Economic update
Fourth quarter 2020

This report has been prepared from information available as at 10 November 2020.
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

- The global economy continues to recover from the lockdowns that were imposed in many countries during the spring. Yet in Europe economic activity is declining again in the face of a ferocious second wave of infections. Elsewhere, China's economy has more than made good the losses of output seen in the early months of this year, while both India and Brazil are enjoying strong recoveries.

- President Biden's ability to implement radical policy measures will be limited by the failure of the Democrats to take control of the Senate. They do, however, have an outside chance of doing so if they can win two run-off votes in Georgia on 5th January. In any event, the first priority for the Biden administration will be to tackle the Coronavirus pandemic, given that the United States, like Europe, has seen a second wave of infections.

- Globally, the impact of a Biden presidency will stem mostly from how much fiscal stimulus he can get through the Senate, and what that means for US growth and monetary conditions. There will also be implications from likely changes in the approach to immigration, trade, climate and foreign policy. A quick U-turn on trade policy towards China is, however, unlikely.

- With England back in lockdown, the UK's economic recovery has gone into reverse. GDP is expected to decline by around 7.5% in November, by 2% in the final quarter, and by 11% for 2020 as a whole.

- The UK's final extrication from the EU will dent economic activity in the early months of next year. The economy is therefore unlikely to exceed October's level of output until the spring. Thereafter, progress will depend on the speed with which vaccines and rapid tests are rolled out. A return to pre-Covid GDP is now not expected until early in 2023.

- The decision to prolong the Jobs Retention Scheme until March will reduce the scale of job losses in the next few months. Instead, the pain will be deferred into next year, with the unemployment rate expected to peak at 6.7% in the second quarter of 2021.

- The chances that UK Bank Rate will be cut into negative territory have increased in the light of the latest restrictions. But, for practical reasons, any move in this direction cannot take place for several months. Even if a trade agreement is concluded with the EU sterling is expected to remain under pressure on account of the UK's weaker fiscal outlook.

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Economic update: 4th quarter 2020

The global economy – bright spots amid the gloom

The Coronavirus pandemic continues to ravage the globe. History tells us that pandemics usually blow themselves out after a while, but there is no sign of that happening yet with Covid-19. The widespread deployment of vaccines and rapid testing therefore hold the key to allowing life to return to normal. The vaccines are on the way, but are unlikely to make a meaningful difference until the spring of next year. In the meantime, the experience of Europe during the past few months shows just how ferocious the virus can be once colder weather arrives and people are spending more time indoors.

The good news is that the global economic revival, which got under way in May as the spring lockdowns started to be lifted, remains intact, albeit that there will be severe challenges in the months ahead. As new restrictions have been imposed across large parts of Europe, and also in Japan, the number of infections has trended down in other places, such as India, Brazil, and south-east Asia. Meanwhile, there are other countries, including China, Taiwan, South Korea, Australia, and New Zealand, which have been able to get on top of the virus.

The global composite PMI measure, which aggregates the results of various national Purchasing Managers' surveys, rose further in October to reach 53.3. This was the strongest reading in over two years, and should perhaps remind us that the global economy wasn't in especially good shape before the pandemic struck. Unsurprisingly, the divergences mentioned noted above are apparent in the survey results, with a clear contrast between manufacturing and services, and a divide opening up between advanced and emerging economies.

Make no mistake though, the short-term outlook for Europe, including the UK, is nothing short of grim. Having revived strongly during the summer months, GDP is heading back into contractionary territory in the fourth quarter. The latest hiccup will inevitably prolong the recovery process and push back the date at which economic activity returns to pre-Covid levels, which also implies worsening outlooks for unemployment and government budget deficits. It remains to be seen whether the latest round of lockdowns will be sufficient to keep the virus in check, or whether further similar measures will be needed early in the New Year.

Much will also depend on how the epidemic evolves in the United States. Amid all the noise surrounding the Presidential election, the inexorable rise in the daily infection count has received less attention. The transition period until 20th January, when Joe Biden will be inaugurated as the next President, could see the situation deteriorate further if there is a lack of clear leadership from the outgoing President and if Congressional gridlock continues to hold up further fiscal support measures. To date, the US recovery has continued to progress in the face of relatively high infection counts, especially across the southern and western states. For sure, recent surveys point to a slowing, but with the Institute of Supply Management (ISM) survey of non-manufacturing (mostly service sector) businesses posting a healthy reading of 56.3 in October, it's clear that the world's largest economy hasn't yet buckled in the way that has happened in many European countries.

