



Overview

- Incoming data point to a moderation of global activity in the third quarter amid supply bottlenecks and pandemic resurgences in some major economies.
- Growth momentum is softening in the United States and in China but remains brisk in the euro-area and is firming in several other large emerging market and developing economies (EMDEs).
- A growing number of EMDEs are tightening monetary policy in response to inflationary pressures.

Chart of the Month

- Global median consumer confidence declined in recent months as a result of slowing activity and pandemic resurgence.
- This followed a brief period where global consumer confidence regained its pre-pandemic level, having recovered swiftly from the COVID-19-related plunge in early 2020.
- Although consumer confidence in advanced economies has edged down, it is still above pre-pandemic levels; in contrast, that of EMDEs remains below its pre-pandemic reading.

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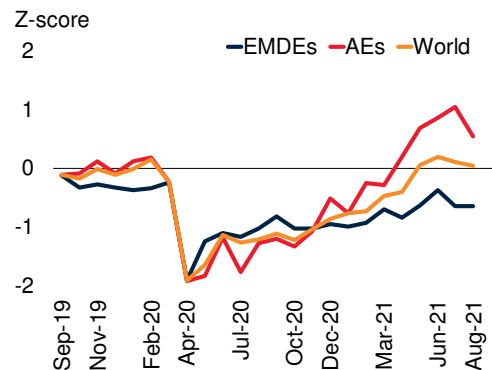
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Median consumer confidence



Sources: Haver Analytics; World Bank.
Note: Figure shows monthly median consumer confidence normalized over 2010 to 2021 period. Sample size includes 9 Advanced economies and 9 EMDEs. Last observation is August 2021.

Special Focus: High Trade Costs—Causes and Remedies

- Despite a decline over the past two decades, trade costs remain almost one-half higher in EMDEs than in advanced economies.
- Tariffs represent only a small part of trade costs; the bulk is accounted for by shipping connectivity; logistic costs; and, to a lesser extent, cumbersome border and customs processes.
- Trade costs can be lowered most effectively through comprehensive reform packages that include streamlining trade processes, enhancing domestic trade-supporting infrastructure, and curtailing corruption.

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Monthly Highlights

Global activity: slowing momentum. Incoming data point to slowing momentum in global activity amid persistent supply-chain disruptions and continued resurgences of COVID-19. The global composite output PMI index fell from 55.8 in July to 52.6 in August—a seven-months low. The decline was broad-based across the manufacturing and services sector, with the latter falling to its lowest level since February 2021. Indices of economic surprises, which measure the degree to which data are above or below market forecasts, have declined in recent months, providing further indication that the global recovery may have lost steam (figure 1.A). Meanwhile, supply pressures appear to be gradually moderating, with the global PMI index on suppliers' delivery times easing for the first time since April 2020 (figure 1.B).

Global trade: plateauing. Following a monthly contraction in May, global goods trade volumes increased by 0.5 percent (m/m) in June. PMI indices point to further softening in the third quarter, with new export orders easing to a seven-month low of 51.0 in August. Nevertheless, goods trade remains firmly above the pre-pandemic level-by about 5 percent. In contrast, services trade—particularly travel and tourism—continue to be subdued. Global value chains remain under significant strain as a result of COVID-related factory and port shutdowns, as well as logistic bottlenecks related to weather disruptions and container shortages. As a result, inventory levels have plummeted and the backlog of orders for traded goods has surged (Figure 1.C).

Global financing conditions: policy tightening broadens across EMDEs. Global financing conditions remain generally favorable. At its September meeting, the Federal Reserve discussed the possibility of scaling back asset purchases over the coming months in light of the ongoing recovery, while maintaining a dovish tone regarding the path of interest rates. In response, 10-year U.S. treasury yields edged up slightly to 1.4 percent, well below their May high. Corporate credit spreads in advanced economies remain near record low levels. A growing number of EMDEs have raised interest rates in recent months (figure 2.A). Nevertheless, long-term EMDE government borrowing costs remained broadly stable, with a notable exception of Brazil, where 10-year government bond yields jumped following a rate hike in early August. Credit spreads on EMDE sovereign bonds drifted near post-pandemic lows in August. Despite a modest uptick in late August and early September, portfolio inflows to EMDEs remained soft due to concerns about growth prospects and rising inflationary pressures in EMDEs. Stocks markets

