The Forward View: Global June 2024

NAB Group Economics

Overview

- Global inflation remained at an elevated 5.0% yoy in April (unchanged from March), although inflation in advanced economies edged lower to 2.6% yoy.

- While overall progress in lowering inflation has slowed, some central banks have seen enough to start cutting rates, given policy is clearly restrictive. This month the European Central Bank and Bank of Canada cut rates, the first of the major advanced economy (AE) central banks to do so. Japan, in contrast, is moving to gradually tighten policy. We expect further major AE rate reductions, including by the US Fed and Bank of England, later this year and into next. The risk is that cuts occur later or at a slower pace if there are inflation disappointments.

- Real household income growth has picked up in Western Europe which will sustain consumption but it has slowed in the US and is negative in Japan. Easing policy headwinds (both monetary and fiscal) should see major AE growth strengthen over 2025, although upcoming elections could change the fiscal outlook.

- EM business surveys strengthened in May, with the S&P Global composite PMI at its level in a year, although this was largely driven by China where alternative surveys are weaker. India's economy expanded by 7.8% yoy in Q1, and it remains the fastest growing major EM economy.

- We have slightly revised our global economic outlook this month – with growth of 3.0% expected in 2024 (was 2.9%), mainly reflecting strong growth in Russia in Q1. This is still soft by historical standards, and we expect the same in 2025, before moving marginally higher in 2026.

- Highlighting the trend towards trade restrictions, this month the EU announced tariffs on electric vehicle imports from China. There is a risk of further trade measures by other countries, particularly by the US if Trump is elected. At the same time geopolitical tensions persist – including the Russia-Ukraine war and conflict in the Middle East which has contributed to a large increase in freight rates.

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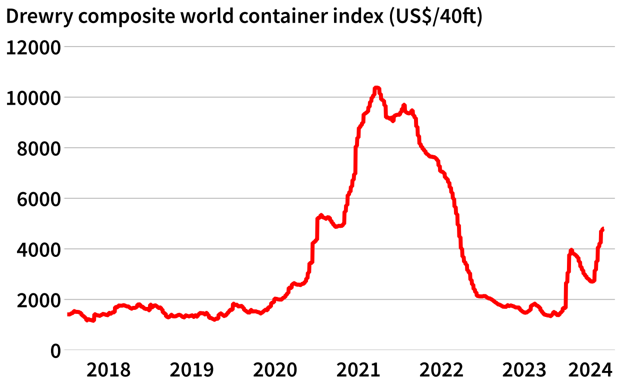
Global growth forecasts

	2022	2023	2024	2025	2026
US	1.9	2.5	2.3	1.4	1.8
Euro-zone	3.5	0.6	0.8	1.2	1.4
Japan	1.5	1.8	-0.2	0.7	0.7
UK	4.3	0.1	0.8	0.8	1.2
Canada	3.8	1.2	0.9	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	3.9	2.0	1.0	2.2	2.3
NZ	2.4	0.6	0.2	2.5	3.1
Global	**3.5**	**3.2**	**3.0**	**3.0**	**3.1**

Global freight rates have taken another upwards turn since late April, adding to global inflation pressures



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

Financial and commodity markets: Canada and the Euro-zone begin the rate cutting cycle

Global inflation has persisted at comparatively high rates – remaining around 5.0% yoy in April (unchanged from March), with a marginal uptick in emerging markets and a slight easing in advanced economies.

Inflation in advanced economies remained comparatively stable across Q1, at around 2.7% yoy, but edged lower in April to 2.6% yoy. Although inflation has fallen considerably from its peaks in late 2021, the final stretch back to central bank targets has been prolonged – with services price growth outpacing goods prices in North America and Europe, although this trend is not evident in Japan due to significant currency depreciation.

In early June, the Bank of Canada and the European Central Bank cut their respective policy rates by 25 basis points, the first major central banks to begin an easing cycle. That said, the path of future rate cuts is unclear, with ECB President Lagarde noting that policy rate decisions would "depend on the data that we receive".

