McKinsey & Company

Global Economics Intelligence

Global Summary Report February 2023

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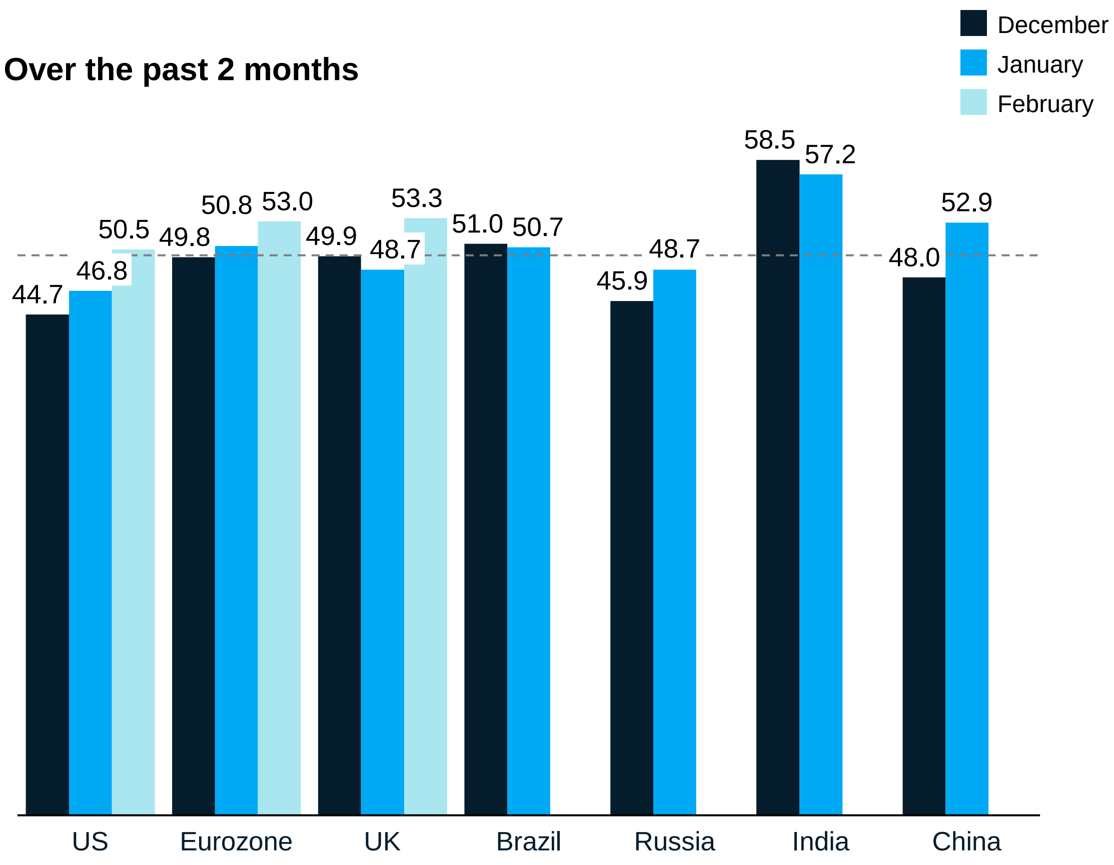
Services PMIs, almost uniformly in expansion, strengthened in China and the developed economies

Over the past 2 months



Note: A reading above 50.0 indicates an increase from the previous month, and a reading below 50.0 indicates a decrease. The country-level data are the PMIs for individual countries as sourced from Markit Economics and are not a breakdown of the JPMorgan Global PMI.

Some economic indicators strengthen amid persisting inflation and investor uncertainty; central banks keep to a tightening course.

As central banks attempt to reduce inflation with higher interest rates, not all corners of the economy are cooling down as intended. In manufacturing, output is indeed subdued outside China but global indicators point to general acceleration in the services economy. In the United States positive retail sales totals and outsize jobs growth suggest a stronger business environment in early 2023. In China, the purchasing managers' index for manufacturing, a key leading indicator, reached 52.6 in February, the highest reading in more than a decade. The non-manufacturing PMI for China rose to 56.3 on higher services and construction activity in an economy awakening from the "zero-COVID" closures. In the eurozone, services growth pushed the composite PMI (for manufacturing and services) above the expansion line of 50 with a reading of 50.3 in January; the indicator then advanced to 52.6 in February, the highest mark recorded since May 2022.

While some economic data run counter to predictions of recession made at the end of 2022, stop-and-go financial markets and corporate belt-tightening attest to CEO and investor uncertainty. The caution comes from still-high consumer- and producer-price inflation. For consumers, energy and food prices were the principal inflation drivers to begin with, but core inflation rates have since been pushed upwards as well. Central banks, meanwhile, keep raising policy interest rates: at February meetings, the US Federal Reserve raised its rate to 4.5–4.75%, the European Central Bank to 2.5–3%, the Bank of England to 4%, and the Reserve Bank of India to 6.5%. Further hikes in 2023 are expected for many of these economies. In Brazil, where the policy rate of 13.75% is one of the highest in the world, President Lula da Silva has sharply criticized the central bank's course as a major drag on economic prosperity.

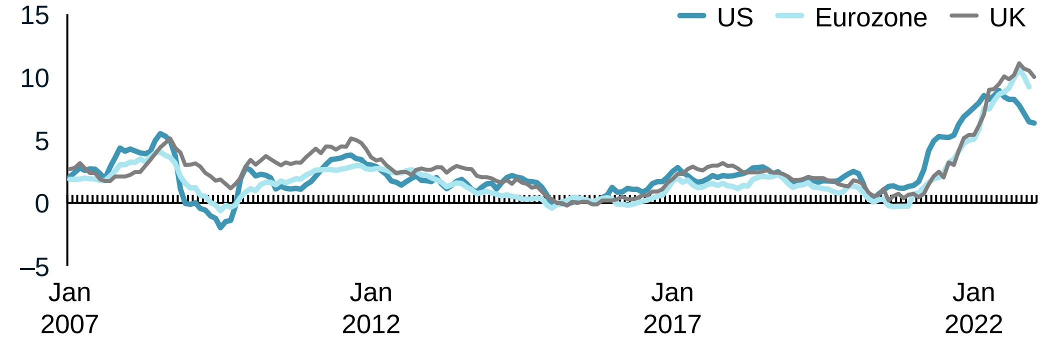
A disinflationary process has been observed in many economies, as prices still rise but at a slower rate. Yet today's inflationary dynamics are stubborn things. In India inflation receded in monthly steps from 7.4% in September 2022 to 5.7% in December. In January 2023, however, inflation came back, rising to 6.5% on higher prices for cereals (+16.1%) and spices (+21.1%). In the eurozone, inflation accelerated in February in Germany (9.3%), France (7.2%), and Spain (6.1%), as the energy price shock from last year continues to filter through to the cost of goods and services. Investors are now expecting further hikes in the ECB interest rate, but policy makers are debating the potential effects of high interest rates on Europe's growth and financial stability. In the US, meanwhile, where the inflation rate has descended from 9.1% in June 2022 to 6.4% in January 2023, core inflation went the other way in January, bouncing up to 4.6% from 4.3% in December 2022.

Source: IHS Global Insight; McKinsey's Global Economics Intelligence analysis

In the developed economies, inflation is easing slowly and is still high enough to push consumption levels lower and keep interest rates elevated

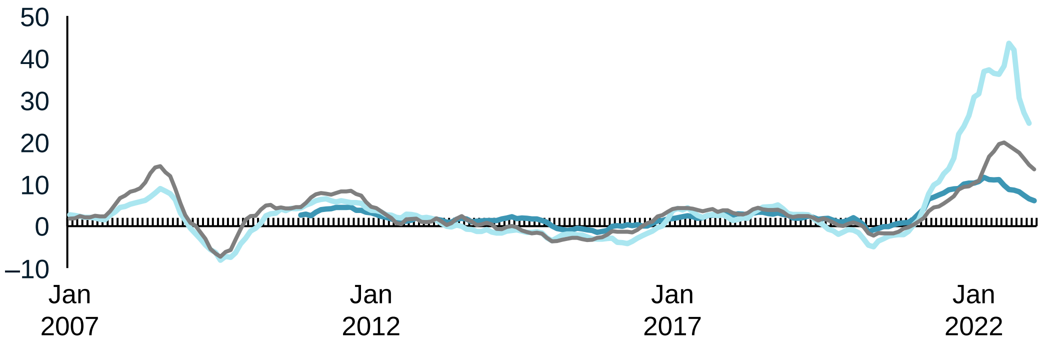
Consumer price indexes: Developed economies

% year over year (monthly)



Producer price indexes: Developed economies

% year over year (monthly)



Questions on the minds of most US economists and policy makers are whether the Fed can reach its inflation target of 2% without triggering a recession and whether doing that would be worth the economic cost.

In other recent data, global and individual consumer confidence indicators did not generally worsen in January but remained stable at a low level. Retail sales retained positive momentum in the US and UK in January; in older data, sales retreated in the EU and China in December.

The global purchasing managers' indexes (PMIs) for both manufacturing and services measured mild contraction in January. In February, individual manufacturing PMIs show improvement across surveyed economies; mild contraction persists in developed economies; China's manufacturing engines returned to expansion territory. Individual services PMIs, meanwhile, are almost uniformly in expansion, especially strengthening in China and the developed economies.

Overall in 2022, world trade expanded 3.2%. At the end of the year and into 2023, however, trade volumes slumped. In December, volumes decreased –0.9% (–1.7% in November); notably, exports from China and the US decreased. In January, the Container Throughput Index decreased to 120.2 (124.4 in December) as traffic declined in northern European ports. After a slight uptick in December, the Supply Chain Pressure Index returned to its easing course in January 2023.

Unemployment rates remain relatively low in all surveyed economies: 3.4% in the US; 6.6% in the eurozone; 3.7% in the UK, and 7.9% in Brazil. In a clear sign of economic momentum, the US economy added 517,000 new jobs in January, the highest total in more than a year.

In the developed economies, inflation is slowly easing but it is still high enough to push consumption levels lower and keep interest rates elevated. In emerging economies, disinflation is proceeding more rapidly, especially for producer prices.

The Brent crude price, now at $83 per barrel (March 1), has been lower in the new year. With significant stockpiles of natural gas and a mild winter, Europe has benefitted from a three-months'-long decline in natural gas prices. At €47 per megawatt hour on March 1, prices are still close to three times their level on the same day in 2021. Food-price inflation has slowed but prices of key foodstuffs in some locales remain as much as 30% or 40% above prewar or prepandemic norms.

Inflation expectations implied in the yield spreads of US Treasuries remain in the range of 2.3% to 2.5%. Equity indexes in the developed economies—especially Europe—have been gradually recovering in the new year. The US dollar strengthened in February, against the euro ($1.07), the pound ($1.20), and the yuan (RMB 6.87). The equities volatility index (VIX) remains elevated in comparison with prepandemic levels. Yields on long-term government bonds eased in February

Source: Eurostat; national statistics websites; McKinsey's Global Economics Intelligence analysis

[Developed economies]: US economy adds 517,000 jobs in January; eurozone industrial activity picks up; the UK and European Union propose a joint trade agreement for the border with Ireland.

United States

More than a half-million new jobs were added to the US economy in January, signaling its considerable resilience despite high inflation and high interest rates.

In January, US payrolls increased by 517,000, nearly twice the total of new jobs recorded in December 2022 and well beyond the consensus forecast. The unemployment rate ticked down to 3.4%, a 53-year low, while new claims for unemployment benefits have settled to pre-pandemic levels (around 190,000 during January and February 2023). US inflation eased only slightly, however, to 6.4% (6.5% in December). While inflation has slowed each month since June's high of 9.1%, it remains well above the Federal Reserve target of 2%.

Prior to the release of the January jobs report, the Fed made a small rise in its policy interest rate, appearing to slow a more aggressive approach to bringing down inflation. The hike of 25 basis points announced after the Fed's February meeting brought the policy rate to a range of 4.5% to 4.75%. In remarks, Fed chair Jerome Powell said that the "disinflationary process has started" while cautioning that more evidence of slowing inflation is needed if the Fed is to end or reverse its tightening course. Policy makers are seeking a "soft landing," in which inflation continues to slow and interest rates correspondingly decline without, however, stoking recessionary dynamics, including a significant rise in unemployment.

The components of the consumer price index on balance showed slowing inflation but the cost of energy and housing increased. The inflation survey by the New York Fed for January 2023 shows one-year-ahead inflation expectations declined to 5%.

The US housing market is under pressure from higher interest rates. The average 30-year fix-rate mortgage, which was above 7% in November 2022, is still high, now measured at 6.32% (February 16). According to the National Association of Realtors, sales of existing homes fell –0.7% in January 2023, to an annualized rate of four million units, the lowest in 12 years. The median price of existing homes fell to $359,000 ($410,000 in November), an increase of 1.3% on an annual basis in January. Official government statistics report that the median price of a new home was $442,000 in December ($459,000 in November). In 2022 overall, an estimated 644,000 new homes were sold, well below the total for 2021 (771,000).

The industrial production index was at 102.9 in January, unchanged from December 2022. The purchasing managers' index (PMI) for manufacturing has shown contraction for four consecutive months. In February's flash estimate, the reading improved to 47.8, indicating a slightly slower contraction than in January (46.9). The services PMI, meanwhile, broke into the expansion zone in February's flash estimate of 50.5 (46.8 in January). If confirmed, the reading records the first expansion since June 2022.

