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Global Economics Intelligence

Global Summary Report

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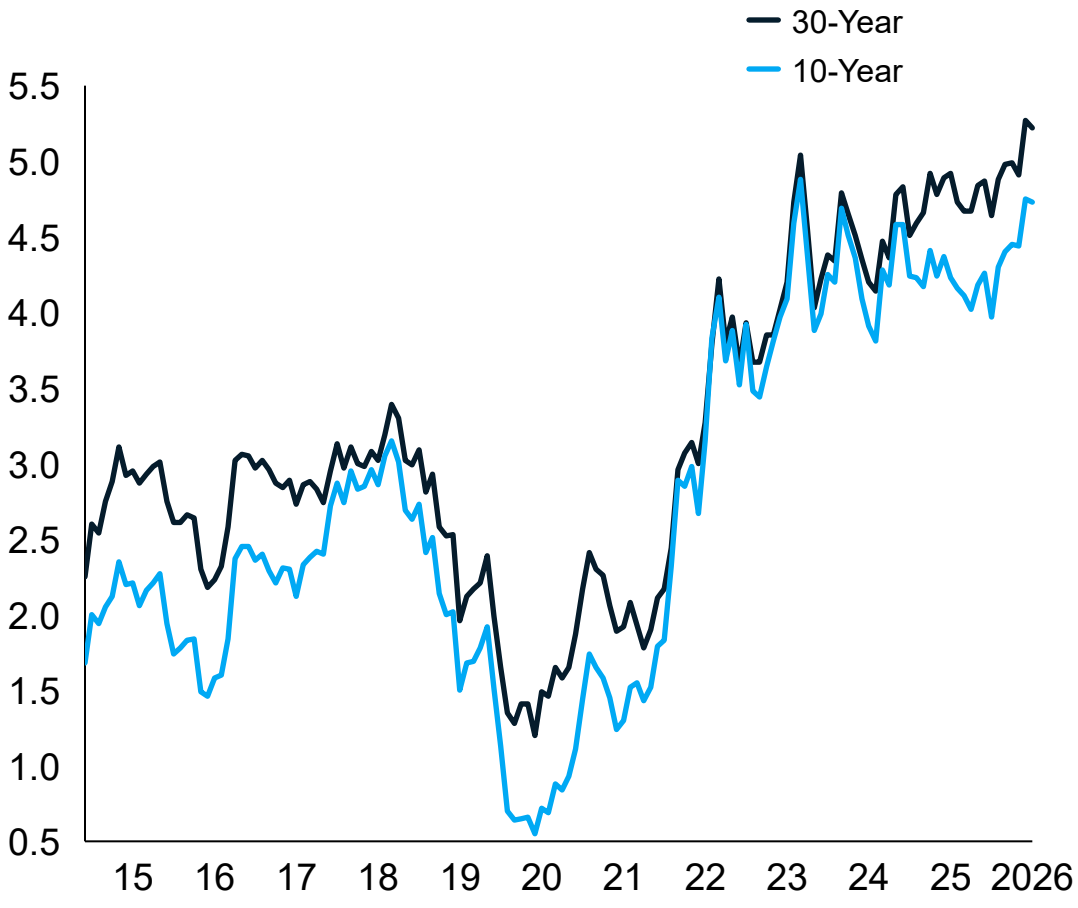
Long-term government bond yields have risen as persistent inflation and higher energy prices reinforce expectations of tighter monetary policy, while large borrowing needs (private and public) add pressure at the long end of the curve

US government bond yields
Percent



Public debt and search for growth exercise minds of economists and policymakers as US debt hits record high; inflation fueled by energy supply uncertainty limits room for maneuver on interest rates.

Rising levels of public debt around the world and the need for growth are significant talking points among economists and policymakers. Speaking at the G20 Finance Ministers and Central Bank Governors Meeting in Asheville, North Carolina on September 1, International Monetary Fund (IMF) Managing Director Kristalina Georgieva emphasized the importance of lifting potential growth everywhere around the globe. She said: "The global economy has absorbed the impact of the energy supply shock better than expected, through the use of oil and gas reserves, new sources of energy, and demand management measures. Surging AI investment—including in power projects to satisfy energy needs—is driving growth, in the US in particular, and in other economies integrated into the AI value chain, such as Korea. But behind the averages there is significant divergence in economic fortunes and risks to the outlook remain high." She also noted that public debt is at almost 100 percent of GDP worldwide and is set to climb further, while the disinflation process has stalled in many countries. "Mounting fiscal pressures are pushing core bond yields upward and the interplay between fiscal and monetary policy worries markets," Georgieva added.

In the United States, total public debt hit $40 trillion for the first time on August 18, 2026, reaching $40.1 trillion by 28 August. It has grown by about $1 trillion every four months since breaching $37 trillion in August 2025. Net interest is now the federal government's second-largest expense at $963 billion over the first ten months of fiscal year 2026—a 14% rise. The ten-month deficit of $1.80 trillion already exceeds the $1.78 trillion recorded for the whole of fiscal year 2025.

Inflation increased across the major advanced economies, while stronger producer prices are signaling renewed upstream cost pressures. In the US, the Consumer Price Index (CPI) was up 3.4% year over year in July, after rising 3.5% in June. Core inflation rose 2.5% (annualized). In July, median inflation expectations decreased by 0.1 percentage points to 3.6% at the one-year-ahead horizon and remained unchanged at the three- and five-year-ahead horizons—at 3.3% and 3.0%, respectively. The eurozone's Harmonised Index of Consumer Prices (HICP) fell to 2.8% year on year in June, down from 3.2% in May, the first meaningful deceleration since the Middle East energy shock took hold earlier this year. However, a resurgence of Strait of Hormuz tensions in mid-July represents a renewed upside risk. In the UK, the inflation picture became less favorable during the summer. Headline consumer price index (CPI) inflation rose from 2.9% in July to 3.1% in August.

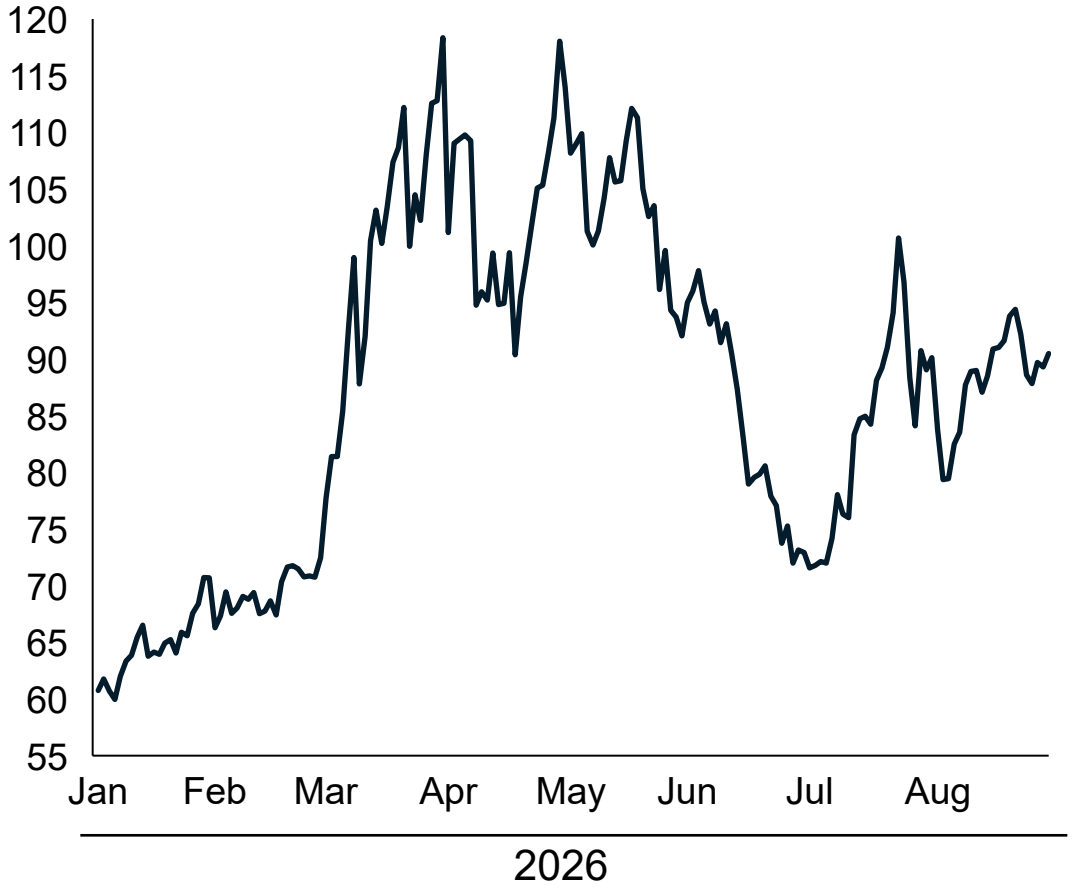
Among emerging economies, the picture is more divergent, but with only China experiencing low inflation. China's headline inflation dropped to 0.5% in July 2026 from June's 1%, leaving consumer inflation barely positive and far below the government's approximate 3% ceiling; core inflation (excluding food and energy) stood at 0.9%. A year ago, inflation sat at 0%, underscoring how persistent the demand shortfall has been. Producer prices, by contrast, are firming: the Producer Price Index (PPI) registered 3.5% in July 2026, down from 4.1% in the prior month but nevertheless showing a marked upswing from the –3.6% of a year ago—presenting an early indication that factory-gate deflation is receding even as margins stay thin.

India's retail inflation firmed to 4.45% in July, from 4.38% in June, with food inflation (CFPI) firming to 5.52% from 5.32% as a weaker monsoon lifted some vegetable prices. In Brazil, inflation was down in June, touching 4.44% (4.64% in May), below the central bank's upper target limit of 4.50%. In Mexico too, inflation was lower, declining to 3.1% in July from 3.4% in June. In contrast, Russia's consumer price inflation accelerated slightly in

Source: Board of Governors of the Federal Reserve System; Federal Reserve Bank of St. Louis

Renewed pressure on oil prices is keeping energy costs elevated globally, complicating the inflation outlook and raising the risk of slower growth. (1/2)

Brent prices
$ per barrel



June and July, with prices up 6% annually. Much of the inflation burst reflected a fuel supply crisis caused by drone strikes—June's daily processing of crude was 30% below May's levels and fuel prices soared by roughly 20%.

Eurozone GDP growth for the second quarter of 2026 was revised up to 0.6% quarter on quarter (+1.2% year on year). Net exports provided the dominant impulse (+0.9 percentage points) and household consumption added 0.2 percentage points, while inventories subtracted 0.5 percentage points. Real GDP in the United Kingdon rose 0.4% quarter on quarter in Q2 2026, slowing from 0.6% in Q1, yet indicating greater resilience than the subdued year-over-year rate alone would suggest. Growth was primarily driven by services (+0.5%), notably information and communication and professional.

In Russia, preliminary GDP figures recorded 1.3% of annual growth in Q2—a recovery in economic activity following a weak first quarter, which saw a GDP contraction of 0.2% annually and 0.6% versus Q4 2025. Industrial output, up 0.4% annually in January–June, contributed strongly to growth, which came almost exclusively from the manufacturing sector, specifically serving the military-industrial complex. Production interruptions caused by Ukrainian drone strikes were distinctly reflected in the decline in the production of coke and petroleum products.

Globally, consumer confidence has remained subdued, with households still cautious amid inflation fears. Meanwhile, spending growth is following divergent paths: strong in the United States, Russia, and the United Kingdom, but weak across the remaining surveyed economies. July's retail and food services sales for the US (adjusted for seasonal variation and holiday and trading-day differences) reached $763.6 billion, down 0.6% from June's revised $768.1 billion. The Consumer Confidence Index (Conference Board) edged down to 89.4 in August from a downwardly revised 90.2 in July. In Brazil, consumer confidence stayed below the neutral 100 mark, with FGV's seasonally adjusted July reading moving down to 88.2. Meanwhile, business confidence declined to 91.3; construction confidence improved at 92.5. Consumer activity in Russia remained healthy, with retail sales growing by 5.4% annually, despite real disposable income growth slowing to 1.5% in the first half of 2026, from 7% in 2025.

Persistent inflation kept interest rates high in Brazil and Russia, but weaker price and demand pressures are allowing substantially lower rates in China and the eurozone. On August 5, the Banco Central do Brazil's Monetary Policy Committee (Copom) cut the Selic rate by 25 basis points, bringing it to 14.%. By contrast, The European Central Bank Governing Council raised all three key interest rates by 25 basis points on September 10, bringing the deposit facility to 2.50%—the second hike of 2026—citing the August inflation surge.

Global business activity strengthened in August, with services growth outpacing manufacturing. Manufacturing expanded in most major economies, but Brazil moved deeper into contraction. In the US, the industrial production index remained steady at 103 in July. The S&P Global US Manufacturing PMI (purchasing managers' index) eased to 53.2 in August 2026 from 53.9 in July, with growth at its weakest since March. India's manufacturing PMI slipped for a third consecutive month, to 52.9—amid its weakest factory production and new order readings in five years.

