# ECONOMIC UPDATE

## GLOBAL & INDIAN
## November 2015

**The UK economy grew by 0.4% in the third quarter of the year**

The rate was revised down from 0.5% because the key services sector, which accounts for well over 70% of UK economic activity, grew more slowly than had been thought.

It is the third estimate for the quarter from **the Office for National Statistics (ONS).** The ONS also cut its estimate of second quarter GDP growth from 0.7% to 0.5%.In annual terms, growth in the third quarter of the year was revised down to 2.1% from the previous estimate of 2.3%.

The UK economy has been growing for 11 consecutive quarters. A Treasury spokesman said in a statement that the figures highlighted that risks to the UK economy remained despite it being "the fastest growing economy in the G7 last year"."We're leading the pack with the US this year, we have a record high employment rate and the deficit is down," the Treasury said.

Simon French, chief economist at stockbrokers Panmure Gordon, said the figures added to a picture of a fragile economy: "It's been a bad 24 hours for the chancellor with bad public sector borrowing numbers [on Tuesday]. It is the fourth of seven quarters where the ONS growth estimate overestimated the strength of of the economy. The most worrying part was the weakness of the service sector, which is the engine of the UK economy. Figures for the service sector in October - the first month of the fourth quarter - only grew 0.1% between September and October, suggesting fourth quarter GDP has made a slow start. The previous month the index grew by 0.5%.

**US personal consumption up 0.3 pct in Nov, BEA data shows**

U.S. consumer spending picked up in November as households loosened their purse strings at the start of the holiday shopping season, boosting prospects for fourth quarter economic growth.

The November rise in consumer spending, which accounts for more than two-thirds of U.S. economic activity, was a welcome sign for an economy that had down shifted in the third quarter. The increase was in line with economists' expectations, and while the October reading was revised downward from a previously reported 0.1 percent gain, spending in September was a bit stronger than earlier reported. In November, spending strengthened across the board, with outlays on long-lasting durable goods, non-durable items and services all rising. Spending on pricey durable products, such as cars and washing machines, that are meant to last three years or more rose a healthy 0.7 percent in November. Services spending, which has been lifted by rising health care costs, rose 0.2 percent. While consumer spending is likely running below the third-quarter's annualized brisk pace of 3.0 percent, November's increase could prompt economists to modestly lift their fourth-quarter gross domestic product estimates. Growth estimates for the final three months of the year have been hovering around a 2 percent rate, the same pace as growth in the third quarter.

**WTO members consider draft Nairobi Ministerial Declaration**

The three facilitators appointed by Director-General Roberto Azevêdo to support members to develop a Ministerial Declaration for the WTO's 10th Ministerial Conference presented their draft Declaration text at a meeting of all members today (27 November).

The facilitators (Ambassador Gabriel Duque of Colombia, Ambassador Harald Neple of Norway and Ambassador Stephen Karau of Kenya) prepared this text at the request of members, after an intensive period of consultations on the shape, structure and content of a potential Ministerial Declaration. The facilitators used textual proposals made by members to develop their draft. At the request of members, they also excluded the most contentious issues from their draft, leaving them to be addressed via a separate process.

The Director-General asked members to take time to consider the document over the coming days before discussing it in detail at a meeting of all members on Wednesday 2 December. He stressed that the document was a draft for consideration. He said:“This text represents the facilitators' best efforts. It is a good faith attempt to provide something that members can work with, and which — we hope — will allow for convergence on the majority of the Ministerial Declaration. As promised, this text touches specifically on the less contentious issues. And, again, as promised, the facilitators have treated members' textual proposals with the highest priority throughout.

“Of course, we also need to tackle the most contentious issues — such as the reaffirmation of the Doha Development Agenda and instructions on the way forward, and openness to talking about new issues. I will set up a different process to deal with those tough, contentious issues, and we will be starting this process after the General Council is finished next week."The Director-General also stressed the need to keep making progress in negotiations towards agreeing substantive outcomes for the Ministerial Conference. The Conference will take place in Nairobi on 15-18 December.

**Two members of the Appellate Body reappointed**

At its meeting on 25 November 2015, the Dispute Settlement Body agreed to the reappointment of Mr. Ujal Singh Bathia, of India, and Mr. Thomas Graham, of the United States, for a four-year term as members of the Appellate Body starting 11 December 2015.The reappointment of Mr Ujal Singh Bathia and Mr Thomas Graham will be their second and last term as members of the Appellate Body. The reappointments follow a period of informal consultations with WTO members conducted by the chair of the Dispute Settlement Body (DSB), Ambassador Harald Neple (Norway), since April 2015 and an informal meeting on 12 November with the two Appellate Body members, at which delegations were invited to ask them questions.

