



Overview

- Incoming data point to solid but moderating global activity in the second quarter.
- Resurgences of new COVID-19 cases continue to hinder the recovery across many EMDEs, especially in East Asia and Pacific and in Sub-Saharan Africa.
- Financing conditions, while still benign, have tightened in EMDEs amid worsening pandemic trends and uncertainty about the path for monetary policy in advanced economies.

Chart of the Month

- Daily new COVID-19 cases have crept up in July and hit their highest level since late May, largely reflecting the global spread of the Delta variant.
- Number of new COVID-19 deaths has diverged in July, as countries with higher vaccination experience falling deaths while those with lower vaccination grapple with an uptick.
- Vaccination remains highly uneven, with more than 50 percent of the population in advanced economies having received at least one dose by mid-July, in contrast to around 1 percent in low-income countries (LICs).

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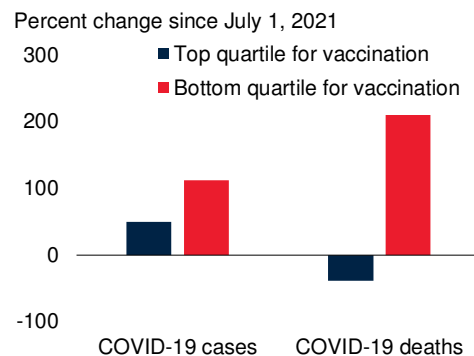
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Global daily new COVID-19 cases and deaths, by vaccination progress



Source: Our World in Data (database); World Bank.

Note: Countries with above (below) vaccination are those where the share of the population fully vaccinated against COVID-19 is in the top (bottom) quartile of the sample. Aggregates calculated using a simple average. Sample includes 54 countries. Last observation is July 21, 2021.

Special Focus: Emerging Inflationary Pressures—Cause for Alarm?

- Inflation has risen above pre-pandemic levels globally, at a faster pace than after previous global recessions.
- A plunge in aggregate demand during the pandemic contributed significantly to global inflation developments.
- While inflation pressures are expected to abate beyond 2021, high inflation in the short term may complicate policy choices, especially in those EMDEs that rely on highly accommodative domestic policies to ensure a durable recovery.

The Global Monthly is a publication of the Prospects Group. This edition was prepared by Lucia Quaglietti and Collette Wheeler under the supervision of Carlos Arteta, based on contributions from Justin-Damien Guénette, Jongrim Ha, Osamu Inami, Sergiy Kasyanenko, Peter Nagle, Franz Ulrich Ruch, Shijie Shi, Kaltrina Temaj, Ekaterine Vashakmadze, Dana Vorisek, and Jingran Wang. This Global Monthly reflects data available up to July 21. For more information, visit: www.worldbank.org/prospects. Back issues of this report [are available since 2008](#).



Monthly Highlights

Global activity: plateauing. Incoming data point to robust but moderating global activity in the second quarter. While the global composite PMI slowed to 56.6 in June, down from 58.5 in May, it was among the strongest recorded in over 15 years. The services PMI continued to outpace its manufacturing counterpart in June, reaching 57.5—the second sharpest rate of expansion since mid-2007. The expansion in the manufacturing PMI, while still solid, edged down to a four-month low, partly reflecting renewed softness in some large EMDEs. While the composite PMI index signaled positive growth for 80 percent of advanced economies in the second quarter, only about 60 percent of EMDEs registered expansions (figure 1.A). Inflationary pressures have built alongside the recovery in activity. However, survey data point to a deceleration in EMDE inputs prices in June, amid softening prices in China (figure 1.B).