Services growth broadened in August, led by the United States, India, and the United Kingdom, while most other economies recorded modest expansion; activity contracted in Russia and Brazil. The US services PMI expanded strongly, rising to 56.8 in August from the previous month's 54.6. The HSBC Flash India Composite PMI edged up to 54.6 in August from July's 52-month low of 54.3, a faster yet still subdued

Source: EIA, Haver Analytics, McKinsey team analysis

Renewed pressure on oil prices is keeping energy costs elevated globally, complicating the inflation outlook and raising the risk of slower growth (2/2).

expansion and the second weakest since March 2022. Services drove the improvement, reaccelerating from July's 53-month low.

Looking at employment, we see that US total nonfarm payroll employment increased by 162,000 in August, while the unemployment rate was unchanged at 4.1%. Employment increased in food services, drinking places, and in local government education. This represents the strongest level of job gains since March.

Equity markets mostly advanced in August as expectations of continued earnings growth outweighed geopolitical concerns. On the US markets, August saw the S&P 500 rise 2.7%, bringing the one-year return to approximately 20.4%; the Dow Jones climbed 1.5% over the month and posted approximately an 18.6% one-year return. August's CBOE Volatility Index increased to 16.3 (after rising to 16.0 in July). However, low equity volatility was in contrast with elevated oil-market volatility during August. At the same time, government bond yields rose across most major economies, as inflation and fiscal concerns increased premiums, keeping long-term financing conditions restrictive. On August 19, the US Treasury announced it would at least double the size of its buyback operations in the 10- to 30-year sector, from $2 billion to at least $4 billion, after the 30-year yield hit a 19-year high above 5.3%. The long bond fell about nine basis points to 5.2% on the announcement, but yields erased the decline within 24 hours.

On the commodities markets, precious metals have remained historically high while energy and agricultural prices have shown greater volatility. Gold recovered in August, with prices close to record levels in response to geopolitical uncertainty, fiscal concerns, and central-bank demand. The situation with industrial metals is somewhat different: copper and aluminum prices strengthened on supply constraints and demand from power grids and data-center investment, while weaker nickel prices point to uneven traditional industrial demand. Energy supplies remain a source of uncertainty, with oil and European gas prices rising on concerns around geopolitical disruption. Global food prices increased further, led by vegetable oils and raising affordability risks for lower-income economies.

Export growth remained uneven across major surveyed economies, led by Mexico, China, and the United States. Meanwhile, import demand diverged sharply in the first half of the year, led by China and Mexico, as US imports normalized. Global container throughput held steady in July with throughput ports outside China strengthening but declining at China's ports. However, container freight rates from China diverged in August, rising on US routes and easing on European routes. US-to-China outbound freight rates rose further in July but remained below last year's peaks. Overall, global supply-chain pressures eased in July but remained above historical norms.

Against a backdrop of continuing trade uncertainty, countries are increasingly seeking bilateral and bespoke agreements with trading partners. For example, India and Singapore held a series of high-level bilateral and business engagements in Singapore on August 20. Then, at a bilateral meeting in Tokyo on August 25, India and Japan agreed to accelerate a review of the Comprehensive Economic Partnership Agreement (CEPA). This ran alongside a roundtable for Japanese and Indian industry on semiconductors and AI that underlined growing cooperation between India and Japan in these sunrise sectors and other emerging industries. Meanwhile, on July 1, the United States declined to automatically extend the United States-Mexico-Canada Agreement (USMCA) for another 16 years, prompting annual joint reviews until parties agree on an extension or the agreement reaches its final expiration in 2036. A key point of contention remains US tariffs on automobiles, steel, and aluminum. Mexico has specifically sought lower tariffs on Mexican vehicles, broader duty-free treatment for Mexican auto parts, relief from steel and aluminum tariffs, and a commitment to avoid additional tariffs while the review is ongoing. The US continues to push for stricter rules of origin, higher North American content, and stronger economic security provisions, which remain under discussion ahead of the next round.

In the US the monthly deficit was down 5.6% to $73.3 billion: June exports reached $314.7 billion, down $2.9 billion from May, while imports hit $388.0 billion, $7.3 billion less than in May. The eurozone's export surge that drove the second quarter's GDP rise carried into July, with the goods trade surplus widening to €14.2 billion, from €8.6 billion in June and surpassing the €10.7 billion in July 2025. Meanwhile, India's merchandise exports were up 19.63% year on year to $44.24 billion in July 2026, while imports grew 17.52% to $76.22 billion; consequently, this pushed the trade deficit to a six-month high of $31.98 billion as the Middle East war drove up oil import costs and freight rates. Brazil's July trade balance recorded a surplus of $7 billion, down from $9.4 billion in June.

[Advanced economies]: Total US public debt hits $40 trillion for first time; eurozone GDP growth reached 0.6% in second quarter; UK real GDP rose 0.4% quarter on quarter in Q2 2026.

United States

Total public debt passed $40 trillion for the first time; housing residential starts dropped 12.4%; August saw a jobs gain of 162,000—the strongest level since March.

On the housing market, the 30-year fixed-rate mortgage remained at 6.7% in August. Existing home sales decreased by 1.7% in July, while housing residential starts declined to 1,239,000 (below the revised June estimate of 1,415,000)—a 12.4% decrease. Completions in July were down 9.1%, reaching 1,212,000, compared with the revised June estimate of 1,333,000.

The Consumer Price Index (CPI) was up 3.4% year over year in July, after rising 3.5% in June. Core inflation rose 2.5% (annualized). In July, median inflation expectations decreased by 0.1 percentage points to 3.6% at the one-year-ahead horizon and remained unchanged at the three- and five-year-ahead horizons—at 3.3% and 3.0% respectively.

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In August, the S&P 500 was up 2.7%, bringing the one-year return to approximately 20.4%; the Dow Jones climbed 1.5% over the month and posted approximately an 18.6% one-year return. August's CBOE Volatility Index increased to 16.3 (after rising to 16.0 in July).

Total public debt hit $40 trillion for the first time on August 18, reaching $40.1 trillion by August 28. It has grown by about $1 trillion every four months since breaching $37 trillion in August 2025. Net interest is now the federal government's second-largest expense at $963 billion over the first ten months of fiscal year 2026—a 14% rise. The ten-month deficit of $1.80 trillion already exceeds the $1.78 trillion recorded for the whole of fiscal year 2025.

Minutes of July's Federal Open Market Committee (FOMC) meeting (published 19 August) recorded Federal Reserve chair Kevin Warsh proposing a reduction in the FOMC calendar from eight meetings a year to six, to be held roughly every two months, in order to let more information accumulate between meetings.

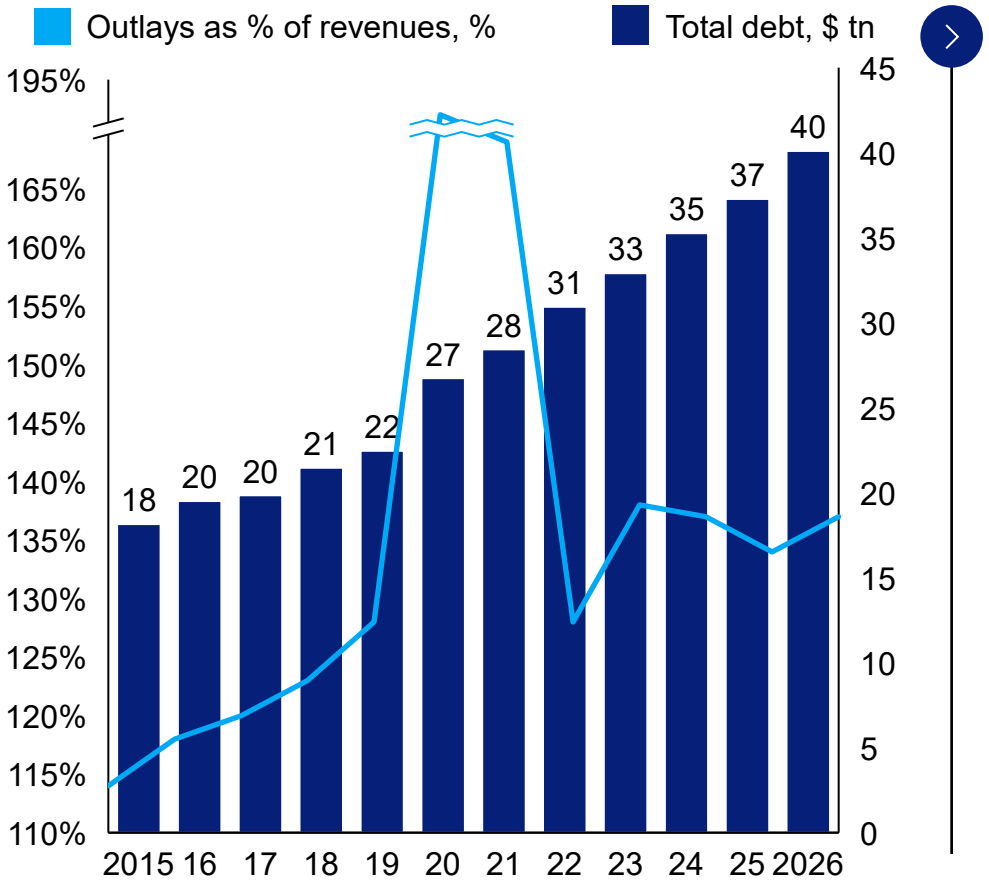
On August 19, the Treasury announced it would at least double the size of its buyback operations in the 10- to 30-year sector, from $2 billion to at least $4 billion, after the 30-year yield hit a 19-year high above 5.3%. The long bond fell about nine basis points to 5.2% on the announcement, but yields erased the decline within 24 hours.

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

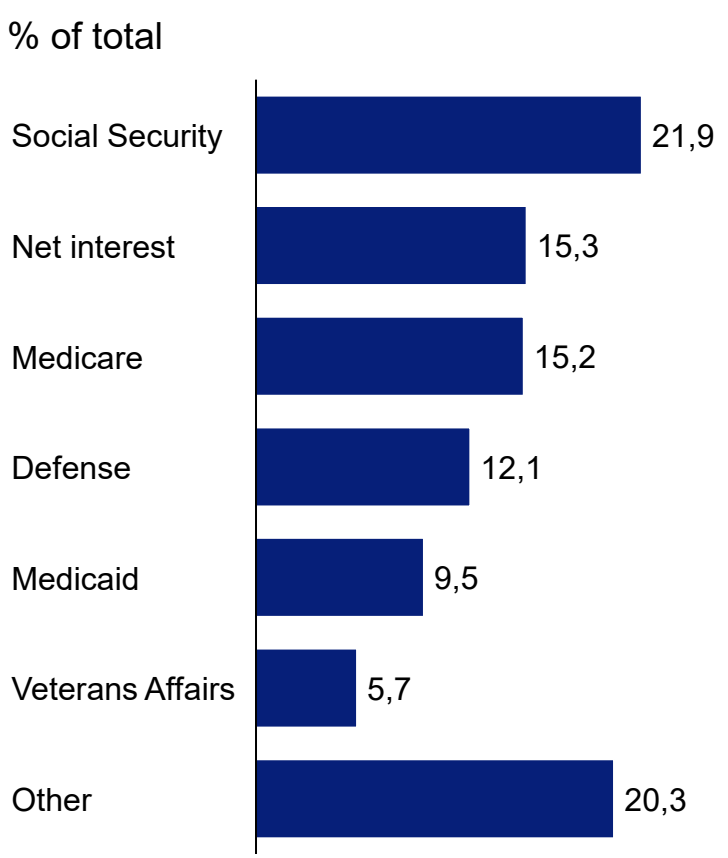
US total outstanding debt surpassed $40 trillion in August 2026

Net interest payments are now the second-largest federal outlay

Total public debt outstanding and outlays as % of revenues



Federal spending breakdown FY2026 (July)



Source: Congressional Budget Office (CBO) Monthly Budget Review; CBO Historical Budget Data; U.S. Treasury Debt to the Penny

Takeaways

Net interest payments have grown 14% in 2026 compared with 2025; they are now the second-largest federal outlay

