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World Trade Outlook Indicator suggests moderate trade momentum in first quarter of 2017

The WTO's latest World Trade Outlook Indicator (WTOI) suggests that global trade growth will continue to build moderately in the first quarter of 2017 after having strengthened in the final quarter of last year. Trade-related indicators including air freight, automobile sales, export orders and container shipping have all registered solid gains in recent months, auguring for faster growth in merchandise trade volumes in the first few months of the year.

The WTOI is a leading indicator of world trade, designed to provide "real time" information on the trajectory of merchandise trade three to four months ahead of trade volume statistics. It combines several trade-related indices into a single composite indicator to measure short-run performance against medium-run trends. A reading of 100 indicates trade growth in line with trend, while readings greater or less than 100 suggest above or below trend growth.

With a current reading of 102.0 for the month of November, the WTOI points to above-trend trade growth in February-March. The WTOI has risen further above trend since the last release three months ago, when the indicator stood at 100.9.Four of the six component indices of the latest WTOI are more positive than the reading for August. Air freight, automobile sales, export orders and container shipping are all moving in a positive direction above trend and rising. Data on international freight tonne kilometres from the International Air Transport Association (IATA) have risen sharply as European air carriers posted strong growth. Container port throughput of major ports has largely recovered from its recent slump while the automobile index has also rebounded after dipping in the middle of last year. On the other hand, indices for electronics and agricultural raw materials trade are both below trend.

The WTO trade forecast issued on 27 September last year foresaw world merchandise trade growth of 1.7% in 2016 and growth between 1.8% and 3.1% in 2017.The WTOI currently suggests that trade volume may begin to recover in the fourth quarter once data become available. Any such rebound would have to be fairly strong for trade growth in 2016 to match the 1.7% increase forecast by the WTO last September. The WTOI is not intended as a short-term forecast, although it does provide an indication of trade growth in the near future. Its main contribution is to identify turning points and gauge momentum in global trade growth. As such, it complements trade statistics and forecasts from the WTO and other organizations.

DG Azevêdo visit to India: Advancing global trade and the role of the WTO

Director-General Roberto Azevêdo told a meeting of the Confederation of Indian Industry (CII) in New Delhi on 9 February that a number of trade issues of interest to India's economy were under discussion at the WTO, ahead of the 11th Ministerial Conference in Buenos Aires this December. He drew attention to discussions on agriculture issues and the facilitation of services trade, where India has been playing a leading role in discussions in Geneva, and pledged his support to help advance this work. During his visit the Director-General met with Minister Nirmala Sitharaman as well as representatives from the private sector and experts across a range of sectors, including agriculture.

Retail sales in UK fall unexpectedly in January

Retail sales slipped back unexpectedly in January, following on from December's dip. Official figures, from the Office for National Statistics (ONS), showed retail sales volumes dropped by 0.3% compared with the previous month, well below the 0.9% rise expected. The ONS said the data indicated the first signs of a fall in the underlying trend since December 2013.It said evidence suggested higher fuel and food prices were key factors. Compared with January 2016, sales were up 1.5%, the weakest performance since November 2013.Kate Davies, senior statistician at the ONS, said: "In the three months to January 2017, retail sales saw the first signs of a fall in the underlying trend since December 2013."We have seen falls in month-on-month seasonally adjusted retail sales, both in conventional stores and online, and the evidence suggests that increased prices in fuel and food are significant factors in this slowdown."

Analysts said consumers were becoming wary of spending at a time when employment and earnings growth was slowing and inflation rising. Samuel Tombs at Pantheon Economics said consumers were starting to "crumble" in the face of inflation pressure. Ruth Gregory, from Capital Economics, said: "January's surprise fall in the official measure of retail sales volumes has brought the recent run of resilient economic news to an abrupt end. And the rest of the

year is shaping up to be tough on the high street, given the expected squeeze on consumers' real pay growth.

Trump presidency poses threat to global economy, warns Fitch

Donald Trump's presidency poses a risk to the global economy, a leading credit ratings agency has warned, highlighting his unpredictability, his administration's aggressive tone and his break with established "norms" in international relations. Less than a month into a presidency characterised by frequent Twitter tirades and an executive to order to ban citizens from some Muslim-majority countries from entering the US, Fitch said Trump posed a threat to global economic conditions.

Fitch is one of three big ratings agencies that assign credit scores to governments based on their perceived ability to repay debts. It said in Friday's strongly worded statement that the new US administration could damage those scores, known as sovereign ratings."The Trump administration represents a risk to international economic conditions and global sovereign credit fundamentals," it said."US policy predictability has diminished, with established international communication channels and relationship norms being set aside and raising the prospect of sudden, unanticipated changes in US policies with potential global implications."

