WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

Global Monthly

February 2022

Overview

- Headwinds from the Omicron variant of COVID-19 and continued supply bottlenecks contributed to a global economic slowdown at the beginning of the year.
- Financial conditions have tightened, with interest rates and volatility rising and equity valuations falling.
- Energy prices have increased sharply as a result of geopolitical risks, improved demand, and concerns about OPEC+ production capacity.

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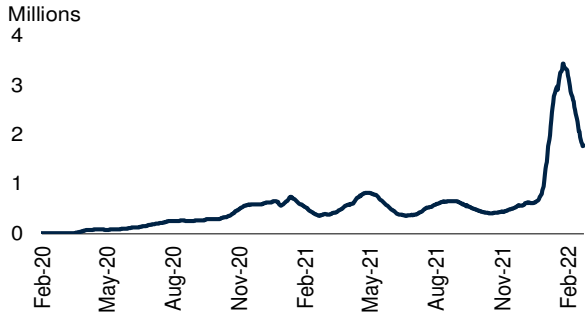
Chart of the Month

- The highly infectious Omicron variant raised the number of new cases of COVID-19 around the world to record levels, but is now waning.
- The number of hospitalizations and deaths from COVID-19 also increased, despite the fact that Omicron infections generally cause less severe than prior variants.
- While the negative economic impact of the Omicron wave of COVID-19 has been less severe than previous waves, it substantially dampened global growth in January.

Global Covid-19 new cases



Sources: Our World in Data (database); World Bank.
Note: New cases show 7-day moving average. Last observation is February 22, 2022.

Special Focus: Commodity price cycles

- Commodity prices soared in 2021, with prices of several commodities reaching all-time highs.
- Energy and metal prices generally move in line with global economic activity, and this tendency has strengthened in recent decades.
- To dampen the associated macroeconomic fluctuations, commodity exporters need to strengthen their policy frameworks and reduce their reliance on commodity-related revenues by diversifying exports and national asset portfolios.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Patrick Kirby and Philip Kenworthy under the supervision of Carlos Arteta, based on contributions from Juan Felipe Serrano Ariza, Justin-Damien Guénette, Osamu Inami, Sergiy Kasyanenko, Peter Nagle, Lucia Quaglietti, Franz Ulrich Ruch, Kaltrina Temaj, Ekaterine Vashakmadze, Garima Vasishtha, and Collette Wheeler. This *Global Monthly* reflects data available up to February 22, 2022. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: drag from Omicron. Incoming data suggest global growth slowed in January. The global composite PMI fell from 54.3 to 51.4, its lowest level in eighteen months, likely reflecting renewed consumer caution as the Omicron variant drove a global wave of COVID-19 infections (figure 1.A). The fall primarily reflected weakness in the services sector, while manufacturing activity showed more resilience. The Markit global manufacturing PMI fell from 54.3 to 53.2 in January, with growth remaining robust in advanced economies but stalling in emerging market and developing economies (EMDEs). There are signs the growth slowdown may abate quickly, however. Global COVID-19 cases peaked in late January, while the future output subcomponent of the global composite PMI remained firmly expansionary at 66.9.

Global trade: first quarter slowdown. Incoming data point to a slowdown of global trade growth at the start of 2022 amid falling demand for trade-intensive manufactured goods across a number of large economies. The global PMI manufacturing new export orders index fell to 49.7 in January, its first signal of a contraction in goods trade since mid-2020. Services trade remains subdued, at 8 percent below its pre-pandemic level in November. Supply bottlenecks continue to constrain activity and could worsen further in the face of renewed COVID-19 outbreaks and lockdowns. According to PMI surveys, delivery times lengthened for the thirtieth consecutive month in January and order backlogs continued to grow. Congestion and supply-chain delays remained severe in January, particularly on routes from China to the United States and Europe (figure 1.B).

