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Global Economics Intelligence

Global Summary Report

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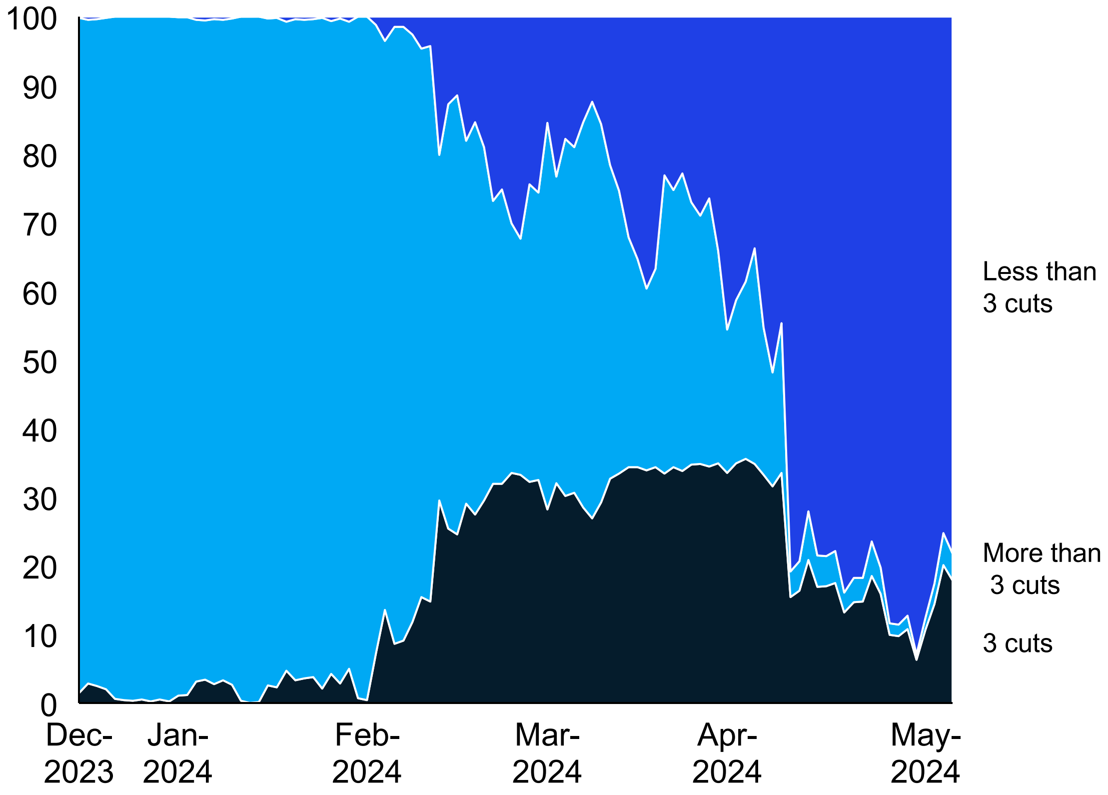
The market now expects significantly fewer interest rate cuts than at the beginning of the year; the overall consensus has dropped from 6-7 cuts at the start of 2024 to around 1-2 cuts currently

Market expectations for interest rates cuts[1] during 2024

Percent, daily



1 Three cuts imply an interest rate between 4.5-4.75% by the end of 2024. More than three cuts suggest interest rates below 4.5%, while fewer than three cuts indicate rates above 4.75% by year-end

Mixed economic picture with patchy positives; consumers cautious but confidence rising; inflation in developed economies decelerates, while producer prices decline; trade volumes down.

July's *World Economic Outlook* update from the International Monetary Fund projects global growth to fall from an estimated 3.5% in 2022 to 3.0% in both 2023 and 2024. The report states: "While the forecast for 2023 is modestly higher than predicted in the April 2023 *World Economic Outlook*, it remains weak by historical standards." Meanwhile, the IMF expects global headline inflation to fall from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024. It anticipates that underlying (core) inflation will decline more gradually, with forecasts for inflation in 2024 revised upward.

Confidence among consumers has improved, but they remain cautious when considering major purchases. Brazil saw consumer confidence increase to 92.3 in June, from 88.2 in May—the highest reading since February 2019. However, most countries recorded contraction in consumer spending compared to a year ago, with consumption in China slowing significantly.

Central banks have kept inflation expectations well anchored. Inflation in developed economies is decelerating, while producer prices there actually declined. Inflation edged up in Russia and India but remains low, although observers are watching inflation in Russia closely.

On July 26, the Federal Reserve raised the interest rate paid on reserve balances to 5.4%. Federal Reserve officials also decided to hike the federal funds rate with a target range of between 5-1/4 and 5-1/2. This was the 11th rate increase since March 2022; however, this latest meeting was notable for being the first at which Fed staff have not forecast a recession since they began to hike rates last spring. In June, the European Central Bank increased its key interest rate to 3.5%, a jump of 25 basis points, and also revised its inflation projections slightly upward to 5.4% (+1 p.p.) in 2023. The Bank of England raised its policy rate by 50 basis points to 5% in June.

In the US, real GDP increased at an annual rate of 2.4% in the second quarter of 2023 (quarter-over-quarter growth, annualized), according to the "advance" estimate from the Bureau of Economic Analysis. Eurozone GDP expanded by 0.3% in the second quarter, up 0.6% on a year earlier. Across major EU economies, performance was mixed: France and Spain grew thanks to stronger exports and tourism, while Germany's GDP was flat, and Italy suffered a contraction. UK GDP growth is expected to be modest at 0.3% in 2023, according to the OECD's June 2023 outlook. China's GDP in the second quarter expanded by 6.3% y-o-y (4.5% in Q1), from a low base in 2022, and reported 5.5% year-to-date growth. Meanwhile, the OECD's composite leading indicators showed signs of a rebound across economies.

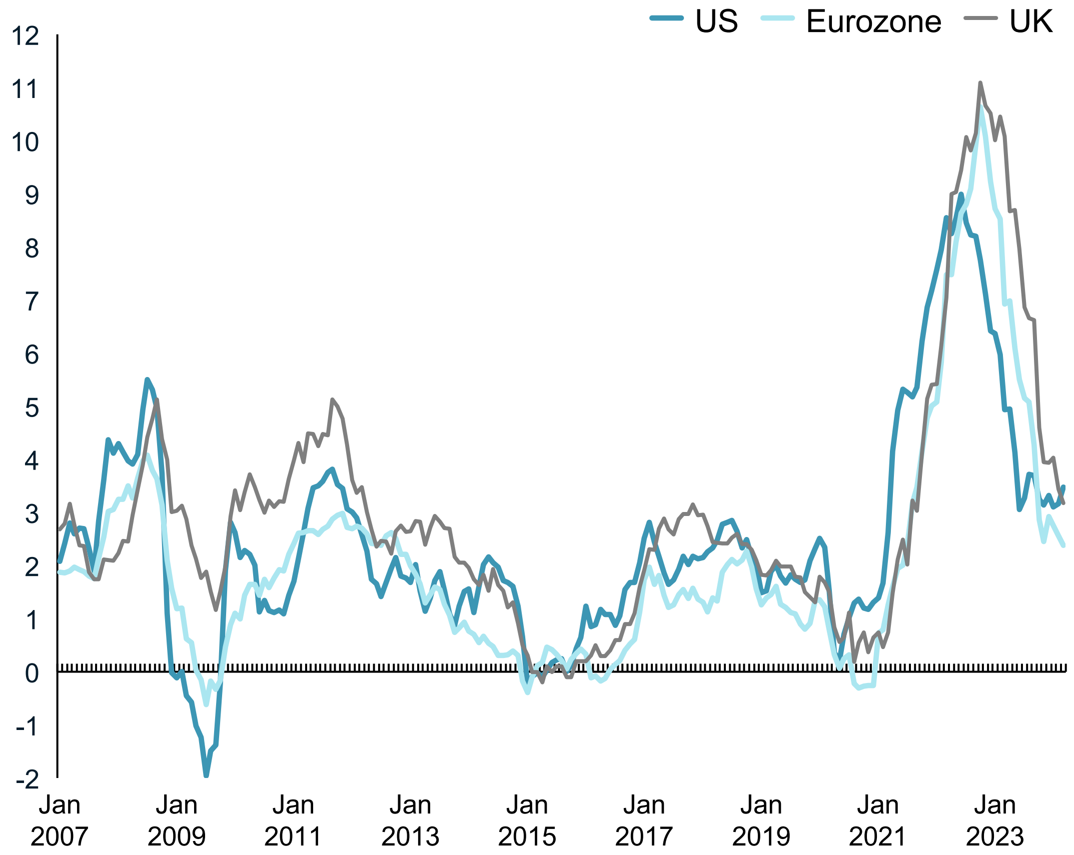
The US industrial production index declined slightly in June to 102 (May 103), while US purchasing managers' indexes (PMI) also fell in June: the manufacturing PMI reached a six-month low of 46.3 (48.4 in May), while the services PMI dropped to 54.4 (versus a May 2021 high of 70.4). Globally, the manufacturing sector contracted faster in June, with manufacturers either recording a slowdown or accelerating contraction in the business. By contrast, the upturn in services continued in June, although the expansion lost impetus with some slowdown in expansion visible.

Source: CME group; Macrobond;; McKinsey's Global Economics Intelligence analysis

Consumer prices have stabilized at high levels compared to the pre-pandemic period, adding further uncertainty to the economic outlook

Consumer Price Index: Developed economies

% 12-month change



The labor market remains tight in many countries with unemployment rates stable across most surveyed economies, although seasonal factors pushed up the rate in India, where unemployment rose to 8.5% in June (7.7% in May). US unemployment edged to 3.6%, slightly higher than May's 3.4% (3.5% in January 2020).

Equity markets in India, Japan, and the US extended gains from June into July, while other surveyed countries remained broadly unchanged (Germany, Russia) or recorded further declines (China, France, UK). In June, year-to-date returns for the S&P 500 and the Dow Jones were up to 15.9% and 3.8% respectively. During this month, the CBOE Volatility Index averaged 13.3, signaling a stable financial market. The US dollar depreciated against major developed countries' currencies but performed well against developing economies' currencies.

In April, world trade volumes fell –1.4% on a monthly basis (1.9% in March revised), mainly explained by decreases in emerging economies. Exports in May increased in the eurozone (reducing the trade deficit to –€0.3 billion from –€11.9 billion in April) and also in Brazil, but decreased for China and Russia. Imports fell for Russia and the US but rose for Brazil and China. In May, the Container Throughput Index increased by 123.4 points compared to the previous month (122.3 points revised). European throughput continues to fall, while Chinese ports continue to strengthen. Meanwhile, global supply-chain pressures are close to their lowest since 1998.

Finally, the nature of work has been changing since the onset of the pandemic—not only in terms of what we do but where we do it. Demand for office and retail space in so-called "superstar cities" (including Beijing, Houston, London, New York City, Paris, Munich, San Francisco, Shanghai, and Tokyo) is likely to remain below pre-pandemic levels, according to a new report from the McKinsey Global Institute. In a moderate scenario modelled by MGI, demand for office space will be 13% lower in 2030 than it was in 2019 for the median city in the study. In a severe scenario, demand falls by 38% in the most heavily affected city.

Why is this? Since the pandemic, employees now spend far less time in the office than pre-COVID-19. In early 2020, the onset of remote and hybrid models of working saw office attendance drop by up to 90%. With hybrid work here to stay, office attendance in superstar cities remains down by an average of 30% with office workers attending the office on average 3.5 days a week as of October 2022 (ranging from 3.1 days in London to 3.9 days in Beijing).

The ripple effects have been significant with residents leaving urban centers and shopping elsewhere—New York City's urban core lost 5% of its population over the two years from mid-2020 to mid-2022, while San Francisco's lost 6%. At the same time, foot traffic near stores in metropolitan areas remains 10–20% below pre-pandemic levels.

