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# Global Overview
# &
# Australia

## Recovery  from Covid, Supply Chain difficulties  and the Impact of higher rates

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# Global macroeconomic summary. - *Problems ahead.*

- **COVID-19 continues to be the main driver of growth** – both in the recovery phase and as the Omicron variant spreads. However big challenges are arising in 2022 and into 2023.

- There are **3 areas of concern** emerging on the global economy:

  1. **China has seen recent data soften as the combination of the virus and problems in the property market have slowed activity. The central bank has started cutting rates and added extra liquidity.** That said, Chinese vaccines are not providing protection against Omicron – so more lockdowns for longer. We have dramatically cut forecasts to 4.2% in 2022 with a recovery in 2023.

  2. **High commodity prices and Russian responses to Europe banning oil supplies could cause lots of problems by late 2022. What will Russia do in response to Europe and the G7 banning oil exports. Turn off gas supplies. That would massively disrupt European activity in late 2022.**

     - **Japan is also a concern with growth currently going backwards and only weak growth (1.5%) expected in 2022 and beyond. India also slowing. And obviously, Russia collapsing**



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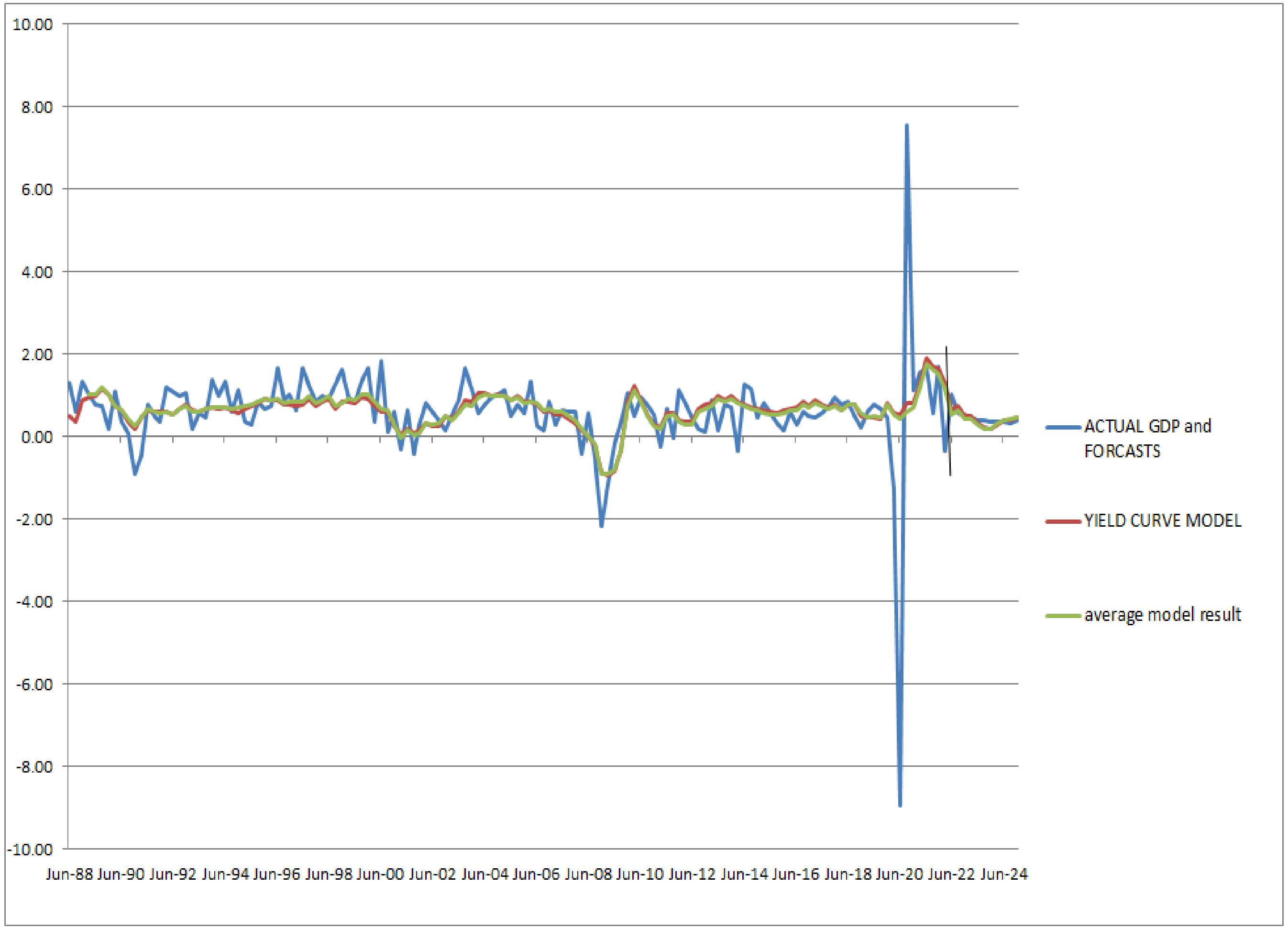
## Global macroeconomic summary. - *Problems ahead.*

3. **In the US** the domestic economy is still strong but trade problems saw a weak start to 2022. Obviously inflation and supply shortages are causing problems. Core inflation is at 5.5% vis-à-vis a target rate of 2%. **As a result the Fed has started rate rises - and is likely to go 50 points in each of its next 2 meetings. A rate of 2.25 by year end and 2¾% in 2023 is aggressive and the Fed is largely flying blind (monetary policy takes 12-18 months to impact).**




- **In short the risk is rising that an overly aggressive Fed plus high commodity prices, will stall the economy in late 2023 and into 2024. Here is the modelled impact of what might happen.**



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# Global economic forecasts.

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| US | -3.4 | 5.7 | 2.7 | 2.0 | 1.4 |
| Euro-zone | -6.5 | 5.4 | 2.8 | 2.0 | 1.6 |
| Japan | -4.5 | 1.7 | 1.5 | 1.9 | 1.0 |
| UK | -9.4 | 7.5 | 3.9 | 1.1 | 1.5 |
| Canada | -5.2 | 4.6 | 4.3 | 2.3 | 1.5 |
| China | 2.2 | 8.1 | 4.2 | 5.6 | 4.9 |
| India | -6.5 | 8.1 | 7.0 | 5.7 | 5.8 |
| Latin America | -7.0 | 6.2 | 1.6 | 1.5 | 1.7 |
| Other East Asia | -2.9 | 4.3 | 4.4 | 4.6 | 4.3 |
| Australia | -2.2 | 4.7 | 3.8 | 2.6 | 2.2 |
| NZ | -1.9 | 5.6 | 3.2 | 2.2 | 2.6 |
| **Global** | **-3.1** | **6.0** | **3.4** | **3.4** | **3.1** |

# Australia macroeconomic summary. *- Still robust but looking to world problems.*

- **Growth was significantly hit by the mid year lockdowns**. GDP -1.9% in Q3. But bounced back rapidly in Q4 to increase by 3.4%. So, all GDP losses recovered by end 2021.

- **Despite floods and Omicron in January, Q1 GDP was reasonable at around 0.8% Unemployment now at 3.9% but will go lower - around 3½% by mid 2022 and into 2023. For 2022** we see growth accelerating in Q2 and Q3 with growth 3.4% during 2022 or around 3.9% in year average terms.

- **And for 2023** – growth of around 2% and unemployment around 3.5% (during 2023). **For 2024** we expect growth of still 2% and unemployment slightly higher at 3.8%. **Slower global growth and higher rates hurt.**

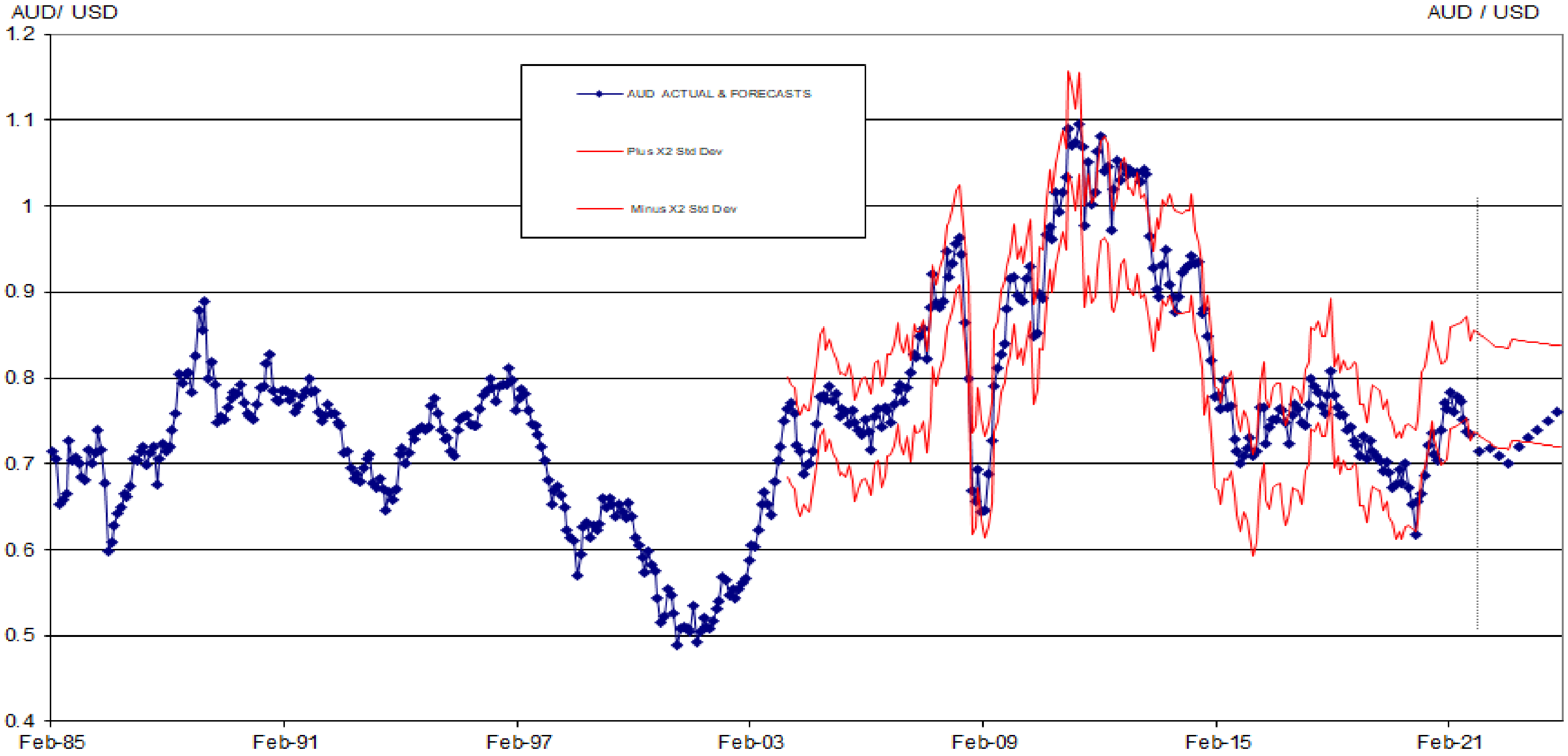
- **Fundamentally the recovery path is driven by consumption, post the lockdowns, but investment in dwellings (building houses) and manufacturing (eg. whitegoods) is accelerating, as is plant and equipment investment.**

- **Wages and prices forecasts** have been increased significantly. We now see core CPI at 4.6% by Q3 and above 4% by year end. We don't see core back to 3% till late 2023 and around 2.8% by end 2024. We also see wages picking up to around 3% by end 2022, a peak of 3.5% in 2023 and above 3% in 2024. Basically reflecting, very low unemployment.

