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The Forward View: Global Nov. 2023

Global growth resilient in Q3 but set to slow going into 2024

NAB Group Economics

Overview

- Our global measure of consumer price inflation slowed once again in September (following a modest acceleration in August). Inflation in advanced economies was softer, with consumer prices rising by 4.2% yoy (down from 4.5% yoy in August) – the lowest rate of growth since September 2021.

- Recent AE inflation trends have boosted market confidence that most major central banks are at the end of their tightening cycle. Market pricing on 20 November allows for almost no chance of a further in this cycle rate rise by the US Federal Reserve, the Bank of England and the European Central Bank. That said, we continue to think that their near-term bias is to the upside, particularly if progress on inflation stalls.

- Growth in major AEs was divergent in Q3, with strong growth in the US but declines in the Euro-zone, UK and Japan. Only modest growth is expected for Canada. Business surveys suggest the divergence in growth over the last year between the US – and to a lesser extent Japan – and Western Europe is narrowing.

- Business surveys of emerging markets generally softened in October, with the EM composite PMI dropping to its weakest reading since December 2022. Recent months have seen an uptick in China's export volumes, with exporters aggressively cutting prices to attract purchases.

- Modest revisions to the outlook for the United States, Europe and Japan were not sufficient to change our overall outlook for the global economy. We continue to expect global growth of 3.0% in 2023, before slowing to 2.6% in 2024, with a modest recovery to 3.0% in 2025. This outlook remains below the long-term average of 3.4% (which was recorded between 1980 and 2022).

- Various geopolitical factors could continue to influence the outlook for global growth. These include the ongoing Russia-Ukraine war, conflict in the Middle East, tensions between the United States and China and the US Presidential election in 2024.

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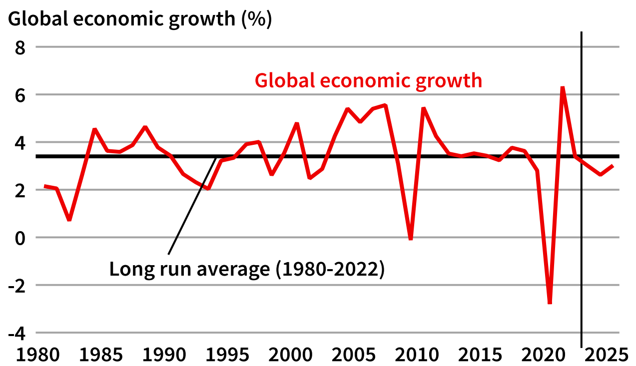
Global growth forecasts

	2020	2021	2022	2023	2024	2025
US	-2.2	5.8	1.9	2.4	1.4	1.2
Euro-zone	-6.2	5.9	3.4	0.5	0.4	1.1
Japan	-4.3	2.3	1.5	1.7	0.7	0.8
UK	-10.4	8.7	4.3	0.6	0.4	0.8
Canada	-5.1	5.0	3.4	1.2	1.1	1.3
China	2.2	8.1	3.0	5.2	4.5	4.8
India	-6.0	8.9	6.7	6.3	5.2	6.2
Latin America	-7.0	7.4	4.1	2.0	1.2	1.9
Other East Asia	-2.8	4.5	4.2	3.2	3.3	4.1
Australia	-1.8	5.2	3.7	1.9	1.5	2.2
NZ	-1.5	6.0	2.7	1.2	0.8	3.1
Global	**-2.8**	**6.3**	**3.4**	**3.0**	**2.6**	**3.0**

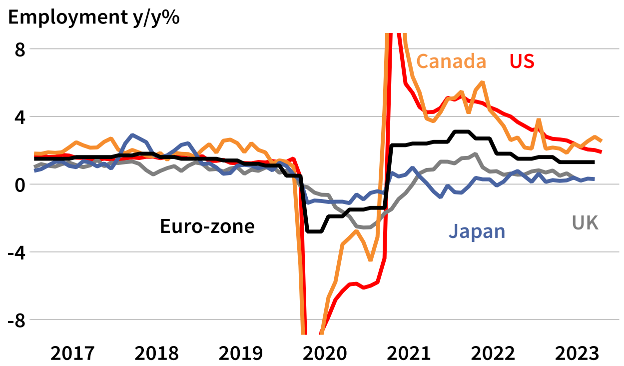
Growth outlook remains sub-trend across 2024 and 2025



