Economic update
Fourth quarter 2021

This report has been prepared from information available as at 9 November 2021.
Further information from: Mark Berrisford-Smith, Head of Economics, Commercial Banking, HSBC UK.
Tel 020 7991 8565 ; Email mark.berrisford-smith@hsbc.com

Key points

- In most major economies, the level of GDP is now roughly back to where it was before the Covid pandemic struck. But further waves of the virus could dampen activity during the upcoming northern hemisphere winter, especially in countries where vaccination rates are relatively low.

- The recovery process continues to be hampered by product shortages and delivery delays. This situation, caused by elevated demand for consumer goods, will persist until patterns of demand revert to something akin to its pre-pandemic normal, something that's unlikely to happen until well into next year.

- Despite some downgrades, global GDP is still expected to expand by close to 6% this year, and by a little over 4% in 2022. The most significant downward revisions have been our projections for growth in the USA, China, Japan, and some other Asian economies.

- Rates of consumer price inflation are climbing in many countries, and many central banks are starting to tighten monetary policy, whether through 'tapering' asset purchases or through raising interest rates.

- The UK economy has regained its pre-Covid level of GDP, despite widespread supply bottlenecks and labour shortages. Although the quarterly growth trajectory will slow markedly from here, annual growth of GDP is still expected to come in at around 7% this year, and at more than 5% in 2022. The economy is still at risk from further waves of Covid during the coming winter, and with Covid cases already running at a high level, any new surge is likely to require swift action.

- Wage inflation is still running at elevated levels, although upward pressure may ease to some degree in the coming months as furloughed people look for new jobs. But, with the number of vacancies more than a third above pre-pandemic levels, and ongoing uncertainty about how many migrant workers will return, the tightness of the labour market will sustain some upwards pressure on pay.

- After a period of extraordinary fiscal support, the government is now trying to return the public finances to an even keel, with the budget deficit set to fall to under 3% of GDP in 2022/23. Fiscal policy will, therefore, provide less of an impetus for economic growth, but households are sitting on enforced savings of more than £200 billion, which will help support demand for several years to come.

- Inflation will be driven higher in coming months by the crunch in the gas market and associated price rises for energy-intensive products. With the Bank of England now expecting that the annual inflation rate will climb to around 5% in the spring of next year, the first interest rate hike is pencilled in for February. UK Bank Rate is forecast to return to 0.75%, where it was before the pandemic, in the early months of 2023.

HSBC UK

Economic update: 4th quarter 2021

The global economy: from infection to inflation

The pace of the post-Covid economic recovery is slowing, thanks to a combination of post-pandemic normalization, widespread supply bottlenecks, accelerating rates of inflation, and the withdrawal of government support measures. The pandemic is far from over; but, among consumers, businesses, and policymakers, attention has shifted to inflation. In particular, central banks are now engaged in much soul-searching about how high inflation will rise, how long before it starts to come down, and how monetary policy should evolve in response. The mood in financial markets is therefore being driven by hints and clues about the timing of rate rises and about the withdrawal ('tapering') of monetary stimulus. It's become increasingly clear that this policy-tightening process will occur sooner, and will go further, than seemed likely just a few months ago.

In many countries, daily life has returned to something like its pre-Covid normal – though some countries are only just emerging from lockdowns, while others still require face coverings and Covid passes in certain circumstances. The re-opening of international travel is still at an early stage but, in most countries, people are free to leave their homes and to mix and socialize fairly freely. Economic recovery has therefore continued, albeit with some stumbles, so that GDP in most advanced economies is either back to its pre-pandemic level, or fairly close to it. The stumbles have arisen, in part, from the supply bottlenecks (affecting many sectors), from shortages of labour in many advanced economies, and from the 'elimination' approach towards Covid that is still being taken in some countries, notably in China.

Vaccination programmes have greatly reduced hospitalization and death rates from the virus, with over seven million doses having been given worldwide and with nearly three billion people having received more than one jab. After a slow start, western European countries have now achieved high vaccination rates, while the process of getting jabs into arms has stepped up markedly in many Asian countries during the past few months. There are still many areas, notably in Africa, with much lower vaccination rates, while take-up rates in eastern Europe and Russia remain low. Even in the United States, which was initially among the vaccination pace-setters, vaccination rates in some southern and western states are still below 50% of the total population. Vaccine hesitancy has proved a tough nut to crack in some countries, albeit that new treatments should become available in the coming months, which may bring improved outcomes for those who become ill.

