The Forward View: Global May 2024

NAB Group Economics

Overview

- Inflation in advanced economies remained essentially stable for the third straight month, at around 2.7% yoy. The stickiness of advanced economy inflation so far this year has reduced the likelihood of rapid policy rate cuts by central banks in 2024, which could negatively impact growth rates in 2025 and 2026.

- Trends in advanced economies were mixed in Q1 – with overall growth outside the US rebounding (despite a contraction in Japan), while US growth decelerated. Overall, we see weaker growth from the AEs in both 2024 and 2025, in large part due to restrictive monetary policy and fiscal policy headwinds.

- Recent months have seen a surge in China's export volumes – in stark contrast to the trends for the rest of the world – which has fuelled trade tensions with a range of other countries. In mid-May, the Biden Administration announced a range of tariff increases on Chinese imports, most notably a quadrupling of the tariff on electric vehicles. An EU investigation into China's EV subsidies is due to be completed by early July. China's response to both regions will be closely watched, with the risk of tit-for-tat tariff increases (much like 2018) triggering an economically damaging trade war.

- At a high level, our global economic outlook is essentially unchanged – with slightly stronger conditions for both the Euro-zone and United Kingdom in 2024 offset by a weaker forecast for Japan. Restrictive monetary policy is set to slow global growth to 2.9% in 2024, before growth edges marginally higher in both 2025 and 2026 – to 3.0% and 3.1% respectively.

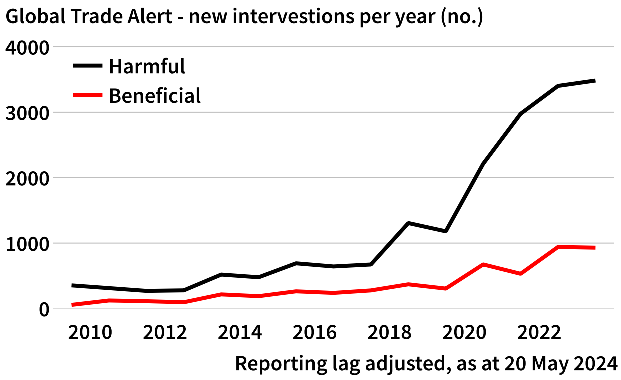
- Beyond the uncertainty around the path of policy rates and potential disruptions from tariff increases, there remain a broad range of geopolitical risks, with conflict and tensions in the Middle East, Eastern Europe and South East Asia. The outcome of the US Presidential Election could substantially impact foreign and trade policy, as well as how monetary policy is conducted.

Table of Contents

Global growth forecasts

	2022	2023	2024	2025	2026
US	1.9	2.5	2.4	1.4	1.8
Euro-zone	3.5	0.5	0.6	1.0	1.4
Japan	1.5	1.9	-0.3	0.6	0.7
UK	4.3	0.1	0.8	0.8	1.2
Canada	3.8	1.1	1.3	1.4	1.8
China	3.0	5.2	4.5	4.8	4.5
India	6.4	7.7	6.6	6.2	6.4
Latin America	4.2	2.2	1.3	2.1	2.1
Other East Asia	4.2	3.1	3.8	3.7	3.9
Australia	3.8	2.1	1.2	2.2	2.2
NZ	2.4	0.6	0.3	2.8	3.0
Global	**3.5**	**3.2**	**2.9**	**3.0**	**3.1**

Recent tariff actions part of a multi-year move away from trade liberalisation



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

©National Australia Bank Limited ABN 12 004 044 937 AFSL and Australian Credit Licence 230686

Financial and commodity markets: Path of disinflation AEs has stalled in past three months

Global inflation remains volatile – our estimate edged back down to 5.0% yoy in March (from 5.2% yoy in February) – albeit this remains marginally above the rate recorded in January (4.8%). A range of factors have contributed to this volatility – including oil prices that fell year-on-year across most of 2023, but rose from February 2024 onwards.

Inflation in emerging markets was weaker in March – at 6.6% yoy (from 7.0% yoy in February). In contrast, inflation in advanced economies remained essentially stable for the third straight month, at around 2.7% yoy.

Across much of the advanced world, we have seen common themes in the inflation data – with goods prices generally subdued – with durable goods prices typically falling – while services prices have been increasing more rapidly than average (with Japan a notable exception).

