UK decline easing off, US in deep recession, global growth flat.

UK outlook
(annual % change, unless indicated)

	2007	2008	2009	2010
Domestic demand:				
Household consumption	3.0	1.4	-3.5	-1.9
Government consumption	1.5	3.4	3.2	2.5
Fixed investment	6.8	-3.1	-10.7	-2.0
Trade in goods and services:				
Exports	-4.1	0.1	-6.9	0.7
Imports	-1.5	-0.6	-7.2	0.4
Output:				
Manufacturing	0.2	-2.6	-14.3	1.5
Services	3.5	1.5	-2.2	-0.5
Labour market:				
Unemployment (mn)	1.65	1.78	2.70	3.1
- % of workforce	5.3	5.7	8.5	10
Wage growth (%)	3.8	3.6	2.5	2.0
Prices:				
CPI	2.3	3.6	1.6	1.1
RPI	4.3	4.0	-1.5	-0.1
House prices (Q4 on Q4)	5.6	-16.5	-10.0	5.0

Source: Thomson Datastream and HSBC

Growth in major economies
(annual % change in real GDP)

	2007	2008	2009	2010
Americas				
United States	2.0	1.1	-1.6	0.6
Canada	2.7	0.5	-2.4	1.9
Mexico	3.6	1.3	-3.3	0.6
Brazil	5.7	5.1	0.1	2.6
Western Europe				
Euro area	2.6	0.7	-3.2	-0.1
Germany	2.6	1.0	-4.7	0.2
France	2.1	0.7	-2.2	-0.6
Italy	1.5	-1.0	-3.9	-0.5
Spain	2.9	0.9	-3.1	0.1
United Kingdom	3.0	0.7	-3.8	-0.3
Eastern Europe				
Poland	6.7	4.8	1.6	2.7
Russia	8.1	5.6	-2.8	2.3
Turkey	4.6	0.5	-4.4	2.9
Asia-Pacific				
Japan	2.4	-0.6	-6.5	1.6
China	13.0	9.0	7.8	8.5
India	9.0	6.7	6.2	8
Korea	5.1	2.5	-3.7	3.4

Source: IMF/HSBC

Official interest rates *(% per year at end period)*

		2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2
USA	Fed Funds target rate	0 - 0.25	0 - 0.25	0 - 0.25	0 - 0.25	0 - 0.25	0 - 0.25
Japan	Overnight call rate	0.10	0.00	0.00	0.00	0.00	0.00
Euro area	Repo rate	1.50	0.75	0.75	0.75	0.75	0.75
UK	Bank Rate	0.50	0.50	0.50	0.50	0.50	0.50
Canada	Overnight rate	0.50	0.25	0.25	0.25	0.25	0.25

Source: HSBC

Exchange rates *(at end period)*

		2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2
Value of the US dollar:							
Euro area	USD/EUR	1.33	1.40	1.45	1.50	1.50	1.50
United Kingdom	USD/GBP	1.43	1.50	1.56	1.61	1.61	1.61
Japan	JPY/USD	99	100	100	105	105	105
China	CNY/USD	6.83	6.80	6.80	6.80	6.80	6.80
Value of the pound:							
Euro area	EUR/GBP	1.08	1.08	1.08	1.08	1.08	1.08
Canada	CAD/GBP	1.80	2.10	2.18	2.25	2.17	2.09
Sweden	SEK/GBP	11.85	12.62	12.88	12.88	12.88	12.88
Norway	NOK/GBP	9.68	9.34	9.13	9.13	8.59	8.59
Switzerland	CHF/GBP	1.63	1.66	1.69	1.69	1.72	1.72
Japan	JPY/GBP	142	150	156	169	169	169
China	CNY/GBP	9.77	10.20	10.61	10.95	10.95	10.95
Australia	AUD/GBP	2.06	2.15	2.16	2.18	2.12	2.12
New Zealand	NZD/GBP	2.51	2.59	2.64	2.68	2.68	2.68

Source: HSBC

● **Industrial production** and cross-border trade have been badly hit by the global recession. World goods trade is expected to fall by around a tenth this year, the worst performance since 1945. Of the major advanced economies, Japan and Germany will be among the hardest hit, with GDP forecast to shrink in 2009 by around six and four per cent, respectively.

● **The US economy** is in deep recession. GDP shrank by 1.6 per cent in the final quarter of 2008, and the unemployment rate rose to 8.5 per cent in March. But fiscal and monetary initiatives from the government and the Federal Reserve have brought glimmers of hope: retail sales rose in January and February (but fell back again in March), and activity in the housing market may finally be reaching the trough of the cycle.

● **Growth in the emerging** economies is projected to slow to under two per cent this year. Hopes that these economies might decouple from the US recession have proved unduly optimistic. With developed economies likely to contract by three per cent, global growth in 2009 is expected to be flat, at best.

● **In the UK**, the preliminary estimate of GDP indicated that the economy shrank by 1.9 per cent in the first quarter of 2009. This was worse than expected and was the biggest quarterly fall since 1979. Business surveys continue to report subdued activity levels, though the pace of decline has eased a little since the end of last year.

● **The UK housing market** has shown tentative signs of stabilising. The number of mortgage approvals climbed to 38,000 in February, compared to an average of some 30,000 during the previous six months. House prices, meanwhile, are still falling, though here too the pace of decline has slowed.

● **With inflation set to fall** sharply in the coming months, the main concern for policymakers in the UK (and elsewhere) is now boosting activity. The Bank of England has cut Bank Rate to a record low of just 0.5 per cent – where it looks set to remain for a considerable time – and has embarked on quantitative easing. Although the outlook for 2009 remains bleak, these measures should bring some improvement in 2010.

1. HSBC forecasts are as at 1 May 2009
2. Data and forecasts are subject to revision