

UK Forecasts

Free to View
Economics - United Kingdom

Tweaking GDP projections after revisions

- ◆ Q3 2021 GDP growth was revised down from 1.3% q-o-q to 1.1% in December...
- ◆ ... but 2020 data were revised up, such that GDP in Q3 2021 was 1.5% below its pre-pandemic level (previously: 2.1%)
- ◆ We see GDP growth of 7.1% in 2021 (previously: 6.8%) and 4.5% in 2022 (previously: 4.7%)

Elizabeth Martins
Senior Economist
HSBC Bank plc

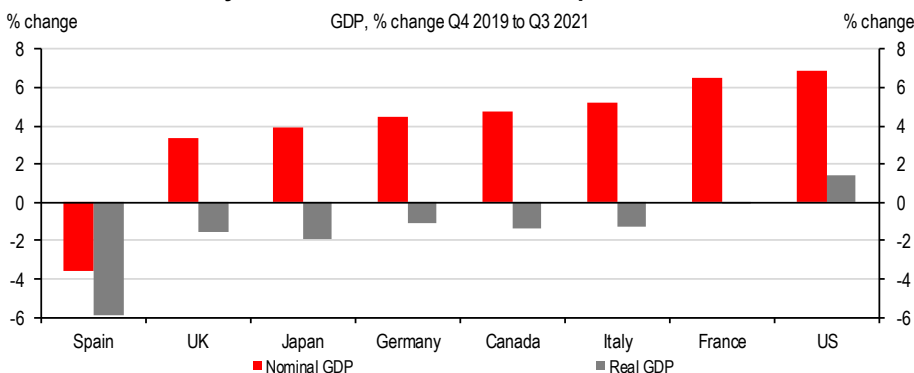
Tweaks, not rethinks

On 21 December 2021, the ONS made some revisions to UK GDP:

- ◆ For Q3 2021, growth was revised down from 1.3% q-o-q to 1.1%
- ◆ However, for 2020, there were upward revisions, such that full-year GDP growth was revised from -9.7% to -9.4%
- ◆ This means that the level of GDP in Q3 2021 was 1.5% below its pre-pandemic peak, compared with 2.1% below on the previous data
- ◆ On the latest data, the UK economy is broadly in line with other developed economies in terms of the stage of its recovery, at least in real terms (charts 1 and 2)

As such, we are revising our own forecasts, slightly. We now see GDP growth of 7.1% in 2021 (previously: 6.8%), and 4.5% in 2022 (previously: 4.7%). We continue to see growth of 1.8% in 2023, and we still expect three more rate rises from the BoE (in February, May and August of this year), taking Bank Rate from 0.25% to 1.00%.

1. The UK's recovery in real terms is similar to DM peers'



Source: ONS

This is a Free to View version of a report by the same title published on 05-Jan-22. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

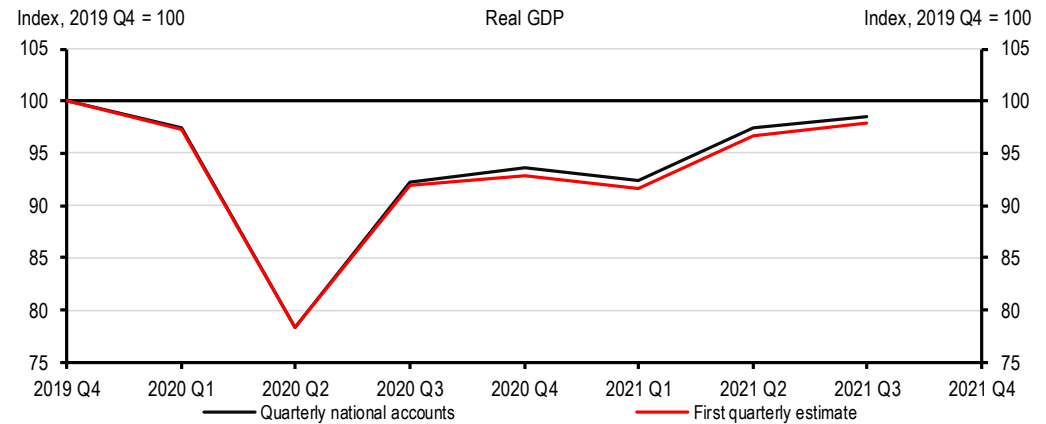
Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