It's also become clear that, where the Covid Delta variant is concerned, high vaccination rates are needed to slow the spread of the virus; and the countries where case numbers have fallen most steeply in recent months have often been those which have retained some requirements for mask-wearing and Covid passes. As autumn turns to winter in the northern hemisphere, a few countries have already re-introduced social distancing measures, although it is hoped that a return to full-blown lockdowns can be avoided. The end-point for Covid-19 is that it eventually transitions from pandemic to endemic. Hopes of wiping it from the face of the Earth were probably never realistic, once the virus had escaped from its initial seeding-ground in China. In time, it will circulate like other viruses, changing a little from one year to the next. Economic and social harm will be negligible, thanks to a build-up of natural immunity, regular vaccine booster shots, and new treatments. The world will have to learn to live with Covid, and indeed is learning rapidly. The key metric will no longer be the number of cases, but the numbers needing hospital treatment and the number of lives lost.

Most major economies reported buoyant growth in the second quarter of 2021 as retail outlets and leisure facilities re-opened. Now that those re-openings have been completed, the pace of expansion has inevitably slowed. The monthly Purchasing Managers' Index (PMI) surveys, which provide a timely indicator of business activity and economic momentum, are now less likely to register the elevated readings of 60-plus, which were frequently reported earlier in the year. Between April and July, the PMI global composite index came in at over 55, with readings then falling back to 52-53 in August and September.

Economic update: 4th quarter 2021

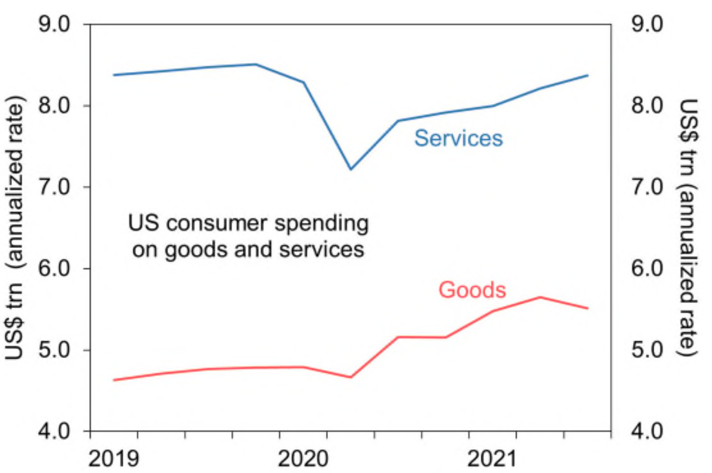
Alongside this process of normalization, there have also been some bumps in the road. In China for example, the composite PMI measure dipped below 50 in August, and GDP expanded by a relatively muted 4.9% in the year to the third quarter. These figures reflect not only the robust measures taken by the authorities to contain outbreaks of the Delta variant, but also a slowdown in the property sector, and power shortages. In the United States, business surveys have held up well, but the pace of GDP growth slowed sharply, to just 0.5% in the third quarter. Activity has been adversely affected by supply-chain issues, illustrated by the queue of container ships waiting to offload at Long Beach and Los Angeles. By contrast, the Euro Area has maintained brisk growth in the past few months, with GDP expanding by 2.2% in the third quarter, with France and Italy exhibiting especially robust growth. Germany, however, suffered more from supply shortages, especially in its automotive sector, with production of cars in recent months running at more than 40% below comparable levels in 2019. In Spain, meanwhile, the recovery was again held back by the slow revival of the tourism sector.

Although there have been plenty of hiccups in supply chains (port closures in China, for instance), it's the strength of demand which largely lies behind the shortages of many goods. Among western consumers, spending on goods rose during the Covid crisis, while spending on services fell (due to lockdowns). Those spending patterns are starting to normalize, but the process is far from complete. In the USA, for example, expenditure by households on goods fell, in real terms, by more than 2% in the third quarter, accentuated by a shortage of new cars, but was nonetheless still more than 15% higher than in the same quarter of 2019. The world's supply chains won't be fixed until the demand for goods has fallen back to roughly where it was at the end of 2019, which looks unlikely to happen until well into 2022.

The volume of global trade, as reported by the CPB Bureau, was 3% higher in August than in the corresponding month of 2019, having regained pre-Covid levels towards the end of last year. The demand for gadgets, kitchen appliances, and home and garden furniture, has played to the strengths of manufacturers in Asia, with the volume of goods shipped from China being a sixth higher in August compared with two years earlier.

