

# The 2021 Economic Outlook – A Year of Rebuilding

A new normal in the way people work and consume will be the foundation for business resilience in 2021.

There has probably never been as much collective hope as when the world rang in 2021 – and with good reason. As of this writing, there are two approved COVID-19 vaccines in the US and three more in Phase 3 clinical trials. That means economies will begin opening up around the world this year, putting both global and local businesses in a better position to start rebuilding and capitalizing on opportunities the “new normal” of work and life afford them. Here at home, we’ve also just sworn in a new President. He and his administration have vowed to bring unity and calm to the country, something many Americans say they want.

With all that’s happened in the last 12 months, priorities have shifted – for both companies and consumers – as we’ve all adopted a “we’re all in this together” attitude. But what will this mean for businesses as they plan for the future in our changed world?

## The Biden-Harris Administration

Much of what US businesses will see in 2021 will be shaped by the political climate – a Democratic President and Democratic majorities in both the House and Senate. Mona Sutphen, former White House Deputy Chief of Staff for Policy for the Obama administration, says what strikes her most about the incoming administration is their 100% agreement to focus on COVID-19 relief in their first 100 days. “I think you have a level of political and economic alignment I haven’t seen in modern times, and that’s really important.” Their focus will be on creating a stimulus package that picks up where the current one, which expires in March, leaves off. She adds that the conversations and negotiations are much further along than people realize, and because of the cohesive vision of the Cabinet – they will be able to move quickly. There’s also growing bipartisan consensus on reorienting the economy toward clean energy, she says. “This transformation will not only deal with climate change, it will create a lot of quality jobs and put our economy on a better and stronger footing.”

“2021 should be a pretty good year for the global economy, a year of rebound and rebuilding.”

## New Pathways for Business Resiliency

While this year will likely be one of recovery and regaining stability for many businesses, there are some key issues to keep in mind as we prepare for the future. We're on the cusp of a digital transformation, one that will require considerable workforce upskilling across industries. Diversifying supply chains will also be a key theme in the wake of COVID-19.

### A Digital Transformation

Wyatt Crowell, Head of Commercial Banking for HSBC in the US, says that overall the bank's clients have been remarkably resilient throughout the pandemic. The stimulus packages and Paycheck Protection Program (PPP) loans helped, but scale has also played a factor. "Unfortunately, smaller businesses have tended to struggle more than others," he says. "But I'd say a key success factor, regardless of sector, is having a strong digital presence." Any firm that can engage with their customers digitally was much more competitive in 2020 – and this will continue to be important in the future. That's because, as José Rasco,

Chief Investment Strategist for HSBC, puts it – we're at the very beginning of a multi-year digital revolution with 5G. "This will have a significant impact on productivity and profitability, as well as wealth and job creation."

### Workforce Development and Upskilling

Of course, as Ms. Sutphen acknowledges, we were already headed for a digital transformation. "COVID-19 just brought the future forward – faster." That's why one of the priorities of the new administration will be to take advantage of both the post-pandemic rebuilding phase and the digital transition to deal with some chronic issues facing the US workforce. "They want to create higher quality jobs. They want to deal with income inequality and racial equity," she says. This will start with a push toward a \$15 hourly minimum wage followed by the need for substantial workforce development. As our economy also transitions toward clean energy, for example, competitive technical jobs will be created that don't need a college education but will require some upskilling. "It's critical to make sure digital literacy goes up, and there's a fair amount of innovation in this space," explains Ms. Sutphen. "I would say the challenge is to get it to scale."

“We're at the very beginning of a multi-year digital revolution with 5G, which will have a significant impact on productivity and profitability as well as wealth and job creation.

### The New Future of Work

At the same time, Ms. Sutphen says, in addition to upskilling we'll need to consider our technology infrastructure. "When businesses begin to rehire – they're going to rehire into their digital transformation strategies." That will require greater broadband and high-speed Internet access across the country in order for small businesses in particular to engage with customers and take advantage of the potentially increased productivity a remote workforce can offer. Mr. Crowell agrees, saying he sees a hybrid approach emerging. "I'm hopeful we'll have the best of both worlds where we go into the office part of the time and work from home the rest of the time," he says. "And hopefully travel will open up again, because I do think there's value to face-to-face connection – both with colleagues and clients."

## Diversifying Global Supply Chains

Global trade did not slow down as much as anticipated, says Mr. Crowell. "There was some disruption to supply chains at the onset of the crisis, but we continue to see good flows." What we did realize, says Ms. Sutphen, was that our supply chains were not diversified enough to withstand a shutdown in one country or region of the world. In 2020, we saw firsthand the risk that existed when it became difficult to get Personal Protective Equipment (PPE) for healthcare workers and even toilet paper onto the shelves of our supermarkets.

That's because countries will typically put their citizens first in a time of global crisis, understandably. This lesson learned will result in the US creating more sustainable supply chains by bringing them onshore to create both new jobs and high-quality exports. When that's not possible, we'll likely rely on trade partners like Canada and Mexico who are close in proximity as well as other allies who will give us more reliability of access. We're already seeing this happen, says Mr. Crowell, with previously consolidated trade routes being replaced in places like India, the Philippines and Singapore.

### The Economic Outlook for 2021

Even though we continue to see surges in COVID-19 worldwide, Mr. Rasco says the economic outlook is promising. "Economists expect GDP to be very strong in the first half of 2021, and numbers are already far better than forecasted." As depleted inventories are built back up, manufacturing will continue to add to GDP and job growth in the US and around the world. The stimulus package passed in the US in December supports consumers and small- and medium-sized businesses. Mr. Rasco says that injection of capital should lead to an uptick in consumer spending. Corporate profits are also expected to increase by 25% this year, which should offset any potential tax increases introduced by the new administration.



As vaccines continue to roll out, he adds, there is hope that economies will truly begin to open up globally in July and August. "2021 should be a pretty good year for the global economy, a year of rebound and rebuilding," he says.

### Key Take-Aways At-a-Glance

- Wyatt Crowell, Head of Commercial Banking, HSBC: "As terrible as this crisis has been, I really feel like we will build back stronger and I encourage everyone to think about how they can participate in the digital revolution."
- José Rasco, Chief Investment Strategist, HSBC: "I think it's going to be a very good year for the US economy and the global economy, and that we're going to see improved trade and relationships. I also think we're in a new kind of world and technology is going to spark the economy."
- Mona Sutphen, former White House Deputy Chief of Staff for Policy (2009-2011): "On the political front, we're going back to a place where things are going to move fast. The pace, timing and intensity of policy change is going to be profound because we're no longer used to it."

“COVID-19 just brought the future forward – faster.”

These materials are intended solely for your information and HSBC Bank USA, N.A. assumes no obligation to update or otherwise revise these materials. The information, analysis and opinions contained herein constitute our present judgment which is subject to change at any time without notice. Nothing contained herein should be construed as tax, investment, accounting or legal advice. In all cases, you should conduct your own investigation and analysis of each potential transaction, and you should consider the advice of your legal, accounting, tax and other business advisors and such other factors that you consider appropriate. This is not a recommendation, offer, endorsement or solicitation to purchase, sell or a commitment to provide any financing that may be described in these materials. This document is intended for discussion and does not create any contractual commitment on the part of HSBC Bank USA, N.A. The recipient is solely responsible for making its own independent appraisal of the products, services and other content referred to in this document.