



Putting the air back in

Global Economics | November 2019



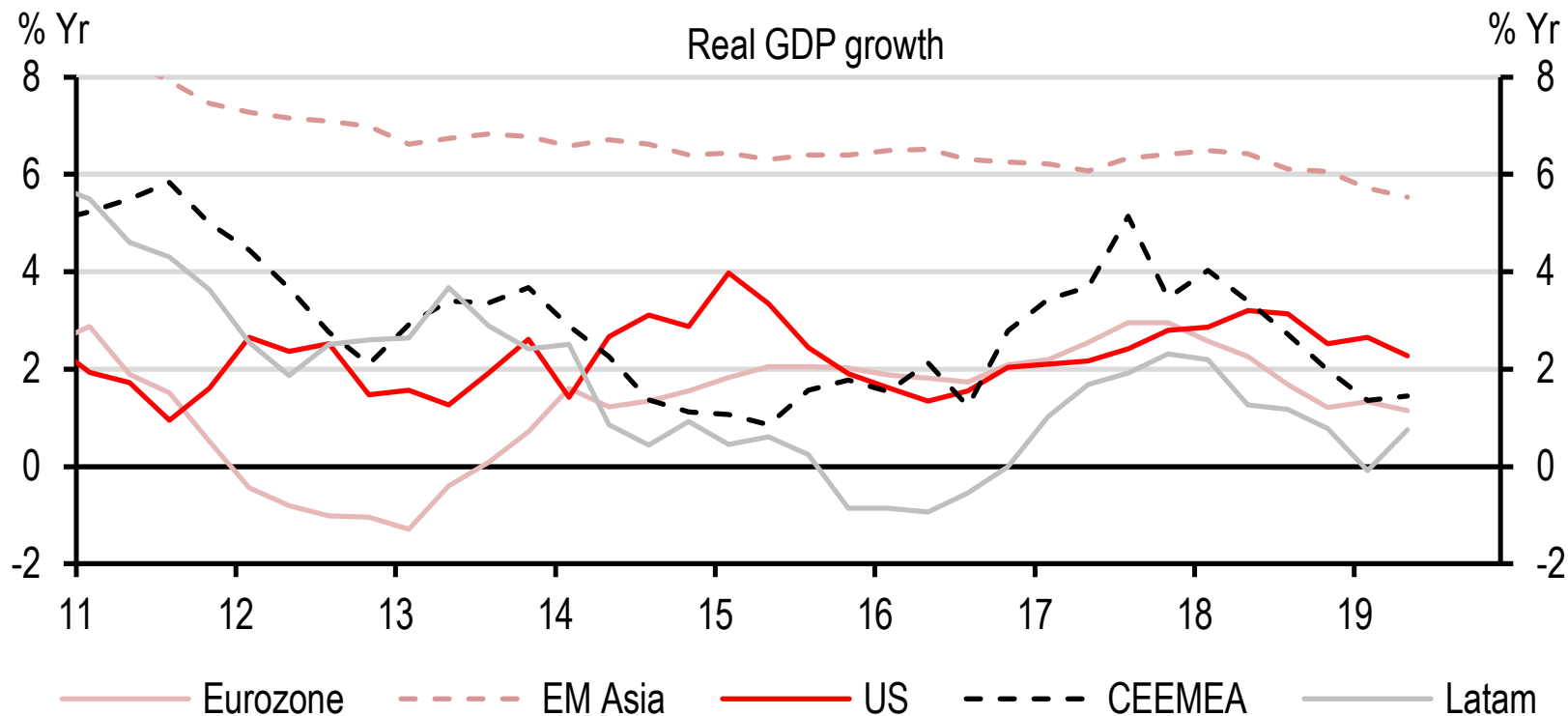
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Economics

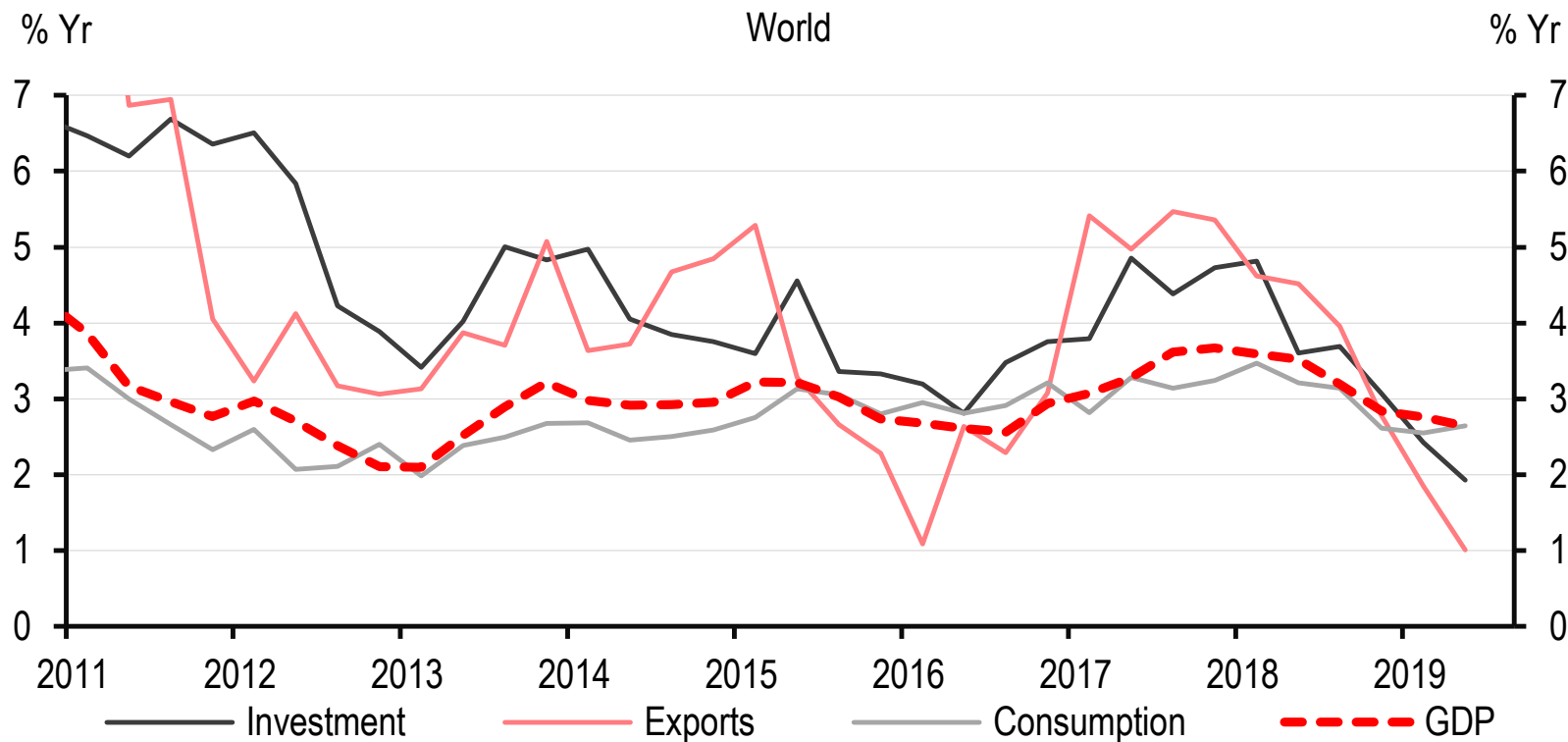
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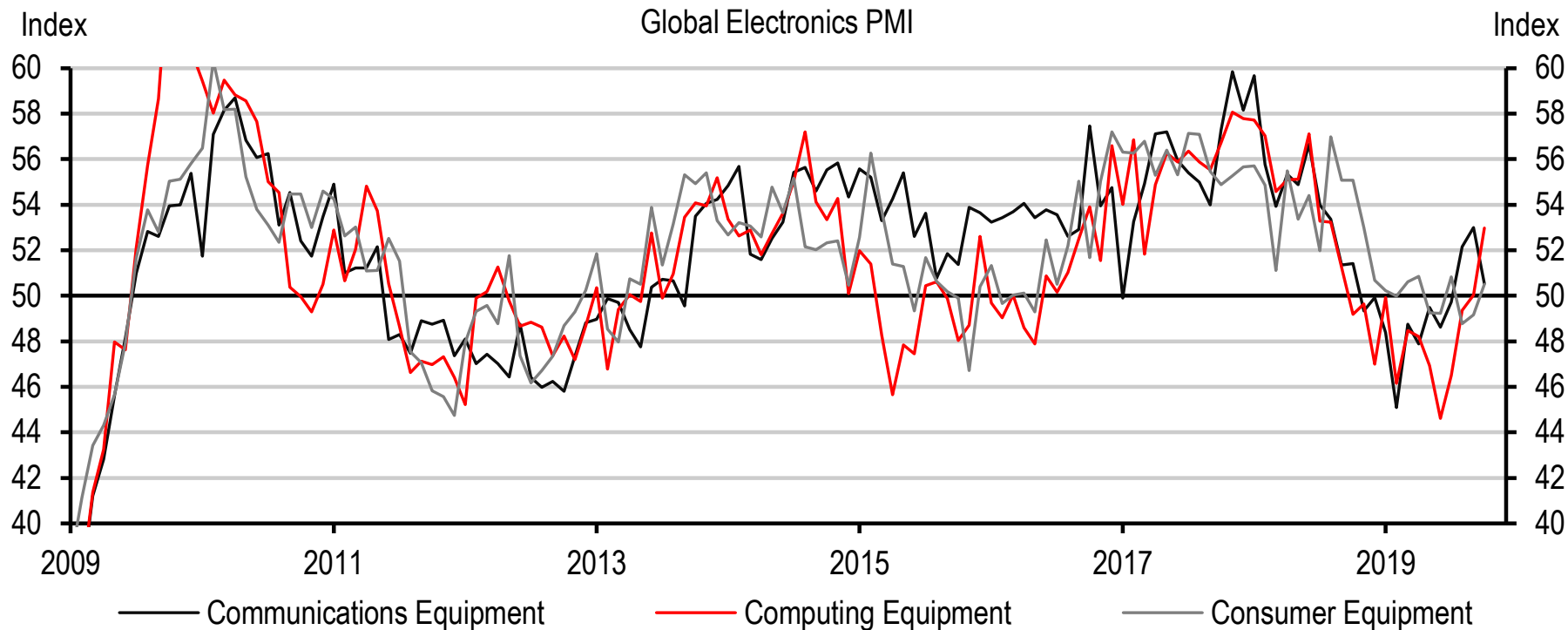
A synchronised slowdown across the regions...



