WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

Global Monthly

September 2020

Overview

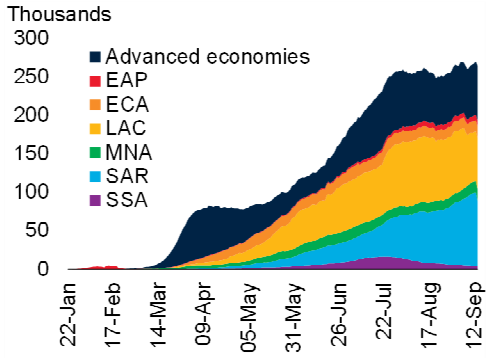
- New COVID-19 cases remain stubbornly high in many advanced economies and EMDEs.
- Recent data suggest that the global recovery is beginning to slow after marked improvement around mid-year.
- Following months of near continuous gains, financial markets experienced bouts of volatility in September, while commodity price movements are diverging, with the price of oil falling and those of industrial metals rising.

Table of Contents

Chart of the Month

- After reaching 250,000 in mid-July, global new daily cases of COVID-19 have since plateaued, as the decline in Latin America only partly offset the rapid rise in South Asia.
- In the United States and Brazil, new daily cases have declined notably since their July peak, but they are on the rise in India and remain high in many European countries.
- Stubbornly high caseloads, particularly in the northern hemisphere, increases the risk of a second wave in the coming months.

New COVID-19 cases by region



Source: Johns Hopkins University; World Bank.
Note: 7 day average for new COVID-19 cases. Last observation is September 14, 2020.

Special Focus: How do deep recessions affect potential output in EMDEs?

- Historically, recessions accompanied by financial crises—and, in energy exporters, by oil price collapses—tend to generate particularly deep and lasting damage to potential output.
- The average EMDE is now more vulnerable to financial stress than before the global financial crisis, while the average energy-exporting EMDE remains heavily dependent on energy exports.
- Prompt monetary and fiscal support, and decisive structural reforms, could moderate the likely severe adverse impact of COVID-19 on potential output.

The Global Monthly is a publication of the Prospects Group. This edition was prepared by Justin-Damien Guénette and Collette Wheeler under the supervision of Carlos Arteta, based on contributions from Sinem Kilic Celik, Hrisyana Stefanova Doytchinova, Fuda Jiang, Sergiy Kasyanenko, Patrick Kirby, Hazel Macadangdang, Peter Nagle, Shijie Shi, Rudi Steinbach, Ekaterine Vashakmadze, Dana Vorisek, and Sandy Ye. This Global Monthly reflects data available up to September 21. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global growth: pandemic weighing heavily on recovery. The strength of the initial rebound that followed the exceptional collapse in activity is quickly fading, weighed down by stubbornly high new daily COVID-19 cases, with concentrations in Latin America, India, the United States, South Africa, and Russia. The number of confirmed cases of COVID-19 has reached more than 30 million globally, with more than 900,000 deaths. While the global composite PMI rose a further 1.4 points to 52.4 in August, the increase was less than half the rise recorded in July. The recovery in the service sector is notably subdued, with the latest global services PMI reading of 51.9, still below its average for 2019 (52.2 points; Figure 1.A). That said, the rise in the Sentix global economic sentiment index from -9.7 to -2.9 in September points to a further modest improvement in global activity.

Global trade: recovering goods, stagnant services. Global goods trade registered its first monthly increase in June for the first time in six months but remained down 10 percent relative to a year ago. The recovery in trade mirrors that of industrial production and reflects the change in consumer preferences away from services requiring face-to-face interaction and toward goods (Figure 1.B). The global new export orders PMI increased to 49.9 in August—still in contractionary territory but its highest value since 2018—while daily seaborne shipping volumes suggest that the recovery in global goods trade continued in September. Services activity remains weak, however. International tourist arrivals remain more than 90 percent below last year's levels in many countries. The number of daily commercial flights has stabilized at about 70 percent of pre-pandemic values since August.

