WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

Global Monthly

May 2022

Overview

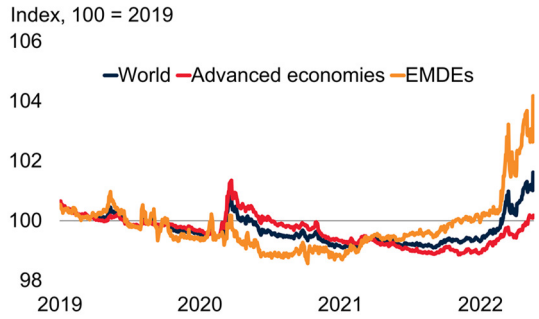
- Global growth momentum slowed at the start of Q2, amid rising supply strains and persistently high inflation.
- While energy and agriculture prices stabilized in April at high levels, fertilizer prices have continued to rise.
- Incoming data point to a contraction in China's output in April, while activity appears to have firmed in other large EMDEs.

Table of Contents

Chart of the Month

- Global financing conditions have reached their tightest levels since May 2020, as central banks in advanced economies pivoted toward more hawkish stances.
- Concerns over rising rates in advanced economies at a time when growth is slowing have prompted a sharp sell-off in global equity prices in May.
- Financing conditions in EMDEs have tightened significantly further in May in the wake of widening credit spreads and sharp currency depreciations.

Financing Conditions



Sources: Bloomberg; Goldman Sachs; World Bank.
Note: 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 May 20, 2022.

Special Focus: The War in Ukraine and Energy Markets

- The war in Ukraine has led to significant disruptions to trade and production of energy commodities, exacerbating pre-existing strains in energy markets.
- To cushion the impact of the current increase in energy prices policy makers in many economies implemented energy subsidies and tax breaks on a large scale, reversing a trend of declining subsidies in recent years.
- Temporary support to vulnerable groups can be more effective at cushioning the impact of rising energy prices than energy subsidies, since the latter have distortionary effects and can delay the transition to a zero-carbon economy.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Lucia Quaglietti and Collette Wheeler under the supervision of Carlos Arteta, based on contributions from Justin-Damien Guénette, Osamu Inami, Sergiy Kasyanenko, Philip Kenworthy, Peter Nagle, Vasiliki Papagianni, Lucia Quaglietti, Lorez Qehaja, Franz Ulrich Ruch, Kaltrina Temaj, Ekaterine Vashakmadze, and Collette Wheeler. The special focus was prepared by Jeetendra Khadan. This *Global Monthly* reflects data available up to May 19th, 2022. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: Slowing momentum. Incoming data point to a slowdown of global growth in April, with the global composite output PMI index falling to 51 from 52.7 in March (figure 1.A). The decline was driven by a sharp contraction in the global manufacturing output PMI sub-index, reflecting falling manufacturing activity in China, where production was hindered by severe COVID-19 restrictions. In contrast, global services activity remained solid in April, supported by steady consumer spending. Meanwhile, inflationary pressures continued to build. In April, the PMI input prices index rose to 71.4, its highest level since 2008, reflecting stretched global supply chains and rising input costs.

Global trade: Second-quarter weakness. Global goods trade contracted in April, dampened by lockdowns in large Chinese cities and disruptions associated with the war in Ukraine. At 48.1, the global PMI manufacturing new export orders index remained into negative territory in April (figure 1.B). Meanwhile, global supply chains continued to experience substantial strains. Delivery times lengthened further, with the global PMI supplier's delivery time index reaching 64.3 in April—the second highest reading on record—while backlogs of orders rose at their fastest pace since 2004. Trade disruptions across the Black Sea and delays and congestions at Chinese ports pushed shipping costs to a six-month high in April, exacerbated by surging commodity prices. There are signs that supply strains across Chinese ports might have eased somewhat in early May.

Global financing conditions: Broad tightening. Global financial conditions have reached their tightest levels since the onset of the COVID-19 pandemic. A rapid rise in long-term yields and expectations for faster monetary tightening in advanced economies, especially the United States, have put downward pressure on the valuations of risky assets—U.S. equities have slipped close to a "bear market" (20 percent drawdown)—and has prompted significant strengthening of the U.S. dollar against EMDE currencies. Recent dollar strength has been correlated with debt and equity outflows from EMDEs (figure 1.C). EMDE sovereign bond spreads have widened on average since April, including among commodity exporters that saw spread reductions following the start of the war in Ukraine. Financial conditions in China have reached their tightest levels since 2016, in part reflecting concentrated selling of local currency bonds by non-residents. Global uncertainty, which increased sharply in the wake of the war, rose further in April (figure 2.A).

