THE WORLD BANK
Development Economics | Prospects Group

Global Monthly

July 2024

Overview

- Global economic activity continues to steady, reflecting solid expansion of services activity and a modest firming in manufacturing.
- Activity in emerging market and developing economies (EMDEs) appears to be firming, except in China, where growth has slowed. In advanced economies, the divergence has lessened somewhat, with U.S. GDP growth in 2024H1 slowing from 2023H2 while euro area activity recovers.
- Financial conditions continue to improve, with U.S. interest rate expectations falling after moderating inflation.

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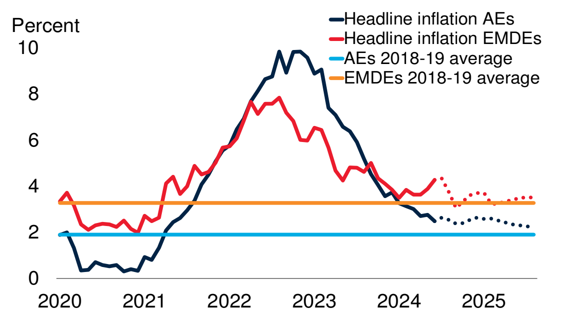
Chart of the Month

- Consumer price inflation slowed in advanced economies in 2024Q2. Current consensus expectations are for headline inflation to approach 2018-19 average rates in the next 12 months in advanced economies and EMDEs.
- Financial market pricing suggests a global monetary easing cycle—albeit a gradual one—is near at hand. Many EMDE central banks started lowering policy rates last year. In advanced economies, some central banks have begun easing policy rates, and others are expected to follow suit later this year.

Median inflation rates and consensus expectations



Sources: Consensus Economics; Haver Analytics; World Bank.
Note: AEs = advanced economies; EMDEs = emerging market and developing economies. Inflation medians are calculated using headline consumer price inflation. Dotted lines represent inflation expectations taken from Consensus Economics. Sample includes 44 economies, including 15 EMDEs, and excludes Argentina and República Bolivariana de Venezuela.

Special Focus: Small States' Fiscal Challenges

- Small states faced steeper economic contractions at the onset of the COVID-19 pandemic and slower recoveries compared to other EMDEs.
- Fiscal positions in small states have markedly worsened since the pandemic, reflecting increased government spending and weaker revenues.
- The pandemic and the subsequent shocks, including natural disasters, have significantly widened fiscal deficits and increased public debt in small states.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Phil Kenworthy, Edoardo Palombo, and Peter Selcuk under the supervision of Carlos Arteta. This *Global Monthly* reflects data available up to 7/24/2024. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: steadying. High-frequency indicators offered further evidence that global economic activity has continued to steady. Global PMI surveys have remained firmly in expansionary territory in recent months, with manufacturing and service activity readings nearing pre-pandemic averages (figure 1.A). Global industrial production growth has also been hovering near its pre-pandemic pace—the six-month moving average has steadied at about 2.4 percent (annualized) year-to-date, matching the 2015-19 average. Beneath this aggregate performance, industrial production remains soft in advanced economies, offset by a solid pace of growth in emerging market and developing economies (EMDEs). Sectoral PMIs indicate expanding global activity for all major industry groups in June for the first time since 2021. Industry input costs also increased across the board, but generally at a slower pace than in May. Following halting progress so far this year, consensus forecasts are for inflation to approach targets in many economies in the next 12 months amid the lingering effects of still-restrictive monetary policies (see chart of the month).

Global trade: intermittent recovery. Global goods trade expanded by 1 percent (y/y) in April and 0.2 percent in May (latest data) after a contraction of 1.4 percent in March. However, leading indicators suggest softer goods trade in the latter part of 2024Q2. The new export orders component of the global manufacturing PMI edged into contractionary territory in June—with sharp falls in a few EMDEs and weakness across most advanced economies—bringing the three-month average close to neutral (figure 1.B). New export orders for services remain narrowly in expansionary territory. Despite spot container shipping prices increasing to nearly 50 percent above January peaks in July, global delivery times appear little changed thus far, and gauges of supply chain pressures remain moderate.

