Global Overview
&
Australia

Impact of COVID-19 in near and medium term.

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Date: June 2021

Global - *Macroeconomic summary.*

- **COVID-19 and containment had massive impacts in mid 2020** across major developed economies. Has since seen big bounce backs across developed economies. But some economies (UK, Europe and Japan) have gone backwards in Q1 2021 due to closures from virus**. But 2021 looks like being a bounce back year. Vaccines progress encouraging.** 2022 likely to be above average as a result of slower start in some developed economies this year and developing economies issues. 2023 back to around trend.

- In the **US** Biden's packages have completely changed the economic outlook. Stimulus packages have spent 3% of global GDP. Q1 2021 is very strong and growth this year likely to be around 6.7%. And strong next year. Big focus now on inflation and wages. Has the US overdone it and will high inflation be temporary or not.

- **China** one of the few economies to grow in 2021. Lots of stimulus that is now being withdrawn. Growth easily above 6% target. In 2021 more like 9.5%, then slowing to around 6% or lower in the out years.

- Growth in **Europe, UK and Japan** has been hard hit by the virus lockdowns – with growth negative in early 2021, but expect it to accelerate thereafter.

- Developing world hard hit by the virus (eg India).

- **Other big theme globally is the return of inflation from supply-side problems (and stimulus). Markets v the Fed and other central banks.**

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Global economic forecasts.

	2019	2020	2021	2022	2023
US	2.2	-3.5	6.7	4.1	2.1
Euro-zone	1.3	-6.7	4.5	4.7	2.1
Japan	0.0	-4.8	3.0	3.2	1.0
UK	1.4	-9.8	7.5	6.0	2.4
Canada	1.9	-5.3	6.2	3.8	2.5
China	5.8	2.3	9.5	5.8	5.6
India	4.8	-7.0	9.0	6.1	5.6
Latin America	0.2	-6.7	5.4	2.4	1.7
Other East Asia	3.4	-2.9	5.3	4.9	4.6
Australia	1.9	-2.4	5.1	2.6	2.2
NZ	2.4	-2.9	3.9	4.0	2.1
Global	**2.8**	**-3.3**	**6.3**	**4.6**	**3.5**

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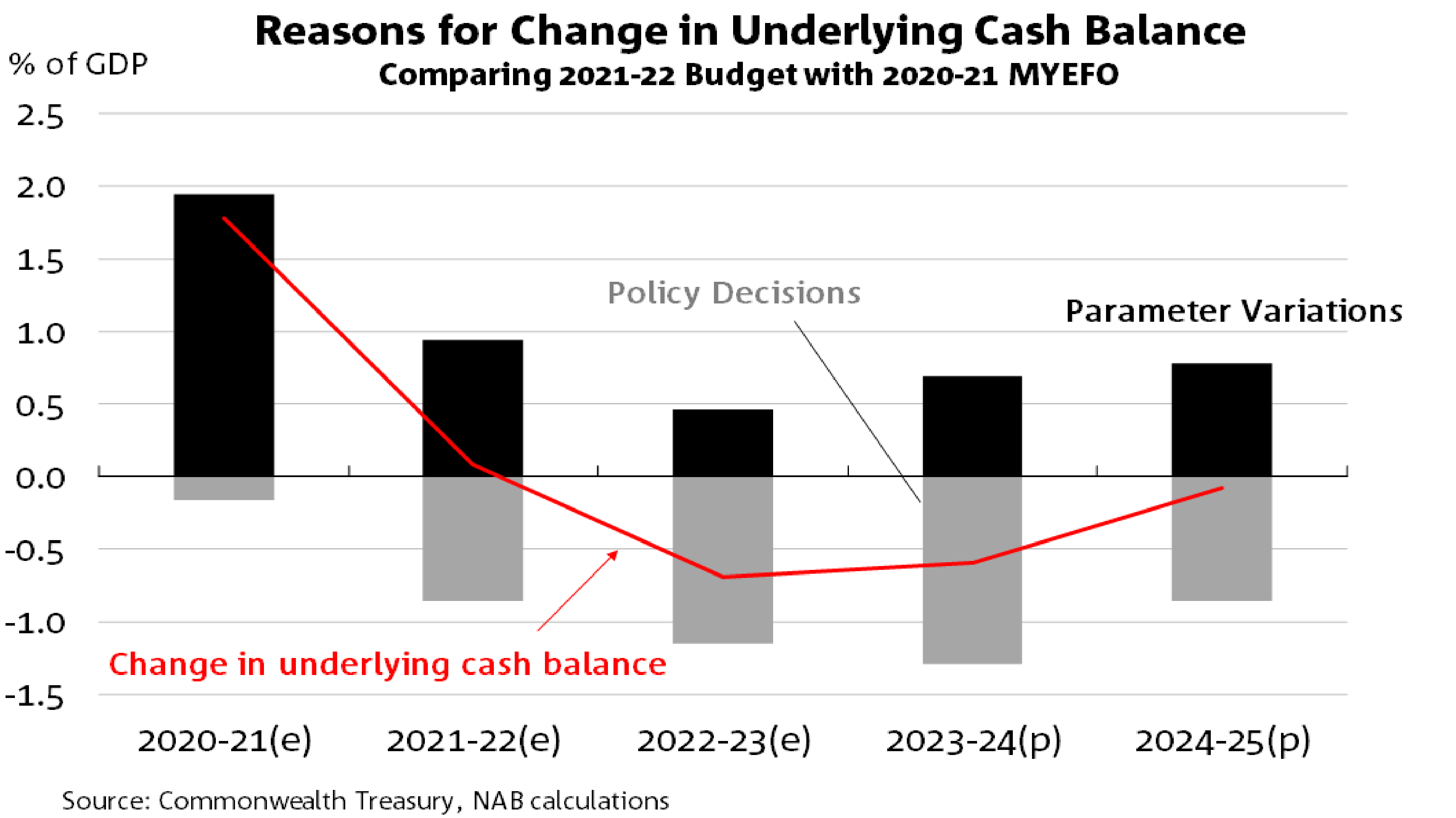
Australia - *Macroeconomic summary*

- **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. And Budget spent more than expected.** Basically whatever the better economy produced the Government spent in politically sensitive sectors. And more to come in the election.



Australia - *Macroeconomic summary (continued)*

- **Overall we see:**
  - **Growth increasing** by around 4% during the course of 2021. But 5.1% in year average terms. That says, growth is already up 0.8% from 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 2.6% 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.
  - **Budget was all about maintaining the growth momentum.** Not a lot on structural reform. Maybe that is still coming in the "election package".
  - **Overall, not a lot of differences with the Budget re total growth but big differences in the composition of growth.** We find the Budget assumption of little to no growth in business investment hard to believe. Government is hoping for offsets by stronger growth in consumption and less negative net exports.
  - **Also, we see a better and faster improvement in the labour market. But similar re wages and inflation.**

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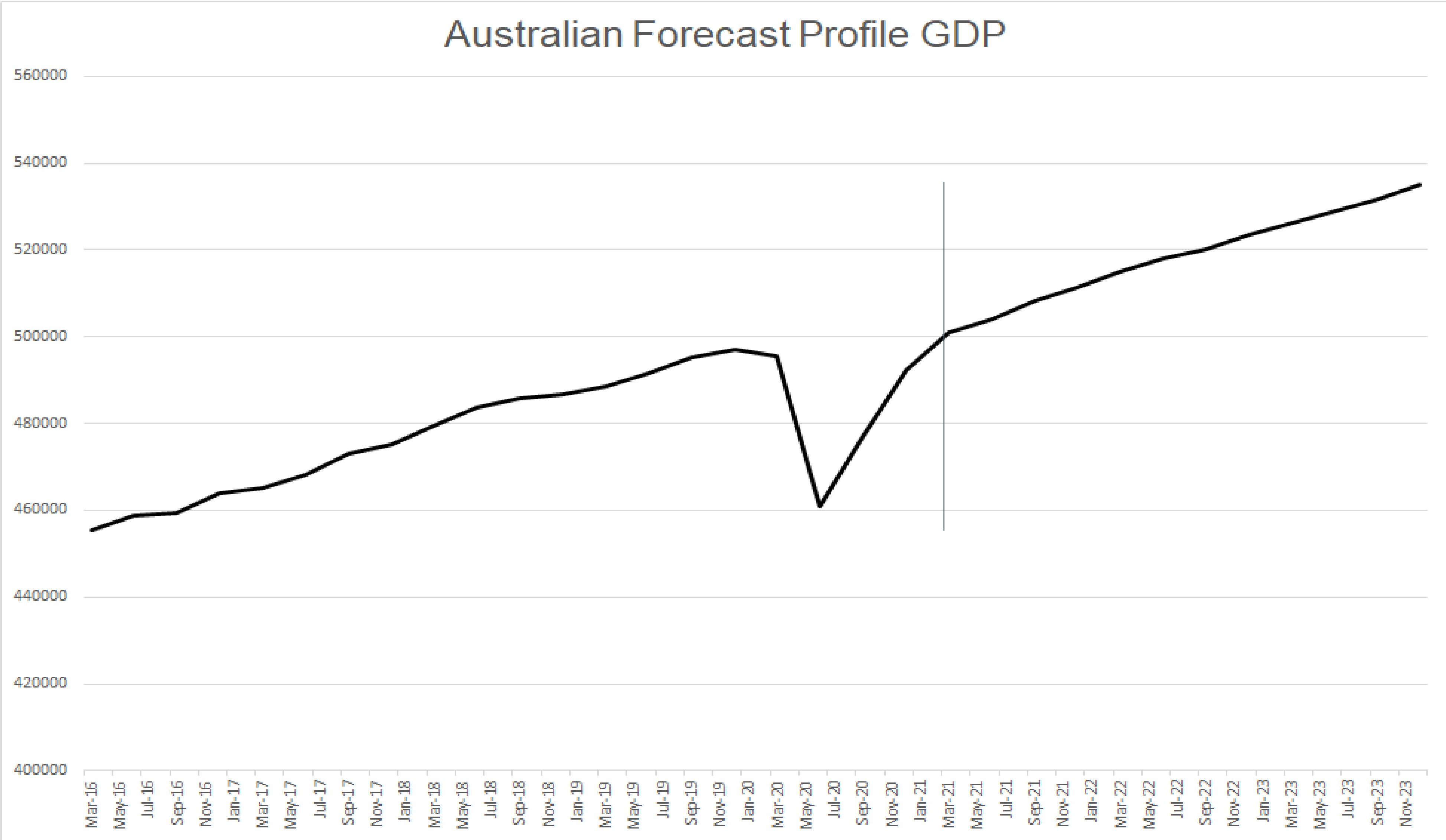
Australian Growth path. *– Now above end 2019 levels.*



