EMBARGOED UNTIL: 11.30AM THURSDAY 12 NOVEMBER 2020

THE FORWARD VIEW – GLOBAL

NOVEMBER 2020

National Australia Bank

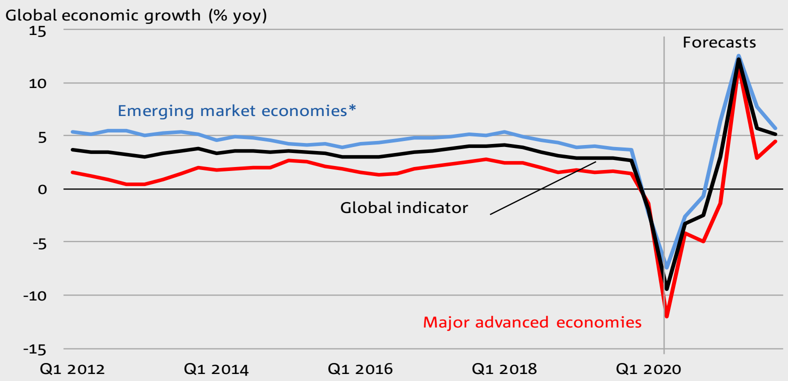
After two steps forward, European lockdowns are a step back for the recovery

- Events over the last month demonstrate that COVID-19 remains a major factor influencing the global economy. The resurgence of the virus in parts of the globe – and the re-introduction of COVID-19 restrictions – will weigh on activity, but positive news regarding the development of a vaccine has buoyed markets as it offers the hope of a faster recovery down the track.
- Incoming GDP data confirm that there was a substantial, but incomplete, rebound in advanced economy (AE) activity in Q3, which has generally exceeded our expectations. However, a resurgence in COVID-19 cases across both Europe in particular, but also North America, will weigh on activity. In particular, Euro-zone and UK GDP is expected to decline in Q4 following the introduction of nationwide measures to contain COVID-19 (including strict lockdowns in some countries).
- In contrast, economic conditions appear to be improving in Emerging Markets. Aggregate PMI measures show strengthening in both manufacturing and services in October. Stronger manufacturing conditions were driven by India, China and Brazil; however, neither India or Brazil have contained COVID-19, raising concerns around the sustainability of their recovery. China's recovery continued in Q3 – with growth of 4.9% y/y, driven by heavy industry.
- While volatile, financial and commodity markets held up in the face of the resurgence in COVID-19 in Europe and North America, before lifting following the US election and positive vaccine trial results. While major central bank policy room is constrained, they remain ready to add further stimulus – the expansion of the Bank of England's QE program a recent example, and the ECB is likely to take a similar step soon.
- We expect global GDP to decline by -3.9% in 2020, before rising by 6.1% in 2021. COVID-19 continues to spread and how authorities react to manage it remains a key risk to the outlook. Successful development and a speedy roll-out of a vaccine represents an upside risk.

Global Growth Forecasts (% change)

	2018	2019	2020	2021	2022
US	3.0	2.2	-3.6	3.3	2.4
Euro-zone	1.8	1.3	-7.4	5.4	2.9
Japan	0.3	0.7	-4.9	3.2	1.4
UK	1.3	1.4	-11.4	6.7	4.5
Canada	2.0	1.7	-5.6	4.3	2.5
China	6.8	6.1	1.8	9.5	5.8
India	6.8	4.9	-8.8	13.3	6.0
Latin America	1.1	0.0	-7.9	3.8	3.2
Other East Asia	4.2	3.4	-3.3	5.5	4.9
Australia	2.8	1.8	-3.2	2.2	3.3
NZ	3.2	2.3	-4.9	1.6	4.2
Global	**3.5**	**2.8**	**-3.9**	**6.1**	**3.9**

