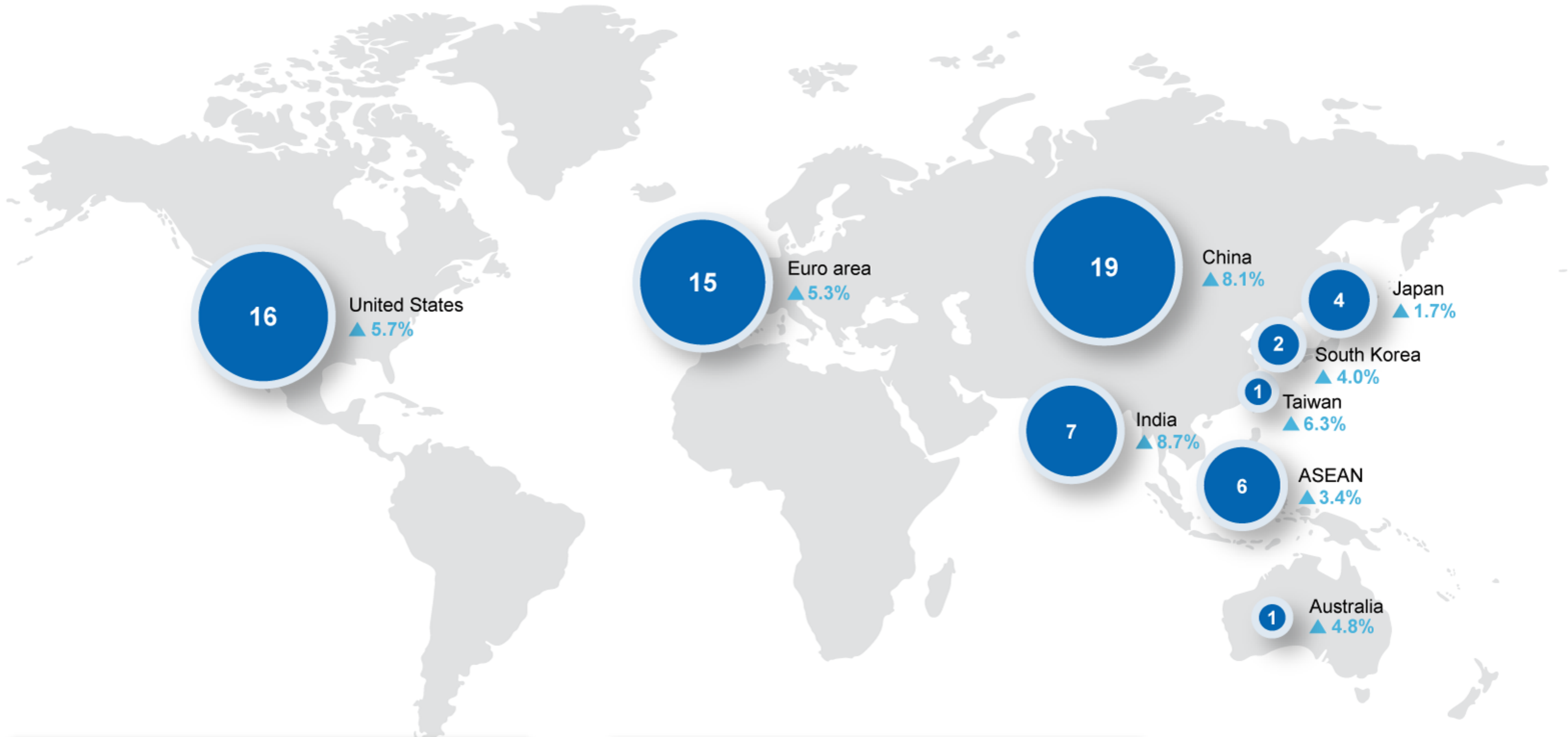
Macroeconomic Outlook



In 2021, global economic activity increased by 5.8%. Growth is expected to slow to 3.0% in 2022 due to ongoing impacts from the Omicron variant of the COVID-19 pandemic as well as the persistence of supply chain disruptions.

Risks include the impacts of Russian invasion of Ukraine on global growth, the potential for new variants of the pandemic, as well as the persistence of supply chain disruptions through the year. Inflationary price pressures are also weighing heavily on markets through 2022.

= Per cent share of global GDP
= Economic growth in 2021
= Economic contraction in 2021

2.1 Summary

- The global macroeconomic environment is currently subject to an unusually high level of uncertainty. The confluence of supply shocks, slowing global growth and elevated inflation, is providing substantial policy challenges for governments across most major economies.
- The world economy is forecast by the OECD to grow by 3.0% in 2022 and 2.8% in 2023, a downward revision of 1.5 and 0.4 percentage points, respectively, since December 2021.
- The fallout from Russia's invasion of Ukraine and China's aggressive approach to suppressing COVID-19 outbreaks are slowing growth and adding to supply chain bottlenecks. These twin shocks are weighing heavily on markets as inflationary pressures mount, and monetary policy is being tightened.

2.2 World economic outlook

The pace of the global recovery continues to slow

In April, the IMF downgraded its forecasts for the global economy because of the Russian invasion of Ukraine, China's slowdown and global price shocks. However, in recent weeks the IMF has flagged a further downward revision to this forecast due to the rapidly shifting global economic environment in its next release in July — after the scheduled finalisation and release of this edition of *Resources and Energy Quarterly*.

On 8 June the OECD updated its growth forecasts and made further cuts to forecast growth citing the heavy price the world is paying for Russia's war in Ukraine as well as flow-on impacts from China's zero-COVID-19 policy. The *Resources and Energy Quarterly* publication usually uses IMF economic growth forecasts. However, in this edition, OECD forecasts are used to provide more timely estimates of the global economic outlook.

