

Will productivity and growth return after the COVID-19 crisis?

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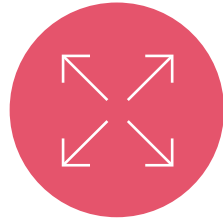
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Main messages



Accelerated annual productivity growth by around 1pp to 2024



Risk of rising concentration and superstar effects



Economic shock and response of companies could exacerbate long-run structural demand drags



Time for collective action

1. Spread advances
2. Ensure wages track productivity
3. Increase investment

Could productivity growth accelerate post COVID-19?

X % Per capita GDP growth per year in the years following the crisis

Demand growth	Unleashed/ broad-based	1.3%	3.1%	Potential supply growth
	Constrained	0.7%	1.0%	
		Low progress	Acceleration of innovation and dynamism	

Demand growth

1.3%

3.1%

Unleashed/
broad-based

Stagflation

United States
post-oil shock

**Age of renewed
economic progress**

Europe/United States
post-World War II

Constrained

0.7%

1.0%

**“Lost decade” or
depression**

Japan post-real
estate bubble burst

**Low growth and/or
great divide**

United States post-
global financial crisis

Low
progress

Acceleration of innovation
and dynamism

Surveyed executives expect acceleration across several productivity drivers

Survey responses on intent of action on productivity drivers, 2020-2024

+20 pp

Automation and technology

60%

Shift to digital channels

55%

Product business and operating model disruption

+15 pp

Reorganization and agility



Incremental productivity growth potential of ~1 percentage point per annum through 2024

United States and Europe

	Pandemic-related potential productivity acceleration 2019–24, CAGR	Main contributors to potential productivity acceleration 2019–24
Health	1.6-3.0	Telemedicine Operational efficiency
Construction	1.7-2.5	Operational efficiency Industrialization Digital construction
ICT	1.2-2.3	Online channels Online advertising Demand for online services
Retail	1.0-2.4	E-commerce Warehouse automation Advanced analytics



Advances were less broad-based than prepandemic...

Share and change in share of firms accelerating by driver, Q3 2020

Productivity driver	Q3 2020 share (change)	
	United States	Europe
Revenue	39% (26 ↓)	42% (27 ↓)
Product, business, and operating model disruption, R&D	53% (14 ↓)	41% (22 ↓)
Investment in human and physical capital, Capex	36% (21 ↓)	38% (20 ↓)
Business dynamism (including M&A), Acquisitions	11% (13 ↓)	14% (12 ↓)

...and concentrated among large superstars, particularly in the US

Contribution of large superstars to selected drivers

66%

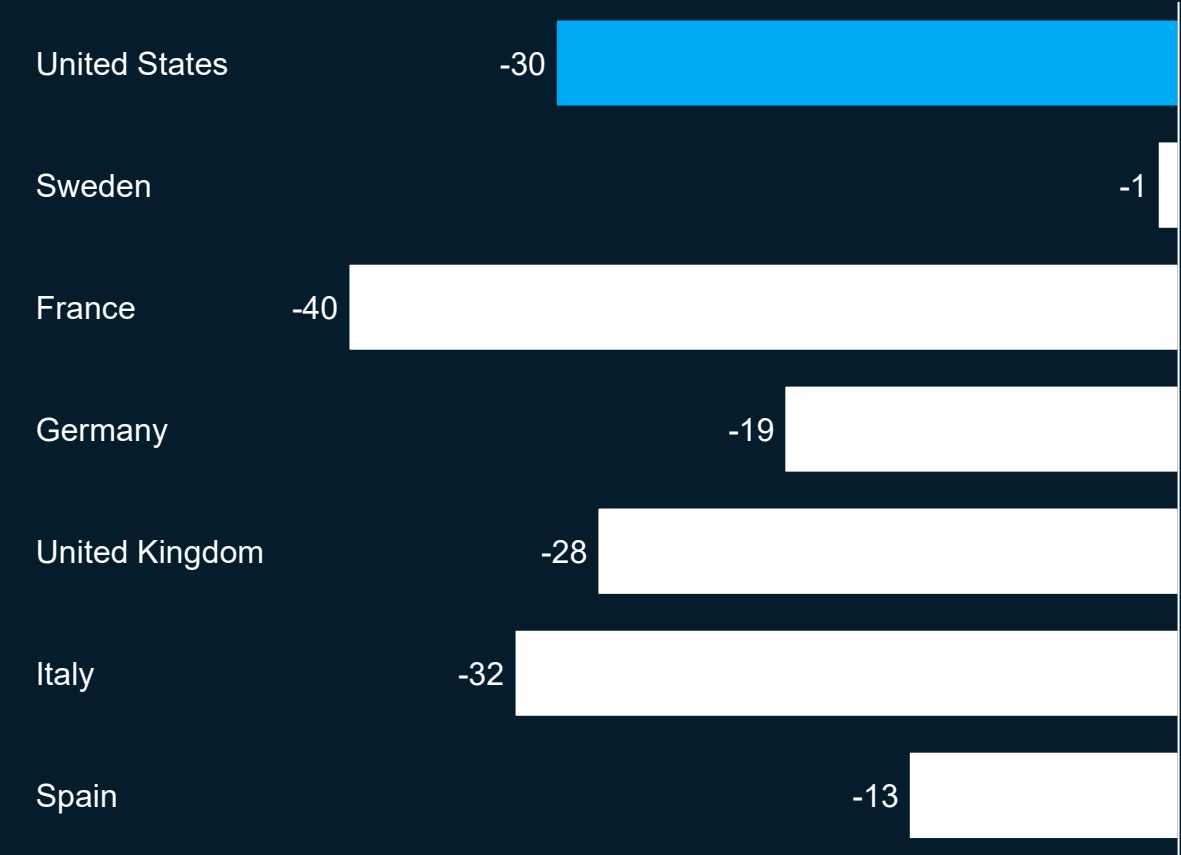
of US R&D investment growth in Q3 2019–Q3 2020 from large superstars

