



## Weekly Global Economic Brief

Number 150

For more information, see [www.worldbank.org/gem](http://www.worldbank.org/gem)

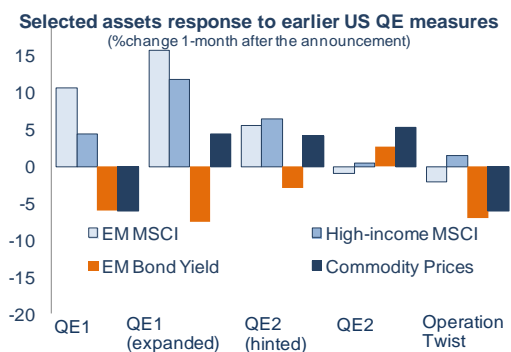
27 September 2012

The latest bout of G3 monetary stimulus is likely to increase capital flows to developing countries, but may be limited by lingering economic uncertainty, and lower interest rate spreads. Notwithstanding the recent easing of financial market tensions, the anticipated rebound in real-side activity is lagging behind. September Purchasing Manager Indices suggest a continued contraction of output or weak growth at best. Retail sales growth data through August, show diverging tendencies, with developing-country sales easing from high levels, while those in high-income are countries beginning to stabilize after declining for months. Partial data for August and September – including strengthening US housing market, and various stimulus measures – bode well for Q4 spending and economic activity.

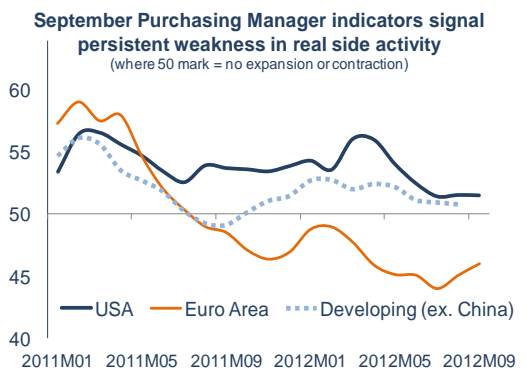
Major monetary stimulus measures were announced by G3 economies in September. The European Central Bank announced an unlimited bond buying program, the Federal Reserve announced a \$40 billion per month asset purchase program, and the Bank of Japan added ¥10 trillion (\$129 billion) to its asset purchase program. Based on past experience, these steps could support capital flows to developing countries (indeed bond flows are up in September), as well as commodity prices. However, impacts may be modest because of ongoing economic uncertainty; lower interest rate spreads; and because the efficacy of quantitative easing measures appears to have been declining over time. Available data show only a weak correlation between recent quantitative easing measures and hot-money flows to developing countries.

September Purchasing Manager's Indicators (PMI) suggest that the pace of contraction has eased somewhat, but that weakness in global manufacturing activity persists (with diverging fortunes across regions). Activity in the Euro Area continues to be weighed down by fiscal consolidation, rising unemployment, and weak consumer sentiment. Nonetheless, Euro Area manufacturing PMI, though still signaling a contraction, hit a six-month high in September. Manufacturing sentiment for China has also improved marginally. Manufacturing sentiment in the US remains steady (51.5 for both August and September) – signaling modest output growth. Going forward, the easing of financial market tensions, and increased access to credit (e.g. G3 monetary stimulus) should translate into a pick-up in Q4 real-side activity.

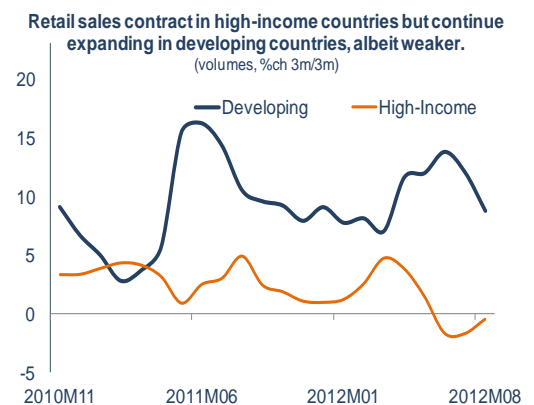
Retail sales growth in developing countries is easing from high levels, even as sales levels in high-income countries stabilize after months of contraction. After contracting during the three months ending July 2012 at a 1.7 percent annualized pace (3m/3m, saar), high-income countries retail sales showed signs of stabilizing in August. Indeed, retail sales in the United States were up 0.93 percent (m/m) for the month of August. Although slowing, household retail sales among developing countries grew at a robust 8.7 percent annualized pace (3m/3m, saar) in August, still above the long-term average of 8.0 percent. September consumer confidence indicators suggest divergent paths among high-income countries: weaker sentiment in the Euro Area, relatively unchanged in Japan and a strong rebound in the United States. Consumer demand is expected to continue to strengthen in Q4, as employment and income prospects in high-income countries firm.



