ECONOMIC UPDATE

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China posts weakest growth in 29 years as trade war with US bites

China's economic growth slowed to its weakest in nearly 30 years in 2019 amid a bruising trade war with the United States and sputtering investment, and more stimulus steps are expected this year to help avert a sharper slowdown. Fourth-quarter gross domestic product (GDP) rose 6.0% from a year earlier, data from the National Bureau of Statistics showed on Friday, in line with expectations and steady from the pace in the third quarter. That left full-year growth at 6.1%, the slowest rate of expansion China has seen since 1990. Analysts had expected it to cool from 6.6% in 2018 to 6.1%.

While recent data have pointed to some signs of improvement in the ailing manufacturing sector, and a newly-signed Sino-U.S. trade deal has helped revive business confidence, analysts are not sure if the gains can be sustained. This year is crucial for the ruling Communist Party to fulfil its goal of doubling GDP and incomes in the decade to 2020, and turning China into a "moderately prosperous" nation. Even with additional stimulus and the trade war truce, economists polled by Reuters expect growth will cool further this year to 5.9%. Policy sources have told Reuters that Beijing plans to set a lower economic growth target of around 6% this year from last year's 6-6.5%, relying on increased infrastructure spending to ward off a sharper slowdown.

On a quarterly basis, the economy grew 1.5% in October-December from the previous three months, in line with expectations and also steadying. December data released along with quarterly GDP showed a surprising acceleration in factory output and investment growth, while retail sales grew at a steady, solid pace, suggesting the economy ended the year on a firmer note.

Industrial output grew 6.9% in December from a year earlier, the strongest pace in nine months. Analysts had expected growth to dip to 5.9% from 6.2% in November. Fixed-asset investment rose 5.4% for the full year, versus expectations for a 5.2% increase, the same as in the first 11 months of the year. Retail sales rose 8.0% in December on-year, compared with forecasts for 7.8% and November's 8.0%.

Real estate investment rose 9.9% in 2019 from a year earlier, slowing slightly from a 10.2% gain in the first 11 months of the year. Beijing has been relying on a mix of fiscal and monetary steps to weather the current downturn, cutting taxes and allowing local governments to sell huge amounts of bonds to fund infrastructure projects. Banks also have been encouraged to lend more, especially to small firms, with new yuan loans hitting a record 16.81 trillion yuan ($2.44 trillion) in 2019. But the economy has been slow to respond, and investment growth has slid to record lows

Negotiations for the second phase of a pending US-China trade deal will begin

Trump's remarks come days before Beijing's trade envoy is due in Washington to sign a "phase one" agreement, marking a pause in the two sides' nearly two-year trade war. The US leader also openly cast doubt on whether American farmers would be able to supply China with the massive increases in agricultural exports expected to be part of the deal."We'll start right away negotiating phase two. It will take a little time," Trump told reporters."I think I might want to wait to finish it until after the election because I think we can make a little bit better deal, maybe a lot better deal."

After efforts to reach a grand bargain proved elusive last year, the two sides agreed in December to a partial deal addressing only some of Washington's grievances about Chinese trade practices. Since the trade war began, talks have broken down acrimoniously more than once. And observers have speculated in recent weeks there may be little appetite for Phase Two even though many of the tariffs put in place during the conflict remain in place.

As part of the "Phase One" deal, China has committed to a minimum of $200 billion in increased purchases over the next two years from the United States, including $50 billion in additional farm exports, according to US Trade Representative Robert Lighthizer. Annual US farm exports to China peaked in 2012 at $26 billion, a time when commodity prices were higher."The big question I have is whether or not the farmers will be able to supply all that much more," Trump said Thursday. "It's the biggest contract ever signed."

