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Global Overview & Australia

Impact of COVID-19 in near and medium term.

Alan Oster – Group Chief Economist

Date: March 2021

Global - *Macroeconomic summary.*

- **COVID-19 and containment had massive impacts in mid 2020 across major developed economies. Q3 activity levels bounced back strongly. But now fading as virus reappears in northern hemisphere. Expect growth to accelerate from here.**
  - **Growth in US crashed in Q2 2020 but bounced back by 7.5% in Q3. Growth momentum has slowed substantially during Q4 but grew overall by 1%. Virus shutdowns and withdrawal of stimulus the key drivers. Early 2021 looked likely to be negative but Biden has now announced a stimulus package of around 9% of GDP. With the full package in we expect US growth to be around 6% in 2021. Fed continues to do whatever it takes and is running the economy hotter. GDP around 4% in 2022.**
  - **China had a significant hit in early 2020 but bounced back very sharply. Growth now put at 2.3% in 2020. For 2021 in year average terms near 9.5%. Policy being tightened now. But still expect around 6% in 2022.**
  - **Growth in Europe has been hard hit by the virus lockdowns – with growth likely negative in both late 2020 and early 2021. UK also likely negative in early 2021. Emerging economies also hard hit. Theme is weaker start to 2021 but accelerating thereafter**.
  - Critical issue is how long does COVID-19 disrupt normal activity – the effectiveness of the vaccines. **We have global GDP down around -3.4% (GFC was flat) in 2020 and up 6.2% in 2021. Global growth around 4½% in 2022.**

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Global economic forecasts. Global economy had big hit in 2020. 2021 looks like it will roar back. Of course virus/vaccine dependent 2022 still strong – with lagged catch up *- but moving back to normal.*

	2018	2019	2020	2021	2022
US	3.0	2.2	-3.5	6.0	3.9
Euro-zone	1.9	1.3	-6.8	4.7	4.3
Japan	0.6	0.3	-4.9	4.1	2.3
UK	1.3	1.4	-9.9	5.5	6.8
Canada	2.0	1.9	-5.4	5.9	3.8
China	6.8	6.0	2.3	9.5	5.8
India	6.7	4.7	-7.0	10.0	5.7
Latin America	1.1	0.2	-6.8	4.4	3.3
Other East Asia	4.2	3.4	-3.1	5.5	4.9
Australia	2.8	1.9	-2.4	4.6	2.5
NZ	3.4	2.3	-2.4	4.5	4.4
Global	**3.5**	**2.8**	**-3.4**	**6.2**	**4.6**

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Australia - *Macroeconomic summary*

- **Domestic growth obviously was massively hit in mid year. But snap back in confidence, business conditions, activity and the labour market has been unbelievable.**

- **Fiscal stimulus has been massive and very effective.** Government programs such as JobKeeper helped keep unemployment rates much lower than anticipated. Backdated tax cuts also helped consumer cash flow which jumped to multi year highs and helped underpin spending despite a deteriorating labour market. Beyond its own spending and tax cuts government is trying to **encourage business to invest (instant asset write offs) and encourage employment vis-à-vis wage subsidies.**

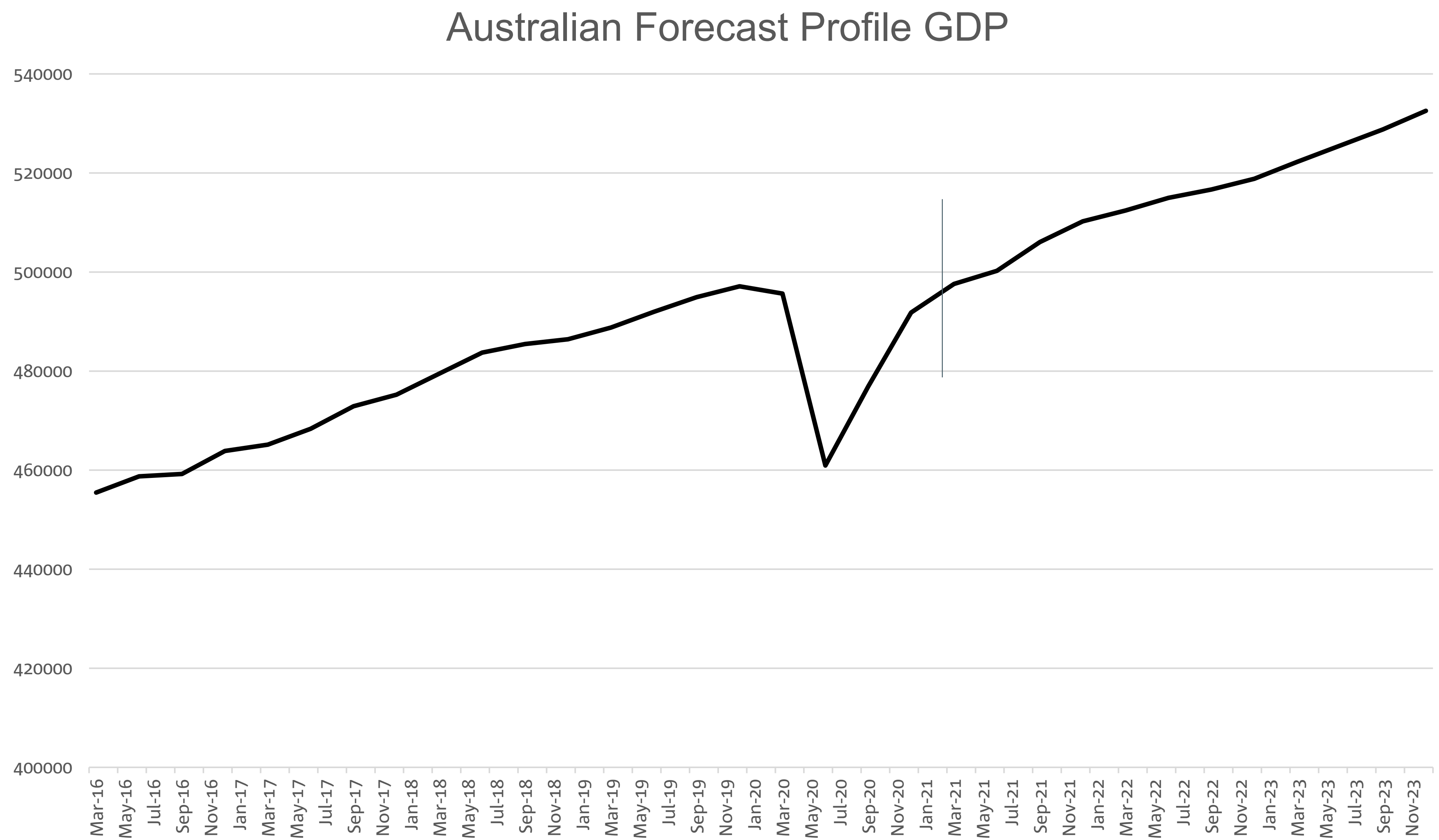
- The Q4 national accounts confirmed a very strong end to 2020 – with GDP growth around 3.1% It appears that nearly all virus-related output and employment losses have been recovered and unemployment is now around 5.7% and likely to go lower.

- **Going forward a few critical assumptions are key – including:**
  - Ongoing containment of the virus domestically – without large-scale shutdowns.
  - That around half the population will receive a vaccination by mid-year and the full adult population by year end.
  - The Government will continue to provide substantial support for hard hit sectors (such as tourism and education).
  - RBA will maintain current policy stance.

Australia - *Macroeconomic summary (continued)*

- **At this stage we see:**
  - **Growth increasing by around 4% during the course of 2021. But 4.6% in year average terms. That says, growth is already back to around late 2019 levels.**
  - **The exit of JobKeeper doesn't look likely to cause economy-wide problems but will have tail effects on some industries.**
  - **We see unemployment around 5% by end 2021. Growth is likely to slow more in 2022 but at 2½% will still be above trend. Unemployment is likely to be around 4.7% by late 2022. For 2023 growth more around 2.2% and unemployment a touch below 4.5%**
  - **Medium term outlook is good. We have done better than most, both on the virus and the economy.**
- **Focus of policy should shift from survival to doing better. Key areas include:**
  – Ensuring that support is not withdrawn too early – especially in areas that are still suffering;
  – Encourage trade diversification;
  – Build up better local industry supply chains;
  – Maintain strong support for productivity enhancing infrastructure builds (including the internet);
  – Reduce the cost of doing business – micro reform;
  – Look to other areas that might encourage stronger investment – including corporate and personal taxation;
  – And, if possible, better operating labour markets.

Australian Growth path. - *Still not back to end 2019 levels by Q1 2021*



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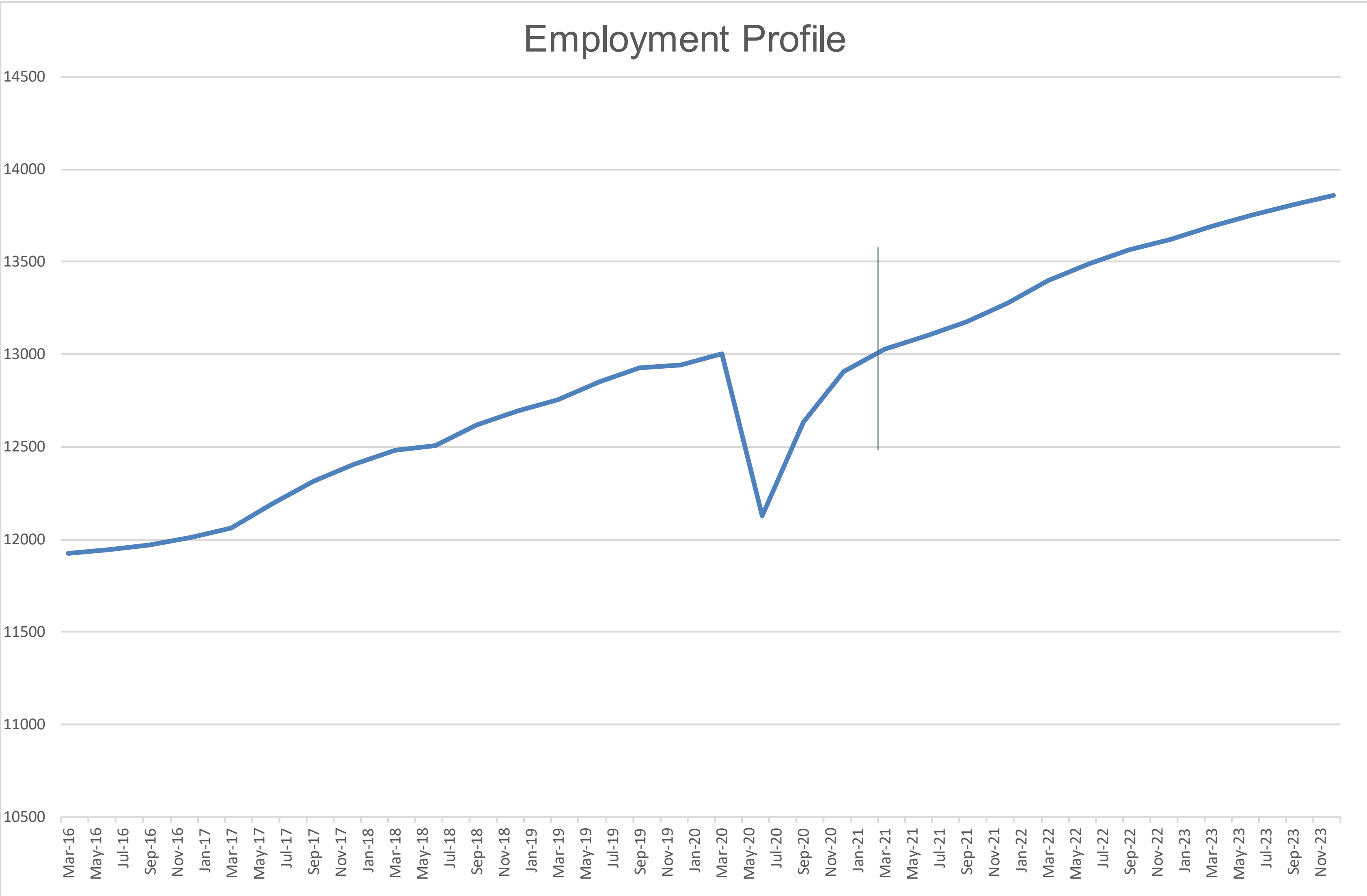
Employment profile



