

By: James Pomeroy and the Global Research Team

# Gamechangers

Why the world will never be the same again

The pandemic, technological breakthroughs, and a climate emergency...

...have shocked the world in many ways, with implications for economic activity and policy...

...seen across each of our nine key themes



This is an abridged version of a report by the same title published on 3 April 2024. Please contact your HSBC representative or email [AskResearch@hsbc.com](mailto:AskResearch@hsbc.com) for more information.



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# Gamechangers: tomorrow's world?

Key ways the world has evolved since the pandemic, and the impact on HSBC's nine key themes

## Automation:

Tight labour markets have prompted more firms to think about automating processes. Suppliers of the necessary technology continue to evolve, and some products are seeing less demand.

## Demographics:

Birth rates have started dropping quickly, and more people are living longer, particularly in EM. Population change is being disproportionately impacted by migration.

## Digital Finance:

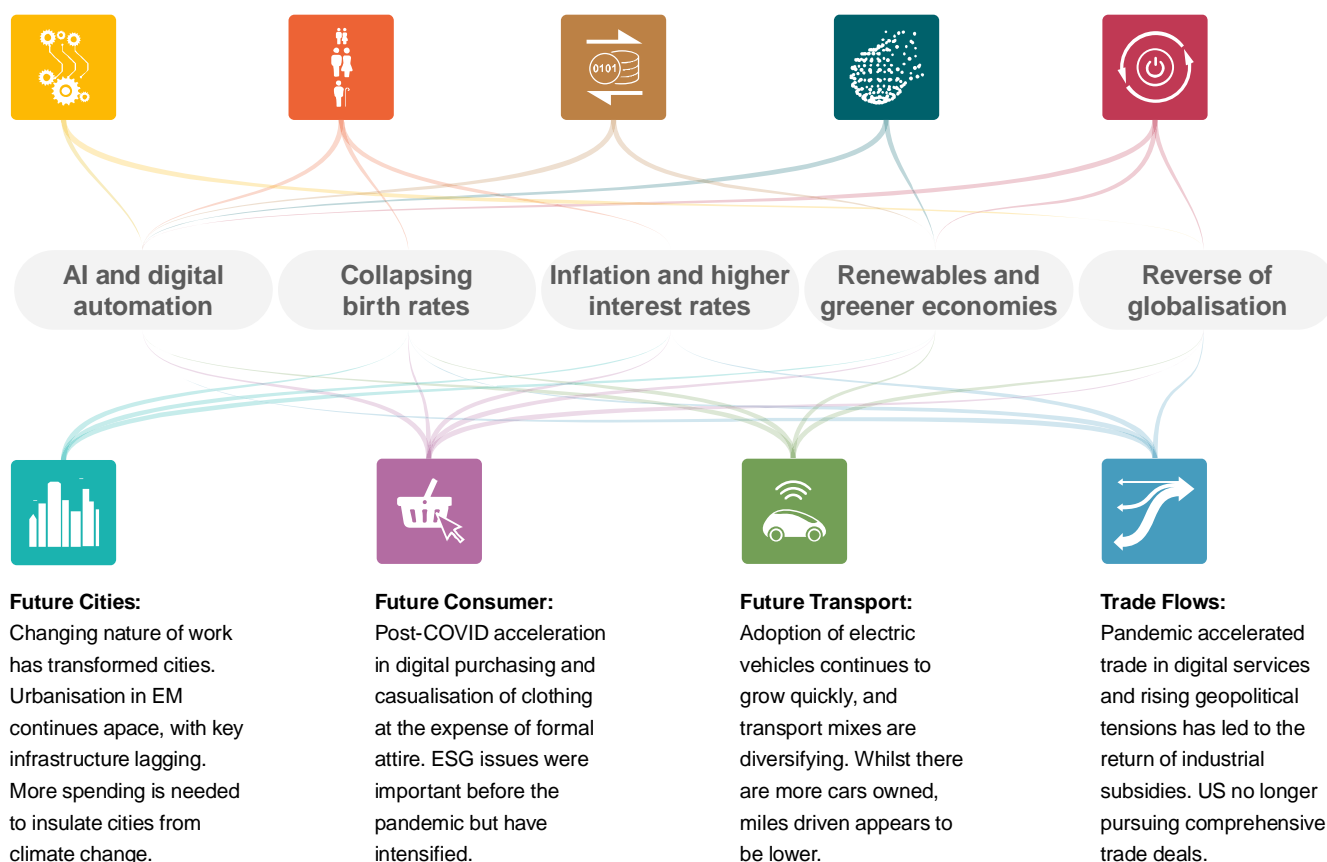
Shift from cash to electronic payments are now here to stay, with huge diversification in digital payment methods. Central bank digital currency (CBDC) is emerging globally.

