THE WORLD BANK
Development Economics | Prospects Group

Global Monthly

February 2025

Overview

- High frequency indicators suggest a slight deceleration in global economic activity in early 2025.
- Among major economies, U.S. growth appears solid, while euro area activity remains soft after a weak 2024Q4. Meanwhile, incoming data point to moderating activity in China.
- In emerging market and developing economies (EMDEs) excluding China, PMI surveys indicate that slowing service sector momentum—including in Brazil and India—is outweighing a modest uptick in manufacturing activity.

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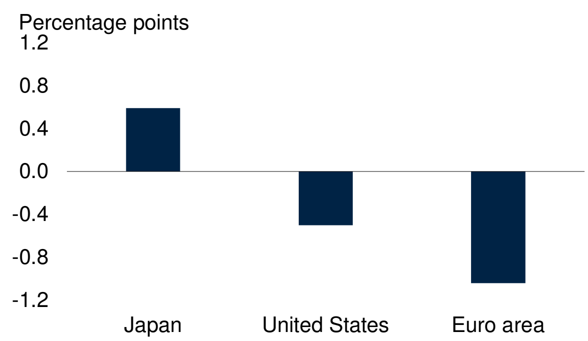
Chart of the Month

- Markets anticipate policy rates to diverge across the three largest advanced economies this year, against a backdrop of differing inflation outlooks and heightened policy uncertainty.
- In the United States, monetary policy is expected to ease only slightly as inflation wanes gradually.
- Substantially more policy rate cuts are priced in for the euro area, reflecting lower expected inflation and weaker growth prospects. In contrast, policy rates are set to increase in Japan in response to ongoing inflation pressures.

Expected change in policy rates in 2025



Sources: Bloomberg; World Bank.
Note: Bars show the difference between policy rates at end-Dec 2024 and the anticipated policy rate at end-Dec 2025, as derived from overnight index swaps on Feb 24, 2025.

Special Focus: EMDEs' Integration into the Global Economy

- Emerging market and developing economies (EMDEs) accounted for nearly 45 percent of global GDP in 2024, up from about 25 percent in 2000.
- EMDEs have become far more integrated into the global economy through trade, commodity, and finance channels during the first quarter of the twenty-first century, yet the pace of integration has slowed since the early 2010s.
- Together with other cyclical and structural challenges, the slowing pace of integration has contributed to a sustained slowdown in EMDE growth.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Phil Kenworthy, Dominik Peschel, and Garima Vasishtha, under the supervision of Carlos Arteta. The special focus was prepared by Edoardo Palombo. This *Global Monthly* reflects data available up to February 24, 2025. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: Still driven by services, but softening slightly. Measures of global activity signal a slight softening of momentum so far in 2025. The Global Sentix Index—an indicator of investors' economic confidence—has edged down since last year, while the global composite PMI declined from 52.6 in December to 51.8 in January, implying a mild deceleration in growth. At the sectoral level, the services PMI component remained the mainstay of global expansion, but it nonetheless eased from 53.8 in December to 52.2 in January. Resilient services activity has partly reflected enduringly robust labor markets in many economies. In December, the median unemployment rate was still more than half a percentage point below its 2018-19 average across both advanced and emerging market and developing economies (EMDEs; figure 1.A). At 50.1, the PMI for global manufacturing inched up from December but remained consistent with stagnating manufacturing activity.

Global trade: pickup in goods trade despite elevated policy uncertainty. Goods trade growth accelerated to 3.6 percent (y/y) in November (the latest available data) from 2.1 percent the prior month. This was driven mainly by EMDEs, where goods trade expanded by 6.4 percent, compared with 1.6 percent in advanced economies. High-frequency manufacturing trade indicators remain in contractionary territory but are showing signs of improvement. The global new export orders PMI increased from 48.1 in December to 49.4 in January. In contrast, the component for new services exports reached a 13-month low at 50.2—indicating decelerating service sector growth. Global trade policy uncertainty remains at a near-record high (figure 1.B). The recent increase in uncertainty is unfolding against a backdrop of tariff increases between the United States and China (in February); expected U.S. tariff increases on steel and aluminum (scheduled for March); and announced plans for the United States to levy new tariffs more broadly, but to differing degrees contingent on negotiations.

