EMBARGOED UNTIL: 11.30AM THURSDAY 11 NOVEMBER 2021

THE FORWARD VIEW – GLOBAL

NOVEMBER 2021

National Australia Bank

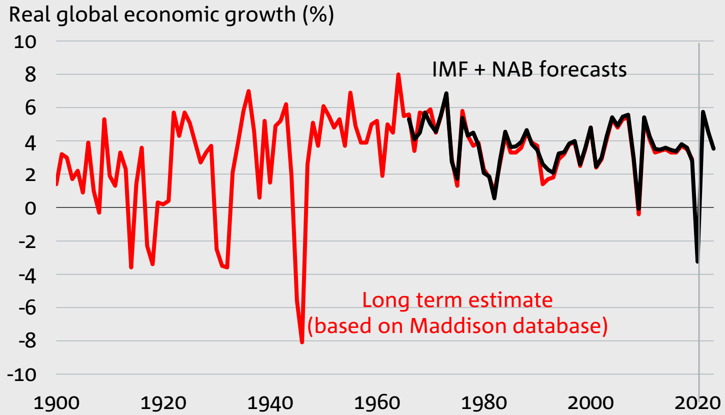
Supply side continues to constrain activity, driving inflation higher

- We now forecast the global economy to grow by 5.7% in 2021 (down from 5.9% previously) – albeit this would still be the strongest growth rate since 1973. The weaker outlook for China was the key driver of this downgrade, along with more modest cuts to the United States and Japanese forecasts. Our forecasts for 2022 and 2023 are unchanged – at 4.5% and 3.5% respectively – the latter being in line with the long term average growth rate for the global economy.
- Risks to our near term forecasts have increased. COVID-19 remains the key risk, particularly in emerging markets, where vaccination rates are generally lower, leaving these economies more exposed to additional outbreaks (and the associated downturns in activity). In addition, supply chain bottlenecks – including in container shipping – continue to constrain economic activity globally. Electricity shortages in China (which could worsen during winter) add additional risk.
- Inflationary pressures continue – in particular producer prices rose by around 12.8% yoy in September, reflecting a broad range of factors, including the strength of commodity prices, shortages of key inputs, labour and energy along with disruptions to shipping (leading to surging freight rates). Consumer price inflation has also risen notably. Major central banks continue to identify these factors as transitory.
- Despite these pressures, central bank policy rates remain well below pre-COVID-19 levels, with a few emerging markets (led by Brazil, Russia and Mexico) lifting rates. That said, the market expectations around the timing of advanced economy rate increases have moved forward in recent months (with Norway's Norges Bank and the Reserve Bank of New Zealand having already lifted rates in recent months) – albeit the Bank of England surprised markets by remaining on hold in November.

Global Growth Forecasts
(% change)

	2019	2020	2021	2022	2023
US	2.3	-3.4	5.5	3.8	2.2
Euro-zone	1.5	-6.5	5.2	4.2	2.0
Japan	0.0	-4.7	2.3	3.1	1.1
UK	1.7	-9.7	7.0	4.9	2.0
Canada	1.9	-5.3	4.9	4.0	2.7
China	6.0	2.3	8.3	6.0	5.7
India	4.8	-7.0	8.0	6.8	5.6
Latin America	0.1	-6.7	6.0	2.1	1.8
Other East Asia	3.5	-2.9	3.9	4.3	4.8
Australia	1.9	-2.4	3.5	3.3	2.5
NZ	2.4	-2.1	3.3	5.5	1.6
Global	**2.8**	**-3.2**	**5.7**	**4.5**	**3.5**

Global forecasts revised lower for 2021 – however still expect the strongest growth since 1973



