The Forward View: Global April 2024

NAB Group Economics

Overview

- Our global CPI inflation estimate accelerated slightly in February – with prices back above 5.2% yoy (compared with 4.8% yoy in January). That said, inflation in advanced economies remained essentially unchanged at 2.7% in February. This is still clearly above central bank targets and upside surprises to inflation data this year (particularly the US) have seen expectations of central bank rate cuts pushed back.

- US growth continues to look solid, although some slowing from Q4 is likely, and this trend is expected to continue over the rest of this year. At the same time, growth for the other major advanced economies looks to have picked up in Q1, after being moribund in H2 2023, and we expect to see modest growth over the rest of this year.

- Business surveys continue to point to relatively robust conditions in emerging markets in early 2024, with the EM composite PMI reaching its strongest reading since May 2023 (and the Indian manufacturing PMI at a 16 year high). Q1 GDP growth in China was higher than expected but masks underlying weakness in domestic demand and we have left our forecast for 2024 unchanged at 4.5%, below the 5% growth target.

- Our view for the global economy is unchanged – we expect global economic growth to slow to 2.9% in 2024, reflecting the lagged impacts of restrictive monetary policy, before growth edges higher to 3.0% in 2025. This modest recovery is expected to continue in 2026 – with growth increasing to 3.1%.

- Geopolitical risks have come to the fore this month, as the risk of a broader Middle East conflict rises. Oil prices have increased by around 10% since the end of February (partly due to OPEC+ supply constraints), and financial market stress indicators have moved higher, but these moves are not large enough to be particularly worrying in themselves. The issue is whether the conflict worsens from here, leading to bigger market moves. Historically a move higher in oil prices would have been looked through by the major central banks but, given the extended period of well above target inflation, they may be more sensitive to a sustained shift in prices this time around.

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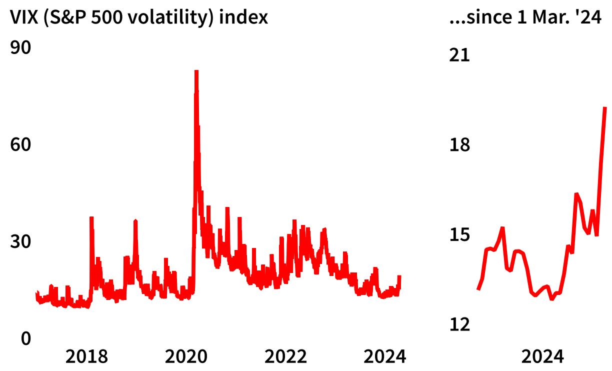
Global growth forecasts

	2021	2022	2023	2024	2025	2026
US	5.8	1.9	2.5	2.4	1.3	1.8
Euro-zone	5.9	3.5	0.5	0.3	1.0	1.5
Japan	2.6	1.5	1.9	0.3	0.6	0.6
UK	8.7	4.3	0.1	0.3	0.8	1.2
Canada	5.3	3.8	1.1	1.3	1.4	1.8
China	8.1	3.0	5.2	4.5	4.8	4.5
India	9.5	6.4	7.7	6.6	6.2	6.4
Latin America	7.4	4.2	2.2	1.3	2.1	2.1
Other East Asia	4.5	4.2	3.2	3.4	4.0	4.0
Australia	5.6	3.8	2.1	1.3	2.2	2.3
NZ	5.6	2.4	0.6	0.3	2.7	3.0
Global	**6.3**	**3.4**	**3.3**	**2.9**	**3.0**	**3.1**

Middle East tensions have risen, leading not only to higher oil prices but also an increase in market volatility…but not to high levels by past standards



Financial and commodity markets: markets winding back rate cut expectations

Global inflation trends remain volatile – with the path back to the normal rates observed prior to the COVID-19 pandemic remaining rocky. Our global CPI estimate accelerated slightly in February – with prices back above 5.2% yoy (compared with 4.8% yoy in January).

This uptick largely idiosyncratic domestic trends in a few key emerging markets – with inflation exceeding 65% yoy in Türkiye in February and over 30% in Egypt and Nigeria.

In contrast, inflation in advanced economies (AEs) remained essentially unchanged at 2.7% in February. Trends within individual consumption categories remain divergent – in the US, for example, goods prices fell by 0.2% yoy (driven by steep falls in durable goods prices), while services prices rose by 3.8% yoy (with housing expenses remaining stubbornly high).

