

The postpandemic economy

The consumer demand recovery and lasting effects of COVID-19

Executive summary



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The consumer demand recovery and lasting effects of COVID-19

The COVID-19 pandemic caused an unprecedented consumption shock to the global economy in 2020. But what happens when the pandemic ends? In this report, we examine how the pandemic affected consumer demand in China, France, Germany, the United Kingdom, and the United States and what that means for the recovery. We divide consumers into nine segments based on age and income to determine the size and shape of the consumer demand recovery. We then determine how the mix of consumer demand could evolve and which pandemic-induced behavioral changes are likely to “stick.” We find:

The exceptional nature of the shock provides reasons to be optimistic for a fast rebound in consumer spending once the pandemic is over.

Unlike previous recessions, this one involves no consumer debt overhang, bursting asset price bubbles, or long-term business cycle fluctuations. The sudden and deep drop in consumption across China, the United States, and Western Europe, ranging from 11 to 26 percent, resulted mainly from cutbacks to in-person services, especially travel, entertainment, and dining. These categories have been growing steadily, and consumer surveys indicate a likely strong demand rebound once the pandemic ends. The ten- to 20-percentage-point spike in the savings rate in the United States and Western Europe in 2020 (a doubling in the United States) left many households in a strong position to spend. China’s consumer spending recovery after controlling the COVID-19 virus is another reason for optimism.

But 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.

Our analysis indicates a strong but unequal consumption recovery in the United States with variations among income and age segments and a more balanced although slower recovery in Europe. Demand from high-income households, which accounted for two-thirds of the consumption drop and roughly half of the savings increase in the United States, will be key to the strength and speed of the recovery. However, young and low-income households, disproportionately working in hard-hit service-sector jobs and occupations with accelerated digitization and automation, are likely to face purchasing power constraints when government stimulus ends. As a result, we may see widening polarization of consumer demand and an increase in inequality, especially in the United States.

The pandemic will leave lasting marks on consumer behavior as long-standing habits—more spending on services, greater digital adoption, and more time and money spent out of the home—have been interrupted, accelerated, or reversed.

To determine whether these pandemic-induced behaviors might stick, we examined consumption shifts across consumer life using our stickiness test that takes into account actions by consumers, companies, and governments. The pandemic accelerated the adoption of digital products and services with a step change in healthcare, a near doubling of online grocery shopping, and widespread adoption of streaming services that will continue. Additionally, home nesting will remain an enduring lifestyle for many, facilitated by consumers’ elevated rates of investment in home improvement and continuing opportunities to work from home, all of which have broadened the definition of home to include work, fitness, and entertainment. Our analysis indicates other behaviors that were

interrupted—leisure air travel, in-person education, and in-person dining—will resume but with modifications like contactless restaurant menus or selective use of digital tools in education.

While the consumer drivers we identify in our stickiness test—value, experience, and investments—are critical in determining what behavior will persist, company and government actions matter at least as much.

Wider adoption of work from home may reduce business air travel by as much as 20 percent and that will have an impact on the routes and flights available for leisure travelers. In entertainment, where box office revenue globally in 2020 was only 20 to 35 percent that of 2019, our analysis indicates a lasting drop in demand for movie theaters, due to the likelihood of permanent theater closures and the shift to digital channels by movie studios. Government regulations surrounding virtual healthcare provisioning will largely determine how much consumers use telehealth.

Companies and governments face challenges from an uneven consumer demand recovery and lasting effects of the pandemic, such as changes to the competitive landscape and increasing inequality.

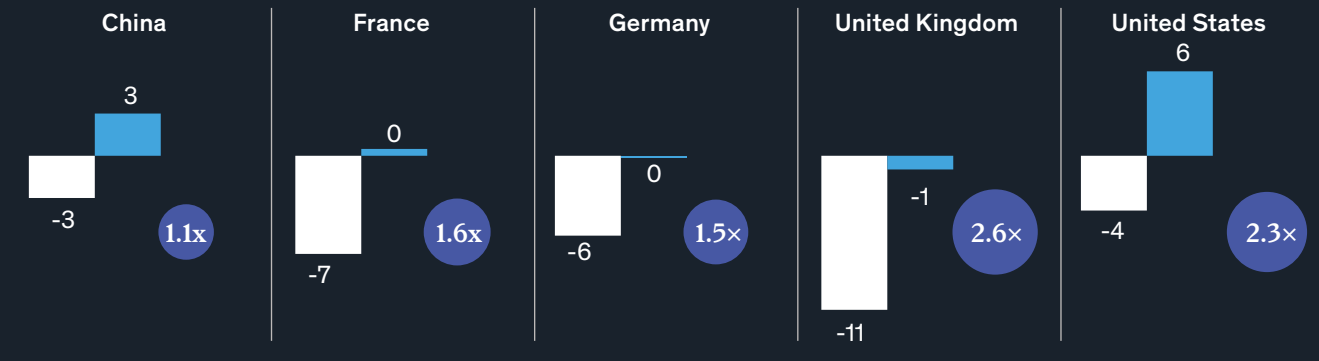
In preparation, companies could determine how a segmented rate of recovery, varying degrees of stickiness of consumer behaviors from COVID-19, and emerging innovations, business model changes, and a reshaped competitive landscape will affect their product and service offerings. Governments will face many challenges—finding the right balance of macro policies to support the consumer demand recovery, adjusting regulations in consumer markets to keep up with changes, and addressing lasting marks from the pandemic, especially on inequality.

What will happen to consumer spending and behavior when the pandemic ends?

There are reasons for optimism for a strong recovery as many households maintained income but were not able to spend, increasing savings

Private consumption and disposable income, 2020 vs. 2019, YoY real change, %

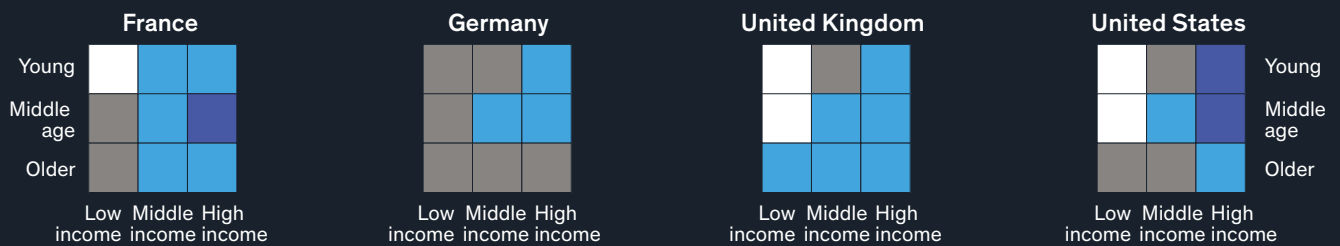
● 2020 savings as a ratio of 2019 savings
■ Private consumption ■ Disposable income



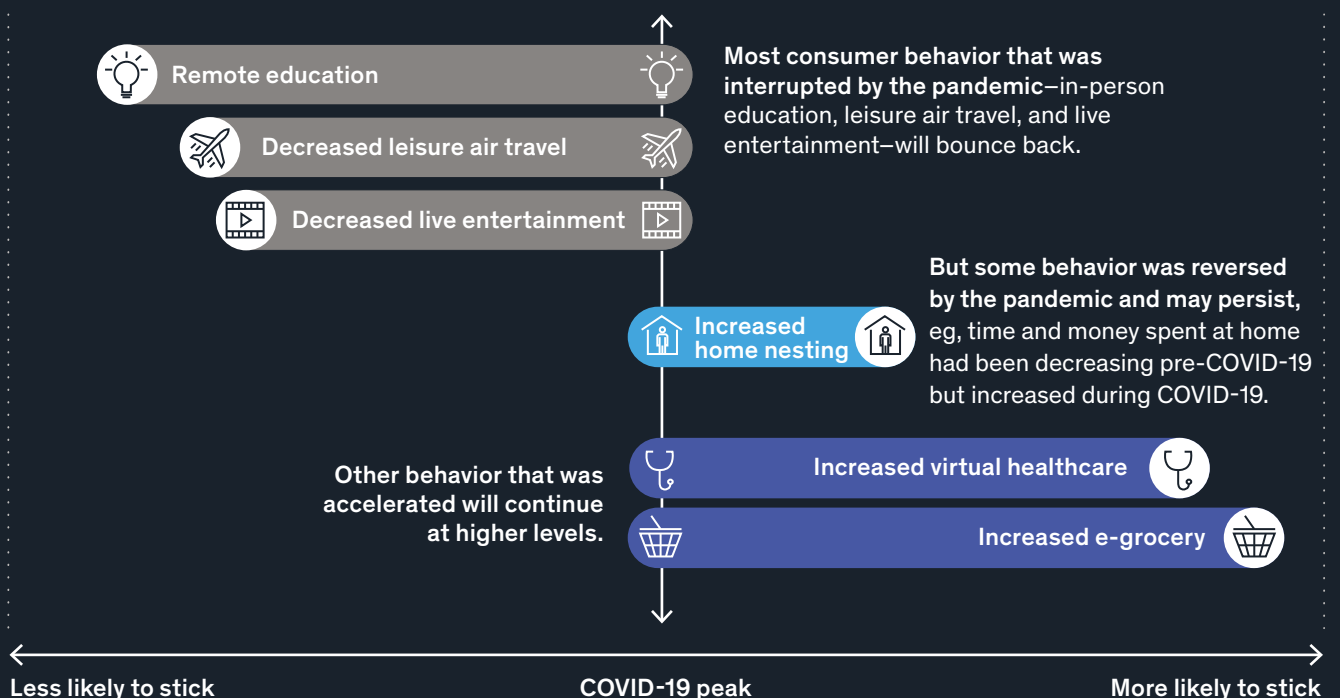
But the recovery in consumer spending will be uneven ...

