McKinsey & Company

Global Economics Intelligence

Global Summary Report

Released September 2024 (data through August 2024)

SUBSCRIBE

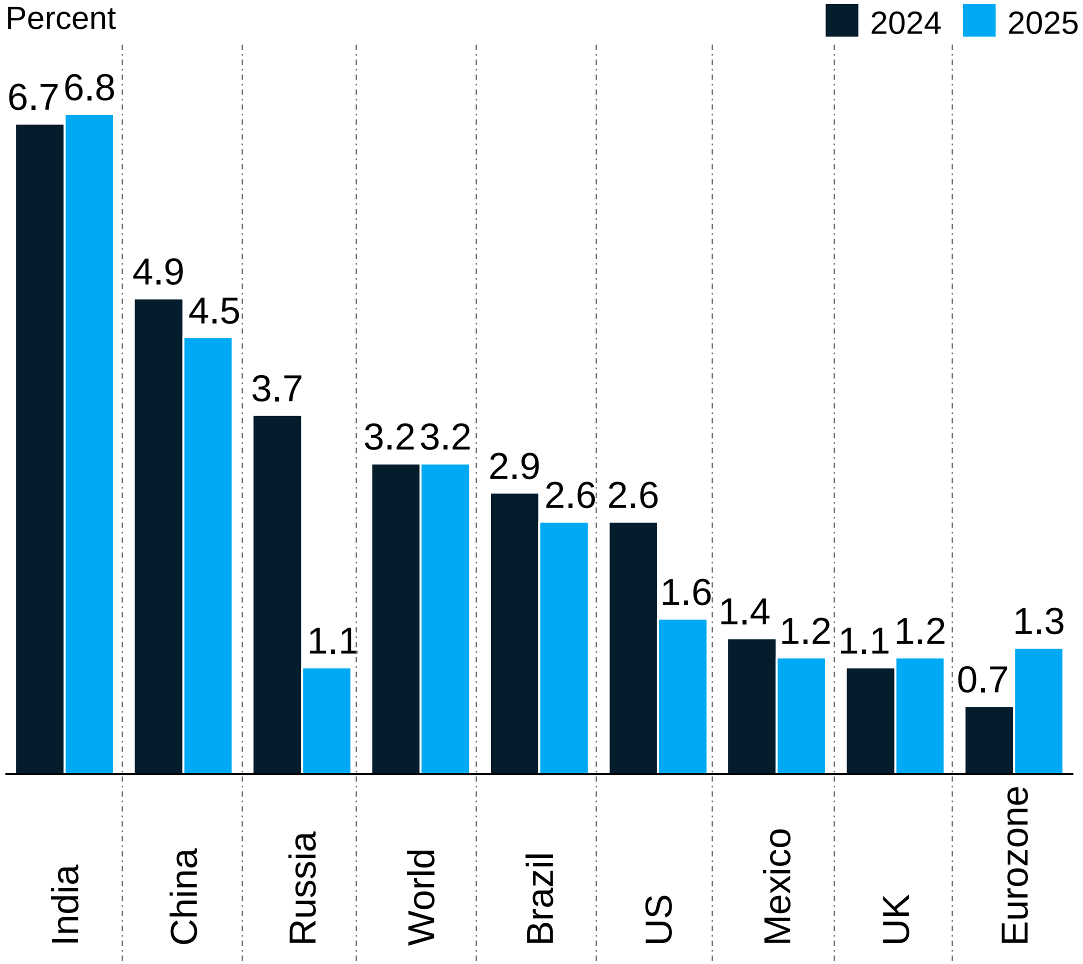
Disclaimer

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

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

The OECD sees the global economy improving, supported by a rebound in global trade and easing inflation

OECD real GDP growth forecast
Percent



Positive news is emerging from various sources, suggesting the global economy might be turning a corner, though substantial risks remain. The OECD sees the global economy improving, supported by a rebound in global trade and easing inflation. Central bank strategies are diverging; some are cutting rates, while others continue to raise them. China has announced a significant stimulus package to boost economic growth. In the US, the Federal Reserve cut interest rates by 50 basis points.

The difficult juggling act that central banks have to perform between controlling inflation and nurturing growth resulted in some contrasting moves this month, with several banks cutting rates to inject a stimulus in September, while others tightened policy as they sought to tame inflation. Although headline inflation is approaching central banks' targets, core inflation remains elevated.

The OECD's latest ***Interim Economic Outlook*** points to resilient growth through the first half of 2024, with declining inflation, as signs the global economy is turning the corner. However, the global policy forum acknowledged that significant risks remain. With robust growth in trade, improvements in real incomes, and a more accommodative monetary policy in many economies, the outlook projects global growth at 3.2% in 2024 and 2025. OECD Secretary-General Mathias Cormann said: "The global economy is starting to turn the corner, with declining inflation and robust trade growth. At 3.2%, we expect global growth to remain resilient both in 2024 and 2025."

Additional positive news comes from revised US Bureau of Economic Analysis (BEA) data. This shows the US economy has been performing better than previously indicated. Released on September 26, BEA's updated GDP estimates confirm robust second-quarter growth of 3%, driven by strong consumer spending and business investment. BEA also released its annual revision to reveal that, over the past four quarters, real GDP growth was 3.0% higher than a year ago. Through the end of 2023, real GDP was revised up a cumulative 1.2%, with upward revisions to growth in each of the years 2021–23. Real GDP was revised up a further 0.1% through 2024 Q2. The upward revisions were mainly attributable to stronger consumer spending (especially services spending), which cumulatively (through 2023 Q4) accounted for about 0.8 percentage points of the revised growth figures. About 0.5 ppts of the upward revision were due to stronger business investment, largely in factories and equipment. However, government spending and net exports represented a slightly larger drag than previous figures indicated, especially in 2023.

That said, the Conference Board Leading Economic Index (LEI), which aims to predict turning points in the economic cycle, decreased in August to its lowest level since October 2016. Falling 0.2% from the previous month to register 100.2, the index recorded a sixth consecutive monthly decline and triggered a "recession signal".

Overall, executives are more cautious about the global economy than they were earlier this year, though they retain some optimism about the months ahead, according to ***McKinsey's Economic conditions outlook, September 2024***. For the first time since March 2020, surveyed executives primarily view the global economy as stable rather than improving. Survey respondents are less upbeat than seen in the previous two quarters, expressing caution about both current global conditions and also their domestic economies.

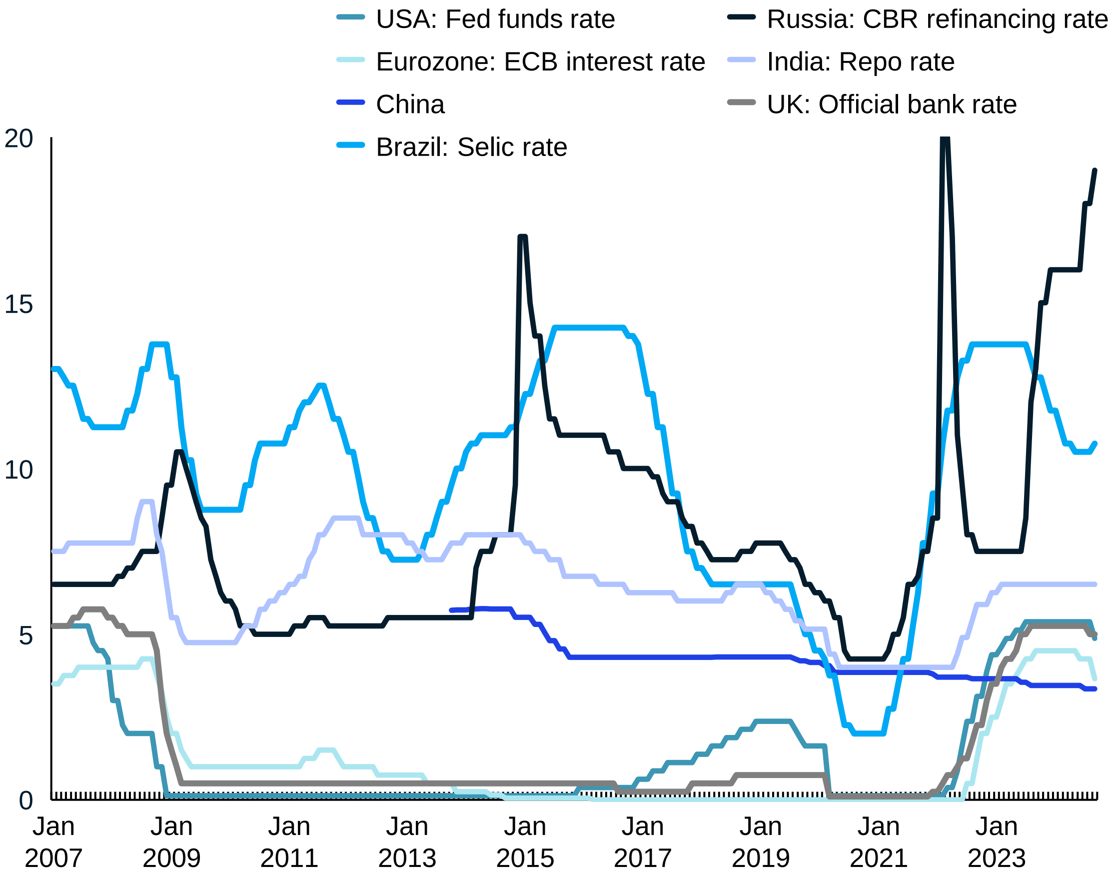
The Fed delivered its much-heralded September interest-rate cut, with the FOMC deciding to lower the target range for the federal funds rate by a hefty 0.5 percentage points to 4.75–5%. This was considered to be an unusually large reduction, given that the last time the Fed reduced rates by this margin was during the pandemic. More cautiously, the ECB cut its deposit facility rate by 25 basis points to 3.5% on September 12, amid downward revisions of the eurozone's economic outlook. Later in the month (September 24), China's central bank also announced rate cuts as part of a wide-ranging stimulus designed to boost the ailing real estate sector and the wider economy. People's Bank of China (PBOC) Governor Pan Gongsheng unveiled plans to cut reserve requirement ratios—the amount of cash banks must hold in reserve—by 50 basis points. Additionally, he announced a cut in the seven-day repo rate by 20 basis points to 1.5% (with deposit and other

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

Diverging pathways among countries: Russia and Brazil tightening policy, the US and Europe cutting rates, and other countries holding them steady (1/2)

Central-bank interest rates

Percent



interest rates also due to fall). To support the real estate market, he announced a reduction in interest rates for existing mortgages, alongside a reduction in minimum down payments on all types of homes to 15%. The PBOC previously cut rates in July.

By contrast, Russia's central bank followed up on last month's 200-basis-points hike, which took its key rate to 18%, with another round of tightening—this time by 100 basis points to 19%. Less dramatically, Brazil's Central Bank raised its benchmark interest rate by a quarter ppt to 10.75%, marking the beginning of a new monetary-tightening cycle. This was the first hike in two years.

Meanwhile, in the UK, the Bank of England Monetary Policy Committee voted on September 19 to leave the policy rate at 5%. Similarly, the Reserve Bank of India kept the key repo rate unchanged at 6.5%.

In terms of growth among the advanced economies, it's a different story either side of the Atlantic. In the US, the Federal Reserve projects 2.1% GDP growth for 2024. In Europe, meanwhile, growth has been underwhelming. Second-quarter GDP growth in the eurozone has been revised down to 0.2% from 0.3%, below June's projections expectations. In the UK, GDP is estimated to have risen 0.7% in Q2 2024 versus the year-ago quarter, following a downward revision by the Office for National Statistics released on September 30. Monthly real GDP is estimated to have shown no growth in July, echoing June. Indeed, UK GDP has shown no growth for three of the past four months.

Among the emerging economies, the situation is more positive. China's industrial output growth slowed in August to 4.5% (5.1% in July), while India's growth in the second quarter of 2024 was neither surprising nor disappointing. Although growth slowed from 7.8% in the first quarter to 6.8% in the second, it remained above the long-term average. Meanwhile, Brazil's 2024 Q2 GDP increased 2.8% compared to the year-ago period. In Russia, preliminary estimates by the economic development ministry confirm loss of momentum in early Q3; nevertheless, year-on-year GDP growth in June and July was around 3%, albeit down from 4.5% in April–May.

Across regions, consumers are maintaining a gloomy outlook in the face of the high cost of living, weakening labor markets, and an uncertain economic environment. Despite this, retail sales are nominally holding up, although in real terms they are flat or declining in most surveyed economies. In the US, retail and food services sales for August 2024 (adjusted for seasonal variation and holiday and trading-day differences) were $710.8 billion—a 0.1% increase from the previous month. The consumer confidence index (Conference Board) rose to 103.3. from an upwardly revised 101.9 in July. By contrast, eurozone consumption is somewhat weaker than foreseen in the June projections, with still-subdued consumer confidence and elevated household saving intentions. The situation in the UK offers a salutary reminder of the fragility of consumer sentiment. Commentators are attributing a decline in UK consumer confidence to warnings from the new Labour government of potential economic pain to be announced in October's upcoming budget. The GfK Consumer Confidence Barometer, which measures a range of consumer attitudes, including forward expectations of the general economic situation, households' financial positions, and views on making major household purchases, registered a six-month low of –20 in September (down from August's –13).

Consumer confidence also declined among the emerging economies, although it sits at the higher end in India, despite falling away slightly, with consumers remaining optimistic about the future. In Mexico, consumer confidence fell slightly to 100.9 in August (versus 101.1 in July) to reach its lowest level this year, though remaining above the neutral 100-point mark. In Brazil, consumer confidence stuck below the neutral 100 mark but rose 0.3 points to 93.2 in August (92.9 in July), up for a third consecutive month. Business confidence rose to 97.9 in August (97.6 in July) to its highest level since September 2022.

Central banks continue to anchor inflation expectations at around 2.0 to 2.3%. The US saw the consumer price index (CPI) rise 2.5% over the 12 months ending August, the smallest 12-month increase since March 2021. Core

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

Diverging pathways among countries: Russia and Brazil tightening policy, the US and Europe cutting rates, and other countries holding them steady (2/2)

inflation remained at 3.2% (annualized) in August. In the eurozone, headline inflation in August was down to 2.2%, mainly due to an energy prices decline (–3%), whereas core inflation stood at 2.8%. Services inflation, however, registered 4.1%, which still points to strong domestic price pressures, with wages growth remaining elevated (4.7% in 2024 Q2). Meanwhile, the UK CPI remained unchanged at 2.2% in August; core inflation rose to 3.6%, from 3.3% in July.

