The Global & Australian Economic Outlook in Brief: December 2022

NAB Group Economics

Global business surveys continue to point to a weakening global economy, likely reflecting monetary policy tightening, the energy supply shock as well as COVID-19 related disruptions in China. With inflation still elevated, central banks have continued to tighten monetary policy and further increases into 2023 are likely. China has started to relax its zero-COVID health policies, which could provide a boost once it is through a volatile transition period. We expect growth to be much lower in 2023, at 2.3%, with only a modest rebound in 2024 to 2.8%, both low growth rates by historical standards.

- **Global inflation** data to October only point to a marginal easing in consumer price inflation, which remains high at 8.8% yoy. However, US CPI inflation again showed signs of easing in November, producer price inflation has been gradually falling since April and global commodity price indices have been trending lower since peaking in June.
- **Central banks** are continuing to increase their policy rates, although the rate of increases is starting to slow. Following four consecutive 75 basis point hikes up to November, the US Federal Reserve lifted rates by 50 basis points this week. Similarly, the Bank of England and the European Central Bank also increased rates by 50 basis this week (following 75bp previously). That said the ECB was very hawkish. We expect two further 25 basis point increases by the Fed in early 2023 before it pauses at a target range of 4.75-5.00%, although Fed member projections point to a slightly higher peak (5.00-5.25%).
- Volatility in global **financial markets** has persisted. However, equity markets rallied from mid-to-late October to late November, albeit the MSCI indices remain well below levels recorded in the early months of 2022. Similarly, bond yields have generally trended lower from mid-October – when a range of 10-year government bonds for advanced economies were at their highest rates since 2007.
- **Global commodity price** indices have been trending lower since peaking in June. In early December, the S&P GSCI dropped to its lowest level since February, largely reflecting the impact of falling energy prices, with non-energy prices trending sideways since August. The decline in oil prices reflects weaker global demand – including the risk of recessions in AEs in 2023 – despite efforts by OPEC+ to place a floor under prices.
- There were mixed results across the **major advanced economies** (AEs) in Q3. Growth in the US bounced back, remained solid in Canada, slowed in the Euro-zone and fell in the UK and Japan. The fall in Japan was a surprise. We have been expecting a solid growth trend for Japan due to the unwinding of COVID restrictions and still loose monetary policy, but it does face several headwinds, including the income shock from higher energy prices and the slowing in the global economy, complicating the outlook. Manufacturing sector business surveys continue to trend down but the services sector PMIs have been a bit more mixed recently. The Euro-zone PMIs are at a level consistent with slightly negative growth in Q4 GDP. We continue to expect that the US, UK and Euro-zone will go into recession.
- Business surveys suggest that overall conditions in **emerging markets** (EMs) continued to deteriorate in November. EM export volumes in September remained below their June peak and China data to November points to a sharp slowing. **China's third major COVID-19 wave** continued through early December triggering restrictions. That said, China **started to transition away from strict zero-COVID health policies** in early December. The latest COVID-19 wave is set to negatively impact China's growth this quarter, as can be seen by the significant weakening in industrial production, fixed investment and retail sales growth in November. As a result, we have lowered our forecast for 2022 to 3.1% (3.4% previously), but with a small upgrade to 2023 – to 5.2% (from 5.0%). The easing of public health policies could provide a boost (once China is through a volatile transition period) however the downturn in the property sector remains a risk.
- Global business surveys continue to point towards slowing **global economic activity** in November. The JP Morgan global composite PMI fell to 48.0 points – down from 49.0 points in October – driven by softer conditions in the services sectors, although manufacturing again declined. Our global forecast is little changed this month, with a substantial slowing in growth still anticipated in 2023 – down to 2.3% (previously 2.2%) – before a modest recovery to 2.8% in 2024. These rates of growth are well below the long run average of 3.4% (recorded between 1980 and 2021).
- There are a range of **risks** to the outlook. The Russia-Ukraine conflict continues and the persistence of high inflation means that monetary policy may be tightened by more than expected (and more than needed to curb inflation). Upside risk stems from the still large 'excess savings' built up by AE households during the pandemic and the pull-back in oil prices. For more detail on the global outlook, please see the Forward View – Global, released yesterday.

