THE WORLD BANK
Development Economics | Prospects Group

Global Monthly

March 2024

Overview

- Global economic activity continues to show some signs of improvement, amid firming sentiment and solid risk appetite.
- Growth in major economies continues to diverge, with robust growth in the United States twinned with subdued activity in the euro area and China.
- Inflation is moderating in emerging market and developing economies (EMDEs) while activity is stabilizing, on average.

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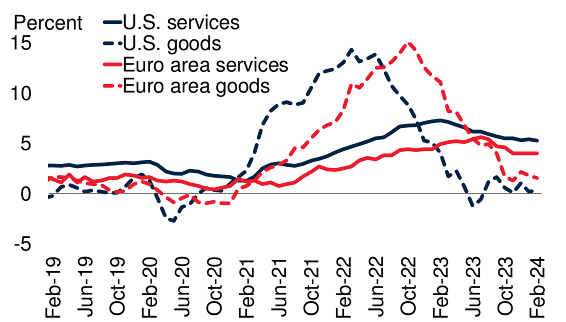
Chart of the Month

- Headline inflation continues to moderate in most advanced economies, but with notable differences in the underlying dynamics of goods and services inflation.
- Inflation in consumer goods prices has continued to decline in the United States and the euro area, although the pace of decline has diminished.
- In contrast, service price inflation remains sticky, due partly to the higher labor intensity of services which makes service prices more sensitive to wage growth, among other factors.

Goods and services inflation in the United States and euro area



Source: Eurostat; FRED (database); World Bank.
Note: U.S. goods inflation is the average of durables and non-durables inflation, weighted by their respective shares in the CPI basket.

Special Focus: Fiscal Procyclicality in Commodity Exporters

- Commodities are important sources of export and fiscal revenues for almost two-thirds of EMDEs, including three-fourths of low-income countries.
- Over the past four decades, fiscal policy has been about 30 percent more procyclical in commodity-exporting EMDEs than in others.
- Fiscal policy procyclicality in the average EMDE commodity exporter increased the effects of a commodity price shock on the business cycle by more than one-fifth.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Marie Albert and Garima Vasishtha under the supervision of Carlos Arteta. The special focus was prepared by Francisco Arroyo Marioli. This *Global Monthly* reflects data available up to March 25th, 2024. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: some firming. Global activity has continued to show some signs of improvement in early 2024. The global composite PMI rose for the fourth consecutive month to 52.1 in February, with both the manufacturing and services sectors firming on the back of improving domestic demand and diminishing tightness in financial conditions. The global manufacturing PMI remained in expansionary territory for the second consecutive month, edging up to 50.3 in February (figure 1.A). Resilient activity in the United States and some Asian economies, notably India, has stoked a continued rise in investor optimism, as reflected in the Sentix economic indexes in March.

Global trade: rebound in goods, continued expansion in services. Global goods trade increased by 0.4 percent in January (y/y), marking the first expansion after nine consecutive months of contraction. Additionally, improvement in the goods component of the new export orders PMI suggests that the contraction in goods trade may have bottomed out. Notwithstanding shipping disruptions in the Suez and Panama Canals, the global index for manufacturing suppliers' delivery times also improved slightly in February, signaling little change in the impact of the disruptions on the ability of manufacturers to procure inputs (figure 1.B). Furthermore, PMI readings for new export orders for services indicate an expansion for the second consecutive month.

Commodity prices: diverging. Brent crude oil prices reached US$87/bbl by end of March, up from $84 in February, supported by a solid global oil demand outlook and concerns over potential supply pressures from the continuation of OPEC+ cuts. Natural gas prices in the United States plummeted nearly 50 percent (m/m) as a milder-than-expected winter reduced demand and pushed storage levels to record highs. European natural gas prices continued their downward trajectory, declining an additional 15 percent in February (m/m), as milder weather reduced demand. Food prices edged down by 1 percent in February (m/m) while beverage prices increased nearly 13 percent (figure 1.C). Cocoa prices reached an all-time high of over $10,000/mt by end of March, due to lower-than-expected production in Côte d'Ivoire and Ghana, the world's largest suppliers, partly linked to the El Niño weather pattern. Robusta coffee prices reached three-decade highs amid supply concerns regarding key producers, including Brazil and Indonesia. Metal prices decreased by 2 percent in February (m/m), led by zinc and aluminum, amid uncertainty about the outlook in China, the world's leading metals consumer.

