Global Economics Intelligence

Global Summary Report

Released April 2023 (data through March 2022)
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Forecasting institutions are trimming growth projections, citing financial sector turmoil, high inflation and ongoing effects of Russia’s invasion of Ukraine as main drivers.

Inflation remains high while trending down; IMF lowered global growth projections to 2.8% for 2023; US banking sector challenges persist; output indicators in services stay strong.

Inflation continues to moderate in multiple regions and countries but remains high, and central banks look set to maintain a path of interest rate interventions. However, interest rates and sentiment are weighing on growth projections, albeit that the picture is somewhat patchy, with growth in some emerging economies such as China and India outpacing developed economies. In the developed economies, the US saw the Fed revise down its latest economic growth projections for 2023 and 2024 to 0.4% and 1.2% respectively. In Europe, the IMF has reconfirmed previous projections for 2022’s growth rate at 3.5% but revised up its 2023 outlook by 0.1 percentage point, a less optimistic view (0.2 p.p. lower) than the ECB’s March figures.

Interest rate rises have also resulted in volatility in the banking sector. Rising rates have seen existing holdings of government bonds fall in value, leaving smaller banks especially vulnerable as the value of their assets drops, potentially generating losses when they have to sell these securities. In March, swift action by banking authorities and the wider banking sector prevented potential contagion across the global banking system following the collapse of Silicon Valley Bank and Signature Bank in the US, and the distressed sale of Credit Suisse in Europe. However, ratings agencies also downgraded the credit rating of a third medium-sized bank, San Francisco-based First Republic, citing a surfeit of uninsured deposits.

### IMF’s Real GDP growth forecast by country

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<th>Country</th>
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<tr>
<td>Brazil</td>
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### Percent, y-o-y growth

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<th>Country</th>
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<td>1.5</td>
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Source: International Monetary Fund’s World Economic Outlook from October 2022, McKinsey’s Global Economics Intelligence analysis
Consumer inflation for developed and emerging economies remain high while trending down; producer prices recorded even steeper deceleration or even declines

In April, fears of a resurgence in banking turmoil were rekindled as shares in the San Francisco–headquartered bank, known for catering to high-net-worth individuals, lost more than half their value on news that customers had pulled more than $100 billion in deposits. Customers with large balances were concerned their funds would not be covered in full by the Federal Deposit Insurance Corporation. First Republic was taken over by JP Morgan Chase on May 1 and banking sector shares remain volatile. This volatility in the banking sector is likely one of the factors to have impacted wider economic sentiment. McKinsey’s latest snapshot of global economic conditions surveyed executives twice in March: immediately before the upheavals in the banking sector, starting with the closure of Silicon Valley Bank (SVB), and then again three weeks later. In early March, respondents were more positive than they had been in several quarters: 40% said that global economic conditions had improved in the previous six months, the first time in a year that respondents were more likely to report improvements than declines. And 45% expected global conditions to improve in the months ahead, while only 28% predicted that conditions would worsen. However, by the end of the month, that optimism had fallen away. Respondents were much less positive than in early March about current global conditions and the global economy’s prospects—though still more upbeat than they had been in the previous quarter.
[Advanced economies]: In the advanced economies, US inflation edged down to 5.0% with energy prices contributing to this decline; however, the Fed is likely to continue with a rate rise in May. Eurozone inflation slowed to 6.9% in March (8.5% in February), and the ECB estimates inflation will reach 2.8% by the end of 2023.
The Fed’s latest economic growth projections for 2023 and 2024 decreased to 0.4% and 1.2% respectively; inflation edges down to 5.0% with energy prices contributing to this decline; Fed likely to continue with a rate rise in the coming month.

At the Federal Open Market Committee (FOMC) meeting held March 21–22, 2023, participants’ median projections for GDP growth were 0.4% and 1.2% for 2023 and 2024 respectively—down from December’s projection of 0.5% and 1.6%.

The consumer price index (CPI) decreased to 5.0% (annualized) in March (6.4% in February). This outpaced the decline in the energy index, which fell –3.5% over the month with all major energy component indexes showing a decline. The overall food index was unchanged in March with the food at home index falling –0.3%. The January 2023 Survey of Consumer Expectations from the NY Fed shows that the one-year-ahead inflation expectation declined to 4.7%; the series, however, remains well above its pre-pandemic levels.

The unemployment rate stands at 3.5%, slightly higher than February’s 3.4% (3.6% in January 2020). Total nonfarm payroll employment has added approximately 236,000 net new jobs in March. New unemployment claims have returned to pre-COVID-19 levels, at around 230,000 new claims per week. The labor force has expanded by approximately 1,200,000 from March 2020 (+1,299,000 men, –95,000 women).

The Federal Reserve raised the interest rate paid on reserve balances to 4.9%. Fed officials also decided to maintain the target range for the federal funds rate at 4 3/4 to 5%. The FOMC view is that, despite inflation easing, it remains high compared to its standard—pointing to a soft landing with high inflation. NY Fed President, John Williams stated that inflation is still too high, and the FOMC would use its monetary policy tools to restore price stability—likely informing the FOMC’s May meeting.

In the housing market, the 30-year fixed-rate mortgage rate fell to 6.27% on April 13, as the US National Home Price Index decreased by 0.5% past January. In February, the number of new single-family houses sold rose to 4,580,000 (4,000,000 in January), with the median price at $363,000.

The US Industrial Production Index stood at 103 in March, slightly higher than February’s 102.6. The purchasing managers’ index (PMI) for manufacturing increased to 49.3 in March (47.3 February), while the services PMI rose to 52.6 (it was last above the 70 benchmark indicating a healthy economy in May 2021, when it registered 70.4).

Retail and food-service sales in March decreased to $691.7 billion, a 1% decline from February’s $697 billion. The consumer confidence index (Conference Board) climbed slightly in March to 104.2—up from 103.4 in February.