Global financing conditions: less accommodative. Financial conditions continued to tighten in January. The market-implied path of U.S. policy rates shifted upwards from three to six 25 basis point increases this year following the January FOMC meeting, continuing a trend of tightening expectations in recent months (figure 1.C). Market-implied expectations of long-term inflation are currently above 2 percent, slightly higher than the Federal Reserve's target. Expected euro area policy rates have also moved up, with the market anticipating slightly more than 50 basis points of tightening in 2022, having foreseen only one 10 basis point increase as recently as early January. Equity prices fell sharply from end-December to early February while volatility spiked to the highest level in nearly a year. U.S. corporate credit spreads increased to their widest since 2020 but are not elevated by historical standards. Across EMDEs, long-term sovereign yields remained relatively stable, with the exceptions of Russia

FIGURE 1.A Composite PMI

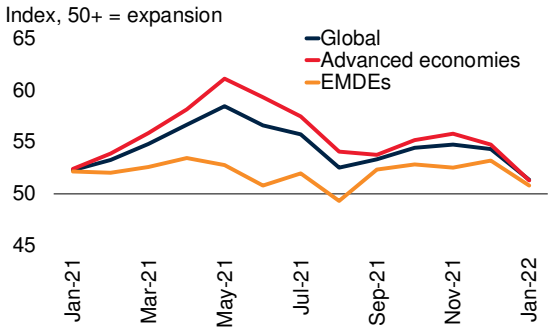


FIGURE 1.B Container freight rates to and from China

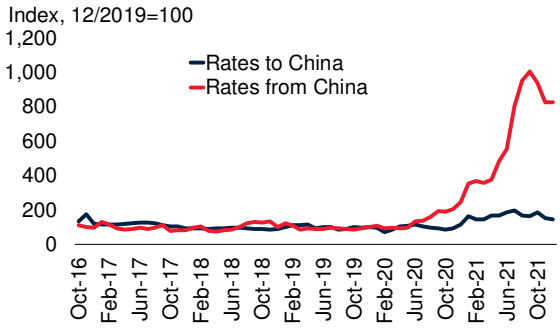
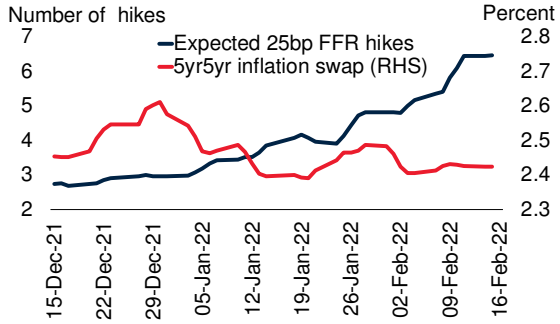


FIGURE 1.C U.S. policy rates vs. long-term inflation



Sources: Bloomberg; Haver Analytics; World Bank.
Note: EMDEs = emerging market and developing economies.
A. Purchasing Managers' Index (PMI) readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Yellow line shows the Markit emerging markets composite PMI.
B. Figure shows the container freight rates measured by Freightos. "Rates to China" are the simple average of freight indexes from the U.S. East Coast, the U.S. West Coast, and Europe and "Rates to China" is the converse.
C. Left axis indicates the number of 25 basis point increases in the Federal Funds Rate by December 14, 2022, as implied by market prices for Federal Funds Rate futures contracts. Right axis shows expectations for the 5-year average U.S. inflation rate starting in 5 years, as implied by market prices for inflation swap contracts. Figure shows 3-day moving averages (days without available data are excluded). Last observation February 16, 2022.

and Ukraine, where geopolitical tensions are weighing on bond prices. Many EMDE central banks continued to tighten policy, with especially sharp 150 basis point increases in Chile and Brazil in late January and early February, respectively. Capital flows to EMDEs have been modestly positive so far in 2022 but have rotated from equity to debt.

Commodity markets: rising prices. Energy prices increased by 8 percent in January (m/m), led by coal (17 percent) and crude oil (15 percent). Brent crude oil prices rose above $98/bbl in February—a seven-year high—on worries about conflict between Russia and Ukraine, an improved demand outlook, and concerns about OPEC+ production capacity. OPEC+ production was 824,000 barrels per day lower than targets in December as some countries struggled to increase production (figure 2.B). Coal prices surged when Indonesia introduced a ban on coal exports at the start of January to ensure domestic supply. The ban has since been lifted, but coal prices remain close to their 2021 highs given continued strong demand and Russia's importance as an exporter. In contrast, European natural gas prices decreased by 26 percent in January (m/m) due to increased supply from Russia, Norway, and the United States. Metals prices increased by 7 percent in January (m/m), led by iron ore (13 percent) and nickel (12 percent).

