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Development Economics | Prospects Group

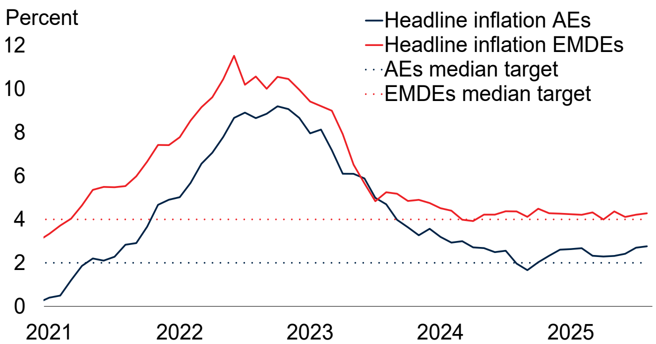
Global Monthly

September 2025

Overview

- Global activity remained resilient in August with high-frequency surveys showing robust services sector growth and manufacturing expanding at the fastest rate in 14 months.
- Forward-looking indicators softened, as PMIs for future global output and new export orders signaled that the boost from earlier front-loading of exports is fading.
- Easier financial conditions are likely to cushion pressures on activity and support labor markets.

Median inflation rates and targets



Sources: Haver Analytics; World Bank.
Note: AEs = advanced economies; EMDEs = emerging market and developing economies. Inflation medians are calculated using headline consumer price inflation. Sample includes 71 economies, including 41 EMDEs, and excludes Argentina and Venezuela.

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Chart of the Month

- Consumer price disinflation has stalled in advanced economies: median headline inflation has remained persistently above target throughout this year.
- In contrast, median headline inflation in emerging market and developing economies (EMDEs), has been broadly in line with central bank targets.

Special Focus: Foreign Direct Investment and Activity

- While foreign direct investment (FDI) inflows have a positive impact on output in EMDEs, the effect is larger in economies with relatively higher income levels.
- The positive impact of FDI inflows on GDP is amplified when EMDEs have favorable structural characteristics, including better institutional quality, more trade openness, stronger human capital, and lower levels of informal employment.
- Conditions conducive to stronger positive impacts of FDI on output are weaker in EMDEs than in advanced economies. Reforms can allow EMDEs to improve the macroeconomic benefits of FDI flows.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Gitanjali Kumar, Kate McKinnon, and Edoardo Palombo, under the supervision of Carlos Arteta and Dana Vorisek. The special focus was prepared by Hayley Pallan. This Global Monthly reflects data available up to September 19, 2025. For more information, visit: https://www.worldbank.org/en/research/brief/economic-monitoring. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: resilience so far amid ongoing headwinds. Recent high-frequency indicators point to firmer activity, with the global composite PMI edging up to 52.9 in August, supported by a rise in the manufacturing sub-index to 50.9 – its highest reading in 14 months (figure 1.A). The composite indices for both advanced economies and EMDEs have been in expansionary territory since April, despite the ongoing drag from trade-related components. Nevertheless, forward-looking indicators point to softness ahead, against a backdrop of high policy uncertainty. The global composite PMI for future output—an indicator of business expectations—ticked down to 59.4 in August, its lowest level in four months. Labor markets in several advanced economies have also shown signs of cooling in recent months, whereas both headline and core inflation remain stubbornly elevated.

Global trade: moderating after boost from front-loading. Following an extended pause, on August 7, the U.S. administration implemented modified versions of the reciprocal tariffs originally announced in April. Additional country-specific tariffs on India and Brazil also came into force in August, and the scope of steel and aluminum tariffs was expanded. Since the beginning of the year, the U.S. average effective tariff rate has increased from 2.4 percent to 17.4 percent (figure 1.B). Before the latest measures took effect, global goods trade growth, while still resilient, had shown some signs of softening: the pace of growth in volumes eased to 3.1 percent (y/y) in June from 4.1 percent in May and 6.7 percent in March, when front-loading activity peaked. U.S. imports contracted by 2.4 percent (y/y) in June, after rising in the first five months of 2025. Meanwhile, global manufacturing and services PMIs for new export orders remained in contractionary territory for the fifth consecutive month in August, pointing to further weakness ahead for trade.

