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Global Economics Intelligence

Global Summary Report

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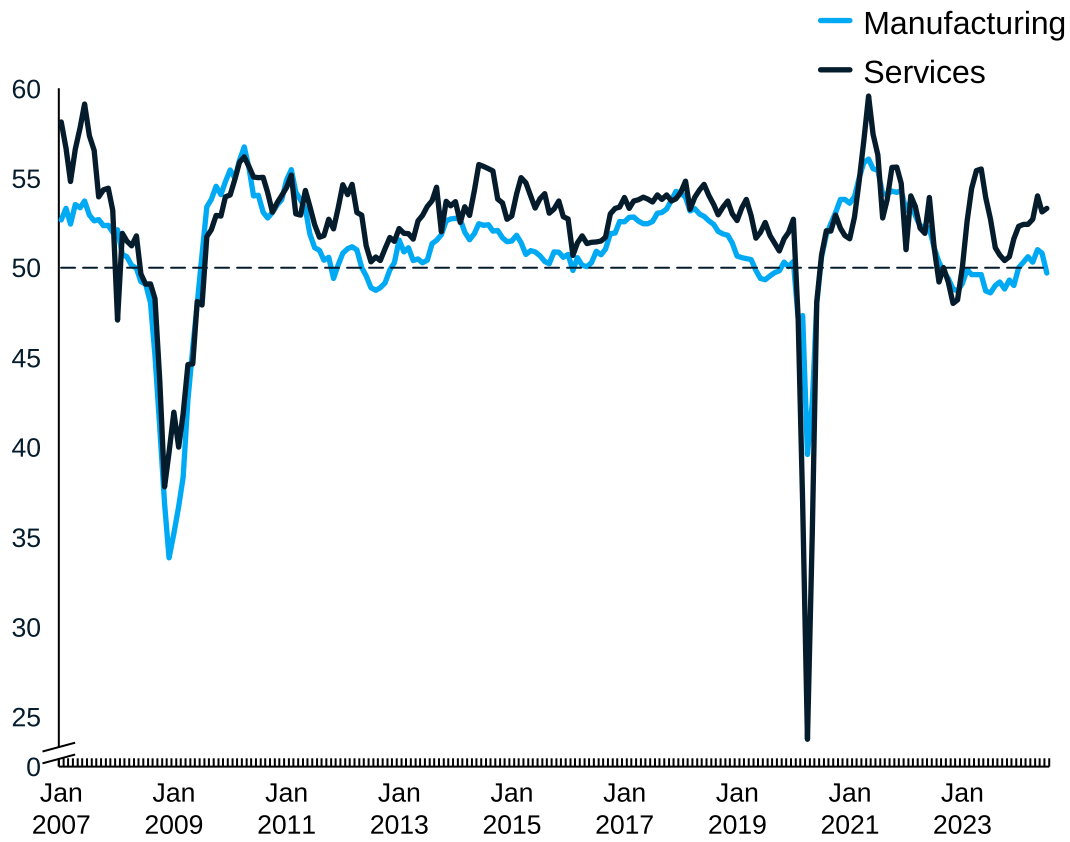
Manufacturing sector tips into contraction for the first time in 2024, while services continue to grow steadily

JPMorgan Global Purchasing Managers' Index (Manufacturing)
Diffusion index, seasonally adjusted (monthly)



Note: A reading of more than 50.0 indicates an increase from the previous month, and a reading of less than 50.0 indicates a decrease. Country-level data are the PMIs for individual countries as sourced from Markit Economics or the Institute for Supply Management (ISM) and are not a breakdown of the JPMorgan Global PMI.

U.S. growth for Q2 2024 was revised upward to 3.0%, while the latest data on labor markets shows some softening—both in the U.S. and globally. More central banks are moving or considering moves on interest rates, with a highly anticipated FOMC decision expected in September.

Forward-looking indicators now show a divergence between manufacturing and services on a global basis. The manufacturing sector has contracted for the first time in 2024, registering 49.7 in July on the global Purchasing Managers' Index (PMI), while services continue to grow steadily, clocking in at 53.3.

In the advanced markets, the US saw real GDP increase at an annual rate of 3.0% in the second quarter of 2024, according to the Bureau of Economic Analysis (BEA) "second" estimate (released August 29)—up on a first-quarter rise of 1.4%. The Q2 advance primarily reflected increases in consumer spending, private inventory investment, and business investment. The eurozone saw GDP Q2 growth increase by 0.3% quarter on quarter and 0.6% year on year. July's IMF projections point to a modest pickup of 0.9% for 2024 (an upward revision of 0.1 percentage points), driven by stronger momentum in services and higher-than-expected net exports in the first half of the year; growth is projected to rise to 1.5% in 2025. In the UK, quarterly real GDP is estimated to have grown 0.6% in Q2 2024, following 0.7% growth in Q1. Versus the year-ago quarter, GDP is estimated to have risen 0.9% in Q2 2024.

Among the emerging markets, China remains in the fast lane, but the pace of expansion may be slowing. China's industrial output was almost stable in July, recording year-on-year growth of 5.1%—a slight decrease from June's 5.3%. By sector, manufacturing output grew by 5.3%, a slight decline from 5.5% in June; utility output expanded by 4.0%, down from 4.8% in June; and mining output rose by 4.6%, a marginal increase from 4.4% in June. In Russia, the outlook for upcoming quarters remains uncertain due to tighter monetary policy starting to affect consumer and investment demand. But full-year figures are likely to register rapid GDP growth for 2024 as a whole—preliminary figures for the first half already suggest growth of 4.7% year on year. Meanwhile, Mexico has seen GDP grow by 1.6% each quarter in 2024, driven by the agriculture and services sectors in the first quarter and the industrial sector in the second quarter.

Markets are hanging on a Fed decision whether or not to cut interest rates in September—and by how much. Only one central bank among surveyed economies cut rates in August (though the Bank of England reduced its policy rate to 5% on the last day of July): Russia's economic landscape of accelerating consumer prices saw the Central Bank of Russia raise its key rate by 200 basis points to 18%.

Expectations are for a Fed rate cut in September, and it could be larger than anticipated given the less optimistic tone in the US labor market. Market commentators have been vocal about the Bureau of Labor Statistics' downward revision of some 818,000 jobs added to the US economy over the period April 2023–March 2024—this represents the biggest BLS overestimation of the past 15 years. Downward revisions by the BLS are actually routine; however, the biggest resets have historically tended to happen prior to significant economic downturns. It remains to be seen whether this will be the case on this occasion.

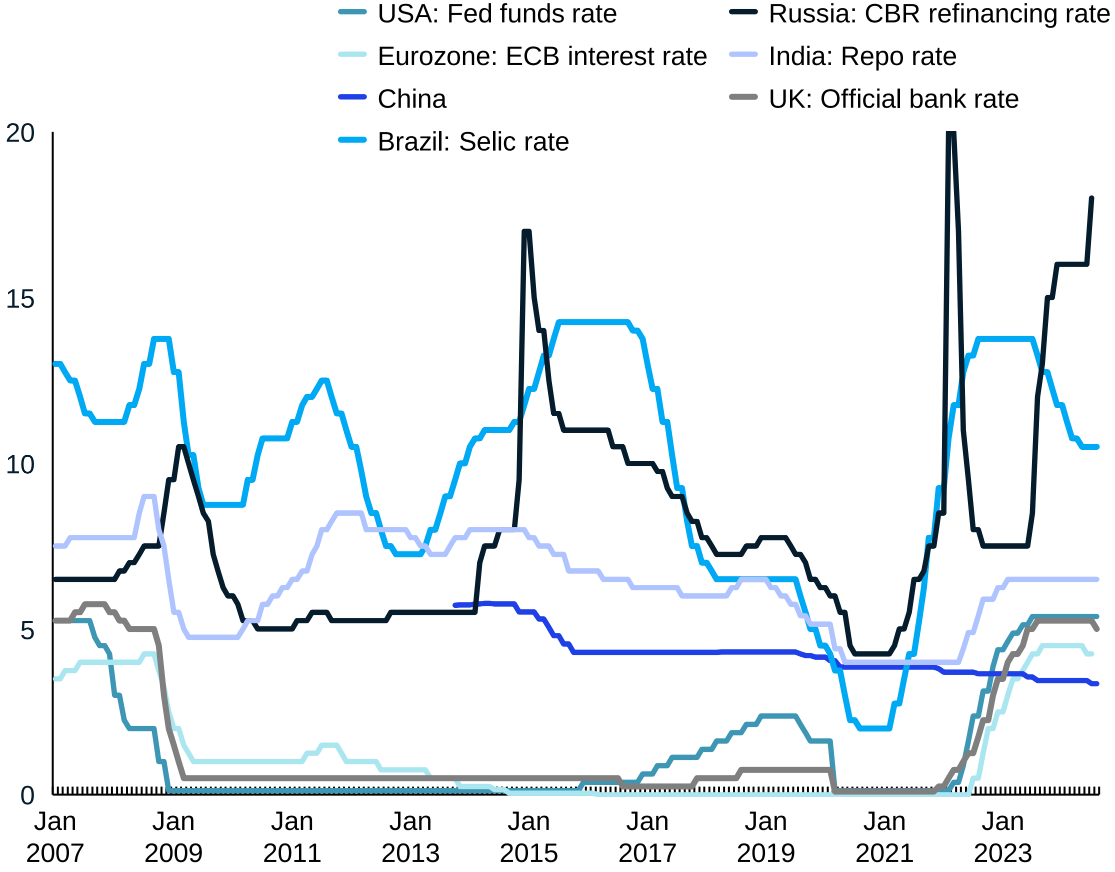
Overall consumer confidence has largely declined as high consumer prices continue to affect customers (though the UK is still trending up). That said, in the

Source: : S&P Global; McKinsey's Global Economics Intelligence analysis

Interest rates continue largely unchanged in 2024, with increasing expectations around cuts and their magnitude (1/2)

Central-bank interest rates

Percent



US, July's consumer confidence index (Conference Board) rose to 100.3, up from a downwardly revised 97.8 in June. Similarly, consumer confidence in Mexico remained above the neutral 100-point mark, to sit at 101.2 for a second consecutive month. Meanwhile, consumer spending continues to decelerate across the board with the exception of Brazil. Nevertheless, the US saw July retail and food services sales (adjusted for seasonal variation and holiday and trading-day differences) rise to $709.7 billion—a 1.0% increase from the previous month. Consumption has softened in India, however, with the latest survey from the Retailers Association of India showing that sales growth nearly stagnated in July. The deceleration was broad-based and visible across all sub-categories, with some even experiencing declines.

Central banks continue to anchor inflation expectations at around 2.0 to 2.3%. The broad picture on prices shows inflation continuing to ease among developed economies—but with deflation still present among producers in the eurozone. Consumer inflation in developing economies remained stable in July but is accelerating in Russia where monetary policy is seeking to control prices in the face of fiscal stimulus.

In the US, the consumer price index (CPI) rose 2.9% for the 12 months ending July, the smallest 12-month increase since March 2021; core inflation rose 3.2% (annualized) in July. Eurozone headline inflation was slightly up in July, to 2.6%, while core inflation stood at 2.9%; services inflation was 4.0%. The UK CPI lifted slightly from the BoE's 2% target in July 2024, rising to 2.2%, from 2% in June. Core inflation (which excludes energy, food, alcohol, and tobacco) fell to 3.3%.

Consumer price inflation in China remained low at 0.5% in July (0.2% in June); deflation in producer prices was unchanged at a rate of −0.8%. Inflation in India unexpectedly dropped from 5.1% in June to 3.56% in July, primarily due to the base effect. The food and fuel categories were most affected, with steep declines observed. Brazil's inflation rate climbed to 4.50% in July (4.23% in June), registering its third consecutive rise and further moving away from the 3.0% target set by the Banco Central do Brasil. As demand continues to exceed supply, along with rate rises for municipal services, inflation in Russia has accelerated further, to 9.1% year on year. Meanwhile, inflation in Mexico increased from 4.98% in June to 5.6% in July, continuing an upward trend since February that has pushed the rate beyond the Central Bank's target range of 2–4%.

Most commodity prices continued to decline in August, but they all remain significantly higher than pre-pandemic levels. Gold climbed to reach record highs in August, breaking through the $2,500-per-troy-ounce mark to appreciate some 20% so far this year. Demand is partly driven by markets' anticipation of interest rate cuts, the desire of some central banks to be less dollar dependent, and the metal's traditional safe-haven status in the face of geopolitical risks. Moreover, gold is increasingly in demand by various hi-tech industries. However, prices of other metals (such as aluminum, copper, nickel and steel) have edged down slightly, due to slower demand in global commodity markets. The sideways trend in the price of multiple energy commodities continued.

The various regional and country-level PMIs continue to show divergence between manufacturing and services. Growth in manufacturing appears to have stalled in China, the EU and the US, while services remain a bright spot on the global economic map, with the main economies exhibiting growth in July.

Among the advanced economies, the US industrial production index dropped to 102.8 in July (103.9 June 2024). August's manufacturing PMI in the US also fell, to 48.0 (from 49.6 in July), while the services PMI indicated solid expansion but declined slightly to 55.2.

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

Interest rates continue largely unchanged in 2024, with increasing expectations around cuts and their magnitude (2/2)

The eurozone's composite PMI expanded from 50.1 in July to 51.2 in August, driven by the services sector. The services PMI reached 53.3 (July: 51.9), while the manufacturing PMI leveled off to 45.7 in August, up slightly from 45.6 in July. The UK proved to be an exception in terms of manufacturing: the seasonally adjusted S&P Manufacturing PMI rose to a two-year high of 52.1 in July, up from June's 50.9 and above the neutral 50.0 mark in each of the last three months. Latest data showed a further expansion in business activity across the UK's service sector, with the seasonally adjusted S&P UK Services PMI posting 52.5 in July, a slight increase from June's 52.1.

Among the emerging economies, India's PMIs for manufacturing and services both remain at historically high levels. Companies report that production, demand, and employment continue to increase, although some deceleration in demand due to lower new orders is visible. Brazil's manufacturing PMI rose to 54.0 in July (52.5 in June), above the neutral 50 mark for a seventh month running, while the services PMI rose to 56.4 (from 54.8 in June).

In July, the unemployment rate in both the US and China continued to rise, while unemployment in Brazil has been trending down since April. The US unemployment rate rose to 4.3% in July, up from June's 4.1% (3.5% in January 2020). Total nonfarm payroll employment increased by 114,000 in July. In the three months to June, UK unemployment was estimated at 4.2%. Total unemployment in Mexico increased by 0.1 percentage points in June, to 2.74%. Over this period, employment in the formal economy was down by some 30,000 employees.