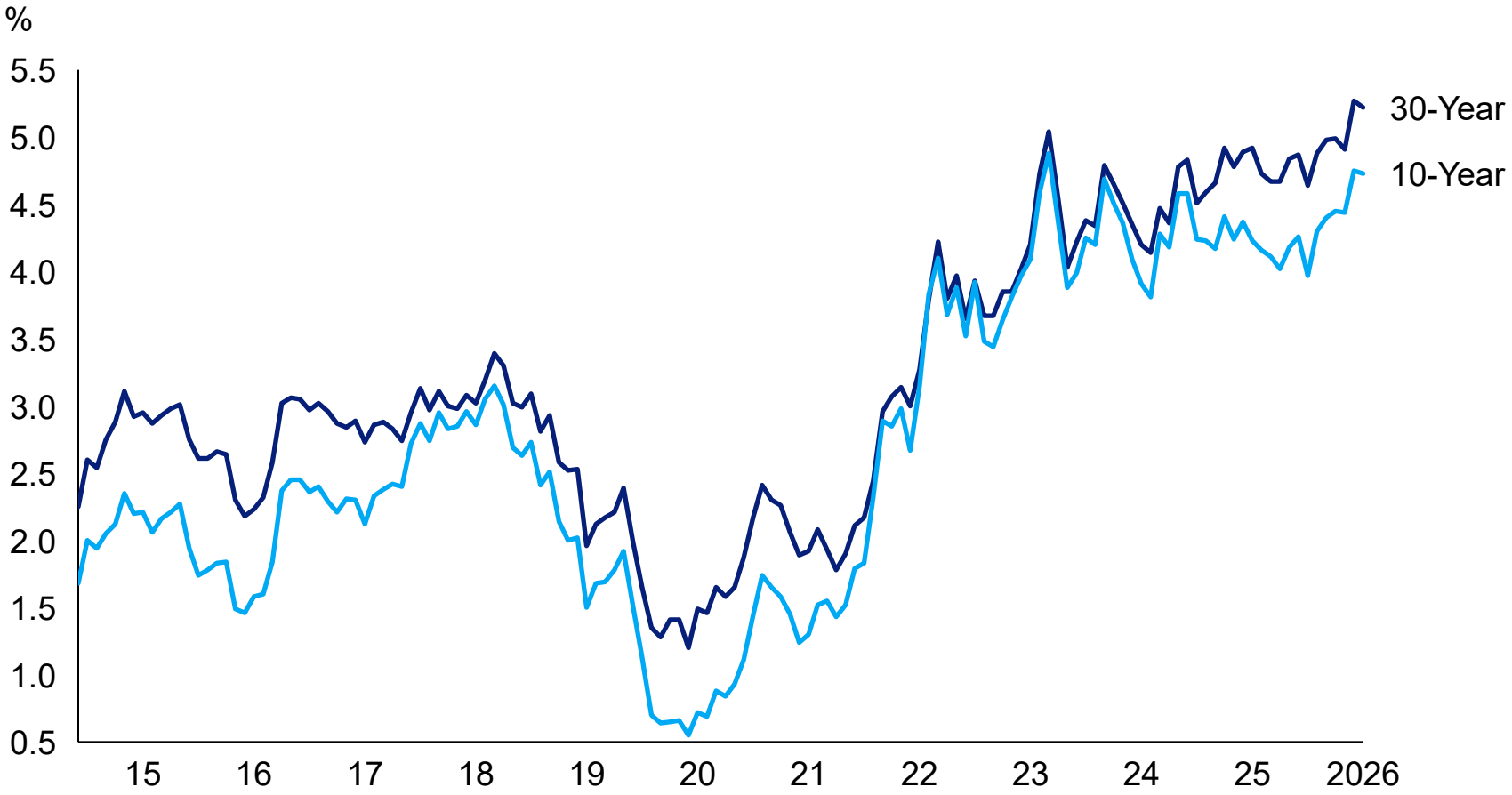
The Federal Government is expected to fund a $2.1tn deficit in 2026. FY2026 outlays are at $7.4tn and revenues at $5.4tn

CBO cut projected FY2026 collections by approx. $250bn after the Supreme Court struck down the IEEPA tariffs. Customs duties had jumped 153% to $195bn in FY2025

Long-term borrowing costs have reset above 5%, well above the approximate 3% pre-pandemic

New issuance now costs more than double the 2020 trough

Market yield on U.S. Treasury Securities at 10- & 30-year maturity



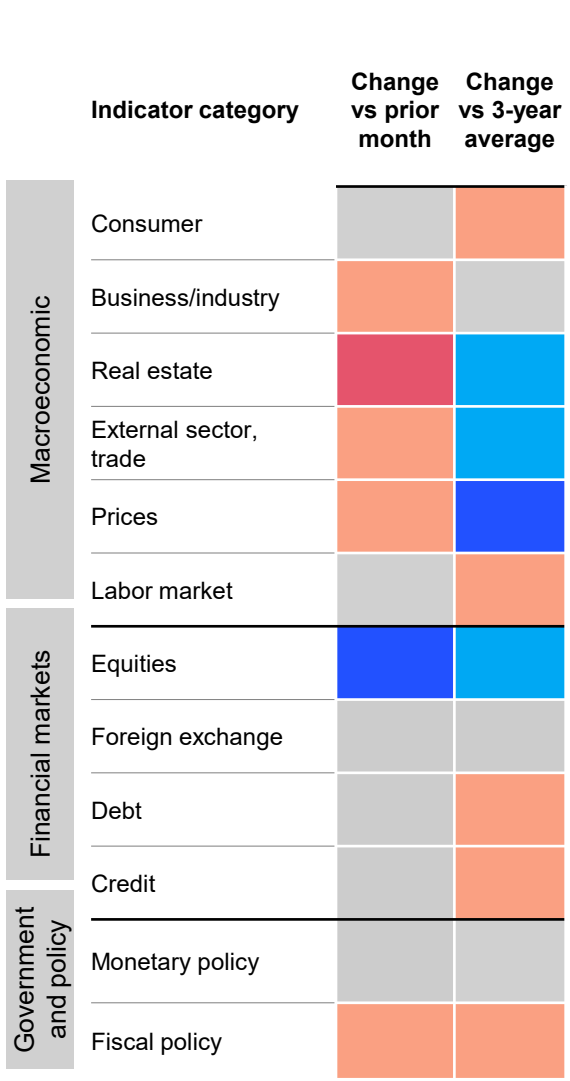
Source: Board of Governors of the Federal Reserve System; Federal Reserve Bank of St. Louis

Takeaways

The 30-year Treasury hit 5.3% on 17 August, the highest since 2007. It sits at 5.2% today, with the 10-year at 4.7% and 30-year mortgages at 6.7%

Long-term rates have risen in other major economies: Japan's 10-year yield reached 3% for the first time in 30 years, and Germany sold 30-year bonds in August at the highest yield since 2011

Total public debt passed $40 trillion for the first time; housing residential starts declined 12.4%; August saw 162,000 jobs added



Housing residential starts declined 12.4%, completions down 9.1%; inflation persists at 3.4%; retail sales fell 0.6% in June

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- July's retail and food services sales (adjusted for seasonal variation and holiday and trading-day differences) reached $763.6 billion, down 0.6% from June's revised $768.1 billion. The Consumer Confidence Index (Conference Board) edged down to 89.4 in August from a downwardly revised 90.2 in July.
- June exports reached $314.7 billion, down $2.9 billion from May. June imports hit $388.0 billion, $7.3 billion less than in May. The monthly deficit fell 5.6% to $73.3 billion.
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- Total nonfarm payroll employment increased by 162,000 in August, while the unemployment rate was unchanged at 4.1%. Employment increased in food services, drinking places, and in local government education. This is the strongest jobs gain since March
- CPI was up 3.4% year over year in July, after rising 3.5% in June. Core inflation rose 2.5% (annualized). In July, median inflation expectations dipped by 0.1 percentage points to 3.6% at the one-year-ahead horizon and were unchanged at the three- and five-year-ahead horizons at 3.3% and 3.0%, respectively.

July FOMC minutes recorded Fed chair proposal to reduce board meetings to six a year; S&P and Dow Jones return to positive returns

- In August, the S&P 500 was up 2.7%, bringing the one-year return to approximately 20.4%; the Dow Jones climbed 1.5% over the month and posted approximately an 18.6% one-year return. August's CBOE Volatility Index increased to 16.3 (after rising to 16.0 in July).
- Minutes of the July FOMC meeting (published August 19) recorded Kevin Warsh proposing a reduction in the FOMC calendar from eight meetings a year to six, to be held roughly every two months, in order to let more information accumulate between meetings.

Total public debt passed $40 trillion for the first time; the Treasury will double buyback operations in the 10- to 30-year sectors

- Total public debt hit $40 trillion for the first time on August 18 and reached $40.1 trillion by August 28. It has grown by about $1 trillion every four months since breaching $37 trillion in August 2025. Net interest is now the federal government's second-largest expense at $963 billion over the first ten months of fiscal year 2026—a 14% rise. The ten-month deficit of $1.80 trillion already exceeds the $1.78 trillion recorded for the whole of fiscal 2025.
- On August 19, the Treasury announced it would at least double the size of its buyback operations in the 10- to 30-year sector, from $2 billion to at least $4 billion, after the 30-year yield hit a 19-year high above 5.3%. The long bond fell about nine basis points to 5.2% on the announcement, but yields erased the decline within 24 hours.

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

Eurozone

Eurozone GDP growth reached 0.6% in second quarter (+1.2% year on year), net exports contributing +0.9 percentage points; inflation surged to 3.3%.

Eurozone GDP growth for the second quarter of 2026 was revised up to 0.6% quarter on quarter (+1.2% year on year). Net exports provided the dominant impulse (+0.9 percentage points) and household consumption added 0.2 percentage points, while inventories subtracted 0.5 percentage points. Employment rose 0.1% quarter on quarter in the second quarter of the year, with 176.4 million people in employment in the euro area, following the first quarter's flat reading.

The export surge that drove the second quarter's GDP rise carried into July, with the goods trade surplus widening to €14.2 billion, from €8.6 billion in June and surpassing the €10.7 billion in July 2025. Monthly industrial production edged down 0.1% in July, a second consecutive marginal decline, indicating that export demand rather than domestic output is supporting the recovery. The September Composite purchasing managers' index (PMI) eased to 51.2 from 52.1, with services at 51.4 and manufacturing output at 50.7—a seventh consecutive month of expansion.

HICP (harmonised index of consumer prices) inflation accelerated to 3.3% year on year in August 2026, its highest level since September 2023, driven by energy's 14.3% annual growth, as Middle East supply disruptions pushed Brent crude above $107 per barrel. Core inflation edged down to 2.4% and services to 3.0% from 3.3%, suggesting limited second-round effects so far. Negotiated wage growth eased to approximately 2.6% in the second quarter of 2026 from 2.9% in the fourth quarter of 2025, though the European Central Bank (ECB) still projects headline inflation at 3.0% for full-year 2026.

Consumer indicators present a mixed picture. Confidence held at –15.5 in August 2026, a fourth consecutive monthly gain from April's multiyear low of –20.6, though spending has not recovered in line with sentiment: retail sales volumes fell 0.6% month on month in July, a second consecutive decline. The gap between improving confidence and contracting retail volumes reflects households directing income gains toward savings buffers in anticipation of sustained energy cost pressures. Unemployment edged up to 6.4% in July from 6.3% in June, the first increase in several months.

The ECB Governing Council raised all three key interest rates by 25 basis points on September 10, bringing the deposit facility to 2.50%—the second hike of 2026—citing the August inflation surge. New staff projections forecast inflation at 3.0% in 2026, 2.5% in 2027, and 2.1% in 2028, with GDP growth revised up to 0.9% for 2026 and 1.4% for 2027. Several council members indicated October's meeting may discuss further tightening, subject to incoming data.

Source: ECB; European Commission; Oxford Economics

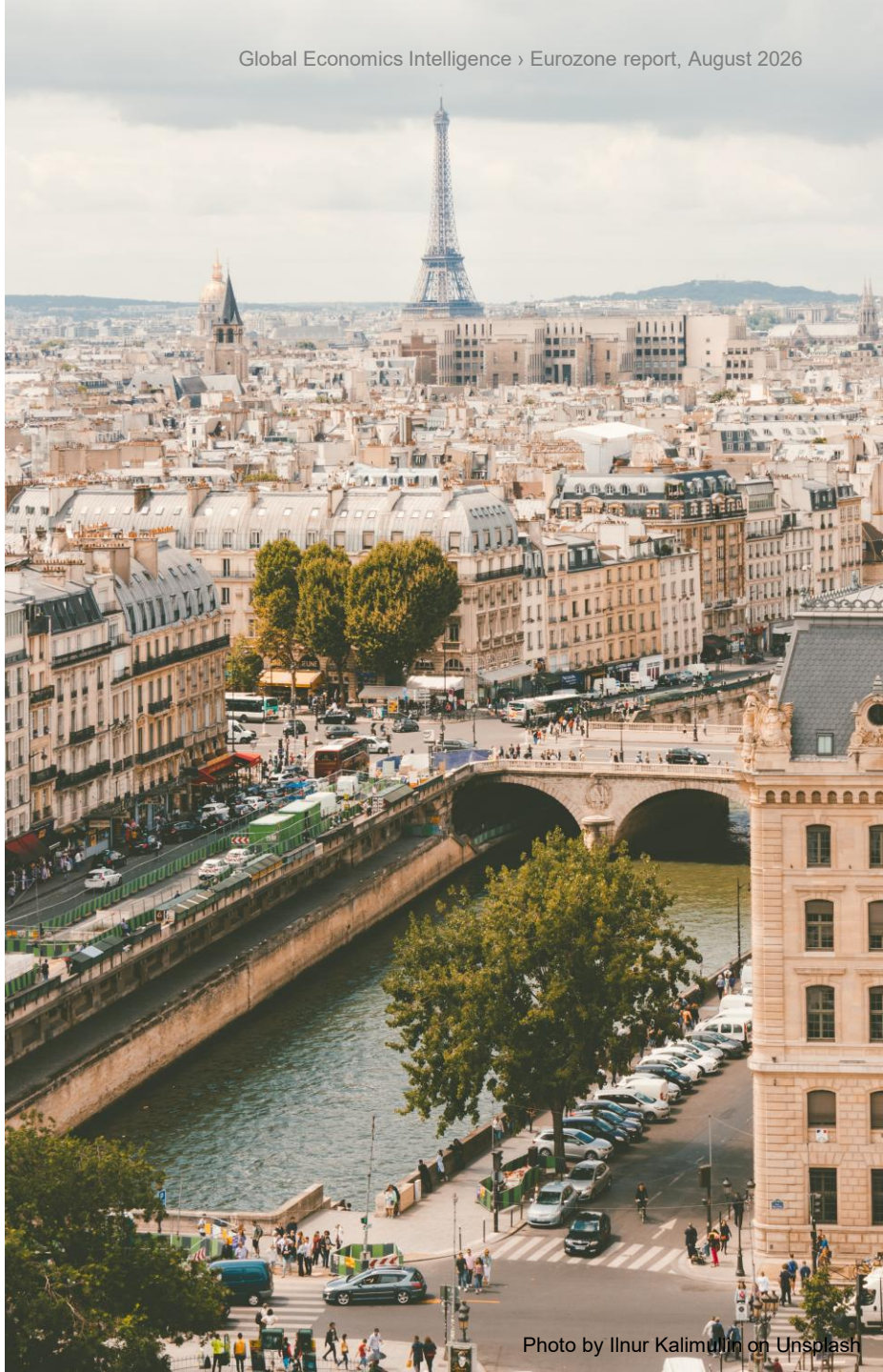
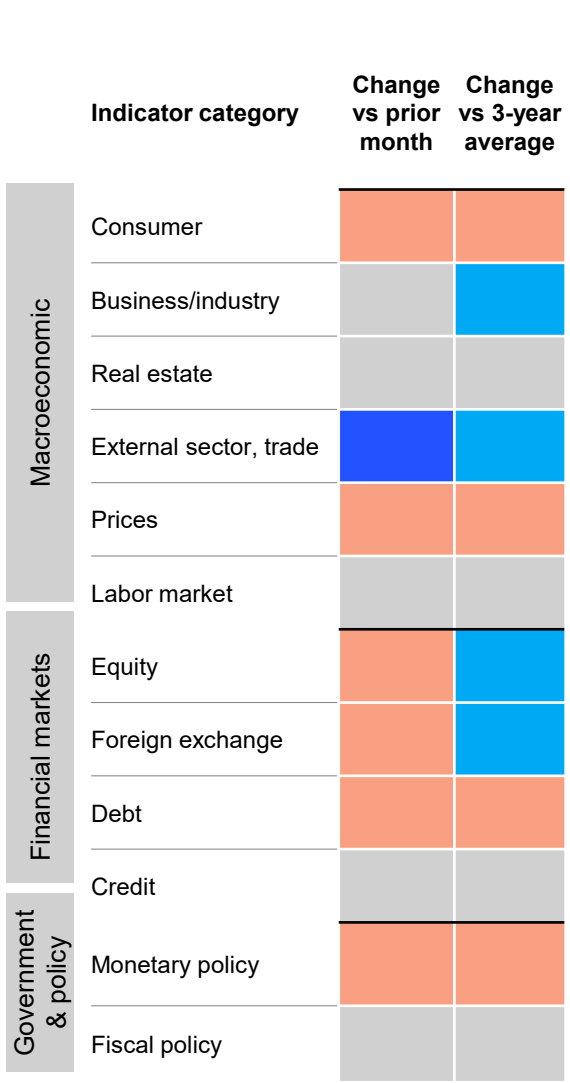