Commodity markets: falling energy prices. Commodity prices declined by 2 percent in August (m/m), largely driven by a 4-percent drop in energy prices. Brent crude oil eased to around US$67/bbl by mid-September from almost US$69/bbl in early August, reflecting higher-than-anticipated U.S. inventories and rising OPEC+ production. Meanwhile, European natural gas prices fell by 4 percent (m/m) as higher storage and robust LNG imports boosted supply. In the United States, natural gas prices dropped 9 percent (m/m) as ample inventories outweighed the impact of higher export volumes. In contrast, agricultural prices rose by nearly 2 percent in August (m/m), led by a surge in coffee prices—

FIGURE 1.A Global headline PMIs

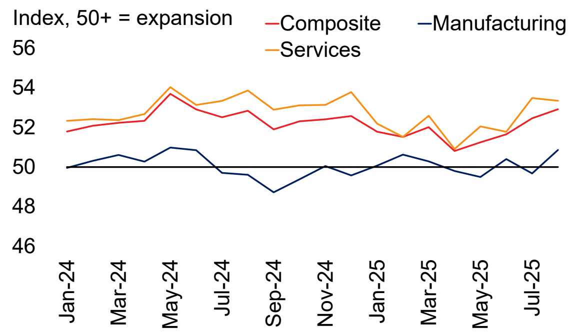


FIGURE 1.B U.S. average effective tariff rate

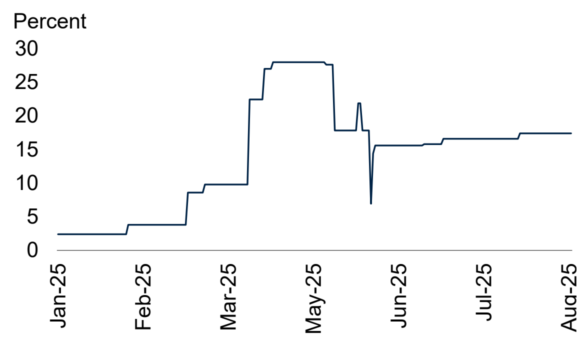
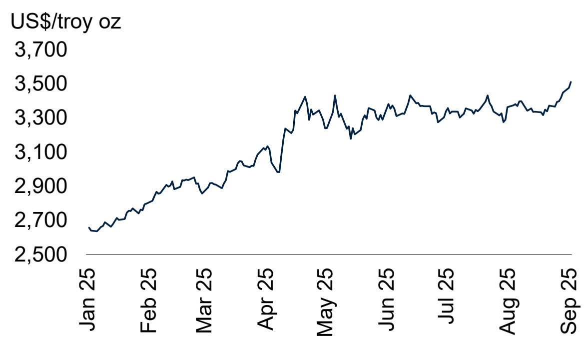


FIGURE 1.C Gold prices



Sources: Bloomberg; Haver Analytics; The Budget Lab; World Bank.
Note: PMI = purchasing managers' index.
A. PMI readings above (below) 50 indicate expansion (contraction). Last observation is August 2025.
B. U.S. average effective tariff rate since January 1, 2025. Policy stance as of September 3.
C. Daily data. Last observation is September 19, 2025.

Arabica and Robusta increased by 12 percent and 19 percent, respectively—following the imposition of 50 percent tariffs on Brazilian imports to the United States. Base metals prices edged lower in August (m/m), while precious metals extended their rally for an eighth consecutive month. Gold prices reached a new record high of over US$3,700/oz by mid-September, supported by expectations of policy rate cuts in the United States and continued strong safe-haven demand (figure 1.C).

Global financial conditions: easing despite steepening yield curves. Global financial conditions eased in August-September, primarily due to robust risk appetite. Equity indices continued to move higher in both advanced economies and in EMDEs. However, long-term sovereign yields rose in the United Kingdom and France over fiscal and political concerns (figure 2.A). Softer labor market data overshadowed higher inflation readings and fueled expectations of policy rate cuts in the United States, which led to declines in short-term yields, steepening the yield curve. The Federal Reserve eased its policy rate by 25 basis points as widely expected, with an additional 100 basis points worth of cuts priced in by the end of 2026. EMDE currencies appreciated somewhat because of steady portfolio debt and equity inflows over the last few months (figure 2.B).

