THE WORLD BANK
Development Economics | Prospects Group

Global Monthly

February 2024

Overview

- Consensus forecasts for global growth in 2024 are edging up amid improved sentiment.
- Disruptions in the Red Sea have increased freight costs and delivery times on some routes, but global supply chain pressures remain around long-term average levels.
- Recent data indicate continued weakness in China's economy but stabilizing activity, on average, in other EMDEs.

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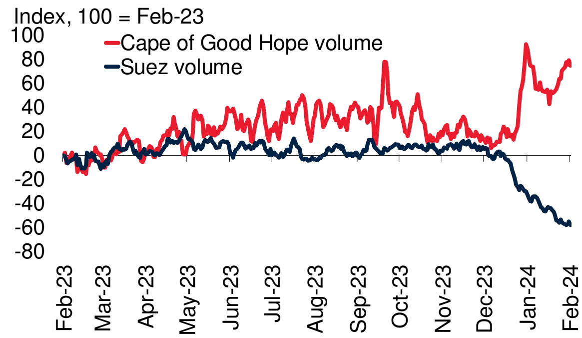
Chart of the Month

- Continued attacks on commercial vehicles in the Red Sea have seen the volume of shipping through the Suez Canal decline sharply since the end of 2023.
- With much of the freight that would usually transit the canal being rerouted around the Cape of Good Hope, or in some cases transported by air, transport costs and delivery times on affected routes have increased.
- Depending on the extent and duration of disruptions, increased supply chain pressures could emerge, potentially raising inflationary pressures.

Shipping volume



Source: UN Global Platform; PortWatch.
Note: Lines show the index of the 7-day moving average of transit trade volume in the Suez and the Cape of Good Hope canals.

Special Focus: Sparking Investment Accelerations to Foster Development

- Investment accelerations were associated with faster progress on raising living standards and reducing poverty.
- Most accelerations over the past seven decades were accompanied by comprehensive policy action intended to improve macroeconomic stability combined with structural reforms.
- Investment accelerations can help mitigate the expected slowdown in potential growth this decade.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Dominik Peschel and Garima Vasishtha under the supervision of Carlos Arteta. The special focus was prepared by Kersten Stamm. This *Global Monthly* reflects data available up to February 23rd, 2024. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: edging up. After another year of deceleration in 2023, global activity showed some signs of stabilization at the beginning of 2024. The global composite PMI rose to 51.8 in January, the highest reading since June 2023. The global manufacturing PMI edged up to 50.0 in January—the first month out of contractionary territory since August 2022—as new orders and output ticked up. The services sector also remained robust. Consistent with better-than-expected growth in the United States and improved global sentiment, consensus forecasts for global growth in 2024 have been edging up since late-2023 (figure 1.A).

Global trade: persistent weakness in goods, recovery in services. Global goods trade contracted by 0.2 percent in December (y/y), contributing to a 1.9 percent decline in goods trade in 2023—the first outright contraction outside a global recession in the past 20 years. The January global manufacturing PMI for new export orders improved on a month-to-month basis but continued to signal contraction, indicating ongoing weakness in goods trade (figure 1.B). Despite disruptions in shipping via the Suez Canal, global supply chain pressures remain around long-term average levels. However, shipment delays have resulted in a shortage of components for some automakers, leading to production pauses in European plants. In contrast, the PMI reading for services trade indicates expansion after four consecutive months of contraction. Driven by robust travel demand, international tourism rebounded in 2023, averaging 88 percent of its pre-pandemic level in 2019.

Commodity markets: mixed dynamics. Brent crude oil prices have remained volatile, exceeding $83/bbl in mid-February amid geopolitical tensions in the Middle East and fears of supply disruptions. Natural gas prices in the United States surged 26 percent in January (m/m) as severe weather conditions boosted demand. In contrast, European natural gas prices declined by 17 percent in January (m/m), hovering around half of their year-ago levels, due to ample inventories. Coal prices fell by 12 percent (m/m), reaching a 30-month low, driven primarily by oversupply of coal in China. Agriculture prices remained relatively stable overall, with a 1.6 percent decrease in food prices offset by a 1.7 percent uptick in beverage prices. The increase in beverage prices stemmed from cocoa, whose price reached a 30-year high in January due to the El Nino-induced production shortfall in West Africa (figure 1.C). Metal prices, on average, remained broadly stable in January (m/m) with price increases