[Continued on next page.]

United States

More than a half-million new jobs were added to the US economy in January, signaling its considerable resilience despite high inflation and high interest rates (cont'd).

The consumer confidence index (Conference Board) was still in positive territory in January, though slightly lower at 107.1 (109 in December). US retail sales rose to $697 billion in January, a 3% increase over the total in December 2022 ($676.9 billion) and 6.4% above the total in January 2021.

The latest trade data shows that imports increased to $317.6 billion in December from $313.4 billion in November (an 11-month low). Exports decreased to $250.2 billion ($254.2 billion in November). For the year 2022 compared with 2021 overall, exports increased $453.1 billion to $3.01 trillion and imports increased $556.1 billion to $3.96 trillion. The US is the world's third-largest exporter (after China and the European Union) but exports constituted only 10% of US GDP in 2022.

The S&P 500 has gained around 4% since the beginning of the year; the Dow Jones index is slightly lower than it was on January 3, having lost some ground in February. Investors have lately been reacting to interest-rate expectations. The resilience of the US economy—as evidenced by higher retail sales and a strong employment picture—could keep inflation and therefore interest rates higher for longer.

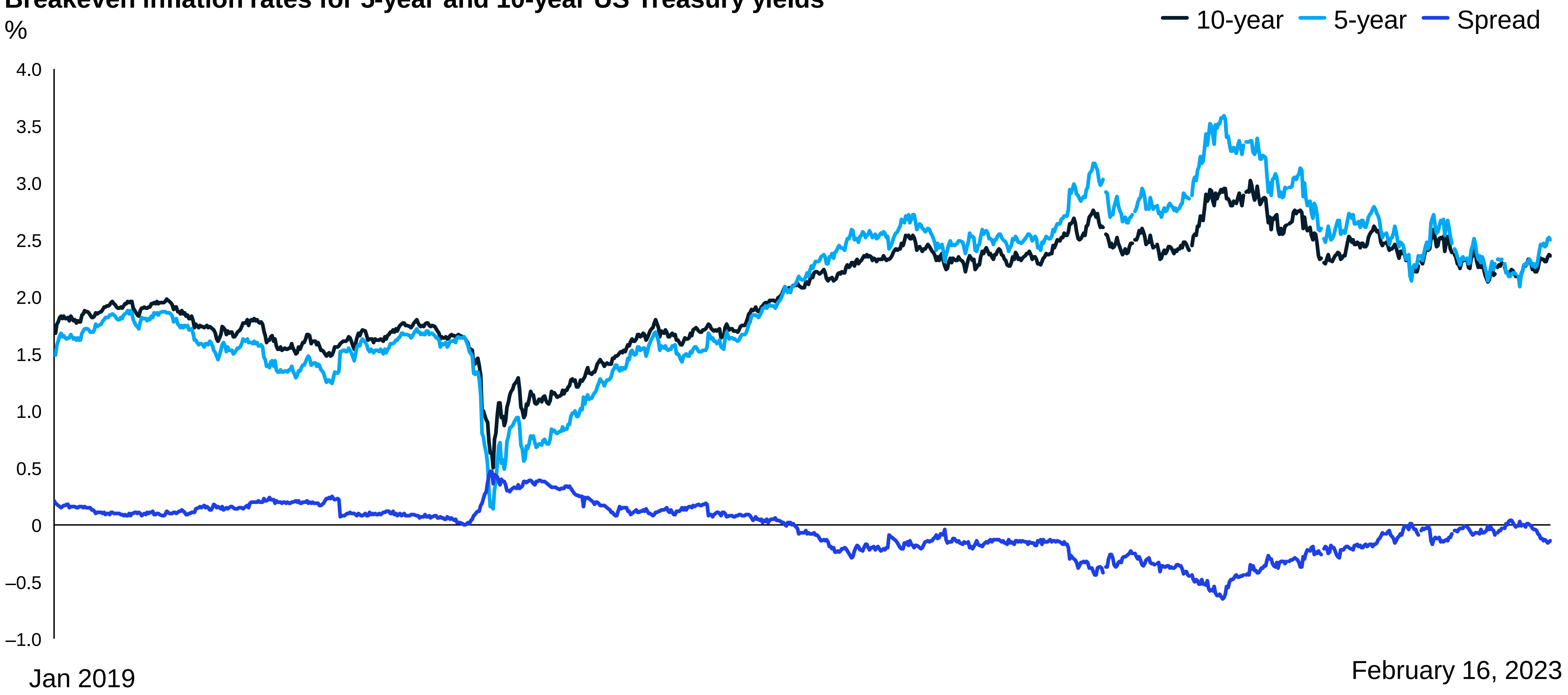
The US Administration's "Inflation Reduction Act" provides several hundred billions in subsidies to US-based companies seeking to shift to a low-carbon economy. Its economic agenda includes support for US automakers toward the goal of manufacturing at least 50% all-electric vehicles by 2030. The subsidies have set off a debate within the European Union on how to respond.

The Centers for Disease Control reported on February 10 that the seven-day average for new COVID-19 cases was 40,400 (40,000 a week prior), and the seven-day mortality average was 453, close to 10% below the previous week's level.

Investors continue to expect inflationary pressure over the medium and long term

Breakeven inflation rates for 5-year and 10-year US Treasury yields[1]

%

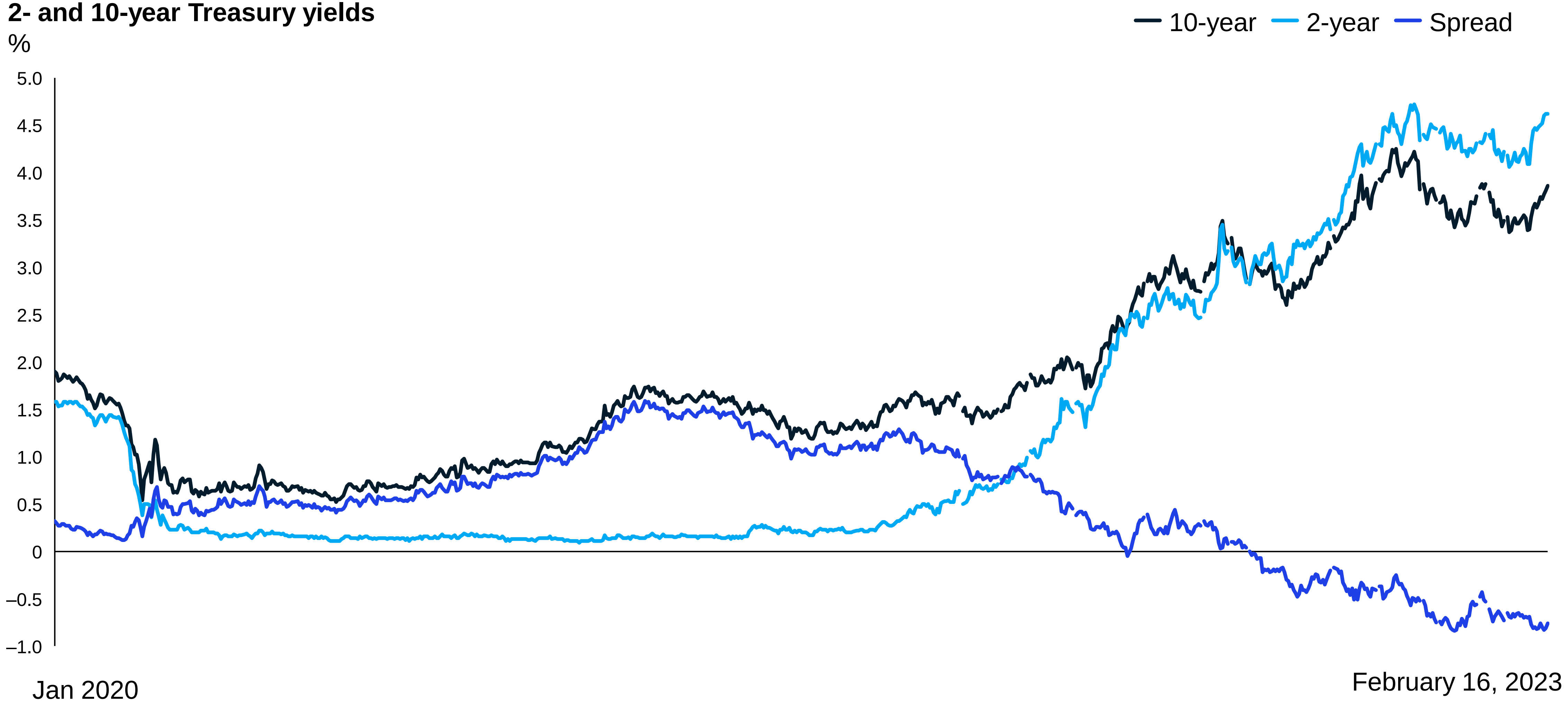


[1] The latest value implies what market participants expect inflation to be in the next 5 or 10 years, on average.

Source: Federal Reserve; McKinsey's Global Economics Intelligence analysis

Amid higher inflation and interest rates, yields on 5- and 10-year US Treasury products inverted in the second half of 2022

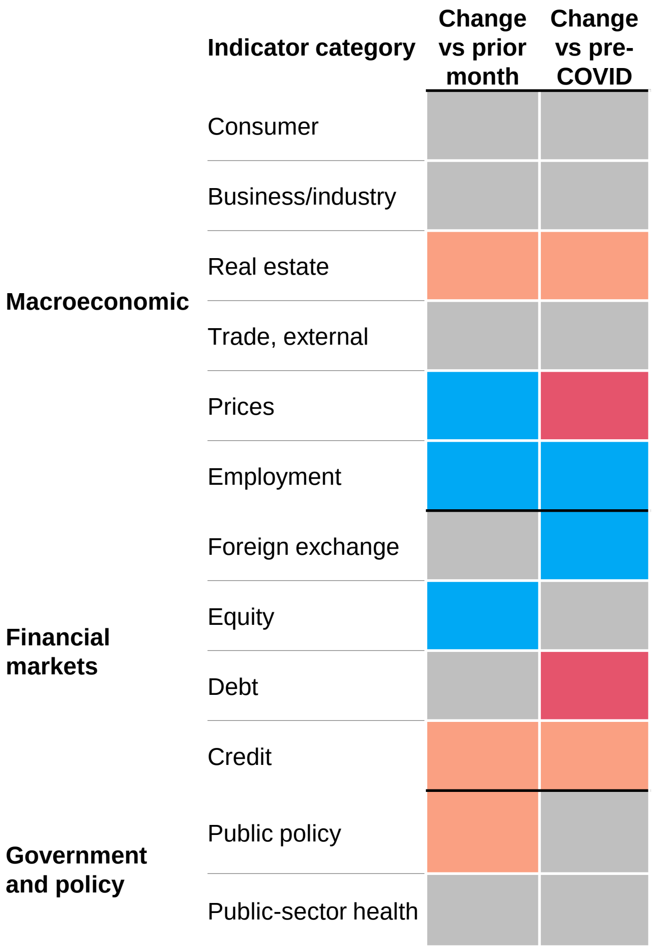
2- and 10-year Treasury yields
%



Source: Federal Reserve; McKinsey's Global Economics Intelligence analysis

More than a half-million new jobs were added to the US economy in January, signaling considerable resilience despite high inflation and high interest rates. Retail sales increase, but industry indicators remain sluggish amid still-high inflation

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



Jobs growth is very strong in January and latest retail sales data is positive; housing picture is still under inflation pressures

- In January, US payrolls increased by 517,000, nearly twice the total of new jobs recorded in December 2022 and well beyond the consensus forecast. The unemployment rate ticked down to 3.4%, a 53-year low.
- The industrial production index was 102.9 in January, unchanged from December 2022. The purchasing managers' index (PMI) for manufacturing has shown contraction for four consecutive months. In February's flash estimate, the reading improved to 47.8, indicating a slightly slower contraction than in January (46.9). The services PMI, meanwhile, broke into the expansion zone in February's flash estimate of 50.5 (46.8 in January).
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- The average 30-year fix-rate mortgage is now measured at 6.32% (February 16). According to the National Association of Realtors, sales of existing homes fell –0.7% in January 2023, to an annualized rate of four million units, the lowest in 12 years. The median price of a new home was $442,000 in December ($459,000 in November). In 2022 overall, 644,000 new homes were sold, well below the total for 2021 (771,000).
- US inflation eased slightly to 6.4% (6.5% in December). While inflation has slowed each month since June's high of 9.1%, it remains well above the Federal Reserve target of 2%.

The Federal Reserve made a small hike in interest rates; many analysts believe policy tightening will continue, however

- The S&P 500 has gained around 4% since the beginning of the year; the Dow Jones index is slightly lower than it was on January 3, having lost some ground in February. Investors have lately been reacting to signs that the Fed will not bring down interest rates soon.
- The Fed made a small rise in its policy interest rate, appearing to slow a more aggressive approach to bringing down inflation. The hike of 25 basis points announced after the Fed's February meeting brought the policy rate to a range of 4.5% to 4.75%. Fed chair Jerome Powell cautioned that more evidence of slowing inflation is needed if the Fed is to end or reverse its tightening course.

The US Administration's "Inflation Reduction Act" and other policies offer considerable subsidies for low-carbon transition

- The US Administration's "Inflation Reduction Act" provides several hundred billions in subsidies to US-based companies seeking to shift to a low-carbon economy. Its economic agenda includes support for US automakers toward the goal of manufacturing at least 50% all-electric vehicles by 2030. The subsidies have set off a debate within the European Union on how to respond.
- The Centers for Disease Control reported on February 10 that the seven-day average for new COVID-19 cases was 40,400 (40,000 a week prior), and the seven-day mortality average was 453, close to 10% below the previous week's level.

