THE WORLD BANK
Development Economics | Prospects Group

Global Monthly

November - December 2023

Overview

- Global growth is slowing further, as weakness in manufacturing and goods trade continues to spread to services.
- By late November, oil prices had more than reversed their increase following the start of the conflict in the Middle East, reflecting concerns about global demand.
- Financial conditions eased in November, reflecting perceptions of softening inflation pressures.

Table of Contents

Monthly Highlights 2
Special Focus 5
Recent Prospects Group Publications 7
Recent World Bank Working Papers 7
Recent World Bank Reports 7
Table: Major Data Releases 7

Chart of the Month

- Labor markets have been tight across advanced economies over the last two years, even as central banks have hiked policy rates to combat inflation.
- However, unemployment rates have started to drift up, suggesting labor markets are now softening.
- Excluding the COVID-19 pandemic, the percentage of advanced economies with rising unemployment is at its highest since 2010.

Advanced economies with rising unemployment

Sources: Haver Analytics; World Bank.
Note: Line illustrates percent of advanced economies with rising unemployment, defined as an increase in the 3-month trailing average of unemployment. Unbalanced sample of up to 23 advanced economies. Euro area economies are recorded as separate entities.

Special Focus: Potential Near-Term Implications of the Conflict in the Middle East for Commodities—A Preliminary Assessment

- The recent conflict in the Middle East has heightened geopolitical risks, and particularly risks to oil markets.
- Although the impact of the conflict on commodity prices has so far been muted, some past geopolitical events in the Middle East have exerted a pronounced influence on oil markets.
- Should the conflict escalate across the region, oil markets could be significantly disrupted, leading to a surge in prices.

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

Monthly Highlights

Global activity and inflation: easing together. Recent data suggest that global growth continues to slow. Across major economies, purchasing managers indexes (PMIs) for October moved lower, and by more than private forecasters expected (figure 1.A). November's flash PMIs also signaled waning growth. Manufacturing remains anemic, with elevated financing costs and decelerating global goods demand weighing on activity. PMIs for services sectors continue to indicate expansion but have generally deteriorated, reflecting weaker readings for employment growth and order backlogs. At the sectoral level, healthcare and financial services continue to expand at a solid pace while industrial sectors like mining and chemicals are contracting. In addition, excluding the COVID-19 pandemic, the proportion of advanced economies with rising unemployment has reached its highest level since 2010 (see chart of the month). Consistent with decelerating demand, global inflation momentum has eased further—median three-month core inflation (annualized) declined to 3 percent in October, from 3.5 percent in July 2023.

Global trade: contracting further for goods, softening for services. Global goods trade contracted in September, declining by 3.5 percent (y/y). October's global manufacturing PMI for new export orders indicated continued weakness in goods trade (figure 1.B). Amid sluggish demand for goods, global supply chain pressures have receded to record low levels. Recent data also indicate weakness in global services trade, with the services PMI for new export orders indicating stagnation in October. The recovery in international tourism flows, which reached 90 percent of its pre-pandemic level in July, has helped sustain strong travel demand. International tourism remains on track to reach 95 percent of its pre-pandemic level by end-2023. The contribution of tourism to trade growth will likely wane as the recovery matures.

Commodity markets: broadly easing prices. Energy prices declined by 1.8 percent (m/m) in October overall, as the initial increase following the start of the conflict in the Middle East reversed (figure 1.C). The price of Brent oil settled just above US$80/bbl in late November, down from more than US$90/bbl in mid-October. Despite an extension of previous OPEC+ cuts (1.3 mb/d) into 2024Q1, and pledges of additional cuts (of nearly 1 mb/d), concerns about global demand are weighing on prices. European natural gas prices also eased in early November amid mild weather, near-capacity storage, and the resumption of shipments from Israel. Food

