WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

Global Monthly

February 2023

Overview

- After declining steadily last year, many indicators of global activity and sentiment have recently stabilized.
- Financial market movements indicate increased risk appetite.
- Notwithstanding recent improvements, most data concerning economic activity are consistent with slower growth this year than last year.

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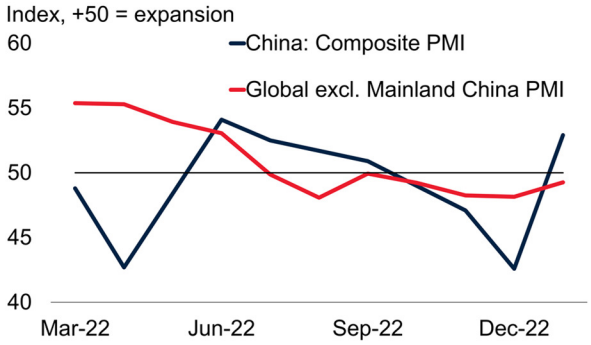
Chart of the Month

- Activity in China slowed sharply toward the end of 2022, but picked up in early 2023 as the wave of COVID-19 cases that followed the end of strict mobility restrictions waned.
- China's official composite PMI jumped from 41.6 to 52.9 in January, the second largest monthly increase in the series' 16-year history.
- PMI readings suggest that activity in the rest of the world also improved somewhat to start the year, but to a far lesser extent than in China.

Composite PMIs in China and the rest of world



Sources: Haver Analytics; World Bank. PMI above 50 (below 50) indicates expansion (contraction).

Special Focus: Investment growth after the pandemic

- EMDEs experienced a broad-based slowdown in investment growth in the decade before the pandemic.
- The pandemic triggered a severe investment contraction in EMDEs, and a recovery in the aggregate level of EMDE investment to its pre-pandemic trend is not expected until the mid-2020s.
- Policy makers need to pursue a broad set of fiscal and structural policies, tailored to their country circumstances, to boost investment growth.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Philip Kenworthy, Jeetendra Khadan, and Patrick Kirby under the supervision of Carlos Arteta, based on contributions from Prospects Group staff. The special focus was prepared by Kersten Stamm. This *Global Monthly* reflects data available up to February 23, 2023. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: stabilization. Following a steady deceleration over the course of last year, high-frequency indicators point to a stabilization in global activity, aided by the reopening of the Chinese economy. The global composite PMI improved to 49.8 in January—still marginally below the 50 level, indicating contraction, but up from an average of 48.4 in 2022Q4. The increase derived largely from the global services sector, with the new business subcomponent of the services PMI signaling expansion in January. In contrast, manufacturing surveys continue to indicate declining activity, but at a slower pace than previously. Consistent with better-than-expected growth in the United States and euro area in 2022Q4 and improved global sentiment, consensus forecasts for global growth in 2023 have stabilized after declining substantially last year (figure 1.A).

Global trade: slowing pace of contraction. Global goods trade contracted at the end of 2022, falling 1.5 percent in November (y/y), its first decline since 2020. Incoming data point to a slower pace of decline in global goods trade at the start of 2023. The global manufacturing new export orders PMI improved in January from 46 to 47.5, but remained in contraction territory (figure 1.B). Some stabilization of goods trade is also apparent in the sharp decline in inventory accumulation for finished goods, which has tracked the easing of global supply chain pressures. The recovery in global tourism is set to gain strength from the lifting of travel restrictions in China, with the UN World Tourism Organization forecasting that international tourist arrivals could reach 95 percent of pre-pandemic levels this year.

