WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

Global Monthly

November 2022

Overview

- Incoming global economic data are mixed, with slightly better-than-expected data outturns for Q3 accompanied by a continued worsening of leading indicators.
- In advanced economies, growth in Q3 was uneven, with the euro area experiencing a steep slowdown, while output rebounded in the United States.
- In EMDEs, activity declined in October amid high input costs and waning external demand.

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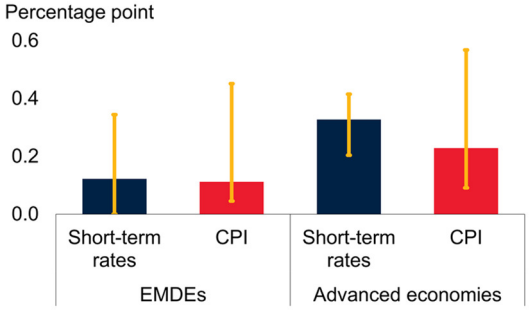
Chart of the Month

- Global financing conditions over the next 12 months are expected to be tighter than previously projected, according to October Consensus expectations.
- Short-term rate expectations in advanced economies increased by 30 basis points. For EMDEs, many of which started their tightening cycles earlier, the increase in expectations is more modest, at 10 basis points.
- Higher short-term rates in part reflect upward revisions to 2023 inflation expectations, with survey data pointing to higher-for-longer price pressures.

Change in consensus expectations for short-term interest rates in a year and CPI inflation in 2023



Sources: Consensus Economics; World Bank.
Note: EMDEs = emerging market and developing economies.
Bars show median revision between September and October 2022 consensus forecasts for short-term interest rate in 12 months, and headline CPI inflation in 2023. The whiskers show the 25th and 75th percentiles of the country distribution of forecast revisions. Included sample: 18 EMDEs and 22 AEs.

Special Focus: Drivers of aluminum and copper prices

- Several demand and supply shocks have contributed to higher volatility in aluminum and copper prices since 2020.
- Long-term fluctuations in aluminum and copper prices have been largely driven by economic activity shocks, while inventory, consumption demand and supply shocks mostly affected short-term price volatility.
- Metal exporting countries can reduce their exposure to global price shocks by strengthening fiscal and monetary policy frameworks and pursuing export diversification policies.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Jeetendra Khadan, Nikita Perevalov and Collette Wheeler under the supervision of Carlos Arteta, based on contributions from Prospects Group staff. The special focus was prepared by Francisco Arroyo Marioli and Kaltrina Temaj. This *Global Monthly* reflects data available up to November 17th, 2022. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: mixed indicators. Data outturns in Q3 were slightly better than expected, with growth in the United States and China exceeding market expectations. Still, leading indicators point to slowing global activity in Q4. The global composite PMI contracted further in October, with both the manufacturing and services PMIs declining to their lowest readings since mid-2020. Tightening financial conditions, disruptions to energy supplies, and high inflation have contributed to the deterioration in activity indicators. Consumer and business sentiment has also eroded in recent months, with the overall global Sentix index remaining below its Q3 level in November (figure 1.A).

Global trade: broad-based slowdown. Following an uptick in global goods and services trade in Q2, high-frequency indicators point to a broad-based slowdown in global trade growth in the second half of the year. The PMI new export orders index for services and manufacturing trade fell deeper into contraction in October, slipping to the lowest level for services since January 2020 and second lowest level for manufacturing since February 2021 (figure 1.B). Incoming data also point to a moderation in travel, as related sectors face labor shortages while tourism spending is dampened by high energy prices, inflation, and tighter financing conditions. After continued easing since April, the global supply chain pressure index ticked up slightly in October due to backlogs at UK ports, as well as upward pressures from delivery times and outbound air freight in Asia.

