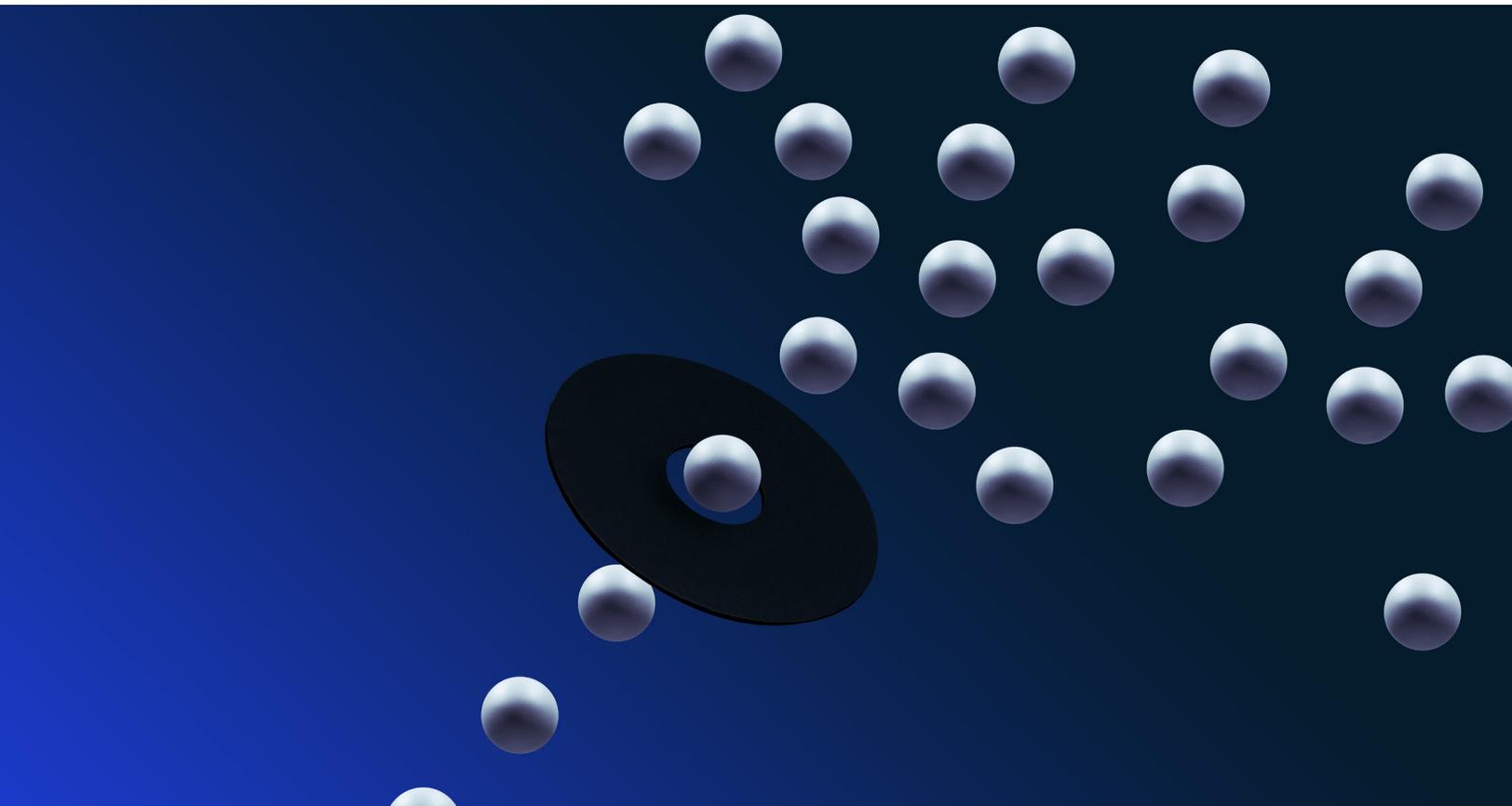# McKinsey & Company

Healthcare Systems & Services Practice

COVID-19: Saving thousands of lives and trillions in livelihoods

Ending lockdowns alone won't restore confidence or growth. Only when the novel coronavirus is under control will economic growth resume.