With manufacturing activity holding up better than many service sectors, the recent revival in global goods trade has continued. The CPB Bureau reported an increase in volume terms of 2.5% in August, with strong export growth from China in subsequent months signalling that the recovery has continued since then. Nonetheless, in most cases the value of merchandise flows are still sharply down on pre-pandemic levels, with the World Trade Organization estimating that the value of global exports in August was down by 7.8% from a year earlier.

The United States – from Trump to Biden

Joe Biden will become the next President of the United States on 20th January 2021. Meanwhile, the Democrats have retained control of the House of Representatives but, barring a major upset in run-off votes in Georgia in January, the Republicans will continue to control the Senate. The outlook for economic policy in the coming year and beyond is therefore subject to uncertainty, given that the Democrats have not achieved a 'clean sweep' as President Trump did back in 2016. Markets have therefore begun to scale back their expectations for increases in government spending and associated tax rises.

In view of the pressing need to contain the second wave of Coronavirus infections, other domestic issues and foreign policy matters will probably take something of a back seat for the first few months of the new administration. Any fiscal support that comes through will be of the type that has been held up in Congress over the past three months: relief measures such as direct payments to households, federal unemployment benefits, and support for small businesses and cash-strapped state and local governments. This would provide a helpful injection of funds into the US economy at a time when Covid cases have picked up again and the recovery is at risk of faltering. Much will depend on the extent of renewed lockdowns under a president who is likely to encourage states to lock down more readily, as opposed to pushing them to stay open.

A decent third-quarter rebound, but …

The US economy achieved a respectable rebound in the third quarter, with the preliminary estimate of GDP reporting an increase of 7.4% from the previous quarter, regaining much though not all of the ground lost in the first half of the year. The rebound was largely driven by a recovery in household spending, which rose by 8.9% from the previous quarter. But the revival has been very uneven, with travel and leisure activities still heavily depressed, and overall spending on services still down by 7.7% compared to the final quarter of 2019. By contrast, purchases of goods have more than made up the lost ground, especially durable goods which were up by nearly 12% from the end of 2019, as households have concentrated their spending on cars and home-related purchases.

American consumers have received significant support from fiscal policy this year, but during recent weeks the negotiations on a new round of support have failed to reach a conclusion, and it is not yet clear what kind of support package may emerge under the new Biden administration. The state of the labour market is another key factor that will affect the trajectory for consumption going forward: although the number of people on temporary layoff has continued to fall, an ongoing elevated rate of permanent job losses would depress incomes and spending over the months ahead. As we move beyond the dynamics of the initial lockdowns followed by reopenings, which drove the extreme swings in GDP during the second and third quarters, the realities of the underlying economic situation may start to become more apparent.

The uncertainty about the timing and scale of spending programmes under the new administration also applies to programmes linked to climate change. The approach of the new administration to climate change and other 'green' issues will be diametrically opposite from that pursued by President Trump. Some bipartisan support for higher infrastructure and 'green' spending is possible, but the expectation is that the timing will be later, and the likely scale may be much smaller than would have been the case had the Democrats achieved a "clean sweep" in Congress. It's worth recalling that a Republican Senate couldn't even be persuaded to back an infrastructure plan during President Trump's tenure.

There is therefore little about the likely scale of fiscal stimulus that will materially change the outlook for the Federal Reserve's interest-rate policy over the next few years – in either direction. Given the employment outlook and particularly given the shift to average inflation targeting, the hurdle to raising the Federal Funds rate was already very high. In any case, Mr Biden's ambition to change the labour market code in ways that might push inflation higher, such as by changes to minimum wages and measures to make it easier to unionize and pursue collective bargaining, may well also be thwarted in the Senate. If, on the other hand, inflation continues to surprise on the downside the Fed may yet have to consider negative interest rates, though they do not appear to be in their toolkit at the moment.

