# The Global & Australian Economic Outlook in Brief: November 2023

## NAB Group Economics

## Global Economic Outlook

**Global inflation slowed in September, including a softening in advanced economy inflation to its lowest level since September 2021. This has raised hopes that most major central banks are at the end of their tightening cycle, although upside risk remains. There was a large divergence in growth across the major AEs in Q3, with GDP growing strongly in the US but declining in the Euro-zone, UK and Japan. However, business surveys suggest growth differentials will narrow, while for emerging markets, the EM composite PMI dropping to its weakest reading since December 2022. 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%.**

- Our **global consumer price inflation** measure 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). Inflation remains higher in emerging markets (6.9% yoy) but with very different trends across EMs (including negligible price pressures in China). Inflation in advanced economies was 4.2% yoy in September, its lowest in two years.
- The generally softer trend for inflation in advanced economies has increased confidence that most major **central banks** have ended their tightening cycle (with the BoJ the main exception, as it is seen as starting to lift rates next year). Recent market pricing allows for little chance of a further rate rise by the US Federal Reserve, the Bank of England and the European Central Bank, although we think there is still upside risk if progress on getting inflation down were to stall. **Yields** for most advanced economy 10-year government bonds have trended down since mid-October (with Japan again the exception) while **global equity markets** have rallied since late October.
- **Global commodity prices** – as measured by the S&P GSCI – have drifted lower since mid-October. 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.
- Growth diverged across the **major advanced economies** in Q3, with GDP growing strongly in the US but falling in the Euro-zone, UK (but only just) and Japan. Only modest growth is expected for Canada. Japan had the weakest Q3 GDP result – falling by 0.5% qoq. While this follows two very strong quarters of growth, the second consecutive quarterly fall in domestic demand is a concern. AE business surveys are consistent with a narrowing of the growth differentials seen over the last year. For 2024, we expected generally subdued growth across the major AEs, as the full impact of past rate increases is felt and fiscal policy, particularly in the US, is likely to be less supportive. Against this, western Europe and Japan should continue to benefit from the large fall in energy prices over the last year.
- Business surveys of emerging markets generally softened in October, with the **Emerging Market** composite PMI at its weakest levels since December 2022. The downturn in the composite PMI since May has been largely driven by the services sector, although the fall in October was mainly attributable to a fall in the manufacturing PMI, led by China (which moved into negative territory) and India. 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. Recent months have seen an uptick in China's export volumes, with exporters aggressively cutting prices to attract purchases.
- **Global growth** in Q3 currently looks little changed from Q2 but this resilience is not expected to continue. The JPMorgan global composite PMI dipped down to a neutral 50.0 points in October, the weakest reading since January 2023. We expect global growth to slow to 2.6% in 2024 (from around 3% in 2023), before a modest recovery in 2025. Growth over this period is expected to be below the long-term average of 3.4% (recorded between 1980 and 2022).
- The path of inflation remains a key **uncertainty** around our outlook. If progress on reducing inflation stalls, central banks may yet move rates higher (or keep them high for longer), while the eventual easing in policy rates back to neutral levels could happen more quickly than expected if inflation were to fall more rapidly. Geo-political developments remain a risk, particularly given the ongoing Russia-Ukraine war, conflict in the Middle East, tensions between the United States and China and, in 2024, the US Presidential election.

For more detail on the global outlook, please see the [Forward View – Global](), released yesterday.

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# Australian Economic Outlook

**For Australia, we have revised up our forecasts for growth and inflation (in the near-term) while lowering our expected peak in the unemployment rate to 4.5% (from 4.9%). Alongside this, we now see a cash rate peak of 4.6% in February, with the RBA staying on hold until late 2024. That said, our broad outlook remains unchanged with below trend GDP growth (1.4% and 1.7% over 2023 and 2024, respectively) and an ongoing easing in the labour market as slower growth in labour demand is unable to fully absorb still strong population growth. The moderation in inflation is expected to continue, but be bumpy, with the underlying rate ending 2024 at 4.5% before easing to 3.3% by end 2024.**

