Global Monthly

December 2022

WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

Overview

- Global activity is weakening, with PMI surveys indicating deceleration in many economies, and China's growth constrained by a major COVID-19 outbreak.
- Oil prices have been volatile amid fluctuating demand and the introduction of a price cap on Russian oil exports.
- As inflation appeared to stabilize, financial conditions eased slightly, with lower U.S. treasury yields and a weaker U.S. dollar supporting EMDE capital inflows.

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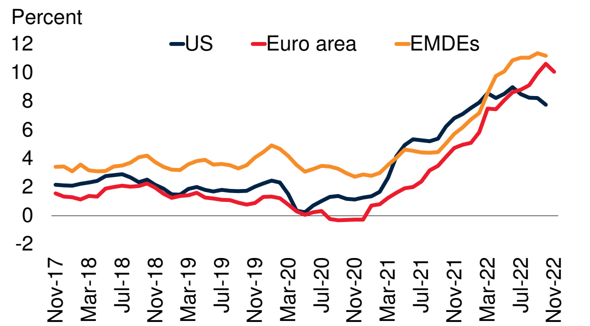
Chart of the Month

- Inflation appears to be at or past a peak in the United States, euro area, and many EMDEs.
- Stabilizing prices for food and energy products, and the normalization of goods supply chain bottlenecks, are playing important roles in moderating headline inflation.
- Though core measures of inflation remain broadly elevated, they have also started decelerating in many countries.

Annual consumer price inflation



Sources: Haver Analytics; World Bank.
Note: EMDEs = emerging market and developing economies.
The Emerging Market CPI Index includes 51 EMDE countries weighted by 2015 nominal GDP in U.S. dollars.

Special Focus: Recent developments in the context of previous global recessions

- According to Consensus Forecasts, global growth is projected to slow to 1.5 percent in 2023.
- The current weakening of economic conditions is sharper than seen in the runup to previous global recessions.
- There are many commonalities between the current juncture and the period between 1975 and 1982 recessions.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Phil Kenworthy, Patrick Kirby and Nikita Perevalov under the supervision of Carlos Arteta, based on contributions from Prospects Group staff. The special focus was prepared by Patrick Kirby. This *Global Monthly* reflects data available up to December 16, 2022. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: Q3 pickup fading. Global growth appears to have rebounded in Q3, as pandemic-related mobility restrictions eased in China and growth in other EMDEs picked up, outweighing a small deceleration in advanced economies (figure 1.A). Nevertheless, early data releases for Q4 suggest that this rebound is giving way to significant weakness in the near term. The global composite PMI fell to a 29-month low of 48, signaling contraction in November, following a prior sub-50 reading in October. Forward-looking indicators also declined in November, with new orders falling to 47.8 and work backlogs to 47.9. This weakness also spread to labor markets, with the global employment sub-index showing little growth in November, falling to 50.3, its lowest level since February 2021.

Global trade: softening goods demand. Global goods trade volumes rose by 5.6 percent (y/y) in September, but incoming data point to slowing demand. The global manufacturing new export orders PMI index remained at a depressed level of about 46 in November, while the global manufacturing output PMI fell to 47.8, its lowest level since May 2020. Slowing demand is also apparent in the record-high pace of inventory accumulation for finished goods, as well as the gradual return of global supply chain pressures and backlogs of work toward historical levels (figure 1.B).

Commodity markets: continued energy price volatility. Brent crude oil prices fell to below $80/bbl in early December from $91/bbl in November (figure 1.C). In early December, the G7 set a price cap on Russian oil exports at $60/bbl, close to the current price of Urals (the Russian oil benchmark). As such, Russia's exports are likely to be less disrupted by additional EU sanctions on transport and insurance than previously expected. Natural gas and coal prices rose sharply in the first week of December, in part due to the onset of cold weather and increased demand for heating, after milder-than-usual weather in November had contributed to a decline in prices. Agricultural commodity prices remained steady in November (m/m), as a marginal increase in raw materials prices (2 percent) offset a decline in beverage prices (-4 percent). November also saw metal prices increase by 5 percent (m/m), led by nickel (16 percent), tin (10 percent), and copper (5 percent). The rise in prices has coincided with an easing of pandemic-related restrictions in China.

