McKinsey & Company

Trends that will define 2021 and beyond: Six months on

In January 2021, we discussed how the COVID-19 pandemic could change the economy. How did we do?

by Kevin Sneader and Shubham Singhal

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In January 2021, we made a series of projections about trends that would characterize 2021 and the recovery from the COVID-19 pandemic (see sidebar, "Trends projected in January 2021").[1] Since then, some countries have rolled out widespread COVID-19-vaccination efforts; in others, there have been reverses. Circumstances have changed.

Six months later, we have updated our work, with a focus on the United States. As an advanced economy that's now largely open, it can to some degree be seen as a bellwether for postpandemic trends.

The return of confidence unleashes a consumer rebound

Personal savings in the United States spiked in April 2020 to 33.7 percent—the highest rate ever recorded.[2] With stores and entertainment venues shut down across the country, what was there to spend money on? US household savings have more than doubled, to $3 trillion, since 2019. In January 2021, we suggested that spending "will only recover as fast as the rate at which people feel confident about becoming mobile again," and that's what appears to be happening.

A McKinsey survey published in May 2021 found that about half of US consumers wanted to indulge themselves—cautiously.[3] Even among those who want to splurge, a large number are waiting until they are more confident about eating in restaurants or traveling. One key distinction is between the vaccinated and the unvaccinated. For example, McKinsey research found that vaccinated Americans were spending more time and money away from home, and the way they were using leisure time was approaching prepandemic levels. In addition, 82 percent of millennials who make more than $100,000 said they were ready to splurge—a level much higher than that of older generations. As younger Americans get COVID-19 shots, then, spending should pick up.

Two consumer trends seem to be sticking. One is "home nesting"—the nationwide do-it-yourself and clean-up binge. Almost three in ten US households renovated their homes or added fitness equipment

[1] Kevin Sneader and Shubham Singhal, "The next normal arrives: Trends that will define 2021—and beyond," January 4, 2021, McKinsey.com.
[2] FRED, Federal Reserve Bank of St. Louis, July 2021, fred.stlouisfed.org.
[3] "Survey: US consumer sentiment during the coronavirus crisis," May 13, 2021, McKinsey.com.

Trends projected in January 2021

Which trends will define 2021 and beyond? Here are the projections we made on January 4, 2021[1]:

— How the COVID-19 crisis and the recovery are shaping the global economy:
  - The return of confidence unleashes a consumer rebound.
  - Leisure travel bounces back, but business travel lags behind.
  - The crisis sparks a wave of innovation and launches a generation of entrepreneurs.
  - Digitally enabled productivity gains accelerate the Fourth Industrial Revolution.

— How businesses are adjusting to the changes prompted by the COVID-19 crisis:
  - Pandemic-induced changes in shopping behavior forever alter consumer businesses.
  - Supply chains rebalance and shift.
  - The future of work arrives ahead of schedule.
  - The biopharma revolution takes hold.

[1] Kevin Sneader and Shubham Singhal, "The next normal arrives: Trends that will define 2021—and beyond," January 4, 2021, McKinsey.com.

during the pandemic; the same percentage plan to treat themselves to more home improvements. The other is the disruption of consumer loyalty. About three-quarters of Americans changed their shopping habits in 2020, and 40 percent of these changed brands—twice the rate in 2019.[4] Younger people were more likely than older ones to switch. The implication is that, more than ever, companies can't take their customers for granted. Loyalty must be earned time and again.

In sum, American consumers are spending again and eager to spend more. But the pandemic has been a scarring experience, and they aren't doing so with abandon. In May 2021, the latest month for which data are available, the savings rate was 12.4 percent, down more than two points from April but still very high by historical standards (Exhibit 1).[5]

