WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

# Global Monthly

November 2021

## Overview

- Global activity is firming despite a nascent resurgence of COVID-19 and continued supply bottlenecks.
- High-frequency indicators point to an improvement in the United States and several commodity-exporting EMDEs, but to moderation in the euro area and Central and Eastern Europe.
- Rising inflation pressures have yet to materially weigh on global financial conditions.

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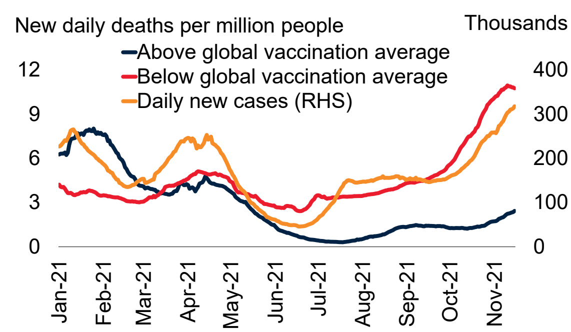
## Chart of the Month

- COVID-19 cases increased sharply across Europe in recent weeks, fueled by widespread surges in Central and Eastern Europe, the United Kingdom, and the euro area.
- Pandemic fatalities have diverged across countries, reflecting significant heterogeneity in the pace of vaccination.
- Some governments in Europe have imposed strict lockdowns, while others are considering introducing strict restrictions aimed at the unvaccinated.

**New COVID-19 cases and deaths in Europe**




*Sources*: Our World in Data (database); World Bank
*Note*: Figure shows 7-day moving average of daily new deaths per million people and daily new cases. Last observation is November 15, 2021.

## Special Focus: Informality, Poverty and Income Inequality

- Informality is associated with significantly higher poverty and income inequality and less effective fiscal policies.
- Informality, poverty, and inequality may interreact through various channels, including systematically higher wages in the formal sector, lower tax revenues, less government spending on essential public services, and weaker social safety nets.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Justin Damien Guenette, Lucia Quaglietti, and Sergiy Kasyanenko under the supervision of Carlos Arteta, based on contributions from Osamu Inami, Dhruv Gandhi, Peter Nagle, Lorez Qehaja, Franz Ruch, Kaltrina Temaj, Shijie Shi, Ekaterine Vashakmadze, Dana Vorisek, and Collette Wheeler. This *Global Monthly* reflects data available up to November 16th 2021. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

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## Monthly Highlights

**Global activity: improving sentiment**. Global activity rose in October, supported by a rebound in services activity. An indicator of global economic conditions summarizing a wide range of high-frequency indicators points to improving global activity in October (figure 1.A). The global composite PMI increased to 54.5 in October from 53.3 in September, reflecting a significant improvement in the services index. In contrast, manufacturing activity appears to have lost some momentum, particularly in advanced economies. Sentiment has firmed, with the Sentix global expectations index improving in November after a steady decline over the past six months. Supply disruptions, however, persist and have led to a further increase in inflation. Pressures on input costs are being passed through to output prices, contributing to market projections for elevated inflation through 2022 (figure 1.B).

**Global trade: continued slowdown.** High frequency indicators point to a decline in global trade growth at the start of the fourth quarter. The PMI manufacturing new export orders index slowed to 50.6 in October from 51.0 in September—its lowest level since January 2021. Developments continue to be mixed across sectors. Global goods trade growth has slowed from its peak in March 2021 but it remains firmly above the pre-pandemic level. Services trade, which has recovered since the start of the year, remained 6 percent below its pre-pandemic level in August. Following improvement in September, supply disruptions appear to have worsened again in October, with the PMI supply delivery time index reaching an all-time high. Meanwhile, inventory levels remain below pre-pandemic level and the backlog of orders has surged, especially in advanced economies given their downstream position in the global value chain (figure 1.C).