- **Rate rises started in May. We expect rate rises in June, July, August and November bringing rates to 1.35 – 1.5% by year end. And around 2.5% in 2024 (a neutral rate).**

Currency model. USD .78+/- 5c. So AUD below where you would expect. Australia a proxy in uncertain world with high commodity prices and aggressive central banks.
- *See AUD getting back but will take time.*

## 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 = 72c AUD/USD**
**End 2022 = 72c AUD/USD**
**End 2023 = 77c AUD/USD**

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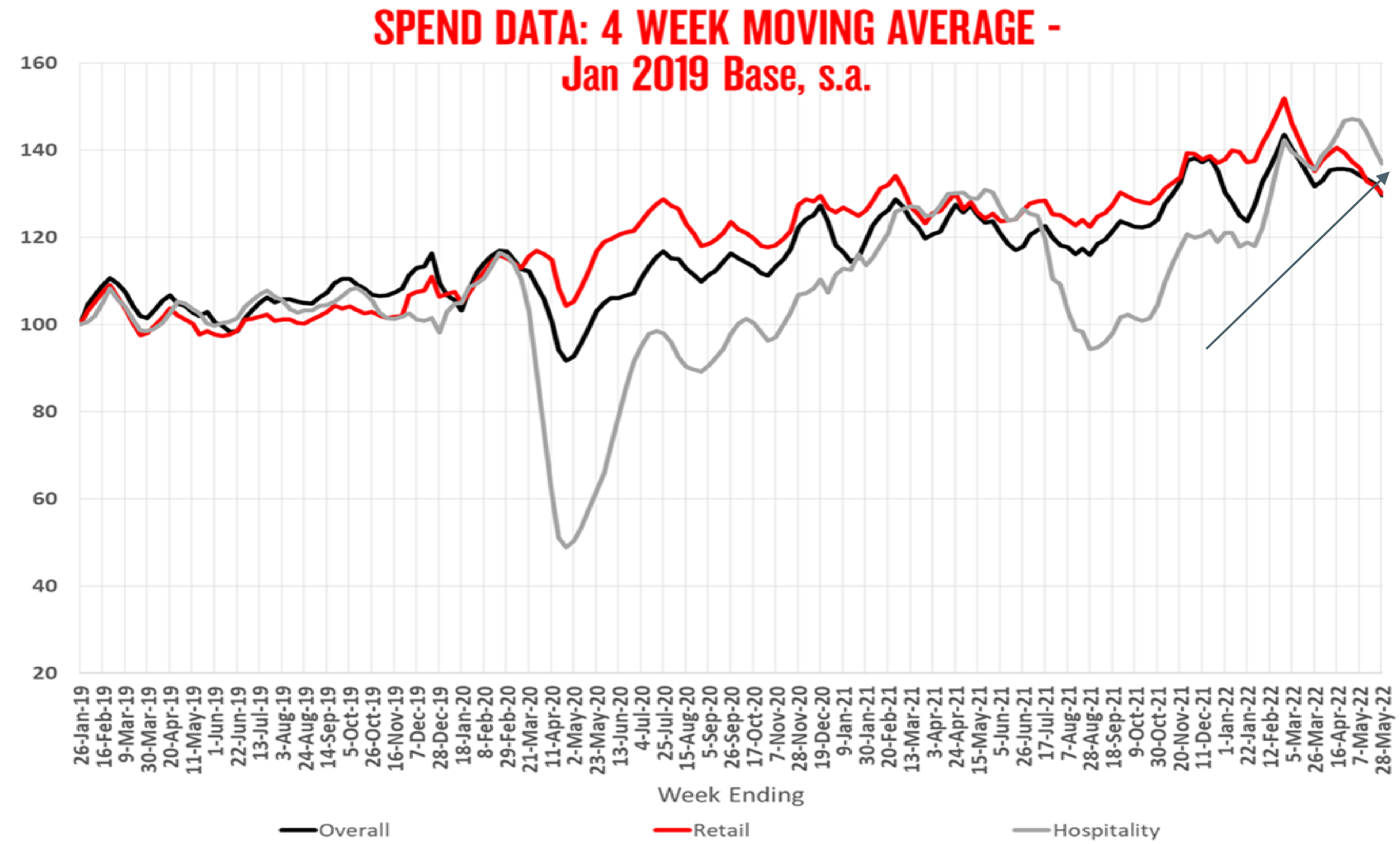
# Data Insights

- NAB Data
- Business Survey

## On NAB's internal data: Consumption to 24 May - *Weekly data is bouncy but… Consumption now running back around the levels of mid March – and trending higher again. Hospitality slightly softer but still near record levels.*



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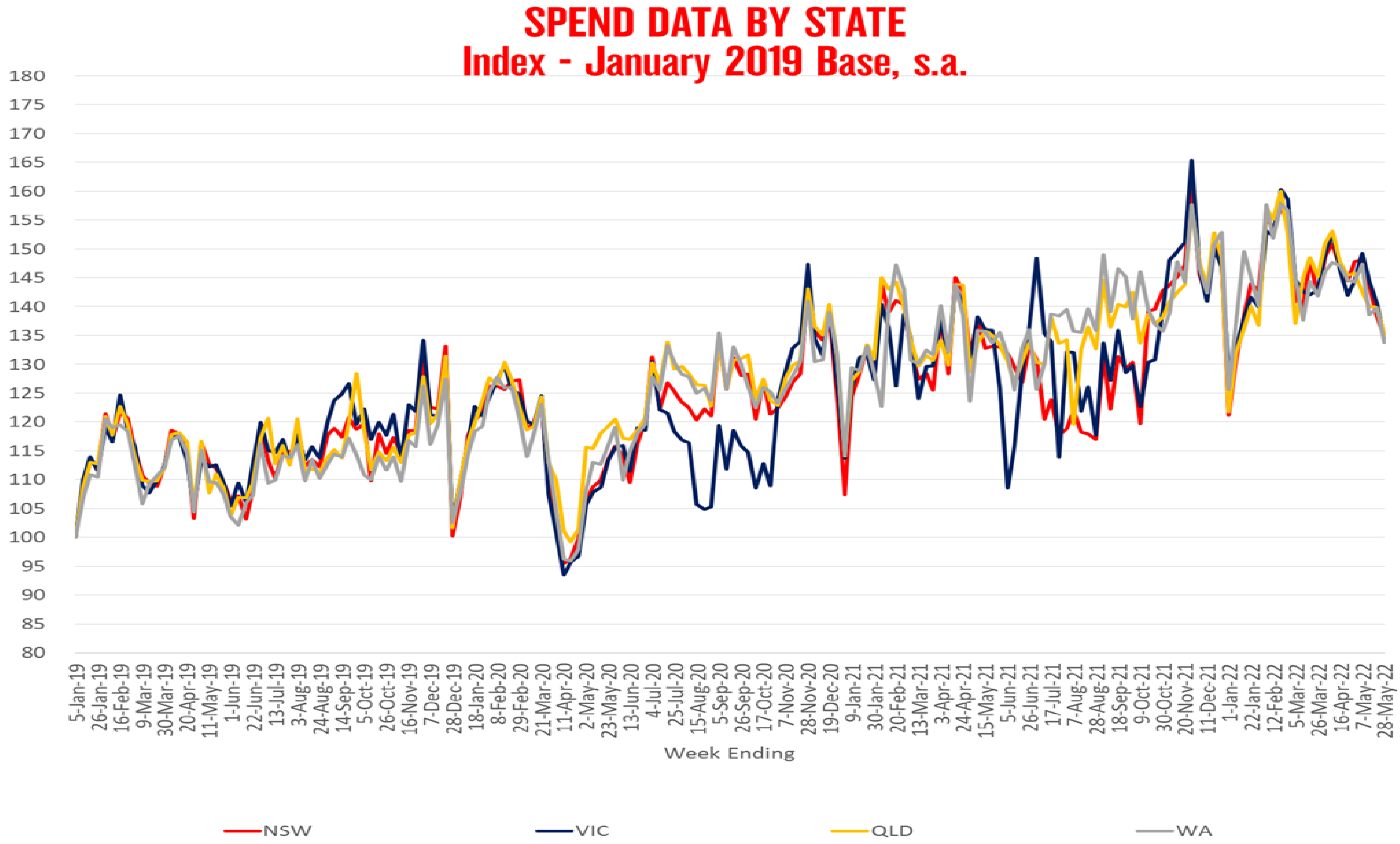
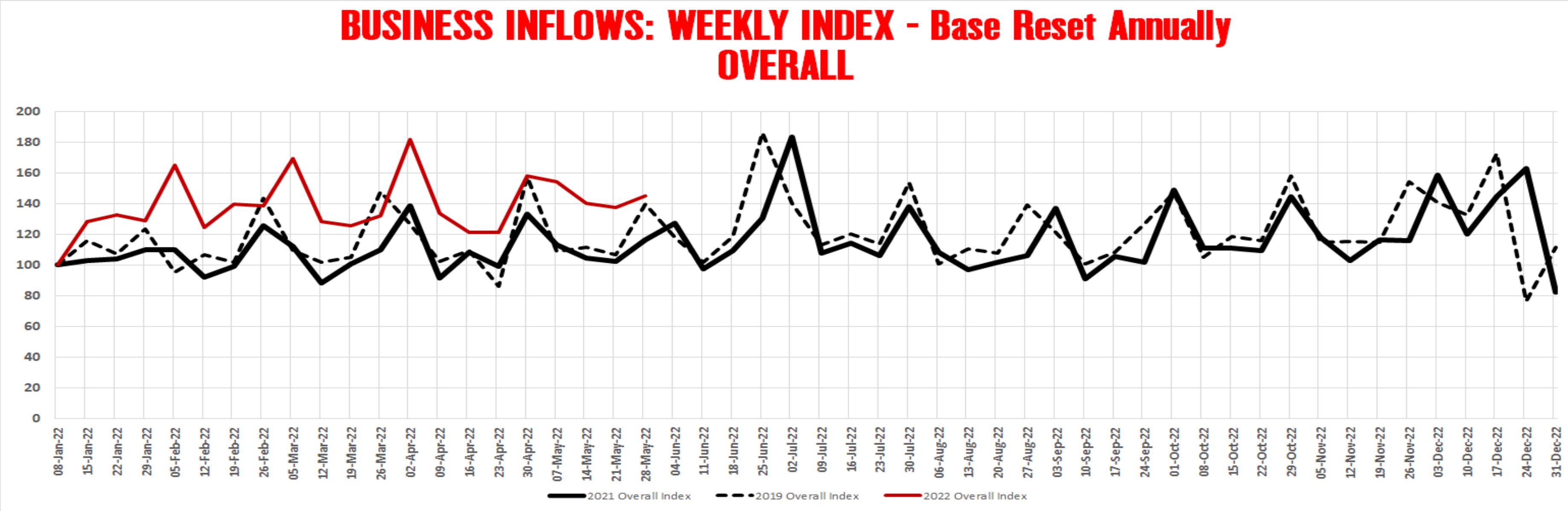
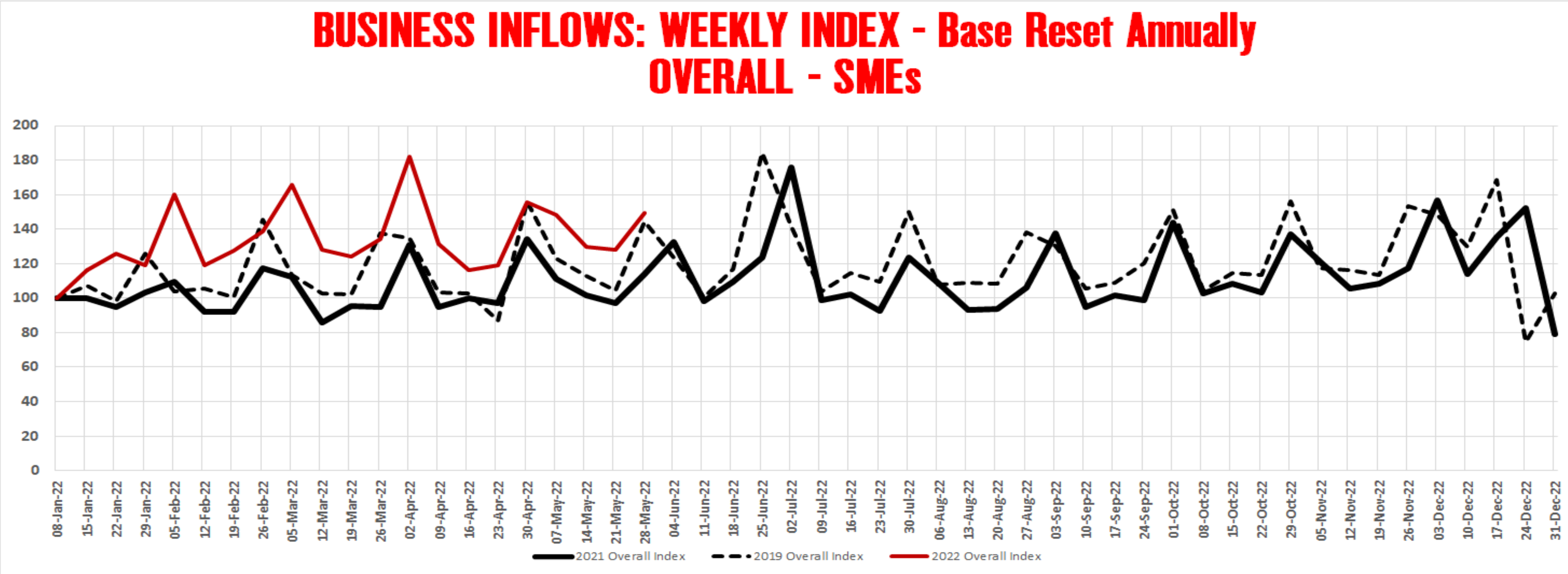
Generally seeing similar trends across states. *– WA, SA and Vic a touch softer. As is ACT. NSW in Mid pack. Tassie doing well*