FIGURE 1.A Global activity

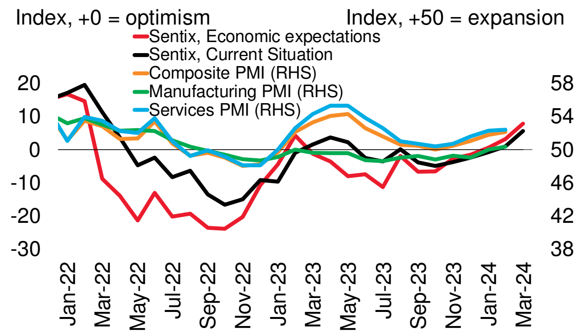


FIGURE 1.B Manufacturing suppliers' delivery times

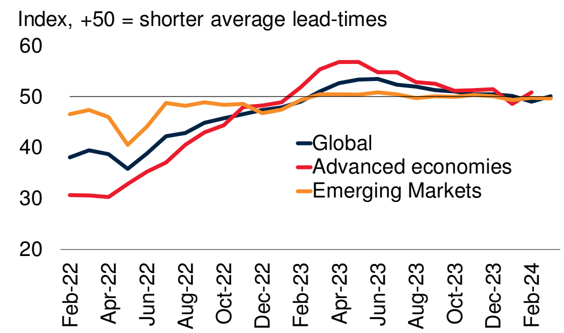
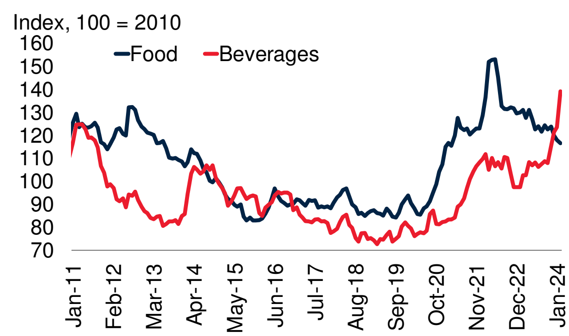


FIGURE 1.C Food and beverage prices



Sources: Haver Analytics; World Bank; World Bureau of Metal Statistics.
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." Last observation is February 2024 for the composite global PMI and its sub-components, and March 2024 for the Sentix indexes.
B. Figure shows manufacturing suppliers' delivery times. Readings above 50 signal shorter average lead-times; readings below 50 signal longer average lead-times. Last observation is February 2024.
C. Monthly data. Last observation is February 2024.

Global financial conditions: broadly stable, with solid risk appetite. Advanced-economy long-term bond yields in March were little changed overall from February, at about 4.2 percent in the United States and 2.3 percent in Germany. Both financial markets and the latest projections from the Federal Open Market Committee (FOMC) foresee about three cuts to the U.S. policy rate this year, to a range of 4.75–4.5 percent. Advanced-economy equity indices continued to climb, with elevated valuations signaling low-risk premia (figure 2.A). In China, recent equity inflows have helped lift stock prices, with the Shanghai Composite index up more than 10 percent since early February. In other EMDEs, solid risk appetite has supported sustained portfolio inflows—February marked five consecutive months of debt inflows, the longest such streak since 2016 (figure 2.B).

United States: continued resilience in economic activity. Economic activity remains on a strong footing so far in 2024, despite weather-related weak outturns for consumer spending and industrial production in early 2024. Retail sales rose by 0.6 percent (m/m) in February. Labor markets remain tight, with little change in job openings, at 8.9 million in January, and nonfarm payrolls expanding by an estimated 275K in February, albeit alongside material downward revisions to the readings for previous months. The slight pickup in the unemployment rate to 3.9 percent in February is one of the few tentative signs of labor market softening. Industrial output in manufacturing expanded by 0.8 percent (m/m) in February, reversing most of the decline in the previous month. Along with the sustained strength in activity, inflation remains elevated, with the 3-month annualized core CPI inflation picking up to 4.2 percent in February (figure 2.C).

