# Global Economics Intelligence

Global Summary Report

Released August 2023 (data through July 2023)

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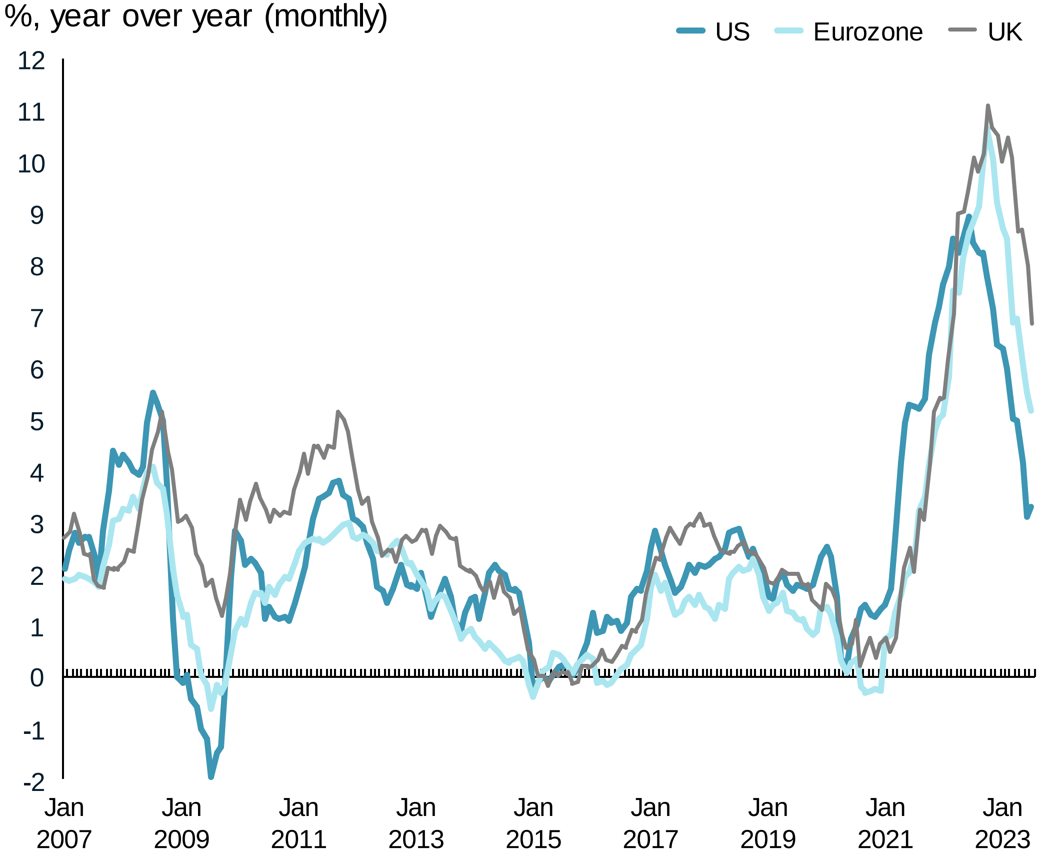
# Inflation has slowed to the lowest level since the middle of 2021, but disparities among countries persist

**Consumer price indexes: Developed economies**

%, year over year (monthly)




**Leading indicators show signs of a rebound—will it sustain? Confidence potentially returning but consumers remain cautious; inflation persistent in some countries; trade volumes still declining.**

OECD's Composite Leading Indicators are showing signs of a rebound across economies, though the majority are still below the long-term trend. Nevertheless, while consumer spending contracted compared to the previous year—with a particular slowdown in consumption observed in China—consumer confidence appears to be building. In the US, the consumer confidence index (Conference Board) rose again in July to reach 117.0 (its highest level since July 2021). In India, retailers reported a remarkable 9% year-on-year increase in sales for July, while in Brazil, consumer confidence climbed to 94.8 (up from 92.3 in June) to reach its highest level since January 2019. In Russia, the recovery in private consumption also continued, with retail sales in the second quarter growing 9–10% year-on-year, despite a small cumulative drop of 1.2% in May–June.

Inflation presents a mixed picture, showing persistence in some countries: notably, the rapid pace of price rises in the UK has been more persistent than in other big economies, with inflation running at the highest level amongst the G7. The US consumer price index (CPI) increased to 3.2% (annualized) in July (3.0% in June), although core inflation ticked down to 4.7% (annualized) in July (4.8% in June).

Eurozone inflation was down to 5.3% in July (5.5% in June), the main driver being food-price inflation (10.8% in July); the latest reading for producer-price inflation was –2.7% in June (–1.1% May). UK CPI inflation fell to 6.8% in July (7.9% in June), while core inflation (which excludes the price of energy, food, alcohol, and tobacco) remained unchanged at 6.9%. In India, official headline inflation took a pronounced leap from 4.9% in June to 7.5% in July, driven mainly by mounting food prices. In July, inflation in Brazil rose for the first time since June 2022, to 3.99% (3.16% in June), although consumer inflation remains below the Central Bank's upper target of 4.75% for the fifth consecutive month. In July, Russia inflation picked up to 4.3% year-on-year.

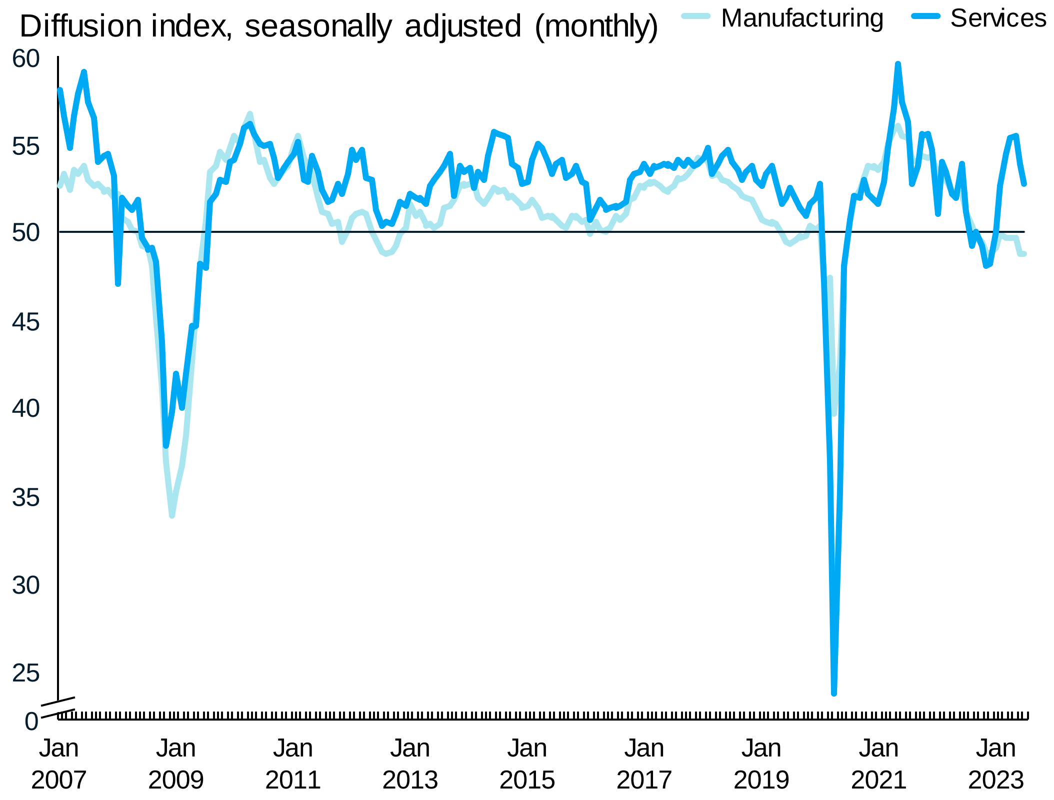
Europe saw the European Central Bank raise its key interest rate by 25 basis points to 3.5% in June and again in July to 3.75%, while the Bank of England hiked its policy rate by 25 basis points to 5.25% in August, and is anticipated to raise rates further before the end of 2023. The Bank of Russia increased its key rate by 100 basis points in July and by a further 350 basis points in August, to 12%. By contrast, US investors are awaiting the next Federal Open Market Committee (FOMC) meeting in September with expectations of no new interest rate hikes. Meanwhile in Brazil, the Monetary Policy Committee (COPOM) cut its key Selic rate by 0.5 percentage points to 13.25% in July (from 13.75% in June) after eight months with

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

# Global manufacturing sector remained stable in July, while some slowdown in expansion was also visible in services

**JPMorgan Global Purchasing Managers' Index**

Diffusion index, seasonally adjusted (monthly)




Note: A reading above 50.0 indicates an increase from the previous month, and a reading below 50.0 indicates a decrease. Country-level data are the PMIs for individual countries as sourced from Markit Economics or the Institute for Supply Management (ISM) and are not a breakdown of the JPMorgan Global PMI.

no change. A second cut of 0.5% has already been agreed and will be applied in September.

India's growth outshone other economies, achieving a growth rate of 7.8% in the second quarter of 2023. Eurozone growth saw a growth rate of 0.3% quarter-on-quarter, and 0.6% year-on-year, in the second quarter of 2023, although there is significant disparity among member countries. Ireland's growth of 3.3% (the biggest in the eurozone) distorts the overall picture due to large swings from major international companies siting their headquarters there. France and Spain were in line with the eurozone average, growing 0.5% and 0.4% respectively; the eurozone's largest economy, Germany, stagnated and Italy performed even worse with a contraction of –0.3%. Updated IMF forecasts in July revised UK GDP growth for 2023 up to 0.4% (from –0.3%) and still expect 1% growth in 2024. The latest report by the Bank of England's Monetary Policy Committee anticipates modest growth below 0.5% in the near term, reflecting more resilient household income and retail sales volumes. According to the OECD's June 2023 outlook, UK GDP growth is expected to be 0.3% in 2023 and to rise moderately to 1% in 2024. India eclipsed Europe's performance, with its economy achieving a growth rate of 6.1% in the first quarter of 2023, primarily driven by investments and net exports.

Manufacturing continues to be subdued while the services outlook is softening. A downturn in services began in July, a picture reflected in multiple countries, with the exception of India which presented the fastest growth in almost a decade as the purchasing managers' index (PMI) for services reached a 13-year high.

In the US, the industrial production index rose slightly in July to 102.9 (June 102). The manufacturing PMI was up to 49 in July (46.3 in June). In the eurozone, industrial activity data still point to a contraction. The Manufacturing PMI Output Index rose to 43.7 in the flash estimate for August (42.7 in July). The UK manufacturing sector remained in contraction territory in July, with output, new orders, and employment all suffering further decline, with the manufacturing PMI falling to a six-month low of 45.3 (and below the neutral 50.0 mark for 11 successive months). Brazil's manufacturing PMI rose from 46.6 in June to 47.8 in July, though remaining in sub-50.0 territory for the ninth consecutive month. In India, industrial production (a crucial gauge of economic vitality) underwent a notable shift: after robust 5.3% year-on-year growth in May, the pace slowed to 3.7% in June.

By contrast India's services sector PMI surged to 62.3 in July, (58.5 in June and 61.2 in May). The US services PMI declined again, to 52.3 in July (54.4 in June), while the Eurozone services PMI services dropped to a 30-month low of 48.3 in August (July 50.9). The UK services PMI declined to 51.5 in June from 53.7 in May but remained above the 50.0 neutral value for the fifth consecutive month. Brazil's services PMI dropped to 50.2 in July from 53.3 in June.

Source: S&P Global; McKinsey's Global Economics Intelligence analysis

# Global manufacturing sector remained stable in July, while some slowdown in expansion was also visible in services (continued)

The labor market continues to be tight in many countries. In the US, July's unemployment rate changed little at 3.5%, slightly lower than June's 3.6% (3.5% in January 2020). In the UK, the unemployment rate for April to June 2023 was up by 0.3 percentage points on the quarter to 4.2%, the largest quarterly increase since August–October 2021. In China, the surveyed urban unemployment rate ticked up to 5.3% in July (5.2% in June). Notably, China's youth unemployment rate figures have been temporarily discontinued as of August, according to National Bureau of Statistics, which says it needs to further refine its methodology for this statistic.

Across countries, equity markets put on a mixed performance with gains in July and, predominantly, declines in August. In July, year-to-date returns for the S&P 500 and the Dow Jones were up to 19.5% and 8.3% respectively. European equities have fallen since the beginning of August.

In terms of trade, global supply-chain pressures are close to their lowest since 1998 but trade volumes have been dropping. In April, world trade volumes fell –1.4% on a monthly basis. In May, the Container Throughput Index edged up to 123.4 points, though European throughput continues to fall, while Chinese ports continue to strengthen. In China the overall cross-border trade contraction deepened in July, declining –13.6% year-on-year (versus –10.1% in June). Exports fell –14.5% year-on-year in July (versus –12.4% in June); imports were down –12.4% year-on-year (compared to –6.8% in June).

A new report[1] from the McKinsey Global Institute assesses how faster growth can advance two key global aspirations: raising minimum living standards (economic empowerment) and limiting climate change. [From poverty to empowerment: Raising the bar for sustainable and inclusive growth] frames the choices countries face in the run-up to 2050.

Lifting everyone above the economic empowerment threshold ($12 per day in purchasing power parity terms globally, with regional variations to account for different norms and costs) implies that people currently below it would need 40 percent more spending power on average by 2030. At the same time, to achieve a net-zero trajectory, the world needs an additional $41 trillion in low-emissions investment (above continued 2020 spending levels, cumulatively through 2030)—requiring unprecedented shifts in income, consumption, and investment.