United States: softening labor market. A series of soft readings and downward revisions to employment growth revealed a substantial deterioration in the U.S. labor market since April. Average monthly nonfarm net payroll gains slowed to 27K, on average, between May and August, nearly 100K fewer than the monthly average recorded in January-April. Goods-producing industries shed a cumulative 67K jobs, in contrast to a cumulative gain of 20K in the first four months of this year (figure 2.C). Despite the softening labor market, other activity indicators showed signs of resilience: in July, real personal consumption spending rose 0.3 percent (m/m), while non-defense manufacturing shipments expanded by 0.9 percent (m/m), pointing to continued strength in business investment. Headline inflation rose to 2.9 percent (y/y) in August amid continued price pressures.

Other advanced economies: activity downshifting. In the euro area, growth slowed to 0.1 percent (q/q sa) in the second quarter, with Germany and Italy registering contractions in output. Private consumption and, to a large degree, inventory accumulation contributed positively to growth, while exports and investment retreated after earlier front-loading (figure 3.A). Retail sentiment remained relatively resilient in July and August in the euro area, while the manufacturing PMI expanded in August for the first

FIGURE 2.A **10-year yields**

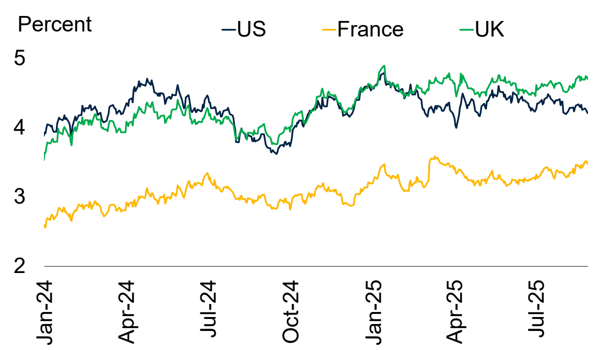


FIGURE 2.B **Non-resident portfolio flows**

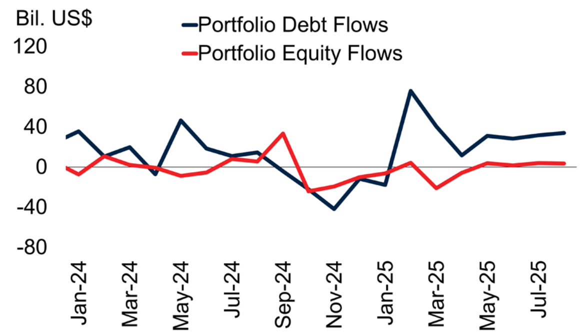
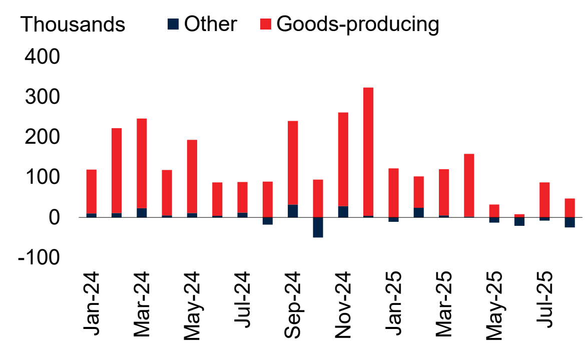


FIGURE 2.C **Changes in U.S. nonfarm payrolls**



Sources: Bureau of labor statistics; FRED (database); Haver Analytics; IIF; World Bank.
A. Daily data. Last observation is September 4, 2025.
B. Monthly data. Last observation is July 2025.
C. Bars show monthly changes in payrolls in goods-producing and all other industries. Last observation is August 2025.

time since June 2022. In Japan, the composite PMI remained in expansionary territory; however, the export orders subcomponent dropped to 44.7 in August from 47.5 in July, signaling a further deterioration in external demand. Consumer confidence improved in August, while headline and core inflation eased to 0.1 percent in July (m/m sa).

