



Weekly Global Economic Brief

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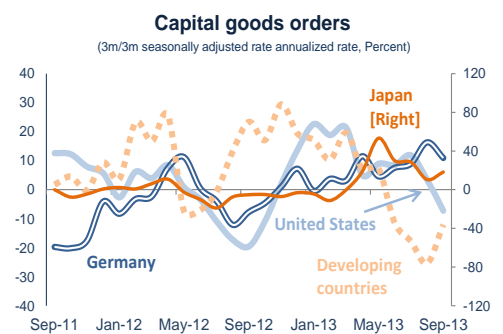
14th of November 2013

A broadly-based recovery remains elusive. While orders for capital goods are picking up in the Euro Area, they have slowed in the United States, reflecting fiscal and monetary policy uncertainties, and are declining for developing countries considered as a whole. With a few exceptions, monetary policy in developing countries has continued to ease. Low interest rates in recent years have contributed to rapid accumulation of household debt, especially in the East Asia and Pacific region, subjecting them to risks from future tightening of financial conditions.

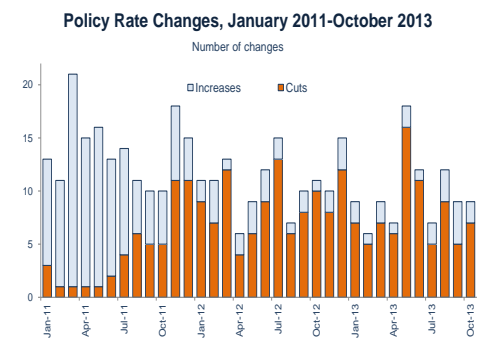
Diverging trends in demand for investment goods argue against a broadly-based recovery. Orders for capital goods, an indicator of future business investment plans, are experiencing diverging trends across regions. A nascent recovery in the Euro Area economy is fueling demand for German machinery and equipment. Orders for Japanese investment goods rose at an annualized 18 percent pace in the third quarter, but slowing of GDP growth (to an annualized 1.9% in Q3 from 3.8% in Q2) has raised concerns of potential headwinds. In the US, although GDP growth picked up to annualized 2.8 percent pace, investment goods orders contracted in two out of the three months in the third quarter, mainly reflecting fiscal and monetary policy uncertainties. Developing-country investment orders are still contracting, but the pace of deterioration has eased led by rising orders in China. These heterogeneous trends in investment orders are consistent with a still hesitant recovery in global growth.

Monetary policy in developing countries has been on an easing path since late 2011, despite non-receding inflation. Since November 2011, the number of rate cuts by developing-country central banks has outnumbered rate increases by a ratio of 4. This ratio did not substantially change during the summer when several middle-income economies (Brazil, Indonesia, India) increased rates in an effort to support currencies under stress from the reversal in capital flows associated with higher US treasury rates. Weak growth coupled with low inflation prompted rate cuts in Hungary, Mexico, and Romania. Notwithstanding elevated inflation, policy rates have also been cut in other economies (Armenia, Egypt) experiencing weak growth. Policy rates in Asian countries have been mostly on hold (China, Thailand, Malaysia) since June or tightening (Indonesia) as they start to deal with domestic imbalances.

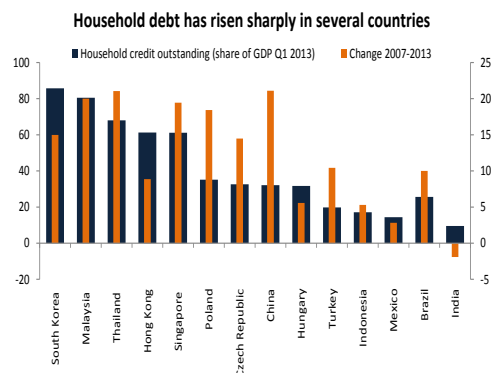
Easy international and domestic monetary conditions have contributed to increased households indebtedness in several countries, exposing them to downside risks. Low interest rates in the post-crisis period have translated into very fast increases in credit and household debt particularly in East Asia. In China, Malaysia and Thailand, household debt as a proportion of GDP has increased by more than 20 percentage points since 2007, with credit-to-GDP ratios reaching 80 percent of GDP in Malaysia and 68 percent in Thailand. Credit-to-GDP ratios in Brazil and Turkey rose by more than 10 percentage points in this period. This trend partly reflects deepening of financial markets – which is broadly healthy. However, a too rapid accumulation of debt by new borrowers in an environment of low interest rates may be increasing the likelihood of a crisis in some countries. When monetary policy normalizes and global and local interest rates rise, borrowers may have trouble servicing debt that is rolled over at new higher rates – potentially sparking an uptick in non-performing loans and the risk of banking sector crises.