Consumer price inflation continues to be low in China, registering 0.6% in August, slightly up from 0.5% in July. However, producer prices experienced deeper deflation, recording a decline of −1.8% in August compared to −0.8% in July. In India, price momentum has stabilized for both headline and core CPI inflation, standing at 3.7% and 3.3%, respectively. Brazil saw inflation fall to 4.24% in August (4.50% in July), decreasing for the first time since April and landing within the Banco Central do Brasil's target upper limit of 4.50%. In Mexico, the inflation rate dropped to 5.0% in August (from 5.6% in July), decreasing for the first time following an upward trend since February. However, it remains outside the central bank's target range of 2–4%.

In Russia's wartime economy, inflation remains high, continuing to reflect supply shortages, with consumer prices up 9% year on year in August, well above the central bank's target rate of 4%. Prices for services last month rose nearly 12%, foodstuffs 10%, and non-food goods 6%.

With the exception of precious metals, commodity prices are either flat or declining, though food prices climbed slightly following the impact of adverse weather on crops. Energy prices remained stable in September, despite the risk that Russia could halt exports in response to international sanctions. However, interest rate cuts and economic uncertainty are combining to push gold to historically high prices.

Globally, manufacturing contracted for the second consecutive month, while services expanded at their fastest pace in 14 months. Most economies reported weakening demand in the manufacturing sector and an increase in input prices, which has been passed on to consumers. The US industrial production index edged up to 103.1 in August (102.8 in July 2024). August's purchasing managers' index (PMI) for manufacturing dropped to 47.2 from 48.0 in the previous month. Recovery in the UK manufacturing sector continued into August, with output, new orders, and employment all rising. There were further signs of price pressures easing, as rates of inflation in input costs and selling prices both slowed. The seasonally adjusted S&P UK Manufacturing PMI rose to a 26-month high of 52.5 in August, up from 52.1 in July and unchanged from the earlier flash estimate. The PMI has now signaled expansion in five out of the past six months (the exception being April).

Among the emerging economies, India's industrial production grew by 4.9% in July, primarily driven by electricity production. The manufacturing PMI remains strong at 57.5. Brazil's manufacturing PMI dropped to 50.4 in August (54.0 in July), remaining slightly above the neutral 50 mark for an eighth month running, to indicate modest expansion. In Mexico, the manufacturing PMI 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.

The services sector continues to be buoyant. The US services PMI rose slightly to 55.7 in August from 55.2 the previous month, while the headline S&P UK Services PMI registered 53.7 in August, up from 52.5 in July and above the neutral 50.0 threshold for the tenth consecutive month. In India the services PMI stood at a very healthy 60.9 in August.

Brazil's services PMI declined to 54.2 (from 56.4 in July) with softening of demand this month restricting growth in business activity.

July saw the unemployment rate continue to rise in both the US and China, although it decreased by 1.3 percentage points in India. However, the US unemployment rate then declined to 4.2% in August, down from July's 4.3% (3.5% in January 2020). Total nonfarm payroll employment increased by 142,000 in August. In the US, unemployment worries (as measured by the average expected likelihood of becoming unemployed in the next four months) were most acute among less affluent people with incomes of $60,000 or less. In the UK, unemployment was estimated at 4.1% for the three months to July 2024.

Unemployment picked up slightly in China and India but ticked down in Brazil and Mexico. Overall surveyed urban unemployment in China rose marginally to 5.3% in August (5.2% in July); however, youth unemployment climbed further to 18.8% in August, up from 17.1% in July. India's unemployment rate rose a little in August, reaching 8.5% (likely due to seasonal factors). Meanwhile, Brazil's three-month moving average unemployment rate dropped slightly to 6.8% in July (6.9% in June), down for the fourth time this year, and lower than the same period last year (7.9%). Mexico saw total unemployment decline 0.06 points in July to 2.67%. Employment in the formal economy recorded an increase of some 12,000 employees during this period.

Most equity markets rebounded following the 50-basis-point interest rates cut in the US, as market volatility eased in September across all major asset classes. However, the cost of capital remains elevated, especially in developing countries.

Global supply chain markets continue to normalize with the pressure index at the historical average value in July. Both imports and exports saw an increase in the US, China, and Brazil during July, while the Container Throughput Index rose to approximately 133.2 points, accompanied by a modest increase in port activity.

The US registered exports of $266.6 billion in July, $1.3 billion more than in June. July imports reached $345.4 billion, $7.1 billion more than June's imports. July's increase in the goods and services deficit reflected a $5.6 billion increase in the goods deficit to $103.1 billion and a $0.2 billion decrease in the services surplus to $24.3 billion. China's cross-border trade growth decelerated to 5.2% in August, down from 7.1% in July, primarily due to a slowdown in imports growth—this fell to 0.5% from 7.2% the previous month as the base effect faded. Exports growth remained robust at 8.7%, up from 7.0% in July.

***

Gen AI has the potential to boost European labor productivity by up to 3% annually through 2030, a new report from McKinsey reveals. However, Europe sits at a crossroads when it comes to unlocking the benefits of this technology. ***Time to place our bets: Europe's AI opportunity*** suggests that European policy makers and business leaders are well advised to look beyond large language models (LLMs) and adopt a holistic approach encompassing adoption, creation, and energy.

The report finds that, when it comes to adoption, European organizations lag behind their US counterparts by 45–70%. On creation, Europe leads in only one of the eight segments of a simplified gen AI value chain: AI semiconductor equipment. And, without competitive electricity prices, the report suggests it becomes less likely that European data centers will host gen AI applications and services, as data center power demand potentially accelerates to account for over 5% of Europe's total electricity consumption by 2030.

The authors suggest that, to clear bottlenecks, business leaders and policy makers could work to increase investments (for example, around public innovation procurement in AI applications for the healthcare and defense sectors); make efforts to leapfrog in emerging semiconductor technologies (such as quantum and neuromorphic computing); and address talent retention issues. At the same time, reskilling and upskilling the workforce will be vital to fully benefit from gen AI adoption.

[Advanced economies]: In the advanced economies, Fed cuts interest rates by 50 basis points, with CPI down to 2.5% in August; ECB cuts rates by 25 basis points with headline inflation down to 2.2%.

United States

Federal Reserve projects 2.1% GDP growth for 2024, this after FOMC lowers target range for the federal funds rate by 0.5 percentage points; annual inflation at 2.5%, the smallest 12-month rise since March 2021.

At September's meeting considering progress on inflation and the balance of risks, FOMC decided to lower the target range for the federal funds rate by 0.5 percentage points to 4.75 to 5%. This is considered an unusually large reduction given that the last time the Fed cut rates by this margin was during the pandemic. Current FOMC projections target the federal funds rate to decrease to 4.4% by the end of the year.

The consumer price index (CPI) rose 2.5% over the 12 months ending August, the smallest 12-month rise since March 2021. Core inflation remained at 3.2% (annualized) in August. Consumers' one- and five-year-ahead inflation expectations were unchanged in August at 3.0% and 2.8% respectively.

The unemployment rate declined to 4.2% in August, down from July's 4.3% (3.5% in January 2020). Total nonfarm payroll employment increased by 142,000 in August. The number of people on temporary layoff declined by 190,000 to 872,000 in August, mostly offsetting an increase in the prior month. The number losing permanent jobs was essentially unchanged at 1.7 million in August. The NY Fed's survey around likelihood of losing a job rose to 4.4%, its highest level in ten years.

Retail and food services sales for August 2024 (adjusted for seasonal variation and holiday and trading-day differences) were $710.8 billion—a 0.1% increase from the previous month. The consumer confidence index (Conference Board) rose to 103.3. from an upwardly revised 101.9 in July.

The industrial production index edged up to 103.1 in August (102.8 in July 2024). August's purchasing managers' index (PMI) for manufacturing dropped to 47.2 from 48.0 in the previous month; the services PMI rose slightly to 55.7 from 55.2 the previous month.

In August, the S&P 500 gained 2.4%, bringing the one-year return to 18.4%; the Dow Jones also increased, by 1.8% for the month, registering 10.3% in terms of its one-year growth. During August, the CBOE Volatility Index averaged 15.0 (18.6 in July).

July exports registered $266.6 billion, $1.3 billion more than in June. July imports reached $345.4 billion, $7.1 billion more than June's imports. July's increase in the goods and services deficit reflected a $5.6 billion increase in the goods deficit to $103.1 billion and a $0.2 billion decrease in the services surplus to $24.3 billion.

On the housing market, the 30-year fixed-rate mortgage had declined to 6.2% by September 12, down on the previous month. Existing home sales grew by 1.3% in August. During August, housing residential starts increased to 1,356,000 (up from a revised figure of 1,237,000 in July). Completions rose to 1,788,000 this month (from 1,637,000 in July).

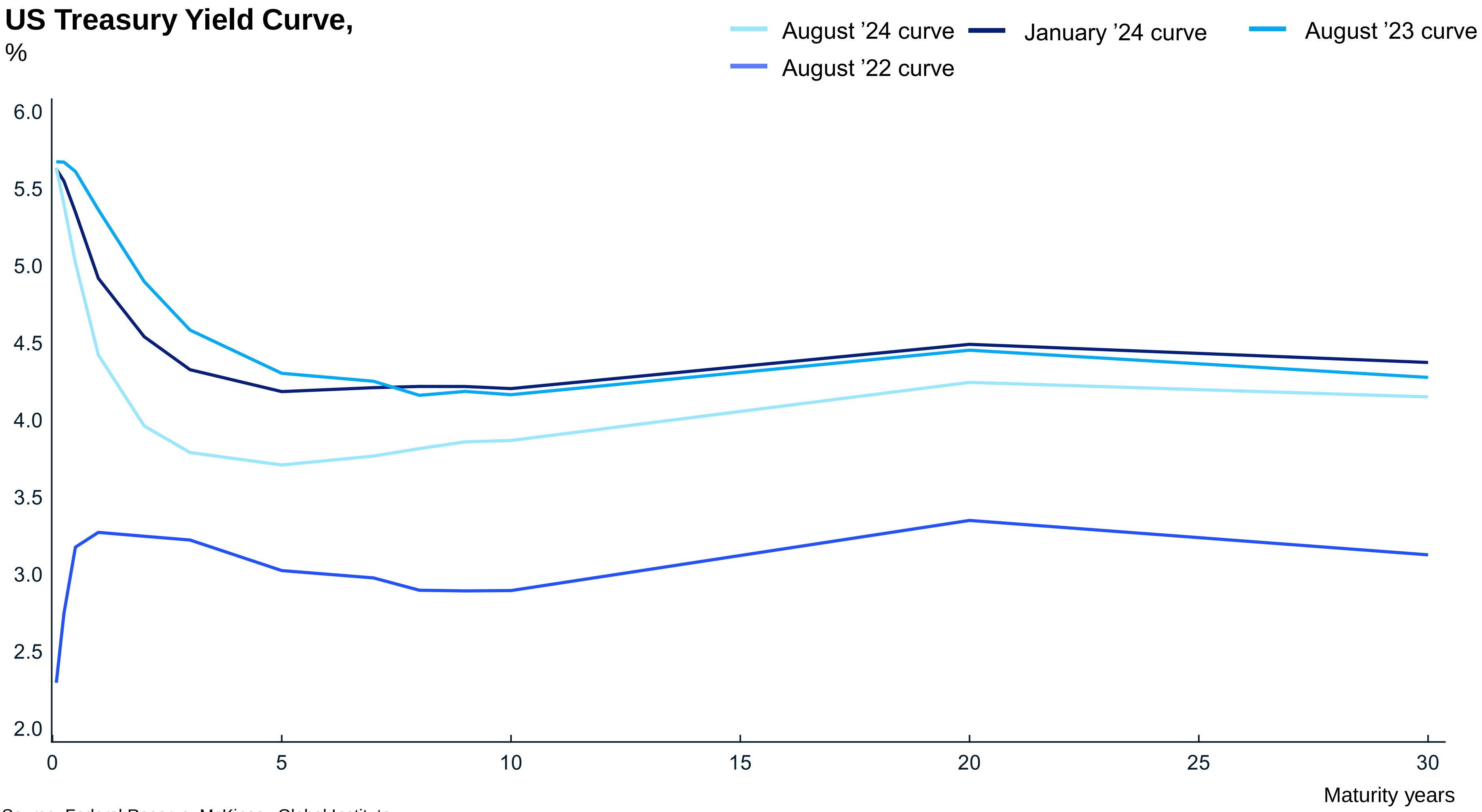
After a second presidential debate appearance (the first against President Biden), former president Donald Trump stated he would not be debating Vice President Kamala Harris again. Trump also suffered a second alleged assassination attempt.

Government shutdown looms as Congress returns, with just three weeks to avoid it. Republicans defeated their own plan to avert a shutdown, with the GOP divided over the length of a short-term funding bill and what, if anything, should be attached to it for a Democrat-controlled senate.

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

The yield curve has remained inverted for the past year, signaling market expectations of interest rate cuts and economic slowdown

Despite inverted curve, US economy continues reporting economic growth



Despite the Federal Reserve no longer forecasting a recession, the yield curve still signals expectations for an economic slowdown.

Historically, an inverted yield would have predicted an economic slowdown; for the time being it only indicates an equity market expecting US interest rates to drop in the near future.

