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Global Economics Intelligence

Global Summary Report

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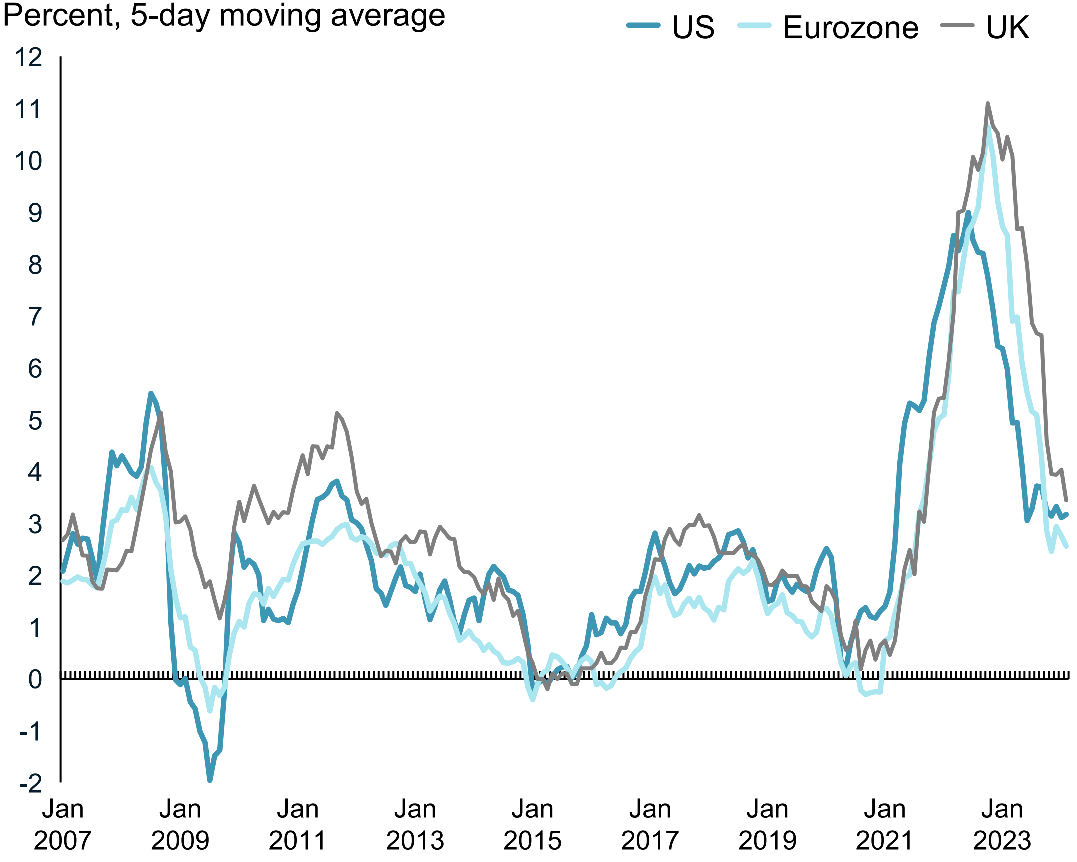
Consumer inflation eased to around 2–3% among advanced economies; producer prices stay subdued

Real Implied inflationary expectations from five- and ten-year TIPS yields[1] (spread between T-bill and TIPS of same maturity)

Percent, 5-day moving average



[1]Updated through February 16, 2024.

Consumption continues to be resilient, with the exception of Europe; central banks are holding interest rates steady due to the ongoing risk of inflation while business survey respondents show increased confidence in economy. Are the risks really lowered?

Despite global uncertainty fueled by geopolitical and economic concerns, consumption among surveyed economies is holding up strongly, except in the eurozone. This is encouraging given that consumer confidence globally looks somewhat downbeat, with the OECD indicator trending below the long-term average and dipping downwards. That said, consumer confidence in the majority of surveyed economies is oscillating just below the average, while Brazil is more positive. Consumer confidence in Brazil has reached its highest level so far this year and is 4.0 points higher than in March 2023. Confidence rose 1.6 points to 91.3 in March, from 89.7 in February, though remaining below the neutral 100 mark. The US consumer confidence index (Conference Board) fell to 106.7 in February, down from a revised 110.9 in January.

Meanwhile, US retail and food-service sales climbed to $700.7 billion, a 0.6% increase from January's $700.2 billion. The Society of Indian Automobile Manufacturers' March 2024 data show a decline in auto sales for February, down –5.7% versus the prior month to 370,786 (393,074 in January)—auto sales are a proxy for retail sales. In Russia, retail sales have stayed virtually unchanged for several months. Private consumption is expected to remain the main growth engine in coming months, driven by increasing incomes.

Overall, looking at the trend in consumer spending habits since the global pandemic, it is worth noting that, while spending rebounded post-COVID-19, around a quarter of consumer spending categories remain below their December 2019 levels.

A rosier picture is painted by the latest McKinsey Global Survey on economic conditions.[2] Respondents have increased confidence in the economy—both globally and at home. Notably, respondents share much brighter assessments of both the global economy and conditions in their own countries than they did at the end of 2023. Views of the global economy are the most positive they've been since March 2022 (Exhibit 1) and, in the majority of regions, respondents also have a more hopeful outlook on domestic conditions, despite enduring concerns over geopolitical instability and conflict.

However, in a year packed with national elections[3], executives are concerned about political uncertainty—increasingly viewing transitions of political leadership as a primary hazard to the global economy, particularly in Asia–Pacific, Europe, and North America. They view policy and regulatory changes as a top threat to their companies' performance, and they offer more muted optimism than in December about their companies' prospects.

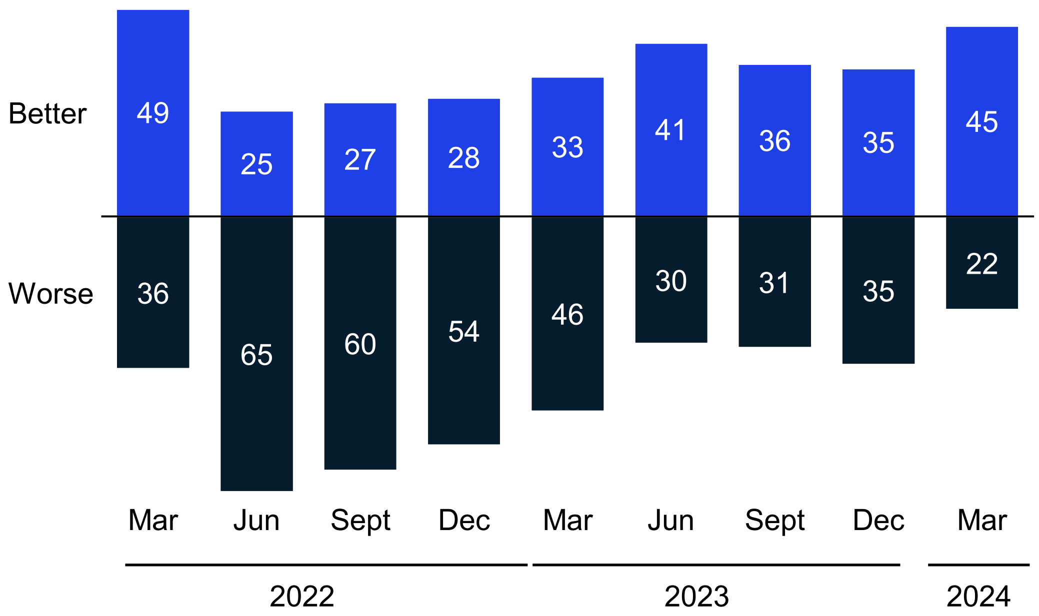
Consumer inflation eased to around 2–3% among advanced economies and producer prices remain subdued. In the emerging economies, inflation remains under control, despite increasing inflationary pressures. In the US, the consumer price index rose 3.2% (annualized) in February, slightly higher than the 3.1% for the 12 months ending January. By contrast, Eurozone headline inflation fell slightly to 2.6% year-on-year in February, down from 2.8% in January. The UK surprised as the consumer price index fell by more than forecast to 3.4% in February, to its lowest rate since September 2021.
Among the emerging economies, India's headline

Source: Haver Analytics; McKinsey's Global Economics Intelligence analysis

Respondents share brighter views on whether conditions in the world economy have improved or worsened in recent months.

Current conditions in global economy compared with 6 months ago[1]

% of respondents



1 Respondents who answered "the same" are not shown. Feb 28–Mar 4, 2022, n = 785; Jun 6–10, 2022, n = 899; Aug 29–Sep 2, 2022, n = 1,247; Nov 28–Dec 2, 2022, n = 1,192; Mar 27–31, 2023, n = 871; June 5–9, 2023, n = 1,044; Aug 31–Sept 8, 2023, n = 997; Nov 27–Dec 1, 2023, n = 942; March 4–7, 2024, n = 957.

inflation remained unchanged at 5.1% in February. In Brazil, inflation fell slightly to 4.50% (4.51% in January), registering a fifth consecutive month of reduction, to touch the upper limit of the central bank's target inflation range (4.5%). It's a different story in Russia where inflation has continued to accelerate in recent months: consumer prices rose by 7.7% year-on-year in February, reflecting tightening capacity constraints.

Looking ahead, inflation expectations have edged up but remain within the 2.0–2.5% range.

It's a mixed picture for commodities: precious metals and livestock are surging, with gold growing steadily into March, while agricultural prices are declining and other commodities are generally stable. A recent uptick in oil prices can be attributed to reduced stocks, while other

energy-related commodity prices are trending down. Base metal prices have been moving sideways for more than a year. The cost of food around the world continues to ease but remains close to 20% above pre-pandemic levels.

Interest rates were once again largely unchanged, with Brazil being the exception. On March 20, the Central Bank's Monetary Policy Committee decided to cut the Selic rate by another half percentage point, to 10.75%.

In terms of GDP, Europe is underperforming compared with many areas. During the last quarter of 2023, Eurozone GDP remained stagnant, marginally up by 0.1% on both the prior quarter and the same period in 2022, according to Eurostat flash estimates—that means 2023 as a whole saw growth of 0.6%. Moreover, UK real GDP is estimated to have fallen –0.1% in the three months to January 2024, versus the three months to October 2023.

Services output showed no growth during this period, while production output fell –0.2%. In Russia, monthly indicators for January suggest that growth in economic activity has slowed. Meanwhile, India's real GDP growth surged to a six-quarter high of 8.4% in Q3 of the 2023–24 fiscal year, while China's government has set a GDP growth target of around 5% for 2024.

The global purchasing managers' index (PMI) sees growth returning to manufacturing in many places, while services are gaining momentum. In the US, the manufacturing PMI rose to a 21-month high of 52.5 in March (47.9 in December), while India's manufacturing PMI reached a five-month high of 56.9 in February 2024, up from 56.5 in January. However, the eurozone and UK manufacturing sectors are continuing to contract on the basis of weak demand. February's composite PMI for the eurozone edged up to 49.9, from 49.2 in February, to record a nine-month high. The manufacturing PMI fell marginally to 45.7, from 46.5. The UK manufacturing PMI strengthened slightly in February, posting 47.5 (up from 47 in January) and now below the neutral 50.0 mark for 19 successive months.

By contrast, the services sector expanded across all surveyed economies in February, with India being the standout performer across January and February. In India the services PMI moderated to 60.6, while still indicating robust expansion. Brazil saw its services PMI climb to 54.6 in February, from 53.1 in January, hitting a 19-month high with new business increasing at the fastest pace since October 2022. The UK's services PMI registered 53.8 in February, down from 54.3 in January, but remaining in the expansion zone for the fourth consecutive month. This signals the fastest rate of

Source: Source: McKinsey Global Surveys on economic conditions, 2022–2024

Respondents share brighter views on whether conditions in the world economy have improved or worsened in recent months.

growth since May 2023 and points to a sustained rebound in business activity after last autumn's downturn. In the US, the services PMI rose to 52.3, while the eurozone's services PMI was up to 51.1 from 50.2, a nine-month high.

Unemployment has been growing moderately in recent months. The all-India unemployment rate was 8% in February, up by 1.2 percentage points on the previous month. In Brazil the three-month moving average unemployment rate slightly rose to 7.6% in January (7.4% in December), up for the first time in 12 months. Meanwhile, China's overall surveyed urban unemployment rate has increased for three months in a row, to 5.3% in February (5.2% in January). The youth unemployment rate climbed to 15.3% in February (14.6% in January). The US saw February's unemployment rate rise to a two-year high of 3.9%. The UK unemployment rate was estimated at 3.9% in November 2023 to January 2024. Perhaps more significant for the UK is a 21.8% economic inactivity rate for those aged 16 to 64, higher than estimates of a year ago (November 2022 to January 2023) and also up on the latest quarter. Russia's situation is somewhat different, with unemployment at an all-time low for the post-Soviet era (3% in December 2023). This trend has been amplified by a structural population decline, driven by negative population growth and emigration—around 900,000 people have left the country due to the war in Ukraine and mobilization of reserves.

Most equities indexes showed gains for investors in February and March, with China an exception. The Shanghai stock index lost −0.7% and the Shenzhen index lost −1.2% in value by March 27 compared with levels at the end of February. Volatility eased across multiple assets, including gold, oil, and the euro-dollar exchange rate outlook. Government bonds continued to follow recent months' upward trend, with the exception of Brazil, China, and India.

World trade has been slowing, although US exports were $0.3 billion, up from December at $257.2 billion; January imports were $324.6 billion, $3.6 billion above December's imports. The total US deficit climbed 5.1%, to $67.4 billion. In China, cross-border trade slowed in February. Exports growth decelerated to 5.6% in February (8.2% in January) and imports growth fell to −8.2% in February (15.4% in January). In February, Brazil's balance of trade registered a surplus of US $5.4 billion, with exports totaling US $23.5 billion (US $26.9 billion in January) and imports reaching US $18.1 billion (US $20.5 billion in January). Among surveyed economies, the standout is India, which saw merchandise exports reach US $41.4 billion in February 2024 (an 11-month high) to register 11.9% year-on-year growth. Merchandise imports expanded further to US $60.1 billion with year-on-year growth of 12.2%. However, the merchandise trade deficit widened from US $16.5 billion in January 2024 to 18.7 billion in February, as imports outpaced exports growth. In some ways, it's business as usual for Russia: preliminary Central Bank of Russia figures indicate that Russia's current account surplus recovered in January from a December dip. Its current account surplus has averaged around $5 billion in recent months. Although significantly smaller than its peak in 2022, the surplus is roughly the same as in an average month during 2017–18

[2]Economic conditions outlook, March 2024: The online survey was in the field from March 4–8, 2024, and garnered responses from 957 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

[3]Katharina Buchholz, "2024: The super election year," Statista, January 19, 2024.

