McKinsey & Company

Global Economics Intelligence

Global Summary Report

Released October 2025 (data through September 2025)

SUBSCRIBE

CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company
is strictly prohibited

Disclaimer

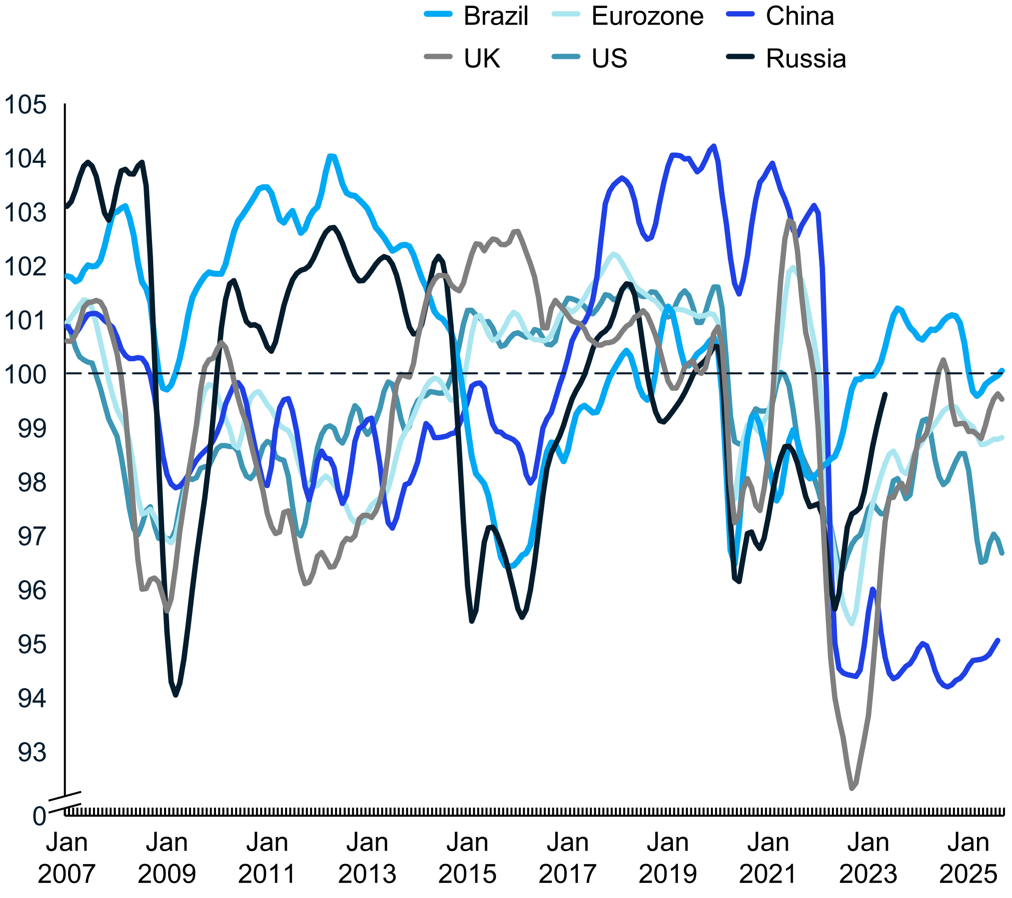
This report is intended for the purpose of illustrating the broad capability of McKinsey & Company. No part of it may be circulated, quoted, or reproduced for distribution outside the client organization without McKinsey & Company's express prior written consent.

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.

Consumer confidence remains below the long-term average, suggesting continued caution in spending

OECD consumer confidence indicators for individual economies[1]

Index, long-term average = 100[1]



[1] Data for China through August 2025, Russia through May 2023.

Global growth remains uneven as the world contends with policy uncertainty and trade realignments. The US government shutdown—now the longest in history—adds near-term downside risks, while renewed US–China tariff talks and a gradual easing of inflation provide cautious optimism. Activity is steady in services but weakening in manufacturing.

A US federal government shutdown, which began on October 1, continues at the time of writing, making it the longest in history by surpassing the previous record of 35 days set in 2018–19. The Congressional Budget Office estimates the shutdown could cut up to $14 billion from GDP if unresolved for a further month. One consequence of the shutdown in the US is that the Bureau of Labor Statistics, Bureau of Economic Analysis, and Census Bureau have all delayed releases of major reports, including September employment, October inflation data, and third-quarter GDP estimates.

Meanwhile, US President Donald Trump and China's President Xi Jinping met in South Korea on October 30 for ongoing trade talks. The US agreed to lower the tariffs on Chinese imports imposed to curb fentanyl flows by removing ten percentage points of the cumulative rate, effective November 10, 2025, and would maintain its suspension of heightened reciprocal tariffs on Chinese imports until the same date. (The current 10% reciprocal tariff will remain in effect during this suspension period.) China is to suspend the new export controls on rare earths and related measures that it announced on October 9, 2025. In a similar fashion, President Luiz Inacio Lula da Silva met President Trump on the sidelines of the ASEAN summit in Kuala Lumpur, Malaysia, on October 26 in a bid to ease tensions between the two countries. Their respective teams planned to start tariff discussions immediately. Elsewhere, negotiations toward a trade deal between India and the United States face hurdles, including US demands for access to India's bioenergy market.

China's GDP recorded a resilient year-on-year growth rate of 4.8% In the third quarter of 2025, albeit slower than the Q2 pace of 5.2%. However, year-to-date GDP growth reached 5.2% and remains comfortably above the annual target of 5.0%. Consumption accounted for over half of GDP growth (56.6%), followed by net exports (24.5%) and investment (18.9%). Seasonally adjusted Q3 GDP data showed the eurozone grew 0.2% versus the previous quarter, according to a flash estimate released on October 30. The eurozone economy has proven resilient to an adverse geopolitical environment, showing slow but positive growth in Q3, with continued dynamics similar to the 0.1% quarterly expansion realized in Q2. The slow growth outlook remains the baseline forecast for the near-term, with 2026 GDP growth forecasts for the eurozone of between 0.8% and 1.2%. In the UK, monthly GDP estimates indicate the economy is expanding at a modest 1.1–1.5% annualized pace, supported almost entirely by the services sector. Manufacturing and construction continue to contract, pointing to broad-based weakness outside services. In September, Mexico's economic activity declined 0.6% year on year, while edging up just 0.1% month on month, signaling near stagnation. The drop was mainly driven by an approximate 3% contraction in the secondary sector (manufacturing, construction, mining, and electricity), partially offset by a modest 0.8% increase in services.

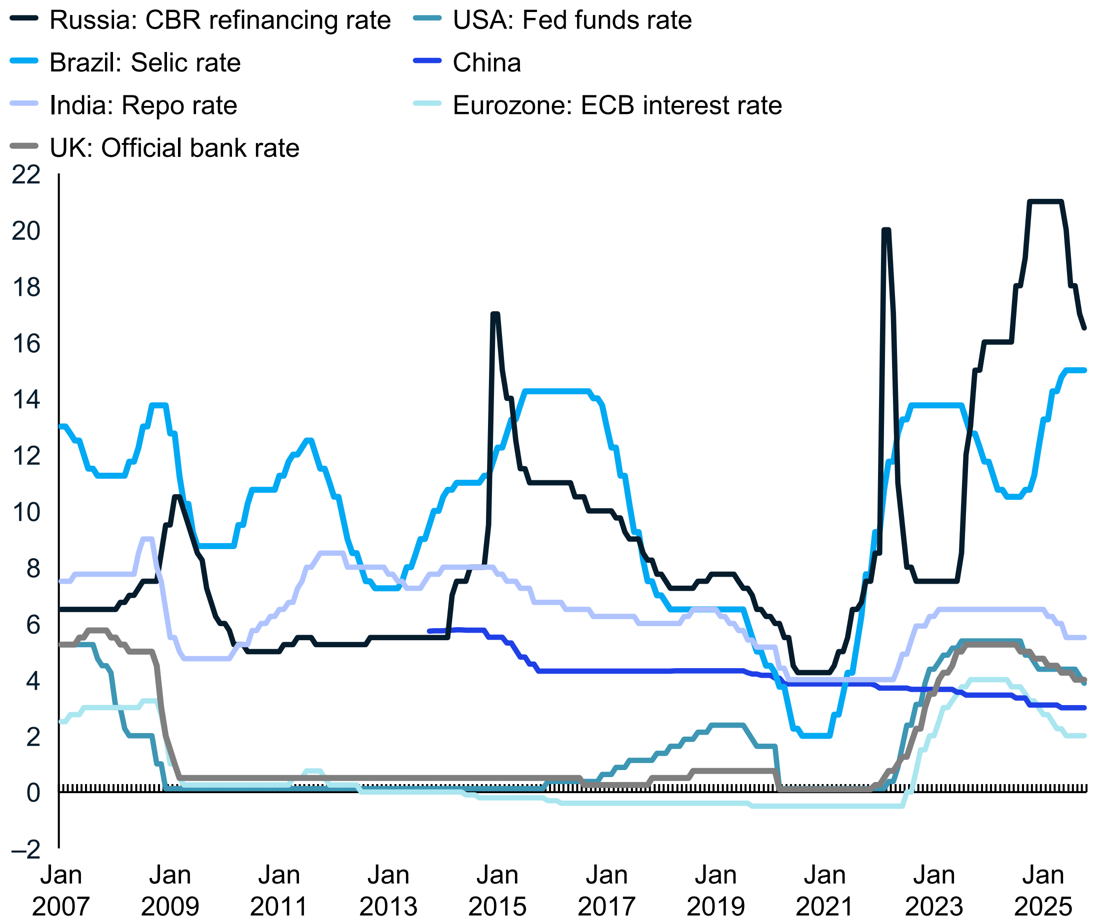
Russia's economy continued its sluggish performance in August, with GDP growth estimated at 0.4% year on year, as in July. Over January to June, growth amounted to 1.2%, still driven by war-related industries and household demand, which was supported by a tight labor market and faster real wage growth. Recent forecasts for Russia place its GDP growth below 1% this year (BOFIT, Oxford Economics, and World Bank), with a further slowdown possible in 2026. Public spending will continue to support domestic demand, as well as production in industries directly linked to the war effort.

Sources: OECD; McKinsey's Global Economics Intelligence analysis

Central banks in the US and Russia cut interest rates—a second consecutive cut for the US was driven by worsening macroeconomic data (1/3)

Central-bank interest rates

Percent, monthly



Russia already utilizes nearly all of its production capacity, so further increases in public spending can only yield limited returns. Additionally, private sector activity—both consumption and investment—will be adversely affected by tighter monetary policy.

At its October meeting, the US Federal Reserve lowered the target range for the federal funds rate by 25 basis points to 3.75–4%, marking a second consecutive reduction. The committee noted that economic growth remains moderate, job gains have slowed, and uncertainty surrounding the outlook has increased. In Russia, meanwhile, the Central Bank of the Russian Federation lowered the key interest rate by 50 basis points to 16.5% in October, reducing the size of the cut from 100 basis points seen in previous months. Economic pressures are forcing Russia's central bank to walk a fine line between curbing inflation and preventing growth from stalling.

Other central banks have been more cautious. Both the European Central Bank (ECB) and the Bank of England (BoE) held rates, with the ECB sticking to 2.0% amid easing inflation and slow growth, while the BoE's Monetary Policy Committee maintained a 4.0% policy rate in both October and November. It was a similar story elsewhere. In Brazil, the Banco Central do Brazil's Monetary Policy Committee (Copom) held the Selic rate at 15% in a unanimous decision. India also held rates, but a sustained decline in inflation strengthened the case for potential cuts going forward.

Consumer confidence remains below the long-term average, suggesting continued caution in spending. In the US, the Consumer Confidence Index (Conference Board) dropped one point in October to 94.6, from a revised 95.6 in September. UK sentiment is gloomy with consumer confidence deeply negative based on the overall state of the economy. In Brazil, consumer confidence remained below the neutral 100 mark, with the FGV's seasonally adjusted September figure trending up to 87.5 (86.2 in August). Business confidence also went up slightly to 89.9 (from 89.4 in August).

In general, retail sales picked up in September. In the UK, however, although retail sales rose 1.5% month on month in September, levels continue below pre-COVID-19 benchmarks, indicating weak underlying demand.

Overall inflation expectations eased by 0.1 percentage points for both the medium and long term. In September, US median inflation expectations increased at the one-year-ahead horizon to 3.4% from 3.2% and, at the five-year-ahead horizon, to 3.0% from 2.9%. They remained steady at the three-year-ahead horizon, at 3.0%.

On the commodities markets, precious metal prices continue to rise rapidly, driven by heightened uncertainty surrounding geopolitical tensions. Gold has been reaching new record highs, fueled by rising demand. However, oil prices are continuing to drop, having fallen to around $60 per barrel as demand weakens and production increases. Food prices declined globally in September, providing some breathing room for consumers.

Inflation among developed economies continues to accelerate and is moving away from most central banks' targets. In the US, the consumer price index (CPI) rose 3.0% for the 12 months ending September, after increasing 2.9% over the 12 months ending August. Core inflation was slightly up, to 3.0% (annualized). In the eurozone, headline inflation ticked up to 2.2% in September, but the rise was entirely driven by a smaller annual decline in energy prices. Core inflation remained stable at 2.3% for the fourth consecutive month. However, in the UK, it's a different story: inflation remains elevated. Headline CPI inflation reached 3.8% in September, one of the highest rates among developed economies, largely driven by transportation and hotels/recreation prices. The IMF warns that inflation could remain persistently high into

Source: Banco Central do Brasil; Bank of England; Central Bank of Russia; European Central Bank (ECB); New York Fed; Reserve Bank of India; McKinsey's Global Economics Intelligence analysis

Central banks in the US and Russia cut interest rates—a second consecutive cut for the US was driven by worsening macroeconomic data (2/3)

2026, although pressures are expected to ease gradually next year as temporary factors fade.

Among developing countries, by contrast, consumer price inflation is mainly easing, driven largely by declining food prices. India's retail inflation eased dramatically in September, down from August's 2.07% to 1.54%—the lowest since June 2017. The drop was driven mainly by a sharp fall in food prices, especially vegetables, pulses, and fruits, with food inflation recorded at –2.28%. However, in Brazil, inflation was slightly up, touching 5.17% in September (5.13% in August) and remains above the central bank's upper target limit of 4.50%. Similarly, annual inflation in Mexico rose to 3.8% in September from 3.6% in August.