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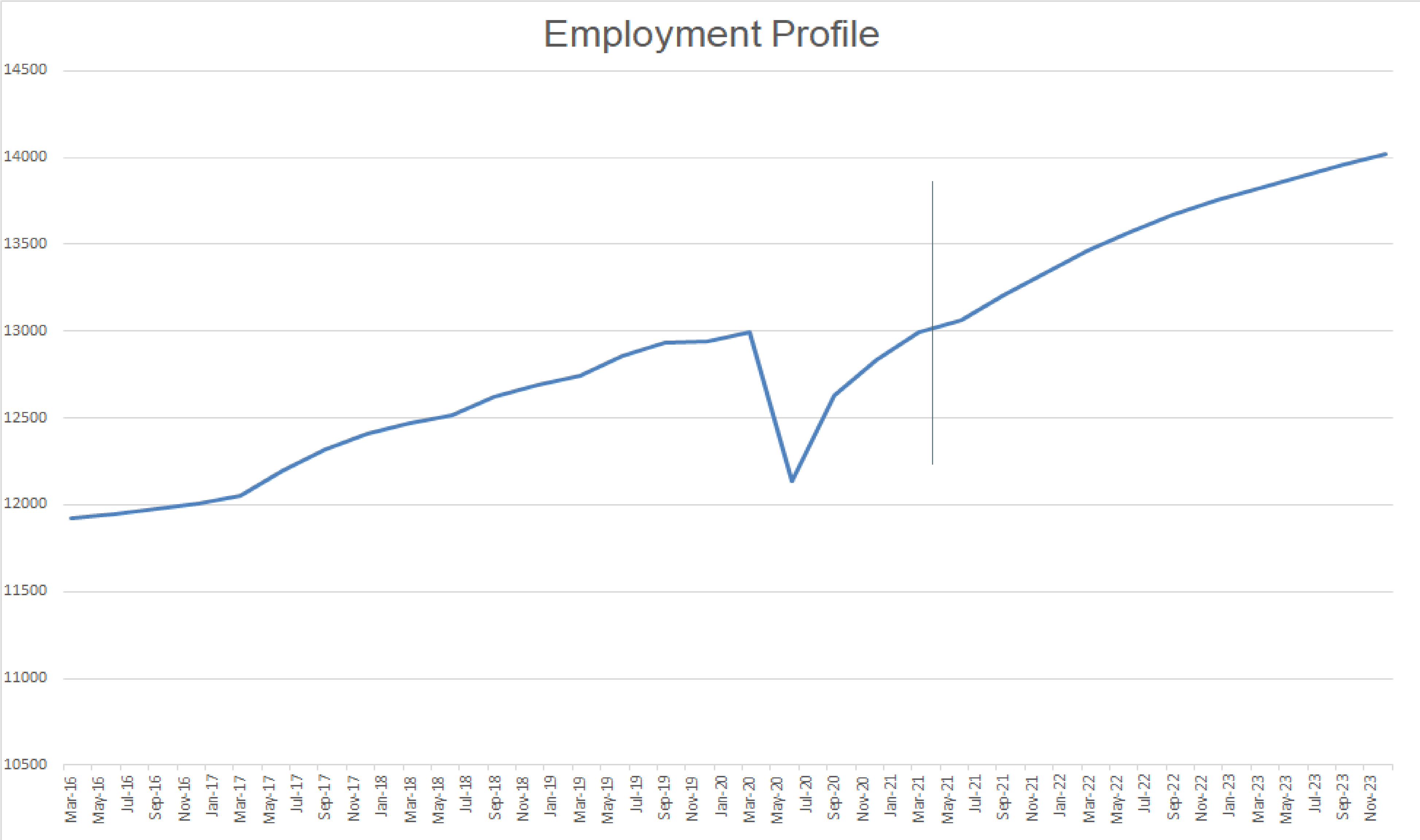
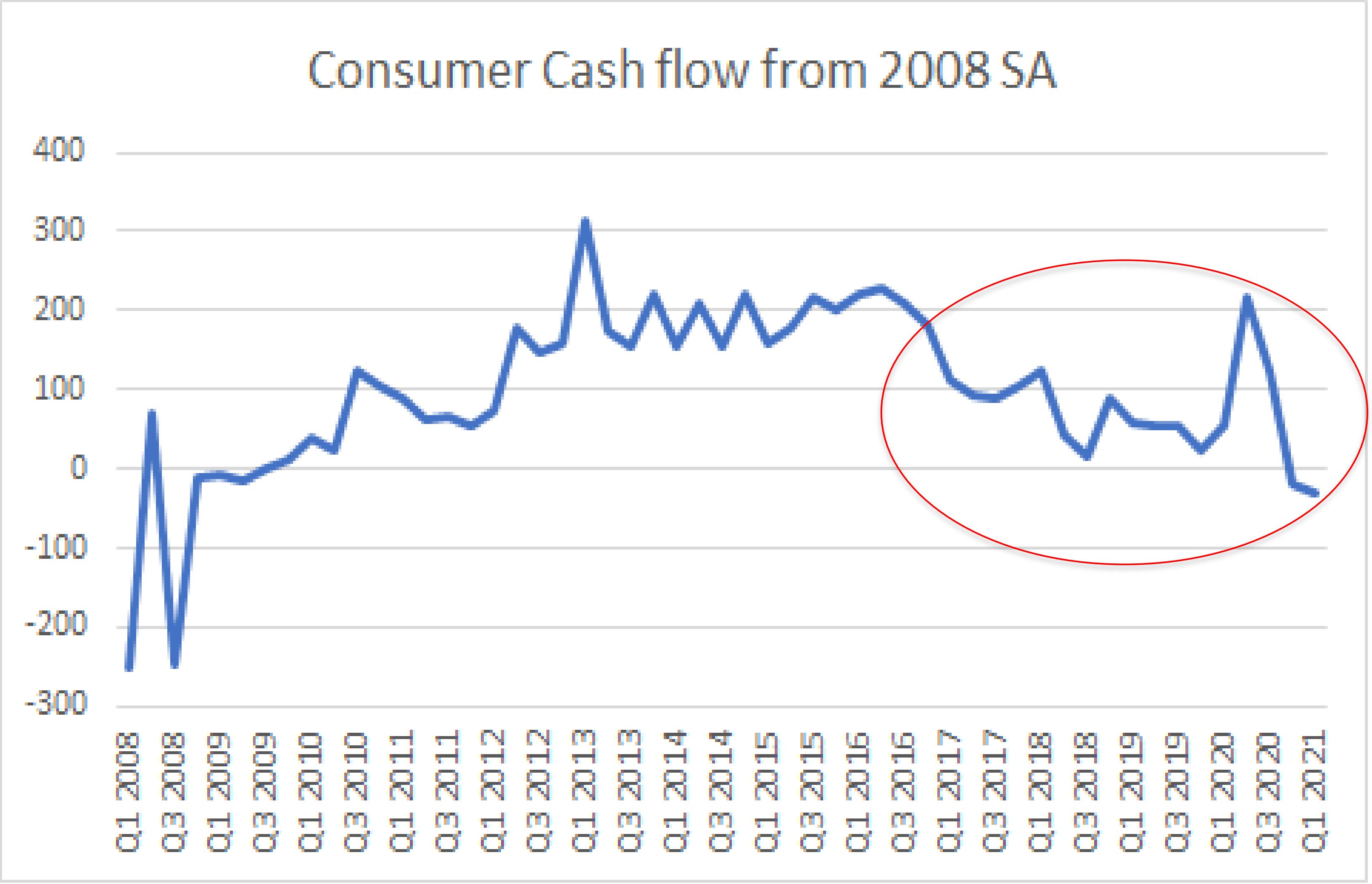
Employment profile



And you can see the importance of Government support *- to the average consumer.*



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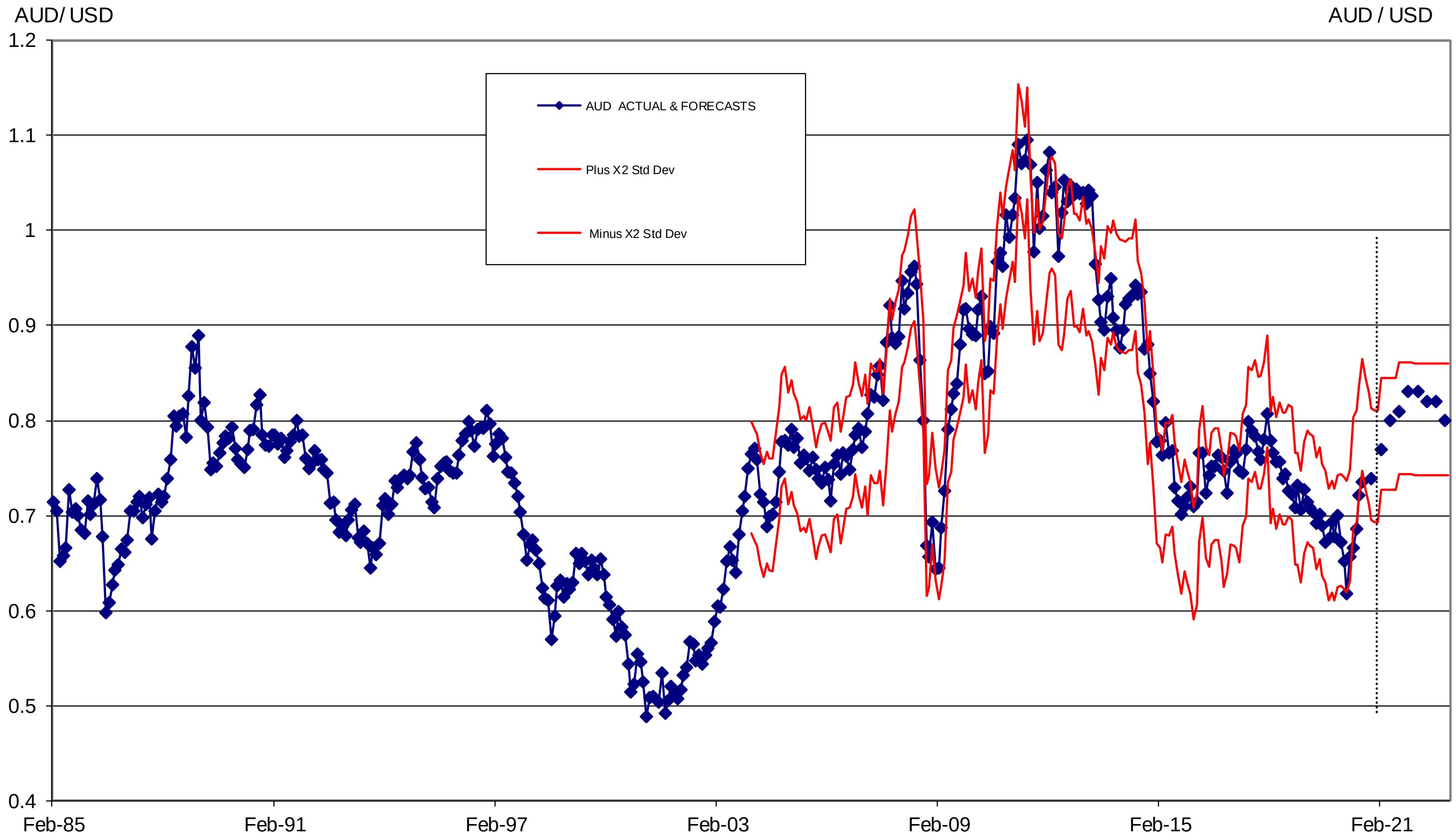
Currency model. USD .75+/- 5c. – *Australia seen as a China proxy and uncertainty in virus hit world. But Australia doing better than most and US the reverse. We expect the AUD to continue to go higher.*

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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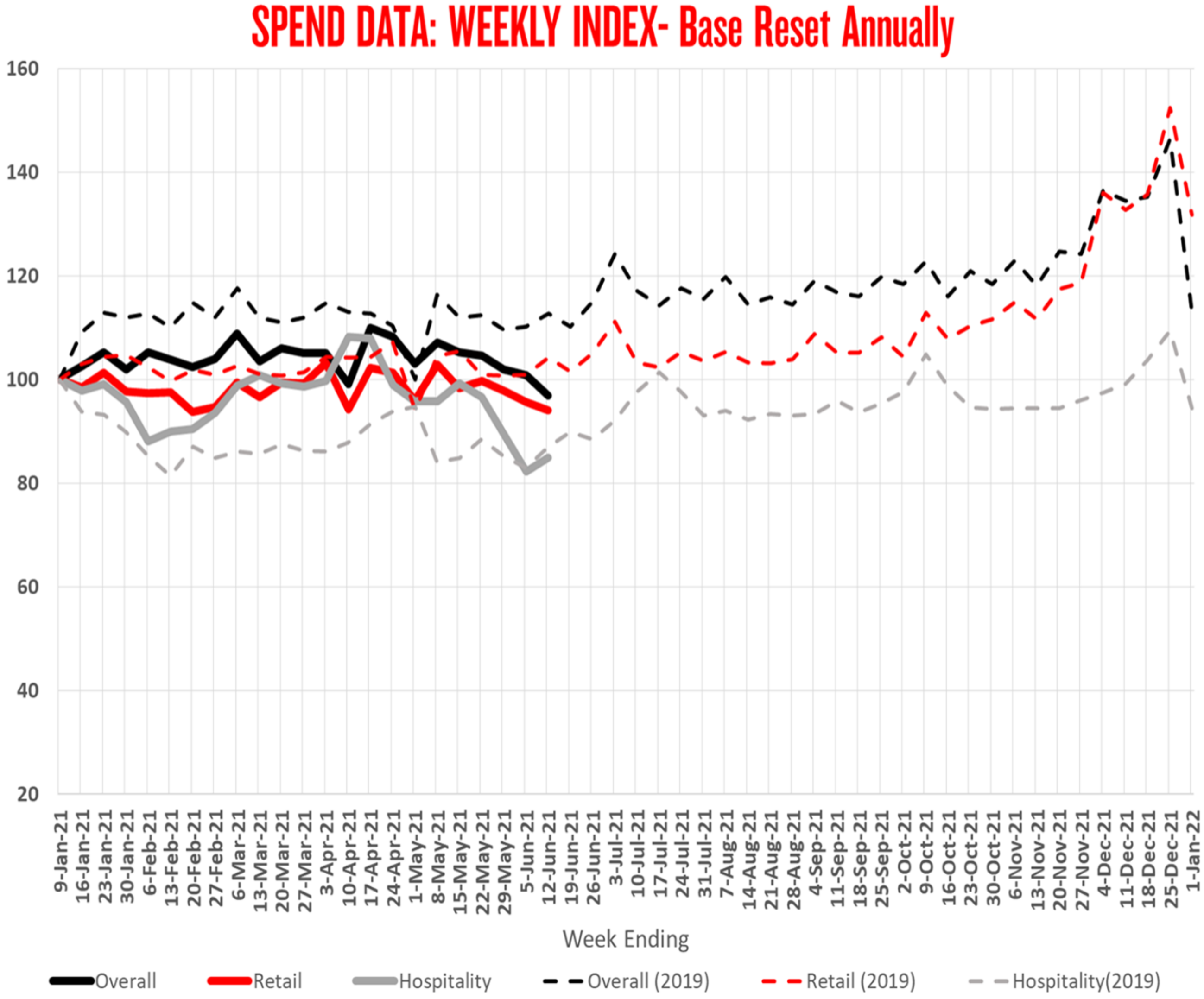
Data Insights

- NAB Data
- Business Survey

On NAB's internal data: Consumption to 12 June. - *Our own data is not as strong for retail and services and getting hit by Vic lockdown. Using 2019 seasonality and comparing to the start of the year.*



- As of last week, total consumption was down a around 3% from start of the year – but relative to 2019 seasonality should be up at least 12%.
- Retail still down around 5.9% relative to the start of the year, but it should be 4% up.
- Hospitality down 15% reversing recent trends where it was doing better. Now a touch worse than 2019 seasonality
- Other services (health, transport, real-estate (rents) utilities and education) have also weakened.