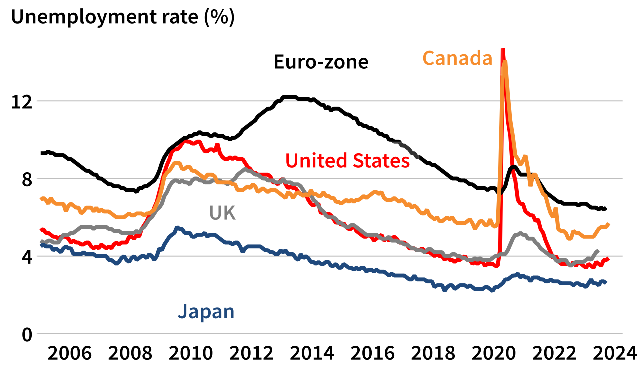
Gerard Burg, Senior Economist | Antony Kelly, Senior Economist | Alan Oster, Chief Economist

Charts of the month: Labour markets remain tight across most of the major advanced economies (Japan's labour market is the exception as it was tighter pre-pandemic). However, there are signs of easing – job vacancies (while still elevated) have been falling for a while, average hours worked in the US have normalised and, more recently, unemployment rates have either stopped falling or started to rise. Wage growth remains relatively high although it has been moderating in the US and Canada, and perhaps now in the UK. However, the squeeze on real wages (i.e. after adjustment for inflation) has lessened (or been partially reversed) over the last year or so.

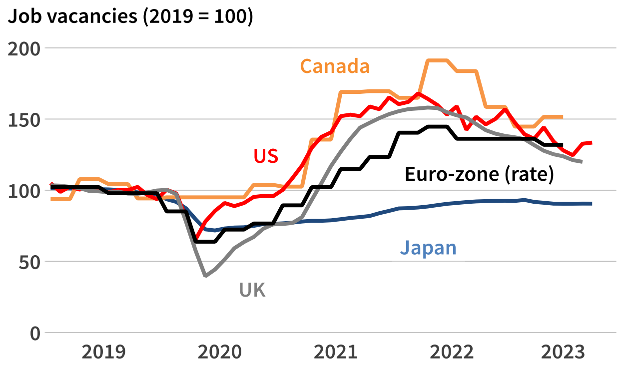
Trends in employment growth mixed across the AEs – slowing in the US (but still strong), Euro-zone, UK but steady in Canada (at a strong rate) and Japan



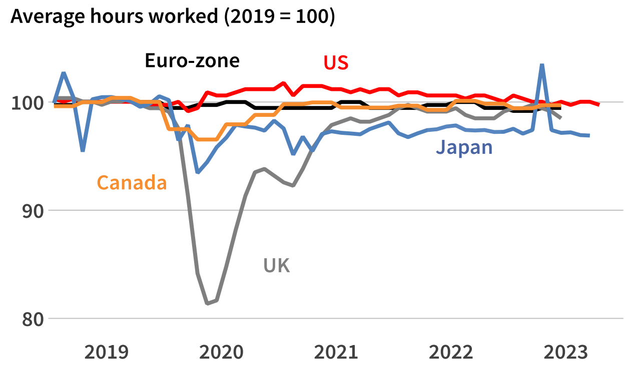
Unemployment has stopped falling in the Euro-zone but picking up in the UK and – driven by stronger labour force growth – the US and Canada. Japan only major AE where it is clearly above its pre pandemic level