United States: resilient. GDP rose 6.9 percent in 2021Q4 (q/q saar), a marked acceleration from 2.3 percent growth in 2021Q3 and well above market expectations of 5.5 percent. The strength largely reflected a buildup of inventories, but private consumption growth also accelerated from 2.0 to 3.3 percent in the fourth quarter (q/q saar; figure 2.C). Annual GDP growth in 2021 reached a 37-year high of 5.7 percent. The strong momentum continued into January with retail sales and industrial production increasing by 3.8 percent (m/m) and 1.4 percent, respectively. The labor market was also robust, with 467,000 new jobs added and average hourly earnings rising 0.7% (m/m). At the same time, the Omicron wave appeared to drag on service activity in January, as the services PMI plunged from 57.6 to 51.2, its lowest level since July 2020. CPI inflation was 7.5 percent (y/y) in January, the highest level in 40 years.

Other advanced economies: Omicron weighing on services. After growing more than 9 percent in both 2021Q2 and Q3 (q/q saar), GDP growth in the *euro area* slowed to 1.2 percent in 2021Q4 as a sharp Omicron-driven resurgence in COVID-19 cases weighed on activity. GDP growth contracted more than expected in Germany, remained solid in Italy and France, and rose above expectations in Spain (figure 3.A). The pandemic is

FIGURE 2.A Global equities vs. equity volatility

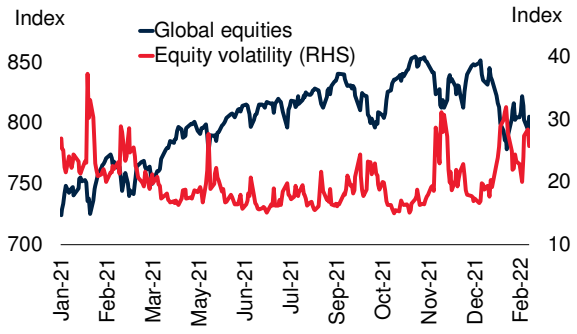


FIGURE 2.B OPEC and OPEC+ production compared to targets

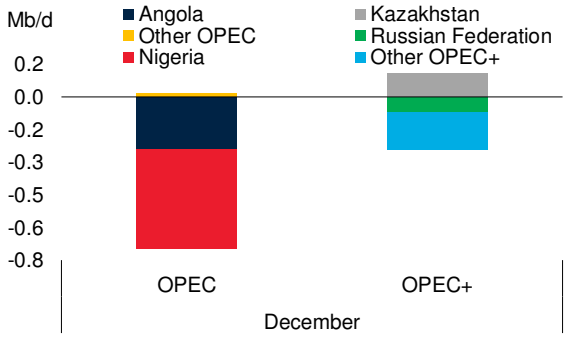
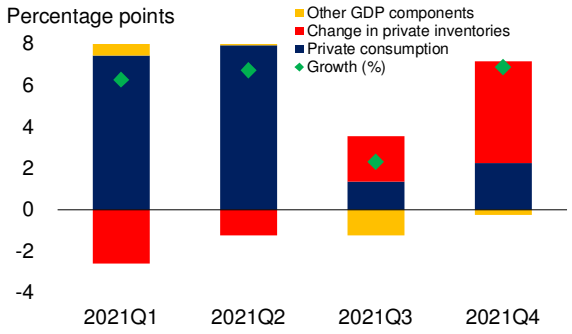


FIGURE 2.C Contributions to U.S. GDP growth



Sources: Bureau of Economic Analysis (BEA); Haver Analytics; International Energy Agency (IEA); World Bank.
A. Equity volatility is the Chicago Board Option Exchange's CBOE Volatility Index (VIX). Global equities is the FTSE Global All-Cap Index. Days without available data are excluded. Last observation February 15, 2022.
B. Change in crude oil production compared to target set by OPEC countries for December 2021. Others include Bahrain, Brunei, Malaysia, Sudan and South Sudan.
C. Contributions to percent change in real gross domestic product, seasonally adjusted at annual rates.

likely to have continued curbing service sector growth at the start of 2022, with the area-wide services PMI falling from 53.3 to 52.3 in January. Meanwhile, headline inflation rose to a record high 5.1 percent (y/y) in January–well above market expectations of 4.4 percent. In the *United Kingdom*, the Bank of England lifted the policy rate by 0.25 percentage point to 0.5 percent in February, while also signaling the start of quantitative tightening. In *Japan*, GDP rebounded 5.4 percent (q/q saar) in 2021Q4 from a 2.7 percent contraction in 2021Q3, underpinned by a robust recovery in consumption. More recently, services activity has again cooled amid sharply higher COVID-19 case counts, with the services PMI dropping from 52.1 to 47.6 in January.