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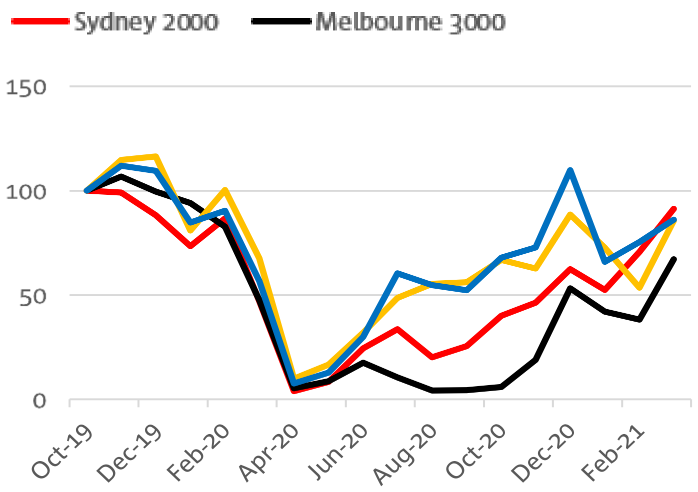
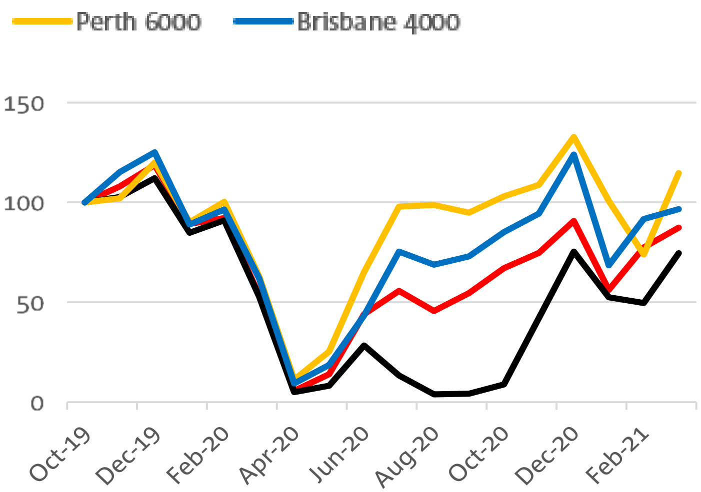
CBD spending an issue – *especially in Melbourne.*

CBD INDEX (OCTOBER 2019 = 100)

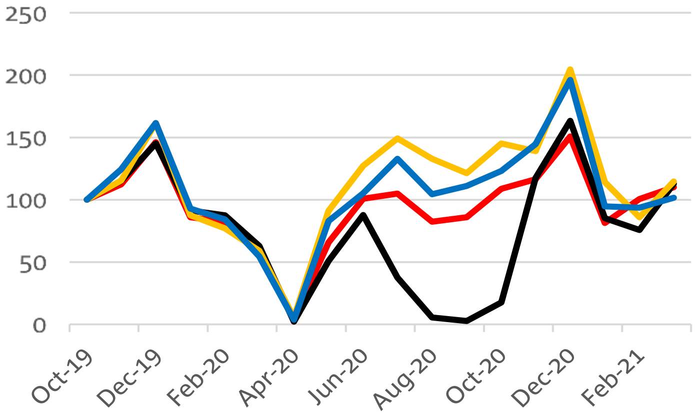
Accommodation



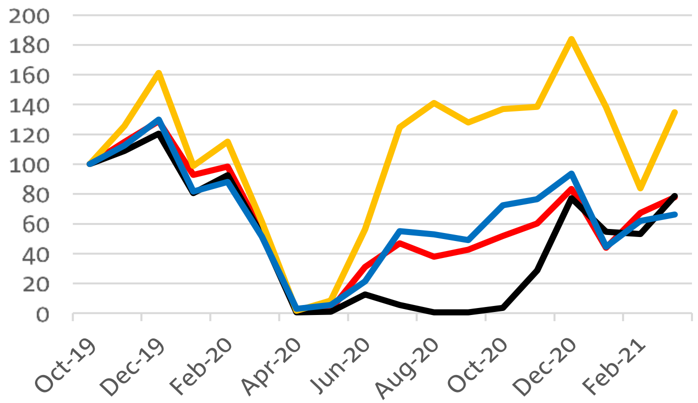
Cafes and restaurants



Clothing retailing

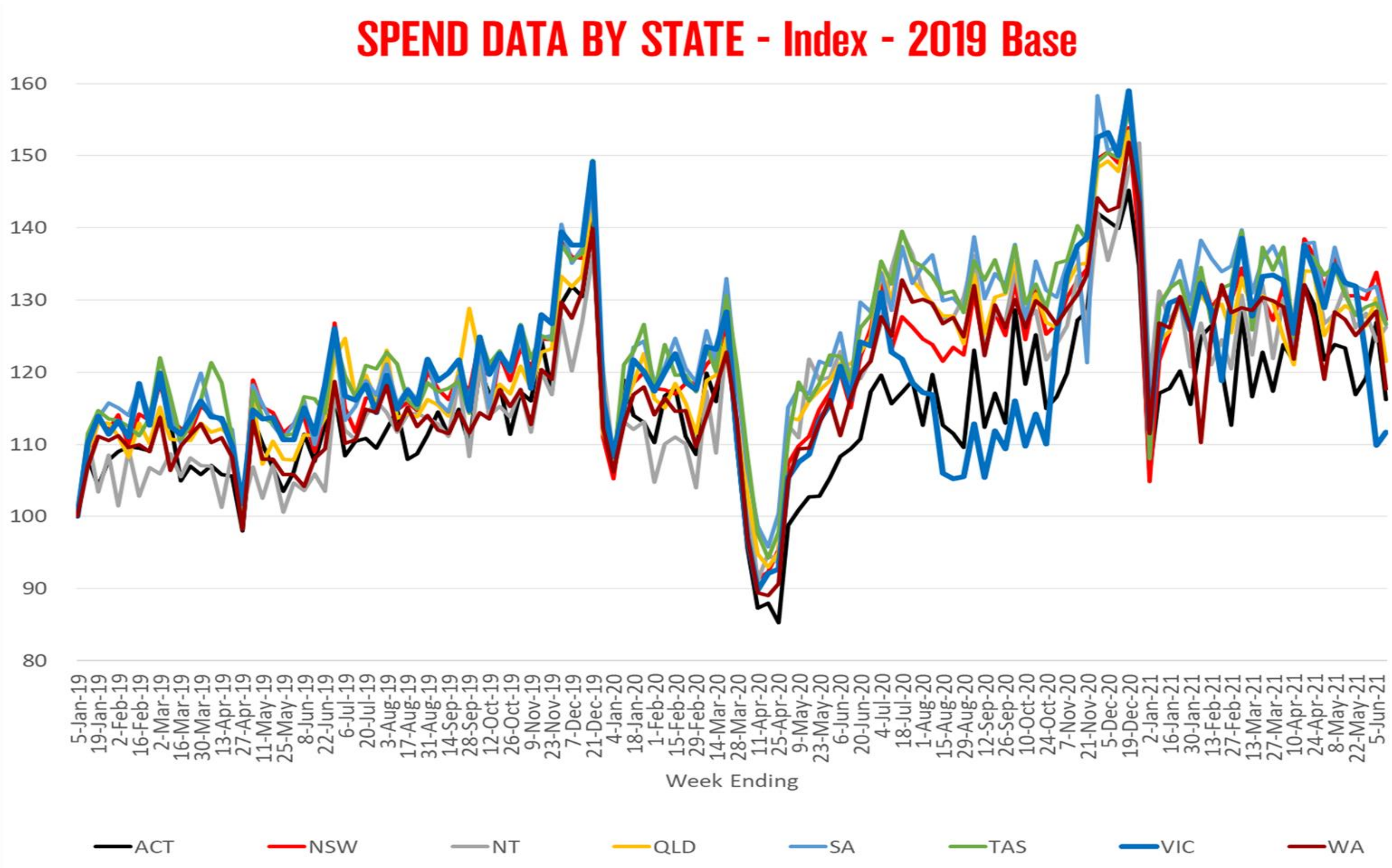


Pubs and bars

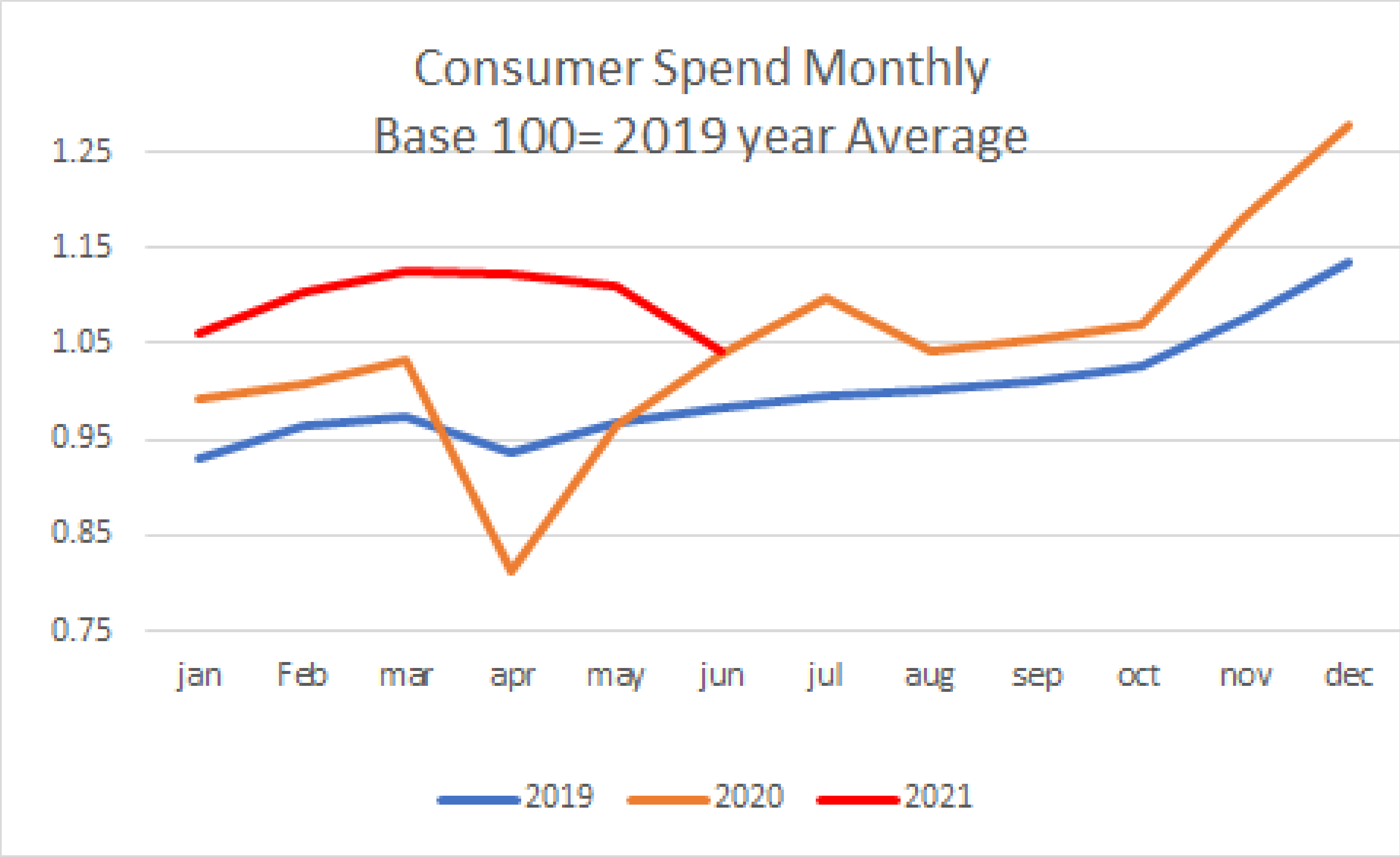


- **Accommodation:** still lagging but better recently. Melbourne the worst;
- **Cafes and restaurants:** Perth back, others close. Melbourne the worst, but Sydney not as good as I expected.
- **Clothing:** all cities fully back.
- **Clubs and pubs:** Perth the standout. Others similar and not great.

