Economic update
Third quarter 2021

This report has been prepared from information available as at 22 July 2021.
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Key points

- The Covid-19 pandemic is far from over; but, in many advanced economies, the link between infections and hospitalization and death has been markedly weakened by vaccination programmes. The global economy therefore continues to recover, although it's likely to be another year or more before international travel can return to anything like pre-pandemic normal.

- Our global forecasts for GDP growth during 2021 have generally been revised higher, with some notable exceptions including Japan. Among emerging economies, a large downgrade to India has been offset by upgrades elsewhere. Our forecasts for inflation have also been raised, as it becomes increasingly apparent that the recent spike in many commodity prices is not about to abate quickly.

- The improving growth outlook has heightened the debate about whether the recent acceleration of inflation will dislodge expectations and put pressure on central banks to raise interest rates. While some will begin to hike rates this year, the UK and Canada will probably make their first moves in 2022, while the US Federal Reserve isn't expected to begin lifting rates until the middle of 2023.

- Economic activity in the UK is expanding rapidly as the economy re-opens. With households sitting on a large stock of enforced savings, they are able to resume spending on services while also sustaining their enthusiasm for home and garden improvements, and for new cars, gadgets, and furniture.

- In the very short term, the labour shortages caused by the UK's so-called "pingdemic" are likely to depress GDP growth during July and August. But assuming that the delta wave can be tamed without imposing substantive new restrictions, then GDP is still expected to expand by more than 7% over 2021 as a whole.

- The annual rate of consumer price inflation is now expected to top out at over 3% later this year, while conditions in the labour market have tightened markedly in recent months. The number of vacancies is back above its pre-pandemic level, while annual earnings growth has topped 7%.

- The Bank of England is therefore expected to begin raising interest rates in the spring of next year, with another hike pencilled in for the autumn. The MPC is also coming under growing pressure to halt its programme of asset purchases, and to announce a strategy for unwinding its holdings, which are now equivalent to around 40% of GDP.

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The global economy – the jabbed and the unjabbed

The global economy continues to recover from the shock of the Coronavirus pandemic. But there are stark differences in the pace at which countries are reviving, driven largely by their ability, or otherwise, to procure vaccines and get jabs into arms.

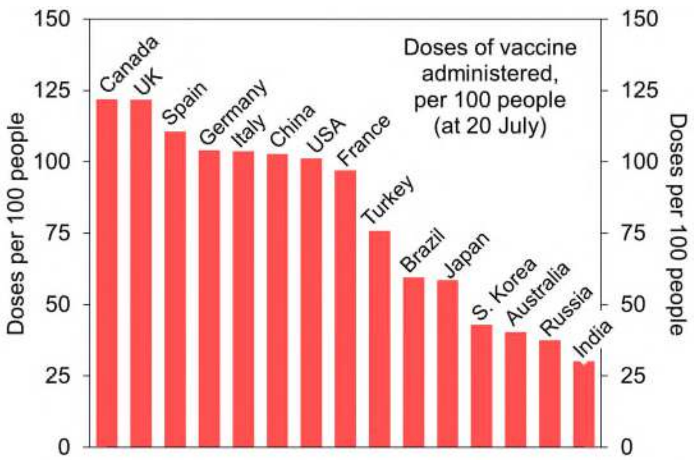
Around the world, more than three billion doses have been administered in little more than six months, which is a remarkable achievement by any standard; but the populations of many emerging economies remain largely unvaccinated, with only around 2% of people in Africa having received any protection. Even in some advanced economies, including a few that did well in containing the spread of the virus during 2020, such as Japan and Taiwan, progress with vaccinations has been slow.

At the other end of the spectrum, 90% of adults in the UK will have received one dose of vaccine by the end of July, and close to 70% will be 'double-jabbed'. Across much of the EU, vaccination programmes are now proceeding at pace, and in the USA President Biden's ambition to have administered a first dose to 70% of adults by Independence Day was only just missed.

Yet there are issues of vaccine hesitancy in most countries, and it remains questionable whether even advanced economies will manage to get two doses into the arms of more than 90% of adults. The UK could well get there, but even here there are pockets of hesitancy among some ethnic minority and religious groups, and also among the young, which means that the uptake of vaccines in London lags the rest of the country. In the USA, a stark cultural divide is clearly seen in vaccination rates, with some southern states struggling to get first jabs into more than 50% of adults. Mixed messaging by governments has also hindered progress in some countries, such as in Russia where the authorities initially played down the severity of the pandemic and then made much of reports of health concerns with some of the vaccines.

