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For those in peril…

The global economy is still in danger...

...despite a huge policy stimulus and some tentative signs of stabilisation.

Collapsing profits, deflation and financial nationalism are the big threats

By Stephen King and Stuart Green

HSBC

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Which history?

If recent history were a reliable guide, we could look forward to a quick end to the economic crisis, at least in the US. Downswings typically last only a handful of quarters and are then followed by reasonable recoveries. Other countries haven't always fared quite so well: UK downswings, for example, persist a lot longer. Nevertheless, given the US experience, it's no surprise that consensus forecasts continuously suggest recovery is just around the corner.

We believe, though, that recent history is misleading. Already, the pace of decline in industrial production in the world's richest nations is on a par with the early months of the Great Depression and, as such, is far worse than seen in typical post-war downswings. Given the huge policy stimulus launched over the last 18 months, this is a disturbing result.

Our forecasts reflect this ongoing weakness. For the global economy in 2009, we are lowering our GDP forecast from -1.4% to -1.9%. For the developed world, we now expect a 3.0% shrinkage compared with a fall of 2.5% previously. The emerging world still expands – just – but at a paltry rate of 1.7%.

The crisis can be broken down into three main categories: the original banking crisis, a more recent collapse in the demand for credit and what we call a geographical seepage. The dynamics associated with the crisis suggest the need for a healthy dose of scepticism in the light of recent, slightly less discouraging, signs in the US. Indications of stabilisation in US consumer demand and the housing market need to be seen in context of haemorrhaging corporate profits, collapsing industrial production and rapidly rising unemployment elsewhere in the world.

Capacity utilisation rates are at historic lows, inventories are, in many cases, at extraordinary highs relative to sales given the attempts by companies in recent months to de-stock aggressively and, for policymakers, the growing fear is deflation. Even if Tim Geithner's plans to bolster the US financial system prove successful, the US Treasury Secretary knows there is still a long way to go. Trust in the financial system will take years to rebuild and, in the meantime, households and companies will be looking to pay off debts and rebuild their assets.

HSBC growth and inflation forecasts

GDP	'Over the edge' – interim forecasts (23 Feb 09) 2009	2010	Latest 2009	2010
World	**-1.4**	**2.2**	**-1.9**	**1.6**
Developed	**-2.5**	**1.2**	**-3.0**	**0.5**
Emerging	**2.4**	**5.4**	**1.7**	**4.9**
US	-1.4	1.7	-1.6	0.5
UK	-3.7	-0.2	-3.8	-0.3
Eurozone	-2.3	0.5	-3.2	-0.1
Japan	-6.5	1.7	-6.5	1.6
Brazil	1.2	3.0	0.1	2.6
Russia	-2.8	2.3	-2.8	2.3
India*	6.2	8.0	6.2	8.0
China	7.8	8.9	7.8	8.5
Inflation	**'Over the edge' – interim forecasts (23 Feb 09) 2009**	**2010**	**Latest 2009**	**2010**
World	**0.7**	**1.9**	**0.8**	**1.6**
Developed	**-0.3**	**1.0**	**-0.3**	**0.7**
Emerging	**4.2**	**4.9**	**4.6**	**4.7**
US	-1.1	1.0	-1.0	0.6
UK	0.7	0.9	1.6	1.1
Eurozone	0.8	1.6	0.5	1.2
Japan	-1.4	-0.7	-1.4	-1.0
Brazil	4.6	4.8	4.6	4.3
Russia	9.0	14.0	12.2	11.5
India*	6.8	4.7	6.9	4.7
China	-0.2	0.8	-0.2	1.0

Source: HSBC

It's quantity, not quality

That central banks are embracing various forms of quantitative easing is telling. Quantitative easing is being embraced most obviously because official interest rates are already at, or close to, zero and cannot, therefore, fall any further. But the willingness to do so also reveals something about central bankers' innermost fears. Once deflation takes hold, it is not easy to get rid of. It is the economic equivalent of dry rot (as Japan knows only too well).

Of course, not all deflations are the same. Some deflations fall into the "good" category, being no more than terms of trade improvements associated with, for example, lower import prices or improvements in technology. These deflations lead to higher real wages and profits, leaving the suppliers of both labour and capital happy and smiling. Others, though, are more worrisome, threatening higher unemployment, lower profits and heightened insolvency.

We examine some of the main risks associated with an outbreak of deflation. They include rising real debt burdens, indiscriminate redistributions of income and wealth, heightened sovereign default risk and, most worryingly, nominal rigidities associated with wages and interest rates.

Deflation is, like inflation, ultimately a monetary phenomenon. Quantitative easing can work on two separate counts: either the stock of money can be boosted or, alternatively, the velocity of the existing money stock can be increased.

Either way, the central bank tries to pump credit into an economy by bypassing a moribund banking system. The big problem now lies in identifying how much quantitative easing to do: because most variants involve purchasing government securities, the danger is that previously trustworthy signals of inflationary expectations, such as so-called breakeven rates, begin to malfunction. The scope for policy mistakes is, therefore, high. We think those countries which aggressively pursue quantitative policies will have to pay a price in the form of currency deprecation: as a result, we favour the euro over the dollar.

Redistributing the problem

A decidedly odd aspect of the crisis is its increasingly bizarre geographical distribution. The countries at the epicentre of the crisis – the US, the UK, Spain and others which had overheated housing markets – are certainly weak, but not as weak as many others. Why have countries with limited housing bubbles and with, apparently, an absence of over-leveraged financial institutions, ended up in such trouble?

The collapse in demand which began in the autumn of last year has led to a massive reduction in industrial sales, most obviously of cars and trucks. Inventory/sales ratios have soared as a result. In a desperate attempt to get rid of inventories, companies have slashed production. In a world of outsourcing and off-shoring, however, falling demand in one country may have a disproportionately large impact on production in other countries. The US and UK, with small industrial sectors, are relatively insulated from this effect whereas the likes of China, Taiwan, Germany, South Korea and Brazil are more heavily exposed.

More worryingly, a new form of financial nationalism is fast developing. Capital injections into western banks come at a price. Governments and taxpayers understandably want banks to lend domestically in response but, with persistent funding shortfalls as a result of the collapse in securitisation and the weakness of interbank markets, higher domestic lending is often accompanied by reduced foreign lending. It’s no longer simply households and companies hoarding cash: we’re now seeing nations playing the same game.

This is particularly disturbing for emerging markets which have relatively small banking systems and which, as a result, have become heavily dependent on cross-border bank lending, often provided by western banks. A combination of western government lending “guidance” and rising risk premia in financial markets has led to a collapse in some forms of cross-border lending. For example, syndicated lending to emerging markets fell sharply in the final quarter of 2008 after years of rapid growth.

The lessons for asset allocation

We’ve already noted our preference for the euro over the dollar. To take a lesson from the 1930s, the euro is more a Gold Standard currency. A stronger euro will do the eurozone no favours but that is the price of pursuing a “hard money” policy when others are not.

We continue to enthuse about high grade corporate bonds even though we recognise that, for many investors, the market remains illiquid. Government bonds need to be watched carefully: deflation should keep yields low as, indeed, should quantitative easing but, increasingly, markets may be skittish about sovereign risk. Meanwhile, although equities may offer the occasional rally, we’re not convinced about their capacity to offer decent long-term returns. We suspect investors will increasingly treat equities like high-risk corporate bonds. That means a return to a 19th Century world of higher dividend yields, leaving us underweight in equities in our recommended portfolios.

Contents

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Key forecasts

Key forecasts

	GDP				Inflation			
	2007	2008f	2009f	2010f	2007	2008f	2009f	2010f
World (nominal GDP weights)	**3.6**	**1.8**	**-1.9**	**1.6**	**2.8**	**4.3**	**0.8**	**1.6**
World (PPP weights)	**5.3**	**3.1**	**-0.4**	**2.8**	**3.7**	**5.4**	**1.6**	**2.1**
Developed	**2.4**	**0.7**	**-3.0**	**0.5**	**2.1**	**3.2**	**-0.3**	**0.7**
Emerging	**7.9**	**5.4**	**1.7**	**4.9**	**5.5**	**8.1**	**4.6**	**4.7**
North America	**2.1**	**1.1**	**-1.6**	**0.6**	**2.8**	**3.7**	**-0.9**	**0.6**
US	2.0	1.1	-1.6	0.5	2.9	3.8	-1.0	0.6
Canada	2.7	0.5	-2.4	1.9	2.1	2.4	-0.3	1.4
Latin America	**5.0**	**3.2**	**-1.8**	**1.5**	**5.7**	**8.1**	**5.7**	**5.6**
Mexico	3.6	1.3	-3.3	0.6	3.8	6.5	4.1	3.6
Brazil	5.7	5.1	0.1	2.6	4.5	5.9	4.6	4.3
Argentina	8.7	4.9	-2.7	1.2	17.6	21.1	15.0	15.5
Chile	4.7	3.2	-0.6	2.5	7.8	7.1	2.2	3.0
Western Europe	**2.7**	**0.8**	**-3.2**	**-0.1**	**2.1**	**3.3**	**0.6**	**1.2**
Euro-15	**2.6**	**0.7**	**-3.2**	**-0.1**	**2.1**	**3.3**	**0.5**	**1.2**
Germany	2.6	1.0	-4.7	0.2	2.3	2.7	0.5	1.0
France	2.1	0.7	-2.2	-0.6	1.6	3.2	0.5	1.7
Italy	1.5	-1.0	-3.9	-0.5	2.0	3.5	0.6	1.8
Spain	3.7	1.2	-1.8	0.0	2.8	4.1	0.2	1.6
Other Western Europe	**2.9**	**0.9**	**-3.1**	**0.1**	**2.0**	**3.4**	**1.2**	**1.2**
UK	3.0	0.7	-3.8	-0.3	2.3	3.6	1.6	1.1
Norway	3.2	2.0	-1.1	1.0	0.7	3.8	1.4	1.6
Sweden	2.7	-0.5	-3.3	0.5	2.2	3.5	-0.3	1.1
Switzerland	3.3	1.6	-2.6	0.3	0.7	2.4	-0.3	0.6
EMEA	**5.8**	**4.1**	**-1.3**	**2.4**	**7.3**	**10.9**	**8.0**	**7.3**
Czech Republic	5.8	3.1	-2.1	1.5	2.8	6.4	2.0	1.8
Hungary	1.1	0.5	-3.4	1.2	8.0	6.1	3.7	3.4
Poland	6.7	4.8	1.6	2.7	2.5	4.3	3.0	2.2
Russia	8.1	5.6	-2.8	2.3	9.0	14.1	12.2	11.5
Turkey	4.6	0.5	-4.4	2.9	8.8	10.4	7.3	9.0
Ukraine	7.6	4.4	-9.5	1.0	12.8	25.3	17.0	9.0
Egypt*	7.1	7.2	3.3	3.9	11.1	11.7	16.2	9.7
Israel	5.3	4.0	0.3	2.2	3.4	3.8	-0.3	1.5
Saudi Arabia	3.4	4.3	-0.1	2.6	4.1	9.9	6.3	4.0
UAE	5.2	7.0	0.7	2.9	11.1	13.5	5.0	4.5
South Africa	5.1	3.1	1.4	2.1	7.1	11.5	5.5	5.7
Asia-Pacific	**6.0**	**3.1**	**-0.7**	**4.5**	**2.2**	**4.1**	**0.6**	**1.1**
Japan	2.4	-0.6	-6.5	1.6	0.0	1.5	-1.4	-1.0
Australia	4.0	2.1	0.1	3.1	2.3	4.3	2.1	2.5
New Zealand	3.1	-0.9	-0.2	2.4	2.4	3.9	2.7	2.5
Asia ex Japan	**9.8**	**6.7**	**4.1**	**6.9**	**4.4**	**6.7**	**2.3**	**2.8**
China	13.0	9.0	7.8	8.5	4.8	5.9	-0.2	0.8
Asia ex Japan & China	**6.9**	**4.4**	**0.4**	**5.2**	**4.1**	**7.3**	**4.2**	**4.3**
Hong Kong	6.4	2.5	-4.5	2.4	2.1	4.3	1.6	1.0
India	9.0	6.7	6.2	8.0	6.4	8.3	6.9	4.7
Indonesia	6.3	6.1	2.5	4.5	5.8	10.2	5.8	8.0
Malaysia	6.3	4.6	-3.5	5.5	2.0	5.4	0.9	2.8
Philippines	7.2	4.6	1.0	3.0	2.8	9.3	4.3	4.5
Singapore	7.8	1.1	-7.0	4.5	2.1	6.5	0.4	1.9
South Korea	5.1	2.5	-3.7	3.4	2.5	4.7	3.3	3.2
Taiwan	5.7	0.1	-6.2	2.2	1.8	3.5	-1.3	-0.4
Thailand	4.9	2.6	-3.5	3.0	2.2	5.6	-1.4	2.7
Vietnam	8.5	6.2	4.5	6.5	8.3	23.0	7.4	9.3

Notes: Calendar year; except for * which is based upon Egyptian fiscal year (July-June); Global and regional aggregates are calculated using chain nominal GDP (USD) weights
Source: HSBC

Monetary & fiscal policy assumptions

Monetary policy

	Q3 2008	Q4 2008	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f	Q1 2010f	Q2 2010f
US								
Targeted Fed funds	2.00	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25
Japan								
Overnight call rate	0.50	0.10	0.10	0.00	0.00	0.00	0.00	0.00
Eurozone								
Repo rate	4.25	2.50	1.50	1.00	0.75	0.75	0.75	0.75
UK								
Bank rate	5.00	2.00	0.50	0.50	0.50	0.50	0.50	0.50
Canada								
Overnight rate	3.00	1.50	0.50	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25

Source: HSBC

Fiscal policy

Country	2009	2010
US	The CBO recently estimated a federal budget deficit of USD1.85 trillion for FY2009 (13% of GDP), after taking the President's budget into account. The President's budget included a USD250 billion placeholder for potential losses on between USD500 to 750 billion in asset purchases. The recently announced Public-Private Investment Program (PPIP) is targeting USD500 billion to USD1 trillion in asset purchases, so any additional financial stability initiatives from this point onward have the potential to further increase this year's deficit.	We assume a FY2010 federal budget deficit of over USD1trillion, or around 7% of GDP. Much of the spending related to the 2009 fiscal stimulus package is likely to be carried over into FY2010. Meanwhile, we have made no assumptions about further financial stability efforts beyond the current TARP and PPIP, so again the risk could be weighted towards higher deficits.
Japan	We assume another real fiscal spending of 3 trillion yen in FY2009, which would be expected to boost the real GDP growth rate by 0.5ppt. The possibility of a consumption tax hike until 2011 has totally disappeared due to economic slump.	The root of the problem for Japan is the weakness of external demand, so Japanese authorities will basically wait and see the effectiveness of global fiscal stimulus effects, especially in the US.
Eurozone	Given the recession across the Eurozone, the automatic stabilisers are adding to government spending as will the ongoing costs of dealing with the financial crisis and the sizeable stimulus packages in France and Germany in particular. We expect the budget deficit in the Eurozone to widen to more than 5% of GDP in 2009 with virtually every economy within it exceeding the 3% Maastricht limit.	A further discretionary fiscal stimulus will be delivered (smaller than the roughly 1% boost in 2009) and the ongoing rise in unemployment implies higher spending on benefits. However, the stabilisation in the economy should limit the deterioration in the deficit in 2010, which is nonetheless expected to widen to about 6% of GDP.
Germany	For 2009 and 2010, the first fiscal boost measure was announced in autumn 2008. The fiscal package II has been approved in Feb. 2009. Including the pay back of the commuter tax relief both measures comprise abound EUR 45 bn each year. The public infrastructure projects will be mostly done in 2009.	Due to the decision of the Supreme Court the health and nursing social insurance contributions are tax deductible and will generate a tax relief by around EUR 9 bn. Overall, the deficit should move from 4.2% of GDP in 2009 to 5.4% in 2010.
France	The stimulus plan and the downward revision in GDP growth will widen the budget deficit. Moreover, the growth in public spending excluding cyclical expenditures will rise quicker than planned by the Government due to the lack of new plans to reduce structural spending. The public deficit could reach 6.6% of GDP and the public debt 75.2% of GDP.	In H2 2010, the GDP could stop to decline but this will not enough to limit the unemployment benefit rise. Moreover, we forecast job losses also in 2010: -150 000 after 350 000 in 2009. The public deficit should therefore continue to widen to 7% of GDP and public debt to 81% of GDP without any new bank recapitalisations.
Italy	Italy's high debt burden (about 106% of GDP in 2008) precludes a meaningful stimulus. A EUR 80bn package, which involves higher infrastructure spending, was announced but much of the money is slated for bank recapitalisations. Nonetheless, we expect the sharp contraction in GDP to widen the deficit to 5.8% of GDP.	Even in the absence of a fiscal stimulus the deficit will widen further and the government debt-to-GDP ratio appears set to rise to nearly 118%.
UK	With public sector borrowing having already risen rapidly, the Chancellor has limited the proposed fiscal measures to a stimulus equivalent to around 1% of GDP. We think it more likely that public sector borrowing rises to over 9% of GDP in 2009.	Again without a fiscal stimulus package we expect public sector borrowing of more than 8% of GDP. Net debt looks set to rise towards 60% of GDP in 2010 and this is assuming that the contingent liabilities such as government-guaranteed ABS do not incur any actual cost.
Canada	Fiscal stimulus is set to flow in 2009 and 2010. The government is committed to a C$40bn stimulus package to be spent over the next two years beginning in Q2/09. The combination of fiscal stimulus and reduced tax revenues are expected to spawn sizeable Federal deficits in both 2009 (-C$34bn) and 2010 (-C$30bn).	

Source: HSBC

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History favours recovery, but…

Recent history, it must be said, favours the onset of economic recovery fairly soon. Table 1 provides a detailed summary of post-war economic downswings for the G5 nations. These downswings are defined as periods when, on average, the level of GDP is declining. They therefore include all so-called "technical" recessions where there are at least two consecutive quarters of falling output. They also, in addition, include periods when activity is, on average, declining even where quarterly declines are sometimes interrupted by the occasional increase. The table also shows the length of time taken following the end of each downswing before the level of activity returns to its previous peak. Using this approach, it's possible to develop some "stylised facts" about economic downswings in the post-war period:

- US economic downswings are generally quite short. The majority last only two or three quarters and the maximum time taken to return to the previous "peak" level of activity is, again, only two or three quarters. There are, however, one or two exceptions. The downswing following the 1973 oil price shock lasted five quarters. The downswing in 1980 was short but was followed soon after by another period of declining GDP in 1981 and 1982: not surprisingly, this entire period is now known as the "double-dip" recession.
- UK recessions, in contrast, are much more difficult affairs. The downswings of the mid-1970s, the early-1980s and the early-1990s were all nasty experiences, lasting between five and nine quarters. Not surprisingly, these lengthy downswings were followed by equally lengthy periods of "catch-up" before a return to levels of activity seen at the previous peak in the economic cycle.
- The German experience is mostly similar to that of the US with the notable exceptions of the very lengthy adjustment in the early-1980s (unlike the US "double-dip", there was no significant mid-period rebound) and the early-1990s, when Germany had to cope with the aftermath of its post-unification boom.
- France and Japan have had very infrequent downswings. The latest period of decline in France is already the longest in its recent history while, in Japan, lengthy downswings have only been seen in the last 15 years.

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1. The long and short of it: G5 downswings in recent decades

United States

Recession: -2.7%	Q3 1953 - Q1 1954	**3Q**
Recovery to previous peak:	Q4 1954	**3Q**
Recession: -3.7%	Q4 1957 - Q1 1958	**2Q**
Recovery to previous peak:	Q4 1958	**3Q**
Recession: -1.6%	Q2 1960 - Q4 1960	**3Q**
Recovery to previous peak:	Q2 1961	**2Q**
Recession: -0.6%	Q4 1969 - Q1 1970	**2Q**
Recovery to previous peak:	Q3 1970	**2Q**
Recession: -3.1%	Q1 1974 - Q1 1975	**5Q**
Recovery to previous peak:	Q4 1975	**3Q**
Recession: -2.2%	Q2 1980 - Q3 1980	**2Q**
Recovery to previous peak:	Q1 1981	**2Q**
Recession: -2.7%	Q4 1981 - Q3 1982	**4Q**
Recovery to previous peak:	Q2 1983	**3Q**
Recession: -1.3%	Q4 1990 - Q1 1991	**2Q**
Recovery to previous peak:	Q4 1991	**3Q**
Recession: negligible	Q3 2000 - Q3 2001	**5Q**
Recovery to previous peak:	Q4 2001	**1Q**
Recession: -1.7%	Q3 2008 - CONT	**3Q+**
Recovery to previous peak:		

United Kingdom

Recession: -0.5%	Q4 1955 - Q3 1956	**4Q**
Recovery to previous peak:	Q1 1957	**2Q**
Recession: -0.8%	Q2 1957 - Q3 1957	**2Q**
Recovery to previous peak:	Q1 1958	**2Q**
Recession: -2.6%	*Q2 1958 (-2.6 Q/Q)*	***1Q***
Recovery to previous peak:	*Q1 1959*	***3Q***
Recession: -0.7%	Q3 1961 - Q4 1961	**2Q**
Recovery to previous peak:	Q2 1962	**2Q**
Recession: -3.3%	Q3 1973 - Q3 1975	**9Q**
Recovery to previous peak:	Q4 1976	**5Q**
Recession: -6.0%	Q3 1979 - Q1 1981	**7Q**
Recovery to previous peak:	Q3 1983	**10Q**
Recession: -2.5%	Q3 1990 - Q3 1991	**5Q**
Recovery to previous peak:	Q3 1993	**8Q**
Recession: -2.2%	Q3 2008 - CONT	**3Q+**
Recovery to previous peak:		

West Germany 1962 - 1994, Germany 1995 - pres

Recession: -3.7%	Q4 1962 - Q1 1963	**2Q**
Recovery to previous peak:	Q2 1963	**1Q**
Recession: -2.4%	Q4 1966 - Q2 1967	**3Q**
Recovery to previous peak:	Q3 1967	**1Q**
Recession: -2.9%	Q2 1974 - Q2 1975	**5Q**
Recovery to previous peak:	Q1 1976	**3Q**
Recession: -2.8%	Q2 1980 - Q3 1982	**10Q**
Recovery to previous peak:	Q4 1983	**5Q**
Recession: -3.3%	Q2 1992 - Q2 1993	**5Q**
Recovery to previous peak:	Q4 1994	**6Q**
Recession: -0.9%	Q4 1995 - Q1 1996	**2Q**
Recovery to previous peak:	Q2 1996	**1Q**
Recession: -0.4%	Q2 1998 - Q4 1998	**3Q**
Recovery to previous peak:	Q1 1999	**1Q**
Recession: -0.9%	Q4 2002 - Q2 2003	**3Q**
Recovery to previous peak:	Q1 2004	**3Q**
Recession: -3.1%	Q2 2008 - CONT	**4Q+**
Recovery to previous peak:		

France

Recession: -2.0%	Q4 1974 - Q1 1975	**2Q**
Recovery to peak:	Q4 1975	**3Q**
Recession: -0.5%	Q2 1980 - Q4 1980	**3Q**
Recovery to previous peak:	Q2 1981	**2Q**
Recession: -1.2%	Q4 1992 - Q2 1993	**3Q**
Recovery to previous peak:	Q2 1994	**4Q**
Recession: -1.4%	Q2 2008 - CONT	**4Q+**
Recovery to previous peak:		

Japan

Recession: -3.4%	Q1 1974	**1Q**
Recovery to peak:	Q2 1975	**5Q**
Recession: -1.6%	Q2 1993 - Q4 1993	**3Q**
Recovery to peak:	Q3 1994	**3Q**
Recession: -3.4%	Q2 1997 - Q1 1999	**8Q**
Recovery to previous peak:	Q4 2000	**7Q**
Recession: -2.2%	Q2 2001 - Q4 2001	**3Q**
Recovery to previous peak:	Q2 2003	**6Q**
Recession: -4.8%	Q2 2008 - CONT	**4Q+**
Recovery to previous peak:		

Source: Thomson Financial Datastream

Latest data suggest the US economy started to contract in the third quarter of 2008. If this downswing is consistent with the majority of post-war recessions, the US economy should already be close to the bottom. If the current malaise is similar to that of the 1970s, the economy should begin to pick up in the final quarter of 2009. If we are seeing a repeat of the 1980s, a pick-up through 2009 after the shrinkage in the second half of last year would be followed by a further period of decline in 2010 (indeed, our latest US forecasts provide an approximation of this variant).

For the UK, history suggests that the downswing is likely to last a lot longer than in the US: the contraction which began in the third quarter of 2008 could easily carry on through to the end of 2009 and possibly into 2010. The UK's experience sits a little oddly with that of other countries: deeper and longer recessions followed by mostly slow and wheezing returns to normality and then, typically, the onset of an unsustainable boom. Admittedly, the UK was successful in avoiding a downswing following the stock market crash in 2000. Back then, though, the fiscal position was very healthy whereas, today, the government's budgetary position appears to be a touch bedraggled, while the household sector is heavily indebted and the financial sector is facing once-in-a-century woes.

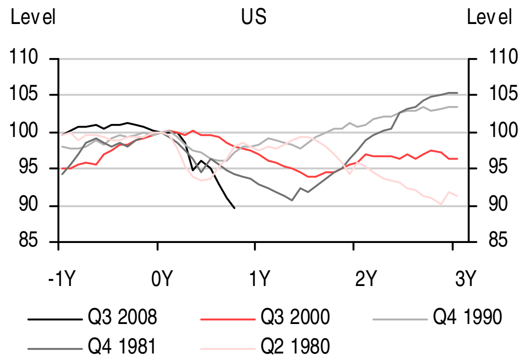
As for the others, the picture is inevitably mixed. As we've already noted, before the 1990s, Japan didn't really have downswings which involved outright contractions in GDP for the simple reason that its trend growth rate was relatively high (China provides a modern-day version of this story). Both Germany and France are already experiencing recessions which, by the standards of the last few decades, are unusually lengthy.

While these historical comparisons say something about the *relative* risks facing different economies, unfortunately they don't say too much about the crisis we're now in. It's important not to become enslaved by history but, instead, to learn something about both the similarities and differences between the latest crisis and those which have preceded it.

HSBC

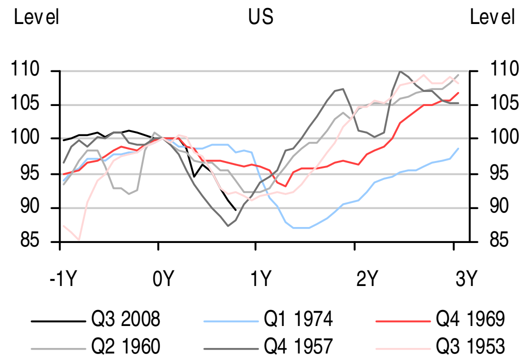
Industrial production declines: the latest cycle compared

2. US production has fallen faster than before...



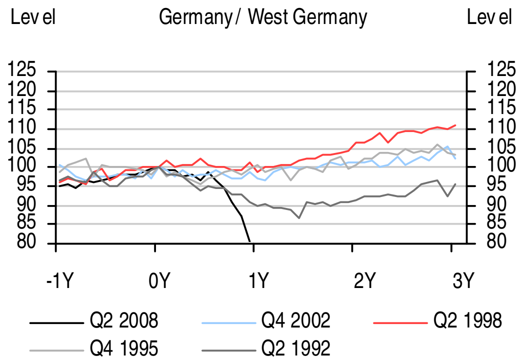
Source: Thomson Financial Datastream

3. ...although things were marginally worse in the late-1950s



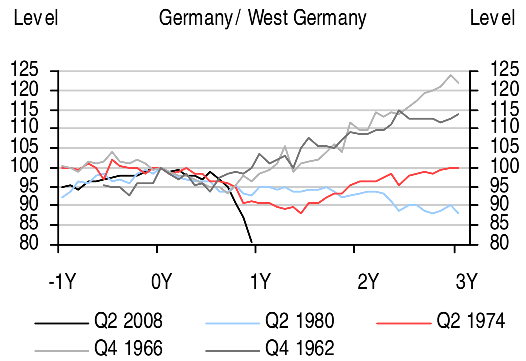
Source: Thomson Financial Datastream

4. Germany's latest crisis looks terrible...



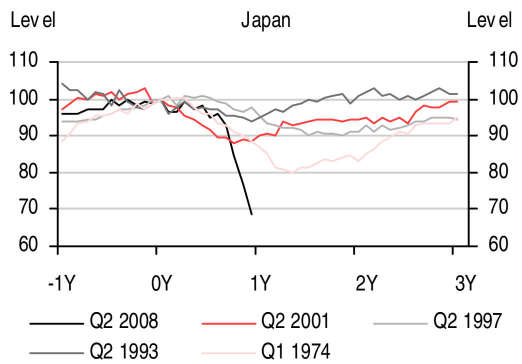
Source: Thomson Financial Datastream
Note: West Germany pre-1995

5. ...even compared with the oil shocks of the 1970s



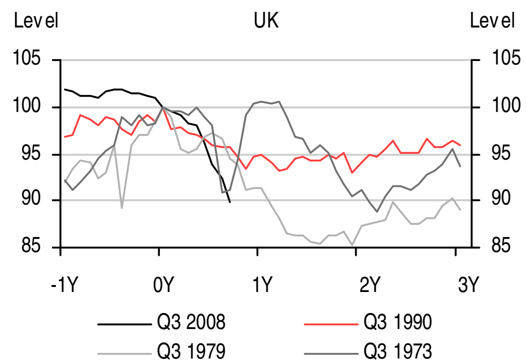
Source: Thomson Financial Datastream
Note: West Germany pre-1995

6. Japan has never seen anything like it before...



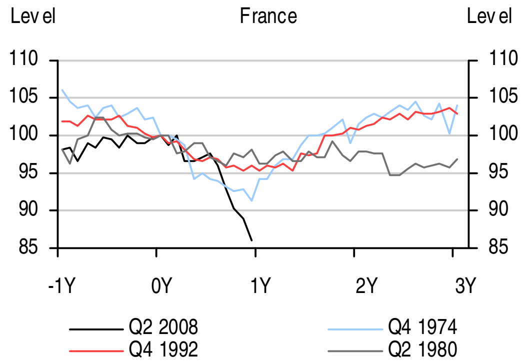
Source: Thomson Financial Datastream

7. ...although the UK has had plenty of nasty shocks before



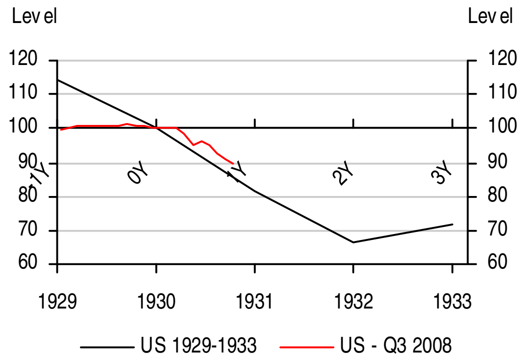
Source: Thomson Financial Datastream

8. France is in peril



Source: Thomson Financial Datastream

9. Matching the 1930s...so far

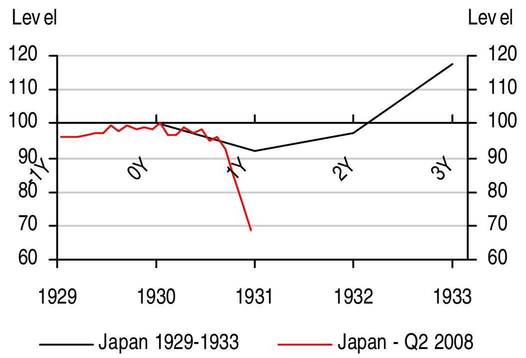


Source: Thomson Financial Datastream and The Economist

Why this crisis is different

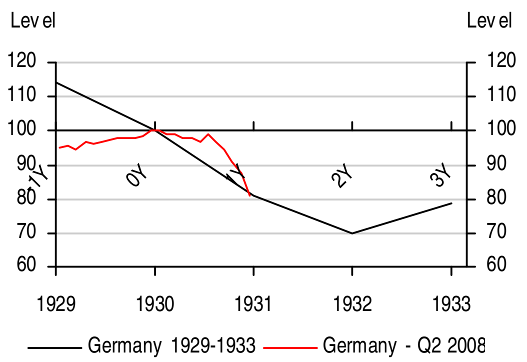
In a number of important ways, this crisis is different from past crises. It is a lot more violent. As charts 2 to 8 show, losses in industrial production have, to date, far exceeded the losses seen at equivalent points in previous downswings. Indeed, charts 9-13 shows that the declines seen so far resonate more closely with the losses seen in the early stages of the Great Depression in the early-1930s. It's a crisis now associated with tremendous uncertainty over the outlook for prices: deflation is the obvious threat but there are plenty of people who fear that, in the attempt to avoid deflation, we'll end up with excessive inflation. It's a crisis which has far bigger global repercussions than before, partly because companies themselves have a much greater global reach than before. And, of course, it's a crisis which has rocked the financial system to its core.

10. For Japan, this is much worse than the 1930s



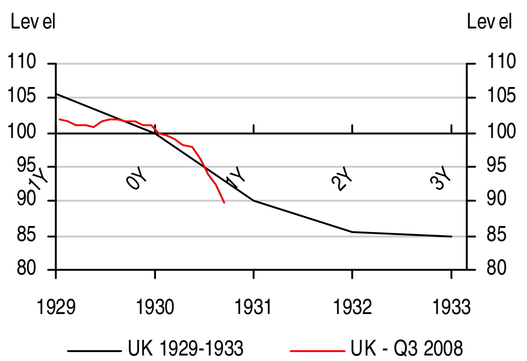
Source: Thomson Financial Datastream and The Economist

11. Germany: matching the early-1930s



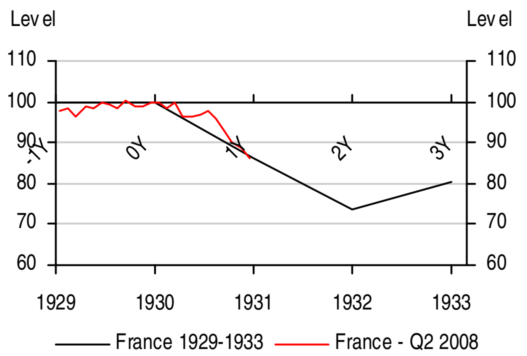
Source: Thomson Financial Datastream and The Economist

12. The UK industrial sector is falling more quickly than at the beginning of the depression



Source: Thomson Financial Datastream and The Economist

13. France is on track for depression mark II



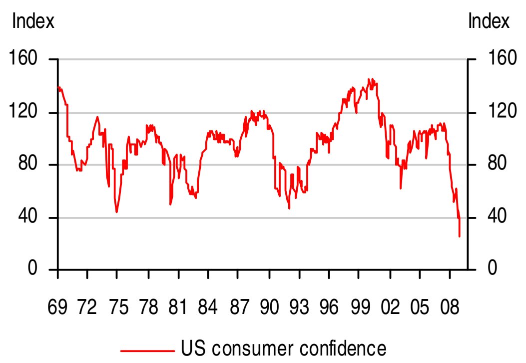
Source: Thomson Financial Datastream and The Economist

The shock can now be broken into three parts:

The banking crisis, associated with both a shortage of capital and, importantly, a shortage of funding. The credit crunch is ultimately a story about a restriction in the supply of credit for any given level of official interest rates.

A collapse in the demand for credit. It took a long time but, as companies and households began to realise that the credit crunch was endangering their own prospects, they adopted a newly-austere approach. With collapsing business and consumer confidence came substantial increases in saving ratios and huge reductions in industrial production.

14. US consumer confidence hits new lows



Source: Thomson Financial Datastream

A geographical seepage. What began as a housing market-related threat in the developed world has become a major crisis for many emerging markets. Part of the problem stems from the shift in manufacturing resources from the US and the UK to parts of Asia. A sudden loss in global demand for manufactured products rapidly becomes an Asian inventory problem rather than a difficulty for the US or the UK. Another aspect is the dependency of emerging markets on cross border bank lending flows: as we shall see later on, those flows have rapidly dried up over the last few months.

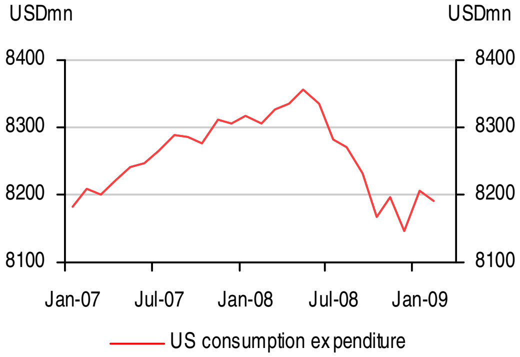
Green shoots?

At the time of writing, some more encouraging (or, more precisely, less discouraging) signs were beginning to emerge in the US, prompting plenty of discussion about so-called "green shoots". Certainly some of the recent data releases have been better than expected (or not as bad as feared).

