WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

Global Monthly

September 2022

Overview

- Global activity continues to be sapped by rapid tightening in financial conditions and high inflation.
- Leading indicators point to substantial weakness in all major economies.
- Expectations for monetary policy tightening in advanced economies have been revised upwards, adding to financial pressures facing emerging market and developing economies (EMDEs).

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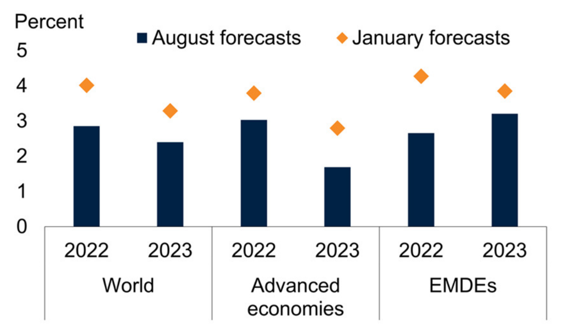
Chart of the Month

- Consensus forecasts for growth have dropped sharply since the beginning of the year.
- Projections for both advanced economies and EMDEs have been downgraded, with especially pronounced downward revisions for China in 2022 and the euro area in 2023.
- The main factor weighing on growth prospects is the simultaneous and rapid tightening of macroeconomic policy needed to rein in high inflation.

Consensus Economics GDP forecasts



Sources: Consensus Economics; World Bank.
Note: EMDEs = Emerging market and developing economies.
Change in GDP growth forecasts between January and August, as estimated by Consensus Economics.

Special Focus: Changes in the Composition of Industrial Commodity Demand

- The structure of global industrial commodity demand, and thus the main drivers of price movements, have experienced fundamental changes over the past quarter-century.
- Advanced economies' share of energy and metals consumption has declined markedly, while China has emerged as the world's largest consumer.
- While China's industrialization draws many parallels with historical experience elsewhere, such as those of the United Kingdom and the United States, the speed of its growth has been unprecedented.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Samuel Hill, Philip Kenworthy, and Patrick Kirby under the supervision of Carlos Arteta, based on contributions from Prospects Group staff. The special focus was prepared by John Baffes. This *Global Monthly* reflects data available up to September 16th, 2022. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: collapsing confidence. Indicators of economic expectations and sentiment have plummeted. The global Sentix economic expectations index has fallen more sharply since the beginning of the year than in any other 9-month period in the index's history. Consumer confidence has fallen close to record lows in the United States, the euro area, and China (figure 1.A). Sentiment is likely reacting to the anticipated impact of substantial monetary tightening in the face of elevated global inflation, energy shortages in Europe, and the effects of COVID-19 lockdowns and strains in the real estate sector in China. Indicators of actual activity have also fallen, but to a lesser extent. The global PMI composite output index fell to 49.3, its first time signaling contraction since June 2020.

Global trade: ongoing slowdown. Global goods trade appears to have declined further in August, largely reflecting softening global demand. Global PMI indexes for new export orders for goods and services have been in negative territory for three and five months, respectively (figure 1.B). Global tourism has continued to rebound, but the recovery remains highly uneven across regions, and arrivals remain well below 2019 levels. While higher than pre-pandemic levels, supply chain pressures have eased, as reflected by shorter delivery times and lower shipping costs. Coupled with weaker global demand, this has led to a surge in inventory levels and a plummeting backlog of orders for traded goods.

Commodity markets: continued volatility. Energy prices gained ground in August, as a modest decline in oil prices was more than offset by further increases in natural gas prices (figure 1.C). Brent averaged $98.6/bbl in August, down from $120/bbl in June, falling further in early September on global growth concerns, and despite OPEC's announcement on September 5th to slightly lower production in October. European natural gas prices moved up in August in response to halted Russian gas supplies through Nord Stream 1, but have fallen sharply in September as European governments have made plans to cut demand. Food commodity prices dipped following positive re-assessments of the yield for the 2022-23 harvest for key crops, including wheat and soybeans, as well as the partial reopening of Ukraine's Black Sea ports. Metals prices rose in August, but have tumbled in September as a result of weak Chinese demand, and are 26 percent below their March peak.