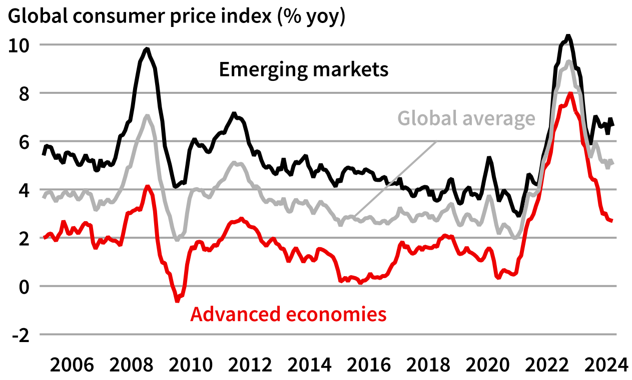
The stickiness of advanced economy inflation has reduced the likelihood of rapid policy rate cuts by central banks in 2024. In early January, markets were pricing six rate cuts (150 basis points) by both the US Federal Reserve and European Central Bank in 2024. At the time of writing, less than two cuts from the Fed and two-to-three cuts from the ECB are priced in by December (but with a June cut seen as highly probable). Moreover, some consider that the next move by the Fed could be a hike.

We believe that such an outcome is unlikely – Fed Chair Powell recently outlined a number of ways he thought the US economy and policy could evolve and none involved a hike. It is more a question of how long the Fed remains on hold, given that rates are clearly restrictive.

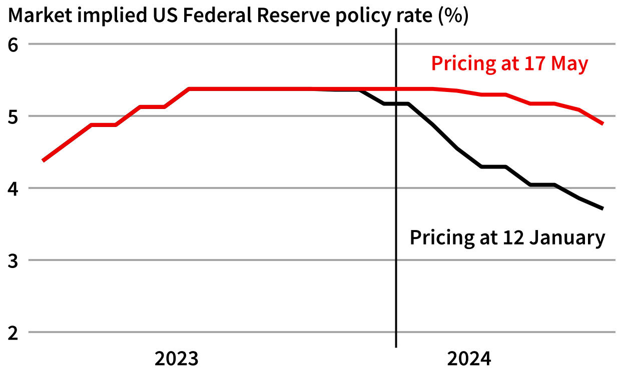
Equity markets fell sharply in early April – as Middle East tensions intensified – before a rapid recovery through to mid-May, as it became apparent that retaliatory attacks by Iran on Israel would not result in a full scale war. The MSCI indices for the US and the aggregate for other advanced economies rose to record highs in May, while the EM measures rose to its highest since early 2022. It is worth noting that the recovery in the US was concentrated among the largest tech stocks, with an index of the remaining S&P 500 remaining off its peak in March.

There has been considerable volatility in commodity prices recently. The S&P GSCI trended higher between mid-December and early April, despite expectations of slower global economic activity. Much of this reflected supply side pressures – with Middle East conflict and OPEC+ production discipline driving oil prices higher, while shortages of mineral concentrates have limited base metal production (primarily based in China). However, between early April and early May, benchmark crude oil prices eased considerably – with Brent down by almost US$10 a barrel at the time of writing. While oil prices eased, iron ore recovered some of its losses from March.

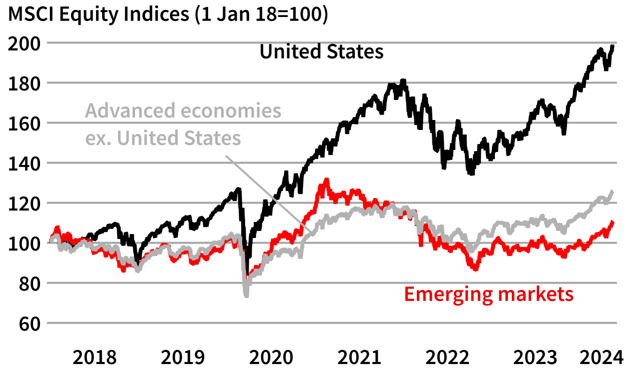
AE inflation has been stable for past three months



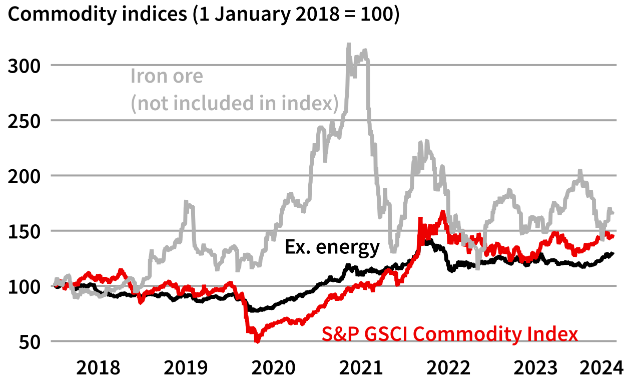
Markets anticipate slower path for rate cuts in US



Equities marginally retreat from late March record highs



Mixed trends in commodity markets, with bulks lower



Advanced economies: Western Europe recovery underway, but Japan's economy contracting

Available Q1 GDP data confirm that advanced economy (AE) growth outside the US rebounded in Q1 2024, after two negative quarters, despite a contraction in Japan. Only Canada has yet to report Q1 GDP, but monthly GDP data point to solid growth in the quarter.

