EMBARGOED UNTIL: 11.30AM THURSDAY 10 DECEMBER 2020

THE FORWARD VIEW – GLOBAL

DECEMBER 2020

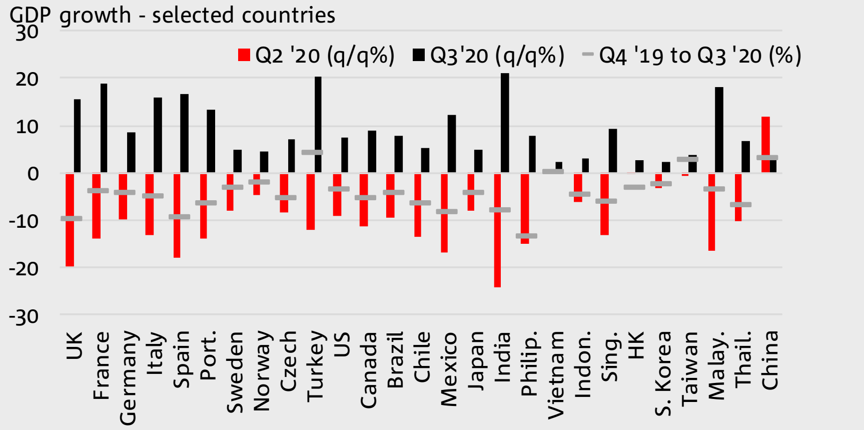
Widespread rebound in Q3 GDP, but COVID continues to disrupt global economy

- GDP increased strongly across all the major advanced economies (AEs) in Q3, but growth is expected to slow markedly, and in some cases go into reverse, in Q4 due to the re-introduction of restrictions to control COVID-19. The spread of COVID-19 remains a key risk to the outlook. While on a positive note the number of new cases in some European countries has turned down, numbers remain elevated in other AEs.
- There was a sizeable economic recovery in Emerging Markets (EMs) in Q3, with the five largest economies growing by 0.4% yoy (compared with a 4.9% contraction in Q2). More timely data point to a continued improvement in economic conditions in Q4.
- Despite the impact of the COVID-19 related restrictions in Europe and elsewhere, global business surveys showed little change in November, pointing to the global recovery continuing (albeit with regional variation). With many of the recent restrictions targeting hospitality and social interaction, the services sector global PMI eased a little, but at the same time the manufacturing PMI moved higher. Nevertheless, we expect there to be a slowdown in the global recovery in Q4 2020 (with downside risks around Q1 2021).
- Ongoing economic disruption is likely until an effective COVID-19 vaccine has been widely deployed. On this front, news continues to be positive; the UK this month approved a vaccine for use and US regulators are expected to make a decision soon. Progress on vaccines has supported financial markets.
- Our global forecast for 2020 is unchanged at -3.9% but we have lowered our forecast for 2021 to 5.8% (from 6.1%). While COVID-19 spread remains a downside risk, a rapid roll-out of a vaccine is 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	1.9	1.3	-7.4	5.4	2.9
Japan	0.3	0.7	-5.2	3.1	1.4
UK	1.3	1.3	-11.2	6.5	4.5
Canada	2.0	1.7	-5.7	4.0	3.4
China	6.8	6.1	1.8	9.5	5.8
India	6.8	4.9	-7.7	10.1	6.0
Latin America	1.1	0.0	-7.4	4.1	3.2
Other East Asia	4.2	3.4	-3.1	5.5	4.9
Australia	2.8	1.9	-2.7	3.6	2.6
NZ	3.2	2.3	-3.8	3.9	4.5
Global	**3.5**	**2.8**	**-3.9**	**5.8**	**3.9**

Q3 recovery widespread – but most still below pre-COVID activity level



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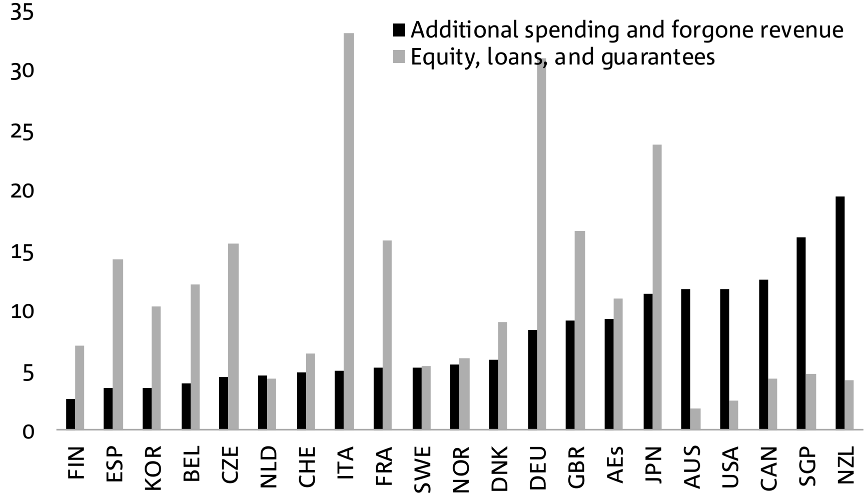
FISCAL IMPACTS OF COVID-19

An unprecedented response by fiscal authorities also means extraordinarily high budget deficits

Unprecedent policy response to COVID-19 by fiscal authorities – both across AEs and EMs