FIGURE 1.A October PMIs in major economies

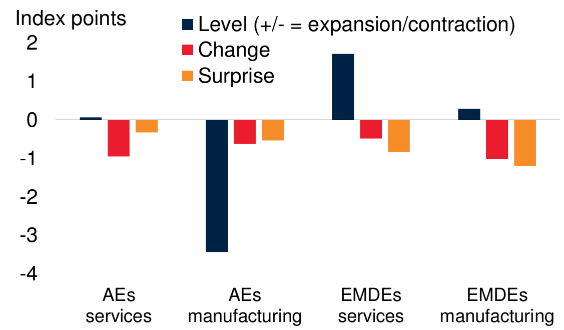


FIGURE 1.B Global PMI new export orders

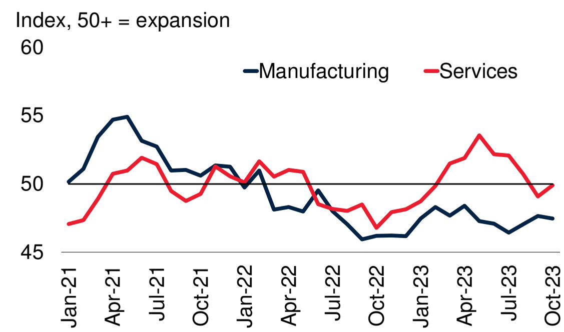
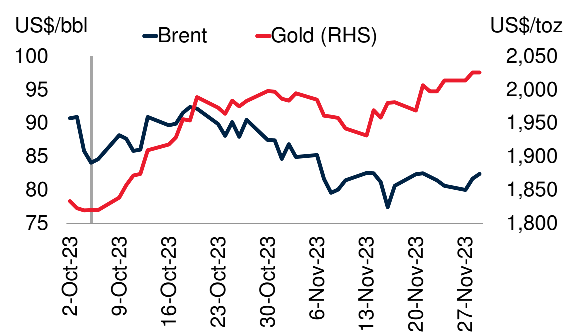


FIGURE 1.C Brent crude oil and gold prices



Sources: Bloomberg; Haver Analytics; Trading Economics; World Bank.
Note: AEs = advanced economies; EMDEs = emerging market and developing economies; PMI = Purchasing Managers' Index.
A. Level, month-on-month change, and deviation from consensus expectations for PMIs in major economies. Major advanced economies includes the euro area, Japan and the United States. Major EMDEs includes Brazil, India and China. Brazil is excluded from surprise values due to lack of data. Values are GDP-weighted averages. Level is expressed as deviation from 50 such that a positive (negative) value indicates expansion (contraction). U.S. values are a simple average of S&P and ISM PMIs, and China values are a simple average of official and Caixin PMIs.
B. Figure shows manufacturing and services subcomponents of the global PMI new export orders series. Last observation is October 2023.
C. Lines show weekly prices for brent and gold. Gray line represents the start of the conflict in the Middle East. Last observation is November 29, 2023.

prices declined 1.7 percent in October (m/m) led by oils and meals (-4.9 percent) and grains (-1.8 percent), owing to ample supplies. Rice prices declined by 4.8 percent in October (m/m), after reaching an 11-year high in August. Metal prices eased 2.7 percent (m/m), led by nickel (-6.9 percent) and lead (-5.3 percent), in part reflecting concerns about demand in China. Gold, which is seen as a store of value in times of geopolitical uncertainty, has surged in price since the start of the conflict in the Middle East.

Global financial conditions: risk appetite rebounds. Global financial conditions loosened in November, reversing much of October's tightening. A reassessment by markets of U.S. monetary policy led the easing, with a higher probability placed on a rate cut early next year, after softer-than-expected labor market and inflation data (figure 2.A). Two-year U.S. yields declined from an October peak of 5.2 percent to less than 4.6 percent in early December, while 10-year yields fell below 4.3 percent, as a recent run-up in estimates of term premia substantially reversed. Risky assets followed government bond prices higher, with a broad equity market rally more than reversing losses in October in both advanced economies and EMDEs. Improved risk sentiment and a weaker U.S. dollar heralded the end of a 13-week streak of portfolio outflows from EMDEs—the longest since at least 2005 (figure 2.B). The median sovereign risk spread in EMDEs trended lower, to about 280 basis points by late November, having averaged more than 300 basis points in 2023Q3.

United States: moderating activity and inflation. Recent indicators suggest that growth may have peaked in 2023Q3. Unusual tightness in the labor market, which has supported household spending, appears to be gradually waning. The level of job openings declined to a still elevated 9.6 million in September while job gains slowed to 150,000 in October, continuing a downward trend (figure 2.C). The slowdown was also reflected in the rate of wage increases, which eased to 3.5 percent in October from about 5 percent (in 3-month annualized terms) at the beginning of the year. Consumer price inflation declined to 3.2 percent (y/y) in October, while core CPI inflation moved down to a two-year low of 4 percent. Survey indicators continue to point to subdued manufacturing, with the ISM manufacturing PMI at 46.7 in October and November—marking thirteen consecutive readings in contractionary territory.