Commodity markets: natural gas leading energy prices higher. Commodity prices gained 5 percent in January (m/m), driven primarily by a 7-percent increase in energy prices, while non-energy prices remained largely stable (figure 1.C). After rising above $80/bbl in early January, Brent crude oil prices eased to around $75/bbl in February, largely due to a sizable build-up in U.S. crude oil inventories. U.S. natural gas prices spiked by over 35 percent (m/m) in January, reflecting cold temperatures and a larger-than-expected storage drawdown, while European gas prices increased by 6 percent (m/m) for similar reasons. Agricultural prices held steady overall, with rising

FIGURE 1.A Unemployment rates

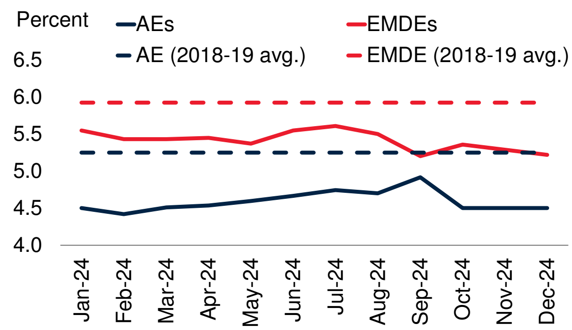


FIGURE 1.B Global trade policy uncertainty

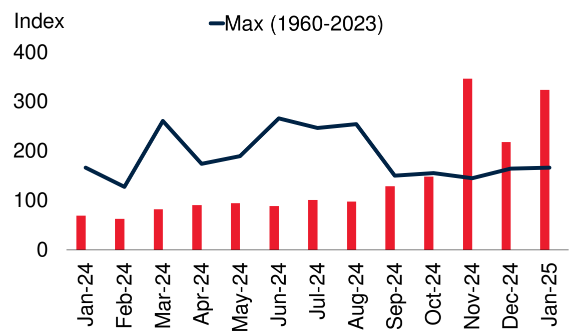
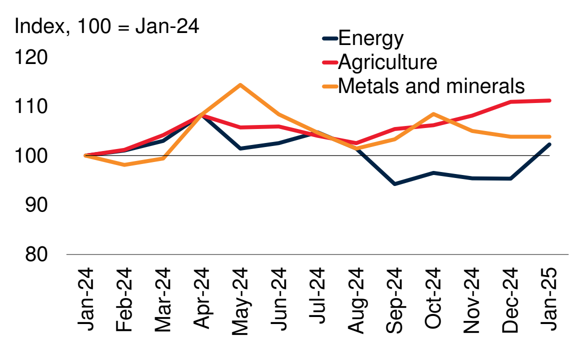


FIGURE 1.C Commodity prices



Sources: Caldara et al. (2020); Haver Analytics; World Bank.
Note: AEs = advanced economies; EMDEs = emerging market and developing economies.
A. Solid lines show median monthly unemployment rate. Dotted lines show the 2018-19 average of monthly median unemployment rates. Consistent sample of 31 advanced economies and 13 EMDEs with timely data.
B. The blue line shows the maximum value of the index for each month over the 1960-2023 period. Last observations is January 2024.
C. Monthly data. Last observation is January 2025.

beverage prices offset by declines in agricultural raw materials, and food prices remaining stable. Similarly, metal prices were little changed, as gains in tin, copper, and aluminum prices were offset by declines in zinc, lead, and iron ore prices. Gold prices continue to break records, driven by safe-haven demand amid elevated trade and geopolitical uncertainty.

Global financial conditions: monetary policy easing outside the United States. Central banks in many advanced economies and EMDEs have reduced policy interest rates this year (figure 2.A). In contrast, the U.S. Federal Reserve left policy rates unchanged in January—financial markets now expect between one and two 25-basis-point cuts this year, down from three at the start of 2024Q4. U.S. bond yields have been volatile, buffeted by trade policy uncertainty and upside inflation surprises. Heightened policy uncertainty has also tempered U.S. risk appetite somewhat, with equity markets trading sideways. Conversely, risk appetite in the euro area has improved since the beginning of the year, in part due to firming, albeit weak, economic data and solid equity earnings. Among large EMDEs, India, Mexico, and Türkiye have lowered policy interest rates amid softening growth prospects and easing inflationary pressures, with markets expecting further cuts. Since the start of the year, trade policy uncertainty and U.S. interest rate expectations have coincided with an upswing in EMDE currency volatility, with high-frequency data indicating debt and equity outflows from EMDEs excluding China (figure 2.B).

