The Forward View: Global March 2024

NAB Group Economics

Overview

- Global inflation eased slightly in January. Advanced economy consumer price inflation fell below 3% yoy in January, its lowest level since May 2021. However, some recent high monthly inflation reads has shifted out market expectations of when central bank rate cuts will start in, and the extent of easing likely to occur, over 2024. The Bank of Japan is on a different path to the other major central banks and this week ended its negative interest rate policy although the degree of actual tightening implemented was small.

- Outside of the US, the major advanced economies have been tracking sideways or seeing only weak growth. Despite this, employment growth remains positive and unemployment rates low, but falls in job vacancies do point to an easing in labour supply/demand imbalances. We expect only modest major AE growth over 2024.

- Emerging market economies are relatively trade dependent so modest advanced economy growth will constrain their growth. That said, India Q4 GDP growth and Russia GDP for 2023 were both well above expectations, although we have concerns around the accuracy of these results.

- Nevertheless, as per our standard practice, we take the India and Russia results at face value, which has led us to revise up our global growth forecasts. We now expect the global economy to expand by 2.9% in 2024 (previously 2.8%) before edging up to 3.0% in 2025. With 2023 global growth looking like it has come in a bit below its long-term average (of 3.4% between 1980 and 2022), these forecasts, point to a three year stretch of sub-par growth, which would be the first time this has occurred since the early-to-mid 1990s.

- There remain a range of uncertainties. If inflation does not fall as expected, this could delay policy rate cuts. Geopolitical tensions remain, including the potential for existing conflicts in Europe and the Middle East to widen. US-China tensions remain an issue against the backdrop of the US elections later this year.

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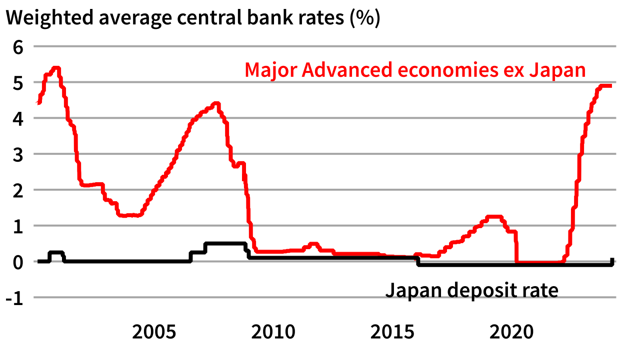
Global growth forecasts

	2020	2021	2022	2023	2024	2025
US	-2.2	5.8	1.9	2.5	2.1	1.4
Euro-zone	-6.2	5.9	3.5	0.5	0.3	1.0
Japan	-4.2	2.6	1.5	1.9	0.3	0.6
UK	-10.4	8.7	4.3	0.1	0.0	0.7
Canada	-5.0	5.3	3.8	1.1	1.0	1.3
China	2.2	8.1	3.0	5.2	4.5	4.8
India	-6.0	9.5	6.4	7.7	6.6	6.2
Latin America	-7.0	7.4	4.2	2.3	1.3	1.9
Other East Asia	-2.8	4.5	4.2	3.2	3.4	4.0
Australia	-2.1	5.6	3.8	2.1	1.3	2.2
NZ	-1.4	5.5	2.4	0.7	0.1	2.7
Global	**-2.8**	**6.3**	**3.4**	**3.3**	**2.9**	**3.0**

Japan policy rate lifted for the first time in 17 years… but Japan policy has long been on a separate track to other countries



Source: Macrobond, NAB calculations

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

Financial and commodity markets: markets winding back rate cut expectations

The path of inflation back towards typical levels remains volatile. Our estimate of global inflation eased slightly in January (following an uptick in December 2023) – dipping below 5% yoy for the first time since October 2021 (when inflation was still accelerating).

This volatility has been more evident in emerging markets, with advanced economy inflation falling below 3% yoy in January, its lowest level since May 2021. There remain risks around the path to the 2% inflation target of the US Federal Reserve and European Central Bank – including the relatively stronger price increases for services as well as the impact of Red Sea shipping disruptions on freight costs.

