EMBARGOED UNTIL: 11.30AM THURSDAY 15 APRIL 2021

THE FORWARD VIEW – GLOBAL

APRIL 2021

National Australia Bank

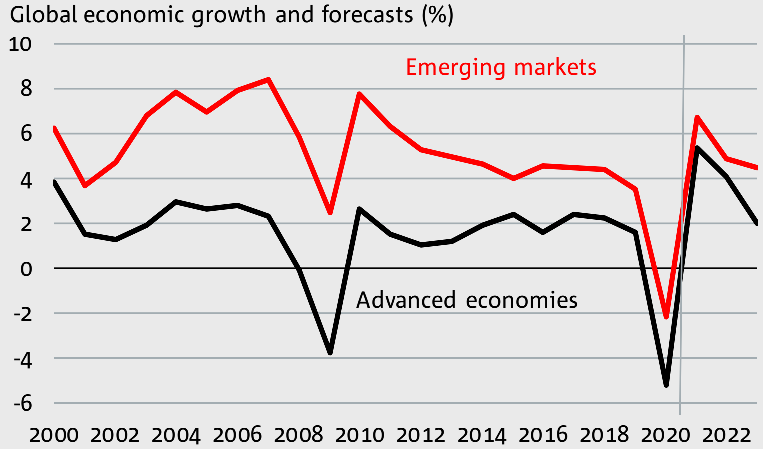
Uneven recovery set to continue into 2022, as EMs wait for vaccines

- High frequency indicators continue to point to a recovery in the global economy in early 2021 – despite slowing trends in emerging market manufacturing and the resurgence of COVID-19 in a number of regions (resulting in the reimposition of restrictions). These disruptions to economic activity, along with delays in the widespread administration of COVID-19 vaccinations means that the broad economic recovery will continue into 2022, with above average global growth, before growth slows to the long term average of 3.5% in 2023.
- Inflation has been trending higher, albeit remaining subdued by historical standards. The US Federal Reserve intends to keep interest rates close to zero until inflation is moderately above 2% "for some time" and the labour market recovers. This will reduce pressure on other central banks to increase rates and we anticipate policy rates to generally remain low over the next two years.
- Overall advanced economies are expected to record weak growth in Q1, with COVID-19 continuing to cause disruptions. A range of advanced economies have implemented restrictions in recent months – albeit these measures have had less negative impact than those imposed earlier in the pandemic – with businesses and consumers better able to adapt to the environment. Growth is expected to accelerate from Q2 onwards on fiscal stimulus and wider vaccine penetration.
- Trends differ widely among emerging markets, with EM Asia generally outperforming other regions. In part this reflects the global demand for electronics, with high tech manufacturing countries within Asia recording stronger performance than those that specialise in low value added manufacturing.

Global Growth Forecasts
(% change)

	2019	2020	2021	2022	2023
US	2.2	-3.5	6.0	3.9	2.1
Euro-zone	1.3	-6.8	4.4	4.6	2.1
Japan	0.3	-4.9	3.9	2.3	1.0
UK	1.4	-9.8	6.6	6.3	2.4
Canada	1.9	-5.4	6.1	3.5	2.5
China	5.8	2.3	9.5	5.8	5.6
India	4.7	-7.0	10.0	5.7	5.6
Latin America	0.2	-6.7	4.5	3.1	2.1
Other East Asia	3.4	-2.9	5.4	4.9	4.6
Australia	1.9	-2.4	4.6	2.4	2.2
NZ	2.4	-2.9	3.9	3.8	2.4
Global	**2.8**	**-3.3**	**6.2**	**4.5**	**3.5**

Advanced economies providing a greater share of growth in 2021, due to base effects & vaccine roll-out