15. Surprise indices still very weak on a cumulative basis...

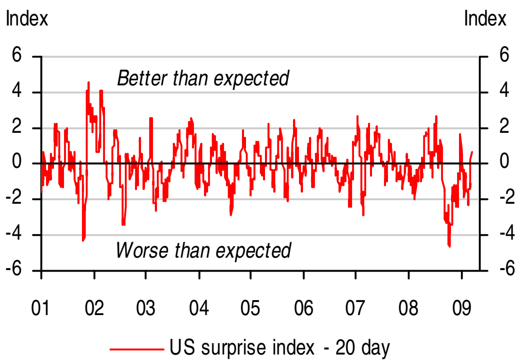
Source: Thomson Financial Datastream

17. The level of US consumer spending appears to have stabilised early in 2009



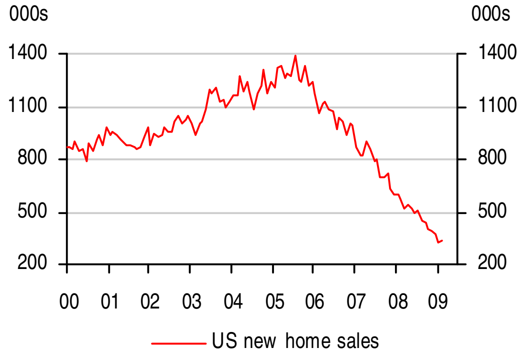
Source: Thomson Financial Datastream

16...but, in the US, the savage shocks of late-2008 are no longer appearing



Source: Thomson Financial Datastream

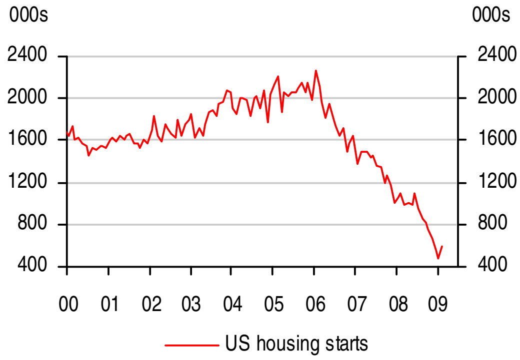
18. New home sales are still plunging...



Source: Thomson Financial Datastream

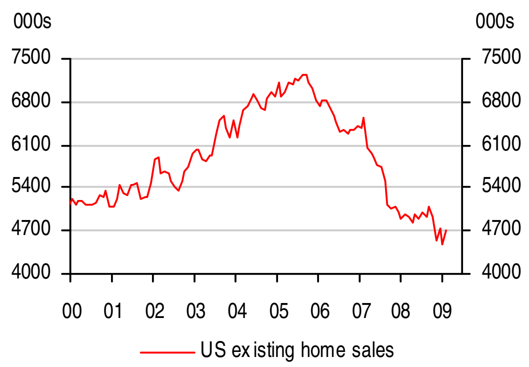
There are, for example, signs of life in consumer spending and in housing activity. Following a total (and totally unprecedented) collapse in the volume of consumer spending in the second half of 2008, there was a slight pick-up in the first couple of months of 2009, which might prove consistent with an eventual bottoming-out of consumer demand. Similarly, house prices staged an unexpected recovery in January, breaking a relentless downward trend in earlier months. Higher house prices might, in turn, reflect a pick-up in mortgage refinancing associated with much lower long-term interest rates.

19....but housing starts have bounced a little...



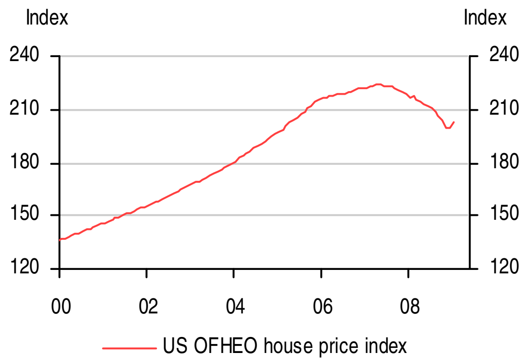
Source: Thomson Financial Datastream

20...and the jarring declines in existing home sales may have ended



Source: Thomson Financial Datastream

21. House prices have started to rise....a bit



Source: Thomson Financial Datastream

Levels of activity in the US, though, remain unusually depressed, raising all sorts of questions about profitability, corporate solvency and unemployment. Moreover, even if there are a few green shoots here and there in the US, the same story simply does not apply elsewhere.

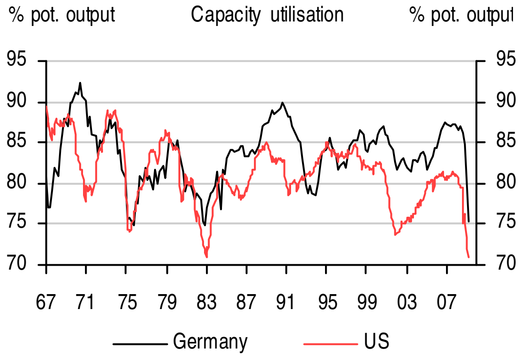
The UK and the Eurozone continuously offer downside economic surprises, Japan is experiencing an economic catastrophe far exceeding anything seen during its earlier years of stagnation, many of the smaller Asian countries have seen an implosion in their export performance while, in Latin America, even those countries with relatively small tradable goods sectors have been hit hard in the downswing. Some parts of Europe – Ireland, Portugal, the Nordic nations and, to the east, the newer members of the European Union – have found themselves in a distinctly precarious position, with domestic demand collapsing and, in some cases, GDP falling off a cliff. Meanwhile, the Middle East has lost its earlier swagger.

The ongoing threats

Recessions are often associated with inventory excesses. The reductions in industrial production seen around the world are an attempt to lower inventory levels. This "clear the decks" policy is designed to shift stock as quickly as possible in the hope that factories can quickly return to earlier levels of production. However, the worrying feature of the declines in production seen so far, as we've already noted, is their sheer magnitude, matching the early stages of the Great Depression. This raises some unusually difficult issues related both to the scale of the declines in production and the national policy responses designed to limit the downside:

- Capacity utilisation rates are remarkably low. Output gaps are very large (although, as we noted in "The Credibility Gap" (September 2008), any post-bubble output gap estimates are prone to substantial revision). Even if production were to rebound, the recovery might now not be enough to keep companies in business. For example, Japanese industrial production has dropped 40% in four months: in other words, Japanese companies were producing 100 units of output but are now only producing 60 units. A 10% increase in production would, in normal circumstances, be regarded as a sign of sustainable recovery. But if, in these circumstances, production rises only to 66 units, companies may still not be able to break even. Insolvency and rising unemployment suddenly become real risks.

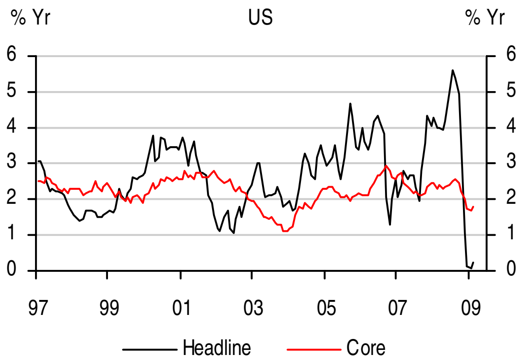
22. Capacity utilisation in the US at a record low, and things aren't much better in Germany



Source: Thomson Financial Datastream

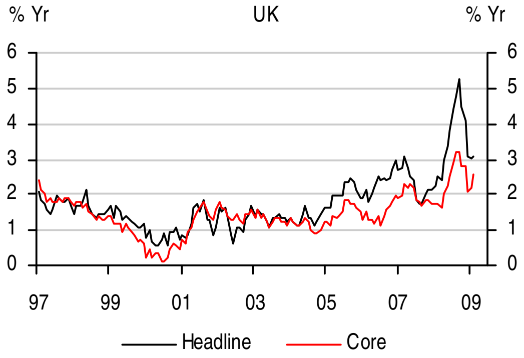
- With all this spare capacity, the obvious danger is a bout of deflation. Given that interest rates are at zero, falling prices at this stage are a threat for two reasons. First, if prices fall relative to wages (the Keynesian "wage-stickiness" effect), profits will tumble and unemployment will rise. Second, if both prices and wages decline (the so-called Fisher effect), real interest rates and real debt levels will rise, again threatening bankruptcy and higher unemployment.

23. Heading towards deflation....it's only a headline story so far



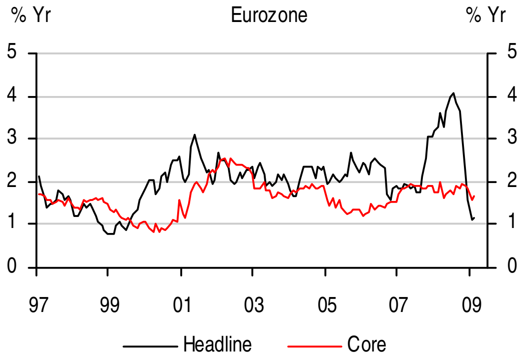
Source: Thomson Financial Datastream

24. Deflation may be a worry but, in the UK, inflation is refusing to go away



Source: Thomson Financial Datastream

25. Eurozone inflation is comfortably within target on any measure



Source: Thomson Financial Datastream

- Fearing depression, policymakers are attempting both to kick-start bank lending and, where necessary, bypass the banking system altogether by using quantitative easing to pump credit directly through to companies and households. But which companies and households? Governments and central banks will inevitably demonstrate a national bias in their dealings vis-à-vis credit and, as a result, a significant drying-up of cross-border bank lending flows becomes a major threat to globalisation: it is protectionism through the back door. Might this lead to more cash hoarding and, thus, further downside risks to production later in the year?

Deflation in view

These threats suggest deflation should be treated very seriously indeed. The carefully choreographed statements from Bank of England officials accompanying the launch of the UK's quantitative easing process have made clear the overriding motivation for launching such an unconventional, dramatic action. Deflation, and the potentially destructive consequences it would entail for a heavily indebted economy such as the UK, appears front and centre as the most pressing threat now facing policymakers given the ongoing contraction in global economic activity.

As we argued in our recent note, '*At the crossroads*'[1], a process of debt monetisation has the potential to jolt inflation expectations away from the deflationary path by forcing a rapid and significant expansion within the normally stable monetary base. But for those central banks less inclined or less able to follow this radical path of action, other, more conventional policies will be pursued to the same aim.

M or V – it's all about P!

From a theoretical standpoint, any central bank wishing to counter the threat of deflation through non-conventional means, and with the zero bound on policy interest rates having already been met, can do so through two main channels. Policy can be focused upon actively raising the money supply – with debt monetisation being the most obvious conduit here – or efforts could be made to extend the usefulness and potency of the money supply already in place by targeting a rise within the velocity of circulation.

In essence, however, the action plans developed by the respective central banks over the past year have combined elements of both strategies. The extensive use of open market operations by the Federal Reserve during the early part of the crisis – by facilitating the swapping of illiquid assets for liquid cash or government bonds – provides a prime example of this. Although no explicit quantitative easing has occurred, the effective money supply – or that which may be usefully allocated across the economy- has arguably increased, even after substantial haircuts have been imposed by central banks. Risk aversion has dictated that much of this additional liquidity has been effectively hoarded, leading to a ballooning of the level of excess reserves (over and above the regulatory requirement) held at the Federal Reserve by depository institutions. But by using these reserves to finance the direct purchase of riskier assets, such as commercial paper or mortgage-backed securities, policymakers have also worked to channel funds from the more risk-averse investors towards the most distressed areas of the financial markets, an action that would be expected to boost the velocity of money circulating across the economy.

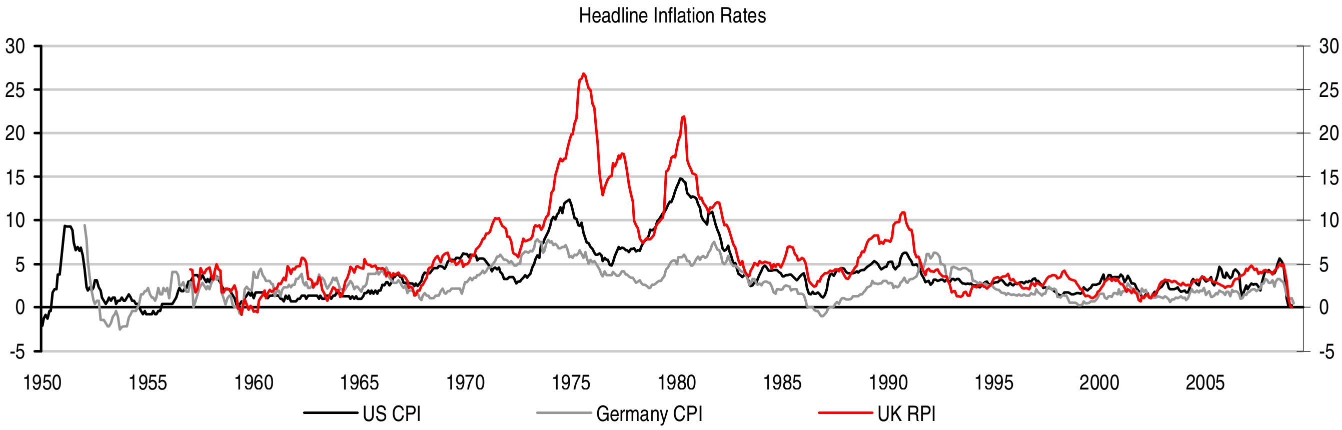
All of this, of course, possesses more than a hint of circularity. But with the level of financial disintermediation remaining unusually poor, central banks are increasingly moving to fill the void left by others in order to limit the macroeconomic consequences of a malfunctioning financial sector, though targeting the level of the money supply itself, boosting the velocity of the existing money within the economy or some combination of these two strategies.

Driving the process

On such an interpretation, it is reasonable to argue that quantitative easing – in one form or another – has in fact been underway for a considerable period. But the Bank of England's actions of recent weeks signal a much more aggressive implementation of these approaches. Whereas the impact of measures such as open market

[1] *See 'At the crossroads - From price to quantity on monetary policy', Stuart Green, 12th March 2009*

26. Inflation rates now approaching 50-year lows



Source: Thomson Financial Datastream

operations is governed more by the appetite of commercial banks to participate within such schemes, developments within the UK suggest a growing desire for the central bank to drive events in a much more forceful and direct manner. The threat of deflation appears to be the genesis for this change of approach, and this issue will doubtless receive a good deal more attention as the middle of the year approaches.

About to go under

Thanks to the brief flirtation with a $150 oil price during the summer of last year, and subsequent collapse in commodity prices, most measures of consumer price inflation within many of the major economies will dip into negative territory from around June/July this year, the first such occurrence since at least the 1950s (see Chart 24). This rather technical definition would still fall short of most peoples' assessment of full-blown deflation – something which relates more to underlying behavioural shifts than headline changes in the consumer price indices. The expectation of ongoing price declines, and the manner in which a reduction in asset values and rising real debt burden interplay to force a further retrenchment of activity, are the key elements of a truly deflationary trend.

But if a brief period of negative inflation constitutes only a necessary rather than sufficient condition for deflation to occur, policymakers are still likely to react in aggressive fashion given the backdrop of the most worrying macroeconomic environment in living memory. To simplify, it may be possible to distinguish between "good" and "bad" deflation, with the general price level declining either due to a positive terms of trade and/or productivity shock, or a demand-driven, economic slump which leads to declining asset values and prices more generally.

Deflation in the current circumstances would certainly fall into this latter category – falling activity, an overhang of spare capacity and collapsing asset prices – rather than a positive productivity shock or a statistical quirk of a particular shift in relative prices across the economy.

Still, the presence of deflation *per se* need not prove disastrous, and economic history is littered with episodes where deflation has occurred within an otherwise acceptable environment. Most of these examples were provided during periods of adherence to the Gold Standard. As an increase in the monetary stock in the economy could only be facilitated by a commensurate rise in that country's gold reserves, periods of rapid productivity gains were often met with a decline in the overall price level. The recent deflationary experience in Hong Kong provides a more modern example, and one which perhaps includes elements of both "good" and "bad" deflation. The process of greater integration with lower cost, regional economies generated the need to improve competitiveness which, owing to the presence of the currency board, necessarily led to a generalised decline in the price level. A prolonged housing market decline following the boom of the mid-1990s also drove the deflationary process, with this effect being amplified in turn by the increase in the real debt burden that a falling price level entailed. Real GDP growth slowed during this period, yet remained in positive territory. But within the current situation of rapidly declining capacity utilisation – with this measure now having reached a record low within the US manufacturing sector - and elevated levels of indebtedness, the prospects for a significantly less benign outcome to emerge have now been enhanced.

As well as being dependent upon its cause, deciphering between the costs of deflation *per se*, and the weak economic conditions that precede a decline in the overall price level, is no easy task. But at least five key trends can be identified, and a brief discussion of each follows below.

The major anxieties around a bout of deflation currently centre upon the possibility for some form of Fisher-style debt deflation process to occur, and the more Keynesian concern over how a declining level of profitability, and with the inability of wage levels to freely adjust downwards, interplay to force a large rise in unemployment.

i) Postponement of purchasing intentions

One of the more commonly cited costs associated with a period of deflation is the incentive to postpone major purchases as the price level declines, a factor that is often raised in the context of the Japanese deflationary experience during the 1990s. Although intuitively appealing, a number of shortcomings can be identified with this argument. Most doubtful are the implicit assumptions that deflation is well anticipated across the economy, something which the evidence from Japan in the lead up to deflation does not wholly support, and that the purchase of many goods can indeed be postponed for a substantial period. In addition, the evidence from the UK over the past decade suggests that a period of consistently falling goods prices in itself does not preclude periods of strong expenditure developing. But within the current environment of fast rising unemployment and/or sharply reduced estimates of future income growth, not least because of the substantial destruction of household sector wealth experienced over the past year, the tendency to postpone major purchases within a deflationary environment poses a significant risk.

ii) Rising real debt burden and transfer of income

A further, highly substantial concern around the risk of deflation concerns the rising real debt burden that would result from a period of unanticipated deflation, and the effective transfer of real income from debtor to creditor this would entail. In general, a period of deflation works to increase the real debt burden, while simultaneously reducing the ability of debtors to service their commitments. Moreover, given that creditors would generally be expected to have a lower marginal propensity to consume than debtors, some overall loss of expenditure would likely follow this shift in incomes, and a substantial downside threat to growth could easily develop across the most heavily indebted economies.

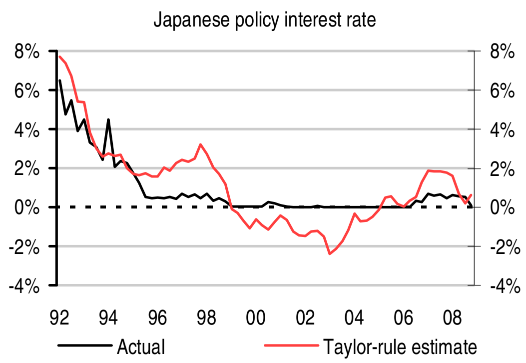
iii) Increased risk of financial sector stress

The same real debt burden/income transfer effect would of course still apply should inflation prove

27. Surge in short-shifts points to increased flexibility

Source: HSBC

28. Zero bound proved a significant impediment in Japan



Source: Thomson Financial Datastream, HSBC, IMF

weaker than anticipated, but remain in positive territory, during the duration of a loan. But with deflation also likely to entail a decline in the price of assets posted as collateral, the problems presented to both the financial sector in terms of impaired assets and non-performing loans, and the non-financial sector with negative equity and balance sheet constraints, would likely prove significantly more troublesome. The period of rapid financial sector innovation experienced over the past decade has in the case of most economies occurred during a period of a gently rising price level, less volatile growth and strong gains in many asset classes. The embodiment of these trends into much of the current financial architecture is likely to have greatly enhanced the macroeconomic costs of even a limited period of deflation.

iv) Increased fiscal burden

The fiscal implications of a period of deflation could also be significant, most obviously due to the direct increase in the real burden of government debt. More indirectly, however, deflation would be expected to reduce the nominal value of revenues accrued by expenditure and asset taxes, and most likely by a greater degree than fiscal outlays decline. Although the indexation of social security and pension payment is prevalent across many economies, it is far from certain whether nominal declines in these payments would be politically viable. Worries about fiscal sustainability have been a key influence on asset price performance during the early months of 2009 and this enhanced scrutiny of sovereign risk will doubtless persist during the remainder of the year and beyond. After all, the deflationary pressures experienced during the Great Depression contributed to a number of governments defaulting on their debt, and a more recent illustration of these pressures is provided by Japan, where the ratio of government debt to GDP rose from around the 70 per cent level in the early-1990s to more than 160 per cent a decade later.

v) Nominal rigidities within wages and policy interest rates

A further, substantial complication generated by the emergence of deflation within a weak economic environment relates to the presence of nominal, downward rigidities within both wages and the policy interest rate. Resistance to nominal wage declines within a deflationary environment risks a growing squeeze upon profit margins and, in turn, a much larger rise in unemployment than would be the case if nominal wages adjusted freely. In effect, this ‘stickiness’ in nominal wage levels leads to a real wage increase which, within the current environment of spectacular declines in production, could only be sustained for a finite period before unemployment rises. The extent to which this stickiness still exists, given the perception of substantial advances in labour market flexibility over the past decade, is arguably less certain, and evidence from economies such as Germany points to an increased willingness to accept a reduced work week and/or pay in order to remain in employment (see chart 27). But in the absence of anything less than full flexibility in nominal wages, a period of deflation would lead to a higher level of unemployment than would otherwise be the case.

The nominal rigidity relating to monetary policy essentially relates to the presence of the zero bound on interest rates, and the inability of central banks to fully calibrate interest rates for a declining price level. If for instance monetary policy is set in accordance with some form of Taylor rule, where deviations from a targeted level of inflation and unemployment/trend-growth motivate changes in interest rates, a period of deflation may imply a policy rate below the zero bound and therefore impossible to implement.

Chart 28 provides an easy illustration of this possibility, showing the actual policy interest rate in operation within Japan between 1992 and the present day, and that implied by a simple Taylor rule of monetary policy, which provides an equal weighting to deviations from an assumed, targeted level of inflation and the potential rate of GDP growth[2]. The implied policy rate falls into and remains within negative territory between 1999 and 2005 which, given the zero bound on interest rates, effectively creates the need to embrace non-conventional measures in an attempt to minimise the likely substantial loss of output.

[2] *A real, long-run average interest rate of 3% and an implicit inflation target of 2% are assumed. See IMF Working paper 03/215 for further details.*

A rigid asymmetry

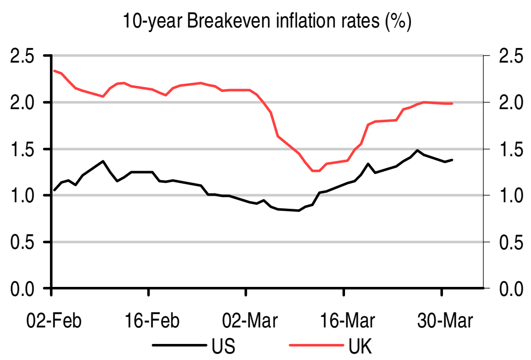
Given the series of factors that make the economic costs of a period of negative inflation distinct from fluctuations in the level of positive inflation, policymakers - particularly within the more heavily indebted economies - are likely to regard the threat of deflation as an asymmetric risk and should be expected to react in the same manner. The presence of nominal rigidities within both wages (wage stickiness) and policy interest rates (the zero bound) will simultaneously create the need for a renewed stimulus, given the prospects for significantly higher levels of unemployment, and limit the effectiveness of the established policy levers. Monitoring the risks of deflation will therefore constitute a key task for policymakers, although given the institutional framework that supports positive inflation expectations – ranging from wage indexation to inflation targeting – expectations of deflation are likely to emerge only slowly across the economy and, by definition, will not be obvious when they do (and, of course, there is always the danger of offering too much policy stimulus).

The most commonly used methods of measuring inflation expectations – the breakeven level of inflation that equates the yields between conventional and index-linked debt, and surveys of consumer/business expectations – both possess substantial shortcomings that need to be acknowledged when analysing the information they provide.

Breaking down breakevens

Due to its market-determined nature, the breakeven level of inflation will be subject to vagaries of both liquidity conditions and changes over time in the risk tolerance of investors towards inflation itself. Substantial and sudden changes to the implied level of inflation expectations that owe little to the fundamental, medium and longer-term outlook for price stability can therefore easily develop. The loss of confidence towards certain financial assets over the past 18 months, for instance, has undoubtedly attached a heightened value to the government bonds over the major economies, due to their apparently less risky, more fungible nature. If this intangible premium has been spread unevenly across the yield curve, and/or between conventional and inflation-linked debt, then implied breakeven levels of inflation over differing durations may have been adversely affected. Furthermore, if this enhanced demand for government bonds has varied across economies, then cross-country comparisons of breakeven inflation rates will also have been made less useful.

29. Slump in UK breakeven rate an unintended consequence



Source: HSBC, Bloomberg

Somewhat ironically, this possibility is highlighted by the recent decision of the Bank of England to concentrate their debt monetisation operations upon specific sections of the yield curve, and to only buy conventional rather than index-linked government bonds. A measure aimed at reducing deflation risks has in fact resulted in the main market-based measure of inflation expectations, for a period, showing a rising risk of deflation (see Chart 29). Although this is undoubtedly an extreme example of how the movement in breakeven rates of inflation can become highly distorted, it nevertheless conveys a serious point. Malfunctioning financial markets have deprived policymakers of a key tool to gauge whether structural shifts in inflation expectations are developing, exactly at the time when the need for such information has arguably never been greater.

The results of survey based measures of inflation expectations should in theory be free from liquidity or technical issues, but in practice they are still subject to significant behavioural traits. Importantly, with periods of inflation being much more typical in recent economic history than deflation, forecasting a period of falling prices may seem rather unnatural. Consumer based surveys also have a tendency to over-use the current level of inflation as the starting point or base case for expectations to develop – suggesting that the degree of change expected over a period may be more important than the actual level forecast. The price of certain staple products, or those purchases of a non-discretionary nature, may also overly influence consumer surveys of inflation, a trait that was particularly evident in the relationship between the Michigan Consumer Sentiment survey and the price of gasoline in the United States last year. Furthermore, the enormity of recent changes in the economic outlook may take a considerable period to be factored into consumer expectations, reducing the quality of the information provided to the more forward-looking central banks.

Professional forecasters may posses a more complete dataset than households, and would in theory be quicker to factoring-in substantial changes to the economic and therefore inflation outlook. But mean reversion –expecting the current situation to gradually retreat back to the normal – is often a problem with these surveys, and although this tendency may prove correct in most instances, it will by definition fail to identify an untypical, extreme event such as the onset of a depression period.

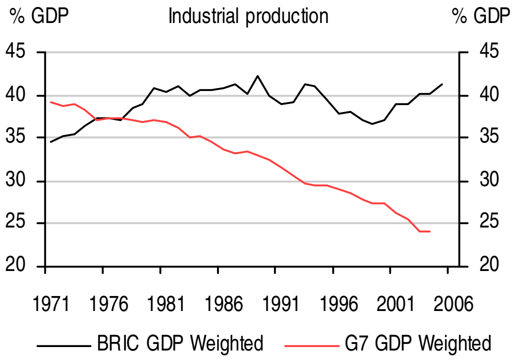
Given such shortcoming, policymakers will need to assess a wide range of indicators, not necessarily directly related to inflation expectations, to assess the true risk of deflation. Behavioural patterns within the household and corporate sectors will be watched closely, with the recent indications of a reduced demand for loans and an increased willingness to undertake balance sheet adjustment being trends that are worthy of special attention.

But in truth, with no one measure of inflation likely to provide an unbiased or reliable message, monitoring the risk of deflation will remain a substantial grey area for central banks. Assessing the success or otherwise of the measures enacted so far to counter deflation – such as debt monetisation - will as a consequence prove problematic, and relaying this information to financial markets and the public at large more complex. Indeed, faced with the rather asymmetric threat of deflation, and an inability to gauge the true risk of such a development, the set of incentives now presented to central banks appears to one of doing too much over the coming months, rather than too little, in order to ensure that deflation is averted.

A distributional problem

Deflation is a major concern for individual nations but, globally, a bigger near-term worry is, perhaps, the increasingly skewed distribution of the crisis. Globalisation has, over the years, created huge opportunities. As political and technological barriers have declined, so cross-border trade and capital flows have hugely increased. Companies have increasingly out-sourced and off-shored, changing the industrial landscape of countries in completely different ways. The emerging markets have seen a shift from agricultural activity into manufacturing (or, in the case of India, from agriculture into services). Meanwhile, the developed countries have, over time, seen a shift away from manufacturing into services (most obviously, financial and distribution services).

30. Industrial production is no longer dominated by the G7

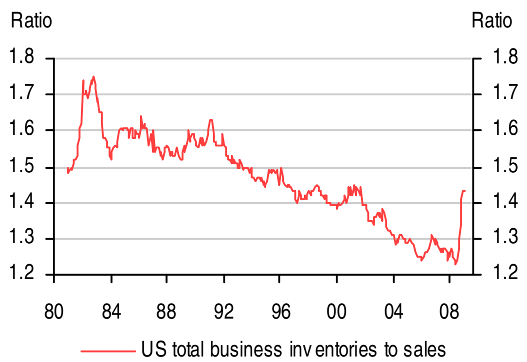


Source: World Bank, HSBC

These shifts have, in our view, complicated the effects of the current crisis. The confusion relates to those countries which people think “deserve” to suffer for their earlier lax banking standards and those which have, seemingly done nothing wrong. Markets, though, do not make moral judgements. The crisis has spread rapidly from those arguably at the epicentre of the problem to countries which, a year or so ago, were seen to be mostly immune.

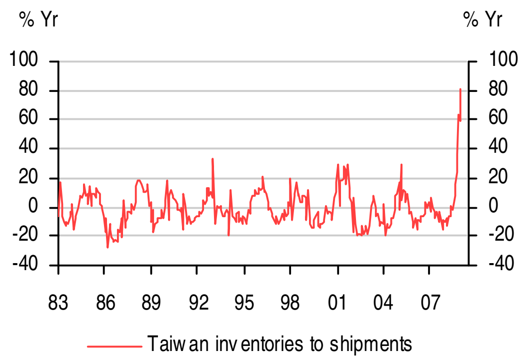
One aspect of this story is the shift from a “supply of credit” problem associated with US sub-prime to a “demand for credit” problem linked to falling asset prices more broadly and, post-Lehman, a loss of faith in the ability of policymakers to deliver desirable economic outcomes. The result appears to have been a massive increase in cash hoarding reflected in a sudden loss of final consumer and business investment demand. Cancelling or postponing purchases of durable goods has led to a huge rise in inventories. In the US, for example, the ratio of inventories to sales has climbed rapidly in recent months, mimicking the experience seen in the recession at the beginning of the 1980s. In Japan, the ratio of inventories to shipments has shot into the stratosphere, showing the biggest rise since at least the mid-1970s. Taiwan, meanwhile, has experienced a year-on-year increase in its inventory/shipments ratio on a scale unprecedented in the modern era.

31. US inventories have soared relative to sales



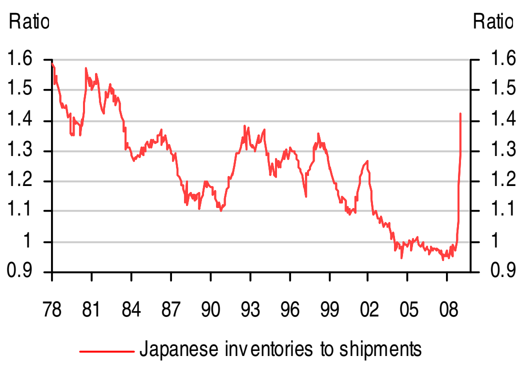
Source: Thomson Financial Datastream

32. Taiwanese inventories have surged y-o-y



Source: Thomson Financial Datastream

33. So much for Japan's just-in-time inventory revolution



Source: Thomson Financial Datastream

At first sight, the inventory problem seems to be a global phenomenon. In truth, though, it's a bigger threat for the world's manufacturing nations. Table 34 provides a ranking of nations according to the size of their manufacturing sectors within total GDP.

The US is relatively under-exposed as are the UK and France. Germany, China, Taiwan, South Korea and Singapore are much more exposed. During the 1980s, a collapse in manufacturing demand was bad news economic activity in the East Midlands relative to the rest of the UK. Today, a collapse in manufacturing demand is bad news for Germany and Asia relative to the US.

34. Who's at the top and bottom of the industrial production tree

% GDP	2007
China	33.7
Taiwan	27.9
Germany	27.3
S. Korea	24.8
Brazil	24
Singapore	23.3
Italy	22.1
Japan	21.1
Russia	19.0
UK	18.0
France	17.1
India	15.0
US	11.7

Source: Thomson Financial Datastream

There's more. The boom in credit markets in recent years created a series of positive feedback loops. The last decade saw the development of a virtuous circle which led to a huge increase in inflows into, and outflows from, emerging economies. Table 35 shows the scale of the change. One way to interpret these developments is to argue that inflows into emerging markets as a result of growing enthusiasm among investors in the developed world (sparked in part by the low interest rates stemming from the stock market crash in 2000) led to upward pressure on emerging market exchange rates. This pressure was resisted through the accumulation of foreign exchange reserves which, in turn, were invested in Treasuries and other "safe" assets in the developed world. Yields dropped as a result, making it easier for banks to raise funds through securitisation and cross-border interbank borrowing. Some of these newly-raised funds were then lent back to the emerging markets, leading to an even bigger inflow.

34. Capital flows in EME's*: various episodes compared (USDbn)

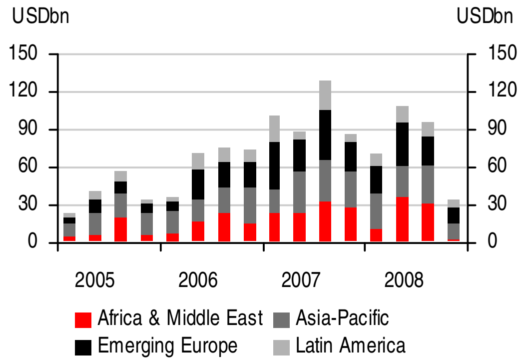
	Inflows	Outflows	Forex reserves change	Current account balance
1993-96	280	110	90	-85
1997-2001	269	193	89	21
2002-07	951	818	584	429

Source: IMF, Balance of Payments statistics; Central Bank of China
* All EMEs as defined in the IMF World Economic Outlook plus Hong Kong SAR, Korea, Israel, Singapore, Taiwan; annual average

In this story, a critical link is the ability of banks to raise funds through non-deposit sources. This has facilitated a huge increase in lending via funds raised in other parts of the world. Knowing, therefore, that inflows into emerging markets during the boom years have increased dramatically reveals something about these economies' likely vulnerability today. The threat applies not just to those countries with current account deficits (such as those in central and eastern Europe) but also to those who are faced with substantial debt rollovers in the next twelve months. Many Asian countries would fall into this category.

One example of this process is the collapse in the volume of syndicated loans to emerging markets, and a corresponding widening of spreads, in the final quarter of 2008. After years of rapid growth, signings fell to a little over $30bn. Latin America survived relatively well, but there were more substantial declines in Africa and the Middle East, Asia-Pacific and Emerging Europe. Spreads over libor widened substantially in all regions.

36. Syndicated loan volumes



Source: Dealogic - from BIS Quarterly Review, March 2009

The collapse in syndicated lending may reflect two key dangers in the international credit system:

- If national governments use taxpayers' money to support their banks. They will understandably encourage those banks to lend domestically. This threatens a significant reversal in the growth of cross-border capital flows over the last thirty years.
- Banks which reduce their international lending exposure as a result will threaten a crumbling of syndicated loans. If the number of banks in a syndicate declines, those remaining may take the view that their individual credit risk exposure has risen, persuading them to reduce lending even further. Perfectly healthy companies could, on this basis, become insolvent.

Conclusions

It may not yet be another Great Depression but the losses in industrial production seen over recent months have been truly shocking. These losses reflect not just the credit crunch itself but also the more recent fall-off in demand and uncertainties linked to the geographical spread of the crisis.

There have been some slightly more encouraging signs in the US over the last couple of months but theses have to be weighed against the increasingly abysmal performance of economies elsewhere in the world.

Quantitative easing may have some beneficial effect but the policies are mostly untried and untested. Moreover, the policies distort the market pricing that might, otherwise, provide an indication of their likely success.

We are making even more cuts to our growth forecasts for this year. We expect the global economy to shrink 1.9%, with particularly sharp contractions in Japan, Germany and the UK.

The US and the UK are more likely than others to pursue quantitative policies with earnest endeavour and, as a result, we expect investors to prefer alternative "safe-haven" currencies. The euro is the obvious beneficiary, notwithstanding the likely damage to the eurozone economy.

Sovereign risk is a growing problem and is likely to lead to heightened uncertainty over government bonds, although we believe US 10 year Treasury yields will eventually drop to 2%. We favour high-grade corporate bonds. Meanwhile, as Richard Cookson argues in *"Triumph of the Pessimists"* (March 2009), equities may struggle in the months ahead hampered by dividend yields too low after many years in which promised capital returns failed to materialise.