IMF estimates of AE discretionary COVID-19 fiscal response (% GDP, as at 11 Sep)



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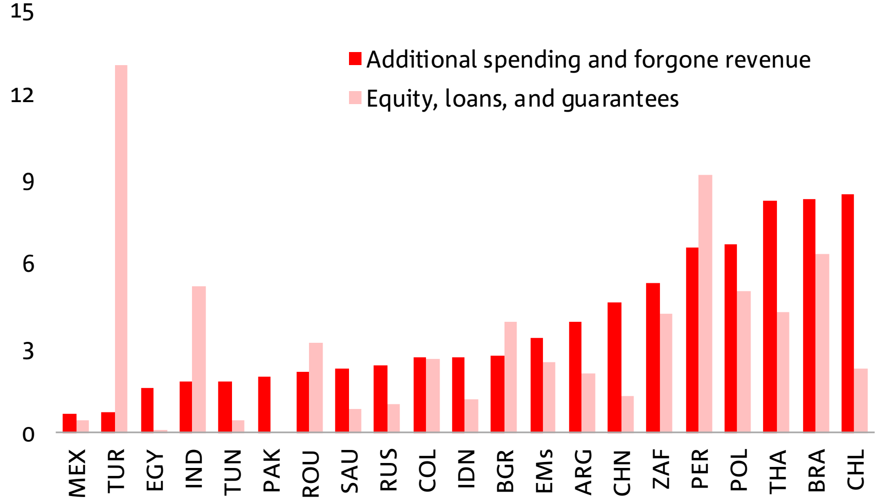
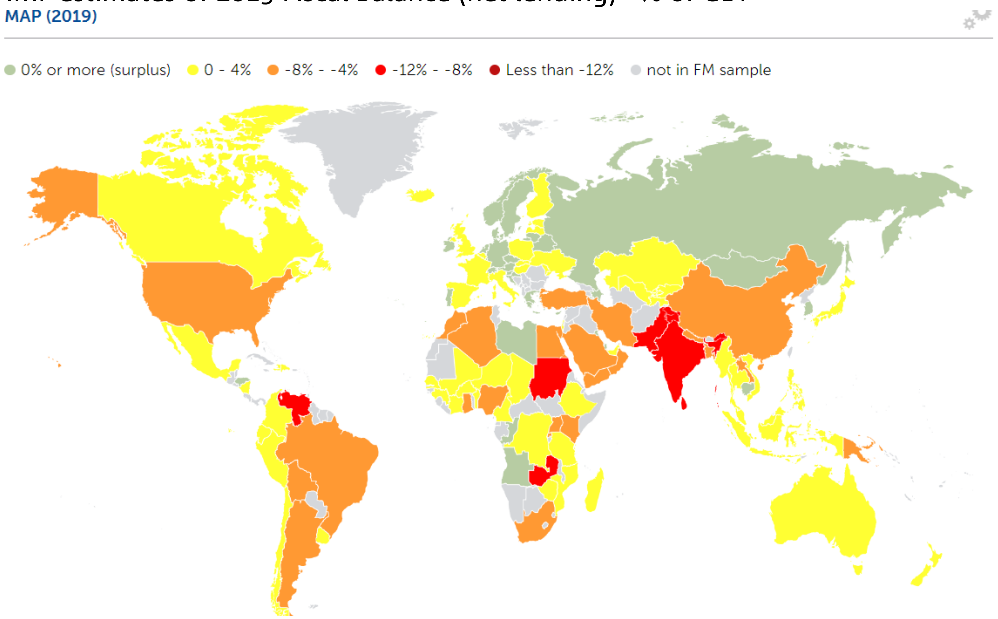


Transform global government budget positions across the globe – large to very large deficits now common