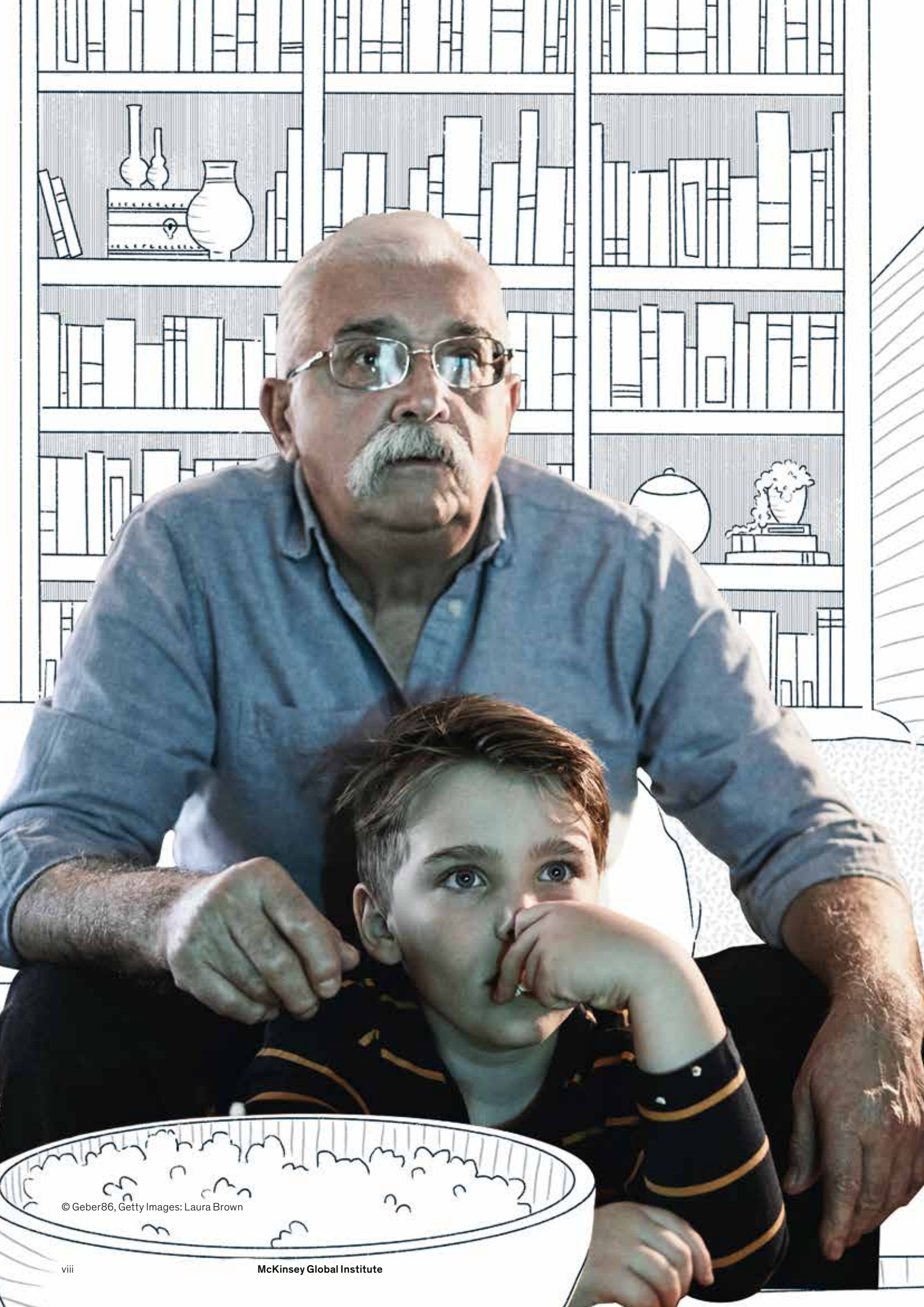
Recovery of real consumer spending by segment vs. overall spending recovery, compared with pre-COVID-19 levels

■ >2 p.p. below average ■ 0-2 p.p. below average ■ 0-2 p.p. above average ■ >2 p.p. above average



... and consumer behavior will change in lasting ways.





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Executive summary

The COVID-19 pandemic brought on an economic pandemic, unprecedented in scale. And just as the coronavirus has affected regions and individuals in vastly different ways, the impact on economic health has also been very uneven. Restaurants and bars, travel and tourism, sports and performing arts have been among the hardest hit, while grocery and liquor stores, movie streaming platforms, and delivery and shipping industries have been booming. Employees able to work from home have maintained jobs and income, accumulating more savings as their consumption dropped; others lost jobs and income or closed down businesses and have struggled to pay the bills. Across countries, the pandemic has forced consumers to change long-standing habits, companies to abruptly transform business models, and governments to adjust regulations to keep up with a world in flux. While there is reason to be optimistic for a robust recovery in consumer spending once the COVID-19 virus is controlled due to pent-up demand and a significant accumulation of savings, the pandemic, like other crises, will leave a lasting mark. Understanding what that means for consumer behavior and the recovery in consumer spending is the focus of this report.

In our analysis, we focus on France, Germany, the United Kingdom, and the United States, where we divide consumers into nine segments based on age and income to analyze pre-COVID-19 trends and the impact of COVID-19 in order to determine the size and shape of the consumer demand recovery. Additionally, we analyze consumption patterns in China, including China's consumer demand rebound in 2020, as a case study for the consumer recovery. To understand what COVID-19 behaviors might stick, we complemented our macro analysis with a micro analysis of six case studies that cover a broad spectrum of consumer life, were material in time and money spent by consumers, and were affected by the pandemic in 2020. These cases include e-grocery shopping, entertainment, home nesting, leisure air travel, remote education, and virtual healthcare. To determine what might change and what might remain the same, we created a stickiness test that takes into account not only consumer preferences but also the role of industry and government in shaping consumption patterns.

There are reasons to be optimistic for an initial strong rebound in consumer spending once the pandemic is over, although uncertainty remains over timing

Typically, past downturns have involved business cycle fluctuations, consumer debt overhang, or bursting asset price bubbles. None of those factors were present during the 2020 recession. Instead, the COVID-19 pandemic caused an almost immediate consumption shock from consumers' fear of the virus and the forced shutdown of some entire industries.¹ That means an effective vaccine rollout to bring the pandemic to an end could restore consumer demand to prepandemic levels, fueled by rising consumer confidence, pent-up demand, and accumulated savings.

The decline in consumer spending in 2020 was steep, quick, and mostly in consumer services, setting the 2020 recession apart from previous economic contractions (Exhibit E1). Consumer spending in the United States and major Western European economies (France, Germany, and the United Kingdom) declined between 11 and 26 percent in second-quarter 2020 versus fourth-quarter 2019.² The drop in consumption was by far the largest since the 1930s Great Depression in the United States and since World War II in Europe. For the United States, the 11 percent consumption drop from peak to trough during 2020 was about five times

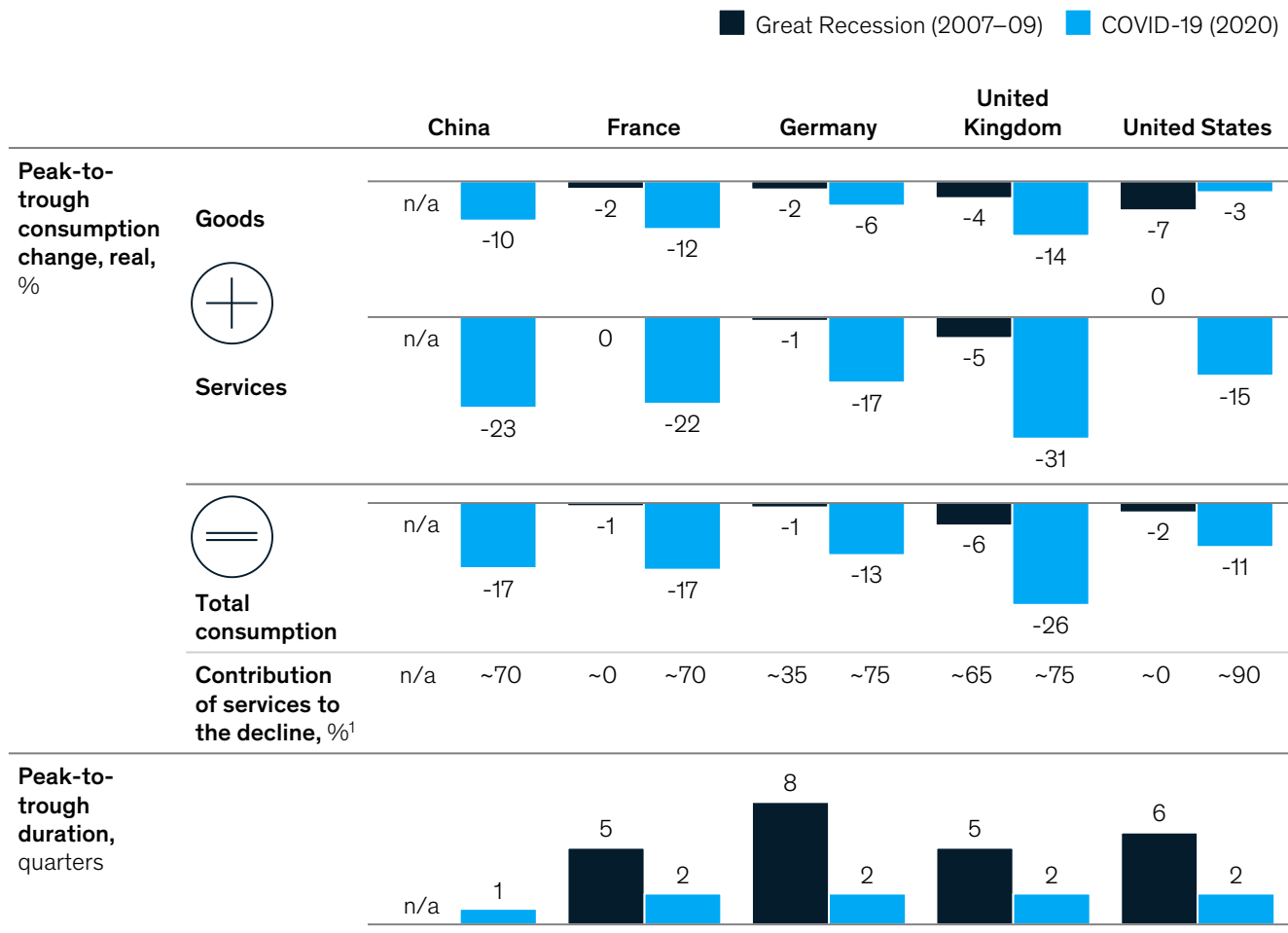
¹ US research suggests that health concerns had an even bigger impact on consumer activity than lockdown measures. See, for example, Austan Goolsbee and Chad Syverson, "Fear, lockdown, and diversion: Comparing drivers of pandemic economic decline," NBER working paper number 27432, June 2020.

² Throughout this report, we often use shorthand for these three major Western European economies we analyzed (France, Germany, and the United Kingdom) and refer to them as "Western Europe."

higher than the 2 percent decline during the Great Recession of 2007 to 2009.³ Another difference was the speed of the decline: it took a year and a half to reach the consumption trough in the United States during the Great Recession, compared with only two quarters for the contraction induced by COVID-19. Furthermore, the decline in consumer spending occurred primarily in services, such as dining, accommodation, and travel, which contributed 70 to 90 percent of the second-quarter blow to consumer spending in China, the United States, and Western Europe.⁴

Exhibit E1

The consumption shock was triggered by lockdowns and health fears that severely curtailed spending on services, setting it apart from past recessions.



