

GLOBAL ECONOMY

Crisil Insights

June 2026

The Crisil Insights Global Economy series represents our outlook on the financial scenario across the world and provides a perspective into its shape in the near future.

Pressures persist

- In June, the European Central Bank (ECB) and Bank of Japan (BoJ) hiked policy interest rates by 25 basis points (bps) each. This was the ECB's first rate hike since 2023. The BoJ hiked its policy rate from 0.75% to 1%, the highest since 1995
- In the United States (US), inflation based on the Consumer Price Index (CPI) jumped to 4.2% in May from 3.8% in April and ~1.8 percentage points above the pre-West Asia conflict level
- Following sharp rises in March and April, global commodity prices eased 5.4% on-month in May, on the back of an 8.7% fall in energy prices. However, crude oil prices remained well above the pre-conflict level

Manufacturing activity in major advanced economies remained resilient in May owing to inventory building and frontloading of purchases. The manufacturing Purchasing Managers' Index (PMI) in the US, the United Kingdom (UK) and Japan remained close to multi-year highs.

However, demand was weak, weighed down by geopolitical turbulence. Input costs continued to rise sharply, led by fuel and energy.

Services PMI softened in the US, eurozone and Japan, while entering the contractionary zone in the UK amid the conflict in West Asia.

Global supply chains continued to experience volatility, although some regions such as Asia saw a gradual improvement.

GDP heat map

GDP growth (q-o-q SA annualized %)

	Q3-24	Q4-24	Q1-25	Q2-25	Q3-25	Q4-25	Q1-26
US	3.3	1.9	-0.6	3.8	4.4	0.5	1.6
UK#	0.2	0.4	0.6	0.1	0.2	0.2	0.6
EA#	0.4	0.4	0.7	0.1	0.3	0.2	-0.2
Japan	2.7	1.4	2.0	1.1	-2.3	0.7	1.8
China	4.6	5.4	5.4	5.2	4.8	4.5	5.0

Note: #q-o-q, not annualized * y-o-y

Source: Statistical bureau, respective countries

Improvement

Declined

Unchanged

US economy

GDP forecast revised down, inflation rises

Eurozone economy

Manufacturing eases, inflation strengthens

US manufacturing PMI at a four-year high

Real gross domestic product (GDP) in the US was revised to 1.6% (annualized) in the first quarter of 2026 from the previous estimate of 2%, driven by changes in consumer spending and investments. But growth remained stronger than 0.5% in the previous quarter, led by higher government gross expenditure and investment (4.4% vs -5.6%) and exports (13.1% vs -3.2%). The S&P Global US Manufacturing PMI reached a four-year high of 55.1 in May from 54.5 in April, led by stock-building. However, demand in the US, UK and Europe was weak, weighed down by geopolitical turbulence. China and Japan, though, saw consumption rise. Input costs continued to increase, led by fuel and energy. The S&P Global US Services PMI weakened to 50.7 from 51. A sharp reduction in foreign sales and easing business confidence led to a softer services PMI reading.

Non-farm payroll employment increased 172,000 in May compared with an increase of 179,000 in April. CPI-based inflation rose to 4.2% in May from 3.8% in April and ~1.8 percentage points above the pre-conflict level in February. Energy prices surged to 23.5% from 17.9%, driven by a 40.5% rise in petrol prices. Core inflation (CPI, excluding food and energy) increased 10 bps to 2.9%, while food inflation eased 10 bps to 3%. The US trade deficit narrowed on-month to \$55.9 billion (seasonally adjusted) in April from \$56.6 billion in March as export growth (2.6% on-month) outpaced import growth (2%).

Interest rates hiked in the eurozone

In the first quarter of 2026, growth was revised to -0.2% from the previous estimate of 0.1%, the first contraction since the fourth quarter of 2022. The S&P Global Eurozone Manufacturing PMI eased to 51.6 in May from 52.2 in April. Manufacturing was impacted by the stagnant volume of new orders, softer rise in raw material purchases and increased job losses. The S&P Global Eurozone Services PMI Business Activity Index was at 47.7 vs 47.6 and stayed in the contractionary zone, with lower new business weighing on the index.

According to the flash estimate, inflation rose to 3.2% in May from 3% in April and ~1.3 percentage points higher than the pre-conflict level. Higher core inflation (CPI, excluding energy, food, alcohol and tobacco) was the primary driver (2.5% vs 2.2%), led by a rise in services inflation (3.5% vs 3%). Energy inflation inched up to 10.9% from 10.8%. In June, the ECB raised rates 25 bps, the first hike since 2023. Deposit rate stood at 2.25% and the main refinancing facility at 2.4%. The goods trade balance of the euro area recorded a deficit of €1.0 billion in April compared with a surplus of €8.7 billion a year ago.

