World Bank Group
Equitable Growth, Finance & Institutions
Prospects Group

Global Monthly

July 2022

Overview

- Global growth appears to have weakened in the second quarter, reflecting a deterioration in sentiment, inflation, and tightening financial conditions.
- Sentiment indicators point to a further softening of global growth in the third quarter, despite a relaxation of COVID-19 restrictions in China.
- Global financial conditions have tightened further as central banks around the world respond to elevated inflation.

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Chart of the Month

- Notwithstanding some moderation in oil prices in July, energy prices remain elevated, mainly reflecting tight supplies driven by the war in Ukraine.
- Concerns about lack of supply persist across oil, coal, and natural gas, mostly because of disruptions to Russia's energy exports.
- In contrast, metal prices have seen a sharp fall amid worries of a decline in Chinese demand and weak global growth.

Energy vs metals prices

Sources: Bloomberg; World Bank.
Note: Daily data, last observation is July 11, 2022. Energy is the weighted index of crude oil, coal and natural gas prices. Metals is weighted index of aluminum, copper, lead, nickel, tin and zinc prices.

Special Focus: Impact of Energy Shocks on Global Activity

- Russia's invasion of Ukraine has led to significant disruptions to trade and production of energy commodities, with energy prices climbing to multi-year highs.
- A combined shock to oil, natural gas, and coal prices equivalent to the average upward revision to World Bank forecasts over 2022-3 could lower global output by 0.8 percent after two years.
- Policy makers can reduce their economy's vulnerability to energy shocks by encouraging greater energy efficiency and accelerating the transition toward low-carbon energy sources.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Samuel Hill and Lucia Quaglietti under the supervision of Carlos Arteta, based on contributions from Prospects Group staff. The special focus was prepared by Jeetendra Khadan. This *Global Monthly* reflects data available up to July 20th, 2022. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: weakening growth. Incoming high-frequency indicators point to weakening global growth, reflecting a sharp deterioration in sentiment, high inflation, and rapidly tightening financial conditions. The global composite PMI excluding China slowed to its lowest level since end-2020 in June. Global PMI new orders eased to a near two-year low in June, and consumer and business confidence slumped to their lowest levels since September 2020 reflecting high inflation and tighter financing conditions. The global Sentix economic index plummeted from -7.9 to -14.5 in July, reaching the lowest level since June 2020 (figure 1.A).

Global trade: second-quarter weakness. Global goods trade is likely to have declined further in June, reflecting softening demand for industrial goods across several large economies and continued trade disruptions associated with the war in Ukraine. At 49.5, the global PMI manufacturing new export orders index remained in negative territory in June, recording the fourth straight month of contraction (figure 1.B). Global supplier's delivery times continued to rise in June, but the pace of the increase was the slowest since November 2020. Feeble global demand for manufactured goods, combined with the easing of some supply chain bottlenecks as China relaxed pandemic-related restrictions, have contributed to a decline in input costs. The PMI global input prices index slowed for the first time in twelve months in June, although at 69.5 it remained close to its record high.

Commodity markets: continued volatility. The price of Brent crude averaged $120/bbl in June before dropping below $100/bbl by mid-July, mainly reflecting slowing global activity. European natural gas prices rose 15 percent in June (m/m) and continued to increase in July as Russia cut gas exports to Europe, with pipeline deliveries down by about 60 percent in June. Meanwhile, EU imports of liquefied natural gas from the United States have increased sharply in 2022, offsetting some of the decline in imports from Russia as a result of sanctions associated with the war in Ukraine (figure 1.C). Agricultural prices declined 5 percent in June (m/m) led by grains (7 percent) and oils and meals (6 percent). Wheat prices have fallen due to higher-than-expected production in Canada, Russia and the United States. Metal prices have seen a sharp fall amid worries of a decline in Chinese demand and weak global growth.