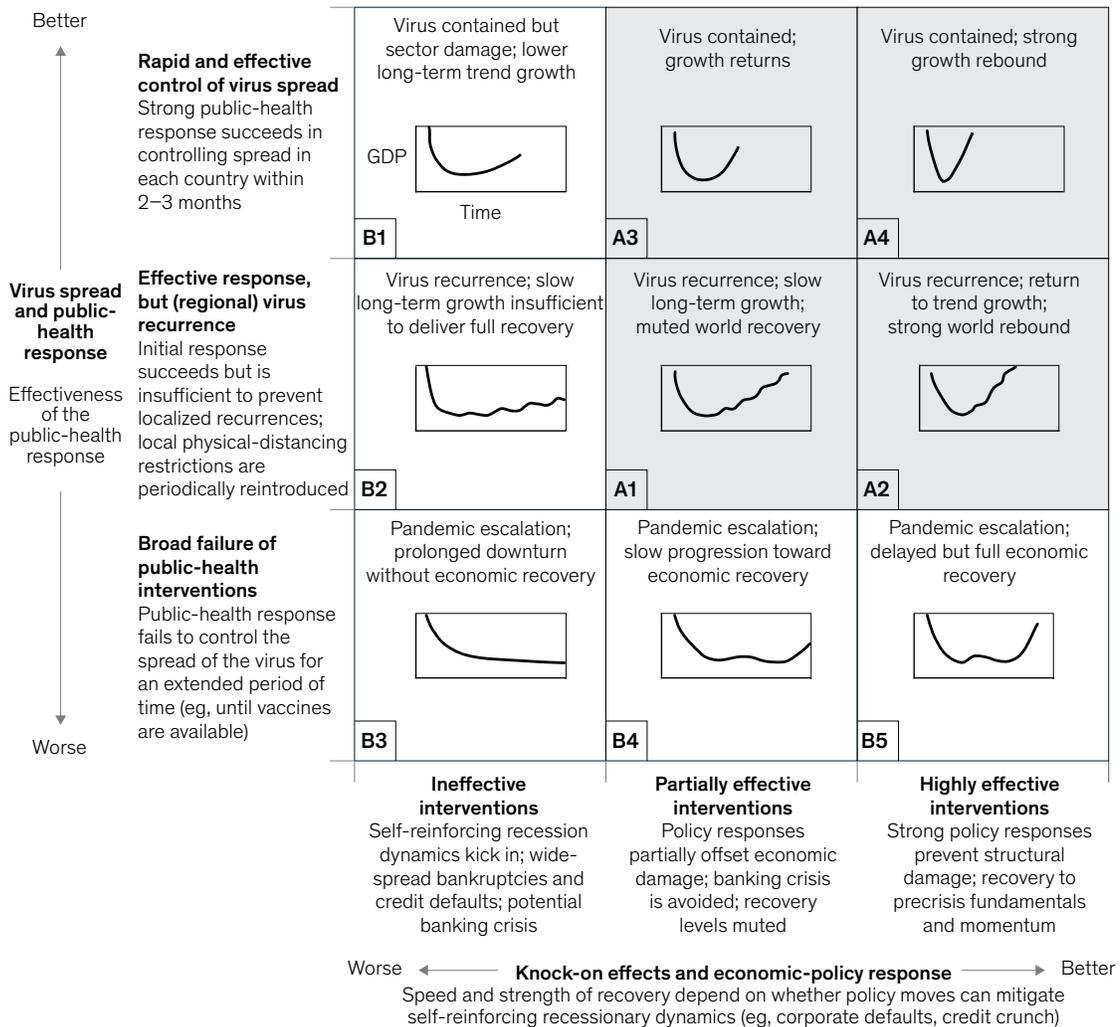*by Sarun Charumilind, Ezra Greenberg, Jessica Lamb, and Shubham Singhal*

August 2020

On March 23, 2020, McKinsey introduced the twin imperatives of safeguarding our lives and our livelihoods and a nine-scenario framework to describe potential economic and COVID-19 outcomes (Exhibit 1). At the time, we wrote that the best combined outcomes depended on a rapid and effective public-health response that controlled the spread of the novel coronavirus within two to three months. Similarly, in May, we wrote that crushing uncertainty by reducing the virus spread to near zero was likely the big "unlock" for most economies.

Today, only a handful of countries seem to have placed the virus under control. (Economic-policy responses have been strong in many regions; most have been swift and effective enough to largely rule out the "first column" of scenarios.) Practically speaking, only countries that have *already placed the virus under control* can plausibly realize a "first-row outcome" (scenario A3 or A4) that lifts GDP to 2019's year-end level or better by the end of 2020. Absent a widely available COVID-19 vaccine, most other countries are likely facing a "second-row

Exhibit 1

A look at possible scenarios for the economic impact of the COVID-19 crisis.