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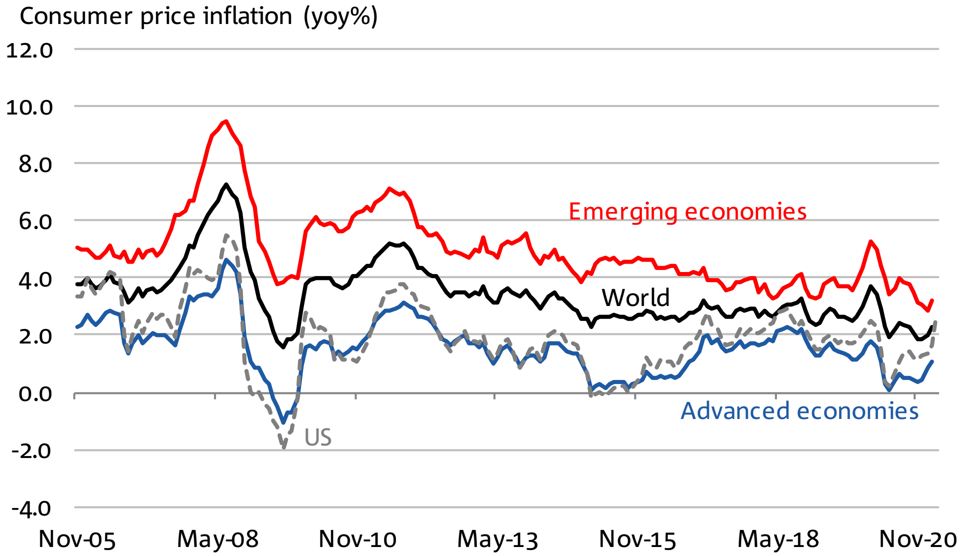
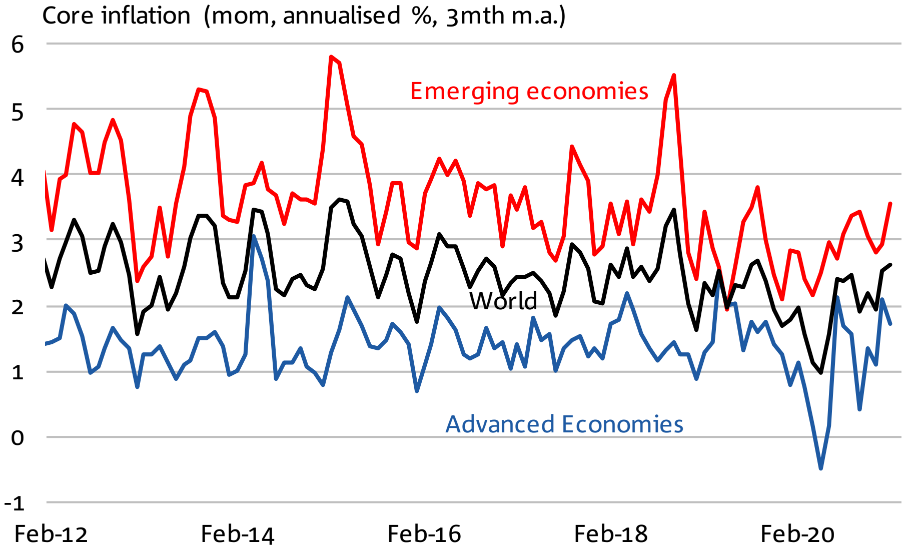
CHARTS OF THE MONTH - INFLATION

Consumer price inflation weakened following last year's recession, but it has bottomed out and is starting to rise. Inflation will likely increase further due to rising commodity and producer prices as well as supply shortages and disruptions and the recovery in the global economy

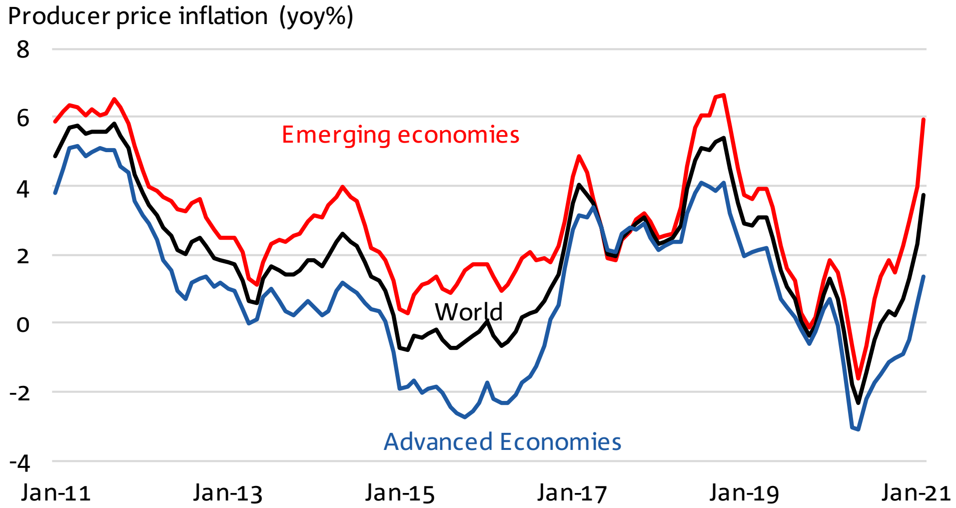
Headline annual consumer price inflation still subdued to February, but big jump in US in March...



