McKinsey & Company

Global Economics Intelligence

Global Summary Report

Released February 2024 (data through January 2024)

SUBSCRIBE

Disclaimer

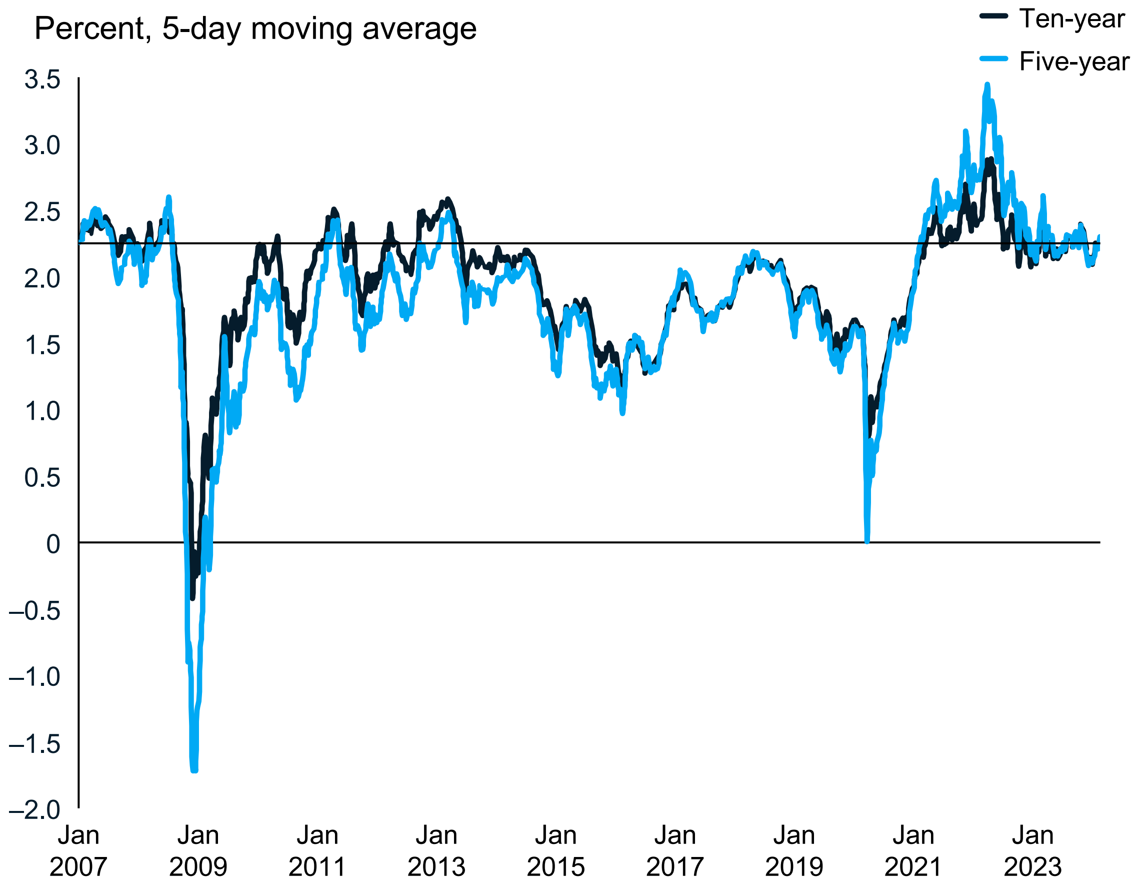
This report is intended for the purpose of illustrating the broad capability of McKinsey & Company. No part of it may be circulated, quoted, or reproduced for distribution outside the client organization without McKinsey & Company's express prior written consent.

We also recommend that its content not be used for critical decision making without first consulting your McKinsey contact. McKinsey & Company shall not be responsible or liable for any decisions made by you or your company based on the use of this report.

Central banks continue to garner the confidence of market participants, as inflation expectations stabilize within the range of 2-2.5%

Real Implied inflationary expectations from five- and ten-year TIPS yields[1] (spread between T-bill and TIPS of same maturity)

Percent, 5-day moving average



[1]Updated through February 16, 2024.

The Global economic uncertainty remains elevated; China facing deflation, real estate problems, and FDI declines, EU growth stagnates, and US high-interest environment beginning to impact households and companies.

Consumers remain upbeat as retail sales in the main economies show steady growth, despite elevated prices. Growing sentiment in the US saw the consumer confidence index (Conference Board) rise to 114.8 in January, up from a revised 108.0 in December. By contrast, consumer confidence in Brazil dropped to its lowest level since May 2023 but is still 5.0 points higher than in January 2023.

US retail and food-service sales decreased to $700.3 billion in January, a 0.8% decline from December's $706.2 billion. Automobile sales in India (which are a proxy for consumer sales) grew by 37.3% to 393,074 units (286,390 in December). Passenger vehicles saw their highest-ever sales in January, posting a growth of around 14% compared to the previous year. Meanwhile, official news from China was that consumption during the 2024 Spring Festival holiday underwent a notable increase.

Inflation's downward trend is stalling in some advanced economies but continues in the eurozone. The US Consumer Price Index was up 0.3% in January on a seasonally adjusted basis, after rising 0.2% in December. Core inflation remained unchanged at 3.9% (annualized) in January. The UK's Consumer Price Index was also unchanged at 4% in January 2024; similarly, core inflation was steady at 5.1%; however, services inflation rose from 6.4% to 6.5%. Meanwhile, in the eurozone, headline inflation fell slightly to 2.8% year-on-year in January (down from December's 2.9%), while core inflation remained elevated at 3.3% but also declined (3.4% in December); producer-price inflation was down –7.3% in December (–6.5% in November).

The situation across emerging economies is more varied: at one extreme, China seeks to tackle deflation while, at the other, Russia is battling accelerating inflation, with consumer prices rising in December 2023 and January 2024 by 7.4% year-over-year. In China, consumer prices deflated by –0.8% in January (–0.3% in December), dragged down by declining food prices (–5.9%). Producer prices deflated at –2.5% (−2.7% in December). It's a more benign situation elsewhere: in India, headline inflation moderated slightly to 5.1% in January from 5.7% in December, while Brazil saw inflation fell for the fourth consecutive month, down to 4.51% (4.62% in December).

Meanwhile, February commentary from the IMF warns that, with China's real estate downturn now in its third year, housing starts have fallen more than 60% relative to pre-pandemic levels.[1] The pace of decline has unfolded at a "historically rapid pace" only seen in the largest housing busts across countries over the last three decades, according to the IMF. Homebuyers are wary that future prices will decline and that developers lack sufficient funds to complete projects. At the same time, the country's housing market faces further pressure as demographic change unfolds and urbanization slows. The IMF indicates that housing investment is poised to fall further and will likely remain subdued. Its analysis shows that real estate investment could fall 30–60% below its 2022 level over the medium term, rebounding only very gradually.

Most commodity prices are continuing to ease, though they are at high levels compared with the

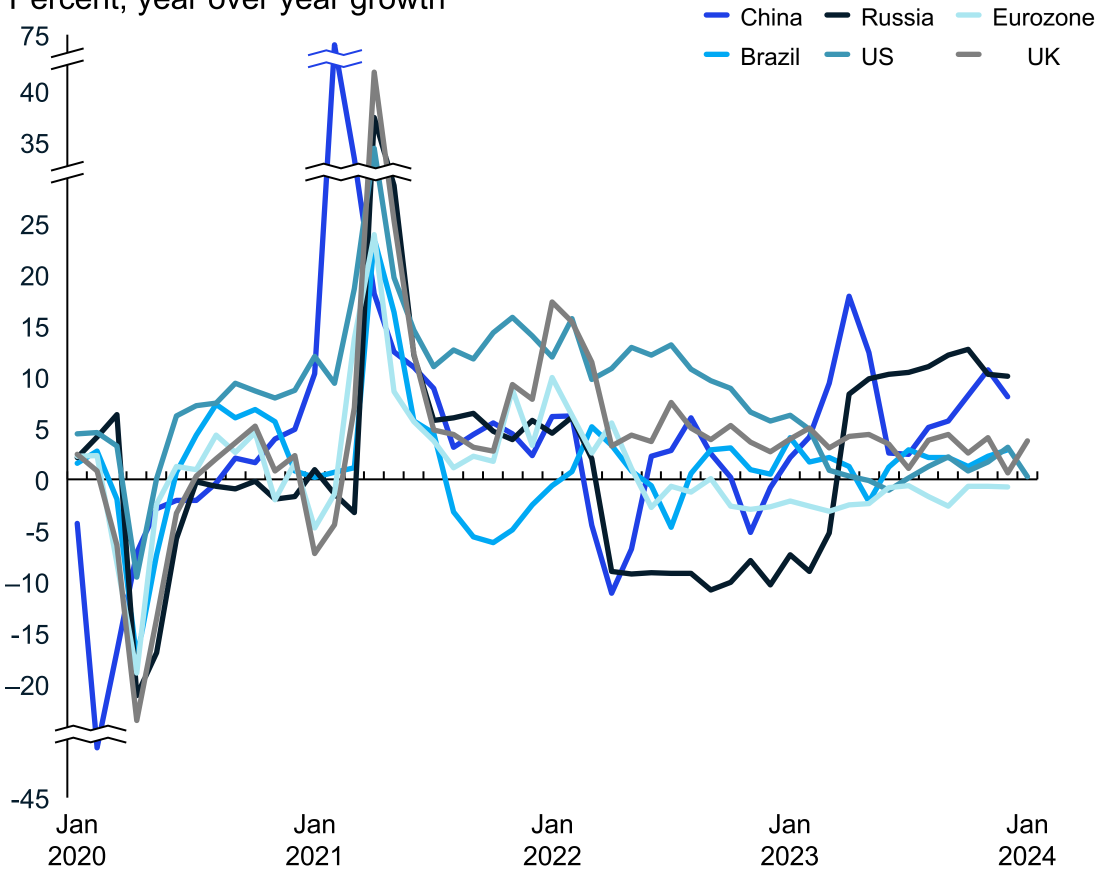
[1]Henry Hoyle and Sonali Jain-Chandra, "China's real estate sector: Managing the medium-term slowdown," IMF News, China country focus, February 2, 2024

Source: Haver Analytics; McKinsey's Global Economics Intelligence analysis

Consumers remain upbeat as retail sales in main economies have experienced steady growth, despite elevated prices and interest rate environment

Consumer Retail sales growth

Percent, year over year growth



pre-pandemic era. Gold appreciated steadily in February, while energy prices continue to rebound.

Expectations around inflation have been in the 2.0–2.5% range for a year.

Interest rates were again held across the developed economies, and also in India. However, Brazil's Monetary Policy Committee (Copom) decided to reduce the Selic rate by 0.50 percentage points (for a fifth time), cutting the rate from 11.75% to 11.25% per annum.

In terms of growth, Europe continues to be lackluster while Russia presents a surprising picture. GDP in the eurozone was stagnant in the final quarter of 2023, up marginally (by 0.1%) on both the previous quarter and the prior-year period, according to Eurostat flash estimates. This brings growth for 2023 as a whole to 0.6%. However, the situation varies both by country and industry: manufacturing-intensive Germany, which was in recession in 2023, is performing worse than countries with a greater focus on services, such as Spain, which grew 2.5% in 2023. The UK entered a technical recession: UK quarterly GDP is estimated to have fallen – 0.3% in Q4 2023. Across 2023, GDP is estimated to have risen by 0.1% compared with 2022. By contrast, preliminary data for Russia show a surprisingly robust GDP growth of 3.6% in 2023, somewhat higher than forecasters had expected, albeit that there is significant inconsistency among sources. Given uncertainty and inconsistencies around the data, any growth figures should be treated with a degree of caution. Recent forecasts see Russia's GDP growth slowing in 2024. The February forecast from the Central Bank of the Russian Federation expects GDP to grow 1–2 %; the IMF anticipates 2.6 % and the OECD 1.8 %.

