

THE FORWARD VIEW – GLOBAL

JULY 2021



National Australia Bank

Advanced economies open up again; can vaccines ensure it's for the last time?

- Financial condition indices continue to point to accommodative policies – with fiscal and monetary authorities in most jurisdictions favouring growth, despite rising inflationary pressures. These pressures reflect rising commodity prices along with some supply and labour shortages, with some of these factors likely to be temporary. As a result, we continue to expect major central banks to keep policy rates low, with initial adjustments to policy settings to be in the form of asset purchase tapering.
- Relatively strong global business survey readings (albeit off the peaks in May) are skewed towards the opening-up advanced economies. Consumption indicators have improved in line with easing restrictions in the United States and Europe, while Japan is the notable exception (with retail sales well down recently).
- In contrast, surveys for EMs have softened, reflecting China's comparatively rapid recovery from COVID-19 – meaning that there is no longer the opportunity for more rapid catchup growth – but also the impact of fresh outbreaks of the virus in a range of emerging markets.
- COVID-19 remains the most significant risk to our global outlook. Much of the emerging world remains vulnerable to additional waves of the pandemic due to low vaccination rates (largely the result of poor access to the vaccines) and this is unlikely to be resolved before late 2022 at the earliest. There is some growing concern that newer COVID-19 variants (such as the Delta and Lambda strains) appear to be more easily transmitted – potentially requiring higher than previously thought rates of vaccination to achieve herd immunity.

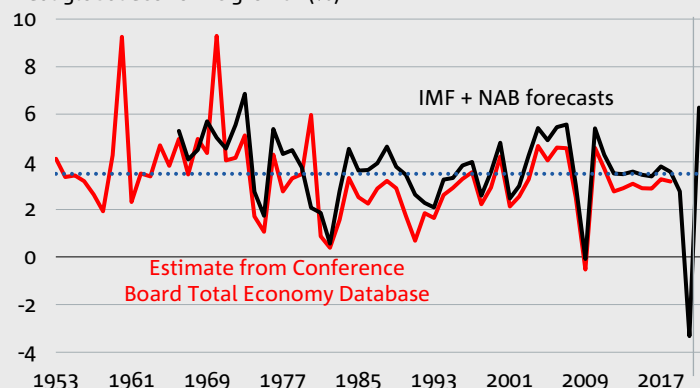
Global Growth Forecasts

(% 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	2.4	3.7	1.0
UK	1.4	-9.8	7.4	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	5.6	2.4	1.7
Other East Asia	3.5	-2.9	5.1	4.8	4.7
Australia	1.9	-2.4	5.0	2.5	2.2
NZ	2.4	-2.9	5.6	2.9	1.9
Global	2.8	-3.3	6.3	4.6	3.5

Global growth to remain strong in 2022 as disruptions continue to delay the recovery

Real global economic growth (%)