FIGURE 1.A Global growth

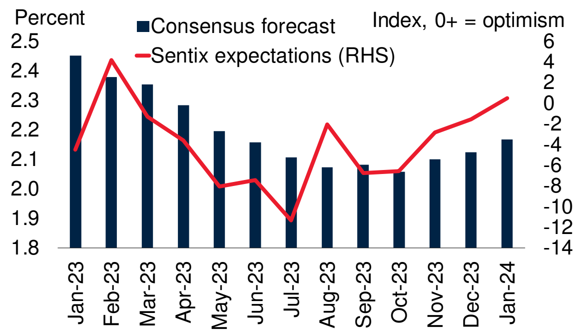


FIGURE 1.B Global PMI new export orders

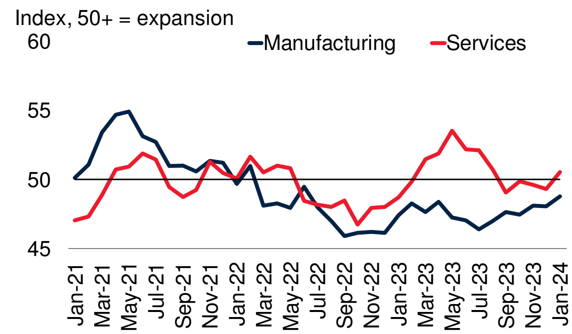
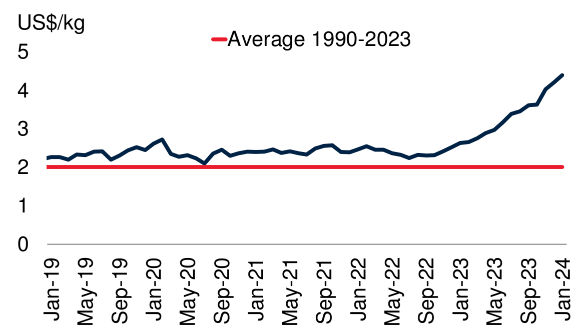


FIGURE 1.C Cocoa price



Sources: Bloomberg; Haver Analytics; World Bank.
Note: PMI = purchasing managers' index.
A. The Sentix Index reflects perceptions about the global economic outlook, based on investor surveys. Values above zero indicate "optimism" while those below zero indicate "pessimism."
B. Figure shows manufacturing and services subcomponents of the global Purchasing Managers' Index (PMI) new export orders series. Last observation is January 2024.
C. Monthly cocoa price. Last observation is January 2024.

for lead (3 percent) and tin (2 percent) offset by declines for nickel (2.9 percent) and copper (0.7 percent), the latter reflecting the concerns about the outlook for industrial activity in China.

Global financial conditions: slight tightening. Global financial conditions tightened marginally over the past month. Following a string of better-than-expected data in the United States and in light of recent communications from the Federal Reserve, market expectations by late February shifted to about 3 rate cuts of 25 basis points each priced in for 2024, down from close to 7 cuts in early January (figure 2.A). This repricing pushed yields on longer-dated U.S. Treasuries somewhat higher, with the U.S. dollar broadly stable, having strengthened notably in January. Nonetheless, global equity markets continued to climb in February, buoyed by the strength of U.S. technology sector stocks. Several large emerging market and developing economies (EMDEs) raised over 50 billion USD in debt markets in January, taking advantage of improved risk appetite. Spreads for EMDEs have generally inched up slightly in 2024 but remain well below their 2022 and 2023 highs (figure 2.B).

United States: expectations-defying strength. Growth in the United States slowed less than expected at the end of 2024, with 2023Q4 (q/q saar) growth at 3.3 percent, mainly due to strong personal consumption expenditures. Real personal consumption expenditures increased 0.5 percent (m/m) in November and December, showing no consistent signs of a slowdown. Strong consumption growth in 2023 was also accompanied by signs that core consumer price inflation had edged up toward the end of 2023 (figure 2.C). Data released so far in 2024 remains positive for activity: nonfarm payrolls increased by 353K in January, continuing to provide support to household income.