COVID resurgence causes a step backwards in AE recovery



* Based on China, India, major Latin America & East Asia countries, Russia

CONTENTS

CONTACT

Alan Oster, Group Chief Economist
+61 (0)414 444 652

Gerard Burg, Senior Economist – International, +61 (0)477 723 768

Tony Kelly, Senior Economist
+61 (0)477 746 237

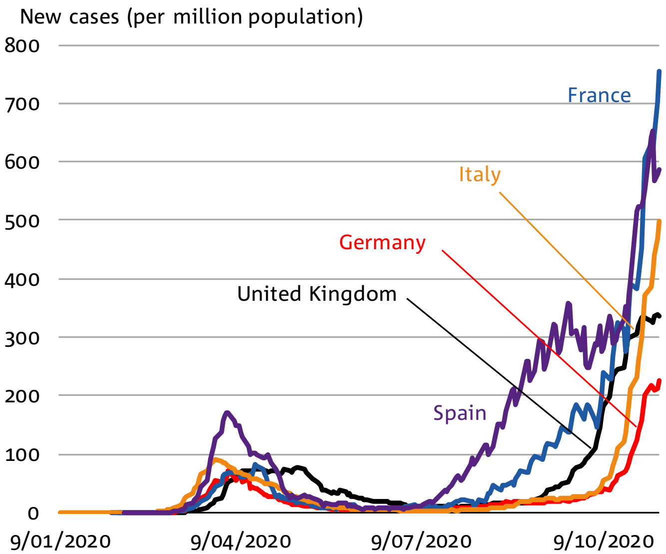
AUTHORS

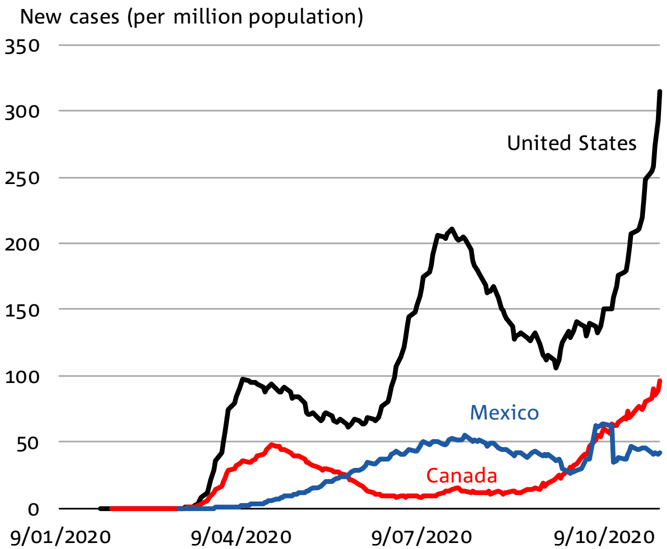
Gerard Burg & Tony Kelly

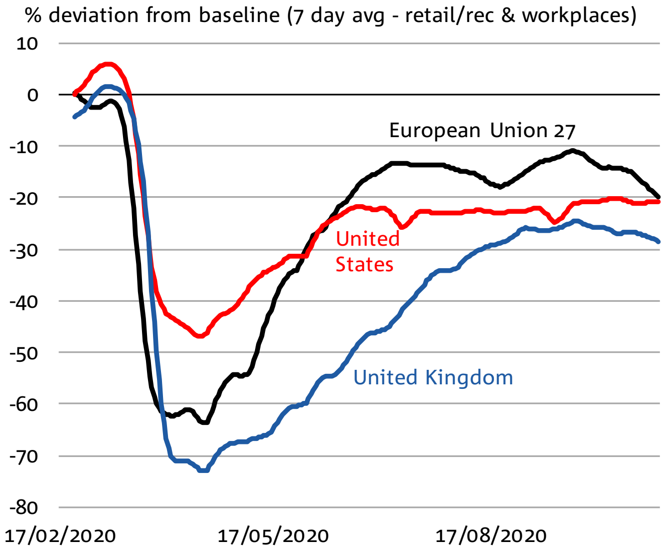
COVID-19 CONTINUES TO PRESENT A RISK TO THE GLOBAL ECONOMY

European countries implementing various restrictions to bring virus spread under control

Second wave cases surging in much of Europe while the US is riding its third wave. Mobility measures in Europe trending down, pointing to weaker economic conditions in Q4