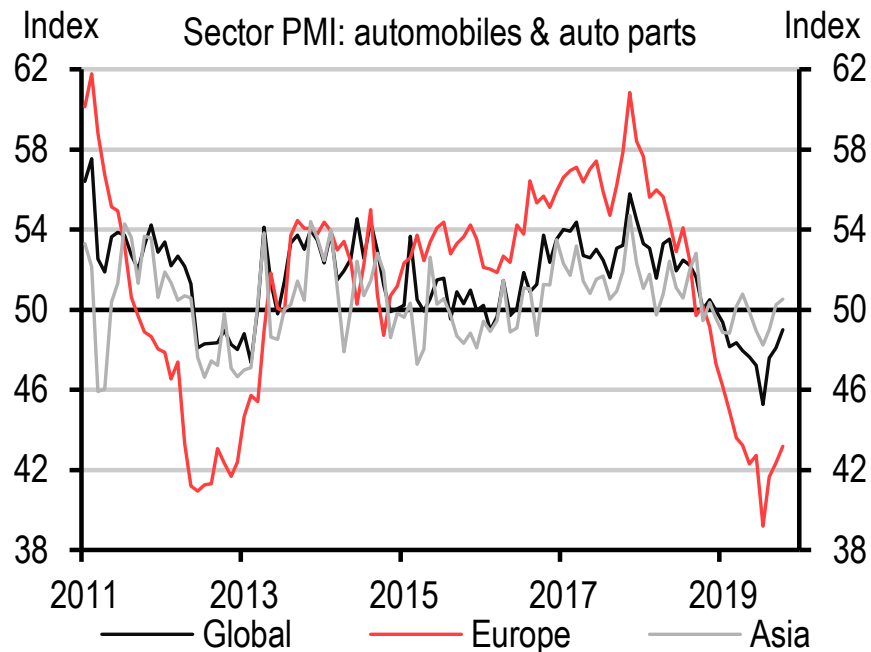
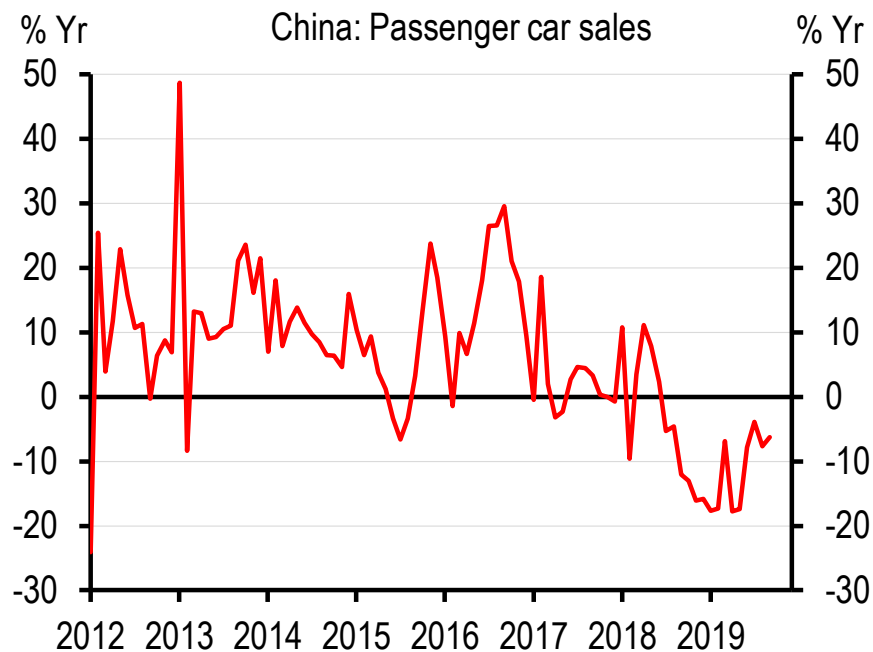
...has lowered global growth to slowest rate since the eurozone crisis



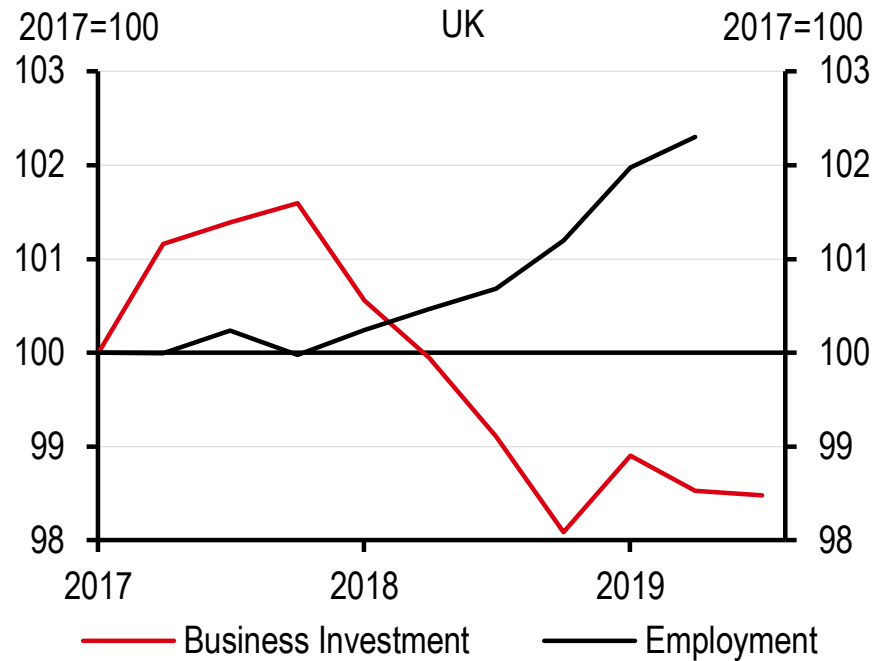
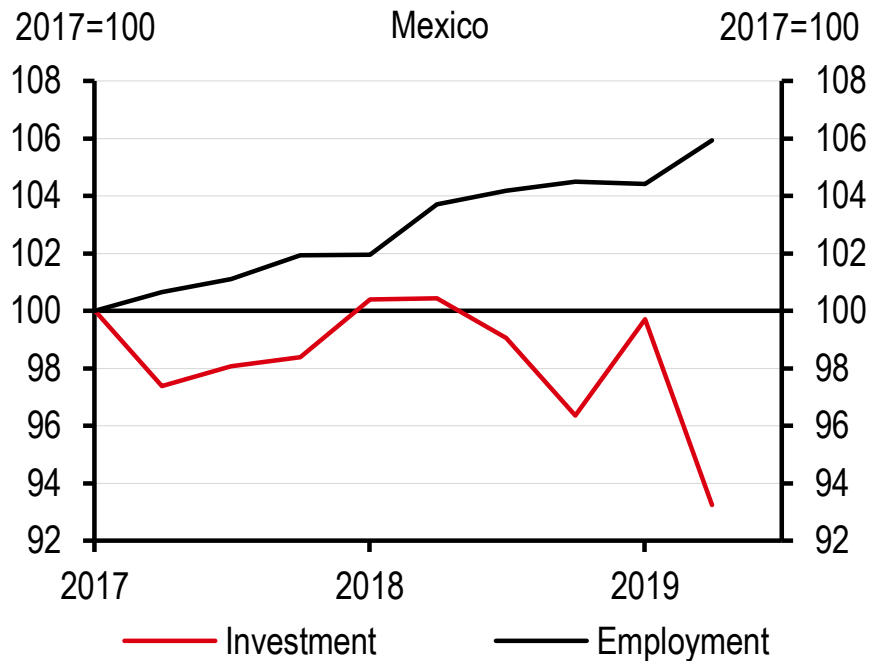
Some signs electronics sector may be stabilising...



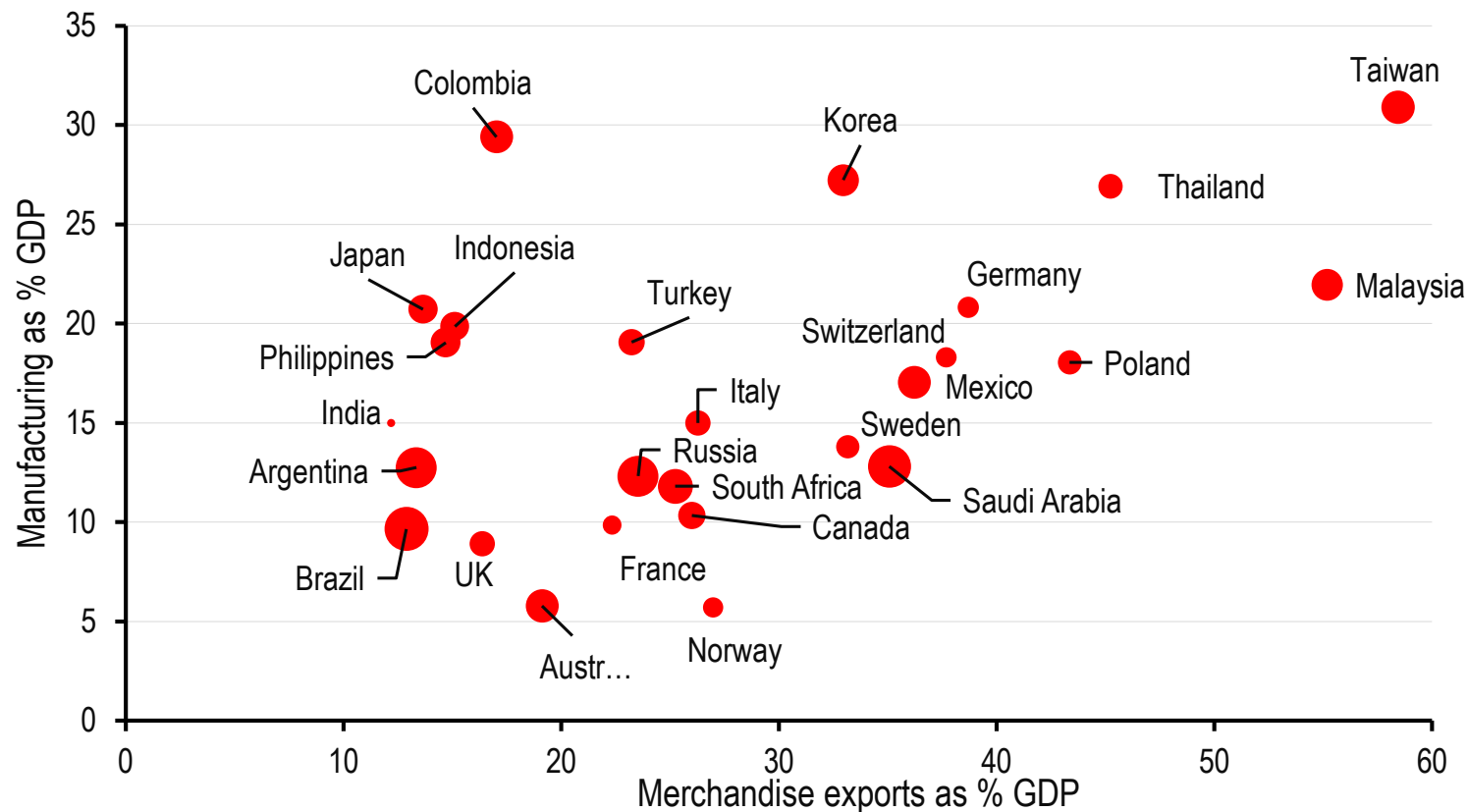
...and even the decline in car demand is fading...



...but political uncertainty to continue to weigh on investment



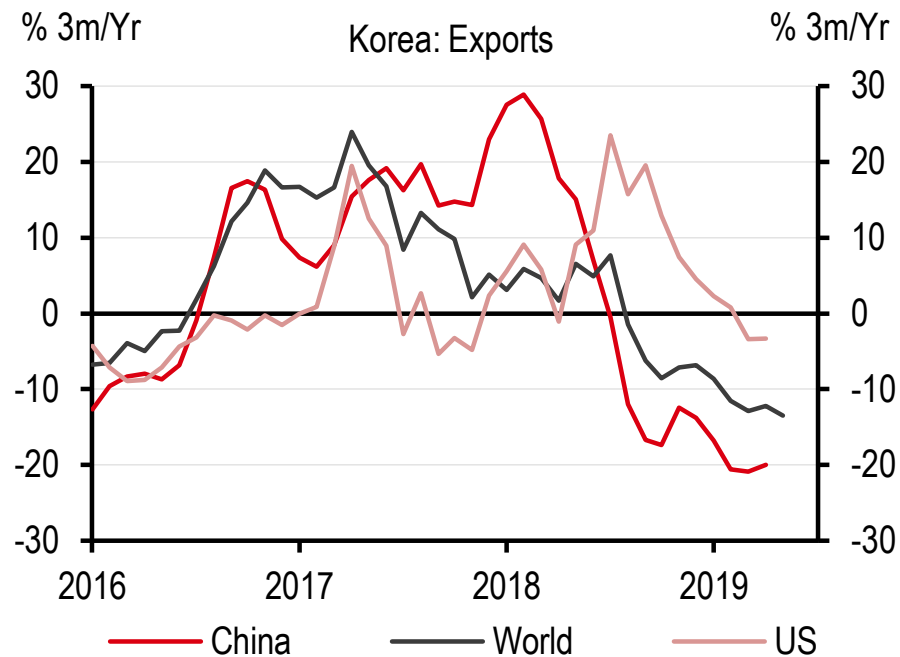
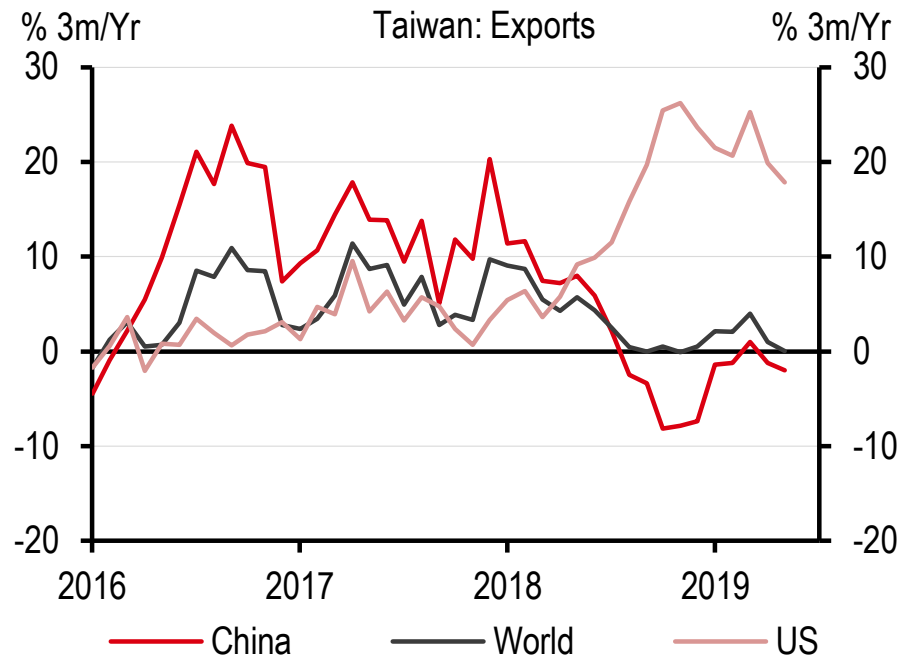
Some appear more vulnerable to global manufacturing and trade weakness