FIGURE 1.A Global output and price indicators

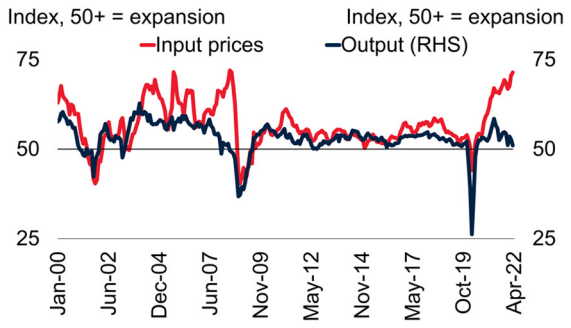


FIGURE 1.B Global trade indicators

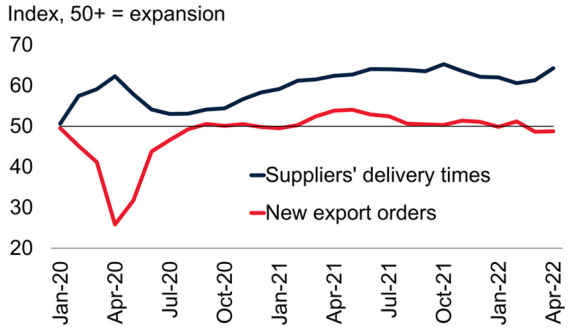
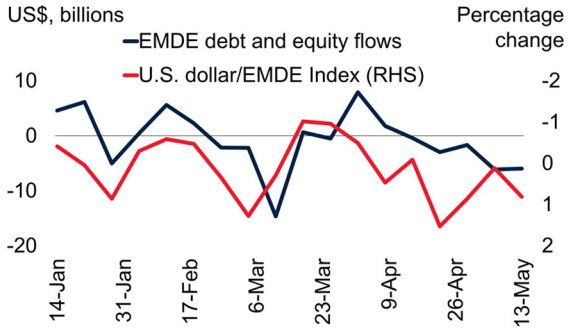


FIGURE 1.C EMDE capital flows and dollar



Sources: Bloomberg; Board of Governors of the Federal Reserve System; Haver Analytics; Institute of International Finance (IIF); World Bank.
Note: EMDE = emerging market and developing economies.
A. Chart shows composite output and input prices Purchasing Managers' Index. Index of 50 and above (below) indicates expansion (contraction).
B. Figure shows new export orders sub-component from manufacturing Purchasing Managers' Index (PMI) and inverted global PMI suppliers' delivery times. PMI data for delivery times are inverted by subtracting data from 100; therefore, increasing (decreasing) PMI data indicate faster (slower) delivery times. Last observation is April 2022.
C. U.S. dollar / EMDE Index is a trade-weighted index of the foreign exchange value of the U.S. Dollar against 14 major EMDE trading partners. Axis values are inverted; movement down represents a stronger dollar.

Commodity markets: Prices stabilizing at high levels. Energy prices edged down 6 percent in April after surging 56 percent in March. The brent crude oil price dropped 8 percent to $105/bbl in April amid concerns of weaker demand in China as a result of COVID-19 lockdowns. However, prices for fuels such as jet fuel, diesel, and gasoline have diverged from crude oil and continued to rise into May (figure 2.B). The divergence is due to insufficient refining capacity, disruption to Russia's exports of refined oil products, and releases of crude oil from strategic reserves. U.S. natural gas prices surged 34 percent in April (m/m) reflecting increased foreign demand for liquified natural gas. Agriculture prices were broadly flat in April after rising 7 percent in March. Wheat prices rose 26 percent (m/m) due to poor weather conditions in many countries, including India and the United States, and disruptions to Ukraine's exports. The price of fertilizers continued to increase in April by 10 percent amid concerns about supply availability and high input costs. Metal prices declined 2 percent in April (m/m) and fell further at the start of May, reflecting concerns about slowing demand from China.