HSBC

Global economic forecasts

HSBC

GDP

Annual

% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World (Nominal GDP weights)	**1.6**	**1.9**	**2.5**	**3.7**	**3.2**	**3.8**	**3.6**	**1.8**	**-1.9**	**1.6**
World (PPP weights)	2.5	3.0	4.0	5.0	4.8	5.3	5.3	3.1	-0.4	2.8
Developed	**1.2**	**1.3**	**1.8**	**2.9**	**2.3**	**2.7**	**2.4**	**0.7**	**-3.0**	**0.5**
Emerging	**3.3**	**4.4**	**5.8**	**7.1**	**6.8**	**7.6**	**7.9**	**5.4**	**1.7**	**4.9**
North America	**0.8**	**1.6**	**2.5**	**3.6**	**2.9**	**2.8**	**2.1**	**1.1**	**-1.6**	**0.6**
US	0.8	1.6	2.5	3.6	2.9	2.8	2.0	1.1	-1.6	0.5
Canada	1.8	2.9	1.9	3.1	2.9	3.1	2.7	0.5	-2.4	1.9
Latin America	**0.1**	**0.4**	**2.1**	**5.2**	**3.9**	**4.9**	**5.0**	**3.2**	**-1.8**	**1.5**
Mexico	-0.2	0.8	1.4	4.0	3.1	4.9	3.6	1.3	-3.3	0.6
Brazil	1.3	2.7	1.1	5.7	3.2	4.0	5.7	5.1	0.1	2.6
Argentina	-4.4	-10.9	9.0	8.9	9.2	8.5	8.7	4.9	-2.7	1.2
Chile	3.5	2.2	3.9	6.0	5.6	4.6	4.7	3.2	-0.6	2.5
Western Europe	**1.9**	**1.1**	**1.1**	**2.1**	**1.8**	**2.9**	**2.7**	**0.8**	**-3.2**	**-0.1**
Euro-15	**1.9**	**0.9**	**0.8**	**1.8**	**1.7**	**2.9**	**2.6**	**0.7**	**-3.2**	**-0.1**
Germany	1.4	0.0	-0.2	0.7	0.9	3.2	2.6	1.0	-4.7	0.2
France	1.8	1.1	1.1	2.2	1.9	2.4	2.1	0.7	-2.2	-0.6
Italy	1.7	0.5	0.1	1.4	0.8	2.1	1.5	-1.0	-3.9	-0.5
Spain	3.6	2.7	3.1	3.3	3.6	3.9	3.7	1.2	-1.8	0.0
Other Western Europe	**2.0**	**1.8**	**2.0**	**2.8**	**2.2**	**3.0**	**2.9**	**0.9**	**-3.1**	**0.1**
UK	2.5	2.1	2.8	2.8	2.1	2.8	3.0	0.7	-3.8	-0.3
Norway	2.1	1.4	0.8	3.3	1.8	1.5	3.2	2.0	-1.1	1.0
Sweden	1.2	2.4	2.1	3.5	3.3	4.6	2.7	-0.5	-3.3	0.5
Switzerland	1.2	0.4	-0.2	2.5	2.5	3.4	3.3	1.6	-2.6	0.3
EMEA	**1.7**	**3.1**	**5.7**	**6.5**	**6.0**	**6.3**	**5.8**	**4.1**	**-1.3**	**2.4**
Czech Republic	2.5	1.9	3.6	4.6	6.5	6.4	5.8	3.1	-2.1	1.5
Hungary	4.1	4.1	4.2	4.8	4.0	4.0	1.1	0.5	-3.4	1.2
Poland	1.2	1.4	3.9	5.3	3.6	6.2	6.7	4.8	1.6	2.7
Russia	5.1	4.7	7.3	7.2	6.4	7.7	8.1	5.6	-2.8	2.3
Turkey	-5.7	6.2	5.3	9.4	8.4	6.9	4.6	0.5	-4.4	2.9
Ukraine	9.2	5.2	9.6	12.1	2.6	7.1	7.6	4.4	-9.5	1.0
Egypt*	3.5	3.2	3.2	4.1	4.5	6.8	7.1	7.2	3.3	3.9
Israel	-0.4	-0.6	2.3	5.2	5.3	5.2	5.3	4.0	0.3	2.2
Saudi Arabia	1.0	0.1	7.7	5.3	5.6	3.1	3.4	4.3	-0.1	2.6
UAE	3.5	2.6	11.9	7.4	10.5	9.4	5.2	7.0	0.7	2.9
South Africa	2.7	3.7	3.1	4.9	5.0	5.3	5.1	3.1	1.4	2.1
Asia/Pacific	**2.4**	**3.1**	**4.0**	**5.1**	**4.8**	**5.3**	**6.0**	**3.1**	**-0.7**	**4.5**
Japan	0.2	0.3	1.5	2.7	1.9	2.1	2.4	-0.6	-6.5	1.6
Australia	2.1	4.3	3.0	3.8	2.8	2.8	4.0	2.1	0.1	3.1
New Zealand	2.4	4.7	4.4	4.4	2.8	2.6	3.1	-0.9	-0.2	2.4
Asia-ex-Japan	**5.5**	**6.7**	**7.3**	**8.0**	**8.3**	**9.1**	**9.8**	**6.7**	**4.1**	**6.9**
China	8.3	9.1	10.0	10.1	10.4	11.6	13.0	9.0	7.8	8.5
Asia ex-Japan & China	**3.5**	**5.0**	**5.3**	**6.4**	**6.5**	**7.0**	**6.9**	**4.4**	**0.4**	**5.2**
Hong Kong	0.5	1.8	3.0	8.5	7.1	7.0	6.4	2.5	-4.5	2.4
India**	5.8	3.8	8.5	7.5	9.5	9.7	9.0	6.7	6.2	8.0
Indonesia	3.6	4.5	4.8	5.0	5.7	5.5	6.3	6.1	2.5	4.5
Malaysia	0.3	4.4	5.4	7.3	5.3	5.8	6.3	4.6	-3.5	5.5
Philippines	1.8	4.4	4.9	6.4	5.0	5.4	7.2	4.6	1.0	3.0
Singapore	-2.3	4.0	2.9	8.7	8.7	8.4	7.8	1.1	-7.0	4.5
South Korea	4.0	7.2	2.8	4.6	4.0	5.2	5.1	2.5	-3.7	3.4
Taiwan	-2.2	4.6	3.5	6.2	4.2	4.8	5.7	0.1	-6.2	2.2
Thailand	2.2	5.3	7.0	6.4	4.7	5.2	4.9	2.6	-3.5	3.0
Vietnam	6.9	7.1	7.3	7.8	8.4	8.2	8.5	6.2	4.5	6.5

Notes: * = based upon Egyptian fiscal year (July-June); ** = calendar year. We now calculate the weighting system using chain nominal GDP (USD) weights
Source: HSBC

HSBC

Quarterly

% Quarter & % Year		Q1 08f	Q2 08	Q3 08	Q4 08	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
North America											
US*	*% Quarter*	0.9	2.8	-0.5	-6.2	-4.5	0.7	3.0	2.5	-0.7	-1.5
	% Year	2.5	2.1	0.7	-0.8	-2.2	-2.7	-1.8	0.4	1.4	0.8
Canada*	*% Quarter*	-0.9	0.6	0.9	-3.4	-6.6	-2.3	0.4	3.0	1.9	2.7
	% Year	1.5	0.7	0.3	-0.7	-2.2	-2.9	-3.0	-1.4	0.8	2.0
Latin America											
Mexico	*% Quarter*	0.3	0.3	0.4	-2.7	-1.4	-0.4	0.1	0.9	-0.2	0.0
	%Year	2.6	2.9	1.7	-1.7	-2.7	-4.8	-4.6	-1.1	0.4	0.8
Brazil	*% Quarter*	1.6	1.6	1.7	-3.6	-0.2	1.7	0.7	0.8	0.6	0.4
	% Year	6.1	6.2	6.8	1.3	-1.2	-0.6	-0.9	3.0	3.7	2.4
Argentina	*% Quarter*	-0.5	1.4	1.8	-2.5	-1.8	-0.2	-0.4	0.3	-0.7	1.1
	% Year	8.1	8.0	6.2	4.4	-0.7	-3.2	-4.8	-2.1	-1.0	0.4
Chile	*% Quarter*	1.6	1.5	-0.8	-2.1	-0.9	2.1	1.3	-0.9	-0.8	2.4
	% Year	3.4	4.6	4.6	0.2	-1.9	-2.4	0.3	1.6	1.6	2.0
Western Europe											
Euro-15	*% Quarter*	0.7	-0.3	-0.3	-1.5	-1.6	-0.5	-0.1	0.2	-0.2	0.0
	% Year	2.1	1.4	0.6	-1.3	-3.5	-3.8	-3.6	-2.0	-0.6	-0.1
Germany	*% Quarter*	1.5	-0.5	-0.5	-2.1	-2.9	0.3	-0.2	0.2	0.0	0.1
	% Year	2.8	2.0	0.8	-1.6	-1.3	-0.7	-0.5	0.3	0.2	0.1
France	*% Quarter*	0.4	-0.3	0.1	-1.2	-1.2	-0.5	0.2	0.2	-0.6	-0.4
	% Year	2.1	1.2	0.6	-1.0	-2.5	-2.7	-2.6	-1.2	-0.7	-0.6
Italy	*% Quarter*	0.3	-0.6	-0.7	-1.9	-1.5	-0.5	-0.2	-0.1	-0.4	0.1
	% Year	0.4	-0.4	-1.3	-2.9	-4.7	-4.5	-4.0	-2.3	-1.2	-0.6
Spain	*% Quarter*	0.4	0.1	-0.3	-1.0	-0.6	-0.5	-0.1	0.3	-0.6	0.1
	% Year	2.7	1.8	0.9	-0.7	-1.7	-2.3	-2.1	-0.8	-0.8	-0.2
Other Western Europe											
UK	*% Quarter*	0.4	0.0	-0.6	-1.6	-1.4	-1.0	-0.4	0.1	-0.2	0.0
	% Year	2.6	1.7	0.3	-1.9	-3.6	-4.6	-4.3	-2.6	-1.5	-0.5
Norway	*% Year*	3.5	2.9	0.8	0.8	-0.6	-1.4	-0.6	-1.5	-0.1	1.0
Sweden	*% Year*	2.0	0.8	-0.5	-4.4	-4.7	-4.4	-3.3	-0.7	0.2	0.6
Switzerland	*% Year*	3.1	2.3	1.3	-0.1	-2.1	-3.1	-2.9	-2.5	-0.8	0.4
EMEA											
Czech Republic	*% Year*	5.3	4.6	4.7	0.7	-2.8	-3.2	-1.8	-0.5	0.5	1.0
Hungary	*% Year*	1.7	2.0	0.8	-2.5	-3.6	-3.9	-3.5	-2.5	0.0	1.0
Poland	*% Year*	6.0	5.8	4.8	2.9	1.4	1.3	1.6	1.9	2.3	2.5
Russia	*% Year*	8.5	7.5	6.2	0.0	-3.0	-3.0	-3.5	0.0	3.0	2.5
Turkey	*% Year*	6.7	2.3	0.5	-6.9	-11.3	-7.2	-2.9	3.9	3.5	3.2
Ukraine	*% Year*	6.5	6.2	9.0	-4.0	-6.0	-8.0	-10.0	-12.0	-2.0	0.0
Egypt**	*% Year*	7.3	6.8	5.8	4.1	1.4	2.0	3.1	3.5	4.1	5.0
Israel	*% Year*	5.8	5.3	4.6	1.2	-0.5	-0.3	0.3	2.0	2.5	2.8
South Africa	*%Year*	1.6	5.0	0.2	-1.8	0.5	-2.5	2.5	3.2	3.0	3.0
Asia/Pacific											
Japan	*% Quarter*	0.3	-1.2	-0.4	-3.2	-3.4	-0.6	-0.5	1.0	0.9	0.2
	% Year	1.4	0.7	-0.5	-4.3	-7.9	-7.4	-7.5	-3.6	0.8	1.6
Australia	*% Quarter*	0.5	0.3	0.1	-0.5	0.2	0.1	0.0	0.4	0.5	0.7
	% Year	3.3	2.8	1.8	0.3	0.0	-0.2	-0.2	0.7	1.0	1.8
New Zealand	*% Year*	0.9	-0.8	-1.4	-2.3	-2.1	-2.4	-2.0	-0.6	0.6	1.7
Asia-ex-Japan											
China	*% Year*	10.6	10.1	9.0	6.8	6.5	7.2	8.4	8.5	9.0	8.7
Asia ex-Japan & China											
Hong Kong	*% Year*	7.3	4.3	1.7	-2.5	-4.5	-4.7	-5.3	-3.7	1.5	2.5
India	*% Year*	8.9	7.9	7.6	5.3	5.9	5.3	5.6	6.8	6.9	7.6
Indonesia	*% Year*	6.2	6.4	6.4	5.2	3.2	1.6	1.6	3.5	3.6	4.2
Malaysia	*% Year*	7.4	6.7	4.7	0.1	-3.2	-5.2	-4.6	-0.8	2.8	5.3
Philippines	*% Year*	4.7	4.4	5.0	4.5	1.5	1.0	0.5	1.1	2.2	2.9
Singapore	*% Year*	6.7	2.5	0.0	-4.2	-9.1	-8.6	-7.6	-2.5	1.2	4.3
South Korea	*% Year*	5.8	4.8	3.8	-3.4	-8.5	-6.7	-3.6	3.7	2.9	3.5
Taiwan	*% Year*	6.2	4.6	-1.0	-8.4	-10.2	-7.4	-5.1	-1.8	1.9	2.1
Thailand	*% Year*	6.0	5.3	3.9	-4.3	-5.6	-5.0	-2.6	-0.6	1.7	2.5
Vietnam	*% Year*	7.5	5.8	6.5	5.7	3.1	4.0	5.0	6.0	6.0	6.5

Note: * = quarter-on-quarter data has been annualised; ** = based up[on Egyptian fiscal year (July – June)
Source: HSBC

Consumer prices

Annual

% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World	**2.5**	**2.1**	**2.2**	**2.5**	**2.7**	**2.7**	**2.8**	**4.3**	**0.8**	**1.6**
Developed	**2.0**	**1.4**	**1.8**	**1.9**	**2.3**	**2.3**	**2.1**	**3.2**	**-0.3**	**0.7**
Emerging	**4.7**	**5.1**	**4.2**	**4.8**	**4.4**	**4.4**	**5.5**	**8.1**	**4.6**	**4.7**
North America	**2.8**	**1.6**	**2.3**	**2.6**	**3.3**	**3.1**	**2.8**	**3.7**	**-0.9**	**0.6**
US	2.8	1.6	2.3	2.7	3.4	3.2	2.9	3.8	-1.0	0.6
Canada	2.5	2.2	2.7	1.9	2.2	2.0	2.1	2.4	-0.3	1.4
Latin America	**4.9**	**10.7**	**5.7**	**6.0**	**5.1**	**4.2**	**5.7**	**8.1**	**5.7**	**5.6**
Mexico*	4.4	5.7	4.0	5.2	3.3	4.1	3.8	6.5	4.1	3.6
Brazil*	7.7	12.5	9.3	7.6	5.7	3.1	4.5	5.9	4.6	4.3
Argentina*	-1.5	41.0	3.7	6.1	12.3	9.8	17.6	21.1	15.0	15.5
Chile*	2.6	2.8	1.1	2.4	3.7	2.1	7.8	7.1	2.2	3.0
Western Europe	**2.2**	**2.1**	**2.0**	**1.9**	**2.1**	**2.1**	**2.1**	**3.3**	**0.6**	**1.2**
Euro-15	**2.4**	**2.3**	**2.1**	**2.2**	**2.2**	**2.2**	**2.1**	**3.3**	**0.5**	**1.2**
Germany	1.8	1.4	1.0	1.8	1.9	1.8	2.3	2.7	0.5	1.0
France	1.8	1.9	2.2	2.3	1.9	1.9	1.6	3.2	0.5	1.7
Italy	2.3	2.6	2.8	2.3	2.2	2.2	2.0	3.5	0.6	1.8
Spain	2.8	3.6	3.1	3.1	3.4	3.6	2.8	4.1	0.2	1.6
Other Western Europe	**1.6**	**1.4**	**1.5**	**1.1**	**1.7**	**2.0**	**2.0**	**3.4**	**1.2**	**1.2**
UK	1.3	1.3	1.4	1.3	2.0	2.3	2.3	3.6	1.6	1.1
Norway	3.0	1.3	2.5	0.5	1.5	2.3	0.7	3.8	1.4	1.6
Sweden	2.4	2.2	1.9	0.4	0.5	1.4	2.2	3.5	-0.3	1.1
Switzerland	1.0	0.6	0.6	0.8	1.2	1.1	0.7	2.4	-0.3	0.6
EMEA	**10.4**	**9.8**	**7.4**	**6.2**	**6.6**	**6.0**	**7.3**	**10.9**	**8.0**	**7.3**
Czech Republic	4.7	1.8	0.7	2.5	1.9	2.6	2.8	6.4	2.0	1.8
Hungary	9.2	5.3	4.7	6.8	3.6	3.9	8.0	6.1	3.7	3.4
Poland	5.5	2.0	0.8	3.5	2.1	1.0	2.5	4.3	3.0	2.2
Russia*	21.6	15.8	13.7	10.9	12.7	9.7	9.0	14.1	12.2	11.5
Turkey	54.4	45.0	25.3	8.6	8.2	9.6	8.8	10.4	7.3	9.0
Ukraine*	12.0	0.8	5.2	9.0	10.3	9.1	12.8	25.3	17.0	9.0
Egypt**	2.4	2.4	3.2	14.3	8.9	4.2	11.1	11.7	16.2	9.7
Israel*	1.4	6.5	-1.9	1.2	2.4	-0.1	3.4	3.8	-0.3	1.5
Saudi Arabia	-1.1	0.2	0.6	0.3	0.4	2.3	4.1	9.9	6.3	4.0
UAE	2.7	2.9	3.1	7.0	9.0	10.5	11.1	13.5	5.0	4.5
South Africa	5.7	9.7	5.4	1.4	3.5	4.6	7.1	11.5	5.5	5.7
Asia/Pacific	**0.9**	**0.3**	**1.0**	**1.8**	**1.4**	**1.9**	**2.2**	**4.1**	**0.6**	**1.1**
Japan	-0.8	-0.9	-0.2	0.0	-0.3	0.1	0.0	1.5	-1.4	-1.0
Australia	4.4	3.0	2.8	2.3	2.7	3.5	2.3	4.3	2.1	2.5
New Zealand	2.6	2.7	1.8	2.3	3.0	3.4	2.4	3.9	2.7	2.5
Asia-ex-Japan	**2.4**	**1.4**	**2.2**	**3.7**	**3.1**	**3.6**	**4.4**	**6.7**	**2.3**	**2.8**
China	0.7	-0.8	1.2	3.9	1.8	1.5	4.8	5.9	-0.2	0.8
Asia ex-Japan & China	**3.9**	**3.2**	**3.0**	**3.6**	**4.2**	**5.2**	**4.1**	**7.3**	**4.2**	**4.3**
Hong Kong	-1.6	-3.0	-2.6	-0.4	0.9	2.0	2.1	4.3	1.6	1.0
India	4.3	4.0	3.7	3.9	4.0	6.3	6.4	8.3	6.9	4.7
Indonesia	11.5	11.9	6.7	6.1	10.5	13.1	5.8	10.2	5.8	8.0
Malaysia	1.4	1.8	1.1	1.4	3.0	3.6	2.0	5.4	0.9	2.8
Philippines	6.8	2.9	3.5	6.0	7.7	6.3	2.8	9.3	4.3	4.5
Singapore	1.0	-0.4	0.5	1.7	0.5	1.0	2.1	6.5	0.4	1.9
South Korea	4.1	2.8	3.5	3.6	2.8	2.2	2.5	4.7	3.3	3.2
Taiwan	0.0	-0.2	-0.3	1.6	2.3	0.6	1.8	3.5	-1.3	-0.4
Thailand	1.5	0.7	1.8	2.8	4.5	4.6	2.2	5.6	-1.4	2.7
Vietnam	-0.3	4.1	3.1	7.8	8.3	7.5	8.3	23.0	7.4	9.3

Note: * = end-year values. We now calculate the weighting system using chain nominal GDP (USD) weights
Source: HSBC

Quarterly

% Year	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
North America										
US	4.1	4.4	5.3	1.5	-0.2	-1.1	-2.4	-0.1	0.6	0.6
Canada	1.8	2.3	3.4	1.9	0.8	-0.7	-1.5	0.1	1.0	1.3
Latin America										
Mexico	3.9	4.9	5.5	6.2	6.1	5.7	5.1	4.4	4.3	4.0
Brazil	4.7	6.1	6.3	5.9	5.8	4.6	4.5	4.6	4.6	4.3
Argentina	8.5	9.1	8.9	21.1	19.0	17.1	16.2	15.0	15.2	15.3
Chile	8.0	8.9	9.3	8.6	5.6	3.8	1.8	1.3	3.7	4.4
Western Europe										
Euro-15	**3.4**	**3.6**	**3.8**	**2.3**	**1.0**	**0.4**	**0.0**	**0.9**	**1.4**	**1.3**
Germany	3.1	3.0	3.3	1.6	0.9	0.5	0.1	1.3	1.5	1.4
France	3.3	3.7	3.6	2.0	0.7	0.0	0.2	1.0	1.8	1.8
Italy	3.3	3.8	4.1	2.9	1.3	0.3	0.1	0.6	1.8	1.6
Spain	4.5	4.7	5.0	2.5	0.6	-0.2	-0.4	0.7	1.5	1.5
Other Western Europe										
UK	2.4	3.3	4.9	1.8	0.7	0.8	1.5	1.1	0.9	0.9
Norway	3.5	3.2	4.7	3.6	2.0	1.5	1.0	1.2	1.6	1.7
Sweden	3.2	3.9	4.4	2.4	0.5	-0.5	-0.5	-0.8	1.0	1.0
Switzerland	2.5	2.7	3.0	1.6	0.1	-0.4	-0.7	-0.1	0.7	0.7
EMEA										
Czech Republic	7.4	6.8	6.6	4.7	2.1	1.9	1.9	2.1	2.3	2.2
Hungary	6.9	6.8	6.3	4.3	3.1	2.8	4.0	5.1	5.0	4.2
Poland	4.3	4.4	4.7	3.8	3.2	3.1	2.8	2.9	2.2	1.9
Russia	12.9	14.9	14.9	13.8	13.8	13.7	11.9	9.9	8.0	7.0
Turkey	9.2	10.6	11.1	10.1	7.6	7.2	7.5	8.0	10.0	9.2
Ukraine	22.5	30.2	25.8	22.9	20.9	17.9	18.1	18.1	13.9	10.5
Egypt	14.4	20.2	21.5	18.3	11.7	9.1	8.6	10.9	10.8	9.3
Israel	3.7	4.8	5.8	3.8	2.8	1.3	-1.0	-0.3	-0.2	0.2
South Africa	9.9	11.6	13.4	11.1	7.5	5.4	4.0	5.1	5.3	5.6
Asia/Pacific										
Japan	1.0	1.4	2.4	1.0	-0.4	-1.3	-2.1	-2.0	-1.4	-1.1
Australia	4.2	4.5	5.0	3.7	4.0	3.3	2.4	2.1	1.9	2.1
New Zealand	3.4	4.0	5.1	3.4	3.1	1.8	0.8	1.8	2.0	2.2
China	8.0	7.8	5.3	2.5	0.4	-0.8	-0.6	0.1	0.4	0.7
Hong Kong	4.6	5.7	4.6	2.3	2.2	0.6	1.0	2.6	2.6	1.2
India	6.3	7.8	9.0	10.2	9.5	7.5	6.0	5.0	4.8	4.5
Indonesia	6.5	9.0	12.0	11.6	8.6	6.2	3.9	4.9	7.1	7.9
Malaysia	2.6	4.9	8.4	5.9	3.5	1.3	-1.7	0.5	2.5	2.8
Philippines	5.5	9.7	12.2	9.7	6.5	3.8	3.0	3.8	4.3	4.6
Singapore	6.6	7.5	6.6	5.4	2.1	0.3	-0.4	-0.3	1.0	1.8
South Korea	3.8	4.8	5.5	4.5	4.0	3.5	3.0	2.6	2.2	2.7
Taiwan	3.6	4.2	4.5	1.9	0.1	-1.3	-1.8	-1.9	-0.7	-0.6
Thailand	5.0	7.5	7.2	2.7	-0.5	-2.8	-2.1	-0.1	2.1	2.6
Vietnam	16.4	24.5	27.7	23.6	14.5	6.1	3.0	6.0	8.0	9.3

Source: HSBC

Short rates

3 month money

End period		2005	2006	2007		2008			2009			2010	
		Q4	Q4	Q4	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f
North America													
	US (USD)	4.5	5.3	4.7	2.8	4.5	1.4	1.2	1.2	1.0	1.0	0.9	0.9
	Canada (CAD)	3.4	4.2	4.5	3.4	4.1	1.9	1.0	0.4	0.4	0.4	0.4	0.5
Latin America													
	Mexico (MXN)	8.0	7.2	7.3	7.6	8.3	8.2	6.4	5.7	5.2	5.1	5.1	5.1
	Brazil (BRL)	17.4	12.8	11.2	12.7	14.0	13.0	10.5	9.0	8.8	9.1	8.8	8.7
	Argentina (ARS)*	4.8	7.1	10.0	10.7	11.5	15.7	12.9	14.7	14.9	15.3	15.3	15.1
	Chile (CLP)*	4.5	5.3	6.5	7.9	8.5	8.3	2.3	1.6	1.6	1.6	1.6	1.9
Western Europe													
Euro-15		2.5	3.7	4.6	4.9	5.3	2.9	1.5	1.2	1.0	1.1	1.3	1.5
Other Western Europe													
	UK (GBP)	4.6	5.3	5.9	5.9	6.3	2.8	1.7	1.5	1.4	1.4	1.5	1.7
	Sweden (SEK)	2.0	3.3	4.7	5.0	5.5	2.5	1.1	0.8	0.5	0.5	0.5	0.8
	Switzerland (CHF)	1.0	2.1	2.8	2.8	3.0	0.6	0.6	0.4	0.4	0.4	0.4	0.7
	Norway (NOK)	2.6	3.9	5.9	6.6	7.7	4.0	3.0	2.5	2.5	2.5	2.5	2.5
EMEA													
	Hungary (HUF)	6.3	8.1	7.6	8.8	8.7	10.0	9.5	8.5	7.5	7.5	7.0	6.5
	Poland (PLN)	4.6	4.2	5.1	6.7	6.6	5.9	4.3	3.5	3.0	3.3	3.3	3.3
	Russia (RUB)*	5.9	5.9	6.3	5.4	8.3	20.6	15.0	13.5	13.5	13.5	11.5	11.0
	Turkey (TRY)	13.8	17.6	16.0	19.3	19.1	15.5	12.5	13.0	14.0	14.5	15.0	15.5
	Ukraine (UAH)	6.6	7.6	6.6	16.4	18.0	20.0	16.0	15.0	15.0	18.0	12.0	12.0
	South Africa (ZAR)	7.0	9.2	11.3	12.4	12.1	11.4	9.8	8.3	7.8	7.8	7.8	7.9
Asia/Pacific													
	Japan (JPY)	0.1	0.6	0.9	1.0	1.1	1.0	0.7	0.6	0.6	0.6	0.6	0.6
	Australia (AUD)	5.8	6.5	7.3	7.8	7.3	4.1	3.1	3.0	3.2	3.6	4.6	4.7
	New Zealand (NZD)	7.7	7.7	8.9	8.7	8.0	6.0	3.8	3.4	3.3	3.3	3.5	3.5
Asia-ex-Japan													
	China (CNY)	1.7	1.8	3.3	3.3	3.3	1.7	1.3	1.0	1.0	1.0	1.0	1.0
Asia ex-Japan & China													
	Hong Kong (HKD)	4.2	3.9	3.5	2.3	3.7	1.0	1.0	0.9	0.8	0.7	0.6	0.6
	India (INR)	6.3	8.2	8.0	9.4	11.0	8.5	7.1	6.3	6.1	6.0	5.7	5.9
	Indonesia (IDR)	12.8	9.5	7.8	9.2	9.9	12.0	9.3	8.0	7.8	7.5	7.3	7.2
	Malaysia (MYR)	3.2	3.7	3.6	3.7	3.7	3.4	2.0	1.3	1.3	1.3	1.3	1.3
	Philippines (PHP)	5.2	4.8	3.7	6.0	5.7	6.1	4.5	5.0	5.0	6.0	6.0	6.0
	Singapore (SGD)	3.3	3.4	2.4	1.3	1.9	1.0	0.6	0.6	0.6	0.7	0.8	0.9
	South Korea (KRW)	4.0	4.8	5.7	5.4	5.8	4.7	2.2	1.7	1.7	1.7	2.0	2.2
	Taiwan (TWD)	1.6	1.8	2.2	2.2	2.3	1.0	0.2	0.1	0.2	0.3	0.4	0.3
	Thailand (THB)	4.5	5.3	3.9	3.7	4.0	3.0	1.8	1.1	1.1	1.1	1.1	1.1

Note: * = 1-month money
Source: HSBC

HSBC

Long rates

10-year bond yields

End period		Q4 05	Q4 06	Q4 07	Q2 08	Q3 08f	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Americas													
	US	4.4	4.7	4.0	4.0	3.8	2.3	2.7	3.0	2.7	2.5	2.0	2.0
	Canada	4.0	4.1	4.0	3.7	3.8	2.7	4.2	4.2	4.2	4.2	4.2	4.2
	Chile	5.3	5.4	6.3	7.8	7.3	5.3	5.0	4.5	4.6	4.6	4.6	5.3
Western Europe													
Euro-15		**3.3**	**4.0**	**4.4**	**4.8**	**4.4**	**3.5**	**3.4**	**3.6**	**3.4**	**3.4**	**3.4**	**3.4**
	Germany	3.3	3.9	4.3	4.6	4.0	2.9	3.0	3.1	2.9	2.9	2.9	2.9
	France	3.3	4.0	4.4	4.8	4.3	3.3	3.6	3.6	3.4	3.4	3.4	3.4
	Italy	3.5	4.2	4.6	5.1	4.9	4.4	4.4	4.5	4.3	4.3	4.3	4.3
	Spain	3.3	4.0	4.4	4.9	4.6	3.8	4.1	4.1	3.9	3.9	3.9	3.9
Other Western Europe													
	UK	4.1	4.7	4.5	5.1	4.4	3.1	3.2	3.3	3.0	2.9	2.9	2.9
	Sweden	3.3	3.8	4.3	4.5	3.8	2.4	3.0	4.2	4.2	4.2	4.2	4.2
	Switzerland	1.9	2.5	3.0	3.3	2.5	2.1	2.0	2.0	2.2	2.3	2.5	2.5
	Norway	3.6	4.3	4.7	5.1	4.4	3.8	3.9	3.9	3.9	3.9	3.9	3.9
EMEA													
	Hungary	7.0	6.7	7.2	8.5	8.2	8.2	12.0	10.5	9.8	9.0	8.0	7.5
	Poland	5.1	5.2	5.7	6.6	5.9	5.4	6.2	6.2	6.1	6.0	5.9	5.7
	Russia	6.8	6.5	6.3	6.7	7.8	11.3	14.3	14.1	14.1	13.1	12.1	11.1
	South Africa	7.5	7.7	8.4	10.7	8.8	7.3	8.0	8.5	8.5	8.8	8.8	9.0
Asia/Pacific													
	Japan	1.5	1.7	1.5	1.6	1.5	1.2	1.3	1.3	1.3	1.4	1.5	1.5
	Australia	5.2	5.9	6.3	6.5	5.4	4.0	4.4	4.4	4.7	4.8	5.9	6.0
	New Zealand	5.8	5.8	6.4	6.4	5.8	4.9	5.3	4.6	4.6	4.7	4.7	5.0
Asia-ex-Japan													
	Hong Kong	4.2	3.7	3.4	3.5	2.9	1.2	1.8	1.8	1.6	1.6	1.6	1.6
	India	7.1	7.6	7.8	8.7	8.7	5.3	5.5	4.8	4.8	5.5	5.5	5.5
	Indonesia*	13.3	9.4	9.2	13.2	13.0	11.8	12.0	12.5	11.0	9.5	9.5	9.5
	Philippines	10.2	6.4	6.4	9.2	8.1	7.3	7.0	7.0	6.8	6.8	7.0	7.0
	Singapore*	3.0	3.0	2.3	2.6	2.4	1.4	1.3	1.3	1.5	1.5	1.5	1.8
	South Korea*	5.0	4.8	5.6	5.4	5.8	4.3	4.5	4.0	4.0	4.0	4.3	4.5
	Vietnam*	8.8	8.3	8.7	19.7	15.9	10.0	9.0	8.5	8.5	8.5	8.5	8.5

Note: * = 5-year bond yield
Source: HSBC

HSBC

Exchange rates vs USD

Exchange rates vs USD

End period		2005	2006	2007	2008			2009				2010	
		Q4	Q4	Q4	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f
Americas													
	Canada (CAD)	1.17	1.16	0.99	1.01	1.06	1.23	1.35	1.40	1.40	1.40	1.35	1.30
	Mexico (MXN)	10.63	10.80	10.92	10.31	10.95	13.81	14.50	15.35	15.00	15.00	14.80	14.75
	Brazil (BRL)	2.34	2.14	1.77	1.59	1.91	2.34	2.35	2.35	2.35	2.45	2.40	2.35
	Argentina (ARS)	3.03	3.06	3.15	3.02	3.13	3.45	3.63	3.72	3.87	4.14	4.37	4.47
	Chile (CLP)	514	532	498	525	552	639	650	675	700	700	700	700
Western Europe													
	Eurozone (EUR=)	1.18	1.32	1.46	1.58	1.40	1.39	1.30	1.40	1.45	1.50	1.50	1.50
Other Western Europe													
	UK (GBP=)	1.72	1.96	1.99	1.99	1.78	1.44	1.39	1.50	1.56	1.61	1.61	1.61
	Sweden (SEK)	7.96	6.84	6.46	6.02	6.97	7.91	8.69	8.39	8.28	8.00	8.00	8.00
	Norway (NOK)	6.77	6.23	5.43	5.09	5.91	7.00	6.85	6.21	5.86	5.67	5.33	5.33
	Switzerland (CHF)	1.32	1.22	1.13	1.02	1.12	1.06	1.14	1.11	1.08	1.05	1.07	1.07
EMEA													
	Czech Republic (CZK)	24.6	20.9	18.2	15.2	17.4	19.3	21.2	19.6	18.6	17.3	17.0	16.7
	Hungary (HUF)	214.0	190.6	172.9	149.2	172.2	191.3	234.6	210.7	200.0	190.0	186.7	186.7
	Poland (PLN)	3.26	2.90	2.46	2.13	2.41	2.96	3.38	3.00	2.76	2.53	2.47	2.40
	Russia (RUB)	28.8	26.4	24.5	23.5	25.2	29.4	32.5	34.0	31.5	33.5	33.5	33.5
	Turkey (TRY)*	1.35	1.42	1.17	1.22	1.27	1.54	1.77	1.68	1.68	1.71	1.63	1.60
	Ukraine (UAH)	5.05	5.05	5.05	4.53	5.07	7.80	7.80	7.80	7.80	9.00	8.00	8.00
	Israel (ILS)	4.60	4.17	3.95	3.30	3.55	3.78	4.08	4.00	3.95	3.93	3.90	3.90
	South Africa (ZAR)	6.34	7.05	6.83	7.83	8.28	9.25	10.50	11.00	11.25	11.50	12.00	12.50
Asia/Pacific													
	Japan (JPY)	118	119	112	106	106	91	98	100	100	105	105	105
	Australia (AUD=)	0.73	0.79	0.88	0.96	0.79	0.70	0.67	0.67	0.68	0.70	0.72	0.72
	New Zealand (NZD=)	0.68	0.71	0.77	0.76	0.67	0.58	0.50	0.54	0.55	0.55	0.57	0.57
	China (CNY)	8.07	7.81	7.31	6.86	6.85	6.82	6.80	6.80	6.80	6.80	6.80	6.80
	Hong Kong (HKD)	7.75	7.77	7.80	7.80	7.77	7.75	7.80	7.80	7.80	7.80	7.80	7.80
	India (INR)	45.0	44.2	39.4	43.0	47.0	48.6	51.0	52.0	53.0	54.0	54.0	54.0
	Indonesia (IDR)	9825	8996	9393	9218	9469	11027	13000	13500	13500	13500	13500	13500
	Malaysia (MYR)	3.78	3.53	3.31	3.26	3.45	3.46	3.65	3.70	3.70	3.70	3.70	3.70
	Philippines (PHP)	53.0	49.1	41.3	44.8	47.2	47.5	52.5	53.0	53.0	53.0	53.0	53.0
	Singapore (SGD)	1.66	1.53	1.44	1.36	1.44	1.43	1.55	1.60	1.62	1.62	1.62	1.62
	South Korea (KRW)	1008	930	936	1048	1207	1263	1400	1400	1200	1200	1200	1200
	Taiwan (TWD)	32.8	32.6	32.4	30.4	32.1	32.9	35.0	36.0	36.0	36.0	36.0	36.0
	Thailand (THB)	41.0	36.0	33.7	33.5	34.0	34.9	37.0	37.5	37.5	37.5	37.5	37.5
	Vietnam (VND)	15896	16050	16217	16110	16800	16900	17000	17100	17200	17200	17200	17200

Note: Turkish currency (until then coded TRL) shed 6 zeros of its exchange rate in January 2005
Source: HSBC

Exchange rate vs EUR & GBP

Exchange rate vs EUR & GBP

End period		2005	2006	2007		2008			2009			2010	
		Q4	Q4	Q4	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f
vs EUR													
Americas													
	US (USD)	1.18	1.32	1.46	1.58	1.40	1.39	1.30	1.40	1.45	1.50	1.50	1.50
	Canada (CAD)	1.38	1.53	1.44	1.60	1.49	1.72	1.76	1.96	2.03	2.10	2.03	1.95
Europe													
	UK (GBP)	0.69	0.67	0.73	0.79	0.79	0.97	0.94	0.93	0.93	0.93	0.93	0.93
	Sweden (SEK)	9.39	9.02	9.45	9.48	9.79	10.99	11.30	11.75	12.00	12.00	12.00	12.00
	Switzerland (CHF)	1.55	1.61	1.66	1.60	1.57	1.48	1.48	1.55	1.57	1.57	1.60	1.60
	Norway (NOK)	7.99	8.21	7.94	8.02	8.30	9.73	8.90	8.70	8.50	8.50	8.00	8.00
	Czech Republic (CZK)	29.0	27.5	26.6	23.9	24.5	26.8	27.5	27.5	27.0	26.0	25.5	25.0
	Hungary (HUF)	252	251	253	235	242	266	305	295	290	285	280	280
	Poland (PLN)	3.84	3.83	3.60	3.35	3.39	4.12	4.40	4.20	4.00	3.80	3.70	3.60
	Russia (RUB)	34.0	34.8	35.9	37.0	35.5	40.8	42.3	47.6	45.7	50.3	50.3	50.3
Asia/Pacific													
	Japan (JPY)	139	157	163	167	149	126	127	140	145	158	158	158
	Australia (AUD)	1.61	1.67	1.67	1.64	1.78	1.99	1.94	2.09	2.13	2.14	2.08	2.08
	New Zealand (NZD)	1.73	1.87	1.90	2.07	2.10	2.38	2.60	2.59	2.64	2.73	2.63	2.63
Africa													
	South Africa (ZAR)	7.48	9.30	9.99	12.33	11.63	12.85	13.65	15.40	16.31	17.25	18.00	18.75
vs GBP													
Americas													
	US (USD)	1.72	1.96	1.99	1.99	1.78	1.44	1.39	1.50	1.56	1.61	1.61	1.61
	Canada (CAD)	2.01	2.28	1.96	2.02	1.90	1.77	1.88	2.10	2.18	2.25	2.17	2.09
Europe													
	Eurozone (EUR)	0.69	0.67	0.73	0.79	0.79	0.97	0.94	0.93	0.93	0.93	0.93	0.93
	Sweden (SEK)	13.66	13.39	12.86	11.97	12.43	11.37	12.08	12.62	12.88	12.88	12.88	12.88
	Norway (NOK)	11.62	12.19	10.81	10.14	10.54	10.07	9.51	9.34	9.13	9.13	8.59	8.59
	Switzerland (CHF)	2.26	2.39	2.25	2.03	2.00	1.53	1.58	1.66	1.69	1.69	1.72	1.72
Asia/Pacific													
	Japan (JPY)	203	233	222	211	189	130	136	150	156	169	169	169
	Australia (AUD)	2.34	2.48	2.27	2.07	2.26	2.06	2.07	2.24	2.29	2.30	2.24	2.24
	New Zealand (NZD)	2.52	2.78	2.59	2.61	2.67	2.46	2.78	2.78	2.83	2.93	2.83	2.83
Africa													
	South Africa (ZAR)	10.89	13.80	13.60	15.58	14.76	13.29	14.59	16.54	17.51	18.52	19.33	20.13

