

McKinsey Global Institute

What's next for consumers, workers, and companies in the post-COVID-19 recovery

Many changes in business models and consumer behavior during the pandemic will stick, but action will be needed to ensure the rebound is not uneven.

by Susan Lund, Anu Madgavkar, Jan Mischke, and Jaana Remes



COVID-19 changed how we live and work in ways that will alter our behavior long after the pandemic subsides. Companies moved rapidly to deploy digital and automation technologies, dramatically accelerating trends that were unfolding at a much slower pace before the crisis. Work went remote, shopping, entertainment, and even medicine went online, and businesses everywhere scrambled to deploy digital systems to accommodate the shifts.

These changes in consumer behavior and business models will persist in advanced economies after the pandemic recedes, although perhaps not with the same intensity as during the crisis. They promise big benefits in terms of higher productivity, efficiency, and innovation—but also could lead to an uneven economic recovery, with rising inequality among workers, contrasting outcomes for consumers depending on their age and income levels, and a growing gulf between outperforming companies and the rest—unless business leaders and policy makers take action to mitigate these unwanted effects.

Here we draw on insights from three recent McKinsey Global Institute reports to offer a perspective on how the pandemic may reshape the future of work, consumer behavior, and productivity and growth over the next several years. The research focuses primarily on changes we have observed in advanced economies in Europe and North America. In Asia, where countries controlled COVID-19 more rapidly and effectively, the behavioral changes are less pronounced.

The actions we collectively take today—from investing in human capital to enabling a surge of entrepreneurship to diffusing technology to companies of all sizes—could create a virtuous cycle of job growth, rising consumption, and productivity growth. Lessons from past recessions reveal that this is not only possible but routinely occurred in many post-war recessions. Failure to act is likely to deliver a tepid, two-speed recovery like we saw after the 2008 financial crisis.

Sidebar

Consumers focus on ‘home nesting’

The acceleration of the digital economy played out largely at home after COVID-19 almost overnight confined consumers to their living spaces. There, they settled into home nesting, spawning an investment boom in renovation, home decorating, cooking, personal exercise equipment, comfort clothing, and other things to enhance the homebound lifestyle and facilitate remote work. Home became the office, gym, shopping center, movie theater-sports arena-concert hall combined—and with no need to put on a coat or shoes to enjoy. Spending on home furnishings in

the United States increased 14 percent through November 2020, compared to the prior year, while in Germany, sales in DIY stores grew 16 percent in the first half of 2020 compared to 2019. Use of the Peleton app went up by 1.7 times, and 54 percent of gym members said they planned to do some of their workouts at home in the future. Based on our analysis, we expect this behavior may stick, supported by continued remote work and home investments made during COVID-19 that delivered positive experiences. “drivers.”



The pandemic accelerated changes in consumer and business behaviors that are likely to persist

The virus interrupted, accelerated, or reversed longstanding consumer and business habits. Every activity and function that could move online did, fueling a mass digital migration. Companies sent their employees home and eliminated business travel, and many now plan to continue with some hybrid form of remote work and virtual meetings. Consumers went online to fulfil needs ranging from buying groceries and taking school classes to exercise and doctor appointments. Businesses also turned to digital tools in new ways. Auto dealerships used email, text messaging, Zoom, and Facetime to sell cars without any contact with customers, for example. Fast-food restaurants created “ghost” kitchens devoted solely to filling online delivery orders. Companies turned to automation and AI to cope with surges in demand and the need to reduce workplace density. Some of these changes delivered more convenience and greater efficiency and so are likely to endure well after the pandemic has receded.

Consumer shifted to digital channels

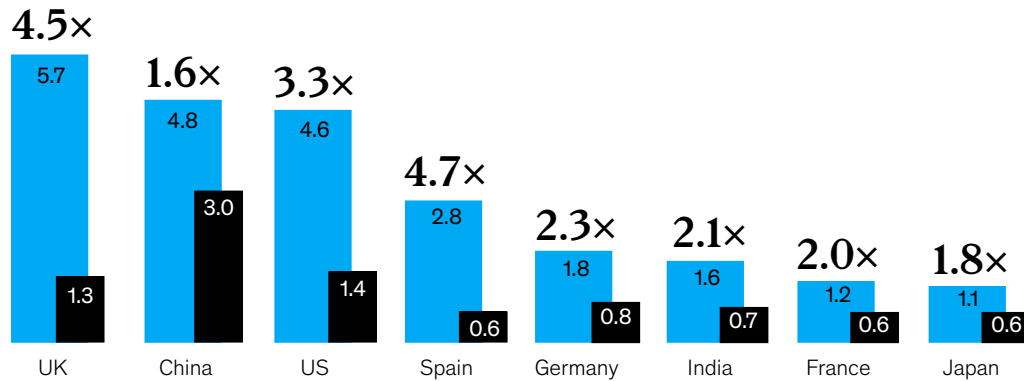
Retail got a jolt. E-commerce surged during the pandemic, increasing its share of total retail sales by two to five times its prepandemic rate across eight countries representing 45 percent of the world’s population and more than 60 percent of global GDP—China, France, Germany, India, Japan, Spain, the United Kingdom, and the United States).

Exhibit 1

E-commerce has grown two to five times faster than before the pandemic.