**Global financing conditions: record-high equity valuations**. In November, global financing conditions remained broadly accommodative, with equity valuations in advanced economies climbing to all-time highs. In contrast, financing conditions continued to tighten in EMDEs, with more central banks raising rates in November as inflation pressures persisted. Long-term interest rates in advanced economies continued to increase following the Federal Reserve's decision to begin tapering asset purchases in November amid record-high inflation rates. Fixed-income volatility remained elevated, in sharp contrast to that of equities (figure 2.A). Whereas corporate credit spreads in advanced economies stood at post-pandemic lows, EMDE sovereign credit spreads remained elevated in November. EMDE international bond issuance cooled somewhat in October as rising borrowing costs reduced supply, and portfolio outflows

**FIGURE 1.A Global activity indicator**

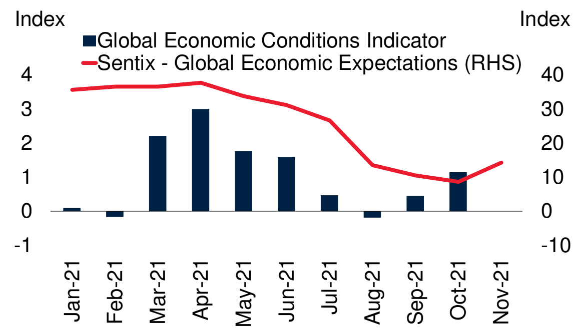



**FIGURE 1.B Global Consensus inflation forecasts**

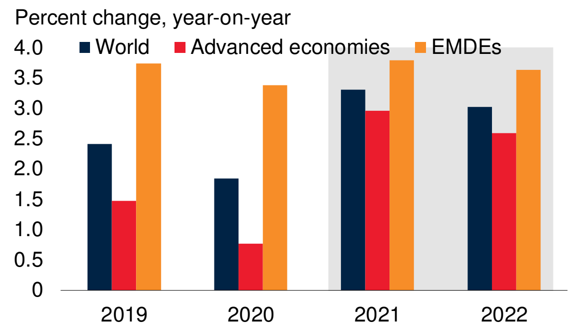
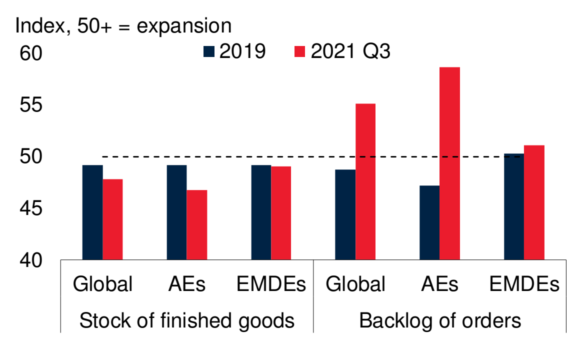



**FIGURE 1.C Indicators of supply bottlenecks**




*Sources*: Baumeister, Korobilis, and Lee (2020); Consensus Economics; Haver Analytics; Oxford Economics; World Bank.

*Note*: EMDEs = emerging market and developing economies; AEs = advanced economies.

A. Positive Sentix values indicate improvement. Global Economic Conditions indicator is Baumeister-Korobilis-Lee indicator as described in Baumeister, C., D. Korobilis, and T.K. Lee (2020), "Energy Markets and Global Economic Conditions," Review of Economics and Statistics, forthcoming.

B. As per Consensus Economics report, figure includes 21 advanced economies and 38 EMDEs. World CPI is aggregated using 2020 Market Exchange Rates. Shaded areas indicate Consensus Economics forecasts.

C. PMI readings above 50 indicate expansion in backlog of orders and stock of finished goods; readings below 50 indicate contraction. Last observation is October 2021.

from EMDEs accelerated in late October and early November. The Turkish lira weakened sharply on expectations of further interest rates cuts, triggering a broader sell-off of major EMDE currencies.