That said, demand for real estate will vary significantly according to individual cities' specific local characteristics. Demand may be lower in neighborhoods and cities characterized by dense office space, expensive housing, and large employers in the knowledge economy. However, cities can adopt hybrid approaches themselves to adapt and thrive. Priorities might include developing mixed-use neighborhoods, constructing more adaptable buildings, and designing multiuse office and retail space.

[1] *Empty spaces and hybrid places: The pandemic's lasting impact on real estate*, McKinsey Global Institute, July 13, 2023. The report focuses most closely on nine superstar cities: Beijing, Houston, London, New York City, Paris, Munich, San Francisco, Shanghai, and Tokyo. The survey underlying the report the report also collected data from a larger set of 17 superstar cities in six countries. Extended analysis explored a still larger set of 24 superstar cities to help identify patterns in suburbanization.

Source: National statistics websites; McKinsey's Global Economics Intelligence analysis

[Advanced economies]: In the advanced economies, US grew at 2.4% in Q2, but European growth is modest. Consumer price inflation is dropping. Manufacturing remains subdued.

United States

March's annual inflation rate rises to 3.5%; existing home sales drop by 4.6%—the largest monthly drop in a year; FOMC revision to monetary policy projection would lead to no interest rate cuts at April's meeting.

At 3.8%, March's unemployment rate changed little from February's 3.9% (3.5% in January 2020). Total nonfarm payroll employment rose by 303,000 net new jobs in March. The consumer price index increased by 3.5% (annualized) in March, a slightly higher rise than the 3.2% for the 12 months ending in February. Core inflation rose by 3.8% (annualized) in February. For the third consecutive month, median one-year-ahead inflation expectations remained unchanged at 3% (the lowest level recorded since January 2021), according to the March Survey of Consumer Expectations by the New York Fed.

Retail and food-service sales climbed to $709.6 billion, a 0.7% increase from February's $704.5 billion. The consumer confidence index (Conference Board) registered 104.7 in March, essentially unchanged from a downwardly revised 104.8 in February.

The industrial production index remained almost unchanged at 102.6 in March (December 102.7). The purchasing managers' index (PMI) for manufacturing was revised lower to 51.9 from a preliminary 52.5 in March; the services PMI decreased to 51.7.

In March, the S&P 500 increased by 3.10%, bringing its one-year return to 27.86%; the Dow Jones rose by 2.08% for the month and was up 19.63% in its one year's growth. During this month, the CBOE Volatility Index averaged 13.01 (13.1 in Feb). The latest performance by tech stocks, including cooling by market leader NVIDIA, could indicate lower returns for the S&P 500 in April.

Revision of FOMC projections indicates a slower decrease in the federal funds rate for 2025–26, signaling a possible delay in cuts for 2024. Recent remarks by Fed governors could lead to one more market meeting without interest rate cuts.

February exports were $263.0 billion, $5.8 billion more than January exports. February imports were $331.9 billion, $7.1 billion more than January imports. The total deficit increased by 1.9%, to $68.9 billion.

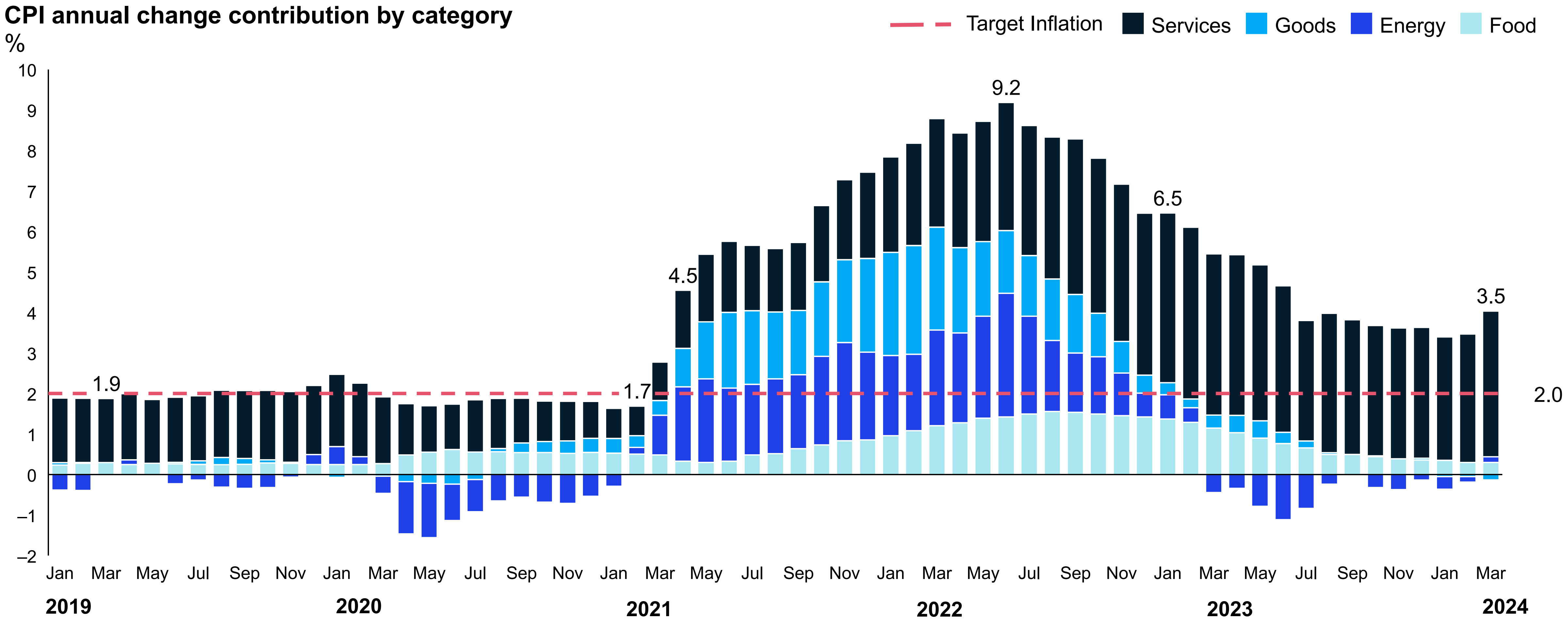
For the housing market, the 30-year fixed-rate mortgage rose to 7.1% on April 18; existing home sales fell –4.6% in March. During this month, housing starts decreased to 1,321,000 (1,549,000 in February), with March completions down to 1,469,000 (1,698,000 in February).

The US is experiencing a rise in loan delinquencies among borrowers with incomes below $45,000, particularly in credit cards and auto loans, according to bank executives and economists. This trend is prompting banks to tighten credit standards, reflecting growing financial strain among lower-income consumers.

The US Senate passed a $95 billion foreign aid package providing aid for Ukraine, Israel, and the Indo-Pacific region. A fourth bill in the package included sanctions on Iran and a measure that could lead to a TikTok ban.

Source: BLS; US Census, Federal Reserve; NY Federal Reserve Bank, NAREIT; McKinsey's Global Economics Intelligence analysis

March's inflation rate rose to 3.5% for the first time in the past six months; energy contributed to this increase

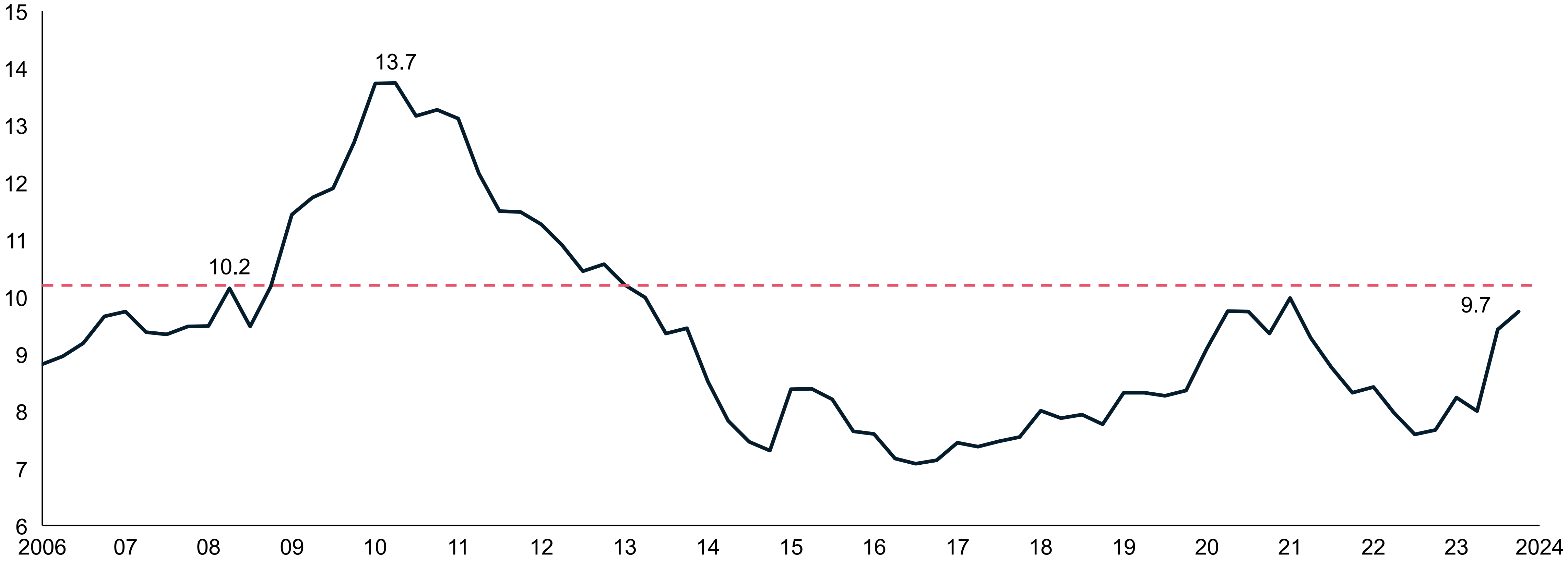


Source: BLS; McKinsey's Global Economics Intelligence analysis

Rising credit card delinquencies are prompting banks to tighten credit standards

Credit Card 90+ days delinquency rate

%



Source: NY FED; McKinsey's Global Economics Intelligence analysis

March's annual inflation rate rises to 3.5%; existing home sales drop by 4.6%—the largest monthly drop in a year; FOMC revision to monetary policy projection would lead to no interest rate cuts in April's meeting

Significant improvement | Improving | No significant change | Worsening | Severe decline

	Indicator category	Change vs prior month	Change vs pre-COVID
Macroeconomic	Consumer	Improving	No significant change
	Business/industry	Improving	No significant change
	Real estate	Worsening	Worsening
	Trade, external	No significant change	No significant change
	Prices	Worsening	Improving
	Employment	Improving	Significant improvement
Financial markets	Foreign exchange	No significant change	Improving
	Equity	No significant change	Significant improvement
	Debt	Worsening	Severe decline
	Credit	Worsening	Worsening
Government and policy	Public policy	No significant change	No significant change
	Public-sector health	Improving	No significant change

Annual inflation increase to 3.5%; unemployment unchanged at 3.8%; 303,000 net new jobs in March

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March market equites continue to grow; monetary policy revision to delay interest rate cuts

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- Revision of FOMC projections show a slower decrease in the federal funds rate for 2025–26; signaling a possible delay in cuts for 2024. Recent remarks by Fed governors could lead to one more market meeting without interest rate cuts.

Rising credit card delinquency prompt banks to tighten credit standards; President signs bill to sanction Iran and possible TikTok ban

- Loan delinquencies among US borrowers with incomes below $45,000 are rising, particularly in credit cards and auto loans, according to bank executives and economists. This trend is prompting banks to tighten credit standards, reflecting growing financial strain among lower-income consumers.
- The US Senate passed a $95 billion foreign aid package providing aid for Ukraine, Israel, and the Indo-Pacific region. A fourth bill in the package included sanctions on Iran and a measure that could lead to a TikTok ban.