Source: Source: McKinsey Global Surveys on economic conditions, 2022–2024

[Advanced economies]: In the advanced economies, US grew at 2.4% in Q2, but European growth is modest. Consumer price inflation is dropping. Manufacturing remains subdued.

United States

February's unemployment rate rises to a two year high of 3.9%; existing home sales increased by 9.0%, the largest monthly increase in a year; FOMC maintains current interest rates for the second consecutive meeting this year.

The unemployment rate increased to 3.9% from January's 3.7% (3.5% in January 2020). Total nonfarm payroll employment rose by 275,000 net new jobs in February.

The consumer price index rose 3.2% (annualized) in February, a slightly higher increase than the 3.1% for the 12 months ending January. Core inflation was 3.8% (annualized) in February. The January 2024 Survey of Consumer Expectations from the NY Fed shows that one-year-ahead inflation expectations were unchanged at 3.0% after reaching the lowest level recorded since January 2021.

Retail and food-service sales increased to $700.7 billion, a 0.6% increase from January's $700.2 billion. The consumer confidence index (Conference Board) fell in February to 106.7, down from a revised 110.9 in January.

The industrial production index remains almost unchanged at 102.3 in February (December: 102.7). The purchasing managers' index (PMI) for manufacturing rose to a 21-month high of 52.5 in March (47.9 in December), while the services PMI increased to 52.3.

In February, the S&P 500 increased by 5.1%, bringing its one-year return to 28.4%; the Dow Jones rose by 2.2% for the month and was up 18.4% in 2024. Equity markets are currently buoyed by NVDIA's market growth and, to a lesser extent, by other companies in the *Magnificent 7*.[1] During this month, the CBOE Volatility Index averaged 13.1 (15.8 in January), after a small hike in uncertainty at the beginning of the year.

In March, the Federal Reserve decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2% for a second consecutive meeting. Fed chair Jerome Powell reaffirms the Fed is working towards a decrease in inflation and assures rate cuts are programmed to happen this year.

Exports were $257.2 billion, $0.3 billion up from December; January imports were $324.6 billion, $3.6 billion above December's imports. The total deficit climbed 5.1%, to $67.4 billion.

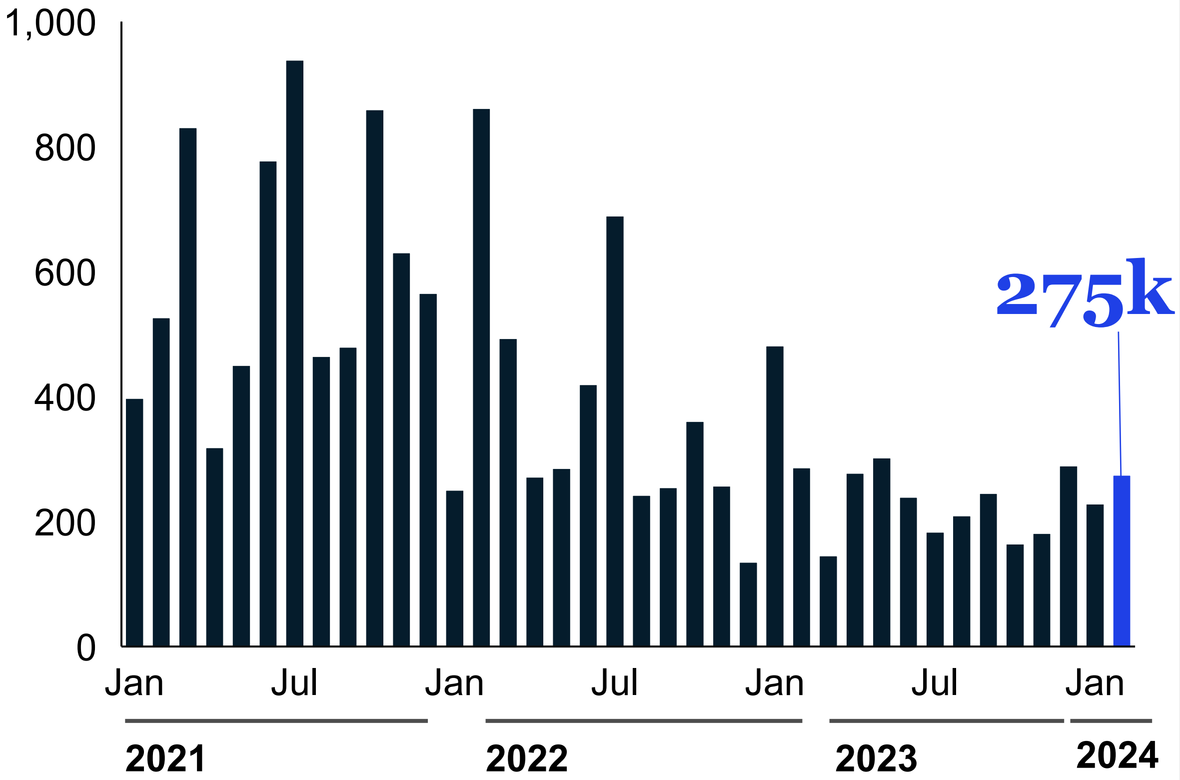
On the housing market, the 30-year fixed-rate mortgage slightly increased to 6.8% on March 21; existing home sales increased by 9.0% in February, yet this still represents a drop of 28% since November 2021. During February, housing starts increased to 1,512,000 (1,331,000 in January), with completions rising to 1,729,000 (versus 1,470,000 in December).
As election season approaches, inflation becomes a policy discussion topic between president Biden and former president Trump. Jerome Powell reaffirmed to American citizens that, "The Fed does not consider politics in its decisions" and that the Fed will be ready to cut rates when it sees "more good inflation readings''. Current monetary policy outlook expects cut rates by the third quarter of the year.

Given concerns over privacy and national security, the White House supported and a wide bipartisan majority of the House passed a bill to force ByteDance to sell TikTok within six months or face a ban. The bill has moved to the Senate with TikTok urging its American users to call their representatives and tell them not to support the bill, resulting in hundreds of phone calls to some senators.

1. The so-called "Magnificent 7" stocks: Amazon, Apple, Google parent Alphabet, Meta Platforms, Microsoft, Nvidia, and Tesla.

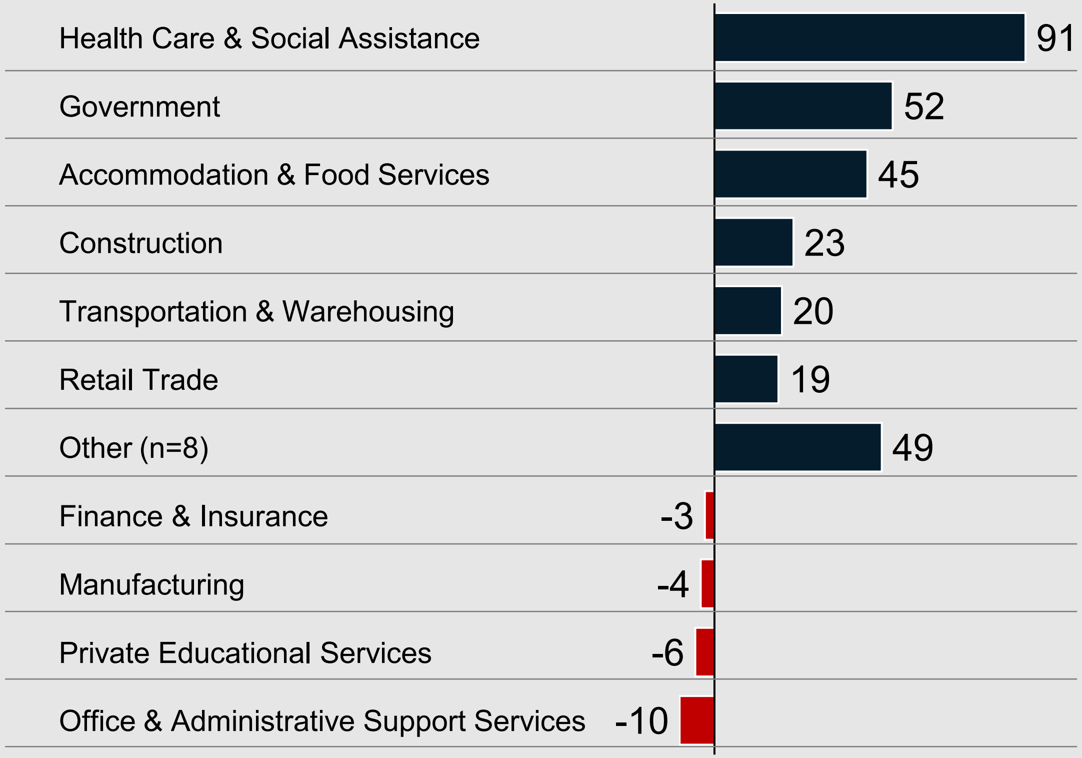
The US added 275,000 jobs in February, an increase from last month…

Monthly change in US total non-farm employment,
Jan 2021 to Feb 2024, thousand



… with the largest gains occurring in healthcare

Monthly change in US employment by sector,
Jan 2024 to Feb 2024, thousand



Source: BLS; CES data as of March 8, 2024

February's unemployment rate rises to a two year high of 3.9%; existing home sales increased by 9.0%—the largest monthly increase in a year; FOMC maintains current interest rate for the second consecutive meeting this year

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	Improving	No significant change
	Real estate	Improving	Worsening
	Trade, external	No significant change	No significant change
	Prices	No significant change	Improving
	Employment	Worsening	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	No significant change	No significant change
	Public-sector health	Improving	No significant change

Unemployment rises to a two year high of 3.9%; existing home sales increased by 9.0%—the largest monthly increase in a year

- The industrial production index remains almost unchanged at 102.3 in February (December: 102.7). The purchasing managers' index (PMI) for manufacturing climbed to a 21-month high of 52.5 in March: (47.9 in December); the services PMI rose to 52.3 (70.4 in May 2021).
- Retail and food-service sales increased to $700.7 billion, a 0.6% increase from January's $700.2 billion. The consumer confidence index (Conference Board) fell in February to 106.7, down from a revised 110.9 in January. January exports were $257.2 billion, $0.3 billion above December's exports; January imports were $324.6 billion, $3.6 billion more than December's. The total deficit increased 5.1%, to $67.4 billion.
- On the housing market, the 30-year fixed-rate mortgage slightly increased to 6.8% on March 21; existing home sales rose by 9.0% in February, yet this still represents a drop of 28% since November 2021. February housing starts rose to 1,512,000 (1,331,000 in January), with completions up to 1,729,000 this month (1,470,000 in December).
- The unemployment rate climbed to 3.9% from January's 3.7% (3.5% in January 2020). Total nonfarm payroll employment rose by 275,000 net new jobs in February.
- The consumer price index increased 3.2% (annualized) in February, a slightly higher rise than the 3.1% for the 12 months to January. Core inflation rose 3.8% (annualized) in February. Indexes increasing in February include shelter, air fares, motor vehicle insurance, apparel, and recreation.

January's stock market regains momentum, driven by NVDIA stock price; FOMC maintains interest rate for second consecutive meeting

- This month, the S&P 500 increased by 5.1%, bringing its one-year return to 28.4%; the Dow Jones rose by 2.2% for the month and was up 18.4% in its one-year returns. Equity markets are currently being driven by NVDIA's market growth and, to a lesser extent, by others among the *Magnificent 7*.[1] During this month, the CBOE Volatility Index averaged 13.1 (15.8 in January), after a small hike in uncertainty at the beginning of the year.
- In March, the Federal Reserve decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2% for a second consecutive meeting. Jerome Powell reaffirms that the Fed is working towards a decrease in inflation and ensures rate cuts are programmed to happen this year.

Monetary policy outlook is expected to cut rates by Q3; bill to sell TikTok over privacy and national security concerns is now in the Senate

- Jerome Powell, reaffirmed to American citizens that, "The Fed does not consider politics in its decisions. It never does, and never will." Current monetary policy outlook is expected to cut rates by the third quarter of the year, based on current FOMC economic projections.
- The White House urged the Senate to swiftly advance a bipartisan bill that would force ByteDance to sell TikTok within six months or face a ban over privacy and national security concerns. TikTok has urged its American users to call their representatives and tell them not to support the bill, leading to hundreds of phone calls to some senators.

1. The so-called "Magnificent 7" stocks: Amazon, Apple, Google parent Alphabet, Meta Platforms, Microsoft, Nvidia, and Tesla.

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

Eurozone

GDP remains stagnant; however, forecasts predict recovery in the coming years; inflation rebound weaker than expected; Bosnia and Herzegovina approved for accession talks.

During the last quarter of 2023, Eurozone GDP remained stagnant, marginally up by 0.1% on both the prior quarter and the same period in 2022, according to Eurostat flash estimates. That means 2023 as a whole saw growth of 0.6%. Even though economic activity has stagnated, some forward-looking indicators point to a pick-up in growth further ahead. Declining economic uncertainty should boost consumer consumption, which is expected to be the main driver of economic growth. Falling inflation and robust wage growth suggest that real disposable income likely recovered in 2023.

The industrial production index fell –3.2% in January month-on-month, –6.04% year-on-year, after a recovery in the previous month. February's composite PMI edged up to 49.9, from 49.2 in February, to record a nine-month high. The manufacturing PMI fell marginally to 45.7, from 46.5; the services PMI rose to 51.1 from 50.2, a nine-month high. This indicates a two-speed economy, with a strong services sector and still-weak manufacturing sector. Some other forward-looking indicators improved as well: February's Eurocoin reading was less negative, rising to –0.31 from –0.56 in January.

Eurozone headline inflation fell slightly to 2.6% year-on-year in February, down from 2.8% in January. There was a drop in food inflation (4.0% in February, 5.6% in January), while services inflation was little changed amid wage pressures (3.9% in February, 4.0% in January); core inflation remains elevated at 3.1% but is declining (3.3% in February). Producer-price inflation was –7.3% in December (–6.5% in November).

On March 7, the ECB decided to continue balance sheet normalization and keep key interest rates unchanged. Looking ahead, there is uncertainty over when rates will come down. Europe's STOXX 600 was at an all-time high after favorable forward-looking indicators—mainly in the services sectors. In February, the euro remained stable against the US dollar, trading at $1.08 per euro on March 22. The Italian-German 10-year bond-yield spread marginally declined to 1.32%; yields are at 3.6% and 2.3%, respectively.

Responding to market turmoil, Brussels has proposed increased tariffs on Russian grain. The proposal calls for a 95 euro per tonne tariff rise on Russian maize and wheat imports. Polish Prime Minister Donald Tusk called for the tariff rise in the wake of protestors blocking the import of Ukrainian grain to Poland.