Source: Federal Reserve; McKinsey Global Institute

Federal Reserve projects 2.1% GDP growth for 2024 as FOMC lowers federal funds rate target range by 0.5 percentage points; CPI inflation at 2.5%, the smallest 12-month increase since March 2021

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

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

Annual inflation rose to 2.5%, the smallest 12-month increase since March 2021; consumer confidence gains ground after upward revision in July

- The industrial production index edged up to 103.1 in August (102.8 in July 2024). August's purchasing managers' index (PMI) for manufacturing decreased to 47.2 from 48.0 the previous month, while the services PMI rose slightly to 55.7 from July's 55.2.
- Retail and food services sales for August 2024 (adjusted for seasonal variation and holiday and trading-day differences) were $710.8 billion—a 0.1% increase from the previous month. The consumer confidence index (Conference Board) rose to 103.3. from an upwardly revised 101.9 in July.
- July exports were $266.6 billion, $1.3 billion more than in June. July imports were $345.4 billion, $7.1 billion more than June's imports. July's increase in the goods and services deficit reflected an increase in the goods deficit of $5.6 billion to $103.1 billion and a decrease in the services surplus of $0.2 billion to $24.3 billion.
- On the housing market, the 30-year fixed-rate mortgage had declined to 6.2% by September 12, down on the previous month. Existing home sales grew by 1.3% in August. During August, housing residential starts increased to 1,356,000 (up from a revised figure of 1,237,000 in July). Completions rose to 1,788,000 this month (from 1,637,000 in July).
- The unemployment rate declined to 4.2% in August, down from July's 4.3% (3.5% in January 2020). Total nonfarm payroll employment increased by 142,000 in August. The number of people on temporary layoff fell by 190,000 to 872,000 in August, mostly offsetting an increase in the prior month. The number losing permanent jobs was essentially unchanged at 1.7 million in August.
- The CPI rose 2.5% over the 12 months ending August, the smallest 12-month increase since March 2021. Core inflation remained at 3.2% (annualized) in August. Consumers' one- and five-year-ahead inflation expectations remained unchanged in August at 3.0% and 2.8% respectively.

In August, the S&P 500 and Dow Jones gained 2.4% and 1.8% respectively; September's FOMC meeting decided to lower the target range for the federal funds rate by 0.5 percentage points

- In August, the S&P 500 increased by 2.4%, bringing the one-year return to 18.4%; the Dow Jones also increased by 1.8% for the month, registering 10.3% in terms of its one-year growth. During August, the CBOE Volatility Index averaged 15.0 (18.6 in July).
- At September's meeting considering progress on inflation and the balance of risks, the FOMC decided to lower the target range for the federal funds rate by a hefty 0.5 percentage points to 4.75–5%, an unusually large reduction considering the last time Fed cut rates by this margin was during the pandemic. The current FOMC projection targets the federal funds rate to drop to 4.4% by the end of the year.

Donald Trump stated he would not be debating Vice President Kamala Harris again; GOP defeated own plan to avert government shutdown

- After a second presidential debate appearance (against President Biden and then against Kamala Harris), Donald Trump stated he would not be debating Vice President Harris again—this after the former president suffered a second alleged assassination attempt.
- Government shutdown looms as Congress returns with just three weeks to avoid it. Republicans defeated their own plan to avert a shutdown, with the GOP divided over the length of a short-term funding bill and what, if anything, should be attached to it for a Democrat-controlled senate.

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

Eurozone

Eurozone outlook facing headwinds; ECB cut rates by 25 bps; inflation down to 2.2%.

GDP Q2 growth has been revised down to 0.2% from 0.3%, below June's projections expectations. This was because of stagnant private consumption growth (0 percentage points contribution to growth) and declining investment (–0.4 percentage points contribution to growth), as well as weaker inventories—and despite a stronger than expected contribution from net trade (+0.4 percentage points contribution to growth). By sector, services have been expanding while manufacturing is weakening.

Looking ahead, real GDP growth is expected to be 0.8% in 2024, 1.3% in 2025, and 1.5% in 2026, according to the ECB's September projections. Compared with the June projections, the outlook for GDP growth has been revised down –0.1 percentage points for each year of the projection horizon. Consumption is somewhat weaker than foreseen in the June projections, with still-subdued consumer confidence and elevated household saving intentions.

Against this backdrop, the ECB cut the deposit facility rate by 25 basis points to 3.5% on September 12. ECB president Christine Lagarde said inflation is aligned with expectations, so it was right to take a further step to moderate monetary policy.

In August, headline inflation was down to 2.2%, mainly due to an energy prices decline (–3%), while core inflation stood at 2.8%. Services inflation, however, registered 4.1%, which still points to strong domestic price pressures, with wages growth remaining elevated (4.7% in 2024 Q2). Producer prices have been in positive territory since December, posting +0.8% month on month but –2.1% year on year in July 2024.The ECB's September projections indicate inflation is expected to be 2.5% in 2024 (unchanged), 2.2% in 2025 (unchanged), and 1.9% in 2026 (unchanged). For core inflation, ECB staff projections are: 2.9% in 2024 (up by 0.1pp), 2.3% in 2025 (up by 0.1pp), and 2% in 2026.

Forward-looking indicator Eurocoin edged up to 0.29 in August from 0.16 in July. The industrial production index declined –0.3% month on month and –2.2% year on year in July. The composite PMI dropped into the contraction zone, to 48.9 in September (51.0 in August), driven by a services PMI decline to 50.2 in September (August: 52.9) and a fall in the manufacturing PMI to 44.5.

On September 9, the *Future of European competitiveness: Report by Mario Draghi* was released. The report by the former ECB president looks at the challenges faced by industry and companies in the Single Market. Draghi emphasized the urgent need for Europe to bolster its competitiveness, warning that failure to do so could lead to a slow and agonizing economic decline.

On Sept 5, nearly two months after the surprise 2024 election, Macron named former European Commissioner and EU Brexit negotiator Michel Barnier as Prime Minister.

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

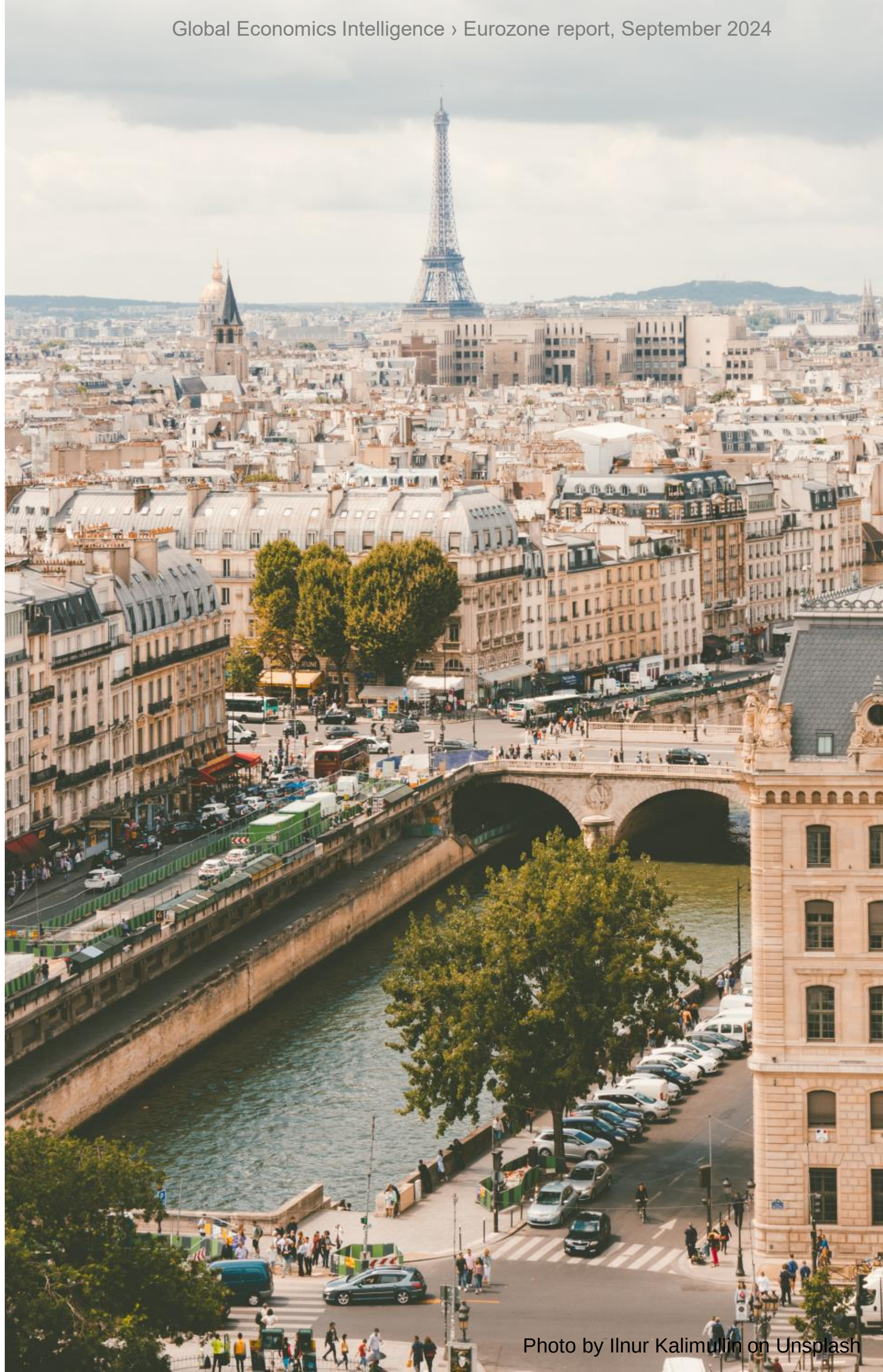
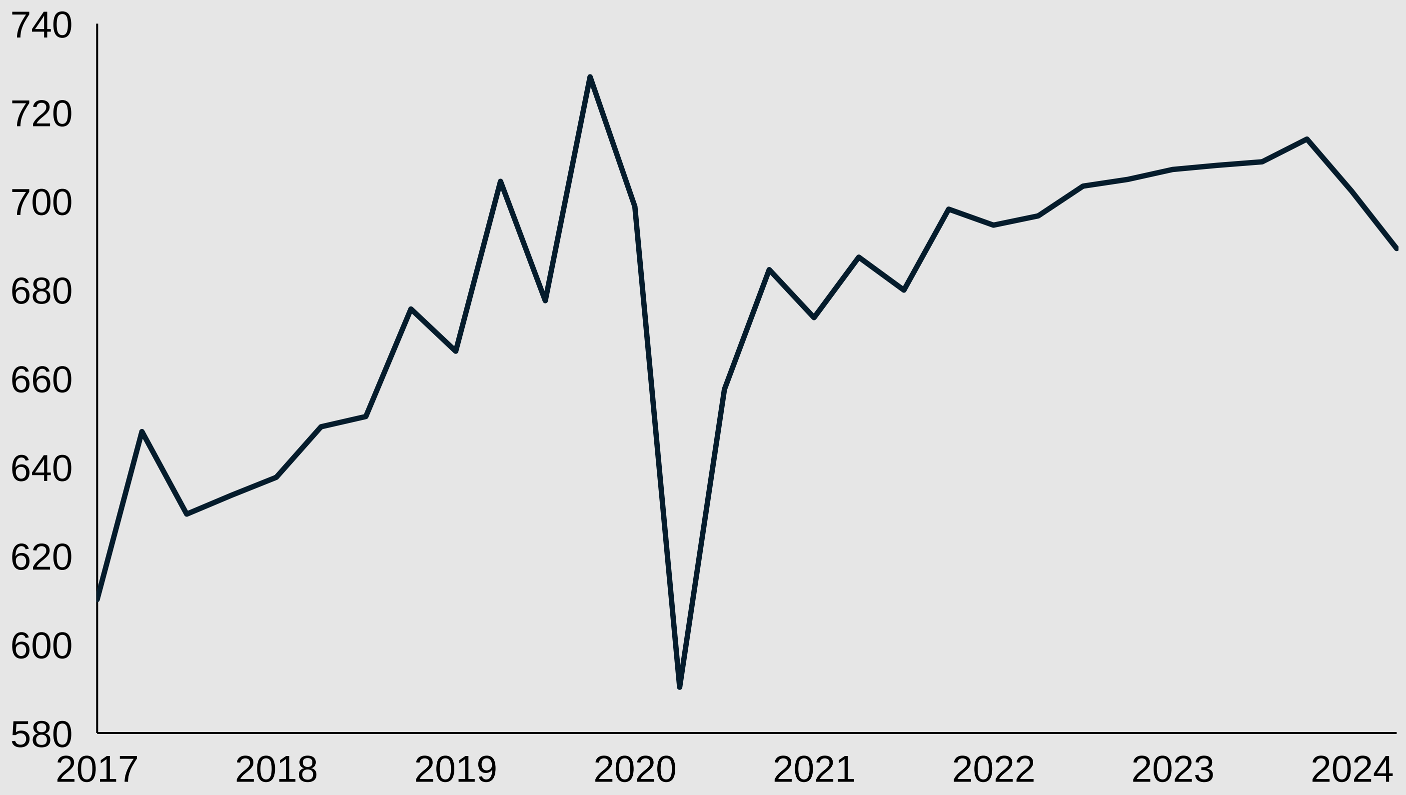


Photo by Ilnur Kalimullin on Unsplash

Investment is still below pre-COVID-19 levels

Real gross fixed capital formation in Eurozone,
Billions €



Source: Eurostat

Eurozone's recovery is cautious and driven by services; inflation down to 2.2% due to decline in energy prices

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

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

Eurozone's recovery is cautious and driven by services momentum

- Real retail sales rose marginally in June, 0.1% month on month, but slightly down –0.1% year on year. The consumer confidence indicator edged up in July, indicating only an ongoing recovery in consumer spending.
- The industrial production index declined –0.3% month on month and –2.2% year on year in July. The composite PMI dropped to 48.9 in September versus 51.0 in August, driven by a services PMI decline to 50.2 in September (August 52.9) and a drop in the manufacturing PMI to 44.5.
- Construction output in July remained stable month on month but declined 2.2% year on year; the construction PMI was unchanged from July's six-month low of 41.4.
- The euro area trade surplus decreased slightly to €21.2 billion in July 2024 from €21.7 billion in June. Goods exports in July reached €252.0 billion, compared with €236.7 billion in June. Imports were €230.8 billion, up by 4% month on month. This was due to an increase in the deficit for energy (from –€22.6 billion to –€25.3 billion) and raw materials (from –€2.3 billion to –€2.8 billion) plus a fall in the surplus of other manufactured goods (from +€2.6 billion to +€1.0 billion).
- In August, headline inflation was down to 2.2%, while core inflation stood at 2.8%; services inflation was 4.1%. Producer prices have been in positive territory since December, posting +0.8% month on month but –2.1% year on year in July 2024.
- The unemployment rate in July stood at 6.4% and remains close to record lows, with Spain at 11.5% and Germany at 3.4%. Annual nominal wage growth in Q2 2024 was 4.7%; thanks to falling inflation, this translated into a solid 2.2% 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 is still close to the all-time high, reached on September 3.
- The euro was unchanged against the US dollar, trading at $1.12 per euro on September 20.
- The Italian–German 10-year bond-yield spread was 1.4 percentage points in August; yields are at 3.6% and 2.2%, respectively.
- Outstanding credit has leveled off, which increased annually by 0.5% for households and 0.6% for corporates.

