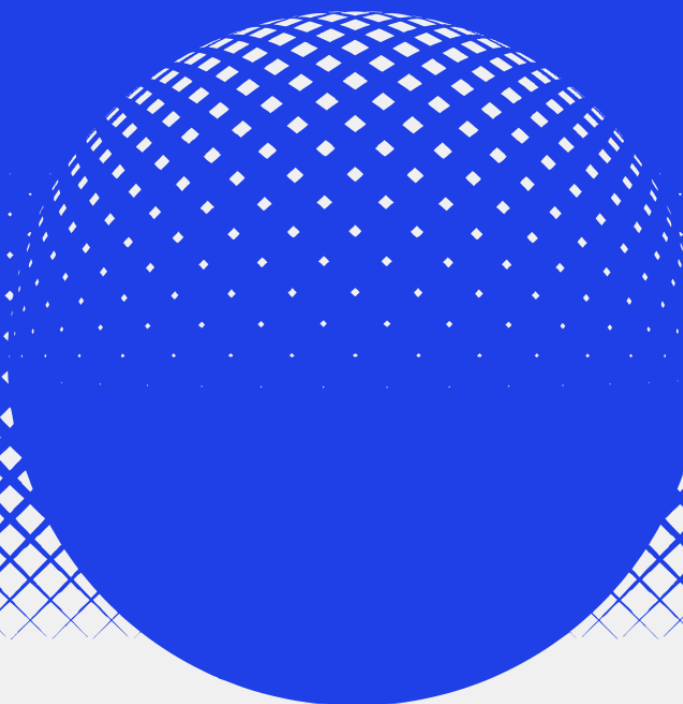


Strategy & Corporate Finance Practice

Global Economics Intelligence executive summary, July 2020

Deep second-quarter contractions were measured in the United States and the eurozone. Economic indicators improved in June and July, but disparities in controlling the novel coronavirus suggest diverging recovery paths.



The US economy experienced a record-breaking GDP contraction of –9.5% (year over year) in the second quarter of 2020 (–32.9% annualized). Many analysts expect positive growth in the third quarter, stemming from partial reopening, but a continued surge of COVID-19 cases could halt further expansion. In terms of pandemic control and recovery, the eurozone occupies a position between China and the United States, but its economy sustained a deep contraction in the second quarter as well. Preliminary flash estimates published by the European Union show a contraction of –15.0% (y-o-y) in the eurozone as a whole, with contractions in its largest economies of –22.1% in Spain, –19.0% in France, –17.3% in Italy, and –11.7% in Germany. These are the worst quarterly results ever recorded in the eurozone and reveal how steep a climb lies ahead. Industrial production has, however, been ramping up lately as eurozone economies reopen.

Some positive economic signs did emerge in June and July in that contractions in industry slowed, business- and consumer-confidence indexes did not worsen, and equity markets continued to recover. The improvements are a product of government crisis-support measures, positive growth in China, and the emergence of economies from restrictions. The resulting increases in demand have helped revive the price of oil and other industrial commodities.

An admixture of uncertainty accompanies these developments, however, as the COVID-19 pandemic is partly determining the variable rates at which economies are able to recover. Only China, where the virus has been largely contained, has returned to positive growth. The government reported GDP growth of 3.2% for the second quarter of 2020 (y-o-y), after a contraction of –6.8% in the first quarter. Among surveyed economies, uncertainty is greatest in the United States, Brazil, and India, where recovery efforts struggle against surging infection rates. The latest responses to McKinsey's Global Economic Sentiment Survey reflect some of these disparities, with executive respondents' outlooks decidedly positive in China, turning more subdued in North America and emerging economies, and holding a middle ground in Europe.