Following July's equities rebound, stock markets experienced a troubled August, with most exchanges registering losses—Brazil's Bovespa was an exception. At the same time, market volatility trend slightly up in August but remains within controlled levels historically. The cost of capital continued to be stable in August, with inflation largely stable and markets waiting on interest rate decisions. Interest rates have continued largely unchanged so far in 2024, with growing market expectations around the timing and magnitude of cuts.

World trade volumes increased by 0.7% in June, driven by growth across all trade flows in advanced economies. Global supply chain markets continue to normalize with the pressure index at the historical average value in July.

US exports in June reached $265.9 billion, $3.9 billion more than in May; imports registered $339.0 billion, $2.0 billion more than in May, increasing the monthly deficit by 2.5% to $73.1 billion. China's cross-border trade growth accelerated to 7.1% in July, up from 3.9% in June. Export growth remained robust at 7.0% (8.6% in June), while import growth saw a notable increase to +7.2% in July (from −2.4% in June), largely due to the low base effect from last year. India's trade deficit worsened in July, reaching $9 billion. The main driver was trade in goods, especially exports, which declined for the third consecutive month, while imports remained broadly stable. Mexico's June balance of trade figures indicated a deficit of around US $1 billion, due to a widespread decline in exports, including consumer and intermediate goods, as well as petroleum and non-petroleum exports.

* * *

The move away from fossil fuels toward a sustainable energy environment designed to combat climate change has far-reaching implications for the global economy, including wide-ranging structural changes. Yet, recognizing that the energy transition is above all a physical transformation is a truth that can get lost in the abstraction of net-zero scenarios.

The transition involves developing and deploying new low-emissions technologies and entirely new supply chains and infrastructure to support them if a carbon-neutral economy is to be achieved by 2050. To date, only some 10% of the required deployment of low-emissions technologies has been achieved in most areas, according to a recent McKinsey Global Institute (MGI) report.

The hard stuff: Navigating the physical realities of the energy transition has identified and explored 25 interlinked physical challenges across seven domains (power, mobility, industry, buildings, raw materials, hydrogen and other energy carriers, and carbon and energy reduction) that need to be tackled to advance the transition. Importantly, abating about half of energy-related emissions depends on addressing these 25 challenges.

The most demanding challenges have three common features: a lack of established low-emissions technologies able to deliver comparable performance to existing high-emissions approaches; a significant degree of interdependence with other difficult challenges, so requiring a systemic approach; and the massive scale of the required deployment.

For example, across industry, MGI experts have identified four key challenges requiring the most effort to solve: the production of low-emissions steel, cement production, decarbonizing plastics, and synthesizing low-emissions ammonia. A fifth area, decarbonizing other industries, is slightly less problematic (requiring deployment of known technologies to accelerate progress) but remains a major challenge. For details of all 25 challenges, download the report or executive summary.

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

[Advanced economies]: In the advanced economies, the Fed looks set to cut interest rates; services momentum driving eurozone growth; UK manufacturing holds up.

United States

July's annual inflation rate rose to 2.9%, the smallest 12-month increase since March 2021—FED likely to lower rates by September's meeting; latest jobs report highlights a not-so-strong labor market, with BLS overestimating 43% of jobs in the year till March.

The consumer price index rose to 2.9% for the past 12 months ending July, the smallest 12-month increase since March 2021. Core inflation rose 3.2% (annualized) in July. Consumers' three-year-ahead inflation expectations fell by 0.6 % to 2.3%, hitting a new series low since the survey's inception in June 2013, according to the July Survey of Consumer Expectations

The unemployment rate rose to 4.3% in July, up from June's 4.1% (3.5% in January 2020). Total nonfarm payroll employment increased by 114,000 in July. July's news follows a Bureau of Labor Statistics (BLS) downward revision of some 818,000 jobs added to the economy over the period April 2023–March 2024. This represents the biggest BLS overestimation of the past 15 years and sets a less optimistic tone for the labor market.

Retail and food services sales for July 2024 (adjusted for seasonal variation and holiday and trading-day differences) were $709.7 billion—a 1.0% increase from the previous month. The consumer confidence index (Conference Board) rose in July to 100.3, from a downwardly revised 97.8 in June.

The industrial production index decreased to 102.8 in July (103.9 June 2024). August's purchasing managers' index (PMI) for manufacturing decreased to 48.0 from 49.6 in the previous month, while the services PMI declined slightly to 55.2.

In July, the S&P 500 rose by 1.3%, bringing the one-year return to 20.3%. The Dow Jones also increased by 4.4% for the month, registering 14.9% in terms of its one-year growth. During July, the CBOE Volatility Index averaged 18.6 (12.4 in June), an increase mainly due to uncertainty after last month's job report.

July's meeting of the Federal Open Market Committee (FOMC) decided to maintain the target range of the federal funds rate between 5.25% and 5.5%. Despite this decision, Fed and policy officials are set to drop rates by September's meeting, due to the recent jobs report figures as well as the recent recorded drop in prices. Investors, consumers, and officials are all expecting rate cuts by the end of the year.

June's exports were $265.9 billion, $3.9 billion more than in May. June's imports were $339.0 billion, $2.0 billion more than in May. Consequently, the monthly deficit increased by 2.5%, to $73.1 billion

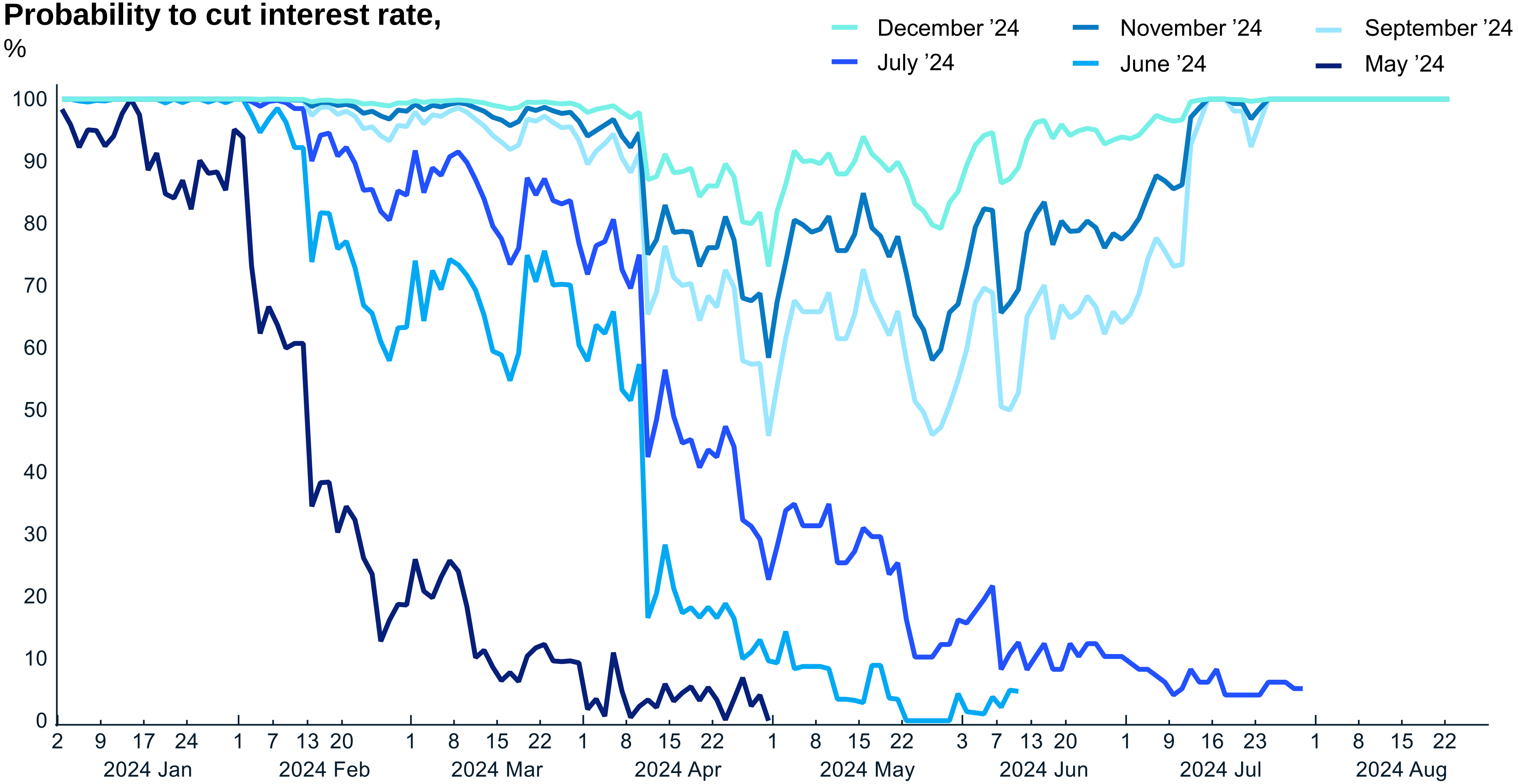
On the housing market, the 30-year fixed-rate mortgage had declined to 6.4% by August 23, down on the previous month. Existing home sales grew by 1.4% in July. During July, housing residential starts increased to 1,360,000 (up from a revised figure of 1,287,000 in March). Completions rose to 1,623,000 this month (from 1,495,000 in June).

America's political landscape has settled somewhat with Vice-President Kamala Harris accepting the official democratic nomination at this month's Democratic National Convention, following an uncertain period after President Biden dropped out of the race in July. The race with former president Donald Trump, the Republican candidate, among swing states reportedly remains tight, according to polls.

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

Market sentiment signals strong expectations of interest rate cuts by September's meeting

Probability to cut interest rate,
%



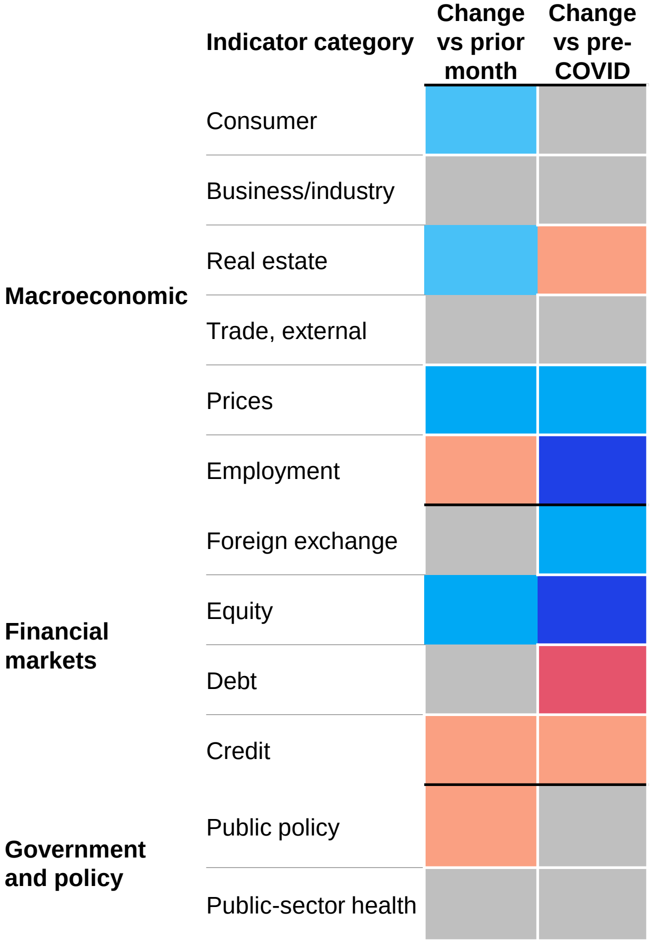
Annual inflation rose to 2.9% the smallest 12-month increase since March 2021. This has increased the room for policy makers and the Fed to advocate for an interest rate cut by the end of September.

Market sentiment now indicates high probabilities for rate reductions over the course of the remaining FOMC meetings this year.

Source: CME; McKinsey Global Institute

July’s annual inflation rate rose to 2.9%, the smallest 12-month increase since March 2021; Fed likely to lower rates by September’s meeting, following latest jobs report recording a not-so-strong labor market and with BLS overestimating 43% of jobs gain up until March of this year

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



	Indicator category	Change vs prior month	Change vs pre-COVID
Macroeconomic	Consumer	🔵	⬜
	Business/industry	⬜	⬜
	Real estate	🔵	🟧
	Trade, external	⬜	⬜
	Prices	🔵	🔵
	Employment	🟧	🟦
Financial markets	Foreign exchange	⬜	🔵
	Equity	🔵	🟦
	Debt	⬜	🟥
	Credit	🟧	🟧
Government and policy	Public policy	🟧	⬜
	Public-sector health	⬜	⬜

Annual inflation rose to 2.9%, the smallest 12-month increase since March 2021; consumer confidence gains ground after downward revision in June

- The industrial production index declined to 102.8 in July (103.9 in June 2024). August’s purchasing managers’ index (PMI) for manufacturing decreased to 48.0 from 49.6 the previous month, while the services PMI dropped slightly to 55.2.
- Retail and food services sales for July 2024 (adjusted for seasonal variation and holiday and trading-day differences) were $709.7 billion—a 1.0% increase from the previous month. The consumer confidence index (Conference Board) rose to 100.3 in July, from June’s downwardly revised 97.8.
- June exports were $265.9 billion, $3.9 billion more than in May; June imports were $339.0 billion, $2.0 billion more than May’s imports. The monthly deficit increased by 2.5%, to $73.1 billion.
- On the housing market, the 30-year fixed-rate mortgage had declined to 6.4% by August 23, down on the previous month. Existing home sales grew by 1.4% in July. During July, housing residential starts increased to 1,360,000 (up from a revised figure of 1,287,000 in March). Completions rose to 1,623,000 this month (from 1,495,000 in June).
- The unemployment rate rose to 4.3% in July, up from June’s 4.1% (3.5% in January 2020). Total nonfarm payroll employment increased by 114,000 in July. July’s news comes after the BLS revised down the number of jobs added to the economy for the year April 2023–March 2024 by some 818,000—representing the biggest BLS overestimation of the past 15 years and setting a less optimistic tone for the labor market.
- The consumer price index rose 2.9% for the 12 months ending July, the smallest 12-month increase since March 2021. Core inflation rose 3.2% (annualized) in July. Consumers’ three-year-ahead inflation expectations fell by 0.6 % to 2.3%, hitting a new series low since the survey’s inception in June 2013, according to the July Survey of Consumer Expectations.

