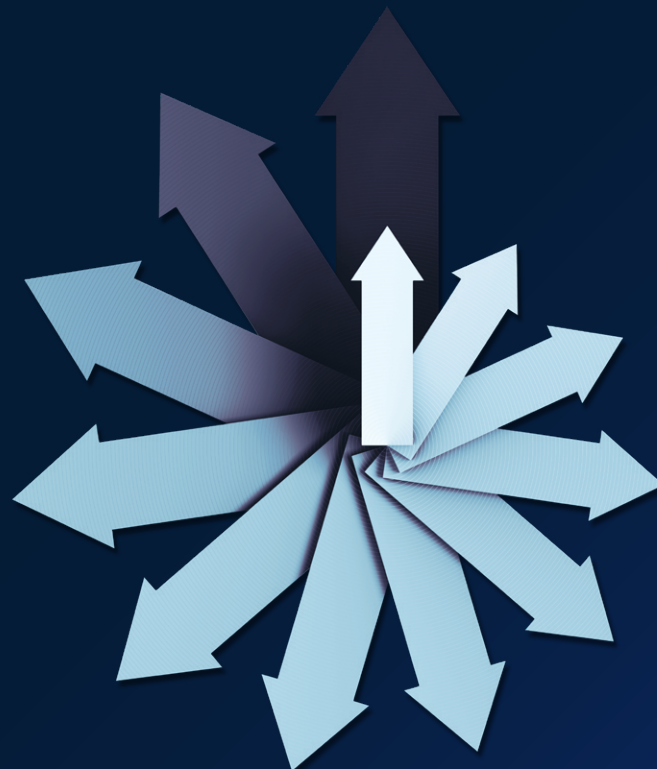


How inflation is flipping the economic script, in seven charts

The troubling trend is spilling over into every corner of the global economy, with dramatic effects. McKinsey Global Publishing looks at the latest data.



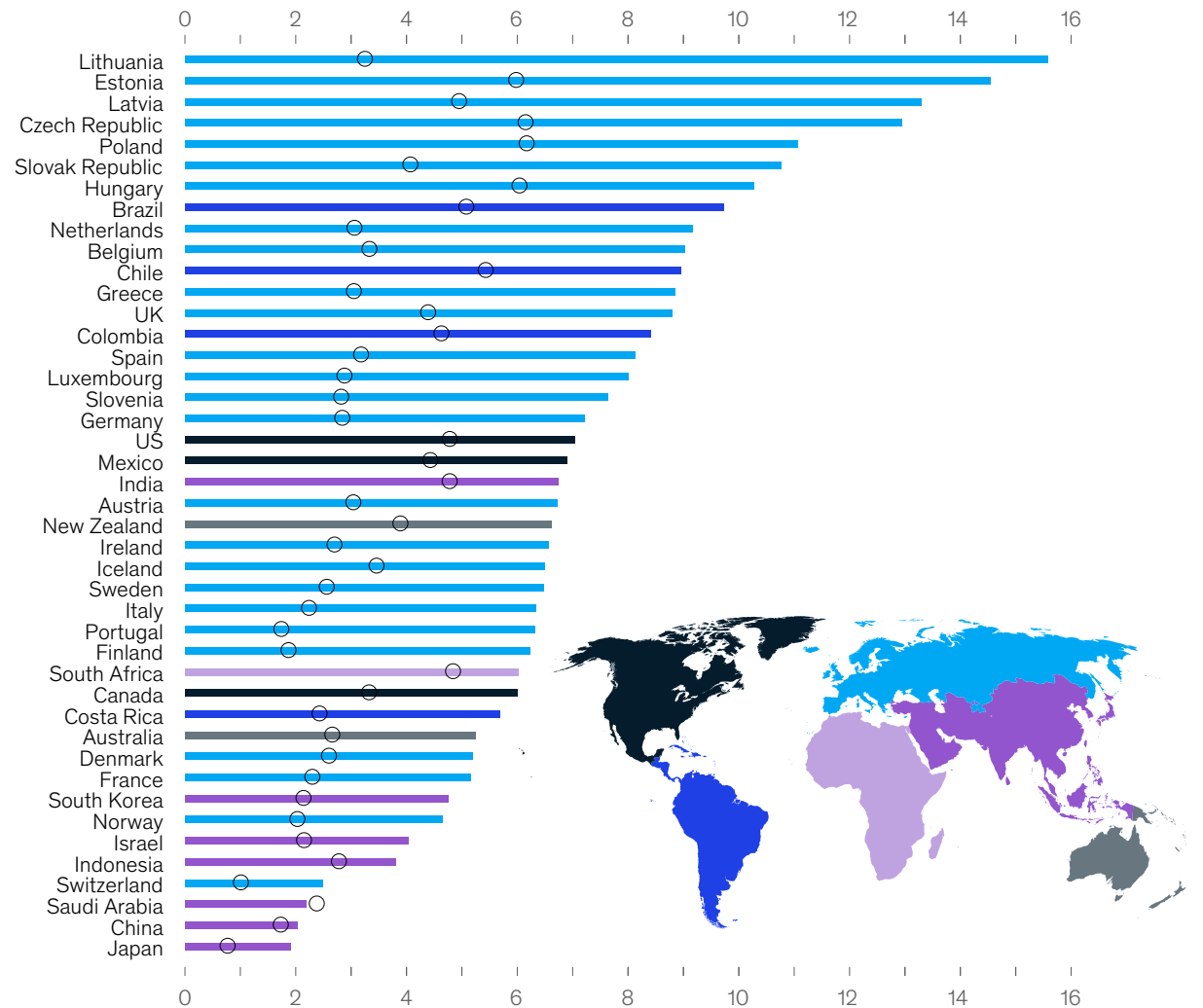
Every morning a new headline underscores growing economic concerns: *Highest inflation since the 1970s. Central banks aggressively raising rates. Consumer sentiment at record lows. Commodity prices near all-time highs.* Clearly inflation has, at a minimum, altered the economic mood, and potentially reset the path of global and national economies worldwide for years to come. McKinsey's experts have examined many of the strategic implications of inflation. Here, we use the best and most recent publicly available data to offer seven charts illustrating inflation's insidious progress.