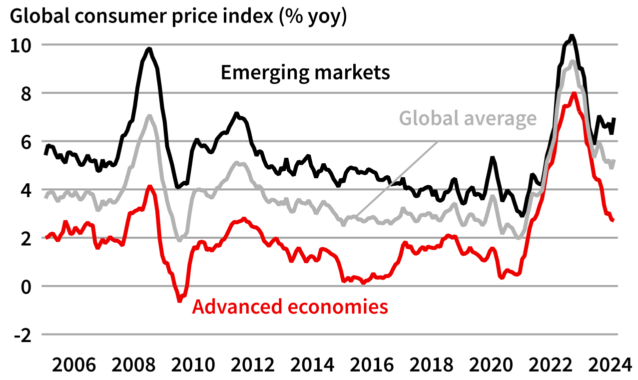
While, outside of the Bank of Japan, the major central banks are flagging the possibility of future rate cuts, upside surprises to inflation data this year – particularly for the US – and resilient labour markets has seen a considerable reduction in financial market pricing. Early in 2024, markets priced around 150 basis points of cuts from both the US Fed and European Central Bank. At the time of writing, these expectations have been pared back to around 45 and 80 bps respectively. We expect the Fed to start cutting in September, but this will require some improvement on recent inflation readings.

Global equity markets continued to trend higher in March – with the MSCI indices for the United States and other AEs rising to record highs at the end of the month, before retreating slightly in early April – continuing a rally that commenced in late October 2023. Emerging market equities rose to their highest levels since early 2022.

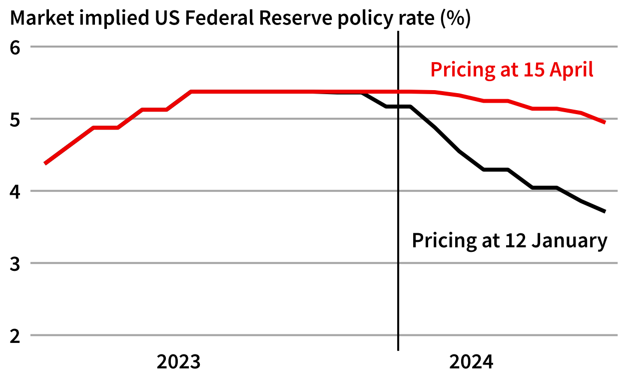
Trends in individual commodity markets have differed considerably in recent months. The S&P GSCI measure has accelerated since late February – rising back to levels last seen in September 2023. In part this reflected further increases in crude oil prices, with Brent crude rising above US$90 a barrel in April, as supply constraints by OPEC+ (which have been extended until at least July) and the impact of disruptions to Red Sea-Suez Canal shipping have added upward pressure. Similarly, base metals prices have surged higher – led by copper – as major Chinese smelters agreed to reduce output.

From an Australian perspective, a range of key commodity prices have been falling – most notably bulks such as iron ore and metallurgical coal (which are not included in many global commodity price indices). This reflects deteriorating demand conditions in China – with activity in the property sector (a key end user of steel) continuing to track lower, while Chinese authorities have resisted large-scale stimulus programs that would underpin steel consumption.

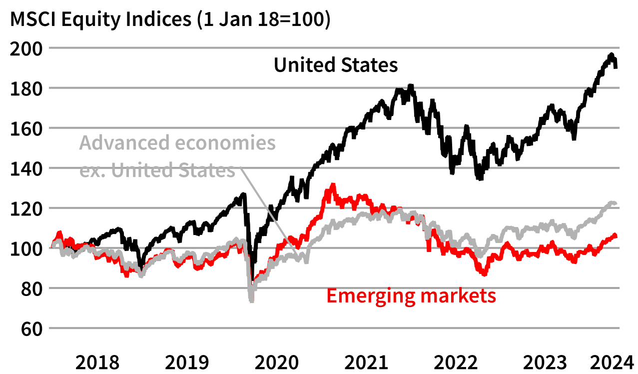
Inflation trend lower, but AE rates went sideways in Feb