FIGURE 2.A Reaction of interest rate futures to U.S. data releases

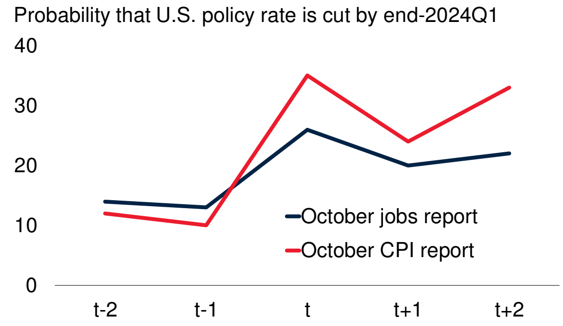


FIGURE 2.B EMDE portfolio inflows and outflows

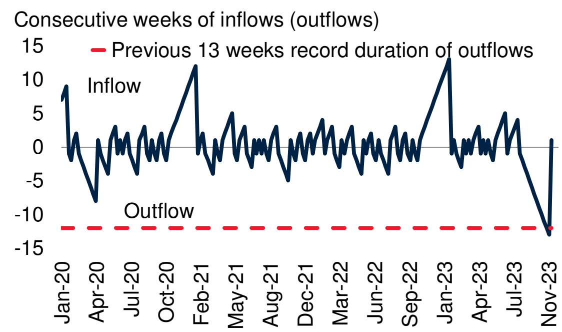
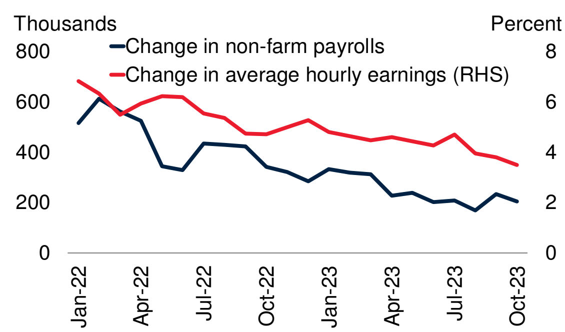


FIGURE 2.C Change in non-farm payrolls and average weekly earnings



Sources: Bureau of Labor Statistics; CME Group; Institute of International Finance; World Bank.

Note: EMDEs = emerging market and developing economies; 3mma = 3-month moving average.

A. Figure shows the probability that the federal funds rate is below the 5.25-5.5 target range after the March 2024 FOMC meeting, as derived from federal funds futures markets. "t" indicates the data release date. t-2 to t+2 is range from two trading days before, to two after.

B. Figure shows number of consecutive weeks for which non-resident debt and equity flows were positive (>0) and negative(<0) for an unbalance panel of nineteen EMDEs. The previous record period for consecutive weeks of outflows was between August and November, 2008.

C. Figure shows the 3-month moving average of monthly increases in total nonfarm employment, and the annualized 3-month percent change in average hourly earnings for nonsupervisory employees.

Other advanced economies: third-quarter contraction. In the euro area, flash estimates indicate that output fell -0.1 percent (q/q sa) in 2023Q3, marking the first contraction since 2020 (figure 3.A). Lower output was due in large part to a marginal decline in Germany's GDP. Headline inflation slowed notably in November, to 2.4 percent (y/y), aided by declining energy prices. At 46.5 in October, the composite PMI in the euro area fell to its lowest reading in three years. In Japan, GDP declined 2.1 percent (q/q saar) in 2023Q3 reflecting weak domestic demand, with both private consumption and investment contracting for a second quarter. November's flash composite PMI, at 50, suggested stagnation. In October, the Bank of Japan introduced flexibility to its yield curve control policy—the 1 percent ceiling on 10-year government bond yields was redefined as a "reference," rather than a strict cap.

China: renewed weakness. Following an uptick in growth in 2023Q3, there are renewed signs of slowing activity. In November, the official manufacturing PMI softened from 49.5 to 49.4, the second straight month of decline. The non-manufacturing PMI also fell, to 50.2—the lowest level this year—while the construction component picked up from 53.5 to 55 (figure 3.B). Following no change in September, the headline consumer prices index dipped slightly in October (y/y), weighed down by declining food prices. While imports rose 3 percent (y/y) in October, exports continued to suffer from weak external demand, declining 6.4 percent. Amid signs of renewed weakness, the authorities announced plans to expand public bond issuance to fund additional spending, including for reconstruction in areas hit by natural disasters.