United States: solid growth and persistent inflation. Capping a year of mostly upbeat economic data, growth remained solid in 2024Q4, despite coming in slightly weaker than expected by private sector forecasters. Growth averaged 2.3 percent (q/q saar), with robust expansion in final domestic sales, partly offset by a large fall in inventory investment. Private consumption expanded by 4.2 percent (q/q saar), driven by a strong pickup in consumer spending on goods. As consumption growth continued to outpace disposable income, the personal saving rate declined further in December, to 3.8 percent (figure 2.C). In line with robust demand, consumer price inflation has remained elevated. After earlier declines, core consumer price inflation (excluding food and energy) has persisted in the range of 3.2 to 3.3 percent (y/y) since last June. Non-farm payrolls appear resilient, expanding by 143K in January—a touch below expectations. Recent survey data has softened somewhat, however, with consumer sentiment weakening and the February flash services PMI narrowly undershooting 50.

Other advanced economies: tepid activity. Euro area growth stalled in 2024Q4 amid ongoing weakness in manufacturing

FIGURE 2.A Net balance of policy interest rate changes

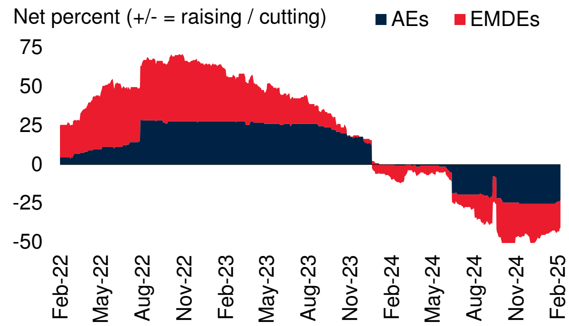


FIGURE 2.B Trade policy uncertainty and EMDE currency volatility

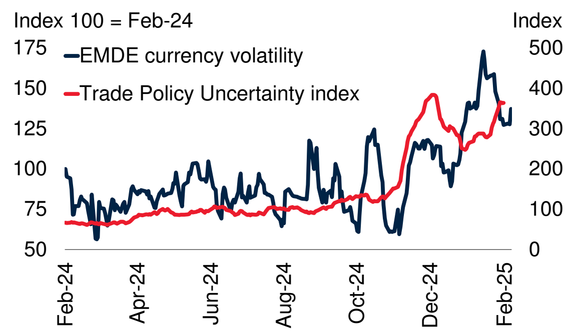
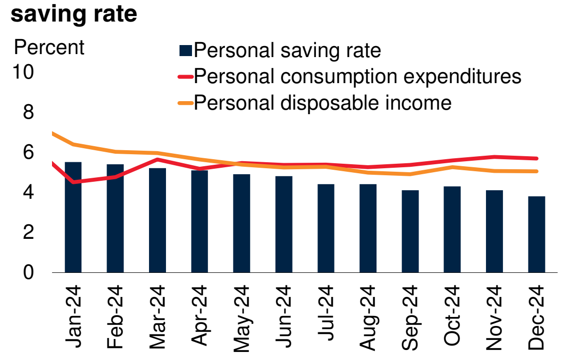


FIGURE 2.C Growth in U.S. personal consumption expenditure and disposable income, and the saving rate



Sources: Caldara et al. (2019); Federal Reserve Bank of St. Louis; Haver Analytics; World Bank.

Note: AEs = Advanced economies; EMDEs = emerging market and developing economies.

A. The areas show the net percentage of AE central banks (blue) and EMDE central banks (red) that have reduced their benchmark policy rate in the last 90 days. Last observation is February 6, 2025.

B. The blue line represents the 30-day realized median standard deviation of EMDE currency against the U.S. dollar. The data is indexed to 2/1/2024. The sample includes 122 EMDEs. The red line represents the 30-day moving average of the Trade Policy Uncertainty index built by Caldara et al. (2019) based on newspaper coverage, firms' earnings conference calls, and aggregate data on tariff rates.

