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Rising Food Prices

Tesco's John Allan told the BBC he was aware people were on very tight budgets and having to choose between food and heating "troubles us". But he said grocers and suppliers were not immune from rising energy costs. Mr Allan also defended Tesco against claims from food poverty activist Jack Monroe that the costs of basic staples were rising faster than other goods. He estimated supermarket prices could rise as much as 5% by the spring as energy and other costs feed through to the High Street, adding that Tesco's food price inflation in the last three months had been contained to about 1%.

"We are impacted by rising energy prices, our suppliers are impacted by rising energy prices. So the likelihood is that that inflation figure will rise," he said. Mr Allan said he recognised the cost of food took up a bigger proportion of household budgets for people on lower incomes.

People having to choose between heating their homes and feeding their families "troubles us, and I'm sure troubles many people... That's clearly not a situation that any of us should tolerate," he said. A report earlier this month from the British Retail Consortium said food inflation accelerated to 2.7% in January, up from 2.4% in December.

Annual UK inflation is currently 5.4%, a 30-year high, and is predicted to top 7% this year. Meanwhile, the cost of energy is set to soar under new price-cap rules, prompting the chancellor to unveil a support package for households last week. Mr Allan said: "I think the combination of increasing energy prices, the impact of National Insurance increases [in April] on people's incomes, and to a much lesser extent increasing food prices, is going to squeeze the hardest-up still harder."

The pressure facing poorer households was highlighted by Jack Monroe this month in analysis she said showed that everyday essentials, such as the cheapest own-brand pasta or rice, were going up in price by more than the official inflation rate. Mr Allan said he could not speak for the rest of the industry, but it was untrue at Tesco. "Price rises depend on individual products - coffee is going up, but other things like the cheapest tin of baked beans in Tesco is cheaper than it was five years ago," he said.

The head of the retail industry's trade body said that across the sector firms are working hard to cut costs. But there is only so much the industry can do to shield shoppers, said Helen Dickinson, chief executive of the British Retail Consortium."It would be impossible to protect consumers from any future rises. As commodity prices, energy prices and transportation costs continue to rise, it is inevitable that retail prices will continue to follow in the future," she said.

Meanwhile, Mr Allan also rejected suggestions from the Bank of England's governor that people should not ask for big pay rises because it was feeding into higher inflation.

IMF Growth Projection of World Economy

The International Monetary Fund has sharply cut its growth forecast for 2022 with a warning that higher-than-expected inflation and the Omicron variant have worsened the outlook for the global economy.

In a quarterly update to predictions made in October 2021, the IMF said it anticipated growth of 4.4% this year – down 0.5 percentage points – and emphasised the risks were of a weaker performance.

Gita Gopinath, the IMF's economic counsellor, said that as a result of Covid-19 the global economy would be $13.8t smaller by 2024 than it would have been had its pre-pandemic trend continued. The Washington-based organisation blamed the downgrade on rising cost pressures and the rapid spread of Omicron, and said while the 2022 outlook was markedly worse for the world's two biggest economies – the US and China – few countries would be spared a slowdown.

The UK is expected to grow by 4.7% in 2022; a cut of 0.3 points to the IMF's forecast in its October 2021 World Economic Outlook. Despite the reduction, the IMF anticipates the UK growing faster this year than the other six members of the G7 industrial nations – the US, Japan, Germany, France, Italy and Canada. Gopinath said there was a case for the government providing “well-targeted support to highly vulnerable” UK households facing rocketing energy bills this spring.

After recent stock market volatility, Gopinath said she would expect to see corrections in share prices as global interest rates went up this year, but said these should be “orderly” provided central banks communicated the thinking behind their decisions. An escalation of the tension between Russia and Ukraine would give an added twist to already high global energy costs, she predicted.

In its updated WEO, the IMF said bottlenecks had shaved between 0.5% and 1% off global growth in 2021. “Meanwhile, inflation has been higher and more broad-based than anticipated, particularly in the US. Adding to these pressures, the retrenchment in China's real estate sector appears to be more drawn out, and the recovery in private consumption is weaker than previously expected.”

The IMF publishes its world economic outlook each April and October, with updates in January and July. After pencilling in 2022 world growth of almost 5% in October, it has now cut its baseline forecast for every G7 country apart from Japan. The biggest downgrade has been to the US – where the IMF's growth forecast has been shaved by 1.2 points to 4%, but there were also cuts of 0.8 points for Germany and Canada, and 0.4 points for France and Italy. China's growth forecast has been reduced by 0.8 points to 4.8%.

“Risks to the global baseline are tilted to the downside,” the IMF said. “The emergence of new Covid-19 variants could prolong the pandemic and induce renewed economic disruptions. Moreover, supply chain disruptions, energy price volatility, and localised wage pressures mean uncertainty around inflation and policy paths is high.”

The IMF used the update to repeat its call for more equal vaccine coverage, noting the fully vaccinated share of the population was about 70% for high-income countries, but below 4% for low-income countries. It set a target of vaccinating 40% of the world's population by the end of 2021 but this was missed in 86 countries.