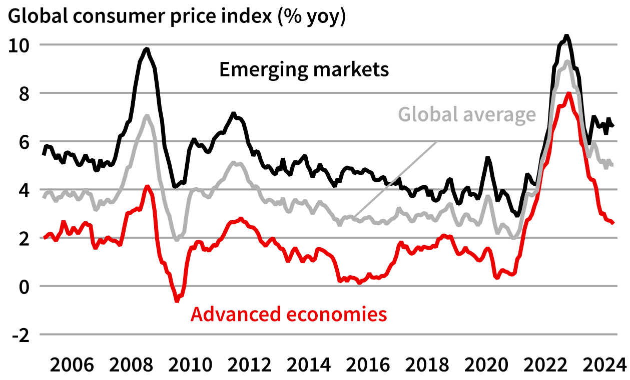
As expected, the US Fed remained on hold in June, with Fed Chair Powell noting that recent inflation readings represent 'modest further progress' and more 'good data' are needed. With the FOMC median projections factor in a single cut by the end of 2024, 8 out of the 19 Fed members expect two and Powell saw either outcome as plausible. We continue to expect two 25 bp cuts towards the end of 2024, and a further 125 bps of cuts in 2025. Japan is alone amongst major AEs in moving to tighter policy – the Bank of Japan raised rates in March and this month flagged a substantial reduction in its bond purchase program.

Global equity markets trended higher between mid-April and mid-May – with advanced economy markets (as measured by the MSCI indices) reaching record highs. Outside the US, markets subsequently pulled back, while the US market continued to trend higher, setting a new peak in early June.

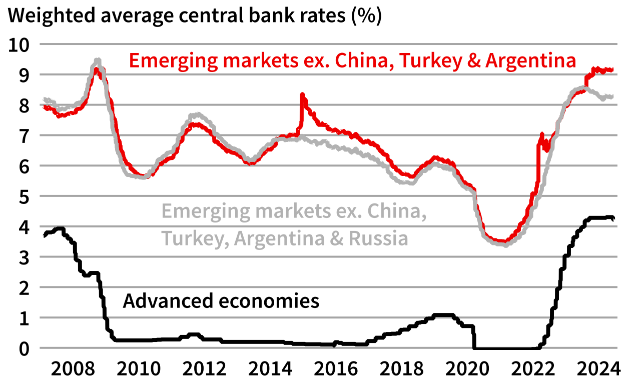
Commodity price indices, such as the S&P GSCI, have remained volatile in recent times, with trends among individual commodities diverging. While oil prices tracked lower across May, base metals spiked higher and gold rose to a record high.

Considerable attention has been given recently to the rise of copper prices to fresh peaks – given the long-standing perception of copper as a barometer of the health of the global economy. Going in to 2024, weakness in global demand and an anticipated surplus in refined copper production was expected to put downward pressure on prices. However, disruptions to new mine supply has restricted supply, and more recently, speculators have flooded the LME and COMEX copper markets (along with other base metals), helping to drive prices higher. We suggest this represents short-term market dynamics, rather than a broader measure of economic health.

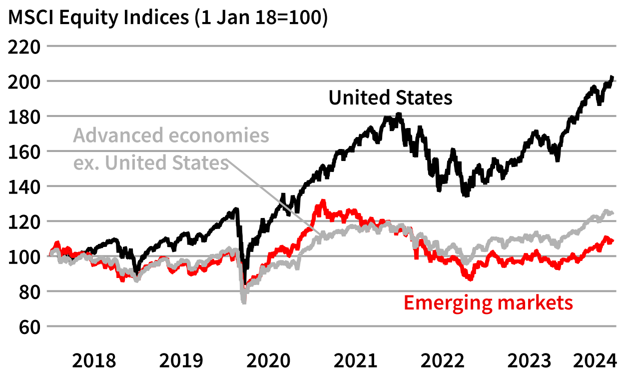
AE inflation edges lower after a three month pause



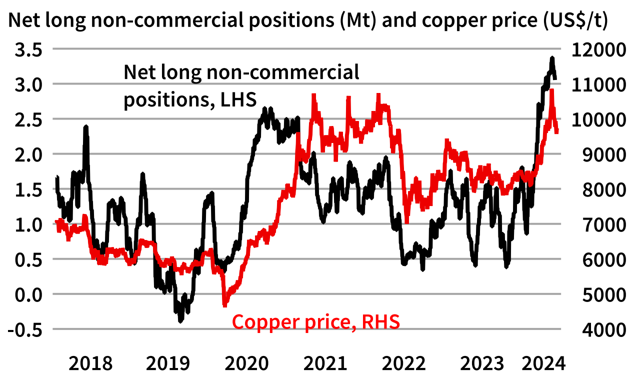
Rate cutting cycle commences with BoC and ECB