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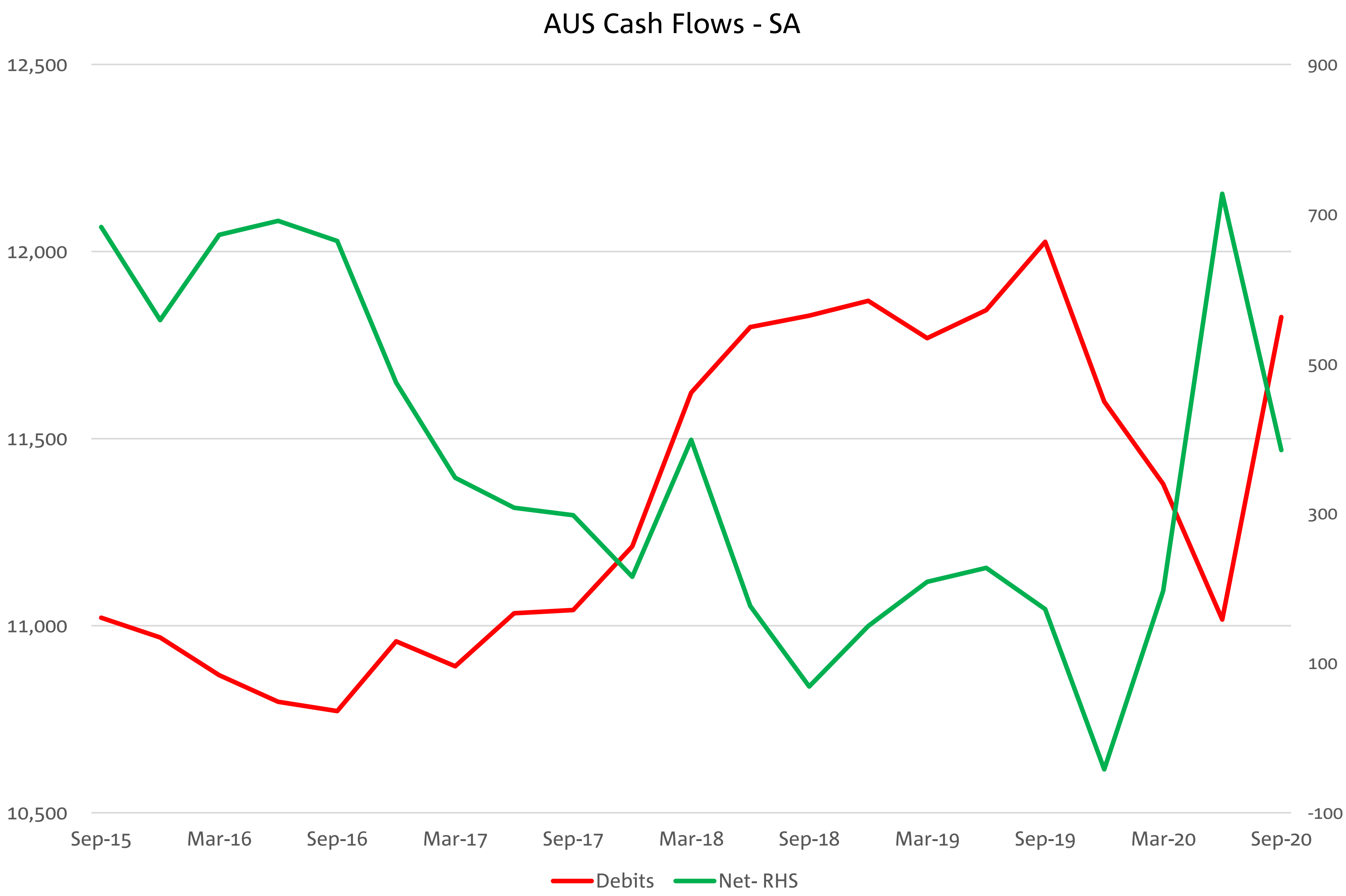
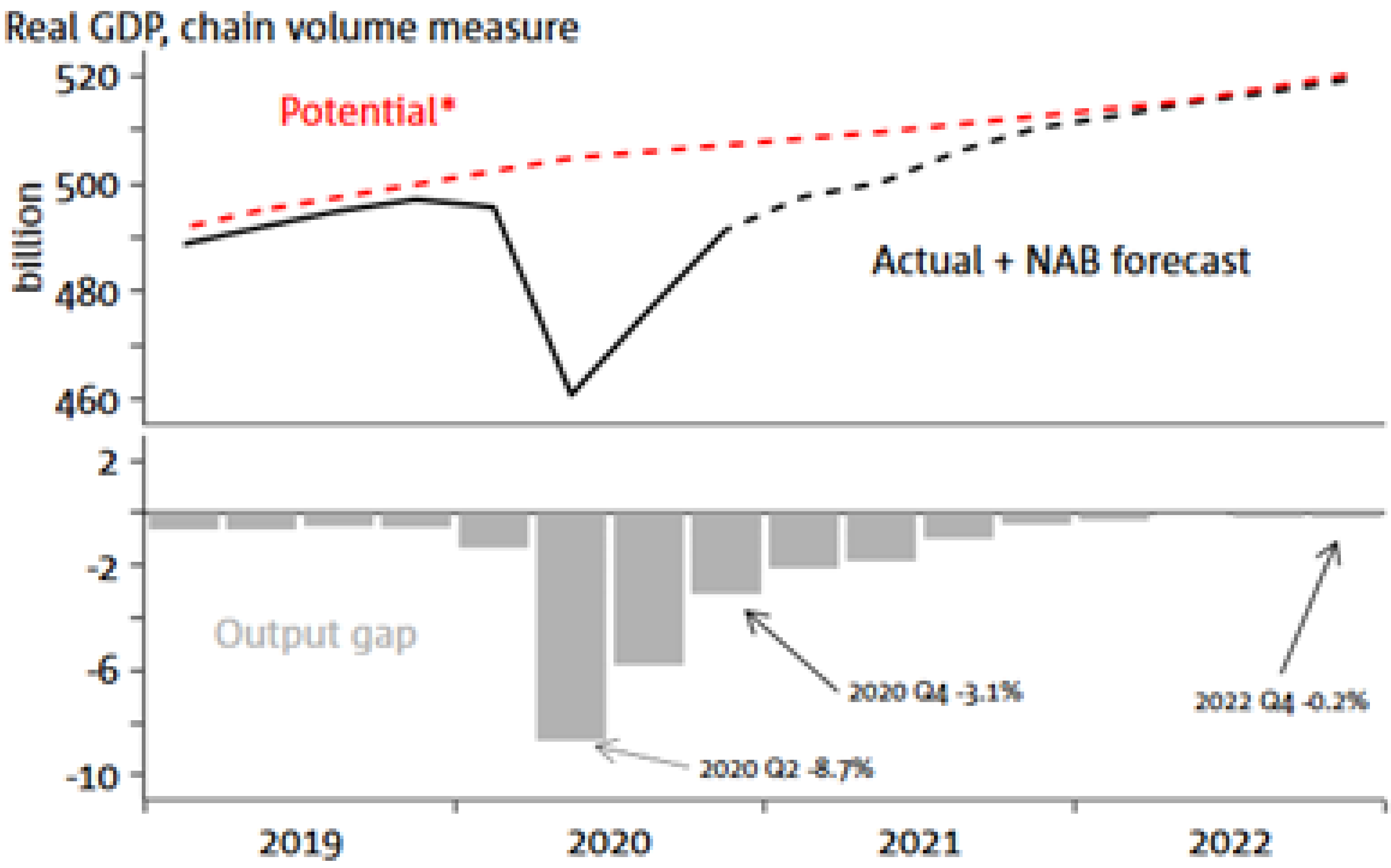
So where is the consumer's balance sheet? - *Basically strong, driven by Government handouts and early super withdrawals. But less positive cash flows as size of support starts to lessen? And unemployment rises.*



Great recovery but not back to potential till 2022. *- And reflects temporary drop in potential growth rate as immigration effectively is shut.*



Source: National Australia Bank, Australian Bureau of Statistics

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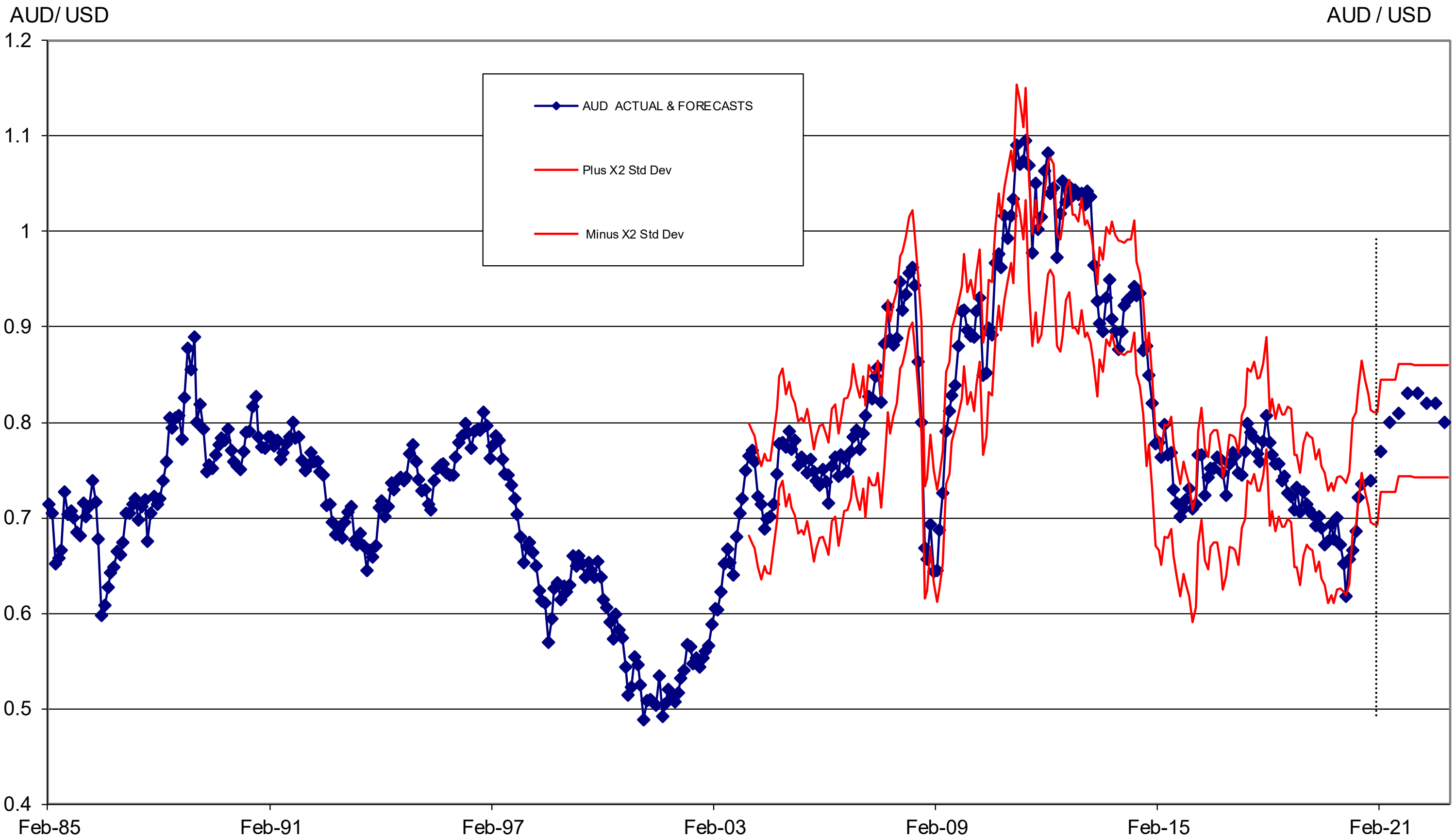
Currency model. USD .72+/- 5c. – *Australia seen as a China proxy and uncertainty in virus hit world. But Australia doing better than most and US the reverse. We expect the AUD to continue to go higher.*

Currency Model* and AUD / USD



- Model driven by: commodity prices; US TWI – as measure of USD strength; long and short run rates; relative unemployment; relative equity markets and VIX.