Accession talks for Bosnia and Herzegovina were approved by the bloc's 27 leaders. While some are still expressing concerns about constitutional and electoral reforms needed in Bosnia, many regard the overall outlook as positive. The country can count on support from Austria, Croatia, Italy, Hungary, and Slovenia—known collectively as the "friends of Bosnia."

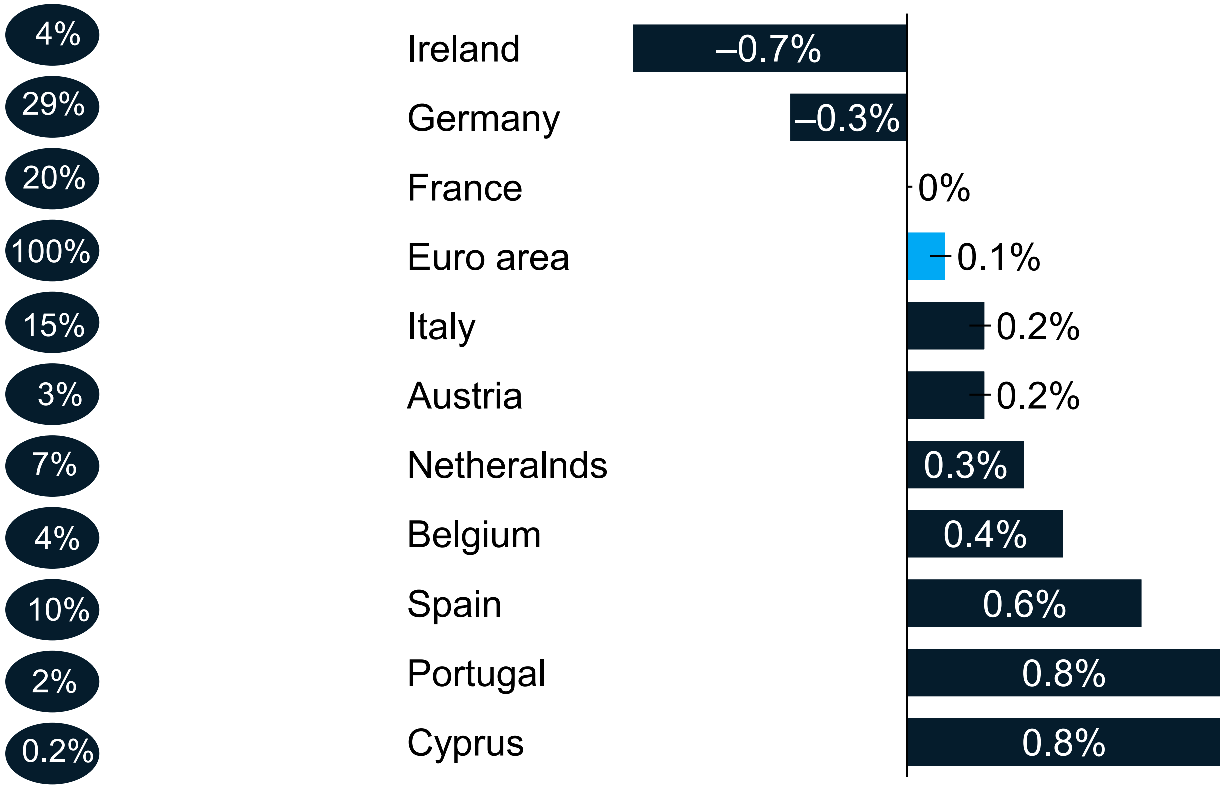
Source: ECB; Euronews; European Commission; Eurostat; IHS Markit; IMF; OECD; Reuters

Photo by Ilnur Kalimullin on Unsplash

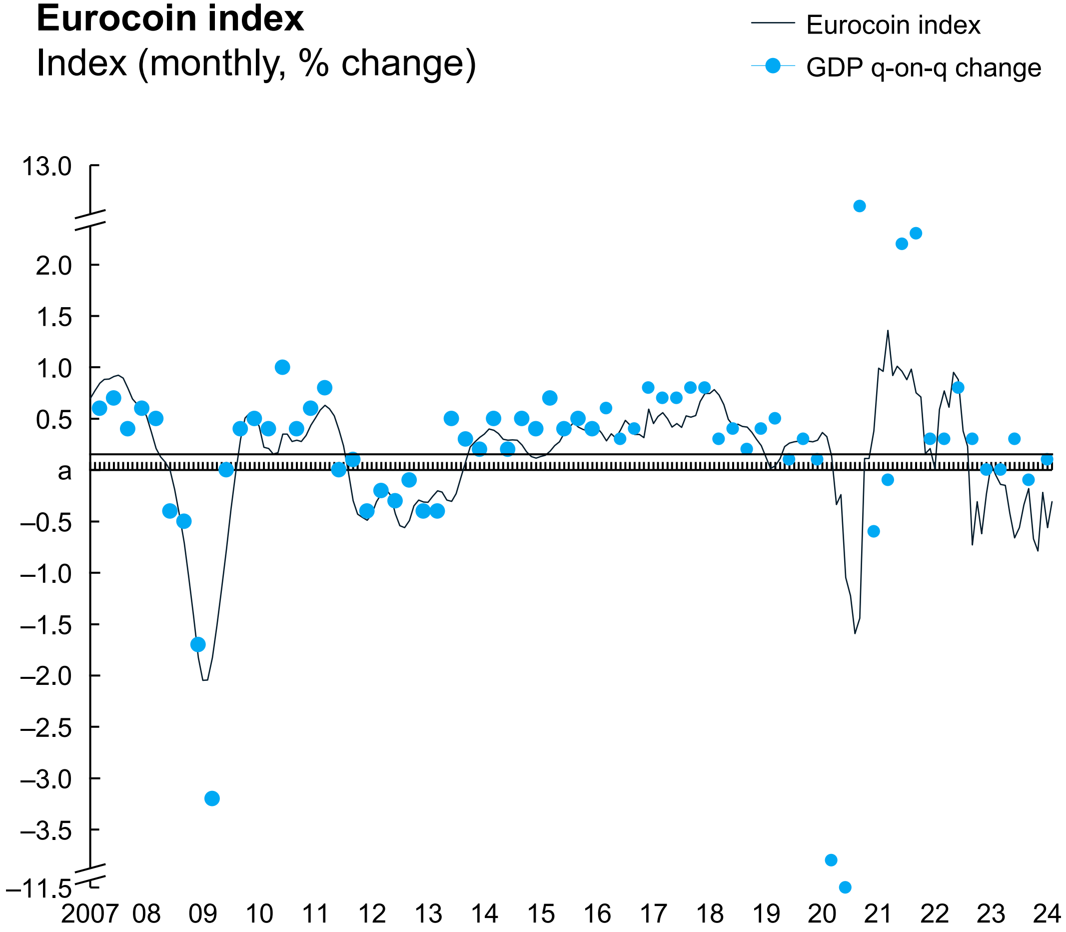
Countries more focused on services have been on a better footing; Eurocoin trend is down in contrast with other forward-looking indicators

% of Eurozone GDP
2023, current prices

Eurozone real GDP 2023 fourth quarter
Quarter-on-quarter, constant prices (% change)



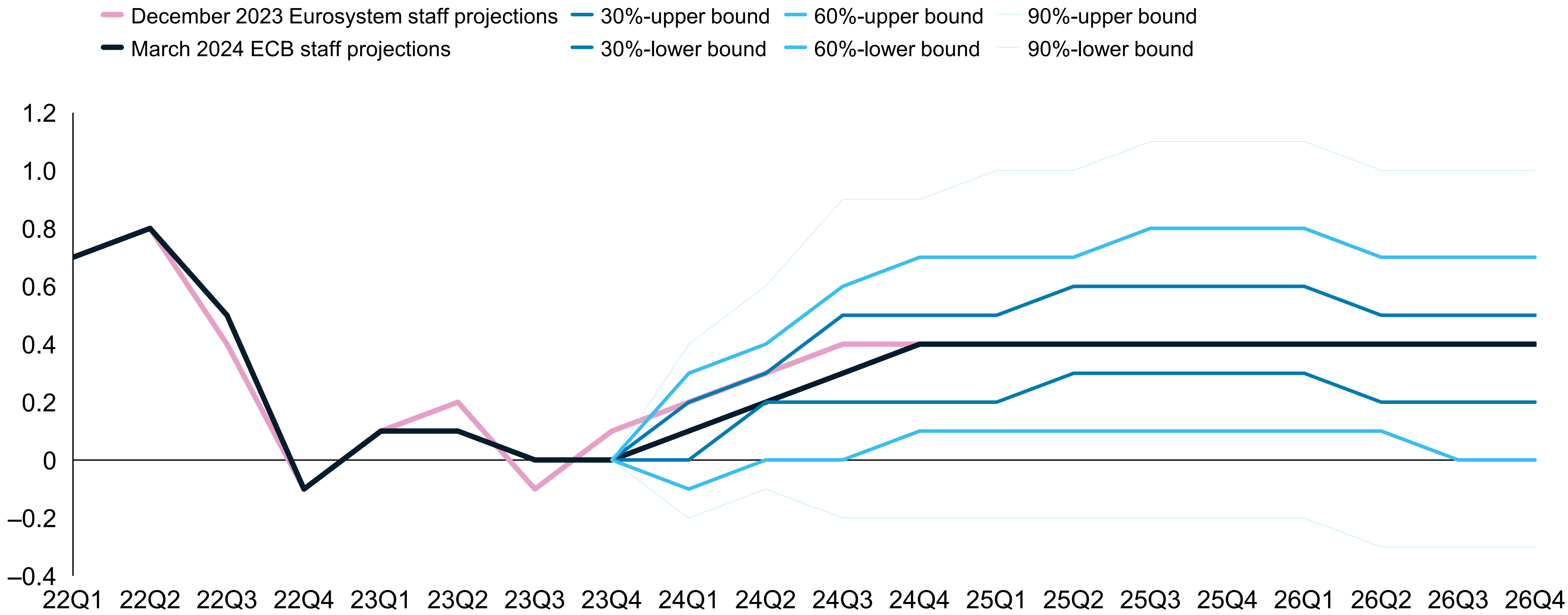
Eurocoin index
Index (monthly, % change)



Source: Banca d'Italia; European Commission; Eurostat; Haver Analytics; McKinsey's Global Economics Intelligence analysis

ECB lowered its forecast for GDP growth in 2024; however, it still predicts a similar rate of recovery in subsequent years

GDP growth forecast as per March 2024
(quarter-on-quarter percentage changes, seasonally and working day-adjusted quarterly data)



Source: ECB

Inflation rebound weaker than expected; Europe's STOXX 600 at all-time high, responding to favorable outlook; Bosnia and Herzegovina approved for accession talks

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

	Indicator category	Change vs prior month	Change vs pre-COVID
Macroeconomic	Consumer	Worsening	No significant change
	Business/industry	Worsening	No significant change
	Real estate	Worsening	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	Improving	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

Unemployment rate close to record lows; inflation rebound weaker than expected

- Real retail sales remained stagnant, increasing only by 0.1% month on month (–0.8% year-on-year), in January. The consumer confidence indicator edged down marginally in February (–15) and remains below the historical average in line with weakening demand and some expectation of inflation returning.
- The industrial production index fell in January: –3.2% month-on-month and –6.0 year-on-year. February's composite PMI edged up to 49.9 in March from 49.2 in February. The manufacturing PMI fell marginally to 45.7 in March (46.5 in February); the services PMI rose to 51.1 from 50.2.
- Construction output in January rose by 0.5% month-on-month (0.8% year-on-year); the construction PMI rose from 41.3 in January to 42.9 in February.
- Eurozone's goods trade surplus contracted to €17 billion in December, from €20 billion in November, due to a €33 billion drop in exports to €218 billion; imports fell by €29 billion, to €201 billion.
- Eurozone headline inflation fell slightly to 2.6% year-on-year in February, down from 2.8% in January. There was a reduction in food inflation (4.0% in February, 5.6% in January), while services price inflation was little changed amid wage pressures (3.9% in February, 4.0% in January); core inflation remains elevated at 3.1% though it is also coming down (3.3% in February). Producer-price inflation was –7.3% in December (–6.5% in November).
- The unemployment rate in January stood at 6.4% and remains close to record lows since 2000, with Spain at 11.6% and Germany at 3.1%. Annual nominal wage growth in the third quarter of 2023 rose to 5.3% above inflation.

Europe's STOXX 600 at all-time high; stable euro-dollar exchange rate; Italian–German 10-year bond-yield spread narrows

- Europe's STOXX 600 reached an all-time high in response to favorable forward-looking indicators, mainly in the services sectors.
- In March, the euro was stable against the US dollar, trading at $1.08 per euro on March 22.
- The Italian–German 10-year bond-yield spread marginally narrowed to 1.3%; yields are at 3.6% and 2.3%, respectively.

New tariffs on Russian grain discussed in Brussels; Bosnia and Herzegovina approved for accession talks

- In response to disquiet in the agricultural sector, Brussels proposed increased tariffs on Russian grain. The new policy aims to defuse protests around grain imports from Ukraine and put further pressure on Russia's economy.
- Accession talks for Bosnia and Herzegovina were approved by the bloc's 27 leaders. The decision opens the door for further negotiations, with most members enthusiastic about the prospect of accepting new members

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

United Kingdom

Inflation fell by more than expected to 3.4% in February; monthly GDP grew 0.2% in January 2024, following the technical recession in Q3 and Q4 2023; latest GDP projections by the BoE, OBR, OECD, and IMF indicate modest growth for 2023–25.

The Office for Budget Responsibility's March 2024 Economic and Fiscal Outlook projects GDP growth of 0.8% in 2024, jumping to 1.9% in 2025. Meanwhile, the OECD's February Interim Report expects UK growth to pick up from 0.3% in 2023 to 0.7% in 2024 and 1.2% in 2025, with inflation dropping to 2.8% and core inflation to 3.6% in 2024. Similarly, the IMF's World Economic Outlook update projects modest growth of 0.5% in 2023, 0.6% in 2024, and 1.6% in 2025. Finally, the Bank of England's Monetary Policy Report expects inflation to fall slightly below its 2% target in Q2 2024 as wage growth slows, with the Bank Rate remaining above 4% in 2024. GDP growth is expected to pick up gradually in 2025 and 2026.

UK real GDP is estimated to have fallen –0.1% in the three months to January 2024, versus the three months to October 2023. Services output showed no growth during this period, while production output fell –0.2%; construction output also fell, down –0.9%. However, monthly real GDP grew by 0.2% in January, following a –0.1% decline in December 2023. Construction output grew 1.1% in January, services grew by 0.2%, and production fell –0.2%.