China: losing momentum. In August, exports grew by 4.4 percent (y/y), their slowest pace since February, despite the extension of the U.S. tariff pause for another 90 days. Import growth decelerated to 1.3 percent, suggesting slowing domestic demand (figure 3.B). The manufacturing PMI edged up to 49.4 in August but remained in contractionary territory, while the non-manufacturing PMI increased to 50.3, supported by a modest expansion in services activity. In addition, growth in activity indicators such as retail sales, industrial production, and fixed asset investment moderated last month. Price pressures also remained weak in August. Headline CPI inflation dropped again to -0.4 percent (y/y), from 0 percent in July, as lower food inflation more than offset the rise in core inflation. Producer price inflation eased to –2.9 percent (y/y), from –3.6 percent in July.

Other EMDEs: domestic resilience and softening exports. The composite PMI for EMDEs excluding China showed remarkable resilience in August, expanding at the fastest pace in 15 months, driven by domestic strength in both services and manufacturing. Yet, the adverse impact of higher tariffs is becoming more visible with new export orders contracting for the second consecutive month and remaining well below the 2024 average (Figure 3.C). The overall resilience in EMDEs masks divergence across economies. India registered the highest PMI reading since July 2008 on the back of robust services expansion and strong manufacturing growth. Manufacturing PMIs in Colombia, Mexico, Indonesia, Thailand, and Malaysia rose, despite trade headwinds. Elsewhere, activity was weak with PMIs in Russia and Poland remaining in contractionary territory, and manufacturing PMIs declining in Brazil, the Philippines, and Viet Nam.

FIGURE 3.A Decomposition of GDP growth of the euro area

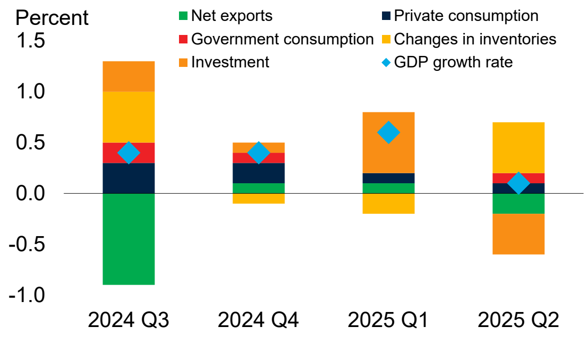


FIGURE 3.B China's imports and exports growth

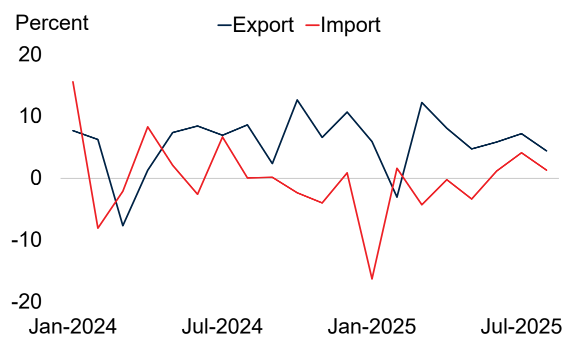
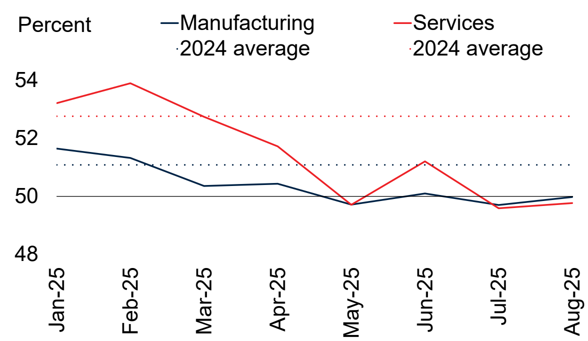


FIGURE 3.C EMDEs excl. China new export orders



Sources: Haver Analytics; Eurostat; World Bank.
Note: EMDEs = emerging market and developing economies.
A. Bars show the contribution of expenditure components to quarter-on-quarter GDP growth, measured in seasonally adjusted, chain-linked volumes. Diamonds indicate total real GDP growth over the same period. Last observation is 2025 Q2.
B. Year-on-year change of value of goods exports and imports in U.S. dollars. Last observation is August 2025.
C. The dotted lines represent the average new export orders for manufacturing PMIs (blue) and services PMIs (red). Last observation is August 2025.