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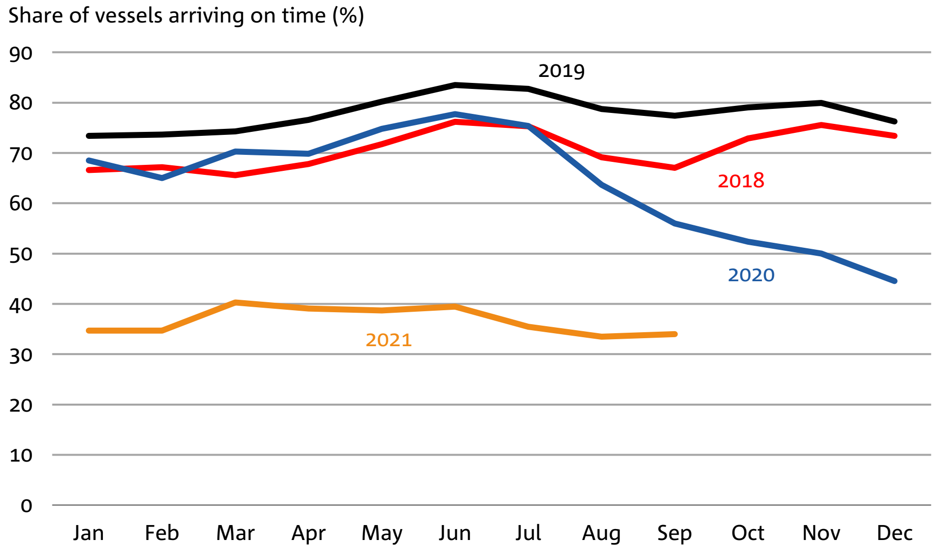
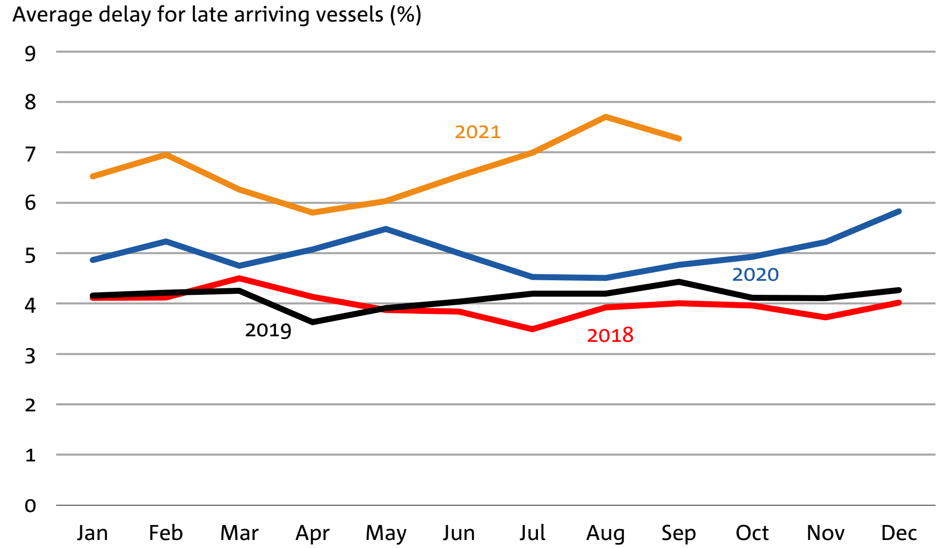
CHARTS OF THE MONTH

Container shipping issues are disrupting global supply chains. Limited shipping capacity going into pandemic has been exacerbated by disruptions (Suez blockage, south China port closures, US port delays) – with no slack in the system

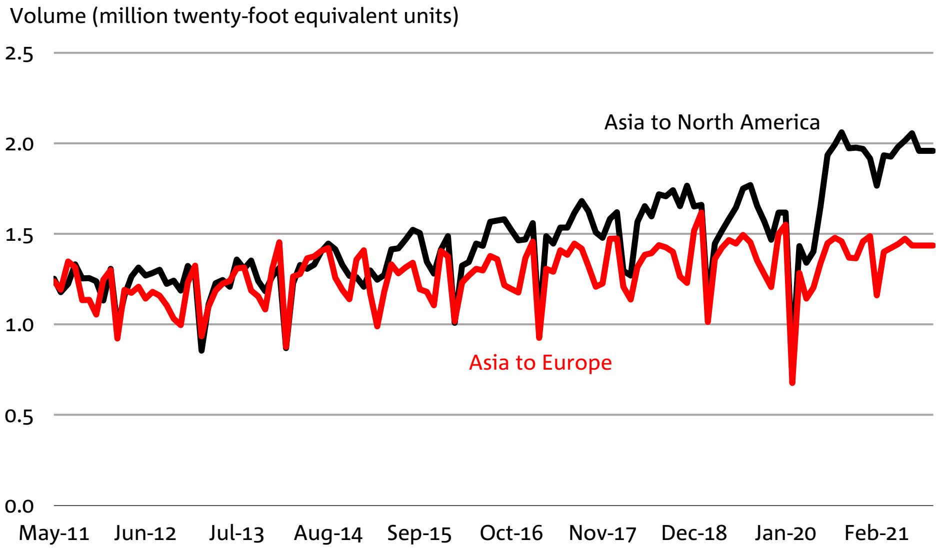
Less than 40% of container ships have arrived at ports on time in 2021…