FIGURE 1.A CITI Surprise Indices

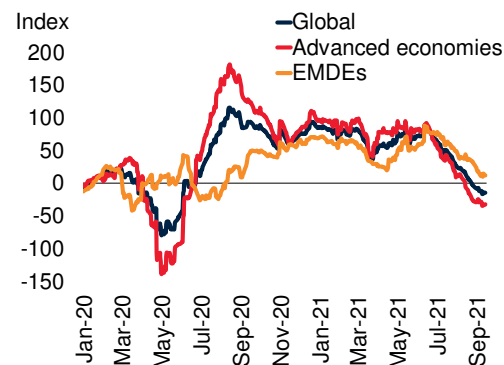


FIGURE 1.B Global input prices and supplier delivery time

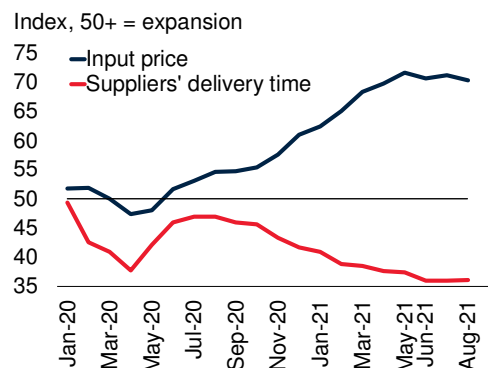
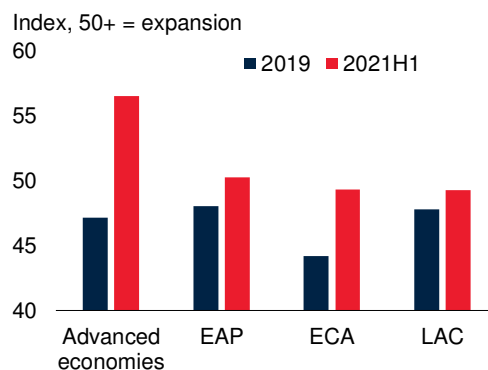


FIGURE 1.C Manufacturing PMI: backlog of orders



Sources: Citigroup; Haver Analytics; World Bank.
 Note: AEs = advanced economies; EMDEs = emerging market and developing economies; EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean.
 A. The chart shows the Citigroup's Economic Surprise Index, which measures the degree to which the data is above or below economists' forecasts. Last observation is September 13, 2021.
 B. Purchasing Managers' Index (PMI) readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is August 2021.
 C. Purchasing Managers' Index (PMI). A reading over 50 suggests a buildup in the backlog of orders.



came under pressure in September reflecting concerns about signs of financial distress at Evergrande, a major Chinese property developer. However, these concerns have ebbed, and stocks have recouped earlier losses.

Commodity markets: price swings. Agricultural prices ticked up slightly in August, while energy and metal prices declined. Brent crude oil prices fell to \$70/bbl in August owing to global demand concerns. However, oil prices recovered strongly in September amid a broader rise in energy prices and weather-related supply disruptions in the United States. The prices of natural gas and coal surged through August and September, with prices up by around 100 percent compared to the beginning of the year (figure 2.B). The increase was driven in part by unusually high seasonal demand for electricity amid higher-than-average temperatures and weak renewable energy production due to drought in some countries and low wind speeds in others. Metals prices declined 4 percent (m/m) in August, led by iron ore which fell 24 percent (m/m) on news that China would reduce steel production to curb pollution. In contrast, aluminum prices rose in August and reached a 13-year high in the first week of September as a result of supply concerns, including announced production cuts in China and a coup in Guinea. Following a sharp decline in June, agricultural prices rose in August on the back of an increase in the price of beverages and oils.