1. Estimated based on data in constant prices; actual contribution in current prices can differ due to different inflation of goods and services.
 Note: Peak-to-trough based on quarterly consumption data. For Great Recession, dates vary across countries. For COVID-19, assumed peak in Q4 2019 and trough in Q2 2020 (Q1 2020 in China). Figures may not sum to 100% because of rounding.
 Source: BEA; Eurostat; NBS; Oxford Economics; McKinsey Global Institute analysis

In China, the consumption drop in first-quarter 2020 was also severe, about 17 percent. However, public health initiatives brought the pandemic largely under control by the end of the first quarter of 2020, spurring a recovery in consumer spending that has continued since.⁵ Services as a share of consumer spending started to recover once restrictions were lifted, yet

³ Peak-to-trough calculated quarterly for COVID-19 and the Great Recession, but annually for the Great Depression (1929–33) because of data limitations (quarterly peak-to-trough drop would be higher). Data from US Bureau of Economic Analysis (BEA).
⁴ Data from BEA, Eurostat.
⁵ Timing of the pandemic varies by country, and in this report we often refer to pre-COVID-19, spring COVID-19 peak, and postpandemic. For China this means: fourth-quarter 2019, February 2020 (or first quarter), and second quarter (or specifically May 2020 onward). France: fourth-quarter 2019 through February 2020, March–April 2020, and no postpandemic yet. Germany: fourth-quarter 2019 through February 2020, March–April 2020, and no postpandemic yet. United Kingdom: fourth-quarter 2019–February 2020, April 2020 (or second quarter), and no postpandemic yet. United States: fourth-quarter 2019 through early March 2020, April 2020 (or second quarter), and no postpandemic yet.

still remain below pre-COVID-19 levels. According to government data, the share of services for the full year 2020 was 50.1 percent, compared with 53.6 percent the previous year.⁶ China's experience provides further reason for optimism that the consumption shock can be reversed when the pandemic is controlled.

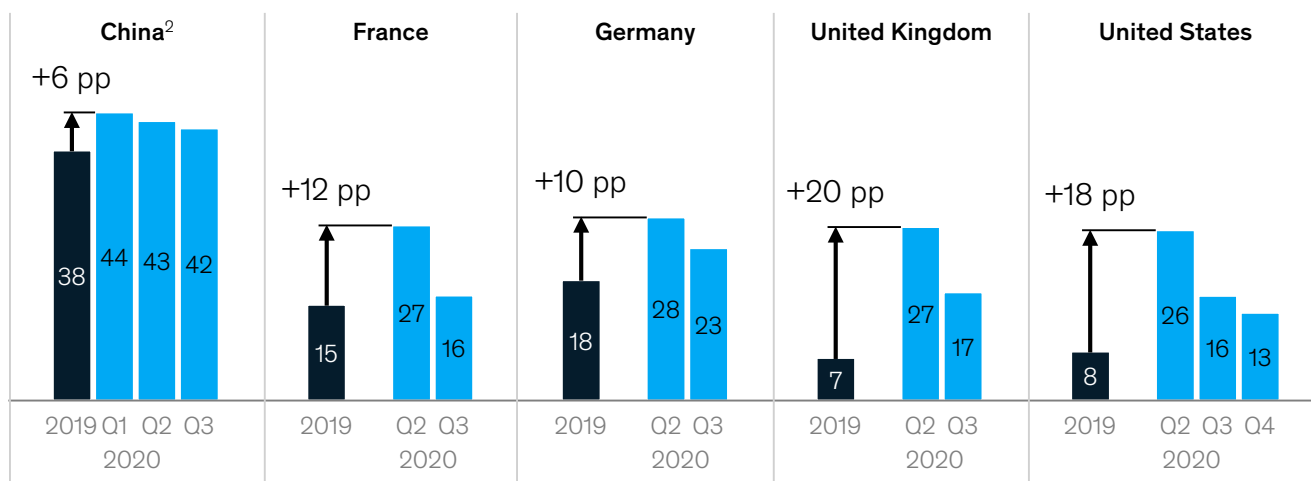
A large share of the consumption decline came from high-income households (more than two-thirds in the United States). Since most high-income households were able to continue working, many from home, they accumulated greater savings while their consumption was restricted by the pandemic. The savings rate of US households in 2020 more than doubled compared with the previous year, almost all driven by high- and middle-income households. In Western Europe, based on third-quarter data, the 2020 savings rate could more than double in the United Kingdom and increase by about a half in France and Germany because of a less severe consumption drop and initially higher savings rates (Exhibit E2).⁷ Many households are in a strong economic position to spend once the pandemic is controlled.

There is little doubt that in the short term, the timing of the recovery in consumer spending will be determined by the trajectory of the pandemic. At the beginning of 2021, the vaccine rollout was under way in the United States, Europe, and China; however, there was considerable uncertainty stemming from the ability of countries to quickly and efficiently vaccinate their citizens as well as the resilience of more aggressive strains of the virus to the vaccine (see Box E1, "Our macro methodology and key assumptions").

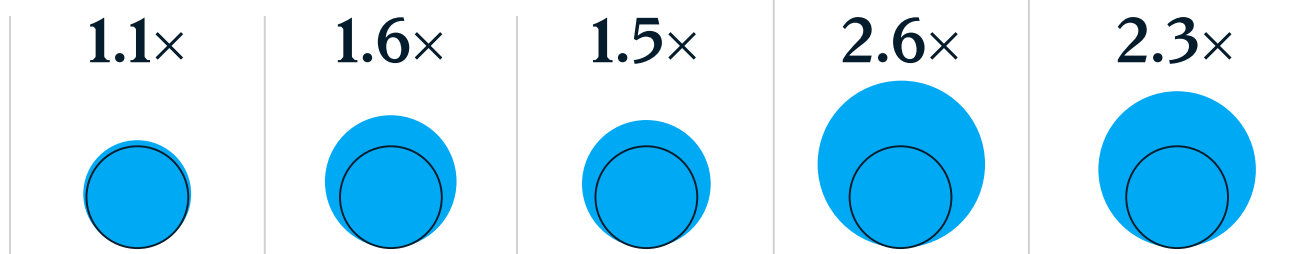
Exhibit E2

Spending restrictions boosted savings in 2020, more than doubling US and UK household savings from 2019.

Household savings rate, % of disposable income¹



Estimated 2020 savings, as a ratio of 2019 savings



1. Q4 2020 available for United States only. Q1 2020 presented for China only because of earlier outbreak of COVID-19 pandemic.

2. China officially reports savings rate as gross domestic savings as a % of GDP. In order to assure comparability with other countries, Chinese savings rate was estimated based on disposable income and private consumption sourced from Oxford Economics.

Note: Full-year saving amounts calculated as difference between disposable income and private consumption (excl nonconsumption expenses such as fines or donations) based on Oxford Economics baseline forecast as of January 2021; for United States actual BEA figures used.

Source: BEA; Eurostat; Oxford Economics; McKinsey Global Institute analysis

⁶ The National Bureau of Statistics of China.

⁷ For more detail about savings, see chapter 1.

Our macro methodology and key assumptions

In this report we divide consumers into nine segments based on their disposable income and age, as both criteria shape the size and structure of consumption. We do this for four countries: France, Germany, the United Kingdom, and the United States. For income, we took a distribution-based approach and classified households into low-income (first and second quintile), middle-income (third and fourth quintile), and high-income (fifth quintile).¹ For age, we divided households into three groups based on head-of-household age.² By cross-tabulating income and age criteria, we arrive at nine consumer segments that we use to assess the shape of postpandemic consumption.³

Our main objective was to understand how consumer demand by segment was likely to recover after the pandemic. To do this, we needed to make assumptions about disposable income, savings, and consumption mix evolution as well as behavioral assumptions about the likely consumption rebound after the pandemic ends. We relied on McKinsey's economic scenarios developed in collaboration with Oxford Economics as the basis for our macroeconomic assumptions.⁴ Those scenarios provide a range of key aggregate variables related to consumer spending (for example, disposable income, employment, private consumption) and are developed based on a set of assumptions regarding virus control and economic response to the crisis. In this report, we focus on three scenarios—A1, A2, and A3—all of them assuming no structural damage to the economy, yet a different pace of recovery.⁵

While we have taken a scenario approach given the high degree of uncertainty surrounding the trajectory of the virus, the extent of government stimulus, the extent of perceived health risks, and the level of precautionary savings, risks to these scenarios remain. However, while forecasts presented in this report might change in terms of pace of the recovery, conclusions regarding the underlying drivers and relative performance of consumer segments are likely to remain broadly unchanged.

Our aggregate income and consumption projections to 2024 do not explicitly consider the impact of changes in the mix of disposable income sources (wages, assets, or transfers), nor make assumptions about the impact of changes in consumption mix on specific consumer segments. In our savings calculations, we focus on the difference between household disposable income and consumption, neglecting non-consumption expenses such as transfer payments, fines and interest payments given their small size and stability over time—about 4 percent of consumption value over the past decade in the United States. Lastly, we did not analyze the impact of the pandemic on household assets and net worth.

¹ Because of data limitations, US income groups have been defined based on constant gross household income brackets. Low income, <\$40,000; middle-income, \$40,000–\$100,000; high-income, >\$100,000. In 2018, those groups reflected 39 percent, 35 percent, and 26 percent of households, respectively.

² Head of household is defined as a person with the highest income living in a given household. We distinguished three age cohorts: young (<35, for the United Kingdom only <30), middle age (35–64, United Kingdom 30–64), and older (65+).

³ All historical values and projections in this report are shown in real terms (in constant prices) in order to exclude inflation uncertainty and present conclusions in terms of real purchasing power of consumers.

⁴ For details about the scenarios, see Sven Smit, Martin Hirt, Kevin Buehler, Susan Lund, Ezra Greenberg, and Arvind Govindarajan, "Safeguarding our lives and our livelihoods: The imperative of our time," March 2020, McKinsey.com.

⁵ Within this range, A1 is the most conservative scenario, assuming medium effectiveness of both health and economic response. This translates into controlling the adverse health impacts by around mid-2021, followed by acceleration of economic growth toward the end of the year. The A2 scenario assumes a more effective economic response, leading to an earlier acceleration of economic growth, while A3 is the most optimistic, assuming earlier virus control (that is, through effective rollout of the vaccination process), resulting in a steeper growth path already in 2021. The range of A1 and A3 scenarios is consistent with baseline forecasts of IMF, Oxford Economics, and the OECD. See the end of chapter 1 for details about our macro methodology, and for details on McKinsey's economic scenarios developed in collaboration with Oxford Economics and underlying assumptions, see "Safeguarding our lives and our livelihoods," McKinsey.com, March 2020; and [Nine scenarios for the COVID-19 economy](#), McKinsey.com, January 2021.