Japan's policymakers brace for fourth-quarter GDP slump, growing coronavirus risks

Japanese policymakers on Friday braced for a sharp contraction in October-December growth and warned of the hit to output and consumption from the coronavirus outbreak, signalling alarm over a darkening outlook for the world's third-largest economy. Bank of Japan Executive

Director Eiji Maeda said gross domestic product (GDP) may have suffered a "big contraction" in the final quarter of last year due to sluggish overseas demand and damage to consumption from last year's sales tax hike."Japan's economy is expected to continue expanding moderately as a trend," thanks to robust capital expenditure and government spending, Maeda told parliament. "But we need to be vigilant against various risks such as the impact the coronavirus outbreak could have on output and spending by inbound tourists," he said.

Economy Minister Yasutoshi Nishimura also told reporters the virus outbreak, as well as unusually warm weather that hurts sales of winter clothing, were "fresh factors weighing on the economy."Analysts polled by Reuters expect Japan's economy to have shrank an annualised 3.7% in the October-December quarter, which would be the fastest pace of decline since 2014. Japan is among countries worst affected by the epidemic outside China, with 251 confirmed cases including those on a cruise ship. Some analysts expect Japan's economy to suffer another contraction in the current quarter as China's virus outbreak hurts exports, output and consumption through a sharp drop in overseas tourists.

Finance Minister Taro also said the government was ready to take additional steps depending on how big the impact from the outbreak could be. BOJ's Maeda said the central bank will support the economy by maintaining its massive stimulus programme but stopped short of signalling additional monetary support.

Maeda's remarks suggest the BOJ does not see the virus impact as big enough yet to alter its economic projections. Some in the BOJ worry that supply chain disruptions could hurt Japanese firms if Chinese factory shutdowns continue for weeks, sources familiar with their thinking say. The BOJ next meets for a rate review on March 18-19.

Talent Is Still Mainly Found in High-Income Economies

The Worker Talent Gap between high-income economies and the rest of the world keeps widening, with a select few countries showing they can grow, attract and retain high-skilled workers. Those are the conclusions of the 2020 edition of the Global Talent Competitiveness Index (GTCI), a report put together by business school INSEAD, tech giant Google and human resources provider the Adecco Group.

As in previous editions of the index, researchers saw a positive correlation between a country's high economic performance and its talent competitiveness, with European countries dominating the top 10 list of countries with the most talent.

"More than half of the population in the developing world lack basic digital skills," the authors of the 2020 report say. "In the age of (artificial intelligence), this digital skills divide is broadening, with a few countries progressing quickly while most of the developing world is lagging."

The Global Talent Competitiveness Index is a composite index that examines six pillars, encompassing nations' abilities to enable, attract, grow and retain talent; the actions that countries are taking in policy and business; and national performances in technical/vocational and global knowledge skills. The 2020 report, the seventh published by INSEAD and its partners, analyzes nations based on their performance in all those areas between 2018 and 2020.

Switzerland took the index's overall first spot as the most talent-competitive country in the world, followed by the United States, Singapore, Sweden, Denmark, the Netherlands, Finland, Luxembourg, Norway, and Australia.

Switzerland also ranked highest in talent retention, while the United States scored highest in talent growth capabilities, as well as for vocational and technical skills. According to the index, Singapore is the country most capable of enabling and attracting talent, and having the highest level of global knowledge skills.

"As was the case in previous editions, GTCI 2020 champions include a significant number of small high-income economies, many of them being either landlocked, island or quasi-island economies," the authors of the report write in their introduction. "Such economies have developed relatively open socioeconomic policies in which talent growth and management are central priorities."

Other findings of the 2020 Global Talent Competitiveness Index include: The most talent-competitive cities in the world are New York, London, Singapore, San Francisco, Boston, Hong Kong, Paris, Tokyo, Los Angeles and Munich.Singapore, Switzerland, Uganda (84th) and Madagascar (88th) are the only countries of the 88 ranked that kept their position in the global ranking since 2015.Indonesia made the highest jump from the 78th spot in the 2015-2017 ranking to 58th in the 2018-2020 index.Luxembourg and Canada are the countries in the top 20 that fell the most, ranking third and eighth for 2015-2017 and 10th and 15th for 2018-2020.

