –16.5% from February to April, recovery has slowly progressed since May; by August about half the gap with prepandemic output had been closed. A similar recovery pattern can be observed in the eurozone.

Outside China, the COVID-19 pandemic remains a public-health crisis, while holding back more rapid economic recovery. Testing is on the rise in many countries, revealing a still-climbing case count, while vaccine research proceeds apace. The World Health Organization is reporting that ten vaccine candidates are in final (Phase III) trials, and both China and Russia have begun public use of vaccines in limited quantities.

The virus is most active in India and Latin America, as well as the United States, where the death toll exceeded 200,000 people in September. Among our surveyed economies, India and Brazil are most clearly experiencing the life-and-death struggle between COVID-19 and economic recovery. Despite government-lockdown measures in May and June, India has confirmed the second-highest number

of cases (6.4 million) after the United States (7.5 million). The lockdowns in India have also resulted in the largest quarterly GDP contraction of any G-20 country: –23.9% (year over year, April–June). Output contractions have since lessened from month to month, but India remains the country furthest from pre-COVID-19 economic levels. In Brazil, the public-health story is equally (or even more) severe. With a population one-sixth the size of India's, Brazil has confirmed 4.8 million cases and the world's second-highest death toll (after that of the US). The economy, however, sustained less damage and is recovering more quickly. After a GDP contraction of –9.7% in the second quarter, Brazil has seen industrial production ramp up swiftly toward prepandemic levels.

Analysts are remarking on the “spikiness” of many high-frequency economic indicators in the present downturn. The path to recovery has not been smooth, partly because the main source of this downturn does not lie within the economic cycle per se, but rather within the restrictions governments implemented to stop the spread of the virus. A delayed ebb and flow of economic activity can be expected where the virus resurges and countermeasures are reimposed. Executive respondents to McKinsey's latest survey of

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economic conditions seemed to take cognizance of the unevenness, while expressing more hopeful views on the global economy nonetheless.

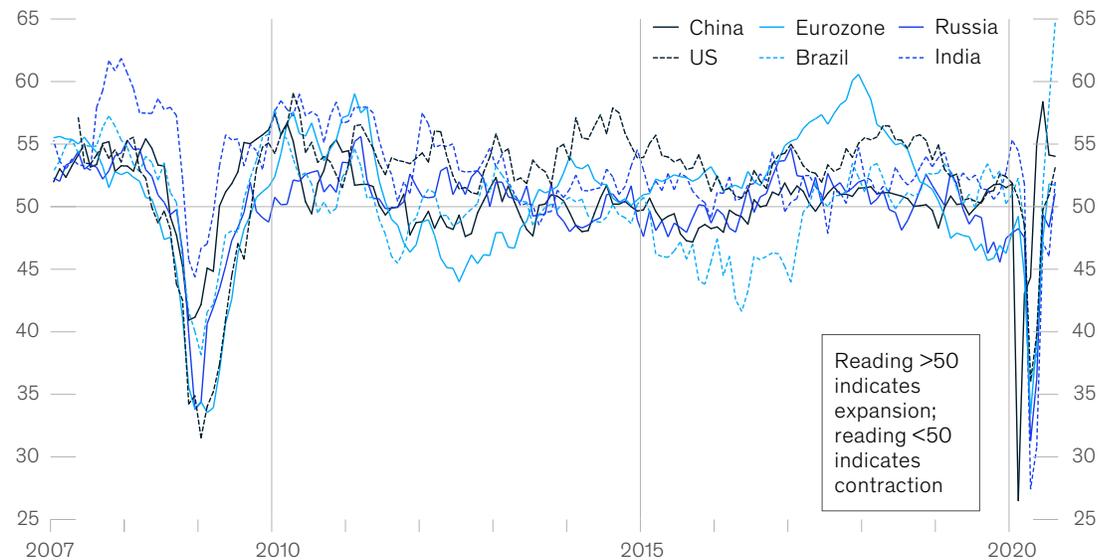
The consumer sector is improving, but slowly. Consumer-confidence indicators were mainly flat in August, while retail-sales data showed some growth in most surveyed economies; in Russia, sales declined in August, however.

The global purchasing managers' indexes (PMIs) for manufacturing and services returned to growth in August (51.8 and 51.9, respectively). Manufacturing PMIs in all surveyed economies measure forthcoming expansion; in Brazil, the manufacturing PMI registered historic highs in July (58.2) and August (64.7) (Exhibit 1). Services PMIs continue to show contraction in India and Brazil and expansion elsewhere; in the eurozone, the services indicator measured slowing growth.