Global financing conditions: tightening. Market expectations for advanced-economy monetary policy tightened sharply in

FIGURE 1.A Consumer confidence and economic expectations

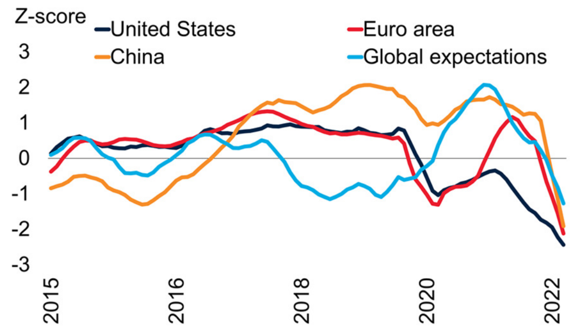


FIGURE 1.B Global export orders

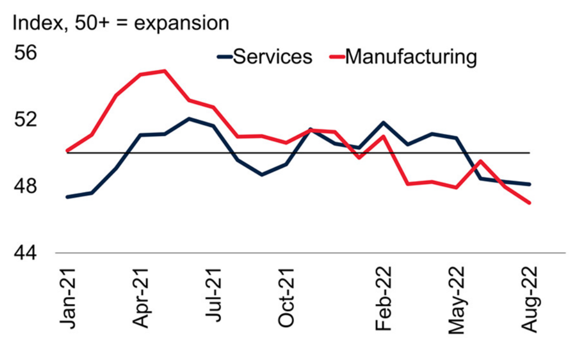
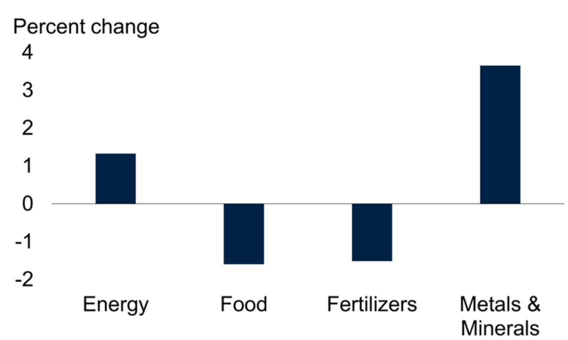


FIGURE 1.C Commodity price changes from July to August



Sources: FRED; Haver Analytics; World Bank.

A. Lines show 6-month moving average of standardized z-score data. Last observation is August 2022.

B. Monthly data. The last observation is August 2022.

C. Nominal price indexes, percent changes, August over July.

August and September, reflecting continued inflation, more hawkish statements by policymakers and energy price-related risks in Europe. U.S. and euro area policy rates are expected to reach 4.6 percent and 2.7 percent in March 2023, up by around 100 and 160 basis points since mid-August, respectively (figure 2.A). Government bonds sold off, with U.S. and German 10-year yields climbing more than 200 basis points above levels a year earlier—the fastest increase in nearly three decades. With global growth concerns mounting, the dollar has reached unusually strong levels, while equity prices have tumbled. Foreigners resumed net selling of emerging market and developing economy (EMDE) debt and equity securities in late August, ending a brief reprieve. Cumulative EMDE portfolio investment flows since the start of 2020 are barely positive, in marked contrast to the prior three years (figure 2.B). Around one-fifth of EMDEs now face sovereign spreads of more than 10 percentage points, up from less than one in fifteen prior to the pandemic.

United States: slowing activity amid labor market resilience. The effect of rapid monetary policy tightening is becoming evident in cyclical, interest-rate sensitive sectors. Amid decelerating house prices, housing starts fell 8.1 percent (y/y) in July, following a decline of 3.9 percent (y/y) in June. Similarly, total vehicle sales declined 1.3 percent (m/m) in August and remain well below pre-pandemic levels. Despite these signs of broader weakness, recent indicators suggest the labor market remains tight. In August, non-farm payroll employment continued to rise strongly, up 315,000, pushing employment above pre-COVID levels. An increase in the participation rate to 62.4 percent saw the unemployment rate tick up slightly to 3.7 percent, still close to record lows. Hourly earnings grew 5.2 percent (y/y) in August, and like core inflation—which rose 6.3 percent (y/y) in August—continues to track well-above trend (figure 2.C).

