The Economist INTELLIGENCE UNIT

Global Business Barometer

Tracking global sentiment during the crisis

Introduction and overview

Optimism is in short supply almost everywhere. The covid-19 pandemic has led to society-wide lockdowns across the world, bringing all but commerce and services deemed most essential to a sudden halt, large portions of countries are sheltering at home and unemployment is spiking. The IMF, in its latest World Economic Outlook, forecasts the worst economic downturn since the Great Depression as a result of these measures.[1] The WTO has also revised its projections for global trade in 2020; total volumes could fall from 13% to 32%, depending on the length of the pandemic and the effectiveness of policy responses.[2]

To understand and track private-sector views on the impact of covid-19, how businesses are coping and their plans for the next three months and beyond, The Economist Intelligence Unit, supported by SAS, is launching the Global Business Barometer (GBB) this month. Based on an initial online survey of 2,758 executives from 118 countries, fielded from March 26th to April 6th, we ask questions ranging from their outlook on the global economy and investment plans to operational and risk management strategies. The GBB will be updated every month to track changes in sentiment over time.

Not surprisingly, when presented with a list of selections of the "most significant challenges" to their business over the next three months, seventy-two percent picked "An escalation of the covid-19 pandemic." All other options were distant seconds; corporate concerns over protectionism (13%), talent and skills shortages (13%) and cyber threats and fraud (12.7%)—which had been rising ahead of the outbreak—are now far down the list of executives' concerns.

SUPPORTED BY SAS

[1] https://www.imf.org/en/Publications/WEO
[2] https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

Dissonance, cognitive and otherwise

The core slate of questions in the GBB asked respondents their opinion on the business environment globally, regionally and domestically over the next three months. It also asked about prospects for their industry and their own company.

The barometer readings show that pessimism declines—but still does not turn to optimism—as the concepts shift from large and abstract, like the global economy, to smaller and more concrete, like the outlook for their company. On a scale of -50 (much worse) to +50 (much better), the reading for the global economy for the next three months was -39.2. That number improved slightly to -36.7 and -36.4, respectively for "Your region's economy" and "Your country's economy."

What are your expectations for the next three months?

Source: The Economist Intelligence Unit Global Business Barometer. Please note that the calculations underlying the barometer readings have changed slightly from the first to second editions, resulting in minor changes. Those changes are reflected in the current version of the GBB.

From there, the improvements in sentiment were more pronounced. At the industry level, the global barometer stands at -22.0 and -17.8 for individual firms. One interpretation of these results is that a larger number of respondents actually believe that their industry and their company is somewhat insulated from the turmoil that covid-19 has unleashed on the economy. Others interpretations include:

- Executives may feel they can exert more influence on the fate of their company and industry than on the economy, making them less pessimistic;
- They may be experiencing a kind of short-term cognitive dissonance brought on by the pandemic, allowing them to hold two contradictory opinions at the same time: the global, regional and local economies are going to crater at least over the next three months but their own industry and company won't be that affected.

With some exceptions, this pattern is consistent across the five regions and within the individual countries highlighted in this edition of the GBB (see next section). Executives based in Latin America are more pessimistic about the regional economy (-41.0) and their country's economy (-43.4) than they are about the global economy (-37.4). In the Middle East and Africa, they are also gloomier about the regional outlook compared to the global economy. Given that many countries in these regions are highly-dependent on commodity exports, and that commodity prices have fallen over the past few months—and some, like oil, precipitously so—these results are understandable. The recent agreement, reached after the GBB survey had been fielded, between OPEC and a group of non-members to cut production in May and June may make respondents in these regions a bit cheerier in the next edition.