The global manufacturing purchasing managers' index (PMI) stabilized in September, signaling modest growth; the services sector remains resilient though it has been expanding at a slower pace. In the eurozone, recent confidence indicators—the composite PMI and the Economic Sentiment indicator—have only slightly improved on Q2.

Most countries saw subdued manufacturing activity amid soft demand and trade headwinds; India remained a bright spot, maintaining strong though moderating growth. The HSBC India Manufacturing PMI rose slightly to 58.4 in October 2025 from 57.7 in September, preliminary data showed. The reading signaled stronger operating conditions and marked a robust expansion, supported by sustained growth in output and new orders. In the US, the industrial production index dropped slightly to 103.9 in August. October's manufacturing PMI rose to 52.5, from 52.0 in September. Brazil's manufacturing production rose slightly: the Monthly Industrial Physical Production (PIM) Index increased from 112.2 in August to 113.8 in September (versus the neutral 100 line). The rise was driven by increased extractive production, which grew 1.3%, while factory production was up 0.7%. On aggregate, however, August 2025's results are 0.7% below those for the same period last year.

By contrast, the UK manufacturing PMI stayed below the 50 threshold, signaling ongoing contraction. Most survey respondents cited weakening domestic and external demand as the main headwinds. Industrial production showed a mild monthly improvement but still recorded negative growth year on year. Similarly, the S&P Global Mexico Manufacturing PMI dropped from 50.2 in August to 49.6 in September, indicating a deterioration in overall operating conditions. The PMI has now been in sub-50.0 contraction territory in 14 of the past 15 months (August being the sole exception). New orders rose, though at a slow pace, while new export orders fell for a 19th consecutive month, with weaker demand from Europe and the US partly offset by Asia and South America.

Global services activity softened in September 2025, though it remained broadly expansionary across most major economies. Among individual developed economies, the US services PMI climbed to 55.2 in October (54.2 in September). The UK services sector continues to expand, albeit at a slower pace. India's services sector remained well in the expansion zone, although the PMI eased to 58.8, from 60.9 the previous month. In Brazil, the Monthly Services Survey (PMS) revenue index slid to 125.7 in August from 126.8 in June (versus the neutral 100 line). This was mirrored in the volume index, which was down to 110.6 (from 111.6).

In the UK, payroll employment has stagnated since late 2024, while unemployment has edged higher. The number of claimants remains well above pre-pandemic levels, and job vacancies have fallen to their lowest level in nearly a decade (excluding the pandemic period). In China, the overall surveyed urban unemployment rate stood at 5.2% at the end of Q3 (5.0% for Q2). The youth unemployment rate increased to 17.7% in September (14.5% in June). Meanwhile, Brazil's three-month moving average unemployment rate was stable at 5.6% in September. In Mexico's labor market, total unemployment rose to 2.74% in September (2.66% in August)—the highest level this year. Formal employment saw a moderate increase of 116,800 jobs. However, the rate of informal employment reached 54.9%—with 33.1 million people in vulnerable employment—compared to 54.2% in September 2024.

August and September were strong months for investors, with equities in several countries—including the US and Japan—reaching new record highs, while volatility remains relatively low. On the US equity markets the S&P 500 was up 2.3% in October, bringing the one-year return to 16.3%; the Dow Jones gained 2.5% over the month and was up 11.8% year to date. The CBOE Volatility Index averaged 18.1 (15.8 in September). Financial markets offered some relief for the UK economy in October. Equities gained around 3% month on month, reaching new historical highs. The rally was broad-based across sectors, with non-technology companies outperforming their technology counterparts.

Among developing economies, the Indian stock market proved resilient despite global volatility, with the SENSEX climbing 5.30% in October. Brazil's Bovespa equities index boomed in September, rising 3.4% in value; however, October results up until the 24th were already indicating a change in mood after two strong months, with only 0.02% of upside.

The cost of capital remains elevated across the board.

Globally, seaborne trade softened in September, as container throughput fell 0.8%. Inbound spot freight rates fell in September, cooling from mid-2025 highs, while outbound freight rates to Shanghai eased in August after June's sharp spike. Global supply chain pressures remain close to long-run averages after several months of stability. In the third quarter, China's cross-border trade witnessed a continued recovery, registering a year-on-year growth rate of 5.4%, compared to 3.1% in Q2. Specifically, exports growth were stable at 6.5%, compared with 6.0% in Q2. Meanwhile, imports returned to expansion, from –0.9% in Q2 to 3.9% in Q3.

In Europe, the immediate outlook for businesses is being shaped by still lower global demand and US tariffs affecting exports. Trade tensions will also hit investment via weaker business sentiment, with many corporates taking a "wait and see" approach and putting investment plans on hold. However, the trade agreement with the US should support a moderate improvement in activity next year, as firms may have more clarity on their business outlook. Meanwhile, the UK's external trade remains turbulent. The overall trade deficit widened, driven mainly by rising imports, while exports stayed relatively stable. Goods trade continues to face headwinds from global trade rebalancing, even as net services exports continue to improve.

India's merchandise trade deficit widened significantly to $32.15 billion in September 2025, with $68.53 billion in imports and $36.38 billion in exports, driven primarily by gold imports, silver, fertilizers, and electronics. Mexico also recorded a trade deficit, recorded at US $2.4 billion in September, as exports grew slightly to US $56.5 billion (up from US $55.7 billion in August), while imports rose to US $58.9 billion (up from US $57.7 billion). Imports of intermediate goods grew some 19.6% year on year, while non-oil input imports rose around 20.7%, outpacing export growth and driving the overall deficit expansion. In contrast, Brazil's trade balance for October (aggregate up to the third week) recorded a surplus of US $3.3 billion, according to preliminary data, up from US $2.9 billion in September. The

Central banks in the US and Russia cut interest rates—a second consecutive cut for the US was driven by worsening macroeconomic data (3/3)

bigger surplus was driven by a reduction in exports (US $18.3 billion in October, down from US $30.5 billion in September) accompanied by a drop in imports (US $15 billion in October, down from US $27.5 billion in September).

***

A new report from the McKinsey Global Institute (MGI) argues that, by many measures, the world has become increasingly out of financial kilter this century. *Out of balance: What's next for growth, wealth, and debt?* estimates global wealth at $600 trillion. However, wealth has outgrown GDP since 2000 with paper gains powering this rise. Every $1 invested generated $2 in debt. Today, the top 1% of people hold at least 20% of the wealth. Meanwhile, cross-border financial imbalances are growing.

What does this mean for the global economy? Productivity is the key going forward. MGI has constructed a "global balance sheet" of the world's assets and liabilities offering a fresh perspective on the economy. The best outcome by far is for productivity to accelerate, allowing countries to grow their way to balance sheet health.

Among four potential scenarios, only one is positive: productivity acceleration restores balance while maintaining wealth and growth. Other scenarios are less benign. Sustained inflation would shrink real wealth and debt relative to GDP but weaken household budgets and business planning. Worse, a balance sheet reset could trigger wealth losses and years of scant growth. Another option would be to maintain the imbalance and return to secular stagnation with super-low interest rates—but this would be accompanied by tepid growth and ongoing risks.

With productivity acceleration being the best outcome for wealth and growth, what are the takeaways? The prescription varies for individual economies, although it will be challenging everywhere and what happens in one economy may affect the others. Europe would have to invest, China consume, and the United States save—each about 3–7% of GDP.

With a new era of uncertainty and divergence from historical balance sheet patterns potentially already with us, business leaders can benefit from understanding what balance-sheet-driven economic scenarios mean for their strategies and from monitoring the swing factors between them. The global balance sheet helps measure whether policy changes, business developments, and consumer trends add up to enough. This lens may inform corporate strategy better than point forecasts or daily financial and political noise.

[Advanced economies]: Fed cuts rates by 25 basis points for the second consecutive month; Eurozone grew 0.2% over previous quarter; Bank of England faces delicate policy balance between inflation and stagnation.

United States

Federal Reserve cuts rates by 25 basis points for the second consecutive month; month-long US government shutdown drags on.

At its October meeting, the Federal Reserve lowered the target range for the federal funds rate by 25 basis points to 3.75–4%, marking a second consecutive reduction. The Committee noted that economic growth remains moderate, job gains have slowed, and uncertainty surrounding the outlook has increased.

The US government has remained closed since October 1 after Congress failed to pass spending legislation, with 11 Senate votes since then ending in stalemate over healthcare and spending priorities. The Congressional Budget Office estimates the shutdown could cut up to $14 billion from GDP if unresolved for a further month.

In October, the S&P 500 was up 2.3%, bringing the one-year return to 16.3%; the Dow Jones gained 2.5% over the month and was up 11.8% year to date. During October, the CBOE Volatility Index averaged 18.1 (15.8 in September).

On the housing market, the 30-year fixed-rate mortgage decreased slightly to 6.3% in October. Existing home sales rose 1.5% in September. During August, housing residential starts decreased to 1,307,000 (below the revised July estimate of 1,429,000)—an 8.5% drop. Completions in August were up to 1,608,000, an 8.4% increase from a revised June estimate of 1,483,000.

The consumer price index (CPI) rose 3.0% for the 12 months ending September, after rising 2.9% over the 12 months ending August. Core inflation was slightly up, to 3.0% (annualized). In September, median inflation expectations increased at the one-year-ahead horizon to 3.4% from 3.2% and, at the five-year-ahead horizon, to 3.0% from 2.9%. They remained steady at the three-year-ahead horizon, at 3.0%.

The industrial production index decreased slightly to 103.9 in August. October's manufacturing purchasing managers' index (PMI) rose to 52.5 (52.0 in September); the services PMI increased to 55.2 (54.2 in September).

August's retail and food services sales (adjusted for seasonal variation and holiday and trading-day differences) were $732.0 billion: up 0.6% from July's revised $727.4 billion. The Consumer Confidence Index (Conference Board) dropped one point in October to 94.6, from a revised 95.6 in September.

July exports reached $280.5 billion, $0.8 billion more than in June. July imports were $358.8 billion, $20.0 billion more than June's imports. The monthly deficit rose by 32.5% to $78.3 billion.

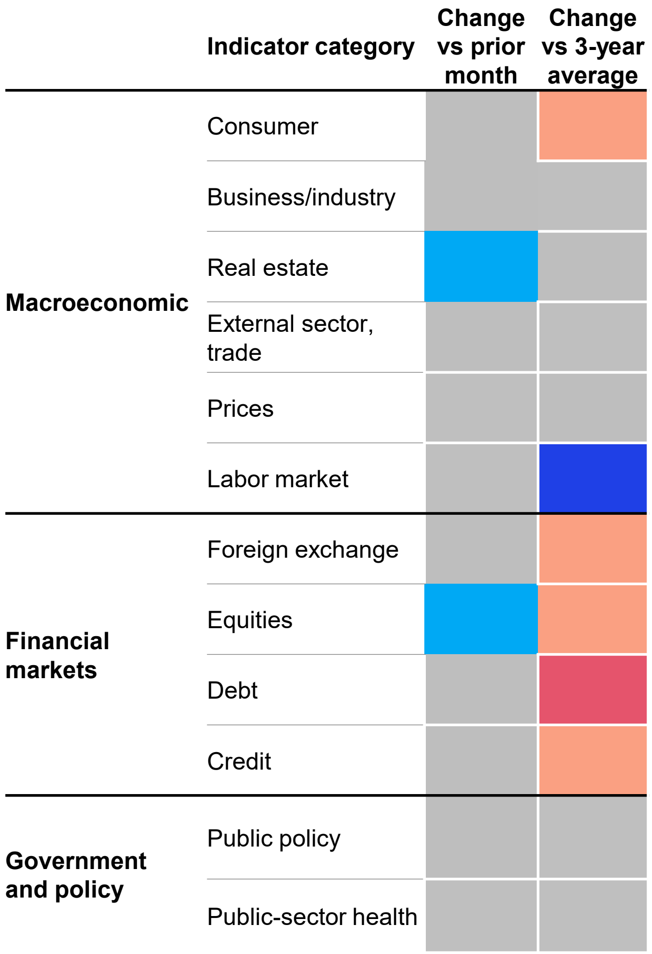
Total nonfarm payroll employment changed little in August (+22,000) and has shown little change since April. The unemployment rate rose to 4.3%.

The Bureau of Labor Statistics, Bureau of Economic Analysis, and Census Bureau have delayed releases of major reports, including September employment, October inflation data, and third-quarter GDP estimates, as operations are suspended during the government shutdown.

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

Federal Reserve cuts rates by 25 basis points for the second consecutive month; month-long US government shutdown drags on; GDP, inflation, and employment figures delayed

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



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

CPI rose for a fifth consecutive month to 3.0%; existing home sales were up 1.5%; manufacturing PMI climbed to 52.5 in October

- The industrial production index decreased slightly to 103.9 in August. October's manufacturing PMI rose to 52.5 (52.0 in September); the services PMI increased slightly to 55.2 (54.2 in September).
- August's retail and food services sales (adjusted for seasonal variation and holiday and trading-day differences) were $732.0 billion: up 0.6% from July's revised $727.4 billion. The Consumer Confidence Index (Conference Board) dropped to 94.6 in October, from a revised 95.6 in September.
- July exports reached $280.5 billion, $0.8 billion more than in June. July imports were $358.8 billion, $20.0 billion more than June's imports. The monthly deficit rose by 32.5% to $78.3 billion.
- On the housing market, the 30-year fixed-rate mortgage decreased slightly to 6.3% in October. Existing home sales rose 1.5% in September. During August, housing residential starts decreased to 1,307,000 (below the revised July estimate of 1,429,000), an 8.5% drop. Completions in August were up, to 1,608,000, an 8.4% increase from a revised June estimate of 1,483,000.
- Total nonfarm payroll employment changed little in August (+22,000) and has shown little change since April. The unemployment rate rose to 4.3%.
- CPI rose 3.0% for the 12 months ending September, after rising 2.9% over the 12 months ending August. Core inflation was slightly up, to 3.0% (annualized). In September, median inflation expectations increased at the one-year-ahead horizon to 3.4% from 3.2% and at the five-year-ahead horizon to 3.0% from 2.9%. They remained steady at the three-year-ahead horizon, at 3.0%.