United States: pandemic resurgence weighing on growth. Growth rose to 6.6 percent (q/q saar) in 2021Q2 from 6.3 percent in 2021Q1, well below market expectations of 8.5 percent but sufficient to allow output to regain its pre-pandemic level. More recently, incoming data point to softening momentum due to a surge in COVID-19 cases and persistent supply disruptions (figure 2.C). In August, the services PMI fell 4.8 points to 55.1, while consumer confidence soured, as evidenced by the Conference Board index falling sharply from 125.1 to 113.8. The pace of recovery in the labor market also decelerated in August with 235,000 new jobs added, down from over one million new jobs added in July. Still, private consumption proved resilient, with retail sales increasing 1.8 percent (m/m) in August against expectations of a 0.8 percent decline.

Other advanced economies: divergent prospects. Euro-area growth rebounded to 9.2 percent (q/q saar) in 2021Q2, boosted by robust consumption amid a rapid vaccine rollout and easing restrictions. Survey data point to sustained momentum in the third quarter, despite some resurgence of Covid-19 cases and

FIGURE 2.A Monetary policy tightening in EMDEs

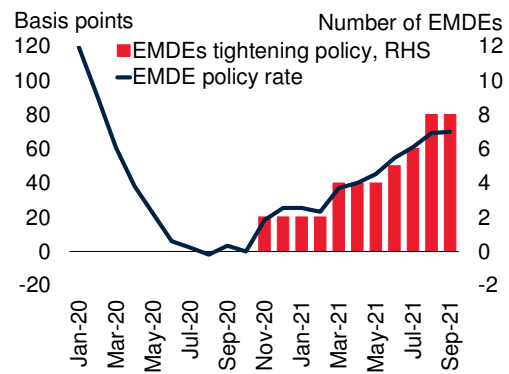


FIGURE 2.B Natural gas and coal prices

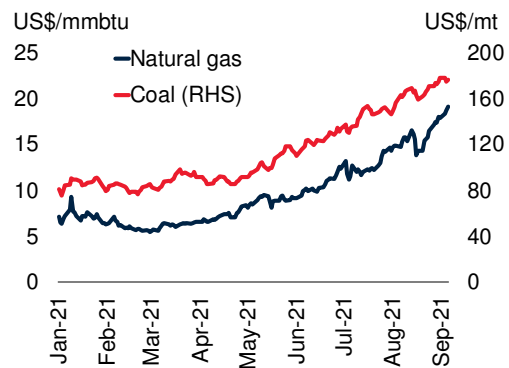
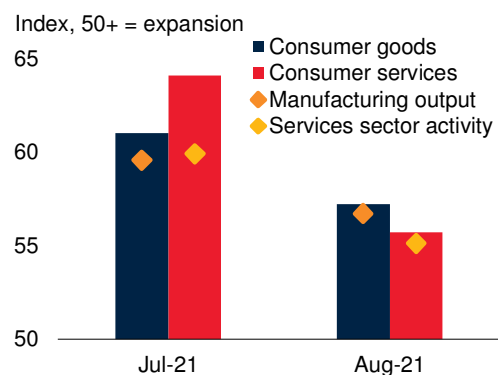


FIGURE 2.C Sectoral services and manufacturing PMI indices in the United States



Sources: Bank for International Settlements; Bloomberg; Haver Analytics; World Bank.

Note: EMDEs = emerging markets and developing economies.

A. Blue line shows real GDP weighted policy rates for a sample of 22 EMDEs relative to October 2020. Red bars indicate cumulative number of EMDEs that raised rates since October 2020. Last observation is September 7, 2021.

B. Daily data of European natural gas price and Australian coal price. Last observation is September 8, 2021.

C. Blue bar shows the consumer goods sector of the Purchasing Managers' Index (PMI) for output and red bar shows the consumer services sector of PMI for business activity. Orange diamond shows the composite manufacturing output index of PMI and yellow diamond shows the composite service sector business activity index of PMI. PMI readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is August 2021.



services PMI indices continue to point to robust growth, despite edging down a little from historical highs—to 61.4 and 59.8, respectively—in August (figure 3.A). In Japan, despite an accelerating vaccination campaign, high frequency indicators in the third quarter signal continued weakness. In August, the services PMI dipped further from 47.4 to 42.9, dragged down by a sharp resurgence of COVID-19 cases and extended business restrictions.