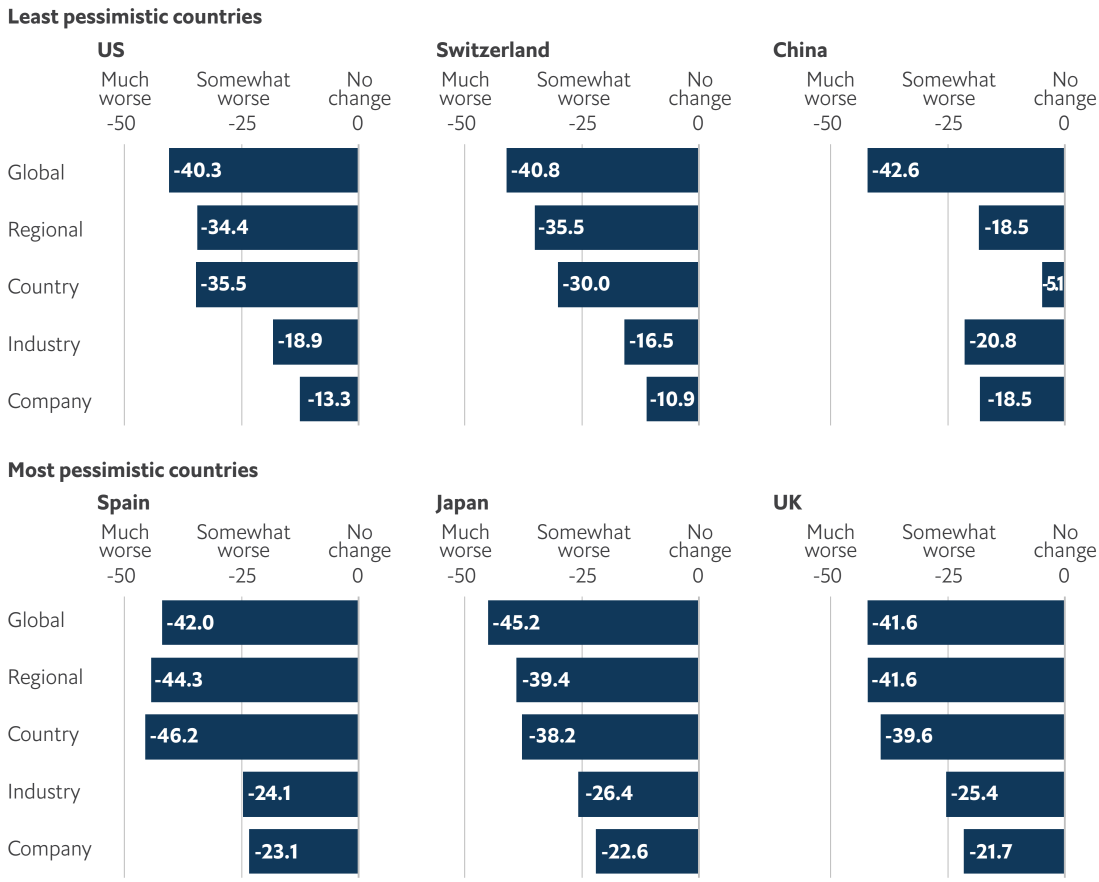
On the curve: Where you sit is where you stand

Although the GBB survey includes executives from 118 countries, the barometer focuses on 14 countries in North America, Europe and the Asia-Pacific for core readings. These countries together account for nearly 70% of global GDP and 56% of global trade, according to data from the World Bank and IMF.

On a country level, executives in Spain and Japan are tied for most pessimistic overall, followed closely by the UK. Japan-based executives were as close to unanimous in their pessimism (-45.2) about the global economy as any group on any other question in the GBB survey; not a single respondent answered that the global economy would be "much better," or "somewhat better" over the next three months. Spain-based executives, for their part, were the most pessimistic among the 13 other countries on the regional economy (-44.3), their country (-46.2) and their company (-23.1).

At the time our survey was fielded, covid-19 cases in Spain were peaking.[3] They have since been in decline, albeit with a brief

In short supply: Optimism nowhere to be found



Source: The Economist Intelligence Unit Global Business Barometer

[3] https://eiuperspectives.economist.com/healthcare/covid-19-tracking-pandemic

uptick along the way. Japan, on the other hand, which some believed had avoided the worst of the pandemic, was just starting to see a surge in cases during this period, resulting in the postponement of the 2020 Olympics and forcing the government to declare a state of emergency. Their relative positions along the curve might explain the levels of pessimism measured among respondents in the two countries.

The same could be said for China, at least if you find reason to ignore the government's track record and trust its data. The virus originated in Wuhan, the capital of Hubei province in China, in late December/early January, but the country is now on the far side of the covid-19 curve, with new cases falling to zero on most recent days. Respondents in the country remain pessimistic about the global economy (-42.6, second only to Japan), but they are also by far the least pessimistic about their country's economic prospects over the next three months, registering a barometer reading of -5.1, more than 20 points better than Hong Kong SAR and 25 points better than Switzerland, the next-highest countries in the sample.

Corporate performance: Meaner and leaner

Few if any industries will be spared from the impact of covid-19 and the various policy responses to it. Some will be much harder hit than others. Tourism and travel is an obvious example, as is the consumer goods sector (outside of food and other essentials). With many factories shuttered across the globe, supply-chain disruptions and demand cratering, manufacturing is also forecast to experience significant pain in the short to medium-term, with Purchasing Managers' Index results already in freefall almost everywhere.

