The Global & Australian Economic Outlook in Brief: August 2023

NAB Group Economics

Global Economic Outlook

With inflation continuing to ease, growth generally being stronger than expected, and market pricing suggesting that most major central banks are close to the peak of their tightening cycle, hopes have been raised of a soft landing for the global economy. That said, there remain a number of headwinds, including the ongoing impact of past monetary policy tightening, and the loss of momentum in China. We continue to forecast a relatively weak outlook for the global economy – growth of 2.9% in 2023, before slowing to 2.6% in 2024 and a modest recovery to 3.1% in 2025 – with this outlook well below the long-term trend of 3.4%.

- **Global inflation continues to trend lower**. Our global CPI indicator rose 5.3% yoy in June, its lowest reading since October 2021, and consumer prices in China slipped into deflation in July 2023. On average, inflation is softer among advanced economies – with prices increasing by around 4.5% yoy in June, however there is considerable disparity between these countries. While commodity prices have trended higher since the start of June (led by energy), monthly core inflation for the major AEs in June was 0.2% m/m (as was US core CPI in July) pointing to underlying improvement.
- The easing in inflation pressures means that the **global monetary policy** cycle is likely getting close to its peak. Markets are not fully pricing any more increases in rates by the US Fed or the European Central Bank, while some EM central banks have started cutting rates (although further increases by some central banks, such as the Bank of England, are still expected). The tightening in bank lending standards and weaker loan demand in a range of advanced economies may have reduced the extent to which central banks need to raise rates.
- **Commodity prices**, as measured by the S&P GSCI, have trended higher since the start of June. This increase has been led by energy commodities, in part reflecting oil production cuts by OPEC+ members, whose output in July was its lowest since August 2021. In contrast, non-energy commodities had brief rallies on expectations of Chinese stimulus, but subsequently retreated to similar levels to the start of June
- There was a broad-based pick-up in **major advanced economy** growth in Q2, underlining the resilience shown by these economies to a series of shocks last year. In particular, Japan's growth surprised on the upside, albeit this was largely driven by a surge in net exports that is unlikely to be sustained. Resilient labour markets, particularly given the growing likelihood that we are nearing the peak of the monetary policy tightening cycle (excluding Japan), raises hopes of a soft landing across the major AEs. While we expect growth in Europe is likely to be subdued, and we still think the US is still likely to see a modest correction, risks around the outlook have clearly become more balanced.
- **Emerging market** business surveys were marginally softer in July, with the EM composite PMI easing to 53.0 points (from 53.5 points in June). The services PMI edged slightly lower, even with a substantial strengthening in India's measure and a slight uptick in China – despite the latter being at odds with various other indicators. Weak readings for retail sales and inflation suggest that China's post-zero-COVID recovery has lost momentum and despite officials touting various possible measures to provide stimulus, policy makers remain reluctant to provide consumption boosting support to households.
- Despite stronger results in the advanced economies, incoming Q2 GDP data are consistent with our view that **world growth** slowed in the quarter. A key driver is slower Chinese growth, with only a short-lived boost from removing COVID restrictions, but we also expect India's and Latin America's Q1 strength will not be sustained.
- We have revised up our 2023 **forecast** to 2.9% (from 2.8%) but lowered the forecast for 2024 (2.6%, previously 2.7%). This reflects, in-part, the long lags between monetary policy changes and their full impact, with a tightening in bank lending standards underway. While energy prices are well off their peaks, they remain above their pre-pandemic level. Moreover, the world's largest economy (on a PPP basis) – China – is struggling, with renewed property market stress and risk of contagion to other sectors (including investment trusts).
- **Risks around our forecasts** are fairly balanced. The chance of a soft-landing in the major advanced economies has increased, with inflation clearly falling even with stronger than expected growth. However, how far inflation falls is uncertain and labour markets remain tight, so further policy tightening remains a risk. There are also still geopolitical risks (e.g. the Ukraine/Russia conflict).
- 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)

Australian Economic Outlook

For Australia, our forecasts for GDP growth have strengthened marginally, reflecting stronger Q2 exports, but we continue to expect growth to be well below trend at 0.7% in 2023 and 0.9% in 2024 as the impact of rate rises flows through. As the economy slows, softening labour demand should see the unemployment rate rise back to 4% by end-2023 and around 5% by end-2024. Inflation moderated more than expected in Q2, falling to 6% y/y in Q2. We now see only one more rise in the cash rate, taking the peak to 4.35% most likely in November, but cuts are unlikely until August 2024 with the cash rate returning to around 3% by early 2025. House prices and rents have continued to rise strongly though vacancy rates have started to edge back up. Building activity is still set to ease further although approvals have started to stabilise after falling early in the year.