IMF estimates of 2019 Fiscal Balance (net lending) - % of GDP



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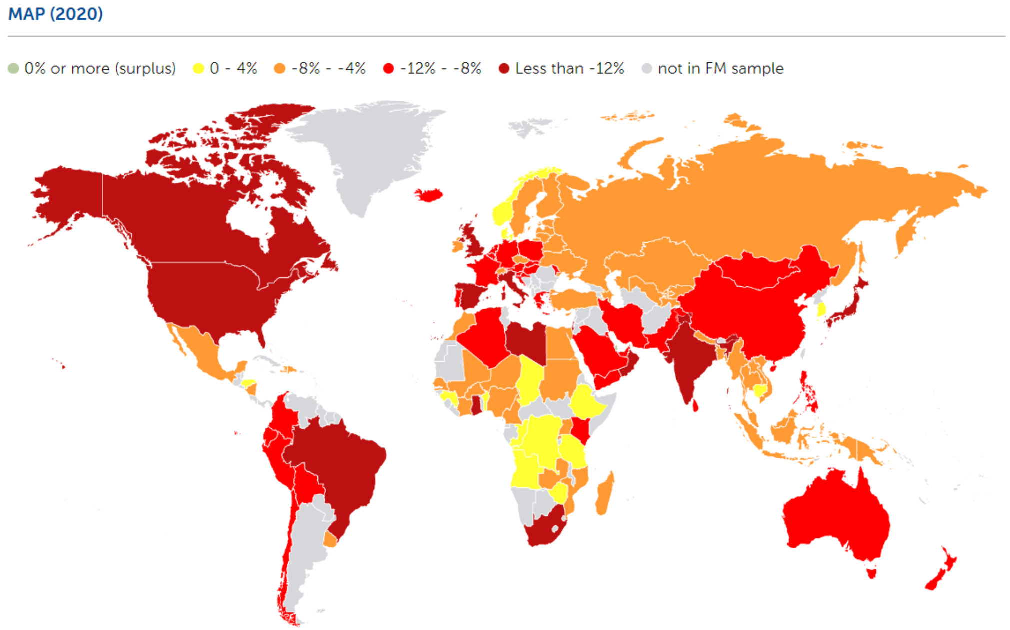
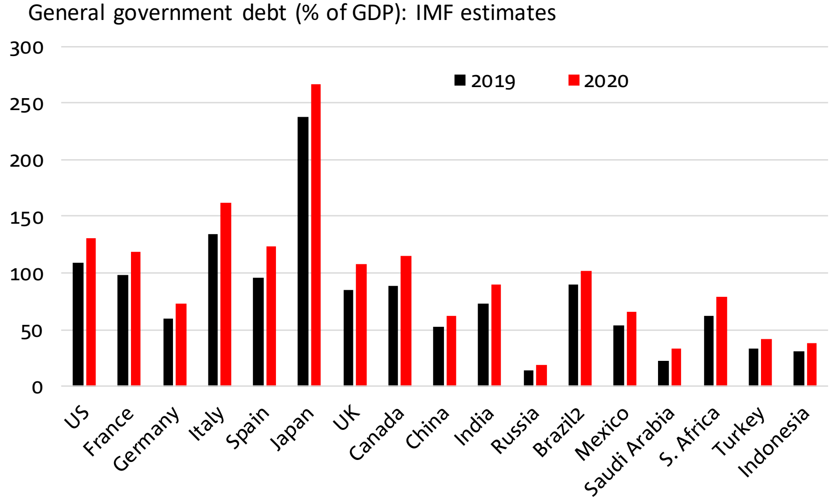


 Sources: IMF Fiscal Monitor and datamapper, NAB Economics

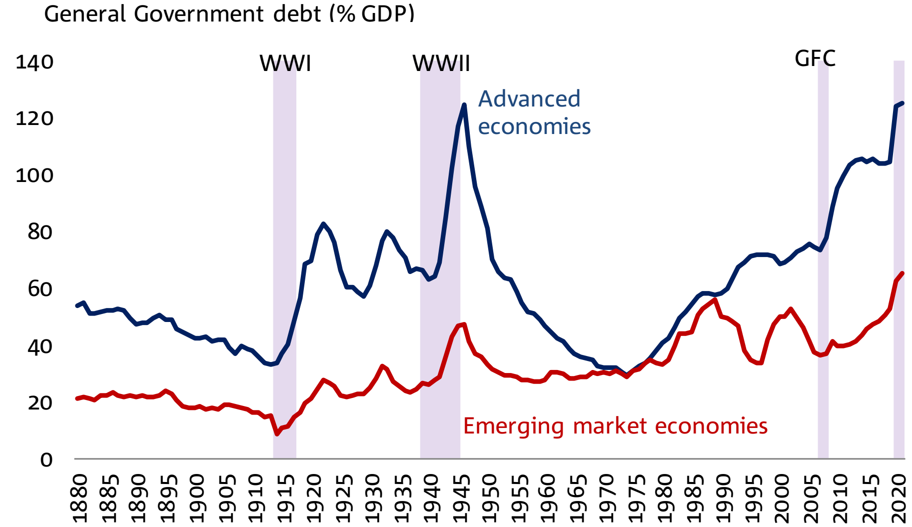
FISCAL IMPACTS OF COVID-19

Government debt - already high overall – now higher; need to juggle deficit control with economic support

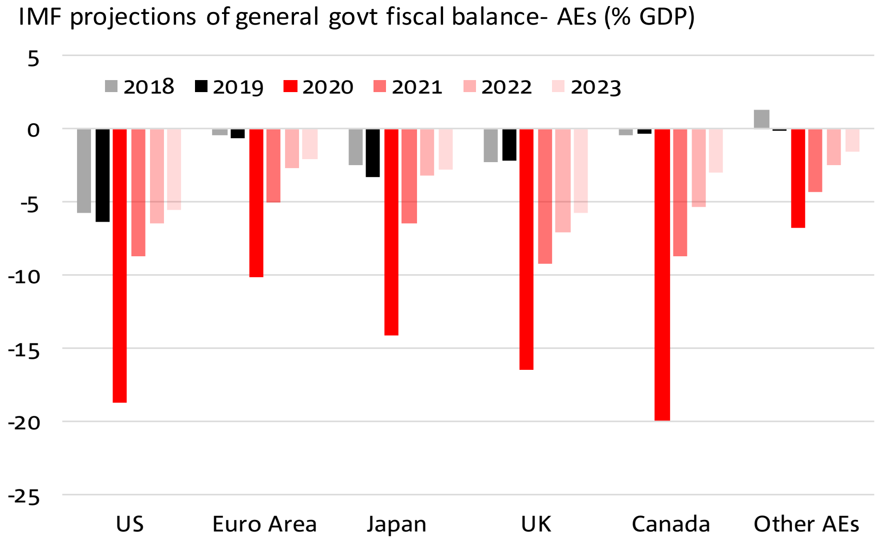
As a result government debt up across the board…a risk for countries already facing capital market pressures