Global trade: robust despite bottlenecks. The recovery in global activity has been accompanied by a sustained increase in global trade. Global goods trade volumes expanded further in April, reaching 9.5 percent above the pre-crisis level. Survey data point to some softening at the end of the second quarter, however, with the manufacturing PMI for new export orders slowing to 53.2 in June after increasing for 12 consecutive months. Manufacturing trade continues to be constrained by supply bottlenecks. In recent weeks, existing supply bottlenecks have been compounded by backlogs of vessels waiting at the Port of Yantian in Shenzhen, one of the largest container ports in China and home to 5 percent of global freight capacity (figure 1.C). The closure was triggered by a COVID-19 outbreak among dockworkers that significantly curtailed operations. While terminals operations have restarted, clearing the bottleneck will likely take several weeks.

Global financing conditions: diverging across advanced economies and EMDEs. In advanced economies financing conditions remain broadly accommodative. However, market volatility has emerged amid increasing uncertainty about the strength of the recovery. In July, advanced economies equity valuations remained at historically high levels but spreads on corporate borrowers have inched up somewhat. Meanwhile, 10-year U.S. Treasury yields have fallen below 1.3 percent for the first time since February, down 20 basis points since the start of July amid signs of moderating activity and fears over the global spread of the Delta variant. In EMDEs, financing conditions have tightened further since mid-June (figure 2.A). Despite falling U.S. interest rates and robust EMDE bond issuance, EMDE credit spreads have widened in July, reflecting policy rate

FIGURE 1.A Share of countries with expanding composite output PMI

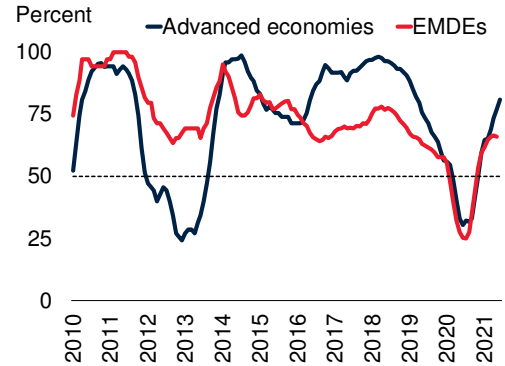


FIGURE 1.B PMI composite input prices index

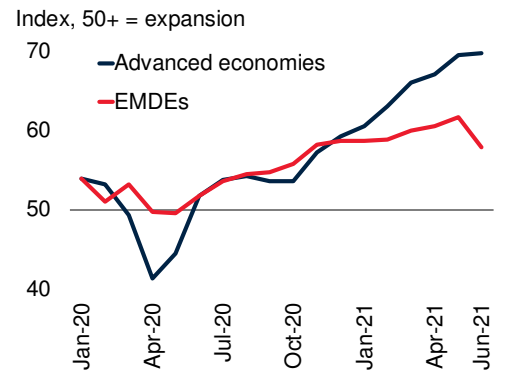
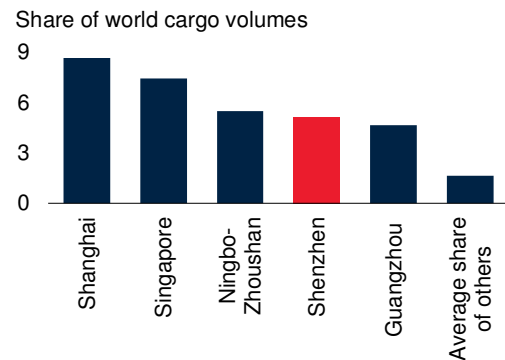


FIGURE 1.C Largest global container ports, by cargo capacity



Sources: Haver Analytics; World Bank, World Shipping Council.

Note: EMDEs = emerging markets and developing economies; Purchasing Managers' Index = PMI.

A. Figure shows the share of countries where the output component of the composite PMI is above 50 (economic expansion). Sample includes 23 advanced economies and 29 EMDEs. Last observation is June 2021.

B. Figure shows the composite PMI for input prices. PMI readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is June 2021.