And again most states are weakening. Vic seemed to suffer a lot from the first week of lockdown. But now stabilising at the lower level. *Likely to take 1% off Vic GDP in Q1 and around 0.25% off Australia WA and Qld also not great. NSW joining in weakness*



Here is an overall summary on transactions data. Using all of 2019 as a base and looking at the last few years – to early June. This year Q1 better but Q2 softer.



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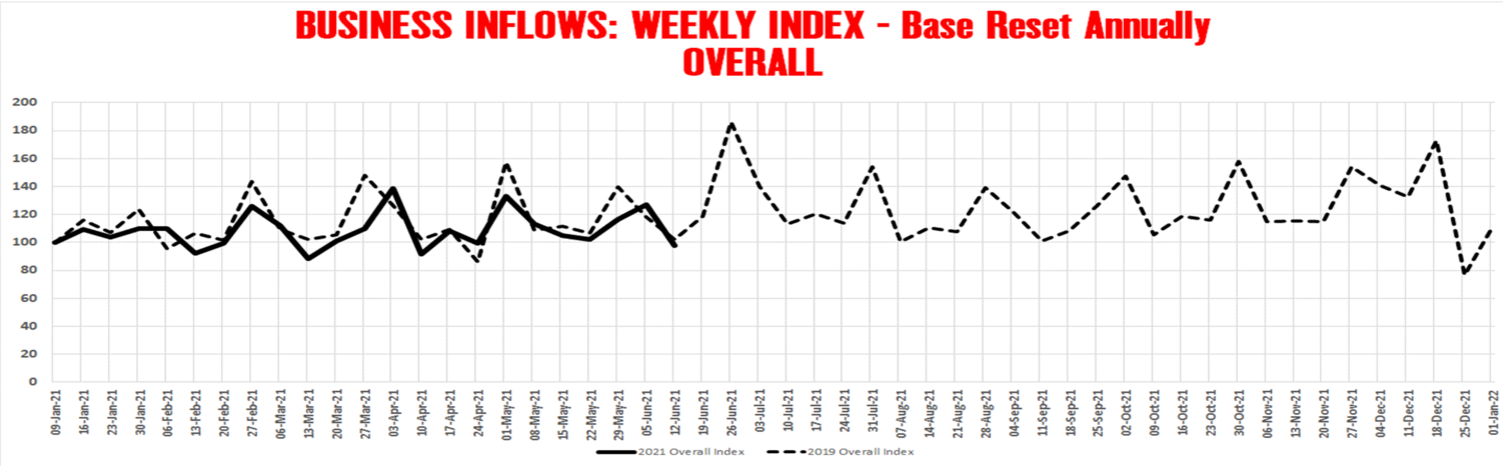
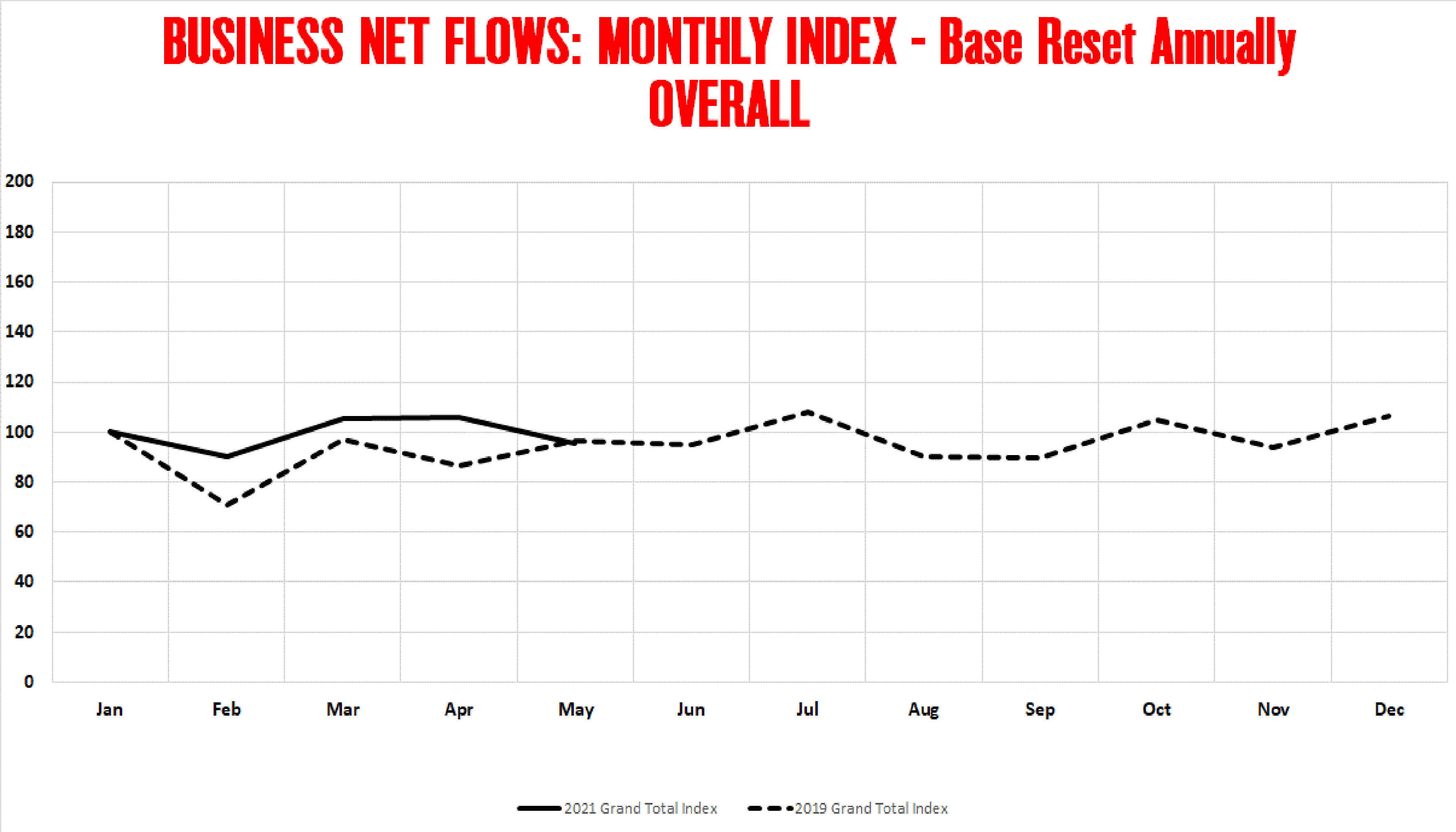
Business inward cash in underlying terms has remained ok. Recent weakness seems seasonal rather than structural

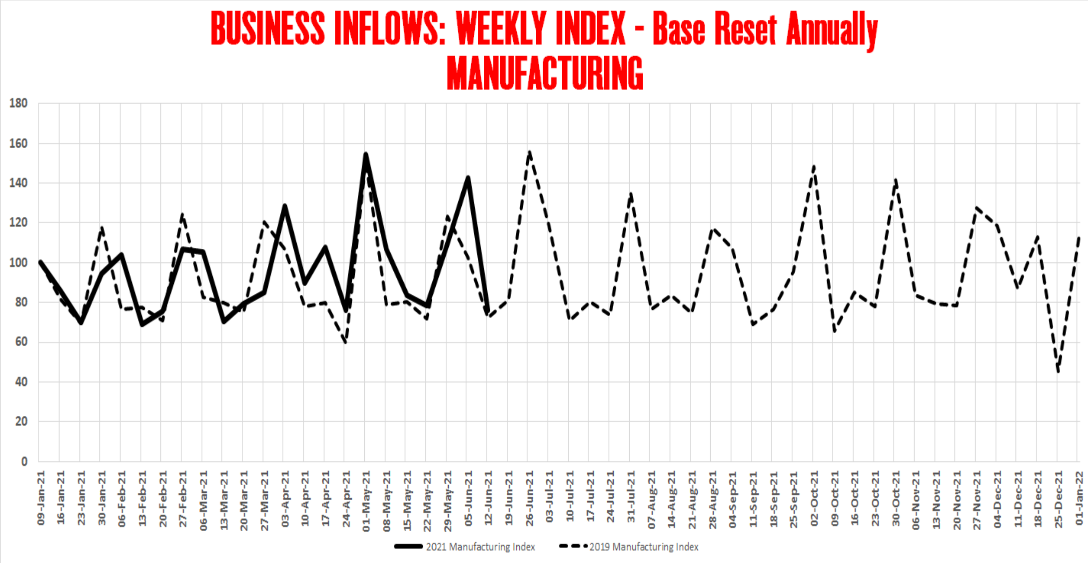


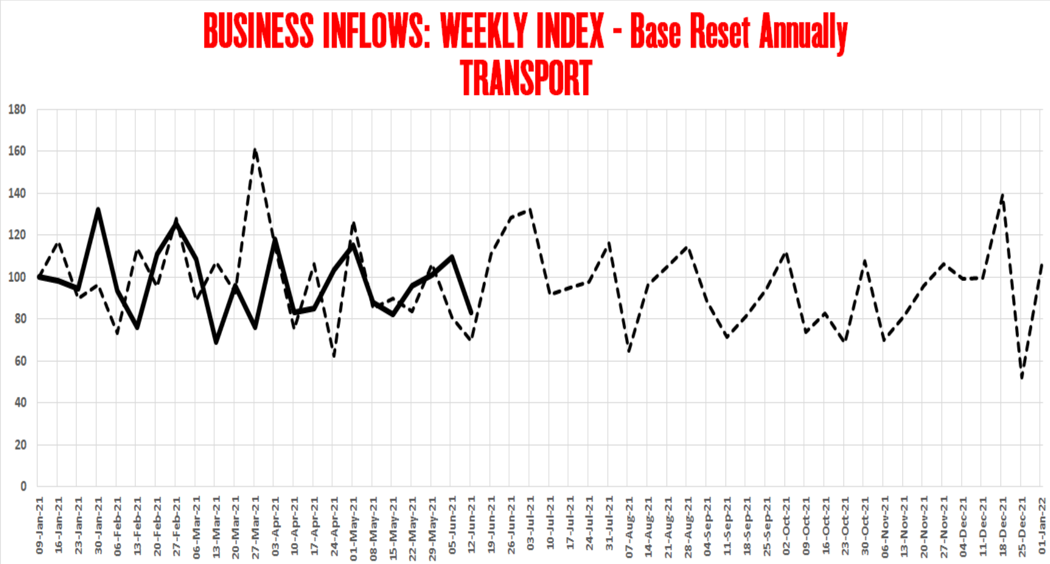
Interesting we can now do Cash Flow for business Basically says cash flow better than you expect based on 2019. Reflects business redesigned their business during the pandemic – cut costs and improved productivity. But deteriorated in May