- **Employment fell 15k in July, enough to see the unemployment rate rise from 3.5% to 3.7%.** The fall follows several months of very strong jobs growth and hours worked actually increased, but nonetheless aligns with our expectation for labour demand to begin to soften in the second half of the year as the economy slows. We continue to see the unemployment rate rising back to around 4% by end-2023 and 5% by end-2024. Wage growth looked soft to Q2 (up 3.6% y/y) but we expect a strong Q3 print as award wage changes take effect and other wages reset, lifting wage growth above 4% y/y by end-2024.
- **The Q2 CPI showed some further progress on inflation but significant pressures remain – particularly in Q3.** Headline CPI in Q2 rose 0.8% q/q (6% y/y) and the trimmed mean grew at 0.9% q/q (5.9% y/y), marking significant progress from the very elevated rates seen in 2022. There was improvement across both goods (0.9% q/q, down from 1.2% in Q1) and services (0.8% from 1.7%) but market sector measures, which better reflects general supply and demand pressures, accelerated slightly. Further improvement in goods prices is expected but progress on services inflation is likely to be slower with pressure coming from higher wage growth, energy prices, and the ongoing pass through of elevated market rents. On balance we see a strong Q3 inflation print as likely before inflation gradually moderates to around 4.5% by end-2023 and 3% by end-2024.
- **With inflation moderating, the RBA kept rates on hold again in August, and we now see scope for only one further rise to a peak of 4.35% (previously 4.6%).** The Board appear willing to wait to be pushed to raise rates further. The longer they wait, the more we expect the economy to slow, limiting the need for further increases. However, we expect the strength of inflation through Q3 will push the Board to take out additional insurance against inflation remaining above target. We see a rise in the cash rate to 4.35% in November as most likely, after the release of the full Q3 CPI, and rates should remain at that level until the second half of 2024.
- **Real retail turnover fell in Q2, foreshadowing a soft quarter of consumption growth with further weakness likely to follow.** Retail trade declined by 0.5% in volume terms in Q2, marking the third consecutive quarterly decline, partly reflecting ongoing rebalancing from elevated goods consumption towards services consumption. Nonetheless, there was a small 0.1% decline in cafes & restaurants in Q2, possibly signalling that the recovery in services consumption has run its course. Components such as health and rents should still rise, but we expect a flat quarter for consumption growth overall. Going forward, we expect the effects of inflation and interest rates to dominate over coming quarters, seeing real consumption declining slightly despite underlying population growth.
- **Business conditions remain resilient despite weakness in forward indicators.** Business conditions in the NAB Monthly Business Survey were broadly steady at +10 index points in July with the trading, profit and employment sub-components all steady. Leading indicators remain soft with business confidence still low (+2 index points) and forward orders still negative (-1 index point). Higher rates and low confidence levels continue to cloud the outlook for investment with business credit growth slowing to 0.3% m/m in June.
- **House prices and rents continued to grow solidly in July, while approvals have stabilised and there are signs that supply constraints are abating.** Over the last five months capital city prices rose 5.0% (Core Logic), reversing about half the fall seen between mid-2022 and early 2023. Capital city rents also grew by 0.8% m/m in July (Core Logic hedonic measure) although vacancy rates have started to edge back up. Housing finance approvals fell slightly in June (-1.0% m/m) but broadly appear to have stabilised. Similarly, in trend terms, dwelling approvals have levelled off for now although this improvement is driven by the volatile other (non-house) dwelling category. There are signs that construction supply constraints are abating but we still expect further declines in dwelling construction activity.
- **The nominal trade surplus lifted to $11.3b in June (from a revised-down $10.5b in May**). Exports declined 1.7% in the month, offset by a 3.9% fall in imports driven by a large fall in consumption goods (down 12.4%). For Q2 as a whole, large falls across key commodity prices meant that while nominal exports declined, the underlying volume of exports likely increased by around 4%. As such, net exports likely made another strong contribution to real GDP growth in Q2, and should continue to support growth as weak consumption weighs on imports.
- **The AUD has weakened since mid-July, back to the low US65c range after almost reaching US69c.** Rising US yields and weak China growth are weighing but we still see the AUD returning to US72c by December.

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

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

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