So, how can these two challenges be reconciled? The report finds that accelerated growth and better-paying jobs could close almost two-thirds of the global empowerment gap, while growth and innovation—even without policy changes—could unlock just over a third of the step-up needed in net-zero spending. However, fully closing both gaps would require new policies and incentives. The authors estimate the unfilled economic gap at 4 percent of GDP per year globally, or $40 trillion, cumulatively through the decade

Combined public and private-sector action could deliver more affordable housing, healthcare, education, and food, potentially unlocking $3 trillion of benefits to those below the empowerment line. In parallel, public finance support could change the risk and cost profiles of net-zero investments, unlocking a further $17 trillion from private actors over the decade. However, there is a caveat: such extensive commitments have the potential to distort the baseline economy.

The report concludes that addressing these challenges requires significant, collaborative contributions by private actors, governments, and nonprofits to generate "bolder innovation in finance, technology, industry, and policy"—potentially by creating new multilateral financing vehicles, integrating low-income countries into global trade, developing sustainable cities with affordable housing, and designing effective carbon markets.

[1] *From poverty to empowerment: Raising the bar for sustainable and inclusive growth*, McKinsey Global Institute, August 2023

**[Advanced economies]: In the advanced economies, US is looking buoyant with strong equity market performance, rising consumer confidence, and inflation steady. Growth patchy and core inflation stubbornly persistent in Europe.**

# United States

**July closed with a strong equity market and consumer confidence at its highest level since July 2021; inflation edged 3% and the labor market remained strong with the unemployment rate below 4%.**

In July, year-to-date returns for the S&P 500 and the Dow Jones were up to 19.5% and 8.3% respectively. During this month, the CBOE Volatility Index averaged 13.9, signaling a stable financial market.

Retail and food-service sales increased to $696.4 billion, a 0.7% increase from June's $691 billion. The consumer confidence index (Conference Board) rose again in July to 117.0, up from 110.1 in June, to stand at its highest level since July 2021.

Consumer price index (CPI) increased to 3.2% (annualized) in July (3.0% in June), while core inflation ticked down to 4.7% (annualized) in July (4.8% in June). The index for shelter was by far the largest contributor to the monthly all-items increase, accounting for over 90% of the increase, with the index for motor vehicle insurance also contributing. The July 2023 Survey of Consumer Expectations from the NY Fed shows that the one-year-ahead inflation expectation declined for the fourth consecutive month to 3.5% at the short-term horizon, its lowest reading since April 2021.

The unemployment rate changed little at 3.5%, slightly lower than June's 3.6% (3.5% in January 2020). Total nonfarm payroll employment has added some 187,000 net new jobs in July. New unemployment claims have returned to pre-pandemic levels, at around 248,000 new claims per week. The labor force is up by approximately 1,576,000 compared with March 2020 (995,000 men, 581,000 women).

US investors await the next Federal Open Market Committee (FOMC) meeting in September with expectations of no new interest rate hikes—this as the CPI has presented encouraging figures recently, while hirings have also moderated. The current rate remains in the range 5.25–5.5%.

US exports in June were $247.5 billion, $0.3 billion less than May's exports; meanwhile, June's imports fell to $313.0 billion, $3.1 billion down on May. Accordingly, the total deficit decreased by 4.1% to $65.5 billion.

The industrial production index Increased slightly in July to 102.9 (June 102). The purchasing managers' index (PMI) for manufacturing rose to 49 in July (46.3 in June), while the services PMI decreased again, to 52.3 (54.4 in June).

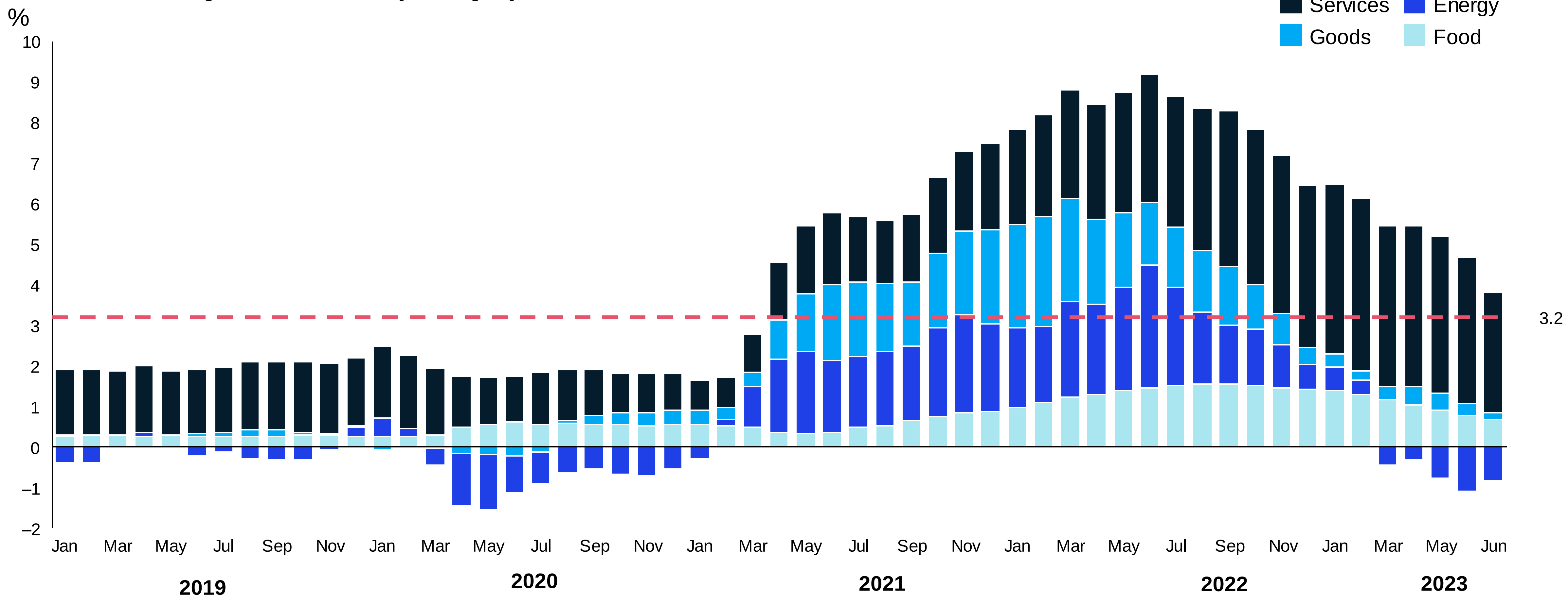
In the housing market, the 30-year fixed-rate mortgage reached the record figure of 7.09% on August 17, this as the US National housing price index decreased by 0.5% past May. In July, housing starts increased to 1,452,000 (1,434,000 in June), with completions down to 1,321,000 this month (1,434,000 in June).

President Biden signed an executive order that will prohibit some new US investment in China across three sectors: semiconductors and microelectronics, quantum information technologies, and certain artificial intelligence systems. The measure targets private equity, venture capital, joint ventures, and greenfield investments.

According to The Pacific Disaster Center and the Federal Emergency Management Agency (FEMA) damage assessment, it will take an estimated $5.5 billion to rebuild the areas in Maui devastated by multiple wildfires, described by Governor Josh Green as the "worst natural disaster that Hawaii ever faced." FEMA also estimates $7.0 billion to $9.0 billion in total damage and economic loss from Hurricane Hilary which affected the West Coast.

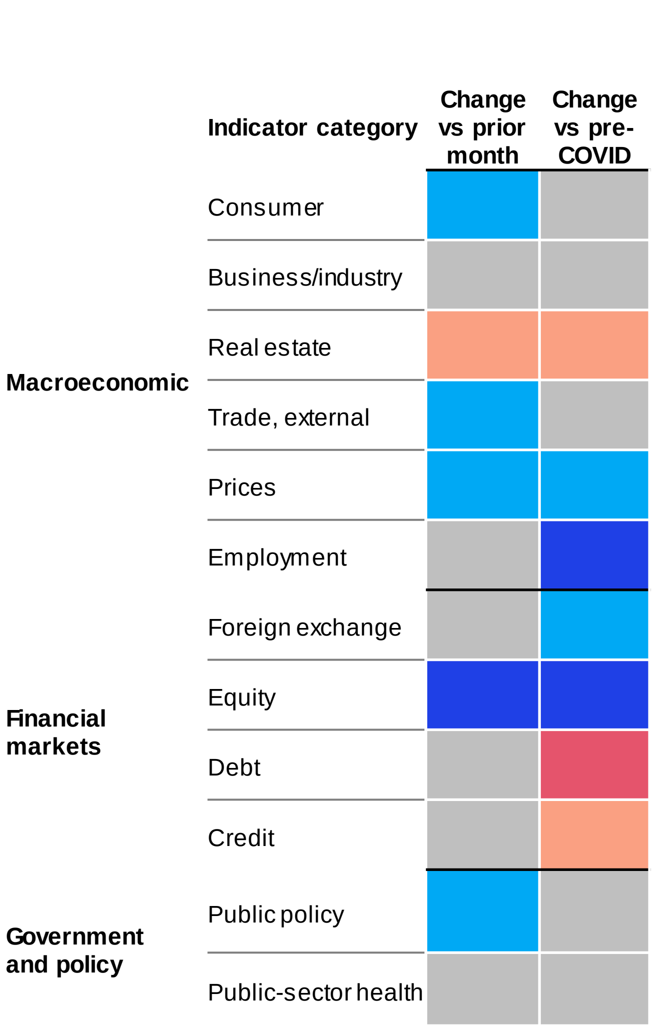
# In July inflation ticked up to 3.2%, with core inflation down slightly at 4.7%; major contributors remain energy and goods prices

## CPI annual change contribution by category




Source: BLS; McKinsey's Global Economics Intelligence analysis

# July closed with strong equity market and consumer confidence at highest level since July 2021; inflation edged 3%; labor market remains strong with unemployment below 4%




**Consumer confidence rose to its highest level since July 2021; the economy added some 187,000 net new jobs in June**

- The industrial production index Increased slightly in July to 102.9 (June 102). In July, the purchasing managers' index (PMI) for manufacturing increased to 49 (46.3 in June), while the services PMI decreased to 52.3 (70.4 in May 2021).
- Retail and food-service sales climbed to $696.4 billion, a 0.7% increase from June's $691 billion. The consumer confidence index (Conference Board) rose again in July to 117.0, up from 110.1 in June. June exports were $247.5 billion, $0.3 billion less than May's exports; June imports were $313.0 billion, $3.1 billion lower than the May figure. Accordingly, the total deficit decreased by 4.1% to $65.5 billion.
- In the housing market, the 30-year fixed-rate mortgage reached the record figure of 7.09% on August 17, this as the US national housing price index decreased by 0.5% past May. In July, housing starts increased to 1,452,000 (1,434,000 in June), with completions down to 1,321,000 this month (1,434,000 in June). Existing home sales fell 2.2% in July (annualized), setting the tone for a depressed housing market.
- The unemployment rate changed little at 3.5%, slightly lower than June's 3.6% (3.5% in January 2020).Total nonfarm payroll employment has added approximately 187,000 net new jobs in July. New unemployment claims have returned to pre-pandemic levels, at around 248,000 new claims per week. The labor force is up by some 1,576,000 on March 2020 (995,000 men, 581,000 women).
- The consumer price index (CPI) increased 3.2% (annualized) in July (3.0% in June); core inflation decreased to 4.7% (annualized) in July (4.8% in June). The index for shelter was by far the largest contributor to the monthly all-items increase, accounting for over 90% of the rise, with the index for motor vehicle insurance also contributing.

**Federal reserve expected not to hike interest rates by investors**

- In July, year-to-date returns for the S&P 500 and Dow Jones were up to 19.5% and 8.3% respectively. During this month, the CBOE Volatility Index averaged 13.9, signaling a stable financial market.
- US investors await September's Federal Open Market Committee (FOMC) meeting with expectations of no hike in the current interest rate—this as the CPI presented encouraging figures across the month, while hirings also slowed. The current rate remains within the range of 5.25–5.5%.

**President Biden signed executive order prohibiting some US investment on China's tech sector; winds fan flames in Maui**

- President Biden signed an executive order that will prohibit some new US investment in China across three sectors: semiconductors and microelectronics, quantum information technologies, and certain artificial intelligence systems. The measure targets private equity, venture capital, joint ventures, and greenfield investments.
- According to The Pacific Disaster Center and the Federal Emergency Management Agency (FEMA) damage assessment on the multiple wildfires in Maui, it will take an estimated $5.5 billion to rebuild the area. FEMA also estimates $7.0 billion to $9.0 billion in total damage and economic loss from Hurricane Hilary which affected the West Coast.

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

# Eurozone

**2023 Q2 growth rate was 0.3% q-o-q; EA trade balance broke into surplus; headline inflation was down to 5.3%, while core inflation remains high; EU reaches 90% gas storage target ahead of winter.**

2023 second-quarter growth rate was 0.3% q-o-q, and 0.6% y-o-y, according to a flash estimate by Eurostat. Ireland's growth of 3.3% (the biggest in the eurozone) distorts the overall picture due to large swings from major international companies situating their headquarters there. France and Spain were in line with the eurozone average, growing 0.5% and 0.4% respectively; the eurozone's largest economy, Germany, stagnated and Italy performed even worse with a 0.3% contraction.