Recent COVID-19 restrictions imposed in selected European countries

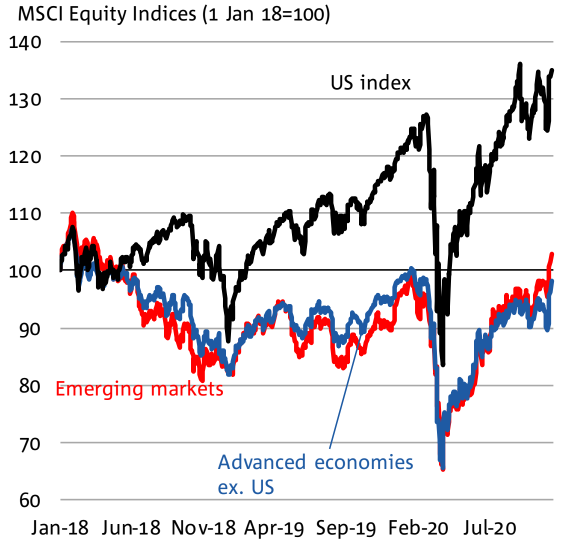
Country	Implemented	Restriction
France	30/10 to at least 1/12	National lockdown, only leave home for work (if can't from home), buy essential goods, medical help or exercise (max one hour). Schools open. Social gatherings banned
Germany	2/11 to 30/11	Partial lockdown - closure of cinemas, theatres, gyms, pools & saunas. Restaurants & bars takeaway only. Restricted household gatherings, leisure travel banned. Schools/creches, shops and hairdressers open with hygiene rules and customer limits
Italy	26/10 for one month	Bars and restaurants close at 6pm (allowed takeaway later). Gyms, pools, theatres and cinemas closed. Gatherings for weddings, baptisms & funerals banned. Schools open (many secondary schools will switch to distance learning). People encouraged to remain in their immediate areas. Masks mandated.
Spain	25/10	gatherings limited to six people. Regional borders may be closed. Measures introduced for 15 days, but Prime Minister seeking parliamentary approval to extend them for six months.
Belgium	31/10 to mid Dec	National lockdown, curfew from 10pm and mask mandated. Working from home mandatory (unless not possible). Gyms, pools and other cultural/leisure closed. Restaurants and bars closed for four weeks from late October (takeaway permitted). Markets and festivals not permitted.
Netherlands	14/10 for four weeks (but may be extended)	Partial lockdown - bars, restaurants & cafes takeaway only. All shops (ex. Supermarkets) close at 8pm. Schools, gyms, swimming pools and saunas remain open.
Ireland	22/10 for six weeks (reviewed after four)	National lockdown, people to remain at home and within a 5km limit. No social or family gatherings allowed in homes or gardens. Non-essential shops closed, bars and restaurants takeaway only. Limits on weddings & funerals. Schools, creches, construction to remain open.
England	5/11 to 2/12	National restrictions: stay at home with exceptions such as for work, essential purposes (e.g. groceries), medical reasons and education as schools remain open. Following business closed or restricted (e.g.takeaway/click and collect allowed): non-essential retail, hospitality, accomodation, sports/lesiure facitilies, entertainment venues and personal care facilities (e.g. hairdresssers). Most public services to continue.

 Sources: Refinitiv, Google Mobility, BBC, NAB Economics

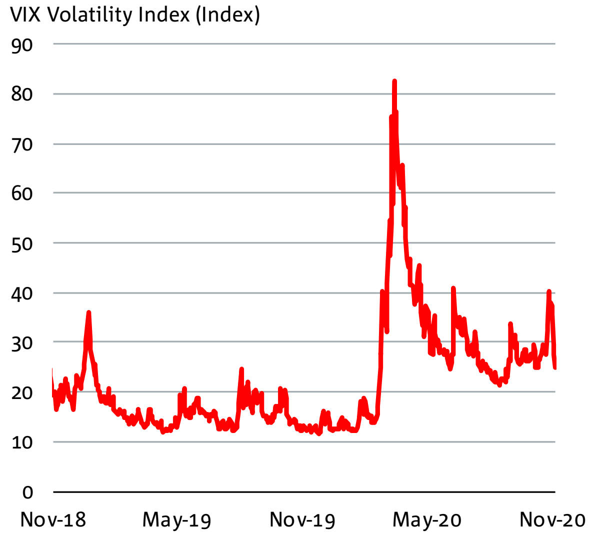
FINANCIAL AND COMMODITY MARKETS

Markets still volatile but have held up in face of COVID-19 resurgence

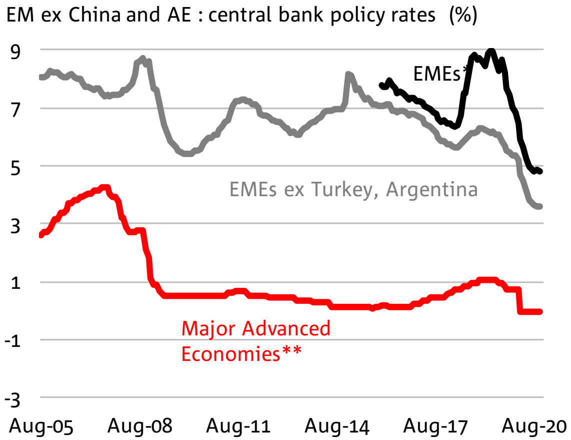
Recent lift in equity markets post US election & vaccine news