**Commodity markets: volatile energy prices**. Energy prices continued to soar in October, while non-energy prices rose modestly. After having reached a seven-year high of $86/bbl at the end of October, Brent crude oil prices modestly declined to $82/bbl as of mid-November. However, after reaching all-time highs, European natural gas prices and Australian coal prices declined sharply at the start of November as coal production in China rose and Russia indicated it would start exporting more natural gas to Europe (Figure 2.B). At their November meeting, OPEC+ reaffirmed their decision to maintain rather than accelerate planned production increases, despite requests from the United States and other oil-importing countries to increase output. Metal prices rose 4 percent (m/m) in October, with the largest increase in zinc prices (11 percent), boosted by higher energy prices. High energy prices also contributed to fertilizer prices rising by almost a quarter last month. In contrast, aluminum and zinc prices fell in November alongside the decline in coal prices. Agriculture prices saw small increases in October, led by edible oils such as palm oil (11 percent) and soybean oil (6 percent).

**United States: solid momentum in services**. Growth decelerated sharply from 6.7 percent (q/q saar) in Q2 to 2 percent in Q3, below market expectations for a 2.7 percent increase. Much of the slowdown reflected deep contractions in goods consumption and fixed investment (figure 2.C). Incoming data point to a steady recovery in services activity and resilient momentum in goods consumption despite rising prices. The services PMI rose from 54.9 to 58.4 in October, while retail sales and industrial production expanded by a stronger-than-expected 1.7 percent (m/m) and 1.6 percent, respectively. In that month, 531,000 jobs were added, and employment estimates for August and September were revised up by a combined 235,000. Meanwhile, inflation continued to surge in October, with headline inflation reaching 6.2 percent (y/y)—its highest rate in over 30 years. In early November, the FOMC announced the tapering of asset purchases amid "substantial further progress" in achieving its goals, while Congress passed a long-awaited infrastructure package worth $1.2 trillion (5.6 percent of GDP) over 10 years.

**Other advanced economies: divergence**. Growth in the euro area picked up to a remarkably strong 9.3 percent (q/q saar) pace in Q3. More recently, however, survey data point to slowing momentum, held back by persistent supply chain disruptions, rising energy prices, and a resurgence of COVID-19. In

**FIGURE 2.A Equity and bond volatility**

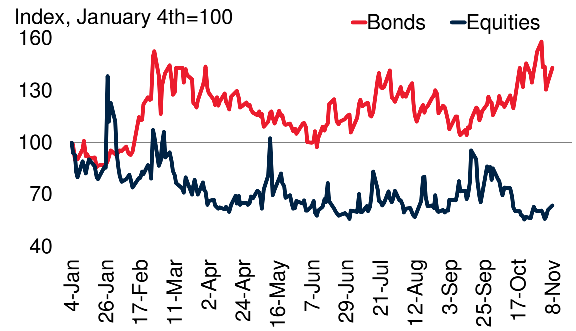



**FIGURE 2.B Changes in energy and metals prices**

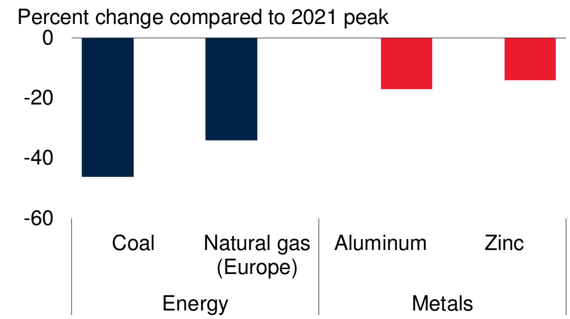
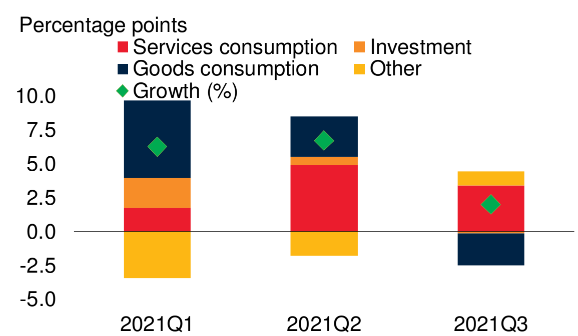



**FIGURE 2.C U.S. growth decomposition**




*Sources*: Bloomberg; Bureau of Economic Analysis; World Bank.