Eurozone inflation was down to 5.3% in July (5.5% in June), the main driver being food-price inflation (10.8% in July); excluding energy and food, inflation was still high but stood at 5.5%. The latest reading for producer-price inflation was –2.7% in June (–1.1% May). In June, the European Central Bank raised its key interest rate to 3.5%, a hike of 25 basis points, as well as revising its inflation projections slightly upward to 5.4% (+1 p.p.) in 2023, 3.0% in 2024 (+1 p.p.), and 2.2% in 2025 (+1 p.p.). The governing council confirms it will discontinue reinvestment in the asset purchase programme (APP) as of July 2023. Wages' pressures are becoming an important source of inflation: growth in compensation per employee is projected to be 5.3% in 2023, 4.5% in 2024, and 3.9% in 2025—above historical averages. Notwithstanding, wages growth adjusted for consumer price inflation (CPI) hasn't recovered from last year's inflationary erosions (–3.3% CAGR from December 2021 to April 2023).

Eurocoin, a leading indicator, stood at –0.56 in July versus –0.66 in June. The natural gas price (Dutch TTF futures) rose sharply in November before plunging in December and falling to €28 per megawatt hour by the end of July. However, in August prices have been increasing, reaching €40 on August 22, due to rising demand ahead of winter. The price stands at a fifth of its December 2022 high, but still three times the level before Russia invaded Ukraine. Brent crude has been going up for a while, reaching $83 per barrel in August ($80 in July).

Industrial activity data still points to a contraction. The Manufacturing PMI Output Index rose to 43.7 in the flash estimate for August (42.7 in July). Meanwhile, the purchasing managers' index (PMI) for services declined in August to 48.3 (July 50.9)—a 30-month low. The industrial production index has measured growth over 2022 since August, although it came down substantially in March and was then rising slightly till June.

The eurozone trade deficit increased substantially in April, but in June trade broke into a surplus of €23 billion (up from a –€0.3 billion deficit in May).

European equities have fallen since the beginning of August; the Eurostoxx 600 index has decreased 3.5% since August 10, 2023. In August, the euro was slightly down against the US dollar, hitting $1.09 per euro. The Italian–German 10-year bond-yield spread stood at 1.7%; the yields went up to 4.4% from 4.1% and to 2.7% from 2.5%, respectively.

The EU has reached its target of filling gas storage facilities to 90% of capacity roughly two-and-a-half months ahead of the November 1 deadline, according to the latest figures released today by Gas Infrastructure Europe.

In Spain, neither the PSOE nor PP can reach the majority needed to take office, but PSOE has a path to power if it secures the backing of six other parties, including Together for Catalonia.

Source: Banca d'Italia; ECB; European Commission; Eurostat; Haver Analytics; McKinsey's Global Economics Intelligence analysis

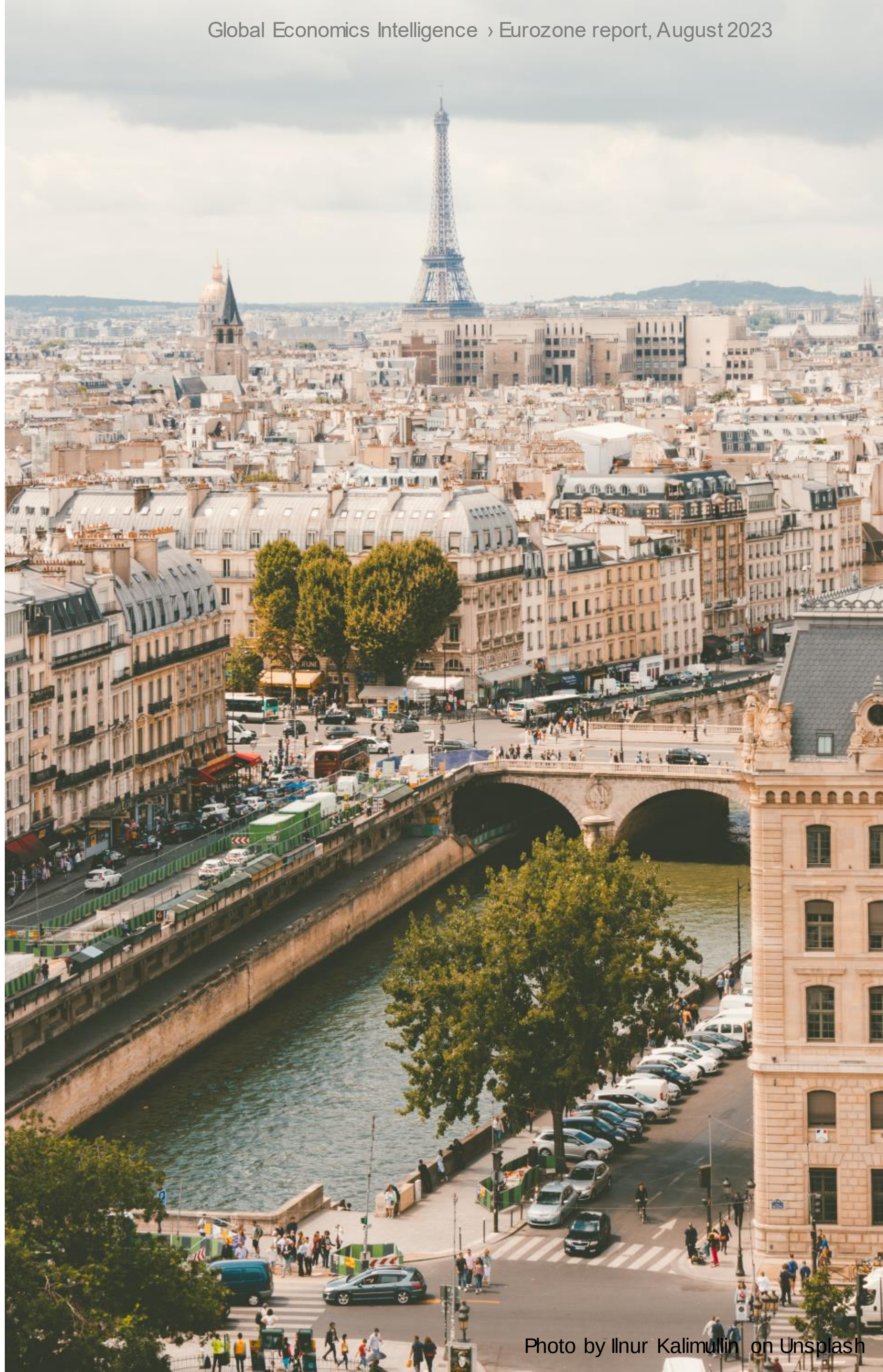
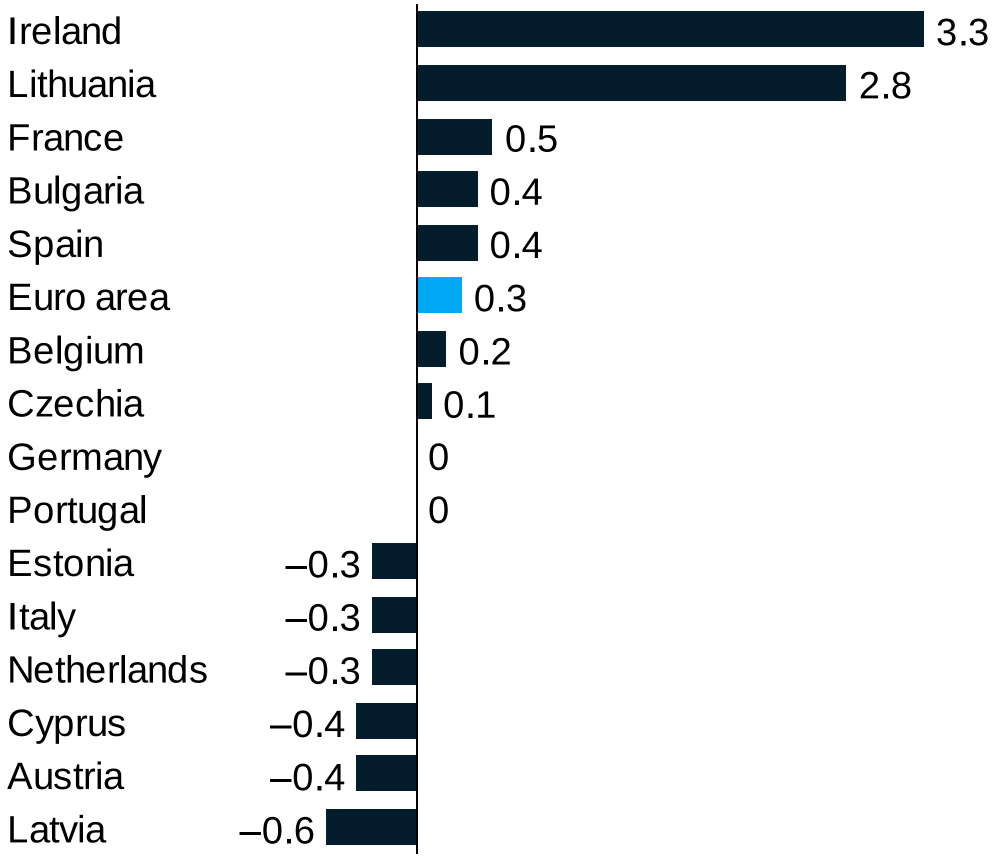


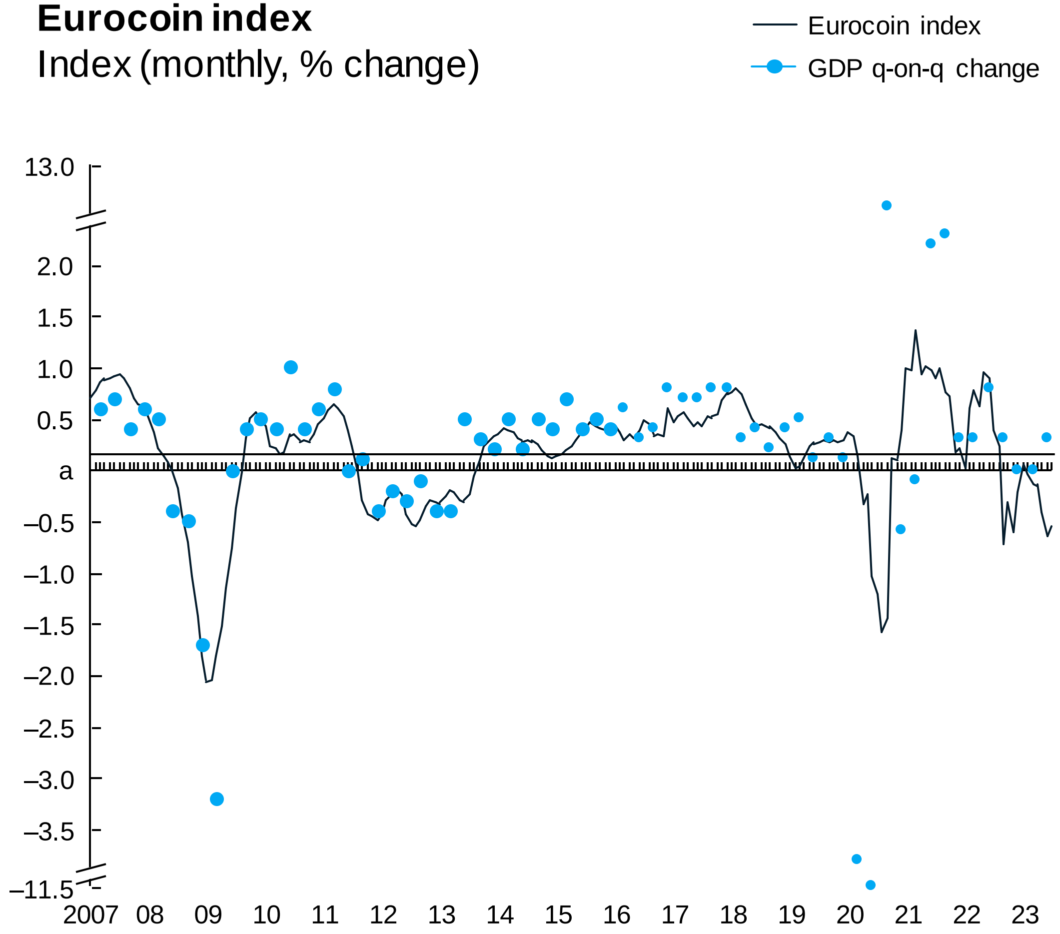
Photo by Ilnur Kalimullin on Unsplash

# France and Spain in line with euro area average, Germany stagnated, and Italy performed even worse with a 0.3% contraction; leading indicators fell and remain in negative territory

**Eurozone real GDP second quarter growth**
Quarter-on-quarter, constant prices (% change)




**Eurocoin index**
Index (monthly, % change)




Source: Banca d'Italia; European Commission; Eurostat; Haver Analytics; McKinsey's Global Economics Intelligence analysis

# EA trade balance broke into surplus; headline inflation was down to 5.3%, while core inflation remains high; EU reaches 90% gas storage target ahead of winter

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

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

**EA trade surplus broke into a surplus; headline inflation was down to 5.3%, while core inflation still high**

- Retail sales fell slightly (–0.3% m-o-m) in May and declined by –1.4% compared with last year's mark.
- The consumer confidence indicator (European Commission) reached its historic low mark back in September (–28.7) and is becoming less bleak (–15.1 in July 2023). The business confidence index broke into negative territory; it had been positive during the last two years.
- The Manufacturing PMI Output Index rose to 43.7 in the flash estimate for August (42.7 in July). The services PMI declined in August to 48.3 (versus 50.9 in July), a 30-month low.
- The industrial production index has measured growth over 2022 since August, although it came down substantially in March and then had been rising slightly till June.
- Construction and real estate indexes declined by 1% in June compared with the previous month, and fell by 0.3% versus the same period last year.
- The eurozone trade deficit increased substantially in April, but in June trade broke into a surplus of €23 billion (up from a –€0.3 billion deficit in May).
- Eurozone inflation was down to 5.3% in July (5.5% in June), the main driver being food-price inflation (10.8% in July); excluding energy and food, inflation was still high at 5.5%. The latest reading for producer-price inflation was –2.7% in June (–1.1% May).
- The unemployment rate remained stable and low at 6.4% in June; the youth unemployment rate was 13.8%.