Commodity markets: prices falling for natural gas, rising for metals. Energy prices declined by nearly 9 percent in January (m/m). Natural gas prices in Europe and the United States plunged more than 40 percent (m/m) due to warmer-than-expected weather (figure 1.C). Coal prices also dropped, in part reflecting the fall in natural gas prices and easing concerns about energy shortages. The price of Brent crude oil averaged US$83/bbl in January, up slightly from December. Oil prices remain volatile, however, as markets weigh the outlook for global demand and the imposition of a price cap on Russian oil products. In contrast, metal prices increased by 6 percent in January (m/m) led by tin (16 percent), iron ore (9 percent) and copper (8 percent), reflecting improved market sentiment following signs of a stronger than anticipated recovery in

FIGURE 1.A Consensus global growth forecast

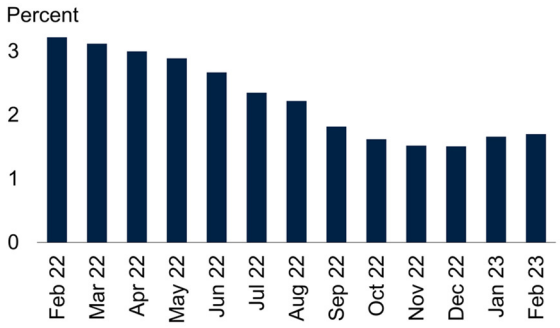


FIGURE 1.B Global manufacturing PMI, new export orders and inventories

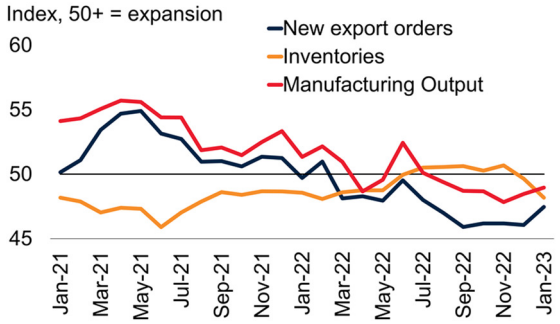
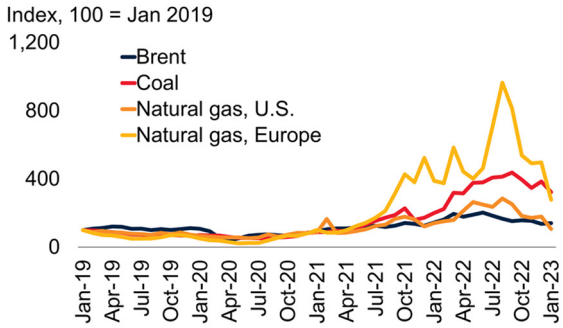


FIGURE 1.C Commodity prices



Sources: Bloomberg; Consensus Economics; Haver Analytics; World Bank.
A. Last observation is February 15, 2023.
B. Chart shows manufacturing PMI subcomponents. PMI above 50 (below 50) indicates expansion (contraction).
C. Last observation is January 2023.

China after its reopening. Agricultural commodity prices remained broadly stable in January, on average.

Global financial conditions: risk appetite revived. Financial conditions eased in early 2023. Improved sentiment was evident in steep gains posted by more risk-sensitive financial assets, and a marked decline in high-yield corporate borrowing spreads (figure 2.A). Global stock benchmarks advanced about 7 percent in January, before stabilizing in February as U.S. short-term interest rate expectations rose following data indicating continued inflationary pressure. Financial flows into EMDEs increased early in the year, with many governments tapping debt markets after bond issuance fell sharply in 2022. In late January, portfolio debt and equity flows to EMDEs reached their strongest level since late 2020 (on a four-week average basis), led by a sharp uptick in flows into China. After rising rapidly for much of 2022, the sovereign borrowing spreads of the most financially vulnerable EMDEs have declined in recent months (figure 2.B).

United States: subdued underlying demand. GDP grew 2.7 percent (q/q saar) in Q4, faster than expected, supported by positive contributions from net exports and accumulating inventories (figure 2.C). Growth in final sales to private domestic purchasers—a proxy of underlying domestic demand—slowed markedly, however, falling from 1.1 percent (q/q saar) in Q3 to 0.1 percent in Q4 as a result of a sharp slowdown in non-residential investment and a plunge in residential investment. Consumption was also weak to end the year, as real personal consumption expenditures declined by 0.3 percent (m/m) in December. The labor market nonetheless remained strong, adding 517,000 non-farm payroll jobs in January. Also in January, headline, core and producer price inflation all declined slightly, to 6.4 percent, 5.6 percent and 6 percent (y/y), respectively, with the decline for all three being less than expected by markets. This muted deceleration in prices led to increased expectations for the Federal Reserve's policy rate, which is now expected to peak between 5.25 and 5.5 percent in mid-2023.