Other advanced economies: stagnation in the euro area. In the euro area, flash GDP estimates indicate that output remained flat in 2023Q4, after a 0.1 percent (q/q) contraction in the preceding quarter, with expansions in Italy and Spain helping offset declines in Germany and France (figure 3.A). In the United Kingdom, activity contracted in 2023Q4, with GDP declining by 0.3 percent (q/q) after easing 0.1 percent (q/q) in the preceding quarter. Headline inflation eased to 2.8 percent in January, helped by continued declines in energy prices. In Japan, output contracted 0.4 percent (q/q saar) in 2023Q4, reflecting continued weakness in private consumption and investment. Core inflation (Tokyo; excluding energy and fresh food) softened to 3.1 percent (y/y) in January but remained above the

FIGURE 2.A Federal Funds Rate Expectations

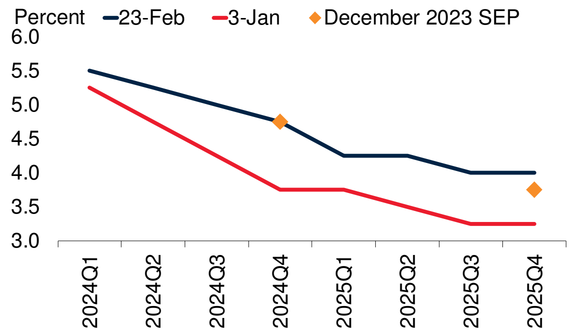


FIGURE 2.B Spreads in EMDEs

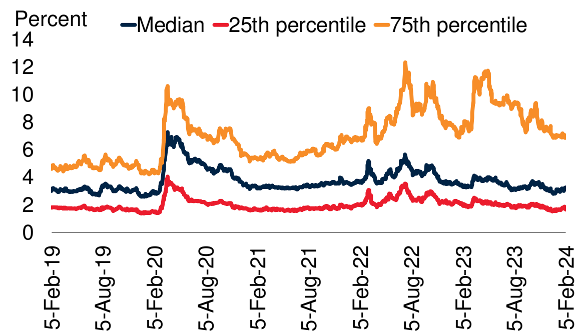
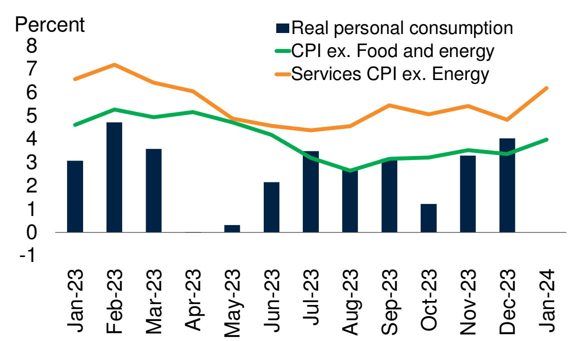


FIGURE 2.C U.S. personal spending, income and CPI inflation



Sources: Bloomberg; Federal Reserve Board; JP Morgan; World Bank.
Note: CPI = consumer price index; SEP = Summary of Economic Projections.
A. Chart shows expectations of the upper limit of the Federal Funds rate target range, consistent with the OIS curve as of January 3rd and February 6th, as well as December Summary of Economic Projections from the Federal Reserve Board.
B. Lines show the median and 25th and 75th percentiles of borrowing spreads for countries in the EMBI Global index.
C. Chart shows annualized 3-month percentage change in real personal consumption expenditures, CPI excluding food and energy and services CPI excluding energy services.

Bank of Japan's (BOJ) target of 2 percent for the sixteenth consecutive month. The BOJ retained its accommodative policy stance in January, noting that the likelihood of achieving the price stability target had increased.

China: continued softness. GDP growth slowed from 1.5 percent (q/q) in 2023Q3 to 1 percent in 2023Q4, resulting in 5.2 percent annual growth for 2023. In January, leading indicators signaled continued subdued activity. The official manufacturing PMI remained in contractionary territory, at 49.2, weighed down by weakness in new export orders, while the services PMI was marginally expansionary, at 50.1 (figure 3.B). Headline consumer prices declined for the fourth consecutive month in January, down by 0.8 percent (y/y), reflecting weak demand and declining food prices. Building on several recent other measures to support demand, the People's Bank of China reduced the reserve requirement ratio by 0.5 percentage point in February and cut the five-year loan prime interest rate by 25 basis points.