Macron names Michel Barnier as French Prime Minister; floods cause devastation in parts of central Europe

- On Sept 5, nearly two months after the surprise 2024 elections, President Macron named former European Commissioner and Brexit negotiator Michel Barnier as Prime Minister.
- September saw central Europe experience its worst floods in decades. Among the hardest-hit countries were Austria, Czech Republic, Hungary, Poland, Romania, and Slovakia. Initial estimates indicate that the cost of the recent floods could surpass a billion euros.

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

United Kingdom

CPI inflation remains at 2.2% in August; monthly GDP showed no growth in both June and July 2024; BoE expects inflation to rise further this year, and leaves policy rate unchanged at 5% in September.

According to the Bank of England, Consumer Price Index (CPI) inflation is expected to increase to around 2.5% towards the end of 2024, as declines in energy prices last year fall out of the annual comparison. Headline GDP growth is expected to return to its underlying pace of around 0.3% per quarter in the second half of the year. The IMF's July World Economic Outlook Update predicts sluggish UK growth of 0.7% in 2024, rising to 1.5% in 2025. The IMF expects CPI inflation 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.

Monthly real GDP is estimated to have shown no growth in July, echoing June. GDP has shown no growth for three of the past four months. 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%..

The UK CPI remained unchanged at 2.2% in August, with higher air fares offset by lower prices for petrol, and restaurants and hotels. Core inflation (which excludes energy, food, alcohol, and tobacco) rose to 3.6%, from 3.3% in July. On September 19, the BoE Monetary Policy Committee (MPC) voted to leave the policy rate at 5%.

Recovery in the UK manufacturing sector continued into August, with output, new orders, and employment all rising. There were further signs of price pressures easing, as rates of inflation in input costs and selling prices both slowed. The seasonally adjusted S&P UK Manufacturing PMI rose to a 26-month high of 52.5 in August, up from 52.1 in July and unchanged from the earlier flash estimate. The PMI has now signaled expansion in five out of the past six months (the exception being April).

The recent upturn in services activity was sustained in August, accompanied by easing inflationary pressures across the service economy. The headline S&P UK Services PMI registered 53.7 in August, up from 52.5 in July and above the neutral 50.0 threshold for the tenth consecutive month. Business activity growth has now rebounded to its highest level since April, which is indicative of a solid upturn in service sector output.

At 53.6 in August, the headline S&P UK Construction PMI registered above the 50.0 no-change value for the sixth month running. The latest reading was lower than July's 26-month high of 55.3, but still signaled a solid expansion of overall construction output. Robust new order growth and a more supportive economic environment drove the latest recovery in construction output volumes.

In the three months to July 2024, growth in average total pay was 4%, real total pay rose 1.1%, and UK unemployment was estimated at 4.1%. The economic inactivity rate for people aged 16 to 64 years was estimated at 21.9% in May to July 2024, above year-ago estimates, but decreased in the latest quarter. The estimated number of vacancies in June to August 2024 was 857,000, a drop of 42,000 (4.7%) from March to May 2024. Vacancies declined for a record 26th consecutive period, falling in all 18 industry sectors.

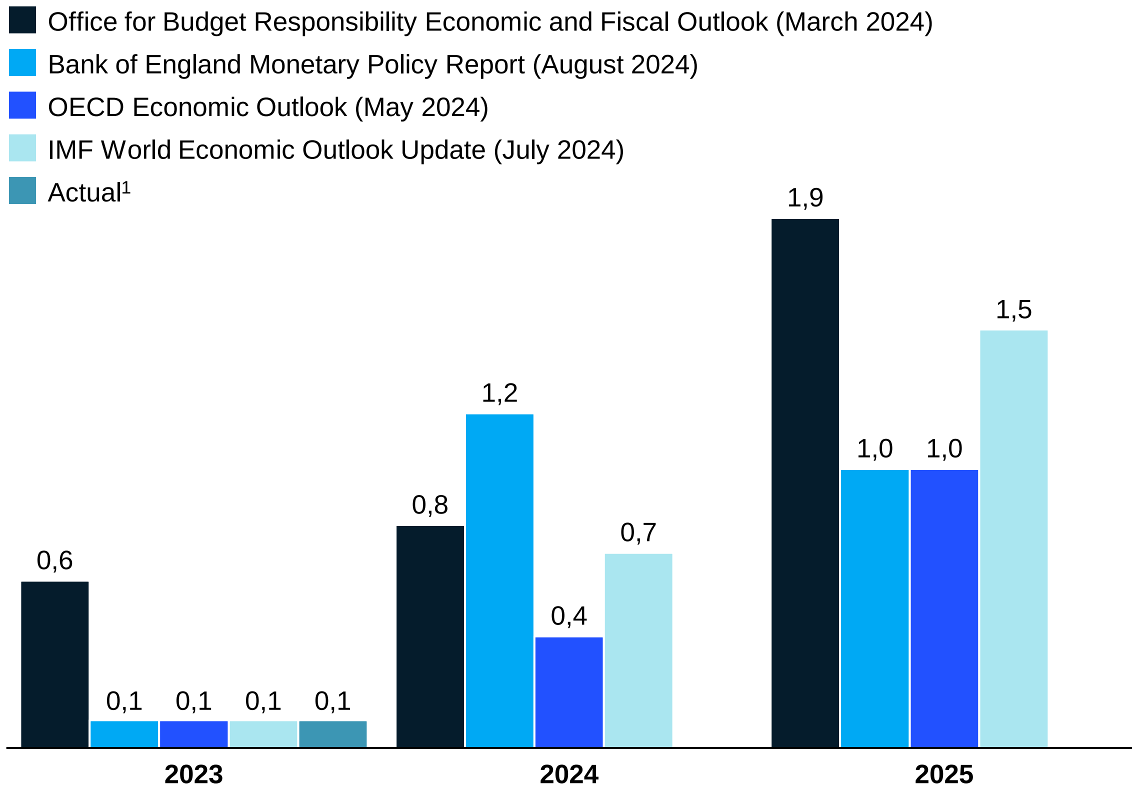
British Prime Minister Sir Keir Starmer visited Rome on his first official overseas trip, to discuss irregular migration with Italian Prime Minister Giorgia Meloni, as both countries aim to reduce arrivals by sea.

Meanwhile, researchers behind a UK consumer confidence survey are attributing a decline in UK consumer sentiment to repeated warnings from the new Labour government of potential economic pain to be announced in October's budget. The GfK Consumer Confidence Barometer fell to a six-month low of –20 in September (versus –13 in August).

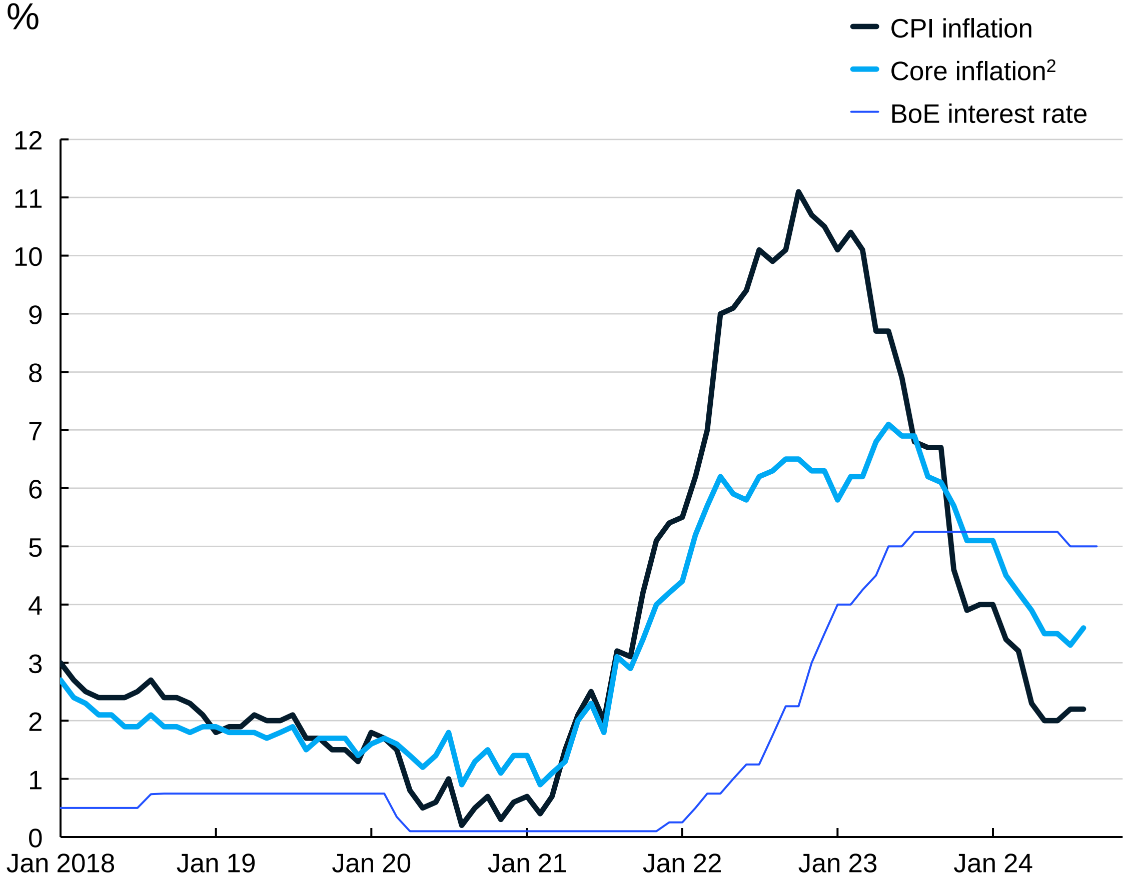
Source: Bank of England; IMF; OECD; Office for Budget Responsibility; Office for National Statistics; McKinsey's Global Economics Intelligence analysis

Monthly GDP showed no growth in both June and July; in August the CPI was unchanged at 2.2% while the Bank of England kept the policy rate at 5%

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



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 unchanged in August; manufacturing and services sentiment both continued to strengthen; consumer confidence deteriorated; unemployment rate fell

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

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

Inflation remains unchanged in August; consumer confidence deteriorates; industrial production weakens

- Retail sales volumes (quantity bought) rose by 1% in August 2024, following a rise of 0.7% in July.
- GfK's Consumer Confidence Index fell sharply to –20 in September, going deeper into negative territory, with expectations for the economy slipping significantly compared to August; however, the index has recovered since its record low of –49 reached in September 2022.
- Monthly production output is estimated to have fallen by 0.8% in July 2024; this follows a 0.8% rise in June. Manufacturing was the biggest contributor to the monthly decrease, partially offset by a rise in mining and quarrying.
- The UK manufacturing PMI rose to a 26-month high in August, registering 52.5, up from 52.1 in July. The PMI has now signalled expansion in five out of the past six months (the exception being April). The services PMI reached 53.7 in August, up from 52.5 in July, and above the neutral 50.0 value for the tenth consecutive month.
- Monthly construction output in terms of volume is estimated to have dropped by 0.4% in July 2024. Meanwhile, the UK construction PMI fell from 55.3 in July to 53.6 in August, still signaling a solid expansion of overall construction output in the UK. July's UK House Price Index showed an annual price rise of 2.2%, bringing the UK average house price to £289,723.
- The total goods and services trade deficit widened by £5.5 billion to £14.6 billion in the three months to July 2024, driven by goods imports.
- The annual CPI inflation rate remained at 2.2% in August. Core inflation (excluding food, energy, alcohol, and tobacco) increased to 3.6% in August, from 3.3% in July. Producer input prices fell by 1.2% in the year to August, down from a 0.2% increase in the year to July; producer output (factory gate) prices rose by 0.2% in the year to August, down from an increase of 0.8% in the year to July 2024.
- The UK's 4.1% unemployment rate for May to July 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 13.3% in May to July 2024.

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

- As of 20 September, the FTSE 100 remained at roughly the same level as a month ago, around 1.7% below the peak reached in May 2024. The pound strengthened further to $1.33 (as of September 20).
- The daily yield of the UK 10-year gilt declined to roughly 3.8%, as of September 18, 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 100% of GDP in August 2024, a level last seen in the early 1960s.

British Prime Minister met Italian PM Giorgia Meloni in Rome to discuss immigration

- Prime Minister Sir Keir Starmer spent his first official visit with Italian PM Giorgia Meloni in Rome, discussing the issue of migration.

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

[Emerging economies]: In emerging economies, China announces significant package of stimulus measures; India targets semiconductor market for growth; Russia raises interest rates again.

China

August saw improvement in new credit, investment stability, and slower growth in industrial production and trade; PBOC unveils new stimulus measures; China announces plans to raise retirement age.

China's industrial output growth slowed in August, down to 4.5% (5.1% in July). The manufacturing and mining sectors saw industrial production growth rates decrease to 4.3% and 3.7%, respectively (versus 5.3% and 4.6% in July); industrial production growth in the utility sector accelerated to 6.8% in August, up from 4.0% in July.

In August, growth in fixed-asset investment rose to 2.2%, up from 1.9% in July. Manufacturing investment remained robust at 8.0% but slowed from 8.3% in July. Infrastructure investment expanded more slowly, growing by 1.2%, down from 2.0% in July. Contraction in real estate investment eased to −9.8%, (−11.7% in July).

The real estate slowdown persisted. Demand-side indicators revealed a −12.6 decline in floor space sold for new residential properties (−12.3% in July). The average new home price fell −5.7%, following a −5.3% drop the previous month. On the supply side, floor space started was down −17.0% in August, compared to a −24.4% decrease in July.

New social financing climbed to RMB 3.0 trillion in August, rising from RMB 0.8 trillion in July.

Overall surveyed urban unemployment ticked up to 5.3% in August (5.2% in July). The youth unemployment rate further increased to 18.8% in August, up from 17.1% in July.

Cross-border trade growth decelerated to 5.2% in August, down from 7.1% in July, primarily due to a slowdown in imports growth—this fell to 0.5% from 7.2% the previous month as the base effect faded. Exports growth remained robust at 8.7%, up from 7.0% in July.

Consumer price inflation remained low at 0.6% in August, slightly up from 0.5% in July. Meanwhile, producer prices experienced deeper deflation, recording a decline of −1.8% in August compared to −0.8% in July.