Other advanced economies: improving sentiment. In the euro area, activity continued to slow but proved more resilient than expected, supported by warmer weather and lower natural gas prices. Area-wide GDP grew 0.1 percent (q/q) in Q4, against market expectations of a 0.1 percent contraction, with an expansion in France and Ireland helping offset declines in Germany and Italy (figure 3.A). Consumer and business

FIGURE 2.A Risk-sentiment financial indicators

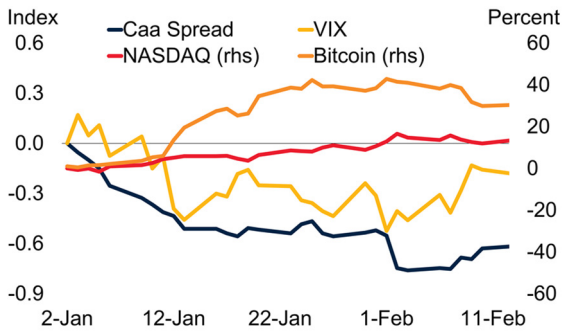


FIGURE 2.B Change in sovereign spreads for EMDEs with weak credit ratings

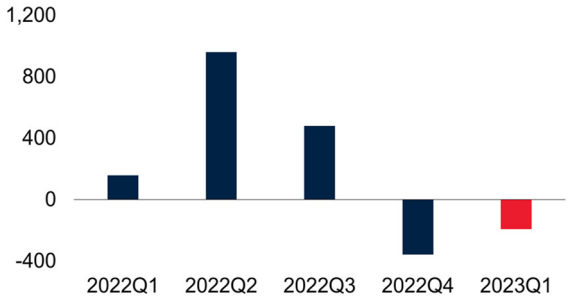
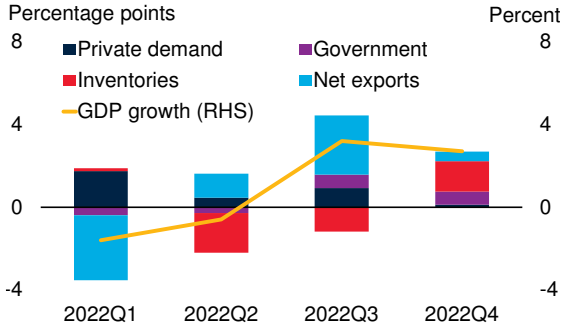


FIGURE 2.C Growth contributions to U.S. GDP



Sources: Bloomberg; Bureau of Economic Analysis; Haver; J.P. Morgan; World Bank.
Note: EMDE = emerging market and developing economies.
A. Change since January 2nd. Caa spread and VIX series indicate changes in z-scores, based on levels since 2010. Bitcoin refers to U.S. dollar spot price for Bitcoin. Last observation February 14, 2023.
B. Change by the end of time period on x-axis in the average EMBI spread of EMDEs with Moody's credit ratings of Caa3 or Ca. Sample excludes Zambia. 2023 Q1 indicates data up to February 10, 2023.
C. Figure shows the contributions to percent change in real GDP in the United States, seasonally adjusted at annual rates. Private demand is final sales to private domestic purchasers.

sentiment improved for a third straight month in January, with the consumer confidence index edging up to its highest level since February 2022 and the composite PMI climbing into expansionary territory for the first time since June 2022. However, consumption momentum weakened in December, with retail sales declining 2.7 percent (m/m). In February, both the European Central Bank and Bank of England continued to tighten monetary policy, lifting policy rates by 50 basis points. Meanwhile, in Japan, private consumption gained steam alongside stronger consumer confidence, with retail sales up 1.1 percent (m/m) in December.

