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Global Economics Intelligence

Global Summary Report

Released June 2023 (data through May 2022)

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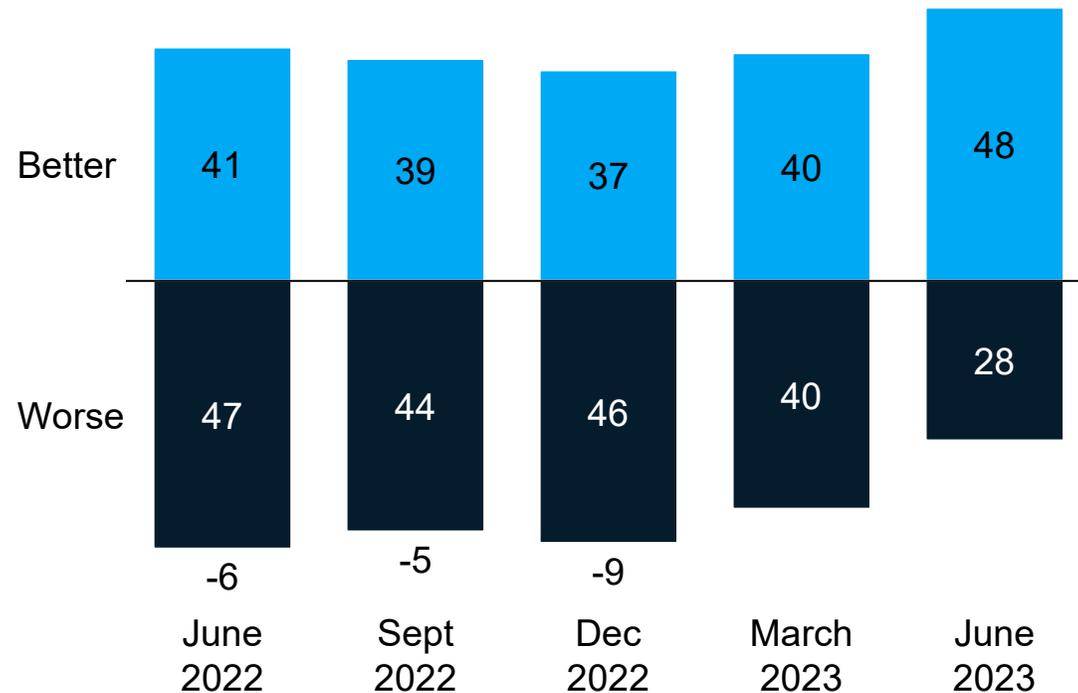
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Executives around the world are more positive than negative about the state of the economy for the first time in over a year

Current economic conditions in respondent's countries, compared with 6 months ago¹

Percent of respondents



¹Respondents who answered "the same" are not shown, June 6-10, 2022 (N=899), August 29-Sept 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)

Global executives more positive; consumer confidence improving but low; emerging economies rebound; Fed pauses rate hikes as ECB raises rates by 25 basis points; inflation remains low in India and Brazil.

Executives around the world are more positive than negative about the state of the economy for the first time in over a year, according to the latest [McKinsey Global Survey](#) on economic conditions.²

Respondents are more optimistic about both the current state of their own countries' economies—48 percent say economic conditions at home have improved in the past six months (up from 40 percent last quarter)—as well as the global economy.

India is notably positive: respondents are much more bullish about their economy than in March, with 85 percent saying conditions have improved compared to six months ago (up from 46 percent in March).

At the same time, inflation and geopolitical instability continue to top the list of perceived risks to global and domestic growth: 35 percent of respondents cite inflation as a risk to economic growth in their country, while 34 percent flag up geopolitical instability and conflict. However, perspectives on the interest rate environment are evolving, with 21 percent identifying rising interest rates as a risk—currently, the smallest share of executives since [June 2021](#) is expecting interest rates to increase in their countries.

Meanwhile, consumer confidence has gradually been improving but remains patchy and low. Spending across countries has softened, with the exception of Russia. Inflation continues to ease across the board, but core inflation remains at uncomfortable levels; however, producer prices in developing economies are declining, which will further alleviate pressure on consumer prices. In the US, inflation expectations

came off from highs observed in 2022 and are close to the Fed's targets.

The Federal Reserve decided not to hike the federal funds rate and maintained the target range at 5 to 5-1/4%, breaking a ten-meeting streak of rate rises, but did raise the interest rate paid on reserve balances to 5.2%. This was in contrast to both the European Central Bank (ECB), which raised its key interest rate to 3.50% (a hike of 25 basis points), and the Bank of England, which increased its policy rate by 50 basis points to 5% in June. The Reserve Bank of India also kept its key policy rate (repo rate) unchanged in June at 6.5%.

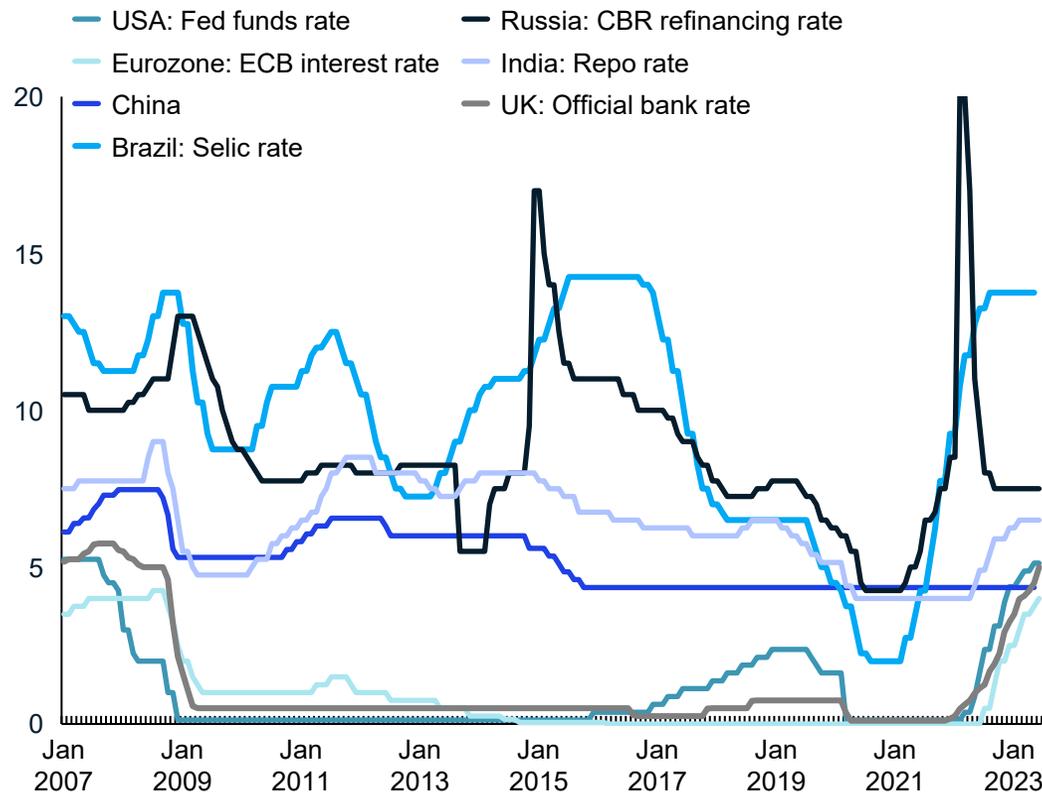
Global GDP growth in 2023 is projected to be 2.7%, the lowest annual rate since the global financial crisis, picking up modestly to 2.9% in 2024, according to the OECD's June outlook. The OECD's leading indicators for developed economies remain disappointing, with US and eurozone levels indicating a downturn while the UK trajectory points to a recovery—albeit that all three regions are still below the long-term trend in industrial production. According to the OECD's June 2023 outlook, UK GDP growth is expected to be modest at 0.3% in 2023 and rise moderately to 1% in 2024. Meanwhile, June 2023 European Central Bank projections anticipate GDP growth in the eurozone to slow to 0.9% in 2023 (from 3.5% in 2022) before rising to 1.5% in 2024 and 1.6% in 2025. By contrast, the emerging economies are showing the first signs of a rebound, led by China, where industrial output growth was 3.5% y-o-y in May, decelerating from 5.6% in April.

Manufacturing and services sector performance continues to tell two contrasting stories: the global services sector gained some momentum at the beginning of Q2 2023, while the manufacturing sector

ECB and Bank of England increased key interest rates by 25 and 50 basis points respectively in June, while FED skipped rate hike this month, most likely returning to tightening in July

Central-bank interest rates

%, (monthly)



contracted again, now showing a decline for three consecutive quarters. Factories have signaled increased production, yet deteriorating new orders and international trade flows raise concerns about demand. Nevertheless, there are some bright spots for manufacturing: input prices have been falling for the first time since 2020, while global supply-chain pressures have eased to record one of the biggest drops since 1998.

In the US, the industrial production index remained unchanged in April, standing at 103. The purchasing managers' index (PMI) for manufacturing rose to 49.3 in March (47.3 in February), while the services PMI increased to 52.6. Meanwhile, in the eurozone, the manufacturing PMI dropped slightly to 52.8 (flash estimate for May) against 54.1 in April, a three-month low. The services PMI broke into expansion territory in January (50.8) and leveled off in May (55.1). By contrast, India's manufacturing PMI hit a 31-month high in May, positioned solidly in expansion territory at 58.7 (versus 57.2 in April), while the services PMI recorded a m-o-m decline of 1.3% to stand at 61.2 (also remaining well within the expansion zone).

Unemployment rates rose in the US (where unemployment stands at 3.7%, slightly higher than April's 3.4%) and India (down to 7.7%), while remaining practically unchanged in China and the eurozone. The labor market remains relatively tight in the UK, with unemployment below pre-pandemic levels, despite the quarterly rate to April 2023 ticking up to 3.8%. Meanwhile, pressure to increase wages in Russia continues due to a tight labor market.

Stock exchanges across countries presented a mixed picture, with month-on-month declines in China, France, and UK across April and May, but stronger performances in Brazil, Germany, India, and

especially Japan. In the US, May's S&P500 year-to-date returns were up +8.9%, while the Dow Jones was down -0.7%—positioning May as the month in which we are seeing the first negative year-to-date returns on a US index. Meanwhile, most currencies appreciated against the US dollar.

One area of concern for economies globally revolves around recent events in Russia. While market reactions to the Wagner Group's short-lived armed rebellion (which started on June 23) have been noticeably subdued—the ruble-dollar exchange rate climbed from RUB 81 to RUB 86 per USD over the seven days to June 29—worries have emerged around potential disruptions to wheat supplies and volatility in energy prices. Markets are likely watching closely to obtain clarity on how the situation will develop over coming weeks.

In April, the Container Throughput Index stood at 121.1 points, up from the previous month (119.2 points revised); European throughput saw a slight recovery, while Chinese ports continue to strengthen. The eurozone trade balance had been positive since February but exports fell in April, and the trade deficit was -€11.7 billion (from +€23.5 billion surplus in March). Overall cross-border trade dropped for China in May, declining -6.2% y-o-y (versus +1.1% in April). India's trade deficit widened as exports declined -10.3% on an annual basis in May (although up 1% m-o-m), to \$34.98 billion, amid global demand challenges.

²The online survey was in the field from June 5 to 9, 2023, and garnered responses from 1,044 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

[Advanced economies]: In the advanced economies, central banks in Europe raised policy rates while the Fed took a break. Core inflation remains uncomfortable. Services sector continues to outshine manufacturing.

United States

Trade deficit increased by 23%; Federal Reserve breaks ten-meeting streak of rate hikes by not changing the federal funds rate, while inflation touches 4.0%.

US exports in April were \$249.0 billion, \$9.2 billion below March; April imports measured \$323.6 billion, up \$4.8 billion on March; the total deficit rose 23% to \$74.6 billion.

The Federal Reserve raised the interest rate paid on reserve balances to 5.2%. However, Federal Reserve officials decided not to hike the federal funds rate and maintain the target range at 5 to 5-1/4%. This breaks the ten-meeting streak of rate rises.

On the housing market, the 30-year fixed-rate mortgage increased to 6.7% on June 15, this as the US National housing price index decreased by 0.4% past March. In April, the number of new single-family houses sold fell to 4,280,000 (4,430,000 in March) as the median price closed at \$389,000. Although the median existing-home sale price edged down for the third consecutive month, experts don't expect substantial, nationwide price declines anytime soon, perpetuating affordability challenges for many. Mortgage rates remain high partly as a consequence of the Fed's voting to raise its key interest rate by 25 basis points on May 3, continuing its robust efforts to damp down inflation.

The consumer price index increased 4.0% on an annual basis in May (4.9% in April). The index for shelter was the largest contributor to the monthly all-items increase, followed by increases in the indexes for used cars and trucks. The energy index declined 3.6% in May as the major energy component indexes fell. The May 2023 Survey of Consumer Expectations from the NY Fed shows that the one-year-ahead inflation expectation declined to 4.1%; the series, however, remains well above its pre-pandemic levels.

The unemployment rate stands at 3.7%, slightly higher than April's 3.4%. Total nonfarm payroll employment has added some 339,000 net new jobs in May. New unemployment claims this May are similar to May 2022, at around 232,000 new claims per week. The labor force has expanded by approximately 1,291,000 from March 2020 (1,004,000 men, 287,000 women).

The industrial production index remained unchanged in April, standing at 103. The purchasing managers' index (PMI) for manufacturing rose to 49.3 in March (47.3 in Feb), while the services PMI increased to 52.6—for comparison purposes, the services PMI was 70.4 in May 2021.