C. Ports are ranked according to volumes of cargo capacity expressed in volumes (twenty-foot equivalent millions). Data are as of 2018.



hikes in some cases (Brazil, Mexico, Russian Federation). Pandemic setbacks and country-specific risks have also continued to push up spreads and borrowing costs, and to weaken domestic currencies in some EMDEs. After a modest rebound in early June, portfolio outflows from EMDEs have resumed on expectations of sooner than anticipated policy normalization in the United States and a broader decline in risk sentiment.

Commodity markets: partial pullback. Agriculture and metal prices eased slightly in June, their first monthly decline in more than a year, while energy prices continued to rise. The price of Brent crude oil averaged \$73/bbl in June, its highest monthly level since 2018. Oil prices have been lifted by a recovery in oil demand—the International Energy Agency estimates that demand rose by 3.2 million barrels per day (mb/d) in June to 96.8 mb/d and expects the recovery to continue in 2021H2 (figure 2.B). In July, a disagreement among OPEC and its partners on future production quotas saw oil prices rising above \$77/bbl. On July 18th, the group reached a new agreement under which oil production is set to increase by 400,000 barrels per day each month from August. Oil prices declined sharply following the announcement to below \$70/bbl. Base metal prices eased slightly in June, on average, led by copper which fell 5 percent (m/m). The decline was due in part to an announcement by China that it would begin to sell metals from state stockpiles in response to concerns of shortages. Some agricultural prices saw a slight increase in the first half of July following strong import data from China and worsening weather conditions in the United States.

United States: reopening continues. Reopening is proceeding apace in the United States despite a nascent increase in new COVID-19 cases in July. In May, data pointed to a continued shift in consumption away from goods and toward services such as accommodations and air travel (figure 2.C). In June, despite the addition of 850,000 new jobs, the pace of recovery softened a bit, with the services PMI declining from 70.4 to a still very strong level of 64.6. Industrial production also edged down to 0.4 percent (m/m) in June. Headline and core CPI inflation rose to 5.4 percent and 4.5 percent (y/y), respectively, in June. Although such levels far exceed the Federal Reserve’s target of 2 percent, many Fed officials generally view the recent increase as largely temporary.

Other advanced economies: diverging paths. Activity in the euro area likely strengthened in June, boosted by the earlier relaxation of mobility restrictions and an accelerated vaccine rollout—nearly 55 percent of the population of the European Union had received at least one dose by mid-July. The composite PMI increased from

FIGURE 2.A Financing conditions in advanced and EMDEs

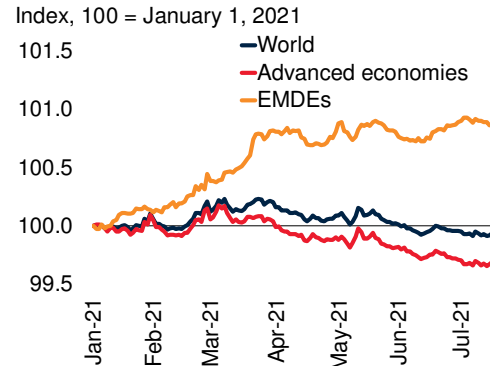


FIGURE 2.B Global oil demand

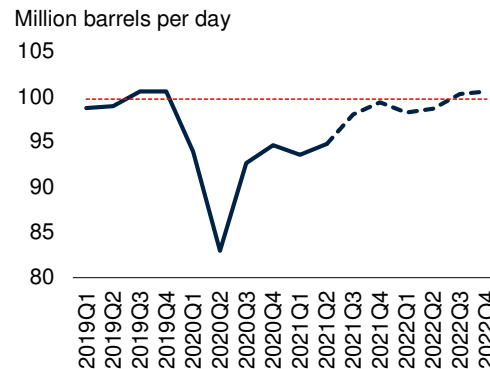
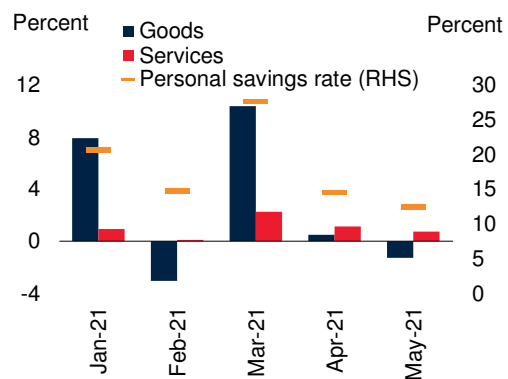


