

Leading in
the New
Reality

BCG

Our records indicate that this is the first time you're receiving my Weekly Brief, and as BCG's CEO, I wanted to personally welcome you. I started sending this note in mid-2020 with the hope that BCG's latest knowledge and my own reflections could help you make sense of our rapidly changing reality. If you have any feedback, I'd love to hear from you. - Rich

1 Three Things to Know About the Global Growth Outlook

To BCG's network around the world,

Four months ago, I [wrote to you](#) about a great conversation I had with our chief economist, Philipp Carlsson-Szlezak, about escalating inflation fears and his view that the alarmist headlines were overblown. Though price growth remains quite high, markets and media coverage have calmed down—suggesting it's unlikely that we'll end up with structurally higher inflation.

When we return from our summer breaks in the northern hemisphere, many of us will begin to look past 2021 and start planning for the year ahead. So I thought it would be a good time to check back in with Philipp about the outlook for growth around the world and what role the pandemic will play. Here are three key observations he shared with me, which I hope you'll find as helpful as I have. (See charts with more detail [here](#).)

1. Global growth recovery is surprisingly synchronized in 2021.

There is a widely held assumption that the course of COVID-19 determines an economy's prospects. If so, early vaccine rollout would mean early recovery, while rollout delays would signify a slower climb back up. The world would see a staggered sequence of rebounds over the course of this year and next.

In fact, the global recovery is set to be firmly synchronized in 2021, a counterintuitive trend that is the outcome of two effects.

First, the relationship between the spread of the virus and economic damage has evolved. In the early days, responses to COVID-19 were extremely stringent, but economies have since found some ways to navigate the virus. Consider India, where the devastation of this year's second wave included three times as many cases and deaths as the first, yet the country's GDP drawdown was only one-quarter what it was in spring 2020.

Second, when talking about growth rates, the base period is critical. Across the world, the initial wave of virus brought economies to a shuddering halt. This resulted in extremely low base periods that now make for easy comparisons and thus stellar 2021 growth rates.

To be sure, this is an enormous global recovery that far exceeds the expectations that prevailed at the depths of crisis. But it's important to recognize that growth almost everywhere will peak in the current year and decelerate next year, irrespective of the state of the virus.

2. Levels of recovery are highly disparate.

Growth rates are only one way of looking at the global recovery. More important for business leaders is to examine the level at which economies will be performing—that is, the recovery path of each economy and whether there will be a downgrade of output compared with the pre-COVID path.

So far, we're set to see large disparities, with developed economies outperforming emerging ones. Despite the synchronized timing of the rebound, expectations for the 2024 output of emerging economies are, for the most part, lower today than before the crisis. Many developed economies are also facing decreases in performance but generally on a much smaller scale. And the US will likely perform better than was expected before the crisis.

Here, again, the virus remains an imperfect explainer of these outcomes. As [we stressed very early in the crisis](#), policymakers have the ability to prevent such structural scarring. They can limit balance sheet damage in the household and

banking sectors through policy intervention, a lack of which turned the 2008 crisis into a systemic one and weighed down the recovery that followed.

Policy efforts, more than virus burden, explain the disparities we're seeing between emerging and developed economies. Many developed markets committed unprecedented policy support, which allowed their economies to pause while minimizing the structural scarring. Due often to less borrowing capacity, the policy efforts of emerging markets were almost all smaller as a percentage of GDP.

3. The ability to shift to a post-COVID reality is also disparate, but here the virus has more influence.

Economic rebounds may have been decoupled from the virus, but the way we live our lives has not. Although the consumption of goods bounced back to prepandemic levels even when the virus was raging, a full recovery has to include the service economy—transport, entertainment, restaurants—which will depend on the uptake of vaccines and the effects of current and future variants.

Vaccines will continue to play an essential role in how effectively we can move into a [new post-COVID reality](#), which we have been talking about for well over a year. And above all, they are essential to protect lives around the world. On this front, there is still so much work to do.

Correlating the path of the virus with the profile of recovery is tempting, but doing so continues to tell an incomplete story. As we look ahead, we need to recognize the nuance of the global recovery—and that the biggest growth is happening now.

Please see below for detailed charts on this topic, as well as an interesting article in *Fortune* from Philipp and his team on market bubbles and an Executive Perspective on supply chain resilience.

Until next week,

A handwritten signature in dark ink, appearing to read "Rich", with a stylized flourish at the end.

Rich Lesser
Chief Executive Officer



The Global Recovery: Timing, Quality, and Normality

COVID-19 tells us less about the global economy than many think.

[CLICK TO READ MORE](#)



How We Can Learn to Stop Worrying and Love Market Bubbles

Market bubbles come in many shapes and forms, and even the more pernicious ones can leave a positive legacy.



BCG Executive Perspectives on Achieving Supply Chain Resilience

BCG Executive Perspectives offer insights on the global topics that matter most to leaders in the public and private sectors. Our latest edition explores emerging trade and supply trends—and how businesses can build resilience amid uncertainty.

