THE WORLD BANK
Development Economics | Prospects Group

Global Monthly

April 2023

Overview

- In many large economies, services activity is firming while manufacturing remains subdued.
- Financial market instability triggered by banking stress in March appears to have abated for now.
- Year-on-year headline inflation continues to moderate in many economies but remains high.

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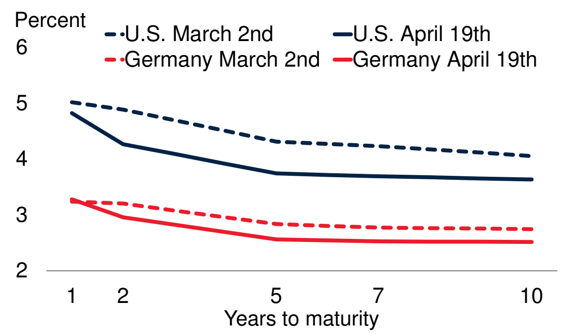
Chart of the Month

- Following the period of banking stress in advanced economies in March, advanced-economy government bond yields have fallen.
- The downward shift in yield curves reflects lower market expectations for growth and inflation.
- The decline in yields has provided some relief to financial institutions that face mark-to-market losses on bond portfolios.

Advanced economies government bond yields



Sources: Bloomberg, World Bank.
Note: Values for 1 to 10 year segment of the yield curve. Y-axis values are benchmark maturities. Values between benchmark maturities are linearly interpolated. Last observation April 19, 2023.

Special Focus: A new global database of potential growth

- Potential growth, the rate of expansion an economy can sustain at full capacity and employment, is critical for macroeconomic analysis and policy design but is not directly observable.
- Based on a new comprehensive database—covering up to 173 countries over 1981-2021—there has been a widespread slowdown in potential growth, affecting most economies and regions.
- Potential growth estimates vary across methodologies, with forecast-based estimates tending to be the highest.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Samuel Hill, Philip Kenworthy, and Dominik Peschel under the supervision of Carlos Arteta, based on contributions from Prospects Group staff. The special focus was prepared by Franz Ulrich Ruch. This *Global Monthly* reflects data available up to April 19, 2023. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: services-led resilience. Global activity has continued to show resilience, supported by robust service sector expansion. The March global composite PMI reached a nine-month high of 53.4. China's economic reopening continues to bolster the travel and tourism sectors in particular, but global readings were also buoyant for software, transportation, and telecommunications services. In contrast, global monetary policy tightening is weighing on capital-intensive sectors. Global manufacturing output and employment PMIs were barely expansionary in March, at 50.6 and 50.3 respectively, both lower than in February. Flash PMIs for April indicate continued services strength and manufacturing weakness. Growth in global industrial production (3-month on 3-month) has softened markedly over the past few months, with contraction from October to February (figure 1.A).

Global trade: weakness continues. Global merchandise trade fell 1.5 percent in January 2023 (y/y), with emerging market and developing economy (EMDE) exports declining 4.1 percent. Incoming PMIs point to further weakening of goods trade in Q12023, extending a decline that has lasted more than one year. The manufacturing new export orders sub-component fell deeper into contraction territory, reaching 47.7 in March. Along with the sustained fall in goods trade, freight shipping prices have declined to their lowest level since May 2020, while the suppliers' delivery times PMI component has fallen to its lowest level since 2009 (figure 1.B). By contrast, services trade continues to be supported by broad service sector resilience, as reflected in the services new export orders PMI moving into expansion territory in March, at 51.6.

Commodity markets: oil production cut. Commodity prices eased in March, led by energy, which fell 6 percent (m/m). European natural gas prices declined 16 percent (m/m) to their lowest level since July 2021, supported by mild weather and increased U.S. LNG exports. Coal prices decreased 15 percent (m/m), aided by easing gas prices and increased Chinese coal production. Brent crude oil declined to US$78/bbl in March, a 14-month low, amid financial market stress in advanced economies. However, prices recovered to US$85/bbl in early April, after OPEC+ announced a surprise production cut of 1.16 mb/d (figure 1.C). Aggregate OPEC+ production cuts are now about 3.7 percent of global demand. Agriculture prices moderated around 2 percent in March (m/m), led by grains (-5 percent) and oils and meals (-4 percent), due to an