Issuer of report: HSBC Bank plc

View HSBC Global Research at:
<https://www.research.hsbc.com>

2. The level of UK GDP has been revised up by 0.6ppts in the latest release



Source: ONS

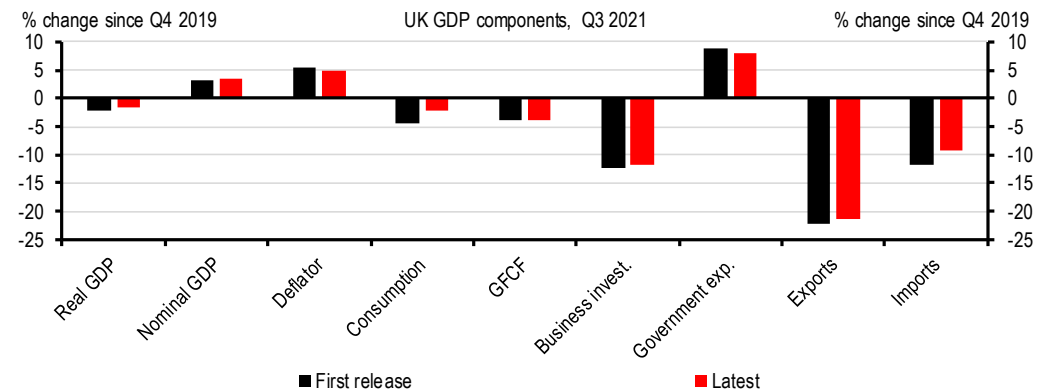
Private consumption looks considerably stronger following the revisions

What drove the revisions?

Looking at GDP by expenditure, private consumption saw one of the biggest upward revisions. On previous estimates, it stood 4.4% below its pre-pandemic level in Q3. On the new estimate, the shortfall had more than halved to 2.0% (chart 2). Within consumption, one of the biggest revisions was to spending at restaurants. In the first GDP release, this was shown as 15.6% down on pre-pandemic levels. In the latest release, the gap has narrowed to 0.1%.

This stronger household spending picture is consistent with a continuing decline in the household saving ratio, which decreased to 8.6% in Q3, from 10.7% in Q2 and 23.7% at the height of the first lockdown – but still remained some way above the 6% level seen in Q4 2019.

3. Consumption looks a lot stronger in the revised data... but it's still government spending that has led the recovery



Source: ONS

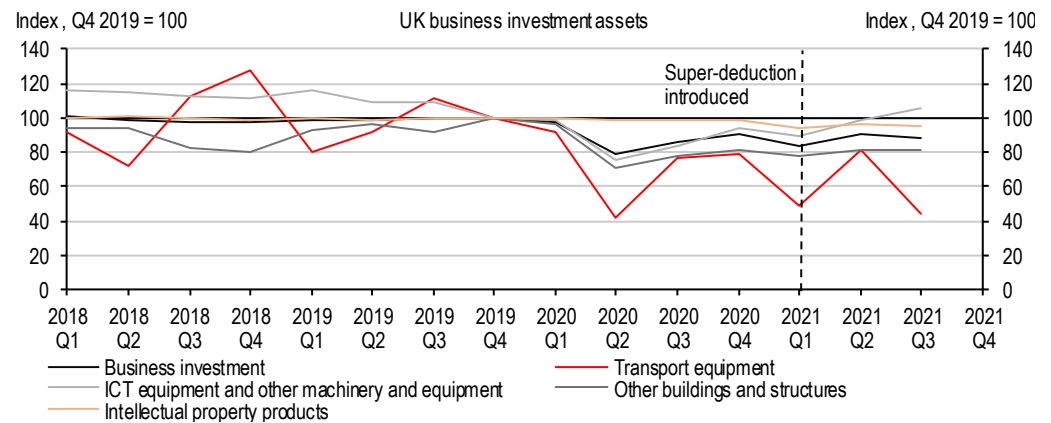
Business investment was revised up a little, but still looks very weak

Business investment was also revised up a little, as had been previously flagged. Still, it remained 11.7% below its pre-pandemic level. As a reminder, this is in the context of a 1.5% gap for overall GDP. As we have noted in the past, this is particularly disappointing given that the super deduction investment allowance has been in place for two quarters now. However, as the ONS points out, the nature of the super deduction policy should mean it mostly affects information and communication technology (ICT) equipment, and other machinery and equipment – and indeed, that is the only component of business investment that is back above its pre-pandemic level (chart 3). The biggest drag on business investment comes from transport equipment (still 56% below its pre-pandemic level in Q3 2021), which is consistent with the severe supply chain issues in the auto industry. That might point to good scope for recovery once those issues abate (though of course it is hard to say when that might be).