Source: BLS; Federal Reserve; NAREIT; NY Federal Reserve Bank; US Census; McKinsey's Global Economics Intelligence analysis

Eurozone

Emerging signs of gradual improvement in activity in Q1 2024; growth expected to strengthen in H2 2024; continuing disinflation; interest rate cuts on the horizon; proposal to strengthen EU's single market and competitiveness.

Monthly surveys and data suggested that the eurozone's economy has reached a turning point in the first quarter of 2024. Industrial production figures for February showed some recovery after a poor start to 2024, although retail sales did not provide any indication of a recovery in consumer spending. Overall, GDP growth was positive but relatively meagre, with estimates around 0.2% quarter-on-quarter. The divergence in performance among countries and sectors remains, with Germany and to a lesser extent France continuing to be the laggards. On the other hand, among the southern, services-intensive economies, Spain continues its outperformance.

GDP growth is forecasted to gradually strengthen further in the year backed by lower inflation and monetary policy easing. This would translate into stronger real incomes, and better consumer demand prospects. Improving momentum was reflected by the composite PMI, which after 10 months breached the 50-point threshold in April–March. The upturn was mostly driven by services, with the recovery in manufacturing yet to take place. Full-year forecasts assume GDP expansion by around 0.6% this year.

Disinflation in the eurozone is continuing. In March, headline inflation fell to 2.4% and core inflation also eased to 2.9% due to weaker non-energy industrial goods inflation. Services inflation stayed at 4% for a fifth consecutive month, reflecting its labor intensity combined with elevated wage growth. Also, an early Easter this year may have influenced figures in March. In coming months, inflation is expected to move closer to 2% and may undershoot the European Central Bank's (ECB) inflation target in the second half of the year.

The ECB kept interest rates unchanged at its meeting in April but gave a clear signal that it's ready to start cutting rates soon. The bank stated that, due to the success of monetary policy in driving a disinflation process towards target and in moderating underlying inflation, it would be appropriate to reduce policy tightness. The ECB pointed to a likely cut at its next policy meeting in June.

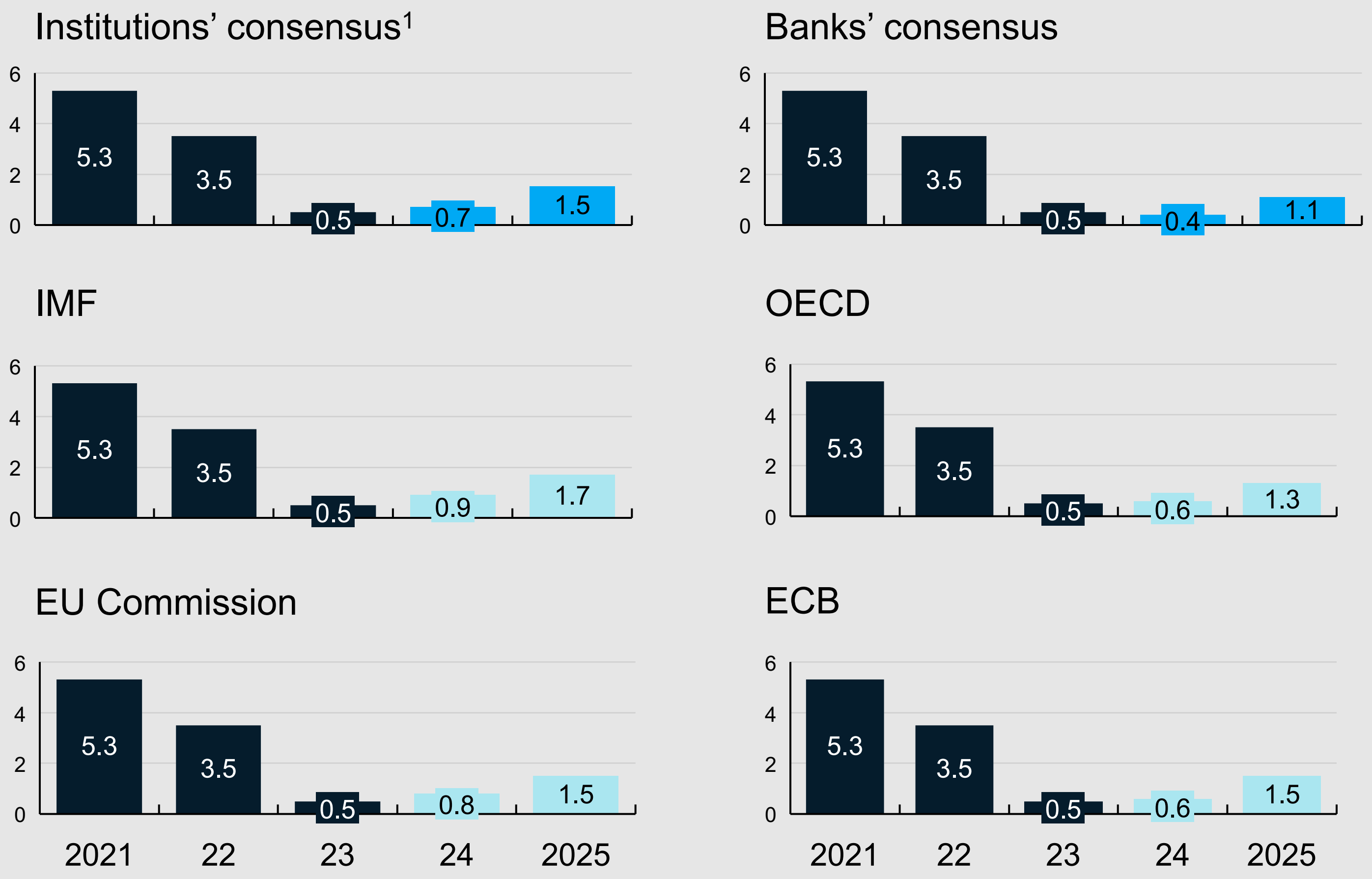
Two former Italian prime ministers Enrico Letta and Mario Draghi (a former ECB president) presented a proposal to strengthen the EU's single market and competitiveness. This was in response to increasing concerns about the EU falling behind aggressive industrial policy in the US and China. Priorities include the need to complete the capital markets union and to enable scale through tackling fragmentation, more common action and greater focus on the delivery of public goods, and a fully-integrated energy market to secure the EU's economic security and an effective industrial policy.

Source: ECB; European Commission; Eurostat; IHS Markit; IMF; OECD

Photo by Ilnur Kalimullin on Unsplash

Most forecasters suggest only slow recovery in 2024–25

Real GDP
Percent change, annual



1. Includes IMF (Jan ’24), OECD (Feb ’24), EU Commission (Feb ’24), ECB (Mar ’24)

Source: ECB; European Commission; Eurostat; IMF; OECD

Emerging signs of recovering activity amid continued disinflation and shrinking outstanding credit

Significant improvement | Improving | No significant change | Worsening | Severe decline

	Indicator category	Change vs prior month	Change vs pre-COVID
Macroeconomic	Consumer	Worsening	No significant change
	Business/industry	No significant change	No significant change
	Real estate	Improving	No significant change
	External trade	Improving	No significant change
	Prices	Improving	Worsening
	Labor market	No significant change	Improving
Financial markets	Foreign exchange	No significant change	Severe decline
	Equity	Improving	No significant change
	Debt	No significant change	Worsening
	Credit	Worsening	No significant change
Government and policy	Public policy	No significant change	Worsening
	Public-sector health	No significant change	Worsening

Emerging signs of recovering activity amid continued disinflation

- Real retail sales declined in February: –0.5% month on month, –1.1% year-on-year. The consumer confidence indicator edged up marginally in April and remains at low levels, indicating only a modest recovery in consumer spending.
- The industrial production index climbed by 0.8% month on month in February, remaining 2.8% below the 2023 average level. Some leading indicators suggest a turning point in the economy: the composite PMI reached 51.4 in April, although the manufacturing PMI remains in contraction territory (45.6 from 46.1 in March). Also, the monthly ZEW indicator rose sharply to 42.9 in April, posting its highest level since April 2022.
- Construction output in February rose by 1.8% month-on-month (–0.5% year-on-year); the construction PMI declined to 42.4 in March from 42.9.
- The first estimates of the euro area trade balance showed a €23.6 billion surplus in February 2024, compared with €3.6 billion in February 2023. Exports of goods in February 2024 were €235.0 billion, a slight annual increase of 0.3%. Imports stood at €211.4 billion, a fall of 8.4% year-on year. In seasonally adjusted terms, Eurozone's goods trade surplus reached €17.9 billion in February, declining from €27.1 billion in January, reflecting mainly an €8.8 billion increase in imports to €220 billion; exports have remained stable at €238 billion.
- In March, headline inflation fell to 2.4% while core inflation also eased to 2.9%. Services inflation stayed at 4% for a fifth consecutive month. Producer prices have been in deflation since December, posting –0.9% month-on-month and –8.3% year-on-year.
- The unemployment rate in February increased marginally to 6.5% and remains close to record lows, with Spain at 11.5% and Germany at 3.2%. Annual nominal wage growth in the Q4 2023 was 4.6%; thanks to falling inflation, it translated into a solid 1.8% growth in real terms.

Europe's STOXX 600 close to all-time high; stable euro-dollar exchange rate; shrinking outstanding credit

- Europe's STOXX 600 reached all-time high in March and remains close to it after favorable forward-looking indicators mainly in the services sectors.
- The euro lost marginally against the US dollar, trading at $1.07 per euro on April 23, reflecting anticipated differences in monetary policy.
- The Italian–German 10-year bond-yield spread fell to 1.8 percentage points in March; yields are at 4.2% and 2.4%, respectively.
- Tighter monetary policy has resulted in a considerable slowdown in outstanding credit, which annually declined by 0.2% for households and 0.5% for corporates.

New EU's anti-subsidy probes

- The European Commission launched anti-subsidy investigations into two public tender bids involving two leading Chinese firms. Also, the EU is investigating unfair advantages enjoyed by Chinese EV makers, which may result in tariffs potentially matching the 27.5% tariff already imposed by the US. Those moves reflect concerns about economic security and the competitiveness of European firms confronted with growing overcapacity in Chinese production, benefiting from low costs and from many years of generous state aid. There is a risk of tit-for-tat retaliation to these measures, to which German firms are most vulnerable.

Source: European Commission; Eurostat; Haver Analytics; United Nations; McKinsey's Global Economics Intelligence analysis

United Kingdom

Inflation fell by less than expected to 3.2% in March; monthly GDP grew by 0.1% in February 2024; latest GDP projections by the BoE, OBR, OECD, and IMF indicate modest growth for 2023–25.

The IMF's April World Economic Outlook projects modest growth of 0.1% in 2023, 0.5% in 2024, and 1.5% in 2025. The IMF's forecasts have been revised down compared to its interim January update, highlighting that the UK will remain the second-worst performer among G7 nations. However, by 2025, the UK is tipped to be the third-best performer in the G7, as households recover following a prolonged cost of living crisis. The Office for Budget Responsibility's March 2024 Economic and Fiscal Outlook projects GDP growth of 0.8% in 2024, jumping to 1.9% in 2025. Similarly, the OECD's February Interim Report expects UK growth to pick up from 0.3% in 2023 to 0.7% in 2024 and 1.2% in 2025, with inflation dropping to 2.8% and core inflation to 3.6% in 2024.

UK real GDP is estimated to have grown by 0.2% in the three months to February 2024, compared with the three months to November 2023. Services output grew by 0.2% during this period, while production output grew by 0.7%; construction output fell by 1%. However, monthly real GDP grew by 0.1% in February 2024, following 0.2% growth in January. Construction output grew 1.9% in February, services grew by 0.1%, and production grew by 1.1%.