Key risks, from Fitch's perspective, included possible disruptions to trade relations, limits on migration that affect the amount of money foreign workers in the US send home, and "confrontational exchanges" between policymakers that could spark swings in currencies and other financial markets."The materialisation of these risks would provide an unfavourable backdrop for economic growth, putting pressure on public finances that may have rating implications for some sovereigns," the ratings agency added.

It joined other commentators in predicting a possible boost to economic growth from Trump's planned infrastructure spending, his plans to cut red tape and promised tax cuts.

The countries whose credit ratings were most at risk were those with close economic and financial ties with the US which Trump's administration felt had some kind of unfair advantage, Fitch said."Canada, China, Germany, Japan and Mexico have been identified explicitly by the administration as having trade arrangements or exchange rate policies that warrant attention, but the list is unlikely to end there," it said.

Fitch also highlighted that the US had the world's largest immigrant population and said tighter controls and possible deportations, therefore, risked having wide economic repercussions. Fitch's concerns centre on the issue of "remittance flows", the money foreign workers send to individuals in their home countries, which in the US include Mexico, Honduras, El Salvador, Guatemala and Nicaragua. The agency also warned of risks to countries that have benefited from investment by US firms and where some of the money has helped fund industries in those countries that export back to America.

Fitch felt those countries could get singled out by the Trump administration for punitive trade measures. It signalled the UK was one such country, including it on a list of those with the highest stock of US investment in manufacturing along with Canada, Germany and Mexico.

Fitch's intervention comes after warnings from the leading thinktank the Organisation for Economic Co-operation and Development that a wave of protectionism and trade tensions risks denting global growth, stoking inflation and harming living standards.

'UK could be fastest-growing G7 economy if it gets trade deals right'

The UK could shake off the near-term impact of Brexit to become the fastest-growing economy in the G7 group of rich countries between now and 2050, according to a report that paints a bright outlook for the country's prospects outside the EU. Consultants PwC say the UK economy will not escape entirely unscathed from the decision to leave the bloc and that it will dampen growth prospects in the short term. But the brunt of the impact would be felt by 2020 and in the years that follow the UK would outperform its peers thanks to its relatively large working age population and its flexible economy. They see the UK economy remaining in the top 10, slipping down one spot from ninth place now to 10th in purchasing power parity (PPP) terms, which adjusts for price differences between countries to provide a measure of the volume of goods and services produced by an economy. France is forecast to drop out of the top 10, to 12th place in 2050, while Germany is forecast to fall from fifth place to ninth. Mexico is the only newcomer to the top 10 in 2050.

"Our relatively positive long-term growth projection for the UK is due to favourable demographic factors and a relatively flexible economy by European standards," said John Hawksworth, chief economist at PwC."However, developing successful trade and investment links with faster-growing emerging economies will be critical to achieving this, offsetting probable weaker trade links with the EU after Brexit."With annual average growth of about 1.9% over the period to 2050, the UK is projected to be the fastest-growing economy of the G7, which comprises it, the US, Canada, France, Germany, Italy and Japan.

PwC's projections see the world economy doubling in size by 2042, growing at an average annual rate of 2.5% to 2050. But it adds a note of caution that the forecasts are based on some basic assumptions."We assume broadly growth-friendly (but not perfect) policies and no major civilisation-

threatening global catastrophes (eg nuclear war, asteroid collisions) over the period to 2050," the report said. In PPP terms, China is already the world's largest economy and will continue to be so in 2050, by a significant margin, the report said. Emphasising the role of emerging economies in driving growth and taking an increasing share of the global economy, the report also predicted India could have edged past the US into second place by then, with Indonesia rising to fourth place.

Brexit could help EU strike free trade deal with India, MEPs believe

The EU believes it may stand a better chance of striking a free trade deal with India after the UK leaves the union, despite the importance Britain attaches to trade with its old colony. A document drawn up by MEPs on the powerful trade committee analysing the impact of Brexit on the EU's trade talks around the world suggests India's desire to maintain tariffs on scotch whisky has hindered progress on a EU-India deal.

Theresa May's opposition to India being given plentiful visa opportunities for its skilled workers in the UK has also been a hurdle in previous trade talks. The MEPs say Brexit may offer an opportunity for the EU, which is a much more important market for Indian companies, despite the UK's belief in its special link with the country. "Given the important Indian diaspora living in the UK and the common past, the UK tends to attach particular importance to its economic relations to India, however, trading ties are more important with other EU member states," they write.

