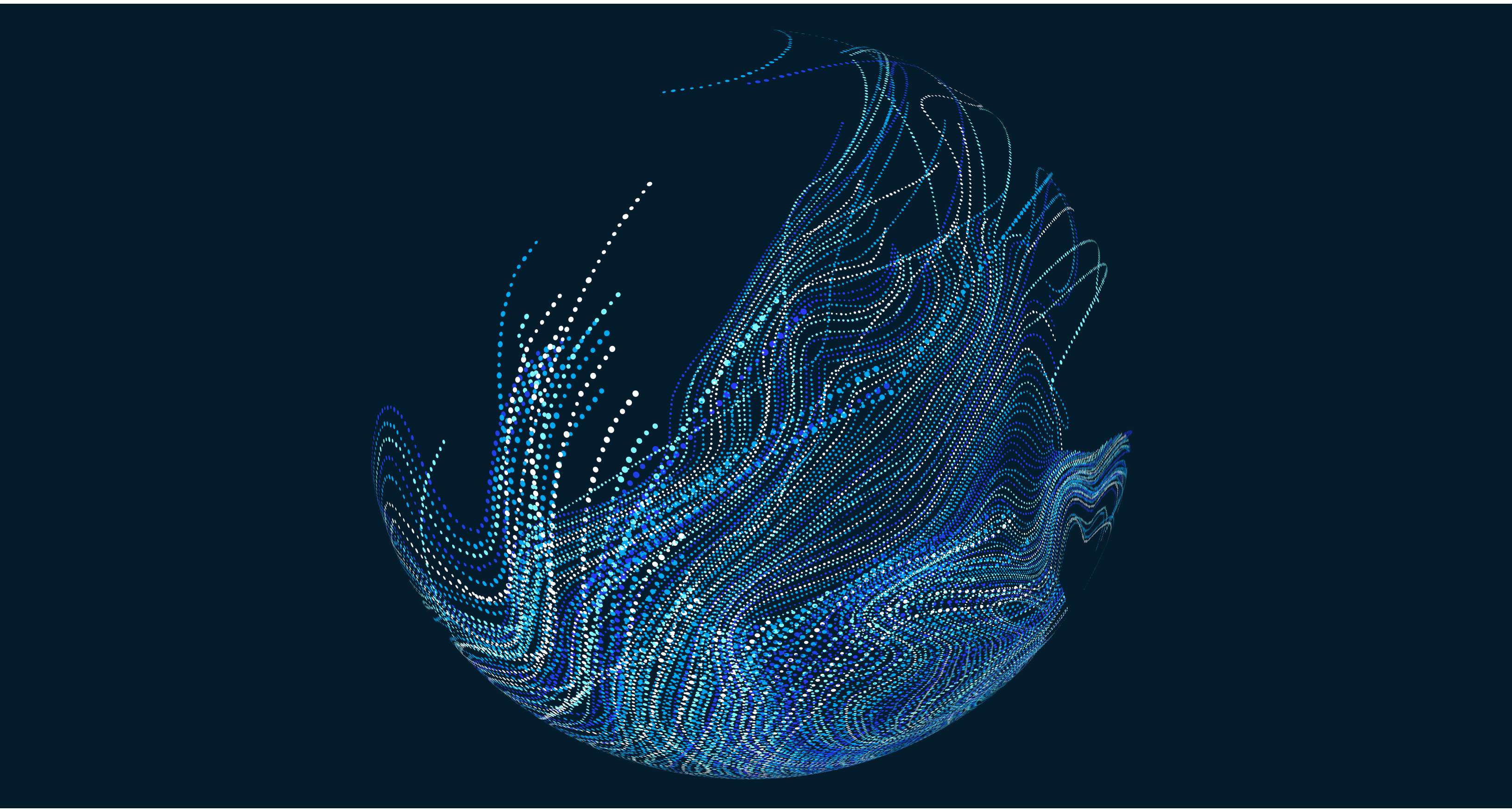
McKinsey & Company

Strategy & Corporate Finance Practice

Economic Conditions Snapshot, March 2020

McKinsey Global Survey results

As the coronavirus outbreak unfolded at the beginning of March, the survey elicited sobering early appraisals, with expectations of significant business risks and stifled growth prospects for the months ahead.



