

Weekly Global Economic Brief

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The boost to U.S. growth provided by the restocking of depleted inventories may be coming to an end. The U.S. trade deficit and China's trade surplus have both widened of-late, as overall trade flows continue to rise. The rapid increase in China's trade surplus reflected a 44% (y/y) rise in exports in June, even as slowing domestic demand saw imports decelerate to 33% from 47% in May (y/y). In the U.S., European weakness and a rise consumer demand conspired with an elevated oil-import bill to lift its trade deficit to \$700bn (annualized) in May. Emerging market bond-issuance firmed somewhat in June after anemic activity in May, but remained subdued. Spain and Greece launched successful sovereign issuances in July, although Greece was restricted to 6-mo. T-bills. Meanwhile, as the ECB reduces access to long-term emergency lending, commercial interbank rates in Europe are rising in reaction to increased demand.

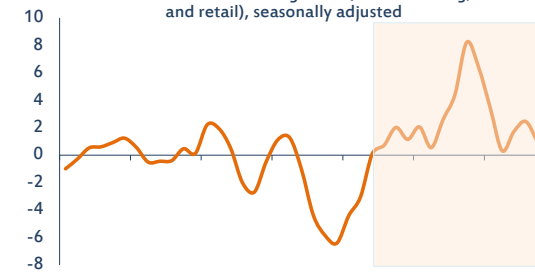
Restocking of depleted inventories in the U.S. appears to be diminishing, suggesting that inventories are now consistent with underlying demand and will contribute less to growth going forward. The contribution of inventories to growth in sales remains positive at one percentage point in May, but down sharply from an 8.2 percentage-point contribution in November 2009. Restocking (after a severe drawdown in the acute phase of the crisis) added 1.9 percentage points to GDP in Q1-2010 vs. 3.8 percentage points in Q4-2009. Sales remain well below their pre-crisis growth path and are still expanding rapidly (12.7% annualized during the three months ending May), as are inventories (5.9% annualized over the same period). These growth rates compare with long-term averages of 4.3% and 3% for sales and inventories, respectively.

Latest readings show a rise in trade imbalances in the months prior to China's decision to introduce a more flexible renminbi. China's merchandise trade surplus rose in June with a surge in capital goods exports, while the U.S. trade deficit expanded in May with import growth outpacing export growth. Since the renminbi's peg against the dollar was lifted, it has appreciated 0.8% vs. the dollar (or 10% at an annualized rate, as of Jul-14 close). Over the longer-run, this could support a firming of import demand in China and contribute to a reduction in China's surplus. However, in the short-run it could lead to increased imbalances by making U.S. imports more expensive.

Emerging market bond issuance firmed somewhat amid mixed signals from European markets. Led by \$3.1bn in Telecom bonds in Mexico, emerging market issuance rose to \$7.1bn in June from a mere \$3.5bn in May. Following the withdrawal of €442bn in long-term bank financing, European interbank rates have been rising and now stand at 0.85 bps (close Jul-15), still well-below the effective ceiling created by the ECB's 3-month window, which is available in unlimited quantities at 1%. ECB lending to commercial banks has declined some €250bn since July 1, as banks are increasingly relying on the commercial interbank-market. Despite rising Euribor rates, the spread between the 3-mo. Euribor and overnight (Eonia) rates has remained relatively stable and in line with early-2010 levels, suggesting that rising risk premiums have not contributed to the increase in Euribor rates. In July, Spain successfully issued new bonds, indicating an easing of concerns around European sovereign debt. Greece was also able to tap markets, but was restricted to 6-mo. T-bills, vs. 10- and 15-year bonds for Spain.

Positive contribution to U.S. growth of business inventories may be coming to an end

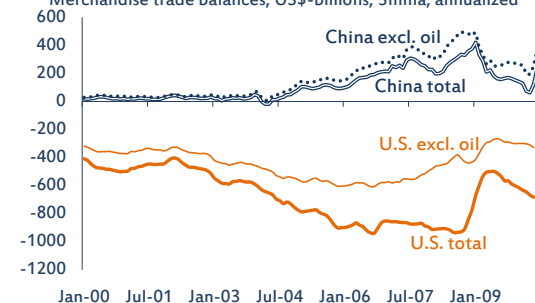
Contribution to total business sales growth (manufacturing, wholesale and retail), seasonally adjusted



Sources: U.S. Census Bureau and World Bank DEC Prospects Group

Trade imbalances expand in U.S. and China—with China's surplus nearing pre-crisis levels