Source: HSBC

HSBC

Consumer spending

Consumer spending

% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World	**2.5**	**2.4**	**2.4**	**3.4**	**3.1**	**3.3**	**3.3**	**1.6**	**-0.4**	**0.9**
Developed	**2.3**	**2.0**	**2.0**	**2.8**	**2.3**	**2.5**	**2.4**	**0.6**	**-0.8**	**0.0**
Emerging	**3.5**	**3.9**	**4.3**	**6.2**	**6.5**	**6.7**	**7.2**	**5.8**	**1.2**	**4.3**
North America	**2.5**	**2.8**	**2.8**	**3.6**	**3.1**	**3.1**	**2.9**	**0.4**	**-0.6**	**0.0**
US	2.5	2.7	2.8	3.6	3.0	3.0	2.8	0.2	-0.5	0.0
Canada	2.3	3.6	3.0	3.3	3.7	4.3	4.5	3.0	-2.5	0.2
Latin America	**1.0**	**0.1**	**1.8**	**5.5**	**5.2**	**5.9**	**5.1**	**3.3**	**-1.0**	**1.6**
Mexico	2.5	1.6	2.2	5.6	4.8	5.7	3.9	1.5	-2.1	0.9
Brazil	0.7	1.9	-0.8	3.8	4.5	5.3	6.3	5.4	0.9	2.7
Argentina	-5.7	-14.4	8.2	9.5	8.9	7.8	8.0	4.9	-2.5	0.5
Chile	2.9	1.9	4.0	7.2	7.4	7.1	3.9	4.3	0.7	2.8
Western Europe	**2.2**	**1.4**	**1.6**	**2.0**	**1.7**	**2.0**	**2.0**	**0.7**	**-1.2**	**-0.4**
Euro-15	**2.0**	**0.9**	**1.2**	**1.5**	**1.6**	**1.8**	**1.6**	**0.5**	**-0.7**	**-0.1**
Germany	1.9	-0.8	0.1	-0.2	0.2	1.2	-0.3	-0.3	-0.2	0.0
France	2.6	2.3	2.0	2.4	2.5	2.5	2.4	1.3	0.6	0.7
Italy	0.7	0.2	1.0	0.8	0.9	1.1	1.5	-0.9	-1.4	-0.3
Spain	3.4	2.8	2.9	4.2	4.2	3.9	3.5	0.1	-3.5	-1.3
Other Western Europe	**2.4**	**2.8**	**2.5**	**3.3**	**2.0**	**2.3**	**3.2**	**1.3**	**-2.5**	**-1.1**
UK	3.0	3.5	2.9	3.4	1.5	2.0	3.2	1.4	-3.5	-2.0
Norway	1.8	2.8	2.6	5.1	4.0	4.7	6.5	1.3	-1.1	0.8
Sweden	0.4	2.6	2.0	2.6	2.7	2.5	3.0	-0.4	-1.8	0.9
Switzerland	2.3	0.1	0.9	1.5	1.8	1.6	2.0	1.7	0.4	-0.3
EMEA	**2.8**	**5.3**	**5.9**	**8.5**	**7.9**	**8.0**	**8.7**	**8.1**	**-1.4**	**3.2**
Czech Republic	2.3	2.2	6.0	2.9	2.5	5.4	5.9	2.9	-2.2	2.5
Hungary	5.7	9.9	7.8	3.2	3.8	1.3	-1.8	-0.1	-3.5	1.2
Poland	2.3	3.0	2.6	4.0	2.7	5.0	5.0	5.4	1.8	2.5
Russia	9.5	8.9	7.5	12.1	11.8	11.3	13.6	11.5	-8.0	2.0
Turkey	-6.6	4.7	10.2	11.0	7.9	4.6	4.1	1.1	-1.5	2.5
Ukraine	9.6	9.5	12.6	12.2	16.6	14.4	17.1	15.5	-9.0	2.0
Egypt*	4.0	2.7	2.3	2.1	4.7	6.4	4.2	7.6	2.7	3.4
Israel	2.7	1.1	1.3	5.0	3.4	4.8	6.7	3.9	0.9	2.5
Saudi Arabia**	0.6	0.3	3.7	5.8	9.5	13.4	14.0	20.0	7.0	7.5
UAE**	5.3	21.6	10.5	29.1	16.4	12.2	18.0	20.0	6.0	9.0
South Africa	3.5	3.2	3.5	6.7	6.9	8.3	6.6	2.5	0.8	1.2
Asia/Pacific	**3.0**	**2.8**	**2.3**	**3.4**	**3.5**	**3.9**	**4.2**	**2.9**	**1.4**	**3.1**
Japan	1.7	1.1	0.4	1.6	1.3	2.0	1.5	0.5	-0.7	0.3
Australia	2.9	3.9	3.5	5.9	3.0	3.1	4.5	2.1	1.1	2.6
New Zealand	2.0	4.4	6.0	5.9	4.7	2.4	4.3	0.1	0.4	2.0
Asia-ex-Japan	**5.1**	**5.1**	**4.6**	**5.2**	**6.3**	**6.4**	**7.4**	**5.7**	**3.7**	**6.1**
China	6.2	6.2	6.5	7.2	8.5	8.7	9.0	8.9	8.0	8.5
Asia ex-Japan & China	**4.6**	**4.5**	**3.6**	**4.2**	**5.2**	**5.1**	**6.4**	**3.7**	**1.0**	**4.4**
Hong Kong	1.9	-0.9	-1.3	7.0	3.0	5.9	8.5	2.0	-1.9	1.0
India	6.1	2.9	8.1	5.2	7.1	6.3	8.5	6.5	5.5	6.8
Indonesia	3.5	3.8	3.9	5.0	4.0	3.2	5.0	5.3	3.5	4.6
Malaysia	2.4	4.4	6.6	10.5	9.1	6.5	10.8	8.4	2.9	5.3
Philippines	3.6	4.1	5.3	5.9	4.8	5.5	5.8	4.5	1.4	2.3
Singapore	4.7	4.9	0.9	5.9	3.1	4.0	5.2	2.4	-0.1	4.3
South Korea	4.9	7.9	-1.2	-0.3	3.6	4.5	4.5	0.5	-5.0	2.5
Taiwan	0.7	2.6	1.5	4.5	3.0	1.8	2.3	-0.3	-1.6	0.8
Thailand	4.1	5.4	6.4	6.1	4.9	3.0	1.6	2.5	1.3	2.8
Vietnam	4.5	7.6	8.0	7.1	7.3	8.3	9.6	7.3	3.0	6.0

Note: * = based upon Egyptian financial year (July-June). We now calculate the weighting system using chain nominal GDP (USD) weights. ** = Nominal growth
Source: HSBC

Investment spending

Investment spending

% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World	**-0.3**	**-1.0**	**4.2**	**7.3**	**7.9**	**7.1**	**6.5**	**4.1**	**-4.9**	**3.4**
Developed	**-1.1**	**-2.8**	**2.0**	**4.5**	**5.0**	**3.4**	**1.4**	**-2.3**	**-13.2**	**-4.8**
Emerging	**2.7**	**5.9**	**12.2**	**16.4**	**16.4**	**16.7**	**18.4**	**16.9**	**8.6**	**14.2**
North America	**-2.5**	**-4.7**	**3.6**	**7.3**	**7.0**	**2.4**	**-2.5**	**-4.4**	**-18.6**	**-11.2**
US	-3.0	-5.2	3.4	7.3	6.8	2.0	-3.1	-4.9	-19.8	-12.4
Canada	3.0	1.3	6.3	8.0	8.9	7.1	3.9	0.7	-7.3	-0.8
Latin America	**-3.8**	**-5.4**	**1.0**	**10.6**	**8.6**	**10.2**	**10.4**	**9.5**	**-6.9**	**2.8**
Mexico	-5.6	-0.6	0.4	8.0	7.5	9.8	7.2	4.9	-6.5	2.3
Brazil	0.4	-5.2	-4.6	9.1	3.6	9.8	13.5	13.8	-6.0	3.5
Argentina	-15.7	-36.4	38.2	34.4	22.7	18.2	13.6	8.8	-13.0	2.1
Chile	4.3	1.5	5.7	10.0	23.9	2.3	12.0	19.5	-4.4	3.2
Western Europe	**0.6**	**-0.7**	**1.1**	**2.7**	**3.4**	**5.7**	**4.9**	**-0.1**	**-7.9**	**-1.4**
Euro-15	**0.6**	**-1.4**	**1.3**	**2.0**	**3.1**	**5.3**	**4.4**	**0.2**	**-7.9**	**-1.5**
Germany	-3.4	-6.2	-0.3	-1.3	1.3	8.5	4.5	4.6	-6.9	-1.2
France	2.3	-1.6	2.2	3.3	4.5	5.0	4.9	0.4	-3.2	-0.9
Italy	2.4	3.7	-0.9	1.5	1.4	3.2	1.6	-2.9	-11.5	-2.1
Spain	4.4	3.4	5.2	5.2	6.5	7.7	5.0	-2.8	-11.6	-1.4
Other Western Europe	**0.7**	**1.8**	**0.6**	**5.2**	**4.2**	**7.3**	**6.5**	**-1.0**	**-7.8**	**-1.1**
UK	2.6	3.6	1.1	4.9	2.2	6.0	6.8	-2.8	-10.7	-2.0
Norway	-1.2	-1.2	0.1	10.0	13.1	11.7	8.5	3.3	-2.9	-0.6
Sweden	-0.4	-1.8	1.5	5.1	8.9	9.4	7.7	3.1	-5.4	-2.5
Switzerland	-3.5	-0.5	-1.2	4.5	3.8	4.7	5.4	-1.7	-7.7	0.2
EMEA	**-2.3**	**1.9**	**7.2**	**10.2**	**11.4**	**14.9**	**17.3**	**10.6**	**-5.3**	**4.7**
Czech Republic	6.6	5.1	0.4	3.9	1.8	6.5	6.7	3.1	0.0	4.2
Hungary	5.1	10.1	2.1	7.7	5.6	-3.2	1.5	-2.6	-3.0	0.9
Poland	-9.7	-6.3	-0.1	6.4	6.5	14.9	17.6	7.9	2.3	3.5
Russia	10.3	2.8	12.8	12.6	10.6	18.0	21.1	10.3	-18.0	0.0
Turkey	-30.0	14.7	14.2	28.4	17.4	13.3	5.5	-3.8	-12.5	2.9
Ukraine	6.2	3.4	12.2	-2.2	-0.3	18.7	24.8	15.0	-25.0	0.0
Egypt*	-2.2	5.5	-8.7	6.2	14.2	13.3	31.8	15.5	6.0	5.5
Israel	-5.1	-13.7	-10.7	4.0	2.9	6.4	15.5	5.4	-2.4	3.0
Saudi Arabia**	2.3	1.6	15.6	5.6	25.1	19.1	22.8	23.0	5.0	8.0
UAE**	4.8	3.7	17.1	11.1	15.5	29.0	25.0	26.0	-5.0	8.0
South Africa	3.5	3.7	9.1	8.9	8.9	13.8	17.1	11.5	10.0	13.5
Asia/Pacific	**1.9**	**2.8**	**7.9**	**10.7**	**12.1**	**10.8**	**13.0**	**11.5**	**5.2**	**12.6**
Japan	-0.9	-4.9	-0.5	1.5	3.4	0.6	1.3	-4.6	-16.1	-2.2
Australia	-4.9	17.1	8.9	8.0	7.9	5.1	9.5	8.3	-0.4	4.5
New Zealand	-1.2	10.9	10.2	13.5	3.7	-1.2	4.5	-3.6	-1.6	4.6
Asia-ex-Japan	**6.6**	**10.5**	**16.6**	**19.4**	**19.3**	**18.3**	**20.0**	**19.5**	**13.8**	**17.2**
China	13.0	16.9	27.7	27.6	27.2	24.5	25.8	26.1	20.0	20.0
Asia ex-Japan & China	**1.5**	**4.8**	**5.5**	**9.4**	**8.3**	**8.2**	**9.0**	**5.1**	**-2.3**	**8.4**
Hong Kong	2.9	-4.6	0.9	2.7	4.1	7.1	3.4	-0.3	-1.8	9.2
India	4.3	7.7	9.7	18.9	17.6	14.5	12.9	9.0	8.0	13.0
Indonesia	6.5	4.7	0.6	14.7	10.9	2.6	9.4	11.7	0.8	5.7
Malaysia	-2.8	0.3	2.7	3.1	5.0	7.9	9.6	1.1	-10.3	4.8
Philippines	-13.0	2.3	3.6	2.8	-6.6	3.8	11.8	3.7	-1.4	3.6
Singapore	-3.9	-11.4	-3.2	10.2	-2.0	13.3	19.2	13.7	-11.5	5.7
South Korea	0.3	7.1	4.4	2.1	1.9	3.6	4.0	-1.9	-9.6	4.7
Taiwan	-19.9	1.1	1.7	19.5	1.2	0.9	1.9	-10.8	-21.5	2.2
Thailand	1.1	6.5	12.1	13.2	10.5	3.9	1.3	1.1	-7.5	5.4
Vietnam	10.7	12.9	11.9	10.4	9.7	9.9	23.0	13.2	3.0	6.3

Note: * = based upon Egyptian financial year (July-June). We now calculate the weighting system using chain nominal GDP (USD) weights
Source: HSBC

Exports

Export volume growth (GDP basis)

% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World	**0.5**	**3.0**	**5.2**	**10.8**	**8.4**	**10.1**	**8.2**	**4.4**	**-10.7**	**2.7**
Developed	**0.6**	**1.3**	**1.7**	**7.6**	**5.6**	**8.1**	**5.5**	**2.2**	**-10.2**	**2.0**
Emerging	**0.2**	**7.5**	**14.2**	**18.0**	**14.1**	**13.9**	**13.0**	**7.9**	**-11.5**	**3.9**
North America	**-4.8**	**-1.4**	**0.4**	**8.6**	**5.8**	**7.2**	**6.8**	**4.2**	**-4.4**	**4.7**
US	-5.4	-2.3	1.3	9.7	7.0	9.1	8.4	6.5	-3.6	5.4
Canada	-3.0	1.2	-2.3	5.0	1.8	0.6	1.0	-4.7	-8.1	1.7
Latin America	**0.0**	**1.9**	**7.4**	**16.0**	**12.5**	**11.8**	**9.7**	**9.2**	**-13.3**	**4.2**
Mexico	-3.7	1.4	2.7	11.5	6.8	10.9	5.7	1.4	-13.8	6.3
Brazil	5.7	3.7	21.1	32.0	22.6	16.5	16.6	23.2	-15.3	2.1
Argentina	4.3	0.7	4.4	2.0	20.0	6.0	8.0	0.2	-8.2	0.9
Chile	7.2	1.6	6.0	13.3	4.3	5.5	7.8	3.7	-4.1	6.4
Western Europe	**3.7**	**1.6**	**1.2**	**6.4**	**5.4**	**8.3**	**4.6**	**1.5**	**-10.7**	**0.0**
Euro-15	**4.0**	**1.8**	**1.2**	**6.7**	**4.9**	**8.1**	**6.0**	**1.6**	**-12.0**	**-0.4**
Germany	6.8	4.3	2.4	9.4	7.9	13.1	7.7	2.3	-12.0	0.3
France	2.5	1.3	-0.7	3.0	3.5	5.6	3.2	1.1	-9.6	-1.5
Italy	2.2	-2.8	-1.6	3.8	1.8	6.5	4.5	-3.7	-13.1	0.0
Spain	4.2	2.0	3.7	4.2	2.5	6.7	4.9	0.7	-14.5	-2.5
Other Western Europe	**2.4**	**0.9**	**1.2**	**5.6**	**7.1**	**9.2**	**0.3**	**1.3**	**-6.8**	**1.2**
UK	2.9	1.0	1.7	4.9	8.2	10.7	-5.1	0.1	-6.9	0.7
Norway	4.2	-1.0	-0.7	0.5	0.1	0.3	2.7	0.8	-3.3	-0.1
Sweden	0.9	1.2	3.9	10.7	7.0	8.7	6.3	1.8	-9.4	-0.1
Switzerland	0.6	-0.3	-0.2	7.9	7.2	9.9	9.4	2.3	-12.6	1.7
EMEA	**1.7**	**3.0**	**10.5**	**11.9**	**6.5**	**8.1**	**7.3**	**5.8**	**-8.2**	**4.0**
Czech Republic	11.2	2.1	7.2	20.7	11.8	15.5	14.9	10.5	-26.0	5.5
Hungary	8.1	3.9	6.2	15.7	11.6	17.7	15.9	4.6	-7.5	3.2
Poland	1.0	7.4	20.8	18.6	2.6	12.3	4.9	5.8	-3.5	5.0
Russia	3.6	9.6	12.5	11.8	6.5	7.3	6.4	3.0	-5.0	2.0
Turkey	3.9	6.9	6.9	11.2	7.9	6.6	7.3	2.3	-6.0	3.9
Ukraine	2.9	9.1	10.3	13.8	-11.2	-4.9	3.2	5.0	-22.5	6.0
Egypt*	3.3	-7.8	11.8	27.6	20.2	21.3	23.3	28.8	8.5	10.9
Israel	-11.2	-2.3	8.2	18.2	4.3	5.9	8.5	3.6	-4.4	4.5
Saudi Arabia	-3.5	-4.4	13.7	3.1	4.7	-2.6	-4.1	6.0	-13.4	4.3
UAE**	0.6	-1.3	10.7	5.5	6.9	8.4	4.0	4.3	-4.5	1.3
South Africa	2.4	1.0	0.1	2.9	8.0	5.6	7.5	2.5	-8.5	3.5
Asia/Pacific	**-2.0**	**9.5**	**14.3**	**18.6**	**14.3**	**14.5**	**13.7**	**6.9**	**-13.7**	**4.5**
Japan	-6.9	7.4	9.2	14.0	6.9	9.7	8.6	1.7	-21.6	8.0
Australia	2.2	0.0	-1.2	4.3	2.3	3.3	3.2	4.7	-5.3	4.4
New Zealand	3.4	6.4	2.1	5.8	-0.3	1.9	3.5	-1.1	1.2	4.4
Asia-ex-Japan	**-0.6**	**11.1**	**17.4**	**21.1**	**17.4**	**16.4**	**15.5**	**8.4**	**-12.3**	**3.7**
China	7.5	18.0	32.0	32.0	29.0	25.0	23.8	11.2	-14.0	2.0
Asia ex-Japan & China	**-3.0**	**8.7**	**12.0**	**16.4**	**11.8**	**11.6**	**10.3**	**6.4**	**-11.0**	**5.0**
Hong Kong	-1.7	9.0	12.8	15.4	10.6	9.4	8.3	2.7	-16.8	-3.0
India	-1.6	14.4	19.0	28.0	31.1	21.1	20.6	25.2	-11.7	6.7
Indonesia	0.6	-1.2	5.9	13.5	16.6	9.4	8.5	9.5	-6.6	6.8
Malaysia	-7.5	4.5	5.7	2.3	8.3	7.0	4.2	1.5	-16.3	6.4
Philippines	-3.4	4.1	4.8	15.0	4.8	13.4	5.6	0.0	-9.2	3.6
Singapore	-4.0	7.2	13.7	20.6	11.7	11.7	8.7	1.3	-19.0	3.0
South Korea	-2.7	13.3	15.6	19.6	8.5	11.8	12.1	6.2	-6.1	4.8
Taiwan	-7.8	10.6	10.4	14.4	7.6	10.3	8.8	-0.2	-13.7	3.5
Thailand	-4.2	12.0	7.0	9.6	4.2	8.5	7.1	5.5	-10.1	4.7
Vietnam	4.0	11.2	20.6	31.4	22.5	22.1	22.7	29.9	-6.5	11.2

Note: * = based upon Egyptian financial year (July-June). We now calculate the weighting system using chain nominal GDP (USD) weights
Source: HSBC

HSBC

Industrial production

Industrial production

% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World	**0.1**	**2.7**	**4.6**	**6.3**	**5.3**	**6.3**	**5.8**	**1.6**	**-7.6**	**2.7**
Developed	**-2.4**	**-0.4**	**1.0**	**2.6**	**2.0**	**2.9**	**2.2**	**-2.0**	**-14.0**	**-0.6**
Emerging	**3.5**	**6.9**	**9.3**	**10.8**	**9.2**	**10.2**	**10.1**	**5.7**	**-0.1**	**6.6**
North America	**-3.4**	**0.1**	**1.2**	**2.4**	**3.1**	**2.1**	**1.4**	**-2.0**	**-8.1**	**-2.0**
US	-3.4	-0.1	1.3	2.5	3.3	2.3	1.5	-1.8	-8.4	-2.2
Canada	-3.5	2.1	0.2	1.5	1.6	0.2	0.2	-4.1	-5.3	0.7
Latin America	**-0.8**	**0.7**	**2.3**	**7.3**	**3.9**	**4.6**	**5.3**	**1.8**	**-4.9**	**1.8**
Mexico	-3.5	-0.1	-0.2	3.7	2.6	5.3	3.1	-0.7	-6.6	-0.9
Brazil	1.6	2.7	0.1	8.3	3.1	2.8	6.0	3.1	-4.0	4.2
Argentina	-2.9	-8.3	13.6	10.7	8.0	8.4	7.5	3.8	-4.3	0.9
Chile	0.6	10.9	5.3	10.2	6.0	3.3	6.0	-0.2	-3.4	0.8
Western Europe	**0.0**	**-0.7**	**0.1**	**2.0**	**1.0**	**3.4**	**2.9**	**-1.8**	**-15.5**	**-0.8**
Euro-15	**0.4**	**-0.4**	**0.3**	**2.1**	**1.4**	**4.0**	**3.4**	**-1.8**	**-16.2**	**-1.5**
Germany	-0.3	-1.3	0.1	2.5	2.9	5.8	5.8	0.0	-21.4	-0.2
France	0.9	-1.8	-1.1	1.4	0.2	1.4	1.5	-2.5	-17.3	-10.7
Italy	-1.0	-1.4	-0.7	-0.2	-0.8	2.4	14.4	-3.4	-14.5	2.0
Spain	-1.1	-0.1	1.5	1.5	1.3	3.7	2.2	-7.5	-13.8	-0.8
Other Western Europe	**-1.3**	**-1.7**	**-0.5**	**1.7**	**-0.3**	**1.5**	**1.4**	**-1.9**	**-13.2**	**1.4**
UK	-1.5	-1.7	-0.6	0.9	-1.1	0.7	0.1	-2.3	-14.3	1.5
Norway	-1.4	0.9	-4.0	2.2	-0.6	-2.5	-0.7	0.0	-6.9	-0.5
Sweden	0.1	-0.2	1.8	4.1	2.4	3.7	4.1	-3.2	-11.4	3.2
Switzerland	-0.7	-5.1	0.1	4.4	2.7	7.8	9.5	1.2	-12.0	0.3
EMEA	**2.4**	**3.7**	**7.0**	**7.9**	**4.6**	**6.3**	**6.1**	**1.7**	**-9.2**	**3.2**
Czech Republic	5.0	5.0	5.9	9.8	6.4	9.8	8.5	3.0	-1.5	2.5
Hungary	5.0	2.6	6.4	8.3	7.0	10.6	8.5	0.0	-20.0	3.5
Poland	0.6	0.8	8.7	12.7	4.0	12.0	9.7	3.9	-14.9	1.5
Russia	4.9	3.7	7.0	6.6	4.0	4.4	4.1	0.8	-8.0	2.0
Turkey	-8.7	9.5	8.8	9.7	5.4	5.8	5.4	-2.3	-10.5	5.3
Ukraine	14.2	7.0	15.8	12.5	3.1	6.2	10.2	-1.8	-21.3	4.0
Egypt*	6.8	7.1	2.7	6.5	5.8	5.3	8.9	13.7	2.5	4.3
Israel	-5.0	-1.8	-0.3	6.9	3.6	8.5	4.3	-7.3	-3.5	4.0
Saudi Arabia	-1.3	-3.9	13.4	6.6	6.1	2.8	2.7	5.0	-4.0	4.4
UAE	3.0	-1.4	12.7	6.7	5.6	10.3	8.0	6.4	-1.6	2.7
South Africa	2.9	4.6	-1.9	3.3	4.2	4.9	5.5	1.2	-11.9	4.2
Asia/Pacific	**2.2**	**6.8**	**9.4**	**10.7**	**9.3**	**10.7**	**10.1**	**5.5**	**-3.1**	**7.4**
Japan	-6.8	-1.3	3.3	5.5	1.1	4.8	2.8	-3.3	-31.3	4.1
Australia	0.3	2.5	-0.1	0.2	1.8	0.4	3.3	2.4	-3.0	1.0
New Zealand	-0.1	5.4	3.2	5.0	-2.1	-1.5	2.0	-1.1	-1.0	0.3
Asia-ex-Japan	**4.9**	**9.2**	**11.4**	**12.4**	**11.5**	**12.5**	**12.1**	**7.6**	**3.4**	**8.4**
China	9.7	12.7	16.7	16.3	15.9	16.2	17.1	12.9	9.5	12.0
Asia ex-Japan & China	**-0.8**	**6.1**	**5.9**	**8.7**	**6.1**	**6.4**	**5.9**	**2.0**	**-5.5**	**4.3**
Hong Kong	-4.4	-9.7	-9.2	2.9	2.5	2.2	-1.6	-5.6	-5.5	-6.0
India	2.7	5.8	7.0	8.4	8.2	11.5	8.5	2.5	0.6	5.4
Indonesia	3.3	5.3	5.3	6.4	4.6	4.6	4.7	3.7	2.2	4.6
Malaysia	-5.9	4.3	8.4	11.3	5.2	7.1	3.1	1.4	-10.5	3.3
Philippines	2.9	3.5	4.2	5.0	5.3	4.6	3.4	4.3	-1.1	1.5
Singapore	-11.6	8.4	-30.3	13.9	9.5	11.9	5.9	-4.2	-10.6	4.1
South Korea	0.6	8.0	5.5	10.4	6.3	8.4	6.9	3.1	-9.6	6.0
Taiwan	-8.4	7.1	8.7	8.4	3.8	4.7	7.8	-1.8	-14.5	4.5
Thailand	1.4	6.9	10.4	8.3	5.2	6.0	6.2	3.9	2.8	4.2
Vietnam	16.2	14.2	19.8	17.6	25.5	16.0	11.6	11.8	5.8	11.5

Source: HSBC

HSBC

Wage growth

Wage growth

% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World	**6.0**	**5.8**	**5.8**	**5.2**	**5.8**	**6.1**	**6.7**	**6.9**	**3.7**	**4.8**
North America	**4.0**	**3.6**	**3.5**	**3.7**	**3.2**	**3.1**	**3.3**	**3.0**	**2.7**	**2.9**
US	4.2	3.7	3.7	3.8	3.2	3.1	3.4	3.0	2.8	3.0
Canada	1.4	2.1	1.4	2.1	3.2	3.0	3.2	2.8	1.8	1.5
Latin America	**5.1**	**6.6**	**7.1**	**5.6**	**9.3**	**8.8**	**10.1**	**11.1**	**6.5**	**6.9**
Mexico	9.3	6.1	4.9	4.4	4.5	4.3	4.3	4.5	4.1	3.7
Argentina	-4.0	7.6	12.1	9.3	20.3	18.9	22.7	25.2	12.0	14.5
Chile	5.3	6.8	6.6	2.9	5.0	5.4	7.3	8.5	4.6	3.6
Western Europe	**4.2**	**3.6**	**3.3**	**2.8**	**2.8**	**3.0**	**3.2**	**3.9**	**3.5**	**3.1**
Euro-15	**3.8**	**3.2**	**2.8**	**2.4**	**2.5**	**2.6**	**2.9**	**3.6**	**3.1**	**2.7**
Germany	1.9	2.6	2.0	1.3	1.1	1.2	1.3	2.8	2.6	1.9
France	2.5	2.5	2.4	2.5	2.8	2.8	2.6	3.0	2.6	2.4
Italy	2.6	2.1	2.2	2.8	3.1	2.9	2.3	3.4	2.5	2.2
Spain	3.5	3.8	3.9	2.8	2.6	3.4	3.9	4.8	1.9	2.1
Other Western Europe	**4.4**	**3.7**	**3.5**	**4.1**	**3.8**	**4.0**	**4.0**	**3.8**	**2.6**	**2.1**
UK	4.5	3.5	3.4	4.4	4.0	4.1	3.9	3.6	2.5	2.0
Norway	4.5	5.2	4.7	4.2	3.5	4.1	5.7	6.0	3.8	3.2
Sweden	3.7	3.5	2.9	2.5	2.9	3.0	3.6	3.9	2.2	2.2
EMEA	**19.6**	**16.5**	**12.4**	**10.0**	**12.4**	**13.1**	**14.8**	**12.8**	**1.6**	**6.3**
Czech Republic	3.5	3.5	6.8	6.7	5.3	6.5	7.3	8.3	4.5	5.3
Hungary	18.2	18.2	12.1	6.2	8.7	8.2	8.0	7.5	5.0	5.5
Poland	5.3	2.3	4.7	-8.1	3.2	5.0	9.1	10.3	3.2	4.5
Russia	21.0	16.6	10.4	10.6	12.6	13.5	17.2	9.7	-6.0	2.0
Turkey	31.8	37.2	23.0	13.4	12.2	11.5	9.5	8.5	5.5	7.5
Ukraine	34.9	20.7	23.0	27.6	36.5	29.4	29.7	32.0	5.0	12.0
Israel	7.1	-4.2	-3.0	2.5	1.0	1.6	2.1	-0.8	0.0	2.5
South Africa	8.8	9.5	8.1	7.5	6.5	9.1	8.9	12.4	6.5	8.0
Asia/Pacific	**6.8**	**7.5**	**8.5**	**7.8**	**8.7**	**12.2**	**13.4**	**14.4**	**7.1**	**9.9**
Japan	-1.6	-2.9	-0.8	-0.7	0.6	0.2	-0.7	0.4	-3.5	0.5
Australia	3.6	3.3	3.6	3.5	4.1	4.0	4.1	4.1	3.9	3.8
New Zealand	1.9	2.2	2.3	2.3	2.8	3.2	3.2	3.5	3.2	3.4
Asia-ex-Japan	**9.4**	**10.6**	**11.1**	**10.0**	**10.7**	**11.7**	**13.1**	**13.8**	**7.5**	**9.3**
China	11.7	12.6	13.6	12.3	12.3	14.0	16.2	17.0	9.0	11.0
Asia ex-Japan & China	**3.3**	**4.6**	**3.8**	**3.3**	**4.8**	**4.2**	**3.7**	**4.0**	**2.8**	**3.7**
Hong Kong	0.0	0.0	-1.3	-2.5	2.6	1.3	0.3	4.0	1.0	1.0
Philippines	10.8	10.4	0.4	3.6	8.5	7.9	4.5	5.3	3.8	4.5
Singapore	2.7	1.2	3.6	2.6	4.3	3.5	4.1	5.0	2.5	4.0
South Korea	5.7	11.5	9.4	6.5	6.4	5.6	5.9	4.2	2.8	4.8
Taiwan	0.0	-0.7	1.5	1.8	1.3	1.1	2.3	0.0	2.2	2.3
Thailand	1.0	-0.8	2.2	2.3	6.9	6.2	3.0	10.2	4.0	4.9

Note: Global and regional aggregates are calculated using the World Bank's 2004 PPP weights
Source: HSBC

HSBC

Budget balance

Budget balance

% GDP	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
North America	**0.6**	**-2.4**	**-3.2**	**-2.9**	**-1.9**	**-1.0**	**-1.4**	**-4.0**	**-12.0**	**-6.5**
US	0.5	-2.7	-3.6	-3.2	-2.1	-1.2	-1.6	-4.3	-12.9	-6.9
Canada	1.3	0.8	0.7	0.7	0.8	1.0	0.7	-0.1	-2.2	-1.9
Latin America	**-2.3**	**-2.6**	**-2.3**	**-0.7**	**-0.8**	**-0.6**	**-0.3**	**-0.2**	**-2.6**	**-1.7**
Mexico	-0.7	-1.2	-0.6	-0.2	-0.1	0.1	0.0	-0.1	-3.7	-1.9
Brazil	-3.3	-4.2	-4.7	-2.4	-3.0	-2.9	-2.2	-1.5	-2.4	-2.0
Argentina	-3.2	-1.5	0.5	2.6	1.8	1.8	1.1	1.4	-0.7	0.3
Chile	-0.4	-1.0	-0.4	2.1	4.6	7.7	8.8	5.2	-2.9	-3.0
Western Europe	**-1.0**	**-2.2**	**-2.8**	**-2.6**	**-2.2**	**-1.0**	**-0.5**	**-1.6**	**-5.4**	**-5.8**
Euro-15	**-1.8**	**-2.6**	**-3.1**	**-3.0**	**-2.5**	**-1.3**	**-0.6**	**-1.4**	**-5.1**	**-5.8**
Germany	-2.8	-3.7	-4.0	-3.8	-3.2	-1.6	0.1	-0.1	-4.2	-5.4
France	-1.6	-3.2	-4.1	-3.6	-3.0	-2.4	-2.7	-3.2	-6.6	-7.0
Italy	-3.1	-3.0	-3.5	-3.5	-4.2	-3.3	-1.5	-2.9	-5.8	-6.4
Spain	-0.7	-0.5	-0.2	-0.4	1.0	2.0	2.2	-3.6	-8.4	-8.4
Other Western Europe	**1.9**	**-0.9**	**-2.0**	**-1.6**	**-1.2**	**-0.2**	**-0.3**	**-2.5**	**-6.5**	**-5.9**
UK	0.8	-1.8	-3.0	-3.1	-3.3	-2.3	-2.5	-5.4	-9.2	-8.2
Norway	13.3	9.2	7.3	11.1	15.1	18.5	17.4	20.0	14.0	11.5
Sweden	1.7	-1.4	-1.2	0.6	2.1	2.2	3.5	2.8	-1.4	-1.4
EMEA	**-2.3**	**-3.2**	**-2.1**	**-0.4**	**2.4**	**3.0**	**1.9**	**2.9**	**-5.6**	**-4.6**
Hungary	-4.1	-9.0	-7.2	-6.5	-7.8	-9.1	-5.0	-3.3	-3.0	-2.6
Poland	-4.2	-4.9	-4.4	-4.5	-2.5	-2.4	-1.4	-1.9	-2.2	-2.1
Russia	3.0	1.4	1.7	4.4	7.5	7.4	5.4	4.2	-8.8	-6.7
Turkey	-12.1	-11.4	-8.8	-5.4	-1.3	-0.5	-1.6	-1.8	-4.7	-2.9
Ukraine	-0.3	0.5	0.2	-3.3	-1.1	-0.7	-1.4	-1.3	0.0	-0.6
Egypt*	-5.9	-10.2	-9.1	-9.1	-9.6	-8.2	-7.5	-6.8	-9.0	-9.5
Israel	-4.5	-3.8	-5.5	-3.9	-1.9	-0.9	0.0	-2.1	-5.7	-3.5
Saudi Arabia	-3.9	-2.9	4.5	11.4	18.4	21.7	12.5	31.9	-8.2	-7.3
UAE	-10.5	-10.7	-4.4	-0.4	8.0	12.1	11.6	15.7	-2.1	-1.5
South Africa	-0.7	-0.7	-2.5	-2.0	-0.5	0.2	0.7	-0.3	-4.1	-3.8
Asia/Pacific	**-4.1**	**-4.1**	**-3.4**	**-2.5**	**-2.4**	**-1.2**	**-0.4**	**-2.0**	**-4.4**	**-4.0**
Japan	-6.8	-8.3	-7.7	-5.5	-6.1	-1.0	-1.4	-3.5	-5.0	-4.0
Australia	-0.1	1.3	1.8	1.1	1.5	1.5	1.6	1.8	-1.5	-1.5
New Zealand	2.1	3.2	3.8	4.3	4.5	3.9	3.8	2.0	0.1	0.1
Asia-ex-Japan	**-3.5**	**-3.2**	**-2.6**	**-2.0**	**-1.8**	**-1.4**	**-0.2**	**-1.9**	**-4.4**	**-4.1**
China	-2.3	-2.6	-2.2	-1.3	-1.2	-1.0	0.6	-0.4	-2.9	-3.1
Asia ex-Japan & China	**-4.5**	**-3.7**	**-3.0**	**-2.6**	**-2.3**	**-1.8**	**-1.1**	**-3.4**	**-5.9**	**-5.1**
Hong Kong	-4.9	-4.8	-3.2	1.7	1.0	4.0	7.7	-0.3	-3.0	-1.9
India	-6.7	-6.4	-4.9	-4.1	-4.2	-3.6	-2.9	-6.6	-7.3	-6.4
Indonesia	-2.5	-1.3	-1.7	-1.0	-0.5	-0.9	-1.3	-0.1	-3.3	-2.0
Malaysia	-5.5	-5.6	-4.4	-4.1	-3.6	-3.3	-3.2	-5.1	-9.5	-7.8
Philippines	-4.0	-5.3	-4.7	-3.8	-2.7	-1.1	-0.2	-0.9	-2.7	-2.8
Singapore	2.2	0.8	-1.1	-1.9	-0.8	-0.2	0.6	1.7	2.7	-5.9
South Korea	1.2	3.3	1.1	0.7	0.4	0.4	3.8	-0.5	-5.3	-4.1
Taiwan	-6.4	-4.2	-2.7	-2.8	-0.6	-0.6	-0.2	-0.5	-5.4	-5.0
Thailand	-2.6	-1.4	0.3	0.0	0.3	1.2	-2.3	-1.1	-5.5	-5.2
Vietnam	-4.9	-4.8	-4.9	-4.9	-4.9	-5.0	-5.0	-5.0	-8.0	-5.0