March 2020

In McKinsey's newest survey on economic conditions, conducted during the first week of March, the coronavirus outbreak overshadowed all other threats to the global economy.[1] Nearly nine in ten executives identified the outbreak as a threat to global growth—more than for any other factor. Reflecting on conditions at the time, most respondents said that the outbreak was also a top risk to their national economies and to their companies' growth over the next year. Since then, the public-health situation has become more dire: the World Health Organization declared the outbreak a pandemic, the global count of confirmed cases and deaths has risen, and authorities in many countries have taken emergency measures to limit the spread of the disease.[2]

The progression of the outbreak has surely influenced executives' views on the economy, but even the survey results from several weeks ago indicate the extent of their worries. Respondents already expected a stifled global economy in the months ahead. When asked about their home economies' prospects, the deepest concerns came from respondents in the Asia–Pacific region—not surprising given the timing and spread of the outbreak.

Furthermore, the results show that many respondents expect their companies to change their globalization strategies and foresee new hurdles to investments. Private-sector respondents were more likely than in previous surveys to say that their companies will alter supply chains in the next few years and that the risk of an economic downturn was keeping their organizations from investing in attractive opportunities. However, a plurality of respondents continued to predict a positive near-term outlook for their companies.

Nearly nine in ten executives identified the outbreak as a threat to global growth—more than for any other factor.

[1] The online survey was in the field from March 2 to March 6, 2020, and garnered responses from 1,152 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

[2] Matt Craven, Linda Liu, Mihir Mysore, and Matt Wilson, "COVID-19: Implications for business," March 2020, McKinsey.com.

Concerns over the coronavirus outbreak's impact loom

In early March, most respondents expected the spread of the coronavirus to be one of the biggest risks to growth for the global economy, their national economies, and their organizations in the months ahead. Eighty-six percent of respondents said the outbreak is a pressing threat to global economic growth over the next year (Exhibit 1). Concern about the pandemic, which we first asked about in this quarter's survey, was most pronounced in the Asia–Pacific region, where 96 percent of respondents said it was a top threat.

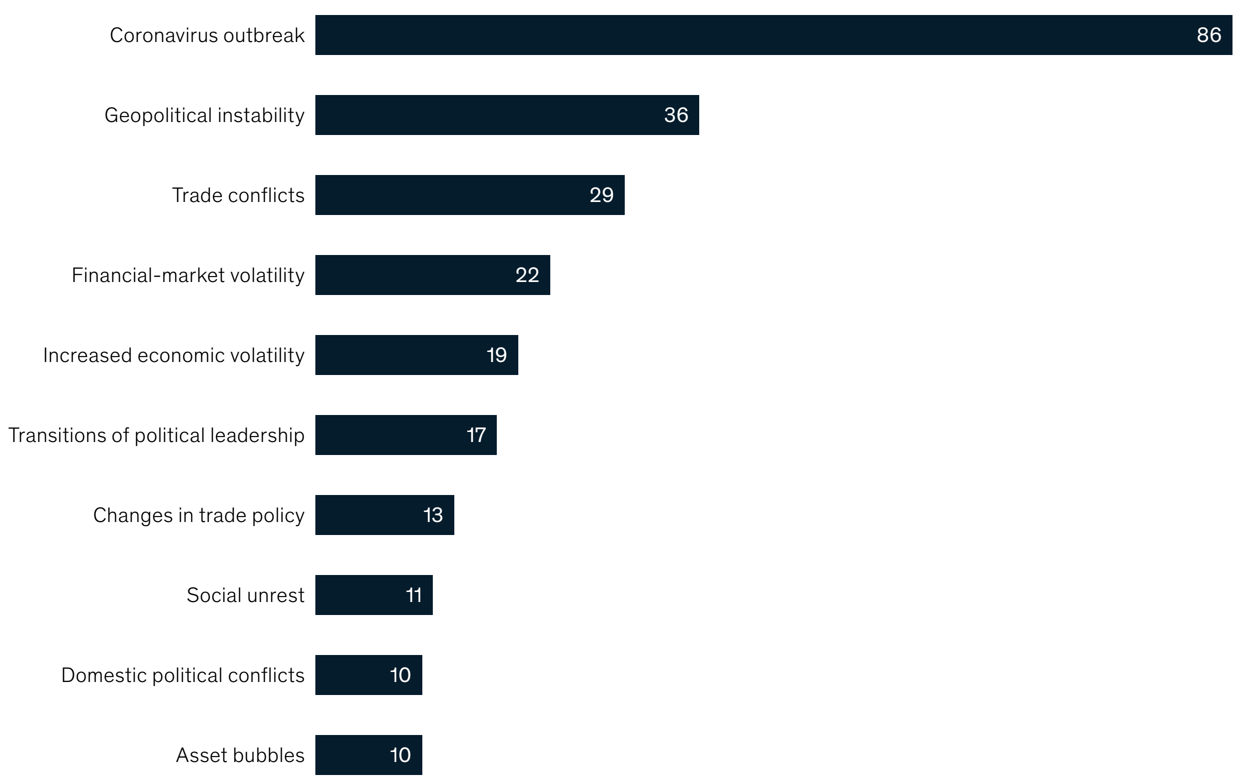
Among all respondents, the coronavirus outbreak displaced trade conflicts, respondents' chief concern throughout 2019, as the most commonly cited risk. Although trade conflicts became the third-most-cited risk overall—after the virus and geopolitical instability—they were an outsize concern in India and other developing markets.[3]