There could be implications for monetary conditions elsewhere in the world if financial markets alter their view about the timing or magnitude of asset purchases by the Fed. Depending on the pace of the recovery, markets may anticipate that the Fed will want to scale back the pace of asset purchases from the present monthly rate of $120 billion, possibly even triggering a mini "taper tantrum" in overseas markets as happened back in 2013. But if the recovery stumbles, because of more extensive lockdowns and/or a continuing failure of Congress to agree on additional fiscal support measures, then the Fed could find itself having to increase the rate of asset purchases. This could provide useful support for prices of risk assets and investment flows to emerging markets. It's also worth noting that with Jerome Powell's current term as Fed Chair due to expire in February 2022, and it will be Joe Biden's job to reappoint him or choose an alternative.

In addition to the effects of fiscal policy, and its consequences for economic growth and monetary conditions in the United States, the rest of the world will also be directly impacted by the stance of the new administration in other policy areas, such as immigration, trade, climate change, and sanctions. In these areas, Presidents tend to have more scope to act via Executive Orders and so may be able to circumvent Congress. Although foreign policy objectives may not be top of the agenda for the new administration, financial markets have already been anticipating some shifts, as reflected in a strengthening of some emerging market currencies, especially those with a high trade exposure to the USA, such as mainland China and Mexico. The assumption seems to be that a combination of a Biden fiscal stimulus and less protectionist policies will improve their export prospects.

No immediate U-turn on US trade policy

Investors might, however, be jumping the gun a little in anticipating a quick U-turn on the US position on trade with China or on other trade policy issues. Among the many deep divisions in American politics, the one thing that both Republicans and Democrats agree on is that a stronger line needed to be taken with respect to China. One of President Trump's first actions, in January 2017, was to withdraw the USA from the Trans-Pacific Partnership (TPP). But although Joe Biden had previously supported US participation, there is no indication that the Biden administration will be looking to join TPP's successor, the CPTPP.

While the Biden administration can be expected to work more closely with Europe to develop a joint response to mainland China, policy frictions between the USA and its European partners will likely continue – for instance, over digital services taxes and the long-running Boeing/Airbus dispute. A new effort to reinvigorate the failed negotiations on the Trans-Atlantic Trade and Investment Partnership (TTIP) is possible, but it's not going to be a priority. As for the UK, Mr Biden has made it abundantly clear that there will be no trade agreement if the British Government doesn't drop the controversial clauses relating to Northern Ireland in the Internal Market Bill. Progress on trade deals will also depend on persuading Congress to renew the administration's Trade Promotion Authority, which lapses in July 2021. Without this authority Congress is able to pick apart deals, rather than taking or leaving them through a straight vote.

Eurozone: the dreaded "W"

A fierce second wave of Covid infections has led to renewed national lockdowns across most countries in Europe. There has been some positive economic news though, in particular the preliminary estimate of third-quarter GDP confirmed a strong rebound in activity after the first wave of lockdowns, with economic activity across the Eurozone expanding by 12.7%. The rebound was not sufficient to fully make good the ground previously lost, with GDP still below its pre-Covid levels. But by the third quarter, levels of output in three of the 'big four' economies – Germany, Italy and France – were down by less than 5% compared with the end of 2019. Spain's recovery has been less robust, with GDP still down by a little over 9%, reflecting its exposure to tourism.

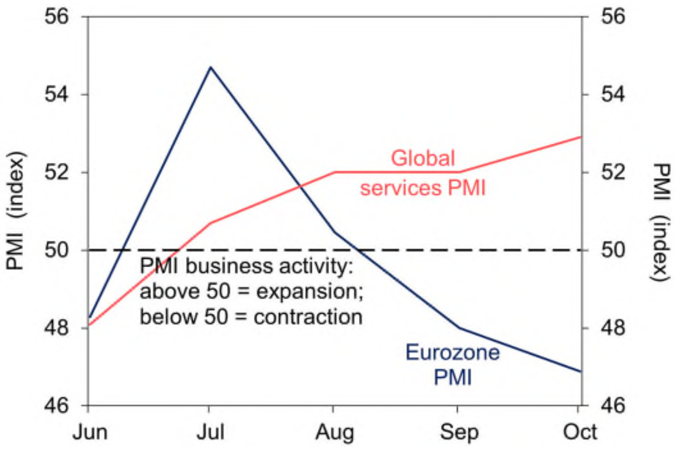
Economic update: 4th quarter 2020

The good news is that these GDP figures show that economies can bounce back pretty quickly once restrictions are lifted. But the third quarter is already in the past, and attention is now focused on the outlook for the rest of the year, which is less positive, and for the recovery prospects in 2021. Most of the Eurozone is now again under some form of lockdown, in response to a second wave of Covid infections. Although a resurgence was not a surprise, the speed with which new infections increased was less predictable.