Steady retail inflation in the UK

CPI-based inflation was steady in May at 2.8%. Food and non-alcoholic beverages inflation softened to 2.2% from 3%. Inflation in transport, which includes motor fuels, increased to 6.8% from 4.5%. Core inflation (CPI, excluding food, energy, alcohol and tobacco) inched up to 2.6% from 2.5%. The S&P Global UK Manufacturing PMI was at a four-year high of 53.9 in May compared with 53.7 in April on account of frontloading of purchases. It was above 50 for the seventh straight month. Purchasing costs rose substantially, hit by rising labor costs and taxes in addition to the impact of the West Asia conflict. In May, the S&P Global UK Services PMI entered the contractionary zone for the first time in over a year (49.3 vs 52.7). Services activity was impacted by subdued consumer spending and geopolitical uncertainties. In April, the UK's trade deficit narrowed to a seasonally adjusted £8.4 billion from £9.7 billion. Exports grew 1.1% on-month, while imports fell 0.5%.

Consumer price inflation (y-o-y %)

	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26
US	2.7	2.4	2.4	3.3	3.8	4.2
UK	3.4	3.0	3.0	3.3	2.8	2.8
EA	2.0	1.7	1.9	2.6	3.0	3.2
Japan	2.1	1.5	1.3	1.5	1.4	1.5
China	0.8	0.2	1.3	1.0	1.2	1.2

Source: Statistical bureau, respective countries

Policy interest rate (end of month %)

	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26
US	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75
UK	3.75	3.75	3.75	3.75	3.75	3.75
EA	2.0	2.0	2.0	2.0	2.0	2.0
Japan	0.75	0.75	0.75	0.75	0.75	0.75
China (1 year loan prime rate)	1.40	1.40	1.40	1.40	1.40	1.40

Source: Central bank, respective countries

Japan economy

Economy grows, manufacturing moderates

China economy

Manufacturing eases, inflation steady

BoJ hikes policy rate

Japan's economy accelerated at an annualized 1.8% in the first quarter of 2026 from 0.7% in the fourth quarter of 2025, led by a rise in private consumption and exports. Private consumption rose to 1.4% (vs 0.3%), while exports grew to 7.4% (vs 0.8%). Public investment also picked up, to 6.1% (vs -0.5%), after declining for two straight quarters. The S&P Global Japan Manufacturing PMI moderated compared with April but remained high (54.5 in May vs 55.1 in April). Output and new business remained strong on account of higher sales and inventory building. The S&P Global Japan Services PMI was at the neutral mark of 50 from 51 amid slowing new order growth. Among sub-sectors, consumer services was the worst performer.

More recently, on June 16, the BoJ hiked its policy rate by 25 bps to 1%, the highest since 1995 by a 7-1 majority. As per the provisional estimate for May, Japan's trade balance recorded a deficit of ¥378.7 billion (compared with a deficit of ¥662.5 billion in May 2025) as exports rose 17% on-year, while imports rose by a softer 12.5%.

China's services activity surges

The S&P Global RatingDog China General Manufacturing PMI eased to 51.8 in May from 52.2 in April. Demand continued to rise, albeit at a softer pace compared with April. Input costs continued to increase at a faster-than-average pace, given higher energy and raw material costs and supply chain disruptions. The RatingDog China General Services PMI rose to 54.4 from 52.6, driven by higher demand for services.

Inflation remained at 1.2% in May as a sharper fall in food prices (-1.7% in May vs -1.6% in April) offset the rise in non-food inflation (1.9% vs 1.8%). The People's Bank of China maintained the seven-day repurchase rate at 1.4% and the one-year loan prime rate at 3% in May. China's trade surplus widened to \$105.4 billion in May compared with \$102.7 a year ago. GDP growth in China accelerated to 5% on-year in the first quarter of 2025, up from 4.5% in the previous quarter.

Supply chains under pressure

The GEP Global Supply Chain Volatility Index indicated constrained supply chains across key geographies in May, especially given the conflict in West Asia and stockpiling. However, Asia and Europe saw some improvement.

The index for Asia fell to 2.96 in May from 3.79 in April but remained higher than other key geographies. The index for Europe declined to 1.43 from 1.64. On the other hand, the index for North America rose to 1.69 from 1.52.

Global commodity prices ease on-month

Following sharp rises in March and April, global commodity prices eased 5.4% on-month in May, driven by an 8.7% fall in energy prices. Brent crude oil prices eased 10.7% on-month to average \$107.5 per barrel but remained far higher than the pre-West Asia conflict level of ~\$70 per barrel. In the last week of May, prices slipped below \$100 per barrel amid hopes of easing geopolitical uncertainties. In contrast, European natural gas prices rose 4.9% to \$16.2 per million British thermal units.

Continuing their increase, non-energy prices rose 2.5%, led by agriculture and metal and mineral prices. Agriculture prices increased 2.5% with commodities such as Kolkata tea (34.6%), rapeseed oil (9.5%) and soybean oil (8%) seeing sharp increases. The rise in the price of metals and minerals was led by that of tin at 9.7%.

Fertilizer prices, a pain point among non-energy commodities since the West Asia conflict, dropped 4.3%, led by a 10.1% fall in urea prices. Prices of precious metals continued to trend downwards, with gold and platinum prices falling 2.8% and 1.4%, respectively.

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