

Global Economics

The Tipping Point

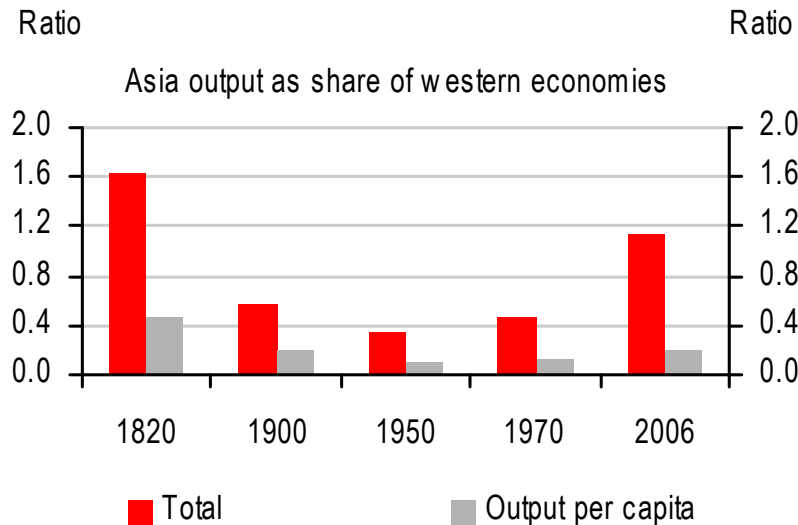
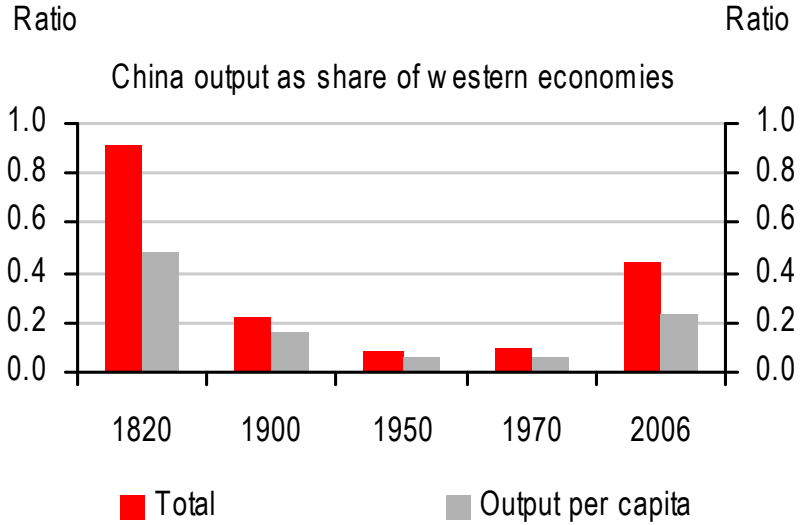
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2. Historical output of China and Asia