In July, the S&P 500 and Dow Jones grew by 1.3% and 4.4%; FED and policy officials look set to drop rates by September’s meeting

- In July, the S&P 500 increased by 1.3%, bringing the one-year return to 20.3%; the Dow Jones also increased by 4.4% for the month, registering 14.9% in terms of its one-year growth. During July, the CBOE Volatility Index averaged 18.6 (12.4 in June), an increase mainly due to uncertainty after last month’s job report.
- July’s meeting of the FOMC decided to maintain the target range of the federal funds rate between 5.25% and 5.5%. Despite that decision, Fed and policy officials look set to drop rates by September’s meeting due to the recent jobs report figures as well as the recent recorded drop in prices. Investors, consumers, and official are all expecting rate cuts through the end of the year.

Vice-President Kamala Harris accepts the democratic nomination and will face President Donald Trump in the 2024 presidential election

- August saw Vice-President Kamala Harris accept the Democratic Party nomination during the Democratic National Convention, following a period of uncertainty after President Biden dropped out of the race in July. She will face former president Donald Trump in the election.

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

Eurozone

GDP Q2 growth was 0.3%; services momentum is still driving growth; despite sell-off, European markets remain close to an all-time high.

GDP Q2 growth increased by 0.3% quarter on quarter and 0.6% year on year. Activity in the eurozone appears to have bottomed out. July's IMF projections point to a modest pickup of 0.9% for 2024 (an upward revision of 0.1 percentage points), driven by stronger momentum in services and higher-than-expected net exports in the first half of the year; growth is projected to rise to 1.5% in 2025. This is underpinned by stronger consumption on the back of rising real wages, as well as higher investment from easing financing conditions amid gradual monetary policy loosening this year. Continued weaknesses in manufacturing suggest a more sluggish recovery in countries such as Germany.

Despite a sell-off at the beginning of August, European financial markets have bounced back and are close to an all-time high. The euro appreciated marginally against the US dollar, trading at $1.12 per euro on August 23. The Italian–German 10-year bond-yield spread stood at 1.4 percentage points in August; yields are at 3.6% and 2.5%, respectively. Outstanding credit has leveled off, with an annual increase of 0.3% for households and 0.7% for corporates.

Despite progress in tackling inflation (since September it has fallen by more than 2.5 p.p.), domestic price pressures remain strong, with wages growth still elevated (5.1% in 2024 Q1), as opposed to profits which are tilting down. As a consequence, inflation is likely to stay above target well into next year. In July, headline inflation was slightly up, to 2.6%, while core inflation stood at 2.9%: services inflation was 4.0%. Producer prices have been in positive territory since December, posting +0.5% month on month but –3.2% year on year in June 2024.The ECB's June projections show inflation is expected to be 2.5% in 2024 (revised up by 0.2 p.p.), 2.2% in 2025 (up by 0.2 p.p.), and 1.9% in 2026 (unchanged). For core inflation, ECB staff projections are: 2.8% in 2024, 2.2% in 2025, and 2% in 2026.

The forward-looking indicator, Eurocoin stood at 0.16 in August. The industrial production index declined –0.1% month on month and –4.0% year on year in June. However, the composite PMI saw a more pronounced expansion from 50.1 in July to 51.2 in August, driven by the services sector. The services PMI reached 53.3 in August (July: 51.9), while the manufacturing PMI leveled off to 45.7, up slightly from 45.6 in July.

Germany is heading for further regional elections on September 22, amid fears that the far-right AfD could win also these eastern state elections ahead of the 2025 federal elections. French politics is in deadlock, with no party able to form a clear majority in the National Assembly. A caretaker government led France during the Paris Olympics, against a left-wing alliance that wants little-known senior civil servant Lucie Castets to be named as prime minister.

Source: ECB; European Commission; Eurostat; IHS Markit; IMF; OECD

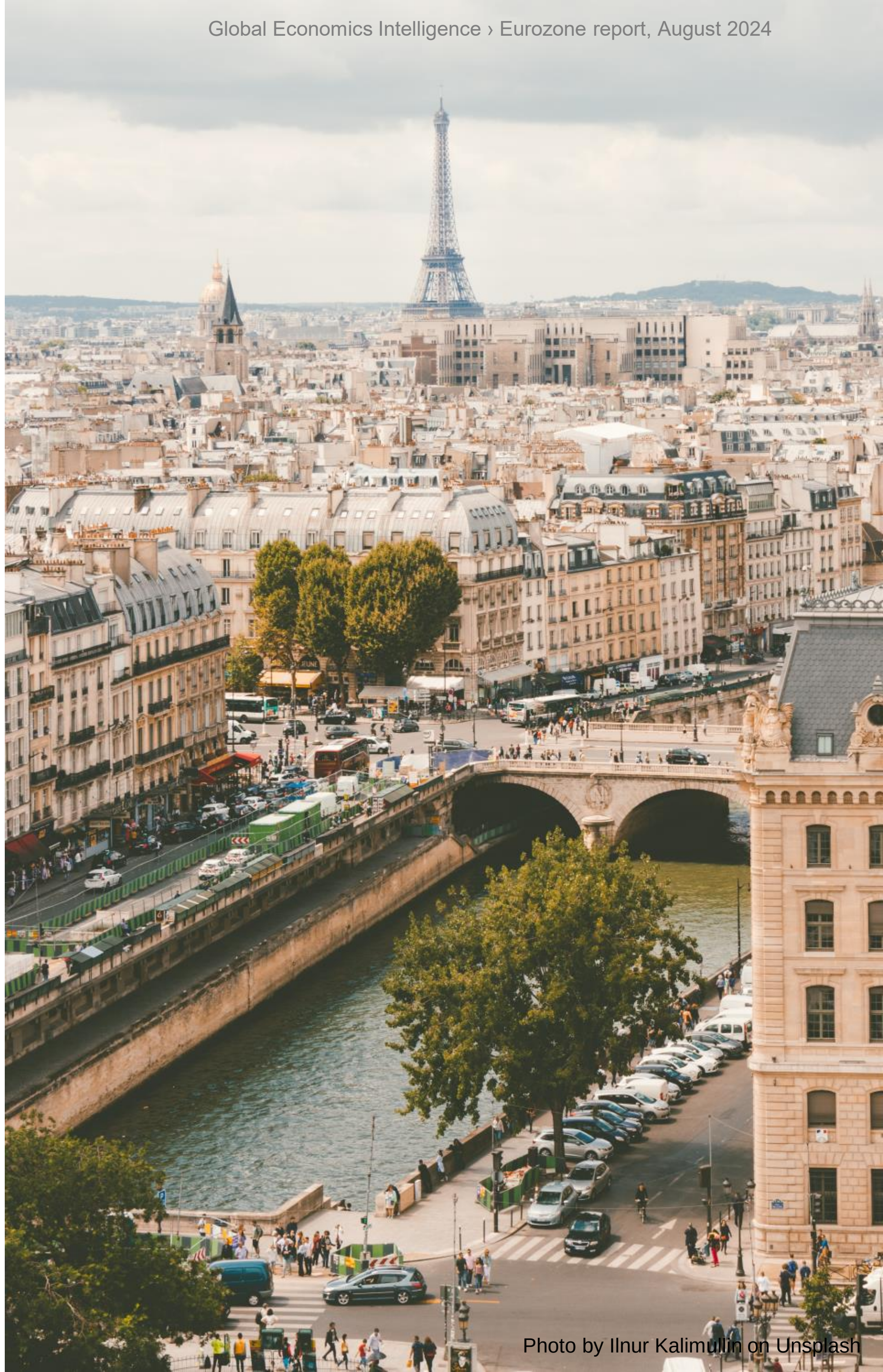
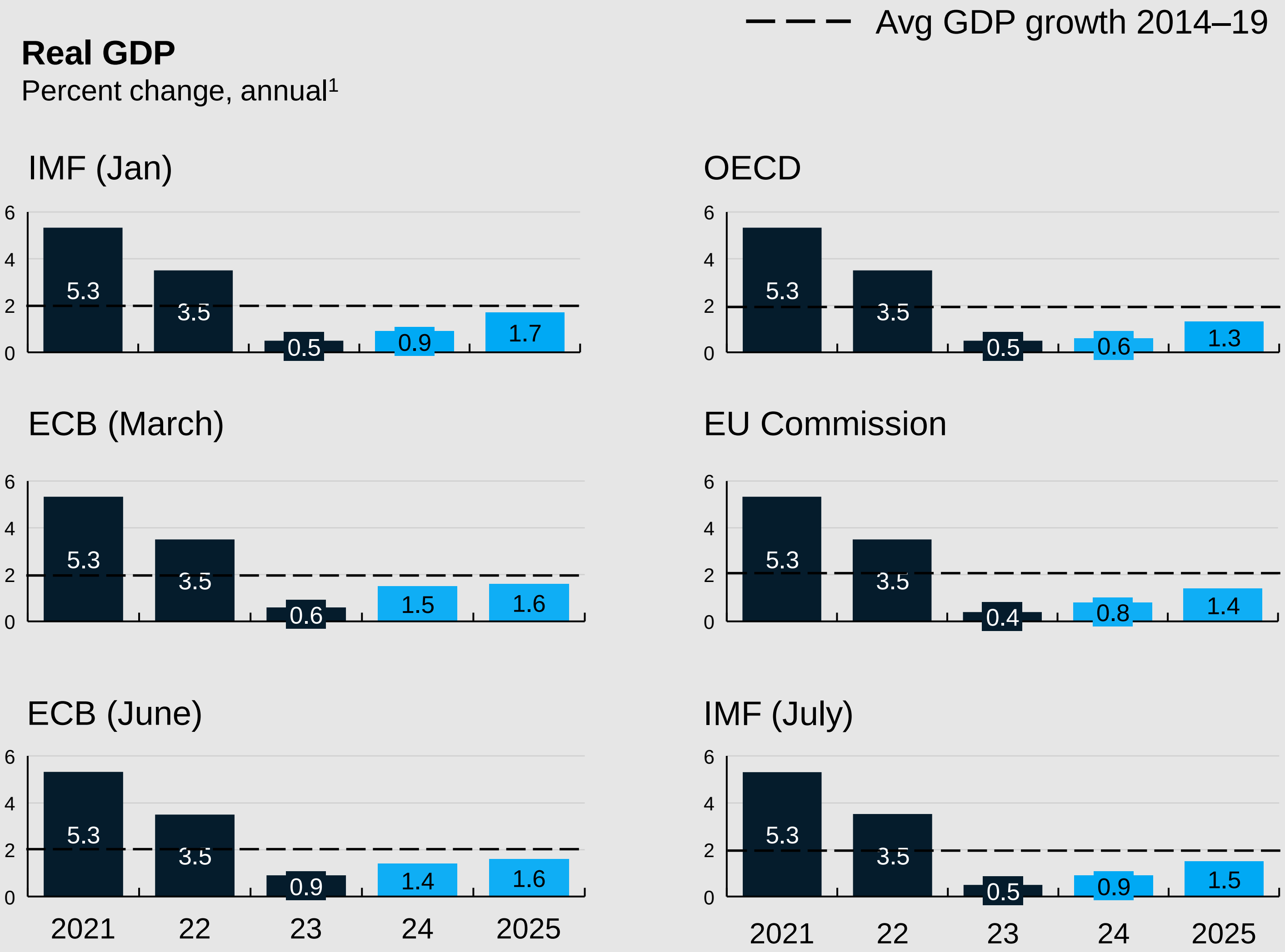


Photo by Ilnur Kalimullin on Unsplash

Most forecasters suggest growth rates are back to pre-COVID-19 levels



Real GDP

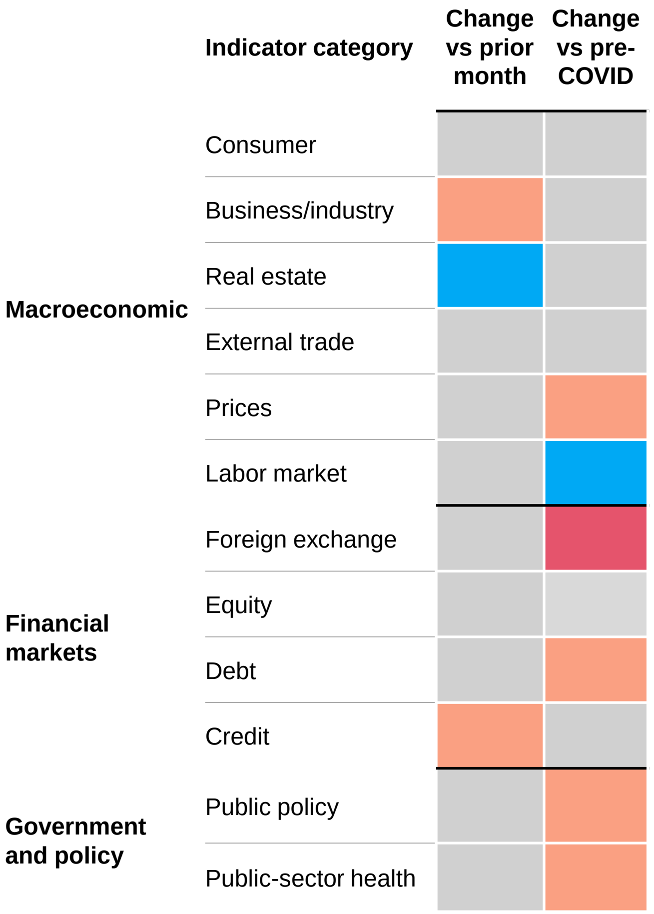
Percent change, annual[1]

1. Includes IMF (Jan & Jul ’24), OECD (Feb ’24), ECB (Mar & Jun’24), EU Commission (May ’24).

Source: ECB; European Commission; Eurostat; IMF; OECD

Eurozone's recovery is cautious and driven by services; despite sell-off, European markets are still close to an all-time high

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



	Indicator category	Change vs prior month	Change vs pre-COVID
Macroeconomic	Consumer	⬜	⬜
	Business/industry	🟧	⬜
	Real estate	🔷	⬜
	External trade	⬜	⬜
	Prices	⬜	🟧
	Labor market	⬜	🔷
Financial markets	Foreign exchange	⬜	🟥
	Equity	⬜	⬜
	Debt	⬜	🟧
	Credit	🟧	⬜
Government and policy	Public policy	⬜	🟧
	Public-sector health	⬜	🟧

Eurozone's recovery is cautious and driven by services momentum

- Real retail sales fell marginally in May: 0.3% month on month, 0.3% year on year. The consumer confidence indicator edged up in July, indicating only an ongoing recovery in consumer spending.
- The industrial production index declined –0.1% month on month and –4.0% year on year in June. The composite PMI saw a more pronounced expansion of 51.2 in August versus 50.1 in July, driven by the services sector, The services PMI reached 53.3 in August (July: 51.9), while the manufacturing PMI leveled off to 45.7, up from 45.6 in July.
- Construction output in June rose by 1.7% month on month (1.0% year on year), although the construction PMI dropped to 41.4 in July from 41.8.
- The first estimates of the euro area trade balance showed a €22 billion surplus in June 2024. Goods exports in June 2024 reached €236.7 billion, compared with €240.5 billion in May. Imports were €227.6 billion, down 5% month on month. This was due to an increase in the surplus for machineries and vehicles (+€2.9 billion), chemicals (+€1.2 billion), and other manufactured goods (+€1.2 billion), combined with a drop in the deficit for energy (–€2.6 billion).
- In July, headline inflation was slightly up at 2.6%, while core inflation stood at 2.9%: services inflation was 4.0%. Producer prices have been in positive territory since December, posting +0.5% month on month but –3.2% year on year in June 2024.
- The unemployment rate in April stood at 6.5% and remains close to record lows, with Spain at 11.5% and Germany at 3.4%. Annual nominal wage growth in Q1 2024 was 5.1%; thanks to falling inflation, this translated into a solid 2.3% growth in real terms.