C. Panel shows the year-on-year percent change in personal consumption expenditures and personal disposable income. Personal saving rate is shown in percent of the level of disposable income.

activity and heightened political uncertainty. Incoming data suggest modestly improving activity, with the composite PMI returning to expansionary territory in January. Despite tepid growth, inflation has picked up, with energy price increases during the winter layered on top of still-elevated core inflation. However, core inflation should ease somewhat going forward given cooling wage growth, as indicated by the ECB's wage tracker—a timely indicator for current and future wage growth (figure 3.A). Accordingly, the ECB lowered its policy interest rates further in January, reducing the deposit facility rate to 2.75 percent. In Japan, growth picked up to 2.8 percent (q/q saar) in 2024Q4 from 1.7 percent in the prior quarter, mainly driven by stronger net exporters. After core inflation (excluding fresh foods) reached 3 percent (y/y) in December and real wages grew for two consecutive months, the Bank of Japan raised its policy rate from 0.25 percent to 0.5 percent in January. Incoming data suggest weak activity in 2025Q1, set against declining consumer confidence and slowing external demand.

China: loss of momentum. After activity picked up in 2024Q4—with growth accelerating from 4.6 percent (y/y) in 2024Q3 to 5.4 percent on the back of stronger domestic demand and net exports—leading indicators point to a renewed slowdown in 2025. In January, the manufacturing PMI returned to contractionary territory, declining from 50.1 to 49.1, with the new export orders sub-component falling to 46.4—the lowest level since early 2024 (figure 3.B). In tandem, the non-manufacturing PMI declined from 52.2 in December to 50.2, as the construction sub-component fell narrowly into contraction. Although inflation ticked up in January, price pressures remained subdued overall, with headline inflation at 0.5 percent (y/y) and core inflation at 0.6 percent.

Other EMDEs: deceleration in services activity. Despite improved readings for manufacturing, the composite PMI for EMDEs excluding China softened from 54.2 in December to 53.5 in January, driven by a 1.1-point decline in the services component (figure 3.C). Services PMIs for India and Brazil weakened sharply, with the latter dropping below the neutral mark of 50 for the first time in 16 months. In Nigeria, the services PMI also dropped to below 50 in January, while in Sri Lanka, it plummeted but remained in expansionary territory. Against the trend, the composite PMI in Saudi Arabia strengthened to its highest level in more than a decade in January, supported by new infrastructure projects, and the composite PMI in the Russian Federation hit a 12-month high, despite near-double-digit inflation and a 21-percent policy rate.

FIGURE 3.A Euro area: ECB's wage growth tracker

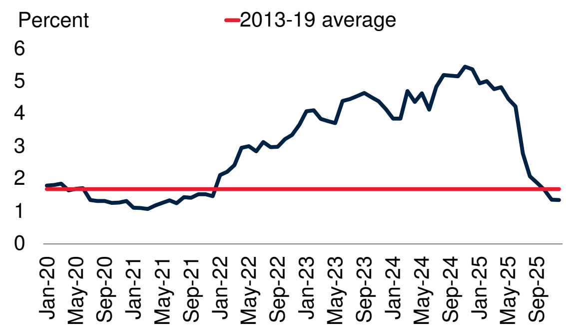


FIGURE 3.B China: PMIs

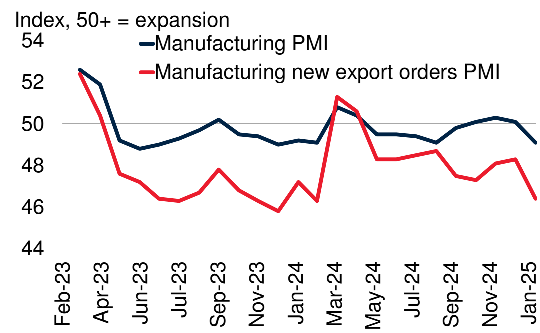
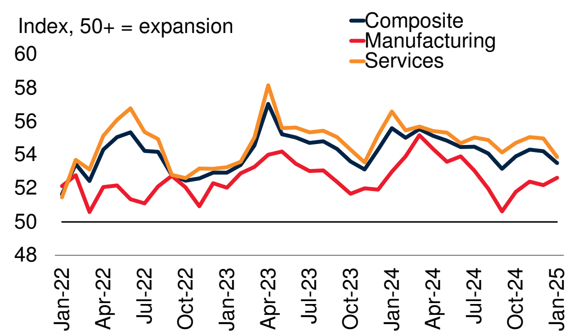


FIGURE 3.C EMDEs excl. China: Manufacturing, services and composite PMI



Sources: European Central Bank (ECB); Haver Analytics; World Bank.
Note: EMDEs = emerging market and developing economies; PMI = purchasing managers' index.
A. Monthly data include smoothed one-off payments and are as of February 5, 2025. Since data prior to 2013 are unavailable, the longer-term average is calculated over the 2013-19 period.
B. Panel shows official manufacturing and manufacturing new export orders purchasing managers' index for China. Last observation is January 2025.
C. Panel shows the 2024-GDP-weighted average manufacturing, services and composite global purchasing managers' index (PMI) for 16 EMDEs, excluding China. Last observation is January 2025.

