The Global & Australian Economic Outlook in Brief: February 2023

NAB Group Economics

A range of global indicators point to a more positive start to 2023 than we had previously anticipated, leading to an upward revision to our forecasts. That said, the strength of this improvement should not be overstated – we expect the global economy to grow by just 2.6% in 2023 which, outside the Global Financial Crisis and COVID-19, would represent the weakest rate of growth since 2001. Although inflation has slowed in recent months, it remains well above target, and was "sticky" in some countries in January, meaning there remains scope for further policy rate hikes. In addition, a range of risk factors, including geo-political tensions, present uncertainty.

- **Global inflation** data showed the slowing trend in consumer price growth continued in December. That said, while it appears that global price growth may now be past its peaks, inflation in the US, UK and France remained stable in January and, more generally, inflation remains well above targets set by global central banks. This means that there is scope for further policy rate hikes in coming months.
- That said, **central banks** are reducing the size of rate rises, attempting to minimise the risk of over-tightening. The US Federal Reserve lifted rates by 25 basis points at its February meeting – compared with four consecutive 75 basis point increases that were followed by a 50 basis point rise last year. We anticipate two additional 25 bp hikes from the Fed (among others) in coming months.
- **Financial market** volatility has eased in recent weeks, when compared with recent cycle peaks in October. Measures such as the MOVE index (measuring bond market volatility) and the VIX index (equities) have trended lower, albeit they remain above pre-pandemic levels. Equity market indices have generally trended higher since mid-October, reversing a downward trend since late 2021 (for US markets) and mid-2021 (for non-US advanced economies and emerging markets). That said, these markets remain well below their peaks.
- **Commodity prices** have largely tracked sideways since September 2022, with the aggregate S&P GSCI index stabilising at a relatively high level (when compared with pre-pandemic levels). The energy component of the index has retreated considerably since June 2022 – with natural gas recording the largest decline. It remains to be seen whether energy prices will continue to fall, following Russia's announced 500 000 barrel a day cut to production starting in March (equivalent to around 5% of its output). This came in response to a range of advanced economies attempting to impose a price cap on Russian crude oil. In addition, Chinese energy demand is likely to rise following its reopening.
- Outside the US, economic growth across the major **advanced economies** (AEs) was subdued in the final quarter of 2022 but the outright declines expected for the UK and Euro-zone were avoided (and we no longer expect the latter to contract in Q1). Business surveys, which trended down through much of 2022, have stabilised with signs of upwards momentum on the services side. While there has been a boost from falling energy prices and the end of China's zero-COVID policy, the outlook remains weak as monetary policy continues to tighten.
- Stronger **emerging** market indicators are led by China, where anecdotal evidence suggests its rebound appears to be more rapid than we had expected. Following the abandonment of the zero-COVID policy, we had anticipated a disruptive transitional period across most of Q1 2023. Instead, it appears that most of the impact occurred between mid-December and mid-January, with subway passenger movement and traffic congestion pointing to a pickup in activity post the Chinese New Year holidays.
- Our **global forecasts** are stronger this month, reflecting an improved short-term outlook for major advanced economies and the faster-than-anticipated recovery in China. That said, the improvement should not be over-stated. Overall, we now forecast the global economy to expand by 2.6% in 2023 (previously 2.3%) – down from 3.4% in 2022. Outside the Global Financial Crisis and COVID-19, this would represent the weakest rate of growth since 2001. Our outlook for 2024 is unchanged at 2.8%. This is below the long run average of 3.4% yoy (between 1980 & 2021).
- There remain a number of **risk factors** that cloud our global outlook. There remains no resolution to the Russia-Ukraine conflict – which has now persisted for a full year – contributing to supply disruptions in energy, grains and fertiliser markets. Inflation has persisted for considerably longer than most central banks anticipated – as highlighted by the stickiness of US inflation in January – increasing the risk of tighter than expected monetary policy to curb inflation (and with it, weaker growth). Geo-political tensions have also persisted – most notably between the US and China, following the shooting down of a Chinese spy balloon.
- For more detail on the global outlook, please see the Forward View – Global, released yesterday.

Gareth Spence (Senior Economist) +(61 0) 422 081 046

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

For Australia, the economy has remained resilient but we see growth slowing sharply later in 2023 and into 2024. We expect a Q4 GDP print of around 0.9% supported by strong net exports and still rising consumption, and our internal data and business surveys suggest consumption remained resilient into January. The labour market also remains very tight with the uptick in the unemployment rate to 3.7% in January partly a seasonality issue. Inflation likely peaked in Q4 but wage growth has strengthened and should reach 4% this year, so domestic inflation pressures will continue to build, even as global pressures ease. Reflecting these factors and more hawkish outlook from the RBA, we recently revised up our outlook for the cash rate in the near-term – now expecting a peak of 4.1% in May 2023. We expect consumption to fall slightly from Q3 this year as high inflation and rising interest rates continue to weigh on households, with growth slowing to just 0.7% in 2023 and 0.9% in 2024 and the unemployment rate rising to 4.7% by end-2024. Importantly, considerable uncertainty remains about the timing of the pass through from higher rates to household consumption, as well as how savings behaviour will adjust, as well as the global outlook for growth and inflation pressures.