FIGURE 2.C U.S. personal consumption expenditure in goods and services and savings rate



Sources: Bloomberg, Federal Reserve Bank of St. Louis; Goldman Sachs; International Energy Agency (IEA); Our World in Data (database); World Bank.
Note: EMDEs = emerging market and developing economies.
A. Based on Goldman Sachs country-specific financial conditions indexes, which track borrowing costs, exchange rates, and equity valuations. GDP-weighted aggregates are calculated using 2021 GDP measured at average 2010-19 prices and market exchange rates. Sample includes 10 advanced economies, the euro area, and 14 EMDEs (excluding China). A reading above 100 indicates tightening of financial conditions. Last observation is July 16, 2021.
B. Dashed blue line indicates IEA July 2021 forecast for oil demand. Dashed red line indicates oil demand in 2019.
C. Last observation is May 2021.



57.1 in May to 59.5 in June, its highest since 2006. Much of the strength reflected a marked pickup in services, with its PMI index strengthening from 55.2 to 58.3 (figure 3.A). In **Japan**, despite a notable increase in vaccination rates, business sentiment remained subdued, with the June services PMI remaining in contractionary territory at 48.0. More recently, a recent spike in new COVID-19 cases in Tokyo prompted authorities to declare a fourth state of emergency, banning spectators from attending the city's Olympic games.

China: moderating recovery. Incoming data point to a continued recovery in China, albeit at a more modest pace. GDP growth slowed to a still strong 7.9 percent (y/y) in 2021Q2. In June, industrial production growth decelerated to 8.3 percent (y/y) and retail trade growth moderated to a solid 12.1 percent (y/y). Fixed-asset investment growth also slowed to 12.6 percent (y/y) in the first six months of 2021. High-frequency indicators point to a continued moderation of activity, with the official manufacturing production and services PMIs edging down to 50.9 and 53.5, respectively in June (figure 3.B). Labor market conditions have stabilized, with the survey-based urban unemployment rate remaining at 5.0 percent. Almost half of the population in China has received at least one dose of a COVID-19 vaccine by late-June. Broader restrictions, however, remain in place in response to localized outbreaks of the more transmissible Delta variant. The People's Bank of China implemented a 50bps cut to the reserve requirement ratio, effective on July 15th, and the government pledged to accelerate infrastructure and social investment in 2021H2.

Other EMDEs: continued disruptions from the pandemic. Resurgences of new COVID-19 cases and related mobility restrictions have dampened the recovery across many EMDEs in 2021Q2 and into 2021Q3 (figure 3.C). This was most evident in East Asia and Pacific and Sub-Saharan Africa. Industrial activity faltered in June, with the manufacturing PMI in several economies edging down (*Indonesia, South Africa*), falling back into contraction (*India, Malaysia, the Russian Federation, Vietnam*), or continuing to shrink (*Mexico, Thailand*). Consumer confidence fell in 2021Q2 in some EMDEs, reflecting tighter lockdown measures or extended restrictions (*Argentina, South Africa*). In some other EMDEs, activity appears to be stabilizing, with the manufacturing PMI expanding in June as new orders benefit from improving sentiment related to a pickup in COVID-19 vaccination or easing lockdown restrictions (*Brazil, Poland, the Philippines*).