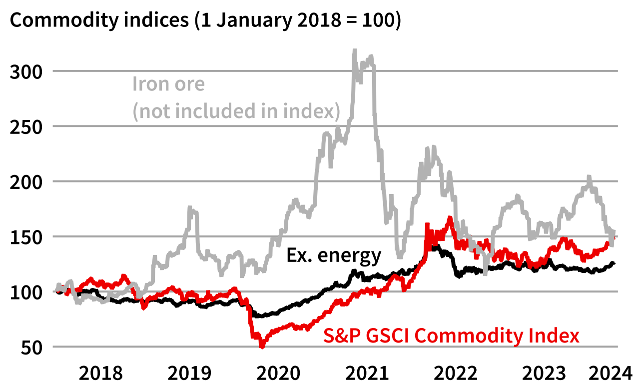
Markets wind back policy rate expectations



Equities marginally retreat from late March record highs



Mixed trends in commodity markets, with bulks lower



Sources: Macrobond, NAB Group Economics

Advanced economies: rebound in growth outside of the US looks to be underway

The expected turnaround in non-US advanced economy (AE) growth is underway. While the US is on track for solid growth in Q1, it looks likely to be below its strong H2 2023 levels, suggesting the divergence between the US and the other major AEs is narrowing.

Since late 2023, business survey indicators for the major AEs have moved higher, particularly outside the US. The March Euro-zone composite PMI moved above 50 (indicating net expansion) for the first time in almost a year. That said, while the PMI does tend to be a reasonable indicator of GDP growth for the Euro-zone, the limited partial data available for the quarter is less positive, with both retail sales and industrial production so far in Q1 below their Q4 2023 levels. Japanese data are mixed, with the consumer still battling as is manufacturing, but service sector activity is stronger as is net trade. There is less uncertainty for the UK and Canada, where monthly GDP data point to solid GDP growth in Q1.

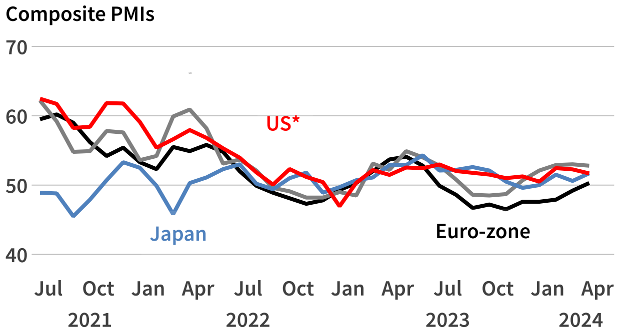
For the US, we have been expecting GDP growth of a bit over 2.0% q/q (annualised) in Q1. Strong March retail sales data this week point to upside risk to this forecast, but growth is still likely to ease from its Q4 (3.4% q/q annualised) pace. There has been a small improvement in business surveys this year, but they remain consistent with more moderate growth. Last week we raised our US forecast for 2024 from 2.1 to 2.4% and, reflecting another disappointing CPI result in March, we pushed out our expectation for the start of Fed rate cuts to September.

The revised forecasts still have a slowing in US growth across this year. At the same time, the other major AEs are expected to keep growing, albeit modestly. Like the US, high interest rates (ex. Japan) and fiscal policy are headwinds. However, the tightening of lending standards appears to have run its course in Western Europe and households are seeing real income gains which should support consumption. The expected monetary policy easing later this year will help growth over 2025 and 2026.

Movements in unemployment rates have not matched the pattern of GDP growth. The strongest performer – the US – has seen a small, but clear increase in the unemployment rate. Growth in Canada has been middle of the pack, but it has seen a more than 1ppt increase in the unemployment rate. In contrast, despite little or no growth in the Euro-zone and UK, unemployment has either been unchanged or falling, as has Japan's.

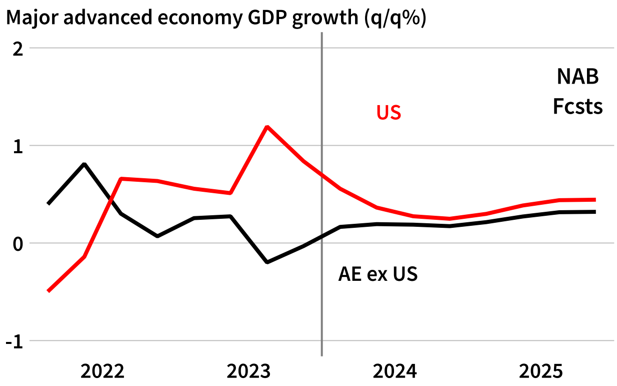
Canada is still seeing solid employment growth, but not enough to absorb a booming population, which increased by over 3% y/y in March. US population growth has also strengthened (and is likely being undercounted in the official data). It is also the case that population trends have strengthened in the other major AEs but this, and weak growth, is being reflected in declining job vacancies.