- **The unemployment rate rose to 3.7% in January, partly due to seasonality issues, while wage growth rose to 3.3% y/y in Q4.** Employment fell and unemployment rose in January but there were a larger than normal number of people "waiting to start work" so the unemployment rate will likely fall back to around 3.5% in February. The labour market remains very tight and this is flowing through to wage growth, with hourly wages rising 3.3% over 2022 and expected to reach around 4% in 2023. We expect the unemployment rate to drift up to 4% by end 2023 and 4.7% by end 2024 as the economy slows, with employment growth unlikely to keep pace with population growth.
- **Household consumption likely grew by around 0.6% in Q4 and has remained resilient in January, but will slow materially later in the year.** Real retail sales declined 0.2% in Q4 – from a very high level – while NAB's internal data suggests services consumption continued to rise, with overall consumption up 0.6% in Q4. Spending data for January suggests consumption rose in the month in nominal terms, indicating underlying consumption remains resilient. However, with rates expected to rise to 4.1% by May we expect consumption to pull back further, with flat or slightly negative real consumption growth through the second half of 2023 and into 2024.
- **We expect the housing market to continue to adjust to the impact of higher rates through 2023.** House prices continued to decline through late 2022 and into 2023 with the CoreLogic and PropTrack 8-capital city dwelling price indexes now around 9% and 6% lower than their peaks, respectively. We expect house prices to decline by another 11% over 2023 for a total peak to trough decline of 18%. Activity in the housing market has fallen sharply and approvals have fallen, although the pipeline of outstanding work remains elevated. This pipeline of work is likely to support construction activity in the near term as supply constraints ease but we expect dwelling investment to slow in the second half of 2023 and drag on activity in 2024. The rental market also remains very tight with vacancy rates falling to very low levels and advertised rents growing at around 10% y/y across the states.
- **Business conditions picked up in January after three months of easing in late 2022.** Business conditions rose 5pts in January to +18 index points – a very high level. Confidence also rose, up 6pts to +6 index points, to be around the long-run average. The pickup suggests demand remained resilient at the start of the year and firms were more optimistic as concerns about global growth eased. Elevated capacity utilisation and a pickup in confidence should support investment, but firms will be wary about the likely slowing in demand ahead and business credit growth has slowed as rates have risen. As such, we expect business investment to weaken across 2023 and 2024.
- **The trade surplus fell to $12.2bn in December net exports are likely to provide a strong boost to GDP for Q4.** Across Q4 as a whole, the nominal trade balance increased from $29bn to $38bn and with prices coming down for key exports this implies that net exports will make a significant contribution to Q4 GDP growth of well over 1%. For 2023, we expect trade to continue to provide support for growth with slowing consumption weighing on imports.
- **Inflation rose to 7.8% (6.9% underlying) in Q4 and remains broad-based.** The Q4 CPI surprised slightly to the upside, with large price rises in the quarter for domestic travel and accommodation. Both tradables and non-tradables inflation are elevated as are both goods and services inflation – signalling that there are indeed growing domestic pressures. We see inflation moderating relatively quickly through 2023, tracking at 4.3% y/y by Q4 before easing back into the target band by end 2024.
- **The RBA increased the cash rate by 25bps in February to 3.35% and we have upped our rate call to a peak of 4.1% by May.** The post meeting statement, February SoMP and the Governor's appearances before the senate and parliamentary committees all point to a hawkish shift by the RBA. Forecasts in the SoMP – predicated on a rate peak of 3¾% – see GDP growth of 1.6% during both 2023 and 2024 (NAB: 0.7 and 0.9%), unemployment rising to 4.3% by end 2024 (NAB: 4.7%) and inflation only reaching the target band in 2025. Given this outlook, we now see three more 25bp increases to 4.1% in May, where we expect the RBA will hold rates until they begin easing in early 2024.
- **We see the AUD/USD rising to around US78c by end 2023 and US80c by end 2024.** This view is largely predicated on a longer-term depreciation of the USD while a reopening in China is a positive for global commodity demand.
- For more detail on the Australian outlook, please see the Forward View – Australia, released on Tuesday.

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) 422 081 046

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

Important notice