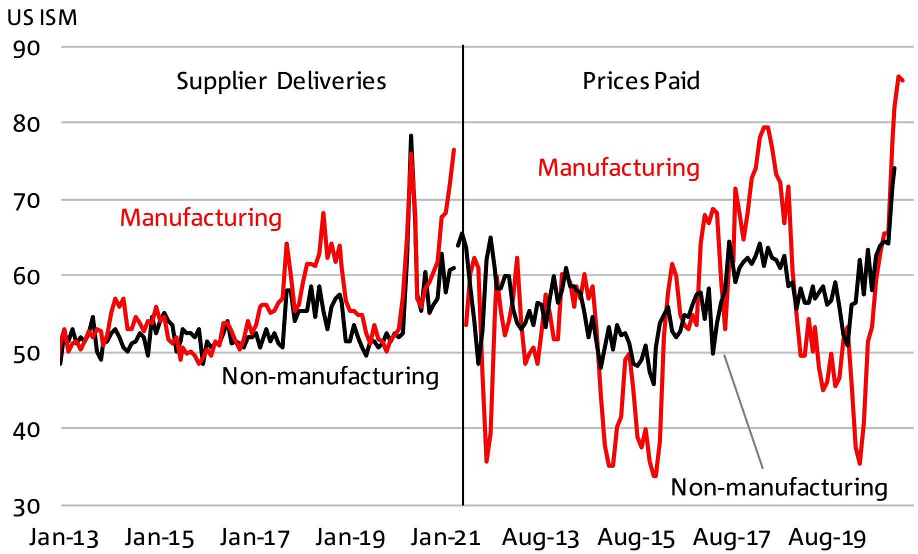
Core measures also rising on a monthly basis



Producer prices moving sharply higher – in part due to commodity prices – signalling upstream price pressures



Business surveys also point to rising costs and supply difficulties



 Sources: Refinitiv, Econdata DX, NAB.

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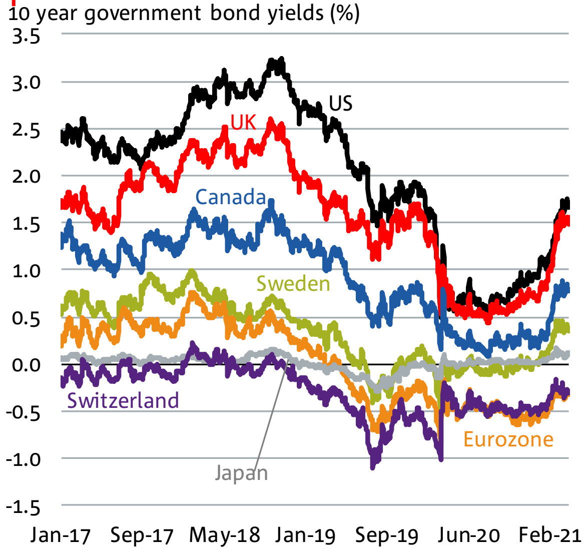
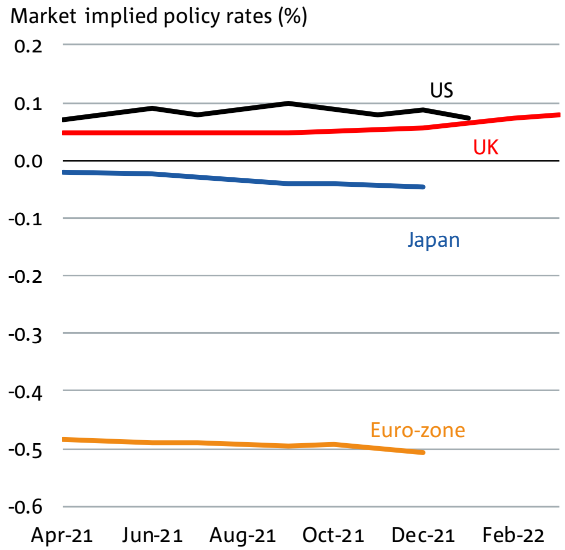
FINANCIAL AND COMMODITY MARKETS

Bond yields returning to pre-COVID-19 rates, while policy rates remain historically low

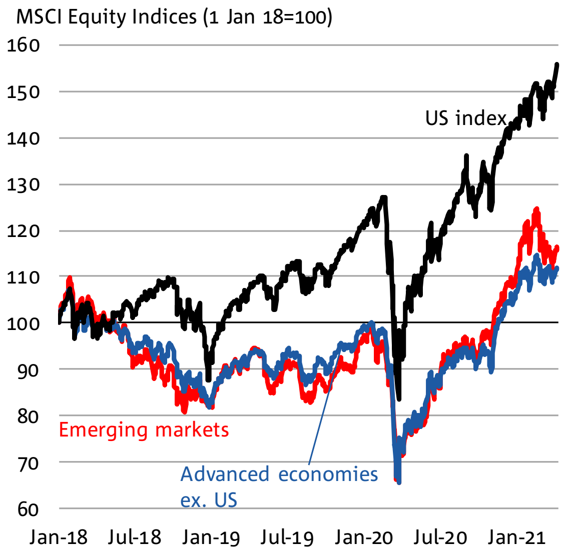
Bond yields broadly back to pre-pandemic rates