Special Focus: EMDEs' Integration into the Global Economy

The first quarter of the twenty-first century has been transformative for emerging market and developing economies (EMDEs). These economies now account for nearly 45 percent of global GDP, up from about 25 percent in 2000. EMDEs' contribution to annual global GDP growth has nearly doubled, from less than 30 percent in the 1990s to an average of about 60 percent over 2000-24. The EM3 (China, Brazil, and India) now account for over 40 percent of global output growth (figure 4.A). EMDEs have become far more deeply connected economically, both among themselves and with advanced economies. Based on the insights in the latest *Global Economic Prospects*, this special focus explores EMDEs' integration into the global economy through trade, commodity, and financial linkages.

EMDE's contribution to global trade flows has increased significantly while their trade partnerships have evolved. Between 2000 and 2023, global trade flows expanded nearly four-fold in nominal U.S. dollar terms, supported by the expansion of international production networks. EMDEs' share of global trade rose from 22 percent in 2000 to 37 percent in 2023, with almost half of this increase attributable to China. In addition, EMDEs are increasingly trading with each other. Nearly half of goods exports from EMDEs went to other EMDEs as of 2023, compared to one-quarter in 2000 (figure 4.B).

Rapid growth in major EMDEs has underpinned surging demand for commodities. Since the mid-2000s, EMDEs' consumption of energy and metals has exceeded that of advanced economies, reflecting rapid industrialization in China and other major economies. EMDEs' share of global energy demand rose from 46 percent in 2000 to 67 percent in 2023, while their share of metals demand rose from 32 percent to 77 percent, with almost all the increase in both markets deriving from the EM3 (figure 4.C). About three-fifths of EMDEs are commodity exporters, accounting for a significant share of global commodity exports.

EMDEs have received a growing share of global financial inflows since the turn of the century. On average, EMDEs received 21 percent of global capital inflows during 2019-23, compared to only 6 percent during 2000-04. However, the integration of these economies into the global financial system

FIGURE 4.A Shares of global GDP growth

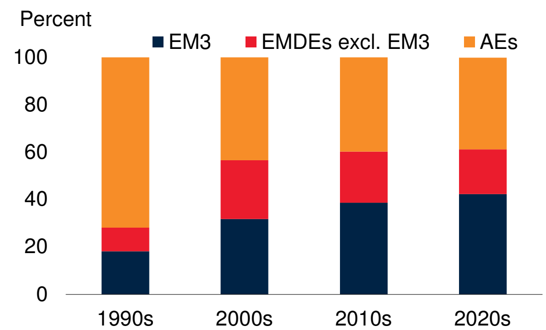


FIGURE 4.B Destinations of goods exports from EMDEs

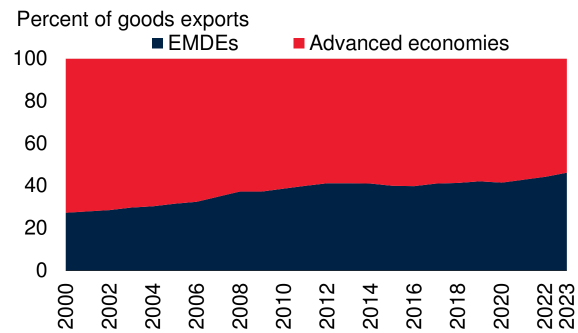
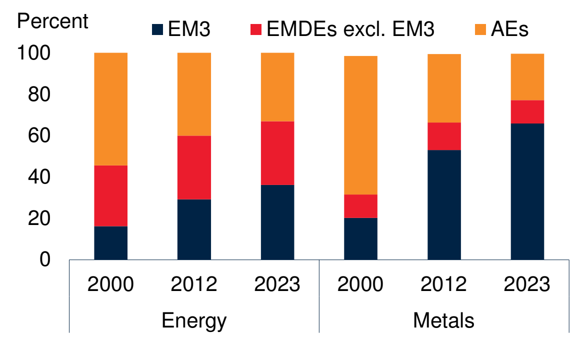


FIGURE 4.C Shares of global primary energy and metals consumption



Sources: IMF Direction of Trade Statistics (database); The Energy Institute; Refinitiv (database); World Bank.