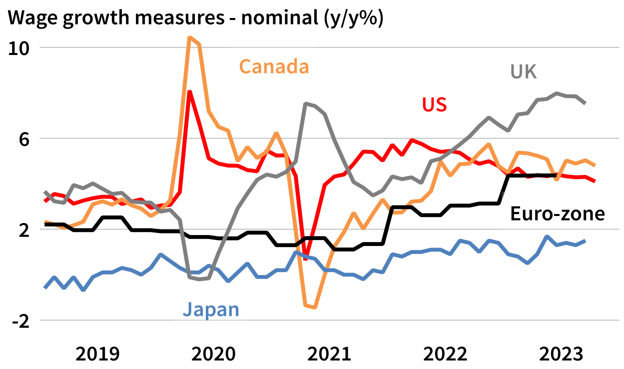
Lift in unemployment rate still in early stages – but vacancies have been easing for longer although they too still point to a tight labour market (ex Japan)



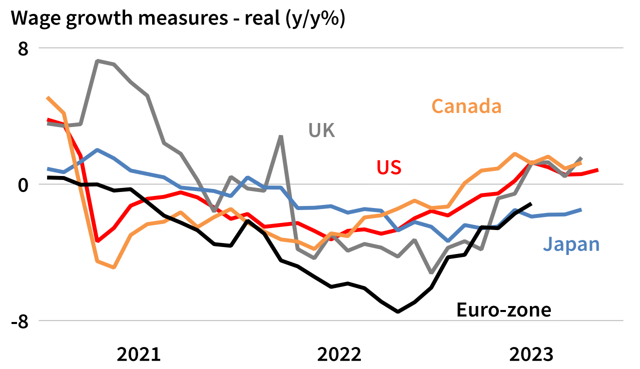
Average hours worked in US increased given earlier labour force constraints, but this has now unwound. Average hours elsewhere at or below pre pandemic level



Nominal wage growth higher than pre-pandemic but signs of easing in the US, Canada and appears to have peaked in the UK…



…over the last 12 months real wage growth has either turned positive or falling at a slower pace…but this uplift showing signs of levelling off



Sources: Macrobond. Japan average weekly hours worked seasonally adjusted using X-11 (in Macrobond).

Financial and commodity markets: financial conditions improving as AE inflation trends down

Our global measure of consumer price inflation slowed once again in September (following a modest acceleration in August). Global prices increased by 5.8% yoy (compared with a 6.0% yoy increase previously).

Emerging markets continue to see inflation outpacing the rates of advanced economies – up by 6.9% yoy (from 7.0% yoy in August) – however this reflects some idiosyncratic trends in different countries, such as the 62% yoy increase in Türkiye and 38% yoy increase in Egypt. In contrast, price pressures have remained negligible in China – where prices were unchanged in September, before slipping back into deflation (albeit marginally) in October.

In contrast, inflation in advanced economies was softer, with consumer prices rising by 4.2% yoy in September (down from 4.5% yoy in August) – the lowest rate of growth since September 2021 (a period where inflation was trending higher). The slowdown in advanced economy inflation was driven primarily by softer price growth in Europe, with US inflation only easing marginally. That said, core inflation in the US has continued to trend lower.

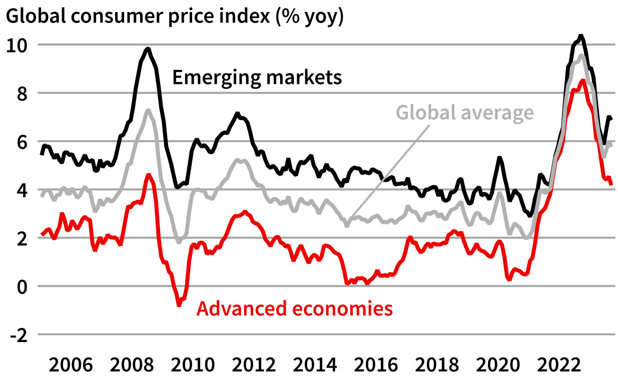
The generally softer trend for inflation in advanced economies has increased confidence in financial markets that most major central banks have reached the end of their tightening cycle (with the BoJ the main exception – see p4). Market pricing on 20 November allows for almost no chance of a further rate rise in this cycle by the US Federal Reserve, the Bank of England and the European Central Bank. That said, we continue to think that their near-term bias is to the upside, particularly if progress on getting inflation down stalls.