0%

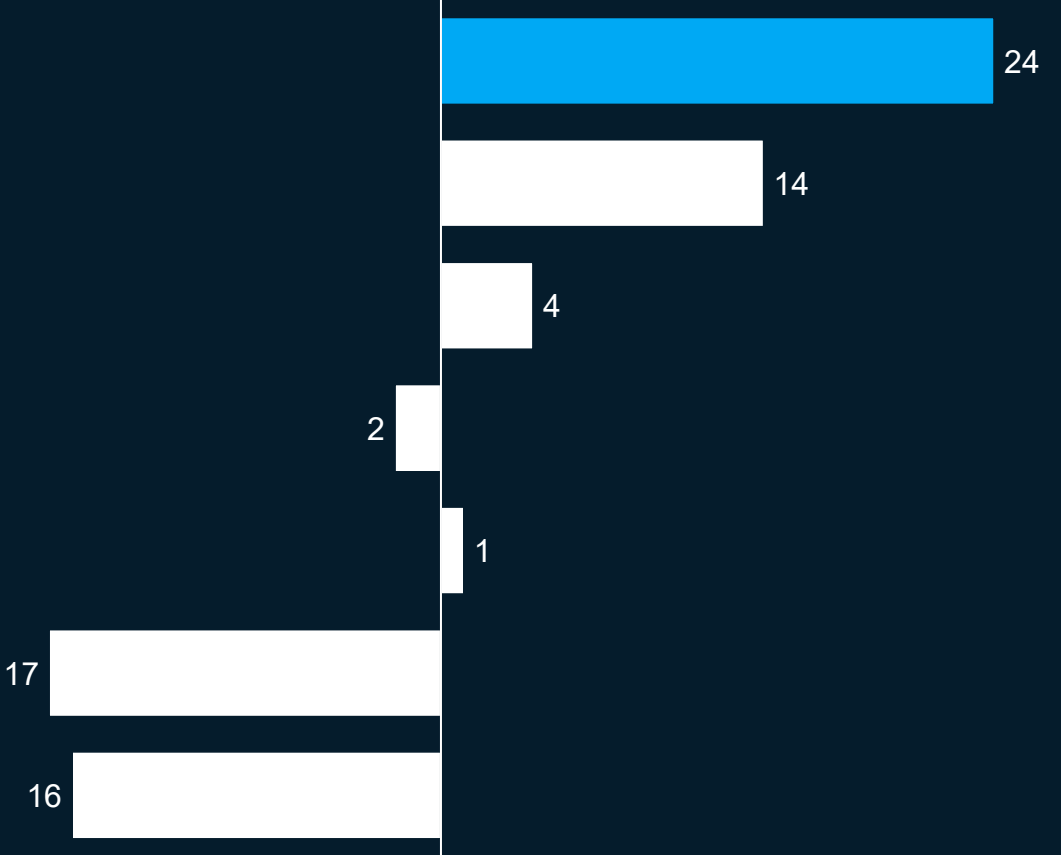
revenue decline in US large superstars vs 11% decline for others

The U.S. saw higher new business creation in 2020

Change in the number of bankruptcies by country
2020 vs. 2019, percent



Change in the number of new businesses by country
2020 vs. 2019, percent



Firm action could further exacerbate long-running demand drags, but government action looks set to reverse them in the U.S.