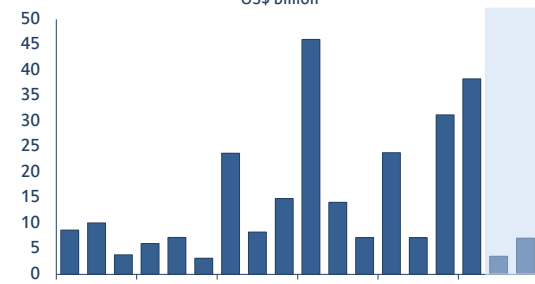
Merchandise trade balances, US\$-billions, 3mma, annualized



Sources: Thomson Datastream, Haver Analytics, DEC Prospects Group

Emerging market bond issuance inches up in June after sharp retreat in May

US\$ billion



Sources: Dealogic and World Bank DEC Prospects Group

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Economic Developments

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

15-Jul-10

| | 2007 | 2008 | 2009 | 2009 | | | | 2010 | | | | |
|------------------------------------|------|------|-------|------|------|------|------|------|------|------|------|------|
| | | | | Q2 | Q3 | Q4 | Q1 | Jan | Feb | Mar | Apr | May |
| Industrial Production, S.A. | | | | | | | | | | | | |
| World | 4.9 | 0.5 | -8.1 | 5.5 | 12.1 | 10.8 | 12.1 | 8.4 | 10.0 | 12.0 | 11.5 | 11.7 |
| High Income Countries | 3.0 | -1.8 | -12.6 | 1.0 | 11.8 | 8.3 | 11.2 | 5.4 | 7.6 | 11.0 | 10.5 | 11.1 |
| Developing Countries | 9.6 | 5.9 | 1.3 | 14.5 | 12.8 | 15.6 | 13.7 | 14.1 | 14.3 | 13.9 | 13.5 | 12.8 |
| East Asia and Pacific | 15.3 | 10.9 | 8.6 | 24.9 | 14.2 | 18.6 | 18.6 | 20.0 | 19.7 | 17.5 | 16.8 | 15.5 |
| East Asia x. China | 4.5 | 3.0 | -3.6 | 15.2 | 5.4 | 24.1 | 15.2 | 15.3 | 13.1 | 15.8 | 11.8 | - |
| Europe and Central Asia | 6.3 | 1.1 | -10.7 | 4.6 | 12.9 | 15.0 | 12.5 | 10.2 | 10.2 | 13.1 | 12.4 | 13.5 |
| Middle East and N. Africa | 1.5 | 2.2 | -3.2 | 1.1 | 0.5 | 6.7 | 5.2 | 2.6 | 3.8 | 3.7 | 3.2 | - |
| Latin America and Caribbean | 3.9 | 0.9 | -6.9 | 1.6 | 11.5 | 11.1 | 4.9 | 5.6 | 7.7 | 8.2 | 8.2 | 9.1 |
| South Asia | 9.1 | 4.1 | 5.4 | 15.1 | 19.2 | 13.0 | 9.8 | 15.3 | 13.5 | 13.9 | 15.3 | 11.2 |
| Sub-Saharan Africa | 5.3 | 1.1 | -6.4 | -0.3 | 3.3 | 16.9 | 13.8 | 6.7 | 7.1 | 10.7 | 8.4 | - |
| Inflation, S.A.¹ | | | | | | | | | | | | |
| High Income Countries | 2.4 | 4.3 | 1.2 | 1.3 | 0.3 | 0.9 | 1.6 | 1.5 | 1.5 | 1.6 | 1.9 | 1.8 |
| Developing Countries | 6.2 | 10.3 | 4.4 | 4.8 | 2.5 | 2.9 | 4.3 | 4.4 | 4.5 | 4.2 | 4.2 | - |
| East Asia and Pacific | 5.6 | 9.5 | 1.5 | 1.4 | -0.1 | 1.7 | 4.0 | 4.2 | 4.3 | 3.6 | - | - |
| Europe and Central Asia | 7.1 | 10.2 | 3.9 | 4.7 | 2.8 | 2.9 | 4.4 | 3.5 | 4.5 | 4.3 | 3.9 | 3.6 |
| Middle East and N. Africa | 3.9 | 14.9 | 3.8 | 3.3 | 4.2 | 4.6 | 4.6 | 4.8 | 5.5 | 4.9 | 5.7 | - |
| Latin America and Caribbean | 6.5 | 8.8 | 3.3 | 4.0 | 1.9 | 2.4 | 4.0 | 3.8 | 4.3 | 4.2 | 4.3 | 3.5 |
| South Asia | 7.6 | 10.9 | 10.9 | 8.9 | 10.5 | 10.0 | 11.2 | 11.8 | 11.1 | 10.9 | 13.2 | 13.1 |