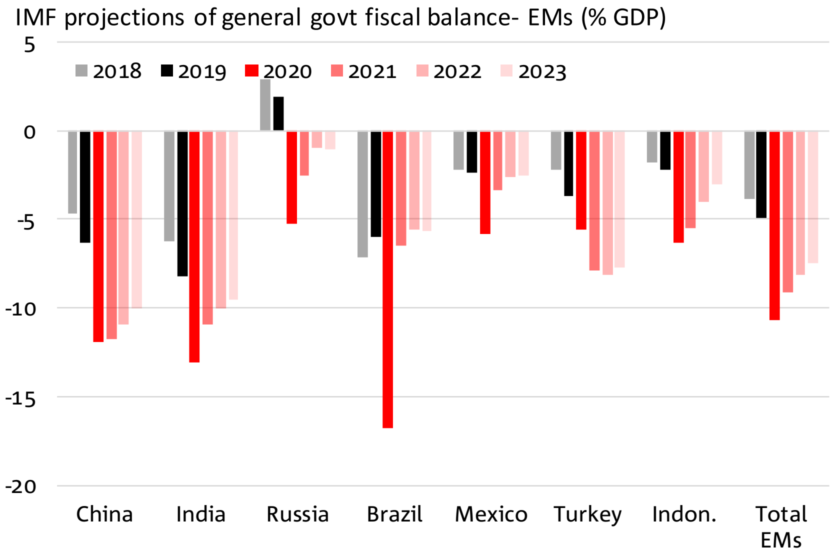


Government debt was already at high levels by historical standards – now at record highs



Deficits expect to unwind in 2021 but stay above pre-COVID-19 levels for a while; risk that deficit reduction happens too quickly, undermining the recovery





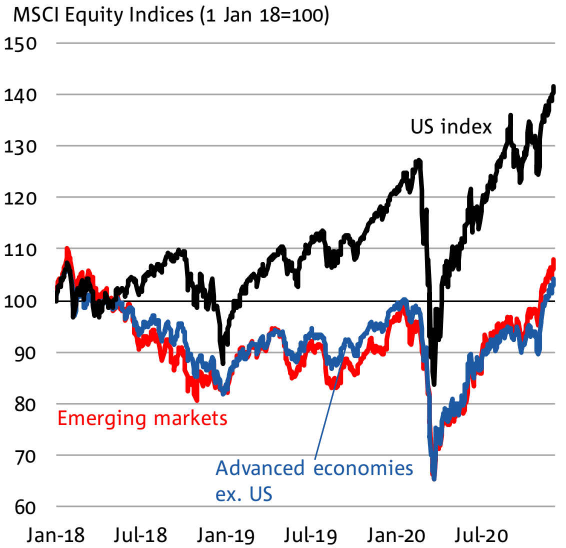
 Sources: Sources: IMF Fiscal Monitor and datamapper, NAB Economics

National Australia Bank

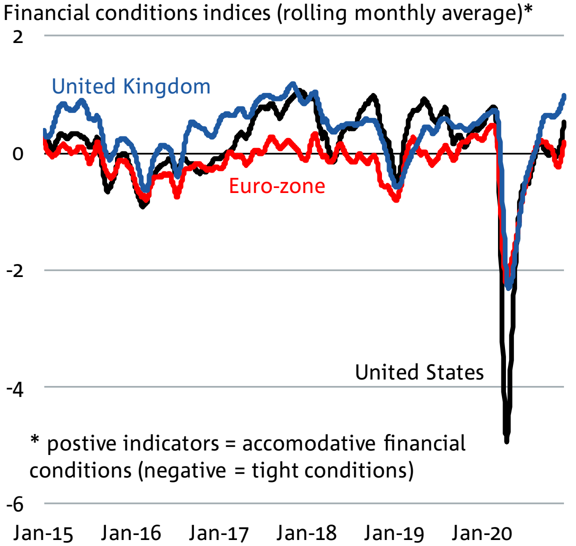
FINANCIAL AND COMMODITY MARKETS

Markets buoyed by positive vaccine news, brushing off near term COVID-19 risks

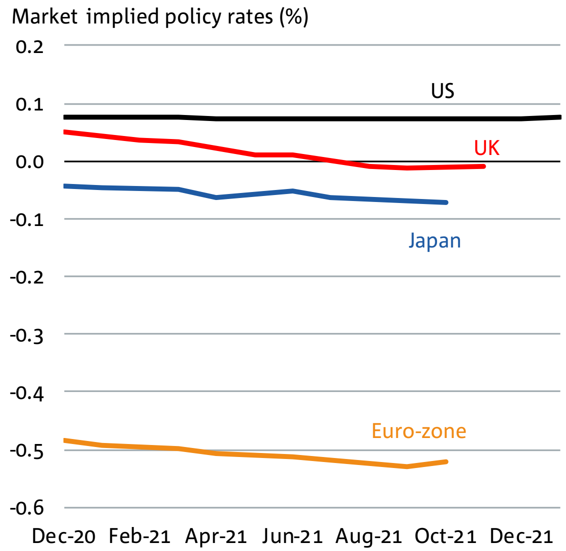
Equity markets brush off lockdowns on vaccine news