Special Focus: Foreign Direct Investment and Activity

Empirical studies generally suggest that FDI has a positive impact on output in EMDEs. However, the magnitude of the effect varies considerably. The results in the literature tend to be sensitive to the country coverage and sample period examined, and have been found to depend on the structural characteristics of the recipient economies. Moreover, conventional panel data estimation strategies often fail to take account of several issues—including the two-way causality between FDI and growth, heterogeneity across countries, and the dynamic nature of the effects. This special focus examines the implications of FDI for GDP in EMDEs using a new methodology and discusses the policy relevance of key findings.

A novel methodology confirms that FDI boosts output in EMDEs, with country-specific conditions playing a key role in determining the size of the impact. Based on chapter 3 of the June 2025 *Global Economic Prospects*, a heterogeneous panel VAR framework is used to quantify the effects of FDI on output in EMDEs. The results show that for the average EMDE, FDI inflows have a positive and statistically significant impact on output: on average, a 10-percent increase in real FDI inflows is associated with an increase in real GDP of 0.15 percent in the same year, accumulating to about 0.3 percent after three years (figure 4.A).

The impact of FDI on GDP is stronger in EMDEs with relatively higher incomes. Separating the sample of EMDEs into low-income countries (LICs) and higher-income EMDEs reveals that the growth impacts of FDI are weaker in LICs (figure 4.B). A review of the properties of sub-samples with strong and weak responses of output to FDI—defined as the lower and upper quartiles of the estimated coefficient—points to certain structural characteristics that magnify the positive effects of FDI.

Good institutions amplify the positive macroeconomic effects of FDI. Structural differences between economies help explain the large range of effects of FDI on output in EMDEs. In particular, better institutions—as measured by a better investment climate and more control of corruption—amplify the growth effects of FDI (figure 4.C). Yet improvements in institutional conditions have stalled in EMDEs. Relative to the 2000s, the quality of institutions was slightly worse in 2012-24, in both LICs and higher-income EMDEs (figure 5.A). Moreover, EMDEs lag advanced

FIGURE 4.A Impact of FDI on output in EMDEs

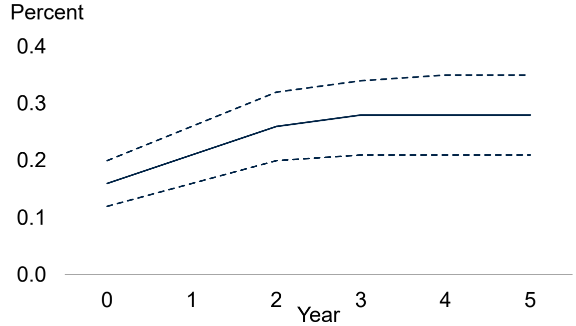


FIGURE 4.B Impact of FDI on output in EMDEs, by income level

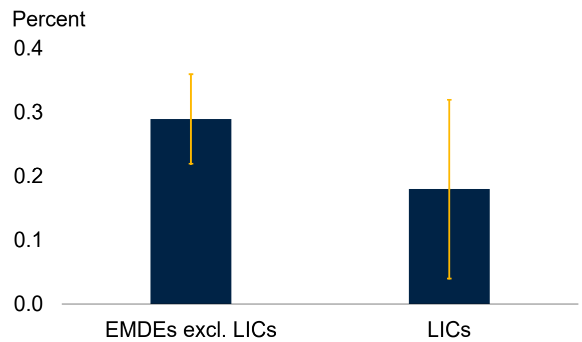
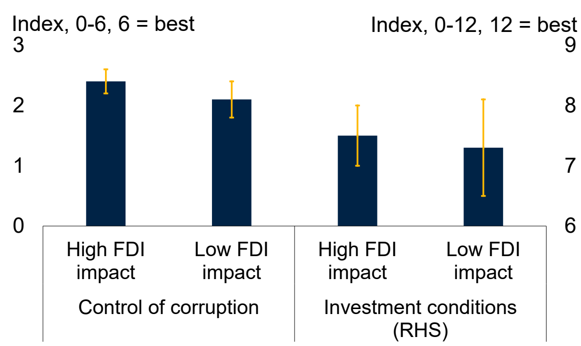