FIGURE 1.A Global sentix index and PMI new orders

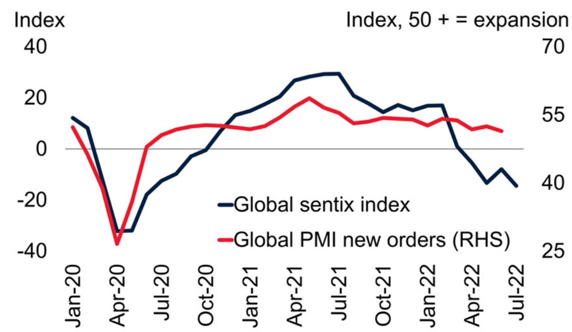


FIGURE 1.B Manufacturing PMIs

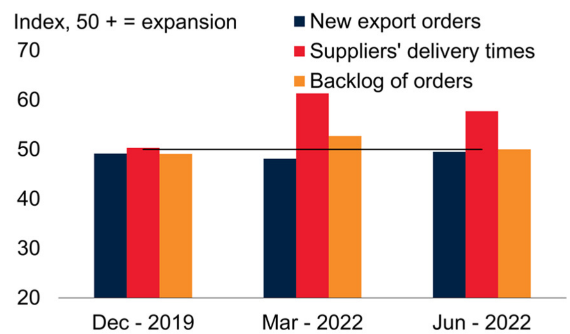
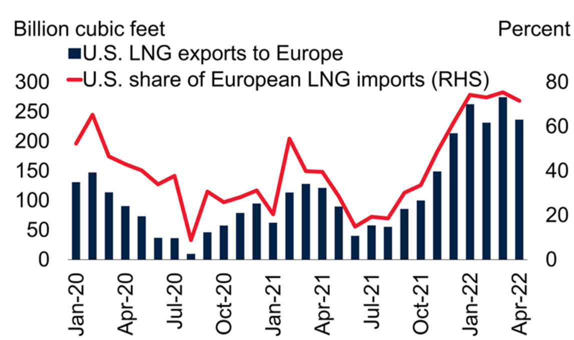


FIGURE 1.C Natural gas exports



Sources: Bloomberg; Haver Analytics; U.S. Energy Information Administration; World Bank.

A. Chart shows global Sentix index and PMI new orders. Purchasing Managers' Index (PMI) above 50 (below 50) indicates expansion (contraction). Latest data available for Sentix index is July 2022 and for PMI new orders is June 2022.

B. Chart shows manufacturing PMI subcomponents. Purchasing Managers' Index (PMI) above 50 (below 50) indicates expansion (contraction).

C. Europe includes Belgium, Croatia, France, Greece, Italy, Lithuania, Malta, Netherlands, Poland, Portugal, Russia, Spain, Turkey, and United Kingdom. Last observation is April 2022.

Global financing conditions: falling asset prices, rising borrowing costs. Global financial conditions have deteriorated further, reflecting tightening monetary policies across the world and rising risk aversion (figure 2.A). Advanced economy government bond yields have been volatile. In mid-June, U.S. and German 10-year yields spiked to around 3.5 and 1.75 percent, respectively, but subsequently fell back sharply amid concerns about weakening global activity. Market participants anticipate another 75 basis-point hike in U.S. policy rates in July. Global equity prices tumbled in June but have since stabilized somewhat. The U.S. dollar has strengthened to multi-decade highs against many EMDE currencies, while high-yield credit spreads have widened markedly in both advanced economies and EMDEs (figure 2.B). High frequency data indicate ongoing capital outflows from EMDEs (excluding China), with especially pronounced selling of equities. The cost of credit insurance on a basket of EMDE dollar-denominated sovereign bonds is at its highest level since early 2020.

United States: slowing momentum. High frequency indicators suggest that the slowdown has been broadening across sectors. In May, real personal spending fell by 0.4 percent (m/m) while residential investment softened amid deteriorating market sentiment, with housing starts plunging 11.9 percent (m/m) in May and declining by a further 2.0 percent (m/m) in June. The manufacturing output PMI edged down from 55.2 to a two-year low of 50.2 in June, while the services index fell from 53.4 to 51.6. Forward-looking indicators point to further weakness ahead, with new order sub-indexes for both sectors falling into contractionary territory (figure 2.C). Meanwhile, the University of Michigan consumer sentiment index fell to a record low of 50 in June before rebounding slightly to 51.1 in July. CPI headline inflation surprised to the upside in June, reaching 9.1 percent (y/y)—its highest reading in 40 years—while core inflation rose to 5.9 percent (y/y) amid tight labor market conditions.