US exports in February were $251.2 billion, $6.9 billion less than January’s exports totals. February imports were $321.7 billion, down $5.0 billion on the January figure; overall, the monthly deficit increased by 2.7% to $70.5 billion.

In March, both the S&P 500 and the Dow Jones were up by 7.0% and 0.4% respectively, marking positive returns on the equity markets for the year so far. During March, the CBOE Volatility Index averaged 18.7.

The Republican Party (GOP) unveiled new legislation that would set discretionary spending levels for the coming year at fiscal 2022 levels and limit spending growth to no more than 1% per year. The so-called Limit, Save, Grow Act wasn’t well received in the White House, which along with congressional Democrats, has called for a clean debt-ceiling increase without conditions.

Continuing the White House’s efforts to reorient the US economy away from China, Treasury Secretary Janet Yellen aims to restrict private equity and VC investments in tech industries that could benefit Beijing’s military.
Investors continue to expect strong inflationary pressures over the medium to long term

Breakeven inflation rates for 5-year and 10-year US Treasury yields

%  

1 The latest value implies what market participants expect inflation to be in the next 5 or 10 years, on average.

Source: Federal Reserve; McKinsey’s Global Economics Intelligence analysis
Fed’s latest economic growth projections for 2023 and 2024 decreased to 0.4% and 1.2% respectively; inflation edges down to 5.0%, with energy prices contributing to its decline; Fed likely to stick with raising interest rates in the upcoming month.

### Macroeconomic Indicators

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<tr>
<td>Consumer</td>
<td>Improvement</td>
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<tr>
<td>Business/industry</td>
<td>Improvement</td>
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<td>Real estate</td>
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<tr>
<td>Prices</td>
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<td>Employment</td>
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<td>Foreign exchange</td>
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<td>Debt</td>
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<tr>
<td>Credit</td>
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Total nonfarm payroll employment has added some 236,000 net new jobs in January; y-o-y inflation edged down to 5%.

- The US Industrial Production Index was at 103 in March, slightly higher than February's 102.6. The purchasing managers' index for manufacturing (PMI) in March rose to 49.3 (47.3 in February); the services PMI climbed to 52.6 (and was last above the 70 benchmark at 70.4 in May 2021).
- Retail and food-service sales decreased to $691.7 billion, a 1% drop from February's $697 billion. The consumer confidence index (Conference Board) rose slightly in March to 104.2, up from 103.4 in February. US exports in February were $251.2 billion, $6.9 billion down on January. February imports were $321.7 billion, $5.0 billion less than January; the total monthly deficit rose by 2.7% to $70.5 billion.
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- The unemployment rate stands at 3.5%, slightly higher than February's 3.4% (3.6% in January 2020). Total nonfarm payroll employment has added some 236,000 net new jobs in March. New unemployment claims have returned to pre-COVID-19 levels, at around 230,000 new claims per week. The labor force was up by approximately 1,200,000 from March 2020 (+1,299,000 men, -95,000 women).
- The consumer price index decreased to 5.0% (annualized) in March (6.4% in Feb). This outpaced the decline in the energy index, which fell –3.5% over the month, with all major energy component indexes declining. The overall food index was unchanged in March with the food at home index falling –0.3%.

### Financial Markets

- **Federal Reserve increased interest rates; equity markets post positive earnings**
  - In March, both the S&P 500 and the Dow Jones were up by 7.0% and 0.4% respectively, marking positive returns for the year so far. During this month, the CBOE Volatility Index averaged 18.7.
  - The Federal Reserve raised the interest rate paid on reserve balances to 4.9%. Federal Reserve officials also decided to maintain the target range for the federal funds rate at 4 3/4 to 5%. The FOMC states that, despite the fact inflation has eased, it remains high versus its standard, pointing to a soft landing with high inflation. NY Fed President, John Williams has stated that inflation is still too high, and the FOMC would use its monetary policy tools to restore price stability—likely informing the FOMC’s May meeting.

### Government and Policy

- **Limit, Save, Grow Act unveiled to limit government spending; Janet Yellen pushes security as priority in US economic policy towards China**
  - GOP unveiled new legislation that would set discretionary spending levels for the coming year at fiscal 2022 levels and limit spending growth to no more than 1% a year. The so-called Limit, Save, Grow Act wasn't well received in the White House, which along with congressional Democrats, has called for a clean debt-ceiling increase without conditions.
  - Continuing White House efforts to reorient the US Economy away from China, Treasury Secretary Janet Yellen aims to restrict private equity and VC investments in tech industries that could benefit Beijing’s military.

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

Latest IMF projections less optimistic than ECB’s; inflation slows where energy prices declined, although food prices remain high; eurozone reports trade surplus

The IMF has reconfirmed previous projections for 2022’s growth rate at 3.5% but revised up its 2023 outlook by 0.1 percentage point. However, this is less optimistic (0.2 p.p. lower) than the ECB’s March figures. Even though the banking crisis was swiftly contained, the ECB has simultaneously tightened financial conditions with ongoing policy rate hikes. These figures mask the usual eurozone heterogeneity: while Spain saw its 2023 growth rate improving from 1.1% to 1.5%, Germany entered negative territory, with an expected decline of 0.1%. France and Italy kept their rates of 0.7% and 0.6%, respectively.

Eurozone inflation slowed to 6.9% in March (8.5% in February), the fifth month of what the ECB expects to be a year-long disinflationary curve. The main driver is food-price inflation (15.4% in March); excluding energy and food, inflation was still high, at 5.7%. The latest reading for producer-price inflation was 11.1% in February (12.6% in January). The ECB estimates inflation will reach 2.8% by the end of 2023, with a less certain path subsequently toward the bank’s 2% target. Despite the banking turmoil, Lagarde has stated that the normalization process should continue.