Commodity prices: broadly stable. In aggregate, commodity prices remained stable in June, with average energy prices increasing 1.1 percent (m/m) while non-energy prices eased by 1.3 percent. Brent crude oil prices averaged about $85/bbl through late July, up from $82.60/bbl in June. The increase followed upward revisions to U.S. Energy Information Administration forecasts for global demand in 2024 and 2025, resulting in deeper anticipated supply deficits against a backdrop of ongoing OPEC+ production cuts. Oil prices were also supported by declining OECD commercial inventories (figure 1.C). June saw natural gas prices surge by 18 percent (m/m) in the U.S. and 7 percent in Europe due to disruptions at U.S.

FIGURE 1.A **Global headline PMIs**

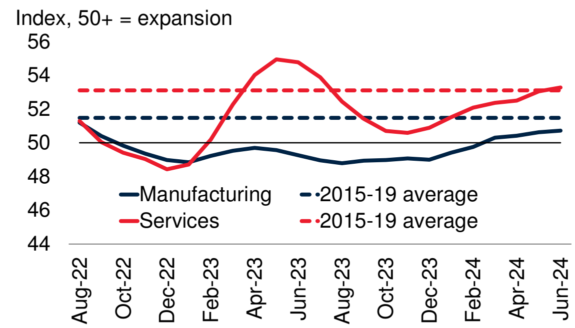


FIGURE 1.B **Global PMIs for new export orders**

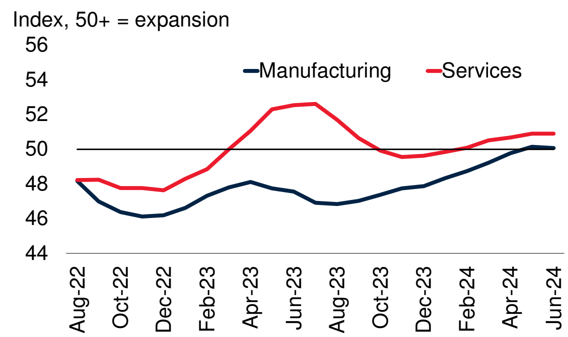
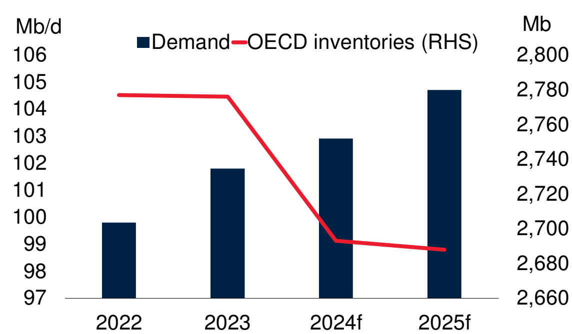


FIGURE 1.C **Global oil demand and OECD inventories**



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

Note: EMDEs = emerging market and developing economies; f = forecast.

A.B. Solid PMI lines indicate 3-month moving averages. Readings above (below) 50 indicate expansion (contraction).

A. Lines indicate J.P. Morgan Global Manufacturing and Services Purchasing Managers' Indexes (PMIs). Dash lines represent the 2015-19 averages.

B. Lines indicate manufacturing and services subcomponents of the global Purchasing Managers' Index (PMI) new export orders.

C. Data based on the U.S. Energy Information Energy Administration's Short-Term Energy Outlook Report, July 2024 edition. Total inventories for OECD countries are end-of-period commercial crude oil and other liquids inventories.

LNG facilities related to Hurricane Beryl and increased demand for electricity generation amid higher U.S. temperatures. Agriculture prices were little changed overall in June. Food crop prices fell 3 percent (m/m), led by a 9 percent drop in wheat prices. This was offset by another surge in prices for coffee and cocoa, reflecting ongoing supply shortfalls. Metal prices decreased by 5 percent in June as signs of softening activity in China dampened sentiment, with notable declines in the prices of nickel (-11 percent), copper (-5 percent), and zinc (-5 percent).