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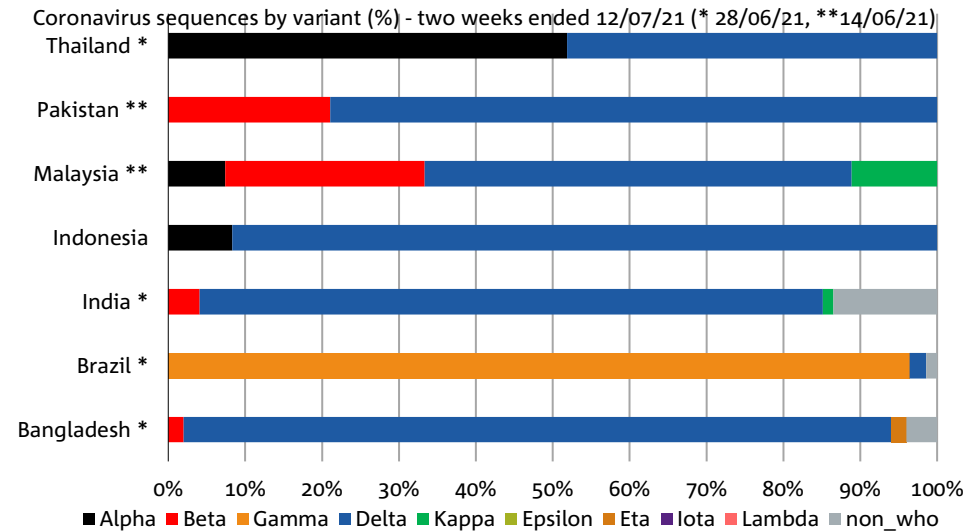
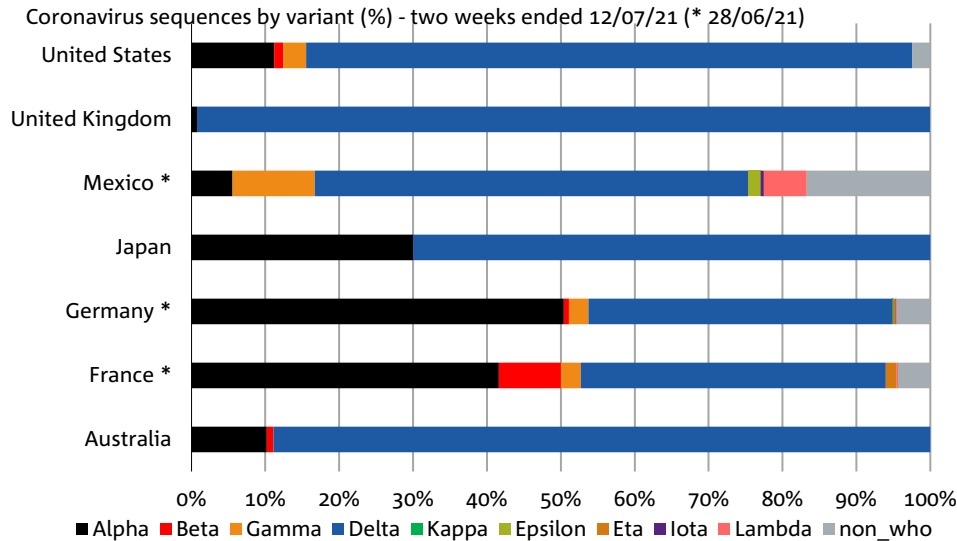
AUTHORS

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CHARTS OF THE MONTH

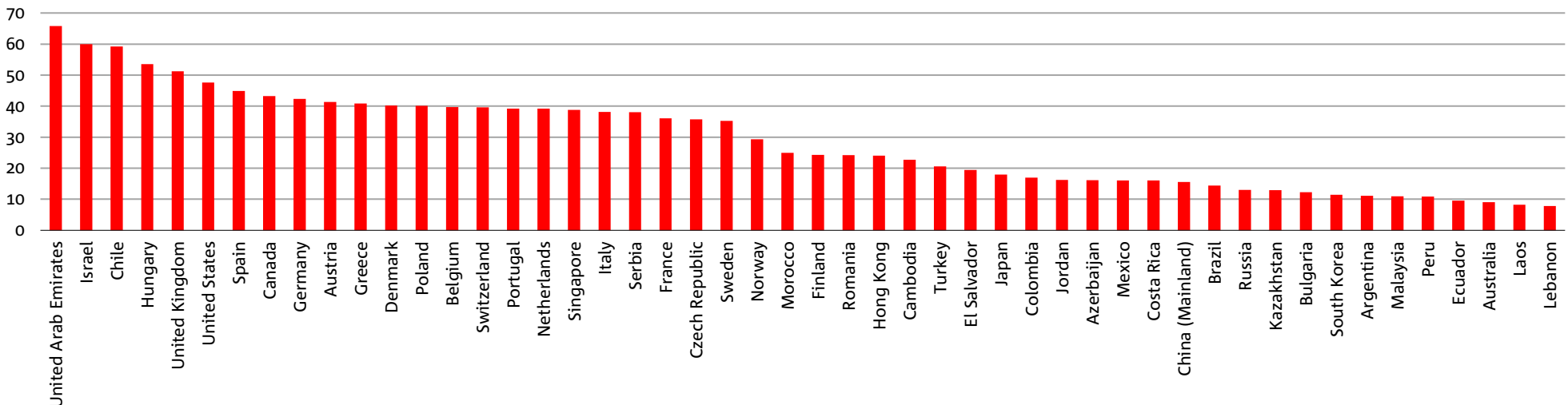
COVID-19 remains the key risk to the global outlook, with evolving variants increasing the requirements to vaccinate populations

COVID-19 continues to evolve. The Delta variant is either the dominant strain, or soon will be, in most reporting countries, with Brazil the notable exception (where Gamma is the leading variant). Lambda's rise in Mexico is getting attention.