Europe's STOXX 600 close to all-time high; stable euro-dollar exchange rate; outstanding credit levels off

- Europe's STOXX 600 remains close to June's all-time high, even though it fell at the beginning of the month.
- The euro appreciated marginally against the US dollar, trading at $1.12 per euro on August 23.
- The Italian–German 10-year bond-yield spread was 1.4 percentage points in August; yields are at 3.6% and 2.5%, respectively.
- Outstanding credit has leveled off, which annually increased by 0.3% for households and 0.7% for corporates.

Germany is heading for regional elections; a caretaker government led France during the Paris Olympics

- Germany is heading for regional elections on September 25, amid fears that the far-right AfD could win eastern state polls.
- French politics is in deadlock, with no party able to form a clear majority in the National Assembly. A caretaker government led France during the Paris Olympics, against a left-wing alliance that wants little-known senior civil servant Lucie Castets to be named prime minister.

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

United Kingdom

CPI inflation rose to 2.2% in July; quarterly GDP grew by 0.6% in Q2 2024, following an increase of 0.7% in Q1; latest GDP projections from the BoE and IMF indicate modest growth for 2023–25.

The IMF's July World Economic Outlook Update predicts sluggish UK growth of 0.7% in 2024, rising to 1.5% in 2025. The Bank of England's May Monetary Policy Report expects four-quarter GDP growth to pick up during 2025–27. Consumer Price Index (CPI) inflation is expected to rise to around 2.75% in H2 2024 as declines in energy prices last year fall out of the annual comparison, bringing prevailing persistent domestic inflationary pressures into focus.

Quarterly real GDP is estimated to have grown 0.6% in Q2 2024, following 0.7% growth in Q1. Versus the year-ago quarter, GDP is estimated to have risen 0.9% in Q2 2024. Services output grew 0.8% on the quarter; both production and construction output fell 0.1%. Monthly real GDP is estimated to have shown no growth in June, following 0.4% growth in May.

The UK CPI lifted slightly from the BoE's 2% target in July 2024, rising to 2.2%, from 2% in June. The rise was led by housing and household services, where prices of gas and electricity fell by less than they did last year, partially offset by falling prices in restaurants and hotels. Core inflation (which excludes energy, food, alcohol, and tobacco) fell to 3.3%. On July 31, the BoE Monetary Policy Committee (MPC) voted to reduce the policy rate to 5% from a 16-year high of 5.25%.

The manufacturing sector made a positive start to the second half of 2024, as growth in output and new orders strengthened. The seasonally adjusted S&P UK Manufacturing PMI rose to a two-year high of 52.1 in July, up from June's 50.9 and the earlier flash estimate of 51.8. The PMI has remained above the neutral 50.0 mark in each of the past three months, its longest sequence signaling growth since mid-2022.

Latest PMI data showed a further expansion in business activity across the UK's service sector. The seasonally adjusted S&P UK Services PMI posted 52.5 in July, a slight increase from June's 52.1, signaling a modest but accelerated pace of expansion in output levels across the UK's service sector. This also marked the first time since April that growth has accelerated. Growth accelerated in the UK construction sector as the second half of the year got underway, with July seeing much faster increases in both activity and new orders during the month. The headline S&P UK Construction PMI rose sharply to 55.3 in July from 52.2 in June. This signals a marked monthly expansion in total activity in the construction sector, extending the current growth sequence to five months. The rate of expansion was the fastest since May 2022.

In the three months to June 2024, growth in average total pay was 4.5%, real total pay rose 1.6%, and UK unemployment was estimated at 4.2%. The economic inactivity rate for people aged 16 to 64 years was estimated at 22.2% in April to June 2024, above year-ago estimates, but largely unchanged in the latest quarter. The estimated number of vacancies in May to July 2024 was 884,000, a drop of 26,000 (2.8%) from February to April 2024. Vacancies declined for a record 25th consecutive period, falling in ten of 18 industry sectors.

August saw riots and anti-immigration protests across UK cities following false reports that an asylum seeker was responsible for the deaths of three young girls at a Taylor Swift–themed dance event on July 29. Fomented by the far right and fake news on social media, this was the worst social unrest since August 2011. The new Labour government responded by fast-tracking the judicial process, with the courts imposing stiff sentences on convicted perpetrators.

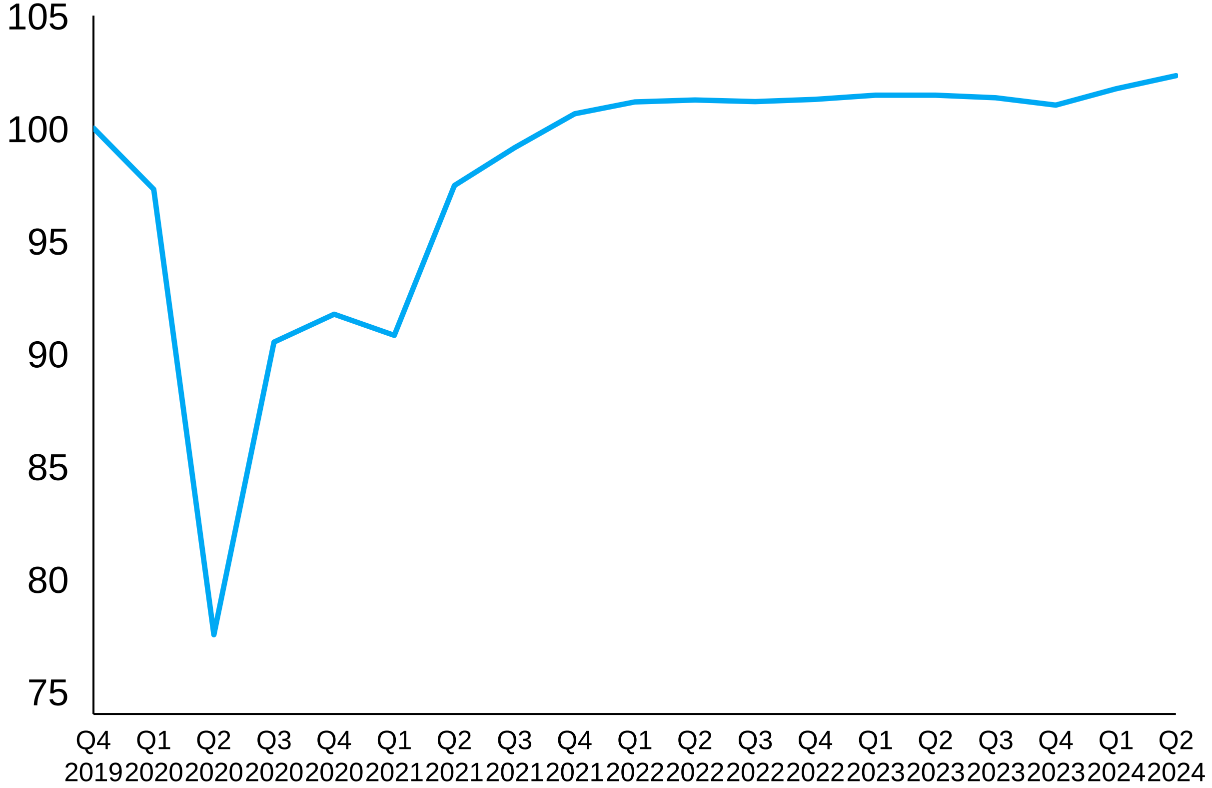
McKinsey Global Institute Senior Advisor, Professor Alan Taylor joins the Bank of England's MPC on September 2 for a three-year term. The Cambridge and Harvard-educated economist is currently Professor of International and Public Affairs at Columbia University in New York.

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

Quarterly GDP grew by 0.6% in Q2 2024; in July the CPI increased by 2.2% while the Bank of England reduced the policy rate to 5%

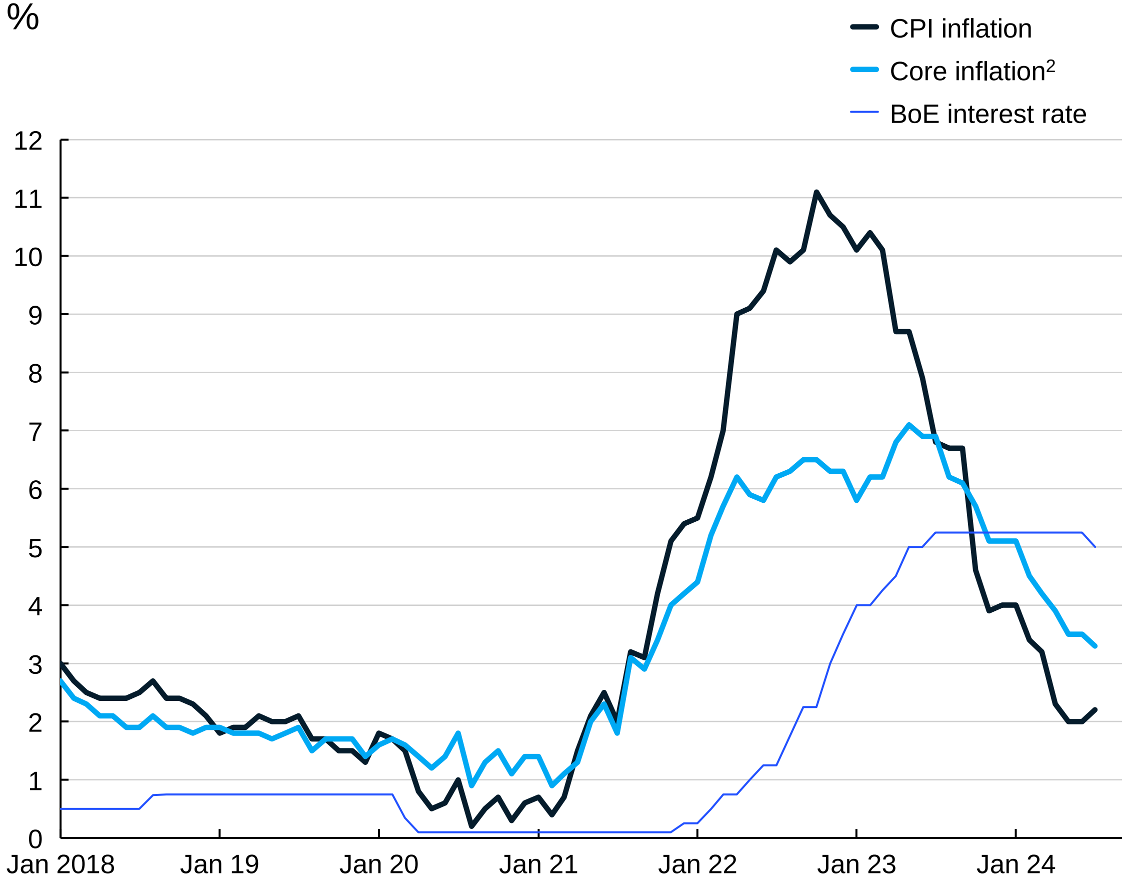
UK GDP, Q4 2019–Q2 2024[1]

Index, 2019 Q4 = 100



12-month inflation; Bank of England interest rate

%

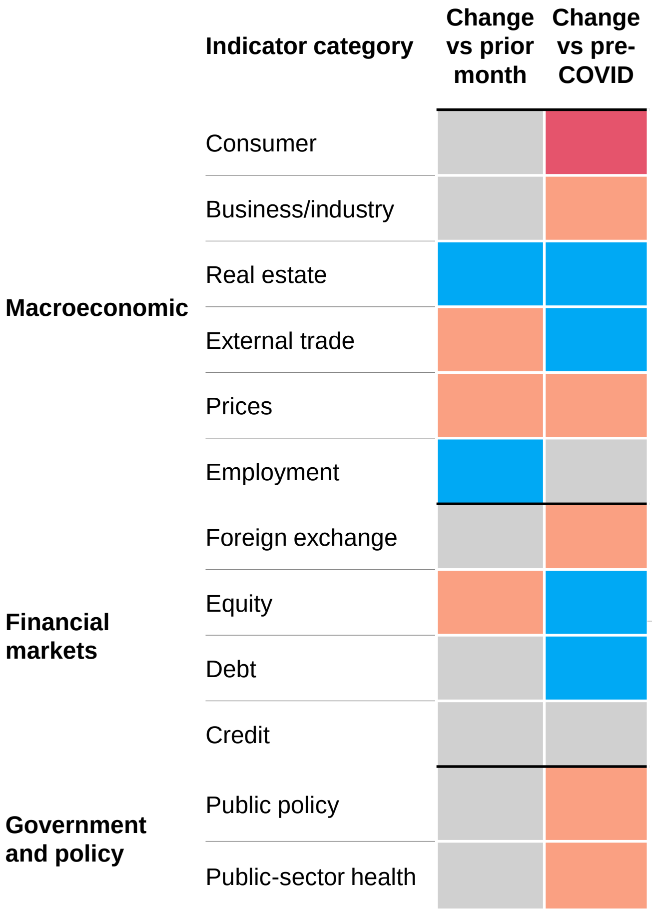


1. Office for National Statistics data.
2. The specific measure excluding energy, food, alcohol, and tobacco is the one typically referred to as “core” by the ONS.