Business surveys have improved this year, particularly in Western Europe

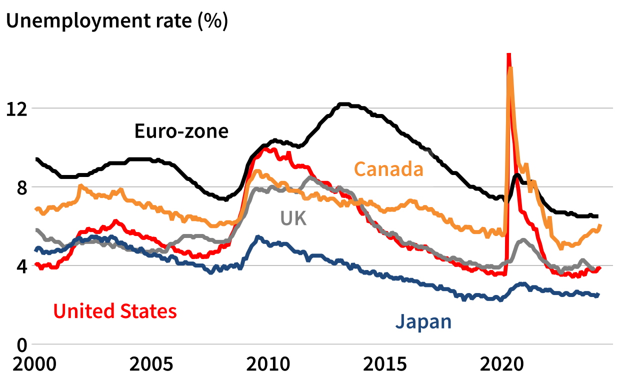


* Based on S&P Global and NAB weighted composite of US ISM PMIs

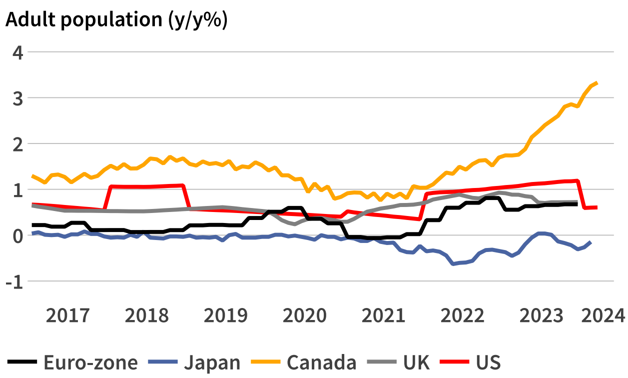
AEs ex US expected to perform better this year



Unemploy. rate trends being driven by supply shifts…



…Canada seeing a population boom



Emerging markets: stronger-than-expected growth In China may not be sustainable

Business surveys continue to point to relatively robust conditions in emerging markets in early 2024. The EM composite PMI trended higher again – moving up to 53.7 points in March (from 53.4 points previously) – the strongest reading since May 2023.

Manufacturing was the key driver of the increase in the composite PMI, with the EM manufacturing PMI rising to 52.0 points (from 51.5 points in February). This reflected a surge in the Indian measure – which rose to a 16 year high, as output and employment expanded in response to strong orders both domestically and internationally.

In contrast, the EM services PMI edged marginally higher – up to 53.8 points in March (from 53.7 points previously). Both China and India saw increases in their respective measures.

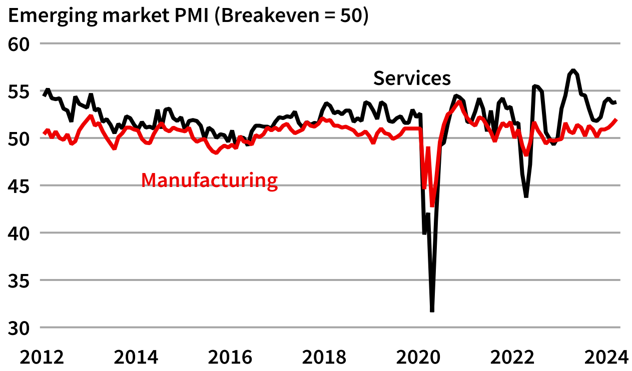
According to China's latest national accounts data, its economy expanded by 5.3% yoy in Q1 2024 (compared with a 5.2% yoy increase in Q4 2023) – beating market expectations (that saw growth below 5%). That said, disaggregated data showed some diverging trends – growth was driven by the manufacturing and construction sectors (despite the downturn in building construction although fiscal spending likely boosted infrastructure construction) – while services growth eased. Combined with weak retail and lending data, these point to ongoing weakness in domestic demand, with the manufacturing sector increasingly reliant on exports – leading to growing trade tensions.

Chinese authorities are yet to implement any substantial policies to address weakness in domestic consumption, and the export led growth appears unstainable. We expect growth to fall short of this year's target ("around 5%"), and remain below this level going forward (as the demographic pressures of a falling working age and total population intensify over time).

