ECONOMIC UPDATE

GLOBAL & INDIAN
March 2017

Jobless rate down but wage growth slows in Britain

UK unemployment fell in the three months to January but there was a sharp slowdown in wage growth. The Office for National Statistics (ONS) said the unemployment rate fell to 4.7% - it has not been lower than that since the summer of 1975.However, wage growth has slowed to 2.3% (excluding bonuses) from 2.6% in the previous three-month period. Wages are rising above the rate of inflation, which is currently 1.8%, but the gap has narrowed.

"March's labour market release reported a solid performance on the jobs side, but included worrying signs of weakness with regards to wages," said Martin Beck, senior economic advisor to the EY Item Club - a respected economic forecasting group.

"We remain cautiously optimistic that this trend will reverse... but with a high proportion of annual pay settlements coming in the early part of the year, the next few months are crucial."

Following last week's Budget, Paul Johnson, director of the Institute for Fiscal Studies (IFS) warned that wages were unlikely to be higher in the next five years. He said: "On current forecasts average earnings will be no higher in 2022 than they were in 2007. Fifteen years without a pay rise. This is completely unprecedented."The latest data showed that wages are growing at the slowest rate since April of last year. Wage growth is one of the most important pieces of data that the Bank of England takes into consideration when it makes decisions about interest rates.

Mr Tombs said he expects the Bank of England's Monetary Policy Committee (MPC) to keep interest rates on hold at 0.25%."All told, the combination of meagre wage growth despite very low unemployment supports the MPC's view that enough slack remains in the labour market to warrant keeping rates on hold during the imminent period of high inflation."The ONS said there are 1.58 million people out of work in the three months to January, 31,000 fewer than the previous three months. The unemployment rate was last at 4.7% in 2005 and has not been below that since the summer of 1975.

China urges cooperation with US ahead of Trump-Xi summit

China doesn't want a trade war with the US China says it doesn't want a trade war with the US .Chinese Premier Li Keqiang stressed the need for healthy Sino-U.S. relations and reiterated his country's stability across various sectors, including the economy, financial markets and foreign policy, at a Wednesday news conference. Speaking at the conclusion of the nation's annual 'Two Sessions' meetings, Li said that Beijing and Washington should strengthen dialogue to resolve differences and achieve common ground on trade relations. "China doesn't want to see a trade war with the U.S.," Li said. His remarks come ahead of scheduled talks between President Donald Trump and Chinese President Xi Jinping next month. The summit would be Trump's latest attempt to ameliorate bilateral ties after he criticized the Asian giant on a range of issues. In a potential reference to Trump's controversial stance on free trade, Li said Beijing supported globalization and is committed to opening up its economy."All countries must work together on global trade," Li stated, adding that Beijing will participate in regional free-trade pacts. China has, in fact, already joined trade talks with member states of the Trans-Pacific Partnership (TPP) in Chile this week.

Li was speaking at the conclusion of two major Chinese political events that were closely followed by global markets: the Chinese People's Political Consultative Conference (CPPCC) and the National People's Congress (NPC).The CPPCC, the mainland's top political advisory body, is branded as a type of consultative democracy, in which the body's 2,200 members, who come from various private-sector and cultural backgrounds, share suggestions with policymakers. The NPC, meanwhile, is a meeting of China's parliament, in which 3,000 delegates review the government's annual work report and draft provisions of civil law.

This year's work report, presented on March 5, set the nation's 2017 gross domestic product (GDP) target at 6.5 percent, below 2016's year goal of between 6.5 and 7 percent. Li defended the 2017 target on Wednesday, saying the figure was not low and will not be easy to meet amid domestic and external risks. But the country still has plenty of policy tools at its disposal and will push ahead with reforms, he added. "It's time to stop talking about a China economic hard landing."Pressure to create more jobs will be big this year, Li said, warning that Beijing would not allow mass unemployment. Economists have long warned of job cuts as the country embarks on supply-side structural reforms, such as slashing overcapacity in steel and coal industries.

Robots, artificial intelligence boom may cost US, UK at least 1/3 of their jobs

Up to one-third of British jobs could be taken over by robots by the early 2030s, impacting 10 million Britons but with women less likely to face redundancy, a UK study showed.

The research, by accountancy firm Price water house Coopers LLP, found 30 percent of UK jobs could face automation compared to 38 percent in the United States, 35 percent in Germany, and 21 percent in Japan. Researchers, however, said this wouldn't necessarily lead to less employment as jobs may change rather than disappear.

But the distinction between men and women was clear, with PwC estimating 35 percent of men's jobs were at risk compared to 26 percent of women's because of the high number of women in sectors requiring social skills like education and health. Male workers are also more concentrated in jobs requiring lower education levels, like transportation and manufacturing. PwC Chief Economist John Hawks worth said in the future employees of both genders will "have to be more adaptable, not stuck in the stereotypes". He said this could present an opportunity for men and women to break down traditional gender gaps and progress in careers, provided they can upskill or access training opportunities."The whole thing has become more fluid," he told the Thomson Reuters Foundation. However, it was uncertain whether these changes would have any impact on the gender pay gap. Figures from the UK's Office of National Statistics show on average women earned about 18 percent less than men in Britain in 2016.