Once under way, the consumer demand recovery is likely to be faster but more uneven in the United States than in Europe

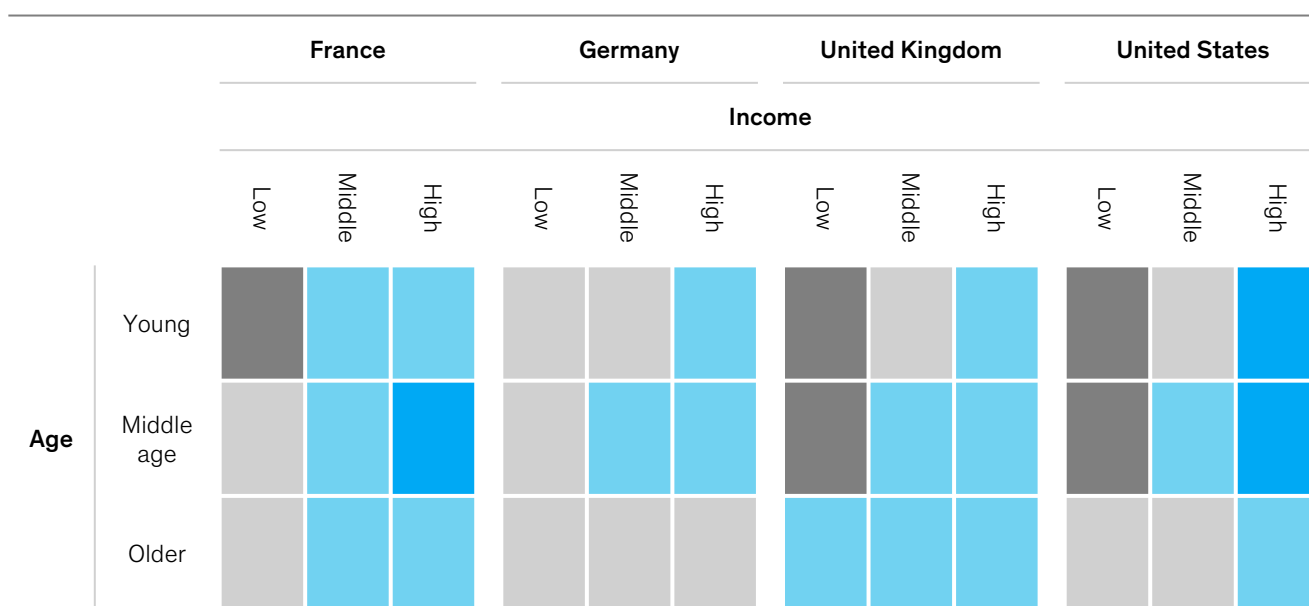
Assuming the pandemic is brought under control, our analysis points to a strong recovery in the United States, reinforced by historically large economic support in the form of direct stimulus payments to households and businesses in 2020 and an additional \$1.9 trillion in 2021. However, once stimulus measures expire, the recovery in consumer spending is likely to become unequal among income segments and lead to greater polarization of consumption (Exhibit E3). Spending by middle- and high-income cohorts is likely to bounce back to pre-COVID-19 levels between 2021 and 2022, while spending by low-income cohorts could drop below pre-COVID-19 levels once stimulus measures expire.⁸ Consumption is expected to shift toward older and richer segments, because of both a growing share of the population over 65 and a slower postpandemic recovery for low-income cohorts. However, we emphasize, this is highly dependent on how quickly health risks recede with vaccinations and whether governments provide further economic support.

Exhibit E3

The recovery in consumer spending is likely to be more uneven between income and age cohorts in the United States than in Europe.

Recovery of real consumer spending by segment, vs aggregate (average) spending recovery in a given country, compared with pre-COVID-19 levels, percentage points

■ >2 pp below average ■ 0–2 pp below average ■ 0–2 pp above average ■ >2 pp above average



Total consumer spending, 2024 vs 2019, cumulative change vs A1–A3 scenario range, %

Real (constant prices)	+3 to +9	+3 to +6	-1 to +4	+6 to +11
Nominal (current prices)	+10 to +19	+9 to +15	+4 to +13	+14 to +23

Note: Segmentation 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). For age, we divided households into 3 groups based on head of household age: young (<35, United Kingdom <30), middle age (35–64, United Kingdom 30–64), older (65+). For more detail see Box E1, "Our macro methodology and key assumptions."

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

⁸ Fiscal stimulus in 2020 in the United States consisted in large part of payments directly to citizens in the form of stimulus checks and increased unemployment benefits, successfully helping support spending by low-income households who might have been laid off work. Additional support in 2021 may help maintain consumption levels of low-income households in the very near term. Our recovery forecasts to 2024 reflect the slowing prospects for jobs recovery for this segment because of labor market friction and accelerated automation. See chapter 1 for more extensive discussion.

We expect a slower but more balanced recovery in Europe, with less pronounced inequality than in the United States, although low-income cohorts will likely recover more slowly without additional government stimulus. As short-time work programs have helped to protect employment (although with shorter working hours), there is a higher chance for employees to maintain their jobs and avoid a drop in disposable income in 2021.⁹ In addition, the stronger safety net (including more stable employment contracts and more expansive labor protection) as well as mechanisms to protect low-income segments will support the recovery of discretionary consumption.¹⁰ On the other end, high-income consumers did not experience as large an increase in savings as in the United States and the consumption drop was more severe in Europe. As a result, high-income households may not accelerate their spending as quickly as in the United States, in line with past recoveries including the one following the Great Recession. Because of increased economic uncertainty, savings rates are expected to remain slightly elevated after the pandemic, a pattern observed after past downturns.¹¹

But there are country variations: Germany, with initially the most effective COVID-19 response (both health and economic) and a strong labor market in both the service and industrial sectors, may recover first, followed by France and the United Kingdom. However, the United Kingdom could recover faster if it maintains the pace and effectiveness of its vaccination campaign, which in early 2021 was by far the fastest in Europe.¹²

Once the virus is brought under control and reopening is under way, three main factors will determine the strength and sustainability of the consumer demand recovery: the willingness to spend by high-income households, income constraints on low-income cohorts, and what happens to savings.

The unequal consumption impact of the pandemic makes high-income households the ones to watch for the near-term consumer demand recovery across all countries we analyzed.¹³ As those consumers have experienced much more limited, if any, income constraints during COVID-19, their consumption recovery depends mainly on lockdown measures and travel restrictions being lifted as well as confidence to travel, dine out, and socialize in person. This is the segment that will determine both the speed of recovery and pandemic-induced behavioral changes in the 2021 consumption path.

The low-income, working-age population is much more likely to experience a sustained reduction in purchasing power from disruptions to income because of pandemic lockdowns and business closures, which could act as a drag on consumer demand in the recovery. Government stimulus in the United States and Western Europe helped counter the near-term impact from service-sector job losses to varying degrees, and the rebound in high-income household spending will fuel service jobs growth, helping low-income households. However, the question remains if further stimulus measures will be sufficient to support low-income consumption until economic activity fully recovers. The acceleration of digitalization and AI is likely to slow down the return of service jobs and low-wage jobs, which may contribute to both slower consumption growth and the polarization of consumption.¹⁴ Because low-income households have a higher propensity to consume, growing income inequality will slow down

⁹ However, there is uncertainty over what might happen to jobs once government support is withdrawn.

¹⁰ Government support programs in response to the COVID-19 pandemic have been unprecedented in scale both in the United States and Europe. Those programs have largely protected disposable income of households, but differed in terms of approach. The United States focused on protecting income through direct transfers, while European countries focused on protecting jobs (by subsidizing salaries). See *COVID-19 has revived the social contract in advanced economies—for now. What will stick once the crisis abates?* McKinsey Global Institute, December, 2020.

¹¹ See chapter 1, Box 2, "A closer look at savings."

¹² "Statistics and research: Coronavirus pandemic (COVID-19)," Our World in Data. As of February 16, 2021, the number of cumulative COVID-19 vaccination doses administered per 100 people was 24.3 in the United Kingdom, 16.7 in the United States, 5.3 in Germany, and 4.9 in France. Note that the number may not equal the total number of people vaccinated, depending on the specific dose regime (for instance, multiple doses).

¹³ For example, 20 percent of the wealthiest US households represent about 39 percent of total consumption. In France, the top 20 percent of households by income represent 30 percent of consumption, in Germany they represent 36 percent of consumption and in the United Kingdom 34 percent. For more details, see US Bureau of Labor Statistics Consumer Expenditure Survey, 2018, and national statistical offices in Europe (Destatis, INSEE, ONS).

¹⁴ See *The future of work after COVID-19*, McKinsey Global Institute, February 2021. In particular, this report finds that low-wage jobs are likely to be disrupted the most after the pandemic.

consumption growth; this was evident before the pandemic.¹⁵ For example, we calculate that if the income distribution in 1990 in the United States had remained unchanged (instead of becoming more unequal), US consumption in 2019 would have been more than 3 percent higher or around \$450 billion.¹⁶

What happens to savings accumulated during the pandemic as well as the extent of continued precautionary savings behavior will also impact consumption. What middle- and high-income households do with their accumulated savings (over \$1.6 trillion more savings in the United States in 2020 compared to 2019 and about \$400 billion more in Western Europe) after the pandemic—consume, hold, invest, or repay debt—will have an impact on the consumption recovery.¹⁷ The investments made in real estate or other long-term assets do not have a large direct multiplier effect and may take years to add to aggregate consumption.

The pandemic will leave lasting marks on consumption, not just from shifting behaviors but also from industry and government actions

Long-standing consumer habits—more money spent on services, greater digital adoption, and more time and money spent out of the home—have been interrupted, accelerated, or reversed during the pandemic. To determine whether these pandemic-induced behaviors are likely to stick, we examined six consumption shifts that cover a broad range of consumer life and are drawn from sectors that cover almost three-quarters of consumer spending.¹⁸ These include an acceleration of e-grocery shopping, a sharp decline in live entertainment, the emergence of home nesting (that is, spending on items such as home gyms, backyards and gardens, and kitchen equipment), a decrease in leisure air travel, a switch to remote learning, and an increase in virtual healthcare visits. Based on our case study findings, we developed a “stickiness test” that identifies factors that determine whether a behavior will persist (see Box E2, “Our stickiness test”). Focusing on the period 2020 to 2024, we determined whether each of our case study behaviors would stick in our sample of major economies: China, France, Germany, the United Kingdom, and the United States.

We found that e-grocery shopping, virtual healthcare visits, and home nesting were likely to stick while remote learning, declining leisure air travel, and decreasing live entertainment would likely revert closer to prepandemic patterns (Exhibit E5). Overall, we found that while consumer value, experience, and investments are critical in determining what behavior will stick, company and government actions matter at least as much.

