THE WORLD BANK
Development Economics | Prospects Group

Global Monthly

September 2024

Overview

- Global activity remains steady, albeit amid divergence between firming services and weakening manufacturing.
- The recovery in global goods trade appears fragile, with a modest improvement in services exports alongside an ongoing contraction in manufacturing export orders.
- Global disinflation continued as oil and gas prices fell in August and early September amid robust supply and concerns of slowing demand.

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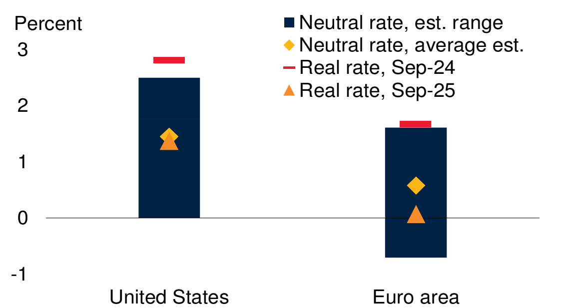
Chart of the Month

- In September, the U.S. Federal Reserve began easing monetary policy, with a 50 basis point cut in the policy rate, following moderating inflation and cooling labor markets.
- Over the next 12 months, markets expect nominal policy rates to fall by 200 basis points in the United States and 175 basis points in the euro area.
- Yet, real policy rates will likely remain in restrictive territory in the near term: they are expected to decline to the average estimates of natural interest rates in the United States and the euro area over the next 12 months.

Current and expected natural rate of interest



Sources: Bloomberg; ECB; Federal Reserve; Federal Reserve Bank of New York; Holston et al. (2023); Hördahl and Tristani (2018); Laubach and Williams (2003) Lubik and Matthes (2023).
Note: Blue bars represent the range of recent estimates of r* from various models. Yellow diamonds are a simple average of estimates. Estimates from a range of semi-structural, DSGE, VAR models. Red thick marks are the current real rate (policy rate minus the inflation expectations in 12 months implied by inflation swaps). The orange triangle refers to the expected real rate in September 2025.

Special Focus: Strengthening Small States' Fiscal Resilience

- The COVID-19 pandemic and the overlapping shocks that followed have worsened fiscal positions in small states, intensifying the need for comprehensive fiscal reforms.
- Small states need to develop a more stable and secure tax base, enhance spending efficiency, and address gaps in their fiscal frameworks.
- These reforms need to be complemented by well-coordinated and targeted global efforts to bolster funding for small states to invest in priority areas and improve fiscal policy management.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Samuel Hill, Edoardo Palombo, and Dominik Peschel under the supervision of Carlos Arteta. This *Global Monthly* reflects data available up to 9/24/2024. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: firming services, weak manufacturing. High-frequency indicators continue to point to steady global growth, albeit amid renewed divergence across sectors. In August, the global composite PMI edged up to 52.8, with a pickup in services activity offsetting a further decline in manufacturing (figure 1.A). The weakness in manufacturing activity was broad-based, with manufacturing PMI readings below 50 recorded in August in China, the euro area, and the United States. Meanwhile, in September, economic surprise indexes indicated that recent global activity was broadly in line with expectations in both advanced economies and emerging market and developing economies (EMDEs); in tandem, consensus forecasts for global growth this year and next were largely unchanged.

Global trade: fragile recovery in goods trade. Global goods trade expanded by 1.8 percent (y/y) in June, marking the third consecutive month of expansion after a 1 percent contraction in March. However, leading indicators raise concerns about the sustainability of this recovery. The manufacturing component of the global new export orders PMI has remained in contractionary territory for three consecutive months (figure 1.B). This weakness is broad-based, with the PMI for EMDEs also entering contractionary territory in August, for the first time since December 2023, and the index for advanced economies continuing to decline. Meanwhile, the services component of the global new export orders PMI edged up to 50.7 in August but remains below the levels recorded in March and April. Despite shipping prices reaching their highest level since the pandemic, due mainly to the frontloading of imports into the United States in anticipation of potential trade disruptions, these elevated prices have not resulted in significant increases in overall supply chain pressures or global delivery times.