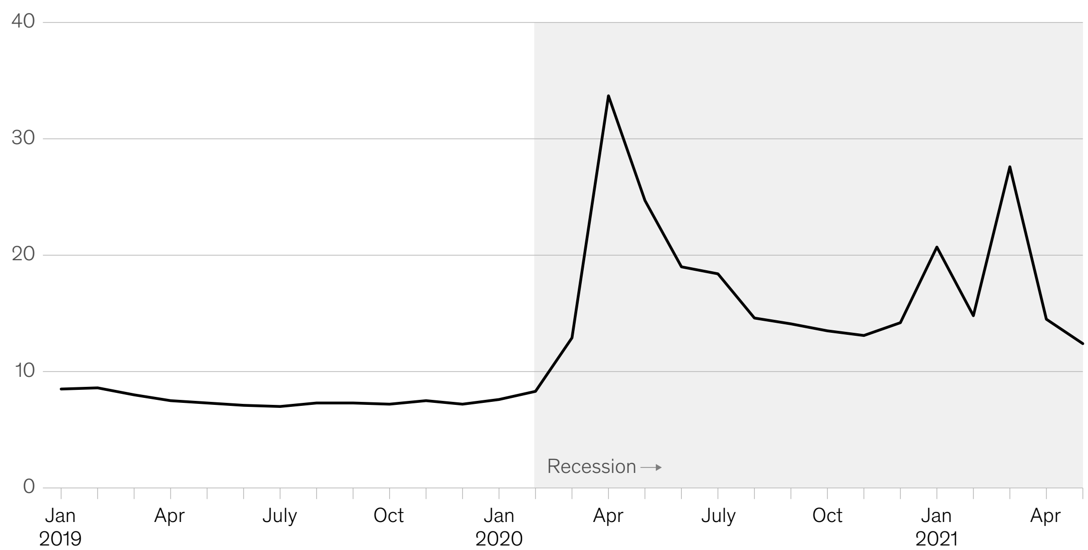
Leisure travel bounces back, but business travel lags behind

Americans want to get moving again—to see friends and family or just to have a little fun outside their four walls and immediate neighborhoods. In 2020, spending on travel fell more than 40 percent and on business travel around 70 percent.[6] Now more than 60 percent of Americans feel comfortable taking a vacation.[7] Many are already doing so: travel around the July 4 holiday was near record highs. In the second half of June 2021, almost two million passengers a day traveled through US airports, roughly four times as many as during the same period in 2020 but still well down from 2019.[8] The pace of future recovery is unclear, but a recovery in domestic travel is certainly under way.

Exhibit 1

Savings rates in the United States remain high, though lower than their record peak in 2020.

Personal-savings rate by month, seasonally adjusted, %



Source: FRED, Federal Reserve Bank of St. Louis, July 2021, fred.stlouisfed.org

[4] Ibid.
[5] FRED, July 2021.
[6] Travel Recovery Insights Dashboard, U.S. Travel Association, July 2021, ustravel.org.
[7] Ibid.
[8] "TSA checkpoint travel numbers (current year versus prior year(s)/same weekday)," US Transportation Security Administration, July 2021, tsa.gov.

International travel is a different story. Going overseas remains complicated by a patchwork of rules and regulations on testing, vaccination status, and quarantining. What matters for international travel is that it should be possible and relatively straightforward. On the whole, that isn't happening, and international travel is still reeling. In January 2020, 2.9 million Americans traveled outside the country; a year later, just 580,000 did—a 71 percent drop; visits to Europe were down 88 percent.[9] The mildly good news is that growth was strong from January 2021 to March 2021, up 48 percent, and the allure of overseas travel is unchanged. But for now, Americans are opting to travel domestically.

Business travel looks likely to fall somewhere in the middle—a slower recovery than domestic travel but a faster one than international. US business travel fell by more than two-thirds in 2020,[10] and in the meantime, companies have found new ways to connect, such as through videoconferencing and webinars. Month by month, as vaccination levels and confidence rise, we expect more businesspeople to get back on the road, with domestic business travel recovering faster than international.

By 2024, domestic travel will probably return to prepandemic strength, but we estimate that business travel will be at only 80 percent and may never recover beyond that. For the many hotels and airlines that rely on business travelers for a disproportionate share of profits, "normal" isn't coming back any time soon. They will need to reevaluate their pricing, marketing, networks, digital strategies, and investment plans. In this instance, the past may not be prelude: reimagination will be the order of the day.

One factor to keep in mind is that for the airline industry, there can only be as many passengers as there are seats. Getting the physical and service infrastructure back—for example, by recalling furloughed pilots and preparing idled aircraft to fly again—will take time. No doubt this is a problem the airlines would love to have, compared with the catastrophe of the past 16 months, but it's still a problem.

