EMBARGOED UNTIL: 11.30AM THURSDAY 11 FEBRUARY 2021

THE FORWARD VIEW – GLOBAL

FEBRUARY 2021

National Australia Bank

Beyond near-term weakness outlook brightens on vaccine roll-out and fiscal support

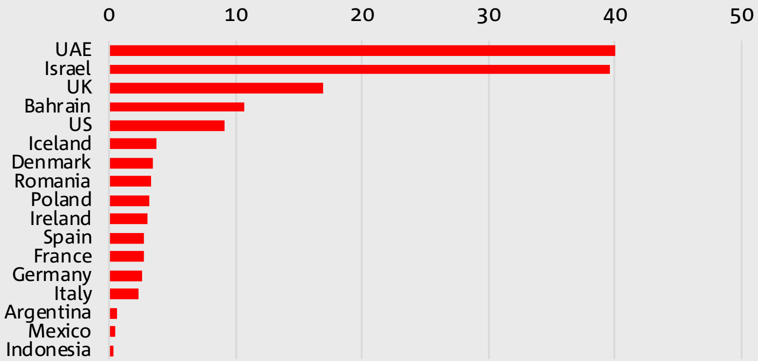
- The resurgence of COVID-19 in many parts of the world towards the end of 2020, as well as the re-introduction of mobility restrictions to bring it back under control, has had a negative impact on the global recovery. The Euro-zone economy went backwards in Q4, as did the UK's in November, and in the US and Canada employment has fallen in recent months. GDP growth in Q1 2021 is also likely to be negative or weak in the major advanced economies (AEs). Similarly, survey and high frequency data point to a softening in emerging market (EM) conditions at the start of 2021.
- That said, the impact of restrictions on activity has been far more muted than was the case in the first round of lockdowns early in 2020, with businesses better prepared to continue operations and restrictions generally more targeted. The manufacturing sector in particular, has continued its recovery.
- Our global forecast for 2021 remains unchanged at 5.8%. However, this apparent stability masks some changes in AEs – with a stronger outlook for North America offset by softer expectations for Europe and Japan due to the tightening of COVID-19 restrictions over December and January. It also masks a switch from weaker early 2021 growth to stronger growth as the year unfolds. As a result, our forecast for 2022 global GDP growth has been revised up to 4.6% (from 3.9%).
- This more bullish view going forward rests on the roll out of the COVID-19 vaccine currently underway and expectations of further large scale fiscal stimulus in the US. How quickly vaccines can be deployed (and how effective they are), is a major uncertainty. While AEs are not expected to see a widespread deployment of vaccines until late 2021, for EMs this is likely to be even later. Consistent with this we expect the gap between AE and EM growth in 2022 to be the smallest seen in over two decades (with limited policy freedom, given financial stability concerns, in some EMs another factor).

Global Growth Forecasts
(% change)

	2018	2019	2020	2021	2022
US	3.0	2.2	-3.5	4.5	3.9
Euro-zone	1.9	1.3	-6.8	4.7	4.3
Japan	0.6	0.3	-5.1	2.9	2.5
UK	1.3	1.4	-10.0	4.5	7.1
Canada	2.0	1.9	-5.4	4.9	4.0
China	6.8	6.0	2.3	9.5	5.8
India	6.8	4.9	-7.7	10.1	6.0
Latin America	1.1	0.2	-7.3	4.1	3.3
Other East Asia	4.2	3.4	-3.1	5.5	4.9
Australia	2.8	1.9	-2.7	3.9	2.8
NZ	3.4	2.3	-2.4	5.3	4.0
Global	**3.5**	**2.8**	**-3.5**	**5.8**	**4.6**

COVID -19 vaccines should boost growth; but roll-out has a long way to go

Share of people who have received at least one COVID-19 vaccine dose (%, as at 6 Feb or most recent available)



