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Forging Ahead:

Global Overview & Australia:

Impact of COVID-19 in near & medium term

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Global and Local - *Macroeconomic summary.*

- **Global growth slowing in late 2019** – but signs of stabilisation. COVID-19 and containment having very adverse effects on supply chains, consumer spend (fear), tourism and education.
  - US was slowing in 2019 but crashing. Fed has cut Fed funds down to 0.25. And started unlimited QE – including below investment grade bonds. US now has 10% of GDP as fiscal package – with more coming. Growth in US crashed in March/April but has since come back faster than expected. We see Q2 GDP down around -10% but bouncing back in Q3 – virus dependent. Overall GDP around -6% this year and +4% in 2021.
  - China had a **significant negative GDP in Q1 (-9.8% in Q1) and while they are around 70% back, growth in 2020 likely to be around 1%. Big surge in 2021** but….
  - Critical issue is how long does COVID-19 disrupt normal activity – we assume at least till Q3 2020. Lots of fiscal packages. But global recession inevitable. We have global GDP down around -2.8% (GFC was flat). Biggest “v” in the post WW2 period.
- **Domestic growth** slowed substantially during 2019 and overall performance was soft. Annual growth around 1.7%. This is the environment in which the shock should be judged.
  - **Critical weakness was the consumer** (especially discretionary consumption as budgets remain tight) and construction cycle continues to fall. Business investment disappointing. Private sector demand has been falling for over 12 months.
  - But infrastructure, public consumption, LNG exports helped maintain growth.

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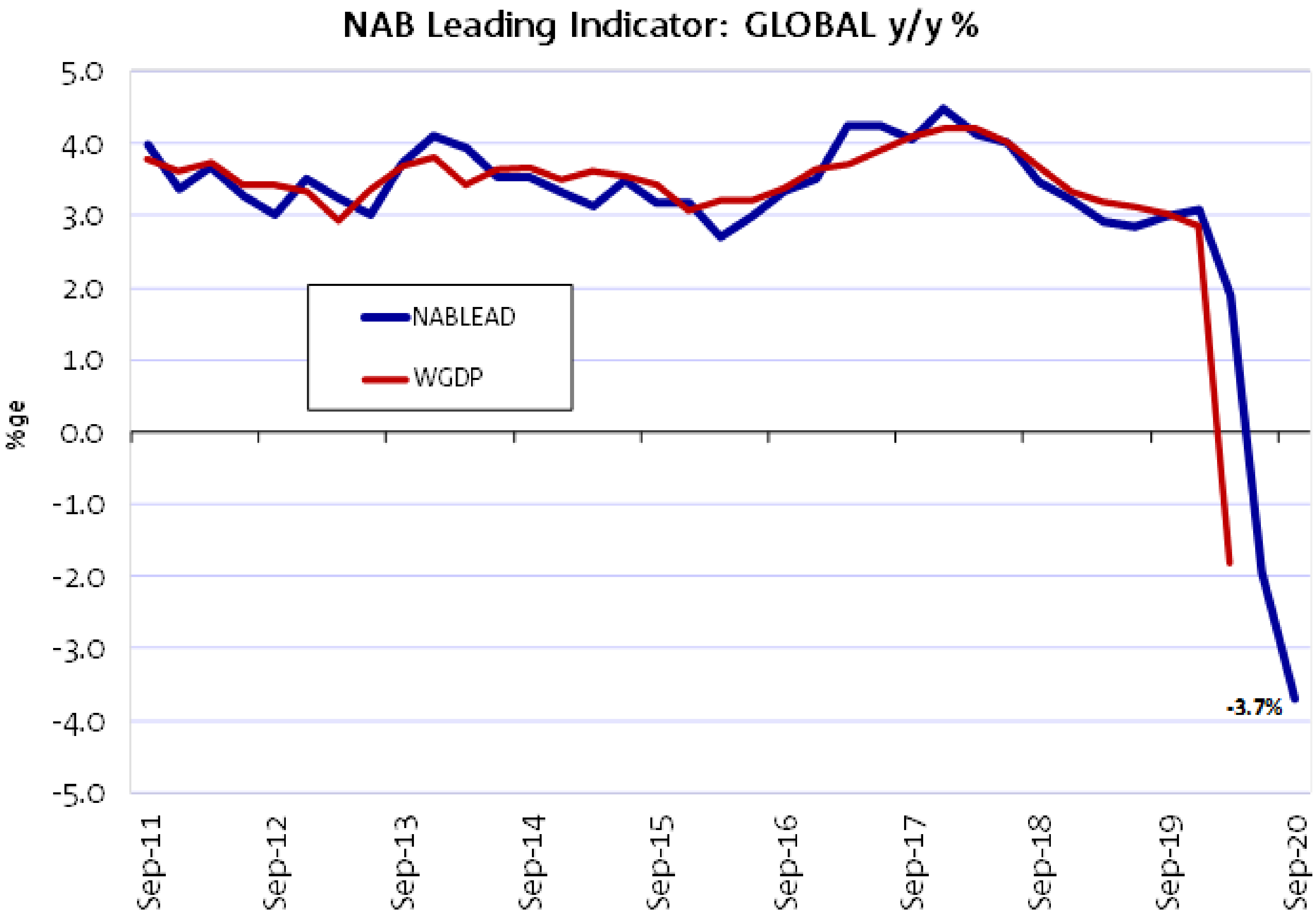
Global and Local - *Macroeconomic summary cont.*

- Our internal data points to massive hit in March/April from Virus related shutdowns. **Since then recovery has been faster than expected. But still virus dependent.**
- **March/April Business Surveys showing massive impact**. **May better and June better again.** Confidence returned to positive territory but capacity still down around 4% this year.
- **For June quarter we see GDP falling around 5% but up around 3% in Q3** (would have been more like 4% without Victoria). But obviously need to carefully watch carefully. Second round effects on business cash flow and confidence potentially significant.
- **Overall GDP could fall only around 1.8% this year** and up a similar amount in 2021 (but nearly 2.5% through the year). For 2022 we have 2¾% growth.
- Levels are important. We do not see GDP, in level terms, back to those of late 2019 till late 2021. Massive job losses have already been experienced. Unemployment will be held down temporarily by people not actively seeking jobs (JobSeeker doesn't require that). We still see unemployment near 8.3% by year end, 7% by end 2021 and a touch below 6% by end 2022
- **Big issue now is what happens in September** as Government packages are scheduled to end. We are assuming that will not happen. Or the stimulus will be phased out gradually.
- RBA has cut to 25 points and started QE via yield curve control (targeting 3 year bonds at 25 points) and ability of banks to borrow at this rate for business. But its role essentially over.

Our global leading indicator suggests that global economy really hit the skids in Q1 & Q2
- forecasts very dependent on virus developments.



Our global leading indicator – is based on Baltic shipping, global airfreight,
metal prices, Asian leading index and yield curves in major economies. And finally Chinese export PMIs

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Global economic forecasts. 2019 had slowed to below trend growth. Now big hits to China and most other economies – including the US. – *Big issue on how long the virus lasts. Massive hit in 2020. 2021 better but from a lower base. 2022 more normal.*

	2018	2019	2020	2021	2022
US	2.9	2.3	-5.9	4.2	2.9
Euro-zone	1.9	1.2	-7.4	5.7	2.4
Japan	0.3	0.7	-6.2	3.0	1.4
UK	1.3	1.4	-8.2	6.5	2.4
Canada	2.0	1.7	-7.5	4.9	3.1
China	6.8	6.1	1.0	9.8	5.8
India	6.8	4.9	-1.5	8.0	6.0
Latin America	1.1	0.1	-7.4	3.1	3.5
Other East Asia	4.2	3.4	-1.3	5.8	4.3
Australia	2.8	1.8	-1.8	1.6	2.8
NZ	3.2	2.3	-7.8	3.0	4.2
Global	**3.6**	**3.0**	**-3.6**	**6.0**	**3.9**

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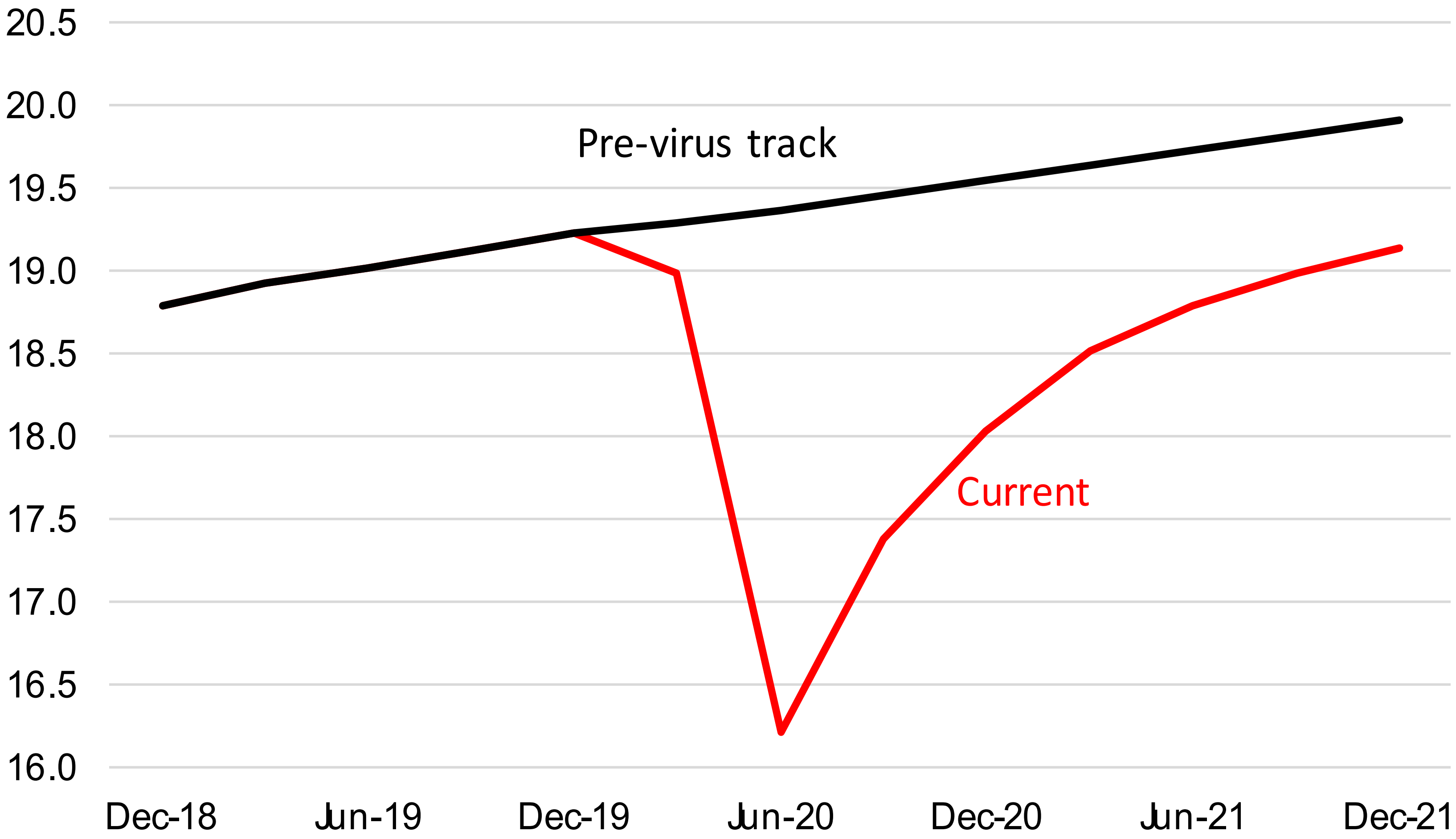
But virus disruption huge as lockdown proceeds.
- And will significantly hurt unemployment despite big fiscal packages.