FIGURE 1.A GDP growth, Q/Q SA %

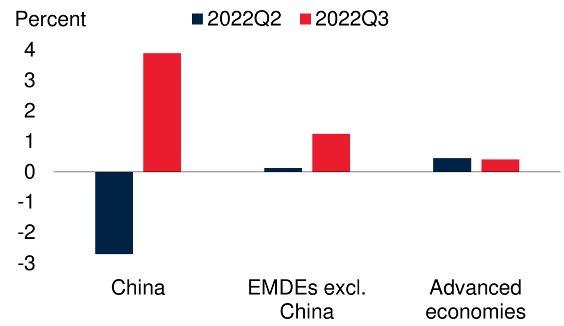


FIGURE 1.B Global PMI inventories and new export orders

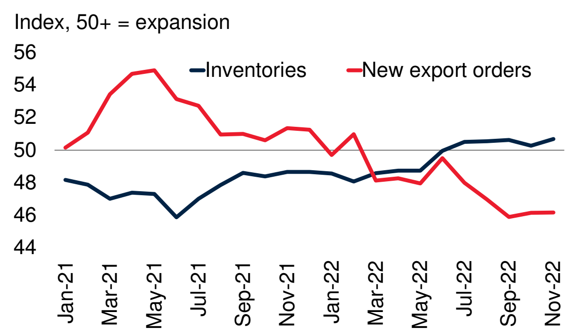
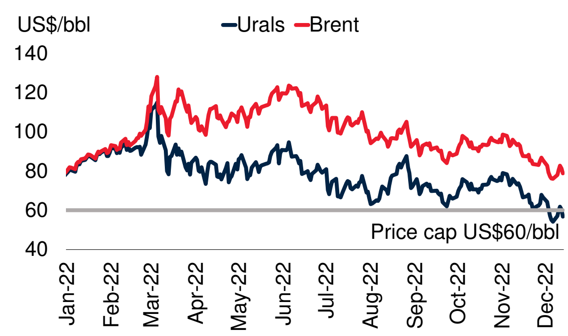


FIGURE 1.C Oil prices



Sources: Bloomberg; Haver Analytics; World Bank.
A. EMDEs = emerging market and developing economies. Bars show quarter over quarter GDP growth. Sample size includes 36 advanced economies and 25 EMDEs. Aggregate growth rates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.
B. Chart shows PMI components for new export orders and inventories. PMI above 50 (below 50) indicates expansion (contraction).
C. Daily data, last observation is December 16, 2022.

Global financial conditions: easing from very tight levels. Global financial conditions continued to ease in late November and early December, with EMDE risk assets posting gains. The start of December marked seven continuous weeks of net portfolio inflows into EMDE debt and equity, the longest such run since the period ending in January 2021 (figure 2.A). China attracted large inflows in anticipation of easing COVID-19 restrictions, with the renminbi strengthening to below 7 to the U.S. dollar. Sovereign borrowing spreads also narrowed, on average, across both investment and speculative grade EMDEs. In the United States, 10-year Treasury yields fell sharply in early December, to nearly 80 basis points below October highs, while the VIX equity volatility index briefly dipped below 20 for the first time since August. However, with continued expectation of further policy tightening in the United States, falling long-term yields pushed the 10-year minus 2-year inversion of the U.S. yield curve—historically a forerunner of U.S. recessions—to its deepest level since 1981 (figure 2.B).

United States: sectoral weakness, labor market resilience. Incoming data points to slowing activity in interest-rate sensitive sectors, notably housing and manufacturing, alongside continued strength in household consumption and labor markets. Housing starts fell further in October, declining 4.2 percent (m/m) amid a 20-year high for 30-year mortgage rates. In November, the ISM manufacturing PMI fell to 49, its lowest level since May 2020, while industrial production fell by 0.2 percent (m/m). Meanwhile, real personal consumption expenditures remained resilient in October, rising 0.5 percent (m/m) as the savings rate fell to a 17 year low of 2.3 percent (figure 2.C). The labor market remained tight in November, with payroll employment rising by 263,000 and average hourly earnings growth ticking up from 4.9 percent (y/y) to 5.1 percent. In contrast, headline CPI inflation slowed from 7.7 percent (y/y) to 7.1 percent, alongside a sharp fall in core goods inflation. The Federal Reserve slowed the pace of tightening in December, increasing the policy rate by 50 basis points.

