WORLD BANK GROUP
Equitable Growth, Finance & Institutions
Prospects Group

Global Monthly

November 2020

Overview

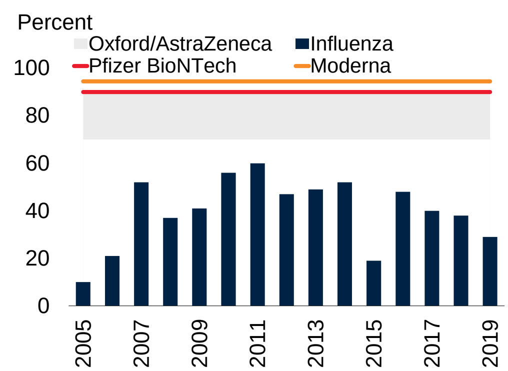
- The global economic recovery has continued despite a further worsening of the pandemic.
- Amid rising COVID-19 cases, restrictions on activity are increasing across many advanced economies and EMDEs in Europe and Central Asia.
- Preliminary findings regarding the effectiveness of COVID-19 vaccines have helped lift investor optimism, with equity and oil prices rising strongly.

Table of Contents

Chart of the Month

- Interim results from the stage 3 trials of the Pfizer-BioNTech, Moderna, and Oxford-AstraZeneca COVID-19 vaccines suggest that the vaccines were up to 95 percent successful in preventing COVID-19.
- Effectiveness above 90 percent is far higher than that of the typical influenza vaccine, whose effectiveness has averaged about 40 percent over the past 15 years.
- Although emergency use authorization of the vaccine could be granted by authorities as early as December, widespread rollout is not expected for several months after approval.

Vaccine effectiveness



Sources: Centers for Disease Control and Prevention; World Bank.
Note: The blue bars show the estimates for adjusted overall vaccine effectiveness for influenza seasons from 2004-19. 2005 refers to 2004-2005 flu season. Red and orange horizontal lines show estimated effectiveness of the recently announced Pfizer-BioNTech and Moderna vaccine candidates against COVID-19.

Special Focus: Persistence of commodity price shocks

- Commodity prices have been subject to a series of permanent and transitory unanticipated shocks throughout history.
- The analysis of 27 commodity prices from 1970 to 2019 finds that permanent and transitory shocks contribute broadly equally to price variation, albeit with a high degree of heterogeneity across commodities.
- Countercyclical macro-economic policies are essential to deal with transitory shocks, whereas structural policies are needed for EMDEs that are subject to permanent shocks.

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 John Baffes, Damien Boucher, Kaltrina Temaj, Osamu Inami, Alain Kabundi, Sergiy Kasyanenko, Patrick Kirby, Hazel Macadangdang, Peter Nagle, Cedric Okou, Ceylan Oymak, Vasiliki Papagianni, Franz Ruch, Shijie Shi, Ekaterine Vashakmadze, Dana Vorisek, and Jinxin Wu. This Global Monthly reflects data available up to November 16. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: resilient recovery despite pandemic resurgence. The recovery in global activity from its collapse in the Q2 has so far proved resilient in the face of pandemic resurgence. Following large GDP rebounds in several major advanced economies in Q3, the global composite PMI increased further from 52.5 in September to 53.3 in October, as activity improved in the manufacturing and services sectors. Rising momentum continued into November, with the Sentix index of global economic sentiment turning positive for the first time in 9 months (figure 1.A). The pandemic however is worsening, with new daily cases and restrictions on activity rising across many advanced economies. While early results of COVID-19 vaccine effectiveness boost the prospect of durable pandemic containment next year, they do not alleviate the current resurgence.

Global trade: uneven improvement. Recent data point to a slowdown in the pace of the recovery of global trade. In October, the new export orders PMI sub-index slipped 0.5 point to 51.2 for manufacturing and 0.6 point to 46.2 for services. This follows several months of improvement for goods trade amid stagnation for services trade. The volume of global goods trade increased 16 percent in the three months ending in August, approaching its pre-pandemic levels. International tourism, however, remains deeply depressed, with more than half of reporting countries facing year-over-year declines in tourist arrivals of more than 75 percent in September. Since August, the number of international commercial flights has remained flat at about 60 percent of 2019 levels (figure 1.B). The Regional Comprehensive Economic Partnership (RCEP) was signed by fifteen Asia-Pacific nations on November 15th. The pact, once ratified by all its members, covers almost a third of the global population and global activity, and is expected to boost growth in the coming years by lowering barriers to trade.