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

Inflation rose slightly in July, led by gas and electricity prices, but partially offset by falling restaurant and hotel prices; manufacturing sentiment strengthened and services sentiment continued to improve; consumer confidence was unchanged; the unemployment rate fell

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



	Indicator category	Change vs prior month	Change vs pre-COVID
Macroeconomic	Consumer	⬜	🟥
	Business/industry	⬜	🟧
	Real estate	🟦	🟦
	External trade	🟧	🟦
	Prices	🟧	🟧
	Employment	🟦	⬜
Financial markets	Foreign exchange	⬜	🟧
	Equity	🟧	🟦
	Debt	⬜	🟦
	Credit	⬜	⬜
Government and policy	Public policy	⬜	🟧
	Public-sector health	⬜	🟧

Inflation increases slightly in July; consumer confidence stable; industrial production strengthens

- Retail sales volumes (quantity bought) rose by 0.5% in July 2024, following a fall of 0.9% in June 2024.
- GfK's Consumer Confidence Index remained stable at –13 in August, sticking in negative territory, with expectations for the economy slipping for the first time since February; the index has recovered significantly since the record low of –49 reached in September 2022.
- Monthly production output is estimated to have risen by 0.8% in June 2024; this follows a 0.3% rise in May 2024. Manufacturing was the biggest contributor to the monthly increase, partially offset by a fall in mining and quarrying.
- The UK manufacturing PMI rose slightly in July, recording 52.1, up from 50.9 in June. The PMI has posted above the neutral 50.0 mark (signaling expansion) for three consecutive months. The services PMI registered 52.5 in July, a slight increase from June's 52.1, but above the neutral 50.0 value for a ninth consecutive month.
- Monthly construction output in terms of volume is estimated to have grown by 0.5% in June 2024. Meanwhile, the UK construction PMI rose sharply from 52.2 in June to 55.3 in July, signaling a marked improvement in overall construction activity in the UK. The June UK House Price Index showed an annual price rise of 2.7%, bringing the UK average house price to £287,924.
- The total goods and services trade deficit widened by £7.1 billion to £13.3 billion in Q2 2024, attributable to an increase in imports of goods.
- The annual CPI inflation rate rose to 2.2% in July. Core inflation (excluding food, energy, alcohol, and tobacco) decreased to 3.3% in July, from 3.5% in June. Producer input prices rose by 0.4% in the year to July, up from a 0.0% change in the year to June; producer output (factory gate) prices rose by 0.8% in the year to July, down from an increase of 1.0% in the year to June 2024.
- The UK's 4.2% unemployment rate for April to June 2024 is below estimates of a year ago (April to June 2023) and decreased in the latest quarter. The youth unemployment rate (those aged 18–24) was 12% in April to June 2024.

UK equities improve; GBP strengthened versus USD; 10-year gilt down from a high of over 4.3% seen in May 2024

- As of 23 August, the FTSE 100 improved roughly 1.7% versus a month ago, remaining around 1.7% below the peak reached in May 2024. The pound strengthened further to $1.31 (as of August 23).
- The daily yield of the UK 10-year gilt declined to roughly 3.9%, as of August 21, below the historical highs of more than 4.6% seen in mid-October 2022, but well above mid-2022 rates of around 2%.
- Public sector net debt, excluding public sector banks, was estimated at 99.4% of GDP in July 2024, a level last seen in the early 1960s.

Anti-immigration protests and far-right riots broke out in England and Northern Ireland between 30 July and 5 August 2024

- Riots across cities in England and Northern Ireland followed a mass stabbing in Southport on 29 July, in which three children were killed. The attacker was falsely claimed on social media to be an asylum seeker.
- The new Labour government, led by Prime Minister Sir Keir Starmer (a former Director of Public Prosecutions), responded by fast-tracking the judicial process, with the courts imposing stiff sentences on guilty perpetrators, even pursuing those inciting racial hatred and violence online.

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

[Emerging economies]: In emerging economies, China shows trade acceleration; India’s strong economic momentum continues; inflation up again in Brazil.

China

In July, China's economy showed improvements in trade, as well as stability in industrial production and prices, but experienced a deceleration in growth in both the investment and real estate markets.

China's industrial output was almost stable in July, recording year-on-year growth of 5.1%—a slight decrease from June’s 5.3%. By sector, manufacturing output grew by 5.3%, a slight decline from 5.5% in June; utility output expanded by 4.0%, down from 4.8% in June; and mining output rose by 4.6%, a marginal increase from 4.4% in June.

The growth in fixed-asset investment slowed to 1.9% in July, down from 3.6% in June. By sector, manufacturing investment growth remained strong at 8.3%, though decelerated from 9.3% in June; infrastructure investment expanded more slowly at 2.0%, down from 4.6% in June; and the contraction in real estate investment deepened to −11.7% (from −9.8% in June).

The slowdown in the real estate market continued. Demand-side indicators revealed a reduction in floor space sold of new residential properties, recording −12.3%, (−14.3% in June). Meanwhile, the average new home price declined −5.3%, deteriorating from a −4.9% drop previously. On the supply side, floor space started fell −24.4% (compared with −18.3% in June).

New social financing reported reached RMB 0.8 trillion in July, falling from RMB 3.3 trillion in June. Due to a low base effect, new social financing posted a substantial 53.9% year-on-year rise.

The overall surveyed urban unemployment rate climbed to 5.2% in July (5.0% in June). The youth unemployment rate increased considerably to 17.1% in July, up from 13.2% in June.

Cross-border trade growth accelerated to 7.1% in July, up from 3.9% in June. Export growth remained robust at 7.0% in July (compared to 8.6% in June), while import growth saw a notable increase to +7.2% in July (from −2.3% in June), largely due to the low base effect from last year.

Consumer price inflation remained low at 0.5% in July (0.2% in June); deflation in producer prices was unchanged at a rate of −0.8% in July.

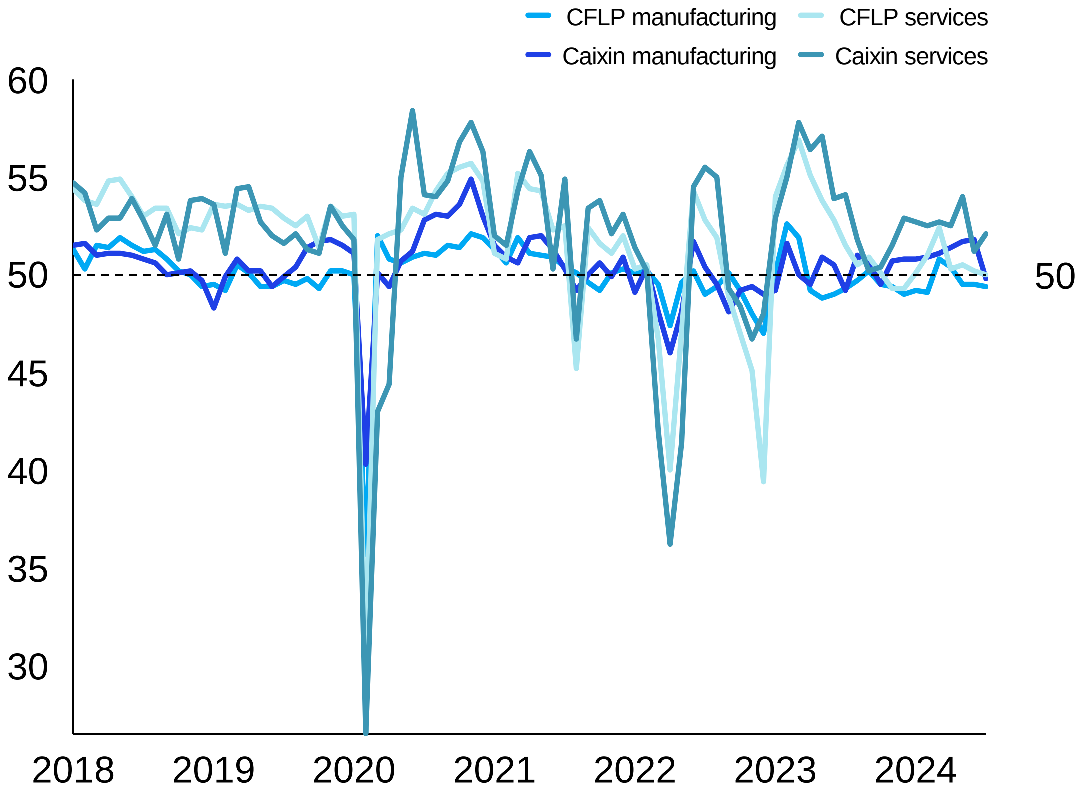
According to data from the State Administration of Foreign Exchange, China experienced a significant negative inflow (net withdrawal) of foreign direct investment in the second quarter, amounting to –$15 billion. This is the second time in history that China has recorded such a negative inflow, with the first instance occurring in Q3 2023, amounting to –$12 billion.

Source: CEIC; McKinsey’s Global Economics Intelligence analysis

Both the official manufacturing and services PMIs recorded a slight decrease in July; stock indexes declined in August

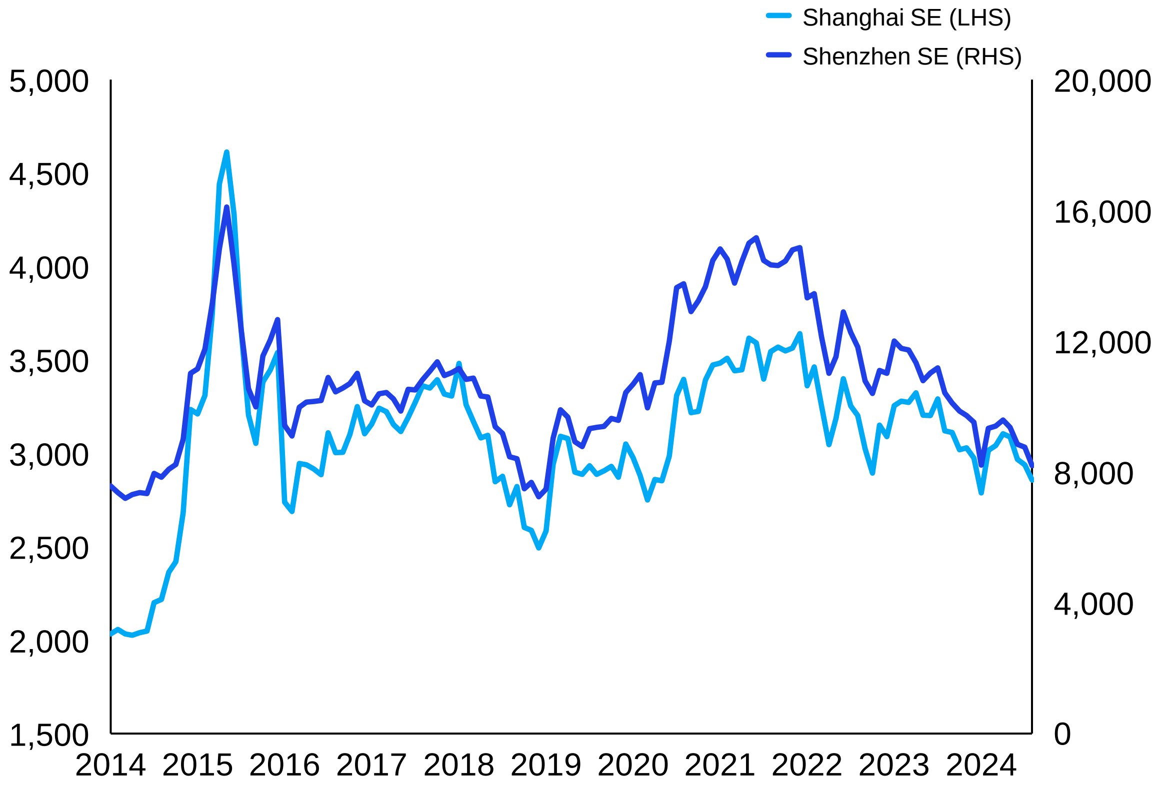
Purchasing managers indexes (PMI)

Index, monthly



Stock market indexes

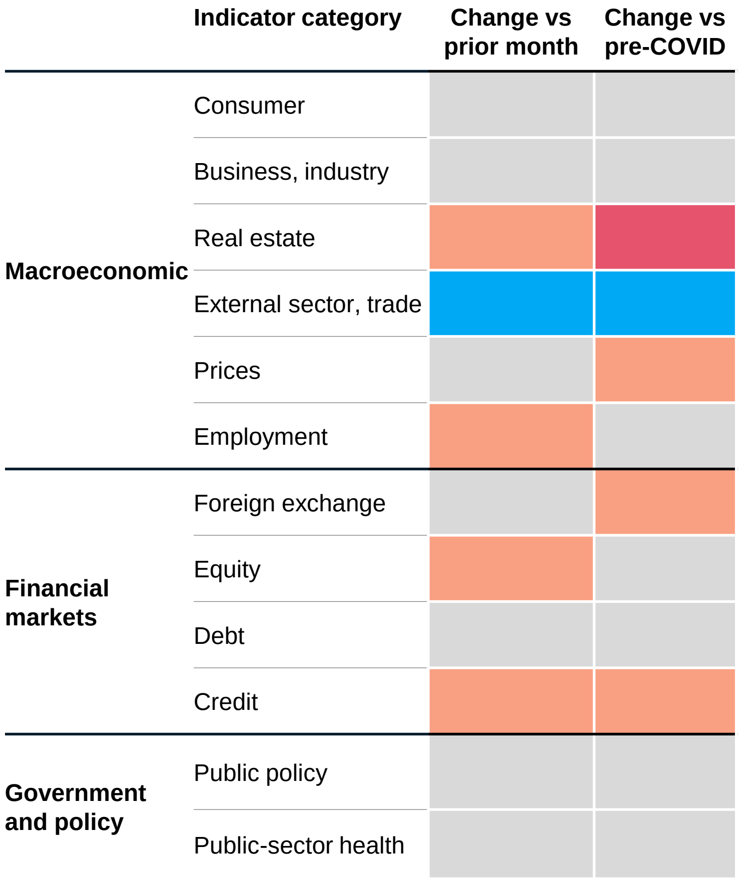
Index, monthly



Source: CEIC; McKinsey’s Global Economics Intelligence analysis

Retail sales and trade growth accelerated, while inflation remained low in July

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



	Indicator category	Change vs prior month	Change vs pre-COVID
Macroeconomic	Consumer	⬜	⬜
	Business, industry	⬜	⬜
	Real estate	🟧	🟥
	External sector, trade	🟦	🟦
	Prices	⬜	🟧
	Employment	🟧	⬜
Financial markets	Foreign exchange	⬜	🟧
	Equity	🟧	⬜
	Debt	⬜	⬜
	Credit	🟧	🟧
Government and policy	Public policy	⬜	⬜
	Public-sector health	⬜	⬜

Retail sales growth accelerated a little; official manufacturing and services PMIs dropped slightly in July; trade growth accelerated; inflation remained low

- Retail sales expanded faster at 2.7% in July (2.0% in June).
- The official manufacturing PMI remained steady in the contraction zone at 49.4 in July (49.5 in June), while the official services PMI fell to 50.0, down from 50.2 in June. The Caixin PMIs, which focus on SMEs, recorded a manufacturing PMI of 49.8, down from 51.8 in June, and a services PMI of 52.1, up from 51.2 in June.
- Cross-border trade growth accelerated to 7.1% in July, up from 3.9% in June. Export growth remained robust at 7.0% in July (compared to 8.6% in June), while import growth saw a notable increase to 7.2% in July (from −2.4% in June).
- Consumer price inflation remained low at 0.5% in July (0.2% in June); deflation in producer prices remained unchanged at a rate of −0.8% in July.