Retail and food-service sales increased to \$686.6 billion, a 0.3% increase from April's \$684 billion. The consumer confidence index (Conference Board) fell in May to 102.3, down from an upwardly revised 103.7 in April.

In May, S&P500 year-to-date returns were up +8.9%, while the Dow Jones was down -0.7%—positioning May as the month in which we are seeing the first negative year-to-date returns on an index. In May, the CBOE Volatility Index averaged 14.2.

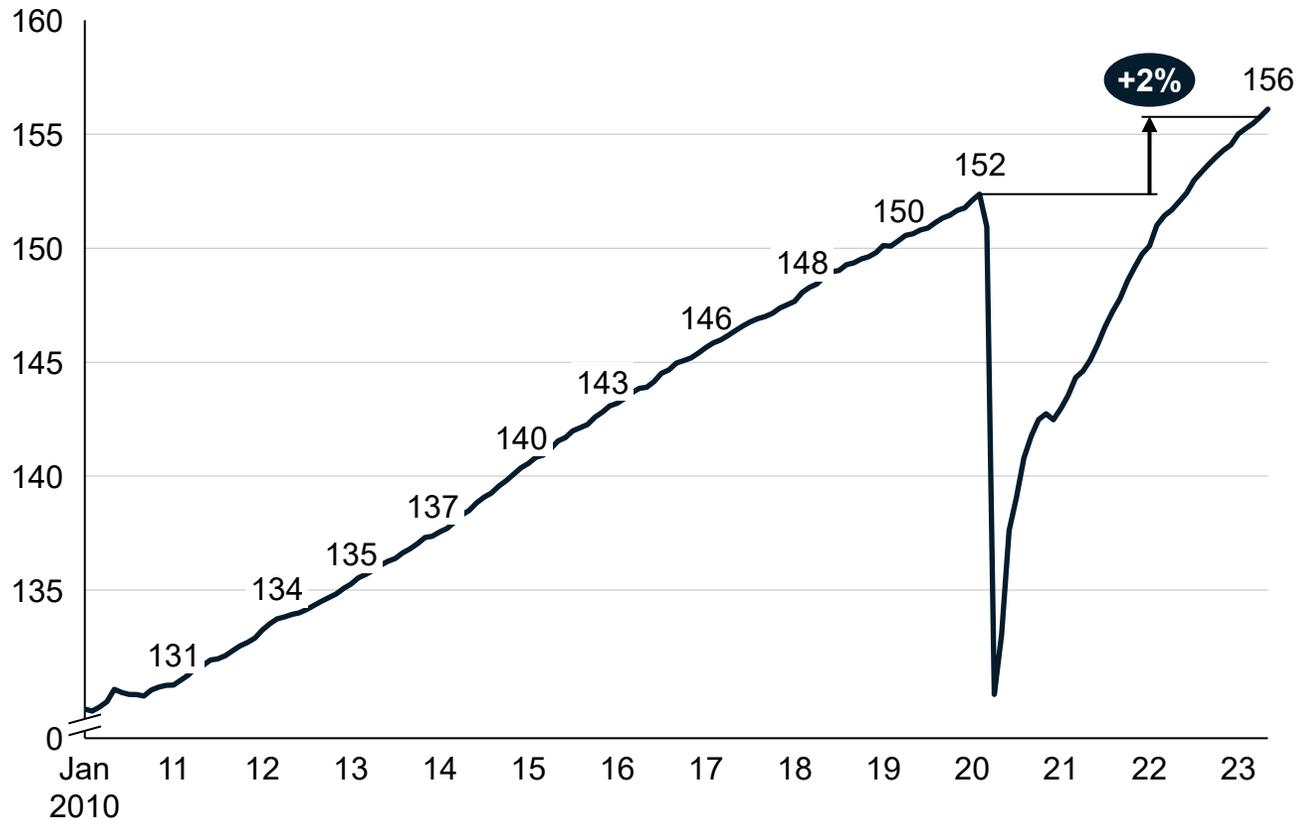
In June, UPS workers voted in favor of striking if an agreement isn't reach in the next month over pay, hours, and working conditions. If it materializes, a strike could affect American consumers who rely on package delivery for their goods.

White House and Congress reached an agreement on the debt ceiling: the agreement suspends the debt limit for two years, imposes spending caps, introduces new work requirements for certain government benefits, includes provisions for permitting energy projects, and claws back funding from the Internal Revenue Service (IRS).

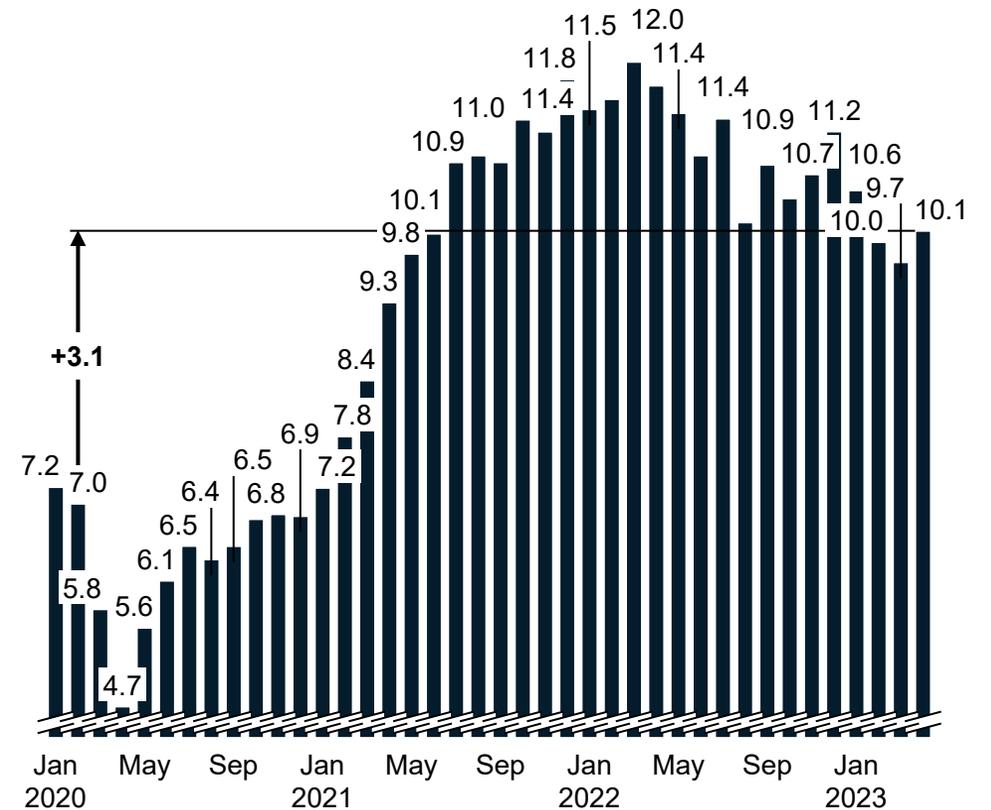


Nonfarm payroll employment continues to grow above pre-pandemic levels—openings some 3.1 million above February 2020

Total nonfarm payroll employment
Millions, through May 2023



Job openings – total nonfarm
Millions, through April 2023



Trade deficit increased by 23%; Federal Reserve breaks ten-meeting streak of rate hikes by not changing the federal funds rate; inflation touches 4.0%

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

	Indicator category	Change vs prior month	Change vs pre-COVID	
Macroeconomic	Consumer			<p>Trade deficit increased by 23% in April; the economy added some 339,000 net new jobs in May</p> <ul style="list-style-type: none"> The industrial production index was unchanged in May, standing at 103. The purchasing managers' index (PMI) for manufacturing decreased to 48.4 in May (49.3 in April); the services PMI increased to 54.9 (versus 70.4 in May 2021). Retail and food-service sales increased to \$686.6 billion, a 0.3% increase from April's \$684 billion. The consumer confidence index (Conference Board) fell in May to 102.3, down from an upwardly revised 103.7 in April. US exports in April were estimated at \$249.0 billion, \$9.2 billion lower than March; April imports were \$323.6 billion, \$4.8 billion above March; the total deficit increased by 23% to \$74.6 billion. On the housing market, the 30-year fixed-rate mortgage increased to 6.69% on June 15, this as the US National housing price index declined by 0.4% past March. In April, the number of new single-family houses sold fell to 4,280,000 (4,430,000 in March) as the median price closed at \$389,000. Although the median existing-home sale price edged lower for the third consecutive month, experts don't expect substantial, nationwide price declines anytime soon, perpetuating affordability challenges for many. Mortgage rates remain high partly as a consequence of the Fed's voting to raise its key interest rate by 25 basis points on May 3, in its aggressive efforts to damp down inflation. The unemployment rate stands at 3.7%, slightly higher than April's 3.4% (3.5% in January 2020). Total nonfarm payroll employment has added some 339,000 net new jobs in May. New unemployment claims this May are at the same level as May 2022, at around 232,000 new claims per week. The labor force is up approximately 1,291,000 from March 2020 (1,004,000 men, 287,000 women). The consumer price index rose 4.0% (annualized) in May (4.9% in April). The index for shelter was the largest contributor to the monthly all-items increase, followed by rises in the indexes for used cars and trucks. The energy index declined 3.6% in May as the major energy component indexes fell.
	Business/industry			
	Real estate			
	Trade, external			
	Prices			
	Employment			
	Foreign exchange			
Financial markets	Equity			<p>Federal Reserve breaks ten-meeting streak of rate hikes by not changing the federal funds rate</p> <ul style="list-style-type: none"> In May, S&P500 year-to-date returns were up +8.9% while the Dow Jones was down -0.7%—setting May as the first month in which we are seeing negative year-to-date returns on an index. During May, the CBOE Volatility Index averaged 14.2. The Federal Reserve raised the interest rate paid on reserve balances to 5.2%. Federal Reserve officials also decided not raise the federal funds rate and maintain the target range 5 to 5-1/4%. This breaks a ten-meeting streak of rate increases.
	Debt			
	Credit			
Government and policy	Public policy			<p>UPS workers voted in favor of strike; debt ceiling agreement reached</p> <ul style="list-style-type: none"> In June, UPS workers voted to strike if an agreement isn't reached in the next month over pay, hours, and working conditions. As a consequence, American consumers who rely on package delivery for their goods could be affected. White House and Congress reached an agreement on the debt ceiling: this suspends the debt limit for two years, imposes spending caps, introduces new work requirements for certain government benefits, includes provisions for permitting energy projects, and claws back funding from the Internal Revenue Service (IRS).
	Public-sector health			

Eurozone

2023 and 2024 projections revised down by 0.1 pp; another eurozone trade deficit recorded; headline inflation down to 6.1%, while food prices still high.

According to June 2023 ECB staff projections, GDP growth is expected to slow to 0.9% in 2023 (from 3.5% in 2022) before rebounding to 1.5% in 2024 and 1.6% in 2025. Compared with the March forecasts, the outlook for GDP growth has been revised down by 0.1 pp for 2023 and 2024, reflecting mainly tighter financing conditions. GDP growth in 2025 remains unchanged, as these effects are expected to be partly offset by the impact of higher real disposable income and lower uncertainty.

Despite slightly declining in the first quarter of 2023, GDP growth is projected to pick up from the second quarter of 2023 and to remain solid in the second half of the year, as the impact of supply bottlenecks and energy shocks wanes and real incomes recover, despite a worsening outlook for manufacturing.

Eurozone inflation was down to 6.1% in May (7.0% in April), the main driver being food-price inflation (12.5% in May); excluding energy and food, inflation was still high, at 5.3%. The latest reading for producer-price inflation was 1.0% in April (5.0% March). In June, the ECB raised its key interest rate to 3.50%, a hike of 25 basis points, alongside revising its inflation projections slightly upwards to 5.4% (+1pp) in 2023, 3.0% in 2024 (+1pp), and 2.2% in 2025 (+1pp). ECB president Lagarde kept her promise to cease the Asset Purchase Programme (APP) as of July 2023.

Eurocoin, a leading indicator, was at -0.41 in May compared with -0.15 in April. The natural gas price (Dutch TTF futures) rose sharply in November before plunging in December and falling to €38 per megawatt hour by the end of June; this was due to demand reduction and the warmer-than-usual weather Europe has experienced since last autumn. The price stands at a fifth of its December 2022

high, but still twice the level before Russia invaded Ukraine. Brent crude has leveled off, reaching \$76 per barrel.

