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Strategy & Corporate Finance Practice

Economic conditions outlook, March 2021

In a new global survey, executives see positive momentum building in the economy. But the pandemic still persists as an outsize risk to growth.

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March 2021

One year after the World Health Organization declared COVID-19 a global pandemic,[1] the results of our newest McKinsey Global Survey signal greater optimism about the economy than respondents have expressed since the crisis began—and on a few fronts, than they have in several years.[2] Fifty-three percent of executives say economic conditions in their home countries have improved in the past six months—the first time a majority has said so in three years. Their outlook on the economy's future is even more positive, with an all-time record share of respondents predicting improvements in their countries' economies over the next six months.

As expectations brighten, the newest results also offer some clues on what the recovery could look like—or, at least, suggest that most companies will return to full operations later in 2021. At the companies that are fully operational now, executives say their ways of working have already changed in many respects and that these changes seem to have stuck. Still, weak demand continues to threaten corporate growth, and the pandemic remains the biggest risk to overall economic growth, both global and domestic.

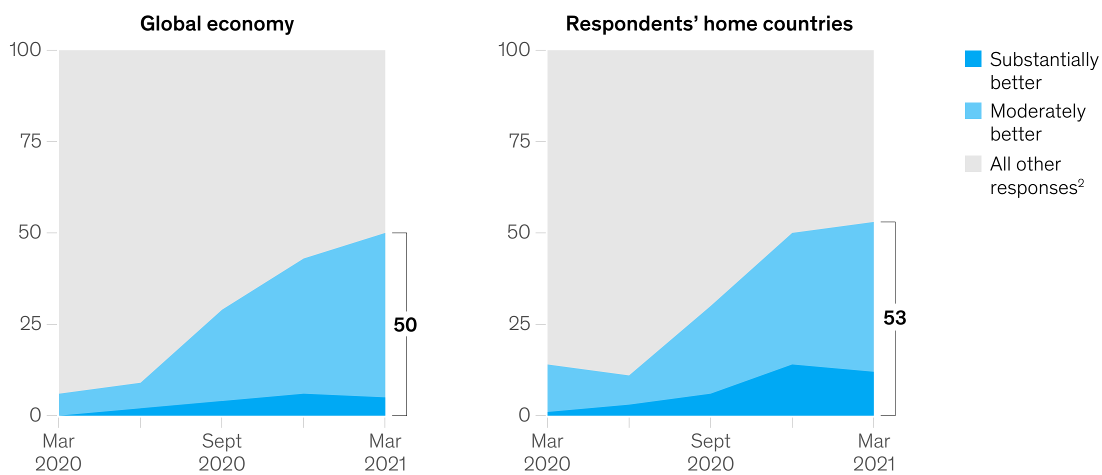
A rise in economic optimism

Executives' good feelings about the economy continue to grow, according to our latest survey. Half of all respondents believe that current conditions in the global economy are better now than they were six months ago (up from 43 percent in the previous quarter), and 53 percent say the same of conditions in their home countries (Exhibit 1)—the first time a majority has said so since March 2018.[3]

Exhibit 1

Executives see positive momentum building in the global economy and in their home countries.

Current economic conditions compared with 6 months ago,[1] % of respondents



[1]Mar 2020, n = 1,152; June 2020, n = 2,222; Sept 2020, n = 1,138; Dec 2020, n = 1,382; Mar 2021, n = 1,018.
[2]Includes respondents who answered "the same," "moderately worse," and "substantially worse."

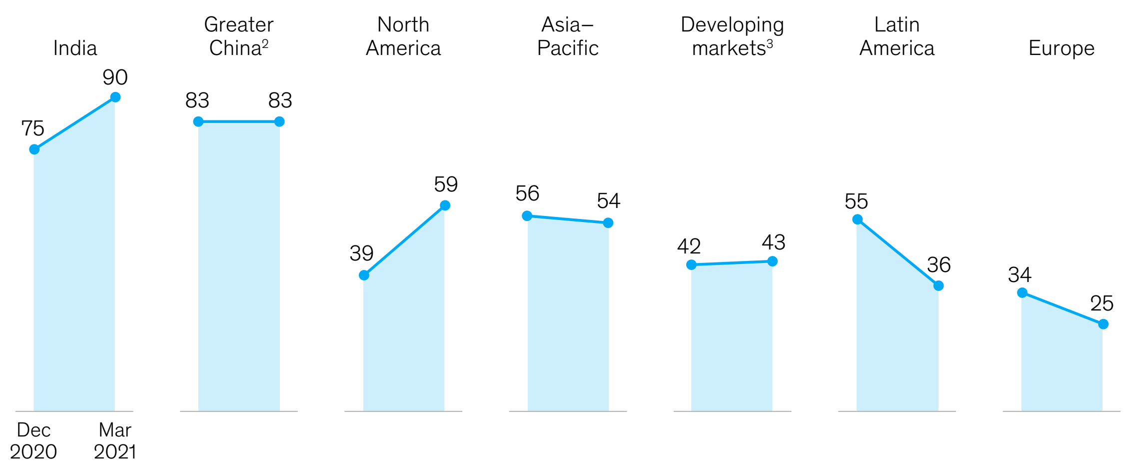
[1] "Media briefing on COVID-19, WHO director-general's opening remarks," World Health Organization, March 11, 2020, who.int.
[2] The survey was in the field March 1 to March 5, 2021, and garnered responses from 1,018 participants representing the full range of regions, industries, company sizes, functional 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.
[3] "Economic Conditions Snapshot, March 2018: McKinsey Global Survey results," March 30, 2018, McKinsey.com.