Some recent high monthly inflation reads have shifted market expectations of central bank rate cuts in 2024. At the start of 2024, markets priced around 150 basis points of cuts from the Fed this year, however this had been reduced to less than 70 basis points at the time of writing. Similarly, market expectations around cuts from the ECB have also been pared back. We expect the Fed to cut four times in 2024, starting at its June meeting.

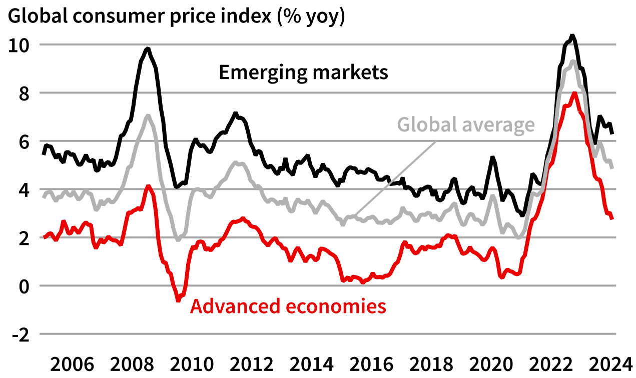
In contrast, the Bank of Japan this week lifted its policy rate (shifting from a negative deposit rate of -0.1% to targeting an overnight call rate of 0.0 to 0.1%) and abandoned yield curve control.

Despite the less optimistic market expectations for policy rates, which could reduce the upside potential for growth in 2025, the equity market rally that commenced in late October 2023 has continued. At the time of writing, the US MSCI index was around 26% above its trough, compared with a 16% increase in other advanced economies and 13% in emerging market equities. China's equity markets have constrained EM growth in recent times, albeit the sharp downturn from late November through early February has largely reversed.

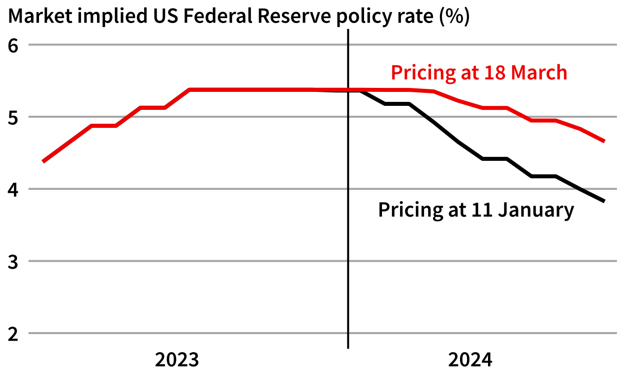
As measured by the S&P GSCI, global commodity prices have trended higher since mid-December. That said, there are divergent trends in individual markets. Until early March, this largely reflected energy prices – with crude oil moving up around US$10 a barrel over this period, as markets are torn between efforts by OPEC+ to constrain supply against the backdrop of weaker demand due to slowing economic activity. However, base metal prices – led by copper – moved up in March in response to a reported agreement from Chinese smelters to cut refined copper production.

In contrast, prices for iron ore – Australia's largest commodity export, but one not included in the S&P GSCI measure – have declined. After trending down earlier this year, iron ore prices have fallen sharply since China's National People's Congress in March, where any remaining hopes of large-scale stimulus appeared dashed.

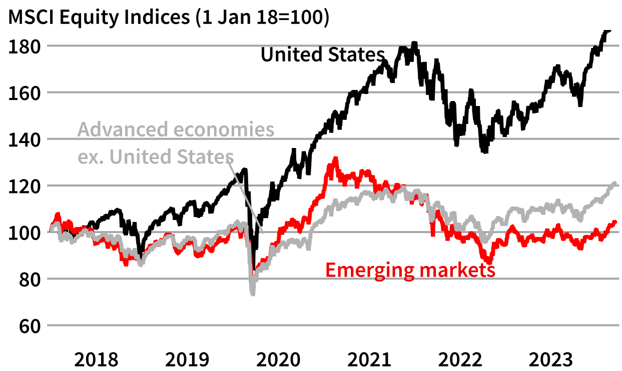
Advanced economy CPI back below 3%



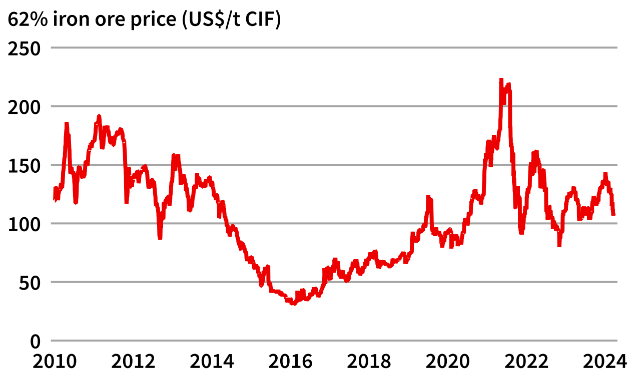
Markets have scaled back rate cut expectations