So while some major economies are now enjoying blistering growth rates as they re-open their service sector activities, the pandemic is far from beaten. Globally, the weekly death toll is still running in excess of 50,000, and many people continue to live under some form of restrictions. It's likely to be at least another year before enough people are vaccinated around the world to slow the spread of the virus. In the meantime, life for many people may be gradually returning to something like normal, but international travel will continue to be anything but normal.

Wide variations in rates of vaccination



Source: Our World in Data

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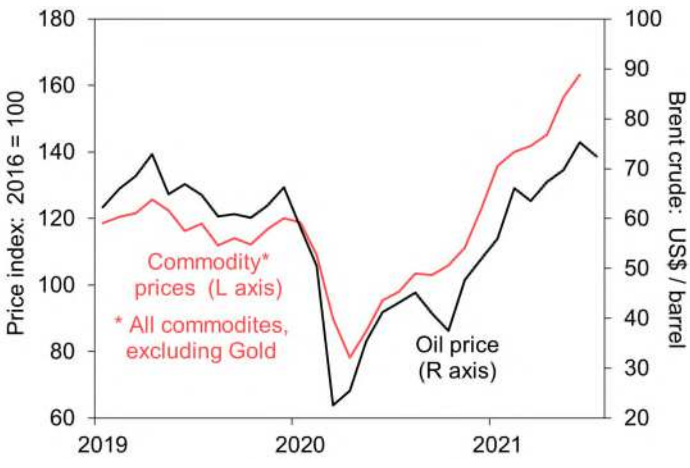
The big question for the weeks ahead is what level of immunity is required to slow the spread of the more virulent Delta variant. In the UK, the Delta variant became dominant several weeks ago, and the proportion of 'double-jabbed' adults is likely to reach 90% early in the autumn; the experience of the UK, following the lifting of most Covid restrictions on 19 July, will therefore be closely watched during the coming weeks and months.

The robust revivals now underway in North America and western Europe are being powered mainly by buoyant household spending, as consumers draw on the 'involuntary savings' of the past year. Government support programmes are still lending a hand, although some of these are beginning to be run down. The generosity of these schemes varies widely, as does their timing. The EU's €750 billion "Next Generation" fund, for instance, aims to deal with the post-pandemic 'scarring' effects, rather than providing support to incomes during periods of lockdown, and won't begin to distribute funds until later this year. In the United States meanwhile, the Biden Administration's American Rescue Plan, together with the Trump Administration's second package announced last December, will provide a massive fiscal boost equivalent to around 8% of GDP during the course of this year. What happens next will depend on whether President Biden can persuade Congress to pass his Families and Jobs plans. But even if they are approved, the stimulus will be spread out over many years and will be in the order of just 1.0% to 1.5% of GDP. As for the short-time work schemes, which have been the cornerstone of government support to incomes during the pandemic (with the notable exception of the USA), these are being phased out, with the vast majority of them set to close by the end of the year.

The production and distribution of many goods continues to be hampered by acute bottlenecks. Shipments from the port of Yantian in the Pearl River Delta have been disrupted by an outbreak of Covid, reducing its throughput in June by about half. Although the port is now working normally, it will take some weeks to clear backlogs, and the disruption will have a greater impact on global trade than the blockage of the Suez Canal in March.

As western economies re-open, there are signs that their consumer spending patterns are beginning to switch back to services away from goods, as people are once again able to eat and drink out, and to go to cinemas, theatres and sports events. But this process will be gradual, not only because of the time that it's likely to take to re-open all economies, but also because the accumulated savings of households in advanced economies will still buoy demand for cars, furniture, home improvements, and garden accoutrements. After several months of steep increases, the prices of many raw materials eased back in June, albeit that the IMF's index of commodity prices remains around 30% higher than it was at the end of 2019.