Note: * = based upon Egyptian financial year (July-June). Global and regional aggregates are calculated using the World Banks' 2004 PPP weights
Source: HSBC

Current account

Percentage

% GDP	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
North America	**-3.3**	**-3.9**	**-4.3**	**-4.7**	**-5.2**	**-5.4**	**-4.8**	**-4.1**	**-2.4**	**-1.9**
US	-3.8	-4.4	-4.8	-5.3	-5.9	-6.0	-5.3	-4.6	-2.5	-2.1
Canada	2.3	1.7	1.2	2.3	1.9	1.4	0.9	0.6	-1.1	0.2
Latin America	**-3.2**	**-0.2**	**0.9**	**1.1**	**1.1**	**1.3**	**0.5**	**-1.0**	**-1.8**	**-2.1**
Mexico	-2.8	-2.2	-1.0	-0.7	-0.5	-0.5	-0.8	-1.4	-3.2	-3.4
Brazil	-4.2	-1.5	0.8	1.8	1.6	1.3	0.1	-1.8	-1.4	-2.0
Argentina	-1.4	9.0	6.3	2.3	3.1	3.8	2.7	2.4	0.7	0.4
Chile	-1.6	-0.9	-1.1	2.2	0.8	4.6	4.4	-2.5	-4.4	-2.9
Western Europe	**-0.1**	**0.8**	**0.7**	**1.0**	**0.4**	**0.2**	**0.3**	**-0.2**	**-0.2**	**0.0**
Euro-15	**-0.4**	**0.6**	**0.3**	**0.8**	**0.1**	**0.0**	**0.4**	**-0.7**	**-0.6**	**-0.5**
Germany	0.0	2.0	1.9	4.7	5.2	6.1	7.6	6.6	5.1	5.0
France	2.0	1.3	0.9	0.6	-0.7	-0.7	-1.2	-2.0	-1.3	-1.8
Italy	-0.1	-0.8	-1.3	-0.9	-1.7	-2.6	-2.4	-3.1	-3.0	-2.7
Spain	-3.9	-3.3	-3.5	-5.3	-7.4	-8.9	-10.1	-9.6	-7.1	-6.0
Other Western Europe	**0.8**	**1.1**	**1.9**	**1.7**	**1.4**	**0.7**	**0.2**	**1.6**	**0.9**	**1.3**
UK	-2.1	-1.5	-1.3	-1.6	-2.5	-3.8	-4.3	-1.7	-1.4	-1.1
Norway	16.1	12.6	12.3	12.7	16.3	17.3	15.4	18.4	8.2	9.5
Sweden	4.3	5.0	7.2	6.7	6.8	8.4	8.4	8.3	7.4	6.9
Switzerland	7.7	8.3	12.8	12.9	13.6	14.5	13.3	7.2	6.2	7.5
EMEA	**3.5**	**2.8**	**3.0**	**4.1**	**5.1**	**3.7**	**1.9**	**1.4**	**-2.0**	**-1.8**
Czech Republic	-5.3	-5.5	-6.2	-5.2	-1.3	-2.6	-1.8	-3.5	-2.7	-2.6
Hungary	-6.1	-7.0	-8.7	-8.7	-7.3	-7.8	-6.5	-6.1	-4.4	-3.9
Poland	-2.8	-2.5	-2.1	-4.1	-1.6	-2.3	-3.8	-7.2	-7.9	-6.1
Russia	11.0	8.4	8.3	10.0	11.1	9.5	6.0	5.9	1.9	0.1
Turkey	1.7	-0.7	-2.6	-4.0	-4.7	-6.1	-5.8	-5.7	-0.6	-0.9
Ukraine	3.7	7.5	5.8	10.5	3.1	-1.6	-4.0	-5.3	-0.9	-2.4
Egypt*	0.0	0.7	2.4	4.3	3.2	1.6	1.7	0.5	-1.7	-1.4
Israel	-1.5	-1.2	1.2	2.2	3.2	5.1	2.6	0.8	1.7	2.1
Saudi Arabia	5.1	6.3	13.1	19.7	28.5	27.7	24.9	31.0	-1.2	2.6
UAE	9.4	4.7	8.5	9.9	18.2	21.5	18.6	12.1	-3.0	0.8
South Africa	0.1	0.6	-1.3	-3.2	-3.8	-6.4	-7.3	-8.5	-10.4	-7.5
Asia/Pacific	**2.0**	**2.8**	**3.0**	**2.8**	**3.7**	**5.2**	**5.9**	**3.8**	**2.6**	**2.5**
Japan	2.2	2.9	3.2	3.7	3.7	3.9	4.8	3.2	1.0	1.4
Australia	-2.0	-3.7	-5.3	-6.1	-5.8	-5.3	-6.3	-4.0	-4.0	-4.2
New Zealand	-2.8	-3.9	-4.3	-6.4	-8.6	-8.6	-8.2	-8.9	-9.0	-9.0
Asia-ex-Japan	**2.2**	**3.1**	**3.4**	**3.0**	**4.2**	**6.0**	**6.7**	**4.3**	**3.3**	**3.1**
China	1.3	2.4	2.8	3.6	7.2	9.5	11.0	8.6	5.0	4.4
Asia ex-Japan & China	**3.0**	**3.8**	**4.0**	**2.5**	**1.1**	**2.3**	**2.4**	**0.0**	**1.5**	**1.7**
Hong Kong	4.5	8.3	9.2	8.9	12.4	11.4	10.8	10.9	10.6	9.2
India	0.8	1.5	1.6	0.1	-1.9	-1.1	-1.0	-3.4	-2.4	-1.6
Indonesia	4.2	3.9	3.4	0.6	0.1	3.0	2.4	0.1	1.0	0.7
Malaysia	8.3	8.4	12.8	12.1	15.0	16.3	15.6	15.7	12.0	12.0
Philippines	1.9	6.9	0.9	1.1	2.0	4.5	4.3	2.3	1.5	-0.1
Singapore	16.2	17.7	31.0	26.4	27.5	25.4	23.5	14.8	10.7	10.5
South Korea	1.7	1.0	2.0	4.1	1.9	0.6	0.6	-0.7	2.4	1.5
Taiwan	6.5	8.9	10.0	6.0	4.9	7.2	8.6	6.4	10.6	11.8
Thailand	5.4	5.5	5.6	1.7	-4.3	1.1	5.9	-0.1	1.7	1.3
Vietnam	2.1	-1.9	-4.9	-3.4	0.4	0.5	-10.0	-13.8	-7.2	-5.8

Note: * = based upon Egyptian financial year (July-June). Global and regional aggregates are calculated using the World Banks' 2004 PPP weights
Source: HSBC

HSBC

Balance

USDbn	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
North America	**-368.0**	**-448.0**	**-512.0**	**-603.0**	**-688.9**	**-753.6**	**-705.6**	**-640.8**	**-365.0**	**-298.0**
US	-385.0	-461.0	-523.0	-625.0	-710.9	-771.6	-718.6	-650.2	-352.4	-300.1
Canada	17.0	13.0	11.0	22.0	22.0	18.0	13.0	9.4	-12.6	2.1
Latin America	**-45.8**	**-13.6**	**3.0**	**12.0**	**16.2**	**24.1**	**7.7**	**-40.3**	**-48.8**	**-61.1**
Mexico	-17.7	-14.1	-8.6	-5.2	-4.4	-4.4	-8.2	-15.5	-26.6	-30.4
Brazil	-23.2	-7.6	4.2	11.7	14.0	13.6	1.6	-28.3	-17.9	-27.4
Argentina	-3.8	8.8	8.1	3.4	5.6	8.0	7.1	7.8	2.1	1.2
Chile	-1.1	-0.6	-0.8	2.1	1.0	6.8	7.2	-4.3	-6.5	-4.6
Western Europe	**5.0**	**93.8**	**104.5**	**141.6**	**87.2**	**50.3**	**54.7**	**55.9**	**37.8**	**53.0**
Euro-15	**-19.0**	**56.2**	**38.4**	**75.3**	**10.4**	**-16.2**	**17.8**	**-69.5**	**-27.4**	**-19.7**
Germany	0.4	42.5	47.5	125.2	141.2	180.9	248.6	252.8	214.1	220.2
France	25.0	20.0	16.0	11.0	-14.0	-15.0	-31.0	-55.0	-37.4	-37.1
Italy	-0.6	-9.9	-19.9	-15.9	-28.6	-49.2	-50.5	-76.0	-62.0	-53.8
Spain	-22.7	-23.5	-31.6	-53.7	-80.9	-112.2	-143.0	-161.6	-118.7	-124.8
Other Western Europe	**24.0**	**37.6**	**66.1**	**66.3**	**76.7**	**66.5**	**36.8**	**125.4**	**65.1**	**72.7**
UK	-30.8	-25.2	-24.6	-35.1	-55.5	-93.8	-119.7	-35.7	-32.2	-25.5
Norway	26.5	25.6	27.1	32.0	48.4	60.0	59.4	79.7	33.0	29.6
Sweden	9.3	13.2	22.6	23.4	23.8	34.0	37.8	39.8	31.8	31.1
Switzerland	19.0	24.0	41.0	46.0	49.0	58.0	56.0	33.6	25.2	30.6
EMEA	**41.7**	**32.4**	**50.4**	**87.3**	**163.4**	**168.7**	**125.9**	**152.6**	**-65.5**	**-60.4**
Czech Republic	-3.1	-4.6	-5.8	-5.6	-1.6	-3.7	-2.9	-6.9	-5.5	-6.0
Hungary	-3.0	-4.9	-6.8	-8.4	-7.3	-7.0	-6.8	-9.0	-6.0	-6.0
Poland	-5.4	-5.0	-4.6	-10.4	-4.8	-7.9	-15.9	-37.7	-40.0	-36.5
Russia	33.6	29.1	35.8	59.9	84.3	94.3	77.2	98.9	23.8	1.3
Turkey	4.0	-1.0	-8.0	-14.0	-22.0	-32.0	-38.0	-41.6	-3.2	-6.2
Ukraine	1.4	3.2	2.9	6.8	2.5	-1.7	-5.6	-9.8	-1.1	-3.5
Egypt*		0.6	1.9	3.4	2.9	1.8	2.3	0.9	-3.4	-3.0
Israel	-1.7	-1.3	1.4	2.7	4.2	7.2	4.2	1.6	3.0	4.0
Saudi Arabia	9.4	12.0	28.1	49.3	90.0	98.9	95.0	151.9	-4.1	10.2
UAE	6.5	3.5	7.5	10.5	24.4	35.1	37.0	27.9	-5.9	1.7
South Africa	0.1	0.7	-2.2	-6.9	-9.2	-16.4	-20.6	-23.7	-23.1	-16.3
Asia/Pacific	**164.7**	**223.2**	**256.6**	**306.2**	**365.2**	**499.6**	**650.4**	**534.4**	**337.4**	**341.6**
Japan	86.2	117.4	131.3	169.4	165.6	175.2	202.2	157.7	47.2	66.1
Australia	-7.0	-16.0	-29.0	-37.0	-41.0	-40.0	-57.0	-42.2	-32.6	-38.2
New Zealand	-1.4	-2.5	-3.5	-6.0	-9.2	-8.7	-11.1	-11.4	-9.1	-10.3
Asia-ex-Japan	**86.8**	**124.2**	**157.7**	**179.8**	**249.8**	**373.1**	**516.2**	**430.2**	**331.9**	**324.0**
China	17.4	35.4	45.9	68.7	160.8	249.9	371.8	372.0	240.0	230.0
Asia ex-Japan & China	**69.4**	**88.8**	**111.9**	**111.2**	**89.0**	**123.2**	**144.4**	**58.2**	**91.9**	**94.0**
Hong Kong	7.5	13.6	14.7	14.7	22.1	21.7	22.4	23.5	21.8	19.5
India	3.4	7.1	8.8	0.8	-14.7	-9.3	-11.3	-39.7	-25.1	-18.2
Indonesia	6.9	7.8	8.1	1.6	0.3	10.8	11.0	0.6	4.1	3.3
Malaysia	7.0	8.0	13.0	15.0	21.0	25.0	29.0	35.1	23.7	25.2
Philippines	1.3	5.3	0.7	0.9	2.0	5.3	6.3	3.9	2.2	-0.2
Singapore	10.6	11.3	21.4	29.0	33.2	35.5	39.3	27.3	16.4	16.6
South Korea	8.0	5.4	11.9	28.2	15.0	5.4	6.0	-6.4	17.1	12.2
Taiwan	18.9	26.4	30.5	19.7	17.6	26.3	33.0	25.0	34.2	38.1
Thailand	5.1	4.7	4.8	2.8	-7.6	2.2	15.8	-0.2	4.0	3.3
Vietnam	0.7	-0.7	-1.9	-1.6	0.2	0.3	-7.1	-11.0	-6.5	-5.8

Note: * = based upon Egyptian financial year (July-June). Global and regional aggregates are calculated using the World Banks' 2004 PPP weights
Source: HSBC

US

Policy-induced boost to fade

After contracting sharply in the first quarter, the economy should return to positive GDP growth from the second quarter, boosted by tax cuts, large government spending increases and some signs that consumption is stabilizing after its plunge in the second half of last year. In addition, there are growing signs that housing may soon be turning the corner, with sales and starts stabilizing, and some house price measures showing a rise.

However, there is a transition occurring within the growth cycle, where stabilization in consumption and housing is now being offset by a collapse in business investment and exports. We think business investment will continue to suffer large declines, partially because we see profits continuing to fall sharply. This is likely to keep the labor market weak, which will see the unemployment rate rise to over 9% in 2009 and 2010. This will continue to push core PCE inflation lower through the next couple of years, where we see it at just 0.3% 2010 Q4/Q4, which will raise deflation fears.

As a result, the Fed will continue to inflate its balance sheet towards $4-5 trillion over the next few quarters, versus $900Bn before the crisis, in an effort to continue stabilizing the financial system and to try to prevent deflation.

The Treasury's Public-Private Investment Program is a step in the right direction, but big questions remain on whether it will provide buyers and sellers enough incentive to get toxic assets to trade at acceptable levels. Without financial healing, the economy will not be able to enjoy a lasting recovery, putting 2010's economic prospects in severe doubt.

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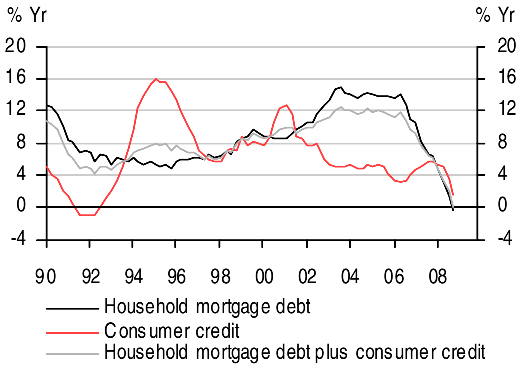
% q-o-q annualised

	2008f	2009f	2010f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Consumer spending	0.2	-0.5	0.0	1.5	1.0	1.2	0.5	-1.0	-0.5
Government consumption	2.9	6.4	4.9	3.0	12.0	11.0	12.0	3.0	0.0
Private fixed investment	-4.9	-19.8	-12.4	-23.4	-28.8	-17.4	-21.6	-10.4	-3.1
Housing	-20.7	-13.7	-0.5	-10.1	-17.1	-5.0	0.3	2.0	2.0
Stockbuilding (ppt contribution)	-0.2	-0.3	0.4	-2.5	1.1	1.0	-0.7	1.0	-0.3
Domestic demand	-0.2	-1.9	0.2	-4.0	0.7	2.2	-0.1	-0.1	-1.0
Exports	6.5	-3.6	5.4	-35.4	-26.5	-25.9	-13.1	-5.0	-2.6
Imports	-3.3	-6.4	7.9	-23.7	-20.5	-25.5	-30.7	2.0	2.0
GDP (year)	1.1	-1.6	0.5	-2.2	-2.7	-1.8	0.4	1.4	0.8
GDP (% quarter annualised)	-	-	-	-4.5	0.7	3.0	2.5	-0.7	-1.5
Industrial production (% year)	-1.8	-8.4	-2.2	-10.8	-10.4	-7.8	-4.3	-0.5	-1.6
Unemployment (%)	5.8	8.8	9.6	8.1	8.7	9.2	9.3	9.4	9.4
GDP deflator (% year)	2.2	1.2	0.8	1.8	-0.4	0.7	0.9	0.8	0.8
Consumer prices (% year)	3.8	-1.0	0.6	-0.2	-1.1	-2.4	-0.1	0.6	0.6
Employment costs (% year)	3.0	2.8	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Current account (USDbn)	-650	-352	-300	-365	-408	-374	-263	-290	-303
Current account (% GDP)	-4.6	-2.5	-2.1	-2.6	-2.9	-2.6	-1.8	-2.0	-2.1
Budget balance (USDbn)	-459	-1850	-1000	-	-	-	-	-	-
USD effective (1990 = 100)	83.9	92.7	90.2	94.5	93.0	91.6	91.6	90.8	89.9
3-month money (%)	2.9	0.7	0.4	1.0	0.8	0.6	0.4	0.4	0.4
10-year bond yield (%)	3.4	2.5	2.0	2.7	2.5	2.7	2.0	2.0	2.0

Source: HSBC

Household mortgage debt and consumer credit

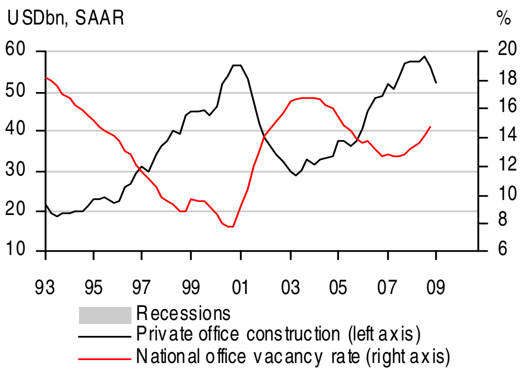


Source: Haver Analytics, Federal Reserve

Household debt growth has slowed to a crawl

- Household mortgage debt growth has been slowing for well over two years, as falling home sales and prices have reduced both the demand for and supply of credit. As of end-2008, the level of household mortgage debt was down 0.4% year-on-year.
- Consumer credit growth has slowed more recently, with the year-on-year rate falling to 1.7% by the end of 2008. The significant slowdown in auto sales and ex-autos retail sales was reflected in reduced auto loan and credit card balances.
- Combined household mortgage debt and consumer credit growth was flat year-on-year by the end of 2008 and is likely to turn negative this year.

Office construction and vacancy rates

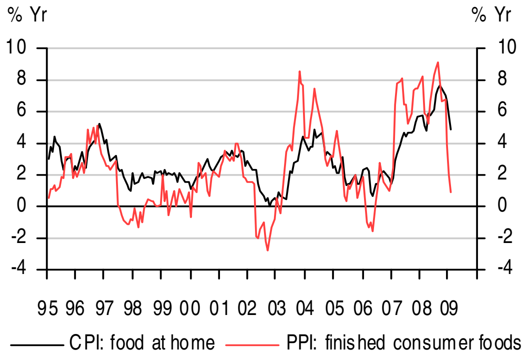


Source: Haver Analytics, Census Bureau, CB Richard Ellis

Nonresidential construction has started to slow

- The office vacancy rate has been rising for over a year, from 12.6% in Q3 2007 up to 14.7% in Q4 2008. Meanwhile, the latest Beige Book noted that demand for commercial real estate had deteriorated even more quickly than in previous reports.
- Office construction spending peaked last September and has declined for the past four months, down by a cumulative 12% so far.
- Construction has also started to slow for other non-residential sectors such as retail, industrial, and hotels. Retail space was added aggressively in residential boom-bust areas, and vacancy rates have been rising. Industrial vacancy rates are also on an upward trend, and hotel occupancies have been negatively affected by slowing business travel.

Food prices in the CPI and PPI



Source: Haver Analytics, Bureau of Labor Statistics

Food deflation is likely in the near-term

- Agricultural and crude food prices have been falling since last August, but the declines are only just now beginning to reach the consumer level.
- The PPI for finished consumer foods has fallen for the past three months and is likely to turn negative in year-on-year terms very soon.
- The CPI for food at home has also fallen for three months, while food prices at restaurants are still rising. Barring a big resurgence in agricultural prices, we expect the year-on-year CPI for food to turn negative by the end of this year.

Canada

Quantitative Ease

The Bank of Canada (BoC) is expected to outline a framework through which they would be able to implement a program of quantitative easing alongside the April 23rd release of its Monetary Policy Report.

The BoC has been hacking away at rates 50bp at a time and with the target rate standing at just 0.50%, the consideration of the unconventional is a now a necessity given the proximity of a zero interest rate policy. We believe the BoC will, at the next policy meeting, adopt a target range for the policy rate of between roughly 0 – 0.25% rather than specifically setting a fixed 0% rate target. Realistically, this will act as a rate cap rather than a rate range.

Moving to a program of quantitative easing constitutes little more than flipping a switch. Currently the BoC has a series of programs injecting funds into the market through 30 and 90-day purchase and resale agreements (PRA), in which collateral is taken in and cash dished out. At present, these programs (approximately CAD35bn in size) are conducted not through an expansion of the supply of money but on a sterilized basis – they sell treasury bills on the other side of the transaction.

Moving to a program of quantitative easing simply requires the Bank to stop sterilizing its PRA transactions. Conducting a program of quantitative ease through the PRA is attractive from the standpoint of its scalability. The program could be ratcheted up quickly by increasing the size of the repos program and quickly ratchet lower by allowing the maturities to roll off.

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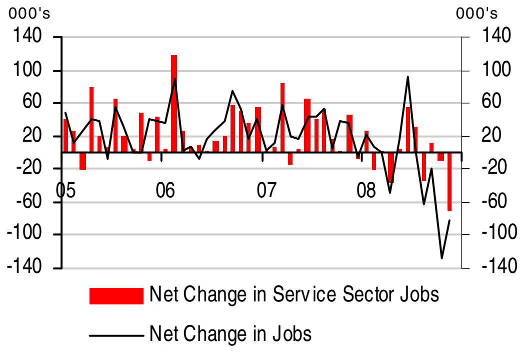
% Year

	2008	2009f	2010f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Consumer spending	3.0	-2.5	0.2	-1.5	-2.8	-3.3	-2.4	-1.1	0.1
Government consumption	3.4	4.1	5.8	2.9	3.3	4.8	5.6	5.9	6.0
Investment	0.7	-7.3	-0.8	-6.4	-7.9	-9.3	-5.6	-3.0	-1.2
Stockbuilding (% GDP)	0.8	-0.6	0.0	-0.8	-0.8	-0.5	-0.2	-0.2	0.0
Domestic demand	2.3	-3.6	1.6	-3.0	-4.3	-4.5	-2.4	0.4	1.8
Exports	-4.7	-8.1	1.7	-9.5	-9.9	-8.9	-4.1	-0.3	1.7
Imports	0.8	-10.2	1.1	-10.4	-12.6	-11.8	-5.5	-1.0	1.1
GDP	0.5	-2.4	1.9	-2.2	-2.9	-3.0	-1.4	0.8	2.0
GDP (% quarter annualised)	-	-	-	-6.6	-2.3	0.4	3.0	1.9	2.7
Industrial production	-4.1	-5.3	0.7	-6.5	-5.3	-5.9	-3.2	0.2	0.0
CPI	2.4	-0.3	1.4	0.8	-0.7	-1.5	0.1	1.0	1.3
Average earnings	2.8	1.8	1.5	2.3	2.2	1.8	1.1	1.3	1.4
Unemployment (%)	6.2	8.4	8.7	7.6	8.2	8.7	9.0	9.1	8.7
Current account (CADbn)	10.2	-17.5	3.0	-5.0	-5.0	-5.0	-2.5	-2.0	-0.5
Trade account (CADbn)	46.7	10.0	30.9	0.6	2.7	2.5	4.2	4.9	6.5
Budget balance (CADbn)	-2.0	-34.0	-30.0	-	-	-	-	-	-
CAD/USD	1.08	1.39	1.33	1.35	1.40	1.40	1.40	1.35	1.30
3-month money (%)	3.2	0.5	0.7	1.0	0.4	0.4	0.4	0.4	0.5
10-year bond yield (%)	3.4	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2

Source: HSBC

Wholesale jobs destruction.

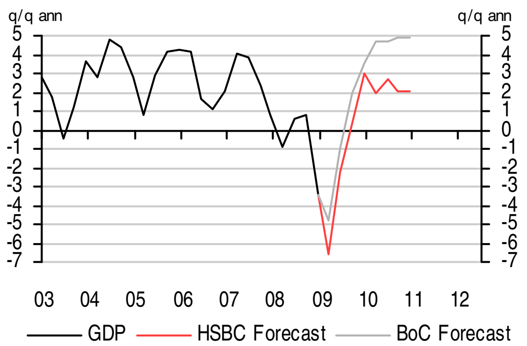


Source: Thomson Financial Datastream, Statistics Canada

Revising our forecasts for unemployment

- The rate of jobs destruction has accelerated, outpacing our original forecasts by a wide margin. What was previously a jobs generating juggernaut, the service sector is now casting off jobs at an unsettling pace and regularity.
- In response, we are pushing up our forecast for the unemployment rate which is now expected to peak out at 9.2% by the end of 2009, up from the previous call of 8.5%. Unemployment is at 7.7% as of February.
- The participation rate has remained elevated – just shy of the historical high. Some decline is expected as job seekers become discouraged by poor employment prospects, helping to moderate the rate of deterioration in the headline unemployment rate.

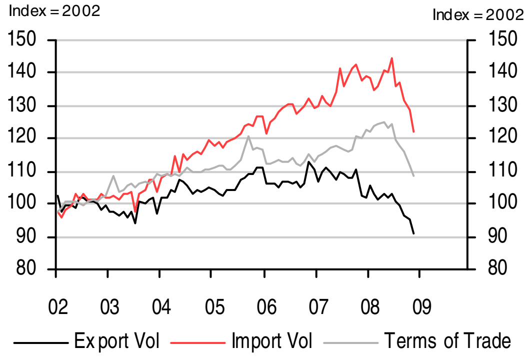
Recession



Source: Thomson Financial Datastream

We have tweaked the GDP forecasts. GDP for 2009 moved down to -2.4% from -2.2%.

- More cosmetic than substantive. The changes to the GDP forecast are primarily driven by two elements. The first relates to a necessary, more extensive de-stocking in Q1 and Q2 2009 after a greater than expected inventory accumulation in Q4 2008. The second element is a deeper contraction in fixed investment.
- The current recession is expected to feel a lot like the Canadian experience from early-1990s. That downturn was fairly sharp but the recovery was replete with false starts and proved protracted.



Source: Thomson Financial Datastream

Trade picture

- It's startling enough that for the first time in 30-years, Canada is now showing a merchandise trade deficit. Worst still is the fact that - behind what seems a rather benign CAD1.0bn trade deficit - are rapidly decelerating exports and imports.
- Radically decelerating cross border trade is indicative of declining overall economic activity within both Canada and the US, and the BoC clearly has little control over shrinking external demand.
- Export volumes began to slide at the end of 2007. Import volumes remained at their peak for some time after, a situation only sustainable if Canada's terms of trade remain favourable.

HSBC

Mexico

Running out of ideas

The latest data show that the impact of the global recession on the Mexican economy is much larger than we expected less than six months ago, especially given the decline in international trade. We saw in January the first double-digit annual decline in industrial production since 3Q1995 (when the country experienced one of its worst crises in the past 35 years), with manufacturing plummeting a remarkable 14.9%.

At the local level, the resilience observed in trade and services activities, as well as retail sales indicators until November 2008, became history quite quickly. Since then, these indicators have been in negative territory and, with increasingly bad results, as they continue to show declines at an increasing rate. This is consistent with increasingly deteriorating conditions in labour markets and a continued deceleration in bank financing.

These developments have affected fiscal accounts, as income tax and VAT revenues declined substantially in the first month of this year. This is especially important since the budget approved assumed a 1.8% expansion of GDP for the year, when the consensus is now the same magnitude, but preceded by a minus sign, and our expectation is that GDP will decline 3.3%. Therefore, we do not rule out downward adjustments on the spending side some time during 2H2009, which posts additional limits to fiscal policy actions.

Unfortunately, the uncertainty surrounding the MXN depreciation continues to post question marks on inflation dynamics. As a result, we anticipate the central bank's approach will remain highly data-dependent, although its most recent action of lowering 75bp (when consensus expectations considered "only" 25bp), suggests easing could be more aggressive so long as inflation meets the institute's own projections.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Private consumption	4.8	5.7	3.9	1.5	-2.1	0.9
Public consumption	2.4	1.7	2.1	0.6	0.1	1.0
Gross capital formation	7.5	9.8	7.2	4.9	-6.5	2.3
GDP	3.1	4.9	3.6	1.3	-3.3	0.6
Industrial production	2.6	5.3	3.1	-0.7	-6.6	-0.9
Unemployment (%)	3.8	4.3	4.8	4.9	7.8	6.1
Consumer prices*	3.3	4.1	3.8	6.5	4.1	3.6
Exports (USDbn)	214.2	249.9	271.9	291.8	243.1	266.2
Imports (USDbn)	221.8	256.1	281.9	308.6	266.1	293.0
Current account (USDbn)	-4.4	-4.4	-8.2	-15.5	-26.6	-30.4
Current account (% GDP)	-0.5	-0.5	-0.8	-1.4	-3.2	-3.4
Budget balance (% GDP)	-0.1	0.1	0.0	-0.1	-3.7	-1.9
MXN/USD	10.8	11.0	10.9	11.4	15.0	14.6
3-month money (%)	9.3	7.3	7.4	7.9	5.6	5.3

Note: * = end-year,
Source: HSBC

HSBC

Brazil

A tale of employment and confidence

Relatively more insulated than most economies, and having left behind the bulk of the adjustment on the supply side – industrial production 1Q09 figures may recover vis a vis 4Q08 – demand is the key driver for the remainder of 2009.

Household consumption is particularly important, as it represents around 60% of GDP, and its 4Q08 performance was worse than expected (-2.0% q-o-q). Given that real income has not been harmed yet – as inflation is falling – and unemployment started to rise only in December, fragile consumer confidence appears to be the reason behind consumption weakness. The behaviour of unemployment – and, by extension, of consumer confidence – will be key to support our +0.1% 2009 GDP growth forecast.

We expect inflation to remain driven by activity. Weaker GDP growth in 2009 reduces inflationary pressures coming from the BRL depreciation. More specifically, we see core inflation to gradually adjust down. Although we haven't recently changed our 2009 CPI forecast, which remains at 4.6%, the persistence of weaker activity is likely to erode the resilience of services' prices. Accordingly, we revised 2010 CPI forecast, to +4.3% (from +4.8%).

The combination of weaker activity and stable inflation gives room for additional monetary easing. We now expect the Selic rate – currently at 11.25% - to reach 9.0% by July and to remain at this level for the remainder of the year.

Additional fiscal action is still expected – especially on the spending side – but there are limits for it, as tax collection is slowing fast. The absence of sizeable non-recurrent revenues – that helped a lot in the past – makes tax collection more vulnerable to the slowing of economic activity.

The primary fiscal surplus may deteriorate, to 2.5% of GDP, from 4.1% of GDP in 2008. Yet, net debt/GDP ratio may stay below the levels previous to the beginning of the crisis, thanks to lower interest rates – 40% of domestic public debt is floating.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Private consumption	4.5	5.3	6.3	5.4	0.9	2.7
Gross capital formation	3.6	9.8	13.5	13.8	-6.0	3.5
GDP	3.2	4.0	5.7	5.1	0.1	2.6
Industrial production	3.1	2.8	6.0	3.1	-4.0	4.2
Unemployment (%)	9.9	10.0	9.3	7.9	9.2	8.7
Consumer prices*	5.7	3.1	4.5	5.9	4.6	4.3
Exports (USDbn)	118.3	137.8	160.6	197.9	167.7	171.2
Imports (USDbn)	73.6	91.4	120.6	173.2	147.7	155.9
Current account (USDbn)	14.0	13.6	1.6	-28.3	-17.9	-27,4
Current account (% GDP)	1.6	1.3	0.1	-1.8	-1.4	-2.0
Budget balance (% GDP)	-3.0	-2.9	-2.2	-1.5	-2.4	-2.0
BRL/USD	2.34	2.14	1.77	2.34	2.45	2.35
3-month money	19.0	14.8	11.7	12.7	9.3	8.6

Note:* Year end.
Source: HSBC

HSBC

Argentina

Thin cows time

The build-up of uncertainty coupled with the perception of a cheap exchange rate has fuelled dollar demand, particularly at the retail level given that wholesale demand remains constrained by government controls. The other side to the ongoing dollarisation process is the fall of monetary aggregates in real terms. Therefore, financial disintermediation should continue, at least while the cheap ARS lasts. However, the government is keen to avoid a sharp depreciation of the ARS, under the rationale that allowing the peso to float freely would trigger a currency-cum-deposit run.

As a consequence of the fact that economic activity is falling at a faster pace than anticipated and the recent downgrades to our global forecasts – especially relevant is the downward revision in Brazil – we are lowering our growth forecast for the current year. The Argentine economy should contract by about 2.7% in 2009, more than twice the drop previously envisaged (-1.2%). In addition, we now estimate that investment will plummet 13%, with private consumption contracting by 2.5%. At the same time real exports should fall by 8.2%, the effect of which should be offset by the crunch in imports (sliding 17.3%), partially related to an increasingly protectionist stance.

On the other hand, we expect the government to sustain the current pace of fiscal expansion and public consumption should therefore post a real growth rate of 5.3% for the year. The problem in pursuing a more expansionary fiscal policy is that the economy will be heading into fiscal deficit for the first time in 7 years, with the availability of financing sources seriously curtailed. Thus, by year-end we would be looking at an overall deficit of 0.7% of GDP.

As in the end of the nineties, the economy is once again haunted by the ghost of an overvalued currency and the limited ability to carry through a counter-cyclical fiscal policy. Nevertheless, it should be pointed out that the level of overvaluation is significantly lower this time and that the level of dollarised liabilities within the financial system is also very low.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumption*	8.9	7.8	8.0	4.9	-2.5	0.5
Gross capital formation*	22.7	18.2	13.6	8.8	-13.0	2.1
GDP*	9.2	8.5	7.8	4.9	-2.7	1.2
Unemployment (%)*	11.6	10.2	7.5	8.0	10.3	9.4
Industrial production	8.0	8.4	7.5	3.8	-4.3	0.9
Consumer prices*	12.3	9.8	17.6	21.1	15.0	15.5
Exports (USDbn)	40.4	46.5	55.9	70.6	53.8	54.3
Imports (USDbn)	28.7	34.2	44.8	57.4	46.5	47.7
Current account (USDbn)	5.6	8.0	7.1	7.8	2.1	1.2
Current account (% GDP)	3.1	3.8	2.7	2.4	0.7	0.4
Budget balance (% GDP)	1.8	1.8	1.1	1.4	-0.7	0.3
ARS/USD	2.94	3.08	3.12	3.19	3.91	4.61
1-month money (%)*	4.8	6.7	8.2	11.6	14.5	15.0

Source: HSBC. *Previous methodology estimates

Chile

The star of the region still shines

The latest data suggest that the impact of the global slowdown on the Chilean economy has intensified. We now expect to see two quarters of negative growth before a mild recovery develops in the second half of this year. We expect investment spending to be at the forefront of this weakness as more companies are announcing the postponement or suspension of investment projects. Although this effect may be partly offset by the fiscal stimulus package announced by the government earlier this year, which will concentrate on public investment, it might not be enough to offset a plunge in private investment. Consumption is expected to decelerate considerably on the back of a sharply reduced availability of credit and a further weakening in the labour market.

Another factor that will curb economic growth will be the deterioration in the trade balance, given the weaker level of external demand and unfavourable terms of trade shock.

Nevertheless, despite this gathering gloom, Moody's opted to upgrade Chile's rating to A1 from A2 as a result of the strong resilience to adverse external shocks and the long-adopted, sound economic policies.

We believe that inflation will continue to fall rapidly in response to lower international commodity prices, weaker domestic demand and a well-positioned exchange rate. This means that inflation might end this year in the lower bound of the Central Bank's targeted, long-term 2 to 4% band.

The scenario outlined above prompted the Central Bank to start an aggressive, front-loaded monetary easing cycle last January, cutting its monetary policy rate by 100bp. However, the monetary authorities picked up the pace by reducing cutting rates by 250bp in each of its next two meetings (February and March), placing the rate at 2.25%. In our opinion, the current scenario provides some scope for further easing. As a consequence, we expect one or two more cuts, taking the rate to an historical low of 1.0%.