The UK Consumer Price Index fell by more than forecast to 3.4% in February 2024, its lowest rate since September 2021, mainly driven by a slowdown in food and restaurant price inflation. Core inflation, which excludes items such as energy, food, alcohol, and tobacco, fell to 4.5%—down from 5.1% in January. Services CPI also declined but remains elevated, at 6.1%. Meanwhile, the Bank of England Monetary Policy Committee voted to maintain the policy rate at 5.25% on March 21, seeking to balance the risks of not tightening enough in the face of persistent underlying inflationary pressures and further tightening when the impact of existing policy has yet to fully flow through. Economists still expect UK interest rates to fall this year, with many anticipating the BoE will lower the cost of borrowing in the summer. The BoE expects the CPI to fall to slightly below the 2% target in Q2 2024.

Conditions in the UK manufacturing sector remained challenging in February, as the ongoing Red Sea crisis disrupts both production and vendor delivery schedules. Some manufacturers reported that these disruptions were driving up costs as they sought alternative suppliers from more expensive markets closer to home. The UK purchasing managers' index (PMI) for manufacturing strengthened slightly in February, posting 47.5, up from 47 in January. The measure has now remained below the neutral 50.0 mark for 19 successive months. The services PMI registered 53.8 in February, down from 54.3 in January, but remaining in the expansion zone for the fourth consecutive month. This signals the fastest rate of growth since May 2023 and points to a sustained rebound in business activity after last autumn's downturn.

Growth in average total pay was 5.6% in the three months to January, while real total pay rose by 1.4%. The UK unemployment rate was estimated at 3.9% in November 2023 to January 2024. The UK economic inactivity rate for those aged 16 to 64 years was 21.8%, above estimates of a year ago (November 2022 to January 2023), and increased in the latest quarter. The estimated number of vacancies in December 2023 to February 2024 was 908,000, a drop of 43,000 from September to November 2023, with vacancies falling for a record 20th consecutive period in 14 of the 18 industry sectors.

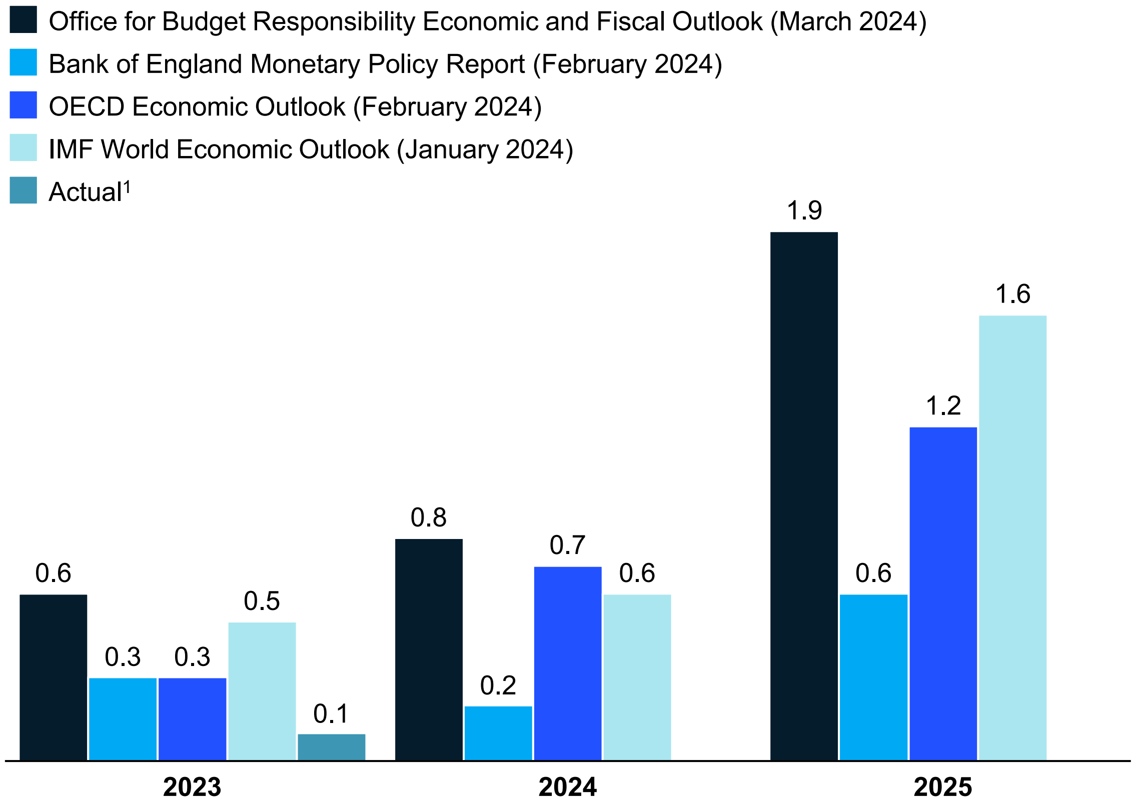
In the March 2024 budget, chancellor Jeremy Hunt said that progress was being made towards the prime minister's economic priorities and that he was able to help households with permanent cuts to taxation. However, commentators noted that taxation was still projected to rise sharply as a share of the economy and that living standards were to be lower at the end of the current parliament than at the start.

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

Monthly real GDP grew by 0.2% in January 2024; the CPI fell by more than expected to 3.4% in February; the Bank of England held the policy rate at 5.25% in March

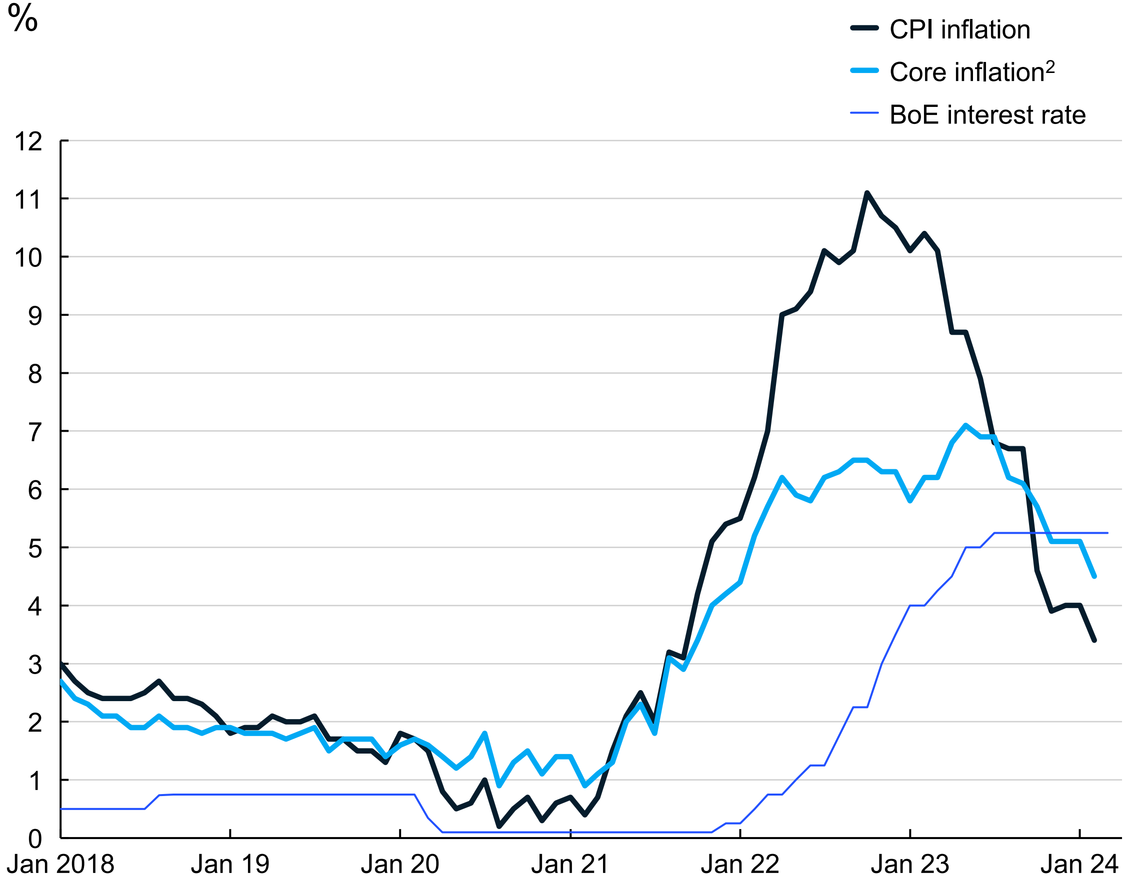
UK real GDP forecast from main institutions, 2023–25

% change (year-over-year); constant prices



12-month inflation; Bank of England interest rate

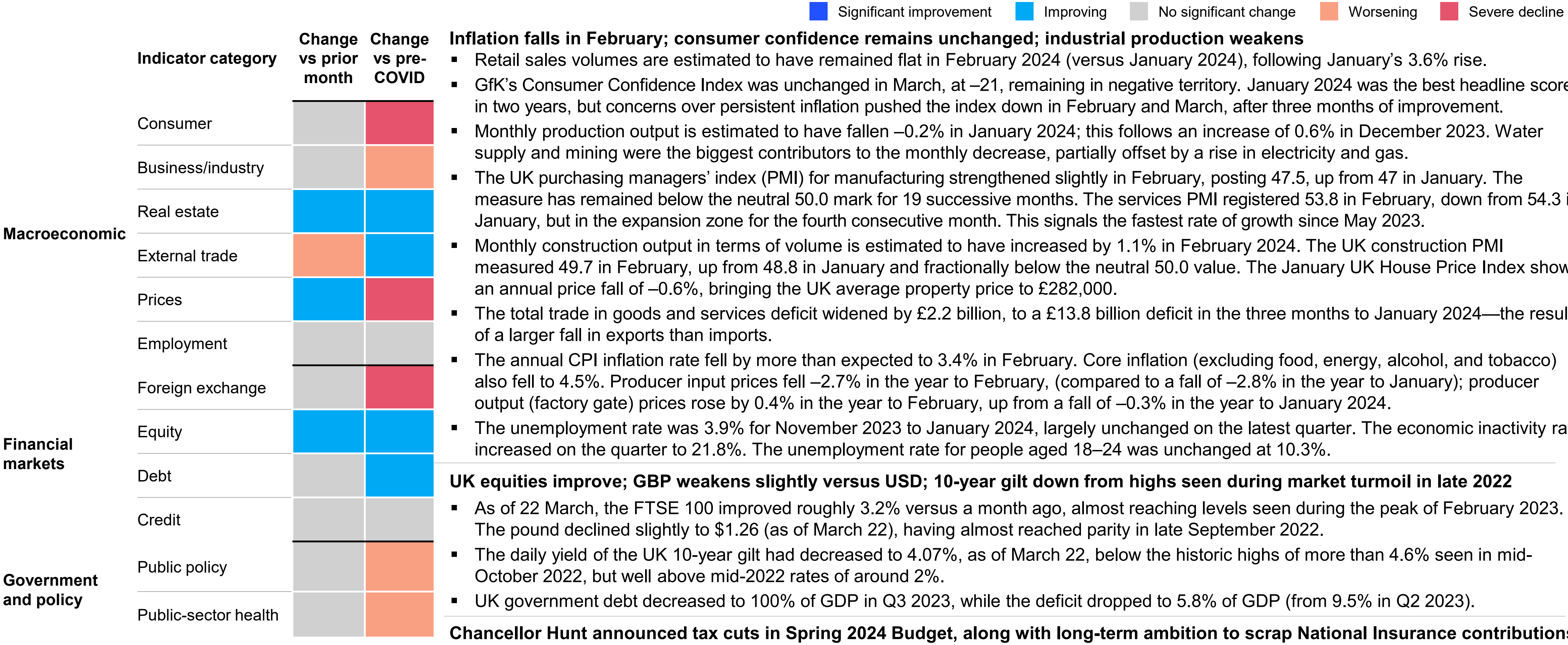
%



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 fell in February, lower food and accommodation prices contributing the most; manufacturing and services sentiment improved; consumer confidence held steady, and the unemployment rate was largely unchanged



Inflation falls in February; consumer confidence remains unchanged; industrial production weakens

- Retail sales volumes are estimated to have remained flat in February 2024 (versus January 2024), following January's 3.6% rise.
- GfK's Consumer Confidence Index was unchanged in March, at –21, remaining in negative territory. January 2024 was the best headline score in two years, but concerns over persistent inflation pushed the index down in February and March, after three months of improvement.
- Monthly production output is estimated to have fallen –0.2% in January 2024; this follows an increase of 0.6% in December 2023. Water supply and mining were the biggest contributors to the monthly decrease, partially offset by a rise in electricity and gas.
- The UK purchasing managers' index (PMI) for manufacturing strengthened slightly in February, posting 47.5, up from 47 in January. The measure has remained below the neutral 50.0 mark for 19 successive months. The services PMI registered 53.8 in February, down from 54.3 in January, but in the expansion zone for the fourth consecutive month. This signals the fastest rate of growth since May 2023.
- Monthly construction output in terms of volume is estimated to have increased by 1.1% in February 2024. The UK construction PMI measured 49.7 in February, up from 48.8 in January and fractionally below the neutral 50.0 value. The January UK House Price Index shows an annual price fall of –0.6%, bringing the UK average property price to £282,000.
- The total trade in goods and services deficit widened by £2.2 billion, to a £13.8 billion deficit in the three months to January 2024—the result of a larger fall in exports than imports.
- The annual CPI inflation rate fell by more than expected to 3.4% in February. Core inflation (excluding food, energy, alcohol, and tobacco) also fell to 4.5%. Producer input prices fell –2.7% in the year to February, (compared to a fall of –2.8% in the year to January); producer output (factory gate) prices rose by 0.4% in the year to February, up from a fall of –0.3% in the year to January 2024.
- The unemployment rate was 3.9% for November 2023 to January 2024, largely unchanged on the latest quarter. The economic inactivity rate increased on the quarter to 21.8%. The unemployment rate for people aged 18–24 was unchanged at 10.3%.

UK equities improve; GBP weakens slightly versus USD; 10-year gilt down from highs seen during market turmoil in late 2022

- As of 22 March, the FTSE 100 improved roughly 3.2% versus a month ago, almost reaching levels seen during the peak of February 2023. The pound declined slightly to $1.26 (as of March 22), having almost reached parity in late September 2022.
- The daily yield of the UK 10-year gilt had decreased to 4.07%, as of March 22, below the historic highs of more than 4.6% seen in mid-October 2022, but well above mid-2022 rates of around 2%.
- UK government debt decreased to 100% of GDP in Q3 2023, while the deficit dropped to 5.8% of GDP (from 9.5% in Q2 2023).