The crisis sparks a wave of innovation and launches a generation of entrepreneurs

In January 2021, we noted the surge in new business applications in the third quarter of 2020—more than double the level for the same period in 2019. That included a 50 percent increase in applications for "high propensity" businesses, which are the kind most likely to employ additional people.

The number of start-ups couldn't keep on doubling indefinitely. But what's encouraging is that their growth is still going strong. Since the US Census Bureau started keeping statistics on the subject, in 2005, no month recorded as many as 340,000 new businesses—until June 2020.[11] Since then, every single month has at least matched that level (Exhibit 2). And the momentum is positive. The first five months of 2021 saw an average of 472,000 new business applications a month, many more than in the last five months of 2020 (410,000), even as the unemployment rate continued to fall.

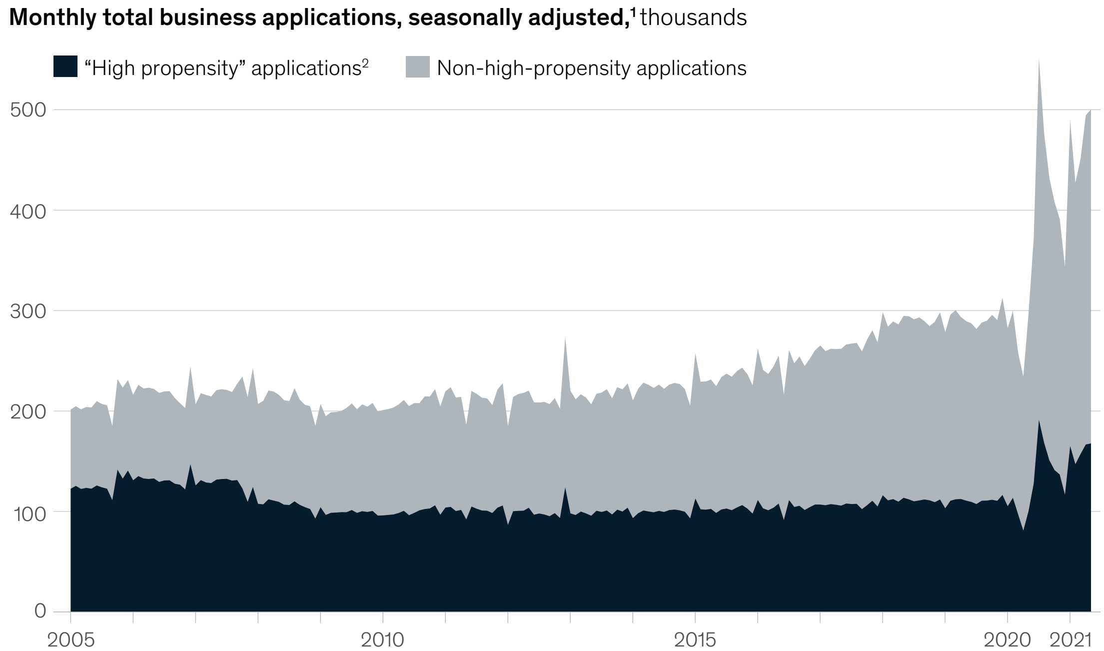
Of course, many of these businesses will fail, and small business is still suffering: revenues are down more than 35 percent compared with January 2020.[12] But the fact that so many Americans are willing to bet on themselves is a sign of optimism and hope.

Innovation is more difficult to measure, but labor-force productivity is at least indicative. It's encouraging, then, that it increased 5.4 percent in the first quarter of 2021,[13] even as hourly compensation and the number of hours worked rose too. Since January 2020, productivity has improved 4.1 percent, which is far above historical trends. This is critical: both history and economics demonstrate that productivity is essential to

[9] International Air Travel Statistics, US International Trade Administration, July 2021, trade.gov.
[10] "Travel forecast," U.S. Travel Association, July 1, 2021, ustravel.org.
[11] Business Formation Statistics, US Census Bureau, July 2021, census.gov.
[12] Opportunity Insights Economic Tracker, Opportunity Insights, July 2021, tracktherecovery.org.
[13] "Productivity and costs, first quarter 2021, revised," US Bureau of Labor Statistics, June 3, 2021, bls.gov.