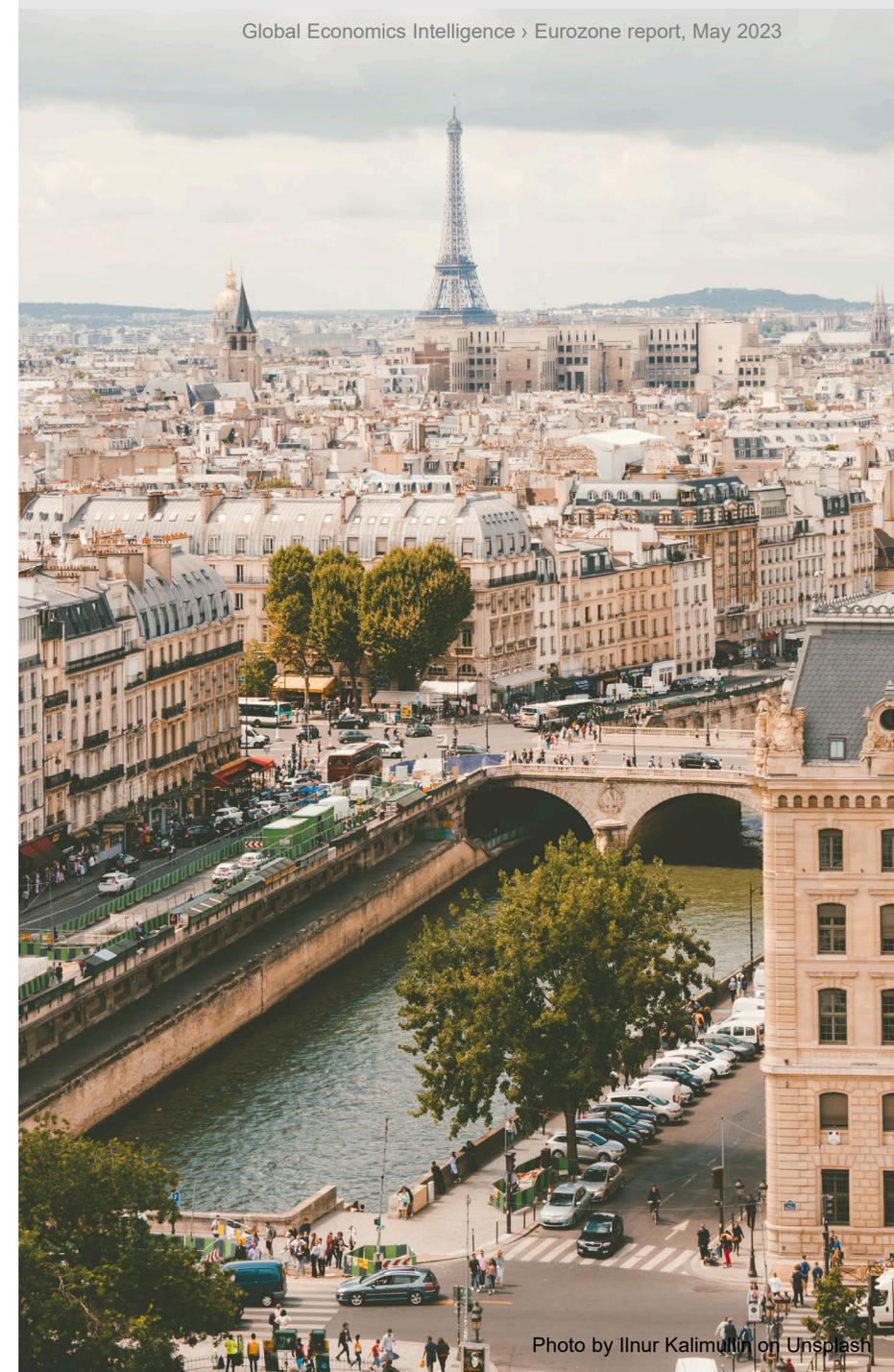
While Industrial activity has been less negative in the eurozone lately, this month's data confirmed a "bump in the road." The purchasing managers' index (PMI) for manufacturing dropped slightly to 52.8 (flash estimate for May) against 54.1 in April, a three-month low. The services PMI broke into expansion territory in January (50.8) and leveled off in May (55.1). The industrial production index has measured growth versus 2021 since August, although it came down substantially in March and stabilized in April.

The eurozone trade balance had been positive since February but exports fell in April, and the trade deficit was $-€11.7$ billion (from $+€23.5$ billion surplus in March).

European equities have been stable since recovering from the banking crisis; the Eurostoxx 600 index stood at 6.0% below its peak in January 2022. In June, the euro was stable against the US dollar, hitting \$1.09 per euro. The Italian–German 10-year bond-yield spread fell to 1.5%; the yields fell to 4.0 (from 4.3%) and remained at 2.5%, respectively.

The EC approved €8.1 billion (\$8.7 billion) in public funding to support Chips Act R&D and implementation, an initiative that has been backed by 19 member states plus Norway. This public funding is expected to unlock an additional €13.7 billion (\$15 billion) in private investments, according to an EC media release.

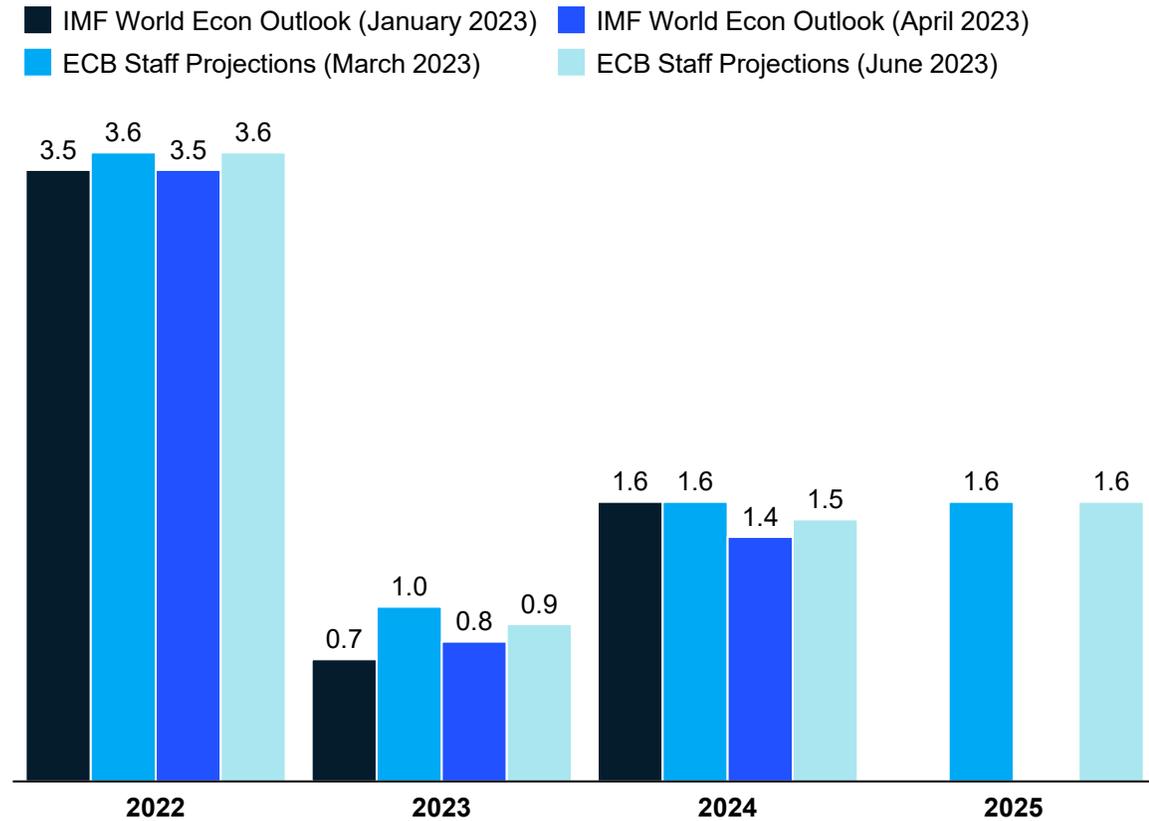
Meanwhile, the European Commission has proposed a €50 billion facility for Ukraine for the next four years. Since the beginning of the Russian invasion, Ukraine has received €30 billion directly from the EU budget.



ECB's June projections downgraded slightly; leading indicators fell and remain in negative territory

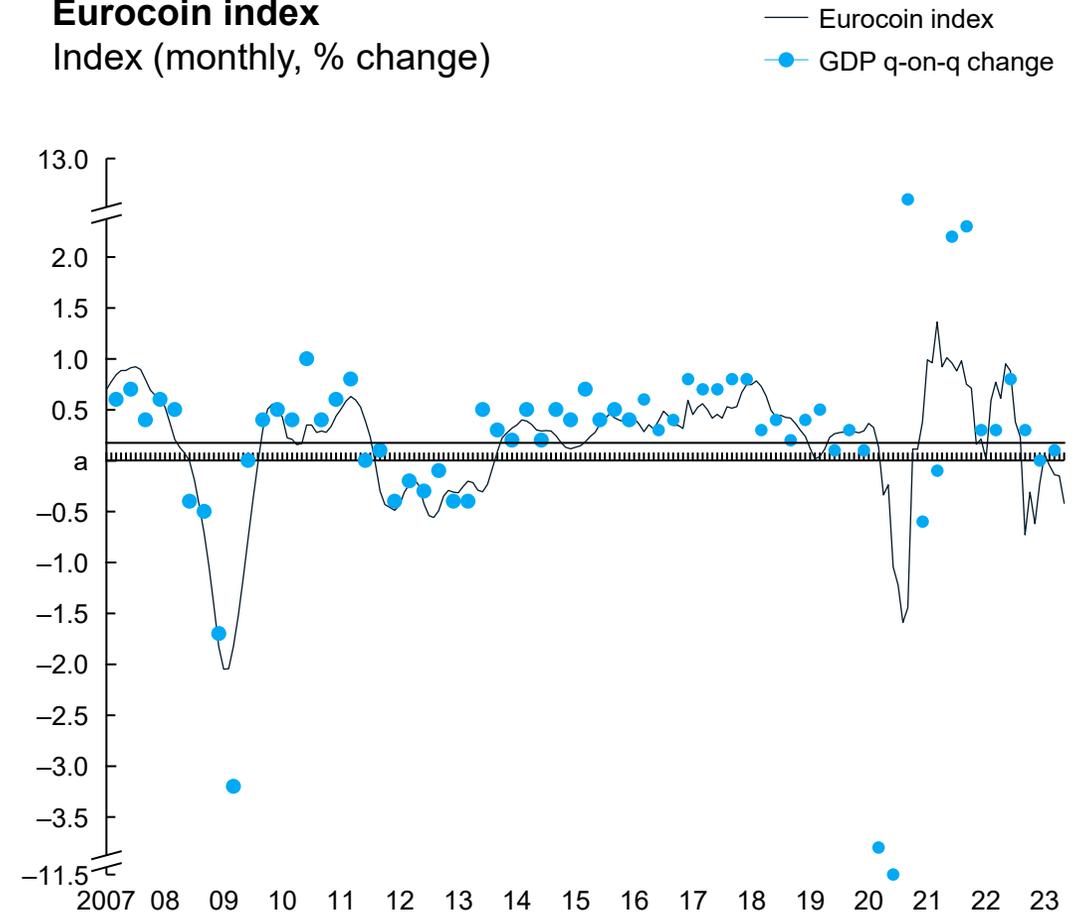
Eurozone real GDP forecast from main institutions, 2022–25

Year-on-year, constant prices (% change)



Eurocoin index

Index (monthly, % change)



Eurozone trade again in deficit; headline inflation down to 6.1%, while food prices remain high; EC approves €8.1 billion for microelectronics and communication technologies

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	<p>EA trade in deficit once again; headline inflation down to 6.1%, while food prices are still high</p> <ul style="list-style-type: none"> Retail sales remained unchanged (0% m-o-m) in April and were down -2.6% y-o-y. The consumer confidence indicator (European Commission) reached its historic low mark in September (-28.7) and is becoming less bleak (-17.4 in May 2023). The business confidence index was almost in positive territory in May and was on par with the lowest level seen in 2021. The purchasing managers' index (PMI) for manufacturing reached 52.8 in the flash estimate for May (54.1 in April), a three-month low. The services PMI broke into expansion territory in January (50.8) and leveled off in May (55.1). The industrial production index has measured growth versus 2021 since August, although it fell substantially in March and stabilized in April. Construction and real estate indexes fell in April compared with the previous month but improved over the same period last year. The eurozone trade balance had been positive since February, but in April exports fell and the trade deficit was -€11.7 billion (down from a €23.5 billion surplus in March). Eurozone inflation was down to 6.1% in May (7.0% in April), the main driver being food-price inflation (12.5% in May); excluding energy and food, inflation was still high, at 5.3%. The latest reading for producer-price inflation was 1.0% in April (5.0% March). The unemployment rate remained stable and low at 6.4% in April; the youth unemployment rate was 13.9%.
	Business/industry	Worsening	No significant change	
	Real estate	Worsening	No significant change	
	External trade	Worsening	Severe decline	
	Prices	No significant change	Severe decline	
	Labor market	No significant change	Improving	
	Foreign exchange	No significant change	Severe decline	
Financial markets	Equity	No significant change	No significant change	<p>European equities remained stable; Italian and German 10-year bond yields fell; the euro stood stable against the dollar</p> <ul style="list-style-type: none"> European equities have been stable since recovering from the banking crisis; the Eurostoxx 600 index was 6.0% below its January 2022 peak. In June, the euro remained stable against the US dollar, hitting \$1.09 per euro. The Italian-German 10-year bond-yield spread fell to 1.5%; the yields respectively declined to 4.0 from 4.3% and remained at 2.5%. Loans to businesses and households increased by 0.6% and 0.2% m-o-m and by 8.3% and 4.5% over 2021, respectively.
	Debt	No significant change	Worsening	
	Credit	No significant change	Worsening	
Government and policy	Public policy	Severe decline	Worsening	<p>European Commission approves €8.1 billion for Chips Act R&D and implementation; it proposes a €50 billion facility for Ukraine for the next four years</p> <ul style="list-style-type: none"> The EC approved €8.1 billion (\$8.7 billion) in public funding to support an Important Project of Common European Interest (IPCEI) on Microelectronics and Communication Technologies, across 19 member states plus Norway. This public funding is expected to unlock an additional €13.7 billion (\$15 billion) in private investments, according to a statement by Commissioner Thierry Breton. The Commission also proposed a €50 billion facility for Ukraine for the next four years. Since the beginning of the Russian invasion, Ukraine has received €30 billion directly from the EU budget.
	Public-sector health	No significant change	Worsening	

United Kingdom

Inflation stuck at 8.7% in May; Bank of England raises key policy rate to 5%; labor market remains tight but shows signs of easing; latest GDP projections indicate modest growth in 2023 and expansion of around 1% in 2024.