GDP forecast profiles (chain prices, $ trillion)



Sources: Refinitiv, NAB

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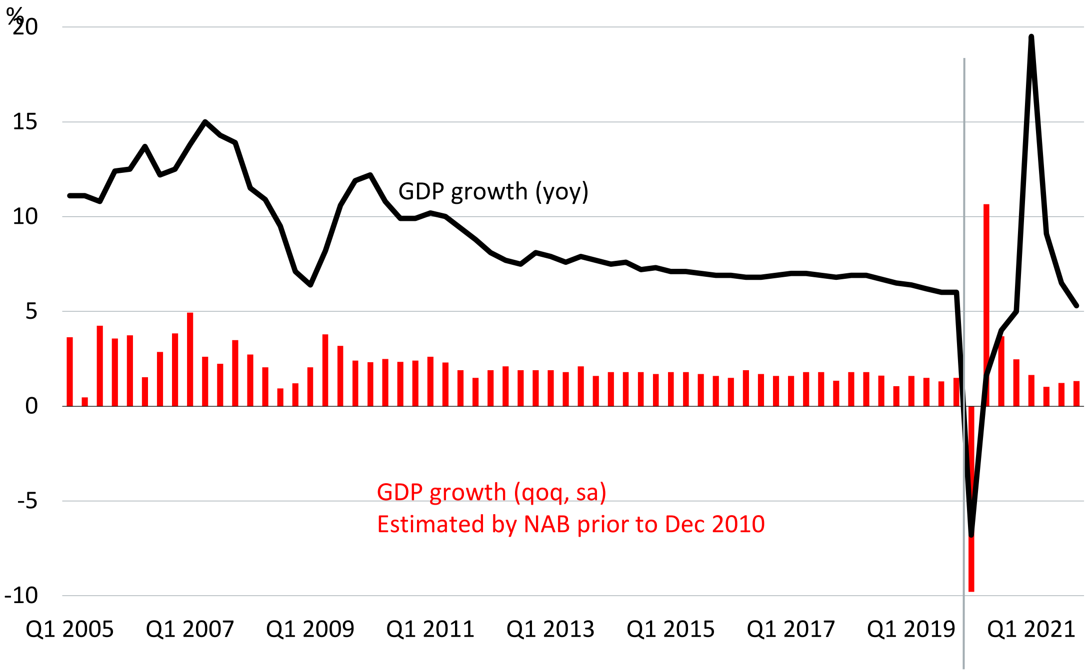
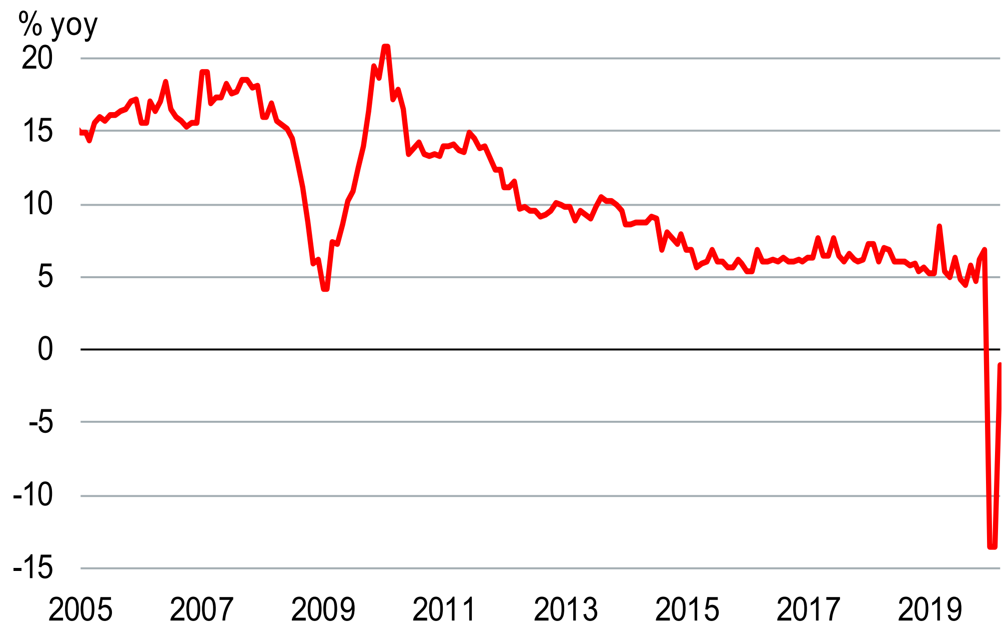
China hit hard by the virus. Growth down 9.8% in the quarter. But industrial production nearly back in March and continuing into June. – *Assuming continued bounce-back and policy support we have China at 1% in 2020 and 9.8% in 2021.*

GDP



Source: CEIC, NAB Economics

Industrial Production



Source: CEIC, NAB Economics

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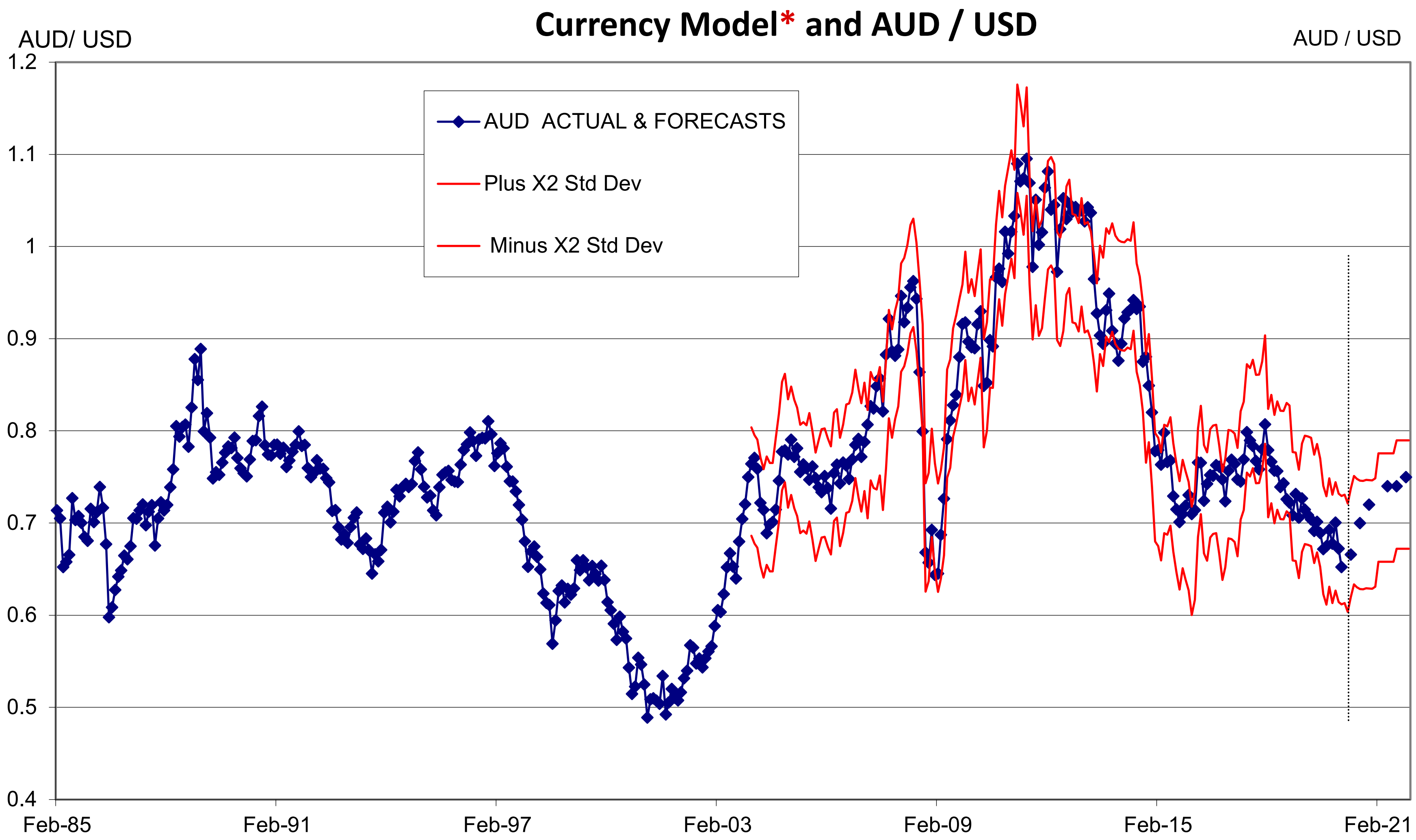
Currency model. USD .68+/- 5c. – *Australia seen as a China proxy and uncertainty in virus hit world. But Australia doing better than most and US the reverse. We expect the AUD to continue to edge higher.*



- Model driven by: commodity prices; US TWI – as measure of USD strength; long and short run rates; relative unemployment; relative equity markets and VIX.

Forecasts:

End 2020 = 72c AUD/USD

End 2021 = 75c AUD/USD

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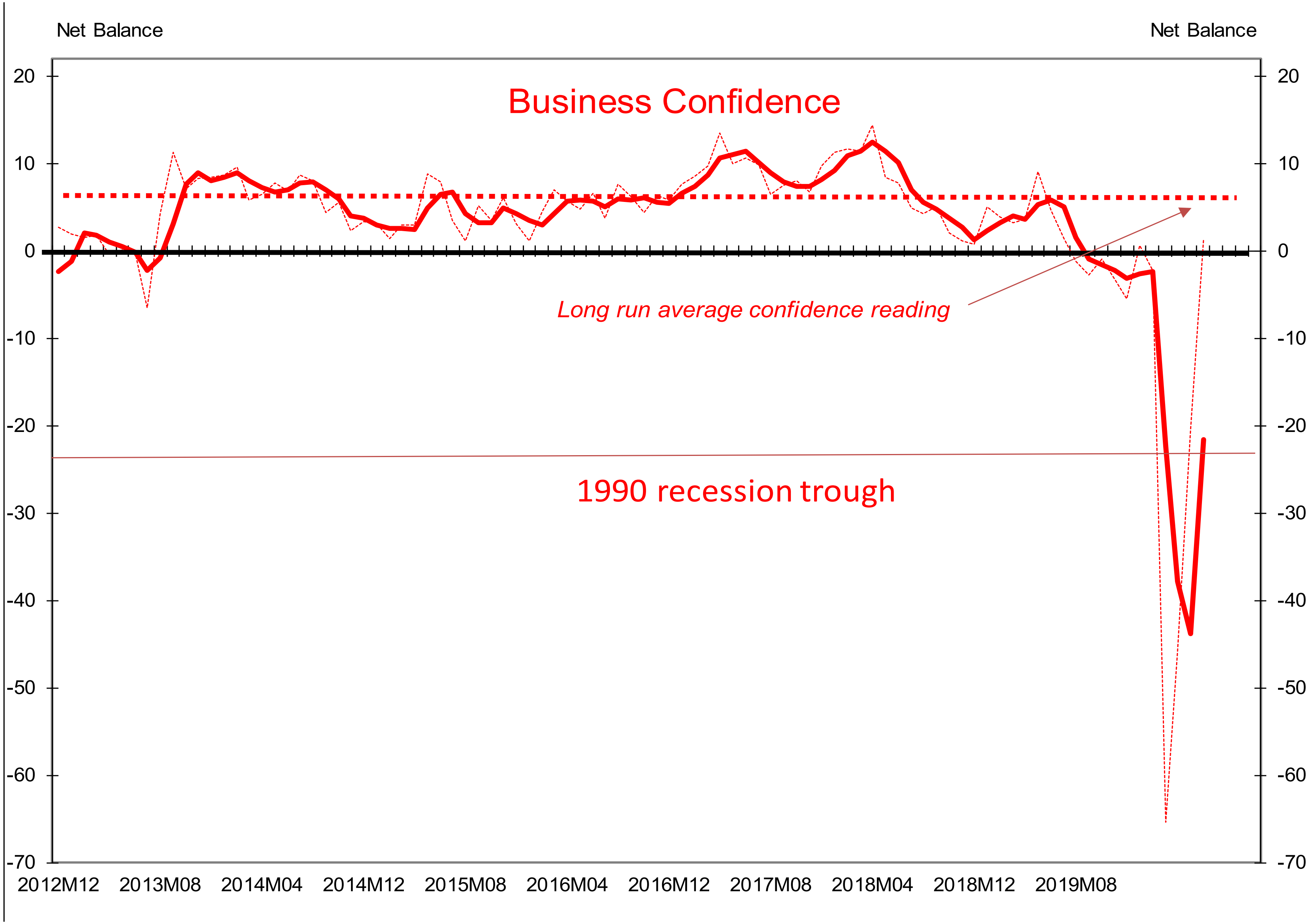
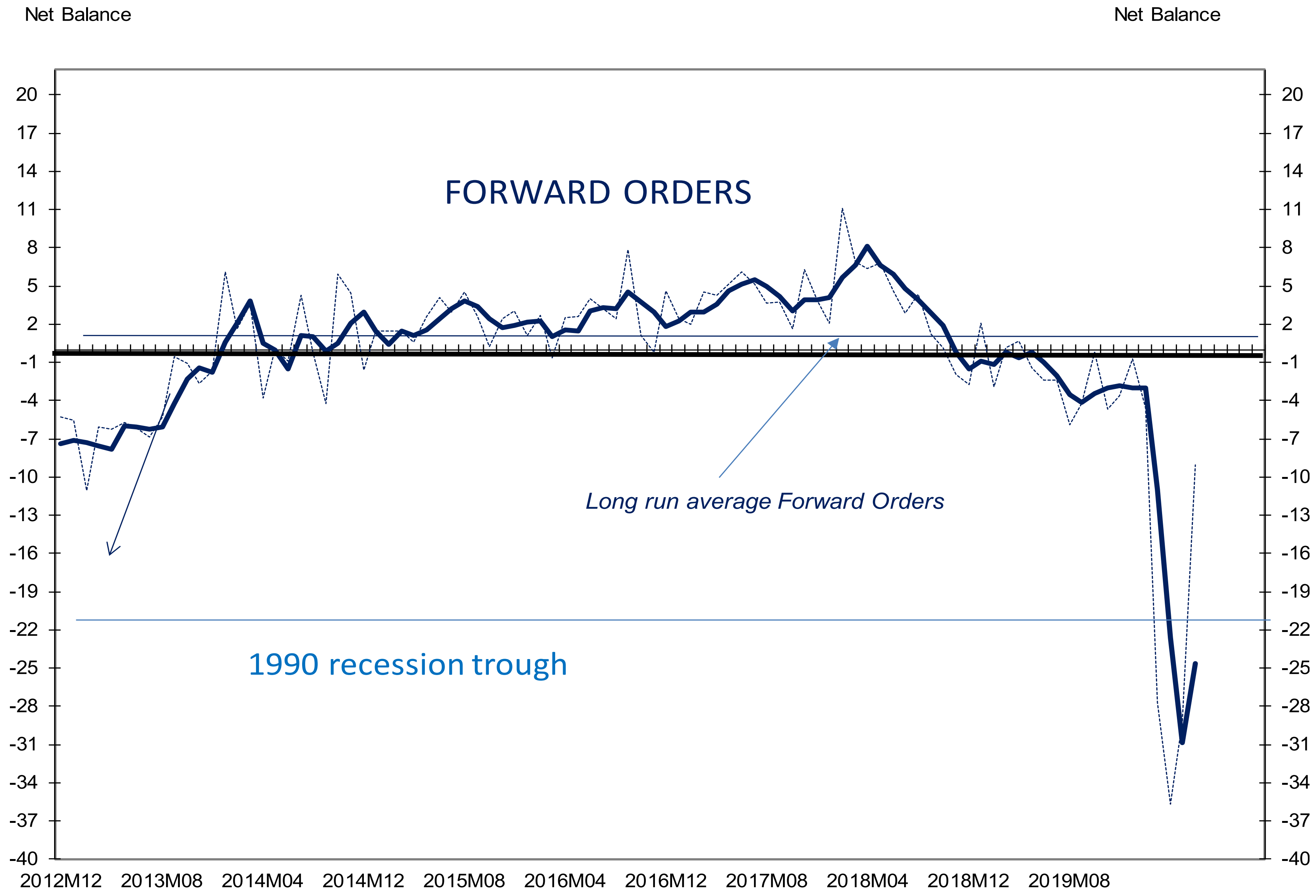
Business Confidence has taken a massive hit from COVID-19.
At levels unseen before – *especially April. June however was a massive improvement… Hopefully a sign of better things to come.*