US equities rose to new high in early June



Speculative inflows helped drive copper to record highs



Advanced economies: Shifting household income patterns driving AE growth differences

Business survey readings for the major advanced economies (AEs) generally improved in May, particularly in the US. However, the US surveys have been volatile and it is hard to draw a clear signal. One message from the surveys is that the US is no longer clearly outperforming Western Europe (as it did in H2 last year) with the latter clearly trending up since late 2023.

Data for Q2 remain limited. In the US, April activity indicators were generally soft. While we still think that GDP growth will pick up modestly (to 0.5% q/q from 0.3% in Q1) this obscures slowing domestic demand. Personal consumption recorded a small fall in April and, while this followed some strong increases, the easing in disposable income growth that has occurred signals softer consumption growth this year.

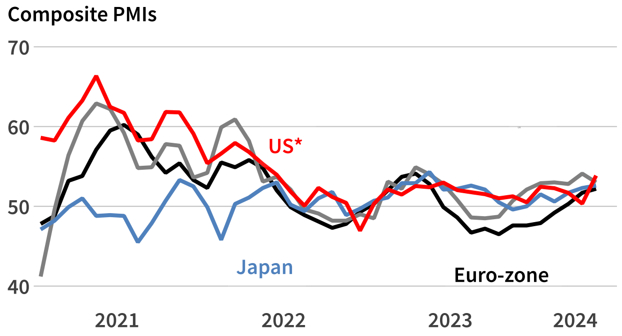
For the Euro-zone, both retail sales volumes and industrial production declined in April, although the latter is still above its Q1 average. The PMIs provide a good guide to GDP growth for the Euro-zone, and we retain our view that the region will grow in Q2 as well as the rest of the year. Real wages have turned positive, translating into real income gains, supporting household spending. With fiscal policy a headwind this year, we expect growth will only be moderate. Given the normal, lagged, transmission, this month's cut in rates by the ECB, and any further reductions, will be more a factor for next year.

It is a similar story for the UK, with real household income growth picking up. While the monthly GDP data were flat in April, this followed large increases in prior months and Q2 is on track for another solid outcome.

In contrast, households in Japan have been seeing their real incomes fall, although nominal wage growth is strengthening which should alleviate some of the pressure. In contrast to many other AEs, fiscal policy is supporting growth this year, although monetary policy is moving in the other direction, as it is very gradually tightening. The fall in GDP in Q1 was partly attributable to the impact on production from an earthquake and shutdowns by Daihatsu. While Daihatsu has resumed operations, the testing scandal has widened to other automakers impeding production of some vehicle models, but at this stage the magnitude of the impact is unclear.

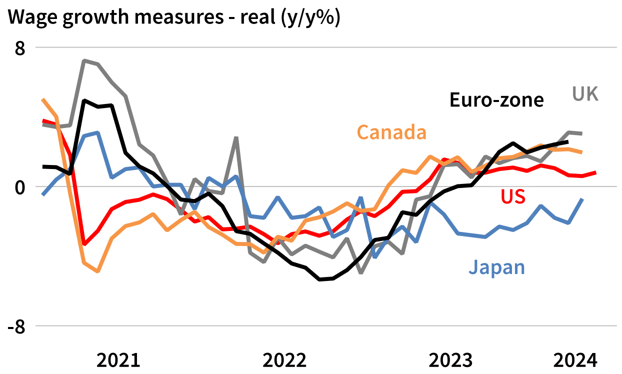
In addition to the ECB, the Bank of Canada cut rates this month, and we expect the Fed and Bank of England to cut rates later this year. Rate cuts are also expected next year, although the risk is that rate cuts are delayed. Monetary easing (ex. Japan) will support growth (particularly from next year) and current policy settings suggest that fiscal policy will be less of a headwind next year. That said, elections are underway in France and the UK, and the US will go to the polls in November, which will have the potential to shift fiscal settings, as well as that of other policies including for trade and migration.

