

International Business News

Japan Inc shrinks at record pace, says govt

AFP, Tokyo

Japan's corporate sales, recurring profits and capital spending all plunged at record rates in the first quarter due to the global downturn, a government survey said Thursday.

Japan Inc's recurring profits fell 69.0 percent from a year earlier to 4.27 trillion yen (44.35 billion dollars) in the three months to March, the finance ministry said in corporate data excluding the financial and insurance sectors.

It was the sharpest drop since comparable figures became available in 1955 and the seventh straight quarter of declines, according to the ministry's quarterly survey of corporations' financial statistics.

Manufacturers, the main drivers of Japan's export-led economy, between them posted their first ever recurring loss of 2.25 trillion yen as the worldwide downturn hit demand for the country's cars and high-tech exports.

Combined sales reported by corporate Japan both at home and abroad caved by a record 20.4 percent, the ministry said.

As recession-hit companies slashed new investments, their total capital spending plunged by 25.3 percent, the eighth straight quarter of decline and the fastest pace since comparable data became available in mid-2002.

ECB rates to stay on hold, analysts eye bond purchases

AFP, Frankfurt

The European Central Bank is tipped to keep its key interest rate at an all-time low of 1.0 percent on Thursday and to release details of bond purchases aimed at freeing up clogged credit markets.

The ECB has slashed its main lending rate by 3.25 percentage points in less than a year, but eurozone credit has still gotten tighter because commercial banks have not passed on much of the unlimited cash now at their disposal.

"The focus has now shifted to developments surrounding unconventional policies" to spur growth, said economist Jennifer McKeown at Capital Economics.

Latest ECB staff forecasts for growth and inflation are also due on Thursday after the rate decision, with the 2009 growth estimate likely to be revised sharply lower following a disastrous first quarter.

The 16-nation economy contracted by a record 2.5 percent from the last three months of 2008 and by 4.8 percent from the first quarter of last year, official data showed on Wednesday.



Audi India Managing Director Benoit Tiers and two models pose during the launch of the new Audi Q5 car in Mumbai yesterday. The limited edition Sports Utility Vehicle Audi Q5, available in two models, will be priced at upward of 3,829,000 INR (81,295 USD). Indian passenger car sales growth edged higher in March from a year earlier but commercial vehicle sales plummeted, reflecting a worsening economy.

IATA chief says outlook bleak for airline industry

AFP, Kuala Lumpur

Airline industry association IATA said Thursday the outlook for the ailing aviation industry remains bleak and warned airlines that a recovery will take more than three years.

Giovanni Bisignani, the International Air Transport Association's (IATA) director general, also urged governments to adopt open skies policies and further deregulate trans-Atlantic air travel to escape the crisis.

"The situation is really difficult, caused by this worldwide recession. We face a demand shock. Traffic is disappearing. Cargo has never been so down," he told reporters.

"It will take more than three years (for revenue) to recover. The (world) economy is not moving forward. We have piles of inventory -- chips and cars -- not moving," Bisignani added.

The IATA boss is in Malaysia ahead of the association's annual general meeting, which will be held here June 7-9. He said the meeting will focus on safety, environmental issues and industry liberalisation.

Malaysia's exports plunge 26.3pc in April

AFP, Kuala Lumpur

Malaysia's April exports dropped 26.3 percent year on year, according to official data released Thursday.

The trade ministry said in a statement that exports fell to 41.12 billion ringgit (11.7 billion dollars) from a year ago while imports plunged 22.4 percent year on year in April to 33.76 billion ringgit.

The total trade was worth 74.88 billion ringgit, a decrease of 24.6 percent from a year ago, but Malaysia did manage to record a trade surplus of 7.36 billion ringgit for the month.

"The decline in exports for April 2009 was largely attributed to lower exports of liquefied natural gas, crude and refined petroleum products," it said.

During the period January to April, total trade amounted to 284.96 billion ringgit, a decline of 24.2 percent from the previous period last year.

Singapore, China, US, Japan and Thailand were the top five export destinations, accounting for 52.4 percent of exports for April.

US ECONOMY

Rising rates threaten recovery

JOHN W. SCHOEN
msnbc.com

As the US Treasury continues to churn out hundreds of billions of dollars of fresh debt, officials are confronting one of the thorniest problems since the financial crisis began.

Who's going to buy all this paper? And if demand dries up, how much higher will interest rates have to go to attract new buyers?