China: easing monetary policy. China grew 8.1 percent in 2021. Growth slowed over the year and continued to moderate in 2022. Both service and manufacturing PMIs dropped in January reflecting COVID-19 flare-ups and strict control under Beijing's zero COVID strategy. The Caixin services PMI and the official non-manufacturing PMI fell significantly, pointing to a slowdown in consumer spending (figure 3.B). Similarly, the official manufacturing PMIs slid and the Caixin manufacturing PMI fell below 50, pointing to possible contraction in export-oriented sectors and SMEs. Average new house price growth declined to 2.1 percent (y/y), the slowest pace since October 2015. The People's Bank of China has implemented multiple easing measures in recent weeks, including cuts in several lending rates and relaxed regulations on bank loans for low-cost rental housing. Separately, the State Council has extended tax and fee reductions for companies to the end of 2023 to support activity.

Other EMDEs: headwinds buffet momentum. The combination of the Omicron wave of COVID-19 and tighter global financial conditions has slowed momentum across a wide range of EMDEs. Composite PMIs for *India*, *Nigeria*, and *Saudi Arabia* signaled decelerating activity in January. At 50.3, *Russia's* composite PMI pointed to stagnation in January amid a record high number of COVID-19 cases, while *South Africa* and Egypt remained in contraction at 48.5 and 45.9, respectively. In *Turkey*, the manufacturing PMI slowed to 50.5 in January as inflation reached a two-decade high of nearly 50 percent amid a weak lira. January's manufacturing PMIs also pointed to slow or no growth in *Malaysia*, and *the Philippines*. *Mexico's* GDP contracted 0.1 percent (q/q) in 2021Q4, with further weakness extending into 2022 according to the manufacturing PMI's January reading of 46.1. In *India*, the government announced an infrastructure-focused budget intended to support the recovery by increasing public capital expenditure by over one-third in the 2022/23 fiscal year.

FIGURE 3.A Selected euro area countries' GDP growth

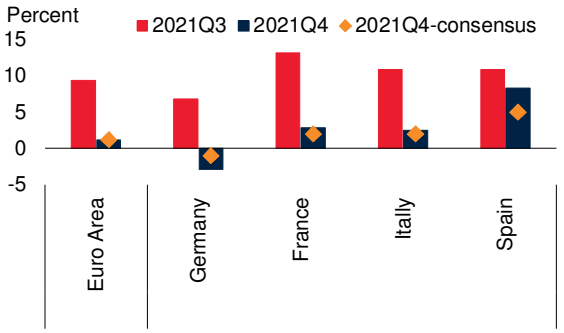


FIGURE 3.B China services PMI

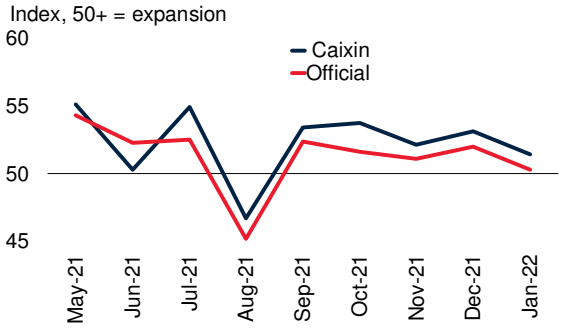
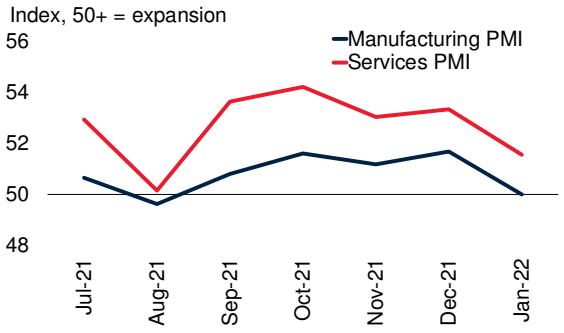


FIGURE 3.C EMDE PMIs



Sources: Haver Analytics; World Bank.
Note: EMDEs = emerging market and developing economies.
A. Bars represent the quarterly growth rate of real GDP (annualized and seasonally adjusted) for 2021Q3 and 2021Q4. Diamonds represent market consensus of the quarterly growth rate of real GDP (annualized and seasonally adjusted) for 2021Q4.
B.C. Purchasing Managers' Index (PMI) readings above 50 indicates expansion in economic activity; readings below 50 indicates contraction. EMDE PMIs are the Markit emerging markets PMIs for manufacturing and services.