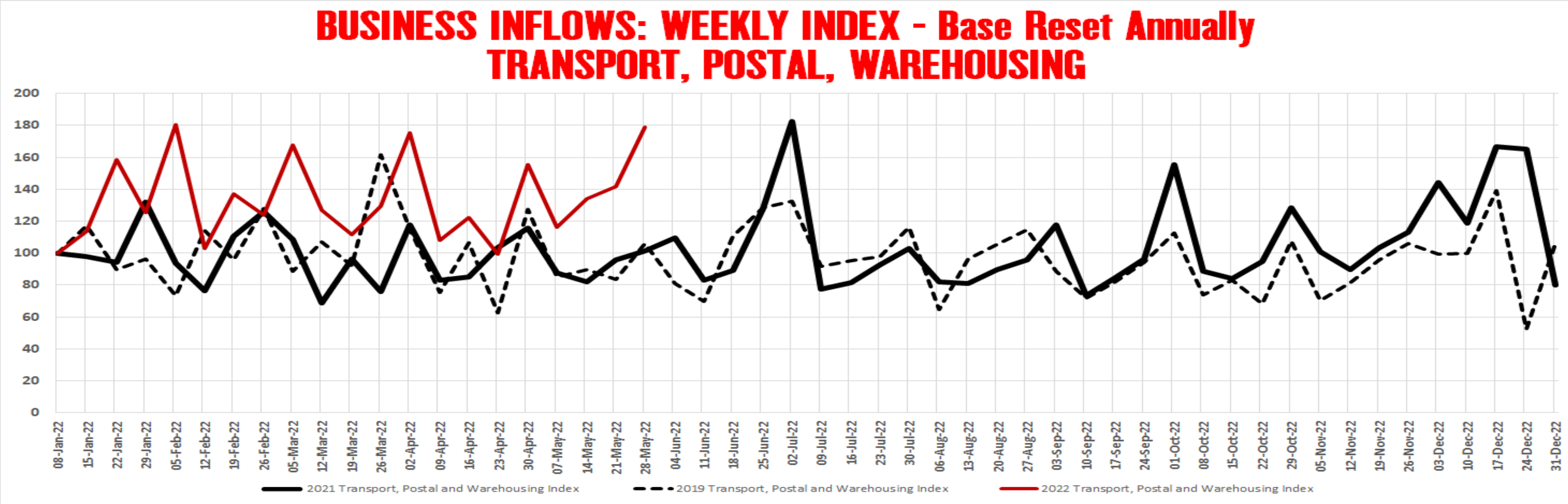


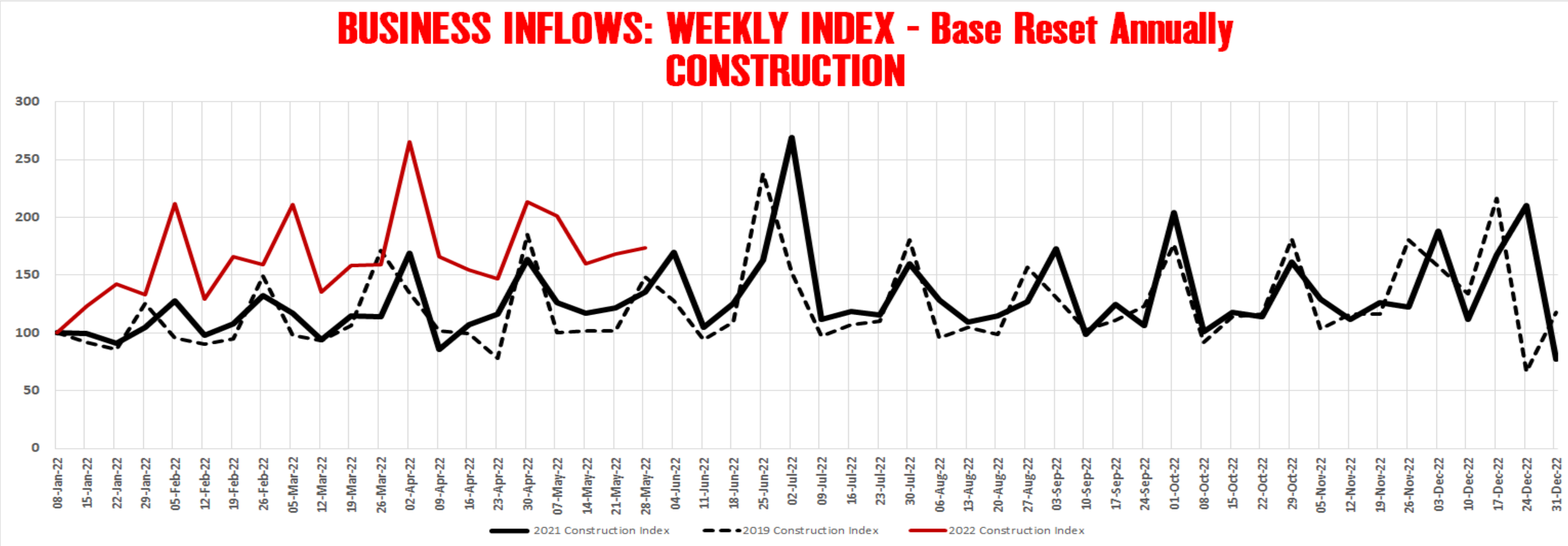
# Business inward credits (Business revenues) – *still good against 2019 benchmark. SMEs much the same maybe a touch weaker. 2022 in red.*



Some industries are doing relatively better on revenue inflows. Interestingly the core parts of the economy are leading the surge - Construction, Manufacturing and Transport. - *But Mining also very strong recently (commodity prices).*



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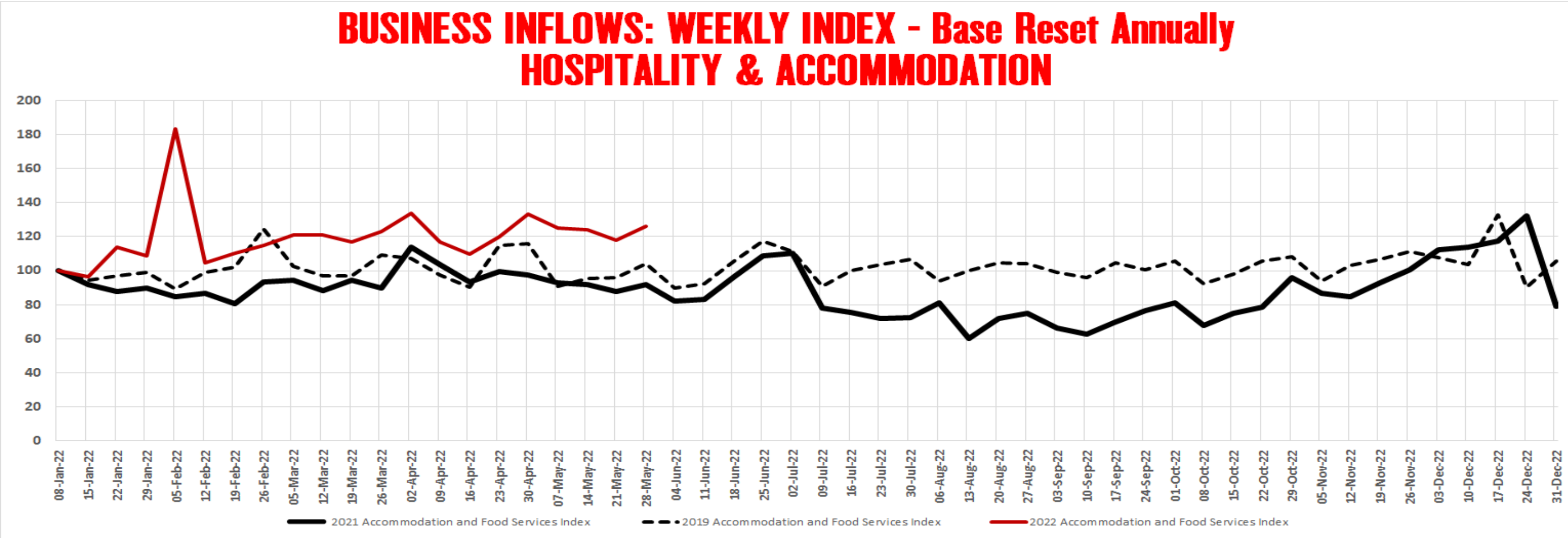
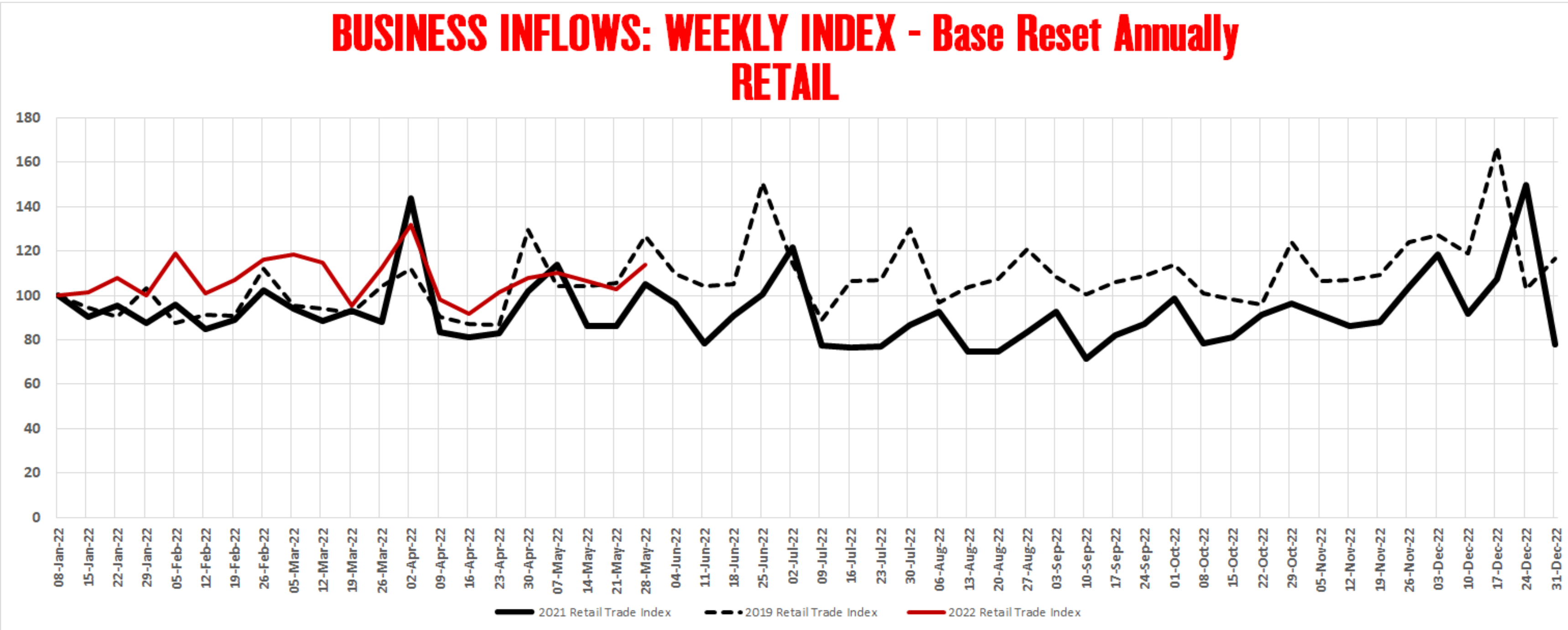
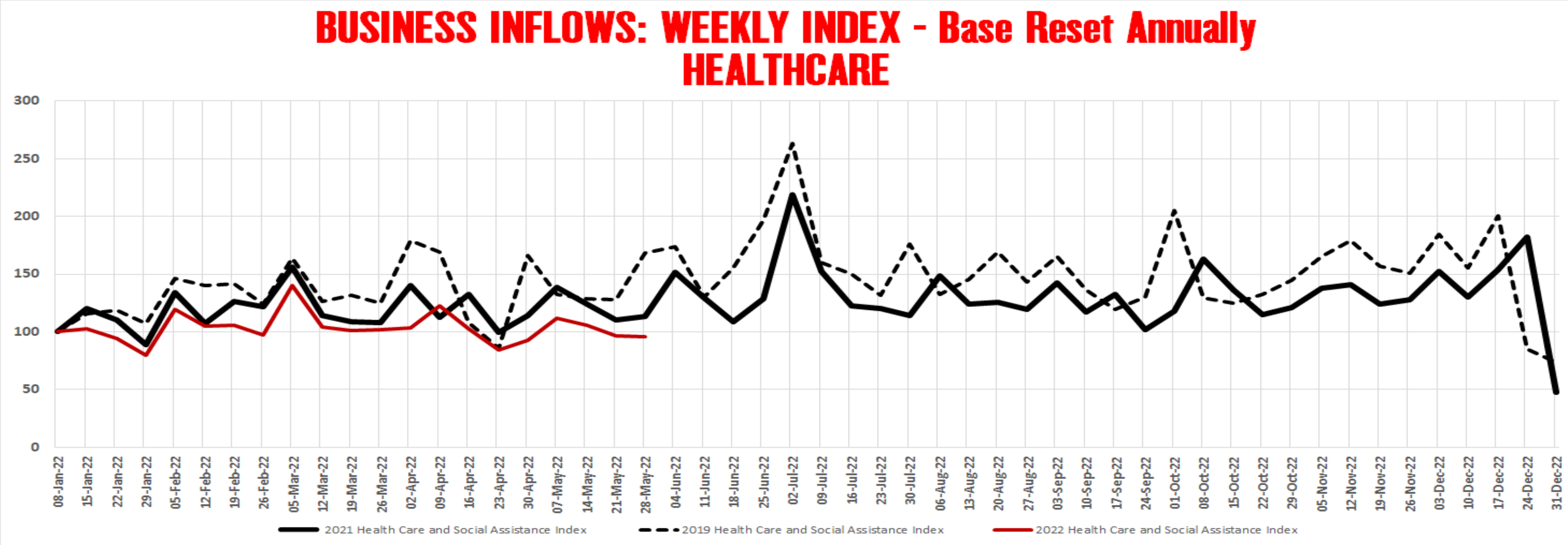
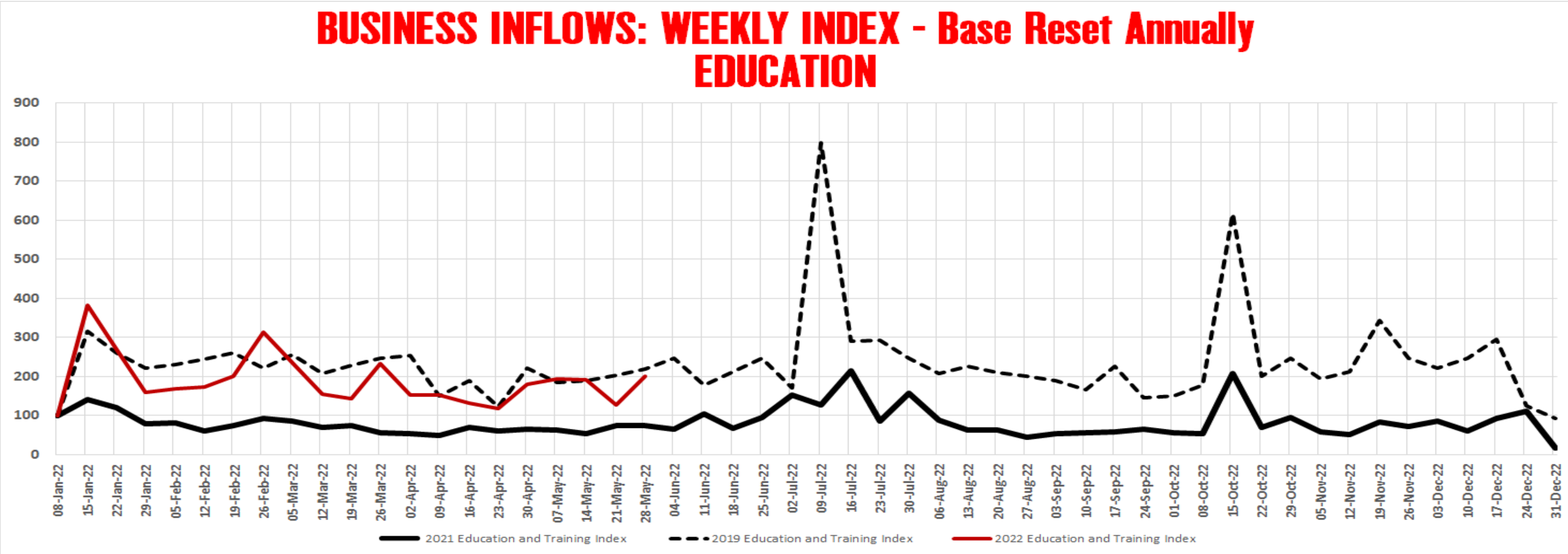
# Hospitality and Accommodation also strong.  Retail now around historical benchmarks. – *But not great.*



