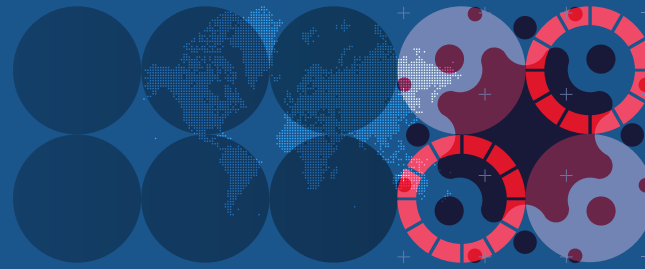


Global Business Barometer

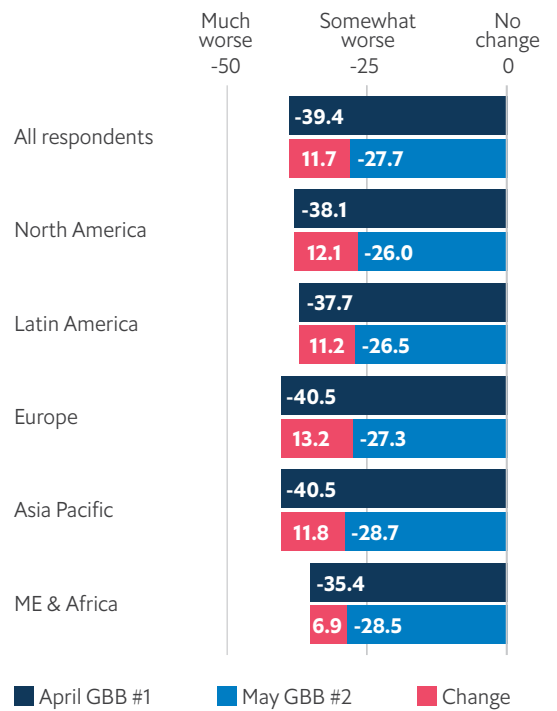
Survive / Adapt / Recover



There are three broad stages of response to a crisis of the kind we are currently experiencing. The first of course is the most basic and immediate: to survive. Depending on the scope of the disaster, proximity to it and the ability to escape or cope, it can also be the most difficult. The second is to adapt to the new, post-disaster environment by making do with the available resources. The act(s) of adaptation sustain those affected until the third stage: recovery. In this final phase, things may return to the way they once were, but often they don't. Instead what was once a temporary adaptation becomes the "new normal", a term that worked its way into the vernacular following the last global crisis just a little over a decade ago.

The second edition of The Economist Intelligence Unit's Global Business Barometer (GBB), based on a survey fielded in late May, tracks sentiment as the world struggles with the fallout from the covid-19 pandemic. It reveals that a majority of global executives still believe the firms they manage—and the economies in which they operate—are in the survival phase. Even a marked improvement in sentiment about the three-month outlook for the global economy only brought the barometer reading on that indicator to -27.7, a long way from optimism (the barometer ranges from -50 to + 50).

Chart 1: Global economic outlook for the next three months

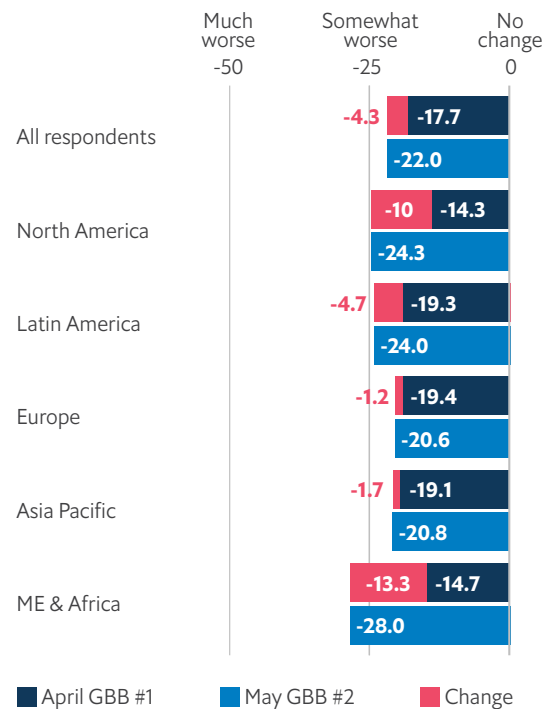


Source: The Economist Intelligence Unit Global Business Barometer

In a reversal from the previous edition of the GBB, survey respondents are becoming more pessimistic about the prospects for their “own company”. In April, when the first survey was fielded, pessimism lessened as executives were asked a spectrum of increasingly concrete questions, ranging from the global and local economies to their respective industries and finally their companies. The barometer readings in May were more negative in every region on the question of company outlook. Sentiment deteriorated most in the Middle East and Africa and North America. It also declined in Europe and Asia-Pacific but by less than two points.