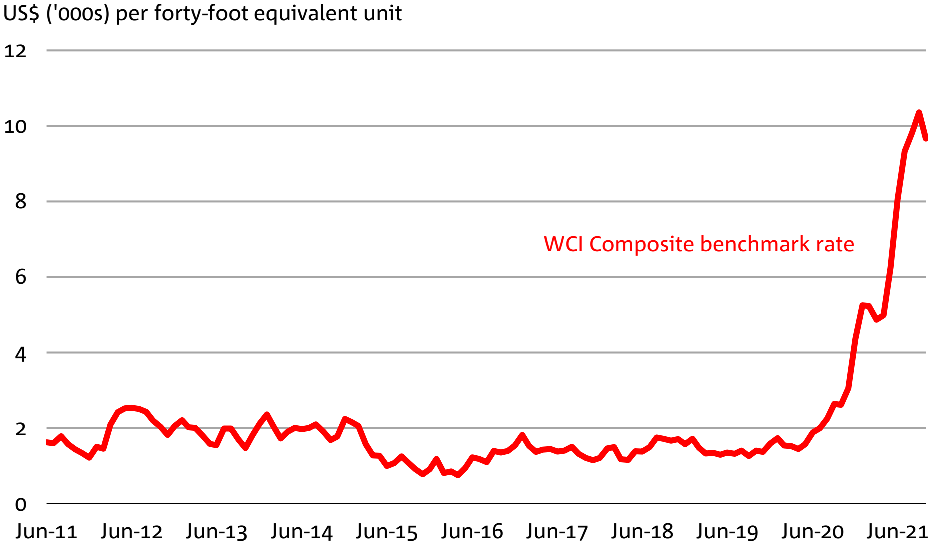
…with the average delay for late arriving vessels trending higher since April



Large increase in volume between Asia and North America, with goods consumption increasing



Surging demand and tight supply have sent container freight rates soaring – over four times 2019 rates



Sources: Bloomberg, Sea-Intelligence, NAB Economics

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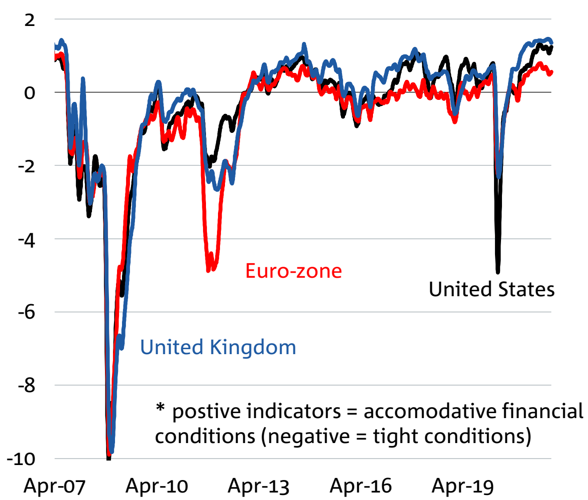
FINANCIAL AND COMMODITY MARKETS

Major advanced economy central banks hold firm against inflation fears

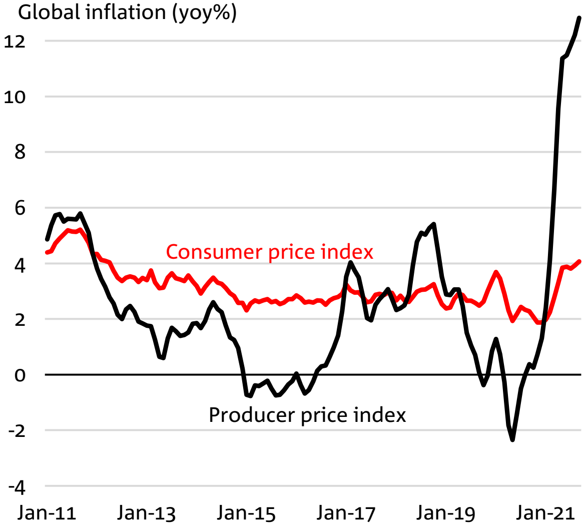
Financial conditions remain accommodative

