WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

Global Monthly

October 2022

Overview

- The slowdown in global growth is intensifying in the second half of 2022.
- Activity in major economies has weakened substantially owing in part to tighter financial conditions and elevated uncertainty.
- Financial conditions in most EMDEs continue to tighten, with the cost of insurance against sovereign credit default rising in the majority of these economies.

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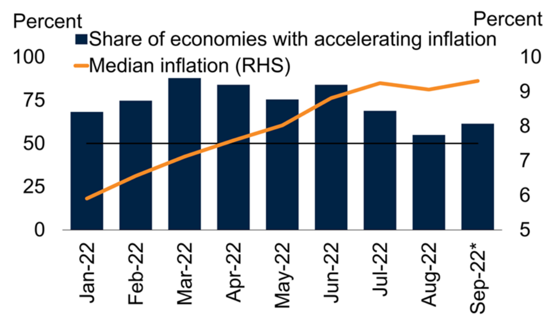
Chart of the Month

- Global CPI inflation appears to have edged up, with median inflation rising to an estimated 9.3 percent (y/y) in September.
- Inflation picked up in about two-thirds of economies, pointing to continued price pressures.
- The increase in inflation in September was particularly pronounced in many advanced economies, as well as in EMDEs in Europe and Central Asia and in Sub-Saharan Africa.

Global CPI inflation



Sources: Haver Analytics; World Bank.
Note: Median inflation line shows median percentage increase in consumer prices from 12 months earlier. Asterisk indicates an unbalanced sample because of limited data availability. Sample includes 102 countries for August 2022 data and 96 countries for September 2022 data.

Special Focus: Is a Global Recession Imminent?

- A rapid deterioration in growth prospects since the start of 2022, coupled with high inflation and worsening financial conditions, has increased fears of an impending global recession.
- Growing concerns of a global recession come only two years after the pandemic-induced recession in 2020.
- Policy makers need to use the full menu of demand- and supply-side measures available to get ahead of inflation and reduce the likelihood of a sharp decline in global growth.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Samuel Hill, Jeetendra Khadan, and Collette Wheeler under the supervision of Carlos Arteta, based on contributions from Prospects Group staff. The special focus was prepared by Naotaka Sugawara. This *Global Monthly* reflects data available up to October 25th, 2022. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: further deceleration. Global growth fell from an estimated 2.4 percent (q/q saar) in Q1 to an anemic 0.1 percent in Q2. Since then, multiple indicators of economic activity have deteriorated alongside tighter global financial conditions and a steep fall in consumer confidence. The global composite PMI output index shrank for the second consecutive month in September, led by weakness in advanced economies (particularly in the euro area), as elevated uncertainty and high energy prices dented confidence. The global Sentix index fell sharply in October, reaching its lowest level since the global recession in 2020, with the economic expectations sub-index continuing to plummet toward lows last observed during the global financial crisis (GFC; figure 1.A).

Global trade: slowdown in global manufacturing. Following a modest pickup in global goods trade volume growth in August, leading indicators in September point to sustained weakness in global manufacturing activity and goods trade. The global manufacturing PMI index shrank for the second consecutive month in September, falling to its second lowest level in 27 months amid record high inventories and a further decline in new export orders (figure 1.B). Softening goods demand has helped to further ease supply chain bottlenecks, as suggested by a broad-based decline in the global supply chain pressure index. Meanwhile, services exports have been buoyed by a rebound in global tourism as international tourist arrivals increased three-fold during the first seven months of 2022.

Commodity markets: volatility in energy prices. Energy prices—which fell 8 percent in September, led by European and U.S. natural gas, and to a smaller extent crude oil—have diverged in October. Brent crude oil prices partly rebounded, rising from about $84/bbl in late September to $93/bbl on average by mid-October, after OPEC agreed to lower their production target by 2 mb/d (around 2 percent of global supply) starting in November. The actual cut in production will likely be smaller, as many OPEC+ members are already below their targets. In contrast, European natural gas prices have declined further in October—although it remains 44 percent higher than in January—on easing concerns about supply shortages as EU storage facilities reached almost 90 percent of capacity by end-September (figure 1.C). The replenishment of natural gas storage was supported by mild weather, alternative pipeline supplies from Norway, and increased LNG imports from the United States. Agricultural commodity prices declined further in September due to a favorable yield outlook for key crops for the 2022-23 season. Metal prices also fell in September, by 6 percent (m/m), mainly due to concerns about