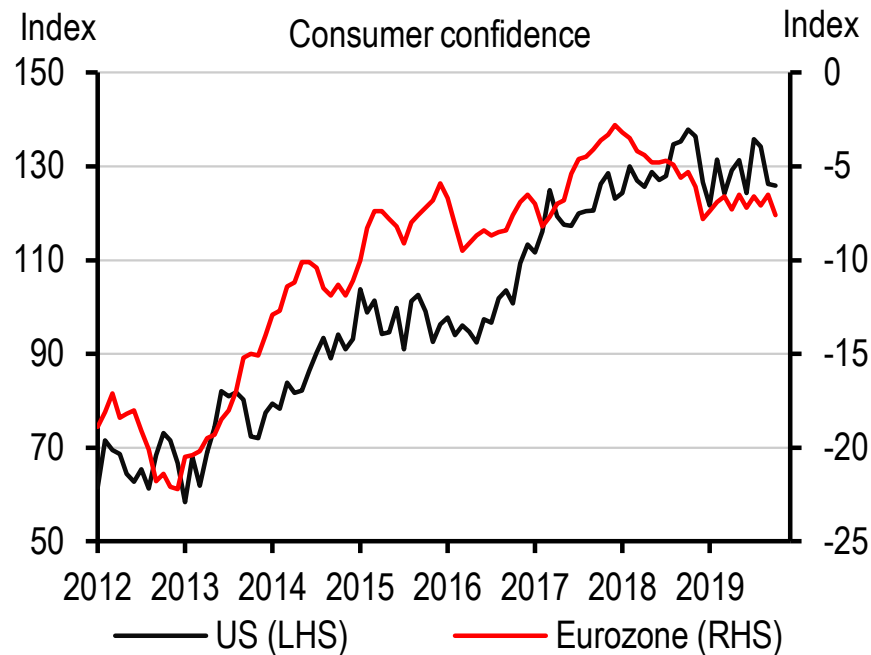
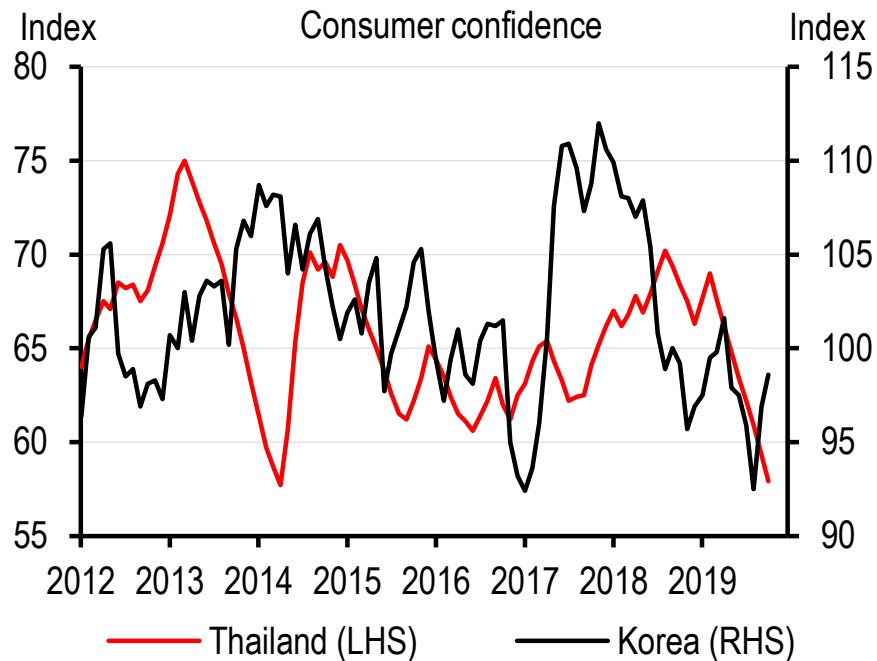
Note: Bubble size indicates the sensitivity of each economy's total exports to total imports from the US and mainland China imports based on IMF DOTS data (quarterly) since 2000, while other data points are latest. Hong Kong and Singapore are excluded for scaling on the chart.

Source: IMF, World Bank

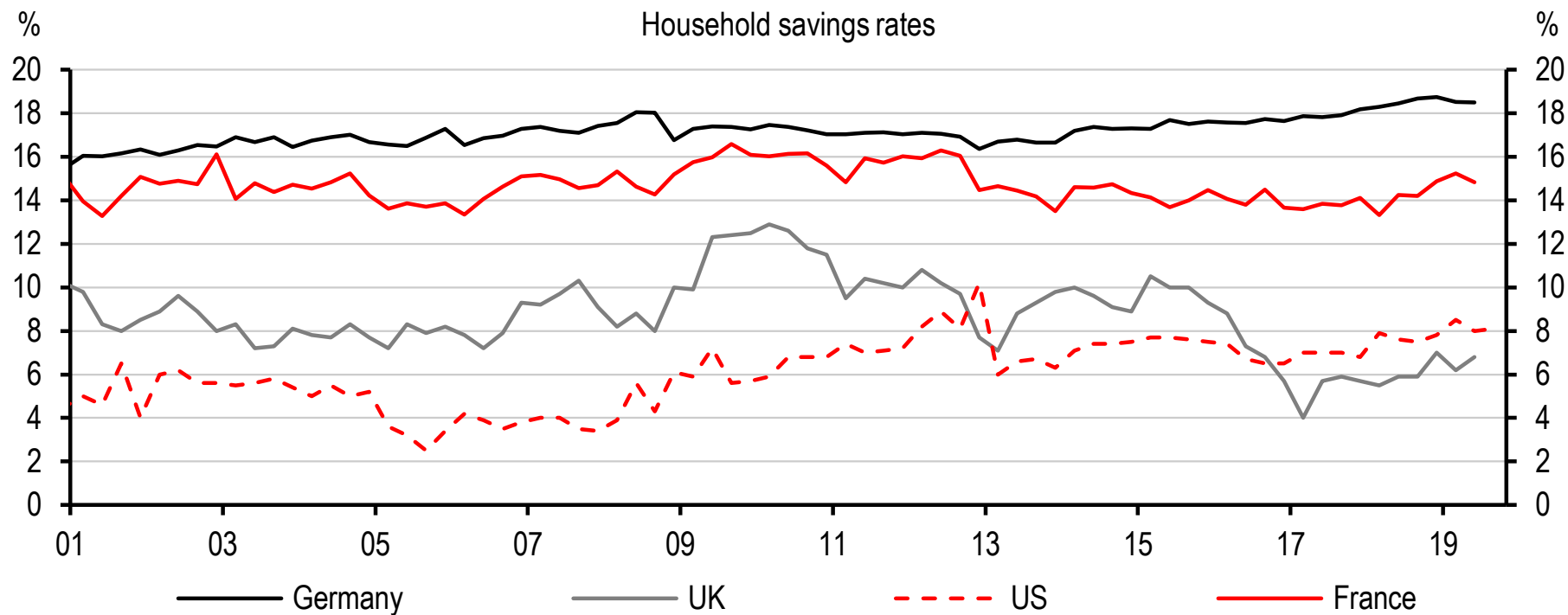
Product mix and shifting supply chains matter too



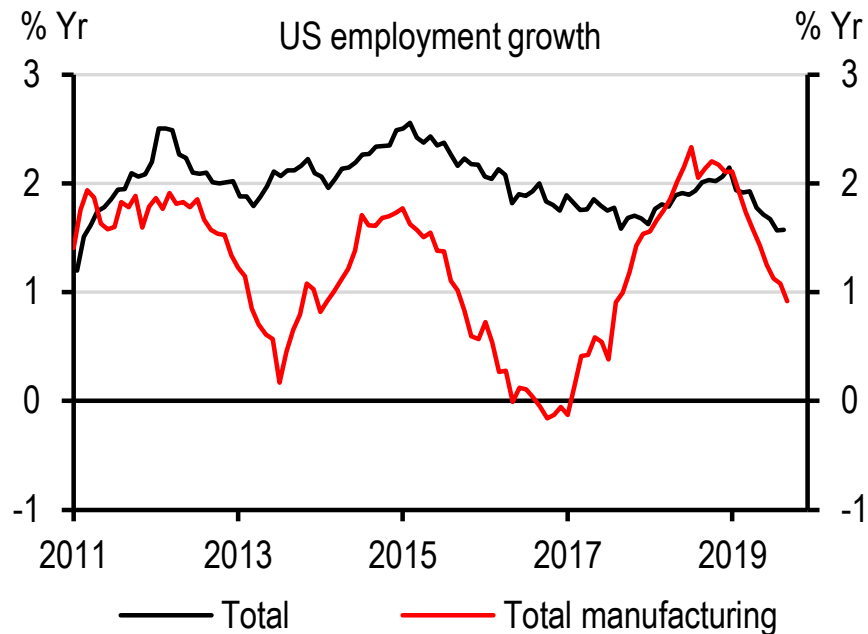
Consumer confidence is starting to falter



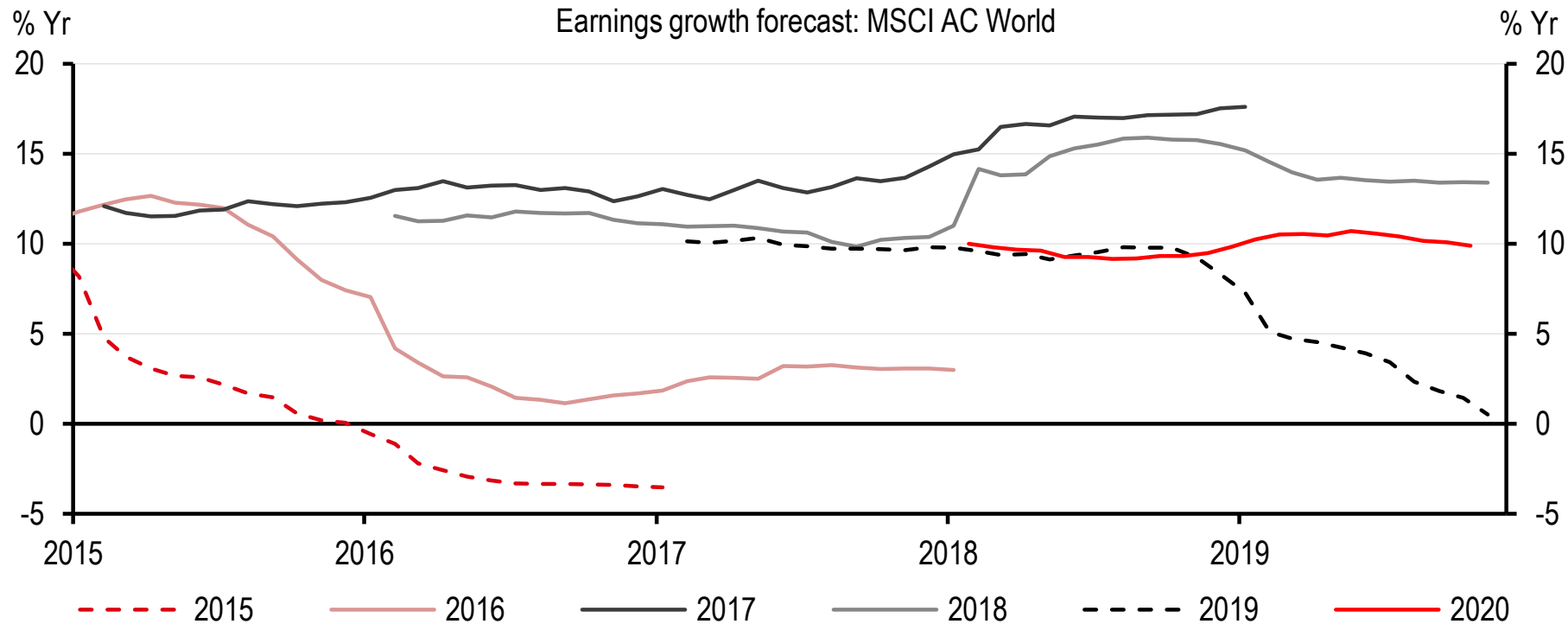
Household savings rates are edging higher