Market volatility still elevated but has eased

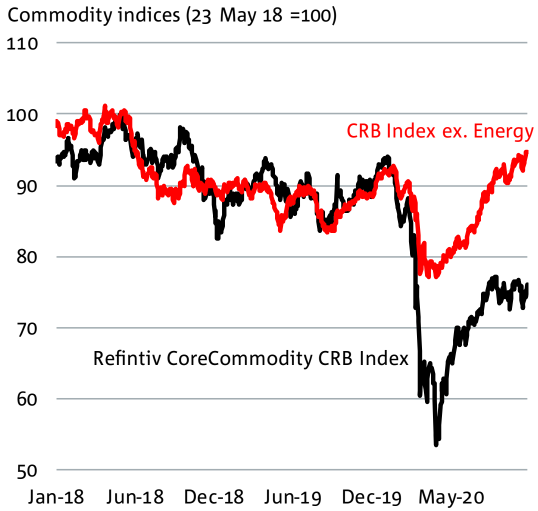


AE central bank policy rates unchanged as focus shifts to QE



* 19 Country weighted average; does not include China
**Weighted average of US, UK, Canada, Euro-zone, Japan. GDP (PPP) weights used.

Commodity price recovery held back by energy prices



- While volatile, financial markets held up in the face of the resurgence in COVID-19 in Europe (and with it lockdowns) and North America, before lifting following the US election and positive vaccine trial results. Monetary policy remains accommodative, and while the policy options for the major central banks are constrained by the very low level of interest rates, they remain ready to add further stimulus where they can –the expansion of the Bank of England's QE program a recent example.
- Advanced economy (AE) equity markets broadly tracked sideways between end August and early November, before moving higher following the US election and on positive news on vaccine trials. EM equity markets have continued to recover and by early November had moved above their pre-COVID-19 level. Volatility in equity markets is still high; the US VIX remains elevated, although recently has moved towards the lower end of the range it has been in since COVID-19 emerged.
- AE central bank policy rates are generally at, or close to, their lower bound. As a result, what used to be 'unconventional' policy options have become the go-to option to provide further monetary support to the economy. In response to the deterioration in the economic outlook in the UK, the Bank of England this month increased its government bond purchase program (QE) by £150b. The ECB has flagged that policy easing will occur next month; this is also likely to include an increase in its asset purchases. The US Federal Reserve's last meeting also included a discussion of its asset purchase program, suggesting that this may be the next cab off the rank.
- While AE central bank policy rates, after the initial cuts in March, have been unchanged, EM central banks have continued to ease rates. However, the pace has slowed, suggesting that that the easing cycle might be close to done. Whether this turns out to be the case or now will depend both on the outlook but also whether EM central banks feel constrained; indeed Turkey's central bank increased its policy rate in September due to pressure on its currency.
- Commodity prices have broadly moved sideways since late August. At the time of writing, the Refinitiv CoreCommodity CRB Index is slightly below its end August level, although the volatility in prices makes discerning a clear trend difficult. Energy prices continue to bear the brunt of the fall-out from COVID-19; on an ex-energy basis, the index is now above its pre-COVID-19 level.

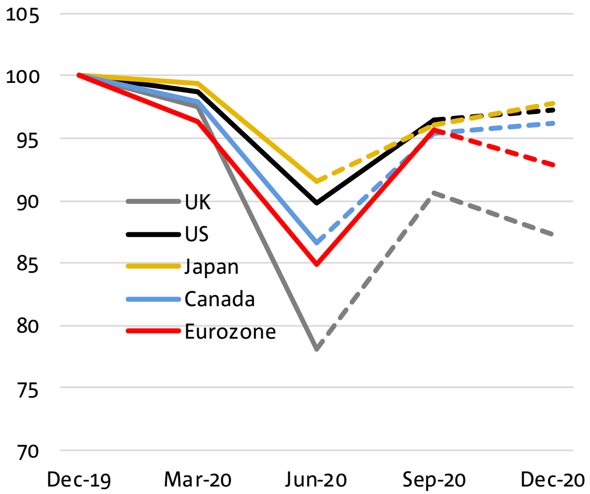
 Sources: Bloomberg, Refinitiv, NAB Economics

ADVANCED ECONOMIES

Resurgence in COVID-19 to weigh on growth in Q4, particularly in Europe

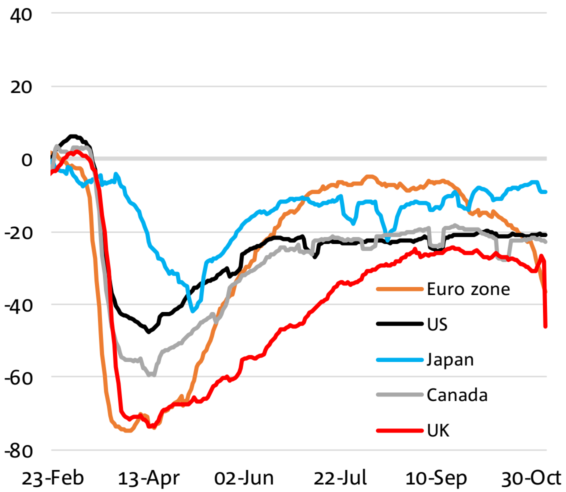
Big, but incomplete, rebound in Q3; but Q4 hit by COVID-19 surges