Special Focus: Commodity Price Cycles

Commodity prices soared in 2021. The broad-based surge, led by energy and metals, was driven by a strong recovery in aggregate global demand, amplified by weather-related supply disruptions for both fossil and renewable fuels. Real incomes in both commodity exporters and importers have been severely affected by terms of trade changes resulting from the gyrations in commodity prices in 2020-21.

Macroeconomic performance in commodity exporters has historically varied closely in line with commodity price cycles. This is especially so for emerging market and developing economies (EMDEs) that rely on narrow sets of commodities. Commodities are critical sources of export and fiscal revenues for almost two-thirds of EMDEs, and three-quarters of LICs, and more than half of the world's poor reside in commodity-exporting EMDEs. Dependence on commodities is particularly high for oil exporters (figure 4.A).

Commodity prices regularly undergo booms and slumps, and price cycles have been highly synchronized. Over the past 50 years, the average commodity price cycle has lasted about six years. For all commodity groups, the average price increase during booms was larger than the average price decline during slumps (figure 4.B). On average, the monthly speed of commodity price rises in booms (4 percent a month) was much faster than that for commodity price declines in slumps (1 percent a month). For some commodities, such as crude oil, the difference in the speed of price increases and decreases was particularly large (figure 4.C). Commodity price cycles have been highly synchronized across commodities as well as with the global business cycle. For commodities intensively employed in industry, such as copper and aluminum, prices were in the same cyclical phase about 80 percent of the time.

The swings in commodity prices over 2020-21 have been exceptionally large by historical standards. An event study is used to compare the behavior of commodity prices during the 2020 global recession with price movements around global recessions and slowdowns over the past 50 years. During the 2020 global recession, the troughs in commodity prices generally coincided with those in global economic activity. In contrast, in previous recessions, commodity prices continued to decline for several months after the trough in economic activity. The collapse in energy prices in early 2020, and their subsequent recovery, were the steepest of any during global recessions since 1970 (figure 5.A).

FIGURE 4.A Commodity exports in EMDEs

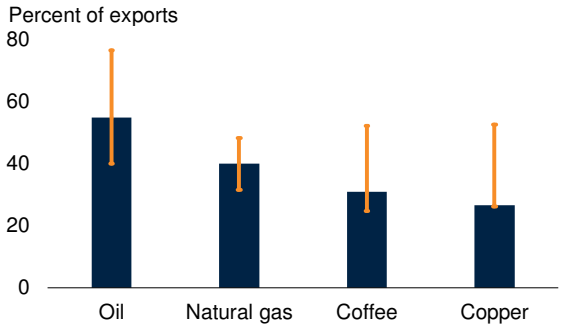


FIGURE 4.B Average amplitude of commodity cycles

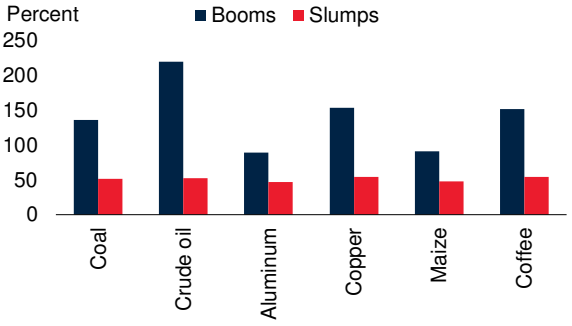
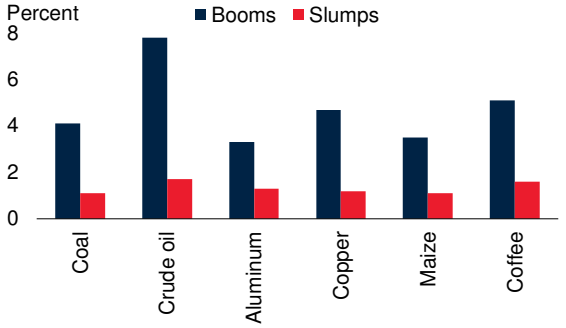


FIGURE 4.C Average slope of booms and slumps



Sources: Comtrade (database); WITS (database); World Bank.
Note: EMDEs = emerging market and developing economies.
A. Figure shows the median share of exports accounted for by oil, natural gas, copper, and coffee, for EMDE exporters of that commodity. Oil includes 20 EMDEs, copper 6, natural gas 5, and coffee 4. Blue bars show medians and orange whiskers show interquartile ranges.
B.C. Turning points are identified using the business cycle algorithm of Harding and Pagan (2002) with a phase of at least 12 months and a cycle of at least 24 months. Amplitude measures the average real price change (in percentage terms) from trough to peak for booms and from peak to trough for slumps. Slope measures the average price increase per month (in percentage terms) during booms and the average price decline during slumps. Data from January 1970 to October 2021.