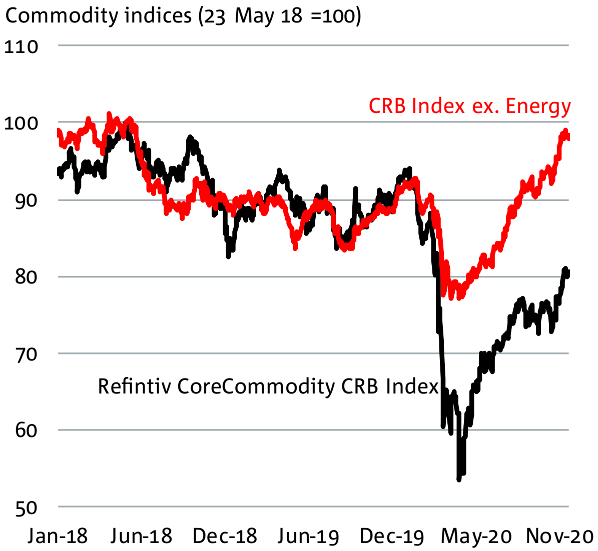
Financial conditions improved in Nov but limited policy room



Policy rates are expected to remain low for the foreseeable future



Non-energy commodities have recovered, led by China's demand



- Major equity market indices have continued to strengthen since early October, with US markets hitting record highs in late November, while, at the same time, other advanced economies and emerging market indices were at their highest levels since early 2018. Despite the near term economic impact of different COVID-19 restrictions recently introduced in both Europe and North America, equity markets appear buoyed by recent positive vaccine reports.
- Volatility in equity markets – as indicated by the VIX index – has also declined recently. However, it is worth noting that at the time of writing this measure remained above the typical levels seen in the post-GFC period.
- Financial condition indices, which combine a range of market indicators into a single measure, recovered between April and September. The US and Euro-zone measures deteriorated slightly between mid-October and early November but have subsequently improved. While monetary authorities have worked to keep financial markets functioning, major advanced economy central banks have largely exhausted conventional policy room and many have reimplemented unconventional policies (such as asset purchases). A boost to ECB asset purchases is expected and the US Fed is also considering how its QE programme could provide extra support if needed.
- Central bank policy rates are likely to stay low for a considerable time. Market pricing anticipates essentially stable policy rates in the United States at least through to early 2022 (and most Fed members seen no change through to end 2023), while market implied rates point to policy easing in the UK, and the chance of a cut in the Euro-zone and Japan.
- At an aggregate level, commodity prices have also trended higher from late October (having plateaued from the start of September). However, excluding energy commodities, commodity prices have generally trended higher from April 2020 onwards, as China's comparatively earlier economic recovery boosted demand for resources. At the time of writing, the CRB index (excluding energy) was at its highest levels since June 2018.
- In contrast, the recent trends in government bond markets have been less uniform. Since early October, yields on 10 year US and Canadian government bonds have strengthened moderately, while the Eurozone and Japanese bonds have remained relatively stable.

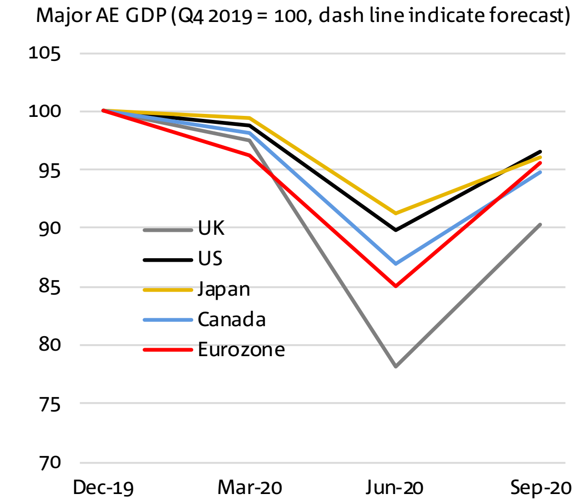
Sources: Bloomberg, Refinitiv, NAB Economics

National Australia Bank

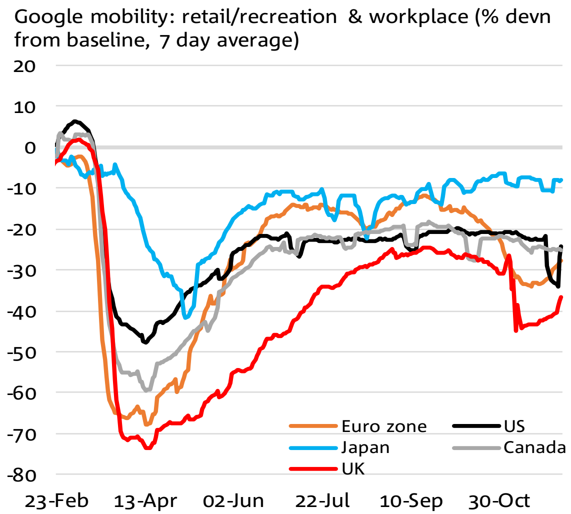
ADVANCED ECONOMIES

Q3 GDP rebound to be followed by Q4 weakness; COVID-19 spread mixed but declining in Europe