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% Year

	2005	2006	2007	2008	2009f	2010f
Private consumption	7.4	7.1	3.9	4.3	0.7	2.8
Fixed investment	23.9	2.3	12.0	19.5	-4.4	3.2
GDP	5.6	4.6	4.7	3.2	-0.6	2.5
Industrial production	6.0	3.3	6.0	-0.2	-3.4	0.8
Unemployment (%)	9.3	8.0	7.0	7.7	10.6	9.7
Consumer prices*	3.7	2.1	7.8	7.1	2.2	3.0
Exports (USDbn)	41.3	58.0	67.6	67.8	47.5	50.5
Imports (USDbn)	30.5	35.8	43.9	57.6	47.1	50.0
Current account (USDbn)	1.0	6.8	7.2	-4.3	-6.5	-4.6
Current account (% GDP)	0.8	4.6	4.4	-2.5	-4.4	-2.9
Budget balance (% GDP)	4.6	7.7	8.8	5.2	-2.9	-3.0
CLP/USD	552	534	519	538	681	700
3-month money (%)**	4.5	5.3	6.5	8.3	1.5	3.4

Note: * = end-year; ** = end-year 90-day deposit rate
Source: HSBC

HSBC

Eurozone

Too early to cheer

The Eurozone may not have the same structural imbalances as the US but the depth of the recession has so far been even more severe. Q4 GDP contracted by 1.5% q-o-q and 1Q09 is likely to be similar. The recent contraction has been driven by the collapse in industrial production while the sharp squeeze on corporate profits and ongoing uncertainty about the outlook have been reflected in much weaker investment spending. Consumer spending (particularly in France and Germany) has been relatively resilient, supported by the boost to real incomes from sharply lower inflation and the relatively small rise in unemployment to date. But the latter is set to deteriorate more rapidly from here which, together with a modest rise in the savings rate, points to weaker consumption. We still expect the pace of contraction in the economy to ease in the course of the year as the inventory adjustment is likely to be largely completed by the end of Q1 and the larger Eurozone fiscal stimulus packages – in Germany and France – start to impact on the economy in the second half. As for monetary policy, we expect the ECB to cut rates by a further 75 bps to 0.75% by mid-year. We also believe that further non-standard measures are still on the cards. Such measures are likely to focus on the banking sector rather than resorting to making outright purchases of government bonds. However, like the SNB, the ECB could decide to buy corporate bonds, but as they make up just 8% of total Eurozone corporate debt, buying other assets (eg bank loans) may be more effective. This would require the range of acceptable collateral to be broadened further.

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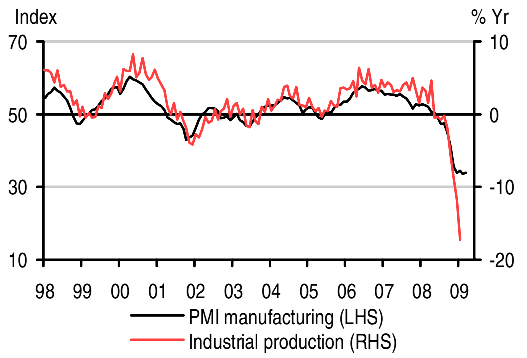
% Year

	2008	2009f	2010f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Consumer spending	0.5	-0.7	-0.1	-0.8	-0.6	-0.9	-0.6	-0.4	-0.3
Government consumption	2.0	2.7	2.4	2.6	2.5	2.6	3.3	3.1	2.6
Fixed investment	0.2	-7.9	-1.5	-8.5	-9.3	-8.9	-4.9	-3.0	-1.5
Final domestic demand	0.8	-1.6	0.1	-1.9	-2.0	-2.0	-0.7	-0.2	0.1
Stockbuilding (% GDP)	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic demand	0.7	-2.0	0.5	-2.4	-2.1	-2.2	-1.4	0.4	0.5
Exports	1.6	-12.0	-0.5	-11.2	-13.6	-14.4	-8.5	-3.8	-0.8
Imports	1.5	-9.7	0.8	-8.7	-10.4	-11.9	-7.7	-2.1	0.7
GDP	0.7	-3.2	-0.1	-3.5	-3.8	-3.6	-2.0	-0.6	-0.1
GDP (% quarter)	-	-	-	-1.6	-0.5	-0.1	0.2	-0.2	0.0
Industrial production	-1.8	-16.2	-1.5	-18.1	-18.5	-17.0	-10.7	-3.2	-2.0
Unemployment (%)	7.5	9.3	10.7	8.4	9.0	9.6	10.1	10.4	10.6
Wages	3.6	3.1	2.7	3.4	3.2	3.0	2.9	2.8	2.8
Inflation	3.3	0.5	1.2	1.0	0.2	-0.1	0.8	1.3	1.3
M3	9.4	3.9	3.8	5.0	4.0	3.5	3.0	3.0	3.5
Current account (% GDP)	-0.7	-0.6	-0.5	-	-	-	-	-	-
Budget balance (% GDP)	-1.4	-5.1	-5.8	-	-	-	-	-	-
Debt (% GDP)	67.4	75.0	81.8	-	-	-	-	-	-
3-month money (%)	4.4	1.2	1.6	1.5	1.2	1.0	1.1	1.3	1.5
10-year bond yield (%)*	4.2	3.4	3.4	3.4	3.6	3.4	3.4	3.4	3.4

Source: HSBC
Note: * weighted average of EMU 'Big 4'

HSBC

Another sharp contraction in Q1

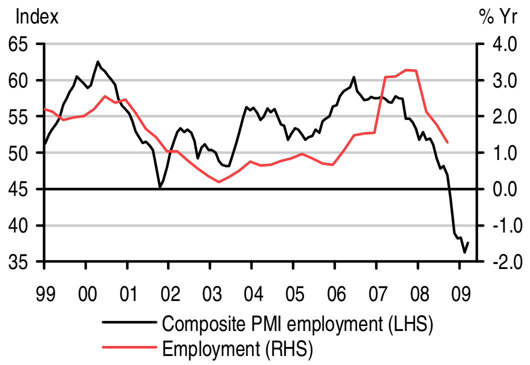


Source: Reuters, Thomson Financial Datastream, Eurostat, and HSBC

Production and PMIs

- The industrial recession in the Eurozone is showing no sign of abating. Industrial production fell 6% q-o-q in Q4 and the 3.5% m-o-m fall in January suggests Q1 will be worse.
- The manufacturing PMI showed welcome signs of stabilisation in March but remains at historically low levels, consistent with ongoing contraction in output.

Bigger drop in employment ahead

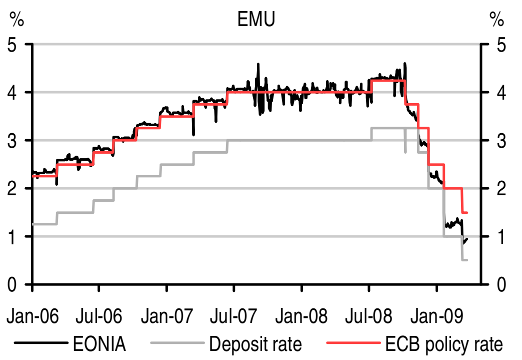


Source: Thomson Financial Datastream, Eurostat, and HSBC

Unemployment and consumption

- The unemployment rate in the Eurozone has so far risen by less than 1% point from its trough in early 2008, partly because of the use of short working week policies, particularly in the likes of France and Germany.
- This has helped to limit the decline in consumer spending but with unemployment set to rise more markedly in the coming year a bigger contraction in consumption is expected in 2009.

ECB will ease policy further



Source: Thomson Financial Datastream, Eurostat, and HSBC

Interest rates

- The ECB's policy rate (the refinancing rate) was cut to 1.5% in March...
- ... but because the ECB is allotting an unlimited volume of money at its refinancing operations, and keeps the deposit rate it pays banks 100bps below the refi rate, the o/n rate is trading close to 0.5%
- We expect the refi rate to fall to 0.75% by mid-year but that will likely involve narrowing the spread over the deposit rate.

Germany

Deep recession in 2009

Germany has been particularly hard hit by the global recession since the second half of 2008 and the capital goods sector is feeling the full brunt of the worldwide economic downturn. The decline in production activities, as a result of the export slump and corporate investments, is depressing the employment and earnings outlook in Germany.

However, the government's tax cut package will prop up net earnings. Disposable household income will also be supported by further government measures (e.g. increasing child benefits, pension increases from mid-year onwards). In the short term, there will be no overall decline in private household income. As a result of the above measures and the only moderate increase in consumer prices, any contraction in consumer spending should be modest. Despite widespread use of the legislators' relaxation of the law governing short-time working, Germany is likely to face a sharp increase in the unemployment rate. In 2008, Germany managed to more or less balance the national budget. However, the economic stimulation measures which have been decided for 2009 and 2010 (around 45 billion per year) mean that the deficit will be pushed up far beyond the 3% limit.

GDP declined in Q4 2008 by 2.1% q/q, the third successive q/q decline and the biggest decline ever reported. In Q1 2009 the sustained decline in industrial output and the most recent data on inventory components indicate a higher quarterly rate of decline of 2.9%, also predominantly due to the net export situation. The full-year contraction is likely to be 4.7% and, despite the return of modestly positive growth from late 2009 onwards, the annual growth rate is unlikely to be much above zero in 2010.

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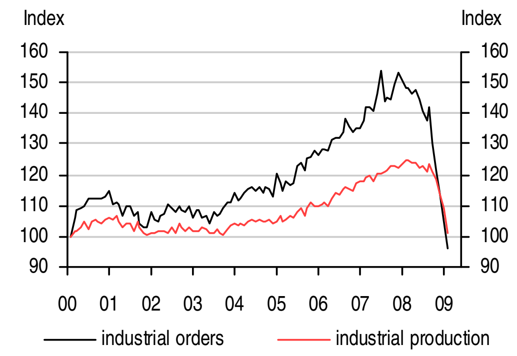
% Year

	2008	2009f	2010f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Consumer spending	-0.3	-0.2	0.0	-0.6	0.1	-0.1	0.0	0.1	0.0
Government consumption	2.0	2.0	2.9	1.6	1.5	2.0	2.8	3.0	3.0
Investment	4.6	-6.9	-1.2	-6.6	-7.3	-8.2	-5.5	-2.8	-1.1
Machinery & equipment	5.1	-11.2	-3.0	-8.7	-12.0	-14.0	-10.0	-5.9	-3.5
Construction	2.0	-3.4	1.1	-6.3	-3.6	-3.0	-0.7	0.7	1.7
Stockbuilding (% GDP)	-0.8	-0.7	-2.1	-1.3	-0.5	-0.5	-0.5	-0.5	-0.5
Domestic demand	0.8	-1.0	0.5	-1.6	0.1	-1.3	-1.2	0.9	0.4
Exports	2.3	-12.0	0.3	-12.4	-13.9	-14.1	-7.3	-1.9	0.5
Imports	3.6	-5.4	0.8	-4.4	-4.4	-8.1	-4.7	-0.6	1.1
GDP	1.0	-4.7	0.2	-1.3	-0.7	-0.5	0.3	0.2	0.1
GDP (% quarter)	-	-	-	-2.9	0.3	-0.2	0.2	0.0	0.1
Industrial production	0.0	-21.4	-0.2	-23.2	-23.9	-22.1	-16.0	-0.4	-0.3
Unemployment (%)	7.8	8.6	9.4	7.9	8.4	8.8	9.2	9.2	9.3
Average earnings	2.8	2.6	1.9	2.9	2.8	2.5	2.3	2.1	2.0
Producer prices	5.5	-2.0	0.9	1.0	-1.8	-4.3	-2.8	0.2	0.9
Consumer prices	2.7	0.5	1.0	0.8	0.3	-0.1	1.1	1.3	1.1
Current account (EURbn)	164.9	130.0	130.0	30.0	30.0	35.0	35.0	32.5	32.5
Current account (% GDP)	6.6	5.1	5.0	4.8	4.7	5.5	5.6	5.0	5.0
Budget balance (% GDP)	-0.1	-4.2	-5.4	-	-	-	-	-	-
3-month money (%)	4.4	1.2	1.6	1.5	1.2	1.0	1.1	1.3	1.5
10-year bond yield (%)	3.9	3.0	2.9	3.0	3.1	2.9	2.9	2.9	2.9

Source: HSBC

Unprecedented decline in industry

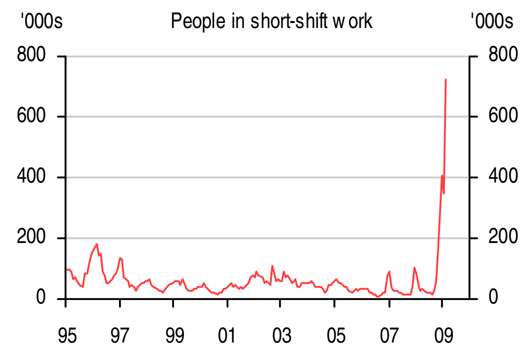


Source: Reuters EcoWin, HSBC

Very high dependency on capital goods

- The commencement of a new base year for industrial sectors and goods classification means that the significance of capital goods will continue to increase for both industrial order levels (now a 56 % share) and production (now a 35 % share).
- The monthly decline in industrial orders has exceeded 5% since September 2008 and the order level in January was 35% lower than last year. In Q4 2008 order receipts were 25% lower than Q3, and everything indicates an even higher decline in Q1 2009.
- The 6.6% decline in industrial output in the 4th quarter of 2008 is likely to double in the first quarter of 2009. Thus industrial production activity is expected to slump by more than 15% in the full year 2009.

Short-time workers exceeding 1m is only matter of time

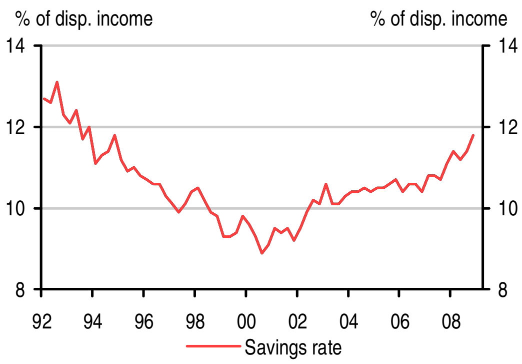


Source: Reuters, Employment Agency

Short time cushions the recession's impact

- The economic crisis has boosted the number of short-time workers to almost 730,000 (Feb. 2009). The most recent fiscal package introduces important changes: it abandoned the condition that at least one third of the workforce has to be affected by people in short shift and short-time allowance is now paid for up 18 months instead of the original 6 months. The Employment Agency pays half of the social insurance contributions in respect of the short-time allowance.
- If employees receive further training during the period of short-time work, all their social security contributions can be reimbursed. The Employment Agency contributes between 60 and 67% of the net wage or salary loss. Many collective wage agreements also provide for employer subsidies.
- However, these measures will only postpone the rise in unemployment, as we believe the economic situation will remain dire into 2010

Private household saving ratio should remain high



Source: Reuters EcoWin

Sword of Damocles for private consumer spending

- The problems that German banks are facing were not preceded by any perceptible increase in non-bank debt levels. Both the corporate sector and private households have reduced their borrowing levels over recent years. Germany is therefore "only" in a recession, not a balance sheet recession of the non financial private sector.
- The savings ratio will only decline temporarily in the first six months of 2009. Private households will benefit from a "scrappage premium" worth EUR 2.500 when buying news cars and simultaneously scrapping the - at least – nine year old cars. We are not expecting any mid-term increase in the savings ratio from the 11.8 % in Q4 2008. However, it is a sword of Damocles hanging over private consumer spending.

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France

Deeper recession than in 90s

Industrial production collapsed in the fourth quarter of 2008, falling 7.6% q-o-q under the effect of sharp destock in the automotive and intermediate goods sectors. Its decline dragged down GDP, which contracted 1.2% q-o-q and by 1% y-o-y.

The industrial recession is likely to continue over the next few quarters, under the effects of destocking, and falling global demand, reflected in the freeze in the rate of production announced by Airbus. French consumers are also unlikely to support sufficiently the productive capacity utilisation rates, which hit their lowest point at 70.8% in February 2009. Over the first half of the year, on average, industrial production is likely to shrink by 14% q-o-q. The decline will be less marked in the second half, due to the indirect effect of public sector investment on machine tool orders. Business investment will continue to fall, as will residential investment. All in all, GDP is expected to contract by -1.2% q-o-q in the first quarter and -0.5% in Q2.

The stimulus package could limit the fall in GDP towards the end of 2009 through increased public sector investment. However, this is just investment that has been brought forward, and will therefore not happen in 2010, resulting in a new downturn in economic activity.

The recessionary forces from the correction in the real estate market, the decline in external demand and the increase in the savings rate will hit growth, which will not return to its long-term potential in 2010. Consumer spending is not expected to rise but nor will it fall thanks to the power of automatic stabilisers. Unemployment benefits will limit the impact of job losses on consumer spending, as will the drop in inflation. However, the significant increase in deficits that we are expecting, coupled with the negative wealth effect from lower asset prices, could lead French consumers to save more and thus amplify the contraction of GDP.

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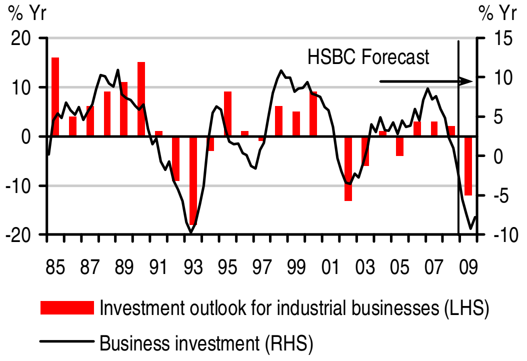
% Year

	2008	2009f	2010f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Consumer spending	1.3	0.6	0.7	0.8	0.8	0.7	0.4	0.4	0.5
Government consumption	1.6	3.2	2.0	2.2	2.9	3.3	4.3	4.2	2.4
Investment	0.4	-3.2	-0.9	-5.5	-5.5	-3.0	1.4	0.4	0.4
Stockbuilding (% GDP)	0.7	-0.6	-1.4	-0.4	-0.6	-0.7	-0.7	-0.5	-0.3
Domestic demand	1.0	-0.8	0.9	-1.3	-1.6	-1.1	0.7	1.1	1.3
Exports	1.1	-9.6	-1.5	-9.3	-9.5	-11.1	-8.4	-3.9	-2.2
Imports	2.0	-4.5	3.4	-5.0	-5.4	-5.7	-1.8	2.3	4.0
GDP	0.7	-2.2	-0.6	-2.5	-2.7	-2.6	-1.2	-0.7	-0.6
GDP (% quarter)	-	-	-	-1.2	-0.5	0.2	0.2	-0.6	-0.4
Manufacturing output	-3.1	-18.7	-10.7	-16.6	-18.7	-21.1	-18.3	-14.3	-11.9
Unemployment (%)	7.4	9.4	10.9	8.6	9.2	9.7	10.0	10.4	10.8
Average earnings	3.0	2.6	2.4	2.8	2.6	2.4	2.5	2.4	2.4
Consumer prices	3.2	0.5	1.7	0.7	0.0	0.2	1.0	1.8	1.8
Trade account (EURbn)	-53.4	-42.9	-51.2	-11.1	-10.0	-10.3	-11.5	-12.3	-12.7
Current account (% GDP)	-2.0	-1.3	-1.8	-	-	-	-	-	-
Budget balance (% GDP)	-3.2	-6.6	-7.0	-	-	-	-	-	-
3-month money (%)	4.4	1.2	1.6	1.5	1.2	1.0	1.1	1.3	1.5
10-year bond yield (%)	4.1	3.5	3.4	3.6	3.6	3.4	3.4	3.4	3.4

Source: HSBC, Thomson Financial Datastream

Investment will continue to drop sharply...

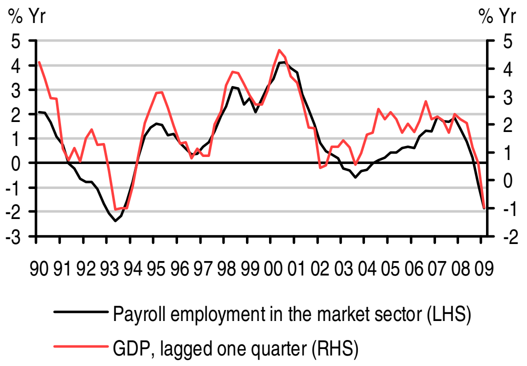


Sources: INSEE, HSBC

... due to weak prospects for the economy and debt reduction

- The productive capacity utilisation rate has fallen sharply over the past year, hitting 70.8% in February 2009, from 83.4% a year earlier. It is already 11 points below its long-term average.
- Global demand is set to fall in 2009, an exceptional development, and this will hit French exports. In addition, the drop in car buying in the euro zone, once scrappage schemes come to an end, could continue to limit automotive exports. Lastly, the number of Airbus planes delivered is likely to be close to the 483 recorded in 2008, a year of strong growth in deliveries. Thus, Airbus sales will not drive French export growth in 2009.
- According to the latest survey of industrial investment, business leaders are expecting investment to drop by 12% in value terms in 2009.
- Looking at residential investment, the decline could be 7.3%, given that we expect the number of new project starts to fall by 50%

The unemployment rate ...

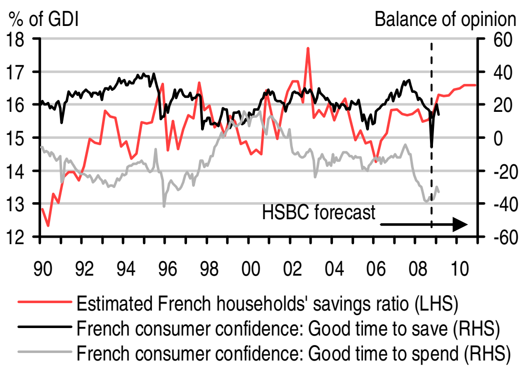


Sources: INSEE, HSBC

... could exceed 11% in 2010

- The impressive drop in industrial production at the end of 2008 has resulted in many jobs being lost in the manufacturing sector. Meanwhile, the real estate crisis started to feed through into a decline in employment in construction and real estate in Q4 2008.
- At the end of 2008, 183,100 jobs had been destroyed in the merchant trade sector, including 146,400 temporary posts.
- This adjustment will continue and will spread to permanent and tertiary sector jobs. Job losses could be deeper than in 1993, reaching 350,000 in 2009, and are likely to continue into 2010, when we expect a further 150,000 jobs to be lost. This would take the unemployment rate up to 10% by end-2009 and 11.4% by end-2010, assuming that the working population increases at the same rate as in 2008.

Downside risk : ...



Sources: INSEE, HSBC

... sharp rise in saving rate

- Consumer spending remained strong at the end of 2008, rising 0.5% q-o-q in the fourth quarter after 0.1% in the third.
- The fall in inflation and cuts in regulated interest rates (such as the Livret A rate), are likely to support consumer spending and offset, in part at least, the negative effects of stabilisation of wages and falling asset values.
- However, consumers' predilection for cash and the huge increase in public sector deficits could result in a sharper than expected rise in the savings rate.
- Between Q4 1990 and Q1 1993, the savings rate for French consumers rose from 13% to 15.8%, before falling back again once the economy had gone past the worst.

HSBC

Italy

No pillar of support

The final quarter of 2008 was the fourth quarter in five that GDP contracted – by a massive 1.9% q-o-q – and yet there is still no sign of stabilisation in Italy's economy.

The industrial recession has deepened and investment contracted 6.9% q-o-q in Q4. Given the sharp deterioration in corporate profits and the ongoing tightening of bank lending standards, investment is set to continue falling throughout 2009.

There is little prospect of consumer spending offsetting this weakness. Many households are starting to benefit from the fall in inflation and the decline in interest rates since last October but the impact on confidence will continue to be offset by the marked rise in unemployment which rose to 6.9% in 4Q08 and which we expect to rise to about 8½% by end-2009. We therefore foresee consumption to contract by 1.5% in 2009. With exports also set to continue falling, we have lowered our GDP forecast from -3% to -3.9%. We expect a gradual recovery in the course of 2010 but the full-year figure will likely show a contraction of about 0.6%.

The higher government spending, as well as the hit to revenue from lower tax receipts, means the public finances are set to deteriorate significantly even though there is no meaningful fiscal stimulus this year. We expect the budget deficit to widen to 5.8% in 2009, resulting in a further rise in the debt-to-GDP ratio to nearly 114% – the highest in the Eurozone.

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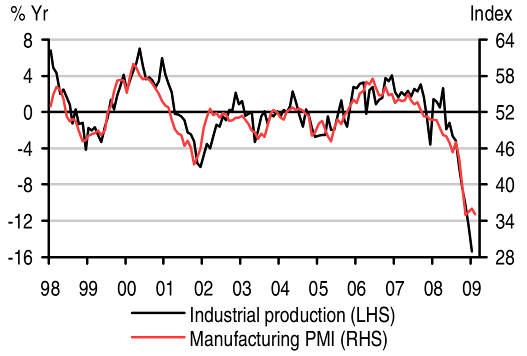
% Year

	2008	2009f	2010f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Consumer spending	-0.9	-1.4	-0.3	-1.8	-1.3	-1.6	-0.9	-0.7	-0.4
Government consumption	0.6	0.4	0.5	0.7	0.1	0.2	0.4	0.4	0.6
Investment	-2.9	-11.5	-2.1	-11.8	-13.6	-12.9	-7.3	-5.4	-3.0
Stockbuilding (% GDP)	0.4	-0.2	-0.2	-0.4	-0.2	-0.1	-0.1	0.0	0.0
Domestic demand	-1.3	-3.7	-0.4	-4.2	-4.0	-3.9	-2.7	-1.0	-0.5
Exports	-3.7	-13.1	0.0	-14.5	-16.0	-14.3	-7.2	-2.8	0.1
Imports	-4.5	-12.7	0.4	-13.3	-14.5	-14.1	-8.5	-2.2	0.3
GDP	-1.0	-3.9	-0.5	-4.7	-4.5	-4.0	-2.3	-1.2	-0.6
GDP (% quarter)	-	-	-	-1.5	-0.5	-0.2	-0.1	-0.4	0.1
Industrial production	-3.4	-14.5	2.0	-17.5	-18.4	-15.0	-6.1	0.6	3.2
Unemployment (%)	6.8	8.0	8.9	7.4	7.8	8.2	8.6	8.7	8.8
Hourly wage rate	3.4	2.5	2.2	2.8	2.6	2.4	2.3	2.2	2.2
Consumer prices	3.5	0.6	1.8	1.3	0.3	0.1	0.6	1.8	1.6
Current account (EURbn)	-49.1	-45.0	-41.0	-14.0	-12.0	-8.0	-11.0	-12.0	-11.0
Current account (% GDP)	-3.1	-3.0	-2.7	-	-	-	-	-	-
Budget balance (% GDP)*	-2.9	-5.8	-6.4	-	-	-	-	-	-
3-month money (%)	4.4	1.2	1.6	1.5	1.2	1.0	1.1	1.3	1.5
10-year bond yield (%)	4.7	4.3	4.3	4.4	4.5	4.3	4.3	4.3	4.3

Note: * = state sector cash balance
Source: HSBC

Industrial recession deepening

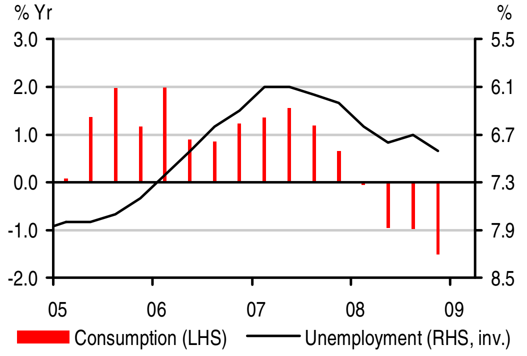


Source: Markit Economics, Thomson Financial Datastream

PMIs and production

- There is no sign of the industrial recession abating. January production fell just 0.2% m-o-m, much less than its Eurozone neighbours, but annual production was still down more than 15% y-o-y.
- We expect ongoing drops in industrial production in the coming months as domestic demand continues to contract and exports weaken further.
- First quarter GDP is likely to be almost as weak as the -1.9% q-o-q drop in 4Q08. Less sharp declines are expected in subsequent quarters but GDP is not expected to resume expanding in q-o-q terms until 2010.

Rising unemployment hitting consumption

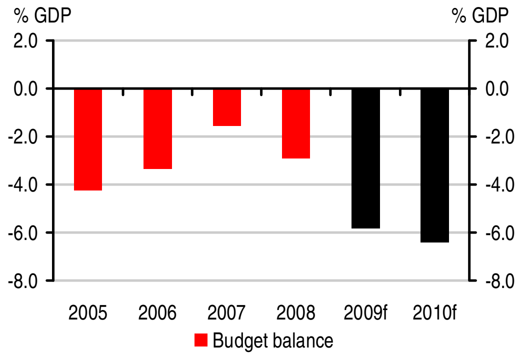


Source: Thomson Financial Datastream

Consumption and unemployment

- The unemployment rate, which has been rising since mid-2007, picked up further in 4Q08 to 6.9% from 6.7% in Q3. We expect it to rise to about 8½ by end-2009.
- Although there was some boost to real incomes from lower energy prices, private consumption growth contracted 0.8% q-o-q.
- As 70% of Italy's mortgage stock is at variable rates, many households are starting to benefit from the sharp cuts in interest rates but the ongoing rise in unemployment will continue to curb consumer spending.

Public finances deteriorating sharply



Note: 2009 and 2010 are HSBC forecasts
Source: Thomson Financial Datastream, and HSBC

Budget deficit

- Compared with the other large Eurozone economies, Italy's planned fiscal stimulus in 2009 is very small, amounting to less than 0.2% of GDP.
- However, the loss of revenue and higher spending associated with the increasingly prolonged recession mean the budget deficit will increase markedly.
- We expect the deficit to widen to 5.8% of GDP in 2009 and more than 6% in 2010.

HSBC

Spain

No easy way out

The rebalancing of the Spanish economy is already underway, but has more to go. Domestic demand will continue to contract this year, whilst net exports contribute positively. Some positive stabilisation is expected, but any recovery will be shallow. In the long-run, it will be a painful process for Spain to find new sustainable drivers for growth.

Compared to its European neighbours, Spain's 1% q-o-q contraction in Q4 was not especially shocking. Germany contracted by double the pace. The key thing to keep in mind though is that Spain's domestic demand (Q4 at -2.7% y-o-y) is dire. Net exports helped push up headline GDP (Q4 at -0.7% y-o-y), but only because inputs fell faster than exports

Going forward, household consumption is forecast to remain weak. ECB interest rate cuts have up to now barely fed into Spanish mortgage rates, which are reset once a year with reference to the 12 month Euribor. Once rates get lower, this should provide some relief to disposable income. At the same time, the dramatic deterioration in the labour market will remain a substantial drag.

The government is providing support to households in the form of various tax and financial help schemes, but a share of this will probably be saved.

Ultimately, some long-term structural issues have to be solved, which were less apparent when hidden by abundant debt growth. Spain's competitiveness is weak, something which can be addressed through education and R&D, as well as labour market reforms. This will take time to feed into the economy. In the short-run, external price competitiveness can only rise through lower inflation, as Spain cannot devalue its currency. Our current forecasts foresee inflation falling to 0.2% this year, and rising to 1.6% in 2010.

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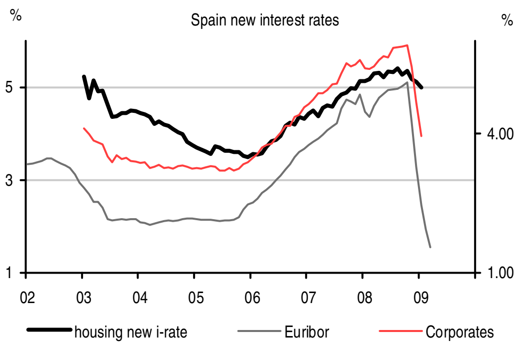
% Year

	2008	2009f	2010f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Consumer spending	0.1	-3.5	-1.3	-3.6	-4.2	-3.5	-2.6	-1.9	-1.7
Government consumption	5.3	7.3	4.6	7.7	7.6	6.9	6.9	5.7	4.7
Investment	-2.8	-11.6	-1.4	-13.4	-13.3	-11.9	-7.4	-3.5	-1.5
Stockbuilding (% GDP)	0.2	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Domestic demand	0.2	-4.2	-0.1	-4.8	-5.0	-4.3	-2.5	-0.8	-0.4
Exports	0.7	-14.5	-2.5	-11.3	-17.1	-19.3	-9.8	-7.4	-2.5
Imports	-2.5	-19.3	-2.4	-18.8	-22.2	-22.5	-12.9	-6.1	-2.7
GDP	1.2	-1.8	0.0	-1.7	-2.3	-2.1	-0.8	-0.8	-0.2
GDP (% quarter)	-	-	-	-0.6	-0.5	-0.1	0.3	-0.6	0.1
Industrial production	-7.5	-13.8	-0.8	-18.4	-14.4	-14.2	-7.3	-2.8	-3.3
Unemployment (%)	11.3	17.3	20.0	15.3	16.8	18.0	18.8	19.5	19.9
Average earnings	4.8	1.9	2.1	2.0	1.7	2.0	1.9	2.1	2.3
Consumer prices	4.1	0.2	1.6	0.5	-0.2	-0.4	0.7	1.5	1.5
Trade account (EURbn)	-94.1	-69.0	-61.0	-17.5	-18.0	-17.5	-16.0	-16.0	-15.5
Current account (EURbn)	-104.7	-76.8	-65.4	-20.0	-20.4	-19.0	-17.4	-17.4	-16.5
Current account (% GDP)	-9.6	-7.1	-6.0	-	-	-	-	-	-
Budget balance (% GDP)	-3.6	-8.4	-8.4	-	-	-	-	-	-
3-month money (%)	4.4	1.2	1.6	1.5	1.2	1.0	1.1	1.3	1.5
10-year bond yield (%)	4.4	4.0	3.9	4.1	4.1	3.9	3.9	3.9	3.9

Source: HSBC

New loan rates are coming down for corporates ...

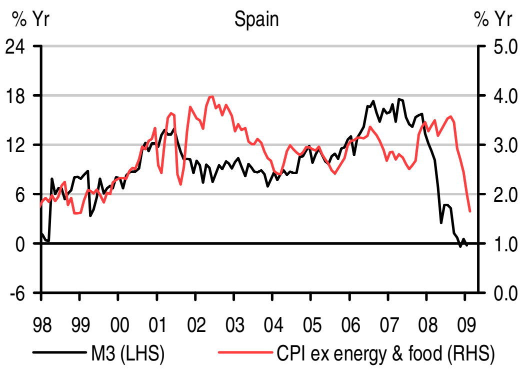


Source: BoS, Thomson Financial DataStream, HSBC

... but households have to be more patient

- The ECB has been aggressive in cutting interest rates since last October.
- Spain is one of the economies in the Euro zone where the monetary policy transmission mechanism is the quickest, as housing loans track the 1 yr Euribor.
- However, for now, the pass through to new housing loans has been muted, and the same holds for rates on the stock of housing loans. Although with time, banks should pass on more of the interest rate cuts
- Corporates are up to now the main beneficiaries. This is to a certain extent surprising, as the level of corporate indebtedness is as least as high as households' when measured as a percentage of GDP.

Inflation has come off sharply ...

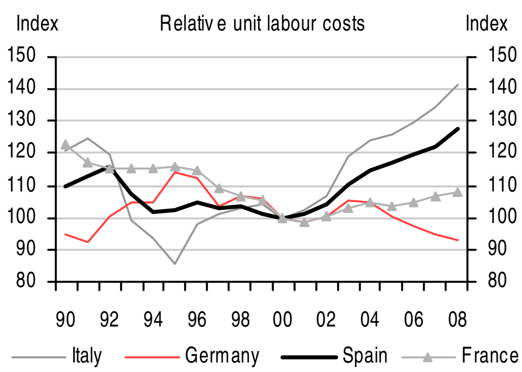


Note: M3 excludes notes & coins in circulation, CPI excludes seasonal food
Source: Bloomberg, HSBC

... as has M3, which is now contracting

- The debate whether CPI inflation is a monetary phenomenon or not will probably never be solved. Especially for economies with a housing bubble, the feedback process from the cyclical performance to money creation is likely to be reciprocal.
- In the case of Spain, M3 growth has never had a distinctive lead up to 2008, although it never signalled a significant reversal.
- Since 2008 however, M3 growth has plummeted, reflecting the contraction in loan activity. This has been followed by a significant drop in inflation. It still seems to us that the extremely low M3 rate would not be in line with a sharp pick up in non-energy inflation in the next couple of years.

Spain's competitiveness is lagging ...



Note: manufacturing sector
Source: OECD, Thomson Financial DataStream, HSBC

... although it is not the last in the league

- Spain's weak international competitive position was less obvious during years of rampant growth fuelled by excess liquidity which found its way into the real estate and construction sector.
- Spain's price competitiveness in the manufacturing sector is relatively weak, reflected in its unit labour costs.
- Given the weak inflation outlook, wage pressures should abide a bit. The risk here is that should oil prices push up inflation again, Spain's wage indexation mechanism could kick in.
- On a longer term horizon, Spain also needs higher product competitiveness, which can be achieved through R&D.

UK

Marginally more hopeful

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In the fourth quarter of last year, GDP contracted 1.6% and the first quarter of 2009 looks to have seen a similar contraction in UK activity.

On paper, the stimulus that UK policymakers have delivered through interest rates, quantitative easing and the resulting decline in the exchange rate, is phenomenal. Around two thirds of the contraction in mortgage lending in 2008 can be accounting for by the withdrawal of Northern Rock. This bank will now re-establish lending and the other banks which have received government support also have lending targets. There are already signs that credit constraints are slowly beginning to ease.

This is unlikely to halt the deleveraging process altogether, but it should limit the negative feedback loop between the banking system and real economy. Debt servicing costs have fallen dramatically. Coupled with lower commodity prices, real disposable income has improved dramatically for a number of households. We don't expect this income to be spent this year so still expect a large contraction in consumer spending. A sharp rise in the savings rate will improve the balance sheet of the UK household sector – a prerequisite for longer-term recovery.

