For China's landlords, rent-to-riches dreams fade in red flag for fragile economy

REUTERS, *Beijing*

Not yet 30, Beijing office worker Li thought she was already on her way up China's private property ladder with two apartments bought and rented out. Then came the new coronavirus, jobless tenants leaving town and a rent falloff.

She's one of millions of Chinese landlords who have bought apartments to let in a highway to the country's growing middle class, many now facing a first slump in rental income.

Analysts say there's little prospect of widespread mortgage defaults for now, and property prices continue to grow, albeit more slowly. But the rental woes underline China's economic fragility, with the landlord legions already cutting back on spending amid their gloom.

Li, who declined to give her full name, said she had to almost halve the rent at one of her apartments between February and May to hang on to a tenant, while her own salary was slashed 25 per cent as her employer made coronavirus cutbacks.

"I must pay the rent of my room in Beijing, and monthly mortgages for the two apartments," she said.

Rents in 20 major cities fell 2.33 per cent in July from the same month year earlier, according to property data provider Zhuge House Hunter - the fourth consecutive month of decline in a market that's been buoyant for years.

The sector remains opaque with no national database setting out who owns which buildings and limited historical tracking data.

Amid the strain wrought on China's services and manufacturing sectors by the spread of COVID-19 earlier this year, first to be laid off were migrant labourers, prime takers of small rental apartments.

White-collar workers followed, while fresh college graduates from the provinces who would normally flood into cities have struggled to find jobs. All that has weighed on consumption by both tenants and deeper-pocketed landlords.

Even demand for short-term accommodation has waned, depriving landlords of one alternative. In June, the number of Chinese properties that had at least one booked night fell 29 per cent from a year earlier, according to data from analytics firm AirDNA, which tracks bookings on Airbnb and Vrbo.

"Two groups ... suffer the most," said Yuan Chengjian, vice president of Zhuge House Hunter. "One is long-term rental firms ... the other is investors who buy properties through high leverage financing, because they pay off part of their mortgages with rent."

Luo Shuzhen, 50, with 80 rooms to sublet in two buildings in the southern industrial city of Dongguan, said tenant numbers have dropped 30 per cent this year. She's now postponing plans to furnish an apartment she bought last year.

"It's hard to say how long the epidemic would last, so I'm not sure whether I can maintain the rental business in the second half," said Luo, who runs a convenience store.

Like Luo, other landlords that Reuters spoke to were looking at reducing spending. China's retail sales fell for the seventh month in July, official data on Friday showed.

But mortgage defaults remain rare for now: China's overall non-performing loan ratio stood at just 2.1 per cent on average as of end-June.

Regulators do not give a breakdown on souring mortgages, but China's residential mortgage-backed securities (RMBS) market offers a clue to trends.

About 3 per cent of mortgages are securitised by banks, and delinquency in payment of some securitised mortgages inched higher earlier this year, although defaults remained below 0.10 per cent of outstanding mortgages.

"Half of the transactions in the securitisation market use 90 days as the definition for default, while the other half use 180 days," said Tracy Wan, senior director of Asia-Pacific structured finance at Fitch Ratings. "For those who use 180 days, you'd have a longer time to recognise defaults, and that number is still going up."

For Beijing office worker Li, the time to seek assistance in keeping her property dreams in one piece has already come.

"I even asked my father for help - and I'm nearly 30 years old!" she said.

REUTERS/FILE

A woman wearing a face mask following the Covid-19 outbreak walks past a residential compound in Beijing, China.

Malaysian economy shrinks most in over 20yrs

AFP, *Kuala Lumpur*

Malaysia's economy suffered its worst contraction in more than 20 years during the second quarter, hit by a collapse in global trade and tough curbs to contain the coronavirus, the central bank said Friday.

The economy shrank 17.1 percent on-year in April-June -- the first since the global financial crisis in 2009 and the deepest since the Asian financial turmoil 11 years before that -- putting it on course for recession.