Elevated demand for goods, combined with higher commodity prices, an energy price crunch, and shortages of labour, means that annual rates of inflation have been pushed well above target levels in many economies. Headline rates have been above 5% in the United States in recent months, and have climbed to over 4% in both the Euro Area and Canada. Policymakers have asserted that these increases are purely transitory, but

US consumer demand for goods is still above pre-Covid levels



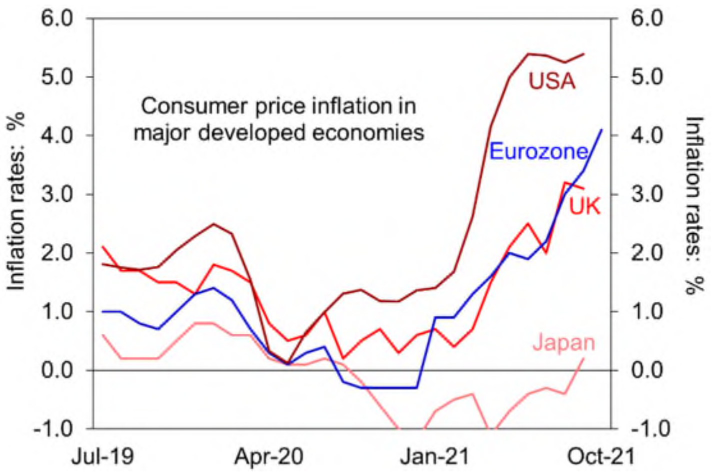
Source: BEA

their assertions are ringing increasingly hollow, as commodity prices climb higher and supply bottlenecks persist, while workers are successfully bidding up their wages. This situation is posing a tricky dilemma for the major central banks, as the risk grows that consumers and businesses come to believe that inflation rates will be higher in future than they have been in the recent past, and start to act accordingly. In such a scenario, businesses would try harder to push up the prices for their goods and services, while consumers would become more accepting of price rises (and less inclined to 'shop around'). Employees meanwhile would be likely to press harder for higher wages, and to change jobs if they don't get what they ask for. The whole edifice of monetary policy, built on the concept of inflation-targeting central banks, is undermined if people lose faith in the ability of the policy-setters to deliver on their targets.

Some central banks have already made a start on tightening policy, with rate hikes in recent months by the central banks in Norway, New Zealand, South Korea, the Czech Republic, and Poland. More are on the way, with the Bank of England likely to be the first of the majors to move. For its part, the US Federal Reserve will start tapering its asset purchases before the year is out, and might still start raising interest rates by the end of next year, while the Bank of Canada is now expected to start hiking rates in the spring. The European Central Bank (ECB) is still likely to sit tight, even though Eurozone inflation has now climbed above 4% and even though the markets are refusing to take much heed of the dovish utterances from the ECB's Governing Council. But not everybody is grappling with above-target inflation: in Australia, for example, inflation is still at only just over 2%, and there is little evidence of upward pressure on wages.

On top of the supply bottlenecks and labour shortages, the world has also experienced a price crunch in energy markets. There are several contributory factors, including depleted reserves of natural gas in Europe after cold weather earlier this year. But a more important underlying cause is the dearth of investment in natural gas resources during the past decade or so. As countries seek to decarbonise their electricity grids and, in particular, to reduce or halt electricity supply from coal-fired plants, natural gas plays an important role in providing a backstop to intermittent supply from renewable sources. Until recently, when gas supplies were short in Europe there was plenty of scope to import liquefied natural gas (LNG). But LNG prices are now rising as demand surges in Asia, especially in China. A mild winter will help knock the froth off the recent spikes in gas and electricity prices, but there is no quick fix until more gas resources come on stream or technologies become available for storing power generated from renewable sources.

Global inflation rates on the rise



Source: Refinitiv Datastream / national sources

Economic update: 4th quarter 2021

The past year has seen a significant shift in the stance of economic policy in China. The unremitting pursuit of growth is being replaced by a greater focus on the distribution of wealth and the regulation of business activities, under the banner of "common prosperity". The authorities have launched a series of probes and in some cases levied fines targeting firms in the internet, videostreaming, food delivery, ride-hailing, and private tutoring sectors. They have also become more determined to dampen the long-standing exuberance in the residential property market, with the Peoples' Bank of China issuing three 'red lines' for developers in 2020. This has prompted a shake-out in the sector, with firms scrambling to deleverage by disposing of assets, and it's likely that property development will be a less important driver of economic activity in the years ahead. With the sector, and the various associated activities, accounting for over a quarter of GDP in recent years, China's growth rates will be a little slower than they have been in the recent past.