Eurocoin, a leading indicator, is barely negative but fell to −0.14 in March (−0.05 in February). The price of natural gas (Dutch TTF futures) rose sharply in November before dropping in December and falling to €41 per megawatt hour by the end of April—due to the warmer-than-usual weather Europe has experienced since last autumn along with demand reduction. February’s falling prices saw gas demand returning with EU demand only 11% lower (25% in January) than the 2019–21 average, according to Bruegel. The price is a quarter of its December 2022 high, but still two-and-a-half times the level before Russia invaded Ukraine. The Brent crude price has climbed, reaching $79 per barrel, as China’s reopened economy is rebounding strongly.

Industrial activity has been subdued in the eurozone, but the latest data are becoming less negative. The purchasing managers’ index (PMI) for manufacturing reached 53.7 in the flash estimate for March (52.0 in February), a third successive month above the critical 50.0 threshold. The services PMI broke into expansion territory in January (50.8), reaching 55.0 in March. The industrial production index has measured growth over 2021 since August, reaching its all-time high in February.

The eurozone trade balance had been negative since November 2021; this ended in February as imports fell and trade went from a €30 billion deficit to a €0.5 billion surplus.

European equities recovered from the Credit Suisse takeover; the Eurostoxx 600 index is now about 4.5% below its peak in January 2022. In April, the euro slightly strengthened against the US dollar, hitting $1.10 per euro. The Italian–German 10-year bond-yield spread stabilized at 1.8%; the yields stood at 4.3 and 2.5%, respectively.

Europe finalized the €43 billion European Chips Act, which seeks to double EU market share in semiconductor development, manufacturing, and material supply chains from 10 to 20 percent by the end of the decade. The European Commission adopted a proposal to strengthen the bloc’s existing bank crisis management and deposit insurance framework. Focusing on medium-sized and smaller banks, the proposal will enable authorities to organize the banking sector more broadly.
IMF’s latest projections are less optimistic than the ECB’s; leading indicators fell slightly and entered negative territory

**Eurozone real GDP forecast from main institutions, 2020–22**

Year-on-year, constant prices (% change)

- ECB Staff Projections (December 2022)
- ECB Staff Projections (March 2023)
- IMF World Econ Outlook (January 2023)
- IMF World Econ Outlook (April 2023)

**Eurocoin index**

Index (monthly, % change)

Source: Banca d’Italia; European Commission; Eurostat; Haver Analytics; McKinsey’s Global Economics Intelligence analysis
Inflation slows where energy prices declined, while food prices remain high; construction and real estate indexes edged up; retail sales stagnated at their lowest level in 2022

Retail sales are close to their lowest level in 2022; food inflation remains high and consumer confidence is low

- Retail sales fell by 0.8% m-o-m in February and by ~3% compared with last year’s mark.
- The consumer confidence indicator (European Commission) reached its historic low in September (~28.7) but is now becoming less bleak (~19.2 in March 2023). The business confidence index remained in positive territory in March but almost at its lowest level of last year.
- The purchasing managers’ index (PMI) for manufacturing reached 53.7 in the flash estimate for March (52.0 in February), a ten-month high. The services PMI broke into expansion territory in January (50.8), reaching 55 in March.
- The industrial production index has measured growth over 2021 since August, although it reached its all-time high in February.
- Construction and real estate indexes edged up in January compared with the previous month and versus the same period last year.
- The eurozone trade balance had been negative since November 2021 but this ended in February. Imports fell and trade improved from a deficit of €30 billion to a surplus of €0.5 billion.
- Eurozone inflation slowed to 6.9% in March (8.5% in February), the fifth month of what the ECB expects will be a year-long disinflationary curve. The main driver is food-price inflation (15.4% in March); excluding energy and food, inflation was still high, at 5.7%. The latest reading for producer-price inflation was 11.1% in February (12.6% in January).
- The unemployment rate remained stable and low at 6.6% in February; the youth unemployment rate was 14.4%.

European equities recovered; Italian and German 10-year bond yields stabilized; the euro strengthened slightly against the dollar

- European equities recovered from the Credit Suisse takeover; the Eurostoxx 600 index is now about 4.5% below its peak in January 2022.
- In April, the euro strengthened slightly against the US dollar, hitting $1.10 per euro.
- The Italian–German 10-year bond-yield spread stabilized at 1.8%; the yields stood at 4.3 and 2.5%, respectively.
- Loans to businesses and households increased by 0.6% and 0.2% m-o-m and by 8.3% and 4.5% over 2021, respectively.

EU finalizes European Chips Act; adopts proposal to bolster bloc’s existing bank crisis management and deposit insurance framework

- Europe finalizes the €43 billion European Chips Act, which seeks to double the EU's market share in semiconductor development, manufacturing, and material supply chains from 10 to 20 percent by the end of the decade.
- The European Commission adopted a proposal to strengthen the bloc’s existing bank crisis management and deposit insurance framework. Focusing on medium-sized and smaller banks, the proposal will enable authorities to organize the banking sector on a broad basis.

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

Inflation decreased by less than expected in March, to 10.1%. The labor market remains tight but shows signs of easing. Spring forecasts estimate a mild recession in 2023, followed by a moderate rebound in 2024. The UK is only one of two G7 countries predicted by the IMF to contract in 2023.

According to the IMF’s April 2023 forecasts, the near-term economic downturn is set to be shorter and shallower than previously forecast, and medium-term output to be higher. Output is expected to decline by 0.3% in 2023 and grow by 1% and 2.2% in 2024 and 2025, respectively. In 2023, unemployment is expected to rise to 4.2%, while inflation is expected to decline to 6.8%. Despite the upward revision in forecasts, the IMF predicts the UK economy’s 2023 performance to be the worst among both the G7 and the G20. In 2022, the UK was the fastest-growing economy among the G7.