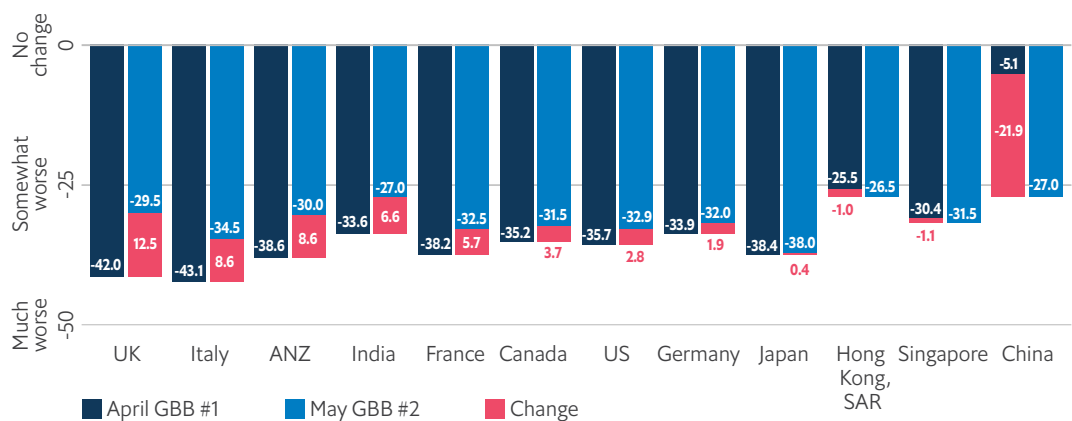
The biggest single swing in the barometer from April to May came in China. At the time of the first GBB, China looked to be over the worst of covid-19 (or at least the worst of the first wave). The most affected parts of the country, including Wuhan, where the virus originated, were starting to open up after months of strict lockdowns. While not enough to move the barometer to an optimistic reading, China-based executives were by

Chart 2: The outlook for your company for the next three months



Source: The Economist Intelligence Unit Global Business Barometer

Chart 3: The outlook for your economy for the next three months



Source: The Economist Intelligence Unit Global Business Barometer

far the least pessimistic about their local economy, registering a score of -5.1—20 points closer to neutral than executives in Hong Kong SAR.

That has since changed. The mood of China-based executives has soured considerably with the latest GBB results registering a -21.9 point drop in their three-month outlook for the Chinese economy. With the Chinese government having abandoned its GDP target for 2020 for the first time in decades and forecasters like The Economist Intelligence Unit revising growth estimates down to 1% or lower for the year, this is not a surprising development.

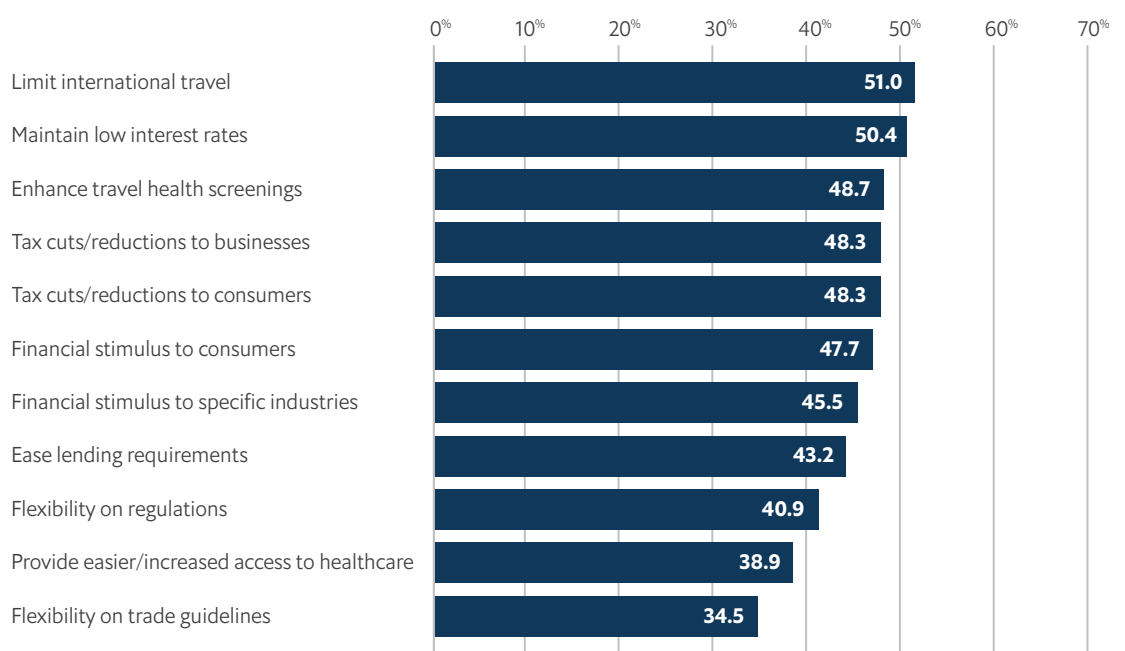
The road, less travelled

When asked what actions they would like to see governments take in the coming months to get the global economy and businesses