Global macroeconomic shocks have become the main source of commodity price volatility. Based on a factor-augmented vector autoregression (FAVAR) model, commodity shocks were more prominent from the 1970s through the 1990s, while macroeconomic shocks (demand and supply) have become more important since 1996. Global demand shocks have accounted for 50 percent of the variance of global commodity price growth since 1996, while global supply shocks have accounted for 20 percent of the variance (figure 5.B). In contrast, between 1970 and 1996, supply shocks specific to particular commodity markets—such as the oil price shocks of the 1970s and 1980s—were the main source for variability in global commodity price growth. These results suggest that the role played by developments specific to commodity markets in driving commodity price volatility may have diminished over time.

Global recessions have been accompanied by demand weakness and supply disruptions (outside commodity markets), which combined to depress commodity prices. Market disruptions in specific commodities have sometimes provided an offset. During global recessions, demand pressures on commodity prices were compounded by supply pressures specific to commodity markets (1975, 1991, 2020); in 1975 and 2020, these were offset by supply pressures resulting from large-scale trade embargoes (in 1975) or widespread supply chain disruptions (in 2020) (figure 5.C). The recovery of commodity prices after recessions has been driven by an unwinding of supply or commodity market shocks and, since early 2000, also by rebounds in demand. Consistent with this, the surge in commodity prices in 2020-21 can be explained by a strong resurgence of demand, combined with unusually widespread supply bottlenecks.

The recent gyrations in commodity prices underscore the need for policies to manage and contain the economic consequences of such volatility, especially in EMDEs. In the years ahead, the challenges are likely to be compounded by the effects on commodity prices of the transition away from fossil fuels. Countries relying heavily on commodities face two types of inter-related policy challenges: first, smoothing macroeconomic volatility induced by commodity price swings and, second, reducing their reliance on commodities. The former requires the strengthening of fiscal, monetary, and macroprudential frameworks. The latter, progress with which will help achieve the former, requires structural measures, such as encouraging diversification of exports and national asset portfolios (that is, invest in a diversified stock of physical and human capital as well as institutions).

FIGURE 5.A Energy prices around global recessions and downturns

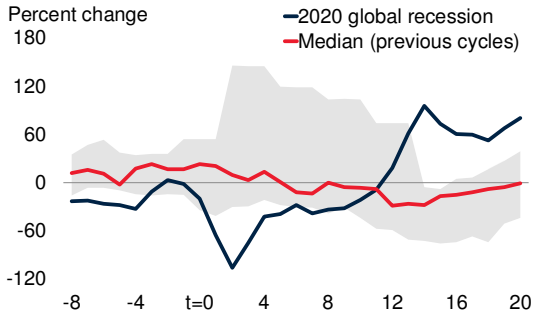


FIGURE 5.B Contributions of global shocks to variation in global commodity prices

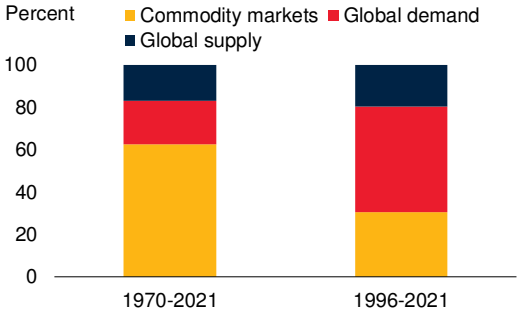
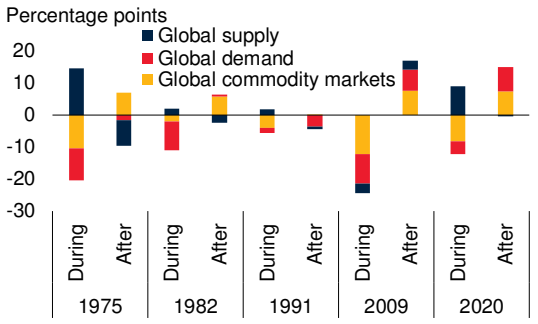


FIGURE 5.C Contributions of global shocks to variation in global commodity prices around recessions and slowdowns



Sources: Baumeister and Hamilton (2019); Ha, Kose, and Ohnsorge (2021); World Bank.