Other advanced economies: mixed developments in the euro area. In the euro area, activity was flat in 2023Q4 (q/q), with a negative contribution from net exports offset by marginal gains in investment and government spending, set against near-zero private consumption growth (figure 3.A). Annual growth in 2023 came in at a feeble pace of 0.4 percent, weighed down by tight credit conditions, anemic trade, and high energy prices. The flash composite PMI remained in contractionary territory in March, although it improved on the back of the rising services sub-index, which offset a deterioration in the manufacturing sub-index. In February, headline inflation eased to 2.6 percent (y/y), due primarily to declining energy prices. Core inflation also moderated but remained elevated at 3.1 percent (y/y). In Japan, growth in 2023Q4 was revised up from a 0.4 percent (q/q) contraction to a 0.4 percent expansion, reflecting

FIGURE 2.A Equity market valuation by percentile, 1997-2024

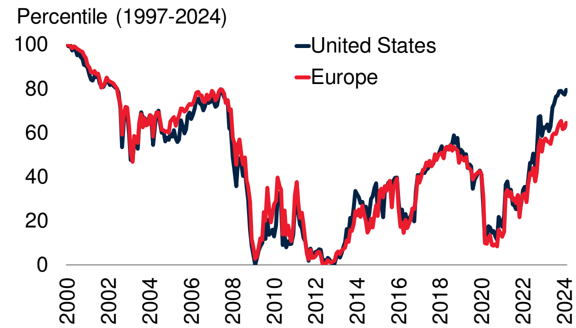


FIGURE 2.B Months of consecutive portfolio debt inflows, EMDEs excl. China

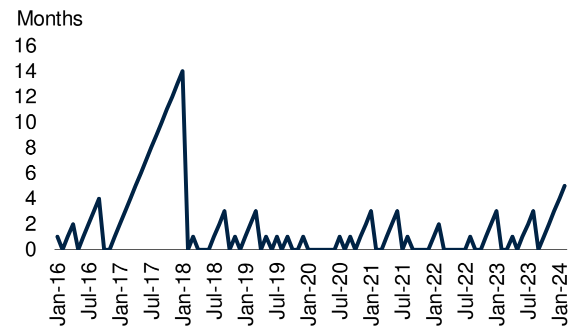
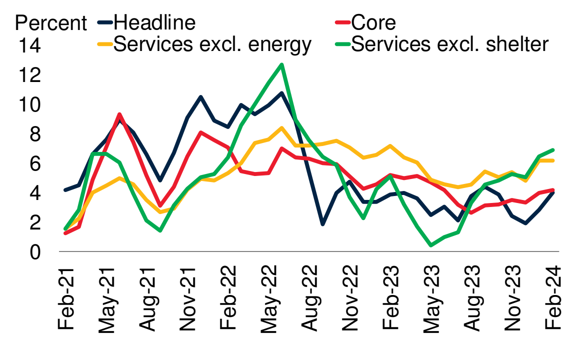


FIGURE 2.C U.S. consumer price inflation, by component



Sources: Barclays; Bloomberg; Bureau of Labor Statistics; FRED; Institute of International Finance; Morgan Stanley Capital International; World Bank.

A. Figure shows the cyclically adjusted excess earnings yield on U.S. and European broad equity indices. Percentiles are derived from an inverted ranking of the cyclically adjusted earnings yield (calculated as the reciprocal of the cyclically adjusted PE ratio) minus the yield on 10-year inflation-protected U.S. treasury securities. Last observation is February 2024.

B. Figure shows number of consecutive months of positive non-resident debt flows for a sample of seven large EMDEs for which timely estimates are available. Last observation is February 2024.

C. Figure shows 3-month annualized percent change in seasonally adjusted U.S. CPI inflation components. Last observation is February 2024.

strong investment. The Bank of Japan (BOJ) announced it will discontinue key unconventional measures—yield curve control, negative interest rates, and purchases of exchange-traded funds—and set the short-term policy rate at 0 to 0.1 percent. The BOJ will continue its purchases of Japanese government bonds with broadly the same amount as before. Amid declining real income, consumption growth has remained negative for three consecutive quarters, but spring wage negotiations (*Shunto*) are likely to achieve higher raises than the previous year (3.6 percent).