Looking at their national economies, two-thirds of all respondents said the outbreak is a top risk to growth in the next year. It was the most commonly cited threat in each region except Latin America

Exhibit 1

The coronavirus outbreak, a new risk, dominated the list of most-cited threats to global economic growth.

Potential risks to global economic growth in the next 12 months, % of respondents[1]



[1] Out of 16 risks that were presented as answer choices. Respondents who said "other," "no particular risk," or "don't know" are not shown; n = 1,152.

[3] Includes respondents in China, the Middle East, and North Africa.

(Exhibit 2). With all eyes focused on the spread of the virus,[4] trade-policy changes (the most-cited risk in the past three surveys) and geopolitical instability were no longer among the top five concerns. Slowing economic activity in China, the initial epicenter of the outbreak, was the second-most-cited risk. Thirty-nine percent said slowing growth in China is a top risk—the largest share since we began asking about it as a threat to domestic growth in March 2016.

Finally, the outbreak topped the list of expected threats to growth at respondents' companies. Fifty-three percent of all respondents cited it as a risk.

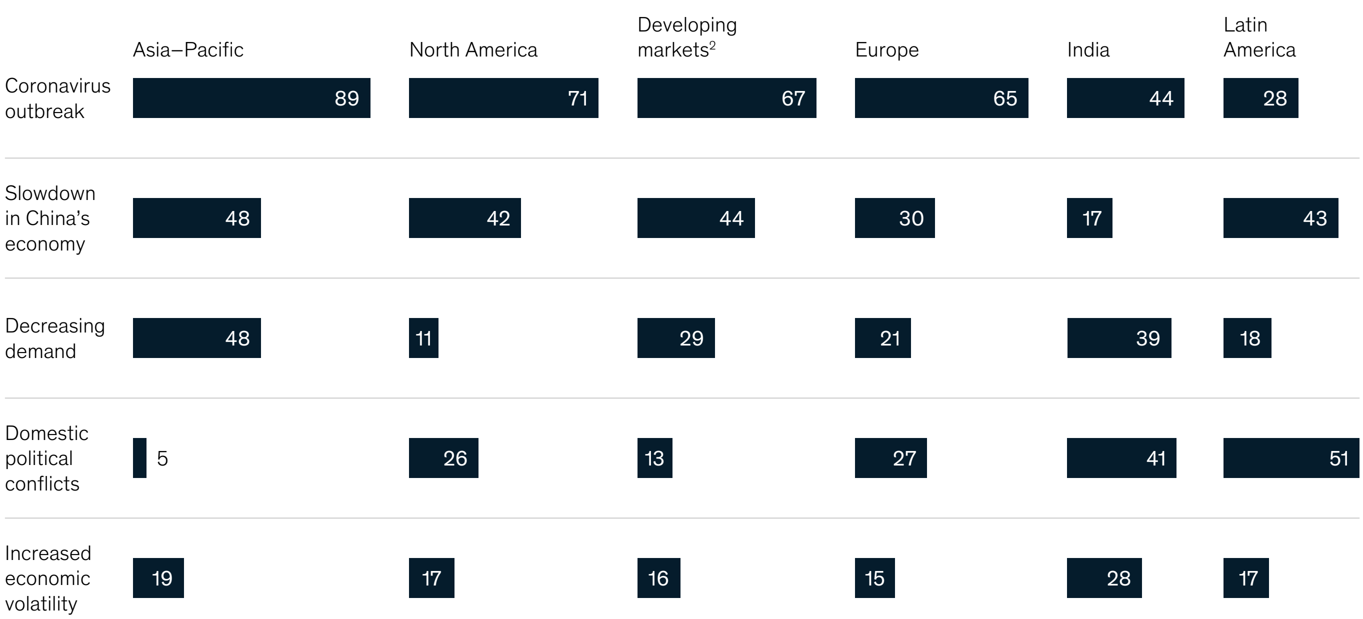
Uneasy views of the global economy and conditions at home