Other advanced economies: plummeting confidence. Incoming data point to a loss of momentum in the euro area, reflecting elevated inflation, tighter financial conditions, and uncertainty over future energy supply. In June, the euro area composite output PMI dropped to 52.0 from 54.8, with the manufacturing sub-index falling into contractionary territory of 49.3 for the first time in two years. Meanwhile, consumer confidence plummeted to -23.6 in June, only slightly above its lowest-ever reading (figure 3.A). Inflation pressures continued to mount, with HICP inflation rising above market expectations, to 8.6 percent (y/y) in June amid elevated energy prices. Meanwhile, the ECB stepped up its efforts to curb inflation pressures by

FIGURE 2.A Financing conditions

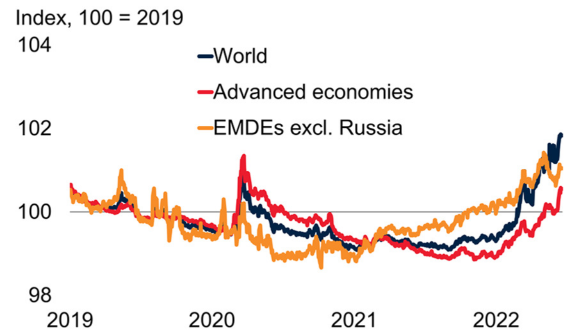


FIGURE 2.B High-yield bond spreads

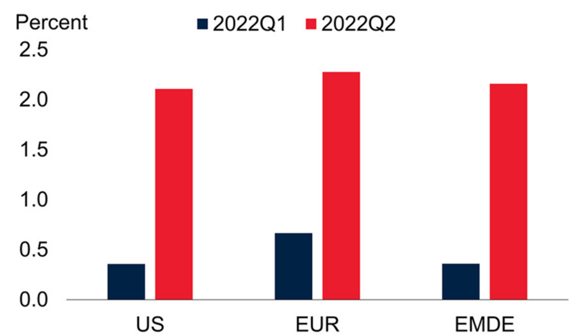
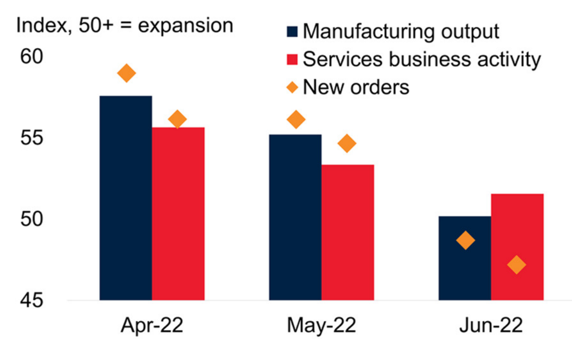


FIGURE 2.C PMIs in United States



Sources: Bloomberg; Goldman Sachs; Haver Analytics; S&P Global; World Bank.
Note: EMDE = emerging market and developing economies.
A. Higher index numbers reflect tighter financial conditions. The aggregates are computed using GDP weights at 2010-19 prices and market exchange rates, based on 25 economies (including euro area)—12 advanced economies and 13 EMDEs. Last observation is June 20, 2022.
B. Chart shows changes in High Yield Bond Indexes.
C. Purchasing Managers' Index (PMI) readings above 50 indicates expansion in economic activity; readings below 50 indicates contraction. Bars indicate manufacturing and services PMIs (headline series), while diamonds indicate the sub-indexes on new orders. Last observations are June 2022.

delivering its first-rate hike since 2011 in July. In Japan, growth likely rebounded in Q2, underpinned by firming activity in the services sector amid relaxing pandemic restrictions—in June, the service PMI jumped to 54.2, the highest level since October 2013.

China: rebound. China's growth slowed sharply from 4.8 percent (y/y) in 2022Q1 to 0.4 percent in 2022Q2 mainly reflecting COVID-19 outbreaks and localized lockdowns in March and April. Activity rebounded in May and strengthened further in June, supported by economic reopening and increased fiscal policy support. The manufacturing sector led the rebound, with industrial production expanding 2.3 (y/y) on average in May and June after contracting by 2.9 percent in April, and export growth accelerated to 17.4 percent (y/y) as supply chain disruptions began to abate (figure 3.B). Credit growth accelerated to 11.2 percent (y/y) in June, driven by faster government bond issuance. Headline CPI and core inflation rates picked up to 2.5 percent and 1 percent (y/y) in June, respectively. Since April, the government has rolled out a series of measures focused on supporting the corporate sector through large-scale tax reductions, deferrals of social security contributions, loan repayments for SMEs, and new infrastructure investment.

