

## International Business News

## Toyota posts first loss, sees worse ahead

AFP, Tokyo

Toyota Motor, the world's top automaker, announced Friday a 4.4-billion dollar annual loss, its first ever, and warned it would plunge deeper into the red as car sales collapse during the recession.

Toyota lost 765.8 billion yen (7.7 billion dollars) in the quarter to March alone, even more than General Motors, as it idled plants to ride out the biggest crisis in its more than 70-year history.

Company president Katsuaki Watanabe blamed the weak performance on a slump in vehicle sales, particularly in the United States and Europe, as well as a stronger yen and higher raw material costs.

For the business year to March, the group made a net loss of 436.9 billion yen (4.4 billion dollars), worse than its own forecast and a dramatic turnaround from the previous year's record profit of 1.72 trillion yen.

It is the first time that Toyota has finished a year in the red since it started publishing results in 1941.

The company, which unseated General Motors last year as the world's top selling automaker, logged an annual operating loss of 461.0 billion yen, against a year-earlier profit of 2.27 trillion yen. Revenue slid 21.9 percent.

## India's inflation nudges up as food costs rise

AFP, New Delhi

India's inflation rate nudged higher for a third straight week, government data showed Friday, fuelled by higher food prices, but analysts said the cost-of-living should turn lower soon.

Annual inflation rose to 0.70 percent for the week ended April 25 from 0.57 percent the previous week, according to the Wholesale Price Index, India's most watched cost-of-living measure.

The rise came on the back of higher prices for basic food items like cereal, pulses, vegetable, milk and sugar in Asia's third-largest economy.

Many market watchers had expected the wholesale price index to turn negative last month, reflecting a fall in demand as a result of a slowing economy, but the rise in food prices has kept the index out of deflationary territory.

"Food prices in India have remained solid because of the government's agricultural price guarantees," said Sherman Chan, economist at Moody's Economy.com, a unit of Moody's Investors Service.

But "overall inflationary pressures will likely remain almost nonexistent in coming weeks with a considerable chance of the wholesale price index soon declining year-on-year," Chan said.



Job seekers wait in line to speak with recruiters at a fair for businesses in the medical field in New York on Friday. In new numbers released by the US government reported that the American economy lost another 539,000 jobs in April and the unemployment rate has now risen to 8.9 percent. The new numbers of unemployed were lower than many experts expected, raising hopes that the worst of the recession is over.

## ExxonMobil starts work on Shanghai technology centre

AFP, Shanghai

ExxonMobil Chemical broke ground Friday on a 70-million-dollar research and development centre in Shanghai that it says will refocus the global company on growth in Asia.

The company's first Asian research centre will open next year, employing about 200 staff to develop and test polymer and polyethylene-based compounds, according to the company, part of US energy giant Exxon Mobil Corp.

"The centre will play a critical role in supporting the rapid growth of ExxonMobil's petrochemical business in China," company president Steve Pryor said at a ceremony.

The uses of polymer and polyethylene-based compounds range from clear, flexible films for packaging to rigid molded plastics, such as those used in child car seats.

The petrochemical industry has been hit hard by the economic downturn, which has led to a major contraction in manufacturing, but Pryor said the investment cut through the "peaks and valleys of the business cycle".

## LatAm countries set aside \$7b for new bank

AFP, Buenos Aires

Seven Latin American countries agreed Friday to set aside seven billion dollars to create a new regional investment bank.

"The meeting was satisfactory, the creation of the bank is more important given the international financial crisis" Argentine economy minister Carlos Fernandez said at the outset of a gathering in Buenos Aires.

Argentina, Brazil, Venezuela, Uruguay, Ecuador, Bolivia and Paraguay would become members of the Banco del Sur -- or Bank of the South.

Each country would have a vote on the bank's board, and the support of two large nations -- Venezuela, Brazil and Argentina -- to move ahead with projects worth over 70 million dollars.

No firm date has been set yet for the Venezuela-based bank to begin operations.

## BANKING

## Accounting tricks boost profits

AP, New York

There's nothing like a little magical math to make banks' financial woes go away.

Bank stocks have surged in recent weeks, a sign that investors are betting the worst of the financial crisis is over. But in reaching this conclusion, the market has chosen to ignore some creative accounting banks are using to bolster their finances.