New forecasts

Since our previous *Update*, our forecast for global growth has been nudged down a touch, for both for 2021 and 2022. Nonetheless, global GDP is still expected to expand by a buoyant 5.7% this year, easing back to 4.1% next year. The biggest downward revision is for the USA, where the economy is forecast to grow by 5.7% during 2021, as against the previous forecast of 6.5%. Our expectations have also been lowered for China, Japan, and some other Asian economies, reflecting the toll taken by the Delta wave of Covid during the summer months. Offsetting these downgrades, our growth forecasts for the Euro Area, Russia, and Brazil have been raised. Meanwhile our inflation forecasts have been raised for most countries both for this year and next: inflation rates are still expected to ease, once the recent spike in commodity prices passes through, but the process will be hampered by ongoing labour shortages in many economies, and by higher energy prices.

Looking out to 2023, our initial stab at forecasting economic growth has the global economy expanding by 3%. This would mark a return to something like pre-pandemic growth, after three abnormal years. The scars of the pandemic are unlikely to have healed by then, with some sectors, such as commercial real estate, and activities linked to commuting and international travel, still working through the semi-permanent changes wrought by the pandemic. On the other hand, some governments will still be providing support to promote sustained investment-led recoveries, such as the EU's "Next Generation" (NGEU) fund, and the spending plans proposed by the Biden Administration in the United States. And meanwhile, spending by households may still be buoyed by the enforced savings that many have built up during the periods of lockdown.

Global growth rates: new HSBC forecast, compared to our previous (end-June) forecast

% change in GDP, vs previous year

	Forecast for 2021		Forecast for 2022		Forecast for 2023
	Current forecast	(Previous forecast)	Current forecast	(Previous forecast)	New forecast
World	5.7	(5.9)	4.1	(4.2)	3.0
USA	5.7	(6.5)	3.8	(4.3)	2.4
China	8.3	(8.5)	5.6	(5.6)	5.8
Japan	2.2	(2.5)	1.8	(1.8)	0.4
India	7.7	(7.0)	5.7	(5.7)	6.1
Eurozone	5.2	(4.4)	4.0	(4.0)	1.9
UK	7.1	(7.1)	5.1	(5.1)	1.7
Russia	4.6	(3.5)	2.1	(2.9)	1.4
Brazil	5.0	(4.7)	1.3	(2.1)	1.5

Source: HSBC Global Research

Economic update: 4th quarter 2021

The UK economy – a difficult recovery process

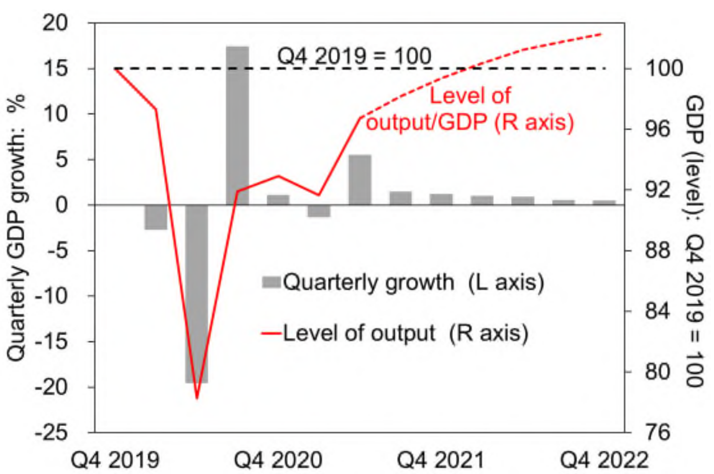
The UK economy has very likely regained its pre-Covid level of GDP. Unlike most other national statistical agencies, the Office for National Statistics (ONS) publishes monthly estimates of GDP, as well as the usual quarterly data. The latest figures indicate that GDP in August was just 0.8% below the level recorded for February 2020; and with survey and other indicators pointing to continued modest expansion in the months since, it's probable that October marked the end of the pandemic trough.

That's not to say that the recovery process is complete. Without a pandemic, the economy would have been expected to expand at a modest pace during 2020 and 2021: so, GDP is still adrift of where it would have been, had the UK economy continued to expand in line with its pre-pandemic trajectory. That shortfall, amounting to around 3% of GDP, has yet to be made good, a process that's likely to take the best part of another year.