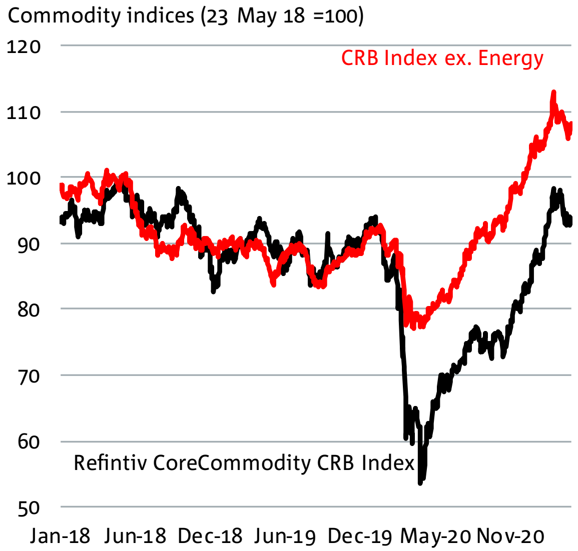
Central bank policy rates set to remain historically low



Mixed trends in global equity markets



Commodities easing from recent cycle peaks



- Overall financial market conditions remain positive – reflecting the impact of fiscal and monetary measures to underpin markets during the pandemic and support the recovery. Financial conditions indices (which incorporate a broad range of factors into a single measure) point to accommodative conditions in major advanced economies.
- Government bond yields rose rapidly from mid-February through to mid-March, as an improving economic outlook (in part related to the global vaccine rollout and the US American Rescue Plan bill) and growing concerns around inflation triggered a sell off. That said, yields have generally tracked sideways since the middle of March. It is worth noting that current bond yields remain extremely low by historical standards.
- Despite rising inflation expectations, consumer prices in a wide range of countries remain below central bank target bands, allowing them to tolerate higher inflation in the near term, particularly as some of the pressures are likely to be temporary.
- The US Federal Reserve intends to keep interest rates close to zero until inflation is moderately above 2% "for some time" and the labour market recovers. In addition, it committed to continue its asset purchase program until substantial progress is made towards these goals. This is likely to reduce (although not completely remove) pressure on other central banks to raise rates – particularly in emerging markets – and we anticipate central bank rates to generally remain low over the next two years.
- Trends in global equity markets have differed considerably in recent weeks. A series of MSCI market indices recorded peaks in mid-February, before the emerging market index fell sharply (almost 11% peak to trough) while the non-US advanced market index declined by just over 5%. In contrast, the US index saw some volatility as it tracked broadly sideways across March, before climbing once again in early April, to a new record high.
- Commodity prices broadly eased across March, having risen consistently between early November 2020 and late February 2021. Oil prices have eased from recent peaks – in part due to OPEC+ unwinding some of its earlier production cuts – while several base metals retreated. The overall Refinitiv CoreCommodity CRB Index is still above the pre-COVID-19 levels, while the February peak in the non-energy index was its highest level since September 2014.

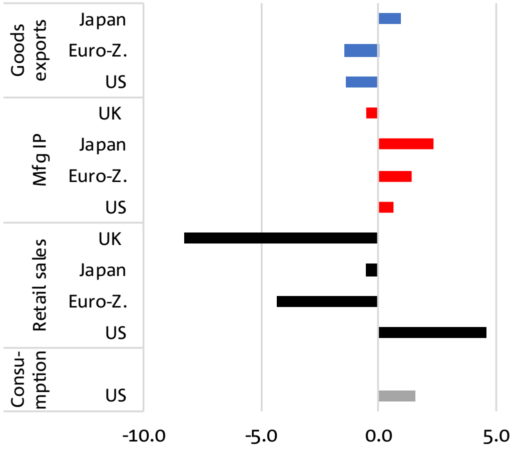
Sources: Bloomberg, Refinitiv, NAB Economics

ADVANCED ECONOMIES

Overall AE growth likely to be subdued in Q1 but then bounce due to fiscal stimulus and vaccine roll-out