According to the OECD's June 2023 outlook, UK GDP growth is expected to be modest at 0.3% in 2023 and rise moderately to 1% in 2024. Government consumption and investment will continue to support the economy, followed by a gradual strengthening of private expenditure due to falling wholesale gas prices and improved global conditions. Headline inflation is projected to slow on the back of declining energy prices and approach the 2% target by the end of 2024. Core inflation is set to be more persistent due to strong services inflation, only receding to 3.2% in 2024. Unemployment will rise, reaching 4.5% in 2024.

UK inflation stuck at 8.7% in May, while core inflation (which excludes the price of energy, food, alcohol, and tobacco) increased to 7.1%—the highest in 31 years. This indicates UK inflation is increasingly driven by domestic factors, not simply by increases in energy prices due to the war in Ukraine. Rising prices for “air travel, recreational, and cultural goods” helped keep inflation high, as food and drink prices continued to rise at one of the fastest rates in decades, while a decline in prices for motor fuel was the major downward contributor to the CPI rate. The rapid pace of price rises in the UK has been more persistent than in other big economies, with inflation running at the highest level in the G7. In response, the Bank of England hiked its policy rate by 50 basis points to 5% in June and is forecast to raise rates further before the end of 2023. Inflation is expected to drop to 5% by the end of 2023 (versus 4% as previously predicted).

The UK manufacturing sector remained in contraction territory in May, as rates of contraction in output, new orders, and employment all accelerated. However, input costs fell, and supply chain pressures subsided. Manufacturers were hit by weak domestic market sentiment, lower new export order intakes, and client destocking. The purchasing managers' index (PMI) for manufacturing fell to a four-month low in

May—47.1 versus 47.8 in April—and has remained below the neutral 50.0 mark for ten successive months. Meanwhile, the services sector recorded robust rises in output and incoming new work, as wage pressures pushed up cost inflation to a three-month high. The services PMI declined slightly to 55.2 in May from 55.9 in April but remained above the 50.0 neutral value for the fourth consecutive month, signalling a solid turnaround in business activity after the marginal fall seen during Q4 2022.

Growth in average total pay was 6.5% in February to April 2023, but real total pay declined by 2% year-on-year. The unemployment rate for February to April 2023 increased by 0.1 percentage points on the quarter to 3.8%, but remains below pre-pandemic levels—indicating that, while labor market conditions may be easing somewhat, they remain relatively tight. The share of working-age people not active in the economy (the economic inactivity rate) decreased by 0.4 percentage points to 21%. From March to May 2023, total employment vacancies fell by 250,000 year-on-year, but remain 250,000 above pre-COVID-19 levels (January to March 2020).

A cross-party group of UK MPs called for the government to align with EU regulations to boost trade between the UK and the EU. The recommendation to align with EU standards across swaths of manufacturing and general goods trade was among 114 proposals made in a report published by the UK Trade and Business Commission. The ideas follow a pledge by Labour leader Sir Keir Starmer to build a “closer relationship” with Brussels if the party wins the next general election.

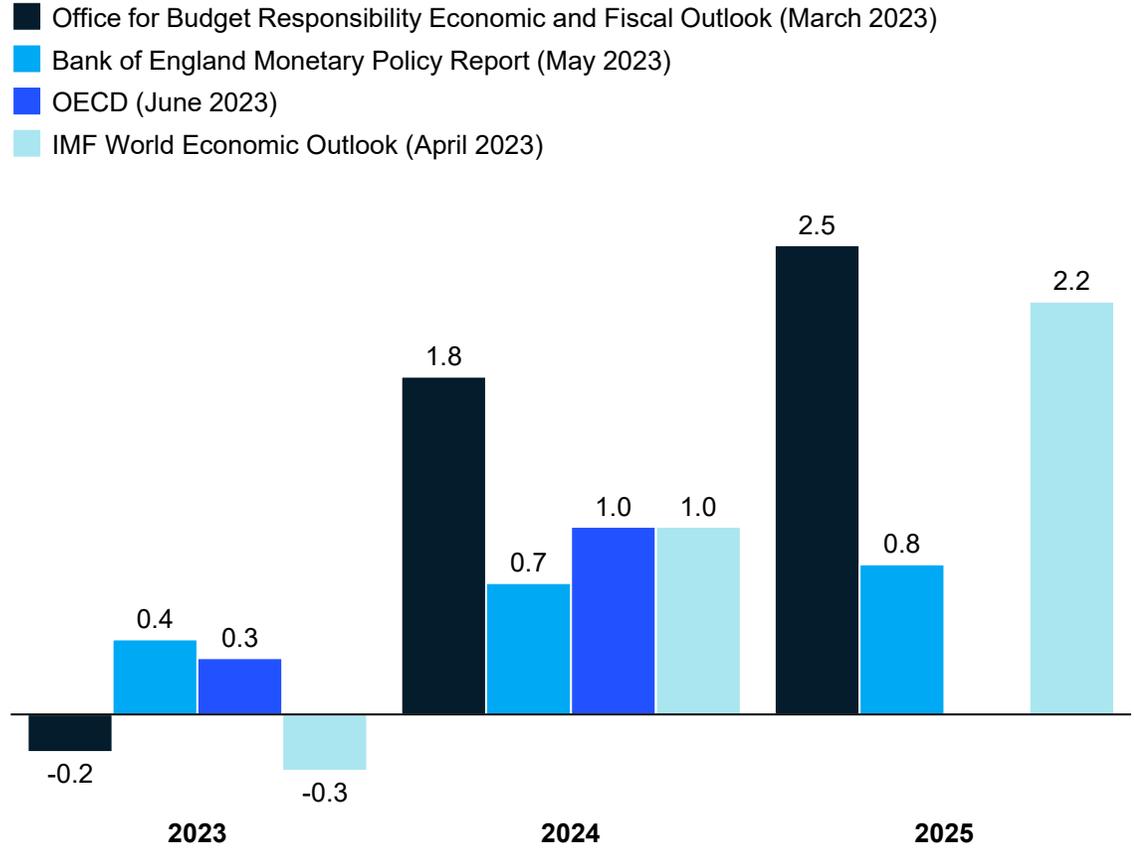
The Public and Commercial Services union put some planned strike action on hold in June; it pointed to “significant concessions” from ministers on pay and conditions. Ministers put forward an offer of a £1,500 one-off payment for civil servants in the hope that it would bring an end to long-running industrial action. UK railway workers undertook further strike action in June.



Improved UK GDP growth outlook for 2023–25; inflation unchanged at 8.7% in May, remaining above projections; Bank of England raises policy rate to 5%

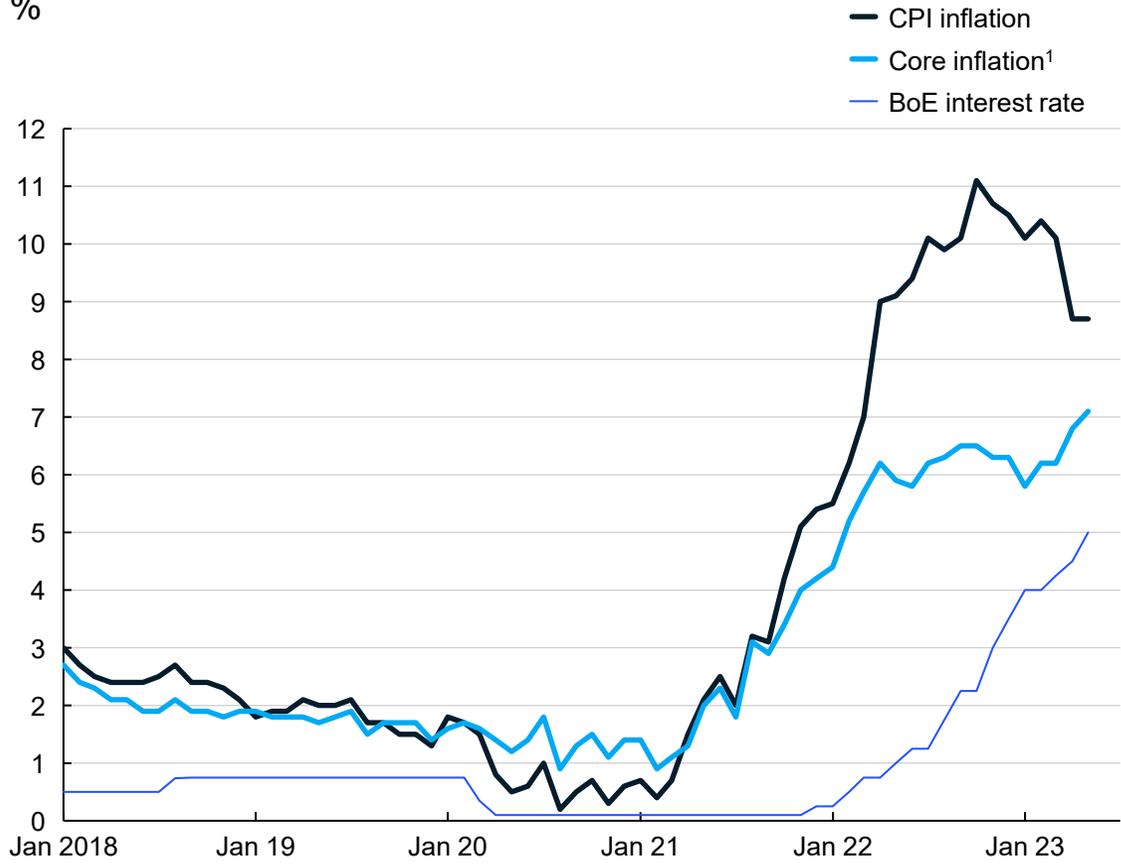
UK real GDP forecast from main institutions, 2023–25

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



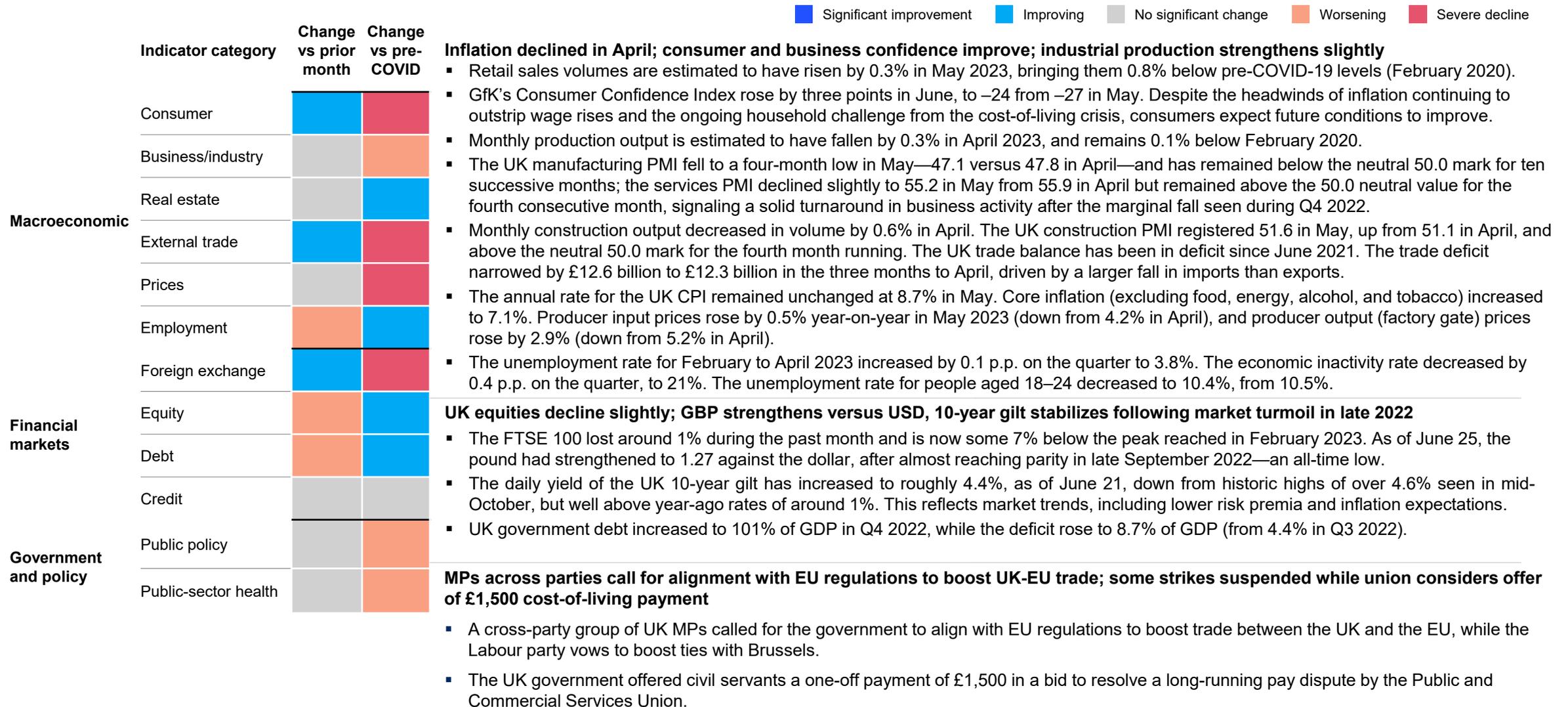
12-month inflation; Bank of England interest rate

%



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

Despite persistent inflation, consumer sentiment shows growing optimism; manufacturing continues to deteriorate while the services sector holds steady; business sentiment improves



[Emerging economies]: In the emerging economies inflation is under control. Trade is turning down on weaker demand, but Brazil growth boosted by expanding agricultural output.