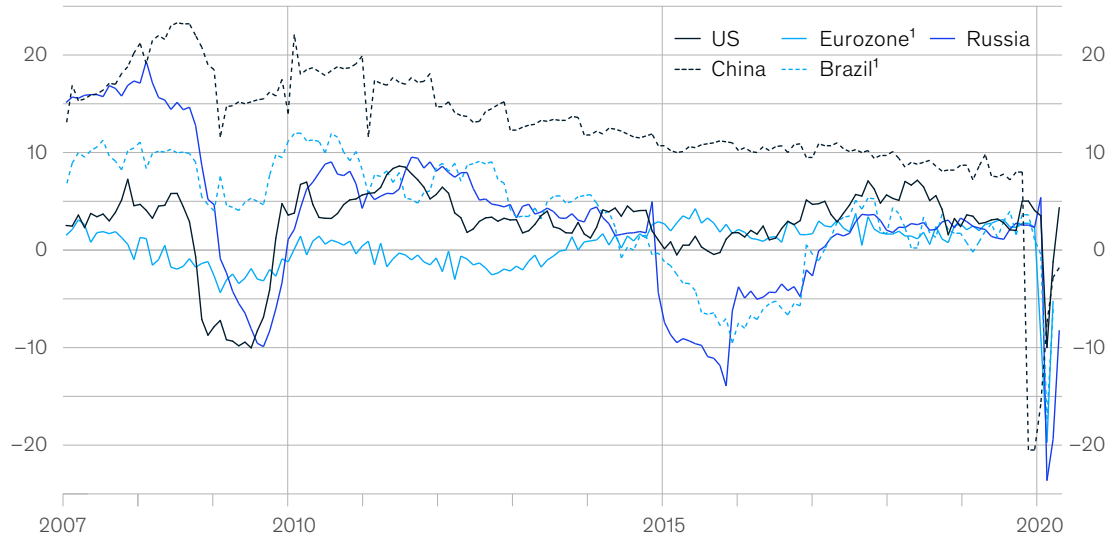
Results from the consumer-confidence surveys of the Organisation for Economic Co-operation and Development (OECD) remained subdued, both globally and for individual economies. Retail sales were less dismal in most economies, but in the United States, significant positive growth of 4.5% was recorded in June over levels of a year ago (Exhibit 1). The OECD composite leading indicators point to general improvement in all economies but at a pace below pre-COVID-19 averages.

Disparities in controlling the novel coronavirus are suggesting different recovery paths among surveyed economies.

Exhibit 1

As lockdowns lifted, retail sales became less dismal; sales were clearly positive in the United States, with growth 4.5% higher than in June 2019.

Retail-sales growth by region, % (monthly, year over year)



¹Data for Brazil and eurozone until May 2020.
Source: Banco Central do Brasil; Eurostat; National Bureau of Statistics of China; Russian Federal State Statistics Service (Rosstat); US Census Bureau; McKinsey's Global Economics Intelligence analysis

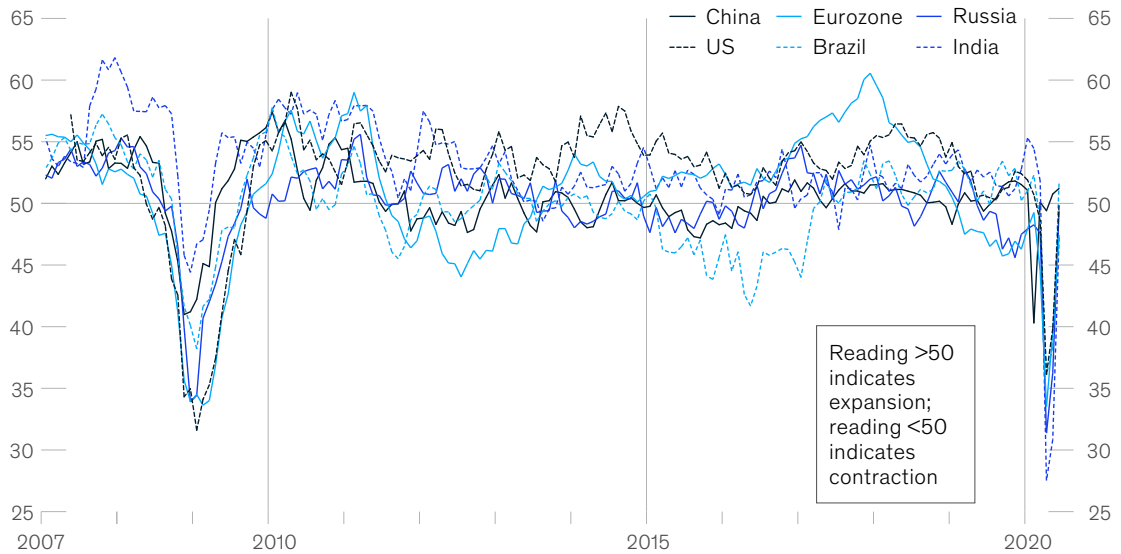
The global purchasing managers' indexes (PMIs) for June revealed that the pace of contraction slowed in both the manufacturing and services sectors, with readings of 47.8 and 48.0, respectively (expansion is indicated by a reading of 50 or higher). The manufacturing PMIs for individual surveyed economies recorded significant improvements in June; in China, the indicator showed expansion for a second straight month (51.2) (Exhibit 2). Individual services PMIs reveal expansion only in China (58.4 in June and 55.0 in May); in other countries, the service-sector indicators, though improving, continued to show contraction. Notable is that for the eurozone, estimated PMIs for July show a return