Global financing conditions: investor optimism returns. Global equity markets surged in November as positive news about a COVID-19 vaccine's effectiveness boosted investor sentiment (figure 1.C). Meanwhile, the 10 year-3 month U.S. Treasury spread widened to its highest level since early June, signaling a more optimistic economic outlook. Still, exceptionally low borrowing costs pushed the volume of negative-yielding debt to its record high level of about USD 17.5 trillion—or 32 percent of total—in late November. While the pace of U.S. corporate debt issuance slowed in October, year-to-date issuance exceeds that of 2019 by almost 50 percent. The ability of firms to raise new

FIGURE 1.A Global Sentix index

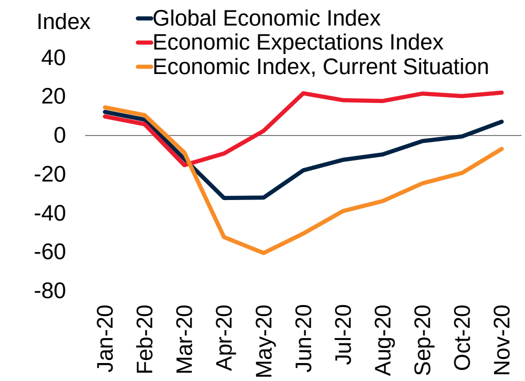


FIGURE 1.B Number of commercial international flights

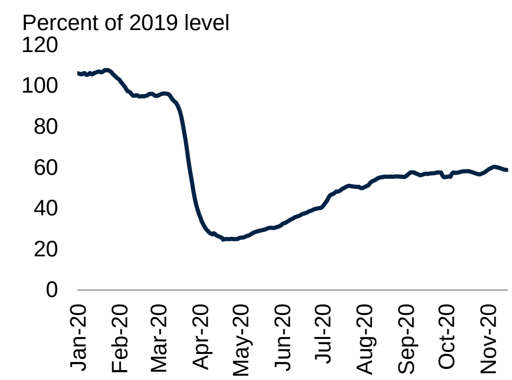
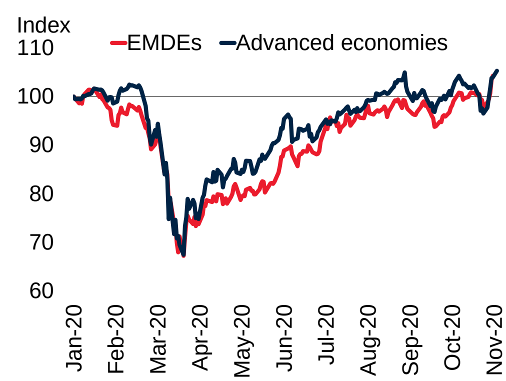


FIGURE 1.C Global equity markets



Sources: Bloomberg; Haver Analytics; FlightRadar; Sentix GMBH; World Bank.
Note: EMDES= Emerging market and developing economies.
A. Figure shows Global Sentix Overall Economic Index, Global Sentix Economic Expectations/Sentiment Index and Global Sentix Economic Index, Current Situation. The Sentix sentiment indices reflect the expectations of future economic developments of over 5000 private and institutional investors. An index above 0 indicates net expectations of an improvement in economic conditions; an index below 0 indicates net expectations of a deterioration in economic conditions.
B. Blue line shows the ratio of the 7 day moving average of commercial flights in 2020 over the 2019 equivalent.
C. EMDEs and AEs equity values are MSCI stock market indices. Last observation is November 6, 2020.

debt—coupled with government support and loan forbearance—is helping to keep the pace of credit defaults and downgrades below that of the global financial crisis (figure 2.A).

EMDE financing conditions: capital flows inch up. Improving risk appetite prompted a modest recovery of portfolio flows to EMDEs (figure 2.B). Most EMDE stock markets bounced back in November, but they remain below their pre-pandemic levels in many countries. Although EMDE currencies mostly strengthened this month, the Argentinian peso continued to weaken. Amid improving appetite for risk and a search for yield, EMDE sovereign credit spreads generally narrowed in November, falling to their lowest level since late February. Some heavily indebted EMDEs, however, are beginning to experience financial difficulties amplified by the pandemic. For example, Zambia defaulted on its debt in mid-November, and saw its credit rating downgraded and credit spreads widen by almost 4 percentage points since end-September.