Forecasts:

End 2021 = 83c AUD/USD

End 2022 = 80c AUD/USD

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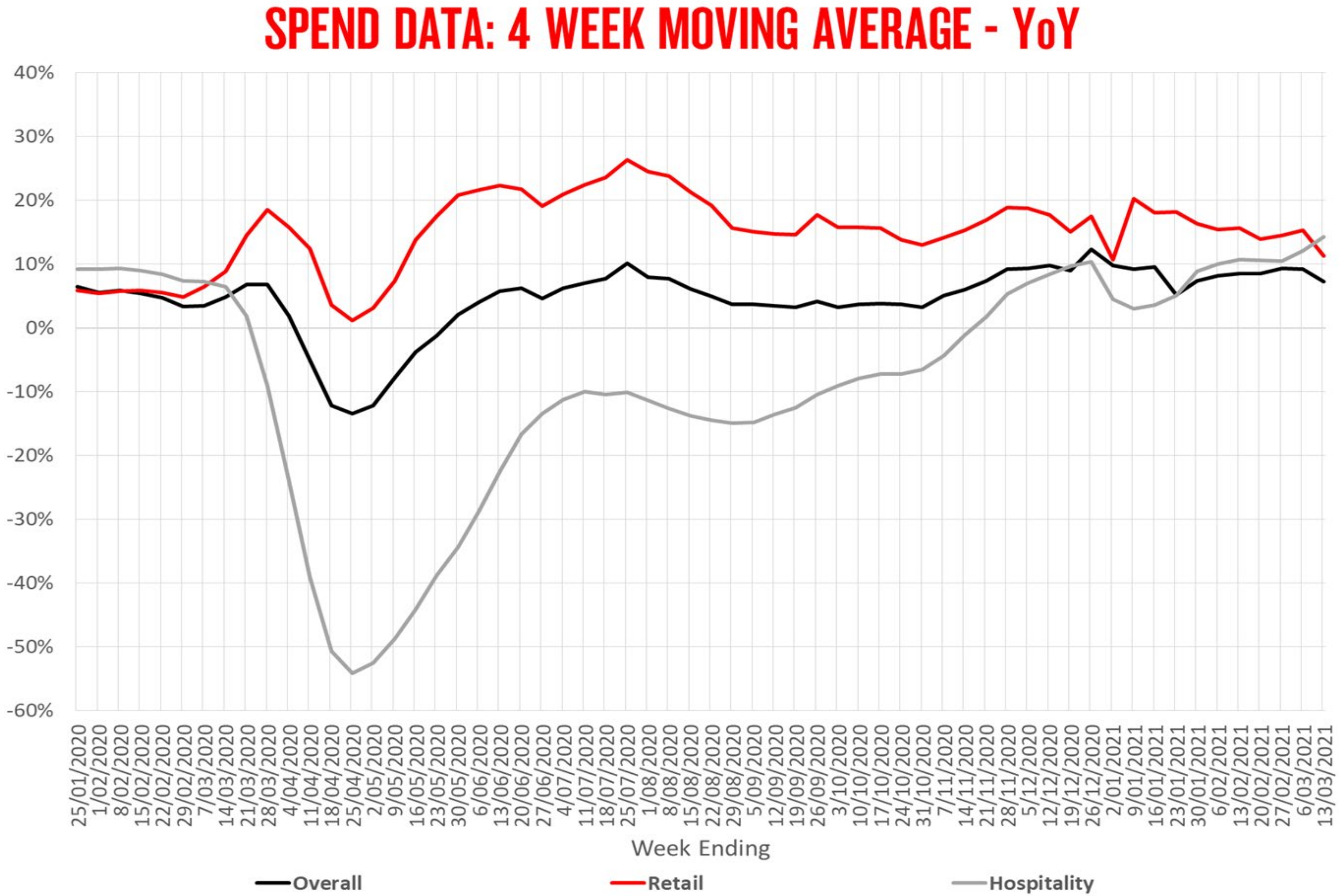
Data Insights

- NAB Data
- Business Survey

Data to week ending 13 March. – *Overall consumption spend slowing a touch to around 6% in trend terms. But comparisons are beginning to be affected by last year's trend. Retail up, hospitality down.*



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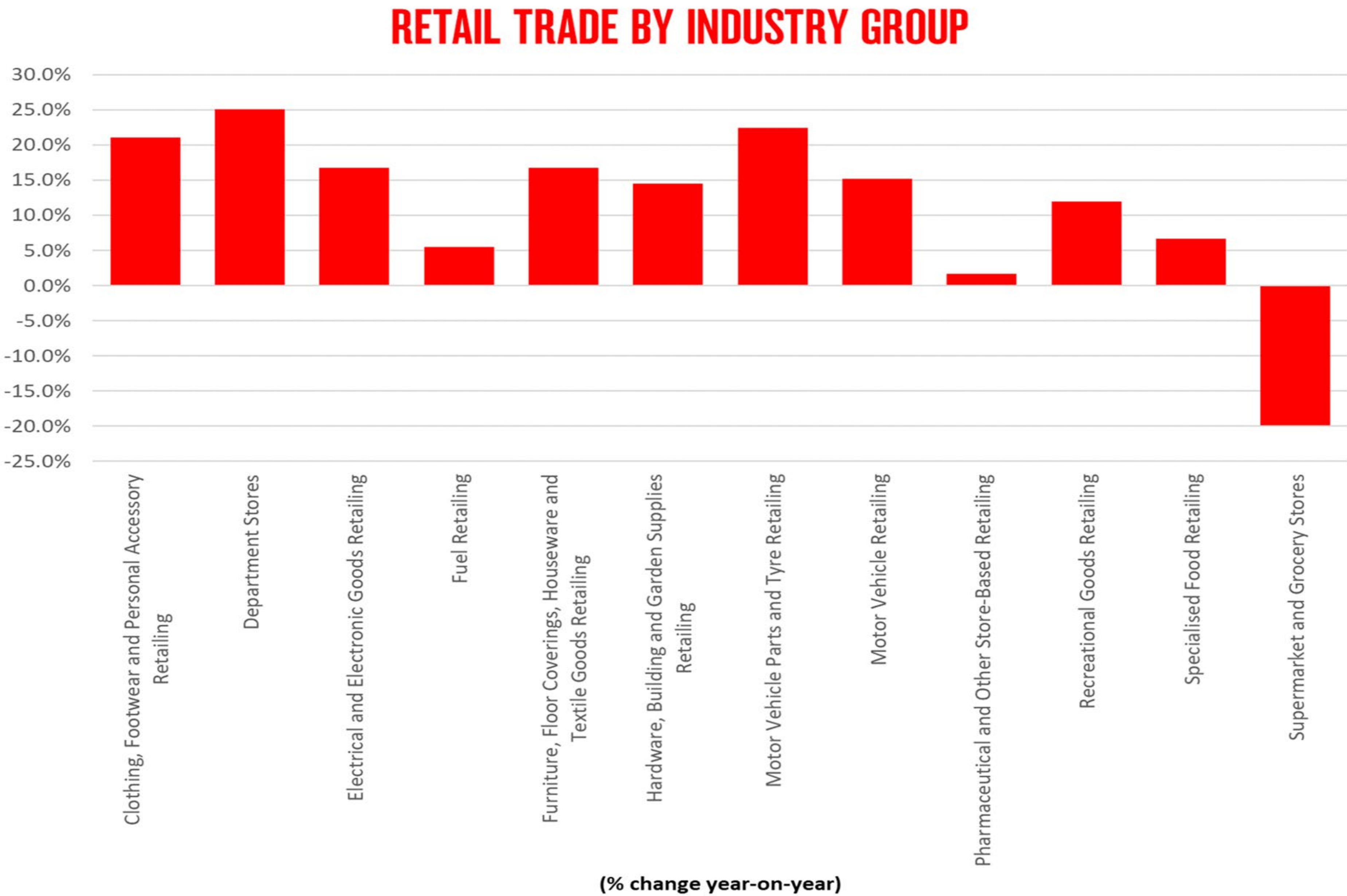
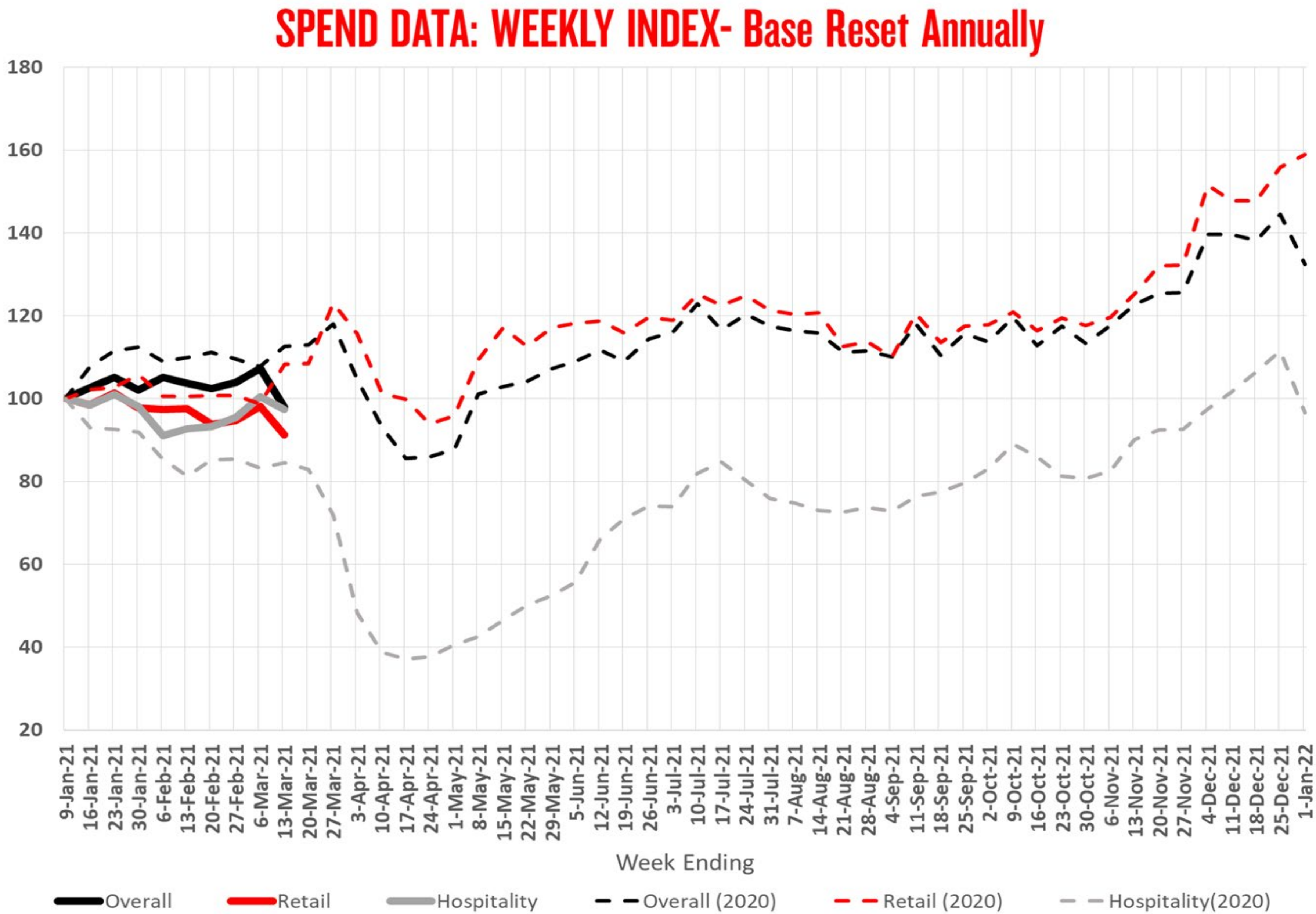
The impact of retail to 13 March - *very obvious re supermarkets and hoarding last year.*



So we are moving to comparison based on change from beginning of this year – in index levels. - *Retail softer and consumption broadly at levels that we saw early in 2021.*



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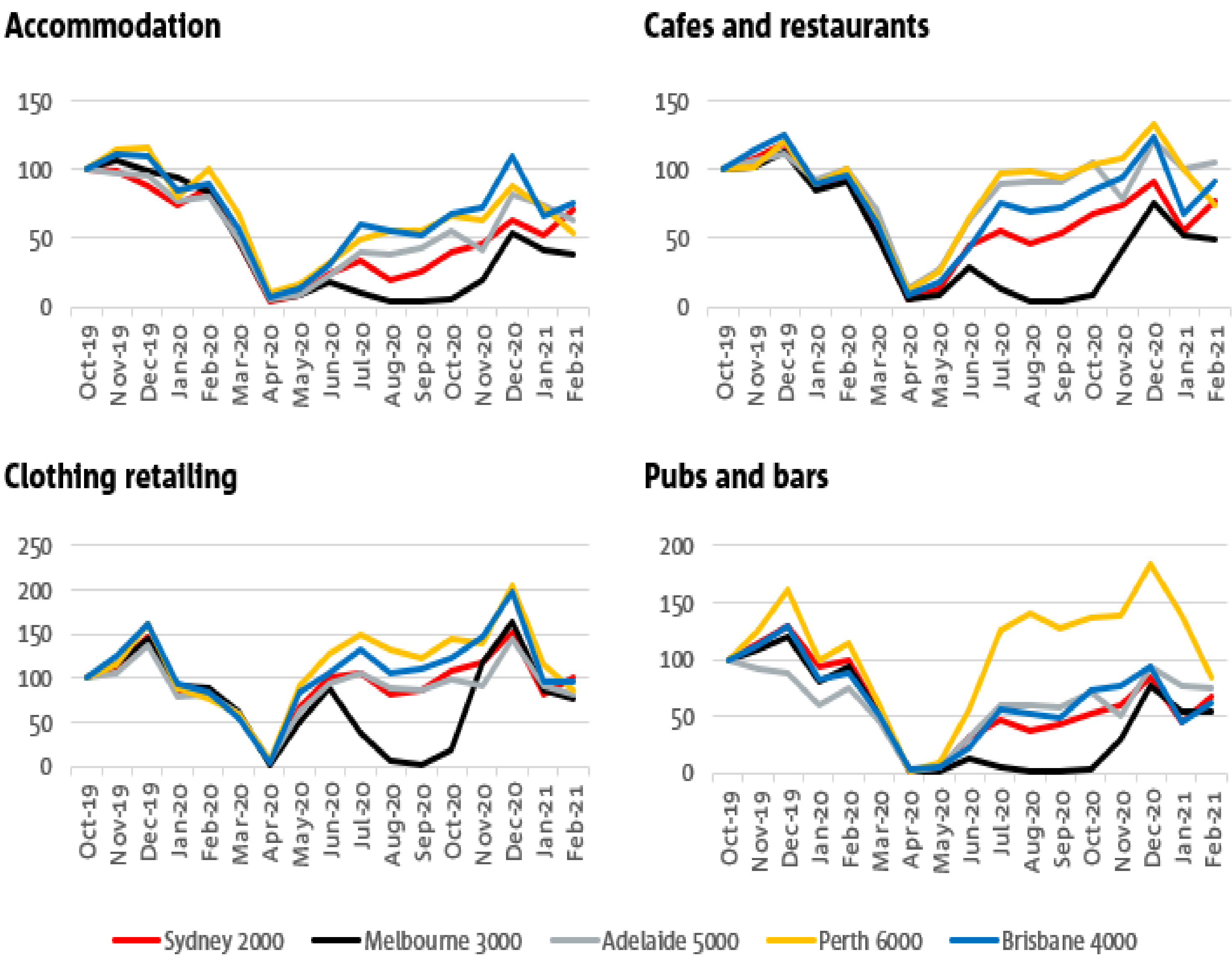
CBD spending an issue – *especially in Melbourne.*

CBD INDEX (OCTOBER 2019 = 100)



- **Accommodation** terrible everywhere - no city better than 40%, down from late 2019 and Melbourne down 60%.
- **Cafes and restaurants**. Adelaide fully back. Others down a touch. Melbourne still poor.
- **Clothing** all cities fully back.
- **Clubs and pubs** surprisingly poor. Perth had a boom late in the year. Now back to others.