A. Equity volatility is the Chicago Board Options Exchange's CBOE Volatility Index (VIX); Bond volatility is Merrill Lynch Option Volatility Estimate (MOVE) that tracks the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries. Last observation is November 8, 2021.

B. Daily data, last observation is November 16, 2021. Bars show percentage difference for each commodity of November average compared to their peak levels in 2021.

C. Bars represent contributions of goods consumption, services consumption, fixed investment, and others (change in private inventories, government consumption expenditures and gross investment, and net exports of goods and services) to percent changes in real GDP at seasonally adjusted annual rate. Diamonds represent seasonally adjusted annual rate quarterly GDP growth rate.

October, the manufacturing PMI edged down from 58.6 to 58.3, while the services PMI declined to a six-month low of 54.6 (figure 3.A). Headline inflation accelerated further from 3.4 percent (y/y) to 4.1 percent in October—the fastest pace since July 2008—with core inflation exceeding the ECB's target of 2.0 percent. In Japan, GDP plunged 3.0 percent (q/q saar) in 2021Q3 due to pandemic resurgence and supply chain disruptions. Incoming data point to a rebound in activity amid falling COVID-19 cases, with the services PMI jumping from 47.8 in September to 50.7 in October.

**China: mixed indicators.** Following a slowdown in growth from 7.9 percent (y/y) to 4.9 percent in Q3, activity indicators were mixed in October. Retail sales growth accelerated to 4.9 percent (y/y) while both Caixin and official services PMIs remained above 50. Industrial production growth rebounded to 3.5 percent (y/y) and the Caixin manufacturing PMI improved to 50.6, mainly driven by new orders. The official services PMI, however, eased to 51.6 amid a renewed COVID-19 outbreak and the official manufacturing PMI dropped to 49.2, reflecting the lingering impact of power shortages. Producer price inflation continued its steep rise in October, reaching a 26-year high of 13.5 percent (y/y; figure 3.B). The People's Bank of China reduced its net liquidity injections in October. Meanwhile, the government has allowed small and medium-sized manufacturers to defer some tax payments to help offset high production prices.

**Other EMDEs: growing divergence along COVID-19 and commodity developments.** Persistently elevated energy prices are spurring a steady improvement in activity in several commodity-exporting EMDEs—including in **Saudi Arabia** where activity expanded by its fastest pace in nearly a decade in Q3—while the recovery in commodity-importing EMDEs is progressing at a more modest pace (figure 3.C). **Mexico**'s economy, for instance, contracted by an estimated 0.2 percent (q/q) in Q3, reflecting a decline in services activity. A resurgence of COVID-19 and related restrictions hampered activity in the **Russian Federation**, with the services PMI slipping back into contraction in October. In contrast, rising manufacturing output PMIs suggest that activity has bounced back in **Indonesia**, **Malaysia**, **Thailand**, **Nigeria**, **South Africa**, and **Vietnam** amid easing COVID-19 restrictions. High-frequency data also point to a strong recovery in **India**, fueled by improving services activity. Supply disruptions and high prices continue to linger, weighing on manufacturing production in EMDEs with tight global value chain linkages (**Brazil**, **Mexico**, **Poland**). In **Brazil**, a sharp uptick in fuel and transportation prices is also contributing to rising inflation, which reached 10.7 percent (y/y) in October.