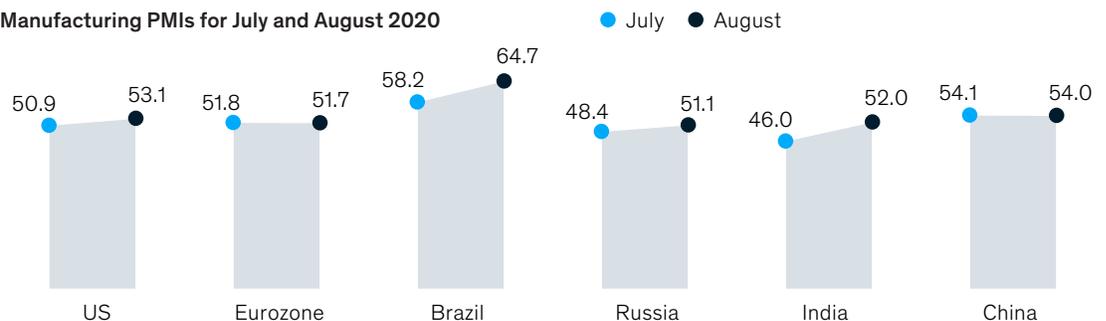
Exhibit 1

Manufacturing purchasing managers' indexes in all surveyed economies measure expansion, with Brazil registering a historic high.

Manufacturing purchasing managers' indexes (PMIs)¹



Manufacturing PMIs for July and August 2020



Note: Country-level data are purchasing managers' indexes (PMIs) for individual countries, not a breakdown of global PMI.
¹Diffusion index, seasonally adjusted (monthly).
 Source: IHS Markit

Trade is clearly recovering across the globe, with the latest data showing monthly improvements in most surveyed economies. As measured by the CPB World Trade Monitor, world trade expanded 4.8% in July, after 7.9% growth in June; the fast recovery follows contractions of -2.7% and -12.5% in Q1 and Q2, respectively. The Container Throughput Index increased to 116.1 in August (115.2 in July); cargo handling in Chinese ports declined only slightly from all-time highs, while handling outside China continued to strengthen (Exhibit 2).

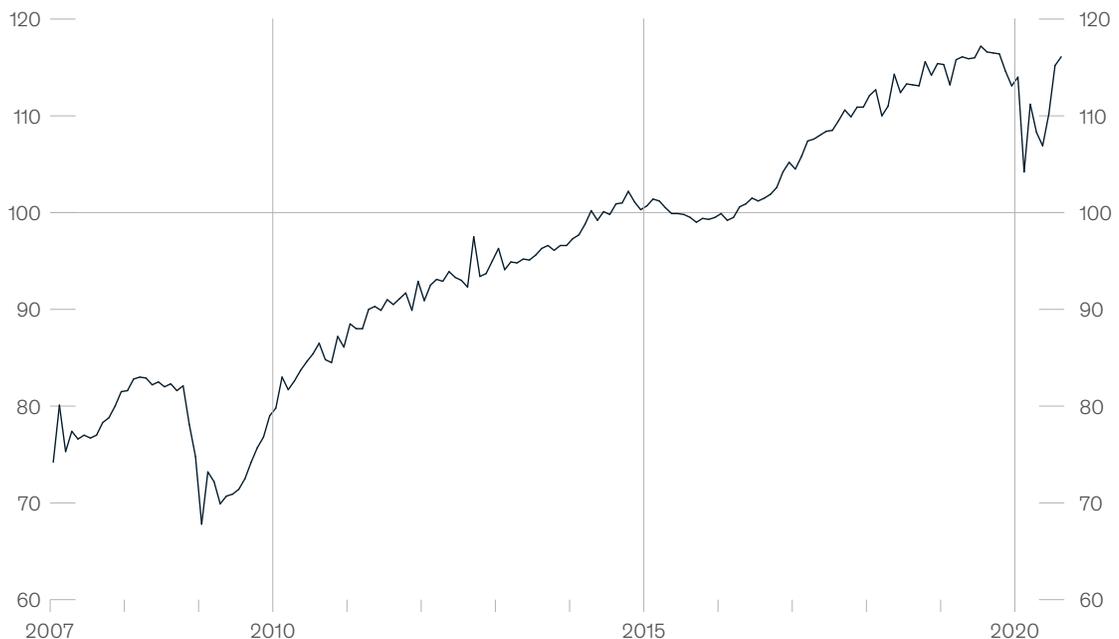
The US unemployment rate fell to 7.9% in September, from 8.4% in August and 10.2% in July. Elsewhere in August, the rate changed little, ticking up a bit in the eurozone (7.9%) and Russia (6.4%) and down in China (5.6%).