Other EMDEs: mixed momentum. In EMDEs excluding China, economic activity likely decelerated in October, with the composite output PMI declining from 55.4 to 54.2, while the manufacturing PMI eased by half a point to 51.3 (figure 3.C). In November, manufacturing PMIs stayed in expansion territory in India, Indonesia, Mexico and Russia, but in contraction territory in Brazil, Colombia, Malaysia, Poland, Thailand, Türkiye, and Viet Nam. GDP releases for 2023Q3 were mixed. Growth softened in Indonesia to 4.9 percent (y/y)—the weakest reading in two years—while output in Saudi Arabia contracted by 4.5 percent reflecting markedly lower oil production. In contrast, growth in India came in above expectations at 7.6 percent, while Mexico's GDP expanded by a robust 3.3 percent. Output in Russia and Nigeria continued to accelerate, growing 5.5 and 3.1 percent, respectively.

FIGURE 3.A Euro area GDP

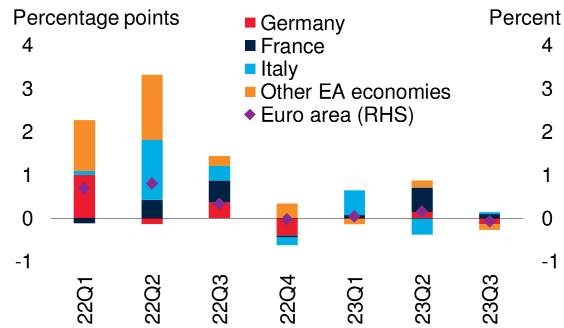


FIGURE 3.B China PMIs

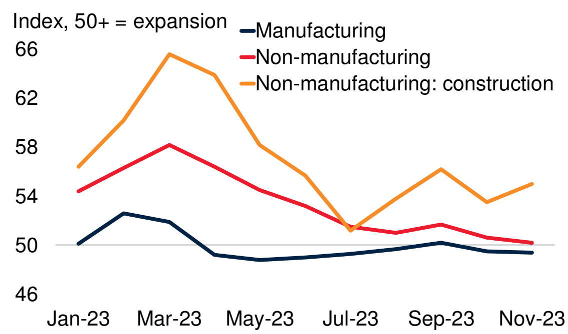
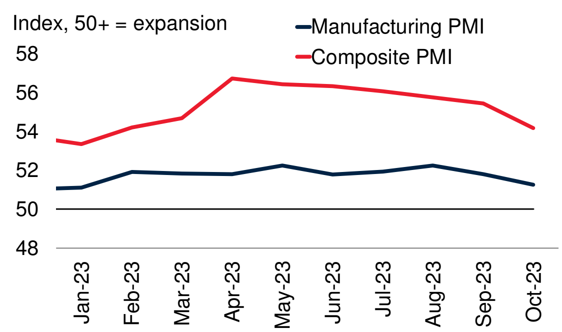


FIGURE 3.C EMDEs excluding China PMIs



Sources: Eurostat; Haver Analytics; National Bureau of Statistics of China; World Bank.

Note: EMDEs = emerging market and developing economies; PMI = Purchasing Managers' Index.

A. Chart shows percent change from previous quarter, of GDP at market prices, seasonally and calendar adjusted data.

B. Lines show GDP-weighted PMI for non-manufacturing and manufacturing in China. Last observation is November 2023.

C. Lines show GDP-weighted composite and manufacturing PMIs for EMDEs with available data. Last observation is October 2023.

Special Focus: Potential Near-Term Implications of the Conflict in the Middle East for Commodities—A Preliminary Assessment

The recent conflict in the Middle East has substantially heightened geopolitical risks. The conflict poses acute risks for energy markets, particularly for oil—the region is a crucial global energy supplier. The latest *Commodity Markets Outlook* presents a preliminary assessment of the near-term implications of the conflict for commodity markets by considering how past conflicts affected oil markets, how oil market conditions have changed, and how oil and other commodity markets might be impacted should the conflict escalate to the broader region.

How did oil markets react to previous conflicts in the Middle East? Significant geopolitical events in the Middle East, including past military conflicts, have exerted pronounced influence on oil markets (figure 4.A).