Global financing conditions: repricing of risk assets. A marked gap between bullish investor sentiment and uncertainty about the recovery's strength triggered a sharp repricing of risk assets in early September. This follows a long period of steady gains during which global equity markets recouped most of the losses suffered during the pandemic's height in late March. Nevertheless, market volatility remains elevated, pointing to persistent risk aversion (Figure 1.C). Meanwhile, borrowing costs remain at record low levels, supporting corporate bond issuance and residential housing markets (Figure 2.A). The pace of monetary loosening has recently slowed as major central banks have been reassessing the recovery's durability. Despite increasing concerns over the resurgence of COVID-19, the European Central Bank has left its policy stance unchanged. Still, central banks' asset purchases continued apace to

FIGURE 1.A Services Purchasing Managers' Index (PMI)

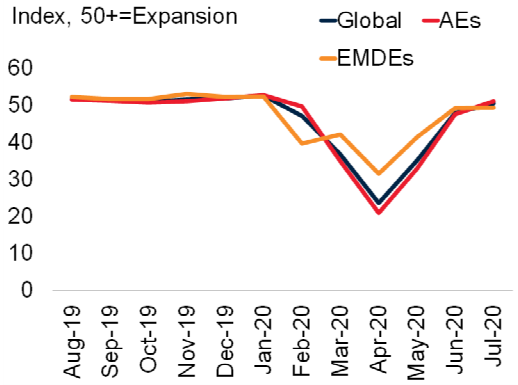


FIGURE 1.B Global trade, industrial production, and seaborne shipping

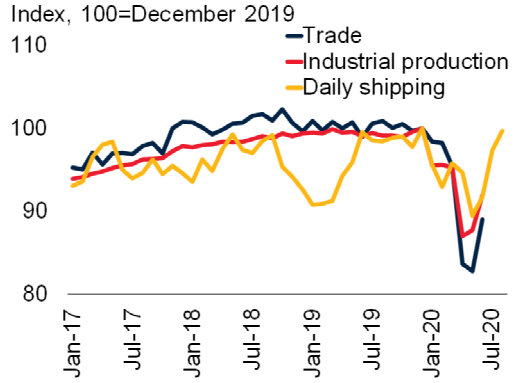
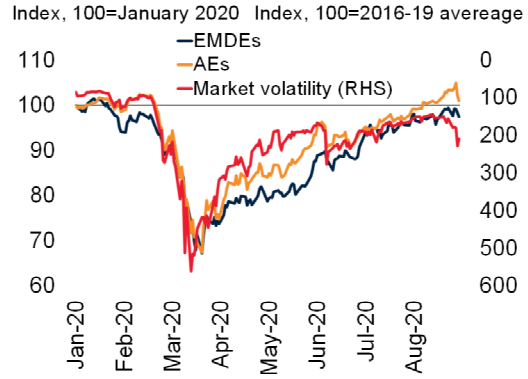


FIGURE 1.C Equity markets



Source: Bloomberg; CPB; Haver Analytics; World Bank.
A. PMI readings above (below) 50 indicate expansion (contraction) in economic activity. Last observation is July 2020.
B. Manufacturing and new export orders are measured by Purchasing Managers' Index (PMI). PMI readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is July 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 September 8th, 2020.

support the recovery. The U.S. Federal Reserve announced a major policy shift to average inflation targeting on August 27th, underscoring its commitment to keep borrowing costs exceptionally low for an extended period.

EMDE financing conditions: deceleration in capital flows. The recovery of portfolio flows to EMDEs slowed sharply in August and early September as rising COVID-19 caseloads and policy uncertainty weighed on investor sentiment (Figure 2.B). As a result, several EMDE currencies experienced renewed depreciation pressures in early September. Exchange rates depreciated in some energy exporters in response to softening oil prices. Domestic currencies also weakened in other countries that experienced a deceleration in portfolio inflows, a drawdown of foreign reserves, or a spike in social unrest or political uncertainty. Although the EMBI bond spread stabilized over the past month, it remains roughly one percentage point above the level at the start of the year. For countries facing financial pressures, however, the spread remains far more elevated.

Commodity markets: emerging differentiation. Oil prices stabilized in August, with the price of Brent crude oil fluctuating between $43/bbl and $46/bbl. However, prices weakened in September amid worries about global demand and a recovery in supply. High-frequency U.S. consumption data suggest the recovery in oil demand has softened and may be weaker than expected (Figure 2.C). Also, OPEC+ reduced its production cuts from 9.7mb/d to 7.7mb/d in August, as previously announced, while production in the United States has started to recover. Base metals prices continued to recover in August and are now nearly 4 percent higher than their pre-pandemic peak in January. The increase in prices has been supported by the strengthening of global economic activity, particularly in China. Agricultural commodity prices increased by 3 percent compared to July. The rise was broad-based across food, beverages, and raw materials products.