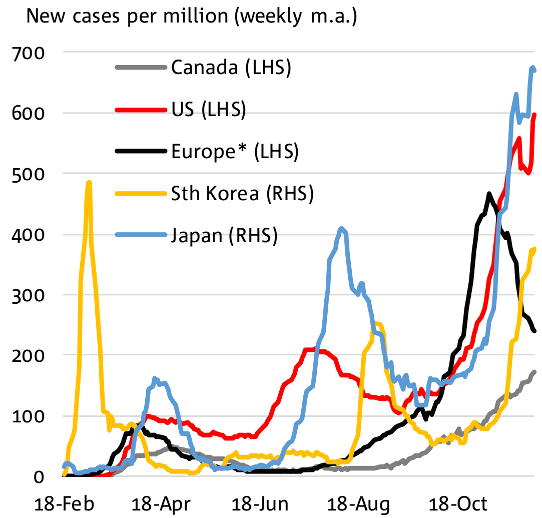
Big rebound in Q3 GDP



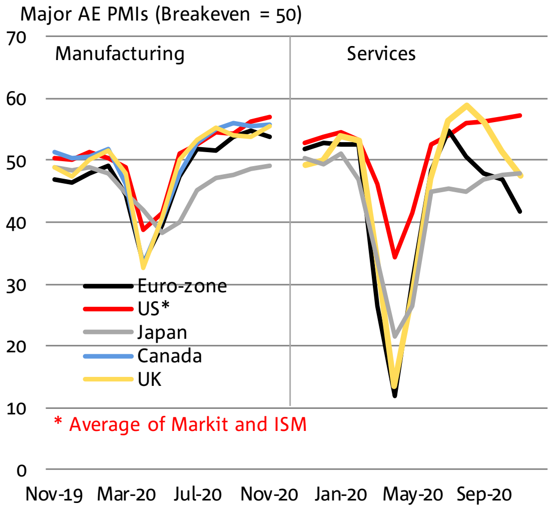
Peak impact of European restrictions appears to have passed



COVID-19 spread mixed news but easing in Europe



Restrictions have impacted services but manufacturing holding up



- GDP increased strongly in Q3 across all the major advanced economies (AEs), but growth is expected to slow markedly, and in some cases go into reverse, in Q4 due to the re-introduction of restrictions to control COVID-19. The impact on Q4 GDP should be significantly smaller than was seen in Q2 with some sectors, such as manufacturing, holding up. The spread of COVID-19 remains a key risk to the outlook but, on a positive note, the number of new cases in some European countries has turned down.
- GDP increased by between 5% q/q (Japan) and 15 q/q% (UK) in Q3 across the major AEs. The larger increases were seen by those countries/regions that experienced the greater falls in Q2. GDP is still well below its pre-COVID (Q4 2019) levels; by almost 10% in the UK, 4-5% for Japan, Canada and the Euro-zone and 3.5% for the US.
- High frequency data such as Google mobility points to some downturn in activity over October/November. This is particularly the case in Europe where some countries moved back into lockdown. In the US and Canada, a ramping up in regional level restrictions is also having an impact. While a recent US public holiday has distorted the mobility indicators, restaurant bookings have clearly moved down.
- The number of new cases in Europe appears to be declining. Germany is an exception and it recently extended its COVID-19 restrictions. For other countries, such as the UK and France, this is enabling a gradual easing in restrictions. Even before this, the fall in mobility had troughed. Nevertheless, we still expect a decline in Euro-zone and UK GDP in Q4. In the US case numbers remain very high. Japan has also experienced a resurgence in new cases (by its standards), although at this stage the policy reaction has been fairly limited.
- The high frequency indicators and business surveys point to a more muted impact on Q4 GDP from COVID-19 restrictions than in Q1/Q2. This is particularly so for manufacturing, as there is not a synchronised global downturn as in early 2020 (supporting external demand) and businesses are better prepared to continue operations. Highlighting this, German motor vehicle production surged in November.
- Following the re-introduction of restrictions to curb COVID-19 spread, some European governments put in place further fiscal support. This has not been the case in US, presenting a risk to US growth as some COVID-19 support measures wind up at the end of the year. There are on-going discussions within Congress, however, suggesting a new fiscal package is possible at some stage.

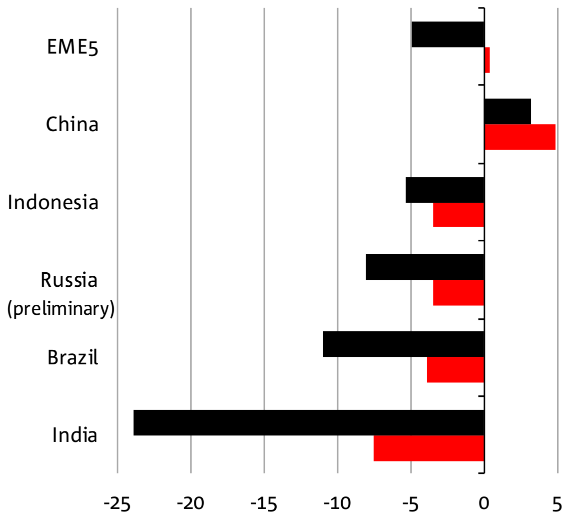
Sources: Refinitiv, https://www.google.com/covid19/mobility/, NAB Economics. * Comprises Germany, France, Italy, Spain and the UK.