China

China's economy slowed in May. Growth in industrial output, fixed-asset investment, and housing sales revenue decelerated; exports and imports contracted compared with last year.

Industrial output growth decelerated to 3.5% y-o-y in May (5.6% in April). By sectors, industrial output in the mining sector contracted by -1.2% y-o-y (0.0% in April), while output in the manufacturing sector decelerated to 4.1% (6.5% in April); meanwhile, output in the utility sector remained unchanged at 4.8% y-o-y in May.

Expansion in fixed-asset investments decelerated to 2.2% y-o-y in May (3.9% in April). By sectors, investments into the manufacturing sector stabilized, growing 5.1% y-o-y in May (5.3% in April); infrastructure sector investments decelerated to 4.9% (7.9% in April); investments in the real estate sector remained sluggish, with a deeper contraction of -8.0% reported in May (compared to -5.8% in April).

The real estate market weakened in May. Housing sales growth slowed to 0.5% in May from 16.7% in April, while floor space sold contracted further, down -16.2% in May compared to -9.5% in April. Housing prices remained resilient in May, growing 19.8% y-o-y.

New social financing measured RMB 1.6 trillion in May, up from RMB 1.2 trillion in April but declining -45.3% y-o-y (versus 31.3% in April)—a contraction in new bank loans and government bond financing could explain 86% of the drop in

new social financing compared with the same period last year. Total social financing was reported at RMB 361.4 trillion in May, with the y-o-y growth rate falling somewhat to 9.8% in May (10.3% in April).

The surveyed urban unemployment rate remained at 5.2%—unchanged compared with April. However, the youth unemployment rate climbed further to 20.8% in May (20.4% in April), reaching its highest reading since 2018.

Overall cross-border trade dropped in May, declining -6.2% y-o-y (versus 1.1% in April). Exports fell -7.5% y-o-y in May (against 8.5% in April), while imports were down -4.5% y-o-y (compared to -7.9% in April).

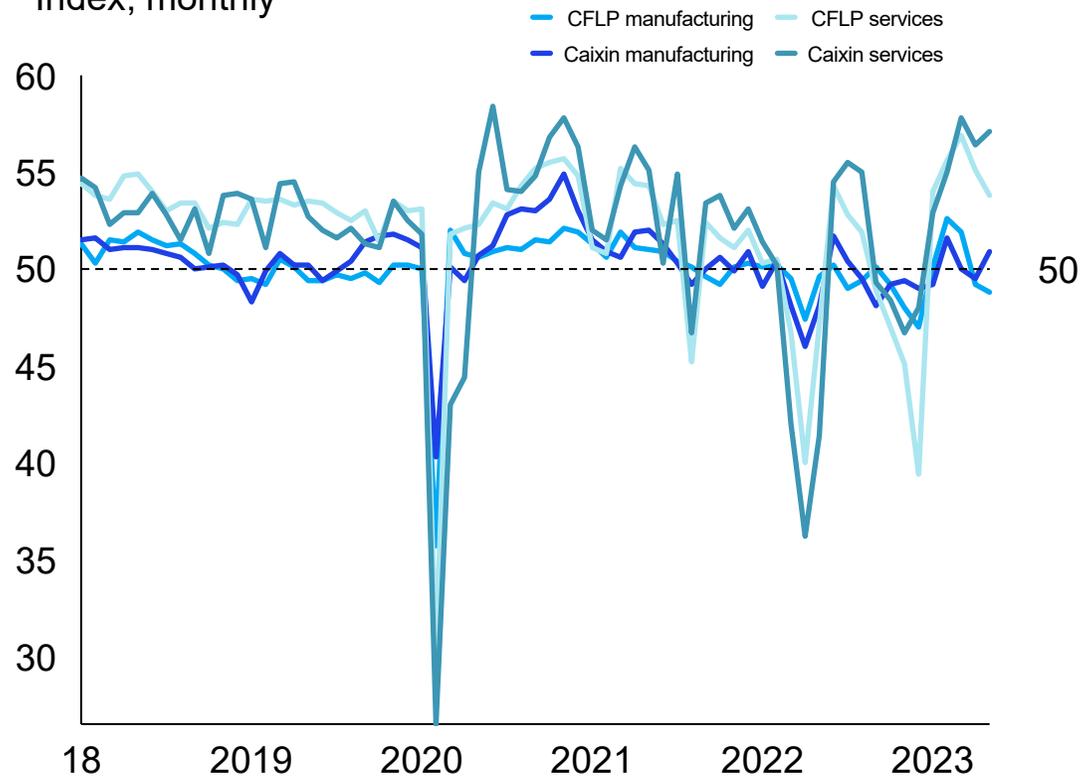
On June 19, Chinese President Xi Jinping met with visiting US Secretary of State Antony Blinken in Beijing. Xi and Blinken pledged to stabilize US-China relations.



The official services PMI showed a softer expansion in May, while the manufacturing PMI remained in the contraction zone; stock indexes edged up

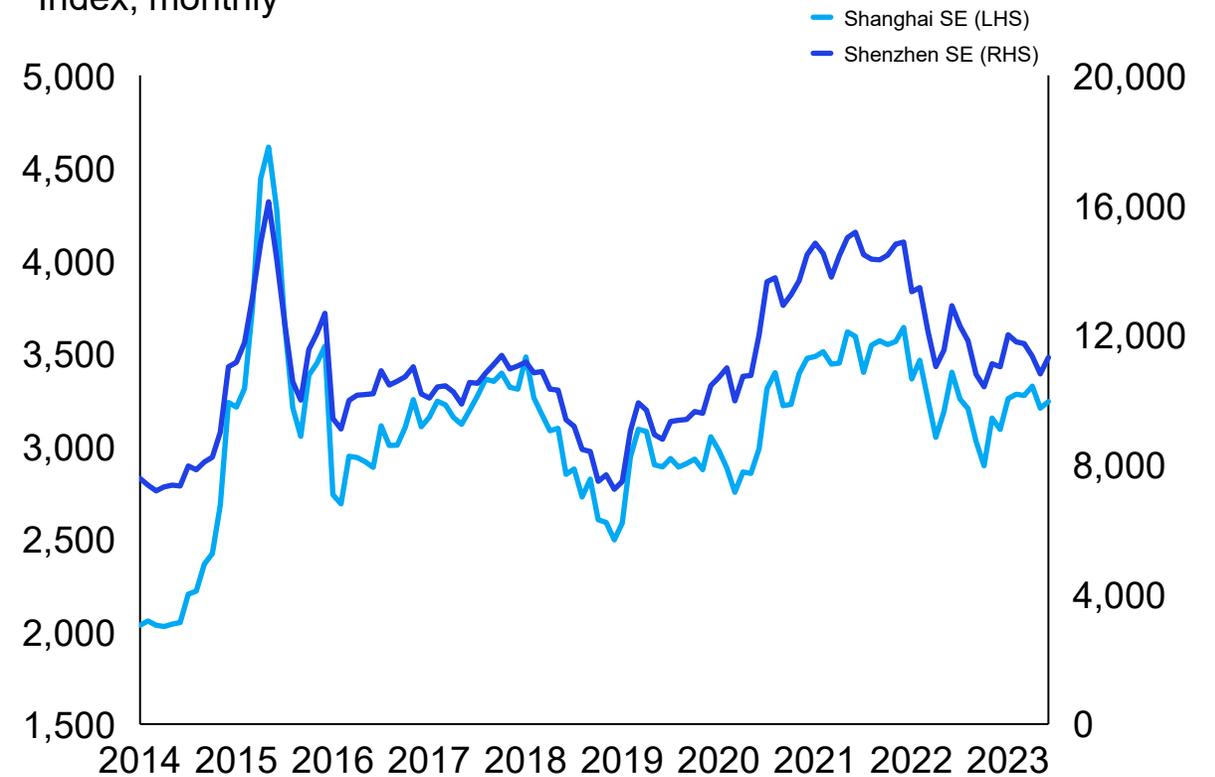
Purchasing managers indexes (PMI)

Index, monthly



Stock market indexes

Index, monthly



Y-o-y retail sales growth decelerated in May; both exports and imports fell; inflation remained low

■ 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	■ No significant change	■ No significant change
	Real estate	■ Worsening	■ Worsening
	External sector, trade	■ Worsening	■ Improving
	Prices	■ No significant change	■ Worsening
	Employment	■ No significant change	■ Worsening
Financial markets	Foreign exchange	■ Worsening	■ No significant change
	Equity	■ Improving	■ Improving
	Debt	■ Worsening	■ Improving
	Credit	■ Worsening	■ Improving
Government and policy	Public policy	■ No significant change	■ Improving
	Public-sector health	■ No significant change	■ No significant change

Y-o-y retail sales growth decelerated; the official manufacturing PMI stayed in the contraction zone and the official services PMI indicated softer expansion; trade was down; CPI and PPI remained low

- Retail sales growth decelerated to 12.7% y-o-y in May (18.4% in April).
- Official and Caixin purchasing managers' indexes (PMIs) presented mixed messages. The official manufacturing PMI remained in the contraction zone, falling to 48.8 in May (49.2 in April), while the Caixin manufacturing PMI rose to the expansion zone (50.9 in May versus 49.5 in April). The official services PMI softened to 53.8 in May (55.1 in April), while the Caixin services PMI reported a stronger reading of 57.1 in May (56.4 in April).
- Overall cross-border trade fell in May, declining -6.2% y-o-y; (it was up 1.1% in April). Exports fell -7.5% in May (up 8.5% in April) and imports decreased by -4.5% (against -7.9% in April).
- Consumer price inflation ticked up to 0.2% in May (0.1% in April), while producer prices deflated at a rate of -4.6% (-3.6% in April).

RMB depreciated against the US dollar; stock indexes edged up; money supply expanded at a slower pace

- The RMB depreciated 0.9% against the dollar compared with the end of May, trading at RMB 7.1729 = USD 1 by June 20.
- By June 20, the Shanghai stock index had gained 1.1% in value, while the Shenzhen gained 4.7% compared with levels at the end of May.
- New social financing measured RMB 1.6 trillion in May (RMB 1.2 trillion in April), declining -45.3% y-o-y (31.3% in April).
- M2 growth decelerated to 11.6% in May (12.4% in April).

PBOC lowered short-term lending rate and LPR by ten basis points

- On June 13, the People's Bank of China (PBOC) announced a cut in the 7-day reverse repo rate to 1.9% (versus 2.0% previously) for the first time in ten months.
- On June 20, PBOC announced a cut in the 1-year LPR (Loan Prime Rate) by ten basis points to 3.55% and also a cut in the 5-year LPR by the same margin to 4.2%.

India

CPI inflation reached a 25-month low in May 2023; India reported GDP growth of 6.1%—the highest among the world’s major economies—in Q4:2022–23. Manufacturing sector posted net profits; Indian rupee showing stability.

The Reserve Bank of India (RBI) has achieved its goal for the consumer price index with CPI inflation declining from its peak of 7.8% in April 2022 to 4.3% in May 2023, and remaining comfortably within the central bank’s tolerance band of 2–6%. In its annual report, RBI suggests GDP growth will be sustained in 2023–24, projecting it to be around 6.5% backed by sound macroeconomic policies, easing inflation, and a robust financial sector.

The key RBI policy rate (repo rate) stands at 6.5% in June and remains unchanged since the prior month. Inflation further slowed in May to 4.3%. While inflation for fuel and light sharply declined to 4.64%, y-o-y food-price inflation was at 3.29% in the month of April.

Sales of passenger vehicles in May 2023 reached their highest-ever level for the month of May, returning a y-o-y growth of 13.5% to reach 334,247 units; this represented a m-o-m increase of 1% versus April’s level of 331,278.

Industrial production m-o-m followed a downward trajectory, with a decline in mining (–20.6%) and manufacturing (–5.4%); however, there was an increase in electricity output (+2.3%). Y-o-y numbers, nevertheless, were positive, with an overall growth of 4.2% compared to April 2022.