Commodity markets: decline in prices. Most commodity prices softened in October. Energy prices eased 8 percent in October (m/m), led by natural gas prices. European natural gas prices fell 33 percent (m/m) as inventories neared full capacity and demand was lower due to warmer-than-usual weather and reduced household and industrial consumption (figure 1.C). Coal prices dropped 10 percent (m/m) as output increased in several countries, including China and India. In contrast, the price of Brent crude oil fluctuated between $93/bbl and $98/bbl during the first half of November. The outlook for oil is subject to considerable uncertainty, partly stemming from G7 plans to cap the price of Russian oil, the EU's upcoming ban on Russian crude oil imports which takes effect on December 5, and OPEC's decision to reduce production quotas by a headline 2 million barrels per day. Agriculture prices edged down in October, by around 1 percent (m/m),

FIGURE 1.A Global Sentix consumer confidence and economic expectations indexes

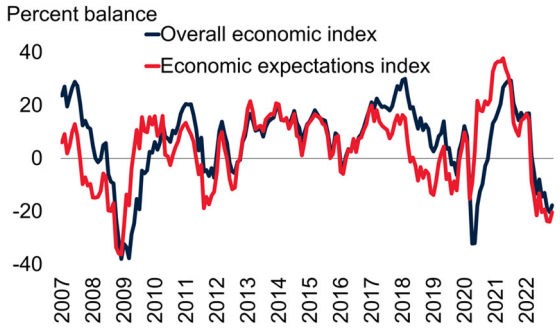


FIGURE 1.B Global PMI new export orders

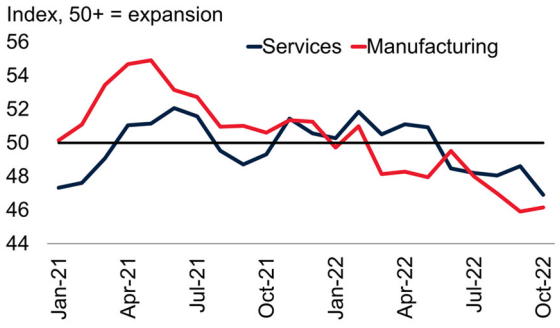


FIGURE 1.C European natural gas prices

Sources: Bloomberg; Haver Analytics; World Bank.
A. The Sentix index shows investors' market expectations over the next month. Last observation is November 2022.
B. Chart shows new exports orders PMI subcomponents. PMI above 50 (below 50) indicates expansion (contraction).
C. Daily data, last observation is November 14, 2022.

with declines in beverage crops and raw materials offsetting an increase in grains prices. Metal prices fell by around 2 percent (m/m) in October, led by tin (-8 percent) and zinc (-5 percent).

Global financial conditions: some stabilization. Yields on 2-year and 10-year U.S. treasury bonds increased in early November in response to a further 75 basis-point hike in U.S. policy interest rates, but subsequently fell sharply following softer-than-expected inflation data (figure 2.A). Global equity prices rallied in tandem, reaching their highest levels since early September. Across EMDEs, financial conditions stabilized somewhat between late October and mid-November. The U.S. dollar weakened materially, while EMDE sovereign borrowing spreads and credit-default swap premia also declined (figure 2.B). Driven by commentary of future easing of COVID-related restrictions, Chinese equities surged in November, with the MSCI China index rising by almost 30 percent in the first half of the month.

United States: growth rebound masking weak domestic demand. Following two quarters of contraction, output rebounded by 2.6 percent (q/q saar) in Q3, reflecting import compression (figure 2.C). In contrast, final sales to private domestic purchasers—a proxy of underlying domestic demand—slowed from 0.5 percent (q/q saar) in Q2 to 0.1 percent in Q3. Private consumption growth slowed to 1.4 percent (q/q saar), while residential investment plummeted 26.4 percent (q/q saar), as mortgage rates reached their highest level in over a decade. The employment cost index grew 5.3 percent (y/y) in Q3, slightly lower than in Q2 but still well above the pre-pandemic average, while non-farm payroll employment rose by a solid 261,000 in October. Inflation edged down from 8.2 percent (y/y) in September to a still high 7.7 percent in October.