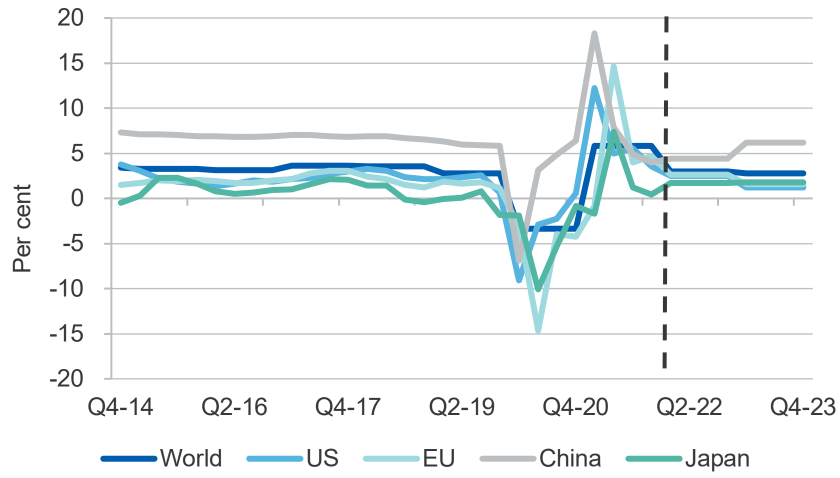
The global macroeconomic environment faces an unusually high level of uncertainty. The stronger growth evident in the recovery phase last year, driven by pent up demand built up during the pandemic recession, is now over. A combination of sharply slowing global growth, elevated inflation across most economies, and associated rising living costs — and limited fiscal space due to high public sector debt — is making for a difficult balancing act for governments across most major economies.

The OECD forecasts the world economy to slow from 5.8% real GDP growth last year to 3.0% in 2022 and 2.8% in 2023 (Figure 2.1). The growth forecast is 1.5 and 0.4 percentage points lower for 2022 and 2023 — from the December 2021 *Economic Outlook* — due to downward revisions across most economies.

The ongoing fallout from the Russian invasion of Ukraine continues to slow growth and add to inflation. The OECD warns the risks to its forecasts are biased to the downside, and if the war escalates or becomes more protracted, the outlook could worsen, particularly for low income countries and Europe.

Most economies, including the US, China, India, the Euro Area and the United Kingdom, have had their 2022 and 2023 growth projections revised down since the December 2021 Outlook.

Figure 2.1: GDP growth forecasts



Source: Bloomberg (2022); OECD (2022)

In recent quarters, the major central banks have tightened monetary policy in response to surging price pressures. Increased inflation has been driven by higher energy and commodity prices, and supply-demand imbalances resulting from the pandemic. The fallout from the Russian invasion of Ukraine has exacerbated supply shortages and added to these pressures, particularly in prices of food, energy and metals. As a result, the OECD expects inflation in advanced and emerging economies to remain elevated for longer than previously forecast.

Tighter monetary policy is expected to slow global economic growth in 2022 and 2023. Policymakers face difficult challenges in managing inflationary pressures without overshooting their targets. This reflects the current elevated levels of global uncertainty as well as the variable lag inherent in the transmission of monetary policy decisions to the real economy — in particular the response of business investment and consumer investment in durables and dwellings to changes in monetary policy. However, not all economies are experiencing high inflation, with China, in particular, continuing to record low rates of inflation, and maintaining expansionary monetary conditions to support growth.

Risks to the outlook have escalated sharply in recent months, with the IMF managing director stating that "(i)n a short period of time…the horizon has darkened"[1]. Likely rapid further monetary tightening by most central banks, and slowing growth in China — resulting from already weak consumption and investment compounded by aggressive COVID-19 suppression measures, and the possibility of more lockdowns in the second half of 2022 — have added to the uncertainty flowing from the ongoing fallout from the Russian invasion of Ukraine.

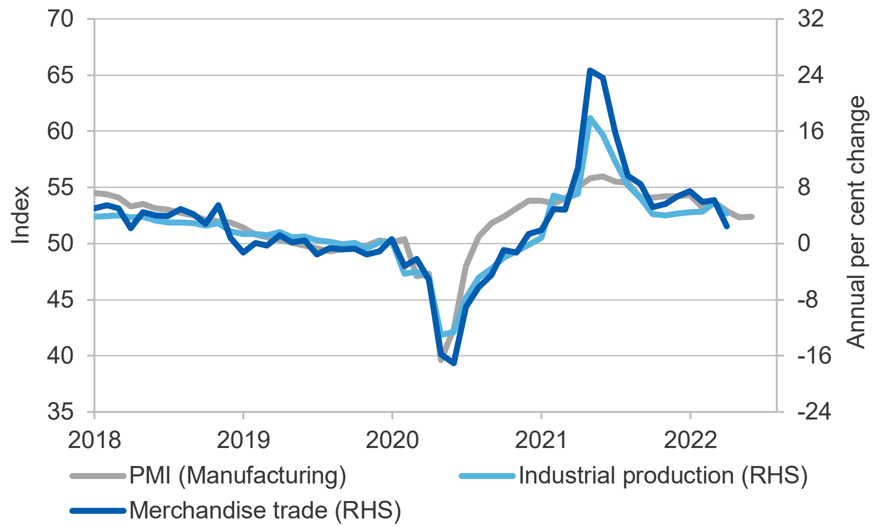
The economic impacts of the invasion have been widespread, affecting global markets for energy, industrial metals and bulk commodities and food. Moreover, the invasion has added to broader risks associated with supply shortages, shipping and transport delays, and price pressures in many countries, as sanctions and actions taken in response by major economies continue to grow.

Pressures (facing both developers and buyers) in China's residential property market could also continue to constrain economic growth in China in 2022. This has implications for global resource and commodity markets in the first half of the early outlook period.

Global industrial production and trade likely softened in June quarter

Global industrial production and trade appear to be stabilising to more sustainable rates of growth following the record growth achieved at the height of the recovery last year. Global industrial output grew by 4.3% year-on-year in March (Figure 2.2), down from 5.8% in February and 4.5% in January 2022.

Figure 2.2: World industrial production, trade and PMI



Notes: PMI data is to April 2022; IP and trade data only available to February 2022
Source: IHS Markit (2022); CPB Netherlands Bureau for Economic Policy Analysis (2022)

[1] Giles C, 'IMF chief warns global economy faces 'biggest test since second world war', *Financial Times*, May 2022.

Global goods trade slowed to 2.5% year on year in March, down from 6.2% in February, due to base effects and a flat March quarter 2022, and is forecast to grow by around 4.0% in 2022. The trade outlook for Australia's major trading partners remains positive, with GDP growth forecast to reach 4.4% in 2022[2].