Source: Bloomberg, JP Morgan and World Bank DEC Prospects



Source: Haver and World Bank DEC Prospects Group



Source: Datastream and World Bank DEC Prospects

## Economic Developments

indicators expressed as %ch y/y, except Industrial Production quarterly figures are %ch q/q, annualized

27-Sep-12

|                                    | 2008 | 2009  | 2010 | 2011 | 2011 |       |      |      | 2012 |      |      |      |      |
|------------------------------------|------|-------|------|------|------|-------|------|------|------|------|------|------|------|
|                                    |      |       |      |      | Q3   | Q4    | Q1   | Q2   | Mar  | Apr  | May  | June | July |
| <b>Industrial Production, S.A.</b> |      |       |      |      |      |       |      |      |      |      |      |      |      |
| World                              | 0.5  | -8.2  | 9.1  | 4.4  | 3.6  | 0.8   | 9.4  | -2.0 | 3.2  | 3.4  | 2.7  | 2.5  | 3.2  |
| High Income Countries              | -1.9 | -12.8 | 8.2  | 2.8  | 2.7  | -0.5  | 8.0  | -3.8 | 1.8  | 2.5  | 1.1  | 0.9  | 1.5  |
| Developing Countries               | 5.8  | 1.2   | 10.7 | 7.3  | 5.0  | 3.0   | 11.8 | 0.8  | 5.6  | 4.9  | 5.4  | 4.9  | 5.8  |
| East Asia and Pacific              | 10.8 | 8.5   | 14.5 | 11.6 | 10.7 | 4.2   | 17.0 | 2.7  | 10.4 | 8.6  | 8.9  | 7.9  | 7.9  |
| East Asia x. China                 | 2.7  | -3.3  | 9.5  | 0.1  | 8.9  | -30.4 | 45.6 | -0.2 | 2.2  | 4.2  | 4.2  | -1.0 | -1.1 |
| Europe and Central Asia            | 0.1  | -10.1 | 9.5  | 5.9  | 1.5  | 5.5   | 5.2  | -4.0 | 1.6  | 1.1  | 3.3  | 1.4  | 3.3  |
| Latin America and Caribbean        | 1.0  | -6.9  | 6.7  | 3.2  | 0.0  | -1.9  | 4.0  | -3.4 | -0.1 | -0.3 | -0.5 | -0.2 | 0.9  |
| Middle East and N. Africa          | 3.6  | -2.8  | 1.6  | -9.8 | -3.2 | 9.5   | 13.8 | 12.1 | 8.3  | 8.0  | 8.1  | 7.5  | -    |
| South Asia                         | 6.8  | -0.2  | 9.9  | 5.0  | -3.8 | 0.7   | 10.8 | -6.9 | -2.7 | -1.2 | 2.5  | -1.4 | -0.3 |
| Sub-Saharan Africa                 | -2.2 | 0.7   | 4.2  | 4.0  | -4.5 | 0.3   | -0.2 | 4.4  | -3.4 | -0.7 | -3.9 | 4.6  | -    |
| <b>Inflation, S.A.<sup>1</sup></b> |      |       |      |      |      |       |      |      |      |      |      |      |      |
| High Income Countries              | 3.4  | 0.2   | 1.6  | 2.7  | 3.0  | 2.8   | 2.4  | 1.9  | 2.3  | 2.1  | 1.8  | 1.8  | 1.6  |
| Developing Countries               | 8.4  | 4.3   | 5.8  | 7.1  | 7.5  | 7.0   | 6.4  | 6.1  | 6.4  | 6.4  | 6.0  | 5.9  | 5.8  |
| East Asia and Pacific              | 6.3  | -0.2  | 3.5  | 5.5  | 6.2  | 4.7   | 3.9  | 3.0  | 3.7  | 3.5  | 3.2  | 2.4  | 2.1  |
| Europe and Central Asia            | 12.5 | 8.9   | 7.1  | 8.1  | 8.0  | 8.6   | 7.6  | 6.8  | 7.4  | 7.5  | 6.3  | 6.7  | 7.5  |
| Latin America and Caribbean        | 6.4  | 5.6   | 7.7  | 12.6 | 7.1  | 7.2   | 6.8  | 6.3  | 6.5  | 6.3  | 6.3  | 6.3  | 6.1  |
| Middle East and N. Africa          | 16.9 | 9.3   | 6.1  | 6.8  | 13.0 | 13.5  | 14.8 | 16.2 | 15.1 | 15.7 | 15.6 | 17.1 | 17.9 |
| South Asia                         | 10.0 | 10.5  | 11.7 | 9.2  | 9.4  | 8.6   | 7.7  | 10.2 | 9.2  | 10.2 | 10.3 | 10.3 | 9.7  |
| Sub-Saharan Africa                 | 12.4 | 8.8   | 7.1  | 8.5  | 8.9  | 9.3   | 9.0  | 8.6  | 9.0  | 8.9  | 8.6  | 8.3  | 8.0  |

