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Global Economics Intelligence executive summary, January 2023

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Growth in most surveyed economies exceeds pessimistic expectations; inflation moderates but is still high, and central banks stay tightening course.

Despite the year's high inflation and energy uncertainty, world economic performance in 2022 almost certainly exceeded earlier, more pessimistic expectations. Growth estimates for 2023 and 2024 have also become less dire. Recently upgraded forecasts suggest that the pace of global GDP growth in 2022 was 3.2% (International Monetary Fund, Conference Board). In most analyses, a slowdown of short duration is predicted for 2023, resulting mainly from stagnation in the developed economies, with a rebound in 2024.

The economies of the United States and the eurozone demonstrated resilience in the second half of the year. The US economy expanded at an estimated 2.9% in the fourth quarter and 2.1% in 2022 overall. The eurozone economy avoided a predicted contraction in the fourth quarter, expanding by 0.1% beyond the previous quarter and 3.5% for the year.

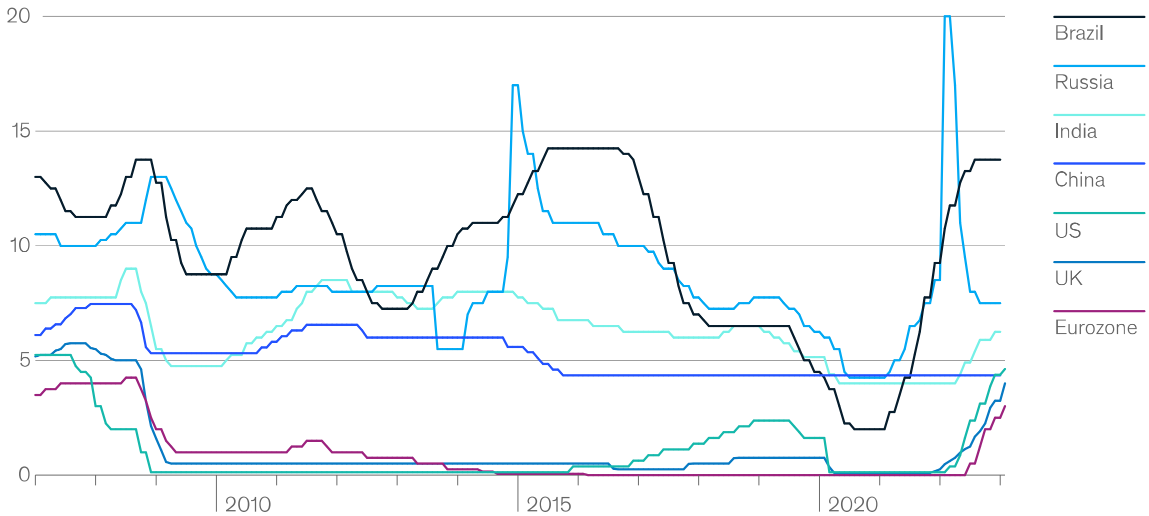
From the world's largest emerging economies, comparatively robust growth is expected for 2023. In India, where GDP expanded 8.7% in fiscal year 2021–22 (March to April), the official GDP growth estimate for fiscal year 2022–23 is 7%. In China, the pace of economic expansion slowed from 8.4% in 2021 to 3% in 2022. The main cause was disruption connected to the "zero-COVID" policy, but weaker global demand and rising geopolitical uncertainty magnified the headwinds. China has since lifted key pandemic restrictions. At the World Economic Forum's annual meeting in January, Liu He, China's vice-premier and top economic adviser, welcomed foreign investors, emphasizing that China's economy was set to improve significantly in 2023. The IMF recently upgraded its growth estimate for China in 2023 to 5.2%, and early economic data are directionally supportive.

Recent global economic data have been mixed, reflecting both improved conditions and persisting downside risks, largely centering on inflation and geopolitical uncertainty. Inflation has begun to slow in both developed and emerging economies. Energy prices have come down, but core inflation readings remain high, and central banks are sustaining a course of policy tightening. The US Federal Reserve implemented a small rate rise on February 1 (one-quarter point), bringing the policy interest rate to 4.5–4.75%. The Fed also signaled that further increases can be expected in 2023. On February 2, the Bank of England lifted its key interest rate three-quarters of a point, to a range of 3.5–4%, the highest it has been in 14 years. The European Central Bank, meanwhile, raised its key refinancing rate by a half point, to 3% (Exhibit 1).