FIGURE 1.A Global industrial production

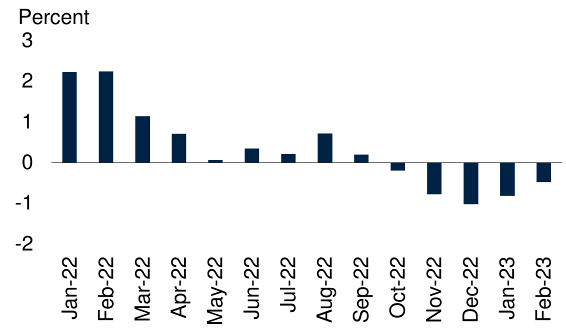


FIGURE 1.B New export orders and suppliers' delivery times

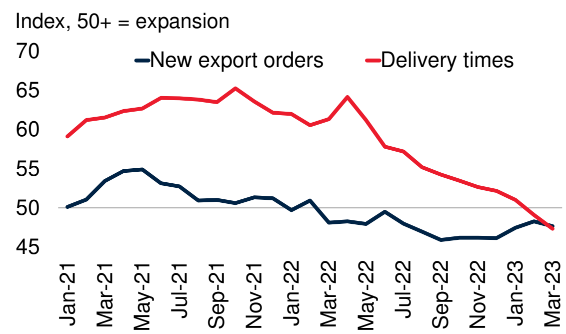
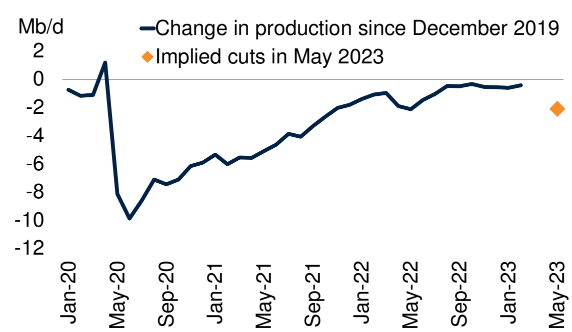


FIGURE 1.C Oil production



Sources: Haver Analytics; U.S. Energy Information Administration; World Bank.

Note: PMI = purchasing manager index.

A. Moving 3-month on 3-month growth rate for industrial production in a consistent sample of 52 countries comprising 81 percent of global GDP.

B. Figure shows manufacturing PMI subcomponents. Increasing (decreasing) PMI data indicate faster (slower) delivery times. PMI data for delivery times are inverted by subtracting data from 100. Last observation is March 2023.

C. Blue line shows monthly differences in total oil production compared to December 2019. Yellow diamond shows current production levels less the reduction in production in May 2023, based on the announced cuts by OPEC+ in April 2023 amounting to 1.16 mb/d, and by Russia of 0.5 mb/d.

improved outlook for crops and the extension of the UN-brokered agreement for Ukraine's grain exports. Metal prices fell by around 3 percent in March (m/m), on concerns of a less metal-intensive recovery in China.

Financial conditions: stabilization following banking stress. Financial market strains that accompanied banking failures in mid-March appeared to have abated by mid-April. Advanced-economy government bond yields have declined, as markets anticipate weaker growth and a less hawkish path of monetary policy. U.S. equities recovered swiftly in early April, but with gains concentrated in large companies. Equity prices of cyclically sensitive small-cap firms have underperformed, with regional bank equity prices remaining depressed (figure 2.A). Declining expectations for near-term U.S. policy rates have weakened the U.S. dollar, supporting investor risk appetite for EMDE assets. The effects have been uneven across regions, however, with currencies strengthening more in Europe and Central Asia and South Asia than in other regions (figure 2.B). High-frequency indicators suggest modest portfolio inflows to EMDEs excluding China since late March, following nine weeks of outflows.

United States: weakening activity, resilient labor markets. Incoming data point to softening growth momentum. In March, manufacturing output contracted by 0.5 percent (m/m) with particular weakness in durable goods, while the ISM non-manufacturing PMI fell from 55.1 to 51.2. Forward-looking sub-indices of new orders suggest momentum in the manufacturing sector was weakening before the recent banking sector turmoil, while demand in the services sector has cooled from earlier in the year (figure 2.C). Although consumer confidence remains subdued, it has shown no further deterioration. Real consumption retreated 0.1 percent (m/m) after a robust 1.5 percent gain in January. Headline inflation (CPI) slowed in March to 5 percent (y/y), helped by falling energy prices, but core inflation firmed 0.1 percentage point, to 5.6 percent. The pace of job creation slowed in March, but remained solid at 236,000, with unemployment close to record lows, at 3.5 percent.