to expansion for both manufacturing (51.1) and services (55.1).

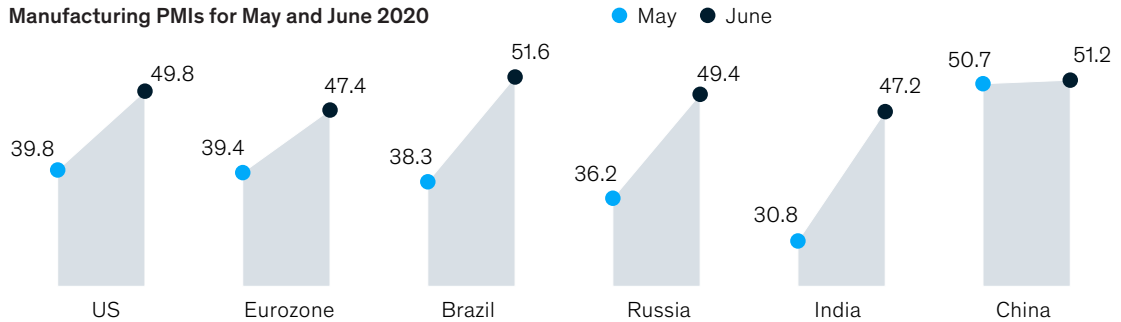
Global trade remains challenged. The CPB World Trade Monitor recorded a contraction of -1.1% in May and -17% for the first five months of 2020 compared with the same periods in 2019 (Exhibit 3). Trade momentum slowed in all surveyed economies on an annual basis, and everywhere remains below pre-COVID-19 levels; on a monthly basis, trade improved in the eurozone, Brazil, and India. The Container Throughput Index was flat, at 107.7 in May (107.8 in April), with elevated throughput in Chinese ports only.

The manufacturing purchasing managers' indexes for individual surveyed economies recorded significant improvements in June.

Manufacturing purchasing managers' indexes (PMIs)¹



Manufacturing PMIs for May and June 2020



¹Diffusion index, seasonally adjusted (monthly).
Source: IHS Markit; McKinsey's Global Economics Intelligence analysis

In May, official unemployment rates increased in the eurozone (7.4%), Brazil (12.9%), and Russia (6.1%); the rate declined in the United States but remains historically high (11.1% in June and 13.3% in May). The official rates are understood to be lower than actual unemployment in normal times; during a crisis, the disparity can grow. For example, an alternative statistic (U6) kept by the US Bureau of Labor Statistics indicates unemployment at 18.0% in June; an official statistic from Brazil measures working-age employment at only 49.5%.