Year-over-year growth of e-commerce sales as a share of total retail sales, percentage point change

■ Average, 2015–19
■ 2019–20



Source: Euromonitor Passport; McKinsey Global Institute analysis

Many of the consumers driving that growth were new to online transactions. We found, for instance, that first-time online grocery shoppers accounted for 30 to 50 percent of total US consumers shopping online in July 2020, driven largely by baby boomers nudged by the pandemic to make a digital transition they otherwise might not have needed to make. “Home nesting” became popular, with many consumers investing to enhance their new homebound lifestyle (see sidebar, “Consumers focus on “home nesting”). Other virtual transactions took off, too. Telemedicine, for example, languished until COVID-19 came along. Online medical consultations via Practo, an Indian telehealth company, grew more than tenfold between April 2020 and November 2020. In France, the state health system reported 1.2 million virtual consultations in September 2020, compared to 40,000 in February 2020.¹

While curiosity about consumer behavior after COVID-19 abounds, we found that the actions of companies and governments matter at least as much in determining whether new behaviors are likely to stick, including signs of a move to more sustainable consumption in some places. For example, surveys show that between 30 and 50 percent of consumers indicate an intent to buy sustainable products—although such products account for less than 5 percent market share of sales in part because companies charge more for them and governments offer no incentives to purchase them.² Companies made decisions that set the choices consumers could make during the pandemic, and governments established guardrails with their stimulus policies. To determine how enduring shifts to new digital channels may be, we examined consumption using a “stickiness” test we devised that takes into account the actions of companies and governments as well as consumers.

¹Marie-Joëlle Gros, “How teleconsultation disrupts the patient-doctor relationship, *Le Monde*, October 9, 2020, lemonde.fr.

²Michal, J. Carrington, Benjamin A. Neville, and Gregory J. Whitwell, “Why ethical consumers don’t walk their talk: Towards a framework for understanding the gap between the ethical purchase intentions and actual buying behaviours of ethically minded consumers,” *ResearchGate*, November 2010, researchgate.net.

Geography matters in determining what behaviors will stick post-pandemic

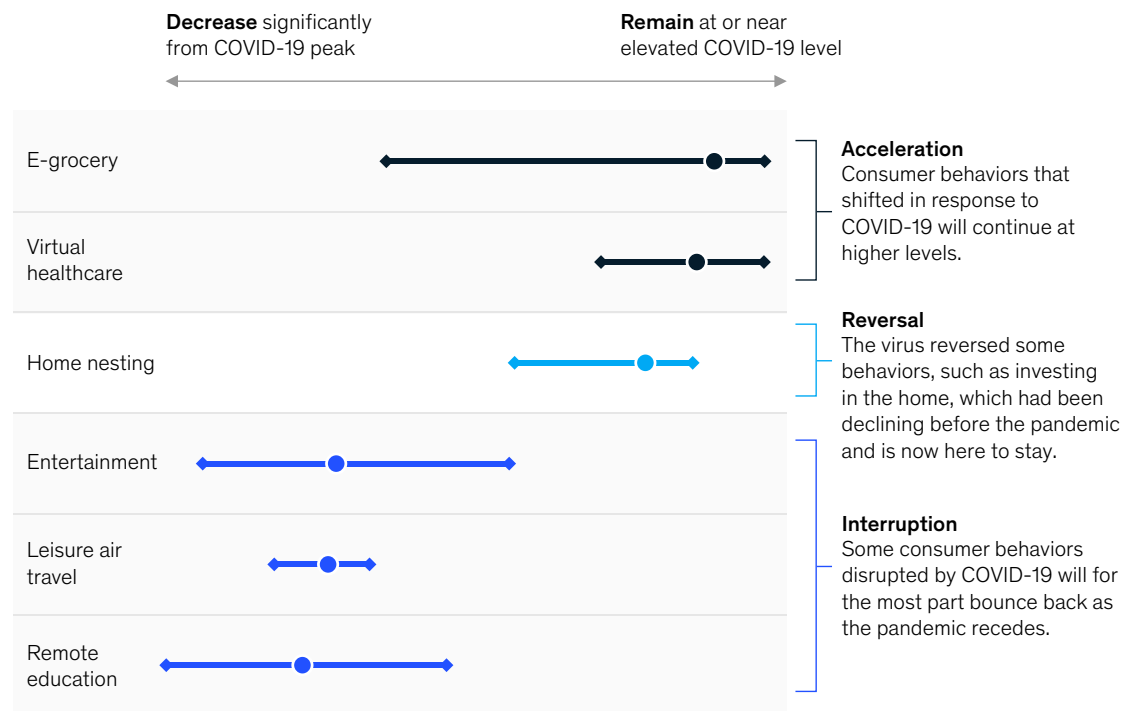
For consumers we examined how much they valued a new behavior, what type of experience they had, and how big an investment they made in it. For companies we assessed how an industry responded to the new behavior and changed structure as a result. Film studios, for example, could quickly pivot to direct-to-consumer distribution via streaming services, while airlines could do little to adapt. For governments, we looked at how economic and regulatory policy affected consumer behavior. The US government, for instance, allowed reimbursement for telemedicine and the use of food assistance payments online, two small changes that enhanced convenience and mitigated safety concerns. For each of these, we assessed the extent to which a factor increases the likelihood of lasting change, decreases the likelihood of lasting change, or has a neutral impact.

Exhibit 2

What behaviors may stick and what may not?

Average and variance of post-COVID-19 stickiness score

↔ Range across countries ● Average



Geography matters: In places like China where COVID-19 was quickly brought under control, shifts in consumption patterns are likely to be less sticky.