- **The unemployment rate rose in October but remains low at 3.7%. We see a further increase in the unemployment rate over the next year or so, with a peak of 4.5% by end 2024.** Employment rose 55k in October, keeping pace with population growth, but an increase in the participation rate saw the unemployment rate tick up to 3.7% (after falling to 3.6% in September). Given the resilience of the economy thus far and the upward revision to our growth outlook, we now expect unemployment to peak at 4.5% in late 2024 (previously 4.9%). On wages, hourly wage growth lifted to 4% in Q3, its highest rate since 2009. The 1.3% q/q rise was the strongest quarterly result in the history of the series, supported by the lift in minimum and award wages and the adjustment to age care pay levels, with wage growth strongest in accommodation & food and healthcare & social assistance. We expect wage growth to stabilise around or just below 4% over the coming year.
- **Retail turnover rose in Q3 in both nominal and volume terms, and our consumption growth forecasts have been revised upwards.** Nominal retail turnover rose 0.9% in September, leaving retail up 1.8% over the quarter and 2% y/y. While ongoing price increases contributed to the nominal result, there was a small 0.2% increase in retail volumes in the quarter as a whole – ending a run of three consecutive quarterly declines. Non-food goods rose 0.4% q/q in volume terms, and cafes & restaurants also rose 0.4% q/q. Reflecting the resilience in the retail data and support for household incomes from the labour market, as well as the strength of population growth, we have revised up our forecasts for household consumption in Q3 and through the forecast period, now seeing small positives for overall consumption growth.
- **House prices and rents continue to rise at a solid pace, pressured by strong population growth amidst weaker supply growth.** The CoreLogic 8-capital city dwelling price index rose by 0.9% in October and is now 9% above its recent trough in January, while prices in regional areas continue to rise at a more modest pace, though they are around 46% higher than pre-COVID levels. Capital city rents growth rebounded in October after moderating in recent months; rising 0.6% m/m and 10% y/y, while vacancy rates edged lower. Both the pressure in prices and rents continues to see a significant deterioration in housing affordability. The supply side of the housing market continues to be challenged, with total residential building approvals falling 4.6% in September, and down 20% over the year.
- **Business conditions remained resilient in October though forward-looking indicators continue to follow a weaker trajectory.** While ongoing resilience continues to see solid reads in capacity utilisation – well above average at 84% - confidence and forward orders edged lower in the month. Cost and price pressures eased in the month but are still high. Indicators of investment intentions remain positive, though have pulled back in recent reads. For now, business credit growth remains robust - rising by 0.7% in September and up 6.4% over the year.
- **The goods trade surplus decreased to $6.8b in September.** The decline reflected a fall in goods exports, driven by non-monetary gold, and a rise in imports driven by industrial transport equipment. Despite the September decrease, both goods imports and exports appear to have risen in real terms over Q3, suggesting that trade should be broadly neutral for GDP growth in the quarter.
- **The Q3 CPI surprised slightly to the upside, with both the headline and trimmed mean measures showing quarterly rises of 1.2%.** Year ended inflation in both headline and core measures continued to moderate, falling to 5.4% and 5.2%, respectively. Petrol prices were a key contributor to the headline result, but inflationary pressures were clearly broad-based with services prices continuing to rise strongly. Inflation is now clearly past its peak for this cycle in Australia, but progress from here is likely to be more difficult. We have pencilled in 1.0% q/q (4.5% y/y) for trimmed-mean inflation in Q4 and 3.3% y/y by Q4 2024.
- **While inflation has peaked, slower progress than previously expected in returning to target saw the RBA lift rates to 4.35% in November and we now see a 4.60% peak.** The RBA continues to see itself in a phase of "fine-tuning", balancing the visible slowing in activity (particularly household consumption) and the ongoing passthrough of the steep increase in rates over the past year or so, against still well-above-target inflation. We see one further hike to 4.60% in February, with rates then on hold until late 2024, before the RBA begins easing back neutral.
- **The AUD/USD strengthened over the month, currently trading around US64.7c after falling into the mid-to-high US62c range.** We continue to see the Aussie ending the year at around US66c before tracking higher over 2024 – ending 2024 at around US73c.

For more detail on the Australian outlook, please see the Forward View – Australia, released on Tuesday.

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