And so has forward orders. Again however still not great levels but much better.
– Again the hope is that going forward things will improve.



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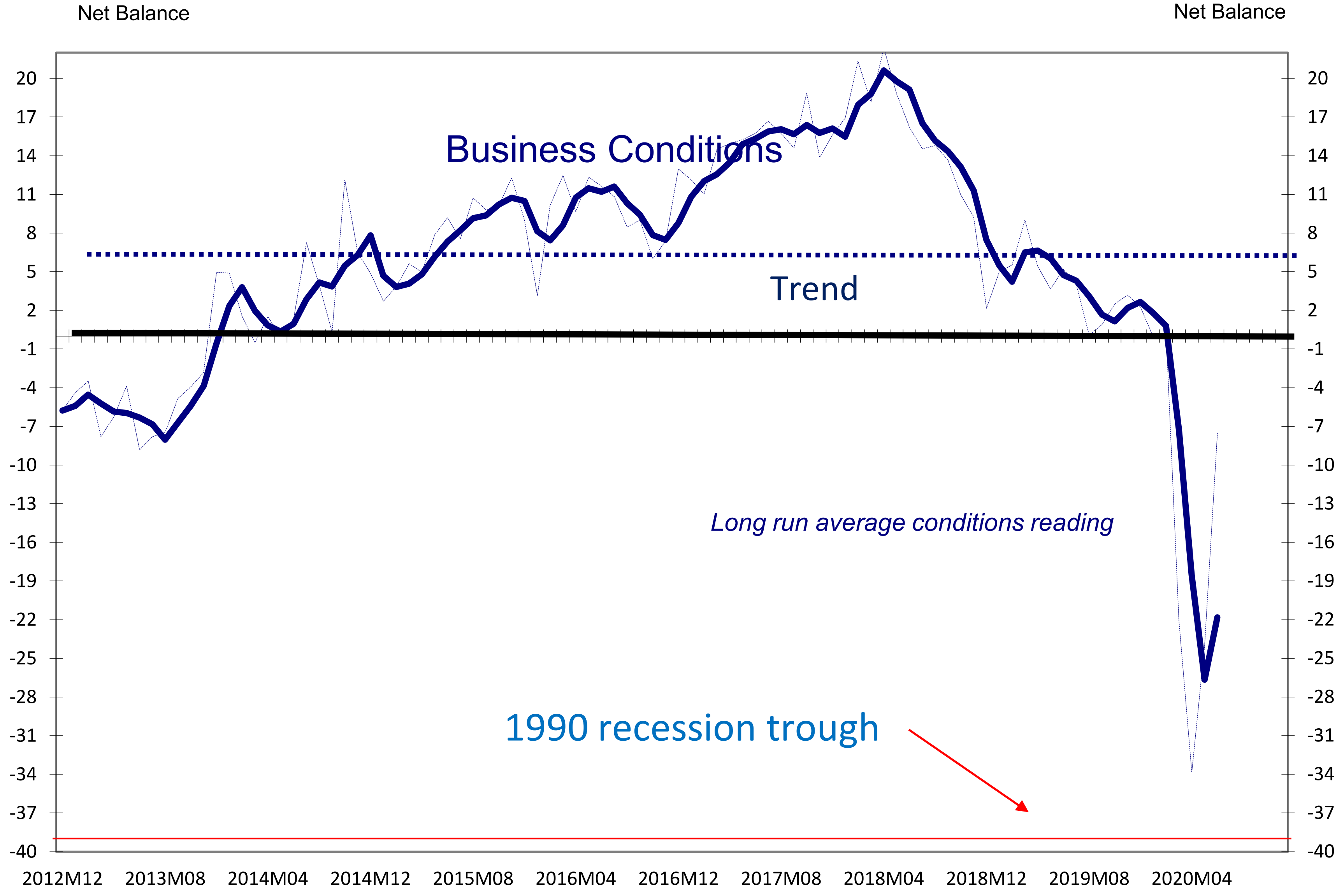
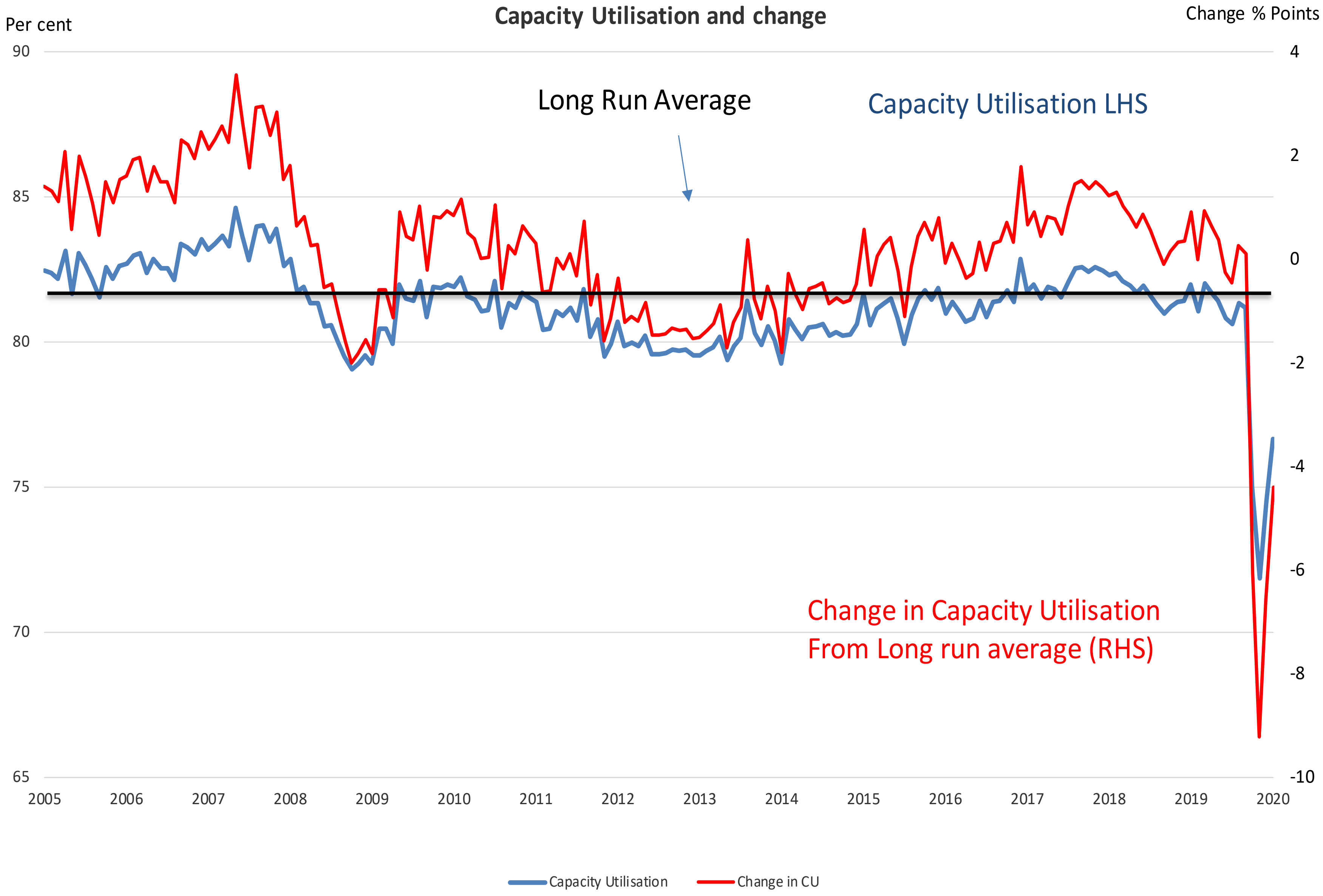
Business conditions has also taken a big hit. Wasn't as bad as confidence and orders. – *And again June recovery impressive.*



And capacity utilisation also turning up.

– But levels still important and shows the size of the impact from March to June. Even so, still down 4% or so from early this year.