The reading was much worse than the 10.9 percent drop forecast in a survey by Bloomberg News, despite interest rates being cut to record lows.

It shrank 16.5 percent on-quarter.Wan Suhaimi Saidi, an economist at Kenanga Investment Bank, warned that the trade-dependent economy was "heading into a recession since there is no sign of a full recovery in demand and business activity".

He told AFP he expects a full-year contraction of between four and six percent, more than the central bank's estimate of 3.5-5.5 percent.But Nor Shamsiah Mohamad Yunus, head of the central Bank Negara Malaysia, said the economy was poised for a recovery in the current quarter as virus-related restrictions are eased.

"We are likely to see a trough in the second quarter. The economy is poised for a recovery in the second half and rebound further in 2021," he said at a virtual news conference.

"I am cautiously optimistic the worst is behind us. "Bank Negara said the second quarter decline "reflected the unprecedented impact of the stringent containment measures to control the COVID-19 pandemic globally and domestically" imposed from mid-March to early June.

The restrictions, which included businesses being shut down and people confined to their homes, "resulted in demand and supply shocks", with border control measures globally hitting tourism arrivals, the central bank added.

The country's outbreak has been relatively small -- recording just over 9,000 cases and 125 deaths -- but the lockdown's toll was heaviest on the economy.

Malaysia is highly dependent on trade and tourism, with its key exports including palm oil, crude oil and natural gas.

Lufthansa cabin crew union members back cost cut deal

REUTERS, *Berlin*

Cabin crew at Lufthansa have voted overwhelmingly in favour of a deal to stop pay rises and cut hours, the UFO trade union said on Saturday as the German airline battles to rein in losses due to the coronavirus pandemic.

Lufthansa reached the deal in June with UFO, which represents 22,000 cabin crew, to reap more than 500 million euros ($592.05 million) in savings from shorter hours and an equivalent cut in pay as well as a temporary reduction in pension contributions.

Last week, the airline put German workers on notice of compulsory layoffs, saying the slump in travel and slow progress in union negotiations meant cuts were unavoidable after the carrier lost 1.7 billion euros in a single quarter.

Lufthansa, which in June received a 9 billion euro government bailout to secure its future, said last week it expected capacity to recover to only around 50% of normal by the end of 2020 and to two thirds of last year's level in 2021.

Lufthansa said on Thursday it had walked away from talks with union Verdi on behalf of 35,000 ground staff over a package to cut staff costs and would only return to the negotiating table if Verdi offers significant cost savings.

REUTERS/FILE

An airplane of the German air carrier Lufthansa is pulled inside a hangar for technical check-up to ensure planes keep up their safety standards despite being grounded for a month due to the Covid-19 outbreak in Frankfurt, Germany.

US retail sales, industrial output post modest gains

AFP, *Washington*

The US economy continues to regain ground as the coronavirus crisis drags on, with retailers and manufacturing posting gains, but new data Friday show progress is slowing and the recovery is in doubt amid a political stalemate over a new aid package.

"We're coming back very strong. We should have a very good third quarter" and an "unbelievably good" next year, President Donald Trump told reporters Friday when asked about the industrial production increase in July.

But he remained steadfast in opposing a spending package that would include help for ailing cities and states.

"They want $1 trillion to go to their friends doing a bad job running certain cities and states that are doing very badly," Trump said, adding that Democrats are to blame for the impasse.

Economists warn that the massive aid deal approved by Congress in late March, including expanded federal unemployment benefits, has supported the economy in recent weeks but that could change if the expiring programs are not replaced.

"Our 'friends' in Washington seem to be doing everything possible to kill the recovery," economist Joel Naroff said in an analysis.

He said it was the government's "welfare programs that have supported household and business spending. With the Senate on vacation... the funds flowing to unemployed workers and supporting businesses are disappearing.

"US retail sales increased 1.2 percent last month compared to June, a more modest rise than economists had been expecting, held down by a decline in auto sales, according to government data released Friday.