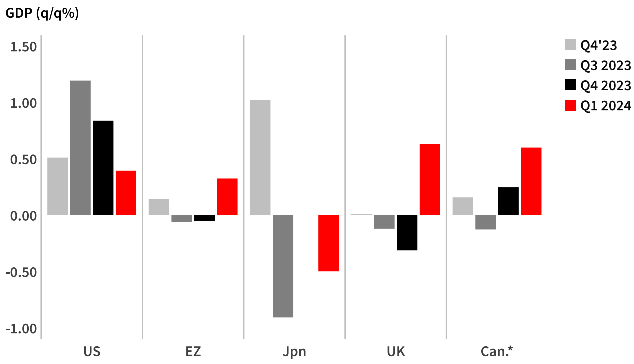
At the same time, US growth again decelerated, consistent with our expectation that the US and non-US AE growth divergence of 2023 will narrow. US GDP grew 0.4% q/q in Q1 a still solid outcome, and domestic final demand was stronger at 0.7% q/q, supported by ongoing household consumption growth and a pick-up in business investment. We still expect growth to slow further over the rest of 2024. In-line with this, business survey indicators have moved down over recent months, and are at a weak level.

In contrast, in the UK and the Euro-zone, business surveys have been improving since late 2023. In April, the S&P Global composite PMIs for the Euro-zone and UK were at their highest level in almost a year. The pick-up in activity was confirmed in Q1, with GDP growing by 0.3% and 0.6% q/q in the Euro-zone and UK respectively. This more than reversed the declines in the prior two quarters, although year-ended growth was still soft (+0.4% y/y for Euro-zone, +0.2% for the UK). We expect both economies to grow over the rest of the year but, we think the pace will moderate from the relatively strong outcome in Q1. While the ECB and Bank of England may start cutting rates soon, the impact of past monetary tightening is still coming through, while global growth is likely to be soft and fiscal policy is a headwind.

In contrast, Japan saw its economy contract in Q1, with GDP declining 0.5% q/q. There were also small downwards revisions to Q3 and Q4 2023. Over the last year, the economy has declined by 0.4%. Moreover, the weakness in Q1 was broad based – domestic final demand continues to fall and there was a large decline in exports. The decline in exports may reflect some temporary disruptions to the manufacturing sector from the close of Daihatsu motor vehicle plants in late December 2023 and the Noto earthquake at the start of 2024. All Daihatsu plants have now reopened, so some bounce back in Q2 and into Q3 is likely. The other issue has been the ongoing squeeze on households from real wage declines – wage agreements struck in the spring Shunto bargaining round point to stronger wage growth, so some relief is in sight.

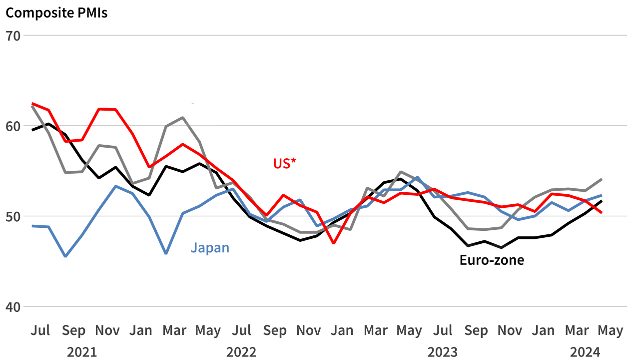
Despite the weakness in growth outside the US over 2023, labour markets still remain healthy in the major AEs. Some countries have seen some increases in the unemployment rate (particularly Canada) – but by historical standards they remain low. Job vacancies also generally remain elevated, but have come off their pandemic peak, pointing to an easing in labour market pressures. Employment continues to grow, with the exception of the UK where it is declining.