Exhibit 2

The entrepreneurial spirit in the United States has stayed strong.



[1]Utilities sector not seasonally adjusted.
[2]Applications for businesses most likely to employ additional people.
Source: Business Formation Statistics, US Census Bureau, July 2021, census.gov

growth and higher living standards. It has to be good news that business investment rose 11.7 percent in the first quarter of 2021[14]—higher than the prepandemic peak—and orders for capital goods are also strong.

The COVID-19 pandemic changed how many businesses operate: retailers used industrial robots and offered curbside deliveries, and hotel companies converted rooms into office spaces. Digitization and remote working accelerated faster than anyone thought possible before the pandemic made the impossible a necessity. One concern, however, is that many such changes appear to be concentrated in large leading companies—the strong are getting stronger. For innovation to translate into enduring productivity improvements, it needs to go deeper. Another factor to watch: 60 percent of the productivity potential comes from organizations seeking to reduce costs,[15] and that could mean cutting jobs.

Digitally enabled productivity gains accelerate the Fourth Industrial Revolution

Our point about the Fourth Industrial Revolution—the application of AI, analytics, digitization, and other technologies to all phases of economic activity, from design to production—was speculative back in January 2021 and remains so now. What can be said is that digitization will be everywhere, and it will be critical to both national productivity and the success of individual

[14] Sarah Chaney Cambon, "Capital-spending surge further lifts economic recovery," *Wall Street Journal*, June 27, 2021, wsj.com.
[15] Susan Lund, Anu Madgavkar, Jan Mischke, and Jaana Remes, "What's next for consumers, workers, and companies in the post-COVID-19 recovery," McKinsey Global Institute, May 18, 2021, McKinsey.com.

companies and sectors. The COVID-19 pandemic sped up digitization by three to seven years; what was considered best in class in 2018 is now below average. Digitization happened that quickly.

Executives know that this is only the beginning. In a survey conducted earlier in 2021, only 11 percent of respondents believed that their current business models would be economically viable through 2023, and almost two-thirds said their companies needed to invest in digital technologies to adapt.[16] This wasn't just talk; funding of digital and tech initiatives has risen over the course of the pandemic, even as businesses made painful cuts elsewhere. An in-depth study by the McKinsey Global Institute projects that current trends could raise productivity by one percentage point over the next few years.[17] With investment in digitization, telehealthcare, and other rising technologies coming back strongly, productivity improvements could follow.

How all this connects to the Fourth Industrial Revolution is still a work in progress. But the direction is unmistakable.

Pandemic-induced changes in shopping behavior permanently alter consumer businesses

The big change in consumer behavior during the COVID-19 pandemic has been the shift to e-commerce and remote options. In the United States, e-commerce grew more than three times as quickly from 2019 to 2020 as it had during the previous five years,[18] and many Americans even proved willing to buy cars without literally kicking the tires. Mass retailers' online sales rose 93 percent in 2020[19]; among apparel, fashion, and luxury retailers, online penetration rose to 26 percent, from 16 percent. These changes are sticking—mostly. People are still shopping online much more than they did before the pandemic but at lower levels than they did during its depths.

So far, so good—for those doing the buying. For consumer-goods companies and retailers, not so much. Cost cutting can go only so far. Moreover, e-commerce is often less profitable than is in-store shopping. Instead, businesses will need to develop whole new capabilities (including data-driven marketing, distribution management, and sustainability) to create long-term value. E-commerce can drive rather than dilute profitability if companies consider their marketing investments, revenue-growth management, and warehousing and supply-chain costs. And yes, scale helps. While there has been substantial growth among small companies and niche products, bigger is often better.