Other advanced economies: signs of sharp slowdown. In the euro area, conditions are deteriorating markedly amid severe natural gas supply disruptions and soaring energy costs. In August, the area-wide composite PMI slipped deeper into contractionary territory, from 49.9 in July to 48.9, with weakness most evident in Germany, where the PMI fell to 46.9 (figure 3.A). In September, the ECB increased policy rates by 75 basis points—the largest increase in its history—as both headline and core CPI inflation rose in August, to 9.1 percent (y/y) and 4.3 percent (y/y) respectively. European governments have announced fiscal packages and other measures to mitigate the impact of high energy prices. In Japan, cost of living

FIGURE 2.A Policy rate expectations, March 2023

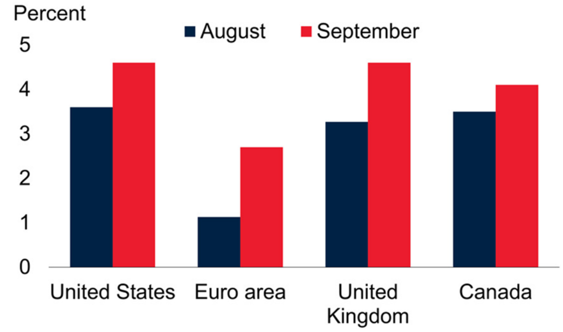


FIGURE 2.B EMDE net portfolio flows

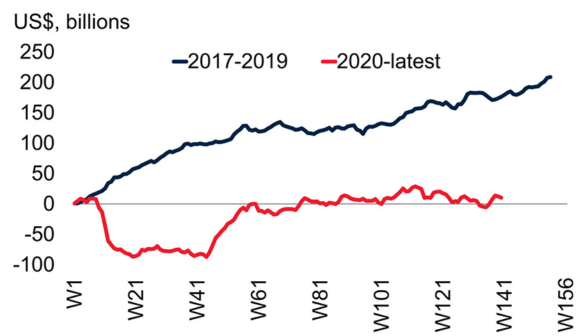
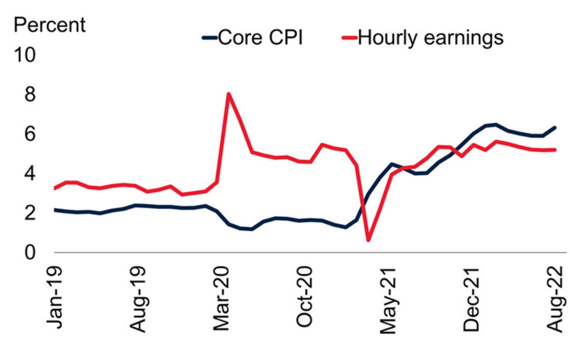


FIGURE 2.C Hourly earnings and core CPI in the United States



Sources: Bloomberg; Bureau of Labor Statistics; Haver Analytics; Institute of International Finance; World Bank.

Note: EMDE = emerging market and developing economies.

A. Implied policy rates after March 2023 monetary policy meetings derived from interest rate futures markets. August expectations from August 15, 2022. September expectations from September 22, 2022. Meeting dates in March 2023 are: U.S. - 22 March; Euro area - 16 March; U.K. - 23 March; CA - 8.

B. Weekly data on net nonresident equity and debt flows. Sample includes: for equity and debt: Colombia, India, Indonesia, Malaysia, South Africa and Thailand; for equity only: Brazil, China, Pakistan, Philippines, Qatar, Saudi Arabia, Sri Lanka and Vietnam; for debt only: Hungary, Mexico, Poland and Ukraine.

C. Lines represents year-over-year growth rates. Last observation is August 2022.

pressures, a COVID-19 resurgence, and lingering supply constraints weighed on momentum. In August, the manufacturing PMI declined from 52.1 in July to 51.5, while the services index slid back into contractionary territory for the first time in five months.