Chancellor Hunt announced tax cuts in Spring 2024 Budget, along with long-term ambition to scrap National Insurance contributions

- In the March 2024 budget, the chancellor said that progress was being made towards the prime minister's economic priorities and he was therefore able to help households with permanent cuts to taxation. Announced measures include a 2p cut to National Insurance (a payroll tax), a new tax on vaping, and an increase in the salary threshold for claiming child benefit.

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

[Emerging economies]: In the emerging economies China’s growth slowed with expectations down. Inflation under control but edging up in India and accelerating in Russia.

China

Economic activities presented a mixed performance. While there was faster expansion of industrial output and a stable expansion of investment, the housing market weakened in the first two months of the year. New credit tightened, and trade slowed in February. The government has set a GDP growth target of around 5% for 2024.

China's industrial output recorded a faster expansion of 7.0% year-on-year in combined January and February figures (4.6% in December). Industrial output in the manufacturing and utility sectors was driving this growth, with growth rates accelerating to 7.7% and 7.9% respectively in these two sectors during the first two months of 2024, versus 5.0% and 4.2% in December.

Growth in investment activities remained moderate. Overall fixed-asset investment reported a 4.2% year-on-year growth in January and February combined (4.0% in December). Among sectors, manufacturing investment expanded faster at 9.4% in the first two months (8.2% in December); infrastructure investment growth almost stabilized, at 6.3% (6.8% in December); however, contraction in real estate investment moderated slightly to −7.5% (−9.4% in December).

The slowdown in the real estate market continued during the first two months of the year. On the demand side, floor space sold in new residential properties declined −28.6% (−25.8% in December) and average new home prices dropped −1.6% (−0.9% in December). On the supply side, floor space started fell −30.6% across January and February combined (−13.3% in December).

New credit tightened to RMB 1.5 trillion in February (RMB 6.5 trillion in January), declining −52% compared to the same period last year, with half of the contraction coming from shrinking new bank loans. Total social financing amounted to RMB 385.7 trillion in February, growing 9.0% year-on-year, down from 9.5% in January.

The overall surveyed urban unemployment rate increased for three months in a row, standing at 5.3% in February (5.2% in January). The youth unemployment rate climbed to 15.3% in February (14.6% in January).

Cross-border trade slowed in February. Exports growth decelerated to 5.6% in February (8.2% in January) and imports growth fell to −8.2% in February (15.4% in January).

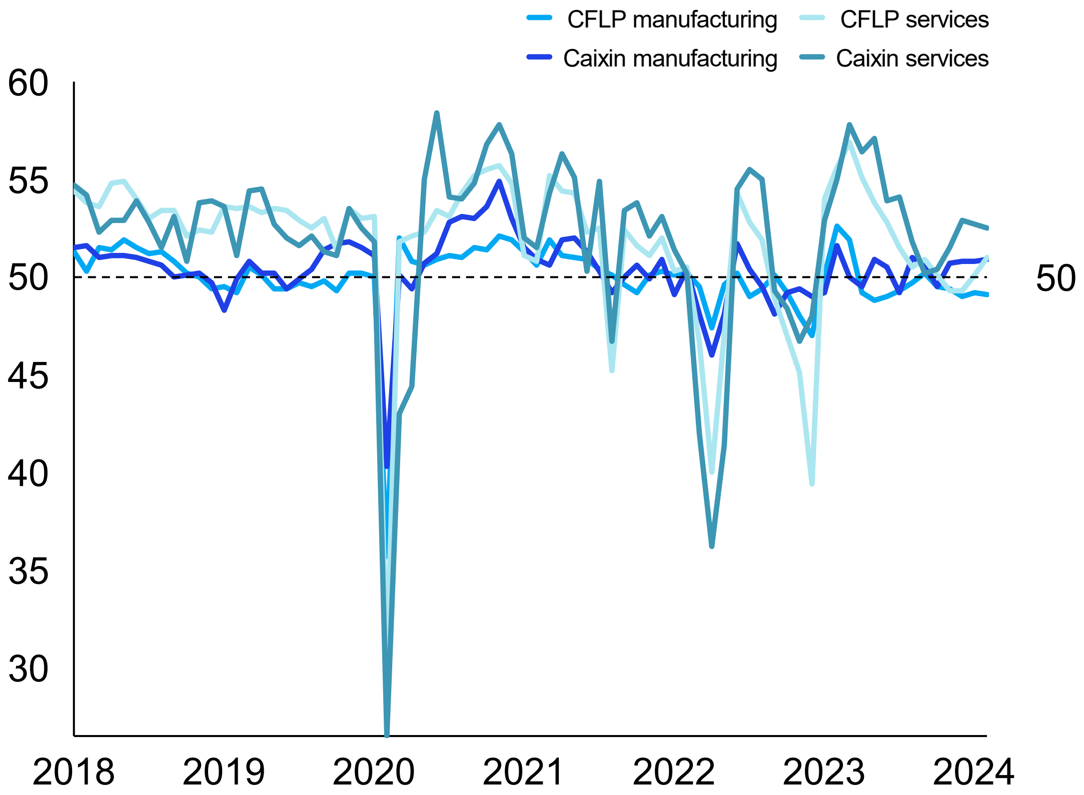
The 2024 government work report was released at the second session of the 14th National People's Congress. The report outlines policies designed to build a modern industrial system, develop innovation and education, expand domestic demand, promote reform and opening-up, and control financial risk. The report also highlighted the main development targets for the year, including: around 5.0% GDP growth, a 3.0% fiscal deficit ratio, 3.0% consumer price inflation, a surveyed urban unemployment rate of no more than 5.5%, and a −2.5% reduction in energy consumption per unit of GDP.

Source: CEIC; McKinsey's Global Economics Intelligence analysis

In February, the official manufacturing PMI inched down, while the services PMI rose; stock indexes decreased in March

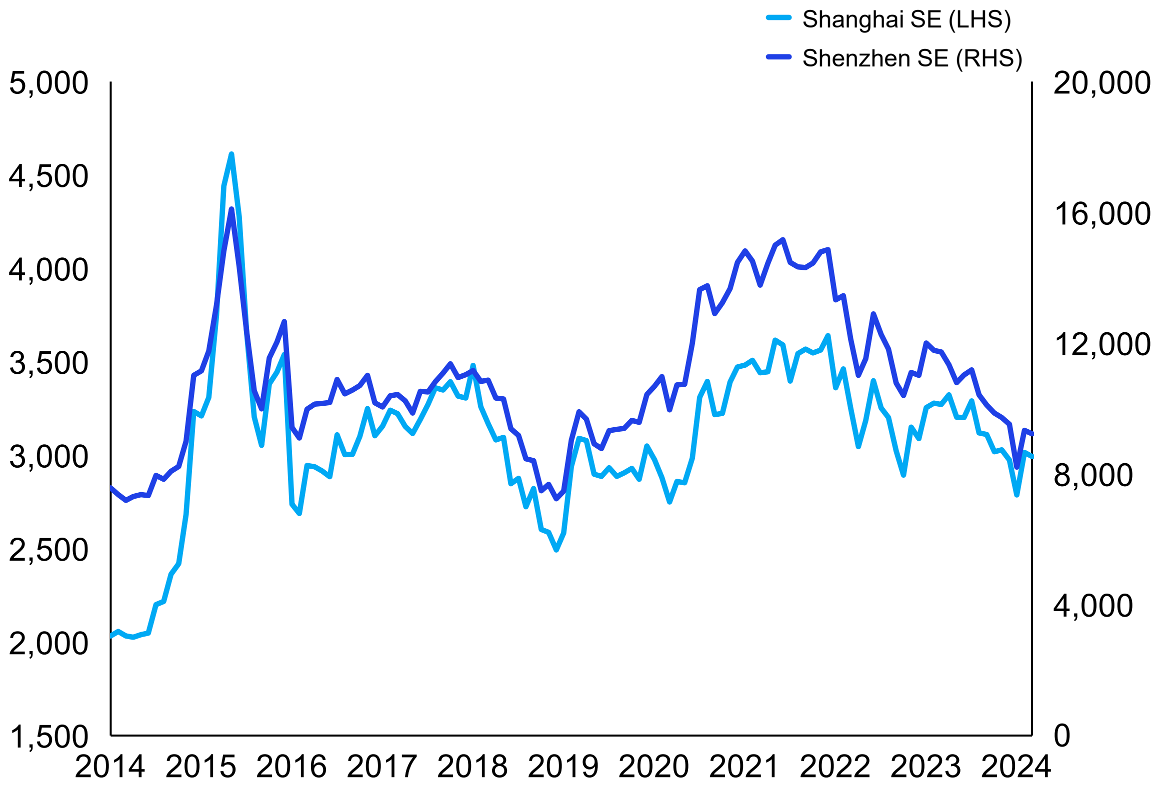
Purchasing managers indexes (PMI)

Index, monthly



Stock market indexes

Index, monthly

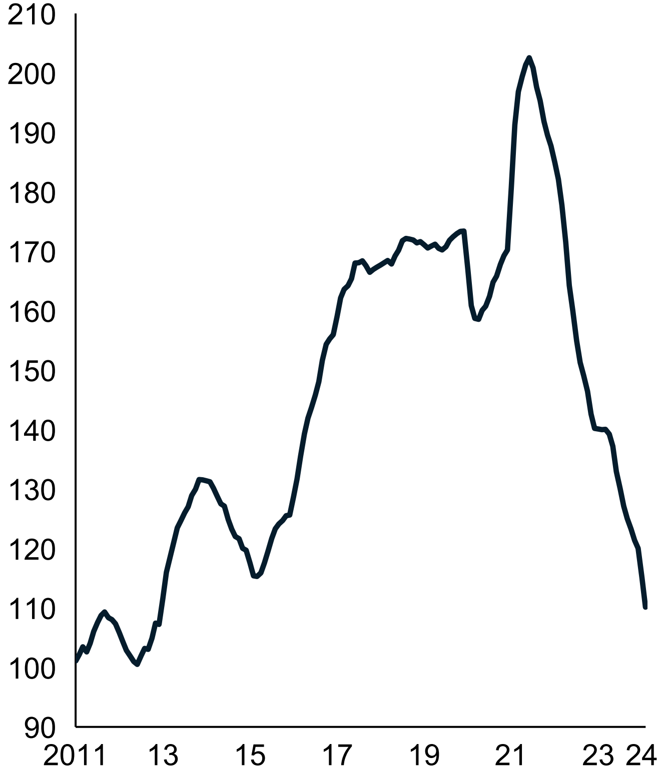


Source: CEIC; McKinsey's Global Economics Intelligence analysis

The slowdown in China’s real estate market continued

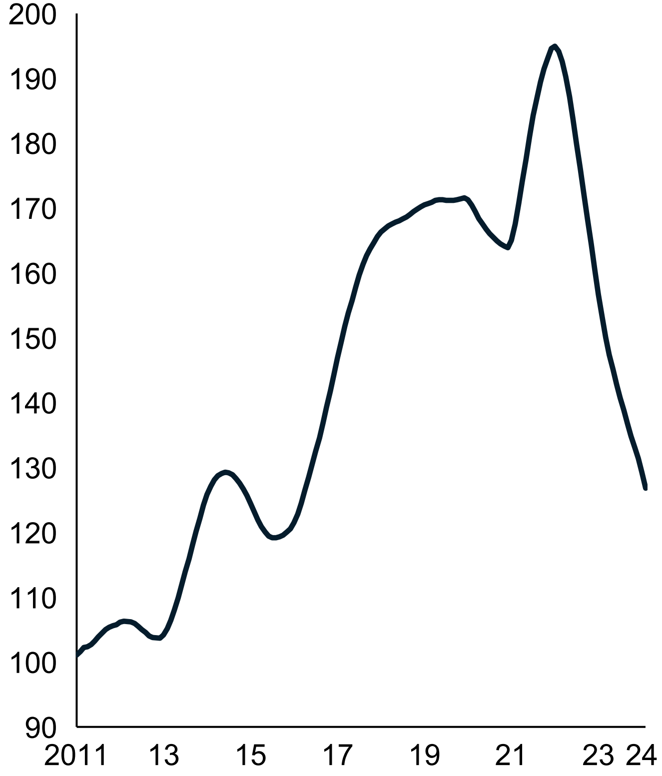
Floor space started

2010=100; 12mma



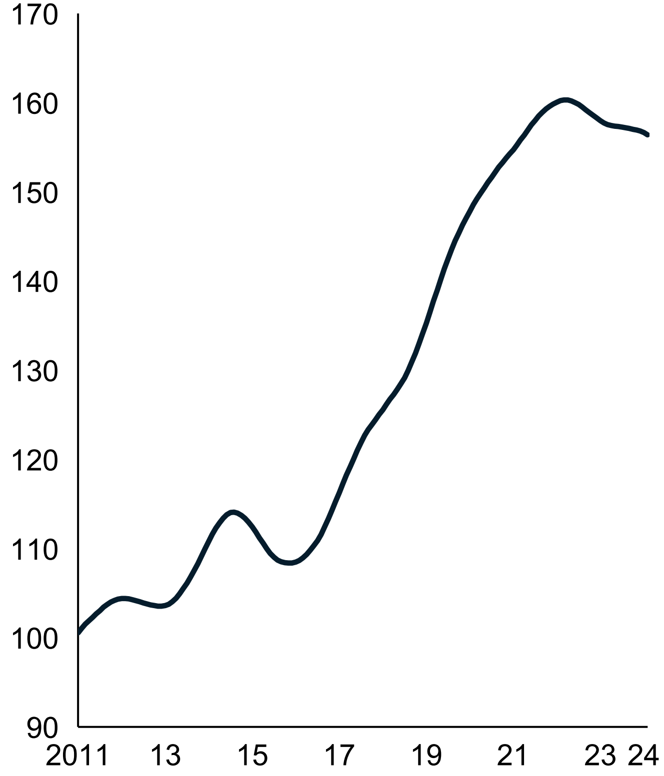
Floor space sold

2010=100; 12mma



Average housing price

2010=100; 12mma



Source: CEIC

Retail sales growth decelerated; consumer prices rebounded, but producer prices remained deflated in February

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

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

Official PMIs inched down in the manufacturing sector and improved in the services sector; consumer prices rebounded, while producer prices remained deflated

- Retail sales expanded more slowly at 5.5% across January and February combined (7.4% in December).
- The official manufacturing PMI remained in the contraction zone, inching down to 49.1 in February (49.2 in January); the official services PMI improved to 51.0 in February (50.1 in January). Caixin PMIs, which primarily survey SMEs, reported a manufacturing PMI of 50.9 (50.8 in January) and a services PMI of 52.5 (52.7 in January) in February.
- Cross-border trade slowed in February. Exports growth decelerated to 5.6% in February (8.2% in January) and imports growth fell to −8.2% in February (15.4% in January).
- Consumer prices inflated at a rate of 0.7% in February (having deflated −0.8% in January); producer prices continued to deflate, at a rate of −2.7% in February (−3.5% in January).