Recent studies suggest common two-dose vaccines still effective against new variants (primarily Delta) but first dose has considerably less protective benefit. This suggests an increasing urgency to get populations fully vaccinated.

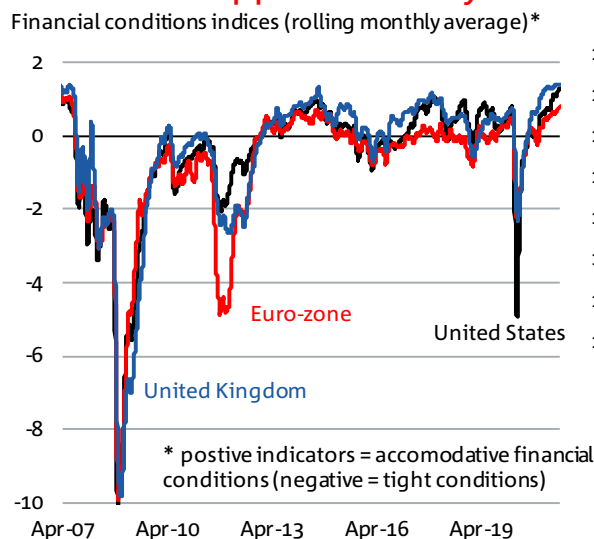
Fully vaccinated population (%) - countries with population greater than 5 million



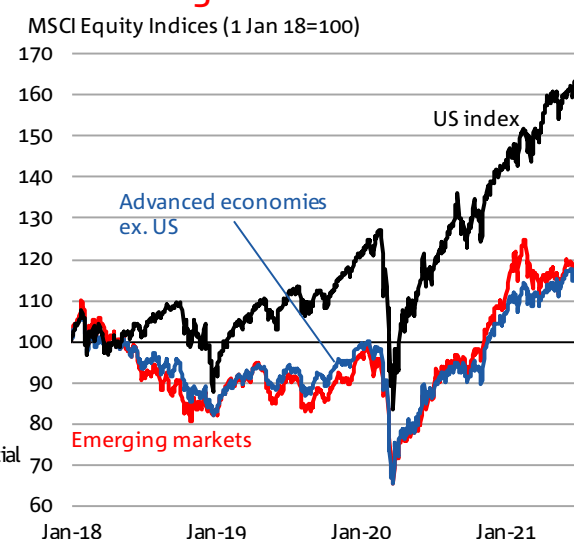
FINANCIAL AND COMMODITY MARKETS

Supply side pressures continue to drive inflation, but major central bank policy rates are on hold

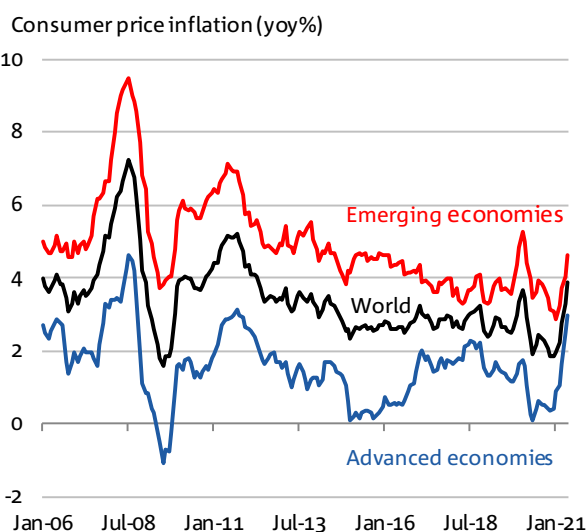
Accommodative financial conditions support recovery



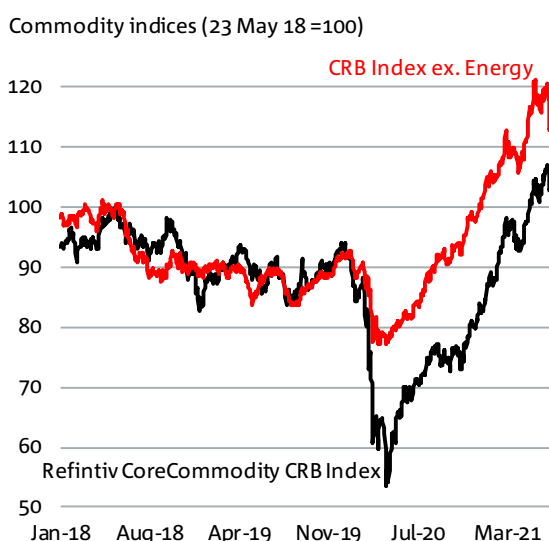
US markets drive global equity markets higher



