U.S. government bonds rise on slower economic growth... Spain grows the fastest in 6 years... South Africa’s trade balance records a larger-than-expected deficit in March

Financial Markets

Treasury securities strengthened on Wednesday as U.S. first-quarter economic growth slowed more than forecasted, boosting demand for safe-have government debt. Weak U.S. GDP number fueled speculation the Federal Reserve won’t accelerate pace in withdrawing monetary stimulus. In recent trading, the benchmark 10-year yields dropped 3 basis points (bps) to 2.66%, while 5-year note yield declined 4 bps to 1.70%.

Developing-country stocks retreated, paring this month’s gains, as the weak U.S. data prompted uncertainties about the extent and pace of Feds’ tapering, along with ongoing geopolitical tension in Ukraine. The benchmark MSCI Emerging Market Index lost 0.5%, trimming its Aprils’ gain to 0.1% with Russia’s stock gauge heading for a 5.1% monthly drop. The MSCI EM index has dropped 0.8% thus far this year, compared with a 1.3% gain for high-income stock index.

High Income Economies

Reflecting the impact of the severe winter weather, U.S. GDP inched up 0.1% (q/q saar) in Q1 2014, after the 2.6% increase in Q4 2013. The less than expected increase was led by consumer spending which surged up 3.0% in Q1, after jumping 3.3% in Q4. However, the positive contribution from consumer spending was offset by negative contributions from exports, private inventory investment, non-residential fixed investment, residential fixed investment, and state and local government spending. In particular, exports of goods and services plunged 7.6% in Q1, after soaring 9.5% in Q4.

Indicating continued robust employment creation, U.S. private sector employment surged up by 220,000 jobs in April. The larger than expected increase follows notable upward revisions to the job growth in the two previous months, with employment jumping by 209,000 jobs in March and 193,000 jobs in February. The latest reading was driven by an increase in employment in the service-providing sector, which added
197,000 jobs in April following an increase of 181,000 jobs in March. Meanwhile, the goods-producing sector added 24,000 jobs in April compared to the addition of 28,000 jobs in March.

Suggesting a transition to more sustainable growth, preliminary estimates indicate that the Spanish economy expanded at 0.4% (q/q) in Q1, the fastest pace in six years. The latest reading matched expectations, was the third consecutive quarterly increase and also doubled the 0.2% growth in Q4. On a yearly basis, the economy advanced 0.6% in Q1, reversing the 0.2% contraction in Q4.

Due to moderated growth of private consumption and exports, advanced estimates indicate that real GDP for Taiwan, China decelerated to 0.3% (q/q sa) in Q1, slowing than the 1.8% expansion in Q4. On a year-on-year basis, GDP climbed 3.0% (y/y) in Q1, unchanged from Q4.

**Developing Economies**

**Sub-Saharan Africa**

*South Africa’s* trade balance swung into a wider-than-expected deficit of ZAR11.4bn in March following February’s revised surplus of ZAR0.65bn, due to higher imports. Boosted by purchases of mineral products (+36.9%, m/m), machinery and electronics (+13.4%, m/m) and vegetables (+77.0%, m/m), imports jumped 11.6% in March. Meanwhile, exports fell 3% (m/m) as sales of mineral products (-16.7%, m/m) and shipments of precious metals and stones (-3.6%, m/m) decreased.

At its meeting of April 30th 2014, *Kenya’s* central bank decided to keep the benchmark interest rate unchanged at 8.5%, noting that although headline inflation rose slightly in April the non-food non-fuel inflation was falling, indicating that the current monetary policy stance continued to deliver the desired price stability.

*Kenya’s* annual consumer price inflation was slightly higher in April, coming in at 6.4% (y/y) up from 6.3% (y/y) in March but considerably higher than the 4.1% increase recorded a year ago. Contributing to the higher inflation, cost of housing, water, electricity, gas and other fuels rose 4.5% (y/y) from 4.4% in March, cost of transport increased 8.7% (y/y) up from 5.2% (y/y), while prices of food and non-alcoholic beverages rose 8.1% (y/y). Month-on-month, consumer prices increased 1.1% in April, after rising 0.4% in March.

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