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

Alt: Antony Kelly (Senior Economist); Gerard Burg (Senior Economist); Brody Viney (Senior Economist)

For Australia, our forecasts are largely unchanged. The Q3 national accounts data showed that the economy remained resilient in Q3 and labour force data continue to reflect a healthy but tight labour market. That said, leading indicators of labour demand have eased slightly and more timely consumer spending data suggest consumption growth has slowed. Growth is expected to slow in Q4, and we continue to see growth in annual terms of below 1% in 2023 and 2024. Slower growth in labour demand will see the unemployment rate drift up to around 4.5% over the next two years. We see inflation peaking in Q4 before easing over the forecasts - but remaining higher than the RBA's 2-3% target for the next two years. Our rate call is unchanged – with a further two 25bp increases to come at the February and March meetings, taking the cash rate to a peak of 3.6%. The Q3 accounts showed that the household savings rate has broadly normalised in Australia with nominal consumption growth outpacing disposable income growth in the quarter. Higher interest rates will weigh further on disposable income as we enter 2023 but how households react remains highly uncertain. Throughout the pandemic, households have amassed a large 250bn of excess savings, but the international experience on how households run down saving amidst strong inflation and higher interest rates is mixed.

- **House prices and turnover continue to fall but residential investment remains high.** Capital city house prices fell again in November. The CoreLogic measure was down -1.1% m/m, and the PropTrack indicator -0.2%, to be 7.5% and 4.7% respectively below their peaks. We expect that house prices will continue to decline well into 2023, with further rate rises likely as the economy slows. From their 2022 peak, we expect prices will fall by around 20%. On the activity side, dwelling investment rose in Q3 supported by easing supply constraints and fewer weather-related disruptions. Both the pipeline of work and rates of construction remain high, but building approvals have eased and are now just above their pre-Covid level.
- **Household consumption growth was solid in Q3 but more recent data have been mixed.** The Q3 outcome was driven by the ongoing recovery of services in Q3 (up 1.7%), led by hospitality (up 5.5%) and transport services (up 13.9%). Goods consumption grew by a more modest 0.3%, supported by a 10.1% increase in purchases of vehicles as supply backlogs cleared. More recently ABS retail sales decline by 0.2% in October, while NAB's transaction-based indictor showed an increase of 1.0% in November. For 2023, we continue to expect a material slowing in consumption growth as inflation and higher interest rates weigh on real household disposable income.
- **The unemployment rate was unchanged in November at 3.5% though employment rose by a large 64k in the month.** The rise in employment was met by a 0.2ppt increase in the participation rate – which saw the employment to population ratio reach a fresh high of 64.9%. Hours worked was slightly softer in the month with larger than usual sick leave in the month. Overall, the labour market remains healthy but tight and we expect wage growth to accelerate to around 4.0% y/y in 2023. From here we expect employment growth to slow and the unemployment rate to rise to 4.5% by end 2024 – but remain broadly consistent with "full employment".
- **Business conditions remained resilient in November though leading indicators of the business survey pulled back.** Business confidence turned negative after drifting lower over recent months and while still above average, forward orders have also softened. Business investment rose by a modest 0.7% in Q3 to be just 3.7% higher over the year – with the quarterly outcome likely supported by catch-up after weather disruptions earlier in the year. The outlook for investment is mixed with capex expectations and capacity utilisation elevated but confidence falling on a clouded outlook for global and domestic growth.
- **Trade subtracted 0.2ppt from growth in Q3 with a rebound in iron ore volumes offset by a rise in imports.** The nominal trade balance was little changed in October at a very elevated $12.2b (down just $0.2b from September). LNG exports rose slightly while iron ore and non-monetary gold fell, while on the imports side fuel import values declined.
- **Globally, inflation indicators continue to ease, with supply chain indicators continuing to recover, commodity prices leveling off and freight costs continuing to normalise.** For now, there are only tentative signs that inflation has peaked on official measures outside of the US CPI. The monthly inflation indicator for Australia surprised to the downside in October but remained high. We expect inflation will peak in quarterly terms in Q4 and ease through 2023. Nonetheless, inflation will continue to track above the RBA's target band over the next two years – ending 2024 at around 3.2% y/y in underlying terms.
- **The RBA lifted the cash rate by 25bps in November to 3.1%.** The RBA continues to emphasise the important of returning inflation to the target band and reiterated that the board "expects to lift interest rates further over coming months". We see a further 2 increases of 25bps over the next two meetings – for a cash rate peak of 3.6%.
- **We have upped our expectation for the AUD/USD slightly,** expecting it to end the year around US67c before drifting up to around US76c over the next two years.
- For more detail on the Australian outlook, please see the Forward View – Australia, released on Wednesday.

Group Economics

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

Jacqui Brand
Executive 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
+(61 0) 436 606 175

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

Phin Ziebell
Senior Economist
+(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
Senior 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