“With the pandemic continuing to maintain its grip, the emphasis on an effective global health strategy is more salient than ever. Worldwide access to vaccines, tests, and treatments is essential to reduce the risk of further dangerous Covid-19 variants.”

The IMF said its forecasts were based on Covid-19 health problems declining to low levels by the end of 2022, a pickup in vaccination rates and therapies becoming more effective.

Rising Interest Rates

China has warned the US and Europe against a rapid rise in interest rates that would “slam on the brakes” of the global recovery from the pandemic. Central banks should maintain the monetary stimulus or risk “serious economic consequences” from the spillover effects with developing markets bearing the brunt. In a virtual speech to open the World Economic Forum's Davos Agenda, the Chinese president, Xi Jinping, said that while global inflation risks were emerging, policymakers should strengthen economic policy coordination and develop policies to prevent the world economy from dipping again.“We must do everything necessary to clear the shadow of the pandemic and boost economic and social recovery and development,” he said.

“If major economies slam on the brakes or make major U-turns in their monetary policies there will be serious negative spill overs. They would present challenges to global and economic financial stability and developing countries would bear the brunt.”

China is among many countries across Asia, Africa and South America concerned about plans flagged by the US central bank to accelerate a series of planned interest rate rises this year and begin rolling back its quantitative easing stimulus programme. The Federal Reserve has come under intense pressure to respond to rising inflation, which soared to 7% in December, its highest level in 40 years.

The effect of higher US interest rates will be to make it more costly to finance dollar-denominated debts. Policy makers at the Bank of England and the European Central Bank are also expected to tighten monetary policy in the coming months, heightening the risk of indebted countries failing to meet loan repayments. Tensions with the US extend beyond monetary policy to concerns over intellectual property, trade, the fate of Taiwan, human rights and the South China Sea. Xi said: “We need to discard cold war mentality and seek peaceful coexistence and win-win outcomes. Our world today is far from being tranquil,” said Xi, through a translator.

“Protectionism and unilateralism can protect no one. They ultimately hurt the interests of others as well as one's own. Even worse are the practices of hegemony and bullying, which run counter to the tide of history.

“A zero-sum approach that enlarges one's own gain at the expense of others will not help,” he added. “The right way forward for humanity is peaceful development and win-win cooperation.”Xi was speaking after the latest figures showed China's economy slowed at the end of last year to 4% in the three months from October to December compared with the same period in 2020.

US Job Creation and Dollar Value

The U.S. dollar advanced from two-week lows on after data showed the world's largest economy created far more jobs than expected, raising the chances of a larger Federal Reserve interest rate increase at the March policy meeting.The dollar index, a gauge of its value against six major currencies, rose 0.1% to 95.446, after falling to a two-week low of 95.136 earlier amid a resurgent euro. But the dollar was still down 1.8% on the week, on pace for its largest weekly percentage decline since November 2020.

Data showed U.S. nonfarm payrolls grew 467,000 jobs last month. Data for December was revised higher to show 510,000 jobs created instead of the previously reported 199,000.

Economists polled by Reuters had forecast 150,000 jobs added in January. Estimates ranged from a decrease of 400,000 to a gain of 385,000 jobs. Market participants were prepared for a weaker-than-forecast reading given the decline in the ADP U.S. private payrolls report released earlier this week. That report showed a decline due to the impact of the Omicron coronavirus variant. Average hourly earnings, a measure of wage inflation and a closely-watched metric, also rose 0.7% last month, and 5.7% on a year-on-year basis.

"It is the 0.7% month-on-month gain in wages that is most hawkish," wrote Daragh Maher, head of FX strategy, at HSBC. "This helps counter dollar-bearish real income squeeze concerns and the stagflation theme, and will likely energize FOMC (Federal Open Market Committee) hawks. The dollar also tracked the surge in U.S. Treasury yields.

U.S. two-year and five-year yields, both of which reflect interest rate expectations, rose to 1.2970% , the highest since late February 2020, and 1.79% , its best level since July 2019, respectively. In the afternoon session, U.S. rate futures implied more than five rate hikes this year, or about 134.4 basis points in policy tightening. The probability of a 50 basis-point increase next month rose to nearly 40%, from just 18% before the data release.

The euro was still up on the day, rising 0.1% at $1.1455. It was up 1.7% on the week, on track for its best weekly performance since late March 2020, benefiting from a hawkish turn by the European Central Bank (ECB) on Thursday. The euro stalled around the resistance level of $1.1480 because of dollar gains following the U.S. employment report.

HSBC's Maher said the euro/dollar pair is likely to resume its upward momentum given that the market seems more fixated on the ECB's hawkishness, which surprised markets, than the Fed.Sterling also has been among the big currency movers.

The Directors-General of the World Health Organization (WHO), the World Intellectual Property Organization (WIPO) and the World Trade Organization (WTO) today reaffirmed their commitment to working closely together to help overcome the COVID-19 pandemic and its devastating human, social, and economic impacts.