Omnichannel isn't just the future. It's the present, so it needs to be integrated into strategy in a way it often isn't. A McKinsey survey of retail executives found that two-thirds of them don't consider the omnichannel implications when they make decisions for stores.[20]

Telemedicine reveals a similar pattern. There has been a huge surge in adoption: in 2019, only 11 percent of US consumers had used the service; now, 46 percent have used it and 76 percent are interested, as regulators have liberalized rules and both patients and providers have grown more willing to use virtual care.[21] And of those who have used such a service, three-quarters were satisfied with the experience. Neither that rate of growth nor its general use has been sustained, but telemedicine has gone from niche to routine.

McKinsey has estimated that telehealthcare could absorb up to $250 billion in US spending on health. That could help improve both access and care. However, telehealthcare should be integrated more

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[16] "The new digital edge: Rethinking strategy for the postpandemic era," May 26, 2021, McKinsey.com.
[17] "Will productivity and growth return after the COVID-19 crisis?," McKinsey Global Institute, March 30, 2021, McKinsey.com.
[18] "What's next for consumers, workers, and companies in the post-COVID-19 recovery," May 2021.
[19] Affinity credit-card data.
[20] "Retail speaks: Seven imperatives for the industry," McKinsey and Retail Industry Leaders Association, March 2021, McKinsey.com.
[21] Oleg Bestsennyy, Greg Gilbert, Alex Harris, and Jennifer Rost, "Telehealth: A quarter-trillion-dollar post-COVID-19 reality?," July 9, 2021, McKinsey.com.

Efforts to strengthen and diversify supply chains have generally been hit or miss rather than systematic. The COVID-19 pandemic revealed the limits of that approach.

fully—for example, by addressing concerns about technology security, clarifying the regulatory framework, integrating virtual- and conventional-care models, and developing virtual-first health plans. While much remains to be done, the future for virtual care looks, well, healthy. As of April 2021, 84 percent of physicians were offering virtual visits and 57 percent said they would prefer to continue offering such care. And investment is accelerating: $6.1 billion was recorded in the first quarter of 2021, well above the previous record in 2020.

Supply chains rebalance and shift

The sight of a 200,000-ton container ship blocking the Suez Canal in March 2021, holding up almost $10 billion in goods, made people who had never given a thought to global supply chains realize just how vulnerable they can be. Addressing this vulnerability is still a priority for business. The US federal government has also taken note, conducting a supply-chain review to strengthen resilience and prevent disruptions, such as the semiconductor shortage that hobbled major automakers. The US Senate recently approved a bill that would, among other things, create a supply-chain crisis-response program and boost domestic semiconductor manufacturing. Companies have learned the hard way that supply chains are only as strong as their weakest link, and since large organizations have an average of 5,000 suppliers, that's a lot of links. If one breaks, the costs can be enormous. Even before the COVID-19 pandemic, such breaks were common: companies experienced a production-line shutdown lasting a month or more every 3.7 years.[22]

These issues are more pressing in the United States because it satisfies a larger share of domestic demand for high-end manufactured goods through imports than do most of its competitors. Even so, efforts to strengthen and diversify supply chains have generally been hit or miss rather than systematic. The pandemic revealed the limits of that approach.

In the recent past, supply chains have been optimized according to cost and efficiency; now, resilience and agility—for example, identifying additional suppliers for critical parts, developing backup capacity to reduce reliance on a single facility, and rethinking inventory management—are bigger parts of the equation.

The future of work arrives ahead of schedule

In January 2021, most Americans were working from home—something that would have seemed impossible a year before. Most have adapted well,

[22] "Risk, resilience, and rebalancing in global value chains," McKinsey Global Institute, August 6, 2020, McKinsey.com.

and in many organizations, both productivity and customer satisfaction have improved.

If the rise in remote work was the defining feature of the economy associated with the COVID-19 pandemic, then that of the postpandemic economy is likely to be hybrid work: employees will be expected to show up at the office some of the time. Indeed, many want to do so—about two-thirds of college seniors, for example, want to be in the office some or most of the time.[23] Employers know that new employees miss being able to meet colleagues and that work–life balance has been disrupted.