The UK Consumer Price Index fell by less than forecast to 3.2% in March 2024, its lowest rate since September 2021, mainly driven by a slowdown in food price inflation, but partially offset by rising fuel prices. Core inflation, which excludes items such as energy, food, alcohol, and tobacco, fell to 4.2%—down from 4.8% in February. Meanwhile, the Bank of England Monetary Policy Committee voted to maintain the policy rate at 5.25% on March 21. Economists still expect UK interest rates to fall this year, with many anticipating the BoE will lower the cost of borrowing in the summer. The BoE expects the CPI to fall to slightly below the 2% target in the second quarter.

The seasonally adjusted S&P Global UK Manufacturing PMI index rose to a 20-month high of 50.3 in March, up from 47.5 in February and above the earlier flash estimate of 49.9. This was the first time the PMI has posted above the neutral 50.0 mark since July 2022. UK manufacturing showed tentative signs of recovery in March, as output and new orders increased, following year-long downturns. March data also pointed to a solid increase in business activity across the service economy, extending the current period of expansion to five months. That said, the latest survey indicated a loss of momentum since February, largely due to a weaker rise in new work. The UK Services PMI registered 53.1 in March, down from 53.8 in February, but comfortably above the neutral 50.0 threshold. UK construction companies showed a resurgence in activity during March, ending a six-month decline. Adding to signs of recovery in construction sector performance, new orders expanded at their fastest pace since May 2023. The UK construction PMI rose from 49.7 in February to 50.2 in March, signalling expansion at its highest level since August 2023.

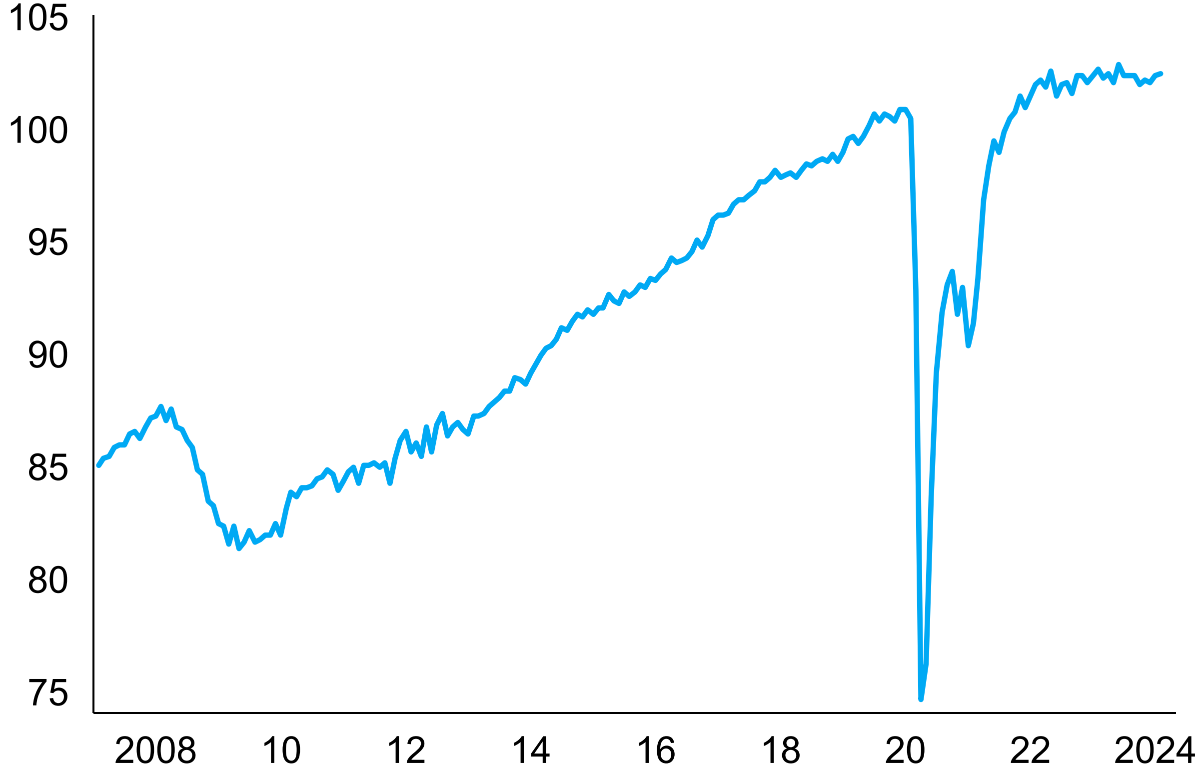
Growth in average total pay was 5.6% in the three months to February 2024; real total pay rose by 1.6%. UK unemployment was estimated at 4.2% for the same period. The UK economic inactivity rate for December 2023 to February 2024 (22.2%) is above estimates of a year ago (December 2022 to February 2023) and increased in the latest quarter—the inactivity rate was 21.9% in October to December 2023. The estimated number of vacancies in January to March 2024 was 916,000, a 1.4% drop of 13,000 from October to December 2023. Vacancies have declined for a record 21st consecutive period, despite falling in only eight of the 18 industry sectors.

The opposition Labour party rebuffed an EU offer of a post-Brexit youth mobility deal to allow Britons aged 18–30 to live, study, or work in one EU country for up to four years. A day later (April 19), Prime Minister Rishi Sunak also rejected the proposal, which would have enabled young EU citizens to come to the UK on the same terms. The UK government had instead been looking to strike bilateral agreements.

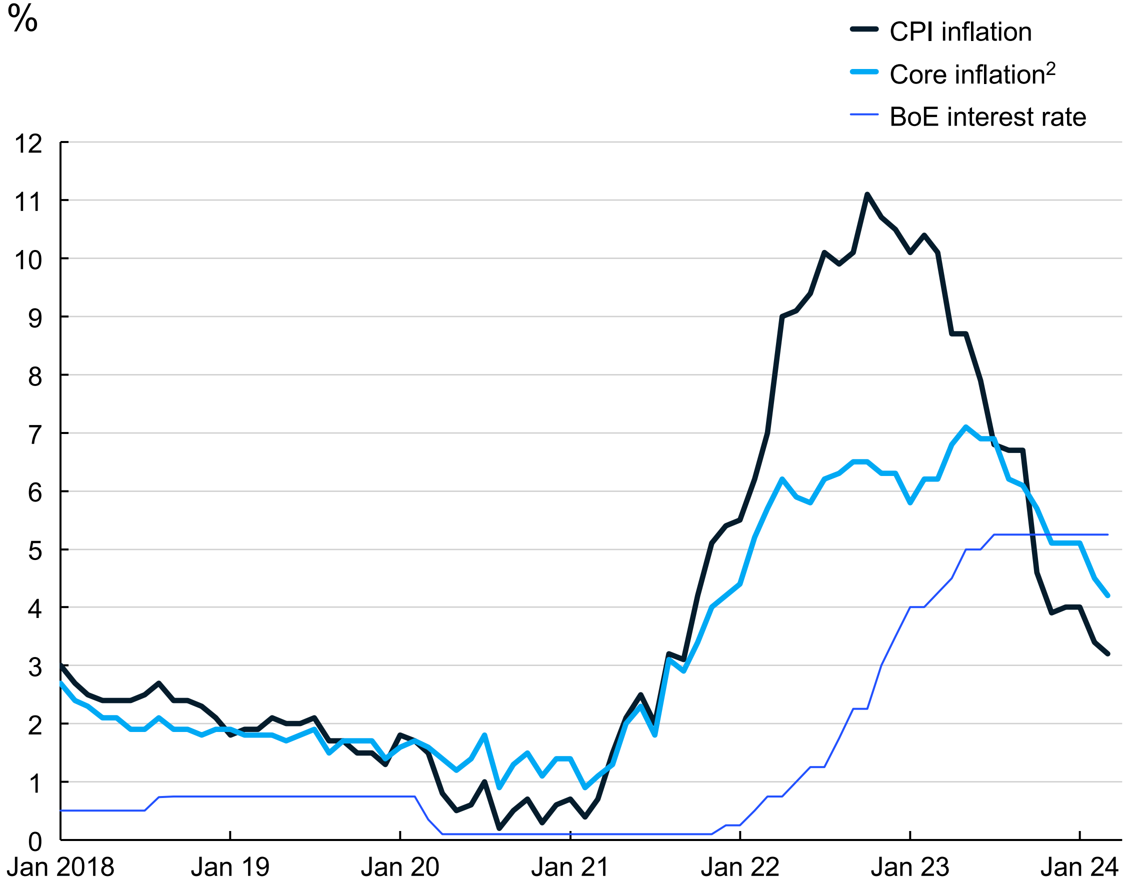
Source: Bank of England; IMF; OECD; Office for Budget Responsibility; Office for National Statistics; McKinsey's Global Economics Intelligence analysis

Monthly real GDP grew by 0.1% in February 2024; the CPI fell by less than expected to 3.2% in March; the Bank of England held the policy rate at 5.25% in March

Monthly UK GDP, January 2007 – February 2024
Index, 2019 = 100



12-month inflation; Bank of England interest rate
%



1. Office for National Statistics data.
2. The specific measure excluding energy, food, alcohol, and tobacco is the one typically referred to as "core" by the ONS.

Source: Bank of England; IMF; OECD; Office for Budget Responsibility; Office for National Statistics; McKinsey's Global Economics Intelligence analysis

Inflation fell further in March, led by food prices but partially offset by rising fuel prices; manufacturing and services sentiment continued to improve; consumer confidence held steady; the unemployment rate increased

Significant improvement | Improving | No significant change | Worsening | Severe decline

	Indicator category	Change vs prior month	Change vs pre-COVID
Macroeconomic	Consumer	No significant change	Severe decline
	Business/industry	Improving	Worsening
	Real estate	No significant change	Improving
	External trade	Improving	Improving
	Prices	Improving	Severe decline
	Employment	Worsening	No significant change
Financial markets	Foreign exchange	No significant change	Severe decline
	Equity	Improving	Improving
	Debt	No significant change	Improving
	Credit	No significant change	No significant change
Government and policy	Public policy	No significant change	Worsening
	Public-sector health	No significant change	Worsening

Inflation falls in March; consumer confidence remains unchanged; industrial production strengthens

- Retail sales volumes are estimated to have remained flat in March 2024 (versus February 2024).
- GfK's Consumer Confidence Index improved two points in April, to –19, but remained in negative territory. January 2024 was the best headline score in two years, but concerns over persistent inflation pushed the index down in February and March, after three months of improvement.
- Monthly production output is estimated to have risen by 1.1% in February 2024; this follows a fall of 0.3% in January 2024. Manufacturing, water supply, and electricity and gas were the biggest contributors to the monthly increase, partially offset by a fall in mining and quarrying.
- The UK purchasing managers' index (PMI) for manufacturing strengthened further in March, recording 50.3, up from 47.5 in February. This was the first time the PMI has posted above the neutral 50.0 mark since July 2022. The services PMI registered 53.1 in March, down from 53.8 in February, but well within the expansion zone for the fifth consecutive month.
- Monthly construction output in terms of volume is estimated to have decreased by 1.9% in February 2024. Meanwhile, the UK construction PMI rose from 49.7 in February to 50.2 in March, signalling expansion at its highest level since August 2023. The January UK House Price Index shows an annual price fall of –0.6%, bringing the UK average property price to £282,000.
- The total trade in goods and services deficit narrowed by £2 billion, to a £9.9 billion deficit in the three months to February 2024; it has been steadily improving since Q1 2022.
- The annual CPI inflation rate fell by less than expected to 3.2% in March. Core inflation (excluding food, energy, alcohol, and tobacco) also fell to 4.2%. Producer input prices dropped –2.5% in the year to March, (down from a –2.2% fall in the year to January); producer output (factory gate) prices rose by 0.6% in the year to March, up from a rise of 0.4% in the year to February 2024.
- The UK unemployment rate for December 2023 to February 2024 (4.2%) is above estimates of a year ago (December 2022 to February 2023), and increased in the latest quarter. The unemployment rate was 3.8% in October to December 2023.

