

Macro Monthly

Economics
GLOBAL

The global economy in 2026

- ◆ US action in Venezuela is inevitably raising questions about the new world order...
- ◆ ...but the still buoyant markets will be steered by the macro picture and policy outcomes
- ◆ We recently raised our global GDP forecasts to 2.8% in 2025 and 2.7% in 2026

While 2025 ended with trade uncertainty abating and some optimism that major conflicts in the world may be moving a little closer to some kind of resolution, US action in Venezuela could once again upset the world order. The implications will only become clear in time, so with global growth still seemingly resilient and global inflation still mostly trending lower, financial market optimism has not faded.

Muddling through

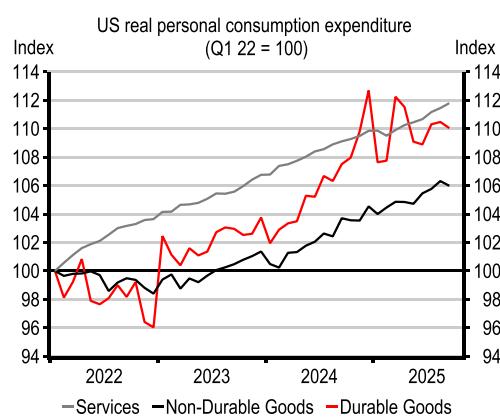
Uncertainty is here to stay though. The global economy in 2025 performed better than most had expected. Despite tariffs, global trade growth was strong, consumer spending held up. The gradual decline in inflation mostly continued. **We still expect the global economy to muddle through in 2026**, albeit supported globally by fiscal spending and the rollout of AI infrastructure.

AI continues to drive multiple K-shaped expansions. In the US, higher-income households (particularly baby boomers) are driving consumer spending, partly on the back of wealth effects from AI equity holdings. The US is also at the forefront of the surge in AI-related investment. This is benefitting Asian exporters that are most exposed to AI-related electronics production – Taiwan, Korea, and much of ASEAN – and related areas of the AI ecosystem. Such rapid growth in world trade is unlikely to be repeated in 2026, given tariffs and such a high base for Asian exports, but we still expect expansion.

The global economy beat expectations in 2025

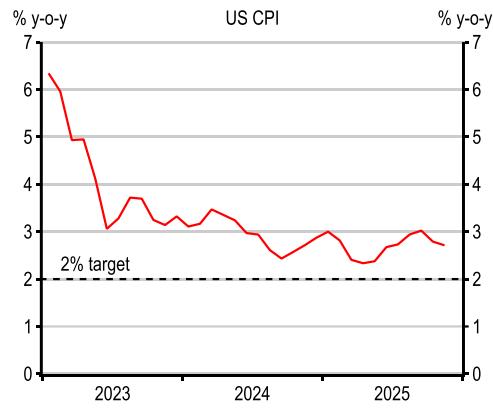
The AI story continues to drive growth

1. US consumer spending remains robust



Source: Macrobond

2. US inflation surprised to the downside in November



Note: CPI held constant in October due to missing data.
Source: Macrobond

Shutdown effects may cause volatility in US growth
Volatile US data

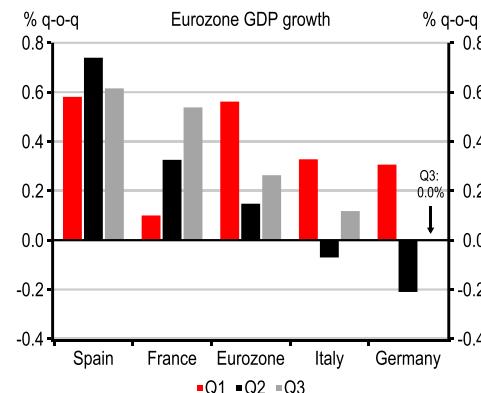
Although there is now a raft of US data that have become available with the end of the government shutdown, **they are still hard to interpret**. Payroll softness may have been driven by deferred government job losses, and, while private payrolls are steady, Federal Reserve (Fed) Chair Powell has stated that they could be an overestimate.

And with immigration slowing and productivity rising, the unemployment rate edged back down to 4.4% in December. Also, US inflation has come down, but technical quirks are playing a role and globally input prices, particularly memory chips, are clearly on the rise. Moreover, government opening effects and tax cuts **should support US growth** in 1H26.