Commodity markets: falling energy prices. Energy prices continued to ease in September, following a 3 percent drop in August (m/m) (figure 1.C). Brent crude oil prices eased to US$73/bbl by mid-September, from $81/bbl in August, amid robust supply and concerns about sluggish demand. In response, OPEC+ members recently postponed the planned unwinding of voluntary cuts for at least two months. Similarly, European natural gas prices eased in September, after surging by 20 percent (m/m) in August, as a resumption of supplies from Norway and almost full storage capacities in Europe outweighed concerns about potential supply disruptions in gas flows from Russia through Ukraine. Most agricultural prices rebounded in

FIGURE 1.A Global headline PMIs

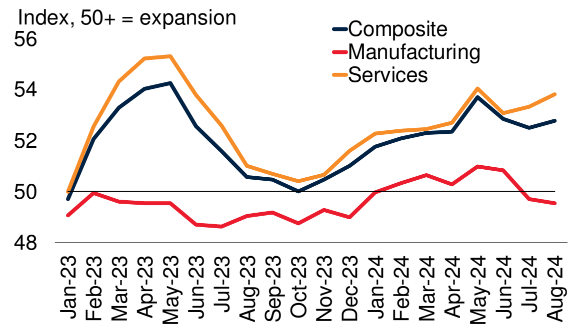


FIGURE 1.B Global manufacturing PMIs for new export orders

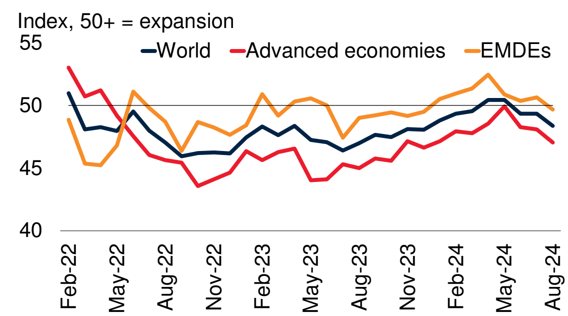
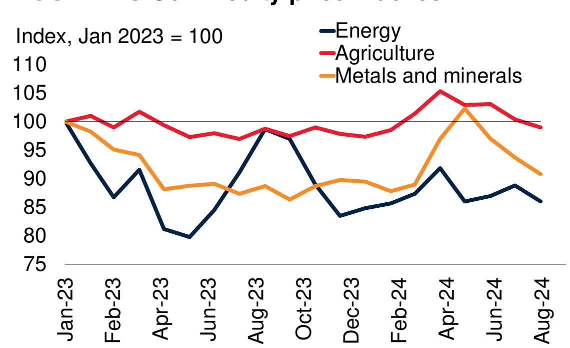


FIGURE 1.C Commodity price indexes



Sources: Haver Analytics; J.P. Morgan; U.S. Energy Information Administration; World Bank.

Note: EMDEs = emerging market and developing economies.

A.B. Readings above (below) 50 indicate expansion (contraction).

A. Panel shows global manufacturing and services Purchasing Managers' Indexes (PMIs).

B. Panel shows 3-month moving averages of manufacturing and services subcomponents of the global Purchasing Managers' Indexes (PMI) new export orders. Last observation is August 2024.

C. Monthly data. Last observation is August 2024.

September, following a 1.4 percent decline in August. Coffee prices were impacted by adverse weather conditions, while supply disruptions drove up wheat prices. Prices for some industrial metals edged up in September, buoyed by positive demand sentiment, partly attributed to economic stimulus measures in China, following a 3 percent decline in August (m/m). Gold prices reached another record high in mid-September, bolstered by strong central bank demand and geopolitical tensions.

Global financial conditions: continued easing. Global financial conditions continued to improve in August-September, primarily due to lower expectations for U.S. policy interest rates across all horizons. Softening labor markets and declining core inflation prompted the U.S. Federal Reserve to begin easing monetary policy in September, with a 50 basis point cut in the policy rate. Markets have priced a further 75 basis points worth of cuts by the end of 2024 and an additional 125 basis points in 2025. In tandem, U.S. policy rate expectations moved closer to those of the euro area, reflecting the reduced divergence in growth and inflation prospects for the two economies, especially in the longer term (figure 2.A). Risk appetite in EMDEs has remained robust, reflecting expectations of U.S. policy rate cuts and a weaker dollar. This helped relieve some pressure on EMDE currencies, especially for sovereigns with higher credit ratings (figure 2.B). Sovereign spreads in EMDEs have remained largely stable, except for some EMDEs with weaker ratings where spreads have risen due to domestic factors.