UK equities improve; GBP steady versus USD; 10-year gilt down from highs seen during market turmoil in late 2022

- As of 27 April, the FTSE 100 improved roughly 2.6% versus a month ago, slightly below levels seen during the peak of February 2023. The pound remained at $1.26 (as of April 27), having almost reached parity in late September 2022.
- The daily yield of the UK 10-year gilt increased to 4.3%, as of April 24, below the historic highs of more than 4.6% seen in mid-October 2022, but well above mid-2022 rates of around 2%.
- UK government debt decreased to 100% of GDP in Q3 2023, while the deficit dropped to 5.8% of GDP (from 9.5% in Q2 2023).

UK rejects EU-wide youth mobility deal

- Prime minister Rishi Sunak rebuffed the European Commission's surprise offer of a youth mobility scheme for people aged between 18 and 30, following the Labour opposition's earlier rejection of the proposal. The government had been pursuing bilateral agreements with various EU countries.

Source: Bank of England; Office for National Statistics; McKinsey's Global Economics Intelligence analysis

[Emerging economies]: In the emerging economies China’s growth slowed with expectations down. Inflation under control but edging up in India and accelerating in Russia.

China

China's economy had a strong start in Q1. GDP growth edged up to 5.3%—above market estimates; investment activities accelerated, and new credit increased; cross-border trade reported moderate growth; the real estate slowdown continued.

In the first quarter of 2024, China's GDP reported a stronger-than-expected growth rate of 5.3% year-on-year (5.2% in the fourth quarter of 2023)—74% of the growth was driven by consumption. By sectors, GDP growth in the industry sector accelerated to 6.0% year-on-year (5.5% in the fourth quarter of 2023), while GDP growth in the agriculture and services sectors respectively slowed to 3.3% and 5.0% year-on-year (4.2% and 5.3% in the fourth quarter of 2023).

Growth in investment activities gained pace. Overall fixed-asset investment showed a 4.5% year-on-year growth in the first quarter of this year (2.7% in the final quarter of 2023). Among sectors, manufacturing and infrastructure investments respectively expanded faster at 9.9% and 6.5% in the first quarter (7.2% and 5.2% respectively in the prior quarter). Contraction in real estate investment moderated slightly to −7.9% in the first quarter of 2024 (−9.1% in the fourth quarter of 2023).

The slowdown in the real estate market continued during the opening quarter of the year. On the demand side, floor space sold in new residential properties declined −27.8% (−23.7% in the final quarter of 2023) and average new home prices dropped −1.9% (−0.7% in the fourth quarter of 2023). On the supply side, floor space started fell −28.7% across the first quarter of 2024 (−10.1% in the preceding quarter).

New credit increased to RMB 12.9 trillion in the first quarter of 2024 (RMB 6.2 trillion in the last quarter of 2023). This represented a fall of −11% compared to the same period a year ago, with over 90% of the contraction coming from shrinking new bank loans. Total social financing amounted to RMB 390.3 trillion in March, a growth of 8.7% year-on-year, down from 9.0% in February.

The overall surveyed urban unemployment rate inched down to 5.2% in March (5.3% in February). The youth unemployment rate stabilized at 15.3% in March.

Growth of cross-border trade was moderate in the first quarter of this year. Both exports and imports reported a 1.5% year-on-year growth, up from −3.3% and 0.4% respectively in the final quarter of 2023.

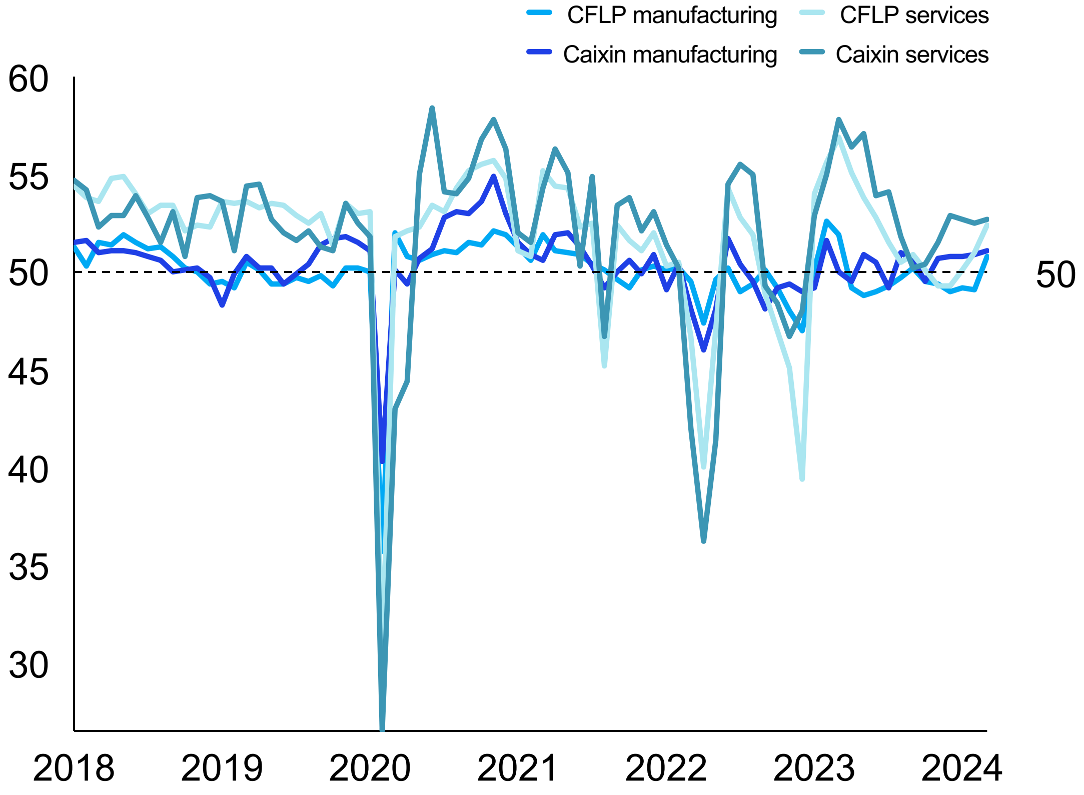
Foreign direct investment (FDI) inflows into China declined by −26% year-on-year in the first quarter of 2024 (compared to −8% for whole of 2023), according to data released by the Ministry of Commerce.

Source: CEIC; McKinsey's Global Economics Intelligence analysis

In March, the manufacturing and services PMIs rose; stock indexes fell in April

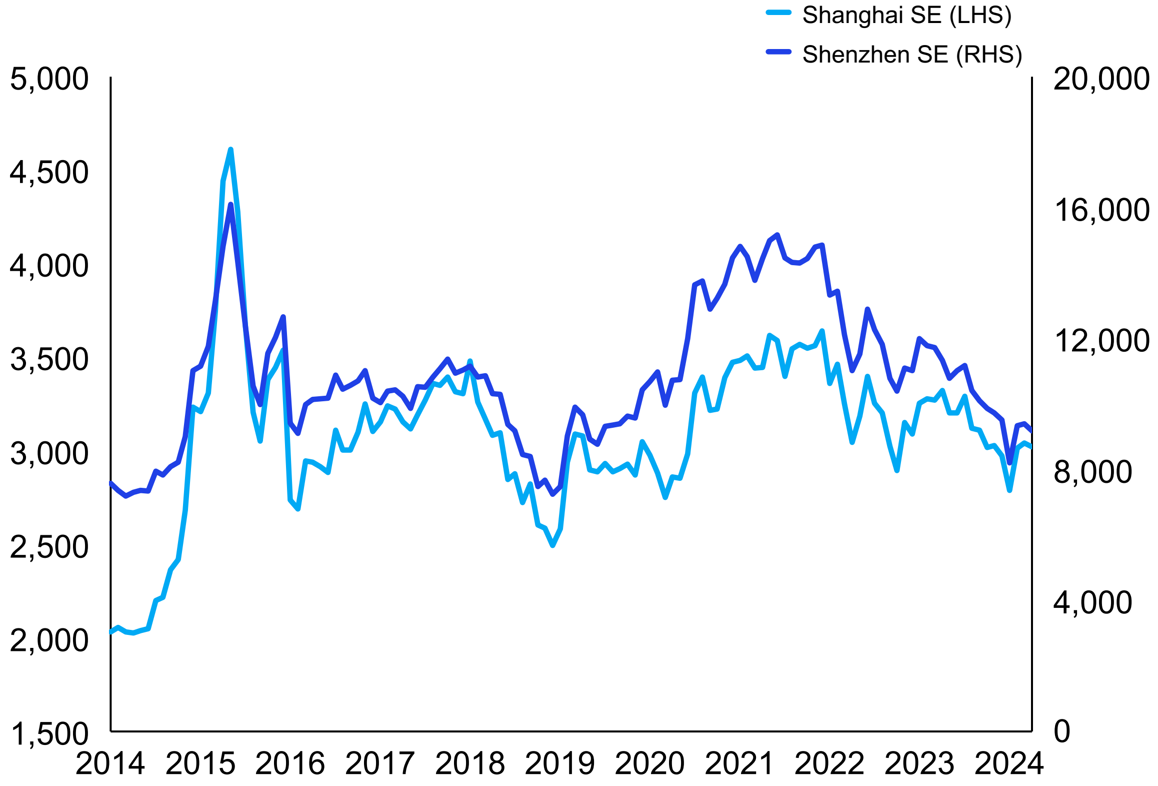
Purchasing managers indexes (PMI)

Index, monthly



Stock market indexes

Index, monthly



Source: CEIC; McKinsey's Global Economics Intelligence analysis

Retail sales growth decelerated; consumer prices were almost static, while producer prices continued to deflate; new credit climbed

Significant improvement | Improving | No significant change | Worsening | Severe decline

	Indicator category	Change vs prior month	Change vs pre-COVID
Macroeconomic	Consumer	Worsening	No significant change
	Business, industry	Improving	No significant change
	Real estate	No significant change	Worsening
	External sector, trade	Worsening	Improving
	Prices	No significant change	Worsening
	Employment	No significant change	No significant change
Financial markets	Foreign exchange	Worsening	Worsening
	Equity	Worsening	No significant change
	Debt	Improving	Improving
	Credit	Improving	Improving
Government and policy	Public policy	No significant change	No significant change
	Public-sector health	No significant change	No significant change

Both manufacturing and services PMIs increased in March; consumer prices inflated less, and producer prices remained deflated

- Retail sales expanded more slowly at 3.1% in March (5.5% across January and February combined).
- The official manufacturing PMI climbed into the expansion zone to stand at 50.8 in March (49.1 in February); the official services PMI improved to 52.4 in March (51.0 in February). Caixin PMIs, which primarily survey SMEs, reported a manufacturing PMI of 51.1 (50.9 in February) and a services PMI of 52.7 (52.5 in February) in March.
- Cross-border trade slowed in March. Exports growth fell to −7.5% in March (5.6% in February) while the contraction in imports reduced to −1.9% in March (−8.2% in February).
- Consumer prices inflated slightly at a rate of 0.1% in March (0.7% in February); producer prices continued to deflate, at a rate of −2.8% in March (−2.7% in February).

RMB depreciated against US dollar; stock market lost value; new credit expanded

- The RMB depreciated by –0.3% against the US dollar compared with the level at the end of March, trading at RMB 7.2469 = USD 1 by April 23.
- The Shanghai stock index lost −0.6% in value, and the Shenzhen index −2.3%, by April 23 compared with levels at the end of March.
- New social financing increased to RMB 4.9 trillion in March (RMB 1.5 trillion in February); total social financing amounted to RMB 390.3 trillion in March, growing 8.7% year-on-year, down from 9.0% in February.
- M2 growth has been decelerating for 13 months in a row, standing at 8.3% in March (8.7% in February).

Source: Bloomberg; CEIC; McKinsey's Global Economics Intelligence analysis

India

India is potentially witnessing a sustained increase in GDP growth, fueled by strong investment and positive business and consumer sentiment; inflation steadied at 4.9% in March; near-term risks include potential inflationary pressures from extreme weather and geopolitical tensions affecting oil price stability.

