ECONOMIC UPDATE

GLOBAL & INDIAN

August 2018

UK wage growth fastest for nearly 10 years

Wages rose at an annual pace of 3.1% in the three months to August, official figures show.Despite sign of a pick-up in wage growth, Howard Archer, the chief economic adviser to the EY Item Club, is not expecting any rise in UK interest rates until well into next year.

"The earnings data will likely fuel Bank of England confidence that pay growth will firm over the coming months amid labour market tightness," he says.

"Nevertheless, we still believe that the Bank of England is unlikely to raise interest rates again until after the UK leaves the EU in March 2019 given the major uncertainties that are occurring in the run-up to the UK's departure."Assuming a no-deal Brexit scenario is avoided, and UK sees "relatively steady growth", Mr Archer expects the Bank to lift UK rates from 0.75% to 1% in August 2019.

Despite the acceleration in wage growth, Suren Thiru, head of economics at the British Chambers of Commerce says this is unlikely to lead to a surge in consumers' spending power.

“While wage growth increased again, the pace at which pay growth is exceeding price growth remains well below the historic average, meaning the current squeeze on spending power is unlikely to ease," he said."Achieving a meaningful improvement in wage growth will be an uphill struggle unless the underlying issues that continue to limit pay settlements are tackled - notably sluggish productivity, considerable underemployment and high upfront costs for businesses."

Trump’s Tax Cuts Delight Wall Street as Debt Worries Fade

It was only about five years ago that powerful people in finance loved talking about the horrendous consequences for the U.S. if it didn’t get its finances under control. They warned that the federal debt—and the interest payments—could eventually get high enough to drag down the economy, burden future generations, and even threaten national security. Chief executive officers of five of the biggest U.S. banks joined a campaign called Fix the Debt, signing on with hedge fund billionaires, asset managers, and private equity executives, as well as former lawmakers and others.

The conversation on Wall Street changed after November’s election. Some of the same people who were anxious about the debt sounded delighted by Donald Trump’s plan to cut taxes for corporations and high earners, trumpeting it as a way to fuel growth. Never mind that estimates from the conservative-leaning Tax Foundation showed Trump’s campaign plan could reduce federal revenue by $3.9 trillion over 10 years. Case in point: Goldman Sachs Group Inc. CEO Lloyd Blankfein, a Fix the Debt supporter who in 2012 told CNBC he’d be for higher taxes if they helped mend the fiscal gap. After the election, Blankfein told colleagues in a companywide voicemail that Trump’s proposals, including tax reform, “will be good for growth and, therefore, will be good for our clients and for our firm.” The White House has proposed cutting tax rates to as low as 15 percent for corporations and 35 percent for wealthy individuals—and Wall Street isn’t anxious about deficits.

Argentina’s economic crisis

After Argentina’s economy boomed in 2017 and market-friendly President Mauricio Macri’s coalition triumphed at legislative elections last October, economists had rosy expectations for the South American country at the beginning of this year. But a run on the peso currency has shown Argentines and investors that the country’s history of financial volatility is far from over. Economists had long argued that Argentina’s peso currency was overvalued, and the government acknowledged that it would depreciate gradually over the years. But no one expected the speed with which the peso plunged against the dollar in April, due to investor concerns about the government’s ability to control inflation and interest rate hikes by the U.S. Federal Reserve, which strengthened the dollar worldwide. The depreciation made Argentina’s dollar debts more expensive for the government, prompting it to turn to the International Monetary Fund (IMF) for a $50 billion loan.

Argentina’s high inflation rate is one of the factors that make it more vulnerable than other emerging markets to moves by global investors away from risky assets. For years, populist governments printed money to finance wide budget deficits, causing consumer prices to spike. Macri’s government has reduced that practice, but his hikes to utility prices as part of an effort to reduce subsidies and close the fiscal deficit have kept inflation high. The rapid drop in the exchange rate has prompted inflation to accelerate in recent months.

The central bank responded to the rapid depreciation and spike in inflation by hiking interest rates to 45 percent and selling billions of dollars in foreign currency reserves to protect the peso. That resulted in a sharp decline in reserves, which had grown gradually since Macri took office in December 2015. While the IMF loan gave reserves a boost, continued pressure on the peso has begun to prompt renewed central bank interventions in recent weeks.