Business surveys - US choppy, elsewhere have lifted

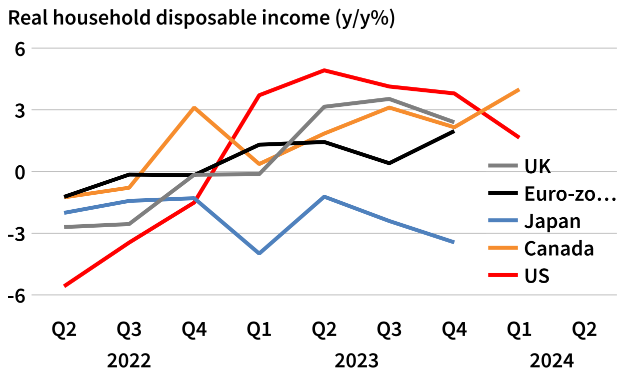


* Based on S&P Global and NAB weighted composite of US ISM PMIs

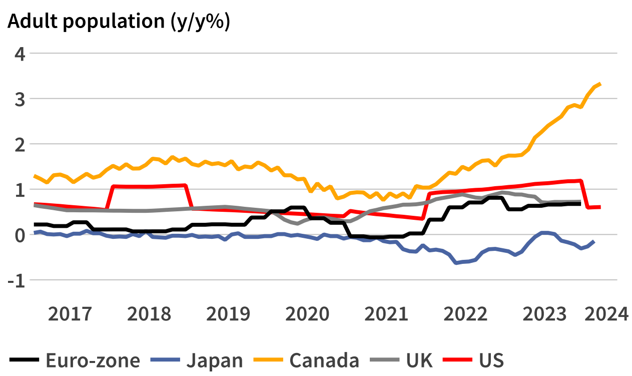
Real wages strengthening in Europe, falling in Japan …



…reflected in overall income – US slowing…



Fiscal headwinds to fade in 2025 – on current settings as elections loom large



Emerging markets: India and Russia report strong growth but uncertainty around both persists

Emerging market business surveys strengthened in May, with the EM composite PMI rising to 54.4 points (from 53.6 points previously). This was the strongest reading since May 2023 and among the highest in the past decade.

This outcome was driven by the EM services PMI, which rose to 54.6 points in May (from 53.6 points in April). This increase was primarily driven by China, along with a slight uptick in Brazil (albeit this was essentially offset by a softer reading in India). In contrast, the EM manufacturing PMI was unchanged for the third straight month at 52.0 points. Trends were mixed between individual countries – with a slightly stronger outcome for China offset by weaker readings in both India and Brazil.

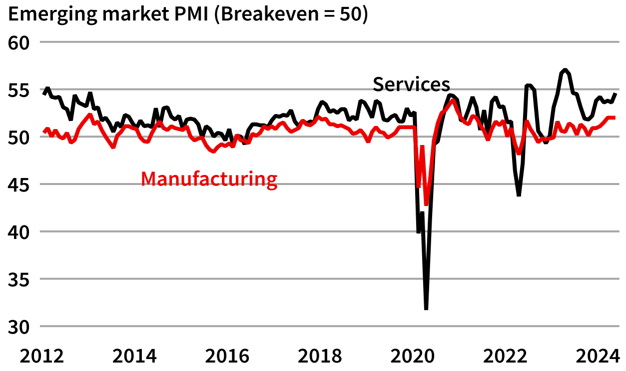
According to official data, India's economy expanded by 7.8% yoy in Q1 – which was in line with our expectations and continued the recent trend of India as the fastest growing major emerging market. That said, we have noted for several quarters the sizeable contribution of India's statistical discrepancy category (within its GDP by expenditure data) to its overall growth – accounting for almost 33% of the total growth in Q1. In contrast, private consumption and gross fixed capital formation each provided around 28% of total growth in the same period.

Similarly, there are doubts around the accuracy of Russia's economic data. The initial "flash" GDP in late May reported growth of 5.4% yoy (which would have implied growth of around 2.3% qoq). This was subsequently lowered to 1.0% qoq in mid-June. As we have previously noted, there is propaganda value to Russia's government in reporting strong growth – implying that sanctions imposed in the wake of its invasion of Ukraine have been unsuccessful. In addition, a sizeable proportion of Russia's economic activity is being directed towards the ongoing war, rather than productive uses, meaning that this growth rate (if accurate) is far from sustainable.