Lots of fuzzy math was trotted out during the just-ending earnings season to goose profits or narrow losses, and it will show up again as banks look to shore up their capital to meet requirements under the government's "stress tests". The tactics are perfectly legal, but they make the banks look healthier than they really are.

"Investors who have been pleasantly surprised by the recent results could find themselves equally bothered later on when they discover plenty of unpleasant things," said Martin Weiss, who runs the investment firm Weiss Research Inc.

After a year and a half of frightful declines, the Standard & Poor's Financials Index of 80 banks, insurers and investment firms bottomed in early March and has since more than doubled from a 17-year low, according to S&P.

Momentum behind the rally grew in April as large banks began reporting mostly better-than-expected first-quarter results. Earnings for the companies in the S&P Financial Index have come in nearly 11 percent ahead of analysts' estimates.

That could just be the start of turnaround for the banks, said Kent Engelke, chief economic strategist at Capitol Securities Management in Glen Allen, Va. He thinks there is a 25 percent probability that there will be positive economic growth by the end of the second quarter, which will benefit banks' loan portfolios.

"In order to have a healthy economy, we need a healthy banking system," said Engelke, whose investment firm owns bank stocks. "I believe the government will do anything to ensure that will happen."

But the recent strength seen in bank earnings didn't come from significant improvements in their core businesses. Instead, accounting manoeuvres helped bolster bottom lines.

Some banks reduced the amount of money they set aside to cover loan losses, which some analysts say conflicts with the reality of deteriorating loan port-



A bicyclist rides by a Wells Fargo bank branch in San Francisco, California. Wells Fargo saw its non-performing assets as a percentage of total assets jump by 40 percent over the previous quarter, yet it only increased its reserves by 5 percent.

folios. That means if the economy doesn't recover and troubled assets continue to rise, in coming quarters banks might have to boost loss reserves again -- which could hurt future earnings.

Wells Fargo saw its non-performing assets as a percentage of total assets jump by 40 percent over the previous quarter, yet it only increased its reserves by 5 percent. So even though more of its loans are past due or face foreclosure, it isn't setting aside significantly more cash to deal with potential losses.

Earnings at several banks also benefited, counterintuitively, because the value of the banks' own debt was reduced to reflect a decline in the market value of that debt.

In accounting-speak, a "credit-value adjustment" allows the banks to book a gain. The logic is that they could buy back the debt for less cash than they received when they issued the debt, so they get to claim a benefit, which many analysts say is illusory.

Say a bank had issued debt at

100 cents on the dollar, and it now trades at 60 cents on the dollar. The bank can mark down the value of the debt on their books to 60 cents on the dollar, and take a gain on the 40-cent difference.

For Citigroup, that debt adjustment totalled \$2.5 billion, which helped narrow its losses for the quarter. The New York-based bank posted a first-quarter loss of \$966 million, smaller than analysts expected.

"It's not the kind of stuff you'd point to in earnings and say, 'now that's sustainable income,'" said Jack Ciesielski, who writes the newsletter The Analyst's Accounting Observer. "You would want to exclude it from earnings in evaluating how well a company performed."

A separate accounting rule change for valuing banks' assets that are available for sale also helped boost bank earnings. Until recently, they were "marked-to-market," meaning they were adjusted to reflect current market prices. But that has become increasingly difficult during the

current financial crisis since there has been no trading of the most troubled assets.

Under pressure from politicians and banks, accounting rulemakers reversed course in early April and gave corporate managers more discretion in valuing assets in cases when markets are frozen.

That helped Wells Fargo cut its unrealised losses on certain securities in half, from \$9.9 billion on Dec 31 to \$4.7 billion on March 31. That helped boost profits as a result. San Francisco-based bank reported first-quarter earnings of \$2.38 billion compared with a loss of about \$3 billion in the final quarter of 2008.

Accounting manoeuvres also will play a big role in what happens to banks that failed the government's "stress tests," which were done to gauge which financial institutions need more capital to survive a deeper recession.

When the government invested billions in U.S. banks over the last six months, it received convertible preferred shares. That gave the

banks funds for day-to-day needs, but those preferred shares are counted as debt, not as part of "tangible common equity," the government's currently favoured tool for assessing the strength of a bank.