Many commodity prices are now above pre-pandemic levels



Source: IMF Primary Commodities Database, Refinitiv Datastream

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Inflation – more than a brief blip

Financial markets have become obsessed by the prospects for inflation, and how central banks might respond to an inflation spike. Until quite recently, the response from those banks has been to insist that the inflation was a temporary consequence of Covid-related supply bottlenecks, and that it would soon abate. But the shortages have lasted longer than expected, and the longer lead times for deliveries of many goods have been accompanied by labour shortages, with many migrant workers still to return after the pandemic. Firms often find it harder to absorb higher labour costs than is the case with increases in raw material prices, so that faster wage inflation is more likely to trigger economy-wide price increases, including for services. If that were to happen, expectations about future inflation could become dislodged, fuelling demands for higher wages.

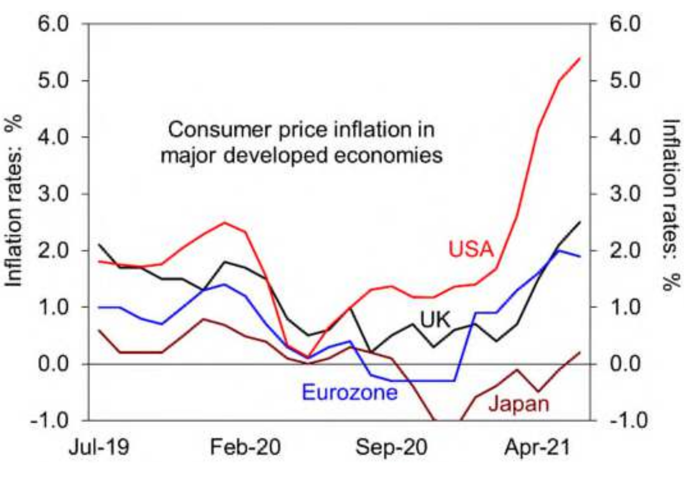
Nobody is forecasting a return to the sort of double-digit inflation rates that beset many economies during the 1970s and 1980s; indeed, a modest quickening of inflation from the anaemic rates that have prevailed during the past decade might arguably be desirable. So the question is about the willingness of central banks to tolerate a period of above-target inflation, and perhaps about whether they might decide that this is a convenient moment to amend those targets.

Since the autumn of last year, equity markets around the world have been buoyed by the so-called 'reflation' trade. Investors took the view that major economies are now in for an extended period of economic recovery, fuelled by government fiscal support, by the winding-down of enforced savings by households and businesses, and by central bank asset purchases. Just as importantly, they also came to believe that the central banks would be content to sit back and let the recovery rip; hence the talk in some circles of a new "roaring 20s". That view is now being re-asessed, as it appears that at least some of those central banks might not be quite so relaxed.

The Federal Reserve signals US rate rises in 2023

This became apparent after the US Federal Reserve's policy meeting in June. Even though the Fed had recently adopted a more flexible inflation target, more than half the members of its policy committee (the FOMC) still took the view that they will need to raise interest rates twice in 2023. This has led to investors scaling back their xpectations about medium-term economic growth, and with it their forecasts for inflation, with the result that the yields on bonds have retreated. Since March, the yield on benchmark 10-year US treasuries has fallen back from over 1.7% to around 1.3%, as bond prices have rallied in response to the changed inflation outlook.

Global inflation rates have been climbing higher



Source: Refinitiv Datastream

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New forecasts – mostly upward revisions

As for our forecasts, projections for this year's global GDP growth rate have been raised to 5.9% compared with 5.6% in our previous *Update*, while the figure for 2022 has been nudged marginally higher, from 4.1% to 4.2%. The upgrading is mainly down to improved prospects in advanced economies. The biggest upward revision for 2021 is for the UK, where the economy is now expected to expand by a little over 7%. Meanwhile, the US economy is now slated for growth of 6.5%, as against 6.0% previously, while our forecast for the Euro Area has been lifted from 3.6% to 4.4%. Among major advanced economies, only in the case of Japan has the growth forecast for this year been cut, with GDP now expected to increase by 2.5% as against 3.8% in our previous forecast. Among emerging economies, a big downgrade to the outlook for India, from 11.0% to 7.0%, has been offset by upgrades elsewhere, notably in Brazil, Mexico, Turkey, and South Africa.

With supply shortages likely to abate only slowly in coming months, inflation rates will remain higher for longer. What happens after that will depend on conditions in labour markets and the evolution of inflation expectations. Despite the annual rate of consumer price inflation climbing to 5.4% in the USA in June, inflation rates in most advanced economies should soon ease. In any case, headline inflation rates are markedly lower in the UK and the Euro Area, and barely even positive in Japan. Yet there is no doubting that there are upside risks, especially if economies can face down the Covid Delta variant and continue to re-open at pace.