RMB appreciated against US dollar; stock market dropped; new credit decreased

- The RMB appreciated against the US dollar by 1.8% compared with the level at the end of July, trading at RMB 7.1216 = USD 1 by August 28.
- The Shanghai stock index lost −3.4% in value, and the Shenzhen index −7.7%, by August 28 compared with levels at the end of July.
- New social financing reported RMB 0.8 trillion in July, falling from RMB 3.3 trillion in June.
- M2 growth was steady at 6.3% in July (6.2% in June).

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

India

India's strong economic momentum continues, though concerns about inflation and softening demand have been raised. The Central Bank of India kept interest rates unchanged, while the new government maintains a prudent fiscal policy.

The central bank kept interest rates unchanged in August. However, calls for a looser monetary policy have been mounting, supported by still relatively low inflation and persistent softness on the consumer side. Expectations are that, by the end of this year, the RBI will cut rates, following the lead of other major central banks.

Inflation unexpectedly dropped from 5.1% in June to 3.56% in July, primarily due to the base effect. The food and fuel categories were most affected, with steep declines observed. However, it is expected that these base effects will soon dissipate, which might push inflation outside the RBI's comfort zone of 4%. At the same time, producer prices increased by 2%, indicating no significant inflationary pressures on consumers. However, the latest survey on inflation expectations revealed that consumers expect inflation to rise.

The outlook for growth remains positive. The PMIs for both manufacturing and services remain at historically high levels. Companies report that production, demand, and employment continue to increase, although some deceleration in demand due to lower new orders is visible. Circling back to inflation, manufacturing and services companies are seeing mounting price pressures, mostly due to robust demand as well as increasing labor and commodity costs.

Regarding consumption, we continue to observe softening domestic demand. The latest survey from the Retailers Association of India showed that sales growth nearly stagnated in July. The deceleration was broad-based and visible across all sub-categories, with some even experiencing declines.

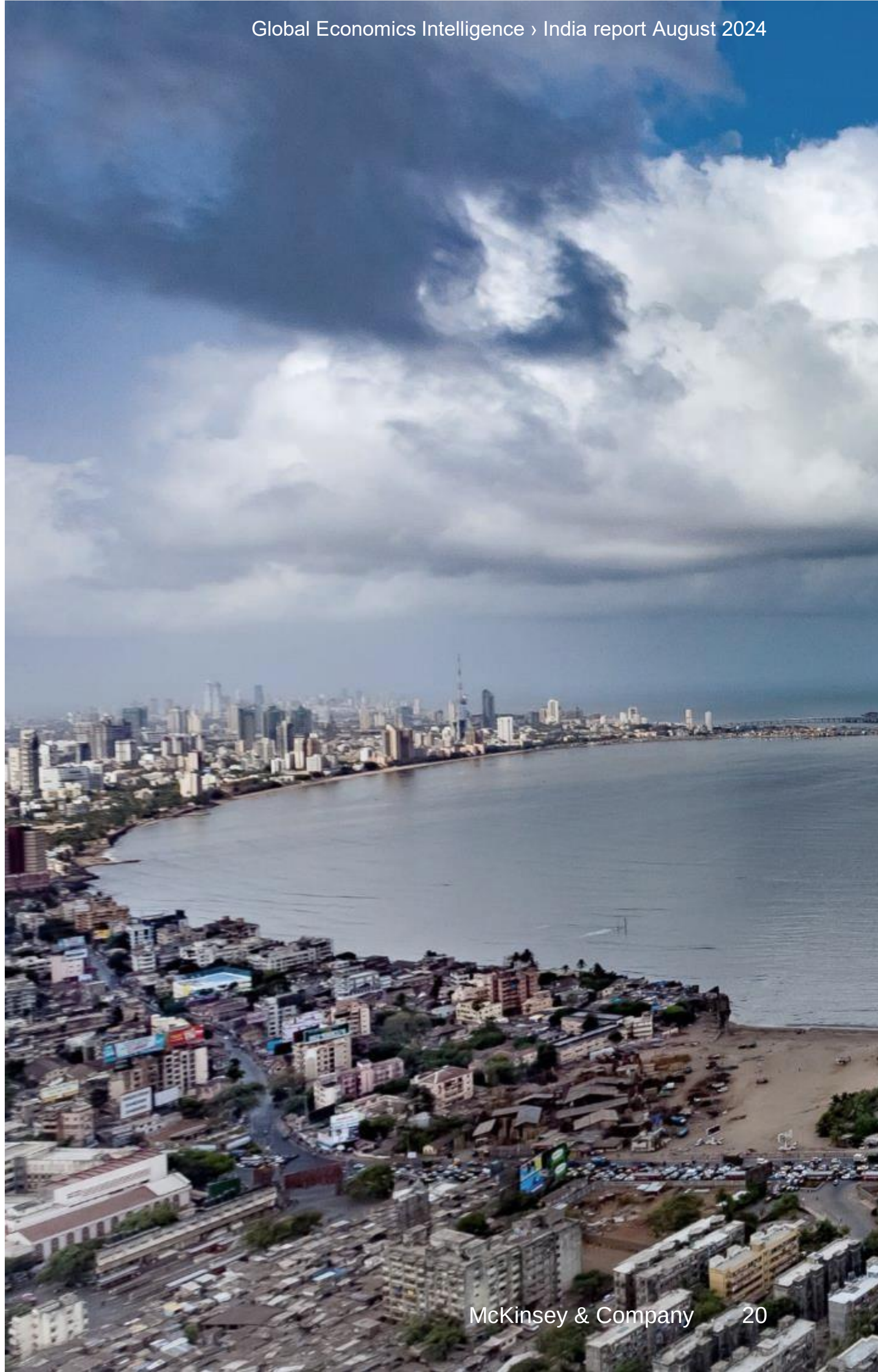
Overall growth in industrial production eased slightly, driven mostly by slower growth in manufacturing. Mining activity surprised with a 10.3% year-on-year increase in June.

The trade deficit worsened in July, reaching $9 billion. The main driver was trade in goods, especially exports, which declined for the third consecutive month, while imports were broadly stable.

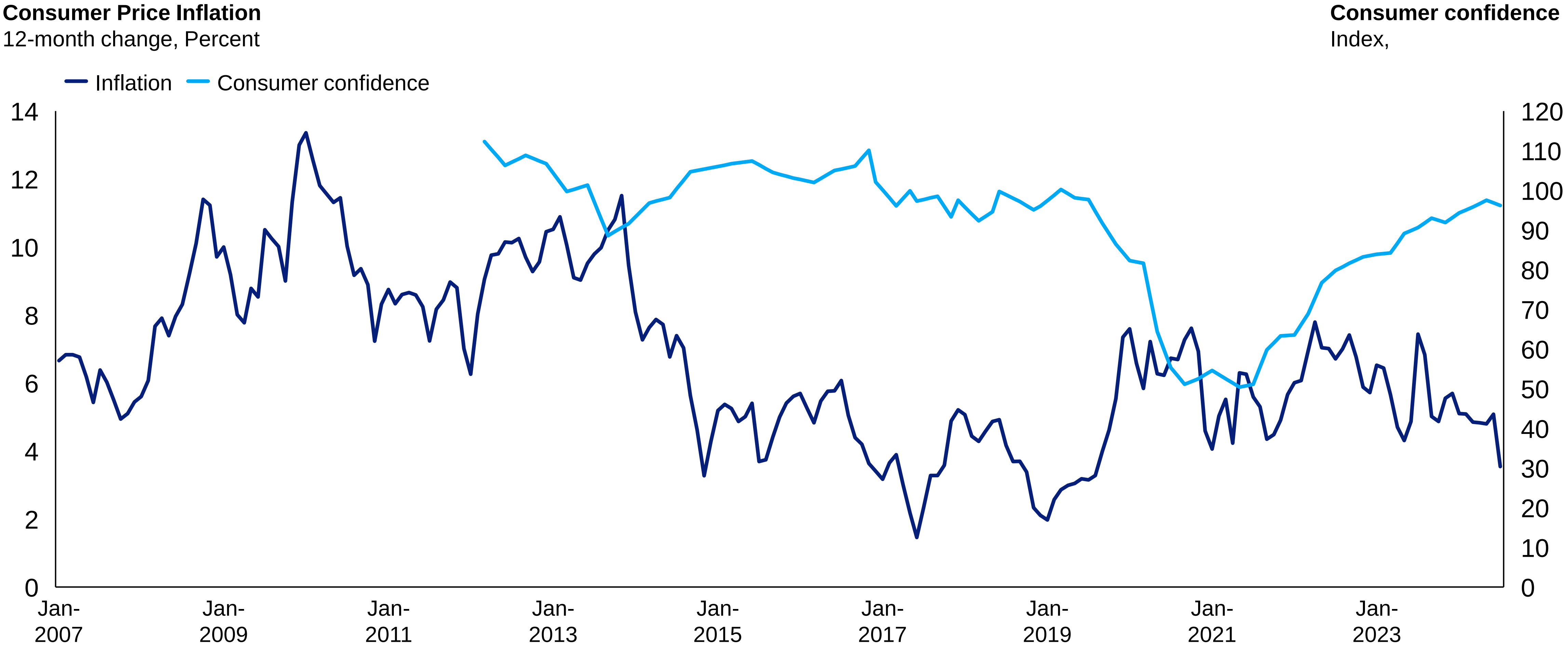
Financial markets stayed robust in July, reaching new historical highs. However, this trend was interrupted by declines in mid-August. After that brief period, markets were able to rebound and finished August on a positive note.

The new government presented its final budget in late July, targeting a fiscal deficit of 4.9% of GDP, lower than the 5.1% deficit envisioned in the interim budget presented in February, and down from 5.6% in financial year 2023–24. Support for growth through infrastructure investment is set to continue. Meanwhile, although some measures to support consumers were announced, the government largely held off on boosting welfare spending.

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



Consumers confidence remains strong, supported by decelerating growth in prices



SOURCE: Ministry of Statistics and Programme Implementation; Reserve Bank of India; McKinsey’s Global Economics Intelligence analysis

Consumers showed some softness, while business remains strong; financial markets continue to be healthy; new government aims to lower the deficit

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

	Indicator category	Change vs prior month	Change vs pre-COVID levels
Macroeconomic	Consumer	⬜	🟦
	Business, industry	🟦	🟦
	Real estate	⬜	⬜
	External sector, trade	🟧	🟦
	Prices	⬜	🟧
	Employment	⬜	⬜
Financial markets	Foreign exchange	⬜	⬜
	Equity markets	🟦	🟦
	Debt	🟦	⬜
	Credit	⬜	🟦
Government and policy	Public policy	🟦	⬜
	Public-sector health	⬜	🟧

Economic growth accelerates due to increased consumer spending and expanding production

- Consumption has slowed and nearly stagnated.
- Both industrial production and PMI surveys suggest strong economic growth overall, though there are concerns about rising prices.
- The trade situation continues to deteriorate, with the trade deficit increasing to $9 billion. This is primarily due to a decline in goods exports and flat imports, while services remained broadly unchanged.
- Inflation unexpectedly dropped to 3.6%, mainly due to base effects. Producer inflation remains well-controlled, oscillating around 2%.
- The unemployment rate decreased from 9.2% in June to 7.9% in July, while employment slightly increased by 0.7% compared to the previous month.

Equities have outperformed global markets, while the cost of capital continues to decline

- The exchange rate has been oscillating around 84 rupees per US dollar.
- August was volatile for equities, with stock indexes declining through the middle of the month before rebounding and ending the month on a positive note.
- Government bond yields continued to decline, falling below 7% in July.

Rates remained unchanged, but expectations of interest rate cuts are mounting. The new government has presented a budget with an improved deficit

- The Reserve Bank of India kept interest rates unchanged for the 18th consecutive month; however, markets anticipate an easing of monetary policy by the end of this year.
- The new government has pledged to maintain a prudent fiscal policy. In the latest budget, the deficit is expected to decline to 4.9% from the current 5.1%. Additionally, new infrastructure investments were announced.

SOURCE: McKinsey’s Global Economics Intelligence analysis

Russia

Slowing, though still high GDP growth rate but reduced momentum in June; uncertain outlook for remaining months of 2024 amid continued budget support; trade surplus rises with a drop in imports; inflation acceleration prompted interest rate hike.

The flash figures show that Russian GDP grew by 4% year on year in Q2 2024—still high, albeit a slowdown from 5.4% in the first quarter. Also, high-frequency indicators from June suggest declining momentum, with a 3% monthly contraction in the total output indicator, driven by declining retail sales, manufacturing, and construction. In annual terms, growth in the indicator plummeted to 2.5% from 6.5% in May.