Source: Our World in Data

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

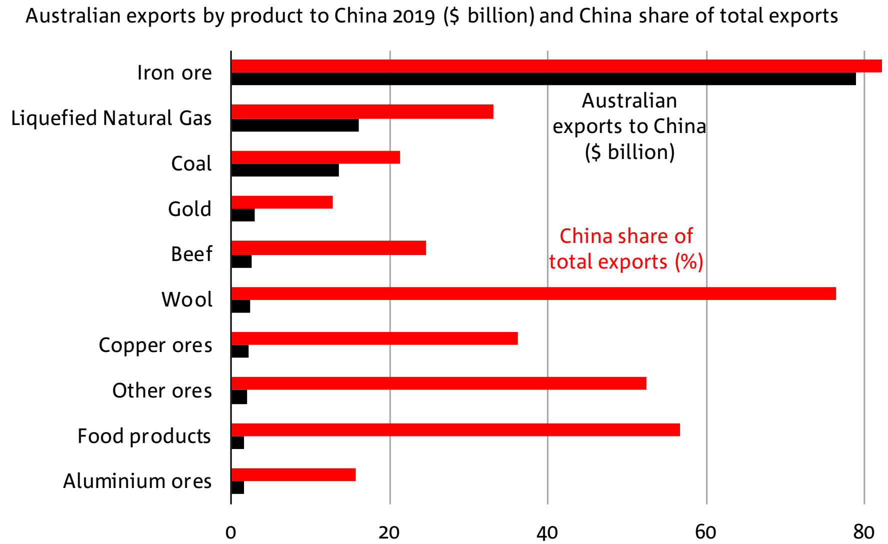
Gerard Burg & Tony Kelly

AUSTRALIA-CHINA POLITICAL TENSIONS DISRUPTING TRADE

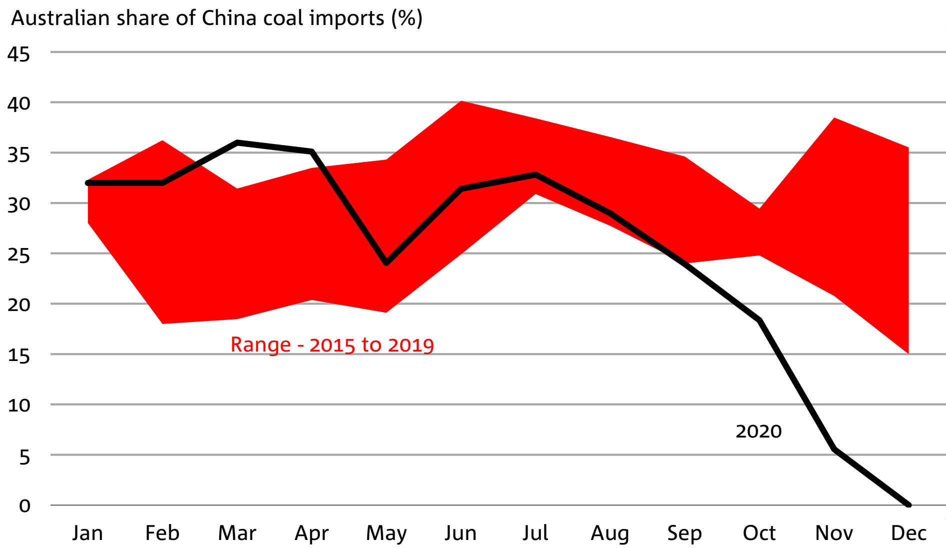
Australia's largest trade partner has introduced a range of trade measures, impacting commodity markets

China has become the overwhelmingly dominant market for Australian exports – nearly 40% of total in late '20…

…with iron ore the most important product – accounting for over half of the total exports to China



Coal is the highest value commodity to face trade restrictions (to date)



Summary of Chinese trade measures by commodity

Sector	Details
Coal	Chinese authorities unofficially restricted Australian coal imports in mid-2020 - reportedly discouraging coal buyers from purchasing Australian volumes. The National Development and Reform Commission recognised this ban in December, when it announced that importers could exceed annual quotas in order to meet a supply shortfall, but excluded Australian suppliers.
Barley	China imposed anti-dumping and anti-subsidary tariffs on Australian barley in May 2020 - totalling 80.5% - alleging that Australia dumped barley into the Chinese market in 2018. These tariffs are scheduled to be in place for 5 years.
Wine	China's commerce ministry announced preliminary anti-dumping tariffs (between 107% and 212%) on Australian bottled wine, along with temporary anti-subsidy tariffs of 6.3%-6.4%. These measures are set to expire in August 2021, however longer term measures could be introduced.
Beef and lamb	A range of major beef processing plants were blacklisted by China in May 2020, reportedly over mislabelling and health certificate concerns. Further plants (impacting both beef and lamb exports) have been subsequently banned, citing COVID-19 outbreaks.
Cotton	Reports suggest that Chinese cotton mills were instructed not to purchase Australian cotton in October 2020. There are rumours that China will introduce tariffs, thought to be around 40% (the rate imposed on above quota imports).
Timber	In November, China banned timber imports from Queensland and Victoria, followed by South Australia and Tasmania in December, citing bio-security issues, with reports of live pests found within timber imported from these states.
Lobsters	Australian lobster exports in early November were held at Chinese airports and clearing houses without receiving quarantine inspections. Subsequently reports suggest an unofficial ban was implemented.
Education and tourism	Border restrictions due to the COVID-19 pandemic currently render any action in these sectors meaningless. However, Chinese authorities have previously instructed travel firms not to book package holidays to certain destinations - such as South Korea in 2017, with annual visitor numbers falling by 48%. Prior to COVID-19, China overtook New Zealand to be the largest source of Australian tourists, as well as being the largest source of foreign students.