**European equities came down; Italian and German 10-year bond yields stable; the euro slightly down against the dollar**

- European equities went down since the beginning of August: the Eurostoxx 600 index decreased 3.5% since August 10, 2023.
- In August, the euro was slightly down against the US dollar, hitting $1.09 per euro.
- The Italian–German 10-year bond-yield spread stood at 1.7%; the yields went up to 4.4% from 4.1% and to 2.7% from 2.5%, respectively.
- Loans to businesses and households increased by 0.0% and 1.7% m-o-m and by 4.2% and 2.0% over 2022, respectively.

**Spanish elections in hands of Catalan separatist party (Together for Catalonia); EU reaches 90% gas storage target ahead of winter**

- In Spain, neither the PSOE nor the PP can reach the majority needed to take office; however, the PSOE has a path to power if it secures the backing of six other parties, including Together for Catalonia.
- The EU has reached its target of filling gas storage facilities to 90% of capacity roughly two-and-a-half months ahead of the November 1 deadline, according to the latest figures released today by Gas Infrastructure Europe.

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

# United Kingdom

**Inflation drops to 6.8% in July; the Bank of England increases the key policy rate to 5.25%; labor market remains tight; the latest GDP projections indicate modest growth in 2023 and expansion of around 1% in 2024.**

Updated IMF forecasts in July revised UK GDP growth for 2023 up to 0.4% (from –0.3%) and still expect 1% growth in 2024. The latest report by the Bank of England's Monetary Policy Committee anticipates modest growth below 0.5% in the near term, reflecting more resilient household income and retail sales volumes. According to the OECD's June 2023 outlook, UK GDP growth is expected to be modest at 0.3% in 2023 and to rise moderately to 1% in 2024. Government consumption and investment will continue to support the economy, followed by a gradual strengthening of private expenditure due to falling wholesale gas prices and improved global conditions. Headline inflation is projected to slow on the back of declining energy prices and approach the 2% target by the end of 2024. Core inflation is set to be more persistent due to strong services inflation, only receding to 3.2% in 2024. Unemployment will rise, reaching 4.5% in 2024.

UK CPI inflation fell to 6.8% in July (7.9% in June), while core inflation (which excludes the price of energy, food, alcohol, and tobacco) remained unchanged at 6.9%. The declining inflation rate can be attributed to falling energy prices, as well as decreasing inflation for products such as food. The rapid pace of price rises in the UK has been more persistent than in other big economies, with inflation running at the highest level in the G7. In response, the Bank of England hiked its policy rate again, by 25 basis points to 5.25% in August, and is anticipated to raise rates further before the end of 2023. The BoE expects inflation to continue to fall, to around 5% by the end of the year, owing to lower energy, food, and core goods price inflation (versus 4% as previously predicted).

The UK manufacturing sector remained in contraction territory in July, with output, new orders, and employment all suffering further decline. Increasing signs of market weakness also led to cutbacks in purchasing activity and inventory holdings. The purchasing managers' index (PMI) for manufacturing fell to a six-month low of 45.3 in July (46.5 in June)—and has now remained below the neutral 50.0 mark for 11 successive months.

The services sector has recorded weaker performance over the past six months, with rising salary payments and other inputs offsetting the drop in fuel costs. The services PMI declined to 51.5 in June from 53.7 in May but remained above the 50.0 neutral value for the fifth consecutive month.

Growth in average total pay was 7.8% in April to June 2023, but real total pay rose by 0.5% year-on-year. The unemployment rate for April to June 2023 ticked up by 0.3 percentage points on the quarter to 4.2%, the largest quarterly increase since August–October 2021. The UK's economic inactivity rate was estimated at 20.9%, 0.1 percentage points lower than the previous quarter and 0.7 percentage points higher than before the onset of the coronavirus pandemic. The number of vacancies in May to July 2023 was 1,020,000, a decrease of 66,000 from February to April 2023.

UK Prime Minister Rishi Sunak has pledged to maintain the pension triple lock despite signs that the guarantee to older people will cost the Treasury an extra £10 billion next year—£2.5 billion more than estimated in the spring budget. Meanwhile, Scotland's public spending deficit has fallen from a record peak last year, as oil and gas revenues reached their highest-ever level after a global rise in oil prices.

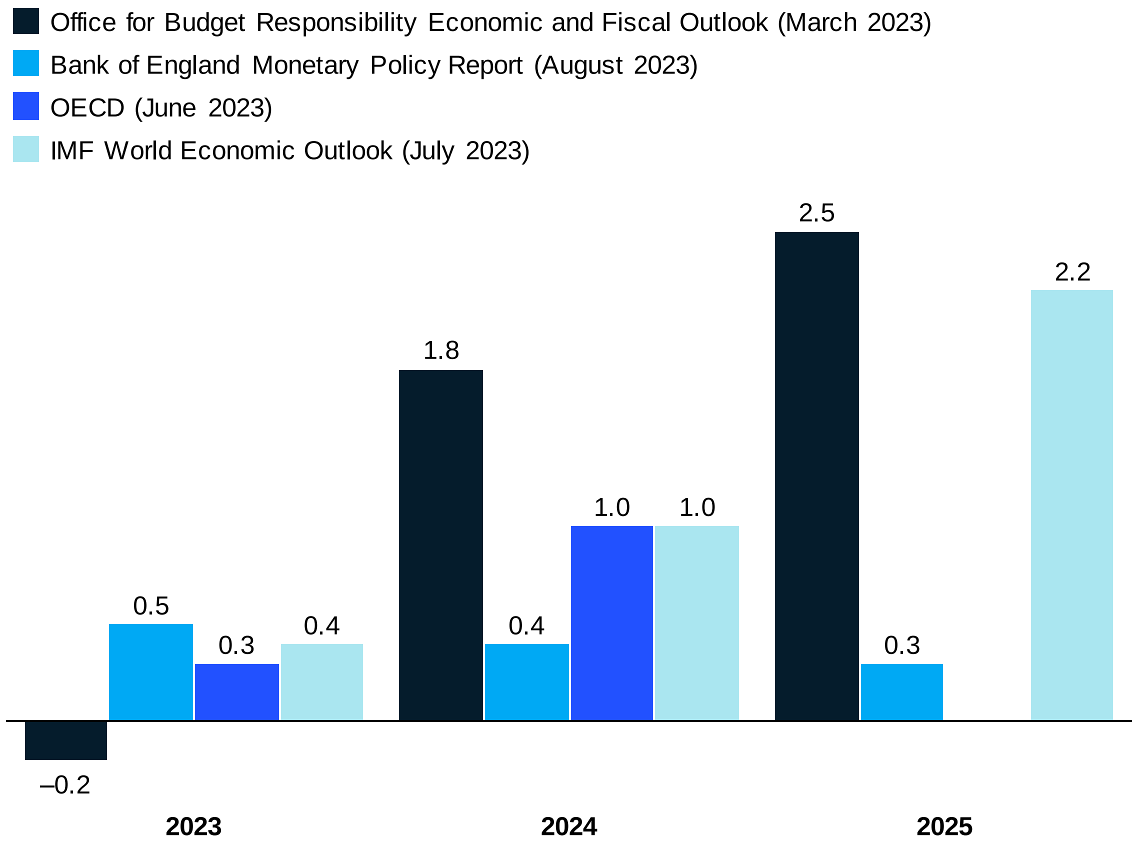
The Scottish National Party and Labour would likely both win 24 seats in Scotland at the next UK general election, based on a Survation survey conducted in August. Pollster Professor John Curtice says Scottish voting intentions in the UK general election (which must be held by mid-November 2024) would boost Labour's chances of an overall victory at Westminster. The survey also suggests the SNP would be unlikely to win enough seats in the Scottish Parliament for an overall majority at the next election (May 2026).

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

# UK GDP growth almost flat; inflation declines to 6.8% in July, remaining above projections; the Bank of England increases the policy rate to 5.25%

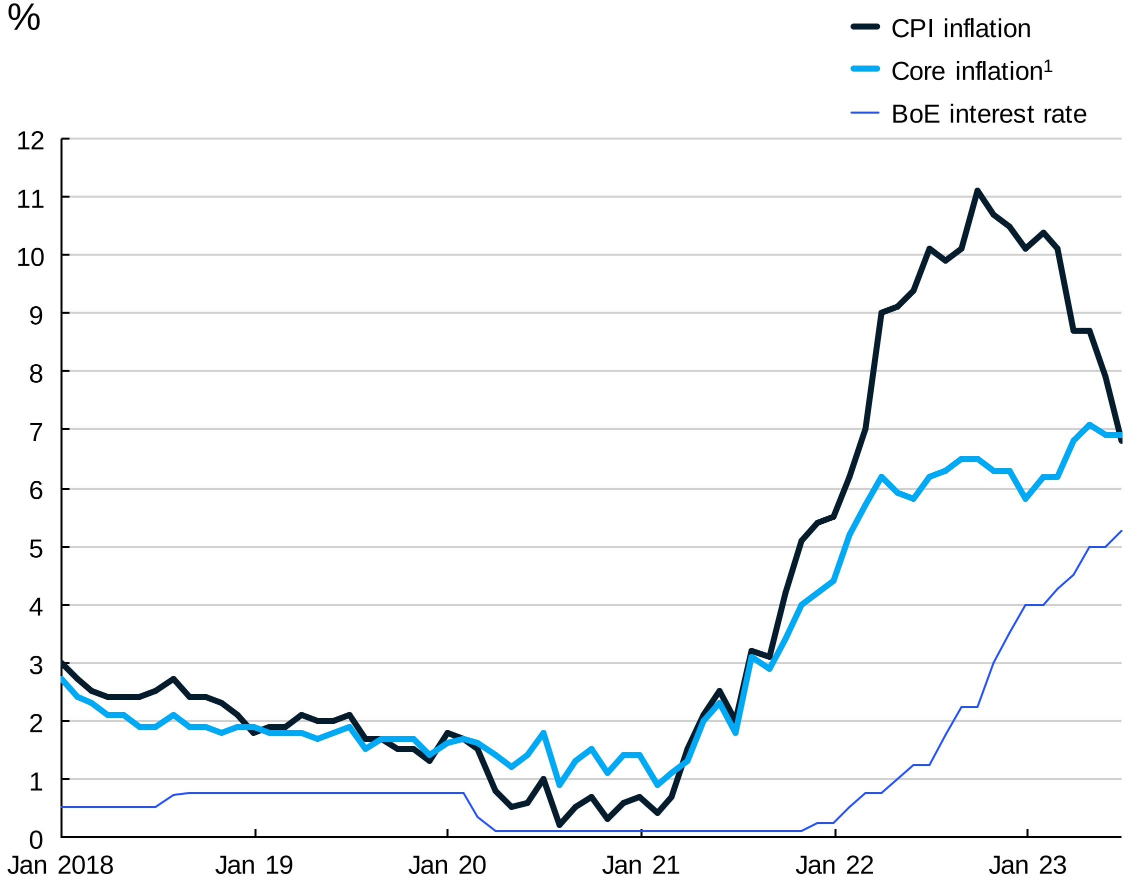
## UK real GDP forecast from main institutions, 2023–25

% change (year-on-year); constant prices




## 12-month inflation; Bank of England interest rate

%




1. 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 declines as food price increases slow; manufacturing sentiment at seven-month low, as services sector sentiment declines but remains in positive territory; consumer confidence down

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

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

**Inflation declines in July; consumer confidence drops; industrial production strengthens**

- Retail sales volumes are estimated to have fallen –1.2% in July 2023 following a rise of +0.6% in June 2023.
- GfK's Consumer Confidence Index dropped by six points in July, to –30 (from –24 in June). All measures (tracking personal financial situation, general economic outlook, and major purchases) were down on the previous month.
- Monthly production output is estimated to have risen 1.8% in June 2023, the strongest monthly growth in the Index of Production (IoP) since August 2020 (1.9%); this follows a fall of –0.6% in May 2023. A rise in manufacturing was the main positive contributor.
- The UK manufacturing PMI fell further in July, reaching a seven-month low of 45.3 (versus 46.5 in June); the measure has remained below the neutral 50.0 mark for 12 successive months. The services PMI declined to 51.5 in July from 53.7 in June but remains above the 50.0 neutral value—nevertheless, the July figure is the weakest for the last six months.
- Monthly construction output is estimated to have increased 1.6% in volume terms in June 2023. The UK construction PMI registered 57.1 in July, up from 48.9 in July, and well above the neutral 50.0 mark. The total goods and services trade balance, excluding precious metals, narrowed by £0.5 billion to a deficit of £19.0 billion in the second quarter (April to June) of 2023.
- The annual inflation rate (UK CPI) fell to 6.8% in July (7.9% in June). Core inflation (excluding food, energy, alcohol, and tobacco) remained unchanged at 6.9%. Producer input prices fell by –3.3% in the year to July 2023 (down from a fall of –2.9% in the year to June 2023) while producer output (factory gate) prices fell –0.8% in the year to July 2023, down from a rise of +0.3% in the year to June 2023.
- The unemployment rate for April to June 2023 increased by 0.3 percentage points on the quarter to 4.2%. The economic inactivity rate decreased by 0.1 percentage points on the quarter, to 20.9% for the quarter April to June 2023.