Note: AEs = advanced economies; EM3 = China, India, and Brazil; EMDEs = emerging market and developing economies.

A. Gross domestic product (GDP) is measured in average 2010-19 prices and market exchange rates. Sample includes 154 EMDEs and 38 advanced economies. EMDEs and advanced economies are defined in table 1.2. Bars show the average contributions to annual growth. Data for the 2020s includes 2020-24.

B. Sample includes 154 EMDEs and 38 advanced economies. Exports and imports are measured in nominal U.S. dollars. Last observation is 2023.

C. Primary energy includes oil, coal, and natural gas. Last observation is 2023.

has varied according to the type of flows (figure 5.A). Between 2000-04 and 2019-23, EMDEs' average share of global foreign direct investment (FDI) inflows nearly tripled, from 18 percent to 51 percent. At the same time, EMDEs' share of global portfolio investment inflows and bank lending more than quadrupled, yet they represent only 8 percent and 17 percent of global inflows, respectively. Advanced economies remain the predominant origin of FDI inflow to EMDEs, although China has become a major source, accounting for 12 percent of global FDI outflows in 2019-23, from less than one percent in 2000-04.

Despite the continued deepening of EMDEs' linkages with the global economy over the past 25 years, the pace of integration has slowed since the early 2010s. Global integration, domestic policy reforms, and strong global commodity demand in the early twenty-first century allowed EMDEs to make rapid progress. EMDE growth averaged nearly 6 percent in the 2000s, the fastest pace since the 1970s, while gains in per capita GDP growth supported a rapid decline in extreme poverty. Since the early 2010s, however, the pace of integration has slowed. The growth of global value chains, instrumental in promoting trade growth in the 1990s and 2000s, has leveled off since the 2010s. As a share of GDP, FDI inflows into EMDEs in recent years have been well below the levels of the 2010s. The reduced impetus for global integration, combined with other cyclical and structural factors, has contributed to a sustained slowdown in EMDE growth, to an average of about 5 percent per year in the 2010s and only 3.5 percent during 2020-24 (figure 5.B).

A surge in trade and investment protectionism is contributing to a challenging external environment for EMDEs. Compared to the early years of the twenty-first century, when EMDEs' growth trajectory was supported by strong international cooperation, the external environment faced by these economies has now changed dramatically. The frequency of new trade and investment agreements has been far lower in the early 2020s than in the preceding two decades (figure 5.C). In 2023, trade restrictions reached the highest level on record since 2009, while geopolitical fragmentation has risen sharply relative to levels of previous decades. These conditions make a development strategy reliant on deeper global integration more difficult, and together with a host of other challenges, they are weighing on EMDEs' growth prospects.

FIGURE 5.A Shares of global financial inflows

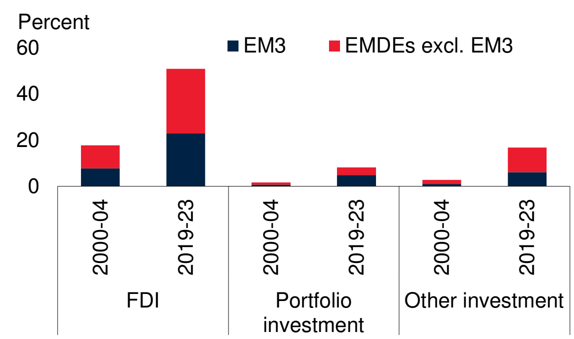


FIGURE 5.B Average annual GDP growth

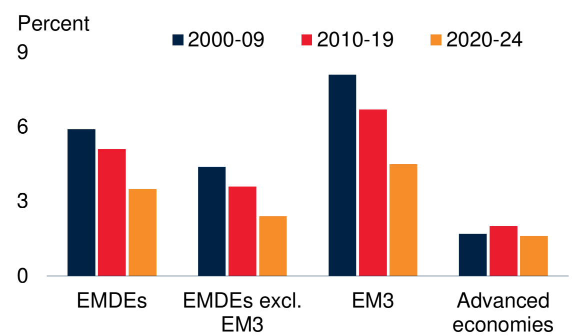
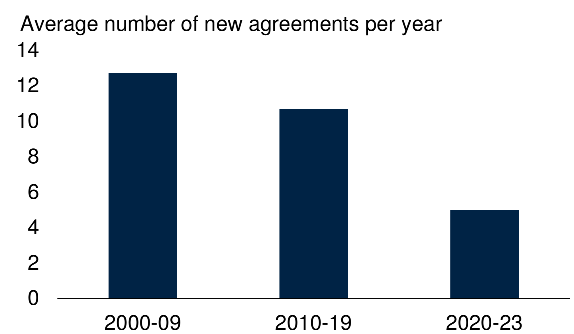


FIGURE 5.C Trade agreements



Sources: IMF Balance of Payments and International Investment Position (database); World Bank; World Trade Organization.