**FIGURE 3.A Manufacturing PMI in the euro area**

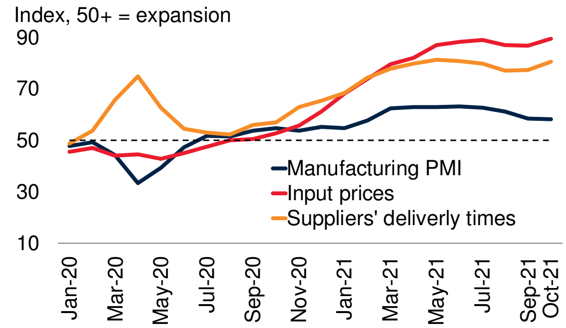



**FIGURE 3.B Inflation in China**

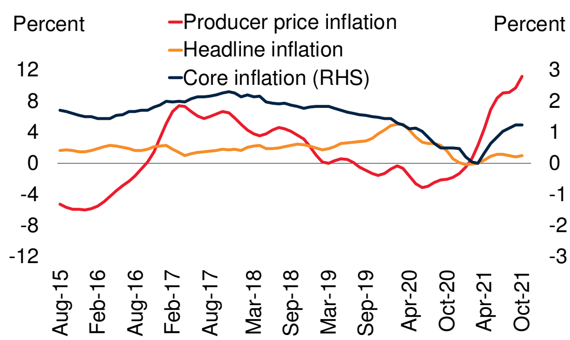
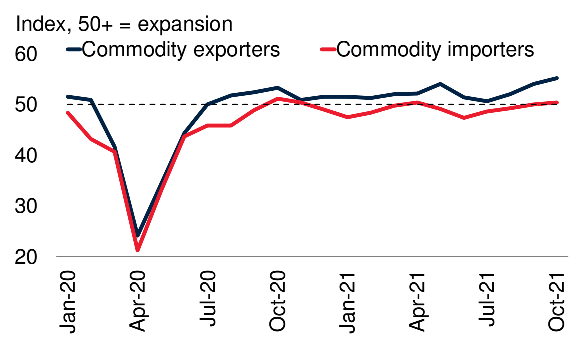



**FIGURE 3.C PMI in EMDEs**




*Sources*: IHS Markit; Haver Analytics ; World Bank.
*Note*: EMDEs = emerging market and developing economies.
A. PMI readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is October 2021.
B. Figure shows three moth moving average of year-on-year change. Core inflation is defined as CPI Excluding Food and Energy (SA, 2020 = 100). PPI includes all Industry Products (SA, 2020 = 100).
C. Last observation is October 2021.

## Special Focus: Informality, Poverty, and Income Inequality

**Informality, poverty, and inequality are closely linked in emerging market and developing economies (EMDEs).** Widespread informality is associated with persistent poverty and income inequality, as discussed in *The Long Shadow of Informality: Challenges and Policies*. On average between 1990 and 2018, more than one in four people in EMDEs with above-median informality lived below the international extreme poverty line of $1.90 per day (in 2011 U.S. dollars)—about five times as many as in EMDEs with below-median informality (figure 4.A). Between 2009 and 2018, income growth for the bottom 40 percent of the population outstripped average income growth by significantly more in EMDEs with below-median informality than in EMDEs with above-median informality.

**Informality, poverty, and inequality may interreact through various channels.** These channels include wage differentials between formal and informal workers, constraints on redistributive fiscal policies, as well as limits on growth in economies with widespread informality. Informality can also hinder poverty alleviation measures, such as income support, by failing to reach the very poorest groups, who are more likely to have informal jobs. Conversely, reducing informality may not always lead to lower poverty or income inequality in many countries, the informal sector is a critical source of income for the poorest segments of the population when the formal economy suffers economic shocks.

**More widespread informality is associated with smaller government spending envelopes.** Pervasive informality is associated with less government revenues which can constrain government ability to ensure the equitable and efficient delivery of essential public services. Government revenues in EMDEs with above-median informality were on average 5-12 percentage points of GDP below those in EMDEs with below-median informality over 2000-18 (figure 4.B). Over the same period, higher informality was also associated with significantly lower government spending, especially on education and health.

**Lower informal-sector wages can contribute to higher poverty and inequality in EMDEs with above-median informality.** On average in a large sample of countries for 1990-2011, formal workers were paid 19 percent more than informal workers. This premium largely reflects the characteristics of the workers who self-select into informal and formal employment (figure 4.C). For example, workers in the informal sector tend to be less skilled. This points to the need for policies to lift these workers' human capital and access to finance and other inputs, and thus allow them to switch into more productive formal employment.