United States: mixed indicators. U.S. macroeconomic data over the past few months has been mixed. GDP growth in 2024Q2 was somewhat better than expected, at 3.0 percent (q/q saar). Growth was driven by a pickup in consumer spending with the strength in goods and services spending persisting into July. Consumer spending remained robust despite some cooling in the labor market: nonfarm payrolls declined from an average of 225K from January to June this year to just 116K during July-August, while the unemployment rate picked up further to an average of 4.3 percent during July-August (figure 2.C). Despite easing labor markets, core inflation remained unchanged at 3.2 percent (y/y) in August, while headline inflation receded to 2.5 percent.

Other advanced economies: near-term weakness. The euro area grew 0.2 percent (q/q sa) in 2024Q2, primarily led by net exports, which partly offset a drop in investment (figure 3.A). Recent indicators have been mixed. August PMI readings

FIGURE 2.A Policy rate expectations in the United States and euro area

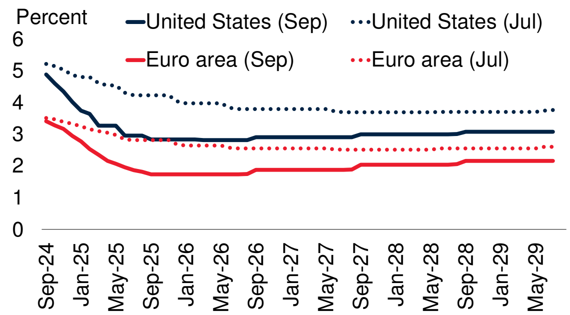


FIGURE 2.B EMDE currency index

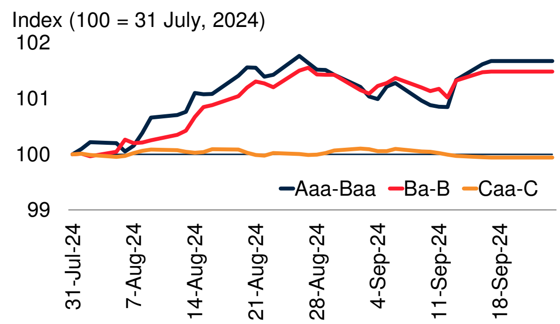
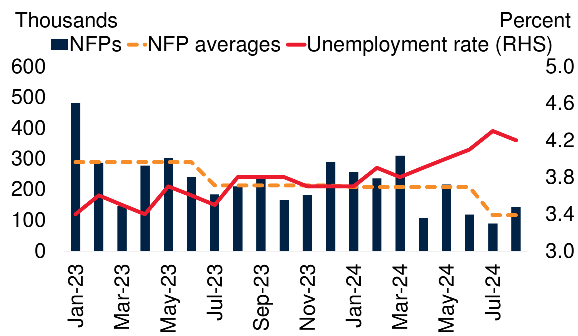


FIGURE 2.C U.S. labor markets



Sources: Bloomberg; Haver Analytics; Moody's analytics; World Bank Prospects Group.

Note: EMDEs = emerging market and developing economies; NFPs = nonfarm payrolls.

A. Policy rate expectations derived from the OIS curve. The data for July was taken as of 7/1/2024. The latest data for September is from 9/19/2024.

B. Sample of 49 EMDEs currencies exchange rates relative to the USD. Parallel exchange rates are used where available. EMDEs' current sovereign foreign currency credit ratings are categorized according to Moody's credit rating. The index starts at 100 from 7/31/2024, takes the average of the daily currency movements across each ratings classification and compounds it.

C. Blue bars show monthly changes in nonfarm payrolls in thousands, orange dashed line shows half-yearly average nonfarm payrolls through June 2024, followed by the average of July-August 2024. The red line shows the unemployment rate, plotted on the right axis.

point to continued weakness in manufacturing alongside resilient services activity. In line with the strength in services, the downward momentum in core inflation in the euro area has stalled, with inflation hovering around 2.9 percent for six months through July before edging down to 2.8 percent in August. In Japan, GDP grew by 0.7 percent (q/q sa) in 2024Q2, mainly driven by a rebound in consumption. Headline inflation (Tokyo) in August reached its highest level in almost a year, at 0.6 percent (m/m sa), reflecting the rollback of energy subsidies.