Q1 GDP: US slows, Japan contracts, Europe rebounds



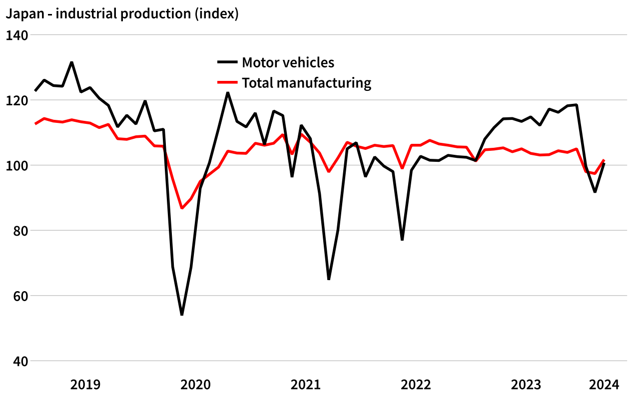
Source: Macrobond. *Q1 2024 is a NAB forecast

Business surveys on the rise outside the US

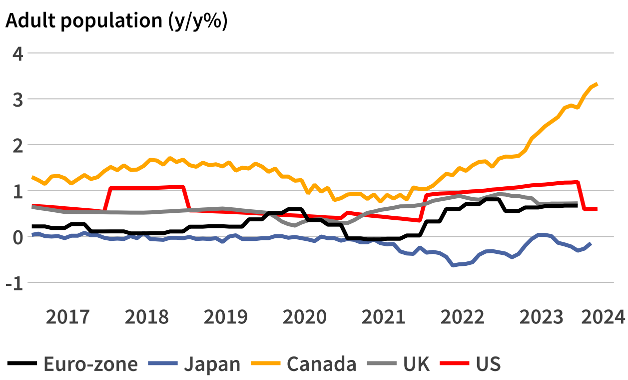


* Based on S&P Global and NAB weighted composite of US ISM PMIs

Japan – production problems contributed to a poor Q1…



…longer running issue has been h'hold income squeeze



Emerging markets: China's recent export surge risks fresh trade conflict

Business surveys in emerging markets edged lower in April – albeit remaining at relatively robust levels. The EM composite PMI was at 53.6 points in April (compared with 53.7 points previously). The result in March was the strongest reading since May 2023.

The manufacturing measure was unchanged in April – at 52.0 points. Trends in individual countries varied somewhat – with stronger readings in Brazil and China offset by weaker ones for Russia and India (the latter edging down from a 16 year high).

The EM services PMI was modestly weaker – down to 53.7 points (form 53.8 points in March). Softer readings were seen for each of the major EMs, with similar contributions from China, India, Russia and Brazil to the overall easing.

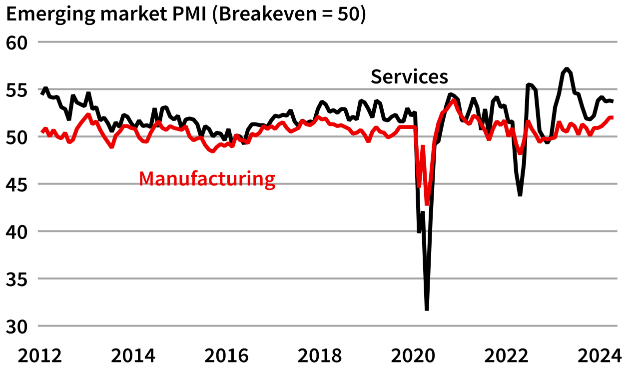
Recent months have seen a surge in China's export volumes – in stark contrast to the trends for the rest of the world – which has fuelled trade tensions with the United States, European Union and India (among others) – given concerns around industrial overcapacity and allegations of dumping by Chinese producers. While advanced economies have focussed primarily on higher value added green technology products (such as electric vehicles, solar panels and batteries), the steepest falls observed in export prices in recent months has tended to be in lower value added products (chemicals, basic metal products and textiles, clothing and footwear).

In mid-May, the Biden Administration announced a range of tariff increases on Chinese imports, most notably a quadrupling of the tariff on electric vehicles (from 25% to 100%) while tariffs on solar panels doubled (to 50%). Overall, the scope of the tariff increases is relatively small – according to the White House, they will impact US$18 billion worth of imports (compared with total imports of US$427 billion in 2023). In particular, EV imports from China are relatively modest. This is in contrast to the Trump Administration's tariffs which were much wider in scope. Analysis by both the Peterson Institute for International Economics and Oxford Economics suggest that these measures will have minimal impact on US inflation.

