

US consumer spending rebounds; falling income, surging Covid-19 cases loom

REUTERS, Washington

US consumer spending rebounded by the most on record in May, but the gains are not likely to be sustainable, with income dropping and expected to decline further as millions lose their unemployment checks starting next month.

The surge in spending reported by the Commerce Department on Friday is also under threat from a jump in coronavirus cases in many parts of the country, including densely populated California, Texas and Florida. The rising COVID-19 infections chipped at consumer sentiment in the second half of June. Confidence in government economic policies dropped in June to the lowest level since President Donald Trump entered the White House.

The economy has been showing signs of turning around after tough measures to slow the spread of the respiratory illness pushed it into recession in February. Hiring, homebuilding permits, industrial output and orders for manufactured goods rebounded in May, recouping some of their historic losses.

"There are still huge pitfalls ahead for the economy," said Gus Faucher, chief economist at PNC Financial in Pittsburgh, Pennsylvania.

The Commerce Department said consumer spending, which accounts for more than two-thirds of US economic activity, jumped 8.2 per cent last month. That was largest increase since the government started tracking the series in 1959. Consumer spending tumbled by a historic 12.6 per cent in April.

Economists polled by Reuters had forecast spending rising 9.0 per cent in May. Spending was boosted by the reopening of many businesses after being shuttered in mid-March.

Consumers stepped up purchases of motor vehicles and recreational goods. They also boosted spending on healthcare, and at restaurants, hotels and motels.

But personal income dropped 4.2 per cent, the most since January 2013, after

surging by a record 10.8 per cent in April when the government handed out one-time \$1,200 checks to millions of people and boosted unemployment benefits to cushion against the COVID-19 hardship. The payments are part of a historic fiscal package worth nearly \$3 trillion.

In a separate survey on Friday, the University of Michigan said its consumer sentiment index dipped to a reading of 78.1 from 78.9 in the middle of June. Though sentiment rose from May, consumers in the regions with record rises in coronavirus cases were less upbeat relative to Northeast residents, which could weigh on the overall mood in the months ahead.

Stocks on Wall Street fell, pressured by the rising virus infections and the Federal Reserve's move to cap big bank dividend payments and bar share repurchases until at least the fourth quarter. The dollar rose

against a basket of currencies. US Treasury prices were higher.

Income in May was weighed down by a decrease in government welfare payments. The government will stop paying an additional \$600 per week in unemployment benefits on July 31. Economists estimate about 26 million people, two-thirds of whom do not qualify for the regular 26-week state unemployment insurance benefits, would be left without income.

About 30.6 million people, roughly a fifth of the labor force, were collecting unemployment checks in the first week of June. Government transfers to households rose at an annualized \$1.1 trillion rate compared to \$3 trillion in April.

Wages rebounded 2.7 per cent after dropping 7.6 per cent in April. But gains could fizzle amid record unemployment and raging COVID-19 infections.

Economists said the plunge in income underscored the need for additional government stimulus to avoid a so-called fiscal cliff on July 31.

"It is clear that the major force in keeping things from falling apart is the enhanced unemployment compensation," said Joel Naroff, chief economist at Naroff Economics in Holland, Pennsylvania. "Without action, income could crater in August and spending will follow."

Consumer spending in May was funded from savings, which decreased by \$1.9 trillion. The saving rate dropped to a still-high 23.2 per cent from a record 32.2 per cent in April.

Historically high savings could support spending. Economists, however, caution that heightened uncertainty could prompt consumers to hunker down and conserve their income.

Inflation remained weak in May, with food prices moderating and the cost of energy goods and services declining for a fifth straight month. The personal consumption expenditures (PCE) price index excluding the volatile food and energy components edged up 0.1 per cent after falling 0.4 per cent in April.

In the 12 months through May, the so-called core PCE price index rose 1.0 per cent, matching April's gain. The core PCE index is the Fed's preferred inflation measure for its 2 per cent target.

When adjusted for inflation consumer spending surged a record 8.1 per cent in May after tumbling 12.2 per cent in April. Still the so-called real consumer spending remained 11.2 per cent below its pre-pandemic level, keeping intact economists' expectations for the sharpest plunge in consumer spending and gross domestic product in the second quarter since the Great Depression.