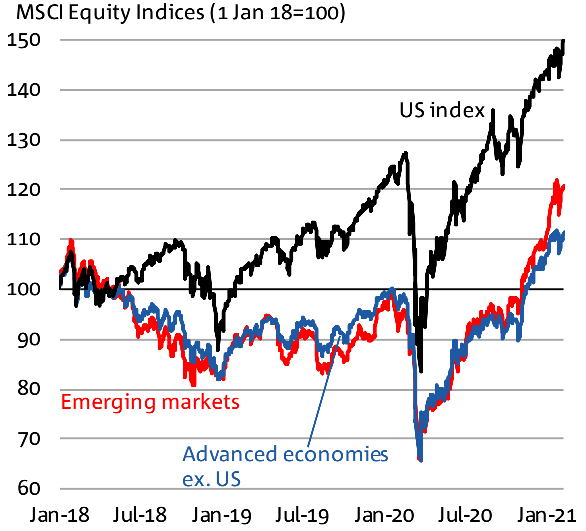
 Sources: Refinitiv, CEIC, ABC, NAB Economics

National Australia Bank

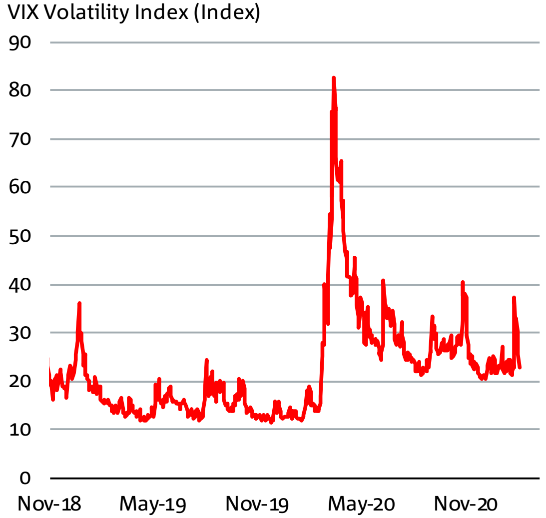
FINANCIAL AND COMMODITY MARKETS

Financial conditions are favourable despite an equity 'short squeeze' in late January

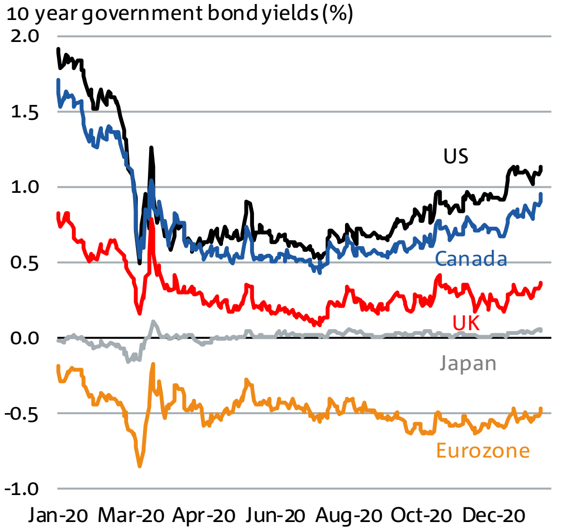
Equities at a high level despite 'short squeeze' disruption