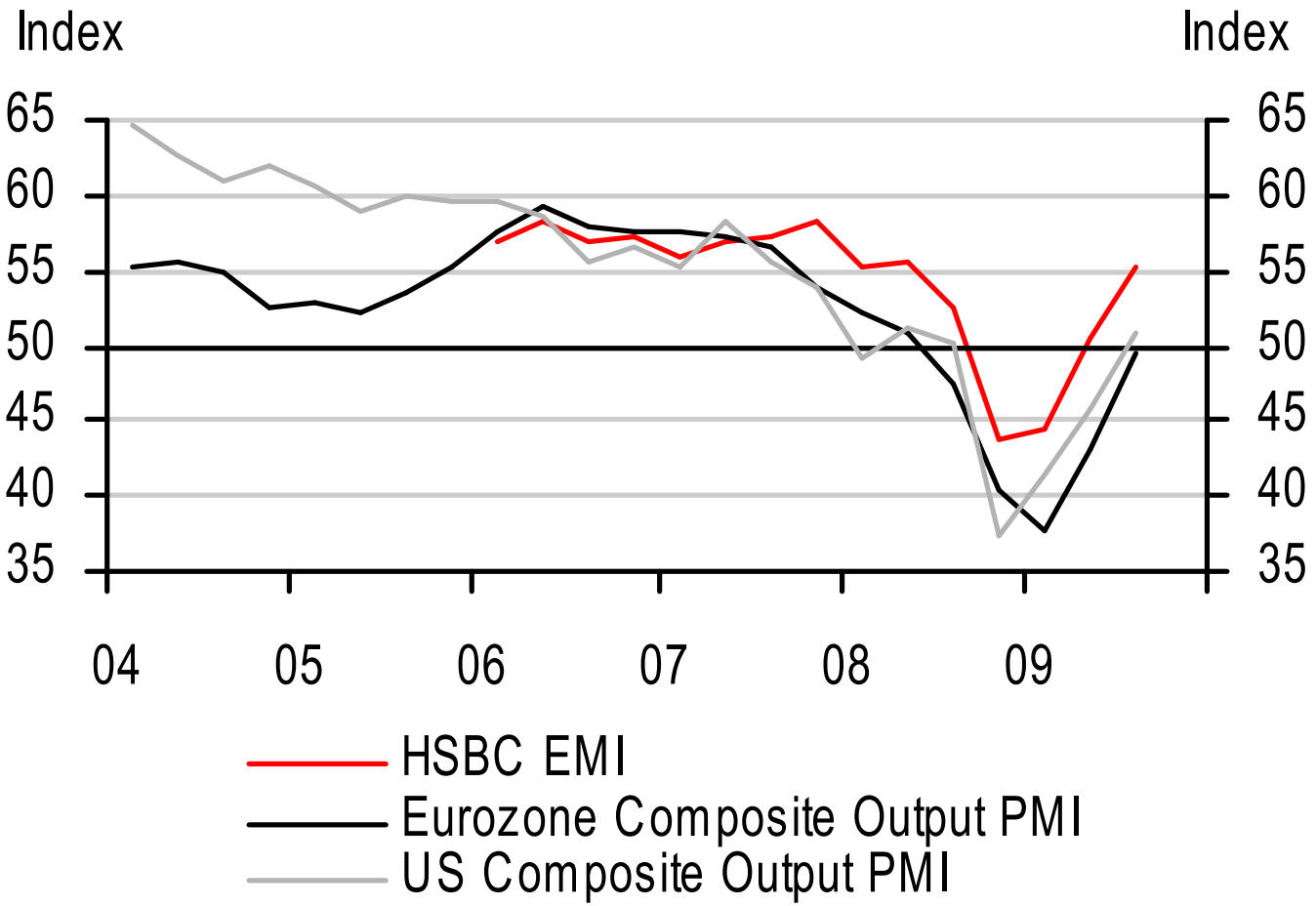
Source: GGDC and HSBC calculations



3. Key influences

- Demographics
- Health and sanitation
- Technology
- Political openness

4. The emerging world fights back



Source: HSBC, Markit and Thomson Financial Datastream



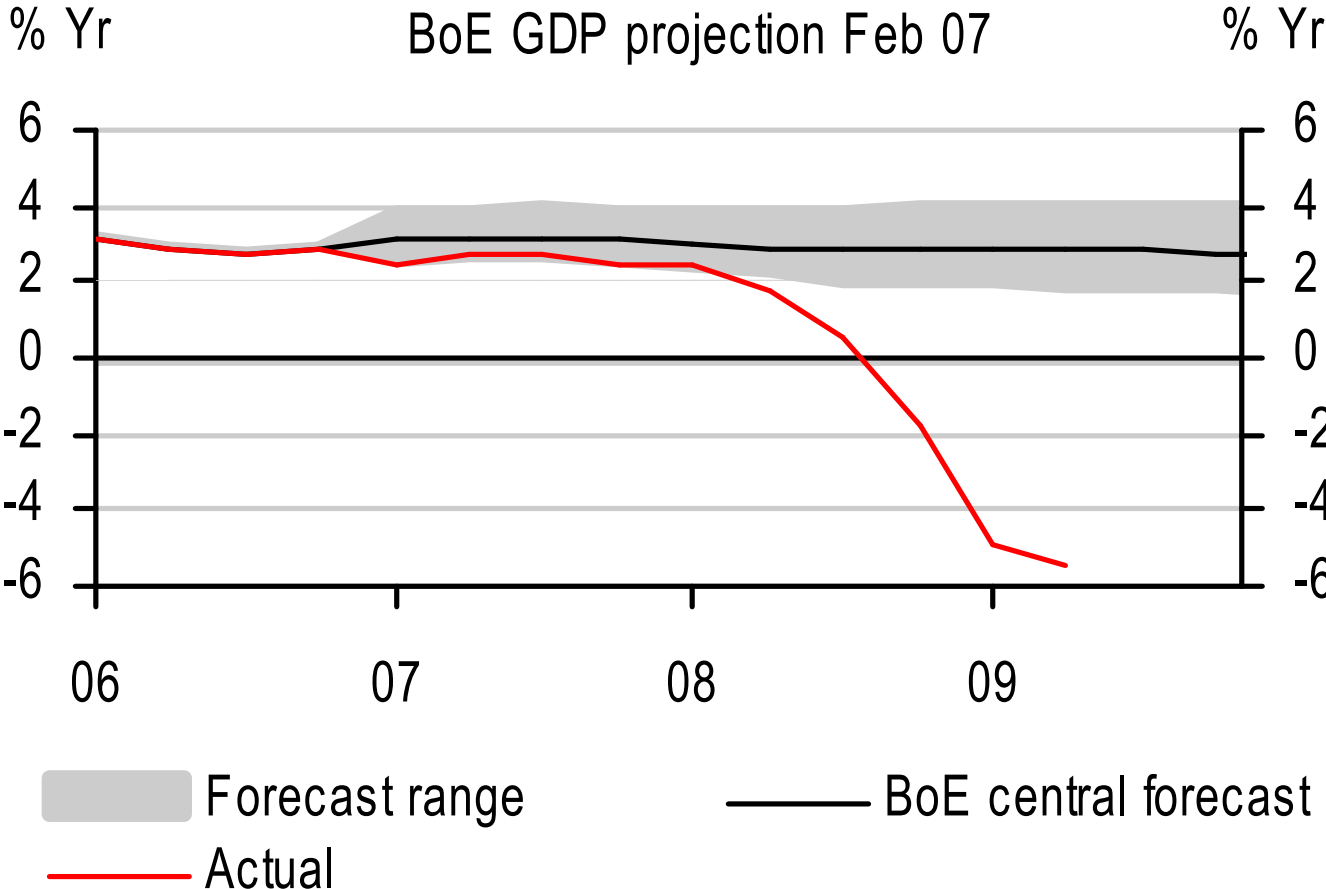
5. A new way of thinking:

- “When the US sneezes, the rest of the world catches a cold”
- “When the US sneezes, the emerging nations go shopping”

6. In thirty years time...

- China may be the biggest economy in the world
- It will still be poor
- Demand for commodities will be high
- The West will be in decline...shrinking share of global GDP, shrinking share of population of working age
- The big increase in population of working age will be in the Middle East and Africa

7. Output losses have been severe in the UK...

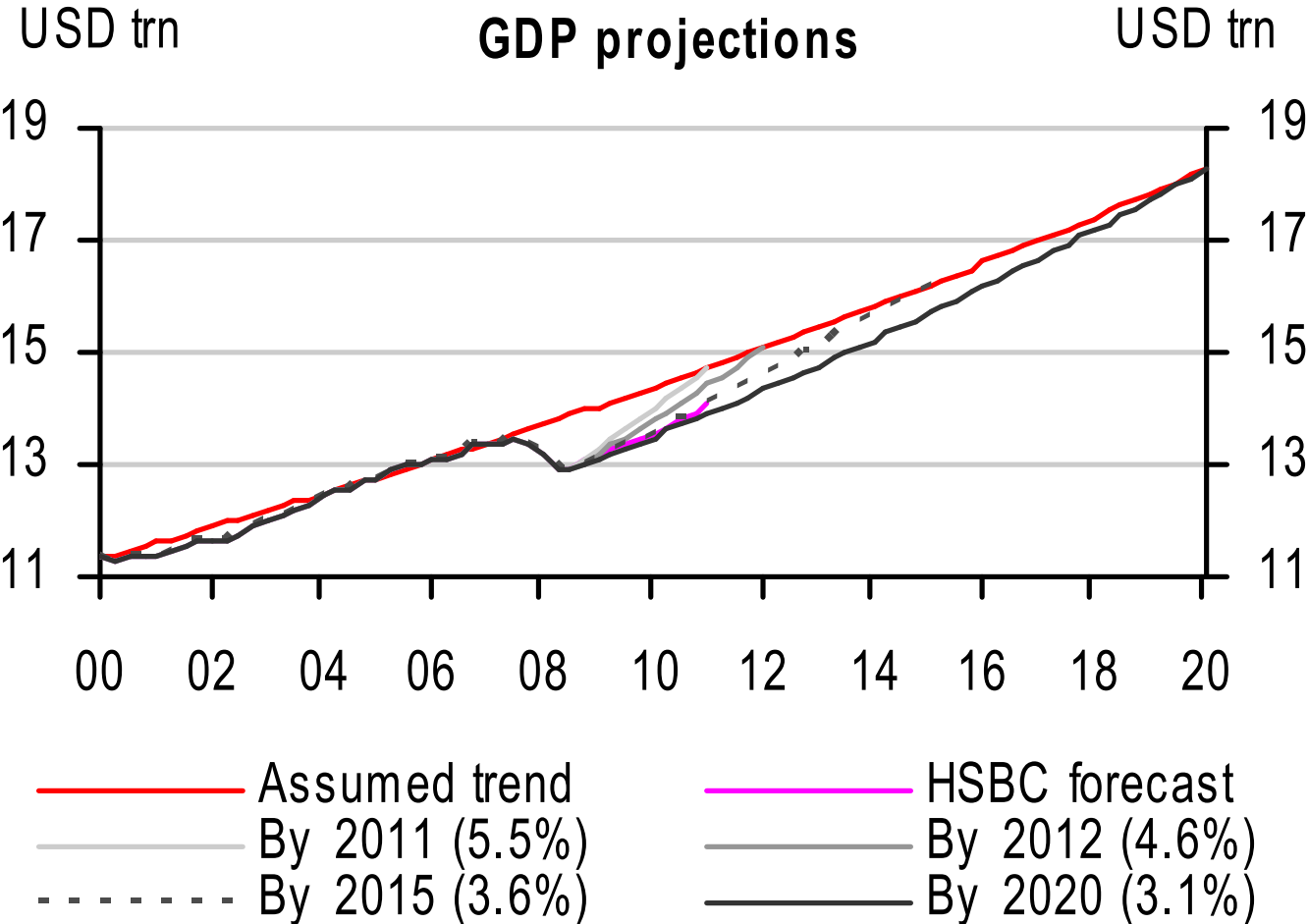


Source: Bank of England and Office for National Statistics

