Economic growth

Ethiopia’s economy is projected to grow by nine percent in 2019/2020, Finance Minister Ahmed Shide told lawmakers on Tuesday as he presented budget proposals for the coming fiscal year to parliament, Reuters wrote.

UK labor market stays resilient as wage growth accelerates

CHRIS RATCLIFFE/BLOOMBERG

The UK labor market performed better than forecast in the three months through April, which may strengthen the hawkish comments coming from the Bank of England about interest-rate hikes.

The number of people in work rose a greater-than-forecast 32,000 and basic pay growth unexpectedly accelerated to 3.4 percent, the Office for National Statistics said on Tuesday. Unemployment stayed at a 44-year-low of 3.8 percent, Bloomberg reported.

While the pace of employment growth was slower than in previous periods, that partly reflects the impact of the original Brexit date of March 29, which affected companies investment and hiring decisions.

BOE policy makers are trying to look through the noise of the political upset, and some say the underlying picture suggests an inflationary risk is building.

With productivity growth subdued, that’s further fueling concerns about unsustainable cost pressures.

BOE official Michael Saunders warned on Monday that interest rates risk being hiked too late if policy makers wait for Brexit uncertainty to dissipate. He said the economy will probably move to ‘significant excess demand’ over the next two to three years if Brexit goes smoothly.

The pound strengthened after the labor-market data was published and was up 0.2 percent at $1.2707 as of 9:50 a.m. London time.

Wage growth

The pickup in underlying wage growth leaves pay comfortably outpacing inflation, which averaged just two percent in the period. In April alone, wages rose an annual 3.8 percent, the fastest pace since 2008. The figure was boosted by settlements in the National Health Service. Wage growth including bonuses slowed to 3.1 percent

The jobs market has so far defied the wider economic slowdown, possibly because firms are choosing people over investment because hiring is easier to reverse if the economy turns sour. Employment held at a joint-record rate of 76.1 percent in the latest three months.

“The MPC has already raised rates twice since the Brexit vote,” Saunders said.

“We will act again if needed to ensure a sustained return of inflation to target over time.”

His comments echo those of BOE Governor Mark Carney, who last month pushed back against market expectations for almost no tightening by the central bank over the next three years.

In the latest labor-market data, employment growth was nonetheless well down on the 222,000 recorded in the November-January period and the number of vacancies fell by 12,000 in the three months through May. Economic inactivity also increased.

The rise in employment in the latest three months was driven entirely by women, as male employment fell.

“With employment growth among women coming from full-timers, the overall gap between men and women in hours worked in now the lowest ever — women now average about three quarters of men’s weekly hours, compared with around two-thirds 25 years ago,” said ONS statistician Matt Hughes.

ECB’s Rehn: Tiering, rates cut, more QE all on the table

A global trade war is unlikely to subside any time soon and the European Central Bank is ready to use any of its instruments to prop up confidence and growth in the currency bloc, Finnish central bank chief Olli Rehn said on Tuesday.

HANNAH MCKAY/REUTERS

The ECB last week gave the eurozone a fresh boost with cheap funding for banks and ECB President Mario Draghi said the bank was ready to consider a wider range of measures to prop up inflation, which has undershot the ECB’s target since 2013, according to Reuters.

Elaborating on Draghi’s point, Rehn, a potential successor to Draghi, suggested there were no taboos and that besides a rate cut or more bond buys, further tweaks to interest rate guidance and a multi-tier deposit rate were also on the table.

“The Governing Council may, should economic developments so require, strengthen its forward guidance and its linkage to the achievement of the price stability objective, lower the monetary policy rates and introduce possible mitigating measures, and/or relaunch net purchases under the securities purchase program,” Rehn told a news conference.

With interest rates below zero, banks increasingly complain that ECB policy is hurting their profitability to the extent that it is actually hampering the flow of credit and thus transmission of its easy policy.

While the ECB has so far dismissed these claims and comments from policymakers suggest little enthusiasm for such a complicated instrument, Rehn’s reference to ‘mitigating measures’ suggests that the debate is far from closed.

