WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

Global Monthly

October 2020

Overview

- The accelerating spread of COVID-19 in some regions is weighing on the nascent recovery in activity.
- The global manufacturing sector and overall activity in China continue to grow strongly, while the services sector and many EMDEs remain weak.
- Debt levels continue to rise, and borrowing costs remain extremely low. Prices in commodity markets continue to be sensitive to signs of weak demand.

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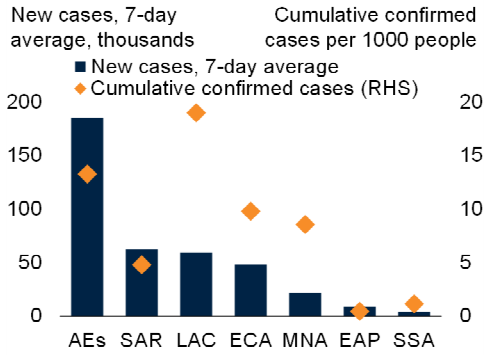
Chart of the Month

- COVID-19 continues to spread throughout the world, with several regions experiencing a sharp uptick in new cases in recent weeks.
- The rise in cases has been especially rapid in advanced economies, including the United States and several countries in the European Union where the virus had previously been mostly brought under control.
- The number of cases also continues to mount in most EMDE regions, but remains low in East Asia and the Pacific and Sub-Saharan Africa.

Spread of COVID-19



Source: Our World In Data; World Bank.
Note: AEs = advanced economies, EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, MNA = Middle East and North Africa, SAR = South Asia, SSA = Sub-Saharan Africa.

Special Focus: Productivity Convergence: Are EMDEs catching up?

- There are substantial gaps between productivity levels in advanced economies and EMDEs, with the latter producing just under one-fifth of the output per worker of the average advanced economy. In low income countries, output per worker is one-fiftieth of that in advanced economies.
- EMDEs have made progress in narrowing this gap since 2000, as EMDE productivity growth surged. Nevertheless, at current productivity growth differentials, the gap will take over 100 years just to halve.
- The pace of convergence has begun to slow in recent years—a range of headwinds from the COVID-19 recession could compound this weakness, including lost schooling and weak commodity price growth.

The Global Monthly is a publication of the Prospects Group. This edition was prepared by Patrick Kirby and Collette Wheeler under the supervision of Carlos Arteta, based on contributions from Damien Boucher, Hrisyana Stefanova Doytchinova, Justin-Damien Guénette, Osamu Inami, Sergiy Kasyanenko, Gene Kindberg-Hanlon, Hazel Macadangdang, Peter Nagle, Cedric Okou, Vasiliki Papagianni, Franz Ruch, Shijie Shi, Rudi Steinbach, Ekaterine Vashakmadze, and Dana Vorisek. This Global Monthly reflects data available up to October 19. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global growth: stalling. The daily number of new confirmed cases of COVID-19 is rising in many parts of the world, including countries where the spread of the virus had previously been partly brought under control. Recent weeks have seen a daily rate of more than 350,000 new cases and 5,000 deaths attributed to COVID-19. Combined with renewed lockdowns of varying degrees, this has contributed to a slowdown in the pace of the recovery in many countries, with the global composite PMI sliding 0.3 point to 52.1 in September, ending four consecutive months of increase. Similarly, the Sentix index of global activity improved in October, but at less than half the pace of previous months. Internationally, activity in China stands out, as it started to rebound in Q2, when other countries were suffering a historic shock, and the recovery continued in Q3(Figure 1.A).

Global trade: continued firming of goods trade. Global goods trade continues to recover, while trade in services is lagging. The global new export orders PMI sub-index for manufacturing rose to 51.7 in September—its first month above 50 since 2018—but fell slightly to 46.7 for services (Figure 1.B). Global shipping volumes now exceed pre-pandemic levels—led by China, where both exports and imports have picked up sharply in recent months. Services activity remains anemic, weighed down by a continuing depression in tourism activity—tourism arrivals remained 90 percent below seasonal averages in many countries in August. The number of daily commercial flights recovered to about half of last year's levels by early August, but has shown no further increase in September and October.