AE GDP (Q4 2019 = 100, dashed line indicates forecast)



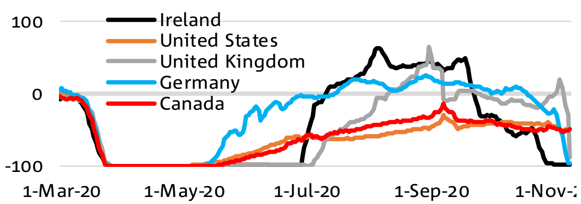
Euro-zone, UK mobility declining ahead of latest restrictions*

Google mobility: retail/recreation & workplace (% devn from baseline, 7 day average)

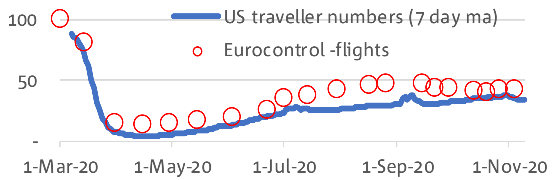


Services sectors in Europe such as hospitality will be hardest hit*

Seated diners (y/y%) - OpenTable (7 day m.a.)

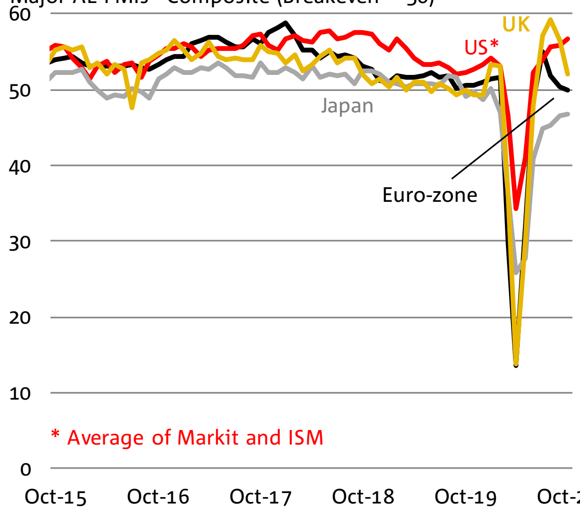


Aviation indicators (% of 2019 level)



Bus. surveys – Europe weakening, US &, Japan still improving

Major AE PMIs - Composite (Breakeven = 50)



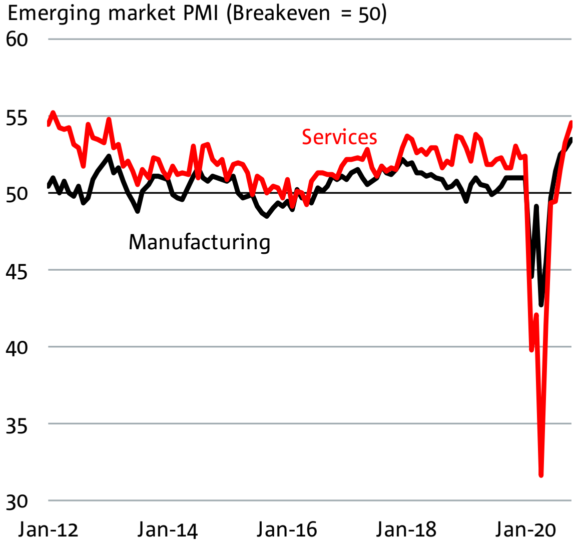
- Incoming GDP data confirm that there was a substantial, but incomplete, rebound in advanced economy (AE) economic activity in Q3. However a resurgence in COVID-19 cases across both Europe in particular but also North America will weigh on activity in Q4 at least.
- In Q3, GDP grew by 7.4% q/q in the US and 12.7% q/q in the Euro-zone which was stronger than we had expected. Even so, this left GDP 3.5% and 4.3% respectively below its end 2019 level. Monthly GDP data for Canada point to Q3 GDP growth of 10.2% and partial data point to strong Q3 growth in Japan and the UK as well.
- The spike in COVID-19 cases across much of Europe has led to measures to curb the spread of the virus. While initially these were targeted at specific sectors and localities, towards the end of October a series of announcements signalled a move to more nationwide measures. While some were still based around social interaction and curfews (with spillovers to hospitality and some other services) for other countries, such as France and the UK, the restrictions were more sweeping, including closures of 'non-essential' businesses (page 2).
- As a result we expect a fall in both Euro-zone and UK GDP in Q4. We assume that there will be some easing in restrictions starting in December. However, clearly there is a risk that the range of measures and the duration, will increase, potentially weighing on Q1 2021.
- We expect the trough in activity in the Euro-zone and the UK will not be as deep as in March/April. Overall, the measures are not as restrictive, businesses are better prepared to operate in this environment and it is not part of a synchronised global downturn, so export impacts and supply disruptions will be smaller.
- High frequency data so far point to a clear downturn in Europe although by less than in March/April, albeit they may not yet fully capture the impact of the latest restrictions (particularly in the UK where the lockdown started 5 November). The biggest impact is likely to be in some service sectors, particularly travel, hospitality and recreational services; restaurant booking numbers have already collapsed. The falls in the Euro-zone and UK composite PMI has been driven by services with manufacturing doing better. Indicators for Japan are improving (although COVID-19 cases are starting to rise again) while in the US they are holding up.
- Fiscal policy remains an issue in the US as the fiscal support put in place earlier in the year continues to unwind. The prospect of an additional fiscal package remains unclear, although there have been some positive post-election noises.