Equity market rally continues; AE markets at records



Iron ore prices lower as stimulus hopes faded



Sources: Macrobond, NAB Group Economics

Advanced economies: Soft growth (ex. US) reflected in labour demand normalising

We noted in the February Forward View that, based on the popular two quarters of negative growth measure, the UK and Japan fell into recession in H2 2023. However, the latest estimate of Japan's GDP now points to some growth in Q4. On the flip side, Euro-zone GDP was revised down and it is now estimated to have fallen in each of Q3 and Q4. These data will be revised many times again, and who is in 'technical recession' could change again.

The best way to interpret the GDP data is that, outside of the US, the major advanced economies (AEs) have been tracking sideways or seeing only weak growth. For Western Europe, this has been the case for over a year.

Despite this, employment growth across the major AEs remains positive (only the UK is close to flat). Unemployment rates also remain low – the Euro-zone is yet to see any increase, while the UK has tracked sideways. Canada has seen its unemployment rate rise 1.0ppt – this is because still sold employment growth has not been enough to absorb the rapidly growing population (now above 3% y/y). The small increase in US unemployment also reflects increased labour supply.

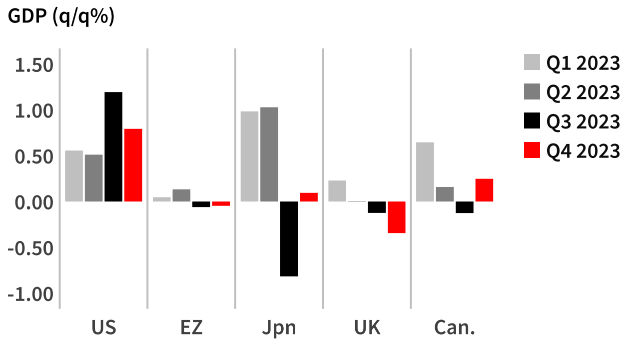
The weakness in economic growth is more evident in a decline in the level of job vacancies across the major AEs. However, they generally remain above their pre-COVID level; Japan is an exception but by historical standards vacancies are still high. The fall in vacancies in the US reflect an increase in labour supply allowing vacancies to be filled. In short, the demand for labour remains strong but it has moderated.

The US economy was the clear outperformer last year. Early data for Q1 suggest growth is set to moderate although we expect a still solid outcome (around 0.5% q/q). Improvement in the PMIs for the UK and Euro-zone over recent months also suggest that the worst may be over. The rise in the Euro-zone PMI is consistent with a small rise in GDP while the 0.2% increase in UK monthly GDP in January points to positive growth in Q1.

Our expectation that there will only be relatively modest major AE growth over 2024 is unchanged from last month. While we expect monetary policy to ease (outside of Japan) at some stage later this year, current policy settings are clearly restrictive. Fiscal policy settings also look likely to be tighter this year, although as illustrated by the recent UK Budget there is scope for this to change.

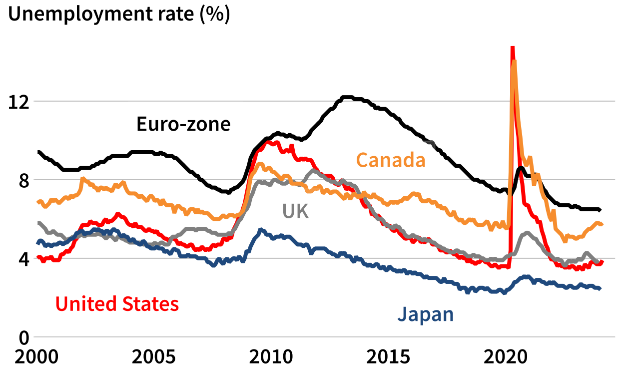
The major turnaround in fiscal policy, relative to 2023, is in the US. The unwinding of the 2021/22 energy price shock remains a positive factor for the Euro-zone, UK and Japan (net energy importers), although likely diminishing. More broadly, the falls in inflation that have occurred are reducing the squeeze on household budgets. As a result, we expect the growth gap between the US and the other major AEs to narrow over 2024.