United States: Resilient momentum despite slowdown in Q1. GDP declined 1.4 percent (q/q saar) in the first quarter of 2022, as large drags from net exports (mainly due to strong import demand) and inventories masked strong growth in private domestic demand (figure 2.C). Domestic activity remained strong in April despite headwinds from surging energy prices. Retail sales excluding gasoline and automobiles rose 1 percent (m/m) following an upwardly revised 1.2 percent in March, while industrial production accelerated from 0.9 percent (m/m) to 1.1 percent. Meanwhile, data continue to point to tight labor market conditions. Growth in compensation costs for civilian workers rose from 4 percent (y/y) in 2021Q4 to 4.5 percent (y/y) in 2022Q1, pointing to mounting wage pressures. The Federal Reserve increased policy rates by 50 basis points—the first increase of this size in 22 years—and also announced the start of quantitative tightening in June.

Other advanced economies: Rapid deterioration in sentiment. In the *euro area*, GDP expanded 1.1 percent in the first quarter (q/q saar), broadly in line with consensus expectations. However, soaring energy prices and heightened uncertainty associated with the war have contributed to a rapid deterioration in sentiment. In April, consumer confidence plunged to a 24-month low. In early May, the Sentix index declined further, to its lowest level since June 2020. Industrial activity in the euro area weakened in April, with the output subcomponent of the manufacturing PMI declining to a 22-month low of 50.7, while the services index

FIGURE 2.A Uncertainty Indicators

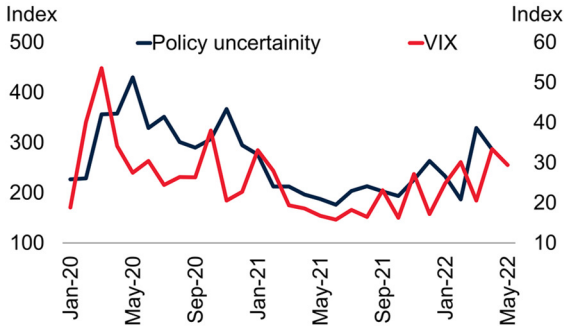


FIGURE 2.B Change in oil and fuel prices

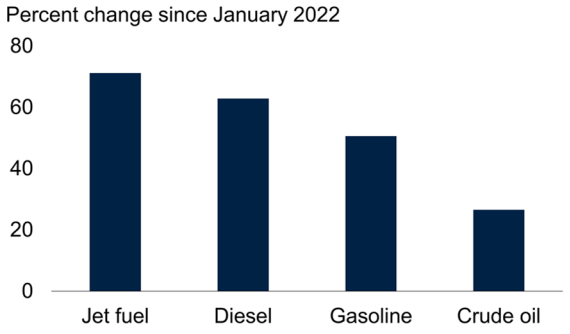
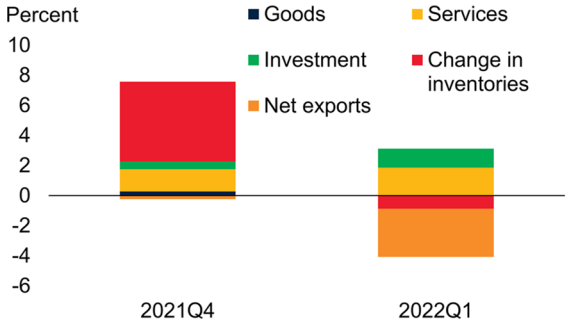


FIGURE 2.C Growth contributions in the United States



Sources: Bloomberg; Bureau of Economic Analysis; Davis (2016); World Bank.

A. Chart shows Global Economic Policy Uncertainty index as calculated by Davis (2016). Last observation is April 2022. VIX shows monthly data. Last observation is May 20, 2022.

B. Figure shows the change in crude oil and fuel prices from January 2022 to May 2022. Data for May 2022 are the average of daily prices until May 11, 2022.

C. Bars show contributions to percent change in real GDP (seasonally adjusted at annual rates).

improved somewhat (figure 3.A). Meanwhile, inflation continued to surprise to the upside in April, surging to 7.5 percent (y/y). In *Japan*, GDP contracted 1 percent (q/q saar) in the first quarter as private consumption declined. The services PMI jumped from 49.4 to 50.7 in April as COVID-19 restrictions were lifted.