United States: losing steam. In the second quarter, output fell by 31.7 percent (q/q, saar). The rebound in economic activity that began in May is quickly running out of steam. Growth in retail sales slowed to 0.6 percent m/m in August from a peak of 18.3 m/m in May, weighed down by persistently high daily COVID-19 caseloads and the expiry of several emergency income support programs at the end of July (Figure 3.A). The pace of improvement in the labor market has also slowed, with initial jobless claims averaging nearly one million over the four weeks leading up to September 12th—well above its peak during the

FIGURE 2.A New bond issuance and borrowing costs in the United States

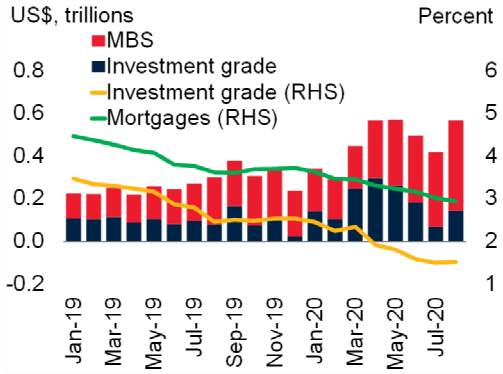


FIGURE 2.B EMDE portfolio flows

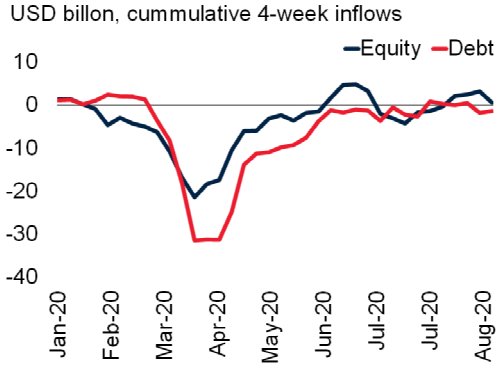
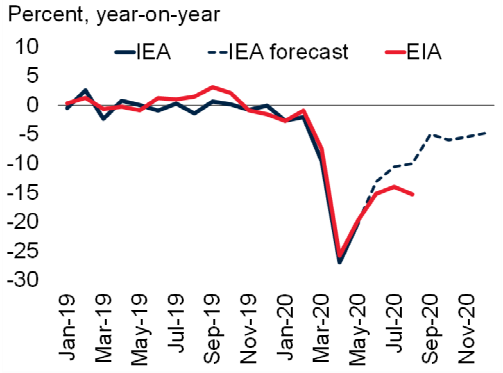


FIGURE 2.C Oil demand in the United States



Source: Bloomberg, Haver Analytics, JP Morgan, EIA; International Energy Agency; International Monetary Fund, Institute for International Finance, Securities Industry and Financial Markets Association, World Bank.
A. Bars indicate volumes of new bond issuance; lines indicate yields (RHS). MBS – mortgage backed securities; mortgages – interest rate on 30-year fixed rate mortgage. Last observation is September 8th, 2020.
B. Sample includes 21 EMDEs: debt flows - HUN, IDN, IND, MEX, POL, THA, TUR, UKR and ZAF; equity flows - BRA, IDN, IND, LKA, PAK, PHL, QAT, SAU, THA, TUR, VNM, and ZAF. Last observation is September 8th, 2020.
C. Data shows year-on-year change for oil demand in the U.S. Dashed line indicates IEA forecast. EIA shows data from the Energy Information Administration for "total products supplied", a measure of total refined oil products supplied to the U.S. market which can be used as an estimate for consumption. Monthly averages of weekly data.

global financial crisis. Industrial production rose only 0.4 percent m/m in August, leaving its level 7.7 percent lower than a year ago. Additional fiscal support measures have yet to be implemented due to political deadlock.

Euro Area: bounceback in retail sales. Output collapsed 39.4 percent (q/q, saar) in the second quarter, driven by a stunning 41 percent (q/q, saar) decline in private consumption. Still, the rebound in consumer activity since the April trough has been remarkably swift, with real retail sales returning to positive year-over-year growth in many countries by June (Figure 3.B). More recently, however, activity is showing signs of stalling due in large part to a resurgence in COVID-19 cases across several large eurozone members, including France and Spain. Both manufacturing and services PMIs ticked down in August, to 51.7 and 50.5, respectively. Although the Sentix economic sentiment index for the Euro Area ticked up to -8 points in September, it remains solidly in negative territory.

