International Business News

BA flies into Q1 loss, sees uncertain outlook

AFP, *London*

Struggling British Airways said Friday that it slumped to a historic first-quarter pre-tax loss and warned the outlook remained uncertain as the global economic downturn slashes demand.

In a dire results statement, BA said it made a pre-tax loss of 148 million pounds (173 million euros, 245 million dollars) in the three months to June, compared with a profit of 37 million pounds in the 2008 quarter.

This was the first, first-quarter pre-tax loss for the company since its privatisation in 1987.

BA also reported a net loss of 106 million pounds, which contrasted with a net profit of 27 million pounds a year earlier, and an operating loss of 94 million pounds.

The airline warned that it would slash costs even further because business conditions continued to be very difficult and there was considerable uncertainty over the outlook for the airline industry as a whole.

"Trading conditions continue to be very challenging with underlying revenue down 16.8 percent and no visible signs of improvement," Chief Executive Willie Walsh said in the earnings release.

"While traffic volumes are down considerably compared to last year, they have stabilised during the quarter and show some signs of improvement for the peak summer months. However, yields remain volatile.

"Our work to reduce costs, which started last October, is beginning to bear fruit as they are down 6.6 percent -- but with revenue still weak, there is much more to be done."

AFP

An Indian farmer walks with her livestock in Ranga Reddy district, some 50 kilometres from Hyderabad, yesterday, as they move between grazing. In India two-thirds of the 1.1 billion population are dependent on agriculture, therefore a delay of monsoon rains can have an adverse effect on the country's economy.

France suffering severe recession: IMF

AFP, *Paris*

France is in "severe recession", the IMF declared on Friday but said the slump was less bad than in other eurozone economies and advised the government to aid the banking sector and keep budget deficits in check.

"The global financial crisis and the contraction of world trade have pulled the French economy into a severe recession and put its financial sector under strain," the International Monetary Fund said in an in-depth report.

"Structural features combined with early policy action have helped soften the downturn, which is somewhat less pronounced than in the euro area as a whole," the report said.

The report added however that unemployment had risen, consumer price inflation had fallen, budget deficits were growing and banks with toxic assets needed more government support.

The IMF forecast that the French economy would shrink by 3.0 percent this year -- its worst result since 1949 -- and would then recover gradually and grow by just 0.4 percent in 2010.

Unemployment will peak at 10.2 percent by 2010, the IMF said.

S Korea posts sixth straight trade surplus

AFP, *Seoul*

South Korea posted a trade surplus for a sixth consecutive month in July largely due to a sharp fall in imports, government data showed Saturday.

The surplus in Asia's fourth largest economy was 5.14 billion dollars last month, the knowledge economy ministry said in a report based on customs data.

Exports fell 20.1 percent year-on-year to 32.73 billion dollars in July and imports plunged 35.8 percent to 27.59 billion dollars, the report said.

The country's trade account has been in the black since February.

The central bank has reported that South Korea posted a record current account surplus of 21.75 billion dollars for the first half of the year to June.

The ministry said shipments of most of the country's key export items such as cars, mobile handsets, textiles and semiconductors fell in July. Only ships and liquid crystal displays enjoyed a growth in exports.

Lafarge profits halved, gives no earnings guidance

AFP, *Paris*

French building materials giant Lafarge reported a 59-percent slump in first-half net profit on Friday and did not give guidance for results for the full year.

Lafarge, a multinational based on the cement business, said its net profit was 370 million euros (522 million dollars).

When adjusted to exclude the effects of asset sales and provisions, net earnings fell 58 percent to 327 million euros in the six months.

In the second quarter alone, net profit fell 49 percent on a 12-month comparison to 387 million euros.

First-half sales fell 12 percent to 7.99 billion euros.

The group said it expected volumes for the year to fall 4.0-8.0 percent overall, although performances would vary depending on particular markets.

Lafarge said the fall in the volume of business was likely to continue to weigh on operating margins and it did not give guidance for its results for the whole of the 2009.