UK inflation decreased by less than expected in March, remaining in double figures. The Consumer Prices Index (CPI) fell to 10.1% in March (10.4% in February), resuming a downward trajectory after it rose unexpectedly in February. Economists had forecast a larger decline to 9.8%. The drop was driven by a sharp fall in petrol and diesel prices but was offset by an acceleration in the price of food and non-alcoholic drinks, which rose at their fastest annual rate since 1977. In response, markets now expect the Bank of England to raise the policy rate by 50 basis points to 4.5%.

The UK manufacturing sector fell back into contraction territory in March, remaining in double figures. The Purchasing Managers’ Index (PMI) fell to 47.9 in March, down from 49.3 in February. Production dropped in response to subdued market demand, declining new export orders, and a preference among companies for reduced inventory holdings. The purchasing managers’ index (PMI) for manufacturing fell to 47.9 in March, down from February’s seven-month high of 49.3. The PMI has stayed below the neutral 50.0 mark for eight successive months. Nevertheless, business optimism strengthened to a 13-month high, with almost 60% of manufacturers forecasting output to rise over the coming year. Meanwhile, business activity in the UK services sector continued to gather momentum, driven by a significant increase in new order volumes and new export sales, which reflected greater confidence among clients in both domestic and international markets. Higher wages led to another month of strong cost inflation. The services PMI registered 52.9 in February, down from 53.5 in February, but above the 50.0 mark for the second consecutive month.

Growth in average total pay was 5.9% in December 2022 to February 2023, but real total pay declined by 3% year-on-year. The unemployment rate for December 2022 to February 2023 rose slightly on the previous quarter to 3.8% (from 3.7%), but still below pre-pandemic levels—indicating that, while labor market conditions may be easing somewhat, they remain relatively tight. The share of working-age people not active in the economy (the economic inactivity rate) decreased by 0.4 p.p. to 21.1%. From January to March 2023, total employment vacancies declined by 188,000 from year-ago levels, but remain 304,000 above pre-COVID-19 levels (January to March 2020).

The governor of the Bank of England, Andrew Bailey has played down the risks of a system-wide banking crisis, saying the reforms to make banks safer after the 2008 global financial crisis had worked. Bailey’s statements fueled speculation about a final interest rate hike to 4.5% at the Monetary Policy Committee’s next meeting in early May. A previous BoE statement, shortly after the collapse of Credit Suisse, had also said that the UK banking system was “well capitalized and funded, and remains safe and sound.” Humza Yousaf has replaced Nicola Sturgeon as leader of the pro-independence Scottish National Party in a narrow victory over main rival Kate Forbes. However, his victory was overshadowed by police investigations into the party’s finances. Meanwhile, the upcoming coronation of King Charles III is expected to be more modest than those of previous monarchs, in keeping with his stated vision for a smaller, more modern monarchy.

Source: Bank of England; IMF; OECD; Office for Budget Responsibility; Office for National Statistics; McKinsey’s Global Economics Intelligence analysis
Modest UK GDP growth outlook for 2023–25, after the economy grew by 0.1% in Q4 2022; inflation declined to 10.1% in March but remained above projections

UK real GDP forecast from main institutions, 2023–25
% change (year-on-year); constant prices

Office for Budget Responsibility Economic and Fiscal Outlook (March 2023)
OECD (March 2023)
IMF World Economic Outlook (April 2023)

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

12-month inflation; Bank of England interest rate

CPI inflation
Core inflation
BoE interest rate

Jan 18
Jan 19
Jan 20
Jan 21
Jan 22
Jan 23

Jan 2018
Jan 2023
High inflation continues to drag on consumer sentiment but shows signs of recovery; manufacturing deteriorates while the services sector expands; business sentiment improves

**Macroeconomic**

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<td>Foreign exchange</td>
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Inflation dropped slightly in March; consumer and business confidence improve; industrial production weakens slightly

- Retail sales volumes are estimated to have fallen by 0.9% in March 2023, bringing them 0.7% below pre-COVID-19 levels (February 2020).
- GfK’s Consumer Confidence Index increased six points in April, to −30 from −36 in March. Despite the headwinds of inflation continuing to outstrip wage rises and the ongoing household challenge from the cost-of-living crisis, consumers expect future conditions to improve.
- Monthly production output fell by 0.2% between January and February 2023, and remains 0.7% below February 2020.
- The UK manufacturing PMI fell back into contraction in March, at 47.9 from 49.3 in February, and has remained below the neutral 50.0 mark for eight successive months; the services PMI also declined to 52.9 in March from 53.5 in February but above the 50.0 neutral value for the second consecutive month, signaling a solid turnaround in business activity after the marginal fall seen during Q4 2022.
- Monthly construction output increased in volume terms by 2.4% in February. The UK construction PMI registered 50.7 in March, down from 54.6 in February, but still above the neutral 50.0 mark for the second month running. The UK trade balance has been in deficit since June 2021. The trade deficit widened by £2.3 billion to £23.5 billion in the three months to February, as exports fell more than imports.
- The annual rate for the UK CPI decreased by less than expected to 10.1 in March (10.4% in February). Core inflation (excluding food, energy, alcohol, and tobacco) remained at 6.2%. Producer input prices rose by 7.6% year-on-year in March 2023 (down from 12.8% in February), and producer output (factory gate) prices rose by 8.7% (down from 11.9% in January).
- The unemployment rate for December 2022 to February 2023 increased by 0.1 p.p. on the quarter to 3.8%. The economic inactivity rate decreased by 0.2 p.p. on the quarter, to 21.3%. The unemployment rate for people aged 18–24 increased to 10%, from 9.5%.

