

Video transcript

West passes the parcel

Stephen King, HSBC Group Chief Economist

Hello, I'm Stephen King, I'm the Chief Economist for HSBC. I'm joined today by Karen Ward to talk about our latest views on the global economy as recently published in our global economics document for the fourth quarter of 2013, which is subtitled *Pass the parcel*. The reason for that title, *Pass the parcel*, is that despite the slightly more encouraging signs, in parts of the developed world in recent months, the world economy as a whole still looks as though it has significant weaknesses, most obviously in parts of the emerging world. The reason for these weaknesses is partly associated with shifts in balance of payments positions around the world in recent years; a theme we first touched upon in the note called *Reversal of fortune*, which came out just a handful of weeks ago.

The bottom line here is that the eurozone has seen a spectacular shift in its balance of payments position, from very small current account surplus to very large current account surplus, primarily because of the massive deleveraging that has taken place in southern Europe. But of course for every country in the world, for every region in the world, that runs a large current account surplus, others have to run large current account deficits. If we look at the changes that have occurred over the last few years, the offset to the eurozone story, is very much an Asian and emerging markets story, that we've seen a really rapid deterioration in current account positions in those parts of the world.

Now some of those countries appear to be faring a little bit better now than we thought earlier this year. So China for example appears to have stabilised to a certain degree, but other countries are showing signs not just of weaker balance of payments positions, but also difficult domestic fundamentals as well. At this point I turn to Karen Ward who will run through with you some of those difficult domestic fundamentals.

Karen Ward, Senior Global Economist


The emerging world offers great long-term potential. But to unleash that potential we want to see rising investment, rising productivity, and therefore rising real incomes. And with all the global liquidity sloshing around, we could have seen that capital accelerate this trend of catch up with the Western economies. Unfortunately what we've seen in certain areas is in fact the money not going to such productive use. We've seen consumer spending sprees, we've seen debt levels rising and we've seen wages growing in excess of productivity such that unit labour costs are rising and competitiveness is being lost. And so for some, balance of payments positions have deteriorated quite markedly.

Now not all of the emerging world can be tarred with the same brush - the likes of the Philippines, Malaysia, Korea, all look on a much stronger footing. But for Brazil, India, Turkey, these excesses of the last few years where capital perhaps hasn't gone into the best allocation, will restrain their growth outlook for the coming year at least.

Stephen King

Well thank you, Karen, and if I can just conclude with some remarks about how this all has an impact on our forecasts. In one sense the more worrying news this time around is from the emerging world. We are now looking at growth both this year and the next of below 5 per cent, which by the standard of emerging market growth in recent years, is actually quite disappointing.

The good news is that we've revised up our Chinese forecasts. After all those worries earlier this year, it appears that the Chinese economy may have hit bottom in the middle of the year; we are now forecasting growth for the year as a whole of 7.7 per cent that's up from 7.4 per cent previously. The bigger concerns really are in India and in Brazil; whereas a quarter ago we thought that perhaps India might be growing this year and next at an average rate of maybe 5.5, 5.75 per cent; it's now looking more like a 4.5, 4.75, so not really quite as spectacular as was the case previously. And as for Brazil, well of course, this is an economy that appeared to be showing some degree of dynamism, growth maybe 2.5-3.0 per cent this year and next - now looking more likely to be 2 per cent.



So frankly, the emerging markets are facing not so much a disaster but certainly a short-term constraint. I do think the longer-term story for EM is still very encouraging, largely because of urbanisation, South-South trade and all those kind of issues, but in the short term there are clearly some downside risks.

As for the developed world, the US really isn't changing very much - all this talk about tapering is very interesting but what it underscores is that the Federal Reserve is not that confident about the pace of recovery in the US. As for the eurozone, we have made some modest upgrades to our forecasts this quarter - the first time in really quite some time, but it is still pointing to a story of contraction this year and only modest recovery next year.

Better news for Japan, and better news for the UK, we've made significant upgrades to both, partly thanks to Mr Abe. And also thanks to maybe signs that the UK is in danger of returning to some of its old bubbly behaviour in the housing market. For all the talk of rebalancing in the UK towards export-led growth, we appear to have gone back to the old-fashioned way of generating recovery, which is a bit too much leverage, a bit too much in the way of a housing boom. And perhaps that's something which helps in the short term, but the longer-term health of the UK economy still isn't particularly encouraging.

So major story: balance of payments positions; shifts in current account positions around the world; the emerging markets under some pressure in the short term; developed world looking slightly better; but the overall story really is still one of sluggish growth compared with previous economic recoveries.

I'm Stephen King, thank you very much for listening.