

HSBC CIO Perspectives – May 2023

Episode one video

Hello everyone, I'm Willem Sels. I'm the CIO for Global Private Banking and Wealth and welcome to our first episode of CIO Perspectives. And today I wanted to discuss AI and automation and to do this, I have James Pomeroy with us who is a global economist at Global Research and he does a lot of work on longer term trends amongst which technology in particular and studies the impact on the economy. Thank you, James, for joining.

Thank you very much for having me.

We couldn't have picked a more topical trend. I think wherever I go there is talk about AI and automation, ChatGPT of course, and large language models across the world so it feels like a real pivotal change to me. And so how do you see this, James?

Exactly, we've gone through a long period of time where the impact of automation was very much on the physical part of the economy, in manufacturing, in sort of in-person work and now artificial intelligence is starting to feed through into the service sector, into knowledge work. The difference is what we've seen in the last few months is these huge advancements with things like ChatGPT and the other programmes that are coming out, almost daily at the moment. It is almost widening out the scale of jobs and the scale of tasks that can be helped or taken away by artificial intelligence and it's that broadening out that is where this is really, really interesting because you're seeing many more jobs, many more industries starting to be affected by artificial intelligence. And it's that, that I guess, is making people excited, scared or maybe a little bit of both. But it's not all bad news, I guess, and I'm keen to hear if there's any sectors where you think there's really been a support from artificial intelligence?

Pharmaceuticals, clearly there as well. Big data sets in the testing that needs to take place before you can get to product development. So if you can do that more rapidly then obviously you speed up the time to market for new drugs and so on. But I'd say across the industry a big boost to the efficiency of the supply chains and logistics. Even the factory floor, the flow on the factory floor. And this is obviously related as well to smart cities, to smart mobility and so on. And a final area, the utility grid, clearly, we need to make that more resilient. It's a very topical issue. By creating, obviously, not only interconnectivity but also the best and optimal flow of electricity on that utility grid you can make it more resilient. So given that we've gone through the different sectors, James, you know, let me ask you a more sort of traditional, economic question, I guess, which is, you know, what is going to be the impact on growth, on productivity, on, you know, the labour markets, on inflation and so on?

There's very, very few jobs nowadays that aren't going to be touched by artificial intelligence in one way, shape or form. But the way we're seeing it is it's much more about taking away tasks than taking away jobs. And if that is the case, then you could well see a big productivity boost. And that is good news both for growth; it's good news for people, and also it could be good news on inflation because essentially what you could now see is because we get this huge productivity improvement, we're going to see output grow but that'll be much less inflationary. And I guess that's quite good news for both us, for businesses and for central banks. And I guess the question to you is then, are you seeing any impacts of these disinflationary pressures or the impact that that could have within markets?

Yes, I mean, you paint a quite goldilocks scenario, actually, to some extent, right? Higher growth, higher productivity, lower inflation, you know, and if there is some job losses or redistribution, we actually come from start from very strong labour markets, so I don't think that's a big obstacle. So, you know, good news, I think. But is that news long term or is it short term? Because obviously, James, we need a quite significant, you know, CapEx, capital expenditure and investment, you know, is that going to happen in the context of a slow economy that we currently have and the higher rates?

Despite the enormous amount of uncertainty we've seen over the course of the last few years, you continued to have investment by businesses in all of these new technologies. Some of that is because they're trying to

grow and some of it is out of necessity. So that investment has been very, very good in the near-term and there's no reason why that changes because these issues in terms of costs, in terms of the labour market, don't appear to be going away anytime soon. And for businesses, it's partly necessity to tackle these challenges, but it's also an opportunity to be more efficient and to do business better. So there's a lot of good news, I think, out there from these technological changes. But that's from the macro side of things. I guess the question is how does this impact market?

I think, the first thing to do is to try to not restrict yourself geographically, right. Clearly, there are a lot of those companies active in the US, but also in Asia and in Europe, so opportunities across the world. And then secondly, I would also think about the chain, really, of that innovation. There are obviously the users that are going to benefit most from it. Then there are the producers of the innovation. And then in the middle there's the pipes, there is the infrastructure that you need for that innovation to find its way to the users. So clearly a lot of innovation on this topic. And what we really like about it is that it's not just a longer term trend, but also something that is happening really right now already. So thank you very much, James, for all of your input and thank you to everybody for watching.

If you wanted more information about this topic, please do contact us and we can start the discussion. Thank you.