With regard to tightening interest rates, a few central banks have already pulled the trigger, with sizeable rate hikes in Brazil and Russia, and more modest rises in Hungary and the Czech Republic. Others are set to follow suit later in the year, including those in Norway and South Korea. In some cases, the need for action will be spurred on by frothy conditions in residential property markets. The UK, New Zealand, and Canada are among the countries that are expected to make their first moves in 2022, with the US Federal Reserve following in 2023. It's a slightly different picture in the Eurozone and Japan, where inflation rates in recent years have remained stubbornly below target; for now, therefore, neither the European Central Bank nor the Bank of Japan seem likely to raise their interest rates in the foreseeable future.

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

% change in GDP, vs previous year

	2020	Forecast for 2021		Forecast for 2022	
		Current forecast	(Previous forecast)	Current forecast	(Previous forecast)
World	-3.4	5.9	(5.6)	4.2	(4.1)
USA	-3.5	6.5	(6.0)	4.3	(3.9)
China	2.3	8.5	(8.5)	5.6	(5.6)
Japan	-4.7	2.5	(3.8)	1.8	(1.3)
India	-7.0	7.0	(11.0)	5.7	(5.8)
Eurozone	-6.7	4.4	(3.6)	4.0	(4.0)
UK	-9.8	7.1	(5.8)	5.1	(6.1)
Russia	-3.0	3.5	(3.1)	2.9	(2.9)
Brazil	-4.1	4.7	(3.2)	2.1	(2.3)

Source: HSBC Global Research

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The UK economy – the world is watching

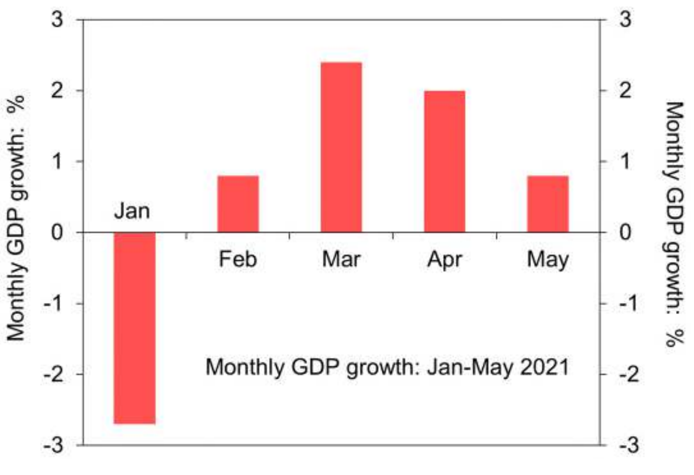
After 16 months of living with varying levels of Covid restrictions, most of restrictions in England were lifted on 19 July. Yet "Freedom Day" turned out to be rather different from what was doubtless envisaged. Even though nearly 90% of adults have received at least one dose of a vaccine, Covid case numbers have climbed rapidly in recent weeks, and hundreds of thousands of people have been off work after being advised to isolate by the NHS Covid-19 'app'. Reports were rife of shortages of drivers (for lorries, buses and trains), supermarkets being forced to limit opening hours, restaurants staying closed, and, worryingly, pubs being unable to open. In the very week when the bulk of restrictions were lifted, the economy appeared to be facing its worst supply bottlenecks since the end of March 2020 when people were stockpiling pasta and toilet rolls.

The general requirement for people to isolate if notified by the Track and Trace service is due to be lifted from 16 August: from that date, a "test and release" approach will be taken, whereby those who have been double-jabbed won't need to isolate if they can provide a negative test. In response to the current disruption, the Government has brought forward the relaxation of the isolation requirements for key parts of the food chain, including supermarket depots and food manufacturers, so that staff can continue to work (irrespective of vaccination status) if they are tested daily with negative results. The hope is that this will avert the threat of empty supermarket shelves and panic buying.

The UK therefore finds itself embarking on a bold experiment, which will be keenly watched around the world. The economy is being re-opened at a time when new infections are climbing, but with the hope that a higher level of immunity (whether from vaccination or from previous infection) will avert a corresponding rise in hospitalizations. The gamble is that a sufficient level of immunity will be reached before undue strain is put on health services, with the pressure being easier to absorb during summer months than later in the year, when other respiratory ailments, such as flu, will be circulating more widely.