FIGURE 4.C Institutional quality, by FDI impact



Sources: PRS Group's International Country Risk Guide (ICRG); World Bank.
Note: EMDEs = emerging market and developing economies; LICs = low-income countries; RHS = right-hand side. Dashed lines and whiskers show 90-percent confidence intervals.
A-B. Sample includes 74 EMDEs of which 11 are LICs, using annual data for 1995-2019. Impulse responses of GDP to a 10-percent increase in real FDI inflows from heterogeneous PVAR estimation.
B. GDP response to an FDI inflow shock three years after impact.
C. "High FDI impact" and "Low FDI impact" samples consist of countries with an estimated GDP response to an FDI shock above the 75th and below the 25th percentile, respectively. Control of corruption and investment conditions are measured using ICRG indexes.

economies substantially in areas that are crucial for supporting the broad investment climate, including risk of expropriation and payment delays, control of corruption, and the quality of the business regulatory environment.

Trade openness is an important determinant of the growth effects of FDI. The impact of FDI on output is larger in EMDEs with a greater degree of trade openness. The sum of exports and imports relative to GDP is 16 percentage points higher in EMDEs where the impact of FDI on GDP is high compared to EMDEs where the impact of FDI on GDP is low (figure 5.B). In general, economic integration is a critical dimension for attracting FDI, including via trade and investment agreements, global value chain participation, and reduced cross-border investment restrictions.

Higher human capital and lower levels of informality support a stronger link between FDI and growth. Educational attainment matters: in the high-FDI impact countries, the share of the population aged 25 and above with completed secondary education is higher by 10 percentage points than in the low-FDI impact countries (figure 5.C). In addition, EMDEs with less prevalent informality tend to have larger returns to FDI: in the high-FDI impact sample, informal employment (as a share of total employment) is lower by about 16 percentage points compared to the low-FDI impact sample. The roles of human capital and formality underscore the need for a skilled workforce and quality employment to ensure that FDI boosts growth.

To amplify the growth benefits of FDI, policy makers in EMDEs need to strengthen investment climates. Key structural conditions that create an environment conducive for FDI to support growth have not materially improved in most EMDEs since the 2000s. Policy makers need to prioritize reforms that improve institutions, including laxer cross-border investment restrictions, human capital development, and trade integration. While these issues can be directly addressed domestically, it is also critical that the global community provides technical and financial support to accelerate the adoption and implementation of these reforms.

FIGURE 5.A Control of corruption

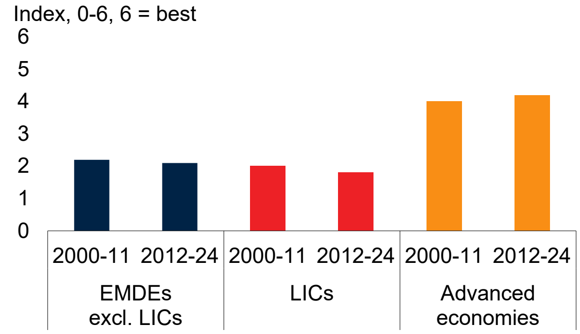


FIGURE 5.B Trade openness, by FDI impact

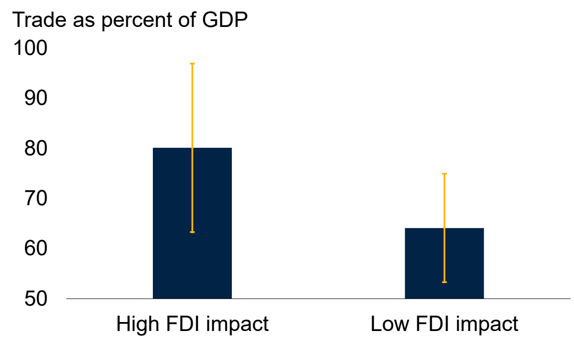
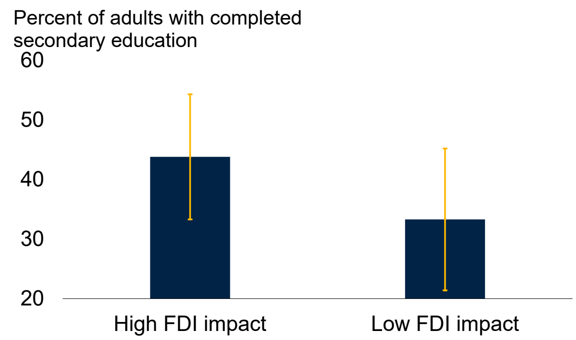