FIGURE 3.A Euro area services PMIs

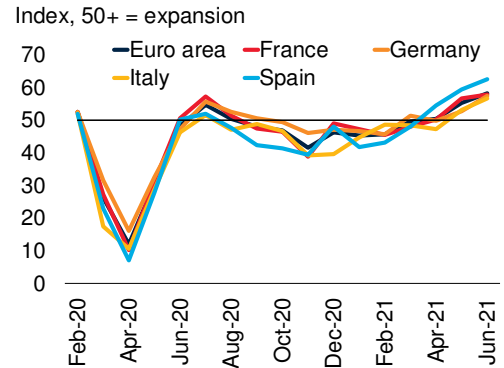


FIGURE 3.B China GDP growth

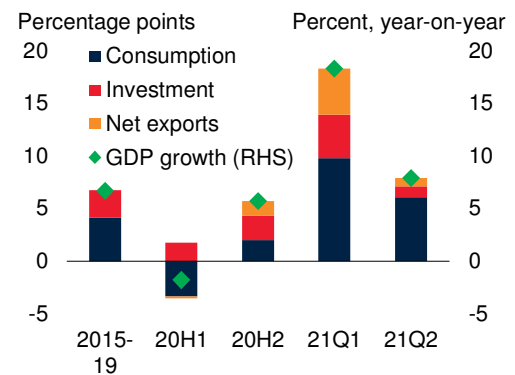
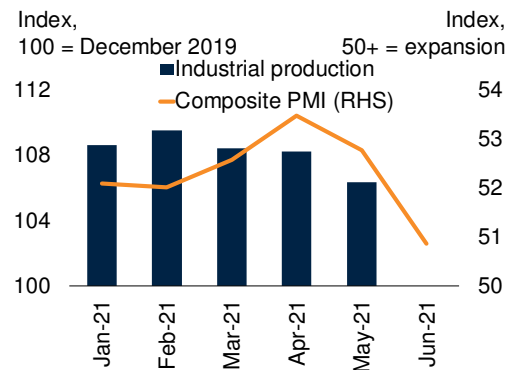


FIGURE 3.C EMDE industrial production and composite PMI



Sources: Haver Analytics; World Bank.

Note: EMDEs = emerging market and developing economies. Purchasing Managers' Index (PMI) readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction.

A. Last observation is June 2021.

C. Last observation is June 2021 for the composite PMI and May 2021 for industrial production.



Special Focus: Emerging Inflationary Pressures—Cause for Alarm?

The COVID-19 pandemic plunged the global economy into its deepest recession since World War II. Between January and April 2020, global inflation declined by 0.9 percentage point amid a collapse in demand and plunging oil prices (figure 4.A). Since May 2020, however, global inflation has picked at a faster pace than after previous global recessions (figure 4.B). By April 2021, global inflation had risen above pre-pandemic levels globally, in advanced economies and in EMDEs. Analysis in the June [Global Economic Prospects](#) report suggests that inflation will increase further in 2021 and then moderate as global activity slows. Long-term inflation expectations remain well anchored, but a more persistent increase in inflation than expected could risk the de-anchoring of inflation expectations.

Several forces are likely to have determined inflation paths during the pandemic. Early in the pandemic, lockdowns disrupted economic activity, especially in services sectors. Lockdowns and weaker consumer confidence triggered a collapse in aggregate demand along with global trade. In addition, between late-January and mid-April 2020 oil prices plunged by more than 60 percent as lockdowns disrupted transport and travel, which account for two-thirds of global energy consumption. Oil prices recovered from May 2020 onwards and are well above pre-pandemic levels. In some countries, supply disruptions affected domestic food supply chains, increasing wholesale and retail markups, and contributed to rising food price inflation. Moreover, for EMDEs, global shocks were in part channeled into domestic inflation rates through exchange rate movements. Larger depreciations, especially during the period of financial market stress in March to April 2020, were a key source of inflationary pressures in EMDEs (figure 4.C).