Other advanced economies: decelerating activity. In the euro area, growth fell sharply from 0.8 percent (q/q) in Q2 to 0.2 percent (q/q) in Q3, with leading indicators signaling further weakness ahead. In October, the manufacturing PMI fell deeper into contractionary territory, from 48.4 to 46.4, while the services index edged down to a 20-month low of 48.6. The new orders subindex was below 50 across the largest euro area economies, and it plummeted to pandemic-lows in Germany (figure 3.A). In October, the European Central Bank continued to tighten monetary policy, raising policy rates by 75 basis points, as euro area inflation reached a record high

FIGURE 2.A U.S. 2-year and 10-year treasury yields

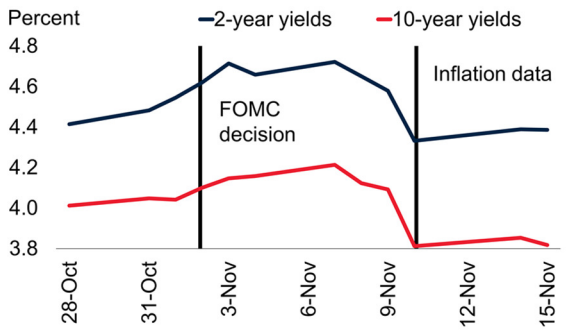


FIGURE 2.B EMDE credit-default swap premia and the U.S. dollar

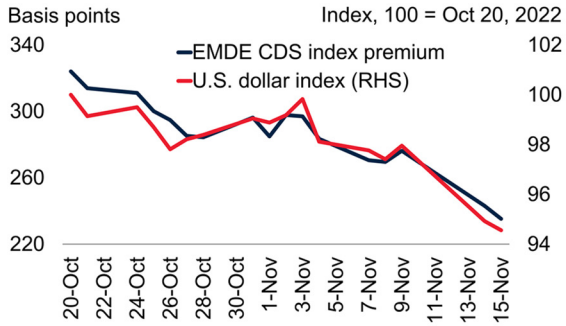
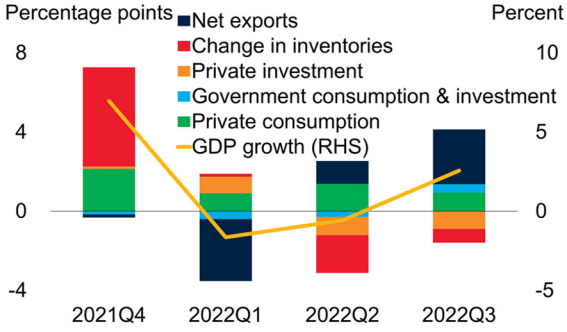


FIGURE 2.C Growth contributions in the United States



Sources: Bloomberg; Bureau of Economic Analysis; Haver Analytics; World Bank.
Note: EMDE = emerging market and developing economies.
A. FOMC decision on November 2, 2022. Inflation data (U.S. CPI release for October 2022) on November 10, 2022.
B. EMDE CDS index premium is the premium on the CDX Emerging Markets CDS index. U.S. dollar index is the Bloomberg Dollar Spot Index, which tracks the performance of a basket of 10 leading global currencies versus the U.S. Dollar; 100=October 20th 2022.
C. Figure shows the contributions to percent change in real GDP in the United States, seasonally adjusted at annual rates.

10.6 percent (y/y) in the same month. In Japan, output unexpectedly contracted 1.2 percent (q/q saar) in Q3, from an upwardly revised 4.6 percent expansion in Q2, reflecting a large negative contribution from surging imports.

China: COVID-19 surge. The pace of activity slowed further in October, reflecting supply disruptions due to pandemic-related restrictions and slowing external demand. COVID-19 cases surged again in October in several parts of the country—including the key manufacturing province of Guangdong—prompting localized lockdowns. In tandem, the official manufacturing PMI fell to 49.2 and the non-manufacturing PMI even further, to 48.7, partly reflecting the impact of COVID restrictions on service-related sectors. Conditions in the property sector remain subdued. In September, real estate investment fell 11.7 percent (y/y), while average existing residential prices declined 1.9 percent (y/y; figure 3.B). In October, both exports and imports declined, by 0.3 percent (y/y) and 0.7 percent (y/y) respectively, reflecting external and domestic weakness.