China: release of pent-up demand. According to the China Center for Disease Control and Prevention, COVID-19 cases peaked in late December and declined through January. Activity slowed sharply toward the end of 2022, with GDP growth falling to 2.9 percent (y/y) in Q4. Leading indicators point to a stronger-than-expected domestic recovery as the COVID-19 wave fades. Services sectors, in particular, are set to benefit from a release of pent-up demand and a recovery in travel around the Chinese New Year holiday. In January, the official non-manufacturing PMI jumped to 54.4, from 41.6 in December, the second largest monthly increase in the series' 16-year history. The official manufacturing PMI also improved, rising from 47 in December to 50.1 in January (figure 3.B).

Other EMDEs: strength in Asia and the Middle East, weakness elsewhere. The release of pent-up demand associated with the reopening of China is supporting activity in some EMDEs, with the January manufacturing PMIs in *Thailand*, *Vietnam*, and *Indonesia* all increasing. The return of tourism as pandemic-related restrictions ease is also boosting activity in East Asia (figure 3.C). *India's* PMI continued to expand in January, and the government announced that public investment will continue to increase in the 2023/24 fiscal year, reaching three times the level of 2019/20. Similarly, *Saudi Arabia*'s PMIs indicate that both the oil and non-oil sectors remain firmly in expansion territory. Other EMDEs, however, continue to face headwinds from a combination of slow global growth and domestic challenges. PMI readings in January pointed to contraction in *Brazil*, *Mexico*, *Poland, the Russian Federation,* and *South Africa*. *Türkiye* and *Syria* were hit by two major earthquakes and hundreds of aftershocks on February 6th, causing thousands of deaths and injuries and severe damage to infrastructure.

FIGURE 3.A Growth in selected euro area countries

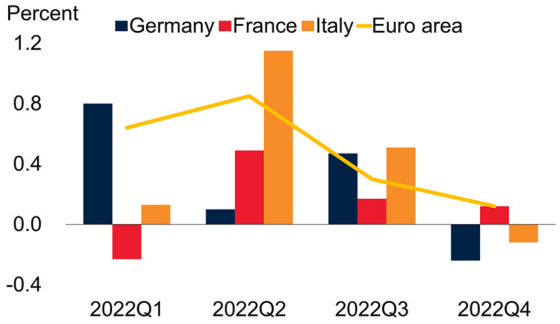


FIGURE 3.B China PMI

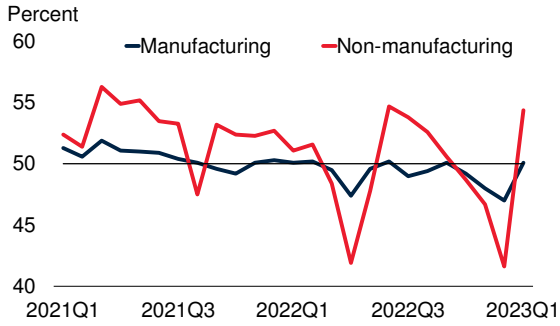
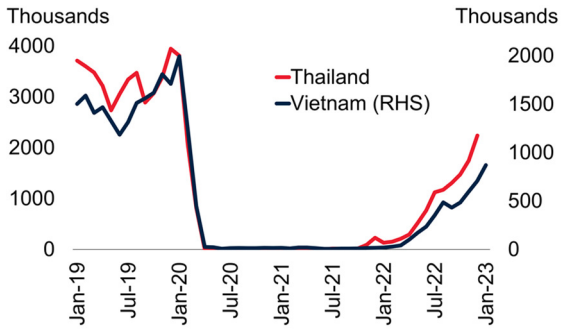


FIGURE 3.C Tourist arrivals



Sources: China National Bureau of Statistics; Haver Analytics: World Bank.
Note: EMDEs = emerging market and developing economies.
A. Figure shows GDP growth rates in selected euro area countries.
B. Chart shows manufacturing and non-manufacturing PMI. PMI above 50 (below 50) indicates expansion (contraction).
C. International arrivals. Last observation is January for Vietnam, December for Thailand.

