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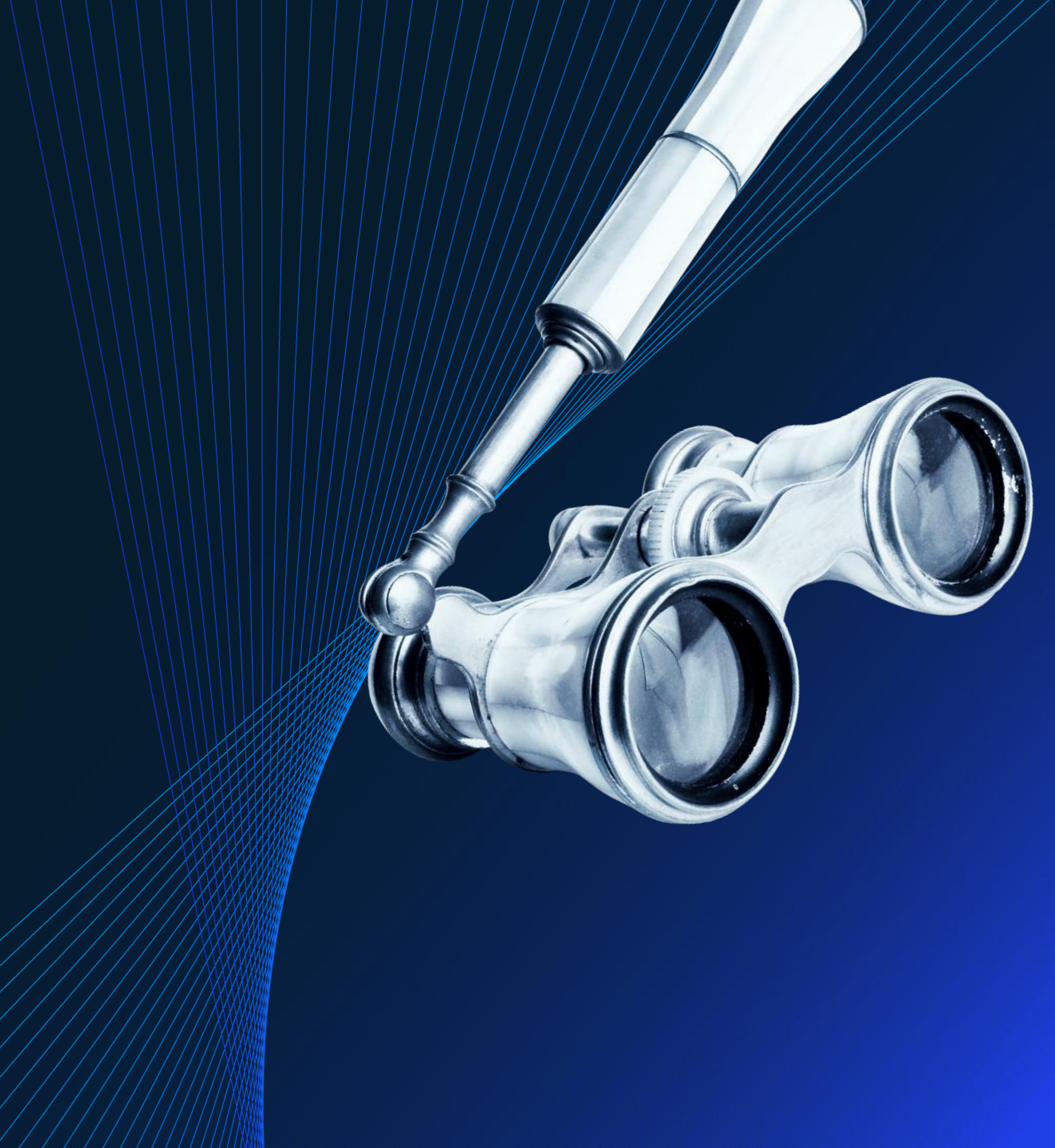

Global Economics Intelligence

Global Summary Report

Released June 2026 (data through May 2025)

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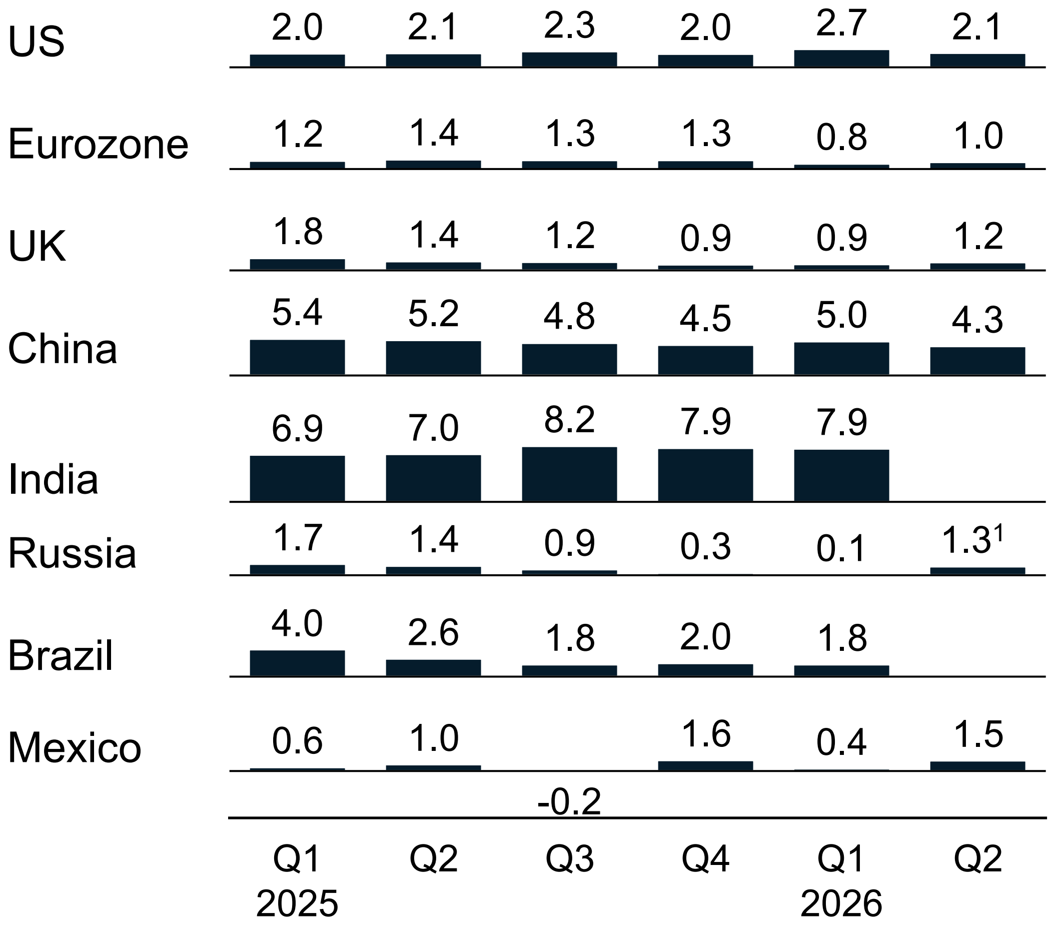
Global growth remains mixed, with momentum softening across several major economies while pockets of resilience persist

Real GDP growth
Percent, y-o-y



The global economy continues to send mixed signals. Inflation is easing and consumers remain relatively resilient, but growth momentum is softening and geopolitical uncertainty remains elevated. With energy markets still vulnerable to disruption, central banks face an increasingly difficult balance between supporting growth and containing inflation.

In recent months, the ongoing geopolitical ambiguity and economic volatility engendered by the tensions in the Middle East have understandably exercised the minds of headline and leader writers around the world. In the spring, the price of Brent crude peaked at just over $118 a barrel and has since eased, stabilizing at around $80 per barrel—although the balance remains fragile and vulnerable to renewed volatility. Higher energy costs inevitably affect food, manufacturing, and transport costs, threatening an unwelcome combination of rising headline inflation and depressed economic growth, which in turn sap consumer sentiment and business confidence.

Returning to today's macroeconomic situation, we see that inflation has moderated slightly across key developed economies due to lower oil prices, with market-based inflation expectations also easing and returning to approximately pre-conflict levels—however, recent Gulf developments are likely to push them up again in the coming months. The US consumer price index (CPI) was up 3.5% year over year in June, after rising 4.3% in May. Core inflation rose 2.6% (annualized). In June, median inflation expectations at the one-year ahead horizon increased to 3.7% and to 3.3% at the three-year-ahead horizon—the highest level since June 2022. In the UK, Inflation delivered a downside surprise. Headline CPI moderated to 2.6% in June from 2.8%, while services inflation eased to 3.6%; core CPI, however, was sticky at 2.6%.

In contrast, inflation accelerated across most major emerging economies, with China a clear outlier as weak price pressures persist. Indeed, consumer inflation remains unusually subdued, with headline and core CPI increases at around 1%, pointing to limited pricing power and still-cautious domestic demand. Producer prices, by contrast, have recovered materially from last year's deflation, suggesting that conditions on the production side are normalizing faster than they are for households. Meanwhile, India's retail inflation in June remained within the Reserve Bank of India's (RBI) 2–6% band but surpassed its 4% midpoint target for the first time since January 2025; core inflation was estimated at 3.9%. CPI inflation for 2026–27 is projected at 5.1%, with core inflation projected at 4.7%.

Growth has been affected by the Middle East conflict. In the United States, real GDP increased at a 1.5% annualized rate in the second quarter, slowing from 2.1% in Q1. This reflected a downturn in government spending and decelerations in investment and exports that were partly offset by an acceleration in consumer spending. Imports rose more in the second quarter than in the first. In the UK monthly GDP rose 0.1% in May, with services growth of 0.3% offsetting declines in production (–0.5%) and construction (–0.8%). Output grew 0.7% in the three months to May and was up 1.1% on the same period a year ago.

At the same time, consumer confidence remains subdued—mostly a reflection of global geopolitical and economic uncertainty—although it improved in the United States. June's retail and food services sales (adjusted for seasonal variation and holiday and trading-day differences) reached $768.6 billion, up 0.2% from May's revised $766.9 billion. The Consumer Confidence Index (Conference Board) edged up to 91.2 in June from a downwardly revised 90.6 in May. And in the UK too, household spending showed signs of resilience. Retail sales volumes rose 1.0% in June—above expectations—and were up 4.2% from a year earlier, while volumes increased 0.6% over the second quarter. Consumer confidence also improved in the first half of

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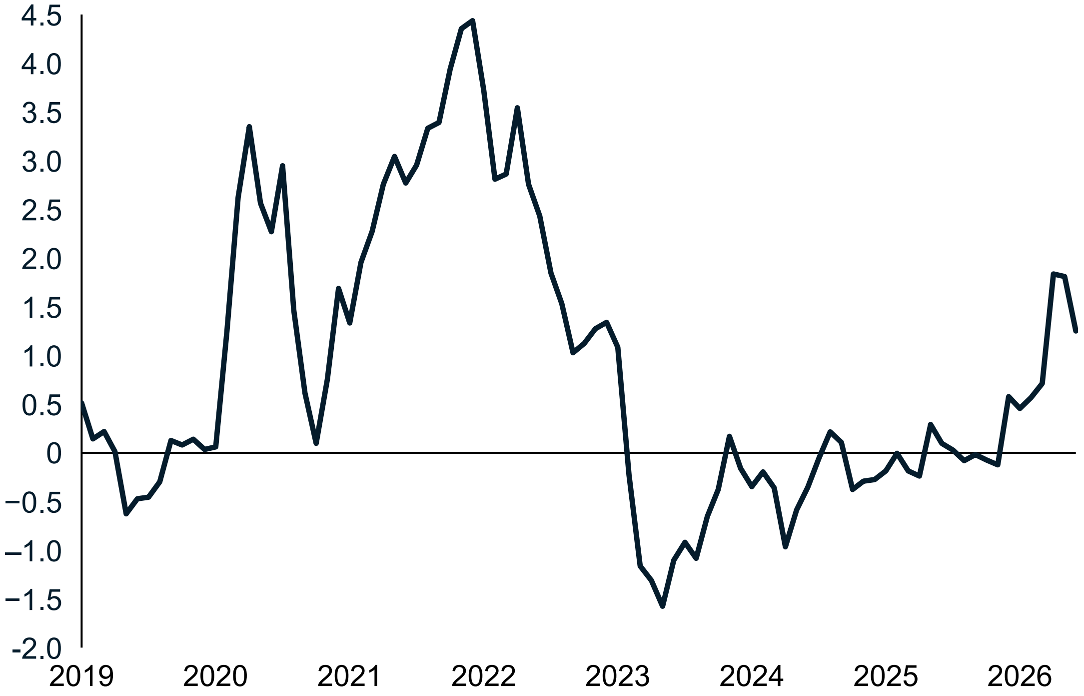
1. Early real GDP growth estimates

Source: Haver Analytics; EIA; McKinsey's Global Economics Intelligence analysis. Early real GDP growth estimates.