A multi-tier deposit rate would exempt banks from paying the ECB’s punitive minus 0.4 percent charge on excess reserves, a benefit to cash-rich banks in the northern part of the currency bloc.

But such a move would also indicate that rates will stay negative for much longer than thought since the ECB is unlikely to make such a fundamental change in its policy framework for a short period.

The ECB now sees rates steady at least through the first half of 2020, having pushed back any move several times already.

“In case of a further weakening of economic activity and a materialization of adverse contingencies, the Governing Council is determined to act and stands ready to adjust all of its instruments, as appropriate,” Rehn added.

World’s fastest-growing economy may not be so fast after all

By Ronojoy Mazumdar*

asiasentinel.com

India’s statistics may have been painting a far rosier picture of economic growth than the more modest reality of the past decade.

The nation has held the crown of the world’s fastest-growing major economy until recently, but a new study by former chief economic adviser Arvind Subramanian says the expansion was overestimated between 2011 and 2017.

Rather than growing at about seven percent a year in that period, growth was about 4.5 percent, according to the research paper, published by the Center for International Development at Harvard University.

The overestimation occurred after the previous Congress-led government changed the methodology in calculating gross domestic product in 2012.

One of the key adjustments was a shift to financial accounts-based data compiled by the Ministry of Corporate Affairs, from volume-based data previously. This made GDP estimates more sensitive to price changes, in a period of lower oil prices, according to the research paper. Rather than deflate input values by input prices, the new methodology deflated these values by output prices, which could have overstated manufacturing growth.

Krishnamurthy Subramanian, the government’s current chief economic adviser, didn’t immediately respond to requests for comment. A spokesman for the Statistics Ministry also couldn’t immediately respond.

The latest study throws more doubt over India’s economic statistics. A growing number of critics have questioned India’s high growth estimates under Prime Minister Narendra Modi’s government.

A delayed jobs report was mired in controversy earlier this year, two statistics officials quit after raising concerns about the data, and a group of 108 economists from around the world questioned whether politicians were trying to influence the figures.

“India must restore the reputational damage suffered to data generation in India across the board, from GDP to employment to government accounts,” Subramanian said.

“At the same time, the entire methodology and implementation for GDP estimation must be revisited by an independent task force.”

The most recent data shows India’s growth slowed to a five-year low in the first three months of the year. The central bank last week lowered its growth forecast for the 2020 fiscal year to seven percent from 7.2 percent.

Ronojoy Mazumdar is a finance reporter for Bloomberg News.

PM’s office: Italy’s coalition to work to avert EU disciplinary action over budget

Italy’s coalition leaders agreed to work together to avert European Union disciplinary action over Rome’s worsening public finances after a late-night meeting with Prime Minister Giuseppe Conte on Monday, the PM’s office said.

In a statement published overnight, Conte said he and his two deputies — League leader Matteo Salvini and 5-Star Movement head Luigi Di Maio — would meet with Economy Minister Giovanni Tria and his staff to draw up a strategy to avoid an infringement procedure for the country Reuters reported.

He also said they would set up a shared budget package.

“All’s well, it was a good meeting. Our shared goal is to avoid the infringement while safeguarding economic growth, employment, as well as tax cuts,” Salvini said in a statement after the coalition meeting.

“There won’t be any budget correction nor tax increases.”

Rome’s debt has been rising steadily from a pre-crisis low of 104 percent of domestic output in 2007 and now stands at 1.3 times economic output, second only to Greece’s within the eurozone.

Market concerns have been heightened by the spending plans of the eurosceptic government which took office a year ago.

Emboldened by the League’s strong showing in last month’s European election and local polls across Italy, Salvini has made tax cuts a priority for the government.

Rome is also scrambling to avoid a sales-tax increase worth €23 billion from kicking in next year.

On Monday Salvini expressed confidence that Rome would be able to reach an accord with the EU.

PM Conte has threatened to resign if the two coalition leaders fail to reach a compromise to settle the budget tussle with Brussels, removing the threat of financial penalties and ending weeks of bickering.

Tria is due to speak to parliament later on Tuesday about a letter in which the European Commission requests an explanation on the deterioration of the country’s public finances.