Japan: new administration facing a challenging environment. Japan's GDP shrank -28.1 percent (q/q, saar) in 20Q2, its sharpest contraction on record, reflecting weak consumption, exports, and investment (Figure 3.C). The nationwide resurgence of COVID-19 cases dampened the recovery of private consumption, offsetting better than expected manufacturing-related indicators. Industrial production accelerated to 8 percent (m/m) in July from 1.9 percent in June, and the manufacturing PMI rose to 47.2 in August but remains in contractionary territory. Retail sales declined by 3.3 percent (m/m) in July after registering 13.1 percent the previous month, while the services PMI declined a notch in August to 45. Yoshihide Suga became Prime Minister after Shinzo Abe resigned on September 16th.

China: uneven recovery continues. In August, industrial production rose by 5.6 percent (y/y), while fixed asset investment growth stabilized at 5.9 percent (y/y) in July. The Caixin manufacturing PMI rose to 53.1 in August, its highest reading since January 2011, while the Caixin services PMI ticked down to 54. Export growth accelerated to 9.5 percent in response to firming global demand (Figure 4.A). Private consumption, however, remains sluggish, with retail sales far below pre-pandemic levels and imports continuing to trail exports.

Commodity-exporting EMDEs: subdued recovery following output collapse. After output fell by an estimated 10.4 percent across EDME commodity exporters in 20Q2 (y/y), incoming

FIGURE 3.A Retail sales in the United States

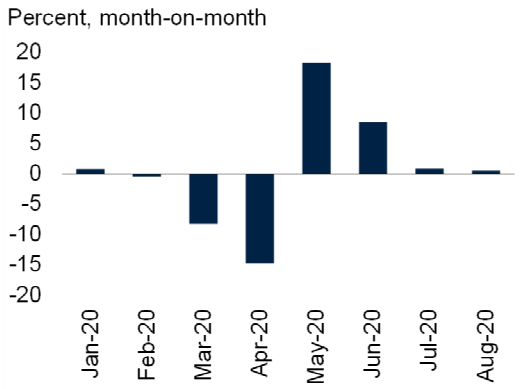


FIGURE 3.B Euro Area retail sales

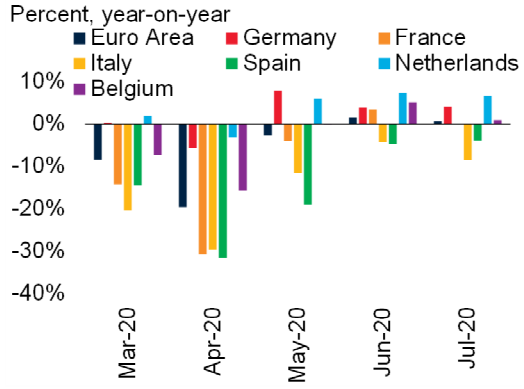
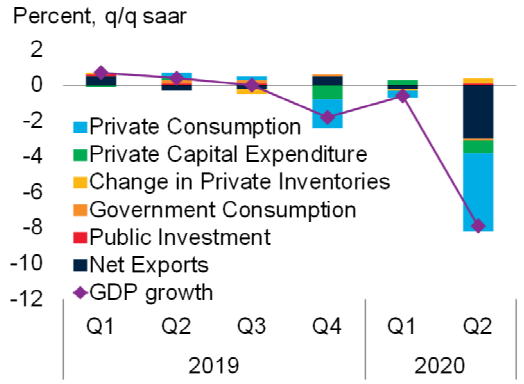


FIGURE 3.C Contributions to Japan GDP growth



Source: Cabinet Office of Japan; Federal Reserve Bank of St. Louis; Haver Analytics; World Bank.
A. The observation for August 2020 is an estimate made by the Federal Reserve Bank of St. Louis based on data from a subsample of firms from the larger Monthly Retail Trade Survey.
B. Year on year growth of the Retail Sales Volume Index (SWDA, 2015=100).
C. Chart shows contributions to quarter-to-quarter percent change in real GDP for Japan, seasonally adjusted.

