29 September 2021

Macro monthly

Economics
GLOBAL

The global growth slowdown

- Global growth is slowing as policy support is being reined in and supply shortages intensify
- This is adding to inflationary pressures, and despite still high COVID-19 cases globally, central banks are changing policy
- We have lowered our global GDP forecasts to 5.7% in 2021 and 4.1% in 2022; we introduce our 2023 forecast of 3.0%

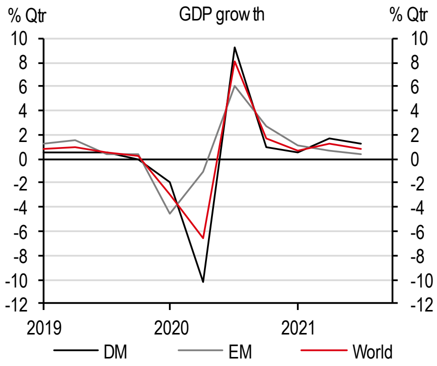
Global growth is slowing, global inflation is rising and while the rollout of vaccines is now high or rising in many countries, the pandemic is still raging in places. But with the global economy having rebounded more swiftly than originally expected for more than a year, the period of ultra-loose monetary policy may be drawing to a close.

Q3 weakness

After a strong Q2, global GDP growth slowed in Q3

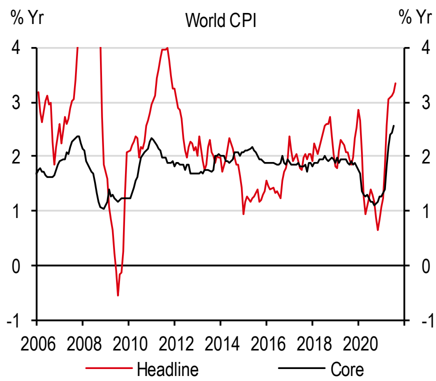
After robust Q2 growth, it is clear that **global growth slowed markedly in Q3** (chart 1). The reasons relate to the pandemic itself: government-imposed restrictions, widespread supply disruptions, and the impact of higher prices on confidence and disposable incomes, but also a rapidly fading fiscal stimulus in some countries.

1. Global growth is slowing…



Source: Source: Refinitiv Datastream, Bloomberg, HSBC estimates for Q3 2021

2. …and global inflation keeps rising



Source: Refinitiv Datastream, HSBC. Note: Excludes Argentina and India due to data availability.

Fiscal outlook

Reduced fiscal support is weighing on activity

The fiscal lift has already vanished in places, particularly in the emerging world. In some of the advanced economies, **the lessening of government support is starting to weigh on activity** and it will be an important factor in the coming year, particularly in the US where the bulk of the most recent fiscal stimulus package is already starting to fade.

China may see a modest revival in fiscal support

In the eurozone, however, there will be less of a step down in the fiscal impulse next year, as it was smaller than in the US and because of the EUR750bn Next Generation EU fund in 2022. **But, we think there will be a modest revival of fiscal support over the next few months in China**, as tightening measures to curb the housing boom have led to a slowdown.