Other advanced economies: conditions seemingly near a trough. In the euro area, recent data suggest conditions may be approaching a trough amid a moderation in upstream price pressures. After seven months of decline, the composite output PMI inched up from 47.3 to 47.8 in November. Headline CPI inflation in the euro area declined for the first time since June 2021 in November, to 10 percent (y/y), while producer price inflation fell in the major euro area economies, particularly Germany and Italy (figure 3.A). Continuing cost of living

FIGURE 2.A Weeks of continuous EMDE portfolio inflows

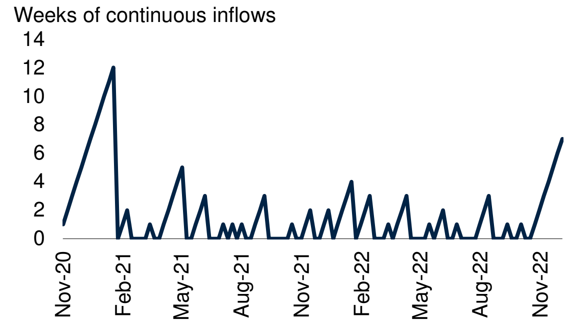


FIGURE 2.B Largest differences between 10-year and 2-year U.S. treasury yields during inversions

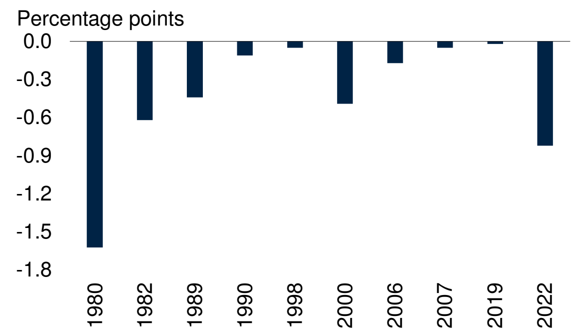
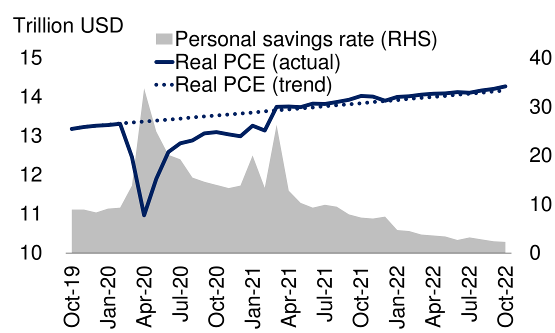


FIGURE 2.C Personal consumption expenditure and savings rate in the United States



Sources: FRED (database); Institute of International Finance; World Bank.
Note: EMDE = emerging market and developing economies.
A. Weeks of continuous net positive external debt and / or equity portfolio flows for a consistent sample of 19 EMDEs.
B. Largest negative value recorded for the 5-day moving average of the 10-year U.S. treasury yield minus the 2-year U.S. treasury yield during each period of inversion. Periods begin when the 5-day moving average value turns negative and end when it turns positive. Last observation December 14, 2022.
C. Solid blue line represents real personal consumption expenditure (PCE), while the dotted line represents trend PCE using the average growth rate over 2010-19 from January 2020 onwards. Grey area represents the personal savings rate. Last observation is October 2022.

pressures restrained consumer activity in October, however. Euro area retail sales declined 1.8 percent (m/m), with real retail sales in Germany shrinking 2.8 percent (m/m). Fading consumption momentum is also evident in Japan, where retail sales decelerated sharply in October as inflation reached 3.8 percent, its highest level in decades.

China: broad-based slowdown amid COVID-19 surge. Following a robust rebound in 2022Q3, activity has weakened sharply amid a major COVID-19 outbreak that has affected key cities including Beijing and the manufacturing hub of Guangzhou (figure 3.B). In November, growth in industrial value added slowed to 2.2 percent (y/y), retail sales fell 5.9 percent (y/y), and both imports and exports contracted, by 10.6 and 8.7 percent (y/y) respectively. The People's Bank of China lowered the required reserve ratio for banks by 25 basis points, complementing policy measures to support the flagging real estate sector. Separately, the authorities announced a significant easing of pandemic-related restrictions, including allowing those with COVID-19 to isolate at home and a relaxation of testing requirements, and signaled a move towards a more targeted approach to containment.