On September 24, China's central bank announced a significant package of stimulus measures. People's Bank of China (PBOC) Governor Pan Gongsheng unveiled plans to cut reserve requirement ratios—the amount of cash banks must hold in reserve—by 50 basis points. Additionally, he announced a cut in the seven-day repo rate by 20 basis points to 1.5% (with deposit and other interest rates also due to fall). He signaled that a further cut might be made later this year. To support the real estate market, he announced a reduction in interest rates for existing mortgages, alongside a reduction in minimum down payments on all types of homes to 15%.

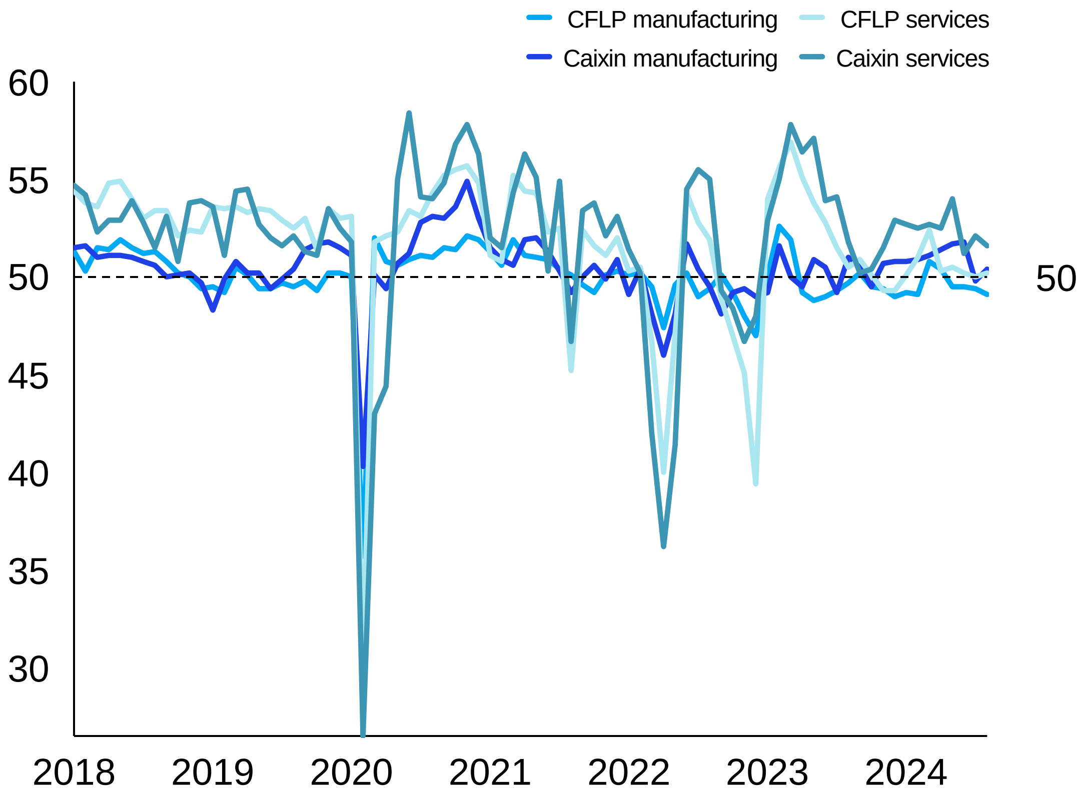
China has announced it will gradually raise the statutory retirement age. For men, this will rise from 60 to 63 years old. For women, the retirement age will be adjusted from the current 50 or 55 years old (depending on their job or occupation) to 55 and 58 years old, respectively. This decision is set to take effect in 2025.

Source: CEIC; McKinsey's Global Economics Intelligence analysis

August saw the official manufacturing PMI remain in the contraction zone, while the services PMI continued in the expansion zone; stock indexes declined in September

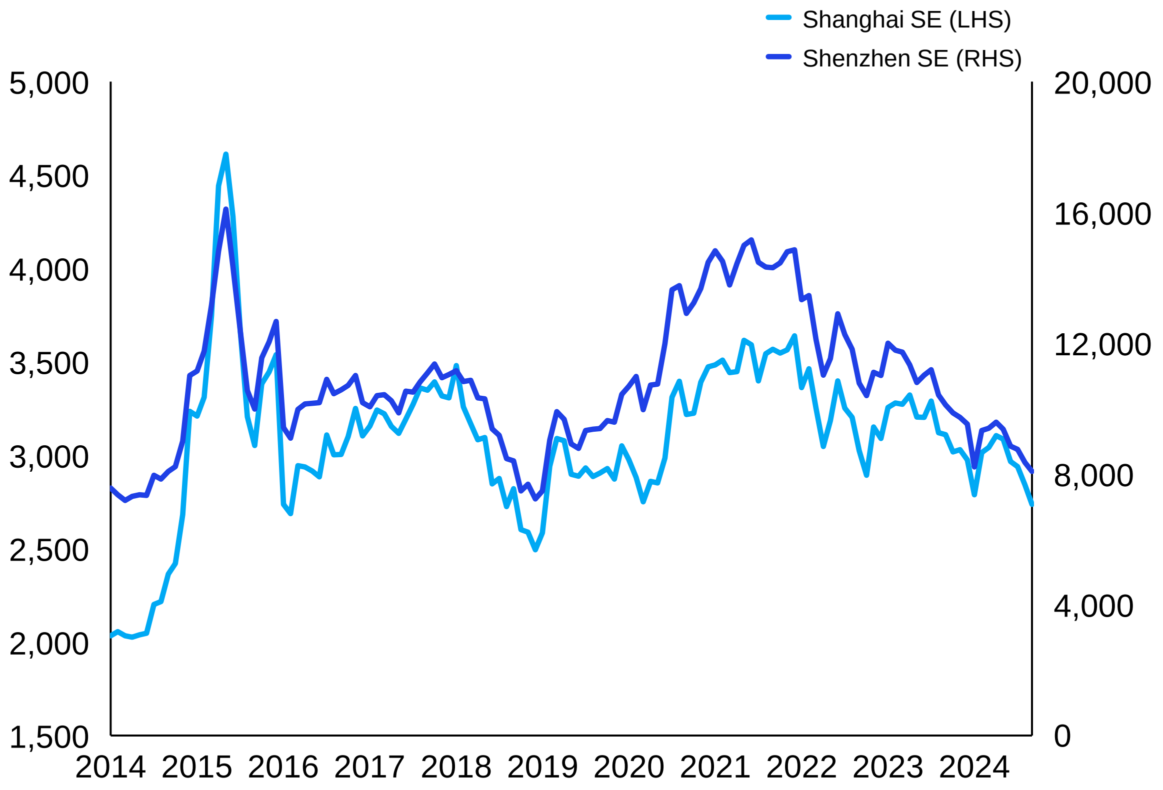
Purchasing managers indexes (PMI)

Index, monthly



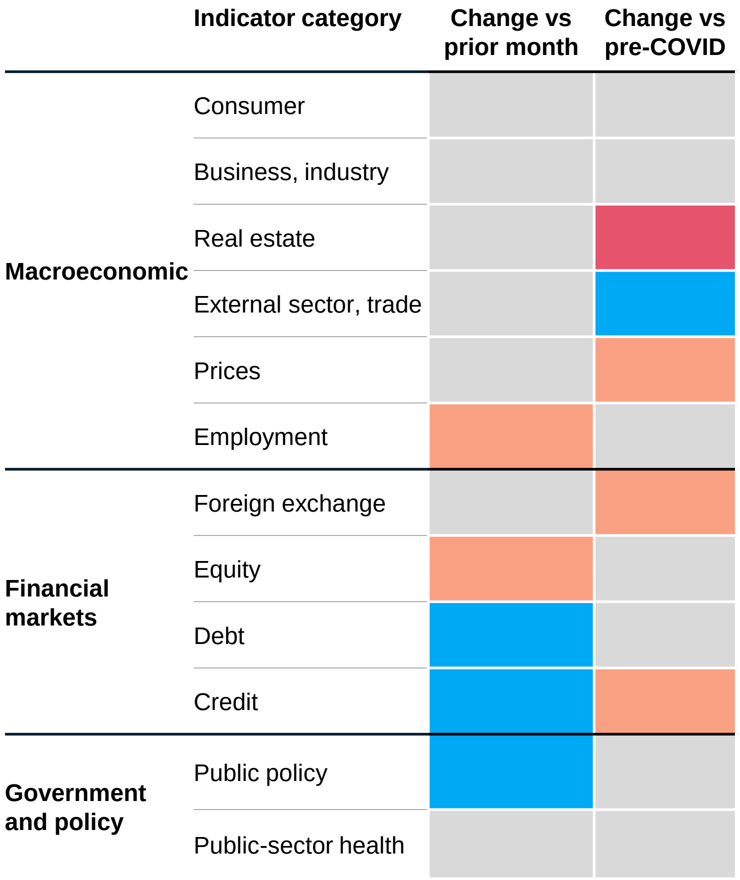
Stock market indexes

Index, monthly



Source: CEIC; McKinsey's Global Economics Intelligence analysis

Retail sales and trade growth decelerated, and inflation remained low in August



Retail sales growth decelerated slightly; the official manufacturing PMI stayed in contraction zone, while the services PMI continued in expansion zone; trade growth slowed, dragged by imports; inflation remained low

- Retail sales expanded more slowly at 2.1% in August (2.7% in July).
- The official manufacturing PMI stayed in the contraction zone at 49.1 in August (49.4 in July), while the official services PMI remained in the expansion zone, registering 50.2 in August (50.0 in July). The Caixin index, which focuses on SMEs, recorded a manufacturing PMI of 50.4, up from 49.8 in July, and a services PMI of 51.6, down from 52.1 in July.
- Cross-border trade growth decelerated to 5.2% in August, down from 7.1% in July, primarily due to a slowdown in imports growth, which fell to 0.5% from 7.2% in July. Meanwhile, exports growth remained robust at 8.7%, up from 7.0% in July.
- Consumer price inflation remained low at 0.6% in August, slightly up from 0.5% in July. Meanwhile, producer prices experienced deeper deflation, reporting a decline of −1.8% in August compared to −0.8% in July.

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

- The RMB appreciated against the US dollar by 0.6% compared with the level at the end of August, trading at RMB 7.0514 = USD 1 by September 20.
- The Shanghai stock index lost −3.7%, and the Shenzhen index −3.3%, by September 20 compared with levels at the end of August.
- New social financing came in at RMB 3.0 trillion in August, rising from RMB 0.8 trillion in July.
- M2 growth was unchanged at 6.3% in August.

PBOC announces stimulus measures; China to raise retirement age

- On September 24, the PBOC unveiled plans to cut reserve requirement ratios—the amount of cash banks must hold in reserve—by 50 basis points, together with a cut in the seven-day repo rate of 20 basis points to 1.5%.
- China is to raise the retirement age in 2025, from 60 to 63 for men and from 50 or 55 (depending on job) to 55 or 58 for women.

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

India

Economy expanded by 6.7% in Q2 2024, with only government consumption remaining flat. Inflation remains under control, while the central bank has kept interest rates unchanged. Both the manufacturing and services sectors continue to experience robust growth; the government is placing significant bets on the semiconductor industry.

Growth in the second quarter of 2024 was neither surprising nor disappointing. Although growth slowed from 7.8% in the first quarter to 6.8% in the second, it remained above the long-term average. The expansion was broad, with government expenditures being the only segment where levels have stayed almost flat since Q2 2023. Investments grew by 7.3%, while consumption increased by 7.6%.

Price momentum has stabilized for both headline and core consumer price index (CPI) inflation, standing at 3.7% and 3.3%, respectively. This stabilization has been observed across all sub-categories, allowing the Reserve Bank of India to keep the key repo rate unchanged at 6.5%.

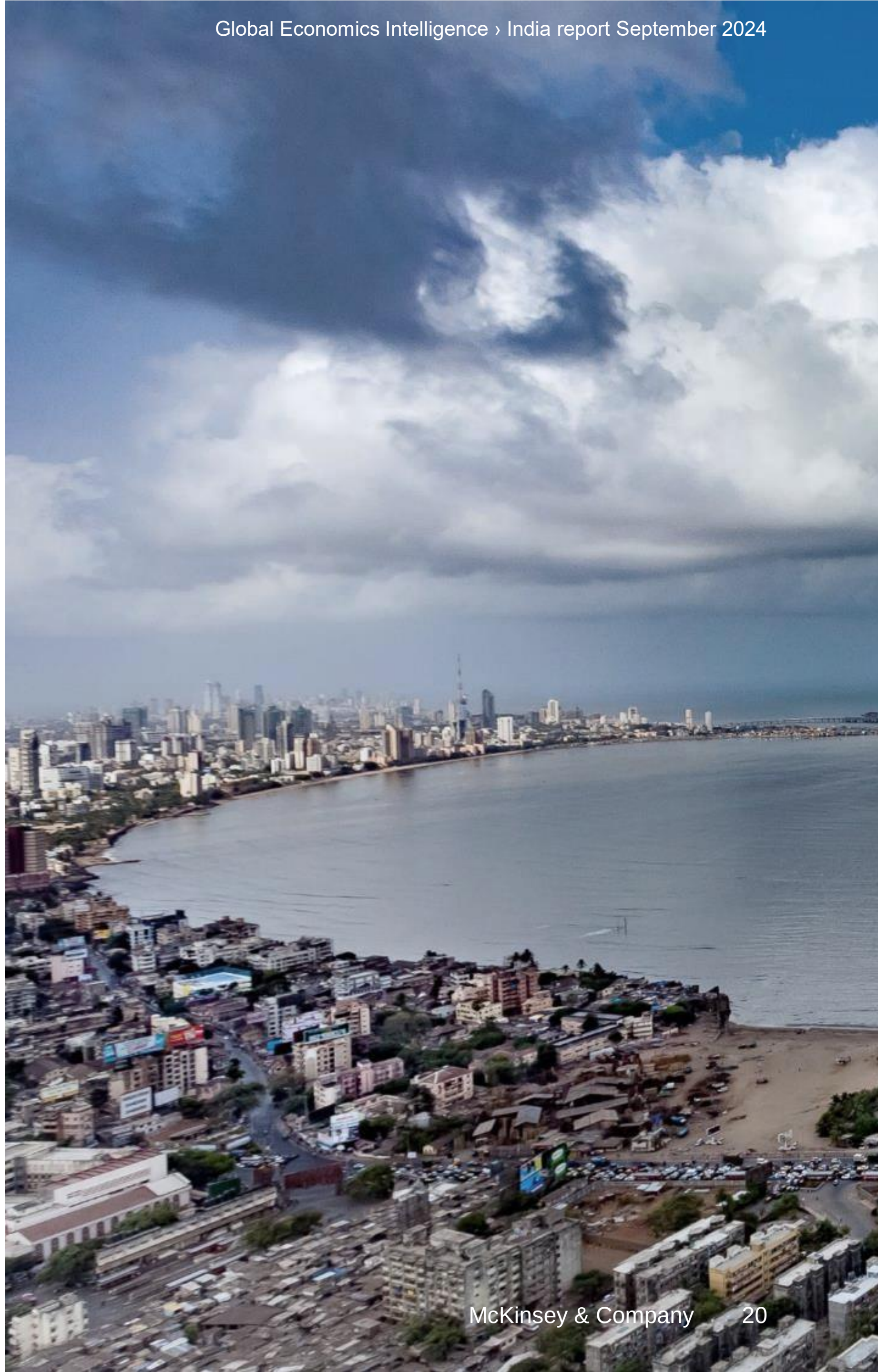
Industrial production grew by 4.9% in July, primarily driven by electricity production. At the same time, Purchasing Managers' Index (PMI) numbers remain strong, with both manufacturing and services sectors expanding at robust rates, registering PMI values of 57.5 and 60.9 respectively.