Global financial conditions: continued easing. Financial conditions improved overall in June-July, as interest rate expectations eased amid signs of moderating inflationary pressures in key economies. In the United States, the market-derived likelihood of policy interest rates being cut by at least 50 basis points by end-2024 surpassed 95 percent in July, the highest since March (figure 2.A). This expected easing has coincided with continued robust risk appetite across most advanced economies and EMDEs. Sovereign spreads in EMDEs have been stable, except for surges in a few EMDEs related to domestic factors. In addition, leading indicators of currency risk in major EMDEs have moderated against a backdrop of resilient economic activity (figure 2.B). In keeping with the positive sentiment, high-frequency estimates indicate solid debt and equity net inflows to EMDEs, excluding China, since the end of May. In China, risk appetite remains subdued in a context of tepid domestic demand—the Shanghai Stock Exchange has fallen from its May highs and is nearly unchanged year-to-date.

United States: activity and inflation moderating in the first half of 2024. Recent U.S. macroeconomic data has been broadly in line with expectations of a slowdown over 2024H1 relative to 2023H2, although recent activity held up better than expected. GDP grew slightly faster than anticipated in 2024Q2, at 2.8 percent (q/q saar). Private consumption remained the main driver of growth, picking up to 2.3 percent from the previous quarter—still, the pace was notably weaker than in late 2023. U.S. payrolls expanded by an estimated 206K in June, albeit with downward revisions to prior months and the unemployment rate inching up to 4.1 percent. Recent inflation readings indicate some cooling, with June's headline CPI coming in lower than expected at 3 percent (y/y), down from 3.3 percent in May, partly due to a small decline in core CPI inflation (figure 2.C).

Other advanced economies: gradual services-led recovery. The euro area composite PMI picked up to an average of 51.6 in 2024Q2, up 2.4 points from 2024Q1, led by a solid firming in

FIGURE 2.A Likelihood of U.S. policy interest rate cuts by end-2024

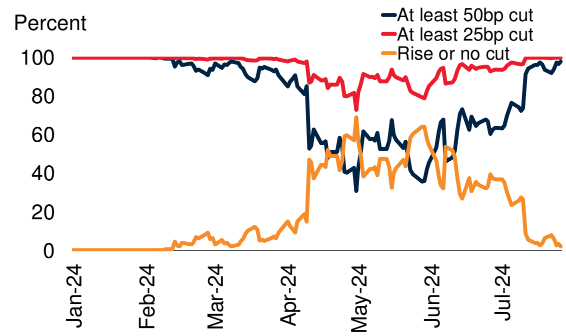


FIGURE 2.B EMDEs currency risk index

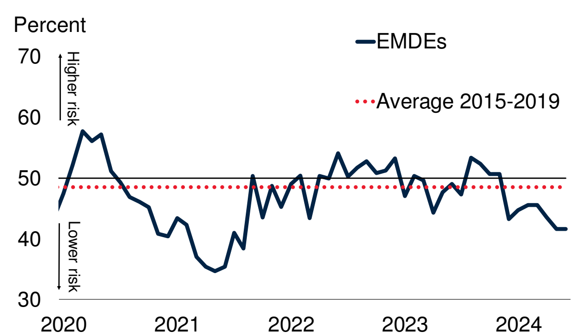
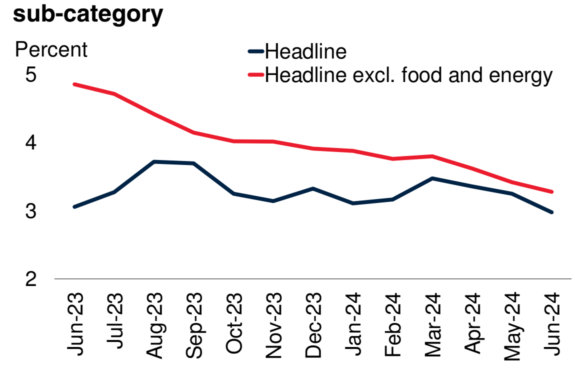


FIGURE 2.C U.S. inflation rate, year-over-year, by sub-category



Sources: CME Group Fed Watch; Citigroup, Federal Reserve Bank of St. Louis; Haver Analytics; World Bank.