The chair also informed the DSB that of the seven members of the Appellate Body, the second term of office of Ms Yuejiao Zhang, of China, will expire on 31 May 2016 and she will not be eligible for reappointment. The chair asked delegations to start thinking about possible candidates for the selection process to replace Ms Zhang. He proposed 15 March 2016 as the deadline for the nomination of candidates. Also, the first four-year term of Mr Seung Wa Chang, of Korea, will expire on 31 May 2016. He is eligible for reappointment to a second and final term of office and, since he is willing to serve a second term as Appellate Body member, the chair will start consultations with delegations regarding this reappointment, which according to the rules of the Dispute Settlement Understanding is not automatic.

**DG Azevêdo urges G20 leaders to strengthen global trading system**

Director-General Roberto Azevêdo briefed G20 leaders at their meeting in Antalya, Turkey, today (16 November) on preparations for the WTO's 10th Ministerial Conference in Nairobi next month. In their communiqué, the leaders gave a strong call for the WTO to deliver in Nairobi and to implement all the elements of the Bali Package, including those on agriculture, development, public stockholding as well as the prompt ratification and implementation of the Trade Facilitation Agreement. However, in the meeting much of the discussion focused on regional and bilateral trade initiatives due, in part, to slow progress in the Doha Round negotiations.

The Director-General said:"Our analysis of regional trade agreements shows no obvious conflicts with WTO rules — they all have WTO DNA. But a bigger consideration is where regional agreements cover areas that are not currently covered by the WTO. No one would suggest that regional agreements should not venture into these areas, but conversations in the WTO would definitely be more inclusive, coherent and balanced.

"Progress in Nairobi on a number of fronts — including on issues under the Doha Round — would help to strengthen trade at the global level. We are working towards agreement on issues including agricultural export subsidies and similar measures, and a package for the least-developed countries. This would be significant. We have been trying to do away with export subsidies for decades. We also need to support ratification of the Trade Facilitation Agreement and continue to implement all other elements of the Bali Package.

"But what we decide to do after Nairobi is also crucial. We have to find ways of moving the Doha issues forward and keeping the organization operational and responsive to challenges currently faced by members.

"This is particularly important against the backdrop of a persistent slowdown in trade growth, continuing protectionism and unprecedented activity at the regional and bilateral level. We must ensure that the global trading system is as strong as possible in order to boost growth, jobs and development. But for this to happen, the G20 leaders need to work collectively — they must work to find and explore synergies on a range of trade-related issues. We are not doing that now."

**Divergence remains as WTO members look at new agriculture proposals**

WTO members exchanged views on two recent proposals for possible areas of agreement in agriculture at the WTO's Ministerial Conference in Nairobi, at an informal meeting of agriculture negotiators on 18 November. Differences remain among members on the way forward.

One of the proposals relates to a possible outcome on export competition at the Ministerial Conference. The second proposal — by the G33 group — updates the group's earlier proposals regarding the special safeguard mechanism, which would enable developing countries to temporarily raise tariffs to curb import surges. The G33 believes that this should be part of the package of issues to be agreed in Nairobi. A paper was also submitted by Australia, highlighting how a legally binding decision in Nairobi on export competition could be commercially beneficial. In addition, the Chairperson of the agriculture negotiations, Ambassador Vangelis Vitalis of New Zealand, updated members on his recent consultations on a number of important agricultural issues.

“The export competition pillar remains in substance where it was at our last meeting on 30 October,” Ambassador Vitalis told members. He regretted that on domestic support and market access — two other pillars of the agriculture negotiations — he has "seen no evolution in the substantive positions of members”.

On the special safeguard mechanism (SSM), Ambassador Vitalis noted that “notwithstanding this useful discussion, it is clear that a difficult political threshold question remains unresolved. This is whether there is a shared sensed that the SSM is a potential deliverable for Nairobi.” He said that views appear to be diametrically opposed.

He stressed that “cotton must be part of any outcome from the 10th Ministerial Conference”. However, “there is no convergence as of today on what should constitute such an outcome”. On public stockholding for food security purposes, the Chair said that “with regret I have to say that I did not see any fundamental change in members' well-known positions”. He reminded members that “we have a mandate both from the Bali Ministerial in 2013 and from the General Council in 2014” to make all concerted efforts to find a permanent solution.

