THE FORWARD VIEW – GLOBAL

NOVEMBER 2022

National Australia Bank

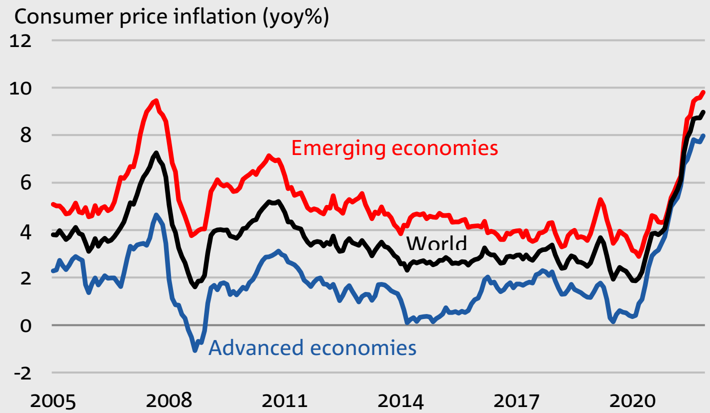
Further monetary tightening to significantly slow growth in 2023

- Inflationary pressures are proving persistent – there was a slight uptick in consumer price growth in September to 9.0% yoy (following on from three months of stability at 8.7% yoy) – with a notable pickup in Eurozone prices (in part related to energy costs). Following the November FOMC meeting, the US Fed Chair noted that inflation had not come down as rapidly as expected – increasing the likelihood of further rate rises in coming months.
- Major central banks have continued to lift policy rates – with both the US Federal Reserve and European Central Bank increasing rates by 75 basis points in early November and late October respectively. In the case of the Fed, it was the fourth 75 basis point increase in a row, and we anticipate an additional 100 basis points of increases over the next three meetings – bringing the fed funds rate to 5.0%. As inflation data are lagged, there is a risk that rates rise to levels above those necessary to curb inflation, resulting in deeper recessions in advanced economies.
- Our forecast profile is largely unchanged – with a significant slowdown anticipated in 2023, down to 2.2% (from 2.3% previously), reflecting lower growth expectations for the UK, east Asia (ex. Japan & China) and Russia, before a partial recovery in 2024 to 2.8%. These rates of growth would still be well below the long run average of 3.4% (over the period from 1980 onwards).
- China's zero-COVID public health policies remain a key uncertainty for the global outlook. Rumours circulating on Chinese social media in early November suggested a committee had been formed to develop plans for a post-COVID-19 reopening – targeting March 2023 – however this has subsequently been countered by various officials, most notably China's National Health Commission.
- Risks related to the Russia-Ukraine conflict – particularly around energy and agricultural supplies from the region – also persist, while various geo-political tensions (most notably between the US and China) could also re-emerge.

Global Growth Forecasts (% change)

	2020	2021	2022	2023	2024
US	-2.8	5.9	1.9	0.1	1.1
Euro-zone	-6.3	5.3	3.2	0.2	1.2
Japan	-4.6	1.7	1.5	1.4	0.9
UK	-11.0	7.5	4.2	-0.6	0.9
Canada	-5.2	4.5	3.2	0.7	0.9
China	2.2	8.1	3.4	5.0	4.5
India	-6.6	8.3	7.3	4.4	5.6
Latin America	-7.0	6.2	3.1	0.8	1.3
Other East Asia	-2.8	4.3	4.2	2.7	3.7
Australia	-2.1	4.9	3.9	1.2	0.9
NZ	-2.1	5.5	2.4	1.0	1.5
Global	**-3.1**	**6.1**	**3.3**	**2.2**	**2.8**