Photo by Ilnur Kalimullin on Unsplash

HICP surges to 3.3% in August, a three-year high; ECB hikes rates to 2.5%; trade surplus expands to €14.2 billion



Inflation reaccelerates on energy surge; ECB September hike marks second tightening in 2026

- Eurozone retail sales volumes fell 0.6% month on month in July 2026, a second consecutive monthly decline, as elevated energy costs continue to weigh on household purchasing power. Consumer confidence held at –15.5 in August 2026, extending a fourth consecutive monthly gain from April's multiyear low of –20.6, though sentiment remains below the long-term average.
- Industrial production edged down 0.1% month on month in July 2026, a second consecutive marginal monthly decline following June's downward revision to –0.1%, leaving annual production flat versus July 2025. The S&P Global Eurozone Composite PMI eased to 51.2 in September, from 52.1 in August, with manufacturing output at 50.7, marking a seventh consecutive month above the expansion threshold; services were at 51.4.
- The eurozone goods trade surplus widened sharply to €14.2 billion in July 2026, from €8.6 billion in June, as exports rose 9.0% year on year to €276 billion, well above the €10.7 billion surplus recorded in July 2025. The improvement reflects broad-based export gains across capital and manufactured goods.
- The acceleration in HICP inflation to 3.3% year on year in August 2026—its highest level since September 2023—was driven overwhelmingly by the energy component, which surged to 14.3% annual growth from 10.3% in July, as renewed Middle East supply disruptions pushed Brent crude above $107 per barrel. Core inflation edged down to 2.4%, while services inflation moderated to 3.0% from 3.3%, suggesting limited second-round effects so far.
- The unemployment rate in the euro area edged up to 6.4% in July 2026, from a revised 6.3% in June—the first increase in several months. The ECB wage tracker (unsmoothed one-off payments) showed negotiated wage growth of approximately 2.6% in Q2 2026, easing from 2.9% in Q4 2025, with the ECB projecting wages to remain broadly stable through the remainder of 2026.

STOXX 600 retreats to three-month lows as the ECB hike, surging oil prices, and rising sovereign yields weigh on sentiment

- Europe's STOXX 600 retreated to three-month lows in mid-September 2026, reversing August's record-high gains, as the ECB's September 10 rate hike, Brent crude surpassing $107 per barrel, and rising sovereign bond yields compressed equity valuations across rate-sensitive sectors. The euro weakened to approximately $1.1552 = €1 as of September 16, 2026, from $1.1685 at end-August, as dollar strength ahead of anticipated Federal Reserve action outweighed the support from the ECB's own rate rise.
- 10-year eurozone sovereign bond yields rose to approximately 3.91%, from 3.64% in mid-August, reflecting the ECB hike and a sustained repricing of near-term inflation expectations. Annual growth in adjusted loans to households stood at 3.0% in June 2026, while loans to non-financial corporations grew at 4.0%, though tighter monetary conditions and bank credit standards are expected to dampen both metrics in coming quarters.

ECB raises rates to 2.5% on September 10, citing a three-year inflation high; October tightening in play

- At its September 10 meeting, the ECB Governing Council raised all three key interest rates by 25 basis points, bringing the deposit facility rate to 2.50%, citing the acceleration of HICP inflation to 3.3% in August as the direct trigger. New Eurosystem staff projections forecast headline inflation at 3.0% in 2026, 2.5% in 2027, and 2.1% in 2028, with GDP growth revised up to 0.9% in 2026 and 1.4% in 2027.

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

United Kingdom

Summer saw continuing expansion, supported by services, household consumption, and investment. However, renewed inflationary pressures, gradually weakening labor market, and elevated government borrowing costs suggest recovery remains vulnerable.

Real GDP rose 0.4% quarter on quarter in Q2 2026, slowing from 0.6% in Q1, yet indicating greater resilience than the subdued year-over-year rate alone would suggest. Growth was primarily driven by services (+0.5%), notably information and communication and professional.

More recent indicators suggest that momentum remains uneven. The manufacturing purchasing managers' index (PMI) eased to 51.7 in August (51.9 in July), staying above the 50-point neutral threshold and considerably stronger than a year earlier. July GDP was up 0.4% month on month, driven largely by services and information technology, with consumer-facing services remaining weak. Overall, the data indicate continued expansion, though concentrated in a relatively narrow set of service industries.

Inflation, meanwhile, became less favorable during the summer. Headline consumer price index (CPI) inflation rose from 2.9% in July to 3.1% in August, moving further above the Bank of England's 2% target as higher fuel and transport costs added to price pressure. Core inflation was more stable, but rising producer and energy costs point to renewed pressure in the supply chain. The inflation outlook has therefore shifted from relatively broad disinflation toward a more complicated combination of easing domestic pressure and stronger externally generated costs.

The labor market continues to loosen gradually. The unemployment rate stood at 4.9% in both the April–June and May–July periods, around 0.2 percentage points higher than a year earlier. Slower employment and wage growth should eventually reduce domestically generated inflation, but they also limit the strength of household income growth.

August saw consumer confidence rise to its strongest level in roughly a year but remained negative. Retail sales softened in July, suggesting that improved sentiment has yet to translate into consistently stronger household spending.

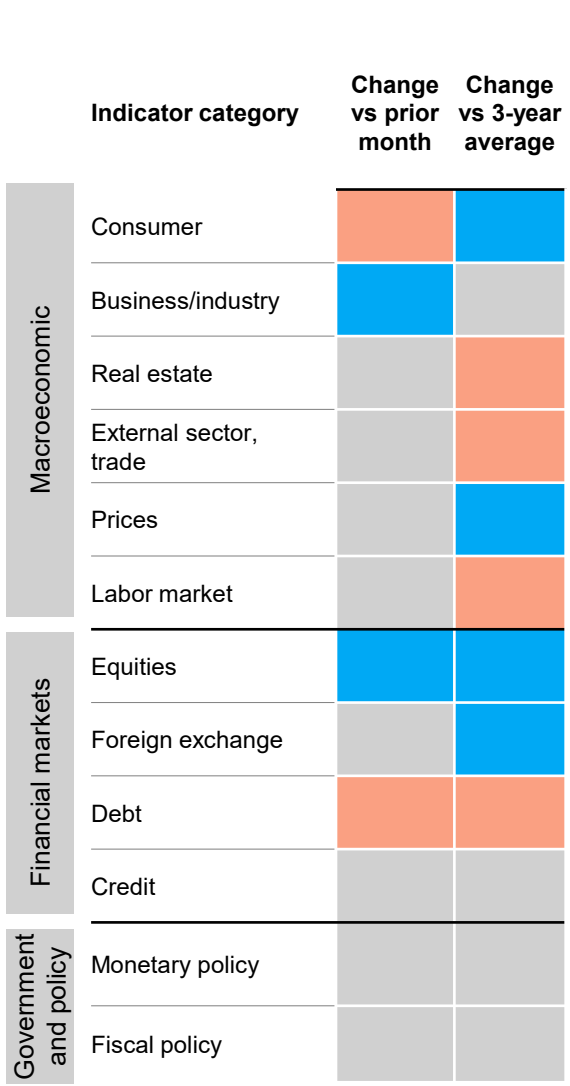
The Bank of England held the Bank Rate at 3.75% in August and again in September. Although the policy rate is below its year-ago level, rising inflation and renewed energy-price risks have reduced the likelihood of rapid additional easing. The 10-year gilt yield remained above 5% in August and rose further in September. This divergence between a lower short-term policy rate and elevated long-term yields means that financial conditions remain restrictive for the government, households refinancing mortgages, and businesses seeking longer-term funding.

That said, the markets remained comparatively resilient. The FTSE 100 rose in August, while sterling appreciated modestly against the dollar. This suggests investors continue to see relative strength in large UK-listed companies and the currency. However, the equity market's resilience also reflects the FTSE 100's international revenue exposure and should not be interpreted as a direct measure of domestic economic conditions.

The external and fiscal positions remain important vulnerabilities. The total trade deficit widened to approximately £5.5 billion in June as exports fell more sharply than imports, though the three-month deficit changed relatively little. The deterioration largely reflected weaker goods exports, while the UK's sizeable services surplus continued to provide an offset. Public-sector net debt stood at 94.1% of GDP in July, slightly below the year-ago level, but monthly net borrowing of £1.8 billion exceeded the approximately £1.1 billion recorded in July 2025. Elevated gilt yields compound this pressure by increasing debt-servicing costs and reducing the government's fiscal headroom.

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

Slow growth and affordability remain key challenges facing UK economy



Economic activity remained resilient, but renewed inflation pressure and a softer labor market constrain recovery

- Real GDP grew by 0.4% quarter on quarter in Q2 2026, following 0.6% growth in Q1. Household consumption increased by 0.3% and fixed investment by 1.2%, more than offsetting a 0.3% decline in government consumption.
- The manufacturing PMI eased marginally to 51.7 in August, from 51.9 in July, but remained well above its year-earlier level, indicating a continued recovery in industrial activity.
- Consumer confidence improved to –14 in August, its strongest reading in a year, but retail sales softened as elevated living costs and weaker employment growth continue to constrain spending.
- Inflation increased from 2.9% in July to 3.1% in August, mainly because of higher fuel and transport costs. Core inflation remained stable at 2.6%, suggesting that the renewed price pressure was still concentrated in energy-sensitive categories.
- Labor-market conditions continued to weaken gradually, with unemployment at 4.9% in May–July, 0.2 percentage points above a year earlier.

Elevated gilt and mortgage rates continued to restrict domestic demand

- The FTSE 100 gained around 1.7% in August and was close to record highs, most likely driven by foreign investors.
- Sterling appreciated modestly against the US dollar during August. The stronger currency should help contain imported inflation.
- Long-term borrowing costs continue to be elevated despite an earlier decline in the Bank Rate. The 10-year gilt yield averaged approximately 5.0% in August, up slightly from July.

Renewed energy inflation and high debt-service costs leave policymakers with limited room to support growth

- The Bank of England held the Bank Rate at 3.75% in September, with six Monetary Policy Committee members supporting no change and three favoring an increase to 4.0%.
- The bank also revised its quantitative-tightening strategy in response to pressure in the gilt market. It paused active gilt sales for six months, stopped sales of the longest-dated bonds, and reduced the planned average annual balance-sheet contraction.

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

[Emerging economies]: India's retail inflation firmed to 4.45% in July; Brazil cut Selic rate by 25 basis points in August, bringing it to 14.%; June saw Mexico's trade surplus widen to $4.1 billion.