Source: McKinsey Global Institute analysis

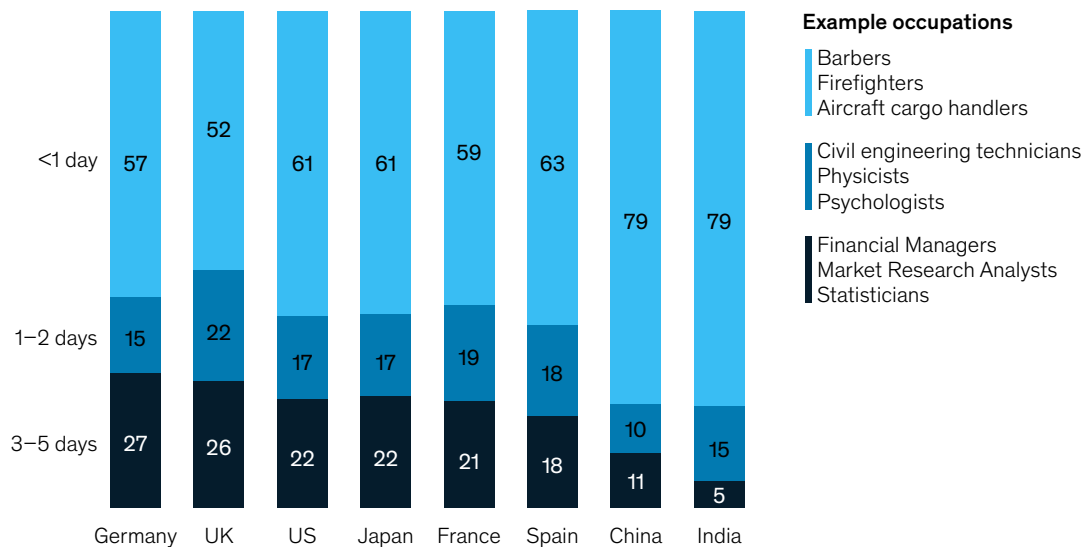
Businesses shifted to remote work and virtual meetings

Employees who could work remotely set up offices in their homes, driving sales of standing desks, office chairs, and other equipment and tools for kitting out home offices. To assess the future of remote work, we analyzed more than 2000 work activities across 800 occupations to see which could be done without a loss of productivity from home. We find that 20 to 25 percent of the workforces in advanced economies could work remotely without losing effectiveness. That is four to five times as many as were working from home before the pandemic (Exhibit 3). Already companies are devising hybrid remote work plans that give them the opportunity to reduce office space. That in turn may change the geography of work and urban centers, as well as reduce business travel. We estimate that 20 percent of business travel may never recover as virtual meetings replace in-person ones. Already companies are devising hybrid remote work plans that give them the opportunity to reduce office space. That in turn may change the geography of work and urban centers, as well as reduce business travel. We estimate that 20 percent of business travel may never recover as virtual meetings replace in-person ones.

Exhibit 3

While the majority of the workforce cannot work remotely, up to one quarter in advanced economies can do so three to five days a week.

Remote-work potential by number of days per week,¹% of 2018 workforce



Note: Figures may not sum to 100% because of rounding.

¹The theoretical maximum includes all activities not requiring physical presence onsite; the effective potential includes only those activities that can be done remotely without losing effectiveness. Model based on more than 2,000 activities across more than 800 occupations.

Source: McKinsey Global Institute analysis

Companies accelerated their adoption of digital, automation, and other technologies

To cope with constraints on physical proximity, sharp surges in demand, and other sudden shifts required by COVID-19, businesses stepped up use of digital tools, automation, and AI. Retailers like Amazon, Walmart, and Target enlisted industrial robots to pick, sort, and track merchandise in warehouses to manage surging e-commerce demand. AI-powered chatbots were used to reduce customer contact. Robotic process automation helped financial service firms cope with a surge in small business loan applications and assisted airlines in issuing travel refunds.

Businesses engaged in a burst of bold innovation and speedy decision making in response to the deepest economic shock since World War II. Companies digitized many activities at rates 20 to 25 times faster than they had previously thought possible, according to a McKinsey survey. For instance, one large retailer developed a curbside-delivery business in two days; its prepandemic plan had called for an 18-month rollout. There may be more to come. Three-quarters of executives in North America and Europe surveyed by McKinsey in December 2020 said they expect investment in automation to increase through 2024.

75% of North American and European executives responding to a survey expect increased investment in new technologies through 2024