The purchasing managers’ index (PMI) for manufacturing hit a 31-month high in May, remaining solidly in expansion territory at 58.7 (versus 57.2 in April). By contrast, the services PMI recorded a m-o-m

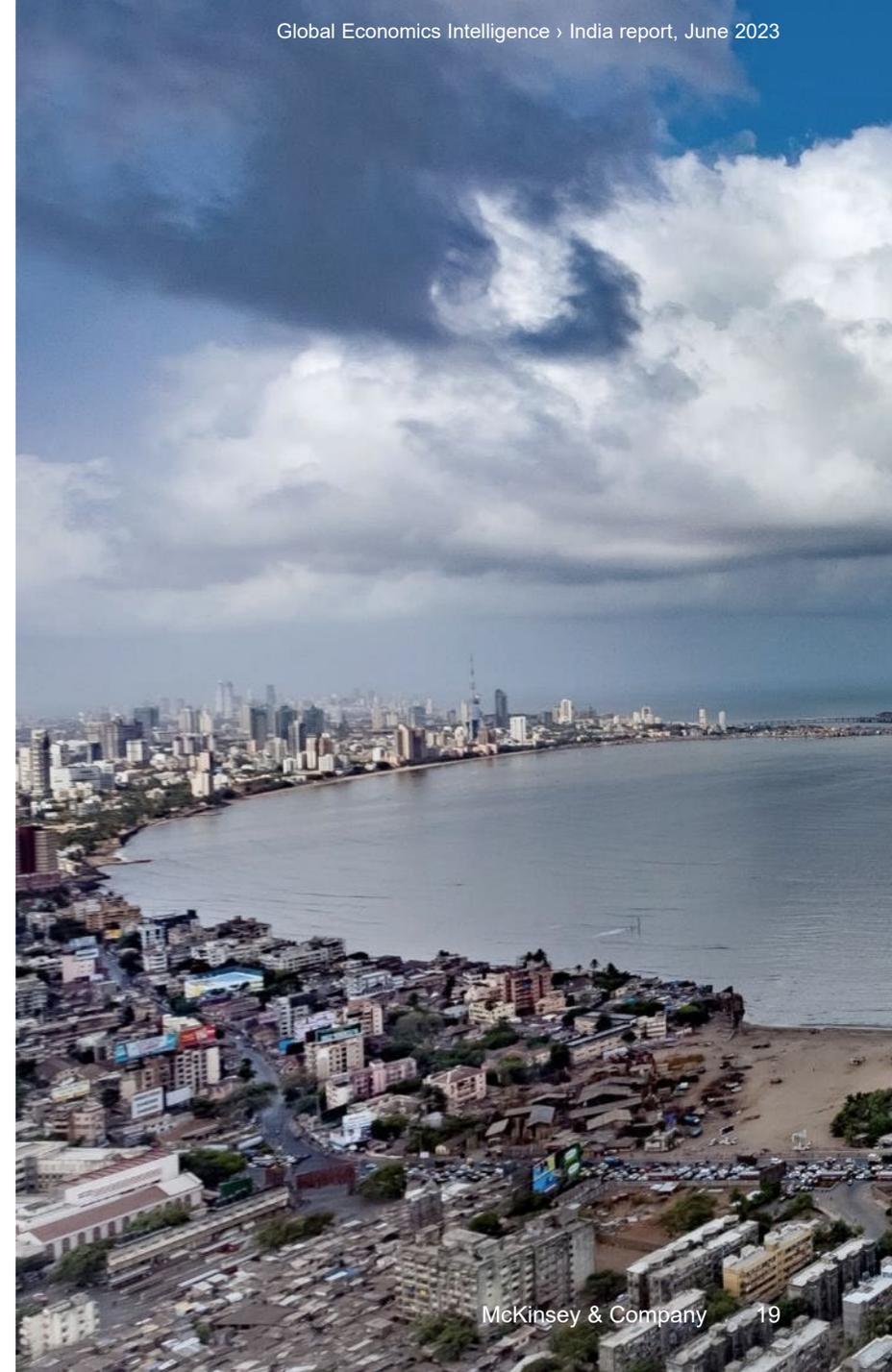
decline of 1.3% to stand at 61.2 (while remaining solidly within the expansion zone).

Exports decreased –10.3% on an annual basis in May, to \$34.98 billion, amid global demand challenges. However, May’s merchandise exports figure represents a 1% increase over April’s total of \$34.66 billion. At \$57.10 billion, imports were down –7% from last year’s level; again, the m-o-m trend was positive, however, with a 14% increase over April’s imports total due to easing commodity prices. The trade deficit widened.

According to the Centre for Monitoring the Indian Economy, the unemployment rate improved to 7.7% in May (8.5% in April), with the rate observed in urban areas down to 9.1% (9.8% in April); rural unemployment followed a similar trend, falling to a little under 7%.

The annual rate of inflation based on the India Wholesale Price Index (WPI) for May is –3.48% (versus –0.92% in April). The decline in the rate of inflation for May 2023 is primarily attributed to a fall in the prices of mineral oils, basic metals, food products, textiles, non-food articles, crude petroleum and natural gas, and chemical and chemical products.

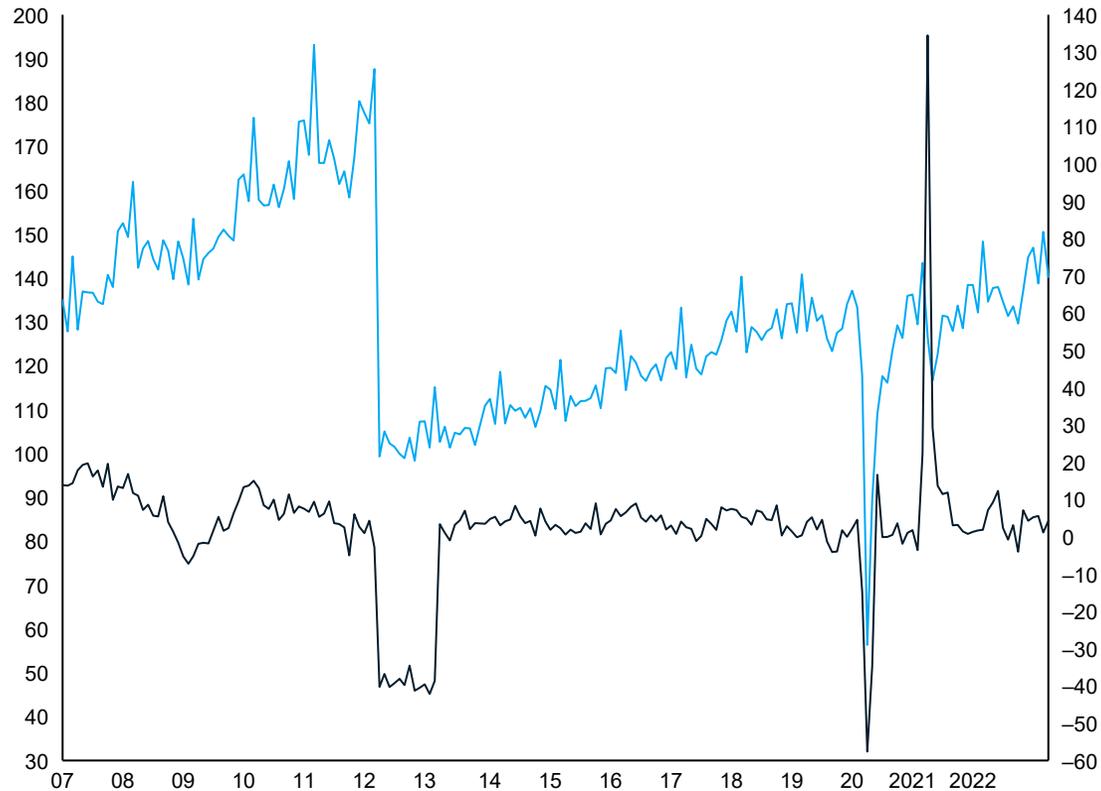
Financial markets witnessed a rise in both the NSE (Nifty) and BSE (Sensex), up by 2.7% and 2.4%, respectively, on a monthly basis (as of June 22). Over this period, the rupee fluctuated slightly against the dollar and the euro, trading at 82.00 per dollar and 89.71 per euro on June 22. Reserves in the central bank declined to \$594 billion as of June 9, 2023, compared with \$600 billion as of May 12, 2023.



Industrial production growth was 1.1% in March (5.6% in February 2023); the NSE and BSE have both increased since April

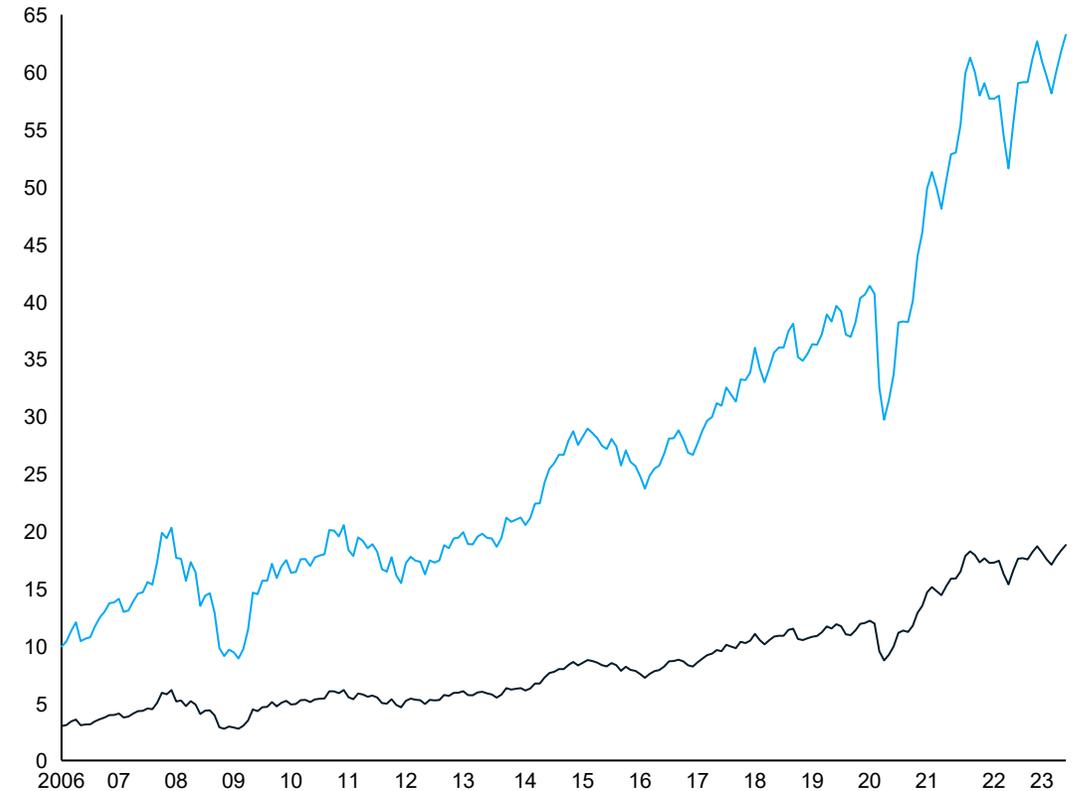
Index of Industrial Production (IIP)
Index level (left axis) and % change (y-o-y)

— Index — Y-o-Y % change



BSE Sensex¹ and NSE Nifty² equity markets index
Index level, thousands (monthly)

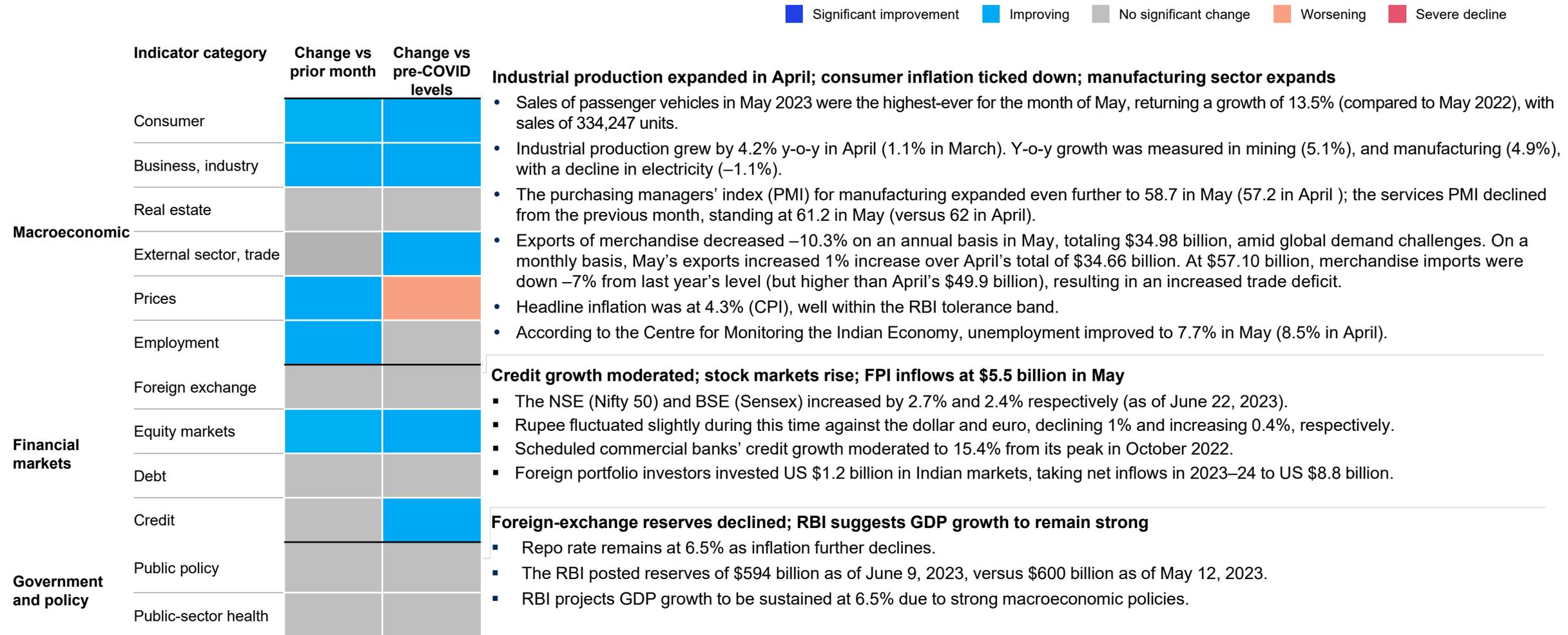
— NSE — BSE



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.

GDP growth projected to be 6.5% in 2023–24; inflation ticked down to 4.3%; manufacturing PMI at a 31-month high May; unemployment rates improved



Russia

GDP grew slightly in Q1 2023, but activity remains below 2022 levels; disposable household income is unchanged from Q1 2022; stagnation expected for full 2023; fiscal stance and current account remain under pressure; signs of improvement in short-term data from April.