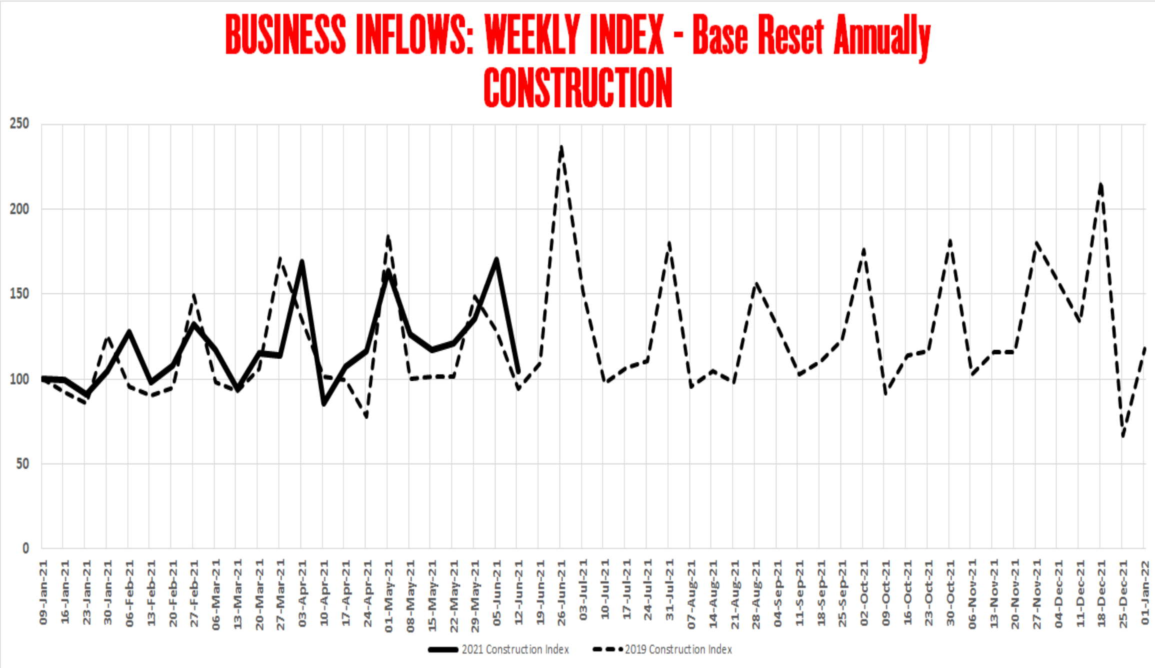


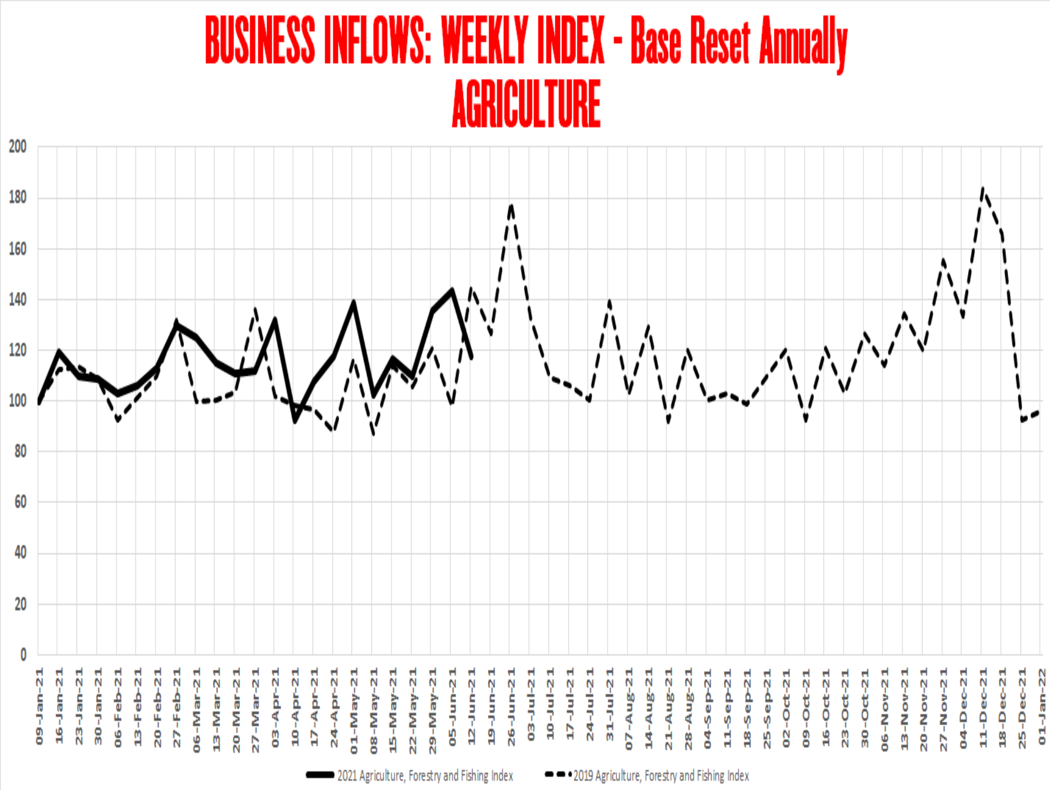
Some industries are doing relatively better.. But most following general trends

Manufacturing and construction and Agri among the better performers.

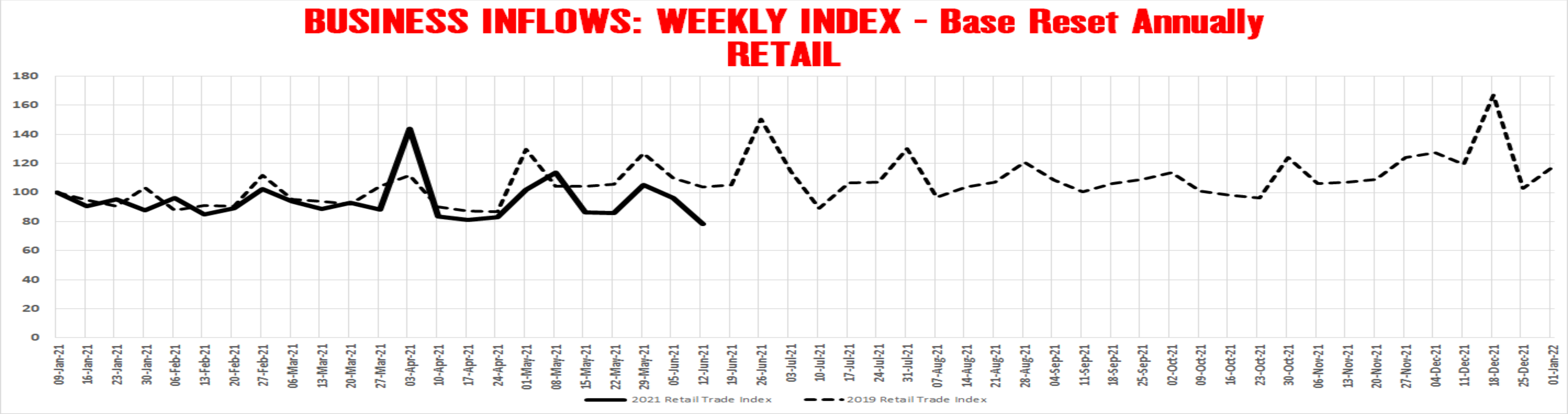


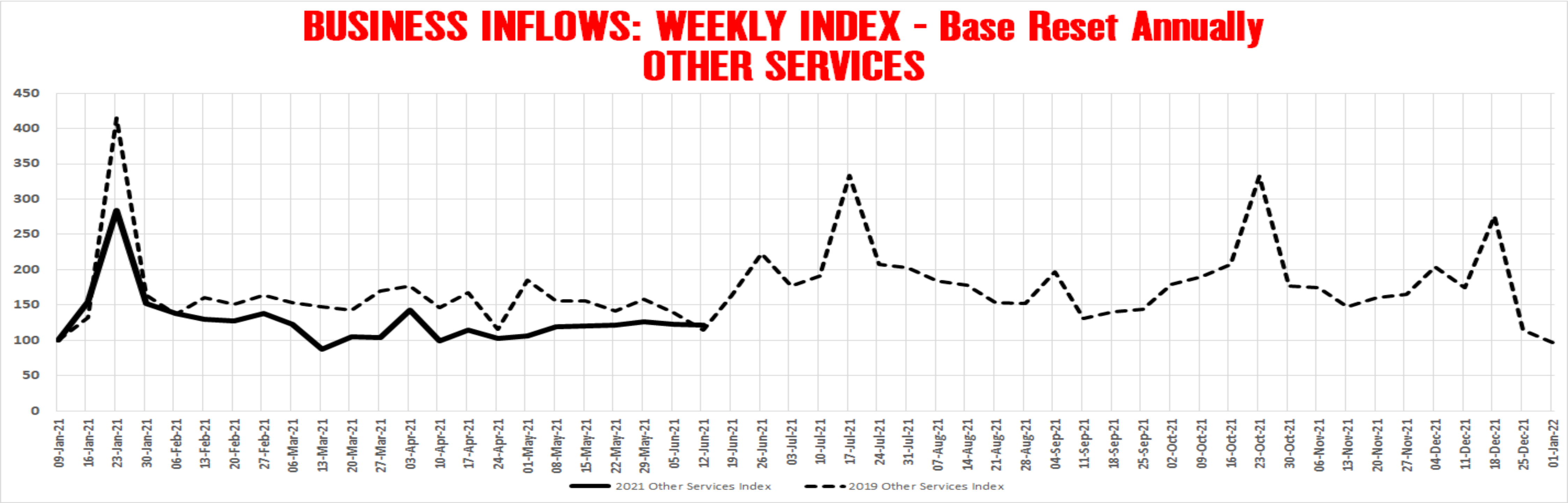




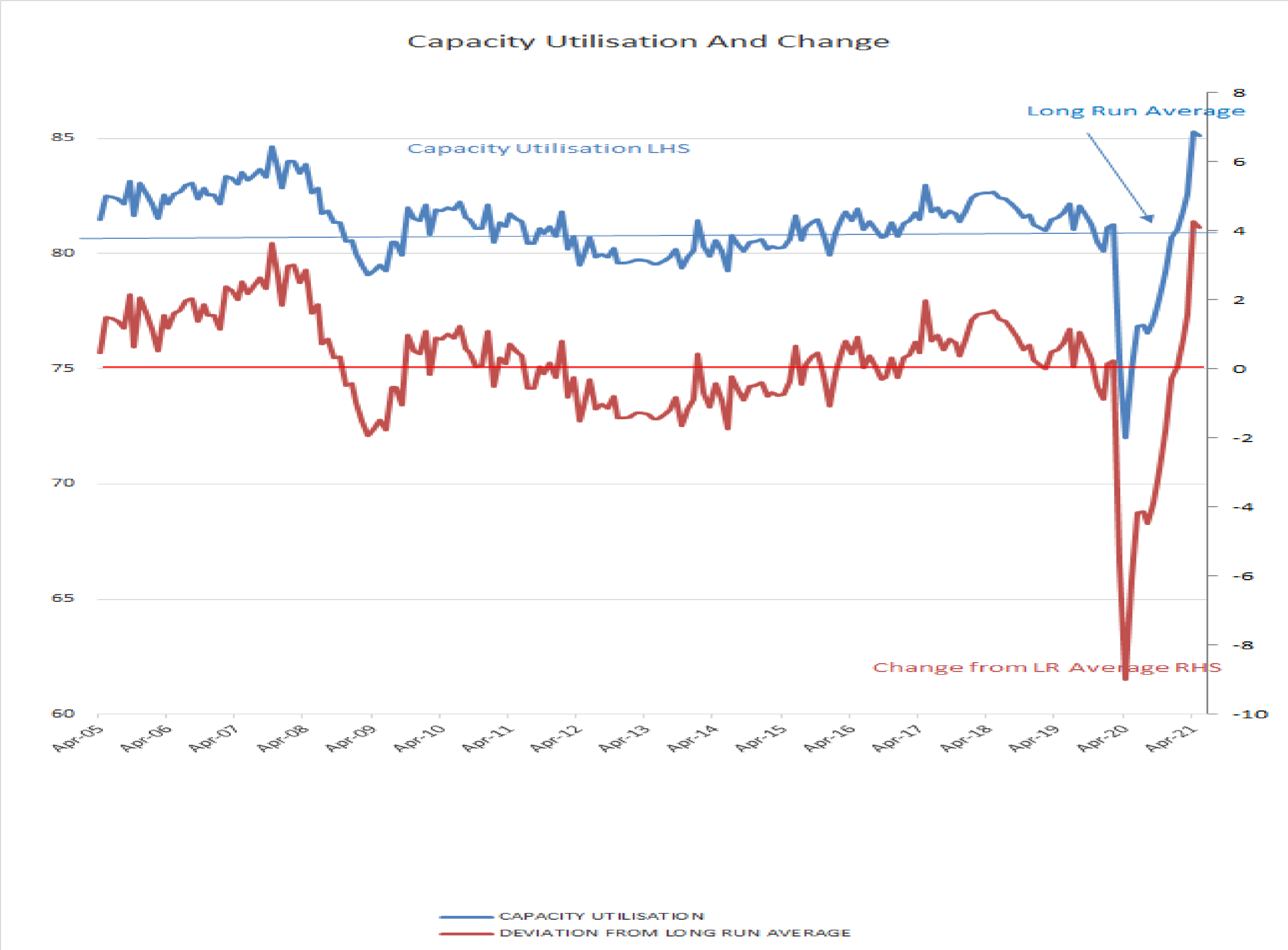


Retail however weaker than you would expect - *while education still in a world of pain.*





Capacity utilisation fell around 9% in the crisis, then recovered during the year. Now 4% above long run averages. *- A new record.*