Inflationary pressures have proved persistent



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CONTACT

Alan Oster, Group Chief Economist
+61 (0)414 444 652

Gerard Burg, Senior Economist – International, +61 (0)477 723 768

Tony Kelly, Senior Economist
+61 (0)477 746 237

AUTHORS

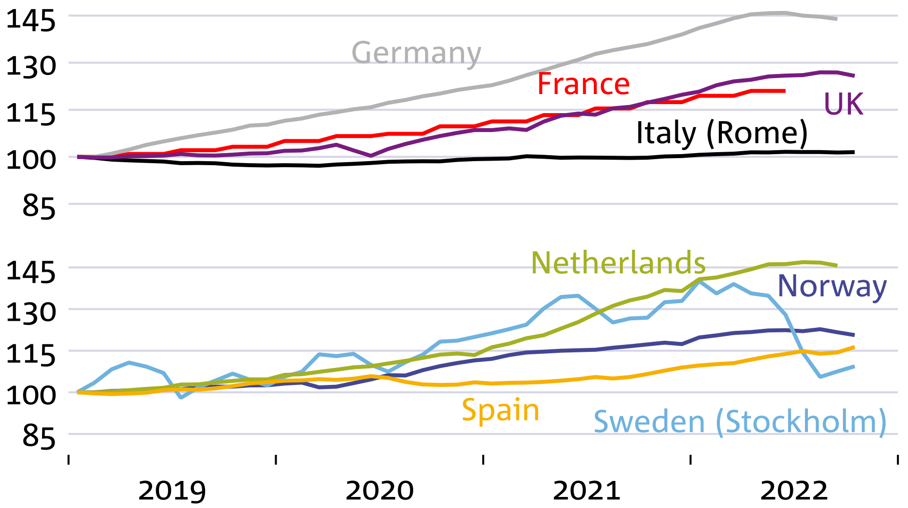
Gerard Burg & Tony Kelly

CHARTS OF THE MONTH

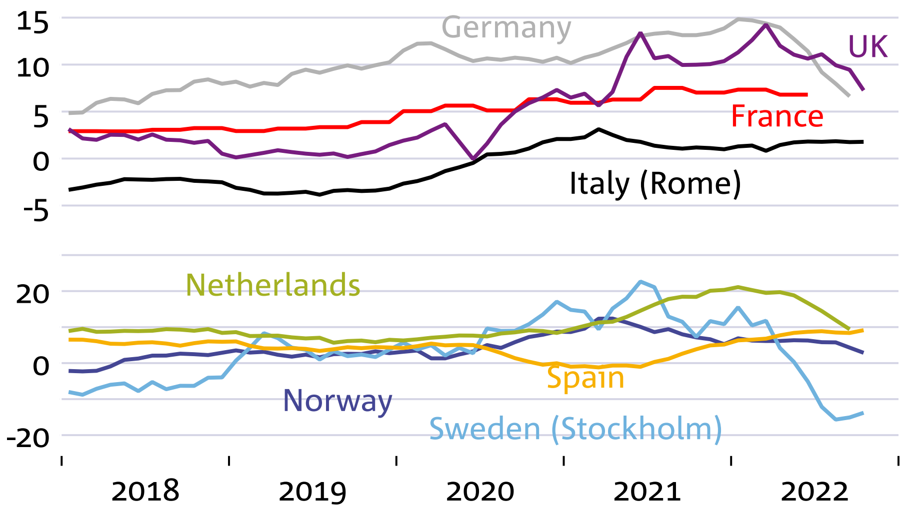
Many countries saw strong dwelling price growth after the initial COVID wave (policy stimulus, changes in housing preference) but price growth now easing or falling as interest rates rise. Cycle most pronounced in anglosphere.

After initial COVID wave some European countries saw growth strengthen (UK, Sweden, Neth) or stay strong (Germany) but price grown now generally easing or falling

Residential property price indices (Jan 2019 =100)

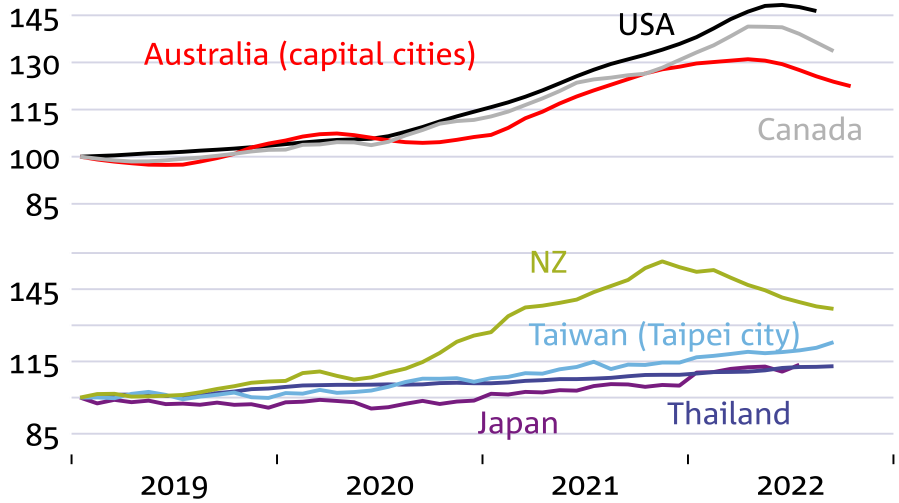


Residential property prices (y/y%)