Double trouble. In the past six months, inflation has far exceeded December 2021 expectations. In many countries, actual rates have doubled projections. European countries are particularly affected. For example, inflation in Lithuania is running at 15.5 percent annually, nearly five times the rate expected. Poland is at 11 percent and the United Kingdom at 9 percent, both well above projections. At 3 percent, Switzerland is an outlier. Asia is seeing a less severe change: Indian inflation is about 7 percent, only a bit above projections; and South Korea is at 5 percent. In China and Japan, inflation remains muted.

Inflation in many countries has more than doubled projections in the past six months.

Inflation in Jun 2022, % change, year-over-year (as of Jun 30, 2022)

○ Dec 2021 projection



Note: The boundaries and names shown on this map do not imply official endorsement or acceptance by McKinsey & Company.
Source: OECD

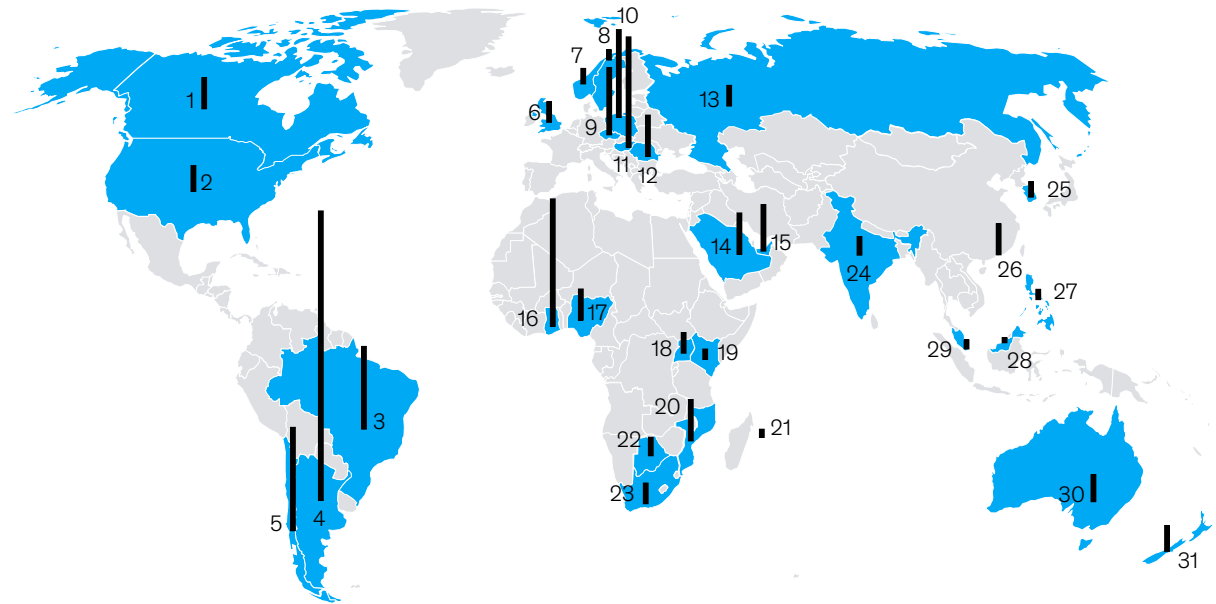
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Here comes the cavalry. In response to inflation's alarming rise, central banks worldwide are raising their core bank lending rates. So far, however, rate raises in most countries have not matched the pace of inflation.

As we discuss next, rising rates are expected to ease demand and lower prices for two critical components of headline inflation: housing and commodities such as energy and metals.

Central banks worldwide are raising rates.

Rise in central bank lending rates in 2022, percentage points (as of Jun 30, 2022)



1 Canada	1.50	9 Czech Republic	3.25	17 Nigeria	1.50	25 South Korea	0.75
2 US	1.25	10 Poland	4.25	18 Uganda	1.00	26 Hong Kong	1.50
3 Brazil	4.00	11 Hungary	5.35	19 Kenya	0.50	27 Philippines	0.50
4 Argentina	14.00	12 Romania	2.00	20 Mozambique	2.00	28 Malaysia	0.25
5 Chile	5.00	13 Russia	1.00	21 Mauritius	0.40	29 Singapore	0.44
6 UK	1.00	14 Saudi Arabia	2.00	22 Botswana	0.90	30 Australia	1.31
7 Norway	0.75	15 UAE	2.25	23 South Africa	1.00	31 New Zealand	1.25
8 Sweden	0.50	16 Ghana	6.16	24 India	0.90		