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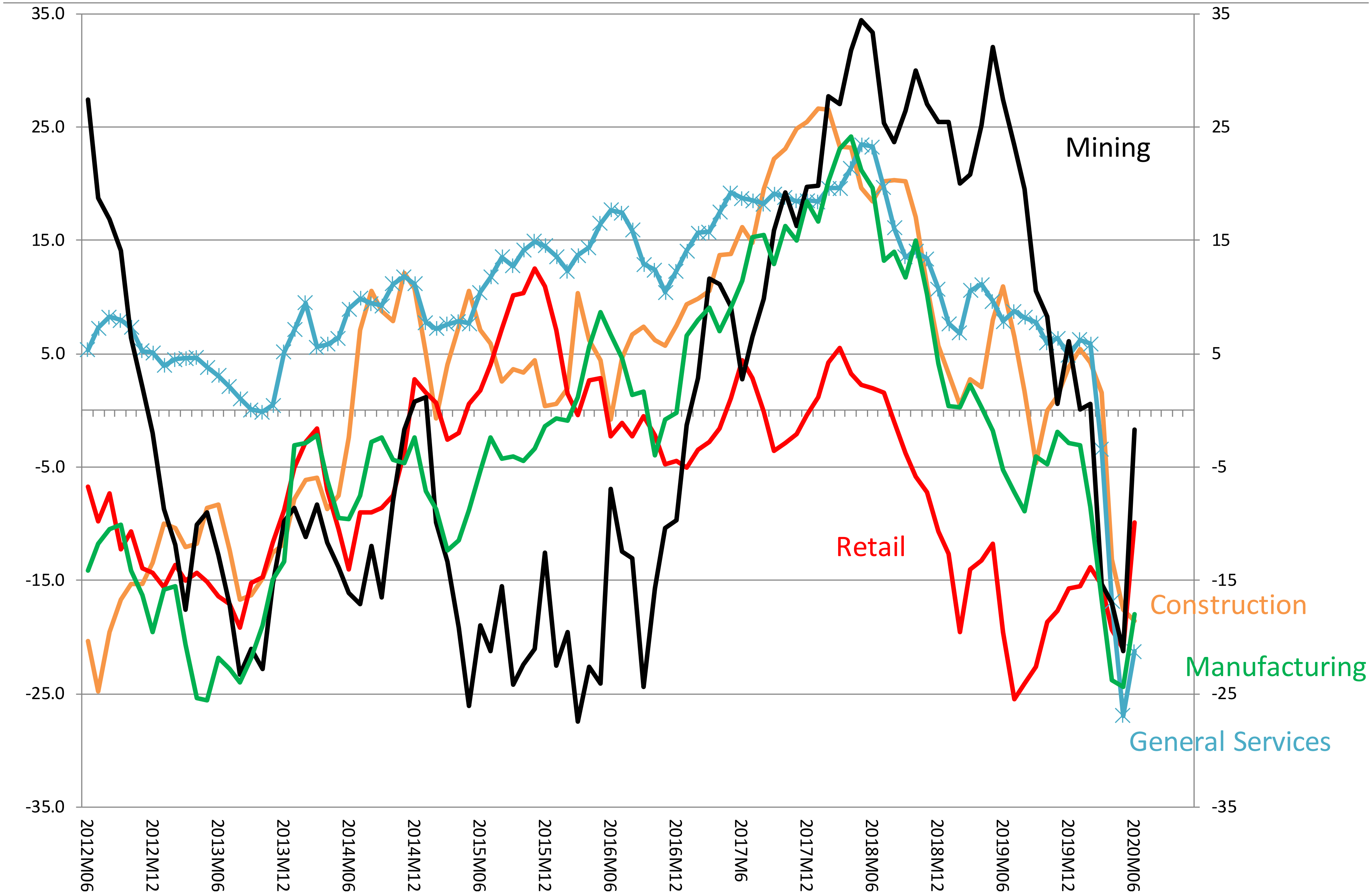
And industries affected as you would expect. General services still the worst *– as you would expect. Interesting construction didn't really improve so much – not COVID-19 related is the worry. Mining and retail doing significantly better.*



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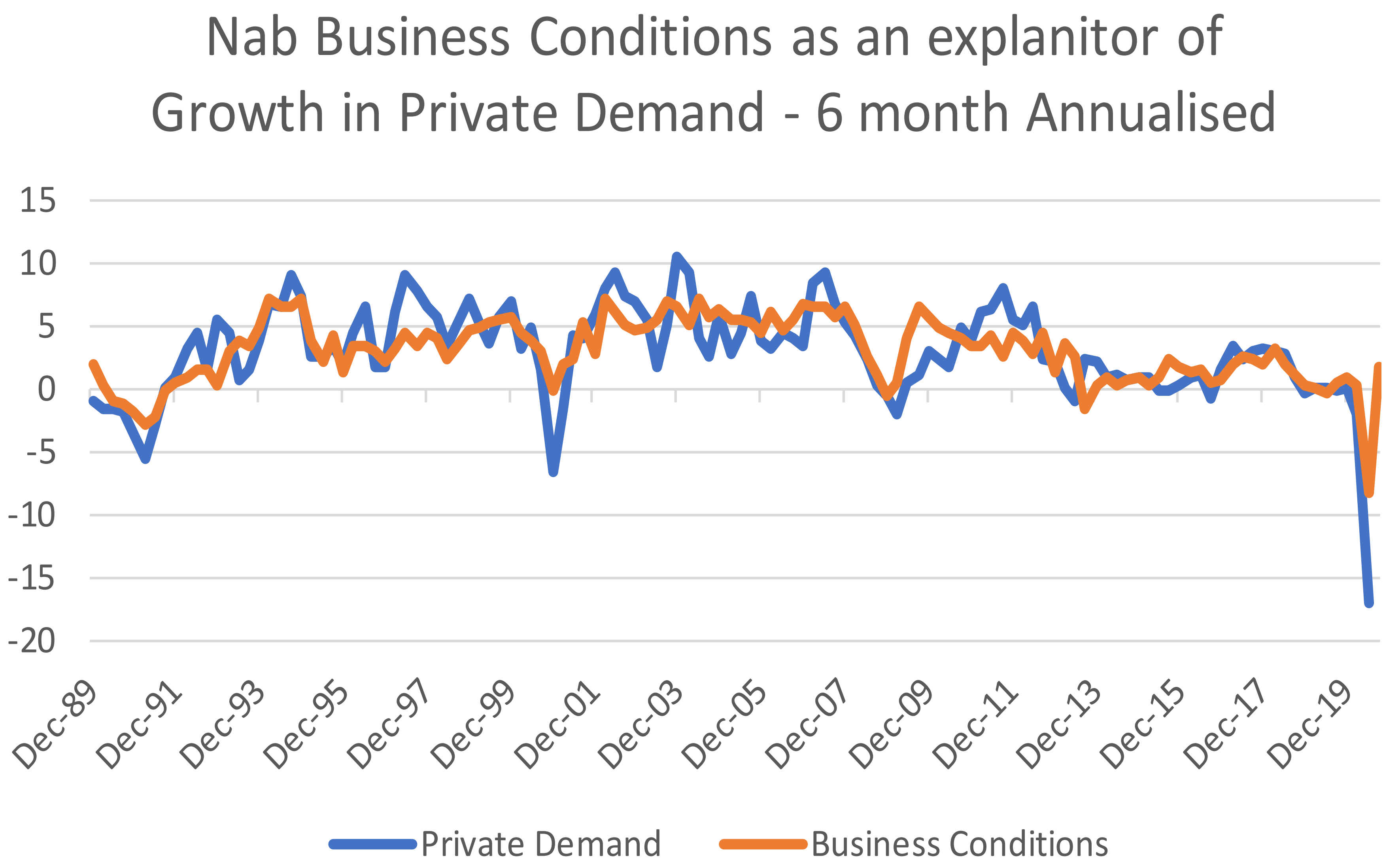
Put another way on current levels of the Survey – *private sector demand could well fall at an annualised rate of at least 10% in June quarter. We are forecasting an even bigger hit. But if June levels (monthly) are maintained, growth will return significantly in Q3.*



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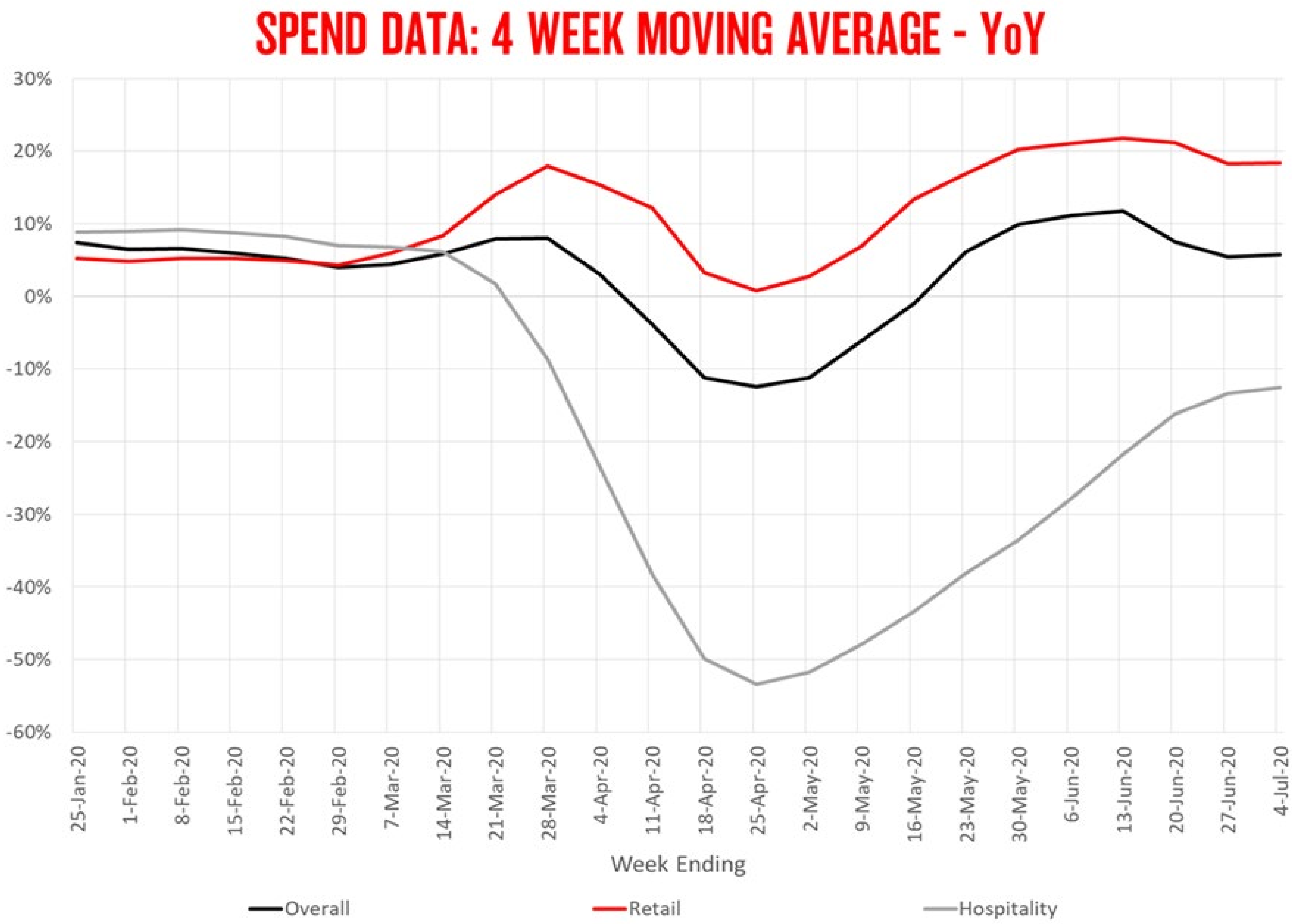
Recent trends on consumption. – *Retail still relatively strong and hospitality very weak but improving. Most of the gap in consumption from mid march nearly closed. With y/y consumption up around 8% on the same time last year.*