United States

Impact on demand = ■ Positive ■ Uncertain ■ Negative

Demand component and drivers

Prepandemic

Pandemic impact

Firm response

Private consumption

-0.3pp

9pp

~60%

Employment and income levels

Drop in yearly hourly wage growth, since GFC

Increase in savings rate as of September

Productivity potential through efficiency-driven actions

Income distribution and propensity to consume

Automation, digitization, and superstar dynamics amplifying polarization

Private investment

0%

140%

~2%

Demand and macroeconomic outlook

Capital intensity growth since GFC

Global uncertainty compared to previous peak during GFC, as of December

Private investment level drop as of December

Investment intensity of production

Financial position

Public stimulus and investment

As of January 2021, government direct stimulus amounted to **17%** of GDP. Later, a **\$1.9 trillion** package got approved. Current discussions around a large **infrastructure bill**

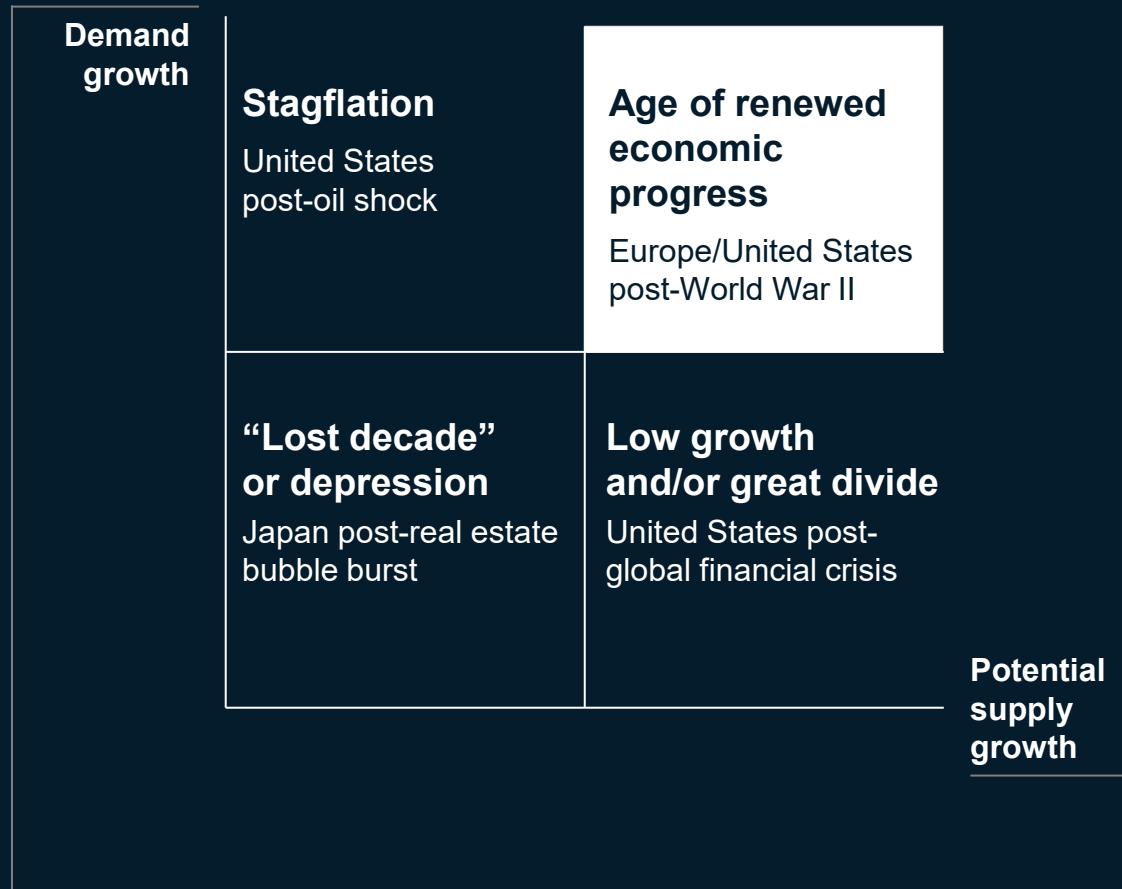
How to accelerate productivity and growth post COVID-19?