There are grounds for hoping that the economic impact from this second round of lockdowns may not be quite as damaging, compared to the lockdowns that were imposed in the spring. The extent of the new restrictions varies across countries, but in general they are not as draconian as was the case back in March and April, at least so far. Many schools will remain open, meaning that parents can continue to work, and manufacturing and construction activity is likely to continue, which will limit the economic damage (in the first half of the year, construction and industrial production alone took 4% off Eurozone GDP). Businesses meanwhile may be better prepared to deal with lockdowns, in terms of being able to operate with staff working remotely, and/or in terms of being able to trade online. And finally, the current lockdowns are planned to be considerably shorter than earlier in the year, although if Covid cases/hospitalizations don't start to fall they could be extended and/or tightened further. By way of illustration, France's Finance Minister Bruno Le Maire has said that the government is aiming to limit the loss of activity to 15%, compared to a loss of 30% in the spring.

Even so, the upshot for our forecast is that, far from assuming a continuation of the recovery, the Eurozone economy is now expected to contract again in the final quarter of this year: in place of our previously-projected growth of 2.5%, we now expect GDP to decline by 3.6%. The more negative outlook for the final quarter is partly offset by the stronger-than-expected growth which was achieved in the third quarter so that, in calendar year terms, the forecast for 2020 is little changed, with Eurozone GDP likely to be down by 7.5%.   With a recovery getting under way in 2021, growth of 4.5% has been penciled in for next year. This assumes that the impact of the second wave lockdowns are less severe than in the first wave and that they start to be lifted from December. The risks around these forecasts are mainly on the downside: the 'lighter' lockdowns may not be enough to reduce infections, forcing tougher measures such as the closure of schools, or there could be further waves next year. That said, there is also a risk that a faster economic recovery could develop, if an effective vaccine can be rolled out or if public opinion swings against lockdowns.

Europe's service sector is hit by new lockdowns



Source: IHS Markit

Economic update: 4th quarter 2020

The UK economy – knocked over by the second wave

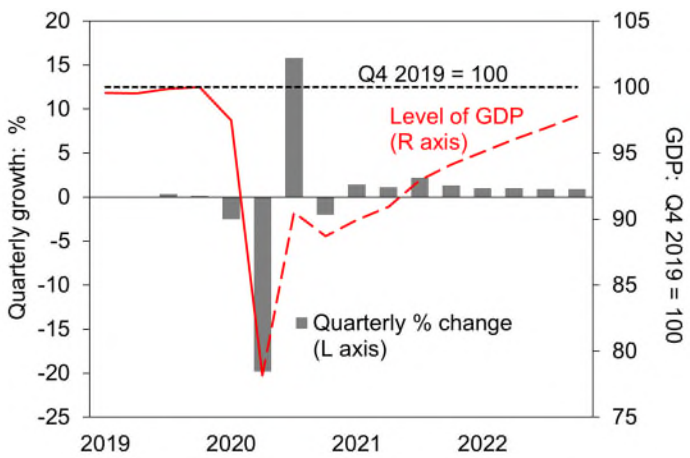
The UK enjoyed a strong recovery during the summer months. By October it's likely that GDP had made good nearly three-quarters of the ground lost during the national lockdown in the spring. At that point, output was around 7% short of its level in February.

And then the wheels came off the cart. The UK government, like others around the world, has been trying to find a delicate equilibrium point at which the reproduction rate "R" of the virus is at, or slightly above, 1.0, while re-opening as much of the economy as possible. But the incidence of Covid cases exploded again from the start of September. By the week ending 31 October, the pilot survey conducted by the Office for National Statistics (ONS) reported that one in every 90 people in England was infected, as against one in every 1,900 in mid-August. From these figures, the ONS estimated that 45,700 people were catching Covid-19 every day, well over twice the number reported as having tested positive on the Public Health England (PHE) dashboard. This survey, which is based on more than 100,000 swab tests conducted at random across England each week provides the most reliable indication of the spread of the virus. It should be noted, however, that this programme only tracks the incidence of infection in the community, and so excludes hospitals, care homes, and other institutional settings. Infection rates have also climbed steeply in other parts of the UK, with the ONS estimating the incidence rate to be 1 in 75 people in Northern Ireland, and 1 in 110 in Wales and Scotland.