Note: US capital goods orders exclude defense and aircrafts orders. Japan machinery orders excluding volatile components. Capital goods import orders for developing countries. Source: World Bank DEC Prospects Group and Datastream



Source: World Bank DEC Prospects Group and Central Bank Rates.



Source: World Bank DEC Prospects Group BIS, Datastream, McKinsey, Wall Street Journal.

Economic Developments

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

	2009	2010	2011	2012	2012 2013				2013			
					Q4	Q1	Q2	Q3	June	July	August	Sep.
Industrial Production, S.A.												
World	-6.7	9.5	5.2	3.5	3.0	4.0	3.0	5.8	2.8	3.3	3.9	4.6
High Income Countries	-12.8	7.8	2.5	0.8	-2.4	1.3	2.8	2.9	0.0	0.3	0.8	2.3
Developing Countries	4.3	12.6	9.7	7.3	9.9	7.3	3.6	9.9	6.5	7.4	7.9	7.7
East Asia and Pacific	8.6	14.5	11.7	9.2	13.9	8.5	4.0	11.7	8.2	9.0	10.3	9.2
East Asia x. China	-3.3	8.9	0.5	4.1	25.7	0.1	-2.7	-	3.3	3.6	8.6	-
Europe and Central Asia	-10.9	9.8	6.3	1.0	1.7	4.1	2.2	-	3.4	3.3	1.7	-
Latin America and Caribbean	-6.3	5.9	2.6	-0.4	-1.5	-0.5	3.9	-	1.0	0.1	-0.8	-
Middle East and N. Africa	-3.3	1.9	-8.2	2.9	-11.5	2.6	2.5	-	-4.8	-	-	-
South Asia	-0.3	9.7	4.8	0.8	7.7	3.6	-10.0	-	-1.6	2.9	0.8	-
Sub-Saharan Africa	-8.4	4.9	0.6	1.5	-0.8	-2.3	7.6	-	-2.2	-	-	-
Inflation, S.A.¹												
High Income Countries	0.5	1.7	2.8	2.0	1.9	1.6	1.5	1.7	1.7	1.9	1.7	1.5
Developing Countries	2.6	5.2	6.7	5.3	5.1	5.5	5.7	6.2	6.0	6.2	6.1	6.3
East Asia and Pacific	-0.4	3.4	5.4	2.8	2.2	2.6	2.6	3.0	2.8	3.0	2.9	3.3
Europe and Central Asia	6.6	7.8	7.7	8.9	6.6	6.8	6.5	6.9	7.3	7.5	6.8	6.5
Latin America and Caribbean	6.2	7.0	11.3	15.7	6.7	7.5	9.0	9.9	9.6	9.6	9.9	10.2
Middle East and N. Africa	8.6	6.5	7.5	6.8	19.2	21.1	22.1	21.2	22.3	23.0	21.5	-
South Asia	11.2	11.9	9.8	9.5	9.7	10.2	9.0	9.3	9.3	9.3	9.2	9.3
Sub-Saharan Africa	9.0	7.7	8.7	9.9	10.1	8.8	7.8	7.2	7.5	7.6	7.3	7.1

