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Video transcript

A challenge for central banks

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Hello, I'm Janet Henry, HSBC's Global Chief Economist, and I'm here to talk to you about our new Global Economics Quarterly, "Putting the air back in", because that's precisely what the world's central banks are trying to do to the global economy in the face of slow global growth and lower than desired inflation.

Global growth has already slowed to its weakest rate since the eurozone crisis and the ongoing trade tensions threaten to take it lower still. There are some signs that the worst of the downturn in key industrial sectors may be starting to fade. But with these trade tensions continuing to overhang the outlook for investment spending and capital goods, in some countries the industrial recession is set to continue to deepen. So far, there isn't much evidence of it passing through in a significant way into other parts of the service sector and consumer spending. But there are a few warning signals starting to come through.

In the more industrial exposed economies in Asia, for instance, like Korea, consumer confidence has certainly been faltering. In Germany, [there are] signs that the labour market is weakening. In fact, we think that the German economy is already in recession. And in a number of countries there are signs that households are actually saving a little bit more. So given this slowdown in growth, central banks are inevitably continuing to ease policy. The Federal Reserve has already cut rates by 50 basis points and is set to cut once more, we believe, by the end of the year.

The European Central Bank (ECB) delivered their September package of another negative rate cut, of open-ended quantitative easing and more forward guidance. China too, as growth slowed over the summer, delivered more monetary easing and plans for even more infrastructure spending. But China's stimulus has been a bit more selective this time. Rather than unleash a massive stimulus that would lift the whole global economy, it's more about managing the slowdown. They don't want to inflate the housing market, and perhaps they want to maintain some ammunition if these trade wars become even more protracted, if these October trade talks between the US and China don't deliver very much.

Elsewhere in emerging markets, helped by the Fed cutting, they have been easing policy too. But central banks, particularly in the advanced world where there isn't much scope for conventional easing, are increasingly aware that their ability to deliver stimulus is more constrained this time. They're becoming more vocal in the pressure they're putting on governments to do more in the way of fiscal stimulus, particularly the ECB.

There is a lot of evidence to support the point that monetary and fiscal stimulus working together can be more effective, perhaps by raising GDP growth by more and being less likely to deliver asset bubbles. But fiscal stimulus needs to do more than actually support near-term demand growth. If it's going to raise growth potential and wages and ultimately lead to a higher interest rate, then actually, it needs to support productivity growth through appropriate infrastructure spending and raising education and skills levels. Ultimately, we think that governments will do more, and in the report, we summarise for a whole range of countries exactly what their fiscal plans are for 2020.

On a more positive note, and in this world where these ongoing trade tensions increase the risk of ongoing de-globalisation, I would make the important point that there is still some trade liberalisation coming through. Not globally, but between key regions of the world: Asia-Pacific economies and European economies have been at the forefront of striking new regional and bilateral trade deals or are on the point of concluding others, and that can lead to some new trade linkages. By way of example, over the last year, as China's exports to the US have

slowed, it now is exporting more to India, ASEAN and Latin America than it does to the United States.

So where does this leave our forecasts? Well, we've edged them a little bit lower again. In fact, the downgrade to our eurozone forecast from 1.1 to 0.7 [per cent] for 2020 has contributed to a downgrade in our global growth forecast, from 2.7 to 2.5 per cent. That would be the weakest that we've seen since the eurozone crisis in 2012. We've also within that number recently downgraded our China forecast to 5.8 [per cent], while our US forecast is unchanged [at 1.7 per cent]. Some of the other emerging economies are likely to show a little bit more resilience.

For the first time, we've also added forecasts for 2021. Often, there is an expectation or hope that two years down the road, we'll be in a world of trend growth and trend-like inflation. That's not included in our forecasts. For 2021, we see growth around the rate of 2020, with inflation still stubbornly low.