Special Focus: Investment growth after the pandemic

In 2020, emerging market and developing economies (EMDEs) saw the sharpest contraction of investment growth of the past two decades. Investment is not projected to return to the pre-2020 trend until halfway through the 2020s at the earliest. This weakness comes at a time when investment needs are substantial and urgent. Fulfilling the Sustainable Development Goals by 2030 has been estimated to require annual investment of 4.5-9 percent of GDP (figure 4.A). Similarly, significant investment is necessary to achieve climate goals and promote income convergence. Meeting these development and climate goals demands a multipronged strategy featuring a variety of fiscal and structural measures to boost public and private investment.

Before the 2020 global recession, EMDEs experienced a decade-long, widespread investment growth slowdown. The slowdown reflected trends in private and public investment and was common to commodity-exporting and commodity-importing EMDEs (figure 4.B). Slowing investment growth in China made a large contribution to the aggregate slowdown. In all EMDEs, investment growth fell from nearly 11 percent in 2010 to less than 4 percent in 2019. In EMDEs excluding China, investment growth tumbled more sharply: from 9 percent in 2010 to just under 1 percent in 2019.

The slowdown in investment growth in EMDEs since 2000 has coincided with an adverse global macroeconomic environment. An empirical analysis of investment growth in 57 EMDEs from 2000-21 finds that periods of weak investment growth were associated with weak real output growth, anemic real credit growth, terms of trade deteriorations (in energy exporters), slow growth in capital inflows, and a lack of investment climate reform spurts. Each of these factors has dampened investment growth since the 2008-09 global financial crisis.

Compared to previous global recessions, the investment decline in 2020 was both broad and deep. Investment in EMDEs excluding China contracted by more than 8 percent, similar to the decline in 2009 (figure 4.C). Overall, investment contracted in 70 percent of EMDEs, well above the 55 percent of EMDEs that experienced an investment contraction during the 2009 global recession. The investment contraction was sharpest in Latin America and the Caribbean and South Asia, the regions where output declined the most.

FIGURE 4.A Average annual investment needs in infrastructure sectors related to SDGs, by region

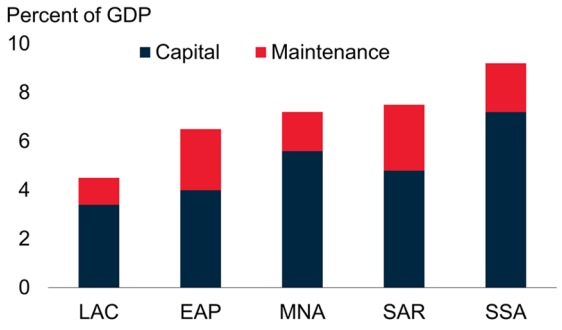


FIGURE 4.B Contribution to EMDE investment growth, by commodity exporter status

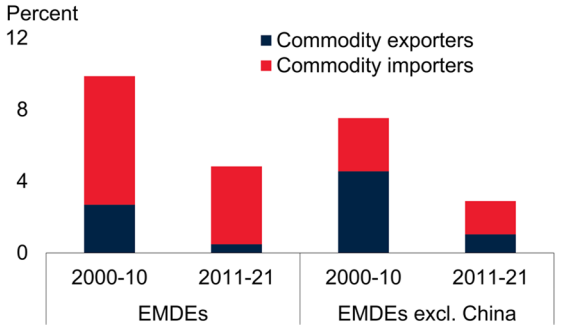
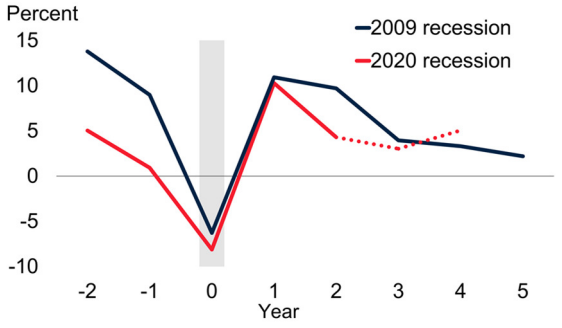


FIGURE 4.C Investment growth in EMDEs, excluding China



Sources: Haver Analytics; Rozenberg and Fay (2019); World Bank.
Note: EMDEs = emerging market and developing economies.
A. Bars show average annual spending needs during 2015-30.
B. Investment growth is calculated with countries' real annual investment in constant U.S. dollars as weights.
C. Investment growth is calculated with countries' real annual investment in constant U.S. dollars as weights. On the x-axis, year zero refers to the year of global recessions in 2009 and 2020. Dotted portions of lines are forecasts.