GDP impact of COVID-19 spread, public-health response, and economic policies

Better

Rapid and effective control of virus spread
Strong public-health response succeeds in controlling spread in each country within 2–3 months

Virus spread and public-health response

Effectiveness of the public-health response

Effective response, but (regional) virus recurrence
Initial response succeeds but is insufficient to prevent localized recurrences; local physical-distancing restrictions are periodically reintroduced

Broad failure of public-health interventions
Public-health response fails to control the spread of the virus for an extended period of time (eg, until vaccines are available)

Worse

B1 Virus contained but sector damage; lower long-term trend growth — GDP / Time
A3 Virus contained; growth returns
A4 Virus contained; strong growth rebound

B2 Virus recurrence; slow long-term growth insufficient to deliver full recovery
A1 Virus recurrence; slow long-term growth; muted world recovery
A2 Virus recurrence; return to trend growth; strong world rebound

B3 Pandemic escalation; prolonged downturn without economic recovery
B4 Pandemic escalation; slow progression toward economic recovery
B5 Pandemic escalation; delayed but full economic recovery

Ineffective interventions
Self-reinforcing recession dynamics kick in; wide-spread bankruptcies and credit defaults; potential banking crisis

Partially effective interventions
Policy responses partially offset economic damage; banking crisis is avoided; recovery levels muted

Highly effective interventions
Strong policy responses prevent structural damage; recovery to precrisis fundamentals and momentum

Worse ← **Knock-on effects and economic-policy response** → Better
Speed and strength of recovery depend on whether policy moves can mitigate self-reinforcing recessionary dynamics (eg, corporate defaults, credit crunch)

The ultimate economic impact is not driven solely by lockdowns, whose economic effects have been highly varied. Lifting lockdown restrictions may not by itself be sufficient to restart growth.

outcome" (scenario A1 or A2), which means a one- to two-year delay in economic recovery. Global executives seem to agree; as our July survey shows, their pessimism is growing.

The arithmetic is straightforward. Countries are starting to report estimates of second-quarter GDP. Germany and the United States have registered 10.6 percent drops since the fourth quarter of 2019, while Spain and the United Kingdom have reported almost unimaginable declines of 22.7 and 22.1 percent, respectively. From this trough, growth would need to average 5 to 12 percent for two consecutive quarters to return GDP to the level at which it started the year.

Our new research looking for visible indicators of economic activity that would suggest such a rebound in growth finds them only in the countries that have successfully placed the virus under control. The evidence heavily suggests that a multifaceted public-health response that goes well beyond a simple transient lockdown is a necessary first step to restore confidence and create the conditions for growth.

It won't be cheap: the cost of getting the virus under control is likely measured in the billions, or perhaps hundreds of billions, of dollars. But it is also clear that the opportunity cost of waiting is almost surely measured in unknown thousands of lives and trillions of dollars. The impact of delay is not linear. For every three months we delay in getting the virus

under control, we push back the return of GDP to precrisis levels by about six months. Time is the enemy of both lives and livelihoods.

What does it take to restart growth?

The novel coronavirus and subsequent lockdowns have halted economic activity in nearly unprecedented ways: the only events that similarly brought local economic activity to a sudden stop are currency crises, such as the 1994 Mexican peso crisis and the 1997 Asian currency crisis. There are no global comparable precedents since World War II. The economic impact has been dramatic, and it seems reasonable to assume that lifting lockdowns would provide a proportional stimulus. However, the facts now show that the ultimate economic impact is not driven solely by lockdowns, whose economic effects have been highly varied. Lifting lockdown restrictions may not by itself be sufficient to restart growth.