Financial conditions indices (rolling monthly average)*



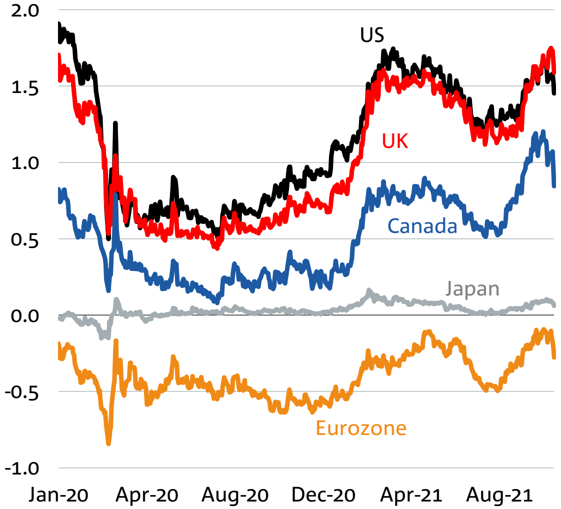
Inflationary pressures continue; transitory say central banks

Global inflation (yoy%)



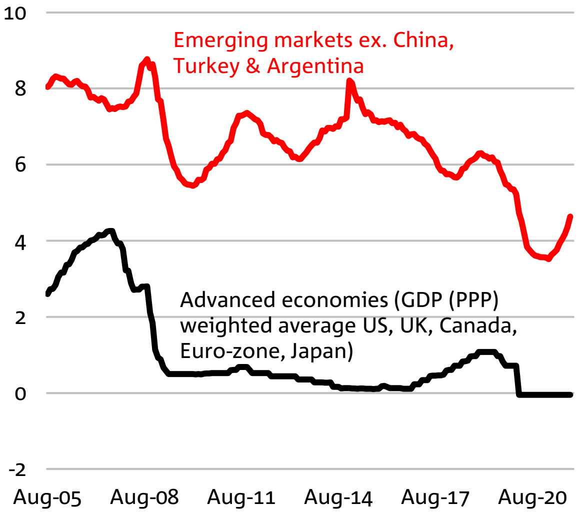
Bonds yields rose across Sept and Oct before stalling

10 year government bond yields (%)



Major AE central banks have held rates low – including BoE

Average central bank policy rates (%)



Sources: Bloomberg, Refinitiv, NAB Economics

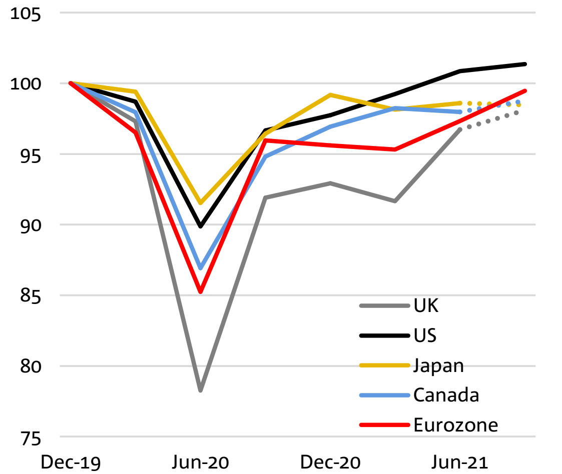
- Overall, conditions in global financial markets remain accommodative – with the Bloomberg Financial Conditions indices remaining firmly in positive territory. Monetary policy is supportive and a broad range of central banks are continuing to purchase assets (albeit tapering has commenced for many of them).
- That said, trends differ in individual locations. The MSCI emerging market equity index has broadly trended lower since peaking earlier this year, while the advanced economies index (excluding the United States) has essentially tracked sideways. US markets continue to rise – shaking off the recent fears around Chinese property developer Evergrande – to fresh record highs in early November. That said, gains in US equities are concentrated among a relatively small section of firms, primarily technology related.
- Inflationary pressures continue – particularly for producer prices, which rose by around 12.8% yoy in September, reflecting a broad range of factors, including the strength of commodity prices (in early November the Refinitiv CoreCommodity CRB Index was at its highest level since December 2014), shortages of key inputs (such as semi-conductors), labour and most recently energy (particularly electricity in China) along with disruptions to shipping (leading to surging freight rates).
- Consumer prices have also risen, albeit not to the same extent – with global consumer prices increasing by around 4.1% yoy in September. It is important to note that major central bank guidance (including that from the US Fed, the European Central Bank and the Bank of England) continues to suggest that these inflationary pressures are transitory, noting that policy rates rises will not ease supply side constraints.
- The continued economic recovery and the ongoing strength of inflation saw government bond yields for most advanced economies trend higher between early September to late October – in part reflecting market expectations that policy rates could increase sooner than previously anticipated. That said, the upward pressure on bond yields stalled in late October, with some downward pressure following the Bank of England's surprise decision to keep rates on hold.
- Globally, central bank policy rates remain well below pre-COVID-19 levels. However, rates have been increasing in many non-Asian emerging markets (led by Brazil, Russia and Mexico). That said, market expectations around the timing of advanced economy rate increases have moved forward in recent months (with Norway's Norges Bank and the Reserve Bank of New Zealand having already lifted rates in recent months).