# Health still struggling (elective surgery bans). And Education better than last year– returning students help but…



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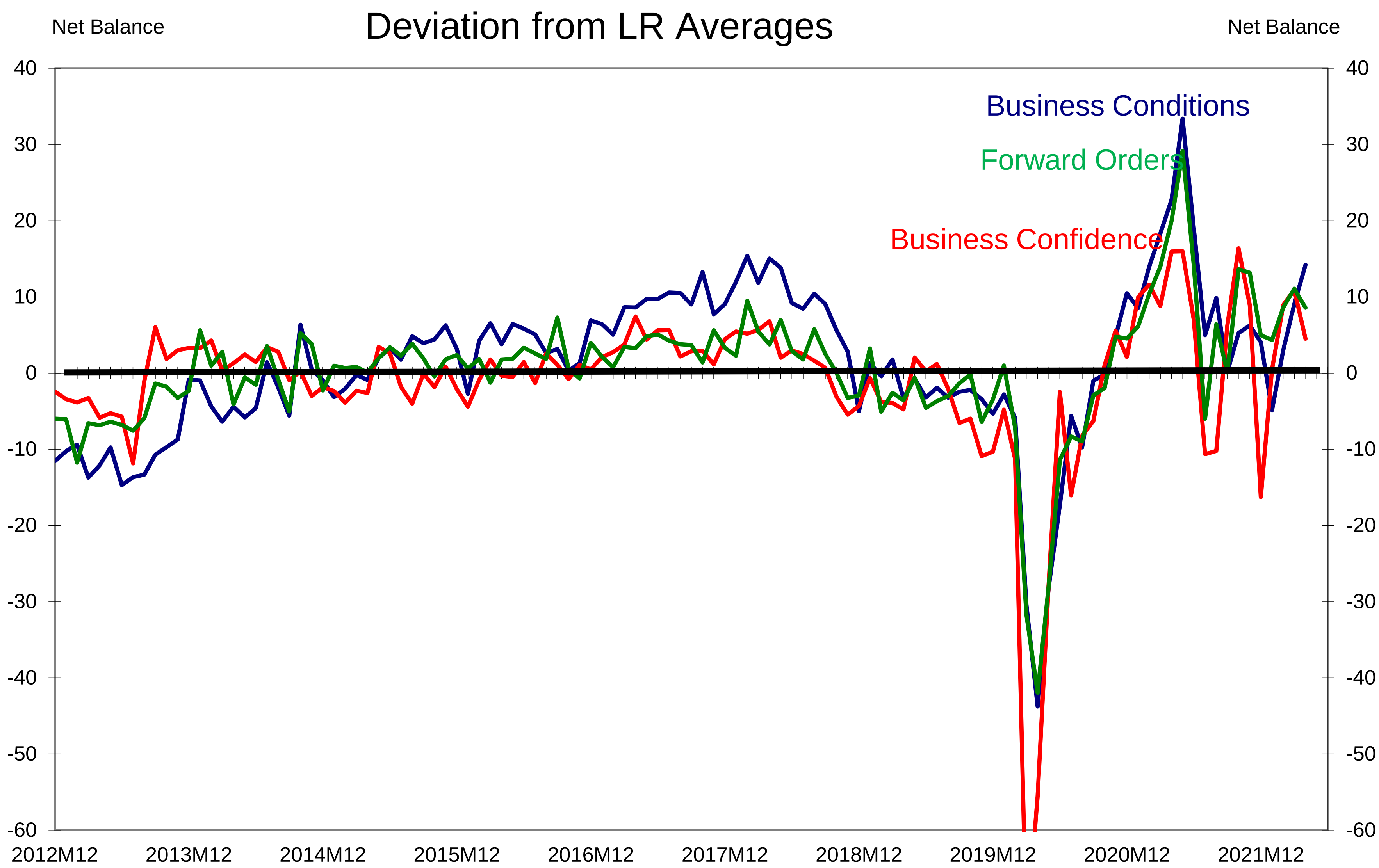
Obviously Omicron crunching confidence and conditions during the pandemic. But still very strong in April. - *Especially forward orders and business outcomes. Confidence may be easing back on rates and election but still very strong. No sign of Russian impact.*



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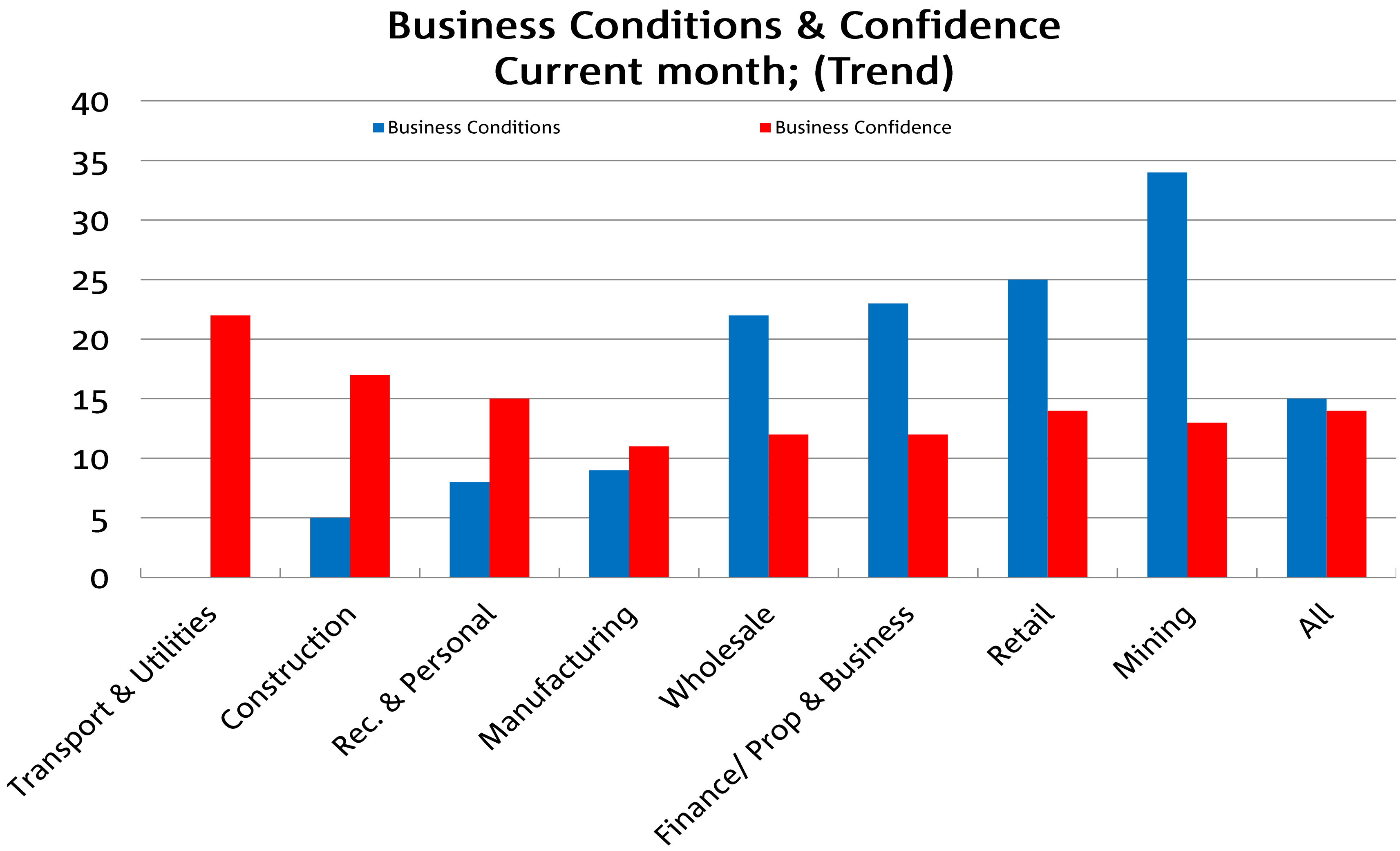
By industry, the hits to conditions were very much driven by hospitality. – *Personal & Rec services in this chart but roaring back now. And weak areas very confident of recovery. Mining on the other hand doing fine and retail strong again.*