- *The Arab oil embargo* of 1973-74 led to the removal of 4.3 million barrels per day (mb/d) from the global market, equivalent to 7.5 percent of oil supply in 1973 (figure 4.B). The Organization of the Petroleum Exporting Countries (OPEC) quadrupled official prices between September 1973 and January 1974. This shock played a major role in triggering the 1975 global recession.
- *The Iranian revolution* in 1978 saw the withdrawal of up to 5.6 mb/d from the global market, leading prices to more than double. This contributed to a weakening of global economic activity and a sharp rise in inflation.
- *The Iran-Iraq war* (1980-1988) withdrew 4.1 mb/d of oil from global markets. Prices rose about 20 percent initially, but subsequently retreated because of surplus capacity within OPEC and falling demand.
- *Iraq's invasion of Kuwait* in August 1990 saw 4.3 mb/d removed from the global market, with prices doubling by October 1990. However, when the Gulf War started 1991, and it became apparent that Iraqi forces would leave Kuwait, prices collapsed. Oil price spikes around more recent Middle East conflicts have been less severe and more short-lived, thanks in part to more diversified supply.

How do current oil market conditions differ from previous episodes of conflict? Current market conditions differ markedly from those surrounding historical oil shocks. The global economy's dependence on oil—the oil intensity of GDP—has declined owing to energy efficiency improvements,

FIGURE 4.A Real oil prices

FIGURE 4.B Disruptions in oil supply driven by conflicts

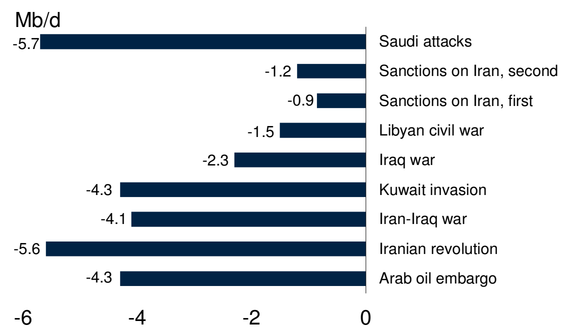
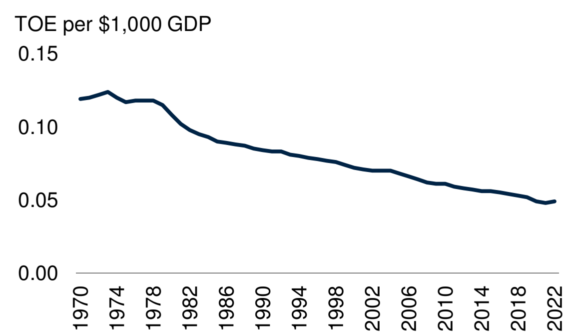


FIGURE 4.C Oil intensity



Sources: Bloomberg; BP Statistical Review; Energy Institute; International Energy Agency; World Bank.
Note: bbl = barrel; Mb/d = million barrels per day; TOE = ton of oil equivalent.
A. Monthly Brent crude oil prices deflated by U.S. Consumer Price Index (CPI), 100 = January 2022.
B. Oil supply disruptions during geopolitical events as defined by the International Energy Agency (IEA 2014), except "Sanctions on Iran" and "Saudi attacks". Date of the events: Saudi attacks (Sep 2019), Sanction on Iran, second (Jul 2018 -), Sanction on Iran, first ((Nov 2011 - Oct 2012), Libyan civil war (Feb - Oct 2011), Iraq war (Mar - Dec 2003), Kuwait Invasion (Aug 1990 - Jan 1991), Iran-Iraq war (Oct 1980 - Jan 1981), Iranian revolution (Nov 1978 - Apr 1979), Arab oil embargo (Oct 1973 - Mar 1974).
C. Oil intensity defined as consumption over GDP for each year. Last observation is 2022.

the substitution of oil for other energy sources, and the ongoing green transition (figure 4.C). Oil supply has also become more diversified. From the late 1970s, new supply sources emerged, including from the North Sea, Mexico, Alaska and, more recently, from Canadian oil sands, U.S. shale, and biofuels (figure 5.A). In addition, the oil crises of the 1970s prompted oil-importers to set up oil reserves. The United States holds the largest reserve capacity, equivalent to one week of global oil consumption. Oil futures contracts, established in the 1980s, now aid price discovery and hedging. Finally, the establishment of the IEA—an intergovernmental organization that provides policy analysis and data on the global energy sector—has aided international coordination.