Other EMDEs: modest pickup in activity. Activity in 2023Q4 diverged across EMDEs (excluding China). GDP growth picked up slightly in Indonesia from 4.9 percent (y/y) to 5 percent, but slowed in the Philippines, from 6 percent (y/y) to 5.6 percent, amid declining goods exports. In Saudi Arabia, GDP contracted by 3.7 percent (y/y) in 2023Q4 as oil production declined, while output grew annually by 3.6 percent in 2023 in Russia, with activity supported in part by military spending. High-frequency indicators point to a pickup in economic activity in many EMDEs supported, in part, by spillovers from resilient growth in the United States. Aggregate EMDE manufacturing and composite PMIs both rose by more than one point (figure 3.C). Manufacturing PMIs for Brazil, India, Indonesia, and Vietnam for January signaled further expansion. In other large EMDEs—such as Mexico, the Russian Federation, and Saudi Arabia—PMIs declined but remained in expansionary territory. By contrast, Poland's manufacturing PMI continued to deteriorate reflecting economic stagnation in the euro area.

FIGURE 3.A Euro area growth

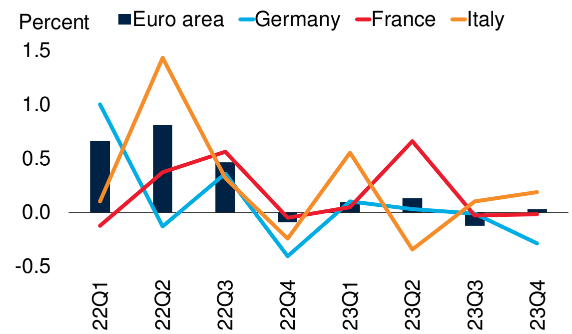


FIGURE 3.B China: Manufacturing and services PMI

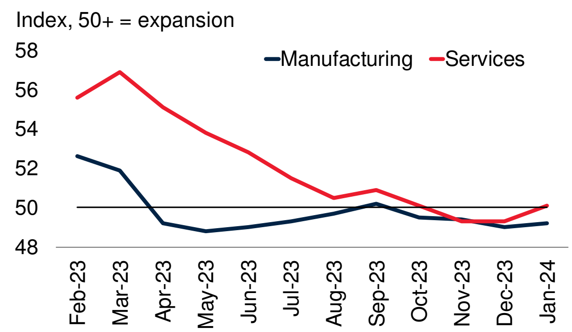
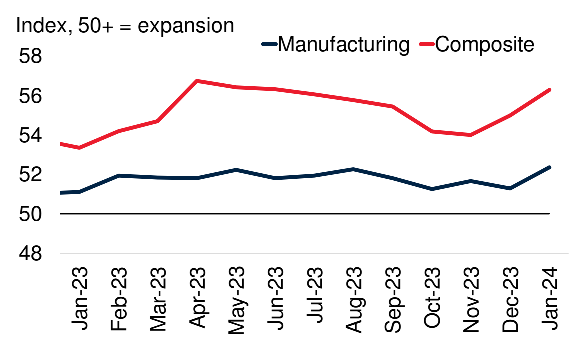


FIGURE 3.C EMDEs excl. China: Manufacturing and Composite PMI



Sources: Haver Analytics; UN World Population Prospects; World Bank.
Note: PMI = purchasing managers' index.
A. Lines show quarter-on-quarter real GDP growth.
B. Panel shows manufacturing and services global purchasing managers' index (PMI) in China. Last observation is January 2024.
C. Panel shows the 2023 GDP weighted average manufacturing and composite global purchasing managers' index (PMI) for 16 EMDEs, excluding China. Last observation is January 2024.