The spike in inflation and rise in interest rates have weighed on the economy, but in addition to the financial storm, Argentina has been hit by some bad luck beyond Macri's control. The worst drought in decades slashed the harvests of soybeans and corn, the backbone of Argentina's economy. The economy has now contracted for three straight months, with the agricultural sector leading the way to what economists are certain will be a recession. The economy fell by 6.7 percent in June, the worst monthly fall since the global financial crisis of 2009.

The recession threatens two of Macri's main campaign promises: achieving "zero poverty" and creating quality jobs for Argentines. Macri acknowledged earlier this month that poverty had likely increased because of inflation and the economic downturn, while the number of registered workers has begun to decline from its peak in December 2017. The government plans to reduce infrastructure spending as part of its pledges to cut its budget deficit under the IMF deal, which could exacerbate job losses. That could mean trouble as Macri prepares to seek re-election in 2019.

Blow to Indian IT professionals as US extends suspension of H-1B visas

The suspension announced by the US Citizenship and Immigration Services is expected to last until February 19 next year 5000 complaints received on visa frauds after Trump tightens H-1B visa rule. Infosys, Wipro, 5 other firms see 43% drop in H1-B approvals in past 3 yrs. Spouses of H-1B visa holders to be worst hit as Trump reconfirms his intent. H-1B visa process begins today: Why your move to America might get tougher. Over 60,000 spouses of Indian H-1B visa holders may soon go jobless;

The US has extended the temporary suspension of premium processing for H1-B visas, popular among Indian IT professionals, as part of its efforts to clear the backlog. Premium processing is a feature that shortens the usual processing time of H-1B visa petitions from an average of six months to 15 calendar days for a fee of $1,225 (Rs 86,181). It allowed some companies to jump the queue.

The suspension, announced by the US Citizenship and Immigration Services (USCIS), are expected to last until February 19 next year.

The USCIS said it is extending the temporary suspension of premium processing for cap-subject H-1B petitions and, beginning September 11, will be expanding this temporary suspension to include certain additional H-1B petitions.

Under the premium processing, the USCIS has to respond within 15 days to the H-1B visa petitions submitted to it.

The USCIS had announced in March that it will temporarily suspend premium processing for all fiscal year 2019 cap-subject petitions, including petitions seeking an exemption for individuals with a US master's degree or higher. This suspension of premium processing for fiscal year 2019 cap-subject H-1B petitions was originally slated to last until September 10, 2018, but that suspension is being extended through an estimated date of February 19, 2019.

The USCIS said the temporary suspension will help it reduce overall H-1B processing times by allowing it to process long-pending petitions, which the agency said it has been unable to process due to the high volume of incoming petitions and premium processing requests over the past few months.

The temporary suspension will also allow the agency to be responsive to petitions with time-sensitive start dates and prioritise adjudication of H-1B extension of status cases that are nearing the 240-day mark. As an H-1B non-immigrant, the applicant may be admitted for a period of up to three years. The time period may be extended, but generally cannot go beyond a total of six years. The H1-B visa has an annual numerical limit cap of 65,000 each fiscal year as mandated by the Congress. The first 20,000 petitions filed on behalf of beneficiaries with a US master's degree or higher are exempt from the cap.

Additionally, H1-B workers who are petitioned for or employed at an institution of higher education or its affiliated or related nonprofit entities or a nonprofit research organisation or a government research organization are not subject to this numerical cap. According to the USCIS, between 2007 and 2017, it received the maximum number of 2.2 million H-1B petitions from high-skilled Indians. India was followed by China with 301,000 H-1B petitions during the same period.

China, India, Indonesia may represent half of world economy by 2060:

If one adds Indonesia, about half of the world's economy will be represented by the three Asian countries. India will overtake UK this year as the world's fifth biggest economy.

Thanks to manufacturing, services sectors, Indian economy gathers momentum.

March quarter was good for Indian economy but will road ahead be bumpy?

India a $10 trillion economy by 2030: Underestimation or business as usual?

Indian digital economy likely to touch $1 trillion-mark by 2022:

Long-run economic scenarios for the world economy show that US GDP growth is expected to surpass that of China in 2040, according to the OECD. By that time, China's economy will be 77 per cent larger in international dollars than that of the US In 2037, the economies of India and the US are expected to switch order too, as the world's economic might shifts toward Asia. By 2060, China and India's share of the global economy will be larger than that of all OECD countries combined. If one adds Indonesia, about half of the world's economy will be represented by the three Asian countries.