Among geographies, executives in India and in Greater China remain the most positive about recent developments in their home economies—and those in Europe, the least so—which was also the case in December 2020 (Exhibit 2). The biggest improvement is in North America, where 59 percent of respondents now report better conditions at home, versus 39 percent in December. By contrast, their peers in Latin America are much likelier to report economic declines than they were previously.

Exhibit 2

Among geographies, the regions reporting the most—and the least—positive views of their economies are the same as last quarter.

Respondents who say economic conditions are better compared with 6 months ago,[1]
% of respondents by region of office



[1]Respondents who answered "the same" or "worse" are not shown.
[2]Includes Hong Kong and Taiwan.
[3]Includes Middle East, North Africa, South Asia, and sub-Saharan Africa.

Expectations for the future are even more upbeat. While the global outlook has wavered in recent months, respondents are more optimistic now about the world economy's prospects than they've been at any other point during the crisis: 69 percent believe global economic conditions will improve, up from 56 percent in the previous survey. When asked about their countries' economies, nearly three-quarters of executives expect improved conditions in the next six months, up from 56 percent in January—the highest share to say so since the pandemic began *and* since we began asking the question, in February 2004.[4]

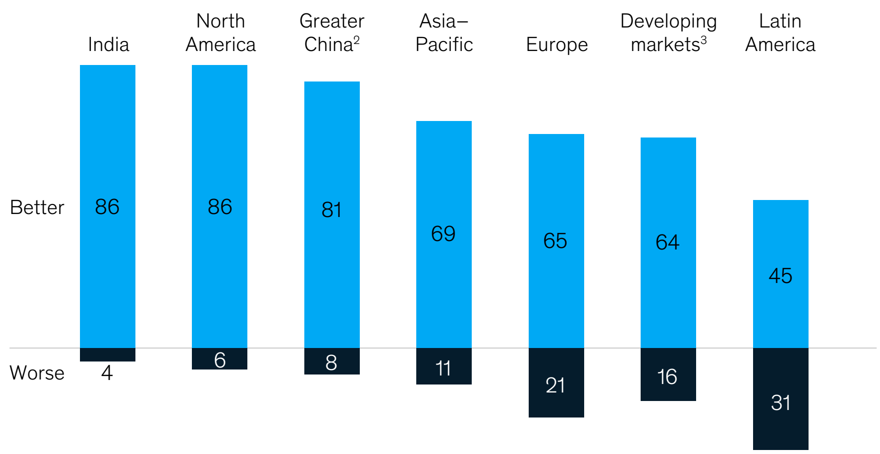
[4] In our latest survey, 74 percent of respondents say they expect their countries' economies will be better six months from now. Since then, the highest shares to say so were 69 percent in February 2004, and 68 percent in December 2009, during the recovery from the 2007–08 financial crisis.

In every region but Latin America, where executives are still more optimistic than pessimistic, a majority of respondents expect improvements in the months ahead (Exhibit 3). And while emerging-economy respondents are more bullish on current conditions than their peers in developed economies—as they have been since June 2020—these groups are equally likely to report a very positive outlook on future conditions.

Exhibit 3

In every region but Latin America, a majority of respondents expect improvements in their countries' economies.

Expected economic conditions in respondents' countries, next 6 months,[1]
% of respondents by region of office



[1]Respondents who answered "the same" are not shown. India, n = 69; North America, n = 210; Greater China, n = 117; Asia–Pacific, n = 108; Europe, n = 377; developing markets, n = 70; Latin America, n = 67.
[2]Includes Hong Kong and Taiwan.
[3]Includes Middle East, North Africa, South Asia, and sub-Saharan Africa.