However, manufacturing orders have been weakening in recent months, which points to lower industrial production and commodity demand in the second half of the June quarter. The Global Manufacturing Purchasing Managers Index (PMI) turned down sharply in March and April, with the Global PMI falling from 53.7 in February to 52.3 in April. Global manufacturing conditions in April were the weakest since August 2020 and remained largely unchanged in May (52.4).

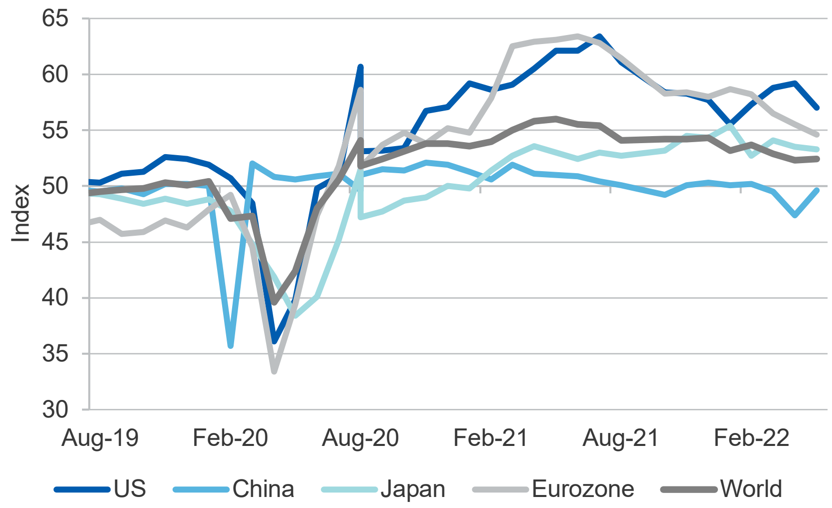
Falls in the global manufacturing PMI in recent months were evident in several economies, including the Eurozone and Japan (Figure 2.3). However, the global result was mainly driven by China, which recorded falls in both the official Chinese PMI and the Caixin China general manufacturing PMI — a broader-based survey of over 500 companies — both of which fell at the steepest rates in two years in April.

A major factor underlying the contraction in April was the reintroduction of stringent COVID-19 restrictions in many Chinese cities. Consequently, activity in the Chinese manufacturing and service sectors has contracted at the fastest pace since February 2020. However, for the rest of the world, global manufacturing output (ex-China) rose slightly in April.

Global manufacturing continues to experience elevated price pressures, with average purchase prices rising at near-record levels. Manufacturers have passed on these high input costs, resulting in output charges increasing at the highest rate on record in April. Capacity constraints and stretched global supply chains contributed to price pressures, with vendor lead times again lengthening to near record levels.

[2] *RBA Statement on Monetary Policy* – May 2022

Figure 2.3: Manufacturing PMIs — selected economies



Source: IHS Markit (2022).

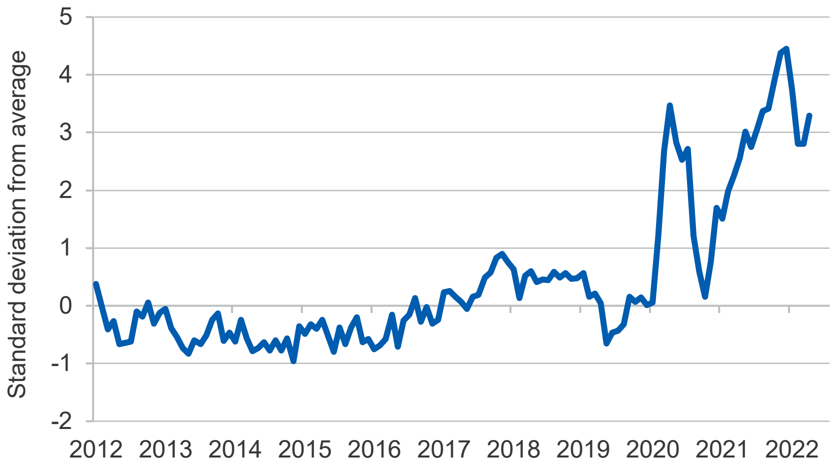
The loss of momentum in global manufacturing was also evident in the other sectors. For example, global services trade growth slowed to a 3-month low in April 2022, as slower growth in the business and financial services sectors more than offset growth in consumer services. Underlying the slowdown in global services was a deceleration of new business growth, with business optimism at an 18 month low.

After easing in early 2022, supply chain pressures re-emerge

Pressure on global supply chains has been amplified by the twin supply shocks associated with the stringent COVID-19-related lockdown measures adopted in China and the fallout of the Russian invasion of Ukraine for supply chains in Europe.

After reaching its highest levels on record in December 2021, the Global Supply Chain Pressure Index — a composite measure of cross-border transportation costs, delivery times, and order backlogs — eased in February-March. The lessening of supply chain pressures over this period was widespread across most indicators and global markets. However, the index increased sharply in April 2022 (Figure 2.4), driven predominantly by longer Chinese and Euro Area delivery times and, to a lesser extent, increases in airfreight costs between the United States and Asia.

Figure 2.4: Global Supply Chain Pressure Index



Source: Bloomberg (2022); New York Federal Reserve (2022)

Increased container shipping costs have been a major driver of global inflation. Recent research estimates that the inflationary impact of higher shipping costs is both large and sustained, and is likely to keep building through the end of 2022 — increasing global inflation by an estimated 1.5 percentage points for the year.[3]

Following the exceptionally steep increases in global freight rates in 2021 — when the price for shipping a container reached around US$10,400 in September 2021, up from around US$1,500 prior to the onset of the pandemic — prices have since eased somewhat (to around US$7,800 in April 2022), but remain at historically high levels.

Congestion in Chinese ports, as well as major destination ports in Europe and the US, and issues with onshore logistics networks, are adding to delivery delays and rising input costs. For example, Shanghai, which has the world's busiest port, was closed for around two months (due to COVID-19 shutdowns) resulting in extensive backlogs of both container and bulk vessels. Despite the gradual easing of lockdowns in Shanghai due to lower COVID-19 case numbers in late May, the logjam of container ships waiting at the port indicates continuing delays. As Chinese ports clear the backlog, this is likely to exacerbate longstanding delays in ports in the US and Europe, as manufacturers seek to clear their order books. The extent of the backlogs in global supply chains suggests that problems are unlikely to be resolved before the end of 2022.