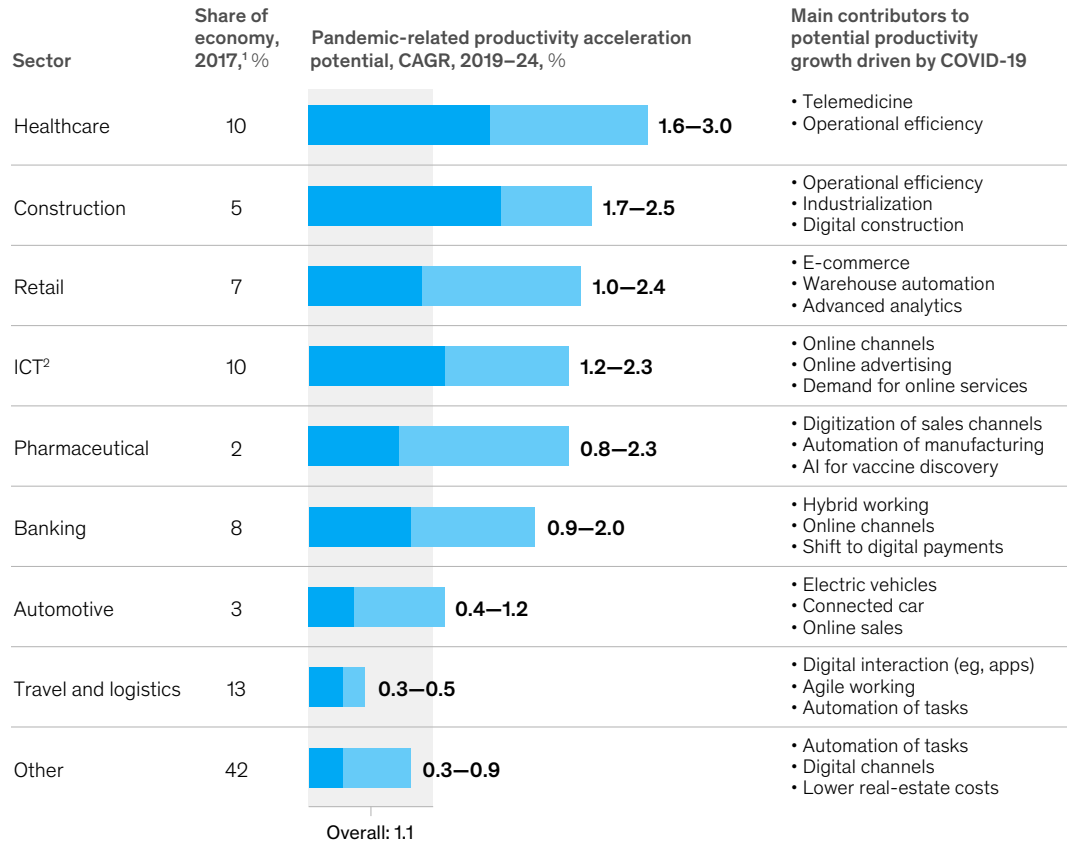
Steps taken to keep business going during COVID-19 have the potential to increase productivity

Such bold actions by companies could produce a 1 percentage point increase in annual productivity growth to 2024—if these innovations spread widely among companies of all sizes and demand recovers and stays strong. This would be more than double the rate of productivity growth experienced after the 2008 global financial crisis in seven economies—France, Germany, Italy, Spain, Sweden, the United Kingdom, and the United States. If realized, we estimate this would add about \$1,500 per capita in Spain and \$3,500 per capita in the United States to GDP in 2024. The largest potential incremental rise in productivity growth between 2019 and 2024 could occur in the healthcare, construction, information and communications technology, retail, and pharmaceuticals sectors. However, accelerated automation risks speeding up necessary reskilling and worker transitions, and could undermine employment, median incomes, and therefore demand. Of the productivity potential we identified, 60 percent comes from firms seeking to reduce costs—including jobs—rather than creating top-line value.

Exhibit 4

Our sector analysis indicates potential for incremental productivity growth of roughly one percentage point per year through 2024.


United States and Europe nonfarm business economy sectors



¹Weighted by total nominal GDP contribution of the United States (62%) and six European economies (38%). Pharma includes chemicals and pharmaceuticals manufacturing due to lack of breakdown for the United States and Sweden; automotive includes transport machinery; travel and logistics includes arts and recreation, accommodation and food services, transportation and storage, other service activities, and activities of households and extraterritorial units; other nonfarm business sectors include professional services, wholesale, mining and quarrying, manufacturing (excluding chemicals, pharmaceuticals, and automotive), and utilities; excludes public administration and defense, real-estate activities, education, and agriculture. Sectors included amount to 74% of total economy in the United States and 75% in six European focus countries.

²Information and communications technology.

Source: EU KLEMS; McKinsey Global Institute analysis



Is a two-speed recovery ahead for consumers, workers, and companies?

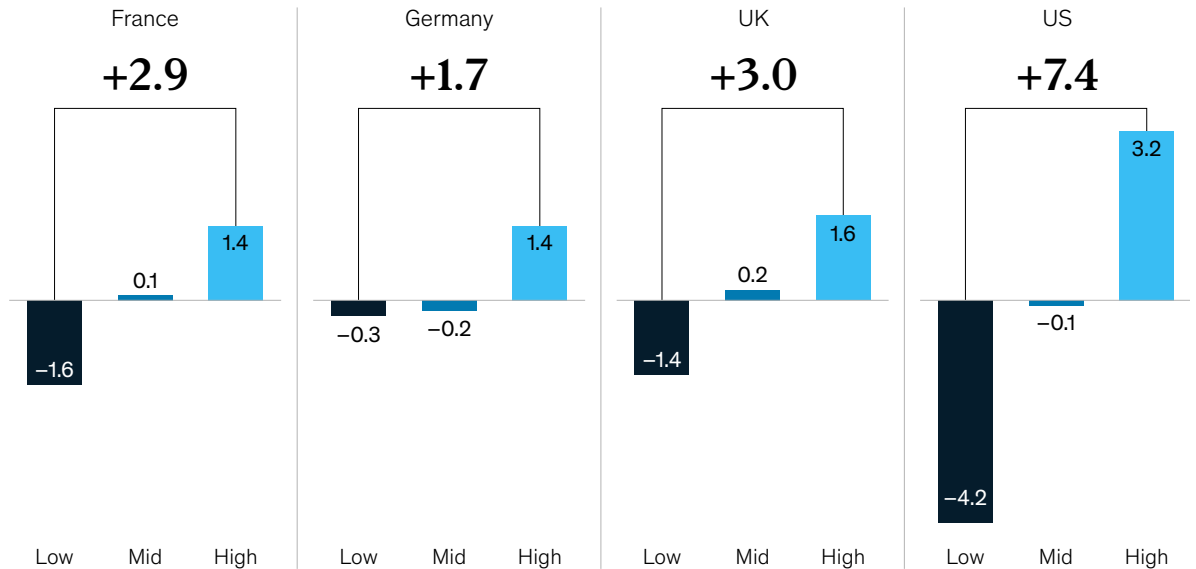
Savings for some, income concerns for others