Manufacturing and services continue their divergent paths with manufacturing muted in many surveyed economies, while services are seeing a resurgence. Among surveyed economies, manufacturing is most buoyant in India, Brazil, and the US, while services sentiment is most positive in India, the UK, Brazil, and the US. Overall, the composite purchasing managers' index (PMI) points to positive conditions in Brazil (up from December's 50.0 to 53.2 in January and comfortably within expansion territory for a fourth consecutive month). By contrast, February's composite PMI for the eurozone edged up to 48.9 from 47.9 in January (while remaining in the contraction zone).

India's PMI for manufacturing stood at a four-month high of 56.5 in January 2024, up from 54.9 in December, supported by new orders and output. Brazil's manufacturing PMI climbed past the neutral 50.0 mark for the first time since August 2023 to reach 52.8 in January (48.4 in December). In the US, January's manufacturing PMI was revised higher to 50.7, from a preliminary of 50.3 (47.9 in December). It was a less positive picture elsewhere: China's PMI for manufacturing rose slightly in January 2024 but remained in the contraction zone at 49.2 (49.0 in December); the UK's seasonally adjusted manufacturing PMI edged up to post 47.0 in January (up from 46.2 in December but still well in the contraction zone), while the eurozone manufacturing PMI fell further to 46.1 (from 46.6).

Services PMIs are recording much more positive numbers, with India again leading the way. In India, where services account for more than 50% of GDP, the services PMI continued its upward trend to reach (revised upward), a six-month high. Sentiment in the 61.8.

Source: Banco Central do Brasil; Eurostat; National Bureau of Statistics of China; Rosstat; UK Office for National Statistics; US Census Bureau; McKinsey's Global Economics Intelligence analysis

UK services sector was also buoyant, with the PMI registering 54.3 in January, up from 53.4 in December. Brazil's services PMI climbed to 53.1 in January (up from 50.5 in December), while the US services PMI rose to 52.5. The eurozone also saw a glimmer of improvement as the services PMI touched the neutral 50 mark (up from 48.4)—a seven-month high. Similarly, China's official services PMI rose to reach the expansion zone, hitting 50.1 in January (49.3 in December).

Across most surveyed economies unemployment was steady or trending downwards. In the US, January's unemployment rate was unchanged at 3.7%, with total nonfarm payroll employment rising by 353,000 net new jobs. The UK saw the unemployment rate for Q4 2023 decline to 3.8%, returning to the year-ago rate. India's unemployment rate fell to a 16-month low of 6.8 per cent in January (from 8.7% in December) and Brazil saw the three-month moving average unemployment rate decline slightly to 7.4% in December (7.5% in November)—its lowest level since 2015. Meanwhile, China's surveyed urban employment rate was steady at 5.2% in January (5.1% in December). The youth unemployment rate fell slightly to 14.6% in January (14.9% in December).

The US and India were the top performers on the equity markets, while Europe's STOXX 600 also hit an all-time high on February 23, following positive earnings reports. In January, the S&P 500 climbed 1.6%, bringing its one-year return to 18.9%; the Dow Jones rose by 1.2% for the month and was up 11.9% in 2023. India's stock markets continued to trend up, with both the Nifty and Sensex adding some 2–3% in value over the previous month. The Nifty had risen 2.6% and the Sensex 1.9% as of February 26 (compared with January 22, 2024). By contrast, Brazil's Bovespa equities index fell in January, losing 2.2% in value.

Various factors are having a dampening effect on global trade, with concerns about ongoing conflicts in Europe and the Middle East and the reemergence of supply chain disruption. However, world trade volume increased by 1.0% in December, with increases across all flows and economies. For 2023 as a whole, China's trade growth slowed: exports were down –4.6% (+6.9% in 2022) with imports down –5.5% (+1.0% in 2022). For different reasons, Russia's exports declined significantly in 2023—due to the country's international economic isolation and the effect of sanctions. Exports represented just 23% of GDP last year, the lowest share on record. In the US, December's exports reached $258.2 billion, $3.9 billion up on November, while imports were also up at $320.4 billion ($4.2 billion in November)—consequently, the total deficit increased to $62.2 billion, up 0.5%. India's merchandise exports reached US $36.9 billion in January 2024, registering a 3.1% year-on-year growth. Merchandise imports also expanded, after contracting for the past two months, to register US $54.4 billion with year-on-year growth of 3.1%. The merchandise trade deficit narrowed to a nine-month low of US $17.5 billion in January 2024. Brazil posted a surplus of US $6.5 billion in January, with exports totaling US $27.0 billion (US $28.8 billion in December) and imports reaching US $20.5 billion (US $19.5 billion in December).

[Advanced economies]: In the advanced economies, US consumer sentiment remains upbeat; GDP stagnant in Europe with recession in Germany and UK; central banks hold rates; inflation falls in eurozone.

United States

Consumer sentiment remained upbeat in January as the economy added 253,000 net new jobs, with annualized inflation decreasing, and interest rates unchanged below 5.5%; January also saw equity markets cool after an end-of-year surge.

The unemployment rate was unchanged at 3.7% (3.5% in January 2020). Total nonfarm payroll employment rose by 353,000 net new jobs in January.

The Consumer Price Index was up 0.3% in January on a seasonally adjusted basis, after rising 0.2% in December. The CPI stood at 3.1% (annualized) in January, a smaller rise than the 3.4% increase for the 12 months ending December. Core inflation remained unchanged at 3.9% (annualized) in January. The January 2024 Survey of Consumer Expectations from the Federal Reserve Bank of New York (NY Fed) shows that one-year-ahead inflation expectations were unchanged at 3.0% after reaching the lowest level recorded since January 2021.

Retail and food-service sales decreased to $700.3 billion, a 0.8% decline from December's $706.2 billion. The consumer confidence index (Conference Board) rose in January to 114.8, up from a revised 108.0 in December.

The industrial production index remains almost unchanged at 102.6 in January. January's purchasing managers' indexes (PMI) remained in expansion territory. The PMI for manufacturing was revised higher to 50.7, from a preliminary of 50.3 (47.9 in December), while the services PMI rose to 52.5.

In January, the S&P 500 climbed 1.6%, bringing its one-year return to 18.9%; the Dow Jones rose by 1.2% for the month and was up 11.9% in 2023. January's CBOE Volatility Index average was 15.8 (up from 12.5 in December), cooling off December's equities growth.

In January, the Federal Reserve decided to maintain the target range for the federal funds rate at 5-1/4% to 5-1/2%. In its statement on Longer-Run Goals and Monetary Policy, the Federal Reserve affirms its 2% inflation target over the longer run as measured by the annual change in the price index for personal consumption expenditures.

December exports came in at $258.2 billion, $3.9 billion up on November's figure; imports were $320.4 billion, a $4.2 billion rise on November. As a consequence, the total deficit increased to $62.2 billion, up 0.5%.

On the housing market, the 30-year fixed-rate mortgage fell to 6.7% on February 16. Existing home sales declined by –1.0% in December. During January, housing starts dropped to 1,331,000 (1,460,000 in December), with completions down to 1,470,000 in January (1,574,000 in December).

Amid rising tensions between the White House and Congress over the latest Ukraine aid package, House Speaker Mike Johnson faces intense pressure to resolve the deadlock in the face of international criticism and internal GOP resistance.

On January 10, the SEC approved the listing and trading of a number of spot bitcoin exchange-traded product (ETP) shares. SEC Chair Gary Gensler emphasizes the commission's neutrality and adherence to legal standards in evaluating such filings, highlighting the distinction between approving bitcoin ETPs and endorsing bitcoin itself, cautioning investors about associated risks.

Home affordability pressures see 37% decline in home sales since November 2021

US single family home sales
Millions of units

US single-family home sales have decreased ~17%, since February 2023—in line with rising prices and credit costs which have impacted affordability

Also, millions of homeowners stay locked into earlier low mortgage rates (60% of borrowers had a rate of 4% or lower in Oct 2023) and are content to remain in their current homes, so **helping to keep inventory low**

Latest monthly data figure available for December 2023

Source: FRED; National Association of Realtors; NBER; US Census Bureau; McKinsey Global Institute

Upbeat consumer sentiment remains, 253,000 net new jobs, declining inflation (annualized), interest rates stay below 5.5%; equities cool in January after year-end surge

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

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

Annual inflation down despite monthly increase; unemployment unchanged at 3.7%; 353,000 net new jobs in January

- The industrial production index remains almost unchanged at 102.6 in January (December 2023: 102.7). The January purchasing managers' index (PMI) for manufacturing was revised higher to 50.7 from a preliminary of 50.3, (47.9 in December); the services PMI rose to 52.5 (70.4 in May 2021).
- Retail and food-service sales decreased to $700.3 billion, a 0.8% drop from December's $706.2 billion. The consumer confidence index (Conference Board) rose in January to 114.8, up from a revised 108.0 in December. December 2023 exports measured $258.2 billion, $3.9 billion more than November; imports were $320.4 billion, $4.2 billion up on November's figure. The total deficit climbed 0.5%, to $62.2 billion.
- On the housing market, the 30-year fixed-rate mortgage dropped to 6.7% on February 16. Existing home sales fell –1.0% in December, marking a drop of 37% since November 2021. During January, housing starts declined to 1,331,000 (1,460,000 in December), with January completions down to 1,470,000 (1,574,000 in December).
- The unemployment rate was unchanged at 3.7% (3.5% in January 2020). Total nonfarm payroll employment rose by 353,000 net new jobs in January. New unemployment claims remain low and steady, currently at 228,000 new claims per week.
- The Consumer Price Index rose 3.1% (annualized) in January, smaller than the 3.4% increase for the 12 months ending December. Core inflation remained unchanged at 3.9% (annualized) in January, but with shelter, motor vehicle insurance, and medical care all showing increases.

January's stock market cools from end-of-year growth; FOMC affirms 2% inflation target

- In January, the S&P 500 climbed by 1.6%, bringing its one-year return to 18.9%; the Dow Jones rose by 1.2% for the month and was up 11.9% in 2023. January saw the CBOE Volatility Index average 15.8 (12.5 in December), cooling December's equities growth.
- In January, the Federal Reserve decided to maintain the target range for the federal funds rate at 5-1/4% to 5-1/2%. In its statement on Longer-Run Goals and Monetary Policy, the Federal Reserve affirms its 2% inflation target over the longer run as measured by the annual change in the price index for personal consumption expenditures.

Tension over Ukraine's aid puts pressure on House Speaker; SEC approves bitcoin ETPs

- Amid tensions between the White House and Congress over the latest Ukraine aid package, House Speaker Mike Johnson faces intense pressure to resolve the deadlock in the face of international criticism and internal GOP resistance.
- On January 10, the SEC approved the listing and trading of a number of spot bitcoin exchange-traded product (ETP) shares. SEC Chair Gary Gensler emphasizes the commission's neutrality and adherence to legal standards in evaluating such filings, highlighting the distinction between approving bitcoin ETPs and endorsing bitcoin itself, cautioning investors about associated risks.

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

Eurozone

2023 eurozone GDP at 0.6%; European stocks at record high; inflation rebound weaker than expected; CAP under scrutiny as farmers protest.

GDP was stagnant in the final quarter of 2023, up marginally (by 0.1%) on both the previous quarter and the prior-year period, according to Eurostat flash estimates. This brings growth for 2023 as a whole to 0.6%. Even though economic activity has flatlined, some forward-looking indicators point to a pick-up in growth further ahead. The situation varies both by country and industry: manufacturing-intensive Germany, which was in recession in 2023, is performing worse than countries with a greater focus on services, such as Spain, which grew 2.5% in 2023. There are reemerging supply bottlenecks dragging on industrial performance, while services are growing on the back of raising wages.