Source: BLS; Federal Reserve; NAREIT; NY Federal Reserve Bank; U.S. Census Bureau; McKinsey's Global Economics Intelligence analysis

Eurozone

GDP expands 3.5% in 2022; inflation slows and energy prices ease; exports revive.

According to official estimates, the eurozone economy will have grown 3.5% in 2022. Among the largest economies, Spain's is estimated to have expanded the fastest at 5.5%, followed by the Netherlands (4.4%), Italy (3.9%), France (2.6%), and Germany (1.9%). Overall, the eurozone economies slowed in the second half of 2022, when GDP grew at an annualized rate of 1.9%.

The third- and fourth-quarter slowdown was the result of several factors made worse by the war in Ukraine: supply bottlenecks, rising commodity prices, higher financing costs, and energy uncertainty. The disruptions led some forecasters to estimate a eurozone contraction for Q4 and beyond. While some member states did experience a mild retreat in Q4, notably Germany (–0.2% q-o-q), more dire predictions have not materialized. Countervailing factors include mild winter weather and ample substitute supplies of natural gas.

The latest economic data are promising. Industrial activity has lately accelerated. The flash estimate of the services purchasing managers' index (PMI) leapt to 53 in February (50.8 in January); while the manufacturing PMI is still in contraction territory at 48.5, the composite PMI estimate is 52.3 for February (50.3 in January). The industrial production index has measured growth over 2021 since August. Eurocoin, a leading indicator for the eurozone economy, returned to positive territory in January, if barely, with a reading of 0.06 (−0.23 in December). Eurozone equity markets have rallied in the new year: the Eurostoxx 600 index, for example, has gained 8% in value since yearend 2022.

Inflation slowed to 8.6% in January (9.2% in December 2022), but core inflation ticked up slightly, to 5.3% (5.2% in December). The largest component of core inflation, services inflation, which includes wage growth, rose to 4.4% (from 4.2%). Despite recent nominal wage growth in Europe, real wages have decreased due to high inflation. The official consumer confidence indicator has been improving for five months but remains well below its long-term average. In the latest data, retail sales declined –2.8% year-on-year in December.

The last reading for producer price inflation was 24.6% in December (27% in November); the high rate is mainly driven by high energy prices, and particularly natural gas prices. These have since come down significantly, descending from a December 2022 price of €85 per megawatt hour to €50 in February (Dutch TTF futures). The price is still several times what it was two years ago.

The European Central Bank (ECB) estimates that consumer inflation will slow to 3.4% by the end of 2023 on its way down to the bank's 2% target. At its February meeting the ECB raised its key policy rate 50 basis points, to 3%, while confirming that it would make another raise in March, to 3.5%. These are the highest policy rates seen since 2008. Most analysts do not foresee a reversal of policy tightening until 2024.

Due to high energy and commodity prices, eurozone trade balances have been negative since November 2021, when ten years of trade surpluses ended. In December 2022, trade volumes declined, with imports totaling €247.5 billion (€276.5 billion in November) and exports totaling €239 billion (€265 billion in November).

The euro slightly depreciated against the US dollar in February, trading at $1.06 after a 2023 high of $1.09. The Italian–German 10-year bond-yield spread stabilized at 1.8%; the yields rose respectively from 4.2% to 4.3% and from 2.2% to 2.5%.

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

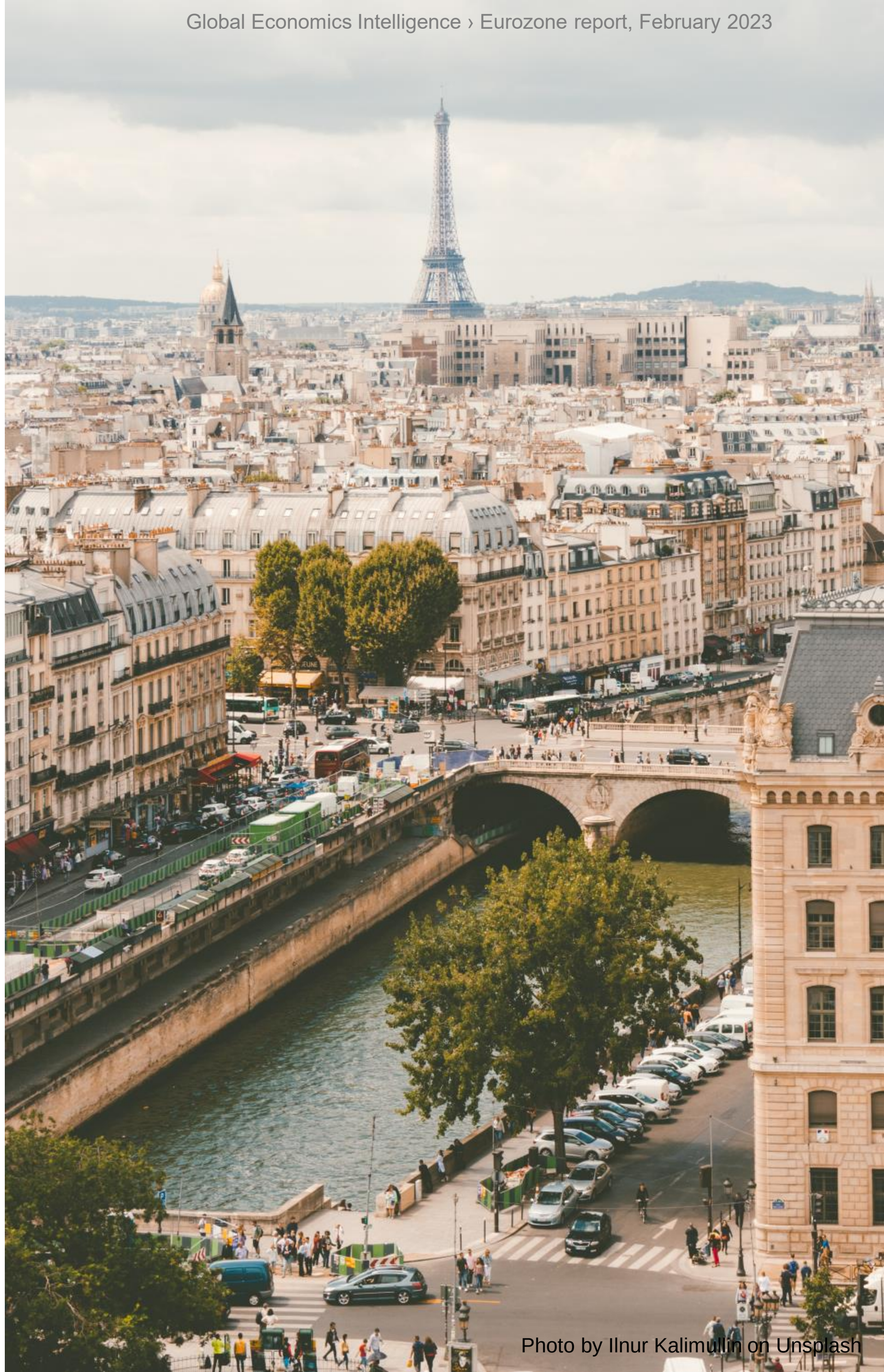
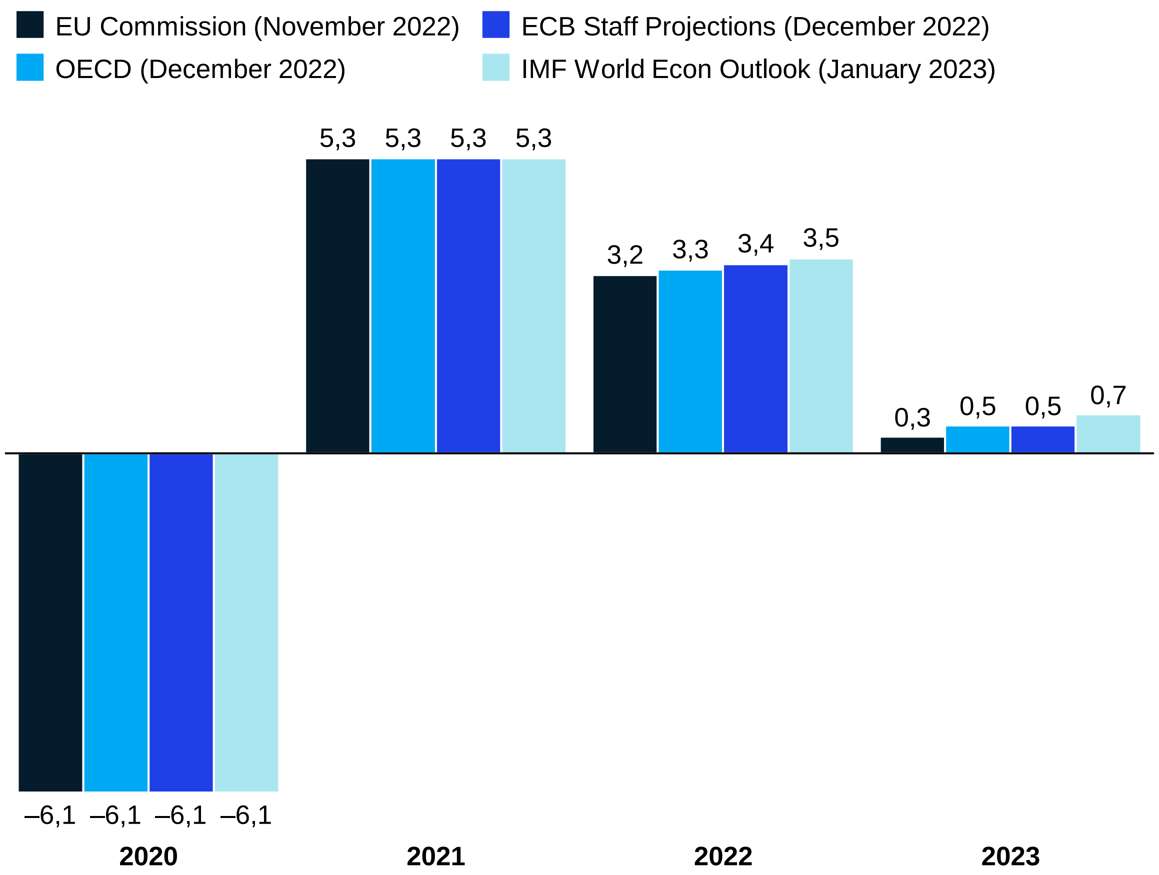


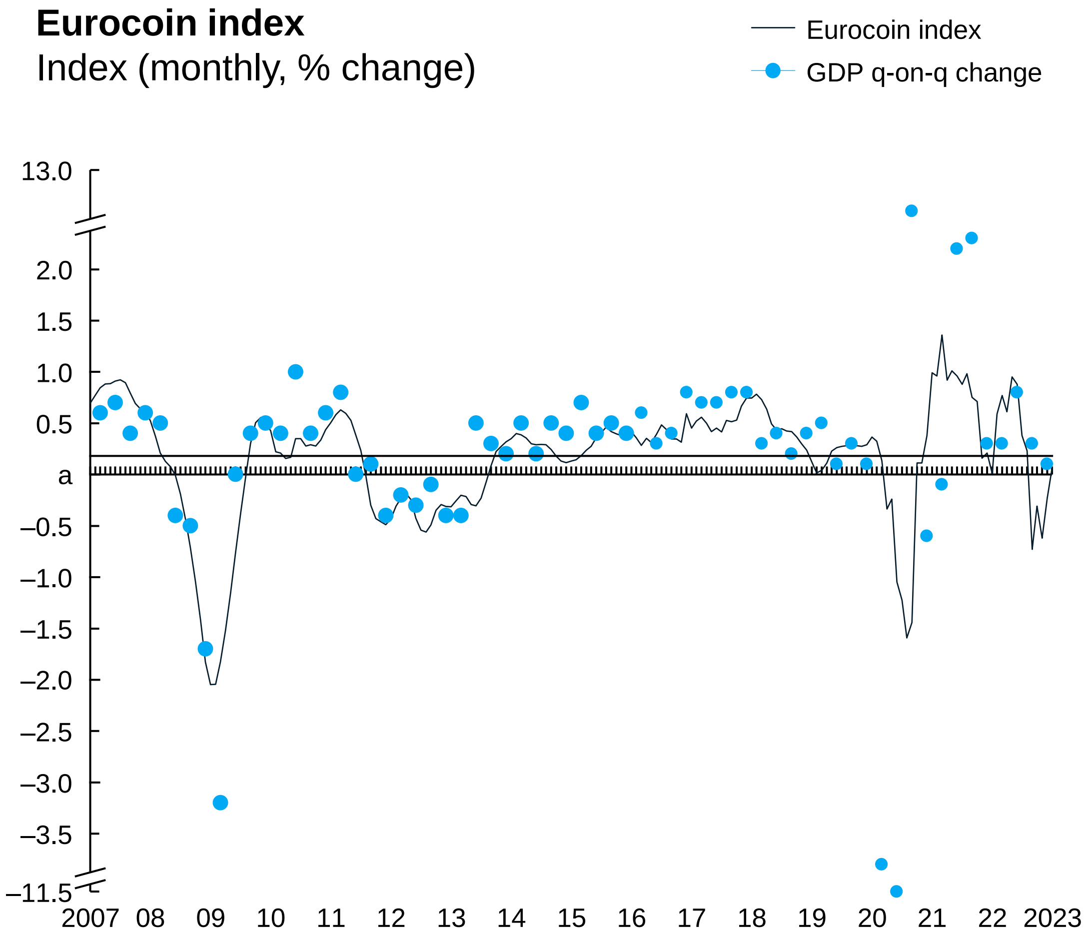
Photo by Ilnur Kalimullin on Unsplash

Eurozone growth projections have been upgraded; the Eurocoin leading indicator retakes positive ground