S&P 500 and Dow Jones gained by 2.3% and 2.5% respectively; Fed decided to cut interest rates by 25 basis points for the second consecutive month

- In October, the S&P 500 was up 2.3%, bringing the one-year return to 16.3%; the Dow Jones gained 2.5% over the month and was up 11.8% year to date. During October, the CBOE Volatility Index averaged 18.1 (15.8 in September).
- At its October meeting, the Federal Reserve lowered the target range for the federal funds rate by 25 basis points to 3.75–4%, marking a second consecutive reduction. The Committee noted that economic growth remains moderate, job gains have slowed, and uncertainty surrounding the outlook has increased.

Month-long US government shutdown drags on; GDP, inflation, and employment figures delayed

- The US government has remained closed since October 1 after Congress failed to pass funding legislation, with 11 Senate votes since then ending in stalemate over healthcare and spending priorities. The Congressional Budget Office estimates the shutdown could cut up to $14 billion from GDP if unresolved for a further month.
- The Bureau of Labor Statistics, Bureau of Economic Analysis, and Census Bureau have delayed releases of major reports, including September employment, October inflation data, and third-quarter GDP estimates, as operations are suspended during the government shutdown.

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

Eurozone

Recent data confirms slow growth in Q3; near-term activity outlook looks subdued owing to weaker global demand and uncertainty; inflation remains around 2% target; interest rates remain on hold.

Seasonally adjusted Q3 GDP grew 0.2% versus the previous quarter, according to a flash estimate released on October 30. The eurozone economy has proven resilient to an adverse geopolitical environment, showing slow but positive growth in Q3, with continued dynamics similar to the 0.1% quarterly expansion realized in Q2. The GDP reading was in line with recent confidence indicators—the composite purchasing managers' index (PMI) and the Economic Sentiment indicator— which have only slightly improved on Q2. Retail sales and industrial production indicators are also estimated to be broadly flat in Q3.

The slow growth outlook remains the baseline forecast for the near-term, with 2026 GDP growth forecasts of between 0.8% and 1.2%. The variation is attributable to the expected impact of weaker global demand and heightened uncertainty. Household spending will remain the main growth engine, still underpinned by a strong labor market and real incomes growth. Yet, low consumer sentiment and a high level of savings could moderate spending. Increased defense spending will also support growth; however, the impact of the large fiscal expansion in Germany will broadly be offset by fiscal consolidation in several other countries. The immediate outlook for businesses will be shaped by still lower global demand and US tariffs affecting exports. Trade tensions will also hit investment via weaker business sentiment, with many corporates taking a "wait and see" approach and putting investment plans on hold. However, the trade agreement with the US should support a moderate improvement in activity next year, as firms may have more clarity on their business outlook.

Headline inflation ticked up to 2.2% in September, but the rise was entirely driven by a smaller annual decline in energy prices. Core inflation remained stable at 2.3% for the fourth consecutive month. The disinflation process in services prices has halted in recent months, but with softer wage growth in 2026, it may resume soon. Nevertheless, price pressures remain muted, and headline inflation is expected to stick around or even fall below the 2% target in the near term.

The European Central Bank (ECB) kept its key interest rate at 2.0% amid easing inflation and slow growth. A broadly stable outlook and balanced risks suggest a relatively high bar for further policy adjustments.

EU leaders agreed a new package of sanctions against Russia that, combined with the US measures, tightens the grip on liquified natural gas imports from Russia. However, they failed to explicitly endorse a plan to release up to €140 billion of frozen Russian assets to fund Ukraine's war effort.

In the Netherlands, Rob Jetten, leader of centrist party Democrats 66 (D66) has claimed victory in a closely fought election with Geert Wilders' Freedom Party.

Source: Oxford Economics

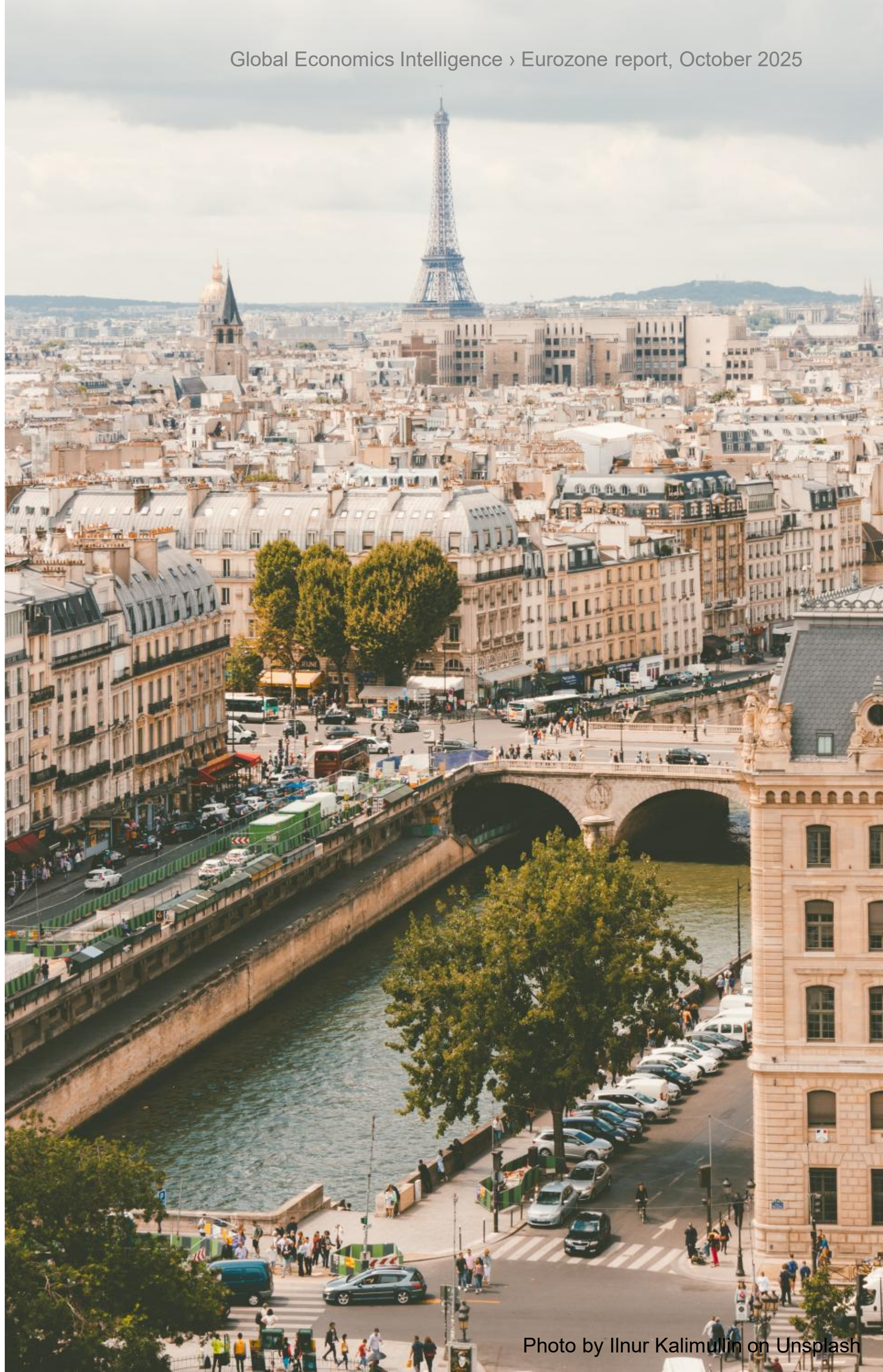


Photo by Ilnur Kalimullin on Unsplash

Subdued domestic and external demand amid stable inflation and financial markets; political landscape remains fragile

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

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

Stagnation in domestic activity and trade

- Retail sales grew by a weak 0.1% monthly in August, and estimates suggest flat performance in Q3. Annual dynamics slowed to 1.3% from 2.2% in July. The consumer confidence indicator regained some lost ground in September, reaching 14.2 points, but continued to score well below its long-term average.
- August's industrial production was down by 1.0% monthly and up by 0.6% annually. In contrast, the composite PMI rose to 52.2 in October (51.2 in September), recording a fifth consecutive monthly climb to a 17-month high—suggesting improvement in growth momentum.
- Construction output decreased in August by 0.1% month on month and increased 0.1% versus the same period last year; the construction PMI fell to 46.0 in September from 46.7 in August.
- First estimates of the euro area trade balance showed a €1.0 billion surplus in goods trade for August 2025—notably down on the €12.7 billion recorded the previous month. Goods exports reached €205.9 billion, a drop of 4.7% annually, while imports stood at €204.9 billion, a 3.8% fall. Year to date, the euro area recorded a surplus of €107.1 billion, compared with €123.3 billion in the previous year. Exports of goods rose by 2.6%, and imports by 3.7% year on year.
- Headline inflation ticked up to 2.2% in September, but the rise was entirely driven by a smaller annual decline in energy prices. Core inflation remained stable at 2.3% for the fourth consecutive month. Producer prices declined by 0.7% annually.
- August's unemployment rate was 6.3%, a slight uptick on the previous month. In Q2 nominal wages rose by 4% annually, boosting real incomes.

Stable performance in financial markets

- Europe's STOXX 600 trended up in September, gaining 0.2% compared with August and 13% year on year.
- The euro was stable against the US dollar, trading at $1.16 = €1 on October 30.
- Average eurozone 10-year bond yields were stable at 3.2% in August to October.
- Despite monetary easing, the credit environment remains weak, given high uncertainty, weak demand, and higher long-term rates. Lending flows to households and firms grew at the same pace as the previous month in September, expanding 2.6% and 2.9% year to year, respectively.

French politics remains fragile

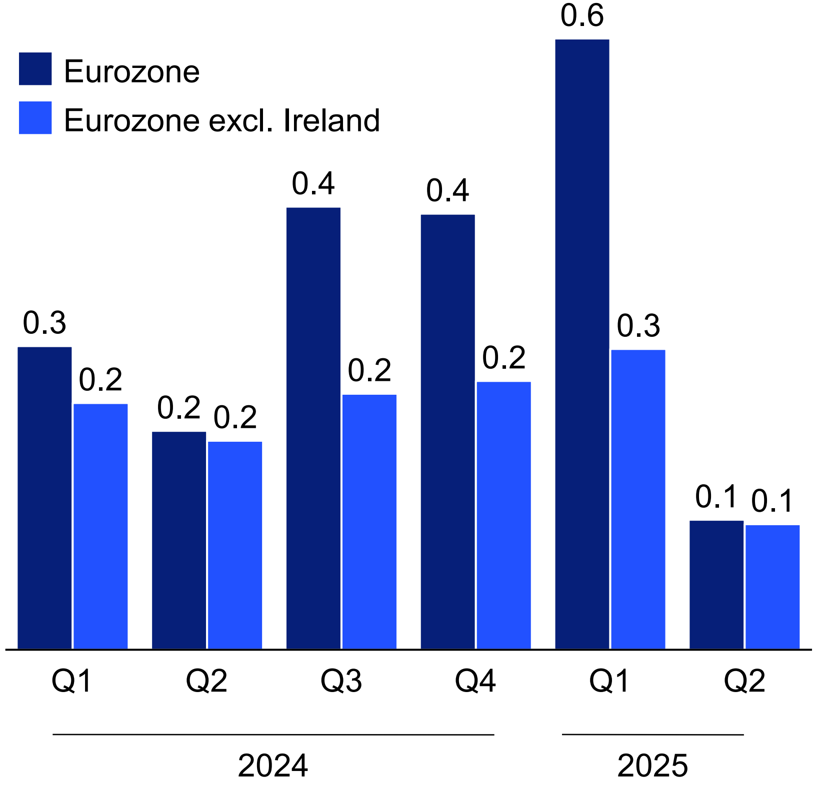
- France's government has suspended the gradual rollout of the 2023 pension reform, which aimed to raise the retirement age to 64 from 62. The implementation of the reform is set to resume in 2028, after presidential elections. This concession was made to improve the chances of passing a budget for next year and avoid another government collapse. In response, the 10-year government bond yield spreads dropped below 80bps, the lowest level since August. However, other fiscal consolidation measures may prove necessary, but also difficult to pass.

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

Eurozone's GDP growth slowed as exports and investment suffered due to trade tensions

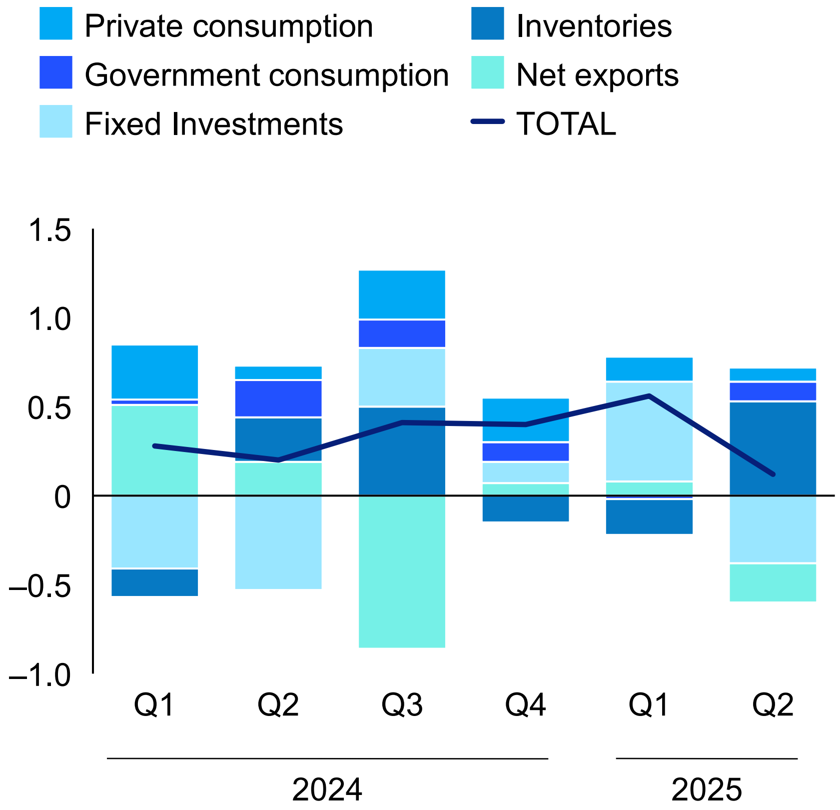
Eurozone growth

% change quarter on quarter



Eurozone – contribution to growth

Percentage points over previous quarter



Source: Eurostat; McKinsey analysis

The slowdown in Q2 was driven both by an unnaturally high base in Q1 and broad-based weakness across eurozone members.