China: pandemic-related dip in activity. The pace of activity slowed in August due to a resurgence in COVID-19 infections. The official non-manufacturing PMI plunged to 47.5, pointing to the first contraction in services activity since February 2020 as strict mobility restrictions disrupted consumer services (figure 3.B). Retail sales growth slowed to 2.5 percent (y/y), dragged down by catering and auto sales. Manufacturing activity was less affected, with the official manufacturing PMI edging down to 50.1 and industrial production strengthening to 0.3 percent (m/m) in August. Trade also held up in August, with export growth rebounding across major destinations to 25.6 percent (y/y) in value terms. The People’s Bank of China’s has increased its injections of short-term funds into the financial system in September to guard against a tightening of liquidity related to mounting financial difficulties at Evergrande.

Other EMDEs: generally improving activity as COVID-19 abates. In India, gross value added fell in 2021Q2 as a result of a sharp resurgence of COVID-19 in the spring (Figure 3.C). As the pandemic receded, the services and manufacturing PMIs returned to expansion. In Turkey, GDP grew 21.7 percent (y/y) in 2021Q2, with activity continuing to be supported by robust domestic demand and improving exports. The expansion in the manufacturing PMI remained solid in August owing to a continued easing of COVID-19 restrictions. Brazil’s economy contracted by 0.1 percent (q/q) in 2021Q2 due to declining investment. More recently, the services sector has rebounded as COVID-19 cases decline and mobility increases, while the manufacturing sector continues to be hindered by supply chain disruptions and rising input prices. Pandemic-related slowdowns appeared to have eased in Indonesia and Malaysia in August, while in Vietnam, the manufacturing sector continued to struggle, with the output PMI falling to 40.2—its lowest level since April 2020. In South Africa, GDP grew by a better-than-expected 19.3 percent (y/y) in 2021Q2 on strong performance of exports. Activity likely improved in August with the manufacturing PMI rising and mobility returning to pre-pandemic levels.

FIGURE 3.A PMIs in euro area and Japan

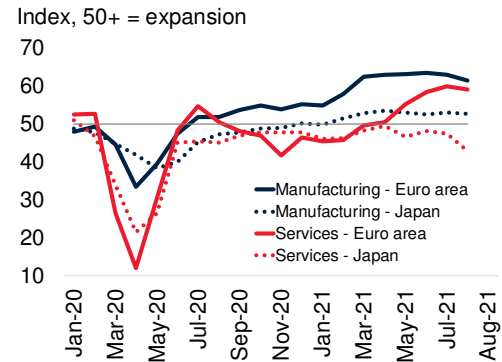


FIGURE 3.B PMI manufacturing and services in China

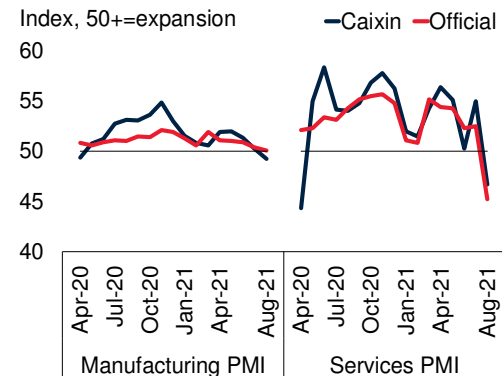
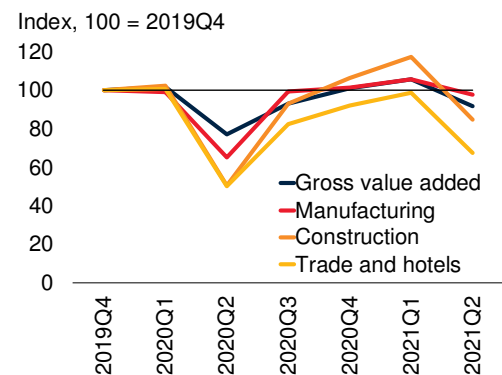


FIGURE 3.C India GDP components



Sources: Haver Analytics; World Bank.

A. Purchasing Managers’ Index (PMI) readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is August 2021.

B. Figure shows China’s official and Caixin Purchasing Managers’ Index (PMI) for manufacturing and services business activity. PMI readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is August 2021.

C. “Trade and hotels” refers to Trade, Hotels, Transport, Communication and Services related to Broadcasting sector. Last observation is April-June 2021. Data seasonally adjusted.