Our analysis shows that the actual or expected drop in GDP through June of this year across Organisation for Economic Co-operation and Development (OECD) countries is not as tightly correlated with the stringency of societal lockdowns, or their length, as one might think.[1] Further, the volatility of the GDP decline in those countries is three times larger than the volatility of lockdown stringency. Variations in lockdown stringency appear to explain only part of the pandemic's different effects on economic growth (Exhibit 2).
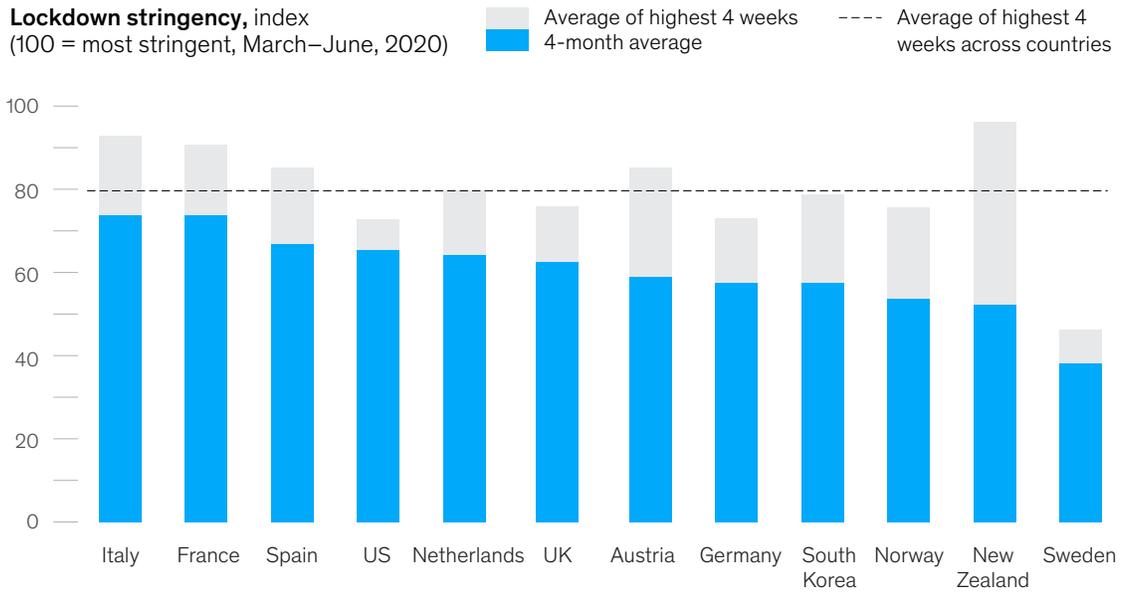
---

[1] Stringency of societal lockdowns is measured by an index developed by the University of Oxford.

Similarly, detailed academic research using high-frequency data found no significant difference in employment and consumer spending between the US states that maintained longer lockdowns versus those that relaxed orders early (Exhibit 3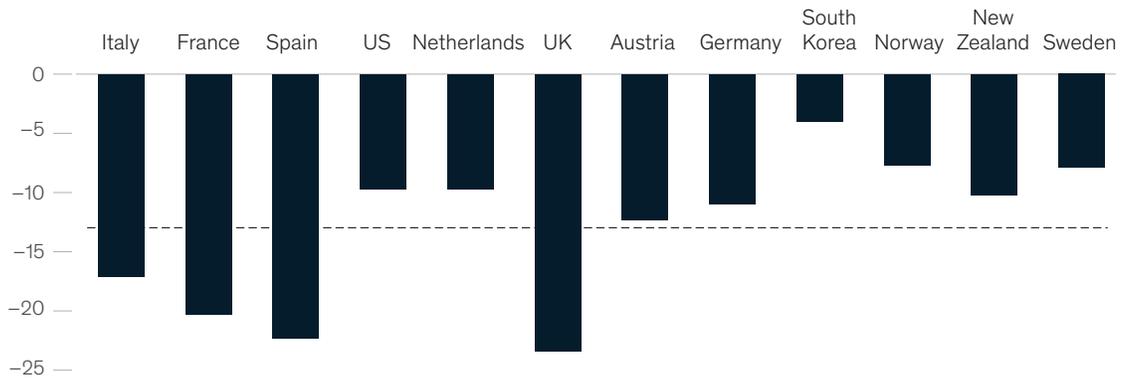).[2] And an analysis of foot traffic at about 2.25 million businesses across the United States found that after controlling for local mortality rates, the differences in local lockdown restrictions accounted for only seven percentage points of the average 60 percent drop in local consumer foot traffic.[3]

Exhibit 2

Lockdown stringency explains only part of economic impact.

Lockdown stringency, index
(100 = most stringent, March–June, 2020)

Average of highest 4 weeks
4-month average

---- Average of highest 4 weeks across countries

Change in real GDP, 2019 Q4–2020 Q2, %[1]

[1]Reported by country statistical agencies as of August 12, 2020; Netherlands, New Zealand, and Norway estimates from Oxford Economics.
Source: Coronavirus Government Response Tracker, University of Oxford; McKinsey analysis in partnership with Oxford Economics

---

[2] Raj Chetty et al., *How did COVID-19 and stabilization policies affect spending and employment? A new real-time economic tracker based on private sector data*, National Bureau of Economic Research working paper, number 27431, June 2020, nber.org.
[3] Austan Goolsbee and Chad Syverson, "Fear, lockdown, and diversion: Comparing drivers of pandemic economic decline 2020," Becker Friedman Institute for Economics at University of Chicago, June 19, 2020, bfi.uchicago.edu.

Exhibit 3

US states show similar economic behavior regardless of reopening strategies.