The longer the industrial downswing, the higher the risk to employment



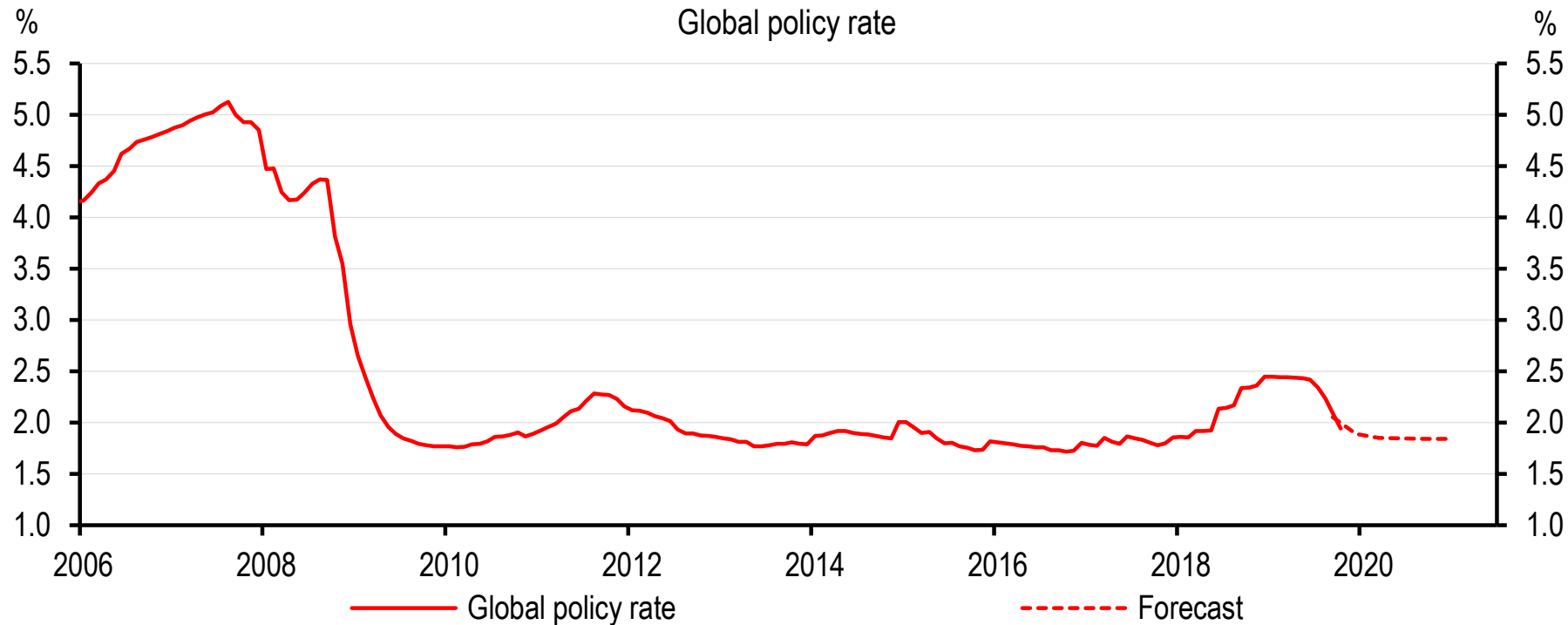
Profit weakness may last longer than expected



What's the policy response?

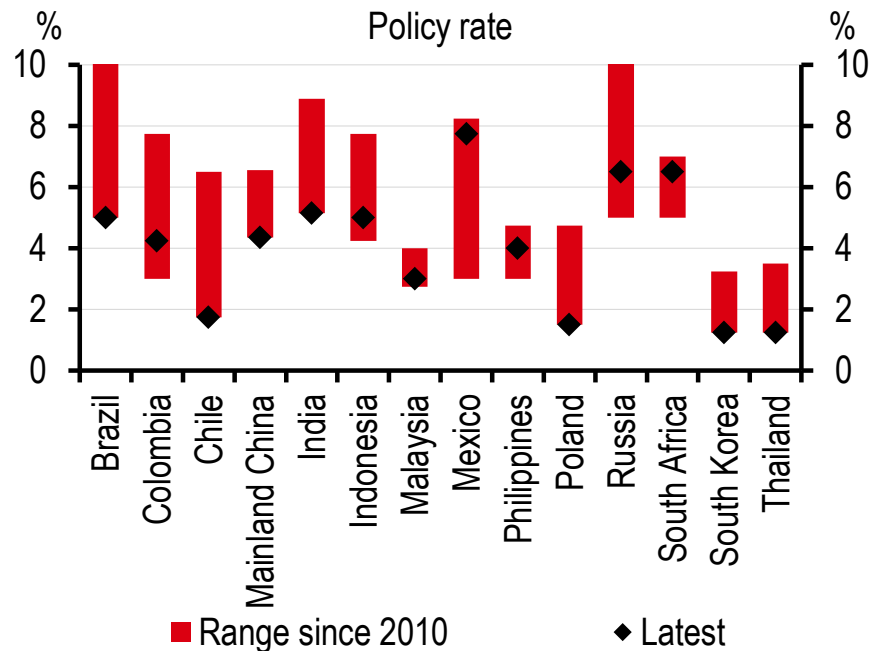
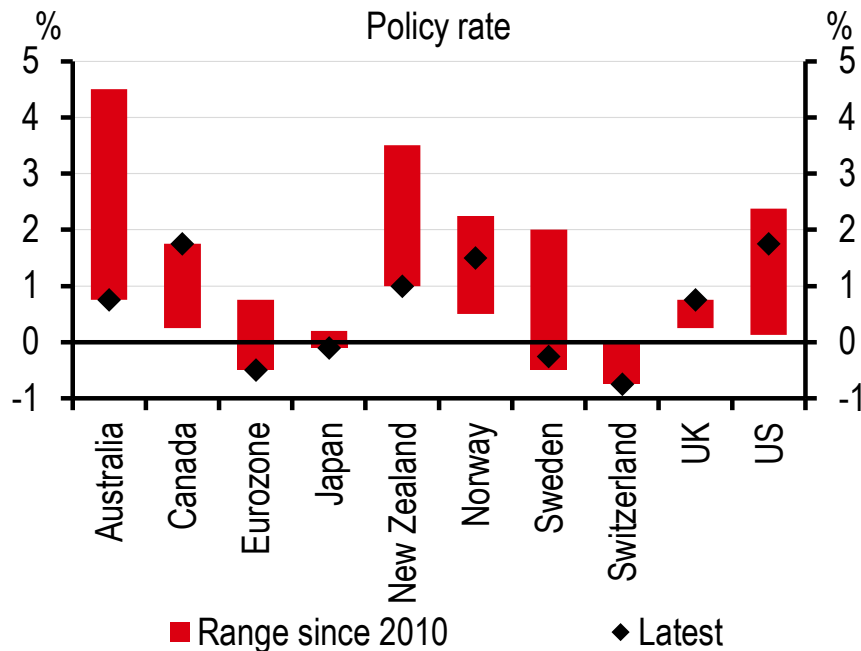
Monetary and/or fiscal?

Scope for interest rate cuts is now very limited



Note: This includes Australia, Brazil, Canada, mainland China, Czech Republic, EMU, Hong Kong, Hungary, India, Indonesia, Israel, Japan, Malaysia, Mexico, New Zealand, Peru, Philippines, Poland, Romania, Russia, South Africa, South Korea, Sweden, Thailand, UK, US, Norway Turkey, Colombia and Chile.

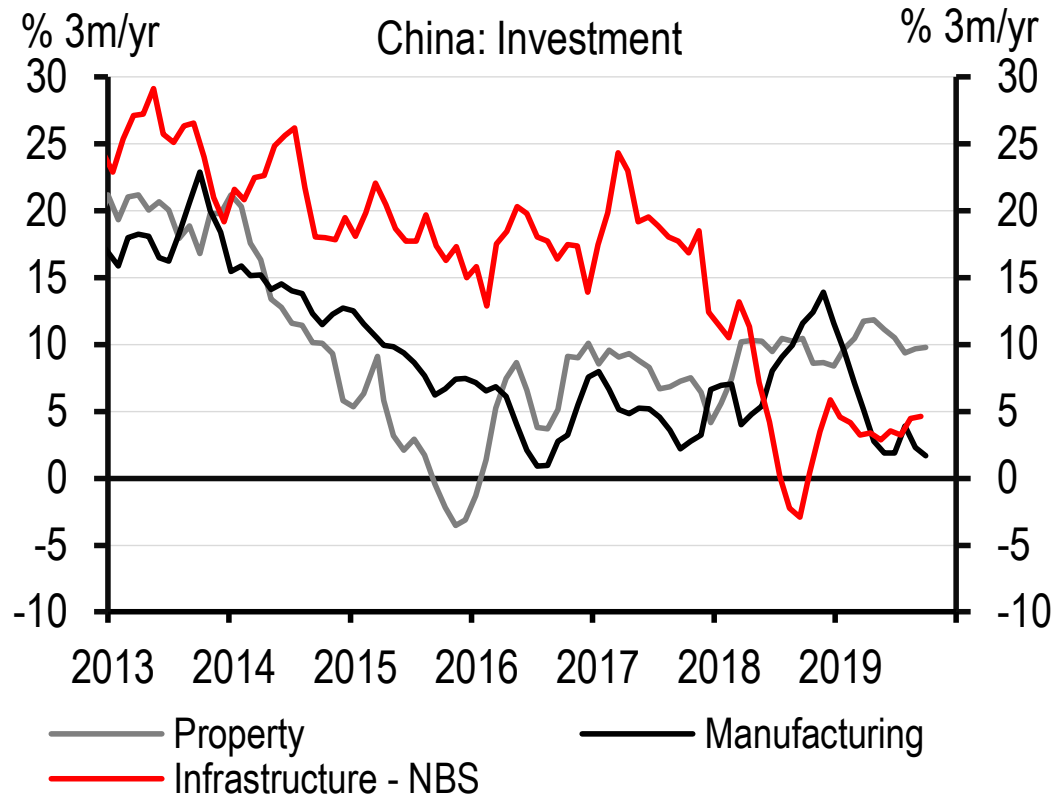
Most developed markets have limited policy room; EM already cutting