China: weak domestic demand. In August, exports grew at their fastest pace in over a year, rising 8.7 percent (y/y). In contrast, imports growth slowed markedly, to 0.5 percent, amid continued weakness in domestic demand (figure 3.B). The manufacturing PMI edged lower to 49.1, the fourth consecutive month in contractionary territory, while the non-manufacturing PMI posted a marginal increase to 50.3, supported by an uptick in the services component. Price pressures also remained weak in August. Headline inflation inched up to a still-low 0.6 percent (y/y), from 0.5 percent in July, as higher food inflation offset a decline in core inflation. Meanwhile, producer price deflation picked up in August, as producer prices fell 1.8 percent (y/y). In response to weak domestic demand, and to support the property sector, the People's Bank of China announced several easing measures, including lowering the one-year policy interest rate by 30 basis points, to 2 percent, and reducing the reserve requirement ratio for banks by 50 basis points.

Other EMDEs: broadly stable expansion. The GDP-weighted composite PMI eased by half a point to 55.3 in August, mainly driven by weaker manufacturing (figure 3.C). The softening primarily reflected slowing activity in Brazil, following a period of strong manufacturing performance. In 2024Q2, GDP growth strengthened in some economies in Latin America and the Caribbean (to 3.3 percent [y/y] in Brazil and 2.1 percent in Colombia and Mexico) and in East Asia and the Pacific (to 5.9 percent in Malaysia, 6.3 percent in the Philippines, and 2.3 percent in Thailand). Elsewhere, the performance of major EMDEs was weaker in Q2, with GDP growth declining to 6.7 percent (y/y) in India due to reduced government spending and to 4 percent in Russia, reflecting softening private consumption. In Türkiye, growth declined to 2.5 percent in Q2 due to weaker private consumption.

FIGURE 3.A Euro area GDP and components

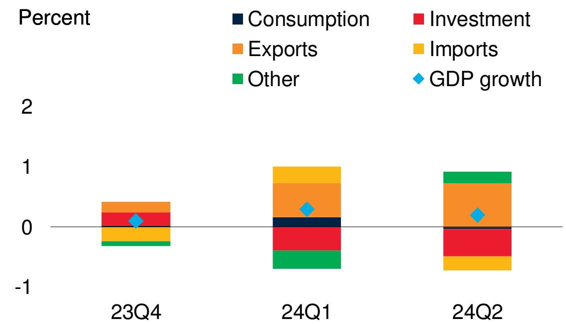


FIGURE 3.B China goods trade growth

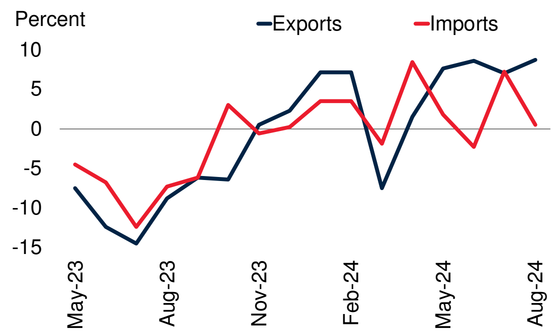
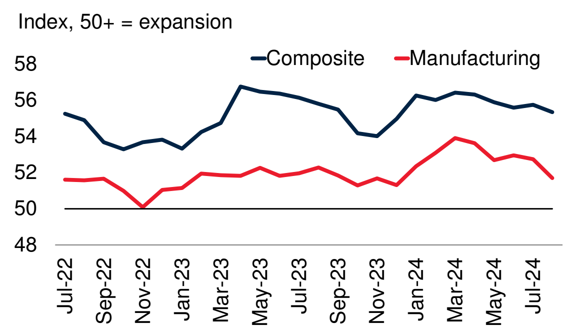


FIGURE 3.C Headline PMIs for EMDEs excluding China



Sources: General Administration of Customs, China; Haver Analytics; World Bank.

Note: EMDEs = emerging market and developing economies.

A. Contributions to quarter-on-quarter seasonally adjusted growth from GDP components as indicated. Orange diamonds show quarter-on-quarter seasonally adjusted GDP growth.

B. Panel shows the year-on-year percentage change of nominal goods exports and imports in U.S. dollars. Last observation is August 2024.