Overall, yields for most advanced economy 10-year government bonds have trended down since mid-October (with Japan again being the notable exception). For example, at the time of writing US Treasuries have dipped over 50 basis points from its peak of 5.0% on 19 October.

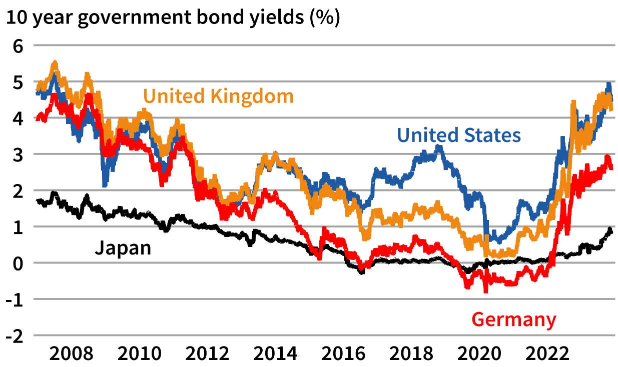
Global equity markets have rallied since late October, counter to a downward trend that was evident since mid-2023. According to MSCI data, the rally in US equity markets by mid-November outpaced that of other advanced economies and emerging markets. That said, it is worth noting that the gains in US equity markets were concentrated in the eight largest technology stocks, with the rest of the S&P 500 index essentially tracking sideways.

Global commodity prices – as measured by the S&P GSCI – have drifted lower since mid-October. At the time of writing, the S&P GSCI was around 6.5% below its recent peak. Energy prices have been the key driver of the aggregate index in recent times – with volatility reflecting efforts by OPEC+ to constrain oil production to drive prices higher, while weaker economic activity is likely to curb demand.

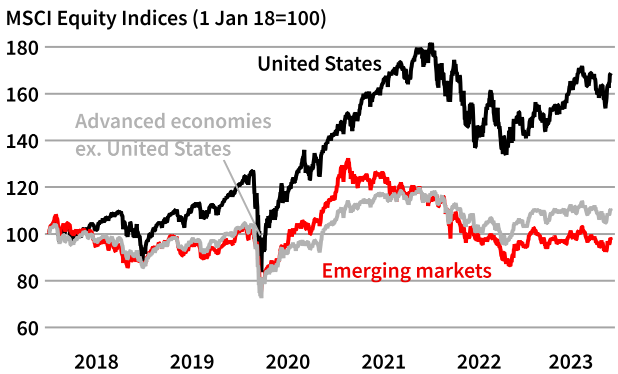
Advanced economy inflation continuing to trend down



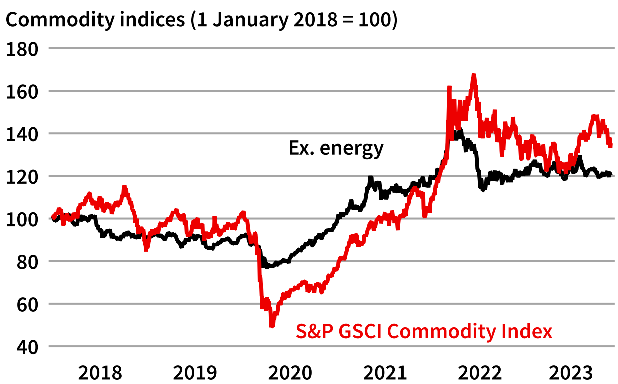
Bond yields trending down from recent upturn



Equity markets have rallied since late October



Energy drove global commodity prices lower



Advanced economies: AE growth divergence should narrow in Q4 as US moves closer to the pack

The expected divergence in Q3 GDP growth across the major AEs has been confirmed by incoming data. GDP grew strongly in the US but fell in the Euro-zone, UK and Japan. Only modest growth is expected for Canada.

The US economy grew 1.2% qoq in Q3. Over the year it was up 2.9% – well above its longer-term trend growth rate. The strength in Q3 was driven by consumption (public and private) and inventories but business investment stalled.