Across our case studies, we found that an important precondition for stickiness is adequate infrastructure. Typically infrastructure is defined as basic physical and organizational structures and facilities, such as buildings, roads, and power supplies, needed for the operation of an enterprise or society. How adequate infrastructure is can affect consumer, industry, and government response in determining the stickiness of behaviors. For example, in the case of consumers, reliable internet access played a role in determining whether consumers had a good or bad experience with remote learning and ultimately whether they are willing to try it again. In the case of industry, it could apply to supply chains and the network of third-party relationships. For example, in e-grocery, those companies with established delivery relationships were able to respond to the new environment quickly and effectively, determining the choices consumers had. In the case of government, infrastructure policy can enable and support consumption. For example, comprehensive digital infrastructure is key to virtual healthcare access for everyone. In our analysis, we took into account the existing state of infrastructure as it related to consumers, industry, and government, while analyzing key stickiness indicators.

¹⁵ The BLS Consumer Expenditure Survey shows that low-income households' propensity to consume is higher than for high-income ones, therefore a higher concentration of disposable income across more affluent segments results in lower aggregate consumption.

¹⁶ Due to lower propensity to consume of high-income households. Calculation assuming 2018 propensity to consume for each income segment.

¹⁷ Data from US Bureau of Economic Analysis. For Europe, MGI estimates based on Oxford Economics baseline forecast as of January 2021; calculated as 2020 savings less 2019 savings.

¹⁸ “Personal Consumption Expenditures by Function,” Table 2.5.5, BEA, 2019.

Our stickiness test

To evaluate behavioral stickiness, it is important to understand shifting dynamics across three broad categories: consumer response (for example, do consumers find value in it? How satisfied are they with the end-to-end consumption experience? Have they made durable investments?), industry response (How have companies responded? What is the impact of underlying or emerging industry structure?), and the role of government (Has the government provided economic support? What is the impact of regulations?). Exhibit E4 shows the full framework.

For each category, we have identified a set of key indicators to understand the forces at play behind behavior. These indicators are as follows:

Consumer response

- **Value.** How much value consumers perceive as gained or lost when they adopt a new behavior is critically important to its long-term stickiness. For consumers, value is often evaluated in relation to prior behaviors and alternatives. For example, leisure air travelers have experimented with alternatives to flying for vacations and visiting family for holidays during the pandemic, but these are poor replacements for the real thing.
- **Experience.** Consumer experience with a behavior is also critical to long-term stickiness. Beyond the inherent value of new habits, the end-to-end experience, from ease of purchase to the simplicity of use and the efficacy of the product

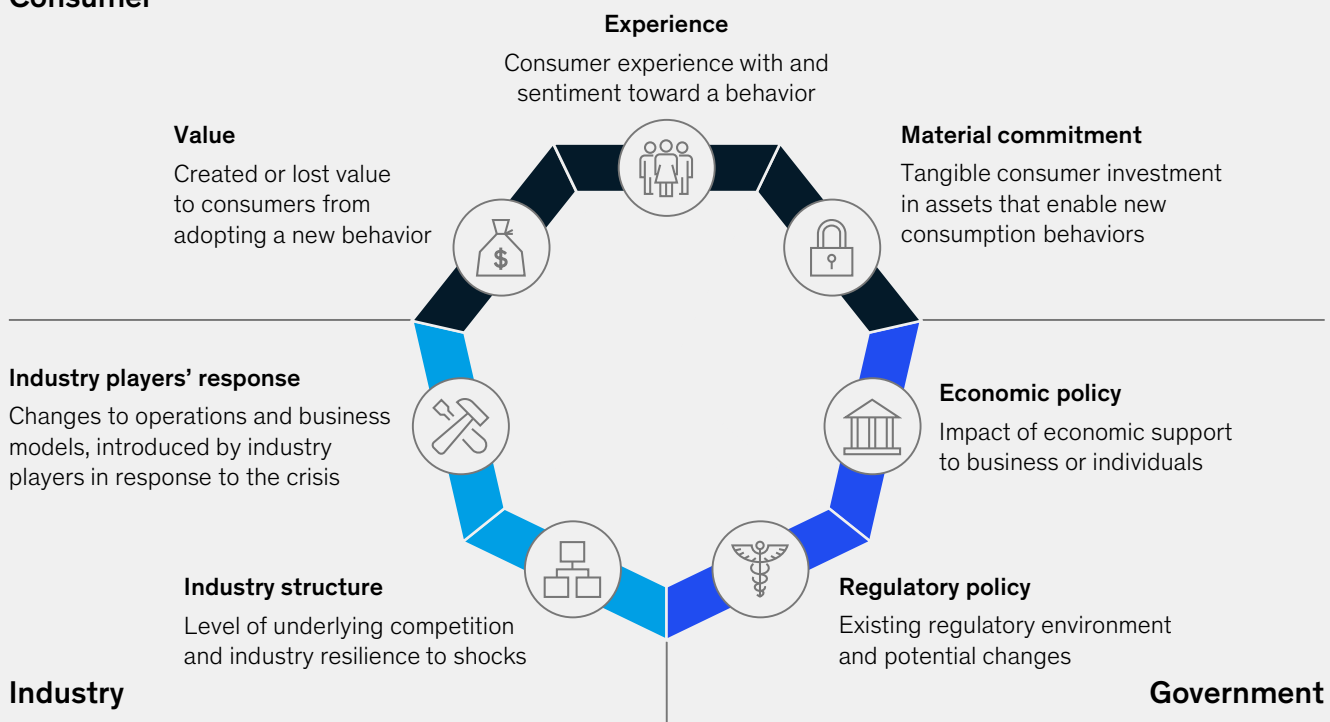
or service in satisfying consumer needs, matters greatly. For example, many households have enjoyed the ease and expanded selection of digital entertainment at home, while remote K–12 education has been broadly criticized as inadequate compared with in-person learning.¹ And as with other components of stickiness, the underlying infrastructure plays a role in consumer experience, as the limitations of digital and other infrastructure shape how consumers can and do interact with new products and services.

- **Material commitment.** Another driver of stickiness is consumer investment in assets that enable consumption behaviors. For example, many households have

Exhibit E4

MGI's stickiness framework predicts whether changes in consumer behavior will last and takes into account the impact of industry and government actions on consumer choice.

Consumer



Source: McKinsey Global Institute analysis

¹ Haley Apel, "Survey finds remote learning gaps in US elementary schools," Nebraska College of Education and Human Sciences, August 31, 2020.

invested in home offices or gyms or upgraded gaming devices during the pandemic.² Those investments in fitness equipment and multiple months of building an at-home exercise habit are likely to impact the willingness of some past gym members to renew their membership once the pandemic is over.

Industry response

- **Industry players’ response.** In response to the COVID-19 pandemic, companies across industries were forced to very quickly adjust their operations and business models. How well they responded to the new challenges shaped consumer choices and experience. While in many cases, industry players responded with new products and services, some less obvious responses, such as increased supply chain resilience, also played a role. For example, in e-grocery, discounters had limited online capabilities before COVID-19, and their lean model impaired efforts to rapidly stand up new capabilities or pushed them to outsource e-grocery to third-party logistics players, albeit at a cost. Mainline grocers (especially major urban players), on the other hand, already had an online presence and delivery relationships and were ready to take advantage of the demand expansion.³
- **Industry structure.** Industry structure, the nature of competitive dynamics and changes in competition, broad availability

of distribution and consumption models, and the underlying resilience to shocks induced by COVID-19 have implications for consumers’ choices in the future. For example, in entertainment, movie studios responded to consumer apprehension about in-person entertainment by bypassing traditional distribution channels with a direct-to-consumer model.⁴ Reduction in business air travel is putting pressure on airline profitability and may lead to higher prices or reduced routes available for leisure air travelers.⁵

Role of government

- **Economic policy.** Economic policy choices, including pandemic-related economic support to businesses and individuals, often impact consumption both directly and indirectly. For instance, \$25 billion of the \$2 trillion CARES Act stimulus infusion in the United States softened airlines’ initial economic pain.⁶ In contrast, independent live entertainment venues have been hard hit, yet did not initially receive industry-specific government support in 2020, likely causing long-term changes in supply options for consumers.⁷ *Billboard* reported that more than 90 independent venues in the United States were forced to permanently close as of September 2020.⁸ The situation in Europe was similar, with Live DMA reporting that its 2,600 members, which include subsidized private nonprofits and government-supported entities, earned only about a third of anticipated total

2020 revenues.⁹ Finally, the indirect impact of infrastructure policy also plays a role in consumer life. For instance, at least 39 states pledged to use CARES Act funding for infrastructure development, focused on bridging the digital divide in education.¹⁰

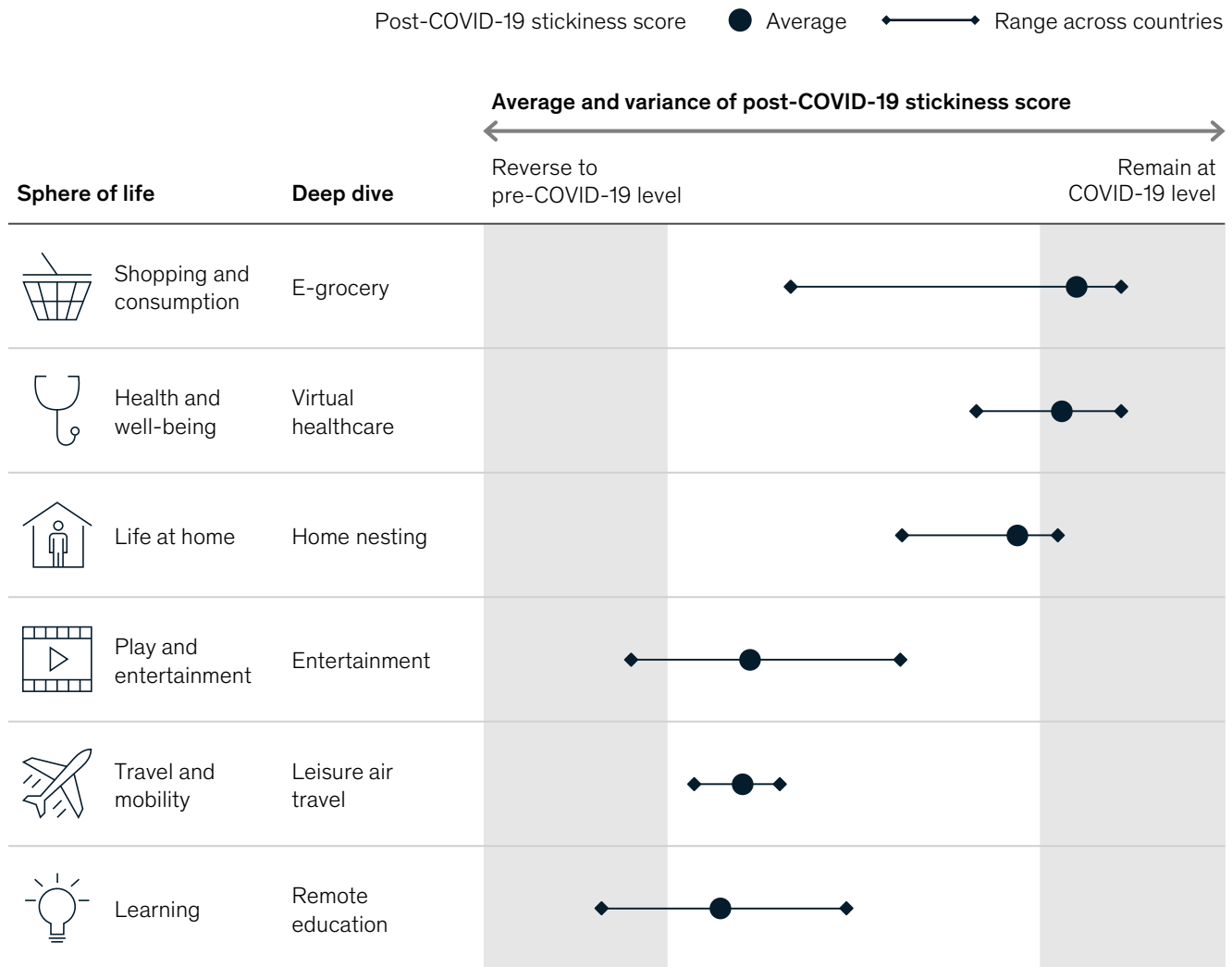
- **Regulatory policy.** Existing and future regulatory policy is also an important facet of stickiness. For instance, in response to the pandemic, the US government was quick to allow previously limited reimbursement of telehealth services, facilitating virtual healthcare visits.¹¹ Similarly, the US government initially limited Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps) payment use for online grocery purchasing to selected retailers in certain states. However, it is now rolling the program out to additional markets, facilitating greater adoption of e-grocery after a bumpy start.¹²

