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Mick Riordan (x31289), Cristina Savescu (x80812),
Eung Ju Kim (x85804), Shane Streifel (x33867), Annette De Kleine (x34710)

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U.S. services activity slips in September. Activity in the broad U.S. services sector eased for a sixth month in succession during September, as the effects of the ongoing slump in housing and credit-crunch conditions in many financial market segments are coming to bear on other sectors of the economy. Weakness in construction compounded by mortgage defaults, is weighing on business at retailers, wholesalers and financial firms, adding to evidence that a wider economic slowdown may be imminent.

ISM's headline index dropped to 54.8 in the month from 55.8 in August [see Daily chart at http://GEM]. The slide was driven by a downdraft in new orders, to a reading of 53.4 from 57 in August; diminishing order backlogs (to 47 from 50) and potentially excessive inventory accumulation (an inverse relationship, with the index moving from 57 to 50 in the month). All sub-category components of the index noted point to more difficult conditions ahead for services, now softening in step with manufacturing activity, moving toward the "50" growth // no-growth benchmark.

European services activity slows to weakest in two years. The Royal Bank of Scotland Group Plc reported that the services PMI index for the Euro Zone dropped nearly 4 points to 54.2 in September from 58 in August, suggesting that tighter credit market conditions are beginning to impact economic activity. Meanwhile, *Eurostat* reports that August retail sales in the Zone eased to 1% from 1.3% in July (y/y), and that the measure for the broader EU (27 member countries) dropped to 2.6% from 2.8% in the same period. The services and retail reports follow the release earlier this week of the manufacturing PMI, which also pointed to slowing activity. These survey findings, along with record high euro exchange rates against the dollar, and recent favorable inflation reports, will likely press the European Central Bank to refrain from additional rate hikes at tomorrow's scheduled governing council meeting in Vienna.

Mixed signals in U.K: confidence up, services activity sliding. Following a decline in unemployment to the lowest level in two years, the index of consumer sentiment jumped by five points to 99 in September, reaching a five-month high, according to the Nationwide Building Society. Meanwhile, the service industries' PMI index fell to a thirteen-month low of 56.7 in September from 57.6 in August, according to the Royal Bank of Scotland Group Plc. These latest readings come just ahead of the Bank of England's scheduled policy meeting tomorrow. According to a Bloomberg survey, most analysts expect the BoE to maintain rates at the current 5.75%.

Copper prices could escalate: Peruvian workers initiate strike. The Peruvian strikers are demanding pay increases at Southern Copper Corp (SCC), the world's fifth largest producer, and are joining strikers at three other SCC mines in Mexico, where they have been on strike since July 30. Copper prices closed at $8,160.5/metric ton yesterday and averaged $6,722/mt during 2006 (Copper Grade A Cash U$/MT).

Rising credit risk in Kazakhstan. Kazakhstan credit default swaps (CDSs) climbed to the highest in more than two years after Standard & Poor's Rating Services said it may downgrade the country's investment-grade ratings ("BBB" foreign-currency and "BBB+" local-currency ratings) as rising international borrowing costs affect the external financing needs of the domestic banking system. The country's CDS spreads widened by 6 basis points to 140 basis points on Wednesday, according to CMA Datavision. The level of CDS spreads suggest that investors perceive bigger risks in Kazakhstan than in Indonesia, Panama, and Turkey, all of which S&P grades as high-risk countries. Of note, Kazakhstan's foreign reserves declined by 9.2% in August as the ongoing global credit crisis forced the national bank of Kazakhstan to sell hard currency.

Among emerging markets...in South Asia, *India's* rupee closed at R39.59/USD in Mumbai today, the highest rate against the dollar since April 14, 1998. The currency is buoyed by robust GDP growth, recording a 9.3% gain during the second quarter of 2007, and vibrant capital inflows. The stock market has continued to rally, with the Bombay Stock Exchange's Sensitive Index climbing 3% today, recording the best monthly gain in September since December 2003.

In Central Europe and the CIS, *Poland's* Labor Minister reports the unemployment rate will fall to 11.7% in September from 12% in August. Job growth has been supported by a strong economic activity, with GDP expected to accelerate sharply and exceed 6% in 2007, up from 3.4% in 2006. Meanwhile, in *Russia*, the purchasing managers' index reported by VTB Bank/Europe rose to 59 in September from 58 in August, the highest level since January.

In East Asia and Pacific, In the *Philippines,* money supply growth moderated to 14.9% in August, the slowest pace in 11 months, and the third consecutive month that money has expanded below the 20% ceiling set by the central bank. Slower monetary growth is providing the central bank with some room to maintain the lowest policy rates in 15 years. The fall-off reflects an easing of exports—which dropped to 6.3% growth during January-July this year, compared with 16.2% for the same period in 2006—and weaker remittances inflows, which increased 4.6% in July compared with 18.5% a year-ago.

In Latin America and the Caribbean, *Brazil* and *Chile* report rising consumer prices in September, driven by higher food costs. In Brazil, the CPI increased 0.24% in September (m/m) contrasted with 0.7% in August, with food prices gaining 0.68%. In Chile, the CPI was up 1.1% (m/m), as food and beverages gained 2.5%.

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