Eurozone real GDP forecast from main institutions, 2020–22
Year-on-year, constant prices (% change)



Eurocoin index
Index (monthly, % change)



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

Inflation has begun to slow but remains a drag on real disposable income; in the new year, industry indicators brightened and stock markets gained ground

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	Worsening	No significant change
	External trade	Worsening	Severe decline
	Prices	No significant change	Severe decline
	Employment	No significant change	Improving
Financial markets	Foreign exchange	No significant change	Severe decline
	Equity	Improving	No significant change
	Debt	No significant change	Worsening
	Credit	No significant change	Worsening
Government and policy	Public policy	No significant change	Worsening
	Public-sector health	No significant change	Worsening

Latest industry indicators are positive; consumer confidence remains low as inflation erodes household income

- The flash estimate of the services purchasing managers' index (PMI) leapt to 53 in February (50.8 in January); while the manufacturing PMI is still in contraction territory at 48.5, the composite PMI estimate is 52.3 for February (50.3 in January). The industrial production index has measured growth over 2021 since August.
- The official consumer confidence indicator has been improving for five months but remains well below its long-term average. In the latest data, retail sales declined –2.8% year-on-year in December.
- Construction and real estate indexes were down in December compared with the previous month and with the same period last year.
- Due to high energy and commodity prices, eurozone trade balances have been negative since November 2021, when ten years of trade surpluses ended. In December 2022, trade volumes declined, with imports totaling €247.5 billion (€276.5 billion in November) and exports totaling €239 billion (€265 billion in November).
- Inflation slowed to 8.6% in January (9.2% in December 2022), but core inflation ticked up slightly, to 5.3% (5.2% in December). The largest component of core inflation, services inflation, which includes wage growth, rose to 4.4% (from 4.2%). Despite recent nominal wage growth in Europe, real wages have decreased due to high inflation. The last reading for producer price inflation was 24.6% in December (27% in November).
- The unemployment rate remained stable and low at 6.6% in December; youth unemployment rate was 14.8%. Eurozone employment reached a record high in Q4 2022 with a quarterly expansion of 0.4%, bringing total employment to 165 million.

European equities continue to recover; Italian and German 10-year bond yields fell; the euro slightly depreciated

- The Eurostoxx 600 index is now about 3.6% below its peak in January 2022.
- In February, the euro depreciated slightly against the US dollar, to $1.06 ($1.09 in January).
- The Italian–German 10-year bond-yield spread stabilized at 1.8%; the yields rose respectively from 4.2% to 4.3% and from 2.2% to 2.5%.
- Loans to businesses and households respectively increased 0.6% and 0.2% m-o-m and 8.3% and 4.5% over 2021 levels.

The European Central Bank raised the main policy interest rate to 3% and pledged to raise it to 3.5% in March

- The European Central Bank (ECB) estimates that consumer inflation will slow to 3.4% by the end of 2023 on its way down to the bank's 2% target. At its February meeting the ECB raised its key policy rate 50 basis points, to 3%, while confirming that it would make another raise in March, to 3.5%. These are the highest policy rates seen since 2008. Most analysts do not foresee a reversal of policy tightening until 2024.

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

United Kingdom

The economy narrowly avoided a contraction in Q4 2022. Inflation eased in January, and the unemployment rate increased slightly. Wholesale energy prices have fallen, but domestic inflationary pressures have been firmer than expected.

The latest IMF World Economic Outlook growth projections for the UK estimate 4.1% growth in 2022 but expect a contraction of –0.6% in 2023 and a return to 0.9% growth in 2024. The UK is the only large advanced economy facing a negative outlook for 2023.

The February Monetary Policy Report of the Bank of England (BoE) projects a slight output decline through 2023 and into Q1 2024, as still-high energy prices and interest rates weigh on spending. Output is expected to drop by around 0.3% in Q1 2023 and 0.7% in Q1 2024, before returning to growth. This forecast has been revised upward since the November report, reflecting the BoE's less pessimistic outlook for consumption, given the strong employment picture and the decline in wholesale energy prices. Four-quarter GDP growth will pick up to almost 1% by Q1 2026, but will remain well below pre-pandemic rates. Inflation is expected to drop to 3% in Q1 2024 and below the 2% target in 2025. The unemployment rate is projected to rise to around 4.4% in 2024 and to more than 5% by 2026.

The UK manufacturing sector began 2023 on a weak footing, with output, new orders, and employment all falling for the fourth successive month. The purchasing managers' index (PMI) for manufacturing has been in contraction for six consecutive months. The reading for January 2023 was 47 (45.3 in December). The services PMI slowed to 48.7 in January (49.9 in December), the fourth month of contraction. Although only marginal, the rate of decline for overall business activity was the fastest since January 2021. Business and consumer spending remained subdued, but expectations for business activity in the next 12 months have improved since December.

Nominal average growth in total pay was 5.9% in Q4 2022, but real total pay declined by −3.1% year-on-year. The unemployment rate for October to December 2022 increased by 0.1 percentage points on the quarter to 3.7%, still below pre-pandemic levels, indicating that demand for labor may be slowly easing. From November 2022 to January 2023, total employment vacancies were down by 135,000 from levels seen a year ago, and down 76,000 on a three-month rolling basis, although they remained 338,000 above pre-COVID-19 levels (January to March 2020).

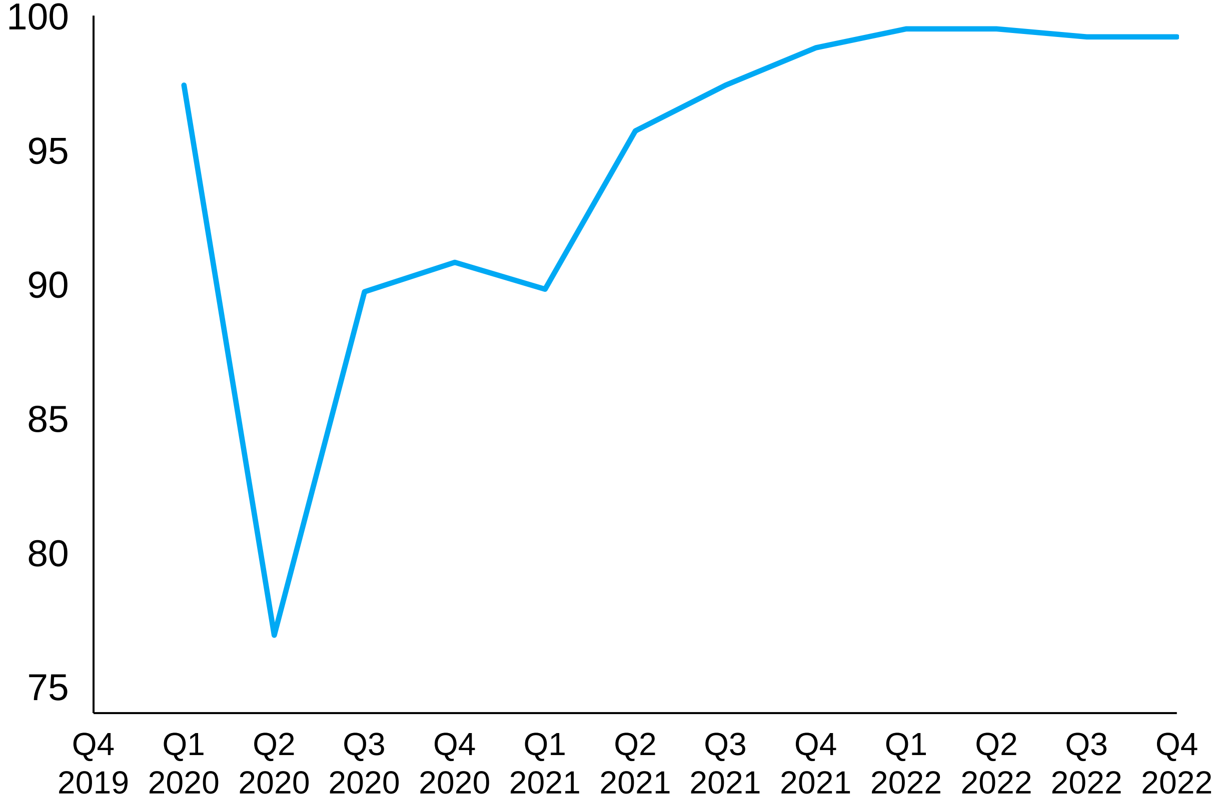
Inflation eased further in January to 10.1%, (10.5% in December), and appears to be on a downward trajectory, after having reached some of the highest levels in 40 years. The lower reading was driven by a significant fall in transport costs and restaurant and hotel costs. This was partly counteracted by an above-average rise in costs of alcoholic beverages and tobacco. The core consumer price index (excluding energy, food, alcohol and tobacco), fell to 5.8% in the 12 months to January. The Bank of England voted in February to increase the bank rate by 0.5 pp, to 4%. The BoE has also continued its quantitative tightening program.

The UK government and the EU have agreed on a trade deal covering Northern Ireland. The "Windsor framework" announced by PM Sunak and President von der Leyen would provide an easier path for goods traveling from Britain to Northern Ireland as a final destination.These would be subject to lighter controls than goods transiting to the Republic of Ireland and other EU destinations, which would be subject to EU regulation. Most Conservative and Labour MPs are expected to support the agreement; some Conservative MPs and unionist politicians in Northern Ireland are expected to oppose it.

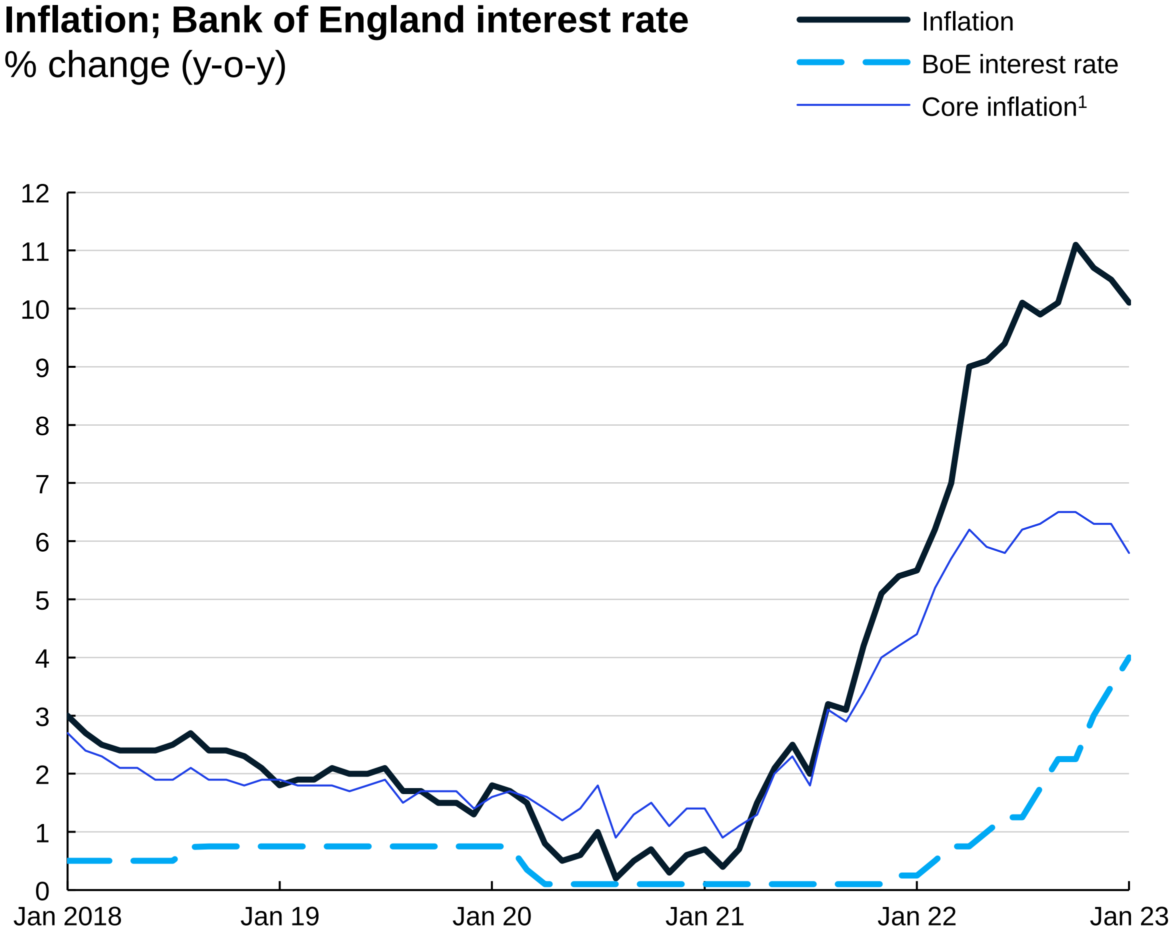
Source: Bank of England; IMF; OECD; Office for Budget Responsibility; Office for National Statistics; McKinsey's Global Economics Intelligence analysis