Preliminary estimates suggest Russian GDP grew by 0.7% q-o-q during the first quarter of 2023 but remained –2.6% below Q1 2022. The annual rate of contraction was slowed by a stabilizing economy but from an already-weak base in March 2023. Performance differed between sectors. Private consumption shrank: retail sales contracted –7% y-o-y. Real disposable household income in Q1 recovered to the level seen in the first quarter of 2022. The decline in real incomes, recorded through the whole of 2023, has been mitigated recently by slowing inflation and strong wage growth. Pressures to increase wages continue due to a tight labor market. Russia's unemployment rate hit a post-Soviet low of 3.5 % in the first quarter. Fixed investment and manufacturing (+1% y-o-y in Q1) recovered on the back of government fiscal support.

The consensus forecast from May expects GDP to contract by –0.3 % this year. On June 7, the OECD released its forecast, which expects Russian GDP to contract by 1.5 % this year, while the World Bank's outlook from June 6 assumes a fall of –0.2 %. The economy is set to be affected by weak household consumption, shrinking exports, political uncertainty, and sanctions. Government spending will continue to

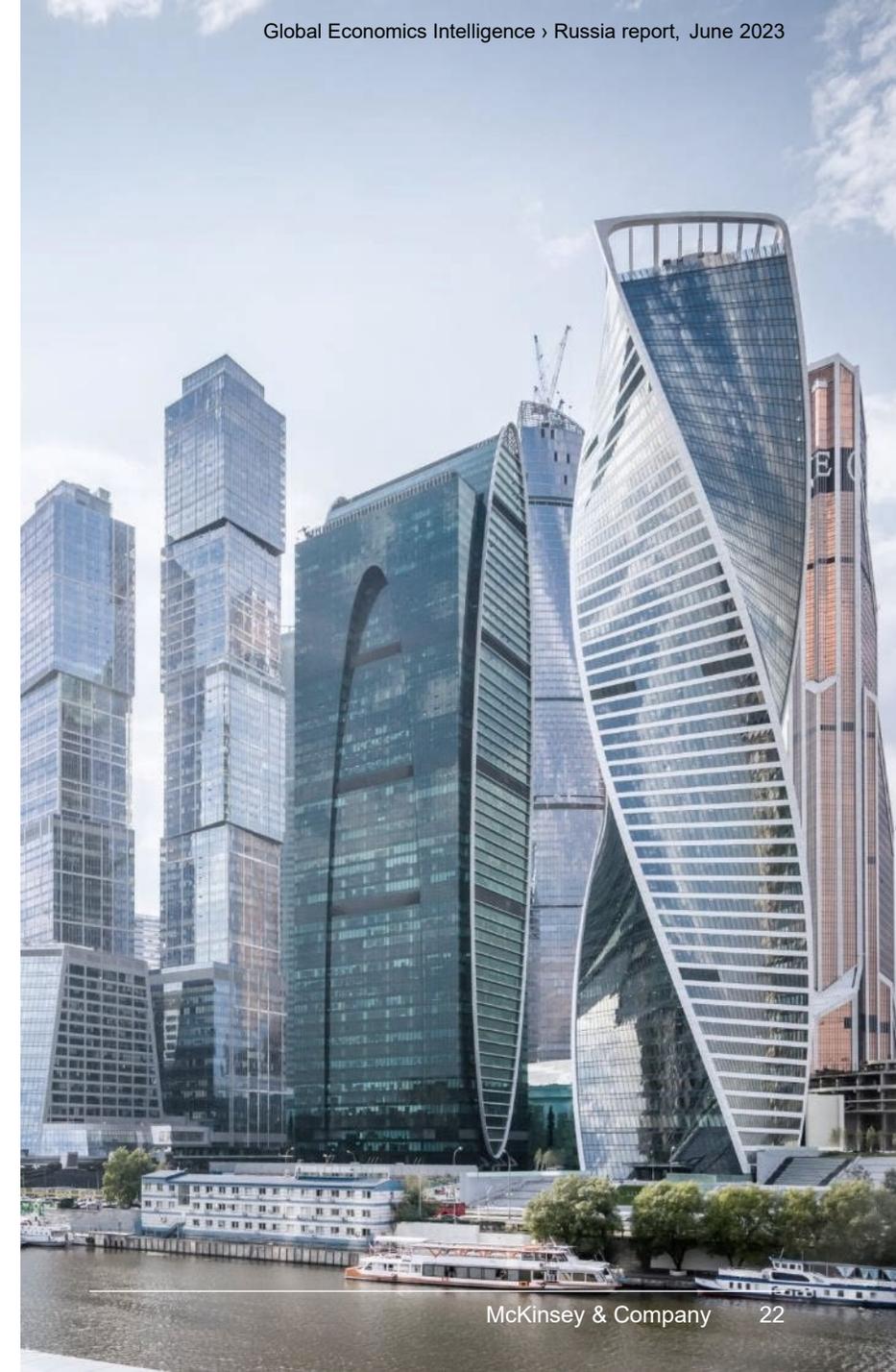
drive most of the growth.

Russia's current account surplus, which last year spiked to historical highs, has fallen sharply in recent months. Preliminary estimates from the Central Bank of the Russian Federation (CBR) show that the current account surplus for the first four months of this year was around \$23 billion, a 77% decline from the year-ago period. The current account surplus has evaporated with the declining value of exports, caused by a drop in oil prices and exported gas volumes. At the same time, imports revived as the value of goods imports in March was down by about –8% from pre-invasion levels.

The economic stimulus saw government spending soar by 22% y-o-y in Q1, while revenues were down by roughly the same percentage, driven by lower commodity receipts. As a result, the government's projected budget deficit target of 2% of GDP for the entire year has already been eclipsed in the first four months of 2023.

Short-term April data suggest some improvement in retail sales which reached pre-invasion levels. Real wages have continued to rise, and the unemployment rate has hit 3.3%. Also, manufacturing showed some signs of recovery in April, with volumes only about 1% below pre-war levels.

Consumer prices rose by 9 % y-o-y in the first quarter. Since March, headline inflation has been running well below the 4% target, and inflationary expectations have dropped, but remain in double-digit territory.

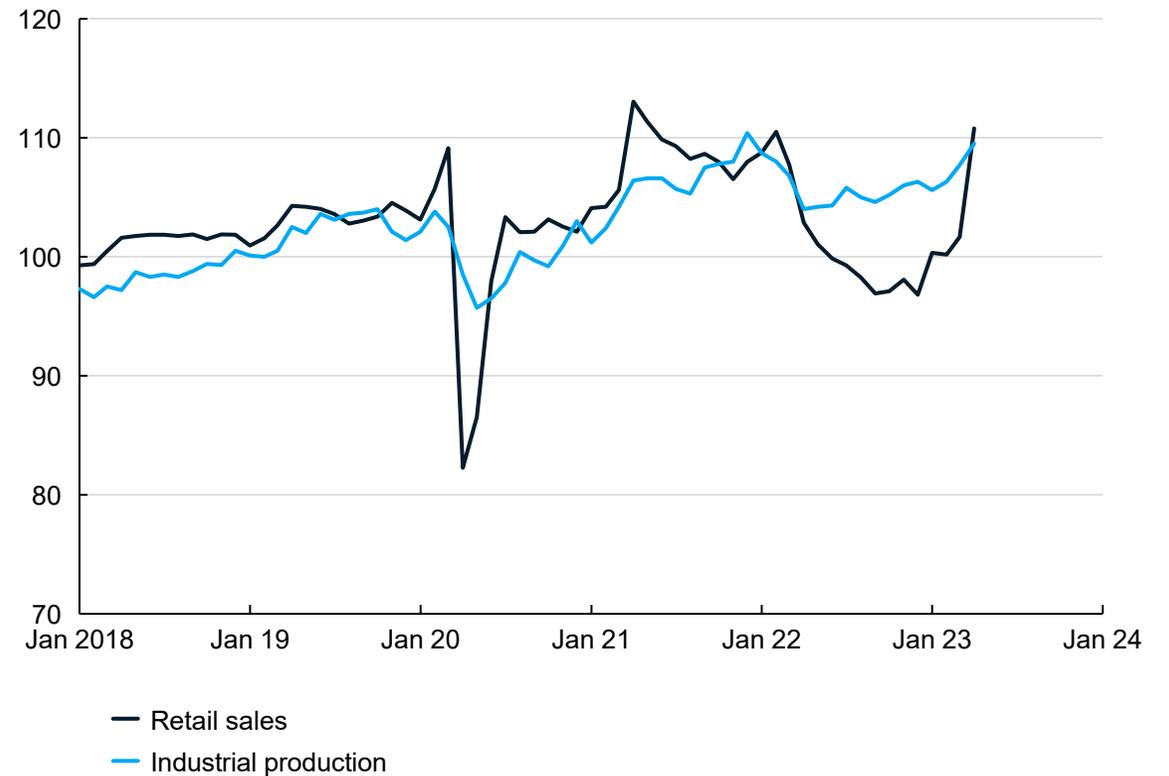


GDP gradually recovers; short-term indicators suggest improvement in April

Gross domestic product
SA, Bil.Chn. 2021 rubles



Industrial production and retail trade
Index, 2019=100



Domestic recovery amid fiscal expansion and easing inflation in contrast to weaker foreign trade

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

	Indicator category	Change vs prior month	Change vs pre-COVID levels	
Macro-economic	Consumer	Improving	Worsening	<p>Recovery of domestic activity in April, supported by labor market; foreign trade remains subdued</p> <ul style="list-style-type: none"> Seasonally adjusted retail sales grew by 7.7% y-o-y in April, reaching a level seen in February 2022 after a year of activity 7–10% below the pre-war trend—this is due to some recovery in purchasing power amid still-high uncertainty. Industrial output expanded 5.3% y-o-y in April, following slower recovery in March (1.2% y-o-y). This marks a significant improvement and recovery to pre-war levels after a decline in early 2022 and only marginal changes realized since then. The trade surplus in April fell to \$7.7 billion, almost five times lower than the record high in March 2022—the previous month’s recovery proved to be a one-off. Exports performance was driven by a decline in commodity prices accompanied by a decrease in exported gas volumes. The value of imports has remained stable since autumn 2022, at around 5–10% below 2021 levels. Since March, headline inflation has been running well below the 4% target: 2.5% y-o-y in May (2.3% in April). Core inflation also remains close to 2%. Inflationary expectations have dropped marginally and remain in double-digit territory (10.8% in May). The unemployment rate fell further to historical lows of 3.3% in April; nominal wages growth slowed to 6.3% y-o-y in March, but slowing inflation helped real wages growth accelerate to 2.7%, reflecting improving dynamics from the beginning of the current year.
	Industry	Improving	No significant change	
	Real estate	No significant change	No significant change	
	External sector, trade	Worsening	Worsening	
	Prices	No significant change	No significant change	
	Labor market	Improving	No significant change	
Financial markets	Foreign exchange	Worsening	No significant change	<p>Ruble depreciated further; continued acceleration in credit</p> <ul style="list-style-type: none"> The ruble has depreciated continually since November, from ~60:1\$ to ~85:1\$ recently, in line with the declining current account surplus. The MOEX index showed continued growth of 9% during last month, improving cumulatively by 43% since October. RTS remained stable. Trade volume remains marginal. No major change from the last month can be seen regarding the government debt yields, rates remaining on an elevated level (11%). There was a further revival in household lending, which accelerated to 12.9% y-o-y, with corporate lending up 18.9% in April. Real credit growth turned positive in March, after declines realized since April 2022. This may help domestic demand in Q2.
	Equities	No significant change	Severe decline	
	Debt	No significant change	Worsening	
	Credit	Improving	Improving	
Government and policy	Public policy	Worsening	Severe decline	<p>Fiscal stance remains weak; monetary policy still hawkish amid mounting pressures</p> <ul style="list-style-type: none"> Over January–May, federal budget expenditures were up by 26.5% while revenues contracted by 18.5%. The budget deficit has already exceeded the plan for the entire year. The 12-month rolling deficit reached 4.5% of GDP in March. Forecasts for full 2023 range between –6% and –2.5%. The central bank maintained its key rate at 7.5%. Despite falling inflation, it remains reluctant to ease monetary policy, with the forecasted key rate within a range of 7.1–8.6%, which implies pressure to raise them, rather to lower. This reflects mounting inflationary risks related to fiscal expansion, currency depreciation, and a tight labor market.
	Public-sector health	Worsening	Severe decline	

Brazil

Brazilian economic activity expanded in Q1 2023, S&P revised Brazil's credit outlook to positive.

Brazil's economic activity expanded in the first quarter of 2023, with GDP growing 1.9%, compared to the prior quarter's -0.1% decrease. The quarterly upturn was driven by an expansion in the thriving agricultural sector. The services sector, government spending, and household consumption rose slightly, while industrial production and fixed investment fell marginally.

In May, inflation maintained its downward trend, coming in at 3.94% (4.18% in April)—the inflation rate was below the Central Bank's upper target of 4.75% for the third consecutive month. Prices fell at a faster rate for transportation and gasoline but increased for housing and utilities. Central Bank chief Roberto Campos Neto acknowledged that GDP growth was surprisingly on the upside, but he anticipated that the slowdown in core inflation would continue.

Consumer confidence increased slightly to 88.2 in May, from 86.8 in April, and reached its highest level since October 2022. This month's upturn in sentiment was buoyed by a positive outlook for the upcoming months due to a reduction in short-term inflationary pressures, a resilient labor market, and an increase in the minimum wage. Nevertheless, high levels of household indebtedness, expensive credit options, and ongoing economic uncertainties weighed on sentiment.