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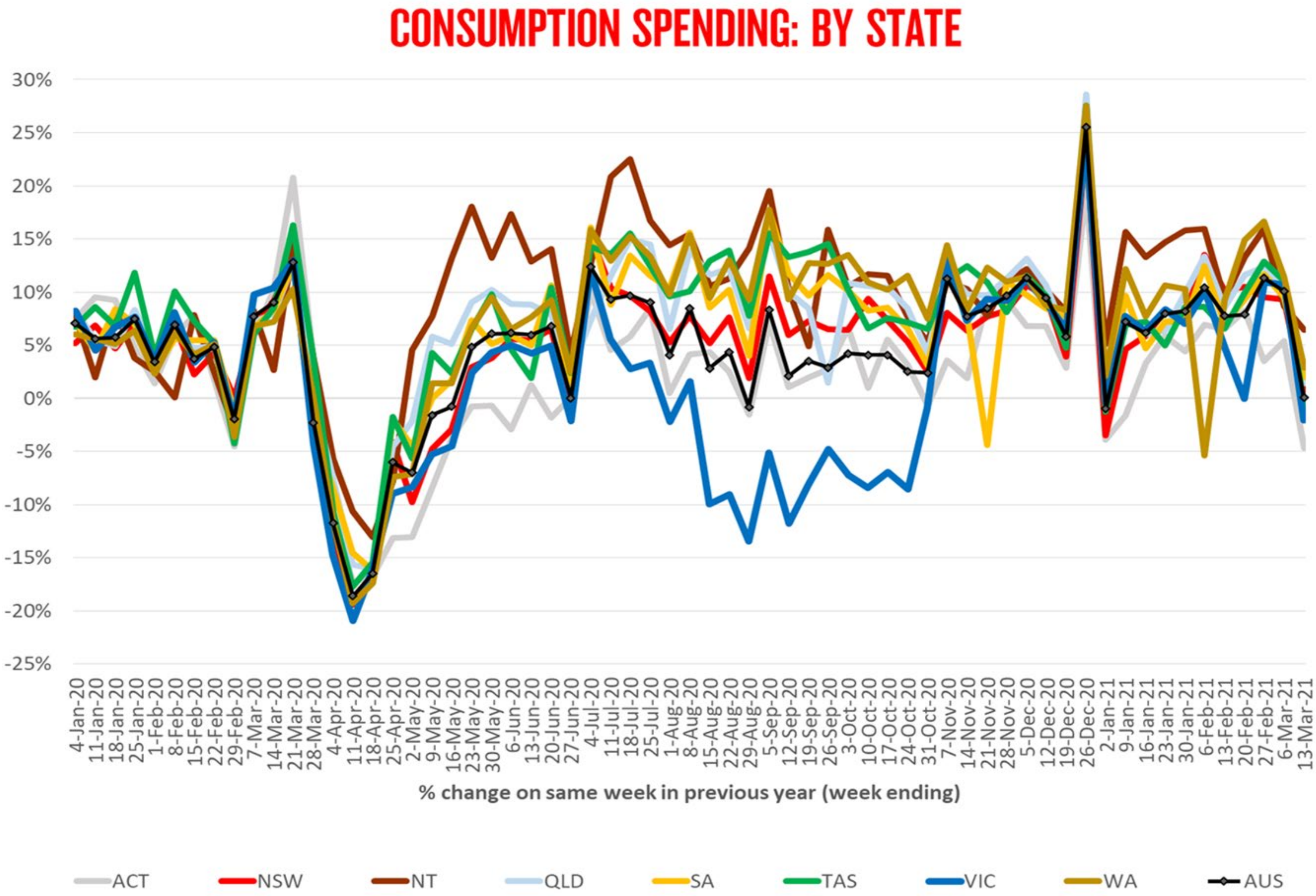
Most states have also slowed on a year to the week basis.

- Again base effects, WA the strongest Vic still weakest.



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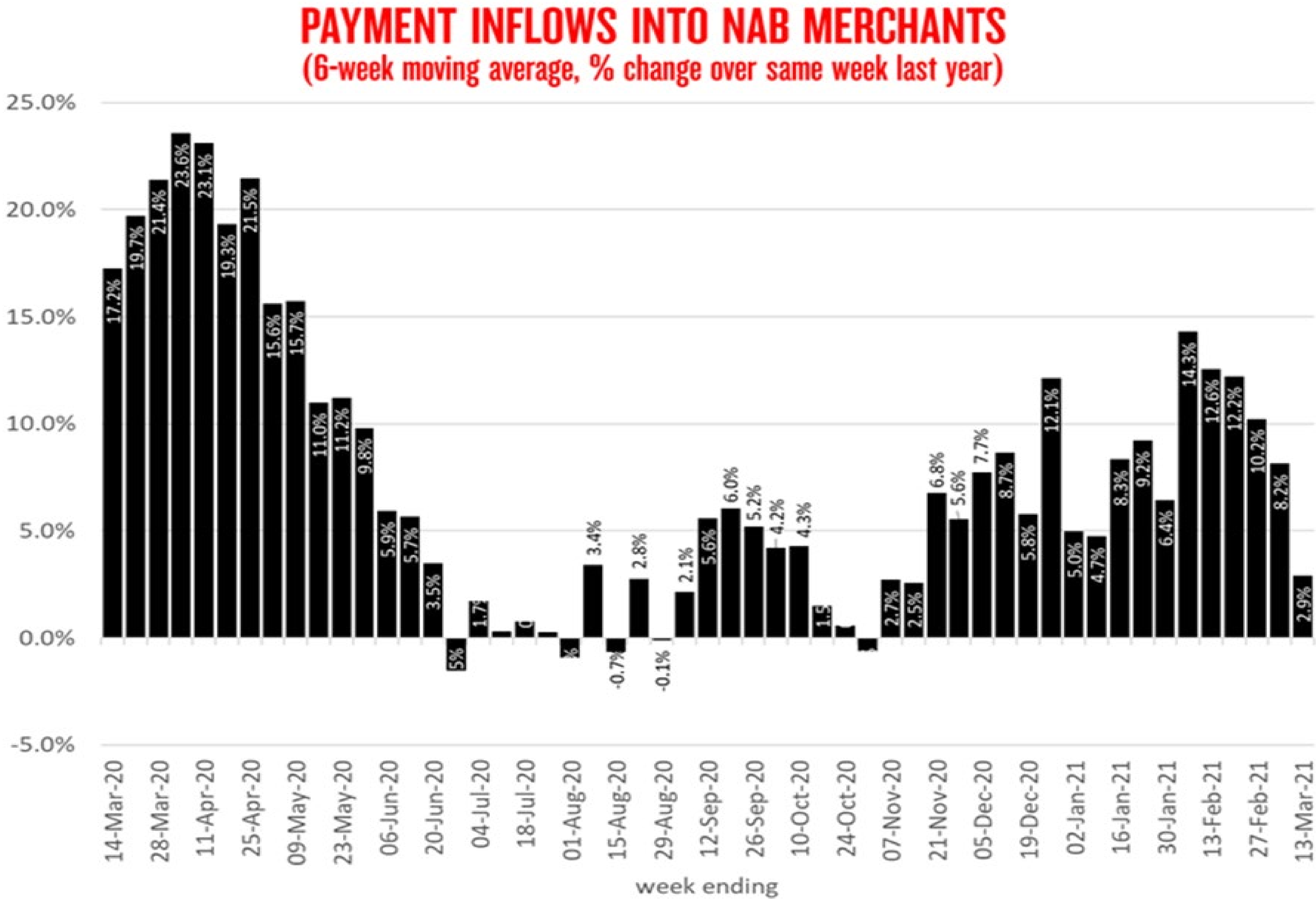
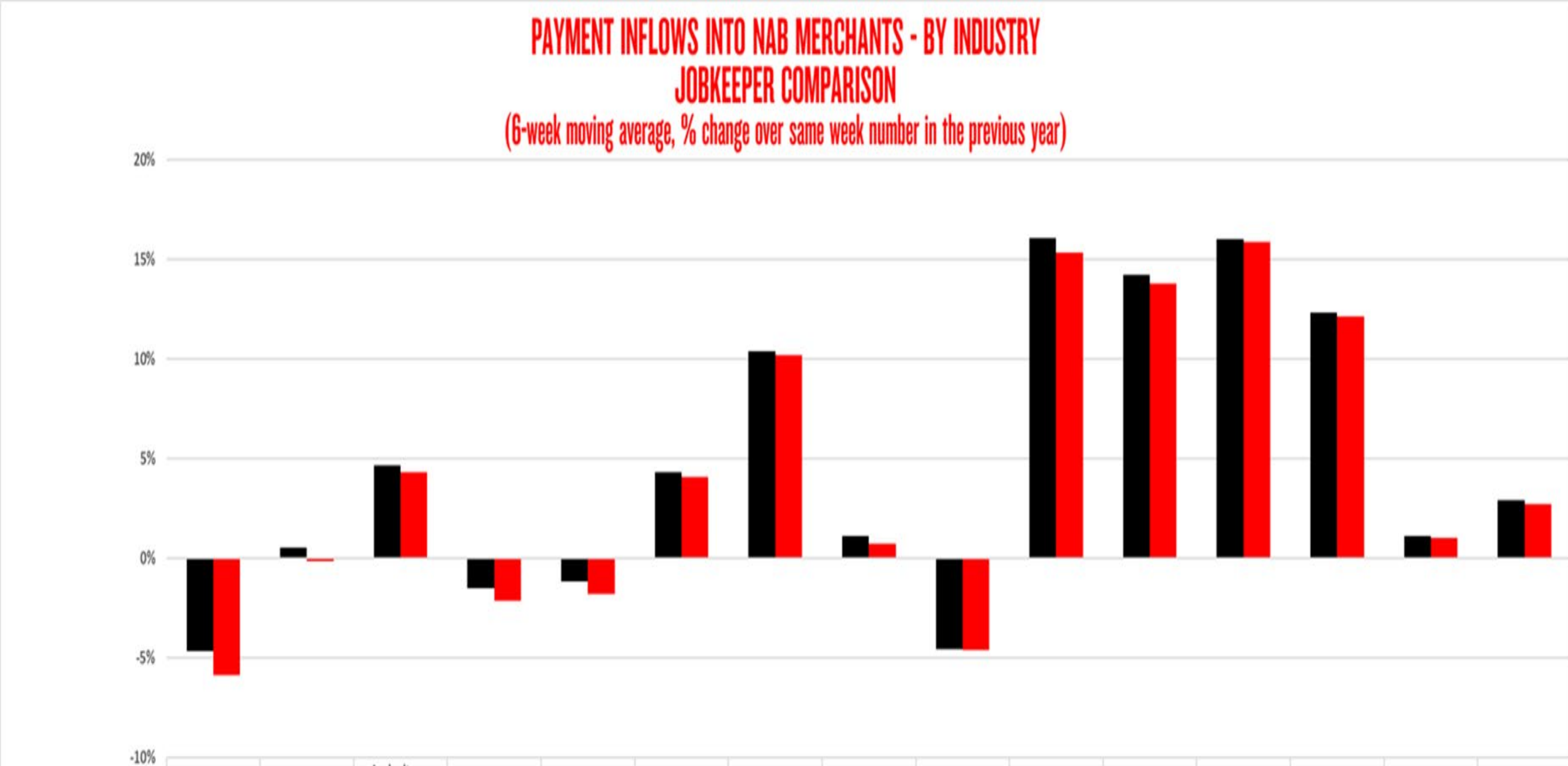
Business inward cash has slowed a lot to around 2.9% - *but again base effects important – see the ramp up in revenue this time last year. Again supermarkets important.*