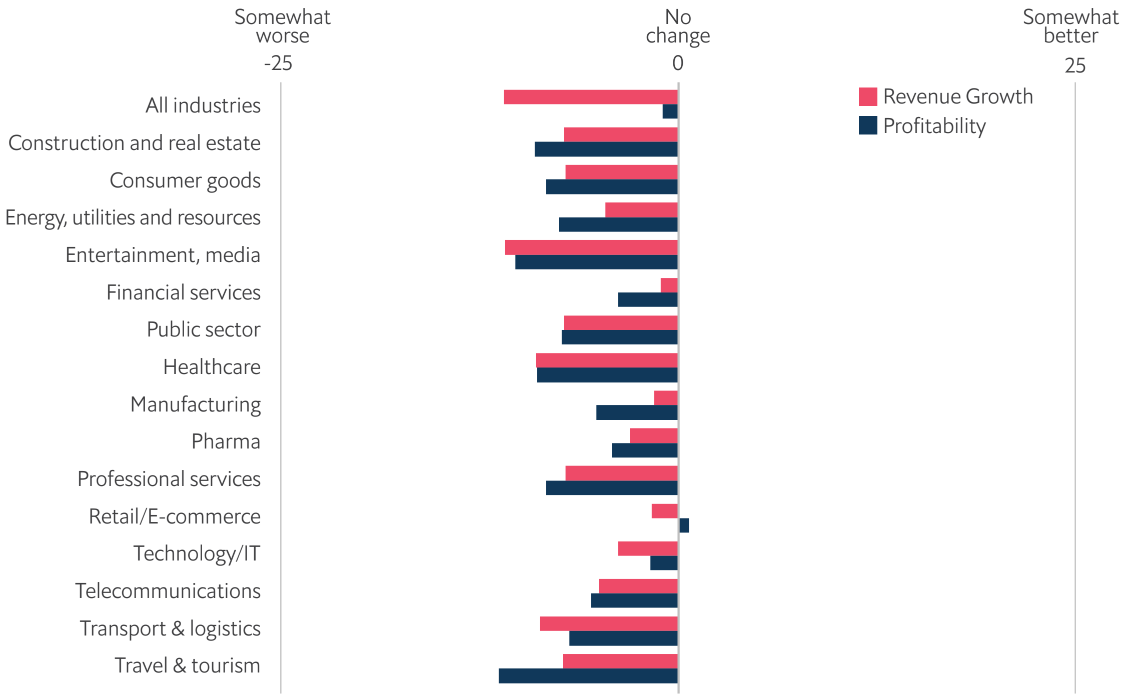
The GBB surveyed a total of 21 industries, with a core group of 15. In addition to the questions discussed above, as well as a host of others that will be analysed in future reports, we asked respondents to assess their business in four key areas: revenue growth, profitability, market share and operational agility.

While all industries except retail and e-commerce show negative readings for revenue growth and profitability, many executives expect both metrics to be at least on par with pre-covid-19 numbers. This dragged the barometer needle relatively close to zero (no change). Overall, profitability came in at -11.0 and revenue growth at -1.0, encouraging results given the times. Financial services (-1.2) and manufacturing (-1.6) veer nearest to optimism on profitability, despite the strong headwinds facing both. Entertainment and media, at -10.9, is the farthest, with the healthcare sector close behind at -9.0.

Executives appear to be planning for two strategic approaches to weathering the economic storm caused by covid-19. One is to take market share. Retail and e-commerce (+6.7), manufacturing (+6.1), tech and IT (+5.1), and construction and real estate (+5.0) register the highest readings, but the rest are positive except for consumer goods (-1.5), travel and tourism (-1.0) and professional services (-0.3).

There are no exceptions on the question of "operational agility", with all firms agreeing on this second strategic approach to adapting to the new industry dynamics of covid-19. Executives are on balance optimistic that within the next three months they will be stronger in this area, with none of the industries registering a barometer score below zero and the overall reading

Could be worse: Executive expectations for the next three months.



Source: The Economist Intelligence Unit Global Business Barometer

sitting at +2.1. Operational agility spans a number of factors, including remote working, flexible hours and other ways to adapt to uncertain times without sacrificing productivity. It's also equivalent to cost savings, which contributes to bottom-line growth at a time when the top line is bound to suffer for most industries.

The long road ahead

As with any crisis, executives hope that the recovery from the covid-19 pandemic will be swift. For both basic humanitarian and cynical political reasons, leaders around the world are pressing to re-open closed societies, the WHO's counsel to stay the course notwithstanding. China has already done so. Spain and Italy, the hardest hit countries in Europe, could follow soon, albeit haltingly. And in the US, now the epicentre of the pandemic in terms of absolute cases, the Trump administration is agitating to lift the lockdowns less than a month after they were put in place.

But the world is not going to suddenly spring back and continue as though nothing has happened. Forty percent of executives we surveyed answered it would take "less than a year" from the outbreak for their business to recover. That is cheering and we hope they are proven prescient. But 46% of those surveyed believe it will take between 1-2 years and 10% believe it will take 3-5 years. The former seems realistic, the latter disastrous.

THE GLOBAL BUSINESS BAROMETER WAS SUPPORTED BY SAS: WWW.SAS.COM/RECOVER

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