**FIGURE 4.A Informality and poverty and income inequality**

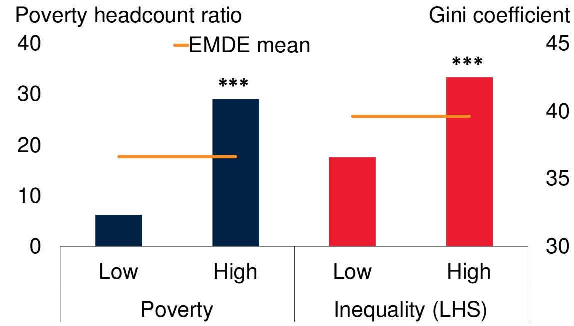



**FIGURE 4.B Differential in government revenues between EMDEs with above- and below-median informality**

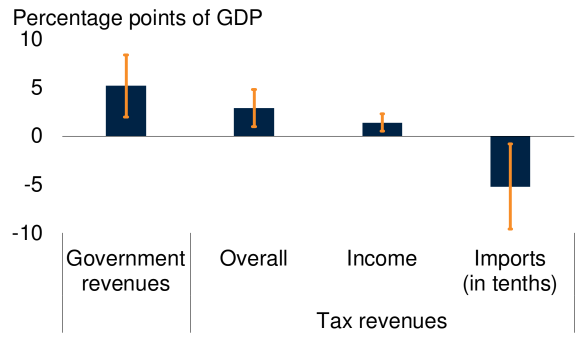
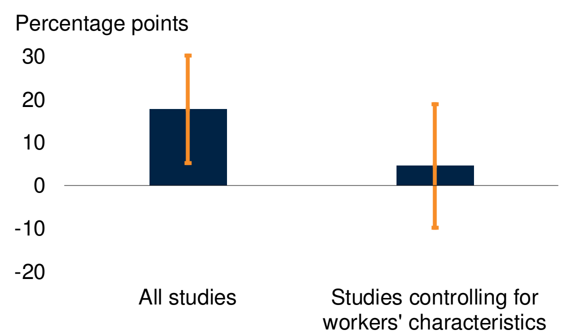



**FIGURE 4.C Informal-formal wage gaps**




*Sources*: International Monetary Fund; World Bank.

*Note*: EMDEs = emerging market and developing economies. "Poverty" refers to income below the $1.90 per day poverty line. Informality is proxied by dynamic general equilibrium (DGE)-based estimates of informal output in percent of GDP. Low/high informality indicates informality below/above median output informality. *** indicates group differences are significant (at least at 10 percent level); whiskers show the 90 percent confidence intervals.

A. Averages over the period 1990-2018 for EMDEs with high and low informality. The EMDE averages are shown in orange lines.

B. Differences in percentage points of GDP between the average fiscal indicators between EMDEs with low and high levels of informality.

C. Defined as the percent difference between average wages for formal and informal workers. A positive wage gap indicates a penalty for working informally—a lower wage for informal workers than for comparable formal workers. A negative wage gap indicates a premium for working informally—a higher wage for informal workers than for comparable formal workers. The wage premium (shown in bars) is obtained from 18 empirical studies of the wage gap between formal and informal workers for 20 countries during 1990-2011.

## Recent Prospects Group Publications

Global Economic Prospects - Forthcoming, January 2022
Commodity Markets Outlook - October 2021
The Aftermath of Debt Surges
One-Stop Source: A Global Database of Inflation
Neutral Real Interest Rates in Inflation Targeting Emerging and Developing Economies
Global Economic Prospects - June 2021
The Long Shadow of Informality: Challenges and Policies

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Fair and Welfare-Consistent Global Income Poverty Measurement: Theory and Application
The Pass-Through of International Commodity Price Shocks to Producers' Welfare: Evidence from Ethiopian Coffee Farmers
Trade Networks in Latin America: Spatial Inefficiencies and Optimal Expansions
The Intergenerational Effects of Economic Sanctions
International Reserves and Central Bank Independence
Deep Trade Agreement and Foreign Direct Investments