Authorities elsewhere are unleashing similarly aggressive packages which should see the benefit of weaker sterling bear fruit as we move in to next year. As such, whilst the outlook for 2009 remains bleak we are more confident that such a contraction will not be repeated in 2010, something we could not say with much conviction three months ago.

The main risk to this marginally more optimistic scenario is unemployment which is rising sharply and risks reinvigorating the negative feedback loop between the banking sector and real economy.

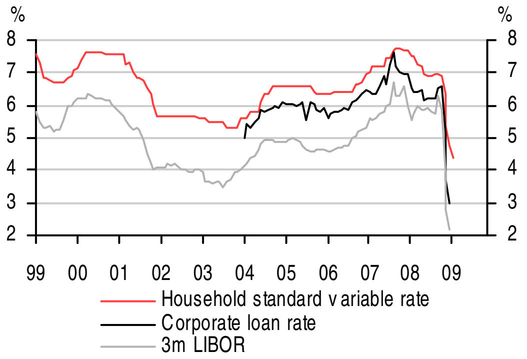
% Year

	2008f	2009f	2010f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Consumer spending	1.4	-3.5	-1.9	-3.0	-3.8	-4.1	-3.1	-2.7	-2.0
Government consumption	3.4	3.2	2.5	3.9	3.5	3.3	2.3	2.4	2.5
Investment	-2.8	-10.7	-2.0	-8.9	-11.9	-11.5	-10.6	-6.4	-2.8
Stockbuilding (% GDP)	-0.4	-0.6	0.6	-1.6	-1.3	-0.7	1.1	1.0	0.8
Domestic demand	0.6	-3.9	-0.3	-4.1	-5.0	-4.5	-2.2	-1.2	-0.4
Exports	0.1	-6.9	0.7	-7.3	-7.3	-8.4	-4.4	-1.8	0.3
Imports	-0.6	-7.2	0.4	-8.8	-8.4	-8.7	-2.6	-0.9	0.4
GDP	0.7	-3.8	-0.3	-3.6	-4.6	-4.3	-2.6	-1.5	-0.5
GDP (% quarter)	-	-	-	-1.4	-1.0	-0.4	0.1	-0.2	0.0
Manufacturing output	-2.3	-14.3	1.5	-14.0	-16.2	-15.7	-11.2	-3.5	1.0
Unemployment (%) - ILO	5.7	8.5	10.0	7.2	8.3	9.3	10.0	10.2	10.1
Average earnings	3.6	2.5	2.0	2.4	2.6	2.5	2.3	2.2	2.1
RPI	4.0	-1.5	-0.1	-0.1	-1.3	-2.5	-2.1	-0.1	-0.2
CPI	3.6	1.6	1.1	3.0	1.8	0.7	0.8	1.5	1.1
Current account (% GDP)	-1.7	-1.4	-1.1	-	-	-	-		
PSNB (% GDP)	-5.4	-9.2	-8.2	-	-	-	-		
USD/GBP**	1.44	1.61	1.61	1.39	1.50	1.56	1.61	1.61	1.61
GBP/EUR**	0.97	0.93	0.93	0.94	0.93	0.93	0.93	0.93	0.93
Base rate (%)**	2.00	0.50	1.00	0.50	0.50	0.50	0.50	0.50	0.50
10-year bond yield (%)**	4.2	3.2	2.9	3.6	3.3	3.0	2.9	2.9	2.9

Notes: *corporate capital allowance changes in April 08 is likely to affect investment spending, ** end-quarter estimates
Source: HSBC

HSBC

For current debt holders...

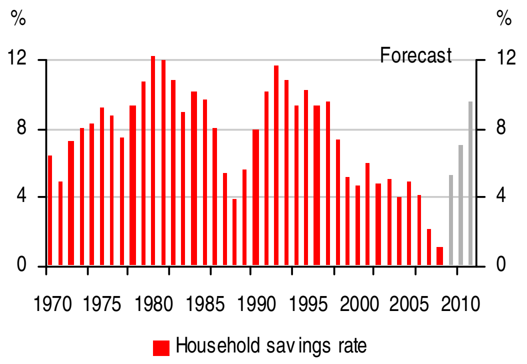


Source: Nationwide, Halifax and IPD

...servicing costs have improved dramatically

- Roughly 40% of the new mortgages issued in 2007 were trackers and as such have benefited from the 525bp cut in interest rates.
- Based on average house prices and loan to value ratios in that year, interest rate payments will have fallen more than 80%.

This rise in disposable income...

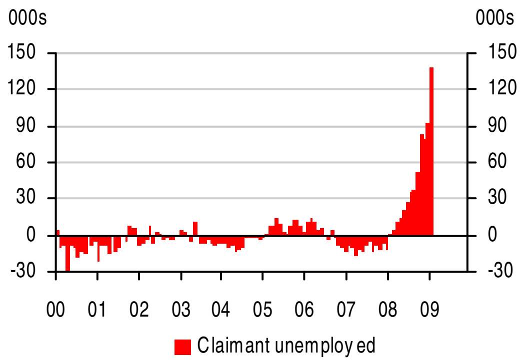


Source: Thomson Financial Datastream

...will limit the extent to which a necessary rise in the savings rate will depress spending

- The boost to real disposable income is compounded by the decline in petrol prices.
- We expect the vast majority of this income boost to be saved. Whilst this won't boost consumption this year, it will speed up the necessary improvement in the household sector balance sheet.

The main risk to this more benign outlook...



Source: Office for National Statistics & HSBC Forecasts

...is unemployment

- Of course, real disposable income only improves for those that remain employed so the unemployment outlook is crucial.
- In February, claimant count unemployment rose by 138k – the highest monthly increase on record. We forecast unemployment rising to just above 10%.
- If this looks to be too optimistic, then our stabilisation in 2010 is less likely.

Norway

From stagnation to contraction

The Norwegian economy slowed down in 2008 following above-average growth in the previous year. In 3Q08, it experienced the first q-o-q contraction since 1Q02. Despite a rebound in overall real GDP growth (on higher oil production) in 4Q08, the mainland economy continued to show a q-o-q contraction of 0.2% and the weakness was broadly based. In fact the latest regional enterprises network report of the Norges bank reveals that, with the exception of the petroleum supply sector, all other industries are contracting, with the strongest declines observed in retail trade and domestically-oriented manufacturing.

Declining household consumption in the face of high inflation, relatively high interest rates and falling asset prices has been a major drag on growth – contracting 0.5% q-o-q on average over the last three quarters of 2008. With consumer confidence falling in 1Q09 on the back of growing concerns about unemployment, any near-term rebound of domestic demand is unlikely. Exports are expected to take a beating as well, with recessionary fears raging across major export destinations. The mood in the regional enterprises network is not supportive of investments either, pointing to a further decline in private sector investment.

Amid these developments, we have revised down our GDP forecasts for 2009 to a contraction of 1% (y-o-y) from our earlier forecast of stagnation, with the expectation of some recovery in 2010.

A contraction in the real economy is expected to keep inflationary expectations anchored, leaving room for further monetary easing. Norges Bank cut its policy rate by 50 bps to 2% in March and we anticipate a further 50bp reduction in the policy rate by mid-June, taking the rates to1.5% – our year-end forecast. The risks though remain biased to the downside.

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% Year

	2008	2009f	2010f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Consumer spending	1.3	-1.1	0.8	-1.8	-1.8	-1.0	0.0	0.3	0.8
Government consumption	3.7	6.3	5.6	5.1	6.4	6.6	7.2	6.4	5.6
Investment	3.3	-2.9	-0.6	-1.0	-1.9	-4.8	-4.0	-2.0	-1.0
Stockbuilding (% GDP)	2.5	0.5	0.2	0.8	0.3	0.5	0.3	0.0	0.0
Domestic demand	3.4	-2.2	1.4	0.0	0.1	-0.1	0.7	1.2	1.6
Exports	0.8	-3.3	-0.1	-2.0	-3.3	-3.0	-5.0	-2.9	-0.3
Imports	4.3	-7.7	0.2	-6.1	-7.8	-10.3	-6.3	-3.4	-0.4
GDP	2.0	-1.1	1.0	-0.6	-1.4	-0.6	-1.5	-0.1	1.0
GDP (% quarter)	-	-	-	-1.4	-0.7	0.1	0.4	0.0	0.4
Industrial production	0.0	-6.9	-0.5	-5.6	-7.5	-6.0	-8.4	-3.0	0.0
Unemployment (%)	2.6	3.9	4.7	3.5	3.7	4.0	4.2	4.5	4.7
Average earnings	6.0	3.8	3.2	3.3	3.9	4.7	3.1	3.2	3.2
Consumer prices	3.8	1.4	1.6	2.0	1.5	1.0	1.2	1.6	1.7
Current account (% GDP)	18.4	8.2	9.5	9.0	8.0	8.0	8.0	9.0	9.0
Budget balance (% GDP)	20.0	14.0	11.5	-	-	-	-	-	-
NOK/EUR**	9.7	8.5	8.0	8.90	8.70	8.50	8.50	8.00	8.00
3-month money (%)	6.1	2.6	2.6	3.0	2.5	2.5	2.5	2.5	2.5
10-year bond yield (%)	4.4	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9

Note: * = total GDP; ** = end-year
Source: HSBC

HSBC

Sweden

Recession deepening

Swedish economic growth, which is crucially dependent on external demand, is particularly susceptible to the ongoing global recession, especially across major European economies. Deteriorating access to bank funding is affecting domestic production and demand, and adding to existing woes.

2008 ended on a particularly weak note, contracting 2.4% q-o-q and the latest industrial production data, for January, dropped 22.9% y-o-y as export demand continued to plummet. There has been some evidence of stabilising consumer confidence and the upside surprise to January retail sales was a welcome development, but it is unlikely to continue given the rapidly deteriorating labour market. The unemployment rate jumped to 8% in February and is expected to rise to 9% by year-end, contributing to an ongoing contraction in consumer spending. We have revised down our 2009 GDP forecast to a contraction of 3.3% (from -1.8%), followed by 0.5% growth next year, supported by an expansionary fiscal policy.

The Riksbank has continued with its aggressive monetary easing, delivering a total of 375bp of rate cuts since October, taking the policy rate to its current 1% level. With inflationary expectations well entrenched below the 2% level, we expect a further 75bp reduction to 0.25% by the end of 2009. The Riksbank has already complemented monetary accommodation with unconventional measures such as increased lending to banks (including dollar lending) and changing of collateral requirements for such lending. However, with options for further policy loosening getting limited, there is a growing likelihood that the Riksbank will resort to quantitative easing sooner or later.

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% Year

	2008	2009f	2010f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Consumer spending	-0.4	-1.8	0.9	-2.6	-2.5	-1.7	-0.2	0.3	0.9
Government consumption	1.0	2.7	3.2	1.5	2.4	2.8	4.1	3.8	3.5
Investment	3.1	-5.4	-2.5	-3.7	-5.5	-6.1	-6.4	-3.5	-2.5
Stockbuilding (% GDP)	0.1	-0.3	0.1	-0.5	-0.4	-0.2	-0.1	-0.1	-0.1
Domestic demand	0.0	-1.8	1.2	-2.7	-2.8	-1.7	-0.1	0.8	1.2
Exports	1.8	-9.4	-0.1	-10.0	-10.8	-10.2	-6.6	-2.0	0.0
Imports	3.3	-8.9	1.2	-9.0	-10.2	-9.6	-6.7	-1.3	1.3
GDP	-0.5	-3.3	0.5	-4.7	-4.4	-3.3	-0.7	0.2	0.6
GDP (% quarter, sa)	-	-	-	-0.9	-0.2	0.1	0.3	0.0	0.1
Industrial production	-3.2	-11.4	3.2	-14.9	-14.1	-11.6	-4.2	1.6	3.1
Unemployment (%)	6.2	8.6	9.4	8.0	8.5	8.7	9.0	9.2	9.3
Average earnings	3.9	2.2	2.2	2.5	2.3	2.0	2.0	2.0	2.0
Consumer prices	3.5	-0.3	1.1	0.5	-0.5	-0.5	-0.8	1.0	1.0
Current account (% GDP)	8.3	7.4	6.9	9.0	6.6	7.8	6.2	7.0	6.4
Budget balance (% GDP)	2.8	-1.4	-1.4	-	-	-	-	-	-
State debt (% GDP)	38.1	39.4	40.8	-	-	-	-	-	-
SEK/USD	6.71	8.34	8.00	8.69	8.39	8.28	8.00	8.00	8.00
EUR/SEK	9.91	11.76	12.00	11.30	11.75	12.00	12.00	12.00	12.00
3-month money (%)	4.4	0.7	0.7	1.0	0.8	0.5	0.5	0.5	0.8
10-year bond yield (%)	3.7	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2

Source: HSBC

HSBC

Switzerland

SNB fights global slump

As a small open economy, Switzerland suffers form the sharp deceleration in global trade. By intervening against the currency, the SNB is fighting off deflation fears. With interest rates at zero, both this and outright purchases of securities are the only tools the SNB has left.

Weak investment activity has already been a feature of GDP growth in 2008. This year, especially on the equipment side, we expect further contraction to come through. The unemployment rate started rising in Q4. Deteriorating labour market conditions will drag down consumption in the course of this year.

The economic developments described above are the standard reaction function of a small open economy to a global recession. Switzerland's more interesting features are a) chronically low inflation and interest rates, b) a structural current account surplus. The latter means that, in times of high risk aversion, the CHF appreciates and tightens monetary conditions. After months of verbal intervention, and repo interest rates effectively at zero, the SNB decided to intervene in currency in March to prop up EUR-CHF (officially: to avoid further CHF appreciation). It's questionable to what extent this can help exports, but the impact on import prices might help the SNB's fight against deflation.

The SNB has also started buying CHF denominated corporate bonds. There is speculation that foreign currency bonds could follow, although this might have to be co-ordinated with other Central Banks (ECB!).

The SNB also lowered the CHF 3 mth LIBOR target to 0.25%, but up to now has been unsuccessful in reaching the new objective, illustrating the limits of interest rate policy.

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% Year

	2008	2009f	2010f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Consumer spending	1.7	0.4	-0.3	0.9	0.4	0.3	-0.1	-0.4	-0.5
Government consumption	0.0	2.1	1.6	3.2	2.6	1.4	1.1	1.3	1.5
Investment	-1.7	-7.7	0.2	-8.4	-9.6	-7.9	-4.6	-1.6	0.6
Stockbuilding (% GDP)	-1.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Final domestic demand	0.7	-1.4	0.0	-1.1	-1.8	-1.5	-1.0	-0.5	0.0
Exports	2.3	-12.6	1.7	-10.5	-15.9	-15.7	-7.8	-1.6	2.3
Imports	-0.2	-9.0	1.3	-7.3	-12.0	-11.1	-5.4	-1.1	1.6
GDP	1.6	-2.6	0.3	-2.1	-3.1	-2.9	-2.5	-0.8	0.4
GDP (% quarter)	-	-	-	-1.8	-1.0	0.2	0.1	0.0	0.2
Industrial production	1.2	-12.0	0.3	-11.7	-16.8	-11.7	-7.3	-3.0	0.3
Unemployment (%)	2.6	3.6	4.3	2.8	2.8	3.0	3.0	4.0	5.0
Consumer prices	2.4	-0.3	0.6	0.1	-0.4	-0.7	-0.1	0.7	0.7
Current account (EURbn)	24.2	20.3	24.6	5.3	4.6	5.0	5.4	5.2	5.3
Current account (% GDP)	7.2	6.2	7.5	6.6	5.8	6.2	6.3	6.4	6.6
SFR/USD*	1.06	1.05	1.07	1.14	1.11	1.08	1.05	1.07	1.07
SFR/EUR*	1.48	1.57	1.60	1.48	1.55	1.57	1.57	1.60	1.60
3-month money (%)	2.3	0.4	0.8	0.4	0.4	0.4	0.4	0.4	0.7
10-year bond yield (%)	2.7	2.1	2.7	2.0	2.0	2.2	2.3	2.5	2.5

Note: * = end-year
Source: HSBC

HSBC

Hungary

Recovery is a distant hope

The USD25.1bn funding package from the IMF, EU and World Bank, in conjunction with a 300bp rate hike, stabilised the forint in October, after a sharp fall. But in the new year, risk aversion returned to the region and the currency deteriorated further, while local currency debt markets remain near frozen. Although other regional currencies weakened as well, the relatively vulnerable state of the Hungarian economy make further financial pressures harder to sustain over the longer term

As a result of a continued loss of confidence, the NBH has been forced to interrupt its easing cycle in spite of a desire to ease pressure on local banks and borrowers. The banking sector, mainly foreign owned, is dependent on parent banks' continued funding of their subsidiaries. So far funding has been sustained, but there is a lingering fear of what might happen if a parent bank were to refuse funding.

On the real economy front, conditions have been deteriorating rapidly. Q4 2008 GDP contracted by 2.5% y-o-y and this is likely to slip further in H1 2009. The decline stems from a sharp fall in household and government consumption. Exports have dropped precipitously, declining by 31% year-on-year in January, while industrial output fell by 21%, suggesting a far deeper contraction in the first half of the year, at least.

The government's response has been to press ahead with fiscal reforms, including a revamp of the tax system – cutting employment taxes and hiking VAT, starting from mid-year. It will also raise the pension age and extend means-testing of benefits in an effort to lift the rate of economic participation. Meanwhile, the central bank has started to publicly intervene to support the currency in an effort to prevent a currency crisis.

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% Year

	2005	2006	2007	2008	2009f	2010f
Consumer spending	3.8	1.3	-1.8	-0.1	-3.5	1.2
Government consumption	0.2	4.4	-2.2	-2.1	-1.7	0.5
Fixed investment	5.6	-3.2	1.5	-2.6	-3.0	0.9
Exports	11.6	17.7	15.9	4.6	-7.5	3.2
Imports	6.8	14.6	13.1	4.0	-8.5	2.8
GDP	4.0	4.0	1.1	0.5	-3.4	1.2
Industrial production	7.0	10.6	8.5	0.0	-20.0	3.5
Unemployment*	7.3	7.5	7.7	7.8	9.0	8.8
Consumer prices	3.6	3.9	8.0	6.1	3.7	3.4
Current account (% GDP)	-7.3	-7.8	-6.5	-6.1	-4.4	-3.9
Budget balance (% GDP)**	-7.8	-9.1	-5.0	-3.3	-3.0	-2.6
HUF/USD*	213.2	190.3	173.3	191.1	190.0	180.0
HUF/EUR*	252.6	251.2	252.9	265.6	285.0	270.0
3-month money (%)*	6.3	8.1	7.5	10.0	7.5	4.5
10-year yield (%)*	7.0	6.7	7.1	8.2	9.0	7.0

Note: * = year-end; ** Cash deficit rather than European Standard Accounting budget deficit
Source: HSBC

HSBC

Poland

Best of a bad lot

The Polish economy has slowed dramatically in recent months and looks set to decelerate further in the quarters ahead. However, relative to its neighbours in Central Europe, Poland is set to outperform, slowing more gradually and, most likely, remaining in positive growth territory for the year as a whole at a forecast 1.6% in 2009.

What is likely to make the difference for Poland is its lower proportion of exports in the economy as a whole (around 33% vs Hungary and Czech at close to 70%) and the relative health of the domestic labour market. Poland's unemployment rate had fallen precipitously in recent years and labour shortages were becoming evident from late-2007. Wage gains have been considerable. As a result, Polish households entered the downturn in a position of strength. Q4 2008 data show 5.2% growth in household consumption in spite of weakness elsewhere in the economy. Personal income tax cuts have helped sustain relatively strong demand as well. Investment should be supported by a peaking of EU transfers this year, although there was a sharp drop in investment in H2 2008 and investment is unlikely to quickly return to the double-digit growth rates that were the norm through mid-2008.

The government's 2012 Euro adoption target is looking likely to slip as it would require ERM II entry by the second quarter of this year, which appears an increasingly distant hope in the absence of requisite constitutional change. The weakness and volatility of the zloty has not helped the cause either, though there appears to be scope for some degree of FX stabilisation. In February the Treasury intervened to support the PLN by converting EU transfers in the market, and backed up its move by announcing it had stockpiled EUR3.2bn for the purpose.

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% Year

	2005	2006	2007	2008	2009f	2010f
Consumer spending	2.7	5.0	5.0	5.4	1.8	2.5
Government consumption	6.6	4.3	1.9	0.0	1.1	2.5
Fixed investment	6.5	14.9	17.6	7.9	2.3	3.5
Exports	2.6	12.3	4.9	5.8	-3.5	5.0
Imports	-1.6	15.0	7.0	6.2	-2.0	2.5
GDP	3.6	6.2	6.7	4.8	1.6	2.7
Industrial production	4.0	12.0	9.7	3.9	-14.9	1.5
Unemployment (%)*	17.6	14.9	11.4	9.5	11.0	10.8
Consumer prices	2.1	1.0	2.5	4.3	3.0	2.2
Current account (% GDP)	-1.6	-2.3	-3.8	-7.2	-7.9	-6.1
Budget balance (% GDP)	-2.5	-2.4	-1.4	-1.9	-2.2	-2.1
PLN/USD	3.2	3.1	2.8	2.4	2.6	2.3
PLN/EUR	4.0	3.9	3.8	3.4	4.0	3.5
3-month money (%)*	4.6	4.2	5.7	5.9	3.3	3.9
10-year bond yield (%)*	5.1	5.2	5.9	5.4	6.0	5.5

Note:* = year-end
Source: HSBC

Russia

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Awaiting a stabilization

The Russian economy entered a recessionary phase in Q3 2008, and the contraction has been gathering speed up to February 2009. The y-o-y declines seen in fixed investment and industrial output are deep in double-digit territory. When and under what circumstances could one see a turning point from recession to recovery?

Externally, that would require a recovery in oil and metal prices and the cessation of net capital outflows. Based on our house view on the US and Chinese economies, commodity prices could receive more support in H2 2009 and into 2010. The trend of GDP revisions, however, still seems to be downwards and the cyclical situation will continue to be challenging. Internally, economic recovery rests upon the ability of the authorities to pursue pro-growth monetary and fiscal policies, and to make good use of the available public money for the stability of the banking system and the economy at large.

The newly achieved, and long-awaited exchange rate stability appears credible at the current level, especially with oil prices above 40 USD/bbl. However, RUB stability has not yet prompted a significant decline in RUB rates as the markets are disappointed with the acceleration in inflation (to 14% y-o-y) that has followed the depreciation, and the big fiscal deficits that could support high inflation in the future. Besides, a heavy foreign debt repayment schedule for the coming year is still fuelling devaluation expectations.

Unless the news on the global economy turns more pessimistic, one may expect positive developments to emerge with regard to RUB rates reasonably soon. The announced anti-crisis fiscal package, worth RUB1.5trn, can also help to counter negative developments within the economy, even if it is incapable of generating positive trends.

On balance, it appears that the Russian economy should be able to stabilize by mid-2009 and, with the help of positive external factors, recover mildly in H2 2009, helping to limit the decline in GDP. If the external drivers of Russia's recovery fail to materialize, the economic contraction could be much bigger, with the banking sector hit harder through fast-rising non-performing loans.

% Year

	2005	2006	2007	2008	2009f	2010f
GDP	6.4	7.7	8.1	5.6	-2.8	2.3
Industrial production	4.0	4.4	4.1	0.8	-8.0	2.0
Consumer prices	12.7	9.7	9.0	14.1	12.2	11.5
Current account (USDbn)	84.3	94.3	77.2	98.9	23.8	1.3
Current account (% GDP)	11.1	9.5	6.0	5.9	1.9	0.1
Foreign exchange reserves (USDbn)	175.9	295.6	465.9	412.5	342.7	323.1
Overall fiscal balance (% GDP)	7.5	7.4	5.4	4.2	-8.8	-6.7
RUB/USD*	28.4	27.0	25.3	25.4	32.9	34.3
1-month money (%)*	4.7	4.8	4.9	10.1	15.2	13.4

Note: * = year average
Source: HSBC

Turkey

Recession bites, IMF to ease the pain

Faced with a severe demand shock, falling external funding and poor confidence, the Turkish economy is headed for a deep recession this year. We have recently revised down our GDP forecasts and look for a 4.4% contraction this year, from -1.9% earlier, and to a sluggish 2.9% expansion next year, also revised down from 4.1% earlier. Against this backdrop, the Turkish authorities have been aggressively and swiftly loosening the country's policy mix. The Central Bank has slashed the key policy rate by 625bp since November to a record low of 10.5% in March, while the primary fiscal surplus has fallen to just 0.9% of GDP in February from 3.2% last August.

This loose policy setting in a net debtor country with already low savings adds to substantial pressures on Turkish Lira (TRY), which depreciated to a historical low in early March.

As the economy contracts sharply due to a lack of external funding, Turkey's whopping current account deficit of 5.6% of GDP last year is headed towards balance. This painful adjustment could be eased a little if the government agrees to a long-touted IMF programme that would likely involve a sizable funding package. Otherwise, with BIS-reporting banks unlikely to rollover Turkey's massive external debt amortizations falling due this year ($39.2bn plus a $51.2bn short term external debt stock for private sector) and fairly limited official FX reserves ($65bn), the economy will likely contract further to address its own financing gap problem. Thus, our working assumption is an eventual IMF deal, with the IMF's resources being creatively funnelled to private sector, where it is actually needed. In the end, the IMF deal should limit downside risks rather than provide an engine for growth. Essentially, the Turkish economic outlook rests upon the global economy.

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% Year

	2005	2006	2007	2008	2009f	2010f
Consumer spending	7.9	4.6	4.1	1.1	-1.5	2.5
Government consumption	2.5	8.4	6.5	5.8	0.0	1.7
Fixed investment	17.4	13.3	5.5	-3.8	-12.5	2.9
Stockbuilding (% GDP)	-0.8	-0.8	0.2	-0.5	-2.1	-0.8
Domestic demand	9.4	7.0	4.7	0.3	-4.0	2.5
Exports	7.9	6.6	7.3	2.3	-6.0	3.9
Imports	12.2	6.9	10.7	-0.7	-9.5	6.8
GDP	8.4	6.9	4.6	0.5	-4.4	2.9
Industrial production	5.4	5.8	5.4	-2.3	-10.5	5.3
Consumer Prices	8.2	9.6	8.8	10.4	7.3	9.0
Producer prices	2.7	11.6	5.9	8.1	9.8	7.2
Current account (% GDP)	-4.7	-6.1	-5.8	-5.7	-0.6	-0.9
Budget deficit (% GDP)	-1.3	-0.5	-1.6	-1.8	-4.7	-2.9
TRY/USD**	1.34	1.41	1.16	1.52	1.71	1.60
3-month money (%)*	13.8	17.6	16.0	15.5	14.5	16.0

Note: * = year end; ** = starting in January 2005, when the Turkish currency (until then coded TRL) shed 6 zeros off its exchange rate
Source: HSBC

Saudi Arabia

Slowing fast

The stability of oil prices over the past quarter has added substance to our view that Saudi Arabia – like other regional oil producers – will enjoy some shelter from the global financial storm. USD45/b (the average price for Brent over the first quarter of 2009 and our assumed price for 2010 as a whole) is sufficiently high to ensure that fiscal and external account deficits remain manageable and the currency peg remains intact, even when substantial OPEC-mandated cuts are taken into account. The banking sector appears resilient, and though equity market prices have slumped, Saudi Arabia does not face the painful deflation of a real estate bubble as several others in the region do.

Nonetheless, the sense of an economy facing a sharp shift in gears is readily apparent. We estimate that the value of Saudi Arabia's oil production will fall by 62% y-o-y, an unprecedentedly sharp decline in the earnings of its dominant industry. The slump is weighing directly on the current and fiscal accounts which will record their first shortfalls since 2002. Although both are readily fundable given the enormous stock of reserve assets the Kingdom accumulated and cautiously deployed during the oil-boom years, the deficits are curtailing the policy response to the slowdown and are weighing on sentiment.

Access to funding is also becoming increasingly strained. Credit growth accelerated sharply over 2007 and the first nine months of 2008 has gone into reverse, and actually contracted m-o-m in December 2008 and January 2009. We do not expect the contraction to persist given the banks' generally strong liquidity positions and a supportive government stance, but the pace of increase is likely to be the slowest in more than five years.

Overall, we expect the economy to show no growth this year, as a very sharp cut in oil output offsets weak growth elsewhere. We continue to look for a recovery in 2010, but the projection remains contingent on oil price stabilisation and OPEC consequently proving able to soften its production stance.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending*	9.5	13.4	14.0	20.0	7.0	7.5
Government consumption*	18.4	18.4	3.5	14.0	10.0	10.0
Fixed investment*	25.1	19.1	22.8	23.0	5.0	8.0
Stocks*	-15.8	31.8	-2.7	15.0	-5.0	-5.0
Exports*	45.6	16.0	12.2	39.5	-50.1	12.2
Imports*	35.1	29.3	28.2	30.0	-8.0	2.0
GDP	5.6	3.1	3.4	4.3	-0.1	2.6
Consumer prices	0.4	2.3	4.1	9.9	6.3	4.0
Current account balance (USDbn)	90.0	98.9	95.0	151.9	-4.1	10.2
Current account balance (% GDP)	28.5	27.7	24.9	31.0	-1.2	2.6
Budget balance (% GDP)	18.4	21.7	12.5	31.9	-8.2	-7.3
SAR/USD	3.75	3.75	3.75	3.75	3.75	3.75
3-month money (%)**	5.0	4.9	4.0	2.5	0.9	1.1

Note: * Nominal growth. ** End year.
Source: HSBC

HSBC

South Africa

ANC majority to narrow

South Africa is, in many ways, well positioned to weather the current global economic storm. Its banking system is relatively insulated and free of toxic-assets; exports play a relatively limited role in the economy at below 30% of GDP; it is in a strong fiscal position and has the capacity to increase expenditure into the downturn; and with low debt levels, it can afford to pay for this spending without threatening its creditworthiness. But the economy has been slowing noticeably since 2007, contracting by -1.8% qoq in Q4 2008, and it has further to fall in the quarters ahead. High interest rates have slowed credit growth and consumption in both households and enterprises, while a collapse in exports has, since Q4 2008, hit mining and manufacturing hard.

The slowing economy and global market crisis may be strengthening the hand of those in the ruling ANC, already buoyed by the ascent of Jacob Zuma, who support government solutions over the market. Elections set for 22 April will likely see a narrowing of the ANC's parliamentary majority, thanks in part to the establishment of the COPE party by key ANC centrists who defected following President Mbeki's ousting. The move leaves the ANC without many of its strongest advocates for market-oriented policies, and increases the influence of the ascendant left, particularly the union movement COSATU, and the Communist Party (SACP).

As for monetary policy, interest rates will be falling sharply in 2009 as inflation plummets, stemming primarily from a steep fall in oil and food prices from very elevated levels, as well as a re-weighting of the CPI basket from January. Rand assets may be at risk from both political and economic changes underway in the months ahead, though so far markets have proven surprisingly resilient.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	6.9	8.3	6.6	2.5	0.8	1.2
Government consumption	4.8	5.1	4.8	5.0	7.5	9.0
Fixed investment	8.9	13.8	17.1	11.5	10.0	13.5
Exports	8.0	6.0	7.5	2.5	-8.5	3.5
Imports	10.3	18.9	10.0	2.7	-6.5	3.5
GDP	5.0	5.3	5.1	3.1	1.4	2.1
Industrial production	4.2	4.9	5.5	1.2	-11.9	4.2
M3	24.0	23.1	23.6	14.5	9.0	14.0
Consumer prices	3.5	4.6	7.1	11.5	5.5	5.7
Current account (% GDP)	-3.8	-6.4	-7.3	-8.5	-10.4	-7.5
Budget balance (% GDP)	-0.5	0.2	0.7	-0.3	-4.1	-3.8
ZAR/USD	6.37	6.81	7.02	8.26	11.06	12.56
3-month money (%)*	7.4	9.2	11.3	11.4	7.8	8.4
10-year bond yield (%)*	7.9	7.7	8.4	7.3	8.8	9.5

Note: * = index 1995 = 100 (end year)
Source: HSBC

HSBC

Japan

Worst downswing ever

We have significantly lowered our forecast of real GDP growth in 2009 to -6.5% from -1.4%. This revision is mainly attributable to the double-digit, annualised declines in GDP growth recorded in Q408 and Q109. Industrial production is expected to decline by more than 30% in 2009 and the recurring profits of all industries are expected to be red ink in H109, due mainly to the sudden and drastic shrinkage of the external demand amidst the global financial turmoil. Negative quarterly GDP growth rates will continue until Q309 but, assuming overseas economies improve somewhat against the backdrop of the various sizable stimulus packages, we expect GDP growth to turn to positive from 4Q09. But the global balance sheet adjustment of the household and financial sectors will persist, so the positive ripple effect to Japan's export performance will be basically limited.

Given the sharp drop in commodity prices and the exceptionally large output gap, we now project CPI inflation at -1.4% in 2009 (0.0% previously), and -1.0% y-o-y in 2010. The unemployment rate will rise to around 6% in early 2010. The risk of a deflationary spiral in Japan would increase if the global fiscal stimulus proves ineffective, or if the downswing of domestic private consumption accelerates. We project a domestic fiscal stimulus plan of around 3 trillion yen of real spending to support activity in 2009, and look for the Bank of Japan to re-implement the zero interest rate policy during the second quarter of this year.

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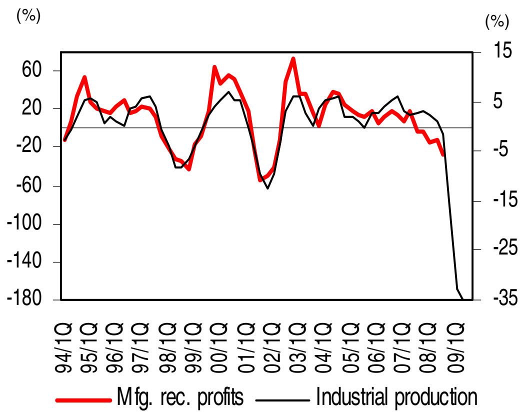
% Year

	2008f	2009f	2010f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Consumer spending	0.5	-0.7	0.3	-1.6	-0.7	-0.9	-0.3	0.3	0.2
Government consumption	0.9	1.5	1.1	0.6	1.8	2.3	1.2	1.2	1.1
Investment	-4.6	-16.1	-2.2	-11.8	-15.5	-18.9	-15.1	-8.0	-1.6
Private non-residential	-3.7	-23.1	-3.6	-18.3	-23.5	-27.7	-22.6	-14.5	-5.6
Private residential	-6.9	3.1	0.6	5.7	7.2	2.9	-2.6	-0.1	0.5
Public	-6.2	0.0	9.5	0.0	-0.8	-1.9	2.9	10.8	11.3
Stockbuilding (% GDP)	0.5	0.6	0.5	0.7	0.6	0.6	0.6	0.6	0.4
Domestic demand	-0.7	-3.6	0.1	-3.6	-3.6	-4.4	-3.7	-1.4	-0.2
Exports	1.7	-21.6	8.0	-27.2	-24.7	-23.7	-9.6	8.2	9.3
Imports	1.1	-3.2	-3.9	0.4	0.0	-4.1	-8.7	-8.7	-4.9
GDP	-0.6	-6.5	1.6	-7.9	-7.4	-7.5	-3.6	0.8	1.6
GDP (% quarter)	-	-	-	-3.4	-0.6	-0.5	1.0	0.9	0.2
Industrial production (% year)	-3.4	-31.5	4.1	-32.8	-34.8	-34.6	-23.1	-0.6	5.1
Unemployment rate	4.0	5.2	6.1	4.7	5.0	5.4	5.7	6.0	6.1
Wholesale prices	4.9	-2.0	0.5	0.0	-7.4	-10.1	-6.9	-5.1	1.1
CPI	1.7	-1.4	-1.0	-0.4	-1.3	-2.1	-2.0	-1.4	-1.1
M2+CDs	1.9	1.8	2.0	1.8	1.8	1.8	1.9	2.0	2.0
Current account (JPYtrn)	16.3	5.1	7.6	1.5	1.0	1.2	1.4	1.6	1.8
Current account (% GDP)	3.2	1.0	1.4	1.3	0.8	1.0	1.2	1.3	1.5
Budget balance (% GDP)	-3.5	-5.0	-4.0	-	-	-	-	-	-
JPY/USD	117	101	101	98	100	100	105	105	105
3-month money (%)	1.0	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6
Benchmark bond (%)	1.5	1.2	1.0	1.4	1.2	1.0	1.0	1.0	1.0

Source: HSBC

IP shock

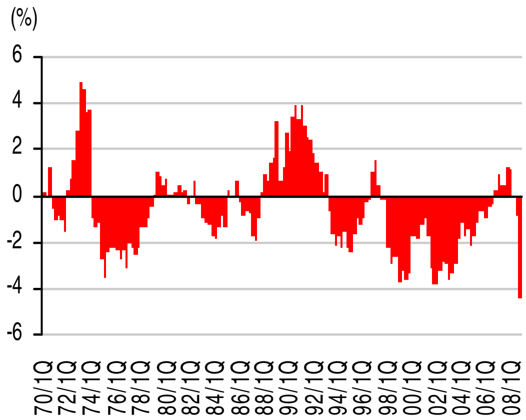


Source: MoF, METI

Troubled manufacturers

- Industrial production plunged 12.0% q-o-q in 4Q08 and is expected to decline by more than 20% q-o-q in Q109. These declines were mainly due to the aggressive production cuts seen in the more export dependent machinery sectors, especially autos, electrical machinery and general machinery.
- Recurring profit for the manufacturer sector as a whole should decline 170% y-o-y in H109, which means the deficit will expand to 70% level of last year's recurring profit.
- Given the stable relationship between industrial production and business fixed investment (with 1 or 2 quarters' time lag), capex is projected to keep on contracting until at least Q309, which should be the main driver of another 2 quarters of negative GDP q-o-q growth, after an expected double-digit, annualised contraction in Q109.