Even before these latest difficulties, the economy was already being negatively affected by supply bottlenecks. Having expanded by a robust 2.1% in April, GDP growth in May came in at just 0.8%, despite the re-opening of indoor service at pubs and restaurants. Output of transport equipment declined by 16.5% as shortages of semiconductors disrupted operations at some car plants, which offset the leap of 37.1% in output in the hotels and restaurants sector. Having expanded in every month from February, GDP in May was 3.1% below its pre-pandemic level.

Supply constraints dampen the pace of recovery



Source: ONS

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Survey data for June point to a further expansion of a similar magnitude to May. The headline readings from the Purchasing Managers' index (PMI) surveys eased back a touch from their May levels (which in some cases were record highs) but were still very strong. The Composite PMI, which covers responses from both manufacturing and service sector businesses, came in at 62.2. For the second quarter as a whole, it's therefore likely that GDP growth will still come in at an impressive-looking 4.5% to 5.0%.

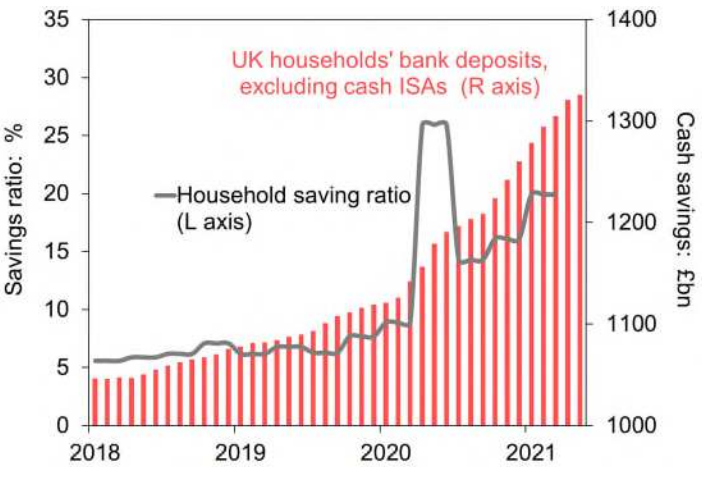
As for July, the "pingdemic" will no doubt dampen activity in some sectors, with the disruption running into August unless the Government brings forward (for other sectors as well as the food chain) the date when "test and release" will replace "test and isolate". But in any case, assuming that the present "pingdemic" disruptions are short-lived, then activity may simply be moved back a few weeks or months.

Compared with our previous *Update*, our forecast for GDP growth in the UK this year has been raised from 5.8% to 7.1%, which would make it the fastest full-year growth rate since the ill-fated boom of 1973. Measured on a quarterly basis, GDP is expected to regain its pre-pandemic level in the first three months of 2022, although if measured monthly it's possible that this milestone will be reached in the closing months of this year.

Spending by households continues to be the main driver of economic recovery. That's hardly a surprise, given that the savings rate (the portion of incomes not spent) again came close to 20% during the locked-down first quarter. Even as the economy has re-opened since March, bank balances held by households have continued to climb at a rate well above normal. According to Bank of England data, by the end of May household deposits (excluding cash ISAs) stood at £1.33 trillion, £200 billion more than in February 2020.

The Google tracking data and the results of recent consumer surveys suggest a degree of caution among the public, in terms of getting out and about. But there is plenty of enthusiasm for spending money: May's retail sales figures showed a small pull-back compared with April, yet the volume of spending remained nearly a tenth higher than before the pandemic. In other words, the switch back to spending on services is certainly happening, as demonstrated by the surge in hotel and restaurant activity; but households can also afford to splash out on "stuff", helped along by a rekindled enthusiasm for home improvement and also by the current surge of activity in the housing market. In May, the volume of goods shifted by supermarkets fell by 5.7%, but sales by household goods stores (including furniture stores and DIY sheds) were up by 9% compared with April.