RMB depreciated against US dollar; stock market lost value; new credit tightened

- The RMB depreciated against the US dollar –0.5% compared with the level at the end of February, trading at RMB 7.2262 = USD 1 by March 27.
- The Shanghai stock index lost −0.7% in value, and the Shenzhen index −1.2%, by March 27 compared with levels at the end of February.
- New social financing tightened to RMB 1.5 trillion in February (RMB 6.5 trillion in January); total social financing amounted to RMB 385.7 trillion in February, growing 9.0% year-on-year, down from 9.5% in January.
- M2 growth remained unchanged at 8.7% year-on-year in February.

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

India

India's real GDP growth surged to a six-quarter high of 8.4% in Q3 2023–24,[1] propelled by strong growth momentum, robust indirect taxes, and reduced subsidies. Despite a general softening of core inflation, inflationary pressures persist due to recurring fluctuations in food prices.

Based on SIAM's March 2024 data, automobile sales in February declined –5.7% versus the prior month to 370,786 (393,074 in January). GDP growth in Q3 has helped the auto sector overall, while the auto expo held in February created positive sentiment among consumers.

December's Index of Industrial Production (IIP) registered year-on-year expansion with growth of 3.8% above the January 2023 figure—and with all sectors posting growth versus 2023, in the range 3–6%. By sector, month-on-month growth figures were: mining (3.3%), manufacturing (–0.9%), and electricity (8.5%).

The purchasing managers' index (PMI) for manufacturing reached a five-month high of 56.9 in February 2024, up from 56.5 in January, supported by rising investments in technology, efficiency gains, and sales growth. The services PMI moderated to 60.6, though still indicated robust expansion. The services sector accounts for more than 50% of India's GDP.

Headline inflation remained unchanged at 5.1% in February. Food inflation moved up to 7.8% in February from 7.6% the previous month, while deflation in the fuel and light group deepened from –0.60% in January to –0.80% in February.

India's merchandise exports stood at US $41.4 billion in February 2024, reaching an 11-month high and registering 11.9% year-on-year growth. Merchandise imports expanded further to US $60.1 billion with year-on-year growth of 12.2%. However, the merchandise trade deficit widened from US $16.5 billion in January 2024 to 18.7 billion in February, as imports outpaced exports growth.

Foreign exchange reserves increased to US $636.1 billion as of March 8, 2024—equivalent to more than 100% of total external debt outstanding at the end of September 2023.

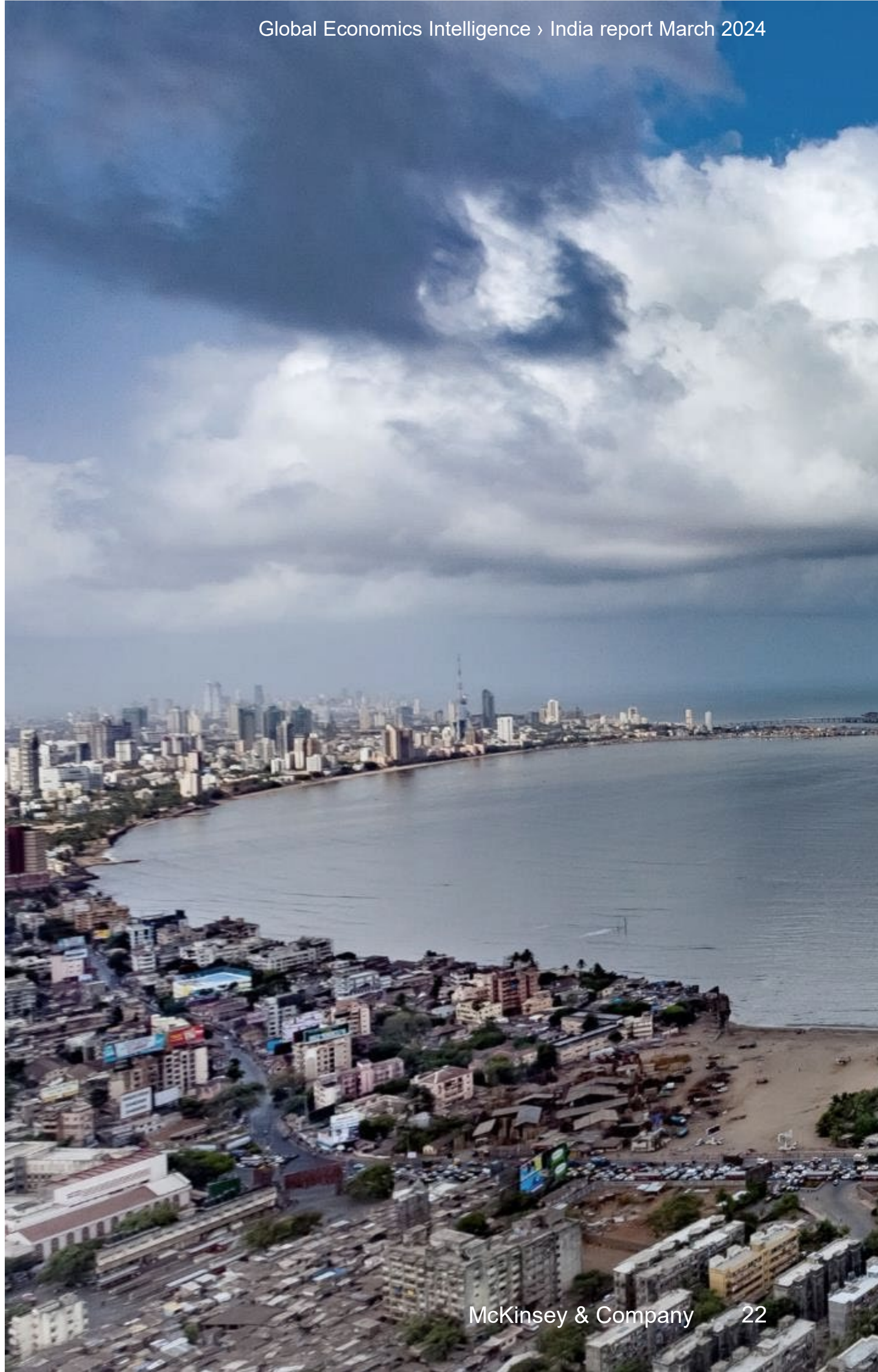
The Indian rupee depreciated against both the euro and the US dollar, to stand at 90 rupees per euro and 84 per dollar (as of March 25).

The stock markets remained in the expansionary zone, with the Nifty moderating a little and the Sensex growing 0.1% in value over the previous month (as of March 23 versus February 26, 2024).

Inward foreign direct investment declined –3.6% to reach US $59.5 billion for the period April 2023 to January 2024. In the corresponding period a year earlier, FDI reached US $ 61.7 billion—despite this decrease, India remains one of the more attractive destinations for FDI. Foreign portfolio investment (FPI) flows into India showed a positive trend in February 2024, driven by a strong domestic growth outlook. In February 2024, net FPI inflows were US $3.8 billion, with the debt segment contributing US $3.3 billion, marking the highest inflow since April 2019.

The Reserve Bank of India's stance on the repo rate remains unchanged at 6.5%, with the reverse repo rate at 3.35%.

CMIE data records the all-India unemployment rate as 8% in February, up by 1.2 percentage points on the previous month.

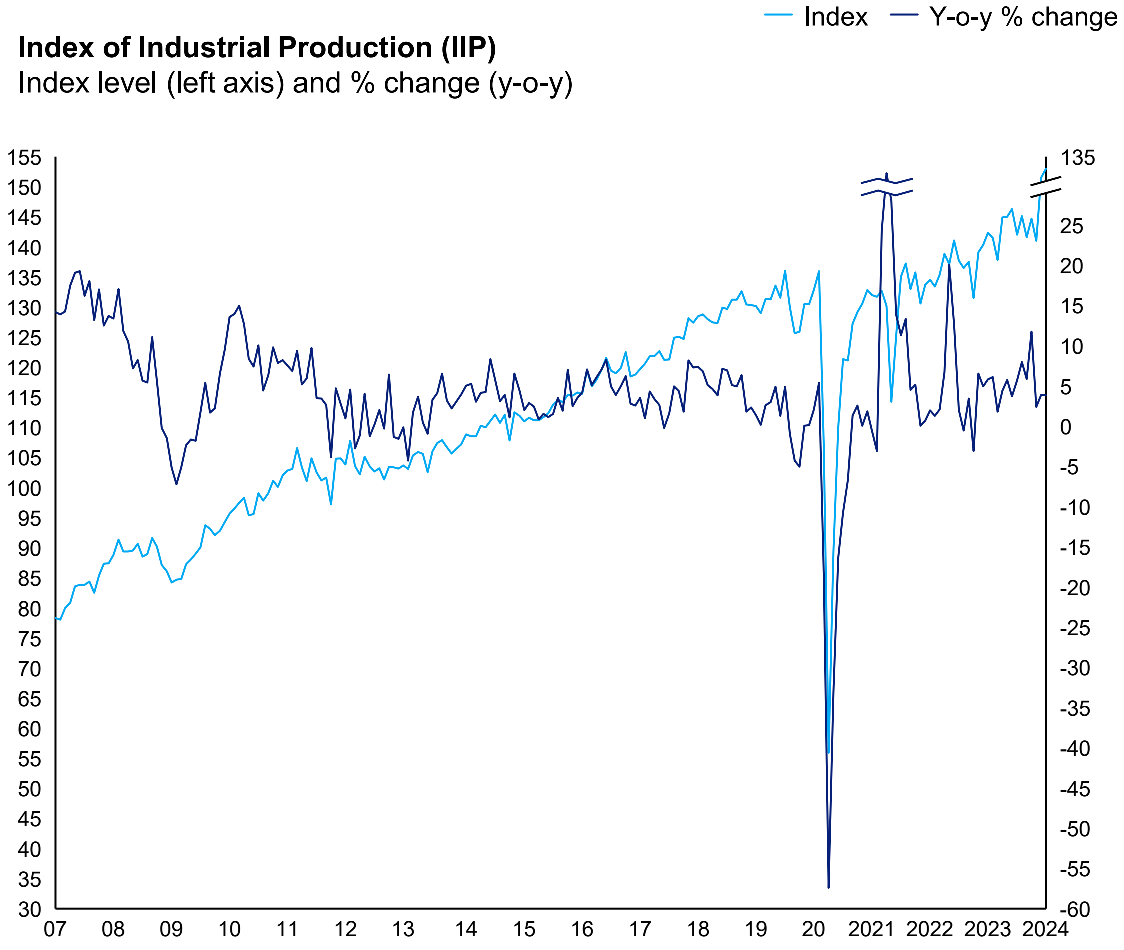


1. India follows the fiscal calendar.

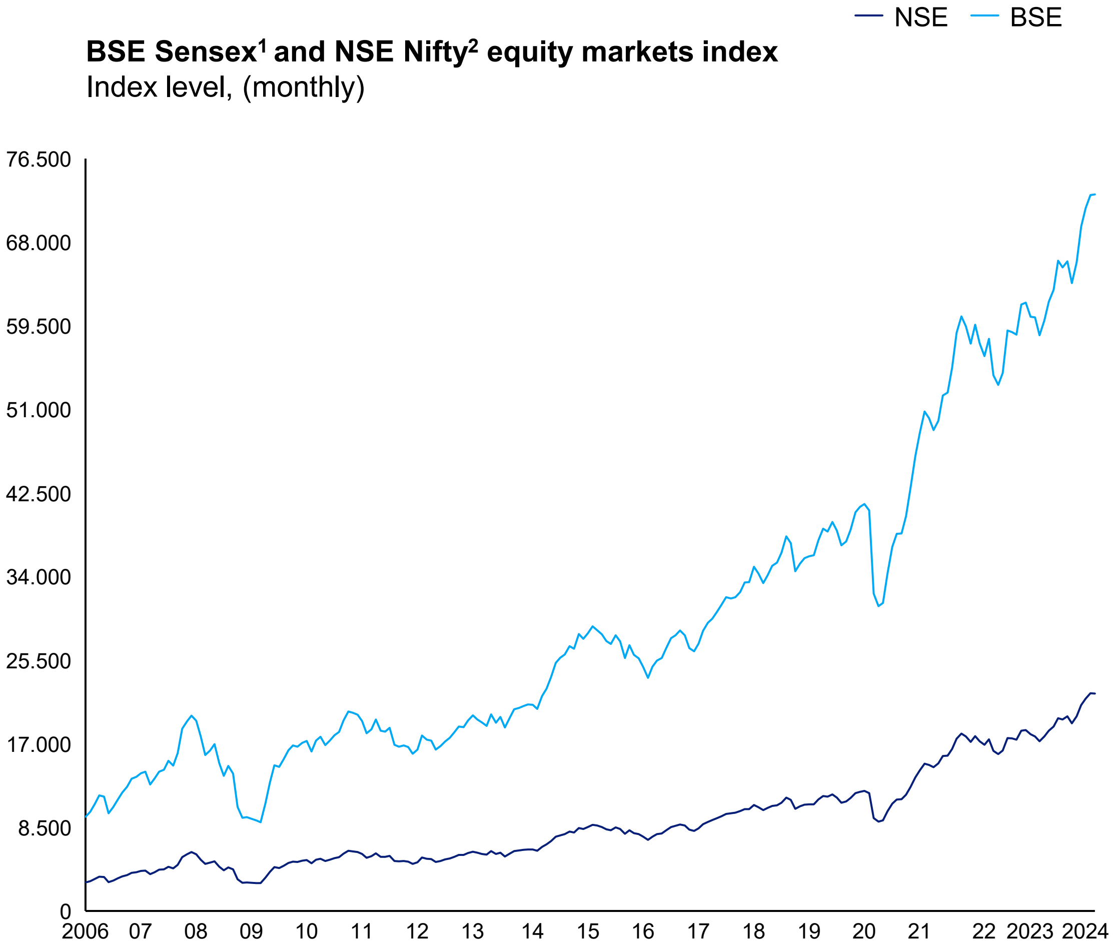
Source: Havers; IHS Markit; Ministry of Commerce and Industry; Ministry of Statistics and Programme Implementation (MOSPI); Reserve Bank of India

Industrial production grew by 3.8% in January, with equity indexes changed by 0.1% in March

Index of Industrial Production (IIP)
Index level (left axis) and % change (y-o-y)



BSE Sensex[1] and NSE Nifty[2] equity markets index
Index level, (monthly)