Unprecedented deflationary gap…

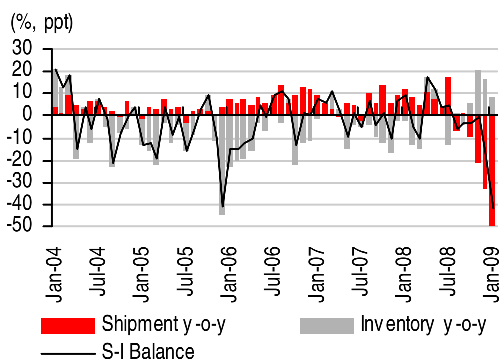


Source: Cabinet Office, MHLW, HSBC

…cast shadows on households and non-mfg sector

- The output gap is estimated to have reached -4.3% of GDP in Q408, and is projected to reach -7 to -8% of GDP in Q109, bringing both deflation and a sharply higher unemployment rate in 2009. The large output gap will remain throughout 2010 as the actual growth rate will not be able to exceed the potential rate on a sustained basis.
- Nominal wages per worker started to fall on a year-on-year basis last autumn, mainly due to the sharp decline in overtime wages. Despite the anticipated deflation, real wages will keep on contracting on an annual basis due to the larger decline of nominal wages.
- Manufacturers have started to adjust their employment situation aggressively, which should result in more conservative consumption attitudes amongst households and the non-manufacturer sector.

Auto production will be the key



Source: HSBC

Business cycle exists even amid B/S adjustment

- Japan's experiences after the bubble burst since early 90s indicate that a cyclical recovery - helped by fiscal stimulus packages - could emerge even amid strong balance sheet adjustment pressure.
- Concerted global fiscal stimulus measures should take effect across the board in H209, which should be the trigger for a cyclical bottoming out of Japanese economy (especially industrial production and exports).
- Domestically, the bottoming out of auto production would be a very important factor, as this sector has many related industries. Auto sector inventories have started to decline, and their production level is also extremely low. Given the global fiscal stimulus effects later this year, there should be room for a rebound in auto production, supporting a broader cyclical recovery.

HSBC

Australia

Down but not out

Australian economic activity was subdued in the first quarter of this year, following a 0.5% fall in GDP the last quarter of last year. A technical recession is possible, ending the uninterrupted economic expansion which began eighteen years ago. But while unemployment is increasing, the economy is performing somewhat better than most. Its financial system remains in good shape. Because of the prevalence of variable rate mortgages, sharp central bank cuts to the cash rate cause a quick increase in household real incomes after debt servicing. The Australian government has legislated a fiscal package of 4% of GDP to support consumption and jobs through 2009. The deep AUD depreciation since the middle of last year also helps, offsetting much of the decline in US dollar commodity prices. Even so Australia has not been able to evade the global slump, with exports declining and business investment rapidly fading. Output will falter in the first half of 2009. By the second half, however, we expect some of the decline in exports and business investment will be offset by stronger household consumption, an upswing in residential construction, and government infrastructure spending. We have revised down our 2009 year-average growth forecast to just above zero – not a bad outcome, given the dire global circumstances.

After 400 basis points of rate cuts, the Reserve Bank of Australia paused in March. We think further deep cuts are unlikely, unless the global economy takes a turn for the worse. If the cash rate does remain well above the level of rates in other advanced economies we would expect the Australian dollar to remain quite firm.

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% Year

	2008	2009f	2010f	Q1 09f	Q2 09f	Q3 09f	Q4 09f	Q1 10f	Q2 10f
Consumer spending	2.1	1.1	2.6	0.4	0.9	1.3	1.8	2.2	2.4
Government consumption	3.6	2.0	3.8	1.8	1.6	1.8	2.6	3.1	3.0
Investment	8.3	-0.4	4.5	5.0	0.8	-1.8	-4.8	-7.0	-6.8
Final domestic demand	4.1	1.1	3.0	1.7	1.0	0.9	1.0	1.0	1.1
Stockbuilding (% GDP)	0.4	0.0	0.0	0.3	0.1	0.0	0.0	0.0	0.0
Domestic demand	3.5	-0.1	3.0	-0.3	-0.4	-0.7	1.0	1.0	1.1
Exports	4.7	-5.3	4.4	-1.1	-7.3	-6.8	-6.0	2.0	9.0
Imports	10.3	-8.8	3.9	-4.8	-10.4	-12.8	-7.0	-1.0	4.0
GDP	2.1	0.1	3.1	0.0	-0.2	-0.2	0.7	1.0	1.8
GDP (% quarter)	-	-	-	0.2	0.1	0.0	0.4	0.5	0.7
Industrial production	2.4	-3.0	1.0	-2.7	-4.9	-4.3	-1.0	1.0	3.0
CPI	4.3	2.1	2.5	4.0	3.3	2.4	2.1	1.9	2.1
Unemployment	4.3	6.5	6.5	5.4	5.8	6.5	7.0	7.5	6.5
Average earnings	4.1	3.9	3.8	4.1	4.0	4.0	4.0	3.9	3.9
Current account (AUDbn)*	-50.2	-48.0	-53.0	-50.0	-49.0	-49.3	-48.6	-48.0	-49.0
Current account (% GDP)	-4.0	-4.0	-4.2	-	-	-	-		
Budget balance (% GDP)	1.8	-1.5	-1.5	-	-	-	-		
USD/AUD	0.84	0.68	0.72	0.67	0.67	0.68	0.70	0.72	0.72
3-month money (%)	6.8	3.4	4.7	3.2	3.2	3.4	3.6	4.6	4.7
10-year bond (%)	5.5	4.6	6.1	4.4	4.4	4.7	4.8	5.9	6.0

Note: Quarterly data are a four-quarter rolling sum; * = quarter annualised
Source: HSBC

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New Zealand

Downturn continues

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Unhappily for New Zealand, the Reserve Bank's protracted and ultimately successful struggle to slow a housing boom overlapped late last year with the intensification of the global economic slump. Despite big and rapid cuts in the cash rate, the result is that the shallow recession of 2008 has been prolonged into 2009, and still has a way to go. Through the first quarter of 2009 housing commencements, approvals for new housing construction and house prices continued to fall. Retail sales growth remains slow, and business investment is most likely still contracting.

We expect GDP to contract during both the first and second quarters, with a good chance output will bottom out in the second half. Fiscal policy is expansionary, though largely through the impact of the automatic stabilisers (declining revenues and higher spending) than a discretionary response. The Reserve Bank of New Zealand cut the cash rate by a cumulative 525bp between July 2008 and March 2009, and we think it still has one or two more 25bp cuts yet to go. But unlike Australians, New Zealanders mostly lock into fixed rate mortgages, and the impact of lower cash rates is accordingly less direct.

New Zealand does, however, have some advantages. Its financial system is largely unscathed. Its biggest exports are food products, which have been less affected by the global downturn. Its biggest export market is Australia, which is doing better than most. The housing downturn started a couple of years ago, and is accordingly closer to bottom. But despite these relative positives, the economy is still two quarters away from a recovery, and the timing and strength of the upswing will be dependent on the strength of recovery elsewhere.

% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	4.7	2.4	4.3	0.1	0.4	2.0
Government consumption	3.9	4.8	4.0	3.8	3.8	2.9
Investment	3.7	-1.2	4.5	-3.6	-1.6	4.6
Final domestic demand	4.4	1.5	4.3	0.4	0.3	2.4
Stockbuilding (% GDP)	1.0	0.1	0.6	0.2	0.2	0.2
Domestic demand	4.2	1.2	4.5	0.4	0.3	2.4
Exports	-0.3	1.9	3.5	-1.1	1.2	4.4
Imports	5.5	-2.6	8.6	3.6	1.6	4.2
GDP	2.8	2.6	3.1	-0.9	-0.2	2.4
Consumer prices	3.0	3.4	2.4	3.9	2.7	2.5
Current account (% GDP)	-8.6	-8.6	-8.2	-8.9	-9.0	-9.0
Budget balance (% GDP)	4.5	3.9	3.8	2.0	0.1	0.1
Unemployment*	3.8	3.7	3.7	3.9	5.1	6.0
NZD/USD	0.70	0.64	0.75	0.70	0.54	0.57
3-month money (%)	7.2	7.6	8.5	8.0	3.3	4.0
10-year bond yield (%)	5.9	5.8	6.3	6.0	4.6	5.4

Note: * Year end.
Source: HSBC

HSBC

China

Stimulus package starts to filter through

Exports fell 20% y-o-y in January and February, the largest decline since 1993. Given the deepening recession in the developed world, the outlook for exports is likely to deteriorate in the coming months. We have changed our full-year export growth forecast to -12% from -3% previously, and expect imports to decline by 5% due to the dominant role of processing trade.

Encouragingly, however, the RMB4trn stimulus package introduced last November has started to work earlier than initially expected, as indicated by improvement in industrial output, the decade-high growth of bank lending and the acceleration of fixed asset investment (FAI). In contrast to the credit crunch in developed markets, Chinese banks lent out RMB2.69trn in the first two months, equivalent to 55% of total new loans last year. This not only supported the industrial sector with more working capital to recapitalise demand, but also financed the mid and long-term infrastructure projects - the bulk of the stimulus package. We expect FAI growth to top 20% y-o-y in 2009, up from previous projection of 17.5%. Meanwhile, retail sales slowed but remained resilient. Despite the deteriorating export outlook, we believe domestic demand is likely to receive a substantial boost as the bulk of stimulus package filters through in Q2, which should lift GDP growth above 8% in H2. On balance, our full-year GDP forecast of 7.8% remains unchanged.

The negative February CPI reading, due to the collapse in commodities prices, provides the PBoC with more to cut rates. However, given the stronger than expected bank lending, we believe that there is less need for the PBoC to act aggressively. Therefore, we revise our call for rate cuts this year from a cumulative 108bp to 81bp, and expect the 1-year lending rate fall to 4.5% from 5.31% currently.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	8.5	8.7	9.0	8.9	8.0	8.5
Government consumption	12.9	11.7	14.3	12.0	18.0	16.0
Fixed asset investment	27.2	24.5	25.8	26.1	20.0	20.0
Exports	29.0	25.0	23.8	11.2	-14.0	2.0
Imports	17.0	20.0	17.8	8.5	-10.0	1.0
GDP	10.4	11.6	13.0	9.0	7.8	8.5
Industrial production (ex-small enterprises)	15.9	16.2	17.1	12.9	9.5	12.0
Consumer prices	1.8	1.5	4.8	5.9	-0.2	0.8
Current account (% GDP)	7.2	9.5	11.0	8.6	5.0	4.4
Budget balance (% GDP)	-1.2	-1.0	0.6	-0.4	-2.9	-3.1
CNY/USD	8.18	7.93	7.54	6.88	6.80	6.80
1-year time deposit (%)	2.3	2.4	3.3	3.8	1.8	1.7
1-year lending (%)	5.6	5.9	6.8	7.0	4.6	4.5

Source: HSBC

HSBC

Hong Kong SAR

A long process

The impact of the global financial crisis seems to linger on even as additional stimulus packages are delivered across the world. We maintain our expectation that Hong Kong's economy will continue to be dragged-down by weak external demand, and now expect a more protracted recovery process to emerge.

Hong Kong's exports have been contracting since November 2008, and although much of this decline is due to weak demand in the major economies, the second-round effects on intra-regional trade across Asia has also weighed on the territory's exports. Shipments to China - which account for 50% of Hong Kong's total exports - fell an average 18.5% in year-on-year terms between November 2008 and January 2009, and this rate of contraction has been accelerating. This decline could be distorted by the timing of the Chinese New Year effect, which fell in January this year versus February in 2008. However, the contraction of China's own export (down 21% y-o-y for the first two month of this year) suggests that restocking within the developed world has not taken place yet.

Private consumption contracted in Q4 2008, the first time since the SARS epidemic in 2003. While this was partly due to a high base effect, the rapid rise in the unemployment rate from the decade low of 3.2% in August 2008 to 5% in February is another major factor. The 120,000 new jobs to be created by the HKSAR government will clearly help, but the impact is not likely to be significant as most of these are within construction sector and some are only temporary.

A total of HKD8.3 billion will also be given back to individuals mainly through tax rebate and rate concessions under the 2009/10 Budget. This should support local consumption, but private consumption is expected to stay in negative territory for the whole year of 2009.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	3.0	5.9	8.5	2.0	-1.9	1.0
Government consumption	-3.2	0.2	3.0	2.1	4.0	2.0
Fixed investment	4.1	7.1	3.4	-0.3	-1.8	9.2
Stockbuilding (% GDP)	-0.3	-0.1	0.8	0.6	-0.3	0.0
Domestic demand	1.5	5.9	7.9	1.1	-2.4	3.4
Exports	10.6	9.4	8.3	2.7	-16.8	-3.0
Imports	8.0	9.1	9.1	2.1	-16.5	-2.8
GDP	7.1	6.7	6.3	2.5	-4.5	2.4
Industrial production	2.5	2.2	-1.6	-5.6	-5.5	-6.0
Unemployment (%)	5.6	4.8	4.0	3.6	5.9	6.6
Retail sales	6.8	7.3	12.8	10.5	-4.0	3.0
Consumer prices	0.9	2.0	2.0	4.3	1.6	1.0
Goods & services balance (% GDP)	12.4	11.4	10.8	10.9	10.6	9.2
Budget balance (% GDP)	1.0	4.0	7.7	-0.3	-3.0	-1.9
HKD/USD	7.77	7.77	7.80	7.77	7.80	7.80
3-month money (%)	3.1	4.3	4.3	2.4	0.8	0.6
Prime rate (%)	6.2	7.9	7.6	5.3	5.0	5.0

Source: HSBC

HSBC

India

Don't give up

GDP growth of 5.3% in the fourth quarter was far from disastrous, but a lot worse than expectations. The surprise came from agriculture, where output slumped more than 2% on the year. Excluding agriculture, GDP growth was 7.4%, down from 8.4% in the previous quarter and a high of 11.5% in Q3 2006 - the downturn largely explained by slumping manufacturing production, as service sector growth has remained remarkably robust (thanks partly to strong government spending).

Having been gloomier than most about India's economic prospects over the last couple of years, we now have an above-consensus growth view. Our forecasts of 6.2% growth in 2009/10 and 8% in 2010/11 are both about a percentage point above the current consensus.

While India is clearly not immune to the dramatic deterioration in the world trade cycle and has some domestic banking problems which we have highlighted in the past, there are a number of positive factors that we believe are being forgotten about. These include, the huge commodity price drop (which, according to our growth equation could add 1.5% to growth), the government's fiscal stimulus (worth around 2.5% of GDP), the extra oil and gas output to be pumped from Indian fields (another 0.5% boost to GDP) and the lagged benefits of strong inward and outward foreign direct investment.

Interestingly, the country has already seen domestic motor vehicle sales turn around abruptly (from -18.2% in December to +12.7% in February), while cement sales have also picked up smartly. Such "green shoots" could, of course, prove a flash in the pan but they are encouraging nevertheless and should be watched closely.

On the policy front, we believe whatever government materialises from the April/May general election will have little choice but to tighten the fiscal stance – the combined central and state deficit is, after all, heading into double-digits. The Reserve Bank of India is likely to cut policy rates a little further, although it is more anxious to ensure that the rate cuts it has already delivered are passed on to the private sector.

The case for further rate reductions will be strengthened by wholesale price inflation turning negative and significantly so.

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% Year

	2005	2006	2007	2008f	2009f	2010f
GDP*	9.2	9.9	9.0	7.4	5.9	7.6
GDP (Financial year)**	9.5	9.7	9.0	6.7	6.2	8.0
Consumer prices	4.0	6.3	6.4	8.3	6.9	4.7
Current account (% GDP)	-1.9	-1.1	-1.0	-3.4	-2.4	-1.6
Budget balance (% GDP)	-4.2	-3.6	-2.9	-6.6	-7.3	-6.4
Broad money supply	16.1	19.6	21.8	20.9	15.0	18.0
INR/USD	44.0	45.1	40.7	44.6	52.5	54.0
3-month money (%)	5.7	7.0	8.3	9.2	6.7	6.0
Prime rate (%)	10.5	11.3	13.0	12.9	11.0	11.3

Note: * = calendar year; ** = based upon Indian fiscal year (April-March)
Source: HSBC

HSBC

Indonesia

A decade low for growth

Economic growth slowed to 5.2% in the fourth quarter of 2008, with the outlook for the year ahead not being very bright. This stems from the sharp deterioration in trading partner growth and the associated drop in investment. At the same time, consumers have become more cautious as well within an environment of rising layoffs. For the year as a whole then we look for Indonesia to grow by 2.5% – the weakest expansion in a decade – compared with the government's forecast of 4.5%. However, this still leaves the country as a major outperformer in the region.

Weakening growth and collapsing inflation expectations have seen Bank Indonesia (BI) cut the policy rate by 175bp to 7.75%. The pass through in terms of lending rate reductions, however, has been only 30bp or so, which means more easing ahead – we look for another 75bp with rates bottoming at 7% in Q2 – and increased pressure on banks to pass on the benefits.

The government has done its bit as well, announcing a stimulus package worth IDR 73.3trn (1.5% of GDP), although this is relatively modest in the regional context. However, talk of a second package has emerged, most probably after the Parliamentary elections in April but before the Presidential ones in July.

In recent times there has been some concern about Indonesia's ability to meet its short-term external debt obligations. According to the central bank's latest estimates, short-term private external debt stands at USD22.6bn (USD5.2bn trade credit and USD17.4bn short-term loans). This should be seen in the context of USD51bn of FX reserves, a USD12bn swap line with Japan (20% draw-down without IMF conditions), a USD3bn swap line each with China & Korea, USD6bn of stand-by loans from World Bank/ADB etc., USD5bn in programme and project loans and USD1.5bn in Japan-guaranteed Samurai issuance. Overall, then, we think the concern has been overdone.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	4.0	3.2	5.0	5.3	3.5	4.6
Government consumption	6.6	9.6	3.9	10.4	8.4	5.6
Fixed investment	10.9	2.6	9.4	11.7	0.8	5.7
Stockbuilding (% GDP)	1.9	1.6	0.0	0.2	0.2	0.2
Domestic demand	6.3	3.2	4.1	7.7	3.2	5.0
Exports	16.6	9.4	8.5	9.5	-6.6	6.8
Imports	17.8	8.6	9.0	10.0	-7.2	8.4
GDP	5.7	5.5	6.3	6.1	2.5	4.5
Industrial production	4.6	4.6	4.7	3.7	2.2	4.6
Unemployment (%)	10.6	10.8	9.7	8.8	9.4	10.0
Consumer prices	10.5	13.1	6.4	10.2	5.8	8.0
Current account (% GDP)	0.1	3.0	2.4	0.1	1.0	0.7
Budget balance (% GDP)	-0.5	-0.9	-1.3	-0.1	-3.3	-2.0
IDR/USD	9840	9135	9176	9730	13375	13500
3-month money (%)	9.0	11.9	8.1	9.3	8.7	7.2

Source: HSBC

HSBC

Malaysia

Double-digit fiscal easing

As such an open economy (exports account for more than 100% of GDP), Malaysia couldn't hope to escape the consequences of the biggest, most synchronised downturn in world trade since the 1930s. Sure enough, real exports of goods and services dropped 13% year-on-year in Q4 2008, dragging down investment by more than 10%.

Sadly, things are likely to get worse before they get better. While GDP managed to rise 0.1% in the final quarter of last year, our downwardly-revised projections see the economy contracting by more than 5% in the year to the second quarter on the back of a 25% drop in exports. In 2009 as a whole, we expect GDP to fall by an average of 3.5%.

However, we still believe that such a forecast is consistent with economic recovery beginning in the second half of this year, and at a reasonable clip. In 2010, we expect average GDP growth of +5.5%. Such optimism is partly based on an improvement in the world trade cycle, but domestic factors are important here as well.

In particular, the government has now announced two fiscal packages worth a combined 10.3% of GDP. The stimulus is spread over 2009 and 2010 and although - as always - there are uncertainties as to how much will be delivered, in practice this is a big move by any standards. The various measures are aimed at raising employment, easing the burden on "vulnerable" groups, assisting the private sector and building capacity for the future.

The impact of the fiscal measures will probably begin to be felt in earnest at roughly the same time as the first effects of Bank Negara's rate cuts also come through. Having been the only major central bank not to tighten last year, BNM has already lowered the overnight policy rate by 150bp and has another 75bp to come in our view. The case for further action will be strengthened by a few months of negative CPI inflation readings.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	9.1	6.5	10.8	8.4	2.9	5.3
Government consumption	6.5	4.9	6.6	11.6	7.0	5.3
Fixed investment	5.0	7.9	9.6	1.1	-10.3	4.8
Stockbuilding (% GDP)	-0.7	0.0	-1.2	-1.9	-2.0	-1.9
Domestic demand	5.5	7.5	8.3	6.1	0.2	5.3
Exports	8.3	7.0	4.2	1.5	-16.3	6.4
Imports	8.9	8.5	5.4	2.2	-15.0	6.3
GDP	5.3	5.8	6.3	4.6	-3.5	5.5
Industrial production	5.2	7.1	3.1	1.4	-10.5	3.3
Unemployment (%)	3.6	3.3	3.2	3.4	3.6	3.5
Consumer prices	3.0	3.6	2.0	5.4	0.9	2.8
Current account (% GDP)	15.0	16.3	15.6	15.7	12.0	12.0
Budget balance (% GDP)	-3.6	-3.3	-3.2	-5.1	-9.5	-7.8
MYR/USD	3.78	3.64	3.41	3.34	3.69	3.70
3-month interbank rate (%)	2.9	3.7	3.6	3.6	1.7	1.4

Source: HSBC

HSBC

Philippines

Not immune to contagion

As the recession in the developed world rumbles on, the Philippines' hitherto resilient economic fundamentals have started weakening. The economy is riding on a razor's edge as its biggest support pillar - remittances - are shrinking on the back of global frailties. Remittance growth decelerated significantly to 0.1% y-o-y in January from last year's peak of 30%. We forecast a 20% drop this year. Exports, too, are facing challenges given the country's reliance on electronics, and both FDI and portfolio investment registered a massive decline in 2008.

The upheaval in the external sector has gradually begun to spill-over into the real economy: the deepening export downturn has led to huge job-losses, which in addition to the repatriation of a large number of OFWs has worsened the country's employment scenario. Together, all these will dampen private consumption growth and weigh further on investment. Thus, we have revised down our GDP growth forecast to 1% and 3% for 2009 and 2010 (from 2% and 4.2%, respectively). The growing concern over growth has spurred officials into action: the government has approved the national budget worth PHP1.4 trillion and previously rolled out a stimulus package worth PHP330 billion. The official budget deficit target is pushed to PHP177.2 billion (2.2% of GDP); in our view this is still conservative and may well reach PHP210 billion.

Nevertheless, the Philippines may escape a major slippage. One-of the reasons is a relatively stable financial system, which is less exposed to external stress and awash with liquidity. The central bank has executed its role rather successfully through lowering the policy rate by 125bp from its peak and unveiling a series of liquidity measures. The record fall in commodity prices may not only help inflation reaching the official target, but will also reduce the import bill, keeping the current account in surplus during 2009.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	4.8	5.5	5.8	4.5	1.4	2.3
Government consumption	2.3	10.4	8.3	4.3	9.7	8.6
Fixed investment	-6.6	3.8	11.8	3.7	-1.4	3.6
Stockbuilding (% GDP)	0.3	0.5	0.5	0.6	0.9	0.9
Domestic demand	2.0	5.7	6.9	4.5	1.8	3.0
Exports	4.8	13.4	5.6	0.0	-9.2	3.6
Imports	2.4	1.9	-4.5	-1.1	-8.2	4.0
GDP	5.0	5.4	7.2	4.6	1.0	3.0
Industrial production	5.3	4.6	3.4	4.3	-1.1	1.5
Unemployment (%)*	8.0	7.9	7.2	7.5	8.7	7.7
Consumer prices	7.7	6.3	2.8	9.3	4.3	4.5
Current account (% GDP)	2.0	4.5	4.3	2.3	1.5	-0.1
Budget balance (% GDP)	-2.7	-1.1	-0.2	-0.9	-2.7	-2.8
PHP/USD	55.0	50.9	45.2	45.3	52.9	53.0
3-month money (%)	6.1	5.2	3.4	5.6	5.1	6.0

Note: * Since Sep 2005, the ILO definition of unemployment has been adopted by official sources.
Source: HSBC

Singapore

A record-breaking recession

To say the Singapore economy is weak at present would be something of an understatement. GDP has already experienced its biggest ever quarter-on-quarter contraction in Q4 2008 and is about to suffer its largest ever year-on-year decline in Q1 2009 (records began in the mid-1970s).

The primary cause is obvious – collapsing exports - which are breaking all the wrong kind of records at present. There is, however, another factor at play – the bursting of domestic credit, real-estate and investment bubbles that we believe developed in the run up to the current crisis.

Looking ahead, more pain is inevitable as our lead indicator suggests external demand is likely to remain extremely depressed through the first half of calendar 2009. The widespread weakness in the economy will also filter through to the labour market, which has remained remarkably firm so far. If we are right, then the MAS may opt to shift its currency band lower at the April meeting and the government could ease fiscal policy even further. It has already announced an 8% of GDP loosening in the budgetary stance.

Recent history suggests Singapore has become more susceptible to recessions (it is in the midst of its fourth period of year-on-year GDP contraction in the last ten years), although it typically bounces back sharply as well. We expect the current episode to be no exception, with GDP seeing average growth of 4.5% in 2010.

Apart from historical precedent, grounds for hope stem from the exceptionally loose monetary and fiscal policy, as well as the biggest drop in commodity prices for 50 years (which effectively operates as a tax cut). For a country as open as Singapore, it is also important that the world trade cycle begins to improve and it is encouraging, therefore, that the longer lead indicators have been rising for months.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	3.1	4.0	5.2	2.4	-0.1	4.3
Government consumption	9.6	6.6	2.2	8.1	7.7	5.2
Fixed investment	-2.0	13.3	19.2	13.7	-11.5	5.7
Stockbuilding (% GDP)	-1.4	-1.7	-3.2	2.8	4.0	3.9
Domestic demand	7.0	6.8	6.9	15.9	-1.9	4.7
Exports	11.7	11.7	8.7	1.3	-19.0	3.0
Imports	11.4	11.9	8.3	6.1	-18.4	3.0
GDP	8.7	8.4	7.8	1.1	-7.0	4.5
Industrial production	9.5	11.9	5.9	-4.2	-10.6	4.1
Unemployment (%)	3.2	2.7	2.2	2.1	3.2	3.7
Consumer prices	0.5	1.0	2.1	6.5	0.4	1.9
Current account (% GDP)	27.5	25.4	23.5	14.8	10.7	10.5
Budget balance (% GDP)	-0.8	-0.2	0.6	1.7	2.7	-5.9
SGD/USD	1.67	1.58	1.49	1.40	1.60	1.62
3-month money (%)	2.2	3.4	2.7	1.5	0.7	0.9
Prime rate (%)	5.3	5.3	5.3	5.4	5.4	5.4

Source: HSBC

HSBC

South Korea

Rolling out the stimulus

Korea had a rocky start to 2009. Exports fell sharply in January, although there are some signs of tentative stabilization. Meanwhile, domestic demand is also weakening rapidly, with the unemployment rate ticking upwards and firms cutting back on investment spending. Growth, in short, continued to slow into this year from an already depressed level of economic activity.

But the government has swung into action, rolling out a whole range of aggressive measures to stabilize the financial system and revive growth. Fiscal spending measures and tax cuts should amount to some 5.4% of GDP this year, comfortably one of the largest stimulus packages in the region. Meanwhile, the Korean Asset Management Company (KAMCO), first launched in 1998 to clean up the NPLs of banks, will be reactivated with an initial KRW 40 trillion capital infusion.

Still, it is unclear whether the government's efforts will be sufficient to overcome the near-term challenges to economic growth. As the outlook for exports remains challenging at best, and as banks domestically are forced to curtail credit growth, thus dampening domestic demand, Korea's recovery will remain only gradual.

We thus cut our GDP growth forecasts to -3.7% from -3.2% for 2009, and expect only a gradual rebound to 3.4% growth in 2010. The rapid depreciation of the won has raised inflation pressures for the moment, but we expect price pressures to stabilize with deteriorating domestic demand. We still expect another 50bp of interest rate cuts in the second quarter, bringing the target call rate to 1.5% by year-end. Quantitative easing by the central bank may not be ruled out as the government aims to boost deficit spending.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	3.6	4.5	4.5	0.5	-5.0	2.5
Government consumption	5.0	6.2	5.8	4.4	9.9	3.5
Fixed investment	2.4	3.6	4.0	-1.9	-9.6	4.7
Stockbuilding (% GDP)	0.0	0.1	-0.4	-0.3	0.0	0.0
Domestic demand	3.3	4.5	4.0	0.4	-4.0	3.3
Exports	8.5	11.8	12.1	6.2	-6.1	4.8
Imports	7.3	11.3	11.9	3.0	-6.8	5.0
GDP	4.2	5.1	5.0	2.5	-3.7	3.4
Industrial production	6.3	8.4	6.9	3.1	-9.6	6.0
Unemployment (%)	3.7	3.5	3.2	3.2	4.1	4.2
Retail sales	4.3	4.9	4.4	0.1	4.0	4.5
Consumer prices	2.8	2.2	2.5	4.7	3.3	3.2
Current account (% GDP)	1.9	0.6	0.6	-0.7	2.4	1.5
Budget balance (% GDP)	0.4	0.4	3.8	-0.5	-5.3	-4.1
KRW/USD	1026	950	929	1127	1300	1200
3-month CD yield (%)	3.6	4.5	5.2	5.5	2.2	2.2
5-year treasury yield (year-end)	4.7	4.9	5.4	5.2	4.2	4.5

Source: HSBC

Taiwan

Many fronts

Taiwan's economy is among the most exposed in Asia to the global slowdown, with GDP growth falling by a record 8.4% y-o-y in Q4 2008. For 2008, the island's economy expanded merely 0.1%, significantly down from 5.7% in 2007. These numbers, along with bleak trade and industrial production data for January and February, underline an unprecedented recession by the island's standard.

The problem is that Taiwan not only suffers from a sharp fall in exports, but also from a marked slowdown in domestic demand. In fact, private investment fell a stunning 33.2% y-o-y in Q4 2008, while private consumption fell 1.7%, the first time that the latter recorded a contraction over two consecutive quarters. The ripple effects from the slump in exports will continue to weigh on domestic demand growth in 2009 and 2010.

Even more worrying is that deflation risks are growing in Taiwan as global commodities prices remain soft and domestic demand falters. With unemployment rising sharply to 5.3% in January in just 4 months, and consumer confidence reaching a record low level, deflation in this environment could pose further downside risks to Taiwan's economic growth.

We believe the announced fiscal stimulus, roughly 4% of GDP, will not prove sufficient to offset the current downturn. Furthermore, the near-term benefits from cross-strait ties will be limited given the island's dependence on demand for electronics to the West. We expect the island's economy to contract by 6.2% in 2009, with a recovery to follow at a below trend growth of 2.2% in 2010.

We expect the CBC to cut rates to 0.75% by the end of Q2 2009, but room for further rate cuts will be limited as policy makers have stressed that Taiwan will not adopt a zero rate interest rate policy. Instead, we expect policy makers to adopt a more unorthodox strategy, including the extension of further bank lending guarantees.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	3.0	1.8	2.3	-0.3	-1.6	0.8
Government consumption	1.1	-0.4	0.9	1.1	4.6	2.3
Fixed investment	1.2	0.9	1.9	-10.8	-21.5	2.2
Stockbuilding (% GDP)	0.1	0.3	0.4	0.3	-0.7	-0.9
Domestic demand	1.7	1.5	2.2	-2.4	-5.9	1.0
Exports	7.6	10.3	8.8	-0.2	-13.7	3.5
Imports	3.8	5.6	3.8	-4.3	-15.8	1.8
GDP	4.2	4.8	5.7	0.1	-6.2	2.2
Industrial production	3.8	4.7	7.8	-1.8	-14.5	4.5
Unemployment (%)	4.1	3.9	3.9	4.1	6.0	6.1
Consumer prices	2.3	0.6	1.8	3.5	-1.3	-0.4
Current account (% GDP)	4.9	7.2	8.6	6.4	10.6	11.8
Budget balance (% GDP)	-0.6	-0.6	-0.2	-0.5	-5.4	-5.0
TWD/USD	32.3	32.6	32.7	31.4	35.8	36.0
3-month CD (%)	1.4	1.6	2.0	2.1	0.3	0.3
Prime rate (%)	3.7	4.0	4.1	4.4	2.3	2.0

Source: HSBC

HSBC

Thailand

Total capitulation

Economic growth fell off the proverbial cliff in the final quarter of 2008, with GDP contracting by 4.3% y-o-y – the worst reading since the dark days of the Asian crisis – largely driven by the fall-off in exports. No doubt the closure of Bangkok airport had some role to play but a complete collapse in external demand is key in explaining a near 10% fall in real exports. Unfortunately things are going to get worse, with forward indicators suggesting that the economy is set to contract by roughly 5-5.5% in the first half of the year.

The central bank was no doubt wary of such an outcome when cutting the policy rate aggressively by 225bp to 1.5%, with the government chipping in with an initial fiscal package of THB 300bn (3.3% of GDP). However the reluctance of commercial banks to pass on the easing and the impediments caused by the political stalemate means that the benefits will only start feeding through in the later part of 2009.

Despite the measures already announced we think there is more to come. Negative inflation readings and terrible activity outcomes will maintain the pressure on Bank of Thailand and we expect rates to bottom at 0.75% in Q2, remaining at that level well into 2010. The government has also announced an infrastructure package worth around THB 1.5trn (17% of GDP) to be delivered over 3-years. Taking these measures together with our view of a China-led, regional recovery, we expect the Thai economy to bounce back in 2010 with GDP expanding by 3%.

The big fiscal plans, however, mean that the country is set to see its largest budget deficit since the 1980's, putting supply pressure on the bond market. At least the current account is set to improve and the country's foreign exchange reserve position remains relatively solid at above USD 110bn. Note that short-term external debt was roughly USD 25bn at the end of last year.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	4.9	3.0	1.6	2.5	1.3	2.8
Government consumption	11.4	2.4	9.2	0.4	10.2	5.5
Fixed investment	10.5	3.9	1.3	1.1	-7.5	5.4
Stockbuilding (% GDP)	2.0	0.3	0.1	1.3	1.5	1.4
Domestic demand	7.5	1.3	2.0	3.4	0.1	3.6
Exports	4.2	9.1	7.1	5.5	-10.1	4.7
Imports	8.9	3.3	3.4	7.5	-6.2	5.5
GDP	4.7	5.2	4.9	2.6	-3.5	3.0
Industrial production	5.2	6.0	6.2	3.9	2.8	4.2
Unemployment (%)	1.9	1.5	1.4	1.4	3.2	2.6
Consumer prices	4.5	4.6	2.2	5.6	-1.4	2.7
Current account (% GDP)	-4.3	1.1	5.9	-0.1	1.7	1.3
Budget balance (% GDP)	0.3	1.2	-2.3	-1.1	-5.5	-5.2
THB/USD	40.6	37.6	34.7	33.5	37.4	37.5
3-month interbank rate (%)	3.3	5.2	4.0	3.6	1.5	1.2

Source: HSBC

HSBC

Vietnam

Averting recession

Over the last six months the policy focus in Vietnam has squarely been focused on supporting growth and avoiding recession – the base rate has fallen 700bps to 7%, cash reserve ratio has been cut by 800bps to 3%, a fiscal package worth USD 6bn or nearly 7% of GDP (including USD 1bn for interest rate subsidy of 4ppts for corporates) has been implemented and the dong has depreciated by a nominal 10% versus the USD.

At certain levels, these efforts have been successful. GDP growth slowed to a decade-low of 3% year-on-year in the first quarter of 2009, but remained in positive territory, which in itself is an achievement for a country that is fairly open (exports make up 70% of GDP) and a world where most economies are in recession.

A closer look shows that the poor performance was, not surprisingly, due to the export-oriented manufacturing sector, while the sectors that are geared to the domestic economy, such as retail trade, are holding up well, helped no doubt by the collapse in inflation. At the same time, construction is making a strong comeback as projects that were stalled during the inflation scare of 2008 are coming back on-line. Additionally, the government is also working to expedite project execution.

We expect a gradual recovery to develop further ahead as the benefits of the monetary and fiscal easing start to feed through. Taking this together with our view of a China-led regional trade recovery, we believe Vietnam is capable of clocking 6% growth by the end of the year.

Although the bulk of the policy response has already been delivered, we think the central bank's bias will remain toward some further easing. As such, we look for another 100bp of cuts in the case reserve ratio and possibly the base rate. The currency is expected to depreciate further, in line with weakening remittance and foreign direct investment inflows.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	7.3	8.3	9.6	7.3	3.0	6.0
Government consumption	8.1	8.6	9.0	5.8	6.5	6.0
Fixed investment	9.7	9.9	23.0	13.2	3.0	6.3
Exports - Goods	22.5	22.1	22.7	29.9	-6.5	11.2
Imports - Goods	15.7	33.4	41.2	28.5	-19.4	12.3
GDP	8.4	8.2	8.5	6.2	4.5	6.5
Industrial production	25.5	16.0	11.6	11.8	5.8	11.5
Unemployment (%)	5.3	4.8	4.6	5.0	6.0	5.5
Consumer prices	8.3	7.5	8.3	23.0	7.4	9.3
Current account (% GDP)	0.4	0.5	-10.0	-13.8	-7.2	-5.8
Budget balance (% GDP)	-4.9	-5.0	-5.0	-5.0	-8.0	-5.0
VND/USD	15866	16006	16096	16759	17125	17200
Short-term lending rate (%)	7.8	7.8	8.3	8.5	6.0	8.0
5-year interest rate (%)*	8.8	8.3	8.7	10.0	8.5	8.5

Note: * end-year.
Source: HSBC

Notes

Notes

Disclosure appendix

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