Consumer price growth at multi-year highs



Crude oil drives commodity prices to six year highs

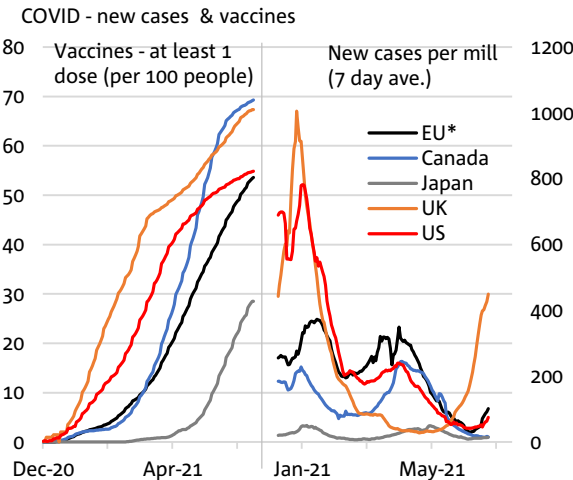


- At a high level, global financial conditions remain broadly positive, with comparatively loose monetary policy supporting economies as they recover from the impact of COVID-19. Bloomberg's Financial Conditions Indices for the US and EU-27 have steadily trended higher (indicating supportive conditions) since late 2020.
- Equity market trends have been somewhat mixed in recent times. The US MSCI index has continued to push higher, setting fresh record highs in early July. In contrast, while non-US advanced economies and EM equity markets have generally trended higher since March, prices in early July were off their early-to-mid June highs – with EM markets still well below peaks in February.
- Inflationary pressures have continued to increase over the past few months. Rising commodity prices, supply shortages (including high profile shortfalls in semi-conductor production) and selected labour shortages have contributed upside pressure in producer prices – which rose by around 11.2% yoy in May, led by larger increases in emerging markets. That said, it is worth noting that producer prices are only around 8.6% higher than the same period in 2019.
- Supply side pressures have also contributed to increasing consumer prices. Our measure of global CPI increased by 3.9% yoy in May (up from 3.3% in April), with increases in emerging markets generally outpacing advanced economies. That said, the US is a standout among advanced economies – increasing to 5.4% yoy in June.
- Despite the inflationary pressures, we continue to anticipate that major central banks' policy rates will remain on hold for an extended time. As recoveries become more advanced, the adjustment to policy settings will initially occur via asset purchase programs. The Bank of Canada has already started 'tapering' and we expect the US Fed will announce later this year a start to tapering in late 2021 or, more likely, early 2022. Meanwhile, the ECB's Pandemic Emergency Purchase Program is scheduled to run until March 2022 (although the pace of purchases is likely to be reduced before this time).
- Commodity price indices continue to trend higher. The Refinitiv CoreCommodity CRB Index rose through June, with the index in early July at its highest level since June 2015. That said, trends were mixed, with non-energy commodities off their recent peaks, while crude oil (which had remained relatively subdued due to weaker global transportation demand) has pushed above US\$70 a barrel following the failure of OPEC+ to negotiate an increase in production.

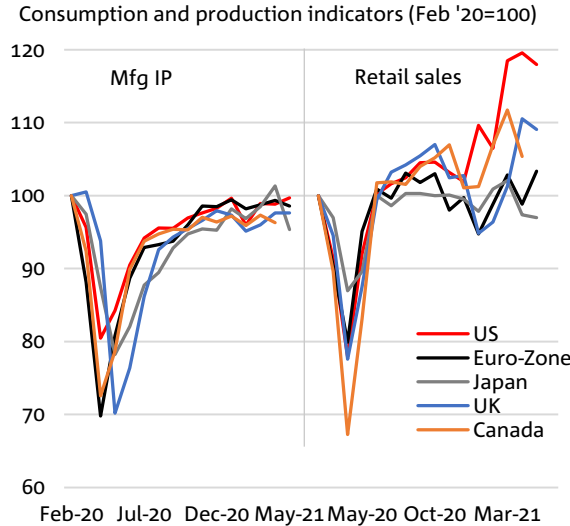
ADVANCED ECONOMIES

Re-opening spurring growth...key is whether vaccines break link between new cases and lockdowns