After the frontloading of exports in Q1, net trade was a drag on growth in Q2, as was fixed investment. Meanwhile, private consumption slowed down.

Germany and Italy saw contraction, while Spain showed robust dynamism.

United Kingdom

Inflationary risks in the UK ticked up again, keeping the country among those advanced economies with the highest rates of inflation. Despite marginal improvement in consumption, growth remains narrowly driven by services while the broader economy stagnates. The Bank of England faces a delicate policy balance as inflation remains sticky while the labor market softens.

Monthly GDP estimates indicate the economy is expanding at a modest 1.1–1.5% annualized pace, supported almost entirely by the services sector. Manufacturing and construction continue to contract, pointing to broad-based weakness outside services.

Inflation remains elevated. Headline consumer price index (CPI) inflation reached 3.8% in September, one of the highest rates among developed economies, largely driven by transportation and hotels/recreation prices. The IMF warned that inflation could remain persistently high into 2026, although pressures are expected to ease gradually next year as temporary factors fade.

Cost-of-living pressures remain acute: real wage growth of only 1% leaves households with little buffer against rising prices. Consumer confidence is deeply negative, with respondents citing the overall economy as the main drag on sentiment. Although retail sales rose 1.5% month on month in September, levels continue below pre-COVID-19 benchmarks, indicating weak underlying demand.

Payroll employment has stagnated since late 2024, while unemployment has edged higher. The number of claimants remains well above pre-pandemic levels, and job vacancies have fallen to their lowest level in nearly a decade (excluding the pandemic period).

With inflation still high but growth slowing, the Bank of England is maintaining a wait-and-see stance, seeking clearer evidence of disinflation before easing policy. The central bank's challenge is to support activity without reigniting inflationary pressures—a balance that will define the policy path into early 2026.

The production side remains subdued. The manufacturing purchasing managers' index (PMI) stayed below the 50 threshold, signaling ongoing contraction. Most survey respondents cited weakening domestic and external demand as the main headwinds. Industrial production showed a mild monthly improvement but still recorded negative growth year on year. Services, on the other hand, continue to expand—albeit at a slower pace.

External trade remains turbulent. The overall trade deficit widened, driven mainly by rising imports, while exports stayed relatively stable. Goods trade continues to face headwinds from global trade rebalancing, even as net services exports continue to improve.

Financial markets offered some relief in October. Equities gained around 3% month on month, reaching new historical highs. The rally was broad-based across sectors, with non-technology companies outperforming their technology counterparts.

Government bond yields have been hovering around 4%, reflecting persistent inflation, tight monetary policy, and growing budget deficit pressures.

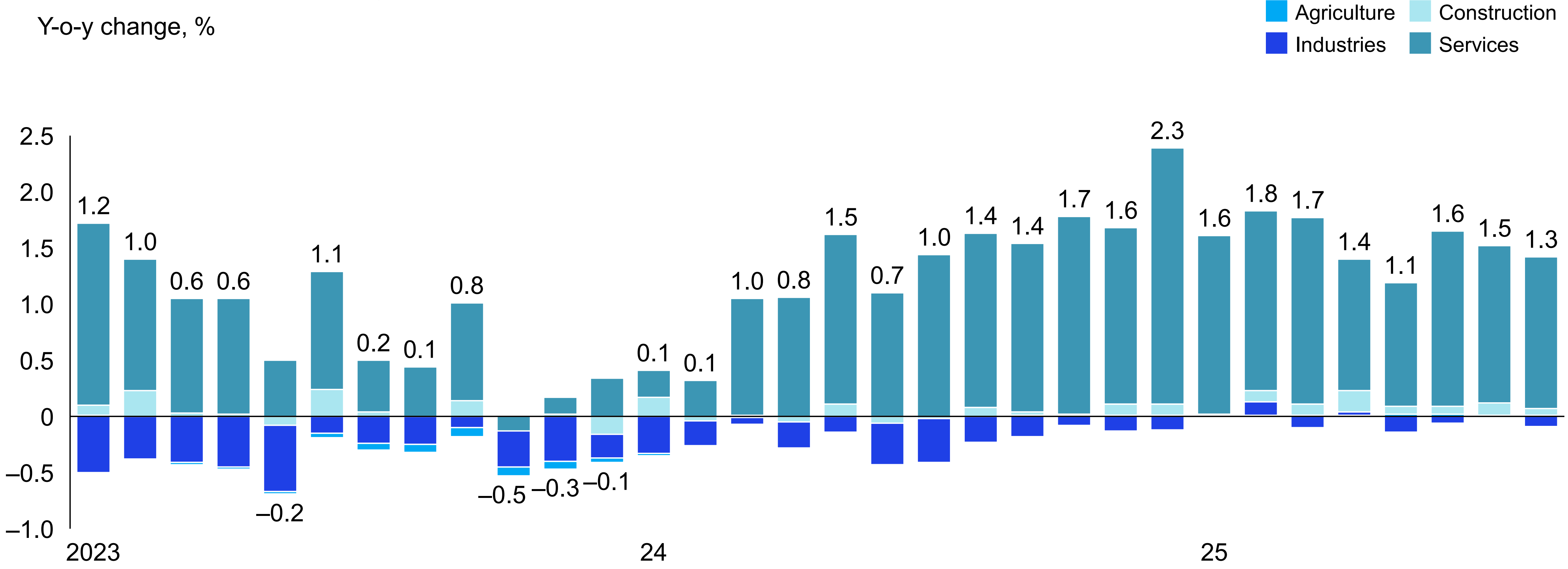
In a highly unusual move for a Chancellor of the Exchequer (finance minister), Rachel Reeves held a press conference three weeks ahead of her annual budget speech in Parliament. In a presentation widely seen as presaging significant tax rises in the budget, she refrained from ruling out hiking national insurance, VAT, or income tax—contrary to election manifesto pledges. She cited poor productivity (blamed on various Conservative administration policies including austerity, Brexit, and infrastructure spending cuts), persistent global inflation, and uncertainty around US tariffs. She will deliver her budget speech on November 26.

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

Services remain the key driver of economic growth

Contribution to real GVA growth

Y-o-y change, %



Source: Haver Analytics; Office for National Statistics; team analysis

Economic activity slowing while inflation accelerates; households under pressure; central bank holds off on further monetary policy adjustments

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

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

Economic activity slows, while inflation is accelerating

- Monthly GDP data show the economy expanding at an annual rate of 1.1–1.5%, driven almost entirely by services.
- Real wages grew by 1% year on year while consumer confidence is deeply negative despite a slight improvement on last year. Retail sales volumes rose 1.5% month on month but remain below pre-pandemic levels, underscoring persistently weak consumption and fragile sentiment.
- The manufacturing PMI fell to 46.2 in September (from 47.0 in August), signaling ongoing contraction. Meanwhile, the services sector continued to expand, though more slowly. Corporate insolvencies are elevated, indicating that the economy remains turbulent and uncertainty high.
- The real trade deficit widened slightly to £6.6 billion, driven mainly by an uptick in imports while exports remained relatively stable. Goods trade continues to be the biggest drag on overall trade performance.
- Headline CPI rose to 3.8% year on year in September, keeping the UK among the highest-inflation G7 economies. Core inflation remains sticky around 3.4%, driven by transportation and hotels/recreation prices.
- Unemployment ticked up to 4.8%, and the number of claimants continues to be above pre-pandemic levels. Payroll employment has been stable since late 2024, but labor demand is softening, with vacancies at their lowest level in nearly a decade (excluding the COVID-19 period).

Equities performed well, but persistent inflation expectations are keeping bond yields elevated

- UK equities performed strongly in October, gaining around 3% on average. The rally was broad-based, with non-technology companies outperforming their technology counterparts.
- The currency remained steady near $1.25 = £1, reflecting cautious investor sentiment.
- Government bond yields held around 4.0%, signaling persistent inflation expectations and limited room for easing.

The central bank holds policy rate, adopting a wait-and-see stance

- The Bank of England held the policy rate at 4.0%, balancing slowing growth against still-elevated inflation. Officials signaled a pause in policy moves until clearer evidence of disinflation emerges.
- Fiscal conditions remain tight, with public debt near 95% of GDP and borrowing costs elevated.

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

[Emerging economies]: China’s Q3 GDP recorded a resilient growth rate of 4.8% year on year; RBI revises up India’s real GDP growth forecast for FY 2025–26; Russia growth expected to slow sharply amid mounting imbalances.

China

China's economy continued to show resilience in Q3, with GDP expanding 4.8%, although investment growth showed visible decline and real estate market remained weak; trade regained momentum.

In the third quarter of 2025, China's GDP recorded a resilient growth rate of 4.8% year on year, slower than the Q2 pace of 5.2%. Year-to-date GDP growth reached 5.2% and remained well above the annual target of 5.0%. Consumption accounted for over half of GDP growth (56.6%), followed by net exports (24.5%) and investment (18.9%). By sector, the industrial sector's GDP growth rebounded to 5.8% year on year from 4.8% in Q2. However, the services sector's GDP growth dropped to 5.4% from 5.7% in Q2.

In the third quarter, fixed-asset investment growth fell rapidly to –6.2%, from 2.1% in Q2. The deceleration occurred across sectors: investment growth in manufacturing, real estate, and infrastructure declined respectively to –1.2%, –19.1%, and –5.2%, from 6.7%, –12.5%, and 4.0% in Q2. Private investment sentiment tended to be weaker, with a slower growth rate of –7.3% in Q3, compared with –1.1% in Q2.

Real estate market growth continued to slide in the third quarter. On the demand side, sales revenue in new residential properties declined −13.1% in Q3 (–9.9% in Q2). On the supply side, floor space started fell −15.5% in Q3, around the same pace as in Q2 (–15.9%).

In Q3, new credit decreased to RMB 7.2 trillion, down from RMB 7.6 trillion in Q2. Additionally, on a year-on-year basis, it declined –4.5% in Q3. Meanwhile, total social financing reached RMB 430.2 trillion by September, marking an 8.7% year-on-year increase.

The overall surveyed urban unemployment rate stood at 5.2% at the end of Q3 (5.0% for Q2). The youth unemployment rate increased to 17.7% in September (14.5% in June).

In the third quarter, cross-border trade witnessed a continued recovery, registering a year-on-year growth rate of 5.4%, compared to 3.1% in Q2. Specifically, exports growth were stable at 6.5%, compared with 6.0% in Q2. Meanwhile, imports returned to expansion, from –0.9% in Q2 to 3.9% in Q3.

According to data released by the Ministry of Commerce, foreign direct investment (FDI) inflows into China increased by 2.5% in July and August combined versus the same period last year (–21.9% in Q2).

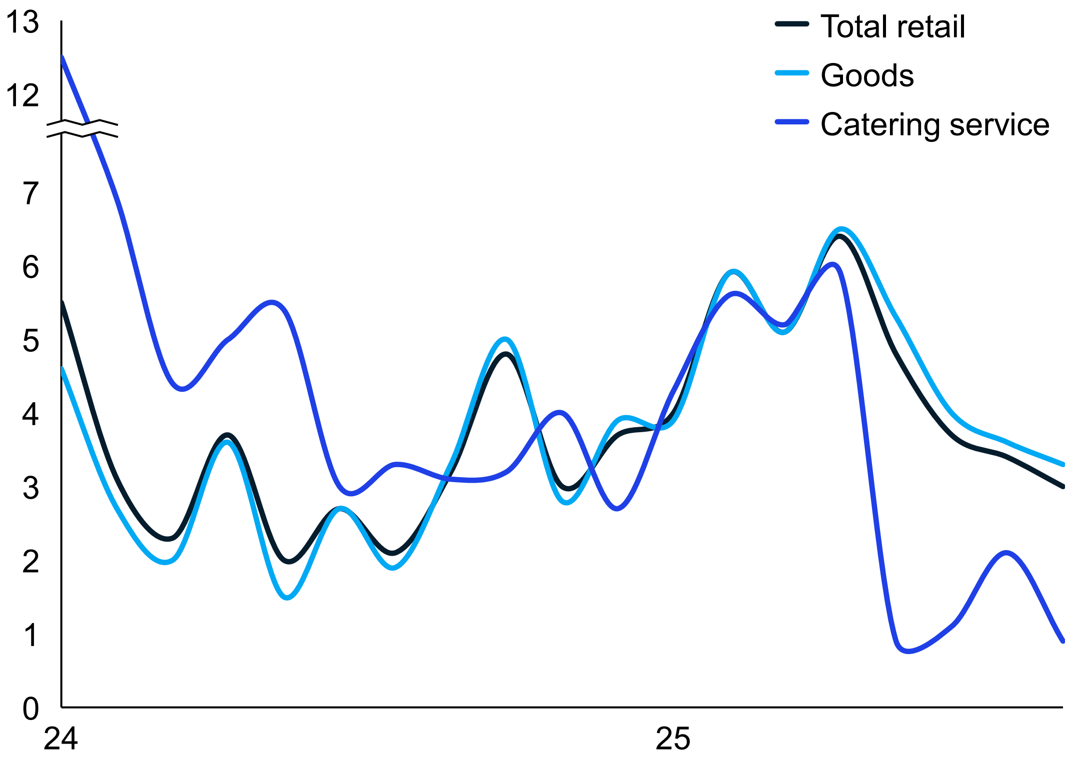
On October 30, President Xi Jinping and US President Donald Trump met in South Korea for ongoing trade talks. The US agreed to lower the tariffs on Chinese imports imposed to curb fentanyl flows by removing ten percentage points of the cumulative rate, effective November 10, 2025, and would maintain its suspension of heightened reciprocal tariffs on Chinese imports until the same date. (The current 10% reciprocal tariff will remain in effect during this suspension period.) China is to suspend the new export controls on rare earths and related measures that it announced on October 9, 2025.