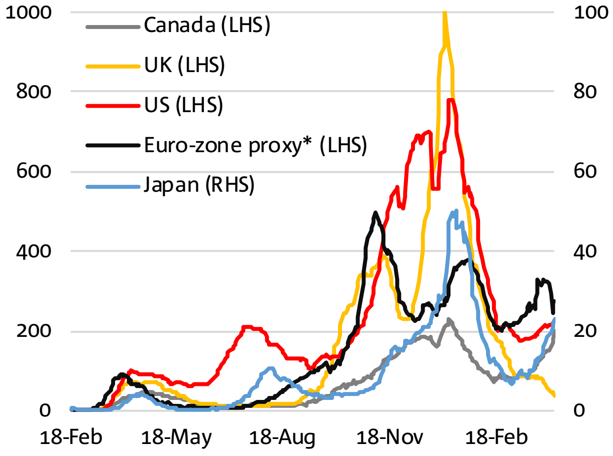
Early indicators for Q1 AE growth mixed

% change - between Q1 to date and Q4 average



Euro-zone COVID-19 cases still high & recent rise in US, Can. & Japan

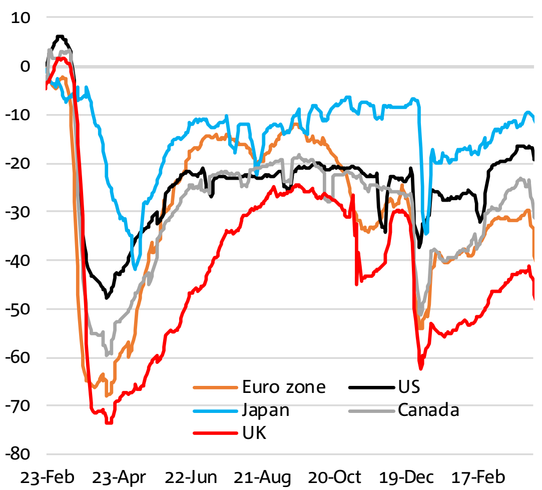
New cases per million (weekly m.a.)



* Germany, France, Italy, Spain

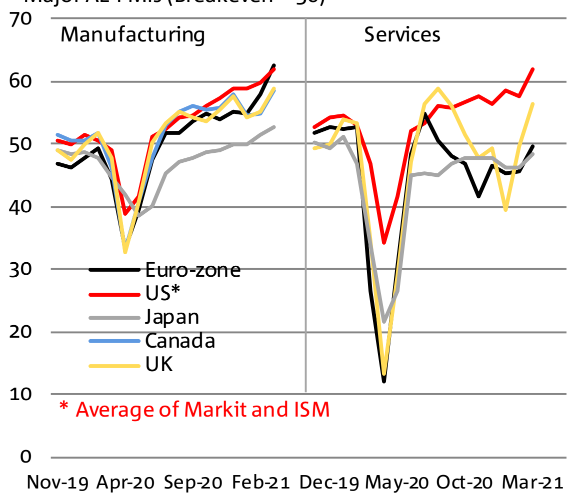
Mobility indicators generally improving pre-Easter

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



Across the board improvement in PMIs in March

Major AE PMIs (Breakeven = 50)



- COVID-19 continues to cause disruptions and for advanced economies (AEs) overall we expect a weak rate of growth in Q1. Growth should accelerate rapidly as vaccinations become more widespread, bringing the virus under control. The vaccination roll-out is more advanced in the UK and the US. The US will also get an additional boost from large scale fiscal stimulus with potentially more to come.
- Activity data for Q1 to-date (a mix of January and February), while mixed, are consistent with a subdued rate of growth in Q1 for the major AEs. Retail sales point to a large impact on consumer activity in the Euro-zone and the UK from the lockdowns put in place to curb COVID-19. There was also a large fall in UK exports in January (-18% mom) and a smaller fall for the Euro-zone and this probably reflects the new trading arrangements between the UK and EU (and the stockpiling that occurred before hand). Japan's state of emergency also weighed on consumer activity. Manufacturing has been more resilient and this will offset some of the consumer drag, but we expect GDP to fall in both the Euro-zone and the UK in Q1, and to be close to flat in Japan.
- US data are looking stronger, despite severe weather disruptions in February, with COVID-19 restrictions being eased across many states and a boost from December's fiscal stimulus. The March stimulus package (with 'cheques' sent to many households in the second half of March) will provide a further substantial boost to growth. The US President has also proposed another large spending plan (including on infrastructure) which represents an upside risk to our forecasts.
- COVID-19 continues to cloud the outlook. Germany, France and Italy over the last month have extended or tightened restrictions. While Japan's government fully lifted the state of emergency from 22 March, some prefectures (including Tokyo) have recently renewed restrictions as cases rise. Cases are also rising in Canada and, to a lesser extent the US, but continue to fall in the UK. Of the AEs, the UK is most advanced in its vaccination program (47% of the population had received at least one shot by 9 April), followed by the US (35%), while the Euro-area (Germany is at 15%), Canada (19%) and Japan (1%) are lagging.
- Even with these continued disruptions, mobility indicators up to Easter were on an upwards trend. Moreover, business surveys for March increased in both the manufacturing and services sectors across the major AEs. The economic impact of lockdowns is not as severe as in March/April 2020 as businesses and households have adapted to operating in a COVID environment (on line sales, work from home etc).