¹ Inflation is calculated as medians 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

| | 2007 | 2008 | 2009 | 2009 | | | | 2010 | | | | |
|-------------------------------------|------|------|-------|-------|------|-------|------|------|------|------|------|------|
| | | | | Q2 | Q3 | Q4 | Q1 | Jan | Feb | Mar | Apr | May |
| Exports, Nominal, US\$, S.A. | | | | | | | | | | | | |
| World | 15.2 | 15.0 | -22.7 | 5.9 | 32.4 | 48.8 | 22.2 | 22.4 | 26.0 | 30.7 | 27.8 | 28.5 |
| High Income Countries | 13.6 | 12.6 | -22.8 | 5.7 | 34.8 | 40.7 | 16.9 | 20.0 | 22.1 | 29.2 | 25.4 | 23.6 |
| Developing Countries | 19.2 | 20.8 | -22.6 | 6.3 | 27.0 | 68.7 | 34.5 | 27.7 | 35.2 | 34.0 | 33.1 | 39.4 |
| East Asia and Pacific | 22.0 | 16.7 | -16.4 | 1.0 | 26.5 | 75.8 | 32.6 | 26.6 | 38.6 | 29.4 | 32.0 | 43.9 |
| Europe and Central Asia | 20.7 | 30.9 | -32.6 | 4.5 | 40.7 | 85.7 | 31.8 | 32.9 | 37.6 | 42.8 | 41.8 | 32.2 |
| Middle East and N. Africa | 15.0 | 33.5 | -33.3 | 18.5 | 20.6 | 40.9 | 44.5 | 32.4 | 29.0 | 30.3 | - | - |
| Latin America and Caribbean | 13.3 | 11.7 | -20.1 | 14.6 | 9.0 | 66.3 | 32.9 | 25.2 | 27.9 | 33.4 | 32.6 | 37.3 |
| South Asia | 18.4 | 24.8 | -14.4 | 4.1 | 24.2 | 34.8 | 56.7 | 10.9 | 29.9 | 46.9 | 32.1 | 31.4 |
| Sub-Saharan Africa | 19.9 | 27.0 | -31.5 | 16.1 | 72.2 | 59.6 | 32.5 | 40.9 | 40.1 | 49.0 | - | - |
| Imports, Nominal, US\$, S.A. | | | | | | | | | | | | |
| World | 15.1 | 15.7 | -23.5 | -0.2 | 31.5 | 46.9 | 26.5 | 19.5 | 23.4 | 32.2 | 27.2 | - |
| High Income Countries | 13.0 | 12.3 | -24.6 | -6.7 | 32.9 | 39.7 | 20.7 | 13.8 | 19.6 | 27.8 | 23.5 | - |
| Developing Countries | 21.5 | 25.5 | -20.6 | 17.9 | 28.0 | 65.6 | 41.0 | 34.8 | 32.9 | 43.3 | 36.3 | 36.9 |
| East Asia and Pacific | 18.7 | 21.1 | -15.3 | 63.2 | 41.0 | 85.0 | 48.7 | 70.4 | 45.5 | 61.9 | 47.9 | 45.0 |
| Europe and Central Asia | 30.2 | 27.0 | -33.3 | -11.3 | 24.2 | 57.0 | 17.6 | 14.8 | 17.1 | 26.4 | 28.8 | 32.5 |
| Middle East and N. Africa | 23.0 | 44.7 | -9.4 | 9.3 | 6.7 | 29.3 | 10.0 | 14.1 | 10.1 | 16.4 | - | - |
| Latin America and Caribbean | 19.0 | 22.1 | -24.7 | -16.0 | 23.7 | 41.7 | 52.8 | 9.4 | 24.1 | 34.8 | 36.8 | 42.0 |
| South Asia | 21.4 | 38.6 | -21.3 | 20.3 | 6.1 | 114.0 | 85.2 | 34.3 | 58.0 | 59.1 | 37.6 | 36.8 |
| Sub-Saharan Africa | 21.7 | 24.3 | -17.2 | -11.0 | 29.2 | 28.1 | 4.8 | 2.3 | 18.2 | 14.4 | - | - |
| International Reserves, US\$ | | | | | | | | | | | | |
| High Income Countries | 13.2 | 5.8 | 15.8 | 5.1 | 9.6 | 2.5 | 1.7 | 0.8 | 0.1 | 0.8 | 1.4 | 1.3 |
| Developing Countries | 41.9 | 12.8 | 15.0 | 6.3 | 6.8 | 4.2 | 1.3 | 0.3 | 0.0 | 1.0 | 1.8 | -1.9 |
| East Asia and Pacific | 41.5 | 23.5 | 22.6 | 8.3 | 7.1 | 5.2 | 2.1 | 0.9 | 0.3 | 0.9 | 2.0 | -2.1 |
| Europe and Central Asia | 46.6 | -8.8 | 2.6 | 6.5 | 3.2 | 3.8 | 0.9 | -0.9 | -0.4 | 2.1 | 2.8 | -2.5 |
| Middle East and N. Africa | 29.9 | 22.7 | 5.7 | 1.8 | 5.7 | 1.6 | -0.8 | -0.4 | -0.9 | 0.5 | - | - |
| Latin America and Caribbean | 44.5 | 11.3 | 10.5 | 1.8 | 8.9 | 5.9 | 0.4 | -0.4 | 0.1 | 0.6 | 1.0 | 0.2 |
| South Asia | 53.2 | -9.0 | 11.0 | 6.6 | 8.1 | -1.5 | -1.1 | -0.7 | -0.5 | 0.2 | 0.4 | -2.6 |
| Sub-Saharan Africa | 27.4 | 8.0 | 0.8 | 0.1 | 10.5 | 0.0 | 0.7 | -0.6 | -0.3 | 1.1 | 1.8 | - |