Based on SIAM's March 2024 data, automobile sales have declined further (–0.7%) compared to the prior month, to stand at 368,086 (370,786 in February).

December's Index of Industrial Production (IIP) registered year-on-year expansion with growth of 5.7% above the February 2023 figure, complemented by all sectors posting growth versus 2023 in the range 5–8%. On a monthly basis, month-on-month growth declined across sectors: mining (–3.1%), manufacturing (–3.7%), and electricity (–5.1%).

The purchasing managers' index (PMI) for manufacturing reached a 16-year high at 59.1 in March 2024 from 56.9 in February, backed by new orders and increasing output levels. The services PMI reached 61.2 in March, as a result of new businesses expansion and employment. The services sector accounts for more than 50% of India's GDP.

Headline inflation moderated to 4.9% in March from 5.1% the previous month. In March, food inflation moved downwards to 7.68% from 7.8% the previous month, while deflation in the fuel and light group deepened from –0.8 in February to –3.24 in March.

In March, India's merchandise exports were the highest for any month of 2023–24, at US $41.7 billion, with non-POL (refined petroleum products) exports expanding. Merchandise imports declined to US $57.3 billion with year-on-year growth of 6% due to negative momentum and an unfavorable base effect. The merchandise trade deficit was at an 11-month low of $15.6 billion in March 2024 due to a decline in imports.

India's foreign exchange reserves reached an all-time high of US$ 648.6 billion on April 5, 2024, the equivalent of covering 99 per cent of total external debt outstanding at the end of December 2023.

The Indian rupee appreciated against both the euro and US dollar, to stand at 89 rupees per euro and 83 per dollar (as of April 24).

The stock markets remained in the expansionary zone, with both the Nifty and Sensex adding a growth of 1.6% in value over the previous month, as of April 23 compared to March 23, 2024.

Inward foreign direct investment's decline moderated to 2.8% to reach US $65 billion from April 2023 to February 2024 versus US $66.8 billion in the corresponding period in the prior year—despite this drop India continues to be one of the more lucrative destinations for inflows. Foreign portfolio investment (FPI) flows into India continued a positive trend in March 2024, driven by a strong domestic growth outlook. In March 2024, net FPI inflows amounted to US $6.7 billion, with the debt segment contributing US $2.7 billion and US $4 billion from the equity segment.

The Reserve Bank of India's stance on the repo rate remains unchanged at 6.5%, with the reverse repo rate at 3.35%.

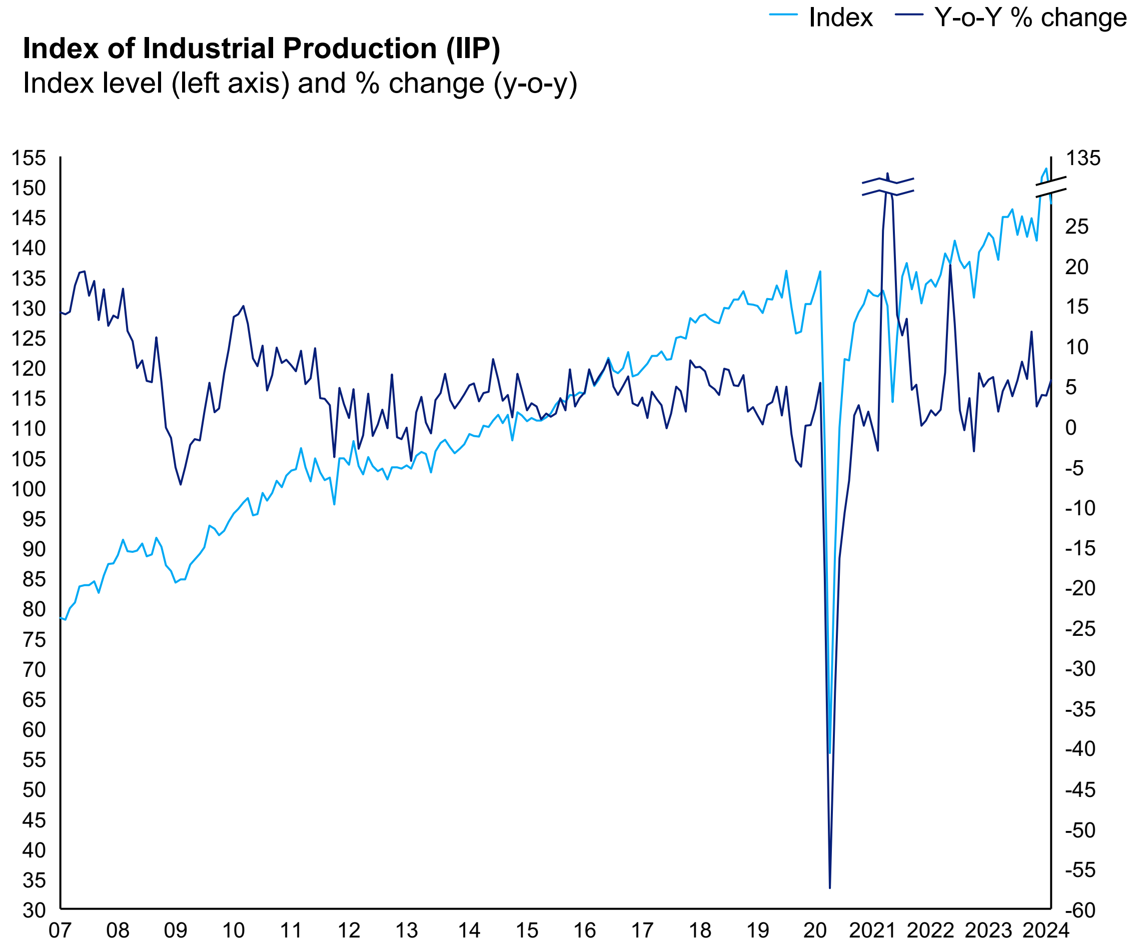
Data from CMIE shows the all-India unemployment rate fell to 7.6% in March from 8% in February, with rural unemployment standing at 7.4% and urban at 8.2%.

1. India follows the fiscal calendar.

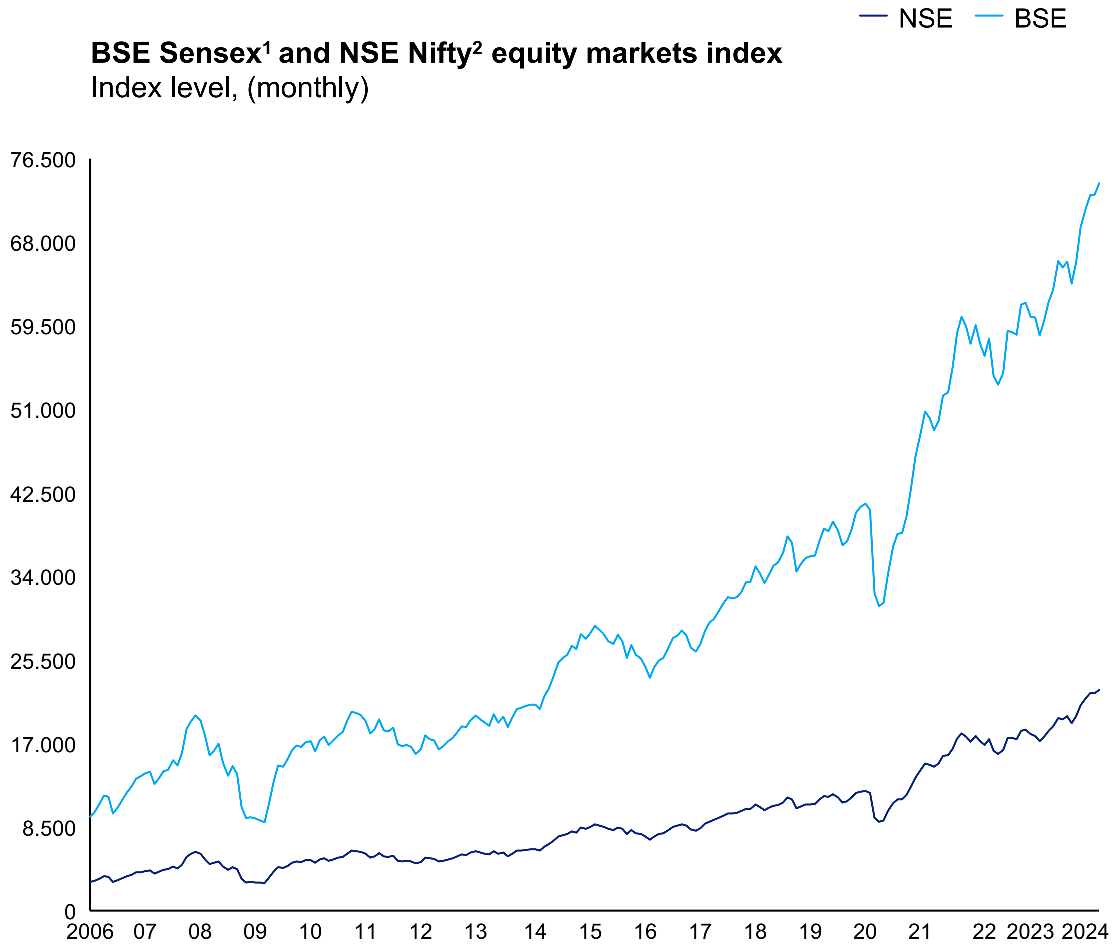
Source: Havers; IHS Markit; Ministry of Commerce and Industry; Ministry of Statistics and Programme Implementation (MOSPI); Reserve Bank of India

Industrial production grew by 5.7% in February, with equity indexes expanding by 1.6% in April

Index of Industrial Production (IIP)
Index level (left axis) and % change (y-o-y)



BSE Sensex[1] and NSE Nifty[2] equity markets index
Index level, (monthly)

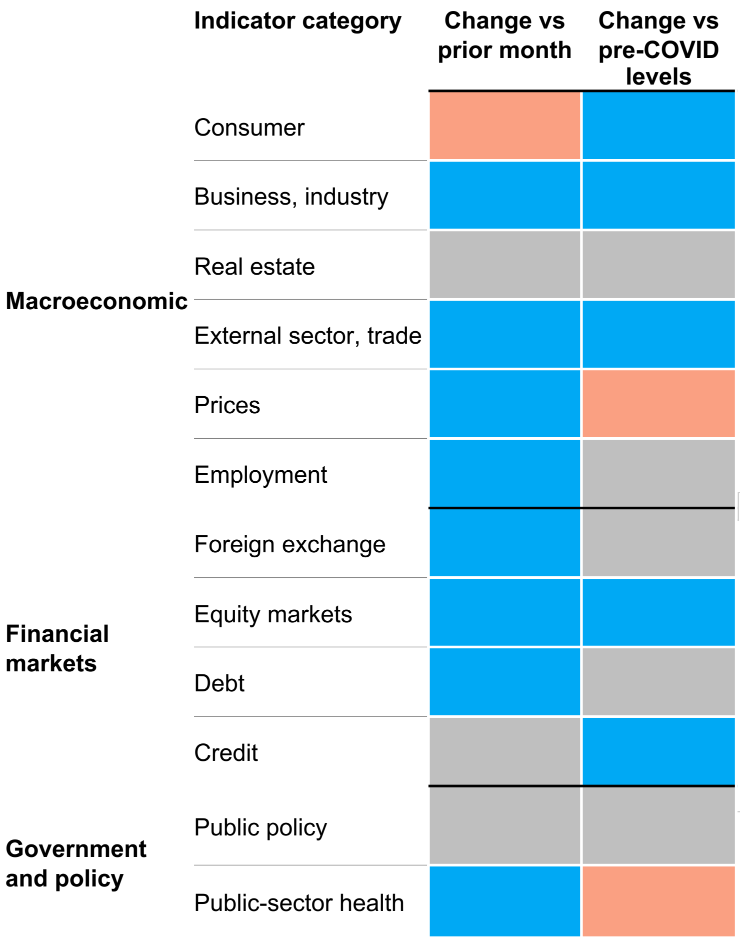


1 BSE: The Bombay Stock Exchange (Sensex) is a value-weighted index comprising the 30 largest and most actively traded stocks.
2 NSE: The National Stock Exchange of India (Nifty) consists of 50 major stocks weighted by market capitalization.