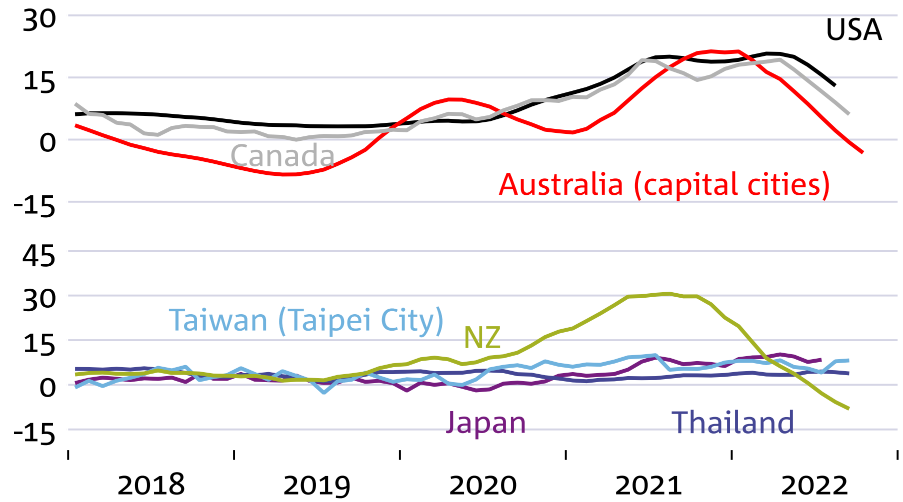


After initial shock US, Aust, Canada, NZ saw large prices rises – but now falling. Asia generally less change but for Japan price growth has been rapid by its standards

Residential property price indices (Jan 2019 =100)



Residential property prices (y/y%)

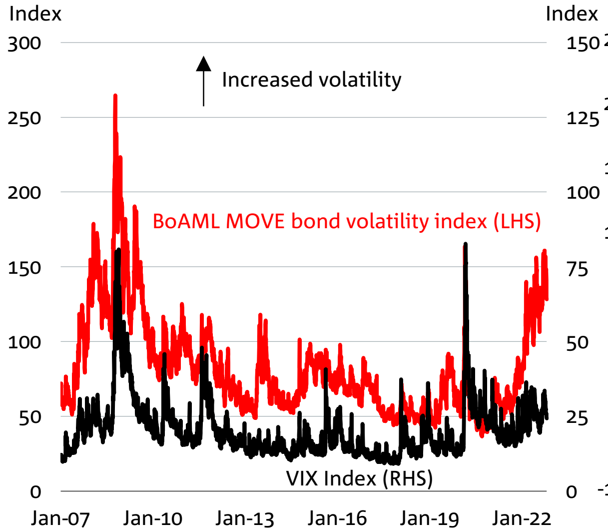


 Sources: Macrobond, Corelogic, NAB Economics

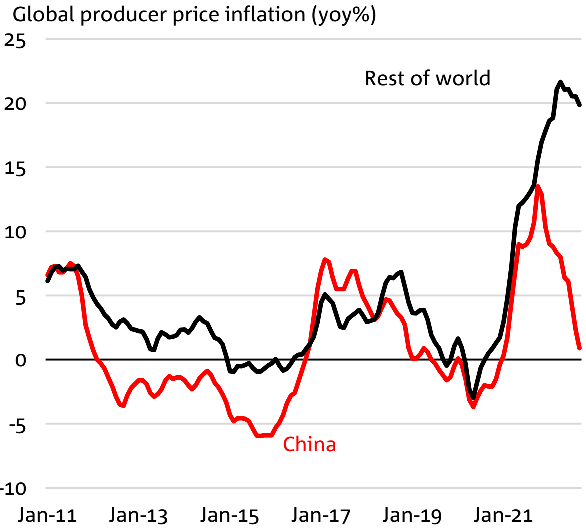
FINANCIAL AND COMMODITY MARKETS

Inflation has not slowed as central banks anticipated, leading to further policy rate hikes

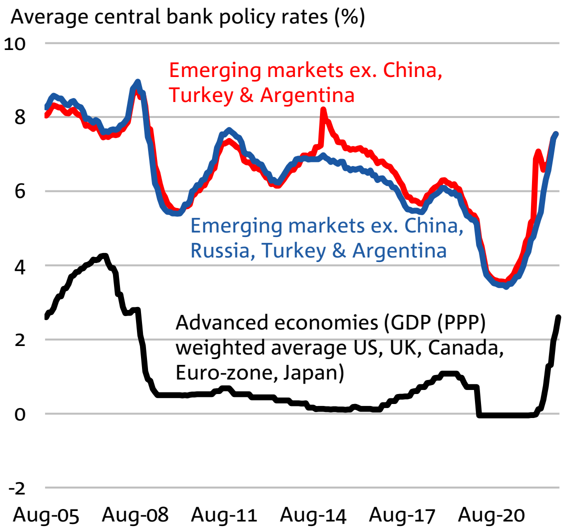
Bond and equity market volatility remains historically elevated



