



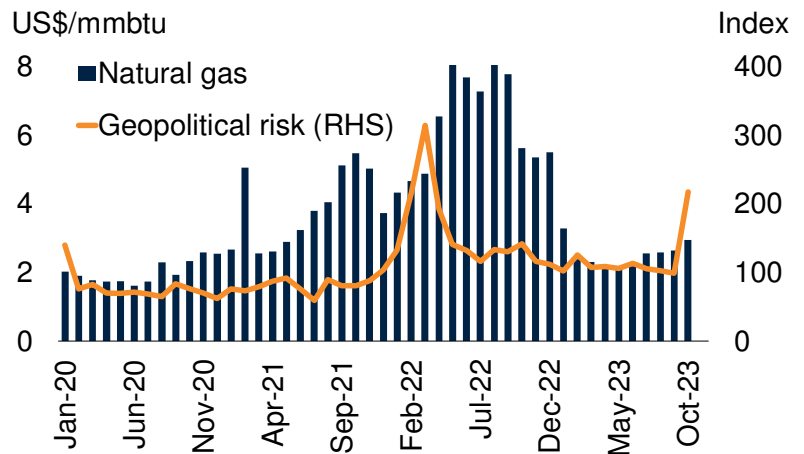
### Overview

- Global activity has continued to moderate as the weakness in manufacturing has broadened to the services sector.
- The conflict in the Middle East has heightened energy supply concerns.
- High-frequency indicators suggest that activity has slowed in many large emerging markets and developing economies (EMDEs) in 2023Q3.

### Chart of the Month

- Geopolitical tensions rose in October following the latest conflict in the Middle East contributing to renewed volatility in global commodity markets.
- Energy prices increased since the onset of the conflict but the overall response has so far been muted.
- European natural gas prices have surged since September, reflecting the shutdown of a gas field off the Israeli coast, damage at an interconnector in the Baltic Sea, and concerns about an escalation of the conflict in the Middle East.

**Global geopolitical risk and natural gas prices**



Sources: Bloomberg; Caldara and Iacoviello (2022); World Bank.  
Note: Chart shows monthly average of daily data. Natural gas is the Henry Hub spot price. Geopolitical data are from Caldara and Iacoviello (2022), and are indexed to 1985-2019. Latest data available is October 23 for geopolitical risk and October 26 for natural gas price.

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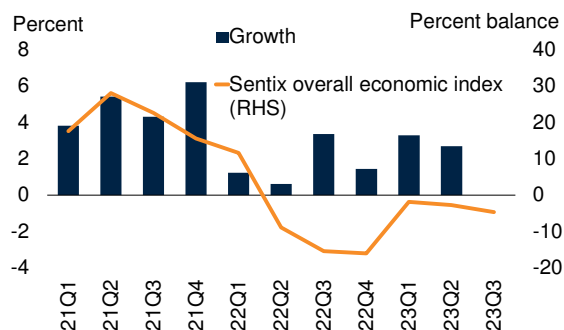
## Monthly Highlights

**Global activity: moderating.** Global growth slowed to 2.7 percent (q/q saar) in 2023Q2. The deterioration in the Sentix overall economic index points to a further deceleration in global activity in 2023Q3 (figure 1.A). The slowdown has broadened from manufacturing to services: the global composite PMI slid closer to 50 in September alongside an ongoing contraction in the manufacturing PMI, while the services PMI slowed for the fourth consecutive month to its lowest reading since January. Sectoral PMIs indicate continued weakness in transportation, which reached its lowest level in a 32-month period, and financial services, which saw a sharp downturn due to tighter financial conditions and elevated uncertainty. The PMI for tourism and recreation has continued to slow as the rebound in post-pandemic travel fades. Basic material manufacturing has been in contraction territory since early 2022 due to accumulated excess inventories and the rotation in spending from goods to services that followed the pandemic.