Shifts in business operations caused by the pandemic could spur faster growth—but also raise challenges for the most vulnerable workers. Improving the customer experience can be COVID-19 put a deep dent in consumption in 2020, as spending declined between 11 and 26 percent in the initial months of the pandemic in the United States, Western Europe, and China. Consumers sharply cut back on travel, entertainment, restaurant dining, and other in-person services. Many low-income service workers were furloughed or lost their jobs and were supported by unprecedented government stimulus packages that more than covered their lost incomes and helped mitigate the fallout. Indeed, the big stimulus amounted to a reversal of two decades of institutional pullback, reviving the social contract. Meanwhile, high-income households with members who could work remotely saw their savings rise as opportunities to spend on travel, entertainment, dining, and other forms of leisure dried up. Savings rates spiked 10 to 20 percent in the United States and Western Europe, leaving many households in a strong position to spend once the pandemic is brought to heel. While consumer spending as a whole is set to rebound, the recovery is likely to be uneven, especially in the United States, as higher-income households emerge largely unscathed financially, while lower-income households have lost jobs or face income uncertainty.

Exhibit 5

The recovery in consumer spending may be more uneven in the United States than in Europe.

Real consumer spending recovery vs average spending recovery, by income segment,¹ 2019 vs 2024, percentage points



¹Segmentation differs across countries due to data limitations. We classify households into low-income (Europe, 1st–2nd quintile; United States, below \$40,000 per year), middle-income (Europe, 3rd–4th quintile; United States, \$40,000–\$100,000 per year), and high-income (Europe, 5th quintile; United States, \$100,000+ per year).

Source: McKinsey economic scenarios developed in collaboration with Oxford Economics, November 2020; McKinsey Global Institute analysis

Most job growth may occur in high-wage occupations, leaving low-wage workers with fewer opportunities

Our research finds that job growth is likely to be concentrated in high-wage occupations as a result of COVID-19's influence on trends. We expect strong growth in jobs in healthcare and the STEM professions, as well as in the green economy, for instance wind turbine technicians. Transportation jobs that we expected to decline before the pandemic now may instead grow, thanks to the growth of the “delivery economy.”

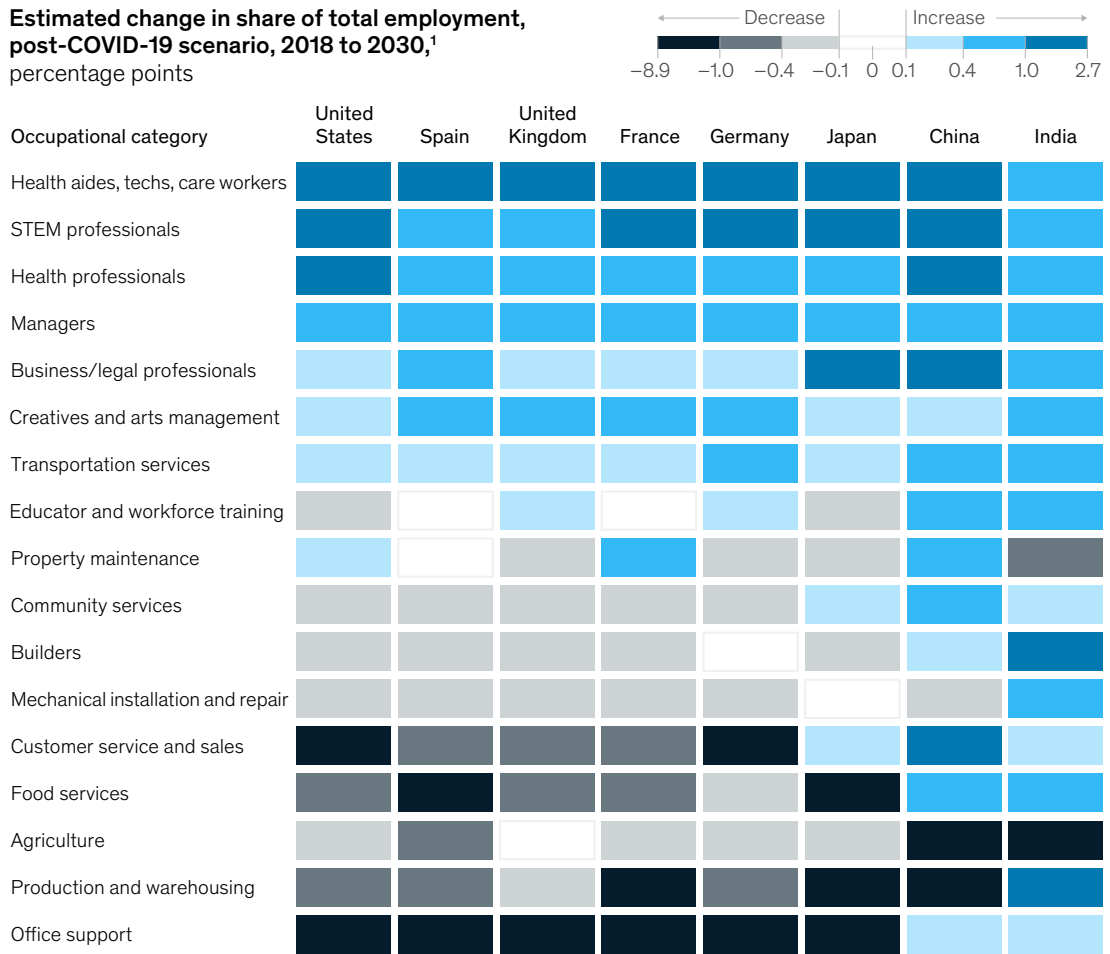
Demand for many other occupations may decline through 2030, including customer service and sales positions, food service jobs, and office support roles, such as administrative assistants and bookkeepers. The disruption is likely to have the biggest impact on low-wage jobs that have served as a safety net for displaced worker in the past.