Other EMDEs: mixed developments. Growth weakened further in the Europe and Central Asia region at the end of the second quarter, reflecting continued headwinds associated with the war in Ukraine and tighter financing conditions. The manufacturing output PMI fell into contraction in Turkey and the Russian Federation in June, while it dropped to its lowest level since March 2020 in Poland. Manufacturing output also contracted in South Africa in the wake of persistent power shortages. In contrast, growth held up well in India, where the output PMI was little changed at 58.2 in June. Growth also remained resilient in Brazil, with GDP expanding by a better-than-expected 1 percent (q/q) in Q1 while the composite output PMI increased to 59.4 in June from 58.0 in May. Inflation pressures across EMDEs continued to build in May, with inflation above target in 90 percent of inflation-targeting EMDEs (figure 3.C). A number of central banks in EMDEs stepped up policy tightening, with the average policy rate exceeding 7 percent in May 2022. June data point to a further acceleration of inflation in Turkey (80 percent y/y), Indonesia (4.4 percent y/y), the Philippines (6.1 percent y/y) and Thailand (7.7 percent y/y). Sri Lanka's political and economic crisis escalated in July, with mounting turmoil leading to the introduction of a national state of emergency.

FIGURE 3.A Consumer confidence and manufacturing PMI in the euro area

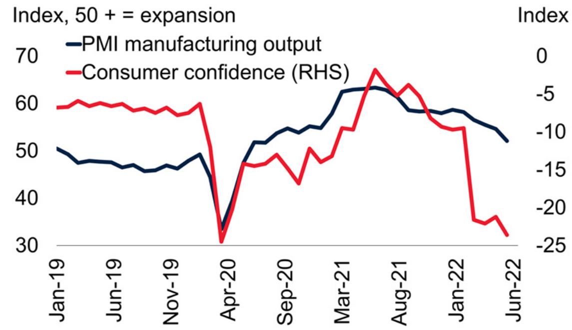


FIGURE 3.B China industrial production and exports

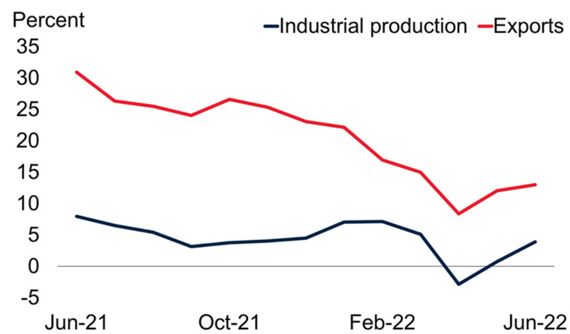
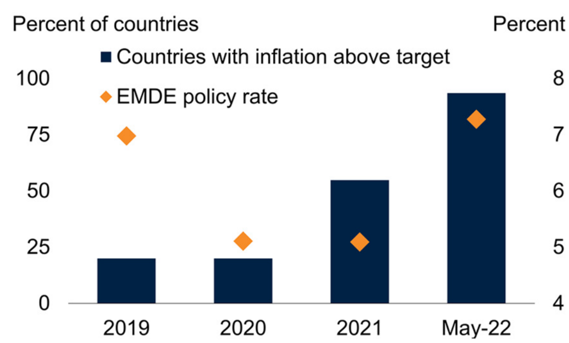


FIGURE 3.C EMDEs with inflation above target



Source: European Commission; Haver Analytics; International Monetary Fund; World Bank .

Note: EMDEs = emerging market and developing economies.

A. The consumer confidence indicator is computed as the arithmetic average of the balances (in percentage points) of the answers to the questions on the past and expected financial situation of households, the expected general economic situation and the intentions to make major purchases over the next 12 months. Purchasing Managers' Index (PMI) above 50 (below 50) indicates expansion (contraction). Last observations are June 2022.