Other EMDEs: diverging activity. The EMDE composite PMI fell in October, with both manufacturing and services activities contracting amid high input costs and waning external demand (figure 3.C). Manufacturing PMIs experienced renewed weakness in particular, declining by over 1 index point across several large EMDEs (*Indonesia, Russian Federation, Thailand, Vietnam*) and falling below 50 in others (*Colombia, Malaysia, Poland, Türkiye*). In *India*, manufacturing production declined in August, falling below its January level. After *Egypt* announced its move to a more flexible exchange rate regime in late October, its currency depreciated by 24 percent and the central bank raised policy rates by 200 basis points, to 13.25 percent, to rein in inflation. In contrast, *Brazil's* October PMI surveys indicated solidly expanding manufacturing and services output; meanwhile, *Mexico* posted growth of 1 percent (q/q) in Q3, with broad-based gains across sectors. In *Saudi Arabia*, industrial production increased 15.7 percent (y/y) in September, supported by strong manufacturing activity; the non-oil private sector PMI expanded to 57.2 in October, pointing to robust activity at the start of Q4. *South Africa's* manufacturing PMI improved to 50 in October from 48.2 points in September as power outages eased, while *Nigeria's* composite PMI stood unchanged at 53.6.

FIGURE 3.A Purchasing Managers Index (new orders subindex) in the euro area

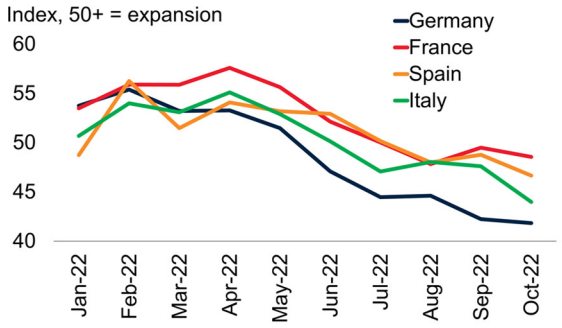


FIGURE 3.B China: Real estate investment and prices

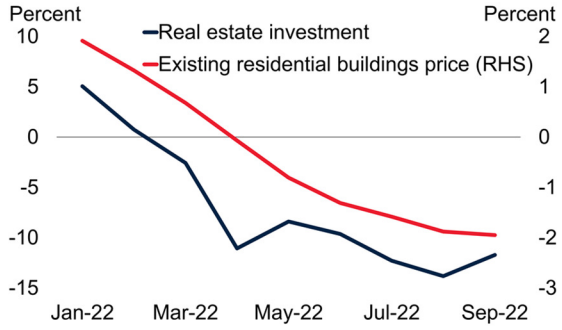
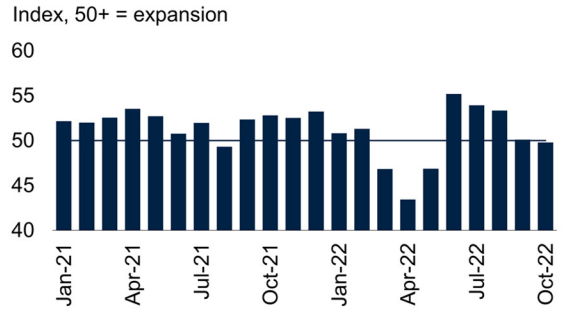


FIGURE 3.C EMDE composite PMI index



Sources: S&P global; Haver Analytics: World Bank.
Note: EMDEs = emerging market and developing economies.
A. Figure shows the new orders subindex of the composite Purchasing Managers' Index (PMI). PMI readings above 50 indicates expansion in economic activity; readings below 50 indicates contraction. Last observation is October 2022.
B. Blue line refers to the year-over-year growth rate of completed real estate investment. Red line refers to the year-over-year growth rate of a 70-city price index of existing residential buildings, calculated as the average of price indexes in 70 cities weighted by their share of total nominal GDP of the 70 cities in 2020. Last observation is September 2022.
C. PMI above 50 (below 50) indicates expansion (contraction).

Special Focus: Drivers of aluminum and copper prices

Multiple shocks over the past two years. Demand for both metals declined largely due to the pandemic and concerns about a possible global recession. The invasion of Ukraine and the closure of energy-intensive smelters amid high energy costs disrupted metals supply as well. More recently, since March 2022, the unwinding of some of the supply constraints and heightened uncertainty regarding a global recession have contributed to a plunge in prices. As a result, month-over-month price change volatility rose since 2020 for aluminum and copper compared to the 2010-2019 decade, from 4 percent to 6.2 percent and from 4.6 percent to 5.8 percent, respectively. An analysis of key drivers of aluminum and copper prices released in the October 2022 edition of the *Commodity Markets Outlook* suggests that different types of shocks have varying impacts on global prices for these two metals. These were grouped into four categories: economic activity shocks, which originate from the global economy; consumption demand shocks, which are shocks specific to demand for a particular commodity; commodity supply shocks, which are specific to the production of a commodity; and inventory demand (speculative) shocks, which reflect expectations of future demand and supply conditions.

