Global growth. Global growth has been weaker than expected so far this year, as economic activity disappointed in a number of major countries in the first six months (Figure 1). Among major emerging markets, growth in the first half of the year has been broadly steady. In Q3, industrial production continues to be more robust in developing countries, and there appears to be early signs of a recovery among high-income countries (Figure 2). A modest pickup in global growth is expected in the second half of 2014 raising annual growth to around [2.8] percent in 2014 and an average of [3.5] percent in 2015-17. In developing countries, growth is expected to remain below its long-run average in most regions (Figure 3).

Recent Developments in High-Income Countries. Among high-income countries growth has diverged. Growth in the United States has been gathering momentum while the Euro Area and Japan appear to be stagnating. Supported by rising employment and investment growth, and a still accommodative monetary policy stance, U.S. growth recovered strongly in Q2 from a sharp contraction in Q1. The recovery in the US economy is expected to gather pace in H2 2014 as better employment prospects support real income growth and confidence, fiscal consolidation pressures ease, and investment rises in line with strong profit and favorable financing conditions. GDP growth for 2014 is projected at about 2.0 percent, and picking-up above trend in 2015 to around 3.0 percent.

Meanwhile, with the strength of the recovery continuing to be impaired by weak domestic demand, the Euro Area GDP was flat in Q2, following a small uptick in Q1. A slow improvement in credit and labor market conditions should provide some momentum ahead, but investment prospects remain subdued and precautionary savings still high. Exports should gradually pick-up, supported by strengthening demand from the U.S. and a weakening euro. Growth is expected to resume in H2, with overall growth for 2014 projected to reach about 1 percent. In Japan, a sales tax hike in April caused a more significant contraction in activity than initially expected, while exports failed to pick-up despite a weak yen. Monetary policy accommodation and reform commitments will provide ongoing support, but fiscal consolidation is expected to keep domestic demand subdued throughout 2015, with exports only recovering slowly. Real GDP growth is projected to around 1 percent in 2014, down from 1.5 percent in 2013.

Global trade. Global trade was an important engine of growth for the world economy in the pre-crisis period, but has remained relatively subdued since 2011. Weighed down by weakness in high-income countries (accounting for some two-thirds of global imports), global trade growth in the first six months of 2014 continued on its weak pre-crisis trend. The projected pick-up in high
-income economic activity is expected to lift trade growth modestly. This should provide some impetus to developing countries, particularly those for whom the U.S is a major trading partner.

**Financial Markets.** Notwithstanding a weak start to the year, equity markets have risen to all-time highs and government bond yields have fallen to record lows. U.S. and U.K. benchmark stock indices, in particular, have risen to record highs on the back of strengthening macro data, accommodative U.S. monetary policy, and credit easing by the ECB expected to begin in October. The ECB’s announced policy measures contributed to the observed weakening of the euro against the dollar in recent months. This has generated capital flows into U.S. long-term bond markets but also riskier assets such as emerging market stock and bond markets. The continued accommodative monetary stance of ECB could help counteract the global impact of eventual monetary tightening in the U.S.

**Capital Flows.** Capital flows to developing countries, which weakened in early 2014 in a market sell-off but resumed strongly since March, are up 14 percent from a year earlier (Figure 4). Much of this increase reflects bond issuance by Chinese issuers, which account for an unprecedented quarter of all developing-country bond issuance. More generally, year-to-date gross capital flows have increased to developing countries in all regions, except Europe and Central Asia where bank flows have dropped sharply, partly as a result of tensions in Ukraine and sanctions on Russia (Figure 5).

**Commodity Markets.** Despite intensification of violence in Iraq and the conflict in Ukraine, oil prices moderated further in August to $100/bbl down from $105/bbl in July. Robust supply prospects due to increased output from Iraq, Libya and the U.S., along with weak economic data for China and Europe supported the weakening of oil prices. Signs of a mostly solid crop season kept agricultural prices broadly stable. Rice has proven to be the strong exception with prices up 12 percent since June, largely due to lower inventories in India and Thailand, which are key global rice suppliers. Meanwhile, the metal price index remained unchanged in August after gaining 5 percent in July. However, a major slowdown in China's construction sector (the world’s largest metal consumer) could exert further heavy downward pressure on some metal prices such as iron ore and copper, hurting such metal exporters.

**Risks.** Developing countries face risks from monetary policy tightening in the U.S., deflation in the Euro Area, and geopolitical tensions or public health threats in a number of regions. Monetary policy in high-income countries is expected to diverge. The U.S. Federal Reserve is projected to start raising policy rates in mid-2015, which carries the risk of bouts of financial market volatility. In contrast, in the Euro Area where inflation continues to drift down, deflation risks are increasing and the ECB has announced additional easing measures. In Japan, where inflation expectations are still weakly anchored, loose monetary policy is projected to continue. Developing countries are vulnerable to bouts of financial market disruptions as a result of changes in monetary policy in high-income countries or weakening investor sentiment if geopolitical tensions (e.g., in Russia or Iraq) or health concerns (e.g. from the Ebola virus in West Africa, Figure 6) escalate. In addition, investor sentiment could suffer if a rapid unwinding of Chinese debt leads to sharp deleveraging.
Figure 1. GDP outcomes disappointed across major high-income countries

**GDP growth, annualized, percent**

- 2013H1
- 2013H2
- 2014H1

Source: World Bank, Haver Analytics

Figure 2. Industrial production in developing countries is more robust

**IP growth y/y percent**

Source: World Bank, Haver Analytics

Figure 3. Developing country growth forecast below historical averages

**Real GDP growth, percent**


Figure 4. Capital inflows to developing countries remain dynamic

Source: World Bank, Dealogic

Figure 5. Capital flows remained robust in 2014.