Average impact of typical reopening efforts on aggregate economic activity,[1] index (100 = Jan 2020)

——— States that ordered reopening ——— States that did not order reopening

Consumer spending[2]

Employment[2] among low-wage workers
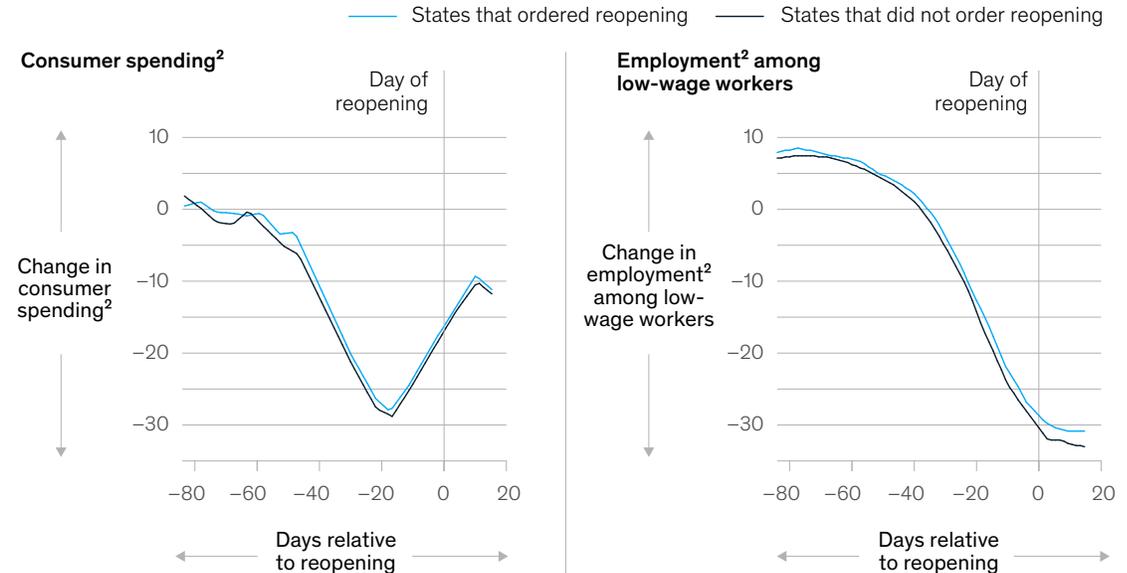
[1]Based on analysis of 20 states that issued partial reopening orders on or before May 4, 2020. For each reopening date (April 20, 24, 27, and May 1, 4), the trajectory of spending in states that issued reopening orders was compared with a group of 13 control states that did not issue reopening orders until after May 18, 2020.
[2]Consumer spending represented by credit and debit spending data from Affinity Solutions; employment figures represented by Earnin, Intuit, and Homebase.
Source: Raj Chetty, John N. Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team, "How did COVID-19 and stabilization policies affect spending and employment?" June 17, 2020, opportunityinsights.org

It appears that more is going on than national or regional differences in industrial structure and government policy responses. Other factors are at work. As Germany's central bank observed in June, "The behavior of consumers—and enterprises— became increasingly cautious. Rising uncertainty, including with regard to income prospects, subdued the propensity to spend, even on many goods that were not subject to lockdown."[4] That was anticipated by academic research, which estimated that the "uncertainty shock" generated by the COVID-19 pandemic would likely account for around half of the fall in US GDP in 2020.[5]

McKinsey's new consumer research found that more than half of consumers say they are "cautious" or "uncomfortable" about reengaging in their daily routines.[6] The research also pinpointed the factors

that would make that group feel comfortable about reengaging. Around three-quarters of respondents are looking for structural solutions, such as COVID-19 vaccines and treatments. Only around 30 percent say they feel safer when government restrictions are lifted. Three other indicators would help, they say: seeing people wearing masks (75 percent), knowledge that the number of new cases is going down in their area (65 percent), and a determination from national public-health leaders that it is safe to reengage (56 percent).

The inescapable conclusion is that the uncertainty surrounding COVID-19 and its associated health risks has caused many individuals, households, and businesses to opt out of normal activity—even if no formal restrictions are in place. Eliminating that uncertainty is essential to restart growth.

[4] *Monthly report, June 2020*, Deutsche Bundesbank, bundesbank.de.
[5] Scott R. Baker et al., "The unprecedented stock market reaction to COVID-19," Kellogg School of Management, Northwestern University, April 1, 2020, insight.kellogg.northwestern.edu.
[6] McKinsey COVID-19 Consumer Survey of 1,297 consumers, June 8, 2020.