Moreover, even though the economy may now be back to its pre-Covid size, it's clearly not functioning properly. A good analogy is what happens if a completed jigsaw puzzle is thrown into the air. When the pieces land, it's unlikely that they'll be back in the right positions. The same is true of the economy as it recovers from the pandemic. Businesses are doing different things in different ways, with many having moved into new markets; people have moved geographically and have changed their preferences about the sort of employment they want; and meanwhile the economy is also adjusting to the new trading arrangements with the EU and the introduction of the points-based immigration system.

At a macro level, the economy's supply capacity has been damaged by the pandemic, and simply isn't as big as it was. At a micro level, there are widespread shortages and bottlenecks. Supermarkets have reduced and simplified their product ranges; fruit-growers have let some of their produce rot in the fields; poultry and pig producers have curbed production; and restaurants have been forced to reduce opening times for lack of staff. The shortage of HGV drivers has been much in the press, and is real enough, but is far from being the only area of the labour market where businesses are desperate for people. The energy crunch, which has caused prices for gas and electricity to surge, has only added to the sense of unease, which precipitated a nosedive in consumer sentiment during September and October. From a slightly above-average reading of -7 in August, the NOP/GfK headline reading fell to a distinctly under-par -17 two months later. By and large, people aren't short of the readies to purchase what they need; but there are many who worry that things are about to get much tougher, as inflation heads north of 4%, energy bills spiral, and tax rises are announced.

Getting back to the pre-Covid levels of output (HSBC forecast)



Source: ONS / HSBC

Economic update: 4th quarter 2021

A high-tolerance approach

The UK has taken a relatively free-wheeling approach to the post-Covid re-opening process. Since mid-August, most restrictions have been swept away, at least in England. Mask-wearing is still mandatory on Transport for London and on some other locally-controlled transport services, but is merely 'recommended' in other crowded places, while the proposed Covid pass for nightclubs and other busy venues has been put into abeyance.

Covid case numbers have therefore remained relatively high, with the ONS's Covid Infection Survey reporting that prevalence in England during the week ending 22 October was as high as it was in early January, with 1.1 million people reckoned to have the virus. But the numbers of hospital admissions and deaths are at a much lower level than in the spring of 2020 or in the first few months of 2021, and more recently the daily case number were been falling by the start of November. It's also unwise to make comparisons of reported case numbers with other countries, because the UK carries out more testing than most, but there's no arguing with the fact that the death rate, in relation to population size, is running at more than twice the level in neighbouring continental countries. It's also a sobering thought that the UK's death toll in the latest two weeks is more than Australia's during the whole pandemic.

The UK's relatively relaxed approach has facilitated a rapid re-opening of economic activity. By way of example, the output of the hotels & restaurants sector, which was largely shuttered up earlier in the year, was higher in August than it had been in the same month of 2019, helped by this summer's "Great British staycation". But the situation remains delicately poised, with many scientists and opposition politicians calling for the government to adopt its "Plan B". If the recent downturn in reported cases continues, as the virus runs into a wall of vaccination and immunity, all will be well during the winter months. If, however, case numbers spike upwards again, then new restrictions could follow fairly quickly, starting with mandatory mask-wearing in more settings and implementing Covid passes for crowded places.

As for our growth forecast, the pace of growth will inevitably slow towards more normal levels, given that most activities have by now re-opened. It will, however, take some months yet for the balance of spending between goods and services returns to return to where it was before the pandemic struck.   Spending on services is still below pre-Covid levels, partly because international travel remains subject to extra costs and complexities, and perhaps because some people remain cautious about certain activities involving mingling with others. Over 2021 as a whole, GDP is expected to expand by an impressive-looking 7.1%, although the expansion will be losing steam as the year wears on. With estimates from the ONS now available up to August, GDP is on course to expand by 1.5% in the third quarter, slowing further to 1.2% in the final three months.

For 2022 taken as a whole, the growth rate that's expected will again look mighty impressive at 5.1%, though this headline figure is flattered by the weak start to 2021 when the economy was in its third lockdown. Quarterly growth rates will continue to trend lower throughout the year, ending at just 0.5% in the final quarter. Thereafter, with conditions hopefully returning to something close to normal and with the economy back on its pre-pandemic growth trajectory, GDP in 2023 is forecast to grow by 1.7%. This is back in line with 2016 and 2017 – better than the lackluster performance in 2018 and 2019, but some way short of the 2%-plus rates achieved between 2013 and 2015.