But government spending is still the only component back above pre-pandemic levels

The upward revisions in aggregate household spending and business investment were partially offset by downward revisions to government spending and an upward revision to imports. Still, it remains the case that government spending has been a key driver of the UK's (now almost complete) V-shaped recovery, while private sector-driven components (household spending, business investment, net trade) have further ground still to make up. Nowhere is this more the case than for exports, which were still 21% below their pre-pandemic level in Q3 2021.

4. The super deduction policy appears to have supported ICT investment... but not enough to offset the fall in transport equipment



Source: ONS

What's next?

In our Global Economics Quarterly (read the summary [here](#)), published before the revisions, we revised down our forecast for 2021 from 7.1% to 6.8%, assuming a 0.7% q-o-q rise in GDP in Q4 2021. In this note, we are revising it back up to 7.1%. This is because of the uplift to the base level from the revisions, partly offset by a slight downward revision to our Q4 forecast (from 0.7% to 0.6%). This latter adjustment reflects our expectations of a weaker December than originally assumed, due to the spread of Omicron and its impact on staffing and hospitality. We now think GDP might have fallen by around 0.5% in that month.

We see GDP growth of 7.1% in 2021 and 4.5% in 2022

For 2022, we have left our forecast profile unchanged: we see GDP growth of 0.7% in Q1, as the Omicron effect continues to play out, but activity levels pick up, and then a considerably stronger Q2 as that recedes. This means we are revising down our forecast for 2022 GDP growth from 4.7% to 4.5%.

However, there are still risks: we still see real incomes being squeezed by inflation and tax rises, absent any changes in government policy to try to cushion the blow. The UK economy is relying on resilient consumers, a continuing fall in the savings rate and a rebound in business investment. (We are not assuming much in the way of a net trade rebound, given the ongoing Brexit challenges.) If this central case materialises, then it should be able to withstand the withdrawal of both monetary and fiscal stimulus.

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Elizabeth Martins

Important disclosures

This document has been prepared and is being distributed by the Research Department of HSBC and is not for publication to other persons, whether through the press or by other means.

This document is for information purposes only and it should not be regarded as an offer to sell or as a solicitation of an offer to buy the securities or other investment products mentioned in it and/or to participate in any trading strategy. Advice in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document and take into account their specific investment objectives, financial situation or particular needs before making a commitment to purchase investment products.

The value of and the income produced by the investment products mentioned in this document may fluctuate, so that an investor may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Value and income from investment products may be adversely affected by exchange rates, interest rates, or other factors. Past performance of a particular investment product is not indicative of future results.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research. HSBC Private Banking clients should contact their Relationship Manager for queries regarding other research reports. In order to find out more about the proprietary models used to produce this report, please contact the authoring analyst.

Additional disclosures

- 1 This report is dated as at 05 January 2022.
- 2 All market data included in this report are dated as at close 04 January 2022, unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

Legal entities as at 1 December 2020

'UAE' HSBC Bank Middle East Limited, DIFC; HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc.; 'France' HSBC Continental Europe; 'Spain' HSBC Continental Europe, Sucursal en España; 'Italy' HSBC Continental Europe, Italy; 'Sweden' HSBC Continental Europe Bank, Sweden Filial; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; '000' HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch; PT Bank HSBC Indonesia; HSBC Qianhai Securities Limited; Banco HSBC S.A.