'Technical recession' watch: in Euro-zone, out Japan

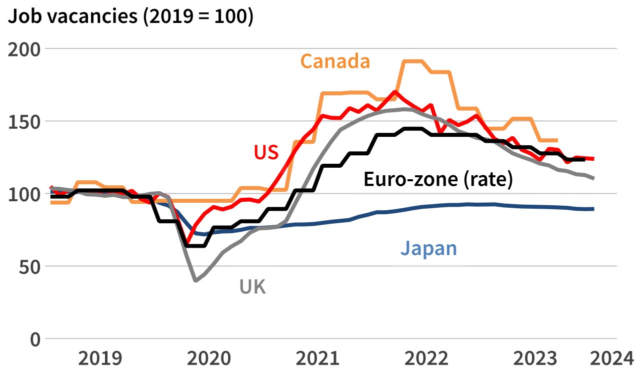


Source: Macrobond

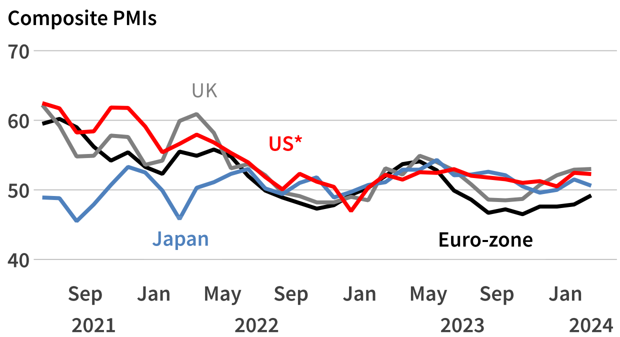
Recession labels misleading – unemployment still low



Vacancies have generally but still elevated (ex Japan)



Bus. surveys – some improvement but suggest only modest growth



* Based on S&P Global and NAB weighted composite of US ISM PMIs

Emerging markets: doubts persist around strong performance in India and Russia

The EM composite PMI edged down marginally in February – down to 53.4 points (from 53.5 points previously). Trends were divergent between industry sectors and countries.

The driver of the downward pressure on the composite PMI was the EM services measure – which fell to 53.7 points (from 54.2 points in January). Russia and India accounted from the majority of the decline – however there were wide disparities between these measures, with Russia dropping closer to neutral levels, while India's reading remains extremely strong.

In contrast, the EM manufacturing PMI moved slightly higher in February – up to 51.4 points (from 51.1 points previously). Russia was the main contributor to this increase, along with Brazil and India to a lesser extent.

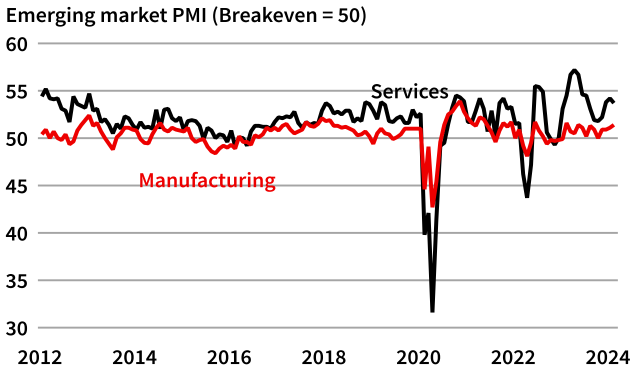
India's economic growth far outpaced market expectations in Q4 – up by 8.4% yoy (compared with 6.6% yoy in the Reuters poll). As was the case in both Q2 and Q3, the largest contribution to India's economic growth was its statistical discrepancy – which highlights concerns around the accuracy of the reported data. Otherwise, gross capital formation was the main driver of growth in 2023, consistent with India's relatively early stage of economic development (with GDP per capita lagging well behind other major EMs).