* For the first eight months of the year

Source: World Bank, Bloomberg

Figure 6. Impact of 1 percentage point decline in Russian GDP on growth of neighbors

Source: World Bank
### Major Data Releases

**Fri, 29 August - Fri 19 Sep, 2014**

**Country** | **Date** | **Indicator** | **Period** | **Actual** | **Forecast** | **Previous**
--- | --- | --- | --- | --- | --- | ---
Indonesia | 8/31/2014 | PMI Manufacturing | AUG | 56.1 | 52.7 | 
Thailand | 9/1/2014 | Core CPI (Y-o-Y) | AUG | 1.80% | 1.80% | 1.80% 
Turkey | 9/1/2014 | PMI Manufacturing | AUG | 50.3 | 48.5 | 
Mexico | 9/1/2014 | PMI Manufacturing | AUG | 52.1 | 51.7 | 51.5 
Brazil | 9/2/2014 | Industrial Production (Y-o-Y) | JUL | -3.60% | -3.90% | -6.90% 
United States | 9/2/2014 | ISM Manufacturing Survey | AUG | 59 | 56.75 | 57.1 
Brazil | 9/3/2014 | Interest Rate Decision | - | 11.00% | 11% | 11.00% 
India | 9/3/2014 | GDP (Q-o-Q) | AUG | Q2 F | 0.80% | 1.10% 
Hungary | 9/3/2014 | GDP (Q-o-Q) | Q2 F | Q2 | -1.00% | 0.20% 
United States | 9/5/2014 | Unemployment Rate | AUG | 6.10% | 6.12% | 6.20% 
Japan | 9/7/2014 | GDP (Y-o-Y) | Q2 F | Q2 F | -7.10% | -7.0% | -6.80% 
China | 9/7/2014 | Exports | AUG | 9.40% | -6.0% | 14.58% 
Russia | 9/8/2014 | GDP (Y-o-Y) | Q2 | 0.80% | 0.90% | 
Turkey | 9/8/2014 | Industrial Production (Y-o-Y) | JUL | 3.60% | 1.3% | 1.40% 
Turkey | 9/10/2014 | GDP (Q-o-Q) | Q2 | -0.50% | -1.0% | 1.70% 
Philippines | 9/10/2014 | Unemployment Rate | Q2 | 6.70% | 7.00% | 
Malaysia | 9/11/2014 | Industrial Production (Y-o-Y) | JUL | 0.50% | 4.50% | 7.00% 
Mexico | 9/11/2014 | Industrial Production (M-o-M) | JUL | 0.28% | 0.40% | -0.17 (R) % 
Japan | 9/12/2014 | Industrial Production (M-o-M) | JUL | F | 0.20% | -3.40% 
Eurozone | 9/12/2014 | Industrial Production (Y-o-Y) | JUL | 1.10% | 0.00% | 
India | 9/12/2014 | Industrial Production (Y-o-Y) | JUL | 3.50% | 3.40% | 
Argentina | 9/12/2014 | CPI (M-o-M) | AUG | 1.40% | 
Turkey | 9/15/2014 | Unemployment Rate | JUN | 9.50% | 
United States | 9/15/2014 | Industrial Production (Y-o-Y) | AUG | 5.00% | 
Eurozone | 9/17/2014 | CPI (Y-o-Y) | AUG | 0.40% | 
United States | 9/17/2014 | Current Account Balance - BoP | Q2 | $ -111.16 B | 
South Africa | 9/18/2014 | Interest Rate Decision | - | 5.75% | 
Philippines | 9/19/2014 | Current Account Balance - BoP | Q2 | $ 1.96 B | 

