

THE FORWARD VIEW – GLOBAL

JUNE 2021



National Australia Bank

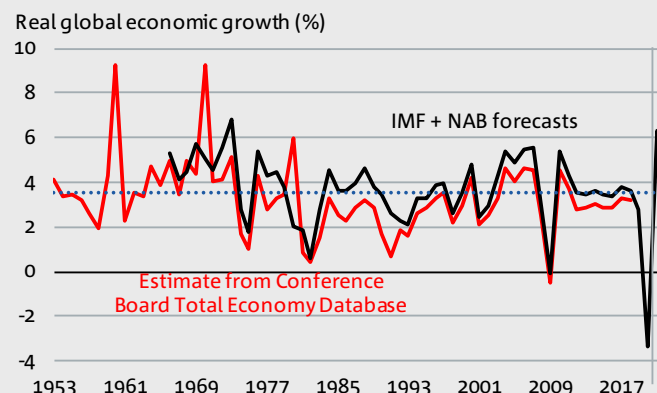
Advanced economies continue recovery, as EMs face further COVID-19 struggle

- Recent trends for new COVID-19 cases have been encouraging for many advanced economies, in stark contrast to upturns in South America and parts of Asia. Google Mobility data for India shows a sharp contraction in activity in recent months, which point to downside risk to our strong forecast growth for 2021. Access to vaccines remains highly uneven, meaning that the overall global recovery will continue into 2022, before slowing to its long term trend (3.5%) in 2023.
- Inflationary pressures are coming through global supply chains – as surging commodity prices and shortages of inputs drive up producer prices. These supply side pressures are contributing to the upturn in consumer price inflation. This will not necessarily result in central banks lifting policy rates, as some inflationary pressure is likely temporary and many central banks will tolerate slightly above target inflation, particularly while unemployment remains elevated.
- In Q1 2021, major advanced economies diverged even further in their recovery from last year’s recession. While US GDP growth accelerated, and Canada recorded another solid result, GDP declined qoq in the Euro-zone, UK and Japan. While conditions are still mixed, we expect rapid growth to occur across all the major AEs at some stage this year as vaccinations roll-out and case numbers are brought under control, leading to a sustained easing in activity restrictions.
- When compared with the strength of aggregate readings for the advanced economies, PMI surveys for emerging markets are softer – in a large part reflecting China’s more rapid recovery from COVID-19 in 2020 and its slower subsequent growth. The latest readings for May were weaker, driven by India, reflecting the impact of measures to slow the spread of COVID-19. Tighter restrictions have also been introduced in other parts of Asia (including Singapore, Taiwan and Malaysia).

Global Growth Forecasts (% change)