Vaccine roll-out reaching high level...but risk from rising cases **Consump. bounces on re-openings; mfg held back by supply constraints**

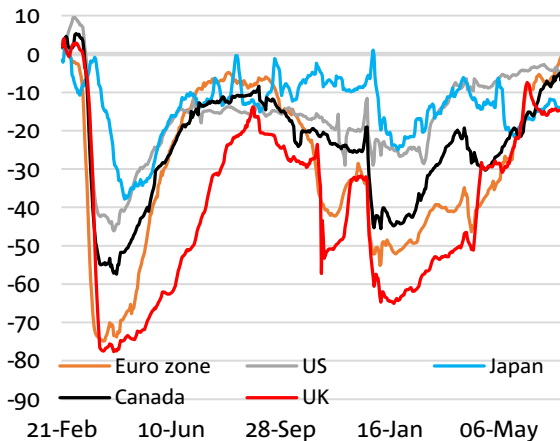


* EU for vaccines, Germany, France, Italy & Spain for cases

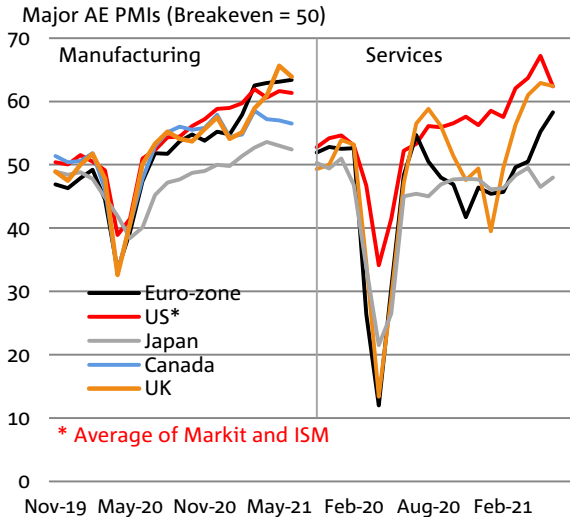


Strong recovery in mobility indicators – Japan struggling

Google mobility report-visits: recreation. & retail (% devn from baseline, 7 day m.a.)



Mfg PMIs remain at high levels, services (ex Jpn) joining the party



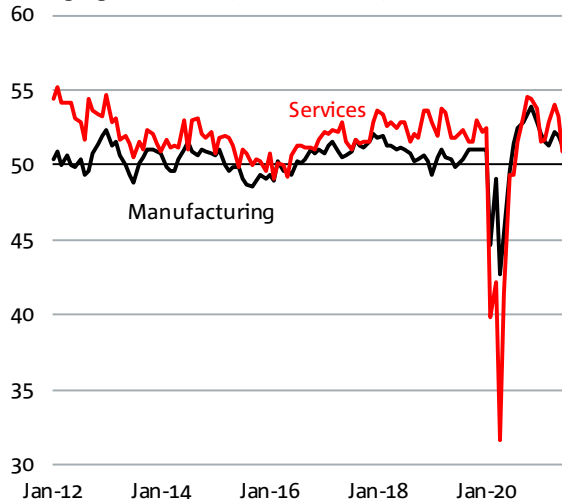
- Re-opening in the US and, more recently, the UK, has led to a strong pick-up in consumer spending. In the US an additional boost has come from fiscal policy including direct payments to individuals. With the Euro-zone emerging from its latest round of severe restrictions, retail sales jumped in May and recreation/retail mobility has moved above the US level. The Euro-zone services PMI has also surged in recent months, although it remains below the elevated US and UK services PMI levels even as they have levelled off.
- Canadian GDP declined in April, and looks to have done so in May as well, as restrictions in some provinces proved to be a substantial headwind. However, with restrictions now easing, mobility is well up and some business surveys (such as the Business Opinion Survey) are at high levels and indicating improving conditions for the services sector.
- In contrast, Japan is lagging. While mobility increased over June as restrictions were eased, Tokyo again returned to a state of emergency on 12 July which will run to 22 August. Therefore, while June will likely see a partial reversal of the May consumer weakness, July and August are likely to be weak once again.
- Manufacturing sector PMIs remain elevated but industrial production (IP) data have been patchy, including a large fall in Japan in May, due to supply constraints. In part this reflects supply issues, most notably in auto production due to a global semi-conductor shortage. However, once supply shortages are addressed IP should move higher, adding further support to the recovery in AEs.
- A key issue is whether vaccines will break the cycle of waves of the virus causing lockdowns, particularly given the emergence of new variants. The UK may well prove to be a bell weather – it is removing most of its remaining restrictions on 19 July even as case numbers have risen sharply. Cases are also rising in the US, Euro-zone (where there have been some relatively minor restrictions introduced) and Japan.
- Our assumption is that the vaccines will be effective in limiting the health consequences of the virus, allowing for an end to the cycle of on-off COVID-19 restrictions in response to waves of the virus. This should lead to a strong recovery over the rest of the year. Reflecting the timing of when restrictions have been removed (and US fiscal policy) peak growth should occur in the US and UK in Q2, Canada and Euro-zone Q3. For Japan, which is behind the other major AEs on distributing vaccines, but is starting to catch up, we expect strong growth at the end of the year.

