Last year was full of economic ups and downs. The Fed cut rates three times — a move that resonated in the US and around the world. The housing market in the US turned around in the third quarter after seven quarters of negative investment. Rates in the US impact the global economy in a way they haven’t before so the Fed’s decision probably also prevented a significant global slowdown. Changing tax laws, increased government spending and a stimulus package added to the positive note — leading to stronger headline GDP for the year. The surprise was a slowdown in business investment, especially considering the new tax laws intended to make it easier for businesses to invest more.

What can businesses expect as we enter a new decade?

The Economic Outlook for 2020
José Rasco, Chief Market Strategist for HSBC, says the bank’s view is that US GDP will slow to about 1.7% in 2020. A housing market that continues to increase and a rebound in manufacturing, for instance, could push this projection in another direction. New trade deals with China, Japan, Canada, Mexico and Europe as well as a potential agreement with the UK could also have a positive impact. But there are also risks economists are watching.

“We’re starting to see the pace of hiring slow and a slight drop in wage increases,” says Constance Hunter, Chief Economist for KPMG. With unemployment rates at their lowest in 50 years, working-age population growth is decreasing and might slow even more if there are major changes to US immigration laws. Workers are also being displaced, and fewer jobs created in some industries as technology continues to advance. That means job growth

“Overall, interest rates should remain low and consumerism should stay fairly steady—but businesses should be keeping an eye on technology, sustainability and China’s economy.
could begin to match the pace of population growth, causing wages to increase at a slower rate in 2020 — which could lead to slightly lower consumption.

There also doesn’t seem to be an upswing in CEO confidence coming this year. Trade tensions and tariffs here in the US, as well as geopolitical problems around the world, could be to blame for keeping optimism at bay. There is also still some confusion around parts of the new tax laws. At the root of it, says Mr. Rasco, there’s a lack of organic growth. “Even though the Fed lowered rates, the increase in some industries has been on the margin. There was not a lot of pick up and demand in certain sectors. Regardless of anything else, if we see organic growth picking up — CEO confidence will strengthen.”

The outlook for business investment isn’t much better for 2020. “The index basis for investment spending seems to have flattened around 2015,” says Ms. Hunter. “So it’s not a recent phenomenon or even tied to trade. This has been underway for several years, and we don’t fully know why.”

Top-of-Mind Issues for 2020

While interest rates are expected to remain low, and consumerism should stay fairly steady — businesses need to be keeping an eye on technology, sustainability and China’s economy.

Technology

Even for businesses that don’t consider themselves to be ‘tech’ companies, upskilling technology in their organizations should be a focus. It’s an area that firms have been investing in and a trend that’s likely to continue. “Job creation over the last decade increased by about 20%,” says Ms. Hunter. “But new computer engineering and software writing jobs were up by nearly 60%.”

Certain industries, like retail, are being disrupted by technology. While people still go into stores, they don’t always make purchases there. “About 12% of retail sales take place online now,” says Ms. Hunter. “That’s probably only going to keep going up.” The companies that can integrate their online and brick-and-mortar operations for a seamless customer experience will be the winners. This is true not only for retail but any sector where technology could potentially change their business models.

Sustainability

Environmental-related issues are entering a new phase of urgency. The catastrophic wildfires in Australia are just one example of how climate volatility can have a devastating impact. Damage to property, vegetation, wildlife and more is felt in the local ecology and economy as well as global supply chains.

That’s today’s reality. For Millennials and Gen Z, it’s 50 years out that has their attention. A move toward a net-zero carbon footprint has become a critical issue for them — and they’re looking to do business with companies whose values align with theirs. “That includes the environment and sustainability,” says Wyatt Crowell, CEO for HSBC Commercial Bank. “It’s no longer just about what you do, it’s how you do it — and that is here to stay.”

We’re starting to see an impact from the younger generations’ influence. Alternative energy market share is increasing, making it more competitive with the fossil fuel industry. The new US tax laws are also making it more attractive for companies to increase investment in carbon capture. Building a carbon-neutral world will not be easy or inexpensive. Done well, it could potentially stimulate the economy. Done in piecemeal or insufficiently could do a lot to hurt the economy as well.

China’s Economy

Although the Fed’s three rate cuts in 2019 may have stopped a global slowdown, China’s economy has been slowing. Their policy options for avoiding a continued slowdown are limited, but the best course would be to maintain a 6% growth rate, says Ms. Hunter. “If that starts slipping — even to 5.8% - they could be facing a significant credit event.” Achieving that won’t be easy because so much of China’s government spending right now is going toward repaying the country’s massive debt. Indeed, HSBC’s projection is for a 5.7% growth rate in China for 2020, says Mr. Rasco. “Any resulting economic crisis there will likely have a global impact given the sheer size of China’s economy.”

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