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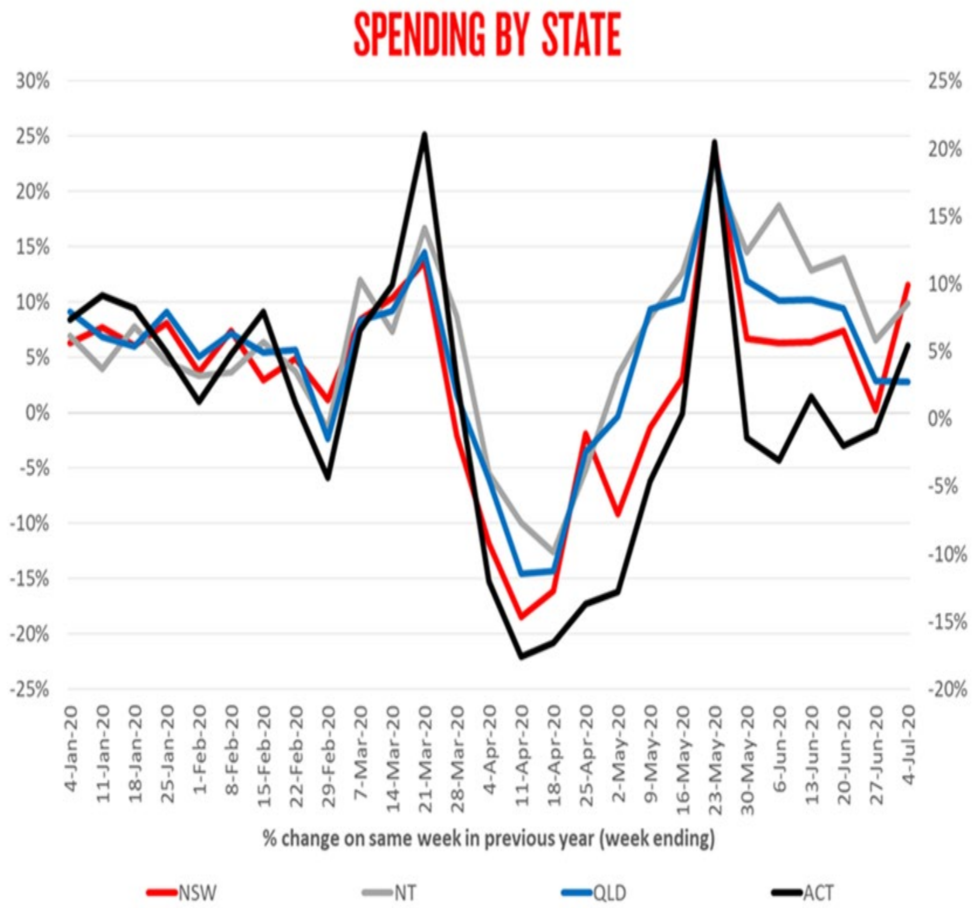
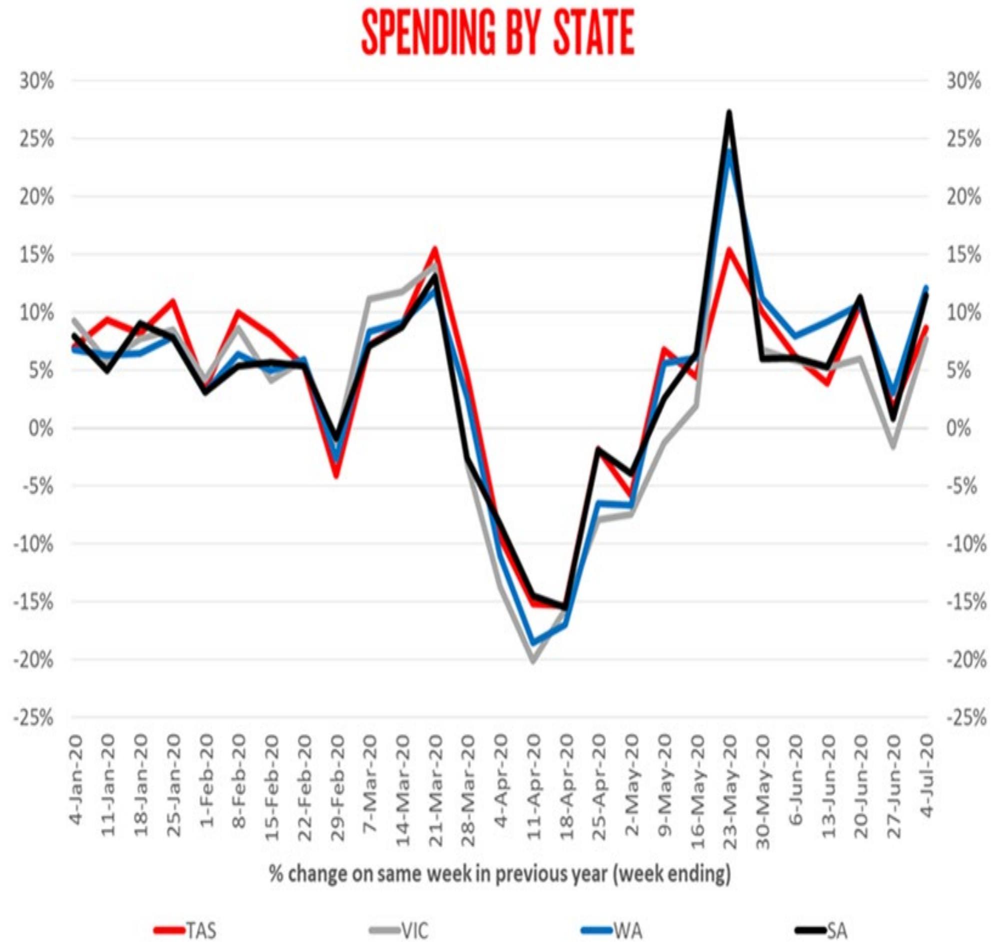
All states down a lot. – *But common themes everywhere. NSW and WA the best No sign of Victoria lockdown effect yet. But will keep watching.*





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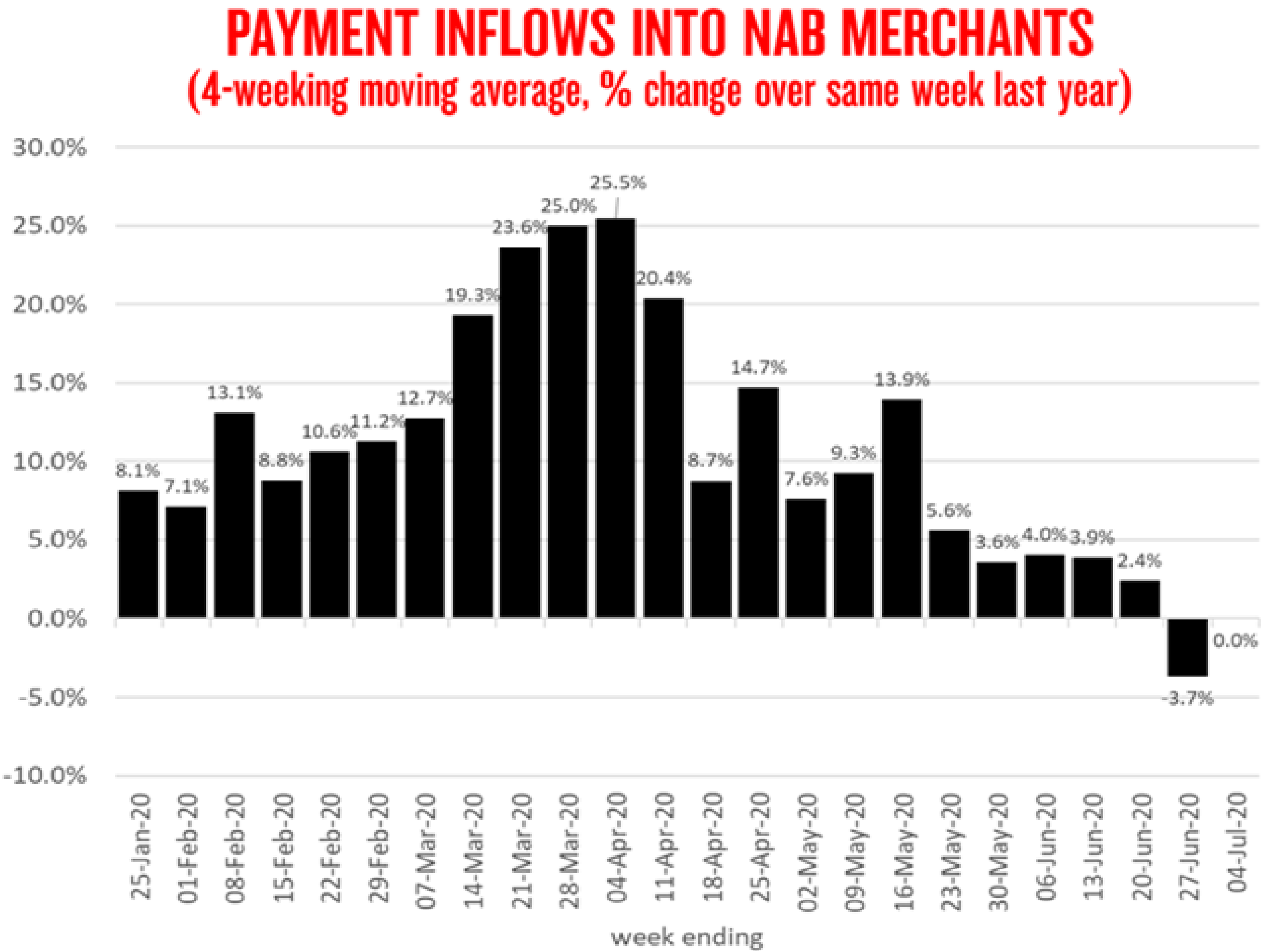
Revenue growth in the 'year to'. Overall Virus has significantly hit overall revenue flows *– in line with a Business Survey special question that has revenue down around 11%. And getting worse in late June. Early July relatively flat.*



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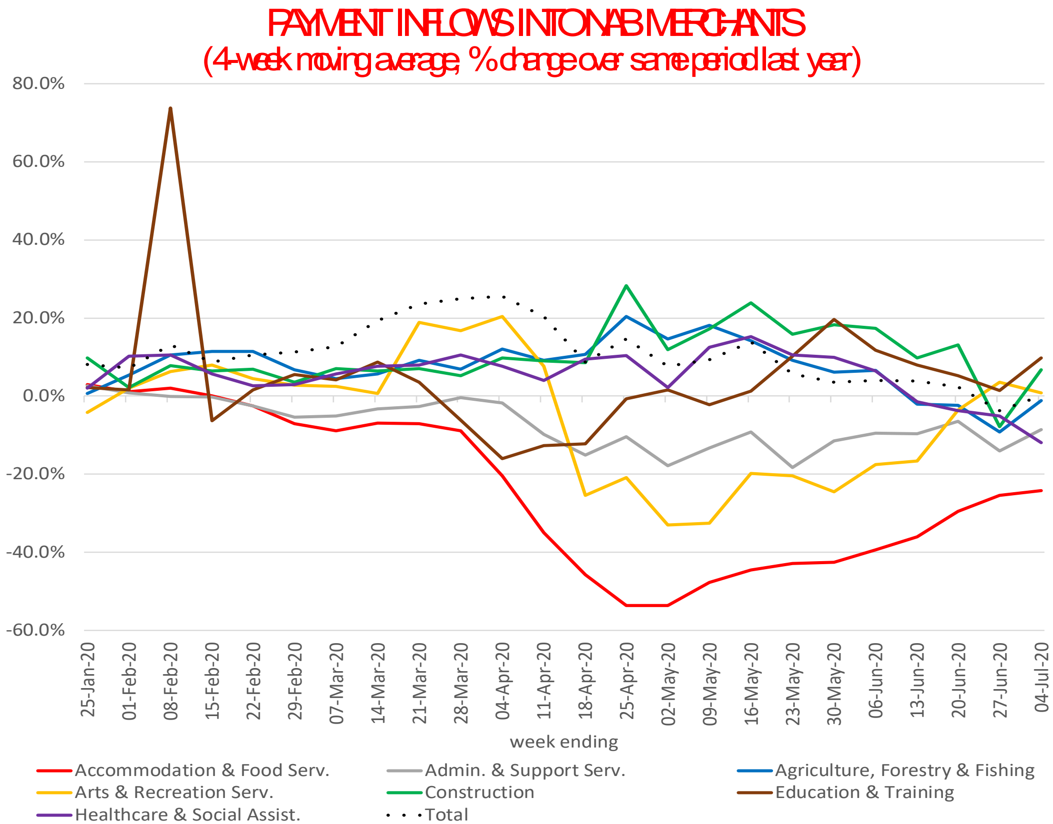
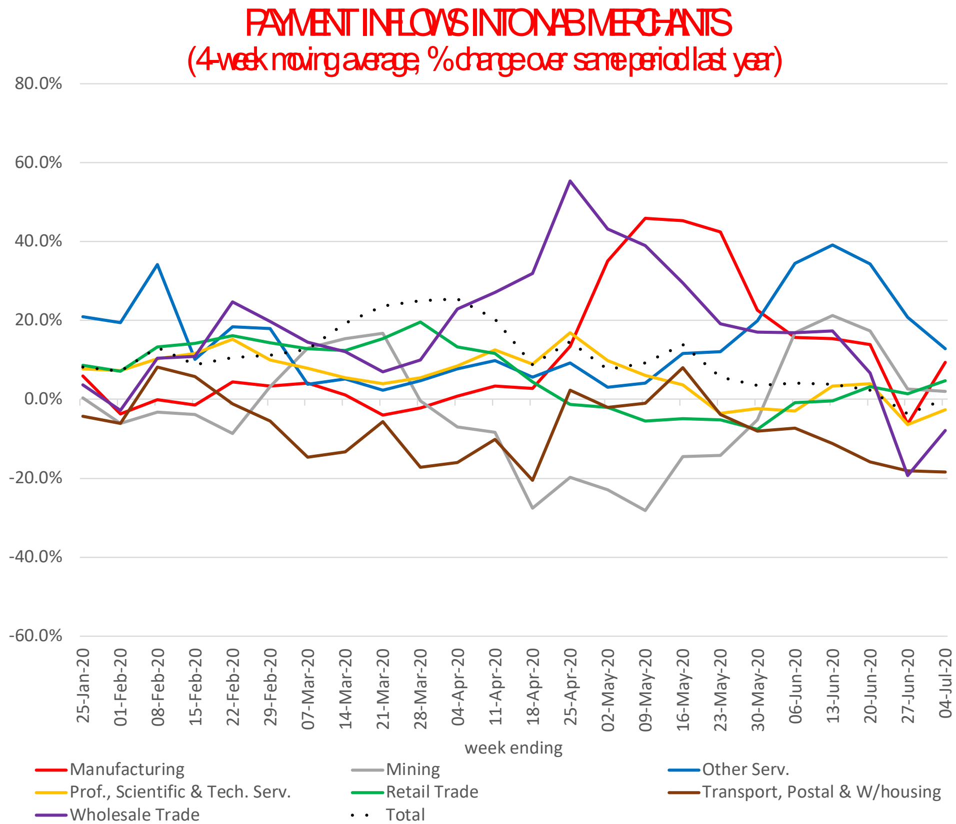
Revenue growth in the ‘year to’. – *Based on NAB Customers in Business, by Industry.*