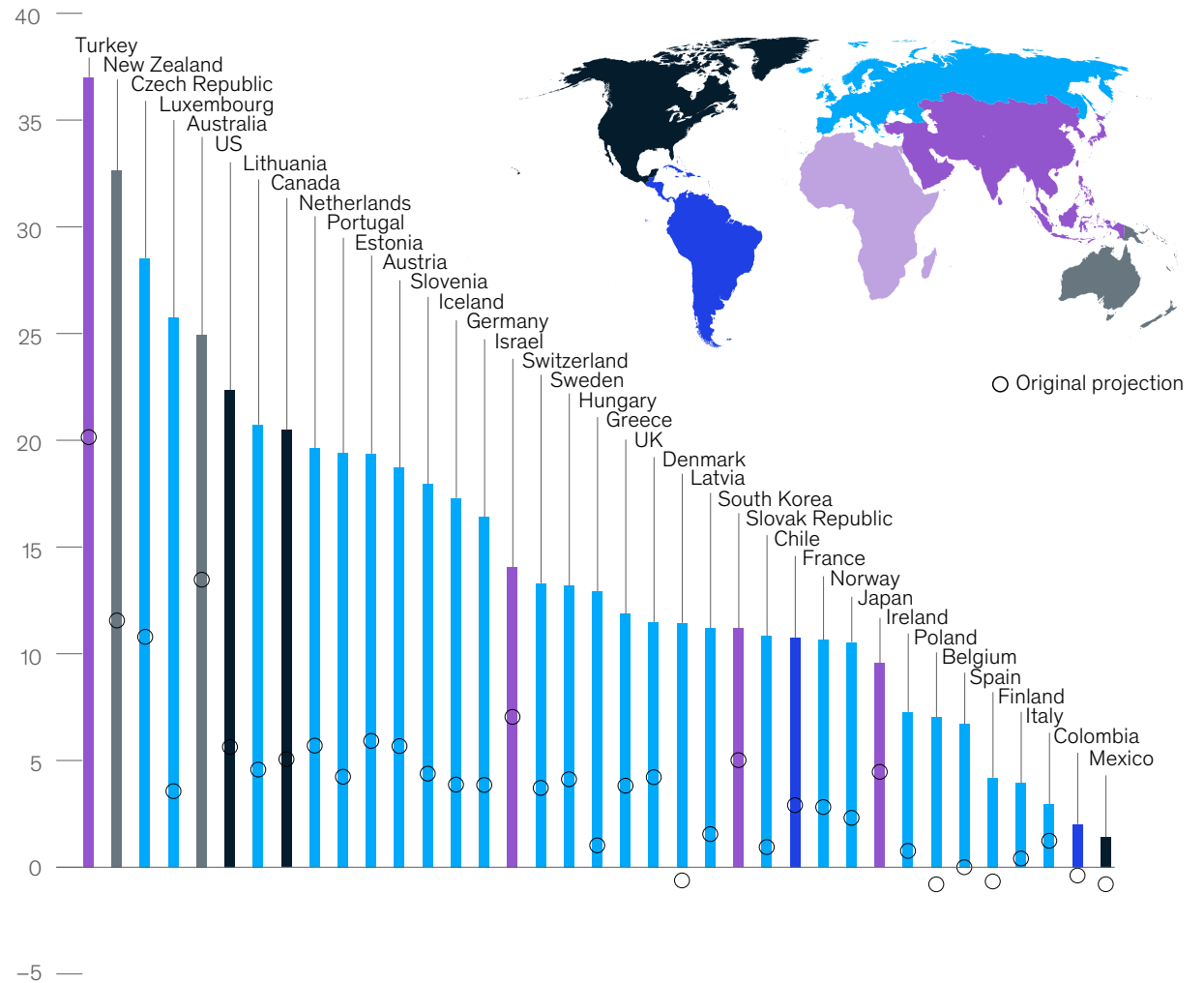
Note: The boundaries and names shown on this map do not imply official endorsement or acceptance by McKinsey & Company.
Source: Central bank websites

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Safe as houses? Housing prices rose sharply even before the inflation wave of 2022, as the pandemic spurred a massive real-estate reshuffle. Here we show the rise from 2020 to 2021. House prices soared well past expectations in a fairly global phenomenon. In Europe, Turkish homeowners saw the biggest gains, followed closely by those in the Czech Republic and Lithuania. In Asia-Pacific, New Zealand and Australia notched big gains. In North America, the United States and Canada both benefited from the surge; Mexico did not. In Colombia, one of three Organisation for Economic Co-operation and Development (OECD) countries in South America, gains were small.

Real house prices rose strongly in OECD countries during the pandemic.

Housing prices for Q4 2021, % change over same period in 2020 (as of Q4 2021)