Special Focus: High Trade Costs—Causes and Remedies

The global recession was accompanied by a sharp collapse in global trade. Global trade fell by almost 16 percent in the second quarter of 2020 as containment measures associated with the pandemic disrupted shipping, international travel, and domestic economic activity. It has since rebounded, mainly due to a swift recovery in goods trade, which recovered to pre-pandemic levels within six months. In contrast, by June 2021 services trade was still 7 percent below pre-pandemic levels, with travel and tourism services more than 60 percent below (figure 4.A). Despite the solid post pandemic recovery, longer-term prospects for global trade are soft. Global output growth is expected to slow going, as the structural factors that supported the earlier expansion in trade have largely run their course. Analysis in the June edition of the *Global Economic Prospects* report suggests that lowering international trade costs could help to revive trade growth.

Trade costs reflect the full range of costs associated with trading across borders, in excess of the cost of domestically traded goods. They include transportation and distribution costs, trade policy barriers, costs of information and contract enforcement, legal and regulatory costs, and the cost of doing business across cultures, languages, and economic systems. Trade costs are roughly equivalent to a 100 percent tariff—doubling the cost of goods traded domestically. There is growing evidence of a negative impact of trade costs on the volume of trade. Trade costs also influence firm’s outsourcing decisions, as well as sourcing inputs through intra-firm or via arm’s-length trade. Finally, analysis of industry level data suggests that lower trade costs are associated with higher productivity.

Despite a decline over the past two decades, trade costs remain high. In EMDEs, trade costs are almost one-half higher than those in advanced economies (figure 4.B). Overall trade costs range widely, from tariff equivalents of 90 percent in Europe and Central Asia (ECA) to 135 percent in South Asia (SAR). Manufacturing trade costs are particularly high in SSA and Latin America and the Caribbean (LAC). Trade costs have declined in all sub-regions except EAP since 1995, with the fastest decline occurring in Sub-Saharan Africa (SSA) (figure 4.C). Within ECA, countries that are members of the European Union

FIGURE 4.A Global trade, by sector

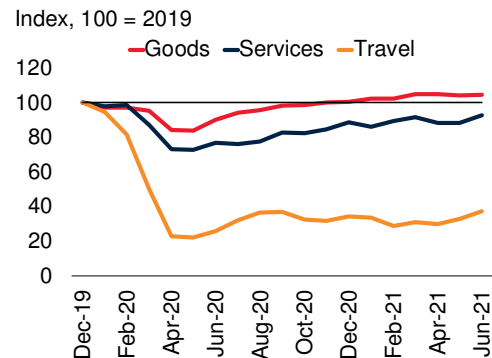


FIGURE 4.B Average trade costs in 1995 and 2018

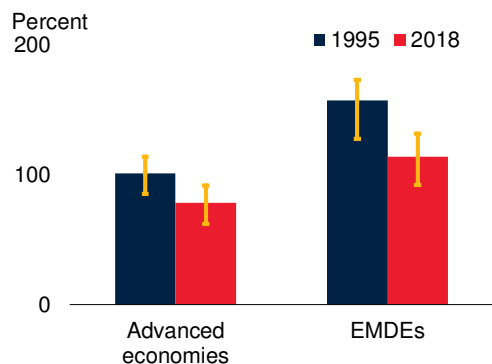
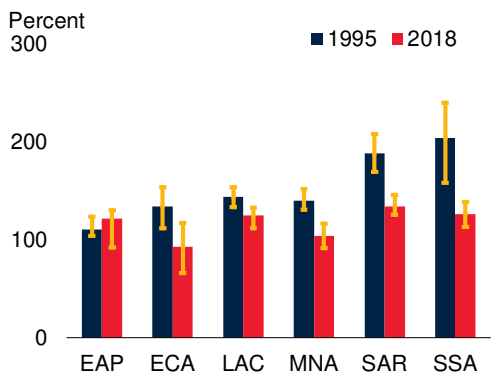


FIGURE 4.C Average trade costs in EMDE regions



Sources: CPB Netherlands Bureau for Economic Policy Analysis; Comtrade (database); ESCAP-World Bank Trade Costs Database; World Bank; World Trade Organization.