Model-based estimates indicate that weak demand was the most important driver of falling inflation in 2020. The role of demand, supply, and oil prices factors are estimated in a factor-augmented vector autoregression (FAVAR) model that consists of global inflation, global output growth, and oil prices. The results suggest that the decline in global inflation from January to May 2020 was four-fifths driven by the collapse in global demand and another one-fifth driven by plunging oil prices, with some offsetting inflationary pressures from supply disruptions (figure 5.A). This contrasts with the 2009 global recession, during which a 13-month decline in global inflation was three-fifths driven by plunging oil prices and only one-third driven by falling global demand. Developments after the two global recessions resembled

FIGURE 4.A CPI headline inflation

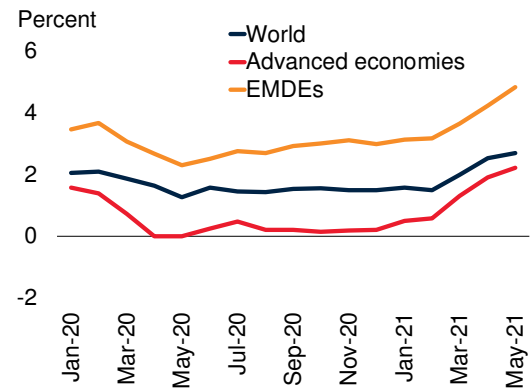


FIGURE 4.B Global inflation in 2008-10 and 2020-21

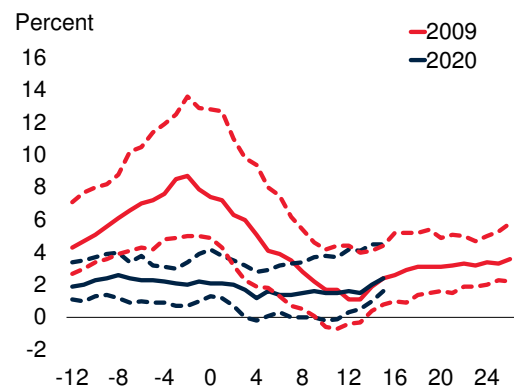
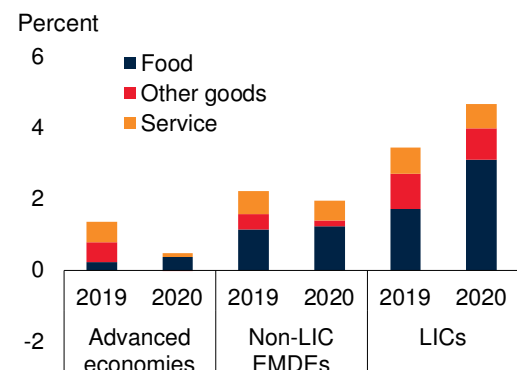


FIGURE 4.C Sectoral contribution to headline CPI inflation: 2019-20



Source: Consensus Economics; Ha, Kose, and Ohnsorge (2019); Haver Analytics; IMF International Financial Statistics; World Bank.
A. Median of year-on-year headline consumer price index (CPI) inflation in a sample of 31 advanced economies and 50 EMDEs.
B. Blue and red lines are medians, dotted lines are interquartile ranges. t=0 is September 2008 for 2009 and January 2020 for 2020.
C. Aggregates are calculated using cross-country medians.



each other: both were driven by sharp rebounds in global demand.

Inflation is expected to generally remain within targets in 2021, but to moderate afterwards. Conditional forecasts based on the FAVAR estimation point to a 1.4 percentage point increase in global inflation between 2020 and 2021 (figure 5.B). Survey-based inflation expectations point to a 1-percentage-point increase in 2021 (figure 5.C). For virtually all advanced economies and one-half of inflation-targeting EMDEs, an increase of this magnitude would leave inflation within target ranges. Even for the one-half of inflation targeting EMDEs where it would raise inflation above those ranges, this increase may be temporary and not warrant a monetary policy response as long as inflation expectations remain well-anchored. Inflation should moderate beyond 2021 as global growth settles at a lower level, commodity prices stabilize, and supply bottlenecks ease. Long-term expectations also point to continued low and stable inflation. However, several structural forces—such as demographic changes and expanding global supply chains—that have depressed inflation over the past five decades are beginning to fade. As they recede, increases in short-term inflation may become more persistent and de-anchor long-term inflation expectations.