Commodity markets: vaccine-driven increase. In October, oil prices fell 2 percent, averaging slightly below $40/bbl as the re-imposition of some lockdown measures led to renewed concerns over oil demand. Average natural gas prices increased 16 percent, spurred by rising demand due to colder temperatures and lower supply due to brief shutdowns caused by Hurricane Delta. Metals prices were broadly unchanged in October, with small declines in iron and lead. Agriculture commodity prices continue to experience modest gains on the month despite a 7 percent decline in beverage commodity prices, as food prices continued their upward trajectory. In November, several commodities, particularly crude oil, saw sharp price increases as the announcement of an effective COVID-19 vaccine lifted investor appetite for risky assets and boosted prospects for a recovery in oil demand (figure 2.C).

United States: recovery amid worsening pandemic. GDP growth rebounded sharply to 33.1 percent in Q3 (q/q saar) after falling 31.4 percent in Q2. Still, the level of activity remains nearly 3.5 percent below its end-2019 level. Economic activity has continued to recover despite a persistent rise in daily COVID-19 infections. The unemployment rate declined by a further one percentage point in October, to 6.9 percent, as the participation rate rose from 61.4 to 61.7 percent, signaling continued healing of the labor market (figure 3.A). The November manufacturing PMI rose to 56.7, the highest level since September 2014, whereas the service PMI increased 2.3 points to a robust 57.7 in November. According to projections, former Vice-President Biden won the

FIGURE 2.A U.S. bankruptcy filings

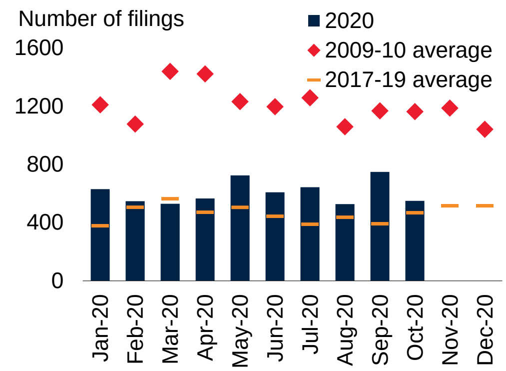


FIGURE 2.B EMDE portfolio flows

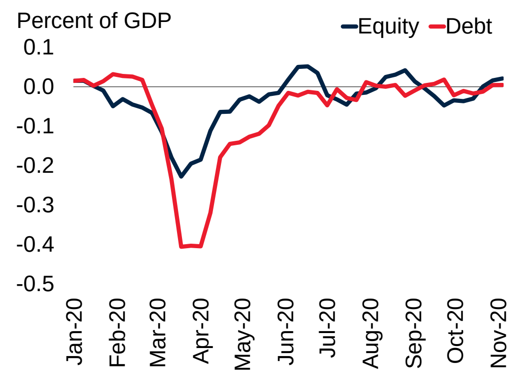
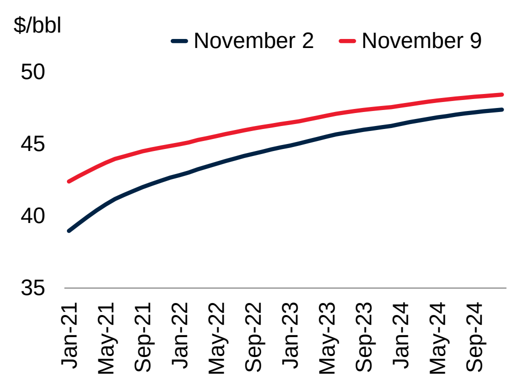


FIGURE 2.C Price of Brent futures



Source: Bloomberg; Haver Analytics; International Monetary Fund; Institute for International Finance; Securities Industry and Financial Markets Association; World Bank.
A. Figure shows number of firm fillings for bankruptcy in 2020 compared to historical averages.
B. 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 November 6, 2020.
C. The data shows the price of Brent futures 1 day before the election as well as the first Monday after the results are announced. Latest futures option is shown for December 2024.

presidential election, with the Democratic Party retaining control of the House of Representatives and the Republican party likely retaining Senate control.