Global financial conditions: improvement in corporate bond markets. Though yields remain low, sovereign credit ratings have continued to deteriorate, reflecting increasing debt sustainability concerns. Developments in private sector finance have been mixed. Following bouts of volatility in September, global equities rebounded in October but remain sensitive to the spread of COVID-19 and the strength of the recovery, particularly in the United States (Figure 1.C). Corporate and sovereign credit spreads remain at historically low levels, but credit standards have tightened significantly. Issuance of U.S. corporate bonds picked up in September for both high-yield and investment grade corporates amid record low borrowing costs and continued bond purchases by the Federal Reserve. After raising loan-loss reserves to their highest level since 2012 in the second quarter, U.S. commercial banks have slowed the pace of increase.

FIGURE 1.A Latest GDP growth data in selected countries

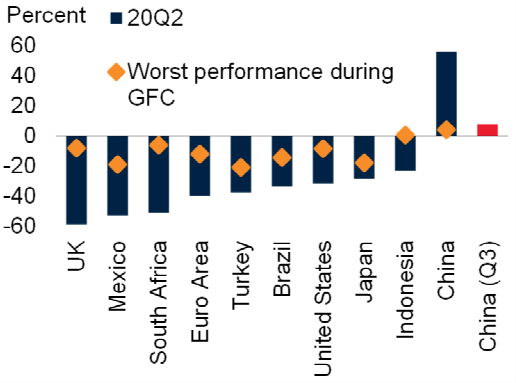


FIGURE 1.B New export orders subindex of Purchasing Managers' Index (PMI)

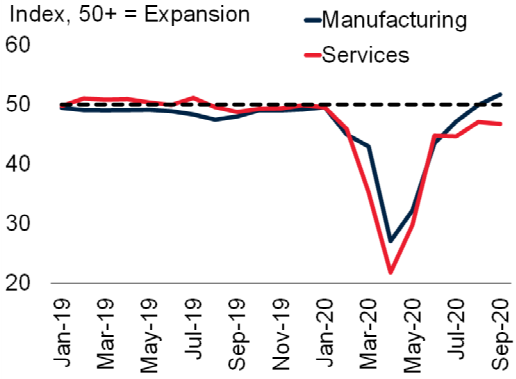
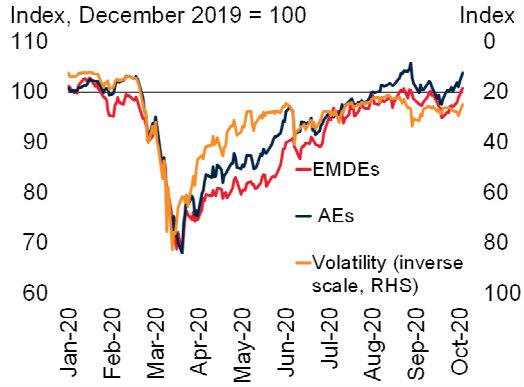


FIGURE 1.C Global equities



Source: Bloomberg; Haver Analytics; Organisation for Economic Cooperation and Development; World Bank.
Note: AEs= Advanced economies; EMDES= Emerging market and developing economies.
A. Figure shows quarter-on-quarter annualized growth rate for 2020Q2 for selected countries. Red bar indicates the 2020Q3 quarter-on-quarter non-annualized growth rate for China.
B. Manufacturing and services are measured by Purchasing Managers' Index (PMI). PMI readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is September 2020.
C. EMDEs and AEs equity values are MSCI stock market indices. Market volatility is the Chicago Board Options Exchange's CBOE Volatility Index (VIX) shown on a reverse scale. Last observation is October 9th, 2020.

EMDE financial conditions: continued weakness in capital flows. Portfolio flows to EMDEs decelerated starting in late September, with risk appetite for EMDE debt and equities remaining fragile (Figure 2.A). While spreads on EMDE debt have narrowed slightly overall in October, the gap between investment grade and high yield borrowers has widened to over 4 percentage points—twice its level from the start of the year (Figure 2.B). There are also divergences in EMDEs currency markets, with several countries experiencing further depreciation on top of substantial post-pandemic weakness, and other EMDE currencies remaining broadly stable.

Commodity markets: renewed decline in oil prices. Oil prices fell nearly 7 percent in September before stabilizing in October, with the price of Brent crude oil averaging $40/bbl (Figure 2.C). A resurgence of COVID-19 cases in many countries has led to fears about the durability of the recovery in oil demand, with the reintroduction of some lockdown measures and continued subdued activity in the aviation sector. Reflecting these factors, the International Energy Agency (IEA) lowered its 2020 forecast in its September report, with demand now expected to contract 8.4 percent. The removal of oil production blockades in Libya that were imposed in January has raised output from 0.1 mb/d in August to an estimated 0.3 mb/d in early October. Base metals prices continued their upward trajectory in October, albeit at a slower pace than in the third quarter. Metal prices are now nearly 6 percent higher than their pre-pandemic levels, led by copper, which is 11 percent above its previous peak. Agricultural commodity prices rose 6 percent in September and are also now above their January levels, mainly led by gains in food and beverage commodities.