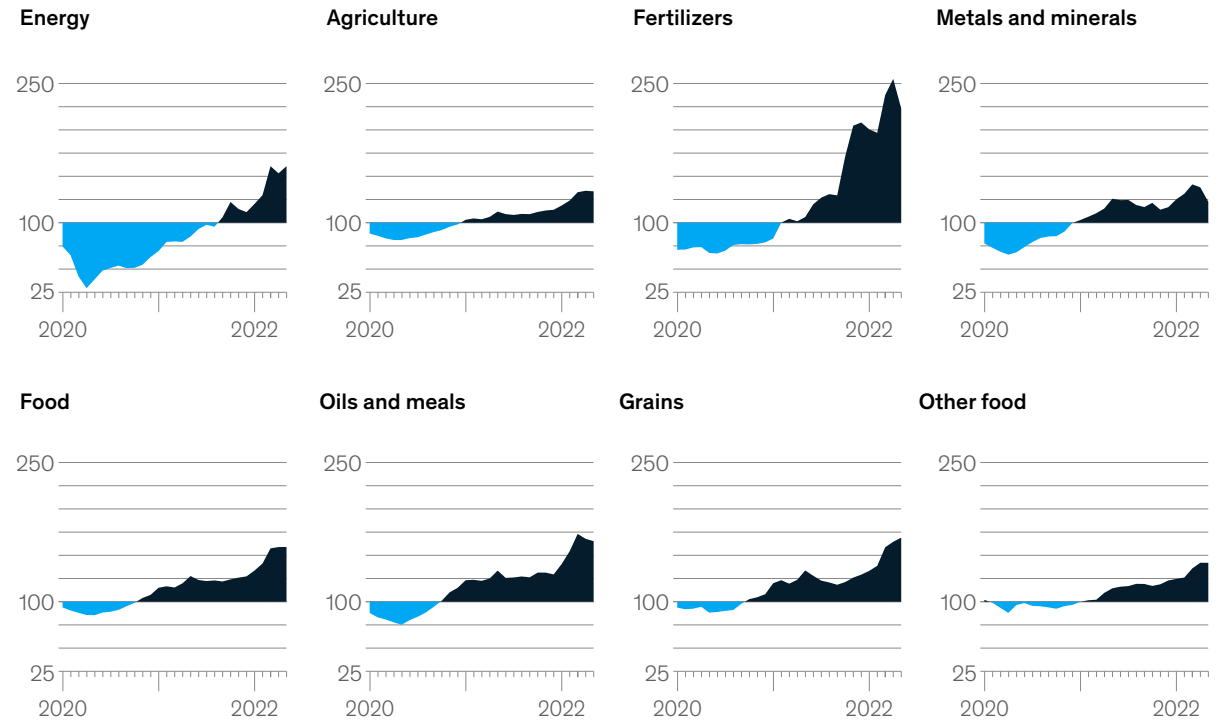
Note: The boundaries and names shown on this map do not imply official endorsement or acceptance by McKinsey & Company.
Source: OECD

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Commodities' contribution. Investors often say that in inflationary times, the best place to invest is in commodities. That's of course because commodity prices reflect the demand for raw materials needed for economic expansion. The pattern holds true for most all the commodities in this exhibit: as economic stimulus reflatd the global economy that had been punctured by the COVID-19 pandemic, prices took off. Then Russia's invasion sent prices higher still. The biggest rise was in fertilizers. Spurred by shortages of natural gas, a key component in making fertilizer, and by rising demand from farmers, fertilizer prices rose sharply.

Prices for commodities are higher across the board.

World Bank commodity price data, index (100 = 2010 average) (as of May 2022)