	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

Uneven recovery from COVID-19 will stretch into 2022



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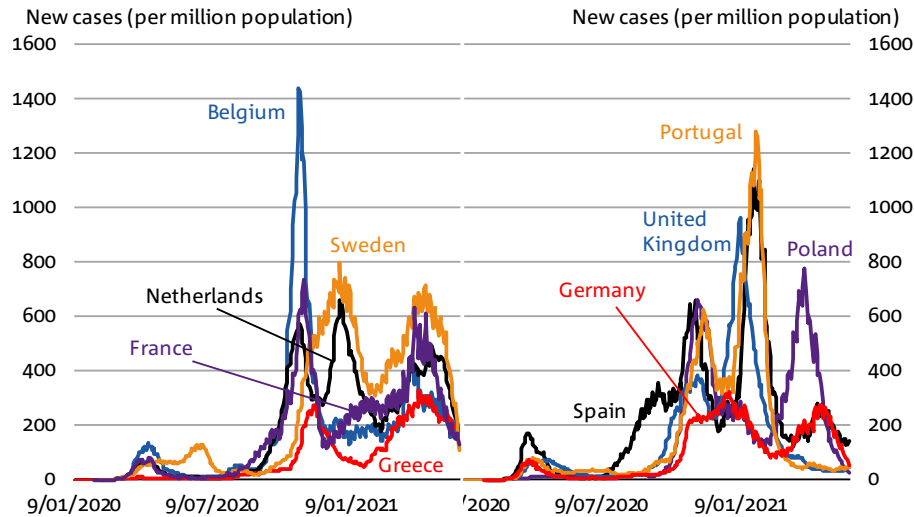
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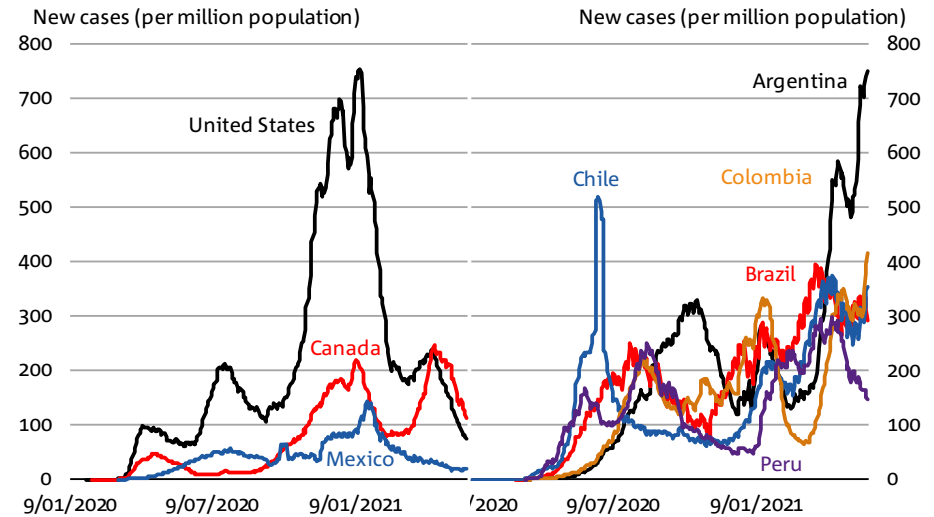
CHARTS OF THE MONTH

COVID infections in retreat in Europe and North America, but negative trends in much of South America and Asia (despite earlier success in the latter). Access to vaccines remains an issue, with higher vaccination rates (in general) in advanced economies

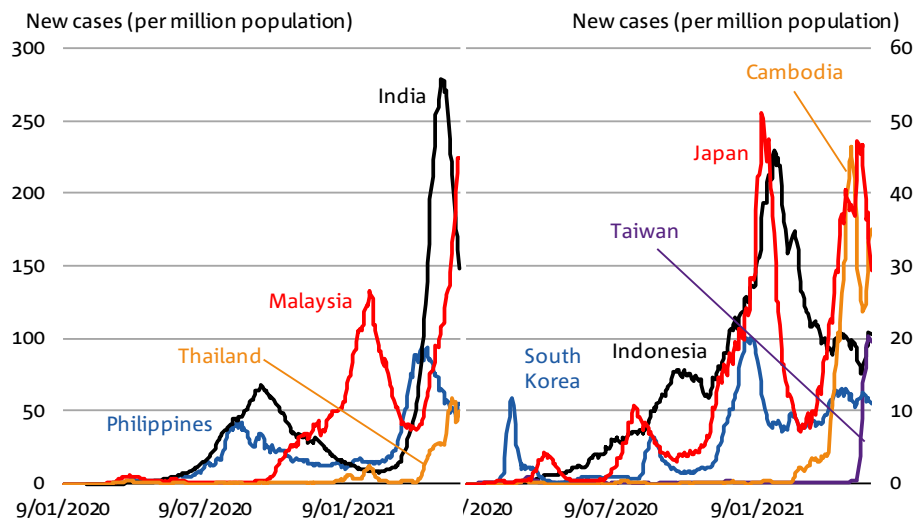
New case numbers in Europe have been trending lower with various restrictions and vaccine rollouts helping