Economists expect GDP could shrink at as much as a 46 per cent annualized rate in the second quarter. The economy contracted at a 5 per cent pace in the January-March quarter, the deepest downturn since the 2007-09 Great Recession.



REUTERS/FILE

Shoppers are seen outside a retail store as the phase one reopening of New York City continues during the outbreak of the coronavirus disease in New York.

Faithful to his duty till the very end

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"Kazemi was a deputy governor when I joined at the central bank as governor. And I worked with him very closely. He gathered versatile knowledge on the ways of the central bank," said Salehuddin Ahmed, another former governor.

On completion of his tenure as deputy governor, he got offers to serve in many government and autonomous entities but he declined those.

"I requested him to serve the central bank as adviser in 2008. And he did it until his death. He was also one of the designers of the country's many digital financial services," Ahmed said.

Nike plans to cut jobs in digital push

REUTERS

Nike Inc on Friday warned of job cuts as the world's largest footwear maker ramps up efforts to sell directly to customers through its online and retail channels.

The planned layoffs come after the company on Thursday reported a \$790 million quarterly net loss, its first in more than two years, as its wholesale business bore the brunt of footwear retailers and department stores shutting down due to the coronavirus outbreak.

Shares of the Dow component were down 6 per cent in morning trading on Friday. "We are shifting resources and creating capacity to reinvest in our highest potential areas, and we anticipate our realignment will likely result in a net loss of jobs," Nike said in an e-mail statement.

"Reductions are not being done for cost savings. Any savings will be reinvested into our priorities," the footwear maker said. Chief Executive Officer John Donahoe told analysts on Thursday the company would now aim for digital to account for 50 per cent of

its overall business, up from the 30 per cent recorded in the reported quarter.

"Our vision is to create a clear and connected digital marketplace ... So we're accelerating our approach," he said.

Donahoe, a former ServiceNow CEO and eBay executive, joined Nike earlier this year as the company was bolstering its direct-to-consumer business. According to media company Complex, Donahoe in a letter to employees said the company does "not yet know how many jobs will be reduced, nor who will be specifically impacted."

Monsoon covers all India earlier than usual, brightens crop prospects

REUTERS, New Delhi

India's annual monsoon, crucial for farm output and economic growth, has rapidly advanced to cover the entire country, spurring crop sowing and alleviating the economic damage caused by a nationwide lockdown to stem the coronavirus.

"The southwest monsoon has further advanced into the remaining parts of Rajasthan, Haryana and Punjab (states) and thus it has covered the entire country today, June 26," the state-run India Meteorological Department (IMD) said in a statement on Friday.

The monsoon has covered the entire country nearly two weeks earlier than usual, brightening prospects for healthy summer-sown crops and promising higher incomes in the countryside where most Indians live.

The farm sector employs more than half of the country's 1.3 billion population and accounts for nearly 15 per cent of India's \$2.9 trillion economy.

A low-pressure area over the Bay of Bengal and a cyclonic circulation over central India helped the monsoon cover the entire country earlier than expected, the IMD said.

The normal date for this is July 15, and in 2013 seasonal rains covered India on June 16, the IMD said.

Since then annual rains have either covered India around June 15 or later than expected. Monsoon rains arrived on the southernmost Kerala coast on June 1.

The Monsoon delivers about 70 per cent of India's annual rainfall and waters nearly half of the country's farmland that lacks irrigation.

India is likely to receive above average monsoon rains for the second straight year in 2020, the IMD said in its revised forecast on June 1.

IMD defines average, or normal, rainfall as between 96 per cent and 104 per cent of a 50-year average of 88 cm for the entire four-month season.

Farmers plant crops such as rice, corn, cane, cotton and soybeans in the rainy months of June and July, with harvests from October.

IMF approves emergency funding for pandemic-hit Myanmar

AFP, Washington

The International Monetary Fund said Friday it will provide Myanmar with \$356.5 million in emergency funding, as the southeast Asian country battles an economic slump due to the coronavirus pandemic.

"The Myanmar economy is being impacted by the outbreak of COVID-19 through a sharp decline in tourism and remittances and supply chain disruptions," Mitsuhiro Furusawa, IMF deputy managing director, said in a statement.