Special Focus: Sparking Investment Accelerations to Foster Development

There is an urgent need to boost investment growth. The additional investment needed to achieve climate and development goals is estimated to be between 1 and 8 percent of GDP in middle- and low-income countries, with the largest needs in the latter group. One solution may entail a wave of investment accelerations—sustained periods of relatively rapid investment growth (figure 4.A). The January edition of the Global Monthly described the features of investment accelerations and how they have often coincided with periods of transformative growth over the past seven decades. Along with strong output growth, accelerations have also been associated with faster progress on development outcomes.

EMDEs made faster progress on development outcomes during accelerations. Investment accelerations were periods of strong per capita output growth in EMDEs, during which poverty fell and access to infrastructure improved. Per capita output growth more than doubled, from 2.1 percent in the six years before accelerations to 4.3 percent per year during accelerations. These higher growth rates translate into large improvements in living standards. In the six years before an acceleration, median per capita incomes grew by a cumulative 13 percent, compared to a cumulative of almost 29 percent in the first six years of an acceleration (figure 4.B). The median per capita output growth during accelerations was 0.6 percentage point higher in EMDEs than in advanced economies. In contrast, during non-acceleration years, EMDEs registered slower per capita output growth than advanced economies (1.8 percent versus 2.1 percent per year). Faster per capita output growth was accompanied by a significant reduction of poverty in EMDEs. The national poverty headcount fell by 1.2 percentage points per year during accelerations, compared to 0.3 percentage point in the six years before an acceleration. Accelerations of investment are also instrumental in improving access to infrastructure. For instance, since the late 1990s, access to the internet improved faster during than before accelerations (figure 4.C).

Investment accelerations are more likely to occur when initial conditions are supportive. Benign global economic conditions, proxied by strong global output growth, substantially increase the likelihood of an acceleration. For example, raising global GDP growth from the bottom to the top quartile— from 2.1 percent to 3.5 percent—increased the probability of initiating an

FIGURE 4.A Investment growth around accelerations

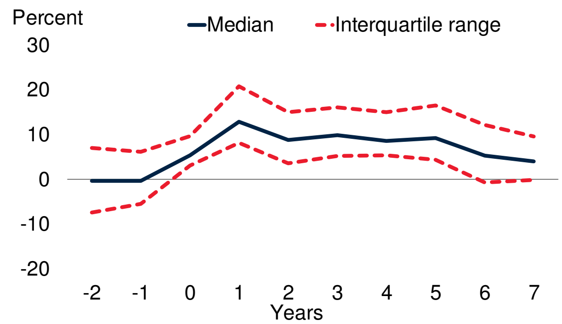


FIGURE 4.B Cumulative change in output per capita around investment accelerations, EMDEs

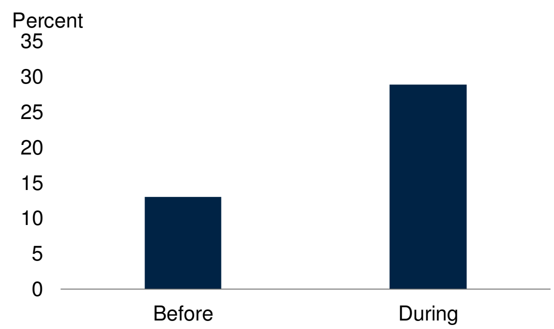
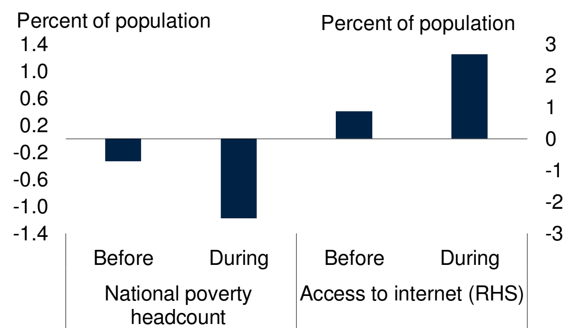


FIGURE 4.C Change in national poverty headcount and access to internet



Sources: Feenstra, Inklaar, and Timmer (2015); Haver Analytics; WDI (database); World Bank.

Note: "Before" corresponds to the six years before investment accelerations. "During" corresponds to the full duration of the acceleration. Indicator values closest to the beginning and end but within the covered periods were used to calculate changes due to data limitations.