Getting the virus under control

Building public confidence requires limiting the spread of the novel coronavirus and creating conviction that public-health measures will continue to be effective. To be confident, the public needs evidence of the following:

— New case counts are low, and testing is sufficiently widespread for official counts (and related indicators such as the rate of positive tests) to represent accurately actual conditions.

— The number of serious COVID-19 cases that require hospitalization can be effectively handled by the health system without impairing its capacity to deliver normal medical treatment.

— Communication about health interventions by leaders is credible, consistent, and provided sufficiently in advance to let families and the public and private sectors plan.

— Public-health measures are delivered effectively and are sufficient to prevent increases in transmission.

— Public-health interventions, including those deployed for high-risk and vulnerable populations, do not structurally prevent economic recovery.

The importance of getting the virus under control for restoring economic activity is now widely recognized. In a July policy statement, the European Central Bank warned that "the global outlook remains dominated by the evolution of the coronavirus (COVID-19) pandemic ….[The] combination of the easing of containment measures and the increase in new COVID-19 cases in many countries renders the global recovery highly uncertain."[7]

Similarly, the Federal Open Market Committee, which sets monetary policy in the United States, wrote for the first time in its July 29th policy statement that "the path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term."[8] When Jerome H. Powell, chair of the US Federal Reserve Board, was asked why that sentence was included, he replied that "the most central fact or the most central driver of the path of the economy right now, is the virus. … So it's such an important sentence."[9]

Confidence is necessary for growth

The recipe to achieve public confidence and establish the five beliefs we described has been tested in many countries, is now largely well known, and takes about 12 weeks to enact effectively. Countries that have restored confidence—or are close to doing so—have seen economic activity return or begin to return to precrisis levels. Many analysts, including those at McKinsey, are watching indicators that might signal the return of economic activity well before official GDP, a notoriously delayed indicator, are published. Among those that we have studied, we find that "discretionary mobility" (defined as consumer activity in retail and entertainment, groceries and pharmacies, transit stations, and workplaces) neatly captures the choice to reengage in commercial activities. When paired with analyses of novel-coronavirus progression and virus-testing activity, we can see clearly how different strategies to get the virus under control have produced vastly different economic outcomes.

Exhibit 4 shows a synthesis of results from representative countries pursuing one of the two main strategies: the near-zero-virus and balancing-act paths.[10] It also shows results from representative countries that are transitioning from the balancing-act to the near-zero-virus strategy.

---

[7] *Update on economic and monetary developments*, European Central Bank, July 30, 2020, ecb.europa.eu.
[8] "Federal Reserve issues FOMC statement," Federal Reserve Board, July 29, 2020, federalreserve.gov.
[9] Jerome H. Powell, Federal Open Market Committee press conference, July 29, 2020, federalreserve.gov.
[10] For a detailed explanation of the three stances, see "Crushing coronavirus uncertainty: The big 'unlock' for our economies," May 2020, McKinsey.com.

Exhibit 4

Near-zero and transition acts have been successful in getting the virus under control and restoring economic activity.

Discretionary mobility and new COVID-19 cases reported,[1] by average of representative countries,
index (0 = pre-COVID level of activity = 0) (100 = post-COVID peak/trough)[2]

NEAR-ZERO COUNTRIES	TRANSITION TO NEAR ZERO	BALANCING ACT
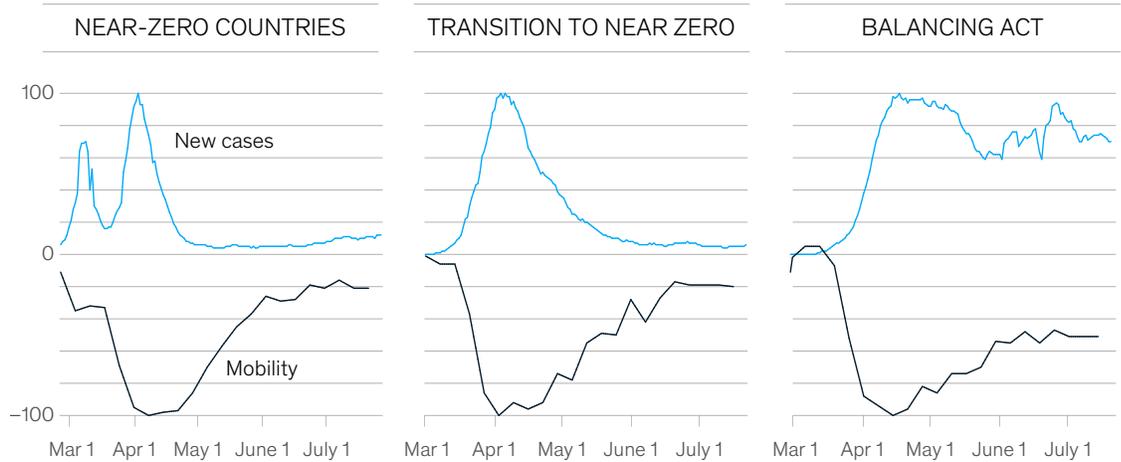
Tests per thousand people,[3] index (0 = pre-COVID level of activity = 0) (100 = post-COVID peak)