As a result, more than 100 million workers across the eight countries we studied are likely to need to change occupations by 2030. That is 12 percent more than our estimate before the pandemic, and as much as 25 percent more in advanced economies. Attaining jobs in the growing occupations will require markedly different skills than many of the low- and middle-waged jobs likely to be displaced.

Exhibit 6

The mix of occupations may shift by 2030 in our post-COVID-19 scenario.

Estimated change in share of total employment, post-COVID-19 scenario, 2018 to 2030,¹ percentage points



¹The pre-COVID-19 scenario includes the effects of eight trends: automation, rising incomes, aging populations, increased technology use, climate change, infrastructure investment, rising education levels, and marketization of unpaid work. The post-COVID-19 scenario includes all pre-COVID-19 trends as well as accelerated automation, accelerated e-commerce, increased remote work, and reduced business travel. Source: McKinsey Global Institute analysis

The largest firms are innovating in ways that could boost productivity growth—but the risk is that smaller firms are left even further behind

So far, accelerated adoption of technology and operational innovation has been particularly pronounced among “superstar” companies, which we define as those in the top 10 percent of firms by 2019 revenue and economic profit. Between the third quarters of 2019 and 2020, capital expenditures declined by much less for large superstars than for other groups of companies. R&D investment by large US superstars grew by about \$2.6 billion, or 66 percent of total R&D investment growth in the third quarter of 2020 compared to the prior year, compared to \$1.4 billion spent by

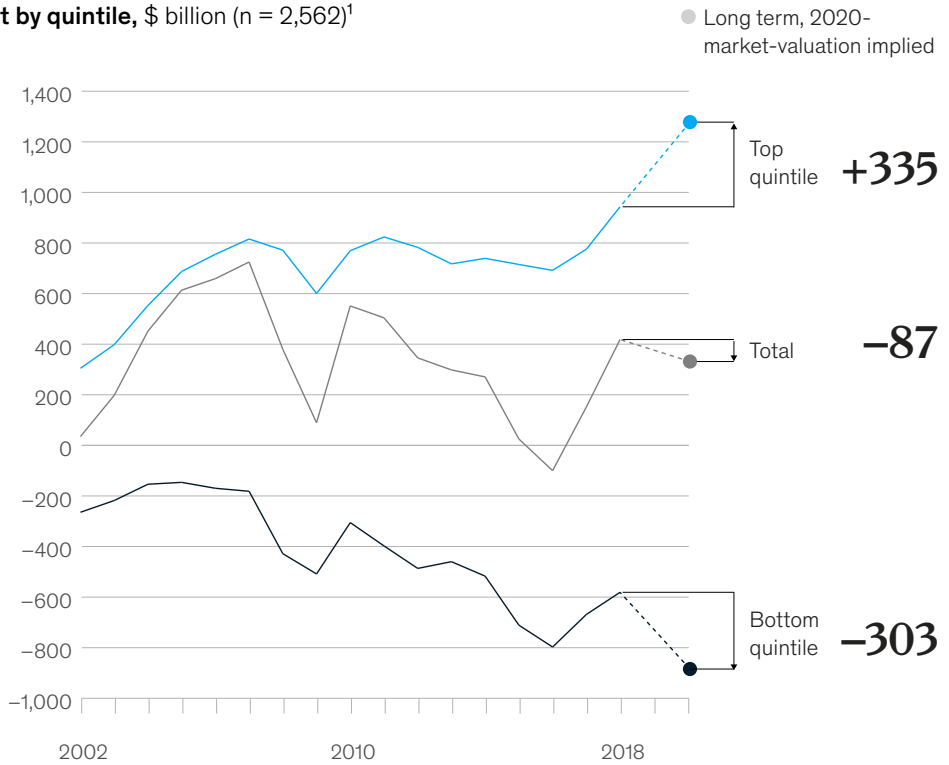
all other types of firms. Other research by McKinsey³ has found the gap in economic profit between those superstars and everyone else widened during the pandemic. If this concentration persists, there could be a repeat of the “great divide” observed after the global financial crisis when, at best, only a minority of companies, households, and regions enjoy productivity and income growth. More businesses will need to share in those gains for the changes prompted by COVID-19 to have significant impact on productivity growth.

³Chris Bradley, Martin Hirt, Sara Hudson, Nicholas Northcote, and Sven Smit, “The great acceleration,” McKinsey & Company, July 14, 2020, mckinsey.com.

Exhibit 7

The top 20 percent of companies in the United States and Europe by economic profit are pulling away from their peers.