Drivers of aluminum and copper prices. Negative economic activity shocks that reduced aluminum and copper prices on impact by 1 percent had a considerably larger and longer-lasting impact on prices than any of the other three types of shocks. Three quarters after such a shock, aluminum and copper prices were still more than 5 percent below their initial values (figures 4.A and 4.B). Although the impact of economic activity shocks on prices was larger for copper than aluminum, the effect dissipated and became statistically insignificant after about one year. For aluminum prices, the effects lessened over time but continued to be statistically significant even after 18 months. In contrast, similarly sized consumption demand shocks, inventory demand shocks, or commodity supply shocks had much smaller impacts.

Long-term and short-term drivers of aluminum and copper prices. Longer-term fluctuations in aluminum and copper prices were predominantly driven by economic activity shocks. Inventory, consumption demand, and supply shocks mostly affected short-term price volatility. Supply shocks accounted for about one-quarter of aluminum and copper price

FIGURE 4.A Impulse response of aluminum price to negative economic activity shock

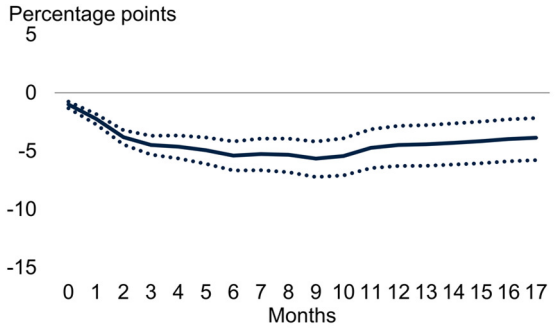


FIGURE 4.B Impulse response of copper price to negative economic activity shock

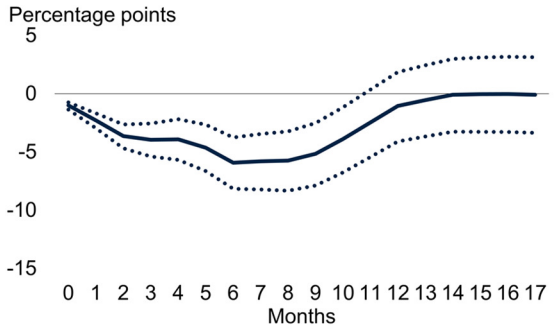
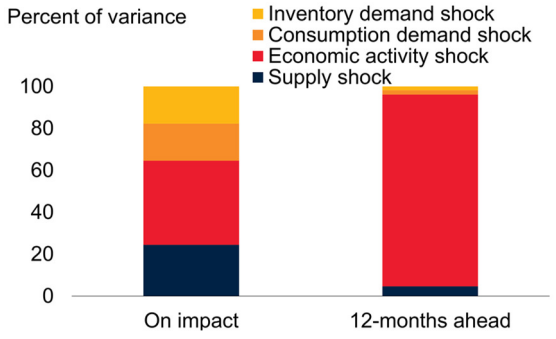


FIGURE 4.C Forecast error variance decomposition of aluminum prices



Source: World Bank.

A. Solid lines represent median responses, dotted lines represent upper and lower bounds of 68 percent confidence intervals. Impulse response of aluminum prices to economic activity shock that lowers the price on impact by 1 percent. A 1 percent decline in aluminum prices on impact due to an economic activity shock is associated with a decrease in global industrial production by 1.0 percent on impact.

B. Solid lines represent median responses, dotted lines represent upper and lower bounds of 68 percent confidence intervals. Impulse response of copper prices to economic activity shock that lowers the price on impact by 1 percent. A 1 percent decline in copper prices on impact due to an economic activity shock is associated with a decrease in global industrial production by 1.3 percent on impact.

C. Forecast error variance decomposition of aluminum prices on impact and at the 12-month horizon, based on a structural vector autoregression as in Baumeister and Hamilton (2019).

fluctuations on impact, and inventory and consumption demand shocks together accounted for another one-third (figures 4.C and 5.A). In contrast, over a one-year horizon, economic activity shocks were the single most important driver of copper and aluminum prices, accounting for 74 and 91 percent of the variance in these prices, respectively.