Other EMDEs: continued weakness. Activity in EMDEs excluding China accelerated in Q3, but PMIs and other indicators are signaling slowing or negative growth in most large EMDEs in Q4 (figure 3.C). PMI readings indicated contracting activity in *Brazil*, *Colombia*, *Egypt*, *Malaysia*, *Poland*, *Türkiye*, and *Vietnam*. In *the Russian Federation*, retail sales continued to contract sharply, shrinking nearly 10 percent (y/y) in October. In *Argentina*, the monthly economic activity indicator for September showed a contraction (m/m) for the first time since March. Surveys also suggest decelerating growth in *Indonesia* and *Thailand*. In contrast, after real GDP expanded by 6.3 percent on a year ago in the third quarter, PMI surveys signaled accelerating activity in *India*, from levels already indicating solid expansion. Growth also appears to be accelerating in several EMDE energy exporters, including *Nigeria*, *Saudi Arabia*, and *the United Arab Emirates*. *Saudi Arabia's* oil production declined in November relative to recent months, but remained 6 percent higher than a year ago, while output growth continues to expand at rates above recent historical trends, aided by the ongoing services sector recovery. In *South Africa*, PMIs signaled mild expansion in November as transportation sector strikes came to an end.

FIGURE 3.A Producer price index in selected euro area countries

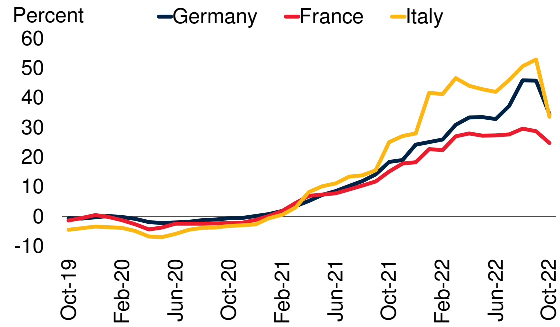


FIGURE 3.B Cumulative COVID-19 cases in China

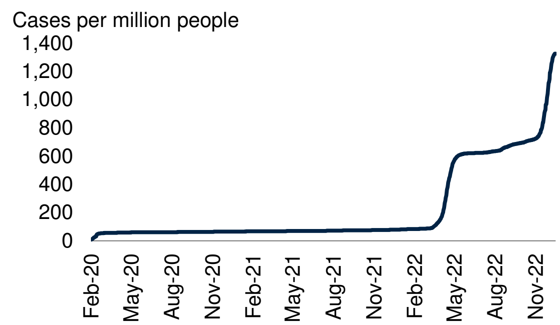
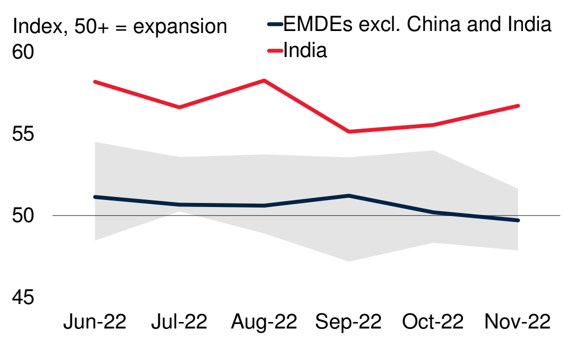


FIGURE 3.C PMIs in EMDEs excluding China and India



Sources: Haver Analytics: Our World in Data; World Bank.
Note: EMDEs = emerging market and developing economies.
A. Lines represent year-on-year growth rates of producer price index. Last observation is October 2022.
B. Figure shows cumulative total cases per million people. Last observation is December 15, 2022.
C. PMI above 50 (below 50) indicates expansion (contraction). The Emerging Market PMI Index includes 19 EMDE countries. PMIs are seasonally adjusted (before simple average aggregation). Shaded region shows the interquartile range.