ADVANCED ECONOMIES

Euro-zone growth again rapid in Q3 but US slowed down; overall on track for robust H2 2021 AE growth

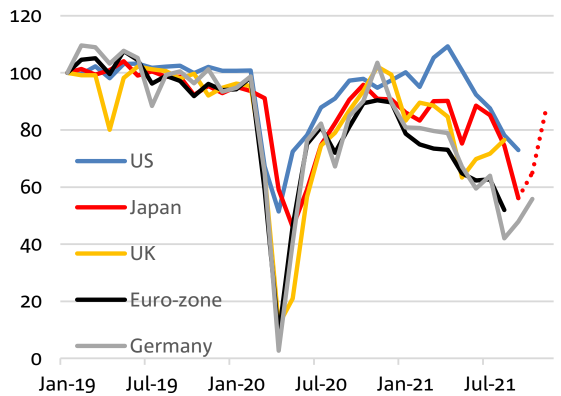
Further rapid graph in Euro-zone in Q3; US growth slowed

Major AE GDP (Q4 2019 = 100, dashed line indicates forecast)



Auto production crunched but tentative signs of stabilising

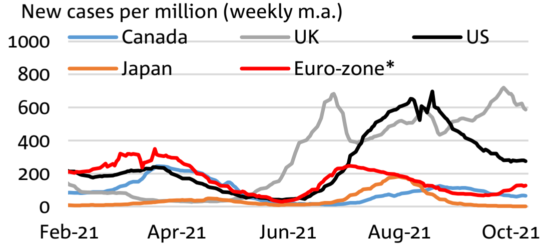
Motor vehicle/transport production (Jan 19 =100)*



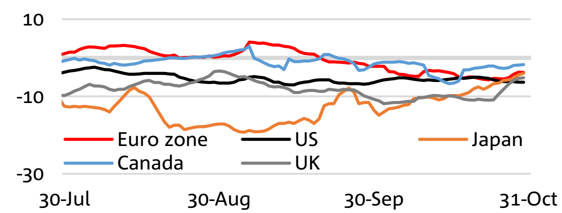
* Motor veh. other Japan (transport equip.). Japan Oct/Nov 2021 data are manufacturer projections

COVID-19 cases rising in Europe – only modest impact so far

New cases per million (weekly m.a.)

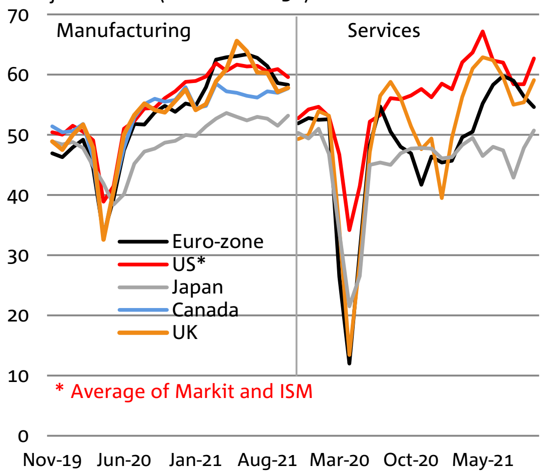


Google mobility: recreation & retail (% devn, 7day avg)



Business survey readings still strong: services up ex Euro-zone

Major AE PMIs (Breakeven = 50)



Sources: Refinitiv, Google, NAB Economics. *Euro-zone proxied by cases in Germany, France, Italy & Spain