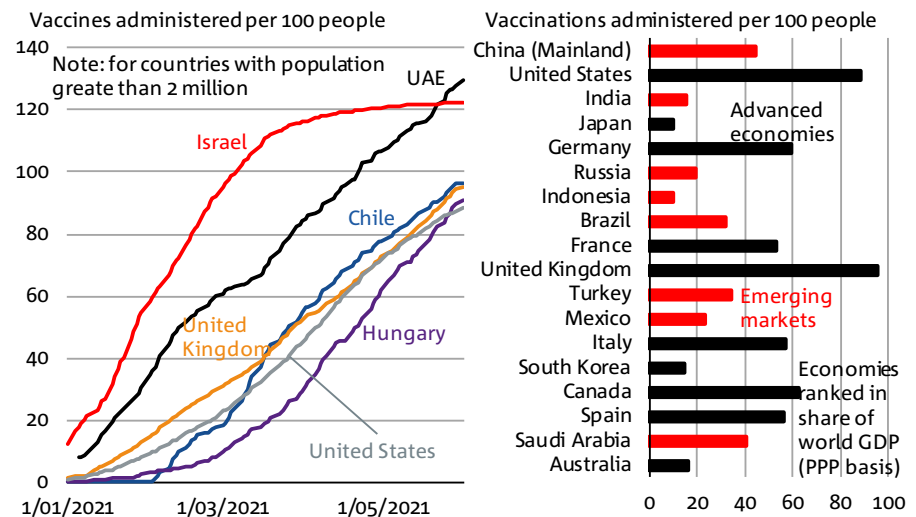
The Americas starkly highlight the haves and have-nots, with higher new case numbers in South America



Recent trends in Asia have been more negative, including in countries that performed better earlier in the pandemic



Advanced economies generally leading the vaccine race, with emerging markets

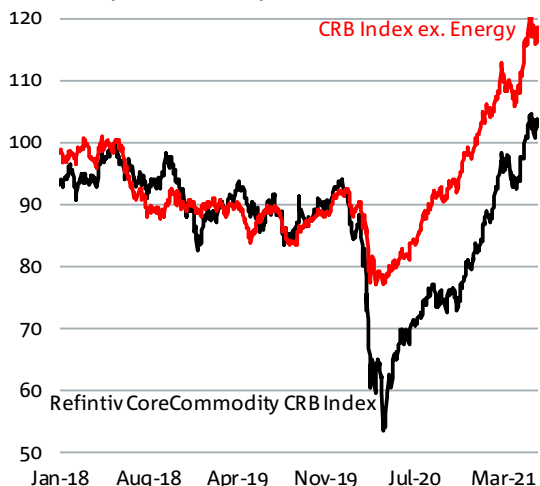


FINANCIAL AND COMMODITY MARKETS

Inflationary pressure coming through supply chains, but policy rates generally remaining low

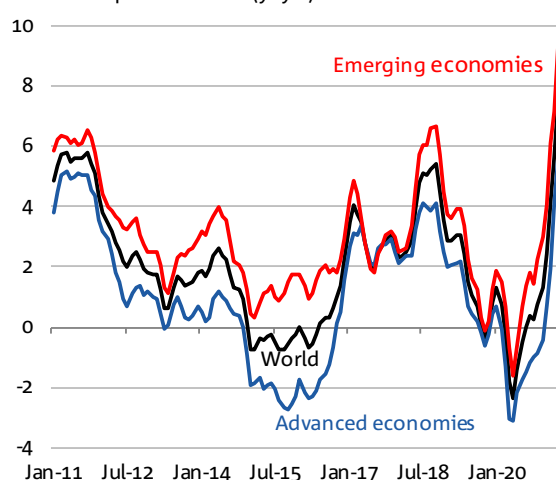
Commodity price indices have surged to multi-year highs...

Commodity indices (23 May 18=100)



...flowing through into higher producer prices

Producer price inflation (yoy%)



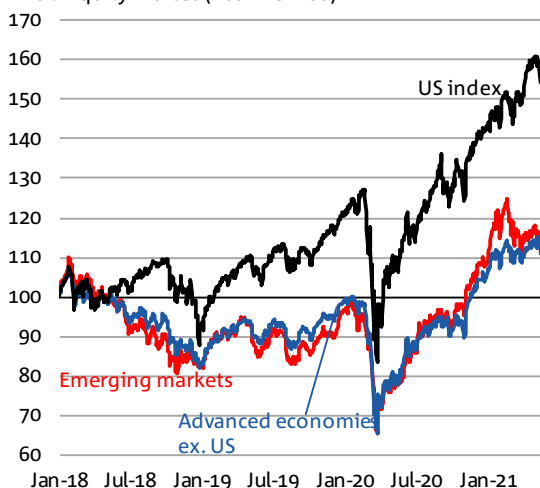
Limited pressure to lift policy rates beyond selected EMs