Importantly inward credits not much dependence on Jobkeeper. - *Main exception being Accommodation & Food Services, Arts and Rec services and CBDs (ex clothing).*



	Accommodation & Food Serv.	Admin. & Support Serv.	Agriculture, Forestry & Fishing	Arts & Recreation Serv.	Construction	Education & Training	Healthcare & Social Assist.	Manufacturing	Mining	Other Serv.	Prof., Scientific & Tech. Serv.	Retail Trade	Transport, Postal & W/housing	Wholesale Trade	Total
6 week rolling YoY	-4.7%	0.5%	4.7%	-1.5%	-1.2%	4.3%	10.4%	1.1%	-4.6%	16.1%	14.2%	16.0%	12.3%	1.1%	2.9%
6 week no JK rolling YoY	-5.9%	-0.2%	4.3%	-2.2%	-1.8%	4.1%	10.2%	0.7%	-4.6%	15.3%	13.8%	15.9%	12.1%	1.0%	2.7%
Difference	1.2%	0.7%	0.3%	0.7%	0.6%	0.2%	0.2%	0.4%	0.1%	0.7%	0.5%	0.2%	0.2%	0.1%	0.2%

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Looking at cash inwards – *ex corporates and large business at 13 March.*

6 Week YoY rolling average business inflows excluding Corporate and Large									
Reg Div Desc	ACT	NSW	NT	QLD	SA	TAS	VIC	WA	Grand Total
Accommodation and Food Services	10.8%	-3.3%	15.8%	-2.4%	-6.0%	11.1%	-16.2%	8.3%	-5.9%
Administrative and Support Services	58.2%	-8.1%	-0.8%	1.4%	-14.4%	-59.2%	-7.4%	5.0%	-5.7%
Agriculture, Forestry and Fishing	9.8%	17.0%	54.0%	10.7%	0.9%	9.0%	-12.8%	18.8%	5.1%
Arts and Recreation Services	19.5%	-18.8%	36.4%	-5.5%	18.6%	12.1%	-11.8%	-0.9%	-11.0%
Construction	-10.3%	-1.9%	32.3%	6.8%	15.6%	24.0%	-4.4%	-1.1%	-0.1%
Education and Training	33.3%	-11.9%	2.6%	-25.5%	0.6%	8.0%	87.0%	13.5%	10.7%
Electricity, Gas, Water and Waste Services	8.9%	-11.6%	-7.1%	17.7%	-16.1%	3.8%	-4.3%	20.0%	-2.7%
Financial and Insurance Services	1.0%	11.8%	3.0%	26.3%	38.3%	251.5%	16.4%	18.6%	15.8%
Health Care and Social Assistance	8.3%	10.7%	9.3%	30.1%	8.6%	9.6%	7.6%	14.4%	13.9%
Information Media and Telecommunications	10.9%	-10.7%	25.2%	1.6%	15.1%	-8.2%	-0.4%	-10.0%	-5.1%
Manufacturing	-2.8%	3.1%	10.9%	-9.0%	-1.5%	11.4%	2.8%	13.7%	1.0%
Mining	0.7%	12.0%	6.3%	1.7%	-47.9%	-22.7%	26.9%	11.0%	8.5%
Other Services	13.0%	6.7%	4.1%	21.1%	2.4%	-2.4%	0.7%	20.8%	8.3%
Professional, Scientific and Technical Services	28.0%	15.6%	26.6%	58.3%	11.4%	44.1%	5.7%	13.4%	20.0%
Public Administration and Safety	627.2%	24.2%	15.8%	-19.5%	-23.4%	-5.2%	-0.3%	57.7%	11.2%
Rental, Hiring and Real Estate Services	34.7%	24.5%	9.6%	16.0%	-3.3%	33.6%	-9.5%	11.2%	9.1%
Retail Trade	20.3%	13.5%	29.2%	18.5%	11.4%	18.1%	8.8%	16.4%	12.2%
Transport, Postal and Warehousing	-25.5%	9.9%	32.0%	6.2%	6.4%	-46.9%	5.9%	4.5%	6.6%
Wholesale Trade	-15.7%	2.8%	-2.7%	6.7%	3.4%	-45.1%	-3.1%	16.0%	1.6%
Total	13.6%	7.1%	16.5%	11.0%	3.4%	14.1%	1.6%	11.5%	6.4%

- WA is still clearly leading. With Vic – while growing - still the laggard;
- Services still the strongest as are finances and health. Big slowing in wholesale. While Art and Rec services still going backwards big time.

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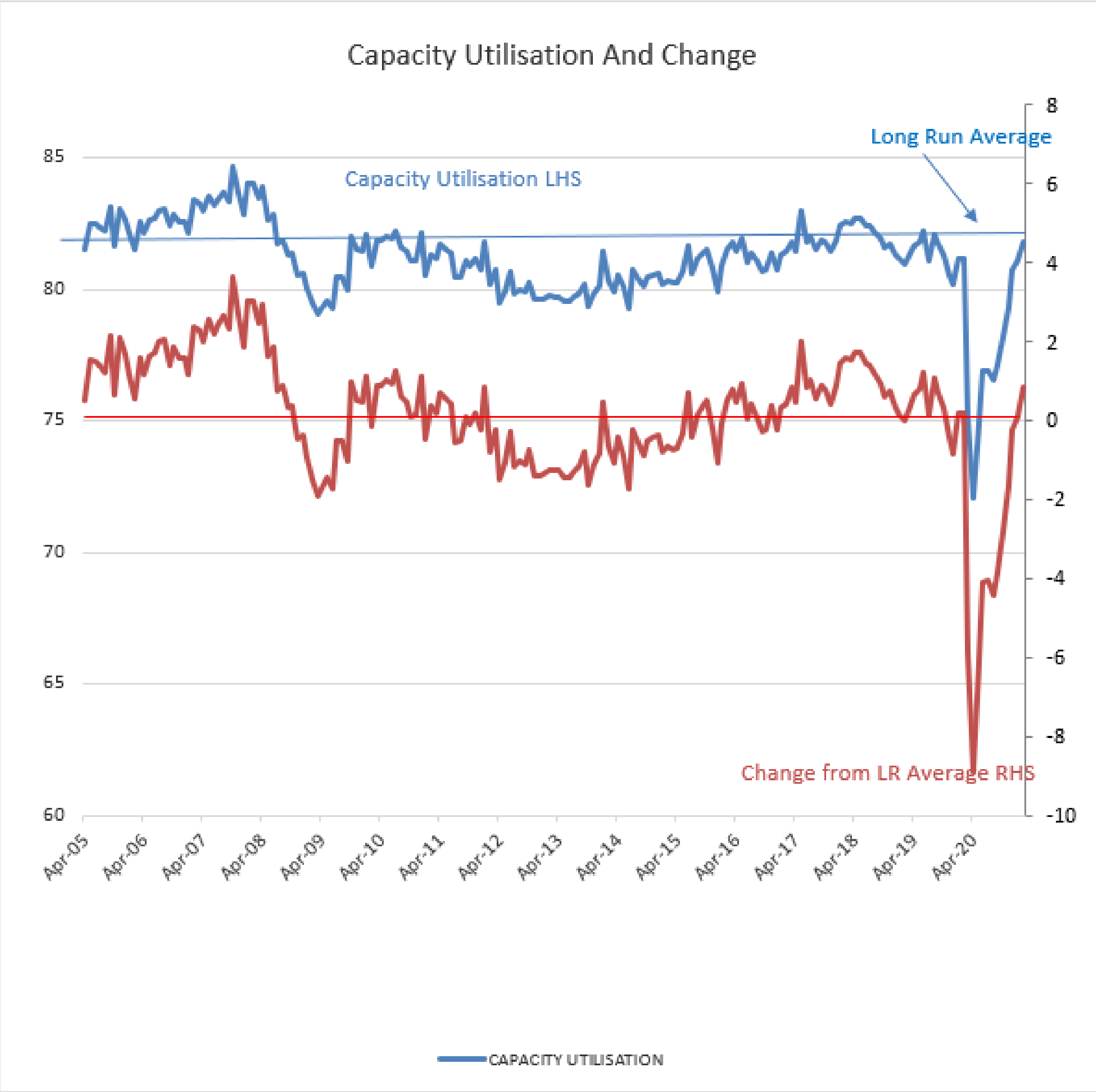
Capacity utilisation had risen from massive falls earlier in the year.
- And by February back above long run trend and pre virus levels.



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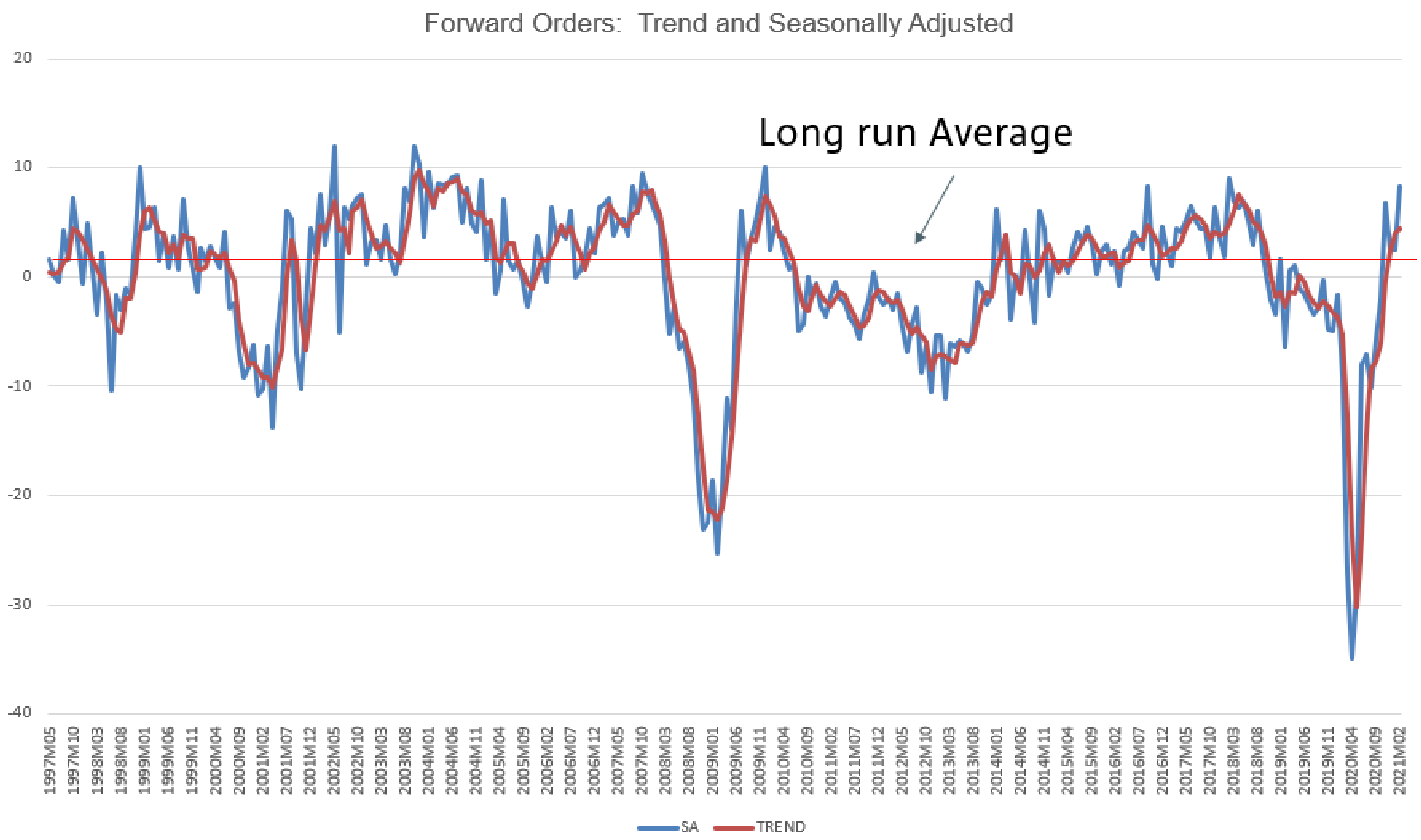
Forward orders also massively hit. But massive improvement recently.
– Again by February well above long run average terms.