UK GDP remained flat in Q4 2022, narrowly avoiding a technical recession, while inflation has eased from record-high levels

UK GDP growth, Q4 2019 – Q4 2022
Index, 2019 Q4 = 100



Inflation; Bank of England interest rate
% change (y-o-y)



1. 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

High inflation and energy uncertainty continue to drag on consumer sentiment; industrial production improves slightly; bond yields and the pound stabilize

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

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

Inflation easing from historic highs; consumer and business confidence both remain low; industrial production strengthens

- Retail sales volume increased by 0.5% in January 2023, bringing it 1.4% below the pre-COVID-19 level (February 2020).
- GfK’s Consumer Confidence Index decreased three points in January to –45 from –42 in December. UK consumers are struggling due to the cost-of-living crisis driven by rapidly rising food prices, domestic fuel bills, and mortgage payments.
- Monthly industrial production output rose by 0.3% between November and December 2022, and is now 1.4% below February 2020.
- The UK manufacturing PMI rose from a 31-month low of 45.3 in December to 47 in January, but has remained below the neutral 50.0 mark for six successive months; the services PMI dropped to 48.7 in January, from 49.9 in December, indicating weakness in activity amid subdued business and consumer spending.
- Monthly construction output remained flat in December 2022, and 3.8% above pre-pandemic levels. The UK trade balance has been in deficit since September 2021. The trade deficit widened by £2.4 billion to £26.8 billion in Q4 2022, driven by lower exports of both goods and services.
- The annual rate for the UK CPI eased to 10.1% in January (10.5% in November). Core inflation (exclusive of food, energy, alcohol, and tobacco) was 5.8% in December (down from 6.3 in December). Producer input prices rose by 14.1% year-on-year in January 2023 (down from 16.2% in December), and producer output prices rose by 13.5% (down from 14.6% in December).
- The unemployment rate for October to December 2022 increased by 0.1 percentage point on the quarter to 3.7%. The unemployment rate for people aged 18–24 increased to 10% (from 9.8%, on a three-month rolling basis).

UK equities level off; the 10-year gilt stabilizes following recent market turmoil; the pound strengthens against the dollar

- The FTSE 100 gained around 3% during the past month and now exceeds by around 4.3% the peak reached in February 2022. As of 20 February, the pound is trading at 1.20 against the dollar, after almost reaching parity in late September, an all-time low.
- The daily yield of the UK 10-year gilt has risen slightly to roughly 3.6%, as of 20 February, down from historic highs of over 4.6% seen in mid-October, but well above rates of around 1% a year ago.
- UK government debt declined to 100.2% of GDP in Q3 2022, 15.1 pp above the EU average, while the deficit declined to 4.4% of GDP (from 6.9% in Q2 2022).

PM Rishi Sunak is negotiating a deal with the EU to end the deadlock over trade in Northern Ireland; within Sunak’s party, there is significant opposition

- The UK and EU have been engaged in lengthy talks on a trade deal covering Northern Ireland. The UK government believes a deal is within reach, providing for a “green lane” for goods traveling from Britain to Northern Ireland as a final destination. These would be subject to lighter controls than goods transiting to the Republic of Ireland and other EU destinations.
- The PM is however facing significant opposition to the deal from within the Conservative Party.

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

[Emerging economies]: China’s economy revives in new year; India’s GDP growth estimated at 7% in fiscal 2022–23; Brazil’s president criticizes high central-bank interest rate.

China

Positive industry indicators and solid investment growth signal the economy's return to faster expansion; the residential property sector remains a risk.

The economy is in the process of reopening after three years of zero-COVID-19 policies. Travel restrictions have been lifted, international flights are resuming, and shops, theaters, and restaurants are fully operational. Amid a difficult global environment and pandemic restrictions, the economy expanded 3% in 2022. In 2023, the government expects the economy to grow between 5% and 5.5%, an estimate in line with external forecasting institutions.

The resumption of a faster growth pace depends largely on the recovery of consumption. In 2022, retail sales totals were slightly below (–0.2%) levels in 2021. New consumer data have not yet been released but most industry and financial indicators were strong. Official reports of Spring Holiday spending show an increase of 10% to 14% over last year's holiday totals.

The official purchasing managers' index (PMI) for manufacturing returned to mild expansion in January at 50.1 (47 in December). The official services PMI expanded rapidly, to 54 from 39.4 in December, as COVID-19 infections decreased and mobility was restored.

New social financing surged to RMB 6 trillion in January, the second-highest level in history (after RMB 6.18 trillion in January 2022). New bank loans totaled RMB 4.9 trillion, a record level (RMB 3.98 trillion in January 2022). The surge in credit growth can be explained by the tendency of Chinese banks to front-load loans at the beginning of the year as well as the strengthened economic outlook for 2023. Total social financing reached RMB 350.9 trillion, increasing 9.7% y-o-y.

One result of the positive economic news has been a rallying of equities indexes, which extended into the new year. One benchmark index, the CSI 300, has gained 13% since October 2022.

Due to the new year holiday delay, some data are available only for December 2022 or 2022 overall. For the full year, industrial production expanded 3.6%. Trade expanded, with exports growing by 7% and imports by 1.1%. The exports growth brought total values to $3.59 trillion (RMB 25 trillion), above the 2021 mark of $3.36 trillion. The slower imports growth resulted in a trade surplus of $878 billion, far outstripping last year's record of $676 billion. However, external demand slowed in Q4 2022, resulting in three straight months of declining exports.

Residential property sales swiftly retreated through the year, declining −28.3% y-o-y overall. The real estate sector, which has been in decline since mid-2021, is connected to 10% to 15% of China's GDP. The central government and local authorities have introduced supportive policies to stabilize the sector. In November, the government pledged $162 billion in state bank credit to developers to support completion of projects. The government's "three red lines" policies to curb market speculation curtailed private investment and state-owned developers. State-owned developers (SOEs) now account for the majority of land purchases. Demand for housing is reviving in tier-1 cities but remains sluggish elsewhere.

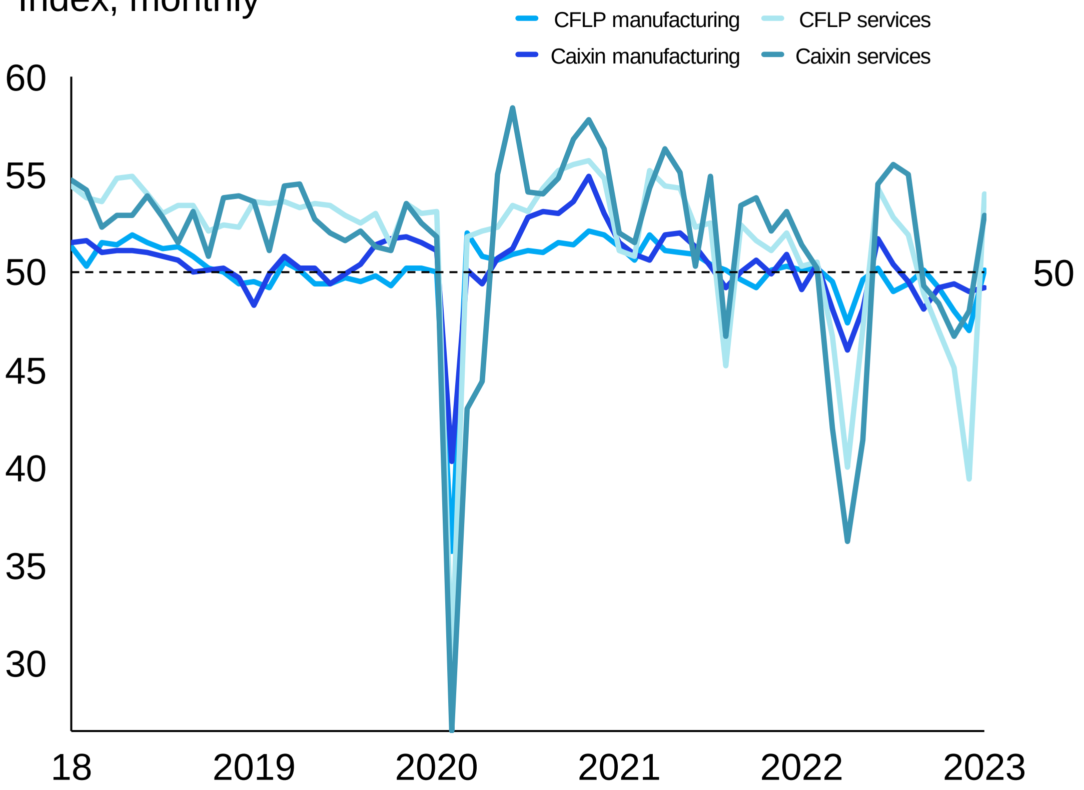
On February 16, China's top political leadership presented a balance sheet on the spread of COVID-19 after reopening, which began in November 2022. More than 200 million people received treatment for the virus; reported cases peaked near seven million on December 22 and have since fallen below 9,000. According to officials, the pandemic is "basically over." The level of infections is low and stable, and a new mass outbreak is very unlikely. Schools and rural areas will become priorities for epidemic control, however.

Source: CEIC; McKinsey's Global Economics Intelligence analysis

Manufacturing and services PMIs rebounded in January; stock indexes made gains

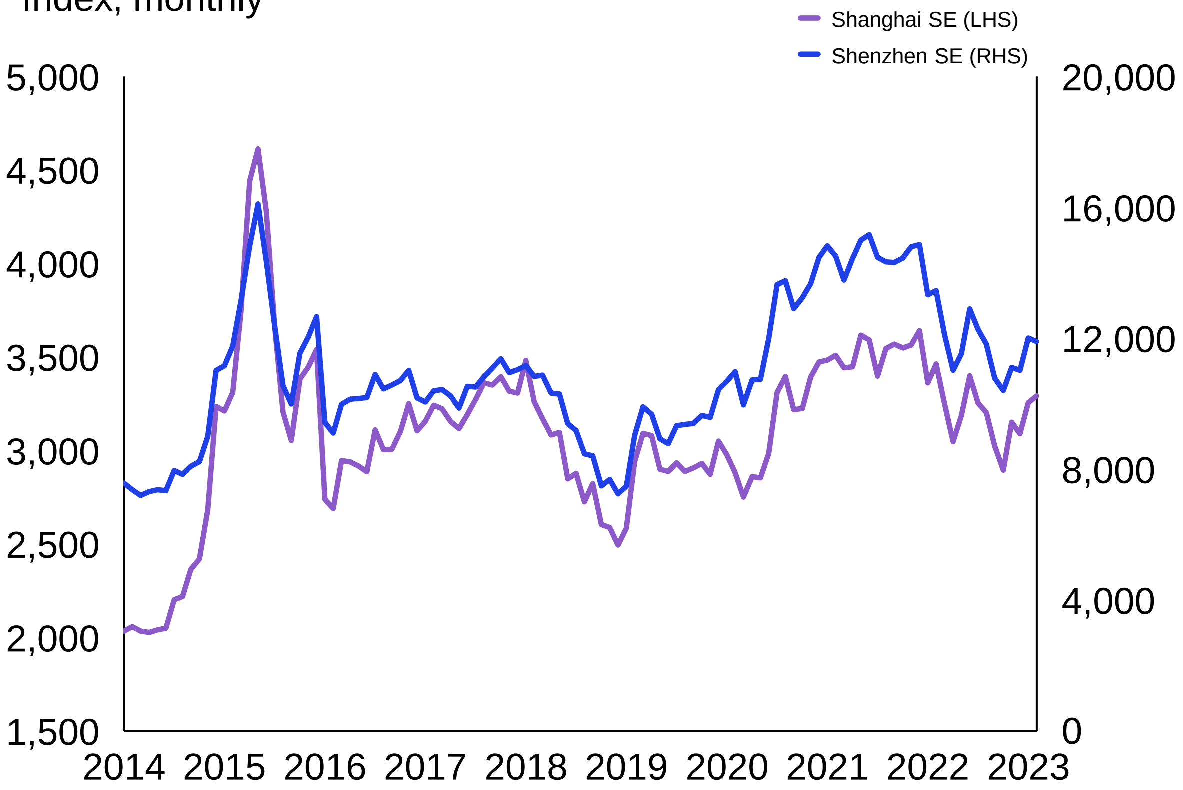
Purchasing managers indexes (PMI)

Index, monthly



Stock market indexes

Index, monthly



Source: CEIC; McKinsey's Global Economics Intelligence analysis

Industrial and services activities improved in January; inflation remains low; new social financing surges

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

The purchasing managers' indexes (PMIs) improved for both manufacturing and services sectors in January; inflation remains low

In 2022, retail sales totals were slightly below (–0.2%) levels in 2021.

The official purchasing managers' index (PMI) for manufacturing returned to mild expansion in January at 50.1 (47 in December). The official services PMI expanded rapidly, to 54 from 39.4 in December, as COVID-19 infections decreased and mobility was restored.

Trade expanded in 2022 overall, with exports growing by 7% and imports by 1.1%. The exports growth brought total values to $3.59 trillion (RMB 25 trillion) in 2022, above the 2021 mark of $3.36 trillion. The slower imports growth resulted in a trade surplus of $878 billion, far outstripping last year's record of $676 billion. External demand slowed in Q4 2022, resulting in three straight months of declining exports.