On the left hand panel obviously Accommodation and food still very poor while Arts & Rec services poor but improving . Construction bumpy but OK. Health weakening.

On the right hand panel transport still poor. Services strong – especially internet related. Manufacturing reasonably strong.





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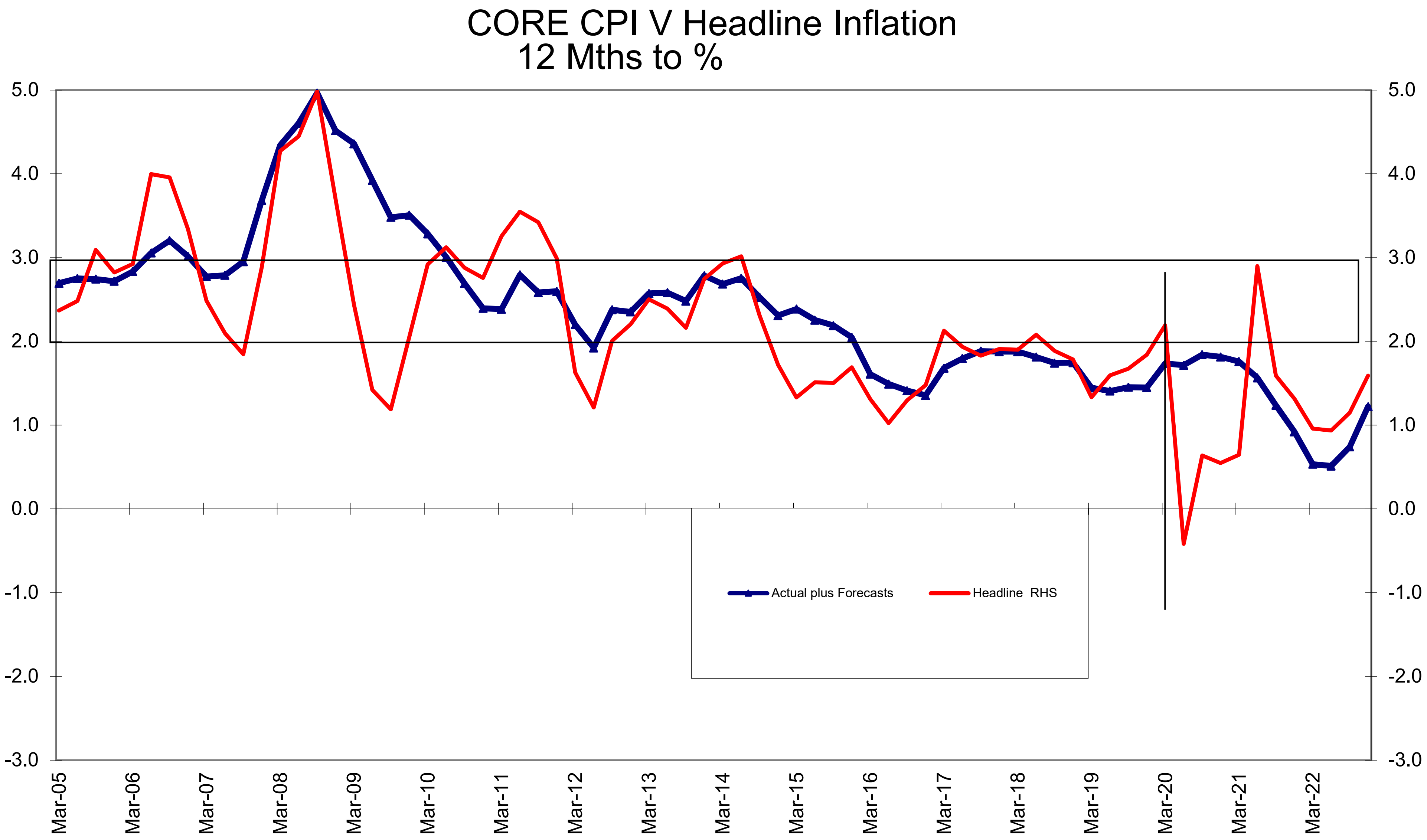
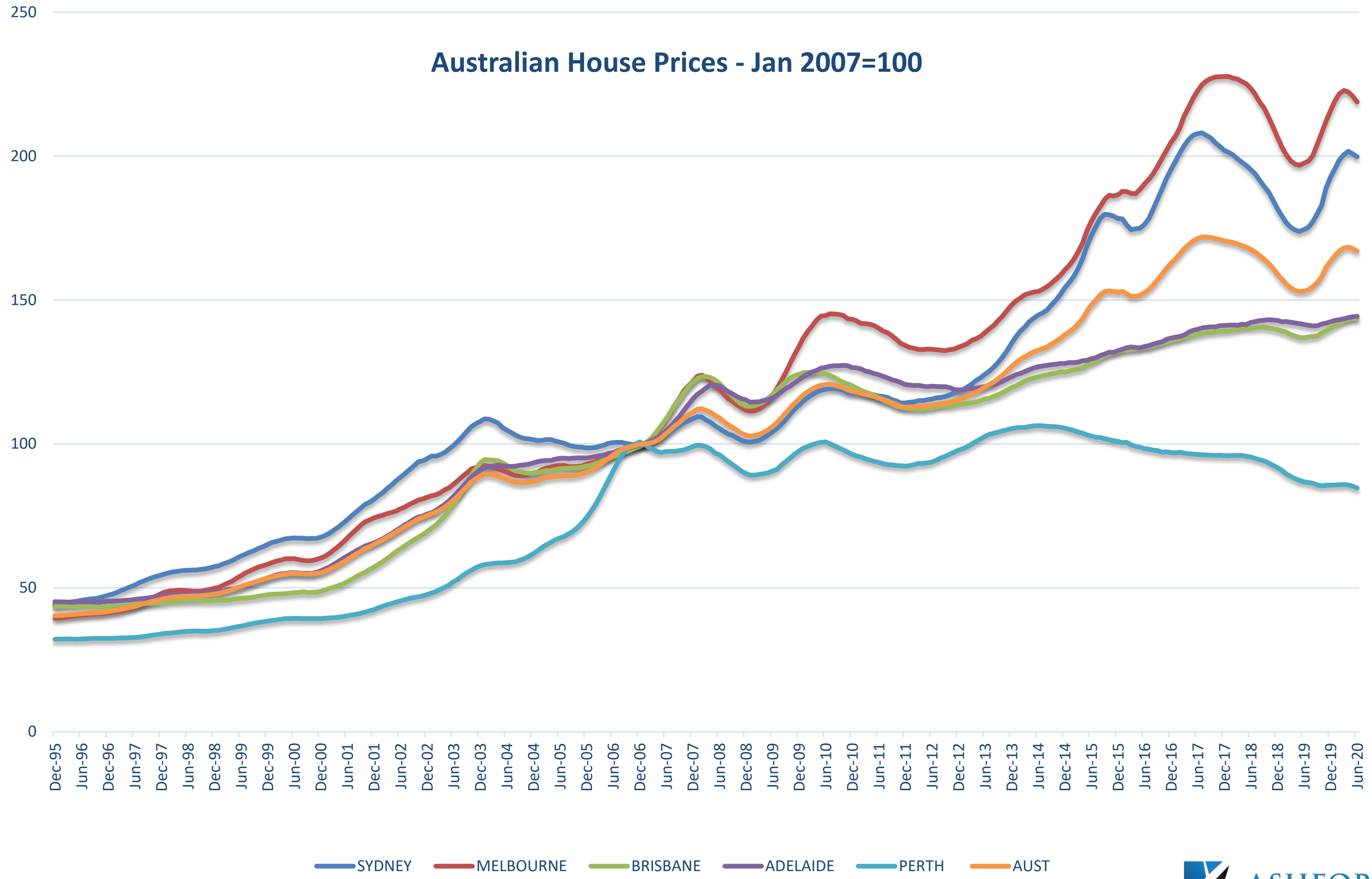
Our expectation is that wages growth will slow even further in our likely environment.

– If wages go to around 1-1¼%, core inflation will go much lower. Around 1% in 2021 – with stronger AUD helping – but not much better into 2022.



On house prices – *first an historical perspective:*



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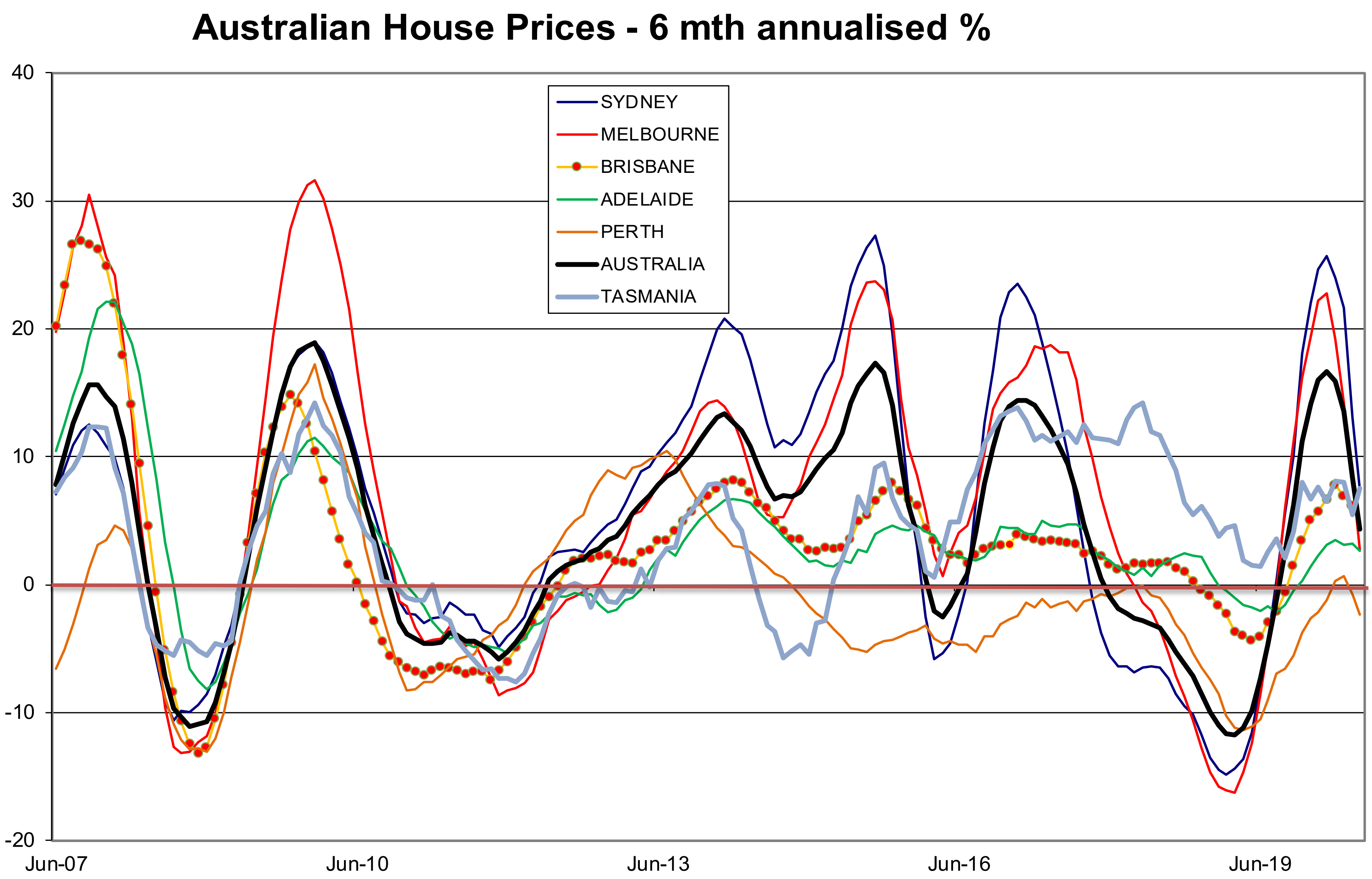
House price data prior to virus hit had moved up sharply. But new challenges re the virus and increasing vacancies. – *Market likely to weaken from here unemployment rises and population growth slows. And its happening…..*



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Traditional drivers of house prices.

