Public Disclosure Authorized

Public Disclosure Authorized

GEM Global Economic Monitor

Daily Brief
Economics and Financial Market Commentary
September 18, 2007 11:36 am

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

You'll find recent issues of this Daily and lots of other current analysis and high-frequency data at our intranet website: http://GEM or for external users: www.worldbank.org/gem

U.S. producer prices fall sharply in August. Producer prices dropped an exceptional 1.4% in August (m/m), on the back of a 6.6% falloff in energy prices, according to a Department of Labor report today. This carries prices paid to suppliers from a recent peak of 10.4% in May (saar) to 2.3% as of August, leaving additional room on the inflation front for the Fed to reduce interest rates [see Daily chart at http://GEM]. Core PPI (excluding food and energy prices) increased a modest 0.2% in the month and stands 1.8% higher over 2007 to date, contrasted with the like period of 2006. "There is little residual inflation pressure in the U.S. economy," notes Joseph LaVorgna of Deutsche Bank, New York. "The fact that most measures of core inflation have shown tame results of late gives the Fed the luxury of cutting rates aggressively if need be." The Federal Open Market Committee will announce its interest rate decision today, 2:15 pm in Washington.

German investor confidence deteriorated in September, reflecting growing concerns that the credit crunch in the U.S. will lead to slower growth in Europe. The gauge, which measures investor and analyst expectations, declined to its lowest level since December 2006, falling to minus 18.1 from minus 6.9 in August, according to the ZEW Center for European Economic Research.

U.K. inflation fell to lowest level since early-2006. The August CPI rose 1.8% (y/y), down from a decadal-high 3.1% in March and from 1.9% in July. The lower inflation rate provides the Bank of England (BoE) with some room to lower interest rates, which is welcome news as financial market turbulence tied to the U.S. sub-prime market spilled over to its shores and could indicate slower growth for the economy. The central bank provided Northern Rock Plc, the country's third largest mortgage lender, with a bailout last week to end a run on the bank.

China to lend Congo $5billion. China signed a deal on Monday to loan the Democratic Republic of Congo (DRC) $5 billion for mining and infrastructure projects. According to a signed accord, about $3 billion will fund big infrastructure projects, including 2,000 miles (3,200 kilometres) of railway between Sakania (the country's mining heartland) in the south and Matadi in the west, as well as a 2,125 mile (3,400 km) highway between Kisangani in the northeast and Kasumbalesa in the south. The funds will also cover for 31 hospitals, 145 health

centers, and two universities. Remaining $2 billion will go towards setting up a new joint venture mining company between the two countries. In recent years, China has been investing in several African projects from Sudanese oil fields to Zambian copper mines to get acquire raw materials to feed its fast-growing economy.

Among emerging markets...in East Asia, *Hong Kong's* unemployment rate inched up to 4.2% in the three months through August 2007, as stronger consumer spending helped create more jobs. The *Philippines* government posted a third consecutive month of budget surpluses, helping bring the budget deficit for the first eight months of 2007 down to 25.5 billion pesos from 34.2 billion during the same period last year. The improvement in fiscal balances was brought about by improved tax collection, and increases the chances of achieving the balanced-budget target set for next year by President Arroyo.

In Central and Eastern Europe, *Bulgaria's* GDP growth picked-up to 6.6% in the second quarter of 2007 from 6.2% in the first quarter, as gross fixed capital formation jumped 25% while private consumption growth eased to 5.7%. Exports gained 5.7% to account for 68% of GDP, while imports increased by 11% to account for 88% of GDP. On the supply side, industry posted robust 10.5% growth, while services gained 9.5% and the agriculture sector contracted 5.3%. In the first seven months of the year, foreign investment increased by 12% to €2.6 billion ($3.6 billion), of which €1 billion went into the real estate sector. The government projects economic growth of 6% for the current year and the next two years.

Russia's industrial output gained 3.8% in August (y/y) after expanding at a much more robust 7.8% pace the previous month. Manufacturing output growth slowed to 5.5% from 12.5%. In the second quarter output grew 6.7% eased from 8.4% in the first quarter. Meanwhile acting Deputy Prime Minister Alexander Zhukov said he expects the Russian economy to expand by 7.5% in 2007, as growth stood at 7.9% over the first seven months of the year. The *Republic of Moldova* posted GDP growth of 8% in the first half of 2007, despite higher gas prices, drought and a ban on wine exports to Russia. The government said it expects the economy to expand by 5%, compared to an earlier projection of 4%.

In Sub-Saharan Africa, *Mozambique's* economy expanded 8.8% in the first half of 2007 (y/y) a slower pace than the 10% growth recorded last year. Mozambique's economy is hindered by adverse weather conditions with cyclones and floods in February and March causing serious damage. Growth was especially strong in electricity and water services at 25%, while hotels and restaurants, transport and communications sectors advanced at 17% and 16.0% respectively. Mozambique is benefiting from significant investment totaling $1.8 billion in the first half of 2007, with 80% of this invested in the Moatize coal project.

****

The Daily Brief is a summary of economic news items for Bank staff whose responsibilities require that they stay abreast of changes in global markets. The views expressed here are those

of the various authors and do not necessarily reflect those of the World Bank Group's Executive Directors or the countries they represent. The content is subject to copyright and is not for quotation outside of the World Bank. The Prospects Group of the World Bank is pleased to share this content with GEM subscribers, under the terms and conditions of use agreed upon login (at www.worldbank.org/gem) to the extranet GEM site. Feedback and requests to be added to or dropped from the distribution list, may be sent to eriordan@worldbank.org.