In the face of this ferocious onslaught the government was compelled to introduce a 27-day lockdown in England, starting from 5th November. Economic activity will inevitably take another dive, which will unfortunately make the recovery process longer and more difficult. The trajectory traced by the economy during the pandemic will therefore be the dreaded "W", rather than the hoped-for "V".

On the basis that there are no further lockdowns, and assuming that some sort of trade agreement is reached with the EU, economic activity should return to its October level early in the New Year. The recovery will then hopefully resume where it left off in October, assuming that meaningful progress is made in rolling out rapid testing and vaccines. Nonetheless, the latest lockdown in England, combined with the restrictions imposed in other parts of the country, means that GDP is not expected to return to its pre-Covid level until early in 2023. The process could be delayed by up to another year if the UK is unable to conclude a free trade agreement (FTA) with the EU.

A slow recovery to pre-Covid levels of output



Source: ONS, HSBC Global Research

As for the forecasts, the latest lockdowns mean that the full-year decline in GDP for 2020 is now expected to be 11%, as against the 8.7% decline that was previously expected. Despite the fact that other countries in western Europe have also imposed nationwide restrictions of varying severity, only Spain among advanced economies is projected to record a steeper annual fall. The four-week lockdown in England will predominantly affect the retail, hospitality, accommodation, and transport and travel sectors. Our assumption is that GDP for the month of November will be around 7.5% lower than in October, with about 40% of the loss being made good in December (bearing in mind that some areas will still be subject to "Tier 3" restrictions. As a result, instead of GDP expanding by 4% in the final quarter of the year, as previously envisaged, it's now expected to fall back by 2%.

An axe has also been taken to the forecasts for next year, slashing our expectation for full-year GDP growth from 6.8% to 3.7%. This downgrade is partly a simple consequence of interrupting the recovery process by a few months as a result of the second lockdown in England and the ongoing movement restrictions that will apply in many areas once the three-tier alert system is re-introduced. It also reflects the additional "scarring", as businesses are forced to close or todownsize and as more people lose their jobs, resulting in a loss of economic capacity, although the announcement by the Chancellor of the Exchequer that the Jobs Retention Scheme will be extended until the end of March will help to limit the damage.

Lastly, there is the small matter of the UK's final extrication from the EU at the end of December to bear in mind. As negotiations with the EU run to the wire there is little worth saying that hasn't already been said. it's perhaps just worth noting that businesses are set for major changes and upheavals from the start of next year, even if some sort of trade agreement can be cobbled together. Whatever emerges is unlikely to go much beyond the elimination of tariffs and quotas on the trade in goods. It is unlikely to do much to alleviate the issues that will be faced by road hauliers, airlines, telecoms companies, broadcasters, financial institutions, or professional services businesses. So even if an agreement is reached, GDP in the first quarter of 2021 is likely to be around 1% less than would have been the case if extrication wasn't happening.

To date, the headline rate of unemployment has risen only modestly, coming in at 4.8% in the three months to September. But with many people opting to take themselves out of the labour market, better guides as to what's going on come from looking at the number of people in employment and the numbers on PAYE payrolls. In the three months to September, the Labour Force Survey reported that 566,000 fewer people were in employment compared with the period from December to February, while between March and October PAYE payrolls fell by 782,000. With the Jobs Retention Scheme now extended until next March, job losses in coming months will be much more muted than had been previously feared. But the unemployment rate is still expected to rise once the scheme ends, with the headline rate forecast to peak at 6.7% in the second quarter of 2021.

The recovery peters out

The UK's recovery began to lose momentum in August. Following an increase in GDP of 6.6% during July, on the back of the re-opening of the hospitality sector, August's increase was a much more muted 2.1%. This was despite the government's "Eat out to help out" scheme which was reckoned a success, with activity in the food service and accommodation sector rising by more than 70% from the previous month, and a surge in mortgage approvals for house purchase. Yet, away from the housing market consumer sentiment remained anaemic, and footfall in non-food retail and leisure venues, as measured by the Google Mobility Survey remained further below normal than was the case in most other western European countries. The rapid growth enjoyed by the manufacturing sector in June and July also petered out as supply constraints gave way to the realities of weaker demand, both at home and from abroad. In these difficult times many businesses have naturally cut back on capital expenditure, with spending on business investment in the UK plunging by 26.5% during the second quarter.