C. Lines show GDP-weighted composite and manufacturing PMIs for EMDEs excluding China with available data. Last observation is August 2024.

Special Focus: Strengthening Small States' Fiscal Resilience

The COVID-19 pandemic and the overlapping shocks that followed have worsened fiscal positions in small states—those with a population of 1.5 million or less. This has intensified their already substantial fiscal challenges—especially the need to manage climate-change-related natural disasters, which have become more frequent (Figure 4.A). Forty percent (14) of the 35 small states are rated as being in, or at high risk of, debt distress, roughly double the proportion of other EMDEs (Figure 4.B). The marked decline in fiscal sustainability among small states in recent years has made strengthening fiscal policy one of the most pressing economic challenges facing these economies. This special focus examines the fiscal policy challenges facing small states, and options for reform, drawing on the insights in the latest [*Global Economic Prospects*](#).

Although average government revenues-to-GDP ratios for small states are higher than other EMDEs, revenues have yet to recover to pre-pandemic levels. Moreover, small states rely more on less secure non-tax sources (Figure 4.C). These include grants from international donors, which are subject to their evolving priorities, and other revenue sources, such as proceeds from the sale of fishing access rights and citizenship investment programs. There are also inefficiencies and gaps within the current tax structure in small states. Notably, almost one-fourth of tax revenues in small states are derived from distortive trade taxes, more than double the share in other EMDEs.

Small states need to prioritize broadening their tax bases, particularly by introducing value-added taxes where they do not exist and aligning tax rates with global norms. Tax exemptions and zero rating of certain goods and services, which give rise to significant foregone revenue, distortions, and complications for tax collection, can also be removed. These measures can be complemented by reforms to tax administration, which sometimes suffer from organizational inefficiencies, out-of-date systems, and low capacity in small states. This includes adopting digital technologies, such as electronic filing, which are underutilized in some small states.

At the same time, small states need to make better use of already high levels of government spending. Although higher spending in small states compared with other EMDEs can partly be explained by diseconomies of scale, there are areas of inefficiencies. As a result, higher spending on social services does not always translate into better development outcomes.

FIGURE 4.A Average cost and frequency of natural disasters

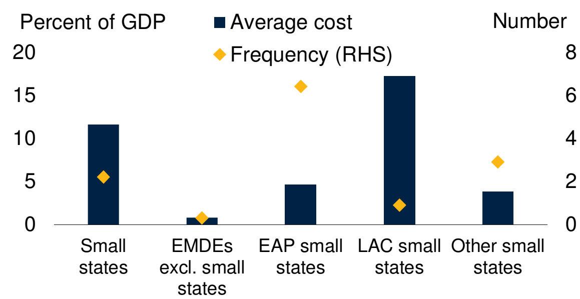


FIGURE 4.B Risk of debt distress

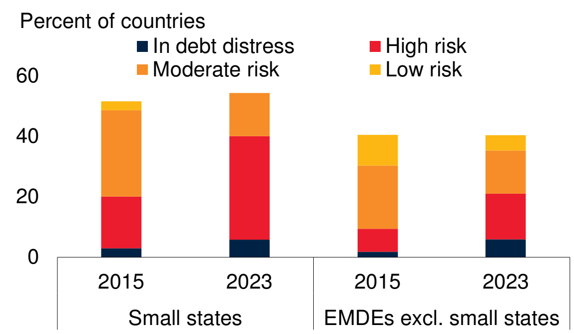
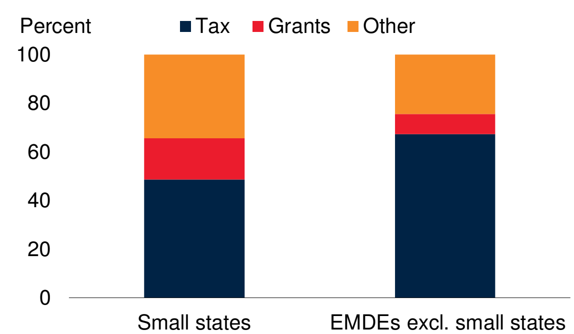