United States: rising uncertainty over fiscal stimulus. Recent indicators indicate slowing momentum amid persistently high new daily COVID-19 cases and elevated political uncertainty, including over the prospects of additional fiscal stimulus. Real personal consumption expenditure growth slowed further to 0.7 percent (m/m sa) in August, with real disposable personal incomes contracting by 3.5 percent (m/m sa) on the back of sharply diminished fiscal support. PMI indices were little changed in September, with the services PMI slipping 0.4 point to 54.6 and the manufacturing PMI gaining 0.1 point to 53.2 (Figure 3.A). The unemployment rate declined half a percentage point to 7.9 percent in September, but much of the decrease reflects workers exiting the labor force, as the participation rate fell from 61.7 to 61.4 percent.

FIGURE 2.A EMDE portfolio flows

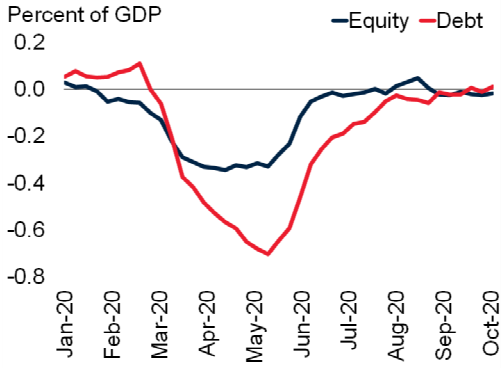


FIGURE 2.B EMDE sovereign credit spreads

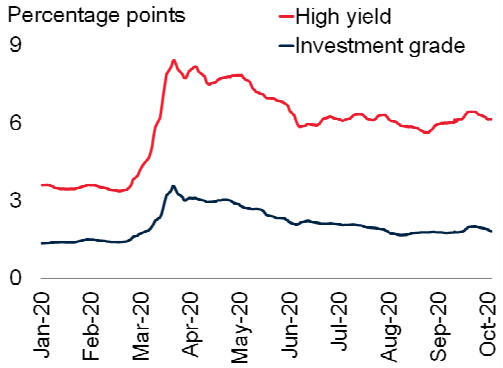
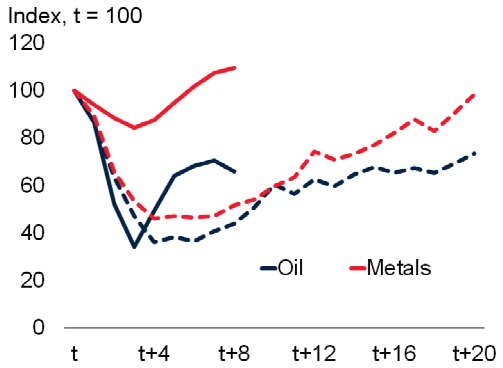


FIGURE 2.C Oil and metal prices



Source: Bloomberg, Haver Analytics, JP Morgan, International Monetary Fund, Institute for International Finance, Securities Industry and Financial Markets Association, World Bank.
A. Figure shows 12-weeks cumulative flows based on weekly data for debt flows covering 12 EMDEs and equity flows covering 9 EMDEs, excluding China. EMDE aggregates calculated using 2019 nominal GDP. Last observation is October 9th, 2020.
B. Figure shows 5-day moving averages of JP Morgan Emerging Market Bond Indices. Figure shows the median value for each group based on Moody's long-term foreign currency sovereign ratings .Sample includes 43 EMDEs, excluding Argentina, Lebanon, Venezuela, and Zambia. Last observation is October 9th, 2020.
C. Figure compares oil and metal prices (indexed) during the global financial crisis (dashed line) and the COVID-19 pandemic (solid line). For the global financial crisis, t=August 2008, for COVID-19, t=January 2020. Last observation for COVID-19 is September 2020.