B. Year-on-Year change for industrial production; three month moving average on year-on-year change for export growth.

C. Bars show the share of inflation-targeting economies with average inflation above the target range in a given year or month. Sample includes 31 EMDEs. Yellow diamond shows average EMDE policy rate.

Special Focus: Impact of Energy Shocks on Global Activity

Supply-driven shocks have caused sharp movements in global energy markets. Russia's invasion of Ukraine has significantly disrupted the trade and production of energy commodities. In response to the war, several countries—including the United States, the United Kingdom, and Canada—have announced bans on Russian oil, while the European Union plans to ban Russian crude oil and refined fuels by 2023. Russia has retaliated by cutting off direct natural gas exports to a number of European countries. Those disruptions have exacerbated existing strains in energy markets, particularly in Europe, as Russia is the world's largest exporter of natural gas and accounts for a significant share of global coal and crude oil exports. As discussed in the June 2022 *Global Economic Prospects Report*, the current energy shock will have significant consequences for global growth.

Energy prices have spiked to multi-year highs. The World Bank's energy price index increased 41 percent between January and June 2022, adding to a 48 percent increase between January 2020 and December 2021. Crude oil prices have increased by 280 percent between June 2020 and June 2022, while coal and gas prices have reached historic highs (figure 4.A). In real terms, European natural gas prices reached an all-time high, settling substantially above its previous peak in 2008 (figure 4.B). Based on the World Bank's June 2022 projections, energy prices are expected to rise by more than 40 percent in 2022, reflecting an 88 percent increase in coal prices, a 78 percent rise in natural gas prices (average of the European, Japan, and U.S. benchmarks), and a 42 percent increase in the price of oil. Relative to World Bank January 2022 projections, the price of energy commodities in the World Bank June 2022 projections is expected to be 45 and 47 percent higher in 2022 and 2023, respectively (figure 4.C).

The impact on global activity will be significant. Energy prices affect economic activity and inflation through various channels, including direct effects on prices and activity in both importers and exporters, and indirect effects via supply chains, other commodity markets, financial market reactions, and uncertainty. The ultimate impact of higher energy prices on individual countries depends on a wide range of factors, including the share of oil and other energy inputs in the exports and imports baskets, their reliance on the oil sector for tax revenues, their cyclical positions, and monetary and fiscal policy space. A supply-driven increase in oil prices averaging about 40 percent over two years—the size of the upward revision to World Bank projections would lower global activity by a cumulative 0.3 percent in the second year of the shock (figure 5.A). The impact

FIGURE 4.A Real coal and oil prices

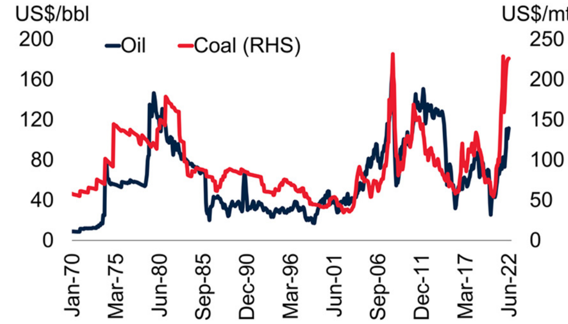


FIGURE 4.B Real natural gas prices

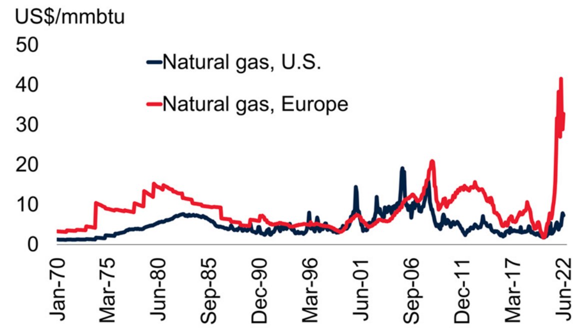
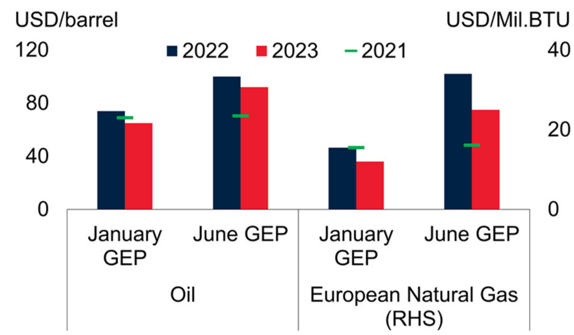