The eurozone industrial production index rose in December (2.6% month-on-month, 1.0% year-on-year) after reaching its lowest level since COVID-19 in the previous month. February's composite purchasing managers' index (PMI) edged up to 48.9 from 47.9 in January (though still in the contraction zone). The manufacturing PMI fell to 46.1 from 46.6; the services PMI rose to 50 from 48.4, a seven-month high. January's Eurocoin reading fell to –0.51 after a mild rebound.

Eurozone headline inflation fell slightly to 2.8% year-on-year in January, down from December's 2.9%. There was a mild reduction in food inflation; services prices were stable amid wage pressures; core inflation remained elevated at 3.3% but is also declining (3.4% in December). Producer-price inflation was –7.3% in December (–6.5% in November).

On January 25, the ECB decided to continue balance sheet normalization and keep key interest rates unchanged. Looking ahead, there is uncertainty over when rates will come down. Europe's STOXX 600 hit an all-time high on February 23, in light of positive earnings reports. In February, the euro was stable against the US dollar, trading at $1.08 per euro on February 23. The Italian-German 10-year bond-yield spread marginally narrowed to 1.6% in early February; yields are at 3.9% and 2.5%, respectively.

France's new Prime Minister, Gabriel Attal announced his government in January. Under the French system, the prime minister is appointed by the President. Emmanuel Macron replaced former PM Élisabeth Borne after only 20 months, ahead of European elections in June. Following downward revision of the 2024 growth forecast from 1.4% to 1.0%, finance minister Bruno Le Maire announced €10 billion in spending cuts for 2024 as weaker-than-expected tax revenues reduced budgetary room for maneuver.

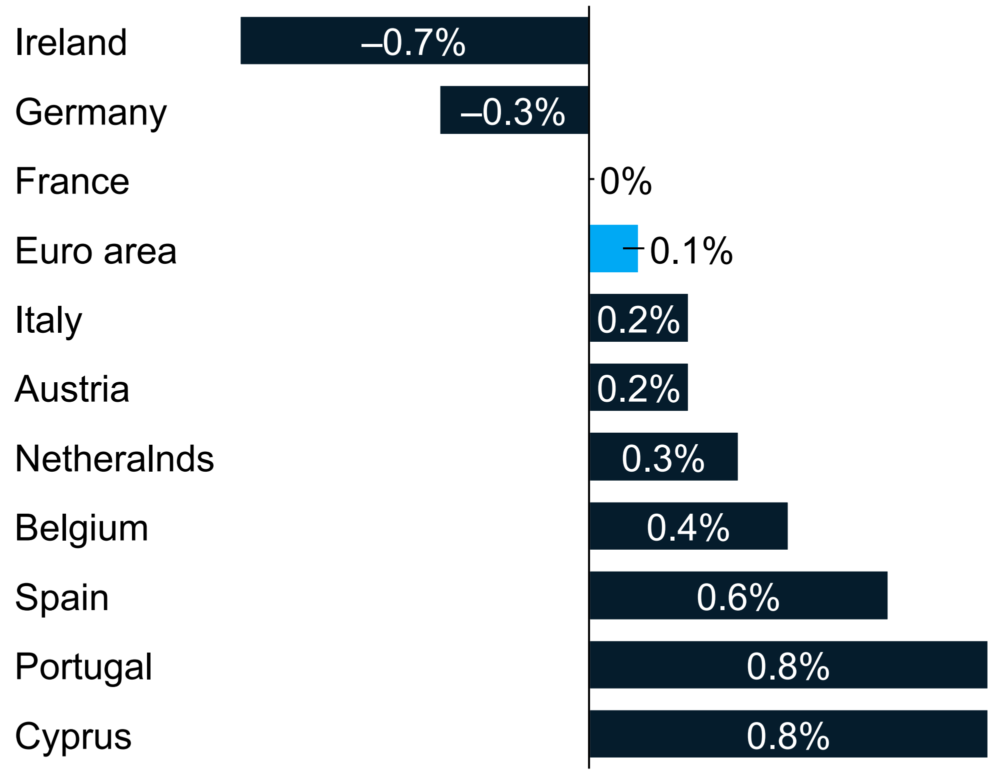
Protesting farmers sprayed manure, blockaded roads, and set fire to tires in Brussels on February 26 as ministers from EU member states met to discuss the Common Agricultural Policy. Demonstrations have been held in multiple EU countries as farmers protest against red tape, environmental regulations, and cheap agricultural imports.

Source: Oxford Economics

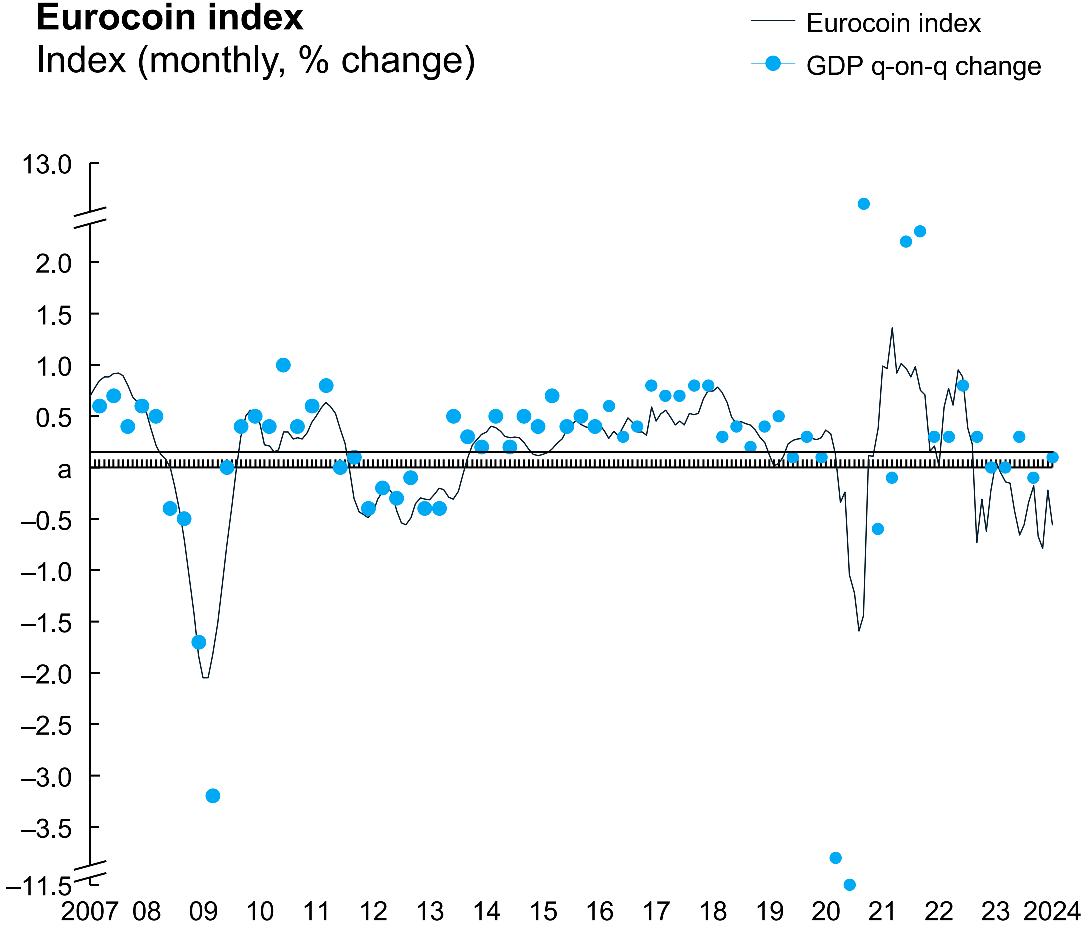
Photo by Ilnur Kalimullin on Unsplash

Countries with greater focus on services currently seeing higher growth than manufacturing-led economies; Eurocoin declines in contrast with other forward-looking indicators

Eurozone real GDP 2023 forth quarter
Quarter-on-quarter, constant prices (% change)



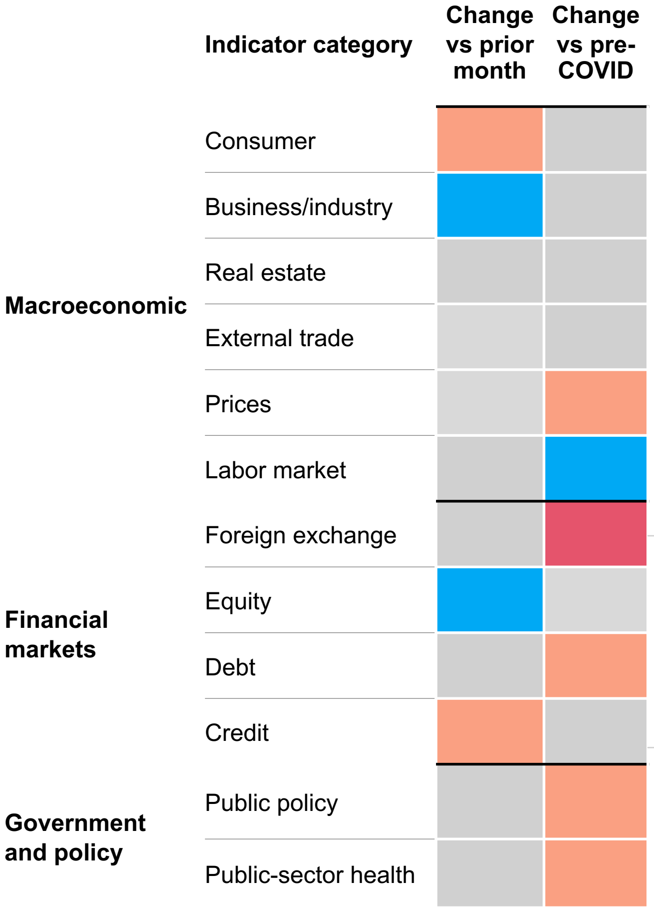
Eurocoin index
Index (monthly, % change)



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

Europe STOXX 600 hits all-time high following “favorable outlook”; inflation rebound weaker than expected; farmers protest

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



Europe STOXX 600 reaches all-time high; inflation rebound weaker than expected

- Real retail sales fell by 1.1% month-on-month (–0.8% year-on-year) in December. The consumer confidence indicator edged down marginally in December (–16) and remains below the historical average in line with weakening demand and some expectation of inflation returning.
- The industrial production index rose in December (2.6% month-on-month, 1.0% year-on-year) after reaching its lowest level since COVID-19 the previous month. February’s composite PMI was up to 48.9 from 47.9 in January. The manufacturing PMI fell marginally to 46.1 from 46.6; the services PMI rose to 50 from 48.4, a seven-month high.
- Construction output in December rose by 0.8% month-on-month (1.9% year-on-year); the construction PMI fell from 43.6 in December to 41.3 in January, the sharpest drop since COVID-19 (May 2020).
- The eurozone’s goods trade surplus contracted to €17 billion in December, from €20 billion in November, due to a €33 billion decrease in exports to €218 billion; imports fell by €29 billion, to €201 billion.
- Eurozone headline inflation fell slightly to 2.8% year-on-year in January, down from 2.9% in December. There was a mild reduction in food inflation while services prices stood stable amid wage pressures. Core inflation remains elevated at 3.3%, though it is also trending down (3.4% in December). Producer-price inflation was –7.3% in December (–6.5% in November).
- The eurozone's unemployment rate was stable at 6.4% in December 2023, (6.4% November) down from 6.7% in December 2022. Annual nominal wage growth in the third quarter of 2023 rose to 5.3% above inflation.

Europe’s STOXX 600 at all-time high; stable euro-dollar exchange rate; Italian–German 10-year bond-yield spread declined

- Europe’s STOXX 600 hit an all-time high on news of strong earnings and favorable forward-looking indicators (mainly in services).
- In February, the euro was stable against the US dollar, trading at $1.08 per euro on February 23.
- The Italian-German 10-year bond-yield spread narrowed to 1.6% in early February; yields are at 3.9% and 2.5%, respectively.
- December saw the annual growth rate for loans to companies recorded at 0.4% and 0.33% for loans to households for house purchase.