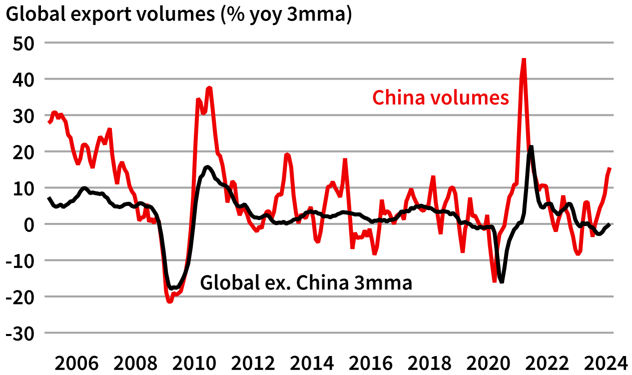
A key question is what (if any) action the European Union take. The EU investigation into China's EV subsidies is due to be completed by early July, with estimates by Rhodium suggesting that countervailing duties in the range of 40-50% may be necessary to make Chinese EV imports unattractive (though they do not expect any measures to be implemented at these rates).

Another consideration is China's response to both regions. Tit-for-tat tariff increases in 2018 (in response to the Trump Administration's measures) triggered an economically damaging trade war. Reports in Chinese media suggest tariffs on EU exports of wine and dairy could be implemented in retaliation.

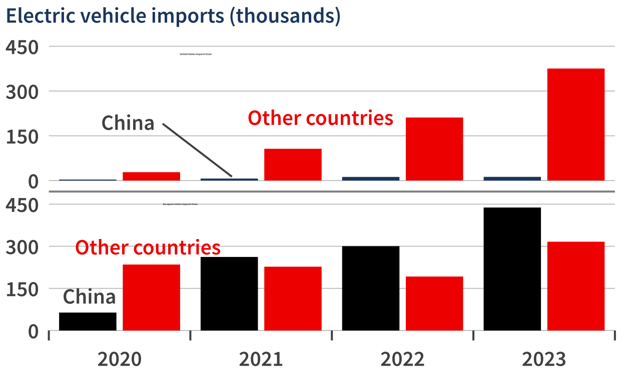
Little movement in EM PMIs in April



China's export surge has raised trade tensions



Limited Chinese EV exports to the US, but lots to the EU



Tariff changes announced by the United States

Chinese import category	Current tariff	Announced tariff	Implementation
Electric vehicles (EVs)	25%	100%	2024
Lithium-ion EV batteries	7.5%	25%	2024
Lithium-ion Non-EV batteries	7.5%	25%	2026
Solar panels	25%	50%	2024
Critical minerals	0%	25%	2024
Steel & aluminium	0-7.5%	25%	2024
Semi-conductors	25%	50%	2025
Natural graphite & permanent magnets	0%	25%	2026
Syringes and needles	0%	50%	2024
Respirators and face masks	0-7.5%	25%	2024
Shipping container cranes	0-7.5%	25%	2024
Rubber medical and surgical gloves	7.5%	25%	2026

Sources: Macrobond, CPB, UN Comtrade, US Trade Representative, NAB Group Economics

Global forecasts and risks: monetary policy and potential trade war cloud a weak economic outlook

The JPMorgan global composite PMI was marginally stronger in April – at 52.4 points (up from 52.3 points in March). The modest uptick reflected diverging trends in the underlying indices – with the global services PMI moving higher as the manufacturing measure pulled back.

The global services PMI moved up to 52.7 points in April (from 52.4 points previously). This was driven by a pickup in advanced economy services, while the emerging markets reading was marginally softer.

Similarly, advanced economies drove the global manufacturing PMI lower, with this measure dropping further into negative territory, while the EM PMI was unchanged.

At a high level, our global economic outlook is essentially unchanged – with slightly stronger conditions for both the Euro-zone and United Kingdom in 2024 offset by a weaker forecast for Japan. Restrictive monetary policy is set to slow global growth to 2.9% in 2024, before growth edges marginally higher in both 2025 and 2026 – to 3.0% and 3.1% respectively. If this outcome eventuates, it would be the first time since the first half of the 1990s that there was a four-year period of global growth below its long-term average (3.4% between 1980 and 2022).