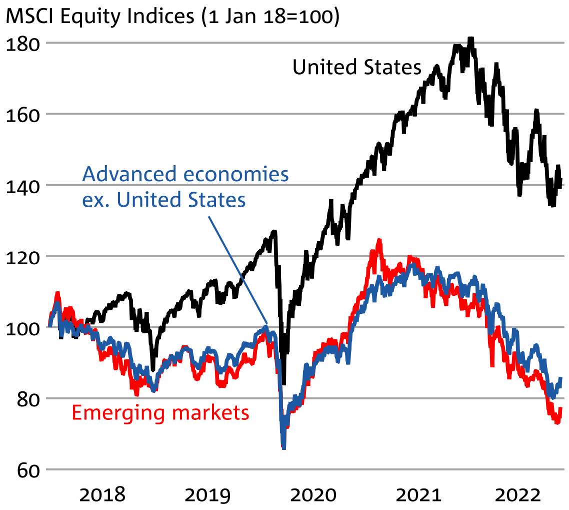
Stark contrast between producer price growth in China vs. ROW



Central banks continue the rapid pace of monetary tightening



Modest US rally in October, but equities still trend lower



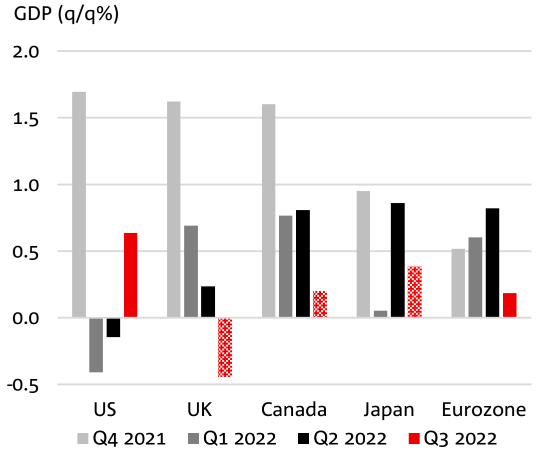
- Recent volatile trends in financial markets continued in October. Both the VIX index and MOVE index – that track volatility in US equity and bond markets respectively – remained at historically elevated levels in October – as markets continue to weigh monetary policy expectations given competing pressures of persistent inflation and slowing economic activity.
- Global inflation data are available to September and show a slight uptick in consumer price growth – to 9.0% yoy (following on from three months of stability at 8.7% yoy) – with a notable pickup in Eurozone prices (in part related to energy costs). Following the November FOMC meeting, the US Fed Chair noted that inflation had not come down as rapidly as expected – increasing the likelihood of further rate rises in coming months.
- Global producer price growth peaked in April (at around 18.8% yoy) and has subsequently eased (to 15.9% yoy in September). That said, there is a considerable disparity between producer price trends in China – where producers may be discounting in the face of weakening global goods demand – and the rest of the world.
- Major central banks have continued to lift policy rates – with both the US Federal Reserve and European Central Bank increasing rates by 75 basis points in early November and late October respectively. In the case of the Fed, it was the fourth 75 basis point increase in a row, and we anticipate an additional 100 basis points of increases over the next three meetings – bringing the fed funds rate to 5.0%.
- Equity market trends were mixed in October. US markets saw a modest rally in the second half of the month – with the MSCI US index rising around 8.9% from the mid-October trough (the lowest level since November 2020) to the late month peak, before subsequently easing. These gains were largely driven outside the tech sector – led by energy, industrial and financial firms.
- Gains in other advanced economies were somewhat more muted over the same period, while EM equity markets saw little improvement – with China's main equity markets drifting lower since mid-September. Broad trends in equity markets have been weaker since early 2022.
- Commodity prices have also exhibited volatility in recent months – with energy prices in particular unstable. Although deteriorating demand should put downward pressure on energy prices, the Russia-Ukraine conflict is impacting prices in Europe, while OPEC+ implemented production cuts to limit the downside for oil prices.