Average central bank policy rates (%)



Equity markets recovered from mid-May slump

MSCI Equity Indices (1 Jan 18=100)

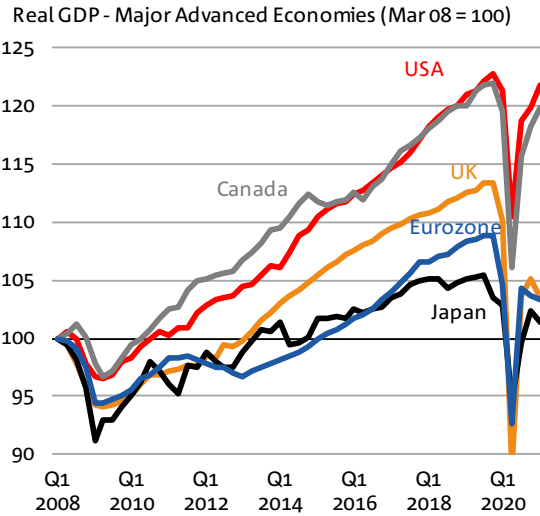


- Global commodity price indices have continued to trend higher. In early June, the Refinitiv CoreCommodity CRB Index rose to its highest level since July 2015. That said, trends have been mixed – with copper rising to all time highs, while crude oil remained in the mid-US\$60s range, following OPEC+ confirming that it will gradually ramp up oil production. Generally, strong demand from China, along with some supply constraints, has pushed commodity prices higher.
- Rising commodity prices, along with supply shortages of inputs such as semi-conductors, have contributed to the upturn in producer price indices. In April, our measure of global producer prices rose by 7.5% yoy, compared with 5.7% yoy in March and less than 1.0% in November 2020. The increases in producer prices have been more significant in emerging markets.
- These supply side pressures are contributing to the upturn in consumer price inflation – with prices up around 3.3% yoy globally in April (again led by emerging markets). It is worth noting that the increase in core CPI was lower, at around 2.5% yoy globally.
- Rising inflation expectations (in part reflected in rising government bond yields between January and March) do not necessarily mean that central banks will tighten policy rates. Inflation remains below target for some (e.g. in Japan), some inflationary pressure is likely temporary, while other central banks will tolerate slightly above target inflation, particularly while unemployment remains elevated. For example, the US Federal Reserve intends to keep the fed funds rate close to zero until inflation is moderately above 2% “for some time” and the labour market recovers. While this should limit the pressure on other central banks to raise rates, there are exceptions. The central banks of Brazil, Russia and Turkey have hiked rates in recent months.
- Major central banks are likely to taper asset purchase programs before they raise rates; indeed, in April the Bank of Canada reduced its weekly purchase target. We expect the US Federal Reserve to begin tapering in Q1 2022, but with the risk it occurs a bit earlier
- Equity market indices corrected in mid-May before subsequently recovering. The US MSCI index was at record highs prior to the correction and returned to levels near this peak by the end of the month. Other advanced markets recovered more strongly – pushing above its pre-GFC peak for the first time in early June. EM equity markets trended higher across the second half of the month, but remain below peaks recorded in February 2021.

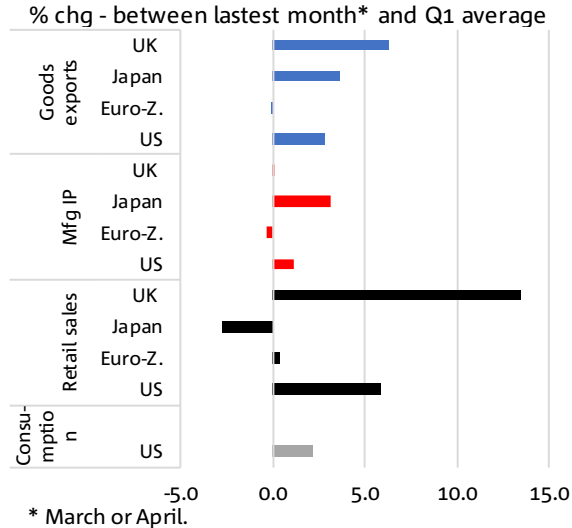
ADVANCED ECONOMIES

Mixed fortunes in Q1/early Q2 but recovery should become more entrenched over the year