## Business Conditions & Confidence in April



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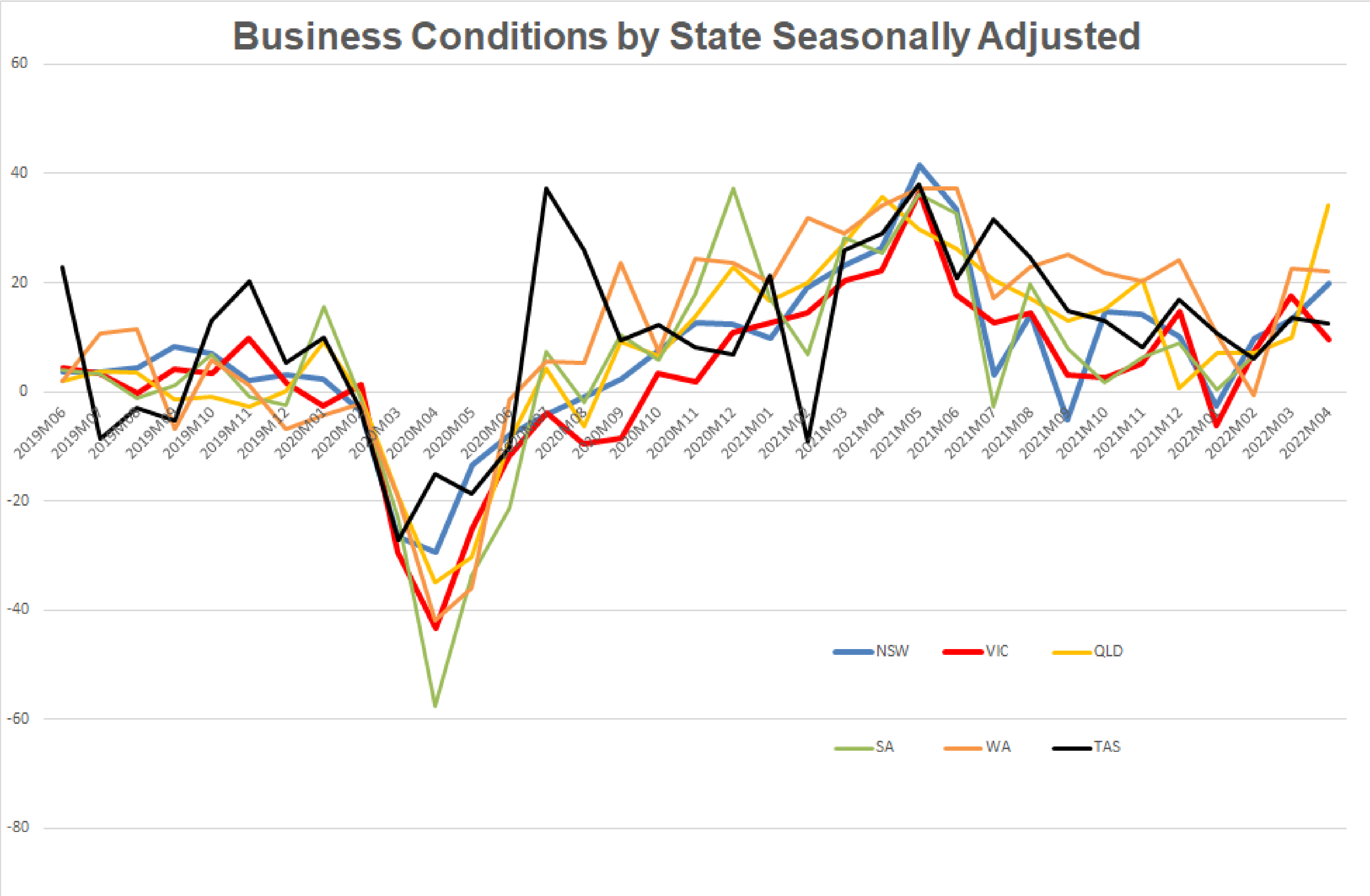
# Recently Qld (and hospitality) leading the way up. *- NSW also better.*



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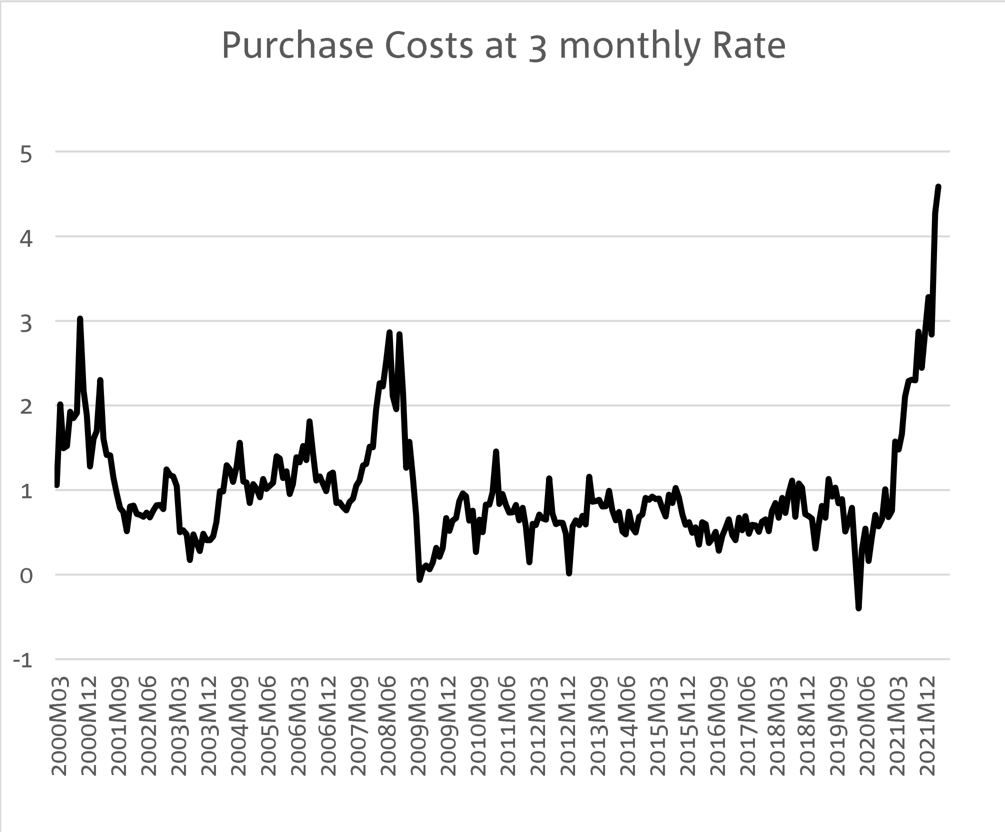
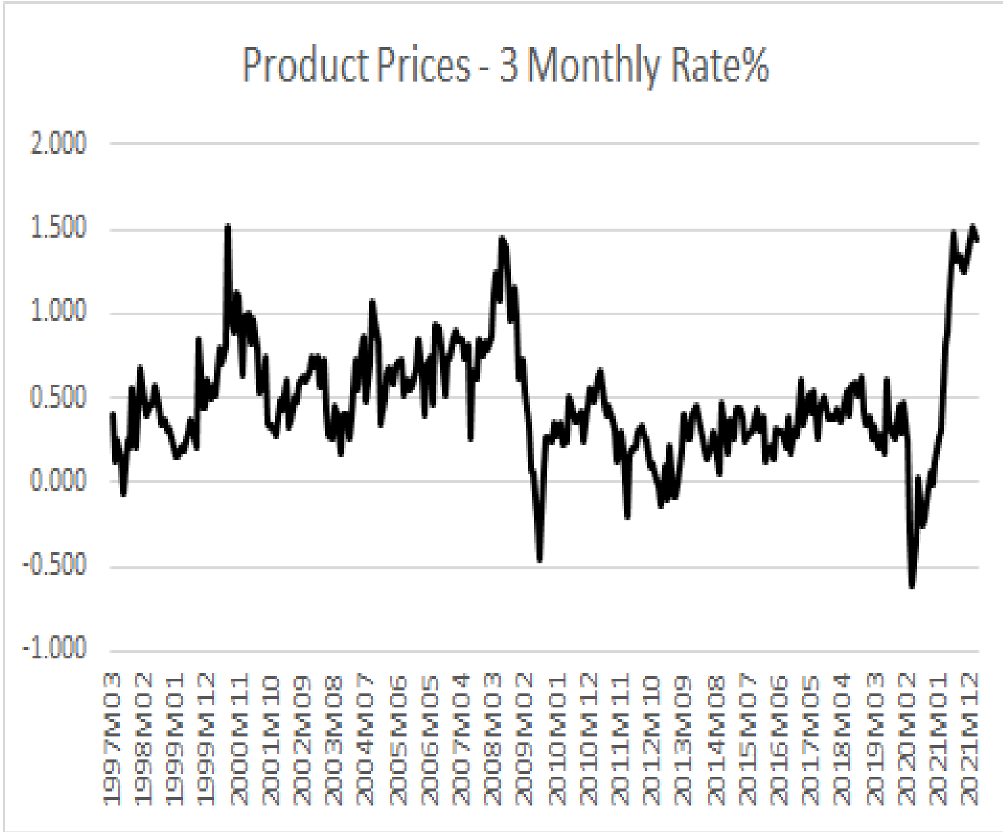
NAB Survey clearly showing increases in purchase costs still going up *– especially construction, wholesale & transport. General prices still very strong but may have flattened out a touch in April (including retail prices after March surge).*