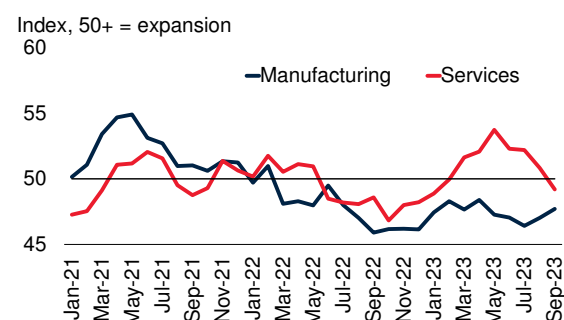
**Global trade: broad-based weakness.** Global goods trade continued to contract in August, declining 3.8 percent (y/y), partly driven by softness in some advanced economies, including the euro area. In tandem with contracting goods trade, global industrial production growth has remained anemic, averaging 1.3 percent (y/y) in the first two months of 2023Q3. Recent data point to continued weakness in global trade. The global manufacturing PMI for new export orders remained in contractionary territory in September for the nineteenth consecutive month, with subdued demand for goods keeping a lid on global supply chain pressures. The global services PMI for new export orders further deteriorated in September, contracting for the first time since February, in part due to a sharp fall in export orders from advanced economies (figure 1.B).

**Commodity markets: volatile prices.** Commodity prices gained 6 percent in September (m/m), led by an increase in energy prices (+8.3 percent). Following the onset of the conflict in the Middle East, Brent crude oil prices reached US\$91/bbl in mid-October, adding to existing concerns about tight supplies following the decision by OPEC+ to maintain voluntary output cuts until the end of the year (figure 1.C). Although oil supplies have not been impacted by the latest conflict yet, the conflict presents a major upside risk for energy prices. European natural gas prices have risen further this month, increasing 48 percent since early September, reflecting

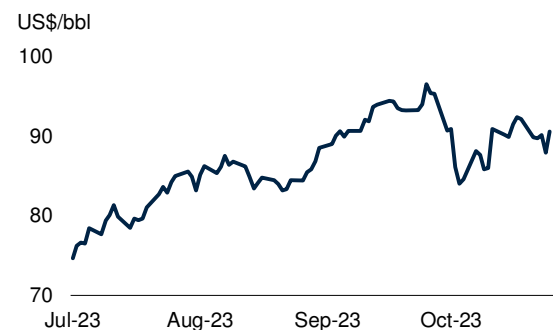
**FIGURE 1.A Global activity**



**FIGURE 1.B Global new export orders PMI**



**FIGURE 1.C Brent crude oil prices**



Sources: Bloomberg; Haver Analytics; World Bank.

Note: PMI = purchasing manager's index.

A. Figure shows (q/q saar percent) change in global GDP and the global Sentix overall economic index. Last observation is 2023Q3 for the Sentix index and 2023Q2 for the global GDP growth.

B. Figure shows manufacturing and services global PMI new export orders. PMI above 50 (below 50) indicates expansion (contraction).

C. Daily prices. Last observation is October 26, 2023.

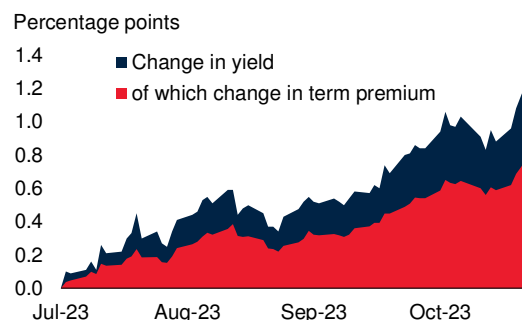


supply concerns due to renewed labor strikes in natural gas facilities in Australia, heightened geopolitical tensions, and disruptions to the Baltic pipeline. In contrast, coal prices have moderated, owing to strong production in India and lower demand due to warmer weather. Agriculture prices rose marginally in September, led by a 2 percent increase in food prices. Rice prices, which exceeded the \$600/mt-mark in August for the first time since 2012, remained high amid India’s ongoing export ban on non-basmati rice. Metal prices gained 1.5 percent in September (m/m), reflecting a 9.7 percent increase in iron ore in response to improving demand sentiment in China.