Consumer confidence worsened slightly but still sits at the higher end. A closer look at the consumer survey results shows that consumers are optimistic about the future, even more so than about their assessment of current conditions. The majority expect inflation to increase but also anticipate strong economic growth, which they believe will lead to higher incomes.

The unemployment rate picked up slightly in August, reaching 8.5%. This increase is likely seasonal, as other labor market metrics like the employment rate and labor force participation also rose. The Periodic Labour Force Survey confirmed employment numbers for the July 2023 to June 2024 period, with the only revelation being that the manufacturing sector didn't add any jobs.

The government is actively supporting the expansion of the semiconductor industry, aiming to nearly triple its size from $150 billion to $500 billion. Speaking to semiconductor industry CEOs, Prime Minister Modi assured them that the government would follow "predictable and stable" policies. Modi also met with top US tech CEOs to convince them to produce semiconductors in India, aligning with the government's strategy to provide an alternative to China and Taiwan—two semiconductor powerhouses.

This strong expansion has put pressure on the government's budget. The government has faced historically high deficits in the aftermath of COVID-19. Although there was some improvement in the deficit in Q2 2024, reaching –1.8%, this is likely due to seasonality. Consequently, the government was forced to raise INR 6.6 trillion.

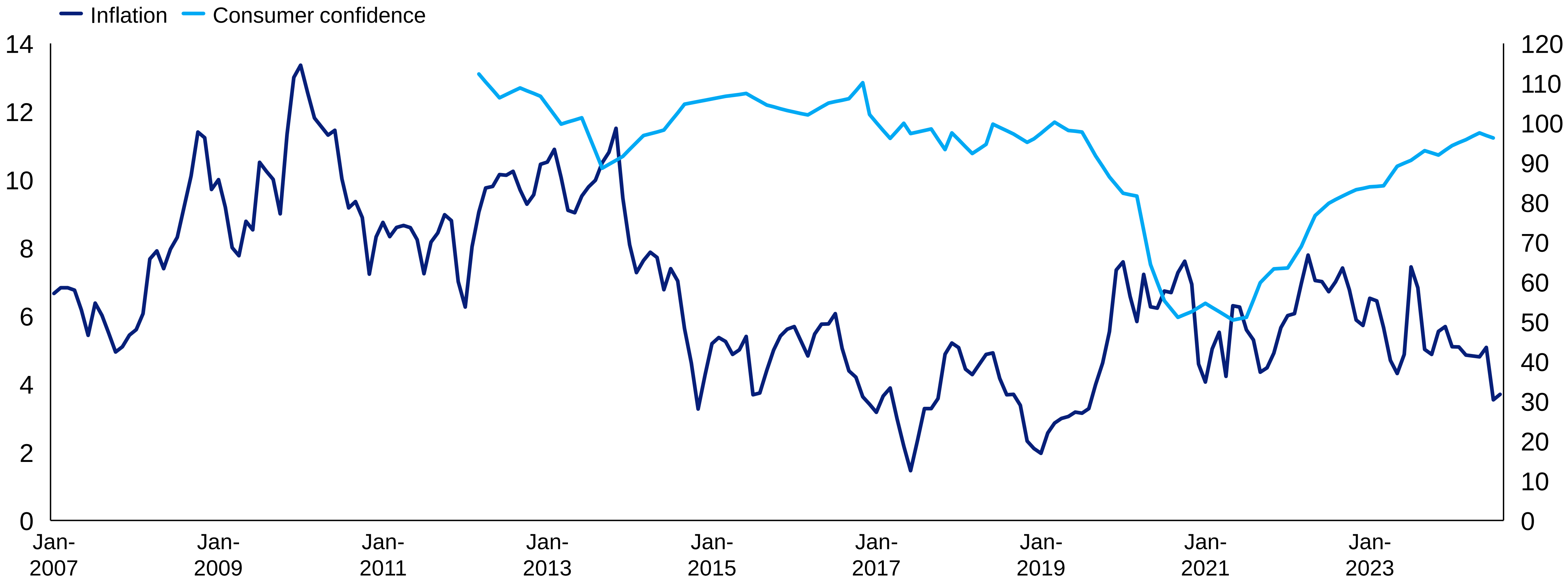


Source: Havers; IHS Markit; Ministry of Commerce and Industry; Ministry of Statistics and Programme Implementation (MOSPI); Reserve Bank of India

Confidence among consumers remains strong, supported by slowing prices growth

Consumer Price Inflation
12-month change, %

Consumer confidence
Index,



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

Growth momentum remains strong with the economy growing 6.8% in Q2 2024; government aims to triple the size of the semiconductor industry

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

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

The manufacturing and services sectors continue to drive robust economic growth in Q3 2024

- Consumption remained subdued, growing by only 2% in July. However, consumer confidence continues to be relatively high, largely due to improving expectations about future conditions.
- PMI numbers remain strong, with both the manufacturing and services sectors expanding at robust rates, registering PMI values of 57.5 and 60.9 respectively. Industrial production grew by 4.9% in August, driven primarily by electricity production.
- The trade deficit widened in August, mainly due to negative goods sales, while services contributed positively to net trade.
- Inflation has stabilized between 3.3% and 3.7%, with all sub-categories following a similar pattern.
- The unemployment rate slightly worsened to 8% in August. Revised labor market data for the period from July 2023 to June 2024 showed that the manufacturing sector barely created any jobs during that time.

September was yet another stable month for financial markets

- Exchange rate continued to be stable through August and September.
- Stock market gained 2.6% in September.
- Lending maintained the status quo from the previous month.

Government raises INR 6.6 trillion to cover budget deficit and aims to expand semiconductor industry

- The Reserve Bank of India kept interest rates unchanged in September.
- The government announced plans to raise INR 6.6 trillion in new borrowing to cover the gap in the public deficit, which has been significantly impacted by post-COVID-19 spending and strong economic expansion.
- India is betting on the semiconductor industry, positioning itself as an alternative to China and Taiwan, and aims to grow the industry from its current $150 billion to $500 billion.

SOURCE: McKinsey’s Global Economics Intelligence analysis

Russia

Russian economic growth slowed in June and July; estimates for 2H 2024 assume some cooling; inflation remains high amid tighter monetary policy.

Preliminary estimates by the economic development ministry confirm loss of momentum in early Q3. Year-on-year GDP growth in June and July was around 3%, down from 4.5% in April–May. The overall output contracted month on month in June but recovered by 1.5% in July. In annual terms, growth in the indicator was at 4.2%, below the Q2 average of 5.4%. Industrial output fell further in July, reflecting declines both in mining—as Russia continued cutting its oil output in accordance with its voluntary pledge to OPEC+—and manufacturing. Retail sales growth also stalled; in July this remained virtually unchanged from the average Q2 level.

The latest outlooks from most major institutional forecasters published in July or August see Russian GDP growing in the range of 3–3.5%; at the same time, the latest Central Bank of Russia (CBR) forecast sees Russian GDP increasing by 3.5–4% this year. The outlook for upcoming quarters assumes some cooling. The overheated demand from H1 supported by rapidly growing real wages and social transfers will start to fade due to tighter monetary policy. To curb overheating, the government began a gradual withdrawal of the most popular loan subsidies. Nevertheless, other subsidies remain in place and, together with a tight labor market, would support the demand. Forecasts for 2025 remain in the range 0.5–1.5%.

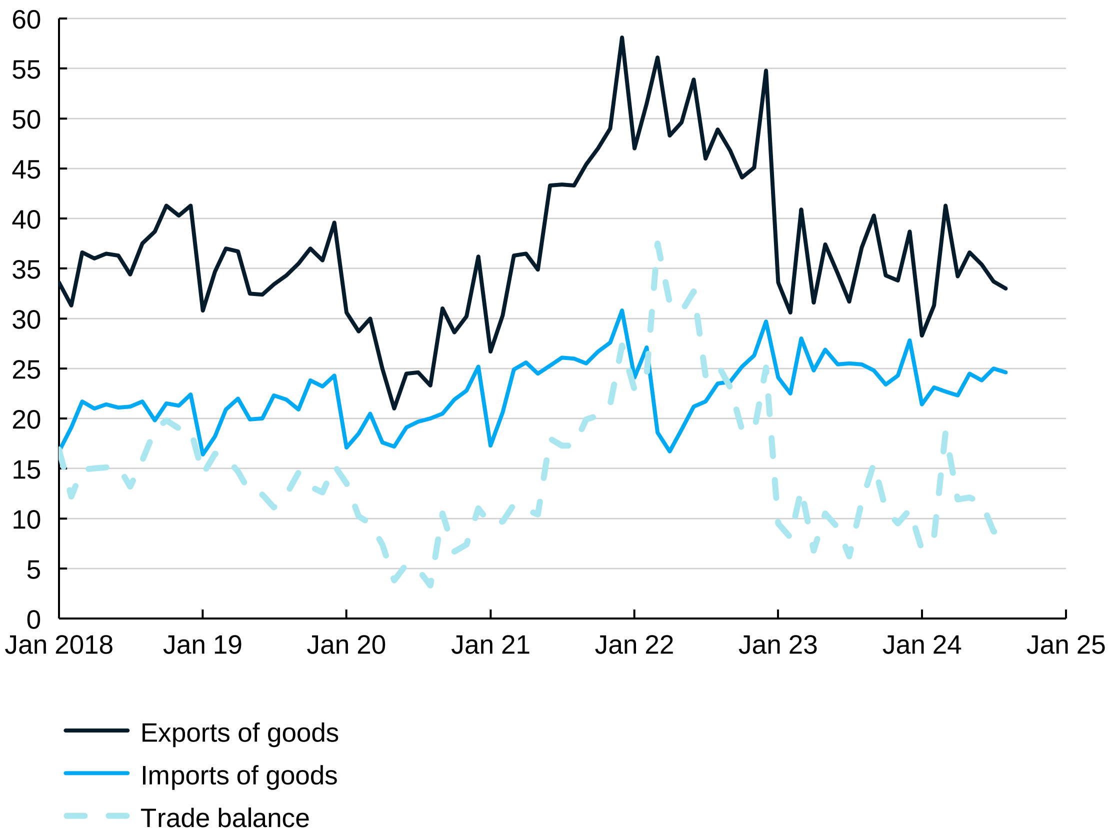
In August the current account returned to a surplus of $2.5 billion, after a $1.6 billion deficit in July. The trade balance in goods was in surplus of around $8 bilion to $9 billion in July–August, below the Q2 average of $12 billion. Preliminary figures suggest a slight decline in exports as positive price effects started to fade. Imports rose by 5–6% in July–August, compared to Q2. For the first eight months of this year, however, the value of goods imports was down by 6% year on year.

Inflation remains high, continuing to reflect supply shortages, with consumer prices up 9% year on year in August, well above the central bank's target rate of 4%. Prices for services last month rose nearly 12%, foodstuffs 10%, and non-food goods 6%. Inflation barely slowed in August in year-on-year terms; however, the month-on-month increase eased to 0.8% in seasonally adjusted terms—the lowest monthly growth rate since April. High government expenditure and a tight labor market—with the unemployment rate at 2.5% (a post-Soviet record)—are combining to bring about strong real wage increases, which have translated into a surge in domestic demand. Real disposable income, was up 8.1% year on year in H1. Externally, sanctions have made it harder for the increased demand to dissipate through increased imports. In response, the Central Bank of Russia followed up on its 200-basis-points rate rise to 18% in August with a further round of tightening in September; the latest 100-basis-points rise brought the key rate to 19%. CBR governor Elvira Nabiullina has stated that the bank will hold rates there for longer if that is what is required to bring inflation down.