If the government converts its preferred shares into common stock, those funds would count as equity capital, making the banks look stronger.

Here's the hitch in that plan: The government would have greater influence since common shareholders have voting rights. The conversion would also dilute the ownership of current stockholders.

One way around this issue would be to convert the government funds into another kind of preferred share that could also be counted as "tangible common equity."

However the bank equity dance plays out, investors don't seem to care about any of the technicalities. They are stuck on the idea of a banking turnaround. They better hope they're right.

## NEWSPAPERS

## Murdoch leads way to get readers to pay online

AFP, Washington

As US newspapers shrivel up and die, an unlikely figure is emerging as their potential saviour: News Corp chairman Rupert Murdoch.

The much-vilified Australian-born media tycoon is preparing to battle against the practice many hold largely responsible for newspapers' current plight -- the "original sin" of giving away their content for free online.

The 78-year-old Murdoch announced this week that the days of free are over.

He said he planned to begin charging readers of the websites of News Corp. newspapers "within the next 12 months," testing the scheme "first on some of our stronger ones."

"We are now in the midst of an epochal debate over the value of content, and it is clear to many newspapers the current model is malfunctioning," said Murdoch, whose newspaper holdings include The Wall Street Journal, the New York Post, The Times of London, the Sun and The Australian, among others.

The Wall Street Journal online already requires a subscription fee but newspaper owners across the United States will be closely watching as Murdoch bucks the conventional wisdom and extends a pay wall to other publications.

Murdoch himself is a late convert to the notion of making readers pay online, having planned before buying the Journal two years ago to do away with the subscription system in a bid to increase traffic to wsj.com.

He changed his mind after taking over the paper, but it is precisely that kind of flexibility that some analysts point to when they say Murdoch may be the media magnate best equipped to lead newspapers into the digital age.



Rupert Murdoch

AP/FORBES

"The track record shows that Rupert Murdoch is nothing if not bold," said Rick Edmonds, a media business analyst at the Poynter Institute, a non-profit journalism school based in Florida. "I don't think it's entirely surprising for him to be leading the way."

Frequently accused in the past of promoting tabloid journalism, Murdoch is "sometimes vilified for the wrong reasons," according to Edmonds. "There's quite a degree of respect for him as an operator."

"Whatever you say about Murdoch, the guy's a savvy businessman," said Ryan Chittum, a business writer at the Columbia Journalism Review. "He knows a failed business model when he sees one."

"The free model has failed," said

Chittum, who worked as a reporter at the Journal and left around the time News Corp. took over.

"The ad revenue's not there online and it's not going to be there," he said. "To have the scale to produce their current levels of journalism, newspapers are going to have to find other revenue sources."

Struggling US newspaper publishers would not dispute Murdoch's assessment that the current system is "malfunctioning" and that online advertising is not generating the revenue needed to support their current newsrooms.

But few have been willing to start charging readers online out of fears of losing traffic to their websites.

With Murdoch taking the lead and print

advertising revenue evaporating at a dizzying pace, analysts said more newspapers may be ready to take the plunge.

"There's definitely momentum among newspapers in the area of charging online, especially as the financial situation continues to deteriorate," said Zachary Seward, assistant editor at Harvard University's Nieman Journalism Lab. "Whether it's a good business decision remains to be seen."

"It's risky," agreed Poynter's Edmonds. "But on the other hand, there's a lot of debate and a lot of sentiment within the industry that maybe they took the wrong fork in the road a few years ago."

Edmonds noted that a number of US newspapers, including The New York Times with its failed "Times Select" payment scheme, had experimented with charging readers.

"The proposition of putting the New York Post or The Times of London behind a pay wall -- it's not immediately clear to me why that would go over better with readers than pay online attempts in the past," Edmonds said.

"Quite a few United States papers experimented with that at least for a while and typically found their traffic fell through the floor and therefore weren't getting much ad revenue."

"The Journal, a lot of people say, is a special case because of the relevance of that information to people's businesses," he added. "It makes them a lot more willing to pay."

Chittum said there may be risks but the US newspaper industry no longer has the luxury of sitting back, waiting and watching what happens with the Murdoch papers.

"They can't dither and talk and think-tank anymore," he said. "A lot of these papers are going to go broke if they don't do something soon."