Calling time on the fiscal emergency

In October, The Chancellor of the Exchequer delivered a Budget and a three-year Spending Review, which will hopefully bring down the curtain on the emergency fiscal announcements that have punctuated the pandemic. With the economy recovering more quickly, compared to expectations at the time of the previous Budget in

March, the Chancellor found himself with some wriggle-room for a few giveaways, which helped to take some of the sting out of September's announcement of tax and national insurance rises (to fund more spending on health and social care). The budget deficit is now expected to come in at £183 billion for the current fiscal year, some £51 billion less than was forecast in March, and is equivalent to 7.9% of GDP, with the fall in this ratio also being assisted by the boost to nominal, or "money" GDP caused by higher inflation. The burden of debt should peak this year, but the scarring effect of the pandemic is all too obvious in the fact that, at around 98% of GDP, it now stands around 20 percentage points of GDP higher than in 2018/19. Not since the early 1960s has the debt burden been so high. Back then, it was reduced by a combination of buoyant economic growth and inflation. This time around, growth will be harder to come by, while inflation will continue to be managed by the Bank of England with a mandate to keep it at around 2%.

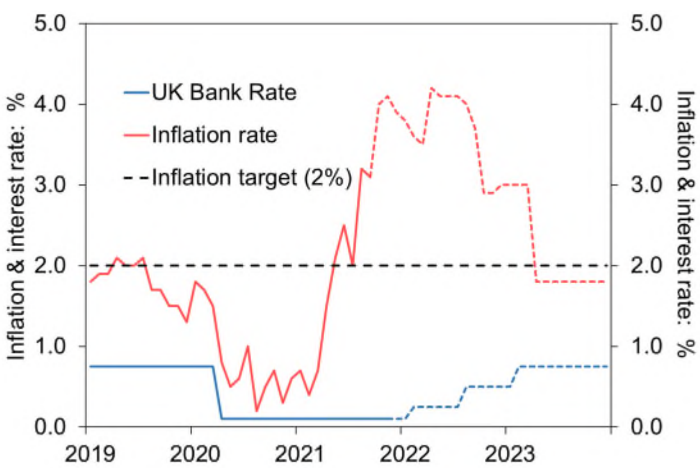
Inflation – heading higher

The annual rate of CPI inflation came in at 3.1% in September, fractionally lower than in August. But it will spike higher in coming months, propelled by higher energy costs. The price cap, which applies to standard domestic energy tariffs, rose by 12% in October and is set to rise again, possibly by as much as 30%, when the cap is next set in April 2022. Prices of energy-intensive materials and commodities have also increased, so that the price of inputs faced by manufacturers in September was 11.4% higher than a year earlier.

While there is a range of different views among forecasters, the consensus is that CPI inflation is heading for at least 4% in the next few months. HSBC is forecasting a peak at 4.1% in the second quarter of next year, while the OBR thinks it will reach 4.4%. Moreover, it's set to remain at elevated levels until the second quarter of 2023, as it's only then that next April's big increase in domestic energy prices will fall out of the calculations.

This outlook implies a squeeze on disposable incomes for households in the year ahead. The media will make much of the "cost of living crisis", but many households will be able to sustain their spending by dipping into the mountain of savings built up during the pandemic. While some will find the going tough, many others will barely notice. Moreover, the dip in households' real incomes is not expected to be as big as that caused by the depreciation of sterling after the EU referendum in 2016. On that occasion, consumers simply cut back on saving and ploughed on regardless.

Outlook for UK inflation and interest rates (HSBC forecast)



Source: ONS/HSBC

Apart from the obvious impact from energy prices, the outlook for inflation will depend very much on whether, and to what extent, the present shortages in many parts of the labour market persist, and whether this causes workers to re-discover the lost art of pay bargaining. The acute shortage of labour is clear from the record level of unfilled positions: at 1.1 million, vacancies are more than a third higher than before the pandemic. Some of this pressure will be relieved by the ending of the furlough scheme, but some big unknowns are involved: How many of the final batch of furloughed workers will return to their employees, and how many might opt to leave the labour market altogether? How many migrant workers are able or willing to return to the UK? How many people are being deterred from seeking work because they are still worried about Covid risk?