EMERGING MARKET ECONOMIES

Surveys point to softer conditions as COVID-19 slows activity in a range of EMs

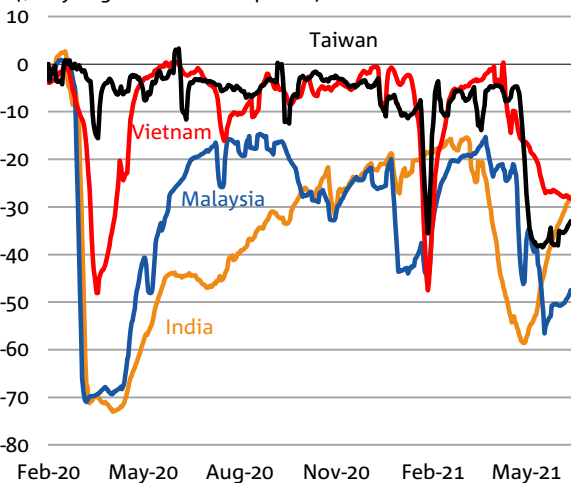
Purchasing manager indices have softened for EMs in June

Emerging market PMI (Breakeven = 50)



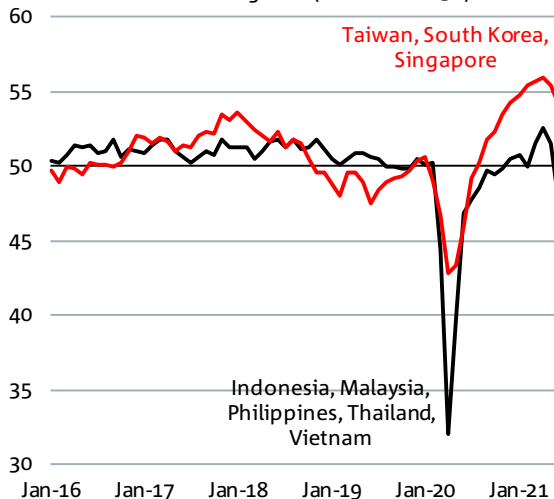
Mobility indicators highlight impact of recent outbreaks in Asia

Google mobility data - % deviation from baseline (7 day avg - retail & workplaces)



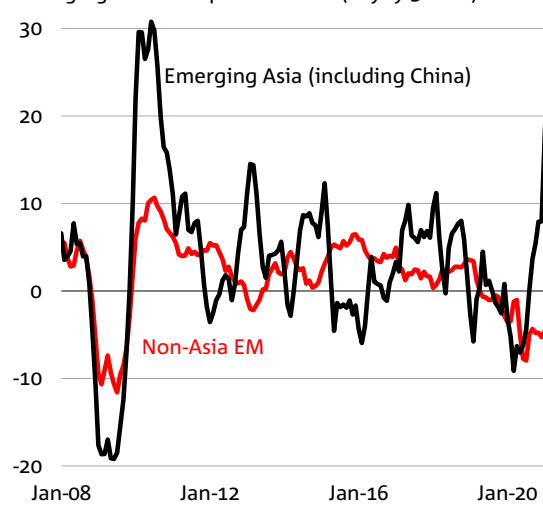
Divide between high and lower value-add manufacturers remains