**Financial markets**

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<td>Public policy</td>
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<td>Public-sector health</td>
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UK equities rally; the GBP/USD exchange rate and 10-year gilt both stabilize following market turmoil in late 2022

- The FTSE 100 gained around 6% during the past month and is now roughly 2% below the peak reached in February 2023. As of 20 April, the pound is trading steadily at 1.24 against the dollar, after almost reaching parity in late September 2022, an all-time low.
- The daily yield of the UK 10-year gilt has increased to roughly 3.7%, as of 20 April, down from historic highs of over 4.6% seen in mid-October, but well above rates of around 1% a year ago. This reflects market trends including lower risk premia and inflation expectations.
- UK government debt declined to 100.2% of GDP in Q3 2022, 15.1 ppts above the EU average, while the deficit rose to 4.4% of GDP (from 6.9% in Q2 2022).

**Government and policy**

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<td>Banking system declared “safe” by the Bank of England; the UK prepares for the coronation of King Charles III</td>
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- The governor of the Bank of England, Andrew Bailey has played down the risks of a system-wide banking crisis, saying that UK banks are well capitalized, liquid, and able to serve their customers and support the economy.
- Humza Yousaf replaced Nicola Sturgeon as leader of the pro-independence Scottish National Party, becoming Scotland’s first minister.
- King Charles III’s coronation will take place on Saturday 6 May 2023 at Westminster Abbey in London. The ceremony is expected to be shorter, more modest, and less expensive than those of previous monarchs.

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

McKinsey & Company
[Emerging economies]: China growth accelerated since the economy fully opened while India is predicted to be the fastest growing major economy in the world in 2023; Inflation in emerging markets eased, especially in Brazil.
China

China’s economy had a strong start in Q1. GDP growth accelerated to 4.5%, above market estimates; fixed asset investment, housing sales, and new social financing expanded faster in Q1, compared with Q4 2022; however, trade remained weak in Q1.

In the first quarter of 2023, China’s GDP reported a stronger-than-expected growth rate of 4.5% y-o-y (2.9% in Q4 2022), with 67% of growth driven by consumption. By sector, GDP growth in the services sector accelerated to 5.4% y-o-y (2.3% in Q4 2022), while GDP growth in the agriculture and industry sectors stabilized at 3.7% and 3.3% y-o-y (4.0% and 3.4% in Q4 2022) respectively.

Fixed-asset investment grew faster at 5.1% y-o-y in Q1 2023 (3.0% in Q4 2022). By sector, expansion in manufacturing investment stabilized at 7.0% y-o-y (6.8% in Q4 2022); infrastructure investment growth decelerated to 8.8% y-o-y (11.4% in Q4 2022); contraction in real estate investment narrowed to –5.1% y-o-y (–14.2% in Q4 2022).

The residential property market started to recover. In the first quarter, sales revenue from housing expanded by 6.0% y-o-y (–27.2% in Q4 2022), mainly due to the rising price of housing (6.3% in Q1 and 3.7% in Q4 2022), while the amount of floor space sold in Q1 was almost unchanged compared with the final quarter of last year (–0.2% in Q1 and –29.8% in Q4 2022).

New social financing totaled RMB 14.5 trillion in Q1 2023, an increase of 20.6% y-o-y (–36.1% in Q4 2022), with the majority (95%) of the credit expansion coming from new bank loan financing. Total social financing stood at RMB 359.0 trillion at the end of Q1, growing 10.3% y-o-y.

The surveyed unemployment rate improved to 5.3% in March, 0.3 percentage points lower than February’s level. However, the youth unemployment rate climbed to 19.6% in March, 3.6 percentage points higher than last March and 1.5 percentage points higher than February.

Cross-border trade remained weak in the first three months of 2023, growing –2.9% y-o-y (–6.8% in Q4 2022). Exports improved in Q1, growing 0.5% y-o-y (–6.9% in Q4 2022); imports continued to slump, growing –7.1% y-o-y (–6.7% in Q4 2022).

Source: CEIC; McKinsey’s Global Economics Intelligence analysis
Services PMIs rose further in March; manufacturing PMIs declined but were still in the expansion zone; stock indexes slightly gained value

Purchasing managers indexes (PMI)
Index, monthly

Stock market indexes
Index, monthly

Source: CEIC; McKinsey’s Global Economics Intelligence analysis
Retail sales growth accelerated in March; exports rebounded but imports continued to contract; inflation figures remained low

Retail sales growth accelerated; services PMIs rose but manufacturing PMIs fell; exports rebounded but imports contracted again; consumer price inflation continued to fall

• Retail sales expanded faster, growing at 10.6% y-o-y in March (3.5% in January and February).
• Manufacturing PMIs in March remained in the expansion zone, but the official index fell to 51.9 (52.6 in February) while the Caixin index dropped to 50.0 (51.6 in February). Services PMIs rose further, to 56.9 for the official index (55.6 in February) and 57.8 for the Caixin index (55.0 in February)—with the official services PMI reaching a record high.
• Overall cross-border trade expanded by 7.4% in March (−8.3% in January and February). Exports notably rebounded, recording a 14.8% y-o-y growth in March (−6.8% in January and February); the contraction in imports shrank to −1.4% in March (versus −10.2% in January and February).
• Consumer price inflation stood at 0.7% in March (1.0% in February) while producer prices were down −2.5% in March (−1.4% in February).

RMB stabilized against US dollar; stock indexes edged up; credit and money supply expanded at slower pace

• The RMB stabilized against the USD, trading at RMB 6.8807 = USD 1 by April 20 (6.8737 at the end of March).
• The Shanghai stock index gained 3.0% and the Shenzhen stock index gained 0.3% in value by April 19, compared with levels at the end of March.
• New social financing totaled RMB 5.4 trillion in March, growing 15.7% y-o-y (159.3% in February); total social financing amounted to RMB 359.0 trillion, growing 10.3% y-o-y (10.2% in February).
• M2 growth stood at 12.7% in March (12.9% in February).