EMERGING MARKET ECONOMIES

EMs continue to recover, led by China, but COVID-19 spread remains a risk near term

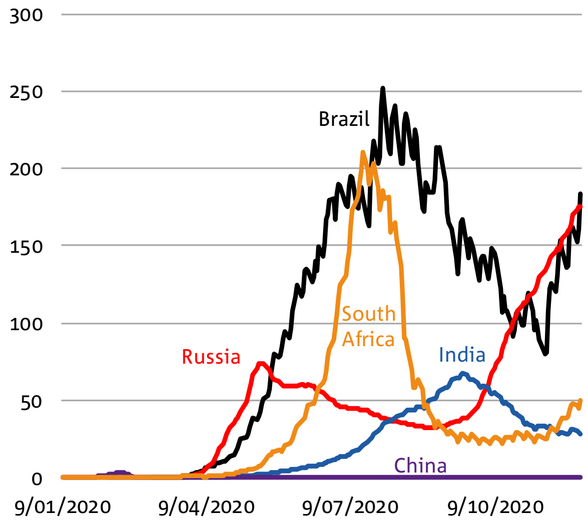
China the only major EM that grew yoy in Q3, but others less negative

Major emerging markets economic growth (% yoy)



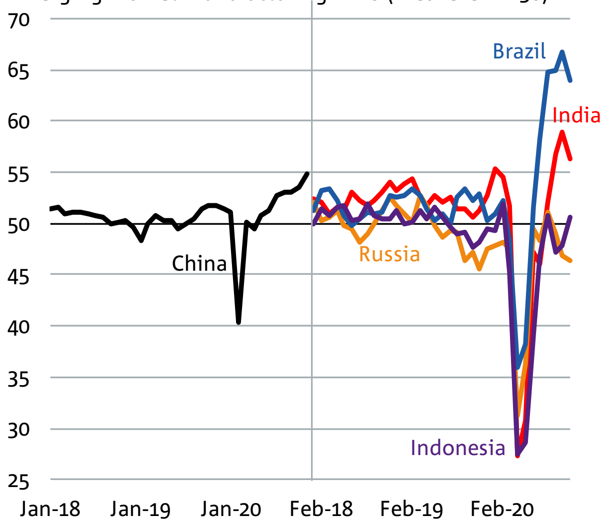
COVID-19 spread remains a risk to EMs until vaccines are available

New cases (per million population)



China drove marginal gain in Mfg PMI, offsetting Brazil & India

Emerging market manufacturing PMIs (Breakeven = 50)



Exports have recovered, but EZ lockdowns could hit demand

Emerging market export volumes (% yoy 3mma)

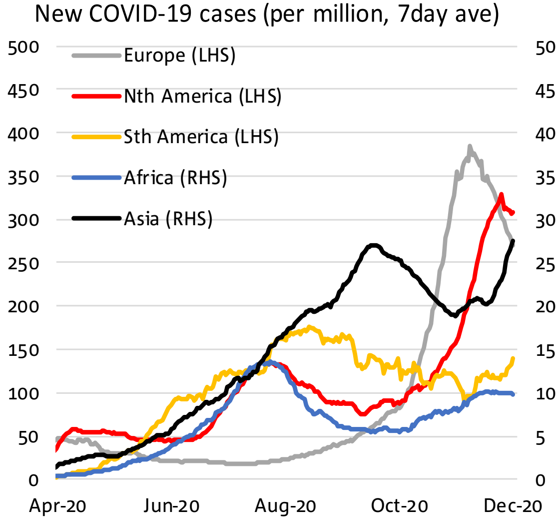
- There was a sizeable economic recovery in Emerging Markets (EMs) in Q3, with the five largest economies growing by 0.4% yoy (compared with a 4.9% contraction in Q2). This increase was driven by a smaller contraction in India and growth in China – which was the only one of these economies to record year-on-year growth in Q3.
- India's latest national accounts data showed a partial recovery in the third quarter, with sizeable quarter-on-quarter growth (of over 15%). However, its economy remains 7.5% smaller year-on-year. Easing of COVID-19 restrictions was a key factor in the turn around during the quarter. Although the rate of new COVID-19 infections has slowed considerably in India – below that of the other major Emerging Markets (excluding China) – it remains significant and an ongoing risk to the country's economic activity until widespread vaccination is possible.
- A less negative trend was also evident in East Asia – where there was an overall contraction of 3.2% yoy in the third quarter, compared with a 7.5% decline in Q2. There remain some stark differences within the region, with large declines in more tourist focussed countries (such as Thailand and the Philippines), while Taiwan recorded modest growth – reflecting its close ties to China's economy.
- More timely data point to a continued improvement in economic conditions in Q4. The aggregate Emerging Market Manufacturing PMI edged higher in November, to 53.9 points (from 53.4 points in October). While the measures for Brazil and India both eased from extremely strong levels in October, China's manufacturers reported stronger conditions in November.
- The EM Services PMI was stable in November – at a strongly positive 54.4 points. This measure exhibited a similar trend to manufacturing – with a stronger reading for China offsetting weaker results in India and Brazil.
- Growth in emerging markets is more trade dependent than advanced economies. Export volumes from EMs rose in year-on-year terms in both August and September (having contracted over the earlier months of 2020) – up by 0.5% yoy and 2.5% yoy respectively. Growth in August was primarily driven by China, however non-Chinese EMs saw export volumes rise by 1.1% yoy in September – the first increase since February 2019 (albeit on a three month moving average basis, this measure remains negative).