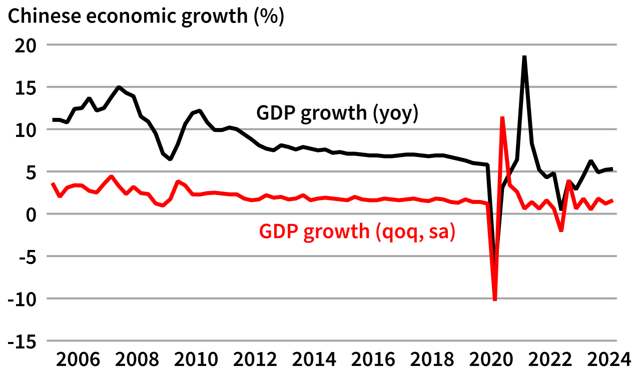
Economic activity in emerging markets is generally more trade dependent than is the case for advanced economies. We have identified for some time that slowing economic growth in major AEs in 2024, driven by restrictive monetary policy in most of these economies, is a constraint for EMs in the near term.

That said, we have seen a steady upward trend in China's export volumes, since its low point at the start of 2023. This increase has coincided with a steep retreat in export prices, with a range of countries accusing Chinese producers of dumping products into global markets to compensate for the weakness in domestic demand (with sectors such as motor vehicles, metal products and chemicals being key areas).

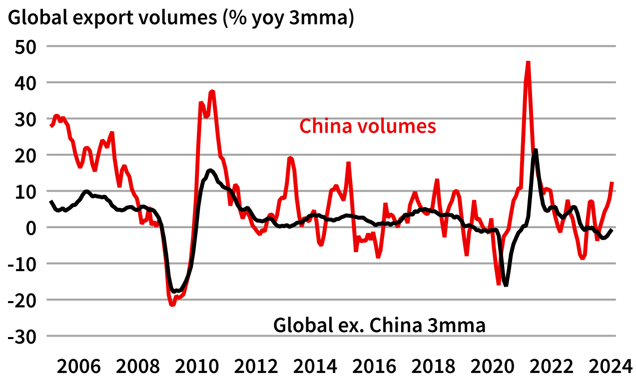
Services push EM composite PMI slightly lower



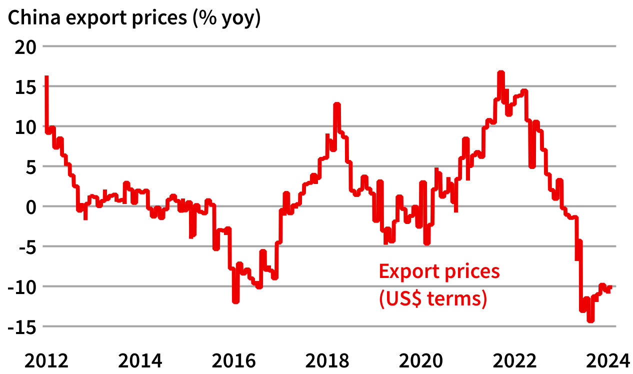
China's economy beat expectations in Q1



China's export volumes jumped in late 2023…



…but this came at the expense of steep price falls



Sources: Macrobond, NAB Group Economics

Global forecasts and risks: global outlook remains comparatively weak out to 2026

Global business surveys edged higher in March, with the JPMorgan global composite PMI moving up to 52.3 points (from 52.1 points previously).

This modest improvement was driven primarily by a strengthening in the manufacturing reading – which was marginally positive at 50.6 points in March, having previously recorded negative results between September 2022 and December 2023. Improved manufacturing readings occurred only in emerging markets in March.

In contrast, the global services PMI moved marginally higher – up to 52.5 points (from 52.4 points in February). Broadly, both advanced economies and emerging markets saw a similar improvement in the services measure.

This month we are providing our first forecasts for the global economy in 2026. Our near-term view is unchanged – we expect global economic growth to slow to 2.9% in 2024, reflecting the lagged impacts of restrictive monetary policy, before growth edges higher to 3.0% in 2025. This modest recovery is expected to continue in 2026 – with growth increasing to 3.1%. Should this outcome eventuate, this would be the first four year period that global growth has remained below its long term average (3.4% between 1980 and 2022) since 1992-1995.