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International Debt Statistics 2022
The Converging Technology Revolution and Human Capital: Potential and Implications for South Asia
Equality of Opportunity for Sexual and Gender Minorities
The Trade and Climate Change Nexus: The Urgency and Opportunities for Developing Countries

## TABLE: Major Data Releases

(Percent change, y/y)

| Recent releases: October 16, 2021 - November 15, 2021 | | | | | |
|---|---|---|---|---|---|
| Country | Date | Indicator | Period | Actual | Previous |
| United States | 10/28/21 | GDP | Q3 | 4.9% | 12.2% |
| Euro area | 10/29/21 | GDP | Q3 | 3.7% | 14.2% |
| France | 10/29/21 | GDP | Q3 | 3.3% | 18.8% |
| Germany | 10/29/21 | GDP | Q3 | 2.5% | 9.9% |
| Italy | 10/29/21 | GDP | Q3 | 3.8% | 17.0% |
| Mexico | 10/29/21 | GDP | Q3 | 4.6% | 19.6% |
| Spain | 10/29/21 | GDP | Q3 | 2.7% | 17.5% |
| Indonesia | 11/4/21 | GDP | Q3 | 3.5% | 7.1% |
| Argentina | 11/9/21 | IP | SEP | 10.1% | 13.8% |
| Saudi Arabia | 11/9/21 | GDP | Q3 | 6.8% | 1.8% |
| Mexico | 11/11/21 | IP | SEP | 1.6% | 5.5% |
| United Kingdom | 11/11/21 | GDP | Q3 | 6.6% | 23.6% |
| Euro area | 11/12/21 | IP | SEP | 4.6% | 4.6% |
| India | 11/12/21 | CPI | OCT | 4.5% | 4.3% |
| Turkey | 11/12/21 | IP | SEP | 8.8% | 20.1% |
| China | 11/14/21 | IP | OCT | 3.5% | 3.1% |
| Japan | 11/14/21 | GDP | Q3 | 1.3% | 7.7% |
| Thailand | 11/14/21 | GDP | Q3 | -0.3% | 7.6% |
| Nigeria | 11/15/21 | CPI | OCT | 16.0% | 16.6% |
| Poland | 11/15/21 | CPI | OCT | 7.0% | 5.9% |
| Saudi Arabia | 11/15/21 | CPI | OCT | 0.8% | 0.6% |

(Percent change y/y)

| Upcoming releases: November 16, 2021 - December 24, 2021 | | | | |
|---|---|---|---|---|
| Country | Date | Indicator | Period | Previous |
| Euro area | 11/16/21 | GDP | Q3 | 14.2% |
| Netherlands | 11/16/21 | GDP | Q3 | 10.7% |
| Canada | 11/17/21 | CPI | OCT | 4.2% |
| Euro area | 11/17/21 | CPI | OCT | 3.4% |
| Japan | 11/18/21 | CPI | OCT | 0.2% |
| United States | 11/24/21 | GDP | Q3 | 12.2% |
| Germany | 11/25/21 | GDP | Q3 | 9.9% |
| Singapore | 11/25/21 | GDP | Q3 | 15.2% |
| Switzerland | 11/26/21 | GDP | Q3 | 7.7% |
| Australia | 11/30/21 | GDP | Q3 | 9.6% |
| India | 11/30/21 | GDP | Q3 | 20.1% |
| Italy | 11/30/21 | GDP | Q3 | 17.0% |
| Portugal | 11/30/21 | GDP | Q3 | 16.1% |
| Turkey | 11/30/21 | GDP | Q2 | 21.7% |
| South Korea | 12/1/21 | CPI | NOV | 3.2% |
| Brazil | 12/2/21 | GDP | Q3 | 12.4% |
| Japan | 12/7/21 | GDP | Q3 | 7.7% |
| South Africa | 12/7/21 | GDP | Q3 | 19.3% |
| United States | 12/10/21 | CPI | NOV | 6.2% |
| New Zealand | 12/15/21 | GDP | Q3 | 17.0% |
| Spain | 12/23/21 | GDP | Q3 | 2.7% |