Euro area: a short-lived recovery. Area-wide GDP rebounded by an astounding 60.5 percent in Q3 (q/q saar) following two consecutive quarters of double-digit annualized contraction. Much of the strength in Q3 reflected momentum left over from the end of Q2 when several countries relaxed strict government-imposed lockdowns. The pace of economic recovery has cooled considerably since early in Q3, and renewed lockdowns in several member countries are expected to weigh heavily on area-wide activity in Q4. In November, consumer confidence fell by 2.1 points to -17.6, while the service sector PMI slipped deeper into contractionary territory from 46.9 to 41.3 (figure 3.B). In contrast, the manufacturing PMI remained in expansionary territory, but declined from 54.8 in October to 53.6 in November.

Japan: broad-based pickup. Output growth rebounded sharply to 21.4 percent (q/q saar) in Q3, led by exports and private consumption, particularly for goods (figure 3.C). Household spending surged by 3.8 percent m/m in September, as COVID-19 caseloads declined from their August peak. At the same time, the Cabinet Office's index of leading economic indicators increased from 88.5 to 92.9 in September, reaching its highest level since July 2019. Although the recovery likely continued through October, the recent rise in new COVID-19 cases is weighing on activity in November, with the service sector PMI falling 1 point to 46.7, and the manufacturing PMI declining from 48.7 to 48.3.

China: recovery gathering steam. High-frequency indicators continue to show sustained improvement in business conditions. The expansion in industrial production held steady in October, at 6.9 percent (y/y), while retail sales rose to 4.3 percent (y/y). The current account surplus narrowed from 3.1 to 2.5 percent of GDP in 2020Q3 as imports of goods surged (figure 4.A). Inflation eased to 0.5 percent (y/y) in October 2020, driven by a sharp slowdown in food price inflation. The Central Committee concluded its final plenum of the current planning cycle, setting new policy directions for the next five years. Key policy priorities include improving the quality of growth, accelerating "hukou"-based urbanization, promoting green and low-carbon development, and increasing self-reliance in technology.

FIGURE 3.A U.S. unemployment and labor participation rates

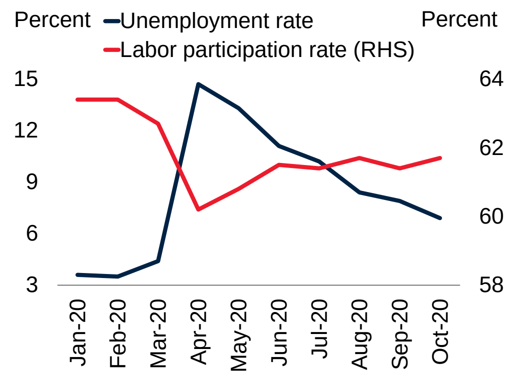


FIGURE 3.B Euro area Purchasing Managers' Index

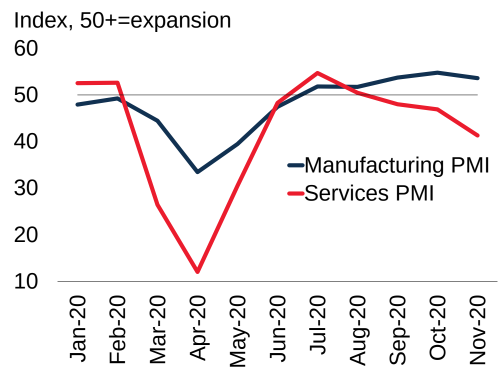
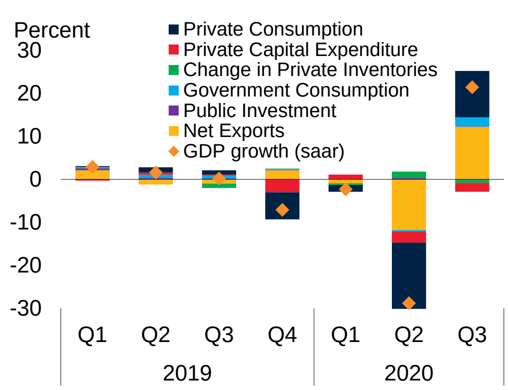


FIGURE 3.C Output growth in Japan



Source: Bureau of Labor Statistics; Cabinet Office of Japan; Haver Analytics; World Bank.
A. Last observation is October 2020.
B. PMI readings above (below) 50 indicate expansion (contraction) in economic activity. Last observation is October 2020.
C. Chart shows contributions to quarter-to-quarter percent change in real GDP for Japan, seasonally adjusted and annualized.