* Forecast based upon market interest rate expectations



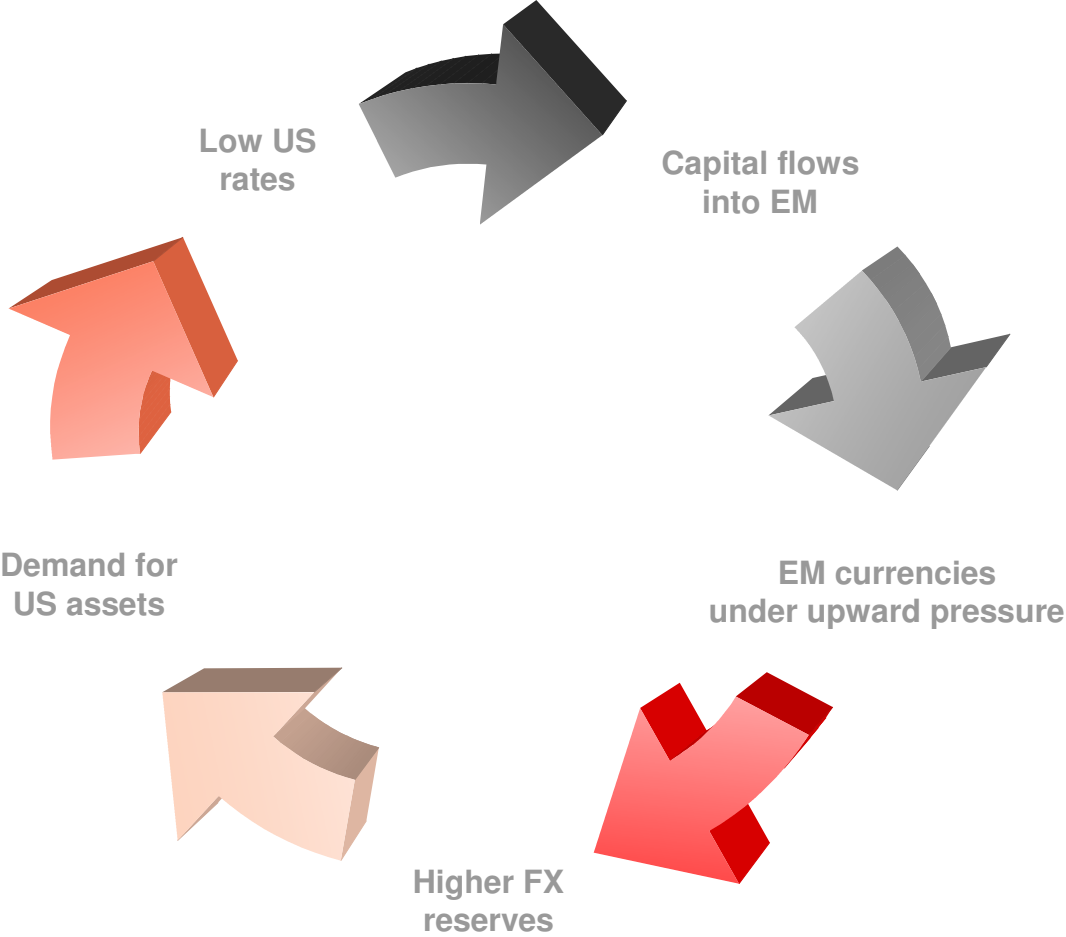
8....and output gains will be slow in the US



Source: Thomson Financial Datastream and HSBC
 * Annual growth required to meet assumed trend given in brackets



9. The merry-go-round



10. Key implications for the developed world

- Interest rates will remain low
- Core inflation pressures will remain subdued
- Even if the credit crunch eases, beware balance sheet deflation
- Structural growth will be lower than before...fiscal consolidation, private sector debt payment, higher commodity prices
- Don't think recession, think stagnation