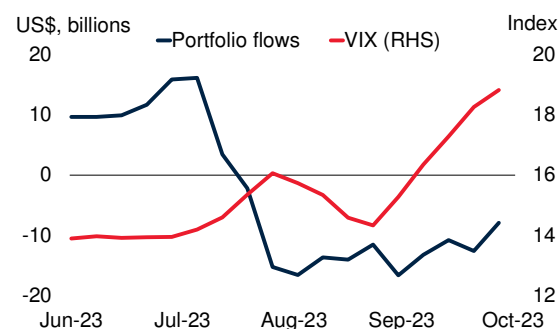
**Global financial conditions: further tightening; higher yields.** Global financial conditions tightened substantially in late September and October, as advanced-economy government bond yields increased sharply. U.S. 10-year yields pushed to a 16-year high of 5 percent in October, rising more than 100 basis points in three months. In parallel, the U.S. dollar strengthened, and equity volatility increased, with global equity prices declining about 10 percent from their late-July highs. Model-based estimates indicate that most of the recent movement in U.S. yields has been due to a rising term premium, associated with greater uncertainty over future short-term interest rates (figure 2.A). Higher global interest rates and souring risk sentiment—as proxied by the VIX index—have resulted in broad-based debt and equity outflows from EMDEs (figure 2.B). Financial strains in China’s real estate sector continue to deepen, after a missed bond payment by property developer Country Garden following the expiration of the grace period.

**United States: resilient growth; continued job gains.** Growth remained strong in 2023Q3, at 4.9 percent (q/q saar), despite high borrowing rates. Personal consumption expenditures continued to expand in September (+0.4 percent m/m in real terms), showing little sign of slowing from robust spending over the summer. Overall hiring kept a rapid, albeit moderating, pace this year, with September nonfarm payrolls rising by a surprisingly robust 336,000 jobs. Strong hiring this year was likely made possible by robust weekly earnings growth, although it gradually moderated since earlier peaks, reaching 3.7 percent (y/y) in September for non-supervisory and production employees. Inflation had been edging down, reflecting a tentative rebalancing in the labor market, before an unexpected pickup in September in both core PCE (+0.3 percent m/m) and CPI, particularly in the services excluding shelter component (figure 2.C).

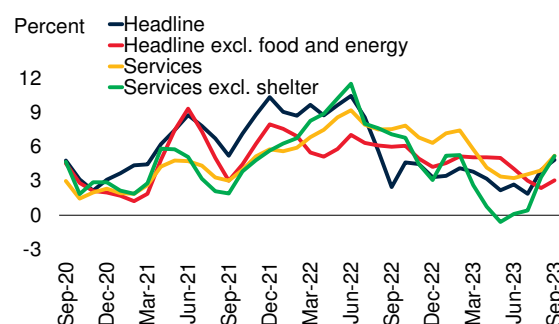
**FIGURE 2.A Change in U.S. 10-year yields**



**FIGURE 2.B VIX and portfolio flows in EMDEs**



**FIGURE 2.C U.S. CPI inflation, by component**



Sources: Bureau of Labor Statistics, FRED; Institute of International Finance; Kim and Wright (2003); World Bank.

Note: EMDEs = emerging market and developing economies. A. Change in 10-year yields and term premium since July 19, 2023. Term premium is estimated for a 10-year zero-coupon bond from Kim and Wright (2003). Last observation is October 20, 2023.

B. VIX series is shown as a 4-week moving average. Portfolio flows is a 4-week moving sum of net non-resident purchases of equity, bonds, or both, for a consistent sample of 15 EMDEs. Portfolio flow estimates are subject to revision. Last observation is October 27, 2023.