French finance minister announces €10 billion in spending cuts for 2024; farmers protest red tape and cheap agricultural imports

- Downward revision of the 2024 growth forecast (from 1.4% to 1.0%) saw the French finance minister announce €10 billion in spending cuts for 2024 as weaker-than-expected tax revenues reduced budgetary room for maneuver.
- Farmers protest across the EU over red tape, environmental regulations, and competition from cheap agricultural imports.

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

United Kingdom

Inflation was unchanged at 4% in January; quarterly GDP contracted by 0.3% in Q4 2023; latest GDP projections by the BoE, OECD, and IMF indicate modest growth for 2023–25.

According to the OECD's February Interim Report, UK growth will pick up from 0.3% in 2023 to 0.7% in 2024, with inflation dropping to 2.8% and core inflation to 3.6% in 2024. Similarly, the IMF's World Economic Outlook update projects modest growth of 0.5% in 2023 and 0.6% in 2024. Finally, the Bank of England's Monetary Policy Report expects inflation to fall temporarily to the 2% target in 2024 Q2 before increasing again in Q3 and Q4, with the Bank Rate remaining above 4% in 2024. GDP growth is expected to pick up gradually in 2025 and 2026.

UK quarterly GDP is estimated to have fallen by 0.3% in Q4 2023. While the economy has now contracted for two consecutive quarters, across 2023 GDP is estimated to have increased by 0.1% compared with 2022. Meanwhile, monthly GDP is estimated to have fallen by 0.1% in December 2023, following growth of 0.2% in November. In output terms, there were falls in all three main sectors in Q4 2023, with declines of 0.2% in services, 1.0% in production, and 1.3% in construction output.

The UK Consumer Price Index remained unchanged at 4% in January 2024, with the largest upward contributions coming from housing and household services (principally higher gas and electricity charges). Core inflation, which excludes items such as energy, food, alcohol, and tobacco, was also unchanged at 5.1%, while services inflation rose from 6.4% to 6.5%. Meanwhile, the Bank of England Monetary Policy Committee voted to maintain the policy rate at 5.25% at its January 31 meeting, seeking to balance the risks of not tightening enough in the face of persistent underlying inflationary pressures and further tightening when the impact of existing policy has yet to fully flow through. Economists still expect UK interest rates to fall this year, with many anticipating the BoE will lower the cost of borrowing in the summer from its current rate of 5.25%.

The seasonally adjusted UK Manufacturing Purchasing Managers' Index posted 47.0 in January, up from 46.2 in December. The downturn in the UK manufacturing sector continued into the start of 2024: January saw output and new orders decline further, leading to additional job losses and cutbacks in purchasing and stock holdings. Manufacturers also experienced rising supply chain difficulties, as Red Sea tensions led to the rerouting of input deliveries away from the Suez Canal. The PMI has signaled a deterioration in operating conditions in each of the past 18 months. The seasonally adjusted UK Services PMI registered 54.3 in January, up from 53.4 in December and above the 50.0 threshold for the third successive month. This signaled the fastest rate of business activity growth since May 2023 and was linked to more favorable economic conditions combined with rising business and consumer sentiment at the start of the year.

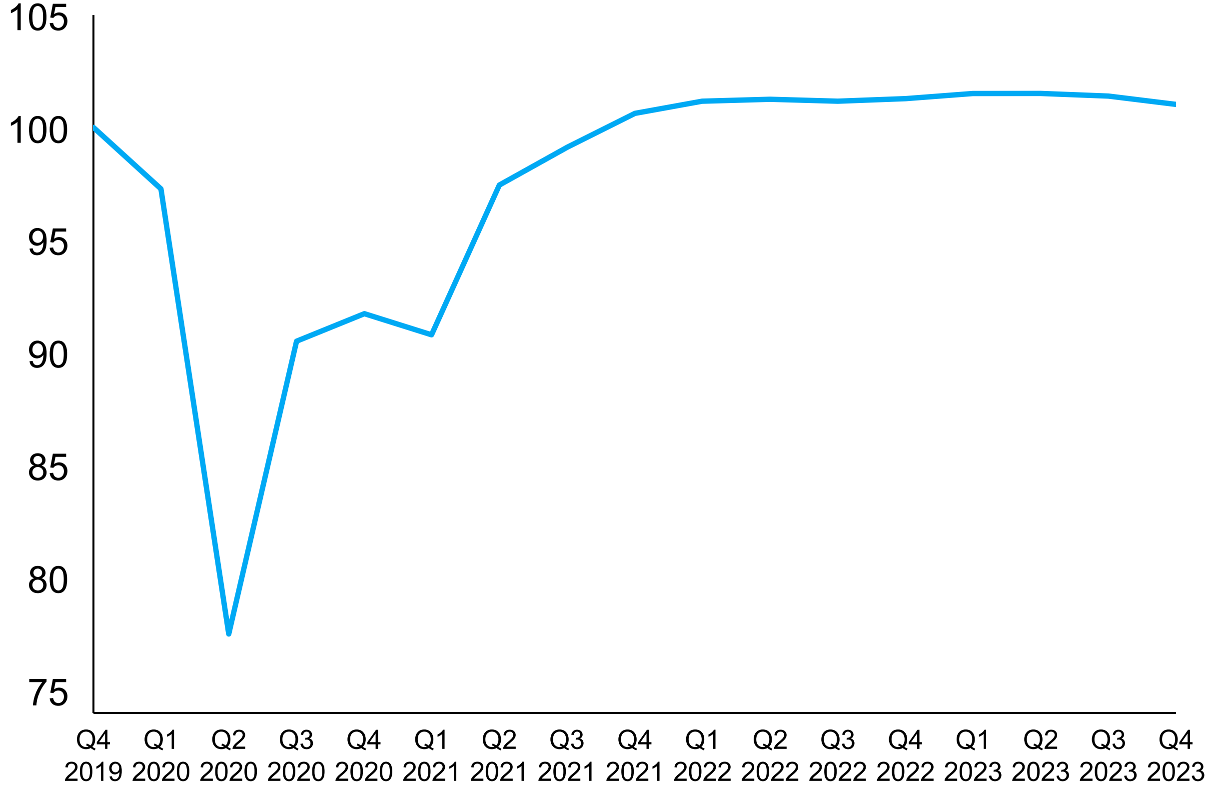
Growth in average total pay was 6.2% in Q4 2023, while real total pay rose by 1.4%. The unemployment rate for Q4 2023 declined to 3.8%, returning to the year-ago rate. The economic inactivity rate was largely unchanged on the quarter at 21.9% but is above estimates from a year ago (October to December 2022). The annual increase was the result of inactivity due to long-term sickness, which remains at historically high levels. The estimated number of vacancies in November 2023–January 2024 was 932,000, a decrease of 26,000 from August to October 2023, with vacancies falling for a record 19th consecutive period in 12 of the 18 industry sectors.

Figures from the Office for National Statistics (ONS) showed that, despite the weakness of the economy, the state's tax receipts in January were £16.7 billion higher than spending, allowing Chancellor Jeremy Hunt some room for tax cuts in the upcoming Budget announcement.

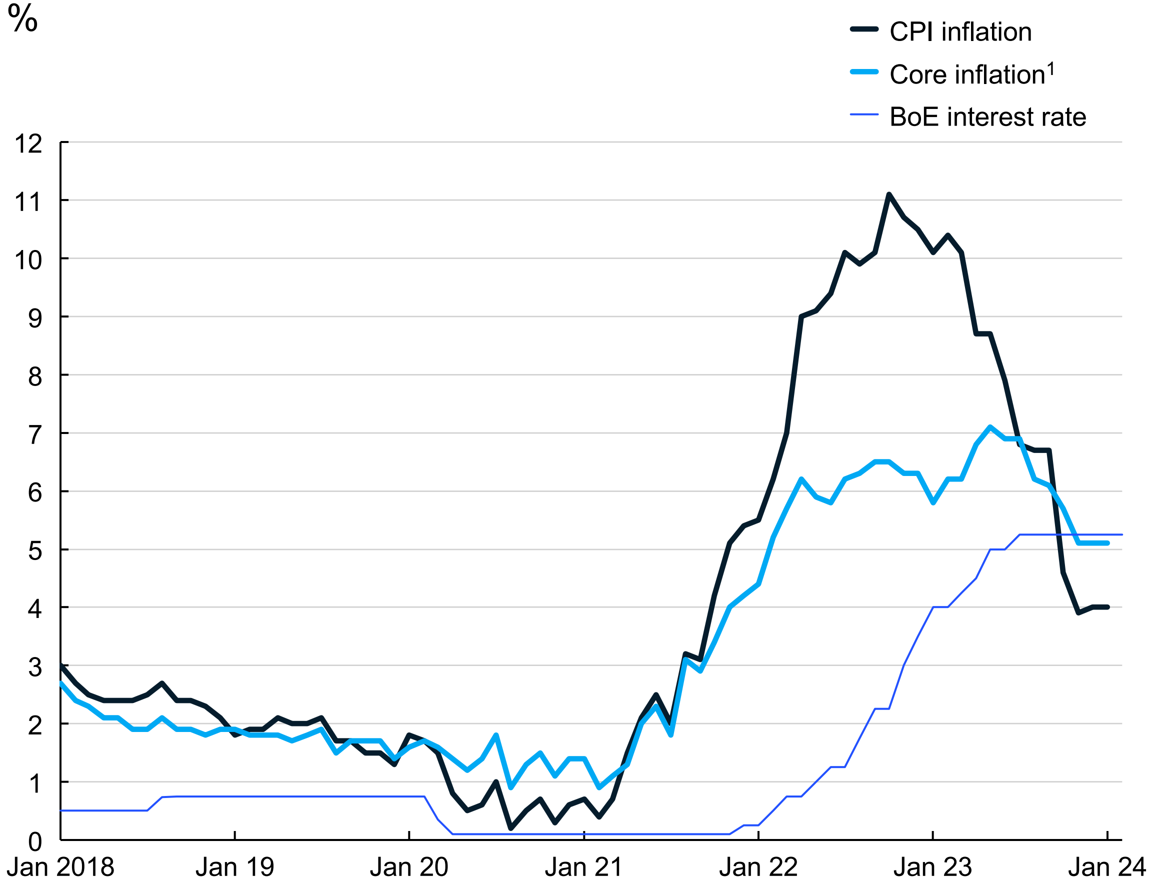
Source: Bank of England; IMF; OECD; Office for Budget Responsibility; Office for National Statistics; McKinsey's Global Economics Intelligence analysis

UK GDP fell by an estimated 0.3% in Q4 2023; the CPI remained unchanged at 4% in January; the Bank of England kept the policy rate at 5.25% in January

UK GDP, Q4 2019–Q4 2023
Index, 2019 Q4 = 100



12-month inflation; Bank of England interest rate
%

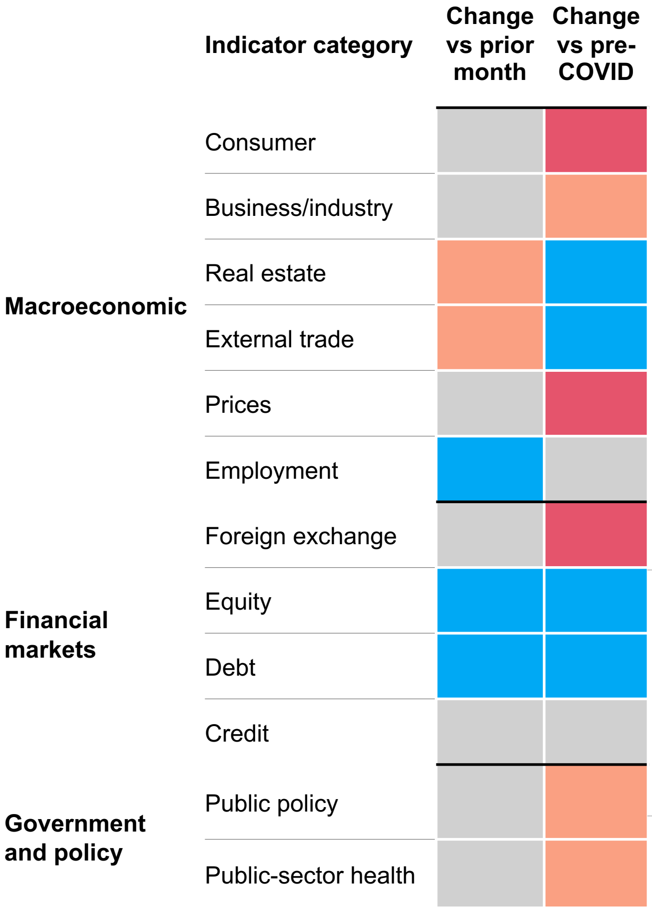


1. The specific measure excluding energy, food, alcohol, and tobacco is the one typically referred to as “core” by the ONS.