"As a trading partner for India, Germany is the top EU country (rank number six), whereby the UK figures only rank 18 between Kuwait and Iran as a trading partner for India. While the UK makes up 3.4% of India's overall exports, it accounts only for less than 2% of India's exports. In addition currently the UK has by far the largest trade deficit in goods with India of any EU member states accounting for €2,611m (whereby Belgium and Germany have a large trade surplus with India)."

The MEPs say the UK's withdrawal provides a chance for the EU to build on the better trade links with India, and they suggest May's government will struggle to strike the deal it wants. They say: "Scotland has a major interest in an FTA [free trade agreement with India: India has the world's largest market for whisky, which is highly protected by prohibitive tariffs. Lowering tariffs for Scottish whisky could present an important market opportunity."In case the UK (including Scotland) would leave the EU, this could possibly facilitate FTA negotiations [for the EU] as tariffs on wines and spirits constitute an obstacle. This as well as financial services, would then become a bit less of an offensive interest of the EU."

The document adds that the visas India has been seeking for its skilled workers is a "political problem" for the UK if it wants a deal: "India has a major interest in mode IV access for its service suppliers to the UK, which would also prove politically difficult (as most of the Indian service providers would certainly like to enter the UK for delivering temporary services)."

Shashi Tharoor, the chairman of India's parliamentary standing committee on external affairs, suggested May's refusal as home secretary to allow greater access to the UK for skilled Indian workers, in particular, had "screwed up" chances of an EU-India trade deal and would prove to be "detrimental" to future relations.The MEPs' document, leaked to the Guardian, does however see a threat to the EU's other trade talks in Britain's withdrawal.

This is what Japan must do to boost growth. It's not monetary policy

"Just by doing monetary easing, I don't think we can increase the aggregate demand," Shirai, whose five-year term at the BOJ ended on March 31, 2016, told CNBC's "Squawk Box" on Tuesday. Shirai was also sceptical of the government expanding fiscal policy, another frequently mentioned possibility for boosting Japan's anaemic economic growth.

"If you talk to the households, they all say they are worried about their futures because they don't know how many years they are going to live and then their pensions are not enough," said Shirai, who is currently a professor at Keio University. "So the most important thing is Abe really has to touch on Social Security expansion reform and try to make this pension, health insurance system more sustainable and that is the only way in order to reduce the anxiety and concerns that are prevailing among the households."

Japan's pension and health-care systems have been strained by an aging and declining population, with fewer workers supporting a growing number of retired people. Prime Minister Shinzo Abe's administration has been seeking reforms that would limit pension-benefit payment growth.

In the fourth quarter, Japan's gross domestic product (GDP) grew just 1.0 percent annualized, weighed by sluggish consumer demand. Household spending in December fell 0.3 percent on-year, while retail sales rose 0.6 percent on-year in December, below expectations from a Reuters poll for a 1.3 percent rise.

Shirai said monetary policy and the resultant weaker yen can't spur more consumption.

"Households are very sensitive to the prices, the general prices and especially food prices," she said. "So this past most recent quarter, you saw the consumption growth was very sluggish. It's because food prices went up. Whenever food prices go up, the consumers feel their disposable

income is going down. So they'd rather reduce the consumption."

Shirai said she believed it was time for the central bank to taper its purchases of Japanese government bonds (JGBs). She was one of four dissenters to the BOJ cutting interest rates into negative territory in early 2016; the move was passed on a 5-4 vote. Two of the dissenting voters, Takehiro Sato and Takahide Kiuchi, remain on the nine-member board led by Governor Haruhiko Kuroda and they have also expressed doubts about the policy of massive government bond and financial asset purchases by the BOJ to spur inflation to a sustained 2 percent level.

"As long as BOJ continues to purchase 80 trillion yen [worth], that means they are taking away those JGBs away from commercial banks and institutional investors, which is not sustainable," she said. "It's important the BOJ starts to reduce the amount of BOJ purchases from 80 trillion yen. At the same time, they can raise the 10-year target from the current zero percent level toward the 0.0-0.5 percent range and they make it more market determined interest rate."

In September, the BOJ set a target yield for the benchmark 10-year Japanese government bond at around zero percent. Since then, the BOJ has intervened to keep the benchmark yield in line with its target. The yield-curve control policy theoretically means the BOJ can buy fewer bonds as it would only need to time its purchases for when the yield curve moves away from its target. That would help ease concerns that the central bank, which already owns more than a third of all JGBs, would run out of bonds to buy as it continued with its planned 80 trillion yen (around $703.53 billion) annual pace of expansion of its monetary base. The BOJ has taken essentially a "whatever it takes" stance on boosting inflation, saying it would maintain an easy stance until inflation exceeded its target of 2 percent "in a stable manner."