NEAR-ZERO COUNTRIES	TRANSITION TO NEAR ZERO	BALANCING ACT
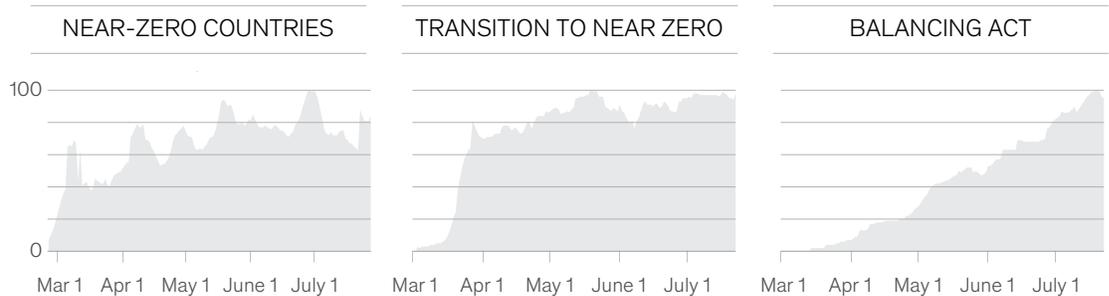
[1]Consumer activity in retail and entertainment, groceries and pharmacies, transit stations, and workplaces. Activity related to parks and home movement is excluded.
[2]New cases reported and mobility data: weekly through July 25.
[3]Tests per thousand: daily data through July 25.
 Source: COVID-19 Community Mobility Reports, google.com; national health agencies

Countries on the near-zero-virus path radically reduced viral spread, minimizing the chances of transmission and making it easier to control flare-ups as they occur. Leaders of those countries have built public confidence, and the public has responded by resuming economic activity, as seen in the rise of discretionary mobility to precrisis levels. The countries using the near-zero-virus strategy are likely headed for a first-row outcome—likely, scenario A3 or A4.

Countries on the balancing-act path have pursued a strategy that entails stabilizing the numbers of patients within the capacity of their healthcare systems while accepting higher virus prevalence, more frequent flare-ups, and the possibility of more economically restrictive public-health interventions. Under those circumstances, country leaders have found it more challenging to build and sustain public confidence. Discretionary mobility remains about 40 percent below precrisis levels. The countries using the balancing-act strategy may end up facing a second-row outcome, such as scenario A1.

There is still time for countries to increase their chances of achieving significantly better outcomes for lives and livelihoods.

The cost of delay

It is conceptually possible for a well-executed balancing act to keep the novel coronavirus under control, especially if healthcare innovations can reduce virus-related acute hospitalizations and mortality rates and if adaptive business innovations can enable productivity despite public-health restrictions. But no balancing act has thus far succeeded in the COVID-19 crisis.

Some of the largest eurozone countries started with the balancing-act strategy and then transitioned to the near-zero-virus one. By transitioning, those countries have largely controlled the virus (although more slowly than those that opted for the near-zero-virus strategy from the outset did, and they still face some flare-ups). Countries that have transitioned are raising discretionary mobility close to precrisis

levels and have "won the right" to hope for a better economic outcome, such as scenario A2 or even scenario A3.

Countries that are currently pursuing the balancing-act path could transition to a near-zero-virus strategy and restore public confidence by the end of 2020 if they act quickly. Economic activity would remain muted temporarily, and those countries would need to invest tens or even hundreds of billions of dollars in direct costs, such as those for COVID-19 testing, tracking, and tracing—costs that are distinct from payroll and business support. But the opportunity cost could also be immense. We estimate, for example, that for every three months' delay in getting the virus under control across OECD countries, the recovery of GDP to precrisis levels could be delayed by as much as six months (Exhibit 5).

Exhibit 5

The speed of virus-control efforts has important implications for recovery timing.