Sources: Refinitiv, https://www.google.com/covid19/mobility/, Eurocontrol, TSA, NAB Economics. * Last UK observation is average since 5 November lockdown rather than 7 day average

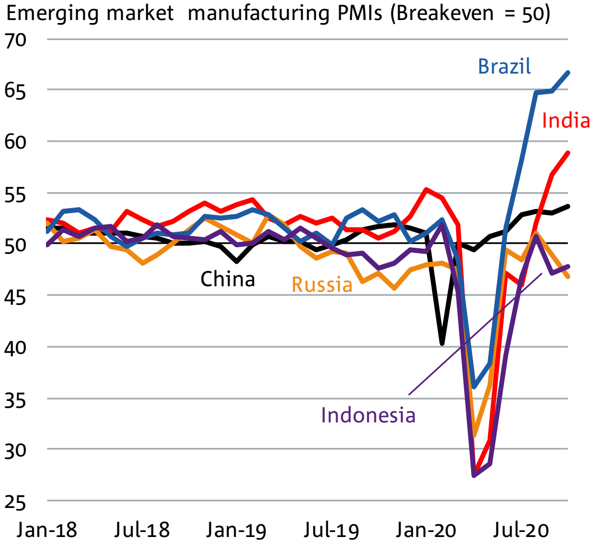
EMERGING MARKET ECONOMIES

Improving trends in surveys, but COVID-19 and trade weakness remain concerns

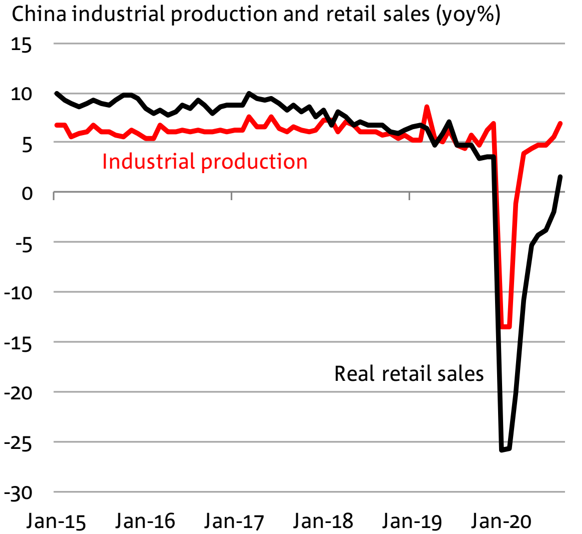
PMI surveys point to improving EM economic conditions



