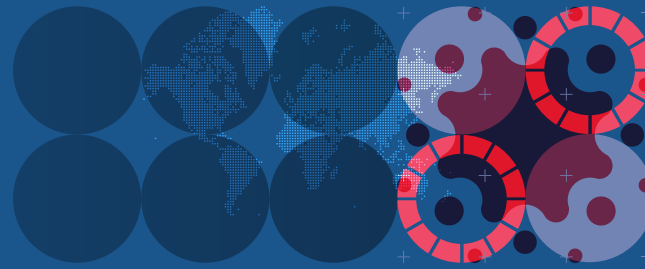


Global Business Barometer

The shape(s) of recovery

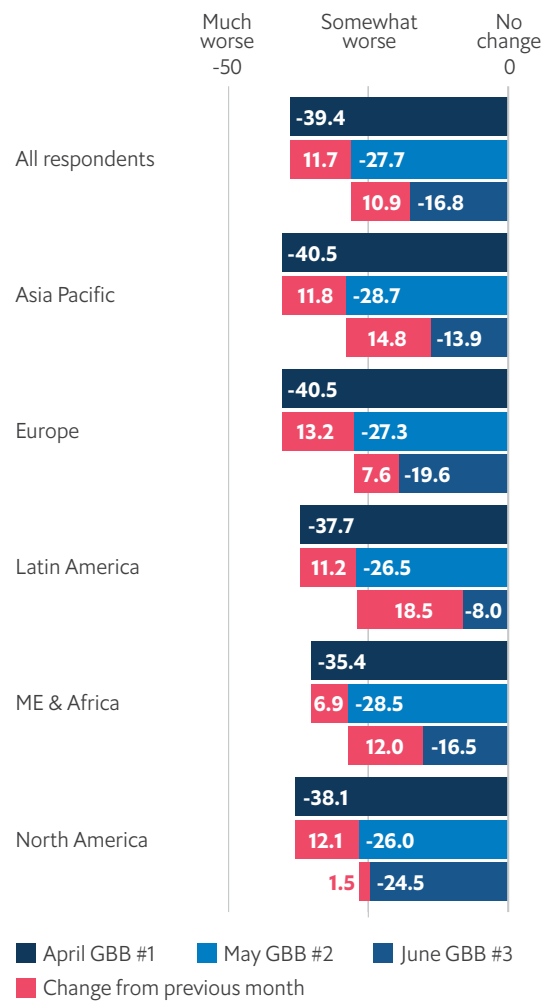


Forecasts for the economic recovery from the covid-19 pandemic range across an alphabet soup of scenarios. The most optimistic is a V-shaped recovery that is as sharp and as swift as the downturn has been. Should that scenario be followed by another V, it becomes a volatile W-shaped recovery. Then there is the U-shaped recovery which projects that the economy will tread along the bottom for a period of time before a more gradual—and perhaps more sustainable—upturn. The most pessimistic forecast is L-shaped: the economy hits a low and then remains there for a prolonged period of time, representing a semi-permanent “new normal” of reduced output.

The latest results of the Global Business Barometer (GBB), based on a survey fielded in late June, showed sentiment improving once again but remaining firmly in the negative for all but one economy (see below). This suggests the best hope is that global economic recovery—and the various regional and country-level economies covered by the GBB—will be U-shaped. Even then, it may look like an odd, stretched out U, with the bowl area at the bottom expanding far to the right before the eventual upstroke.

The three-month outlook for the global economy among all survey respondents scored -16.8 (the barometer ranges from -50 to +50), moving the needle into the “somewhat worse” category after being in the “much worse” category in the first two GBBs. Latin