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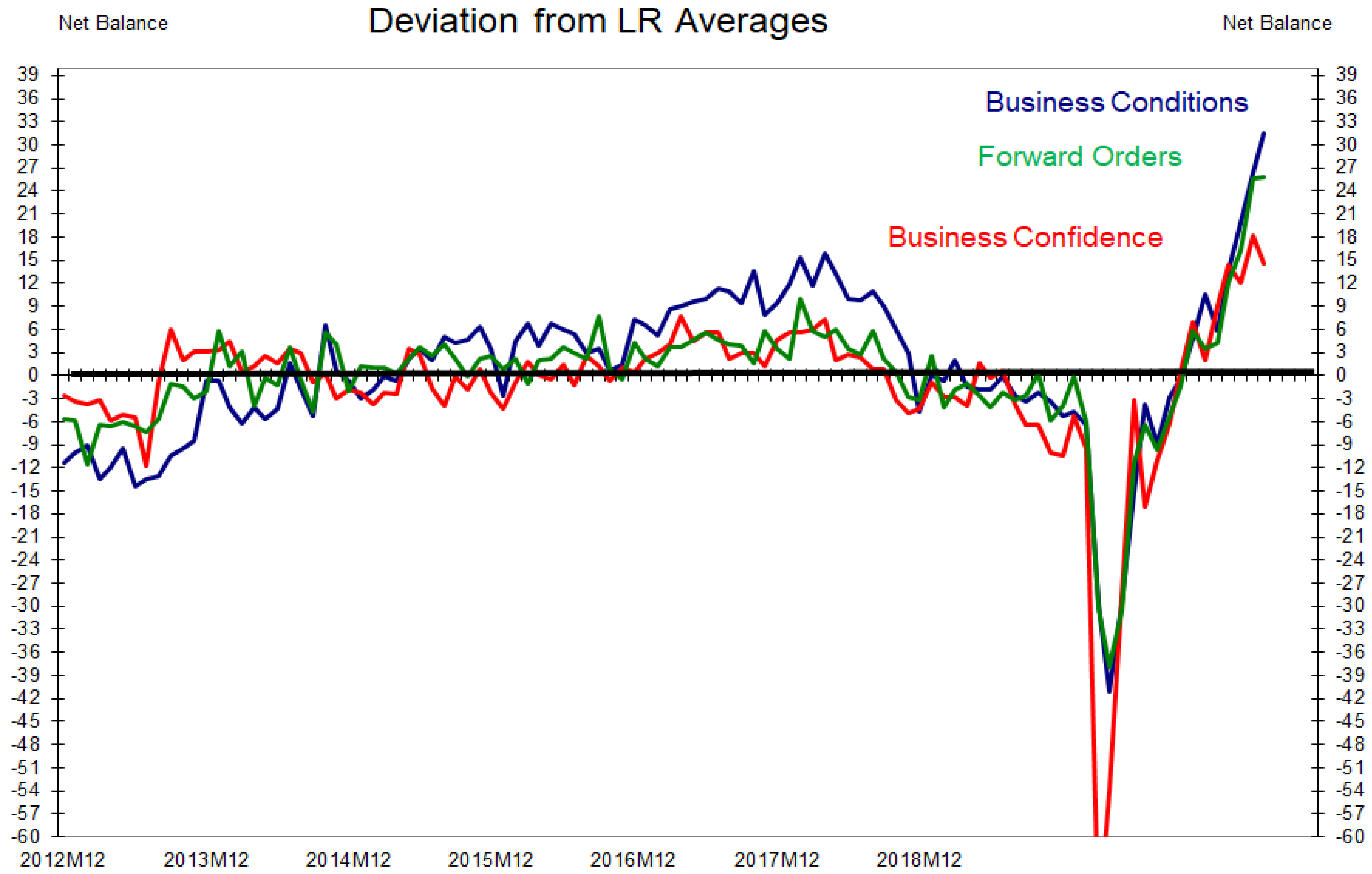
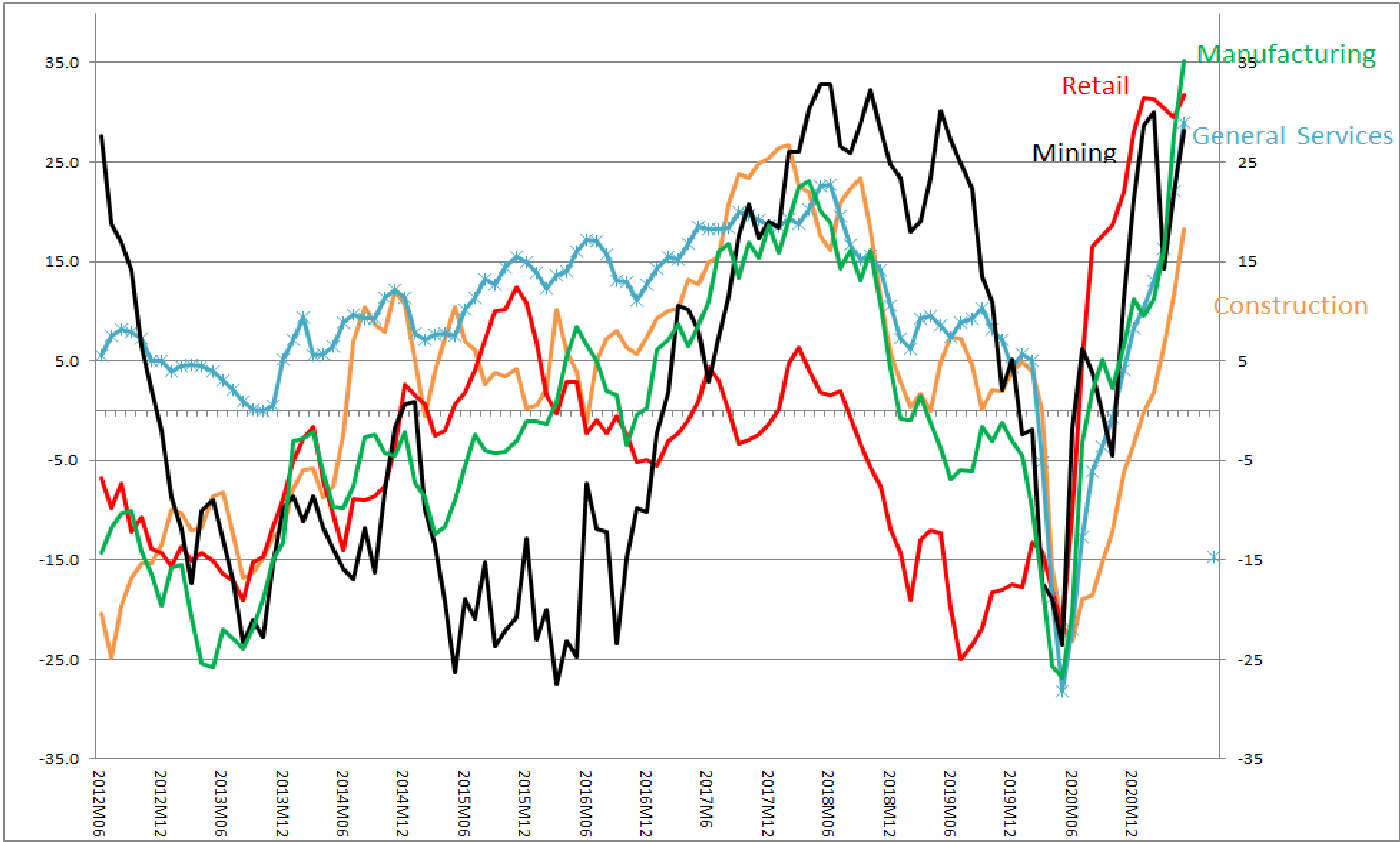
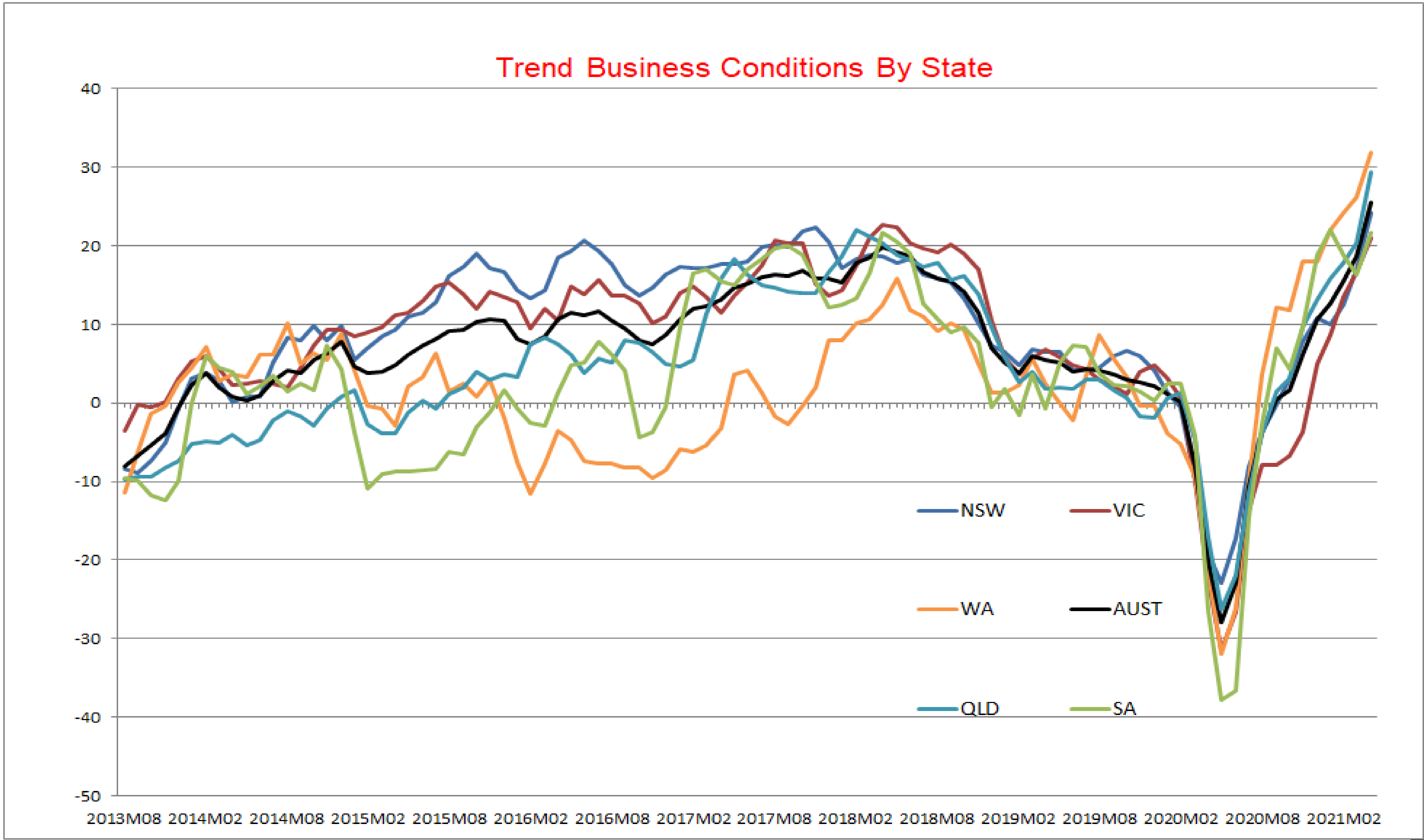
And it's a similar story *- for all the main indexes. Both conditions and forward orders at record highs and confidence close.*



