The Global & Australian Economic Outlook in Brief: April 2023

NAB Group Economics

Banking stress in the US and Europe has been contained and financial markets have calmed, although there is still likely to be fallout with lending standards expected to tighten further. This has contributed to a pull-back in expectations of central bank rate rises; while some further increases are expected, we are nearing the peak of the global tightening cycle. Whether this ends up being the case, and how long rates are kept at elevated levels, will depend on the path of inflation, with core inflation proving to be sticky. Global GDP growth looks to have bounced higher in Q1 2023, largely because of China's abandonment of zero-COVID. However, China will not be able to sustain growth at its Q1 pace, and with the impact of tighter policy settings (including fiscal) still working its way through, global growth over the rest of 2023 is likely to be more subdued. We anticipate that annual average global growth will step down in 2023 and 2024 – to around 2.7%, weak rates of growth by historical standards.

- For now, concerns around the stability of the **banking sector** in the United States and Europe – following several bank failures in March – have eased. Measures of financial market volatility have declined since their mid-March peak. Similarly, equity market indices have strengthened, including US bank stocks. In the US, use of the Federal Reserve's funding facilities is slowly normalising and bank lending has stabilised. That said, we still consider it likely that banks will continue to tighten lending standards. The Dallas Fed's Banking Conditions Survey showed a sharp downturn in lending volumes and a tightening in lending standards in early April.
- The banking issues have contributed to a pull-back in expectations of **central bank** rate rises. While some further rate rises are expected – in particular, by the ECB and the Fed – we expect we are near the peak of the global tightening cycle.
- **Global inflation** data to February 2023 continue to suggest a gradual easing from the peak rates of late 2022. We estimate global consumer prices rose by 8.0% in February, compared with 8.4% in January. Month-on-month inflation rates among large advanced economies continue to trend lower, and measures of supply chain disruptions have improved significantly, suggesting that consumer prices should continue to slow in coming months, although core inflation measures are proving sticky. Growth in producer prices has slowed more significantly – with our global estimate down from double digit rates as recently as November 2022 to around 6.3% yoy in February.
- From mid-March onwards, **commodity prices** – as measured by the aggregate S&P GSCI index – trended higher, up around 9% in mid-April (back near the levels at the start of March). Energy markets were the key drivers of this trend, in part related to oil production cuts announced by OPEC+ members.
- We expect each of the major **advanced economies** (AEs) to grow in Q1. The Atlanta Fed's GDP nowcaster (GDPNow), at the time of writing, predicts 2.5% q/q annualised growth in US Q1 GDP, suggesting some upside risk to our forecast (1.7%). Monthly UK and Canada GDP data show both economies grew in early 2023 and in Japan, while the data are mixed, machinery orders, consumption, and service sector activity indicators have strengthened. The Euro-zone composite PMI improved in Q1, consistent with positive GDP growth. Beyond Q1, the outlook remains weak, as the full impact of monetary policy tightening is yet to be felt, fiscal headwinds remain and households are showing signs of caution. We still expect a downturn in the US, while for Europe and Japan, with the fading of last year's energy shock providing some boost, we expect subdued growth.
- The **Emerging Market** (EM) composite PMI rose to a strong 54.6 points (from 53.9 points) in March. With the EM manufacturing PMI easing marginally, the key driver of this pickup was the services sector, continuing the trend of recent months. In particular, China's services PMI increased to 57.8 points in March (from 55.0 points previously) – and there was also a stronger outcome in Russia. Consistent with the signal from the PMIs, China's GDP growth strengthened to 4.5% yoy in Q1 2023, reflecting the faster than anticipated transition period following the end of zero-COVID policies, as well as support from base effects. The services sector – which was more negatively impacted by zero-COVID than elsewhere – led the rebound, with manufacturing and construction growing marginally more slowly than late 2022.
- We continue to anticipate a sharp slowdown in **global growth** in 2023 to 2.7% (up from 2.6% previously), and we expect a similar outcome in 2024. Excluding the downturns associated with the global financial crisis and COVID-19 impacted 2020, these would be the slowest rates of growth since 2001. There remain a broad range of risks to our global outlook, including possible further financial sector strains, inflation proving to be more entrenched than expected (leading to even tighter policy settings) and from geopolitical factors.
- 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, there are signs that consumption is plateauing ahead of a likely slowdown later in the year. We continue to see well below trend GDP growth of around 0.7% y/y over 2023 as higher rates increasingly weigh on household budgets. The RBA paused its rate-rise cycle in April and given the slowing data, we now see the current 3.6% cash rate as the likely peak (down from 4.1%) – though a further rise remains very possible. With rates assumed to peak 50bps lower, we have somewhat revised up our expectations for GDP growth in 2024 – though at 1.3% y/y this remains below trend. We continue to see a gradual pickup in the unemployment rate as population rebounds and activity slows, to 4.7% by end-2024, alongside easing inflation. The competing forces of higher rates and population growth are also affecting the housing market, and we now expect more modest price falls totalling 4% across 2023 (previously -11%). However, there remains considerable uncertainty as to how the market will adjust. More broadly, the strength of consumer spending, wage growth, and the global economy remain key risks.