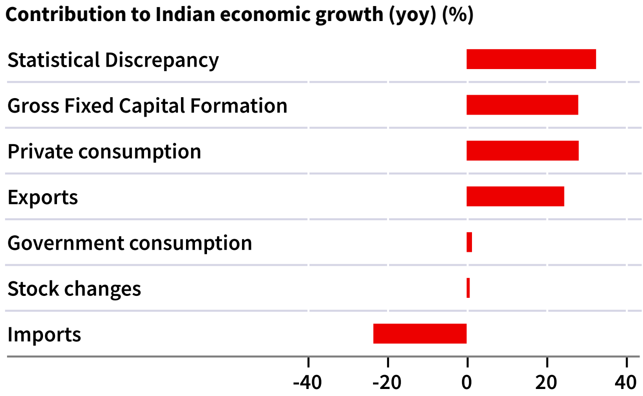
Growth in emerging markets is typically more trade dependent than advanced economies. Since mid-2023, there has been a notable uptick in EM export volumes, despite the softening activity in advanced economies. This has been driven by China, which recorded double-digit year-on-year growth between November 2023 and February 2024. While export volumes fell in March, there was a subsequent rebound in April. In contrast, global export volumes excluding China contracted across the entirety of 2023, with only minimal growth in early 2024.

Surging exports – in part reflecting policy support for industry during the pandemic that boosted capacity, and ongoing weakness in China's domestic demand – has fuelled trade tensions in recent times. Modest increases in US tariffs could be followed by more stringent measures elsewhere (including the European Union), potentially leading to another trade war.

PMIs rise to their highest since mid-2023

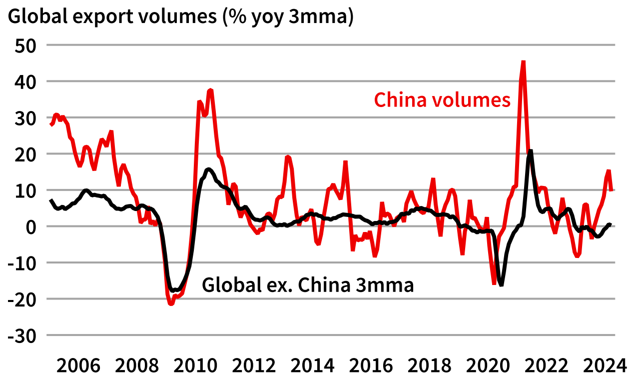


India's growth strong, but large stat discrepancy



Russia has reported strong growth since early in the war

China's exports have accelerated since mid-2023



Global forecasts and risks: Quarterly growth pick up in Q1, but soft growth still expected in 2024

Available data for Q1 suggests that global economic growth was marginally stronger in quarterly terms – rising by 0.8% qoq (compared with 0.7% qoq in Q4 2023) – with a slight easing in advanced economies more than offset by a pickup in emerging markets that was led by China and Russia (with that latter being unsustainable as it is driven primarily by military expenditure).

The JPMorgan global composite PMI moved considerably higher in May – rising to 53.7 points (compared with 52.4 points in April), the strongest reading for this measure since May 2023, driven by a rapid ramp up in the services PMI.

The global services PMI rose to 54.1 points (from 52.7 points in April), with a strong increase in advanced economies slightly outpacing the pickup in emerging markets.

The improvement in the global manufacturing PMI was more modest – rising to 50.9 points in May (from 50.3 points previously), reflecting a return to neutral levels in advanced economies (from negative readings previously).