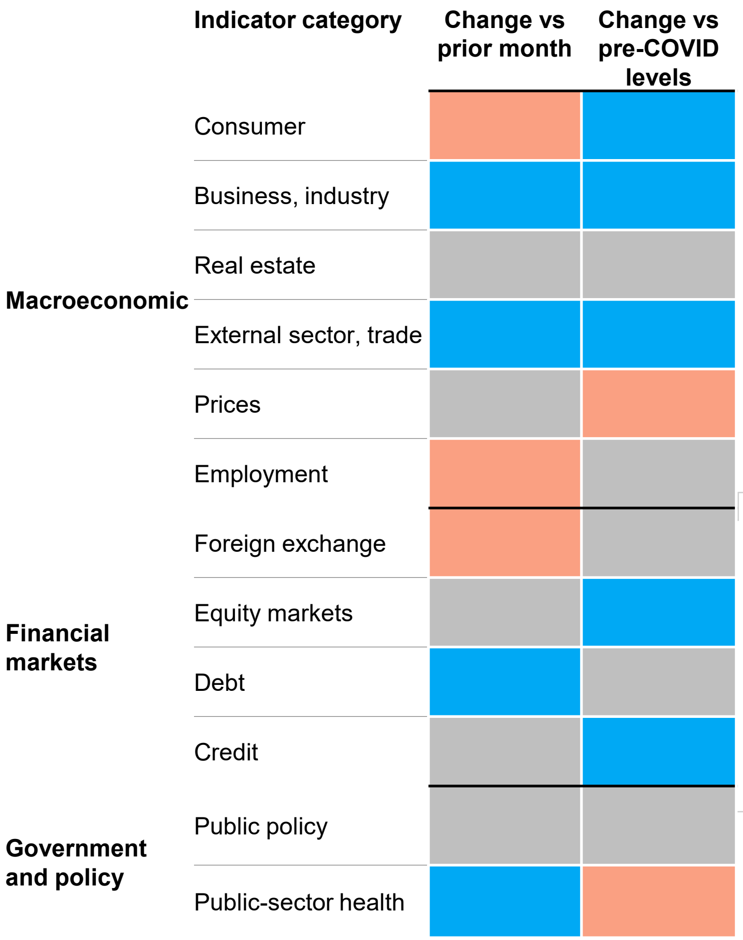


1 BSE: The Bombay Stock Exchange (Sensex) is a value-weighted index comprising the 30 largest and most actively traded stocks.
2 NSE: The National Stock Exchange of India (Nifty) consists of 50 major stocks weighted by market capitalization.

SOURCE: *Economics Times*; Ministry of Statistics and Programme Implementation (MOSPI); McKinsey's Global Economics Intelligence analysis

Q3 GDP growth at 8.4%; manufacturing PMI climbs further; unemployment rate increases; RBI keeps interest rates on hold

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



Sales declined; manufacturing PMI expanded further; inflation remained unchanged; unemployment rates increased

- Automobile sales declined –5.7% compared to the prior month to stand at 370,786 in February 2024 (393,074 in January).
- Industrial production recorded a 3.8% year-on-year growth in January. All groups witnessed a year-on-year increase and a similar month-on-month trend with the exception of manufacturing.
- The PMI for the manufacturing sector climbed to 56.9 (56.5 in January), while the services PMI moderated to 60.6 in February (61.8 in January).
- India’s merchandise trade exports and imports saw a year-on-year growth north of 11%; the trade deficit expanded in February.
- Consumer Price Index inflation remained unchanged at 5.1% in February compared to January.
- The unemployment rate rose to 8% in February compared to 6.8 per cent in January.

Financial markets show only slight change; INR depreciates

- The Indian rupee depreciated against the euro and the US dollar.
- Both the Nifty and Sensex were in expansionary territory; however, the Nifty declined slightly while the Sensex rose by a small margin.
- FDI inflows declined –3.6% compared to the corresponding April–January period the previous year.
- For the 2023–24 fiscal year to date (April 1, 2023 to March 14, 2024), net FPI inflows reached US $40.5 billion, the highest since 2015–16.

The central bank maintained the status quo on policy around interest rates versus growth; Q3 GDP growth was 8.4%

- The central bank kept interest rates unchanged at 6.5%.
- Real GDP expanded at a six-quarter-high rate of 8.4% in October-December 2023, powered by strong growth momentum, robust indirect taxes and lower subsidies.

SOURCE: McKinsey’s Global Economics Intelligence analysis

Russia

Economic growth fades in early 2024, heightened inflation reflects capacity constraints; labor market remains tight; oil production expected to decline slightly; current account recovery; large federal budget deficit; long-term policy announcements.

Monthly indicators for January suggest that growth in economic activity has slowed. Manufacturing output and retail sales have remained virtually unchanged for several months, while the long stretch of construction growth appears to have ended in January. Private consumption is expected to remain the main growth engine in coming months, driven by increasing incomes.

Inflation has continued to accelerate in recent months: consumer prices rose by 7.7% year-on-year in February, reflecting tightening capacity constraints, illustrated by capacity utilization being at its highest levels historically. This tightness is reflected in the labor market, which has seen a rise in the average nominal wage (up 15% in November 2023), with unemployment at an all-time low for the post-Soviet era (3% in December 2023). This trend has been amplified by a structural population decline driven by negative population growth and emigration—around 900,000 people have left the country due to the war in Ukraine and mobilization of reserves.

The International Energy Agency (IEA) estimates Russian oil production contracted some 1% in 2023. January production is estimated to have remained flat, with earnings slightly up given higher oil prices. Russia has announced further production cuts within the OPEC+ framework. The latest IEA forecasts and government budget framework see Russian oil production falling by 1–1.5 % this year.

Preliminary Central Bank of Russia figures indicate that Russia's current account surplus recovered in January from a December dip. Its current account surplus has averaged around $5 billion in recent months. Although significantly smaller than its peak in 2022, the surplus is roughly the same as in an average month during 2017–18.

Federal budget spending rose 17% year-on-year in January–February. Driven by higher oil and gas earnings and a low base, federal budget revenues grew sharply from a year earlier. Despite this revenue growth, the federal budget remained in a deficit of 1.5 trillion rubles (0.8% of GDP). Under the budget framework, the total deficit for this year should be roughly 1.6 trillion rubles.

President Vladimir Putin was re-elected for another six-year term on March 17, in a vote that was a mere formality.

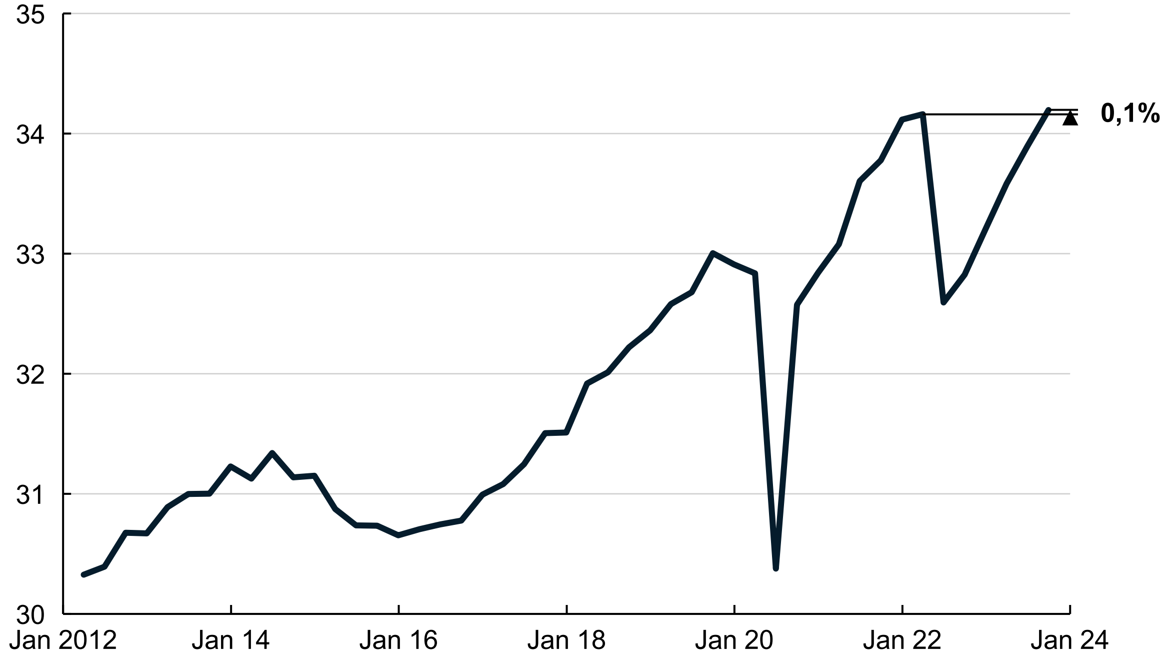
In a speech to the Federation Council at the end of February he presented a vision of Russia's future economy: accelerated industrialization, greater sovereignty over technology, and reduced dependence on imports. He envisioned manufacturing output increasing by 40% by 2030. Over the past decade, manufacturing output has grown by about 20%. In addition, the share of imports in GDP should decline slightly further from 19% in last year to 17% by 2030.

Source: BOFIT; IHS Markit; The Economist Intelligence Unit

Q3 GDP recovered to the pre-war level; industrial output and retail trade have been broadly flat in recent months

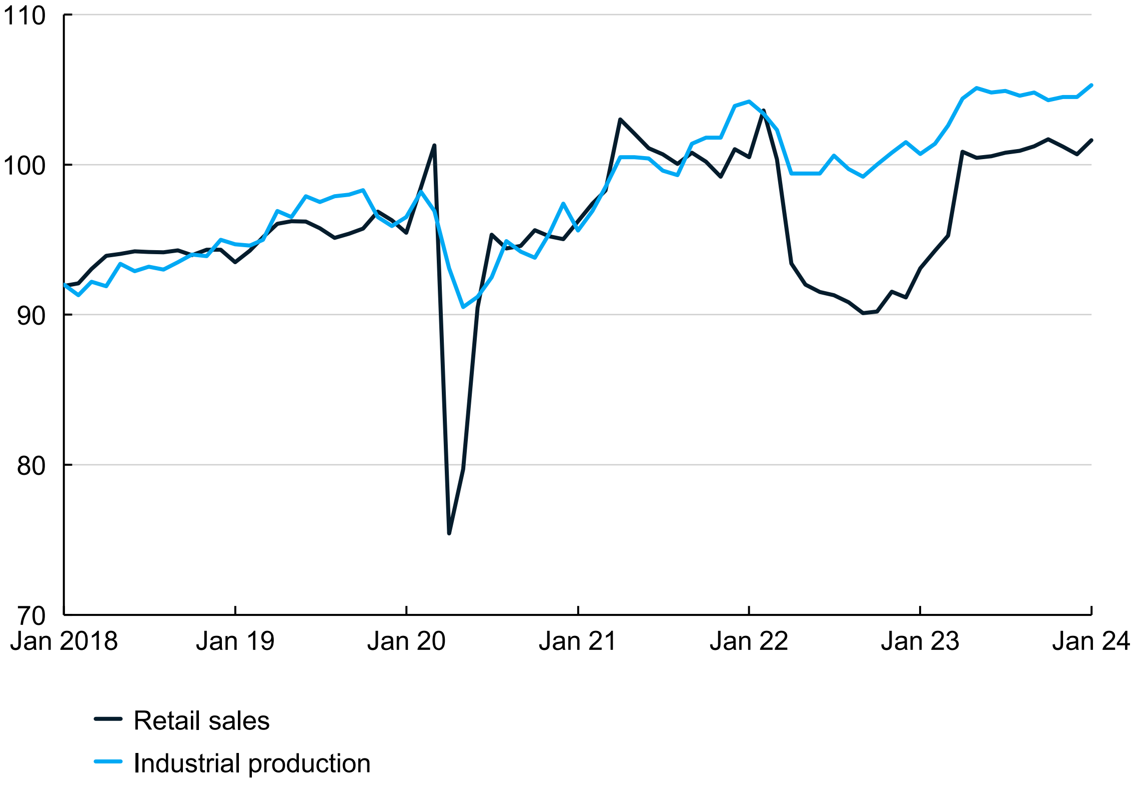
Gross domestic product

SA, Bil. chained 2021 rubles, through Q3 2023



Industrial production and retail trade

Index, 2021=100, through January 2024



Source: Federal Statistics Service; Haver Analytics

Foreign trade surplus shrank in recent months; inflationary pressures persist amid continuing fast growth in real wages

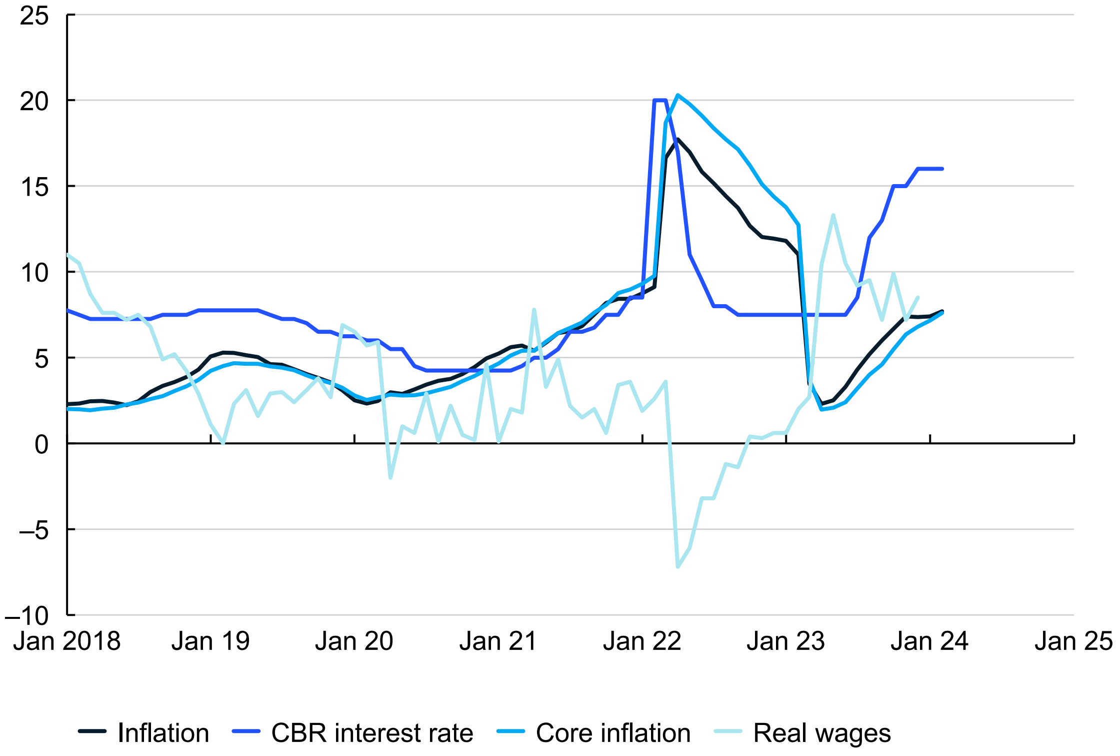
Headline inflation stabilized, but core indicator continued to accelerate

Foreign trade of goods

USD billion, through January 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

Stagnation of domestic activity and foreign trade in January, accompanied by heightened inflation; credit expansion; Putin re-elected

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	No significant change
	Industry	No significant change	No significant change
	Real estate	No significant change	No significant change
	External sector, trade	No significant change	Severe decline
	Prices	Worsening	No significant change
	Labor market	No significant change	Improving
Financial markets	Foreign exchange	Worsening	Worsening
	Equities	No significant change	Severe decline
	Debt	Worsening	Worsening
	Credit	Improving	Improving
Government and policy	Public policy	No significant change	Severe decline
	Public-sector health	Worsening	Severe decline

Domestic activity and trade indicators stagnated in January; inflation remains high amid tight labor market

- Retail sales volumes have remained virtually flat since April. In January they rebounded by 0.9% compared to December, but annual growth slowed to 9.2%.
- Industrial production has also remained stagnant since April. Monthly growth slightly accelerated to 0.8%, annual growth to 4.6%. The purchasing managers' index for manufacturing improved to 54.7, its highest value since 2017, up from 52.6 in January.
- Construction works increased by 3.9% in January, markedly slowing down from the 8–10% rise observed in 2023.
- January's trade surplus reached $8.1 billion, down from a 2023 average of $10 billion. Both exports and imports were roughly 13% lower than in January 2023. While exports remained close to late-2023 levels, imports expanded by $1.8 billion compared to December
- Headline inflation increased to 7.7% year-on-year in February (7.4% in December–January). Core inflation also increased further to 7.6%, from 7.2%. The median value of expected consumer inflation stabilized close to 12%.
- The labor market remains tight. The unemployment rate dropped to a historical low of 2.8% in January; real wages grew by 8.6% year-on-year in December.