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

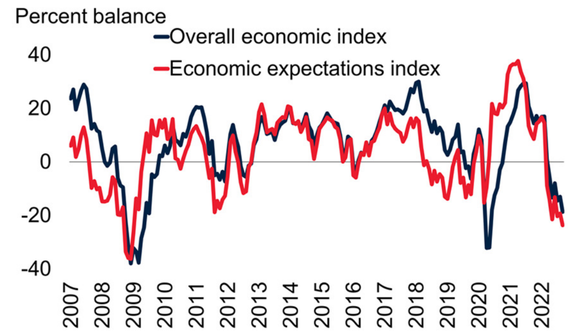


FIGURE 1.B Global manufacturing PMI output, inventories, and new export orders

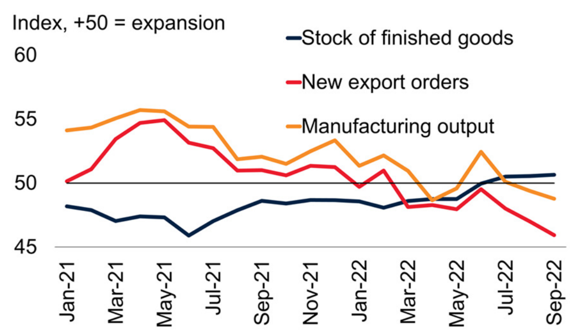
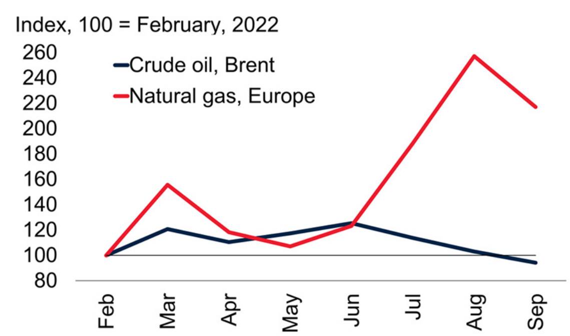


FIGURE 1.C Changes in the prices of oil and natural gas



Sources: Haver Analytics; World Bank.
A. The Sentix index shows investors' market expectations over the next month. Last observation is September 2022.
B. Chart shows manufacturing PMI subcomponents. PMI above 50 (below 50) indicates expansion (contraction).
C. Last observation is September 2022.

weaker demand from China and heightened concerns about the possibility of a global recession. While global prices of most commodities have edged down in recent months, many countries are still facing relatively elevated commodity prices in local currency terms given the strength of the U.S. dollar.

Global financial conditions: further tightening. After steep falls in September, U.S. stocks saw little movement in the first half of October, while the 10-year U.S. Treasury yield surpassed 4 percent—a post-GFC high. With the trade-weighted U.S. dollar up more than 10 percent year-to-date, some global liquidity measures have started to show greater strain. The cost to access U.S. dollar funding and hedges outside the United States increased sharply in late September to the largest margins since March 2020 and remained elevated in October (figure 2.A). Financial conditions in most EMDEs have continued to tighten. The cost of insurance against sovereign credit default rose in Q3 and Q4 (to date) in the majority of EMDEs, as the median CDS-spread widened by over 30 basis points (figure 2.B). The extent of financial stress varies, with sovereign borrowing spreads in EMDEs with weak credit ratings (CCC-C) wider by about 14 percentage points year-to-date, compared with 4 percentage points in the average EMDE, and 1 percentage point in EMDEs with investment-grade credit ratings. Cumulative January-October debt and equity portfolio flows to EMDEs are estimated to be negative for only the second time since 2008.

United States: weakening industrial activity. There are growing signs that rapid monetary policy tightening is weighing on U.S. industrial activity, with industrial production growth slowing from 5.2 percent (saar) in Q2 to 2.9 percent (saar) in Q3. Leading indicators point to further weakness ahead, with the ISM manufacturing PMI falling from 52.8 in August to 50.9 in September—the lowest level since May 2020—while the new orders sub-index sunk into contractionary territory (figure 2.C). Consumption continued to expand, but at a modest pace, with real personal consumption expenditures up 1.8 percent (y/y) in August, the slowest increase since early 2021. There are tentative signs of cooling in the labor market, with job openings falling by 10 percent (m/m) in August from near record highs, while non-farm payroll employment expanded 263,000 in September, less than in the previous two months.