Special Focus: Recent developments in the context of previous global recessions

According to Consensus Forecasts, global growth is projected to slow to 1.5 percent in 2023, from 2.8 percent in 2022. If this further sharp slowdown materializes, the recovery from the pandemic recession will be cut short well before activity returns to its pre-pandemic trend. This rapid deterioration in prospects, coupled with rising inflation and tightening financing conditions, has increased the possibility of a global recession, defined as a contraction in annual global real per capita GDP.

The current weakening of economic conditions is even sharper than in the runup to previous global recessions. Every global recession since 1970 was preceded by a year of weak global growth—in fact the pace of the projected decline over the past year has been much faster than during the run-up to previous global recessions (figure 4.A). Over the past year, several high-frequency indicators, including PMIs for new export orders and activity, have weakened more steeply than before previous global recession (figures 4.B, 4.C). The same has been the case for asset prices: House prices are cooling in many countries, while global stock prices have declined by more than 17 percent over the course of the year (figures 5.A). Global consumer confidence has also registered a much sharper decline over recent quarters compared to the run-up to previous global recessions (figure 5.B).

Over 1970-2021, the global economy experienced five recessions: in 1975, 1982, 1991, 2009, and 2020. During these episodes, per capita global output declined by an average of 1.9 percent—3.9 percentage points below the average annual growth rate of 2.0 percent during the 1970-2021 expansion years. Previous global recessions were associated with confluences of factors, including financial crises (1982; 1991; 2009), large changes in policies (1982), sharp movements in oil prices (1975; 1982), and a pandemic (2020). Global recessions are highly synchronized events, with the fraction of countries experiencing annual declines in per capita GDP alongside severe economic and financial disruptions increasing sharply (figure 5.C).

There are several informative commonalities between the current juncture and the 1975 and 1982 recessions. These include recent supply shocks, increases in inflation, stagflation-ary headwinds, and policy actions. The global recession of

FIGURE 4.A Global GDP growth during global recessions

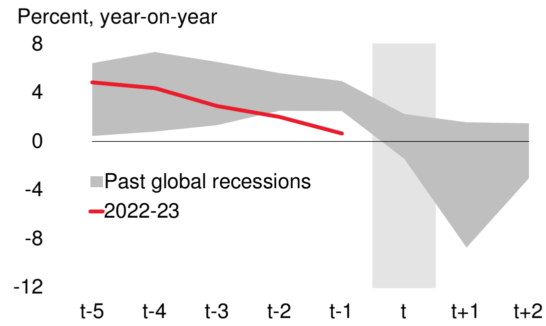


FIGURE 4.B Global manufacturing new export orders during global recessions

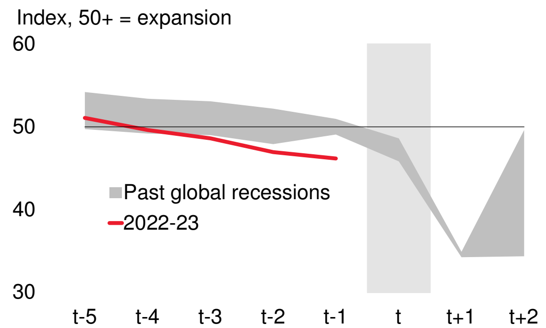
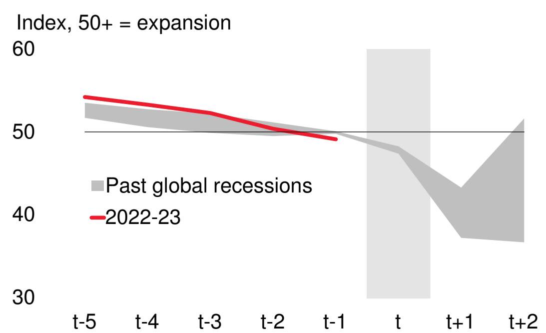


FIGURE 4.C Global PMI during global recessions



Source: Haver Analytics; Kose, Sugawara, and Terrones (2020); Organization for Economic Co-operation and Development; World Bank.