After a more favorable turn at the end of 2019,[5] sentiment on the state of the global economy soured in early March. Just 6 percent of all respondents

Exhibit 2

The coronavirus outbreak was the most-cited threat to domestic growth in every region but Latin America.

Potential risks to domestic economic growth in the next 12 months, % of respondents, by office location[1]



[1] Out of 17 risks that were presented as answer choices. Risks are arranged in descending order, based on the total-level responses to the question. In the Asia–Pacific, n = 119; in North America, n = 260; in developing markets, n = 163; in Europe, n = 436; in India, n = 101; and in Latin America, n = 73.
[2] Includes respondents in China, the Middle East, and North Africa.

[4] For more, see Matt Craven, Linda Liu, Mihir Mysore, and Matt Wilson, "COVID-19: Implications for business," March 2020, McKinsey.com.
[5] "Economic Conditions Snapshot, December 2019: McKinsey Global Survey results," December 2019, McKinsey.com.

said conditions improved over the past six months, while 85 percent said they had worsened (Exhibit 3). What's more, the share reporting a substantial decline in the global economy has grown over the past six months.[6]

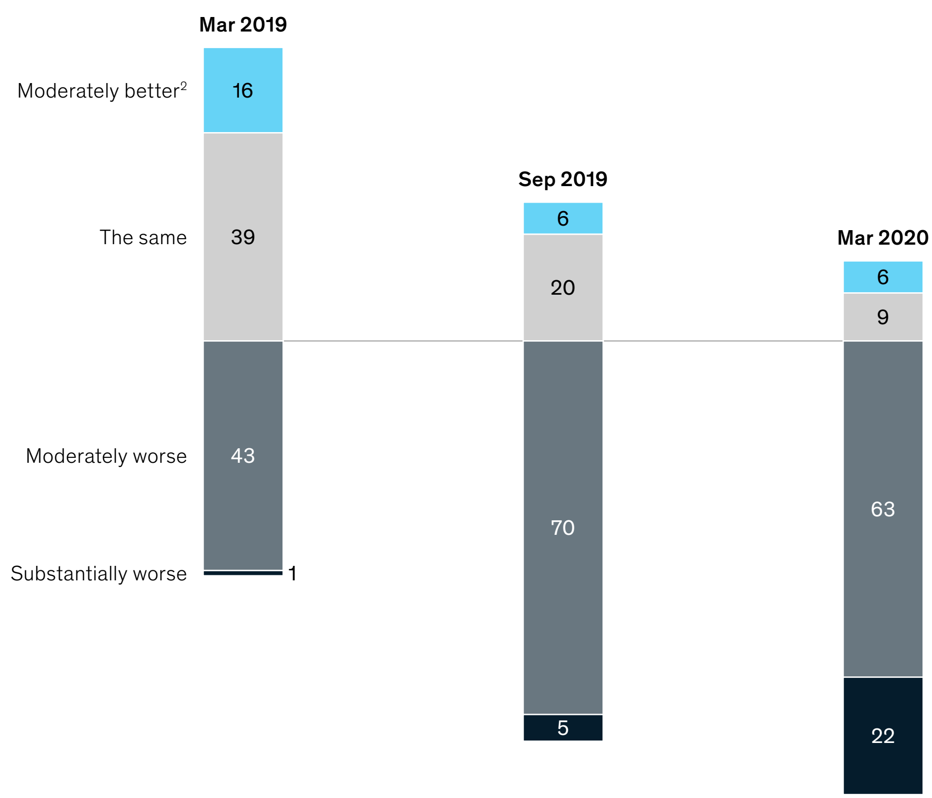
Likewise, respondents were leery about the global economy's prospects. Fifty-eight percent said they expect conditions to decline in the next six months—more than twice the share that predicted an improvement. Overall, three-quarters said they expect the global growth rate to slow down.