Unemployment concerns also seem to be subsiding, compared with the past few months when pluralities or outright majorities of respondents predicted an increasing unemployment rate at home. Now, 43 percent expect a decline while 38 percent expect an increase, though there are notable differences by region. A majority of respondents in Europe still anticipate rising unemployment (which was true in the past two surveys), while those in North America are the most likely of their peers to expect a *decrease* in unemployment: 69 percent say so, while only 16 percent in the region predict an increase.

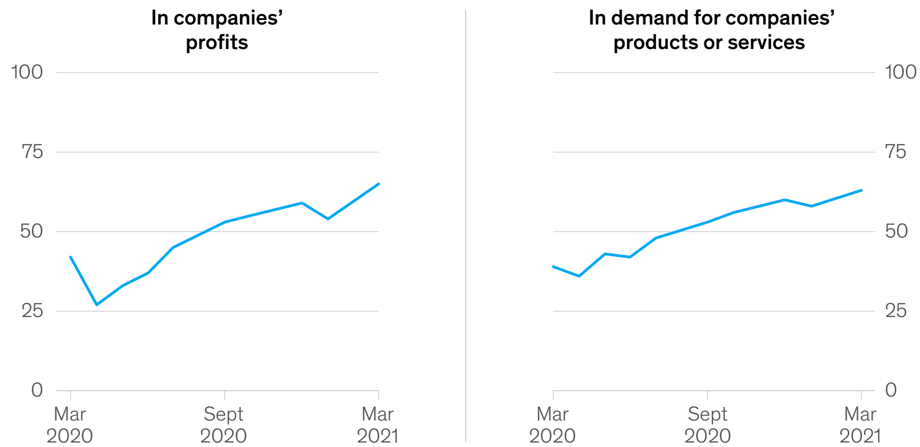
How the corporate recovery is taking shape

At the company level, positive expectations are also hitting new highs (Exhibit 4). Sixty-three percent of executives believe that demand for their companies' products and services will increase in the months ahead, versus 39 percent who said the same one year ago, while 65 percent expect their companies' profits will increase—the largest share to say so in three years. Workforce expectations remain stable, with a plurality of respondents saying their head counts will stay the same as they have throughout the pandemic. Thirty-seven percent, however, expect their workforce size to increase—the largest share to say so since before the pandemic.[5]

Exhibit 4

Optimism for company profitability and consumer demand hits new highs.

Respondents who expect increasing profits and customer demand at their companies,[1] next 6 months, %



[1]Questions were asked only of respondents working for private-sector organizations; n = 855. Respondents who answered "no change," "decrease," or "don't know" are not shown.

Expectations for corporate profits and demand are higher than they have been since the pandemic began.

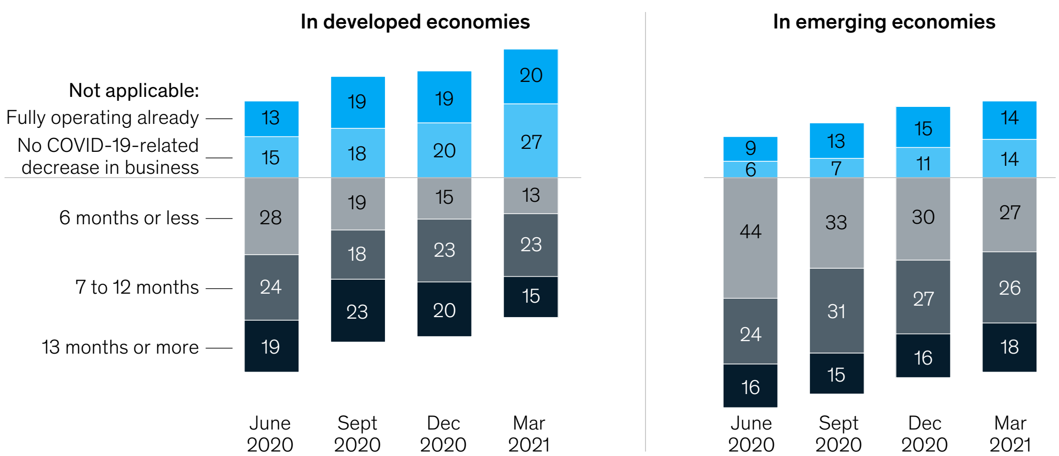
[5] "Economic Conditions Snapshot, June 2019: McKinsey Global Survey results," June 27, 2019, McKinsey.com.

While the share of respondents whose companies are fully operational again has grown in the past three quarters, most continue to say that they are not yet there. And, as in June 2020, when we first asked this question, the most common time frame for a return to full operations is seven to 12 months. During this time, we've also seen that respondents in developed economies are much more likely than their emerging-economy counterparts to say that they're fully operational again, or that their business has not been disrupted by the pandemic (Exhibit 5).