The fund "will help address Myanmar's urgent financing needs related to COVID-19 shock, and catalyze support from development partners."

"The money comes from two programs put into place to ensure rapid disbursement of funding without the need for lengthy negotiations over a reform program by Myanmar. Some \$118.8 million will come from the Rapid Credit Facility and the remaining \$237.7 million will draw from the Rapid Financing Instrument."

It was the 72th request for emergency financial assistance approved by the fund's executive board to address the impact of the pandemic. The funding will help Myanmar's government as it boosts health spending, expands food distribution and cash transfer programs to the most vulnerable, as well as businesses and farmers, the IMF said.

NBR failed to widen tax base despite huge spending

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Since the amendments to the VAT system seem to have gone against the NBR's primary objectives, the FBCCI president strongly called for an investigation into the matter.

A section of NBR officials and consultants are keener to undertake new projects rather than see the older ones through.

"Some sections of the multiple VAT law are flawed and go against national interest," he said.

Fahim made these remarks while officially presenting his observations on the proposed budget for fiscal 2020-21.

NBR Chairman Abu Hena Md Rahmatul Muneem could not immediately be reached by phone for comment.

The FBCCI president also suggested that, if the banks are non-cooperative, the government should withdraw funds deposited with those banks for the distribution of loans to firms impacted by the ongoing coronavirus pandemic.

On the other hand, if a financial institution disbursed loans from the stimulus packages in accordance with the guidelines, then the government should increase deposits in that bank, said Fahim.

If necessary, the government could even reward those banks with a 1 per cent reduction in corporate tax, he added.

Following the Covid-19 outbreak in Bangladesh, an additional Tk 70,000 crore was raised for the banking sector by slashing the statutory liquidity ratio to avoid a liquidity crisis and ensure the country's economic survival.

However, certain banks have not disbursed funds from the stimulus packages, citing a liquidity crisis even though those same banks are investing in treasuries, said Fahim.

As of April, about Tk 2,000 crore was disbursed from the Tk 30,000 crore stimulus package while Tk 50 crore was distributed from the Tk 20,000 crore fund geared towards cottage, micro and small firms.

Around \$5 billion is being circulated in the country through informal channels and this amount needs to be brought into the formal economy, Fahim said, adding that the government could utilise various financial tools, such as auctions, bonds and debentures, to cover budget deficits instead of high-cost borrowing from abroad.

In response to the business community's

earlier demand to set corporate tax rates at 25 per cent, the existing 35 per cent corporate tax rate was cut down to 32.5 per cent.

However, the government should reconsider the proposal while advanced income tax should be reduced to 3 per cent before being gradually abolished, the FBCCI chief said.

Fahim termed the proposed budget as one that would help the country rebound both socially and economically amid the coronavirus fallout.

The FBCCI and central bank are coordinating the disbursement of funds from the stimulus packages and will not allow defaulters to obtain financing from the programme.

Only 34 per cent of the country's population are engaged with the formal banking system. Therefore, it can be said that the democratisation of banking and capital is yet to take place in Bangladesh, Fahim said.

For instance, most cottage, micro and small enterprises operate outside of formal banking channels even though those informal sector firms contribute 84 per cent to the national economy.

"Banks only aim to gain finance for large projects for quick and safe returns," he added.

Support SMEs for quick economic recovery

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"Let's not forget that these enterprises, which generally employ fewer than 250 persons, are the backbone of most economies worldwide and play a key role in developing countries," it said on its website.

"Economic recovery would not be sustainable without giving importance to the SME and agriculture sectors," Atiur Rahman, a former governor of the central bank, told The Daily Star yesterday.

The government has announced a Tk 20,000 crore stimulus package to help the CMSME sector recover from the coronavirus fallout. Of which, Tk 10,000 crore will be provided by the central bank under a refinancing scheme.

Commercial banks can charge a maximum interest rate of 9 per cent for the loan. However, it would cost 4 per cent for the CMSMEs as the government would bear 5 per cent of the interest rate as a subsidy.

"But I think the whole Tk 20,000 crore should be lent under a refinance scheme," Rahman said.