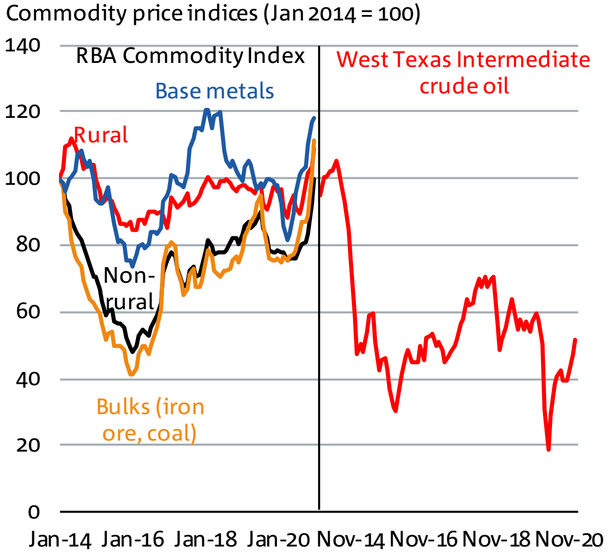
Recent spike in equity volatility short lived



Some move up in 10yr bond yields but still very low



Commodity prices continue to trend up; energy recovery lagging



- The run up in equity prices evident across most markets since March (when there was widespread implementation of COVID-19 related lockdowns) was disrupted in late January due to the 'short squeeze' caused by retail traders. Nevertheless, after a small dip, prices subsequently recovered and are well above their pre-COVID-19 level.
- Equity market volatility also spiked but has since largely retreated although it remains above its pre-COVID-19 level. However, more broadly, financial conditions remain favourable. Credit spreads are generally around (and, in some cases, below) their pre-COVID-19 level.
- Policy rates for the major central banks are likely to be unchanged (at least no upwards movement) over the next two years. The current focus is largely on how their asset purchase programmes are adjusted. The ECB increased its planned total amount of asset purchases (and duration over which they will occur) in December, while the Fed Chair recently said it was too early to discuss when the Fed might begin to taper its purchases.
- This reticence to speculate on when the Fed might tighten (through reduced QE) is consistent with the current general approach, given limited scope to lower rates, to promise 'low for longer'. Central Banks are also reviewing their policy options – the Bank of England will make sure banks can accommodate a move to negative rates, while the ECB and Bank of Japan are conducting policy reviews.
- Despite the maintenance of current low policy settings there has been some upward movement in longer dated bond yields. This is particularly the case for the US, and reflects stronger anticipated economic growth and rising inflation expectations.
- On the face of it, EM central banks have more scope to cut rates. However, while a few EM central banks have recently cut rates (e.g. Indonesia), Turkey tightened late in 2020 and others, such as Brazil, are under pressure to do so. China's authorities also appear to be moving towards unwinding support given China's well-advanced recovery and concerns over risks from high corporate debt.
- As the global economy has recovered, there has been an associated upwards trend in commodity prices. Since April, the RBA's USD indices for rural, base metal and bulks prices have risen and they are well above their pre-COVID-19 levels. In contrast, while improving, oil prices have yet to fully recover reflecting the impact of travel restrictions on demand.

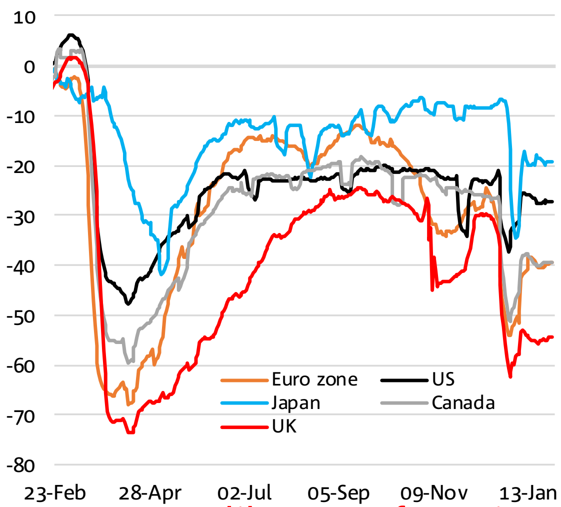
 Sources: Bloomberg, Refinitiv, NAB Economics