China

China's August data reflect a two-speed economy: manufacturing and exports are carrying headline growth, even as near-zero consumer inflation, softening consumer activity, and a still-depressed property market expose how thin domestic demand remains.

Industrial production growth eased to 4.6% in July 2026 from 5.3%, down from 5.9% a year ago. Meanwhile, the manufacturing purchasing managers' index (PMI) rose to 49.8 in August from July's 49.2 but stayed below the 50-point line dividing expansion from contraction—a sign the factory recovery remains shallow.

Beneath that headline, prices tell the sharper story. Headline consumer price index (CPI) inflation dropped to 0.5% in July 2026 from June's 1%, leaving consumer inflation barely positive and far below the government's approximate 3% ceiling; core inflation (excluding food and energy) stood at 0.9%. A year ago, inflation sat at 0%, underscoring how persistent the demand shortfall has been. Producer prices, by contrast, are firming: the Producer Price Index (PPI) registered 3.5% in July 2026, down from 4.1% in the prior month but nevertheless showing a marked upswing from the –3.6% of a year ago—presenting an early sign that factory-gate deflation is receding even as margins stay thin.

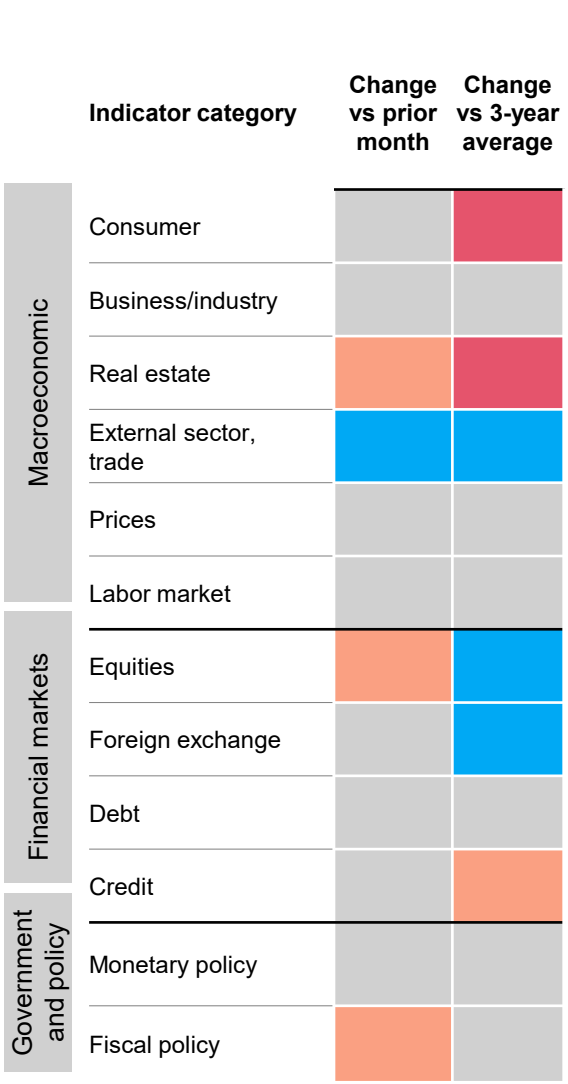
The labor market and the consumer are sending mixed signals. The surveyed urban unemployment rate rose slightly, by 0.2 percentage points to 5.2% in July, reflecting seasonal expectations as new graduates entered the jobs market. Meanwhile, July saw retail sales growth dip significantly to 0.6%, from June's 1%—far below the 6.4% high of May 2025. Consumer confidence fell 0.6 points to 90.1 in July 2026, staying below the 100 neutral line.

Taken together, these signals point to weak domestic demand keeping monetary policy in a cautious easing posture. The People's Bank of China (PBoC) held the 1-year loan prime rate at 3% in August and left its benchmark lending rate for loans of more than five years at 4.9%, while the 10-year government bond yield remained broadly flat. Markets, meanwhile, are rallying: the New SSE Composite Index gained 4.01% in August.

By contrast, external factors, such as overseas trade, continue to present clear signals of economic strength. July saw the merchandise trade surplus widen for a third straight month.

Source: CEIC; McKinsey's Global Economics Intelligence analysis

China's is a tale of a two-speed economy, with improving trade and manufacturing but growing concerns about the consumer outlook



Trade surplus widened; headline CPI fell to 0.5%

- Retail sales growth fell to 0.6% in July 2026 from 1% in June, far below the 6.4% high of May 2025; consumer confidence dipped 0.6 points to 90.1 in July 2026, further below the 100 neutral line.
- Industrial production growth eased to 4.6% in July from June's 5.3%; the manufacturing PMI rose to 49.8 in August but was still below the 50-point expansion threshold.
- New-home prices improved to –2.5% in July from –2.7%, a third straight monthly gain but, nevertheless, a year-over-year decline.
- The trade surplus widened to $109,694 million in July from June's $106,679 million, with exports reaching $389,850 million and imports $280,156 million.
- Headline CPI fell to 0.5% in July from 1% in June, with core inflation (excluding food and energy) at 0.9%—keeping consumer prices far below the approximate 3% ceiling; the Producer Price Index (PPI) registered 3.5%, up from –3.6% a year earlier.
- Surveyed urban unemployment rate rose 0.2 percentage points to 5.2% in July, matching its ago level and below the 5.4% high of March 2026.

The momentum on equities has been extended till August;

- The renminbi's nominal trade-weighted exchange rate remained broadly stable throughout July.
- The New SSE Composite Index gained 4.01% in August to reach 3,369.03, below its 3,518.79 high of February 2026.
- The 10-year government bond yield fell to 1.7% in August.
- The benchmark lending rate for loans of more than five years held at 4.9% in August—unchanged from a year ago.

Government debt continues to climb while central bank remains cautious

- PBoC held the 1-year loan prime rate at 3% in August; it has remained unchanged over the past year.
- General government debt is on the rise and reached 72.5%.

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

India

Supported by steady domestic demand in Q1 2026–27, India's economy remains resilient in the face of persistent global headwinds, despite geopolitical uncertainty, trade-related pressures, and unpredictable monsoon. Reflecting this picture, RBI raised its 2026–27 real GDP growth projection modestly to 6.7% at its August 5 review, from 6.6% in June.

The HSBC Flash India Composite PMI edged up to 54.6 in August from July's 52-month low of 54.3, a faster yet still subdued expansion and the second-weakest since March 2022. Services drove the improvement, reaccelerating from July's 53-month low, while the manufacturing PMI slipped for a third consecutive month, to 52.9—amid its weakest factory production and new order readings in five years.

Under the revised 2022–23-base, nine-industry Index of Core Industries (ICI) series, core-sector output grew 5.4% year on year in July, down from 6.0% in June (final), led by iron ore (+29.5%), cement (+13.1%), electricity (+9.0%), coal (+7.6%), steel (+2.9%), and refinery products (+2.7%); natural gas, crude oil, and fertilizers contracted. Iron ore, electricity, and cement remain the main drivers, lifting cumulative April–July growth to 4.3% from 1.5% a year ago.

Retail inflation firmed to 4.45% in July, a roughly 19-month high, from 4.38% in June, with food inflation (CFPI) firming to 5.52% from 5.32% as a weaker monsoon lifted some vegetable prices. Gains were fairly narrow, concentrated in items such as silver jewelry (109.84%), ginger (83.62%), garlic (35.36%), gold/diamond/platinum jewelry (32.98%), and onions (22.54%).

Core inflation—consumer price inflation (CPI) excluding food and fuel—was unchanged at 3.9% over May–June despite input-cost pressure, pointing to contained demand. The Reserve Bank of India (RBI) projects fiscal year 2027 CPI inflation at 5.0% and core inflation at 4.3%, with risks evenly balanced.

Equity markets steadied, with the Sensex up 0.3% to 77,472.94 on August 26, from 77,235.46 on August 18, as Brent crude eased below $87 a barrel—a supportive move for import-dependent India, easing pressure on investor sentiment.

The rupee rose, closing at 95.7143 on August 25, supported by a pullback in oil prices as central-bank intervention kept a firm lid on losses. Forex reserves climbed by $9.9 billion in the week to $716.9 billion (as of August 14); foreign-currency assets rose $7.2 billion and gold by $2.7 billion.

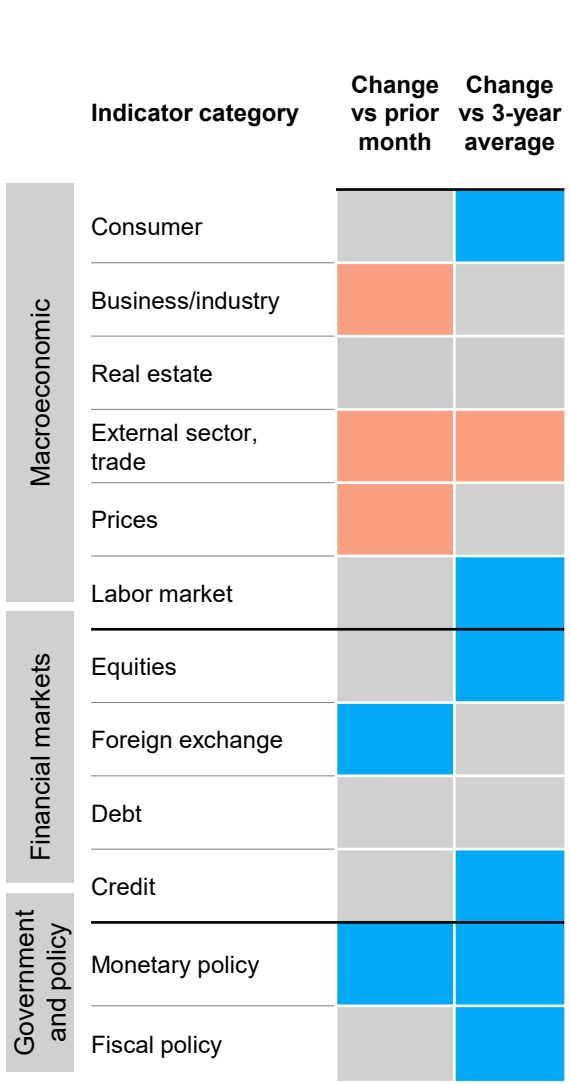
Merchandise exports were up 19.63% year on year to $44.24 billion in July 2026, while imports grew 17.52% to $76.22 billion; this pushed the trade deficit to a six-month high of $31.98 billion as the Middle East war drove up oil import costs and freight rates.

India and Singapore held a series of high-level bilateral and business engagements in Singapore on August 20, reinforcing the longstanding India–Singapore economic partnership and advancing cooperation across trade, investment, technology, and business, while creating new opportunities for mutually beneficial growth. At a bilateral meeting in Tokyo on August 25, India and Japan agreed to accelerate a review of the Comprehensive Economic Partnership Agreement (CEPA) to make it more forward-looking and responsive to emerging opportunities. This ran alongside a roundtable for Japanese and Indian industry on semiconductors and AI that underlined growing cooperation between India and Japan in these sunrise sectors and other emerging industries.

India's current account deficit widened marginally to $3.1 billion in the first quarter of this fiscal year (April–June), up from $2.9 billion a year earlier—this was primarily driven by a wider merchandise trade deficit. The Monetary Policy Committee (MPC) voted unanimously to keep the policy repo rate at 5.25% (SDF 5.00%, MSF and Bank Rate 5.50%) and retained its neutral stance, favoring a wait-and-watch approach.

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

Easing crude prices and a firmer rupee steady India's markets, even as manufacturing cools and inflation hits a 19-month high



Growth resilient as services rebound, while manufacturing cools

- Composite PMI edged up to 54.6 in August from July's 54.3 as services reaccelerated, while manufacturing slipped for a third month to 52.9—a five-year low.
- Core-sector output grew 5.4% year on year in July (from 6.0% in June), led by iron ore, cement, and electricity; cumulative April–July growth rose to 4.3% from 1.5%.
- Merchandise trade deficit widened to a six-month high of $31.98 billion in July, as imports (+17.52% to $76.22 billion) outpaced exports (+19.63% to $44.24 billion).
- Retail inflation edged up to approximately a 19-month high of 4.45% in July, from 4.38%, with food inflation at 5.52% and core inflation steady at 3.9%.

Markets and the rupee steady as crude eases and reserves rebound

- Sensex rose 0.3% to 77,472.94 on August 26 from 77,235.46 on August 18, as Brent crude eased below $87/barrel.
- The rupee firmed to 95.7143 per dollar on August 25 on softer oil price; forex reserves climbed $9.9 billion to $716.9 billion in the week to August 14.
- The current account deficit widened marginally to $3.1 billion in Q1 FY27, on a wider merchandise trade deficit.

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

- RBI held the repo rate at 5.25% with a neutral stance in its August 5 review, favoring a wait-and-watch approach.
- The central bank raised FY27 GDP growth projections to 6.7% (from 6.6%) and trimmed FY27 CPI to 5.0% (core 4.3%).
- Trade ties advanced, including India–Singapore engagements on August 20 and an India–Japan agreement on August 25 to accelerate the CEPA review.