Other advanced economies: persistent core inflation. In the euro area, headline inflation fell to 6.9 percent (y/y) in March, as energy inflation plummeted (figure 3.A). However, core inflation rose to a record high 5.7 percent (y/y) amid continued labor market tightness. Labor demand strength is evident in

FIGURE 2.A U.S. equity prices

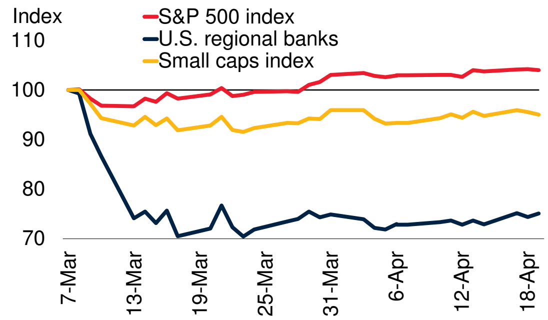


FIGURE 2.B Regional exchange rates vs. the U.S. dollar

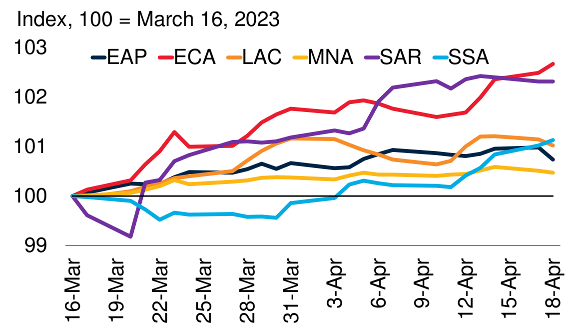
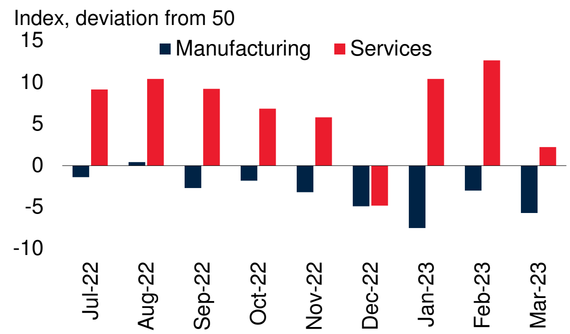


FIGURE 2.C PMIs in the United States



Sources: Blackrock; Bloomberg; FTSE Russell; Haver Analytics; Institute for Supply Management (ISM); World Bank.

Note: EMDEs = emerging market and developing economies. EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa. PMI = purchasing manager index.

A. Simple price indices. U.S. regional banks is the iShares U.S. regional banks ETF. Small caps index is the Russell 2000 index. Last observation April 19, 2023.

B. Indices are constructed by compounding daily simple averages of changes in the U.S. dollar value of currencies in a region. Sample includes 76 EMDEs. Last observation April 18, 2023.

C. New orders sub-indices of ISM manufacturing and services PMIs. Readings above (below) 50 indicate expanding (contracting) activity.

the services sector, with the services PMI rising to 55.0 in March, while the manufacturing index sunk further into contractionary territory, to 47.3. February saw retail sales fall notably (m/m) in Germany (-1.3 percent) and Italy (-0.9 percent), leading a 0.8 percent decline in the euro area aggregate. Consumer confidence was nonetheless broadly stable in March. In Japan, headline inflation dropped to 3.3 percent (y/y) in February, as new energy subsidies took effect, while inflation excluding fresh food and energy rose to a 41-year high of 3.5 percent. After falling sharply in March, the ten-year government bond yield again approached the upper band of the central bank's range for yield curve control, as market attention shifted back towards possible inflation persistence.