<sup>1</sup> Inflation is calculated as the GDP-weighted average for all groups.

## Trade and Finance

indicators expressed as %ch y/y, except International Reserves are %ch p/p and trade quarterly figures are %ch q/q, annualized

|                                     | 2008 | 2009  | 2010 | 2011 | 2011  |       |      |       | 2012 |      |      |       |       |
|-------------------------------------|------|-------|------|------|-------|-------|------|-------|------|------|------|-------|-------|
|                                     |      |       |      |      | Q3    | Q4    | Q1   | Q2    | Mar  | Apr  | May  | June  | July  |
| <b>Exports, Nominal, US\$, S.A.</b> |      |       |      |      |       |       |      |       |      |      |      |       |       |
| World                               | 15.9 | -22.8 | 21.8 | 19.2 | -0.4  | -7.7  | 16.2 | -8.7  | 1.7  | 0.0  | 0.2  | -2.1  | -3.9  |
| High Income Countries               | 13.8 | -23.0 | 18.4 | 17.7 | -1.3  | -11.0 | 16.6 | -12.2 | 0.3  | -1.5 | -2.8 | -3.6  | -5.4  |
| Developing Countries                | 21.1 | -22.5 | 29.9 | 22.5 | 1.4   | -0.5  | 15.6 | -1.0  | 4.8  | 3.2  | 6.7  | 1.1   | -0.6  |
| East Asia and Pacific               | 16.8 | -16.4 | 31.0 | 19.5 | 7.8   | -7.0  | 14.3 | 17.5  | 6.6  | 4.1  | 12.4 | 6.9   | -0.4  |
| Europe and Central Asia             | 30.8 | -32.6 | 26.9 | 29.3 | -7.0  | 22.1  | 18.2 | -21.9 | 7.4  | 1.2  | 4.9  | -2.6  | 0.4   |
| Latin America and Caribbean         | 11.4 | -20.0 | 28.1 | 22.5 | 1.4   | 2.9   | 14.1 | -20.2 | 4.9  | 2.8  | 0.2  | -6.6  | 0.9   |
| Middle East and N. Africa           | 38.4 | -36.3 | 27.3 | 17.0 | -12.2 | 23.6  | 9.5  | -     | 1.4  | 0.1  | 4.8  | -     | -     |
| South Asia                          | 28.0 | -13.3 | 31.4 | 32.3 | 4.3   | -21.1 | 11.9 | -7.0  | -9.0 | -0.1 | -4.5 | -6.5  | -13.4 |
| Sub-Saharan Africa                  | 28.5 | -31.0 | 35.4 | 25.6 | -10.0 | -11.7 | 34.2 | -     | 2.5  | 8.7  | 0.1  | -     | -     |
| <b>Imports, Nominal, US\$, S.A.</b> |      |       |      |      |       |       |      |       |      |      |      |       |       |
| World                               | 16.7 | -23.9 | 21.2 | 19.7 | -4.7  | -3.6  | 18.4 | -14.1 | 1.6  | -0.2 | -0.6 | -4.2  | -2.0  |
| High Income Countries               | 13.8 | -25.0 | 17.6 | 17.4 | -7.0  | -10.6 | 18.9 | -14.5 | -0.5 | -1.5 | -4.2 | -6.7  | -5.1  |
| Developing Countries                | 25.6 | -20.7 | 30.3 | 25.1 | 0.8   | 13.4  | 17.5 | -13.1 | 6.4  | 2.6  | 7.7  | 1.5   | 5.2   |
| East Asia and Pacific               | 21.4 | -15.5 | 37.2 | 24.9 | 10.3  | 22.6  | 14.9 | -14.9 | 6.2  | 2.3  | 13.2 | 6.2   | 7.6   |
| Europe and Central Asia             | 26.6 | -33.7 | 26.0 | 30.0 | -16.1 | 5.0   | 25.5 | -14.3 | 1.5  | -1.5 | 0.2  | -2.8  | 5.4   |
| Latin America and Caribbean         | 22.3 | -24.7 | 29.1 | 21.8 | -0.4  | 1.7   | 18.4 | -5.1  | 4.1  | 5.4  | 6.2  | -1.7  | 3.9   |
| Middle East and N. Africa           | 40.4 | -6.6  | 14.2 | 16.3 | 8.4   | 11.3  | 1.7  | -     | 10.5 | 12.9 | 15.4 | -     | -     |
| South Asia                          | 42.8 | -19.3 | 32.0 | 31.9 | -9.3  | 17.3  | 26.9 | -39.3 | 17.5 | 3.9  | -6.5 | -11.0 | -6.1  |
| Sub-Saharan Africa                  | 25.9 | -18.3 | 14.0 | 23.9 | -2.5  | 0.4   | 14.9 | -     | 6.3  | -4.0 | 9.6  | -     | -     |
| <b>International Reserves, US\$</b> |      |       |      |      |       |       |      |       |      |      |      |       |       |
| High Income Countries               | 5.7  | 15.6  | 10.8 | 11.8 | 2.5   | 2.0   | 1.6  | 3.0   | 0.0  | 0.7  | 0.2  | 2.0   | 0.8   |
| Developing Countries                | 12.9 | 15.0  | 14.7 | 9.7  | -0.4  | -0.8  | 2.9  | -0.9  | 0.1  | 0.7  | -2.4 | 1.0   | -     |
| East Asia and Pacific               | 23.5 | 22.7  | 19.3 | 11.8 | -0.1  | -0.8  | 3.6  | -1.9  | -0.1 | 0.1  | -2.7 | 0.8   | -     |
| Europe and Central Asia             | -8.8 | 2.4   | 7.5  | 2.0  | -3.5  | -4.1  | 2.5  | -0.7  | 0.3  | 1.8  | -3.1 | 0.7   | -1.1  |
| Latin America and Caribbean         | 11.3 | 10.3  | 15.6 | 16.9 | 2.9   | 2.1   | 3.2  | 2.9   | 1.9  | 1.9  | -0.6 | 1.6   | 0.4   |
| Middle East and N. Africa           | 22.6 | 5.1   | 5.9  | 3.1  | -0.3  | 0.9   | -    | -     | -    | -    | -    | -     | -     |
| South Asia                          | -9.0 | 10.9  | 5.4  | -1.9 | -2.9  | -4.6  | -1.2 | -1.0  | -0.3 | 0.7  | -2.9 | 1.3   | 0.1   |
| Sub-Saharan Africa                  | 7.8  | 2.3   | 0.7  | 10.5 | -1.3  | 2.5   | 2.2  | 1.1   | 0.2  | 2.1  | -0.6 | -0.4  | -     |