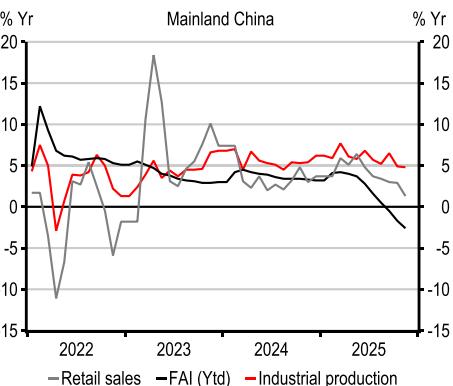
We expect divergence in central bank policy moves
Fiscal support

Outside the US, **Europe is showing early signs of recovery** (Chart 3), though in 2026 much hinges on the execution of the fiscal support. Asia's macroeconomic fundamentals have improved, but the recovery in mainland China has underwhelmed, and further policy stimulus will likely be needed to provide a boost (Chart 4).

Monetary policy divergence is expected to be a prominent theme this year. We expect Australia, New Zealand, and Sweden to join Japan in **raising rates**, while the European Central Bank and the Fed stay **on hold**. In contrast, we see the Bank of England delivering another 75bp of cuts and some emerging market central banks, especially in Asia, **continuing to ease**.

3. The eurozone generally saw a robust 3Q, other than Germany


Source: Macrobond

4. China activity data have continued to slow


Source: Macrobond

We forecast 2026 global GDP growth of 2.7%
Our GDP forecasts

Our global GDP estimate for 2025 now stands at 2.8%, higher than the 2.7% at the start of the year. We also recently raised our **2026 forecast from 2.5% to 2.7%**, much of this is driven by a US upgrade reflecting payback after the government re-opening. That being said we are mindful that another possible US government shutdown could occur at the end of January, which could be a potential source of volatility. Another notable upgrade is in Japan, reflecting the recently approved fiscal stimulus.

Key GDP growth forecasts

% year	2025 forecast	2026 forecast	2027 forecast
World	2.8	(2.6)	2.7
US	2.2	(1.9)	2.3
Mainland China	4.9	(4.9)	4.6
Japan	1.2	(0.8)	1.0
India*	7.8	(7.2)	6.6
ASEAN-6	4.8	(4.4)	4.4
Eurozone	1.4	(1.2)	1.0
UK	1.3	(1.4)	1.0
Brazil	2.4	(2.4)	2.0

Note: *India data is calendar year forecast here for comparability. Previous forecasts are shown in parenthesis and are from the Macro Monthly dated 6 October 2025.

Green indicates an upward revision, red indicates a downward revision.

Source: Bloomberg, HSBC Economics

Key recent releases

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs Consensus
15 Dec	Mainland China	Retail sales (% y-o-y)	Nov	1.3	2.9	2.9	⬇️
15 Dec	Eurozone	Industrial production (% y-o-y)	Oct	2.0	1.9	1.2	⬆️
17 Dec	UK	CPI (% y-o-y)	Nov	3.2	3.5	3.6	⬇️
18 Dec	US	CPI (% y-o-y)	Nov	2.7	3.1	-	⬇️
5 Jan	US	ISM manufacturing (Index)	Dec	47.9	48.4	48.2	⬇️
7 Jan	Eurozone	HICP (% y-o-y)	Dec, flash	2.0	2.0	2.1	→
7 Jan	US	ISM services (Index)	Dec	54.4	52.2	52.6	⬆️
9 Jan	Mainland China	PPI (% y-o-y)	Dec	-1.9	-2.0	-2.2	⬆️
9 Jan	US	Nonfarm payrolls, monthly change (000s)	Dec	50.0	70.0	64.0	⬇️

Note: ⬆️ Positive surprise – actual is higher than consensus, ⬇️ Negative surprise – actual is lower than consensus, → Actual is in line with consensus

Source: Bloomberg, HSBC

Key upcoming events

Date	Market	Release	Period
19 Jan	Mainland China	Retail Sales	Dec
20 Jan	Mainland China	People's Bank of China interest rate announcement	-
21 Jan	UK	CPI	Dec
23 Jan	UK	Retail Sales	Dec
23 Jan	Japan	Bank of Japan interest rate announcement	-
23 Jan	EU / UK / US	PMIs	Jan
29 Jan	US	Federal Reserve interest rate announcement	-
30 Jan	Eurozone	GDP	Q4
4 Feb	Eurozone	HICP	Jan
5 Feb	Eurozone	European Central Bank interest rate announcement	-
5 Feb	UK	Bank of England interest rate announcement	-
6 Feb	US	Non-Farm Payrolls	Jan
11 Feb	Mainland China	PPI / CPI	Jan
12 Feb	UK	GDP	Q4
13 Feb	Eurozone	GDP	Q4

Source: LSEG Eikon, HSBC

Disclosure appendix

Important disclosures

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