## Disruptive Technology:

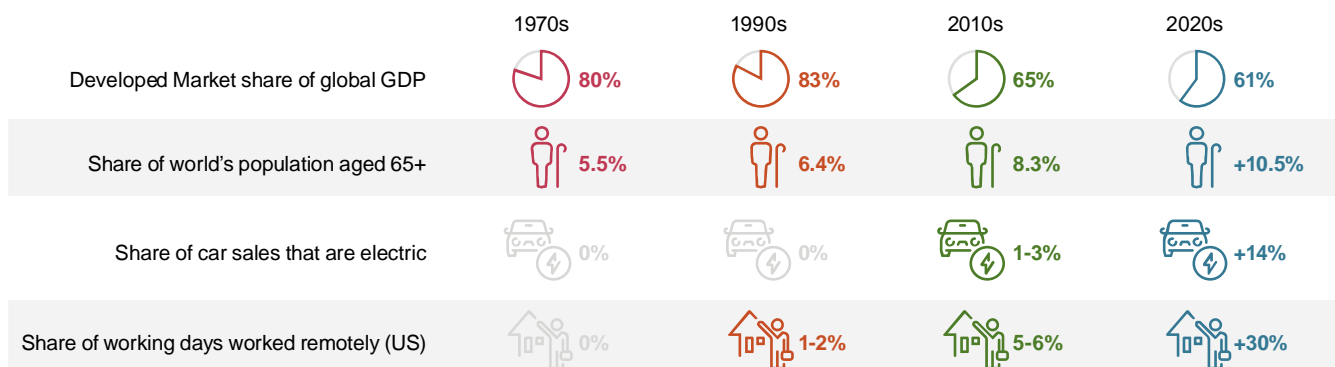
WFH accelerated immersive tools like VR and AR, and changed the path for the future of drones. Re-emergence of older failed technologies in newer tech stacks (3D TVs and Palm Pilots etc).

## Energy Transition:

Investment in the low carbon hydrogen space have accelerated post pandemic, and refocused attention on supply chain resilience. Bio-based plastics/pollution solutions have stalled.



Which means today's world is very different from the past



Source: IMF, UN, World Bank, WFH Research, HSBC

# A world like never before

- ◆ The global economy looks very different to even five years ago...
- ◆ ...with higher inflation and policy rates grabbing the headlines...
- ◆ ...but the underlying fabric of the economy has changed, too

## A different world on the face of it...

**The global economy has changed a lot in recent years**

The year 2019 feels both an age ago and like yesterday. The pre-pandemic period was characterised by a number of key issues – geopolitical uncertainty, central banks facing difficult policy decisions (and Fed rate cuts) and a surprisingly resilient economy despite manufacturing weakness. In many ways, the topics discussed in 2019 and 2024 aren't too different.

Yet, with a global pandemic in the middle, so much has changed – meaning that the way we must think about the global economy today versus four or five years ago is quite different. Some of these changes were brought about directly because of the pandemic, some accelerated on the back of it and others may well have happened anyway.

This can be seen in the makeup of global GDP over the course of the past five years. Since 2019, some parts of the world have become relatively less important as a driver of global growth – namely Europe and Japan. At the same time, the US and China remain key, while the likes of India, Mexico and Indonesia are becoming more important. A great example of the changing landscape of the world is that in 2019, Italy was the world's eighth biggest economy, 1.5x the size of Mexico's. By 2028, on the IMF's projections, they will be very close in terms of GDP size.