Supporting investment

- Plan for fast growth and reallocate capital
- Set higher standards and invest in SDGs
- Increase public investment
- Improve regulation of housing/land and pricing of externalities

Supporting income and consumption

- Focus innovation on the top line
- Support worker transitions
- Ensure (median) wages rise in line with productivity



Sustaining and broadening innovation

- Involve full ecosystem in innovation efforts
- Invest in reskilling
- Tie sector support packages to objectives
- Invest in digital infrastructure
- Reconsider competition and platform rules and conduct
- Review labor and product market regulation

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BACK-UP

Healthcare: 2 p.p. annual productivity boost possible, mostly driven by adoption of telemedicine and operational excellence

Key productivity drivers

Shift to digital channels (telemedicine)

Findings / rationale

76% of US patients expressed interest in using telemedicine in the future

20% of US healthcare spending could be delivered virtually

85% share of online consultations with general practitioners in total consultations in April 2020 vs. **10%** pre-pandemic in the UK



Early evidence

Mercy Virtual put in place a system in the US that allowed patients to be intubated at home with only a nurse in attendance, with critical care specialists then monitoring patients remotely

In the **UK National Health Service** many providers of digital solutions worked to provide a digital-first front door; the patient journey starts on an app or online and continues to the optimal care setting, whether online or physical

Operational excellence

Can be achieved through:

- More flexible **task scheduling**
- Adoption of best practices in **procurement** and **lean operations**