China: subdued activity amid multiple headwinds. In China, the pace of activity slowed in August reflecting new pandemic-related restrictions, slowing external demand, and production disruptions due to extreme weather. Real estate prices continue to decline, with China's 70 major city index of home prices dropping almost 1 percent (y/y) in July. The Caixin manufacturing PMI declined to 49.4 in August, indicating a return to contraction (figure 3.B). The official non-manufacturing PMI fell to 52.6 in August, as demand softened due to localized COVID-19 flare-ups. Export growth dropped sharply from 18 percent (y/y) in July to 7 percent in August reflecting softer global demand and localized lockdowns, while import growth remained tepid due to weak domestic demand. To support economic activity, the government has doubled the quotas for infrastructure spending by policy banks, and the People's Bank of China has lowered key market-based lending rates, cut two benchmark policy rates, and reduced banks' foreign exchange reserve requirement ratio.

Other EMDEs: slowing, with pockets of resilience. Many EMDEs, particularly commodity importers, show signs of decelerating activity as recent data have generally undershot expectations (figure 3.C). In Poland, the manufacturing PMI fell to 40.9 in August, reflecting spillovers from euro area weakness and the war in Ukraine. In South Africa, GDP declined 0.7 percent (q/q) in Q2, as the economy struggled to recover from severe flooding amid spreading power cuts. India's economy also contracted with gross value added falling by 1.2 percent (q/q) in Q2 due to weakness in services and manufacturing, although recent PMIs suggest only a single quarter of contraction. Growth in Brazil overshot expectations in Q2, at 1.2 percent (q/q), but high-frequency data suggest subsequent deceleration. In Mexico, PMIs indicate slowing manufacturing, likely reflecting softening U.S. demand, and continued modest services growth. Oil exporting EMDEs continue to benefit from elevated prices, with Saudi Arabia's economy expanding at a rapid 2.2 percent (q/q) in Q2, lifting year-on-year growth to 12.2 percent. Growth in Nigeria turned positive, at 0.5 percent (q/q), on the back of improved oil production. Output also continues to expand in Türkiye. Growth was 2.1 percent (q/q) in Q2, while the central bank cut its policy rate by 10 percentage points in August, despite inflation topping 80 percent (y/y).

FIGURE 3.A Composite PMIs in selected euro area countries

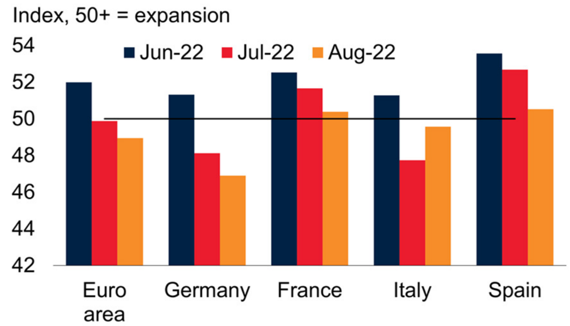


FIGURE 3.B China manufacturing PMIs

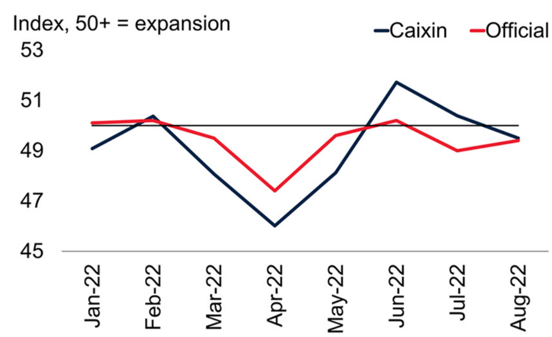


FIGURE 3.C EMDE economic data surprises

Source: Bloomberg; Citigroup; 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.
B. Official and Caixin PMI manufacturing for China. Last observation is August 2022.
C. Citi Emerging Markets Economic Surprises Index. The index measures the difference between data outturns and Bloomberg median expectations, calculated in a 3-month rolling window and weighted for historical effects on FX spot prices. A falling reading close to zero indicates net negative surprises in recent weeks.