back on track, “limit international travel” surged to the number one answer (51%) after ranking towards the bottom in our last GBB survey. It is now ahead of “fiscal stimulus to consumers” (which was the most popular choice in April) and “maintain low interest rates” and tax cuts for businesses and consumers.

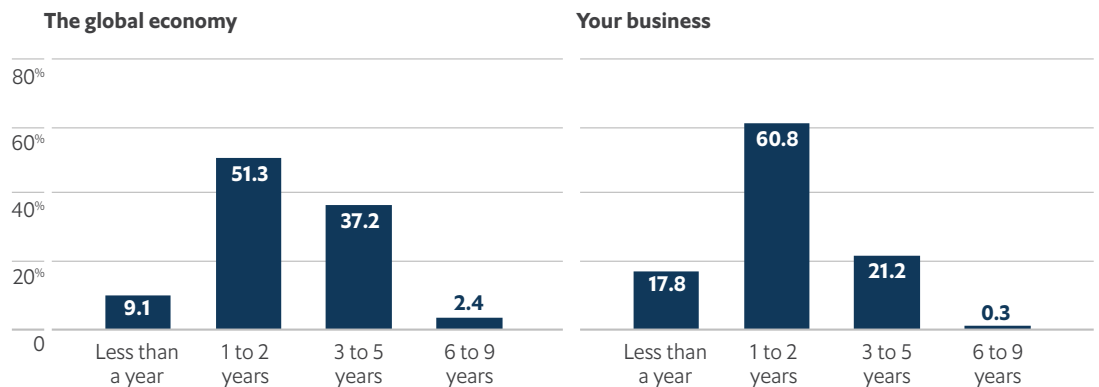
There are at least two plausible and complementary explanations for the dramatic shift in executive views on international travel. One is acceptance, or at least resignation. Two months ago, it still wasn’t clear that travel restrictions, including outright bans, were effective in limiting the spread of the virus. An executive who was not only accustomed to extensive travel but also deemed it a necessity probably saw travel bans as a policy with unproven upsides for public health and significant downsides for business. Now it’s become clearer that travel

Chart 4: What actions would you like to see governments take in the coming months?



Source: The Economist Intelligence Unit Global Business Barometer

Chart 5: How long will the recovery take?



Source: The Economist Intelligence Unit Global Business Barometer

restrictions are both effective and likely to remain in place until a vaccine is developed and in widespread use it seems executive opinions have realigned accordingly.

The second explanation is adaptation. Those downsides—no face-to-face meetings, on-site inspections or in-person events, among others—have been mitigated, certainly not for all industries but for many. Teleconferencing services, though imperfect substitutes and not without issues, have proven to be enough for ensuring business continuity, so much so that a large number of firms are offering employees the ability to work from home indefinitely. In addition, road-weary executives report finding lighter travel schedules liberating, perhaps indicating that fewer business trips will prove a persistent trend.

Adaptation is going to prove increasingly vital the longer recovery takes. Regarding global economic recovery the response rates from the first GBB held somewhat steady, although there was an uptick in the percentage of respondents answering that it will take “3 to 5 years” (from 30.8% to 37.2%). When asked how long it would take for their business to recover, the number of respondents answering “less

than a year” fell more than 20 percentage points from the first survey while “1 to 2 years” and “3 to 5 years” increased by 14 and 11 percentage points respectively.