Sources: Refinitiv, Markit, CPB, NAB Economics

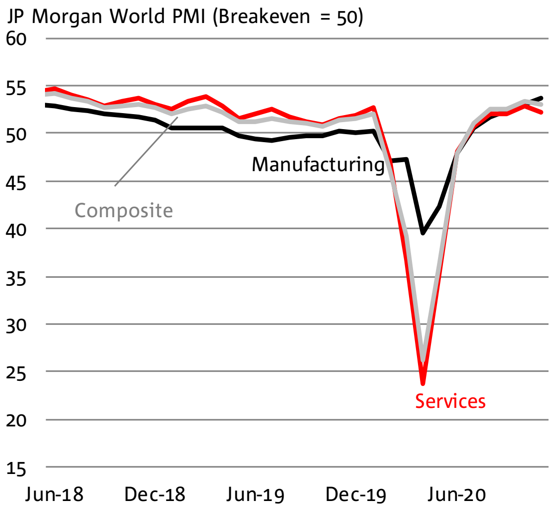
GLOBAL FORECASTS, POLICIES AND RISKS

COVID-19 continues to disrupt the global economy but positive vaccine developments offer upside

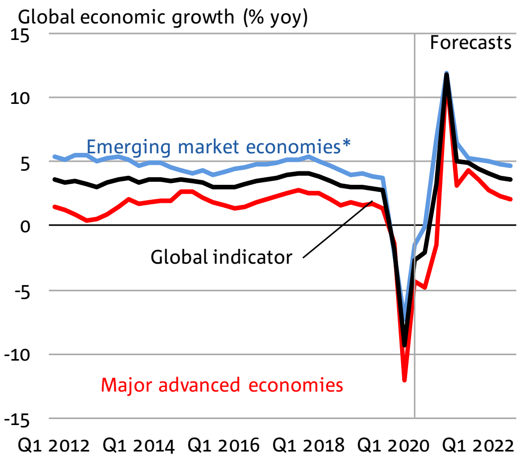
COVID-19 still disrupting economies



November surveys point to muted recent impact

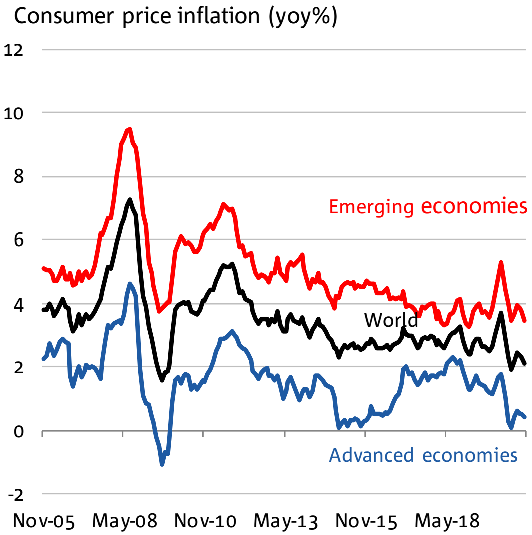


Expect a Q4 slowdown but recovery to continue into 2021



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

Inflation has moved lower



- COVID-19 continues to have a major influence on the global economy. The resurgence in virus cases in Europe and the North America saw the re-introduction of social distancing and other restrictions to curb its spread. This is expected to lead to a reversal in GDP in many European economies and a slowdown in North America (with downside risks as restrictions continue to tighten). Cases in Europe now appear to be falling – allowing for a gradual easing in restrictions – but have picked up elsewhere.
- Despite these developments, the global business surveys showed little movement in November, pointing to the global recovery continuing. With many of the recent restrictions targeting hospitality and social interaction, the services sector global PMI eased a little, but, at the same time, the manufacturing PMI moved higher. We expect there to be a slowdown in the global recovery in Q4 2020 (with downside risks around Q1 2021).
- There are several factors moderating the impact of the latest round of restrictions. Firstly, they are generally less restrictive than in March/April. Many of the most affected sectors – e.g. travel – were still depressed so could not fall to the same extent as earlier in the year. Moreover, the restrictions are less synchronised globally; reducing supply disruptions and also limiting the reduction in external demand. Businesses are also better prepared to operate in a COVID-19 environment – e.g workplaces have put in place measures to reduce the risk of transmission, more on-line sales and 'click and collect' even where in-store sales are not allowed.
- Nevertheless, ongoing economic disruption is likely until an effective COVID-19 vaccine has been widely deployed. On this front, news continues to be positive; the UK this month approved a vaccine for use and US regulators are expected to make a decision soon. A rapid roll-out of a vaccine (in scale) represents upside risks to our forecasts.
- Even when the virus has been brought under control, the fall out from COVID-19 will endure. The lockdowns led many business to permanently close, and some changes in behaviour will persist (more work from home, online sales) affecting some sectors for a while to come. While necessary, the widespread and massive size of fiscal measures put in place point to a long and difficult process to repair government budgets (see page 2 & 3). Inflation has shifted down, setting the scene for an extended period of very low policy interest rates. At the same time, global trade policy tensions are likely to persist, even if the new US administration takes a less confrontational approach.
- Our global forecast for 2020 is unchanged at -3.9% and we have lowered our forecast for 2021 to 5.8% (from 6.1%) largely due to revising down our forecast for India.

 Sources: Refinitiv, Our World in Data, NAB Economics

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