Russia's statistical service reported in February that its economy expanded by 3.6% in 2023 – well above most expectations, as well as the performance implied by its quarterly growth data (with Q4 outcomes yet to be reported). While we are highly sceptical of these figures – due to the propaganda value of reporting strong growth in the face of western sanctions – it is clear that the majority of any growth is non-productive. Russia's Centre for Macroeconomic Analysis and Short-term Forecasting suggests around 60-65% of the increase in industrial production in the past two years has been for military purposes – which will not support further growth or raise living standards.

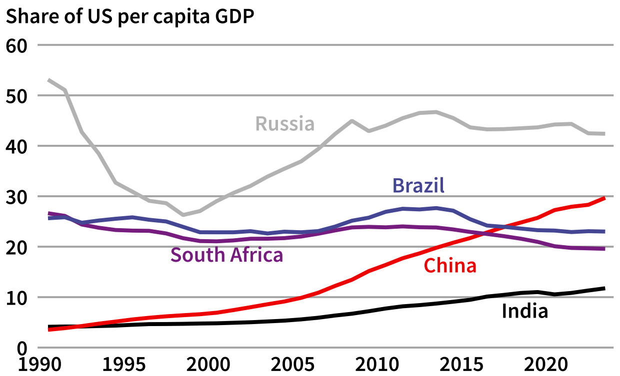
Growth in emerging markets is typically more trade dependent than advanced economies (AEs). Restrictive monetary policy in AEs is constraining household consumption and business investment, limiting the potential of exports to support EM growth.

That said, there has been a significant shift in export volumes between major emerging markets. China's export volumes accelerated at the end of 2023, up by 12.4% yoy in December. Although volume data is not disaggregated by country, the value of China's exports to Russia and former Soviet Union countries has increased more rapidly than to its traditional major trading partners. In contrast, export volumes by non-China EMs grew by just 0.3% yoy (having fallen across the previous three months).

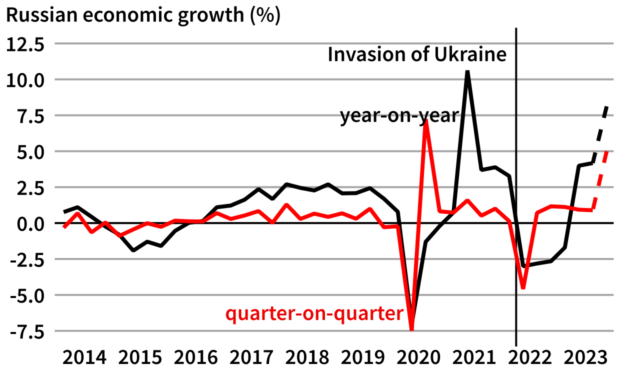
Services push EM composite PMI slightly lower



India's economy lags behind other EMs in development



Russia's reported annual growth requires spike in Q4



China's export volumes jumped in late 2024

Global forecasts and risks: Restrictive monetary policy drives sub-trend growth in 2024 and 2025

Global business surveys were marginally stronger in February, with the JPMorgan global composite PMI edging up to 52.1 points (from 51.8 points previously).

This uptick largely reflects an improved reading for manufacturing – which rose from a neutral 50.0 points in January to a slightly expansionary 50.3 points in February. Both advanced economies and emerging markets saw a similar scale of improvement – albeit the advanced economy reading remains in negative territory.

Services were a fraction stronger, at 52.4 points (from 52.3 points in January). At a high level, the services measure was stronger in advanced economies and softer in emerging markets.

We have revised our forecast for the global economy slightly higher this month – reflecting a stronger outlook for both India and Russia, given the better than expected data reported by these countries this month (albeit we do so acknowledging the heightened uncertainty around the accuracy of these data). If these data are overstated, this will imply less demand for goods and services, including potentially weaker demand for some Australian commodity exports (more an issue with India than Russia).

We expect the global economy to expand by 2.9% in 2024 before edging up to 3.0% in 2025. Given relatively weak growth in 2023, should this forecast eventuate it would be the first time that the global economy has recorded three consecutive years of growth below its long-term average (3.4% recorded between 1980 and 2022) since the early-to-mid 1990s.