What are the possible near-term implications of an escalation of the conflict for energy markets? The conflict has so far had a minor impact on commodity markets. However, a significant escalation could substantially disrupt energy supply. To assess potential implications for oil markets, three risk scenarios are considered: small disruption, medium disruption, and large disruption scenarios. These scenarios account for similarities with previous geopolitics-driven supply disruptions, without speculating about specific triggers of escalation. In a small disruption scenario, global oil supply would decline by 0.5 mb/d to 2 mb/d—comparable to the effect of the Libyan civil war in 2011 (figure 5.B). Oil prices would initially rise 3 to 13 percent ($3/bbl to $12/bbl) above the baseline of $90/bbl (figure 5.C). In a medium disruption scenario, global oil supply would be reduced by 3 to 5 mb/d, comparable to the supply decline during the Iraq war in 2003. Oil prices would initially rise 21 to 35 percent ($19/bbl to $31/bbl) above the baseline. A large disruption scenario could result from a wider regional conflict. Global oil supply would fall by 6 to 8 mb/d—a comparable proportional reduction to that during the Arab oil embargo. Oil prices would initially rise 56 to 75 percent ($50/bbl to $67/bbl) above the baseline.

What are the possible near-term implications of an escalation of the conflict for other commodity markets? A sustained oil price spike would raise food prices by increasing production and transportation costs for food and fertilizers, thereby exacerbating food insecurity. Fertilizer prices could also increase if prices for natural gas and coal (which correlate with oil prices) were to rise markedly, or if the conflict spread to important exporters of fertilizers in the region. Disruptions to energy markets could also raise production costs of energy-intensive metals such as aluminum and zinc.

FIGURE 5.A Share of global oil production

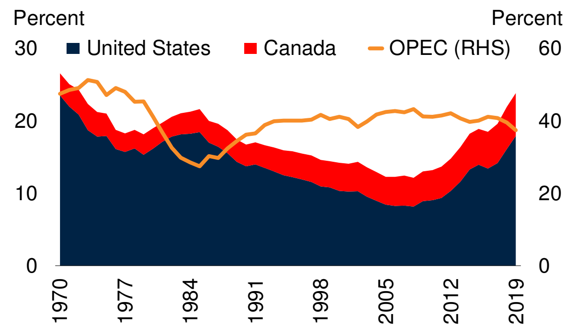


FIGURE 5.B Initial declines in oil supply under different scenarios

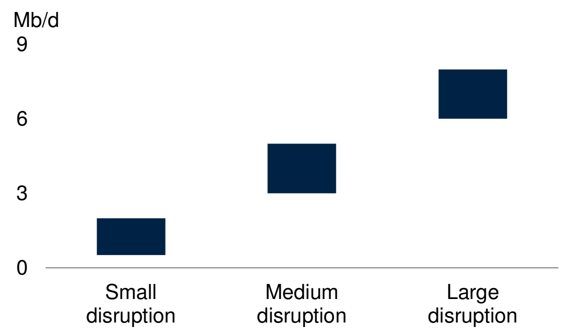
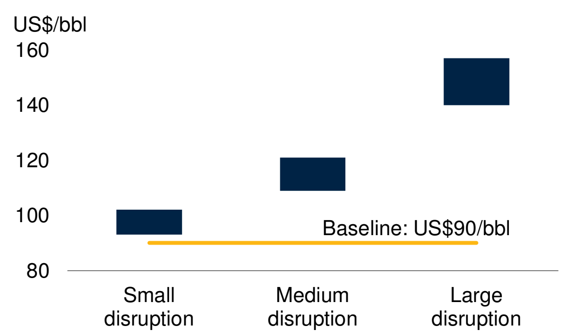


FIGURE 5.C Initial changes in oil prices under different scenarios



Sources: BP Statistical Review; International Energy Agency; World Bank.
A. OPEC = Organization of the Petroleum Exporting Countries. Crude oil production as a share of global crude oil production.
B. Range of initial supply disruptions under three scenarios.
C. Range of initial prices of Brent crude oil in response to supply disruptions under three scenarios.