China: modest firming in services, recovery in trade. Services activity shows signs of modest improvement while the manufacturing sector remains weak. In February, the services PMI increased to 51.0 while the manufacturing PMI declined slightly to 49.1. Trade also showed further signs of recovery, following weakness in 2023. Through January and February, exports expanded by 7.1 percent (y/y), compared with a rise of 2.3 percent in December, while imports increased by 3.5 percent (figure 3.B). After declining since August 2023, consumer prices rose 0.7 percent (y/y) in February, as core inflation edged up to 1.2 percent (y/y) and food prices fell at a slower pace. In their Government Work Report delivered in early March, the authorities signaled modest fiscal support and accommodative monetary policy ahead, setting a GDP growth target of "around 5 percent" for this year—unchanged from the target for 2023.

Other EMDEs: moderating inflation, resilient activity. Median headline inflation across EMDEs hovered around 4.0 percent (y/y) in February, the second-lowest reading since June 2021. It declined in about 70 percent of EMDEs in February but remained above target in about half of inflation-targeting economies (figure 3.C). Median core inflation continues to moderate (in y/y terms), albeit at a slowing pace. The PMI composite index for EMDEs excluding China remained solid in March, at 53.2. Manufacturing PMIs indicated robust economic performance in India, Brazil and Russia, while the index moved into expansionary territory in Türkiye for the first time since June. In contrast, the composite PMI for Nigeria declined sharply to 51.2 in February, from 58.4 in January, likely reflecting a currency devaluation in late January. In the Arab Republic of Egypt, the non-oil private sector PMI declined further in February. The central bank hiked the policy rate by an unprecedented 600 basis points, to 28.25 percent, in early March, and announced a shift to a more flexible exchange rate regime, which resulted in the currency depreciating by over 60 percent against the US dollar. In another significant development, in late February the United Arab Emirates committed to investing $35 billion in Egypt.

FIGURE 3.A Euro area growth

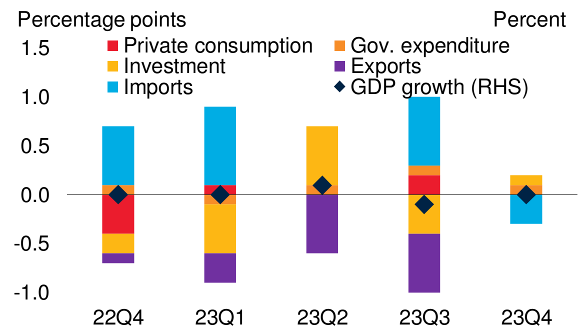
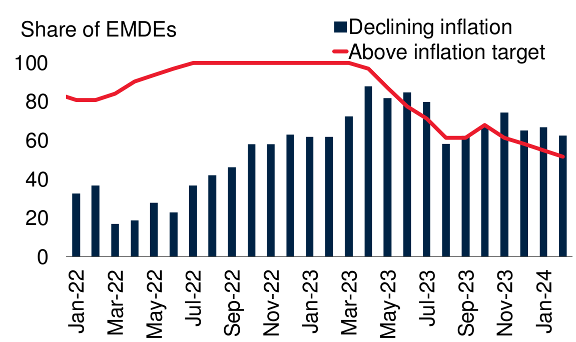


FIGURE 3.B China exports and imports of goods

FIGURE 3.C Inflation in EMDEs



Sources: Eurostat; Haver Analytics; World Bank.
A. Figure shows real GDP growth and the contributions of its components. Last observation is 2023Q4.
B. Figure shows the year-on-year percentage change of nominal goods imports and exports in China with the January and February observations reflecting growth over the combined months. Last observation is February 2024.
C. Bars show the share of EMDEs where year-on-year headline inflation has declined compared to the previous month. Line show the share of EMDEs with inflation above their target. Last observation is February 2024.