Other advanced economies: further rise in inflation. In the euro area, inflationary pressures remain strong. HICP inflation surprised again on the upside, rising to a record 9.9 percent (y/y) in September, up from 9.1 percent in August, underpinned mostly by increasing non-energy price inflation (figure 3.A). High energy prices and other cost pressures are also

FIGURE 2.A Premia paid to access U.S. dollar hedges and funding

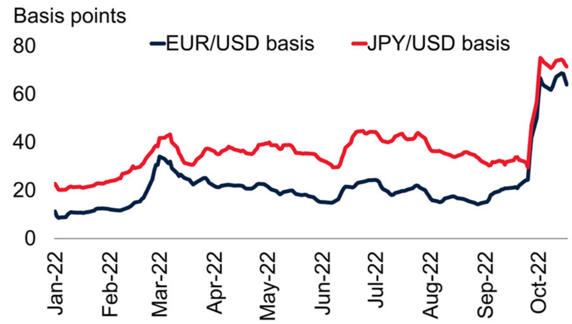


FIGURE 2.B Proportion of EMDEs with rising credit default swap spreads

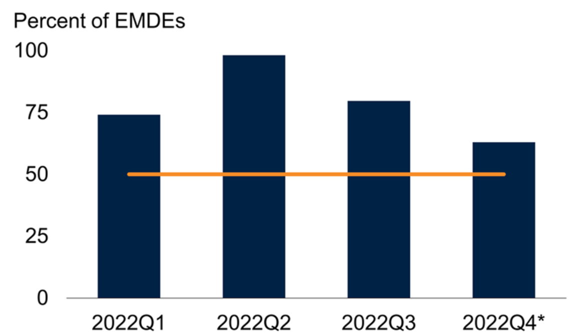
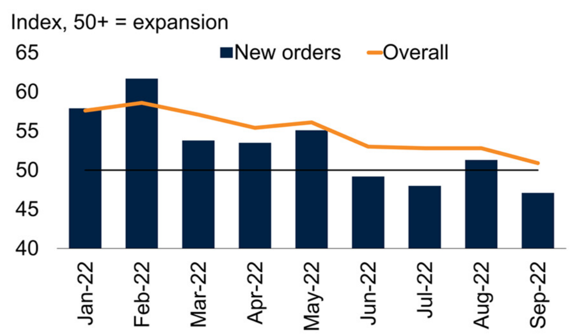


FIGURE 2.C Manufacturing PMIs in the United States



Sources: Bloomberg; Institute for Supply Management (ISM); Haver Analytics; World Bank.
Note: EMDE = emerging market and developing economies.
A. Basis represents the annualized premium paid by the dollar-borrowing leg of a currency swap based on 3-month risk-free rates. Values are 5-day moving averages. Last observation is October 20, 2022.
B. Asterisk indicates that 2022Q4 data is as of mid-October. Percent of EMDEs where credit default swap spreads increased between the beginning and end of the quarter, or latest observation for Q4. Line = 50 percent. Last observation is October 20, 2022.
C. Chart shows the headline series ("overall") and new orders sub-index of the ISM manufacturing PMI. Purchasing Managers' Index (PMI) readings above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally declining. Last observation is September 2022.

impacting producers, with industrial producer prices soaring 43.3 percent (y/y) in August. Amid these pressures, the outlook continues to soften, with the euro area composite PMI sliding further into contractionary territory, from 48.9 in August to 48.1 in September (a 20-month low), and the German manufacturing new orders index plummeting to 39.1. In Japan, higher energy and other import prices, in part reflecting a weakening yen, drove headline inflation up to 3 percent (y/y) in August, the fastest pace since 2014.

China: incipient domestic recovery. Signs of an incipient recovery in domestic activity are emerging as authorities step up efforts to support the economy and ease COVID-19 restrictions in some cities. To bolster the property sector, housing loan interest rates were cut in early October and tax incentives offered for purchases of new properties. GDP growth rebounded to 3.9 percent (y/y) in Q3 from 0.4 percent in Q2. In September, the official manufacturing PMI returned to positive territory, reaching 50.1, supported by a rise in production (figure 3.B). However, deteriorating global conditions are weighing on external demand, with exports continuing to decelerate and the foreign new orders PMI sub-index slipping further into contraction in September. Xi Jinping, who has been re-elected as general secretary of China's Communist Party for a third term, signaled policy continuity, including China's "dynamic zero-COVID" strategy.