Euro-zone GDP declined by -0.1% qoq and over the year eked out growth of just 0.1%. Of the major Euro-zone economies, Germany has been the weakest – contracting 0.4% over the year. Italy has gone sideways while Spain was the strongest performer (1.8% yoy). In the UK, the GDP decline only registered to two decimal places (-0.03% qoq) but over the year was only up 0.6%.

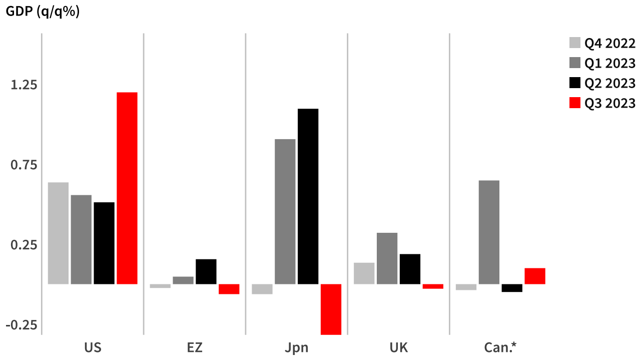
Japan had the weakest Q3 GDP result – falling by 0.5% qoq. It is tempting to see the Q3 fall as purely a correction following two very strong quarters of growth, which meant that over the year GDP grew by a well above trend 1.4%. However, the details suggest some reasons for concern. Domestic final demand fell again in Q3, and private consumption and business investment has fallen in each of the last two quarters, with declines in real wages likely weighing on the former. Net exports have been the key growth driver, likely helped by currency depreciation.

Business surveys suggest the divergence in growth over the last year between the US – and to a lesser extent Japan – and Western Europe is narrowing. While survey readings remain higher in the US and Japan, the gap is narrowing in the services PMI. In line with this, while we expect US GDP growth to continue to outperform in Q4, growth is expected to slow. Japan should see a return to positive GDP growth, as should the UK, but we have revised down our expectation for the Euro-zone and now see another small contraction.

Over 2024, our outlook is little changed with generally subdued growth expected across the board. While rates may have peaked – outside Japan – the full impact of past rate increases is yet to be felt. This can be seen in the ongoing tightening in lending standards. For Japan, it is looking likely that the Bank of Japan will move away from negative rates in 2024, reinforcing the policy tightening that has occurred through the (effective) raising of its 10-yield curve target. Fiscal policy, particularly in the US, is also likely to be less supportive than in 2023. Against this, western Europe and Japan should continue to benefit from the large fall in energy prices over the last year. The Japanese government earlier this month also announced a large stimulus package for 2024, but this will largely offset the tightening that was scheduled to take place.

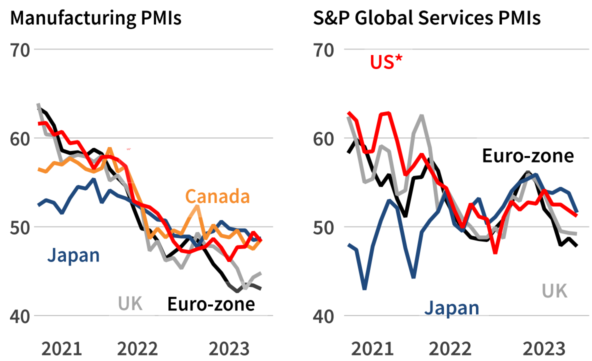
With central banks likely to start easing at some point in 2024 (ex Japan), growth should recover over 2025.