Commodity-exporting EMDEs: weakening recovery. Although the year-over-year contraction in GDP across several EMDEs eased in Q3, output remains well below pre-pandemic levels (figure 4.B). In Russia, output fell 3.6 percent in Q3 (y/y), reflecting continued weakness in services and manufacturing activity. In Indonesia, GDP contracted by 3.5 percent (y/y) in Q3 after a 5.3 percent fall in Q2, as the pandemic continued to weigh on domestic demand. Output in Nigeria continued to contract in Q3, falling 3.6 percent (y/y), as activity was hindered by subdued oil prices and lower oil production as well as earlier COVID-19 restrictions, while inflation rose to a new two-year high of 14.2 percent. In contrast, the composite PMI for Brazil rose to 55.9 in October, while the manufacturing PMI reached an all-time high of 66.7. Economic activity expanded in October for the second consecutive month in Saudi Arabia, with the non-oil private sector PMI rising to 51—its highest reading in eight months as lockdown restrictions eased. In South Africa, the manufacturing PMI edged up in October for the third consecutive month, suggesting a further expansion of industrial activity; car sales, however fell 25.4 percent (y/y), and the PMI's employment sub-index remained in contractionary territory.

Commodity-importing EMDEs: COVID-19 resurgences causing uneven recovery. The sharp acceleration of COVID-19 cases in some commodity-importing EMDEs, particularly those in Europe and Central Asia, has led to a decline in mobility in November (figure 4.C). Despite the uptick in COVID-19 cases, industrial activity continued to expand in Turkey and Poland going into Q4 as external demand firmed, with production now exceeding pre-pandemic levels. Output in the Philippines contracted sharply in Q3, to 11.5 percent (y/y), as elevated unemployment weighed on household spending. Incoming survey data point to continued weakness in Q4, with the manufacturing PMI slipping back into contraction in October. In contrast, the services PMI in India expanded to 54.1 in October after seven months of contraction, and the manufacturing PMI in October rose to its highest reading in over a decade, to 58.9. GDP in Mexico expanded by 12 percent (q/q sa) in Q3, after shrinking 17.1 percent in Q2. The industrial sector performed markedly better than the services and primary sectors, boosted by a reopening of factories and strengthening external demand, but sentiment indicators suggest that momentum may not be sustained. Egypt's non-oil private sector expanded for the second month in October, with the PMI reaching 51.4, its highest reading in six years, led by further gains in the new export orders sub-component.

FIGURE 4.A China: Capital flows

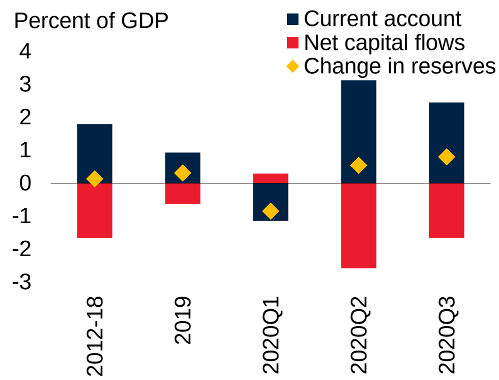


FIGURE 4.B GDP growth in EMDEs

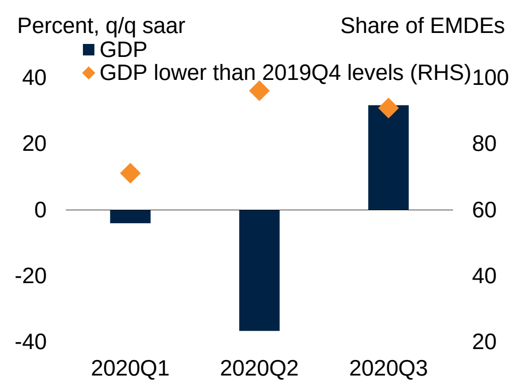
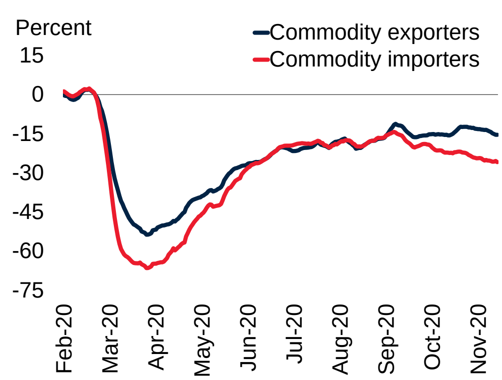


FIGURE 4.C Mobility trends for retail and recreation in EMDEs



Source: Haver Analytics; National Bureau of Statistics of China; World Bank.
A. Figure shows simple average and quarterly value of China's current account, net capital flows and change in reserves.
B. Blue bars show the quarterly GDP growth rates for 21 EMDEs excluding China. Orange diamonds show the share of countries with lower GDP compared to pre-pandemic levels from a sample of 22 EMDEs.
C. Figure shows 7-day moving averages for percent change relative to baseline data for retail and recreation. "Retail and recreation" reflect data on visits and length of stay and are calculated by Google. Sample includes 97 EMDEs, of which 62 are commodity exporters and 35 are commodity importers.