Further tools of adaptation and recovery

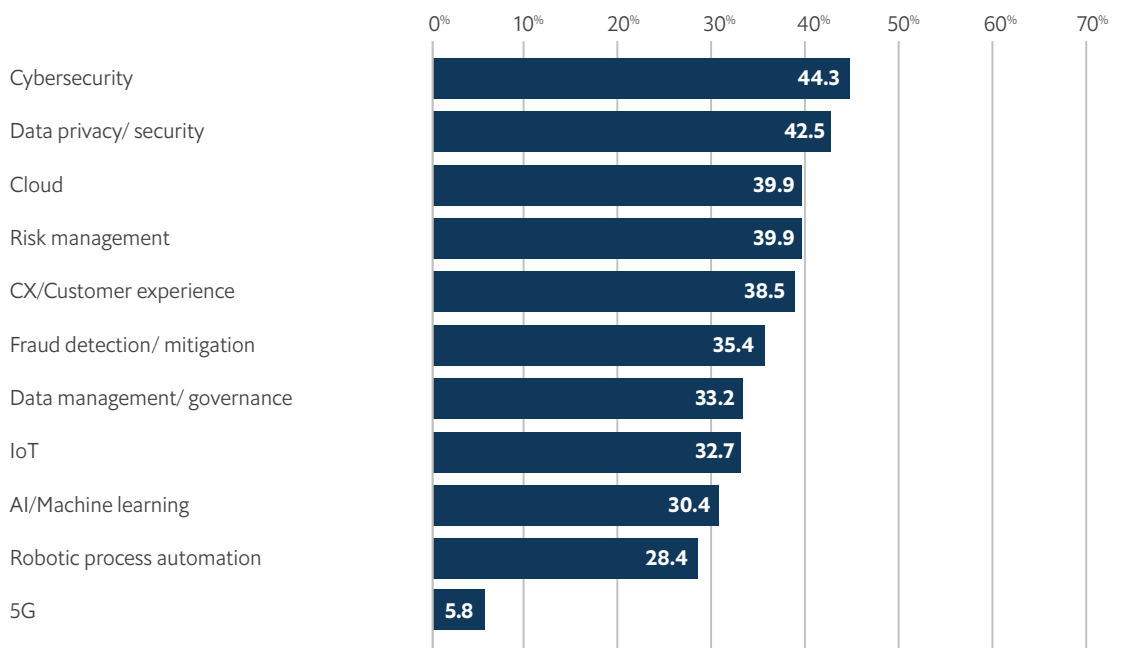
Teleconferencing platforms have arguably received the most attention as a tool for businesses to adapt to the changes brought on by covid-19, but firms are also using other technologies and approaches. For the second edition of the GBB, we asked executives a series of questions to identify the most important among these, including how their relationships with key stakeholders would change as a result of the pandemic.

In terms of technologies, much of executives’ current focus is clearly on security and risk. Given a slate of options to choose from, forty-four percent of respondents see cyber security as becoming “much more important” followed by the related areas of data privacy at 42.5% and risk management at 39.9%. Cloud computing was tied with risk management at 39.9%.

At the bottom of the list were a few technologies being hyped before the pandemic. 5G, the latest generation of cellular technology, was only deemed to be “much more important” by 5.8% of executives surveyed and 41.6% answered that it was “somewhat less important” to their firm’s recovery. The rollout of 5G networks has been greeted with controversies linked to geopolitical concerns and, after the covid-19 outbreak, conspiracies linking it to the pandemic itself. One or both may have dimmed enthusiasm for the technology. Or, more likely, faster wireless connections are a nice-to-have at the moment given that current 4G networks have so far proven sufficient for keeping the lights on.

Apart from technological adaptation, executives also see opportunities for more collaboration inside and outside of their firms. Collaboration with employees is the natural starting point and 25.7% of executives said the relationship would become “much more collaborative” while an additional 30.8% said it would become “somewhat more collaborative”. That was topped, however, by collaboration with partners which 26.8% of respondents deemed “much more important”. Executives from the machinery and other industrial sectors (37.1%) and retail, e-commerce and consumer goods sectors (32.7%) showed the most enthusiasm for deepening relationships with their partners.

Chart 6: Which of the following will be “much more important” to your firm’s recovery?



Source: The Economist Intelligence Unit Global Business Barometer

Coming to grips

There was little room for the GBB readings to go anywhere but up from the last edition. The fact that they did, with some notable exceptions, is encouraging. That they nevertheless remain markedly negative is no doubt a reflection that, unless and until a vaccine becomes available, we are all—societies, governments and businesses—potentially in for a very long haul.

What that means in practice is starting to become more evident. SARs, MERs, swine flu and Ebola had conditioned us to be worried, but that not worried. None of those viruses spread to anywhere near the extent of crippling global or regional economies, and their impact on local economies was short term and relatively mild. Covid-19 is different. It might have been otherwise had early responses not been mishandled through varying degrees of opacity, indifference and incompetence—the small number of success stories, such as New Zealand, notwithstanding.

For businesses across the globe apportioning blame is less important right now than surviving and adapting. We are starting to see details of what this might look like, and it's not just more video chats. It's accepting that some policies, like restrictions on international travel, are here to stay. It's embracing new

ways of doing business, some of which may prove temporary fixes while others will become the “new normal” over time.

The biggest question hanging over firms—large and small, East, West, North and South—is whether this will prove to be enough.

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