## Purchase Costs – April NAB Survey




## Goods Costs –April NAB Survey



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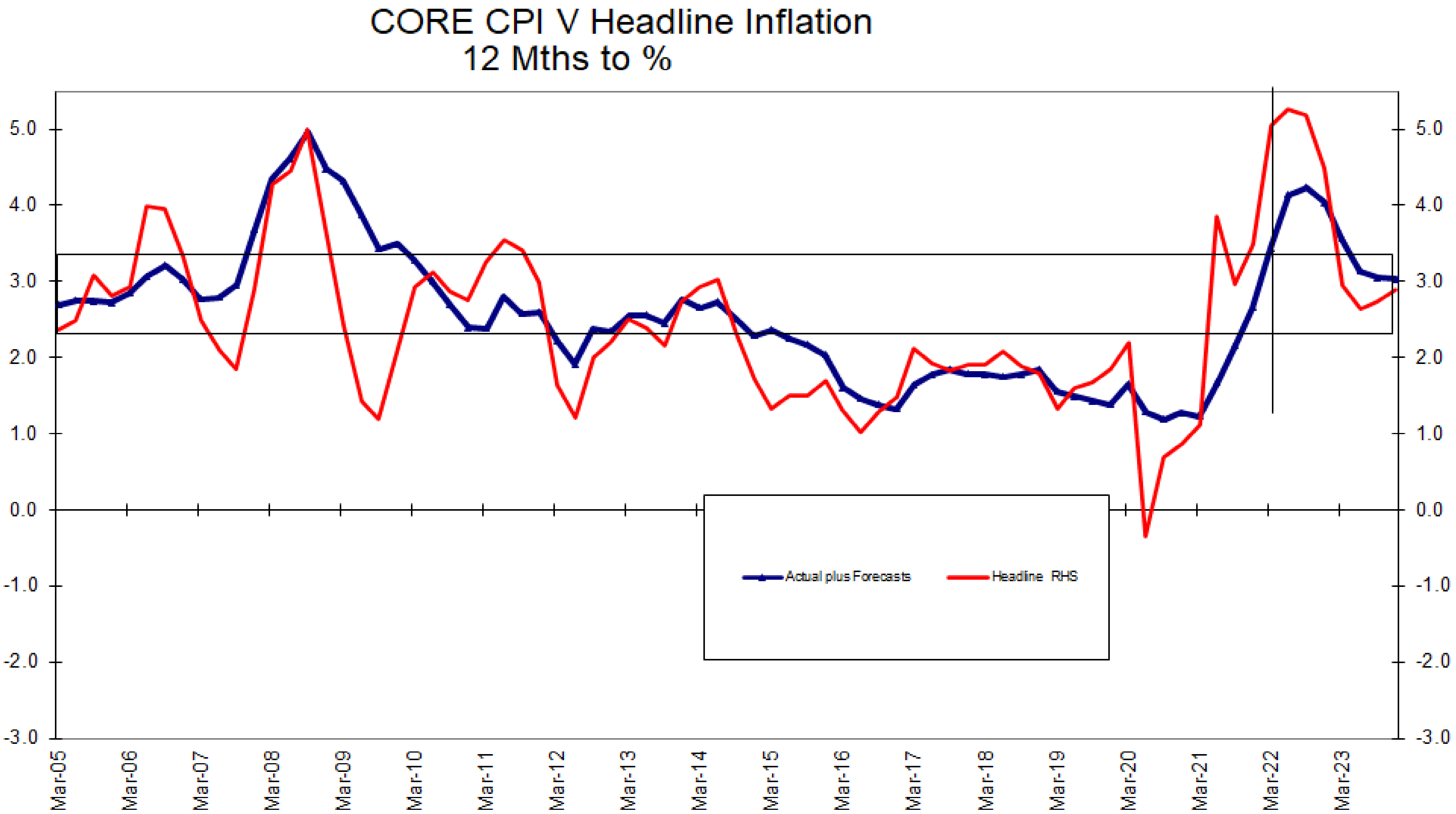
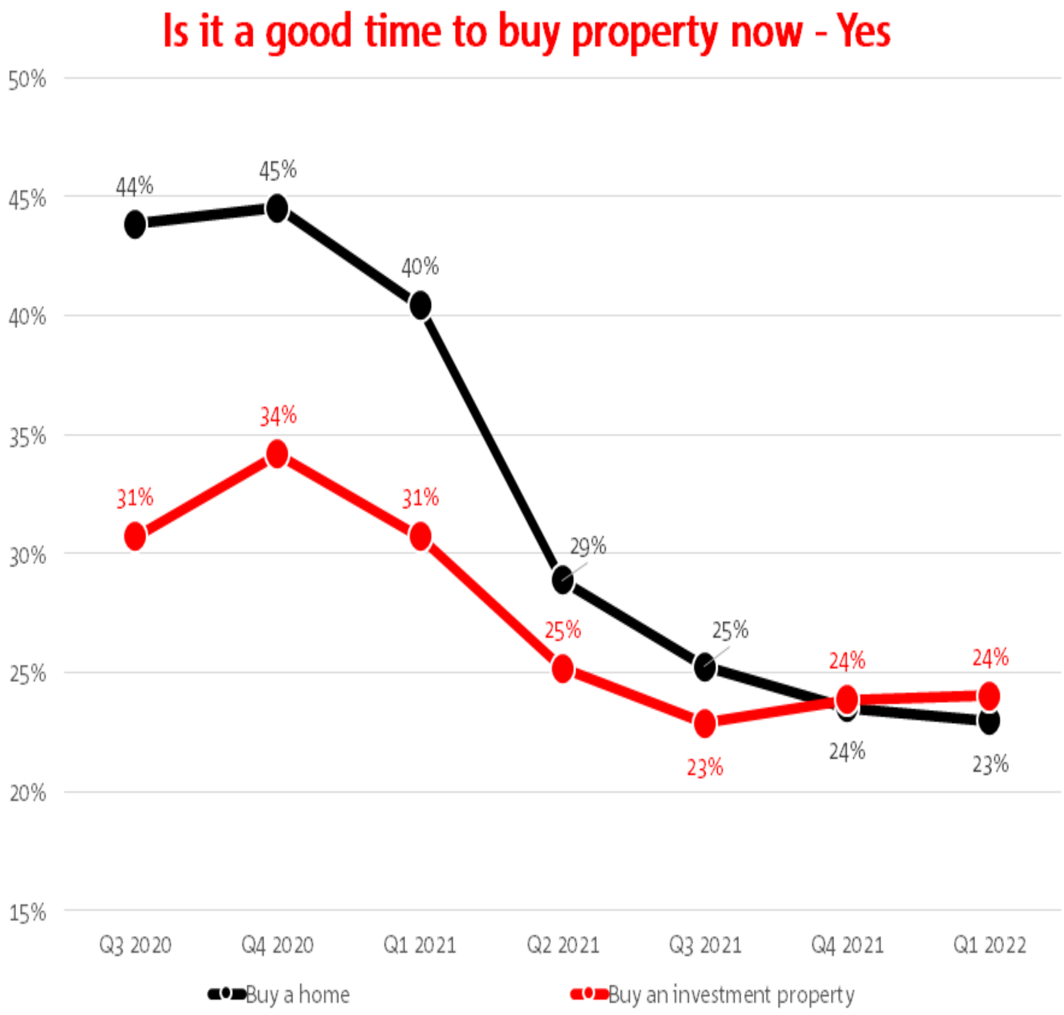
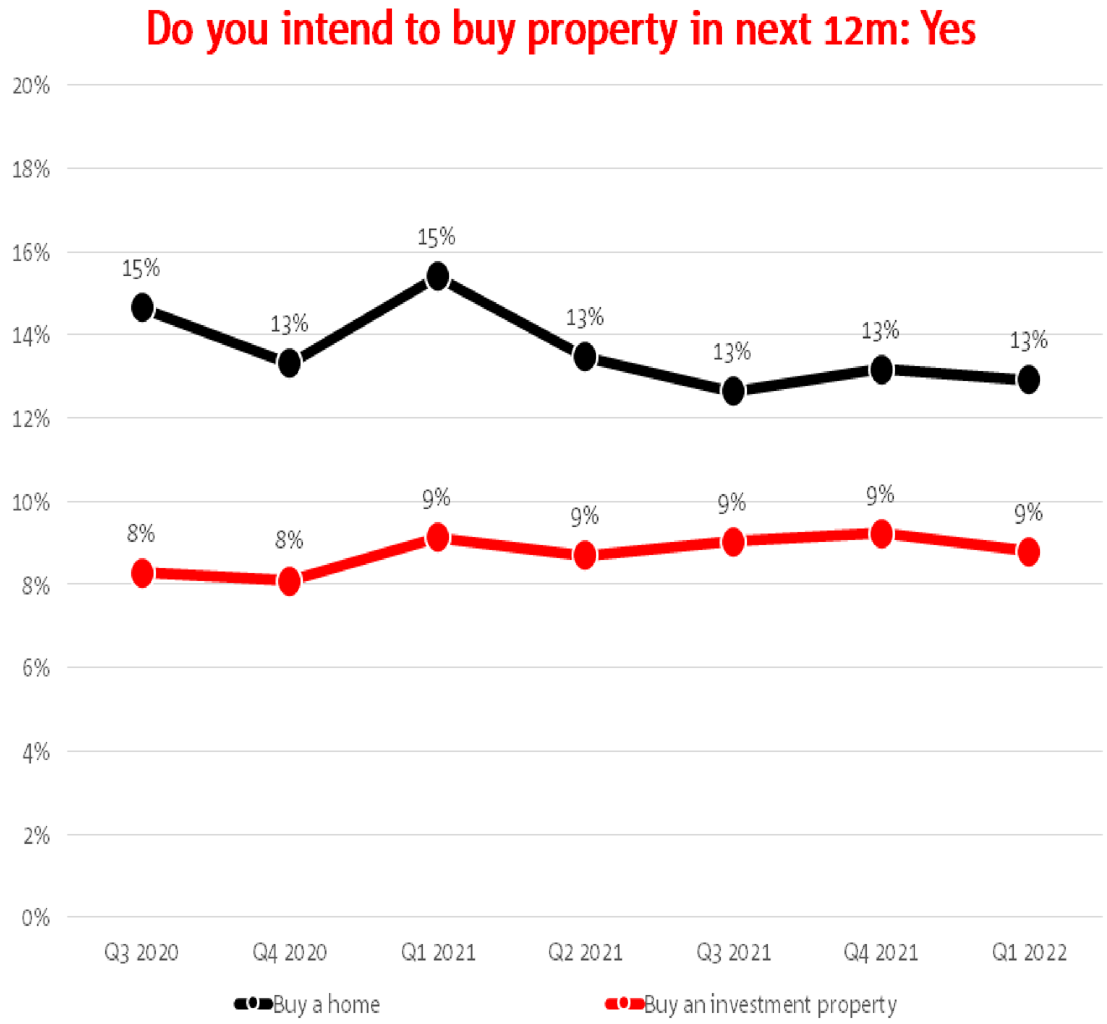
Core inflation hit by supply side problems and higher commodity prices (Russia).

*– Soon core will jump to above 4% and only slightly lower at year end (4.0%). Core at 3% in 2023 and 2.8% in 2024. Headline even higher but will fall faster in next year or so.*



# Consumers are becoming less convinced re whether it's a good time to buy. Expensive and rates will rise. - *But still inclined to do it.*

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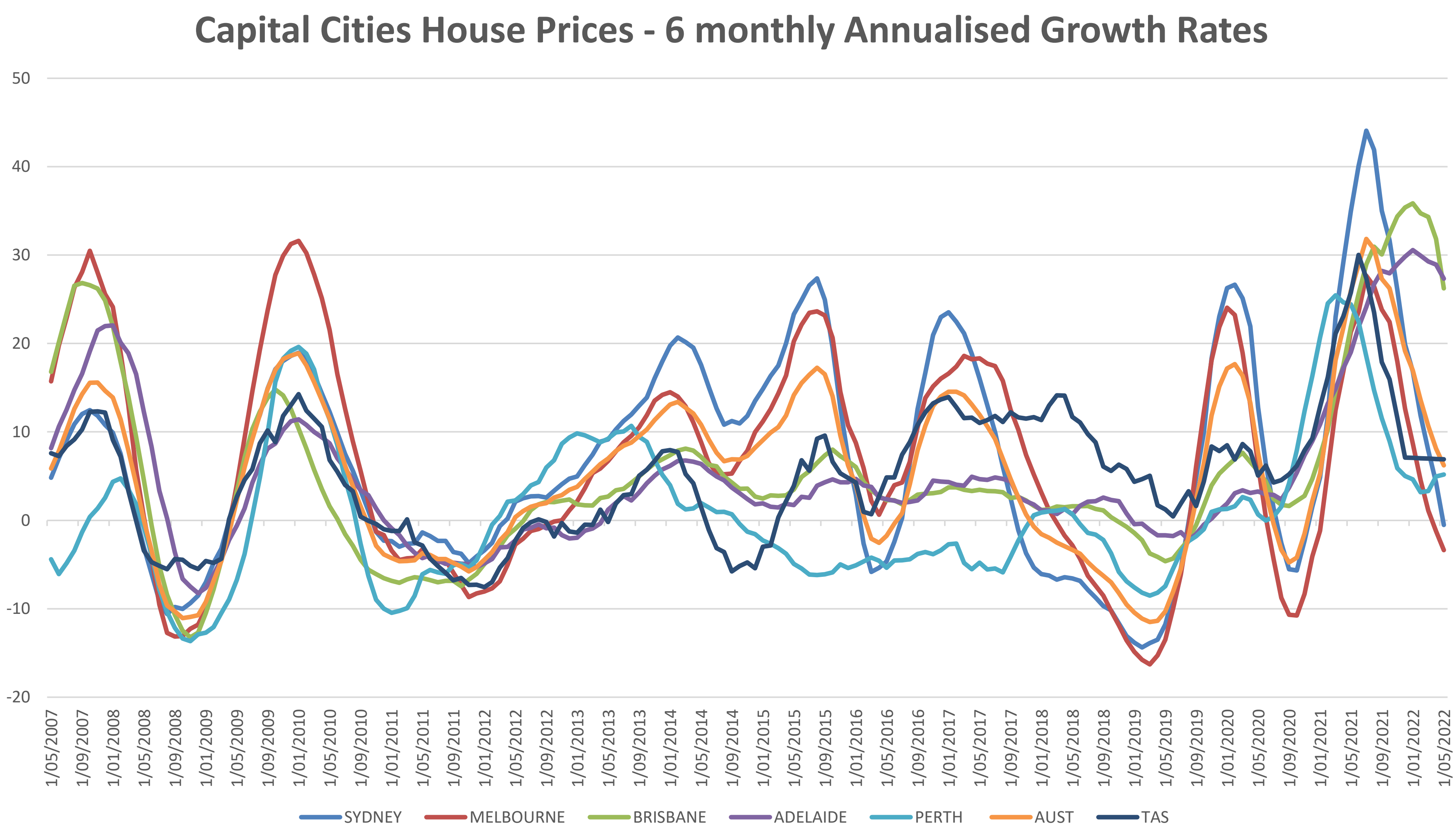
House prices have started to edge down in Sydney/Melbourne. But are still strong in Adelaide and Brisbane. – *Overall annualised 6 monthly rate still up 6% but will move down further. We expect to see falls everywhere in the second half of the year.*