The headline rates of pay growth reported by the ONS are already falling back, with the latest figure for total pay (which includes bonuses) showing annual growth at 7.2%. But headline rates of pay growth are still being heavily skewed by impact of lockdowns and furloughs in earlier months, and it's only when this statistical 'noise' abates that it will be possible to get a true picture of what's going on. The ONS believes that the true figure lies somewhere in the (admittedly wide) range from 4.1% to 5.6%. If, come the end of the year, it's closer to the top than to the bottom of that range, then the Bank of England may be galvanized to increasing the pace of its monetary tightening.

The dog that barked, but didn't bite

The Bank of England is getting ready to pull the interest rate trigger, but lost its nerve at the most recent policy meeting in early November. The decision to leave Bank Rate on hold came as a surprise, because financial markets had been marched up the hill by a slew of statements from Bank officials, including from the Governor himself. Nonetheless, it remains HSBC's view that action is imminent. The MPC will have another opportunity to start the ball rolling at its mid-December meeting, though February remains a more likely option, as that will give the Committee more time to digest the impact on the labour market of the ending of the furlough scheme. UK Bank Rate is expected to be increased by 15 basis points in February, to 0.25%, with two further rises, each of 25 basis points, in August 2022 and February 2023. This would take Bank Rate back to its pre-pandemic setting of 0.75%.

That interest rates are set to rise should come as no surprise, given that the economy is back to its pre-pandemic size, accompanied by rising inflation. The MPC has been willing to "look through" previous inflation spikes, like the one in 2011 for instance, which were caused almost entirely by higher oil prices. The current price surge, however, reflects a wider range of factors, and so brings with it the risk that it may cause businesses and consumers to alter their behavior. If people start to believe that inflation in the medium term is likely to be markedly higher than the 2% target, they may be less resistant to price increases, and they will press harder for higher wages (and change jobs to get them).

How inflation evolves over the next year or two will, therefore, depend on how many furloughed workers look for new jobs, and on the number of migrant workers that return to the UK. The other big factor will be what happens to energy prices, especially in the global market for natural gas. In the short-term, a mild winter would take some of the heat out of energy prices; but looking further ahead, the prospect of a substantial increase in capped variable energy tariffs in April (which many analysts suggest could be around 30%) means that the annual rate of inflation is unlikely to fall back below 3% before 2023. The Bank of England will hope that in the meantime businesses and consumers don't lose faith in the 2% inflation target. If evidence emerges that their behaviour is changing, then the MPC will have little choice but to quicken the pace of monetary tightening.

Mark Berrisford-Smith
Head of Economics, Commercial Banking,
HSBC UK

Economic update: 4th quarter 2021

Forecasts

Global economic growth

Annual % change in real GDP	**2019**	**2020**	**2021**(f)	**2022**(f)	**2023**(f)
					(f) = forecast
World (nominal GDP weights)	**2.6**	**-3.0**	**5.7**	**4.21**	**3.0**
Developed economies	1.7	-4.2	5.1	3.7	2.0
Emerging economies	4.0	-1.3	6.6	4.6	4.2
North America					
USA	2.3	-3.4	5.7	3,8	2.4
Canada	1.9	-5.3	5.0	4.4	2.8
Asia/Pacific					
China	6.0	2.3	8.3	5.6	5.8
Japan	0.0	-4.6	2.2	1.8	0.4
India	4.8	-7.0	7.7	5.7	6.1
Australia	1.9	-2.4	3.5	2.6	3.0
South Korea	2.2	-0.9	3.8	2.5	2.0
Indonesia	5.0	-2.1	3.9	5.2	5.2
Taiwan	3.0	3.1	6.0	3.1	3.0
Thailand	2.3	-6.1	1.3	4.4	3.1
Malaysia	4.4	-5.6	3.6	5.4	4.6
Singapore	1.3	-5.4	6.5	3.8	3.1
Hong Kong	-1.7	-6.1	6.7	3.0	3.1
Philippines	6.1	-9.6	4.2	5.5	6.2
New Zealand	2.4	-2.1	4.8	3.9	2.2
Eurozone	**1.5**	**-6.5**	**5.2**	**4.0**	**1.9**
Germany	1.1	-4.9	3.3	4.0	1.3
France	1.8	-8.0	6.3	3.8	2.2
Italy	0.3	-8.9	5.8	4.2	2.0
Spain	2.1	-10.8	5.1	6.8	3.3
Other Western Europe					
UK	1.8	-9.2	7.1	5.1	1.7
Switzerland	1.2	-2.5	3.2	2.8	1.6
Sweden	2.0	-2.9	6.0	4.1	1.2
Norway	2.4	-3.1	5.2	4.3	1.1
Eastern Europe, Middle East & Africa					
Poland	4.7	-2.7	5.3	5.4	4.6
Hungary	4.6	-5.0	7.0	4.7	3.8
Czech Republic	3.0	-5.8	3.1	5.6	4.3
Russia	2.0	-3.0	4.6	2.1	1.4
Turkey	0.9	1.8	9.1	4.4	3.6
Saudi Arabia	0.3	-4.1	2.1	4.6	3.5
South Africa	0.1	-6.4	5.3	2.2	1.4
Latin America					
Brazil	1.4	-4.1	5.0	1.3	1.5
Mexico	0.0	-8.2	6.0	2.3	2.0
Argentina	-2.0	-9.9	7.0	3.0	2.0
Chile	0.9	-5.8	9.6	3.2	2.2