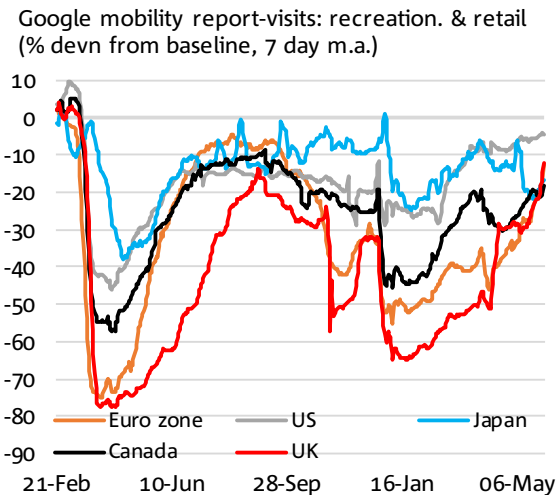
Speed of recovery across the major AEs has diverged



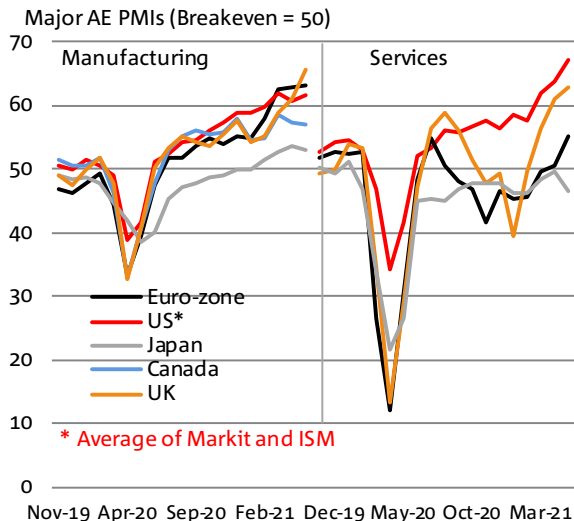
Activity indicators looking strong for Q2 in UK and US



Mobility indicators improving outside Japan; big gains in Europe



PMIs looking strong across the major AE's (ex Japan services)



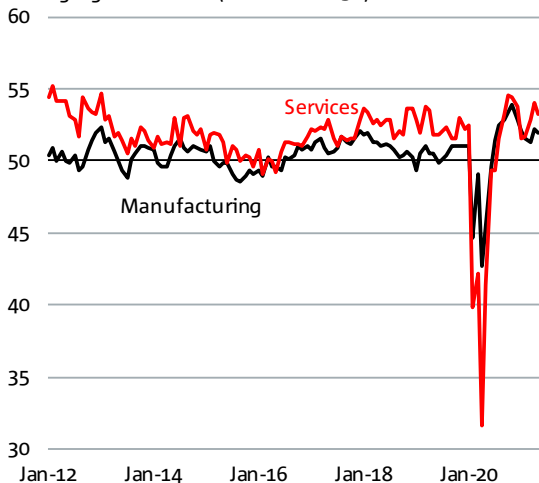
- In Q1 2021, major advanced economies diverged even further in their recovery from last year's recession. While US GDP growth accelerated, and Canada recorded another solid result, GDP declined qoq in the Euro-zone, UK and Japan. While conditions are still mixed, we expect rapid growth to occur across all the major AEs at some stage this year as vaccinations roll-out and case numbers are brought under control, leading to a sustained easing in activity restrictions.
- Activity data either at the end of Q1 and early Q2 are somewhat mixed in terms of what they imply for Q2. US retail sales soared in March (and were flat in April), as did UK retail sales in April as 'non-essential' retailers re-opened. Exports are also rising in both of these countries. A large fall in Japanese retail sales in April suggests that the latest state of emergency – set to run until 20 June – is weighing on consumers, although manufacturing (reflected in trade and industrial production) is doing better. The Eurozone is soft, as it is too early to see the recent easing in restrictions in April data.
- High frequency indicators, such as Google Mobility data, provide a guide as to how COVID-19 related restrictions are impacting on the economy. The most notable change has been the rapid improvement in UK mobility since mid-April and a bit later, the Euro-zone. In contrast, in Canada there was a dip in April as Ontario & other areas re-introduced COVID-19 restrictions; Statistics Canada preliminary estimate is that monthly GDP declined 0.8% m/m in April. Mobility in Japan has dipped following the state of emergency.
- Business surveys also provide a guide on how economies are tracking. In the case of the US, UK and the Euro-zone they are at strong levels (if not record highs). While manufacturing has been outperforming for a while, the lifting in restrictions has seen a major turnaround in service sector PMIs outside of Japan.
- Economies are also being supported by accommodative fiscal policy and low interest rates. US fiscal policy stimulus in particular ramped up in late 2020 and even more so in March 2021. The US President has put forward further spending plans although whether they will pass Congress remains unclear.
- The increasingly advanced vaccination roll-outs offers the prospect that the recovery underway will prove more durable. A risk comes from the possibility that existing vaccines may be ineffective against a future COVID-19 variant.