FIGURE 5.C Human capital, by FDI impact



Sources: Elgin et al. 2021; PRS Group's International Country Risk Guide; World Development Indicators (database); World Bank.
Note: EMDEs = emerging market and developing economies; LICs = low-income countries.
A. Bars show medians of ICRG's control of corruption index. Sample includes 36 advanced economies and 102 EMDEs, of which 18 are LICs.
B-C. "High FDI impact" and "low FDI impact" samples consist of countries with an estimated GDP response to an FDI shock above the 75th percentile and below the 25th percentile, respectively. Bars show averages and whiskers indicate 90-percent confidence intervals. Sample includes 74 EMDEs, of which 11 are LICs.
B. "Trade" is defined as the sum of exports and imports.
C. The share of the population aged 25 and above with completed secondary education.

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Table: Major Data Releases

Recent releases: September 1, 2025 - September 25,2025						Upcoming releases: September 26, 2025 - October 31, 2025				
Country	Date	Indicator	Period	Actual	Previous	Country	Date	Indicator	Period	Previous
Argentina	9/17/2025	GDP	Q2	6.3%	5.8%	Australia	10/26/25	CPI	Q3	2.0%
Australia	9/2/2025	GDP	Q2	1.8%	1.4%	Brazil	10/3/25	IP	AUG	0.2%
Brazil	9/2/2025	GDP	Q2	2.2%	2.9%	Brazil	10/9/25	CPI	SEP	5.1%
Brazil	9/10/2025	CPI	AUG	5.1%	5.2%	Canada	10/21/25	CPI	SEP	1.9%
Canada	9/16/2025	CPI	AUG	1.9%	1.7%	China	10/14/25	CPI	SEP	-0.6%
China	9/9/2025	CPI	AUG	-0.4%	0.0%	China	10/19/25	GDP	Q3	5.2%
Euro area	9/5/2025	GDP	Q2	1.5%	1.6%	Euro area	10/15/25	IP	AUG	2.2%
Euro area	9/17/2025	CPI	AUG	2.0%	2.0%	India	9/26/25	IP	AUG	3.5%
India	9/12/2025	CPI	AUG	2.1%	1.6%	India	10/13/25	CPI	SEP	2.1%
Indonesia	9/1/2025	CPI	AUG	2.3%	2.4%	Indonesia	9/30/25	CPI	SEP	2.3%
Japan	9/7/2025	GDP	Q2	1.7%	1.6%	Japan	10/23/25	CPI	SEP	2.7%
Korea, Rep.	9/2/2025	GDP	Q2	0.6%	0.0%	Korea, Rep.	9/29/25	IP	AUG	5.0%
Netherlands	9/23/2025	GDP	Q2	1.7%	2.2%	Korea, Rep.	10/1/25	CPI	SEP	1.7%
New Zealand	9/17/2025	GDP	Q2	0.0%	0.1%	Mexico	10/9/25	CPI	SEP	3.6%
Nigeria	9/22/2025	GDP	Q2	4.2%	3.1%	Mexico	10/10/25	IP	AUG	-2.7%
Poland	9/1/2025	GDP	Q2	3.4%	3.2%	Poland	10/15/25	CPI	SEP	3.1%
Russian Federation	9/12/2025	GDP	Q2	1.1%	1.4%	Saudi Arabia	10/15/25	CPI	SEP	2.3%
Saudi Arabia	9/8/2025	GDP	Q2	3.9%	3.4%	South Africa	10/22/25	CPI	SEP	3.3%
South Africa	9/9/2025	GDP	Q2	0.6%	0.8%	Thailand	10/5/25	CPI	SEP	-0.8%
Türkiye	9/1/2025	GDP	Q2	4.8%	2.3%	Türkiye	10/3/25	CPI	SEP	33.0%
United States	9/25/2025	GDP	Q2	2.1%	2.0%	United States	10/15/25	CPI	SEP	2.9%