A. The sample includes 192 investment acceleration episodes in 93 economies, including 34 advanced economies and 59 EMDEs. t = 0 refers to the start year of an investment acceleration episode. The blue line shows the median, red dashed lines show the 25th and 75th percentile of investment growth in each year around an investment acceleration.

B. Bars show the cumulative per-capita output growth for six-year periods based on the median annual growth rate in the six years before accelerations and the median annual growth rate during accelerations.

C. Bars show the median annual change in the poverty headcount ratio using national poverty line(s) and the median annual change in the percent of population with access to the internet as measured by SDG 9.

acceleration in a year by about 4.7 percentage points. Similarly, economies with higher institutional quality or more undervalued real exchange rates—making the tradable sector more competitive—have been more likely to experience an investment acceleration (figure 5.A).

Comprehensive policy packages are more likely to spark investment accelerations. Most accelerations followed or were accompanied by fiscal, financial, and trade reforms that consolidated government finances, liberalized the capital account, or lowered trade restrictions. That said, empirical results show that comprehensive policy packages that combine improvements in fiscal and monetary policy frameworks with structural reforms can raise the likelihood of initiating an acceleration by more than might be expected from individual policies (figure 5.B). Comprehensive reform packages have included interventions to improve fiscal positions, such as revenue and expenditure measures and establishing fiscal rules, and monetary policy reforms, such as establishing or reinforcing central bank independence or adopting inflation-targeting. Structural reforms to lower trade costs and liberalize international trade and financial flows have also helped ignite investment accelerations. These reforms were particularly effective when combined with well-functioning institutions.

Investment accelerations can help mitigate the projected slowdown in potential output growth over this decade. Potential growth in EMDEs is expected to slow to 4 percent per year in the remainder of this decade, down from 4.9 percent in the 2010s. However, if those EMDEs that experienced an investment acceleration since 2000 were able to spark another such episode in the remainder of this decade, average annual potential growth could be boosted by 0.3 percentage point. Furthermore, if all EMDEs could also replicate their best 10-year performance in a range of other areas, encompassing health, education, social benefits, and labor market reforms, potential growth could increase by 0.5 percentage point per year in 2022-30, almost eliminating the projected decline (figure 5.C).

FIGURE 5.A Probability of sparking an acceleration

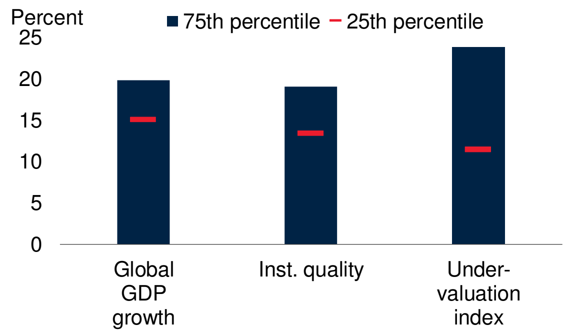


FIGURE 5.B Probability change because of reforms

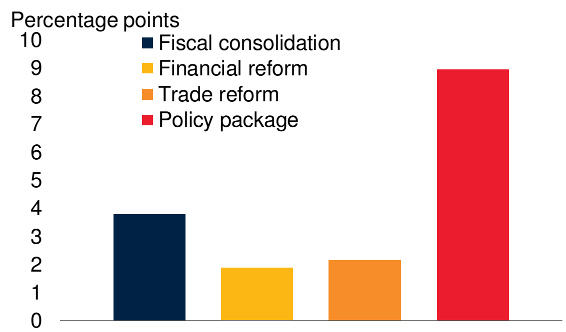
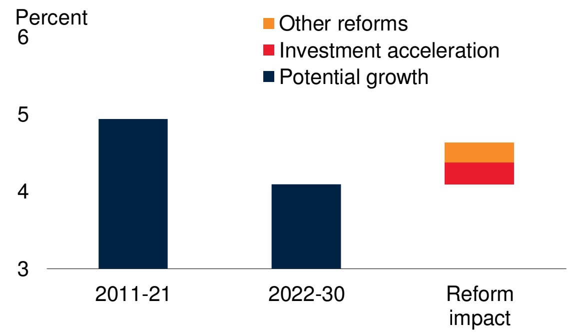


FIGURE 5.C Potential growth



Sources: Feenstra, Inklaar, and Timmer (2015); Haver Analytics; PRS Group; WDI (database); World Bank.