Chart 1: Outlook for the Global economy, June readings + changes from May



Source: The Economist Intelligence Unit Global Business Barometer

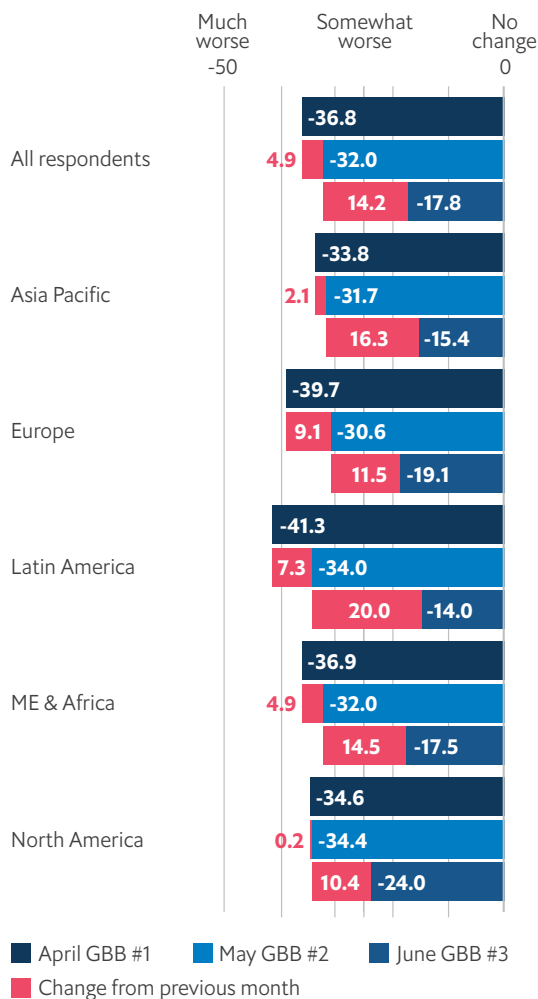
America led the way, registering an 18.5 point increase—nearly 4 points higher than the next region, Asia Pacific, which increased by 14.8 points. The two regions were also among the biggest gainers across the five other main areas of the barometer.

Sentiment about the global economy in North America barely budged, moving up just 1.5 points (from -26.0 in May to -24.5 in June). The readings were slightly more encouraging

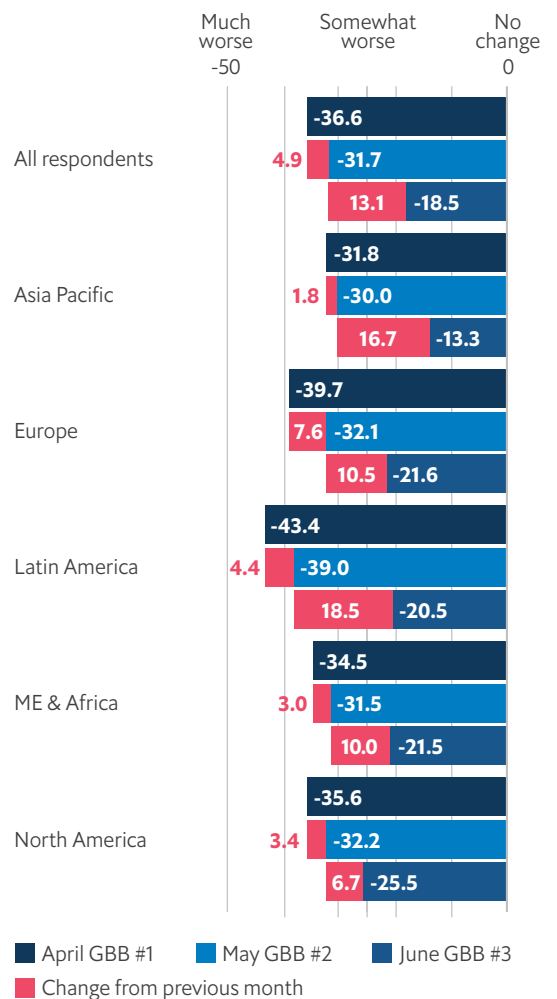
on the regional and country-level economic outlooks compared with May, but North America is nevertheless the most pessimistic region in both these areas. Considering the surge in US cases over the past six to eight weeks, this is not a surprising result. Widespread and virulent disagreement at and between all levels of government—and among the populace—about the severity of covid-19 and how to contain it surely isn't helping executives' confidence, either.

Charts 2 & 3: What is your 3-month outlook for:

Your region's economy



Your country's economy



Source: The Economist Intelligence Unit Global Business Barometer

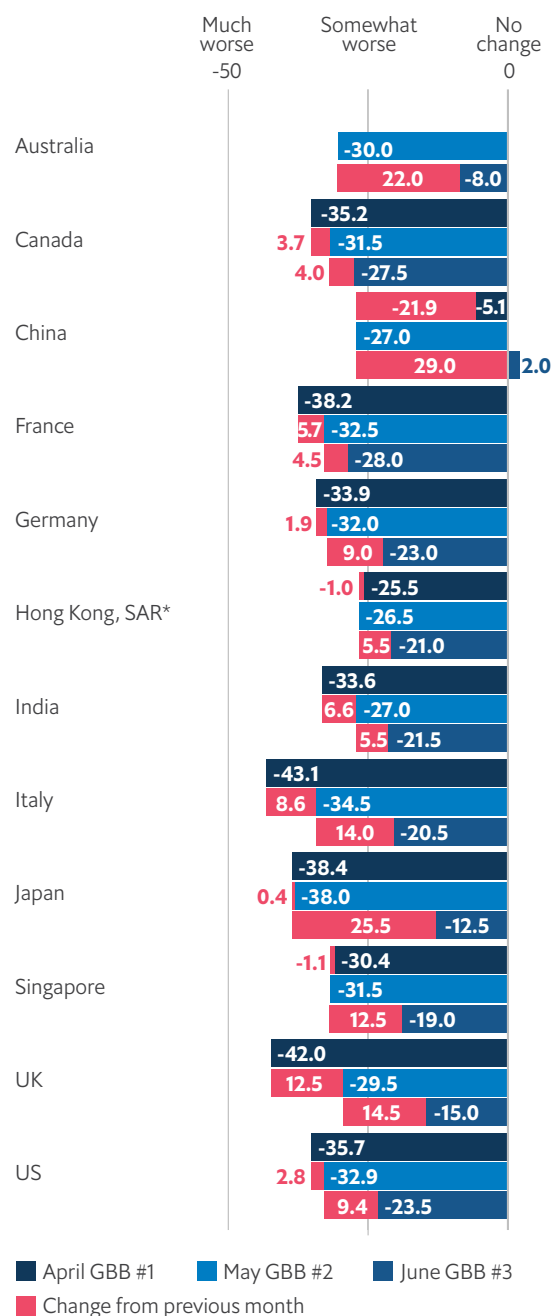
Most notably, three editions into the GBB we now have our first positive barometer reading for any economy: China. The three-month outlook for the Chinese economy among China-based executives tipped into “somewhat better” in June, though only just at +2.0. This is in stark contrast to the last GBB when the outlook there soured by -21.9, by far the most among the twelve main economies surveyed. While the survey was fielded in June, the Chinese government’s recent announcement on July 16th that GDP has grown by 3.2% shows this turn towards optimism was justified.

Industries: A V-shaped recovery... in sentiment

Between the first and second GBBs there was a pronounced dip in sentiment among executives across the key industries surveyed, particularly regarding revenue growth and profitability. In April, the readings were under -10 and nearing 0—or no change—in some sectors, including financial services and pharmaceuticals. By May, as the extent and impact of the pandemic had become clearer, they had fallen by an average of -18.7 points (profitability) and -16.9 points (revenue growth). Manufacturing moved into “much worse” territory on both metrics, and financial services and retail and e-commerce were not far behind.

The rebound in sentiment in June, while short of matching the depth of the April-May drop, was significant nonetheless. On average, scores across all industries were up by 15.7 points. Healthcare improved by 23.3 points on the outlook for profitability and became the first positive industry in that area with a reading of 1.9. Meanwhile the sector’s global sentiment on revenue growth is a shade away from 0 at -0.5. Regarding profitability, financial services saw an even larger improvement of 24.6 points from June, though that was only enough to drag it to a clean 0 reading, meaning no change is expected over the next three months.

Chart 4: The outlook for your economy for the next three months

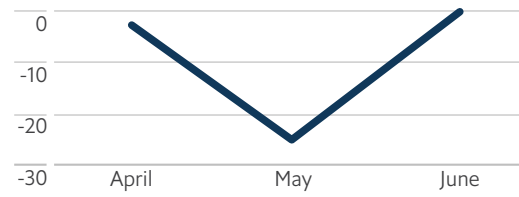


Source: The Economist Intelligence Unit Global Business Barometer
*Hong Kong SAR responses calculated as a distinct economy.

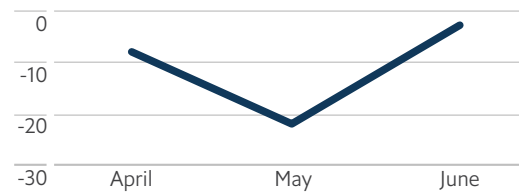
Charts 5 & 6: What is your 3-month outlook for:

Profitability

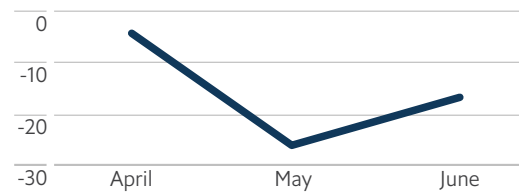
Financial services



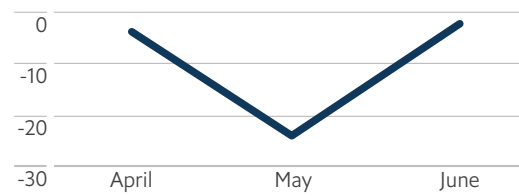
Healthcare



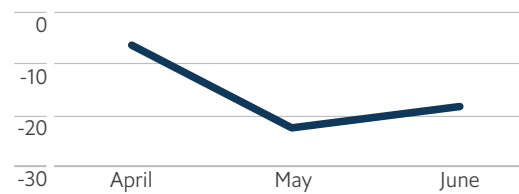
Manufacturing



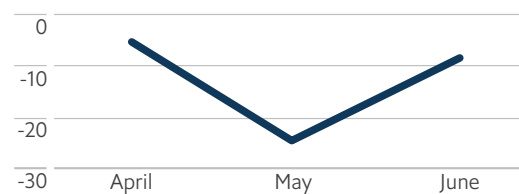
Pharma



Public sector

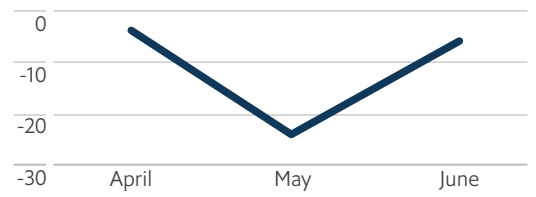


Retail/E-commerce

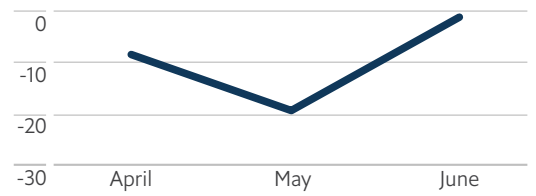


Revenue growth

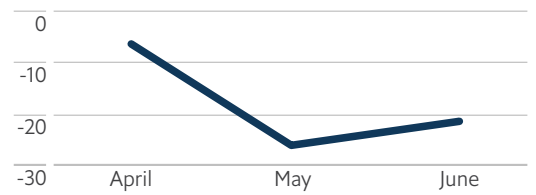
Financial services



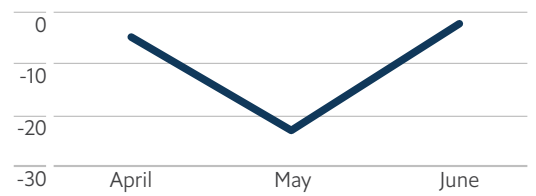
Healthcare



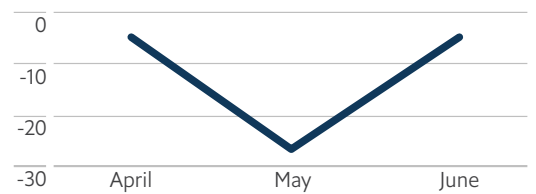
Manufacturing



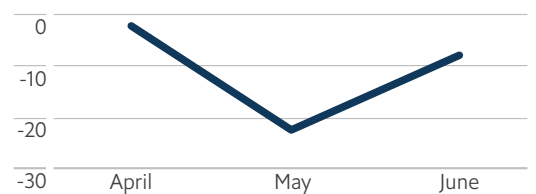
Pharma



Public sector



Retail/E-commerce



Source: The Economist Intelligence Unit Global Business Barometer

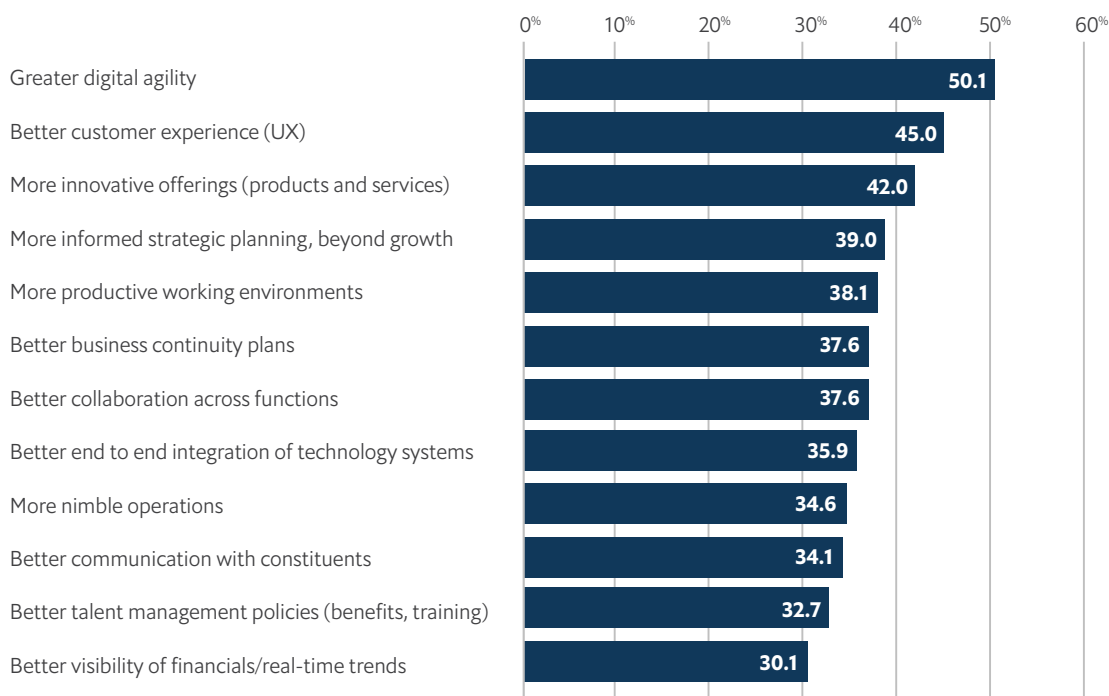
On the other end of the spectrum, the public sector and manufacturing industry remain the most pessimistic, although sentiment did rise in both. The global manufacturing sector’s outlook for profitability was up by 10.4 points in June, reaching -17.4, but its outlook for revenue growth increased by only 6.6 points to -20.5. Global manufacturing output, as measured by a composite of purchasing managers indices (PMI), had already been on a downward trend before the covid-19 pandemic, not least—but not only—because of trade wars and softening demand. At the start of July, key sub-sectors such as consumer, intermediate and investment goods were “closer to stabilising” according to the JP Morgan Global Manufacturing PMI.¹ Should that continue, we would expect sentiment to improve again in the next GBB.

After recovery, resilience

In the previous GBB we used the three broad stages of crisis response—survive, adapt and recover—to frame the survey results from May. It was clear then that most respondents saw the economy, their industries and their companies as still in the survival phase, though many had already started to adapt in recognition that the pandemic wasn’t going to be over anytime soon.

Another month on and we’re still far from the recovery phase (green shoots in China and a few other places aside). Yet whatever shape the recovery may take, many companies now realise just how unprepared they were for a situation like this. Given that few experts believe this will be the last pandemic, let alone the last global crisis of one kind or another, building resilience into operations

Chart 7: Greatest opportunities for post-covid resilience?



Source: The Economist Intelligence Unit Global Business Barometer

¹ <https://www.markiteconomics.com/Public/Home/PressRelease/005fca529aa5415bbd9f09af66764844>

has become a strategic imperative for the private and public sectors alike.