Euro area: resilience of rebound in question. After a period of limited spread, COVID-19 cases across the region have been rising sharply. In addition to the health consequences, this is imperiling the nascent economic recovery and forcing authorities in several countries to maintain, reintroduce, or tighten pandemic control measures. The Euro area composite PMI index declined 1.5 points to 50.4 in September, with the services PMI falling back into contractionary territory. The unemployment rate ticked up to 8.1 percent in August. The resurgence of cases has not halted a continued improvement in economic sentiment, however, as the Euro area Economic Sentiment Indicator increased 3.6 points to 91.1 in September, and has now regained nearly 70 percent of its losses in March and April (Figure 3.B).

Japan: recovery in consumer confidence. The number of new daily COVID-19 cases has moderated, ushering in a general improvement in economic conditions. Retail sales improved by 4.6 percent in August (m/m), regaining their pre-pandemic level. In September, the services PMI increased 1.9 points to 46.9, while the consumer confidence index increased 3.4 points to 32.7 (Figure 3.C). Industrial production and the manufacturing PMI have trended up in recent months, but subdued capital investment intentions shown in the September Bank of Japan Tankan survey cast doubt on the durability of the recovery in investment.

China: broadening recovery. China continues to be a bright spot in the global economy, with growth improving across several components. GDP expanded 4.9 percent (y/y) in 2020Q3, led by investment and exports (Figure 4.A). Industrial production rose by 6.9 percent in September (y/y), and retail sales growth accelerated to 3.3 percent (y/y), both exceeding market expectations. High-frequency indicators also point to a strengthening recovery for the service sector, with the official non-manufacturing PMI firming to 55.9 in September—its highest reading since November 2013. The manufacturing sector is also improving, with the official manufacturing PMI rising to 51.1, its highest reading since March. Trade flows firmed in September with imports growing 13.2 percent (y/y) and exports up 9.9 percent.

Commodity-exporting EMDEs: slowing recovery. Up until August, industrial production in most commodity-exporting EMDEs had made substantial progress at retracing its losses from earlier in the year (Figure 4.B). For many countries, however, the manufacturing PMI slid back into contraction in September amid

FIGURE 3.A Purchasing Managers' Indexes in the United States

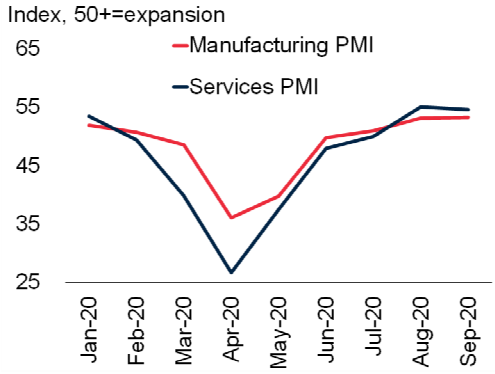


FIGURE 3.B Euro area economic sentiment

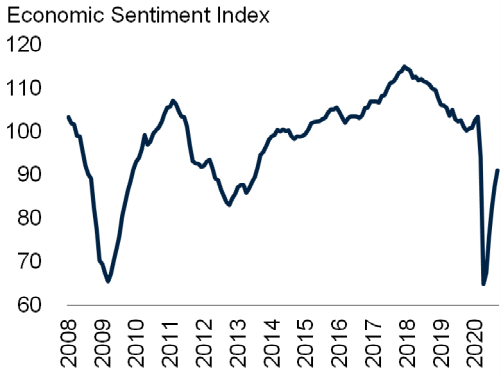
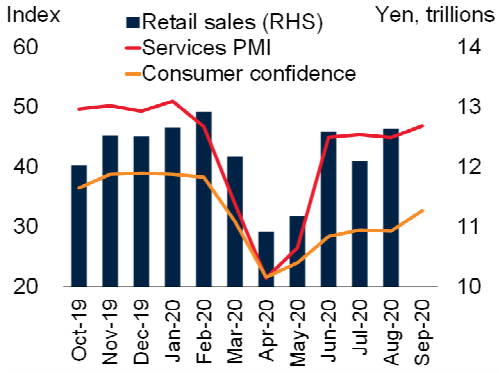


FIGURE 3.C Japanese activity indicators



Source: Cabinet Office of Japan; European Commission; Haver Analytics; Ministry of Economy, Trade and Industry; Jibun Bank; IHS Markit; Haver Analytics; World Bank.
A. PMI readings above (below) 50 indicate expansion (contraction) in economic activity. Last observation is September 2020.
B. The Economic Sentiment Indicators (ESI) is a weighted average of the balances of replies to selected questions addressed to firms in five sectors covered by the EU Business and Consumer Surveys and to consumers. The sectors covered are industry (weight 40 %), services (30 %), consumers (20 %), retail (5 %) and construction (5 %). Long-term average=100. Last observation is September 2020.
C. The Consumer Confidence Index is based on the monthly survey conducted by Cabinet office of Japan, excluding one person households. The following evaluation points in the five response categories are multiplied by the component ratio(%) and totaled: positive responses (improve +1), (improve slightly +0.75); neutral response (no change +0.5); negative responses (worsen slightly+0.25), (worsen +0). Seasonally adjusted by the source. Last observation is September 2020 except retail sales for which it is August 2020.