Rahman said banks are worried about risk management, so they may not like

to lend to new borrowers and would rather may remain focused on existing borrowers.

The central bank should implement a credit guarantee scheme to help banks lend to the vulnerable CMSME sector, he said.

A partnership can be formed with microfinance institutions (MFIs) to implement the stimulus package because the MFIs know CMSMEs better, the former governor said.

According to the Rapid Assessment Survey 2020, conducted by the Centre for Policy Dialogue, a majority of enterprises surveyed have experienced a high level of adverse impact on production (about 42.9 per cent).

The government needs to think of additional measures to ensure that SMEs are actually able to draw benefits from the stimulus package, the CPD said in a paper recently.

Tk 20,000 crore is a good starting point and the amount would have to be increased in the days to come, Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, said recently.

Govt may not hike SD on telecom services

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Then they can appeal before the VAT Appellate Tribunal of the NBR by paying another 10 per cent of the disputed amount.

If they want to seek revision of appellate tribunal verdicts before the High Court, they have to pay another 10 per cent of the disputed amount.

As per the proposed changes for next fiscal year, businesses will have to deposit a total of 40 per cent of the disputed VAT amount – 20 percent to file appeals before the commissioner of respective field and 20 per cent for VAT Appellate Tribunal, said Md Arshed Ali, convener of the research wing of VAT Professional Forum, recently.

Businesses will have to deposit a further 10 per cent of the disputed tax in order to seek revision against the appellate tribunal's verdicts before the High Court, he said.

The finance minister, however, may go ahead with his plan to widen the scope for investing the untaxed money, also known as black money.

Individual taxpayers will be allowed to

disclose any type of undisclosed property by paying a certain tax per square foot, declare undisclosed cash, bank deposits, savings certificates, shares, bonds or any other securities and invest money in the capital market by paying 10 per cent tax on the value of the investment.

Now, black money holders will not face any questions about the sources of their income if they invest in economic zones and hi-tech parks. The provisions will discourage the honest taxpayers, the Centre for Policy Dialogue said in a paper.

If this type of provisions is to be at all allowed, the rate should be the applicable tax rate plus penalty, it said.

Kamal may keep most of his fiscal measures about income tax unchanged. He has already proposed a lot of concessions in the direct tax segment to ease the burden on the individual and corporate taxpayers amid devastating coronavirus pandemic.

The Tk 568,000-crore budget and the Finance Bill 2020 would be passed in parliament on Tuesday.

Aviation industry is in coma. Only the govt can help it wake up.

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The cost of finance must be on par with the world average.

Airlines may be allowed to secure funds from external sources, which are available at very competitive rates.

The fuel price has to be adjusted in line with the world market without forcing an airline to buy at an exorbitant price.

Airlines deserve to be free from the whims of Bangladesh Petroleum Corporation or Padma Oil Company.

No tax should be levied on the import of spares.

The import process should be streamlined and there should be provision for payment of spares through bank transfer.

Civil aviation charges have to be brought down. Stakeholders must be consulted before increasing any charges. Owing to the pandemic,

all CAAB charges should be waived for at least three years.

Structural deformity must be corrected. It has to be done by placing aviation service providing functions under an independent airport authority.

Clear and unambiguous policy, regulation and orders have to be formulated adapting to changing times.

Pandemic-specific lifeline is a must for the airlines to survive in the first place.

Airlines will need a huge sum of money to re-start the operation and continue, and the government needs to come forward with liquidity for airlines with a very nominal rate of interest.

The term to repay the loan should be very soft, carry more than five years in tenure with a grace period of at least one year.

Airlines are the umbilical cord of the aviation industry feeding a whole value chain of maintenance, repair and overhaul organisations, aviation training establishments, travel agents, hotel, motels and guest houses.

If the mother ship (airline) kicks the bucket, the rest tied up by the very umbilical cord has the same fate accomplish.

Unless a holistic discourse is undertaken to salvage the airlines, doomsday lurks ahead for the aviation industry.

With the rough patchwork support so far visible here and there, a few sailors (airline employees) could be saved like the movie of Perfect Storm, but both ship (airlines) and the skipper (airline entrepreneurs) will be buried deep beneath the ocean floor.

The writer is the managing director of Novoar