Source: CEIC; McKinsey's Global Economics Intelligence analysis

Retail sales growth slows in second half of 2025; exports growth holds steady

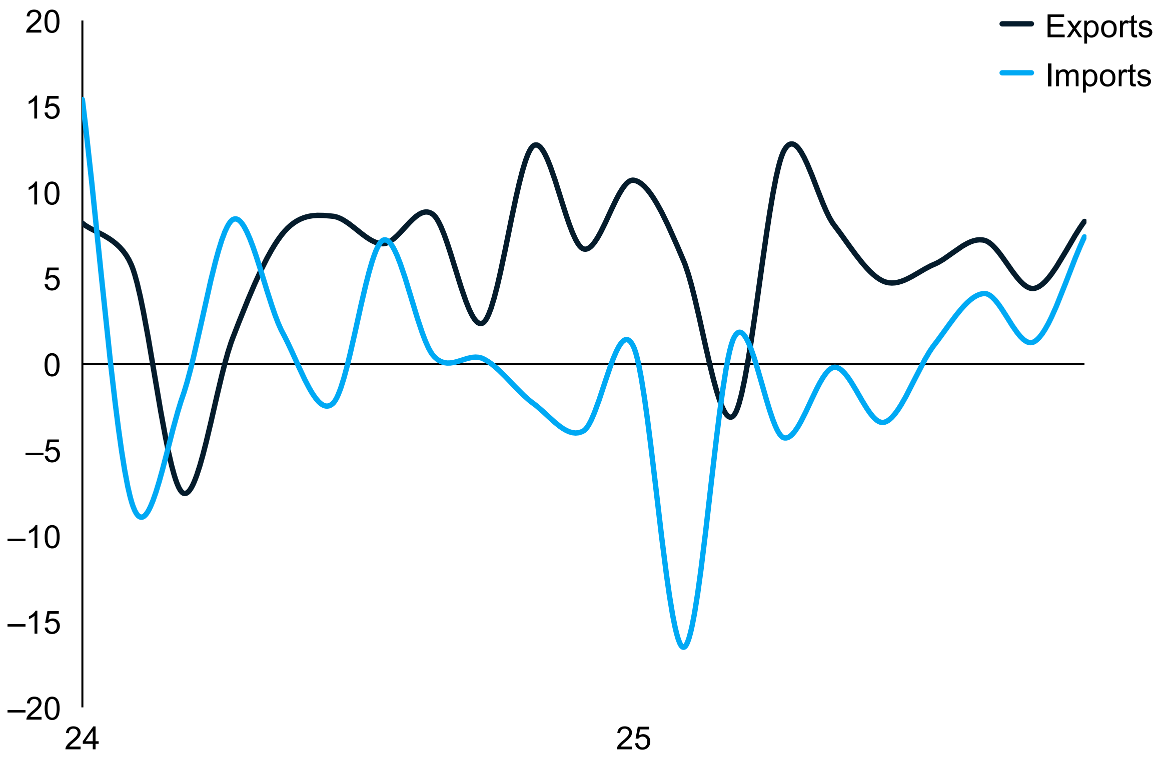
Growth of retail sales

Percent; year-on-year



Growth of exports and imports

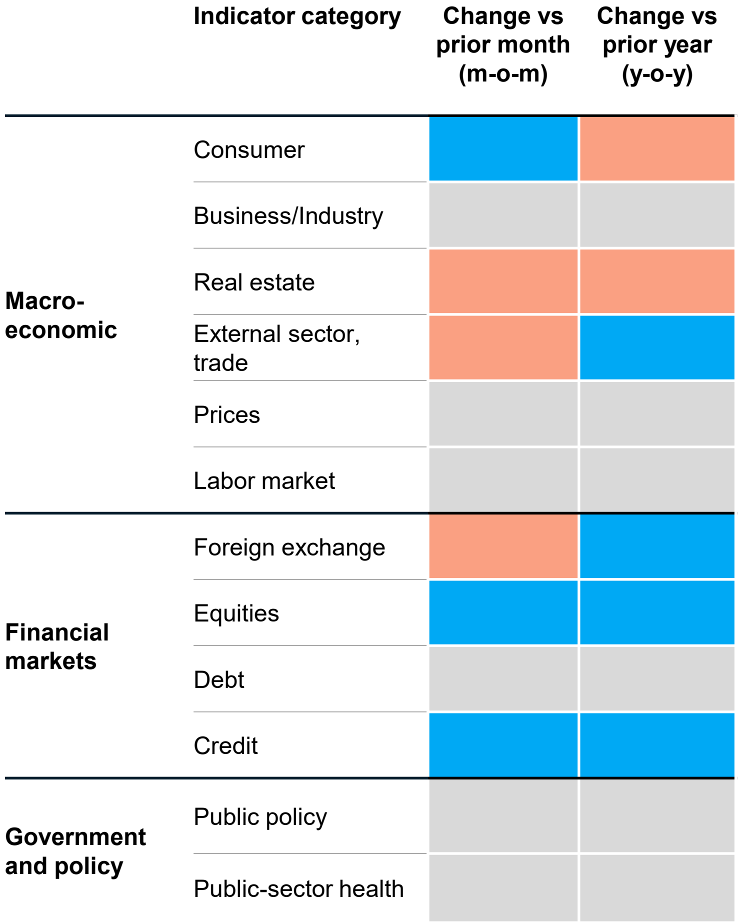
Percent; year-on-year



Source: CEIC; McKinsey's Global Economics Intelligence analysis

Retail sales growth slowed; consumer prices continue to deflate; trade improves; new credit up

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



	Indicator category	Change vs prior month (m-o-m)	Change vs prior year (y-o-y)
Macro-economic	Consumer	🟦	🟧
	Business/Industry	⬜	⬜
	Real estate	🟧	🟧
	External sector, trade	🟧	🟦
	Prices	⬜	⬜
	Labor market	⬜	⬜
Financial markets	Foreign exchange	🟧	🟦
	Equities	🟦	🟦
	Debt	⬜	⬜
	Credit	🟦	🟦
Government and policy	Public policy	⬜	⬜
	Public-sector health	⬜	⬜

Retail sales growth declined; trade growth rebounded; consumer prices continued to deflate

- Retail sales expanded more slowly at 3.0% in September, down from 3.4% in August—the growth rate has declined for a fifth consecutive month.
- The official manufacturing purchasing managers’ index (PMI) rose to 49.8 in September from 49.4 in August, while the official services PMI recorded 50.1 in September (50.5 in August). The Caixin index, which focuses on SMEs, recorded a manufacturing PMI of 51.2, up from August’s 50.5 and a services PMI of 52.9, marginally down on the prior month’s 53.0.
- Export growth reached 8.3% in September, from the 4.4% growth in August. Meanwhile, imports growth also surged to 7.4% year-on-year growth (1.3% in August).
- Consumer prices contracted at a rate of –0.3% in September, compared with –0.4% in August. Core CPI was marginally up to 1.0%, from 0.9% in August. Producer prices contraction eased to –2.3% in September, compared with –2.9% in August.

RMB appreciates against US dollar; stock market gains value; new credit increased

- The RMB appreciated 0.3% against the US dollar compared with the level at the end of September, trading at RMB 7.1008 = USD 1 by October 28.
- The Shanghai stock index gained 2.7% in value, while the Shenzhen index lost –0.7% by October 28, compared with levels at the end of September.
- In September, new credit rose to RMB 3.5 trillion, up from RMB 2.6 trillion in August.
- M2 growth accelerated to 8.4% year on year in September, from 8.8% in August.

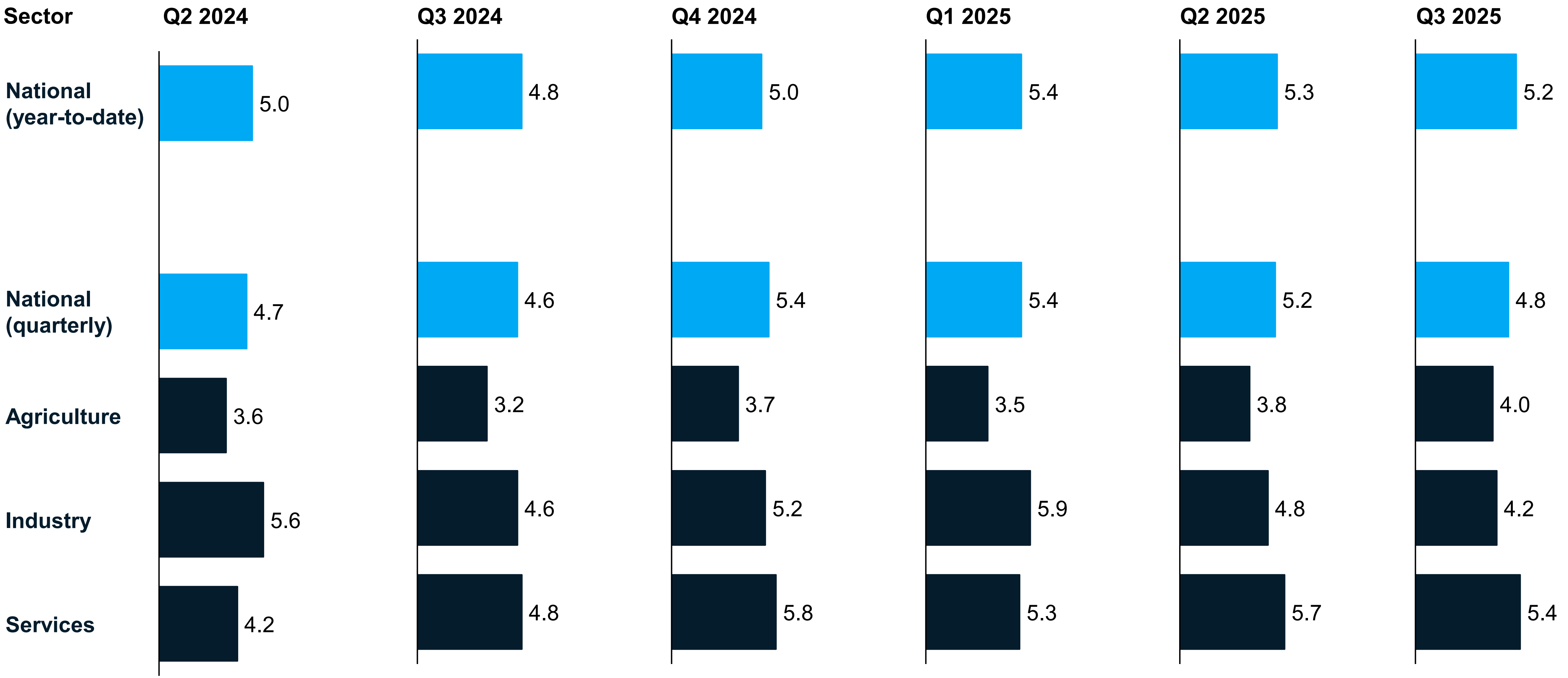
High-level guiding principles for economic and social development during upcoming 15th Five-Year-Plan period released in fourth plenary session of 20th Central Committee of CPC

- The focus is on economic development, with promoting high-quality development as the main theme, and reform and innovation as the fundamental driving force. The objective is to accelerate self-reliance, particularly in science and technology. China aims to promote advances in original innovation and breakthroughs in core technologies in key fields, facilitate full integration between technological and industrial innovation, pursue integrated development of education, science and technology, and talent, and advance the Digital China Initiative.

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

China GDP recorded 4.8% growth in third quarter of 2025

Real growth of value added by sector



Sector	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025
National (year-to-date)	5.0	4.8	5.0	5.4	5.3	5.2
National (quarterly)	4.7	4.6	5.4	5.4	5.2	4.8
Agriculture	3.6	3.2	3.7	3.5	3.8	4.0
Industry	5.6	4.6	5.2	5.9	4.8	4.2
Services	4.2	4.8	5.8	5.3	5.7	5.4

Source: CEIC; McKinsey’s Global Economics Intelligence analysis

India

India's economy shows strength despite global uncertainty and continued structural pressures. RBI revises up India's real GDP growth forecast for FY 2025–26 to 6.8%, from earlier 6.5% estimate.

The HSBC India Manufacturing PMI rose slightly to 58.4 in October 2025 from 57.7 in September, preliminary data showed. The reading signaled stronger operating conditions and marked a robust expansion, supported by sustained growth in output and new orders. The services PMI eased to 58.8, from 60.9 the previous month.

India's infrastructure output grew 3.0% year on year in September 2025, marking a sequential deceleration. Crude oil declined by 1.3% and refinery products by 3.7%. Natural gas dropped 3.8% and coal output was down by 1.2%. Fertilizers grew by 1.6%, while cement and steel increased 5.3% and 14.1% respectively. Electricity generation rose 2.1%. This represents a steep drop from August's revised 6.5% growth, reflecting a concentrated slowdown in certain core sectors that form 40% of the industrial production base. US sanctions on Russian crude have constrained energy supply, causing energy-intensive sectors to lag demand-driven ones. Strong domestic demand persists, but weakening energy support is creating a structural bottleneck to growth.

India's retail inflation eased dramatically in September, down from August's 2.07% to 1.54%—the lowest since June 2017. The drop was driven mainly by a sharp fall in food prices, especially vegetables, pulses, and fruits, with food inflation at –2.28%. This sustained decline keeps inflation well below the Reserve Bank of India's (RBI) 4% target, strengthening the case for potential rate cuts and signaling improved price stability for consumers. However, the RBI only revised its FY 2025–26 consumer price index (CPI) forecast down to 2.6%, maintaining a cautious outlook regarding transient food price effects. Despite global volatility, the Indian stock market proved resilient, with the SENSEX climbing 5.30% in October.

Overall, the impact was offset by global liquidity prospects and reinforced by the Securities and Exchange Board of India's (SEBI) new surveillance measures on derivatives (effective from October 1), which seek to curb excessive speculation.

India's merchandise trade deficit widened significantly to $32.15 billion in September 2025, with $68.53 billion in imports and $36.38 billion in exports, driven primarily by gold imports, silver, fertilizers, and electronics. Negotiations toward a trade deal between India and the United States face hurdles, including US demands for access to India's bioenergy market.