¹ 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

	2009	2010	2011	2012	2012 2013				2013			
					Q4	Q1	Q2	Q3	June	July	August	Sep.
Exports, Nominal, US\$, S.A.												
World	-22.7	22.4	19.2	0.4	9.9	7.3	-4.8	-	0.8	5.4	2.6	-
High Income Countries	-23.3	19.7	18.2	-0.8	7.2	3.7	-0.7	-	1.5	5.2	1.4	-
Developing Countries	-21.1	29.3	21.6	3.5	16.0	15.3	-13.7	2.4	-1.0	5.6	5.2	2.1
East Asia and Pacific	-16.4	30.9	19.6	6.4	17.6	26.7	-19.7	-2.9	-2.3	4.7	6.9	0.0
Europe and Central Asia	-27.0	18.4	25.4	1.3	5.4	14.6	-7.3	-	0.4	8.6	-0.9	-
Latin America and Caribbean	-20.6	28.2	23.2	2.0	10.7	-9.6	7.9	3.1	4.7	2.4	0.6	5.1
Middle East and N. Africa	-35.9	26.6	17.0	1.4	36.7	-	-	-	-	-	-	-
South Asia	-13.3	33.5	32.5	-3.2	7.5	22.8	-20.6	51.5	-2.0	12.0	12.9	11.8
Sub-Saharan Africa	-30.7	35.3	22.6	-3.3	19.8	-	-	-	-	-	-	-
Imports, Nominal, US\$, S.A.												
World	-23.4	21.9	19.6	0.8	11.2	4.9	-6.9	-	-0.5	5.6	0.0	-
High Income Countries	-24.8	18.8	17.7	-0.9	7.7	1.4	-5.4	-	-1.1	4.4	-1.3	-
Developing Countries	-19.7	29.7	24.2	4.6	18.9	13.0	-10.4	-0.3	0.6	8.2	2.8	3.0
East Asia and Pacific	-15.4	37.1	24.4	5.6	23.0	19.0	-15.1	6.5	0.9	10.3	5.6	6.0
Europe and Central Asia	-31.8	21.7	26.1	0.1	2.0	20.1	-0.1	-	1.8	9.3	-2.5	-
Latin America and Caribbean	-24.2	28.5	21.4	3.4	26.0	6.7	-1.2	-5.8	-0.3	10.9	0.7	5.8
Middle East and N. Africa	-8.6	13.6	16.7	10.0	3.4	-	-	-	-	-	-	-
South Asia	-19.6	34.0	31.5	4.0	25.4	3.4	-19.2	-23.9	1.5	-3.4	1.2	-13.7
Sub-Saharan Africa	-18.3	14.0	23.1	3.8	11.1	-	-	-	-	-	-	-
International Reserves, US\$												
High Income Countries	13.7	10.4	11.1	9.5	1.7	-0.1	0.3	2.1	-0.3	0.5	0.2	1.4
Developing Countries	16.7	15.4	10.0	5.0	1.2	2.3	0.6	3.2	-0.9	1.0	-0.2	2.4
East Asia and Pacific	22.7	19.3	11.8	4.5	1.0	3.2	1.0	4.2	-0.8	1.2	-0.1	2.9
Europe and Central Asia	7.8	8.4	2.6	3.1	0.3	2.1	-0.2	0.4	-2.3	0.2	-1.1	1.5
Latin America and Caribbean	10.2	16.2	15.1	8.3	0.4	1.7	-1.1	0.4	-0.7	0.7	-0.8	0.4
Middle East and N. Africa	5.1	5.9	2.6	6.0	3.3	-0.7	1.9	-	0.2	-	-	-
South Asia	10.9	5.4	-1.9	-0.2	0.5	-1.0	-1.7	-2.1	-1.2	-1.8	-0.9	0.5
Sub-Saharan Africa	3.0	0.6	10.3	12.3	4.9	-	-	-	-	-	-	-