Note: EMDEs = emerging market and developing economies.

A. Probabilities refer to the likelihood, as implied by 30-Day Fed Funds futures prices, of changes in the U.S. Federal Funds rate by 12/18/2024 of: at least 50 basis points; at least 25 basis points; and, no change or an increase. Last data point: 7/23/2024.

B. The Citi Early Warning Signal measures stress in economic and financial variables that have historically been good predictors of currency weakness. The model is based on 12 equally weighted variables per country. The composite index equally weights 22 EMDE indices and ranges between 0 percent (low risk) and 100 percent (high risk), with 50 percent being neutral.

C. Panel shows year-on-year percent change in highlighted components of the U.S. consumer price index.

the services sector. In contrast, the euro area manufacturing PMI remained anemic in 2024Q2, averaging 46.2, as did early readings of industrial production for the quarter, with manufacturing output declining. In line with record-low unemployment, the return of positive real wage growth, and slowly improving consumer confidence, retail volumes inched up in May (figure 3.A). In Japan, improving retail sales and consumption activity index readings in April and May suggest a rebound in consumption in 2024Q2, further buoyed by personal tax cuts in June. The Bank of Japan's June Tankan survey also pointed toward firming business investment.

China: slower growth. Growth moderated to 4.7 percent (y/y) in 2024Q2, from 5.3 percent in 2024Q1. This primarily reflects softening domestic consumption, which contributed 2.2 percentage points to growth—substantially less than in the preceding quarter (figure 3.B). Meanwhile, net exports contributed 0.6 percentage point to growth in 2024Q2, reflecting robust exports amid solid external demand as well as weak imports. Leading indicators point to further near-term softness in domestic activity, with the manufacturing PMI remaining in contractionary territory in June, at 49.5, while the non-manufacturing PMI declined to 50.5, from 51.1 in May. Headline consumer price inflation edged down to 0.2 percent (y/y) in June, from 0.3 percent in May, weighed down by falling food prices and subdued demand. To counter slowing domestic consumption the People's Bank of China unexpectedly lowered its one-year interest rate by 20 basis points to 2.3 percent.

Other EMDEs: activity gradually gaining pace. Activity in EMDEs excluding China appears to be gradually gaining pace, with headline manufacturing and service sector PMIs remaining firmly in expansionary territory over 2024Q2, averaging 52.7 and 55.2, respectively, near the levels of 2024Q1 (figure 3.C). The firming of country-level manufacturing PMIs was widespread over 2024Q2, on average, led by economies in East Asia and the Pacific and Latin America, alongside strong readings for India and the Russian Federation. Early readings of second-quarter industrial production mirrored the positive signals from PMIs, with data signaling solid expansion in April and May across EMDEs excluding China. However, in Sub-Saharan Africa, composite output PMIs generally weakened in June among reporting economies, with stagnating activity in South Africa in particular. Although the median EMDE core inflation rate (y/y) ticked up slightly in May to 3.8 percent, from 3.7 percent in April, it has continued to track down from an average of 3.9 percent in 2024Q1 and remains well below the pandemic-era high of 8.4 percent reached in October 2022.