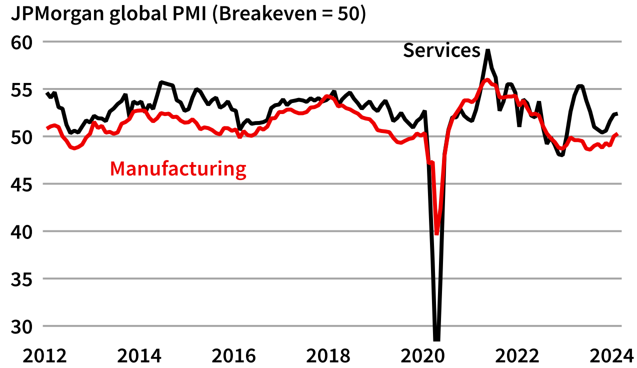
The outlook for 2025 will be impacted by policy rate decisions by major central banks. Monetary policy remains restrictive, and inflation is still above central bank target rates (and the path of disinflation has been volatile in recent months) – meaning that delays to policy rate cuts could negatively impact growth next year.

Geopolitical factors continue to present risks to our global forecasts. The Russia-Ukraine war is now into its third year with no clear end in sight. This conflict has substantially disrupted European energy supplies and global agricultural exports. Russian rhetoric to its European neighbours has intensified in recent months – with reported plans for Russian troops to be deployed to the Finnish border, following the latter's entry into NATO.

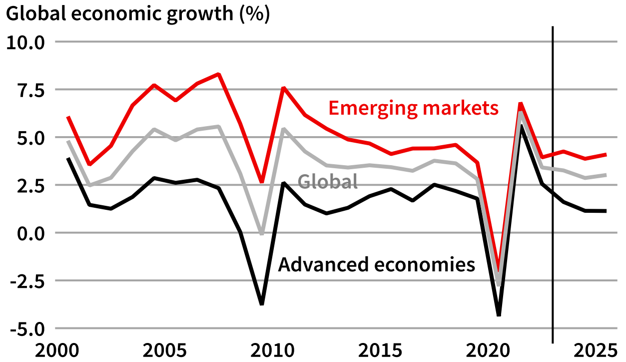
Similarly, tensions in the Middle East have intensified as the Israel-Palestine conflict continues. This has spilled out into the attacks against shipping through the Red Sea, with limited success in countering them thus far.

Tensions between China and Taiwan (along with other neighbours) have persisted as have US-China trade issues, which may become a major issue in the US Presidential election later this year.

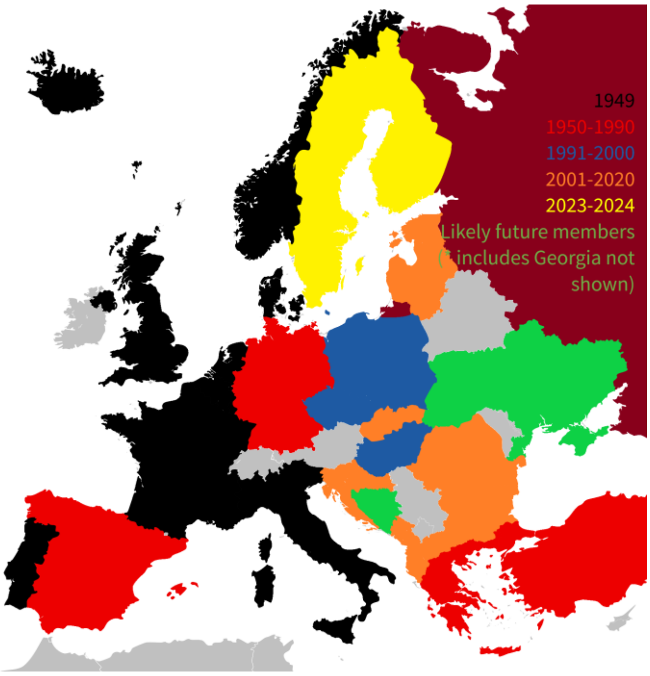
Global PMIs move higher in February, largely driven by AEs



Global economy set to slow, led by AEs



Russia's invasion of Ukraine has driven an expansion in NATO membership



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

Skye Masters
Head of Research
Markets, Corporate & Institutional Banking
+(61 2) 9295 1196

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