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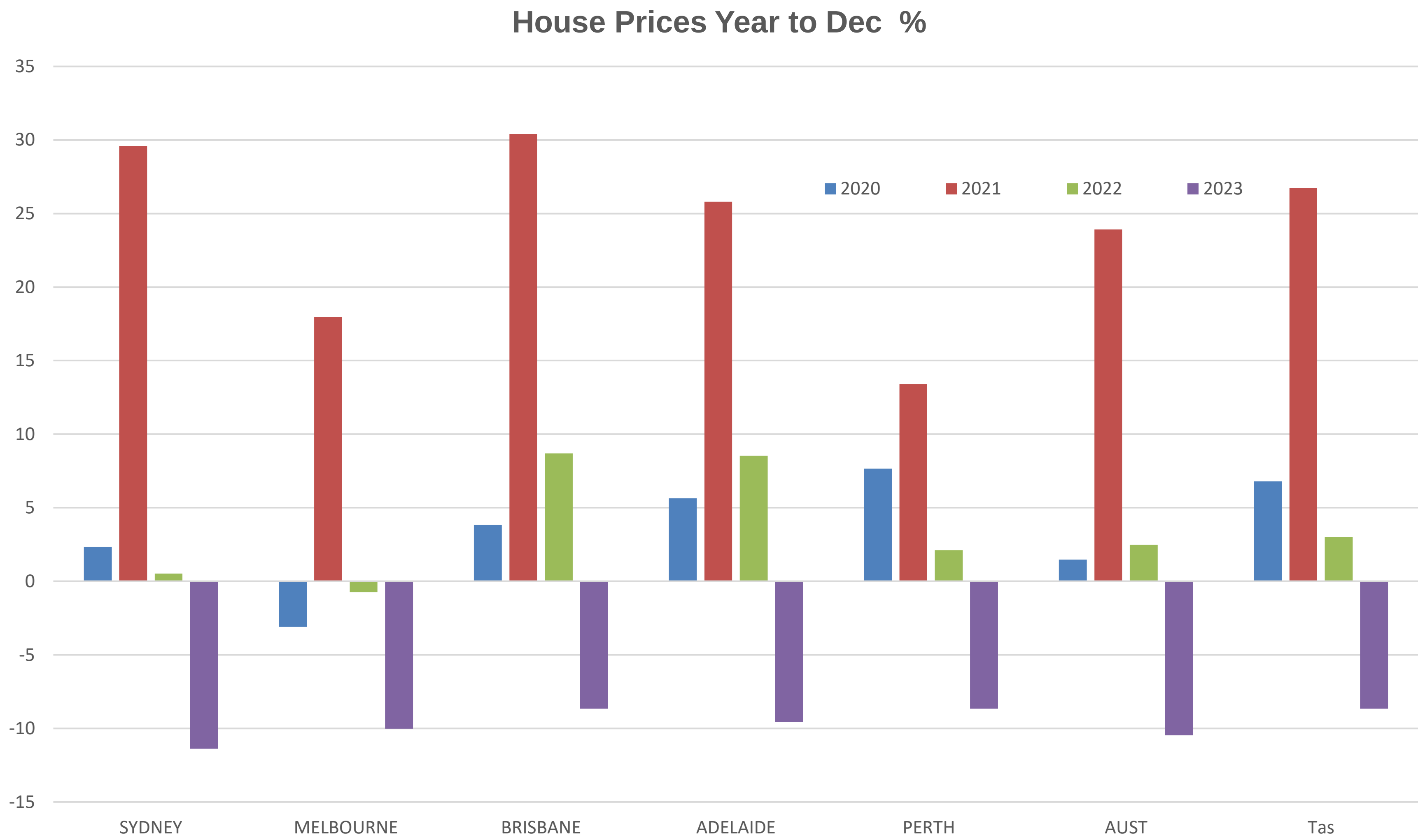
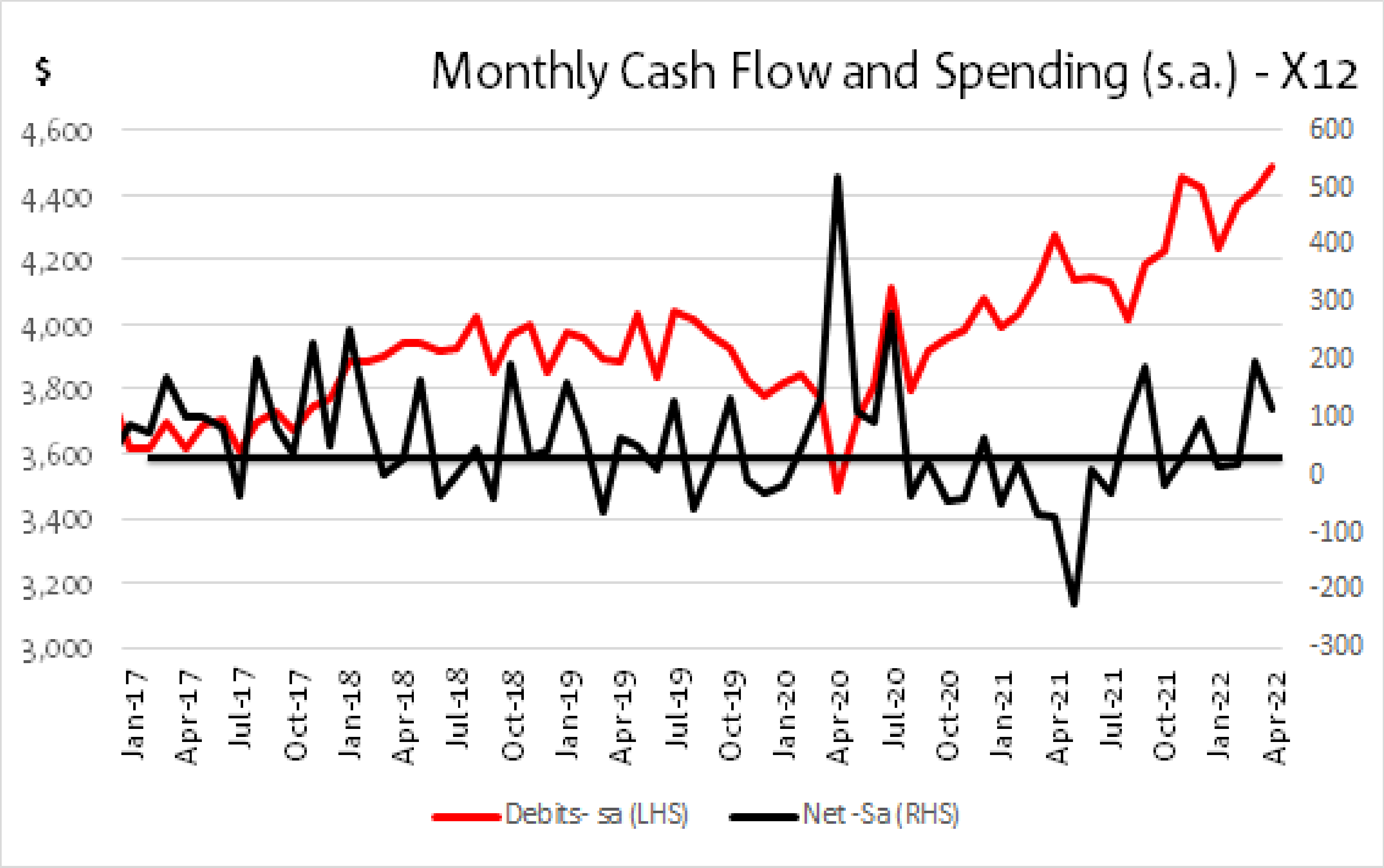
House Price Forecasts. After increasing by around 23% we now expect house prices to be relatively flat in 2022 *– falling in the second half of the year. But fall by around 10% during 2023 on the back of rate rises and falling affordability.*



The combination of falling house prices and global weakness could well see the consumer getting scared. Already their cash flow is not great. – *Currently spending almost as much as they are getting. Probably enough to sustain growth in 2022 but beyond that ???*



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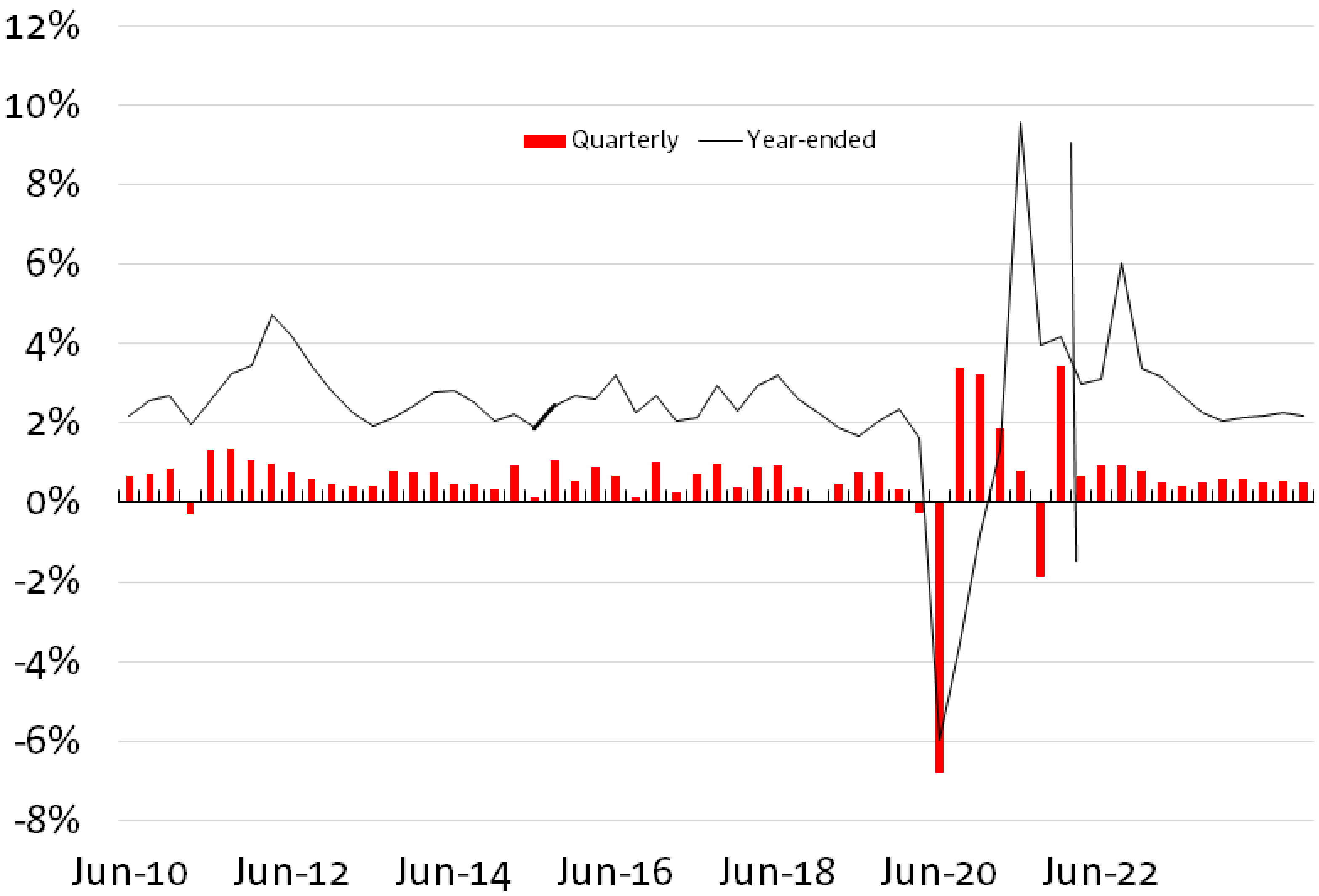
## Our Growth Expectations. – *We see strong growth as consumption comes back but also investment. Then fading to around 2.0% during 2023 and 2.2% through 2024.*