China: Receding Omicron wave. Strict lockdowns led to a contraction of activity in April. Both the manufacturing and non-manufacturing PMIs dropped significantly—the Caixin services PMI, which surveys smaller and export-oriented firms in coastal regions, plunged to 36.2, its lowest level since February 2020. Industrial production and retail sales grow 2.9 percent and 14.5 percent (y/y), respectively, in April. Export growth slowed 3.9 percent (y/y) in April while import growth remained unchanged in the face of front-loaded fiscal policy and support for infrastructure investment. The most recent COVID-19 wave has been receding, with new domestic cases in early May two-third below their mid-April peak. Almost 80 percent of enterprises have resumed operation in Shanghai despite remaining mobility restrictions on some parts of the city.

Other EMDEs: Soaring inflation. Headline inflation in EMDEs climbed to its highest level since 2008, reaching 7.5 percent in March as the war in Ukraine and pandemic disruptions exerted pressure on commodity prices and supply chains (figure 3.C). Median core inflation also accelerated in March, rising to 6.8 percent (y/y), with one-quarter of EMDEs experiencing their fastest pace of core inflation on record. In *Brazil* and *Mexico*, while activity is firming, inflation has accelerated further, to 12.1 percent and 7.7 percent (y/y) in April, respectively. The April composite PMI for Brazil registered a strong 58, while in Mexico both the manufacturing and non-manufacturing PMIs remained at expansionary levels, led by new orders components above 55. In *India*, high frequency indicators point to a steady rebound from the Omicron-driven wave in early 2022 with the services PMI reaching 57.9 in April. Manufacturing output also accelerated in April. Headline inflation has surged well above the upper-end of the 2 to 6 percent target range, prompting the central bank to rise the policy rate. In *Saudi Arabia*, activity continues to grow robustly, with GDP expanding 9.6 percent (y/y) in 2022Q1. The manufacturing PMI expanded across several EAP economies (*Indonesia, Malaysia, Philippines, Thailand, Vietnam*) in April, lifted by falling COVID-19 cases. In the *Russian Federation*, GDP growth decelerated to 3.5 percent in 2022Q1, and recent indicators point to a steep contraction in 2022Q2.

FIGURE 3.A Euro area PMIs

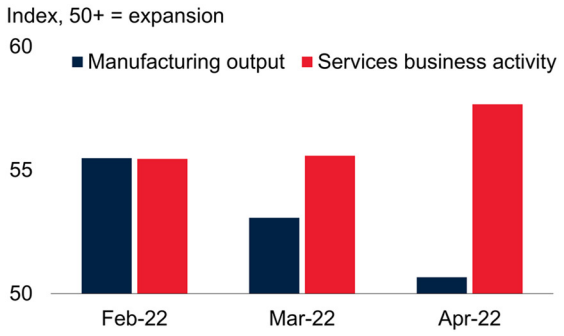


FIGURE 3.B China Official PMIs

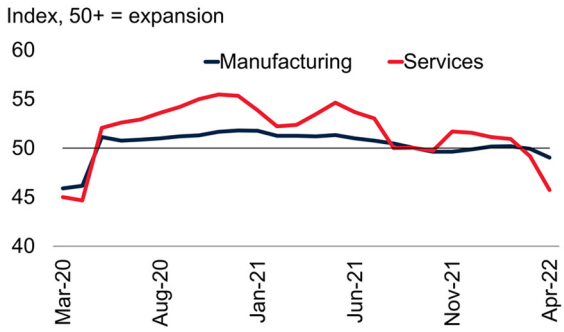
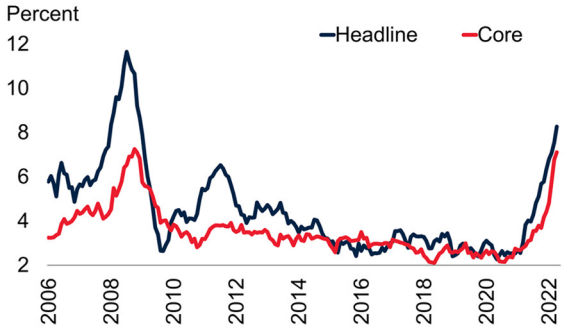


FIGURE 3.C EMDE inflation



Sources: Haver Analytics; S&P Global; World Bank.
Note: EMDEs = emerging market and developing economies.
A. Purchasing Managers' Index (PMI) readings above 50 indicates expansion in economic activity; readings below 50 indicates contraction. Last observations are April 2022.
B. Lines show three months moving average. Purchasing Managers' Index (PMI) readings above 50 indicates expansion in economic activity; readings below 50 indicates contraction. Last observations are April 2022.
C. EMDE headline and core inflation are simple averages computed for a sample of 47 EMDEs. Last observation is April 2022.