Brazil's purchasing managers' index for manufacturing rose to 47.1 in May from 44.3 in April. However, it pointed to several concerning trends, including ongoing contractions

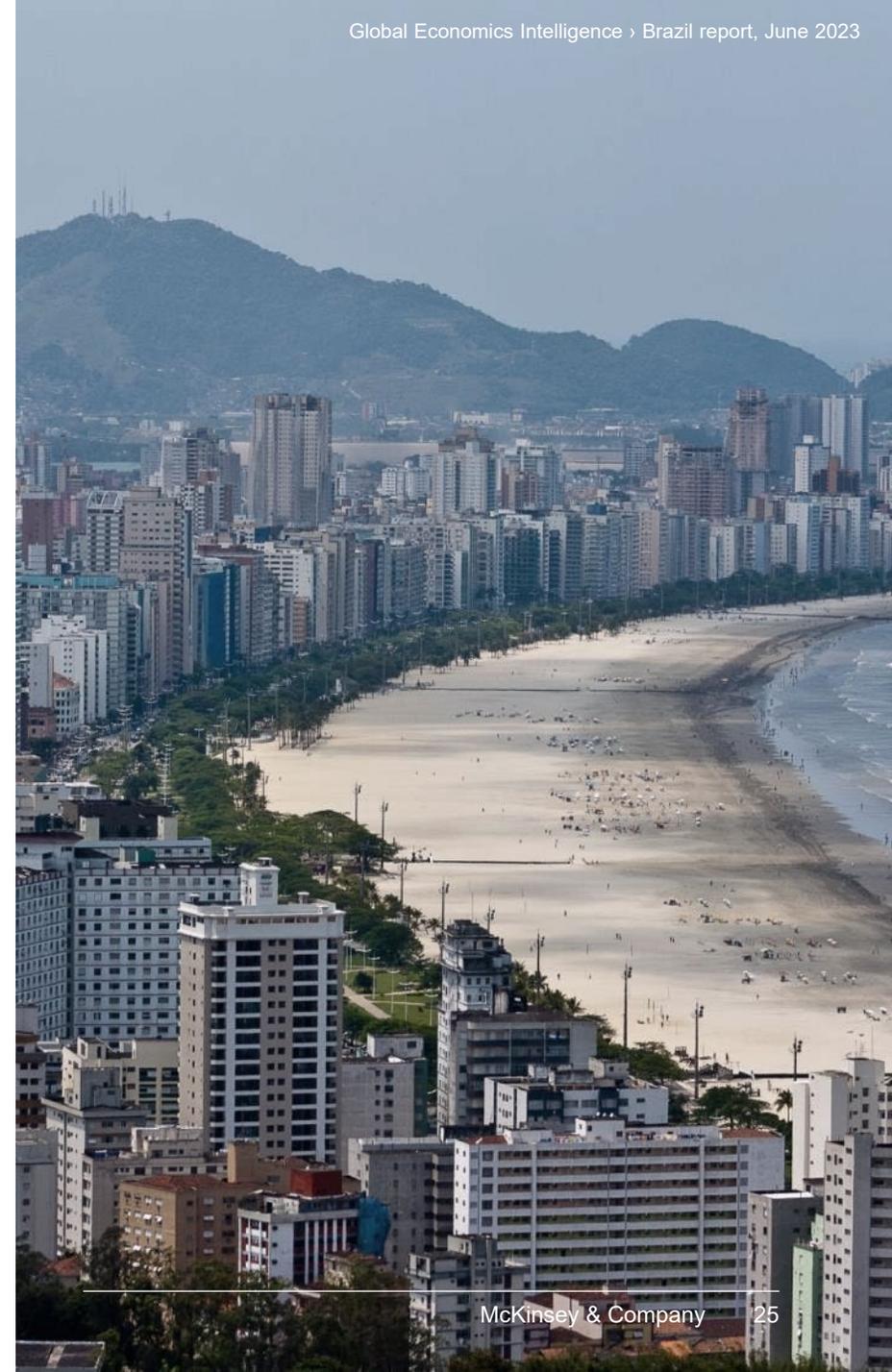
in new orders, production, employment, and buying levels. The services PMI slightly decreased to 54.1 in May from 54.5 in April. Business activity, new orders, and employment all increased solidly again in May, albeit slightly less than in April. At the same time, stronger demand supported greater confidence in the year-ahead outlook. The composite PMI rose to 52.3 in May (52.8 in April), with the services sector being the primary growth driver.

In May, the balance of trade showed a surplus of US \$11.4 billion, with exports totaling US \$33.0 billion (US \$27.3 billion in April) and imports reaching US \$21.6 billion (US \$19.1 billion in April). Exports to the United States, China, and Argentina rose, while shipments to the EU fell.

On the financial markets, the monthly average exchange rate in May was BRL 4.98 per US dollar, compared to 5.02 in April. The Bovespa equities index performance improved, gaining 5.5% in value for the month of May.

President Lula da Silva said the Brazilian economy would grow at least 2% this year—"maybe even more"—in forecasts from his economic team evaluating the first quarter's performance. He also said that Brazil was regaining international credibility: S&P revised its credit outlook for the country to "positive" from "stable".

Lula said that Brazil would not sign the anticipated free trade pact with EU without adjustments, specifically pointing to his government's opposition to allowing European companies to sell to Brazil's public sector. The Commission has proposed attaching an annex to the agreement to show new commitments.

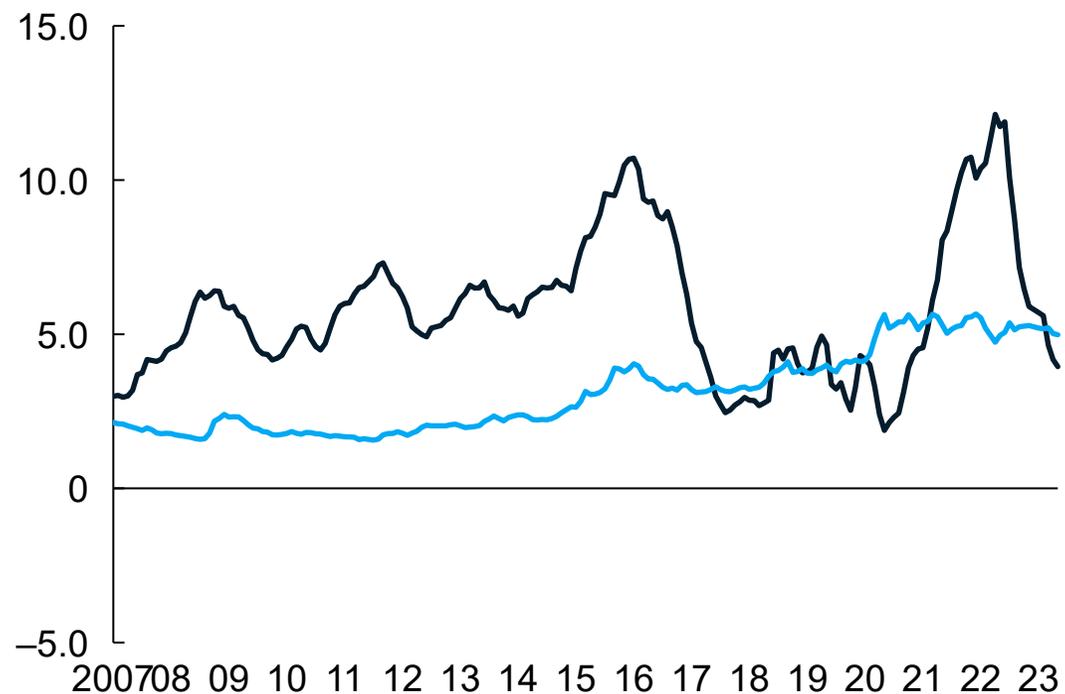


In May, inflation continued to decrease, while the Brazilian real strengthened; the equity market's performance improved

Consumer price index¹; exchange rate

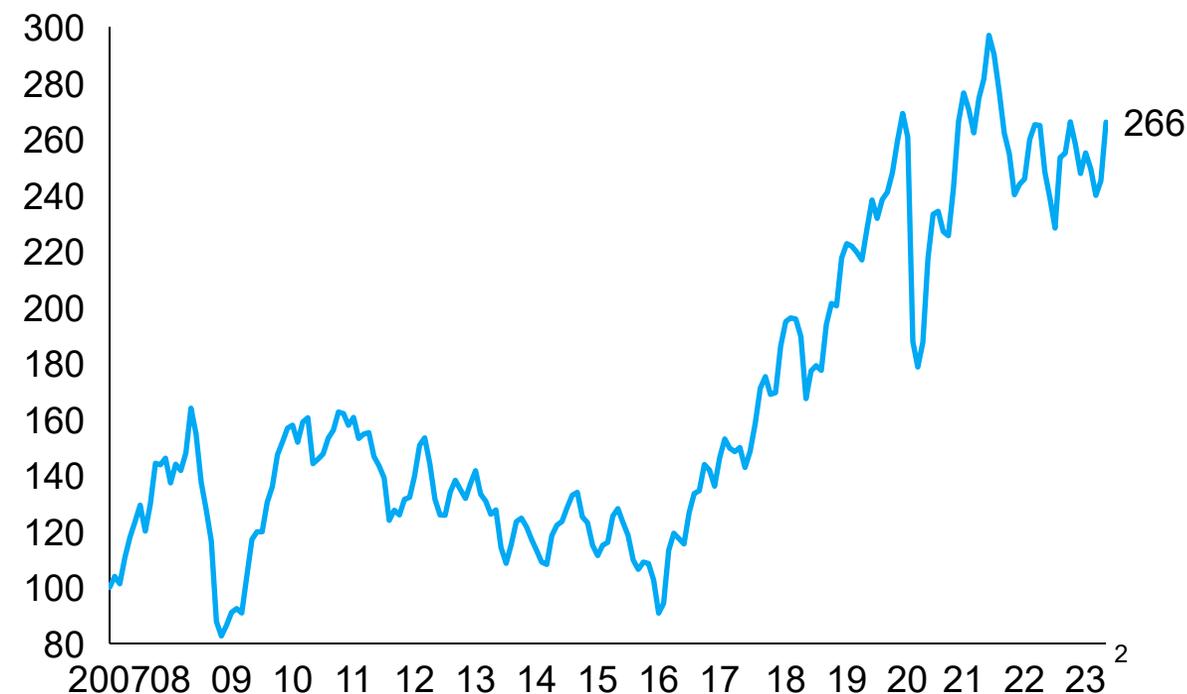
% change y-o-y, monthly; BRL per USD

— CPI
— Exchange rate



Bovespa index

Indexed to January 2007 = 100



¹ National Consumer Price Index (extended IPCA), 1993 = 100, not seasonally adjusted; % change in CPI in local currency (period average) over previous year. The central bank's target inflation rate for 2023 is 3.25% with a margin of error of 1.5 percentage points.

² Data through April 30, 2023.

In May, consumer confidence rose, inflation continued to decline, and the unemployment rate decreased

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

	Indicator category	Change vs prior month	Change vs pre-COVID levels ¹
Macroeconomic	Consumer	Improving	Worsening
	Business, industry	Worsening	Worsening
	Real estate	No significant change	No significant change
	Trade, external	Improving	Improving
	Prices	Improving	Improving
	Labor market	Improving	Improving
Financial markets	Foreign exchange	Improving	Worsening
	Equity	Improving	Worsening
	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	No significant change	No significant change

May recorded higher imports and exports; inflation and unemployment continued to go down

- Economic growth rose in the first quarter of 2023 as GDP growth accelerated to a seasonally adjusted q-o-q rate of 1.9%, well above the prior quarter's -0.1% decrease.
- The seasonally adjusted consumer confidence index increased to 88.2 in May (86.8 in April). Domestic vehicle sales went up on a monthly basis in May (8%), following a decrease of -19.5% in April. Retail sales were up by 0.1% m-o-m in April, following a 0.8% increase in the prior month but below market forecasts of a 0.3% rise.
- Industrial business confidence fell slightly to 92.9 in May (94.5 in April).
- The purchasing managers' index (PMI) for manufacturing rose to 47.1 in May (44.3 in April); despite the upturn, the manufacturing sector remaining in the contraction zone for the seventh successive month. The services PMI turned down slightly to 54.1 in May (54.5 in April)—but continued to signal solid monthly expansion in services activity.
- In May, the balance of trade figures achieved a surplus of US \$11.4 billion—a record monthly high since the data series began in 1989. Exports, totaling US \$33.0 billion (US \$27.3 billion in April), were bolstered by significant growth in key commodities, including soybeans (+23%), crude oil (+21.4%), and sugar (+91.8%). Imports reached US \$21.6 billion (US \$19.1 billion in April).
- Inflation kept falling to hit 3.94% in May (4.18% in April), reaching its lowest level since October 2020 and below market forecasts of 4.04%. Prices fell faster for transportation and gasoline; however, inflation picked up for utilities and housing.
- The three-month moving average unemployment rate fell slightly to 8.5% in April (8.8% in March).

The Brazilian real gained ground against the US dollar, while the Bovespa index also rose

- In May, the real strengthened against the US dollar. The monthly average exchange rate was BRL 4.98 per US dollar (5.02 in April). On May 31, the exchange rate reached 5.03 BRL per US dollar.
- The Bovespa equities index gained 5.5% of its value for the month up to May 10; it also gained 8.1% in value up to June 9.

Central Bank expects prices to start declining soon; President Lula da Silva seeks EU trade pact revisions

- Central bank chief, Roberto Campos Neto said during the first week of June that expectations for long-term inflation remained a problem: a central bank survey did not anticipate prices meeting the target until beyond 2024, despite being expected to start declining soon. Meanwhile, Brazil's economy grew more than expected in the first quarter and inflation continued to fall.
- President Lula da Silva stepped back from signing a free trade pact with the EU pending adjustments, expressing opposition to allowing European companies to sell to Brazil's public sector.

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

McKinsey
& Company