Sources: Refinitiv, Markit, https://www.google.com/covid19/mobility/, NAB Economics,

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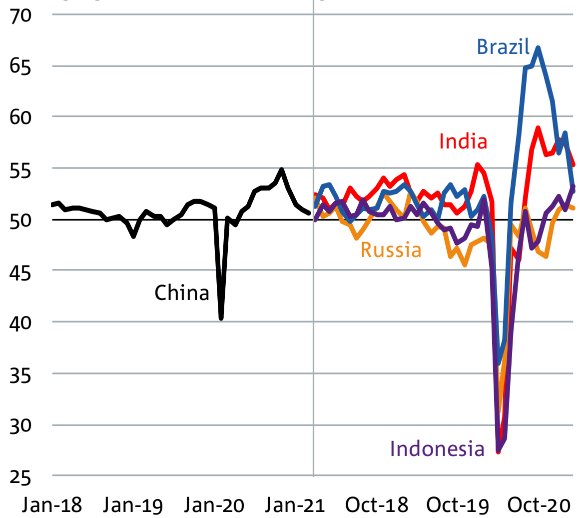
EMERGING MARKET ECONOMIES

Emerging Asia outperforming other regions, particularly higher tech manufacturers

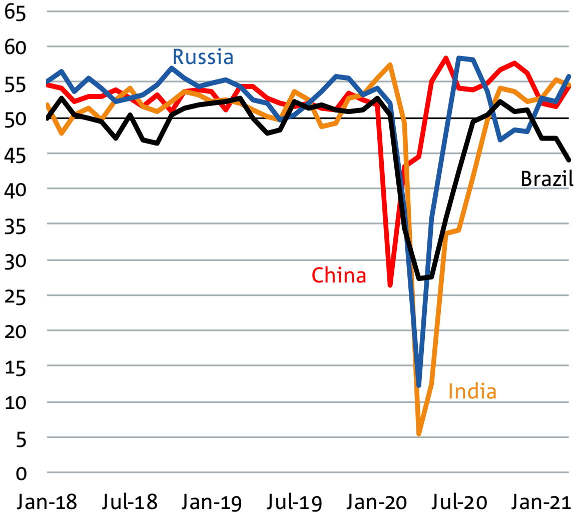
Brazil, India and China led EM manufacturing PMI lower…

Emerging market manufacturing PMIs (Breakeven = 50)



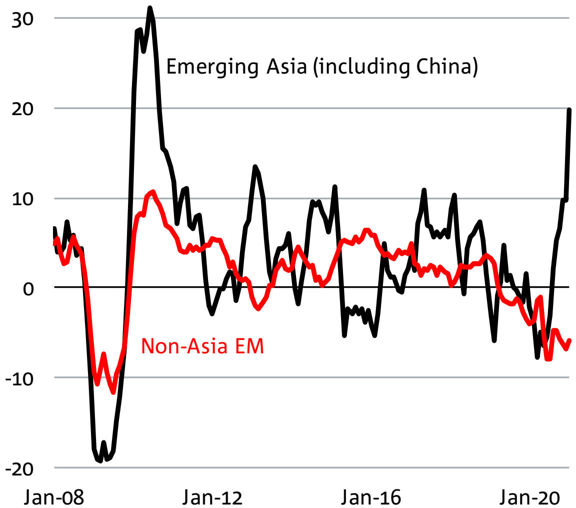
…while China led the increase in services PMIs

Emerging market services PMIs (Breakeven = 50)