RBI continued taking steps to manage liquidity, maintaining the policy repo rate at 5.50% and retaining the neutral stance in its October 1 review. The RBI discontinued 14-day Variable Rate Repo/Variable Rate Reverse Repo (VRR/VRRR) operations, shifting to more flexible shorter-tenor (primarily 7-day) operations for fine-tuning liquidity management.

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

India’s economy shows continued strength despite global headwinds and cautious policy stance

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

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

Economy continues to show positive signs of growth

- India’s manufacturing purchasing managers’ index (PMI) rose slightly to 58.4 in October 2025 from 57.7 in September, while the services PMI eased from 60.9 in September to 58.8.
- India’s infrastructure output grew 3.0% year on year in September 2025, the weakest in four months, reflecting a sharp drop from August’s revised 6.5% growth. Crude oil, refinery products, natural gas, and coal all declined, while cement and steel grew strongly.
- India’s merchandise trade deficit widened significantly to $32.15 billion in September 2025, with $68.53 billion in imports and $36.38 billion in exports, driven primarily by gold imports, silver, fertilizers, and electronics. Merchandise exports increased to $36.38 billion in September 2025 from $35.10 billion in August, representing 3.6% month-on-month growth despite US tariff headwinds.
- India’s retail inflation eased dramatically to 1.54% in September, the lowest figure since June 2017. The drop was driven mainly by a sharp fall in food prices, with food inflation down to –2.28% (deflationary).

India’s stock market remains resilient despite global headwinds

- Indian equity markets remained resilient and on an upward trajectory during October, with the SENSEX climbing 5.30% over the previous month. Market stability was reinforced by SEBI’s new surveillance measures on derivatives (effective October 1) which are designed to curb excessive speculation.
- RBI data shows India’s current account deficit narrowed to 0.2% of GDP in Q1 FY 2025–26, down sharply from 0.9% a year ago, so strengthening external stability buffers.

RBI continues to take steps to manage liquidity in the system

- RBI continued taking steps to manage liquidity, maintaining the policy repo rate at 5.50% and retaining the neutral stance in its October 1 review.
- The RBI discontinued 14-day Variable Rate Repo (VRR) and Variable Rate Reverse Repo (VRRR) operations, shifting to more flexible, shorter-tenor (primarily 7-day) operations for fine-tuning liquidity management.

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

Russia

Sluggish economic performance; growth expected to slow sharply amid mounting imbalances; inflation has dropped slightly, while monetary easing has been continued; fiscal consolidation planned for next year; new sanctions increase pressure on economy.

Russia’s economic performance continued its sluggish performance in August, with GDP growth estimated at 0.4% year on year, as in July. Over January to June, growth amounted to 1.2%, still driven by war-related industries and household demand, which was supported by a tight labor market and faster real wage growth.

Recent forecasts for Russia place its GDP growth below 1% this year (BOFIT, Oxford Economics, and World Bank), with a further slowdown possible in 2026. Public spending will continue to support domestic demand, as well as production in industries directly linked to the war effort. Russia already utilizes nearly all of its production capacity, so further increases in public spending can only yield limited returns. Additionally, private sector activity—both consumption and investment—will be adversely affected by tighter monetary policy.

Heightened inflation that had been driven by those imbalances started to ease—the headline figure ticked down marginally to 8% year to year in September (from 8.1% in August). However, sequential price growth picked up to 0.5% monthly from 0.3%. Because of inflation, the Central Bank of Russia (CBR) has been forced to maintain high interest rates but was recently able to start the easing cycle. At its October meeting, CBR lowered the key interest rate by 50 basis points to 16.5%, reducing the size of the cut from 100 basis points seen in previous months. The central bank is continuously facing the tough task of finding a balance between curbing inflation and preventing growth from stalling.

The authorities plan to shrink the federal budget deficit to 1.6% of GDP in 2026 from the amended target of 2.6% this year—the largest deficit since the beginning of the full-scale invasion of Ukraine. Approved measures include hiking VAT to 22% and cuts to other than war-related spending, which may affect domestic demand. Next year’s assumed expenditure growth of 4% in nominal terms translates to a real decline.

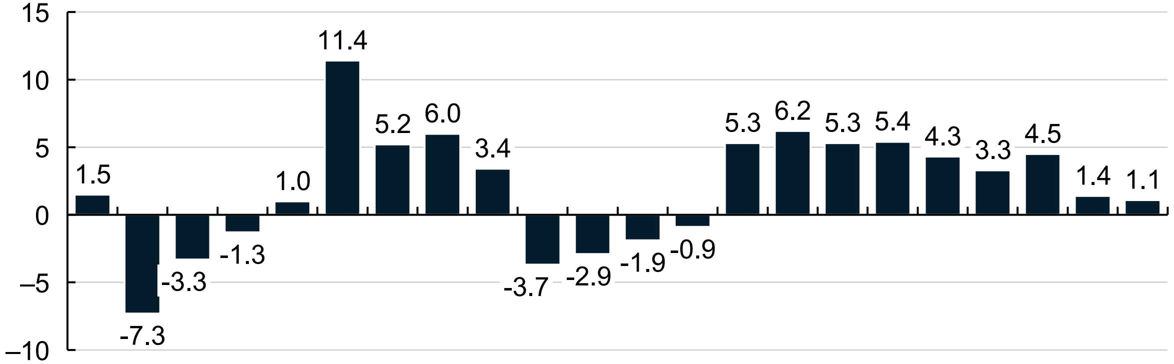
The US has added the two largest Russian oil producers to the sanctions list, while the EU has completely banned imports of Russian natural gas from 2027. The new sanctions could potentially have a substantial impact, particularly on Russian exports and budget revenues from oil and gas, piling additional pressure on public finances and the dollar-ruble exchange rate. The current account, which usually stays in surplus, has already flipped to a deficit of $0.9 billion in August, prompting the ruble to weaken to the USD/RUB 80–85 range.

Source: BOFIT; Oxford Economics

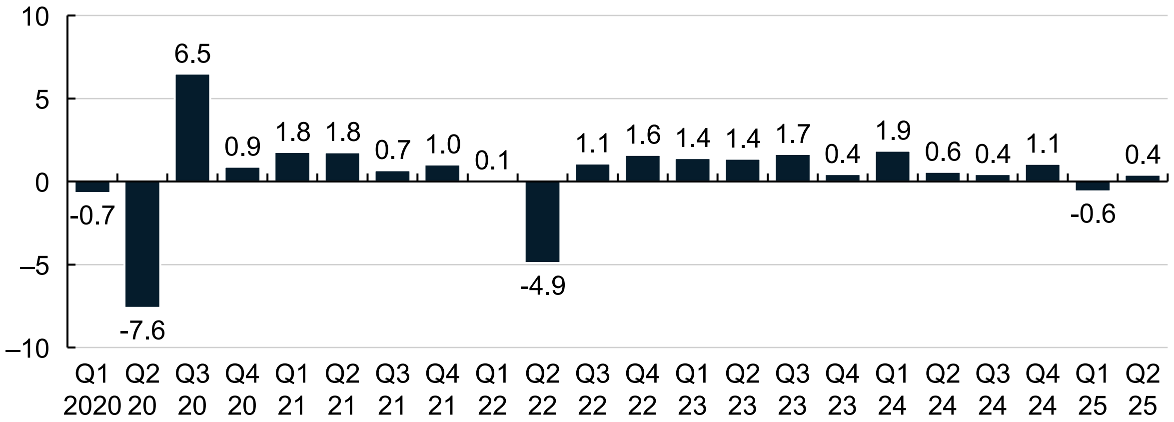
Growth in war-related industries and resilient consumer demand helped to maintain growth in Q3

Gross domestic product growth

Year-on-year changes, through Q2 2025

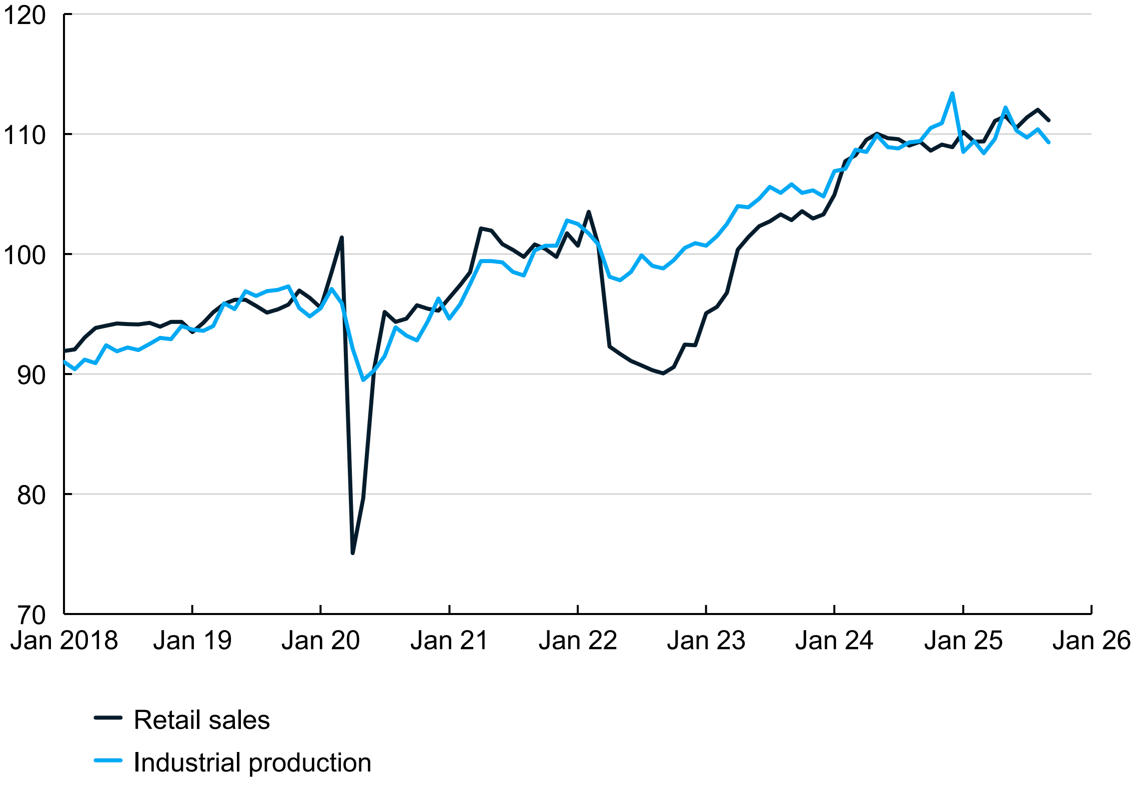


Quarter-on-quarter changes, through Q2 2025



Industrial production and retail trade

Index, 2021=100, through September 2025

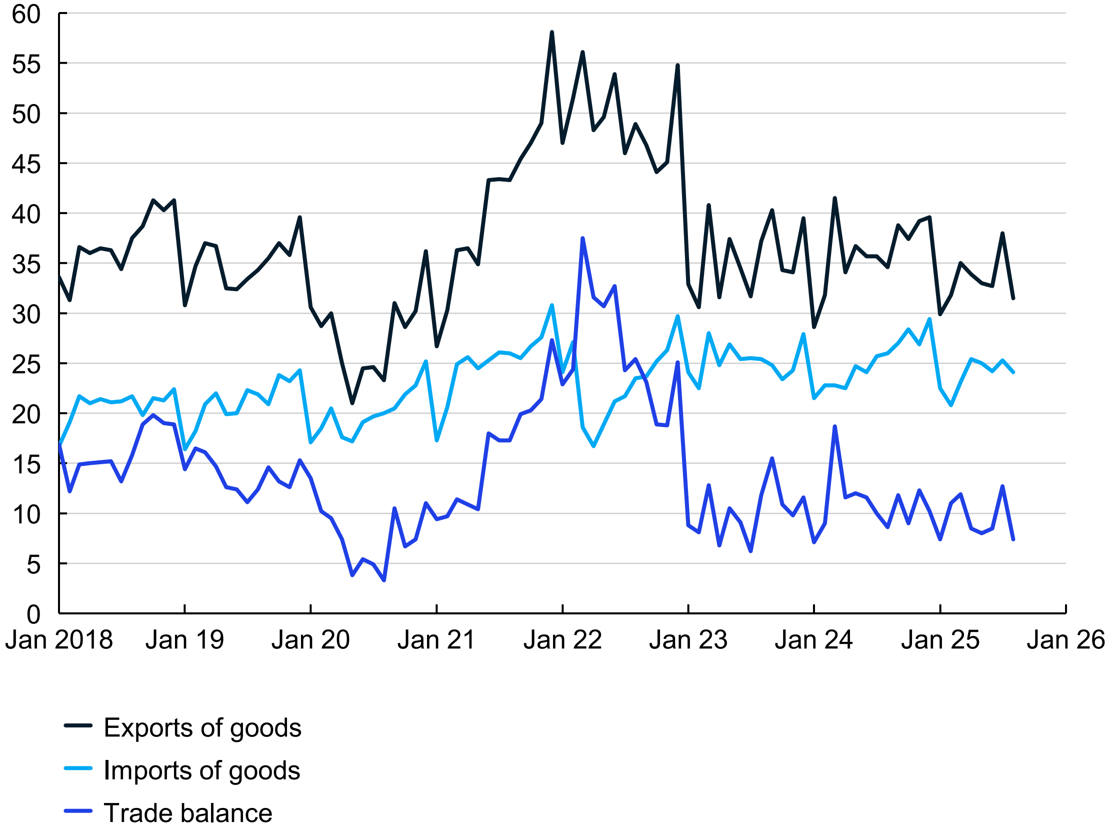


Source: Federal Statistics Service; Haver Analytics

Sanctions have affected trade surplus; inflationary pressures have started to ease, while real wages regained some ground