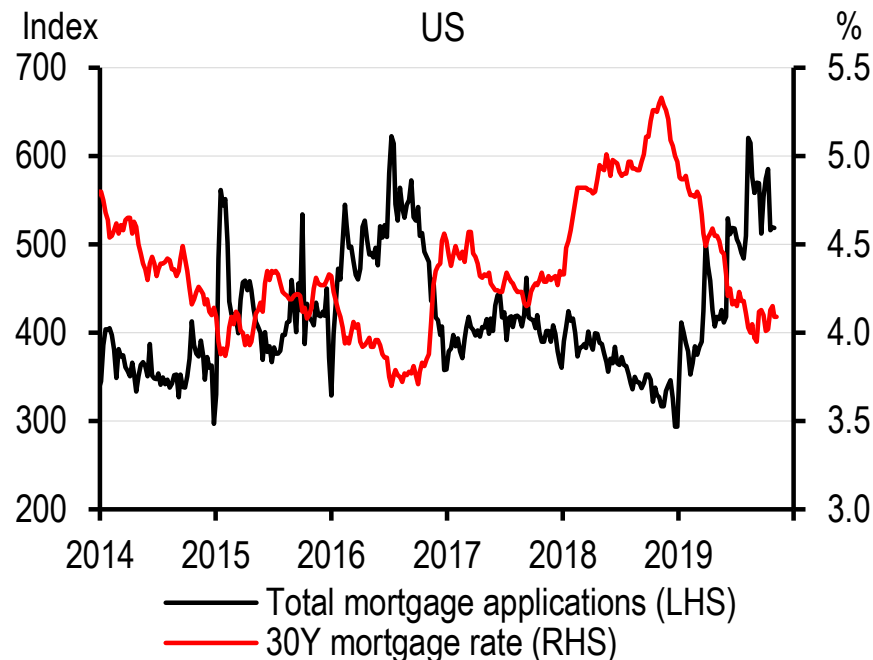
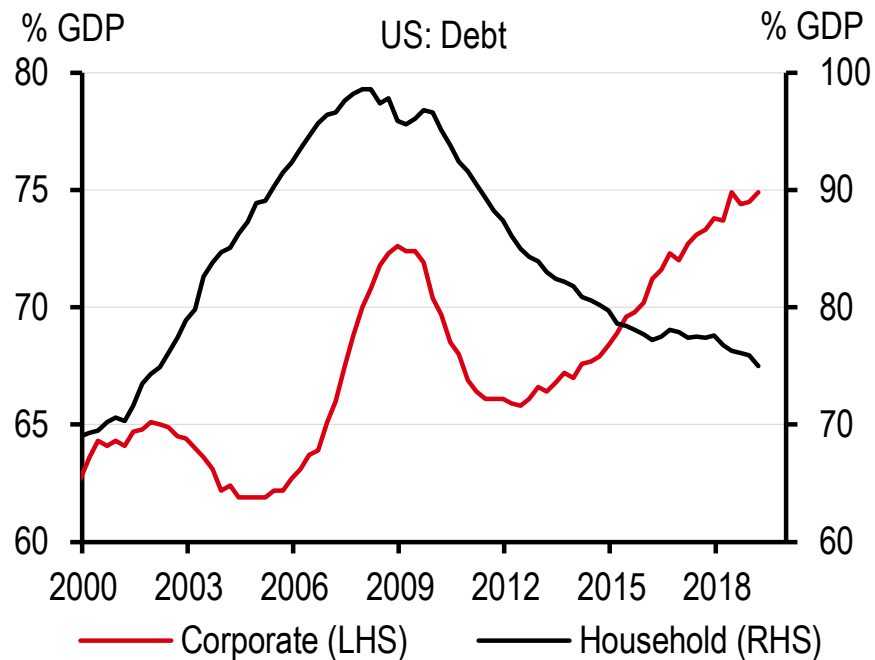
Note: Brazil max is 14.25%, Russia's in 17%. Turkey and Argentina are excluded due to scale.

Source: HSBC, Refinitiv Datastream

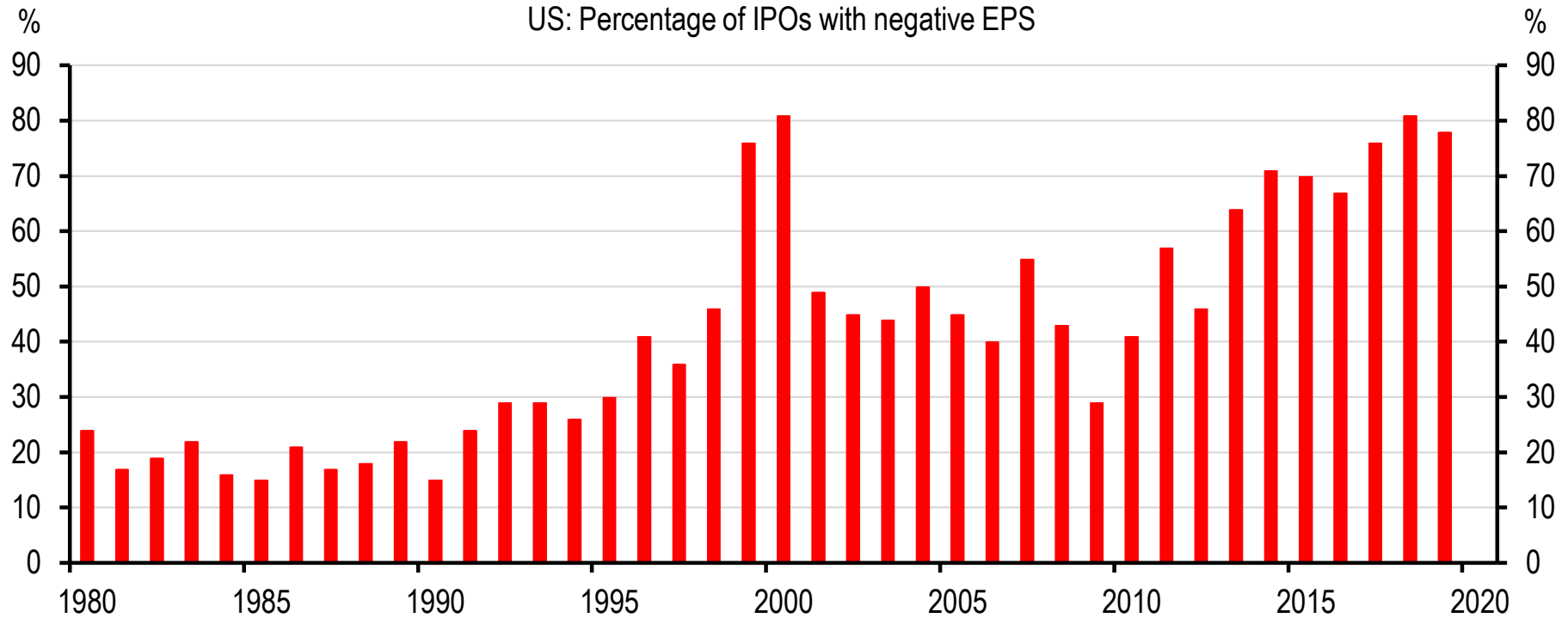
More infrastructure spending & monetary easing in China to manage the slowdown



Monetary policy can increase leverage...



...and increase risk appetite and maybe asset bubbles...

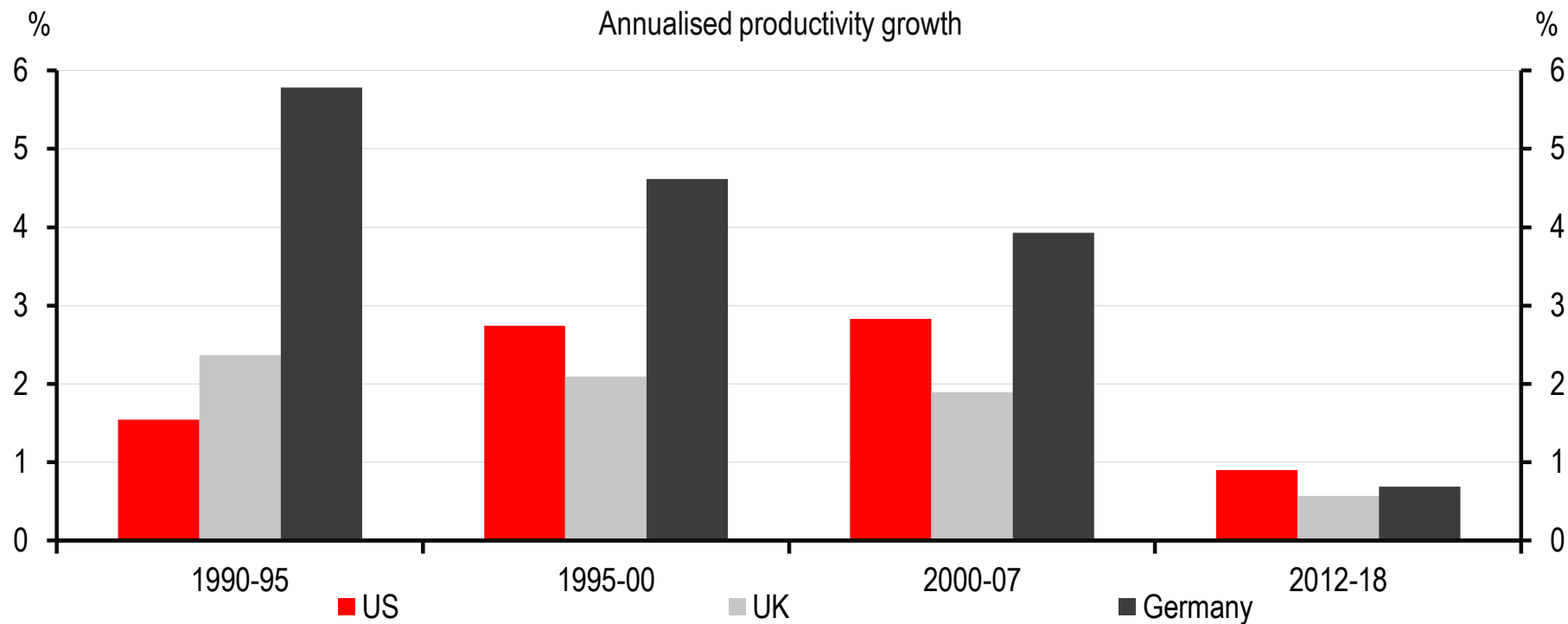


...but monetary policy can't bring a halt to trade wars

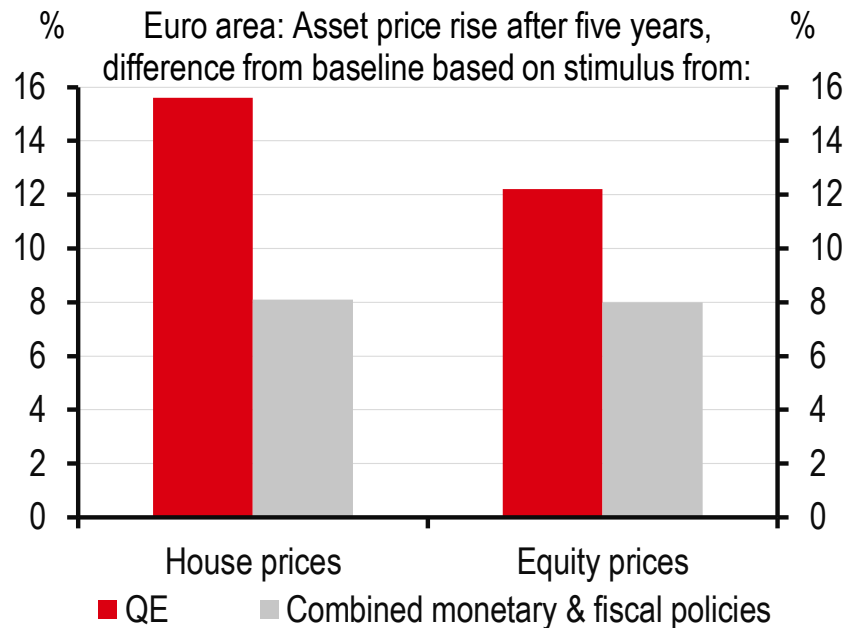
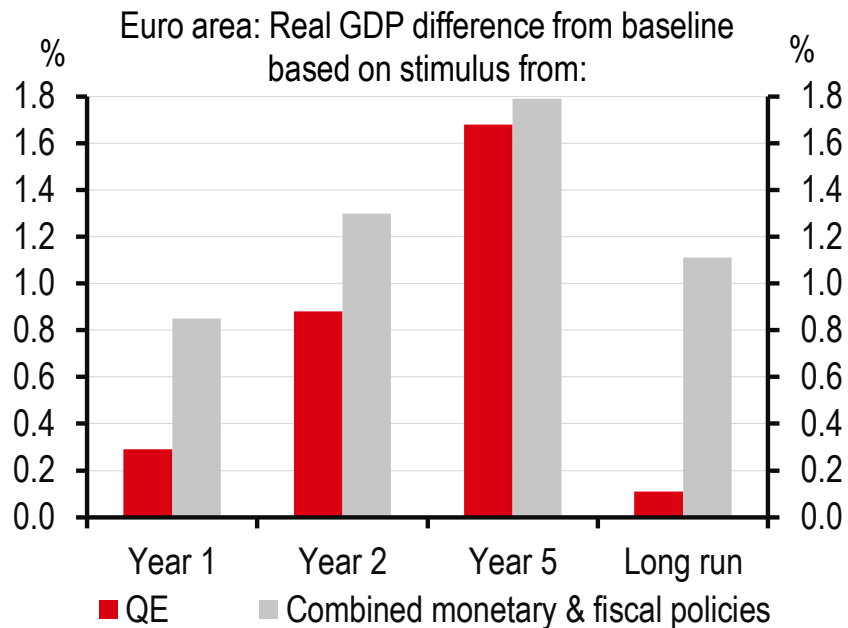
“ ...monetary policy cannot provide a settled rulebook for international trade”