It was the third straight increase after the 8.4 percent increase in June, and the gain puts sales 2.7 percent higher than the same month of 2019, the Commerce Department reported.

But for the first seven months of the year, a large part of it spent under coronavirus lockdowns, sales were 2.1 percent lower as compared to the same period of last year.

While the July data bode well for the third quarter, Diane Swonk, chief economist at Grant Thornton, warned that the final three months of the year could see a slowdown -- especially if the fall brings a new wave of COVID-19 infections.

"Our greatest concern is the fourth quarter, the most important time of the year for retailers. Halloween is the second largest holiday next to Christmas for consumer spending," she said.

Naroff warned, "Don't be surprised if there is a weakening not only in consumer demand but in hiring as well."

Consumers are likely to become more cautious in the absence of a deal between Congress and Trump's economic team -- and the recent rhetoric does not bode well for an agreement.

The University of Michigan consumer sentiment index showed confidence was flat in early August compared to July.

But the report said: "The overall confidence in economic policies fell to the lowest level since Trump first entered office. The policy gridlock has acted to increase uncertainty."

Industrial production rose 3.0 percent in July, the third monthly increase but a slower gain than in June, the Federal Reserve said Friday.

Output rose in all major sectors, including a 3.4 percent increase in manufacturing.

However, after dramatic declines in March and April as the coronavirus crisis took hold in the US, total output remains more than eight percent below July 2019, while manufacturing is down by 7.7 percent.

The largest gain in July -- 28.3 percent -- was in motor vehicles and parts. In contrast, the retail sales report showed auto sales fell 1.3 percent compared to June.

Excluding that decline, total retail sales rose 1.9 percent, according to the data.

Stocks dip on lukewarm data

REUTERS, *New York*

Stocks fell on Friday as data out of China, the euro zone and the United States put a lid on expectations for a sustained global rebound, with traders already worried about a delay in US fiscal stimulus.

A review of the US-China trade deal initially slated for Saturday will be delayed due to scheduling issues and no new date has been agreed upon, according to sources familiar with the plans.

European shares were weighed further by a hit to travel stocks after Britain added more European countries, including France, to its quarantine list amid the coronavirus pandemic.

On Wall Street, a slowdown in retail sales growth last month and concern over further reluctance by consumers weighed on stocks, but the S&P 500 ended nearly unchanged, not far from record highs.

"The economy remains on life support and Congress going on recess is bad news for large parts of the economy," Edward Moya, New York-based senior market analyst at OANDA, wrote in an afternoon note. "Stocks will not selloff due to the extraordinary policy support that central banks and governments have put in place."

The Dow Jones Industrial Average rose 34.3 points, or 0.12 per cent, to 27,931.02, the S&P 500 lost 0.58 points, or 0.02 per cent, to 3,372.85 and the Nasdaq Composite dropped 23.20 points, or 0.21 per cent, to 11,019.30.

MSCI's world index shed 0.25 per cent, drifting further from all-time highs touched in February. The index has still rallied close to 50 per cent from March's trough despite global economic consequences of fighting the COVID-19 pandemic.

The euro zone reported the biggest drop it ever recorded in employment in the second quarter. Data also confirmed a record fall in gross domestic product last quarter and a widening in the euro zone's trade surplus with the rest of the world.

Data showing a slower-than-expected rise in Chinese industrial production and a surprise fall in retail sales put Asian shares on the defensive.

Yields on benchmark U.S. Treasuries dipped but remained elevated after an auction of 30-year bonds on Thursday met weak demand. The 30-year yield rose every day this week.

Benchmark 10-year notes last rose 2/32 in price to yield 0.7094 per cent, from 0.716 per cent late on Thursday.

The 30-year bond last fell 12/32 in price to yield 1.4439 per cent, from 1.428 per cent.

Gold ticked lower and posted its steepest weekly fall since March, following a string of nine weeks of gains.