Financial Markets

	2009	2010	2011	2012	2012 Q4	2013 Q1	Q2	Q3	2013 June	July	August	Sept	MRV ¹	Chg since Sep-12 '08 ³
Interest rates and LIBOR (%)														
U.S. Fed Funds Effective	0.16	0.18	0.10	0.14	0.16	0.14	0.12	0.09	0.10	0.09	0.08	0.08	0.08	-2.02
ECB repo	0.70	0.48	0.82	0.06	-0.01	0.02	0.02	0.05	0.02	0.05	0.05	0.05	0.07	-4.30
US\$ LIBOR 3-months	0.69	0.34	0.34	0.43	0.32	0.29	0.28	0.26	0.27	0.27	0.26	0.25	0.24	-2.58
EURIBOR 3-months	1.23	0.81	1.39	0.57	0.20	0.21	0.21	0.22	0.21	0.22	0.23	0.22	0.22	-4.74
US 10-yr Treasury yield	3.24	3.20	2.77	1.78	1.69	1.93	1.98	2.70	2.29	2.56	2.73	2.80	2.77	-0.96
German Bund, 10 yr	3.24	2.76	2.63	1.49	1.30	1.49	1.39	1.77	1.58	2.56	1.80	1.90	1.79	-2.39
Spreads (basis points)														
US Corporate (High Yield Bonds)	1011	538	544	543	497	434	416	380	424	397	380	364	341	-392
JP Morgan Emerging Markets	472	301	341	342	285	277	308	347	345	338	351	351	358	1
Asia	374	206	218	216	166	180	202	254	235	232	262	269	248	-48
Europe	449	247	301	320	231	225	254	299	287	286	306	304	303	-10
Latin America & Caribbean	510	360	404	393	351	332	370	406	414	405	408	405	432	44
Middle East	574	342	366	449	435	413	460	439	471	436	429	451	417	-81
Africa	431	274	364	337	275	277	312	359	353	351	364	362	352	17
Stock Indices (end of period)²														
Global (MSCI)	299	331	300	340	340	360	356	382	356	372	364	382	394	23.2
High-Income (\$ Index)	1168	1280	1183	1339	1339	1435	1434	1544	1434	1508	1473	1544	1599	24.6
United States (S&P-500)	1115	1258	1258	1426	1426	1569	1606	1682	1606	1686	1633	1682	1768	41.2
Euro Area (S&P-350\$)	1358	1353	1171	1354	1354	1379	1362	1541	1362	1462	1438	1541	1584	7.7
Japan (Nikkei-225)	10546	10229	8455	10395	10395	12398	13677	14456	13677	13668	13389	14456	14567	19.3
Developing Markets (MSCI)	783	912	725	833	833	819	746	784	746	753	739	784	788	13.0
Asia	778	906	732	864	864	851	798	833	798	805	794	833	846	33.3
Europe & C. Asia	616	635	449	548	548	496	470	521	470	496	498	521	535	-28.8
Latin America & Caribbean	4117	4614	3602	3798	3798	3816	3187	3303	3187	3152	3047	3303	3212	-9.1
Africa	815	1049	849	992	992	912	841	906	841	865	849	906	907	18.1
Exchange Rates (LCU / USD)														
High Income														
Euro Area	0.72	0.76	0.72	0.78	0.77	0.76	0.77	0.75	0.76	0.76	0.75	0.75	0.75	5.7
Japan	93.55	87.81	79.77	79.81	81.22	92.19	98.66	98.92	97.51	99.63	97.82	99.31	99.57	-7.4
Developing														
Brazil	2.00	1.76	1.67	1.95	2.06	2.00	2.07	2.29	2.17	2.25	2.34	2.27	2.33	30.3
China	6.83	6.77	6.47	6.31	6.24	6.22	6.15	6.13	6.13	6.13	6.12	6.12	6.09	-11.0
Egypt	5.55	5.64	5.94	6.07	6.12	6.69	6.95	6.97	7.00	7.01	6.99	6.90	6.89	26.7
India	48.42	45.73	46.67	53.43	54.21	54.18	55.92	62.19	58.38	59.81	62.92	63.83	63.49	38.8
Russia	31.76	30.38	29.41	31.06	31.07	30.43	31.68	32.79	32.37	32.77	33.02	32.57	32.80	28.2
South Africa	8.43	7.32	7.26	8.21	8.69	8.95	9.49	9.99	10.01	9.92	10.07	9.98	10.35	28.3
Memo: USA nominal effective rate	86.30	83.47	78.33	80.68	80.57	83.90	86.39	86.34	85.92	87.15	85.93	85.94	84.82	-1.3

¹ MRV = Most Recent Value.

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

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

Commodity Prices

	2009	2010	2011	2012	2012 Q4	2013 Q1	Q2	Q3	2013 June	July	August	Sept	MRV	Chg since Sep-12 '08 ³
Oil price, \$/b, nominal ¹	62	79	104	105	102	105	99	107	100	105	108	109	101	3.5
Non - Oil Index ²	150	194	234	208	205	207	193	185	190	185	185	184	183	-6.4
Food Index ²	173	193	238	240	242	236	230	210	230	217	208	206	201	-0.9
Metals and Minerals Index ²	127	189	216	184	181	190	169	169	163	165	173	170	168	-9.6
Baltic Dry Index ³	2598	2755	1546	917	932	797	889	1298	941	1123	1092	1681	1531	-68.1

¹ Simple average of Brent, Dubai and WTI.

² Base Date = Jan 1, 2005

³ Base Date = May 1, 1985