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

Russia

Weak first half of the year for Russian economy with some recovery in Q2; higher oil prices boost export earnings, but fiscal deficit widened; central bank lowers key rate despite higher inflation; EU expands sanctions on Russia

Total output indicator covering five core sectors, which roughly captures economic activity trends, increased by 0.2% year on year in the first six months of the year. Preliminary GDP figures show 1.3% of annual growth in Q2—a recovery in economic activity following a weak first quarter, which saw a GDP contraction of 0.2% annually and 0.6% versus Q4 2025. Industrial output, up 0.4% annually in January–June, contributed strongly to growth, which came almost exclusively from the manufacturing sector, specifically serving the military-industrial complex. Production interruptions caused by Ukrainian drone strikes were distinctly reflected in the decline in the production of coke and petroleum products. Consumer activity remained healthy, with retail sales growing by 5.4% annually, despite real disposable income growth slowing to 1.5% in the first half of 2026, from 7% in 2025.

Russia's trade benefited from the Iran war and a related surge in oil prices, which in the first half of this year were estimated to be 17% higher than in the year-ago period. As a result, the value of goods exports in January–June rose to $226 billion, a 16% gain from a year earlier. Oil prices have subsided somewhat in recent months, to $60 a barrel in July, affecting the trade outlook. The value of Russia's goods imports has also risen in recent months to $161 billion, a 14% increase from the first half of 2025, supported partly by the ruble's relatively strong exchange rate. The goods trade surplus climbed to $65 billion, from $54 billion a year ago.

Consumer price inflation accelerated slightly in June and July, with prices up 6% annually. Much of the inflation burst reflected a fuel supply crisis caused by drone strikes—June's daily processing of crude was 30% below May's levels and fuel prices soared by roughly 20%. The Central Bank of Russia's (CBR) decision-making requires constant balancing between recently growing inflationary pressures, economic growth, and government debt servicing costs. In July, the CBR board decided to lower the key rate by 25 basis points to 14%, despite higher inflation. CBR noted that the latest inflation burst arose from transient factors, allowing for a rate cut.

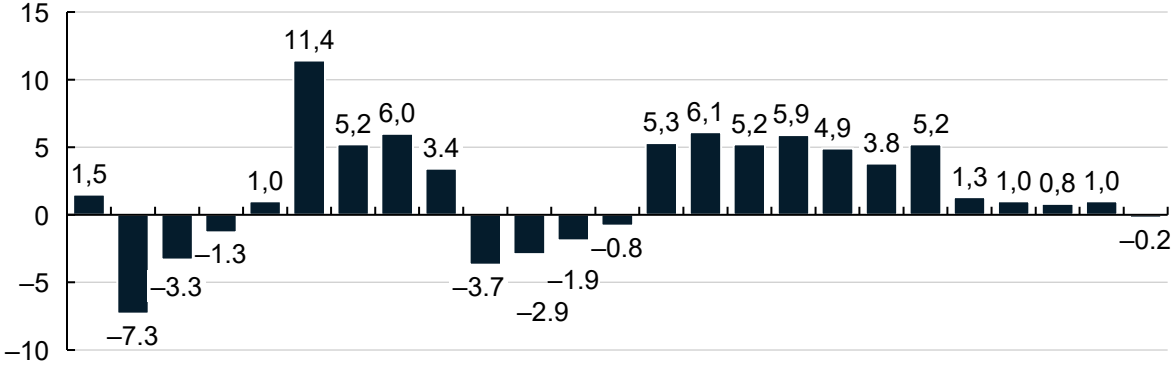
In July, the European Commission approved its 21st round of Russian sanctions, including measures aimed at the financial sector, oil exports, and entities involved with the military. The EU decided to keep its oil price ceiling at its current level for all of 2027, to ensure that Russia does not benefit from a tight market. Further vessels were added to the shadow fleet list, bringing the number of black-listed ships to 692. The EU also extended its transaction ban to 33 additional Russian banks, expanded export bans on various goods, and further restricted imports. Imports of liquefied natural gas from Russia are set to end in 2027. Sanctions were also imposed on several third-country (eg, China, Turkey, and Kyrgyzstan) entities suspected of conspiring to circumvent sanctions.

Source: BOFIT; Oxford Economics

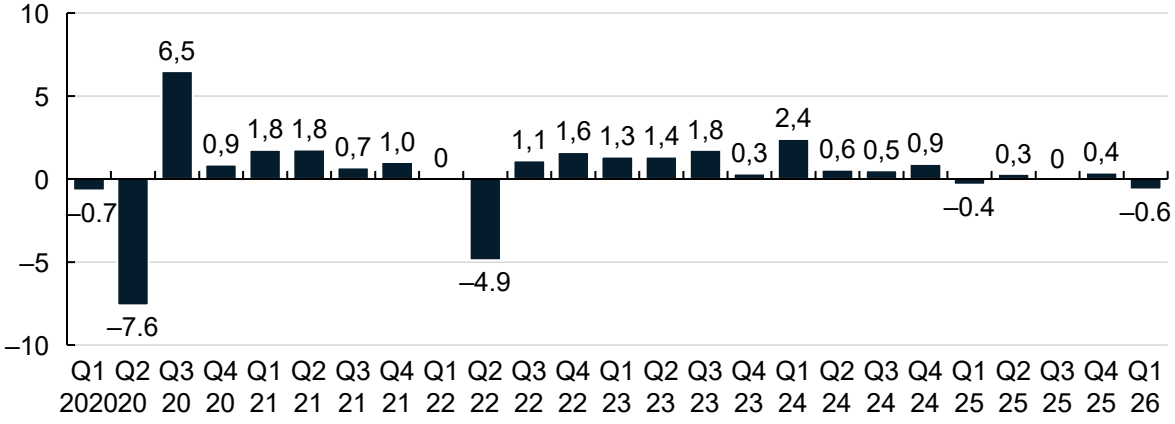
Recovery in domestic activity in Q2 2026, mainly in household consumption

Gross domestic product growth

Year-on-year changes, through Q1 2026

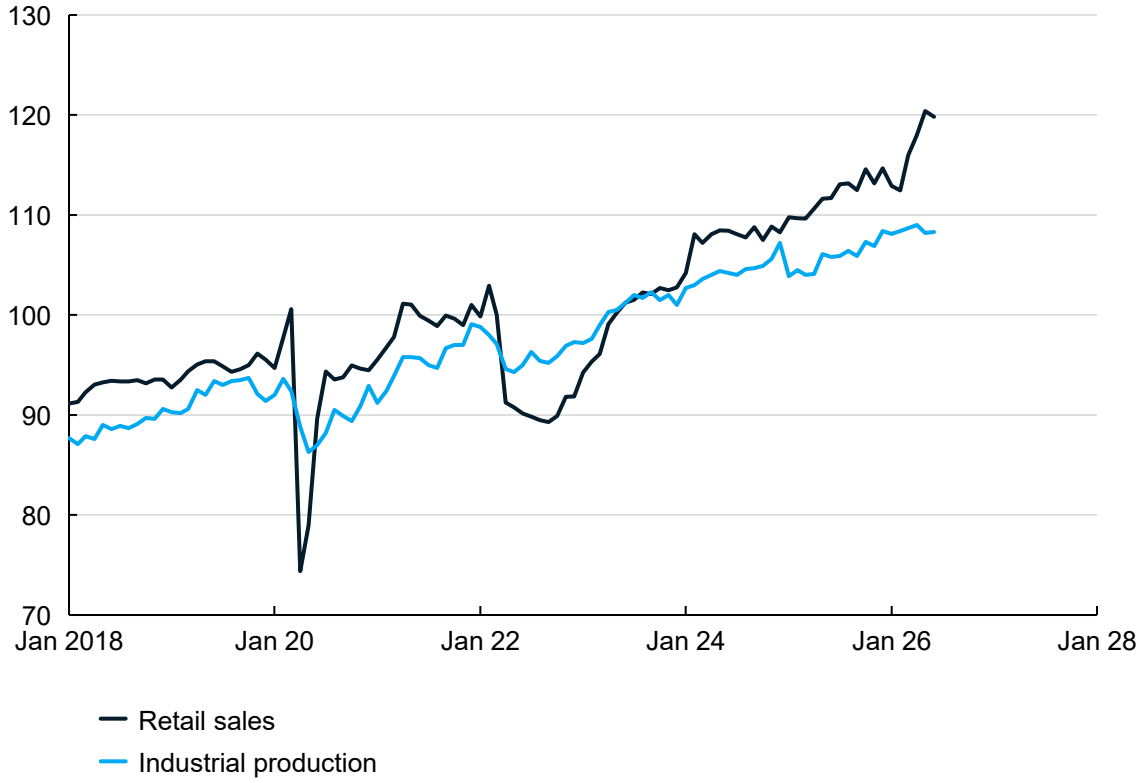


Quarter-on-quarter changes, through Q1 2026



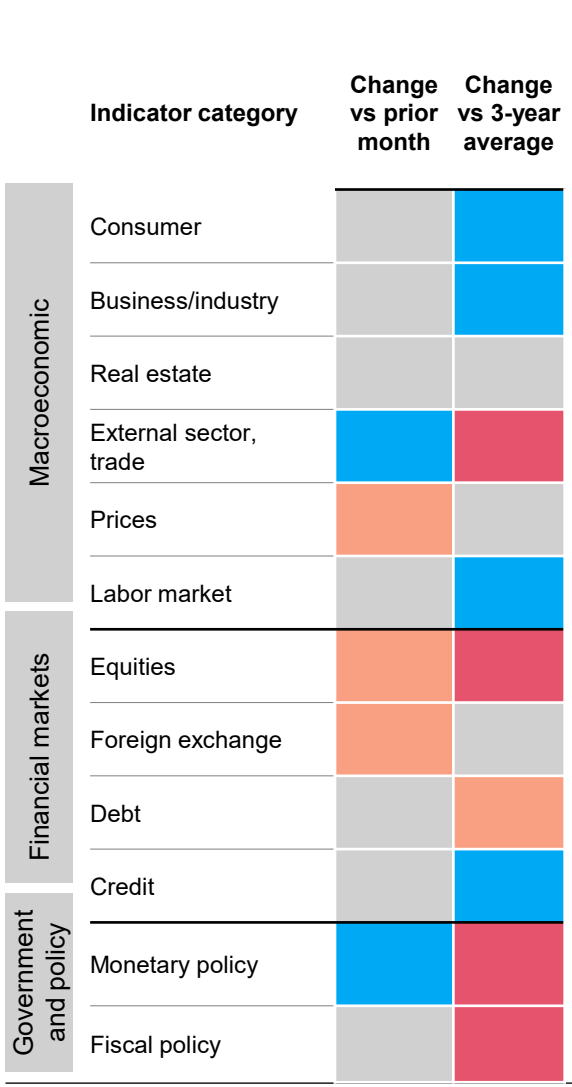
Industrial production and retail trade

Index, 2023=100, through June 2026



Source: Federal Statistics Service; Haver Analytics

Muted activity continued into second quarter, amid higher prices, financing costs, and worsening fiscal situation



Domestic activity remained muted amid higher prices, while trade benefited from higher commodity prices

- Despite a 0.5% monthly correction in June, total Q2 retail sales volumes growth was 4.9% quarter on quarter and 7.3% annually. Demand remains volatile and recent gains happened despite a slowdown in disposable income growth.
- Industrial production has remained stagnant since the beginning of the year. In Q2 the index rose by 0.1% versus Q1 and by 3% year on year. The manufacturing purchasing managers' index (PMI) rose to 50.7 in July from 50.3 in June, signaling the strongest improvement in factory activity since January 2025. In annual terms, construction works grew by 3.5% in June—recording the first positive reading in comparison with the same month in 2025. Still, year-to-date volumes remain 5% below the previous year.
- The value of goods exports rose to $125 billion in Q2, a 27% gain from a year earlier, heavily influenced by surging oil prices, estimated to be 17% higher than in first half of 2025. The value of goods imports also climbed to $87 billion, a 17% increase from the first half of 2025. The trade surplus rose to $38 billion from $24 billion in Q2 2025.
- Consumer price inflation accelerated in June and July, to 6% annually. Much of this inflation burst reflected a fuel supply crisis caused by drone strikes, with fuel prices soaring by roughly 20%. The core inflation reading edged up to 5.2% from around 5% annually and inflation expectations increased to around 14%.
- The unemployment rate inched up to 2.3% in June, with employment remaining stable versus May. Real wages growth slowed to around 4–5% year on year in April and May.

Financing budget deficit has become more challenging

- The MOEX index lost roughly 4% since the end of July; transaction volumes continue to be low.
- The ruble has depreciated since June to 85 per $1, from roughly 71 three months ago.
- Despite CBR cuts in the key rate, government bond yields have continued to rise this summer to 16% in August. At the beginning of the year, the yield was about 14.5%, slightly lower than the CBR's key rate. Yields have clearly exceeded the key policy rate since May.
- Annual household credit growth accelerated slightly (+6%) in the second quarter of 2026. Corporate loan growth has remained at 10–12%, a slight improvement consistent with gradual monetary easing but offset by weak demand.

Budget deficit continues to widen

- The federal budget deficit widened to 6.5 trillion rubles (approximately $76.5 billion) (3% of GDP) in January–July. In this period, revenues increased by 9% year on year, driven by higher value-added tax. Oil and gas revenues were still down 17%, despite higher oil prices. Budget spending rose by 15%, mainly due to a burst of spending in the spring. Spending continued to rise in July, but its growth has slowed to 6%, meaning that there was no growth in real terms. Nevertheless, the finance ministry also appears to have revised up its federal budget expenditure estimate for this year.

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

Brazil

Brazil's inflation and unemployment both tilted down; central bank makes 25 basis point rate cut.