Consumer price inflation was 2.1% in January (1.8% in December) while producer prices remain deflationary, at –0.8% in January (−0.7% in December).

The surveyed unemployment rate was unchanged in January at 5.5%.

RMB depreciated against US dollar; stock markets gained ground; credit and money supply expanded

The RMB depreciated by 2.0% against the USD, trading at RMB 6.9 = USD 1 by February 22.

The Shanghai stock index gained 1.1% and the Shenzhen index lost 0.8% in value by February 22 compared with levels at the end of January.

New social financing totaled RMB 6.0 trillion in January (RMB 1.3 trillion in December).

M2 growth accelerated to 12.6% in January (11.8% in December).

China total population peaked in 2021, earlier than expected; officials announce COVID-19 is "basically over"

China's population dropped to 1.41 billion in 2022, 850,000 below the level of 2021. This is the first year in more than 60 years that China has experienced a population decline.

Some local governments have introduced incentive measures to boost new births, providing subsidies to families that have two or more children and extending marriage leave and maternity leave.

On February 16, China's top political leadership presented a balance sheet on the spread of COVID-19 after reopening, which began in November 2022. According to officials, the pandemic is "basically over." The level of infections is low and stable, and a new mass outbreak is very unlikely.

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

India

The economy will likely have grown at 7% by the end of fiscal 2022–23; inflation jumped to 6.5% and the central bank raised the policy rate; the Union budget for fiscal 2023–24 provides a 33% increase in capital investment.

Official government estimates expect the economy to have grown 7% in the fiscal year ending on March 31 (FY 2022–23). The estimate is in line with the estimate of the Reserve Bank of India (RBI); the IMF estimates 6.8% GDP growth for the year. The economy slowed in the third quarter (October–December 2022), to an expansion rate of 4.4%, due to the higher cost of borrowing and weaker manufacturing. The key RBI policy rate (repo rate) was lifted to 6.25% during the third quarter, while the manufacturing sector suffered a second straight quarterly contraction (–1.1% versus –3.6% the quarter before, measured year-over-year). Manufacturing has been hobbled by slower domestic and cross-border demand.

At its February 2023 policy meeting, the RBI again raised the repo rate, to 6.5%; economists expect another hike in April, to 6.75%, before the RBI pauses hikes in the new fiscal year. The cause for the continued tightening is inflation, which accelerated to 6.5% in January (5.7% in December 2022), above the RBI target range of 2–6%. Food inflation rose to 5.9% (4.2% in December), with higher costs for cereals (16.1%) and spices (21.1%). Fuel and electricity inflation, meanwhile, barely moved (10.8% versus 11% last month).

In recent data, total passenger vehicle sales increased 26.7% (m-o-m), to 298,093 units in January (235,309 in December 2022).

Industrial production grew by 4.3% in December 2022 (year-over-year). Growth was measured in electricity output (10.4%), mining (9.8%), and manufacturing (2.6%). Over the first three quarters of FY 2022–23 (April to December 2022), industrial production expanded 5.4%.

The purchasing managers' indexes (PMIs) remain solidly in expansion territory, with the manufacturing PMI at 55.4 in January (57.8 in December) and the services PMI at 57.2 in January (58.5 in December).

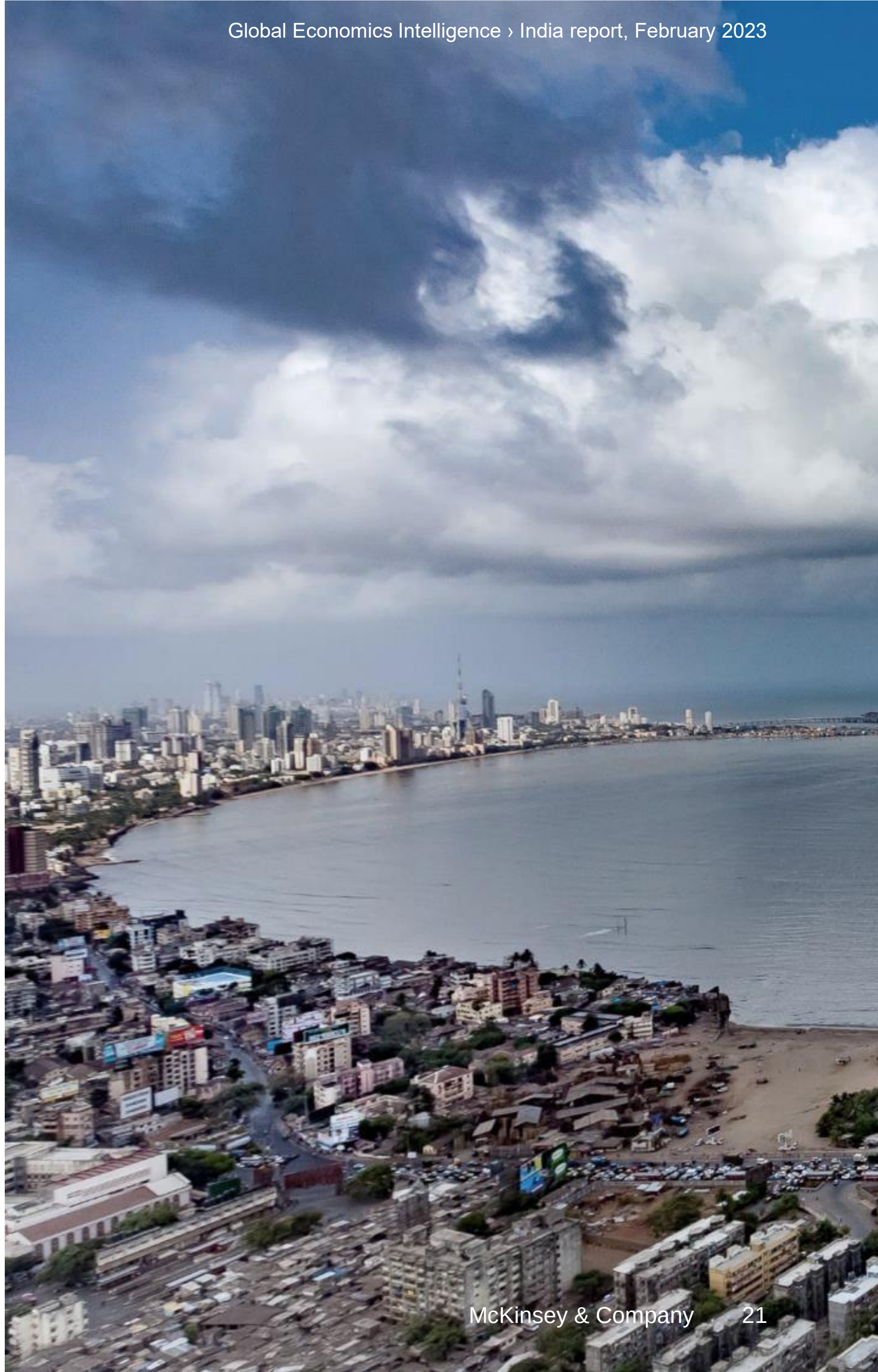
Exports decreased 4.6% in January 2023 compared with the previous year and also declined on a monthly basis ($32.9 billion versus $34.5 billion in December 2022). Imports were down 2.4% from last year's level and declined on a monthly basis as well ($50.7 billion in January versus $58.2 billion in December). The trade deficit consequently narrowed.

According to the Centre for Monitoring the Indian Economy, the unemployment rate declined to 7.1% in January (8.3% in December 2022). The urban unemployment rate was 8.6% (10.1% in December), while rural unemployment was 6.5% (7.4% in December).

The NSE and BSE equity markets declined –3.4% and –1.0% respectively in the last four weeks (to February 27, 2023). The rupee strengthened in January but depreciated in February, trading at 82.6 per dollar on February 28. The RBI posted reserves of $567 billion on February 10 ($572 billion on January 13).

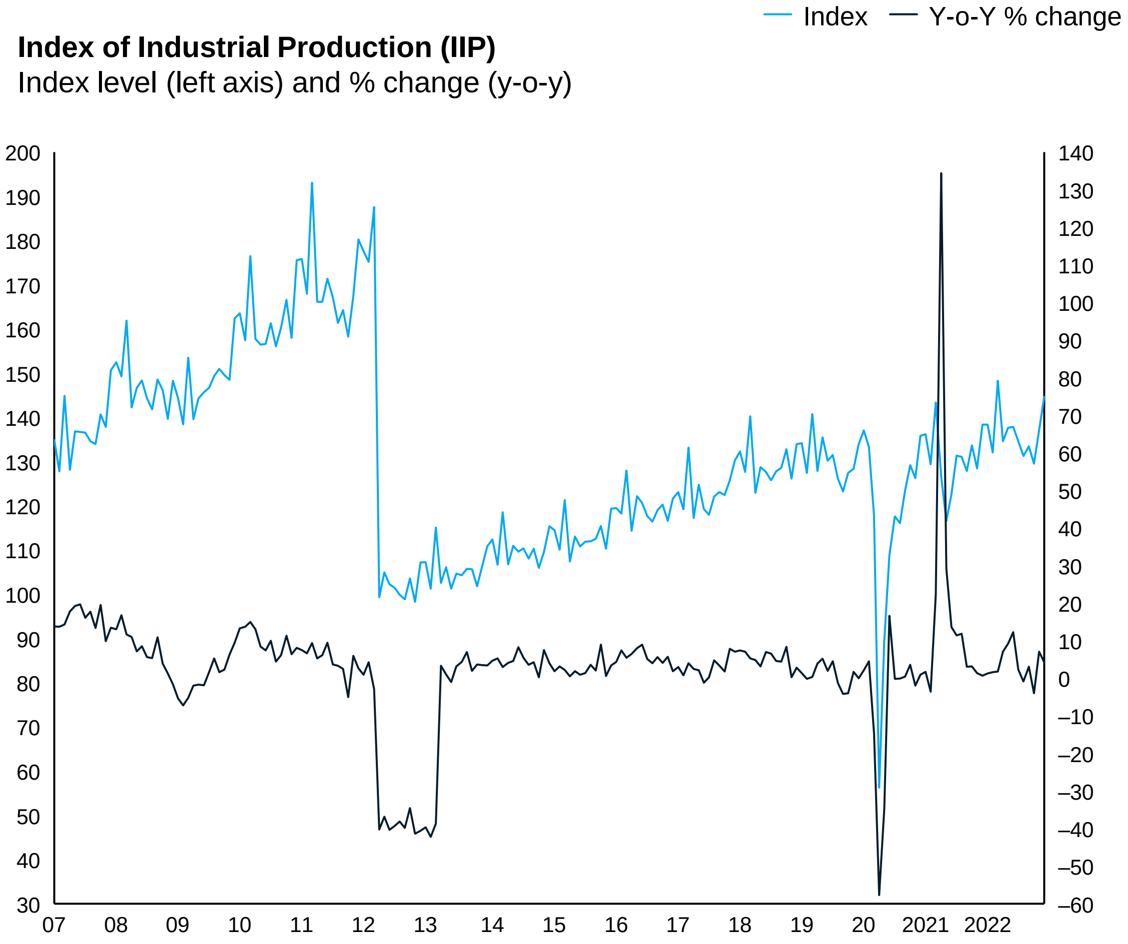
India's finance minister, Nirmala Sitharaman, presented the Union budget for fiscal 2023–24. The largest budget in India's history ($550 billion) provides a 33% increase in capital investment (+$122 billion). The budget is the last full budget the government will present before national elections, which will be held in May 2024.