The near-term investment recovery in EMDEs is expected to be weak. Following a robust rebound in 2021, investment growth is projected to average 3.5 percent per year in 2022-24, less than half the average growth rate during 2000-21 (figure 5.A). Projected investment growth through 2024 will be insufficient to return EMDE investment to its pre-pandemic trend, in part due to slowing investment growth in China. Investment in EMDEs excluding China is projected to return to its pre-pandemic trend by 2024, taking two years longer to recover than it did after the global financial crisis.

This sluggish recovery means that in 2024, halfway into the 2020s, the level of investment in EMDEs is only projected to be about 15 percent above the pre-recession level of 2019. This recovery is much more subdued than the increase of nearly 50 percent over a similar timeframe after the global financial crisis in 2009 (figure 5.B). Weak investment growth in EMDEs is concerning because it is associated with weak global trade and slower growth of productivity and potential output, with adverse implications for EMDEs' ability to catch up with advanced economy per capita incomes. Lackluster investment growth will also hinder EMDEs' ability to meet the Sustainable Development Goals and fulfill commitments under the Paris Agreement.

A comprehensive set of fiscal and structural policies can promote investment growth. EMDEs' have substantial investment needs—to bolster resilience to climate change, improve social conditions, smooth the transition away from growth driven by natural resources, and support long-term growth of per capita income. Constrained fiscal space and elevated uncertainty make boosting investment challenging. Policies need to be tailored to country circumstances and combined with the mobilization of additional financing. Spending on public investment can be boosted by reallocating expenditures toward growth-enhancing investment, improving public spending efficiency, or mobilizing domestic resources through, for example, strengthened tax administration or increased revenue collection.

In the past, reforms to address a range of investment climate impediments and inefficiencies have been associated with an increase in investment growth (figure 5.C). For example, ensuring clear policy and regulatory frameworks, such as by establishing frameworks for public-private partnerships for infrastructure investment, are important. Two areas with strong growth potential are investment in digital capabilities and the clean energy transition.

FIGURE 5.A Investment growth forecasts

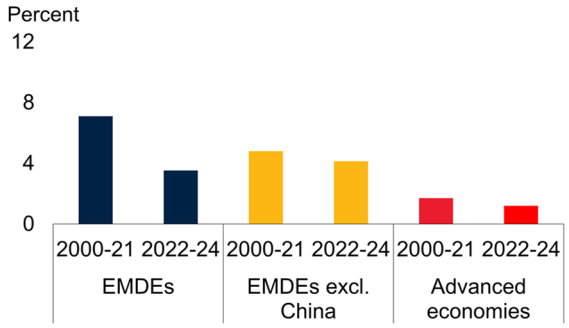


FIGURE 5.B Investment in EMDEs

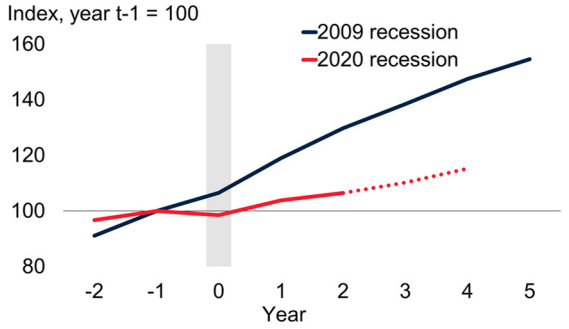
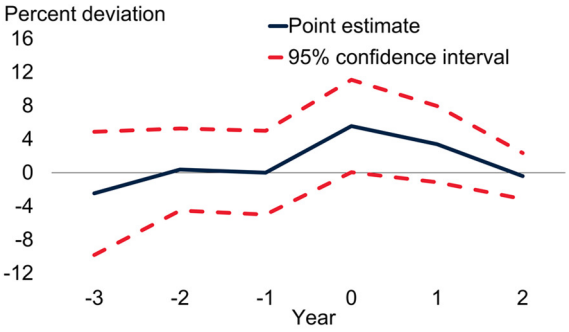