Special Focus: Persistence of commodity price shocks

Throughout history, commodity prices have responded to many unanticipated developments or "shocks" to the supply and demand of commodities. Some shocks are permanent, while others are transitory. Research featured in the October 2020 *Commodity Markets Outlook* analyzes the permanent and transitory shocks that drive the prices of 27 commodities during 1970-2019. A notable heterogeneity in the behavior of shocks suggests a need for policy flexibility in commodity-exporting EMDEs, with countercyclical macro-economic policies essential to deal with transitory shocks, and structural policies better suited to addressing permanent shocks.

Permanent and transitory shocks account for roughly equal shares. On average, permanent shocks accounted for 47 percent of price variability (figures 5.A and 5.B). Transitory shocks, which consist of three components, are distributed as follows: medium-term cycles (that is, cycles with periodicity between 8-20 years) accounted for 32 percent of price variability, and business cycles (corresponding to cycles with periodicity of 2-8 years) for 17 percent. Only a small portion (4 percent) of price variability is due to short-term fluctuations. The permanent shock's large role is consistent with the findings of research on commodity price supercycles. Furthermore, the medium-term cycle's predominance in the transitory shock is in line with recent research that finds a greater role of medium-term cycles than shorter business cycles in output fluctuations or domestic financial cycles.

The composition of transitory shocks differed across commodities. Shocks at the medium-term frequency accounted for 55 and 27 percent of price variability in energy and metals, respectively, and only 14 percent for agriculture. In contrast, shocks at the business cycle frequency accounted for 24 percent of price variability for metals. The large share of the business cycle component to metal commodity price fluctuations is in line with the strong response of metal consumption to industrial activity. Some of the commodities that exhibited the highest contribution of transitory shocks to price variability are used mainly within the transportation sector. For example, nearly two-thirds of crude oil is used for transportation, three-quarters of natural rubber goes to tire manufacturing, and one-half of platinum is used in the production of catalytic converters.

These averages mask heterogeneity across commodities. Transitory shocks were more relevant to the price variation of industrial commodities, while permanent shocks mattered most in agricultural commodity price movements. Specifically, permanent shocks contributed two-thirds to the variability of agricultural commodity prices, less than half to that of metal prices, and about one-third to that of energy commodity prices. Precious metals exhibited the largest heterogeneity as a group, with gold prices

FIGURE 5.A Commodity price variability based on external shocks

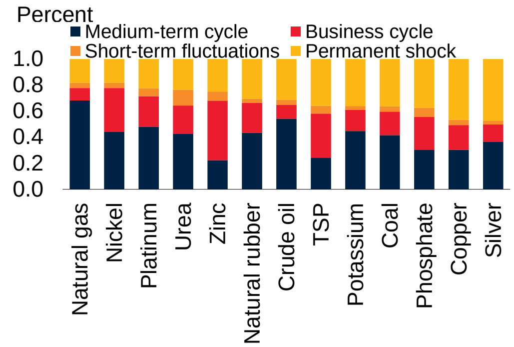


FIGURE 5.B Commodity price variability based on external shocks, continued

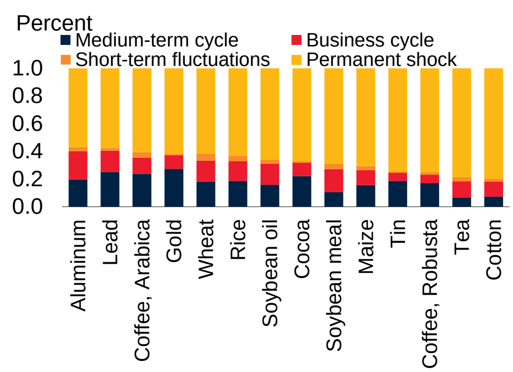
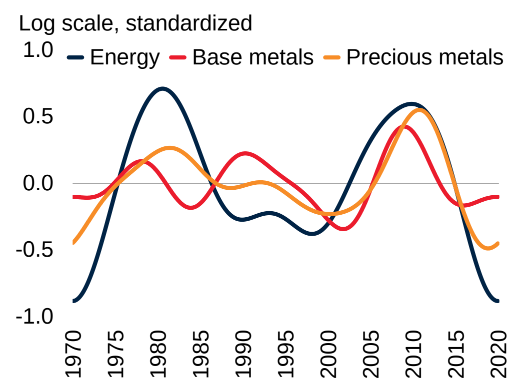