US, Mexico agree to overhaul NAFTA

Negotiations between the three trade partners have dragged on for more than a year and repeated threats by Trump that he would ditch the 1994 accord have roiled financial markets. The United States and Mexico agreed on Monday to overhaul the North American Free Trade Agreement (NAFTA), putting pressure on Canada to agree to the new terms on auto trade and other issues to remain part of the three-nation pact.

US President Donald Trump and outgoing Mexican President Enrique Pena Nieto said talks with Canada would begin immediately, though Trump threatened he could put tariffs on Canadian-made cars if a three-way deal could not be reached."I think with Canada, frankly, the easiest we can do is to tariff their cars coming in. It's a tremendous amount of money and it's a very simple negotiation. It could end in one day and we take in a lot of money the following day," Trump said.

Negotiations between the three trade partners have dragged on for more than a year and repeated threats by Trump that he would ditch the 1994 accord have roiled financial markets, putting pressure on the Mexican peso and the Canadian dollar.

The Mexico-U.S. discussions focused on crafting new rules for the automotive industry, which Trump has put at the heart of his drive to rework the pact he has repeatedly described as a "disaster" for American workers.

A spokesman for Canadian Foreign Minister Chrystia Freeland said Canada would continue to negotiate, but would only sign a new agreement that is good for the country.

The United States, Mexico and Canada do more than 1 trillion dollars in trade between them every year. The announcement of a U.S.-Mexico agreement lifted financial markets. Trump said he would talk to Canadian Prime Minister Justin Trudeau soon. Trudeau spoke to Pena Nieto on Sunday and shared their commitment to reaching a successful conclusion of NAFTA "for all three parties" the prime minister's office said on Monday. Pena Nieto said on Twitter that he had urged Canada to return to the talks with the aim of concluding a three-nation accord "this week."

The U.S.-Mexico deal would require 75 per cent of auto content to be made in the NAFTA region, up from the current level of 62.5 per cent, a second U.S. official said. A draft fact sheet specified the content would be made in the United States and Mexico. The deal also would require 40 per cent to 45 per cent of auto content to be made by workers earning at least $16 per hour, the second official said."We are now inviting the Canadians in as well and hope that we can reach a fair and successful conclusion with them as well," a senior U.S. trade official told Reuters in an interview.

"There are still issues with Canada but I think they could be resolved very quickly," the official said. Trump is expected to send formal notice to the U.S. Congress by the end of the week about his intentions to sign a new trade agreement within 90 days, which would give Mexico's Pena Nieto time to sign it before he leaves office, the senior U.S. trade official said. U.S., Mexican and Canadian stocks opened higher on Monday on optimism about a trade deal. Mexican stocks jumped 1.4 per cent to a seven-month high, while the peso firmed about 1.3 percent against the dollar, heading for its best one-day gain in more than a month.

Trade war escalates with new round of tariffs imposed on Chinese imports

The latest round brings to $50 billion the value of imports subjected to tariffs on either side since early July, and more are in the pipeline, adding to risks for global economic growth. Washington will hold hearings this week on a proposed list of an additional $200 billion worth of Chinese imports to face duties.US Customs and Border Protection confirmed on its website that at 12:01 a.m. EDT (0401 GMT) on Thursday, which is just past noon in Beijing, it would begin collecting extra 25 per cent duties on 279 Chinese import product categories valued at $16 billion.

The tariffs were set to take effect amid two days of talks in Washington between mid-level officials from both sides, the first formal negotiations since US Commerce Secretary met with Chinese economic adviser Liu He in Beijing in June. Business groups expressed hope that the two-day meeting would mark the start of serious negotiations over Chinese trade and economic policy changes demanded by President Donald Trump. Economists reckon that every $100 billion of imports affected by tariffs would reduce global trade by around 0.5 per cent. They have assumed a direct impact on China's economic growth in 2018 of 0.1-0.3 percentage points and somewhat less for the U.S., but the impact will be bigger next year, along with collateral damage for other countries and companies tied into China's global supply chains.

Trump has threatened to impose duties on virtually all of the more than $500 billion of Chinese goods exported annually to the United States unless Beijing agrees to sweeping changes to its intellectual property practices, industrial subsidy programs and tariff structure. That would more than exceed the size of China's exports to the United States, raising concerns that Beijing could consider other types of retaliation, such as making life more difficult for American firms in China or letting its yuan currency weaken further to keep its exports competitive.