## Financial Markets

27-Sep-12

|  | 2009  | 2010  | 2011  | 2011<br>Q3 | 2011<br>Q4 | 2012<br>Q1 | 2012<br>Q2 | 2012<br>May | 2012<br>Jun | 2012<br>Jul | 2012<br>Aug | MRV <sup>1</sup> | Chg since<br>Sep-12 '08 <sup>3</sup> |
|--|-------|-------|-------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|------------------|--------------------------------------|
| <b>Interest rates and LIBOR (%)</b>              |       |       |       |            |            |            |            |             |             |             |             |                  |                                      |
| U.S. Fed Funds Effective                         | 0.16  | 0.18  | 0.10  | 0.08       | 0.08       | 0.08       | 0.08       | 0.16        | 0.16        | 0.16        | 0.13        | 0.15             | -1.95                                |
| ECB repo   | 0.70  | 0.48  | 0.82  | 0.93       | 0.41       | 0.41       | 0.41       | 0.12        | 0.10        | 0.02        | -0.01       | -0.01            | -4.38                                |
| US\$ LIBOR 3-months                              | 0.69  | 0.34  | 0.34  | 0.30       | 0.48       | 0.48       | 0.48       | 0.47        | 0.47        | 0.45        | 0.43        | 0.36             | -2.46                                |
| EURIBOR 3-months                                 | 1.23  | 0.81  | 1.39  | 1.56       | 1.50       | 1.50       | 1.50       | 0.69        | 0.66        | 0.50        | 0.33        | 0.22             | -4.74                                |
| US 10-yr Treasury yield                          | 3.24  | 3.20  | 2.77  | 2.41       | 2.03       | 2.03       | 2.03       | 1.78        | 1.61        | 1.50        | 1.66        | 1.62             | -2.11                                |
| German Bund, 10 yr                               | 3.24  | 2.76  | 2.63  | 2.27       | 1.97       | 1.97       | 1.97       | 1.38        | 1.35        | 1.23        | 1.33        | 1.36             | -2.82                                |
| <b>Spreads (basis points)</b>                    |       |       |       |            |            |            |            |             |             |             |             |                  |                                      |
| US Corporate (High Yield Bonds)                  | 1011  | 538   | 544   | 610        | 703        | 703        | 703        | 554         | 596         | 595         | 546         | 531              | -202                                 |
| JP Morgan Emerging Markets                       | 472   | 301   | 341   | 355        | 417        | 417        | 417        | 383         | 395         | 360         | 320         | 309              | -48                                  |
| Asia   | 374   | 206   | 218   | 227        | 269        | 269        | 269        | 257         | 270         | 237         | 204         | 193              | -103                                 |
| Europe   | 449   | 247   | 301   | 321        | 413        | 413        | 413        | 373         | 381         | 332         | 284         | 273              | -40                                  |
| Latin America & Caribbean                        | 510   | 360   | 404   | 418        | 467        | 467        | 467        | 427         | 444         | 416         | 375         | 367              | -21                                  |
| Middle East                                      | 574   | 342   | 366   | 393        | 430        | 430        | 430        | 450         | 484         | 484         | 483         | 447              | -51                                  |
| Africa   | 431   | 274   | 364   | 363        | 426        | 426        | 426        | 377         | 374         | 337         | 298         | 281              | -54                                  |
| <b>Stock Indices (end of period)<sup>2</sup></b> |       |       |       |            |            |            |            |             |             |             |             |                  |                                      |
| Global (MSCI)                                    | 299   | 331   | 300   | 281        | 300        | 300        | 300        | 298         | 312         | 316         | 322         | 331              | 3.3                                  |
| High-Income (\$ Index)                           | 1168  | 1280  | 1183  | 1104       | 1183       | 1183       | 1183       | 1178        | 1236        | 1251        | 1279        | 1309             | 2.0                                  |