Fed Chair, Jerome Powell, at Jackson Hole, 23 August 2019

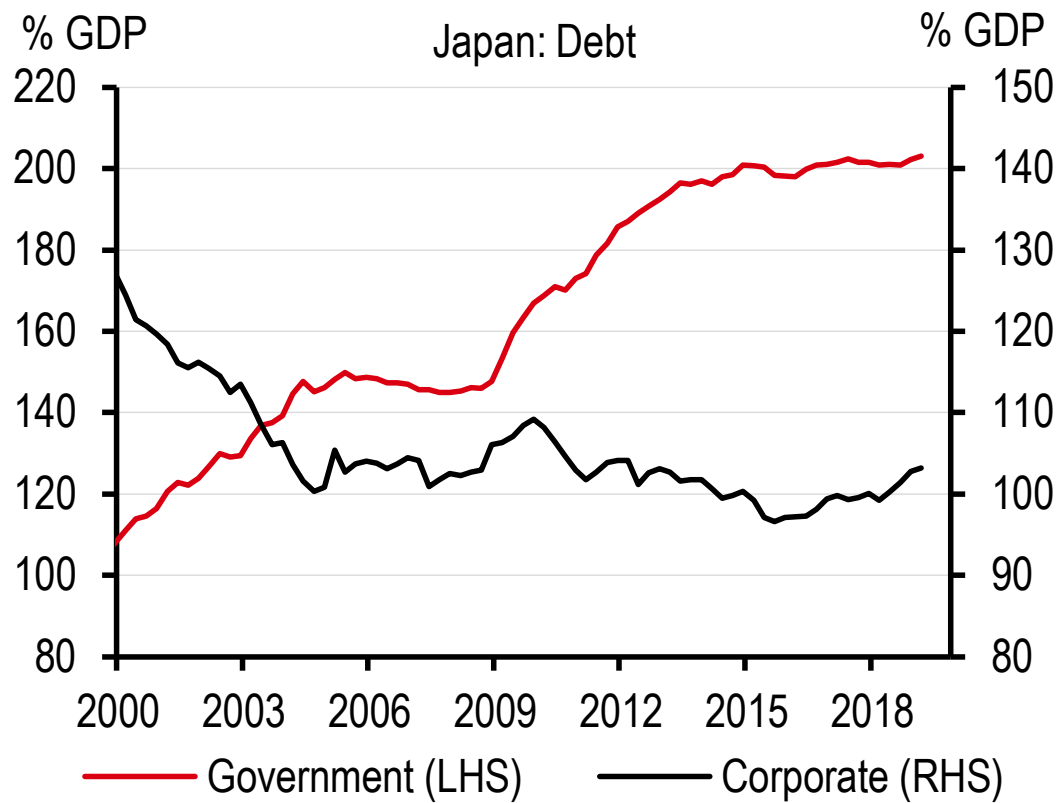
Lack of investment has played a key role in weakness of labour productivity



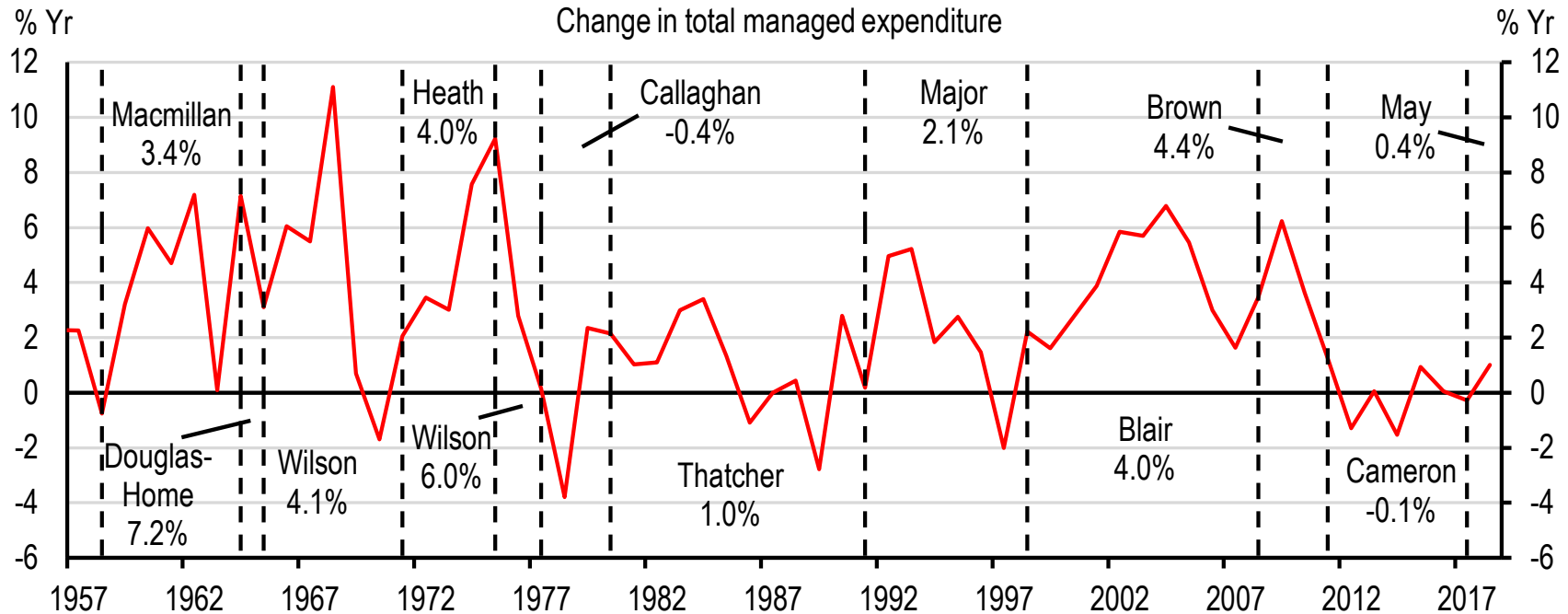
Combined fiscal and monetary policy can be more effective...



...but can just raise debt



After almost a decade of austerity, there is pressure to loosen the purse strings in the UK



Monetary vs fiscal stimulus

Unconventional monetary policy is now part of the toolkit

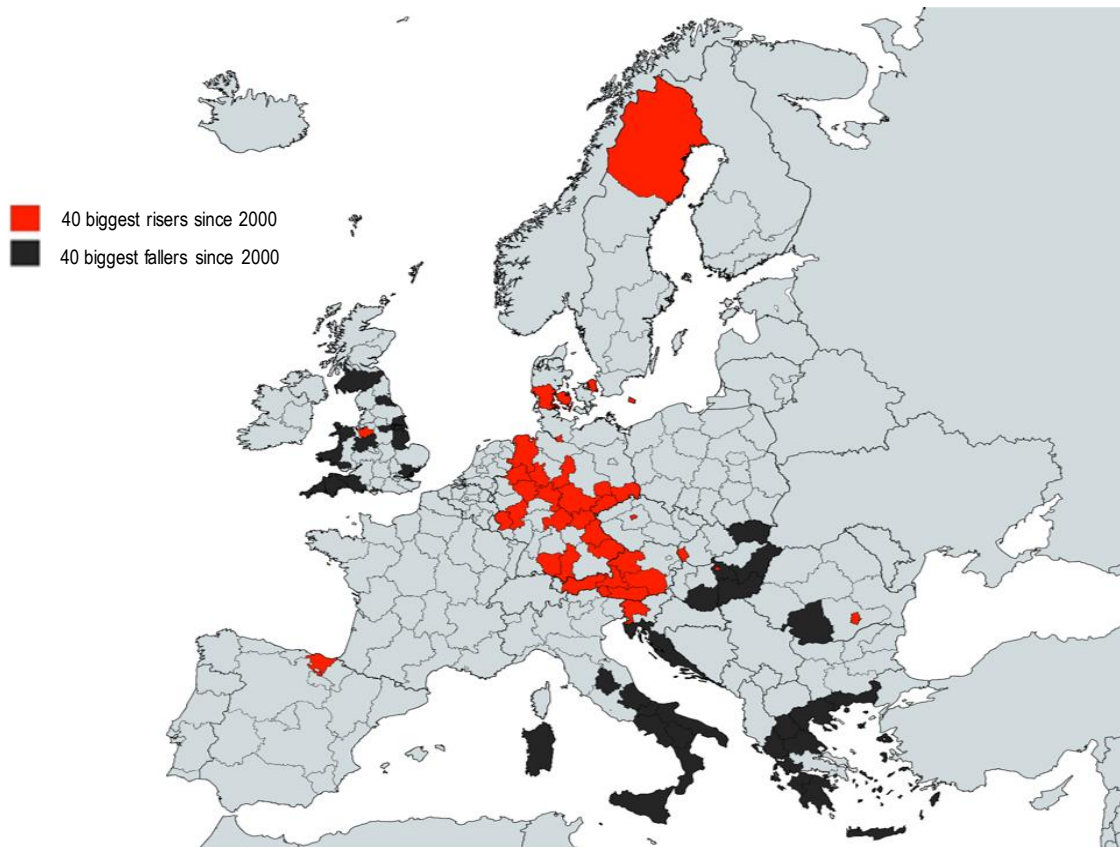
- Accepted part of tool kit but becoming less effective and risk it is a negative
- Zombie companies, no creative destruction, little incentive to invest
- Risk of asset bubbles

Fiscal policy is no free lunch

- Fiscal policy can address a market failure and have “fairer” distributional consequences...
- ...but no guarantee governments can invest more effectively to raise productivity...
- ...so promises may still have to be broken, particularly to future generations