Special Focus: Changes in the Composition of Industrial Commodity Demand

Over the past 25 years, the growth patterns and geographic location of global industrial commodity demand have undergone fundamental changes. In 1995, advanced economies accounted for one-half of global energy consumption and nearly three-quarters of global metals consumption. By 2020, their share of energy consumption had declined to 34 percent, while their metals share fell to less than 25 percent.

Between 1995 and 2020, global metals consumption more than doubled, with China accounting for 90 percent of the increase. The unprecedented commodity demand surge coincided with strong and sustained growth in emerging market and developing economies (EMDEs) up until the 2010s, with further growth thereafter largely driven by China's continued economic expansion. During 1995-2020, economic growth in EMDEs in aggregate averaged 5.5 percent per year, while in China it averaged 8.8 percent.

The enormous increase in demand from China was underpinned by a rapid expansion of resource-intensive investment and manufacturing exports. Consumption of primary energy and, especially, metals is strongly correlated with industrial production. During 1995-2020, China's share of energy consumption more than doubled, while its share of metals consumption increased six-fold, from 9 percent to 57 percent.

The acceleration of China's industrial commodity demand has been much stronger than other fast-growing, large EMDEs. For instance, although India's share of consumption of oil and coal doubled, in line with the increase in its share of global GDP, its share of metals consumption increased only marginally. Other EMDEs collectively saw limited change in their share of global commodity demand (figure 4.A).

Coal accounted for nearly 85 percent of the increase in China's energy consumption. China currently consumes more than half of the world's coal, up from 30 percent in 1995. The country's dependence on coal reflects, in part, its large coal reserves. Although China's share of global oil consumption more than doubled over the same period, at 17 percent, it is in line with the country's share of global GDP.

The increase in China's metal consumption has been even more remarkable. Its share of global copper consumption increased from 7 percent to 58 percent during 1995-2020. Consumption of other metals show similar trends. The sharp rise in coal and iron ore demand has been driven, in large part, by the growth in Chinese steel production, for which both coal

FIGURE 4.A Share of commodity demand

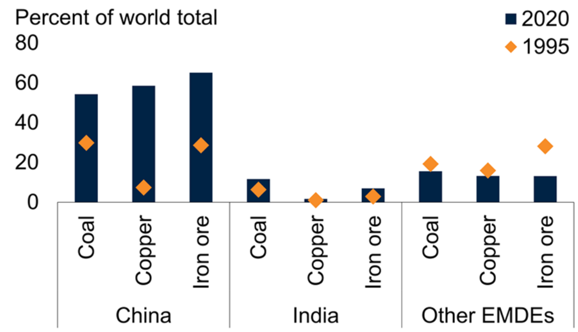


FIGURE 4.B Coal intensity

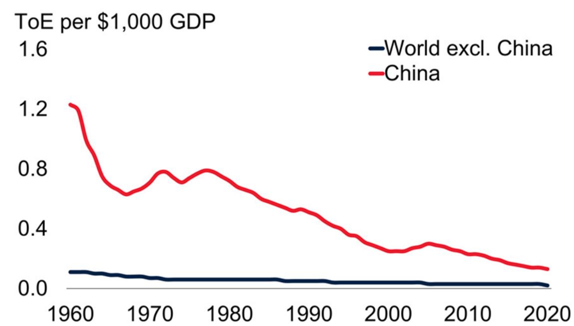
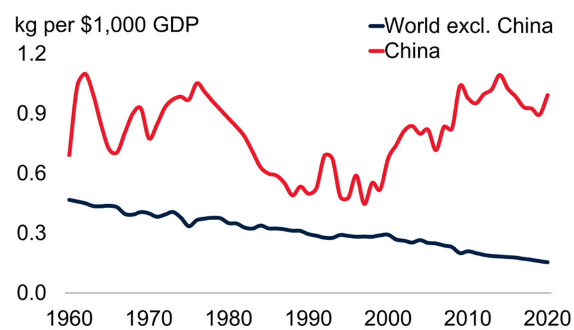


FIGURE 4.C Copper intensity



Sources: BP Statistical Review of World Energy; British Geological Survey; International Historical Statistics; U.S. Geological Survey; World Bank; World Bureau of Metal Statistics; World Steel Association.