Other EMDEs: subdued momentum. Growth in EMDEs excluding China slowed sharply from an estimated 4.4 percent (q/q saar) in Q1 to 2.1 percent in Q2. Since then, economic activity has remained weak across several large economies, as suggested by manufacturing PMIs (figure 3.C). Growth has been tempered by high inflation, tightening global financial conditions, and feeble external demand. The latter has weighed on manufacturing PMI new export orders, especially in EMDEs with strong trade linkages to major economies, such as *Malaysia, Mexico, Poland, and Türkiye*. In *South Africa*, the manufacturing PMI fell to 48.2 in September amid worsening power outages and weak external demand. *Nigeria's* oil output fell to an all-time low in September partly because of worsening pipeline sabotage and theft, while monetary authorities raised interest rates by 150 basis points as inflation hit a 17-year high. In September, *India's* composite PMI output index slowed to 55.1 and the U.S. dollar value of goods exports contracted by 20 percent since their June peak. Monetary tightening continued with policy rates increasing by 190 basis points since April. In contrast, *Saudi Arabia's* PMI expanded for the 25th consecutive month, reaching 56.6 in September. The recent announcement of oil production cuts will likely moderate activity.

FIGURE 3.A Inflation in the Euro area

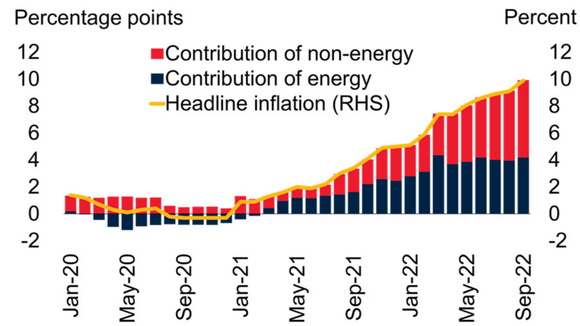


FIGURE 3.B China: Manufacturing PMI and goods export growth

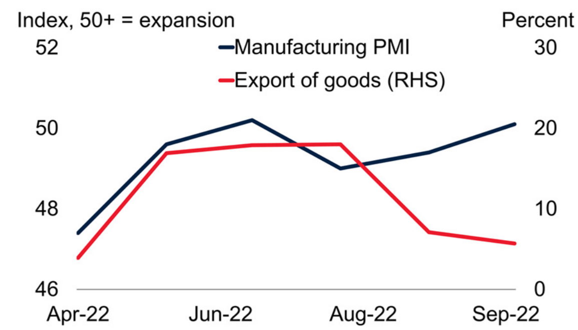
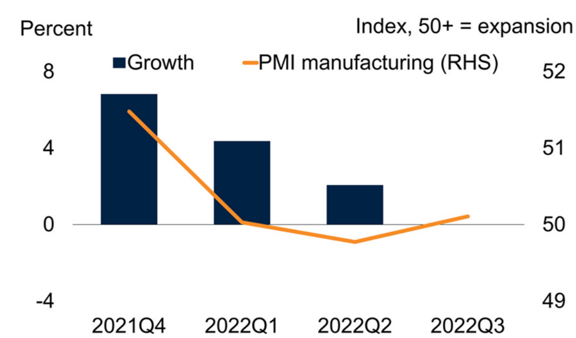


FIGURE 3.C Growth in EMDEs excluding China and EMDE manufacturing PMI index



Sources: Eurostat; Haver Analytics; World Bank.

Note: EMDEs = emerging market and developing economies.

A. Bars represent contributions of energy and non-energy components to the annul rate of headline inflation. Line represents year-over-year growth rates of headline inflation. Last observation is September 2022.

B. Chart shows manufacturing PMI and year-over-year growth rate of nominal exports of goods. PMI above 50 (below 50) indicates expansion (contraction).

C. EMDE growth is the quarter-on-quarter seasonally adjusted annualized rate. Last observation is 2022Q2 for EMDE growth and 2022Q3 for EMDE manufacturing PMI. PMI above 50 (below 50) indicates expansion (contraction).