 Sources: Refinitiv, Macrobond, NAB Economics

ADVANCED ECONOMIES

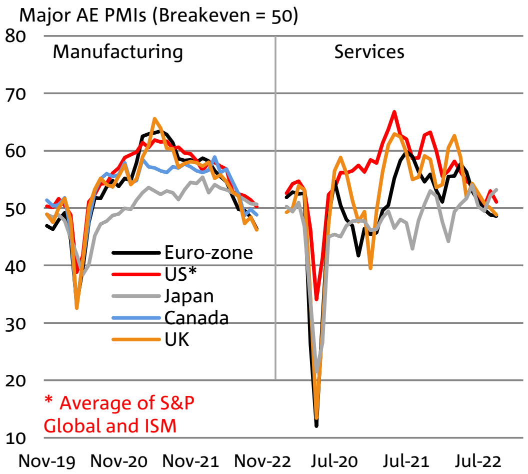
US GDP bounced back in Q3, but other AEs likely slowed & business surveys still trending down

US growth bounced back in Q3, but softer elsewhere

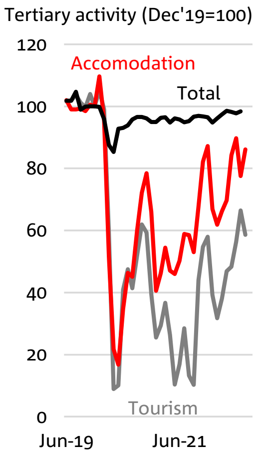


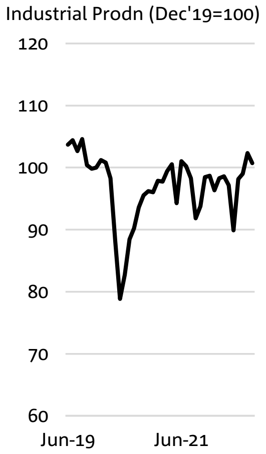
Shaded columns are NAB forecasts

No change in downward trend in business surveys in October

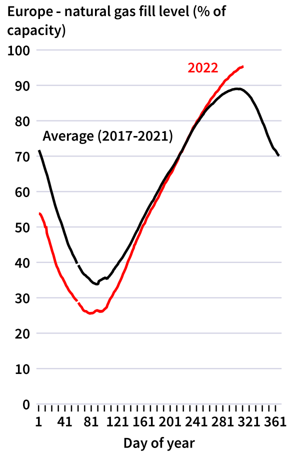


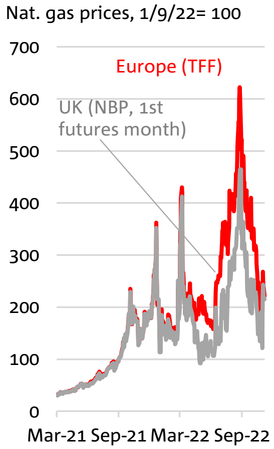
Japan – recent growth boosted by normalisation of activity & recovery from supply disruptions





Europe-energy storage high, prices down – less downside risk for now





Sources: Refinitiv, Macrobond, NAB Economics

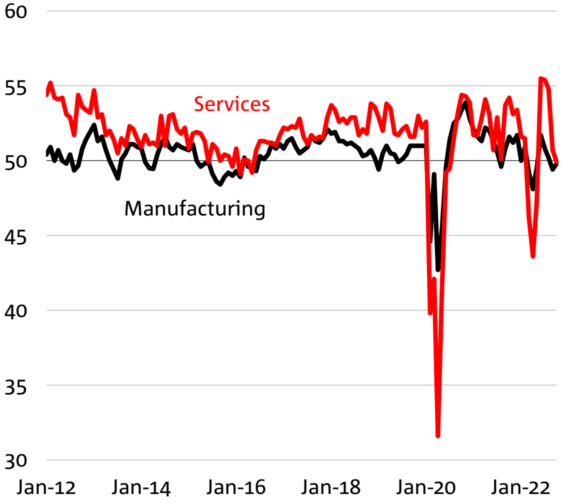
- The US economy rebounded in Q3 but there was a marked slowdown in the Euro-zone. US GDP increased by 0.6% q/q, but over the last three quarters is only up 0.1%. In contrast, Euro-zone GDP grew by 0.2% q/q, well down on 0.8% q/q in Q2, due to a fading boost from the end of COVID-19 restrictions as well as the impact of the European energy supply shock.
- In the UK, we expect to see a fall in Q3 GDP – average monthly GDP for July/August was 0.4% below the Q2 level – due to the impact of past monetary tightening and the big national income shock from the rise in energy prices. We noted last month the UK government's announcement of a large fiscal stimulus package, however it has since been largely unwound and fiscal cutbacks are expected to be announced in the 17 November Autumn Statement. While the turmoil in financial markets has receded, the impact on monetary policy (tighter) and sentiment, as well as the turn in fiscal policy, has led us to mark down our UK forecasts.
- There is little activity data available for Q4 at this stage, with business surveys providing the best signal on conditions. The trend remains negative, with survey readings generally easing in October. Some surveys are below their break even level, although would need to fall further to clearly signal a recession.
- Japan is the exception. While easing, its manufacturing PMI is higher than the other major AEs and its services PMI has risen recently. Industrial production bounced back strongly from the supply disruptions caused by lockdowns in Shanghai/Beijing and the services sector is benefiting from a removal of COVID restrictions (including on overseas travellers). A normalisation of activity will likely support growth for a while as the recovery in some sectors (e.g. tourism) has a way to go. The government announced a fiscal package last month, including relief for utility (energy) costs. The Bank of Japan (BoJ) is one of few central banks to have not tightened policy, but inflation is rising. Looser fiscal policy will add to the pressure on the BoJ to move away from its ultra loose policy settings.
- We still expect the US, UK and Euro-zone to go into recession due to the combination of tighter monetary policy and the energy supply shock. Mild weather and efforts to reduce consumption have led European gas storage to rise to a high level, contributing to a fall in prices (albeit they are still high). This suggests the short-term downside risk to the Euro-zone outlook is not as great as it was but much will depend on the severity of the winter. However, inflation remains high – Euro-zone inflation hit 10.7% y/y in October, a new record. Core inflation measures remain high across the AEs, suggesting that a greater than expected monetary tightening remans a downside risk to growth.