A.-C. Global GDP growth (Panel A), global manufacturing new export orders (Panel B), global Purchasing Managers' Index (PMI; Panel C) around the five global recessions, as well as in recent period, based on quarterly data. Past global recessions show the range for the five global recessions (i.e., 1975, 1982, 1991, 2009, and 2020), and time "t" denotes the beginning of respective global recessions: 1974Q1, 1981Q4, 1990Q4, 2008Q3, and 2020Q1, respectively. For 2022-23, time "t" shows 2023Q1. In Panel A, data over t-3 to t -1 in 2022-23 (i.e., 2022Q2 to 2022Q4) are computed with consensus forecasts of quarterly growth in 45 countries.

1975 followed a shock to oil prices from the Arab oil embargo initiated in October 1973. The embargo ended a year later, but the supply shock and associated sharp rise in oil prices triggered a substantial increase in inflation, which occurred after a period of rapid global growth and hikes in other commodity prices, and a significant weakening of growth in many countries. Monetary and fiscal policies supported activity despite elevated inflation, contributing to many advanced economies experiencing stagflation during the late 1970s and early 1980s

The global recession of 1982 was triggered by a sharp tightening of monetary policies in many advanced economies to reduce inflation. Oil prices had risen sharply in 1979, partly because of disruptions caused by the Iranian revolution, and helped push inflation to new highs in several advanced economies. The aggressive monetary policy response in the late 1970s and early 1980s did reduce inflation, but it also caused sharp declines in activity and increases in unemployment in many countries, including EMDEs (Guénette, Kose and Sugawara, 2022).[1] The increase in global interest rates, together with an accompanying collapse in commodity prices and global trade made it difficult for many Latin American countries to service their debts, marking the beginning of the Latin American debt crisis in 1982. Many low-income countries, especially in sub-Saharan Africa, also experienced financial stress and faced sovereign debt crises in the 1980s.

Previous global recessions were typically followed by sharp rebounds. In quarterly terms, global recessions lasted between 2 to 5 quarters, averaging about one year, before giving way to a broad recovery in economic activity (Kose, Sugawara, and Terrones 2020).[2] Following previous recessions, the world economy has typically been able to return to its prerecession level of output within a year after a recession. Previous global expansions vary substantially in both length and strength, however. The expansion following the 1991 recession lasted a record 17 years, for example, while the expansion following the 1975 recession lasted only 6. Relative to pre-recession trends, the post-2009 rebound was particularly weak for advanced economies, while the post-2020 rebound has been particularly weak for EMDEs.

[1] Guénette, J. D., M. A. Kose, and N. Sugawara. 2022. "Is a Global Recession Imminent?" EFI Policy Note 4, World Bank, Washington, DC.

[2] Kose, M. A., N. Sugawara, and M. E. Terrones. 2020. "Global Recessions." Policy Research Working Paper 9172, World Bank, Washington, DC.

FIGURE 5.A Global equity price growth during global recessions

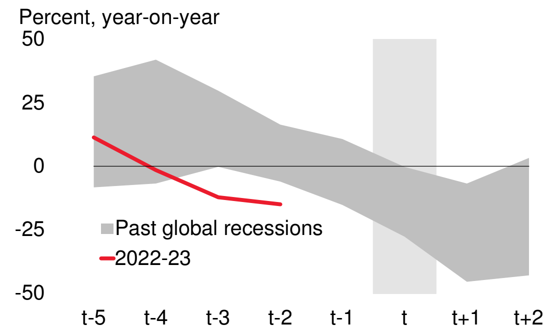


FIGURE 5.B Global consumer confidence during global recessions

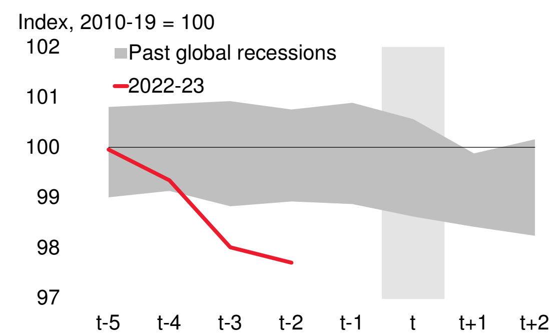
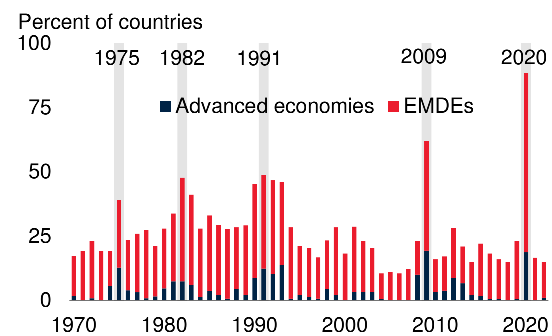


FIGURE 5.C Countries with a decline in per capita GDP



Source: Kose, Sugawara, and Terrones (2020); World Bank.