Special Focus: Is a Global Recession Imminent?

Two years after the pandemic-induced global recession of 2020, the world economy is again facing substantial challenges. The rapid deterioration of growth prospects amid the war in Ukraine, high inflation, and tightening financial conditions have increased concerns of an impending global recession—a contraction in global per capita GDP.

Global recessions and downturns. There have been five global recessions since 1970—in 1975, 1982, 1991, 2009, and 2020. Each was characterized by broad-based weakness in multiple indicators of global activity as a result of simultaneous recessions in many countries. In addition to the five global recessions, the global economy experienced three downturns since 1970—in 1998, 2001, and 2012. They were driven mostly by financial stress concentrated in certain groups of countries. During each of these downturns, the global economy avoided a contraction in per capita income but experienced anemic GDP growth.

Recent evolution of global activity. Consensus forecasts for global growth in 2022-23 have been downgraded significantly since the beginning of the year (figure 4.A). Although these forecasts do not point to a global recession, experience from earlier recessions suggests that at least two developments—which either have already materialized in recent months or may be underway—heighten the likelihood of a global recession in the near future. First, every global recession since 1970 was preceded by a significant weakening of global growth in the previous year, as has happened recently (figure 4.B). Indeed, recent forecast downgrades are partly a reflection of data showing weaker global growth. Second, all previous global recessions coincided with sharp slowdowns or outright recessions in several major economies.

Recent evolution of policies. Despite the current slowdown in global growth, inflation has risen to multi-decade highs in many countries. To stem risks from persistently high inflation, and in a context of limited fiscal space, many countries are tightening monetary policy. As a result, the global economy is in the midst of one of the most internationally synchronous episodes of monetary policy tightening of the past five decades (figure 4.C). These policy actions are necessary to contain inflationary pressures, but their mutually compounding effects could produce larger impacts than intended, both in tightening financial conditions and in steepening the growth slowdown. This synchronous policy tightening contrasts with the policies adopted around the 1975 global recession but is similar to those implemented ahead of the 1982 recession. A major lesson from

FIGURE 4.A Global growth and inflation forecasts for 2023

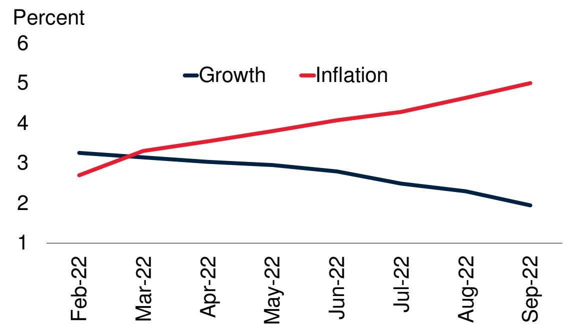


FIGURE 4.B Global GDP growth during global recessions

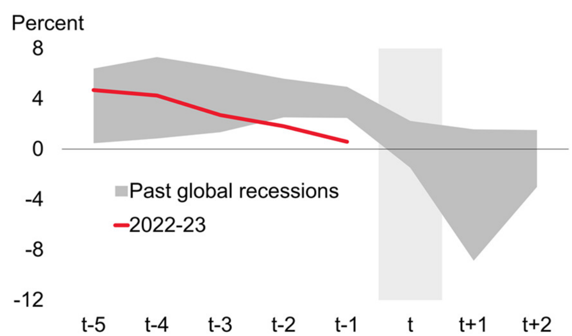
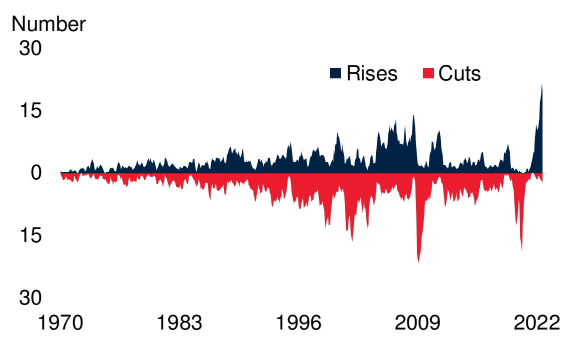


FIGURE 4.C Global policy rate increases and cuts



Sources: Bank for International Settlements; Consensus Economics; Haver Analytics; Kose, Sugawara, and Terrones (2020); Organisation for Economic Co-operation and Development; World Bank.