And very broad based - *by industry* But unusual for manufacturing in the lead



And very broad based - *by region   QLD and WA at the top but others nearby*



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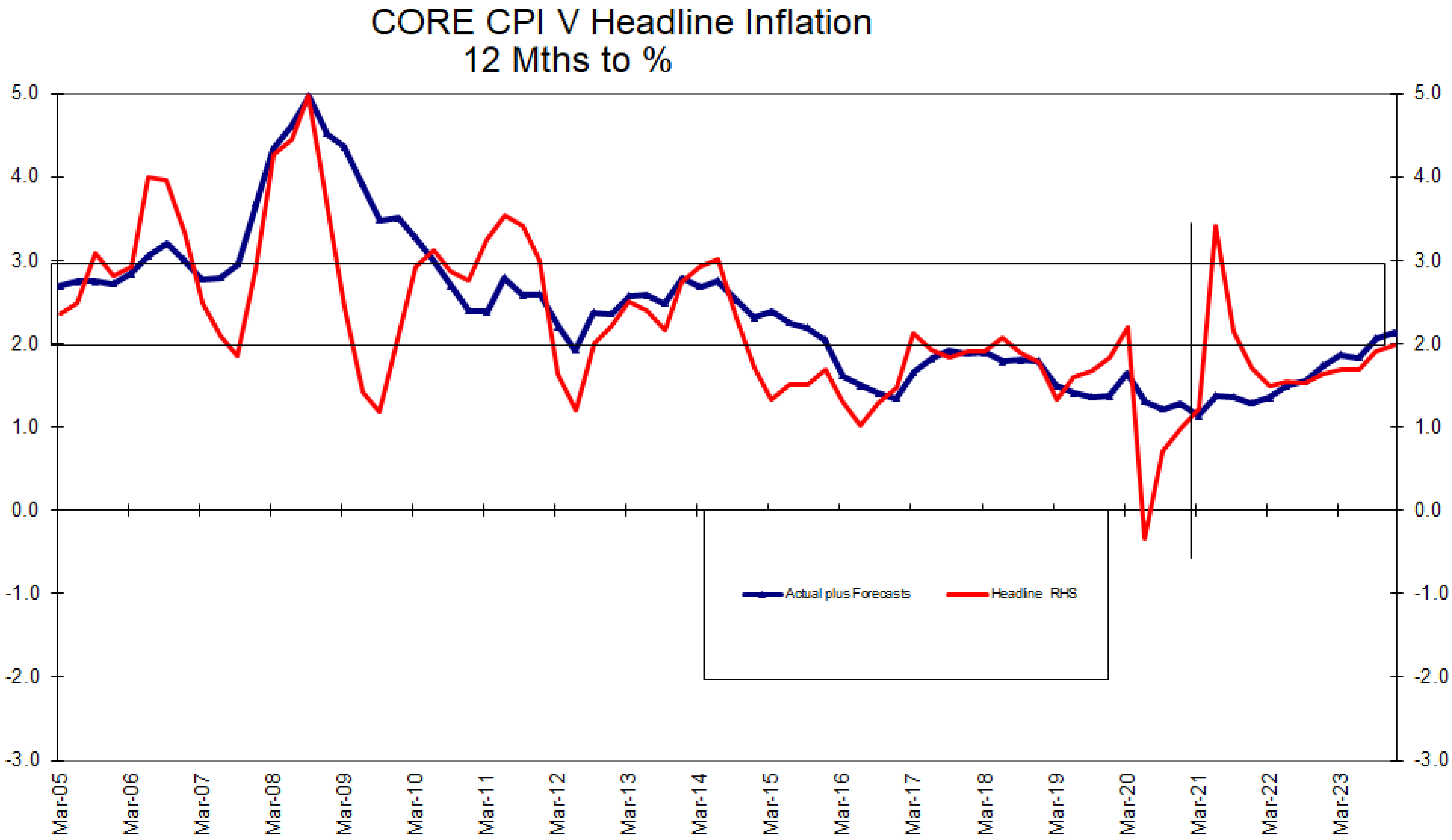
Expectation for wages growth is critical in the current environment. – *To get core inflation back on target you need 3%+ in wages. Unlikely for a long time. We expect core inflation of 1.3% in 2021 – with stronger AUD helping. Thereafter we see around 1½-2% to 2023.*



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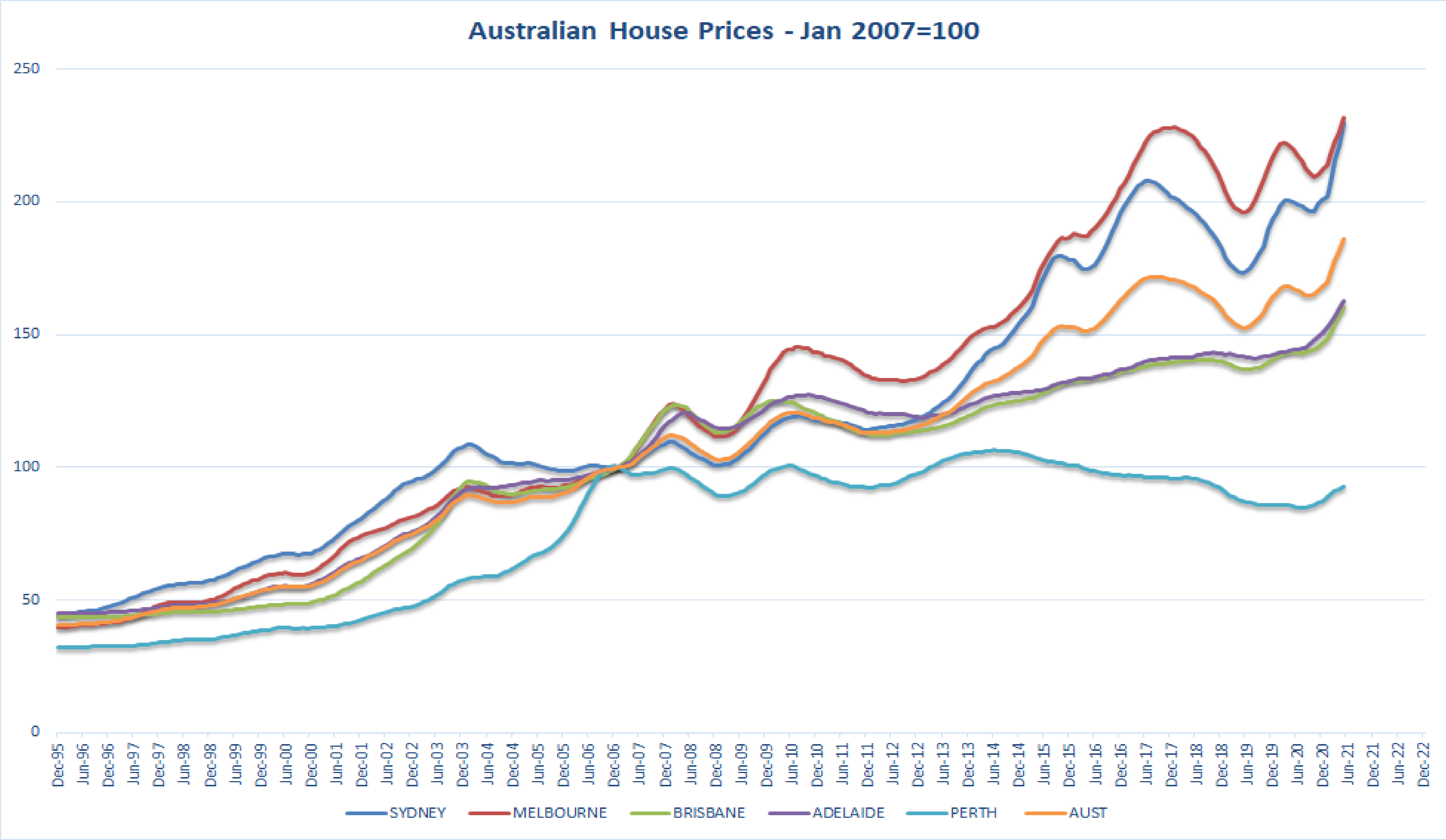
On house prices – *first an historical perspective. Basically back to previous peak in Melbourne. More than that in Sydney, Brisbane and Adelaide. Perth the laggard.*



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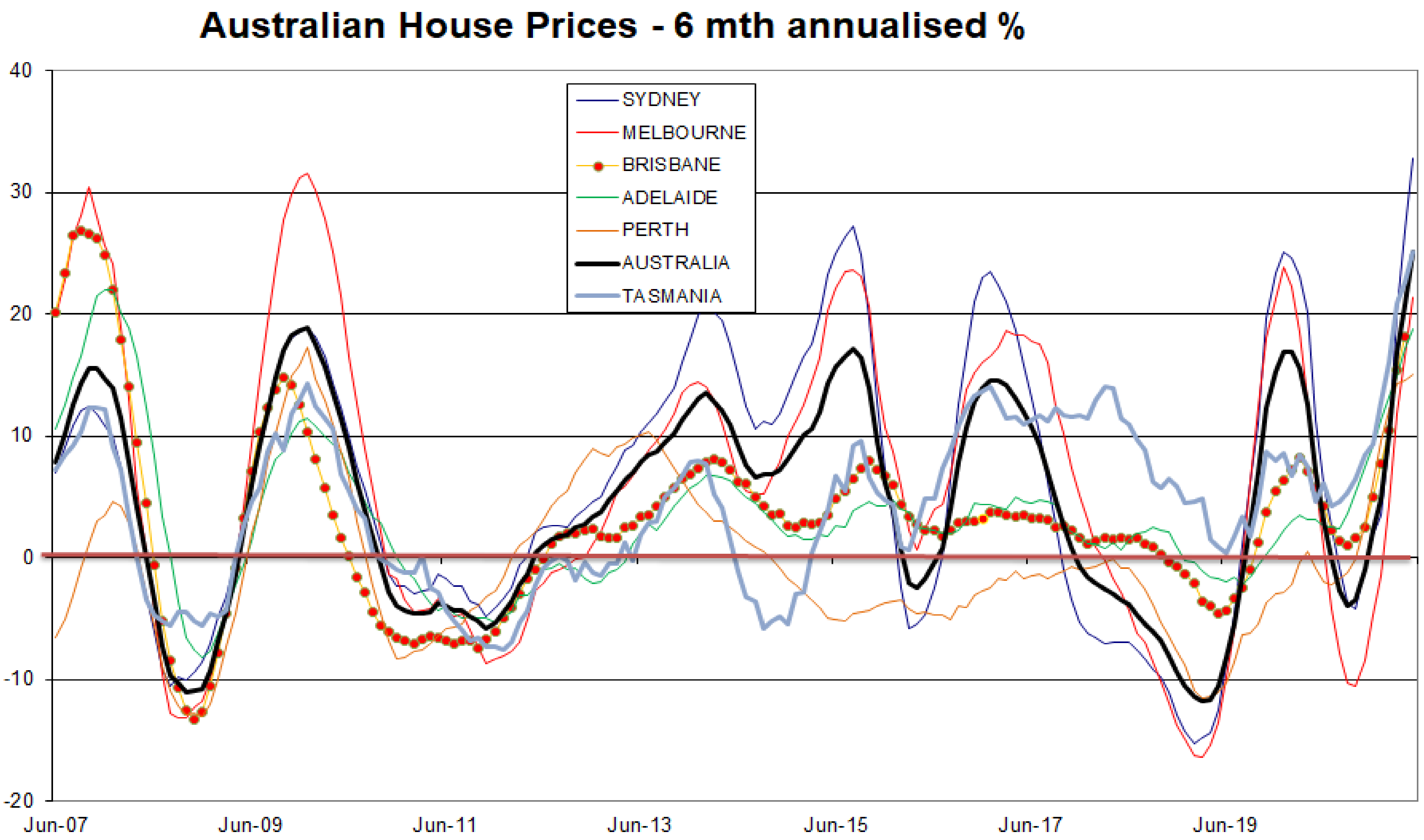
House prices clearly have significantly bounced from initial virus hit. And are now accelerating away very strongly – *Sydney up 30% at annualised rate while Australia above 20%. Only Perth lagging, on this measure – but still up 15%.*



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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 has come down a lot but is still elevated;
- Rents:
  - Were falling in most capitals but not any more.
- 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.