**UK equities decline; GBP strengthens versus USD, the 10-year gilt reaches highs seen during market turmoil of late 2022**

- The FTSE 100 dropped around –4.7% during the past month and is now almost –9% below the peak reached in February 2023. As of August 22, the pound had strengthened slightly to £1 = US $1.28, after almost reaching parity in late September 2022—an all-time low.
- The daily yield of the UK 10-year gilt has risen to roughly 4.7%, as of August 22, now reaching the historic highs of over 4.6% seen in mid-October 2022, and well above year-ago rates of around 1%.
- UK government debt dropped slightly to 100.5% of GDP in Q1 2023, while the deficit decreased to 3.8% of GDP (from 6.8% in Q4 2022).

**PM sticks to pension triple lock; Scottish public spending deficit falls thanks to oil revenue; Labour advances in Scottish opinion poll**

- Sunak pledged to retain the pension triple lock despite signs of extra £10 billion cost, while the Scottish public spending deficit fell as oil revenues hit record high.
- Survation poll suggests SNP and Labour would win the same number of seats in Scotland at the next UK general election.

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

**[Emerging economies]: China growth slowdown continues, as trade declines. India shoots for the moon. Consumer confidence climbs in Brazil. Russia hikes key interest rate by 350 basis points.**

# China

**China's economic slowdown continued in July. Growth in industrial output and fixed-asset investment decelerated; housing sales, new social financing, and trade contracted compared with last year.**

Industrial output growth decelerated to 3.7% year-on-year in July (4.4% in June). By sector, industrial output growth in the mining sector slowed to 1.3% (1.5% in June); output growth in the manufacturing sector decelerated to 3.9% (4.8% in June); and output growth in the utility sector slowed to 4.1% (4.9% in June).

Expansion in fixed-asset investments decelerated to 1.2% year-on-year in July (3.3% in June). By sector, investments in the manufacturing sector slowed to 4.3% (6.0% in June) and infrastructure investments decelerated to 4.6% (6.4% in June); investments in the real estate sector remained sluggish, with a deeper contraction of –9.6% reported in July (compared to –8.8% in June).

The slump in the real estate market continued. Housing property sales revenues declined –24.3% year-on-year in July (–25.1% in June), with floor space sold dropping –24.9% (–27.9% in June). Meanwhile, the average price of housing grew more slowly at 0.8% (3.8% in June).

Notably, significant headwinds facing indebted property companies have heightened concerns about a delayed recovery for the real estate sector and triggered fresh fears of contagion across the wider economy, with risk aversion deterring investors and creditors from the sector.

New social financing measured RMB 500 billion in July (down from RMB 4.2 trillion in June)—representing a year-on-year decline of –32.2% (versus a –18.6% decline in June). A contraction in new bank loans, which fell –91% year-on-year explains the majority of this drop in new social financing. Total social financing was reported at RMB 365.8 trillion in July, with the year-on-year growth rate falling slightly to 9.2% in July (9.3% in June).

The surveyed urban unemployment rate ticked up to 5.3% in July (5.2% in June). Youth unemployment rate figures have been temporarily discontinued as of August, according to National Bureau of Statistics, which says it needs to further refine its methodology for this data.

Overall cross-border trade contraction deepened in July, declining –13.6% year-on-year (versus –10.1% in June). Exports fell –14.5% year-on-year in July (versus –12.4% in June). Imports were down –12.4% year-on-year (compared to –6.8% in June).

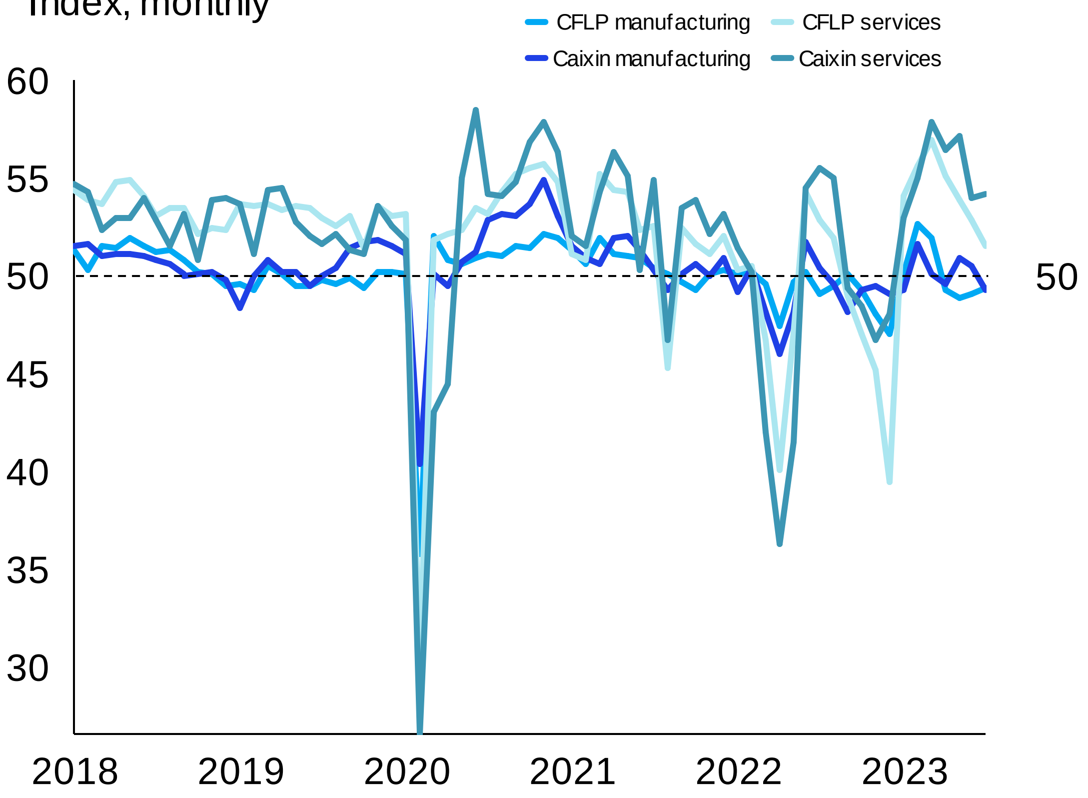
China has announced a basket of policies since mid-July, aiming to boost consumption and the private economy, to stabilize employment and the real estate market, and to defuse local debt risk.

Source: CEIC; McKinsey's Global Economics Intelligence analysis

# Official services PMIs showed softer expansion in July, while official manufacturing PMIs remained in the contraction zone; stock indexes dropped

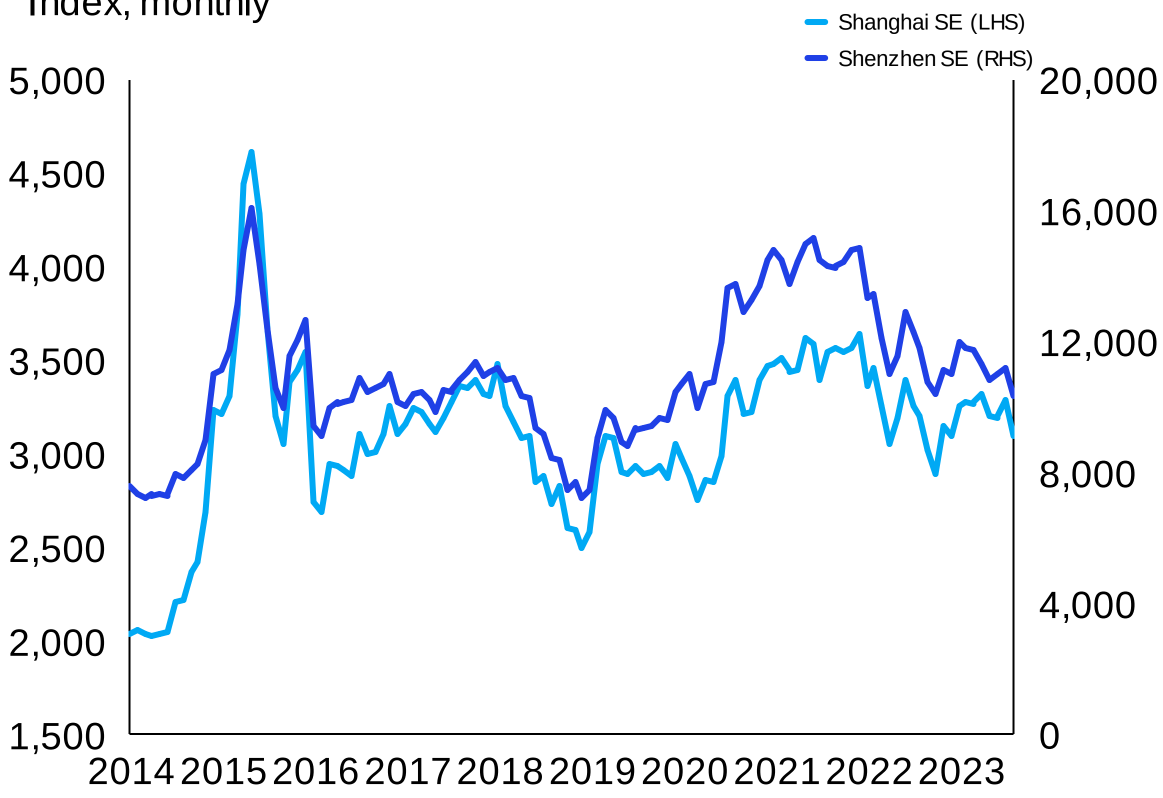
## Purchasing managers indexes (PMI)

Index, monthly




## Stock market indexes

Index, monthly




Source: CEIC; McKinsey's Global Economics Intelligence analysis

# Retail sales growth decelerated in July; trade declined, with both exports and imports falling; CPI turned negative; RMB depreciated

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 | Worsening | No significant change |
| | Real estate | No significant change | Worsening |
| | External sector, trade | Worsening | Improving |
| | Prices | Worsening | Worsening |
| | Employment | No significant change | Worsening |
| Financial markets | Foreign exchange | Worsening | Worsening |
| | Equity | Worsening | Improving |
| | Debt | No significant change | Worsening |
| | Credit | Worsening | Worsening |
| Government and policy | Public policy | Improving | Improving |
| | Public-sector health | No significant change | No significant change |

### Retail sales growth decelerated; the official manufacturing PMI stayed in the contraction zone and the official services PMI indicated softer expansion; trade was down; CPI and PPI remained low

- Retail sales growth decelerated to 2.5% y-o-y in July (3.1% in June).
- The official and Caixin purchasing managers' indexes (PMIs) presented mixed messages. The official manufacturing PMI remained in the contraction zone but ticked up to 49.3 in July (49.0 in June), while the Caixin manufacturing PMI fell to 49.2 in July from 50.5 in June. The official services PMI softened to 51.5 in July (52.8 in June), while the Caixin services PMI reported a stronger reading of 54.1 in July (up from 53.9 in June).
- Overall cross-border trade fell in July, declining –13.6% y-o-y (versus –10.1% in June). Exports fell –14.5% y-o-y in July (versus –12.4% in June), while imports were down –12.4% y-o-y (compared to –6.8% in June).
- Consumer prices deflated at a rate of –0.3% in July (0% in June), while the core CPI rose to 0.8% in July (0.4% in June); producer prices deflated at a rate of –4.4% in July (−5.4% in June).

### RMB depreciated against the US dollar; stock indexes edged down; money supply weakened

- The RMB depreciated 2.3% against the dollar compared with the end of July, trading at RMB 7.3079 = USD 1 by August 21.
- By August 21, the Shanghai stock index had shed 6.0% in value while the Shenzhen stock index lost 7.7% compared with levels at the end of July.
- New social financing measured RMB 500 billion in July (RMB 4.2 trillion in June), declining –32.2% y-o-y (–18.6% in June).
- M2 growth decelerated to 10.7% in July (11.3% in June).

### PBOC further lowered short-term lending rate and LPR

- On August 15, the People's Bank of China (PBOC) announced a cut in the 7-day reverse repo rate to 1.8% (versus 1.9% previously) and a cut in the medium-term lending facility rate (MLF) to 2.50% (versus 2.65% previously).
- On August 20, PBOC announced a cut in the 1-year Loan Prime Rate (LPR) by ten basis points to 3.45%, maintaining the 5-year Loan Prime Rate unchanged at 4.20%.

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

# India

**The economy expanded 7.8% y-o-y in Q2 2023, supported by consumption and investments. Potential headwinds from inflation and challenges within financial sectors could bear down on growth.**

In the second quarter of 2023, the economy achieved a growth rate of 7.8%, primarily driven by investments and consumption, both of which made substantial contributions to the overall expansion.