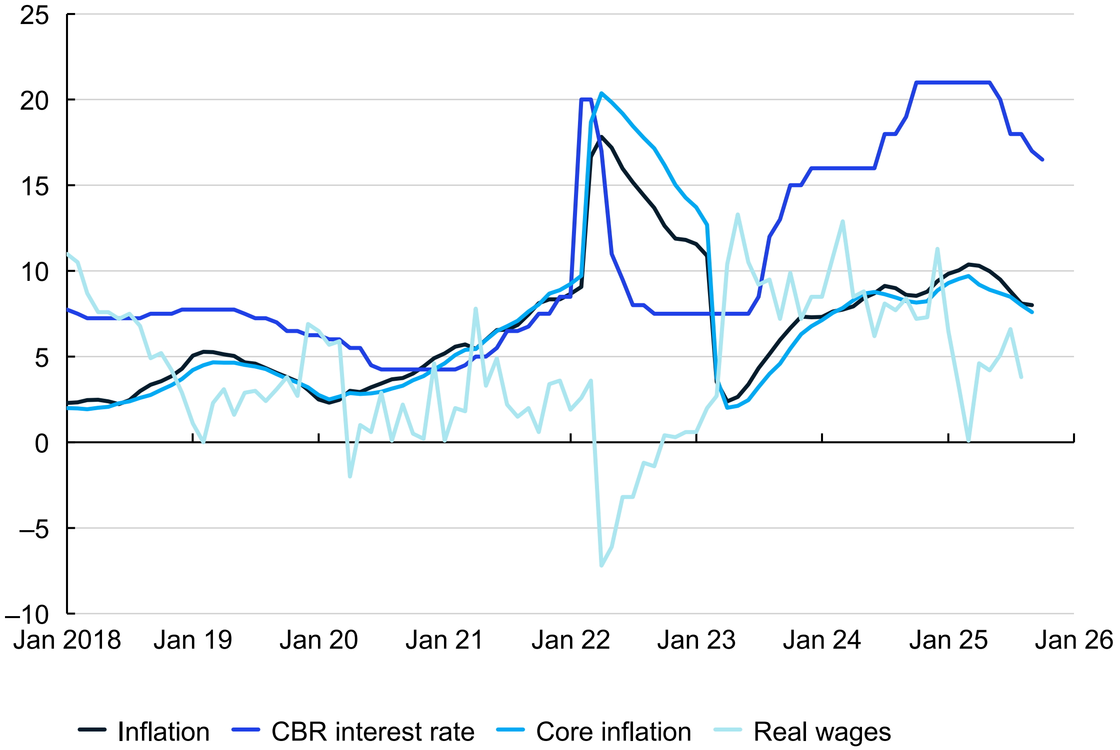
Foreign trade in goods

USD billion, through August 2025



Inflation: central bank interest rate and real wages

% change (y-o-y); %



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

Slowdown in domestic activity dynamics, exports, and prices—potentially further affected by policy decisions

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

	Indicator category	**Change vs prior month**	**Change vs 3-year average**
Macro-economic	Consumer	🟧	🔷
	Business/Industry	🟧	🔷
	Real estate	⬜	⬜
	External sector, trade	🟧	🟥
	Prices	⬜	⬜
	Labor market	⬜	🔷
Financial markets	Foreign exchange	⬜	⬜
	Equities	⬜	🟥
	Debt	⬜	🟧
	Credit	🟧	🔷
Government and policy	Public policy	🟧	🟥
	Public-sector health	🟧	🟥

War-related industries and resilient consumer demand helped to maintain growth in Q3

- Retail sales, despite a 0.8% monthly decline in September, expanded by 0.4% in Q3 compared to Q2. Annual dynamics in September slowed to 1.7%, from 2.7% in August.
- Industrial production in September declined by 1% versus August, while the total Q3 decline compared to Q2 was 0.8%. September's production volume has stagnated in annual terms. The manufacturing purchasing managers' index (PMI) edged down to 48.0 in October 2025 from September's 48.2, signaling a fifth consecutive month of contraction and the sharpest downturn since July. Construction stagnated in annual terms over August–September, showing growth of 0.1–0.2% year on year.
- August's trade surplus in goods shrank to $7 billion, below the Q2 average of $9 billion. The value of exports was down by 9% year on year, at $31.5 billion. Meanwhile, imports value declined by 7% year on year to $24.1 billion. The current account flipped to a deficit of $0.9 billion, reflecting first adjustment to new sanctions.
- Headline inflation was down to 8% year to year in September from 8.1% in August, but monthly price growth picked up to 0.5% from 0.3%. Core inflation readings also improved to 7.6% annually but increased to 0.6% monthly from 0.5%. Inflation expectations were 12.6% in October, the same as in September.
- Q3 labor market data reflected further tightening. Unemployment set a record low of 2.1% in August. Real wage growth increased to 5.3% year on year in July from 3.5% in June.

Monetary easing did not translate to credit growth

- The ruble regained some value in October, trading at around 80 per $1. Further decline in exports may cause another depreciation wave.
- Despite recent interest rate cuts by 550 basis points to 16.5%, 10-year bonds yields rebounded to 15%, remaining three percentage points higher than at the start of 2025.
- At –1.1%, the annual growth of household credit was negative in September. Corporate loan growth slowed to 8.2% year on year in August from 9.2% in June.

Fiscal consolidation and sanctions likely to limit fiscal space for stimulus

- In the planned fiscal consolidation move, the authorities are attempting to shrink the federal budget deficit to 1.6% of GDP in 2026 from the amended target of 2.6% this year, potentially affecting domestic demand.
- A new round of sanctions imposed by the US and the EU can potentially have a significant impact, particularly on Russian exports and budget revenues from oil and gas, causing additional pressure on public finances.

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

Brazil

Stabilizing inflation and almost full employment are main positives amid high-interest-rate scenario.

Inflation was slightly up, touching 5.17% in September, compared with 5.13% in August. Inflation remains above the central bank's upper target limit of 4.50%.

The three-month moving average unemployment rate was stable at 5.6% in September.

On the financial markets, the average monthly real–US dollar exchange rate was BRL 5.36 per USD in September (versus BRL 5.44 in August). The Bovespa equities index boomed in September, rising 3.4% in value; however, October results up until the 24th were already indicating a change in mood after two strong months, with only 0.02% of upside.

Consumer confidence remained below the neutral 100 mark, with the FGV's seasonally adjusted September figure trending up to 87.5 (86.2 in August). Business confidence also went up slightly to 89.9 (from 89.4 in August).

Brazil's manufacturing production rose slightly: the Monthly Industrial Physical Production (PIM) Index increased from 112.2 in August to 113.8 in September (versus the neutral 100 line). The rise was driven by increased extractive production, which grew 1.3%, while factory production was up 0.7%. On aggregate, however, August 2025's results are 0.7% below those for the same period last year.

The Monthly Services Survey (PMS) revenue index slid to 125.7 in August from 126.8 in June (versus the neutral 100 line). This was mirrored in the volume index, which was down to 110.6 (from 111.6). The largest revenue decrease was in accommodations (down 10.5% since June), followed by services to families (down 9.5%). Both sectors also saw the biggest volume decreases, down 12.5% and 10.3% respectively. The standout positive result was the "other land transportation services" segment, which recorded a revenue increase of 4.5% accompanied by a volume increase of 4.7%.

At the Banco Central do Brazil's Monetary Policy Committee (Copom) meeting on September 16, the Selic rate was held at 15% in a unanimous decision. Copom emphasized that the current level will be maintained "for a rather long period," as the "current scenario, with increased uncertainty, demands caution in the monetary policy conduction." The hawkish tone expressed indicated that the Central Bank "will not hesitate in rerunning the adjustment cycle if it is appropriate."

October's (aggregate up to the third week) trade balance recorded a surplus of US $3.3 billion, according to preliminary data, up from US $2.9 billion in September. The bigger surplus was driven by a reduction in exports (US $18.3 billion in October, down from US $30.5 billion in September) accompanied by a drop in imports (US $15 billion in October, down from US $27.5 billion in September).

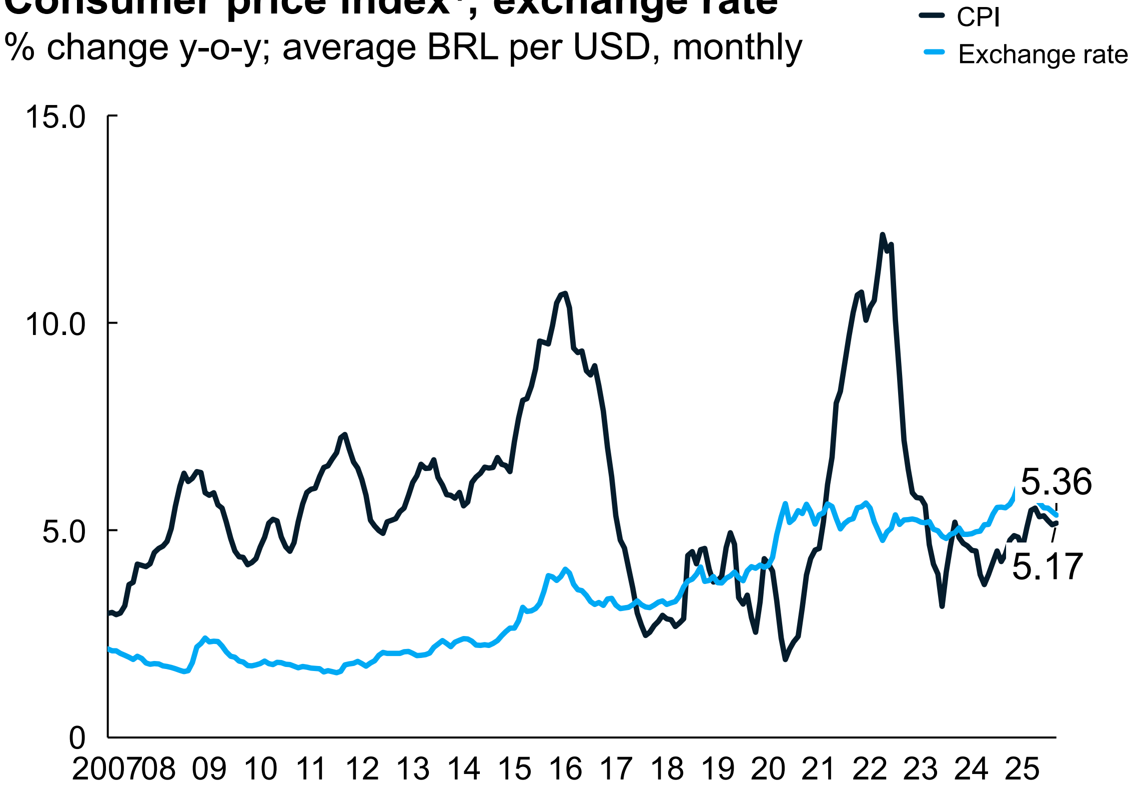
On October 26, President Luiz Inacio Lula da Silva met with US President Donald Trump on the sidelines of the ASEAN summit in Kuala Lumpur, Malaysia, in a bid to ease tensions between the two countries. Their respective teams planned to start tariff discussions immediately.

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

In September, inflation increased marginally as the currency appreciated; equities rose some 3.4%, at half August's pace

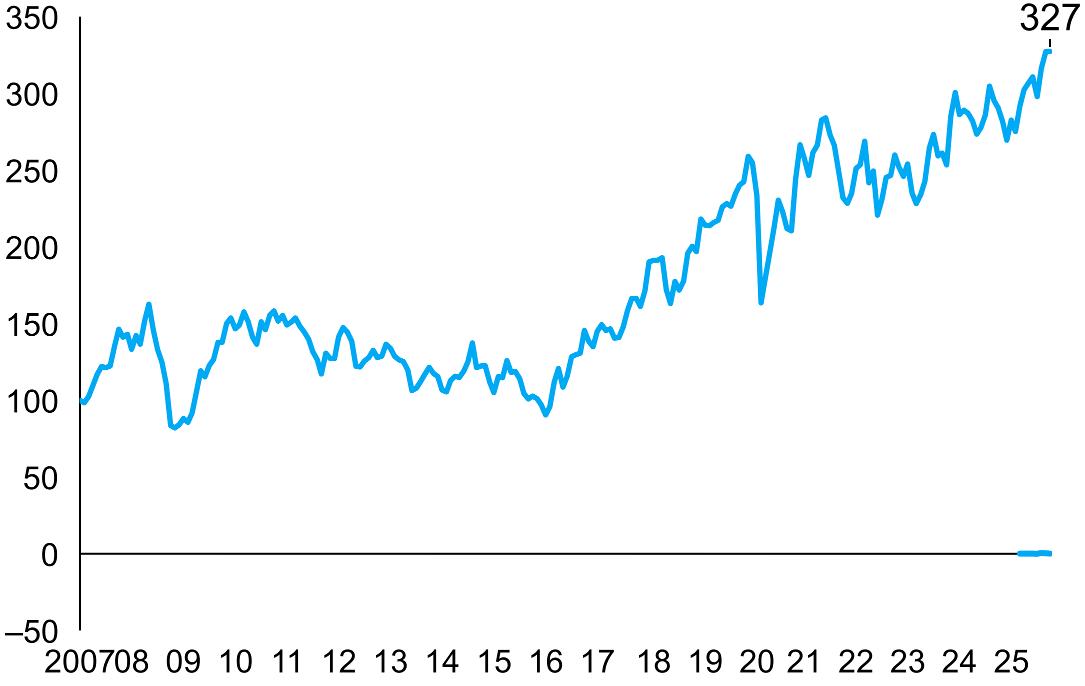
Consumer price index[1]; exchange rate

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



Bovespa index[2]

Indexed to February 2007 = 100



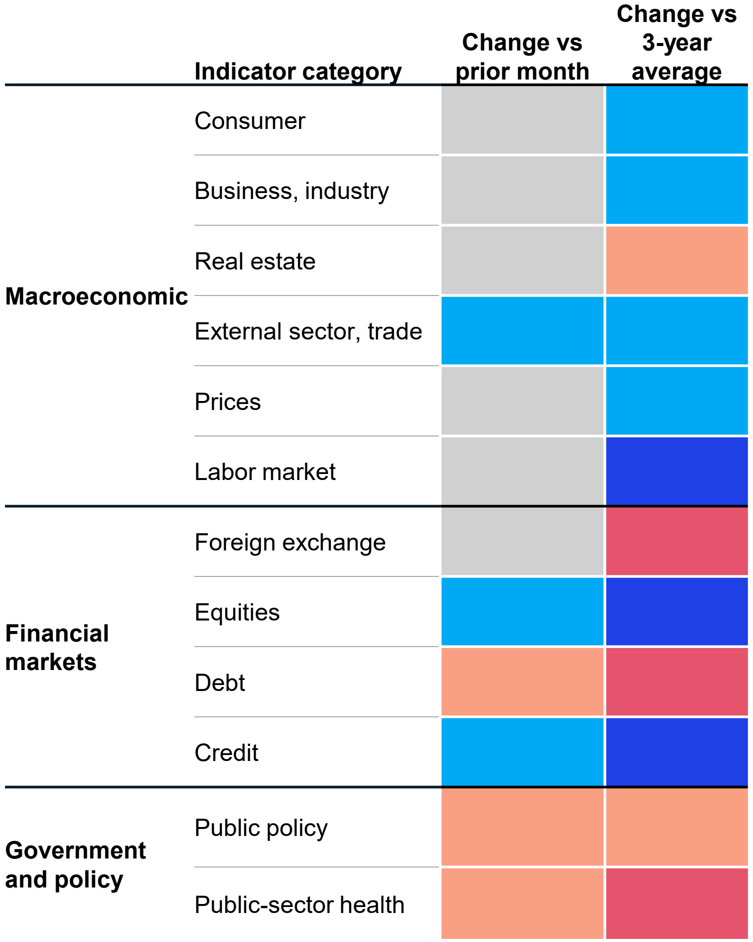
---

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%, reduced to 3.0% for 2024, with a margin of error of 1.5 percentage points. Data through Jun 20, 2025.
2. Data through September 24, 2025.