| United States (S&P-500)                          | 1115  | 1258  | 1258  | 1131       | 1258       | 1258       | 1258       | 1310        | 1362        | 1379        | 1407        | 1433             | 14.5                                 |
| Euro Area (S&P-350\$)                            | 1358  | 1353  | 1171  | 1120       | 1171       | 1171       | 1171       | 1088        | 1172        | 1185        | 1233        | 1279             | -13.1                                |
| Japan (Nikkei-225)                               | 10546 | 10229 | 8455  | 8700       | 8455       | 8455       | 8455       | 8543        | 9007        | 8695        | 8840        | 8950             | -26.7                                |
| Developing Markets (MSCI)                        | 783   | 912   | 725   | 698        | 725        | 725        | 725        | 716         | 740         | 752         | 748         | 782              | 12.3                                 |
| Asia   | 778   | 906   | 732   | 711        | 732        | 732        | 732        | 744         | 758         | 770         | 763         | 802              | 26.4                                 |
| Europe & C. Asia                                 | 616   | 635   | 449   | 472        | 449        | 449        | 449        | 421         | 470         | 458         | 480         | 504              | -32.9                                |
| Latin America & Caribbean                        | 4117  | 4614  | 3602  | 3342       | 3602       | 3602       | 3602       | 3394        | 3521        | 3566        | 3540        | 3683             | 4.2                                  |
| Africa   | 815   | 1049  | 849   | 808        | 849        | 849        | 849        | 847         | 883         | 912         | 909         | 934              | 21.6                                 |
| <b>Exchange Rates (LCU / USD)</b>                |       |       |       |            |            |            |            |             |             |             |             |                  |                                      |
| <b>High Income</b>                               |       |       |       |            |            |            |            |             |             |             |             |                  |                                      |
| Euro Area  | 0.72  | 0.76  | 0.72  | 0.71       | 0.74       | 0.74       | 0.74       | 0.78        | 0.80        | 0.81        | 0.81        | 0.78             | 10.4                                 |
| Japan  | 93.55 | 87.81 | 79.77 | 77.76      | 77.35      | 77.35      | 77.35      | 79.75       | 79.27       | 78.97       | 78.68       | 77.70            | -27.7                                |
| <b>Developing</b>                                |       |       |       |            |            |            |            |             |             |             |             |                  |                                      |
| Brazil   | 2.00  | 1.76  | 1.67  | 1.64       | 1.80       | 1.80       | 1.80       | 1.98        | 2.05        | 2.03        | 2.03        | 2.03             | 13.8                                 |
| China  | 6.83  | 6.77  | 6.47  | 6.42       | 6.36       | 6.36       | 6.36       | 6.33        | 6.36        | 6.37        | 6.36        | 6.30             | -7.9                                 |
| Egypt  | 5.55  | 5.64  | 5.94  | 5.96       | 5.99       | 5.99       | 5.99       | 6.04        | 6.05        | 6.06        | 6.08        | 6.09             | 12.0                                 |
| India  | 48.42 | 45.73 | 46.67 | 45.81      | 50.87      | 50.87      | 50.87      | 54.42       | 56.07       | 55.45       | 55.56       | 53.23            | 16.4                                 |
| Russia   | 31.76 | 30.38 | 29.41 | 29.16      | 31.21      | 31.21      | 31.21      | 30.93       | 32.82       | 32.50       | 31.95       | 31.07            | 21.5                                 |
| South Africa                                     | 8.43  | 7.32  | 7.26  | 7.14       | 8.10       | 8.10       | 8.10       | 8.16        | 8.39        | 8.25        | 8.27        | 8.19             | 1.5                                  |
| Memo: USA nominal effective rate                 | 86.30 | 83.47 | 78.33 | 77.01      | 79.28      | 79.28      | 79.28      | 81.09       | 81.99       | 82.10       | 81.18       | 81.18            | -5.5                                 |