Financial Markets

15-Jul-10

| | 2007 | 2008 | 2009 | 2010 | | | 2010 | | | MRV ¹ | Chg since Sep-12 '08 ³ |
|-------------------------------------|--------|--------|-------|-------|-------|-------|-------|-------|-------|------------------|-----------------------------------|
| | | | Q2 | Q3 | Q4 | Q1 | Apr | May | Jun | | |
| Interest rates and LIBOR (%) | | | | | | | | | | | |
| U.S. Fed Funds Effective | 5.02 | 1.93 | 0.18 | 0.15 | 0.12 | 0.13 | 0.20 | 0.20 | 0.18 | 0.17 | -1.93 |
| ECB repo | 3.98 | 3.78 | 0.79 | 0.44 | 0.43 | 0.36 | 0.36 | 0.36 | 0.38 | 0.51 | -3.86 |
| US\$ LIBOR 3-months | 5.30 | 2.91 | 0.85 | 0.41 | 0.27 | 0.26 | 0.31 | 0.46 | 0.54 | 0.52 | -2.29 |
| EURIBOR 3-months | 4.28 | 4.63 | 1.31 | 0.87 | 0.72 | 0.66 | 0.64 | 0.69 | 0.73 | 0.85 | -4.11 |
| US 10-yr Treasury yield | 4.63 | 3.65 | 3.30 | 3.50 | 3.45 | 3.71 | 3.82 | 3.40 | 3.19 | 3.04 | -0.69 |
| German Bund, 10 yr | 4.22 | 3.99 | 3.35 | 3.31 | 3.22 | 3.20 | 3.08 | 2.75 | 2.57 | 2.66 | -1.52 |
| Spreads (basis points) | | | | | | | | | | | |
| US Corporate (High Yield Bonds) | 304 | 915 | 1107 | 803 | 618 | 522 | 453 | 539 | 602 | 579 | -154 |
| JP Morgan Emerging Markets | 197 | 406 | 503 | 384 | 318 | 299 | 255 | 325 | 342 | 328 | -29 |
| Asia | 161 | 355 | 396 | 299 | 244 | 231 | 184 | 234 | 245 | 221 | -75 |
| Europe | 158 | 370 | 467 | 369 | 269 | 235 | 196 | 275 | 293 | 276 | -37 |
| Latin America & Caribbean | 208 | 426 | 548 | 416 | 364 | 354 | 310 | 384 | 401 | 390 | 2 |
| Middle East | 476 | 585 | 618 | 470 | 399 | 318 | 297 | 344 | 358 | 371 | -128 |
| Africa | 288 | 452 | 489 | 307 | 253 | 224 | 172 | 250 | 344 | 336 | 2 |
| Stock Indices² | | | | | | | | | | | |
| Global (MSCI) | 393 | 327 | 234 | 268 | 294 | 297 | 312 | 285 | 278 | 286 | -10.6 |
| High-Income (\$ Index) | 1571 | 1297 | 924 | 1054 | 1150 | 1161 | 1219 | 1112 | 1081 | 1113 | -13.3 |
| United States (S&P-500) | 1476 | 1221 | 892 | 996 | 1089 | 1121 | 1196 | 1123 | 1083 | 1095 | -12.5 |
| Euro Area (S&P-350\$) | 1909 | 1544 | 1025 | 1208 | 1344 | 1296 | 1324 | 1143 | 1126 | 1204 | -18.2 |
| Japan (Nikkei-225) | 16983 | 12156 | 9275 | 10140 | 9967 | 10502 | 11130 | 10240 | 9786 | 9686 | -20.7 |
| Developing Markets (MSCI) | ... | 743 | 566 | 670 | 760 | 768 | 817 | 742 | 737 | 761 | 9.3 |