To deliver price stability they will need to work together

The Politics of the Left Behind

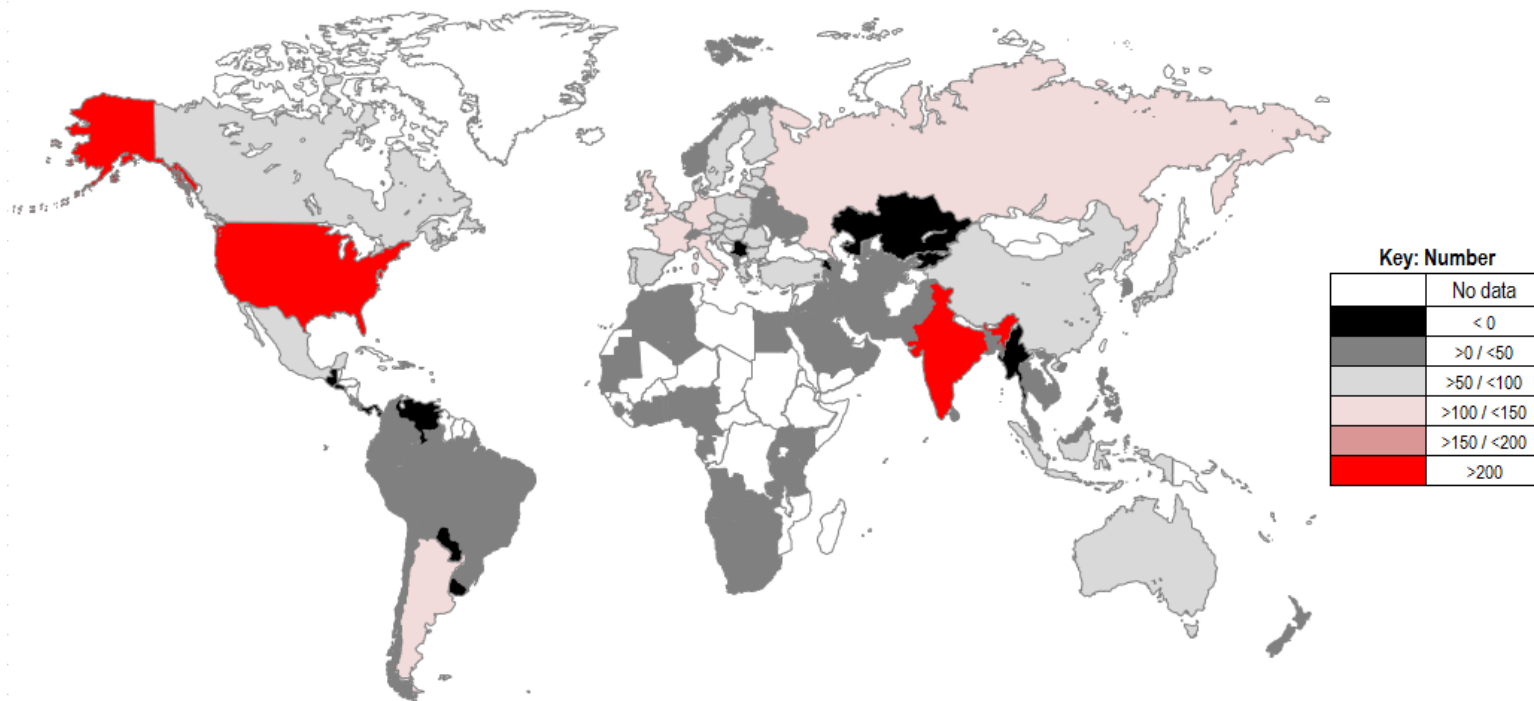


Note: that there are no comparative data for France, the Netherlands, Belgium, Poland and Lithuania.

Source: Eurostat, HSBC

US and India are imposing the greatest number of harmful trade measures

Net contribution to trade interventions (harmful minus liberalising)

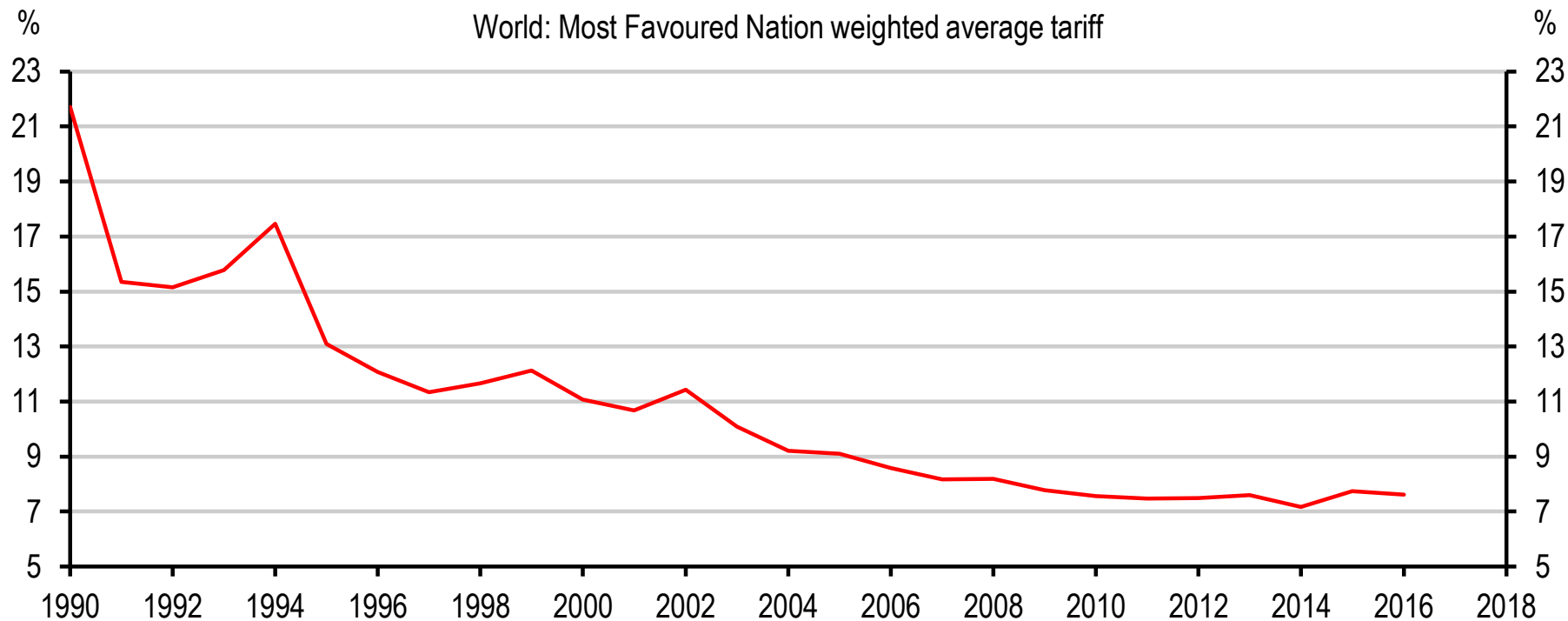


Globalisation helped to lift more than...

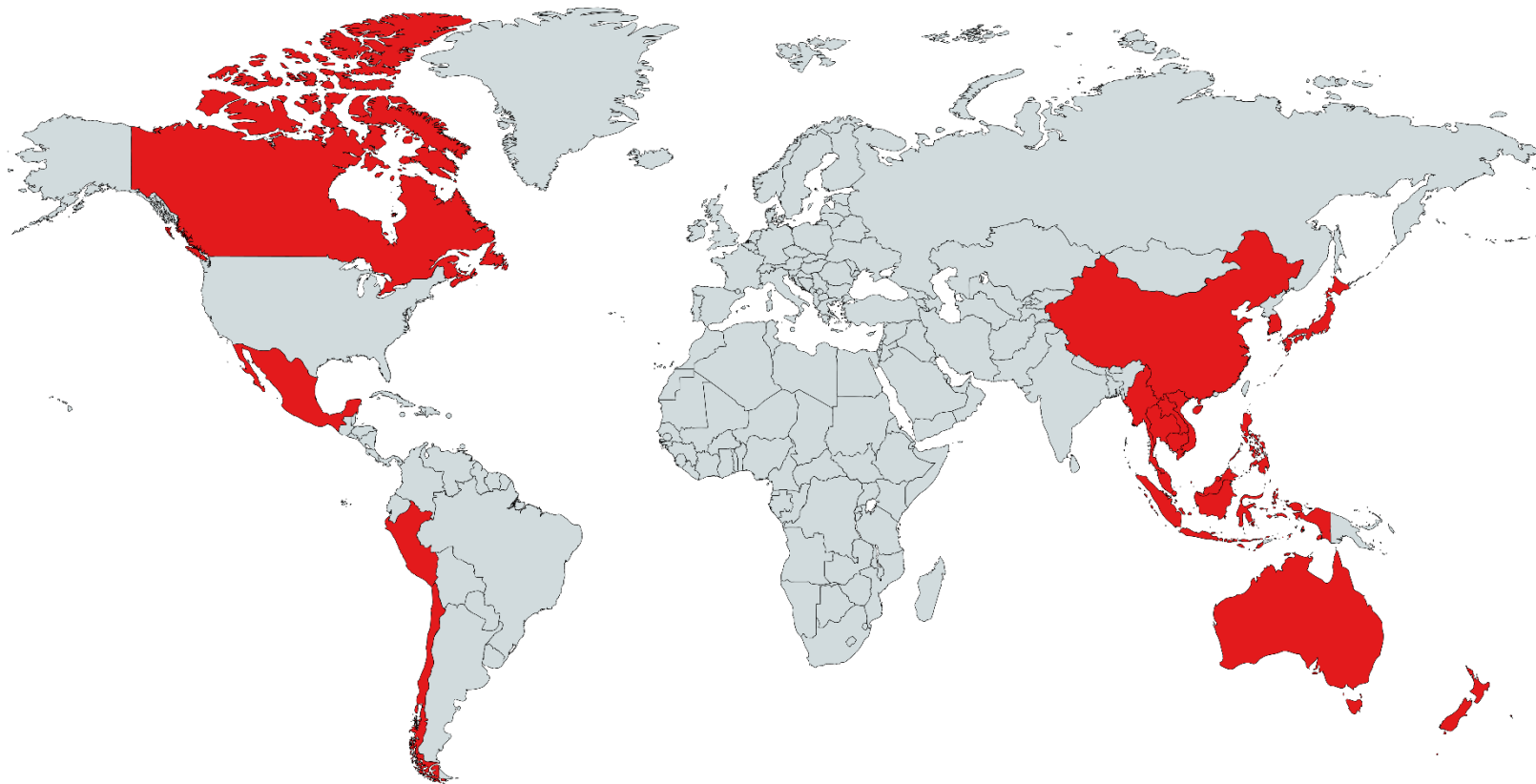
...one billion people

out of extreme poverty between 1990 and 2015

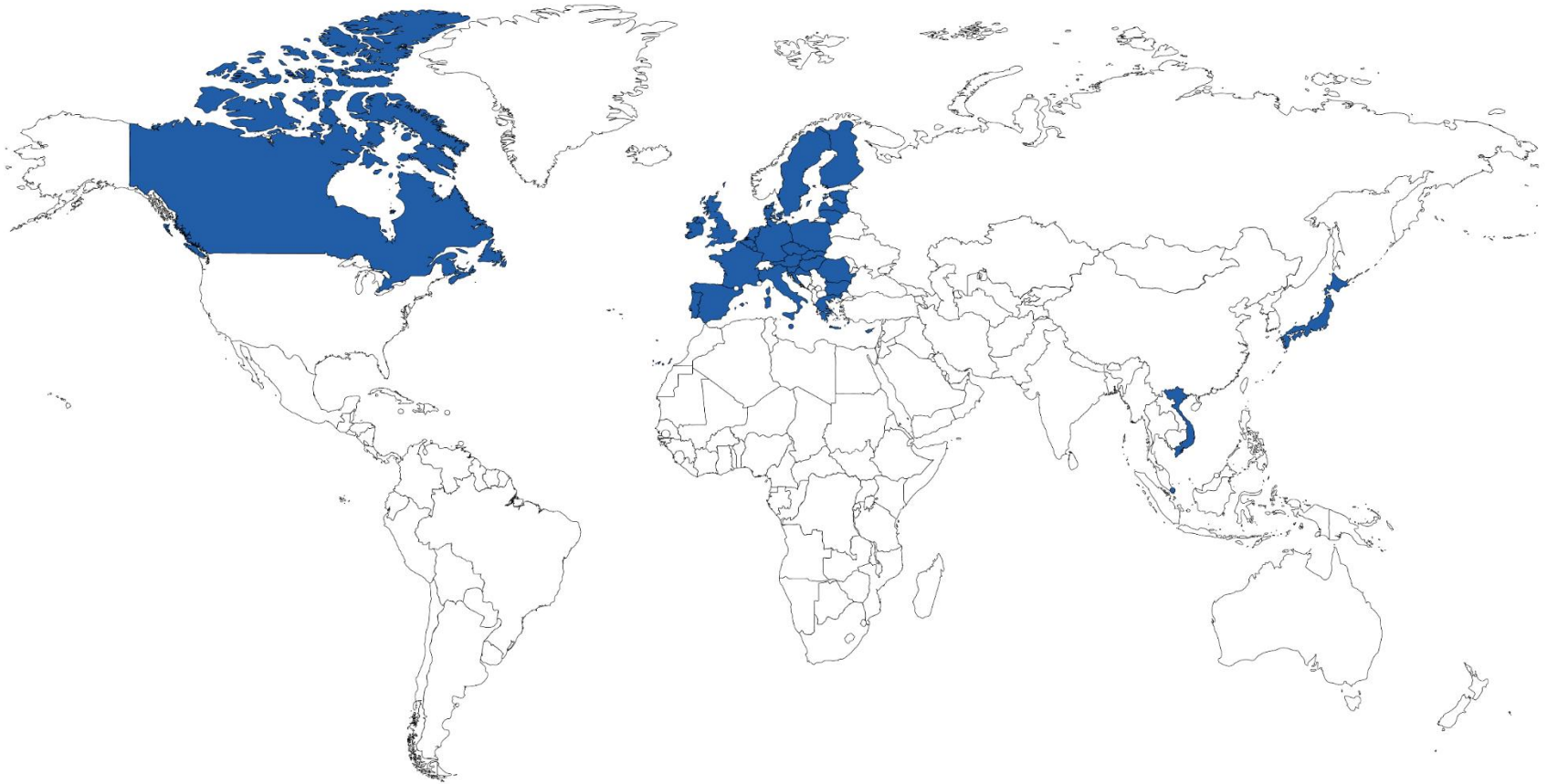
Global trade liberalisation may have come to a halt...



