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.

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.

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.
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
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.
Other advanced economies: third-quarter contraction. In the euro area, flash estimates indicate that output fell -0.1 percent (q/q) 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) 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**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage points</th>
<th>Germany</th>
<th>France</th>
<th>Italy</th>
<th>Other EA economies</th>
<th>Euro area (RHS)</th>
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<tbody>
<tr>
<td>2021</td>
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**FIGURE 3.B China PMIs**

<table>
<thead>
<tr>
<th>Year</th>
<th>Manufacturing</th>
<th>Non-manufacturing</th>
<th>Non-manufacturing: construction</th>
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<tr>
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<td>66</td>
<td>58</td>
<td>50</td>
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**FIGURE 3.C EMDEs excluding China PMIs**

<table>
<thead>
<tr>
<th>Year</th>
<th>Manufacturing PMI</th>
<th>Composite PMI</th>
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<tr>
<td>2023</td>
<td>58</td>
<td>56</td>
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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,
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-
tensive metals such as aluminum and zinc.

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

TABLE: Major Data Releases

(Percent change y-o-y)

<table>
<thead>
<tr>
<th>Country</th>
<th>Recent releases: November 5, 2023 - December 4, 2023</th>
<th>Upcoming releases: December 5, 2023 - January 4, 2024</th>
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(Percent change y-o-y)