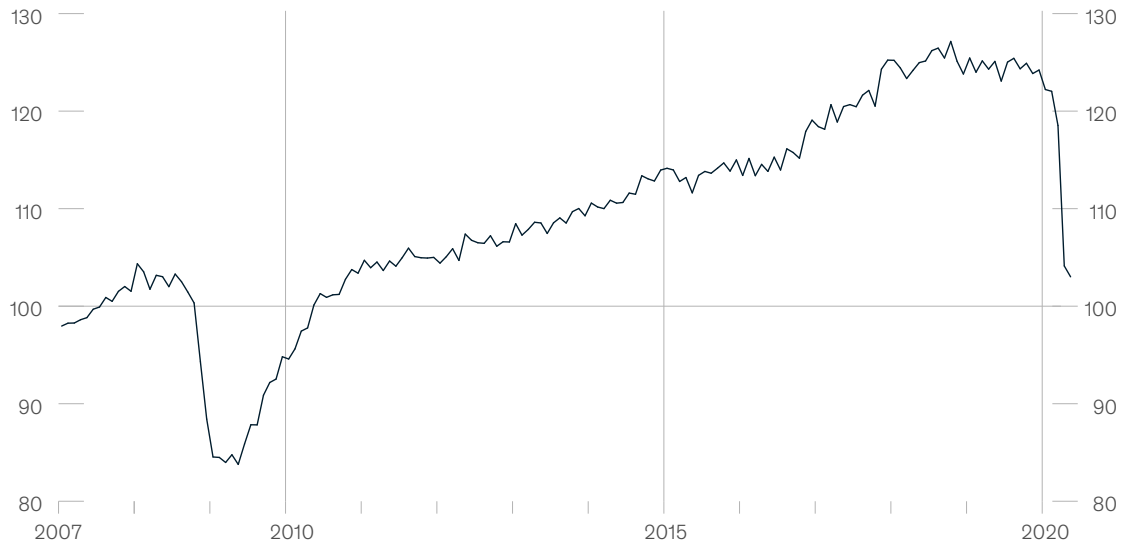
Prices, generally speaking, have been climbing. Consumer-price inflation edged up in June in advanced economies, while producer prices continue to decline. In emerging economies, food prices in India have kept consumer prices generally elevated there, while the depreciating real in Brazil has affected producer prices.

In July, prices rose for most industry commodities and agricultural products. The overall index of food prices increased, as prices of food oils and sugar strongly rebounded after some months of decline.

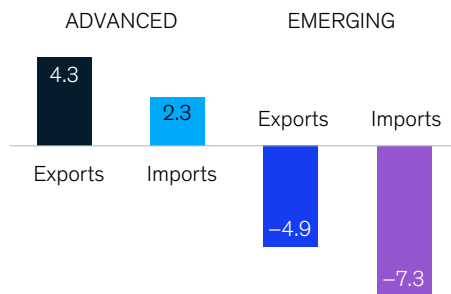
Exhibit 3

The CPB World Trade Monitor recorded a contraction of –1.1% in May; since the beginning of 2020, trade has contracted –17% from the same period in 2019.

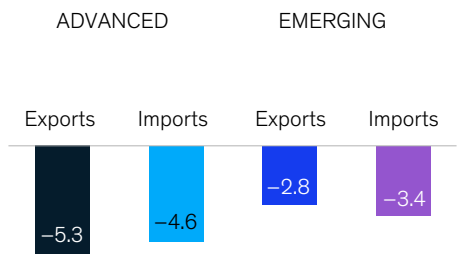
CPB World Trade Monitor volume, index (2010 = 100)



CPB World Trade Monitor details, May 2020, % change from previous month



CPB World Trade Monitor details, May 2020, % change over 12 months¹



¹June 2019–May 2020 vs June 2018–May 2019.
Source: CPB; McKinsey's Global Economics Intelligence analysis

Industrial-metals prices gained momentum, mainly because of recovering demand from China; oil prices climbed (\$43.50 Brent) as OPEC countries reduced production and global demand continues to recover gradually. The gold price has surged in the past week, toward \$2,000 per ounce, as investors seek safe haven amid pandemic uncertainties.

Inflation expectations increased but remained at the relatively low levels of 1.3% and 1.4% (as implied in the yield spreads for US Treasury bills and Treasury inflation-protected securities for mid-July).

Global equity markets continued to recover in July from the plunges they took early in the COVID-19

pandemic. On many markets, losses suffered earlier in the year have been nearly erased. The US dollar has lately depreciated against other currencies; the real and the ruble have also lost value. Fast growth in equity markets and gold prices has resulted in elevated volatility levels (VIX indexes). Except in China, where bond yields have risen in recent weeks, debt markets have remained calm, with most yields moving sideways or declining.

Central banks in surveyed economies made no changes in their policy rates in July. The US Federal Reserve announced on July 29 that it was keeping the rate of 0–0.25% in place and shall continue to support the economy with its full range of tools, in light of the elevated risks posed by the COVID-19 pandemic. On July 21, the leaders of the European Union agreed on a COVID-19 rescue package worth €750 billion, a significant step forward for the EU, as it marks the first time the bloc has raised debt in common.

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 July 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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