In a unanimous decision on August 5, Banco Central do Brazil's Monetary Policy Committee (Copom) decided to cut the Selic rate by 25 basis points, bringing it to 14.%. Copom noted that the decision "is compatible with the strategy focused on converging inflation to the planned target." However, various factors, including the conflict in the Middle East, are noted as reasons to be cautious for emerging economies such as Brazil, alongside fiscal and other local risks.

Inflation was down in June, touching 4.44% (4.64% in May), below the central bank's upper target limit of 4.50%. Despite recent scaling back of policies designed to relieve fuel price pressures caused by Middle East tensions, the Brazilian senate recently approved a bill to offset lost revenue attributable to fuel subsidies via extraordinary federal revenues resulting from higher oil prices. Some incentives, such as the BRL 0.44 ($0.086) per liter subsidy for gasoline producers and importers, are still in place, at least up until September 9.

The three-month moving average unemployment rate edged down toward 5.4% in June from May's 5.6%.

On the financial markets, the average monthly real–dollar exchange rate was BRL 5.11 per USD in July (versus BRL 5.12 in June). The Bovespa equities index trended upwards in July, increasing 3.5%; however, performance has recently been worsening, with the index down 6.2% as of August 17.

Consumer confidence stayed below the neutral 100 mark, with FGV's seasonally adjusted July reading moving down to 88.2. Meanwhile, business confidence declined to 91.3. Construction confidence improved at 92.5.

Monthly manufacturing production fell: the Monthly Industrial Physical Production (PIM) Index decreased from 107.2 in May to 105.5 in June (still above the neutral 100 line). Factory production decreased 2%, while extractive production increased 0.7%. On aggregate, however, June 2026's results were 1.7% above those from the same period last year.

The Monthly Services Survey (PMS) revenue index increased to 132.6 in June from 130.3 in May (above the neutral 100 mark). This was mirrored in the volume index, which rose to 110.8 (from 109.0). The largest revenue increase was in audiovisual services (up 10.9% since May), followed by professional services (up 2.9%). Meanwhile, audiovisual services volumes were up 10.7%, while the professional services segment increased 3.5%.

July's trade balance recorded a surplus of $7 billion, down from $9.4 billion in June. The smaller surplus was the result of an increase in imports ($27 billion in July, up from $26.5 billion in June) and a decrease in exports ($34.1 billion in July, down from $35.9 billion in June).

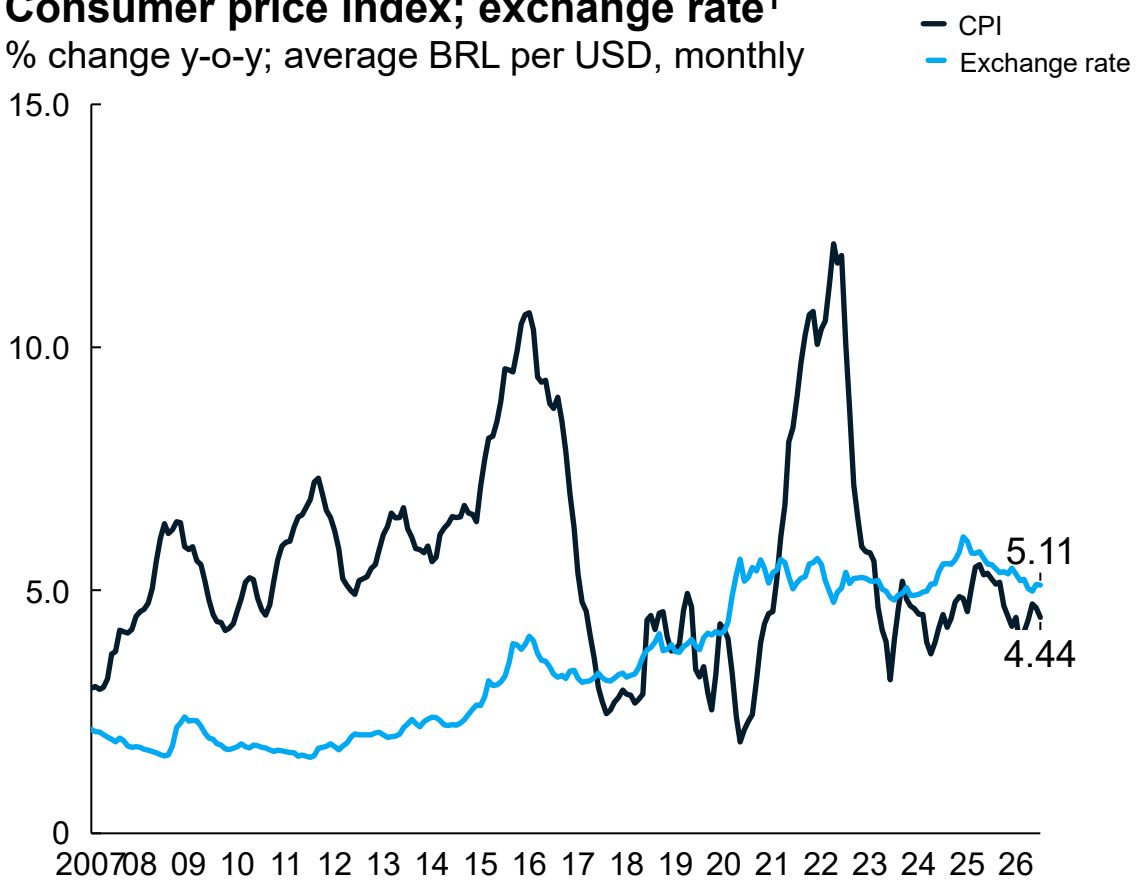
On August 16, retail chain Casas Bahia closed 298 stores and filed for bankruptcy protection, following a second-quarter net loss of BRL 10.1 billion reais ($1.94 billion). The company is not alone: other notable names, such as Genial—owner of fast-food chains Habib's and Ragazzo—have been seeking to renegotiate debt amid the high-interest-rate environment.

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

In July inflation fell to 4.44%, while the currency appreciated toward BRL 5.11 per USD; equities were up 3.5%, sliding 6.2% by mid-August

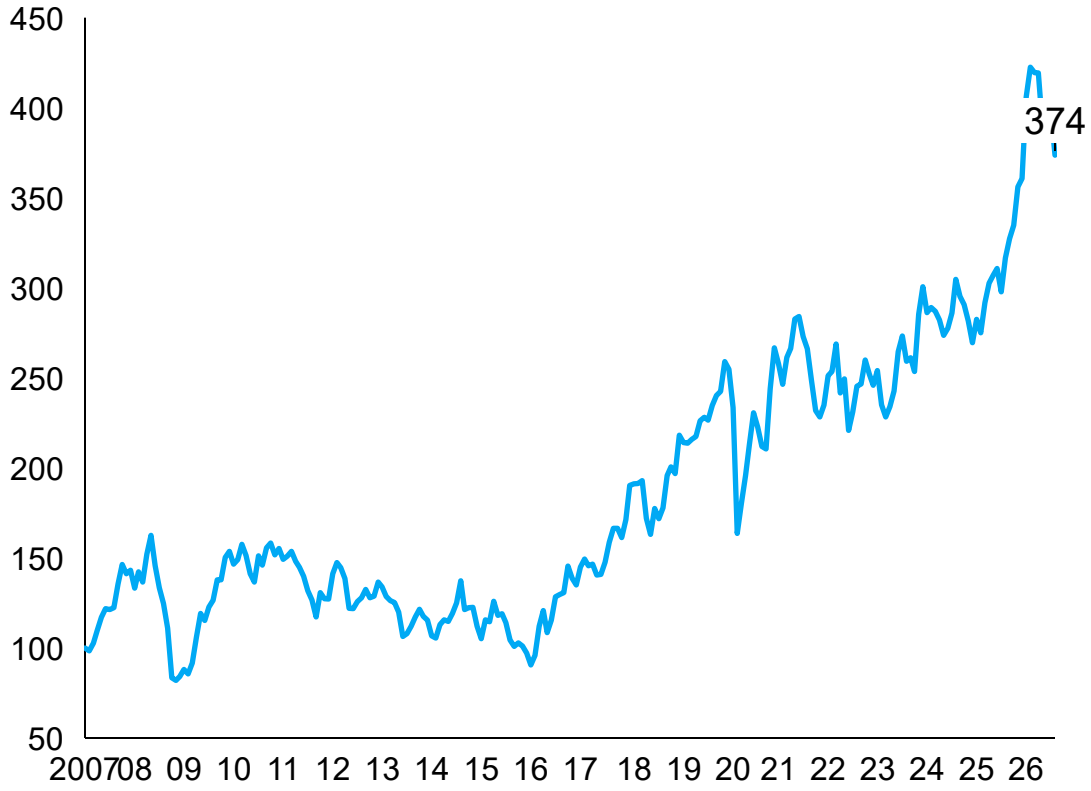
Consumer price index; exchange rate[1]

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



Bovespa index[1]

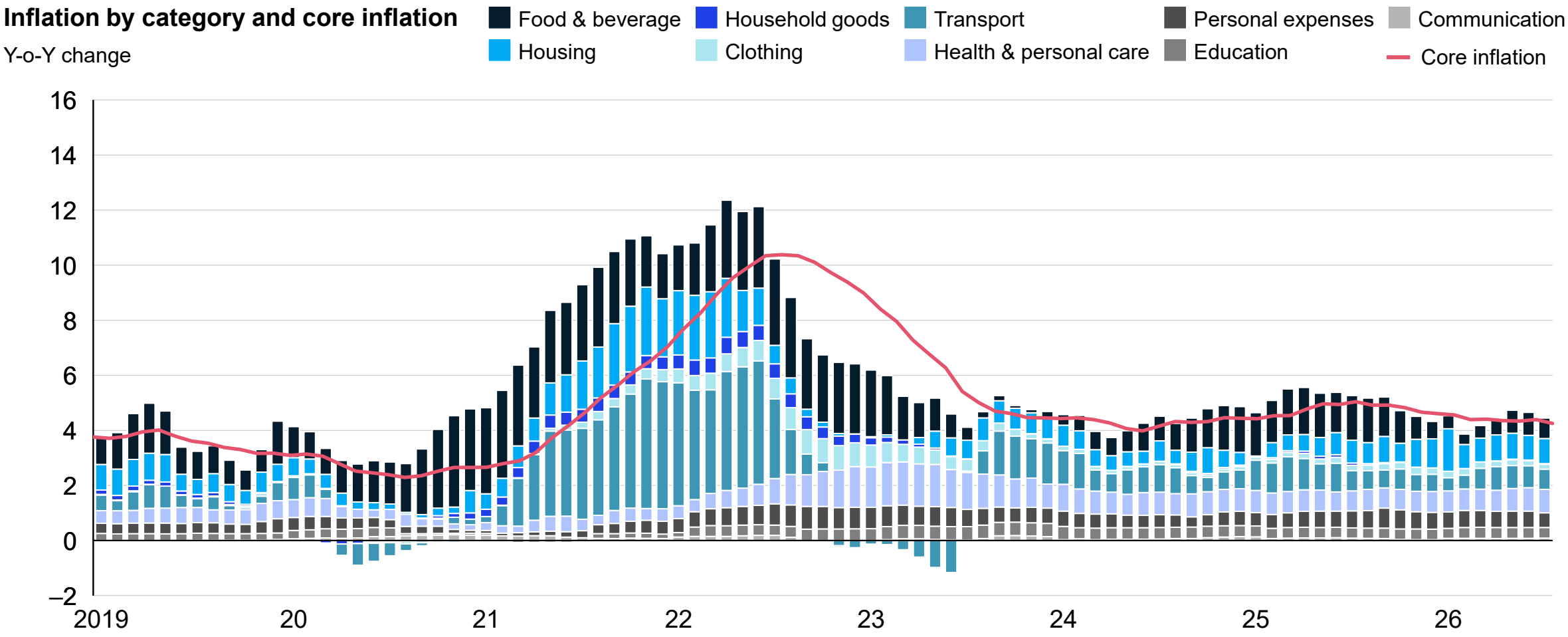
Indexed to February 2007 = 100



1. Data through August 17, 2026.

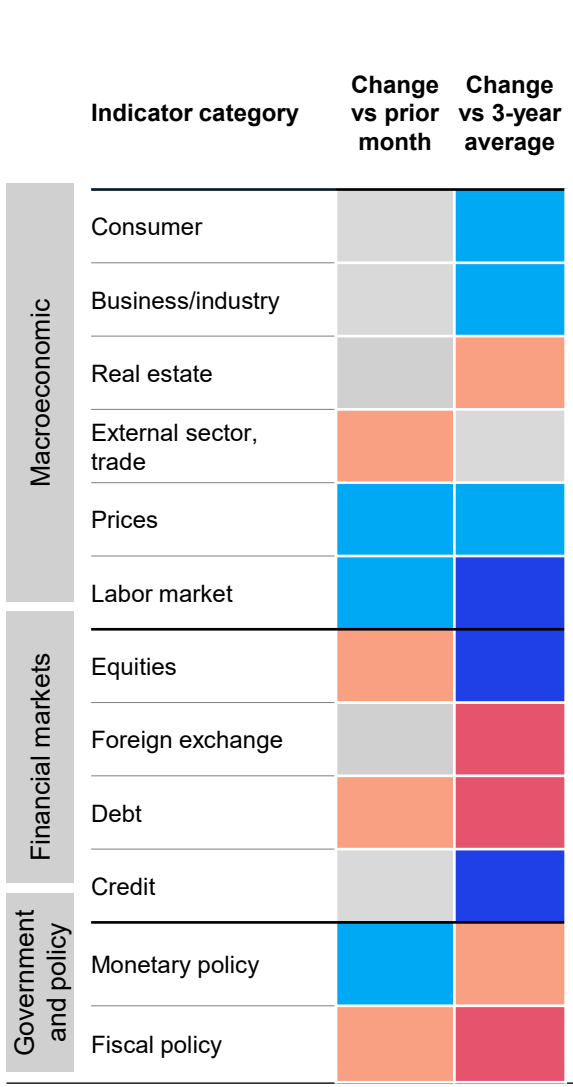
Source: FRED; Instituto Brasileiro de Geografia e Estatística (IBGE); McKinsey's Global Economics Intelligence analysis

Overall inflation slowed in June, driven by food, transportation, and personal expenses; core inflation shifted down following CPI trend



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

Brazil's outlook marked by slowing inflation and improvement in services and retail, with inflation and interest rates projected down



Inflation and unemployment trending down in market driven by retail and services; confidence only improving in construction

- Consumer confidence declined to 88.2 in July. Retail sales showed signs of worsening in June—down 2.3% since May—but are up by 8.1% on the same period last year.
- Business confidence was down at 91.3 in July. Industrial production increased, registering 105.5 in June (from May's 107.2). Services revenue rose to 132.6 in June, from 130.0 in May. Construction confidence increased to 92.5 in July.
- In July, the trade balance recorded a surplus of $7 billion, below June´s $9.4 billion.
- Inflation slowed to 4.44% in July (down from 4.64% in June). Among the largest price increases over the past 12 months were items such as carrots (75.1%), onions (54.9%), beans (45.3%), and potatoes (45.3%). Deflation was recorded for items such as avocados (–18.7%), garlic (–18.8%), Baía oranges (–20.9%), and zucchini (–30.7%).
- The three-month moving average unemployment rate moved down to 5.4% in June.