China: services-led recovery. Following the reopening of the economy, growth recovered to 4.5 percent (y/y) in Q12023, from 2.9 percent in Q42022. The recovery was driven by strong services sector activity which contributed 3.1 percentage points to growth, while the contribution from industry moderated to 1.2 percentage points (figure 3.B). Retail sales grew 10.6 percent (y/y) in March, indicating strong consumption momentum. Leading indicators suggest continued divergence between services and manufacturing activity in the near term. In March, the official non-manufacturing PMI rose to 58.2—the third consecutive monthly improvement and the highest level in over a decade—while the manufacturing PMI moderated to 51.9.

Other EMDEs: inflation eases but remains high; services activity remains solid. In March, year-on-year inflation moderated in some EMDEs, including Brazil, Mexico, Poland, and Thailand, reflecting favorable base effects, lower commodity prices, and subdued activity. However, inflation has remained high in most EMDEs, ratcheting up further in some (figure 3.C). Egypt's inflation rose to a decade high 32.7 percent (y/y), partly owing to exchange rate weakness, which also contributed to inflation in Pakistan reaching a multi-decade high of 35.4 percent (y/y). Meanwhile, the March PMIs suggest easing manufacturing activity in several EMDEs, but solid services sector momentum in large EMDEs, with the services PMI at 57.8 in India, and moving above 50 in Brazil. In SSA, idiosyncratic vulnerabilities have weighed on large regional economies. Nigeria's composite PMI declined to 42.3 amid widespread cash shortages, while South Africa's PMI remained at contractionary levels, reflecting power shortages.

FIGURE 3.A Inflation in the euro area

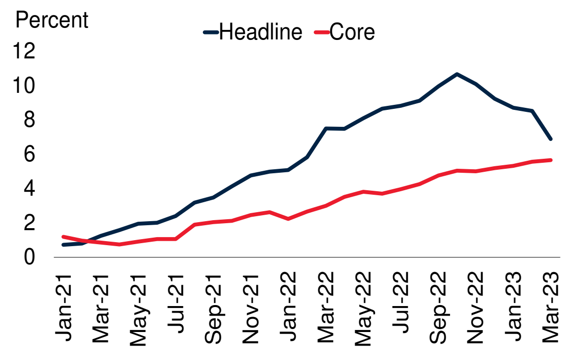


FIGURE 3.B GDP growth in China

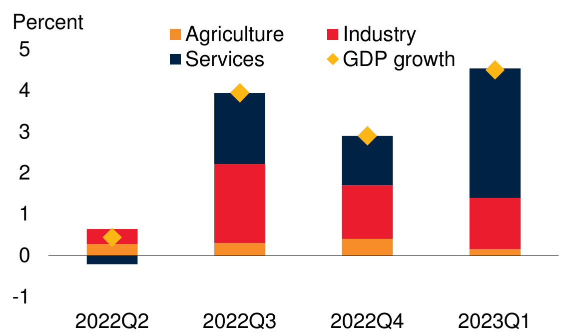
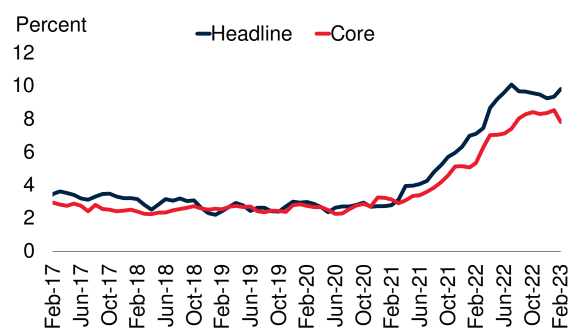


FIGURE 3.C Inflation in EMDEs



Sources: Eurostat; Haver Analytics; National Bureau of Statistics of China; World Bank.
Note: EMDEs = emerging market and developing economies.
A. Chart represents year-over-year growth rates of headline inflation and core inflation (inflation excluding energy, food, alcohol and tobacco). Last observation is March 2023.
B. Year-on-year real GDP growth and industry contributions. Last observation is 2023Q1.
C. Median inflation, with sample up to 101 EMDEs for headline inflation and up to 47 EMDEs for core inflation. Last observation is February 2023.