Euro-zone, UK, Japan all weak in Q3

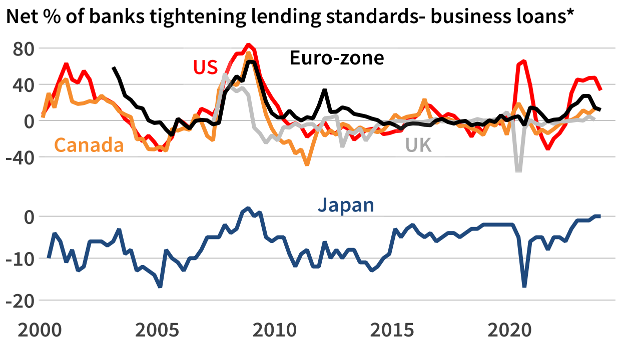


Source: Macrobond. Q3 2023 are NAB forecasts

Surveys – Europe weak, Japan/US services softening

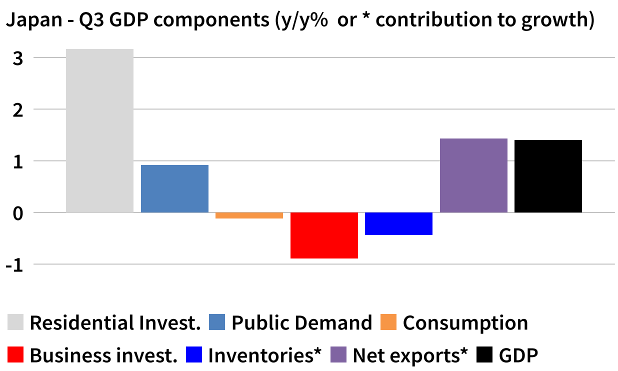


Lending standards still tightening…but at a slower pace



* US domestic banks; UK availability of credit; Japan large firms

Japan – domestic demand faltering



Sources: Macrobond, Refinitiv, NAB Group Economics.

* US PMIs are average of the S&P Global and ISM; for other countries S&P Global.

Emerging markets: China cutting prices to boost export volumes

Business surveys of emerging markets generally softened in October, with the EM composite PMI dropping to 51.1 points (from 52.0 points in September) – its weakest reading since December 2022.

From its recent cycle peak in May 2023, the downturn in the composite PMI has been driven by the services sector. That said, the easing in the EM services PMI was relatively modest in October – down to 51.7 points (from 51.9 points previously). This was driven by a weaker reading for India (albeit still remaining strongly positive) along with a dip in the Russian measure.

The key driver of the weaker composite PMI in October was manufacturing, which fell to 50.1 points, from 50.9 points previously. This trend reflected a deterioration in manufacturing readings for China (which fell into negative territory) and India.

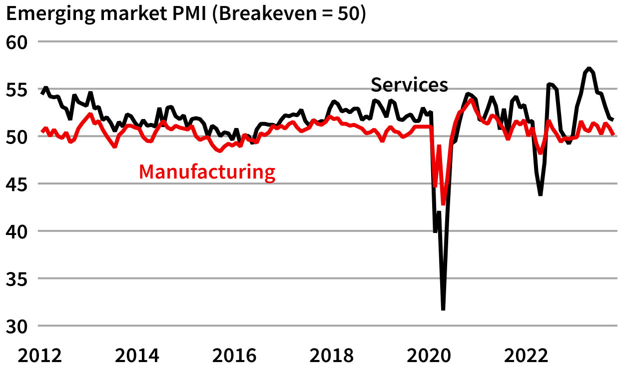
China's latest data release did not change our overall view of its economy. Rapid expansion in government bond issuance in recent months should ensure that China meets (and likely exceeds) its growth target for the year, but does not address fundamental constraints around household consumption and the real estate sector. The People's Bank of China continues to boost liquidity in financial markets, however loan demand (particularly in the real estate sector and among private firms more generally) has remained weak.

Emerging markets – including China – are generally facing a challenging global trading environment, which is a major negative given EMs are more trade dependent than advanced economies. That said, recent months have seen an uptick in China's export volumes, with exporters aggressively cutting prices to attract purchases. In August, export volumes rose by 5.5% yoy, however export prices fell by over 14% yoy.

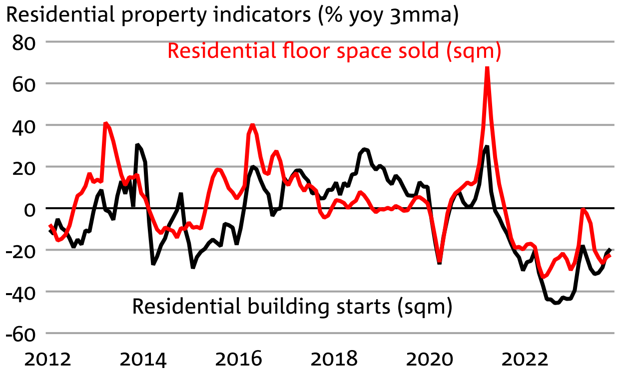
In contrast, export volumes for emerging Asia (excluding China), the Middle East and Latin America fell in year-on-year terms in August. Export volumes for Eastern Europe surged – up 17.5% yoy – however trade within this region has been highly disrupted by sanctions imposed on Russia following its invasion of Ukraine. The export prices from this region have been falling substantially.