Cooperation on Covid -19

Meeting in Geneva on WHO Director-General Tedros Adhanom Ghebreyesus, WIPO Director General Daren Tang and WTO Director-General Ngozi Okonjo-Iweala reviewed progress made on the initiatives announced in their joint statement of 15 June 2021, pledging cooperation on COVID-19-related medical technologies and charting future directions for their organizations' trilateral cooperation to ensure it continues to address the evolving needs of people across the globe.

They welcomed the impending launch of a trilateral technical assistance platform, which will provide a one-stop shop making available the three organizations' expertise to governments in a tailored and coordinated way so as best to respond to individual national needs for COVID-19 health technologies. This will include support for the full use of legal and policy options for access to health technologies, including through the implementation of any solution to the COVID-19-related intellectual property proposals currently before the WTO's TRIPS Council.

The three Directors-General reviewed the series of technical capacity building workshops planned, starting with a workshop held in September 2021 that focused on intellectual property licensing and technology transfer along with the sharing of know-how and clinical trial information. An event later this month will seek to support policymakers to more effectively use data to inform their pandemic policy choices, and a subsequent workshop will address challenges of access relating to diagnostic technologies.

The Directors-General welcomed the ongoing efforts by their three organizations to make up-to-date information available, including the series of joint COVID-19 information notes, supplementing and updating the 2020 joint publication “Promoting Access to Medical Technologies and Innovation”.

Finally, the three Directors-General confirmed that they would convene a high-level policy symposium in the early summer on the COVID-19 pandemic, taking stock of COVID-19 challenges and focusing on what is needed to recover from this health crisis and better prepare for future ones.

The Directors-General concluded their meeting in a spirit of solidarity and practical determination to spare no effort to address the continuing scourge of the pandemic, and to mobilise the necessary knowledge resources and support so that no country would be left behind.

Trade Forecast

The WTO is now predicting global merchandise trade volume growth of 10.8% in 2021—up from 8.0% forecasted in March—followed by a 4.7% rise in 2022 Growth should moderate as merchandise trade approaches its pre-pandemic long-run trend. Supply-side issues such as semiconductor scarcity and port backlogs may strain supply chains and weigh on trade in particular areas, but they are unlikely to have large impacts on global aggregates. The biggest downside risks come from the pandemic itself.Behind the strong overall trade increase; however, there is significant divergence across countries, with some developing regions falling well short of the global average."Trade has been a critical tool in combatting the pandemic, and this strong growth underscores how important trade will be in underpinning the global economic recovery," Director-General Ngozi Okonjo-Iweala said.

"But inequitable access to vaccines is exacerbating economic divergence across regions. The longer vaccine inequity is allowed to persist, the greater the chances that even more dangerous variants of COVID-19 will emerge, and setting back the health and economic progress we have made to date."

"As we approach the 12th Ministerial Conference, members must come together and agree on a strong WTO response to the pandemic, which would provide a foundation for more rapid vaccine production and equitable distribution. This is necessary to sustain the global economic recovery. Vaccine policy is economic policy - and trade policy," she said.

The large annual growth rate for merchandise trade volume in 2021 is mostly a reflection of the previous year's slump, which bottomed out in the second quarter of 2020. Due to a lower base, year-on-year growth in the second quarter of 2021 was 22.0%, but the figure is projected to fall to 10.9% in the third quarter and 6.6% in the fourth quarter, in part because of the rapid recovery in trade in the last two quarters of 2020. Reaching the forecast for 2021 only requires quarter-on-quarter growth to average 0.8% per quarter in the second half of this year, equivalent to an annualized rate of 3.1%.

IMF advice to China

China needs to step up government spending to support an economy that's slowing due to coronavirus lockdowns and a property sector downturn, according to the International Monetary Fund. The policy suggestions came after the fund cut its 2022 growth forecast for China to 4.8 per cent, with the report noting that risks to that forecast were "predominately on the downside."The economic recovery "lacks balance and momentum has slowed, reflecting the rapid withdrawal of fiscal support, lagging consumption amid recurrent Covid-19 outbreaks despite a successful vaccination campaign, and slowing real-estate investment," the fund said in its annual report on the country's economy.

"The combination of more frequent outbreaks and a zero-Covid tolerance approach has forced China's economic activity into a stop-and-go pattern" and this could "further delay the recovery in private demand," according to the report.

The IMF has no reason to expect that coronavirus outbreaks will become any less frequent this year, Helge Berger, head of the IMF's China mission, said at a media briefing before the report's release. "This is one of the big reasons we have lowered our forecast for the year," he said. Even though more than 80 per cent of China's population is vaccinated "it remains unclear whether it will allow for lockdowns to be phased out" due to China's zero tolerance approach to outbreaks, the IMF said in its report. However, Berger stopped short of calling on China to change its approach, instead suggesting Beijing could "continue to fine-tune lockdown measures."

The report added that Chinese authorities had "acknowledged that the zero-Covid tolerance strategy is impacting the recovery of private consumption but saw its benefits outweighing any economic costs."Government spending rose at the slowest pace in nearly two decades last year, suggesting limited fiscal support for an economy that's lost momentum sharply in recent months, with the IMF noting that fiscal policy turned "strongly contractionary" at the start of 2021.