The question is not just academic. When the crisis first hit last fall, investors worldwide sought shelter in US Treasuries, and interest rates plunged. That helped to shore up battered banks and restart the housing industry with low mortgage rates.

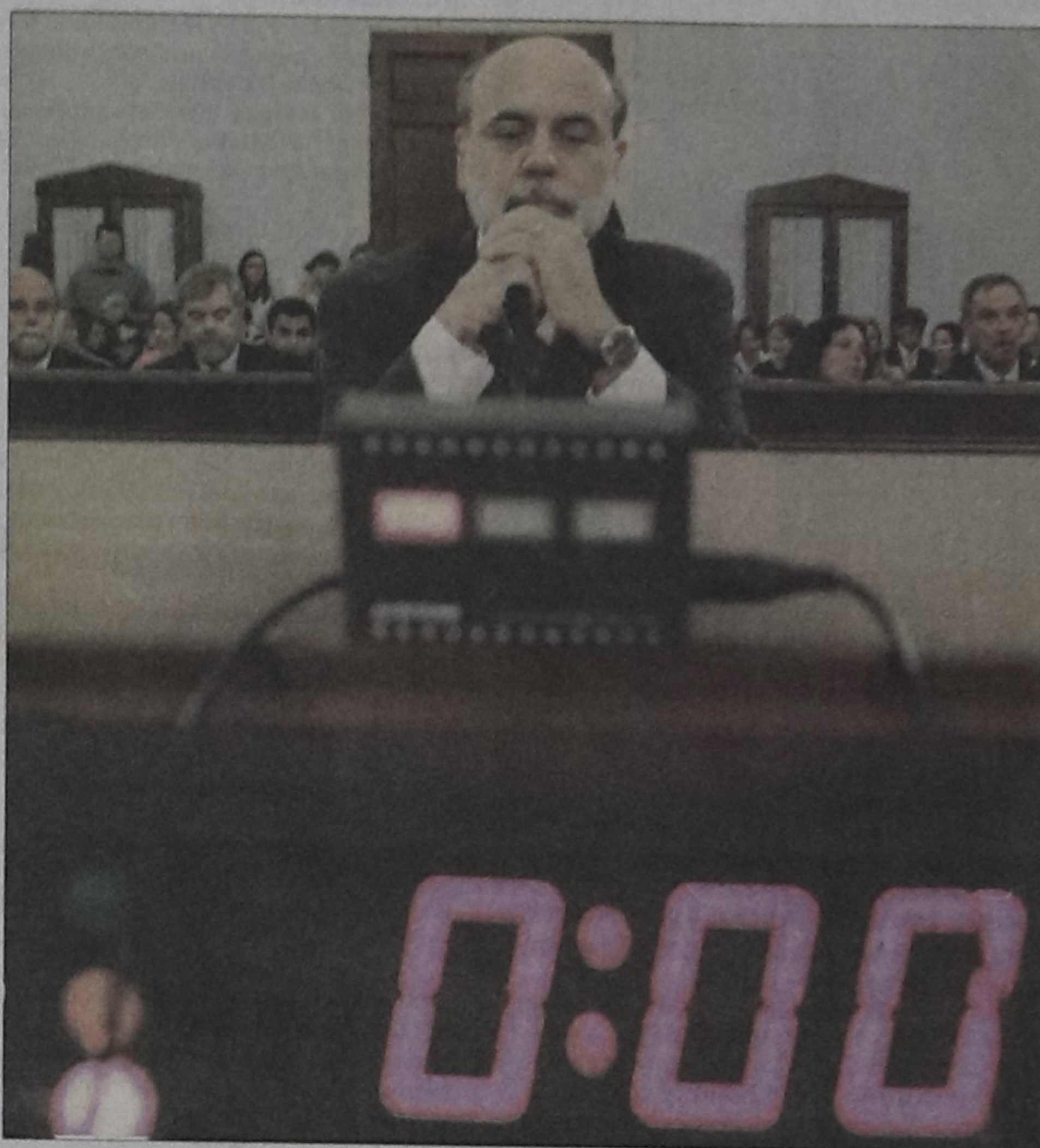
But now, as the financial crisis seems to have waned and the global economy shows signs of recovering, interest rates have begun rising, or "backing up." Any further rise in rates could throw cold water on the economy, boost the cost of mortgages and other loans and push back the recovery that many forecasters are looking for before the year is over.