Persistently high inflation might lead financial markets to reassess prospects for continued accommodative monetary policies by major central banks. This could trigger a significant rise in risk premia and borrowing costs. EMDEs are particularly vulnerable to such financial market disruptions because of record-high debt and a lagging economic recovery from the pandemic. In the event of financial market stress, sharp exchange rate depreciations and capital outflows may force EMDEs to abruptly tighten policies in a manner that could throttle the recovery. In addition, depending on cyclical conditions, policymakers need to carefully calibrate monetary and fiscal policies. For example, in inflation-targeting EMDEs with large economic slack and below-target inflation, monetary easing and fiscal support can help the recovery gain traction and raise inflation towards the target. In EMDEs where the economic recovery from the pandemic is further advanced, a more nuanced design of monetary policy will likely be necessary.

Effective central bank communication remains key to contain risks associated with rising inflation. Central banks' response has been instrumental in dampening the COVID-19 shock. Going forward, communication will be even more closely scrutinized in light of concerns over inflationary pressures.

FIGURE 5.A Contributions to monthly change in global headline CPI inflation in 2020-21

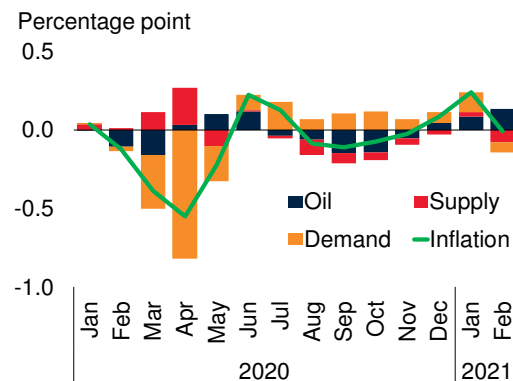


FIGURE 5.B Model-based inflation expectations for 2021

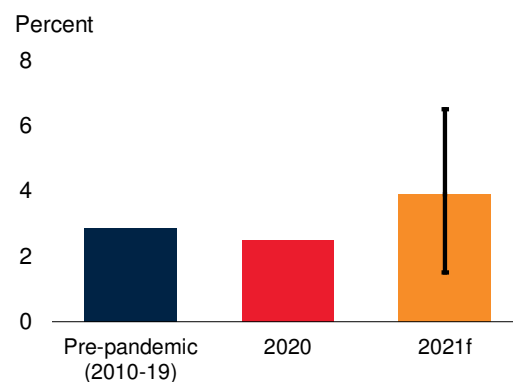
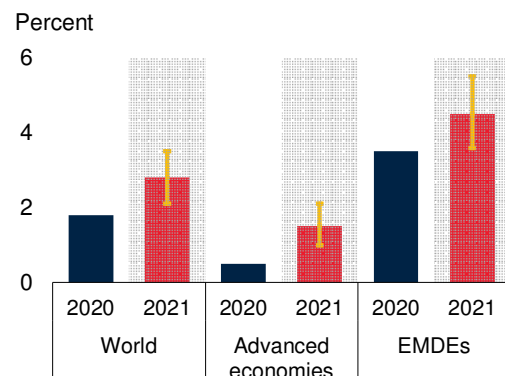


FIGURE 5.C Survey-based forecast of global headline inflation for 2021



Sources: Consensus Economics; Ha, Kose, and Ohnsorge (2019); Haver Analytics; IMF International Financial Statistics; World Bank.
A. Calculated using factor-augmented vector autoregression (FAVAR) estimation for 31 advanced economies and 50 EMDEs.
B. Conditional forecast of global inflation obtained from FAVAR model. Vertical line indicates 16-84 confidence bands.
C. Average inflation expectations calculated from May 2021 surveys in 31 advanced economies and 26 EMDEs. Yellow whiskers indicate maximum and minimal responses.