Across our five countries, for each of the factors outlined above, we assess the extent to which a factor increases the likelihood of lasting change, decreases the likelihood of lasting change, or has a neutral impact. This allows us to attribute individual factors to the root causes of behavioral shifts, to triangulate the overall likelihood of stickiness based on the strength of each factor, and to determine what factors to track for stickiness in the future.

² US Bureau of Economic Analysis; “US consumer spend on video game products continues to break records,” NPD Group, August 10, 2020.
³ “Reviving grocery retail: Six imperatives,” McKinsey.com, December 2018.
⁴ Rebecca Rubin, “Hollywood at a Crossroads: Tough choices on how to reach audiences as coronavirus worsens,” *Variety*, December 1, 2020.
⁵ Andrew Curley, Rachel Garber, Vik Krishnan, and Jillian Tellez, “For corporate travel, a long recovery ahead,” August 13, 2020, McKinsey.com.
⁶ Lori Aratani, “US airlines to accept billions in loans from federal government; still no deal to avoid furloughs,” *Washington Post*, September 2020.
⁷ These venues were eligible for small-business loans if they met the requirements of the program. See “Where \$521 million in small business aid went,” Bloomberg, July 2020.
⁸ Taylor Mims, “Venues closing across America: An updating list (and why it matters),” *Billboard*, January 5, 2021.
⁹ “Key numbers: Impact of the COVID-19 pandemic on 2,600 Live DMA European music venues and clubs in 2020,” Live DMA, September 2020.
¹⁰ Austin Reid and Jocelyn Salguero, “States use CARES Act funds to address digital divide,” National Conference of State Legislatures,” October 28, 2020; [ncsl.org](https://www.ncsl.org)
¹¹ “Medicare telemedicine health care provider fact sheet,” US Centers for Medicare and Medicaid Services, May 2020.
¹² “FNS launches the online purchasing pilot,” US Department of Agriculture Food and Nutrition Service, December 31, 2020; and Nathaniel Meyersohn, “Online grocery shopping is growing, but millions of Americans on food stamps are being left behind,” CNN Business, December 8, 2020.

What will stick and what will not differ by sector and geography; overall, we find e-grocery is the stickiest and remote education the least sticky.

Summary of case findings



Source: McKinsey Global Institute analysis

Two consistent patterns stood out across our case studies. First, the COVID-19 pandemic accelerated digital adoption, especially in grocery shopping and healthcare, and this is expected to continue. Second, the pandemic and lockdowns reversed the long-standing trend of declining money and time spent at home, leading to “home nesting.” This behavior is likely to stick as some portion of high-income households prefer to work more from home after the pandemic and low-income households retain low-cost at-home alternatives such as digital entertainment. At the same time, many other behaviors that the pandemic interrupted—leisure air travel, in-person education, and in-person dining—will resume with the recovery, although potentially with modifications from the experience of the pandemic.

There are other behavioral changes that we did not cover in our case studies: sustainability is one; an increased focus on health is another. We think tracking the stickiness factors—consumer behavior as well as company offerings and government role—could help predict the nature of long-term behavioral changes we should expect. On sustainability, many households had more time to consider their shopping choices and expressed increased desire to make eco-friendly and sustainable choices in their purchases (see Box E3,

“Consumption and sustainability in a postpandemic world”).¹⁹ In the case of health, consumers also expressed appetite for making healthier choices. The pandemic brought healthy behaviors to the forefront because of both the higher risk from COVID-19 infection to those with preexisting health conditions and the experience of workers who reduced travel and reported better sleep and more time for exercise while working from home.²⁰ On both accounts, however, the likelihood of consumers actually sustaining these choices will critically depend on the product choices and pricing that companies offer, as well as the regulatory incentives for both companies and individuals to shift toward more sustainable or healthy goods, services, and behaviors.

Across our cases, value, experience, and material investment matter for shaping consumer behavior

How much a consumer values a product or service, what kind of experience they have with it, and how much investment they make all determine the stickiness of consumer preferences. For example, the rapid rise of digitization was observed across many consumer spheres, yet the value it provided to consumers varied widely (see Box E4, “A closer look at individual case studies”). Digital health services saw one of the most dramatic accelerations from a low base, with telehealth claims growing 25 times in the United States from February to April 2020, 25 times in France, and 2.2 times in the United Kingdom.²¹ Both patients and doctors found that digital health provided additional value, especially for certain kinds of visits such as follow-ups or initial screenings that resulted in time and money saved.²² In contrast, online education for primary and secondary school children did not deliver better experience, as teachers found it was more difficult to engage with students, and students found it was more difficult to learn. As a result, most countries have prioritized education reopening after the initial lockdown period and have structured policies to keep schools open.²³ However, that does not exclude the potential that over the long term (and outside the period of this study), new solutions for online education will emerge and become more widely adopted.

In other areas, the experience of digitization was important. For example, e-grocery was widely liked across countries as the transition from in-store to online was often seamless. As a result, the positive experience of consumers accelerated digital adoption in grocery shopping by about ten years in eight weeks as new business models were rolled out.²⁴ We found that first-time users of online grocery shopping accounted for 30 to 50 percent of total US shoppers buying online in July, driven by baby boomers and low-income households.²⁵

¹⁹ COVID-19 Europe Consumer Pulse Survey, November 9–16, 2020, McKinsey & Company.

²⁰ Christine Blume, Marlene H. Schmidt, and Christian Cajochen, “Effects of the COVID-19 lockdown on human sleep and rest-activity rhythms,” *Current Biology*, 2020, Volume 30, Number 14. In the near term, however, we are likely to face worse health outcomes because of delayed medical appointments and social isolation and stress contributing to poor mental health. *Prioritizing health: A prescription for prosperity*, McKinsey Global Institute, July 2020.

²¹ Data from [Compile](#).

²² See McKinsey COVID-19 Physician Survey, July 27, 2020, where 46 percent of those surveyed said it was less expensive to provide telehealth services, 27 percent said it was about the same, 15 percent said it was more expensive, and 12 percent did not know.

²³ Michael Birnbaum, “Europe’s schools still open, still relatively safe, through covid-19 second wave,” *Washington Post*, December 1, 2020.

²⁴ Victor Fabius, Sajal Kohli, Björn Timelin, and Sofia Moulvad Veranen, “How COVID-19 is changing consumer behavior—now and forever,” July 30, 2020, McKinsey.com.

²⁵ McKinsey Consumer China and US Pulse Check Surveys: China survey updated June 29, 2020, using data collected from June 15 to 21; US survey updated using data from July 7 to 12.

Consumption and sustainability in a postpandemic world

While sustainability has been a growing concern for many consumers, corporations, and governments, the COVID-19 pandemic has accelerated awareness around the topic.¹ During the pandemic, many households had more time to consider their shopping choices and expressed increased desire to make eco-friendly and sustainable choices in their purchases, especially in Europe. For example, in one survey, 17 percent more Europeans reported shaping buying decisions around sustainable and eco-friendly products compared to pre-COVID-19; in another survey of global consumers, one in three ranked sustainability as a top purchasing criteria.² Another indication of growing interest in sustainability is the rise of environmental, social, and governance investment funds. Inflows into these sustainable funds hit a record high during the fourth quarter, up 88 percent versus 2019 to \$152.3 billion.³

Yet even when consumers express greater appetite for making more sustainable choices, it is less clear to what extent these stated preferences will be realized in changed behavior and different product and service choices. Many consumers who indicate a preference for sustainable products and services ultimately select cheaper or more easily accessible alternatives. This is known as the attitude-behavior gap.⁴ Research has highlighted this misalignment; in different surveys, about 30 percent to 50 percent of consumers indicate an intent to consume sustainable products but when it comes to making a purchase, these products often account for less than 5 percent market share of sales.⁵

Past evidence suggests that government and industry action will be key to meaningful change in the marketplace. Companies can impact the choices available to consumers through their product and service offerings, pricing, and labeling. For example, “FairTrade” logos on cotton products helped to double the sales of fair trade items in Europe between 2007 and 2008.⁶ H&M uses discounts to nudge consumers into recycling worn apparel and collected the equivalent of 145 million T-shirts in 2019. The retailer also set up a resale site where, for a commission, consumers can buy and sell pre-worn apparel (as have Patagonia, Levi’s and other apparel companies).⁷ Energy efficiency labeling schemes for home durables across the world have been shown to shift consumer choices to more environmentally friendly products. One study showed that consumers are willing to pay 30 Euro or more for a better energy efficiency class, all else equal.⁸

¹ For a broader overview of climate risk and response, see *Climate risk and response: Physical hazards and socioeconomic impacts*, McKinsey Global Institute, January 2020; for COVID’s implications for companies and next normal, see also *The Next Normal: Doubling down on sustainability*, McKinsey & Company, December 2020; for a review of the circular economy, see *The circular economy: Moving from theory to practice*, McKinsey & Company, October 2016.

² COVID-19 Europe Pulse Survey, 11/9-11/16 2020, McKinsey & Company; COVID-19 Consumer Pulse Research: Wave 7 (August 2020), Accenture.