### Upcoming releases: Mon, 22 Sep 2014 - Fri, 3 Oct 2014

**Country** | **Date** | **Indicator** | **Period** | **Previous**
--- | --- | --- | --- | ---
Mexico | 9/22/2014 | Unemployment Rate | AUG | 5.19% 
China | 9/22/2014 | PMI Manufacturing | SEP | 50.2 
Eurozone | 9/23/2014 | PMI Composite | SEP | 52.5 
Brazil | 9/24/2014 | Current Account Balance - BoP | AUG | $ -6.02 B 
Malaysia | 9/25/2014 | Unemployment Rate | JUL | 2.70% 
Turkey | 9/25/2014 | Interest Rate Decision | - | 8.25% 
United States | 9/25/2014 | Durable Goods Orders (M-o-M) | AUG | 22.80% 
Germany | 9/26/2014 | GfK Consumer Confidence Survey | OCT | 8.6 
United States | 9/26/2014 | GDP (Q-o-Q) | Q2 | -2.10% 
Argentina | 9/26/2014 | Current Account Balance - BoP | Q2 | $ -3.30 B 
Eurozone | 9/29/2014 | Flash CPI - EU Harmonised (Y-o-Y) | SEP | 0.30% 
Eurozone | 9/29/2014 | Unemployment Rate | AUG | 11.50% 
Japan | 9/29/2014 | Unemployment Rate | AUG | 3.80% 
Romania | 9/30/2014 | Interest Rate Decision | - | 3.25% 
United States | 9/30/2014 | GDP (Q-o-Q) | Q2 | 
Argentina | 9/30/2014 | Current Account Balance - BoP | Q2 | $ -2.20 B 
France | 9/30/2014 | Retail Sales (Y-o-Y) | AUG | 0.70% 
Japan | 9/30/2014 | Consumer Spending (Y-o-Y) | JUL | 1.80% 
Turkey | 9/30/2014 | Trade Balance | AUG | $ -6.46 B 
Thailand | 9/30/2014 | Current Account Balance - BoP | AUG | $ -0.86 B 
South Africa | 9/30/2014 | Trade Balance | AUG | ZAR -6.88 B 
Indonesia | 10/1/2014 | Trade Balance | AUG | $ 0.13 B 
India | 10/1/2014 | PMI Manufacturing | SEP | 52.4 
Turkey | 10/1/2014 | PMI Manufacturing | SEP | 50.7 
Turkey | 10/1/2014 | PMI Manufacturing | SEP | 50.2 
Brazil | 10/1/2014 | Trade Balance | SEP | $ 0.13 B 
Japan | 10/1/2014 | PMI Composite | SEP | 50.8 
Brazil | 10/2/2014 | Industrial Production (Y-o-Y) | AUG | -3.60% 
Malaysia | 10/3/2014 | Trade Balance | AUG | MYR 3.64 B 
Turkey | 10/3/2014 | CPI (Y-o-Y) | SEP | 9.54% 
South Africa | 10/3/2014 | PMI Manufacturing | SEP | 51.1
Developing Trends – SEPTEMBER 2014

Real Economy

Industrial Production

Source: Haver, World Bank

Manufacturing PMIs

Source: Markit Economics, World Bank

Inflation

Source: Haver, World Bank

Financial Markets

G-3 stock markets

Source: Bloomberg, World Bank

U.S. and German bond yields

Source: Bloomberg, World Bank

Yields on 10-year government bonds

Source: Bloomberg, World Bank

September 19, 2014
Industrial Activity

Industrial Production

Global IP growth

Percent change, 3m/3m saar

Developing Countries

High Income Countries

Source: World Bank

Regional IP growth: EAP, ECA, LAC

Source: World Bank

Regional IP growth: MENA, SAS, SSA

Source: World Bank

Business Sentiment

Manufacturing Purchasing Managers’ Index (PMI)

Diffusion Rate, 50 and above indicates growth

United States

World

Euro Area

Japan

Source: World Bank and Markit

PMI Indexes in selected countries (1)

Diffusion Index, 50 and above indicates growth

China

India

Developing Countries

Egypt, Arab Rep.

Source: World Bank and Markit

PMI Indexes in selected countries (2)

Diffusion Index, 50 and above indicates growth

Turkey

Brazil

South Africa

Source: World Bank and Markit
Commodities

Oil and Metals

- Crude Oil Prices
  - Source: Bloomberg, World Bank

- Metals Prices
  - Source: Bloomberg, World Bank

- Precious Metals Prices
  - Source: Bloomberg, World Bank

Agriculture

- Stock-to-use ratios
  - Source: US Department of Agriculture (July 2014)

- Maize and wheat prices
  - Source: World Bank

Coffee prices

Source: World Bank
Credit and Equity Markets

5-year sovereign CDS spreads for developing countries

![Graph showing 5-year sovereign CDS spreads for developing countries. Source: Bloomberg, World Bank.]

MSCI stock market indices

![Graph showing MSCI stock market indices. Source: Bloomberg, World Bank.]

MSCI stock market indices—developing regions

![Graph showing MSCI stock market indices—developing regions. Source: Bloomberg, World Bank.]

Capital Flows

Developing-country sovereign bond spreads since 2011

![Graph showing developing-country sovereign bond spreads since 2011. Source: World Bank and JPMorgan.]

Foreign portfolio inflows to developing countries

![Graph showing foreign portfolio inflows to developing countries. Source: World Bank and EPFR.]

Gross capital flows to developing countries

![Graph showing gross capital flows to developing countries. Source: World Bank and Dealogic.]
Developing Trends  SEPTEMBER 2014

Exchange Rates

Euro, US dollar and Yen

NERs of selected developing country currencies

NEERs of selected developing country currencies

Inflation

Developing and high income inflation

Inflation in EAP, ECA and LAC

Inflation in MENA, SAS and SSA

Source: Haver, IFS

Source: World Bank Prospects Group; IMF IFS.

Source: World Bank Prospects Group; IMF IFS.