Global supply-chain pressures remained elevated in June, with Middle East disruptions adding to existing strains (1/2)

Supply-chain pressure index1
Standard deviations from average value



July, with the GfK index rising six points to –17, its highest level since January, though still in negative territory.

Given these mixed signals, most central banks are continuing with their wait-and-see approach. In July, Russia's central bank was the only major central bank to cut rates, while others continue to hold as they assess the situation.

June's activity indicators find both the global manufacturing and services sectors still in expansion territory with manufacturing growth holding. However, signs of moderation are emerging as the earlier boost is fading. Russia and Brazil both expanded while the US remains resilient, with the industrial production index edging up to 102.6. Notably, S&P's manufacturing purchasing managers' index (PMI) for the US was revised up slightly to 53.9 in July (matching June), signaling another month of solid expansion. In the eurozone, business activity signals are mixed but improving at the margin. The S&P Global Eurozone Composite PMI was revised up to 50.0 in June, signaling stable private sector output, with manufacturing in expansion at 51.4 for a fifth consecutive month. However, industrial production declined 0.2% month on month in May, reversing April's modest gain.

Services activity expanding much faster in emerging markets than developed economies, primarily due to strong growth in China and India. In the eurozone, the services PMI edged up to 49.4—just below expansion.

Looking at employment, we see that US non-farm payroll employment rose by 57,000 in June. Employment continued to trend up in professional and business services, social assistance, and healthcare. Leisure and hospitality lost jobs. Unemployment dropped slightly to 4.2%.

July saw some stabilization across financial markets; Russia remains the notable exception with domestic equities deteriorating further. In the United States, the S&P 500 was down 0.1% in July, bringing the one-year return to approximately 19.6%; the Dow Jones climbed 0.3% over the month and posted approximately an 18.9% one-year return. July's CBOE Volatility Index edged down to 16.0 (after rising to 16.3 in June). Volatility in oil contracts spiked in early August, although the increase was more contained than at the onset of the Middle East conflict. The cost of capital increased across most countries, reflecting growing concerns over inflation and the growth outlook.

Commodity trends have seen gold and livestock heading lower, while energy prices remain elevated despite easing from last month's levels. The downward trend in gold prices extended into August, dropping to around $4,100 per ounce. It's a more divergent picture for base metals, with copper rallying while aluminum gave back its war premium. Overall, food prices remained broadly stable despite a recent surge in vegetable oil prices, as declines across other food commodities offset this increase.

Turning to trade, we see that global export momentum remained uneven in early 2026, with strong growth in China, Mexico, and the United States. Import trends tell a different story, with a divergence in early 2026: imports to China, India, and Mexico grew, while US imports normalized from 2025 highs. US exports in June reached $314.7 billion, down $2.9 billion from May's figure, with imports at $388.0 billion, $7.3 billion less than in May. The monthly deficit fell 5.6% to $73.3 billion. By contrast, the eurozone experienced a sharp deterioration in its goods trade balance, recording a €7.8 billion deficit in May 2026—a dramatic worsening from the €1.0 billion deficit in April, driven by a 10% year-on-year surge in energy imports with export volumes broadly flat versus May 2025. The cumulative goods trade surplus in January–May 2026 stands at just €3.3 billion, compared with €78.7 billion in the same period of 2025, a drop that underscores the

1 1.The Global Supply Chain Pressure Index (GSCPI) measures the degree of stress in global supply chains by combining indicators such as shipping costs, delivery times, backlogs, and manufacturing activity. The index is expressed in standard deviations from the historical average, meaning a value of 0 indicates average conditions, positive values reflect higher-than-normal pressure (e.g., more congestion, delays, or cost spikes), and negative values indicate below-average pressure or easing. For example, a reading of +1.5 suggests that global supply chain stress is 1.5 standard deviations above its long-run norm.

Source: Federal Reserve Bank of New York

Global supply-chain pressures remained elevated in June, with Middle East disruptions adding to existing strains (2/2)

structural damage from elevated energy import bills.

Among emerging economies, China's trade surplus remains above $100 billion a month, whereas India posted a current account deficit of $2 billion in May 2026, versus a $0.7 billion surplus a year earlier, as surging imports outpaced exports. In Brazil, June's trade balance recorded a surplus of $9.7 billion, up from $7.6 billion in May. However, the US has imposed 25% tariffs on Brazilian products, including furniture, ethanol, machinery, footwear, sugar, and other goods, starting July 22. Beef, coffee, aircraft, and other goods are exempt. Mexico's trade surplus halved to $2.3 billion in May from $4.5 billion in April, driven by a sharp pullback in overall export activity. This rapid compression of the trade balance was anchored by acute weakness across the country's industrial core, as non-automotive manufacturing exports dropped $1.9 billion and automotive shipments declined by $789 million in a single month. Effective July 24, the United States implemented a targeted 10% tariff on approximately 20% of Mexican exports, applying specifically to goods that fall outside the 2020 United States-Mexico-Canada Agreement (USMCA) duty-free provisions, while explicitly exempting commodities already subject to Section 232 tariffs (including steel, aluminum, and automotive products).

Beyond these immediate geopolitical and macroeconomic pressures, attention is increasingly turning to a more structural force reshaping the global economy: AI. This disruption is manifesting itself in multifarious ways, not least on the markets where it is a major driver of stock valuations, trade flows, and investment decisions, but also in the wider economic sphere where it is simultaneously remodeling the world of work while also introducing a significant source of concern for workers worried about their jobs. AI disruption has become something of a double-edged sword, boosting stock prices for infrastructure providers and chip manufacturers while depressing the wider tech and knowledge sectors (now the "old-school economy") with the threat of replacement by new insurgents.

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So, how healthy is the global economy? Every year, McKinsey Global Institute takes stock of the world's assets, liabilities, and wealth to create a global balance sheet—providing a lens into the world's economic health. Published on July 23, the latest report estimates that the balance sheet reached nearly $1.8 quadrillion ($1,800 trillion) in 2025, up from $1.7 quadrillion a year earlier.

However, The global balance sheet 2026: Imbalance and divergence also found that several asset classes have grown further out of balance with the underlying economy, notably in China and the United States (the world's two biggest economies). Notably, this raises the possibility of corrections through inflation, asset valuation losses, or, optimally, productivity growth. The balance sheet's mounting detachment from the global economy is underlined by US equity values having soared to 2.4 times corporate net assets as profits have doubled their share of GDP since 2000. At the same time, China's corporate debt grew to 80% of real assets, versus 50% globally. Government debt remains near all-time highs in the United States, while it has grown most rapidly in China.

Meanwhile, global household wealth growth has risen to a new high of $570 trillion, driven by "paper" gains—only 20% came from real capital formation. In the United States and Canada, equity values drove wealth growth, while China, France, and Germany saw a drop in paper wealth as real estate prices declined; inflation pushed up asset values In the United Kingdom and Japan.

Major economies have been on different pathways since entering 2026. Although the United States has seen a productivity acceleration, high public debt, and equities introduce the possibility of sustained inflation or a balance sheet reset. Europe has drifted toward secular stagnation as sluggish demand depresses growth and interest rates, while China has experienced a partial balance sheet reset amid declining property values—although government spending and corporate investment have continued to propel balance sheet growth.

[Advanced economies]: US real GDP increased at a 1.5% annualized rate in Q2; eurozone goods trade deficit deepened to €7.8 billion in May; UK monthly GDP rose 0.1% in May.

United States

Real US GDP increased at a 1.5% annualized rate in Q2 2026, slowing from 2.1% in Q1; inflation was up at 3.5% in June.

Exports in June reached $314.7 billion, down $2.9 billion from May's figure, with imports at $388.0 billion, $7.3 billion less than in May. The monthly deficit fell 5.6% to $73.3 billion.

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The industrial production index edged up to 102.6 in June. S&P's manufacturing purchasing managers' index (PMI) was revised up slightly to 53.9 in July (matching June), signaling another month of solid expansion.

June's retail and food services sales (adjusted for seasonal variation and holiday and trading-day differences) reached $768.6 billion, up 0.2% from May's revised $766.9 billion. The Consumer Confidence Index (Conference Board) edged up to 91.2 in June from a downwardly revised 90.6 in May.

On the housing market, the 30-year fixed-rate mortgage increased slightly to 6.7% in July. Existing home sales decreased by 2.4% in June, while housing residential starts rose to 1,427,000 (above May's estimate of 1,199,000)—a 19.0% increase. Completions in June were up 3.3%, at 1,392,000, compared with the May estimate of 1,347,000.

Non-farm payroll employment rose by 57,000 in June. Employment continued to trend up in professional and business services, social assistance, and healthcare. Leisure and hospitality lost jobs. Unemployment decreased slightly to 4.2%.

In July, the S&P 500 was down 0.1%, bringing the one-year return to approximately 19.6%; the Dow Jones climbed 0.3% over the month and posted approximately a 18.9% one-year return. July's CBOE Volatility Index edged down to 16.0 (after rising to 16.3 in June).

The Federal Open Market Committee (FOMC) held interest rates steady at 3.50%–3.75% in July, delaying any potential rate cut as inflation remained above its 2% target. According to the FOMC, solid economic activity and stable employment continued despite price pressures from energy and other supply shocks.

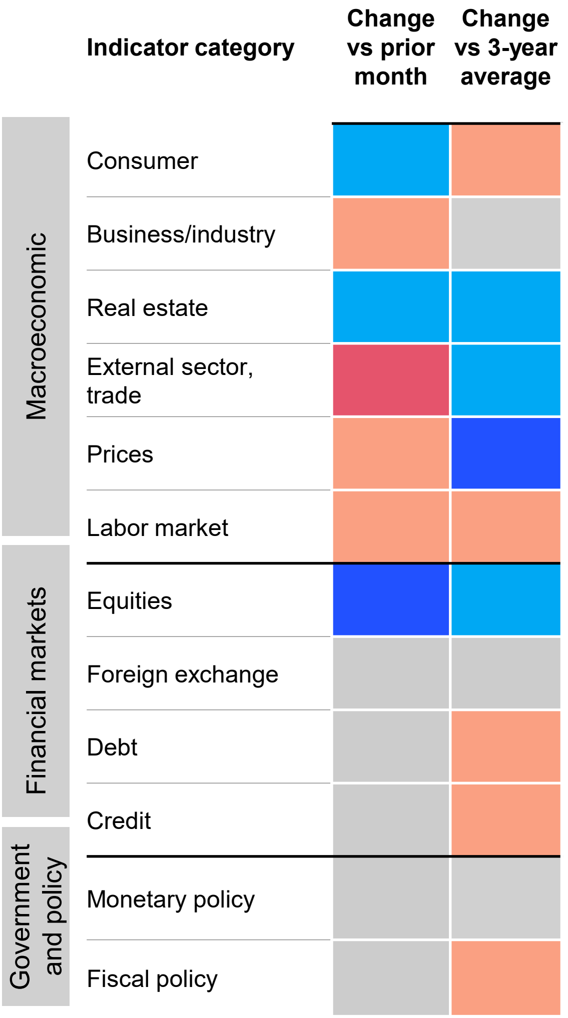
Real GDP increased at a 1.5% annualized rate in Q2 2026, slowing from 2.1% in Q1. This reflected a downturn in government spending and decelerations in investment and exports that were partly offset by an acceleration in consumer spending. Imports rose more in the second quarter than in the first.