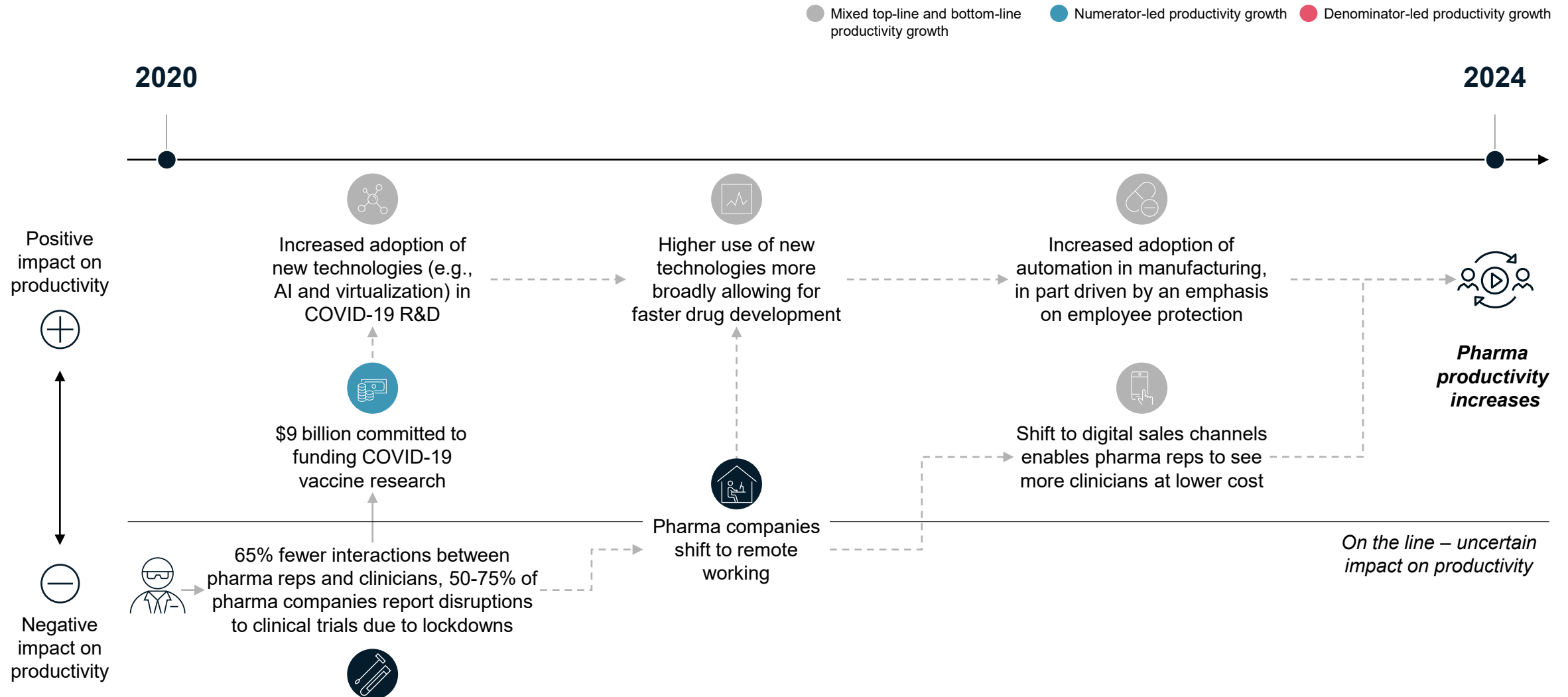


NHS built London's **Nightingale Hospital** with an initial capacity of 500 and potential to scale to 4,000 patients in only 9 days and mobilized 750,000 volunteers



Pharma: Long-run productivity growth could rise due to changes accelerated by the pandemic, despite short-term declines

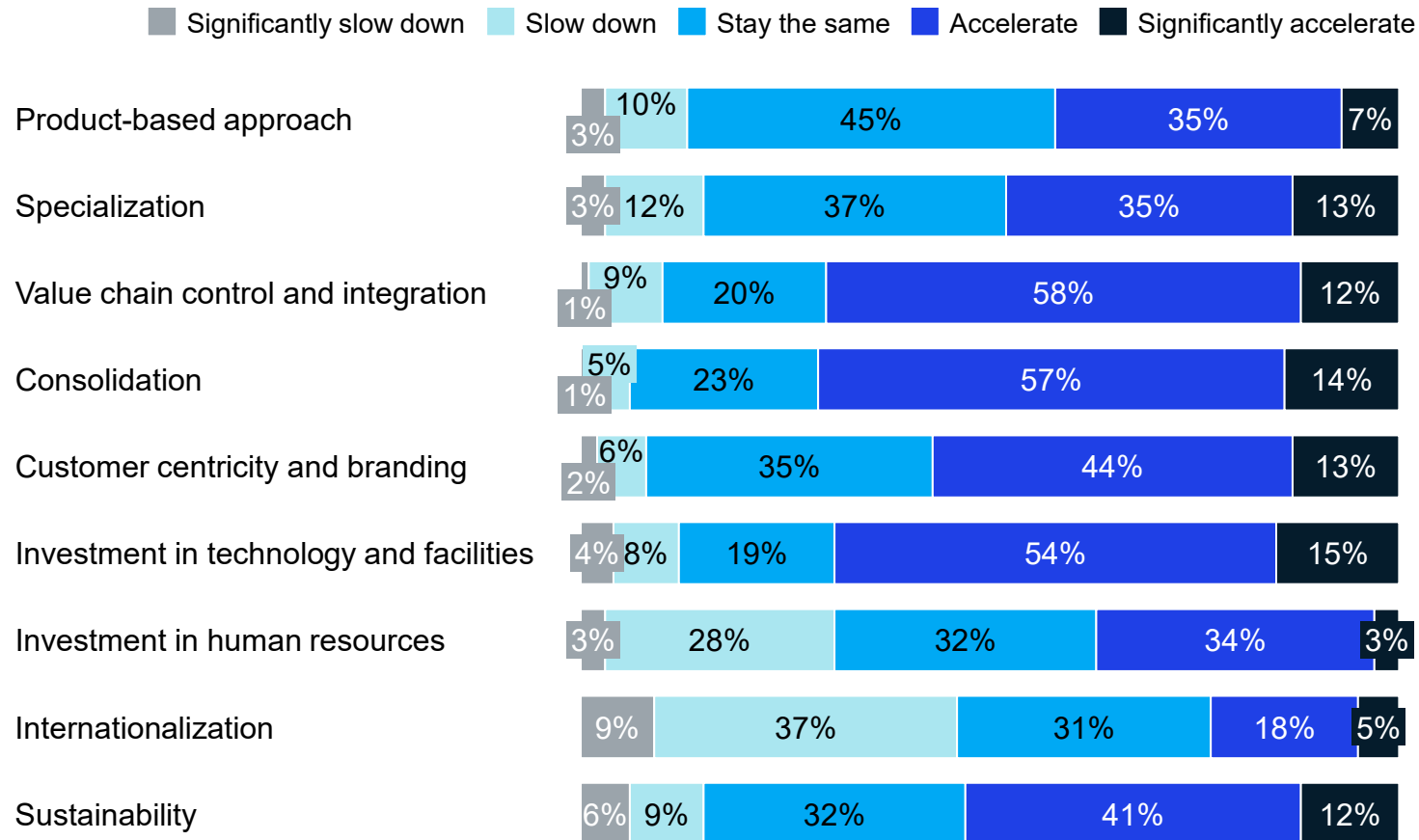
Persistence and impact of COVID-19 related changes on productivity