SOURCE: *Economics Times*; Ministry of Statistics and Programme Implementation (MOSPI); McKinsey's Global Economics Intelligence analysis

Manufacturing PMI at 16-year high; unemployment rate down; RBI holds interest rates

Significant improvement | Improving | No significant change | Worsening | Severe decline



Sales declined; manufacturing PMI expanded further; inflation remained moderated; unemployment rates decreased

- Automobile sales have declined further (–0.7%) versus the prior month to stand at 368,086 in March (370,786 in February).
- Industrial production recorded a 5.6% year-on-year growth in February. All groups recorded a year-on-year increase, but a month-over-month decline.
- The PMI for the manufacturing sector expanded to 59.1, a 16-year high; the services PMI also rose, to 61.2 in March (60.6 in February).
- India's merchandise exports reached the highest level for any month of 2023–24 in March at US $41.7 billion; the trade deficit reduced in March due to contracting imports.
- Consumer Price Index inflation moderated to 4.9% in March compared to February.
- The unemployment rate (UR) fell to 7.6% in March from 8% in February.

Financial markets saw growth; INR appreciated

- The Indian rupee appreciated against the euro and the US dollar.
- Both the Nifty and Sensex were in expansionary territory, resulting in a growth of 1.6% in both indexes.
- Over the period of April 2023 to February 2024, FDI inflows declined –2.8% compared to the prior-year period.
- In March 2024, net FPI inflows amounted to US $6.7 billion, with the equity segment contributing $4 billion.

Central bank maintains status quo on policy around interest rates versus growth; Q4 GDP growth projected at 7.3%

- The central bank kept interest rates unchanged at 6.5%.
- Based on the economic activity index, GDP growth for Q4:2023–24 is projected to be 7.3%.
- 2024 Indian elections will be taking place from April 19 to June 1, 2024.

SOURCE: McKinsey's Global Economics Intelligence analysis

Russia

Economic growth slows in February, while accelerating inflation reflects capacity constraints; labor market remains tight and wages growth is predicted to slow; oil production expected to decline slightly; current account sees recovery; federal budget faces large deficit.

Monthly indicators for February suggest growth in overall economic activity has slowed. Manufacturing output saw steep improvement, while retail sales improved slightly in April. Private consumption is expected to continue to be the main growth engine in the coming months, driven by rising incomes, although this is predicted to be slower than in past months.

Inflation has continued to accelerate over recent months with consumer prices rising by 7.7% year-on-year in March. This reflects tightening of capacity constraints, underlined by capacity utilization being at its highest levels historically. However, the increase in average nominal wages is unlikely to continue in 2024. The unemployment rate is at an all-time low for the post-Soviet era (2.8% in February 2024). This trend is reinforced by a structural population decline driven by negative population growth and migration of roughly 900,000 people who have left the country due to the war in Ukraine and mobilization of reserves.

According to BOFIT, the effect of sanctions on Russian oil exports will remain at the level of early 2024 throughout the forecast period. The price of Brent crude is expected to stick near the 2023 average level of about $83 a barrel.

Preliminary Central Bank of Russia figures indicate that Russia's current account surplus continued to recover in March from a December dip—the current account surplus was around 13.4 billion dollars in that month. Although still smaller than at its peak in 2022, the surplus is just slightly lower than in an average month during 2021–22.

Federal budget spending increased by 17% year-on-year in January–February. Driven by higher oil and gas earnings, federal budget revenues grew sharply in February from a low base compared to a year earlier. Despite this growth in revenues, the federal budget remained in deficit to the tune of 1.5 trillion rubles (0.8% of GDP). Under the budget framework, the total deficit for this year should be roughly 1.6 trillion rubles.

On February 28, the congress in Transnistria, Moldova's pro-Russian breakaway region, passed a resolution asking Russia to implement measures to "protect" the region. According to EIU, direct Russian military intervention remains unlikely.

US Congress approved $61 billion dollars of military aid for Ukraine. The aid will include military equipment such as missiles, artillery, and defense systems. Russian ambassador to the US, Anatoly Antonov said that this action could not be justified because it increases the threat to Russian regions. He also dismissed US assurances that the weapons wouldn't be used against targets in Russia.

Source: BBC news; BOFIT; IHS Markit; The Economist Intelligence Unit; tass.com,

Foreign trade surplus has shrunk recently; inflationary pressures persist amid continuing fast growth in real wages

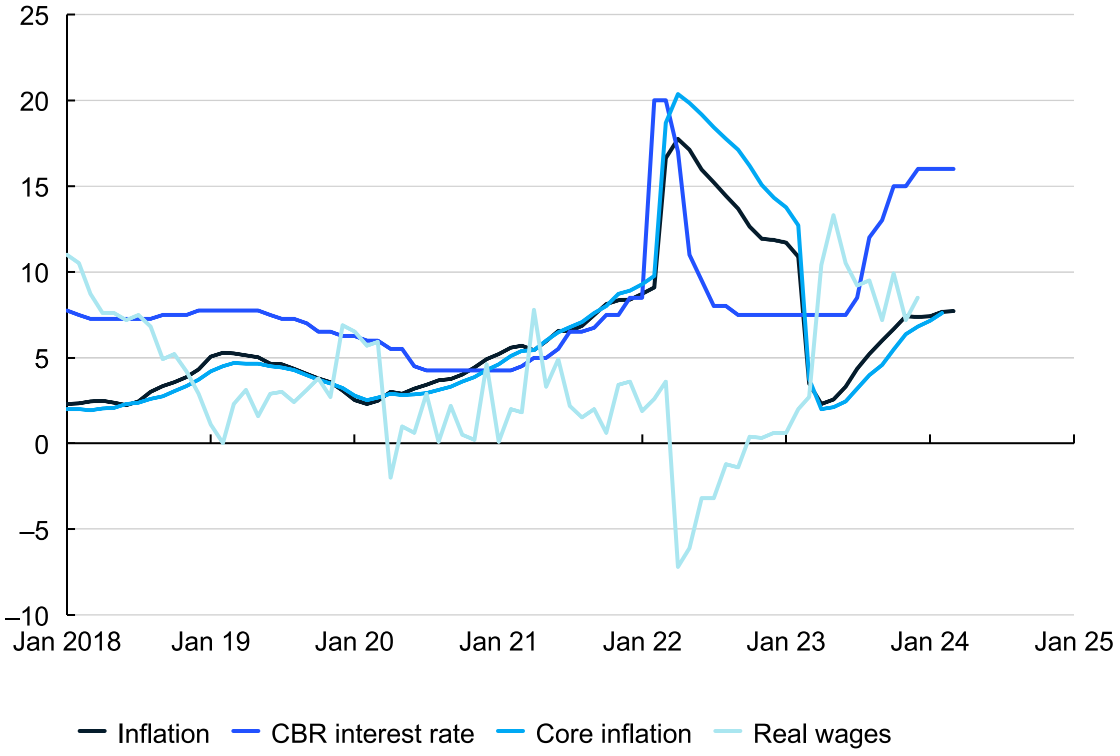
Headline inflation stabilized, but core indicator continued to accelerate

Foreign trade of goods

USD billion, through January 2024

Inflation: the central bank interest rate and real wages

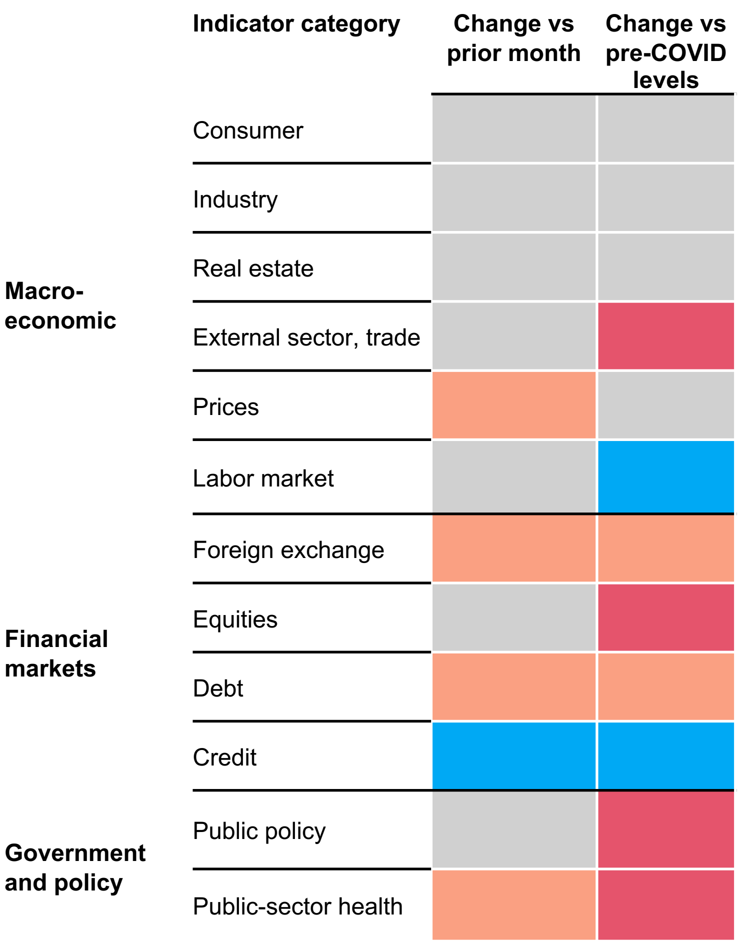
% change (y-o-y); %



Source: Central Bank of the Russian Federation; Federal Statistics Service; Haver Analytics

Retails sales show growth, accompanied by heightened inflation and credit expansion; federal budget spending continues to rise

Significant improvement | Improving | No significant change | Worsening | Severe decline



Retail sales show slight April rebound; inflation remains high amid tight labor market

- Retail sales volume has shown some growth. In April it rebounded by 3% from March, while annual growth was some 12%.
- Industrial production has been growing, with monthly growth slightly accelerating to 1.5% in March, and annual growth to 5.7%. The purchasing managers' index (PMI) for manufacturing improved to 55.7 in March (from 54.7 in February)—its highest value since 2017.
- Construction works increased by 4.5% in February, slowing markedly from the 8–10% observed in 2023.
- January's trade surplus reached $7.7 billion, down from the 2023 average of $10 billion. Exports were roughly 0.1% lower, and imports 0.1% higher, than in February 2023.
- Headline inflation was 7.7% year-on-year in March, unchanged from February. Core inflation also rose further to 7.6% from 7.2% in February. The median value of expected consumer inflation stabilized close to 11%.
- The labor market remains tight: the unemployment rate fell to a historical low of 2.8% in February, while real wages grew by 8.5% year-on-year in January.

Continued expansion of subsidized credit; ruble rebounds slightly

- Following the reintroduction of capital controls in October, the ruble appreciated from 100 per US dollar to a relatively stable range of between 88 and 93; in February–March it was closer to the upper bound; on April 23, it rebounded again at 93.0:1$.
- Government debt yields have risen to around 14% from about 13% in mid-March (as of April 23).
- Tighter monetary policy has not yet fully translated into a slowdown in credit activity: in January, the loans dynamic remained stable at around 2% year-on-year for corporates and 23% year-on-year for households. The corporate loan subsidies aim to help businesses affected by sanctions.

Federal budget deficit has increased

- Russia's ambassador in the US says US Congress approval of $61 billion dollars of military aid for Ukraine could not be justified and it poses a significant threat to Russian regions.
- Federal budget spending increased by 17% year-on-year in January–February. Driven by higher oil and gas earnings and a low base, federal budget revenues also grew sharply. Despite this growth in revenues, the federal budget remained in deficit of 0.6 trillion rubles. Under the budget framework, the total deficit for this year should be roughly 1.5 trillion rubles. Federal budget spending rose 20% year-on-year.