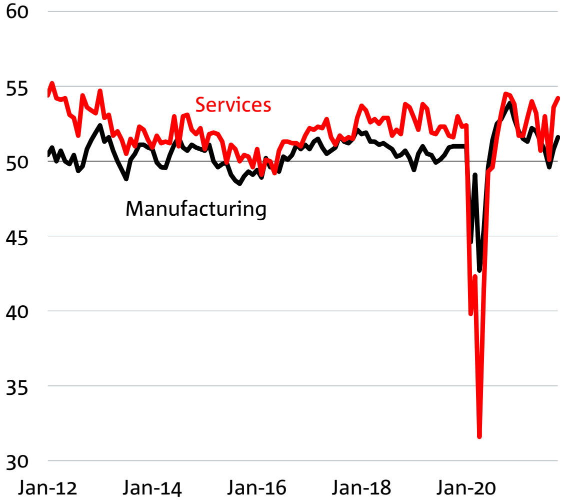
- The initial Q3 data for the major Advanced Economies (AE) suggest overall growth was robust in the quarter but off Q2's rapid pace. While the rebound provided by an easing of COVID-19 restrictions led to another very strong quarter in the Euro-zone (2.2% q/q), growth slowed notably in the US to 0.5% q/q (still solid but well down on 1.6% q/q in Q2). For the other major AEs we expect mixed results in Q3. We now think Japan GDP may have fallen (due to COVID-19 restrictions and supply bottlenecks affecting production). While the UK looks to have had another strong quarter of growth, the pace has slowed as the bounce from re-opening fades.
- The slowdown in US growth reflected several factors including supply bottlenecks, the unwinding of fiscal stimulus and COVID-19 headwinds.
- Supply issues are also evident in other countries. Motor vehicle producers have been one of the sectors most affected (due to a shortage of semiconductors), with large falls this year in production across the major AEs. There are tentative signs the worst may be over. Motor vehicle production for Germany has come off its trough and Japanese producers also expect output to rise (although their expectations tend to be optimistic). How quickly this and other supply problems – such as in energy markets – are addressed will have important implications for growth over coming quarters. Low inventory levels also suggest that output growth is likely to run ahead of demand growth as stocks are rebuilt.
- Energy shortages have led to a spike in prices affecting production of energy intensive producers. It will also feed into higher consumer prices over time, reducing real spending power, although there has been some recent unwinding in spot prices for natural gas.
- We expect growth in the Euro-zone to slow in Q4 due to the re-opening boost fading and the rise in energy costs. There has also been a resurgence in COVID-19 cases (particularly Germany) although at this stage there has been no material tightening of restrictions and Google Mobility data points to a modest impact on consumer behaviour. Japan is going in the opposite direction, with an easing in restrictions setting the scene for a strong rebound in Q4.
- This can seen in business surveys with the Euro-zone services PMI off recent highs (but still solid) while in the other AEs, the services PMI has risen (particularly in Japan) as COVID-19 waves have receded. Manufacturing indicators also remain solid. Overall, the surveys point to further growth, even with continued COVID-19 and supply chain disruptions and bottlenecks.

EMERGING MARKET ECONOMIES

China's outlook is increasingly uncertain, with electricity shortages and slowing exports hitting industry

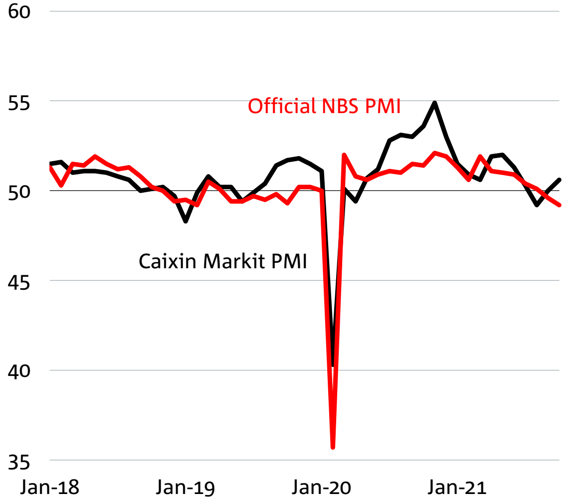
EM PMI readings stronger in September, led by India

Emerging market PMI (Breakeven = 50)



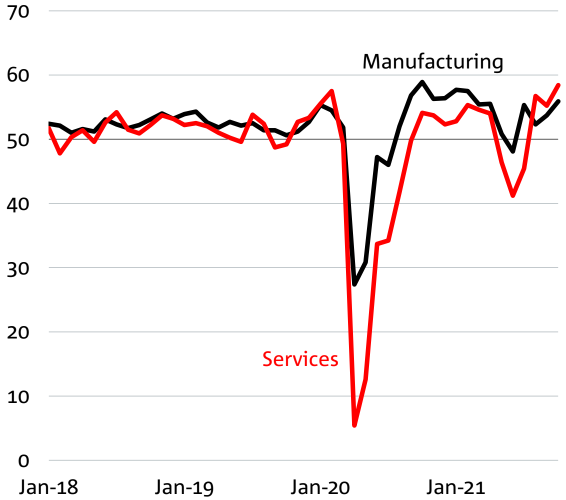
China's manufacturing PMIs diverge

China manufacturing PMIs (Breakeven = 50)