East Asian manufacturing PMIs (Breakeven = 50)



Trade volumes still yet to recover for non-Asia EMs

Emerging market export volumes (% yoy 3mma)

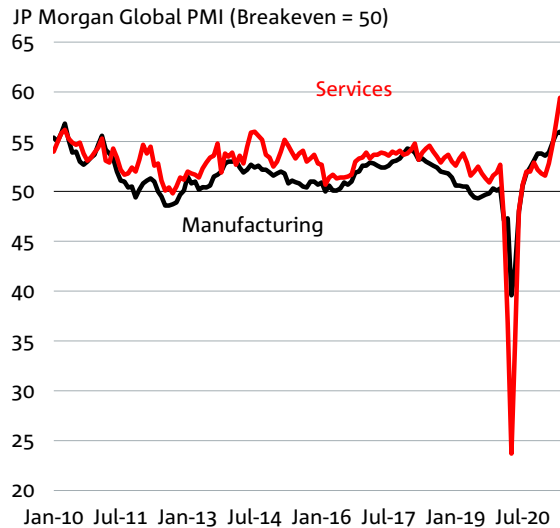


- Purchasing manager indices point to a softening in emerging market conditions in June, albeit remaining in expansionary territory. The aggregate EM manufacturing PMI fell to 51.3 points (from 52.0 points in May), driven by declines in India, China and Russia (with both India and Russia switching from positive to negative conditions in June).
- The slowdown was more stark in the EM services PMI – with this measure down to 50.9 points in June, from 53.2 points previously. This downturn was largely driven by a slowing trend in China – which fell from a strongly positive 55.1 points in May to a relatively neutral 50.3 points in June – along with a decline in India.
- There remains a clear distinction in manufacturing trends between higher and lower value added producers. This is evident in East Asian PMIs, where high tech manufacturing countries such as Taiwan, South Korea and Singapore are far outperforming other EM economies in the region (several of which have suffered from fresh outbreaks of COVID-19). Reflecting weaker than previously expected conditions in Indonesia and Malaysia (two of the larger economies in non-China East Asia), we have trimmed our forecasts for the region this year.
- The impact of fresh COVID-19 outbreaks is evident in Google Mobility data for a range of countries, particularly in East Asia. Emerging markets have suffered from poorer access to vaccines than advanced economies, meaning that in some cases they have required harder restrictions to manage infections. Indicators for Taiwan, Malaysia and Vietnam have notably deteriorated over the past few months, while India continues to gradually recover from the impact of various state-implemented restrictions to control COVID-19 spread.
- Emerging market trade volumes have continued to grow strongly in recent months – up by 18.1% yoy in April. This growth rate remains impacted by base effects – with exports from a broad range of EMs (excluding China) declining between March and May 2020 – reflecting the differing timings of COVID-19 countermeasures in individual countries during the first wave of the pandemic.
- Growth in EM export volumes has been led by China – up by 32.4% yoy – and non-China Asia – which increased by 18.8% yoy. Export volumes from non-Asian EMs remain below their pre-COVID-19 levels.

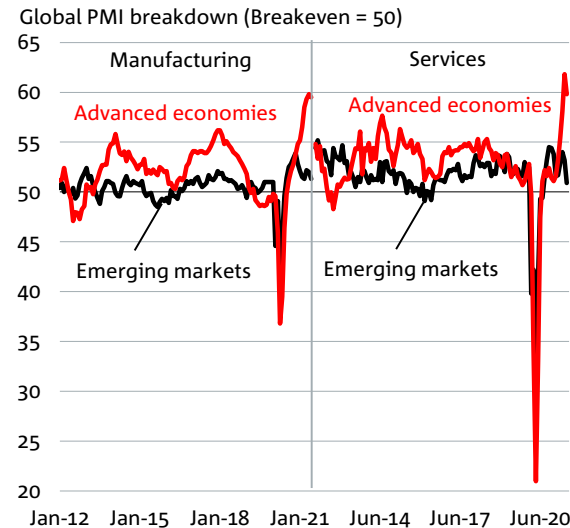
GLOBAL FORECASTS, POLICIES AND RISKS

Strong global conditions skewed towards advanced economies, with COVID-19 remaining the key risk