House Price Forecasts. - *We now expect house prices to rise by around 15% in most capital cities in 2021 (stronger in Melb, Syd and Bris) & around 6% in 2022. Faster in the regions. But weaker unit prices in Sydney/Melbourne.*

Houses

					Forecast	Forecast
	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Sydney	3.4	-10.0	6.1	4.0	17.4	7.4
Melbourne	11.3	-9.1	4.6	-2.0	18.8	6.2
Brisbane	2.5	0.4	0.4	4.6	16.2	6.2
Adelaide	3.2	1.3	-0.3	5.9	11.6	6.0
Perth	-1.2	-4.3	-6.7	2.0	13.6	6.0
Hobart	11.4	8.3	4.0	7.7	19.4	6.1
Cap City Avg	4.8	-6.7	2.9	2.6	16.2	6.4

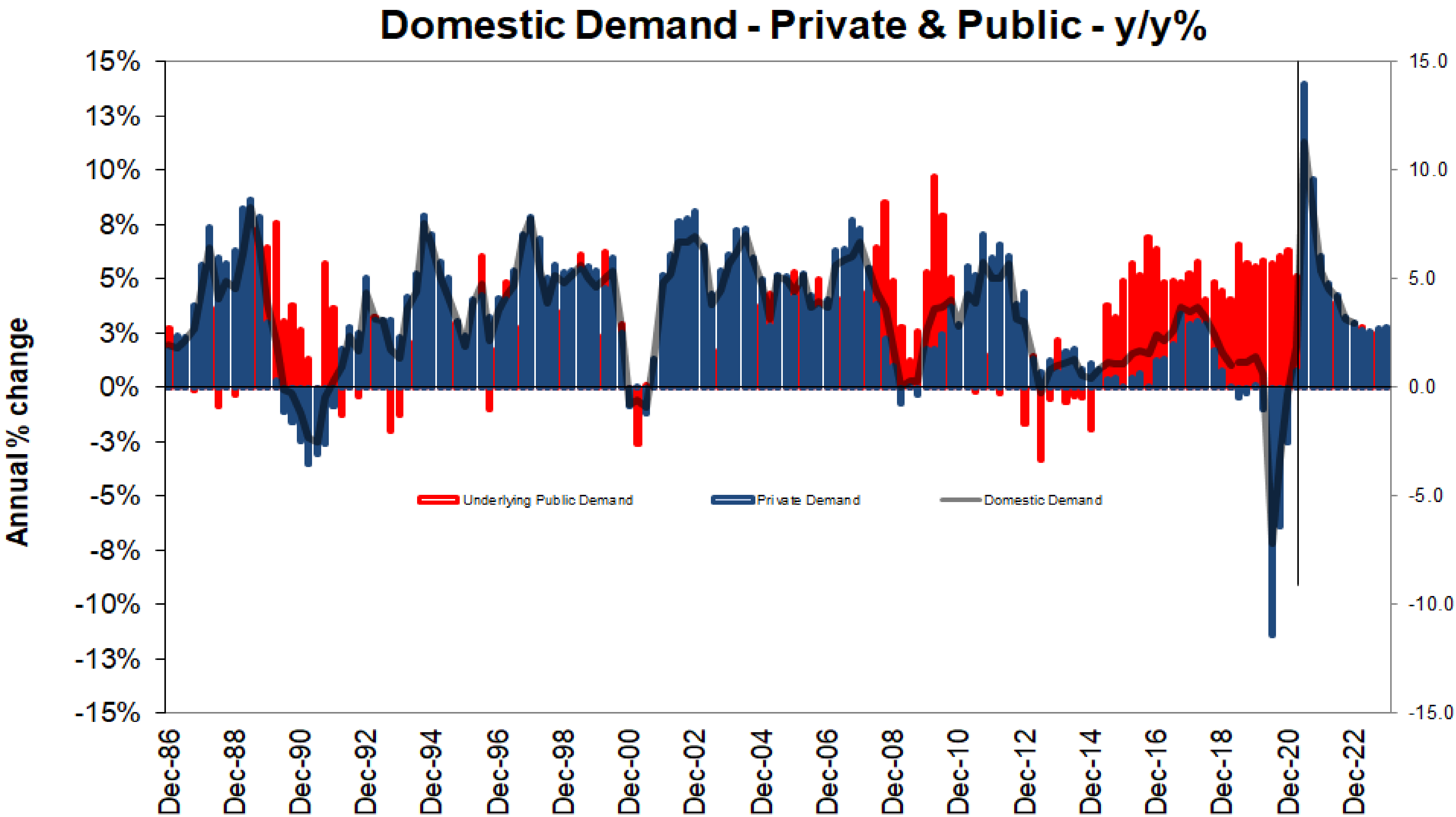
Dwellings

					Forecast	Forecast
	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Sydney	3.2	-8.9	5.3	2.7	14.0	6.0
Melbourne	10.2	-7.0	5.3	-1.3	16.2	5.5
Brisbane	1.8	0.2	0.3	3.6	15.2	6.2
Adelaide	2.5	1.3	-0.2	5.9	11.2	6.0
Perth	-1.7	-4.7	-6.8	1.9	13.1	5.6
Hobart	11.9	8.7	3.9	6.1	19.1	6.1
Cap City Avg	4.4	-6.1	3.0	2.0	14.1	5.8

Units

					Forecast	Forecast
	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Sydney	2.6	-6.3	3.4	-0.2	5.1	1.6
Melbourne	7.6	-2.3	6.5	0.0	4.9	1.8
Brisbane	-1.0	-0.7	0.1	-0.6	9.7	6.2
Adelaide	-1.2	1.7	0.5	5.6	8.7	6.0
Perth	-3.5	-6.5	-7.2	1.3	8.6	2.4
Hobart	13.7	10.2	3.9	0.0	15.7	6.0
Cap City Avg	3.2	-4.3	3.4	0.2	5.9	2.5

Going back to the big picture: *- The hit to private demand has been massive. Public spending critical to surviving. Private sector now taking over and investment , dwellings construction and manufacturing very important as consumption moderates.*



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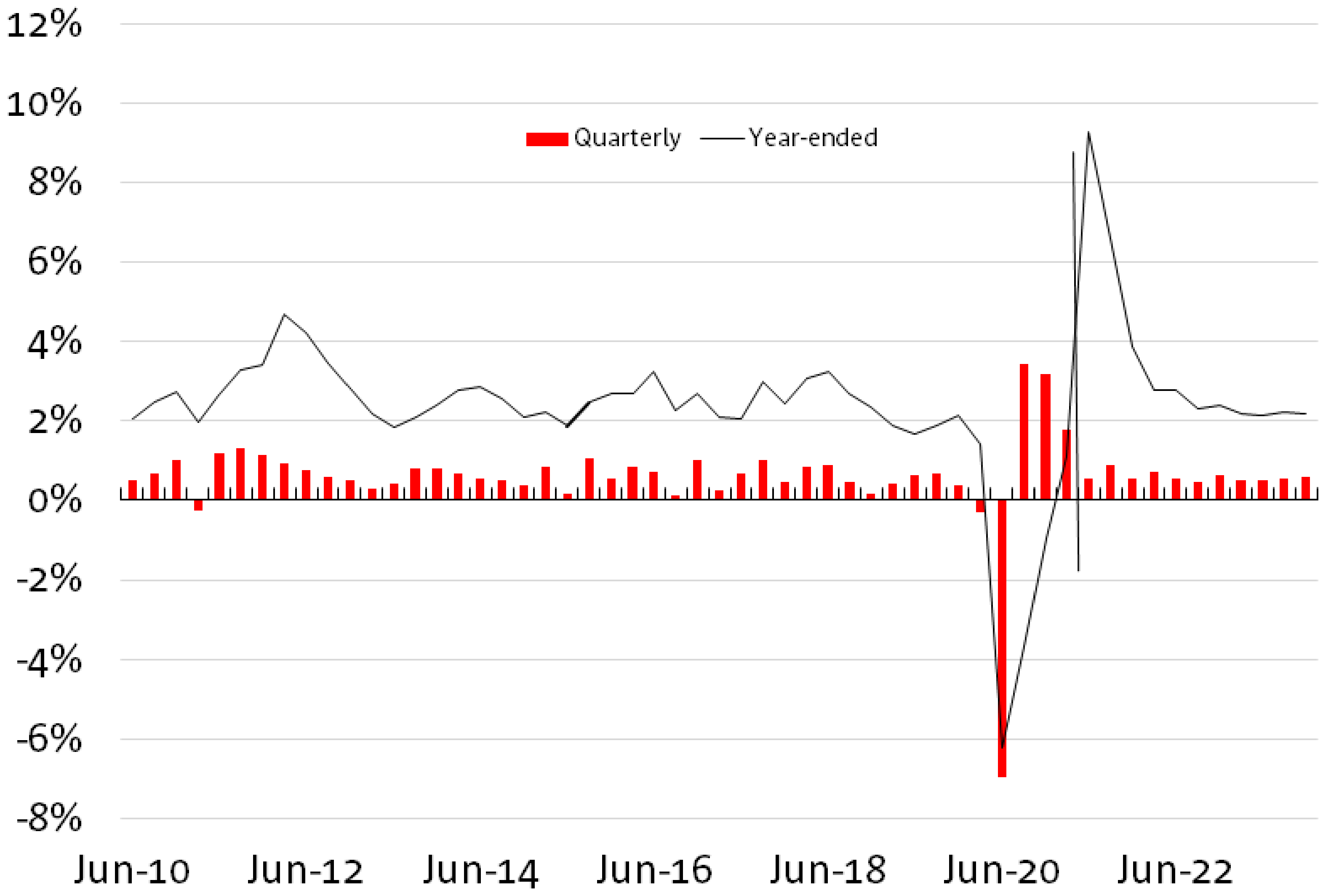
Our Growth Expectations. The snap back has been incredible. Q1 very strong but Q2 likely to be more moderate – as stock cycle moderates and consumption slows further But growth accelerating into H2. In the longer run *- 2023- more around potential.*



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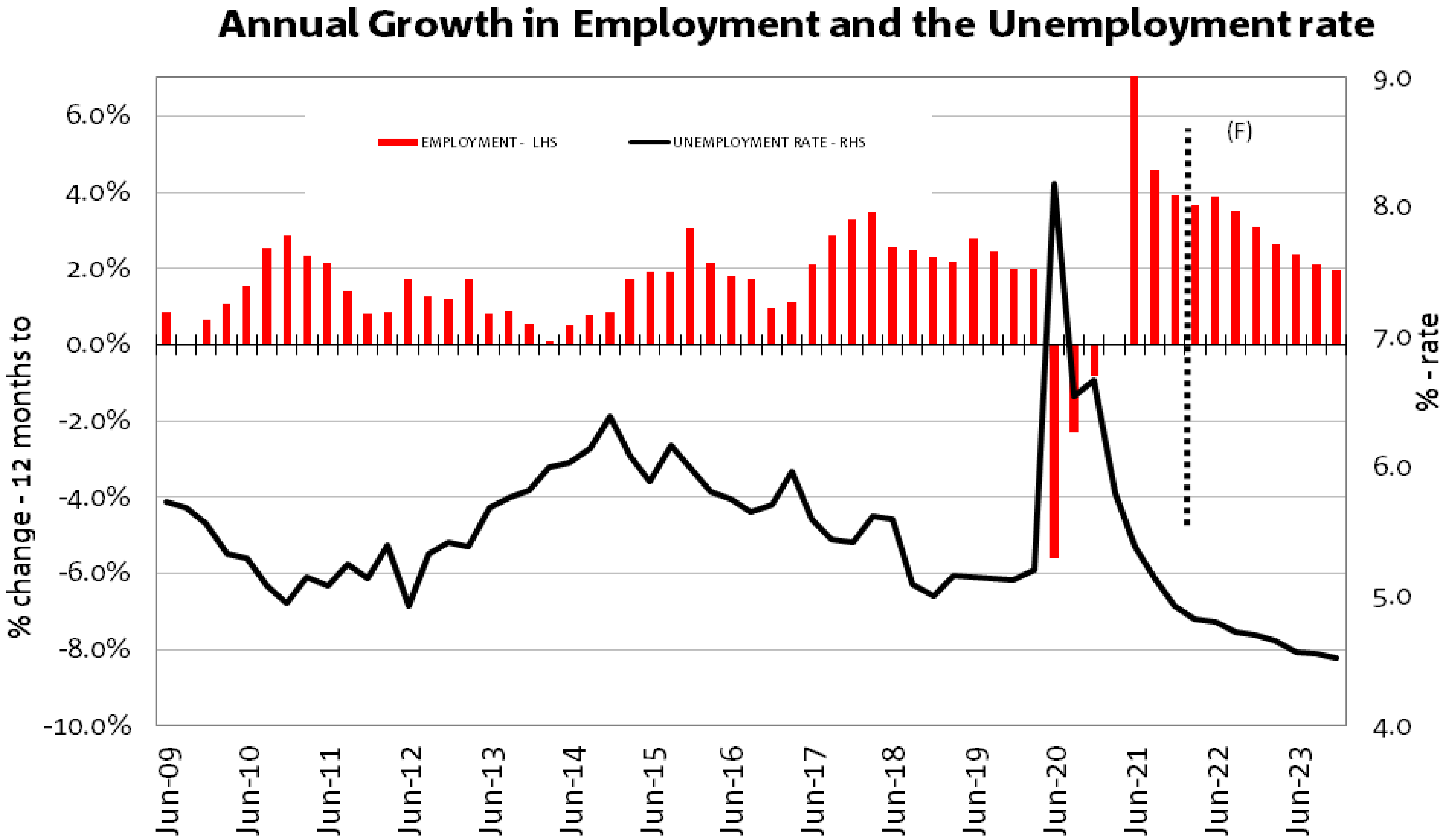
Despite impressive labour market return - *we won't be back to where we need to be (sub 4.5% unemployment) to get wages growth sufficient to increase inflation until late 2023 or 2024.*



On RBA

- RBA unlikely to increase rates till 2024 (or maybe late 2023).
- But will have to eventually taper QE purchases –decision in July;
  - After the next $100bn program is finished (September), we think another round of up to $75bn will be announced (or alternatively a longer period than the 6 months previously used by the RBA buy another $100bn).
- Current yield curve control will need to change – again announced in July;
  - A technical response not to be buying 3 year bond dated beyond April 2024;
  - By then rate rises might be close.
- The critical variable re timing is wages (when will it accelerate to 3%+).
- So bottom line, RBA keeping policy as stimulatory as possible – and will respond to actions of other central banks.

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