Recent Prospects Group Publications

Global Economic Prospects - Forthcoming, January 2024

Commodity Markets Outlook—October 2023

Policy Uncertainty and Aggregate Fluctuations: Evidence from Emerging and Developed Economies

Trade Elasticities in Aggregate Models: Estimates for 191 Countries

Global Economic Prospects—June 2023

Falling Long-Term Growth Prospects: Trends, Expectations, and Policies

Global Economic Prospects January 2023

How Do Rising U.S. Interest Rates Affect Emerging and Developing Economies? It Depends

Commodity Markets: Evolution, Challenges, and Policies

Recent World Bank Working Papers

Considering Labor Informality in Forecasting Poverty and Inequality: A Microsimulation Model for Latin American and Caribbean Countries

The Impact of the Transition and EU Membership on the Returns to Schooling in Europe

The Economic Effects of Market Integration in the Western Balkans

Measuring Total Carbon Pricing

External Debt, Fiscal Consolidation, and Government Expenditure on Education

Recent World Bank Reports

World Development Report 2023

Climate and Equity: A Framework to Guide Policy Action

Learning Recovery to Acceleration: A Global Update on Country Efforts to Improve Learning and Reduce Inequalities

Striving for Clean Air: Air Pollution and Public Health in South Asia

Exports to Improve Labor Markets in the Middle East and North Africa

TABLE: Major Data Releases

(Percent change y-o-y)

Recent releases: November 5, 2023 - December 4, 2023					
Country	Date	Indicator	Period	Actual	Previous
Saudi Arabia	11/5/23	GDP	Q3	-4.5%	1.2%
Indonesia	11/6/23	GDP	Q3	4.9%	5.2%
China	11/8/23	CPI	OCT	-0.1%	0.1%
Brazil	11/10/23	CPI	OCT	4.8%	5.2%
Mexico	11/10/23	IP	SEP	3.9%	4.7%
Türkiye	11/10/23	IP	SEP	3.1%	3.0%
Argentina	11/13/23	CPI	OCT	142.7%	138.3%
India	11/13/23	CPI	OCT	4.9%	5.0%
Japan	11/14/23	GDP	Q3	1.4%	1.9%
United States	11/14/23	CPI	OCT	3.2%	3.7%
Nigeria	11/15/23	CPI	OCT	27.3%	26.7%
Russian Federation	11/15/23	GDP	Q3	5.5%	4.9%
Saudi Arabia	11/15/23	CPI	OCT	1.6%	1.7%
United Kingdom	11/15/23	CPI	OCT	4.7%	6.4%
Euro area	11/17/23	CPI	OCT	2.8%	4.3%
Thailand	11/19/23	GDP	Q3	1.5%	1.8%
Canada	11/21/23	CPI	OCT	3.1%	3.7%
Japan	11/29/23	IP	OCT	-0.9%	-3.1%
Korea, Rep.	11/29/23	IP	OCT	1.1%	2.9%
Italy	11/30/23	CPI	NOV	0.8%	1.6%
Türkiye	12/4/23	CPI	NOV	62.0%	61.4%

(Percent change y-o-y)

Upcoming releases: December 5, 2023 - January 4, 2024				
Country	Date	Indicator	Period	Previous
Australia	12/5/23	GDP	Q3	2.1%
Brazil	12/5/23	GDP	Q3	3.4%
France	12/5/23	IP	OCT	-0.1%
Spain	12/5/23	IP	OCT	-1.4%
South Africa	12/6/23	GDP	Q3	1.6%
Argentina	12/7/23	IP	OCT	-3.6%
Euro area	12/7/23	GDP	Q3	0.5%
Japan	12/7/23	GDP	Q3	1.9%
Japan	12/7/23	IP	OCT	-3.1%
Mexico	12/7/23	CPI	NOV	4.3%
Saudi Arabia	12/7/23	GDP	Q3	1.2%
China	12/8/23	CPI	NOV	-0.1%
Russian Federation	12/8/23	CPI	NOV	6.7%
Türkiye	12/11/23	IP	OCT	3.1%
India	12/12/23	IP	OCT	5.8%
New Zealand	12/13/23	GDP	Q3	1.9%
South Africa	12/13/23	CPI	NOV	6.1%
China	12/14/23	IP	NOV	4.5%
Argentina	12/15/23	GDP	Q3	-4.9%
Netherlands	12/22/23	GDP	Q3	-0.4%
Spain	12/22/23	GDP	Q3	1.8%