Although the slowdown in Russian output was expected, the outlook for upcoming quarters remains uncertain due to tighter monetary policy starting to affect consumer and investment demand. Continued government stimulus poses the main upside risk. Nevertheless, full-year figures are likely to register rapid GDP growth for 2024 as a whole—preliminary figures for the first half already suggest growth of 4.7% year on year. According to the central bank's outlook, GDP is expected to grow at around 3.5–4%, amid signs of an overheating economy,. This is evidenced both by labor shortages and production capacity stretched to its limits, preventing demand being satisfied. Beyond this, Russia is dealing with a lack of access to critical production technologies due to Western sanctions. The outlook for 2025 was also lowered to 0.5–1.5%, reflecting the effects of restrictive monetary policies and planned budget cuts, which, if they occur, would dampen demand.

Source: BOFIT; Oxford Economics

Russia's trade balance in January–July has risen to $77 billion, up from $66 billion in the same period in 2023, largely due to a decline in imports. The value of goods exports was $240 billion, about the same amount as a year earlier and similar to levels in 2018–19. Exports have been boosted mainly by higher commodity prices, with the average price of Urals oil this year at $68 a barrel, up from $50 last year. Export receipts increased despite slightly shrinking oil volumes as Russia upheld its commitments under the OPEC+ agreement. In addition, the export volumes of many goods, such as metals and crops have declined due to various restrictions. The value of goods imports in January–July was $160 billion, an 8% decline from 2023 against a backdrop of depreciation of the ruble, as well as the logistical and payment traffic problems caused by sanctions.

As demand continues to exceed supply, along with rate rises for municipal services, inflation has accelerated further, to 9.1% year on year. In a landscape of accelerating consumer prices with inflation expectations rising to 12.9% in August, the Central Bank of Russia raised its key rate by 200 basis points to 18%. Additionally, the CBR raised its key rate forecast by 400 basis points to 14–16% in 2025, signaling a much more restrictive monetary policy than previously anticipated. The CBR now expects inflation in the range of 6.5–7% at the end of this year, but even that would require a sharp decline in the price dynamics during the second half of this year. However, this is doubtful, as wage increases, loan subsidies, and generous government spending are expected to sustain inflationary pressures.

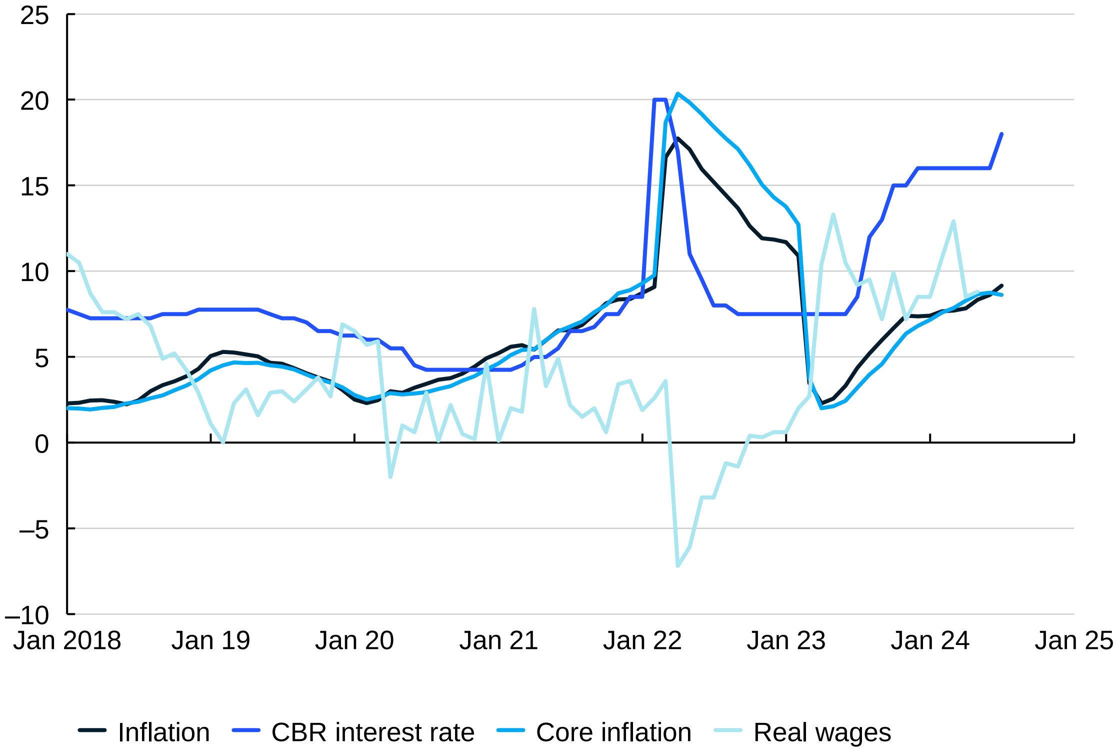
Rising inflationary pressures prompted policy rate hike; trade affected by sanctions, but surplus remained steady at Q1 average level

Foreign trade of goods

USD billion, through June 2024

Inflation: the central bank interest rate and real wages

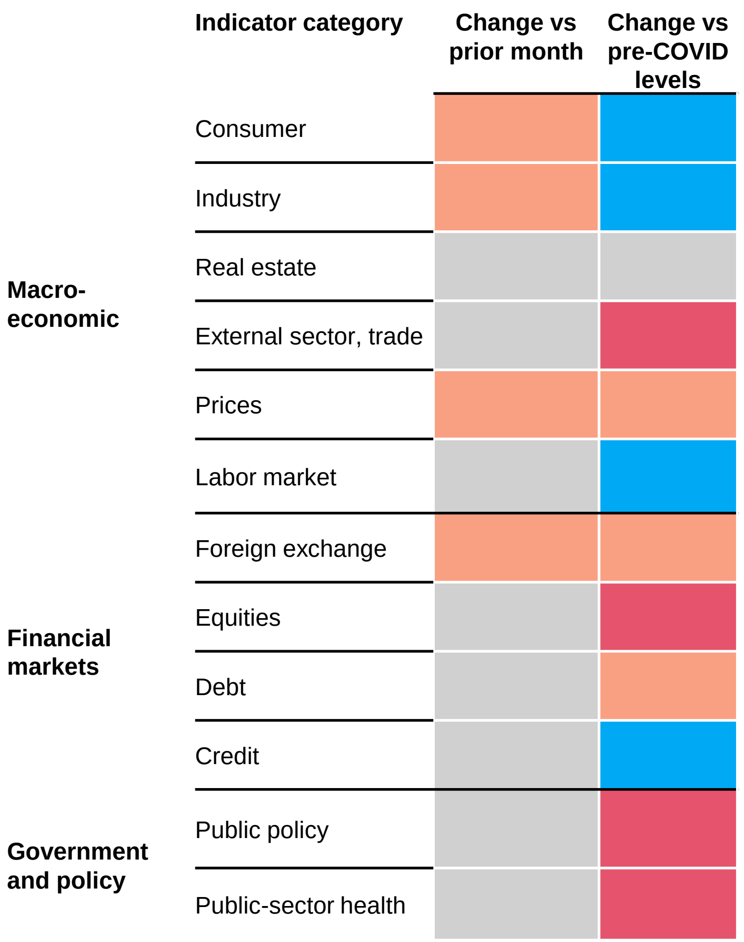
% change (y-o-y); %



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

Slowdown in economic activity from high levels amid accelerating inflation, government attempts to curb credit growth, and continued fiscal expansion

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



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Financial markets	Foreign exchange	🟧	🟧
	Equities	⬜	🟥
	Debt	⬜	🟧
	Credit	⬜	🔷
Government and policy	Public policy	⬜	🟥
	Public-sector health	⬜	🟥

Slowdown in economic activity amid increasing inflation

- Retail sales volumes in June contracted by 0.3%, and annual growth slowed to 6.2% year over year from 7.5% in May. Tighter monetary policy may gradually dampen demand.
- June's industrial production declined by 1.5% on a monthly basis, as annual growth slowed to 1.9% from 5.4%. The manufacturing PMI dropped to 53.6 in July from June's three-month high of 54.9. Annual construction growth collapsed to 1.2% year on year from 7% in May.
- The value of exports was up 2.5% year on year in Q2, partly due to higher oil prices (despite lower volumes), although latterly Russia appears not to have fully complied with OPEC+ output targets. Meanwhile, a contraction in the value of imports eased to 8% year on year from –9.2% Q1. The monthly trade surplus has remained steady at $11 billion to $12 billion. According to preliminary data, the current account surplus moved into a $500 million deficit in July, reflecting a seasonal increase in imports of services owing to tourism.
- Headline inflation soared to 9.1% year on year in July from 8.6% in June; core inflation ticked down to 8.6% from 8.7%. The monthly rise in consumer prices hit its fastest pace since spring 2022, as the seasonally adjusted annualized index rose to 16%. This partly reflected a hike in utility tariffs, which pushed up services, whereas food and non-food inflation began to show signs of topping out.
- Russian unemployment has fallen to record a post-Soviet low (2.4% in June). In May, the average monthly wage increased 18% year on year in nominal terms and by 9% in real terms, slowing because of rising headline inflation.

Weakening currency; the government attempts to slow credit expansion

- The ruble experienced a bout of weakening in August, from around 85–87:$1 in July to 92–93:$1 as of August 22.
- The government decided to gradually withdraw the most popular mortgage subsidy. The program's expiry on July 1 caused a temporary spike in new mortgages in June, although in coming months it should help to slow credit growth. In July, the number of new mortgages halved, according to preliminary data. In June, corporate loan growth picked up to 21.3% year over year from 20.3% in May.

Increased budget spending offset by growth in revenues; the invasion of Ukraine continues

- For the first seven months of this year, federal budget spending climbed by 23% year on year, as spending accelerated in the summer months with spending up 43% in June–July. Federal budget revenues have also increased substantially (+36% year-to-date in July), led by higher oil earnings, benefitting from the increase in crude prices and the weak ruble. Preliminary estimates of the federal budget deficit in January–July were roughly 0.7% of GDP (1.4 trillion rubles). The federal budget forecast for all of 2024 anticipates a deficit of 2.1 trillion rubles. The budgeted deficit this year can be easily covered by the National Wealth Fund.
- The invasion of Ukraine continues, entering a more dynamic phase than in previous months. This summer, Russian troops continued their advance in the Donbas, while the Ukrainian army captured a large swathe of territory in the Russian Kursk region. Analysis of the current battlefield situation and outlook remains beyond the economic expertise of the report's authors.

Source: BOFIT; Haver Analytics; Oxford Economics

Brazil

Inflation rose for a third consecutive month, while the Selic rate remains unchanged; the composite PMI increased significantly.

Inflation climbed to 4.50% in July (4.23% in June), registering its third consecutive rise and further moving away from the 3.0% target set by the Banco Central do Brasil.

According to the latest Copom meeting on July 31, Brazil's Selic benchmark interest rate was unchanged at 10.50%, due to slower-than-expected disinflation. Consumer confidence remains below the neutral 100 mark but rose 1.8 points to 92.9 in July (91.1 in June), increasing for the second consecutive month. Business confidence increased to 97.6 in July (96.3 in June) to reach its highest level since September 2022.

The purchasing managers’ index (PMI) for manufacturing rose to 54.0 in July (52.5 in June), staying above the neutral 50 mark for a seventh month running, indicating modest expansion and the fastest improvement in the health of the sector since April. Increased demand for Brazilian goods supported the quickest increase in total sales for three months, with the pace of expansion above the long-run trend. Although real depreciation boosted exports growth, it exerted considerable pressure on input prices.

July saw the services PMI rise to 56.4 (from 54.8 in June). Business gains and positive underlying demand are the main drivers of this increase. Indeed, sales rose at a notable pace that was the second-quickest in 21 months. While healthy demand trends boosted service sector growth at the start of the second half of 2024, it also added to inflationary pressures. Companies collectively indicated the steepest upturn in prices charged for the provision of services since March 2023. The composite PMI rose from 54.1 to 56.0 in July, staying firmly within the expansion zone for a tenth consecutive month.

On the financial markets, the monthly average exchange rate was BRL 5.54 per US dollar in July (5.39 in June). In July, the Bovespa equities index increased, earning 2.7% in value. The balance of trade showed a July surplus of US $7.6 billion, compared to US $6.7 billion in June, driven both by a rise in imports (US $23.3 in July compared to US $22.3 in June) and also in exports (US $30.9 in July compared to US $29.0 in June).

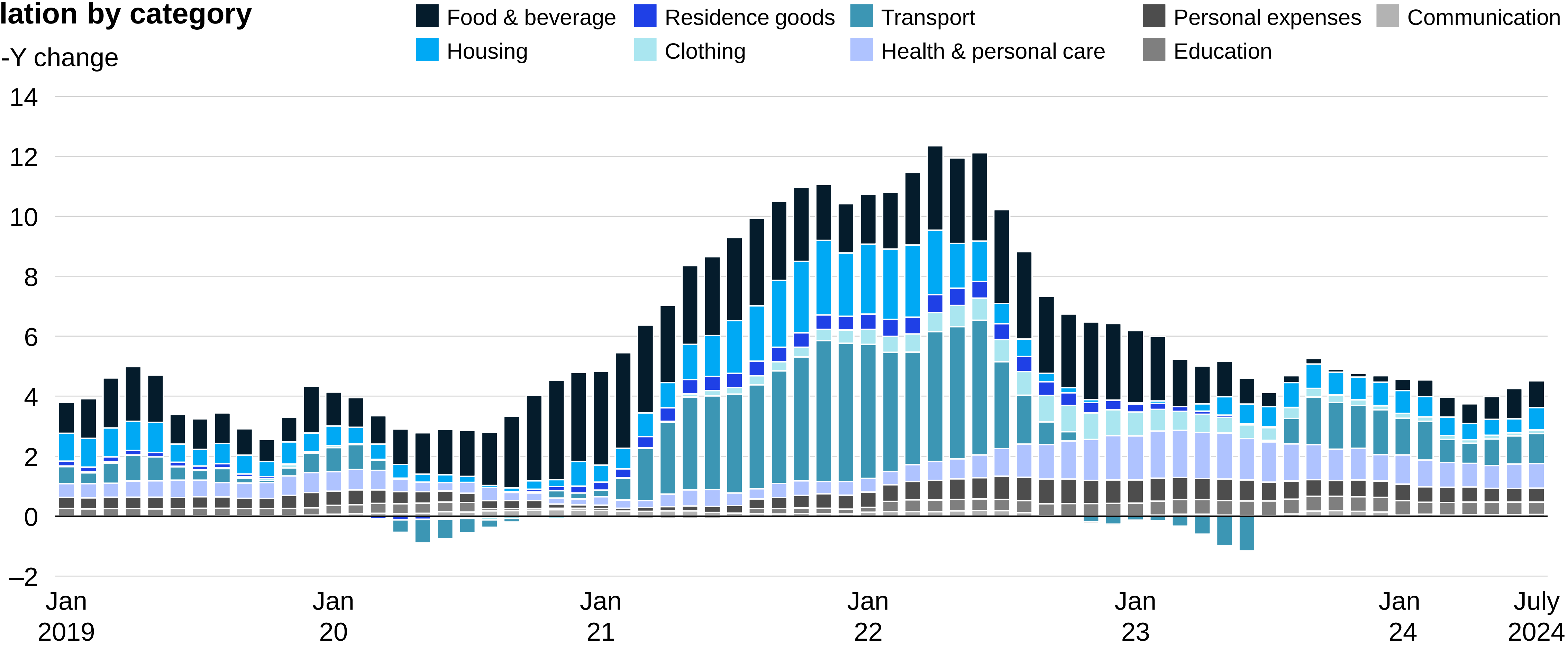
Meanwhile, the three-month moving average unemployment rate dropped to 6.9% in June (7.1% in May), down for the third time this year, and lower than the same period last year (8.0%).