FIGURE 5.C Medium-term cycles since 1970s: energy and metals



Source: World Bank.
EMDEs = Emerging market and developing economies, LICs = Low-income countries.
A.B. Figure shows price variability of different commodities based on the type of external shocks.

driven mostly by permanent shocks, silver driven equally by permanent and transitory shocks, and platinum exhibiting one of the highest shares of medium-term cyclicality.

Almost all commodities have undergone three medium-term cycles since 1970. The first medium-term cycle, which involved all commodities, began in the early 1970s, peaked in 1978, and lasted until the mid-1980s (figures 5.C and 6.A). The second, which peaked in 1994, was most pronounced in base metals and agriculture (with similar duration and amplitude to the first cycle) but did not include energy commodities. The third cycle, which again involved all commodities, began in the early 2000s, peaked in 2010, and for some commodities is still underway as of November 2020. Crude oil's "missing cycle" reflected offsetting oil-specific shocks. Of the 27 commodities, crude oil and natural gas (whose price is highly correlated with oil) are the only commodities that exhibited two, instead of three, medium-term cycles.

The evolution of permanent shocks differed markedly across commodity groups. The permanent shock component of energy prices has trended upward; for agricultural and fertilizer prices downward; for most base metals it did not exhibit any trend (figures 6.B and 6.C). The upward trend in energy prices may reflect resource depletion. The largely trendless nature of long-term metals price movements may reflect the opposing forces of technological innovation and resource depletion. The downward trend in permanent shocks to agricultural prices is consistent with the low income elasticities of food commodities. Commodities with a history of widespread policy interventions (cotton) or subjected to international commodity agreements (cocoa, coffee, crude oil, cotton, natural rubber, and tin) followed a highly non-linear path.

Annual agricultural prices stand out in being highly synchronized. The contribution of permanent shocks to annual agricultural price variability (68 percent) is the highest among all six commodity groups, and these permanent shocks have evolved in a similar manner across annual agricultural prices. In turn, this reflects the fact that commodities belonging to this group (such as maize and wheat) are close substitutes in production.

The heterogeneous behavior of shocks suggests a need for policy flexibility, especially in commodity-exporting countries. Countercyclical macro-economic policies can help buffer the impact of transitory shocks. Commodity-exporting countries that are buffeted by frequent transitory shocks may want to build fiscal buffers during the boom phase and use them during the bust period in order to support economic activity. In contrast, in countries that rely heavily on commodities that are subject to permanent shocks, structural policies may be needed to facilitate adjustments to new economic environments.