an uptick in COVID-19 cases and falling oil prices. The manufacturing PMI in *Indonesia* fell to 47.2 in September as a pickup in new COVID-19 cases and the reintroduction of large-scale social restrictions hindered activity. In *Russia*, the rebound in activity has weakened, with the manufacturing PMI sliding back into contraction and the expansion in services PMI decelerating to 53.7 in September. In *Nigeria*, the manufacturing PMI weakened in September and remained in contraction for the fifth consecutive month, while crude oil production slowed to a four-year low. Meanwhile, activity in *Brazil* continued to rebound—industrial production nearly regained its pre-COVID level in August after previously being down more than 25 percent. The recovery has been stronger for retail sales, which were 8 percent above their pre-COVID level. In *Saudi Arabia*, the composite PMI signaled expansion for the first time in six months, registering 50.4 in September. Industrial activity in *South Africa* continued to improve in September, with the manufacturing PMI suggesting further expansion; however, production in August remained nearly 8 percent below its pre-pandemic level.

Commodity-importing EMDEs: stalling activity. The improvement in activity has stalled in some countries, with key indicators such as retail sales and industrial production showing growth decelerating or reversing in recent months (Figure 4.C). In *India*, the services PMI contracted for the seventh consecutive month in September, with employment remaining under pressure. Headline inflation accelerated further to 7.3 percent in September, its sixth month above the upper tolerance band of the central bank's inflation target amid double-digit food price inflation and rising core inflation. In *the Philippines* and *Thailand*, the manufacturing PMI rose to 50.1 and 49.9 respectively in September, while it slipped for the third consecutive month in *Malaysia* following a deceleration in industrial production. In *Mexico*, the manufacturing PMI continued to decline in September, while industrial production remained more than 7 percent below its January level despite another uptick in August. Although the recovery in industrial production has been robust in *Turkey*, the second consecutive fall in the manufacturing PMI in September suggests the rebound is losing steam. In *Egypt*, manufacturing production expanded for a third consecutive month in September, but industrial production remains well below its January level.

FIGURE 4.A China: Contribution to real GDP (y/y)

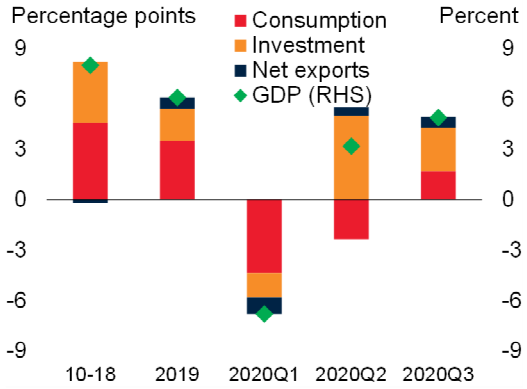


FIGURE 4.B EMDE industrial production

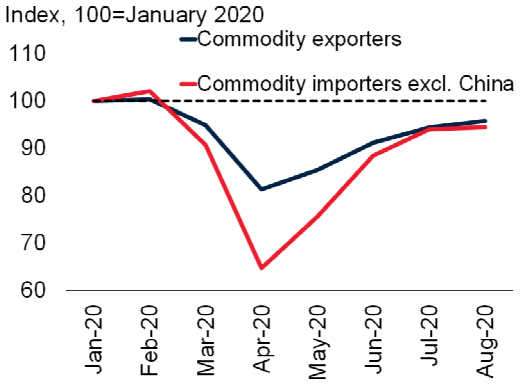
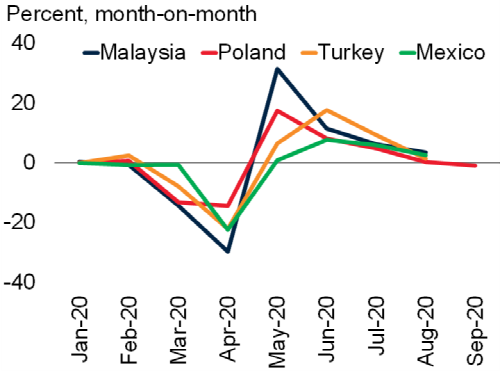


FIGURE 4.C Retail sales volumes in EMDE commodity importers



Source: Haver Analytics, National Bureau of Statistics of China, World Bank.
A. Figure shows year-on-year growth and contributions to growth. Based on official estimates published by the Chinese National Statistics agency.
B. Aggregates are weighted by industry's value added to GDP. Last observation is August 2020.
C. Data are seasonally adjusted. The last observation is September 2020 for Poland and August 2020 for all others.