Economic update: 4th quarter 2020

When the official GDP figures for September are released on 12 November it's likely that they will show a further increase in economic activity of around 2%. This will principally reflect the re-opening of the education sector and the surge of activity in the housing market. The IHS Markit Purchasing Managers' Index (PMI) surveys for October suggest that there was still a modest expansion in GDP, despite the rising tide of localized restrictions. The composite measure, which amalgamates the results from the surveys of manufacturing and service sector businesses, came in at 52.1, as against 56.5 in September, with the manufacturing sector outpacing services businesses as they had done in September.

The restrictions introduced progressively during September and October (principally the "rule of six" and the three-tier alert system) had already taken a toll on consumer sentiment and were dampening the recovery before the announcement of the second lockdown in England on 31 October. Moreover, this caution wasn't confined to those parts of the country that were subject to the heaviest restrictions. Google mobility data has reported declining footfall at non-food retail and at leisure venues in towns across southern England since the start of September. In Reading, for example, footfall in the week ending 16th October was 34% below the January baseline, having been just 20% lower in the week ending 28th August. In similar vein, the GfK/NOP consumer sentiment survey, which had reported a gradual improvement during the summer, then crashed in October: having registered a reading of -25 in September, against a long-run average of -10, the headline reading plunged to -31 in October.

In theory, cash-laden consumers could have kept the recovery going a little longer. During the second quarter of this year, the household saving rate (the proportion of income that isn't spent) surged to a record high of 29.1%, while more than £95 billion was added to bank deposits between the end of February and the end of September. So, there was no shortage of money available to be spent. Rather, people didn't feel inclined to splash the cash as the colder weather forced them back indoors, as they fretted about their job prospects, and as they became more fearful about venturing out in the face of the new tide of infections which has affected all parts of the country.

Yet there have been some bright spots on the consumer landscape. The volume of retail sales at non-food stores was 1.7% higher in September than in February, driven by buoyant results from household goods shops. These outlets have benefitted from the rush to buy furniture for home offices as well as patio heaters and firepits, as well as from the renewed interest in home improvements. On the other hand, sales at clothing and footwear stores remained in the doldrums, and are likely to stay there until social gatherings resume and people need to buy formal wear again.

In contrast to the strong demand for household goods, the introduction of the "70" registration plate in September drew only muted interest. Registrations of new cars were around 15% below what has passed for normal in recent years. This is not altogether surprising, given that people still aren't travelling as much as they used to and with many people not commuting into offices. The level of road traffic hasn't returned to pre-pandemic levels, with fuel sales in September being 8.6% down compared with February.

The other bright spot in the consumer landscape has been the housing market; or at least it's a bright spot for those looking to sell and for those who have accumulated plenty of equity. Not only was the number of mortgage approvals for house purchase in August and September the highest that it's been for 13 years, but the Halifax and Nationwide price surveys are now reporting annual increases of 5-7%. With some lenders withdrawing products from the market and tightening their eligibility criteria this situation is the last thing that those in younger age groups hoping to buy their first property would have wished for. And while the revival of housing market activity, along with the buoyant demand for patio heaters and firepits, may explain the strong growth in sales by household goods stores in recent months, it's not enough on its own to sustain the recovery.

Economic update: 4th quarter 2020

Negative thinking

The Monetary Policy Committee responded to the latest lockdowns and local restrictions by voting to launch yet another round of quantitative easing (QE) at the conclusion of its meeting on 5th November. With the last tranche of QE due to run until the end of this year, the new round won't kick off until the start of 2021, but will then see the Bank of England acquiring £150 billion of government bonds (gilts). This will take the total of asset purchases under the various schemes that have been launched since 2009 to £895 billion, of which £875 billion will be gilts. Put another way, about 40% of the government's outstanding stock of borrowings ("the national debt") is now in the vaults at the Bank of England. The latest QE announcement was bolder than the financial markets had expected, and increasingly begs the question about how much scope there can be for further purchases.

The boldness of the QE announcement on 5th November sits oddly with the upbeat forecasts that were contained in the Monetary Policy Report (formerly the inflation Report). The economists at the Bank of England are markedly more optimistic about the prospects for the UK economy than are those at HSBC. There is agreement about the impact of the hit from the second English lockdown, but thereafter the BoE is much more upbeat about the pace of the subsequent recovery, with pre-COVID GDP being reached early in 2022, rather than early in 2023.