IMF estimates China to be the biggest contributor to growth in the global economy over the next 5 years

• According to the IMF’s latest forecasts, China is anticipated to be the biggest growth contributor to the global economy, driving 22.6% of world GDP growth through 2028, followed by India (12.9%), and the US (11.3%).

Source: Bloomberg; CEIC; McKinsey’s Global Economics Intelligence analysis
India

Despite earlier real GDP forecasts being downgraded, India is set to be among the fastest-growing major economies in the world, contributing some 15% of global growth. Demand conditions in India remain sanguine with urban consumption rising and rural demand indicators improving.

Monetary policy measures have helped to moderate inflation with headline CPI inflation gradually declining from its peak of 7.8% in April 2022 to 5.7% in March 2023; it is projected to ease further to 5.2 per cent in Q4 2023–24, according to the Reserve Bank of India (RBI), which expects growth to be supported by the upcoming harvest season, infrastructural investments laid out in the budget, and increased corporate investment in certain sectors. RBI revised its real GDP projections for 2022–23 to 6.5%, well above the IMF’s updated projection of 5.9%.

The key RBI policy rate (repo rate) stands at 6.5%. Inflation further slowed in March to 6.12% (6.4% in February), remaining higher than the upper limit of the RBI target range of 2–6%. While inflation for fuel and light moderated to 8.9% (from 9.9% in February), food-price inflation stood at 5.11% during the month of March.

Total passenger vehicle sales have not seen a recovery since February, with numbers ticking slightly upwards in March to 292,030 from 291,928 units in February. Gas pricing initiatives are expected to support the industry’s growth.

Industrial production growth has followed an upward y-o-y trend since January with growth in electricity output (8.2%), mining (4.6%), and manufacturing (5.3%). However, the pace has slowed: February witnessed a –6% decline m-o-m.

The purchasing managers’ index (PMI) for manufacturing remains solidly in expansion territory at 56.4 in March (55.3 in February); India’s manufacturing PMI has been in the expansionary zone for 21 months in a row. The services PMI saw a decline in March to 57.4 (59.4 in February).

Exports decreased –9.1% on an annual basis in March, totaling $38.38 billion, amid global demand challenges. March’s exports figure represents a 14% increase over February’s total of $33.8 billion, indicating growth momentum. At $58.11 billion, imports were down –4% from last year’s level (though recovering from February’s $51.3 billion). The trade deficit increased.

According to the Centre for Monitoring the Indian Economy, the unemployment rate climbed to 7.8% in March (7.5% in February), resulting in a m-o-m increase of 5%. The urban unemployment rate was 8.5% (7.9% in February), while rural unemployment was 7.5% (7.2% in February).

The annual rate of inflation based on the Wholesale Price Index (WPI) for March is 1.34% (versus 3.85% in February). The decline in the rate of inflation for March 2023 is primarily attributable to a fall in prices of basic metals, food products, textiles, non-food articles, minerals, rubber and plastic products, crude petroleum and natural gas, and paper and paper products.

Financial markets observed a rise in both the NSE and BSE, by 4% and 3.3% respectively, on a monthly basis (as of 24 March 2023). The rupee fluctuated slightly against the dollar over this period; however, it depreciated significantly against the euro, trading at 82.03 per dollar and 90.14 per euro on April 24. Central bank reserves increased to $586 billion as of 14 April 2023 ($579 billion as of 24 March 2023).

Source: Havers; IHS Markit; Ministry of Commerce and Industry; Ministry of Statistics and Programme Implementation (MOSPI); Reserve Bank of India
Industrial production growth accelerated to 5.6% in February (5.2% in January 2023); the NSE and BSE have risen since March.

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

BSE Sensex¹ and NSE Nifty² equity markets index
Index level, thousands (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 outlook for FY 24 declines; inflation ticked down to 6.1%; manufacturing sector in record expansion of 21 months; India in search of new export avenues

Industrial production expanded in February; consumer inflation ticked down; manufacturing sector expands for 21 straight months

- Total passenger vehicle sales have not seen a recovery since February with numbers moving slightly upwards in March to 292,030 from 291,928 units.
- Industrial production growth accelerated in January to 5.6% year-over-year (5.2% in January). Growth was measured in electricity output (8.2%), mining (4.6%), and manufacturing (5.3%).
- The purchasing managers’ index (PMI) for manufacturing expanded even further at 56.4 in March (55.3 in February); the services PMI declined from the previous month, standing at 57.8 in March (versus 59.4 in February).
- Exports (goods) decreased –9.1% on an annual basis in March, totaling $38.38 billion, amid global demand challenges. March’s exports figure represents a 14% increase over February’s total of $33.8 billion, indicating growth momentum. At $58.11 billion, imports were down –4% from last year’s level (though recovering from February’s $51.3 billion) resulting in an increased trade deficit.
- Inflation slowed only slightly in March, to 6.1% (6.4% in February). RBI targets the 4% mark under the tolerance band limit.
- According to the Centre for Monitoring the Indian Economy, unemployment increased to 7.8% in March (7.5% in February).

Increase in bank deposits; stock markets rise; India witnesses FPI inflows

- The NSE (Nifty 50) and BSE (Sensex) increased by 4% and 3.3% respectively (as of April 24).
- The rupee fluctuated slightly against the dollar over this period; however, the euro increased by 2.4% to 90.14.
- Foreign investors turned into net buyers in the equity segment, whereas debt recorded outflows.
- Bank deposits expanded 9.58% y-o-y in FY23, against 8.9% y-o-y growth seen in the previous financial year.