Special Focus: Productivity convergence—are EMDEs catching up?

Labor productivity in emerging market and developing economies (EMDEs) is less than one-fifth of the level in advanced economies, while in low-income countries (LICs) it is just 2 percent (Figure 5.A). This suggests potential for catch-up growth. This special focus draws on recent analysis in the World Bank book *Global Productivity: Trends, Drivers, and Policies* to assess EMDE progress in catching up to the productivity frontier and discusses challenges to convergence presented by the COVID-19 crisis.

Average productivity gaps over time. Following a steep decline in EMDE productivity growth in the 1980s and early 1990s—triggered by a series of financial crises in Sub-Saharan Africa (SSA) and Latin America and the Caribbean (LAC) and the collapse of the Soviet Union—growth rose sharply in the late 1990s. For the first time since the 1970s, average EMDE productivity growth has exceeded that of advanced economies on a nearly continuous basis starting in 2000 (Figure 5.B). The improvement over the past two decades has been broad-based, with over 60 percent of EMDEs growing faster than the average advanced economy (Figure 5.C). Despite these improvements, the average productivity gap between advanced economies and EMDEs has closed only modestly since the 1990s.

Divergence between commodity importers and exporters and regions. Since the 1990s, progress in closing the productivity gap has occurred mainly in commodity-importing EMDEs. Commodity exporters, on average, moved further away from the frontier (Figure 6.A). Among regions, East Asia and Pacific (EAP) and South Asia (SAR), which primarily consist of commodity-importing economies, had average productivity growth in 2010-18 that exceeded that of advanced economies by a margin of 2-3 percentage points. In regions with large numbers of commodity exporters, such as LAC, the Middle East and North Africa (MENA), and SSA, productivity growth was similar to, or below, that of advanced economies.

Formal tests for convergence. Early studies in the 1980s and 1990s found that lower productivity economies did not tend to close the gap with the frontier over time (Baumol 1986; Barro 1991; Dowrick 1992). However, more recent tests for unconditional convergence, which take into account improved EMDE growth since the late 1990s, show tentative evidence of convergence. Although statistically significant in recent decades, the estimated pace of convergence is slow, with the average economy closing 0.5 percent of the productivity gap annually since 2010 (Figure 6.B). At this rate, it would take nearly 140 years to close just half of the

FIGURE 5.A Labor productivity by country group, 2010-18 average

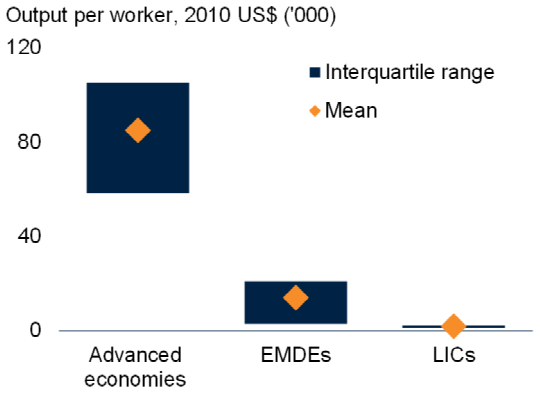


FIGURE 5.B Average annual labor productivity growth (5-year moving average)