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

Inflation unchanged in January—higher energy charges contributed most; manufacturing and services sentiment improves; consumer confidence strengthens, and unemployment declines

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



Inflation remains unchanged in January; consumer confidence improves; industrial production strengthens

- Retail sales volumes are estimated to have grown by 3.4% in January 2024, following a record fall of 3.3% in December 2023.
- GfK's Consumer Confidence Index rose in February, to –21 (from –19 in January), remaining in negative territory. January was the best headline score in two years, but concerns over persistent inflation pushed the index downwards in February, after three months of improvement.
- Monthly production output is estimated to have risen by 0.6% in December 2023; this follows an increase of 0.5% in November 2023. Manufacturing was the biggest contributor to the monthly increase, while mining and quarrying was the main negative contributing sector.
- The UK purchasing managers' index (PMI) for manufacturing strengthened in January, posting 47.0, up from 46.2 in December. The measure has remained below the neutral 50.0 mark for 18 successive months. The services PMI registered 54.3 in January, up from 53.4 in December, registering above the 50.0 no-change mark for the third consecutive month. This signals the fastest rate of growth since May 2023.
- Monthly construction output in terms of volume is estimated to have decreased by 0.5% in December 2023. The UK construction PMI measured 48.8 in January, up from 46.8 in December but still below the neutral 50.0 value. The total trade in goods and services deficit widened by £6.2 billion, to a £14.9 billion deficit in Q4 2023, the result of a large fall in exports of services.
- The annual CPI inflation rate remained unchanged at 4% in January. Core inflation (excluding food, energy, alcohol, and tobacco) also remained steady at 5.1%. Producer input prices fell by 3.3% in the year to January, down from a fall of 2.1% in the year to December; producer output (factory gate) prices fell by 0.6% in the year to January, down from a rise of 0.1% in the year to December 2023.
- The unemployment rate for Q4 2023 decreased to 3.8%, returning to the rate of a year ago. The economic inactivity rate was largely unchanged on the quarter at 21.9%. The unemployment rate for people aged 18–24 decreased to 10.3%, from 11.5%.

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

- As of 23 February, the FTSE 100 improved roughly 2.6% versus a month ago but remains 4% below the peak reached in February 2023. The pound held steady at $1.27 (as of 23 February), having almost reached parity in late September 2022.
- The daily yield of the UK 10-year gilt has increased to 4.16%, as of 21 February, below the historic highs of more than 4.6% seen in mid-October 2022, but well above mid-2022 rates of around 2%.
- UK government debt decreased to 100% of GDP in Q3 2023, while the deficit decreased to 5.8% of GDP (from 9.5% in Q2 2023).

Chancellor may have leeway for tax cuts in upcoming Budget

- The Resolution Foundation said that Chancellor Jeremy Hunt should have the budgetary room for maneuver to push through a round of cuts to personal taxes, while on February 27 the the Institute for Fiscal Studies questioned the affordability of cuts without a spending review.

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

[Emerging economies]: Among emerging economies, India projects 7.3% growth for 2023–24; China surges new social financing; Brazil cuts Selic rate by 0.50 percentage points for a fifth time.

China

January PMIs for manufacturing and services both post slight rises; new social financing surges; consumption during Spring Festival sees significant growth; food prices drag down consumer prices.

The official purchasing managers' index (PMI) for manufacturing rose slightly in January 2024 but remained in the contraction zone at 49.2 (49.0 in December). Within the manufacturing PMI's sub-indexes, the production index climbed to 51.3 (50.2 in December), while the new orders index was up at 49.0 (48.7 in December)—indicating faster expansion of supply and narrowing contraction of demand among the industrial activities. The official services PMIs rose and surpassed the expansion threshold, hitting 50.1 in January (49.3 in December).

New social financing totaled RMB 6.5 trillion in January (RMB 1.9 trillion in December), the highest level in history; new bank loans (RMB 4.8 trillion) represented the main component in this new credit supply. A combination of Chinese banks' tendency to front-load loans at the beginning of the year together with a strengthened economic outlook for 2024 could partly explain this surge in new social financing. Total social financing was reported at RMB 384.3 trillion, an increase of 9.5% year-on-year.

The surveyed urban employment rate was 5.2% in January (5.1% in December). The youth unemployment rate fell slightly to 14.6% in January (14.9% in December).

Official news reported that consumption during the 2024 Spring Festival holiday underwent a notable increase. Services retail sales were up 50% compared with the year-ago Spring Festival period. Movie box office receipts during the holiday reached 8 billion yuan, up 18% compared to the previous year.

Consumer prices deflated further, by –0.8% in January (–0.3% in December), dragged down by declining food prices (–5.9%). Non-food consumer price inflation was 0.4% in January. Producer prices deflated at –2.5% in January (−2.7% in December).

Owing to a delay in data releases due to the new year holiday, most available economic data are from December 2023. For 2023 as a whole, overall trade growth slowed: exports were down –4.6% (+6.9% in 2022) with imports down –5.5% (+1.0% in 2022). Industrial production growth accelerated to 4.6% (3.6% in 2022); sales revenue of residential property declined again –11.8% (–28.3% in 2022).

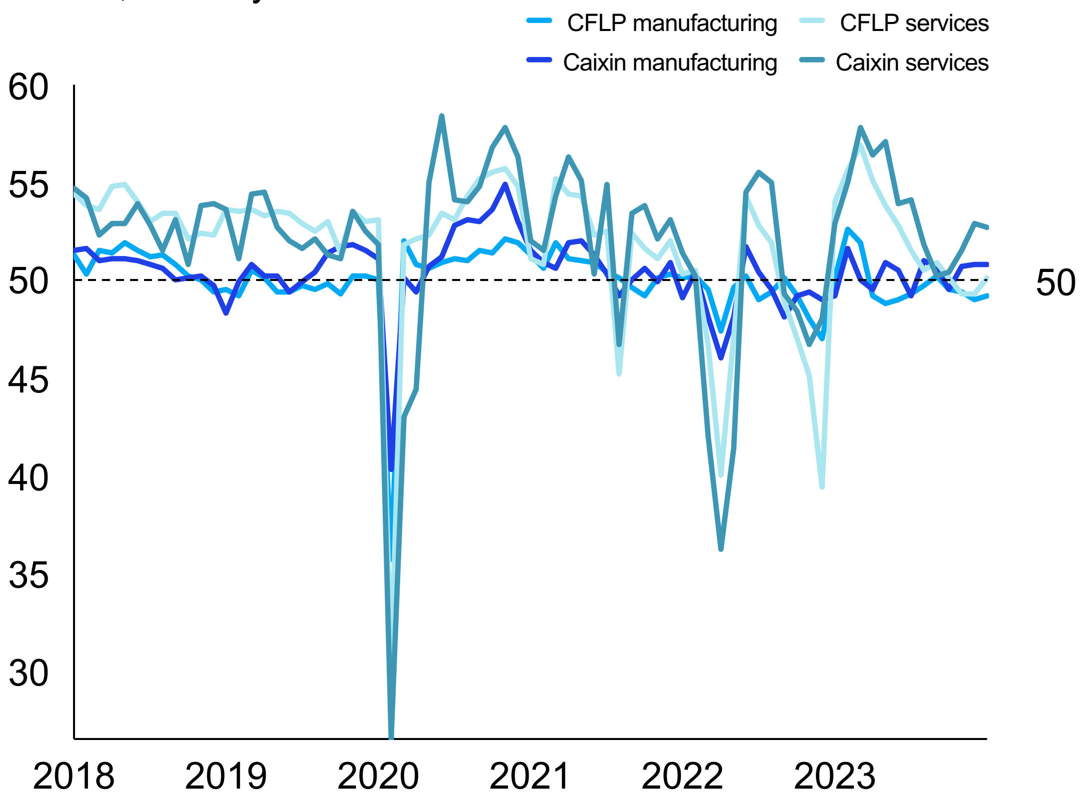
In 2023, FDI inflows into China dropped 82% compared with 2022, according to data released by the State Administration of Foreign Exchange (SAFE). Research reports from financial institutions suggest the fall in FDI flows reported by SAFE could be due to flows related to offshore listings by Chinese companies, reinvested earnings by multinationals (MNCs), and intercompany debt flows. By contrast, FDI inflows reported by the Ministry of Commerce (MOFCOM) dropped by 8% in 2023, while new foreign-invested enterprises increased by 40% in 2023.

Source: CEIC; McKinsey's Global Economics Intelligence analysis

In January, the official manufacturing and services PMIs increased slightly; stock indexes improved in February

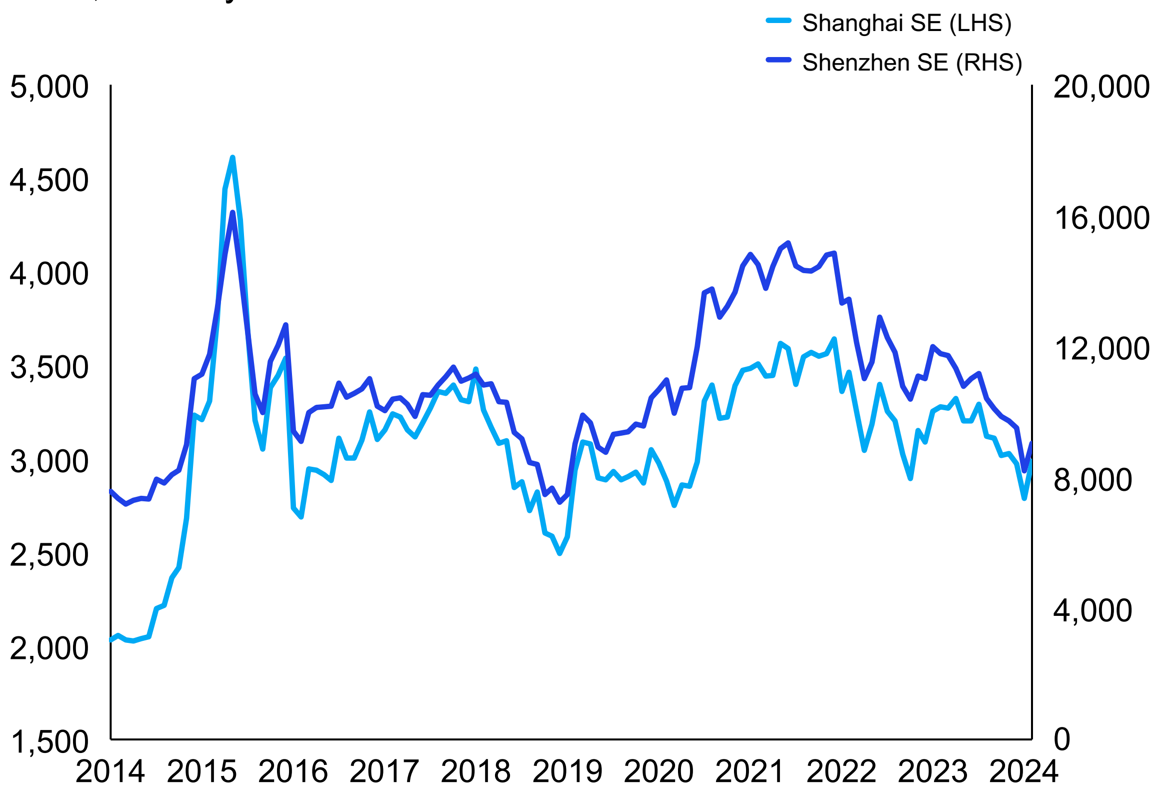
Purchasing managers indexes (PMI)

Index, monthly



Stock market indexes

Index, monthly



Source: CEIC; McKinsey's Global Economics Intelligence analysis

Consumer and producer prices continued to deflate, while new credit surged in January; PBOC (central bank) further lowered the interest rate in February

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

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

Official PMIs for both the manufacturing and services sectors rose; consumer and producer prices continued to deflate

- Retail sales expanded more slowly at 7.4% in December (10.1% in November).
- The official manufacturing PMI increased slightly but remained in the contraction zone, reporting 49.2 in January (49.0 in December); the official services PMI crossed the expansion threshold, measuring 50.1 in January (49.3 in December). Caixin PMIs, which primarily survey SMEs, reported a manufacturing PMI of 50.8 and a services PMI of 52.7 in January.
- In December, trade showed signs of improvement, with exports increasing 2.3% (0.5% in November) and imports growing 0.2% (–0.6% in November).
- Consumer prices continued to deflate at a rate of –0.8% in January (–0.3% in December), dragged down by food prices (–5.9%). Producer prices deflated at –2.5% in January (−2.7% in December).