FIGURE 4.C Composition of government revenue, 2011-22



Sources: EM-DAT (database); GFS (database); IMF; World Bank.
Note: EAP = East Asia and Pacific; EMDEs = emerging market and developing economies; LAC = Latin America and the Caribbean.
A. Frequency is the average number of natural disasters per year, adjusted by land mass. Unit of frequency is the number of natural disasters per year per one hundred thousand square kilometers. Average cost of natural disasters per year as percent of GDP for 24 small states and 93 other EMDEs. Natural disasters include droughts, storms, floods, extreme temperatures, earthquakes, volcanic activity, and wildfires. Sample period from 2000 to 2022.
B. Shares of small states and other EMDEs in overall debt distress or at risk of debt distress, based on the published Joint World Bank-International Monetary Fund Debt Sustainability Framework for Low Income Countries as of March 30, 2024.
C. Panel shows average composition of total revenue by major component in up to 34 small states and 97 other EMDEs.

Inefficiencies are partly reflected in the composition of government spending that could be improved. In particular, the public wage bill is markedly higher in small states than other EMDEs (Figure 5.A).

Some small states offer wasteful fuel and energy subsidies that should be wound back to free up resources for priority areas. Reforms are also needed to improve the efficiency of state-owned enterprises, which are generally unprofitable, poorly managed, and require large fiscal transfers from government coffers, creating cash flow and contingent liability risks to governments. More generally, there is ample room for small states to improve expenditure efficiency by strengthening public financial management, and utilizing digital innovations to lower public service delivery costs and enhance service quality.

Small states need to strengthen their fiscal frameworks by implementing policy instruments such as fiscal rules, fiscal councils, and sovereign wealth funds. Currently, only about one-third of small states have introduced fiscal rules, whereas half of other EMDEs have done so (Figure 5.B). Moreover, only a few small states have set up independent fiscal councils, representing an even lower share than other EMDEs. While some small states have sovereign wealth funds and other stabilization funds, these are often not fully utilized. These funds vary in size, design, and goals and are not always structured to manage economic volatility—a key challenge for small states. Some operate as trust funds supported by donors, aimed at ensuring long-term budget self-reliance, while others prioritize investment and development objectives. In contrast, far fewer emphasize clear stabilization roles.

The global community needs to continue to support small states in addressing their fiscal challenges. As domestic revenue streams weaken and climate adaptation costs increase, flexible development finance options like concessional lending and grants, including through IDA for eligible small states, are crucial for providing necessary resources (Figure 5.C). International collaboration on debt transparency and technical assistance is vital for these countries to implement fiscal reforms and enhance policymaking for sustainable development. Additionally, addressing unsustainable debt is urgent, as one-third of small states have had to restructure their debt since 2003. Insurance mechanisms and risk pooling can also provide fiscal buffers against natural disasters, as shown by regional initiatives such as the Caribbean Catastrophe Risk Insurance Facility, which recently issued a payout following damage caused by Hurricane Beryl.

FIGURE 5.A Composition of government expenditure, 2011-22

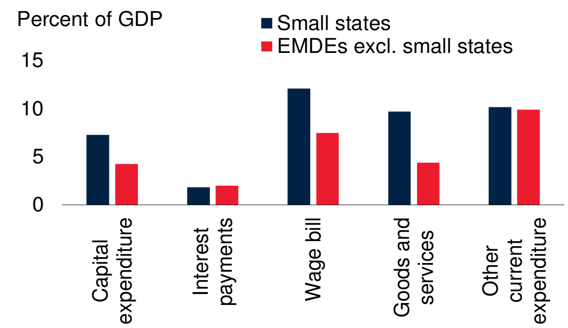


FIGURE 5.B Fiscal frameworks in small states and other EMDEs

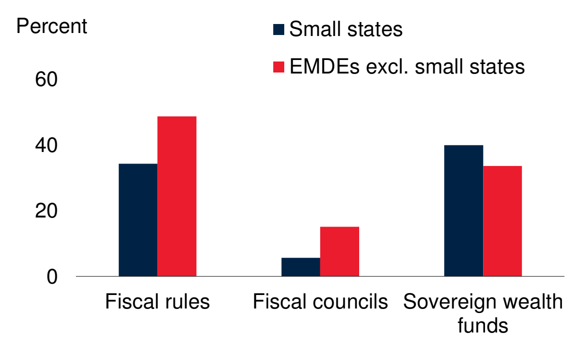
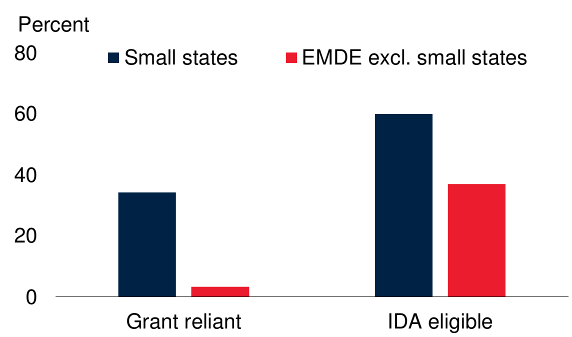