FIGURE 3.A Euro area consumer confidence and real wage growth

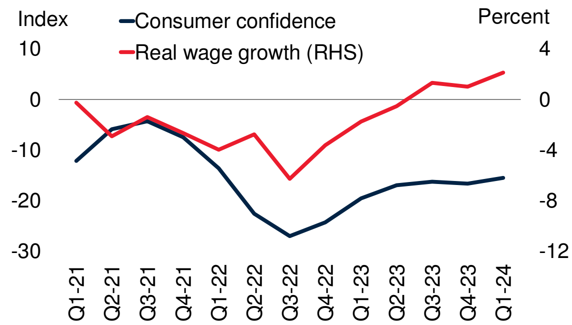


FIGURE 3.B Contributions to GDP growth in China

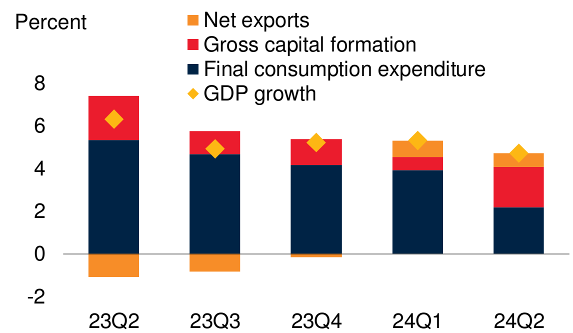
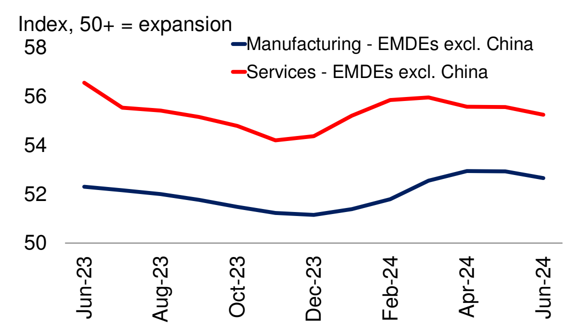


FIGURE 3.C Headline PMIs for EMDEs excluding China



Sources: Haver Analytics; World Bank.
Note: EMDEs = emerging market and developing economies.
A. Consumer confidence index is an aggregate index for 20 euro area countries. Positive (negative) values indicate optimism (pessimism). Real wage growth is constructed by deflating the year-over-year change in nominal wages and salaries in 20 euro area countries, as measured by the labor cost index, by the seasonally adjusted year-on-year change in the EA 20 HICP Monetary Union Index of Consumer Prices. Wages and salaries excludes public administration.
B. GDP growth and contributions to year-on-year GDP growth by component.
C. Panel shows the weighted average of a sample that includes 21 EMDEs. Readings above (below) 50 indicate expansion (contraction). Solid PMI lines indicate 3-month moving averages.

Special Focus: Small States' Fiscal Challenges

Small states face significant fiscal challenges arising from common vulnerabilities. Their high economic openness, narrow export bases, and geographical vulnerabilities expose them to adverse external developments and costly natural disasters. These challenges are further exacerbated by highly volatile revenues and large spending needs, including climate-change investments. This special focus examines the evolution of small states' fiscal positions since the decade preceding the COVID-19 pandemic, drawing on the insights in the latest *Global Economic Prospects*.

The pandemic and subsequent shocks hit small states—those with a population of around 1.5 million or less—particularly hard. Small states experienced some of the deepest contractions and slowest recoveries of all emerging market and developing economies (EMDEs). By 2023, average output across small states was around 5 percent higher than in 2019, far below the 15 percent increase in other EMDEs (figure 4.A). Governments appropriately implemented wide-ranging and often large spending measures to support firms and households. Together with weaker revenue, these substantially widened fiscal deficits and increased public debt.