Source: HSBC Global Research

Economic update: 4th quarter 2021

Forecasts

Policy interest rates

Interest rate (%) at end-period	Forecast at end-year Dec 2021	Dec 2022	Dec 2023
North America			
USA*	0.25	0.25	0.75
Canada	0.25	0.75	1.25
Western Europe			
Euro Area (Refi rate)	0.00	0.00	0.00
Euro Area (deposit rate)	-0.50	-0.50	-0.50
UK	0.10	0.50	0.75
Norway	0.50	1.25	1.50
Sweden	0.00	0.00	0.00
Switzerland	-0.75	-0.75	-0.75
Emerging Europe			
Poland	0.10	1.00	1.50
Hungary	2.10	2.40	2.40
Czech Republic	1.75	2.50	2.50
Asia/Pacific			
Japan	-0.10	-0.10	-0.10
China	3.85	3.85	3.85
India	4.00	4.50	5.00
Australia	0.10	0.10	0.10
New Zealand	0.75	1.50	1.75

* Upper end of target range
Source: HSBC Global Research

Currency exchange rates

Exchange rate at end-period		Sep 2021	*forecast* Dec 2021	June 2022	Dec 2022
Rates against £					
US dollar	USD/GBP	1.35	1.34	1.34	1.34
Euro	EUR/GBP	1.16	1.17	1.19	1.19
Japanese yen	JPY/GBP	150	147	150	150
Canadian dollar	CAD/GBP	1.71	1.70	1.73	1.73
Australian dollar	AUD/GBP	1.87	1.86	1.91	1.91
New Zealand dollar	NZD/GBP	1.95	1.94	2.00	2.00
Swedish krona	SEK/GBP	11.81	12.23	12.81	12.81
Norwegian kroner	NOK/GBP	11.79	12.35	12.81	12.81
Swiss Franc	CHF/GBP	1.26	1.25	1.25	1.25
Other rates					
US dollar / euro	USD/EUR	1.16	1.15	1.13	1.13
Chinese yuan / USD	CNY/USD	6.44	6.60	6.60	6.60

Source: HSBC Global Research (*Currency Outlook*, October 2021)

Economic update: 4th quarter 2021

Forecasts

UK economy

annual % change, adjusted for inflation (except where otherwise stated)

	2021	2022	2023
		forecast	
GDP	7.1	5.1	1.7
Consumer spending	4.4	6.0	1.8
Government spending	15.7	2.7	2.0
Investment	6.8	9.7	1.1
Stockbuilding (% of GDP)	-0.2	0.3	0.4
Domestic demand	7.9	5.3	1.7
Exports	2.3	12.4	2.2
Imports	5.7	13.0	2.1
Manufacturing output	8.3	2.2	1.0
Unemployment rate (%)	4.8	5.1	5.0
Pay growth	5.4	3.3	3.2
Inflation - CPI	2.3	3.7	2.1
Current account (US$ bn)	-91	-119	-119
Current account (% of GDP)	-3.0	-3.6	-3.6
Public sector net debt (% of GDP)	99.5	99.0	98.7
Public sector net borrowing (% of GDP)	8.0	4.9	3.3
Exchange rate[1] US$ / £	1.34	1.34	--
Exchange rate[1] € / £	1.17	1.19	--
UK Bank Rate[1] (%)	0.10	0.50	0.75

1. at end-period.

Forecast as at 1 November 2021; data and forecasts are subject to revision

Source: HSBC Global Research

Issued by HSBC UK

CMB Economics, HSBC UK, 71 Queen Victoria St, London EC4V 4AY