...but regional trade deals are being concluded too in Asia-Pacific...

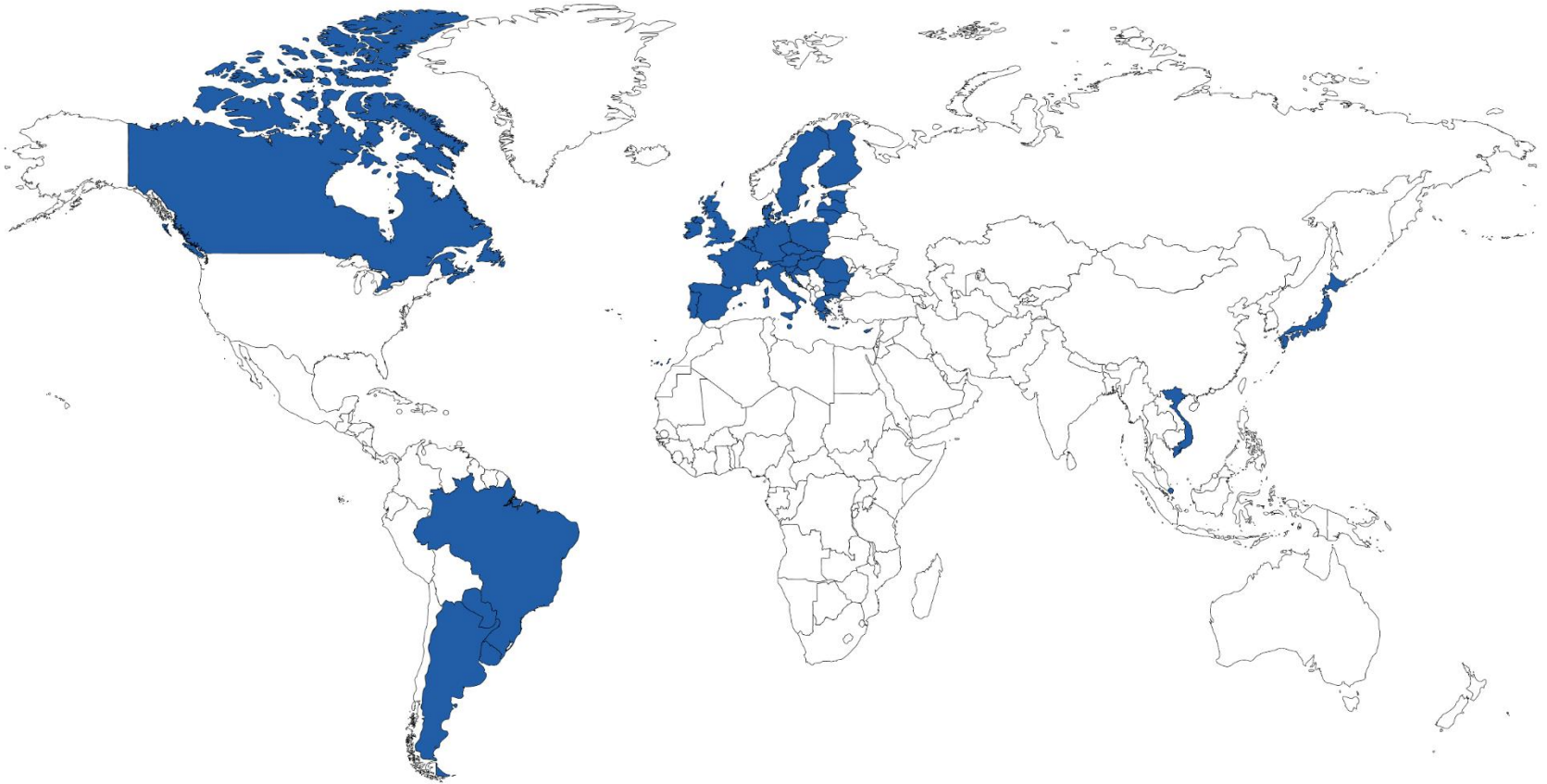


...and by the EU...

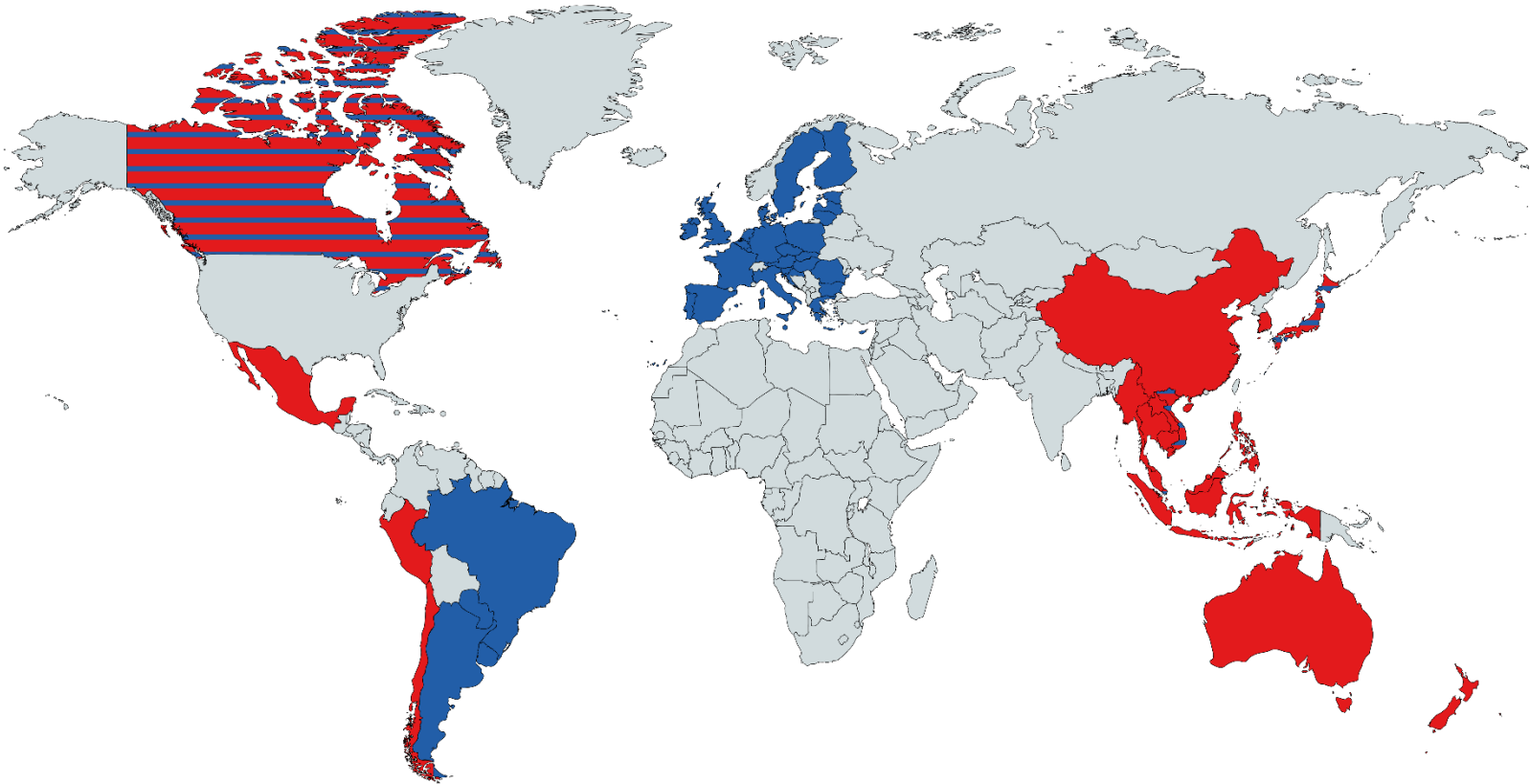


Source: mapchart.net, HSBC

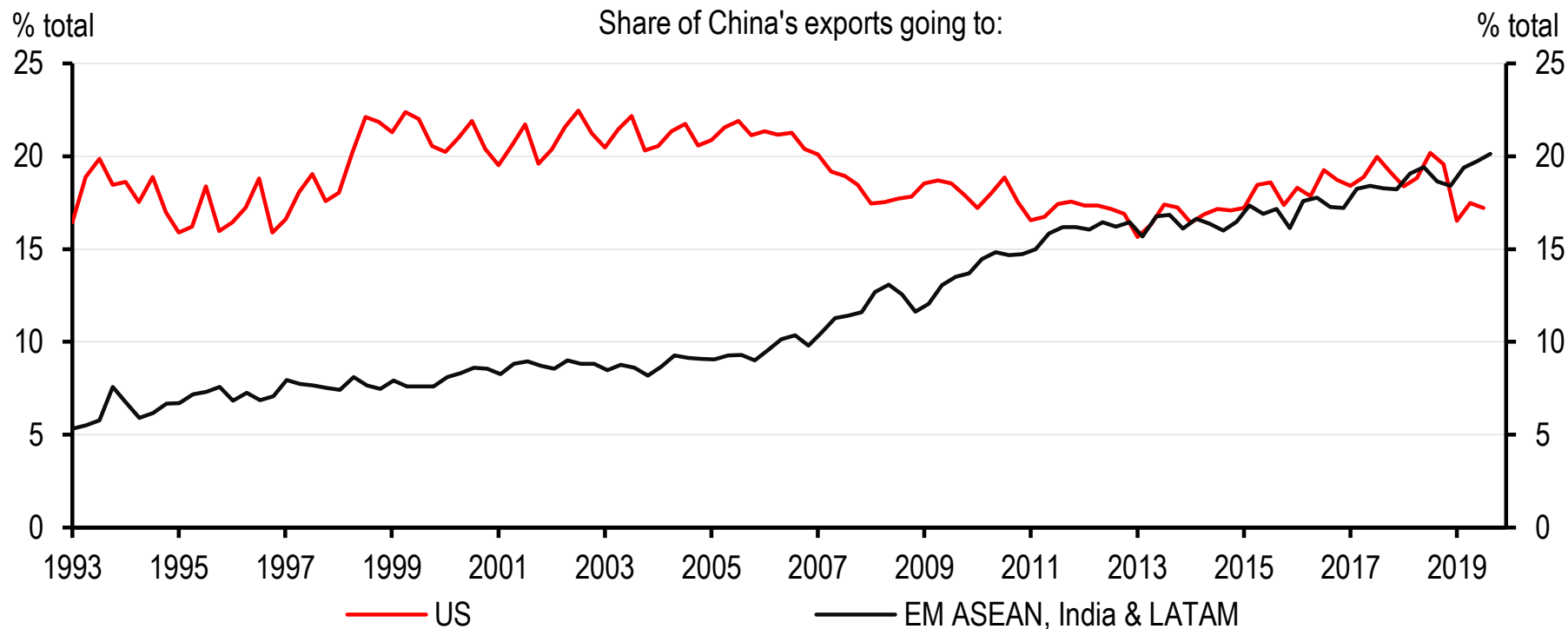
...and more are in negotiation



Regional and bilateral trade deals will lead to new economic linkages



New markets are providing a source of demand for China's exports



Conclusions

- Slowing global growth, low inflation, trade uncertainty and high debt...
- ...are unleashing monetary stimulus in an attempt to prevent recession...
- ...but monetary easing will alter the growth mix and raise risk of financial instability...
- ...and increased populism and isolationism
- Fiscal policy could do more to support demand in the face of ongoing tensions over trade and tech...
- ...but raising productivity, wages and the neutral rate is a much longer term challenge
- If a more serious downturn happens, the eurozone might be least well-equipped to combat it

Thank You!

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