Special Focus: Fiscal Procyclicality in Commodity Exporters

Commodity dependence creates challenges in the formulation of appropriate fiscal responses to commodity price fluctuations. Commodities are important sources of export and fiscal revenues for almost two-thirds of emerging market and developing economies (EMDEs), including three-fourths of low-income countries. A central challenge faced by policy makers in commodity-exporting countries is coping with shocks to commodity prices, which are often large and persistent. Commodity prices have undergone frequent cycles over the past five decades, with the average cycle lasting almost six years (figure 4.A). The booms and busts in government revenues attributable to commodities tend to make fiscal policy both more procyclical and more volatile in commodity-exporting EMDEs, amplifying business cycles and harming growth. This Special Focus provides an analysis of fiscal procyclicality in commodity-exporting EMDEs.

Fiscal policy tends to be more procyclical in EMDE commodity exporters than in commodity importers. Over the past four decades, the average correlation between the cyclical components of real GDP and real government spending—a measure of fiscal cyclicality—was 30 percent higher for commodity exporters than commodity importers (figure 4.B). This procyclical behavior has been widespread across all EMDE regions. Although fiscal procyclicality has trended downward in EMDEs over the past four decades, it has fallen less among commodity exporters than other EMDEs.

The degree and nature of fiscal procyclicality have varied with the macroeconomic and institutional features of countries. Fiscal policy in commodity-exporting countries with more capital account restrictions has tended to be more procyclical than in those with fewer restrictions (figure 4.C). Countries with more restrictions on the capital account have more limited access to international financial markets, which makes the cost of borrowing more expensive. This may increase the procyclicality of fiscal policy by making the government's access to funds particularly limited during recessions, forcing government expenditures to shrink, thus amplifying the economic downturn.

The quality of institutions also plays an important role in the ability of countries to conduct countercyclical fiscal policy. For instance, countries with better law-and-order have lower

FIGURE 4.A Duration of commodity booms and slumps

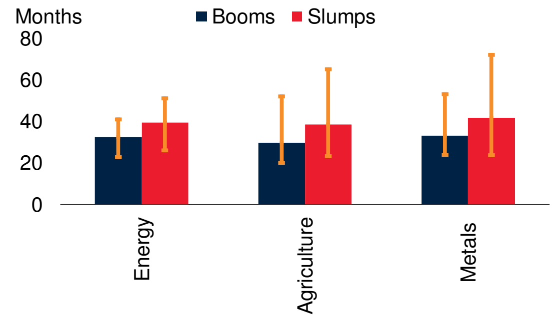


FIGURE 4.B Fiscal procyclicality: EMDE commodity exporters versus importers

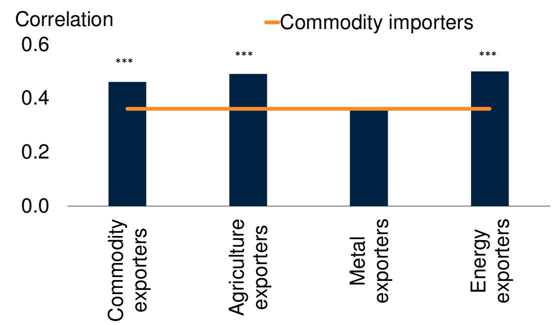
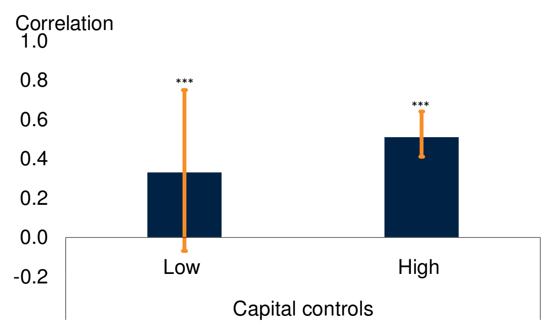


FIGURE 4.C Procyclicality in commodity-exporters, by degree of capital controls



Sources: Arroyo Marioli and Végh (2023); Chinn and Ito (2006); World Bank.

A. Duration measures the average length (in months) of a phase (boom or slump). Whiskers indicate minimum and maximum ranges.

B.C. Bars show average correlation between the cyclical components of real GDP and real government spending within groups. The cyclical components are derived using the Hodrick-Prescott filter. Vertical lines show 25th and 75th percentiles. Based on Chinn-Ito index of financial openness.