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

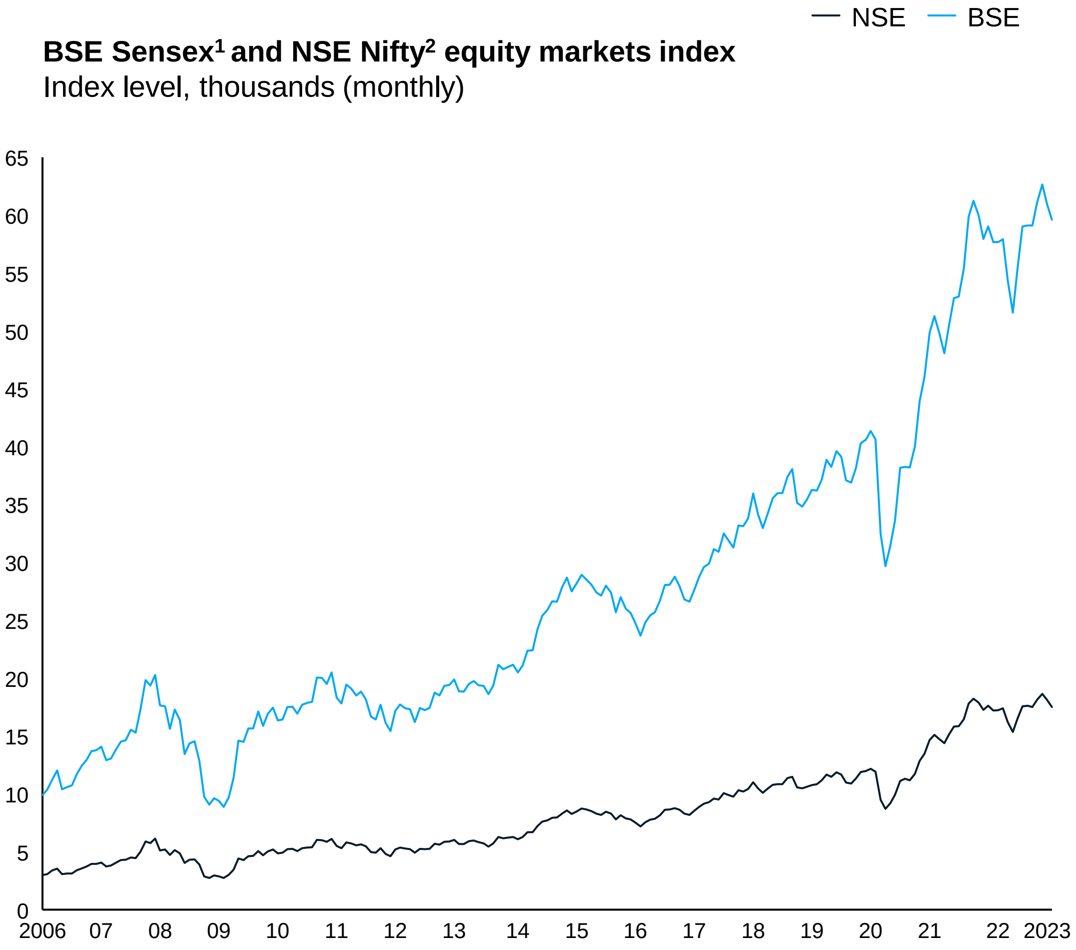


Industrial production expanded by 4.3% y-o-y in December 2022; the NSE and BSE equity indexes declined slightly in February

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, thousands (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

The economy will likely have grown at 7% by the end of fiscal 2022–23; inflation jumped to 6.5% and the central bank raised the policy interest rate

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

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

Industrial production expanded in December 2022; consumer inflation sharply increased; trade declined; unemployment was reduced in January 2023

- According to the Society of Indian Auto Manufacturers, total passenger vehicles sales increased 26.7% m-o-m to 298,093 in January (−14.8% decline in December 2022).
- Industrial production grew by 4.3% in December 2022 (year-over-year). Growth was measured in electricity output (10.4%), mining (9.8%), and manufacturing (2.6%). Over the first three quarters of FY 2022–23 (April to December 2022), industrial production expanded 5.4%.
- The purchasing managers' indexes (PMIs) remain solidly in expansion territory, with the manufacturing PMI at 55.4 in January (57.8 in December) and the services PMI at 57.2 in January (58.5 in December).
- Exports decreased 4.6% in January 2023 compared with the previous year and also declined on a monthly basis ($32.9 billion versus $34.5 billion in December 2022). Imports were down 2.4% from last year's level and declined on a monthly basis as well ($50.7 billion in January versus $58.2 billion in December). The trade deficit consequently narrowed.
- Inflation accelerated to 6.5% in January (5.7% in December 2022), above the RBI target range of 2–6%. Food inflation rose to 5.9% (4.2% in December), with higher costs for cereals (16.1%) and spices (21.1%). Fuel and electricity inflation was little changed at 10.8%.
- According to the Centre for Monitoring the Indian Economy, unemployment declined to 7.1% in January (8.3% in December).

The rupee weakened against the euro and dollar; an FII outflow was recorded in January; credit market has grown

- The NSE and BSE equity markets declined –3.4% and –1.0% respectively in the last four weeks (to February 27, 2023).
- The rupee strengthened in January but depreciated in February, trading at 82.6 per dollar on February 28.
- Foreign Institutional Investment recorded an outflow of $1.81 billion in January ($1.12 billion in December 2022).
- Credit growth remains resilient at 16.3 per cent as on January 27, 2023 (versus 8.2 per cent last year).

The RBI increases the key policy rate; foreign-exchange reserves decreased; government presents Union budget for FY 2023–24

- At its February 2023 policy meeting, the RBI again raised the repo rate, to 6.5%; economists expect another hike in April, to 6.75%, before the RBI pauses hikes in the new fiscal year.
- The RBI posted reserves of $567 billion on February 10 ($572 billion on January 13).
- India's finance minister, Nirmala Sitharaman, presented the Union budget for fiscal 2023–24. The largest budget in India's history ($550 billion) provides a 33% increase in capital investment (+$122 billion). The budget is the last full budget the government will present before national elections, which will be held in May 2023.

SOURCE: McKinsey's Global Economics Intelligence analysis

Brazil

Inflation steady at 5.8%; President Lula da Silva criticizes high central-bank interest rate and low inflation target as growth-inhibiting policies; GDP expansion in 2022 set to exceed 3%.

The new president of Brazil, Luiz Inácio Lula da Silva, has criticized central-bank policies, naming the policy interest rate (Selic rate) of 13.75% and inflation target of 3.75% as growth constricting and too extreme for Brazil. He has said that the cost of borrowing is preventing Brazil's economy from expanding faster. GDP expanded 0.4% in the third quarter, below expectations. The IMF forecasts growth of 3.1% for the whole year but sees the economy slowing to 1.2% GDP growth in 2023.

Inflation has come down from a recent high of 12.1% in April 2022 to 5.8% in January 2023. The central bank has so far left the Selic rate untouched during the disinflationary arc. In response to the president's criticism, central bank head Roberto Campos, appointed under the Bolsonaro administration, reaffirmed his commitment to policy tightening.

Consumer activity sagged at the end of 2022, falling consecutively on a monthly basis in November and December and performing below expectations on an annual basis, with growth of 1.4% and 0.4% respectively. The consumer confidence index fell to 85.5 in January (88 in December).

The purchasing managers' index (PMI) for manufacturing returned from the deep in January, reaching 47.5. While still signaling contraction, January's reading is an improvement after steep contractions of 44.2 and 44.3 in December and November respectively. The services PMI suggested mild expansion in January (51) and December (50.7). The OECD business confidence index dipped into negative territory in September 2022 and has ticked down each month since.

Exports expanded 11.7% year-over-year in January, totaling $23.1 billion. Imports fell from a year earlier, however, by –1.7% to $20.4 billion. Both totals were smaller than those of the previous month.

The stock market (Bovespa) lost about 7.5% in value in the last four weeks (to February 27). The real has mainly fluctuated between 5.0 and 5.3 to the dollar since the beginning of the year (5.2 on February 27). Argentina and Brazil are in early talks to create a common currency as part of a coordinated plan to reduce reliance on the US dollar and boost regional trade.

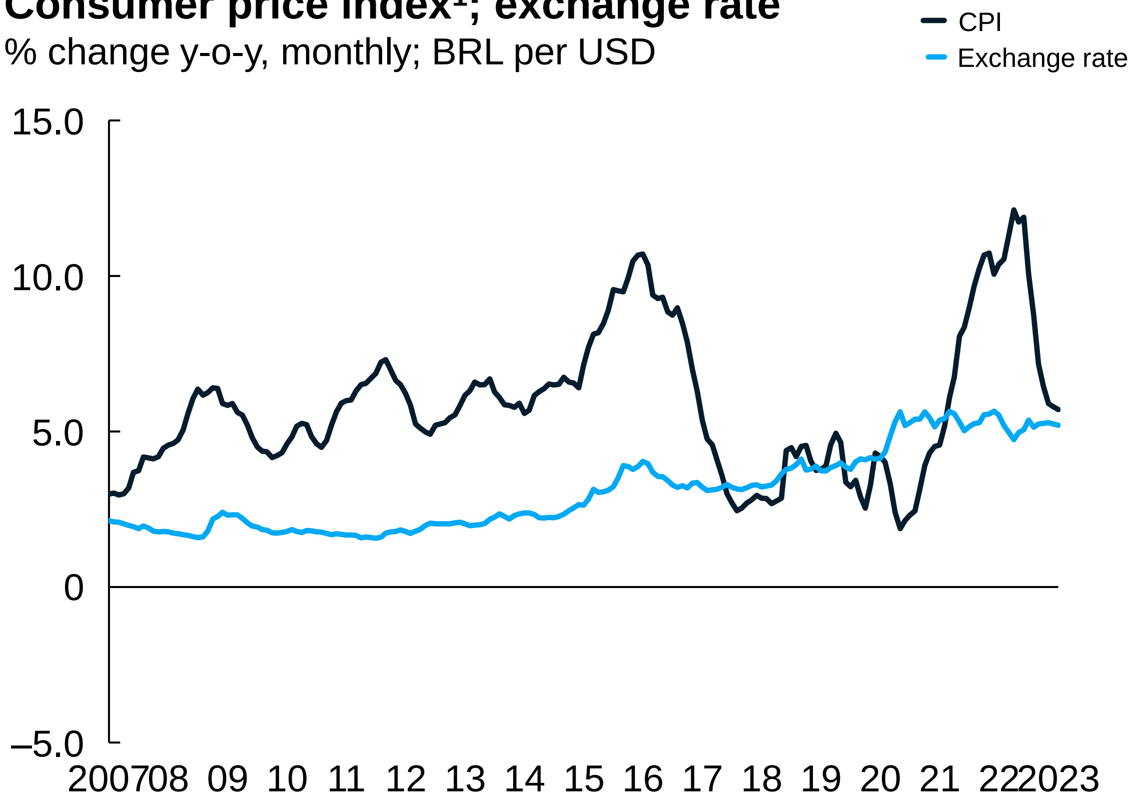
The deforestation rate observed in Brazil's section of the Amazon rainforest dropped by 61% in January, according to data from Brazil's National Institute for Space Research. President Lula da Silva's policy platform stresses protections for the environment and Brazil's indigenous peoples.

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

In December and January, inflation was 5.8%, the lowest in two years; the real has held its value in the new year; the equity market has lost value in the new year

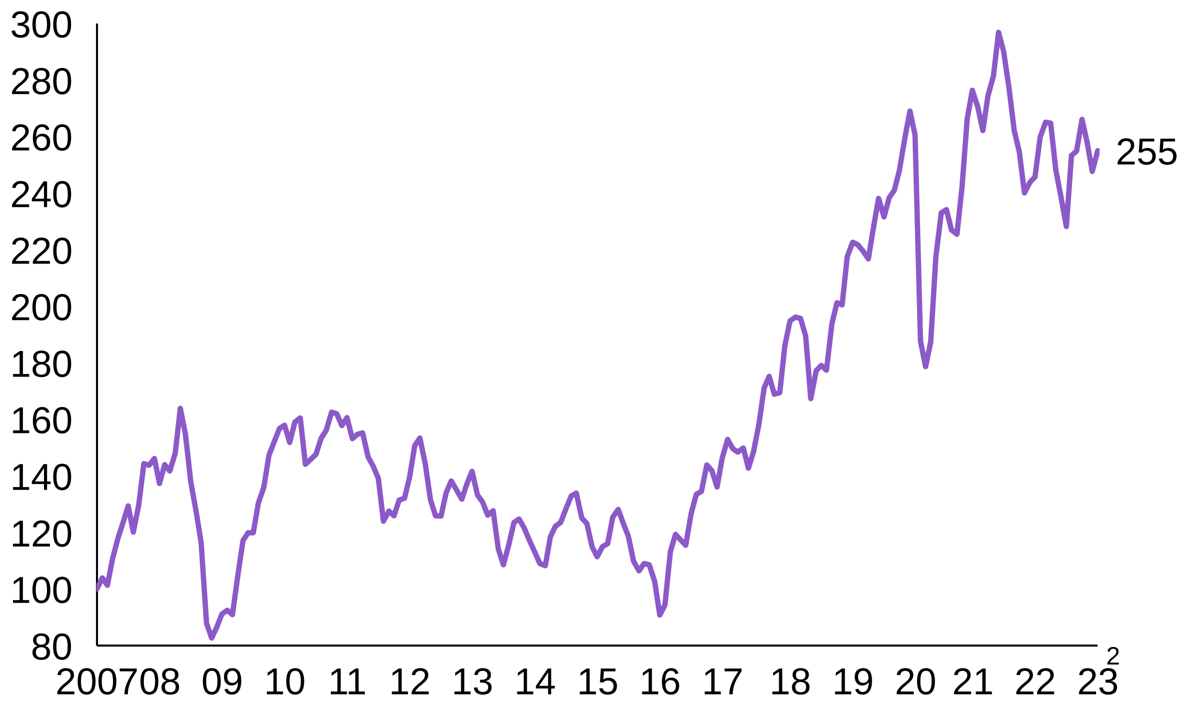
Consumer price index[1]; exchange rate

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



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 5.79% with a margin of error of 1.5 percentage points.
[2] Data through January 31, 2023.

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

President Lula da Silva criticizes central bank policies as growth-inhibiting; inflation at lowest level in two years; consumer and business confidence sags

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

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

In January, inflation continues to ease while consumers' and producers' expectations for the future remain pessimistic

- The consumer confidence index decreased to 85.5 in January (88.0 in December) (readings below 100 indicate pessimism). Domestic vehicle sales fell sharply by –34.6% on a monthly basis in January (+7.6% in December). Overall retail sales expanded on an annual basis in November (1.4%) and December (0.4%) but fell on a monthly basis in both months.

  Industrial business confidence dropped to 93.1 in January (93.3 in December). Industrial output fell slightly, –0.1% (m-o-m) in both November and December, largely due to a contraction in output of intermediate goods.

  The purchasing managers' index (PMI) for manufacturing returned from the deep in January, reaching 47.5. While still signaling contraction, January's reading is an improvement after steep contractions of 44.2 and 44.3 in December and November respectively. The services PMI suggested mild expansion in January (51) and December (50.7).

  Exports expanded 11.7% year-over-year in January, totaling $23.1 billion. Imports fell from a year earlier, however, by –1.7% to $20.4 billion. Both totals were smaller than those of the previous month.