Debt burdens have expanded rapidly. Between 2011 and 2023, average government debt in small states increased by about 11 percentage points of GDP (figure 4.B). About two-thirds of this increase occurred before the pandemic, reflecting a variety of country-specific factors, including natural disasters. In 2020, government debt in the average small state surged to 72 percent of GDP, from about 57 percent of GDP in 2019, before moderating to almost 61 percent of GDP in 2023, higher than in other EMDEs. Between 2011 and 2023, the debt build-up was widespread, occurring in about 60 percent of small states. Reflecting this, the proportion of small states saddled with debt-to-GDP higher than 60 percent rose from around one-third in 2011 to over one-half in 2023, and it was higher than for other EMDEs throughout the period (figure 4.C). The debt build-up reflects persistent fiscal deficits and the collapse in growth caused by the pandemic.

The pandemic-induced recessions dealt a severe blow to already weak fiscal balances in small states. Between 2011 and 2023, small states' primary deficits averaged 1.4 percent of GDP, with about 70 percent of small states having primary deficits, on average. As a result of pandemic-induced recessions, between 2019 and 2020, average primary deficits in small states surged

FIGURE 4.A GDP change since 2019

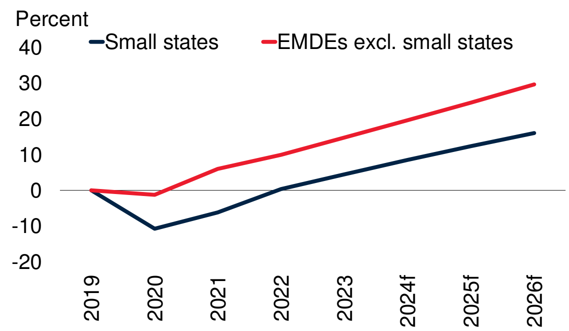


FIGURE 4.B Government debt

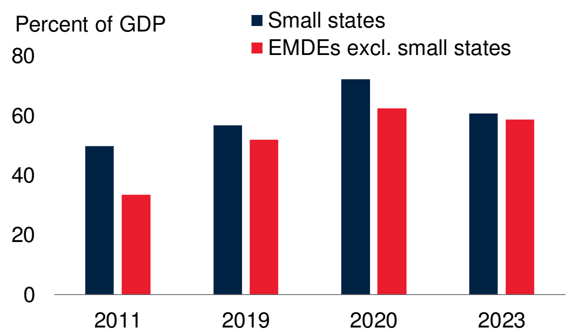
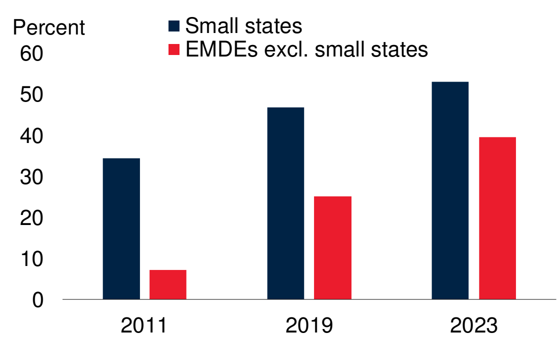


FIGURE 4.C Shares of small states and other EMDEs with high public debt



Sources: IMF-WEO (database); World Bank.
Note: f = forecast; EMDEs = emerging markets and developing economies.
A. Country groups are GDP weighted at average 2010-19 prices and market exchange rates. Data for 2024-26 are World Bank forecasts. Based on a sample of up to 34 small states and 119 other EMDEs. Guyana is excluded from the small states sample.
B. Average government debt to GDP ratio for 32 small states and 111 other EMDEs.
C. Bars show the percentage of small states and other EMDEs with debt to GDP ratios of at least 60 percent for 32 small states and 111 other EMDEs.

from 1.1 to 4.3 percent of GDP (figure 5.A). Despite narrowing since 2020, by 2023, the average primary deficits in small states, at 2.1 percent of GDP, was more than twice as large as the average in other EMDEs. Increases in primary deficits in small states since the pandemic reflect higher government expenditures and, to a lesser extent, weaker revenues (figure 5.B). Increased spending and weaker revenues have both added more to widening deficits in small states than in other EMDEs.