³ Simon Jessop and Elizabeth Howcroft, “Sustainable fund assets hit record \$1.7 trillion in 2020: Morningstar,” Reuters January 28, 2021.

⁴ Wiltrud Terlau and Darya Hirsch, “Sustainable consumption and the attitude-behaviour-gap phenomenon—causes and measurements towards a sustainable development,” International Centre for Sustainable Development at Bonn-Rhein-Sieg University of Applied Sciences, July 2015.

⁵ C. William Young et al., “Sustainable consumption: Green consumer behaviour when purchasing products,” *Sustainable Development* January/February 2010, Volume 18, Issue 1, pp. 20-31; Michael 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 behaviour of ethical minded consumer,” *Journal of Business Ethics*, November 2010, Volume 97, issue 1.

⁶ European Commission, “Policies to encourage sustainable consumption,” 2012L.

⁷ “Recycling and upcycling,” H&M Group, 2021; “COS Resale,” Cos.com; “Wornwear,” Patagonia.com; “Secondhand Levi’s,” Levis.com.

⁸ Mark A. Andor, Andreas Gerster, and Stephan Sommer, “Consumer inattention, heuristic thinking and the role of energy labels,” *Energy Journal*, January 2020, Volume 41, Issue 1.

Regulatory changes can shift consumption toward more green choices by shaping both consumer options and company actions. Incentives to encourage energy efficient cars are one example. The Netherlands offered fiscal incentives of about 38,000 EUR for plug-in hybrid vehicles (equivalent to about 75 percent of the typical vehicle base price) in 2013, incentives which were associated with a 1,900 percent market share increase from 2012 to a 5 percent market share in 2013.⁹ Early tax incentives in Norway and California have similarly helped accelerate electric vehicle sales.¹⁰ London's congestion charge for car usage and Australia's water use targets are other examples of financial incentives leading to meaningful change in consumer behavior. Industry regulation can also shape consumer choices by shaping company actions. For examples, the Montreal Protocol helped dramatically reduce chlorofluorocarbon-emitting devices from the marketplace, and fuel-efficiency standards led to more efficient fleets of combustion engine vehicles.¹¹

We are likely to see more incentives for sustainable consumption. The European Union's Circular Economy Action plan is an example that sets goals for Europe to reduce single use products, improve recycling, and expand reclaimed materials reuse.¹² Recent fiscal policy initiatives, such as green stimulus packages in the EU, where 30 percent of economic recovery funds target climate-related projects, similarly encourage sustainable solutions.¹³ Our sector case studies included examples of this. For example, the French government made its \$8 billion bailout of Air France conditional on reducing domestic emissions by 50 percent by 2024 and has scrapped an \$11 billion planned expansion of Charles De Gaulle Airport over environmental concerns.¹⁴ Also in France, the government provided financial assistance tied to sustainability and financial incentives for green home renovations that encouraged consumer spending on home nesting.¹⁵

⁹ Peter Mock and Zifei Yang, *Driving electrification: A global comparison of fiscal incentive policy for electric vehicles*, White Paper, ICCT, May 2014..

¹⁰ See "Norwegian EV policy," Elbil.com; "Electric vehicle incentives," PG&E.

¹¹ "The carbon productivity challenge: Curbing climate change and sustaining economic growth," McKinsey Global Institute, June 2008.

¹² "EU circular economy action plan," European Commission, Environment.

¹³ European Council, *Special European Council, 17-21 July 2020*

¹⁴ David Meyer, "Airline bailouts highlight the debate over how green the coronavirus recovery should be," *Fortune*, June 27, 2020; Claude Chendjou, "Operator links decision to COVID-19 crisis and promises to turn Charles de Gaulle and Orly airports into 'leaders in green aviation,'" Reuters, February 11, 2021.

¹⁵ For more details, see our case studies at the end of Chapter 2.

The pandemic and the forced lockdowns and rules meant consumers were largely restricted to the home, facilitating greater material investments on the home front to increase utility and comfort. In contrast to digitization, home nesting reversed a pre-COVID-19 trend of declining time and money spent at home.²⁶ For example, as of June 2020, US consumer spending on furnishings was up by 12 percent year over year. In the same period, US spending on household appliances rose by 10 percent and spending on tools and equipment rose by 16 percent.²⁷ Home nesting is likely to persist after the pandemic for a segment of consumers, although at lower levels, because of these investments in gym, office, and kitchen equipment as well as entertainment and fitness streaming services; the development of new habits such as do-it-yourself home improvements; and continuing opportunities for flexible work-from-home schedules.²⁸

Companies' readiness and changes in industry will shape consumer choices

From innovative new consumer products and services like restaurant in a box to virtual fitness and gym classes, companies have shaped consumer behavior during the pandemic. For example, China, the United Kingdom, the United States, and, to a degree, France, had grocery players with an established, albeit low-penetration, online presence that were relatively well prepared for the explosion of e-grocery. These countries also had higher e-commerce penetration and had strong delivery networks. For example, large ecosystem players in China, like Alipay and WeChat Pay, fueled mobile payments growth of 123 percent a year from 2013 to 2018, reaching 300 billion transactions in 2018.²⁹ Together, this enabled grocers to rapidly offer a variety of options, be it BOPIS (buy online, pick up in store) versus delivery or third-party versus grocer-hosted, at the same time integrating with payment platforms that provided more reliable, timely, and tailored services. Moreover, these grocers could offer a variety of choices to meet consumer needs—such as bicycle delivery in congested New York City versus curbside pickup in an exurb of Paris. In entertainment, where box office revenue globally in 2020 was only 20 to 35 percent that of 2019, a lasting drop in demand for movie theaters is likely, due to the high probability of permanent theater closures (in October 2020, the Regal movie chain announced it would close 536 locations) and the shift to digital distribution channels by movie studios, both encouraging consumers to stick with at-home digital entertainment.³⁰ There is also variance by company size. For example, in the entertainment industry, small venues have been particularly hard-hit by COVID-19. Yelp has tracked the economic outcomes of businesses on its platform and found that as of September 2020, about 6,500 nightlife businesses (e.g., bars, live music venues) had closed and that 54 percent of those closures were permanent (up from 44 percent in July).³¹

Some company actions can have ripple effects on consumer behavior. Work-from-home policies during the pandemic taught companies to work remotely and thus remain efficient without corporate travel, something many companies were looking to do for cost and climate reasons already.³² This is likely to suppress demand for business trips during the recovery and beyond, which adds enduring strain to airlines that are facing massive pressure on their balance sheets and operations amid an unprecedented demand crisis that generated a \$370 billion industry-wide loss in 2020.³³ McKinsey estimates that business air travel could be 20 percent lower after the pandemic, and other sources predict up to a 36 percent

²⁶ It is important to note that additional spending at home may not increase proportionally with time spent at home. For example, investment in home exercise equipment has allowed many to build home gyms and will enable continued time exercising at home. While some consumers will continue to invest in more capabilities (such as new machines or equipment), others will leverage the growing digital marketplace for affordable options: 46 percent of survey respondents in April 2020 planned to use free at-home apps post-COVID-19, nearly double the 24 percent that will do the same with paid apps.

²⁷ McKinsey Global Institute analysis, BEA, figures in nominal terms.

²⁸ *The future of work after COVID-19*, McKinsey Global Institute, February 2021; and "What's next for remote work: An analysis of 2,000 tasks, 800 jobs, and nine countries," McKinsey Global Institute, November 23, 2020.

²⁹ *Global Payments Report 2019: Amid sustained growth, accelerating challenges demand bold actions*, McKinsey & Company Global Banking Practice, September 2019, analysis using Bank of China data.

³⁰ "Regal movie chain will close all 536 U.S. theaters on Thursday," NPR, October 5, 2020.

³¹ *Local economic impact report*, Yelp, September 2020.

³² For more details see "What's next for remote work: An analysis of 2,000 tasks, 800 jobs, and nine countries," McKinsey Global Institute, November 23, 2020.

³³ Seth Borko, Wouter Geerts, and Haixia Wang, *The travel industry turned upside down*, September 2020, McKinsey.com; and ICAO, "2020 passenger totals drop 60 percent as COVID-19 assault on international mobility continues," January 15, 2021.

decline, a contraction that pressures airlines' balance sheets, networks, and pricing, in turn constraining flight options for leisure travel.

The pandemic has upended the competitive landscape across industries. In particular, changing consumption patterns have led to shifts in market share and opened the possibility of new entrants. Many companies have been forced to accelerate investment in e-commerce and expand their capabilities such as in regards to customer delivery.³⁴ The ramifications of these shifts will be felt for some time and continue to shape consumer choices long after the pandemic is over.

Government regulation, incentives, and funding will also have a long-term impact on consumer choices

As in past crises, government regulations can have a significant impact on the strength and shape of the consumer demand recovery. For example, in the near term, both individual fears about the coronavirus and government travel policies, such as vaccine passports or mandatory quarantines, will determine how fast the demand for air travel will recover. Industry regulation can also shape consumption options. One example is virtual healthcare. The COVID-19 pandemic prompted changes to restrictions around virtual healthcare provision, combined with physician office closures, leading to increased virtual healthcare adoption globally. In the United States, Congress enacted Waiver 1135, which temporarily legislated payment parity for virtual healthcare services during COVID-19.³⁵ Similarly, the French government enacted policies guaranteeing 100 percent telehealth reimbursement through December 31, 2020, and changed restrictions requiring referrals for virtual healthcare, allowing non-referral reimbursement in cases where COVID-19 is suspected.³⁶ In the United Kingdom, where virtual healthcare was broadly allowed before COVID-19, the National Health Service introduced a "total triage" program, in which all patients would first have a phone consultation before determining next steps for health services. In addition to changing regulations, France and Germany announced multibillion-dollar plans for funding healthcare digitization broadly. Expectations around these changed regulations have shaped the extent to which healthcare providers have invested in virtual healthcare.

Government incentives and funding also help shape consumer behaviors. For example, in France, the government introduced a program in 2020 known as MaPrimeRenov', which offered up to €20,000 per household for essential renovations, encouraging home nesting. According to the government, 192,000 households applied for the program and funding was increased in 2021 with the goal of reaching 450,000 households.³⁷ In the case of air travel, government bailouts in our sample countries (up to about 35 percent of 2019 ticket revenues) supported the industry through its most challenging period ever, helping the industry adapt and preventing bankruptcies or closures that would limit consumer choices.

³⁴ For more details about the impact of e-commerce shifts during the pandemic see *The future of work after COVID-19*, McKinsey Global Institute, February 2021.

³⁵ "Medicare telemedicine health care provider fact sheet," March 2020.

³⁶ Government of France, "Teleconsultation: A practice facilitated during health crises," www.service-public.fr.