Note: EMDEs = emerging market and developing economies; EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, MNA = Middle East and North Africa, SAR = South Asia, SSA = Sub-Saharan Africa.

A. Services and travel data are nominal. Last observation is June 2021.

B-C. Bilateral trade costs (as defined in the ESCAP database) measure the costs of a good traded internationally in excess of the same good traded domestically and are expressed as ad valorem (tariff) equivalent. Bilateral trade costs are aggregated into individual country measures using 2018 bilateral country exports shares from the Comtrade database. Regional and sectorial aggregates are averages of individual country measures. Bars show unweighted averages, whiskers show interquartile range.



or geographically close to it have two-thirds the average trade costs of other countries that are less integrated into EU global value chains. Trade costs for agricultural goods are about four-fifths higher than for manufacturing goods and are particularly high in SAR.

Trade costs mainly reflect poor shipping connectivity and logistics. Tariffs, which have slowed markedly in the last 30 years, represent less than one-tenth of trade costs. Instead, the bulk is driven by shipping connectivity and logistic costs, and, to a lesser extent, cumbersome border and customs processes. Trade costs are higher in EMDEs with the poorest logistics performance and the most challenging customs and border processes (figure 5.A). Results from a panel gravity model estimated for the 2008-2018 period suggest that geographical distance and high bilateral tariff rates are also positively associated with trade costs and trade uncertainty. The model attributes almost two-thirds of the decline in trade costs between 2008 and 2018 to improved shipping connectivity and logistics, one-quarter to trade policy (tariff cuts, membership of regional trade agreements, and uncertainty related to trade policy) and one-tenth to easier customs and border processes. Of the model-predicted difference in trade costs between EMDEs and advanced economies, one-third reflects higher shipping costs and worst logistic, one-third worse trade policy, one-eight more cumbersome customs regulations and border processes, and just under one-fifth greater geographic and cultural remoteness (figure 5.B).

Trade costs can be lowered most effectively through comprehensive reforms packages. Some of the most successful reform programs have covered a wide range of policies. These include measures that streamline trade processes and customs clearance requirements, enhance domestic trade-supporting infrastructure, increase competition in the domestic logistics, retail, and wholesale trade industries; lower tariffs; lower compliance costs; and reduce corruption. Trade agreements that deepen integration beyond tariff cuts can help lower non-tariff barriers. Empirical analysis suggests that an EMDE in the highest quartile of shipping and logistics costs and most unwieldy customs and border processes could halve its trade costs if it improved these conditions to match an EMDE within the lowest quartile of shipping costs and most cumbersome border and customs processes (figure 5.C).

FIGURE 5.A Trade costs by shipping connectivity and logistics performance

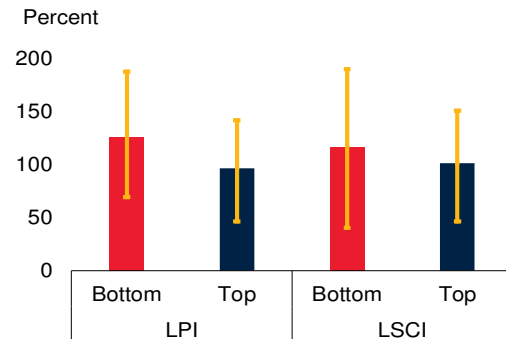


FIGURE 5.B Model-predicted contributions to differences in trade costs

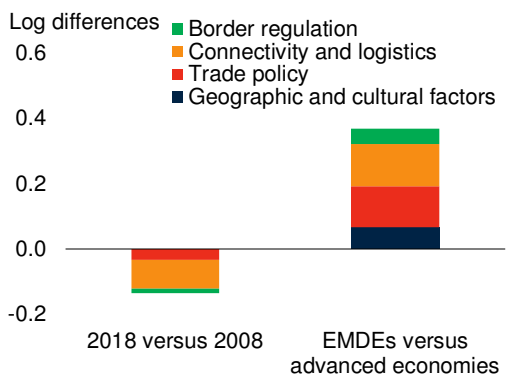
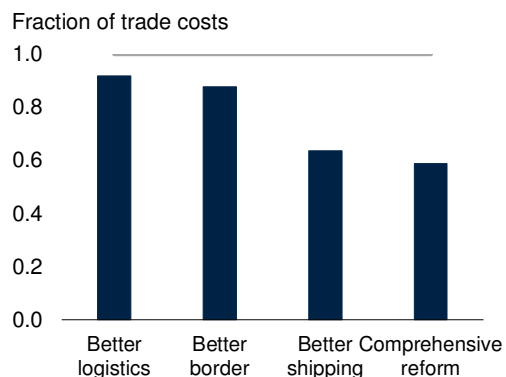