Industrial production, a crucial gauge of economic vitality, underwent a notable shift. After robust 5.3% y-o-y growth in May, the pace slowed to 3.7% in June. The slowdown was led by the manufacturing sector with substantial declines in durable goods, while the mining and electricity sectors saw an improvement in performance. Manufacturing grew by 3.1% (5.7% in May), mining by 7.6% (6.4% in May), and electricity by 4.2% (0.9% in May).

Purchasing Managers' Indexes (PMI) for both the services and manufacturing sectors remained encouragingly upbeat. Notably, the services sector surged to a 13-year high to reach 62.3 in July, (58.5 in June and 61.2 in May), underscoring its resilience and positive trajectory. This growth was largely attributable to a resurgence of services exports, highlighting the potential of this sector as a catalyst for economic momentum.

On the consumer front, retailers reported a remarkable 9% y-o-y increase in sales for July. This advance suggests that, despite economic uncertainties, consumer sentiment remains fairly optimistic. However, a noteworthy divergence in sentiment emerged with perceptions on inflation: households felt the inflation rate to be around 9%, as official headline inflation took a pronounced leap from 4.9% in June to 7.5% in July. This rise was mainly driven by mounting food prices.

In the financial sphere, domestic credit recorded an accelerated growth rate of 15.6% in June, outpacing the 13.7% recorded in May. This higher pace was primarily fueled by increased lending to the commercial sector, reflecting the evolving priorities of financial institutions in the face of changing economic dynamics.

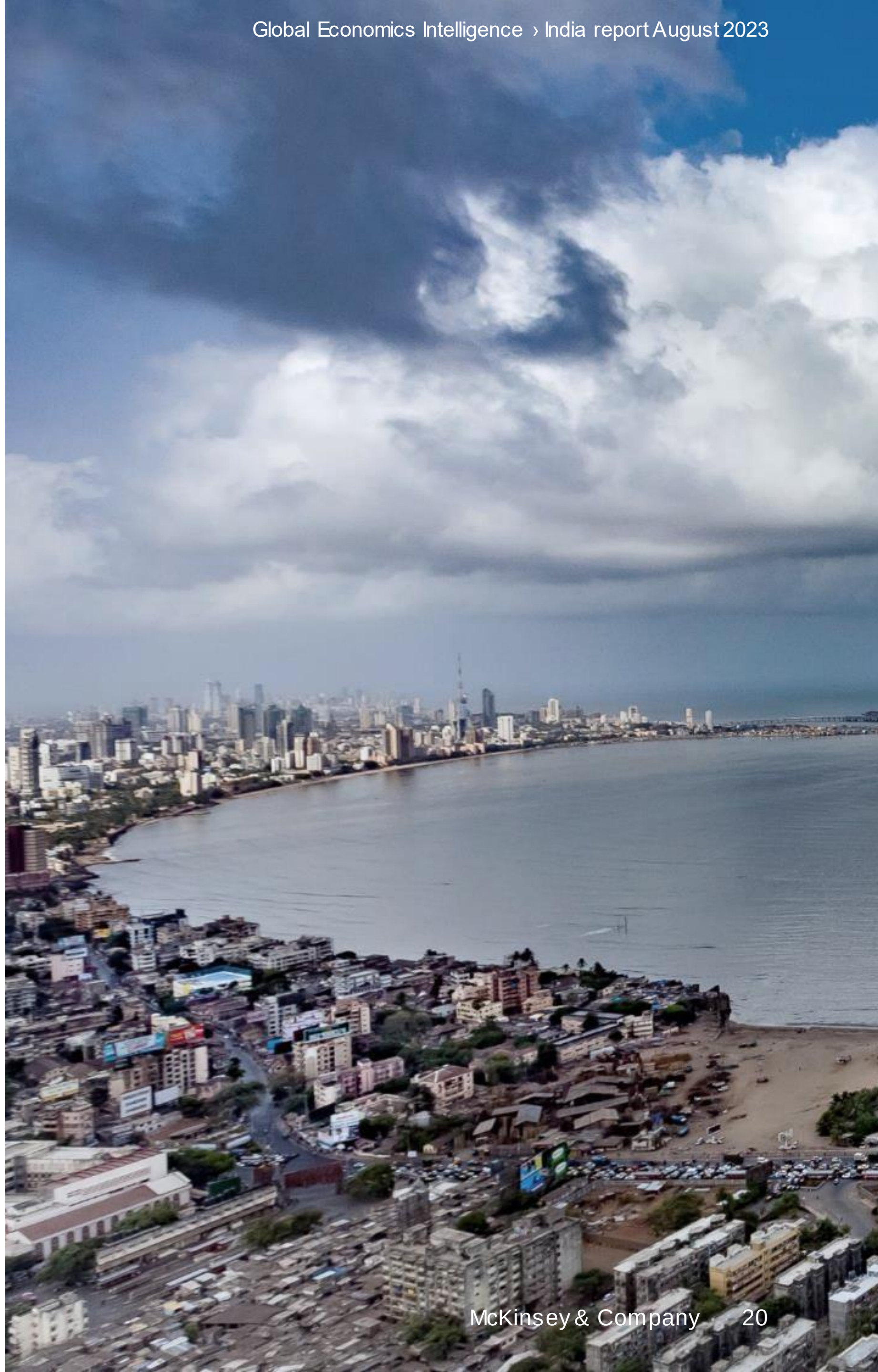
The exchange rate held its ground, showing remarkable stability against the US dollar at a consistent 82 rupees per dollar. Meanwhile, the stock market offered a positive narrative, with both the Sensex and Nifty indexes marking significant gains of approximately 5% in July. This contrasted notably with the modest 2% growth observed in June, highlighting the responsiveness of these indexes to market sentiments.

The central bank opted to maintain interest rates at a steady 6.5%, underlining a cautious approach from monetary authorities.

However, the fiscal dimension also brought its set of challenges. The fiscal deficit deteriorated in June. Expenditure growth outpaced revenue growth, creating an imbalance that underscores the intricacies of fiscal management and resource allocation.

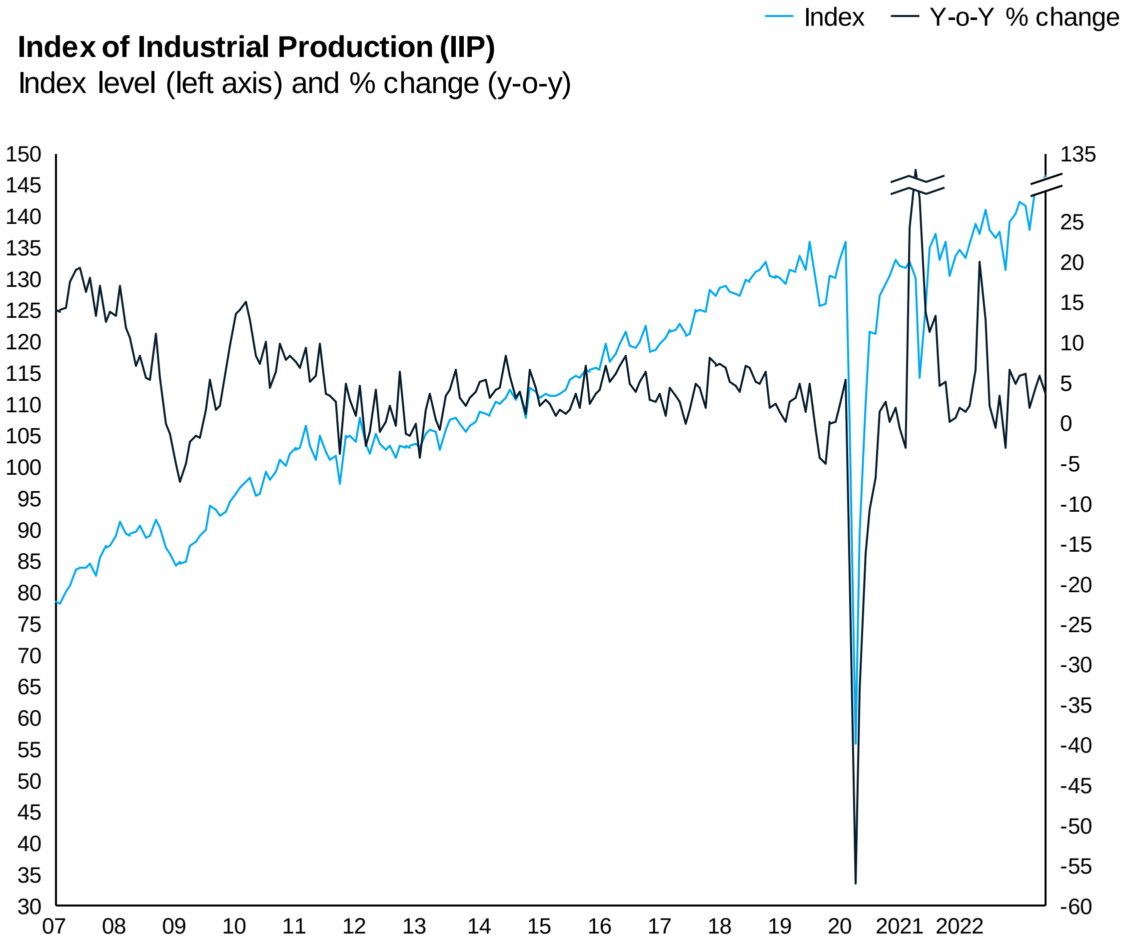
On August 23, India became the fourth country in the world to achieve a soft landing on the moon, and the first to do so at the south pole. The success of the Chandrayaan-3 mission not only helped India make significant strides in the space race but could also prove to be a major boost to the country's economy.

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

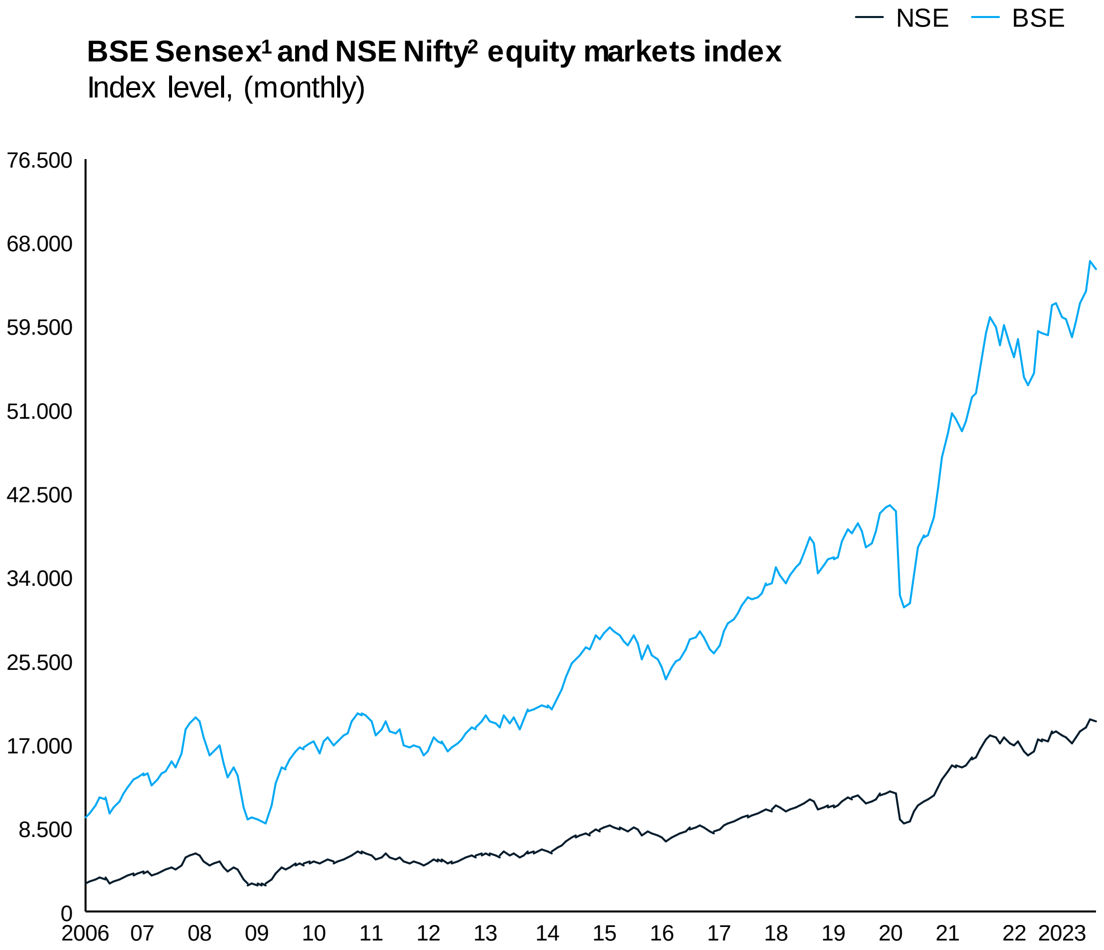


# Industrial production grew in June but at a slower pace, while equity indices edged down in August

**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

# GDP grew 7.8% in Q2 2023, driven by investments and net exports; the PMIs suggest potential for further acceleration in the economy; financial markets remained stable

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

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

**industrial production slowed, but the PMIs remained robust**

- Retail sales reported a 9% year-on-year growth in July.
- Industrial production decelerated from a 5.3% year-on-year growth in May to 3.7% in June. However, this growth was not evenly distributed across sectors, with the most significant slowdown observed in the manufacturing sector. Notably, within manufacturing, sub-sectors exhibited even more pronounced differences, with a majority of durable goods sectors reporting declines.
- Both the services and manufacturing sectors displayed strong growth, as indicated by the PMIs. In particular, the services PMI reached a 13-year high, driven largely by an upturn in services exports, touching 62.3 in July, (58.5 in June and 61.2 in May).
- Both exports and imports experienced comparable declines, resulting in the trade balance remaining almost unchanged. However, exports decreased by 16% compared to the previous year, while imports contracted by 17%.
- The official headline rate of inflation surged from 4.9% in June to 7.5% in July, primarily propelled by rising food prices.