In July equities improved while the currency appreciated; mid-August Ibovespa results washed away all the gains

- The Bovespa equities index rose 3.5% in July; the index was down 6.2% by August 17.
- In July, the monthly average currency exchange rate was BRL 5.11 per USD (BRL 5.12 in June). On August 16, the real closed at 5.20 per dollar.

Markets revise down inflation and interest rates; GDP projections are roughly stable for 2026 but down for 2027 and 2028

- The central bank's Focus Bulletin—a summary of current financial market projections (published August 14)—revised consumer price index (CPI) forecasts for 2026 to 5.02% (from 5.15%). Projections for 2027 were raised to 4.24% (from 4.2%), while 2028 was revised up to 3.8% (from 3.78%). Projections for 2029 (3.5%) were unchanged.
- The benchmark (Selic) interest rate is projected to drop to 13.75 % in 2026 (down from the earlier 14% projection). Rate projections were maintained at 12% for 2027, at 10.50% for 2028, and at 10% for 2029.
- GDP is projected to grow 1.98% (up from 1.99%) in 2026, to be lower at 1.5% in 2027 (down from 1.65%), lower at 1.89% in 2028 (from 2%), and stable at 2% in 2029.

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

Mexico

Mexico's outlook remains broadly resilient, supported by easing inflation and a widening trade surplus, despite mixed manufacturing activity and softer labor conditions.

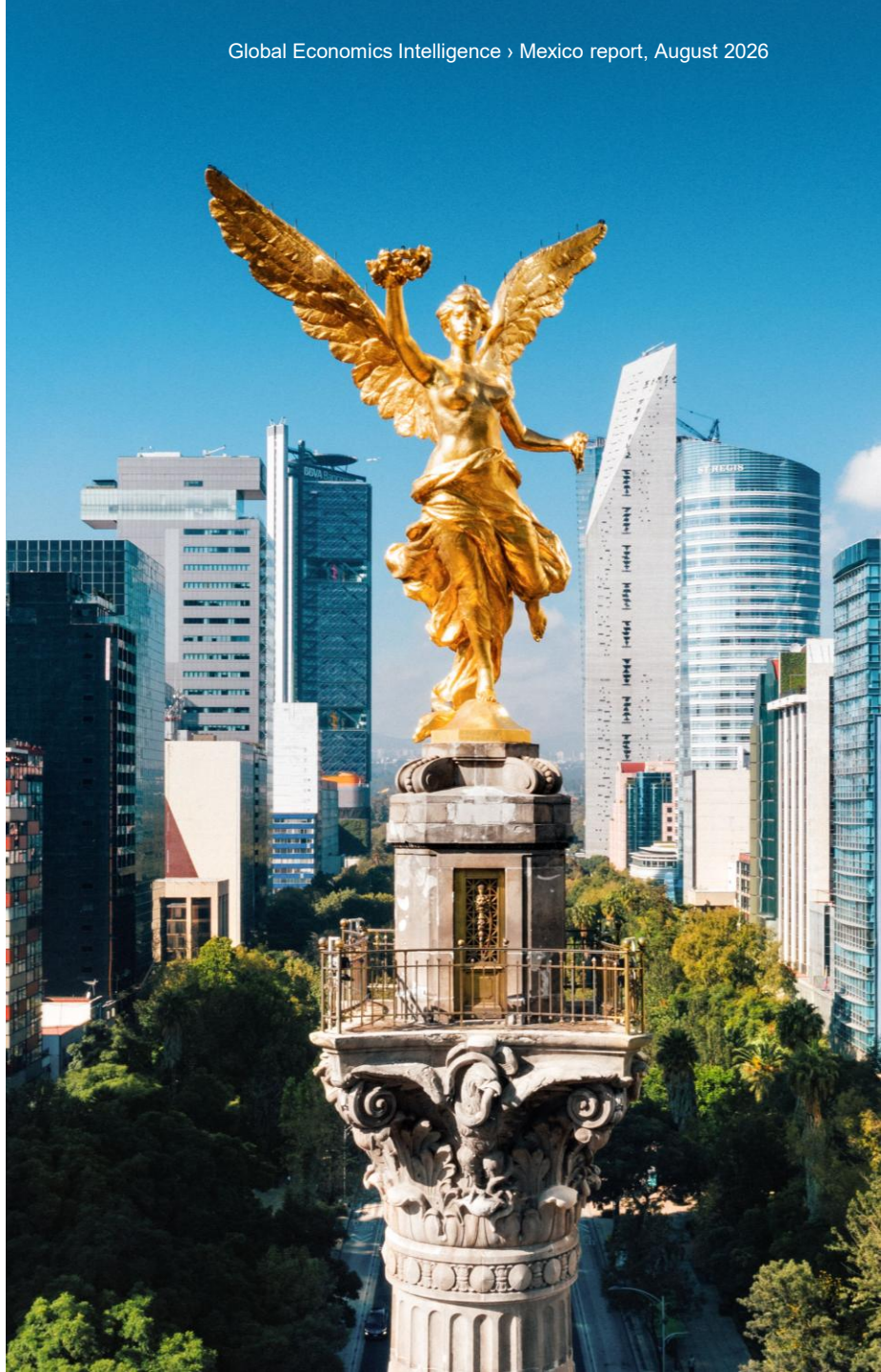
Mexico's macroeconomic environment has remained broadly stable, with easing inflation and an unchanged monetary policy stance. In August, the Bank of Mexico held its policy rate at 6.5% for a fourth consecutive month. Annual inflation declined to 3.1% in July from 3.4% in June, while the Mexican peso stood at MXN 17.5 per USD, compared with MXN 17.4 in June.

Manufacturing conditions continued to improve, although underlying activity remains mixed. The Purchasing Managers' Index (PMI) held at 51.3 in July, unchanged from June, as stronger domestic demand pushed new-order growth to its highest level since November 2023. However, new export orders contracted in July after expanding in June amid weaker demand from key international markets. Output and employment also continued to decline, while firms partly relied on inventories to meet stronger demand. Supply disruptions and elevated input costs remain key constraints.

Labor market conditions were broadly stable. The unemployment rate edged up to 2.8% in June from 2.7% in May. Formal employment stood at 22.8 million workers in July, broadly unchanged from June, despite a net monthly loss of 19,550 jobs. The decline mainly reflected seasonal effects associated with the end of the school year and, to a lesser extent, the agricultural cycle. Nonetheless, formal employment increased by 243,078 jobs year-to-date. Transportation and communications recorded the strongest annual employment growth at 7.5%, followed by extractive industries at 4.3%, and social and community services at 3.3%.

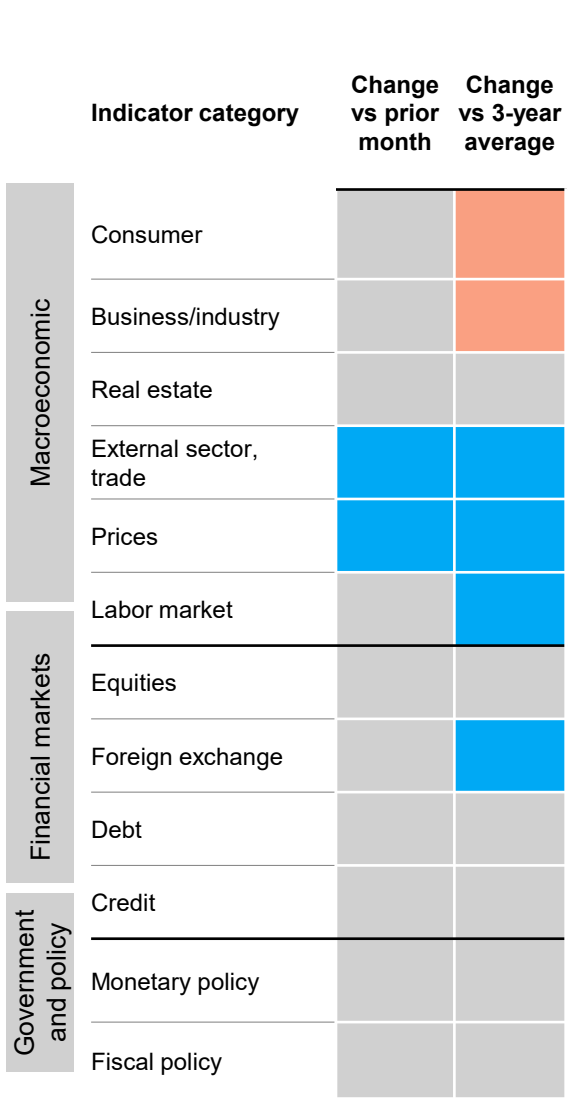
External accounts strengthened in June, with the trade surplus widening to $4.1 billion from $2.3 billion in May. Total exports increased to $72.6 billion from $70.0 billion, while imports rose more moderately to $68.5 billion from $67.3 billion. On a seasonally adjusted basis, exports increased 1.3% month over month, supported by a 3.0% rise in manufacturing exports and a 6.2% increase in automotive shipments. Meanwhile, imports declined 2.8% month on month, largely reflecting a 4.1% contraction in intermediate-goods imports.

On July 1, the United States declined to automatically extend the United States-Mexico-Canada Agreement (USMCA) for another 16 years, prompting annual joint reviews until parties agree on an extension or the agreement reaches its final expiration in 2036. Over July 21–23, negotiations continued but reached no final agreement, leading to a fourth round scheduled for September. A key point of contention remains US tariffs on automobiles, steel, and aluminum. Mexico has specifically sought lower tariffs on Mexican vehicles, broader duty-free treatment for Mexican auto parts, relief from steel and aluminum tariffs, and a commitment to avoid additional tariffs while the review is ongoing. The US continues to push for stricter rules of origin, higher North American content, and stronger economic security provisions, which remain under discussion ahead of the next round.



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

Improving inflation and trade dynamics contrast with softer economic activity as rising public debt reinforces fiscal pressures



Lower inflation and a widening trade surplus provide support to Mexico's economy amid weakening labor and manufacturing activity

- Confidence indicators stabilized. Consumer confidence was broadly unchanged at 102.1 in June (versus 102.2 in May), while business confidence edged up to 98.3 in May from 98.2 in April.
- Mexico's purchasing manager's index remained at 51.3 in July, unchanged from June, supported by stronger domestic demand despite weaker export orders and continued declines in output and employment.
- The trade surplus widened to $4.1 billion in June from $2.3 billion in May, driven by stronger manufacturing and automotive exports as well as a decline in intermediate-goods imports.
- Inflation slowed for a third consecutive month, reaching 3.1% in July from 3.4% in June.
- Labor market conditions softened marginally, with unemployment rising by 0.1 percentage point to 2.8% in June and formal employment shedding 19,550 jobs in July, largely reflecting seasonal factors.

Mexico's financial markets softened marginally in July, as the peso weakened and equity prices edged lower

- The Mexican peso weakened slightly to MXN 17.5 per USD in July from MXN 17.4 in June.
- Mexico's stock exchange index declined marginally by 0.04% in July compared with the previous month.

Mexico's fiscal pressures increased as public debt continued to rise

Public debt reached 51.0% of GDP in the first half of 2026, driven mainly by higher financing needs from current and social spending rather than investment. Social expenditure increased, particularly in health, education, and social protection, while physical investment declined 7.9% year on year. Overall spending rose 2.1%, outpacing the 0.1% increase in revenues, although lower financial costs helped contain debt-servicing pressures.

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

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