B. The sample period is 1980–2020. Sample of EMDEs includes 87 commodity exporters (38 agricultural, 31 energy, and 21 metals) and 59 commodity importers. *** indicates that the difference between the average correlation for the particular country group and that for commodity importers is statistically significant at the 10 percent level or better.

C. A country is classified as having high (low) capital account restrictions if its Chinn-Ito index score is below (above) the median. Sample has 36 countries with low capital controls and 54 countries with high capital controls. *** indicates that the difference between the means for the two country groups is statistically significant at the 10 percent level or better.

fiscal procyclicality than those with weaker law and order (figure 5.A). Similarly, commodity exporters with better control of corruption have lower fiscal procyclicality than those with weaker corruption control, which makes it easier to capture resource rents. Evidence from country case studies suggests that a strong political commitment to fiscal discipline, as well as strong institutions of good governance, help reduce fiscal procyclicality (figure 5.B). In contrast, weak institutions limit the ability of governments to follow countercyclical fiscal policy.

Fiscal procyclicality has amplified the business cycle in commodity-exporting EMDEs, with adverse implications for growth. Fiscal responses to commodity price shocks have differed considerably between EMDEs and advanced economies. Commodity-exporting EMDEs have tended to react in a procyclical manner, increasing government expenditures when prices of exported commodities rise. Advanced-economy commodity exporters, in contrast, have tended to react countercyclically, reducing spending when prices rise.

Empirical evidence from the last four decades suggests that fiscal policy in the average EMDE commodity exporter increased the impact of commodity price shocks on output by more than one-fifth. In contrast, fiscal policy in advanced-economy commodity exporters has, on average, offset the output effect of a commodity price shock by reacting countercyclically. As such, when hit by a commodity price shock of the same magnitude, the change in output in the average commodity-exporting EMDE has tended to be more than three times larger than that in its advanced-economy counterpart, because of the opposite responses of fiscal policy in the two country groups. The 2003–08 commodity price boom serves to illustrate how the response of fiscal policy to commodity price movements can affect output growth. Over this period, more than three-fourths of the difference in growth between major commodity-exporting EMDEs and advanced economies can be explained by the difference in the cyclicality of fiscal policy (figure 5.C).

FIGURE 5.A Procyclicality and law and order

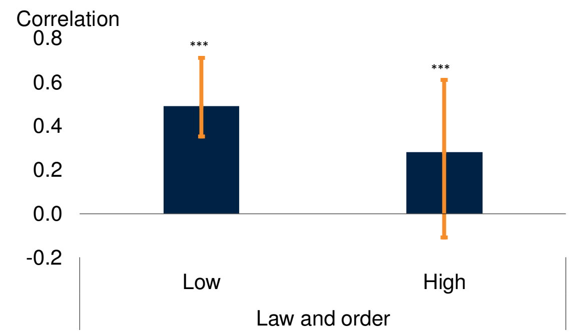


FIGURE 5.B Institutional quality and fiscal procyclicality

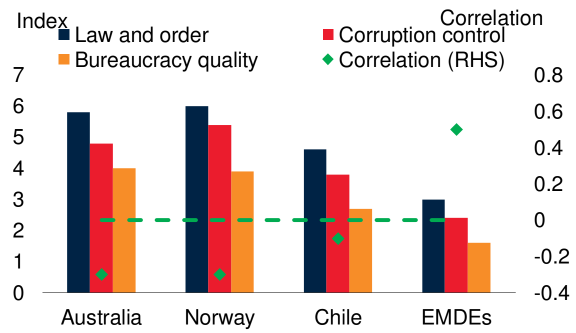
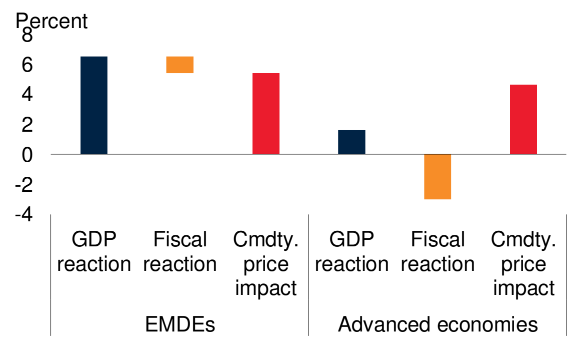


FIGURE 5.C The role of fiscal policy in amplifying the impact of commodity price shocks: 2003-2008



Sources: Arroyo Marioli and Végh (2023); Izetzki, Reinhart, and Rogoff (2022); PRS Group (database); World Bank.