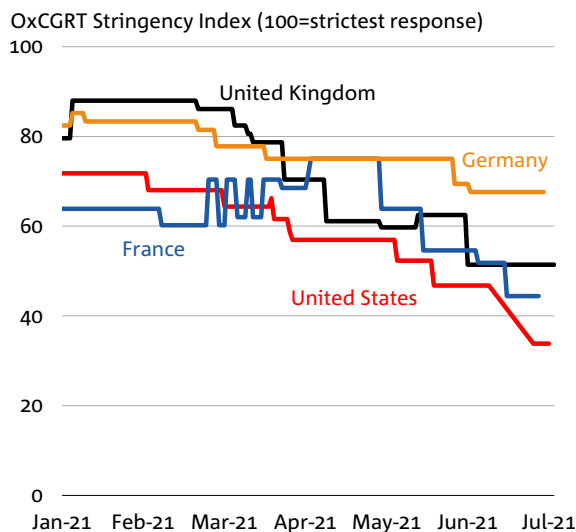
Global PMIs ease from recent long run peaks...



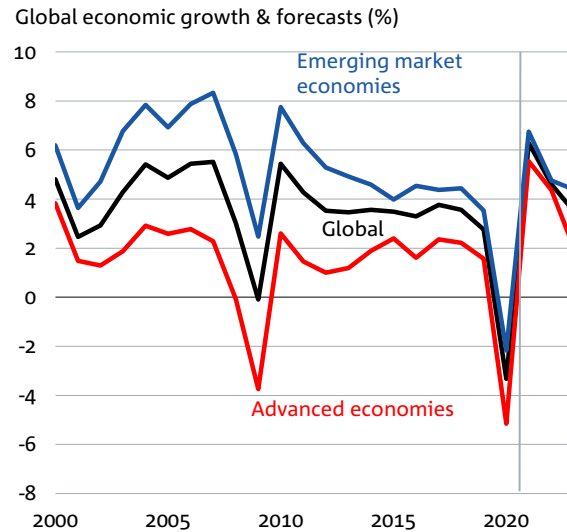
...but stark divide between AE and EM conditions



Policy restrictions easing in the US and Europe



Global growth to remain historically strong in '21 and '22



- Aggregate readings from global business surveys continue to point to relatively strong economic conditions in June. Although the JP Morgan global composite PMI was softer in June (at 56.6 points from 58.4 points in May), May's reading was the strongest in over 15 years.
- That said, it is worth noting the considerable divide in readings between the advanced economies (which the aggregate measures are weighted towards) and emerging markets – where conditions for a range of these economies have deteriorated. In part, the weaker EM conditions reflect China's comparatively rapid recovery from COVID-19 – meaning that there is no longer the opportunity for more rapid catchup growth – but also the impact of fresh outbreaks of the virus in a range of emerging markets.
- These outbreaks continue to highlight that COVID-19 is the most significant risk to our global outlook. Much of the emerging world remains vulnerable to additional waves of the pandemic due to low vaccination rates (largely the result of poor access to the vaccines) and this is unlikely to be resolved before late 2022 at the earliest. There is some growing concern that newer COVID-19 variants (such as the Delta and Lambda strains) appear to be more easily transmitted – potentially requiring higher than previously thought rates of vaccination to achieve herd immunity.
- If this proves to be correct, it highlights the risks associated with the opening up in the United Kingdom and the United States – where respectively around 51% and 47% of the population were fully vaccinated by the first week of July. New cases in both countries (along with other countries in Europe) have started to rise from relatively low levels in recent weeks and a critical factor will be the extent to which this translates to serious hospitalisations – given the goal of ending the cycle of lockdowns.
- At the global level, our forecasts for 2021 through 2023 remain unchanged this month – with growth of 6.3% in 2021, subsequent strong growth of 4.6% in 2022 (reflecting delays to the full recovery from COVID-19) before slowing to the long term trend of 3.5% in 2023.
- That said, we have made significant revisions to our individual country forecasts. These include a downgrade to our forecast for Japan in 2021 (from 3.0% previously to 2.4%), with a subsequent upgrade to 2022, and a downgrade to forecasts for Other East Asia (excluding China) for both 2021 and 2022 (reflecting weaker than previously expected growth in Indonesia and Malaysia). In contrast, we have revised our growth forecast for Latin America slightly higher.



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