FIGURE 5.C Reduction in overall trade costs associated with policy improvements



Sources: Comtrade; ESCAP-World Bank Trade Costs Database; World Bank. Note: LSCI = Liner Shipping Connectivity Index; LPI = Logistics Performance Index. A: Top and Bottom refer to quartiles of LSCI and LPI distributions. B. Computed using coefficient estimates for each indicator included in the regression. C. Bars show the fraction of trade costs after policy improvements. Policy improvements assume that the average EMDE in the quartile of EMDEs with the poorest score for liner shipping connectivity index (LSCI), logistics performance index (LPI) or Doing Business "trading across borders" improves to match the score of the average EMDE in the quartile of EMDEs with the best score.



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TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: August 21, 2021 - September 20, 2021					
Country	Date	Indicator	Period	Actual	Previous
Germany	8/24/21	GDP	Q2	9.4%	-3.1%
Mexico	8/25/21	GDP	Q2	19.6%	-3.6%
Nigeria	8/26/21	GDP	Q2	5.4%	0.4%
Australia	8/31/21	GDP	Q2	9.6%	1.3%
Canada	8/31/21	GDP	Q2	12.7%	0.3%
France	8/31/21	GDP	Q2	18.7%	1.5%
India	8/31/21	GDP	Q2	20.1%	1.6%
Italy	8/31/21	GDP	Q2	17.3%	-0.7%
Poland	8/31/21	GDP	Q2	11.2%	-1.3%
Brazil	9/1/21	GDP	Q2	12.4%	1.0%
Indonesia	9/1/21	CPI	AUG	1.6%	1.5%
South Korea	9/1/21	GDP	Q2	6.0%	1.9%
Turkey	9/1/21	GDP	Q2	21.7%	7.2%
Japan	9/7/21	GDP	Q2	7.7%	-1.3%
South Africa	9/7/21	GDP	Q2	19.3%	-2.6%
China	9/8/21	CPI	AUG	0.6%	0.9%
Russian Federation	9/10/21	GDP	Q2	10.5%	-0.7%
Saudi Arabia	9/13/21	GDP	Q2	1.8%	-3.0%
Argentina	9/14/21	CPI	AUG	51.4%	51.8%
New Zealand	9/15/21	GDP	Q2	17.0%	3.8%
United Kingdom	9/15/21	CPI	AUG	3.0%	2.1%

(Percent change y/y)

Upcoming releases: September 21, 2021 - October 20, 2021				
Country	Date	Indicator	Period	Previous
South Africa	9/22/21	CPI	AUG	4.7%
Japan	9/23/21	CPI	AUG	-0.3%
Netherlands	9/23/21	GDP	Q2	-2.3%
Singapore	9/23/21	CPI	AUG	2.5%
Spain	9/23/21	GDP	Q2	-4.2%
Malaysia	9/24/21	CPI	AUG	2.2%
South Korea	9/29/21	IP	AUG	7.9%
Italy	9/30/21	CPI	SEP	2.0%
United Kingdom	9/30/21	GDP	Q2	-6.1%
United States	9/30/21	GDP	Q2	0.5%
South Korea	10/5/21	CPI	SEP	2.6%
China	10/11/21	GDP	Q3	7.9%
Euro area	10/13/21	IP	AUG	7.4%
Singapore	10/14/21	GDP	Q3	14.7%
France	10/15/21	CPI	SEP	2.1%
Poland	10/15/21	CPI	SEP	5.4%
United States	10/18/21	IP	SEP	5.9%
Canada	10/20/21	CPI	SEP	3.9%
Euro area	10/20/21	CPI	SEP	3.0%
New Zealand	10/20/21	CPI	Q3	3.3%
United Kingdom	10/20/21	CPI	SEP	3.0%