Household savings: a £200 billion savings windfall from the lockdowns



Source: Bank of England, ONS

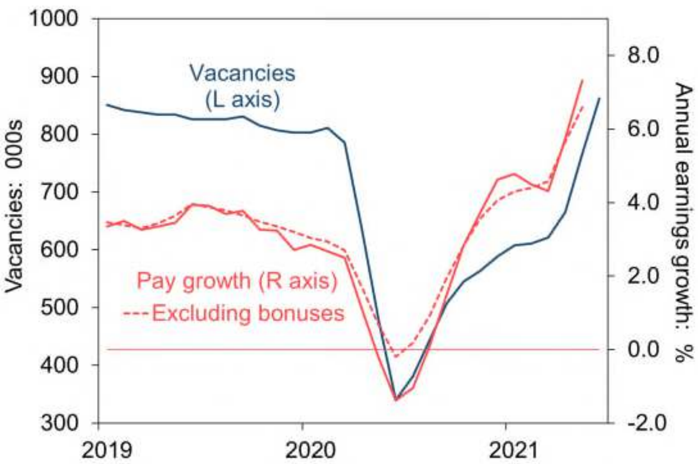
As for the other components of GDP, the Government is busily trying to extricate itself from the various pandemic support measures that were put in place during 2020. The Government will also be hoping that capital spending by businesses will make a significant contribution to the recovery, although it's too early to come to any conclusion about the success, or otherwise, of the "super deduction" scheme announced in March's budget. The need for a revival of business investment is clear enough, with the amount invested in the first quarter declining by a tenth, so that it was down by a sixth compared to the first three months of 2020.

The UK's international trade has recovered somewhat since the slump in January, but still remains below 'normal', with exports of goods (excluding precious metals) in the three months to May down by 9% from the comparable period in 2019, and imports down by 10%. Trade in services also continues to run at a depressed level, in part reflecting the curbs in international travel. It's nigh on impossible to work out how much of the decline is down to Brexit and how much is down to the Covid pandemic. Yet it's worth noting that in the first five months of this year the sharpest falls in the value of exports compared with 2019 have been to France and Spain, in both cases at around -30%. Belgium is the only EU country where UK exports have increased, perhaps due to haulage and logistics companies re-routing shipments either to avoid congestion at French ports or to avail themselves of a less bureaucratic approach by Belgian customs officials. A notable feature of the UK's trade during the pandemic has been the increase in the value of goods imported from China, while inflows from most other countries have declined. As a result, since the start of this year imports of goods from non-EU countries have exceeded those from the EU for the first time since at least 1997.

Inflation rears its ugly head

But it's inflation and pay growth that are now grabbing the economic headlines, in a way that they haven't for the past forty years. The assertion that the recent spike in prices is a purely transitory phenomenon, is cutting less ice, as commodity prices remain elevated, and domestic rates of inflation are accelerating. The UK's headline CPI inflation measure is now at 2.5%, and looks set to top 3% in the next few months. It's true that some of the supply bottlenecks should ease in the coming months, and the price of oil has already fallen back in the wake of the agreement between the UAE and the rest of the OPEC+ group on production levels. But it's also abundantly clear that British consumers aren't immediately about to return to their pre-pandemic spending patterns. Yes, they will head back out to pubs, restaurants, and cinemas,; but they'll also continue to spend on goods. For that reason, the headline CPI rate is expected to remain above the Bank of England's 2% target throughout 2022.

A tighter labour market … and faster pay growth



Source: ONS

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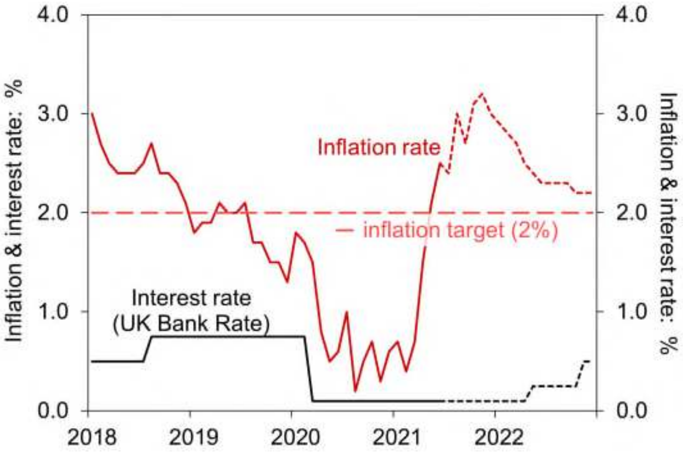
Above-target inflation … and modest rate rises in 2022



Source: ONS, Bank of England, HSBC Global Research

It's perhaps the situation in the labour market that will be keeping members of the MPC awake at night. Inflation that blows in from abroad has often been dismissed ("looked through") as something that is "not my fault, sir"; but inflation that is fuelled by old-fashioned growth of real wages (that is, wage growth running ahead of consumer price inflation) is quite another thing. The latest earnings data made for startling reading, with the headline rate of annual wage growth coming in at 7.3%. There is a good deal of statistical noise in these figures, some of which will abate in coming months. Yet it's clear that something unusual is going on, as is evident from the widespread reports of chronic labour shortages in several sectors, including hospitality, the building trades, and road haulage.