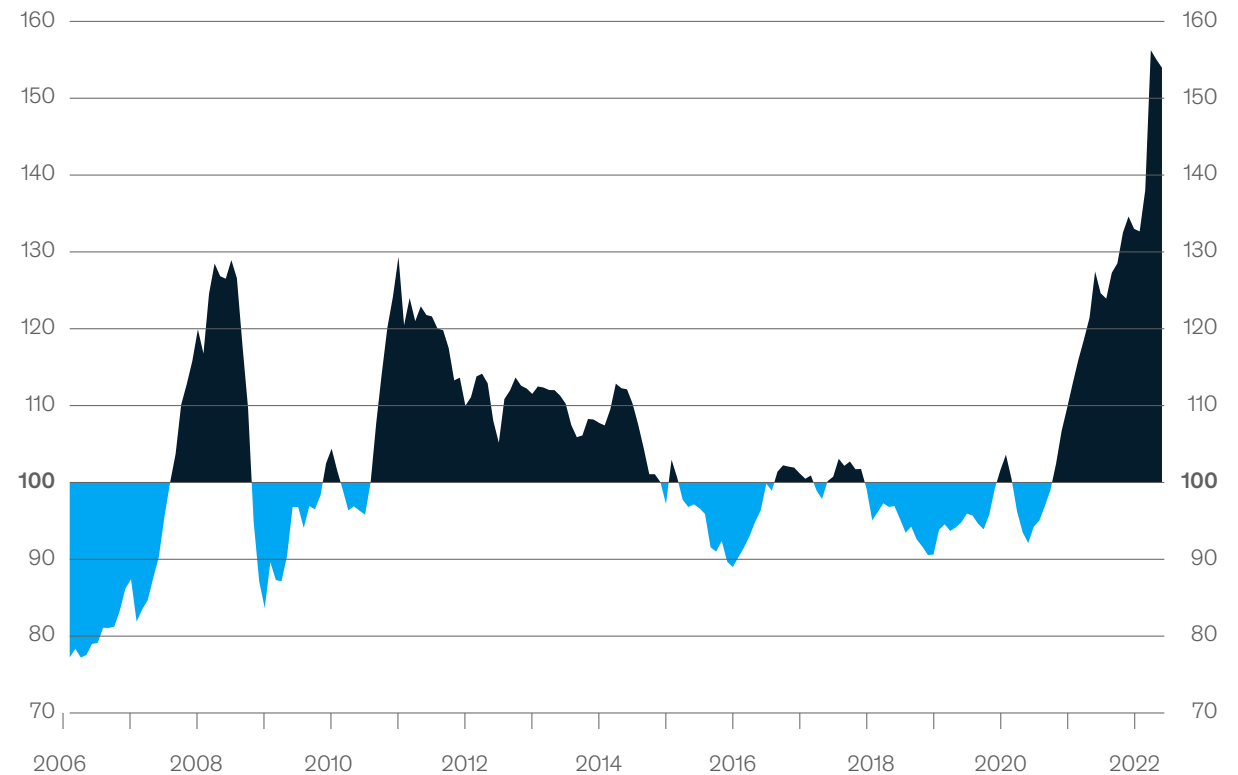
Source: Jongrim Ha et al., *One-stop source: A global database of inflation*, World Bank Group, policy research working paper 9737, July 2022

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A brewing food crisis. The liftoff in fertilizer prices, along with other fallout from the war in Ukraine, has pushed prices for basic foods much higher. Since 2021, food prices have risen to their highest level since the United Nations' Food & Agriculture Office began its index. Prices today are considerably higher than in past surges in 2008 and 2011, which were precipitated by the turmoil of the global financial crisis. In the decade since, prices have moderated considerably. But they turned sharply higher in 2021, with supply chain snags, drought, and other forces at work. And the war in Ukraine has lifted food prices to an entirely new level.

Food prices have reached record highs.

Real food price index, index (100 = 2014–16 average) (as of Apr 4, 2022)



Note: The FAO Food Price Index (FFPI) is a measure of the monthly change in international prices of a basket of food commodities. It consists of the average of five commodity group price indexes weighted by the average export shares of each of the groups over 2014–16. Figure shows monthly data; latest is May 2022.
Source: OECD

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Eroding wages. From the components of inflation we turn now to two of its most critical effects on the global economy, starting with wages. Real wages had flatlined for many years in the biggest OECD economies. Just before the pandemic, real wages moved powerfully higher; tightening labor markets gave workers the upper hand in negotiations. The pandemic radically altered the equation, of course.

As economies stabilized and reflat, real wages began to creep higher again. But rampant inflation checked that growth, rising so fast that it has diminished the purchasing power of people's take-home pay. For example, workers in the United Kingdom today have seen their real compensation fall by roughly 8 percent year-on-year.

Higher inflation is hitting real wage growth.