Note: EM3 = China, India, and Brazil; EMDEs = emerging market developing economies.

A. Geographical regions include EMDEs only. FDI, portfolio investment, and other investment data are net inflows and outflows from balance of payments data. Other investment is a proxy for bank lending flows.

B. Bars show simple averages for each decade of annual GDP-weighted average growth in each group of economies. Data for the 2020s include 2020–24. Growth rates for 2024 are estimated.

C. Bars show simple averages of annual data. Sample excludes agreements signed by the United Kingdom.

Recent Prospects Group Publications

[Global Economic Prospects—January 2025]
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[Identifying Growth Accelerations]
[Digitalization and Inclusive Growth: A Review of the Evidence]

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[International Debt Report 2024]
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[Services Unbound: Digital Technologies and Policy Reform in East Asia and Pacific]

TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: January 20, 2025 - February 19, 2025					
Country	Date	Indicator	Period	Actual	Previous
Germany	1/30/25	GDP	Q4	-0.2%	-0.3%
Mexico	1/30/25	GDP	Q4	0.6%	1.6%
Saudi Arabia	1/30/25	GDP	Q4	4.4%	2.8%
United States	1/30/25	GDP	Q4	2.5%	2.7%
Indonesia	2/2/25	CPI	JAN	0.8%	1.6%
Türkiye	2/3/25	CPI	JAN	42.1%	44.4%
Indonesia	2/4/25	GDP	Q4	5.0%	4.9%
China	2/8/25	CPI	JAN	0.5%	0.1%
Brazil	2/11/25	CPI	JAN	4.6%	4.8%
Mexico	2/11/25	IP	DEC	-2.7%	-1.4%
India	2/12/25	CPI	JAN	4.3%	5.2%
United States	2/12/25	CPI	JAN	3.0%	2.9%
Argentina	2/13/25	CPI	JAN	84.5%	117.8%
Euro area	2/13/25	IP	DEC	-2.5%	-1.7%
United Kingdom	2/13/25	GDP	Q4	1.4%	1.0%
Euro area	2/14/25	GDP	Q4	0.9%	0.9%
Netherlands	2/14/25	GDP	Q4	2.0%	1.8%
Russian Federation	2/14/25	CPI	JAN	9.9%	9.5%
United States	2/14/25	IP	JAN	2.0%	0.3%
Japan	2/16/25	GDP	Q4	1.3%	0.6%
Thailand	2/16/25	GDP	Q4	3.2%	3.0%

(Percent change y/y)

Upcoming releases: February 20, 2025 - March 19, 2025				
Country	Date	Indicator	Period	Previous
Canada	2/28/25	GDP	Q4	1.5%
India	2/28/25	GDP	Q4	5.4%
Türkiye	2/28/25	GDP	Q4	2.1%
Türkiye	3/3/25	CPI	FEB	42.1%
Australia	3/4/25	GDP	Q4	0.8%
France	3/5/25	IP	JAN	-1.7%
Korea, Rep.	3/5/25	CPI	FEB	2.2%
Argentina	3/7/25	IP	JAN	8.4%
Brazil	3/7/25	GDP	Q4	4.0%
Mexico	3/7/25	CPI	FEB	3.6%
China	3/8/25	CPI	FEB	0.5%
Germany	3/10/25	IP	JAN	-3.1%
Brazil	3/12/25	CPI	FEB	4.6%
India	3/12/25	CPI	FEB	4.3%
India	3/12/25	IP	JAN	3.2%
United States	3/12/25	CPI	FEB	3.0%
Euro area	3/13/25	IP	JAN	-2.5%
Mexico	3/13/25	IP	JAN	-2.7%
United Kingdom	3/14/25	IP	JAN	-1.9%
Saudi Arabia	3/16/25	CPI	FEB	2.0%
Argentina	3/19/25	GDP	Q4	-2.1%