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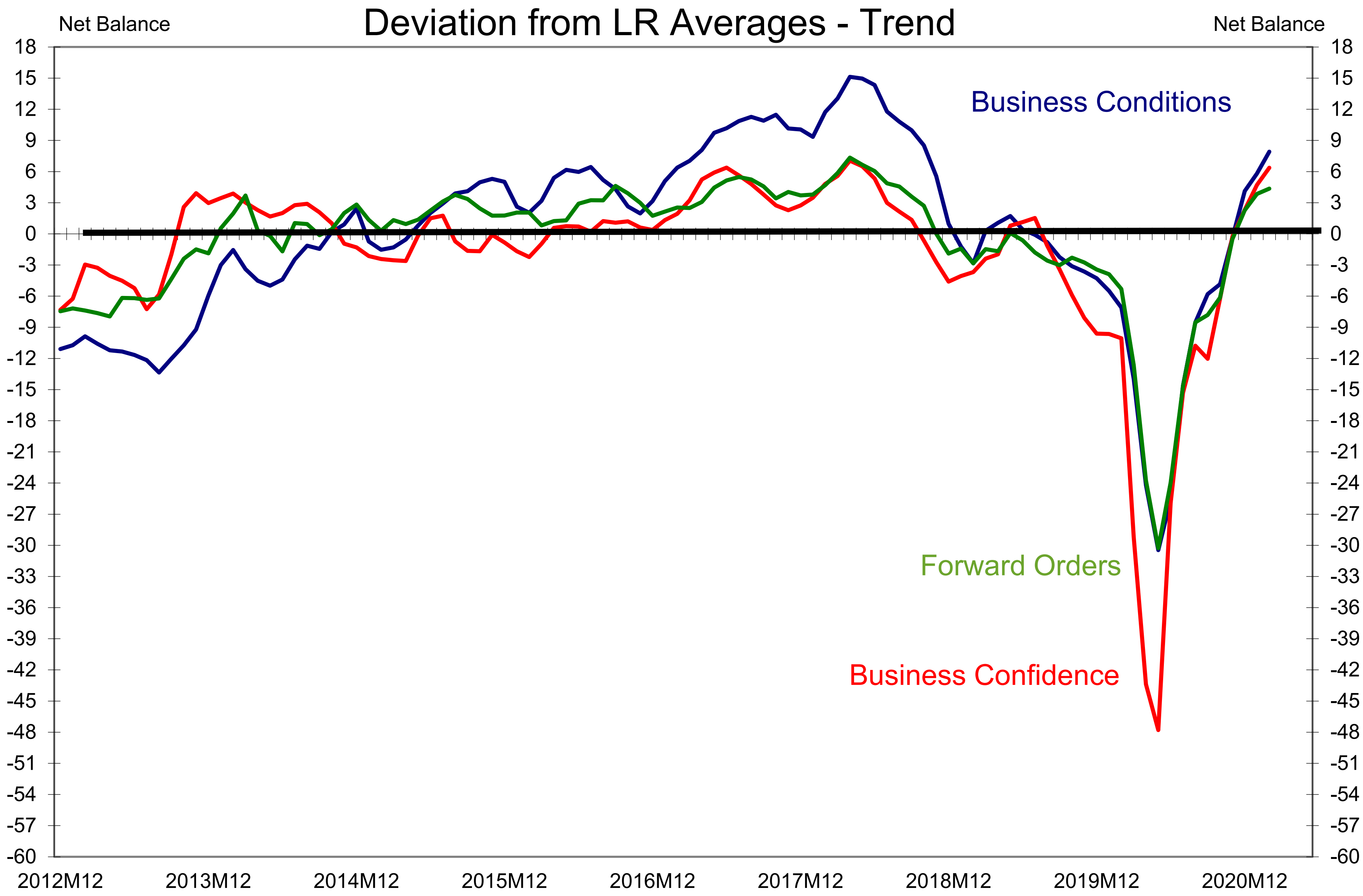
And it’s a similar story *- for all the main indexes.*



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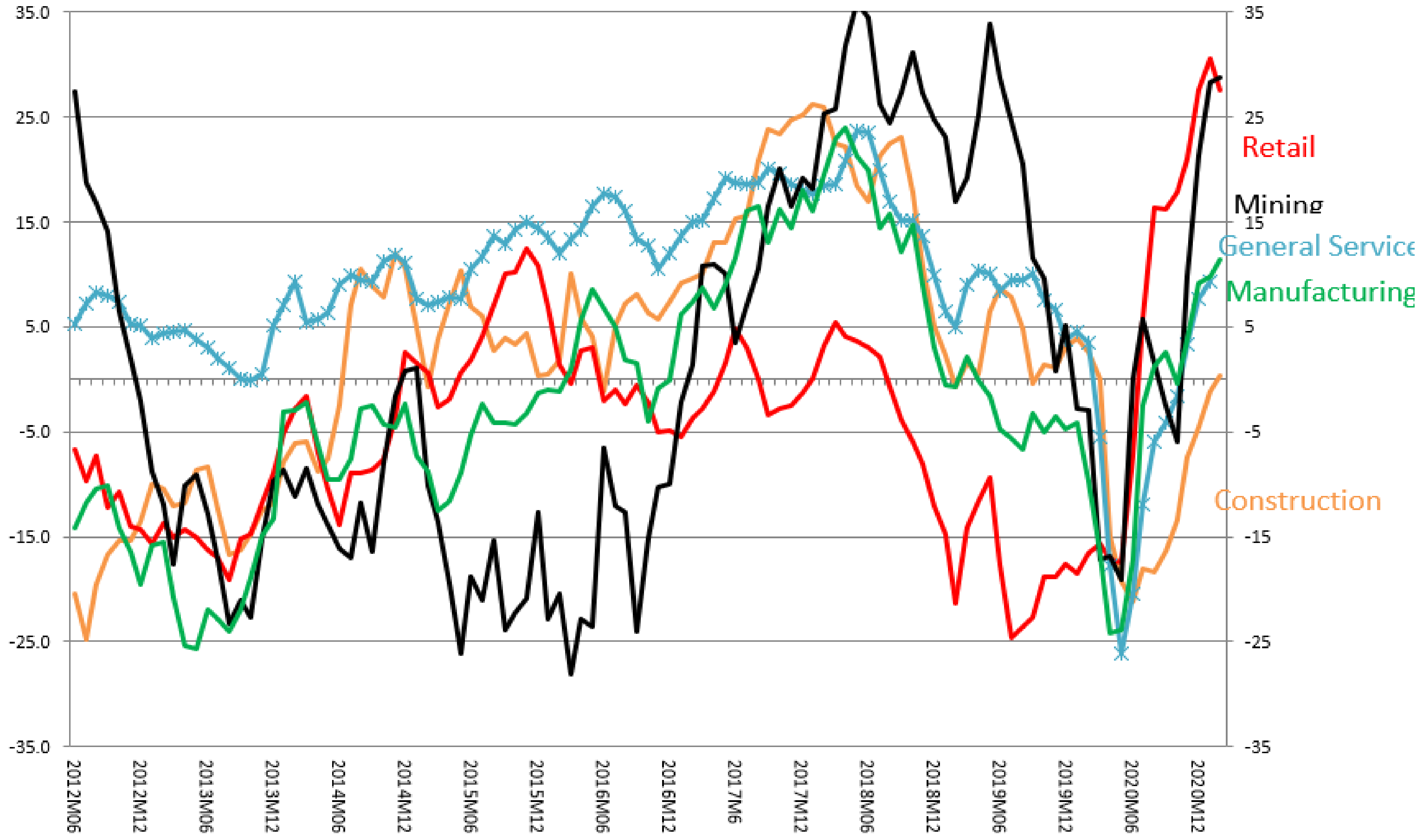
And industries have been recovering recently. But retail (& wholesale) and mining the stand out. General services also much better. - *Interestingly construction also better but still the weakest industry, albeit nearly back to around trend.*