For the past three months, data from the Institute of International Finance shows that capital has been flowing out of emerging markets on a net basis. This has largely reflected outflows from China, with a contraction in both equity (particularly in August) and debt investment in recent months – with the latter likely reflecting the impact of various bond defaults (most notably in the property sector) which has made Chinese debt less attractive. In addition, the gradual evolution of global supply chains to become less China dependent is likely encouraging investment in other emerging markets.

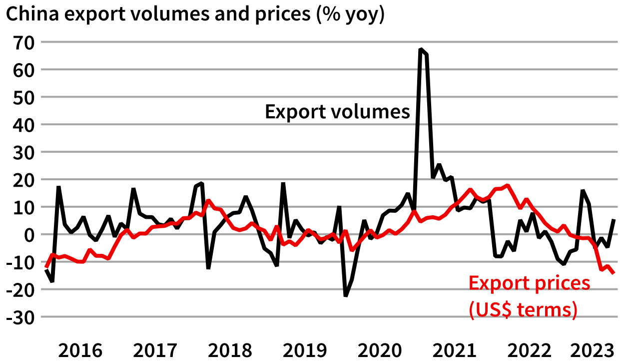
Composite PMI to its lowest level in 2023



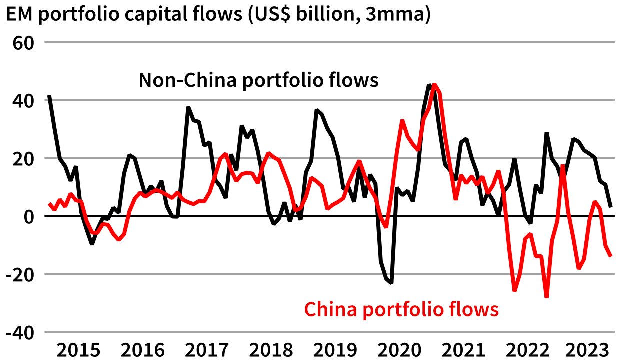
Real estate sector remains a headwind for China



China cutting prices to support export volumes



Capital has flowed out of EMs, led by China



Global forecasts and risks: recent resilience set to end; global growth slowing in 2024

National accounts data that is currently available for Q3 point to divergent conditions across different countries and regions, albeit the broad outcomes are considerably stronger than we were anticipating earlier in the year. Much of this reflects the resilience that we have seen in the US economy, while a range of other advanced economies have been weaker. Global growth in Q3 currently looks little changed from Q2, however stronger than anticipated growth in India and/or Russia could see quarterly growth accelerate versus Q2. This resilience is not expected to continue – global growth is forecast to slow into 2024.

Business surveys continue to point to slowing activity in recent months. The JPMorgan global composite PMI dipped down to a neutral 50.0 points in October, compared with 50.5 points in September. This was the weakest reading since January 2023.

The key driver of the deterioration in the global PMI measure since May 2023 has been the services sector – which eased to 50.4 points in October (from 50.7 points previously) – led by the advanced economies measure dipping into negative territory.

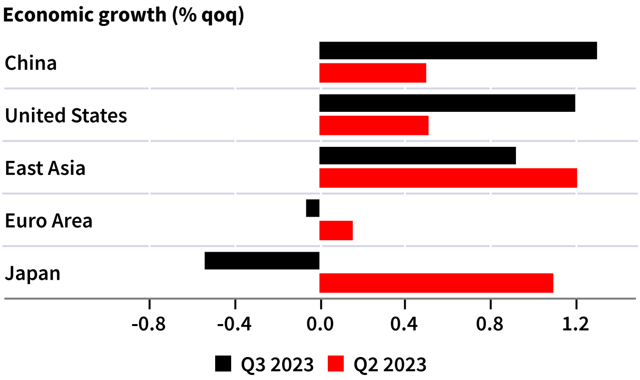
The manufacturing measure was also weaker in October – dropping to 48.8 points (from 49.2 points previously). This deterioration was driven by a drop in the emerging markets (with the AE reading marginally less negative in October).