Small states' revenues, though higher as a share of GDP than in other EMDEs, are yet to recover to pre-pandemic levels. Average revenues in small states were 36 percent of GDP between 2011 and 2019, compared with 25 percent of GDP in other EMDEs. Higher revenues reflected substantial external grants from donors and non-tax revenues, including fishing license fees and revenues from citizenship-by-investment programs. The pandemic had a somewhat delayed but sustained negative impact on revenues in small states: they fell by almost one percentage point of GDP between 2019 and 2023, compared with a one percentage point increase in other EMDEs, reflecting a sharp downturn in economic activity followed by recoveries that have lagged other EMDEs.

Spending in small states has remained elevated since the pandemic. Government spending in small states was already high before the pandemic—averaging 39 percent of GDP in 2011-19, well above the average of 27 percent in other EMDEs. Average spending increased by 4 percentage points of GDP in small states from 2019 to 2020, compared to 2.6 percentage points in other EMDEs. This reflected both sharp contractions in GDP and continued spending growth, including higher outlays on healthcare and efforts to counter the economic effects of the pandemic. Although small states' average expenditure declined after 2020, by 2023, it remained above pre-pandemic averages at 41 percent of GDP.

Small states' fiscal positions have become more challenging. The pandemic and subsequent shocks, including natural disasters, have compounded long-standing fiscal challenges, widening fiscal deficits and increasing public debt. Government revenues in small states have not fully recovered since the pandemic, while spending has remained elevated. As a result, in 2020-23, around three-quarters of small states reported weaker primary balance-to-GDP ratios than their five-year pre-pandemic average (figure 5.C). Government debt-to-GDP ratios also increased from already high levels in most small states, reflecting sustained fiscal deficits and deep recessions followed by sluggish recoveries.

FIGURE 5.A Primary fiscal balance

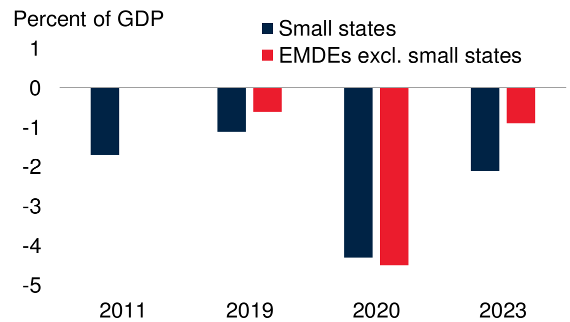


FIGURE 5.B Contributors to changes in primary balances between 2011-19 and 2020-23

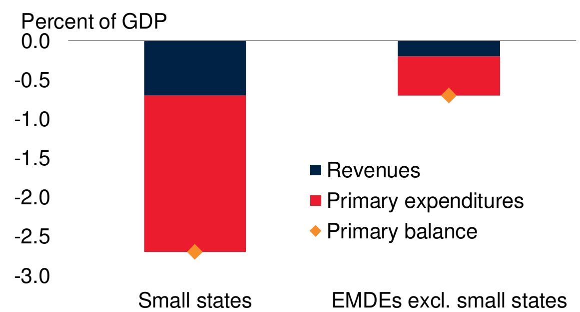
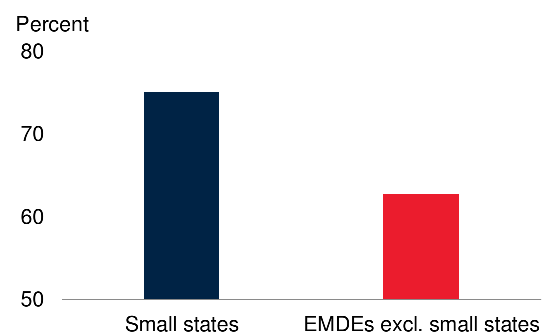


FIGURE 5.C Shares of EMDEs with weaker primary balances in 2020-23 than before the pandemic



Sources: IMF-WEO (database); World Bank.
Note: EMDEs = emerging market and developing economies.
A. Panel shows the average primary fiscal balance as a percent of GDP for a sample of 32 small states and 110 other EMDEs.
B. Bars show the contributions of changes in average primary balances as a percent of GDP from changes in revenues and primary expenditures for a sample of 32 small states and up to 110 other EMDEs.
C. Bars show the percent of countries with weaker average primary balances as a share of GDP in 2020-23 than for the period 2015-19. Sample includes 32 small states and 112 other EMDEs.