"Along with declining home prices, those (lower) interest rates were key to reviving housing demand," said Thomas Higgins, chief economist with the Los Angeles investment management firm Payden & Rygel. "That's a key risk for the latter part of the year. We know where the crisis began, and it began in housing. And we need housing to recover."

Fed officials say they are committed to keeping rates low, but it remains to be seen how far it can defend its target in the global money market. The central bank typically manages only short-term lending rates used by banks for overnight loans. Since the financial crisis hit last fall, the Fed has embarked on a bold experiment to push down longer-term rates by wading into the multitrillion-dollar global market for Treasuries.

The Fed's task is made more complicated by the hundreds of billions in fresh debt paper the Treasury is churning out to finance the economic stimulus package, plug the growing hole in the federal budget and roll over the huge pile of past government borrowing that comes due every quarter. To attract investors to buy those bonds, the Treasury pays interest rates based on the lowest bids at auction. If investors demand higher rates, the cost of all long-term borrowing goes up.

"The government is keeping these rates lower and there are no legitimate, long-term real buyers of size to handle these auctions and the mortgage product that's being produced to try to stimulate the economy," said Rich Berg, CEO of Performance Trust Capital Partners. "So (rates are headed higher) unless Uncle Sam is going to finance the whole thing for the next 20 years, which



Federal Reserve Board Chairman Ben Bernanke sits at the witness table while participating in a House Budget Committee on Capitol Hill in Washington, DC on Wednesday. The committee heard testimony from Bernanke on the outlook of the US economy.

is not going to happen."

That's one reason Treasury Secretary Timothy Geithner went to China this week: to drum up continued demand for US debt. The worry is that if China loses its appetite for Treasuries, rates could move even higher.

"We actually have some experience of what happens when China stops buying because China stopped buying agency bonds and Freddie and Fannie bonds last fall, and for a brief period (rates) on agencies went up significantly," said Brad Setser, a fellow at the Council on Foreign Relations and recent author of a paper, "If the Dollar Plummets." "And those rates only came down when the Fed started buying. So if you lose a big buyer, it does have an impact on the market."

As suggested by Setser's paper, foreign investors and governments are also worried about the impact of the surge in US borrow-

ing on the value of the dollar. A falling dollar can hurt the value of existing Treasury holdings.

In his trip to China, Geithner also sought to reassure Chinese leaders that the US is serious about paying down this new borrowing quickly and that the Chinese government's \$760 billion investment in dollar-denominated debt is safe.

But concerns about the dollar have been growing in Beijing for some time. Earlier this year, Chinese leaders wondered out loud about long-term damage on the dollar from the borrowing binge and suggested the world needs a new "reserve" currency for global trade. (That view was echoed Tuesday by Russian Prime minister Dmitry Medvedev in an interview with CNBC.)

In the short run, China faces a difficult choice, say analysts. If it holds back on buying Treasuries, it risks accelerating the decline in the dollar's value. That would

both reduce the value of existing dollar holdings and force the value of its own currency, the yuan, to rise. A stronger local currency would make China's exports more expensive abroad, stifling growth of the country's manufacturing-based economy.

But over the longer run, said Setser, the huge flow of dollars between the two countries may not be sustainable.

"China no longer seems comfortable subsidizing American (borrowing and) consumption -- and in the process subsidizing Chinese exports," he said. "From the American point of view, the binge of borrowing that the US went on from 2002 to 2008 -- borrowing that China in no small part financed -- didn't end out too well. So both parties, I think, are recalibrating their interests. But in the short run, they're still stuck in the marriage because the cost of getting out is quite high."

The recent signs of global economic recovery also have revived fears that inflation may return as demand increases for raw materials like oil and other commodities. Oil prices have nearly doubled from their lows in just the past three months. Gold prices are approaching record highs.

Inflation worries also push the dollar lower and interest rates higher.

"As the economy has started to look like it's at least no longer in free fall, people are looking forward to what happens when we emerge from the recession," said Michelle Girard of RBS Greenwich Capital. "You see more people focus on the inflationary consequences of all the liquidity that the Fed has put into the system."

The Fed also risks falling into a vicious cycle as it serves as the buyer of last resort for US Treasury debt. As rate pressure rises, the Fed has to buy more Treasuries to prop up prices and keep a lid on long-term interest rates. To pay for those Treasuries, the central bank issues more Federal Reserve notes, aka cash. That extra cash increases the risk of inflation, and the cycle continues.

Most economists expect that the economic recovery, when it comes, will be weak until the housing market works through a glut of unsold homes and employers create enough new jobs to make a dent in the nearly 6 million positions lost since the recession began.