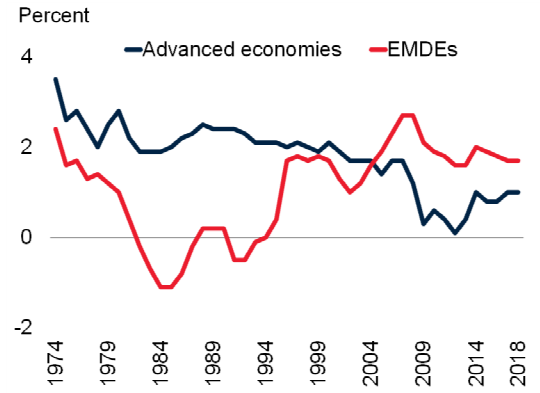
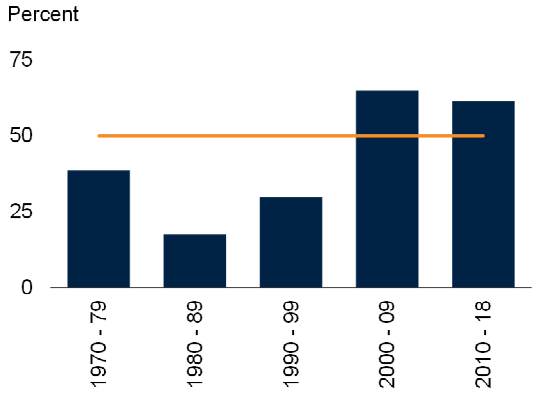


FIGURE 5.C Share of EMDEs with a narrowing productivity gap vs advanced economies



Source: Conference Board; Penn World Table; World Bank, World Development Indicators.
EMDEs = Emerging Market and Developing Economies, LICs = Low-income countries.

Note: Productivity is output per worker in U.S. dollars (at 2010 prices and market exchange rates). Based on a sample of 35 advanced economies and 123 EMDEs for a consistent sample since 1990, and 29 advanced economies and 74 EMDEs for a consistent sample since 1970.

initial productivity gap between economies. In the most recent data point in 2018, the convergence rate has fallen to just 0.4 percent.

Evolution of the *conditional* convergence rate. When conditioning on country characteristics—such as educational attainment, measures of political stability, and export complexity—the convergence rate has been higher. For a given set of country characteristics, the conditional convergence rate peaked at 1.5 percent per year over the past decade, which, if sustained, would halve the productivity gap in just under 50 years (Figure 6.C). As a result, some economies in EAP, SAR, and ECA with conducive characteristics have been generated above-average productivity growth (Kindberg-Hanlon and Okou 2020). However, improvements in the relevant country characteristics have slowed over the past decade, threatening a slower pace of conditional and unconditional convergence in the future.

Slowing drivers of convergence. Productivity growth in EMDEs has declined over the past decade, with a range of headwinds reducing growth. As educational systems mature in many fast-growing EMDEs, returns to education will rise more slowly. EMDEs in EAP and ECA currently have workforces whose average years of education are within one year of those of advanced economies (World Bank 2020). Progress in improving institutional quality has stagnated in many EMDEs: measures of government effectiveness have not improved on average since the 1990s. In addition, the substantial expansion of global value chains, a key escalator of development for many economies historically, has stagnated since the global financial crisis (World Development Report 2020).

Future of convergence and risks from COVID. There is an additional danger of human capital development being set back in EMDEs due to COVID-19. Many schools and universities have been closed for an extended period during 2020 due to social distancing measures. EMDEs may be less able to conduct remote learning than advanced economies and large negative income shocks increase school dropout rates in EMDEs. A key risk to manufacturing and value-chain led development will be if the pandemic leads to more inward-looking trade policies that fragment current production processes and onshore activity. In many cases, commodity-exporting upper-middle-income EMDEs have fallen further away from the productivity frontier since the 1980s. Economies with a high degree of commodity reliance face further obstacles to productivity growth as the COVID-19 driven recession in 2020 may generate a prolonged period of weak demand for commodities.