EMERGING MARKET ECONOMIES

Weaker demand in advanced economies starting to impact EM activity

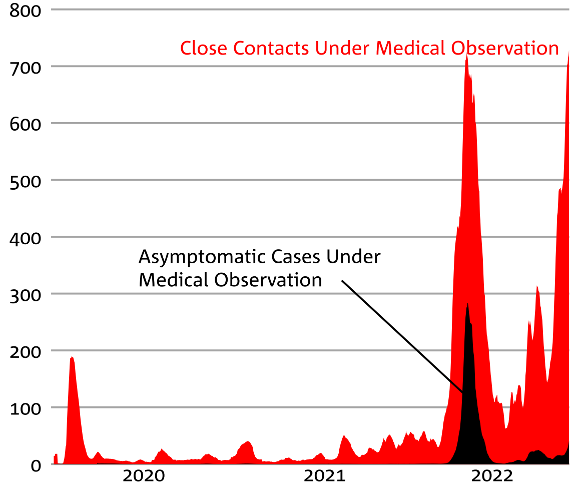
PMI surveys point to recent deterioration in EM conditions

Emerging market PMI (Breakeven = 50)



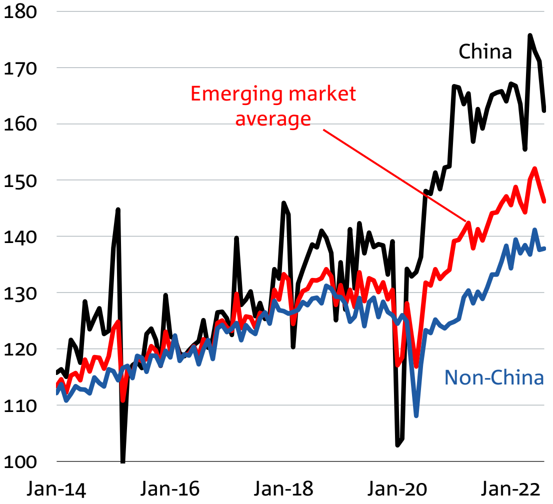
China remains an outlier in terms of COVID-19 response

Chinese residents under quarantine (000s)



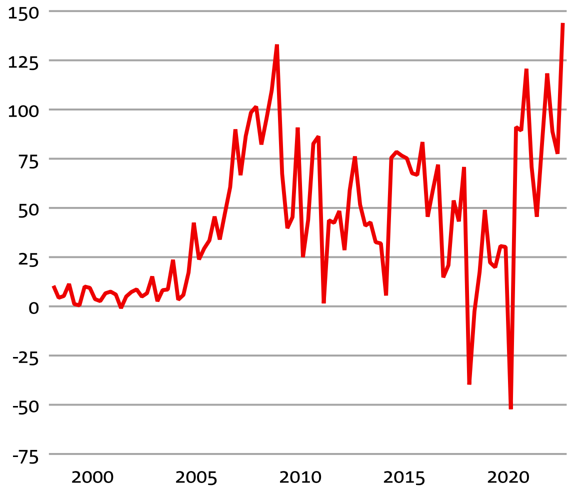
Export volumes have started to decline

Emerging market export volumes (index 2010=100)



China's growth has been overly dependent on export demand

Chinese current account balance (US$ billion)