The United States and Japan carried out a coordinated foreign-exchange intervention to support the yen after it fell to a 40-year low against the dollar. The U.S. Treasury said it bought yen alongside Japan to limit currency volatility, underscoring concerns that a weaker yen could raise import costs in Japan and spill over into broader Asian currency markets.

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

Real US GDP grew at an annualized rate of 1.5% in Q2 2026, slowing from 2.1% in Q1; inflation increased 3.5% in June

🟦 Significant improvement 🔵 Improving ⬜ No significant change 🟧 Worsening 🟥 Severe decline



	Indicator category	Change vs prior month	Change vs 3-year average
Macroeconomic	Consumer	🔵	🟧
	Business/industry	🟧	⬜
	Real estate	🔵	🔵
	External sector, trade	🟥	🔵
	Prices	🟧	🟦
	Labor market	🟧	🟧
Financial markets	Equities	🟦	🔵
	Foreign exchange	⬜	⬜
	Debt	⬜	🟧
	Credit	⬜	🟧
Government and policy	Monetary policy	⬜	⬜
	Fiscal policy	⬜	🟧

Monthly deficit climbed by 42.2% in May; inflation increased 3.5% in June; non-farm employment rose by 57,000 in June

- The industrial production index remained steady at 102.6 in June. The manufacturing PMI was revised slightly higher to 53.9 in July, matching June's reading and signaling another month of solid expansion in factory activity.
- June's retail and food services sales (adjusted for seasonal variation and holiday and trading-day differences) reached $768.6 billion, up 0.2% from May's revised $766.9 billion. The Consumer Confidence Index (Conference Board) edged up to 91.2 in June from a downwardly revised 90.6 in May.
- June exports reached $314.7 billion, down $2.9 billion from May. June imports hit $388.0 billion, $7.3 billion less than in May. The monthly deficit fell 5.6% to $73.3 billion.
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- Non-farm payroll employment rose by 57,000 in June. Employment continued to trend up in professional and business services, social assistance, and healthcare. Leisure and hospitality lost jobs. Unemployment decreased slightly to 4.2%.
- CPI increased 3.5% year over year in June, after rising 4.2% in May. Core inflation rose 2.6% (annualized). In June, median inflation expectations at the one-year ahead horizon increased to 3.7% in June and to 3.3% at the three-year-ahead horizon, the highest level since June 2022.

FOMC held rates steady at July meeting; S&P posts negative monthly return

- In July, the S&P 500 was down 0.1%, bringing the one-year return to approximately 19.6%; the Dow Jones climbed 0.3% over the month and posted approximately a 18.9% one-year return. July's CBOE Volatility Index decreased to 16.0 (after rising to 16.3 in June).
- The Federal Reserve held interest rates steady at 3.50–3.75% in July, delaying any potential rate cut as inflation remained above its 2% target. According to the FOMC, solid economic activity and stable employment continued despite price pressures from energy and other supply shocks.

GDP growth in Q2 eases to 1.5% after a deceleration in government spending and investment; US and Japan carry out yen intervention

- Real US GDP increased at a 1.5% annualized rate in Q2 2026, slowing from 2.1% in Q1. The deceleration in real GDP reflected a downturn in government spending and decelerations in investment and exports that were partly offset by an acceleration in consumer spending. Imports rose more in the second quarter than in the first.
- The United States and Japan carried out a rare coordinated foreign-exchange intervention to support the yen after it fell to a 40-year low against the dollar. The U.S. Treasury said it bought yen alongside Japan to limit currency volatility, underscoring concerns that a weaker yen could raise import costs in Japan and spill over into broader Asian currency markets.

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

Eurozone

HICP inflation fell to 2.8% in June; goods trade deficit deepened to €7.8 billion in May; ECB holds rates on July 23 ahead of Q2 GDP data.

Harmonised Index of Consumer Prices (HICP) inflation fell to 2.8% year on year in June 2026, down from 3.2% in May, the first meaningful deceleration since the Middle East energy shock took hold earlier in the year. The easing reflects a moderation in energy prices, which had been rising at double-digit annual rates in previous months. Core inflation held at approximately 2.2% in May, suggesting second-round effects remain contained for now—while encouraging, prices have stayed above the ECB's 2% target and a resurgence of Strait of Hormuz tensions in mid-July represents a renewed upside risk.

The improvement in inflation is being offset by a sharp deterioration in the goods trade balance. The eurozone recorded a deficit of €7.8 billion in May 2026, a dramatic worsening from the €1.0 billion deficit in April, driven by a 10% year-on-year surge in energy imports with export volumes broadly flat versus May 2025. The cumulative goods trade surplus in January–May 2026 stands at just €3.3 billion, compared with €78.7 billion in the same period of 2025, a drop that underscores the structural damage from elevated energy import bills.

Business activity signals are mixed but improving at the margin. The S&P Global Eurozone Composite PMI was revised up to 50.0 in June, signaling stable private sector output, with manufacturing in expansion at 51.4 for a fifth consecutive month and services edging up to 49.4. Industrial production declined 0.2% month on month in May, reversing April's modest gain.

Consumer-facing data show a tentative improvement. Retail sales volumes rose 0.2% month on month in May, recovering from a 0.4% decline in April, while consumer confidence improved to –15.9 in July, marking three consecutive monthly gains from April's multiyear low of –20.6. The unemployment rate fell to 6.2% in May 2026, a multiyear low, supporting household income resilience. Nonetheless, confidence remains in negative territory, well below the long-term average, and the pass-through of falling energy prices into real disposable income will be gradual.

At its July 23 meeting, the European Central Bank (ECB) Governing Council held all three key rates unchanged, with the deposit facility at 2.25%—its first pause after eight consecutive cuts and one hike. The council cited persistent energy price uncertainty, noting the outlook remains well above pre-conflict levels, and reiterated a data-dependent, meeting-by-meeting approach without pre-committing to a rate path. The September meeting, when new Eurosystem staff projections will be available, is now the key decision point for any further tightening; Q2 GDP and July inflation will be central inputs to that assessment.

Three upcoming releases will shape the September policy decision: Q2 GDP, July inflation, and the August composite PMI. The interplay between easing inflation and the deepening trade deficit remains the central tension for the eurozone through the remainder of 2026.

Source: ECB; European Commission; Oxford Economics

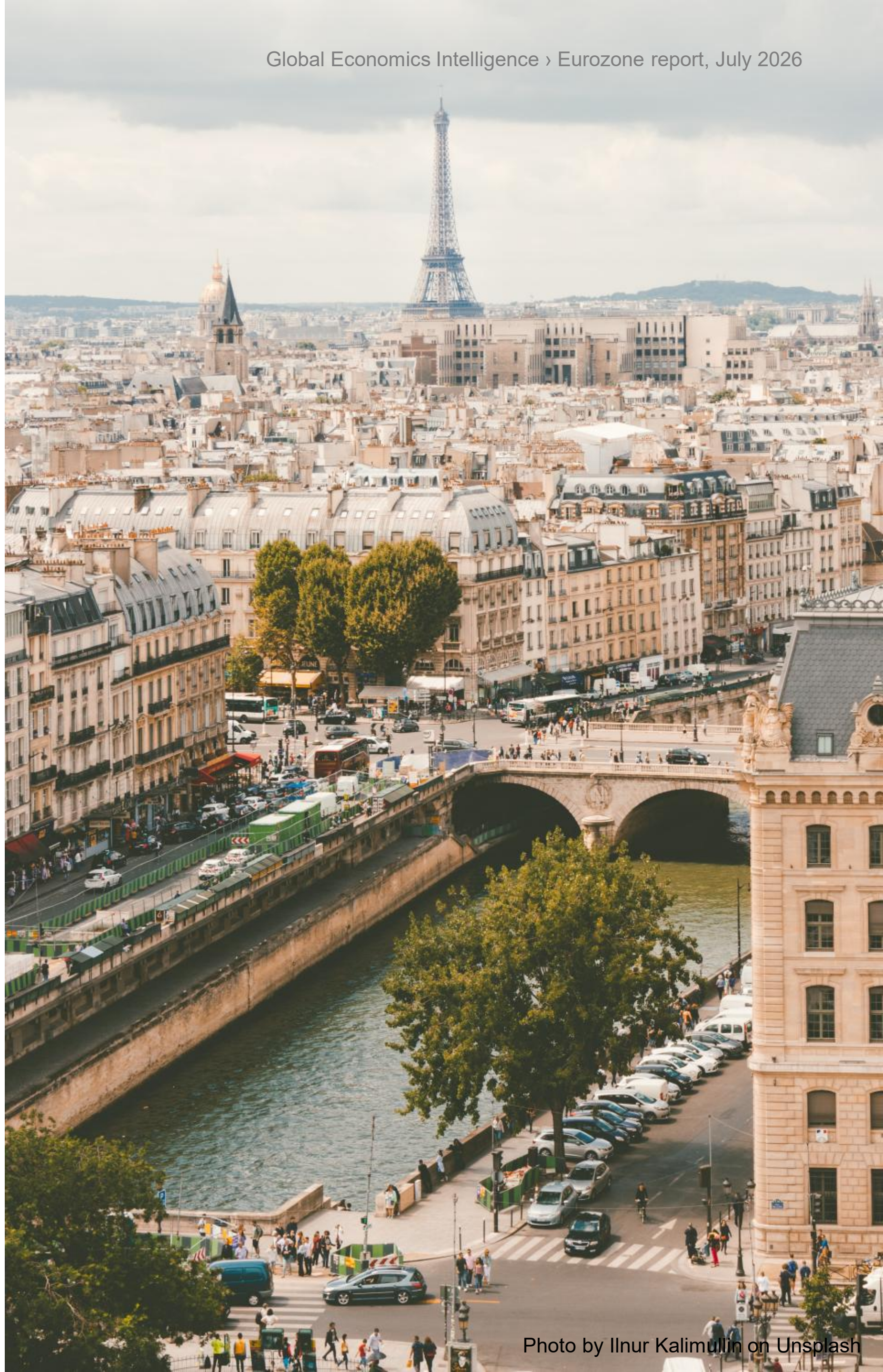


Photo by Ilnur Kalimullin on Unsplash

Inflation eases to 2.8% in June as energy prices soften; trade deficit deepens to €7.8 billion in May

🟦 Significant improvement 🔷 Improving ⬜ No significant change 🟧 Worsening 🟥 Severe decline

	Indicator category	Change vs prior month	Change vs 3-year average
Macroeconomic	Consumer	🔷	🟧
	Business/industry	⬜	🟧
	Real estate	⬜	⬜
	External sector, trade	🟥	🟥
	Prices	🔷	🟧
	Labor market	🔷	🔷
Financial markets	Equity	⬜	🔷
	Foreign exchange	⬜	⬜
	Debt	🟧	🟧
	Credit	⬜	🔷
Government & policy	Monetary policy	⬜	🟧
	Fiscal policy	⬜	⬜

Inflation retreats to 2.8% as energy prices ease; trade deficit deepens as import costs remain elevated

- Eurozone retail sales volumes increased by 0.2% month on month in May 2026, recovering from a 0.4% decline in April. Consumer confidence improved further to –15.9 in July 2026 (flash estimate), marking three consecutive monthly gains from the multiyear low of –20.6 in April, though sentiment remains well below its long-term average.
- Industrial production fell 0.2% month on month in May, reversing April's modest 0.1% gain. The S&P Global Eurozone Composite PMI was revised up to 50.0 in June, from a flash reading of 49.5, signaling stability in private sector output; manufacturing held in expansion at 51.4, while services edged up to 49.4—its best reading since March 2026 (but still in negative territory).
- The eurozone goods trade deficit deepened sharply to €7.8 billion in May 2026, from €1.0 billion in April, driven by a 10.0% year-on-year surge in imports—primarily energy—while exports were broadly flat versus May 2025. The cumulative eurozone goods trade surplus in January–May 2026 stands at just €3.3 billion compared with €78.7 billion in the same period of 2025.
- Headline HICP inflation eased to 2.8% year on year in June, down from 3.2% in May, as energy prices began to moderate after months of double-digit annual gains. Core inflation (excluding energy and food) stood at approximately 2.2% in May. The June reading provides the first evidence of disinflation, though prices remain above the ECB's 2% target and renewed Strait of Hormuz disruptions in mid-July represent an upside risk.
- The unemployment rate in the euro area fell to 6.2% in May 2026, stable compared with April and down from 6.3% in May 2025, marking a multiyear low. The ECB wage tracker (including one-off payments) averaged 2.9% year on year in Q1 2026, easing from 3.1% in Q4 2025, as the boost from large one-off payments made in 2024 continues to fade. The ECB projects negotiated wage pressures to stabilize at around 2.6% by the end of 2026.