FIGURE 6.A Medium-term cycles since 1970s: fertilizers and agriculture

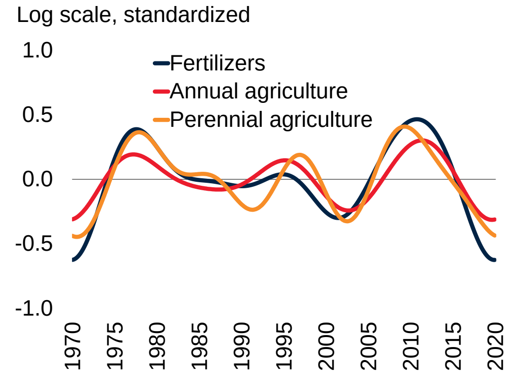


FIGURE 6.B Permanent shock, energy, and metals

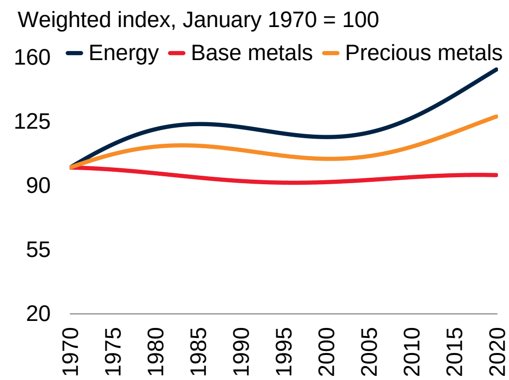
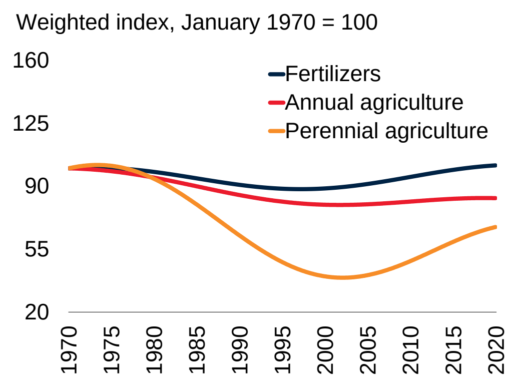


FIGURE 6.C Permanent shocks, agriculture, and fertilizers



Source: World Bank.

Recent Prospects Group Publications

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Global Productivity: Trends, Drivers, and Policies

Global Economic Prospects - June 2020

Commodity Markets Outlook - October 2020: Persistence of commodity shocks

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South Asia Economic Focus, Fall 2020: Beaten or Broken? Informality and COVID-19

The Cost of Staying Healthy

TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: October 18, 2020 - November 17, 2020					
Country	**Date**	**Indicator**	**Period**	**Actual**	**Previous**
China	10/20/20	GDP	Q3	4.9%	3.2%
Canada	10/21/20	CPI	SEP	0.6%	0.4%
Poland	10/22/20	GDP	Q2	-8.0%	1.8%
South Korea	10/26/20	GDP	Q3	-1.3%	-2.7%
Australia	10/27/20	CPI	Q3	0.7%	-0.4%
Japan	10/29/20	IP	SEP	-10.0%	-11.1%
United States	10/29/20	GDP	Q3	-2.9%	-9.0%
Euro area	10/30/20	GDP	Q3	-4.3%	-14.8%
France	10/30/20	GDP	Q3	-4.3%	-18.9%
Germany	10/30/20	GDP	Q3	-4.2%	-11.2%
Italy	10/30/20	GDP	Q3	-4.7%	-17.9%
Mexico	10/30/20	GDP	Q3	-8.6%	-18.7%
Spain	10/30/20	GDP	Q3	-8.7%	-21.5%
Indonesia	11/5/20	GDP	Q3	-3.5%	-5.3%
Brazil	11/6/20	CPI	OCT	3.9%	3.1%
Saudi Arabia	11/10/20	GDP	Q3	-4.2%	-7.0%
Argentina	11/12/20	CPI	OCT	37.2%	36.6%
India	11/12/20	CPI	OCT	7.6%	7.3%
Russian Federation	11/12/20	GDP	Q3	-3.6%	-8.0%
United Kingdom	11/12/20	GDP	Q3	-9.6%	-21.5%
Turkey	11/13/20	IP	SEP	11.2%	16.1%

(Percent change y/y)

Upcoming releases: November 18, 2020 - December 17, 2020				
Country	**Date**	**Indicator**	**Period**	**Previous**
Canada	11/18/20	CPI	OCT	0.6%
Euro area	11/18/20	CPI	SEP	-0.3%
United Kingdom	11/18/20	CPI	OCT	0.7%
Germany	11/24/20	GDP	Q3	-11.2%
United States	11/25/20	GDP	Q3	-9.0%
South Korea	11/29/20	IP	OCT	8.0%
India	11/30/20	GDP	Q3	-23.9%
Poland	11/30/20	GDP	Q3	-8.0%
Australia	12/1/20	GDP	Q3	-6.3%
Indonesia	12/1/20	CPI	NOV	1.4%
Italy	12/1/20	GDP	Q3	-17.9%
South Korea	12/1/20	CPI	NOV	0.1%
South Africa	12/8/20	GDP	Q3	-17.1%
Mexico	12/9/20	CPI	NOV	4.1%
France	12/10/20	IP	OCT	-6.0%
United States	12/10/20	CPI	NOV	1.2%
Germany	12/11/20	CPI	NOV	-0.2%
India	12/11/20	IP	OCT	0.2%
Euro area	12/14/20	IP	OCT	-6.6%
New Zealand	12/16/20	GDP	Q3	-10.1%
Japan	12/17/20	CPI	OCT	0.0%