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July 2024

Recent Prospects Group Publications

[Global Economic Prospects—June 2024]
[Commodity Markets Outlook—April 2024]
[The Great Reversal: Prospects, Risks, and Policies in International Development Association (IDA) Countries]
[What Explains Global Inflation]
[Energy Price Shocks and Current Account Balances]
[Forecasting Industrial Commodity Prices]

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[World Development Report 2024: Economic Growth in Middle Income Countries]
[The Path to 5G in the Developing World: Planning Ahead for a Smooth Transition]

TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: June 26, 2024 - July 25, 2024					
Country	Date	Indicator	Period	Actual	Previous
Germany	7/1/24	CPI	JUN	2.2%	2.4%
Indonesia	7/1/24	CPI	JUN	2.5%	2.8%
Korea, Rep.	7/1/24	CPI	JUN	2.4%	2.7%
Türkiye	7/3/24	CPI	JUN	71.6%	75.4%
China	7/9/24	CPI	JUN	0.3%	0.3%
Mexico	7/9/24	CPI	JUN	5.0%	4.7%
Brazil	7/10/24	CPI	JUN	4.2%	3.9%
Russian Federation	7/10/24	CPI	JUN	8.6%	8.3%
Saudi Arabia	7/10/24	IP	MAY	-2.9%	-6.3%
United Kingdom	7/11/24	IP	MAY	0.4%	-0.7%
United States	7/11/24	CPI	JUN	3.0%	3.3%
Argentina	7/12/24	CPI	JUN	271.5%	276.4%
France	7/12/24	CPI	JUN	2.2%	2.3%
India	7/12/24	CPI	JUN	5.1%	4.8%
India	7/12/24	IP	MAY	5.9%	5.0%
Japan	7/12/24	IP	MAY	0.5%	-4.0%
Mexico	7/12/24	IP	MAY	1.0%	5.1%
China	7/14/24	GDP	Q2	4.7%	5.3%
Euro area	7/15/24	IP	MAY	-3.0%	-2.9%
United States	7/17/24	IP	JUN	1.6%	0.3%
United States	7/25/24	GDP	Q2	3.1%	2.9%

(Percent change y/y)

Upcoming releases: July 26, 2024 - Aug 31, 2024				
Country	Date	Indicator	Period	Previous
Korea, Rep.	8/1/24	CPI	JUL	2.4%
Brazil	8/2/24	IP	JUN	-1.0%
Italy	8/2/24	IP	JUN	-3.3%
Spain	8/5/24	IP	JUN	0.4%
Türkiye	8/5/24	CPI	JUL	71.6%
Argentina	8/7/24	IP	JUN	-14.8%
Germany	8/7/24	IP	JUN	-6.7%
China	8/8/24	CPI	JUL	0.3%
Mexico	8/8/24	CPI	JUL	5.0%
Brazil	8/9/24	CPI	JUL	4.2%
Mexico	8/9/24	IP	JUN	1.0%
Netherlands	8/9/24	IP	JUN	-1.5%
Türkiye	8/9/24	IP	JUN	2.4%
India	8/12/24	CPI	JUL	5.1%
Euro area	8/14/24	IP	JUN	-3.0%
United States	8/14/24	CPI	JUL	3.0%
United Kingdom	8/15/24	IP	JUN	0.4%
Thailand	8/18/24	GDP	Q2	1.5%
Poland	8/29/24	GDP	Q2	1.5%
Canada	8/30/24	GDP	Q2	0.5%
India	8/30/24	GDP	Q2	7.8%