Trump's hard line has rattled Beijing and spurred criticism within Chinese policy circles over its handling of the trade war, sources have said. Beijing has denied US allegations that it systematically forces the unfair transfer of US technology and has said that it adheres to World Trade Organization rules.

Washington's latest tariffs apply to products including semiconductors, plastics, chemicals and railway equipment that the Office of the US Trade Representative has said benefit from Beijing's "Made in China 2025" industrial plan to make China competitive in high-tech industries. China's list of 333 US product categories hit with duties includes coal, copper scrap, fuel, steel products, buses and medical equipment

Slowdown in oil imports from China and India drags down demand in Asia

Traders expect growth to slow further as the Iran sanctions take hold, the trade spat between the United States and China escalates, and as Asia's emerging markets show signs of cooling India's oil imports from Iran fall over 15% in June amid US sanctions fears Relief for India? US to consider waivers on Iran sanctions, says Mnuchin India, US hold talks as Washington hints at exemptions .Cheap oil from Iran or Trump's good books? PM Modi finds himself in a fix US says import of Iranian oil sanctionable from Nov 4; India may get relief .Oil demand from Asia's biggest importers, China and India, is growing more slowly than expected, exposing weakness in two of the world's largest economies and eroding a key pillar of global petroleum prices amid trade tensions.

The two countries buy a combined 12 per cent of the world's oil, and their growth has helped drive the recovery in oil prices since 2016.Yet their shipped imports in July were about half a million barrels per day (bpd) below their Jaunary-June average of 12.4 million bpd, shipping data shows. That has dragged down demand growth in Asia, despite inflated purchases ahead of US sanctions on Iran and increased imports from Japan and South Korea as they struggle with record-setting heat waves.

Shipping data shows annualised growth in demand from Asia's five largest oil importers - China, India, Japan, South Korea and Taiwan - fell from more than 3.5 per cent in 2016 to around 2 per cent so far this year."Everything is weakening, but from a pretty elevated level," said Jeff Brown, president of energy consultancy FGE. Traders expect growth to slow further as the Iran sanctions take hold, the trade spat between the United States and China escalates, and as Asia's emerging markets show signs of cooling.

"Any further escalation in the trade conflict between them is clearly an important downside risk and could lead to a further slowdown in oil demand growth for 2019, leading to a downward pressure on oil prices," said Sushant Gupta, research director at energy consultancy Wood Mackenzie.

Renewed US sanctions against major oil exporter Iran, which from November will target the petroleum sector, are expected to disrupt the market. Iran's oil exports peaked at almost 3 million bpd in May this year, but they have since fallen to around 2 million bpd as Asian buyers, including Japan, South Korea and India, began to shun its crude ahead of the sanctions. The effects of the economic slowdown will take time to manifest, but analysts say investors are already becoming cautious.

China's investment growth in the first seven months of the year slowed to a record low of 5.5 per cent, data showed this week.

Charters of super-tankers from the Middle East, on which Asia heavily relies to meet its oil demand, are dipping, according to ship brokerage Banchero Costa."If you look at pure economic figures, the impact of the tariff disputes is still quite small, perhaps 0.5 per cent of GDP growth. But the impact on investment mood is starting to show," Brown said.

World trade volume growth peaked in January at almost 5.7 per cent year-on-year, but fell to less than 3 per cent by May, according to the Netherlands Bureau for Economic Policy Analysis. Trade tensions with the US have weakened currencies in emerging markets as investors pull cash out of countries like India and China and convert it to US dollars, which are still seen as a safe haven.

Although Brent crude oil has become about 8 per cent more expensive this year in dollars, the price increase has been 14 per cent in China's renminbi and more than 18 per cent in Indian rupees.

Shipping data suggests July oil imports into China, India, Japan, South Korea and Taiwan were around 19 million bpd. Although that's slightly above June, it's below the figures for April and May. It's also some way off a record of more than 20 million bpd from April 2016.Should the global economic outlook darken further amid trade disputes and emerging market turmoil, oil demand in Asia could worsen."When you have all these factors like tariff disputes and weakening emerging market currencies, it's going to hurt sentiment," said FGE's Brown.