data suggest improvement in the third quarter of 2020 (Figure 4.B). However, the recovery is uneven, with the manufacturing PMI firming in August in some economies (Brazil, Indonesia, Russia) while remaining subdued in others (Nigeria, Saudi Arabia). Brazil's economy plunged 33.5 percent (q/q saar) in 20Q2, driven largely by pandemic-control policies. However, sequential increases in industrial production and retail sales in late 20Q2 and early 20Q3 point to economic recovery, however. In Russia, GDP contracted by 8 percent (y/y) in 20Q2, reflecting a steep decline in services activity due to the earlier lockdown, and a sharp fall industrial production amid OPEC+ oil production cuts. Incoming data suggest activity is firming in 20Q3, with the composite PMI and manufacturing PMI expanding in August. The manufacturing PMI in Indonesia rose to 50.8 in August, marking the first expansion since February. In Saudi Arabia, the composite PMI decelerated slightly to 48.8 in August after expanding in the previous month. The South African economy shrunk by 51 percent (q/q saar) in 20Q1—the sharpest fall on record and the fourth consecutive quarter of contraction—as activity collapsed in both industrial and services sectors. Incoming data suggest the recovery in 20Q3 is likely to be subdued, with the composite PMI remaining in contraction and car sales still down 26.3 percent (y/y).

Commodity-importing EMDEs: ongoing weakness in manufacturing activity. Output contracted by an estimated 4.9 percent (y/y) in 20Q2 in EMDE commodity importers—without China, output declined by an estimated 16.4 percent, reflecting a pandemic-driven double-digit collapse in activity in several large economies (Figure 4.C; India, Mexico, Malaysia, the Philippines, Thailand, Turkey). More recently, in India, the composite PMI rose to 46 in August, up from 37 in July, but remains in contractionary territory. Manufacturing production in Mexico expanded at a solid monthly rate in June and July, while exports rebounded. Yet sentiment in the manufacturing sector remains weak, and production is still below early 2020 levels. In Malaysia and the Philippines, the manufacturing PMI contracted in August amid public health measures to curb the pandemic. In Thailand, the manufacturing PMI rose to 49.7 in August from 45.9 in July but remained a notch below the expansion threshold. Incoming data in Turkey point to a gradual improvement in manufacturing activity, with industrial production expanding for the third consecutive month in July, by 8.4 percent (m/m); however, this is less than half its pace in May and June. Meanwhile, the rebound in industrial activity eased slightly in Poland in July, but production is back to roughly 98 percent of its pre-pandemic level.

FIGURE 4.A China: Goods trade value growth

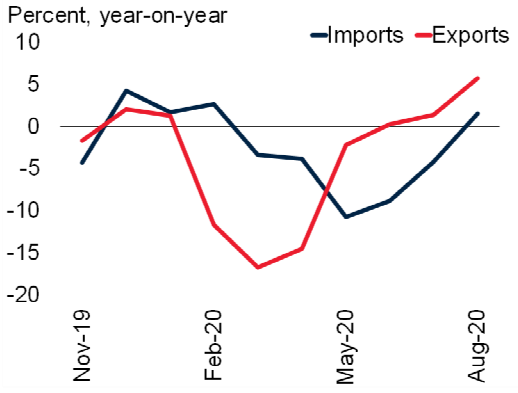


FIGURE 4.B Growth in EMDEs

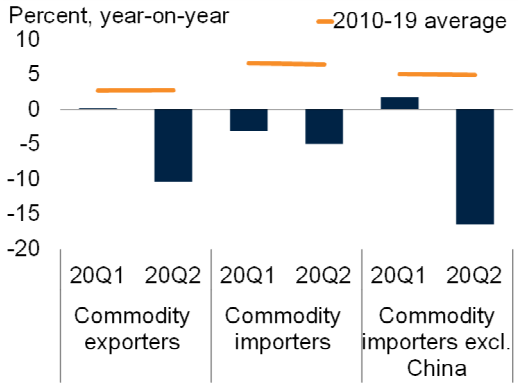
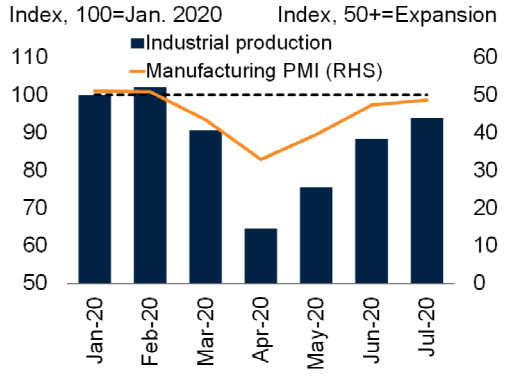


FIGURE 4.C Activity in EMDE commodity importers



Source: Haver Analytics; World Bank.
A. Figure shows the 3-month moving average of year-on-year growth.
B. Orange lines show the simple average over 2010-19.
C. Chart shows values for Commodity importers excluding China. Manufacturing PMI is an average for each month. Sample for manufacturing PMI includes 10 commodity importers, namely: Egypt, Hungary, India, Lebanon, Mexico, the Philippines, Poland, Thailand, Turkey, and Vietnam.