C. Figure shows 3-month annualized percent change in seasonally adjusted U.S. CPI inflation components. Last observation is September 2023.

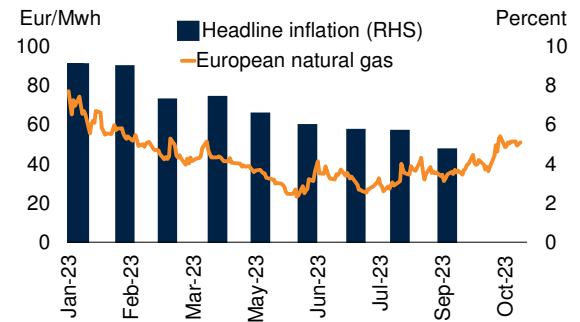


**Other advanced economies: mixed developments.** In the euro area, HICP headline inflation moderated to 4.3 percent (y/y) in September—the slowest pace since October 2021—but nonetheless remained well above the ECB’s target of about 2 percent (figure 3.A). The recent increase in European natural gas prices, if sustained, could generate broader price pressures and further strain the manufacturing sector, which continued to contract sharply in October according to flash estimates. The services PMI also remained in contractionary territory in September, partly owing to deteriorating demand and rising input costs. In Japan, core inflation (excluding fresh food and energy) remained firm at 4.2 percent (y/y) in September, above the Bank of Japan’s (BOJ) target of 2 percent. Business sentiment in the BOJ’s Tankan Survey in September reached its highest level since 2019Q2, while the manufacturing PMI remained in contractionary territory for the fourth consecutive month.

**China: stabilizing activity.** Following several policy measures to support flagging demand in recent months, activity in China is showing signs of stabilization in some sectors. In 2023Q3, GDP expanded 1.3 percent (q/q), up from a downwardly revised 0.5 percent in the second quarter. In September, while property sector-related activity continued to contract, industrial production growth held steady at 4.5 percent (y/y), and retail sales growth picked up to 5.5 percent (y/y). In September, the official manufacturing PMI moved into expansionary territory for the first time since March, while the non-manufacturing PMI rose to 51.7, the first increase since February. Trade flows continued to contract at a slower pace than in August, with exports and imports both 6.2 percent below levels a year earlier (figure 3.B).

**Other EMDEs: moderating growth.** The composite PMI for EMDEs excluding China continued to moderate in September, reflecting slowing manufacturing and services activities, especially in new export orders amid tepid external demand (figure 3.C). Manufacturing PMIs remained in contractionary territory in many EMDEs, including in export-oriented East Asian and European economies (Malaysia, Poland, Thailand, Vietnam), and slipped into contractionary territory in others (Brazil, Mexico). Services activity continued to slow in some countries (Brazil, Russia) in September, but remained above 50 in most EMDEs, and was particularly resilient in India due to a pickup in new business. Headline inflation in EMDEs hovered near 5 percent (y/y) in September. A growing number of central banks have cut policy interest rates (Chile, Hungary, Peru, Poland), owing to slowing inflation.

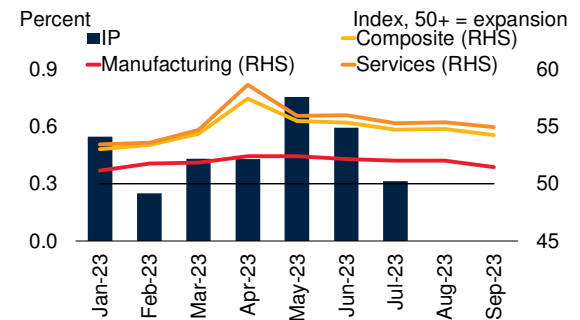
**FIGURE 3.A Euro area inflation and energy prices**