### 1. Some economies have become more important to the global story

2019		2024		2028	
Economy	% World GDP	Economy	% World GDP	Economy	% World GDP
1 US	23.8	US	25.8	US	24.7
2 Mainland China	16.1	Mainland China	16.9	Mainland China	17.5
3 Japan	5.9	Germany	4.2	India	4.3
4 Germany	4.6	Japan	4.0	Germany	4.2
5 UK	3.3	India	3.6	Japan	3.8
6 France	3.2	UK	3.2	UK	3.4
7 India	3.1	France	2.9	France	2.8
8 Italy	2.4	Italy	2.1	Brazil	2.1
9 Brazil	2.2	Brazil	2.0	Canada	2.0
10 Korea	2.0	Canada	2.0	Italy	2.0
11 Canada	2.0	Russia	1.8	Mexico	1.8
12 Russia	1.9	Mexico	1.7	Korea	1.6
13 Spain	1.7	Korea	1.6	Russia	1.5
14 Australia	1.6	Australia	1.6	Australia	1.5
15 Mexico	1.5	Spain	1.5	Indonesia	1.5

Source: IMF WEO, October 2023, HSBC. Note: Using nominal USD. Green highlights are for notable upward movers between periods

**Differing performance between economies has changed the global economy**

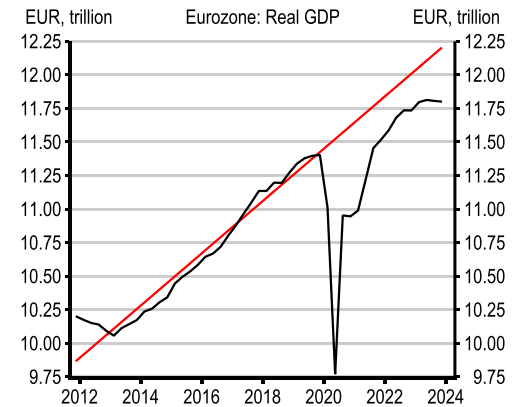
This is largely because of the economic performance during the pandemic period and the energy crisis which followed, the impact of which varied so greatly across the world. In the US the economy has largely continued as if nothing had happened – as of Q4 2023,

the US economy was bigger than if the pre-pandemic trend had just continued. In the eurozone, that is clearly not the case. This is typical of much of the developed world – since 2019, the developed world's (ex the US) share of global GDP is down by 3ppts to just 27% and looks set to drop further in the coming years.

## 2. The US economy has powered back above pre-pandemic levels...



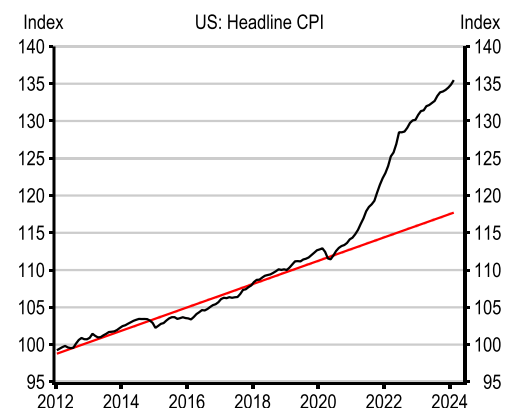
## 3. ...but not the same story everywhere



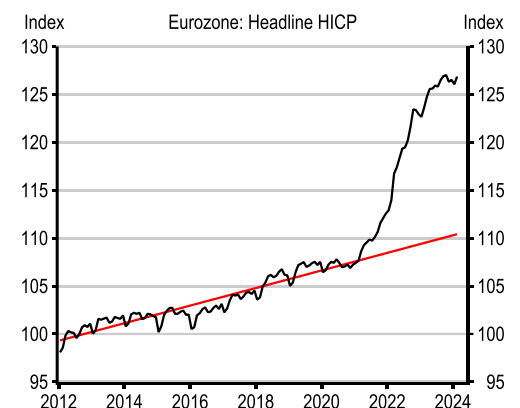
### Inflation and price levels have changed dramatically

The inflation outlook has changed materially, too. A combination of factors during this period has pushed inflation to levels that not many forecasters were expecting to be possible back in 2019. Massive supply shocks, due to the pandemic and geopolitical conflicts, tight labour markets and rampant demand as lockdowns were taken away have all played a role in pushing up inflation across the world. Even though price increases have slowed considerably, inflation is still running above central banks' targets in much of the world and the massive run up in prices is still there – even though inflation has cooled, goods and services are much costlier than they were five years ago. This is despite the policy response of central banks in taking rates much higher.