Special Focus: The War in Ukraine and Energy Markets

The war in Ukraine is exacerbating volatility in energy markets. Russia is the world's largest exporter of natural gas and accounts for a significant share of coal and crude oil exports (figure 4.A). The war in Ukraine has therefore led to significant disruptions to trade and production of energy commodities, exacerbating existing strains in energy markets. In addition, a number of economies—including Canada, the United Kingdom, the European Union (EU), and the United States—have decided to ban or phase out imports of Russian energy. As discussed in the latest *Commodity Markets Outlook*, the ultimate impact of on energy markets depends on the magnitude of the associated disruptions, the possibility for sanctioned exports to be diverted via other countries, the availability of inventories that can be drawn upon and the potential for increased production elsewhere.

The war in Ukraine is affecting energy markets through trade and production channels. In response to the invasion, a wide range of sanctions have been imposed on Russia. The United States and the EU have announced plans to phase out of Russian fossil fuel imports by 2022 and 2027, respectively. Meanwhile, the United States and other IEA members announced the release of 180 million and 60 million barrels of oil from their strategic national reserves, respectively, from April to October 2022. Russia has retaliated by cutting off natural gas exports to Poland and Bulgaria and has requested to be paid in rubles for its energy exports. Moreover, the exit of oil companies from Russia, tighter financial conditions, reduced investment, and restricted access to technology are likely to have long-lasting implications on Russia's energy production.

Energy prices have risen sharply. Oil prices increased 3 fold (in nominal terms) from April 2020 to January 2022---the largest oil price increase for any equivalent 22-month period since the 1973 oil crisis. Unlike previous energy shocks, all energy prices have seen significant increases in 2022 (figure 4.B). Coal and gas prices reached historic highs in nominal terms. However, in real terms, only the European natural gas price reached an all-time high, settling substantially above its previous peak in 2008 (figure 4.C). The World Bank's energy price index increased 24 percent between January and March 2022, adding to a 47 percent increase between January 2020 and December 2021. Based on current projections, energy prices are expected to rise by 42 percent in 2022, reflecting an 81 percent increase in coal prices, a 74 percent rise in natural gas prices (average of the

FIGURE 4.A Russia's share of global energy exports

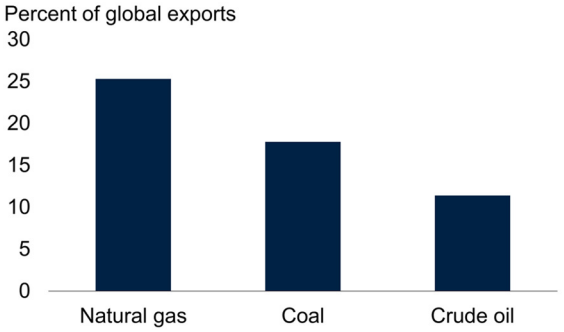


FIGURE 4.B Coal and oil prices

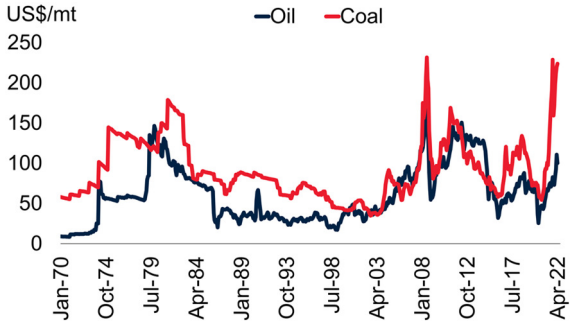
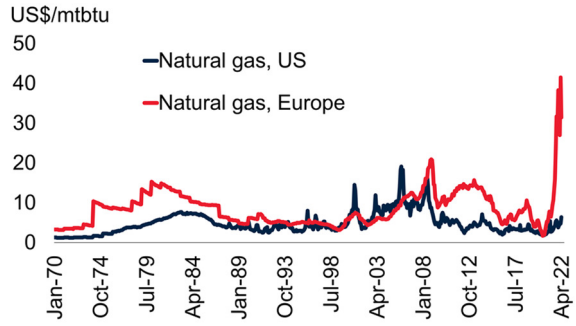