<u>Typically three things matter for house prices:</u>

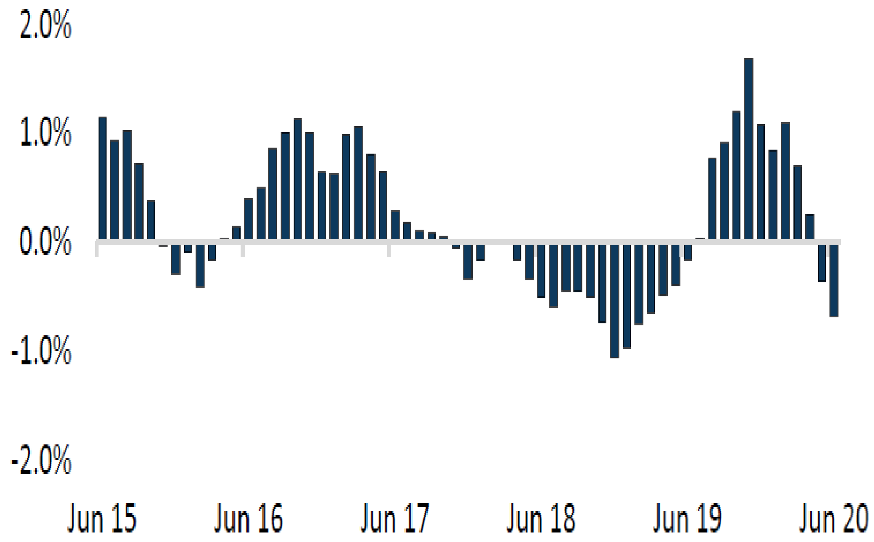
- Over/Under supply – by post code; Population growth critical;
- Interest rate you are paying;
- Unemployment – if above 8% in post code = trouble.

<u>Obviously unemployment around 12% is a big issue now:</u>

- But hopefully the moratorium on interest payments will help;
- As will be attitude of banks not to foreclose;
- And finally wage subsidies might help;
- But clearly tough times ahead.

<u>Our expectation is that house prices could fall 15% from here and remain flat in 2021.</u>

House Price Forecasts – *slowdown starting.*



	2018	2019	2020f	2021f
Sydney	-6.3	3.4	-8.8	-4.0
Melbourne	-2.3	6.5	-10.0	-4.0
Brisbane	-0.7	0.1	-5.5	-8.6
Adelaide	1.7	0.5	-2.7	-7.0
Perth	-6.5	-7.2	-1.5	-3.5
Hobart	10.2	3.9	-3.3	-2.4
Cap City Avg	-4.3	3.4	-8.2	-4.6

*percentage changes represent through the year growth to Q4
SOURCE: CoreLogic, NAB Economics

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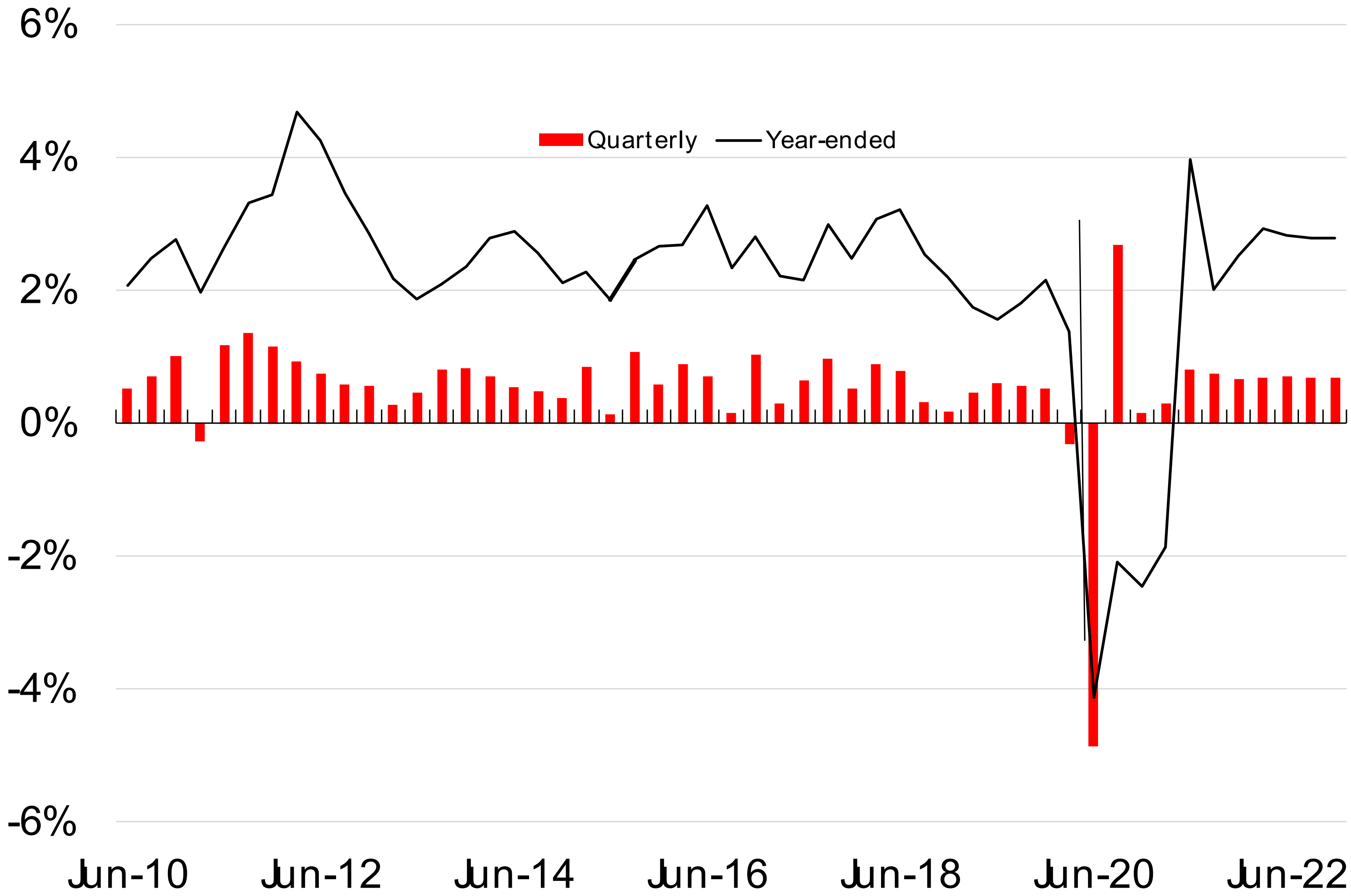
Our Growth Expectations. Massive impact as containment measures bite.

– But serious recession occurred (March/April). We are recovering faster than expected but very uncertain and fast moving situation. Much depends on virus events.



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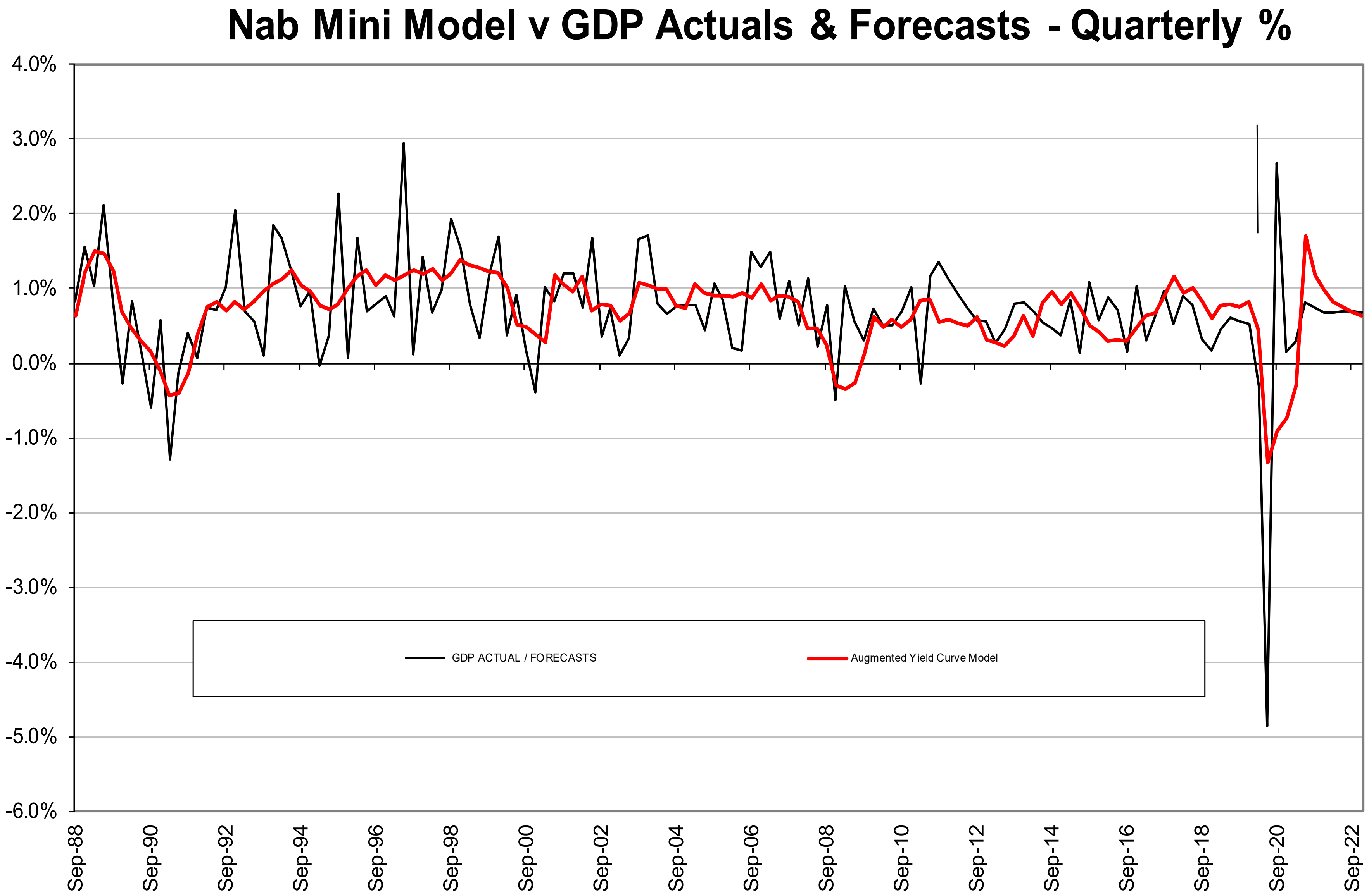
As, by historical standards, what we are seeing is unprecedented. - *A model v our forecasts. Even so, in level terms GDP relative to Q4 2019 not exceeded till late 2021.*