STOXX 600 retreats from July highs as Hormuz re-escalation and AI stock trades weigh on sentiment

- Europe's STOXX 600 reached a 52-week high of 654.44 on July 6, 2026, before retreating to approximately 641 by July 21 as Strait of Hormuz tensions reignited and a rotation away from AI-linked equities weighed on broader sentiment.
- The euro held broadly stable at approximately $1.14 = €1 as of July 21, 2026, little changed from end-of-June levels.
- Average eurozone 10-year sovereign bond yields rose to approximately 3.54% in mid-July 2026, up from 3.25% in June, reflecting the June ECB rate hike and persistent inflationary risks.
- The annual growth rate of adjusted loans to households stood at 3.1% in May 2026, unchanged from April, while the annual growth rate of adjusted loans to non-financial corporations accelerated to 4.0% in May from 3.4% in April.

ECB signals pause at July 23 meeting; September hike likely as inflation shows first signs of easing

- At its July 23 meeting, the ECB held all three key rates unchanged (deposit facility at 2.25%): its first pause after eight consecutive cuts and one hike. The council cited persistent energy price uncertainty, with the energy price outlook remaining well above pre-conflict levels despite standing close to the June baseline, and reiterated a data-dependent, meeting-by-meeting approach without pre-committing to a rate path. The September meeting, when new Eurosystem staff projections will be available, is now the key decision point for any further tightening.

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

United Kingdom

New prime minister inherits economy with modest growth and easing inflation, alongside elevated risks and limited fiscal space.

The UK economy is showing tentative signs of stabilizing. Monthly GDP rose 0.1% in May, with services growth of 0.3% offsetting declines in production (–0.5%) and construction (–0.8%). Output grew 0.7% in the three months to May and was up 1.1% on the same period a year ago. Forward-looking business surveys point to a moderate improvement in activity: the flash composite Purchasing Managers' Index (PMI) rose to 52.1 in July from 49.3 in June, returning to expansion for the first time since April, with manufacturing outperforming services.

Household spending showed signs of resilience. Retail sales volumes rose 1.0% in June, above expectations, and were up 4.2% from a year earlier, while volumes increased 0.6% over the second quarter. Consumer confidence also improved in the first half of July, with the GfK index rising six points to –17, its highest level since January, though still in negative territory. Labor market slack kept building: unemployment held at 4.9% in the three months to May, but payrolled employment was 71,000 lower than a year earlier in June, and vacancies remained below pre-pandemic levels at 712,000. Regular pay grew 3.4% year on year, but just 0.3% after inflation (including housing costs).

Elevated borrowing costs continued to weigh on households: the quoted 10-year fixed mortgage rate (75% loan-to-value) eased to 5.18% but was still well above its level a year earlier.

Inflation delivered a downside surprise. The headline Consumer Price Index (CPI) moderated to 2.6% in June from 2.8%, while services inflation eased to 3.6%; core CPI, however, was sticky at 2.6%. Near-term pressures are building: July's roughly 13% Ofgem price-cap increase has lifted household energy bills, while the ongoing US–Iran conflict continues to drive energy-market volatility.

The Bank of England (BoE) held the Bank Rate at 3.75% by a 6–3 vote, with three members favoring 4%—a hawkish shift from June's 7–2 split. Despite continued underlying disinflation and a loose labor market, the Monetary Policy Committee judged inflation risks tilted to the upside as the Middle East conflict kept energy prices elevated and volatile. BoE now expects inflation to peak at around 3.2% later this year—slightly below its earlier 3.5% projection—and upgraded its 2026 growth forecast to 1.1%. Markets have pushed back expectations for rate cuts, and some lenders have already repriced fixed mortgage deals higher.

Fiscal conditions stayed tight. June borrowing of £16 billion was down a third on the year and just below the Office for Budget Responsibility (OBR) forecast. But year-to-date borrowing of £57.6 billion was £2.7 billion above forecast, and net debt is nearing £3 trillion, around 95% of GDP. OBR warns that public finances are on an unsustainable long-term path without corrective action, reflecting demographic, health, and defense pressures.

Former mayor of Manchester, Andy Burnham became prime minister on 20 July—the seventh in a decade—after Sir Keir Starmer resigned as Labour leader. His early moves included cutting VAT on domestic electricity bills, signaling support for additional drilling at already licensed North Sea fields, and pledging to reform adult social care, while not ruling out future tax rises. He also highlighted rising youth economic inactivity, with 1.0 million 16–24-year-olds (13.5%) outside work or education in Q1 2026. He pledged to maintain Labour's fiscal rules, with the Autumn Budget expected to test how the government balances investment ambitions with fiscal discipline. The 10-year gilt yield rose above 5% following the borrowing data and the new government's spending signals.

Source: Bank of England; BBC; GOV.UK; Haver Analytics; OECD; Office for Budget Responsibility; Office for National Statistics; S&P Global; McKinsey's Global Economics Intelligence analysis

Tentative signs of stabilization emerge, but inflation risks and limited fiscal space constrain the outlook

■ Significant improvement 🟦 Improving ⬜ No significant change 🟧 Worsening 🟥 Severe decline

	Indicator category	Change vs prior month	Change vs 3-year average
Macroeconomic	Consumer	🟦	🟦
	Business/industry	🟦	⬜
	Real estate	⬜	🟦
	External sector, trade	⬜	🟧
	Prices	🟦	🟦
	Labor market	⬜	🟧
Financial markets	Equities	⬜	🟦
	Foreign exchange	⬜	🟦
	Debt	🟧	🟧
	Credit	⬜	🟧
Government and policy	Monetary policy	⬜	⬜
	Fiscal policy	🟦	⬜

Economic activity showed tentative signs of stabilization, although labor market cooling and renewed inflation pressures persisted

- GDP rose 0.1% in May, as 0.3% growth in services offset declines in production (–0.5%) and construction (–0.8%).
- Consumer demand proved more resilient than expected: retail sales volumes increased 1.0% in June and were up 4.2% year on year, while the GfK consumer confidence index improved to –17, its highest level since January.
- Forward-looking business surveys pointed to a moderate improvement in activity: the flash composite PMI rose to 52.1 in July from 49.3 in June, returning to expansion for the first time since April, with manufacturing outperforming services.
- Housing activity remained subdued, with house prices broadly stable as the Lloyds index rose 0.2% in June. Elevated borrowing costs continued to weigh on demand.
- The goods deficit narrowed to £19.5 billion in May as exports rose faster than imports, though the overall trade deficit widened over the three months to May; the broader external position remains weak.
- Headline CPI moderated to 2.6% in June from 2.8% in May, while services inflation eased to 3.6%. Core CPI, however, was sticky at 2.6%.
- Labor market slack continued to build. Unemployment held at 4.9% in the three months to May, but in June payrolled employment was 71,000 lower than a year earlier, and vacancies remained below pre-pandemic levels at 712,000. Regular pay grew 3.4% year on year, but just 0.3% after inflation.

Financial markets remained resilient, although borrowing costs stayed elevated

- The FTSE 100 traded near record highs, extending gains for a fourth consecutive month.
- Sterling was broadly unchanged over the month.
- 10-year gilt yield rose above 5% following the borrowing data and the new government's spending signals, remaining around that level into the month-end.
- The quoted 10-year fixed mortgage rate (75% loan-to-value) eased to 5.18% but stayed well above its year-ago level.

Policy remains constrained by above-target inflation and limited fiscal headroom

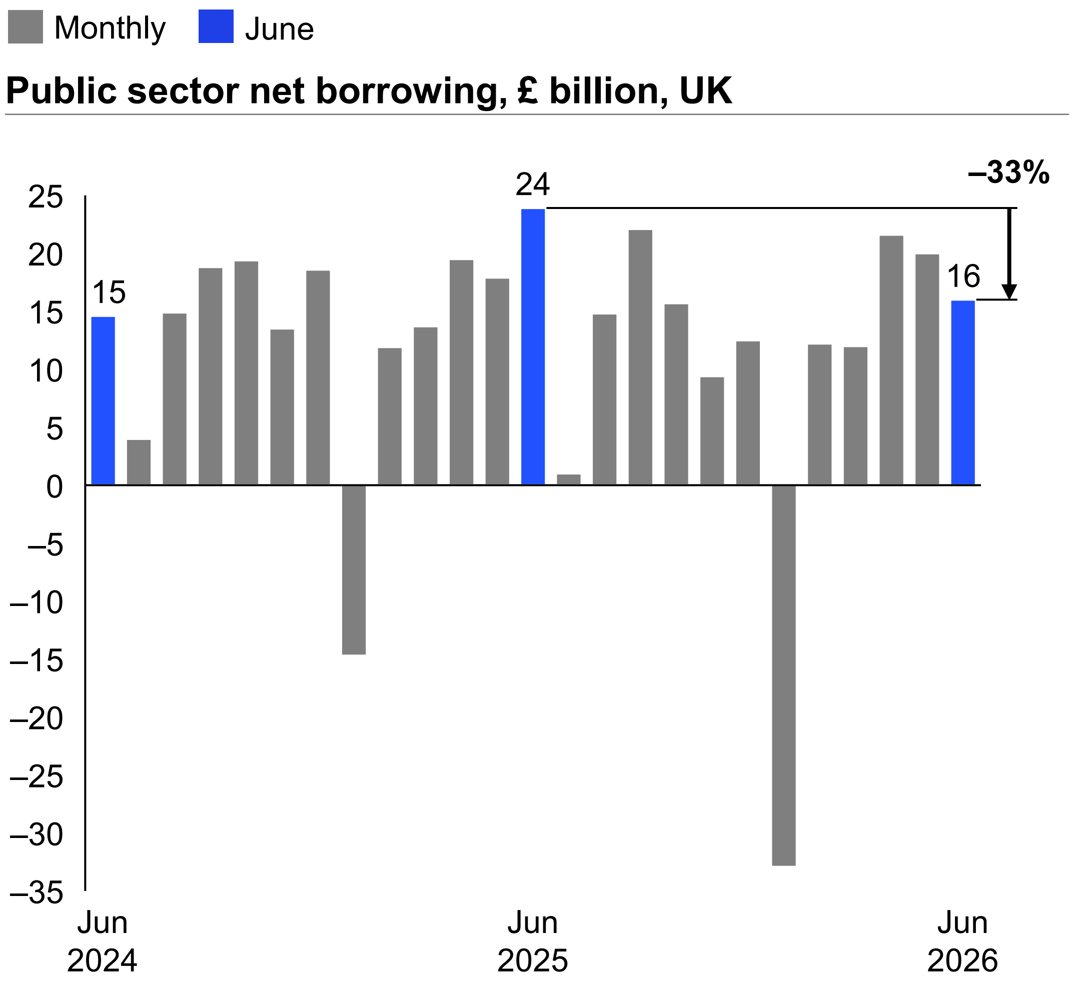
- The Bank of England held Bank Rate at 3.75% by a 6–3 vote, with three members favoring a rise to 4%. The Bank now expects inflation to peak at around 3.2% later this year as higher energy prices feed through.
- Public sector net borrowing fell by a third year on year to £16.0 billion in June, slightly below the OBR forecast, but remained £2.7 billion above expectations for the fiscal year to date. Net debt approached £3 trillion (around 95% of GDP), with the OBR warning that public finances are on an unsustainable long-term path.