Modest revisions to the outlook for the United States, Europe and Japan were not sufficient to change our overall outlook for the global economy. We continue to expect global growth of 3.0% in 2023, before slowing to 2.6% in 2024, with a modest recovery to 3.0% in 2025. This outlook remains below the long-term average of 3.4% (which was recorded between 1980 and 2022).

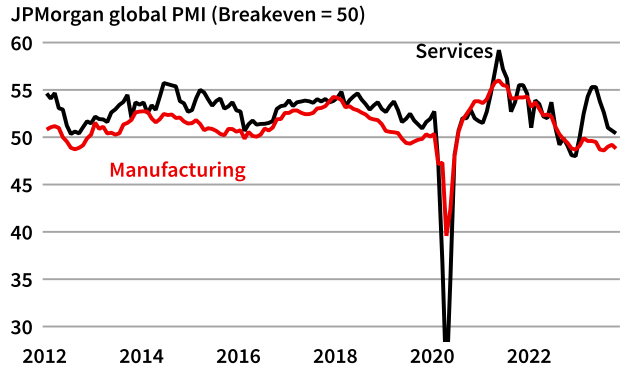
The path of inflation remains a key uncertainty around our outlook – given that it has proved so far to be sticky (particularly in advanced economy services prices) – remaining higher than central bank targets for far longer than anticipated. Our forecasts assume that major advanced economy central banks have reached the peak of the current tightening cycle, however given a clear bias towards further hikes among these institutions adds some downside risk to the outlook. That said, the eventual easing in policy rates – back to neutral levels –could happen more quickly than expected if inflation returns close to targets more rapidly.

Various geopolitical factors could continue to influence the outlook for global growth. These include the ongoing Russia-Ukraine war, which has disrupted energy and agricultural products, conflict in the Middle East (which could also impact energy markets), tensions between the United States and China and the US Presidential election in 2024.

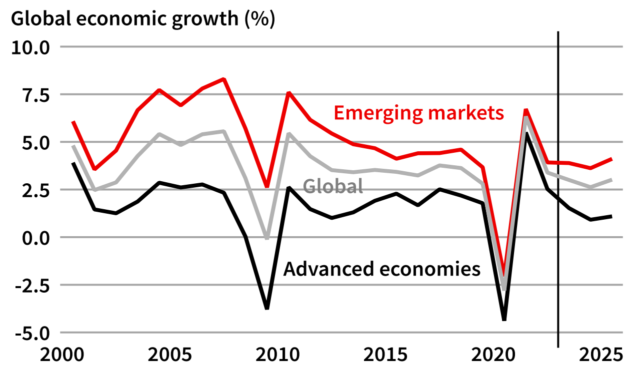
Mixed growth trends in Q3



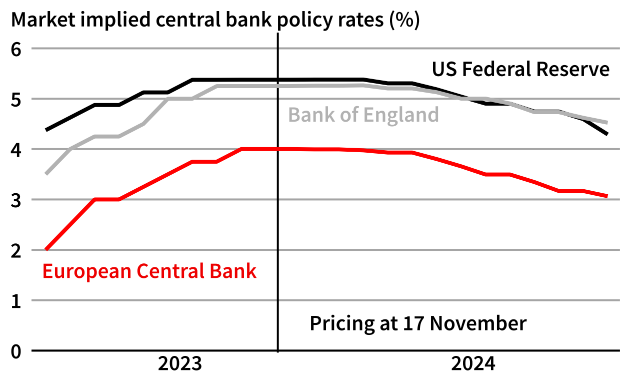
Retreat in services has brought composite PMI to neutral



Global economy set to slow, led by AEs



Markets believe major central banks have reached peak



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