<sup>1</sup> MRV = Most Recent Value.

<sup>2</sup> MSCI Indices for Asia, Africa, and Europe and C. Asia, for 2008 are calculated from February-December, due to data availability.

<sup>3</sup> Change expressed in levels for interest rates and spreads; percent change for stock market and exchange rates.

## Commodity Prices

|  | 2009 | 2010 | 2011 | 2011<br>Q3 | 2011<br>Q4 | 2012<br>Q1 | 2012<br>Q2 | 2012<br>May | 2012<br>Jun | 2012<br>Jul | 2012<br>Aug | MRV | Chg since<br>Sep-12 '08 <sup>3</sup> |
|--|------|------|------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|-----|--------------------------------------|
| Oil price, \$/b, nominal <sup>1</sup>  | 62   | 79   | 104  | 103        | 103        | 103        | 103        | 104         | 91          | 97          | 105         | 102 | 4.5                                  |
| Non - Oil Index <sup>2</sup>           | 150  | 194  | 234  | 234        | 206        | 206        | 206        | 205         | 198         | 209         | 207         | 211 | 7.8                                  |
| Food Index <sup>2</sup>                | 173  | 193  | 238  | 239        | 225        | 225        | 225        | 231         | 229         | 254         | 259         | 263 | 29.3                                 |
| Metals and Minerals Index <sup>2</sup> | 127  | 189  | 216  | 220        | 183        | 183        | 183        | 184         | 176         | 175         | 168         | 182 | -1.7                                 |
| Baltic Dry Index <sup>3</sup>          | 2598 | 2755 | 1546 | 1533       | 1916       | 1916       | 1916       | 1104        | 934         | 1056        | 759         | 752 | -84.3                                |

<sup>1</sup> Simple average of Brent, Dubai and WTI.

<sup>2</sup> Base Date = Jan 1, 2005

<sup>3</sup> Base Date = May 1, 1985