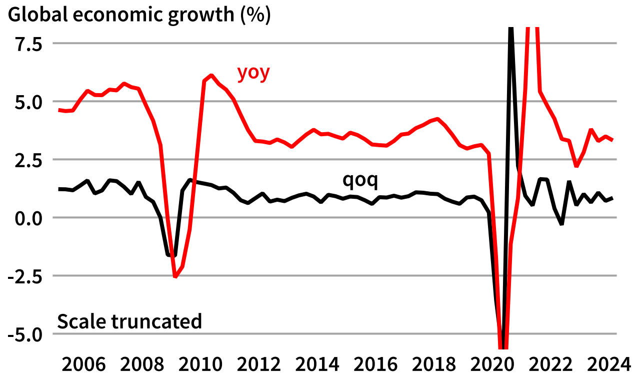
We have slightly revised our global economic outlook this month, with the main driver being an upward revision to the near-term forecasts for Russia – despite our doubts around the veracity of the official data. We now expect global growth of 3.0% in both 2024 and 2025, before moving marginally higher in 2026.

A range of factors continue to present uncertainty around our outlook – most notably the path of inflation back to central bank targets and the timing of policy rate cuts by these institutions. The stickiness of inflation has pushed back market expectations around rates, and delays to policy rate decisions could negatively impact growth in 2025 and 2026.

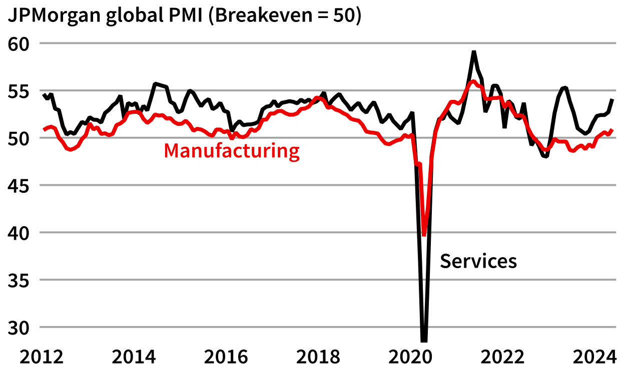
Trade policy also remains uncertain, following the EU's announced tariffs on Chinese electric vehicles in June and the measures announced by the US in May. Other countries – most notably India – may consider measures on Chinese products such as steel in an effort to force Chinese authorities to address its trade imbalance. The US Presidential election could further disrupt global trade, with Republican candidate Donald Trump threatening sweeping tariff increases if he is elected. China's response to these measures could trigger a large scale trade war.

Finally, a broad range of geopolitical tensions persist – including the Russia-Ukraine war (that has negatively impacted energy and agricultural exports from the region), conflict in the Middle East (that has disrupted trade flows through the Suez Canal, contributing to a large increase in freight rates) and disputes between China and its neighbours in the South China Sea.

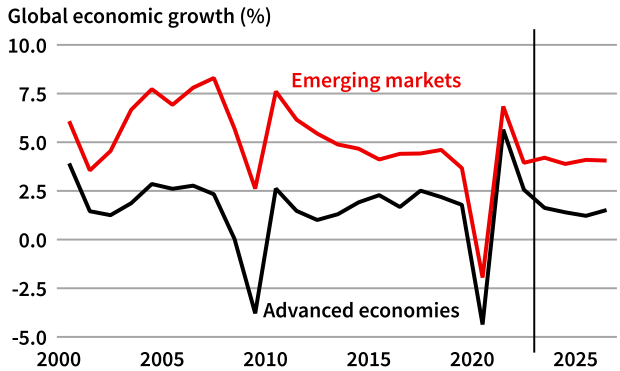
Quarterly economic growth edged higher in Q1



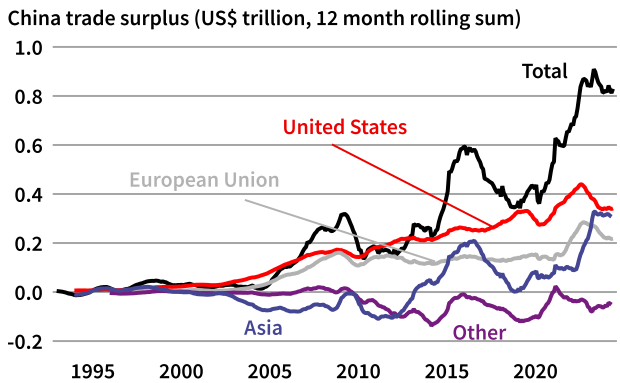
Global PMIs strengthened in May led by services



Global growth set to slow in 2024 and 2025



China's trade surplus has expanded rapidly since 2020



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
Head of Australian
Economics
+(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

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