## 4. Prices have completely broken away from the pre-pandemic trend...



## 5. ...across the world



### Shocks could become more common

Now, there's a growing question as to how these inflation rates will persist in the years to come. Whilst some of these drivers have faded to one degree or another (such as the pandemic-era supply shocks and realignment of energy suppliers), we appear to be living a world where many of these shocks look likely to become more frequent. That could be geopolitical – such as the disruption in the Red Sea, climate shocks affecting food prices, or stickiness in services prices

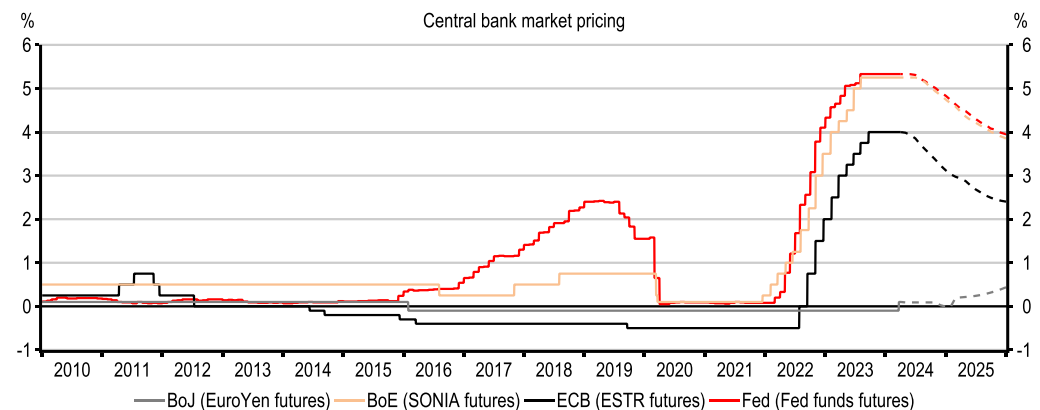


that comes from higher wage increases, especially in economies where labour supply is constrained. We've moved to a world where global inflation may be higher and more volatile than the world we were used to before.

**We may be past a period of super-low interest rates**

As a result, the period of super-low interest rates may be behind us. While rate cuts are looking likely to start across the developed world in the coming months, we must remember that even where we think rates could get to by the end of 2025 is much higher than anything expected prior to the pandemic or even in 2020 or 2021.

#### 6. Interest rates are likely to be much higher, even in 2025, than pre-pandemic



Source: Macrobond

#### ...and much deeper

These changes in the global economy may grab the news headlines, but the reasons for these changes hide beneath. Many of these are thematic – big changes that have altered the way the world works, and we need to understand these to be able to track the global economy effectively in the coming years.

**Thematic changes to the global economy are very important**

We look at which themes have accelerated and become entrenched in the global economy, meaning we need to give them more attention in the years to come. Some trends may not have accelerated but they're just as important as ever – just their makeup or course may have changed slightly. And other trends have gone into reverse – bringing a different dynamic for the global economy and allowing other trends to emerge.

These changes have huge implications for the future path of global growth and its makeup, how persistent inflationary pressures are likely to be and the path for policy, both on a monetary and fiscal front.

**More content available in the full report**

The full report contains a look at the most important changes, from what has accelerated (digitisation of the economy, labour markets, and births), what has changed path (spending habits, EM is still the place for growth, and ESG concerns) and what's stalled (globalisation, transport, and physical cash). We also outline what has changed for each of the nine themes that we expect to shape the future. Please contact your HSBC representative or email [AskResearch@hsbc.com](mailto:AskResearch@hsbc.com) for more information about the full note or about HSBC Global Research.

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