Special Focus: How do deep recessions affect potential output in EMDEs?

Introduction. The COVID-19 pandemic is a major health crisis that, along with the associated restrictions to stem it and other disruptions, has inflicted a severe shock to the global economy. The 2020 global recession is extraordinarily deep, leading EMDEs to face sustained economic pressures—which, in many of them, have been accompanied by financial and oil market pressures. Against this backdrop, this Special Focus—based on work from the June 2020 edition of the *Global Economic Prospects*—explores the likely impact of COVID-19 on potential output by addressing the question: How do recessions, financial crises and oil price plunges interact to generate long-term implications for potential growth?

Data and methodology. The medium-term impact of economic disruptions—recessions, financial crises and oil price plunges—on potential output (the output an economy can sustain at full employment and capacity) is estimated using a local projections model. Recessions are defined as years of negative output growth (Huidrom, Kose, and Ohnsorge 2018). Financial crises include banking, currency, and debt crises defined as in Laeven and Valencia (2018). Years with oil price plunges are those in which the average of the Brent, Dubai and West Texas Intermediate oil prices plunged by 30 percent or more over a six-month period (1986, 1990-91, 1998, 2001, 2008, and 2014-15).

Short-term output losses. In the average year of recession, output declined by more than 3 percent in advanced economies and more than 5 percent in EMDEs. On their own, neither financial crises nor oil price plunges were typically associated with recessions (Figures 5.A-C). However, when they were accompanied by recessions, output losses were steep.

- *Financial crises.* On average, economies still grew by almost 1 percent in the year of financial crises and the following year. More than one-half of these events were currency crises, which tend to be associated with milder output losses. Nevertheless, financial crises that did accompany recessions (about 24 percent of crises in the sample) were associated with output contractions of more than 5 percent.
- *Oil price plunges.* Oil price plunges were, on average, accompanied by just over 3 percent growth in the same year. Energy-exporting EMDEs historically have had large fiscal buffers, which have allowed them to provide substantial policy support to domestic economic activity: their growth averaged more than 2 percent in the year of the plunge. However, in cases when oil price plunges were accompanied by recessions (17 percent of recessions in energy exporting EMDEs), the output contractions in energy exporters were especially deep (about 10 percent).

Medium-term potential output losses. In line with earlier findings, recessions left a legacy of lower potential output for four to five

FIGURE 5.A Frequency of recessions

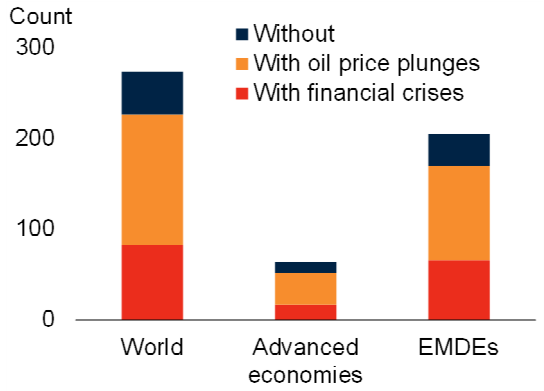


FIGURE 5.B Average growth during recessions and financial crises

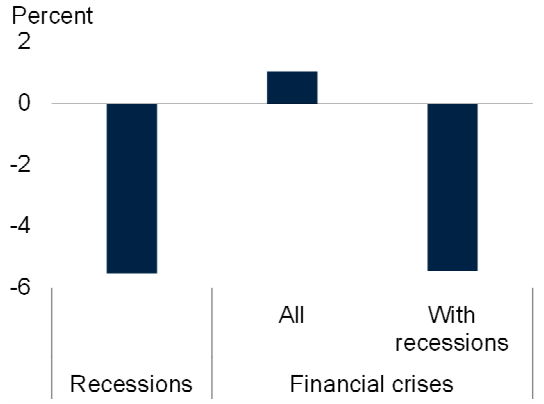
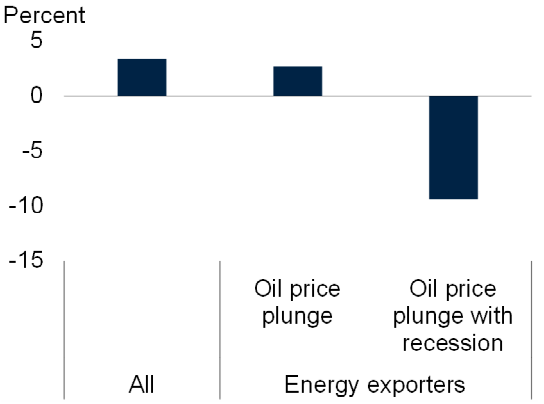