Foreign-exchange reserves increased; RBI revises the GDP outlook

- The repo rate remains at 6.5%, with inflation appearing manageable.
- The RBI posted reserves of $586 billion as of 14 April 2023 versus $579 billion as of 24 March 2023.
- The International Monetary Fund revised its forecast growth rate for India to 5.9% from 6.1% for the current fiscal year due to tight global financial conditions; however, India’s central bank revised its projection upwards from 6.4 to 6.5%.
Russia

Russian 2022 GDP slump has been driven by domestic consumption and net trade; late 2022 and early 2023 marked by stagnation; 2023 outlook depends on government support and trade, as domestic demand remains weak; inflation fell sharply below 4% on an annual basis.

Detailed 2022 GDP data confirm that Russian GDP declined by 2.1%, with household consumption and net trade weighing on growth. However, fixed investments and government spending helped avoid a deeper slump. The negative contribution from net trade came as a surprise, given the perceived resilience of commodity exports. Also, the quarterly profile is hard to square with the timing of Western sanctions targeting Russia's commodity exports and Russia's own actions. The data show real exports cratered in Q2 2022, not in H2 when the cuts in Gazprom's exports were deepest.

The data also show that Q4 confirmed full-year trends. GDP growth was the same as in Q3, at 0.5% quarter on quarter. Household spending slowed to 1.8% in Q4 from 2.5% in Q3, likely due to weak sentiment and uncertainty. Fixed investment growth picked up to 0.8% in Q4 from 0.6% in Q3; government consumption growth climbed to 1.7% from 0.6% in Q3.

January–February data confirm stagnation. In February, the estimated annual GDP contraction improved slightly to –3.1% from –3.2% in January. In the first two months of 2023, industrial output shrank by 2% on an annual basis, while retail sales volume contracted by 7.2%. Even the low-base effect did not help consumer activity recover, indicating that household demand remains depressed.

Preliminary balance-of-payments figures show that the value of Russia's exports in Q1 2023 fell by 35% y-o-y, driven by a decline in commodity prices and lower volumes related to sanctions and Russia's decision to reduce its gas exports. The value of Russia's imports in Q1 2023 was down 3% y-o-y but grew compared to the previous quarter. The recovery observed after last spring's collapse likely reflects higher import prices due to global inflation. As a result, Russia's current account surplus declined to $20bn from $70 last year. The early evidence suggests that the overall volume of Russian oil exports in January–February was broadly unchanged from the 2022 monthly average, thanks to a shift of export flows to Asia and Africa.

CPI inflation in March fell sharply to 3.5% from double-digit numbers—this stems from base effects, as the March 2022 jump dropped off calculations. Consumer price growth slowed to 0.4% m-o-m from 0.5% the prior month, with core inflation up only 0.1% m-o-m.

Unemployment fell to 3.5% in February from 3.6% in January. The labor market tightened due to adverse demographic trends exacerbated by emigration, with the labor supply also influenced by changing migration patterns as immigration from other CIS countries stalled. Estimates suggest 500,000–800,000 Russians left the country after the invasion. Despite the recession, growth in nominal wages has remained brisk. In January, nominal wages were up by 12.4% y-o-y, while the average real wage rose by 0.6%.

Source: BOFIT; IHS Markit; Oxford Economics
GDP decline driven by private consumption, inventories, and net trade; short-term indicators show stagnation

**Gross domestic product**
2022, contribution to growth, in percentage points

- Private consumption: -0.6
- Public consumption: 0.5
- Gross fixed capital investments: 0.7
- Inventories: -1.7
- Net exports: -1.0
- GDP: -2.1

**Industrial production and retail trade**
Index, 2019=100

Source: Federal Statistics Service; Haver Analytics
Domestic economy stagnates at low levels amid lower inflation and exports receipts, and increased social uncertainty

- February retail sales growth (seasonally adjusted) worsened to –8.1% y-o-y from 6.5% in January; it has remained depressed since April 2022 owing to uncertainty and stagnant purchasing power.
- After a 2.9% y-o-y contraction in January, industrial output shrank 1.8% in February with only marginal changes since April 2022.
- Russia’s exports in Q1 2023 fell by 35% y-o-y, driven by a decline in commodity prices accompanied by a decrease in volumes. The value of Russia’s imports in Q1 2023 was down 3% y-o-y. Consequently, Russia’s current account surplus declined to $20bn from $70bn last year.
- The early evidence suggests that the overall volume of Russian oil exports in January-February was broadly unchanged from the monthly average for 2022, as export flows shifted to Asia and Africa.
- Headline inflation in March fell sharply to 3.5% y-o-y from 10.9% in March; core inflation to 3.7%. Still, expectations remain high, at 10.7% in March, leaving some room for the central bank to raise interest rates amid high nominal wages growth and pressure on currency.
- The national unemployment rate fell to just 3.5% in February, its lowest level in the post-Soviet era; in January, nominal wages were up by 12.4% y-o-y, while the average real wage was up by 0.6%.
- The ruble has depreciated by nearly 5% since the beginning of April, related both to capital flight caused by the departure of foreign companies and a drop in Russia’s oil export revenues.
- The MOEX index has improved by 12.2%, and the RTS by 4.2% since mid-March. However, both remain at around 25–30% below their pre-invasion levels; trade volumes remain marginal.
- No major change over last month can be seen regarding government debt yields, with rates remaining elevated (11%).
- Credit dynamics eased a bit in January–February: total corporate lending was up by approximately 11% y-o-y (13% in December); household lending eased to 8.5% y-o-y from a 14% average in 2022.
- Fiscal stance worsened; fears of another military draft spark uncertainty
- In January–February nominal federal budget revenues plunged by nearly 30% y-o-y, while expenditures increased by about 50%. The spending burst is aimed at stimulating investment and industrial output, particularly the military-industrial complex. The federal budget deficit has skyrocketed, reaching nearly 4% of GDP for the 12-month period ending in February.
- The Russian government pushed through a new military draft law allowing it to send draft notices electronically and prohibiting draftees from leaving the country. The rules have stoked worries of another wave of mobilization in the coming months.