As a consequence of the Chinese lockdowns, key industries such as automotive manufacturing have announced production cuts. In May, Tesla announced it had been forced to reduce vehicle production in its Shanghai factory, due to a shortage of parts. This follows reports of Tesla wait times for new purchasers stretching out to 2023. Toyota also announced it was halting production in its Japanese factories due to lockdowns, while Mazda, General Motors and Volkswagen have had to scale back production. In addition, semiconductor shortages, which dogged manufacturers of cars and electronics in 2021, are expected to continue to constrain production throughout 2022 and 2023.

Inflation now the central concern for many policy makers

Elevated inflation rates have become the central concern for policy makers across many major economies. Price pressures are becoming increasingly broad-based, with expectations that higher prices for energy and food will feed into consumer prices over the rest of 2022. For example, the US CPI was 8.6% in May, up from 8.3% in April and the highest reading since

[3] Carrie-Swallow et al, 'Shipping Costs and Inflation', *IMF Working Papers*, March 25 2022.

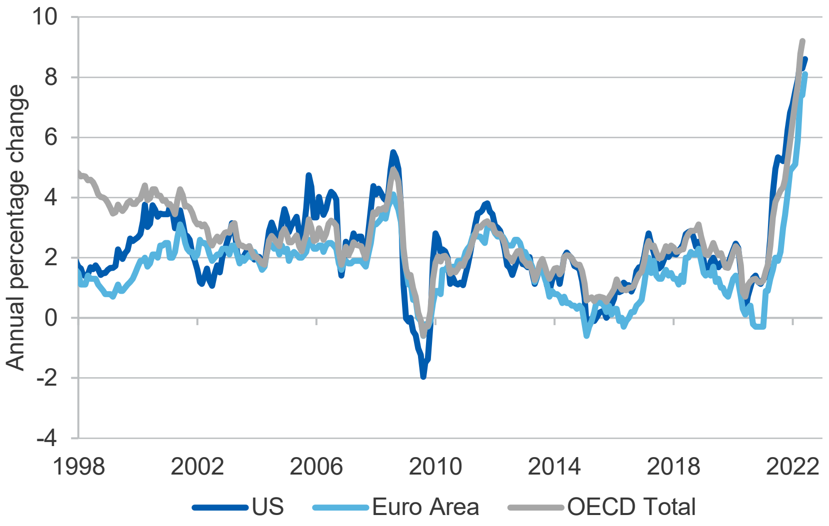
December 1981 (Figure 2.5). Euro area inflation was 8.1% in May, the highest on record, while inflation for the OECD reached 9.2% in April.

An indication of the strength of underlying price pressures is provided by industrial Producer Price Indices (PPIs), which measure average changes over time in prices received by producers. PPIs have been rising sharply in major economies since early 2021 (Figure 2.6).

Surging energy prices have been a key factor, driving up Eurozone industrial producer prices to a 37% year-on-year increase in April 2022, with shortages of oil and gas leading to multi-year energy price highs.

US manufacturing producer prices have also risen sharply, up 19% in the year to May 2022, with the PPI for finished goods rising at the fastest rate since 1974. Despite relatively modest CPI growth in China, producer prices remain elevated. In March 2022, the Chinese PPI increased 8.3% from a year earlier, down from the peak of late 2021, but still at relatively high levels.

Figure 2.5: Consumer Price Indices — US, Europe and OECD



Source: Bloomberg (2022); Board of Governors of the Federal Reserve System (2022); U.S. Bureau of Economic Analysis (2022); OECD (2022).

In response, central banks in the US, Canada, the UK and the Eurozone, have implemented or signalled monetary tightening, despite concerns about slowing global economic growth. Bond yields have been rising, contributing to tighter financial conditions.

The US Fed has lifted interest rates at its past three meetings so far in 2022, which has helped push the US dollar to its highest level in almost two decades. The majority of Fed policymakers project that the Fed Funds rate will climb above 3.0% by the end of 2022. These interest rate increases followed the Fed's announcement in January 2022 of an end to its quantitative easing program.

Figure 2.6: Producer Price Indices — Industrial sector

Source: Eurostat (2022); Federal Reserve Bank of St Louis (2022); National Bureau of Statistics of China (2022).

Labour markets have tightened in some advanced nations, especially the US and the UK, raising nominal wage growth. But real wages have mostly fallen, eroding household purchasing power and consumer sentiment.

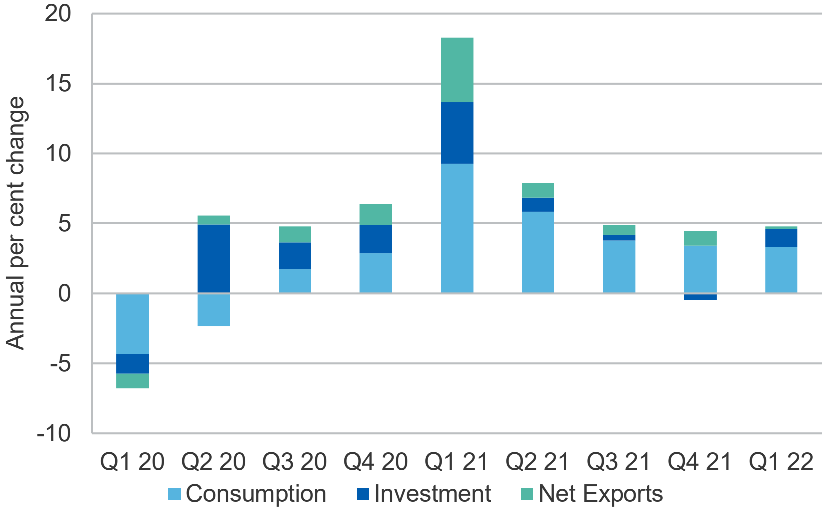
Financial market volatility has been evident in the US and other major economies. Global financial conditions have generally tightened due to expectations of tighter monetary policy and along with the war and related sanctions have lowered investors' risk appetites.