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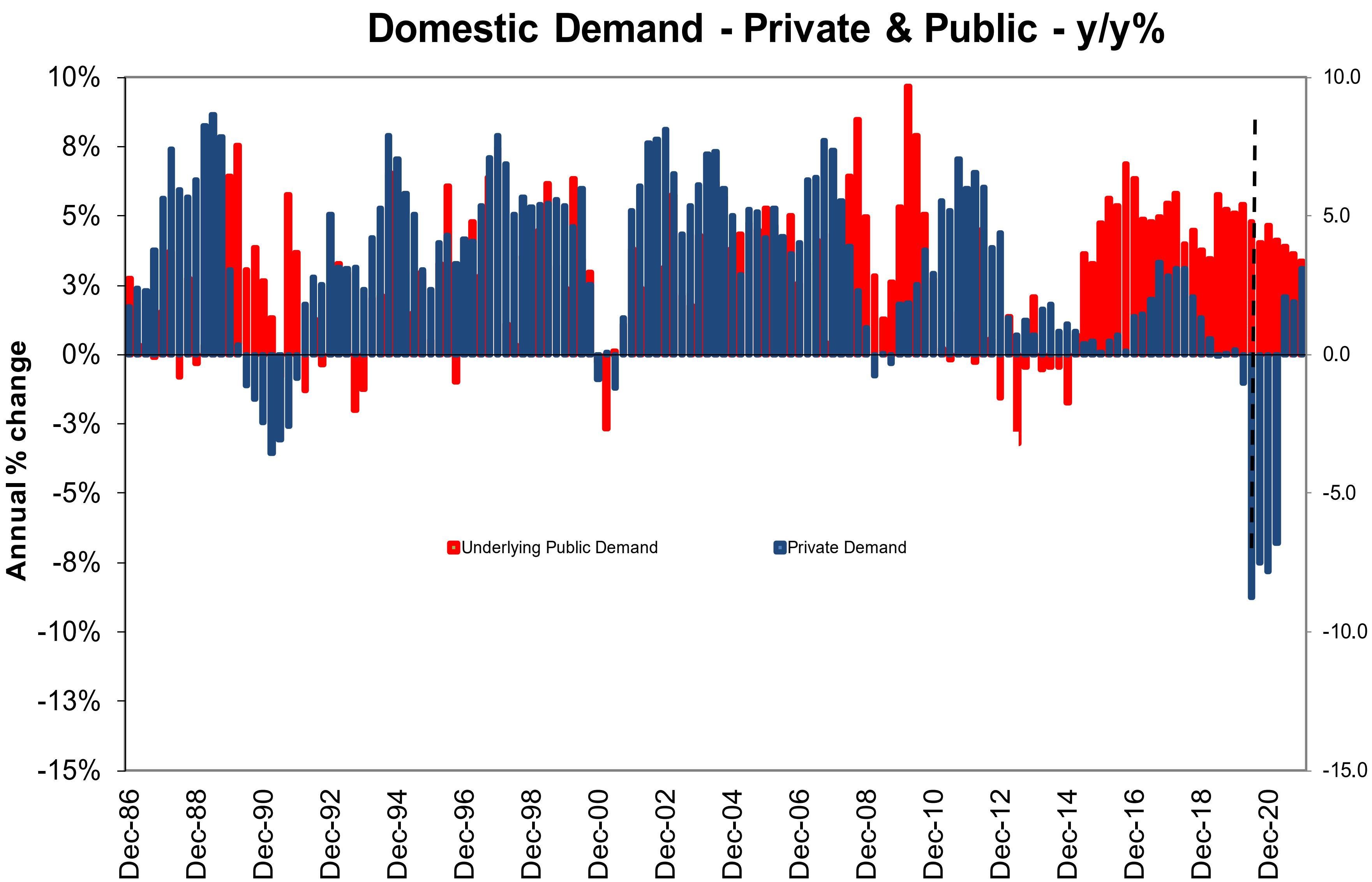
The hit to private demand - *has been massive.*



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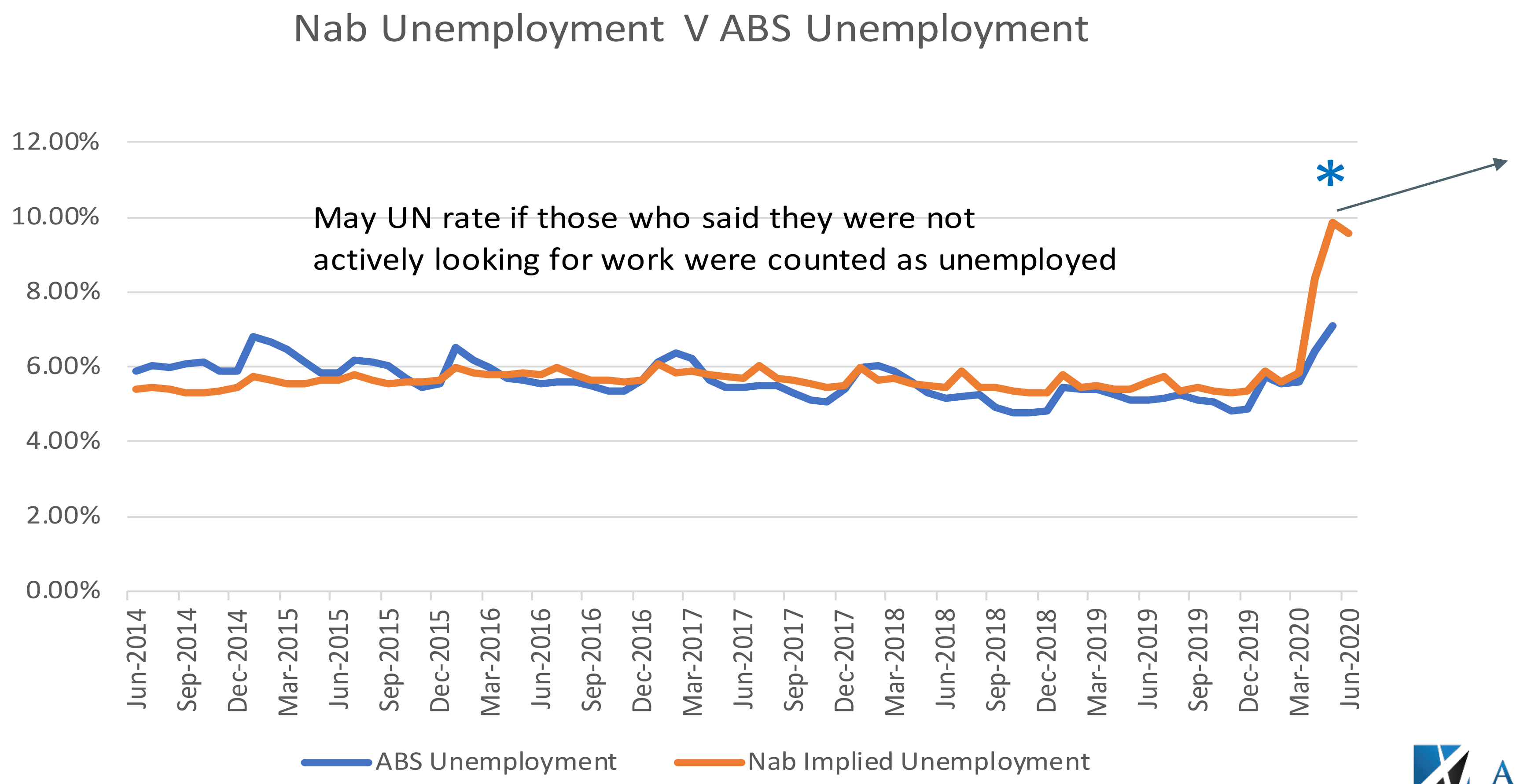
Post COVID-19 environment. – *Labour market insights.*

- When we take that data and translate across the economy from NAB unemployed, the trend is alarming; As you can see from the LHS, implies unemployment may be already near 11%.
- Didn't get that in April/May ABS numbers because a lot of those on JobSeeker were not actively seeking employment. Rules changes here on JobSeeker recipients but, will be reversed, effectively delaying the hit till H2 .



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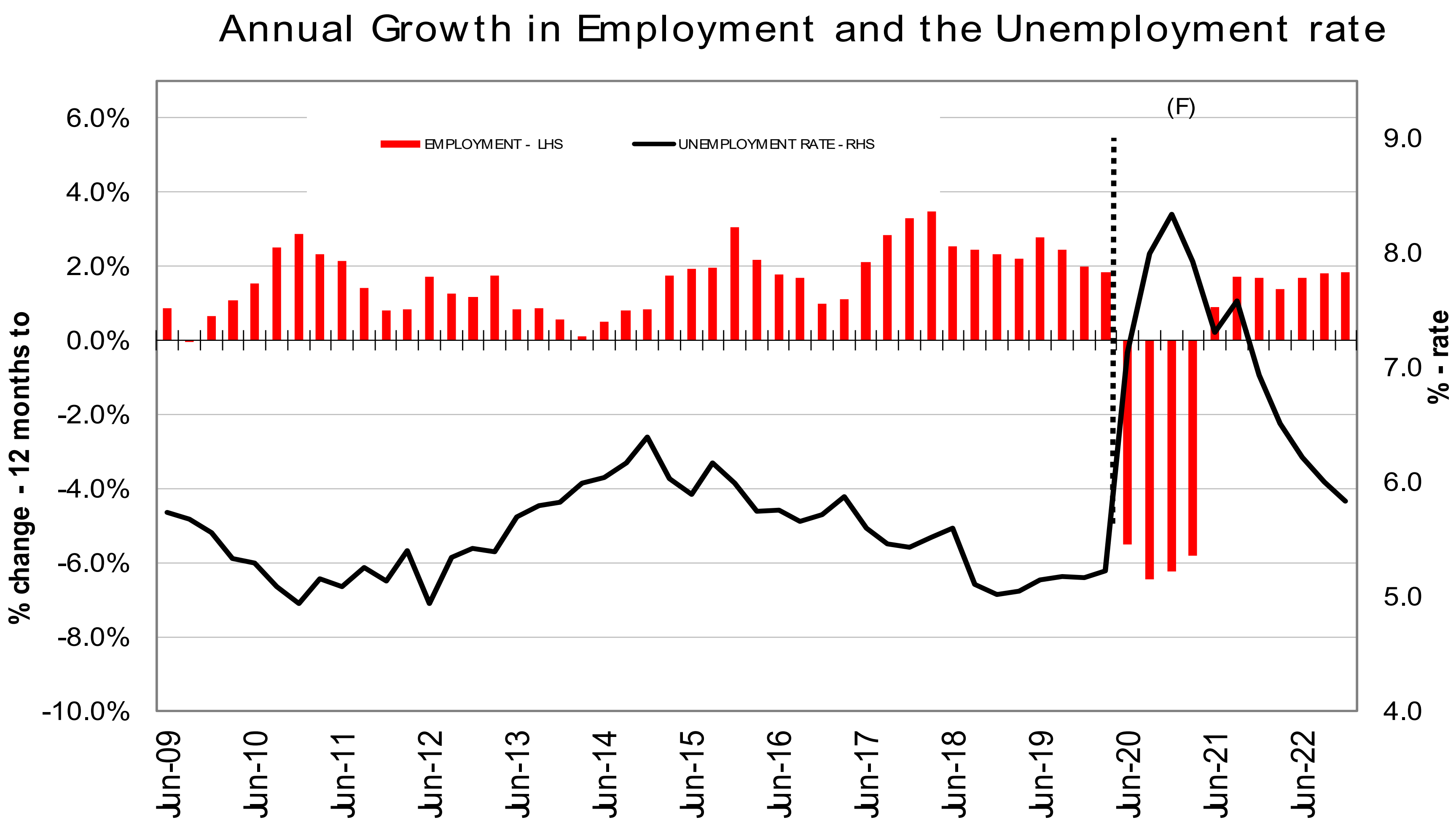
Labour market will get crunched in that environment – despite massive Government spending. We think unemployment is larger than the official measures. – *But as more return to work we see unemployment at 8.3% this year, 7% by end 2021 and 6% in 2022.*



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On rates – *basically irrelevant now.*
Other than stabilising the system and helping to keep credit flowing.

- RBA has moved decisively to help combat COVID-19. And is part of global support from Central Banks.
- Rates now at 0.25. And has hit RBA's effective lower limit.
- Now the RBA is turning to yield curve guidance (announcing where it wants the price of Government bonds and buying them unless the price goes to their desired rate).
- RBA also acting via Repos to keep liquidity in the system.
- Much depends on how long the virus disruption lasts. Fiscal policy will be the focus of any more policy action.