FIGURE 5.C Average growth during oil price plunges



Source: World Bank.
EMDEs = Emerging Market and Developing Economies. Based on a sample of 32 advanced economies and 91 EMDEs for 1982-2018. Recessions are years with negative growth; in the case of consecutive years with negative growth, the year of output trough is selected. Financial crises are banking, currency or debt crises defined as in Laeven and Valencia (2018). Oil price plunges are 1986, 1990-91, 1998, 2001, 2008, 2014-15.
B. Unweighted average for EMDE regression sample. Difference between the bars are illustrative and not statistically significant because of wide heterogeneity.

years after their onset. Five years after the average recession, potential output in EMDEs declined cumulatively by about 6 percent, compared to the level at the beginning of the recession (Figures 6.A-C).

Financial crises and oil price plunges alone—including those which were not associated with outright recessions—also tended to be associated with lower potential output over the medium term. Five years after a financial crisis, potential output in EMDEs decreased cumulatively by about 4 percent. Five years after an oil price plunge, potential output in energy-exporting EMDEs fell cumulatively by 8 percent.

Recessions that were accompanied by financial crises caused larger long-term potential output losses in EMDEs than recessions without financial crises. Five years after a recession-cum-crisis, potential output in EMDEs remained almost 8 percent below baseline—more than the 6 percent potential output loss following the average recession.

In energy-exporting EMDEs, oil price plunges that were accompanied by recessions were associated with particularly severe and lasting potential output losses. On average five years after such plunges-cum-recessions, potential output in energy exporting EMDEs remained 11 percent below the level at the onset of the recessions.

Effect of existing vulnerabilities and policy regimes. Long-term potential output losses are somewhat more modest for countries that enter the recession with fewer vulnerabilities. For example, estimated potential output losses five years after a combined recession and financial crisis were lower in countries that entered the recession with external debt in the bottom decile of the sample than in those that entered it in the top decile of the sample. Similarly, EMDEs that entered financial crises with narrower current account deficits witnessed lower potential output losses after five years. Policy regimes also mattered: EMDEs with inflation-targeting monetary policy objectives suffered about one-half the potential output losses in recessions and financial crises than countries with other monetary policy regimes.

Policy implications. Policy actions need to consider the lasting economic damage from the deep recession triggered by COVID-19. Preventing financial crises, or attenuating their effects if they occur, is critical. Macroprudential, monetary, and fiscal policy support and emergency international financial assistance are key to ensure the maintenance of confidence, the stability of lending institutions, and normal flows of credit to households and firms. In the case of energy-exporting EMDEs, efforts to pursue diversification once the pandemic subsides can help reduce the impact of future oil price shocks. Such measures include ensuring appropriate trade policies that promote diverse exports, infrastructure investment to enable private sector competition, competition regulation to avoid market concentration, and support for innovation through research and development.

FIGURE 6.A Cumulative potential output response five years after recessions, financial crises and oil price plunges

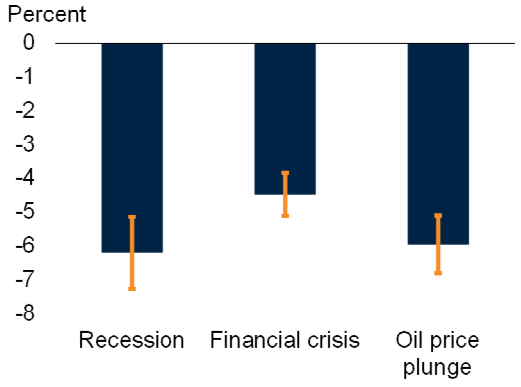


FIGURE 6.B Cumulative potential output response five years after recessions and financial crises