Issuer of report

HSBC Bank plc
8 Canada Square, London
E14 5HQ, United Kingdom
Telephone: +44 20 7991 8888
Fax: +44 20 7992 4880
Website: www.research.hsbc.com

In the UK, this publication is distributed by HSBC Bank plc for the information of its Clients (as defined in the Rules of FCA) and those of its affiliates only. Nothing herein excludes or restricts any duty or liability to a customer which HSBC Bank plc has under the Financial Services and Markets Act 2000 or under the Rules of FCA and PRA. A recipient who chooses to deal with any person who is not a representative of HSBC Bank plc in the UK will not enjoy the protections afforded by the UK regulatory regime. HSBC Bank plc is regulated by the Financial Conduct Authority and the Prudential Regulation Authority. If this research is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (ABN 48 006 434 162, AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.

In the European Economic Area, this publication has been distributed by HSBC Continental Europe or by such other HSBC affiliate from which the recipient receives relevant services. The document is distributed in Hong Kong by The Hongkong and Shanghai Banking Corporation Limited and in Japan by HSBC Securities (Japan) Limited. Each of the companies listed above (the "Participating Companies") is a member of the HSBC Group of Companies, any member of which may trade for its own account as Principal, may have underwritten an issue within the last 36 months or, together with its Directors, officers and employees, may have a long or short position in securities or instruments or in any related instrument mentioned in the document. Brokerage or fees may be earned by the Participating Companies or persons associated with them in respect of any business transacted by them in all or any of the securities or instruments referred to in this document. In Korea, this publication is distributed by either The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") or The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch ("HBAP SEL") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. Both HBAP SLS and HBAP SEL are regulated by the Financial Services Commission and the Financial Supervisory Service of Korea. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR.

The information in this document is derived from sources the Participating Companies believe to be reliable but which have not been independently verified. The Participating Companies make no guarantee of its accuracy and completeness and are not responsible for errors of transmission of factual or analytical data, nor shall the Participating Companies be liable for damages arising out of any person's reliance upon this information. All charts and graphs are from publicly available sources or proprietary data. The opinions in this document constitute the present judgement of the Participating Companies, which is subject to change without notice. From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits. This document is neither an offer to sell, purchase or subscribe for any investment nor a solicitation of such an offer.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. The information contained herein is under no circumstances to be construed as investment advice and is not tailored to the needs of the recipient. All US persons receiving and/or accessing this report and intending to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. Only Economics or Currencies reports are intended for distribution to a person who is not an Accredited Investor, Expert Investor or Institutional Investor as defined in SFA. The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch accepts legal responsibility for the contents of reports pursuant to Regulation 32C(1)(d) of the Financial Advisers Regulations. This publication is not a prospectus as defined in the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. Please refer to The Hongkong and Shanghai Banking Corporation Limited Singapore Branch's website at www.business.hsbc.com.sg for contact details. HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC is authorized and regulated by Secretaría de Hacienda y Crédito Público and Comisión Nacional Bancaria y de Valores (CNBV).

In Canada, this document has been distributed by HSBC Securities (Canada) Inc. (member IIROC), and/or its affiliates. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offense. In Brazil, this document has been distributed by Banco HSBC S.A. ("HSBC Brazil"), and/or its affiliates. As required by Instruction No. 598/18 of the Securities and Exchange Commission of Brazil (Comissão de Valores Mobiliários), potential conflicts of interest concerning (i) HSBC Brazil and/or its affiliates; and (ii) the analyst(s) responsible for authoring this report are stated on the chart above labelled "HSBC & Analyst Disclosures".

The document is intended to be distributed in its entirety. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document. HSBC Bank plc is registered in England No 14259, is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange. (070905)

If you are an HSBC Private Banking ("PB") customer with approval for receipt of relevant research publications by an applicable HSBC legal entity, you are eligible to receive this publication. To be eligible to receive such publications, you must have agreed to the applicable HSBC entity's terms and conditions for accessing research and the terms and conditions of any other internet banking service offered by that HSBC entity through which you will access research publications ("the Terms"). Distribution of this publication is the sole responsibility of the HSBC entity with whom you have agreed the Terms. If you do not meet the aforementioned eligibility requirements please disregard this publication and, if you are a customer of PB, please notify your Relationship Manager. Receipt of research publications is strictly subject to the Terms and any other conditions or disclaimers applicable to the provision of the publications that may be advised by PB.

© Copyright 2022, HSBC Bank plc, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Bank plc. MCI (P) 028/02/2021, MCI (P) 017/10/2021