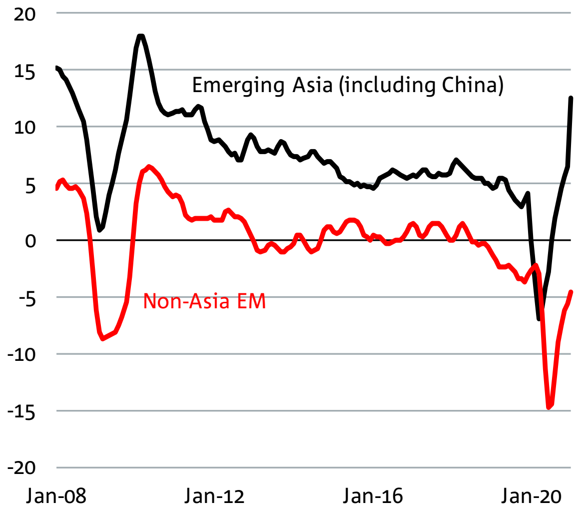


Clear divergence in performance between emerging Asian economies and other EMs

Emerging market export volumes (% yoy 3mma)



Emerging market industrial production (% yoy 3mma)



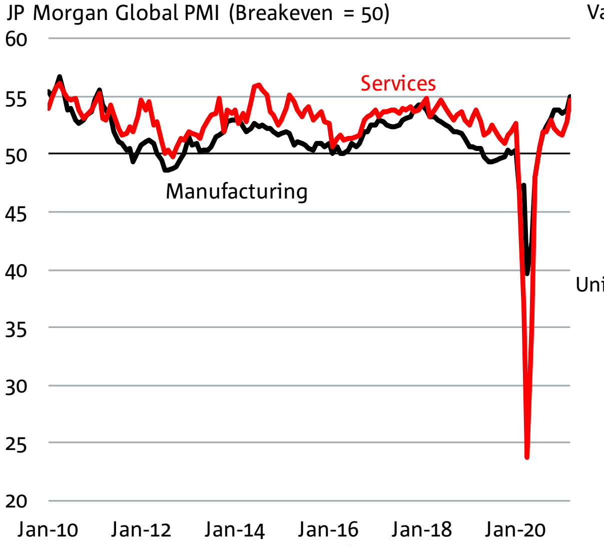
- Trends in the emerging markets manufacturing PMI have been gradually softening for several months, with the survey down to a still positive 51.3 points in March (compared with 51.5 points in February and a recent cycle peak of 53.9 points in November). The primary drivers of this downturn were India and Brazil, while there was a more modest decline in China. In the case of the latter, softer manufacturing PMI readings reflect the sector's recovery from COVID-19 related disruptions in the second half of the year and the subsequent challenge in increasing organic growth.
- Manufacturing PMIs continue to exhibit a sharp distinction in the performance of higher value-added producers – particularly electronics producers in North Asia – and lower value manufacturers in South East Asia and elsewhere.
- In contrast, the aggregate EM services PMI was stronger in March – rising to 52.9 points (from 51.7 points in February). This increase was primarily driven by China, where services activity fell more sharply than manufacturing during the pandemic and were slower to recover.
- Interpreting trade data in January and coming months will be challenging, given the impact of COVID-19 restrictions on trade flows in early 2020. For example, emerging market export volumes rose by 18.6% yoy in January 2021 – driven by an increase in Chinese exports in excess of 57%. This increase will be larger in February – when China's lockdown was at its peak.
- That said, trade volumes have continued to recover over recent months, as broader global economic conditions have improved – however this recovery has been imbalanced – skewed towards demand for electronics from Asia. On a three month moving average basis, export volumes from EM Asia rose by 19.7% yoy – largely driven by China – while non-Asian EM export volumes fell by 5.9% yoy (3mma).
- A similar imbalance is evident in industrial production. Industrial production in emerging market Asia rose dramatically in January – up by 12.6% yoy (3mma) – again dominated by China (where base effects due to the start of the country's lockdown in 2020 marginally distorted the increase), albeit with robust growth – in excess of 5% yoy (3mma) – outside China. Outside Asia, industrial production fell by 4.5% yoy (3mma) in January.

 Sources: Refinitiv, Markit, CPB, NAB Economics

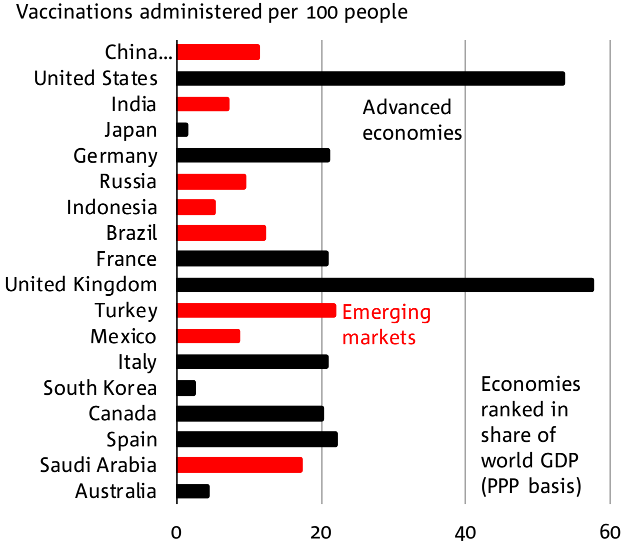
GLOBAL FORECASTS, POLICIES AND RISKS

Strong growth in 2022 masks disparity between countries, in part related to uneven vaccine distribution