EMERGING MARKET ECONOMIES

Mixed conditions in EMs, as India attempts to combat its second COVID-19 wave

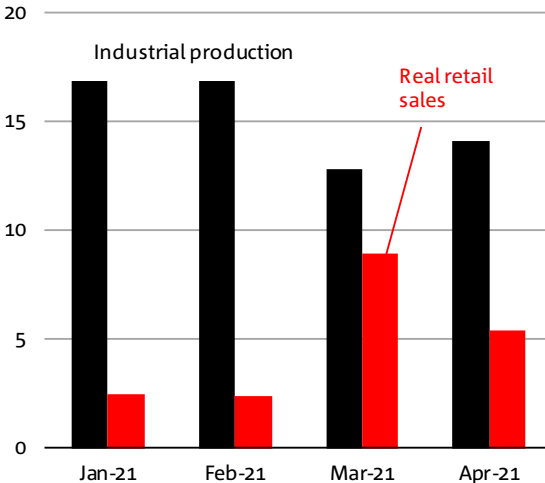
EM PMI readings are softer than those of their AE peers

Emerging market PMI (Breakeven = 50)



China's uneven recovery, where consumption still lags

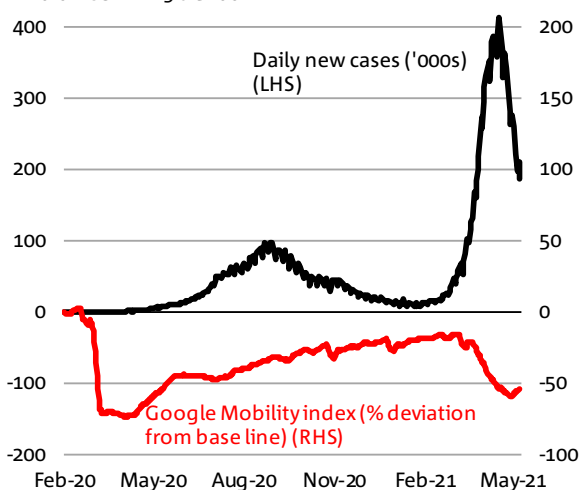
% change in Chinese indicators (2021/2019)