The number of foreign-born workers who returned home is a matter of conjecture, with some estimates putting the figure as high as 1.3 million. Over time, some will no doubt return, but one lasting effect of the pandemic will be to make people more wary about working abroad, lest they be unable to return home, quickly and easily, to attend family occasions. It therefore looks as if UK businesses will have little choice in the short term but to cough up higher wages, while putting longer-term plans in place to invest in automation or to attract more home-grown staff.

There are plenty of signs that the labour market is healing from the Covid disruption. Payroll employment surged by 356,000 in June, and at national level is just 206,000 short of the employment level in February 2020. In four regions (the North East, the North West, the East Midlands, and Northern Ireland), the numbers in employment have already climbed back above pre-Covid levels. Meanwhile, the number of vacancies in June surged to nearly a tenth above its pre-pandemic level. In light of this, and the afore-mentioned labour shortages, we're now looking at a much smaller increase in the unemployment rate when the furlough scheme ends. Having previously forecast a peak unemployment rate of 6.0%, this has been scaled back to a more modest rise to 5.3%.

It's the apparent stickiness of inflation and the surge in wages that has led to a change in our forecast for interest rates. Having previously taken the view that the Monetary Policy Committee (MPC) would be able to put off hikes until 2023, we now expected the MPC to make a modest start in May of next year. The initial increase in Bank Rate is forecast to be just 15 basis-points, followed by a further hike of 25 basis-points in November, taking UK Bank Rate to 0.50% by the end of 2022. We also expect at least one more rise during 2023.

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Forecasts

Global economic growth

Annual % change in real GDP	2018	2019	2020	2021(f)	2022(f)
World (nominal GDP weights)	**3.3**	**2.6**	**-3.4**	**5.9**	**4.2**
Developed economies	2.3	1.6	-4.9	5.4	3.9
Emerging economies	4.8	4.0	-1.3	6.5	4.6
North America					
USA	3.0	2.2	-3.5	6.5	4.3
Canada	2.0	1.7	-5.3	5.9	4.0
Asia/Pacific					
China	6.7	6.0	2.3	8.5	5.6
Japan	0.6	0.0	-4.7	2.5	1.8
India	7.3	4.8	-7.0	7.0	5.7
Australia	2.8	1.9	-2.4	5.1	2.8
South Korea	2.9	2.2	-0.9	3.9	2.5
Indonesia	5.2	5.0	-2.1	4.0	5.2
Taiwan	2.8	3.0	3.1	6.0	2.6
Thailand	4.2	2.3	-6.1	2.1	4.4
Malaysia	4.8	4.4	-5.6	4.1	5.4
Singapore	3.5	1.3	-5.4	6.5	3.5
Hong Kong	2.8	-1.7	-6.1	6.5	3.0
Philippines	6.3	6.1	-9.6	4.8	5.5
New Zealand	3.4	2.4	-2.9	5.5	3.1
Eurozone	**1.9**	**1.3**	**-6.7**	**4.4**	**4.0**
Germany	1.3	0.6	-5.1	3.4	3.9
France	1.8	1.8	-8.0	5.4	3.6
Italy	0.8	0.3	-8.9	4.4	4.2
Spain	2.4	2.0	-10.8	5.6	6.4
Other Western Europe					
UK	1.3	1.4	-9.8	7.1	5.1
Switzerland	3.1	1.1	-2.7	3.1	2.2
Sweden	2.0	2.0	-2.9	6.5	3.9
Norway	2.5	2.4	-3.1	5.5	3.8
Eastern Europe, Middle East & Africa					
Poland	5.4	4.7	-2.7	4.8	5.4
Hungary	5.4	4.6	-5.0	6.1	4.7
Czech Republic	3.2	2.2	-5.6	3.6	5.7
Russia	2.3	2.0	-3.0	3.5	2.9
Turkey	3.0	0.9	1.8	5.1	4.0
Saudi Arabia	2.4	0.3	-4.1	2.2	4.1
South Africa	0.8	0.2	-7.0	4.9	2.0
Latin America					
Brazil	1.8	1.4	-4.1	4.7	2.1
Mexico	2.1	0.0	-8.2	6.0	2.3
Argentina	-2.6	-2.1	-9.9	6.0	3.0
Chile	3.7	0.9	-5.8	8.0	3.0