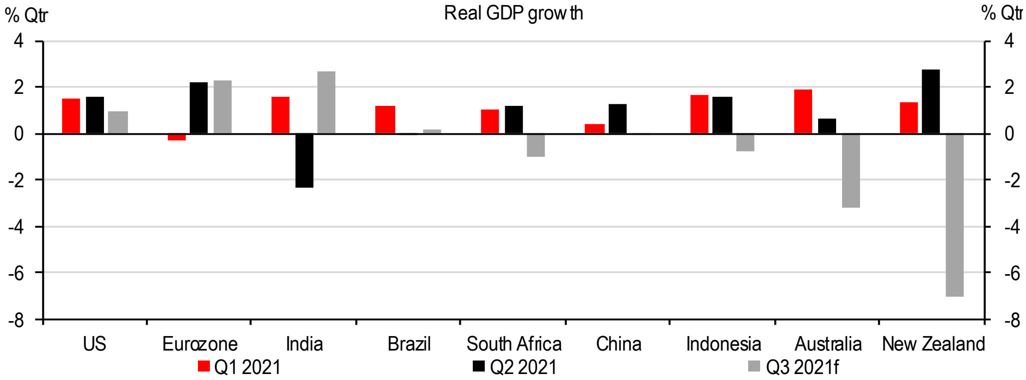
Pandemic effects and lockdowns

The pandemic continues to weigh on growth

The direct impact of pandemic-related restrictions and disruptions continue to have a massive impact and the growth consequences have been apparent in recent months. Chart 3 shows the quarterly growth rates in Q2 and our estimates for Q3 in a range of economies. Apart from India, which seems to have bounced back strongly from the deep contraction in Q2, the eurozone is the only region where we estimate there has been no loss of momentum in Q3.

Elsewhere, the recovery has slowed or even had a major setback. The impact of the lockdowns across parts of mainland China, ASEAN, Australia and New Zealand over the course of the past few months is abundantly clear with consumer spending in particular falling back sharply.

3. Restrictions vs re-opening: the growth impact



Source: Refinitiv, The Q3 2021 growth rates are HSBC estimates

Supply problems and inflation

Shortages are leading to higher inflation rates

For many months now reports of shortages have become more widespread, whether for semiconductors, container ships or labour, **leading to higher inflation (chart 4) and squeezed disposable incomes**. In Europe the recent surge in wholesale gas prices could even lead to another leap in inflation in the first half of 2022, while in China, forced production cuts by local governments in energy-intensive sectors likely drove producer prices higher in September.

The longer prices stay high, the more chance wages rise

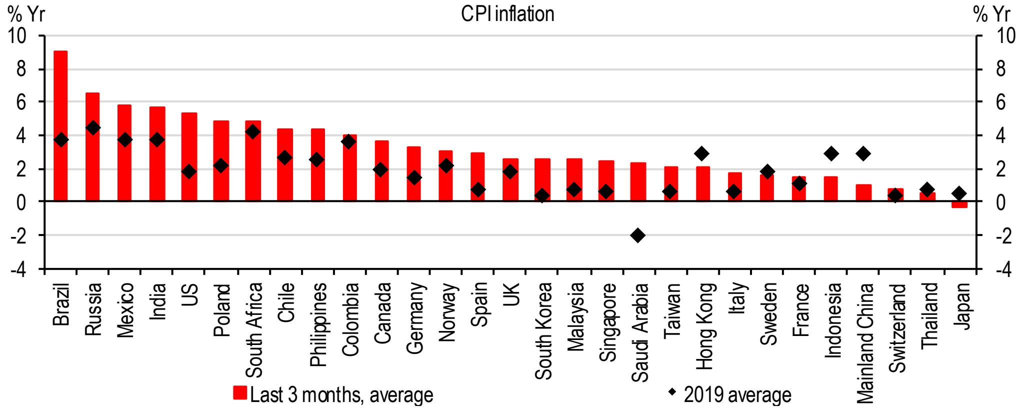
Some of these higher prices could still prove “transitory” – used car prices and ‘reopening effects’ in hospitality are unlikely to keep inflation high in two years’ time – **but the longer they stay elevated, the greater the risk of a wage response, especially if the labour market mismatches persist**.

Central banks and financial stability

Central banks have started to raise policy rates

We think a return to low inflation is no longer certain and, despite still high COVID cases globally, **central banks are now changing policy**. Norges Bank became the first G10 central bank to raise rates, and we expect the Reserve Bank of New Zealand to follow by year-end and the Bank of England by February 2022. In Latin America the tightening cycles should have run their course by mid-2022, just as we expect to see some central banks in Asia start to edge higher.