Exhibit 1

Although energy prices have come down, core inflation readings remain high, and central banks are sustaining a tightening course.

Central-bank interest rates,[1] % (monthly)



[1]Rates used are: Brazil, Selic rate; Russia, Central Bank of Russia refinancing rate; India, repo rate; China, People's Bank of China rate; US, Fed funds rate; UK, official bank rate; eurozone, European Central Bank interest rate.
Source: Bank of England; Central Bank of Brazil; Central Bank of Russia; European Central Bank; Federal Reserve Bank of New York; People's Bank of China; Reserve Bank of India; McKinsey analysis

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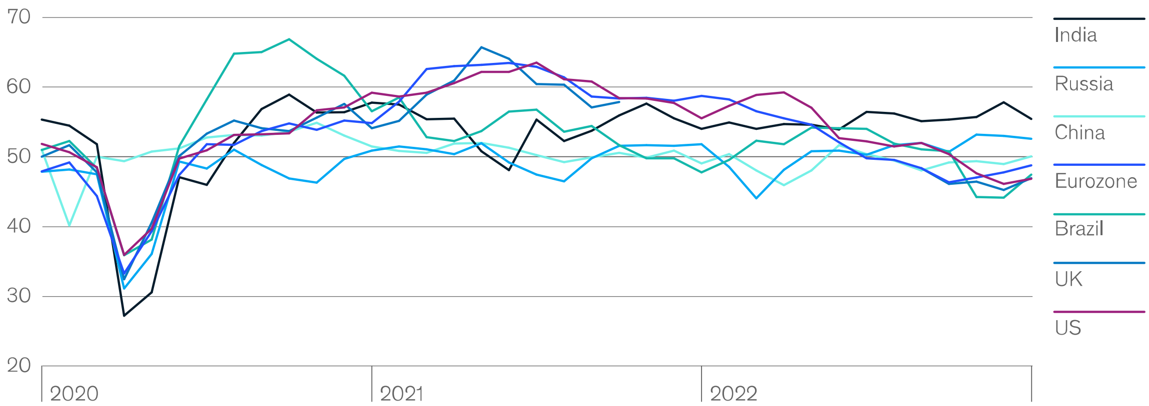
Consumer confidence improved globally and in most surveyed economies, though the prevailing surveyed mood falls well short of optimism. High prices and consumer caution continue to constrain retail sales in surveyed economies.

Amid weaker demand and high input costs, the global purchasing managers' indexes (PMIs) for both manufacturing and services finished the year in shallow contraction (48.6 and 48.2, respectively). PMI readings for individual economies were likewise contractionary in December, with the notable exception of India, where readings for both manufacturing and services were robust (57.8 and 58.5, respectively). PMI readings in January 2023 mainly show improvement (Exhibit 2).

Exhibit 2

In January, manufacturing contracted with less severity in most economies; the sector is expanding in India and Russia.

Purchasing managers' index (PMI), manufacturing, diffusion index



	US	Eurozone	UK	China	India	Brazil	Russia
Jan 2023	46.9	48.8	47.0	50.1	55.4	47.5	52.6
Dec 2022	46.2	47.8	45.3	47.0	57.8	44.2	53.0

Note: A reading higher than 50.0 indicates an increase from the previous month, and a reading lower than 50.0 indicates a decrease. The country-level data are the PMIs for individual countries as sourced from S&P Global and are not a breakdown of the JPMorgan Chase Global PMI.
Source: S&P Global; McKinsey analysis