ADVANCED ECONOMIES

Late 2020/early 2021 weakness, but expect an improvement over rest of the year

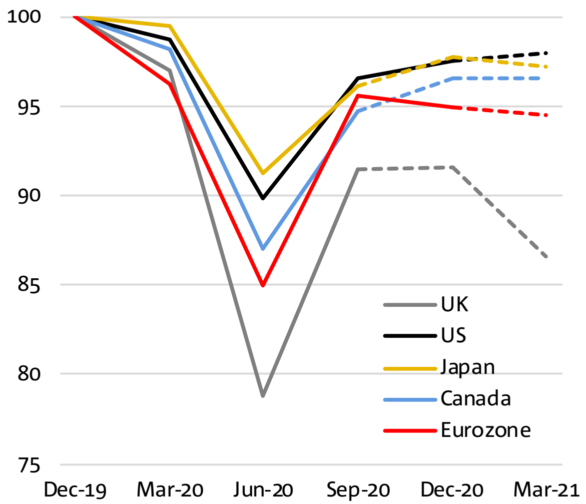
COVID restrictions continue to disrupt mobility and economies

Google mobility (2020-2021): retail/recreation & workplace (% devn from baseline, 7 day average)



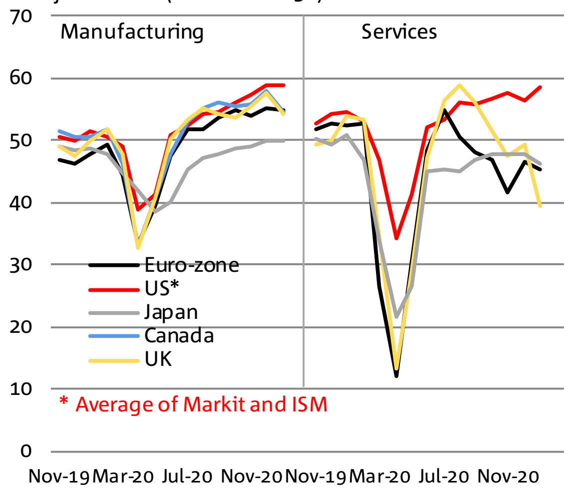
Recovery slowed or reversed at the end of 2020; Q1 likely to be similar

Major AE GDP (Q4 2019 = 100, dash line indicate forecast)



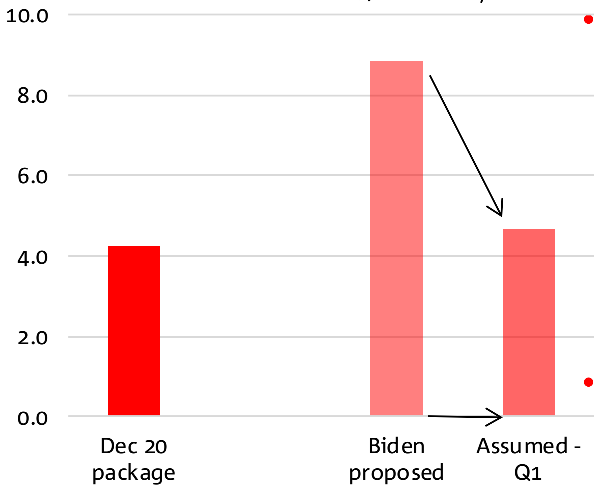
Some sectors like manufacturing holding up better this time around

Major AE PMIs (Breakeven = 50)



Large US stimulus at the end of 2020; more expected

Fiscal measures % of annualised Q4 2020 GDP)



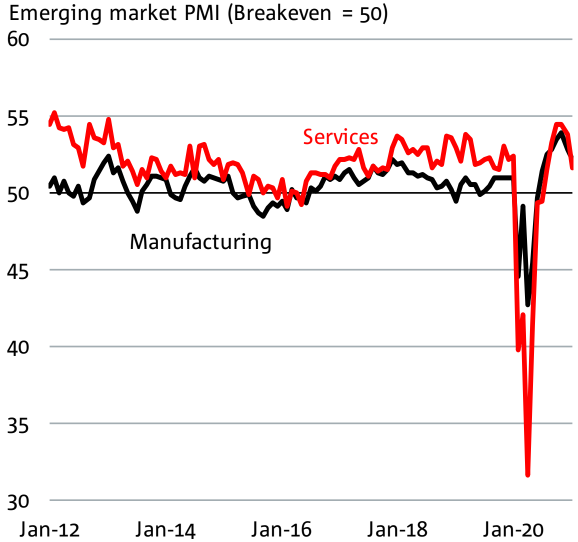
Sources: Refinitiv, https://www.google.com/covid19/mobility/, NAB Economics, Committee for a Responsible Federal Budget.