A. Share of country or country group in world total. Latest data for iron ore is 2019.

B.-C. Commodity intensity is defined as the ratio of material used per unit of output. GDP in constant 2015 U.S. dollars. ToE = ton of oil equivalent, the amount of energy released by burning one ton of crude oil.

and iron ore are key inputs. Coal is also heavily used in the production of aluminum—about 90 percent of the electricity used in Chinese aluminum production is generated from coal.

Commodity consumption relative to GDP—often termed intensity of consumption—reveals important trends. China's coal intensity has followed a downward trend, similar to the rest of the world, in part reflecting a shift away from fossil fuel use (figure 4.B). Its copper intensity, however, which was declining until the late 1990s, reversed its trajectory (figure 4.C). This is in sharp contrast to the steady downward trajectory in the rest of the world. Similarly, its iron ore intensity picked up after 2000, although it began to fall in 2014 (figure 5.A). These diverging trends in intensity attest to the importance of country-specific developments in China—notably, the focus on growth driven by investment for construction, infrastructure, and manufacturing, which is more metals intensive than consumption-led growth.

In some respects, China's recent industrial growth, along with its surge in industrial commodity demand, mimics the Industrial Revolution in the United Kingdom. This process began in the late 18th century and continued throughout the 19th century. Coal fueled the Industrial Revolution due to its use in factories, railway locomotives, and steamships (figure 5.B). As an efficient fuel, it was essential for turning iron ore into the iron, and later steel, that was used to build ships and railways. The advent of electricity in the late 19th century heralded a vast increase in copper demand for electrical wiring, with much of the world's copper ore processed in Britain (figure 5.C).

China's surge in industrial commodity demand also parallels industrialization in the United States and post-war reconstruction of Europe and Japan. U.S. industrialization began in the mid-1800s and accelerated in the 1870s. Innovations in mining and smelting techniques developed in the United States resulted in a dramatic expansion of the global copper market. The first half of the 20th century featured electrification and mass production of steel, automobiles, telecommunications, chemicals, and mechanized agriculture. Post-WWII reconstruction of Europe and Japan also involved a massive boom in commodities demand. The postwar reconstruction in Europe was assisted by financing through the U.S. Marshall Plan. The recipient countries underwent similar rapid growth in construction, infrastructure, and manufacturing that the U.K. and the U.S. experienced earlier. This and the Chinese experience suggest that future episodes of pockets of rapid economic growth could again drive dramatic changes in the composition of commodity demand.

FIGURE 5.A Iron ore intensity

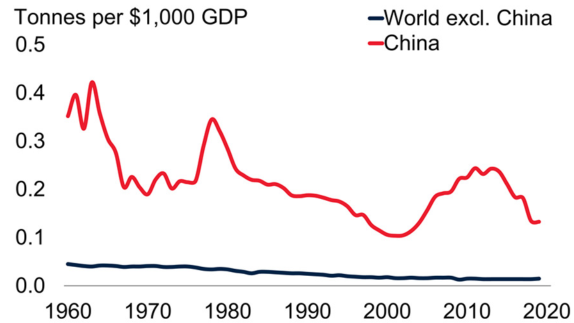


FIGURE 5.B Coal consumption in U.S, U.K. and China

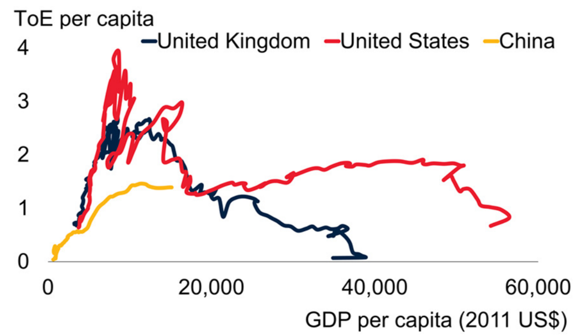
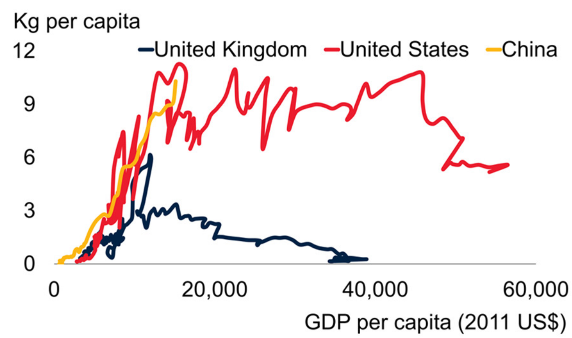