³⁷ Boursorama, "Rénovation énergétique: Le dispositif MaPrimeRenov' a rempli ses objectifs en 2020," January 29, 2021.

A closer look at individual case studies

In each case study, the impact of consumers, companies, and governments on the stickiness of consumer behavior varies. But often it is the interaction among the three that is important, and we try to capture that in each case study. A brief summary of each case study follows here, while our more detailed individual write-ups can be found at the end of chapter 2.

E-grocery. E-grocery penetration more than doubled from pre-COVID-19 levels in some countries and has maintained much of this expansion, bringing the online share of total grocery sales in 2020 to 10 percent in the United States and over 10 percent in the United Kingdom. However, stickiness differs both by geography, as retailers have varied widely in their readiness to provide good customer experience, and by income, as delivery fees limit demand in low-income households. Offering a variety of products and services such as delivery, BOPIS, and drive-in across prices will enable more widespread stickiness.

Entertainment. The COVID-19 pandemic caused a precipitous drop in live entertainment spending, a decline of about 83 percent in the United States from February to April 2020 according to credit and debit card data, while boosting home entertainment spending by 6 percent in the same period.¹ That trend persisted into early 2021 in both the United States and Western Europe. While in-person entertainment is likely to rebound as the pandemic recedes, how live entertainment emerges from revenue losses from the pandemic and changes in industry practices like digital

movie launches will shape consumer behavior the most.

Home nesting. Home nesting—spending on items that facilitate life at home such as home gyms, backyards and gardens, and kitchens—has been a core COVID-19 experience. The first wave of COVID-19 in the spring of 2020 resulted in widespread lockdowns, work closures, and health fears that suddenly meant home was the center of consumer life, reversing a trend of declining time and money spent at home. A sticky new habit of home nesting emerged as consumers invested time and money in the home, which paid off in positive experiences. In the longer term, some work from home (WFH) is here to stay (especially for high-income households in the United States and Europe), and it may provide the structural support necessary to enable ongoing investment in time (and perhaps money) to further expand and improve the home as a space for activities across spheres of life.²

Leisure air travel. Despite one of the sharpest contractions of any industry (losing effectively 100 percent of traffic at the nadir), demand for leisure air travel is set to bounce back to prepandemic aggregate growth. Strong long-term growth momentum and pent-up demand from pandemic restrictions, together with government support and effective industry response, have set the stage for a robust rebound when travel restrictions lift. However, the shape of demand may shift. Reduced business travel is likely to create ripple effects on full-service

airline profitability, in turn changing the landscape for leisure travelers, both in the form of constraints (such as contracted networks and price increases) and opportunities (from greater service to leisure destinations by low-cost/point-to-point carriers and more catering to the non-business premium segment).

Remote education. The pandemic caused the single biggest disruption to education globally in the modern era. At the peak, nearly 1.6 billion children globally were impacted by school closures, and schools were forced to rapidly switch to remote learning models. While remote learning at primary and secondary schools is not expected to stick because of poor student, teacher, and parent experience, it may be used selectively to enhance education. For higher ed, online learning is likely to continue to develop and grow as a tool.

Virtual healthcare. COVID-19 caused a rapid increase in virtual healthcare use, with visits increasing 25-fold from February to April 2020 in the United States, a trend mirrored in Western Europe and China. Increased virtual healthcare usage is expected to remain after COVID-19, as consumers have gained experience and comfort, more providers have developed their virtual capabilities, and industry players have invested in services. But the postpandemic virtual healthcare regulatory environment will play a critical role in the pace of growth and ultimate penetration.

¹ Affinity Solutions.

² "What's next for remote work: An analysis of 2,000 tasks, 800 jobs, and nine countries," McKinsey Global Institute, November 23, 2020.

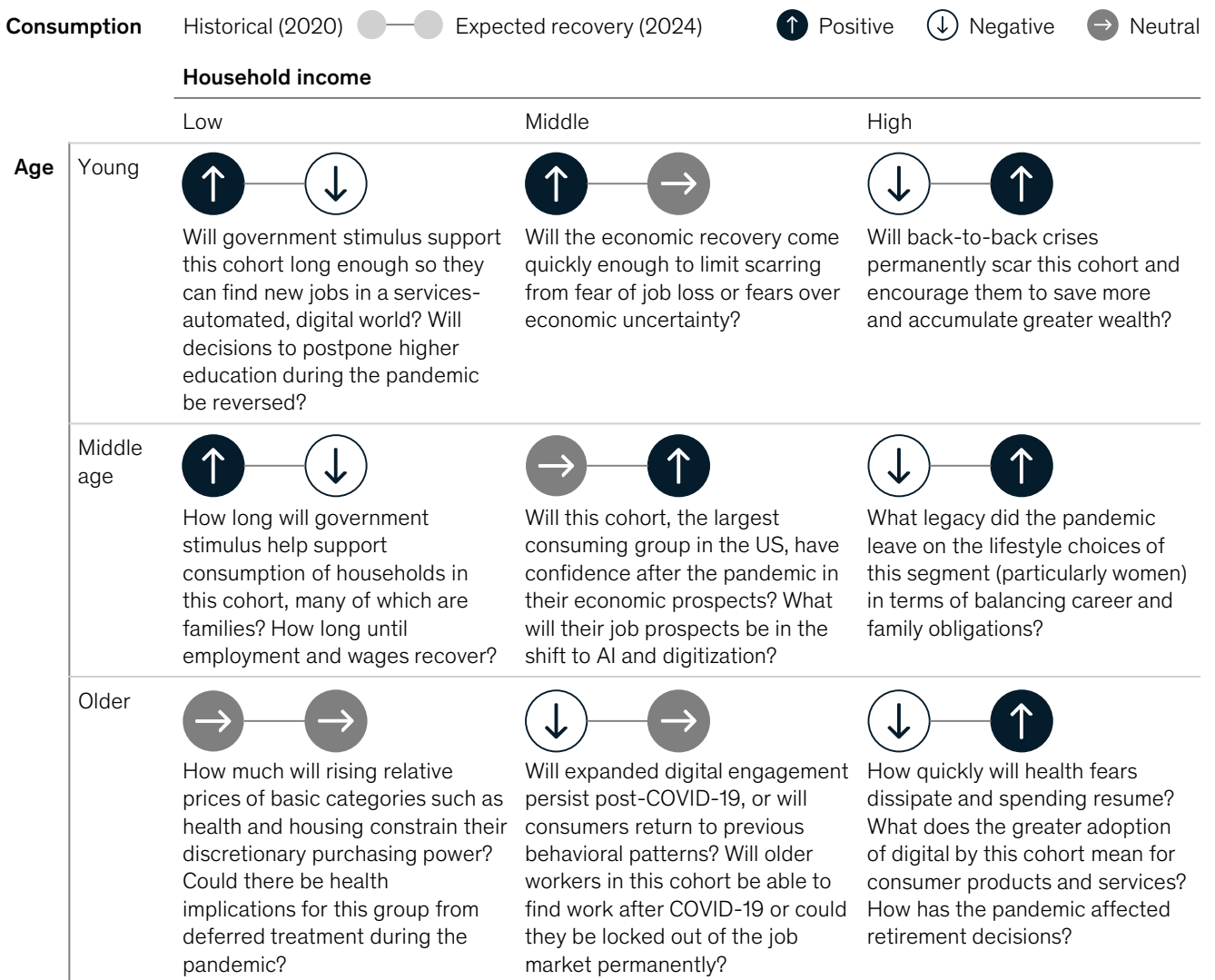
Companies and governments can prepare for a segmented consumer demand recovery and consider the implications for their customers and citizens

Accounting for the unequal economic impact and the full range of stickiness factors can lead to quite different outcomes between markets and product categories, and companies and governments that can anticipate the challenges and opportunities may well be able to shape the recovery path rather than simply waiting to see the outcome.

Our analysis of consumption before, during, and after the pandemic is based on a nine-segment view of consumer demand made up of three income segments (low-income, middle-income, and high-income) and three age cohorts (young, middle age, and older) that can be a useful tool. While significant uncertainty remains, there are a variety of questions to ask and drivers to watch for in each segment to understand and prepare for the recovery (Exhibit E6).

Exhibit E6

These are key questions to ask to prepare for the demand recovery by consumer segment.



NOTE: Segmentation 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). For age, we divided households into 3 groups based on head of household age: young (<35, United Kingdom <30), middle age (35–64, United Kingdom 30–64), older (65+).

Source: McKinsey Global Institute analysis

Taking a segmented view can provide interesting insights. For example, we find that if elevated work-from-home behavior sticks post-COVID-19, a significant amount of food consumption will be shifted from out-of-home to at-home. One additional day of work from home may result in up to about a 10 percent shift in food expenditure for an average working-age consumer.³⁸ The question remains how much of it will be captured by grocery stores and how much from restaurant deliveries. Looking at the consumer segments driving the WFH change, the impact would come mainly from high-income workers who tend to have more opportunities to work from home. This matters for food retailers, as an average food and beverage basket of high-income consumers differs from that of a low-income one. For example, the share of alcoholic beverages of total food spending is 5 percent for low-income US households and 8 percent for high-income ones. At the same time, low-income households spend around 8 percent of their food budget on cereals and bakery products, compared with about 6 percent for high-income ones.³⁹ Therefore, a growing share of high-income households' at-home food consumption might lead to shifts in the sales structure of grocery retailers, leaning toward more expensive categories and high-end brands.

As companies and governments prepare for the recovery, they might consider the implications of the changing shape of demand. Companies could prepare for a segmented customer base along income and age; evolving COVID-19 behavioral trends, especially digitization, home nesting, and attitudes about health and safety; and new business models. Governments face many challenges, in particular the lingering economic impact of COVID-19 and its effects on inequality. These impacts are both particularly pronounced in the United States, where the jobless rate is significantly higher than before the pandemic and COVID-19 has exacerbated inequality of opportunities, income, and wealth that were already widening. At the local government level in both the United States and Western Europe, pandemic shifts to increased time spent at home and increased reliance on e-commerce, among others, will have implications for cities, states, and regions, especially around the viability of commercial districts, the provision of public services like public transportation, and rising poverty and homelessness.

One year after the pandemic began, there is light at the end of the tunnel in the form of vaccines. While there is still much uncertainty associated with the rollout of vaccinations and new variants of the virus, a recovery is coming, perhaps even as soon as the second half of the year. Yet that recovery is likely to be different from past economic recoveries as the pandemic leaves indelible marks on consumer purchasing power and behavior, as well as the choices consumers will have, shaped by companies and governments. Now more than ever, understanding the way consumer demand is shifting by income, age, and geographies will be important to planning ahead. We hope our analysis in this report helps in this endeavor.

³⁸ Assuming three meals of equal value consumed daily, and two shifted from out-of-home to at-home because of one additional day of work at home.

³⁹ Based on 2018–19 BLS Consumer Expenditure Survey.

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