ECONOMIC UPDATE

GLOBAL & INDIAN

January 2015

Japanese Recession Adds to Overseas Jitters

The world's third-largest economy contracted at an annualized rate of 1.6 percent in the third quarter. Despite the surprising news that the world's third-largest economy just entered into a recession, the U.S. shouldn't fear a similar fate, though there are some takeaways for policymakers as the American economy firms and growth abroad grows more uncertain. Japan unexpectedly slipped into a recession in the third quarter as higher taxes held back household and business spending alike. The country's economy contracted at an annualized rate of 1.6 percent in the July through September period after a slump of 7.3 percent in the second quarter. A common definition of a recession is two straight quarters of negative gross domestic product growth. While impact of a Japanese recession might not be significant for the U.S. directly, it's another source of weakness abroad that could add to jitters about the domestic outlook. Further, none of the economists surveyed by Bloomberg or The Wall Street Journal had anticipated such a weak reading: The median forecast for both was for annualized growth of 2.2 percent and 2.25 percent, respectively.When he took office in 2012, Japanese Prime Minister Shinzo Abe launched a three-pronged plan to increase the money supply, ramp up government spending and enact competitive structural reforms – all part of an economic program that's popularly known as Abenomics. It was created to lift Japan out of two decades of sluggish growth marred by falling prices and weak demand. Just weeks after the U.S. Federal Reserve announced an end to its third round of its post-crisis economic stimulus program, the Japanese central bank last month said it will accelerate its own asset purchasing that's meant to stimulate economic growth. In Japan, the hangover from an April a sales tax increase – from 5 percent to 8 percent – discouraged consumer spending and prompted businesses to rein inventory and investments. The GDP contraction increases the likelihood Abe will announce Tuesday a delay in a second such increase to 10 percent next year.

U.N. Wants to End Poverty, Hunger by 2030

Despite progress, some equality goals set by the U.N. for 2015 fell short in the developing world.

The United Nations set ambitious goals in 2000 to reduce global poverty and inequality by 2015, and while it successfully cut extreme poverty in half, the multinational group is conflicted about how much developing regions such as sub-Saharan Africa can improve by 2030. The U.N. targets for progress were known as the Millennium Development Goals, which included cutting extreme poverty – which the group defined as people earning less than $1.25 per day – in half worldwide by 2015. The international community succeeded in that despite the global financial crisis of 2008 that damaged momentum toward reform. U.N. Secretary-General Ban Ki-moon wants to set a challenge of ending extreme poverty by 2030 now that economies have recovered in recent years.

The U.N. set eight development goals for 2015, but Ban's December latest report calls for 17 new targets to encourage sustainable development, including reducing preventable deaths, ending hunger and achieving gender equality.

“With our globalized economy and sophisticated technology, we can decide to end the age-old ills of extreme poverty and hunger,” he said in his report. “Or we can continue to degrade our planet and allow intolerable inequalities to sow bitterness and despair.”.

International aid workers recognized that political instability and the 2014 outbreak of Ebola in Africa could damage reform in the region, where 34 of the 48 least developed countries in the world are located..“Even after societies recuperate, the potential for development remains impaired long after the crises are over, as human capital is depleted and institutions are weakened,” according to the authors of the U.N. progress report for Africa.

The percentage of people unable to feed themselves for an active life decreased from 23.6 percent between 1990 and 1992 to about 14.3 percent between 2011 and 2013, the U.N. reported earlier this year. If the final tally of the 2015 goals shows that rate of progress hold steady, the improvement would still be 1 percent shy of the U.N.'s target reduction, according to the report.

Hunger has declined in Africa and other developing regions during the past two decades, according to the U.N.'s recent progress report and data from the International Food Policy Research Institute, leaving some hope for eliminating starvation by 2030. An estimated 842 million people suffered from chronic hunger between 2011 and 2013, according to the U.N., which amounts to one in every eight people, many of whom are in developing nations.

Viet Nam appeals panel report on shrimp dispute

On 6 January 2015, Viet Nam filed a Notice of Appeal regarding the panel report on "United States – Anti Dumping Measures on Certain Shrimp from Viet Nam" (WT/DS429).Parties to a dispute can appeal a panel's ruling. Appeals have to be based on points of law, such as legal interpretation — they cannot re-open factual findings made by the panel. Each appeal is heard by three members of a permanent seven-member Appellate Body comprising persons of recognized authority and unaffiliated with any government. The Appellate Body membership broadly represents the geographic range of WTO membership, with each member appointed for a fixed term. Generally, the Appellate Body has up to 3 months to conclude its report.

Azevêdo launches intensive process to agree Doha work programme

At an open-ended meeting with all members on 21 January – the first of 2015 – Director-General Roberto Azevêdo launched a new process of consultations with the aim of agreeing a work programme on the remaining Doha Development Agenda issues by July this year. This new deadline was set by members at a special meeting of the General Council in November.