A.B. GDP-weighted global real (CPI-adjusted) stock price growth (Panel A), and GDP-weighted global consumer confidence (Panel B) around the five global recessions, as well as in recent period, based on the quarterly data. Past global recessions show the range for the five global recessions (i.e., 1975, 1982, 1991, 2009, and 2020), and time "t" denotes the beginning of respective global recessions: 1974Q1, 1981Q4, 1990Q4, 2008Q3, and 2020Q1, respectively. For 2022-23, time "t" shows 2023Q1.

C. The proportion of countries with an annual contraction in per capita GDP.

Recent Prospects Group Publications

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Is a Global Recession Imminent?
Global Economic Prospects – June 2022
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Commodity Markets Outlook – October 2022
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South Asia Economic Focus

TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: November 17, 2022 - December 16, 2022					
Country	**Date**	**Indicator**	**Period**	**Actual**	**Previous**
Nigeria	11/24/22	GDP	Q3	2.4%	3.4%
Germany	11/25/22	GDP	Q3	1.3%	1.7%
Mexico	11/25/22	GDP	Q3	4.3%	2.4%
Canada	11/29/22	GDP	Q3	3.9%	4.7%
France	11/30/22	GDP	Q3	1.0%	4.2%
India	11/30/22	GDP	Q3	6.3%	13.5%
Indonesia	11/30/22	CPI	NOV	5.4%	5.7%
Italy	11/30/22	GDP	Q3	2.6%	5.0%
South Korea	11/30/22	GDP	Q3	3.1%	2.9%
Türkiye	11/30/22	GDP	Q3	3.9%	7.7%
United States	11/30/22	GDP	Q3	1.9%	1.8%
Brazil	12/1/22	GDP	Q3	3.6%	3.7%
Australia	12/6/22	GDP	Q3	5.9%	3.2%
South Africa	12/6/22	GDP	Q3	4.1%	0.2%
Argentina	12/7/22	IP	OCT	3.5%	4.3%
Euro area	12/7/22	GDP	Q3	2.3%	4.2%
Japan	12/7/22	GDP	Q3	1.7%	1.4%
Saudi Arabia	12/7/22	GDP	Q3	8.8%	12.2%
China	12/8/22	CPI	NOV	1.5%	2.1%
Brazil	12/9/22	CPI	NOV	5.9%	6.5%
United States	12/13/22	CPI	NOV	7.1%	7.8%

(Percent change, y/y)

Upcoming releases: December 17, 2022- January 30, 2023				
Country	**Date**	**Indicator**	**Period**	**Previous**
Canada	12/21/22	CPI	NOV	6.9%
Japan	12/22/22	CPI	NOV	3.8%
United Kingdom	12/22/22	GDP	Q3	4.4%
United States	12/22/22	GDP	Q3	1.8%
Netherlands	12/23/22	GDP	Q3	5.2%
Spain	12/23/22	GDP	Q3	6.8%
Vietnam	12/27/22	GDP	Q4	13.7%
South Korea	12/28/22	IP	NOV	-1.1%
South Korea	12/29/22	CPI	DEC	5.0%
Kenya	12/30/22	GDP	Q3	5.2%
Indonesia	1/1/23	CPI	DEC	5.4%
France	1/4/23	CPI	DEC	6.2%
Germany	1/6/23	CPI	DEC	10.1%
France	1/10/23	IP	NOV	-2.7%
Mexico	1/11/23	IP	NOV	3.9%
United States	1/12/23	CPI	DEC	7.8%
United Kingdom	1/13/23	IP	NOV	-3.1%
China	1/16/23	GDP	Q4	3.9%
United States	1/18/23	IP	DEC	3.3%
South Korea	1/23/23	GDP	Q4	3.1%
Australia	1/25/23	CPI	Q4	7.3%