OECD[1] real GDP, index (2019 Q4 = 100)

○ Gain control over virus spread, quarter (+/− 1Q)
● Return to precrisis GDP level, quarter (+/− 1Q)

Scenario A3 — Q4 2020

Scenario A2 — Q4 2021

Scenario A1 — Q4 2022
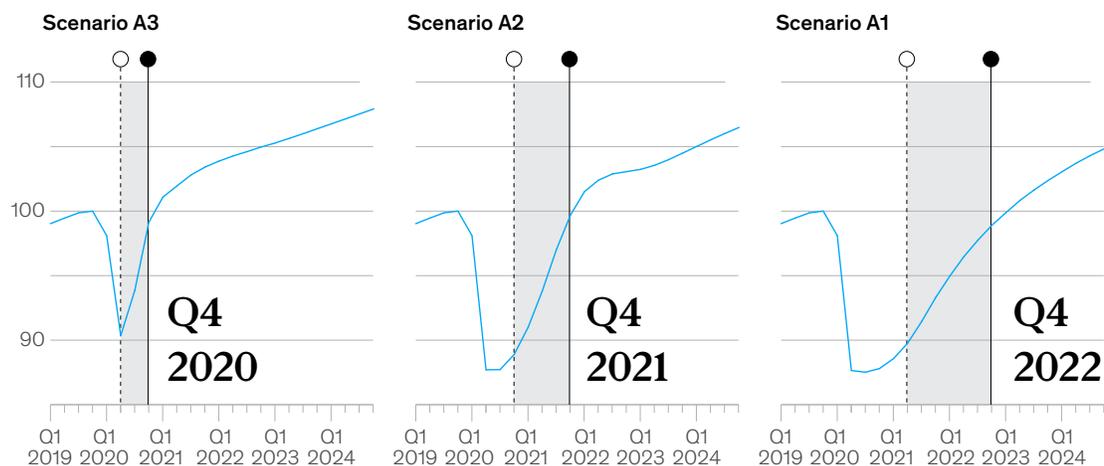
[1]Includes 27 out of 34 Organisation for Economic Co-operation and Development countries for which quarterly GDP statistics are available.
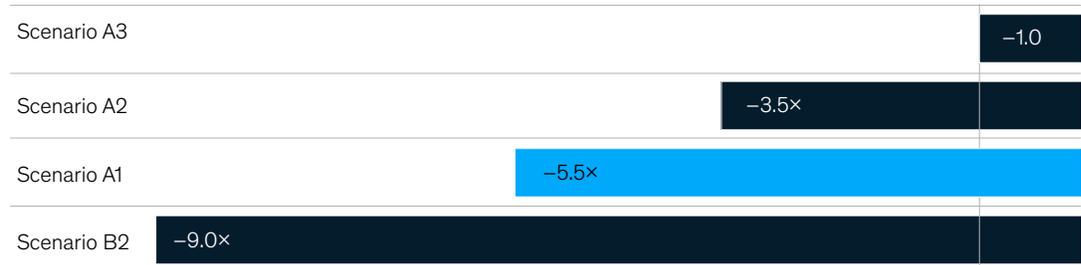Source: McKinsey analysis, in partnership with Oxford Economics

Compared with January 2020 (precrisis) expectations, OECD countries could lose approximately $10 trillion in cumulative GDP by 2024. That's an average figure across the A1, A2, and A3 scenarios. The differences among scenarios are even more striking: if a country were to end up in an A1 scenario, its losses could be 5.5 times larger than if had been able to navigate to an A3 scenario (Exhibit 6).

There are countless examples of unexpected shocks that have resulted in long periods of economic dislocation. The global financial crisis of 2008 hit the eurozone hard. The initial impact on GDP was only around one-third as damaging as that of the COVID-19 pandemic, yet it took seven years for eurozone GDP to return to 2008 levels. Even by the end of 2015, Italy's GDP was still 8 percent below its 2008 level, Spain's was 3 percent lower, and Greece's was 27 percent lower. There is still time for countries pursuing a balancing-act strategy to increase their chances of achieving significantly better outcomes for lives and livelihoods.

Exhibit 6

The cost of delay could be trillions of dollars and thousands of lives.

Cumulative[1] losses in GDP for OECD[2] countries, index (1 = A3 scenario)

Scenario A3	−1.0
Scenario A2	−3.5×
Scenario A1	−5.5×
Scenario B2	−9.0×

[1]Sum of quarterly GDP losses vs pre-COVID-19 forecast in January 2020.
[2]Organisation for Economic Co-operation and Development.
Source: McKinsey analysis, in partnership with Oxford Economics

Sarun Charumilind, MD, and **Jessica Lamb** are both partners in McKinsey's Philadelphia office; **Ezra Greenberg** is an associate partner in the Stamford office; and **Shubham Singhal** is a senior partner in the Detroit office.