2.3 Major trading partners' economic outlook

China slows in the June quarter, as COVID-19 lockdowns hit production

China's economy grew by 4.8% year-on-year in the March quarter 2022 (Figure 2.7). The result was driven by growth in consumption and investment — the latter making its largest contribution to GDP in 12 months. In contrast, the contribution from net exports to GDP growth fell to 3.7% in the first quarter from 26.4% in the December quarter, its weakest contribution since the June quarter 2020.

Figure 2.7: China contributions to quarterly real GDP



Notes: Consumption is made up of both household and government sectors.
Source: Bloomberg (2022); National Bureau of Statistics of China (2022)

Monthly indicators, including retail sales, construction activity and the rising jobless rate in March and April, point to substantial weakness in the June quarter. Aggressive COVID-19 suppression measures in key manufacturing and trading hubs such as Shenzhen and Shanghai have hit Chinese economic activity hard, cutting manufacturing production and exports and disrupting supply chains. Production, consumption (retail sales) and several real estate related indicators fell in April, with some respite in May. This is raising fears of a sharp economic slowdown in the June quarter, dragging down global growth.

As noted earlier, China's official and private manufacturing PMIs fell sharply in April, pointing to weakness for the remainder of the quarter. China's industrial output fell by 2.9% year-on-year in April, the first fall since March 2020. However, counter to market expectations industrial production picked up somewhat in May, increasing 0.7% year-on-year following a relaxation of COVID-19 restrictions in some cities.

Chinese vehicle production was hit particularly hard by lockdowns, with fewer than 1 million vehicles produced in April, down from 1.9 million in March. In April, Chinese vehicle sales almost halved as lockdowns impacted retail and service activity as businesses were shut and workers received reduced wages. However, vehicle sales rebounded strongly in May, up by more than two-thirds, as restrictions were eased.

To stabilise the economy and put downward pressure on the unemployment rate, policy makers have announced plans for a fiscal expansion equal to about 2.5% of GDP this year. So far, most of the support has come from fiscal policy. Infrastructure investment has been a major contributor to growth as central authorities have urged local governments to bring forward infrastructure projects, cut taxes and offered a range of supports for affected businesses

In late May/early June, the Government outlined a broad package of measures, including additional tax rebates and railway construction bonds to support businesses and stimulate demand. The Government also outlined policies aimed at stabilising industrial and supply chains through greater use of risk-based approaches to minimise impacts on production and labour mobility in the event of future COVID-19 outbreaks.

Chinese inflation remains low — and the central bank has twice cut policy rates to support growth, and in April, lowered the reserve requirement ratio to improve China's credit conditions.

The IMF notes that if the Chinese slowdown is prolonged it risks exposing structural weaknesses such as high local government liabilities, property developer leverage, household debt, and a fragile banking system. China's residential property market remains a major risk to economic growth in 2022 as developers seek to deleverage and manage ongoing liquidity concerns. Consequently, new property starts continued to trend lower in April 2022 — 28% lower year-on-year. To support the property market, changes were made in May to allow families with three children to own a second property in more than a dozen cities.

In June, the OECD forecast Chinese growth of 4.4% in 2022, a downgrade of 0.7 percentage points from its December 2021 forecast. While a rebound in Chinese economic activity is likely in the second half of 2022, the strong potential for disruption due to new COVID-19 outbreaks in the second half of 2022 means achieving the Government's 5.5% target will be difficult. As disruptions ease, the OECD projects China's growth will rise to 4.9% in 2023.

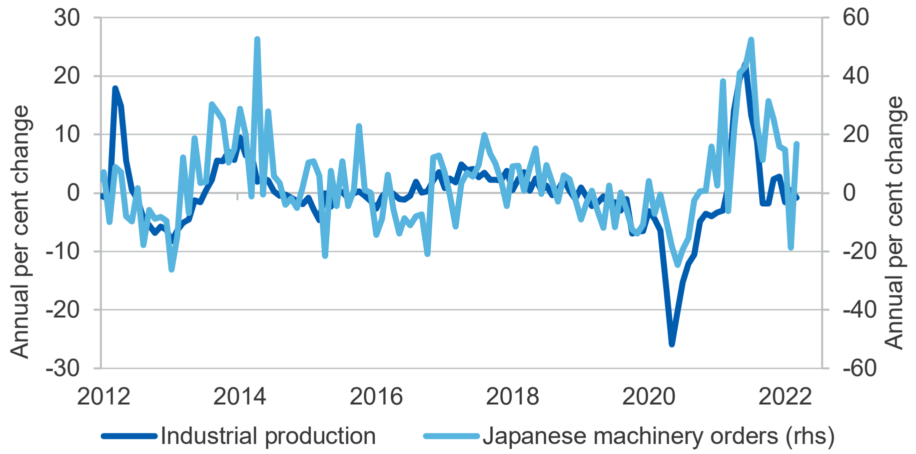
Japan's economy expected to improve after short-term headwinds

Japan's historically low economic growth has fared slightly better than expected despite recent COVID-19 containment measures. Nevertheless, Japan's GDP still fell by 0.1% year-on-year in the March 2022 quarter, as the COVID-19 restrictions hit the service sector, and the surge in commodity prices resulting from the Russian invasion of Ukraine affected consumers and businesses.

Japan's core inflation rose to 2.1% in April 2022, which is above the central bank's 2% target. The rise in inflation poses a challenge for the Japanese central bank which has retained a massive monetary stimulus.

Japan's industrial output fell by 0.8% year-on-year in March 2022 following a 0.5% rise in February 2022. However, machinery orders have bucked the trend over the period, with orders up nearly 17% year-on-year in the month of March 2022 (Figure 2.8). The Jibun Bank Manufacturing PMI for Japan slipped from 54.1 in March 2022 to 53.5 in April 2022. The decline was due to supply chain disruptions and the COVID-19 containment measures in China.