A. Consensus forecasts of global growth are weighted by GDP in U.S. dollars based on 86 countries, and consensus inflation forecasts are based on median based on 83 countries. The last observation is September 2022.

B. Global GDP growth around the five global recessions, as well as in recent period, based on the quarterly data. Past global recessions show the range for the five global recessions, and time "t" denotes the beginning of respective global recessions. For 2022-23, time "t" shows 2023Q1, and data over t-3 to t-1 (i.e., 2022Q2 to 2022Q4) are computed with consensus forecasts of quarterly growth in 45 countries.

C. Three-month average of the number of policy rate rises and cuts over the month for 38 countries including the euro area. The last observation is August 2022.

these past global recession episodes is that making necessary policy adjustments in a timely fashion is essential to containing inflationary pressures and reducing the output costs of policy interventions.

Global growth scenarios. Against the backdrop of these recent developments, scenario analysis can help inform possible future growth outcomes. Three scenarios for the global economy over 2022-24 are analyzed using a large-scale, cross-country model (figure 5.A). The baseline scenario corresponds to the global outlook from Consensus Economics, with underlying monetary policy rates aligned with market expectations. Given the persistently high inflation observed globally, the degree of monetary policy tightening currently expected may not be enough to push inflation down to pre-pandemic levels over the next two years. Thus, in the second scenario ("sharp downturn"), inflation expectations are assumed to drift higher, triggering additional synchronous monetary policy tightening by major central banks. In this scenario, the global economy would escape a recession in 2023, but would experience a sharp slowdown with inflation only marginally lower by the end of the forecast horizon. In the third scenario, additional increases in policy rates would trigger a sharp re-pricing of risk in global financial markets and result in a global recession in 2023 (figure 5.B) with large permanent output losses relative to the pre-pandemic trend (figure 5.C). This would have severe consequences for long-term growth prospects for EMDEs that were already hit hard by the pandemic-induced economic contraction of 2020.

Policy responses. Policy makers need to utilize the full menu of demand- and supply-side measures available to get ahead of inflation and reduce the likelihood of a sharper decline in growth. On the demand side, monetary policy must be employed consistently to restore price stability in a timely manner. Fiscal policy needs to prioritize medium-term debt sustainability while providing targeted support to vulnerable groups. Policy makers need to stand ready to manage the potential spillovers from globally synchronous withdrawal of policies supporting growth. Although these demand-side policies are helpful in managing near-term demand pressures, policy measures to confront supply constraints—affecting energy markets, labor markets, and international trade—are also needed. They offer the added benefit of improving productivity and long-term growth prospects. These supply-side measures are particularly important in the current context, since the pandemic has exacerbated the downward trend in potential growth.

FIGURE 5.A Global GDP growth under different scenarios

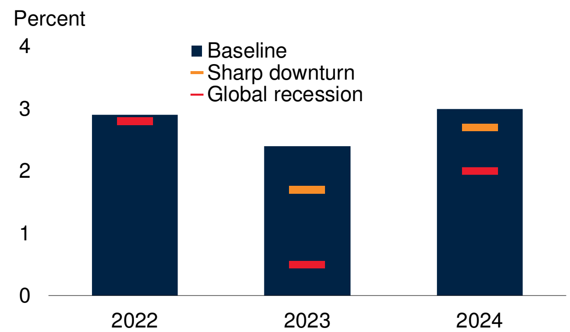


FIGURE 5.B Global per capita GDP under different scenarios

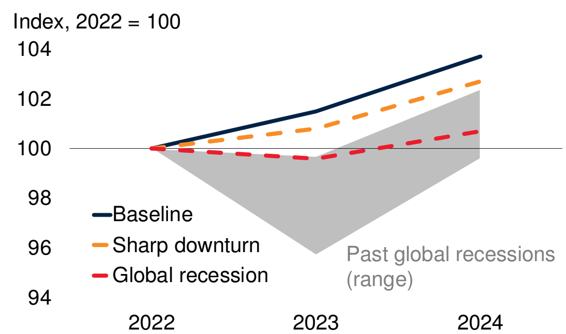
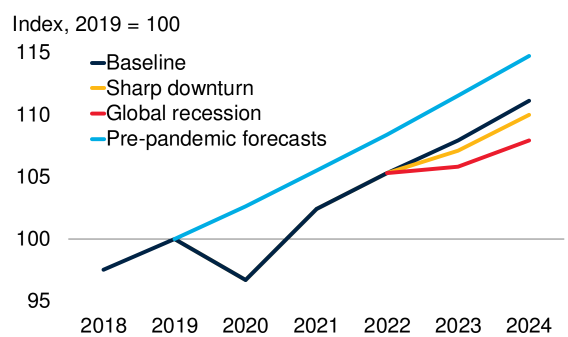