Special Focus: A new global database of potential growth

Potential growth is key to macroeconomic analysis and policy but it is not directly observable. Potential growth is the maximum growth rate that an economy can sustain in the longer term at full employment and full capacity without igniting inflation; effectively its speed limit. It influences the full spectrum of policies that shape economic and development outcomes: the level of benchmark interest rates, the scale of government spending, and progress towards development goals. There are three main methods of estimating potential output growth: production functions, long-term forecasts, and statistical filters. Production function estimates allow the study of contributions from the fundamental drivers of growth—namely, the growth of factors of production and technical progress—but involve various assumptions. Long-term growth forecasts allow averaging over many views and incorporate judgment. Statistical filters of actual growth data may improve consistency between estimates of potential growth and output gaps, on the one hand, and indicators of domestic demand pressures, on the other.

Potential growth has declined in both advanced economies and emerging market and developing economies (EMDEs), according to all estimation methods. Based on a new comprehensive database, there was a widespread decline in average annual potential growth between 2000-10 and 2011-21. This is suggested by all estimates of potential growth, globally and for advanced economy and EMDE country groups. Global potential growth, estimated using the production function approach, fell to 2.6 percent a year during 2011-21, from 3.5 percent during 2000-10. Advanced-economy potential growth fell to 1.4 percent a year during 2011-21, 0.8 percentage point below its 2000-10 average; and EMDE potential growth fell to 5.0 percent a year during 2011-21, from 6.0 percent during 2000-10 (figure 4.A).

The weakening of potential growth was highly synchronous across countries. During 2011-21, potential growth was below its 2000-10 average in 96 percent of advanced economies and 57 percent of EMDEs (figure 4.B). All the fundamental drivers of growth—total factor productivity (TFP), investment, and labor force growth—faded in 2011-21.

FIGURE 4.A **Contributions to potential growth**

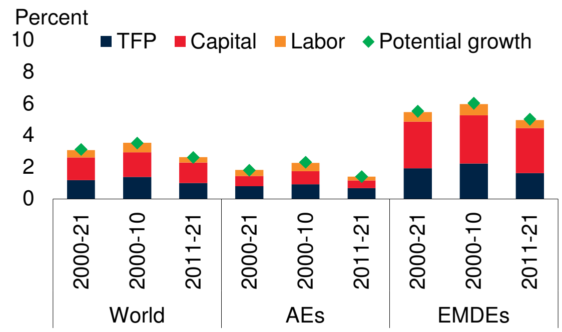


FIGURE 4.B **Share of economies and GDP with potential growth below 2000-10 average, 2011-21**

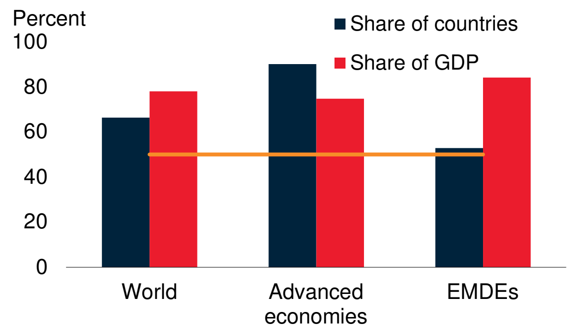
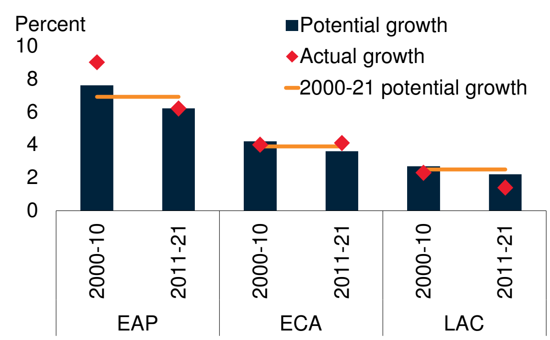


FIGURE 4.C **Potential growth in EMDE regions**



Source: World Bank.

Note: GDP-weighted averages of production function-based potential growth estimates. AEs = advanced economies; EMDEs = emerging market and developing economies; A. Sample of 30 advanced economies and 53 EMDEs.

A. TFP = Total factor productivity.

B. Number of economies and their share of global or group GDP with potential growth in each period below its 2000-10 average. Horizontal line indicates 50 percent. Unbalanced sample of 30 advanced economies and 53 EMDEs for 2000-21.

C. EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean.

The extent of the slowdown in potential growth varied across EMDE regions. Potential growth fell furthest in EMDE regions that include many commodity exporters, or which benefited from rapid per capita income convergence in the early 2000s (figures 4.C and 5.A). The slowdown in the past decade from the preceding one was steepest in the Middle East and North Africa (MNA), where investment growth plunged amid lower oil prices and persistent conflict and policy uncertainty. The next steepest decline occurred in East Asia and the Pacific (EAP), reflecting a slowdown in potential growth in China. Europe and Central Asia (ECA) and Latin America and the Caribbean (LAC) experienced less pronounced slowdowns; however, potential growth in LAC remained the lowest among all EMDE regions. Potential growth in South Asia (SAR) was little changed, and the highest among regions, at over 6 percent. In Sub-Saharan Africa (SSA), the potential growth rate weakened only moderately, but it remained one of the lowest among EMDE regions.

A comparison of methods for estimating potential growth also reveals important differences. Both in aggregate and at the country level, forecast-based estimates tend to be systematically higher than other estimates, while estimates based on univariate filtering techniques tend to be lower (figure 5.B). Estimates based on filtering techniques tend to be the most volatile and to track actual growth most closely (figure 5.C). Univariate filter-based estimates have the least persistence, especially in advanced economies, while estimates from forecasts and the production function approach have the most persistence across all groups of countries. These findings are intuitively appealing, as filter-based estimates are designed to capture time-series variation, whereas the others rely on more persistent drivers of potential growth.

Differences in potential growth trends across EMDE regions have implications for policy priorities. Weak TFP growth in LAC, MNA, and SSA makes policy action to raise productivity growth especially important for these regions. There is also considerable room to strengthen lagging labor force growth by encouraging female labor force participation in MNA and SAR, and by raising labor force participation among older workers in EAP and ECA. Prospects for investment growth are particularly weak in LAC and SSA. A wide range of policy measures will be required to reignite investment growth.

FIGURE 5.A Potential growth in EMDE regions

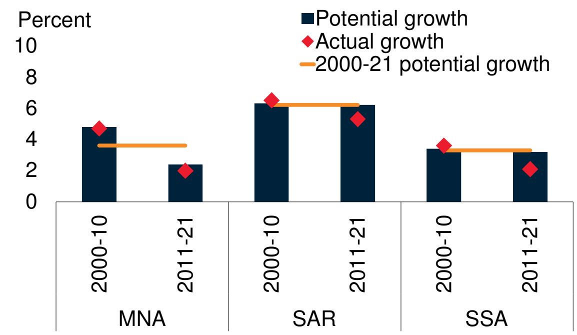


FIGURE 5.B Global potential growth

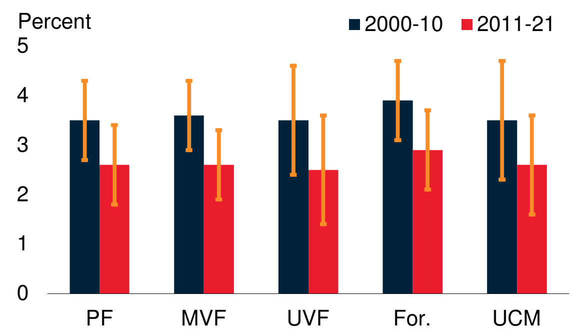
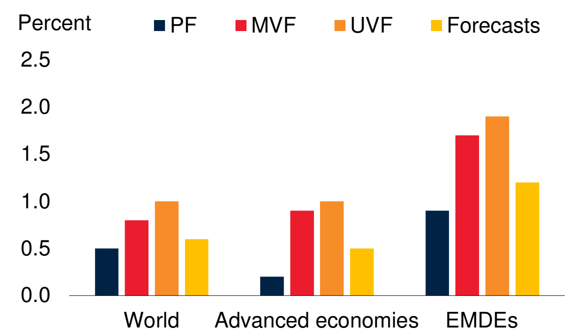


FIGURE 5.C Standard deviation of potential growth estimates, 2000-19



Source: World Bank.

Note: EMDEs = emerging market and developing economies.

A. MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa. GDP-weighted averages of production function-based potential growth estimates.