The 10 Most Economically Stable Countries, Ranked by Perception

"the GTCI's longitudinal analyses highlight that — even if it is the exception rather than the rule — some developing countries (e.g., China, Costa Rica, and Malaysia) can become talent champions in their respective regions, while others (e.g., Ghana and India) have significantly improved their capacity to enable, attract, grow, and retain talent over the past few years, and hence can be labeled talent movers," the authors of the report say.

The new index also identified the worst-performing countries in talent competitiveness as Uganda, Venezuela, Cambodia, Bangladesh and Madagascar. The report lists Abuja (Nigeria), Lahore (Pakistan), Lagos (Nigeria), Cairo and Karachi (Pakistan) as the worst-performing cities in enabling and attracting talent, and as the worst for building the right policy framework for talent

European Economic Growth Slows Almost to Zero

Unexpectedly bad data leaves Europe with little margin for error as Brexit takes effect and the coronavirus looms.

Friday was not a good day for Europe. As the European Union officially became smaller, losing Britain as a member, new data showed that economic growth in the bloc came almost to a standstill and that it is in danger of slipping into recession.

The 28 countries in the European Union grew only 0.1 percent during the last three months of 2019 compared with the previous quarter, according to official statistics. The eurozone, the region that includes 19 of those countries that use the euro, grew by the same amount in that period.

It was the European Union's worst performance since the beginning of 2013, and leaves Europe with little margin for error as it braces for the economic impact of the coronavirus. Compounding the problem: The American economy has also slowed, with growth at its lowest rate since 2016. The United States is Europe's largest trading partner.

A number of factors contributed to the unexpectedly bad growth figures, economists said. They include widespread strikes in France, political confusion in Italy and slumping world trade.But Brexit hasn't helped. With the future terms of cross-channel trade still to be negotiated, some businesses may be hesitant to hire new workers or spend money on expansion.

It is one of the uncertainties weighing on investment," said Rosie Colthorpe, European economist at Oxford Economics in London. "It's still quite uncertain what both sides want."

Growth at the end of the year was significantly slower than during previous quarters. The eurozone countries grew just 1.2 percent during 2019, according to a preliminary estimate by Eurostat, the European Union's official statistics agency. The bloc as a whole, which includes countries that aren't in the eurozone, like Sweden, Poland and Romania, grew 1.4 percent.

"The specter of recession is back," Christoph Weil, an economist at Commerzbank in Frankfurt, said in a note to investors on Friday.

The coronavirus is another big unknown. China is a major customer for German cars and other European products. A slowdown in China would spill over to the eurozone. Europeans are also nervous that President Trump could follow through on threats to put punitive tariffs on cars manufactured there.

Output in Italy, Europe's most troubled big economy, unexpectedly shrank 0.3 percent in the fourth quarter. For the full year, Italian growth was zero, signaling more of the stagnation that has plagued the country for more than a decade.

Brexit has already hurt trade between Britain and the rest of Europe. Germany missed out on about 16.2 billion euros, or $18 billion, in exports to Britain because of Brexit, according to the Ifo Institute for Economic Research in Munich, which measured how much more Germany would have sold to Britain if trade had remained as high as it was in 2015, before the Brexit referendum.

Some economists expressed optimism that the fourth quarter of 2019 was a low point and that European growth will begin to recover. Only a few months ago, Britain appeared to be headed for a disorderly exit from the European Union. That danger, at least, seems to be past.

France, where the economy unexpectedly shrank 0.1 percent in the fourth quarter, could bounce back now that the strikes that paralyzed transportation have largely ended.

Unemployment in the eurozone, at 7.4 percent in December, is at its lowest since before the financial crisis began in 2008, according to figures released Thursday. When people have jobs, they spend more money and contribute to growth."Our hope is that the fourth quarter marks the bottom," Ms. Colthorpe of Oxford Economics said. "We are little bit positive about 2020. But with uncertainties about Brexit and so forth it's not going to be a massive rebound."US CHINA TRADE TALKS