In May 2021, a McKinsey survey of employers found that most of them believed that the office would again become the primary place for work[24]; some are insisting on a full-time return to the office because they see the remote work of the pandemic period as an extraordinary shift forced by an extraordinary event, not as a new routine. As for employees, in a survey conducted in the spring of 2021, 63 percent of respondents said they preferred either fully remote or hybrid work; before the pandemic, almost exactly the same percentage preferred to be fully on site.[25] Parents are the most enthusiastic of all employees about hybrid-work models, suggesting that their effective implementation could be an important component of efforts to recruit and retain women in particular. Companies need to figure out their vision of the postpandemic future, both immediately and beyond. If remote workers are doing their jobs effectively, what does that imply for where and how these tasks are done?

Another leadership priority is to accelerate the shift toward getting work done using small teams focused on outcomes and characterized by a high degree of trust, collegiality, and apprenticeship. Rather than regularly evaluating progress, postpandemic leadership is becoming about clarifying goals and strategy, as well as coaching and motivating such teams. Companies that made systematic efforts along these lines report much higher productivity than do those that didn't.[26] Many companies are just beginning to absorb this change, which will be an essential feature of the way work gets done.

Figuring all this out is complicated, and norms and expectations are evolving. At the moment, what seems critical is to strike a balance between communicating immediate plans for a return from remote working in a simple, accessible way and building longer-term capabilities. The return to the office, to whatever degree, isn't just about opening the canteen and catching up with colleagues. It's about internalizing the lessons of the recent past and creating a better operating model—for both employees and companies. After all, employee satisfaction correlates directly with performance.

There may be downsides to continued remote working, both for companies and society. In interviews with more than 500 senior executives, McKinsey found that more than half believed that "the sense of belonging" didn't improve or got worse over the course of the pandemic.[27] Regardless of how well the transition went, there was broad concern about the effects of a fully virtual model on organizational and mental health.

There are also broader equity issues to consider. Much of the workforce, such as cashiers, restaurant staff, construction workers, and home-health aides, don't have the option of remote working. Others struggle with expensive or unreliable broadband. Moreover, lower-paid occupations are also more vulnerable to automation, such as robots replacing warehouse

[23] *Class of 2021 report*, iCIMS, May 2021, icims.com.
[24] "What executives are saying about the future of hybrid work," May 17, 2021, McKinsey.com.
[25] Andrea Alexander, Aaron De Smet, Meredith Langstaff, and Dan Ravid, "What employees are saying about the future of remote work," April 1, 2021, McKinsey.com.
[26] "What executives are saying about the future of hybrid work," May 2021.
[27] McKinsey CxO Survey on Return to Workplace, May 2021.

workers. The result could be what one economist calls a "time bomb for inequality."[28]

The biopharma revolution takes hold

Yes, it's true that there is a revolution related to biopharmaceuticals—and developments around COVID-19 prove it. In January 2021, 60 vaccine candidates were in clinical trials, according to WHO. As of early July 2021, 105 were in trials, with an additional 184 in the preclinical phase.[29] Moreover, new vaccine platforms, such as mRNA and viral-vector platforms, have been validated, enabling new immunological approaches. These have also demonstrated uncanny speed and scalability: the first mRNA-platform-based drug product for COVID-19 was available only 42 days after the SARS-CoV-2 sequence was published. These technologies could be used to develop treatments against other intractable diseases, such as HIV, tuberculosis, malaria, and cancer.

In addition, the fight against COVID-19 has accelerated the formation of partnerships, both public and private, and the development of manufacturing infrastructure to scale up production in the biopharma industry. The COVID-19 pandemic fundamentally changed the way the industry operates, and its reputation in the United States has improved markedly.

On the whole, our projections from January 2021 have held up pretty well—in large part, admittedly, because six months is too short a time to be proved flat-out wrong. For a number of our themes, including e-commerce and the future of work, existing trends accelerated. In other cases, such as entrepreneurship, travel, and biopharma, conditions may have changed more fundamentally. In this sense, then, while the full picture is still forming, one thing is becoming clear: the next normal won't be a return to the norms of 2019.

[28] May Wong, "Stanford research provides a snapshot of a new working-from-home economy," Stanford News, June 29, 2020, news.stanford.edu.
[29] COVID-19 Vaccine Tracker and Landscape, WHO, January and July 2021, who.int.

Kevin Sneader is the former global managing partner of McKinsey, and **Shubham Singhal** is a senior partner in McKinsey's Detroit office.

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