Figure 2.8: Japan industrial production and machinery orders



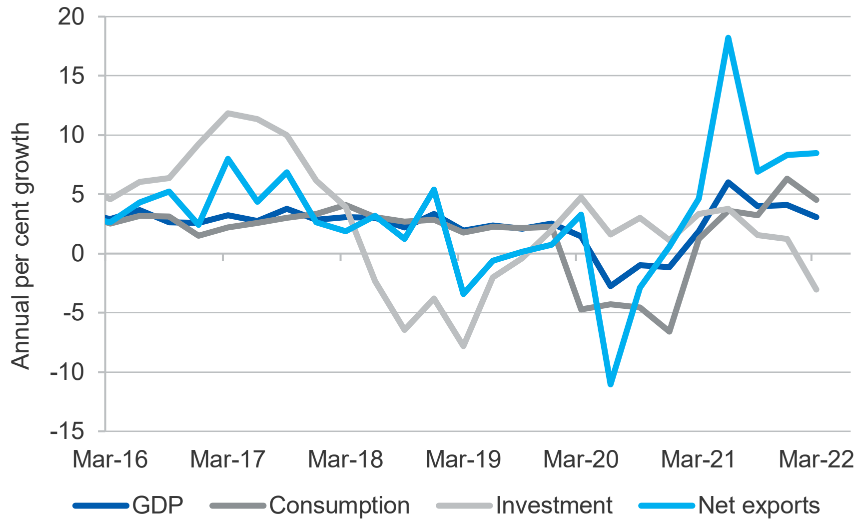
Notes: IP data is to March 2022; machinery orders data only available to February 2022
Source: Bloomberg (2022)

Going forward, it is expected the border controls will be relaxed — after Japan scrapped the COVID-19 tests for arrivals and eased some masking guidelines. This, as well as possible further stimulus, is expected to see economic activity pick up in the second half of 2022. The OECD now forecasts Japanese economic growth of 1.7% in 2022, half the 3.4% growth rate forecast in its December 2021 Outlook. However, the OECD has revised up its forecast for 2023 by 0.7 percentage points to 1.8% in 2023.

South Korea's economy grew at a slower pace in the March quarter 2022

South Korea's economic growth slowed from 4.1% year-on-year in the December 2021 quarter to 3.1% year-on-year in the March 2022 quarter, as the COVID-19 containment measures affected private consumption and investment. Over this period, private consumption fell by 1.8% year-on-year due to decreased expenditures on semi-durable goods and services. The fall in private investment (down by 4.2% year-on-year) was also a major contributor to slowing economic growth (Figure 2.9).

Figure 2.9: South Korea contributions to quarterly real GDP



Source: Bloomberg (2022)

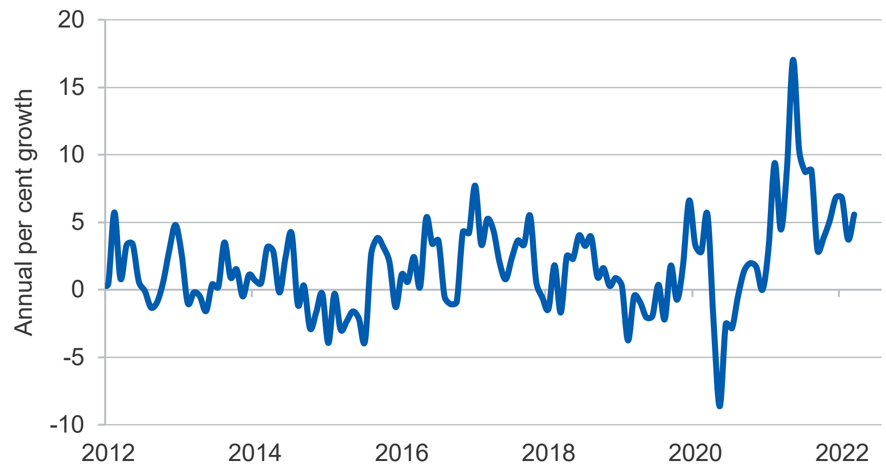
Despite facing supply chain issues, South Korea's industrial production has been resilient, growing 5.6% year-on-year in March 2022 (Figure 2.10). This growth marked 19 consecutive months of higher industrial production.

South Korea's manufacturing PMI reading in April 2022 of 52.1 also marked 19 consecutive months of expansion.

Led by a surge in energy prices, the inflation rate in South Korea increased to 4.8% year-on-year in April 2022 — the fastest increase in over 13 years. Rising inflation prompted the Bank of Korea to raise its benchmark interest rate by 25 basis points to 1.5% in April 2022. Given current debt levels, managing tighter monetary conditions while keeping robust economic growth presents a key challenge to South Korea over the outlook period. The nation also remains vulnerable to further global supply chain disruption, given its high dependency on exports.

In June 2022, the OECD lowered South Korea's forecast economic growth slightly to 2.7% in 2022 from its December 2021 outlook of 3.0%.

Figure 2.10: South Korea monthly industrial production



Source: Bloomberg (2022)

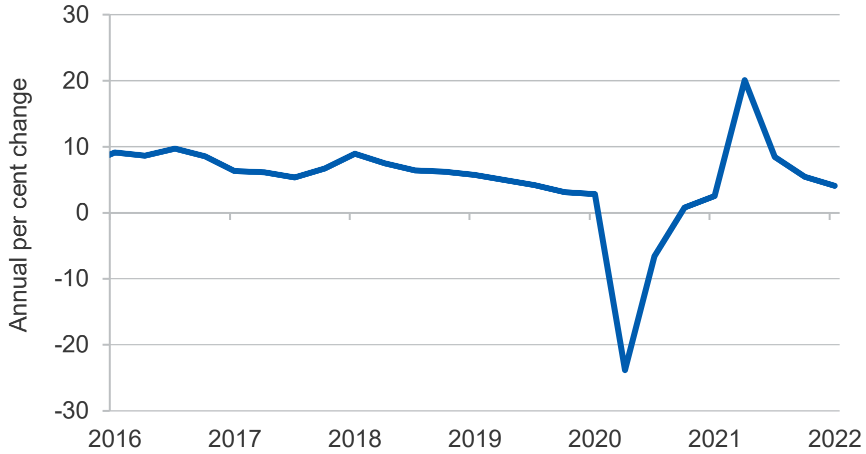
India's growth slows in the March quarter

India's growth slowed to 4.1% year-on-year in the March quarter 2022, down from 5.4% in the December quarter 2021. The result was well below market expectations of 6.1%, and was the slowest quarterly growth since the March quarter 2021 (Figure 2.11).