A. Figure shows WBG's energy price index. T=0 denotes the monthly peak of global industrial production before global recessions and downturns, as in Kose, Sugawara, and Terrones 2020. Vertical axis measures percent change in commodity price series from a year earlier. Blue line shows the trajectory of COVID -19 commodity cycle, while red line is median of previous cycles. Shaded areas represent the range of observed values in previous cycles. Data from January 1970 to October 2021.

B.C Shocks identified using sign restrictions in a FAVAR of month-on-month, seasonally adjusted changes in global inflation, global commodity prices, and global industrial production. All in year-on-year growth rates.

B. Contribution of global demand, supply, and commodity market shocks to variance of month-on-month growth in commodity prices, based on sample covering 1970-2021 and sample covering 1996-2021.

C. Cumulative historical decomposition of price growth into shocks between the last month before global recessions and the last month of global recessions ("During") as well as between the last month of the global recession and 12 months later ("After").

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The Aftermath of Debt Surges
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TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: January 24, 2021 - February 23, 2022					
Country	**Date**	**Indicator**	**Period**	**Actual**	**Previous**
Australia	1/24/22	CPI	Q4	3.7%	3.0%
South Korea	1/24/22	GDP	Q4	4.1%	4.0%
United States	1/27/22	GDP	Q4	5.5%	4.9%
France	1/28/22	GDP	Q4	5.4%	3.5%
Germany	1/28/22	GDP	Q4	1.4%	2.9%
Italy	1/31/22	GDP	Q4	6.4%	4.0%
Mexico	1/31/22	GDP	Q4	1.0%	4.5%
Canada	2/1/22	IP	NOV	4.5%	7.0%
Brazil	2/2/22	IP	DEC	-4.9%	-4.4%
Indonesia	2/7/22	GDP	Q4	5.0%	3.5%
Argentina	2/8/22	IP	DEC	10.1%	9.9%
Brazil	2/9/22	CPI	JAN	10.4%	10.1%
Saudi Arabia	2/9/22	GDP	Q4	6.8%	7.0%
Turkey	2/11/22	IP	DEC	14.3%	14.6%
United Kingdom	2/11/22	GDP	Q4	6.5%	7.0%
Japan	2/14/22	GDP	Q4	0.7%	1.2%
Argentina	2/15/22	CPI	JAN	50.7%	50.9%
Euro area	2/15/22	GDP	Q4	4.6%	3.9%
South Africa	2/16/22	CPI	JAN	5.7%	5.9%
Thailand	2/20/22	GDP	Q4	1.9%	-0.2%
Euro area	2/23/22	CPI	JAN	5.1%	4.9%

(Percent change y/y)

Upcoming releases: February 24, 2022- March 23, 2022				
Country	**Date**	**Indicator**	**Period**	**Previous**
United States	2/24/22	GDP	Q4	4.9%
France	2/25/22	CPI	FEB	2.8%
Germany	2/25/22	GDP	Q4	2.9%
India	2/28/22	GDP	Q4	8.4%
Australia	3/1/22	GDP	Q4	3.9%
Germany	3/1/22	CPI	FEB	5.0%
South Korea	3/1/22	IP	JAN	6.2%
South Korea	3/3/22	GDP	Q4	4.0%
Euro area	3/8/22	GDP	Q4	3.9%
Japan	3/8/22	GDP	Q4	1.2%
South Africa	3/8/22	GDP	Q4	2.9%
Italy	3/9/22	IP	JAN	4.6%
Mexico	3/9/22	CPI	FEB	7.1%
China	3/10/22	CPI	FEB	0.8%
India	3/11/22	IP	JAN	0.4%
Mexico	3/11/22	IP	JAN	3.0%
United Kingdom	3/11/22	IP	JAN	0.4%
China	3/14/22	IP	JAN	4.3%
Euro area	3/15/22	IP	JAN	1.5%
South Africa	3/23/22	CPI	FEB	5.7%
United Kingdom	3/23/22	CPI	FEB	4.9%