B. "UCM" for Unobserved Components Model. Based on common sample of 30 advanced economies and 25 EMDEs for 2000-21 to ensure consistency in samples across methodologies. Orange whiskers indicate range implied by GDP-weighted average of country-specific standard deviations of potential growth estimates for each approach.

B. C. "PF" stands for production function approach; "MVF" for multivariate filter; "UVF" for univariate filter; "For." and "Forecasts" for five-year-ahead growth forecasts from the IMF World Economic Outlook database.

C. Aggregates refer to weighted averages (constant real GDP weights at average 2010-19 prices and exchange rates). Standard deviation of potential growth estimates over 2000-2019. "UVF" is the maximum among the univariate filters. Unbalanced sample of 30 advanced economies and 40 EMDEs.

Recent Prospects Group Publications

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Global Economic Prospects January 2023
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Commodity Markets: Evolution, Challenges, and Policies
Commodity Markets Outlook—October 2022

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Fiscal Policy Volatility and Growth in Emerging Markets and Developing Economies
Is the Global Economy Deglobalizing? And If So, Why? And What Is Next?
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Potential Growth Prospects: Risks, Rewards, and Policies
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Africa's Pulse: Leveraging Resource Wealth During the Low Carbon Transition
The Promise of Integration: Opportunities in a Changing Global Economy
Middle East and North Africa Economic Update: Altered Destinies

TABLE: Major Data Releases

(Percent change y-o-y)

Recent releases: March 20, 2023 - April 19, 2023					
Country	Date	Indicator	Period	Actual	Previous
Japan	3/23/23	CPI	FEB	3.3%	4.4%
Germany	3/30/23	CPI	MAR	7.4%	8.7%
United States	3/30/23	GDP	Q4	0.9%	1.9%
Canada	3/31/23	IP	JAN	1.6%	1.2%
South Africa	3/31/23	GDP	Q4	0.9%	4.2%
United Kingdom	3/31/23	GDP	Q4	0.6%	2.0%
Indonesia	4/3/23	CPI	MAR	5.0%	5.5%
South Korea	4/3/23	CPI	MAR	4.2%	4.8%
Türkiye	4/3/23	CPI	MAR	50.5%	55.2%
Mexico	4/5/23	CPI	MAR	6.8%	7.6%
China	4/10/23	CPI	MAR	0.8%	1.1%
Brazil	4/11/23	CPI	MAR	4.7%	5.6%
Russian Federation	4/11/23	GDP	Q4	-2.7%	-3.5%
India	4/12/23	CPI	MAR	5.7%	6.4%
United States	4/12/23	CPI	MAR	5.0%	6.0%
Euro area	4/13/23	IP	FEB	2.2%	0.9%
Saudi Arabia	4/13/23	CPI	MAR	2.7%	3.0%
Argentina	4/14/23	CPI	MAR	104.3%	102.5%
France	4/14/23	CPI	MAR	5.8%	6.4%
China	4/17/23	GDP	Q1	4.5%	2.9%
Japan	4/19/23	IP	FEB	-1.8%	-3.8%

(Percent change y-o-y)

Upcoming releases: April 20, 2023 - May 31, 2023				
Country	Date	Indicator	Period	Previous
South Korea	4/24/23	GDP	Q1	1.3%
Australia	4/25/23	CPI	Q1	7.8%
United States	4/27/23	GDP	Q1	0.9%
Euro area	4/28/23	GDP	Q1	1.8%
Germany	4/28/23	GDP	Q1	0.9%
Italy	4/28/23	GDP	Q1	1.4%
Mexico	4/28/23	GDP	Q1	3.6%
Indonesia	5/5/23	GDP	Q1	5.0%
China	5/10/23	CPI	APR	0.8%
United States	5/10/23	CPI	APR	5.0%
Brazil	5/12/23	CPI	APR	4.7%
Canada	5/16/23	CPI	APR	4.4%
Japan	5/16/23	GDP	Q1	0.4%
United States	5/16/23	IP	APR	0.5%
Poland	5/17/23	GDP	Q1	0.6%
Thailand	5/17/23	GDP	Q1	1.4%
France	5/31/23	CPI	APR	5.8%
Germany	5/31/23	CPI	APR	7.4%
India	5/31/23	GDP	Q1	4.4%
Italy	5/31/23	CPI	APR	7.5%
Türkiye	5/31/23	GDP	Q1	3.5%