- When compared with the strength of aggregate readings for the advanced economies, PMI surveys for emerging markets are softer – in a large part reflecting China's more rapid recovery from COVID-19 in 2020 and its slower subsequent growth.
- The EM manufacturing PMI edged down slightly – to 52.0 points (from 52.2 points in April) – but remains in expansionary territory. India's manufacturing survey was considerably weaker, however this was largely offset by stronger readings in Russia, Brazil and Indonesia.
- The EM services PMI also softened a little in May – at 53.2 points, from 54.0 points previously – with the Indian measure plunging to 46.4 points (from 54.0 points in April), reflecting the impact of measures to slow the spread of COVID-19.
- China's recovery from the COVID-19 downturn has been uneven, driven by surging industrial output, while growth in retail sales has lagged. This type of growth is reminiscent of China's development model prior to 2013, and rebalancing growth back towards consumption will be a key challenge for Chinese authorities going forward.
- India – the world's third largest economy – grew modestly in Q1, increasing by 1.6% yoy. However, various Indian states implemented lockdowns in Q2 to counter the country's second wave of COVID-19 infections, which will disrupt its economic recovery. While we anticipate these measures will have a less negative impact on India's economy than its earlier lockdown (given the ability of businesses and consumers to adapt), the sharp downturn in Google Mobility data point to downside risk to our forecasts.
- Global trade data are available up to March 2021 and show a 8.4% yoy increase in EM trade volumes, down from 18.2% yoy in February. The slowdown in growth reflects base effects – with a month-on-month increase in EM export volumes in March 2020, as China's industrial economy commenced and before larger falls in exports from other EMs across April and May 2020.
- There remains a clear distinction between the growth in exports from emerging Asia – led by a 42% yoy increase (on a three month moving average basis) from China and a 10.6% yoy (3mma) increase in other EM Asia – and non-Asian EMs, where export volumes contracted by 2.9% yoy (3mma) in March. In part, this reflects the region's importance in the manufacturing of electronics.

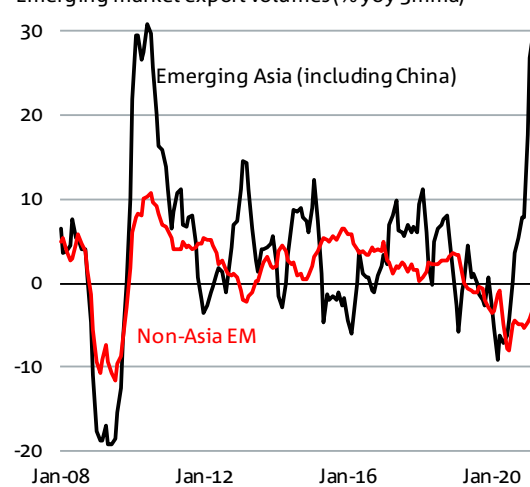
Mobility readings have slowed as India counters COVID-19 outbreak

Indian COVID-19 trends



Asia continues to outperform other EM regions

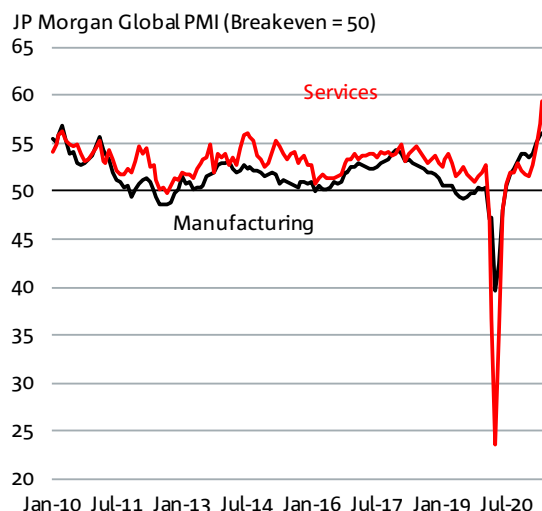
Emerging market export volumes (% yoy 3mma)



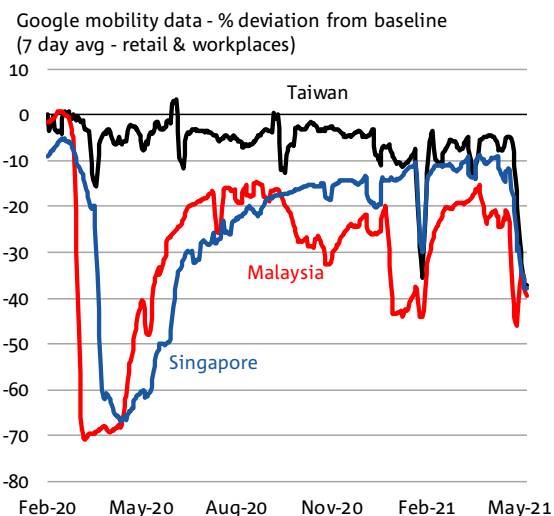
GLOBAL FORECASTS, POLICIES AND RISKS

Soaring business surveys indicators overlook uneven recovery, with vaccine distribution remaining an issue