Source: Bank of England; BBC; Haver Analytics; OECD; Office for Budget Responsibility; Office for National Statistics; S&P Global; McKinsey's Global Economics Intelligence analysis

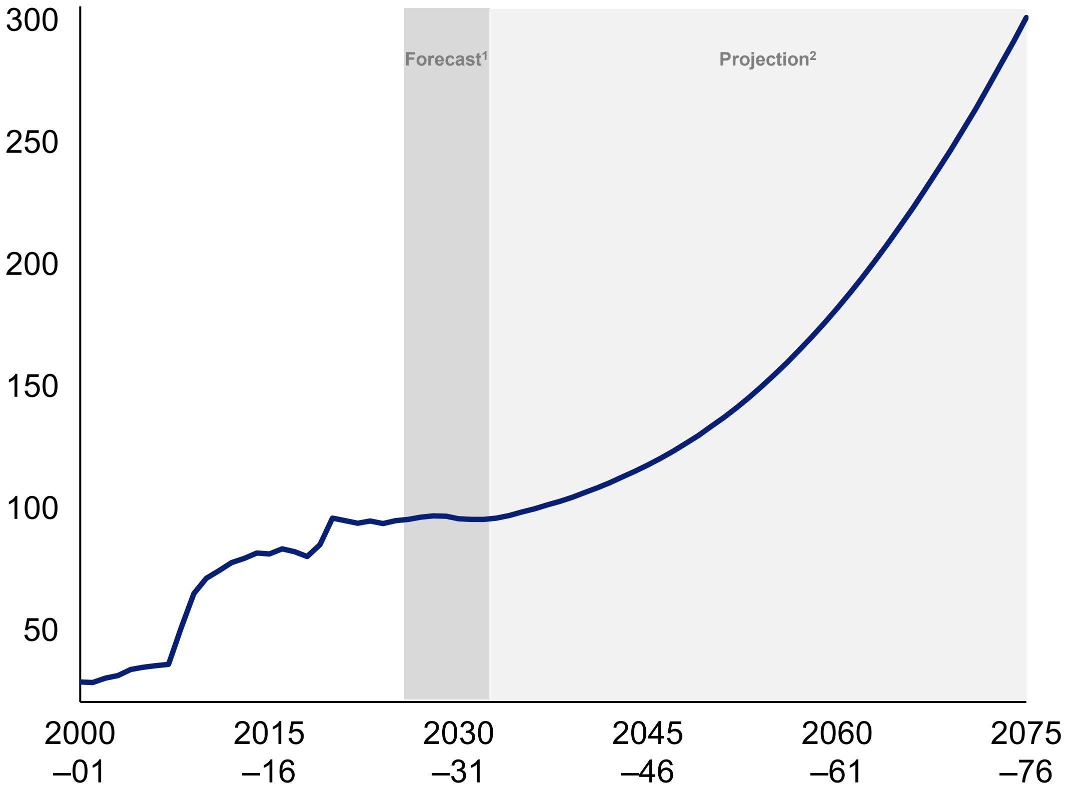
June borrowing eased, but public finances still under pressure

Cumulative borrowing remained near record high and £2.7 billion above OBR forecast

Public sector net borrowing, £ billion, UK



Public sector net debt, in % of GDP



1. Economic and Fiscal Outlook forecast: the OBR's detailed medium-term central forecast, running to 2030–31 and incorporating current government plans.
2. The long-term projection from 2031–32 to 2075–76, based on demographic, economic, and unchanged-policy assumptions.

Source: Office for National Statistics; OBR Fiscal Risks and Sustainability 2026; McKinsey's Global Economics Intelligence analysis

[Emerging economies]: China’s growth slowed to 4.3% in Q2; Russia cut policy rate to 14% in July; Mexico’s peso softens and trade surplus narrows.

China

China's growth slowed to 4.3% in Q2 as weak investment, property stress, and consumer caution increasingly weighed on domestic activity—this despite resilient exports and manufacturing. July indicators suggest the recovery remains uneven, with factory activity contracting again and inflation remaining subdued.

Real GDP growth dropped below the government's 5% ambition. That said, China's economy was supported by industrial activity and a still-powerful export engine. Beneath the headlines, however, momentum is softer. The manufacturing purchasing managers' index (PMI) slipped back below the 50 neutral line in July with industrial production having moderated from last year's pace. Meanwhile, the prolonged real estate market correction continues to weigh on investment, household wealth, and local-government finances.

The inflation picture reinforces this divide. Consumer inflation remains unusually subdued, with headline and core consumer price index (CPI) increases around 1%, pointing to limited pricing power and still-cautious domestic demand. Producer prices, by contrast, have recovered materially from last year's deflation, suggesting that conditions on the production side are normalizing faster than they are for households.

Households remain the missing piece of the recovery. Labor-market conditions have improved modestly, with urban unemployment declining in recent months, but this has yet to translate into a meaningful rebound in spending. Retail sales growth is still subdued and consumer confidence continues to sit below neutral levels. Persistent declines in home prices are likely reinforcing precautionary saving and limiting the wealth effect that policymakers would normally rely on to support consumption. The result is an economy in which employment conditions are gradually improving, but households remain reluctant to spend.

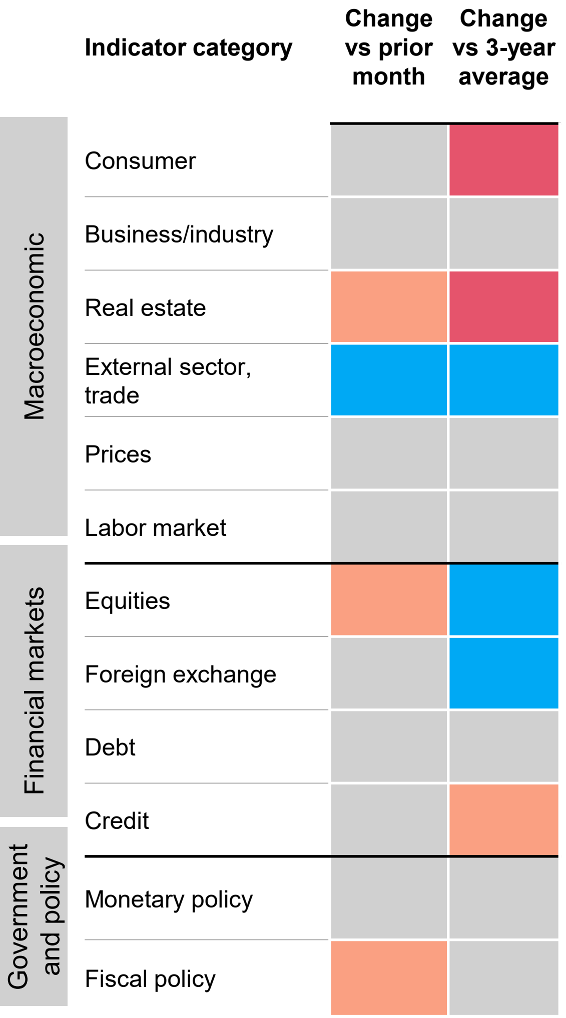
This leaves policy operating within an increasingly narrow corridor. The People's Bank of China has kept benchmark lending rates unchanged, balancing the need to support growth and the property sector against pressure on bank margins and the currency. Bond yields remain low, consistent with subdued domestic demand and inflation expectations, while equity markets have struggled to sustain momentum. Fiscal policy is carrying more of the burden, but here too the room for maneuver is narrowing—government debt has risen above 74% of GDP as weak land sale revenues and support for local governments add to balance-sheet pressures.

China's external strength is helping bridge the gap. The trade surplus remains above $100 billion a month, and exports continue to provide an important source of demand.

Source: CEIC; McKinsey's Global Economics Intelligence analysis

Macro data suggest further economic activity deceleration while financial markets remain steady

🟦 Significant improvement 🔷 Improving ⬜ No significant change 🟧 Worsening 🟥 Severe decline



	Indicator category	Change vs prior month	Change vs 3-year average
Macroeconomic	Consumer	⬜	🟥
	Business/industry	⬜	⬜
	Real estate	🟧	🟥
	External sector, trade	🔷	🔷
	Prices	⬜	⬜
	Labor market	⬜	⬜
Financial markets	Equities	🟧	🔷
	Foreign exchange	⬜	🔷
	Debt	⬜	⬜
	Credit	⬜	🟧
Government and policy	Monetary policy	⬜	⬜
	Fiscal policy	🟧	⬜

Real GDP growth slowed to 4.3%, below the government’s target, while high-frequency indicators point to further weakening in underlying economic momentum

- Retail sales growth rose **to** 1% year on year in June 2026 from –0.6% in May 2026 but stayed well below the 5.1% pace of a year earlier; meanwhile, consumer confidence slipped 0.3 points to 90.7, holding below the 100-neutral line.
- Industrial production growth rose to 5.3% in June 2026, even as the manufacturing PMI fell to 49.2 from 50.3, slipping into contraction territory.
- New home prices fell 2.7% year on year in June 2026, a similar decline to that recorded in May.
- The trade surplus widened to $107 billion in June 2026 from $105 billion, as exports reached $397 billion and imports $290 billion.
- Headline CPI drifted down to 1% in June 2026 from 1.2% in May, with core CPI (excluding food and energy) also at 1%; meanwhile, producer price inflation rose to 4.1% from 3.9%
- The urban unemployment rate edged down 0.1 percentage points to 5% in June 2026, its third consecutive monthly decline.

Financial markets remain broadly stable, with equities the notable exception; SSE Composite Index fell 6.4% in July 2026, as soft domestic sentiment and property-sector stress outweighed state-funded support

- The renminbi’s nominal trade-weighted exchange rate remained broadly stable throughout July.
- The 10-year government bond yield remained low and stable, consistent with soft growth and subdued inflation expectations.
- The 5-year loan prime rate—the reference for mortgage pricing—held at 3.5% in July 2026, pointing to steady financing conditions for households and firms.

Government debt continues to climb despite a narrowing budget deficit

- Government debt slightly rose to 74% of GDP from 73%, extending its climb to a 22nd consecutive quarter, even as the budget deficit narrowed to 2.5% of GDP in Q2 2026 from 3.9%.

Source: Bloomberg; NBS; McKinsey’s Global Economics Intelligence analysis

India

India remains one of the world's fastest-growing major economies, though ongoing Middle East conflict continues to be a key uncertainty; June saw the central bank lower its 2026–27 real GDP growth projection to 6.6% (100 basis points below the 7.6% of 2025–26) with the downgrade reflecting prolonged supply-chain disruptions, global financial-market volatility, and weather-related shocks.

The HSBC Flash India Manufacturing PMI dropped to 53.9 in July from 54.2 in June, signaling a below-trend improvement in factory conditions. The slowdown was centered on services, where expansion fell to a 53-month low of 53.1, pulling the composite PMI down to 54.3 from 57.1—the weakest private-sector activity since March 2022.

Under the revised 2022–23-base, nine-industry Index of Core Industries (ICI) series, core-sector output grew 5.0% year on year in June, up from a back-cast 3.2% in May. It was led by iron ore, cement, and electricity, up by 43.9%, 9.8%, and 9.8% respectively. Steel rose 4.6% and coal 1.4%, while natural gas fell by 7.4%, refinery products by 4.7%, crude oil by 4.2%, and fertilizers by 3.3%. Iron ore and electricity have been the major drivers of ICI growth in recent months.