- COVID-19 and the restrictions on mobility continues to impact the major advanced economies. This can be seen in mobility data. While seasonal affects (e.g. around Christmas/New year) complicate the picture, they point to an easing in US mobility over recent months, and a fall in Japan in January as much of the country went into a state of emergency. In the Euro-Zone and the UK there was a substantial fall over October/November, and then some reversal over much of December, before restrictions were re-tightened.
- This is evident in Q4 GDP data that has been released to date. Euro-zone GDP declined 0.7% q/q and UK November GDP declined 2.6% m/m. While the US economy continued to grow in Q4 (1.0% q/q), consumption actually declined over November and December, and Canadian monthly GDP growth has slowed.
- That said, the weakness in activity has been less than expected. This likely reflects adaption by businesses and households. Moreover, with more targeted restrictions in some countries, the impact is more disparate. Hospitality/recreation/travel appear to have been the worse affected while other sectors have continued to grow. This can be seen in the business surveys where manufacturing PMIs are generally far stronger than the services measures.
- With the tightening or extension of restrictions in the UK, Japan and some Euro-zone economies since our December report, we have revised down our 2021 forecasts for these countries/regions.
- However, there are two factors supporting a stronger recovery and over a two year period (2021 and 2022) we have lifted our advanced economy forecasts. Firstly, the roll out of vaccines offers the prospect of the virus being brought under control which would allow restrictions on activity to be removed. While it will take a while before there is widespread vaccination, cases are already falling in some advanced economies (including the three largest – US, Japan & Germany). Secondly, governments continue to provide fiscal support. In late 2020, a large stimulus package (over 4% of GDP) was passed in the US and the President is pushing for a much larger follow up (but we are assuming it will end up being under 5% of GDP).
- The combination of fiscal stimulus, removal of activity restrictions, all while monetary policy remains very loose, would open up the possibility of very strong growth rates. A key risk is around how effective vaccines prove to be and, if effective, how quickly they are rolled-out (particularly in Europe (ex UK) which is off to a slow start and Japan (hasn't started yet)).

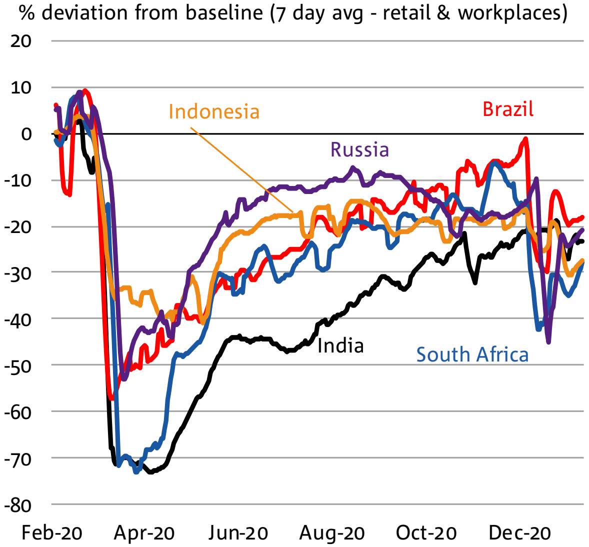
EMERGING MARKET ECONOMIES

High frequency data points to a softer start to 2021 from late 2020 levels

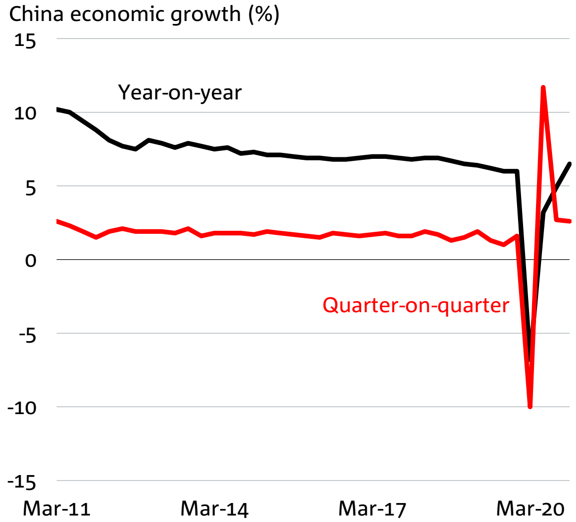
PMI measures have eased in early '21, led by slowing in services