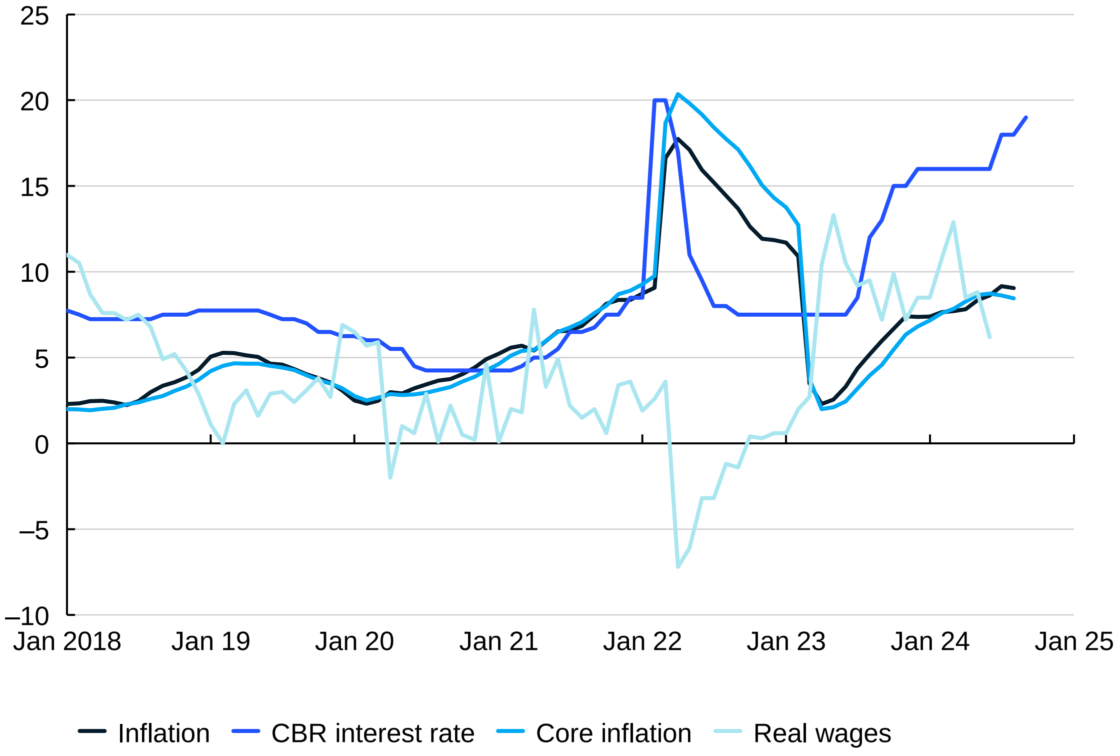
Source: BOFIT; Oxford Economics

Rising inflationary pressures prompted another policy rate hike; trade affected by sanctions, with surplus declining in Q3

Foreign trade of goods
USD billion, through August 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

Domestic activity and trade stagnated amid high inflation; government attempts to curb credit growth

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

	Indicator category	Change vs prior month	Change vs pre-COVID levels
Macro-economic	Consumer	No significant change	Improving
	Industry	Worsening	Improving
	Real estate	No significant change	No significant change
	External sector, trade	No significant change	Severe decline
	Prices	No significant change	Worsening
	Labor market	No significant change	Improving
Financial markets	Foreign exchange	No significant change	Worsening
	Equities	No significant change	Severe decline
	Debt	No significant change	Worsening
	Credit	No significant change	Improving
Government and policy	Public policy	Worsening	Severe decline
	Public-sector health	No significant change	Severe decline

Both domestic activity and foreign trade stagnate amid heightened inflation

- Retail sales volumes recovered by 0.4% monthly in July, and annual growth slowed to 6.0% year over year from 7.3% in Q2. Tighter monetary policy may gradually dampen demand.
- July's industrial production declined by 0.8% monthly, as annual growth slowed to 1.8% from 4.1% in Q2. The manufacturing PMI dropped to 52.1 in August from 53.6 in July. Annual construction growth collapsed to 3.3% year on year from 4% in Q2.
- The trade balance in goods was in surplus of around \$8 billion to \$9 billion in July–August, below the Q2 average of \$12 billion. In August, the value of exports declined by 9% from April's peak as positive price effects started to fade. Imports remained stable after a 5% rise in July.
- Headline inflation stabilized at around 9% year on year in July–August, from 8.6% in June; core inflation ticked down to 8.4% from 8.6%. Inflation remains high, well above the central bank's target rate of 4%, continuing to reflect supply shortages. Prices for services last month rose nearly 12%, foodstuffs 10%, and non-food goods 6% on an annual basis. The month-on-month increase eased to 0.8% in seasonally adjusted terms, the lowest monthly growth rate since April. In response, the Central Bank of Russia, after it raised its key rate by 200 basis points to 18% in August, followed with another round of tightening, this time by 100 basis points to 19% in September.
- Russian unemployment has fallen to record a post-Soviet low (2.5% in June–July). In June, the average monthly wage increased 15% year on year in nominal terms and by 6.2% in real terms, slowing because of rising headline inflation.

Currency remained weaker in September; 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. Then, after temporary appreciation in early September, the Russian currency returned to 92:\$1 as of September 19.
- The government decided to gradually withdraw the most popular mortgage subsidy. The program's expiry in July caused a temporary spike in new mortgages in June. In June, corporate loan growth slowed to 21% year over year from 23% in May, while household loan growth increased to 23.5% from 22.7%

Power of Siberia 2 pipeline put on hold, limiting options for diversifying gas exports

- The Power of Siberia 2 (PoS2) natural gas pipeline project has been put on hold. The joint Chinese and Russian project was expected to deliver 50 billion cubic meters of gas annually to China, significantly boosting Russia's export capacity. The shelving of PoS2 has far-reaching implications for Russia's energy sector as it was seen as a potential lifeline, mitigating the significant impact of Western sanctions. The cancellation limits Russia's options for diversifying its gas export routes and customers at a time when its traditional European market is shrinking. The delay also reveals ongoing challenges in the China-Russia energy partnership as the stalled negotiations suggest China is potentially seeking more favorable terms, given Russia's weakened negotiating position.

Source: BOFIT; Haver Analytics; Oxford Economics

Brazil

Inflation fell for the first time in four months; the composite PMI decreased significantly; unemployment rate slightly declined.

Inflation fell to 4.24% in August (4.50% in July), decreasing for the first time since April and falling within the Central Bank's target upper limit of 4.50%.

Brazil's 2024 Q2 GDP increased 2.8% compared to the year-ago period. While the agriculture sector contracted by 3.2%, the industrial sector expanded 3.8%; the services sector also increased, by 3.4%. GDP grew 1.4% compared to last quarter's figure.

Brazil's Central Bank raised benchmark interest rates by a quarter point to 10.75%, marking the beginning of a new monetary tightening cycle. This was the first hike in two years.

Consumer confidence remains below the neutral 100 mark but rose 0.3 points to 93.2 in August (92.9 in July), up for a third consecutive month. Business confidence rose to 97.9 in August (97.6 in July) to its highest level since September 2022.

The purchasing managers' index (PMI) for manufacturing fell to 50.4 in August (54.0 in July), staying slightly above the neutral 50 mark for an eighth month running, to indicate modest expansion. This lowest reading so far this year is attributable to the largest increase in purchasing prices for nearly two-and-a-half years, which caused companies to cut production volumes for the first time in eight months; production fell marginally. International sales rose at a softer pace in August. Demand from Asia and the Middle East improved, while several firms noted lower new business intakes from the US and Mercosur.

August saw the services PMI fall to 54.2 (from 56.4 in July) as softening of demand this month restricted growth in business activity. Depreciation of the Brazilian real, droughts in parts of the country, and the lasting effect of flooding in Rio Grande do Sul pushed cost pressures to their highest in over two years, sparking a sharper increase in selling prices. The composite PMI fell from 56.0 to 52.9 in August, staying within the expansion zone for an 11th consecutive month.

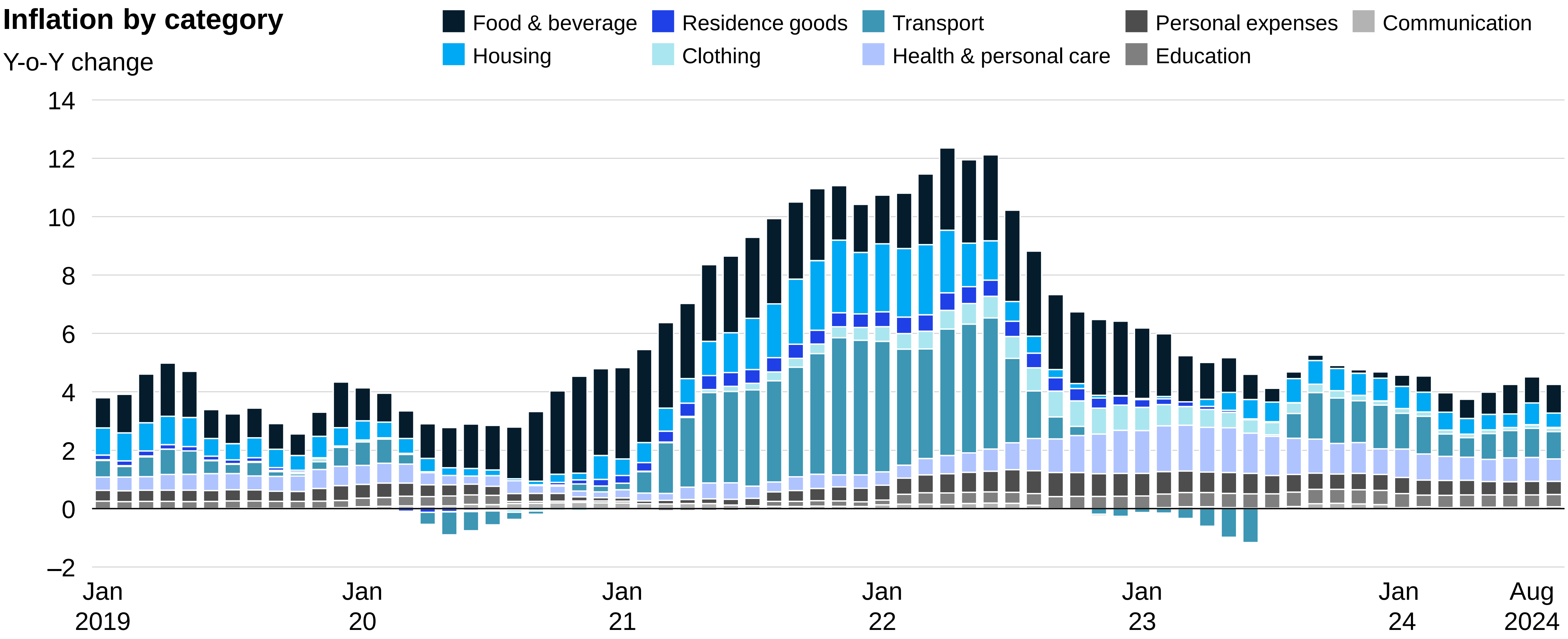
On the financial markets, the monthly average exchange rate was BRL 5.55 per US dollar in August (5.54 in July). In August, the Bovespa equities index rose, gaining 6.5% in value. The balance of trade showed an August surplus of US $4.8 billion, compared to US $7.6 billion in July, attributable to a rise in imports (US $24.3 billion in August compared to US $23.3 billion in July) and a decrease in exports (US $29.0 billion in August compared to US $30.9 billion in July).

Meanwhile, the three-month moving average unemployment rate dropped slightly to 6.8% in July (6.9% in June), down for the fourth time this year, and lower than the same period last year (7.9%).

Due to weak domestic demand, China has been rapidly increasing steel exports to many regional markets, including Brazil, at below-market prices. This has forced Brazil to respond by initiating anti-dumping investigations and introducing measures to prevent production cuts and job losses (such as higher tariffs) to protect local industries.

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

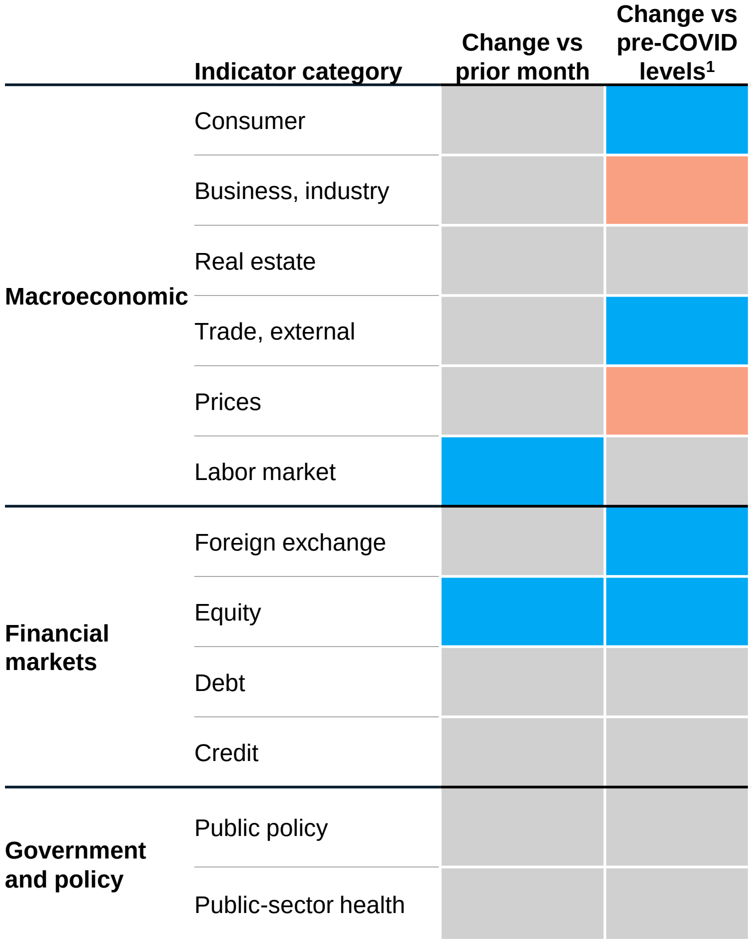
August's inflation decrease was driven by housing costs



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

Inflation fell for first time since April; unemployment was down for a fourth time this year; exchange rate marginally rose in August

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



Composite PMI decreases; manufacturing and services PMIs also fall

- Consumer confidence rose to 93.2 in August, from 92.9 in July—3.1% above pre-COVID-19 levels. Retail sales rose by 0.6% in August, after decreasing last month. Business confidence rose to 97.9 in August (97.6 in July)—similar to pre-COVID-19 levels.
- The PMI for manufacturing fell to 50.4 in August (54.0 in July). The services PMI decreased to 54.2 in August (56.4 in July).
- In August, the balance of trade registered a surplus of US $4.8 billion, up from US $7.6 billion in July.
- Inflation fell to 4.24% (4.50% in July), down for the first time since April. The consumer price index (CPI) is now 0.2 percentage points above pre-COVID-19 levels.
- The three-month moving average unemployment rate fell to 6.8% in July (6.9% in April)—down for the fourth time this year.

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

- In August, the monthly average exchange rate was at BRL 5.55 per US dollar (BRL 5.54 in July). On September 16, the exchange rate was BRL 5.51 per US dollar.
- The Bovespa equities index rose 6.5% over the month (up to September 10); it gained 2.7% in value up to August 10.