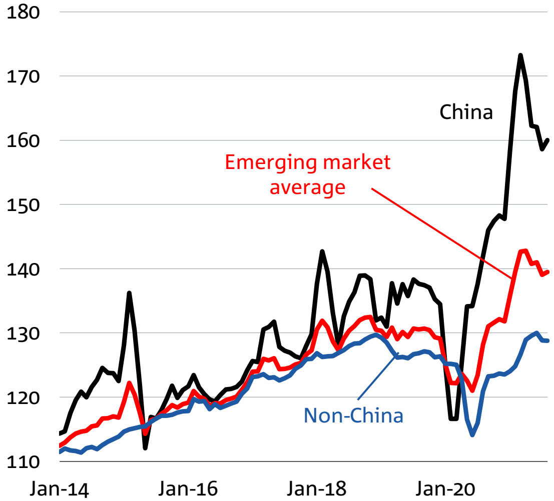
Indian services driving EM PMI higher, but still COVID vulnerable

India PMI (Breakeven = 50)



China the key driver of softening EM export volumes

Emerging market export volumes (index 2010 = 100)



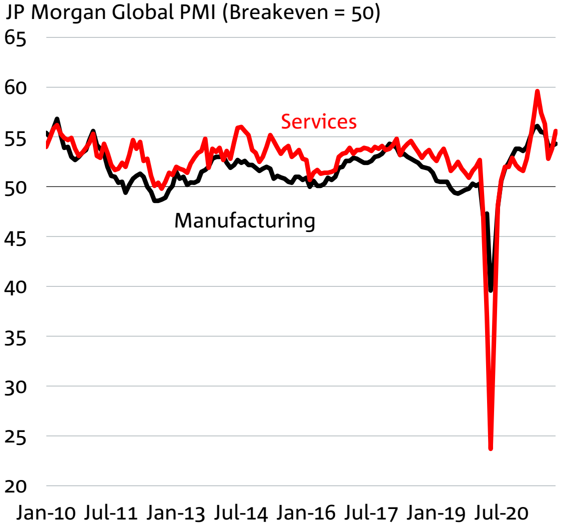
- Purchasing manager indices can provide timely indications of underlying economic conditions in emerging markets. Overall, aggregate measures for manufacturing and services strengthened in October.
- The EM manufacturing PMI edged up to 51.4 points (compared with 50.8 points in September and a negative 49.6 points in August). The key drivers of this increase were India and Indonesia – the latter rose to 57.2 points in October (from 52.2 points previously), a record high, as easing COVID-19 restrictions supported strong growth in output.
- The aggregate EM services PMI increased more moderately, up to 54.2 points in October (from 53.6 points previously). Similarly to the manufacturing PMI, India was the key driver – rising to 58.4 points – with demand underpinned by new business and a backlog of work coming out of the mid-year COVID-19 shutdown. That said, COVID-19 remains a major threat in India, with less than a quarter of its population fully vaccinated.
- There remains some notable differences between official and private sector PMI readings in China. The private sector Caixin Markit manufacturing PMI – which feeds into the aggregate EM measure – was marginally stronger at 50.6 points (from 50.0 points in September). In contrast, the official NBS manufacturing PMI weakened further – down to 49.2 points (from 49.6 points previously). The differing composition of these surveys may have impacted the results – with a greater share of energy intensive heavy industry in the NBS PMI hit by slowing demand from construction in recent months and electricity shortages that started in September.
- Disruptions to China's manufacturing sector could exacerbate existing issues within global supply chains. Global trade data are available to August, and despite continuing to show relatively strong year-on-year growth in volumes (in excess of 6% yoy in August), emerging market export volumes have trended lower since April 2021.
- This weaker trend in EM export volumes has primarily been driven by China. CPB data show that China's export volumes peaked across January and February and have subsequently settled at a lower level. This may reflect the impact of COVID-19 countermeasures mid-year, as well as the disruptions to global shipping highlighted on page 2. Excluding China, by June EM export volumes had recovered to the peaks of late 2018, but have struggled to increase since then.