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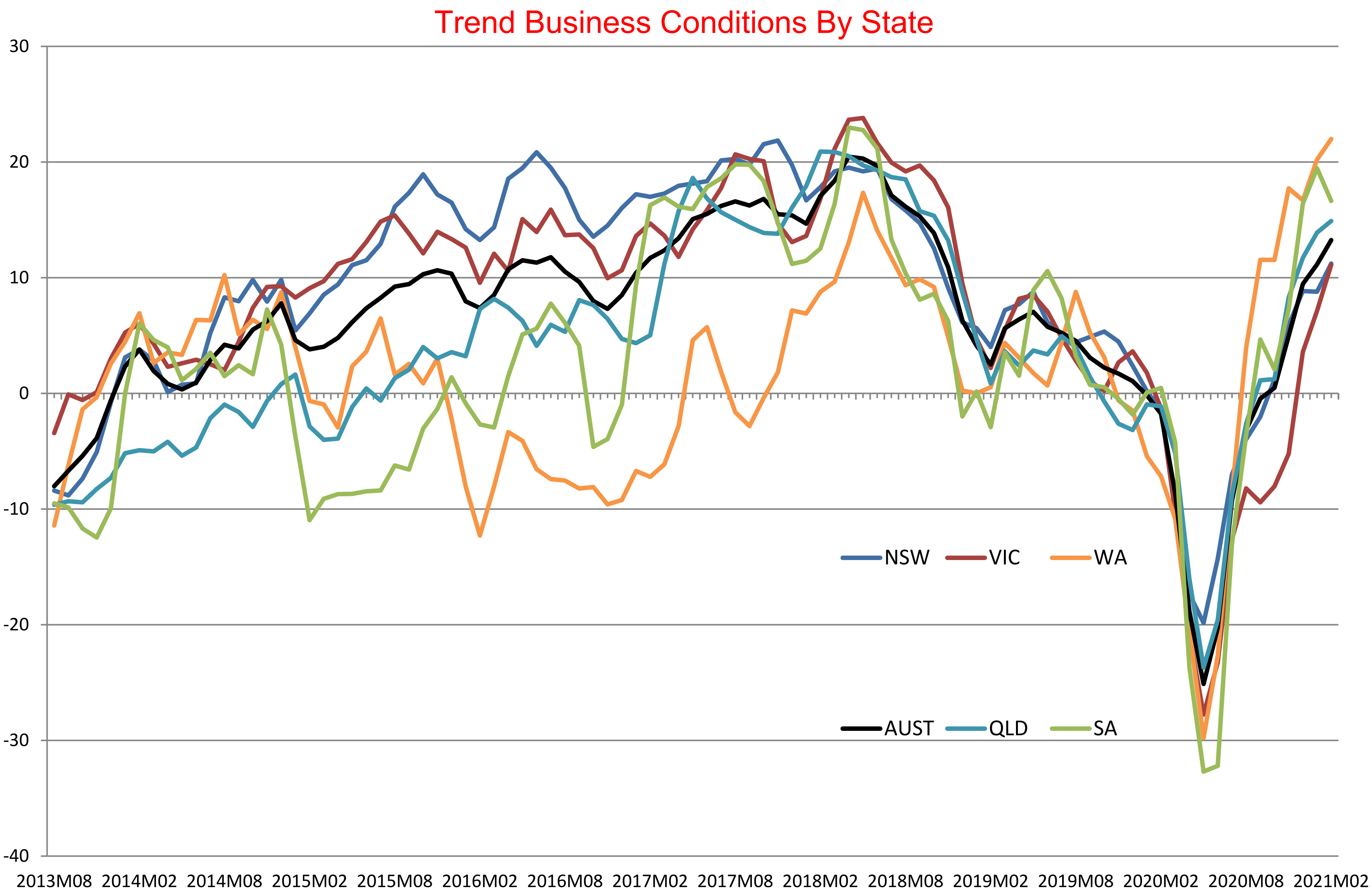
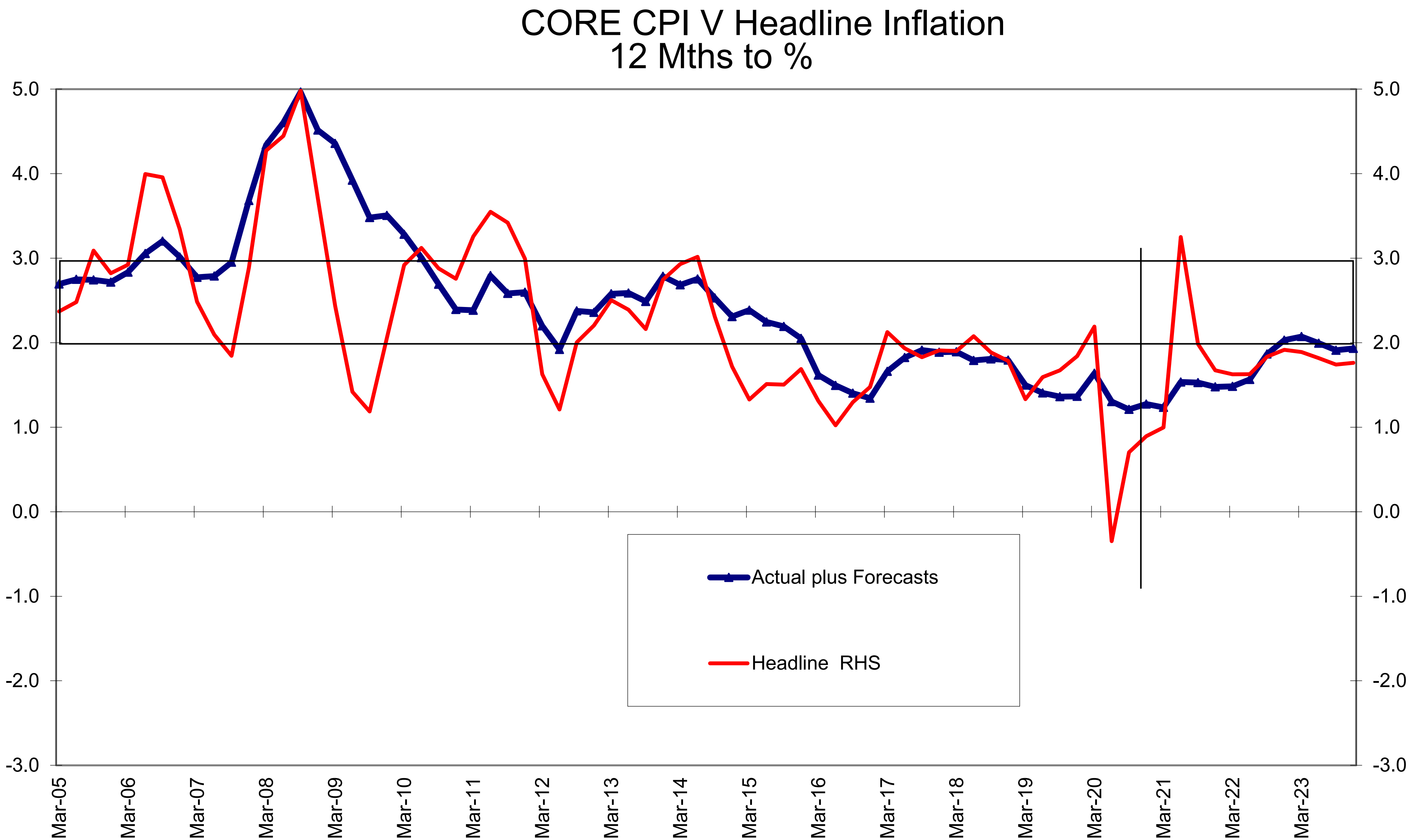
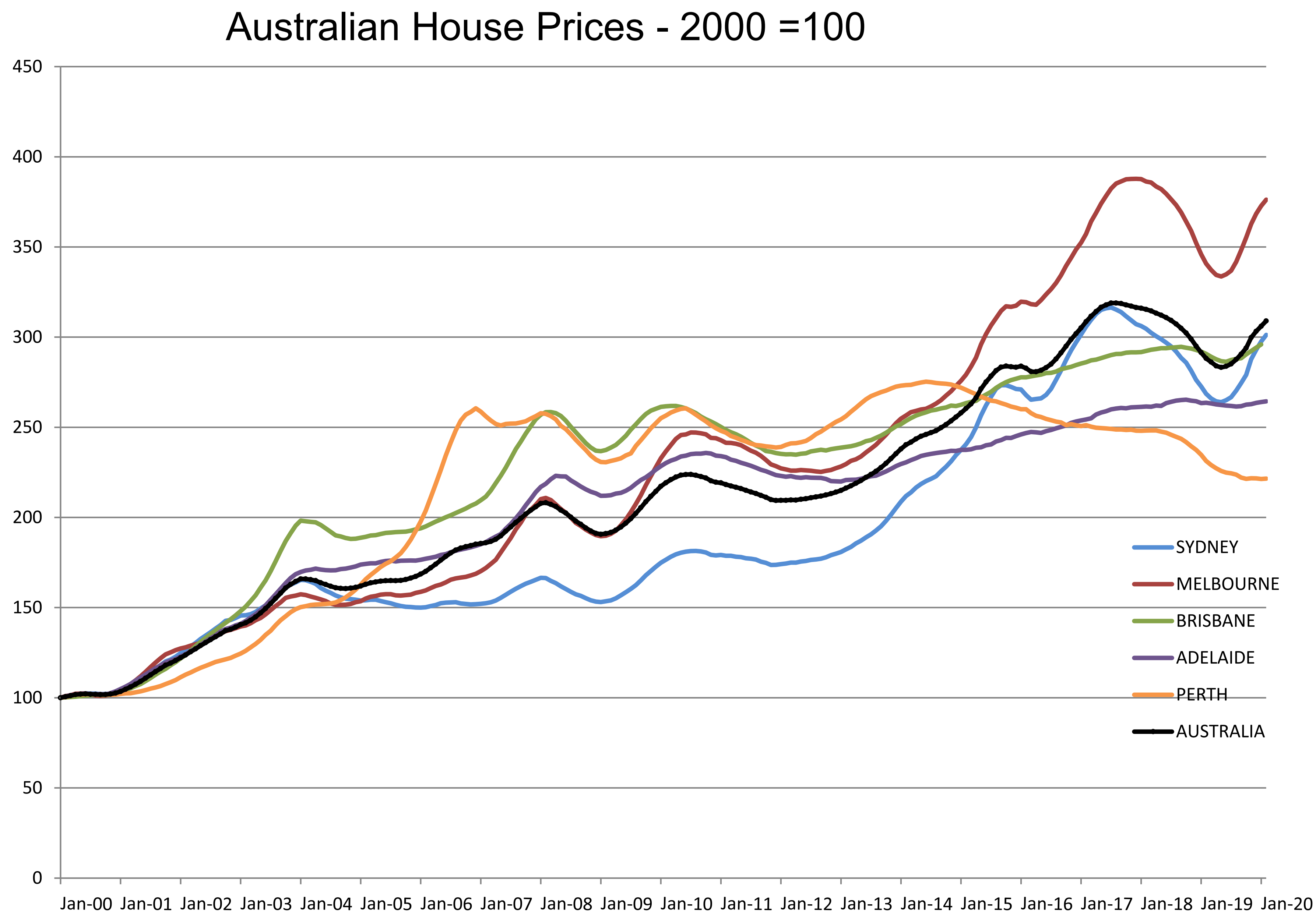
Recent turning points – *very different in different regions. WA has been very much to the front. NSW third now after picking up from December. Vic coming back quick.*



Expectation for wages growth is critical in the current environment. *– To get inflation back on target you need 3%+. Unlikely for a long time. We expect core inflation of 1.3% in 2021 – with stronger AUD helping. Thereafter we see around 1½-2% out to end 2023.*



On house prices – *first an historical perspective.*



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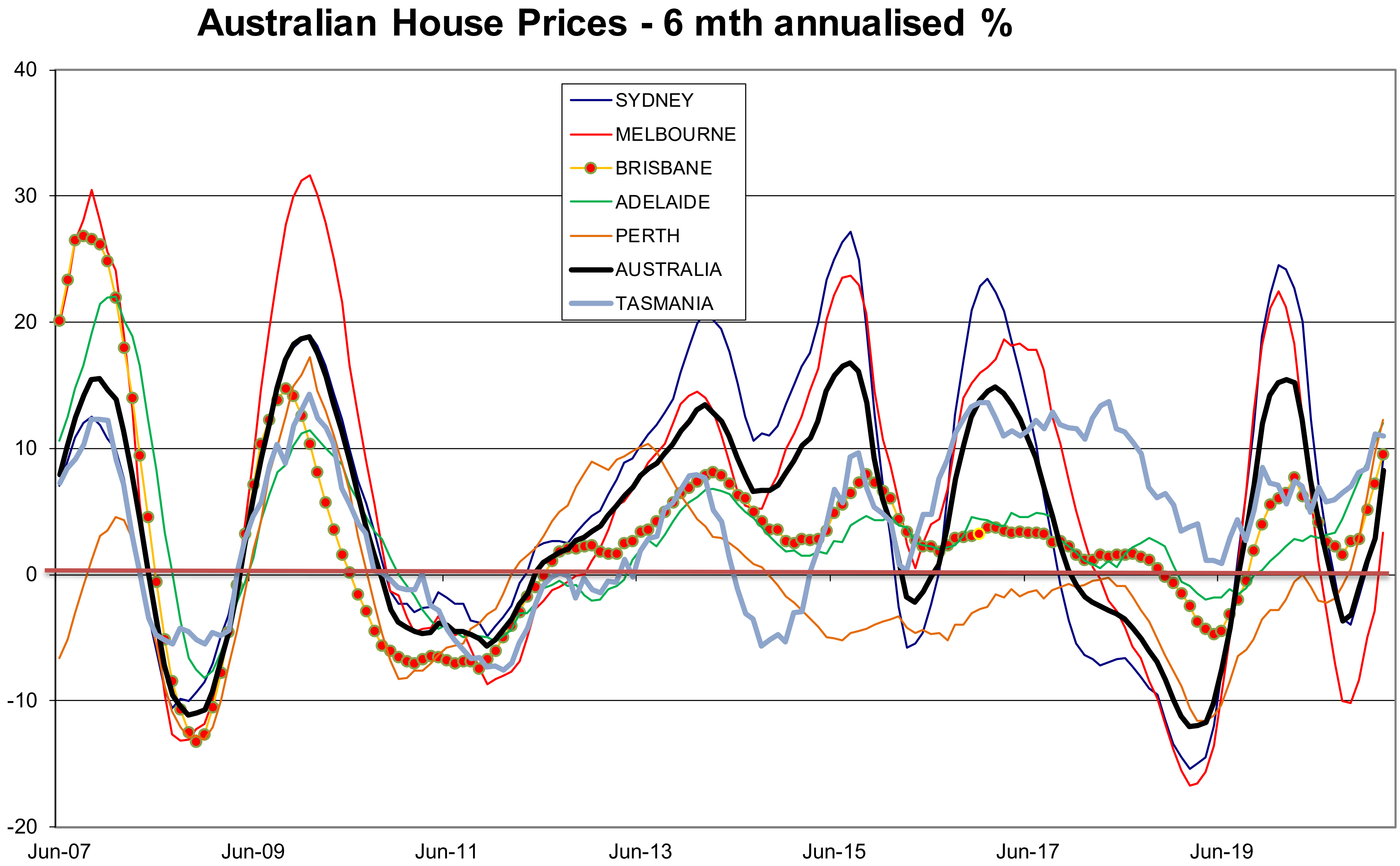
House prices clearly have significantly bounced from initial virus hit. And are now accelerating away generally. *- Only Melbourne lagging, most of the rest up around 10% on this measure.*



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Key drivers - of *house prices.*

- Population and under-over supply:
  - Australia to record the slowest growth of population for 100 years;
  - Very negative for some sectors (Sydney/Melbourne CBD).
- Unemployment:
  - Unemployment to peak around 7.4%;
  - And stay high for a long time.
- Rents:
  - Still falling in most capitals.
- New ways of work:
  - Zoom changing work practices;
  - House prices in regional hubs with good internet will be boosted.
- Interest rates:
  - Will remain low/unchanged for at least 3 years;
  - Assets more attractive in attempt to try to get more yield;
  - Early vaccine may help sentiment further.

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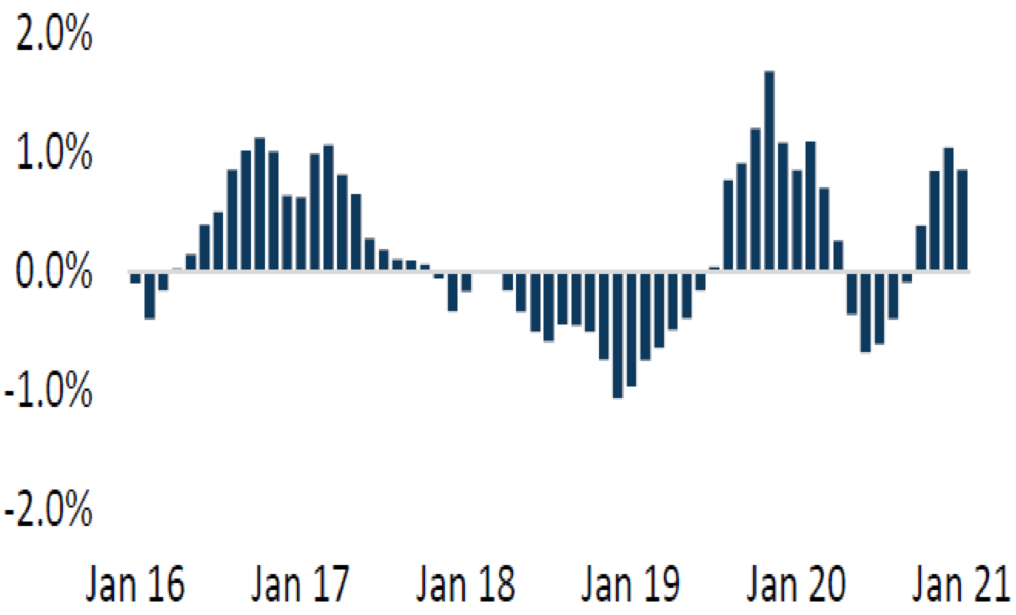
House Price Forecasts. - *We now expect house prices to rise by around 10% in most capital cities in 2021 and around 5% in 2022. Faster in the regions. But weaker unit prices will see lower dwelling price growth in Sydney/Melbourne .*