FIGURE 4.C Natural gas prices



Sources: BP Statistical Review; Comtrade (database); U.S. Department of Agriculture; World Bank.
A. Data for energy and food are trade volumes while metals and minerals are trade values. Fertilizers are phosphate rock and potash minerals, and ammonia-based non-minerals. Data are for 2020.
B. Monthly data from 1970 to March 2022. Prices deflated by the U.S. Consumer Price Index (CPI). Oil refers to the Dubai benchmark.
C. Monthly data from 1970 to March 2022. Prices deflated by the U.S. Consumer Price Index (CPI).

European, Japan, and U.S. benchmarks), and a 42 percent increase in the price of oil. Relative to World Bank January projections, the price of energy commodities is now expected to be 45 and 47 percent higher in 2022 and 2023, respectively.

Lessons from previous energy shocks will be key to inform a long-term approach to the current price hike. Many countries have responded to the current energy shock by prioritizing energy subsidies and tax breaks, reversing a trend of declining subsidies in recent years. Several countries have also announced plans to increase their production of fossil fuels (coal and LNG), while others aim to faster increases in fuel efficiency requirements to reduce energy demand. In comparison, policy responses to previous oil price shocks were focused on establishing institutions to safeguard oil supplies and implementing measures to address demand and supply imbalances. For example, the United States adopted policies to boost production after the steady increase in prices in the 2000s, including fiscal incentives to improve energy efficiency in vehicles and housing and incentives to increase the use of biofuels. Moreover, past responses to price shocks entailed energy-efficiency reforms and policies aimed at encouraging a shift in consumer preferences (figure 5.A). There were also notable changes in the energy matrix in favor of renewable energy sources, as well as the development of new sources of supply in non-OPEC countries (figure 5.B) and more recently, the development of U.S. shale oil deposits (figure 5.C).

Policy implications. Three important aspects of the current energy shock could make it more difficult to address from a policy perspective. First, the increase in energy prices has been broad-based, with limited scope to substitute for lower-cost energy sources. Second, the oil intensity of GDP has fallen considerably since the 1970s and consumers may respond less to energy price changes, at least in the short term. Third, policy responses so far have largely prioritized energy subsidies and tax breaks, which can aggravate the current situation. Past energy crises have shown that some polices can be highly effective and beneficial (such as increasing energy efficiency and renewable energy mandates), while others can lead to market distortions and environmental issues (such as price controls and the promotion of coal use for electricity generation in the 1970s). Learning from past lessons, policy makers can prioritize policies that encourage greater energy efficiency and accelerate the transition toward low-carbon energy sources. To cushion the adverse effects on households, temporary targeted support to vulnerable groups can be prioritized over energy subsidies.