Exhibit 5

For a few quarters, executives in developed economies have been likelier than their peers to say that their companies are fully operational.

When businesses are expected to be fully operational,[1] % of respondents by region of office



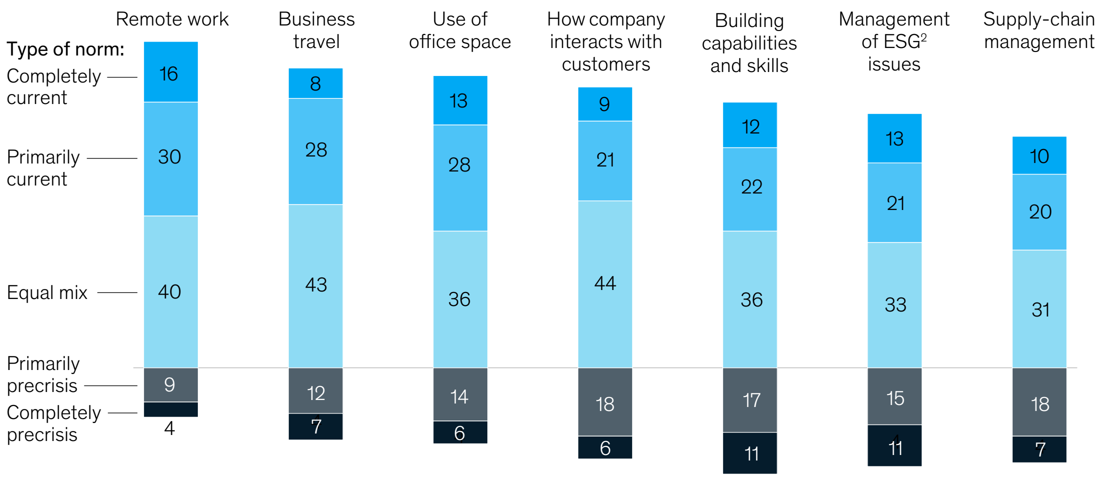
[1]Respondents who answered "don't know" are not shown. In emerging economies, June 2020, n = 681; Sept 2020, n = 359; Dec 2020, n = 441; and Mar 2021, n = 327. In developed economies, June 2020, n = 1,541; Sept 2020, n = 779; Dec 2020, n = 941; and Mar 2021, n = 691.

However, "fully operational" doesn't mean that companies will be running as they did before the pandemic. Business operations have already changed in many respects. According to respondents at fully operational companies, the most significant changes they've made since returning are executing a larger share of their work virtually, accelerating the adoption of digital technologies, and serving a larger share of customers through digital channels. These happen to be the same top-three changes that respondents have reported since June 2020, when we first asked this question. And when asked about changing norms in specific areas of their business, executives are most likely to expect that after the recovery, the current, pandemic-era ways of working remotely, traveling for business, and using office space are the most likely to stick to some degree once the crisis is over (Exhibit 6)—though results vary by sector and by region.

Exhibit 6

After the COVID-19 recovery, new ways of working, traveling for work, and using office space are seen as the likeliest changes to stick.

Expected norms for aspects of company's business, after COVID-19 recovery,[1] % of respondents



[1]Question was asked only of respondents working for private-sector organizations; n = 855. Respondents who answered "don't know/not applicable" are not shown.
[2]Environmental, social, and governance.

Consistent risks at the global, domestic, and company levels

Despite the overall optimism, the COVID-19 pandemic still looms largest as a risk to growth. It's the top risk to growth in the global economy, followed by geopolitical instability, which were the most common risks cited in the past two quarters. The pandemic is also cited most often as a risk to economic growth in respondents' countries, followed by unemployment and domestic political conflicts. It's the most common risk in every region but Latin America and India, where respondents most often cite domestic political conflicts and unemployment, respectively. Executives in Latin America and in Europe continue to cite unemployment more often than their peers, as in the previous survey, although the shares saying so have fallen since January.

For respondents' own companies, weak demand remains the greatest threat to growth, though increasing industry competition has risen in the ranks. Across sectors, respondents in consumer packaged goods and retail are the most likely among their peers to say so: 41 percent cite it as a risk to company growth, versus 28 percent of those in all other industries.

The survey content and analysis were developed by **Alan FitzGerald,** a director of client capabilities in McKinsey's New York office; **Vivien Singer,** a capabilities and insights expert at the Waltham Client Capabilities Hub; and **Sven Smit,** a cochair and director of the McKinsey Global Institute and a senior partner in the Amsterdam office.

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