RMB stabilized against US dollar; stock market gained value; new credit surged but money supply growth slowed

- The RMB stabilized against the US dollar compared with its level at the end of January, trading at RMB 7.1018 = USD 1 by February 22.
- The Shanghai stock index gained 7.2% in value by February 22, while the Shenzhen index climbed 10.1%, compared with levels at the end of January.
- New social financing reached RMB 6.5 trillion in January (RMB 1.9 trillion in December); total social financing came in at RMB 384.3 trillion, increasing 9.5% year-on-year.
- M2 growth decelerated to 8.7% in January (9.7% in December).

People's Bank of China further lowered the 5-year Loan Prime Rate (LPR)

- On February 20, the PBOC announced a 25-basis-points cut in the 5-year LPR, to 3.95%—the largest interest rate cut since this reference rate was introduced in 2019. The cut will reduce mortgage costs and help to support the housing market.

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

India

India's Interim Union Budget (delivered February 1, 2024) presented GDP growth projections of 7.3% for 2023–24.[1] Capital expenditure outlay for the next year is being increased by 11.1%; fiscal deficit is estimated at 5.1% of GDP; 2014–23 marked a golden era for FDI investments with treaties being negotiated to sustain growth.

Based on SIAM's February 2024 data, automobile sales (which are a proxy for consumer sales) have grown by 37.3% versus the prior month to stand at 393,074 in January (286,390 December). Passenger vehicles saw their highest-ever sales in January, posting a growth of around 14% compared to the previous year.

December's Index of Industrial Production (IIP) registered year-on-year expansion with growth of 3.8% above the December 2022 figure, complemented by all sectors posting growth versus 2022 in the range 1–5%. On a monthly basis, all sectors grew: mining (6.3%), manufacturing (8.2%), and electricity (3.0%).

The purchasing managers' index (PMI) for manufacturing stood at a four-month high of 56.5 in January 2024, up from 54.9 in December, supported by new orders and output. The services PMI continued its upward trend to reach 61.8 (revised upward), a six-month high, due to expansion of new businesses. The services sector accounts for more than 50% of India's GDP.

Headline inflation eased to 5.1% in January from December's 5.7%. The downward trend was mainly supported by a decline in food prices, with year-on-year food inflation at 7.58%; inflation in the fuel and light group fell –0.60%.

India's merchandise exports reached US $36.9 billion in January 2024, registering a 3.1% year-on-year growth. Merchandise imports expanded, after contracting for the past two months, to register US $54.4 billion with year-on-year growth of 3.1%. The merchandise trade deficit narrowed to a nine-month low of US $17.5 billion in January 2024 as the sequential increase in exports outstripped imports.

Foreign exchange reserves stood at US $617.2 billion as of February 9, 2024, equivalent to more than 97% of total external debt outstanding at the end of September 2023.

The Indian rupee appreciated against both the euro and the US dollar, to stand at 90 rupees per euro and 83 per dollar (as of February 26).

The stock markets remained in the expansionary zone, with both the Nifty and Sensex adding some 2–3% in value over the previous month. The Nifty had risen 2.6% and the Sensex 1.9% as of February 26 (compared with January 22, 2024).

Net foreign direct investment (FDI) at US $9.7 billion during April–December 2023 was lower than the US $21.6 billion of a year ago, mainly due to a rise in repatriation of equity capital. Foreign portfolio investment (FPI) flows turned negative after two months in January 2024, impacted by rising US treasury yields. So far, net FPI inflows have amounted to US $32.9 billion during 2023–24 (up to February 15), led by equity inflows.

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

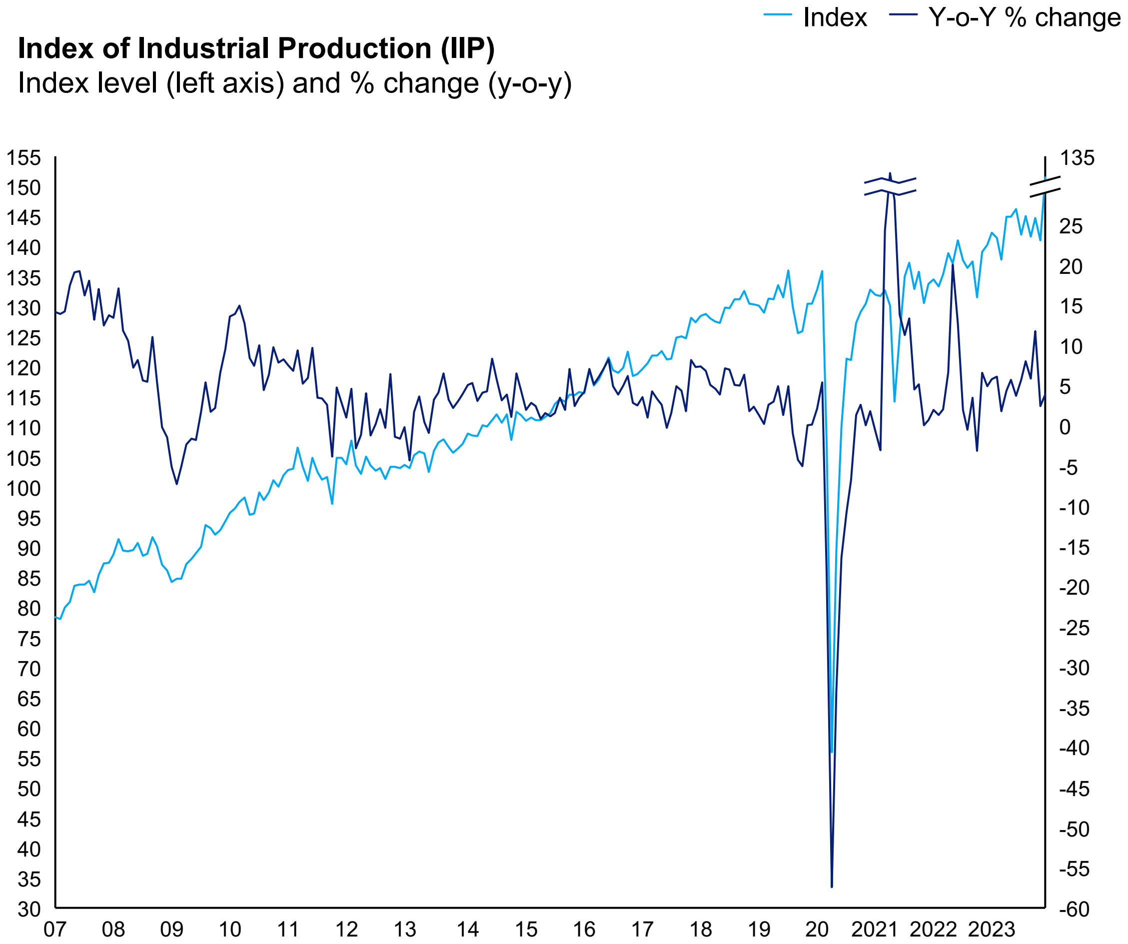
Data from CMIE show the all-India unemployment rate fell to a 16-month low of 6.8 per cent in January, from 8.7% in December, with unemployment in rural areas standing at 5.8% and 8.9% in urban areas. The rise in employment was driven by regular salaried and self-employed categories.

1. India follows the fiscal calendar.

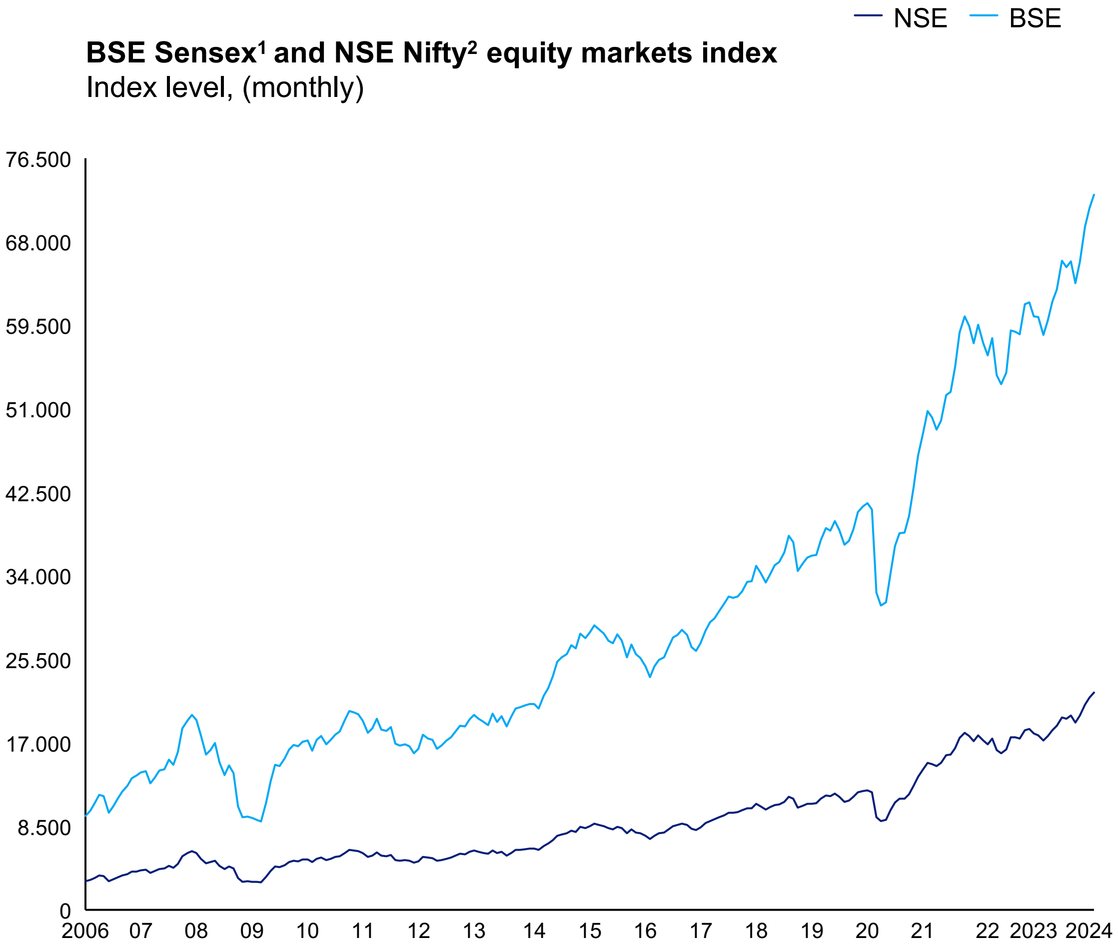
Source: Havers; IHS Markit; Ministry of Commerce and Industry; Ministry of Statistics and Programme Implementation (MOSPI); Reserve Bank of India

Industrial production grew by 3.8% in December, with equity indexes complementing this growth to rise by 2–3% in February

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



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



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

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

GDP growth projections for 2023–24 are 7.3%; manufacturing and services PMI expanded; unemployment rate fell; RBI keeps interest rates on hold

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

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

Sales grew; manufacturing and services PMI expanded; inflation moderated; unemployment rates improved

- Automobile sales in January 2024 grew by 37.3% compared to the prior month to reach 393,074 (286,390 in December 2023).
- Industrial production recorded a 3.8% year-on-year growth in December. All groups witnessed a year-on-year, as well as a month-on-month, increase.
- The PMI for the manufacturing sector expanded to 56.5 (54.9 in December), with the services PMI complementing this rise to reach a six-month high of 61.8 (59.0 in December).
- India's merchandise trade exports and imports saw a year-on-year growth of 3.1% and the trade deficit contracted in January.
- Consumer Price Index inflation moderated to 5.1% in January from 5.7% in December, due to a decline in food inflation.
- The unemployment rate (UR) fell to a 16-month low of 6.8% in January, driven by lower unemployment in both rural (5.8%) and urban (8.9%) areas.