Real compensation per employee per hour worked, % change, year-over-year (as of Q1 2022)



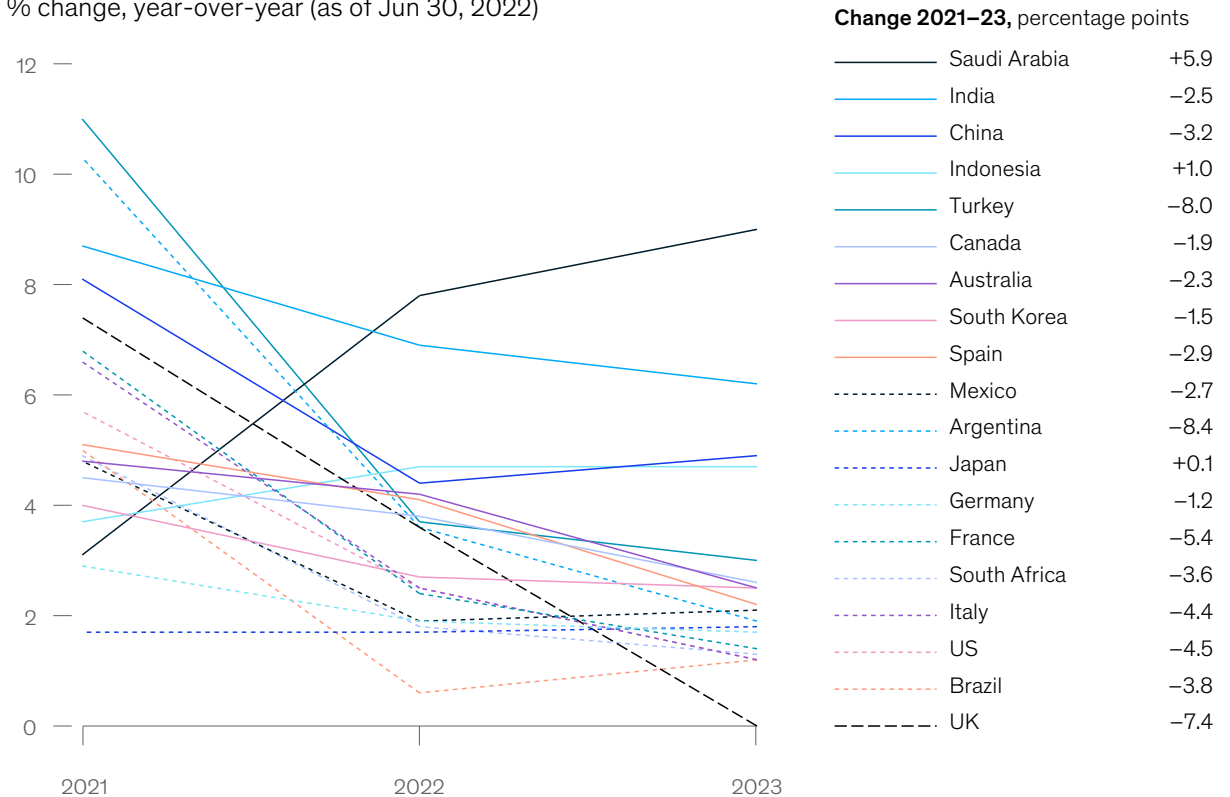
Source: OECD Economic Outlook 111 Database, Jun 2022; OECD calculations

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A darkening outlook for growth. As prices soar, and show few signs of abating, the risk is that inflation becomes entrenched and central banks will have to raise rates more assertively to slow demand. Accordingly, many analysts are lowering their projections of economic growth. For example, in the OECD's Economic Outlook, projected real GDP growth in Turkey is now about 8.0 percentage points lower than previous projections; and Argentina's is about the same. Projections for the United Kingdom are now 7.4 percentage points lower. However, with oil in high demand, projections for Saudi Arabia's real GDP growth are now about 6.0 percentage points higher.

The future looks bleaker in the short term for most G-20 economies.

Real GDP growth projections for G-20 economies,¹
% change, year-over-year (as of Jun 30, 2022)



¹Russia excluded from data set as an outlier.

Source: OECD Economic Outlook 111 Database, Jun 2022; OECD Economic Outlook 110 Database, Dec 2021; OECD calculations

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This article is a collaborative effort by McKinsey Global Publishing, with contributions from **Imaya Jeffries, Richard Johnson,** and **Mark Staples.**

Editor's note: A previous version of this article contained a map that had reproduced a national boundary based on United Nations mapping. Our reproduction of boundaries and labels shown on such maps does not imply official endorsement or acceptance by McKinsey & Company. We have since edited the map, and regret reproducing the original version.

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