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

July’s inflation increase was driven by transport and food costs

Inflation by category

Y-o-Y change



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

Inflation rise leads to Selic rate hold; unemployment fell for a third time this year; exchange rate continued its upward trend

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

	Indicator category	Change vs prior month	Change vs pre-COVID levels[1]
Macroeconomic	Consumer	⬜	🔷
	Business, industry	🔷	🟧
	Real estate	⬜	⬜
	Trade, external	🔷	🔷
	Prices	⬜	🟧
	Labor market	🔷	⬜
Financial markets	Foreign exchange	🟧	🔷
	Equity	🔷	🔷
	Debt	⬜	⬜
	Credit	⬜	⬜
Government and policy	Public policy	⬜	⬜
	Public-sector health	⬜	⬜

Composite PMI rose; manufacturing and services PMI increased

- Consumer confidence rose to 92.9 in July, from 91.1 in June—5.2% above pre-COVID-19 levels. Retail sales fell 1.0% in July, after increasing for five consecutive months. Business confidence increased to 97.6 in July (96.3 in June)—1.2% below pre-COVID-19 levels.
- The PMI for manufacturing climbed to 54.0 in July (52.5 in June). The services PMI increased to 56.4 in July (54.8 in June).
- In July, the balance of trade registered a surplus of US $7.6 billion, up from US $6.7 million in June.
- Inflation climbed to 4.50% (4.23% in June), up for a third consecutive month. The consumer price index (CPI) is now 0.3 percentage points above pre-COVID-19 levels.
- The three-month moving average unemployment rate fell to 6.9% in June (7.1% in April)—down for the second time this year.

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

- In July, the monthly average exchange rate was at BRL 5.54 per US dollar (BRL 5.39 in June). On August 22, the exchange rate was BRL 5.48 per US dollar.
- The Bovespa equities index rose 2.7% over the month (up to August 10); it earned 5.3% in value up to July 10.

Government and health workers are being prepared to avoid Amazon drought disaster

- Government agencies and NGOs are working on a series of initiatives to raise drought awareness among local populations, while the early warnings issued by the Civil Defense force of Amazonas state have left most of the region aware of the risks. The state of Amazonas has estimated that the 2024 drought will affect 150,000 families, and authorities have already advised people to stock water and food in preparation for possible extreme conditions.
- Last year's drought dropped the economic output of Manaus' industries by 16.6%. The previous drought delayed the arrival of merchandise by 90 days and increased logistics costs by 300%. In June, the federal government announced BRL 500 million ($90 million) to be used in dredging sections of the Amazonas and nearby rivers in an attempt to assure their navigability. Companies are preparing for twice the normal length of time (60 days) without navigability.
- Droughts usually start in October, but this year are expected to start a month earlier. Despite rains that restored navigability and reconnected communities that had been left isolated by last year's historical drought, rivers across the region are at lower levels now than they were during 2023's drought season.

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

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

Mexico

Mexico's industrial sector is strengthening and driving economic growth; foreign direct investment is reaching record-high levels.

In 2024, GDP has grown by 1.6% quarterly, driven by the agriculture and services sectors in the first quarter and the industrial sector in the second quarter. Inflation increased from 4.98% in June to 5.6% in July, continuing an upward trend since February that has pushed the rate beyond the Central Bank's target range of 2–4%.

Consumer confidence remained stable at 101.2 in June compared to May, remaining above the neutral 100-point mark and reaching its highest level in the last two years. Mexico's Purchasing Managers' Index (PMI) for manufacturing decreased slightly after a two-month upward trend. Although still above the neutral 50-mark, it edged down from 51.2 in May to 51.1 in June.

Total unemployment increased by 0.1 percentage points in June, to 2.74%. Over this period, employment in the formal economy was down by some 30,000 employees.

In the first quarter of 2024, foreign direct investment (FDI) in Mexico reached a historic high of around US $20.3 billion. Following the 2023 trend, 97% of these funds went to reinvestments in utilities, with only 3% flowing into new investments and company transactions.

June's balance of trade figures indicated a deficit of around US $1 billion, due to a widespread decline in exports, including consumer and intermediate goods, as well as petroleum and non-petroleum exports. Imports fell at a slower rate. Exports totaled US $48.9 billion (down from US $55.8 billion in May), against imports of US $49.9 billion (down from US $53.7 billion in May).

National housing prices increased by 2% between the first and second quarters of 2024, according to the The SHF (Sociedad hipotecaria federal) Housing Price Index. Prices have climbed by 43% compared to pre-COVID levels, an increase explained by a limited housing supply (especially since the pandemic), a restriction on construction permits, and a growing demand for both tourist and industrial accommodation.

The monthly average exchange rate for the Mexican peso in July was MXN 18.1 per USD (marginally down from MXN 18.2 in June but up on May's 16.8). The exchange rate has trended down over recent years to stabilize at pre-pandemic levels. July's closing IPC index (Indice de Precios y Cotizaciones) was up 1.3% from June and has continued to oscillate slightly without significant variations over the past three months. The industrial sector of the Mexican Stock Market remains at historically high levels.

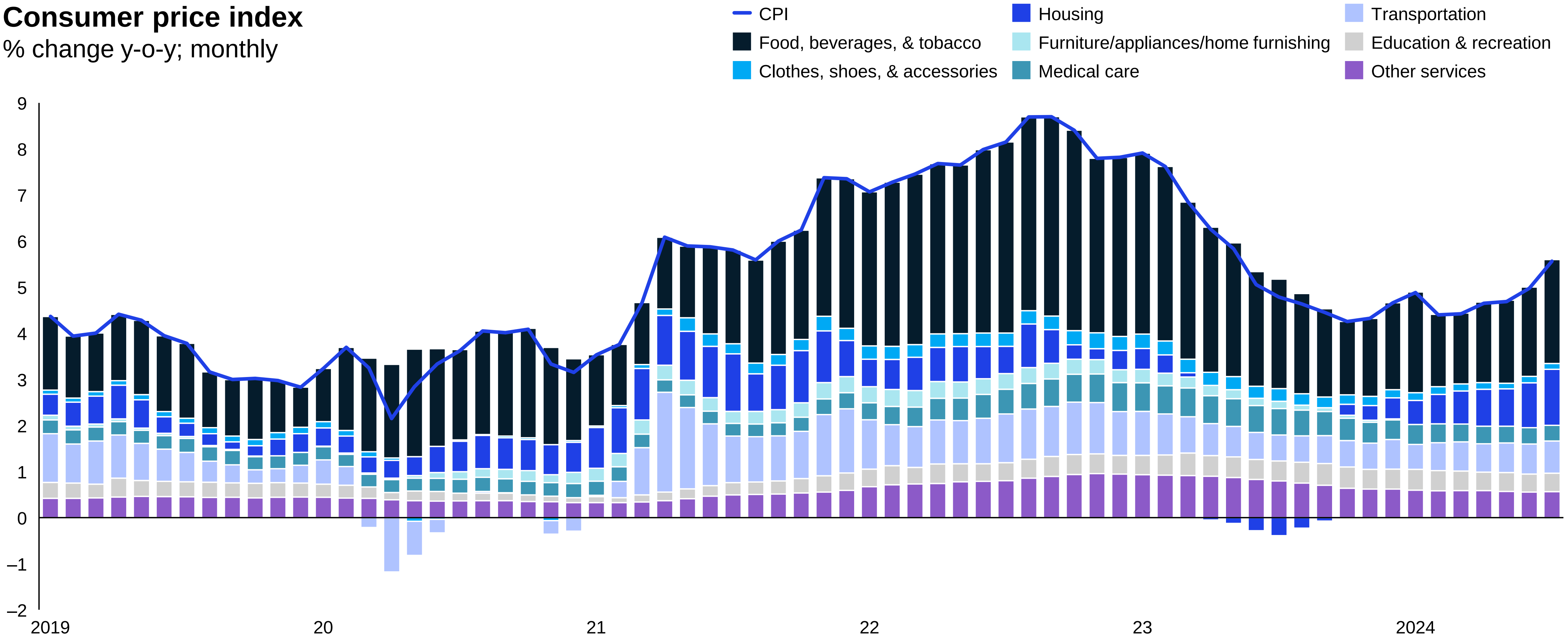
On June 2, Claudia Sheinbaum was elected the first female president in Mexico's history. Her party, Movimiento de Regeneración Nacional (Morena), won seven out of nine states, representing about 74% of the total population. With majority support in the Senate, the Mexican government will be able to enact constitutional reforms to support its agenda.

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

In July, inflation jumped to 5.6%, mostly driven by food and housing

Consumer price index

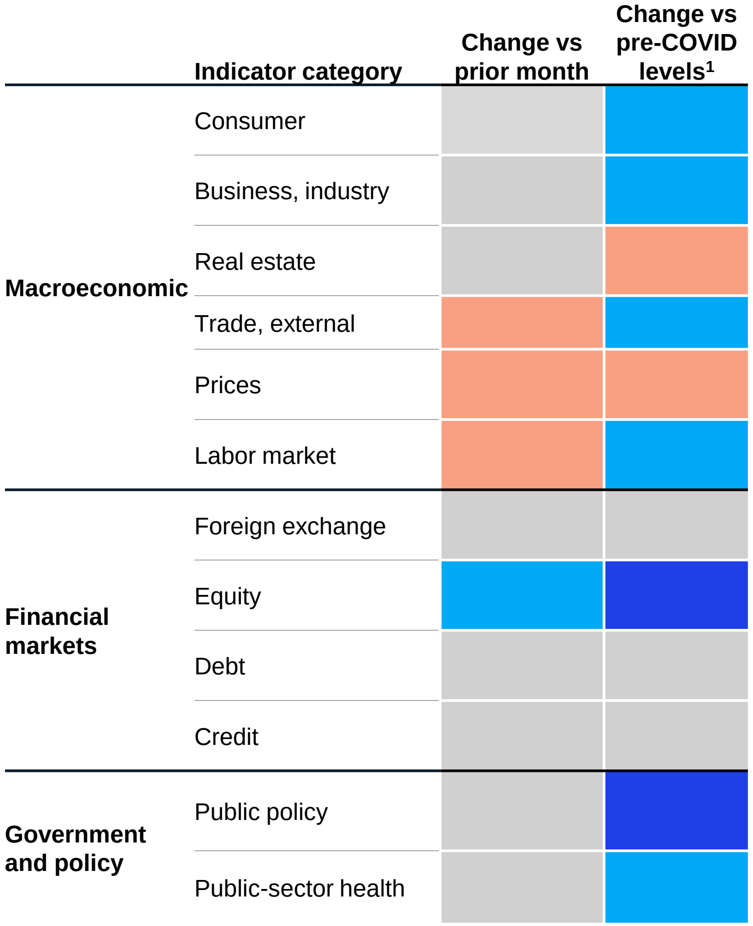
% change y-o-y; monthly



1. End of month closing price of the Price and Quotation Index (IPC).

Source: Banco de México (BANXICO); Instituto Nacional de Estadística y Geografía (INEGI)

After the presidential election, the inflation rate rose, while the Mexican peso lost ground against the US dollar



Legend: Significant improvement · Improving · No significant change · Worsening · Severe decline

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

In June, consumer confidence remained high, while the manufacturing PMI fell slightly

- In June, the consumer confidence index remained stable at 101.2, compared to the previous month. Consumer confidence levels are at their highest point in the last two years.
- The PMI for manufacturing fell slightly to 51.1 in June (51.2 in May).
- In June, the balance of trade registered a deficit of approximately US $1 billion, with exports totaling US $48.9 billion (US $55.7 billion in May) and imports registering US $49.9 billion (US $53.7 billion in May).
- Inflation reached 5.6% in July (4.98% in June). The consumer price index (CPI) is 2.3 percentage points above the pre-COVID-19 level.
- The average unemployment rate increased to 2.74% in June (2.64% in May), while formal employment continues to fall.

In July, the Mexican peso lost ground against the US dollar, while Mexico's IPC equities index recovered

- In July, one month after the presidential elections, the monthly average exchange rate reached MXN 18.1 per US dollar (MXN 16.8 in May).
- The IPC index grew 1.3% during July (end of month close), recovering after a downward trend since March.

On June 2, Mexico elected its first-ever female president

- Claudia Sheinbaum, from the ruling Morena party, made history on June 2 with her election as Mexico's first female president. She will assume office as President of Mexico on October 1, 2024.
- Previously, Sheinbaum served as Head of Government of Mexico City, focusing on public transportation, environmental sustainability, and social programs. In her campaign, she emphasized improving the healthcare sector, which is currently positioned 71st in the Global Legatum Prosperity Index health score.
- The winning candidate's commitment is to achieve 3% annual growth during her six-year term, a scenario that depends on how various internal and external factors come together over that period. In that regard, the projections for 2025 are not encouraging. The Ministry of Finance and Public Credit (SHCP) estimates that GDP will grow between 2% and 3%, while the IMF projects it will be only 1.5%.

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

Source: Banco de México (Banxico); Haver Analytics; Instituto Nacional de Estadística y Geografía (INEGI); Secretaría de Economía; McKinsey's Global Economics Intelligence analysis

McKinsey
& Company