Global Growth Revised Down

Even with the sharp oil price decline—a net positive for global growth—the world economic outlook is still subdued, weighed down by underlying weakness elsewhere, says the IMF's latest WEO Update.

Global growth is forecast to rise moderately in 2015–16, from 3.3 percent in 2014 to 3.5 percent in 2015 and 3.7 percent in 2016 (see table), revised down by 0.3 percent for both years relative to the October 2014 World Economic Outlook(WEO).

Recent developments, affecting different countries in different ways, have shaped the global economy since the release of the October *WEO*, the report says. New factors supporting growth—lower oil prices, but also depreciation of euro and yen—are more than offset by persistent negative forces, including the lingering legacies of the crisis and weak investment as many countries adjust to lower potential growth.

"At the country level, the cross currents make for a complicated picture," says Olivier Blanchard, IMF Economic Counsellor and Director of Research. "It means good news for oil importers, bad news for oil exporters. Good news for commodity importers, bad news for exporters. Continuing struggles for the countries which show scars of the crisis, and not so for others. Good news for countries more linked to the euro and the yen, bad news for those more linked to the dollar."

Federal Reserve upbeat on US economy, cites strong job gains

The Federal Reserve on Wednesday said the US economy was expanding "at a solid pace" with strong job gains in a signal that the central bank remains on track with its plans to raise interest rates this year.

In making its announcement, the Fed largely skirted slumping economies in Europe and Asia, saying only that it would take "financial and international developments" into account when determining when to raise rates, adding a reference to global markets for the first time since January 2013.

"Economic activity has been expanding at a solid pace," the Fed said in a statement that marked an upgrade to its prior assessment of a "moderate pace" of growth. "Labor market conditions have improved further, with strong job gains and a lower unemployment rate."

Long-term US bond yields fell as some investors focused on the Fed's reference to international developments and weak inflation, potentially widening the gap between the central bank's language and what markets expect policymakers to do. The dollar strengthened against a broad basket of currencies.

"Just the inclusion of international development, that's probably perceived as dovish and the bond market is rallying probably on that," said Jim O'Sullivan, chief US economist at High Frequency Economics. O'Sullivan added that "at the end of the day, the baseline is still June for lift-off," and said that the falling unemployment rate remains a key gauge for the Fed.

The Fed's stance stands in sharp contrast to many of its peers in developed countries that have recently eased monetary policy to boost struggling economies. That was led by the European Central Bank's 1 trillion euro bond-buying program to stimulate the euro zone's economy.

"You would have thought that if you were going to really postpone (a rate hike) to 2016 there would have been some more emphasis on international events and the dollar," said John Silva, an economist at Wells Fargo in Charlotte, North Carolina.

The policy divergence has helped push the US dollar to multi-year highs, a looming concern for the Fed given the move's negative impact on US exporters and inflation.

Many Fed officials have pointed to a possible rate increase around mid-year, but they again left the door open to a later move. "The committee judges that it can be patient in beginning to normalize the stance of monetary policy," the Fed said.

The central bank acknowledged inflation had declined further below its 2 per cent target and that market-based price gauges had fallen substantially - a more negative assessment than it gave in December.

The Fed also provided a time frame for its inflation view, saying it expects inflation to rise gradually toward its goal over the "medium term."

Fed officials have said they could being raising rates even if inflation remains stuck at a low level, confident that economic growth and job gains will eventually produce rising prices. They also view the initial "liftoff" as the start of an extended, years-long process in which rates will remain far below normal and continue to boost investment and spending.

The latest statement follows a policy shift begun in December when the Fed first said it would take a patient approach to raising rates. At that time, Fed Chair Janet Yellen made clear that "patient" meant at least two meetings. In December, the Fed said that approach was consistent with its previous guidance of keeping rates near zero for a "considerable time." The statement on Wednesday removed the reference to its former guidance.

EU Moves toward Tougher Russia Sanctions as Greece Yields

European Union governments moved toward imposing further economic sanctions on Russia as Greece's new administration refrained from casting a veto that could leave it isolated in Europe.EU foreign ministers gave the go-ahead to prepare steps that would go beyond last year's decisions to ban financing for Russian state-owned banks and prohibit the export of advanced energy-exploration technology. The EU will also extend a blacklist of 132 people including Russian politicians and military officers involved in the Ukraine conflict by six months to September, and add more names to the list by Feb. 9.

“We hope this can help put pressure in particular on Russia to make positive steps,” EU foreign policy chief Federica Mogherini told reporters after the 28 national ministers met Thursday in Brussels. The decision includes “preparatory work for further restrictive measures,” she said. The run-up to the meeting was dominated by concern that Greece's new government, which favors better ties with Russia, would block the additional restrictions. In the end, Greek Foreign Minister Nikos Kotzias shied away from a confrontation in the Syriza-led government's first appearance on the EU stage.