**World GDP and Debt Crisis**

The world economy grew by 2.7% in the third quarter of this year compared with the same period a year ago, down from 2.8% the previous quarter. Although China's GDP grew below an annual rate of 7%, it was still the biggest contributor to world growth. Measured at purchasing-power parity, China's output accounted for over 40% of global growth. India, the next-biggest contributor (at 17%), has been doing its bit to offset China's slowdown: GDP there grew at 7.4% year on year in the third quarter. America, the third-biggest contributor, has seen its growth slow, from a year-on-year rate of 2.7% in the second quarter of 2015 to 2.2%. That is still far better than Brazil and Russia, both of which shrank.

IT IS close to ten years since America's housing bubble burst. It is six since Greece's insolvency sparked the euro crisis. Linking these episodes was a rapid build-up of debt, followed by a bust. A third instalment in the chronicles of debt is now unfolding. This time the setting is emerging markets. Investors have already dumped assets in the developing world, but the full agony of the slowdown still lies ahead.

Debt crises in poorer countries are nothing new. In some ways this one will be less dramatic than the defaults and broken currency pegs that marked crashes in the 1980s and 1990s. Today's emerging markets, by and large, have more flexible exchange rates, bigger reserves and a smaller share of their debts in foreign currency. Nonetheless, the bust will hit growth harder than people now expect, weakening the world economy even as the Federal Reserve begins to raise interest rates.

. In America a glut of global savings, much of it from Asia, washed into subprime housing, with disastrous results. In the euro area, thrifty Germans helped to fund booms in Irish housing and Greek public spending.

As these rich-world bubbles turned to bust, sending interest rates to historic lows, the flow of capital changed direction. Money flowed from rich countries to poorer ones. That was at least the right way around. But this was yet another binge: too much borrowed too fast, and lots of the debt taken on by firms to finance imprudent projects or purchase overpriced assets. Overall, debt in emerging markets has risen from 150% of GDP in 2009 to 195%. Corporate debt has surged from less than 50% of GDP in 2008 to almost 75%. China's debt-to-GDP ratio has risen by nearly 50 percentage points in the past four years.

Now this boom, too, is coming to an end. Slower Chinese growth and weak commodity prices have darkened prospects even as a stronger dollar and the approach of higher American interest rates dam the flood of cheap capital. Next comes the reckoning. Some debt cycles end in crisis and recession—witness both the subprime debacle and the euro zone's agonies. Others result merely in slower growth, as borrowers stop spending and lenders scuttle for cover. The scale of the emerging-market credit boom ensures that its aftermath will hurt. In countries where private-sector indebtedness has risen by more than 20% of GDP, the pace of GDP growth slows by an average of almost three percentage points in the three years after the peak of borrowing (see article). But just how much pain lies ahead will also depend on local factors, from the scale of the exchange-rate adjustment that has already taken place to the size of countries' reserves. Crudely, most emerging economies can be put into one of three groups.

The first group includes those for which the credit boom will be followed by a prolonged hangover, not a heart attack. The likes of South Korea and Singapore belong in this category; so, crucially for the world economy, does China. It still has formidable defences to protect it against an exodus of capital. It has an enormous current-account surplus. Its foreign-exchange reserves stood at $3.5 trillion in October, roughly three times as much as its external debt. Policymakers have the ability to bail out borrowers, and show little sign of being willing to tolerate defaults. Shovelling problems under the carpet does not get rid of them. Firms that ought to go bust stagger on; dud loans pile up on banks' balance-sheets; excess capacity in sectors like steel leads to dumping elsewhere. All this saps growth, but it also puts off the threat of a severe crisis.

For that risk, look instead to countries in the second category—those that lack the same means to bail out imprudent borrowers or to protect themselves from capital flight. Of the larger economies in this category, three stand out. Brazil's corporate-bond market has grown 12-fold since 2007. Its current-account deficit means that it relies on foreign capital; its political paralysis and fiscal inflexibility offer nothing to reassure investors. Malaysia's banks have lots of foreign liabilities, and its households have the highest debt-to-income ratio of any big emerging market; its cushion of foreign-exchange reserves looks thin and its current-account surplus is forecast to shrink. Turkey combines a current-account deficit, high inflation and foreign-currency-denominated debts that have become more onerous as the lira has fallen.

The third group of countries consists of those emerging markets that will either escape serious trouble or have already gone through the worst. Of the big ones, India is in healthier shape than any other big emerging economy and Russia might just surpass expectations. The rouble has already gone through a bigger adjustment than any other major currency, and the economy shows tentative signs of responding. Argentina, a perennial flop but one with little private debt, could also shine if a reformist wins the presidency this month.