To that end, we asked respondents in the June GBB survey where they saw the greatest opportunities for their companies to emerge more resilient as a result of covid-19. We offered a slate of 14 options—certainly not an exhaustive list, but a strongly indicative one.

The top answer, as might be expected, was “greater digital agility” (cited by 50.1% of respondents). That was followed by “better customer experience” at 45.0% and “more innovative offerings” at 42.0%.

Rounding out the top five were “more informed strategic planning (beyond growth)” at 39.0%, “more productive work environments” at 38.1% and “better business continuity plans” at 37.6%. The emphasis on digital agility above all else is understandable: without digital tools, many companies would have ceased to function during the lockdowns. That said, it is worrying to find strategic planning and business continuity somewhat lower down the list. A global pandemic was not an unknown risk prior to covid-19, yet few seemed prepared. This often resulted in a scramble for ad hoc solutions—digital of course being chief among them—rather than a methodical, step-by-step response.

If the lesson executives and political leaders take away from this pandemic is that digital is there to save us from insufficient planning

then the economic impact of the next crisis might very well be shaped like an “I”.

The many-lettered future

Recovery from the covid-19 pandemic is not going to be as synchronous as the downturn. In a small number of economies, and an even smaller number of industries, it may be V-shaped, but they are likely to be the exception. Everywhere else, the current trend in the GBB suggests we can expect a U, probably some Ws and an assortment of other odd shapes that don't fit into a model.

Much depends on the ability of countries to re-open in a way that ensures, to the greatest possible extent, that they won't need to close again. Only 8.1% of respondents to the June GBB survey “strongly agree” that their country is ready to open and only 6.7% “strongly agree” that their company is ready to return to operating as it had done before the pandemic. Those figures are chilling whether you read them as recognition of the scale and scope of the problem or an indictment of global and country-level responses to covid-19 (or some combination of the two).

For them to improve will require not only the discovery, production and distribution of a vaccine, vital as that is, but for more leaders and policymakers around the world to demonstrate to everyone that they can be more effective in containing the virus.

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