- **Employment rose by 53k in March, leaving the unemployment rate at its very low level of 3.5%.** Overall, the employment to population ratio remains at a near-record level of 64.4%. There continue to be only limited signs of easing in the tightness of the labour market with the February job vacancies report showing the number of vacancies eased just 1.5% from November, remaining almost double the pre-COVID level. The tight labour market conditions should continue flowing through to wage growth, which should rise to 4% this year. However, given the rapid rebound in population, employment demand will be unable to absorb the growing labour supply as activity slows. As such, we see the unemployment rate rising to 4.0% by end 2023 and 4.7% by end 2024.
- **Inflation looks to have peaked in Australia but remains high.** The monthly CPI indicator eased from 7.4% to 6.8% in February and the NAB business survey measure of output prices saw further moderation. The full Q1 CPI released next week will likely confirm this moderation relative to Q4, but we expect a print of 1.3% q/q (6.6% y/y) for trimmed mean, which is still very strong relative to the RBA's inflation target. We continue to see inflation easing to 4.5% by end 2023 and 3% by end 2024, but there remain considerable uncertainties including the pace of goods disinflation and the strength of wages given the tightness of the labour market.
- **NAB's internal data suggest nominal consumption growth slowed considerably in Q1.** NAB's Monthly Data Insights for March showed a fall in retail spending of 0.8% m/m, with overall consumer spending down 1% m/m. The decline was spread across both goods and services spending, marking the first significant monthly decline in services since the Omicron wave in January 2022. The fall in March came after a flat spending result for February. Overall, NAB's data suggest total nominal consumer spending rose 2% across Q1. With inflation still high, this suggests another quarter of modest real consumption growth of around 0.2% q/q.
- **The RBA held the cash rate steady in April at 3.6% and we now see this as the likely peak, albeit with clear upside risk.** The pause was justified on the basis of taking time to get more information about how rate rises so far are flowing through to the economy, and the RBA maintained a hawkish bias. Given the likely softening data flow, we now expect the RBA to remain on hold until H1 2024 – although there remains a clear risk that the RBA could raise rates as soon as May if challenged by upcoming CPI or WPI prints.
- **House prices have continued to stabilise over the last month and building approvals continued to trend lower.** The CoreLogic 8-Captial Cities index rose by 0.8% in March led by gains in Sydney, Melbourne and Perth – although dwelling prices are still down 9% from their peak in April 2022. Given the impact of higher rates on borrowing power, we continue to see scope for further falls, but in light of our updated rates view and the strength of population growth, we have revised our price forecast to see smaller falls in the near-term of around 3.5%. This would take the peak-to-trough decline in the current episode to 12% (from our previous expectation of an 18% decline). Further out, there is likely to be a large shortfall in supply given the already very tight rental market and significant falls in approvals, which are now down 31% over the year. We continue to expect construction activity to weaken once the current pipeline is worked through, weighing on GDP into 2024.
- **Business conditions have continued to hold up although confidence remains low.** Business conditions in the NAB Monthly Business Survey eased 2pts in March but at +16 index points, remained well above the long-run average. Confidence appears to be stabilising at a lower level, at -1 index points in March, but forward orders remain positive and capacity utilisation remains very high. There are also signs that cost pressures and prices are easing somewhat, though they remain well above pre-pandemic norms. Nonetheless, business credit growth continues to slow as the outlook for the economy softens and higher rates weigh on lending, rising 0.4% in February.
- **The trade balance picked up in February and freight services costs continued to moderate.** There was a 9.1% fall in imports in February as the large January surge in vehicle imports was reversed. Exports also fell, down 2.9% in the month, but on net the trade surplus increased to $13.8b. Freight services costs, which reached a peak of 6.6% of the value of goods imported in August 2022, have continued to moderate and were down to 4.4% in February. We continue to expect trade to make a small positive contribution to real economic growth as trade normalises further.
- **We have lowered our AUD/USD forecasts, now seeing a rise to around US74c by end-2023 and US73c by end-2024.** We still expect the USD to weaken but global growth and risk sentiment have become greater headwinds.
- 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