Euro zone PMIs show business activity hits its highest level since April 2011

Euro zone businesses grew during March at their fastest pace since April 2011, according to survey data released. The euro zone March flash composite PMI (purchasing managers' index) - a widely watched proxy for growth and the health of business activity - came in at 56.7, ahead of both February's reading of 56.0 and median consensus expectations of 55.8. Readings higher than 50 indicate an expanding economy.

The buoyant figure signaled that robust demand persisted during the month despite a recent rebound in inflation to around the European Central Bank's (ECB) target level of 2 percent in February. It also suggests that first-quarter GDP (gross domestic product) could come in at around 0.6 percent, Chris Williamson, chief business economist at IHS Markit, was quoted as telling the news agency Reuters."There is a nice broad-based strengthening of the euro zone economy, this is a really solid rate of expansion. It's an economy firing on all cylinders," he added. The ECB is now into its third year of providing substantial monetary stimulus to Europe's markets in the form of bond purchases which it announced it plans to extend to at least the end of 2017, albeit at a lower rate as of next month.

The central bank has faced growing calls amid recent signs of renewed life in Europe's economy to move away from its very loose monetary policies which include negative interest rates in addition to the bond buying program which has now cumulatively purchased trillions of euros' worth of debt. Today's surprisingly strong figures are expected to add to such calls for policy tightening. However, while overall the report showed encouraging news for the region, Stephen Brown, European economist at Capital Economics, does not believe the ECB will feel justified in acting too soon."While the output prices index increased further, there is still slack in the labor market and wage growth is set to remain subdued," Brown wrote in a note on Friday morning."As such, policymakers at the ECB are unlikely to be convinced that recent signs of a pick-up in activity will translate into sustained upward pressure on inflation," he concluded.

Trade recovery expected in 2017 and 2018, amid policy uncertainty

World merchandise trade volume is forecast to grow 2.4% in 2017, but due to a high level of uncertainty, this is placed within a range of 1.8-3.6%.This is up from a very weak 1.3% in 2016, as global GDP growth rises to 2.7% this year from 2.3% last year.

Trade growth in 2018 should pick up slightly to between 2.1-4.0%.The ratio of trade growth to GDP growth fell below 1:1 in 2016, for the first time since 2001.The slowdown in emerging market economies contributed much to the sluggish rate of trade growth in 2016, but these countries are expected to return to modest growth in 2017.Export orders and container shipping have been strong in the early months of 2017, but trade recovery could be undermined by policy shocks. Policy uncertainty is the main risk factor, including imposition of trade restrictive measures and monetary tightening.

The WTO is forecasting that global trade will expand by 2.4% in 2017; however, as deep uncertainty about near-term economic and policy developments raise the forecast risk, this figure is placed within a range of 1.8% to 3.6%. In 2018, the WTO is forecasting trade growth between 2.1% and 4%.

The unpredictable direction of the global economy in the near term and the lack of clarity about government action on monetary, fiscal and trade policies raises the risk that trade activity will be stifled. A spike in inflation leading to higher interest rates, tighter fiscal policies and the imposition of measures to curtail trade could all undermine higher trade growth over the next two years.

"Weak international trade growth in the last few years largely reflects continuing weakness in the global economy.

Trade has the potential to strengthen global growth if the movement of goods and supply of services across borders remains largely unfettered. However, if policymakers attempt to address job losses at home with severe restrictions on imports, trade cannot help boost growth and may even constitute a drag on the recovery," said WTO Director-General Roberto Azevêdo.

"Although trade does cause some economic dislocation in certain communities, its adverse effects should not be overstated – nor should they obscure its benefits in terms of growth, development and job creation. We should see trade as part of the solution to economic difficulties, not part of the problem. In fact, innovation, automation and new technologies are responsible for roughly 80% of the manufacturing jobs that have been lost and no one questions that technological advances benefit most people most of the time. The answer is therefore to pursue policies that reap the benefits from trade, while also applying horizontal solutions to unemployment which embraces better education and training and social programmes that can quickly help get workers back on their feet and ready to compete for the jobs of the future," he said.

The WTO's more promising forecasts for 2017 and 2018 are predicated on certain assumptions and there is considerable downside risk that expansion will fall short of these estimates. Attaining these rates of growth depends to a large degree on global GDP expansion in line with forecasts of 2.7% this year and 2.8% next year. While there are reasonable expectations that such growth could be achieved, expansion along these lines would represent a significant improvement on the 2.3% GDP growth in 2016.

In 2016, the weak trade growth of just 1.3% was partly due to cyclical factors as economic activity slowed across the board, but it also reflected deeper structural changes in the relationship between trade and economic output. The most trade-intensive components of global demand were particularly weak last year as investment spending slumped in the United States and as China continued to rebalance its economy away from investment and toward consumption, dampening import demand. Global economic growth has been unbalanced since the financial crisis, but for the first time in several years all regions of the world economy should experience a synchronized upturn in 2017. This could reinforce growth and provide an additional boost to trade.