Economic profit by quintile, \$ billion (n = 2,562)¹



¹Largest companies by revenue in 2018 with data for 2003–18 available. Source: Corporate Performance Analytics by McKinsey



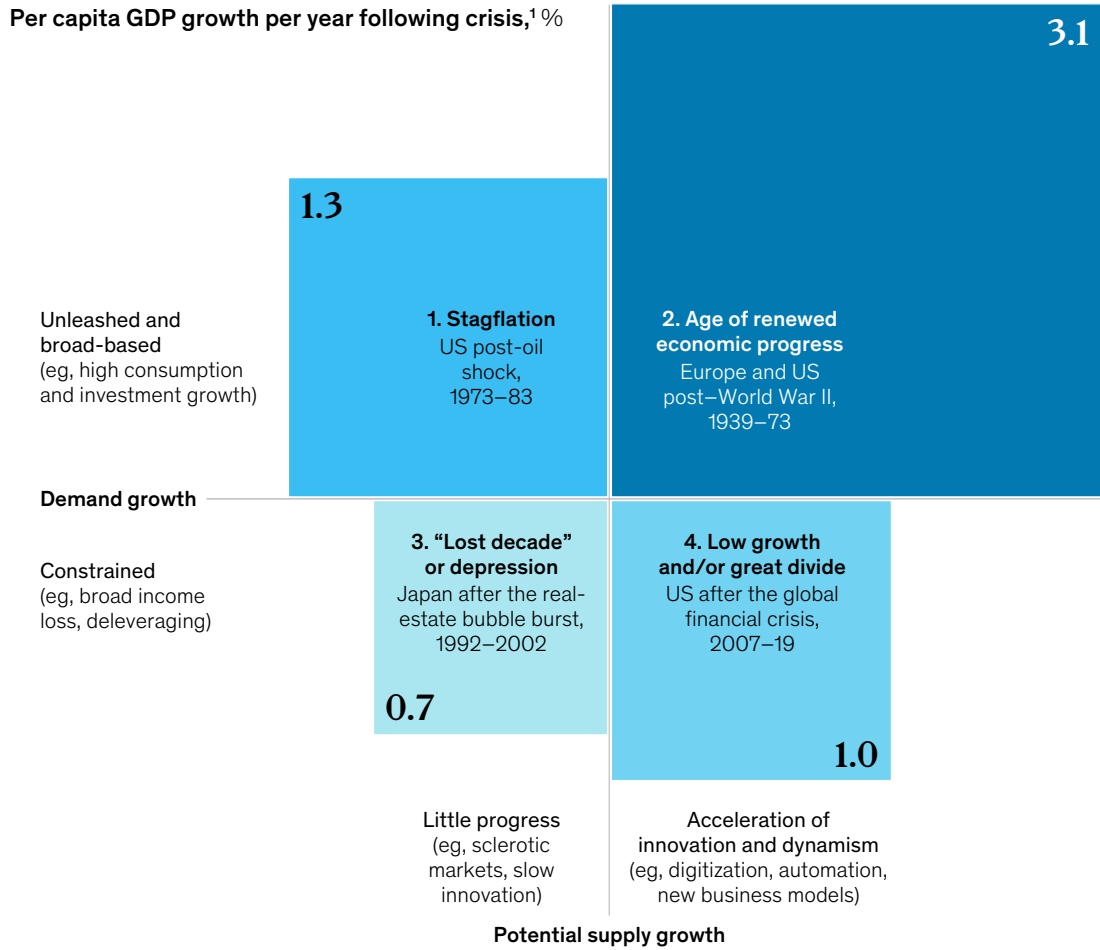
Companies and policymakers need to take action to enable a robust and broad-based economic recovery

History offers lessons about how economies recover from crises

Widespread actions to boost productivity could lead to robust economic growth like that seen after World War II. The stakes are high. In the United States, the difference in having a per capita growth rate over the next decade that mirrors the postwar growth (3.1 percent) or that after the great financial crisis (1.0 percent) amounts to 27 percentage points, or about \$17,000 per person in annual income. Achieving the better outcome requires expanding the supply side of the economy, in terms of both human capital and physical capital, and ensuring that incomes rise for a large swatch of the population, creating robust demand.

To achieve a broad-based recovery, companies and policy makers will need to move with the same alacrity they used to respond to constraints imposed by COVID-19 and, in doing so, enable higher productivity growth, better jobs, and expansive consumption. Ensuring that digital and other technology adoption is broad-based and that productivity increases are matched by rising wages is key. It will also be essential for business leaders and policy makers to mitigate workforce disruptions and offer support to vulnerable workers as they transition to new jobs with higher wages but requiring different skills. Achieving a better outcome is doable but will require faster, bolder action than we saw during the recovery after the 2008 financial crisis.

Could we get to an age of broad economic recovery?



Source: Antoinin Bergeaud et al, "Productivity trends in advanced countries between 1890 and 2012," *Review of Income and Wealth*, Sept 2016, Volume 62, Issue 3; McKinsey Global Institute analysis

During the pandemic, many large companies developed strategies to support their small- and mid-sized suppliers. Continuing these actions are vital to delivering any potential productivity dividend. Many companies accelerated payments to some suppliers and helped them interpret changing government regulations. Other companies are helping their small and mid-sized suppliers digitize the supply chain, invest in sustainable operations, and utilize automation and AI to raise efficiency.