FIGURE 5.A Change in shares of energy demand

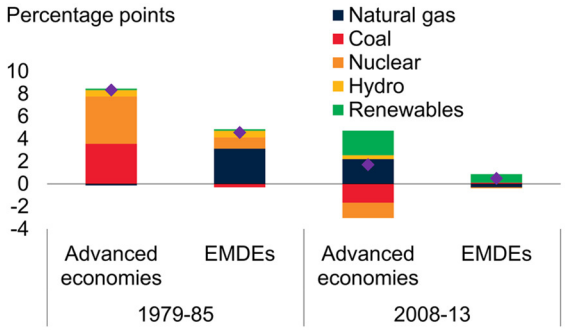


FIGURE 5.B Oil production since 1970

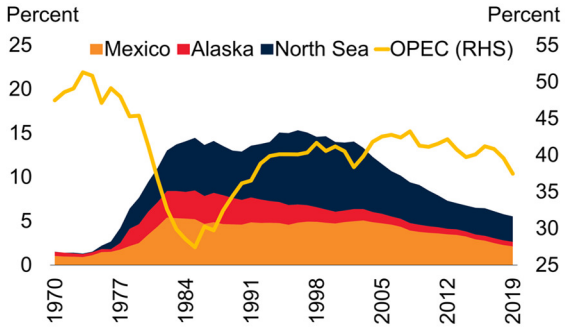
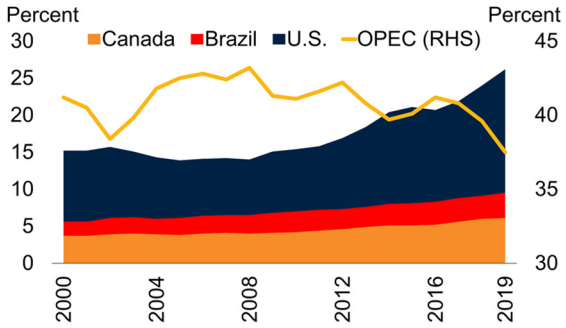


FIGURE 5.C Oil production since 2000



Sources: BP Statistical Review; Comtrade (database); Eurostat; International Energy Agency (IEA); World Bank.
A. Chart shows the change in the composition of energy consumption in advanced economies and EMDEs in the five years after the oil price shocks of 1979 and 2008. The total change reflects the equivalent decrease in oil consumption.

Recent Prospects Group Publications

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Implications of the War in Ukraine for the Global Economy
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East Asia and the Pacific Economic Update: Braving the Storms
The Impact of the War in Ukraine on Global Trade and Investment
World Bank's Women, Business and the Law 2022

TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: April 24, 2021 - May 23, 2022					
Country	**Date**	**Indicator**	**Period**	**Actual**	**Previous**
South Korea	4/25/22	GDP	Q1	3.1%	4.2%
Japan	4/27/22	IP	MAR	-0.7%	1.0%
United States	4/28/22	GDP	Q1	3.6%	5.5%
France	4/29/22	GDP	Q1	5.3%	5.5%
Germany	4/29/22	GDP	Q1	3.7%	1.8%
Italy	4/29/22	GDP	Q1	5.8%	6.2%
Mexico	4/29/22	GDP	Q1	1.6%	1.1%
Saudi Arabia	5/1/22	GDP	Q1	9.6%	6.7%
Turkey	5/5/22	CPI	APR	70.0%	61.1%
Indonesia	5/9/22	GDP	Q1	5.0%	5.0%
Brazil	5/11/22	CPI	APR	12.1%	11.3%
Argentina	5/12/22	CPI	APR	58.0%	55.1%
India	5/12/22	CPI	APR	7.8%	7.0%
United Kingdom	5/12/22	GDP	Q1	8.7%	6.6%
Euro area	5/13/22	IP	MAR	-0.9%	1.3%
Russian Federation	5/13/22	CPI	APR	17.8%	16.7%
China	5/15/22	IP	APR	-2.9%	5.0%
Thailand	5/16/22	GDP	Q1	2.2%	1.8%
Euro area	5/17/22	GDP	Q1	5.1%	4.7%
Italy	5/17/22	CPI	APR	5.9%	6.5%
Netherlands	5/17/22	GDP	Q1	7.0%	6.4%

(Percent change y/y)

Upcoming releases: May 24, 2022- June 23, 2022				
Country	**Date**	**Indicator**	**Period**	**Previous**
Germany	5/25/2022	GDP	Q1	1.8%
Mexico	5/25/2022	GDP	Q1	1.6%
Australia	5/31/2022	GDP	Q1	4.2%
India	5/31/2022	GDP	Q1	5.4%
Italy	5/31/2022	GDP	Q1	6.2%
Poland	5/31/2022	GDP	Q1	8.0%
Indonesia	6/2/2022	CPI	MAY	3.5%
France	6/3/2022	IP	APR	0.1%
Spain	6/7/2022	IP	APR	0.1%
Euro area	6/8/2022	GDP	Q2	4.7%
South Africa	6/8/2022	GDP	Q1	1.7%
South Korea	6/8/2022	GDP	Q1	4.2%
China	6/9/2022	CPI	MAY	2.0%
Italy	6/10/2022	IP	APR	2.9%
United States	6/10/2022	CPI	MAY	8.2%
New Zealand	6/15/2022	GDP	Q1	1.7%
Euro area	6/17/2022	CPI	MAY	7.3%
United States	6/17/2022	IP	MAY	6.4%
Canada	6/22/2022	CPI	MAY	6.6%
United Kingdom	6/22/2022	CPI	MAY	7.8%
Japan	6/23/2022	CPI	MAY	2.5%