Construction: Pandemic is accelerating an industry transformation that will increase productivity

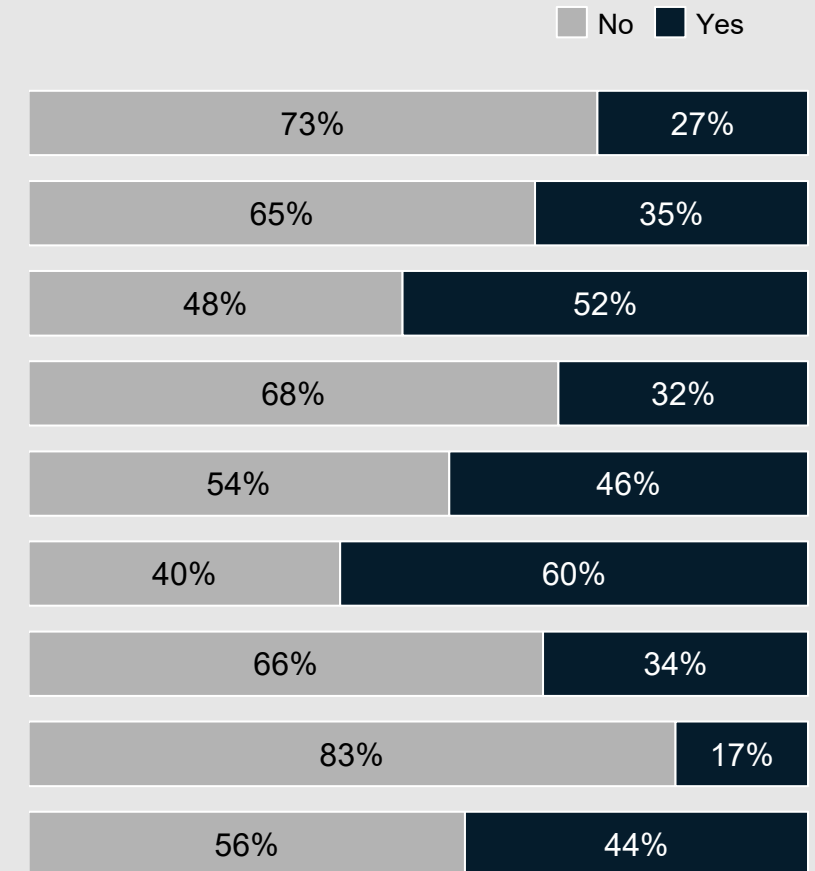
Because of the COVID-19 crisis, which [of these shifts] do you believe will accelerate, stay the same, or slow down?

Share of respondents rating shifts, percent



Because of the crisis, has your company increased investments in the respective shifts?

Share of respondents, percent



Even though there are signs of acceleration across SMEs, their future remains unclear

Signs of acceleration **40%**

Increased adoption of automation & technology, operational efficiency, and reorganization & agility during the pandemic (US and Europe)¹

5–23 p.p.

Upside in survey responses across automation & technology, operational efficiency, and reorganization & agility between prepandemic and postpandemic (US and Europe)²



5%

Have had their **capital expenditures higher than normal**³ in March-April 2021, similar to large firms (UK)

Challenges **>50%**

Felt their businesses **may not survive longer than 12 months** when surveyed during the pandemic (UK and Europe)

2x

Micro businesses are **2x less likely to invest more in technology** postpandemic than medium businesses⁴ (UK)



20 p.p.

Less likely to adopt new management practices and other types of **innovation** than larger firms (UK)

Uplift in survey responses between prepandemic (2014-2019) and postpandemic (2019-2024), United States and Europe

Productivity driver	Revenue below \$10 million	Revenue above \$10 billion
Automation and technology	+19p.p.	+20p.p.
Operational efficiency	+5p.p.	+12p.p.
Reorganization and agility	+23p.p.	+16p.p.

1. Firms with revenue less than \$10 million in revenue; between December 2019 and December 2020;
2. Firms with revenue less than \$10 million in revenue; prepandemic – end 2014 to end 2019 for all drivers except reorganization and agility (end 2019 to end 2020); postpandemic – end 2019 to end 2024
3. Comparing to a similar period in 2020
4. Medium businesses: 51-250 employees; micro businesses: 2-10 employees