Continued expansion of subsidized credit; slight worsening of ruble and bond stance

- Following the reintroduction of capital controls in October, the ruble appreciated from 100 per US dollar to a relatively stable range of between 88 and 93; during February–March it was closer to the upper bound; on March 22, it traded at 92.6:1$.
- Government debt yields have risen to around 13% from 11.5% in mid-January (as of March 22).
- Tighter monetary policy has not yet fully translated into a slowdown in credit activity: in January the loans dynamic remained stable at around 25% year-on-year for corporates and 23% year-on-year for households. The corporate loan subsidies aim to help businesses affected by sanctions.

Putin re-elected; federal budget deficit has increased

- Russia's president, Vladimir Putin was re-elected for another six-year term on March 17 in a vote that was a mere formality. Putin won with a record 87.3% of the vote, with turnout at around 74%. The outcome confirms that he has full control of Russia's political system. Russia's already inactive opposition was non-existent in the ballot.
- Federal budget spending increased by 17% year-on-year in January–February. Driven by higher oil and gas earnings and a low base, federal budget revenues also grew sharply. Despite this revenue growth, the federal budget remained in a deficit of 1.5 trillion rubles (0.8 % of GDP). Under the budget framework, the total deficit for this year should be roughly 1.6 trillion rubles.

Source: BOFIT; Haver Analytics; Oxford Economics; The Economist Intelligence Unit

Brazil

Brazil's composite PMI reached its highest level since July 2022; inflation falls for a fifth consecutive month.

Inflation fell slightly to 4.50% (4.51% in January), registering a fifth consecutive month of reduction, to touch the upper limit of the Central Bank's target inflation range (4.5%).

Brazil's GDP for the fourth quarter of 2023 was BRL 325 billion—0.2% lower than the previous quarter but 2.3% higher than the corresponding quarter in 2022. Agriculture was the most affected sector, down –9.2% from the previous quarter.

Consumer confidence rose 1.6 points to 91.3 in March, from 89.7 in February, remaining below the neutral 100-point mark. Consumer confidence has reached its highest level so far this year and is 4.0 points higher than in March 2023.

Brazil's purchasing managers' index for manufacturing increased to 54.1 in February from 52.8 in January, comfortably above the neutral 50 mark for a second consecutive month and reaching its highest level since June 2022. The rise was driven by improvement in demand conditions, which boosted growth of new orders and production. In turn, companies stepped up input purchasing and recruited employees at the strongest rate in 19 months.

The services PMI climbed to 54.6 in February, from 53.1 in January. Driven by output growth, the indicator hit a 19-month high with new business increasing at the fastest pace since October 2022. Job creation continued, while business optimism strengthened. Higher levels of business activity were registered in all but one broad category—real estate and business services—while consumer services topped the rankings. The composite PMI increased to 55.1 in February (from 53.2), staying firmly within the expansion zone for a fifth consecutive month.

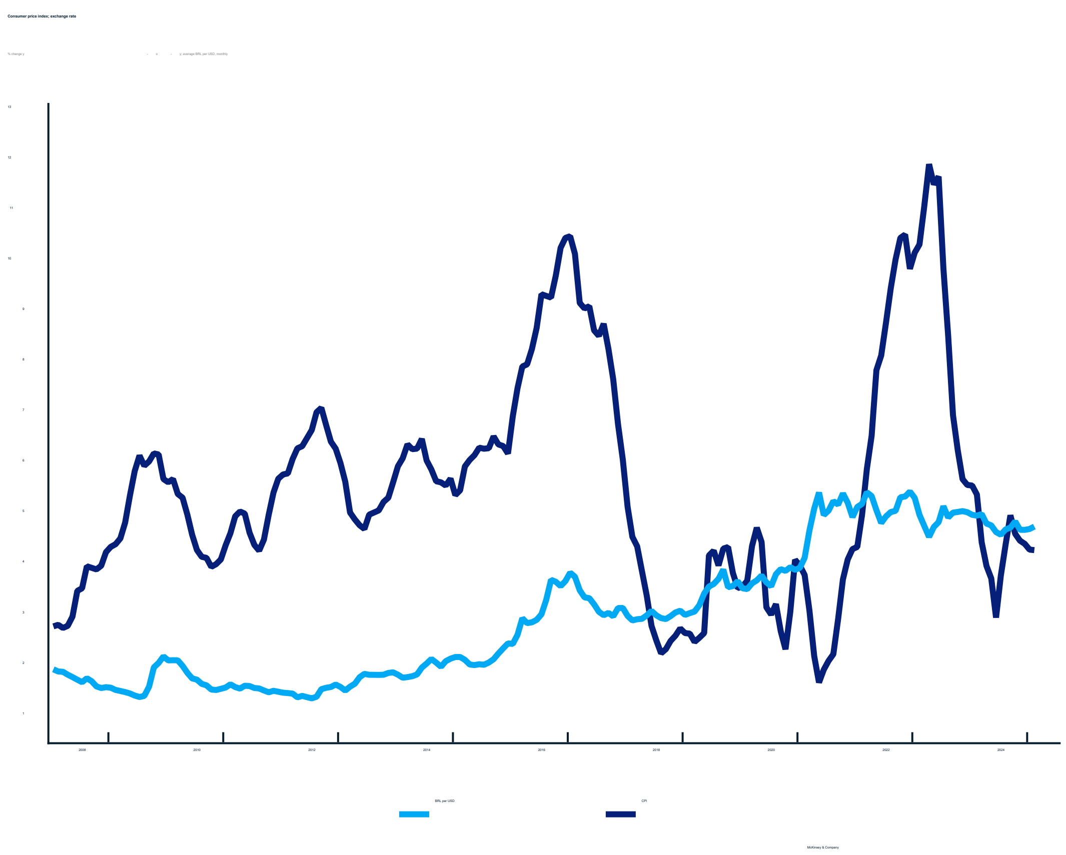
On the financial markets, the monthly average exchange rate was BRL 4.96 per US dollar in February (4.91 in January). The February Bovespa equities index fell, losing 1.5% in value. Meanwhile, the three-month moving average unemployment rate slightly increased to 7.6% in January (7.4% in December), up for the first time in 12 months.

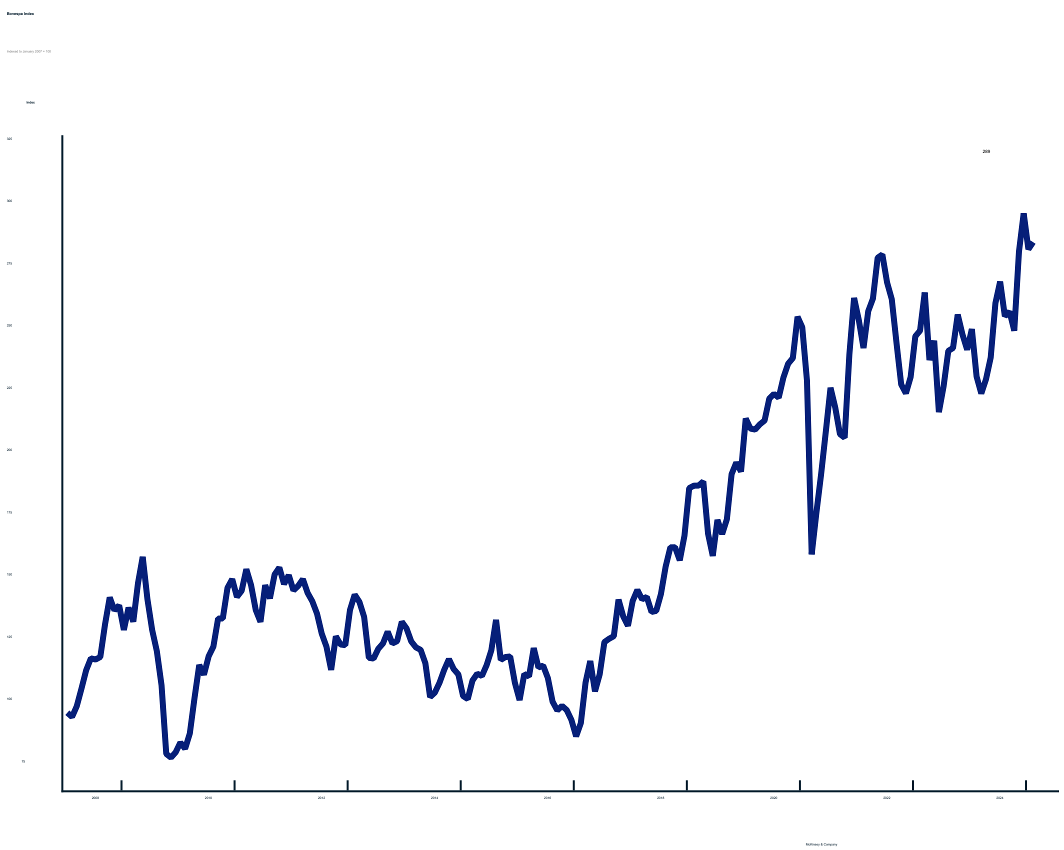
In February, the balance of trade registered a surplus of US $5.4 billion, with exports totaling US $23.5 billion (US $26.9 billion in January) and imports reaching US $18.1 billion (US $20.5 billion in January).

The Central Bank's Monetary Policy Committee decided on March 20 to cut the Selic rate by another half percentage point, to 10.75%. The Committee reinforces the need to persist with a contractionary monetary policy until the disinflationary process consolidates and inflation expectations anchor around its targets. Inflation expectations stand at 3.5% for 2024. The Committee emphasized that progress in the easing cycle will depend on inflation dynamics and signaled further reductions of the same magnitude going forward.

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

In February, inflation fell, while the Brazilian real slightly lost ground; the equity market's performance increased





1. National Consumer Price Index (extended IPCA), 1993 = 100, not seasonally adjusted; % change in CPI in local currency (period average) over previous year. The Central Bank's target inflation rate for 2023 was 3.25% and was reduced to 3.0% for 2024, with a margin of error of 1.5 percentage points.
2. Data through March 25, 2024.

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

Both services and manufacturing PMIs reached a 19-month high, driven by increased demand

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

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

Unemployment paused its downward trend, both PMIs increased significantly

- Consumer confidence increased to 91.3 in March, from 89.7 in February—reaching the highest level this year and 1% above pre-COVID-19 levels. Business confidence remained unchanged at 97.4 in February—3.5% below pre-COVID-19 levels.
- The purchasing managers' index (PMI) for manufacturing increased to 54.1 in February (52.8 in January). The services PMI climbed to 54.6 in February (53.1 in January).
- In February, the balance of trade registered a surplus of US $5.4 billion, with exports totaling US $23.5 billion (US $26.9 billion in January); imports were US $18.1 billion (US $20.5 billion in January).
- Inflation reached 4.50% (4.51% in January), down for a fifth consecutive month. The consumer price index (CPI) is 0.3 percentage points above pre-COVID-19 levels.
- The three-month moving average unemployment rate increased slightly to 7.6% in January (7.4% in December)—rising for the first time in 12 months.

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

- In February, the monthly average exchange rate was steady at BRL 4.96 per US dollar. On March 25, the exchange rate was 4.97 BRL per US dollar.
- The Bovespa equities index fell 1.5% over the month (up to March 11); it lost 2.2% in value up to February 9.

Amazon climate crisis continues; February inflation was largely propelled by tuition fees, food, and transportation

- Two of Brazil's northern states are experiencing contrasting climate phenomena: flooding in Acre and wildfires in Roraima. The Acre river reached its second-highest-ever level (18 meters). City officials have moved over 10,000 people to shelters. In Roraima, some 3,000 fire episodes were registered in February, a record high and up from around 2,000 in 2007. This was mainly attributed to last year's drought and deforestation, which has been increasing since 2019. If it continues, this could trigger a collapse that would potentially send up to 20 years' worth of global carbon emissions into the atmosphere.
- Despite the drop in the 12-month inflation rate, food, transportation, and education inflation rose in February. Driven by school tuition fees and food costs, prices went up 0.83%. Transportation costs rose due to increases in fuel prices following a decision by state governments to hike taxes by 12.5%, also boosting the local VAT rate which is currently being reformed.
- Brazil is increasingly capturing soybean exports to China. In addition to the large volume of the Brazilian exports, the timing of these shipments has affected the export of US soybeans, the most profitable US agricultural export. This year, US bean exports to China totaled 17.5 million metric tons, 2.8 million more than Brazil's. In recent years, for 2018–19 and 2019–20, US soy exports would have been a minimum 13 million metric tons and possibly up to 25 million metric tons higher than Brazil's.

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

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