Forward looking indicators, including the WTO's World Trade Outlook Indicator, point to stronger trade growth in the first half of 2017, but policy shocks could easily undermine positive recent trends. Unexpected inflation could force central banks to tighten monetary policy faster than they would like, undercutting economic growth and trade in the short-run. Other factors, such as the uncertainty provoked by the United Kingdom's withdrawal from the European Union could potentially have an effect. Meanwhile, the possibility of a rise in the application of restrictive trade policies could affect demand and investment flows, and cut economic growth over the medium-to-long term. In light of these factors, there is a significant risk that trade expansion in 2017 will fall into the lower end of the range.

UK faces bumpy, post-Brexit road of stagflation, company defections: Analysts

With the clock now ticking on Brexit talks, analysts expected the U.K. would face an economic slowdown, stagflation and corporate defections. Sarah Hewin, chief economist for Europe at Standard Chartered Bank, told CNBC's "The Rundown" on Thursday that investors' main concern was the lack of clarity on negotiations and whether there would be an agreement with the European Union by April 2019."The EU is the U.K.'s most important trading partner. If we can continue to get some access to the single market that's going to be very important for a lot of businesses that have invested in the U.K. with a view really to having access to the EU market," she said. "It's unlikely that we're going to get a trade deal done in two years' time."Hewin added that many companies doing business in the U.K. were unlikely to wait the full two years before deciding whether the pull the plug on some or all of their operations there."We're starting to see some businesses already making contingency plans about opening up in a different EU country," she said. "I think that the deadline for many businesses is going to be by next March. If there's only one year to go between potentially losing access to the single market, then businesses will need to know one way or another and if there's still uncertainty at that point, say March 2018, then I think that contingency plans will be enacted."Other analysts expect deeper damage to the U.K. economy.

"We look at it as approximately a loss of between two and three percentage points of GDP, which Is massive, over a period of years," David Roche, global strategist at Independent Strategy, told CNBC's "Squawk Box" on Thursday. He noted that while the U.K. has a trade deficit with Europe, it has a surplus when it comes to services, as it benefited from access to the single market.

"It comes from the fact of course, if you want to have legal advice on how to buy sausages and export them to Vietnam from Germany, you actually go to a London firm of lawyers. Well, you won't anymore," he said.

Roche was also sharply skeptical of claims that the U.K. would be able to replace its trade relationship with the EU through deals with other countries such as the U.S. or China."Trade deals take five to ten years to negotiate; they take a longer period to have an effect and frankly the idea that you can replace such a dominant partner in which the whole of your service sector and your industry sector is highly integrated by just jumping on a plane to China is absolute nonsense," he said. Additionally, Roche expected stagflation would emerge in the U.K."The U.K. is going to have higher inflation from weaker sterling, because it will weaken when the negotiations get tough. And as that inflation happens, then it will bite into real income," he said.

Despite capital controls, China's 'Warren Buffett' Guangchang says he's pushing ahead with overseas acquisitions

Fosun International, one of China's largest conglomerates, is still pursuing acquisitions overseas, despite curbs on capital outflows by Chinese regulators. Speaking with CNBC's "Managing Asia" on the sidelines of Fosun's earnings announcement for 2016, Chairman Guo Guangchang said his company has enough offshore capital to meet its global ambitions."Fosun is different from other Chinese companies: We have a lot of capital reserves out of China," he said, adding that this means capital controls will not impact the way the firm expands overseas."On the other side we are fairly confident about the Chinese economy, and we will invest more in China," he added. Guo, who has been called China's "Warren Buffett," has been on a buying spree over the years. Fosun has made high profile acquisitions such as France's Club Med and Brazil's investment firm Rio Bravo, and it has purchased stakes in Britain's tour operator Thomas Cook, Canada's Cirque de Soleil and Indian drugmaker Gland Pharma. In 2016, Fosun's consolidated assets grew by 19.5 percent to 486.78 billion yuan ($70.7 billion).

'Five empires' threaten to replace US and Europe on the global stage, writer says

"Five empires" are rising and will fill the vacuum if the United States continues to withdraw from the global stage, according to a respected author and documentarian."Today in Europe we see the rebirth of nationalism, but in the rest of the world it is the rebirth of empires," Bernard-Henri Levy, a prolific writer and widely followed philosopher, told CNBC in an interview Thursday."This is the big phenomenon today," he said. "If there is not in front of them a strong resistance from Europe and America, the world will go to a very bad scenario."

Those five empires are, according to Levy: Russia, Iran, Turkey, Islamic extremism and the commercial power of China. The French-Jewish philosopher and writer has a significant involvement in international affairs, especially in France and the Middle East. Levy was born in Algeria when it was a French colony. While he is deeply concerned about the consequences for the global economy, he still has hope."The enrichment of the world and the most equal distribution of this wealth can improve if these five empires find their checks and balances," he said. "And the best checks and balances will be Europe and America. And they are not alone."He pointed to other democracies that serve as counter-balances to the five empires, such as Brazil and India.