- Business surveys point to deteriorating conditions in emerging markets in recent months. The EM composite PMI deteriorated slightly in October – dipping down to 49.8 points (from 50.1 points in September) – as weaker conditions for services where partially offset by a less negative outcome for manufacturers.
- The EM manufacturing PMI edged closer to neutral territory in September – at 49.8 points (from 49.4 points previously). China was the main driver – with its manufacturing reading less negative in September – while conditions in Indonesia, Russia and Brazil deteriorated.
- In contrast, the EM services PMI dropped to 49.9 points. This measure has rapidly deteriorated from strong readings mid-year (associated with reopening from COVID-19 lockdowns in Shanghai and Beijing), dropping from 54.8 points in August to 50.7 points in September. China's services PMI reading fell further into negative territory.
- Respondents to China's PMI surveys noted the impact the country's zero-COVID policies – disrupting business activity and demand for goods and services. Various small scale outbreaks in October led to a rapid increase in the number of residents forced into quarantine. Rumours circulating on Chinese social media in early November suggested a committee had been formed to develop plans for a post-COVID-19 reopening – targeting March 2023 – however this has subsequently been countered by various officials, most notably China's National Health Commission.
- Growth in emerging markets is typically more dependent on trade activity than advanced economies. Global trade data are available up to August, and although there is considerable volatility from month-to-month, suggest that EM export volumes peaked in June and have subsequently declined.
- There has been a rapid downturn in export volumes from China in recent months – with official data showing a year-on-year fall of 2.2% in September, with a larger fall likely in October (given a sharp plunge in export values in the month).
- This poses a significant problem for Chinese authorities – given that economic growth has been increasingly reliant on export oriented industrial output since the start of the COVID-19 pandemic, with household consumption weak due to the impact of lockdowns and a limited social safety net.

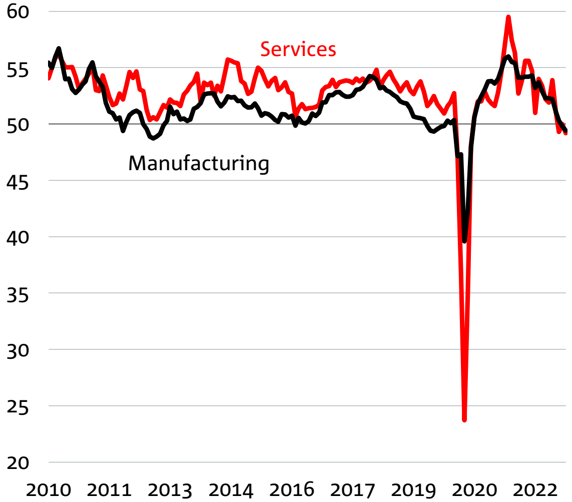
Sources: S&P Global, Macrobond, CPB, Refinitiv, NAB Economics

GLOBAL FORECASTS, POLICIES AND RISKS

Deterioration becoming more evident in surveys, leading to significant slowdown in 2023

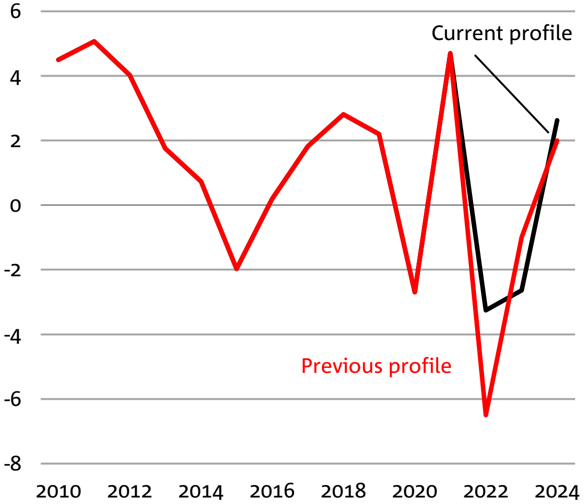
Global business surveys point to broad based deterioration

JP Morgan Global PMI (Breakeven = 50)



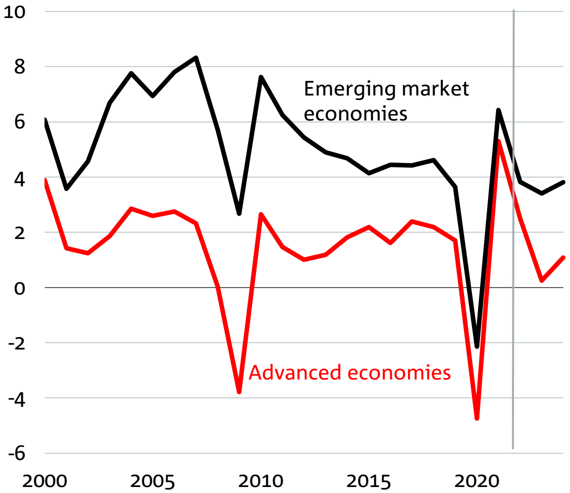
Change to Russian outlook has slightly shifted global forecasts