FIGURE 5.C Evolution of global GDP



Sources: Consensus Economics; Oxford Economics; World Bank.
Note: These scenarios (Baseline, Sharp downturn, and Global recession) are produced using the Oxford Economics Global Economic Model. For more information, refer to Guénette, Kose, and Sugawara (2022).
B. Data are expressed as the values in 2022 equal to 100. For past global recessions, the range shows the minimum-maximum range of past five global recessions and the values one year prior to each global recession (for example, 1974 for the 1975 global recession, and 2019 for the 2020 global recession) are equal to 100.
C. Data are expressed as the values in 2019 equal to 100. The pre-pandemic forecasts are based on growth forecasts in the January 2020 long-term consensus forecasts over 2020-24.

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TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: September 25, 2022 - October 24, 2022					
Country	**Date**	**Indicator**	**Period**	**Actual**	**Previous**
South Africa	09/27/22	GDP	Q2	0.2%	2.7%
Germany	09/29/22	CPI	SEP	9.9%	7.9%
United States	09/29/22	GDP	Q2	1.8%	3.7%
United Kingdom	09/30/22	GDP	Q2	4.4%	10.9%
Indonesia	10/03/22	CPI	SEP	6.0%	4.7%
Turkey	10/03/22	CPI	SEP	83.5%	80.2%
Italy	10/05/22	GDP	Q2	5.0%	6.4%
Russian Federation	10/05/22	GDP	Q2	-4.1%	3.5%
Mexico	10/07/22	CPI	SEP	8.7%	8.7%
Brazil	10/11/22	CPI	SEP	7.2%	8.7%
India	10/12/22	CPI	SEP	7.4%	7.0%
China	10/13/22	CPI	SEP	2.7%	2.4%
United States	10/13/22	CPI	SEP	8.2%	8.2%
Argentina	10/14/22	CPI	SEP	83.0%	78.5%
France	10/14/22	CPI	SEP	5.6%	5.9%
Canada	10/19/22	CPI	SEP	6.9%	6.9%
Euro area	10/19/22	GDP	Q2	4.3%	5.5%
Euro area	10/19/22	CPI	SEP	10.0%	9.2%
United Kingdom	10/19/22	CPI	SEP	8.8%	8.6%
Japan	10/20/22	CPI	SEP	2.9%	3.0%
China	10/23/22	GDP	Q3	3.9%	0.4%

(Percent change y/y)

Upcoming releases: October 25, 2022- November 30, 2022				
Country	**Date**	**Indicator**	**Period**	**Previous**
Australia	10/25/22	CPI	Q3	6.1%
South Korea	10/26/22	GDP	Q3	2.9%
United States	10/27/22	GDP	Q3	1.8%
Germany	10/28/22	CPI	OCT	9.9%
Italy	10/28/22	CPI	OCT	8.9%
Spain	10/28/22	GDP	Q3	6.8%
South Korea	10/30/22	IP	SEP	1.0%
Euro area	10/31/22	GDP	Q3	4.3%
Germany	10/31/22	GDP	Q3	1.7%
Italy	10/31/22	GDP	Q3	5.0%
Japan	10/31/22	IP	SEP	4.1%
Mexico	10/31/22	GDP	Q3	2.0%
Indonesia	11/04/22	GDP	Q3	5.4%
Italy	11/10/22	IP	SEP	2.6%
United States	11/10/22	CPI	OCT	8.2%
Japan	11/15/22	GDP	Q3	1.4%
Poland	11/15/22	GDP	Q3	4.9%
Canada	11/16/22	CPI	OCT	6.9%
United States	11/16/22	IP	OCT	5.3%
Australia	11/29/22	GDP	Q3	3.6%
India	11/30/22	GDP	Q3	13.5%