Global business cycle and aluminum and copper prices. Economic activity shocks have been the main drivers of price changes during global recessions and their recoveries. However, in the recovery from the pandemic-induced global recession of 2020, supply shocks contributed, on average, one-quarter to the rebound in aluminum and copper prices (figures 5.B and 5.C). This contrasts with the financial crisis-induced global recession of 2009, when supply shocks played a negligible role in price swings. Between January and April 2020, economic activity shocks depressed aluminum and copper prices by 27 and 23 percent, respectively; this was only partially offset (roughly 10 and 4 percentage points, respectively) by consumption demand shocks that raised prices. In the subsequent twelve months between May 2020 and May 2021, the rebound in economic activity lifted aluminum and copper prices by about 40 percent. Supply disruptions, such as mine closures, added another 11 and 17 percentage points to the increase in aluminum and copper prices, respectively.

Policy implications. Price volatility is likely to increase as the energy transition unfolds and global commodity demand shifts from fossil fuels to metals. Appropriate policies can help metal exporters make the most of the resulting opportunities for growth while limiting the impact of price volatility. First, well-designed fiscal and monetary policy frameworks can dampen the economic impact of metal price swings. This includes fiscal rules to save revenue windfalls, sovereign wealth funds, and countercyclical monetary and macroprudential policy frameworks. Almost two dozen EMDE commodity exporters have established fiscal rules or sovereign wealth funds. These tend to be particularly successful at stabilizing business cycles when they operate in the context of strong institutions and resilient fiscal, monetary, exchange rate, and financial frameworks. Second, in addition to measures to dampen the impact of global metal price swings, proactive efforts at diversification may reduce metal exporters' exposure to global shocks. This could be achieved through export diversification or a more comprehensive national asset portfolio diversification approach.

FIGURE 5.A Forecast error variance decomposition of copper prices

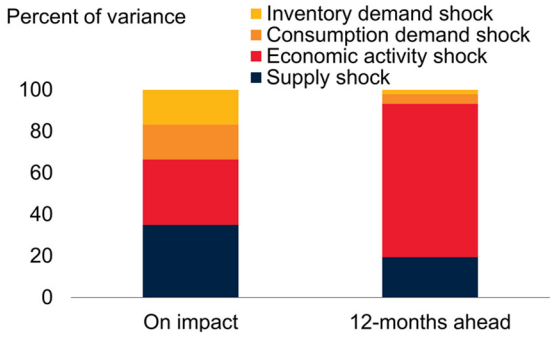


FIGURE 5.B Contributions to aluminum price changes

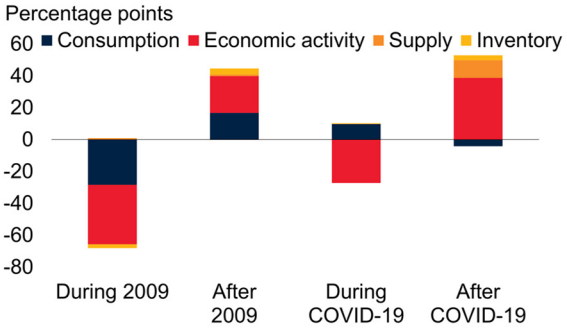
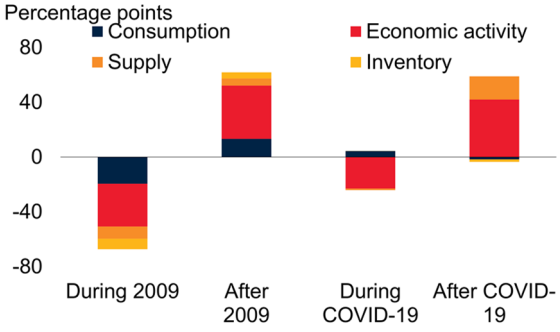


FIGURE 5.C Contributions to copper price changes



Source: World Bank.

A. Forecast error variance decomposition of copper prices on impact and at the 12-month horizon, based on a structural vector autoregression as in Baumeister and Hamilton (2019).