Source: BBC; BOFIT; Haver Analytics; Oxford Economics; Tass.com; The Economist Intelligence Unit

Brazil

Inflation falls for a sixth consecutive month, while the composite PMI remains unchanged at 55.1.

Inflation fell to 3.93% in March (4.50% in February), registering a sixth consecutive month of reduction. Transport prices were the main downward influence last month due to a drop in airfare prices and a slowdown in gasoline price increases (rising 0.2% compared to 2.9% in February).

Consumer confidence climbed 1.6 points to 91.3 in March, from 89.7 in February, while remaining below the neutral 100-point mark. Consumer confidence has reached its highest level so far this year and is 4.0 points higher than in March 2023. Business confidence increased from 94.1 in February to 94.7 in March.

Brazil’s purchasing managers’ index (PMI) for manufacturing dropped to 53.6 in March from 54.1 in February, remaining above the neutral 50 mark for a third consecutive month. New orders rose for the third successive month in March, and at the strongest rate in over two-and-a-half years. Although domestic demand improved further, manufacturers continued to report challenges securing international orders. Asia, Europe, and Latin America were particularly cited as sources of weakness. External sales were down for the 25th consecutive month; however, the pace of decrease has slowed since February.

The services PMI rose slightly to 54.8 in March, from 54.6 in February. Favorable demand conditions and new business gains were cited as the main determinants of output growth. Indeed, firms observed a marked increase in sales that was the second fastest since October 2022, behind that seen in February. The composite PMI remained unchanged at 55.1 in March, staying firmly within the expansion zone for a sixth consecutive month.

On the financial markets, the monthly average exchange rate was BRL 4.98 per US dollar in March (4.96 in February). The March Bovespa equities index rose, earning 1.5% in value. Meanwhile, the three-month moving average unemployment rate slightly increased to 7.8% in February (7.6% in January), up for the second time in 12 months.

In March, the balance of trade registered a surplus of US $7.5 billion, with exports totaling US $28.0 billion (US $23.5 billion in February) and imports reaching US $20.5 billion (US $18.2 billion in February).

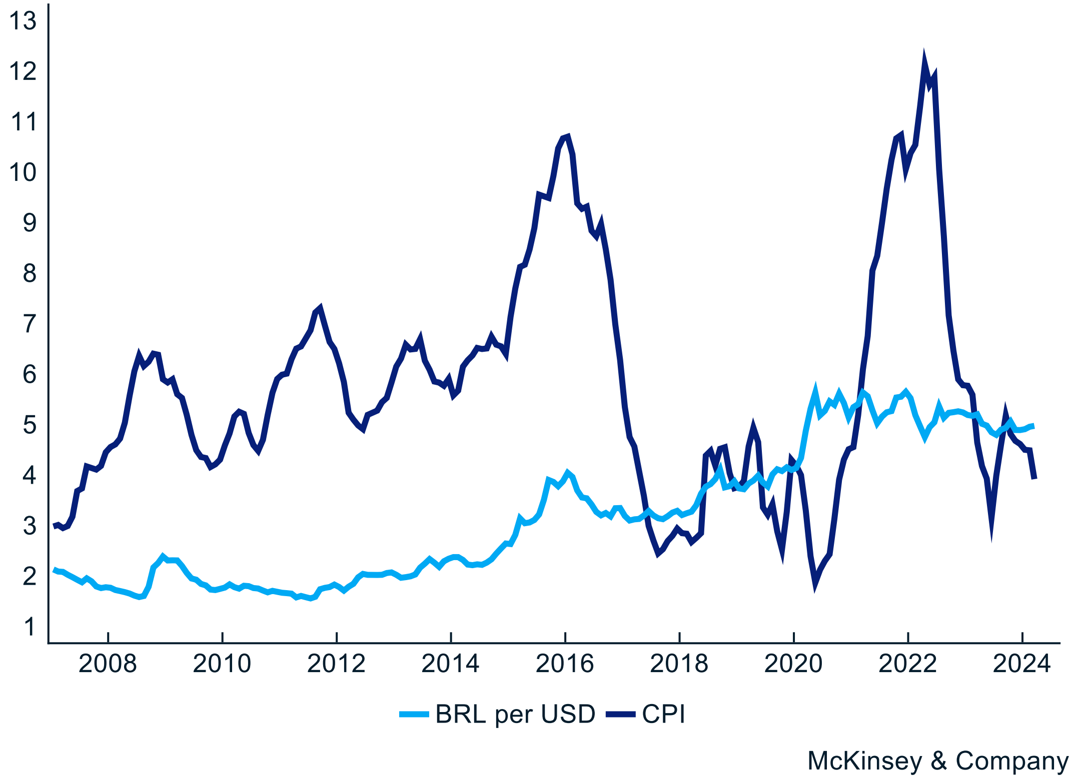
After declining for two months, Brazil’s chicken exports to international markets increased 5.2% in March. Additionally, Brazil gained access to export both farmed and wild-caught seafood to India. Brazil’s seafood exports during the first three months of the year were 160% higher compared to the same period last year.

Source: Haver Analytics; Instituto Brasilièro de Geografia e Estatística (IBGE)

In March, inflation fell, while the Brazilian real slightly lost ground; the equity market's performance increased

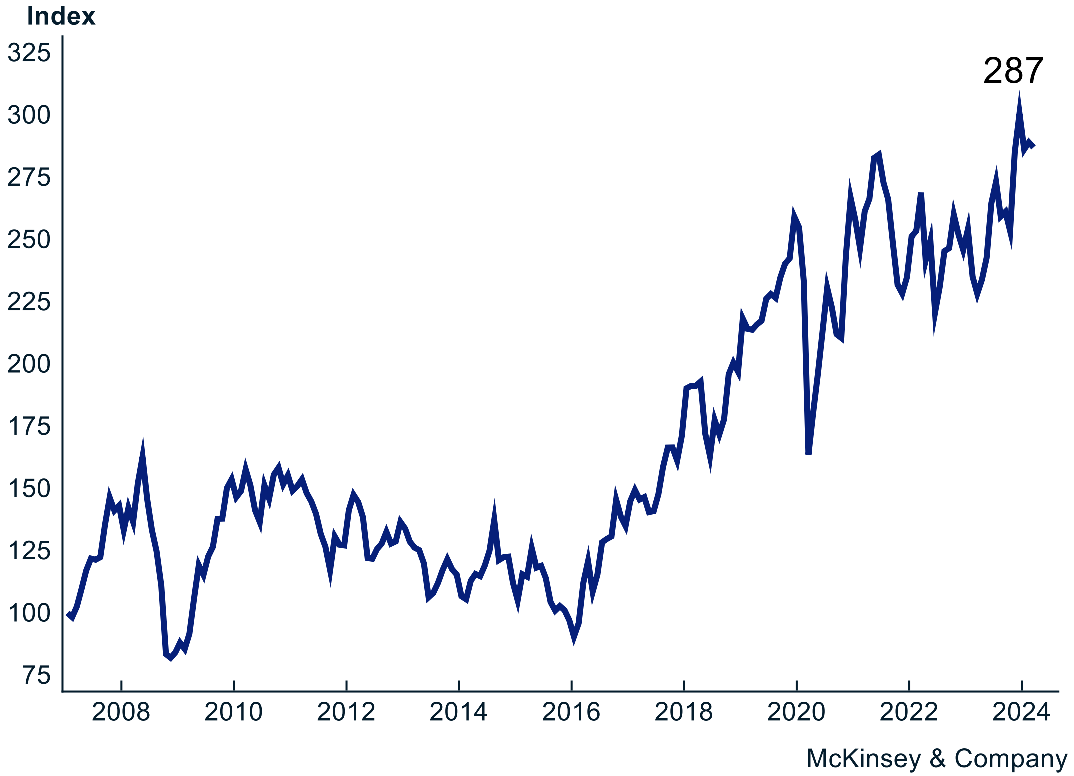
Consumer price index; exchange rate

% change y-o-y; average BRL per USD, monthly



Bovespa Index

Indexed to January 2007 = 100



1. National Consumer Price Index (extended IPCA), 1993 = 100, not seasonally adjusted; % change in CPI in local currency (period average) over previous year. The Central Bank's target inflation rate for 2023 was 3.25% and was reduced to 3.0% for 2024, with a margin of error of 1.5 percentage points.
2. Data through April 18, 2024.

Source: Haver Analytics; Instituto Brasilièro de Geografia e Estatística (IBGE); McKinsey's Global Economics Intelligence analysis

Unemployment maintained its upward trend; both consumer and business confidence increased this month

Significant improvement | Improving | No significant change | Worsening | Severe decline

	Indicator category	Change vs prior month	Change vs pre-COVID levels[1]
Macroeconomic	Consumer	Improving	Improving
	Business, industry	No significant change	Worsening
	Real estate	No significant change	No significant change
	Trade, external	Improving	Improving
	Prices	Improving	Worsening
	Labor market	No significant change	Significant improvement
Financial markets	Foreign exchange	Worsening	Improving
	Equity	Improving	Improving
	Debt	No significant change	No significant change
	Credit	Worsening	No significant change
Government and policy	Public policy	Improving	No significant change
	Public-sector health	No significant change	No significant change

Composite PMI remained unchanged; manufacturing PMI decreased while services PMI increased

- Consumer confidence increased to 91.3 in March, from 89.7 in February—reaching the highest level this year and 1% above pre-COVID-19 levels. Business confidence increased to 94.7 in March (94.1 in February)—4.1% below pre-COVID-19 levels.
- The purchasing managers' index (PMI) for manufacturing decreased to 53.6 in March (54.1 in February). The services PMI climbed to 54.8 in March (54.6 in February).
- In March, the balance of trade registered a surplus of US $7.5 billion, with exports totaling US $28.0 billion (US $23.5 billion in February); imports were US $20.5 billion (US $18.2 billion in February).
- Inflation reached 3.93% in March (4.50% in February), down for a sixth consecutive month. The consumer price index (CPI) is 0.3 percentage points above pre-COVID-19 levels.
- The three-month moving average unemployment rate edged up to 7.8% in February (7.6% in January)—rising for the second time in 12 months.

The Brazilian real slightly lost ground against the US dollar; the Bovespa index was up

- In March, the monthly average exchange rate was at BRL 4.98 per US dollar (BRL 4.96 in February). On April 19, the exchange rate was 5.21 BRL per US dollar.
- The Bovespa equities index rose 1.5% over the month (up to April 10); it lost 1.5% in value up to March 11.

Brazil seeks cocoa self-sufficiency; Brazil's chicken and seafood exports are rising

- Cocoa prices have started to rise as a result of bad weather, disease, and aging, less productive crops in Ivory Coast and Ghana (the current largest producers and exporters, accounting for two thirds of global supply). In May 2023, cocoa contracts were traded between US $2,000 and US $3,000 per ton. In September, the price surpassed US $4,000 and, in April this year, they reached US $10,000. Brazil is the fifth-largest chocolate consumer in the market and currently does not produce enough to cover its own demand. Despite Brazil's current status as a net importer of cocoa beans, contributing less than 5% to global supplies, the country is ambitious to reclaim its position as a major supplier and is making efforts to modernize cocoa production. Brazil aims to double cocoa production by 2030.
- A policy that seeks to reduce tariffs and extend access to subsidies for renewable sources of electricity could help cut inflation. President Lula da Silva recently signed a presidential decree that will lead to a temporary reduction (approximately –5%) in electricity bills. However, persistent inflation in the services sector and the unclear outlook for food prices may present an inflation challenge in the upcoming months.

[1] January 2020 is used as reference for pre-COVID-19.

Source: Banco Central do Brasil; Fundação Getulio Vargas; Haver Analytics; Instituto Brasilièro de Geografia e Estatística (IBGE)

McKinsey & Company