Financial markets in India expanded; INR appreciated

- The Indian rupee appreciated against the euro and the US dollar.
- Both the Nifty and Sensex were in expansionary territory, adding growth of around 2–3%.
- Net FDI at US $9.7 billion during April–December 2023 was lower than US $21.6 billion of a year ago.
- Up to February 15, net FPI inflows amounted to US $32.9 billion, led by equity inflows.

The central bank maintained the status quo on policy around interest rates versus growth; interim budget presented

- The central bank kept interest rates unchanged at 6.5%.
- In the interim budget, the capital expenditure outlay for the next year is being increased by 11.1%; the fiscal deficit is estimated to be 5.1% of GDP; GDP growth projection is 7.3% in FY 2023–24.

SOURCE: McKinsey's Global Economics Intelligence analysis

Russia

Russia's GDP growth in 2023 higher than expected, driven by domestic demand and military-related spending; lower dynamics in recent months amid mounting inflationary pressures; foreign trade slows

Preliminary data show a surprisingly robust GDP growth of 3.6% for Russia in 2023, somewhat higher than forecasters had expected, albeit that there is significant inconsistency among sources. For example, the Central Bank of Russia (CBR) assessed growth at 2.5% while the International Monetary Fund estimated 3.0%. However, given uncertainty and inconsistencies around the data, any growth figures should be treated with a degree of caution. Recent forecasts see Russian GDP growth slowing in 2024. The February CBR forecast expects GDP to grow 1–2 %, the IMF anticipates 2.6 %, and the OECD 1.8 %.

Increased domestic demand was the main driver of GDP growth, with all its components contributing positively. An increasing role for the state in the economy contributed to public consumption rising by 3.6%—its biggest gain since 1996. Household consumption bounced back strongly from its dip in 2022, while fixed-investment growth reportedly climbed by 10.5%, also supported by public projects.

On the supply side, domestic demand fueled industries linked to the military effort, construction, and retail sales—output by industry sectors contributing to the military effort last year were up by roughly 35% over 2021, while the aggregate of other sectors fell by –0.4%. At the same time, last year saw many industries such as car manufacturing and air transport delivering output at well below pre-war levels.

Recent monthly data suggest a slowdown, with industrial output and retail services remaining flat. While rapidly rising wages have boosted consumer demand, labor shortages with persistent record-low unemployment have become a constraint on output growth.

Inflation has continued to accelerate, with consumer prices rising in December 2023 and January 2024 by 7.4% year-over-year. After several interest rate hikes in 2023, the CBR kept the key rate unchanged at 16% to contain high inflationary pressures. However, the effectiveness of the bank's monetary policy is reduced by credit subsidies. Given the high-inflation background, the policy rate is not expected to drop any time soon.

Last year's current account surplus fell to around $50 billion, compared to a record-high $240 billion in 2022. Exports declined significantly due to the country's international economic isolation and the effect of sanctions. Exports represented just 23% of GDP last year, the lowest share on record.

Russia expects to hold presidential elections in March. Vladimir Putin remains the front-runner and is expected to become president for a sixth term.

The recent death in prison of prominent opposition leader Alexei Navalny drew international attention. The European Conference of Presidents expressed outrage, demanding an independent investigation into his death.

Source: BOFIT; European Parliament; IHS Markit; Oxford Economics

Foreign trade surplus shrank in October; inflationary pressures persist amid real wages' continuing fast growth

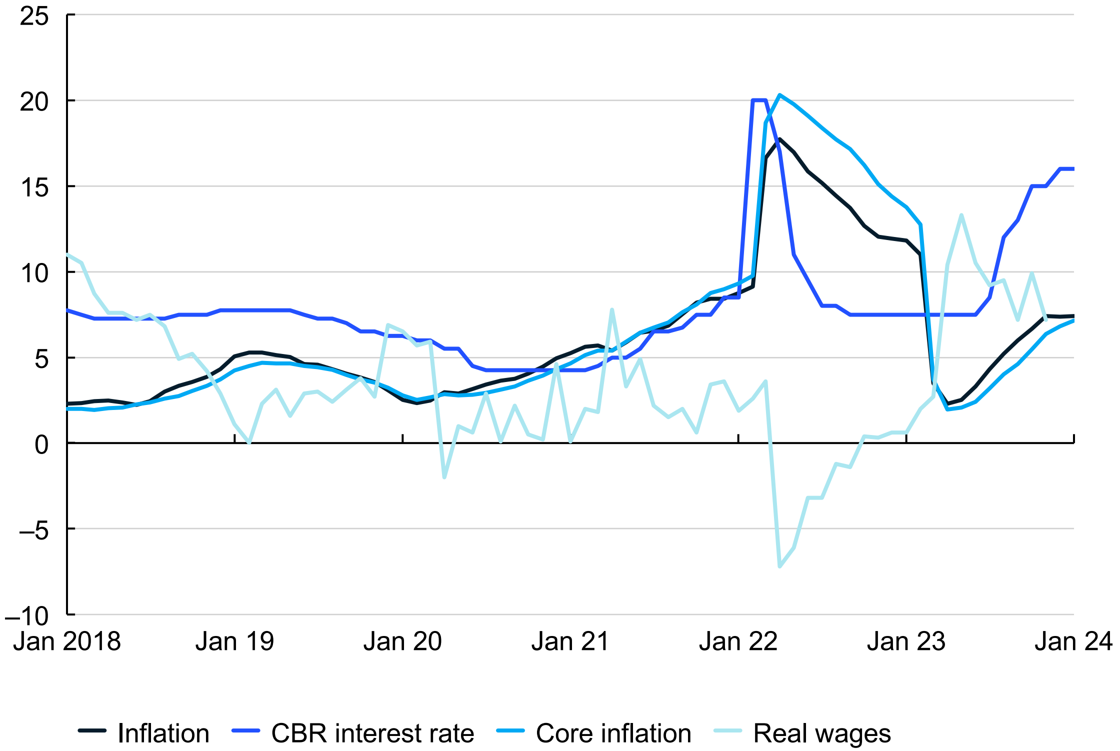
Headline inflation stabilized, but core indicator continued to accelerate

Foreign trade of goods

USD billion, through December 2023

Inflation: the central bank interest rate and real wages

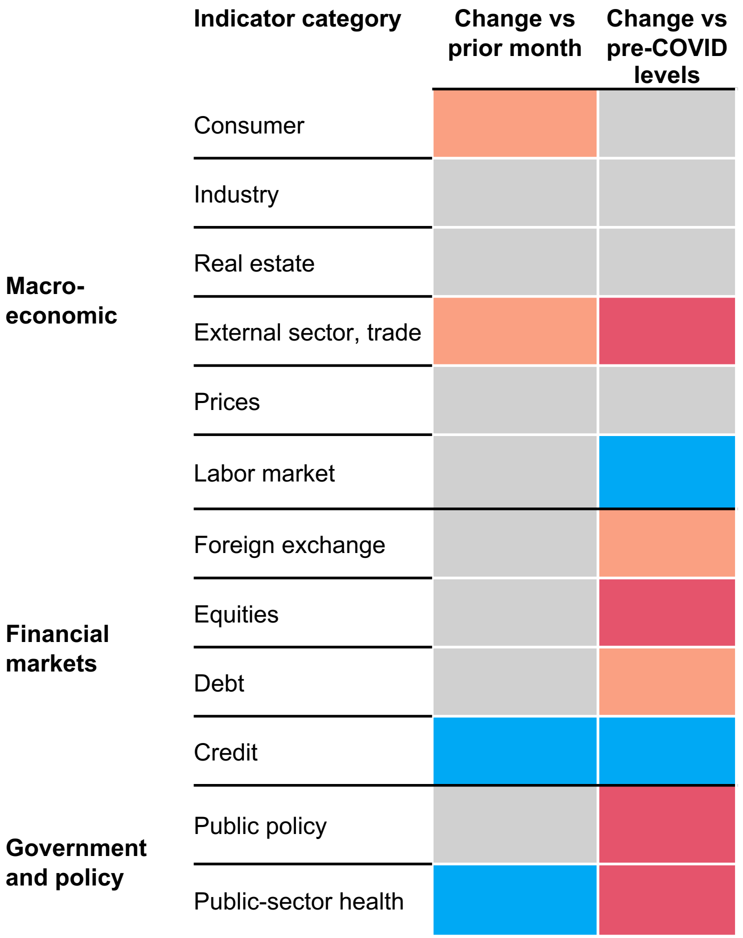
% change (y-o-y); %



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

Easing of domestic activity and trade in Q4 amid heightened inflation, credit expansion; fiscal stance may worsen in 2024 with lower oil prices

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



Domestic activity and trade indicators fell slightly in Q4; inflation remains high; labor market may show first signs of easing

- Retail sales declined in December by 1.4%. The total decline since April's peak reached almost 4.5%, despite October's one-off rebound. Annual growth in Q4 reached 11% and full-year growth 5.8%. Trade benefited from low-base effects due to the Russia-Ukraine conflict.
- Industrial production has remained stagnant since April. The purchasing managers' index for manufacturing declined to 52.6 in January, from 54.6 in November (but remains in expansionary territory).
- December's trade surplus was stable (versus November) at $9.7 billion. As the Urals oil price fell in the final weeks of last year, the contraction in goods exports deepened to 28% year-over-year in December from 25.5% in November. Goods imports shrank by 7.5% year-over-year, and by more than in November (6.4% year-over-year).
- Headline inflation has stabilized at 7.4% year-on-year in January (7.4% in December). Core inflation climbed further to 7.2% from 6.8%. According to Oxford Economics, inflation is expected to drop to one percentage point above the 4% target in December 2024. The median value of expected consumer inflation exceeded 14%.
- The labor market shows its first signs of easing. The unemployment rate was close to the historical low at 3% in December, while real wages grew (7.2% year-on-year in November). Hikes in minimum wages and benefits have further improved purchasing power.

Continued expansion of subsidized credit

- Following the reintroduction of capital controls in October, the ruble appreciated from 100 per US dollar to a relatively stable range of between 88 and 92; (in February 2022, it traded at 92:1$). Recent tightening of sanctions targeting oil exports increases the likelihood of new bouts of volatility on the FX market.
- Government debt yields have risen to around 11.77% since mid-October (as of February 2022).
- Tighter monetary policy has not yet fully translated into a slowdown in credit activity. In December, the loans dynamic remained stable at around 25% year-on-year for corporates and 23% year-on-year for households. Corporate loan subsidies aim to help businesses affected by sanctions.