**Financial markets in India remained broadly stable, while credit to both consumers and companies continued to grow**

- The rupee remained relatively stable during July, fluctuating around 82 rupees per US dollar.
- Both the Sensex and Nifty equity indexes gained approximately 5% in July, showing much stronger gains compared to June.
- Domestic credit increased at an accelerated pace compared to the previous month (15.6% in June versus 13.7% in May), driven mainly by higher lending to the commercial sector.

**The fiscal deficit has slightly worsened; the central bank maintained the status quo on interest rates**

- The central bank kept the interest rates unchanged at 6.5%.
- The fiscal deficit worsened in June as expenditure growth outpaced revenue growth.
- India joined an elite group of countries that has achieved a soft landing on the Moon, following the success of the uncrewed Chandrayaan-3 mission to the Moon's south pole, which touched down on August 23.

SOURCE: McKinsey's Global Economics Intelligence analysis

# Russia

**Production, consumption, and imports increase on annual basis; resilient 1H 2023 supports outlook; substantial fiscal deficit; inflationary pressures and significant ruble depreciation trigger key rate hike.**

After several consecutive months of recovery, growth in industrial production stalled in June; though it was still 6.5% higher on an annual basis. The rise has been driven by sectors benefitting from higher military spending. At the same time, mining output stalled in Q2 as natural gas production was down. In its recent report, the International Energy Agency estimates that, in May-June, Russia largely fulfilled its pledge to cut oil production by 500,000 barrels per day from February's crude output level.

The recovery in private consumption also continued, with retail sales in Q2 growing 9–10% y-o-y, despite a small cumulative drop of 1.2% in May–June. This was supported by the labor market, revival of lending, and real household incomes recovering to levels from two years earlier—annual growth in real wages accelerated to 13.3% in May, while unemployment reached historical lows of 3.1% in June.

Russia's imports also bounced back on the economic recovery: in Q2 they were up by 33.5% y-o-y, stabilizing at roughly the same as the 2021 average. Growth in real volumes was more moderate due to a rise in import prices. Exports declined by 32.7%, due to lower prices and sanctions on Russian exports, as did the trade surplus—by about 75%. Mirror statistics from Russia's trading partners enable evaluation of shifts in the trade structure: for example, imports of advanced technology drags on overall imports recovery, while nearly 60% of Russia's total oil exports (crude oil and refined petroleum products) now go to China and India.

The IMF raised its growth outlook for Russia to 1.5% (from 0.7%) this year, due to fairly strong growth in the first half of the year. The Bank of Russia forecast expects growth in the range of 1.5−2.5% and the July average consensus forecast puts growth at around 0.5%. Government spending is to remain the main driver of growth, with private consumption following.

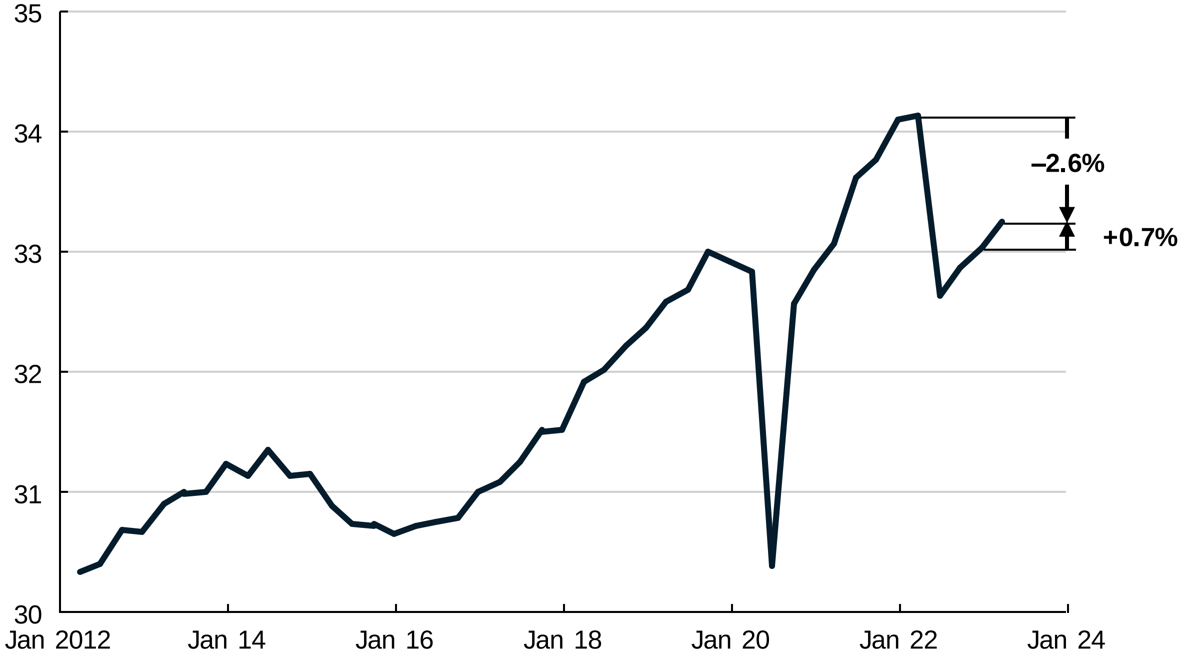
Russia's fiscal situation improved slightly in recent months, as budget revenues increased on higher output, wages, consumption, and profits. Still, year-to-date federal budget revenues were down 8% y-o-y in July, depressed by the slide in oil and gas taxes. Federal budget spending slowed to around 14% y-o-y in June. As a result, the 12-month running budget deficit stands at around 5% of GDP.

In July, inflation picked up to 4.3% y-o-y and core inflation to 3.2%. In mid-August, the ruble's exchange rate reached its lowest value since spring 2022: 100 per US $1. Since then, it has regained some losses and, on August 21, was trading at 94.2 per US $1. Nevertheless, the Russian currency has lost about 40% of its value since last August. In response to rising inflationary pressure and the ruble's slide, the Bank of Russia raised its key rate by 100 basis points in July and by 350 bp in August, to 12%. The ruble's vanishing value reflects the end of a period of exceptionally high current account surpluses.

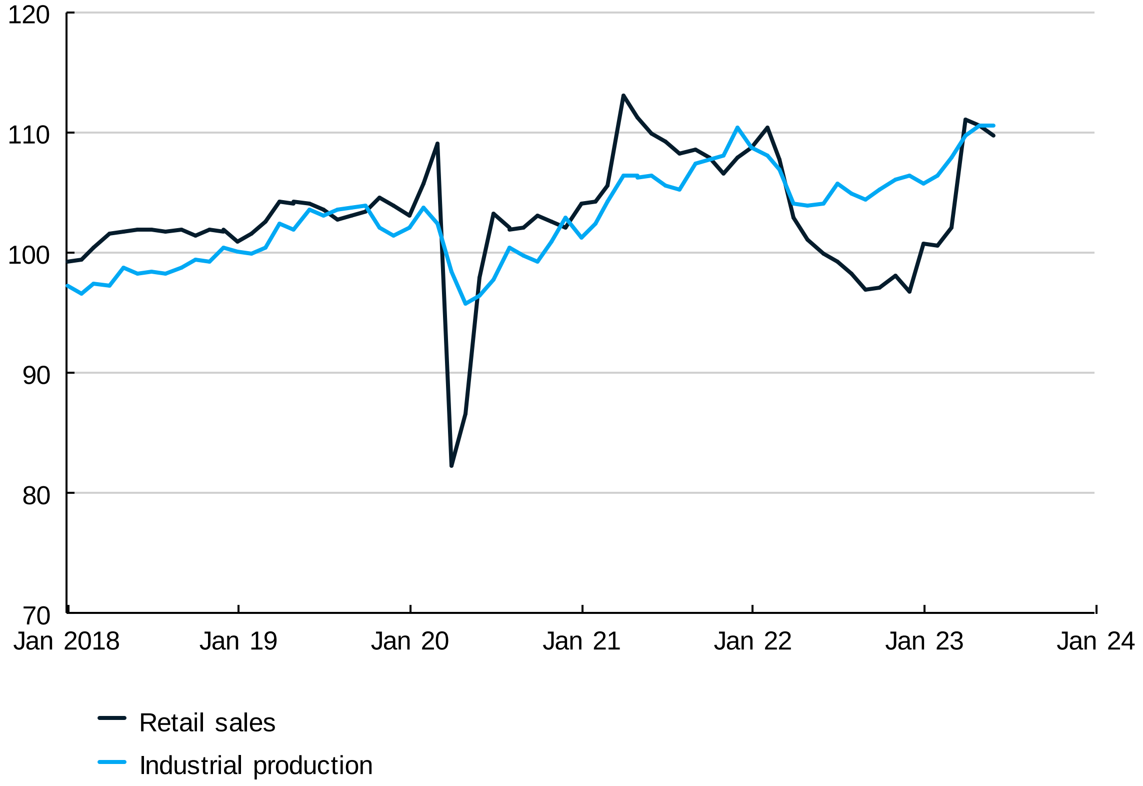
Source: BOFIT; IHS Markit; Oxford Economics

# GDP gradually recovers; short-term domestic indicators stalled in June

## Gross domestic product
SA, Bil.Chn. 2021 Rubles, through Q1 2023




## Industrial production and retail trade
Index, 2020=100, through June 2023




Source: Federal Statistics Service; Haver Analytics

# Domestic recovery stalled in June; fiscal and credit expansions continue amid returning inflationary pressures; foreign trade surplus shrinks with impact on currency

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

| | Indicator category | Change vs prior month | Change vs pre-COVID levels |
|---|---|---|---|
| Macro-economic | Consumer | No significant change | No significant change |
| | Industry | No significant change | No significant change |
| | Real estate | No significant change | No significant change |
| | External sector, trade | Worsening | Severe decline |
| | Prices | Worsening | No significant change |
| | Labor market | Improving | Improving |
| Financial markets | Foreign exchange | Worsening | Worsening |
| | Equities | No significant change | Severe decline |
| | Debt | No significant change | Worsening |
| | Credit | Improving | Improving |
| Government and policy | Public policy | No significant change | Severe decline |
| | Public-sector health | No significant change | Severe decline |

**Short-term activity indicators stalled in June amid tight labor market, rising inflation, and still-subdued foreign trade**

- Seasonally adjusted retail sales declined cumulatively by 1.2% in May–June. Nevertheless, Q2 remains 10% above 2022 levels.
- After several consecutive months of recovery, growth in industrial production stalled in June; though it was still 6.5% higher on an annual basis.
- The trade surplus in June declined to $6.5 billion (by approximately 75% y-o-y). Exports fell in line with commodity prices and a decrease in mining output, while imports gradually recovered, stabilizing at roughly the same level as the 2021 average.
- Sharp ruble depreciation is fueling inflation, which reached 4.3% y-o-y in July from 3.2% in June. Core inflation increased to 3.2% from 2.4%. The median value of expected consumer inflation stabilized above the two-digit level, exceeding 11% in July.
- Labor market remains tight, with unemployment rate at historical lows of 3.1% in June. Labor shortages caused real wages to rise rapidly by 13.3% in May.

**Continued ruble depreciation and credit expansion**

- Depreciation pressure on the ruble intensified in recent weeks, as sanctions undermine exports revenues and import bill grows. In mid-August, the ruble's exchange rate reached its lowest value since spring 2022: 100 per US $1. Since then, it regained some losses and, on August 21, was trading at 94.2 per US $1.
- Government debt yields stabilized at 11.2%.
- In Q2, lending growth increased, fueling concerns of a lending bubble emerging. In June, household lending growth increased to 17.3% y-o-y. State support supported rapid expansion of corporate lending, which was up almost 30% y-o-y. The mortgage market appears to be overheating, also boosted by state subsidies. In May, the number of new mortgages more than tripled from May 2022.

**Russia continues to use its fiscal space; hawkish central bank's reaction to inflation and currency losing value**

- The fiscal situation improved slightly in recent months: budget revenues rose on higher output, wages, consumption, and profits. Nevertheless, year-to-date federal budget revenues were down 8% y-o-y in July, depressed by a slide in oil and gas taxes. Federal budget spending slowed to around 14% y-o-y in June. The resulting 12-month running budget deficit is now about 5% of GDP.
- In response to rising inflationary pressure and the ruble's slide, the Bank of Russia raised its key rate by 100 basis points in July and a further 350 basis points in August, bringing the rate to 12%.