Sources: Refinitiv, IHS Markit, CPB, NAB Economics

GLOBAL FORECASTS, POLICIES AND RISKS

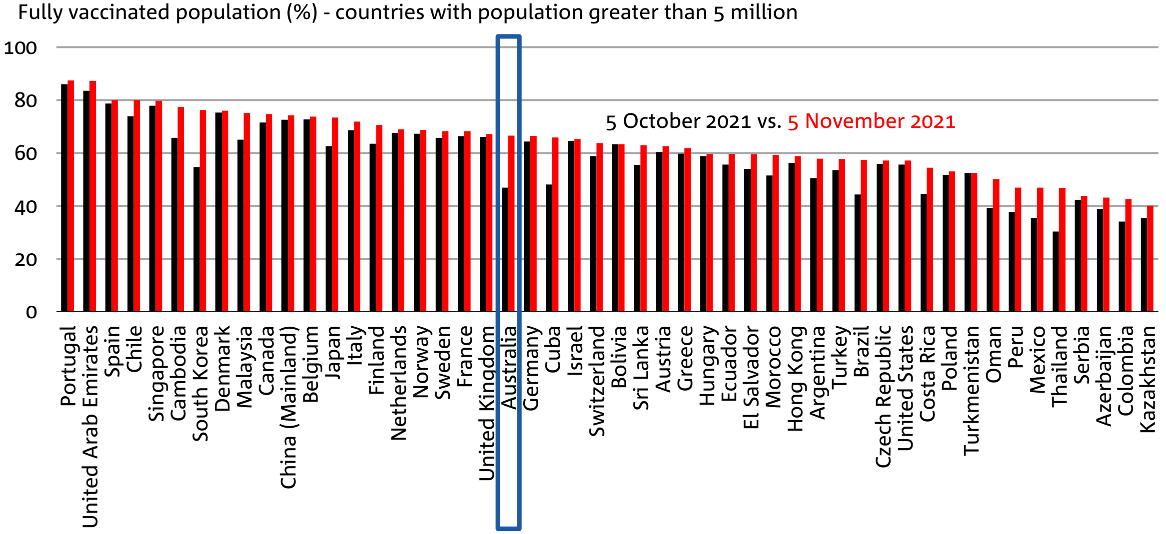
Global economic conditions remain disparate with COVID-19 and supply chain disruptions major risks

Global PMI points to improving conditions, but highly disparate



China growth slowed in Q3 and electricity poses downside risk

Large increases in fully vaccinated population in South Korea, Australia and Cuba in past month, but lower rates in EMs generally



- At an aggregate level, the JP Morgan global composite PMI was considerably stronger in October – rising to 54.5 points (compared with 53.3 points in September). This uptick was driven by stronger conditions in services – with advanced economies leading this trend – while the manufacturing measure was only marginally improved (with an increase in emerging markets offset by a weaker – albeit still very positive – reading in advanced economies).
- Global economic conditions remain highly disparate – with economies at different stages of recovery from COVID-19, continued outbreaks of the virus and growing concerns around supply chain disruptions.
- Overall, COVID-19 remains the key risk to our global economic outlook. This is particularly the case in emerging markets, where vaccination rates are generally lower, leaving these economies more exposed to additional outbreaks (and the associated downturns in activity). Much of Africa and lower income parts of South East Asia are unlikely to achieve widespread vaccine coverage until 2023.
- Beyond COVID-19, supply chain issues – including the global container shipping sector – continue to constrain economic activity. A shortage in capacity has been exacerbated by lengthy delays (including the blocking of the Suez Canal and port issues in China and the US), while demand for goods (particularly in North America) has been strong. This has led to a surge in freight rates. There have also been large falls in motor vehicle production due to a shortage of semiconductors.
- Following a weak outcome for Q3 GDP, we have lowered our forecast for China's economic growth in 2021. During the quarter, China was negatively impacted by a sizeable COVID-19 outbreak, the near-default of major property developer Evergrande and electricity shortages. The latter factor – largely driven by high coal prices meeting unprofitably low, regulated electricity prices – could remain an issue in Q4, adding downside risk to our forecasts. We expect China to grow by 8.3% in 2021 (down from 8.7% previously).
- Reflecting changes to individual country forecasts, we now forecast the global economy to grow by 5.7% in 2021 (down from 5.9% previously) – albeit this would still be the strongest growth rate since 1973. The weaker outlook for China was the key driver of this downgrade, along with more modest cuts to the United States and Japanese forecasts. Our forecasts for 2022 and 2023 are unchanged – at 4.5% and 3.5% respectively – the latter being in line with the long term average growth rate for the global economy.

Sources: Refinitiv, IHS Markit, Our World in Data, NAB Economics

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