Retail inflation rose to 4.38% in June, an 18-month high, up from 3.93% in May, on higher fuel and food costs amid Middle East conflict-driven supply disruptions and a delay in seasonal rains—with food inflation climbing to 5.32% from 4.78%. The steepest price gains in June were concentrated in a handful of items—silver jewelry (133.21%), ginger (50.41%), gold/diamond/platinum jewelry (36.82%), tomatoes (31.92%), and raisins (20.52%).

Retail inflation remained within the RBI's 2–6% band but surpassed its 4% midpoint target for the first time since January 2025; core inflation was estimated at 3.9%.

Consumer price index (CPI) inflation for 2026–27 is projected at 5.1%, with core inflation projected at 4.7%.

Equity markets fell with the Sensex down 2.68% to 76,059.77 on July 24 from 78,151.48 on July 17, as Brent crude reached around $100 a barrel, amid rising Middle East tensions, so denting investor sentiment.

The rupee closed at 96.56 on July 24, near its all-time low of 96.96 in late May. Forex reserves rose $1.080 billion to $676.2 billion in the week ended July 17; foreign-currency assets climbed $4.5 billion even as gold holdings fell $3.5 billion. The merchandise trade deficit widened to $30.4 billion in June, with imports rising to $70.8 billion (+31% year on year) and exports to $40.4 billion (+15.5% year on year), weighed down by Strait of Hormuz shipping disruptions linked to the Middle East conflict.

The India–UK CETA and the Agreement on Social Security entered into force on July 15, providing zero-duty market access for nearly 99% of India's exports and covering almost 100% of trade value. India and the Maldives concluded the first round of negotiations for a proposed free trade agreement (FTA), working toward a broad-based, balanced, and comprehensive agreement guided by fairness and reciprocity. India and Israel concluded a second round of FTA negotiations, making further progress toward a balanced, comprehensive, and mutually beneficial deal.

India posted a current account deficit of $2 billion in May 2026, versus a $0.7 billion surplus a year earlier, as surging imports outpaced exports. With the outlook expected to improve once the Middle East conflict eases, the Reserve Bank of India held the repo rate at 5.25% and favored a wait-and-see approach over an early policy pivot.

Sources: HSBC; IMF; MoSPI; PIB; RBI; SEBI; McKinsey's Global Intelligence analysis

Renewed Middle East tensions and a crude oil spike to $100 per barrel weigh on growth, inflation, and markets in India

🟦 Significant improvement 🔵 Improving ⬜ No significant change 🟧 Worsening 🟥 Severe decline

	Indicator category	Change vs prior month	Change vs 3-year trend
Macroeconomic	Consumer	⬜	🔵
	Business/industry	🔵	🔵
	Real estate	⬜	⬜
	External trade	🟧	🟧
	Inflation	🟧	⬜
	Employment	⬜	🔵
Financial markets	Foreign exchange	🟧	🟧
	Equity	🟧	🔵
	Debt	⬜	⬜
	Credit	⬜	🔵
Government and policy	Public policy	🔵	🔵
	Public-sector health	⬜	🔵

Growth momentum fades as manufacturing and services cool

- Manufacturing PMI eased to 53.9 in July from 54.2, while services fell to a 53-month low of 53.1, pulling the composite indicator to 54.3 from 57.1—the weakest private-sector activity since March 2022.
- Core-sector output accelerated to 5% year on year in June from 3.2% in May, led by iron ore (+43.9%), cement and electricity (+9.8% each), and steel (+4.6%), though natural gas, refinery products, crude oil, and fertilizers all contracted.
- The merchandise trade deficit widened to $30.4 billion in June, with imports up 31% year on year to $70.8 billion, outpacing exports of $40.4 billion (+15.5%), weighed by Strait of Hormuz shipping disruptions.
- Retail inflation rose to an 18-month high of 4.38% in June from 3.93%, breaching RBI’s 4.0% target for the first time since January 2025 as food firmed to 5.32%, while core inflation held at 3.9%.

Markets and the rupee slide as crude spikes and Middle East tensions flare

- Equity markets have been volatile in July, with the Sensex down 2.68% to 76,059.77 on July 24 from 78,151.48, as Brent spiked to $100/barrel and renewed Middle East tensions knocked sentiment.
- The rupee closed at 96.56 per dollar on July 24, near its all-time low of 96.96; meanwhile, forex reserves rose $1.080 billion to $676.2 billion in the week to July 17 (foreign-currency assets were up $4.5 billion, while gold was down $3.5 billion).
- India’s current account swung into a deficit of $2 billion in May 2026, from a $0.7 billion surplus a year earlier, as surging imports outpaced exports.

RBI holds rates steady, cuts growth, and raises inflation forecast

- RBI maintained the policy repo rate at 5.25% and retained its neutral stance in its June 5 review.
- The central bank lowered its FY27 GDP growth projection from 6.9% to 6.6% and raised its FY27 CPI forecast to 5.1% (core 4.7%), flagging supply-chain, financial-market, and weather-related risks.
- Trade ties advanced: the India–UK CETA entered into force on July 15 (zero-duty access for some 99% of India’s exports), while India concluded a first FTA round with the Maldives and a second with Israel.

Sources: HSBC; IMF; MoSPI; PIB; RBI; SEBI; McKinsey’s Global Intelligence analysis

Russia

Central bank faces increasingly difficult trade-off as price pressures build and activity slows.

Russia's economy is entering a more difficult phase. The war-driven expansion has effectively stalled, with real GDP contracting by 0.01% year on year in Q1 2026. While the decline itself is marginal, the broader trend is more significant: growth has slowed sharply from around 5% in 2024. Pockets of resilience remain—the manufacturing purchasing managers' index (PMI) rose to 50.7 in July—but industrial production was only 0.6% above year-ago levels in June. The picture is increasingly one of stagnation rather than broad-based contraction.

Meanwhile, the disinflation that gave the Central Bank of Russia (CBR) room to begin cutting rates is becoming less convincing. Headline inflation accelerated to 6.0% in June, while core inflation remained at 5.0%. Producer prices were 10.5% above year-ago levels and more recent indicators suggest that inflationary pressures may be broadening again. Manufacturers reported the fastest increase in input costs since January, while household inflation expectations jumped to 14.7% in July from 12.4% in June. Fuel shortages and transport disruptions have added another source of supply-side pressure just as domestic inflation had begun to normalize.

This leaves monetary policy caught between increasingly conflicting signals. CBR cut its policy rate by a further 25 basis points to 14% in July, even as it raised its inflation forecast to 6–7% and lowered its 2026 growth outlook to 0–1%. The move therefore looks less like a declaration that inflation has been defeated and more like an acknowledgment that maintaining exceptionally restrictive policy is becoming increasingly costly for an economy that has effectively stopped growing. Further easing may become harder to justify if the recent rise in inflation and inflation expectations proves persistent.

Households present a similarly mixed picture. The labor market remains historically tight, although there are signs that some of the extraordinary pressure created by wartime labor shortages is beginning to ease. At the same time, consumer sentiment has weakened and inflation expectations have risen sharply. Consumption has so far held up better than investment and production, but deteriorating confidence raises questions about how long that resilience can persist as high borrowing costs and renewed price pressures weigh on purchasing power.

Russia's external position remains an important counterweight. The merchandise trade surplus widened to $14.2 billion in May as exports strengthened, continuing to generate hard-currency inflows that have helped support the ruble. The fiscal picture, however, is moving in the opposite direction. The federal budget deficit reached 5.73 trillion rubles, or 2.5% of GDP, in the first half of 2026—already above the government's full-year plan. Elevated spending is therefore adding to demand pressures and making the central bank's task of bringing inflation down increasingly difficult.

Source: BOFIT; Oxford Economics

Central bank cut rates to support growth, but renewed inflation pressures are complicating policy outlook

■ Significant improvement 🟦 Improving ⬜ No significant change 🟧 Worsening 🟥 Severe decline

	Indicator category	Change vs prior month	Change vs 3-year average
Macroeconomic	Consumer	🟦	🟦
	Business/industry	⬜	🟦
	Real estate	⬜	⬜
	External sector, trade	🟦	🟥
	Prices	🟧	⬜
	Labor market	⬜	🟦
Financial markets	Equities	⬜	🟥
	Foreign exchange	⬜	⬜
	Debt	🟧	🟧
	Credit	🟦	🟦
Government and policy	Monetary policy	⬜	🟥
	Fiscal policy	⬜	🟥

Consumer demand remains strongest part of the growth story, but rising inflation becoming an increasing risk

- Consumer spending continues to be strong as retail sales grew by 7.3%—slower than a month ago, yet still achieving impressive growth despite consumer confidence remaining subdued.
- The manufacturing PMI fell to 50.4 in July 2026 but held above the 50-point expansion threshold. At the same time, industrial production rose to 2.4% in June 2026.
- House price growth rose to 14.4% in April 2026 from 13.7% in January 2026.
- The trade surplus widened to $15 billion in May 2026 from $10.7 billion, a third straight monthly increase, as exports rose to $43.8 billion and imports to $28.8 billion.
- Headline inflation accelerated to 6.0% in June 2026 from May’s 5.3%, with core CPI at 5.2%. Producer inflation rose to 10.6% in June 2026.
- The unemployment rate drifted up 0.2 percentage points to 2.3% in June 2026, matching its year-ago level.

Government financing costs rising due to accelerating inflation and slowing growth

- The MOEX Russia Index gained 0.7% in July 2026.
- The ruble depreciated to 77.9 per US dollar.
- Bank credit growth edged up to 10%, marking a fifth consecutive monthly gain.
- The 10-year government bond yield rose to 16.3% in July 2026 from 15.4%, as inflation is on the rise and growth slows.
- Bank credit growth rose to 10.6% in May 2026, from 10.3%.

CBR cuts interest rates by 25 basis points, while budget deficit narrows

- The central bank cut its key rate by 0.25 percentage points to 14% in July 2026 from 14.25%, extending an easing cycle from 18% a year earlier.
- The federal budget deficit narrowed to 525 billion rubles in May 2026 from 856 billion but stayed wider than the 388 billion shortfall a year ago.

Source: BOFIT; EIU Viewpoint; Haver Analytics; Oxford Economics

Brazil

Brazil's inflation and unemployment both tilted mildly down, while central bank makes 25 bp rate cut.

Inflation was down in May, touching 4.64% (4.72% in April), and above the central bank's upper target limit of 4.50%. On June 30, the Federal Government ended one of its policies designed to relieve pressure on fuel prices caused by Middle East tensions: a BRL 0.35 (approximately $0.068) per liter subsidy on diesel. Other incentives, such as the BRL 0.44 ($0.086) per liter subsidy for gasoline producers and importers, are still in place.

The three-month moving average unemployment rate edged down toward 5.6% in May, compared with April's 5.8%.

On the financial markets, the average monthly real–dollar exchange rate was BRL 5.12 per USD in June (versus BRL 4.98 in May). The Bovespa equities index trended down in June, sliding 1%; performance has recently been improving mildly, with the index up 0.9% as of July 16.

Consumer confidence stayed below the neutral 100 mark, with FGV's seasonally adjusted June reading moving down to 88.7. Meanwhile, business confidence improved to 92.7. Construction confidence was down at 91.7.

Brazil's manufacturing production increased: the Monthly Industrial Physical Production (PIM) Index increased from 101.9 in April to 107.2 in May (above the neutral 100 line). Factory production increased 5.6%, while extractive production increased 2.5%. On aggregate, however, May 2026's results were stable in comparison with those from the same period last year.

The Monthly Services Survey (PMS) revenue index increased to 130 in May from 128.1 in April (above the neutral 100 mark). This was mirrored in the volume index, which rose to 108.7 (from 107.2). The largest revenue increase was in audiovisual services (up 9.4% since May), followed by other non-specified services (up 8.1%). Meanwhile, audiovisual services' volumes were up 9.5%, while the other non-specified services segment increased 8.1%.