FIGURE 5.C Investment growth around reform spurts



Sources: Haver Analytics; Rozenberg and Fay (2019); World Bank; World Development Indicators.
Note: EMDEs = emerging market and developing economies.
A. Investment growth is calculated with countries' real annual investment in constant U.S. dollars as weights.
B. On the x-axis, year zero refers to the year of global recessions in 2009 and 2020. Dotted portions of lines are forecasts.
C. Sample includes 60 EMDEs from 1984-2022. Reform spurts are defined in annex 3.3 of chapter 3 of the January 2023 *Global Economic Prospects* report. Solid lines show the increase in investment growth around a reform spurt in year t=0 relative to the countries not experiencing a reform spurt.

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Global Economic Prospects - January 2023
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TABLE: Major Data Releases

(Percent change y-o-y)

Recent releases: January 16, 2023 - February 22, 2023

Country	Date	Indicator	Period	Actual	Previous
Austria	1/16/23	CPI	DEC	10.2%	10.6%
China	1/16/23	GDP	Q4	2.9 %	3.9 %
Italy	1/17/23	CPI	DEC P	11.6%	11.8%
UK	1/18/23	CPI	DEC	10.5 %	10.7 %
Euro area	1/18/23	CPI	DEC	9.2 %	10.1 %
United States	1/18/23	IP	DEC	1.6 %	2.5 %
Poland	1/23/23	IP	DEC	1.0 %	4.6 %
United States	1/26/23	GDP	Q4	1.0 %	1.9 %
Sweden	1/30/23	GDP	Q4	-0.6 %	2.5 %
Germany	1/30/23	GDP	Q4	1.1 %	1.3 %
Lithuania	1/31/23	GDP	Q4	-0.4 %	2.0 %
Italy	1/31/23	GDP	Q4	1.7 %	2.6 %
Austria	1/31/23	GDP	Q4	2.7 %	1.7 %
Czech Republic	1/31/23	GDP	Q4	0.4 %	1.7 %
Mexico	1/31/23	GDP	Q4	3.6 %	4.3 %
Euro area	1/31/23	GDP	Q4	1.9%	2.3%
Indonesia	2/5/23	GDP	Q4	5.01 %	5.72 %
Philippines	2/6/23	CPI	JAN	8.7 %	8.1 %
UK	2/10/23	GDP	Q4	0.4%	1.9%
Japan	2/13/23	GDP	Q4	0.6%	1.5%
Poland	2/20/23	IP	JAN	2.6%	1.0%

(Percent change y-o-y)

Upcoming releases: February 23, 2023 - March 9, 2023

Country	Date	Indicator	Period	Previous
Hong Kong	2/23/23	CPI	JAN	2.0%
United States	2/23/23	GDP	Q4	1.9 %
Austria	2/23/23	CPI	JAN	10.2%
Euro area	2/23/23	CPI	JAN	9.2 %
Japan	2/23/23	CPI	JAN	4.0 %
Mexico	2/24/23	GDP	Q4	4.3%
Germany	2/24/23	GDP	Q4	1.3 %
Singapore	2/24/23	GDP	Q4	4.1 %
Singapore	2/24/23	IP	JAN	-3.1%
Iceland	2/27/23	GDP	Q4	7.3%
Finland	2/28/23	GDP	Q4	1.0%
India	2/28/23	GDP	Q4	6.3 %
Türkiye	2/28/23	GDP	Q4	3.9 %
Australia	3/1/23	GDP	Q4	5.9 %
Italy	3/2/23	CPI	FEB P	10.0%
Hungary	3/2/23	GDP	Q4 F	4.0%
Ireland	3/2/23	GDP	Q4	10.9 %
Switzerland	3/3/23	GDP	Q4	0.5 %
Brazil	3/6/23	GDP	Q4	3.6 %
South Africa	3/8/23	GDP	Q4	4.1 %
Luxembourg	3/8/23	GDP	Q4	3.0%