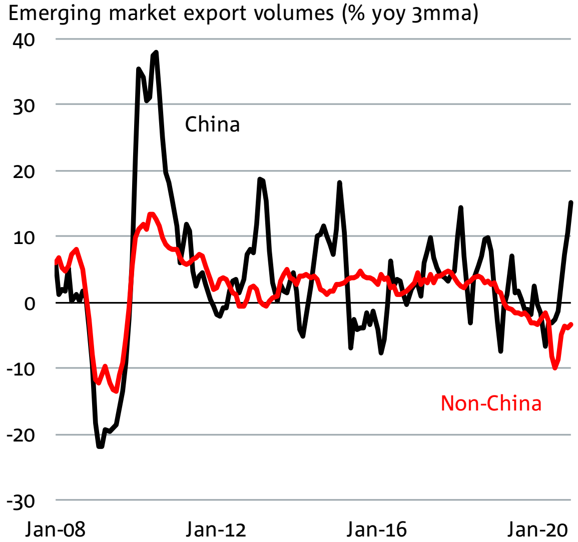
Google Mobility data point to a slowing in activity since late '20



China's qoq growth slowed in late '20; further slowing anticipated



Trade volumes for non-China EMs still contracting in Nov '20



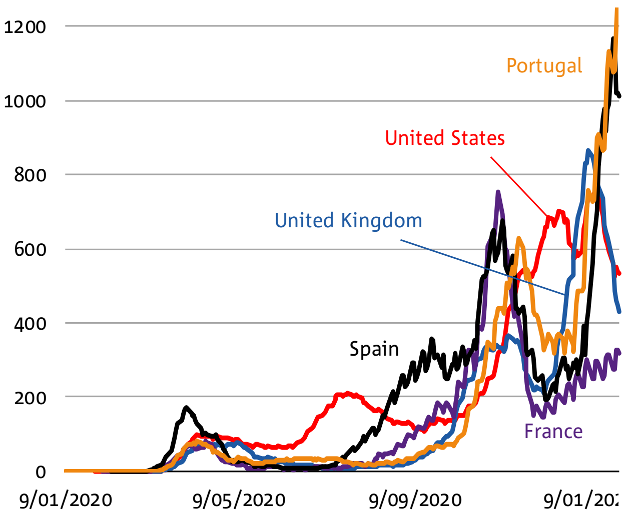
- Higher frequency data suggest that conditions were slightly softer in emerging markets at the start of 2021 (compared with the latter months of 2020). The EM manufacturing PMI eased from 52.8 points in December to 52.1 points in January (having peaked in November 2020), with slowdowns in China and Brazil (with weaker new orders in both countries) partially offset by an increase in India.
- The slowing in the aggregate EM services PMI was more significant – down to 51.6 points (from 53.8 points in December). Again, China was the key driver of the decline, while a drop in the Brazilian services PMI was offset by a pickup in the Russian measure.
- Similarly, Google Mobility data point to an easing in activity in a range of major emerging markets (with the exception of India), with levels in January typically below those of December (albeit these data must always be interpreted with caution as they are highly seasonal and have a short history).
- Overall, this easing trend may in part reflect the impact of weaker demand from advanced economies (as a range of different COVID-19 restrictions in parts of Europe, Asia and North America limited economic activity). Conditions may improve as vaccination rates increase in advanced economies – however it is generally thought that EMs will lag wealthier countries in their access to vaccines.
- Most emerging market economies contracted in 2020, with China the key exception. China's official data showed its economy grew by 2.3% in 2020 – the weakest rate of growth since the end of the Cultural Revolution in 1976 – however the economy recovered from Q2 onwards, with more typical rates of growth evident in Q4. We expect growth momentum to slow across 2021 – particularly as authorities attempt to unwind policy support – however base effects (given the scale of the contraction in Q1 2020) means that we forecast growth of 9.5% in 2021.
- Economic growth in emerging markets is more dependent on trade than is the case for advanced economies. At an aggregate level, EM export volumes rose by 5.4% yoy in November 2020 – having contracted across the first eight months of the year. However, this increase was largely driven by the surge in China's exports in the latter part of the year (with China's exports up by 22% yoy in November). In stark contrast, non-Chinese export volumes continued to contract.