| Asia | ... | 688 | 571 | 678 | 750 | 758 | 805 | 742 | 738 | 759 | 19.6 |
| Europe & C. Asia | ... | 766 | 424 | 538 | 621 | 619 | 660 | 553 | 516 | 549 | -26.9 |
| Latin America & Caribbean | 3670 | 3771 | 2760 | 3296 | 4002 | 3993 | 4211 | 3734 | 3783 | 3871 | 9.5 |
| Middle East and N. Africa | 693 | 733 | 433 | 473 | 491 | 492 | 530 | 502 | 474 | 471 | -32.3 |
| Africa | ... | 772 | 621 | 728 | 787 | 807 | 870 | 806 | 795 | 814 | 6.0 |
| Exchange Rates (LCU / USD) | | | | | | | | | | | |
| High Income Countries | | | | | | | | | | | |
| Euro | 0.73 | 0.68 | 0.73 | 0.70 | 0.68 | 0.72 | 0.74 | 0.80 | 0.82 | 0.78 | 9.9 |
| Japan | 117.74 | 103.37 | 97.40 | 93.57 | 89.62 | 90.73 | 93.42 | 92.08 | 90.88 | 88.13 | -18.0 |
| Brazil | 1.95 | 1.83 | 2.08 | 1.87 | 1.74 | 1.80 | 1.76 | 1.81 | 1.81 | 1.77 | -0.9 |
| Russia | 25.57 | 24.88 | 32.18 | 31.31 | 29.48 | 29.87 | 29.19 | 30.53 | 31.26 | 30.42 | 19.0 |
| India | 41.35 | 43.52 | 48.83 | 48.40 | 46.64 | 45.94 | 44.51 | 45.89 | 46.57 | 46.62 | 1.9 |
| China | 7.61 | 6.95 | 6.83 | 6.83 | 6.83 | 6.83 | 6.83 | 6.83 | 6.82 | 6.78 | -1.0 |
| Egypt | 5.64 | 5.44 | 5.62 | 5.54 | 5.47 | 5.47 | 5.53 | 5.62 | 5.68 | 5.70 | 4.7 |
| South Africa | 7.05 | 8.26 | 8.47 | 7.81 | 7.49 | 7.51 | 7.35 | 7.66 | 7.65 | 7.55 | -6.4 |
| Memo: USA nominal effective rate | 89.39 | 84.39 | 88.61 | 84.17 | 81.30 | 83.38 | 84.32 | 87.12 | 87.35 | 87.35 | 1.7 |

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

| | 2007 | 2008 | 2009 | 2010 | | | 2010 | | | MRV | Chg since Sep-12 '08 ³ |
|----------------------------------------|------|------|------|------|------|------|------|------|------|------|-----------------------------------|
| | | | Q2 | Q3 | Q4 | Q1 | Apr | May | Jun | | |
| Oil price, \$/b, nominal ¹ | 71 | 97 | 59 | 68 | 75 | 77 | 84 | 75 | 75 | 76 | -22.4 |
| Non - Oil Index ² | 165 | 197 | 150 | 159 | 172 | 180 | 183 | 173 | 170 | 175 | -11.9 |
| Food Index ² | 155 | 218 | 182 | 175 | 182 | 186 | 177 | 175 | 174 | 182 | -14.3 |
| Metals and Minerals Index ² | 184 | 184 | 123 | 146 | 160 | 171 | 183 | 165 | 156 | 160 | -14.1 |
| Baltic Dry Index ³ | 7072 | 6348 | 2661 | 2795 | 3378 | 3015 | 3038 | 3826 | 3088 | 1709 | -64.4 |

¹ Simple average of Brent, Dubai and WTI.

² Base Date = Jan 1, 2005

³ Base Date = May 1, 1985