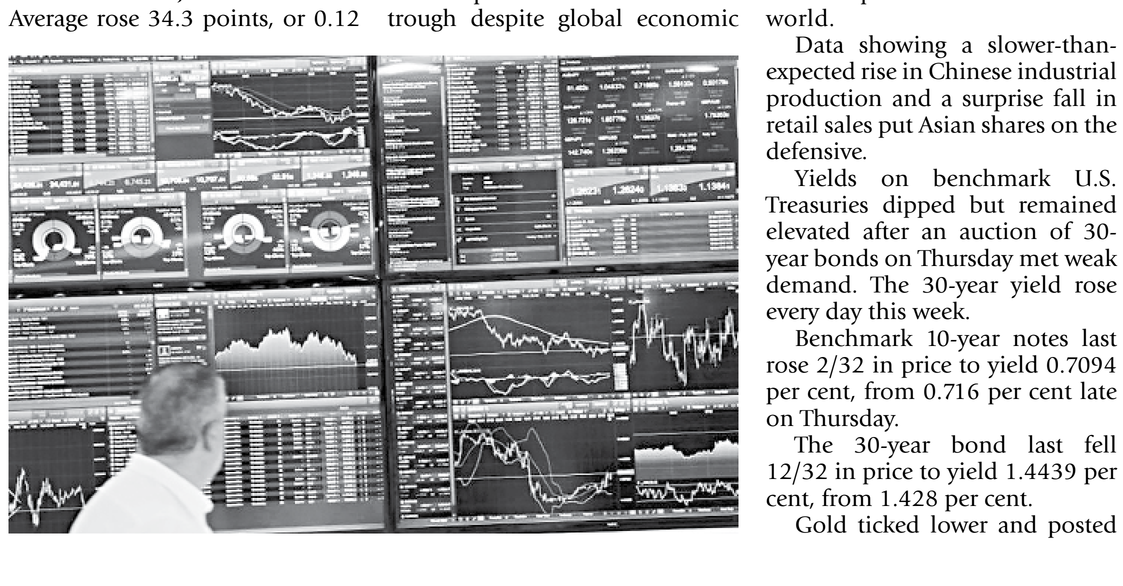
Spot gold dropped 0.5 per cent to $1,943.76 an ounce. Silver , also posting a weekly loss after a long string of gains, fell 4.16 per cent to $26.41.

The dollar index was headed for an eighth consecutive week of losses, its longest weekly losing streak in a decade. The index fell 0.163 per cent, with the euro up 0.25 per cent to $1.1841.

The Japanese yen strengthened 0.30 per cent versus the greenback at 106.59 per dollar, while Sterling gained 0.16 per cent to $1.3084.

Oil edged further below $45 a barrel, giving up some of this week's gain, under pressure from doubts about demand recovery due to the COVID-19 pandemic and rising supply.

U.S. crude recently fell 0.05 per cent to $42.22 per barrel after hitting $41.62 earlier and Brent was unchanged in late trading at $44.96 after falling to $44.47.



Amazon launches online pharmacy in India

AFP, *Mumbai*

US tech giant Amazon launched its first Indian online pharmacy service on Friday as it attempts to grab more of the country's burgeoning e-commerce market.

Amazon is battling Walmart-backed Flipkart and JioMart, owned by Asia's richest man Mukesh Ambani, as well as local companies in the vast market of 1.3 billion people. India has seen nearly 2.5 million confirmed coronavirus infections -- more than any other country besides the United States and Brazil -- and healthcare startups are seeing huge demand for services as a result of the pandemic.

Customers in Bangalore, India's IT hub, will be able to order prescription and over-the-counter medicines and basic health devices from certified sellers, Amazon India said in a statement. "This is particularly relevant in present times as it will help customers meet their essential needs while staying safe at home," Amazon said.

The firm owned by Jeff Bezos, the world's richest person, will also conduct pilot projects in other Indian cities, a company spokeswoman told AFP.

Amazon already offers online pharmacy sales in the US and several European countries, and has registered "Amazon Pharmacy" trademarks elsewhere, the spokeswoman added.