 Sources: Refinitiv, Markit, Google, CPB, NAB Economics

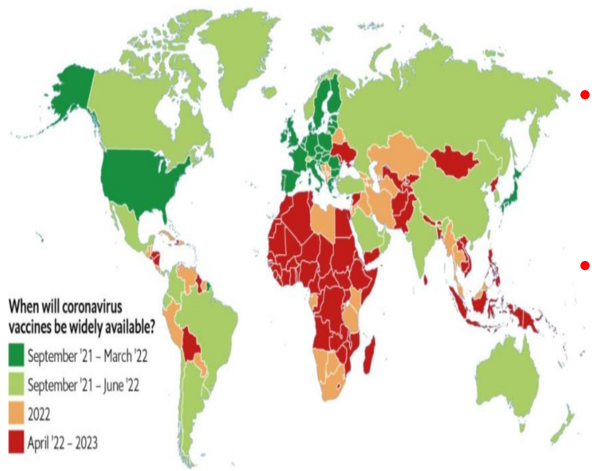
GLOBAL FORECASTS, POLICIES AND RISKS

Control of COVID-19 remains a key to restoring sustainable global growth

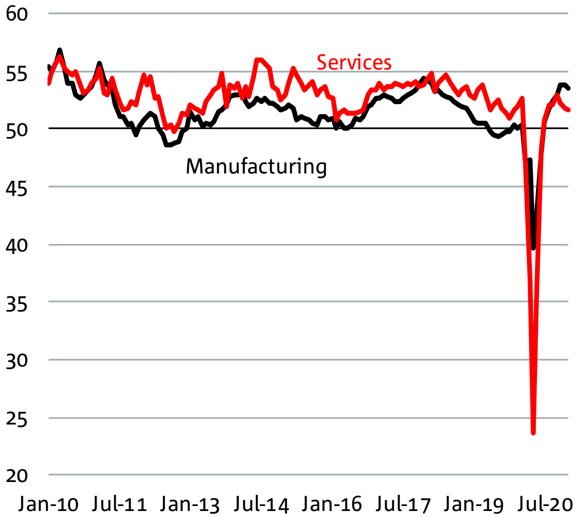
COVID-19 spreading rapidly in a range of countries…



…while vaccines unlikely to be widespread until at least late '21



Surveys point to softer global services conditions



China led global export volumes recovery in late 2020

- The spread of COVID-19 remains a key uncertainty around the global economic outlook. While vaccines are currently being rolled out in a range of major economies, in many cases they are running behind schedule, while rates of new infections remain high. This increases the near-term risk of economic disruptions – either through government restrictions (which are generally less strict than those imposed earlier in 2020) or consumer caution.
- It will take some time for a sufficient proportion of the global population to be vaccinated for COVID-19 to be effectively controlled. Production issues have constrained supply, meaning that most advanced economies will not see widespread coverage until late 2021, while middle income economies are unlikely to achieve this until late 2022.
- Despite the potentially negative impact of COVID-19 on economic activity, global business surveys have remained strong. The global manufacturing PMI was marginally weaker in January, albeit at a still robust 53.5 points (from 53.8 points previously), with advanced economies strengthening, as EMs eased (led by China). In contrast, services PMIs have been drifting lower – down to 51.6 points (compared with the recent peak of 52.9 points in October). COVID-19 restrictions have generally impacted services more heavily than manufacturing.
- Global trade volumes slowly recovered over the course of 2020, with November the first month of the year to record a year-on-year increase in volumes (at around 2.1%). The key contributor to this increase was China – where CPB data showed a 22% yoy surge in exports in November, supported by global demand for medical supplies and electronics (in part to support the increase in working from home).
- Despite a change in government in the United States, US trade and foreign policy with China appears unlikely to revert to its earlier openness. While the Biden Administration is less likely to engage in aggressive rhetoric and the unilateral imposition of tariffs than the previous Trump Administration, it appears that pressure on China's trade and technology policies (among other areas) will persist.
- Our global forecast for 2021 remains unchanged compared with our previous Forward View in December – at 5.8%. However, this stable aggregate measure masks some changes in advanced economies – with a stronger outlook for the United States and Canada offset by softer expectations for the Euro-Zone, United Kingdom and Japan.
  In 2022, we forecast global growth of 4.6%, compared with 3.9% previously, reflecting the boost to growth prospects from the vaccine roll-out and fiscal policy support (particularly in the US).

Sources: Refinitiv, Our World in Data, Economist Intelligence Unit, NAB Economics

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