  Inflation has come down from a recent high of 12.1% in April 2022 to 5.8% in January 2023.

The Brazilian real gained ground while the Bovespa index has retreated in the new year

- The stock market (Bovespa) lost about 7.5% in value in the last four weeks (to February 27).
- The real has mainly fluctuated between 5.0 and 5.3 to the dollar since the beginning of the year (5.2 on February 27).

Brazil's president criticizes the tight money policies of the central bank; discussions ongoing on a common currency with Argentina

- The new president of Brazil, Luiz Inácio Lula da Silva, has criticized central-bank policies, naming the policy (Selic) rate of 13.75% and inflation target of 3.75% as growth constricting and too extreme for Brazil. He has said that the cost of borrowing is preventing Brazil's economy from expanding faster.
- Argentina and Brazil are in early talks to create a common currency as part of a coordinated plan to reduce reliance on the US dollar and boost regional trade.

[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)

Russia

GDP contracted –2.2% in 2022 according to the IMF, a smaller retreat than economists expected; industrial production and retail sales continue to fall short of prewar levels; cut in oil production coming in March.

The IMF estimates that the Russian economy contracted –2.2% in 2022 while forecasting positive growth of 0.3% for 2023. Russia's official statistics agency, Rosstat, estimates the contraction at −2.1% in 2022, while the Russian central bank measured a contraction of –2.5%.

Industrial production has been in deficit for nine of the last ten months compared to levels from a year earlier. In January, the shortfall was –2.4% (–4.3% in December 2022). Output fell for the extraction of raw materials and manufacturing. The purchasing managers' index (PMI) for manufacturing recorded its ninth straight month of expansion with a reading of 52.6 in January (53 in December). Subindexes for new orders and employment showed significant increases. The services PMI, in contraction for four consecutive months as client demand declines, reached 48.7 in January from 45.9 in December. A drop of –9.3% was recorded in retail spending in the second half of 2022 compared with 2021 levels.

Unemployment remains low at 3.7%. Real wages stagnated in October and November after several months of decline (Rosstat).

Consumer inflation averaged 13.7% in 2022. From a yearly high of 17.8% in April 2022, the inflation rate has declined in each month since, reaching 11.8% in January 2023. The central bank has kept the policy interest rate at 7.5% since September. Given its current policy stance, the central bank estimates inflation will decline to 5% to 7% in 2023 and return to the 4% target in 2024.

According to the central bank, domestic bank lending returned to near-normal levels late last year, with an increase of 18.8% year-over-year in December 2022 and 16.3% in November. The level of lending was $1.35 trillion in December. A typical experience was reported by Reuters: VTB, one of Russia's largest banks, increased its retail lending portfolio by 7.2% in 2022. The bank missed its target of 12%, however, due to exclusion from the international payments system (SWIFT). The VTB lending portfolio, consisting largely of mortgage loans, totals $68.2 billion.

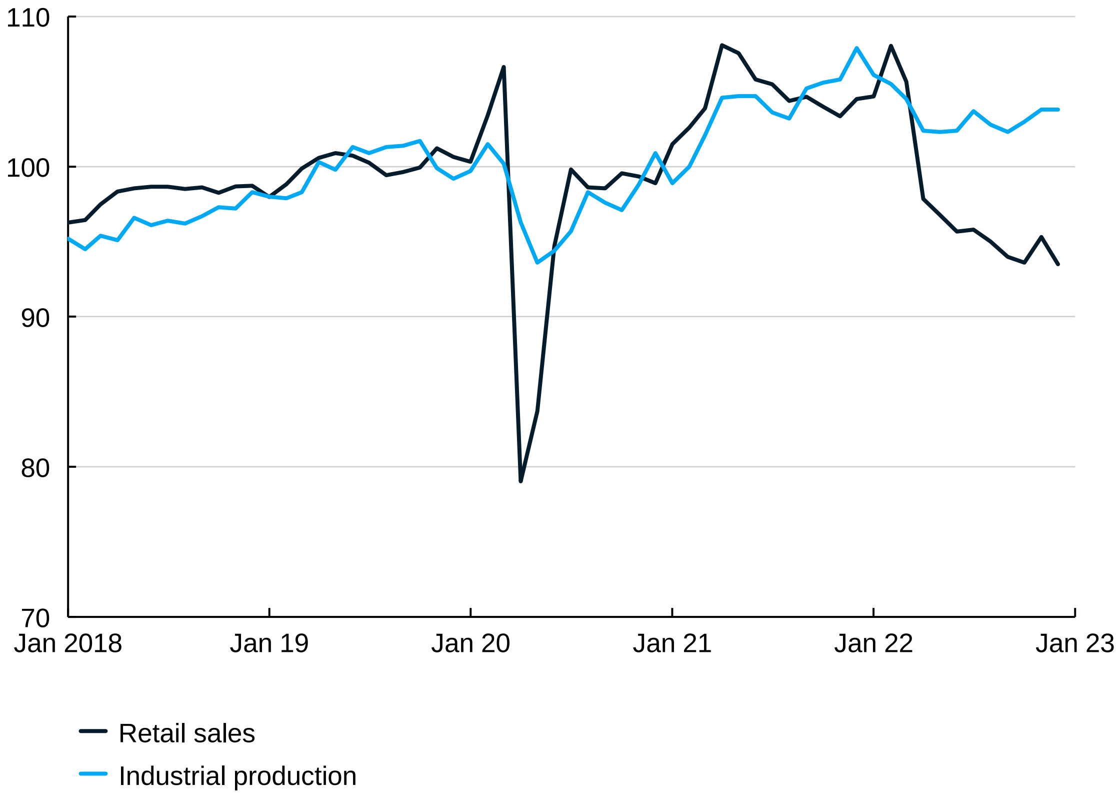
The G7 group of nations agreed on a price cap of $60 per barrel for Russian oil; that cap went into effect on December 5, 2022. The same group decided to cap prices of Russian oil products on February 5. Russia announced a production cut of 500,000 barrels per day to begin in March, which would be 5% of its total output.

Note on the Russia section: Official Russian sources have restricted data releases on the performance of the Russian economy. The details in this report are based on the latest available information from external sources (including S&P Global, Reuters, and BOFIT, the Bank of Finland Institute for Emerging Economies), as well as from Rosstat (the Russian state statistical agency) and the Central Bank of Russia.

Industrial production remains and retail sales decline; inflationary pressure eases, while real wages stagnate

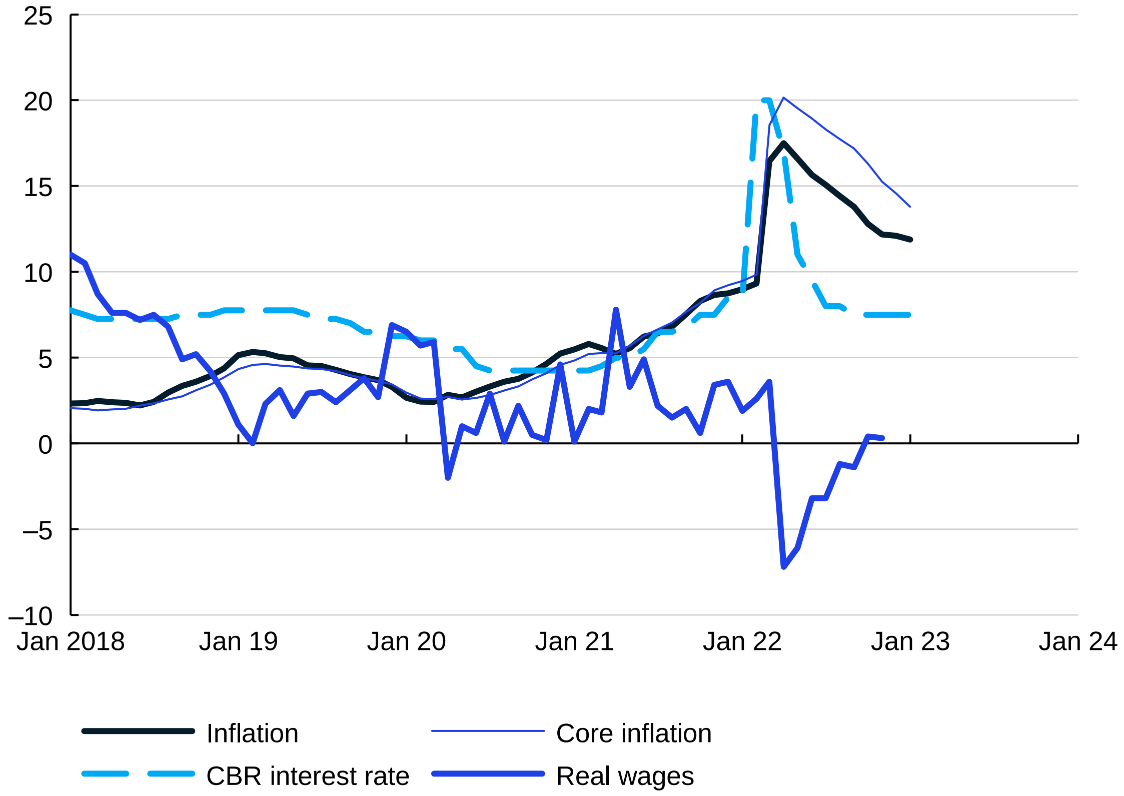
Industrial production and retail trade

Index, 2019=100



Inflation; the central bank interest rate and real wages

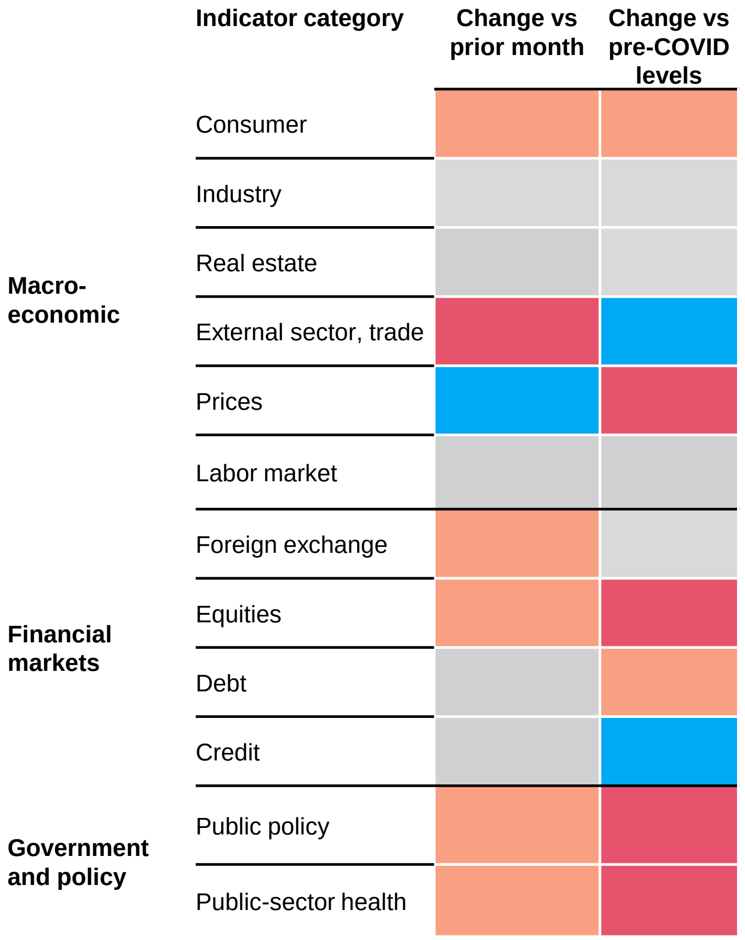
% change (y-o-y); %



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

Real economy has stabilized at lower levels of activity; credit expands on support by government; fiscal deficit exceeds government target

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



Domestic activity stabilized at low levels amid still-high inflation; EU oil trade restrictions affect current account

- Retail sales contracted by –2% m-o-m in December and –10.5% year-over-year; the decline in retail sales for the second half of 2022 was –9.3% compared with the same period in 2021.
- Industrial production has been in deficit for nine of the last ten months compared to levels a year earlier. In January, the shortfall was –2.4% (–4.3% in December 2022).
- The purchasing managers' index (PMI) for manufacturing recorded its ninth straight month of expansion with a reading of 52.6 in January (53 in December). The services PMI, in contraction for four consecutive months, was 48.7 in January (45.9 in December).
- Headline inflation declined to 11.9% in December; core inflation remains elevated at 13.8%. Inflationary risks remain high, owing to supply-side shortages.
- Unemployment at 3.8% in December remains at historical lows; wages increased 0.3% year-on-year in November but inflation caused real wages to decline.

Ruble value declined; government supports credit action

- The ruble has been depreciating in 2023, reaching close to 75 per dollar in February (versus 69 in late January).
- The Moscow Exchange (MOEX) has lost 1.5% in value since mid-January; the index remains at roughly 40% of the prewar level and trade volumes are low.
- Government debt yields are stable; rates remain high at 10.8%.
- Government intervention supported credit: total corporate lending was up by about 14% y-o-y at the end of 2022; total household lending was about 10% higher than a year earlier.

The fiscal deficit exceeds government target in 2022; the authorities announce a cut in oil production

- The fiscal deficit was 2.3% of GDP in 2022, above the government target of 2%.
- In response to price caps on crude and oil products, Russia announced a production cut of 500,000 barrels per day to begin in March, which would be 5% of its total output.

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