Consumer inflation accelerated slightly in the United States (from 1.0% to 1.3%). In the eurozone, where producer prices have been deflationary since August 2019, consumer prices turned deflationary for the first time since 2016, falling to -0.2% in

Exhibit 2

The Container Throughput Index increased to 116.1 in August (from 115.2 in July); cargo handling in Chinese ports declined only slightly from all-time highs, while handling outside China continued to strengthen.

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.
¹RWI: RWI-Leibniz-Institut für Wirtschaftsforschung. In Jan 2020, RWI/ISL Container Throughput Index changed its base year to 2015.
 Source: RWI/ISL Container Throughput Index

August 2020. In developing economies, consumer prices have been rising: in India, consumer-price inflation was measured at 6.7% in August, the ninth consecutive month the marker has been above 6.0%. Producer prices surged in Brazil on a weaker real.

Commodity indexes have been mainly stable in September, except for gains in agriculture and livestock values. Gold prices were mainly steady in September, oscillating between \$1,900 and \$2,000 per ounce. Oil prices climbed slightly in August as a result of supply disturbances but, as reported

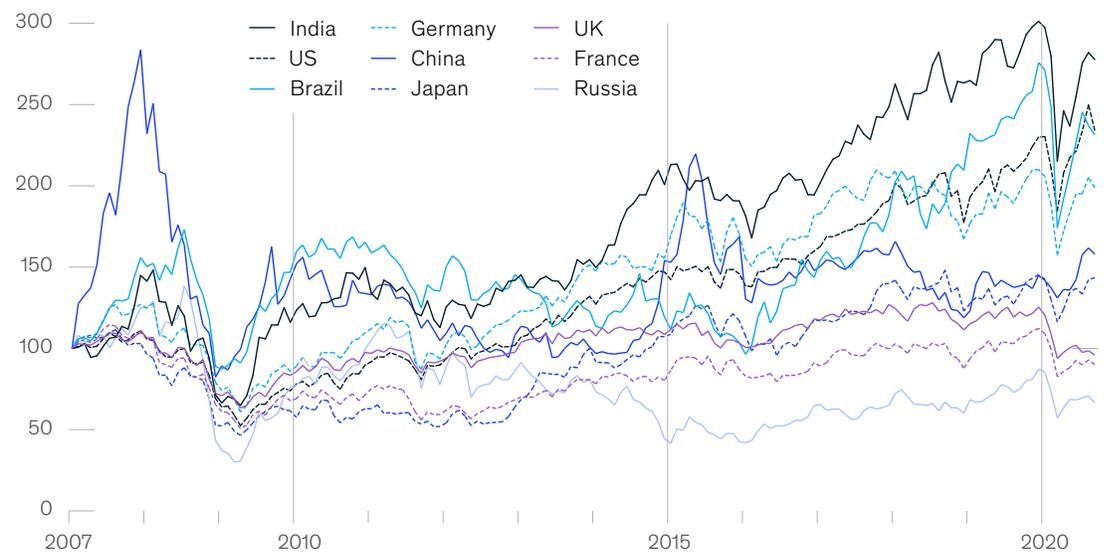
by the Organization of Petroleum Exporting Countries, declining demand brought prices down in September, toward \$40 per barrel (Brent).

Stock markets around the world performed well in August but retreated in September (Exhibit 3). The volatility index (VIX) for equities has also climbed. Analysts attribute the interruption in climbing market indexes to numerous causes, including the resurgence of the virus in various locales and rising uncertainty about a decisive outcome in the US presidential election.

Exhibit 3

After strong performances in August, equity markets retreated in September.

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



Equity markets,¹ % change (monthly)

	Significant decrease	Decrease	No significant change	Increase	Significant increase				
Sept ²	-6.3	-2.7	-3.1	-3.1	1.0	-2.3	-1.5	-2.4	-6.1
Aug ³	7.0	1.1	5.1	3.4	6.6	2.6	2.4	-3.4	2.0
	US	UK	Germany	France	Japan	China	India	Brazil	Russia

¹Brazil: 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.

²Aug 31–Sept 21, 2020.

³July 31–Aug 31, 2020.

Source: Haver Analytics

The US dollar continued to weaken against major currencies; the Brazilian real gained a little in September but remains, with the Russian

ruble, the worst-performing of surveyed currencies. Bond yields generally were stable through September.

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