FIGURE 5.C Copper consumption in U.S, U.K. and China



Sources: BP Statistical Review of World Energy; British Geological Survey; International Historical Statistics; Maddison Project Database; U.S. Geological Survey; World Bank; World Bureau of Metal Statistics; World Steel Association.

A. Commodity intensity is defined as the ratio of material used per unit of output. GDP in constant 2015 U.S. dollars.

B.-C. GDP per capita in constant 2011 U.S. dollars. Lines show the evolution of income and commodity consumption per capita. Where consumption is not available, apparent consumption (production + imports - exports) is used. Where there is missing data, especially in the earlier years, linear interpolation is applied. Data from 1820 to 2020. ToE = ton of oil equivalent, the amount of energy released by burning one ton of crude oil.

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TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: August 20, 2022 - September 19, 2022					
Country	Date	Indicator	Period	Actual	Previous
Germany	8/25/22	GDP	Q2	1.7%	3.5%
Mexico	8/25/22	GDP	Q2	2.0%	1.8%
United States	8/25/22	GDP	Q2	1.7%	3.5%
Canada	8/31/22	GDP	Q2	4.6%	2.9%
France	8/31/22	GDP	Q2	4.2%	4.7%
India	8/31/22	GDP	Q2	13.5%	4.1%
South Korea	8/31/22	GDP	Q2	2.9%	3.0%
Turkey	8/31/22	GDP	Q2	7.6%	7.5%
Brazil	9/1/22	GDP	Q2	3.2%	1.7%
Indonesia	9/1/22	CPI	AUG	4.7%	4.9%
Italy	9/1/22	GDP	Q2	4.7%	6.3%
Australia	9/6/22	GDP	Q2	3.6%	3.3%
South Africa	9/6/22	GDP	Q2	0.2%	2.7%
Argentina	9/7/22	IP	JUL	5.1%	7.3%
Euro area	9/7/22	GDP	Q2	4.1%	5.4%
Japan	9/7/22	GDP	Q2	1.4%	0.9%
Saudi Arabia	9/7/22	GDP	Q2	12.2%	9.9%
China	9/8/22	CPI	AUG	2.4%	2.6%
Russian Federation	9/9/22	GDP	Q2	-4.1%	3.5%
United Kingdom	9/14/22	CPI	AUG	8.6%	8.8%
Euro area	9/16/22	CPI	AUG	9.2%	8.9%

(Percent change y/y)

Upcoming releases: September 20, 2022 - October 19, 2022				
Country	Date	Indicator	Period	Previous
Canada	9/20/22	CPI	AUG	7.6%
South Africa	9/21/22	CPI	AUG	8.1%
Spain	9/23/22	GDP	Q2	6.3%
Germany	9/29/22	CPI	SEP	7.9%
Spain	9/29/22	CPI	SEP	10.6%
United States	9/29/22	GDP	Q2	3.5%
France	9/30/22	CPI	SEP	5.9%
Italy	9/30/22	CPI	SEP	8.4%
United Kingdom	9/30/22	GDP	Q3	2.9%
France	10/5/22	IP	AUG	-1.2%
Mexico	10/7/22	CPI	SEP	8.7%
China	10/10/22	CPI	SEP	2.4%
Italy	10/11/22	IP	AUG	-1.2%
Euro area	10/12/22	IP	AUG	-2.2%
United Kingdom	10/12/22	IP	AUG	1.1%
United States	10/13/22	CPI	SEP	8.2%
Poland	10/14/22	CPI	SEP	15.7%
China	10/16/22	GDP	Q3	0.4%
United States	10/18/22	IP	SEP	3.7%
Euro area	10/19/22	CPI	SEP	9.2%
United Kingdom	10/19/22	CPI	SEP	8.6%