**FIGURE 3.B China’s exports and imports**



**FIGURE 3.C PMIs and industrial production in EMDEs excluding China**



Sources: Bloomberg; Haver Analytics; World Bank.  
 Note: EMDEs = emerging market and developing economies; IP = industrial production; PMI = Purchasing Managers’ Index.  
 A. Bars show year-over-year headline inflation for the euro area. Line shows daily European natural gas prices. Last observation is October 26 for European natural gas prices and September 2023 for headline inflation.  
 B. Figure shows the year-on-year percentage change of goods imports and exports in China. Last observation is September 2023.  
 C. Chart shows data for EMDEs excluding China. Sample size differs between variables. IP data show 3 month average. PMI readings above (below) 50 indicate expansion (contraction) in economic activity. Last observation is September 2023 for PMIs and July 2023 for IP.



## Recent Prospects Group Publications

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[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](#)

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[Africa's Pulse: Delivering Growth to People through Better Jobs](#)

## TABLE: Major Data Releases

(Percent change y-o-y)

Recent releases: September 28, 2023 - October 27, 2023					
Country	Date	Indicator	Period	Actual	Previous
Italy	9/29/23	CPI	SEP	5.4%	5.4%
Indonesia	10/2/23	CPI	SEP	2.3%	3.3%
Türkiye	10/3/23	CPI	SEP	61.5%	58.9%
Russian Federation	10/4/23	GDP	Q2	4.9%	-1.8%
South Korea	10/4/23	CPI	SEP	3.7%	3.4%
Mexico	10/9/23	CPI	SEP	4.5%	4.6%
Brazil	10/11/23	CPI	SEP	5.2%	4.6%
Argentina	10/12/23	CPI	SEP	138.3%	124.4%
India	10/12/23	CPI	SEP	5.0%	6.8%
United Kingdom	10/12/23	IP	AUG	1.3%	1.1%
United States	10/12/23	CPI	SEP	3.7%	3.7%
Euro area	10/13/23	IP	AUG	-5.3%	-2.0%
France	10/13/23	CPI	SEP	5.0%	4.6%
Saudi Arabia	10/15/23	CPI	SEP	1.7%	2.0%
Japan	10/16/23	IP	AUG	-4.1%	-2.3%
China	10/17/23	GDP	Q3	4.9%	6.3%
United States	10/17/23	IP	SEP	0.1%	0.1%
Euro area	10/18/23	CPI	SEP	4.3%	5.3%
South Africa	10/18/23	CPI	SEP	5.5%	4.8%
Japan	10/19/23	CPI	SEP	3.0%	3.1%
Spain	10/27/23	GDP	Q3	1.8%	2.0%

(Percent change y-o-y)

Upcoming releases: October 27, 2023 - November 30, 2023				
Country	Date	Indicator	Period	Previous
Germany	10/30/23	CPI	OCT	4.5%
Euro area	10/31/23	GDP	Q3	0.5%
Germany	10/31/23	GDP	Q3	-0.1%
Mexico	10/31/23	GDP	Q3	3.6%
Indonesia	11/6/23	GDP	Q3	5.2%
China	11/8/23	CPI	OCT	4.3%
India	11/10/23	IP	SEP	10.3%
Türkiye	11/10/23	IP	SEP	2.9%
China	11/14/23	IP	OCT	4.5%
Japan	11/14/23	GDP	Q3	1.7%
Netherlands	11/14/23	GDP	Q3	0.0%
United States	11/14/23	CPI	OCT	3.7%
Euro area	11/15/23	IP	SEP	0.1%
Poland	11/15/23	GDP	Q3	-1.4%
United Kingdom	11/15/23	CPI	OCT	6.4%
United States	11/16/23	IP	OCT	1.8%
Thailand	11/20/23	GDP	Q3	1.8%
Canada	11/21/23	CPI	OCT	3.7%
Japan	11/23/23	CPI	OCT	3.0%
Russian Federation	11/29/23	IP	OCT	5.6%
India	11/30/23	GDP	Q3	7.8%