B. Contributions to cumulative aluminum price changes during the specified period. "During 2009" stands for the period September 2008-March 2009; "After 2009" stands for the period April 2009-April 2010; "During COVID-19" stands for the period January-April 2020; "After COVID-19" stands for the period May 2020-May 2021.

C. Contributions to cumulative copper price changes during the specified period. "During 2009" stands for the period September 2008-March 2009; "After 2009" stands for the period April 2009-April 2010; "During COVID-19" stands for the period January-April 2020; "After COVID-19" stands for the period May 2020-May 2021.

Recent Prospects Group Publications

Is a Global Recession Imminent?
Global Economic Prospects - June 2022
Commodity Markets: Evolution, Challenges, and Policies
Commodity Markets Outlook – October 2022
Implications of the War in Ukraine for the Global Economy
What Has Been the Impact of COVID-19 on Debt? Turning a Wave into a Tsunami
What Types of Capital Flows Help Improve International Risk Sharing?
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Tracking Methane Emissions by Satellite: A New World Bank Database and Case Study for Irrigated Rice Production

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Poverty and Shared Prosperity 2022
Africa's Pulse
Europe and Central Asia Economic Update
Latin America and the Caribbean Economic Review
Middle East and North Africa Economic Update
South Asia Economic Focus

TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: October 17, 2022 - November 16, 2022					
Country	**Date**	**Indicator**	**Period**	**Actual**	**Previous**
Japan	10/20/22	CPI	SEP	2.9%	3.0%
Australia	10/25/22	CPI	Q3	7.3%	6.2%
China	10/26/22	GDP	Q3	3.9%	0.4%
South Korea	10/26/22	GDP	Q3	3.1%	2.9%
United States	10/27/22	GDP	Q3	1.8%	1.8%
Canada	10/28/22	IP	AUG	4.2%	5.0%
France	10/28/22	GDP	Q3	1.0%	4.2%
Germany	10/28/22	GDP	Q3	1.1%	1.7%
Spain	10/28/22	GDP	Q3	3.8%	6.8%
Saudi Arabia	10/30/22	GDP	Q3	8.6%	12.2%
Euro area	10/31/22	GDP	Q3	2.1%	4.3%
Italy	10/31/22	GDP	Q3	2.6%	4.9%
Mexico	10/31/22	GDP	Q3	4.2%	2.0%
Poland	11/03/22	GDP	Q2	5.3%	10.5%
Türkiye	11/03/22	CPI	OCT	85.5%	83.5%
Indonesia	11/07/22	GDP	Q3	5.7%	5.4%
Argentina	11/08/22	IP	SEP	4.2%	7.8%
Russian Federation	11/09/22	CPI	OCT	12.6%	13.7%
Brazil	11/10/22	CPI	OCT	6.5%	7.2%
United Kingdom	11/11/22	GDP	Q3	2.4%	4.4%
India	11/14/22	CPI	OCT	6.8%	7.4%

(Percent change y/y)

Upcoming releases: November 17, 2022 - December 23, 2022				
Country	**Date**	**Indicator**	**Period**	**Previous**
Germany	11/25/22	GDP	Q3	1.7%
Mexico	11/25/22	GDP	Q3	2.0%
Australia	11/29/22	GDP	Q3	3.6%
India	11/30/22	GDP	Q3	13.5%
Indonesia	11/30/22	CPI	NOV	5.7%
Italy	11/30/22	GDP	Q3	4.9%
South Korea	11/30/22	GDP	Q3	2.9%
United States	11/30/22	GDP	Q3	1.8%
South Korea	12/01/22	CPI	NOV	5.7%
France	12/02/22	IP	OCT	1.8%
South Africa	12/06/22	GDP	Q3	0.2%
China	12/08/22	CPI	NOV	2.1%
Japan	12/08/22	GDP	Q3	1.4%
Netherlands	12/08/22	CPI	NOV	14.3%
India	12/12/22	IP	OCT	3.1%
United Kingdom	12/12/22	IP	OCT	-3.1%
United States	12/13/22	CPI	NOV	7.8%
Euro area	12/14/22	IP	OCT	4.3%
New Zealand	12/14/22	GDP	Q3	0.0%
United Kingdom	12/22/22	GDP	Q3	4.4%
Spain	12/23/22	GDP	Q3	6.8%