Respondents remained more skeptical than hopeful about current and future conditions in their home economies. Overall, 62 percent said their national economies had declined over the past six months, compared with 52 percent six months ago. Respondents in all regions were more likely to report

Exhibit 3

The share of respondents reporting a substantial decline in global economic conditions grew over the past year.

Current conditions in global economy, compared with 6 months ago, % of respondents[1]



[1] In Mar 2019, n = 1,482; in Sep 2019, n = 1,363; and in Mar 2020, n = 1,152.
[2] In each survey, 0% of respondents said "substantially better." Figures may not sum to 100%, because of rounding.

[6] "Economic Conditions Snapshot, September 2019: McKinsey Global Survey results," September 2019, McKinsey.com.

declining than improving conditions, which was also true six months ago. Those in the Asia–Pacific and developing markets were particularly downbeat compared with their peers in other regions (Exhibit 4).

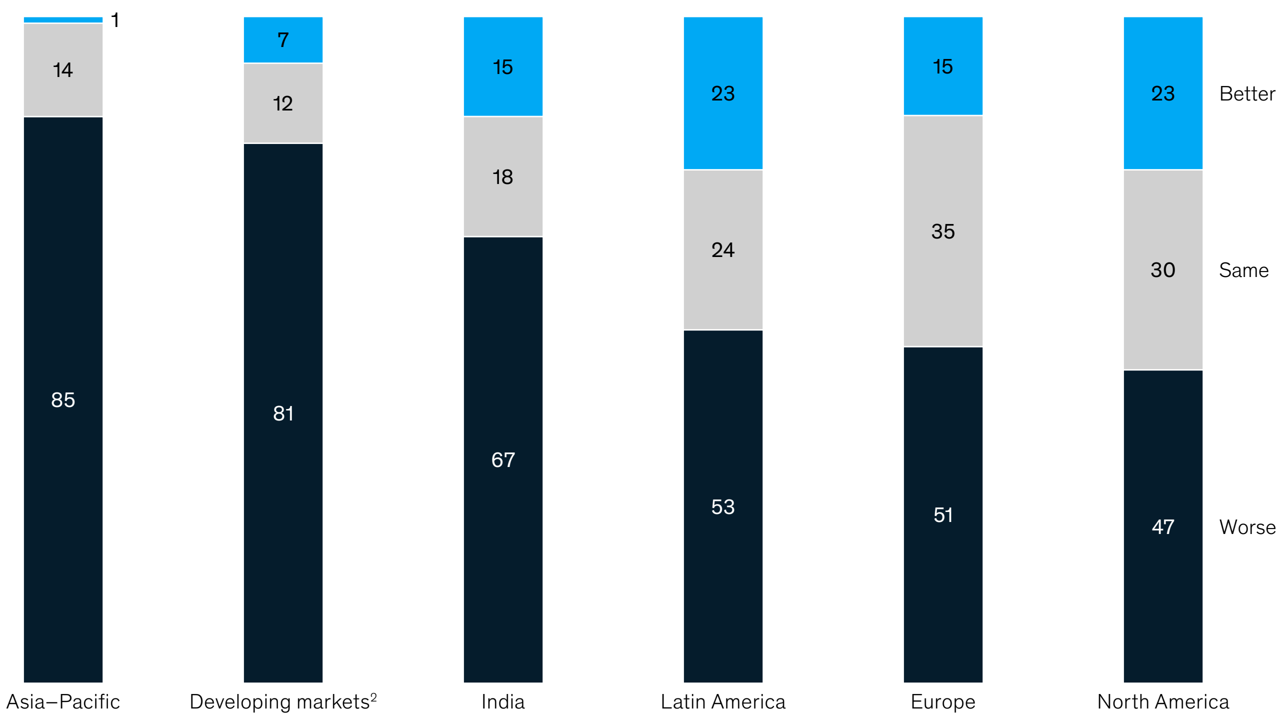
Respondents also offered somber outlooks for their national economies. Roughly half expected conditions to decline in the next six months—nearly twice the share expecting an improvement. Similarly, 58 percent of respondents expected their economies' growth rates to slow in the months ahead, but most said that the contraction would be minimal.