June's trade balance recorded a surplus of $9.7 billion, up from $7.6 billion in May. The bigger surplus was the result of a larger increase in exports ($36.2 billion in June, up from $31.7 billion in May) than the increase in imports ($26.5 billion in June, up from $24 billion in May).

In a unanimous decision on June 17, Banco Central do Brazil's Monetary Policy Committee (Copom) decided to cut the Selic rate by 25 basis points, to 14.25%. Copom noted for the first time the "need for smoothing economic activity levels and promoting full employment." However, various factors, including the conflict in the Middle East, are noted as reasons to be cautious for emerging economies such as Brazil.

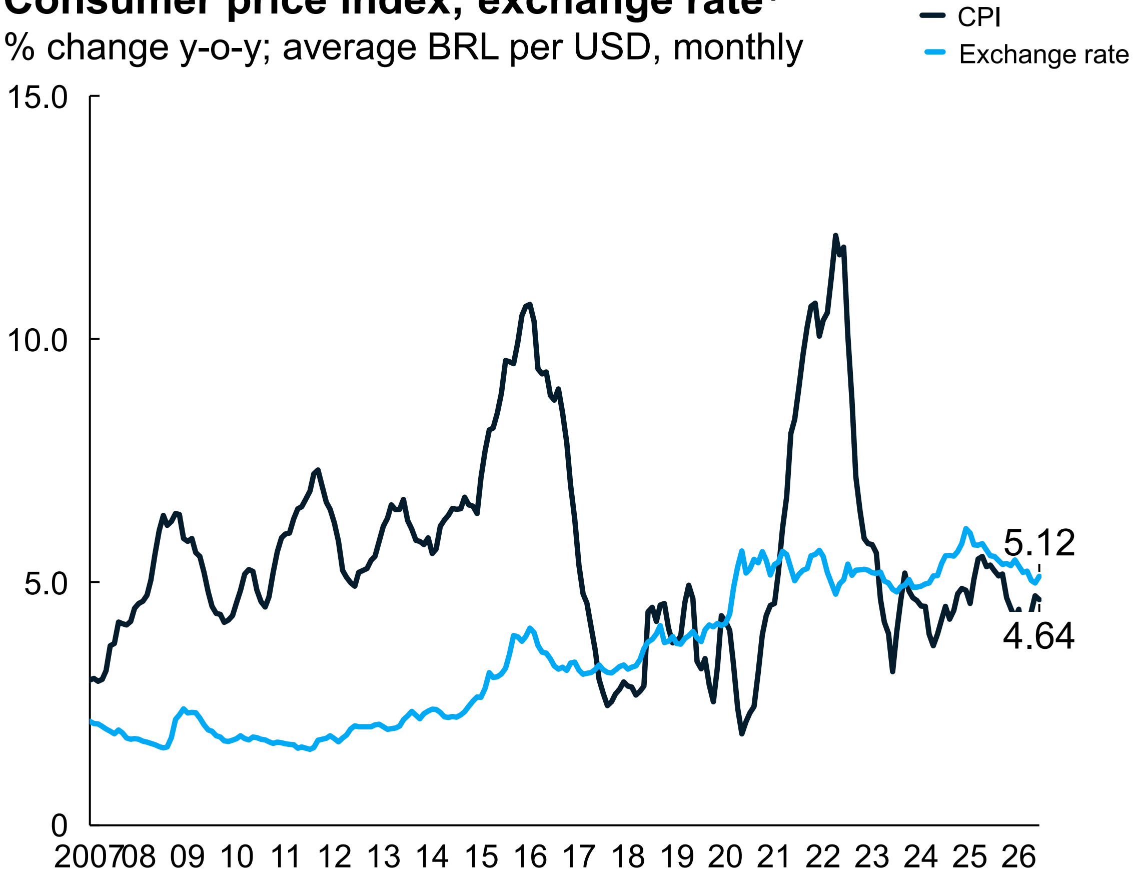
Starting on July 22, the US will impose 25% tariffs on Brazilian products, including furniture, ethanol, machinery, footwear, sugar, and other goods. The strategy is dependent upon Section 301 of the Trade Act of 1974, related to unfair trade practices. Beef, coffee, aircraft, and other goods are exempted from the tariffs. Brazil's president Lula da Silva described the tariffs as a "regrettable milestone" amid frictions in the relationship with Donald Trump, with Brazil's government set to retaliate against the US with its own tariffs.

Source: FRED; Fundação Getulio Vargas (FGV); Instituto Brasileiro de Geografia e Estatística (IBGE); Reuters

In June inflation fell to 4.64%, while the currency depreciated toward BRL 5.12 per USD; equities slid 1%, rebounding 0.9% by mid-July

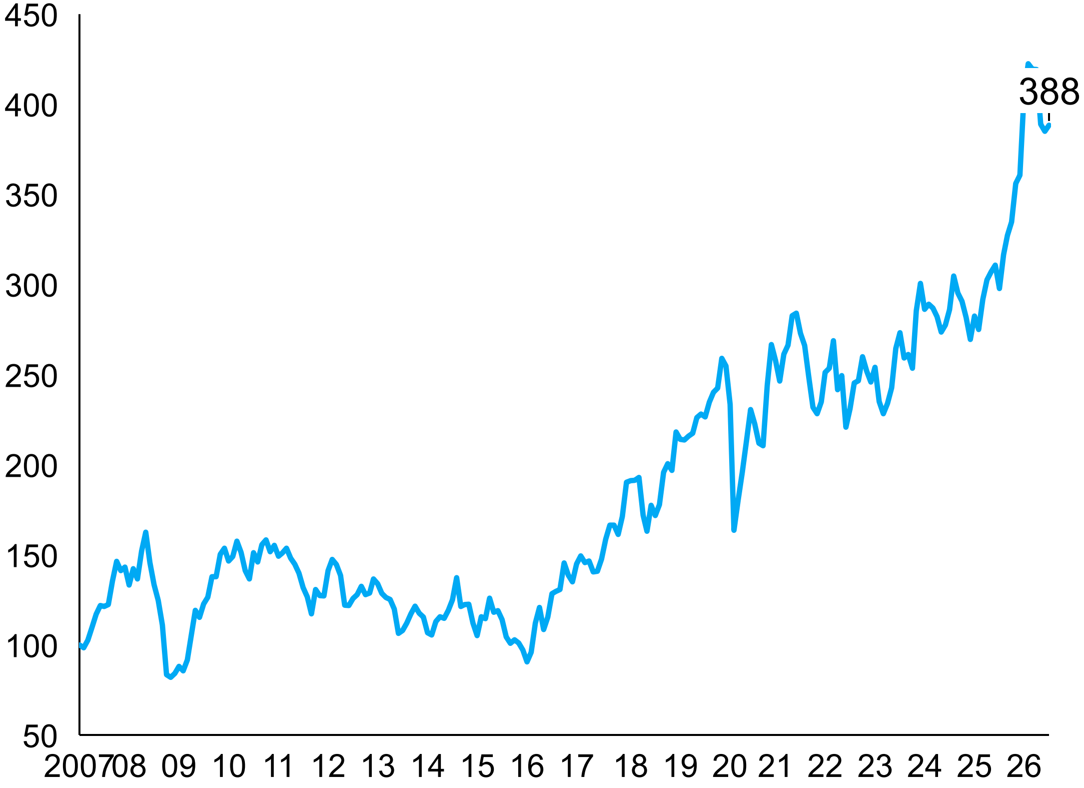
Consumer price index; exchange rate[1]

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



Bovespa index[1]

Indexed to February 2007 = 100



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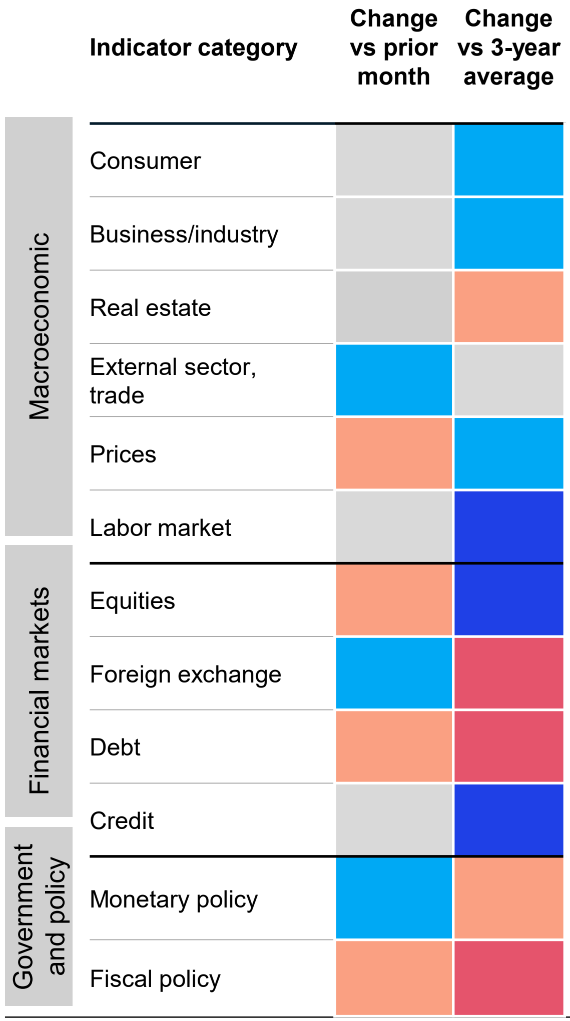
[1] Data through July 16, 2026.

Source: FRED; Instituto Brasileiro de Geografia e Estatística (IBGE); McKinsey's Global Economics Intelligence analysis

Brazil’s economic outlook characterized by improving inflation and a localized improvement in services and retail

🟦 Significant improvement 🔷 Improving ⬜ No significant change 🟧 Worsening 🟥 Severe decline



	Indicator category	**Change vs prior month**	**Change vs 3-year average**
Macroeconomic	Consumer	⬜	🔷
	Business/industry	⬜	🔷
	Real estate	⬜	🟧
	External sector, trade	🔷	⬜
	Prices	🟧	🔷
	Labor market	⬜	🟦
Financial markets	Equities	🟧	🟦
	Foreign exchange	🔷	🟥
	Debt	🟧	🟥
	Credit	⬜	🟦
Government and policy	Monetary policy	🔷	🟧
	Fiscal policy	🟧	🟥

Inflation and unemployment point down in market driven by retail and services

- Consumer confidence declined to 88.7 in June. Retail sales showed signs of improving in May—up 4.3% since April, and up by the same amount on the year-ago period.
- Business confidence was up at 92.7 in June. Industrial production increased, registering 107.2 in June (from May’s 101.9). Services revenue rose to 130 in May, from 128.1 in April. Construction confidence decreased to 91.7 in June.
- In June, the trade balance recorded a surplus of $9.7 billion, a rise from May’s $7.6 billion.
- Inflation slowed to 4.64% in June (down from 4.7% in May). Among the largest price increases over the past 12 months were items such as carrots (94%), cucumbers (94%), air fares (52.4%), and Peroá fish (48.4%). Deflation was recorded for items such as garlic (–21.4%), Baía orange (–21.5%), and avocado (–23%). The government is starting to retreat from its price reduction policies around fuels, cutting the BRL 0.35 per liter subsidy on diesel.
- The three-month moving average unemployment rate moved down to 5.6% in May.

In June equities declined while the currency appreciated; mid-July Ibovespa results didn’t fully make up lost ground

- The Bovespa equities index slid 1% in June; the index was up 0.9% by July 16.
- In June, the monthly average currency exchange rate was BRL 5.12 per USD (BRL 5.98 in May). On July 16, the real closed at 5.12 per dollar.