FIGURE 5.C Shares of grant-reliant and IDA-eligible countries



Sources: GFS (database); Global SWF; IMF; World Bank.
Note: EMDEs = emerging market and developing economies; IDA = International Development Association.
A. Panel shows average government expenditure as a share of GDP by component. Sample includes 19 small states and 80 other EMDEs.
B. Percent of economies that have fiscal rules and fiscal councils as of 2021, and sovereign wealth funds as of 2022. Sample includes 35 small states, and 119 EMDEs excluding small states.
C. Share of countries that are grant reliant for the period 2015-2021, and those that are classified as IDA eligible as of 2023, as detailed in chapter 4 of the June 2024 *Global Economic Prospects*.

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September 2024

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TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: September 1, 2024 - September 24, 2024					
Country	Date	Indicator	Period	Actual	Previous
Indonesia	9/2/24	CPI	AUG	2.1%	2.1%
Türkiye	9/2/24	GDP	Q2	2.5%	5.3%
Australia	9/3/24	GDP	Q2	1.0%	1.3%
Brazil	9/3/24	GDP	Q2	3.3%	2.5%
Korea, Rep.	9/4/24	GDP	Q2	2.3%	3.3%
Thailand	9/4/24	CPI	AUG	0.4%	0.8%
Germany	9/6/24	IP	JUL	-5.3%	-3.6%
China	9/8/24	CPI	AUG	0.7%	0.6%
Mexico	9/9/24	CPI	AUG	5.0%	5.6%
Argentina	9/11/24	CPI	AUG	236.7%	263.4%
Russian Federation	9/11/24	CPI	AUG	9.0%	9.1%
United Kingdom	9/11/24	IP	JUL	-1.2%	-1.5%
United States	9/11/24	CPI	AUG	2.6%	2.9%
India	9/12/24	CPI	AUG	3.7%	3.5%
Spain	9/12/24	CPI	AUG	2.2%	2.7%
China	9/13/24	IP	AUG	4.5%	5.1%
Euro area	9/13/24	IP	JUL	-2.2%	-4.2%
Saudi Arabia	9/15/24	CPI	AUG	1.6%	1.5%
Euro area	9/18/24	CPI	AUG	2.2%	2.6%
South Africa	9/18/24	CPI	AUG	4.4%	4.6%
Japan	9/19/24	CPI	AUG	3.1%	2.7%

(Percent change y/y)

Upcoming releases: September 25, 2024 - October 31, 2024				
Country	Date	Indicator	Period	Previous
Korea, Rep.	9/29/24	IP	AUG	5.5%
Korea, Rep.	10/1/24	CPI	SEP	2.0%
Brazil	10/2/24	IP	AUG	6.1%
Türkiye	10/3/24	CPI	SEP	52.0%
Spain	10/4/24	IP	AUG	-0.4%
Thailand	10/6/24	CPI	SEP	0.4%
Germany	10/8/24	IP	AUG	-5.3%
Argentina	10/9/24	IP	AUG	-5.4%
Brazil	10/9/24	CPI	SEP	4.2%
Mexico	10/9/24	CPI	SEP	5.0%
Italy	10/10/24	IP	AUG	-3.2%
Türkiye	10/10/24	IP	AUG	1.6%
United States	10/10/24	CPI	SEP	2.6%
India	10/11/24	IP	AUG	4.8%
Mexico	10/11/24	IP	AUG	2.1%
United Kingdom	10/11/24	IP	AUG	-1.2%
China	10/12/24	CPI	SEP	0.7%
India	10/14/24	CPI	SEP	3.7%
Saudi Arabia	10/15/24	CPI	SEP	1.6%
China	10/17/24	GDP	Q3	4.7%
Australia	10/29/24	CPI	Q3	3.8%