Across regions, respondents in developed economies were more likely than those in emerging ones to expect worsening conditions. Those in the Asia–Pacific and Europe expressed the most pessimism. Respondents in India and Latin

Exhibit 4

Across regions, respondents in the Asia–Pacific and developing markets were the most downbeat about the state of their countries' economies.

Current economic conditions in respondents' countries, compared with 6 months ago, % of respondents, by office location[1]



[1] Figures may not sum to 100%, because of rounding. In the Asia–Pacific, n = 119; in developing markets, n = 163; in India, n = 101; in Latin America, n = 73; in Europe, n = 436; and in North America, n = 260.
[2] Includes respondents in China, the Middle East, and North Africa.

America—who were less likely than those elsewhere to see the virus outbreak as a risk to their economies[7]—were less somber (Exhibit 5). These sentiments were consistent with the timing and spread of the virus.

Changes to globalization strategies

In light of the economic risks respondents saw in early March, those from large multinational companies said their organizations were examining globalization strategies and would make changes in coming years.[8] Eighty-seven percent of respondents said their companies will alter globalization strategies in the next three years. Respondents were more likely than they were in December to say that the strategic changes at their companies will include diversifying supply chains across countries and sourcing more from regional supply chains (Exhibit 6).

In addition, respondents at private-sector companies of all sizes said that the risk of an economic downturn or financial crisis in the countries where

Exhibit 5

Negative outlooks for respondents' countries were most common in the Asia–Pacific and Europe.

Expected changes in respondents' countries in the next 6 months, % of respondents, by office location[1]