"We lost \$20 trillion of net worth just over the past year and a half," said David Rosenberg, chief economist at Gluskin Sheff & Associates. "So we have this severe trauma in the household balance sheet. There is definitely going to be lingering impact from that, whether we're in a technical recession or not, for the next several years."

Those households will have an even tougher time getting back on their feet if rising interest rates boost the cost of borrowing to buying a new house or car.

COSMETICS

L'Oreal hits 100 as world leader

AFP, Paris

In 1909 French chemist Eugene Schueller concocted a safe dye for hair, calling it l'Aureale after a popular hair style of the moment in a city which was already a byword for style and fashion.

On Thursday that business, now an empire, a top French brand and a leader in the world of cosmetics under the name of L'Oreal, celebrated 100 years of satisfying vanity and riding the long rise of spending on body care products.

Since the early years when Schueller invented new recipes by night and delivered to hairdressers by bicycle by day, L'Oreal has survived through the Great Depression, two world wars and the growth of competition in ever-more prosperous economies.

However, Schueller attracted controversy for having extreme right-wing connections before and after the occupation of France in World War II.

The founding family has been in the news recently over acrimonious litigation between Liliane Bettencourt, Schueller's daughter, and her own daughter Francoise Bettencourt-Myers. The daughter took court action to challenge gifts totalling nearly a billion euros (1.42 billion dollars) from the family fortune by her mother to a friend, a photographer.

The Swiss food giant Nestle acquired 28.9 percent of the group in 2004.

But Liliane Bettencourt remains the top shareholder, making her one of the wealthiest women in the world with a fortune estimated by Forbes magazine in 2008 at 23 billion dollars. She herself began working in the business at the age of 15, mixing cosmetics and labelling bottles of shampoo.

L'Oreal is one of three top world groups in this market which, over 100 years, has reached down through the middle classes to new



www.loreal.paris.com

segments of working people in emerging economies.

Personal body care is now a multinational business.

The market for L'Oreal has expanded from "gay Paris" in the early years to the globalised world of supermarkets and glamour: a story of the consumer society.

"The globalisation of the cosmetics market is just beginning...we reach scarcely a fifth of the inhabitants of the planet," chief executive Jean-Paul Agon said in remarks to mark the anniversary. The current crisis should be a stimulus and the company "has never been so much on the attack."

The group, under its previous chief executive, Welshman Lindsay Owen-Jones, turned in an astonishing run of ever-rising profits: for 23 years running it raised profits by more than 10 percent per year.

The empire now constitutes one of the biggest family fortunes in France, but in its hundredth year it too is being tarnished by the effects of the global economic crisis.

For the first time for many years, the group is closing some factories in Europe because the global economic crisis has hit profits.

The Bettencourt family owns 30.8 percent of the business. Analysts frequently raise the possibility that Nestle might make a takeover bid.

On Thursday, shares in the group were steady at 55.57 euros, but showed a fall of 10.81 percent this year.

Throughout the swinging twenties, Schueller developed his tiny start-up business and in 1929 set his mark on a strategy which the company has followed with great success since.

It has always invested heavily in research and development, basing its growth on innovation, advertising and international development. For example, in 2003, the group opened a centre in Chicago to research the specific characteristics of black skin. Today, it says it employs 3,200 people on research.

In 1934, Schueller developed Dop, the first shampoo without soap for the mass market, and when the first paid holidays for the mass of workers in France became obligatory at the end of the 1930s, the company was already on the market with the first sun cream, Ambre Solaire, developed in 1935.

The other two top groups in the sector are Procter & Gamble of the United States and Beiersdorf, which invented Nivea cream, in Germany. Under the Beauty Top 100 rankings, L'Oreal is the biggest with annual sales of 17.5 billion euros and market share of 16.0

percent.

However, Euromonitor International analysts in London calculate different figures, saying that L'Oreal is the second leading company, after Procter & Gamble.

"In 2008, L'Oreal's market shares increased from 10.2 percent to 10.4 percent mainly due to its acquisition of Yves Saint Laurent," said Analyst Oru Mohiuddin, specialising in personal care companies.

In the last financial year, the company reported growth of 3.0 percent "mainly dragged down by salon hair care in the USA."

The most promising market for the next five years would be "China skin care, contributing 12 percent to overall growth in cosmetics and toiletries between 2008-2013," the analyst said, noting that the company remained the leader for hair colourants with 35.3 percent of the market.