Meanwhile, the MPC continues to deliberate about the merits, or otherwise, of cutting interest rates into negative territory. But with the BoE still undertaking an exercise to assess the practicalities, nothing will happen for several months. The Committee appears to be split as to whether negative interest rates will serve any purpose, and it will take a further marked deterioration in economic conditions to decide the issue in favour of cutting Bank Rate to below zero. For the time being, HSBC is sticking to its view that rates will be left unchanged at least to the end of 2022. But there can be no denying that the probability of a negative Bank Rate has increased.

Getting bearish on sterling

The UK's experience of the pandemic, together with the deteriorating fiscal outlook and the fall-out from Brexit, has prompted a re-think about the prospects for sterling. Until the arrival of Covid, it had been thought that if the UK could avoid a "no deal" exit from the EU, then sterling would shed the Brexit burden that it has carried since 2016. It would then return to an exchange rate roughly in line with its economic fundamentals. But it has become apparent that any agreement with the EU is likely to be far from comprehensive, and on top of that the Coronavirus pandemic has caused such a blow-out in the public finances as to alter the perception about the currency's "fair value".

So, having previously forecast that the pound would rally to near its pre-referendum levels, provided that a deal was concluded with the EU, the pound is now expected to come under further downward pressure, irrespective of the outcome of the negotiations. Sterling is therefore forecast to finish the year at $1.20 and €1.04. The concerns about the scale of the budget deficit in the UK might appear to be over-done, considering the more difficult positions faced by the likes of France, Spain, and Italy. But all of those countries sit inside the Euro Area, and with fears about the break-up of the currency union having been laid to rest, sterling now looks exposed in relation to other major traded currencies, such as those of Canada, Australia, Sweden, Norway, and South Korea. In the event that no agreement can be reached with the EU, then the forecast remains as it has for the past two years: namely, a fall in the value of the pound to around $1.10, which at the prevailing dollar/euro exchange rate would imply sterling falling to below €1.00.

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Economic update: 4th quarter 2020

Forecasts

Global economic growth

Annual % change in real GDP	2018	2019	2020(f)	2021(f)	2022(f)
World (nominal GDP weights)	**3.2**	**2.6**	**-4.1**	**4.7**	**3.1**
Developed economies	2.2	1.7	-5.6	4.0	2.3
Emerging economies	4.7	3.9	-2.0	5.6	4.1
North America					
USA	3.0	2.2	-4.1	3.1	2.5
Canada	2.0	1.6	-6.2	4.5	2.6
Asia/Pacific					
China	6.7	6.1	2.4	7.5	5.6
Japan	0.3	0.7	-5.5	2.3	0.8
India	6.8	4.9	-9.6	6.6	4.1
Australia	2.8	1.8	-4.0	3.5	2.5
South Korea	2.9	2.0	-1.2	2.2	2.0
Indonesia	5.2	5.0	-2.1	5.1	4.8
Taiwan	2.7	2.7	1.0	3.0	2.7
Thailand	4.2	2.4	-8.2	3.3	4.8
Malaysia	4.8	4.3	-5.1	6.2	4.6
Singapore	3.4	0.7	-6.6	7.0	3.3
Hong Kong	2.8	-1.2	-7.9	4.3	2.7
Philippines	6.3	6.0	-9.6	5.8	6.3
New Zealand	3.2	2.3	-5.1	4.7	2.6
Eurozone	**1.8**	**1.3**	**-7.5**	**4.5**	**2.8**
Germany	1.3	0.6	-6.0	4.0	2.6
France	1.8	1.5	-9.7	6.3	2.7
Italy	0.7	0.3	-8.9	5.1	3.1
Spain	2.4	2.0	-11.6	5.5	4.7
Other Western Europe					
UK	1.3	1.6	-11.0	3.7	4.8
Switzerland	2.8	1.2	-4.5	4.6	1.9
Sweden	2.5	2.4	-3.9	3.4	1.4
Norway	2.5	2.4	-3.9	3.4	1.4
Eastern Europe, Middle East & Africa					
Poland	5.3	4.1	-3.5	4.3	4.4
Hungary	5.1	4.9	-6.0	5.3	4.1
Czech Republic	3.2	2.3	-5.9	4.8	4.1
Russia	2.3	1.3	-4.3	2.4	1.3
Turkey	3.0	0.9	-3.1	3.7	4.3
Saudi Arabia	2.4	0.3	-6.0	4.5	2.5
South Africa	0.8	0.2	-7.7	2.8	1.7
Latin America					
Brazil	1.3	1.1	-5.2	3.0	2.2
Mexico	2.1	-0.3	-9.0	3.0	2.0
Argentina	-2.6	-2.1	-11.0	4.0	2.7
Chile	4.0	0.9	-6.0	4.5	3.3