Month-on-month change in national dwelling values



NAB HEDONIC DWELLING PRICE FORECASTS (%)*

	2019	2020f	2021f	2022f
Sydney	5.3	2.7	7.3	6.0
Melbourne	5.3	-1.3	8.4	5.5
Brisbane	0.3	3.6	10.1	6.3
Adelaide	-0.2	5.9	8.9	7.4
Perth	-6.8	1.9	8.0	7.0
Hobart	3.9	6.1	9.7	7.4
Cap City Avg	**3.0**	**2.0**	**7.9**	**6.0**

*% change represent through the year growth to Q4 **SOURCE**: CoreLogic, NAB Economics

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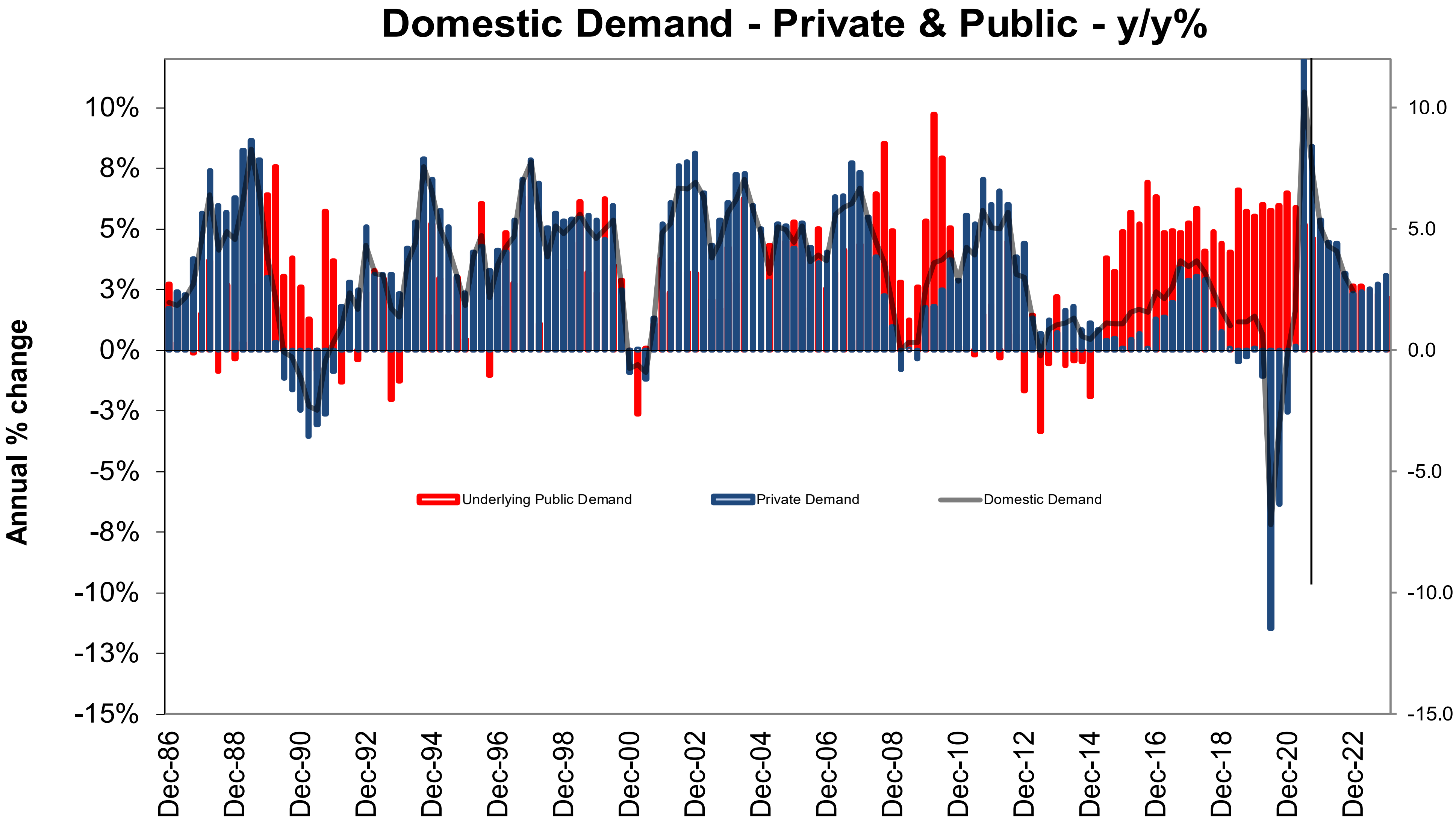
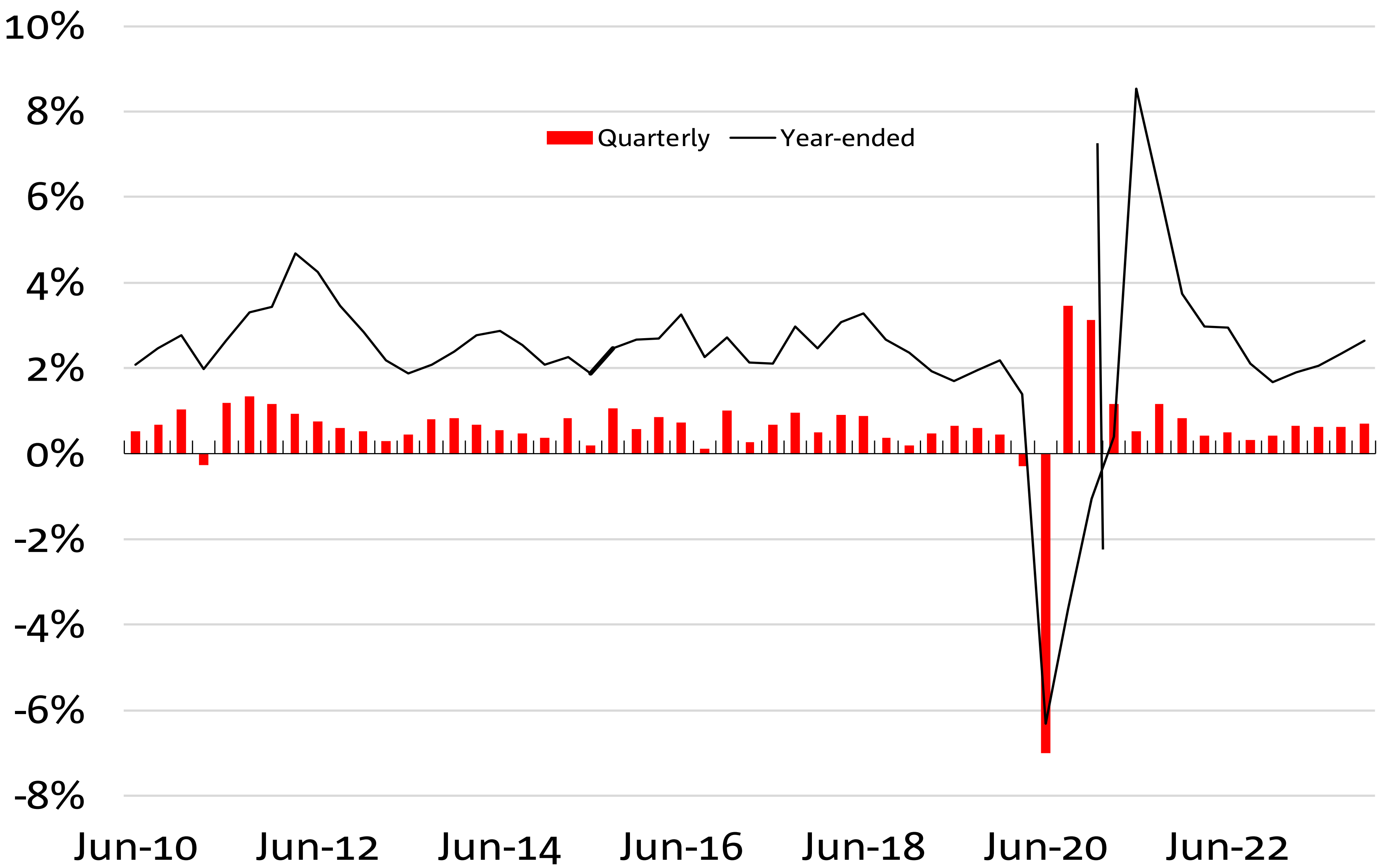
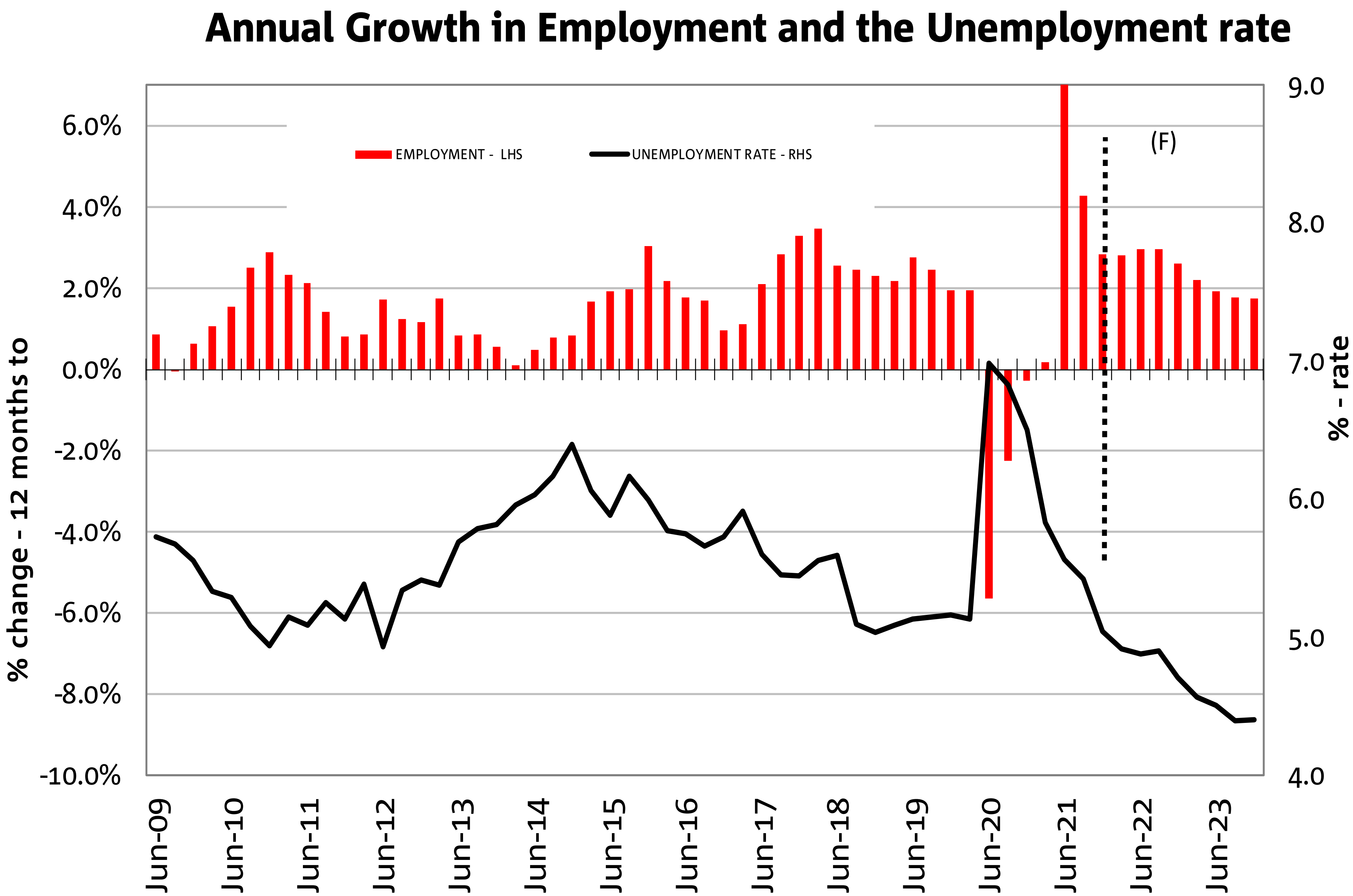
The hit to private demand - *has been massive. Public spending critical.*



Our Growth Expectations. The snap back has been incredible. Q1 likely to be strong but Q2 still has issues as fiscal support cut a lot. That said, 2021 H2 outlook is strong *- 2022 and 2023 less strong as growth moves back to around potential.*



Despite impressive labour market return - *we won't be back to where we need to be (sub 4.5% unemployment) to get wages growth sufficient to increase inflation until late 2023 or 2024.*



On RBA

- RBA unlikely to increase rates till 2024 (or maybe late 2023).
- But will have to eventually taper QE purchases – but not yet;
  - After the next $100bn program is finished we think another $100bn will be announced.
- Current yield curve control will need to change – likely announced by mid year;
  - A technical response not to be buying 3 year bond dated beyond April 2024;
  - By then rate rises might be close.
- So bottom line, RBA keeping policy as stimulatory as possible – and will respond to actions of other central banks.