Output growth was recorded in all key sectors with the exception of manufacturing, which fell 0.2% following a rise of 0.3% in the December quarter. The weak manufacturing result was driven in part by the effect of COVID-19 lockdowns in several states. Agriculture continued its strong growth, up 4.1% while the mining and quarrying and construction sectors grew at 6.7% and 2.0% respectively.

Private consumption increased by 1.8% year-on-year in the March quarter 2022. The March result was also supported by increases in gross fixed capital formation and government final consumption expenditure of 5.1% and 4.8% respectively.

Figure 2.11: India quarterly GDP



Source: Bloomberg (2022)

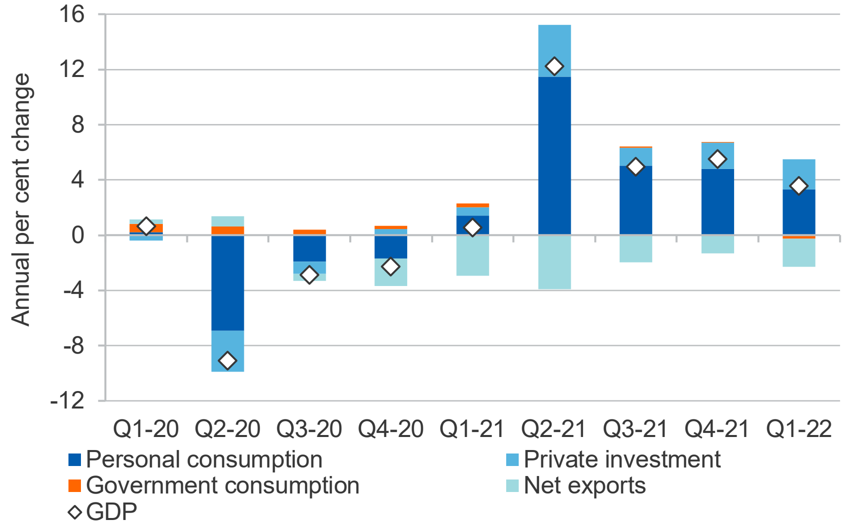
India's manufacturing PMI showed improvement in April, rising to 54.7, up from 54.0 in March. The gain appears driven by reductions in COVID-19 restrictions (supporting expansions in new orders and production) and solid growth in exports. However, input prices increased at the fastest pace in five months, and output price growth reached 12-month highs, as manufacturers passed on additional costs to buyers.

The OECD forecasts India's economic growth to slow to 6.9% in 2022, down from 8.7% in 2021 and a downward revision of 1.2 percentage points in 2022 from the December 2021 Outlook. In 2023, India's GDP is forecast to grow by 6.2%. The downward revision reflects, in part, weaker domestic demand — as higher oil prices are expected to weigh on private consumption and investment — and lower net exports. The Russian invasion of Ukraine is adversely affecting India's economy due to India's large reliance on imported energy, fertilisers and edible oils.

US GDP fell in the March quarter on rise in imports

In year-on-year terms, the US economy grew by 3.6% in the March quarter (Figure 2.12).The US economy fell by 0.4% quarter-on-quarter in the March quarter 2022 (a fall of 1.4% on an annualised basis). This was primarily driven by a significant fall in net exports, with imports rising by 18% (both on an annualised basis) in the quarter, and the US trade deficit reaching a record $109.8 billion in March.

Figure 2.12: US contributions to quarterly real GDP

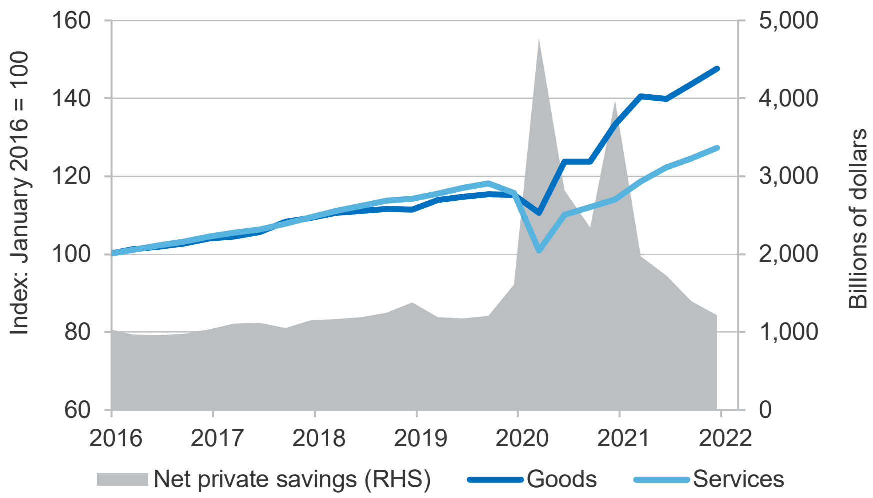


Source: Bloomberg (2022)

The rise in the trade deficit so far in 2022 reflects continued strength in US household consumption, with total imports (in real terms) of consumer goods rising by 12% and automotive vehicles by 8.3%. Imports of capital goods (such as ICT equipment and industrial machinery) also rose by 6.5% (in real terms) in the March quarter. Supply chain disruptions and the drawdown of household savings through 2021 are expected to see a slowing of this trend throughout 2022 (Figure 2.13).

US industrial production grew by 6.4% in April, up from a low of 3.7% in December last year. The US Manufacturing PMI index remained strongly in expansionary territory in April (59.2), with a surge in output and new orders suggesting a stronger pace of economic growth in the June quarter. However, firms continue to report input price inflation at near-record levels, indicating inflationary pressures may persist in coming months.

Figure 2.13: US personal consumption and net private savings



Notes: Personal Consumption Expenditures; seasonally adjusted data; January 2016 =100
Source: U.S. Bureau of Economic Analysis (2022)

Supply chain disruptions seen throughout 2021 continue to be a concern. While US port congestion has eased in recent months, shutdowns of Chinese ports (in response to COVID-19 outbreaks) could see further exacerbation of these challenges in the second half of 2022. By early May, shipping delays between China and major US and European ports had already quadrupled (compared with late March).