Note: EMDEs = emerging market and developing economies. Vertical lines show 25th and 75th percentiles.

A. Bars show average correlation between the (Hodrick Prescott-filtered) cyclical components of real GDP and real government spending within groups. Sample has 24 countries with high scores (above sample median) for the law-and-order index and 49 countries with low (below sample median) scores. *** indicates that the difference between the means for the two country groups is statistically significant at the 10 percent level or better.

B. The institutional quality indexes give higher scores to countries with better metrics. “EMDEs” shows the simple average of 68 commodity-exporting countries across the 3 indicators from 1990-2019.

C. The sample has 4 advanced economies and 11 EMDEs. The orange bars represent the fraction of the change in GDP, in response to a commodity price shock, explained by the reaction of fiscal policy to the shock, averaged at the aggregate level. The red bars show the direct effect of a commodity price shock on GDP.

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TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: February 27, 2024 - March 26, 2024					
Country	**Date**	**Indicator**	**Period**	**Actual**	**Previous**
Indonesia	2/29/24	CPI	FEB	2.8%	2.6%
Türkiye	2/29/24	GDP	Q4	4.0%	6.1%
Brazil	3/1/24	GDP	Q4	2.1%	2.0%
Australia	3/5/24	GDP	Q4	1.5%	2.1%
Italy	3/5/24	GDP	Q4	0.6%	0.5%
South Africa	3/5/24	GDP	Q4	1.2%	-0.7%
China	3/8/24	CPI	FEB	0.7%	-0.8%
Euro area	3/8/24	GDP	Q4	0.1%	0.1%
Saudi Arabia	3/10/24	GDP	Q4	-4.3%	-3.2%
Argentina	3/12/24	CPI	FEB	276.2%	254.2%
India	3/12/24	CPI	FEB	5.1%	5.1%
Mexico	3/12/24	IP	JAN	2.9%	0.0%
United States	3/12/24	CPI	FEB	3.2%	3.1%
Russian Federation	3/13/24	CPI	FEB	7.7%	7.4%
Nigeria	3/15/24	CPI	FEB	31.7%	29.9%
United States	3/15/24	IP	FEB	-0.2%	-0.3%
Euro area	3/18/24	CPI	FEB	2.6%	2.8%
Japan	3/19/24	IP	JAN	-3.2%	-0.3%
South Africa	3/20/24	CPI	FEB	5.5%	5.4%
United Kingdom	3/20/24	CPI	FEB	3.9%	4.2%
Japan	3/21/24	CPI	FEB	2.8%	2.2%

(Percent change y/y)

Upcoming releases: March 27, 2024 - April 30, 2024				
Country	**Date**	**Indicator**	**Period**	**Previous**
Indonesia	3/31/24	CPI	MAR	2.8%
Brazil	4/3/24	IP	FEB	3.6%
Türkiye	4/3/24	CPI	MAR	67.1%
Thailand	4/4/24	CPI	MAR	-0.8%
Egypt, Arab Rep.	4/8/24	CPI	MAR	35.7%
Argentina	4/9/24	IP	FEB	-12.4%
Mexico	4/9/24	CPI	MAR	4.4%
Brazil	4/10/24	CPI	MAR	4.5%
China	4/10/24	CPI	MAR	0.7%
United States	4/10/24	CPI	MAR	3.2%
Mexico	4/11/24	IP	FEB	2.9%
India	4/12/24	CPI	MAR	5.1%
Saudi Arabia	4/15/24	CPI	MAR	1.8%
China	4/16/24	GDP	Q1	5.2%
Australia	4/23/24	CPI	Q1	4.0%
United States	4/25/24	GDP	Q1	3.1%
Euro area	4/30/24	GDP	Q1	0.1%
France	4/30/24	GDP	Q1	0.7%
Germany	4/30/24	GDP	Q1	-0.2%
Italy	4/30/24	GDP	Q1	0.6%
Spain	4/30/24	GDP	Q1	2.0%