Surprisingly strong readings in Brazil and India



China's recovery remains driven by its industrial sector



Trade volumes still contracting for non-China EMs

- High frequency data continues to point to improving economic conditions in Emerging Markets. Aggregate PMI measures show strengthening in both manufacturing (at 53.4 points in October) and services (54.5 points), with the latter have plunged substantially in response to COVID-19 restrictions earlier in the year.
- The key drivers of the strengthening in manufacturing conditions in October were India, China and Brazil, while China and India drove services. The extremely strong results in both India and Brazil are somewhat surprising – given that neither country has contained COVID-19. An easing of COVID-19 restrictions was cited as a major contributor to the strength of these surveys (particularly for India), but there should be some concerns around the sustainability of this recovery.
- In comparison, manufacturing PMI readings for Russia and Indonesia have deteriorated in recent months (back into negative territory). Russia has had a substantial increase in COVID-19 cases since the start of September but the government has insisted that a lockdown is unnecessary.
- Google Mobility data shows a steady increase in activity around retail & recreational locations and workplaces since August for major Emerging Markets such as India, Brazil and South Africa. In contrast, Indonesian mobility data has been relatively stable in recent months, while Russia has deteriorated since September.
- China's economic recovery continued in Q3 – with growth of 4.9% – albeit this was somewhat weaker than market expectations and well below the pre-COVID-19 norm. Growth has remained highly dependent on heavy industry – feeding into the construction sector – while growth in household consumption has remained well below pre-COVID-19 rates.
- Emerging markets are far more trade dependent than advanced economies. The most recently available data on emerging market trade volumes shows a year-on-year increase in August 2020 – up by 0.6%. However, this increase is largely driven by China, which recorded a 6.6% yoy rise, supported by exports of electronics and medical supplies. In contrast, export volumes for non-China EMs fell by 2.9% yoy.
- In the near term, the impact of tighter COVID-19 restrictions in Europe is a negative for EM trade.

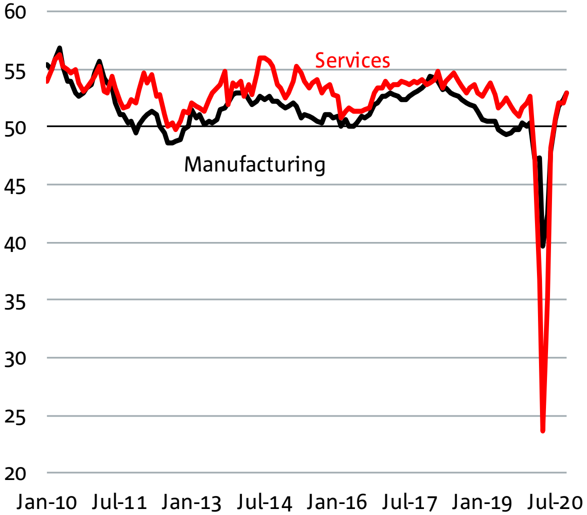
Sources: Refinitiv, Markit, CPB, NAB Economics

GLOBAL FORECASTS, POLICIES AND RISKS

COVID-19 remains the key risk to our outlook, until an effective vaccine is widely available

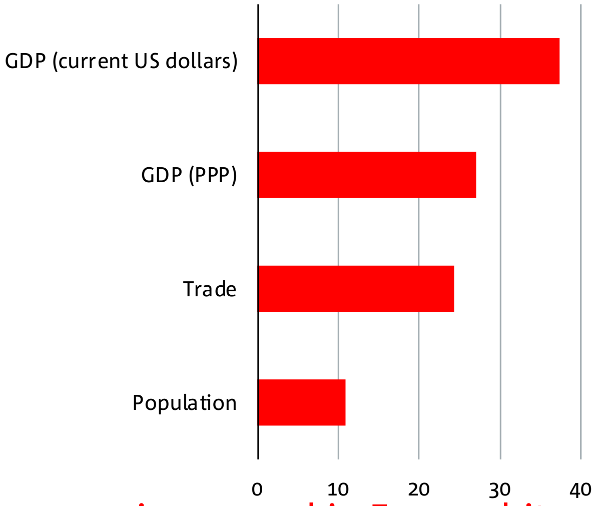
Upturn in business surveys came ahead of European restrictions

JP Morgan Global PMI (Breakeven = 50)

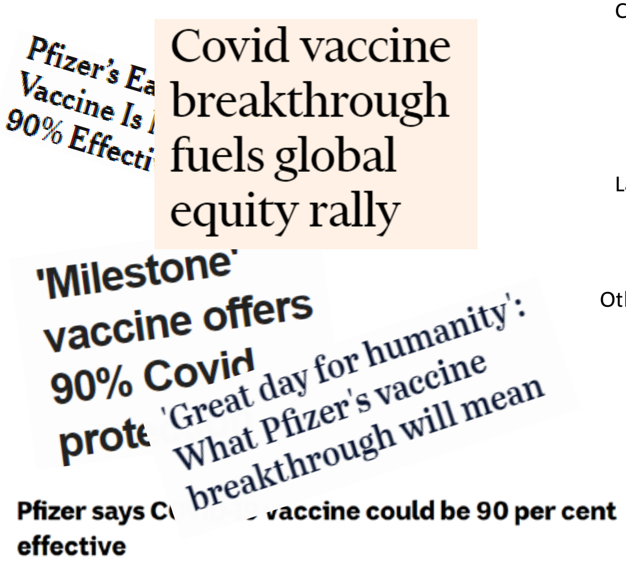


Biden Administration may reignite multi-lateral trade deals

Trans Pacific Partnership share of world in 2019 (%)