Source: BOFIT; Haver Analytics; Oxford Economics; The Economist Intelligence Unit

# Brazil

**In contrast to recent months, Brazil's inflation rate saw a jump in July; meanwhile, the Central Bank cut the key Selic rate by 50 bps to 13.25% at its August meeting.**

In July, inflation rose for the first time since June 2022, coming in at 3.99% (3.16% in June). Nevertheless, consumer inflation remains below the Central Bank's upper target of 4.75% for the fifth consecutive month. Inflation rebounded for transportation, as gasoline deflation slowed considerably, and edged higher for housing and utilities; inflation slowed for food and non-alcoholic beverages. The Monetary Policy Committee (COPOM) cut its key Selic rate by 0.5 percentage points to 13.25% in July (from 13.75% in June) after eight months with no change. A second cut of 0.5 p.p. has already been agreed and will be applied in September. COPOM reinforced the need to persist with tight monetary policy until the disinflationary process consolidates and inflation expectations anchor around its target.

Consumer confidence climbed to 94.8 in July, from 92.3 in June—the highest reading since January 2019, reflecting the Brazilian economy's strong momentum despite the Selic rate being elevated for a prolonged period. Consumer confidence rose for the third consecutive month, buoyed primarily by consumers' future expectations. The improvement is attributed to various sectors of the survey, notably indicators related to Brazil's general economic situation and households' financial situation.

Brazil's purchasing managers' index for manufacturing increased from 46.6 in June to 47.8 in July, though remaining in sub-50.0 territory for the ninth consecutive month. Despite signaling an extended deterioration in the health of the sector, the latest reading was up to its highest level in five months. Suppressed global demand for raw materials and a lack of pressure on supply chains encouraged the sudden reduction in input costs. The services PMI dropped to 50.2 in July from 53.3 in June. Demand for Brazilian services faded this month, showing the weakest rate of expansion in output in the current five-month sequence of growth. The composite PMI fell to 49.6 in July (51.5 in June)—in sub-50.0 territory for the first time in five months. This indicates a marginal contraction in private-sector output, with manufacturing production falling further and service activity growth softening to a five-month low.

In July, the balance of trade recorded a surplus of US $9.0 billion, with exports totaling US $29.1 billion (US $30.1 billion in June) and imports reaching US $20.0 billion (US $19.5 billion in June). Exports to China and Singapore rose, while shipments to the EU and Argentina fell.

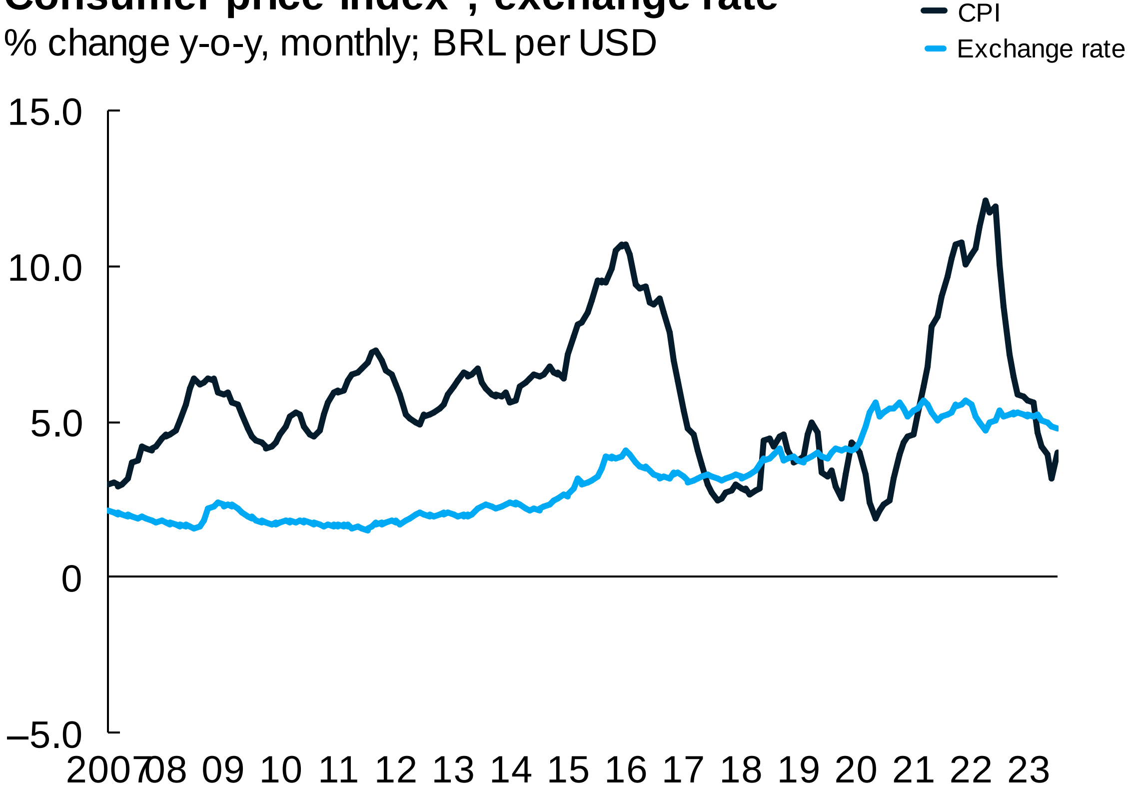
On the financial markets, the monthly average exchange rate was BRL 4.80 per US dollar in July, compared to 4.86 in June. The Bovespa equities index rose, gaining 0.3% in value for the month of August. The three-month moving average unemployment rate fell to 8.0% in June (8.3% in May). It is 1.3 p.p. lower than for the same period in 2022, and the lowest since 2015.

Brazil's state-controlled oil company, Petrobras announced an increase in fuel prices on August 15. Gasoline increased by 16% and diesel by 26%, inevitably having an impact on inflation. This was the first price rise by the company since the implementation of its new pricing policy. Previously, Petrobras had linked its fuel prices to fluctuations in the international market.

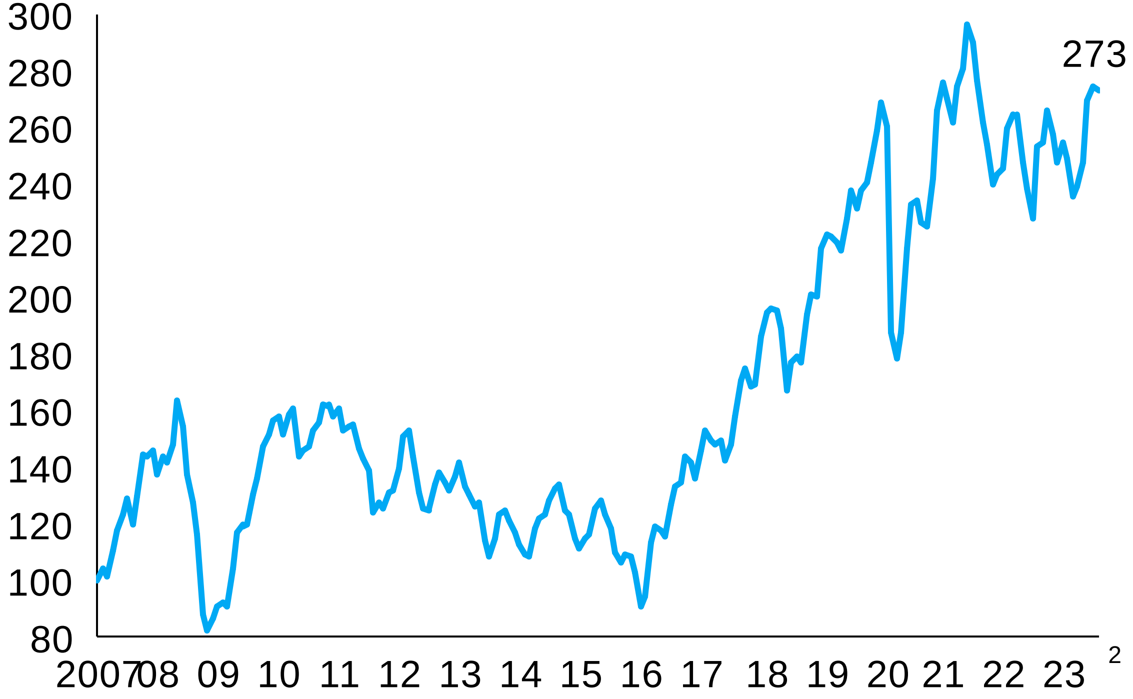
Source: Haver Analytics; Instituto Brasilièro de Geografia e Estatística (IBGE)

# In July, inflation increased while the Brazilian real gained ground; the equity market's performance declined slightly

**Consumer price index[1]; exchange rate**
% change y-o-y, monthly; BRL per USD




**Bovespa index**
Indexed to January 2007 = 100

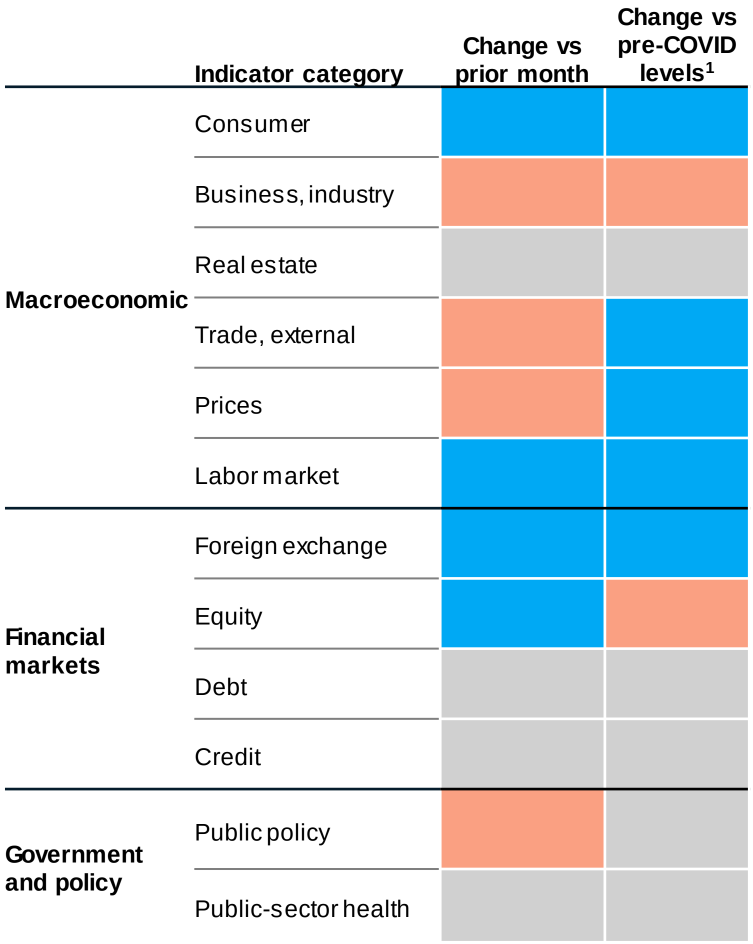



[1] National Consumer Price Index (extended IPCA), 1993 = 100, not seasonally adjusted; % change in CPI in local currency (period average) over previous year. The central bank's target inflation rate for 2023 is 3.25%, with a margin of error of 1.5 percentage points.
[2] Data through August 16, 2023.

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

# Reduction in input costs boosted manufacturing PMI, while a decrease in demand weighed on services PMI

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




**July saw consumer confidence becoming less pessimistic; inflation rose**

- Consumer confidence rose to 94.8 in July, from 92.3 in June—the highest reading since January 2019. Retail sales increased by 2% m-o-m in May, from a decrease of –3% m-o-m in April. Business confidence dropped to 91.9 in July compared to 94 in June.
- The purchasing managers' index (PMI) for manufacturing increased to 47.8 in July (46.6 in June). It was in sub-50.0 territory for the ninth consecutive month and below pre-COVID-19 levels (51.0). The services PMI declined to 50.2 in July (53.3 in June)—the weakest rate of expansion in output in the current five-month sequence of growth, lower than pre-COVID-19 levels (52.2).
- In July, the balance of trade recorded a surplus of US $9.0 billion, with exports totaling US $29.1 billion (US $30.1 billion in June) and imports reaching US $20.0 billion (US $19.5 billion in June). Exports to China and Singapore rose, while shipments to the EU and Argentina fell.
- Inflation reached 3.99% (3.16% in June), increasing for the first time since June 2022. Prices increased for transportation, and inflation also edged higher for housing and utilities. By contrast, prices decreased for food and non-alcoholic beverages.
- The three-month moving average unemployment rate fell slightly to 8.0% in July (8.3% in June), the lowest since 2015.

**The Brazilian real strengthened against the US dollar, while the Bovespa equities index also rose again**

- In July, the real continued to gain strength against the US dollar. The monthly average exchange rate was BRL 4.80 per US dollar (4.86 in June). On August 17, the exchange rate was 4.99 BRL per US dollar.
- The Bovespa equities index gained 0.3% of its value for the month up to August 10; it also gained 0.5% in value up to July 10.

**President Lula's approval rating reaches 60%**

- According to the Genial/Quaest poll, there has been a rise in President Lula da Silva's popularity due to economic feel-good factors. The poll saw the administration achieve its highest approval rating since the beginning of Lula's term in January—approval of his performance as president reached 60% in August, up from 56% last month.
- Japan will resume chicken imports from Brazil (Santa Catarina state) after a ban triggered by an outbreak of avian influenza. Japan's Ministry of Agriculture, Forestry and Fisheries said in a statement that the ban, imposed on July 17, has been lifted after confirming that poultry is free from the disease. Brazil is Japan's second-most-important chicken trade partner after China.

[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