(f) = forecast

Source: HSBC Global Research

Forecasts

Policy interest rates

Interest rate (%) at end-period	June 2021	Dec 2021 (forecast)	June 2022 (forecast)	Dec 2022 (forecast)
North America				
USA*	0.25	0.25	0.25	0.25
Canada	0.25	0.25	0.25	0.75
Western Europe				
Euro Area (Refi rate)	0.00	0.00	0.00	0.00
Euro Area (deposit rate)	-0.50	-0.50	-0.50	-0.50
UK	0.10	0.10	0.25	0.50
Norway	0.00	0.50	0.75	1.00
Sweden	0.00	0.00	0.00	0.00
Switzerland	-0.75	-0.75	-0.75	-0.75
Emerging Europe				
Poland	0.10	0.10	0.50	1.00
Hungary	0.90	1.75	1.75	1.75
Czech Republic	0.50	1.00	1.50	2.00
Asia/Pacific				
Japan	-0.10	-0.10	-0.10	-0.10
China	3.85	3.85	3.85	3.85
India	4.00	4.00	4.00	4.50
Australia	0.10	0.10	0.10	0.10
New Zealand	0.25	0.25	0.25	0.50

* Upper end of target range
Source: HSBC Global Research

Currency exchange rates

Exchange rate at end-period		June 2021	Sep 2021 (forecast)	Dec 2021 (forecast)	Mar 2022 (forecast)	June 2022 (forecast)
Rates against £						
US dollar	USD/GBP	1.38	1.37	1.34	1.34	1.34
Euro	EUR/GBP	1.17	1.11	1.09	1.12	1.14
Japanese yen	JPY/GBP	154	147	142	143	145
Canadian dollar	CAD/GBP	1.71	1.69	1.63	1.65	1.66
Australian dollar	AUD/GBP	1.84	1.71	1.65	1.67	1.70
New Zealand dollar	NZD/GBP	1.98	1.85	1.79	1.81	1.84
Swedish krona	SEK/GBP	11.83	11.03	10.68	10.94	11.13
Norwegian kroner	NOK/GBP	11.90	10.69	10.24	10.50	10.67
Swiss Franc	CHF/GBP	1.28	1.28	1.26	1.28	1.29
Other rates						
US dollar / euro	USD/EUR	1.19	1.23	1.23	1.20	1.18
Chinese yuan / USD	CNY/USD	6.46	6.45	6.60	6.60	6.60

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

Economic update: 3rd quarter 2021

Forecasts

UK economy

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

		forecast	
	2020	**2021**	**2022**
GDP	-9.8	7.1	5.1
Consumer spending	-10.9	5.6	6.7
Government spending	-6.5	11.3	1.6
Investment	-8.8	8.8	8.3
Stockbuilding (% of GDP)	-0.4	-0.4	-0.2
Domestic demand	-10.5	8.0	6.1
Exports	-15.8	3.9	12.1
Imports	-17.8	7.1	15.4
Manufacturing output	-8.6	9.7	4.1
Unemployment rate (%)	4.6	4.9	5.0
Average earnings	1.8	5.3	3.5
Inflation - CPI	0.9	1.8	2.2
Current account (US$ bn)	-101	-94	-122
Current account (% of GDP)	-3.5	-3.0	-3.7
Public sector net debt (% of GDP)	97.4	95.9	97.3
Public sector net borrowing (% of GDP)	14.2	7.8	5.1
Exchange rate[1] US$ / £	1.37	1.34	1.34
Exchange rate[1] € / £	1.12	1.09	1.14
UK Bank Rate[1] (%)	0.10	0.10	0.50

1. at end-period.

Forecast as at 22 July 2021; data and forecasts are subject to revision

Source: HSBC Global Research

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