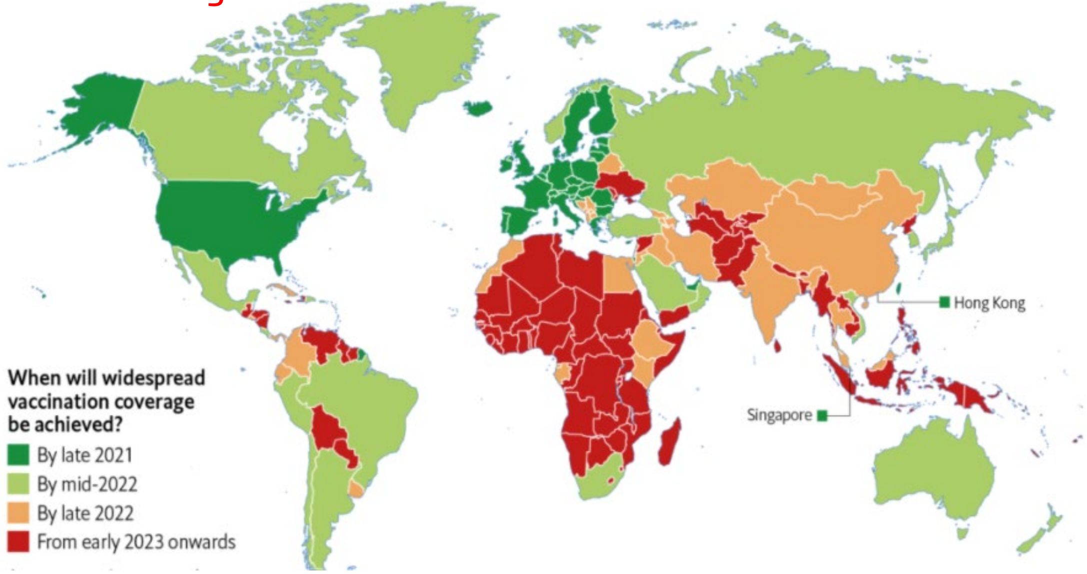
Global composite PMI at over 6½ year high masks disparity



Advanced economies have greater access to vaccines



Substantial time before emerging markets receive widespread vaccine coverage



Sources: Refinitiv, IHS Markit, EIU, NAB Economics.

- Despite persistent risks, the global economy is continuing to recover, with indicators such as the JP Morgan global composite PMI at its highest level in March for just over six and a half years. That said, there remains substantial differences in the performances of individual countries and regions. This measure is weighted significantly towards the United States – which has recorded strong performance in both manufacturing and services in recent months and will be bolstered by government stimulus – in stark contrast to a downturn in Brazil, which is in the midst of a third wave of COVID-19 (where new case numbers have exceeded the previous two waves).
- The COVID-19 pandemic remains a significant risk to the economic outlook. Despite the rollout of vaccines commencing in late 2020, a range of countries and regions have reintroduced countermeasures to limit the spread of the virus, which risks disrupting the recovery of these economies.
- Parts of Europe (notably France and Italy, with Germany currently considering a nationwide lockdown), Asia (Japan and some states in India) and South America (such as Argentina, Chile) have implemented various measures to slow the spread of COVID-19 in recent times. Other regions have been able to reduce restrictions as case numbers have contracted.
- There remains substantial differences in the distribution of vaccines globally – with advanced economies generally having greater access to vaccines, and have typically administered more doses than emerging markets (with some notable exceptions). According to the Economist Intelligence Unit, delays and disruptions to vaccine production mean that much of the emerging world won't see widespread vaccination (60-70% of the population) until late 2022 at the earliest.
- Delays to vaccinations also present a risk of further virus mutation into variants that may spread faster, increase the likelihood of death or long term illness or prove more resilient to current vaccines.
- Disruptions to economic activity in early 2021, along with delays in the widespread administration of COVID-19 vaccinations means that the broad economic recovery will continue into 2022. Our forecast for 2021 remains unchanged at 6.2%, with advanced economies providing a larger than historically normal share of the growth (reflecting the base effects of the larger downturn in advanced economies in 2020). Growth is expected to remain above average 4.5% (previously 4.6%) in 2022, before slowing back to its long term average – since the early 1970s – of 3.5% in 2023.

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