Domestic activity continues to stagnate amid declining inflation and tight labor market; foreign-trade surplus shrinks

- February retail sales growth (seasonally adjusted) worsened to –8.1% y-o-y from 6.5% in January; it has remained depressed since April 2022 owing to uncertainty and stagnant purchasing power.
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Source: BOFIT; Haver Analytics; Oxford Economics; The Economist Intelligence Unit

Global Economics Intelligence › Russia report, April 2023

McKinsey & Company
Brazil

Inflation continues its downward trajectory; Lula da Silva completes his first 100 days as president, but faces important challenges ahead.

Inflation continued its downward trend in March to reach 4.65% (5.6% in February), hitting levels not seen since January 2021. Inflation declined for food, beverages, and personal expenses, while picking up for housing and health. Considering the scenarios, balance of risks, and broad array of information available, Brazil’s Monetary Policy Committee, the Copom, decided to maintain the Selic rate at 13.75% p.a.—the same as for the past five months. The Committee judges this to be consistent with a strategy for inflation to converge with its target level during the relevant monetary policy horizon, which includes 2023 and 2024.

Without compromising its fundamental objective of ensuring price stability, the decision factors in the additional objectives of smoothing economic fluctuations and fostering full employment. The committee emphasizes that it will persist until the disinflationary process is consolidated with inflation expectations anchored around its targets.

Consumer sentiment in relation to both the current and future economic situation improved, with consumer confidence increasing to 87 in March (up from 84.5 in February). However, the index remains below the 100-point threshold, indicating that Brazilian consumers are still pessimistic.

Brazil’s Purchasing Managers’ Index for Manufacturing fell to 47.0 in March (from 49.2 in February), remaining in the contraction territory for the fifth consecutive month. Goods producers witnessed a sharper reduction in new work intakes and responded by scaling back input buying and production volumes in response to reduced inventory requirement. Subdued input demand curbed cost inflation, but selling charges rose at a faster rate. The services PMI turned positive and rose to 51.8 in March from 49.8 in February, indicating that output growth has returned. Companies reported mild expansions in new business intakes and output. Additionally, there was a fresh upturn in jobs, while sentiment around the 12-month outlook for activity strengthened. Input costs and output charges continued to rise substantially. The composite PMI climbed to 50.7, recording its first expansion since October 2022.

In March, the balance of trade posted a surplus of USD 10.9 billion, with exports totaling USD 33.0 billion (against USD 20.5 billion in February) and imports reaching USD 22.1 billion (USD 17.7 billion in February). Exports to Argentina, China, the European Union, Hong Kong, and the US all increased.

On the financial markets, the average monthly exchange rate in March deteriorated from 5.17 in February to reach BRL 5.21 per US dollar. The Bovespa equities index also lost value in March.

Lula da Silva completed his first 100 days as Brazil’s president; however, despite some signs of progress, the past three months have been greeted with a degree of skepticism from the public and commentators. In the social arena, the president has been reinstating programs aimed at supporting low-income housing, water delivery, and financial aid for low-income families. In the political arena, Lula has questioned the central bank’s interest rates policy, querying the bank’s autonomy under the previous government. More broadly, after four years of international animosity towards Bolsonaro, Brazil’s position within the BRICS economic bloc looks to be on the rise. Lula has already traveled to Beijing to meet Chinese president Xi Jinping to boost cooperation between their respective countries.

Source: Haver Analytics; Instituto Brasilièro de Geografia e Estatistica (IBGE)
In March inflation fell, the Brazilian real lost ground, and equity market performance deteriorated

Consumer price index\(^1\); exchange rate
\% change y-o-y, monthly; BRL per USD

Bovespa index
Indexed to January 2007 = 100

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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 5.79\% with a margin of error of 1.5 percentage points.
2 Data through March 31, 2023.

Source: Haver Analytics; Instituto Brasileiro de Geografia e Estatística (IBGE); McKinsey’s Global Economics Intelligence analysis
In March, consumer and business confidence grew; trade expanded and inflation eased; the unemployment rate rose slightly

### Macroeconomic

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<thead>
<tr>
<th>Indicator category</th>
<th>Change vs prior month</th>
<th>Change vs pre-COVID levels¹</th>
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<tbody>
<tr>
<td>Consumer</td>
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<td>Business, industry</td>
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<td>Labor market</td>
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1 January 2020 is used as reference for pre-COVID-19.

### Financial markets

- **The Brazilian real weakened against the US dollar, while the Bovespa index declined in March**
  - The real lost ground against the US dollar in March. The monthly average exchange rate was BRL 5.21 per US dollar (5.17 in February). On April 17, the exchange rate reached 4.97 BRL per US dollar.
  - Brazil’s equities index, the Bovespa lost around 4.1% of its value from February 10 to March 10, while also losing 1.1% of its value to April 10.

### Government and policy

- **Brazil’s former president Bolsonaro ordered to testify over riots; president Lula da Silva visits Chinese president Xi Jinping**
  - A judge on Brazil’s Supreme Court has ordered former President Jair Bolsonaro to testify regarding the January 8 riots, where his supporters invaded and vandalized Brazil’s Congress, the presidential palace, and the Supreme Court. Bolsonaro has argued that he was out of the country when the disturbances happened.
  - President Ignacio Lula da Silva visited China’s president Xi Jinping as part of Brazil’s efforts to seek broader participation in the BRICS bloc. Both presidents aim to boost cooperation between the two countries.

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¹ Source: Banco Central do Brasil; Fundação Getulio Vargas; Haver Analytics; Instituto Brasiliéro de Geografia e Estatística (IBGE)