Russian economic growth (%)



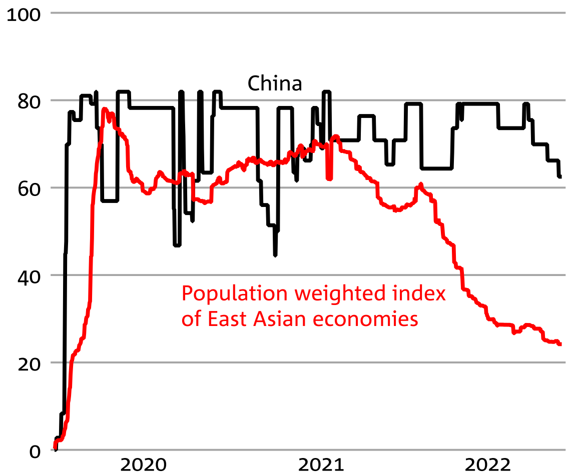
Sharp downturn in AEs drives global economy down in 2023

Global economic growth & forecasts (%)



China's COVID-19 policies remain a key global uncertainty

OxCGRT Stringency Index



- A broad based deterioration in global economic conditions was evident in business surveys in October. The JP Morgan global composite PMI eased further into negative territory – to 49.0 points (from 49.6 points previously) – primarily driven by weaker readings for services. Overall, measures of new orders and export activity continued to deteriorate – as tightening financial conditions and persistent inflation negatively impact demand in a broad range of economies.
- This month we have revised our global economic growth for 2022 marginally higher – to 3.3%. The key driver of this upward revision is a less negative outlook for Russia. Second quarter GDP data suggest our previously anticipated sharp downturn (reflecting the impact of sanctions following Russia's invasion of Ukraine) is unlikely to eventuate. However, with the conflict continuing we now see a greater negative economic impact on 2023.
- Our forecast profile is largely unchanged – with a significant slowdown anticipated in 2023, down to 2.2% (from 2.3% previously), reflecting lower growth expectations for the UK, east Asia (ex Japan & China) and Russia, before a partial recovery in 2024 to 2.8%. These rates of growth would still be well below the long run average of 3.4% (over the period from 1980 onwards).
- China's zero-COVID public health policies remain a key uncertainty for the global outlook. The composite Oxford Coronavirus Government Response Tracker suggests that there has been some easing in China's policy severity since late August, but it remains within the bounds exhibited across the pandemic. Our forecast for a rebound in growth in 2023 – to 5% (from 3.4% in 2022) – reflects a gradual easing of COVID-19 restrictions next year, as well as base effects (due to the downturn in growth in Q2 2022). That said, the country's property sector could remain a significant headwind.
- The severity of monetary policy tightening also presents some uncertainty. Central banks have committed to bringing inflation back under control, however inflation has proved (so far) more persistent than anticipated. As inflation data are lagged, there is considerable risk of rate rises above those necessary to curb inflation, resulting in deeper recessions in advanced economies. Risks related to the Russia-Ukraine conflict – particularly around energy and agricultural supplies from the region – also persist, while various geo-political tensions (most notably between the US and China) could also re-emerge.

 Sources: S&P Global, Macrobond, Refinitiv, IMF, NAB Economics

Group Economics

Alan Oster
Group Chief Economist
+(61 0) 414 444 652

Jacqui Brand
Personal Assistant
+(61 0) 477 716 540

Dean Pearson
Head of Behavioural & Industry Economics
+(61 0) 457 517 342

Australian Economics and Commodities

Gareth Spence
Senior Economist – Australia
+(61 0) 436 606 175

Brody Viney
Senior Economist
+(61 0) 452 673 400

Phin Ziebell
Economist – Agribusiness
+(61 0) 475 940 662

Behavioural & Industry Economics

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 0) 477 723 769

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 0) 455 052 520

Steven Wu
Economist – Behavioural & Industry Economics
+(61 0) 472 808 952

International Economics

Tony Kelly
Senior Economist
+61 (0) 477 746 237

Gerard Burg
Senior Economist – International
+(61 0) 477 723 768

Global Markets Research

Ivan Colhoun
Chief Economist
Corporate & Institutional Banking
+(61 2) 9293 7168

Skye Masters
Head of Markets Strategy
Markets, Corporate & Institutional Banking
+(61 2) 9295 1196