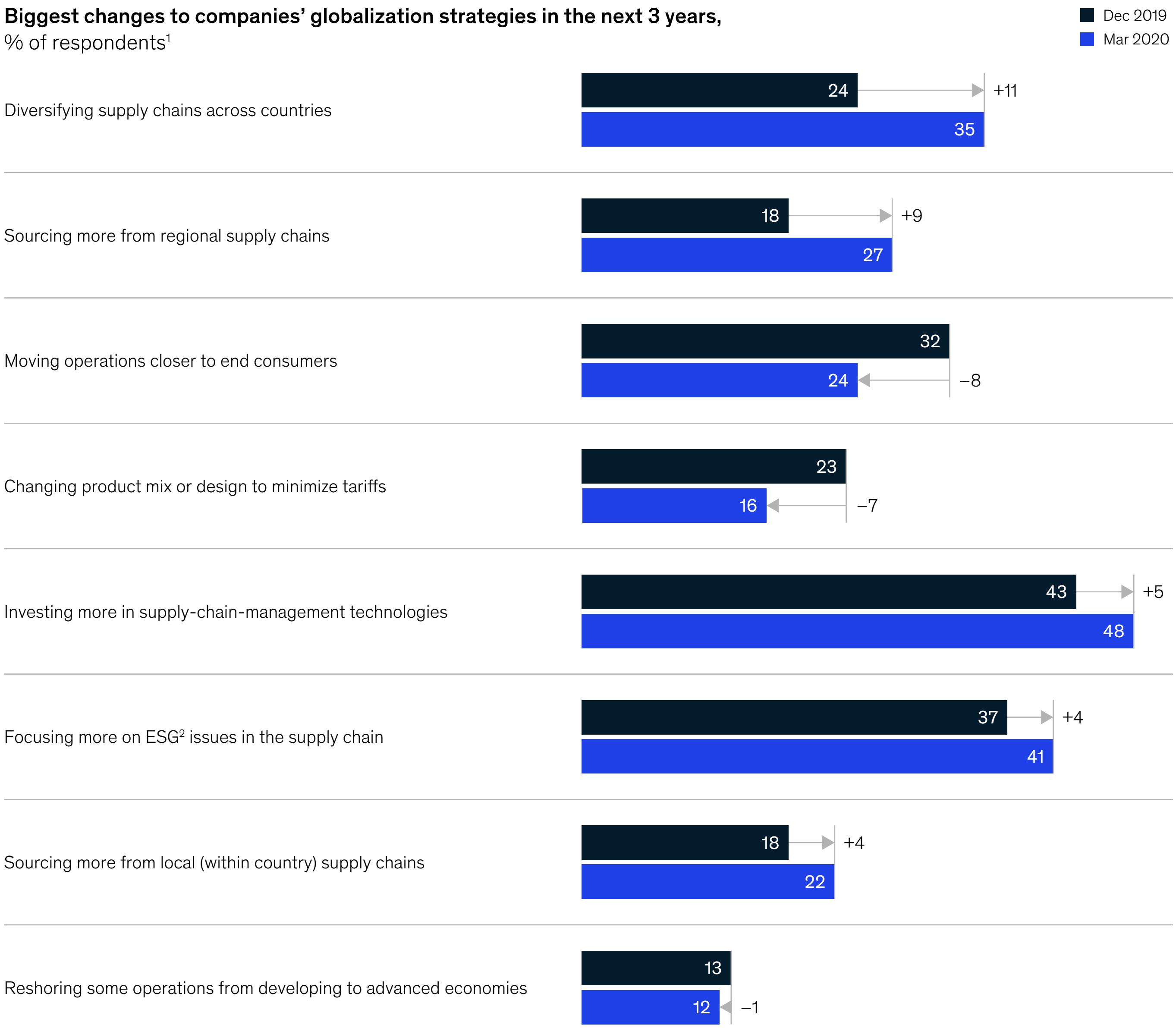
[1] Figures may not sum to 100%, because of rounding. In the Asia–Pacific, n = 119; in Europe, n = 436; in North America, n = 260; in developing markets, n = 163; in Latin America, n = 73; and in India, n = 101.
[2] Includes respondents in China, the Middle East, and North Africa.

[7] India and Latin America each had fewer than 50 reported cases of COVID-19 in early March, when the survey was in the field. See *Coronavirus disease 2019 (COVID-19) situation report 46*, World Health Organization, March 6, 2020, who.int.
[8] These questions were asked only of respondents working at companies with average annual revenues of $500 million or more, of which more than 20 percent come from outside the headquarters country; n = 274. The globalization strategies of companies include their investment plans, sourcing, supply-chain management, and global footprint.

Exhibit 6

Since December, respondents have become likelier to say changes to their companies' globalization strategies will include diversifying supply chains and sourcing more regionally.

Biggest changes to companies' globalization strategies in the next 3 years,
% of respondents[1]



[1] Respondents who said "other" or "don't know" are not shown. In Dec 2019, n = 601; in Mar 2020, n = 235.
[2] Environmental, social, and governance.

their companies are based was affecting how their companies make investment decisions. Respondents were much more likely than they were one year ago to say that a potential downturn is a main reason why their companies are not investing in all attractive opportunities (29 percent, compared with 15 percent in March 2019) or why their companies have fewer attractive investment opportunities than they can fund (37 percent, up from 23 percent).

Even so, at the time the survey was conducted, respondents remained more likely to expect customer demand to increase than to decrease (39 percent versus 28 percent), as has been true for more than a decade. A plurality of respondents also expected their companies' profits to increase in the months ahead—although the 42 percent of respondents who gave that answer was the smallest share since June 2009.

The contributors to the development and analysis of this survey include **Alan FitzGerald**, a senior expert in McKinsey's New York office; **Vivien Singer**, a specialist in the North American Knowledge Center; and **Sven Smit**, a senior partner in the Amsterdam office.

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