FIGURE 6.A EMDE labor productivity, percent of advanced economy average

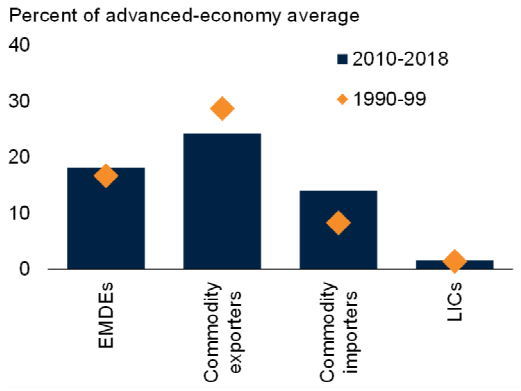


FIGURE 6.B Convergence rate implied by β-regression

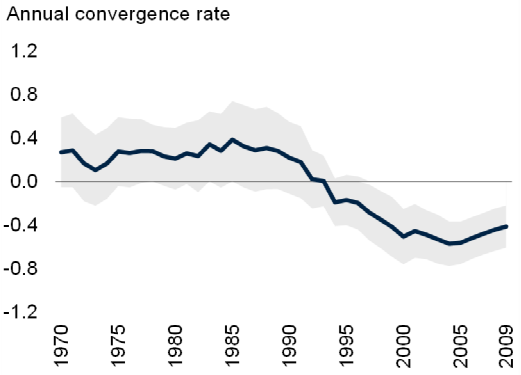
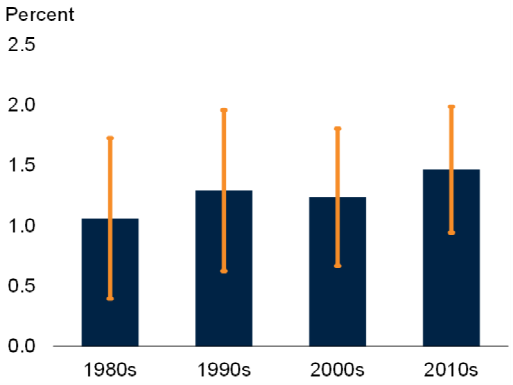


FIGURE 6.C Conditional annual convergence rate: all economies



Source: Conference Board; Penn World Table; World Bank, World Development Indicators.
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South Asia Economic Focus, Fall 2020: Beaten or Broken? Informality and COVID-19

The Cost of Staying Healthy

International Debt Statistics 2021

TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: September 24, 2020 - October 23, 2020					
Country	Date	Indicator	Period	Actual	Previous
South Africa	9/29/20	GDP	Q2	-17.1%	0.1%
Saudi Arabia	9/30/20	GDP	Q2	-7.0%	-1.0%
United Kingdom	9/30/20	GDP	Q2	-21.5%	-2.1%
United States	9/30/20	GDP	Q2	-9.0%	0.3%
Indonesia	10/1/20	CPI	SEP	1.4%	1.3%
Italy	10/2/20	GDP	Q2	-18.0%	-5.6%
Russian Federation	10/2/20	GDP	Q2	-8.0%	1.6%
Turkey	10/5/20	CPI	SEP	11.7%	11.8%
Germany	10/7/20	IP	AUG	-10.0%	-9.8%
Mexico	10/8/20	CPI	SEP	4.0%	4.0%
Brazil	10/9/20	CPI	SEP	3.1%	2.4%
France	10/9/20	IP	AUG	-6.2%	-8.4%
India	10/12/20	CPI	SEP	7.3%	6.7%
United States	10/13/20	CPI	SEP	1.4%	1.3%
Argentina	10/14/20	CPI	SEP	36.6%	40.7%
Nigeria	10/15/20	CPI	SEP	13.7%	13.2%
Euro area	10/19/20	GDP	Q2	-14.8%	-3.3%
China	10/20/20	GDP	Q3	4.9%	3.2%
Canada	10/21/20	CPI	SEP	0.6%	0.4%
Japan	10/22/20	CPI	SEP	0.0%	0.1%
Poland	10/22/20	GDP	Q2	-8.0%	1.8%

(Percent change y/y)

Upcoming releases: October 24, 2020 - November 23, 2020				
Country	Date	Indicator	Period	Previous
South Korea	10/26/20	GDP	Q3	-2.7%
Australia	10/27/20	CPI	Q3	-0.5%
South Africa	10/28/20	CPI	SEP	3.0%
United States	10/29/20	GDP	Q3	-9.0%
Euro area	10/30/20	GDP	Q3	-14.8%
France	10/30/20	GDP	Q3	-18.9%
Germany	10/30/20	GDP	Q3	-11.3%
Italy	10/30/20	GDP	Q3	-18.0%
Mexico	10/30/20	GDP	Q3	-18.7%
Spain	10/30/20	GDP	Q3	-21.5%
Indonesia	11/6/20	GDP	Q3	-5.3%
China	11/9/20	CPI	OCT	1.7%
Euro area	11/12/20	IP	SEP	-6.5%
United Kingdom	11/12/20	GDP	Q3	-21.5%
United Kingdom	11/12/20	IP	SEP	-6.3%
Netherlands	11/13/20	GDP	Q3	-9.2%
Poland	11/13/20	GDP	Q3	-8.0%
Japan	11/15/20	GDP	Q3	-10.1%
Thailand	11/16/20	GDP	Q3	-12.2%
United States	11/17/20	IP	OCT	-7.3%
Euro area	11/18/20	CPI	SEP	-0.3%