Climate-related events are expected to boost Brazil's inflation; Brazil is key to China's green rush

- Last month, lower food and energy prices drove August's deflation, though they are expected to rise again due to climate-related factors. While costs for groceries fell by 0.73%, thanks to a milder climate boosting production of items such as potatoes, tomatoes, and onions, the 12-month food inflation rate rose. Residential power bills were down 2.77%, with hydroelectric power plants operating well, and consumers were not subject to extra fees. However, this drop is not expected to last: earlier this month, Brazil's electricity regulator announced a higher tariff for September onwards due to hotter weather, which will add 0.27 percentage points to next month's inflation. Meanwhile, wildfires are surging across key agricultural areas, affecting crops like beans, sugar, and oranges, as well as meat.
- Between 2007 and 2023, only the US, Australia, and the UK received more Chinese foreign direct investment than Brazil, according to a Brazil-China Business Council report. However, China's investment in Brazil was up by 33% in 2023, while its investment in the top three fell. Renewable energy and projects linked to decarbonization accounted for 72% of the 29 projects in Brazil last year, when Chinese capital inflows reached USD 1.7 billion. Manufacturing of hybrid and electric cars and buses stand out as the most impacted sector.

[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

Amid a series of political restructuring policies, Mexico maintains stability in key economic indicators.

In August, the inflation rate dropped to 5.0% (from 5.6% in July), decreasing for the first time following an upward trend since February. However, it remains outside the Central Bank's target range of 2% to 4%.

Consumer confidence fell slightly to 100.9 in August (versus 101.1 in July) to reach its lowest level this year, while remaining above the neutral 100-point mark. 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 declined 0.06 points in July to 2.67%. Meanwhile, employment in the formal economy saw an increase of some 12,000 employees during this period.

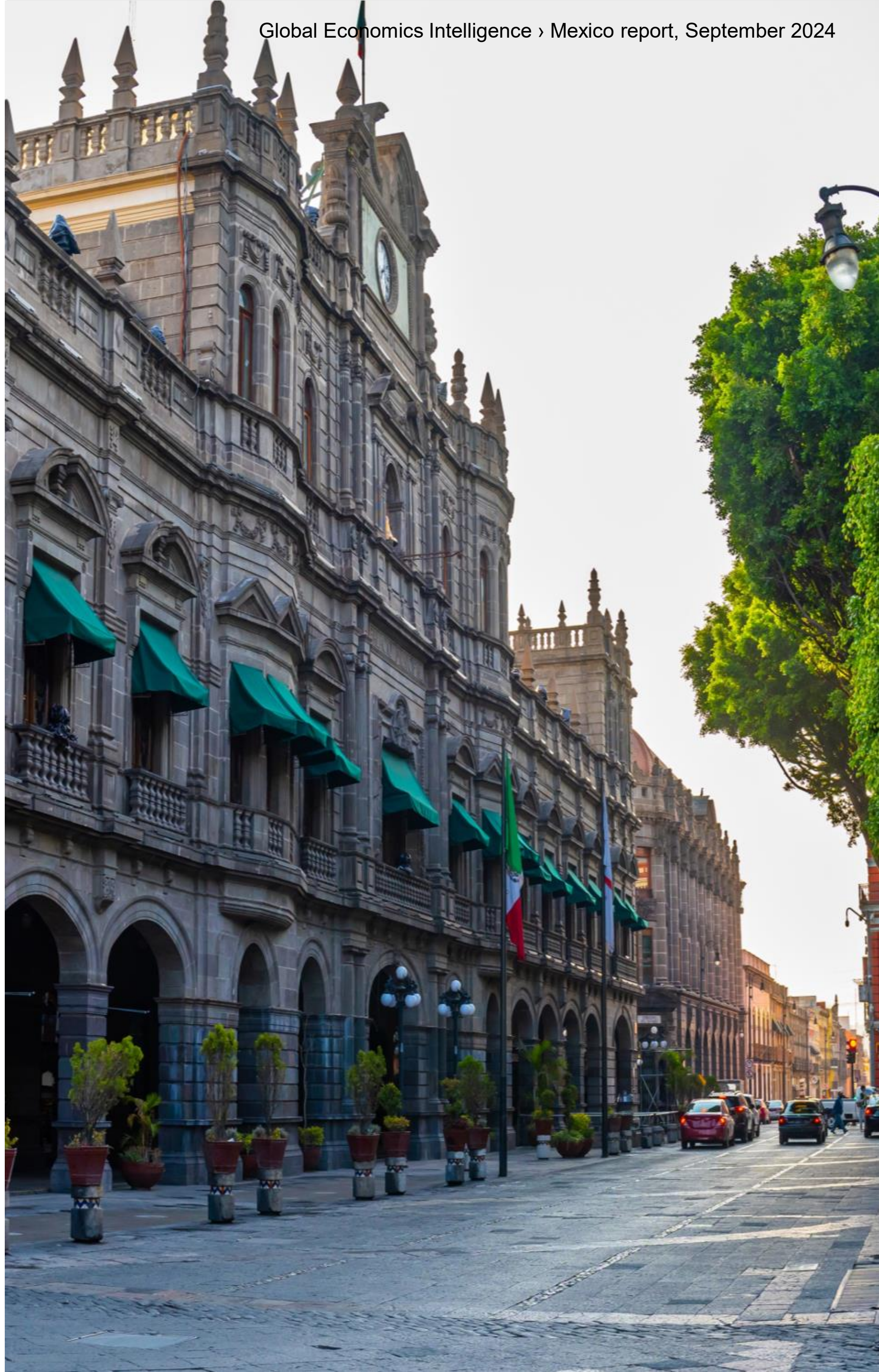
July's balance of trade registered a deficit of around US $72 million (a significant decrease from the $1 billion trade deficit in June). This was mainly due to a 20% increase in exports of capital goods. Exports totaled US $54.7 billion (up from US $48.9 billion in June), against imports of US $54.9 billion (down from US $49.9 billion in June).

On the markets, the monthly average exchange rate in July was MXN 19.2 per USD (up from MXN 18.1 in July), stabilizing at pre-pandemic levels. August's closing consumer price index (CPI) was down 2% from July, reaching its lowest level this year, attributable to a significant decrease in the non-basic consumer goods and services sector.

Between January and July, tax revenues increased by 6.1% in real terms annually, driven mainly by the collection of VAT, import tax, and the IEPS on fuels, which reinforces the government's capacity to finance public spending without increasing debt. Up until July, investment in infrastructure grew by 19.3% in real terms annually, the largest increase since 2014, strengthening productive capacity and promoting regional development. At the same time, spending on social development rose by 10.5% in real terms annually, supporting efforts to consolidate a welfare state.

On September 11, the Senate approved the judicial reform proposed by the current president, Andrés Manuel López Obrador, which will be endorsed by the incoming president, Claudia Sheinbaum.

International rating agencies have warned that the judicial reform could undermine Mexico's sovereign credit quality, as it may generate a prolonged confidence shock, volatility, and financial uncertainty. This would raise debt costs and put growth and public finances at risk. Additionally, the content of the 2025 Budget in relation to fiscal matters will be crucial for HR Ratings (credit ratings), particularly concerning proposals to reduce the deficit reached this year.



1. Sociedad hipotecaria federal.

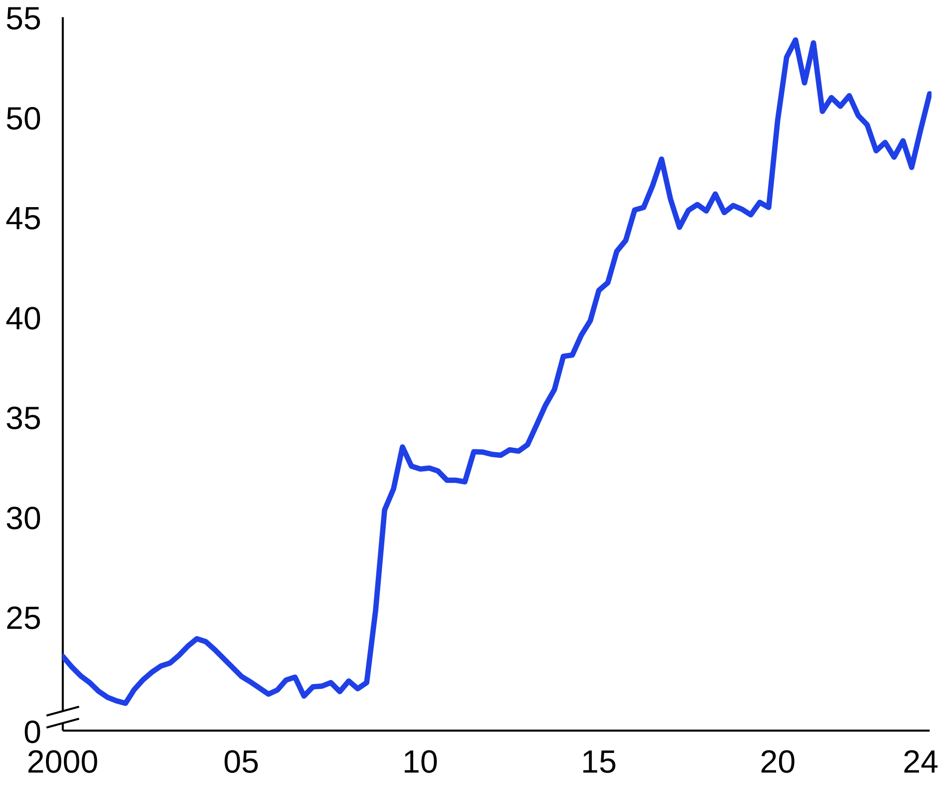
Source: Banco de México (Banxico); Haver Analytics; Instituto Nacional de Estadística y Geografía (INEGI); Secretaría de Economía

In 2024, government debt increased to 51% of GDP, following a decreasing trend seen since the pandemic

Fiscal deficit[1] | Total revenue as % GDP | Total spending as % GDP

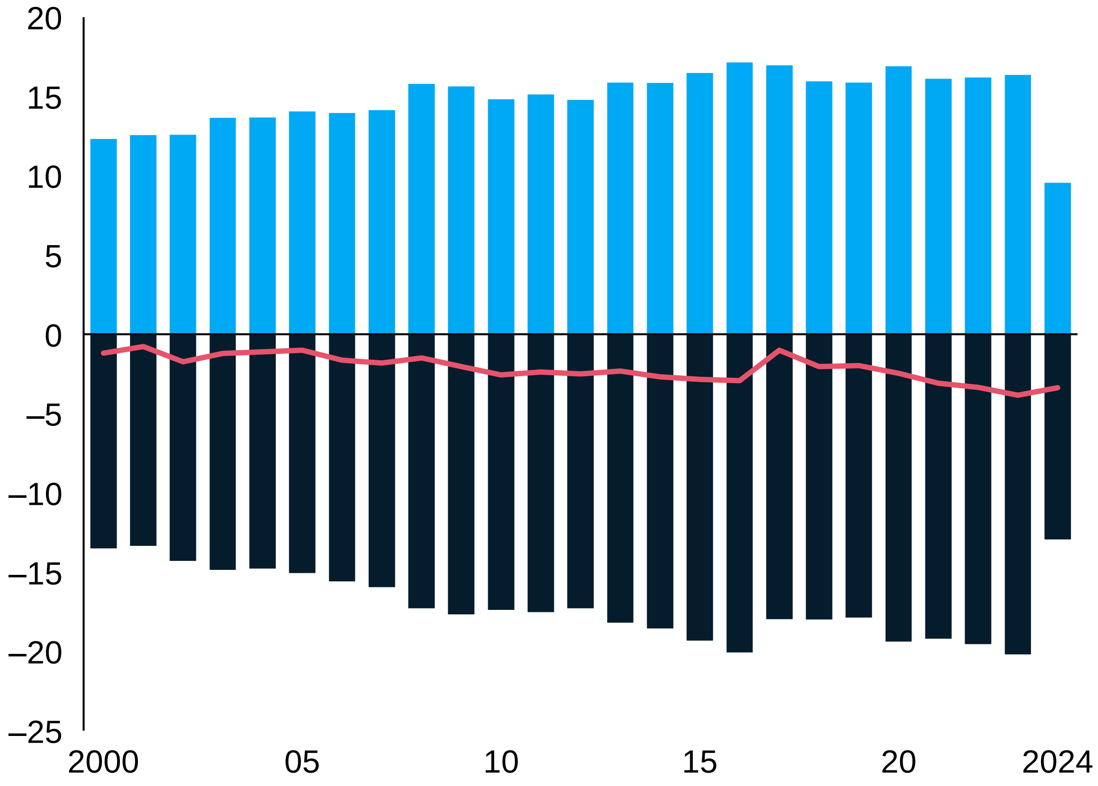
Gross government debt as a % of GDP

%



Government revenue and spending as % of GDP

%



1. Total government revenues minus total government spending.

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

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

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	Improving	Improving
	Prices	Improving	Worsening
	Labor market	Improving	Improving
Financial markets	Foreign exchange	No significant change	No significant change
	Equity	No significant change	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 July, the balance of trade registered a smaller deficit than the previous month; unemployment fell

- In July, the consumer confidence index dropped slightly to 100.9, reaching its lowest level this year.
- The PMI for manufacturing fell slightly to 51.1 in June (51.2 in May).
- In July, the balance of trade registered a deficit of approximately US $72 million, with exports totaling US $54.7 billion (US $48.9 billion in June) and imports reaching US $54.9 billion (US $49.9 billion in June).
- Inflation dropped to 5.0% in August (5.6% in July). The consumer price index (CPI) is 1.4 percentage points above the pre-COVID-19 level.
- The average unemployment rate dropped to 2.67% in July (2.74% in June), while the formal market recovered slightly.

In August, the Mexican peso lost ground against the US dollar; the Mexican Stock Market Index (IPC) decreased

- In August, the monthly average exchange rate reached MXN 19.2 per US dollar (MXN 18.1 in July).
- IPC index fell 2% over the month of August (end of month close), resuming its downward trend seen since March.

On September 11, Mexico's senate approved new judicial reforms, sparking uncertainty around the country's economic situation and future investments into the country

- The Senate approved President Andrés Manuel López Obrador's judicial reform with 86 votes in favor and 41 against.
- International credit rating agencies have warned that this reform could undermine Mexico's sovereign credit quality by causing a prolonged confidence shock, volatility, and financial uncertainty, thereby raising debt costs and putting growth and public finances at risk.
- HR Ratings, Mexico's credit rating agency, says it will prioritize the 2025 Budget's deficit reduction proposals over recent judicial reforms in its sovereign rating evaluation. In April, HR Ratings confirmed Mexico's BBB+ rating with a stable outlook, noting fiscal consolidation expected from 2025. President-elect Claudia Sheinbaum attributed this year's fiscal deficit to accelerated spending for project completion, projecting a reduction from 5.9% to 3.5% in 2025 without requiring tax reforms.

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

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

McKinsey & Company