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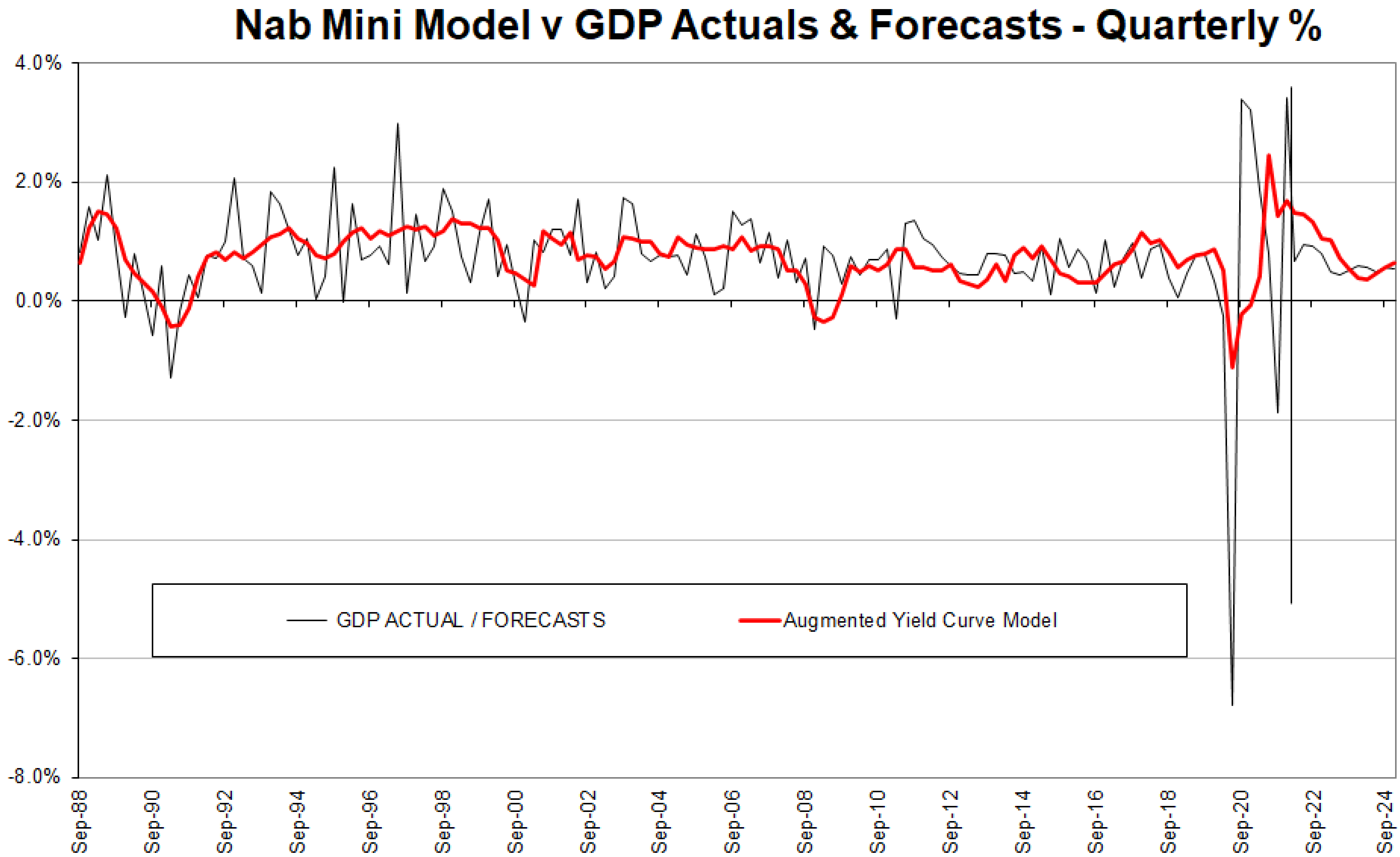
My enhanced yield curve equation - *obviously can't cope with COVID but as we move out of the virus, general trend consistent with the model.*

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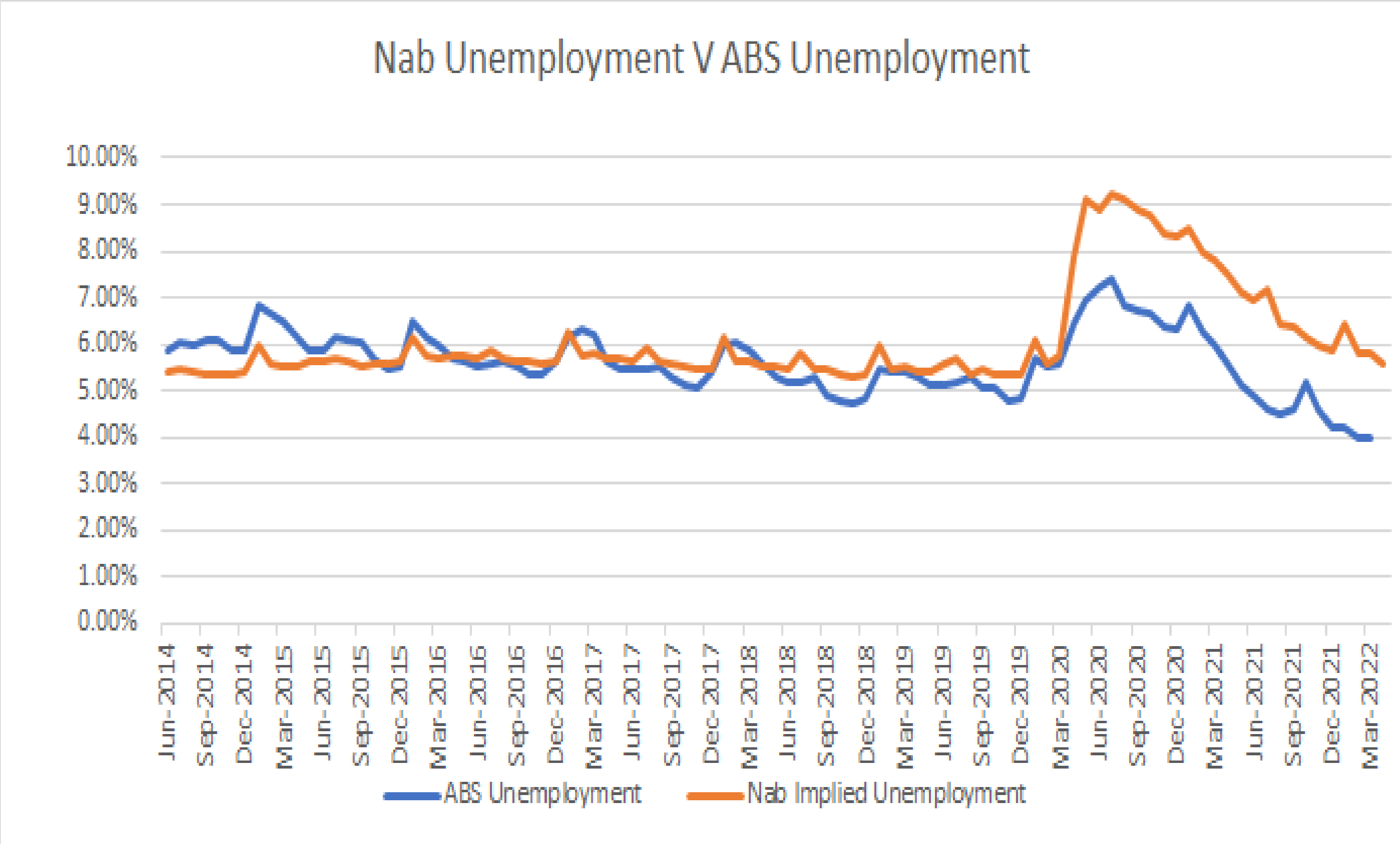
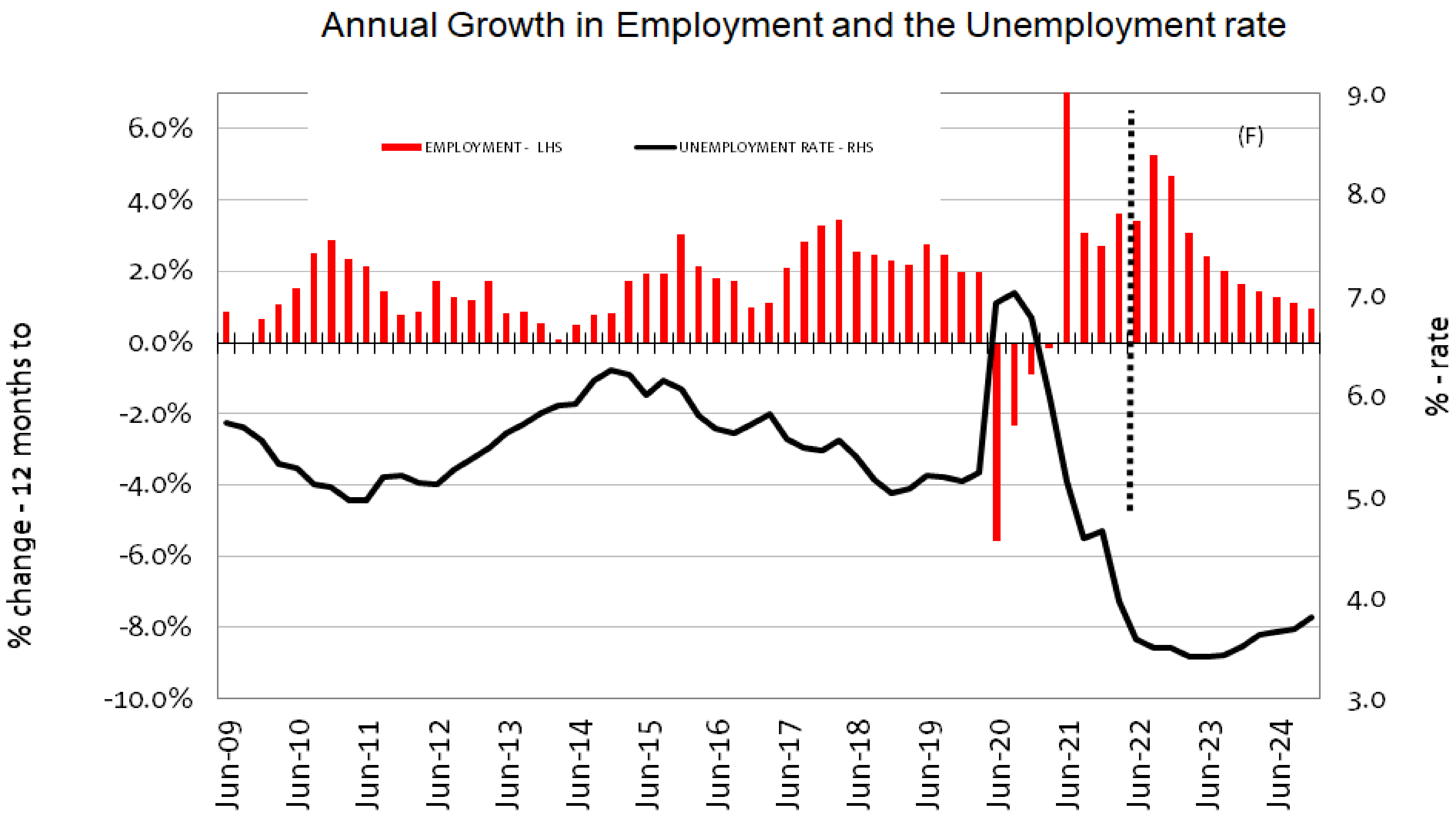
NAB data on the Claimant Count (NAB customers receiving JobSeeker)
*– continues to strengthen in mid April.*



Labour market very impressive. While Omicron hasn't helped, unemployment looks to be below 4% soon and around 3½% by mid year. *- And likely to remain there during 2023 before moving up marginally into 2024.*

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## On RBA

- As expected RBA started rate hikes in May;
  - They went faster than we expected at 25 points;
  - Fundamentally reflects higher inflation for longer.
- We still expect to see 25 point increases in June, July, August and November **with a cash rate of around 1.35 to 1.5 % by year end.**
  - **RBA might change timing and amounts as data comes.**
- **Market pricing at around 3% by year end looks way too aggressive.**
- Then 2-3 rate rises in each of 2023 and 2024;
- Implies a cash rate of **say 2½% by mid 2024;**
- Big issue is whether higher prices are temporary and will moderate as the economy learns to live with the virus. And how high wages. But all about the data.
- Russia also a wild card but hopefully we will know more in 6 months time.

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