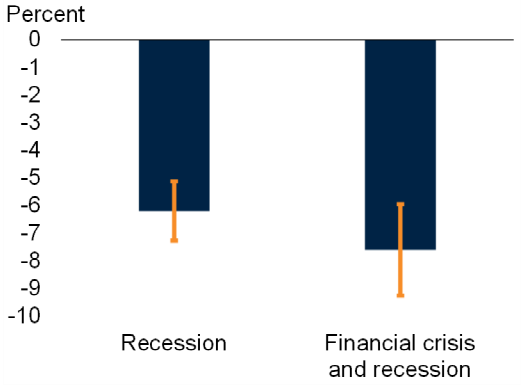
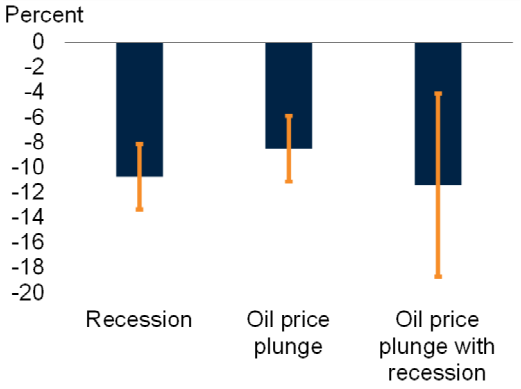


FIGURE 6.C Cumulative potential output response in energy exporters five years after recessions and oil price plunges



Source: Ha, Kose, and Ohnsorge (2019); World Bank.
EMDEs = Emerging Market and Developing Economies. Charts show impulse responses for 75 EMDEs from a local projections model. Dependent variable is cumulative slowdown in potential output after a recession, financial crisis, or oil price plunge event. Year t is the year of the event. Bars show coefficient estimates; vertical lines show 90 percent confidence bands.

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State and Trends of Carbon Pricing 2020

Tracking SDG 7: The Energy Progress Report 2020

TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: August 22, 2020 - September 21, 2020					
Country	Date	Indicator	Period	Actual	Previous
Nigeria	08/24/20	GDP	Q2	-6.0%	2.0%
Germany	08/25/20	GDP	Q2	-11.3%	-2.2%
Mexico	08/26/20	GDP	Q2	-18.7%	-1.3%
United States	08/27/20	GDP	Q2	-9.1%	0.3%
Canada	08/28/20	GDP	Q2	-13.0%	-0.9%
France	08/28/20	GDP	Q2	-18.9%	-5.7%
India	08/31/20	GDP	Q2	-23.9%	3.1%
Italy	08/31/20	GDP	Q2	-17.7%	-5.6%
Poland	08/31/20	GDP	Q2	-8.0%	1.7%
South Korea	08/31/20	GDP	Q2	-2.7%	1.4%
Australia	09/01/20	GDP	Q2	-6.3%	1.6%
Indonesia	09/01/20	CPI	AUG	1.3%	1.5%
Turkey	09/02/20	GDP	Q2	-9.9%	4.4%
Brazil	09/04/20	GDP	Q2	-11.4%	-0.3%
Japan	09/07/20	GDP	Q2	-10.1%	-1.9%
China	09/08/20	CPI	AUG	2.4%	2.7%
Euro Area	09/08/20	GDP	Q2	-14.7%	-3.2%
South Africa	09/08/20	GDP	Q2	-17.1%	0.1%
Russia	09/09/20	GDP	Q2	-8.0%	1.6%
Saudi Arabia	09/15/20	CPI	AUG	6.1%	6.1%
New Zealand	09/16/20	GDP	Q2	-10.1%	-0.1%

(Percent change y/y)

Upcoming releases: September 22, 2020 - October 21, 2020				
Country	Date	Indicator	Period	Previous
Netherlands	09/23/20	GDP	Q2	-9.2%
Spain	09/23/20	GDP	Q2	-22.1%
Germany	09/29/20	CPI	SEP	0.0%
Spain	09/29/20	CPI	SEP	-0.5%
Italy	09/30/20	CPI	JUL	-0.5%
South Africa	09/30/20	CPI	AUG	3.2%
United Kingdom	09/30/20	GDP	Q2	-21.7%
United States	09/30/20	GDP	Q2	-9.1%
Indonesia	10/01/20	CPI	SEP	1.3%
Italy	10/02/20	GDP	Q3	-17.7%
South Korea	10/05/20	CPI	SEP	0.7%
Mexico	10/08/20	CPI	SEP	4.0%
India	10/12/20	IP	AUG	-10.4%
United States	10/13/20	CPI	SEP	1.3%
Euro Area	10/14/20	IP	AUG	-7.8%
Japan	10/14/20	IP	AUG	-14.2%
France	10/15/20	CPI	SEP	0.2%
Poland	10/15/20	CPI	SEP	2.9%
Euro Area	10/16/20	CPI	AUG	-0.2%
China	10/18/20	GDP	Q3	3.2%
China	10/18/20	IP	SEP	5.6%