Last year's budget deficit was higher than target; it is, however, expected to drop in 2024; oil exports continue to shrink

- Lower global oil prices have translated into a drop in hydrocarbon budget revenues. Preliminary data show that the budget deficit in 2023 was equal to 2.3% of GDP.
- Russia's budget for next year anticipates a 2024 federal deficit of around 1% of GDP. However, oil revenues could be more modest than officially anticipated, as current sanctions put heavy pressure on Urals—after a dip in December, prices recovered only slightly in January. Russia has also pledged to OPEC that it would cut oil exports to 500,000 barrels per day in Q1 2024 (with crude down by 300,000 barrels per day) from the May–June 2023 average.

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

Brazil

Brazil's Central Bank cuts Selic rate by 0.50 percentage points for a fifth time; inflation falls for fourth consecutive month.

Inflation fell for the fourth consecutive month, down to 4.51% (4.62% in December)—and close to the upper limit of the Central Bank's target inflation range (4.5%).

Taking account of progress in reducing inflation, the Central Bank's Monetary Policy Committee (Copom) decided, for the fifth time, to reduce the Selic rate by 0.50 percentage points, from 11.75% to 11.25% per annum—to reach the lowest rate within the last two years. Copom judges that this reduction is consistent with its strategy for inflation convergence. If the scenario evolves as expected, the committee members unanimously anticipate further reductions of the same magnitude at their next meetings.

Consumer confidence fell by 2.9 points to 90.8 in January, from 93.7 in December, remaining below the neutral 100-point threshold. Consumer confidence reached its lowest level since May 2023 but is still 5.0 points higher than January last year.

Brazil's purchasing managers' index (PMI) for manufacturing increased to 52.8 in January from 48.4 in December, climbing past the neutral 50.0 mark for the first time since August 2023 and reaching its highest level since July 2022—an encouraging start to 2024, driven by the biggest increase in new work intakes and production volumes since mid-2022. Job creation strengthened, while growth in input purchasing was rekindled.

The services PMI rose to 53.1 in January from 50.5 in December. Services activity growth in Brazil regained momentum at the start of 2024, aided by a solid expansion in new orders at the fastest rate since last June. Favorable demand conditions and optimism about the outlook for business activity over the year ahead has also fueled job creation. The composite PMI rose from December's 50.0 to 53.2 in January, to sit comfortably within expansion territory for a fourth consecutive month.

On the financial markets, the monthly average exchange rate was BRL 4.91 per US dollar in January—compared to 4.90 in December. The January Bovespa equities index fell, losing 2.2% in value. Meanwhile, the three-month moving average unemployment rate slightly declined to 7.4% in December (7.5% in November), its lowest level since 2015.

In January, the balance of trade posted a surplus of US $6.5 billion, with exports totaling US $27.0 billion (US $28.8 billion in December) and imports reaching US $20.5 billion (US $19.5 billion in December).

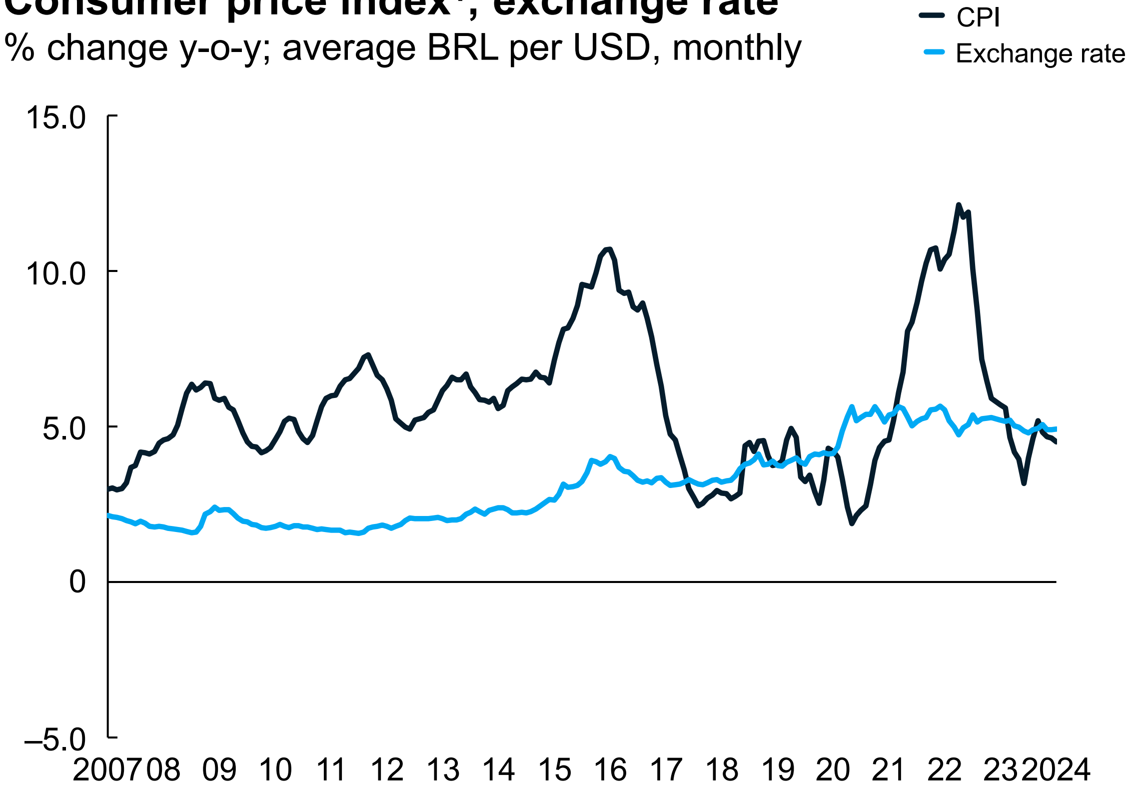
This year, the National Confederation of Commerce (CNC) estimates that the Carnival will inject BRL 9 billion (US $1.8 billion) revenues into the economy. The study considers the impact of the holiday on the real estate industry, the lodging and restaurant sector, as well as several other tourism and entertainment segments, including temporary jobs as tour guides, street vendors, musicians, and performers. Last year's Carnival surpassed the historical record of visitor spending in 2023. Foreign visitors contributed US $6.9 billion to the Brazilian economy last year—exceeding the amount spent during the 2014 FIFA World Cup (US $6.8 billion).

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

In January, inflation fell, while the Brazilian real slightly lost ground; the equity market faltered

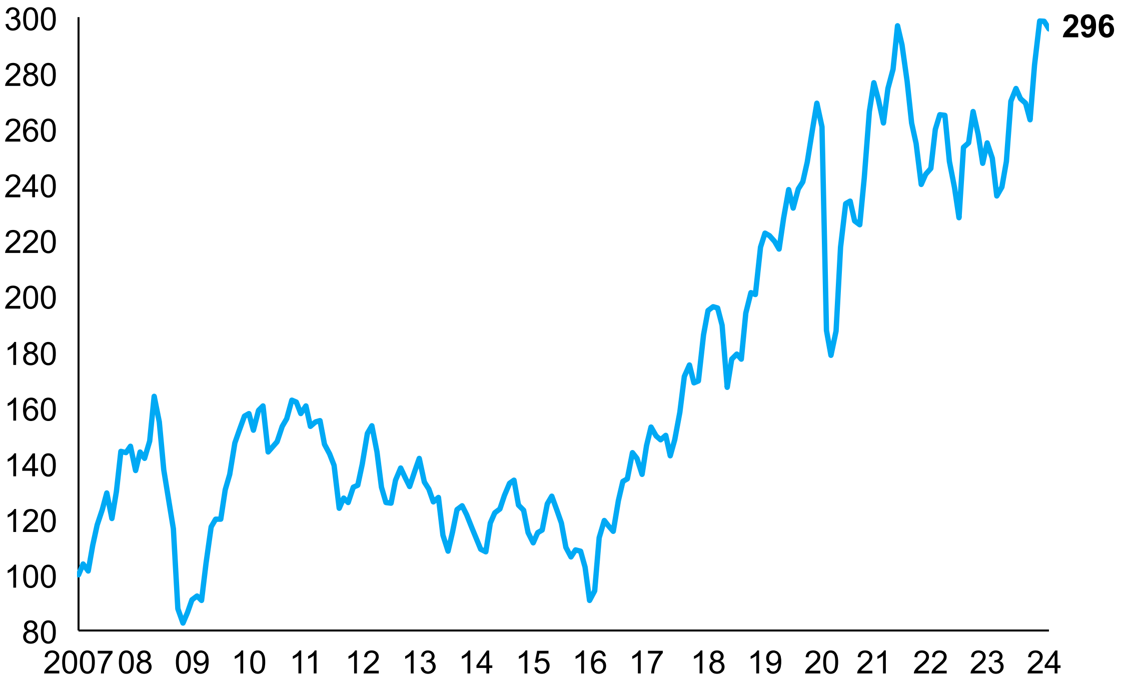
Consumer price index[1]; exchange rate

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



Bovespa index[2]

Indexed to January 2007 = 100



1. National Consumer Price Index (extended IPCA), 1993 = 100, not seasonally adjusted; % change in CPI in local currency (period average) over previous year. The Central Bank's target inflation rate for 2023 was 3.25% and is reduced to 3.0% in 2024, with a margin of error of 1.5 percentage points.
2. Data through February 12, 2024.

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

Both services and manufacturing PMIs climbed this month, driven by increased production and job creation

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

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

Unemployment continued its downward trend; both PMIs increased significantly

- Consumer confidence decreased to 90.8 in January, from 93.7 in December—the lowest level since May 2023 and just above pre-COVID-19 levels. Business confidence improved to 97.4 in January from 95.3 in December—3.5% below pre-COVID-19 levels.
- The purchasing managers' index (PMI) for manufacturing rose to 52.8 in January (48.4 in December). The services PMI increased to 53.1 in January (50.5 in December).
- In January, the balance of trade recorded a surplus of US $6.5 billion, with exports totaling US $27.0 billion (US $28.8 billion in December) and imports reaching US $20.5 billion (down from US $19.5 billion in December).
- Inflation reached 4.51% in January (4.62% in December), down for a fourth consecutive month. The consumer price index (CPI) is 0.3 percentage points above pre-COVID-19 levels.
- The three-month moving average unemployment rate decreased slightly to 7.4% in December (7.5% in November)—which is not only the lowest level since 2015 but 35% below the pre-COVID-19 rate.

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

- In January, the monthly average exchange rate was steady at BRL 4.91 per US dollar. On February 13, the exchange rate was 4.95 BRL per US dollar.
- The Bovespa equities index fell –2.2% over the month (up to February 9); it added +3.1% in value up to January 10.

Brazil is experiencing an outbreak of dengue fever; labor market recovery holds steady

- Brazil's Health Ministry warns that it expects more than 4.2 million dengue cases this year, outstripping the 4.1 million cases the Pan-American Health Organization recorded for all 42 countries in the region last year. El Niño and climate change have significantly amplified the problem recently. Dengue case numbers have already soared in nearby countries such as Argentina, Uruguay, and Paraguay. In Brazil, state governments are setting up emergency centers to test people for dengue and treat them. The city of Rio de Janeiro declared a public health emergency over dengue on February 5, days before the start of the annual celebration of Carnival. Brazil has started an emergency campaign to immunize children in areas with the highest rates or risk of dengue transmission, using a two-dose vaccine. Brazil bought 5.2 million doses for delivery this year, plus 9.0 million more for delivery in 2025, and the company donated an additional 1.3 million,
- Brazil posted its lowest unemployment rate in nearly a decade. The creation of formal jobs was the main factor in reducing the unemployment rate. The total labor force surpassed the 100 million mark in October, its highest in history and an increase of 3.8% from 2022. The number of workers with a formal contract rose 5.8% over the year.

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

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

McKinsey & Company