FIGURE 4.C Energy price projections: June 2022 vs January 2022



Sources: ; Comtrade (database); JP Morgan; Oxford Economics; World Bank.
A.-B. Monthly data from 1970 to June 2022. Prices deflated by the U.S. Consumer Price Index.
C. GEP refers to the Global Economic Prospects report. Oil price is the simple average of Brent, Dubai, and West Texas Intermediate prices.

on the global economy could be even bigger as oil price increases generally appear to have larger output effects on oil-importing economies than oil price decreases. This asymmetry could be caused by increased uncertainty which can have an outsized adverse impact on investment and durable goods consumption, tighter domestic financial conditions for energy importers, and a deterioration of fiscal and current account positions in oil importing countries.

Uneven impacts across oil exporters and importers. Higher energy prices will trigger a shift in global income from energy importers to energy exporters. Activity in oil importers is expected to deteriorate in response to higher oil prices since these reduce real disposable incomes, raise production costs, tighten financial conditions, and constrain policy space. Some energy exporters may benefit from improved terms of trade and higher commodities production. A 40 percent increase in oil prices would lower output growth in oil-importing advanced economies and EMDEs by 0.25 percentage point in the first year. A similar shock would raise aggregate output of oil exporting EMDEs by about 1 percent over the same time horizon. A supply-driven 70 percent increase in natural gas prices—equivalent to the average upward revision to World Bank forecasts over 2022-23—would lower global output by 0.4 percent after two years (figure 5.B). The impact of a gas supply shock would be greatest for continental Europe reflecting its outsized dependence on Russian supplies. In addition, a combined shock to oil, natural gas and coal prices, could reduce global growth by a cumulative 0.8 percent by 2023 (figure 5.C). Advanced economies would experience a cumulative reduction in output of 0.9 percent by 2023 compared to a 0.6 percent output reduction in oil importing EMDEs.

Policy implications. In the near-term, higher prices threaten to disrupt or delay the transition to cleaner forms of energy as several countries have announced plans to increase production of fossil fuels. Policy responses to previous energy shocks have shown that some measures can be highly effective and beneficial, such as increasing energy efficiency and renewable energy mandates, while others can lead to market distortions and environmental problems. To counter the negative effects of shocks to energy prices, policy makers need to prioritize policies that encourage greater energy efficiency and accelerate the transition towards low-carbon energy sources. In addition, temporary and targeted support to vulnerable groups should be prioritized over energy subsidies and tax breaks which, in the current context, could delay the transition to a low-carbon economy.

FIGURE 5.A Impact on activity of higher baseline oil prices

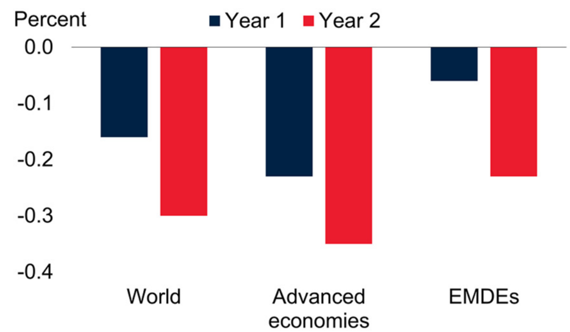


FIGURE 5.B Impact on activity of higher baseline natural gas prices

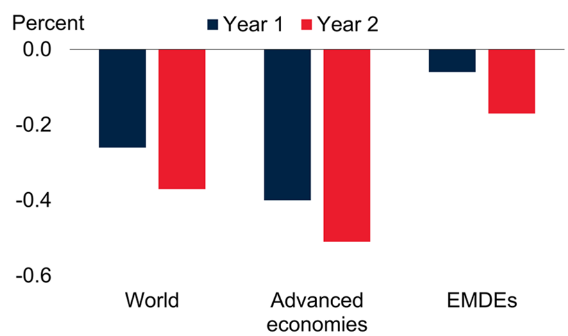
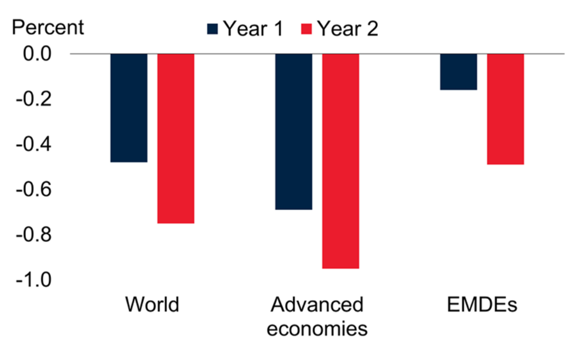