Monetary conditions are expected to tighten further, with the US Federal Reserve raising the Fed Funds rate by a further 75 basis points (bps) at its June meeting. It also stated that it will continue reducing its balance sheet (undertaking quantitative tightening). With US CPI at 40-year highs (8.6%) in May, reigning in inflation is a critical priority for the Federal Reserve, with Fed members' expectations pointing to further substantial rate hikes this year. The Fed also downgraded its growth forecasts for the US economy, projecting growth to be just 1.7% this year, down from the 2.8% forecast in March.

Earlier in June, the OECD downgraded its forecast for US economic growth in 2022 (from 3.7% in December) to 2.5%. The lower forecast reflects supply shortages, exacerbated by the Russian invasion of Ukraine and the new COVID-19 outbreaks in China, and the impact both are expected to have on global growth and inflationary pressures this year.

Europe growth slides as inflation grows

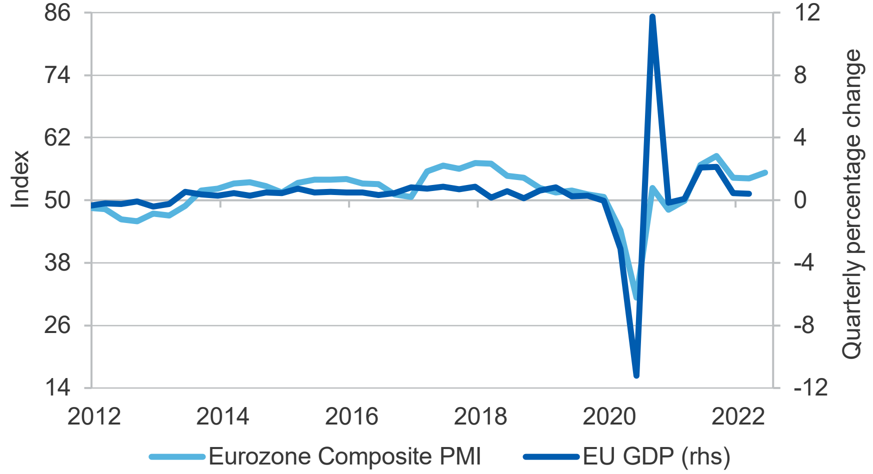
The EU economy grew by 5.2% year-on-year in the March quarter 2022. The growth rate was 0.4% higher quarter-on-quarter, representing a considerable easing from the 2.2% growth seen for the September 2021 quarter (Figure 2.14). This slowdown reflects the impacts of supply chain disruptions and energy shortages from 2021 compounded by the Russian invasion of Ukraine.

In March, industrial production in the Eurozone fell 0.8% compared with March 2021, a substantial downturn relative to the February result, which increased by 2.0% year on year. The March result was driven by falls in capital and intermediate goods and energy, with substantial falls in industrial output in Germany.

The Eurozone Composite Output Index rose to 55.8 in April, up from 54.9 in March, the strongest rise since September 2021. The improvement in the headline figure masked widely divergent trends at the sector level, with data revealing sharp services activity growth as demand continued to be buoyed by fewer COVID-19 restrictions, but the slowest growth in manufacturing output in almost two years. Despite resilience in the service sector the index fell to a four-month low of 54.8 in May, which, while indicating a continuation of economic growth, also highlighted a loss of momentum across the Eurozone.

Headline inflation in the Eurozone reached 7.4% (year-on-year) in April 2022 — equalling the March record. High inflation has raised expectations of monetary tightening in Europe in 2022. In May, the European Central Bank signalled its intention to raise interest rates from their current level of minus 0.5% into positive territory, starting in July when the quantitative easing is scheduled to end.

Figure 2.14: Eurozone GDP and Composite PMI (quarterly)



Notes: June quarter2022 Eurozone Composite PMI is an estimate based on April and May 2022 results.

Source: Bloomberg (2022)

The Russian invasion of Ukraine remains the largest risk to Europe's outlook over the rest of 2022. Alongside energy price volatility, the prospect of further sanctions and actions by major economies — that could further impact trade and economic activity throughout Europe — continues to weigh on the outlook.

In its June 2022 Outlook, the OECD forecast the Eurozone economy to grow by 2.6% in 2022. This is a 1.7 percentage point reduction from the December 2021 outlook, with the largest downgrades in economies such as Germany and Italy — with relatively large manufacturing sectors and greater dependence on energy imports from Russia. The OECD also revised down the United Kingdom's forecast growth by 1.1 percentage point in 2022, before the economy stagnates in 2023. The OECD forecasts weaker consumption, as rising prices erode households' income, and weaker investment due to tighter financial conditions.

Table 2.1: Key OECD GDP assumptions

	2021	2022[a]	2023[a]
Economic growth[a]			
OECD economies	**5.5**	**2.7**	**1.6**
Australia	4.8	4.2	2.5
Eurozone	5.3	2.6	1.6
France	6.8	2.4	1.4
Germany	2.9	1.9	1.7
Japan	1.7	1.7	1.8
New Zealand	5.0	3.0	2.0
South Korea	4.0	2.7	2.5
United Kingdom	7.4	3.6	0.0
United States	5.7	2.5	1.2
Non-OECD economies	**6.1**	**3.3**	**3.8**
China [b]	8.1	4.4	4.9
India	8.7	6.9	6.2
Indonesia	3.7	4.7	4.7
Brazil	5.0	0.6	1.2
Russia	4.7	-10.0	-4.1
World [c]	**5.8**	**3.0**	**2.8**

Notes: a Year-on-year change. India projections are based on fiscal years, starting in April; **b** Excludes Hong Kong; **c** Calculated by the OECD using purchasing power parity (PPP) weights for nominal country gross domestic product.
Sources: Bloomberg (2022); OECD (2022).

Table 2.2: Exchange rate and inflation assumptions

	2021	2022[a]	2023[a]
AUD/USD exchange rate	0.75	0.72	0.76
Inflation rate[b]			
United States	4.7	7.7	2.9
	2020–21	**2021–22[a]**	**2022–23[a]**
Australia[e]	1.6	4.3	4.7

Notes: a Assumption; **b** Average of daily rates; c Change from previous period.
Sources: ABS (2022) Consumer Price Index, 6401.0; Bloomberg (2022); Department of Industry, Science, Energy and Resources; RBA (2022); IMF (2022).