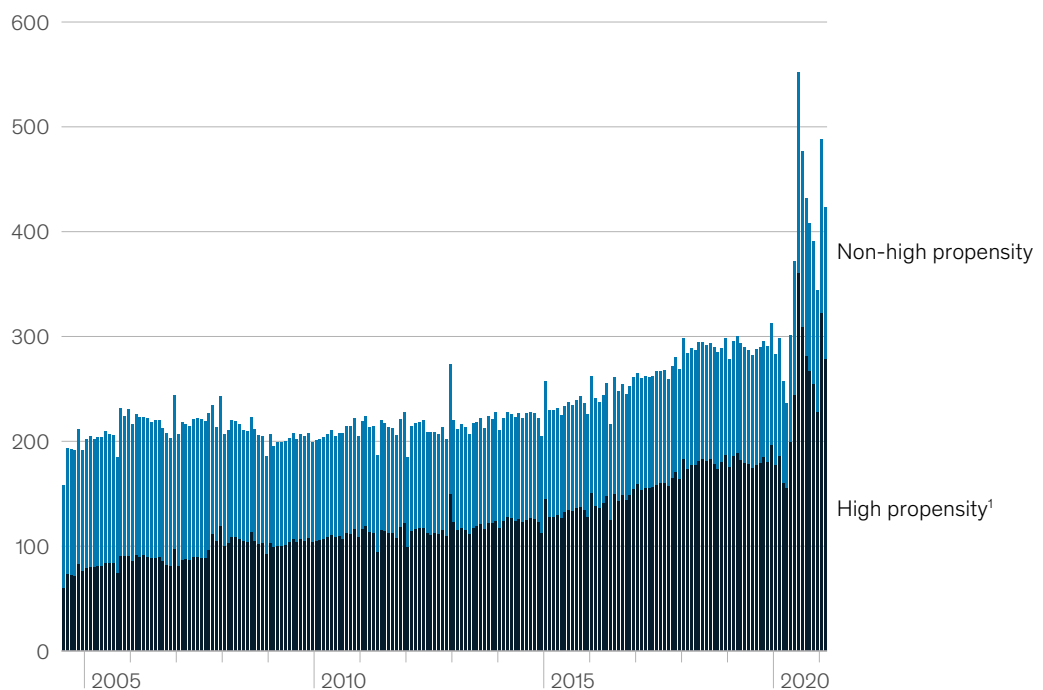
COVID-19 created opportunities to start new businesses

Changing consumption patterns spurred by COVID-19 have opened new opportunities, leading to shifts in market share and possibilities for new entrants. While many small businesses were unable to survive pandemic lockdowns, new business start-ups nearly doubled in the United States during the pandemic. During most recessions, new business formation declines as entrepreneurs face uncertain demand. But during COVID-19, many workers in the United States who were furloughed, laid off, or dropped out of the labor force for other reasons (such as childcare) took the opportunity to create the start-up of their dreams. The surge in new business creation included not only workers who chose self-employment, but also many “high propensity” businesses that are more likely to hire employees and create payroll jobs in the future.

Exhibit 9

The number of US new business start-ups has nearly doubled during the pandemic, boosting the share of self-employed workers.

US new business applications, thousands



¹Business applications that have a high-propensity of turning into businesses with a payroll. High propensity applications include applications: (a) from a corporate entity; (b) that indicate they are hiring employees, purchasing a business, or changing organizational type; (c) that provide a first wages-paid date (planned wages); or (d) that have a NAICS industry code in manufacturing, a portion of retail, healthcare, or accommodation and food services. Source: US Bureau of Labor Statistics; McKinsey Global Institute analysis

Additional unemployment benefits and stimulus checks that were part of massive government stimulus packages may have enabled these new ventures. Governments can support continued startup growth by extending the digital architecture to give everyone access to affordable broadband connections and by making permanent some temporary changes in regulation that allowed new businesses to flourish during the pandemic, such as telemedicine.

Enabling a sustained rebound in consumer spending will require stepping up retraining opportunities for workers displaced by automation and ensuring that young people entering the labor force have marketable skills. In advanced economies, having some type of credential, vocational skill, or tertiary degree can help achieve a career path with upward mobility. The scale of the retraining challenge goes beyond those workers displaced by the effects of COVID-19; even workers who keep their jobs will need to continuously learn new skills because the tasks required of them will evolve. For displaced workers, retraining programs could be delivered in a matter of weeks or months; for many mid-career workers, “wrap-around” support programs that provide income, food, transportation and childcare may be critical to enable participation in retraining programs.

Achieving a high-growth recovery requires firms to focus on revenue growth in addition to cost efficiency. That could drive higher productivity growth and increase employment, instead of greater productivity coming at the expense of employment. Previous MGI research has found that in periods when companies have developed new products and services that create demand, high productivity growth can result in employment growth.⁴ This may be happening now: In the most recent McKinsey survey on AI, a much larger share of companies reported adopting AI to create new business opportunities rather than to save labor costs than three years ago.⁵

Private and public investments, smartly targeted, can also set the stage for sustained productivity growth. For example, several persistent investment gaps could be closed now, including in infrastructure, affordable housing, and green technologies. Human capital is as important as physical capital, and changes in the tax code could treat it similarly. Additional government investment in basic science and R&D, reverting to levels seen in past decades, would also help.

The pandemic marks a turning point for economies: new patterns of consumer and business behavior emerged at extraordinary speed and many of them will stick. Digitization accelerated faster than many believed possible. The near-term recovery will bring relief. Yet the pandemic’s uneven impact on workers, consumers, and companies threatens to create a two-speed recovery that widens inequality while delivering tepid growth. The disruption caused by COVID-19 also offers a path to higher productivity and broad-based growth, nonetheless, if companies and policymakers seize the opportunity to address emerging gaps.

Susan Lund, Anu Madgavkar, Jan Mischke, and Jaana Remes are McKinsey Global Institute partners based in Washington, New Jersey, Zurich, and San Francisco, respectively.

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⁴“Global growth: Can productivity save the day in an aging world?,” McKinsey Global Institute, January 2015, [mckinsey.com](https://www.mckinsey.com).

⁵Tara Balakrishnan, Michael Chui, Bryce Hall, and Nicolaus Henke, “The state of AI in 2020,” McKinsey & Company, November 17, 2020, [mckinsey.com](https://www.mckinsey.com)