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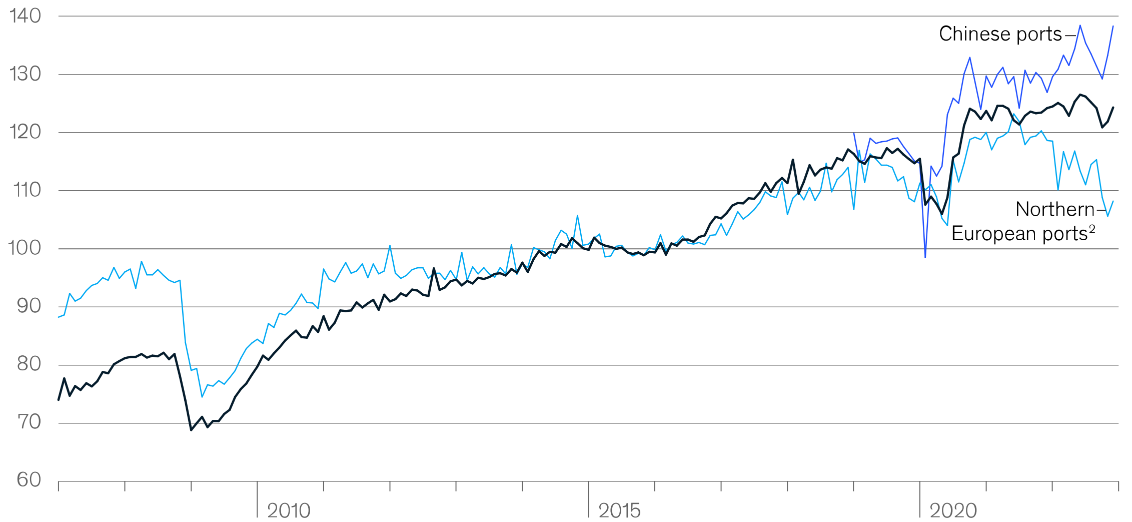
In November, world trade volumes, as measured by the CPB World Trade Monitor, decreased –2.5% from the previous month (when trade also contracted), with lower volumes in all major regions. However, the most recent available comprehensive trade data, the December release of the Container Throughput index, shows a year-end trade revival: the index reached 124.3 (121.9 in November), and both Chinese and European components improved (Exhibit 3).

Exhibit 3

The Container Throughput Index shows a year-end trade revival, including improvement in both Chinese and European ports.

RWI/ISL Container Throughput Index,[1] index (2015 = 100)



[1]The Leibniz-Institut fur Wirtschaftsforschung (RWI)/Institute of Shipping Economics and Logistics (ISL) Container Throughput Index provides timely information on short-term trends in international trade. The database covers 91 international ports, which handle about 60% of global container transshipment. The monthly data do not include figures for Dubai. Data are seasonally and working-day adjusted. The current flash estimate for the Container Throughput Index is based on data from 64 ports, which account for about 85 percent of the handling represented in the index. In Jan 2020, the RWI/ISL Container Throughput Index changed its base year to 2015.
[2]Northern European traffic is reported in the North Range Index, which summarizes throughput of the ports of Antwerp, Bremen/Bremerhaven, Hamburg, Le Havre, Rotterdam, and Zeebrugge.
Source: RWI/ISL; McKinsey analysis

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Unemployment rates in most surveyed economies remain stable and relatively low by country or region: 3.5% in the United States, 3.7% in the United Kingdom, 6.5% in the eurozone, and 8.1% in Brazil.

While producer price indexes have been going down, prices of some commodities, notably industrial and precious metals, have lately increased. The price of copper climbed 10% in the new year, as demand surges from the energy sector. Food-price inflation has moderated but is still historically high.

Inflation expectations implied in the yields of US Treasury products have declined to 2% for the medium and long term, compared with 3.5% in early 2022. In January, the yields on government bonds have been declining. Equity markets in the United States, Europe, and China have also been on an upward trajectory in the new year. The US dollar depreciated in December and January against the euro and the pound sterling (trading at $1.10 and $1.24, respectively, on February 1).

McKinsey's Global Economics Intelligence (GEI) provides macroeconomic data and analysis of the world economy. Each monthly release includes an executive summary on global critical trends and risks, as well as focused insights on the latest national and regional developments. View the full report for January 2023 here and here. Detailed visualized data for the global economy, with focused reports on selected individual economies, are also provided as PDF downloads on McKinsey.com. The reports are available for free to email subscribers and through the McKinsey Insights app. To add a name to our subscriber list, click here. GEI is a joint project of McKinsey's Strategy & Corporate Finance Practice and the McKinsey Global Institute.

ABOUT THE AUTHOR(S)

The data and analysis in McKinsey's Global Economics Intelligence are developed by **Jeffrey Condon**, a senior expert in McKinsey's Atlanta office; **Krzysztof Kwiatkowski**, an expert at the Waltham Client Capability Hub; and **Sven Smit**, a senior partner in the Amsterdam office.

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The invasion of Ukraine continues to have deep human, as well as social and economic, impact across countries and sectors. The implications of the invasion are rapidly evolving and are inherently uncertain. As a result, this document, and the data and analysis it sets out, should be treated as a best-efforts perspective at a specific point of time, which seeks to help inform discussion and decisions taken by leaders of relevant organizations. The document does not set out economic or geopolitical forecasts and should not be treated as doing so. It also does not provide legal analysis, including but not limited to legal advice on sanctions or export control issues.