Markets revise down inflation, interest rates up; GDP projections are up for 2026 but down for 2027

- The central bank’s Focus Bulletin—a summary of current financial market projections (published July 10)—revised consumer price index (CPI) forecasts for 2026 to 5.16% (from 5.3%). Projections for 2027 were increased to 4.2% (from 4.1%), while 2028 was revised upwards to 3.7% (from 3.7%). Projections for 2029 (3.5%) were unchanged.
- The benchmark (Selic) interest rate is projected to rise to 14% in 2026 (up from the earlier 13.75% projection). Rate projections were maintained at 12% for 2027, raised to 10.50% for 2028 (from 10.25%), and increased to 10.50% for 2029 (from 10.25%).
- GDP is projected to grow 2% (up from 1.9%) in 2026, to be lower at 1.6% in 2027 (down from 1.7%), and stable at 2.0% in 2028 and 2029.

Source: Banco Central do Brasil; Fundação Getulio Vargas; G5 Partners Brazil; Haver Analytics; Instituto Brasileiro de Geografia e Estatística (IBGE)

Mexico

Mexico outlook supported by domestic resilience, with easing inflation and continued formal job creation, though external momentum is cooling as peso softens and trade surplus narrows sharply.

Mexico's economy rebounded strongly in the second quarter of 2026, growing 1.5% quarter on quarter after a 0.6% contraction in the first quarter of the year. Annual growth reached about 2.1–2.2%. The Bank of Mexico maintained the policy rate at 6.5% throughout June and July. Annual inflation eased to 3.4% in June from 3.9% in May, marking the lowest level in five years; this decline was driven primarily by an unprecedented 4.6% plunge in agricultural inflation, including a near 9.0% drop in fruit and vegetable prices. The peso depreciated marginally to MXN 17.4 per USD in June from MXN 17.3 per USD in May.

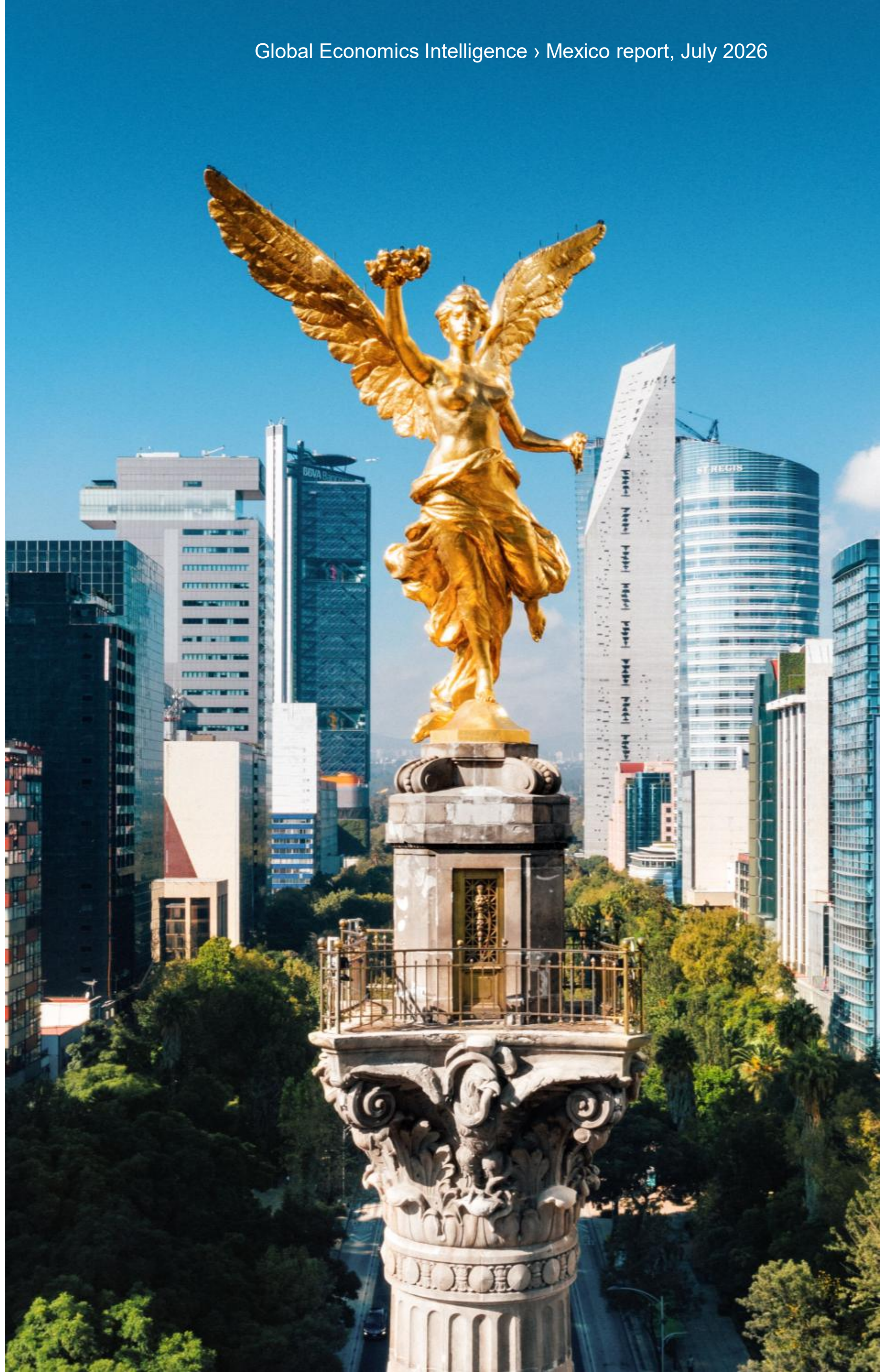
Mexico's manufacturing sector returned to expansion in June as the purchasing managers' index (PMI) rebounded to 51.3 from 49.6 in May, marking its highest reading since March 2024. The improvement was driven by the strongest increase in new orders in 27 months and supported by FIFA World Cup–related demand. While output and employment contractions eased significantly, persistent margin pressures remain a constraint, as elevated input costs have accelerated selling price inflation to a six-month high.

Mexico's labor market remained resilient. The unemployment rate rose to 2.7% in May from 2.6% in April. In June, formal employment reached 22.8 million workers, with payrolls increasing by 61,023 jobs. Permanent positions accounted for 87% of total formal employment.

Mexico's trade surplus halved to $2.3 billion in May from $4.5 billion in April, driven by a sharp pullback in overall export activity. Total exports retreated to $69.5 billion in May from $72.0 billion the previous month, an outsized $2.5 billion contraction that far outpaced a marginal $0.2 billion softening in imports, which ticked down to $67.3 billion from $67.5 billion in April. This rapid compression of the trade balance was anchored by acute weakness across the country's industrial core, as non-automotive manufacturing exports dropped $1.9 billion and automotive shipments declined by $789 million in a single month.

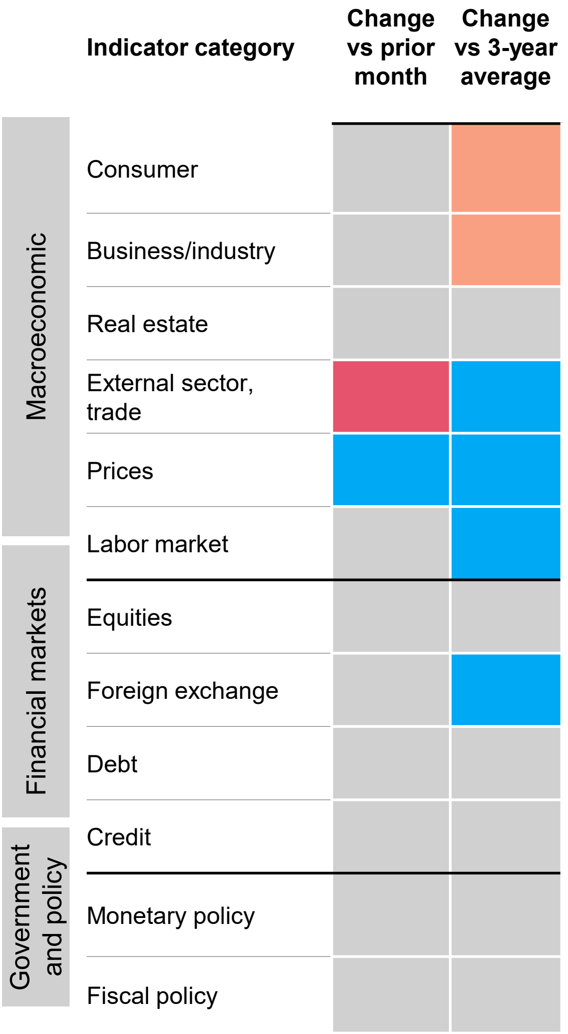
Effective July 24, 2026, the United States implemented a targeted 10% tariff on approximately 20% of Mexican exports, applying specifically to goods that fall outside the 2020 United States-Mexico-Canada Agreement (USMCA) duty-free provisions, while explicitly exempting commodities already subject to Section 232 tariffs (including steel, aluminum, and automotive products). The US administration states that the tariff is intended to strengthen enforcement against forced labor in supply chains and protect domestic competitiveness. Although the direct impact is relatively limited, the measure raises trade costs for affected exporters, increases uncertainty around investment decisions, and adds pressure to Mexico's export-oriented manufacturing sector.

Source: Banco de México (Banxico); Haver Analytics; Instituto Nacional de Estadística y Geografía (INEGI); Instituto Mexicano de Seguro Social (IMSS); Secretaría de Economía



Mexico’s domestic economy stabilized on easing inflation and an increase in formal employment, despite flat confidence indicators

■ Significant improvement 🟦 Improving ⬜ No significant change 🟧 Worsening 🟥 Severe decline



	Indicator category	Change vs prior month	Change vs 3-year average
Macroeconomic	Consumer	⬜	🟧
	Business/industry	⬜	🟧
	Real estate	⬜	⬜
	External sector, trade	🟥	🟦
	Prices	🟦	🟦
	Labor market	⬜	🟦
Financial markets	Equities	⬜	⬜
	Foreign exchange	⬜	🟦
	Debt	⬜	⬜
	Credit	⬜	⬜
Government and policy	Monetary policy	⬜	⬜
	Fiscal policy	⬜	⬜

Mexico’s economy was supported by easing inflation, a record labor market, and a manufacturing rebound, despite weaker trade

- Confidence indicators stabilized. Consumer confidence was broadly unchanged at 102.1 in June (versus 102.2 in May), while business confidence edged up to 98.3 in May from 98.2 in April.
- Mexico’s manufacturing PMI rose to 51.3 in June from 49.6 in May, returning to expansion on stronger new orders, although elevated input costs continued to pressure margins.
- Mexico’s trade surplus narrowed sharply to $2.3 billion in May from $4.5 billion in April, as a significant drop in exports, particularly in non-automotive manufacturing and automotive shipments, more than offset a slight decline in imports.
- Inflation slowed for a second consecutive month, reaching 3.9% in May compared with 4.5% in April.
- Mexico’s labor market remained resilient, with unemployment rising slightly to 2.7% in May, while formal employment increased by 61,023 jobs in June to a record 22.8 million workers.

Mexico’s financial markets softened in June, with a weaker peso and lower equity prices

- The peso weakened slightly to MXN 17.4 per USD in June from MXN 17.3 per USD in May.
- Mexico’s stock exchange index fell 2.4% between May and June.

The World Cup delivered modest economic gains, with infrastructure emerging as its primary legacy

The Government of Mexico City’s final report says the tournament attracted more than 12 million participants, generated an estimated $2.5 billion to $3.8 billion in economic activity, and created over 100,000 formal jobs. It also accelerated more than 2,000 infrastructure projects, backed by $1.3 billion in public investment. While the World Cup provided a short-term boost to tourism, hospitality, and retail, its overall impact on Mexico’s economy was modest, with its most lasting benefit being improvements to the city’s infrastructure.

Source: Banco de México (Banxico); Instituto Nacional de Estadística y Geografía (INEGI); OECD; Secretaría de Economía

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