Recent Prospects Group Publications

- [Global Economic Prospects - June 2021](#)
- [The Long Shadow of Informality: Challenges and Policies](#)
- [Commodity Markets Outlook - April 2021](#)
- [Global Economic Prospects - January 2021](#)
- [Global Productivity: Trends, Drivers, and Policies](#)
- [Commodity Markets Outlook - October 2020: Persistence of commodity shocks](#)
- [Global Waves of Debt: Causes and Consequences](#)

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- [Climate Change Budget Tagging: A Review of International Experience](#)
- [Supply Chain Finance by Development Banks and Public Entities](#)

TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: June 27, 2021 - July 26, 2021					
Country	Date	Indicator	Period	Actual	Previous
Germany	6/29/21	CPI	JUN	2.4%	2.4%
South Africa	6/29/21	GDP	Q1	-3.2%	-4.2%
Canada	6/30/21	IP	APR	18.3%	2.3%
United Kingdom	6/30/21	GDP	Q1	-6.1%	-7.3%
Indonesia	7/1/21	CPI	JUN	1.3%	1.7%
South Korea	7/1/21	CPI	JUN	2.4%	2.6%
Russian Federation	7/2/21	GDP	Q1	-0.7%	-1.8%
Turkey	7/5/21	CPI	JUN	17.5%	16.6%
Russian Federation	7/7/21	CPI	JUN	6.5%	6.0%
Brazil	7/8/21	CPI	JUN	8.3%	8.1%
Italy	7/9/21	IP	MAY	21.2%	77.8%
India	7/12/21	CPI	JUN	6.3%	6.3%
France	7/13/21	CPI	JUN	1.5%	1.4%
China	7/14/21	GDP	Q2	7.9%	18.3%
Japan	7/14/21	IP	MAY	19.8%	14.6%
Saudi Arabia	7/14/21	CPI	JUN	6.2%	5.7%
Euro area	7/16/21	CPI	JUN	1.9%	2.0%
China	7/19/21	GDP	Q2	7.9%	18.3%
South Africa	7/21/21	CPI	JUN	5.1%	5.2%
Russian Federation	7/22/21	IP	JUN	10.5%	12.4%
Japan	7/25/21	CPI	JUN	0.2%	-0.1%

(Percent change y/y)

Upcoming releases: July 27, 2021 - August 26, 2021				
Country	Date	Indicator	Period	Previous
Australia	7/27/21	CPI	Q2	1.0%
Canada	7/28/21	CPI	JUN	3.5%
Euro area	7/30/21	GDP	Q2	-4.7%
Germany	7/30/21	GDP	Q2	-3.3%
Italy	7/30/21	GDP	Q2	-6.5%
Spain	7/30/21	GDP	Q2	-8.9%
South Korea	8/2/21	CPI	JUL	2.4%
Indonesia	8/5/21	GDP	Q2	-2.2%
Germany	8/6/21	IP	JUN	17.2%
Mexico	8/6/21	CPI	JUL	5.9%
Germany	8/11/21	CPI	JUL	2.4%
Mexico	8/11/21	IP	JUN	36.4%
United States	8/11/21	CPI	JUL	5.3%
Euro area	8/12/21	IP	JUN	20.6%
India	8/12/21	IP	JUN	29.3%
France	8/13/21	CPI	JUL	1.5%
Poland	8/13/21	GDP	Q4	-2.7%
Japan	8/15/21	GDP	Q2	-1.0%
Thailand	8/16/21	GDP	Q2	-4.2%
United Kingdom	8/18/21	CPI	JUL	2.5%
Japan	8/19/21	CPI	JUL	0.2%