(f) = forecast

Source: HSBC Global Research

Economic update: 4th quarter 2020

Forecasts

Policy interest rates

Interest rate (%) at end-period	Forecast Dec 2020	June 2021	Dec 2021	June 2022	Dec 2022
North America					
USA*	0.25	0.25	0.25	0.25	0.25
Canada	0.25	0.25	0.25	0.25	0.25
Western Europe					
Euro Area (Refi rate)	0.00	0.00	0.00	0.00	0.00
Euro Area (deposit rate)	-0.50	-0.50	-0.50	-0.50	-0.50
UK	0.10	0.10	0.10	0.10	0.10
Norway	0.00	0.00	0.00	0.25	0.50
Sweden	0.00	0.00	0.00	0.00	0.00
Switzerland	-0.75	-0.75	-0.75	-0.75	-0.75
Emerging Europe					
Poland	0.10	0.10	0.50	0.50	0.50
Hungary	0.60	0.60	0.60	0.60	0.60
Czech Republic	0.25	0.25	0.50	0.75	1.25
Asia/Pacific					
Japan	-0.10	-0.10	-0.10	-0.10	-0.10
China	3.65	3.65	3.65	3.65	3.65
India	4.00	3.75	3.75	3.75	3.75
Australia	0.10	0.10	0.10	0.10	0.10
New Zealand	0.25	-0.75	-0.75	-0.75	-0.75

* Upper end of target range
Source: HSBC Global Research (*Global Policy Rates, 2 October 2020*)

Currency exchange rates

Exchange rate at end-period		forecast 2020 Q4	2021 Q1	Q2	Q3	Q4
Rates against £						
US dollar	USD/GBP	1.20	1.22	1.25	1.25	1.25
Euro	EUR/GBP	1.04	1.06	1.09	1.09	1.09
Japanese yen	JPY/GBP	126	131	137	137	137
Canadian dollar	CAD/GBP	1.61	1.66	1.72	1.75	1.75
Australian dollar	AUD/GBP	1.60	1.58	1.56	1.56	1.56
New Zealand dollar	NZD/GBP	1.76	1.77	1.79	1.79	1.79
Swedish krona	SEK/GBP	10.75	10.82	10.98	10.98	10.87
Norwegian kroner	NOK/GBP	10.96	11.03	11.20	11.09	10.87
Swiss Franc	CHF/GBP	1.10	1.12	1.17	1.17	1.17
Other rates						
US dollar / euro	USD/EUR	1.15	1.15	1.15	1.15	1.15
Chinese yuan / USD	CNY/USD	6.70	6.70	6.65	6.65	6.60

Source: HSBC Global Research (*Currency Outlook*, October 2020)

Economic update: 4th quarter 2020
Forecasts

UK economy

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

		forecast	
	2020	**2020**	**2022**
GDP	-11.0	3.7	4.8
Consumer spending	-14.0	4.4	5.0
Government spending	-6.4	13.4	3.0
Investment	-13.5	0.1	3.7
Stockbuilding (% of GDP)	0.1	0.2	0.5
Domestic demand	-13.5	5.6	4.4
Exports	-10.1	-0.2	6.0
Imports	-17.9	5.7	4.7
Manufacturing output	-10.4	5.1	3.2
Unemployment rate (%)	4.6	6.7	6.6
Average earnings	-0.3	2.0	2.7
Inflation - CPI	0.9	1.5	1.8
Current account (US$ bn)	-35	-70	-62
Current account (% of GDP)	-1.3	-2.4	-2.1
Public sector net debt (% of GDP)	106	108	111
Public sector net borrowing (% of GDP)	19.2	12.8	7.8
Exchange rate[1] US$ / £	1.20	1.25	--
Exchange rate[1] € / £	1.04	1.09	--
UK Bank Rate[1] (%)	0.10	0.10	0.10

1 - at end-period.

Forecast as at 10 November 2020; data and forecasts are subject to revision

Source: HSBC Global Research

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