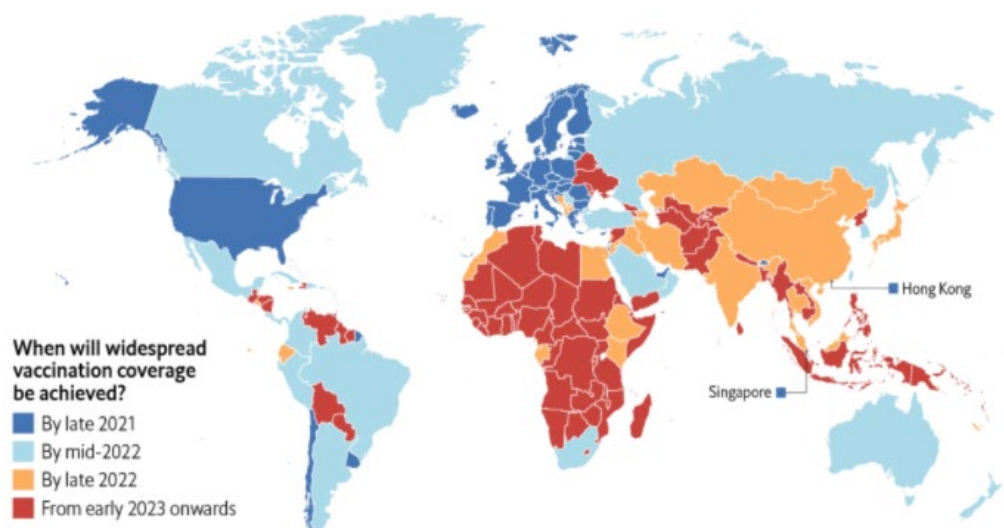
Advanced economies drive global PMI to 15 year high



But recovery is uneven – with parts of Asia back into lockdown



The uneven spread of COVID-19 vaccines presents risk of further economic disruption, particularly in lower income EMs



- Business surveys point to a continued recovery in the global economy – with the JP Morgan global composite PMI at 58.4 points, the highest level since April 2006. Despite this strength, there are considerable differences in economic performance, with the overall measure weighted heavily towards advanced economies, particularly the United States. A range of emerging market economies, most notably India, have implemented restrictions to control the spread of COVID-19 in recent months, which will negatively impact economic growth in these countries.
- COVID-19 remains the most significant risk to the global economic outlook. Delays in the rollout of vaccines globally still allow for major virus outbreaks, leading to restrictions that disrupt the economic recovery. Broadly, measures are being reduced across much of Europe (as the most recent wave of infections recede), however tighter restrictions are being introduced in parts of Asia (including Singapore, Taiwan and Malaysia).
- Reflecting the impact of COVID-19 countermeasures in Q2 2021, we have trimmed our forecast for India this year to 9.0% (from 10% previously). The weaker rate of growth this year means that we revised our forecasts slightly higher for 2022, as India and Japan’s recoveries are pushed out.
- Overall, our 2021 forecast for global economic growth is unchanged – with a weaker outlook for India, Japan and, to a lesser extent, Canada offset by stronger forecasts for the United Kingdom, the Euro-zone and Latin America. We expect the global economy to expand by 6.3% this year before growing by 4.6% in 2022. We expect global growth to slow back to its long term average of 3.5% in 2023.
- According to the Economist Intelligence Unit, advanced economies, led by the United States and the bulk of Europe, are likely to achieve widespread vaccination (60-70% of the population) between late 2021 and mid-2022 – with Japan notably lagging. Japan, along with most of Asia, is expected to reach this level by late 2022, while most of Africa and the remainder of Asia are tipped to achieve this level from early 2023 at the earliest.
- The longer it takes to achieve widespread vaccination presents a greater risk of further virus mutation that may spread faster, increase the likelihood of death or long term illness or prove more resilient to current vaccines.

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