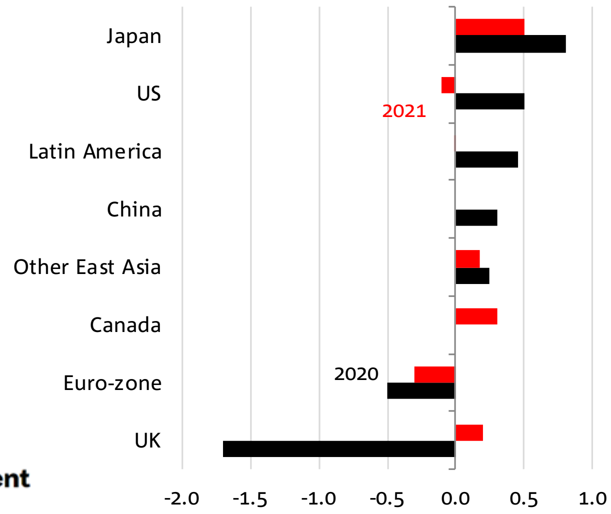


Hopes raised regarding an effective COVID-19 vaccine...



...as growing spread in Europe hits forecasts in 2020 and 2021

Change in forecasts (percentage points) (Nov vs. Oct)



- Global surveys indicate that there was a continued improvement in business conditions until October, with positive readings for both manufacturing and services. In the near term, it is likely that there will be diverging trends by region – with a number of key economies in Europe implementing restrictions to slow the spread of COVID-19.
- Although the impact of these restrictions will vary from country to country, it is likely that services (which account for the largest share of advanced economies) will be harder hit.
- These measures highlight the persisting economic risks related to COVID-19 that will remain until an effective vaccine is developed and widely available. It remains to be seen whether the surging number of new cases and the change in leadership in the United States will see a shift in its COVID response.
- Hopes have been raised in November that an effective COVID-19 vaccine will soon be available, following highly successful initial testing. It is worth noting that while there are a number of promising developments, none have yet completed the full range of testing for efficacy and safety.
- The election of Joe Biden as US President could result in a change in the country's trade policy. While the Biden Administration is expected to be less confrontational regarding trade policy, this does not necessarily mean a better trade environment for China – reflecting the increasingly negative sentiment in the US towards China. Instead there may be an increasingly multi-lateral trade policy, which may include the Trans Pacific Partnership (from which President Trump withdrew the US early in his presidency). This could accelerate the shift in global supply chains away from China towards other East Asian economies.
- Reflecting recent data and the expected impact of recently introduced COVID-19 restrictions, we have significantly revised our global economic forecasts (included in NAB's Australian Federal Budget commentary in October). The United Kingdom and Euro-zone are the most negatively impacted. These cuts are more than offset by stronger than previously forecast growth in China and the United States (respectively the largest and second largest economies on a PPP basis), along with Japan, Latin America and East Asia.
- The net effect of these forecast changes is a marginally smaller decline in growth in 2020 (3.9% compared with 4.1% in October), while growth in 2021 is forecast at 6.1% (from 6.3% previously).

Sources: Refinitiv, Markit, IMF, WTO, UN Population Prospects, NAB Economics

National Australia Bank

Group Economics

Alan Oster
Group Chief Economist
+(61 0) 414 444 652

Jacqui Brand
Personal Assistant
+(61 0) 477 716 540

Dean Pearson
Head of Behavioural & Industry Economics
+(61 0) 457 517 342

Australian Economics and Commodities

Gareth Spence
Senior Economist – Australia
+(61 0) 436 606 175

Kaixin Owyong
Senior Economist, Research
+(61 0) 436 679 908

Phin Ziebell
Economist – Agribusiness
+(61 0) 475 940 662

Behavioural & Industry Economics

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 0) 477 723 769

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 0) 455 052 520

Steven Wu
Economist – Behavioural & Industry Economics
+(61 0) 472 808 952

International Economics

Tony Kelly
Senior Economist
+61 (0) 477 746 237

Gerard Burg
Senior Economist – International
+(61 0) 477 723 768

Global Markets Research

Ivan Colhoun
Global Head of Research
+61 2 9293 7168