FIGURE 5.C Impact on activity of higher baseline energy prices



Sources: JP Morgan; Oxford Economics; World Bank.
Note: EMDEs = emerging market and developing economies.
A.C. These scenarios are produced using the Oxford Economics Global Economic Model.
A. Simulation is for supply-driven increases in Brent oil prices averaging 40 percent above baseline for two years.
B. Simulation is for supply-driven increases in natural gas prices averaging 70 percent above baseline for two years.
C. Chart combines the impacts on global output of the supply-driven increases in Brent oil prices, natural gas prices, and coal prices. Coal price shock is a supply driven increase in coal prices averaging 87 percent above baseline for two years.

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July 2022

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TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: June 21, 2022 - July 20, 2022					
Country	Date	Indicator	Period	Actual	Previous
South Africa	6/28/22	GDP	Q1	3.0%	1.7%
Germany	6/29/22	CPI	JUN	7.4%	8.0%
Indonesia	6/30/22	CPI	JUN	4.3%	3.6%
United Kingdom	6/30/22	GDP	Q1	8.7%	6.6%
Italy	7/1/22	CPI	JUN	8.0%	6.8%
South Korea	7/4/22	CPI	JUN	6.0%	5.4%
Turkey	7/4/22	CPI	JUN	78.6%	73.5%
Mexico	7/7/22	CPI	JUN	8.0%	7.7%
Brazil	7/8/22	CPI	JUN	11.9%	11.7%
Russian Federation	7/8/22	CPI	JUN	15.9%	17.1%
India	7/12/22	CPI	JUN	7.0%	7.0%
Euro area	7/13/22	IP	MAY	1.2%	-2.2%
France	7/13/22	CPI	JUN	5.9%	5.3%
United Kingdom	7/13/22	IP	MAY	1.4%	1.7%
United States	7/13/22	CPI	JUN	9.0%	8.5%
Argentina	7/14/22	CPI	JUN	64.0%	60.7%
China	7/14/22	GDP	Q2	0.4%	4.8%
Japan	7/14/22	IP	MAY	-4.2%	-3.1%
Saudi Arabia	7/14/22	CPI	JUN	2.3%	2.2%
United States	7/15/22	IP	JUN	4.2%	4.8%
Euro area	7/20/22	GDP	Q1	5.4%	4.8%

(Percent change y/y)

Upcoming releases: July 21, 2022 - August 20, 2022				
Country	Date	Indicator	Period	Previous
South Korea	7/25/2022	GDP	Q2	3.0%
Australia	7/26/2022	CPI	Q2	5.2%
Germany	7/28/2022	CPI	JUL	7.4%
United States	7/28/2022	GDP	Q2	3.5%
Euro area	7/29/2022	GDP	Q2	5.4%
France	7/29/2022	CPI	JUL	5.9%
Germany	7/29/2022	GDP	Q2	3.8%
Italy	7/29/2022	GDP	Q2	6.2%
Italy	7/29/2022	CPI	JUL	8.0%
Mexico	7/29/2022	GDP	Q2	1.8%
Spain	7/29/2022	GDP	Q2	6.3%
Indonesia	8/1/2022	CPI	JUL	4.3%
South Korea	8/1/2022	CPI	JUL	6.0%
France	8/5/2022	IP	JUN	-0.4%
Indonesia	8/5/2022	GDP	Q2	5.0%
United States	8/10/2022	CPI	JUL	9.0%
India	8/12/2022	IP	JUN	19.6%
Japan	8/14/2022	GDP	Q2	0.7%
Thailand	8/15/2022	GDP	Q2	2.2%
Poland	8/17/2022	GDP	Q2	9.4%
Euro area	8/18/2022	CPI	JUL	8.6%