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

Brazil’s economic outlook varies according to sectoral perspective

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



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

Unemployment stable while inflation slightly up

- Consumer confidence rose to 87.5 in September, from 86.2 in August. Retail sales show stability, up only 0.1% in August.
- Business confidence was up slightly to 89.9 in September (from 89.4 in August). Industrial production also edged up, recording 113.0 in August (from 112.2 in June). In contrast, services revenue was down to 125.7 in August, from 126.8 in June. Construction confidence stood at 92.3 in September, up from 91.6 in August.
- In October (up to the third week), the trade balance recorded a surplus of US $3.3 billion, an increase from September’s US $2.9 billion.
- Inflation climbed slightly to 5.17% in September (up from 5.13% in August). Among the largest price rises were items such as zucchinis (54.55%), bell peppers (50.20%), and ride-sharing transportation (47.14%). High coffee prices—up 54.55% over the past 12 months—are still reflecting the failed Vietnamese harvest, domestic climate-related disruptions, and recent foreign exchange fluctuations.
- The three-month moving average unemployment rate was stable in 5.6% in September.

Brazilian real appreciates slightly against US dollar; Bovespa index boomed in August but trend is slowing

- In September, the monthly average exchange rate was BRL 5.36 per US dollar (versus BRL 5.44 in August). On October 25, the real closed on 5.39 per dollar.
- The Bovespa equities index boomed, earning 3.4% in value during August; however, the rally lost momentum this month with the index up just 0.02% (as of October 24).

Markets revise CPI projections down, as 2025 numbers close to Central Bank’s objectives

- The Central Bank’s Focus Bulletin—a summary of current financial market projections (published on October 24)—revised consumer price index forecasts for 2025 down to 4.56% (from 4.70%); for 2026 to 4.2% (from 4.27%); for 2027 to 3.82% (from 3.83%); and for 2028 to 3.54% (from 3.60%). It was the first time this year that 2025 inflation was projected as “hitting” the upper limit of the Central Bank’s target.
- Benchmark (Selic) interest rate expectations remain at 15% for 2025. They were also held at 12.5% for 2026 and 10.5% for 2027. GDP is projected to grow 2.16% (down from 2.17%) in 2025, 1.86% in 2026, and 1.78% (down from 1.80%) in 2027.

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

Mexico

Economy experiences slower activity and higher inflation, with modest job gains and a wider trade deficit, alongside continued peso stability.

In September, annual inflation in Mexico rose to 3.8%, from 3.6% in August. On the currency front, the peso gained ground against the US dollar, averaging 18.5 per dollar through September (18.7 in August).

In September, Mexico's economic activity declined 0.6% year on year, while edging up just 0.1% month on month, signaling near stagnation. The drop was mainly driven by an approximate 3% contraction in the secondary sector (manufacturing, construction, mining, and electricity), partially offset by a modest 0.8% increase in services.

The S&P Global Mexico Manufacturing PMI dropped from 50.2 in August to 49.6 in September, indicating a marginal deterioration in overall operating conditions. The purchasing managers' index has now been in sub-50.0 contraction territory in 14 of the past 15 months (August being the sole exception). New orders rose, though at a slow pace, while new export orders fell for the 19th consecutive month, with weaker demand from Europe and the US partly offset by Asia and South America.

In the labor market, total unemployment rose to 2.74% in September (2.66% in August)—the highest level this year. Formal employment saw a moderate increase of 116,800 jobs. However, the rate of informal employment reached 54.9%—with 33.1 million people in vulnerable employment—compared to 54.2% in September 2024.

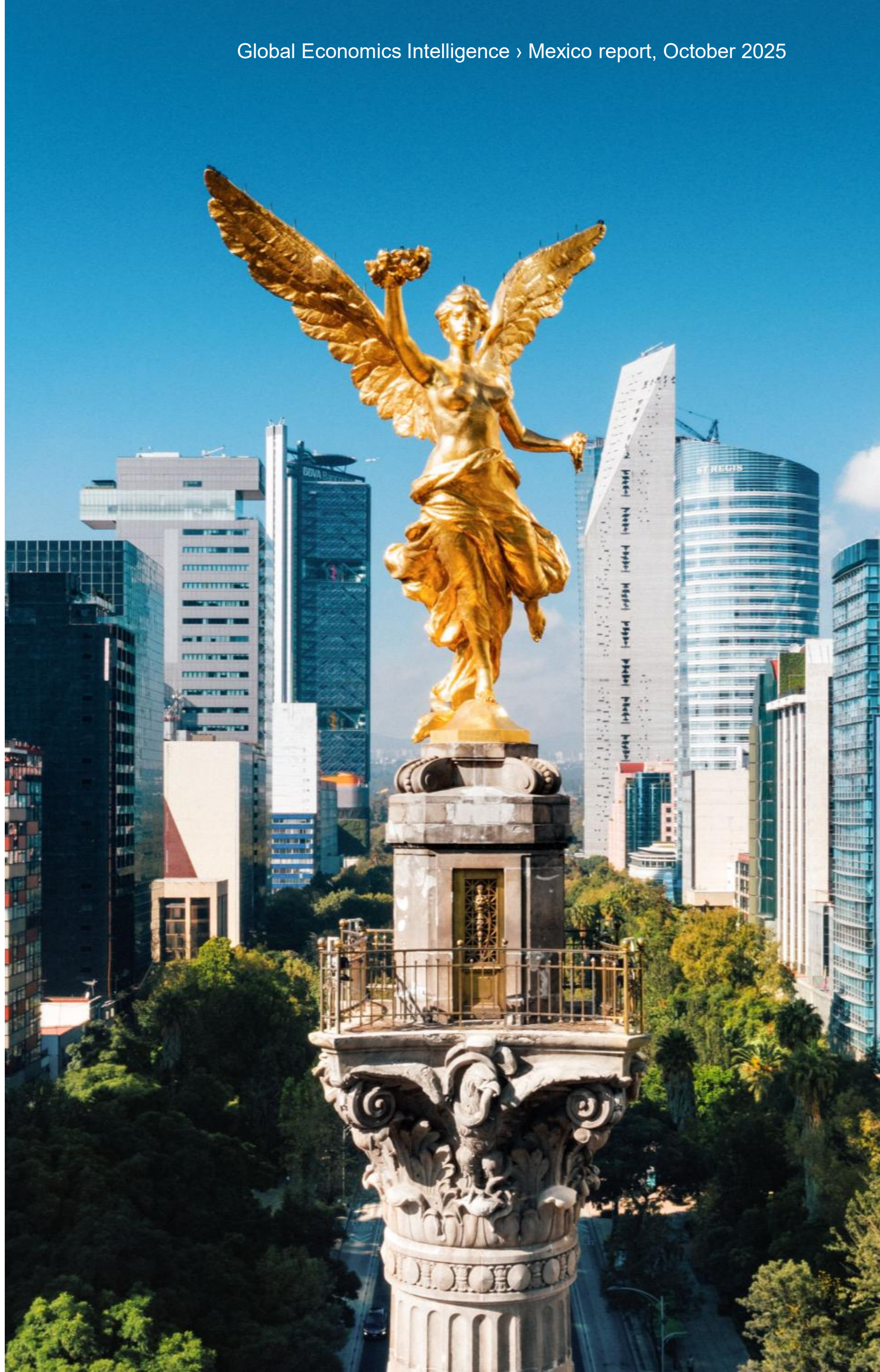
Mexico recorded a trade deficit of US $2.4 billion in September, as exports slightly grew to US $56.5 billion (up from US $55.7 billion in August), while imports rose to US $58.9 billion (up from US $57.7 billion). Imports of intermediate goods grew some 19.6% year on year, while non-oil input imports rose around 20.7%, outpacing export growth and driving the overall deficit expansion.

In terms of exports, growth was concentrated in manufacturing—particularly machinery and special-purpose equipment (+76.2% year on year) and electrical/electronic products (+9.9% year on year)—while the automotive sector weakened slightly, down 0.2% year on year overall and 7.2% to the US.

Mexico's state-owned oil company Pemex has paid down half of its debts to suppliers since President Claudia Sheinbaum took office in October 2024. Chief Executive Victor Rodriguez said in a presentation to Congress that the company had paid 300 billion pesos ($16.33 billion) to suppliers as of September and had used a recently created financial vehicle to pay off supplier debts.

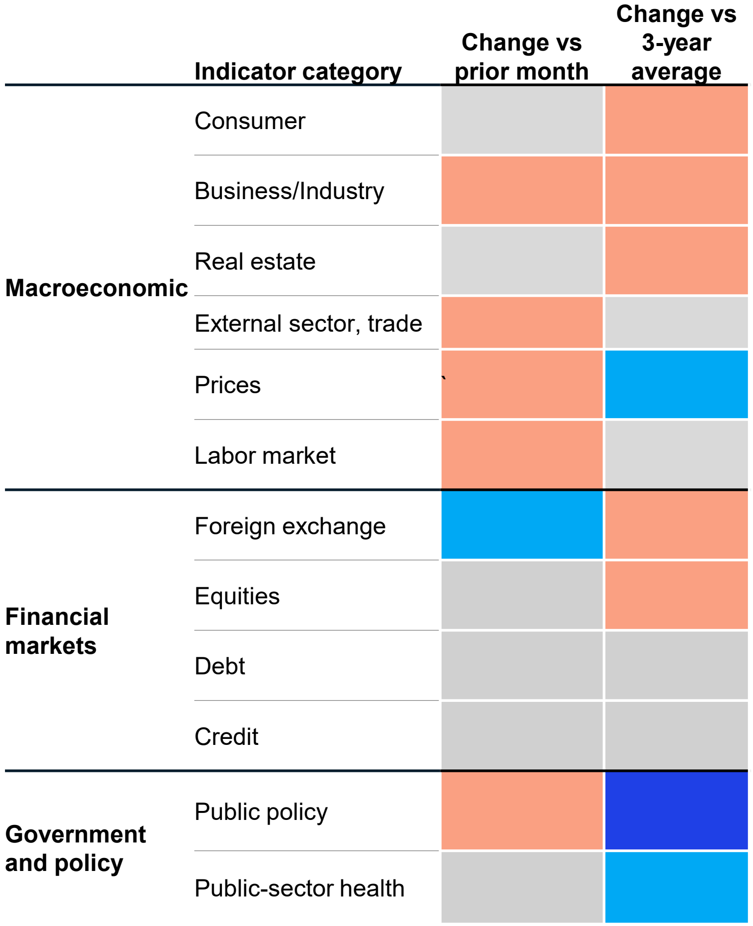
Carlos Manzo, a mayor who had vocally criticized drug cartels in Mexico's avocado capital of Uruapan, was shot and killed attending the Day of the Dead celebrations. Manzo had already been under federal protection following threats against him. This attack is particularly alarming for Mexico because it underscores the growing reach and brazenness of criminal organizations, even against elected officials who are supposed to be under state protection. President Claudia Sheinbaum called an emergency cabinet meeting yesterday and pledged to pursue justice.

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



Mexico’s economy weakened in September: inflation ticked up, trade deficit widened, and growth slowed

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



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

In September, trade deficit widened, and inflation rose slightly, signaling softening domestic demand

- Mexico’s manufacturing PMI dropped from 50.2 in August to 49.6 in September, falling into contraction territory again—where it has been for 14 of the past 15 months, with August the sole exception.
- Mexico recorded a trade deficit of $2.4 billion in September, as exports rose to $56.5 billion (up from $55.7 billion in August), while imports rose to $58.9 billion (up from $57.7 billion).
- Annual inflation in Mexico increased slightly to 3.8% in September, up from 3.6% in August.
- Total unemployment reached its highest level so far this year, rising to 2.74% in September, from 2.66% in August.
- Formal employment saw a moderate increase of 116,800 jobs.

In September, the Mexican peso strengthened modestly, but economic activity continued to stagnate

- The peso won ground against the US dollar, averaging 18.5 through September, up from 18.7 in August.
- In September, Mexico’s economic activity fell 0.6% year on year, while edging up just 0.1% month on month.
- The Mexican economy contracted 0.3% quarter on quarter in Q3 2025, its first decline since 2021.The manufacturing/secondary sector fell around 1.5% sequentially, while services only grew some 0.1%.

Violence against local officials underscores persistent security risks despite institutional stability

- On 1 November, at the Day of the Dead/Festival de las Velas in Uruapan, city mayor Carlos Manzo was shot at a candlelight public event in the center of the city, which is known as Mexico’s avocado capital and a focal point of cartel activity in Michoacán. Reports indicate some seven shots were fired while the mayor was in the public area among the crowd. President Claudia Sheinbaum convened an emergency security cabinet meeting in response, promising a full investigation and pledging that “there will be no impunity.”

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

McKinsey
& Company