4. Upside surprises to inflation have been widespread, except in much of Asia



Source: Refinitiv Datastream

Inflation overshoots could alarm investors

However, continued optimism in financial markets – despite scares over China's property tightening and uncertainty regarding the US debt limit – implies great confidence that policymakers will take timely, appropriate action. But as the recovery continues, markets will be watching the growth, labour market and inflation releases to set their own expectations for the timing and magnitude of rate rises. **Anything more than a moderate overshoot of the Fed's inflation goals in 2022-23 could alarm investors if they fear that the Fed will need to move more quickly than priced in.**

Our GDP forecasts

Our global growth forecast for 2021 is 5.7%

We have trimmed our global GDP growth forecast for 2021 to 5.7% reflecting downward revisions for US and large parts of Asia-Pacific but we have also made some notable increases to our forecasts for the eurozone and Brazil and Russia. We have also published our initial projections for 2023 for the first time.

2021 has been the bounce-back year and while our 2022 forecasts are for slower growth because of the scale of policy support provided, they are still above the pre-pandemic *trend*. But that does not mean there will be no economic scarring from the pandemic. Our economists have made their best stab at estimating the lasting damage to supply and demand from COVID-19 and **our global GDP forecasts point to growth of 3.0% in 2023**.

Key GDP forecasts

% Year	2021		2022		2023
World	**5.7**	**(5.8)**	**4.1**	**(4.2)**	**3.0**
US	5.7	(6.5)	3.8	(4.3)	2.4
Mainland 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	(4.9)	4.0	(4.0)	1.9
UK	6.3	(6.7)	5.3	(5.2)	1.7
Russia	4.6	(3.5)	2.1	(2.9)	1.4
Brazil	5.0	(4.7)	1.3	(2.1)	1.5

Note: *India data is calendar year forecast here for comparability. Previous forecasts are shown in parenthesis, and are from the previous Macro Monthly dated 27 August 2021. Green indicates an upward revision, red indicates a downward revision.
Source: Bloomberg, HSBC

Key recent releases

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
22 Sep	Mainland China	Policy rate (%)	-	3.85%	3.85%	3.85%	→
22 Sep	US	FOMC rate decision (%)	-	0.00%-0.25%	0.00%-0.25%	0.00%-0.25%	→
23 Sep	Eurozone	Markit manufacturing PMI (index)	Sep, flash	58.7	60.3	61.4	↓
23 Sep	Eurozone	Markit services PMI (index)	Sep, flash	56.3	59.0	60.3	↓
23 Sep	UK	Markit manufacturing PMI seasonally adjusted (index)	Sep, flash	56.3	59.0	60.3	↓
23 Sep	UK	Markit/ CIPS services PMI (index)	Sep, flash	54.6	55.0	55.0	↓
23 Sep	UK	BoE rate announcement (%)	-	0.10%	0.10%	0.10%	→
23 Sep	US	Markit manufacturing PMI (index)	Sep, flash	60.5	61.0	61.1	↓
23 Sep	US	Markit services PMI (index)	Sep, flash	54.4	54.9	55.1	↓

Source: Bloomberg, HSBC

↑ Positive surprise – actual is higher than consensus, ↓ Negative surprise – actual is lower than consensus, → Actual is in line with consensus

Key upcoming events

Date	Market	Release	Period
5 Oct	Australia	Reserve Bank of Australia interest rate announcement	-
8 Oct	Mainland China	Caixin Services PMI	Sep
8 Oct	India	Reserve Bank of India interest rate announcement	-
8 Oct	US	Non-farm payrolls	Sep
13 Oct	UK	GDP	Aug
13 Oct	US	CPI	Sep
13 Oct	Mainland China	Exports, imports, trade balance	Sep
14 Oct	Mainland China	PPI, CPI	Sep
15 Oct	US	Retail sales	Sep
18 Oct	Mainland China	Industrial output, retail sales, GDP	Sep, Sep, Q3
20 Oct	UK	CPI	Sep
22 Oct	UK	Retail sales	Sep
22 Oct	Eurozone/UK/US	PMIs	Oct
27 Oct	Canada	Bank of Canada interest rate announcement	-
29 Oct	Eurozone	Inflation, GDP	Oct, Q3
29 Oct	Canada	GDP	Aug

Source: Bloomberg, HSBC

Disclosure appendix

1 This report is dated as at 29 September 2021.

2 All market data included in this report are dated as at close 28 September 2021, unless a different date and/or a specific time of day is indicated in the report.

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