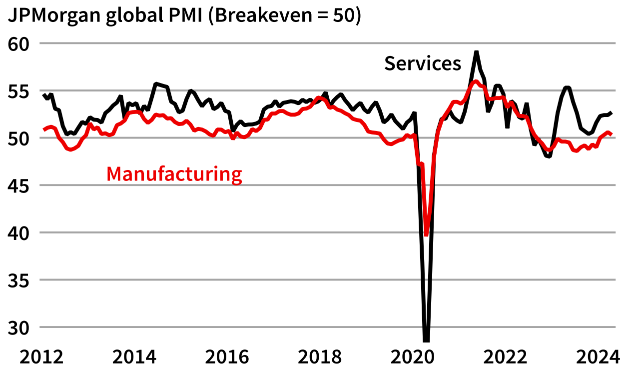
The path of inflation, and by extension, the timing of eventual policy rate cuts by most advanced economy central banks remains a key uncertainty. As monetary policy typically comes with a sizeable lag, delays to policy rate cuts could negatively impact growth rates in 2025 and 2026.

Similarly, there is considerable uncertainty around trade policy in in the US and European Union with respect to China. Tariffs increases introduced by the US this month are relatively modest in scope (when compared with those of the Trump Administration), however the possibility of tit-for-tat increases from both countries, along with potential EU measures adds uncertainty.

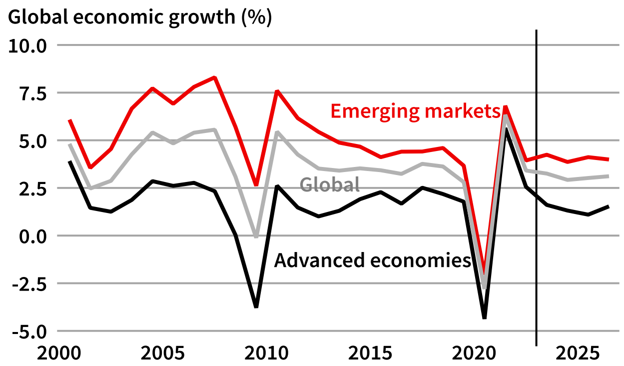
There remain a range of other geopolitical factors that could also impact global economic growth. While armed conflict between Israel and Iran appears less likely, Middle East tensions remain elevated and container traffic through the Red Sea and Suez Canal is still well below normal levels. In Eastern Europe, the Russia-Ukraine war continues – with negative impacts on the supply of energy and agricultural commodities – while Russian rhetoric with other neighbours has become more hostile.

Trade policy changes in the US this month may not be the last. Trade action against China has broad bipartisan support and competing foreign and trade policies could be a feature of the US Presidential Election in November.

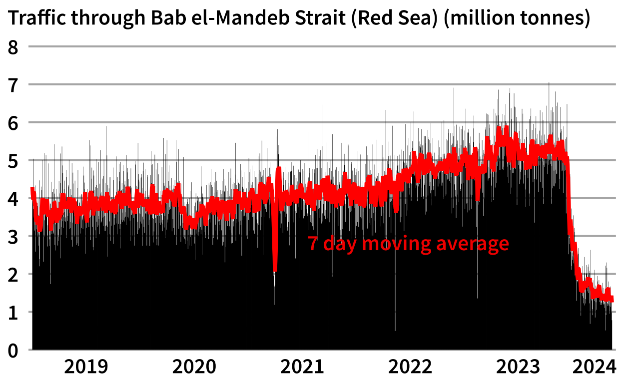
AEs the main driver of PMI trends in April



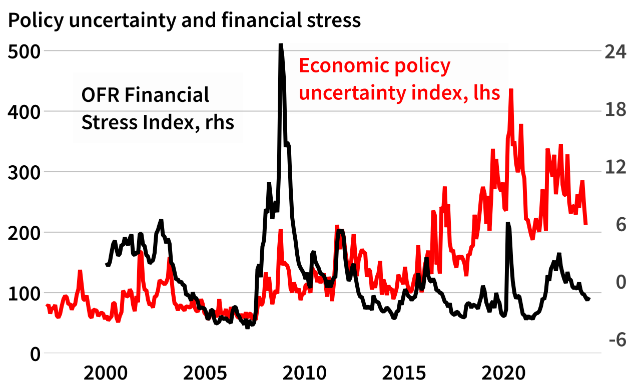
Outlook for the global remains comparatively weak



Red Sea container traffic remains disrupted



Markets not stressed but policy uncertainty remains high



Sources: Macrobond, IMF Portwatch, NAB Group Economics

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

Lea Jurkovic
Economist – Agribusiness
+(61 0) 452 090 770

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

Thao Nguyen
Economist – Data & Analytics
+(61 0) 451 203 008

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

Important notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click **here** to view our disclaimer and terms of use.