A major contributor to the comparatively subdued outlook in 2026 is weak growth in China. Demographic pressures on China's economy are intensifying – its total population started falling in 2022, but its working age population has been declining since 2014 – reducing the country's potential rate of growth. We expect China's growth to be below 5% going forward.

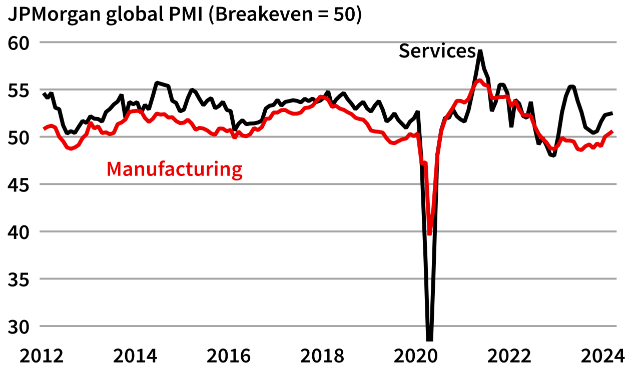
Geopolitical tensions continue to present risks around our forecasts – particularly the recent escalation in the Middle East. The threat of conflict between Israel and Iran has diverted passenger transport around the region and could disrupt the flow of goods trade – particularly crude oil – which could negatively impact economic activity as well as the path of inflation.

The Russia-Ukraine war continues unabated, having entered its third year in February. This conflict continues to disrupt the flow of energy and agricultural products to global markets. Recent months have seen Russia take an increasingly aggressive posture with other European neighbours.

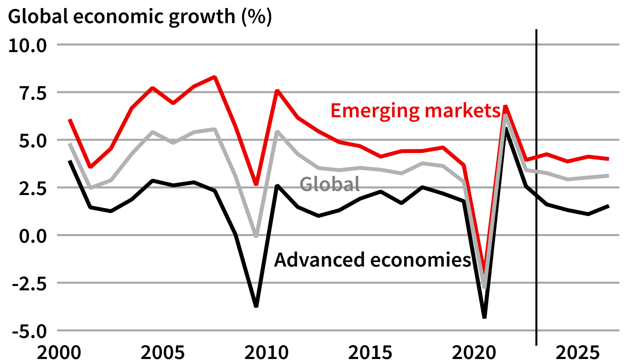
Tensions between China and its near neighbours also persist. Recent weeks have seen standoffs between Chinese and Filipino vessels in the South China Sea.

Finally, the US Presidential Election in November could result in a substantial change in the country's foreign and trade policies – having a flow on effect on global economic activity.

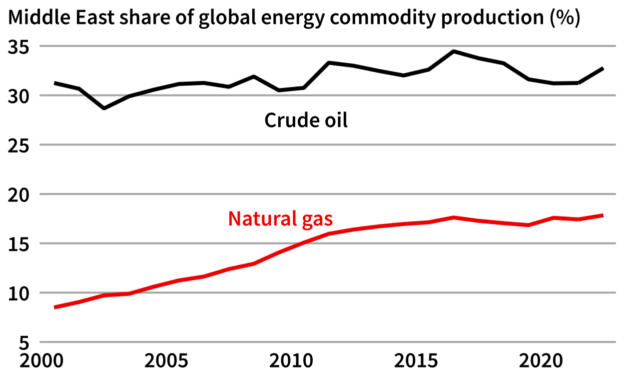
Manufacturing the main driver of stronger global PMI



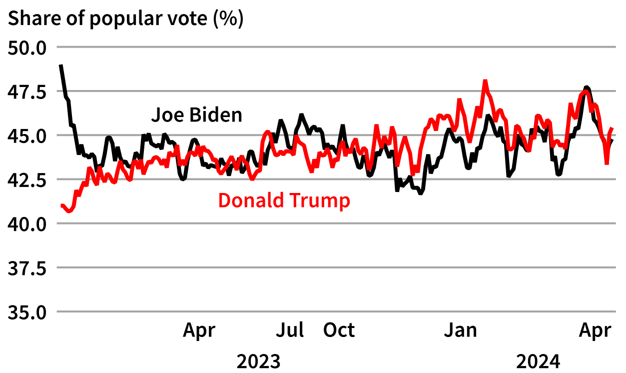
Global growth expected to remain sub-trend



Middle East conflicts risk disrupting energy markets



Opinion polls slightly favour Donald Trump



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