A. The bars show the predicted probability of an investment acceleration at the top and bottom quartile of lagged global GDP growth, the lagged ICRG law and order index, and lagged exchange rate undervaluation index.

B. Bars show the increase in the probability of an investment acceleration following a one standard deviation improvement in economic policy. Right bar shows the combined impact of increasing all three policy variables by one standard deviation.

C. The scenario assumes that in 40 EMDEs (excluding China) that experienced an investment acceleration between 2000 and 2022, investment growth will increase to 10.35 percent per year from 2023–28 before returning to 0.4 percent per year in 2029-30. The increase in investment growth to 10.35 percent and subsequent fall to 0.4 percent matches the median investment growth during and after investment accelerations in EMDEs between 1950-2022. Other reforms include social benefit and labor market reforms as well as health and education reforms.

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TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: January 27, 2024 - February 26, 2024					
Country	**Date**	**Indicator**	**Period**	**Actual**	**Previous**
France	1/30/24	GDP	Q4	0.7%	0.6%
Germany	1/30/24	GDP	Q4	-0.2%	-0.3%
Italy	1/30/24	GDP	Q4	0.5%	0.1%
Korea, Republic of	1/30/24	IP	DEC	6.2%	5.5%
Canada	1/31/24	IP	NOV	1.0%	0.1%
Russian Federation	1/31/24	IP	DEC	2.8%	4.7%
Saudi Arabia	1/31/24	GDP	Q4	-3.7%	-4.4%
Indonesia	2/5/24	GDP	Q4	5.0%	4.9%
Türkiye	2/5/24	CPI	JAN	64.9%	64.8%
China	2/7/24	CPI	JAN	-0.8%	-0.3%
Brazil	2/8/24	CPI	JAN	4.5%	4.6%
Mexico	2/8/24	CPI	JAN	4.9%	4.7%
India	2/12/24	CPI	JAN	5.1%	5.7%
Argentina	2/14/24	CPI	JAN	254.2%	211.4%
Euro area	2/14/24	GDP	Q4	0.1%	0.0%
Japan	2/14/24	GDP	Q4	1.1%	1.6%
United Kingdom	2/15/24	GDP	Q4	-0.2%	0.2%
United States	2/15/24	IP	JAN	0.0%	1.2%
Thailand	2/18/24	GDP	Q4	1.7%	1.4%
Mexico	2/22/24	GDP	Q4	2.5%	3.5%
Nigeria	2/22/24	GDP	Q4	3.2%	3.1%

(Percent change y/y)

Upcoming releases: February 27, 2024 - March 31, 2024				
Country	**Date**	**Indicator**	**Period**	**Previous**
United States	2/28/24	GDP	Q4	2.9%
France	2/29/24	CPI	FEB	3.2%
Germany	2/29/24	CPI	FEB	2.9%
India	2/29/24	GDP	Q4	7.6%
Indonesia	2/29/24	CPI	FEB	2.6%
Spain	2/29/24	CPI	FEB	3.4%
Brazil	3/1/24	GDP	Q4	2.0%
Türkiye	3/4/24	CPI	FEB	64.9%
Australia	3/5/24	GDP	Q4	2.1%
France	3/5/24	IP	JAN	0.9%
Italy	3/5/24	GDP	Q4	0.1%
South Africa	3/5/24	GDP	Q4	-0.7%
Mexico	3/7/24	CPI	FEB	4.9%
China	3/8/24	CPI	FEB	-0.8%
China	3/14/24	IP	JAN	6.8%
Saudi Arabia	3/14/24	CPI	FEB	1.6%
Argentina	3/20/24	GDP	Q4	-0.8%
New Zealand	3/20/24	GDP	Q4	-1.5%
South Africa	3/20/24	CPI	FEB	5.4%
Netherlands	3/25/24	GDP	Q4	-0.5%
Spain	3/26/24	GDP	Q4	1.9%