RECESSION

US banks reward stars with bonuses

AP, *New York*

Even when their profits dried up and they turned to taxpayers to stay afloat, the nation's biggest banks kept paying huge bonuses. But much of the money went not to top executives, but to star traders and salesmen, even as the economy battled through the worst recession in a generation.

The bonuses, including $1 million or more for each of nearly 4,800 bankers at nine of the largest firms, were paid for 2008, along with scores of smaller checks to thousands of rank-and-file employees. But their revelation this week has renewed criticism of companies relying on government aid.

The House of Representatives voted Friday to sharply restrict how Wall Street pays its executives and workers, barring compensation that rewards excessive risk-taking. But the bill only applies to future payments and do not cover the bonuses for last year, revealed in a report by New York Attorney General Andrew Cuomo.

That report, based on information subpoenaed from the banks, does not identify individual bonus recipients or their jobs. But it makes clear that a relatively small number of people enjoyed the largest payouts. Experts on Wall Street compensation said that, in many cases, the biggest bonuses went to star producers, whose work generated substantial profits even as their companies were struggling.

"Most of the money doesn't go to what we usually call executives," said Alan Johnson of Johnson Associates, a New York compensation consultant to companies including large banks. "It's going to highly paid production workers."

At Bank of New York Mellon, for example, none of the company's top five executives was paid a bonus. But the bank still paid 74 of its worker bonuses of at least $1 million each. Senior executives at Wells Fargo & Co, which lost $43 billion last year, also did not pocket bonuses, even as the firm paid bonuses of at least $1 million to 62 of its employees.

The biggest bonus pool was paid out by J.P. Morgan Chase & Co, where $8.7 billion was distributed, a sum far larger than the $5.6 billion in earnings the bank reported. More than 1,600 Morgan Chase employees took home bonuses of $1 million or more.

Johnson, the pay consultant, said many of the traders and salesmen receiving big bonuses count on the checks for 75 percent of their yearly pay. Those employees have long been paid for individual performance - how many bonds a bond salesman sold and how much money those deals generated for the company - rather than on the overall results that are supposed to be used to set pay for top executives.

Banks have continued to pay even as some lost money, fearful a rival will woo their highest producers away.

"For Wall Street banks, their main assets are their people," said Broc Romanek, editor of CompensationStandards.com, a Web site providing advice to corporate boards. "The ones that are performing year to year, they don't want to lose them."

But the recession and large losses at many of the banks paying big bonuses has exposed the weaknesses of the system.

Banks distribute bonuses far down the corporate ladder, but the payments are much smaller for rank-and-file employees. A secretary to a trader might make $50,000 a year and get a $5,000 or $10,000 bonus, Johnson said.

Overall, the banks are on track to pay out more than they did before the recession began. If current patterns hold, the biggest banks will pay their workers $156 billion in 2009, compared to the $143 billion paid in 2006, adjusted for inflation, said Lucian Bebchuk, a Harvard University professor and leading expert on corporate pay.

"The good days of compensation are back," Bebchuk said Friday.

Cuomo and other critics say the bonuses are excessive and show banks have abandoned their long-stated practice of basing pay on corporate results.

"Even a cursory examination of the data suggests that in these challenging economic times, compensation for bank employees has become unmoored from the bank's financial performance," the New York attorney general said in the report released by his office Wednesday.

But Johnson said Cuomo is incorrectly focused on a link between pay and corporate performance when it's individual performance that guides bonus payments.

"The most uncomfortable position for that kind of (pay) model is when a small group of people -- the mortgage unit, for example -- blows the whole firm up, and the majority of people have done what you've asked them to do," he said.

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Senior executives at Wells Fargo & Co, which lost $43 billion last year, did not pocket bonuses, even as the firm paid bonuses of at least $1 million to 62 of its employees.

Chinese real estate on mend

AFP

A picture taken on July 18, 2009, shows a new real estate project under construction in Beijing. China's real estate fever is well and truly back. Government stimulus measures and speculative investors have helped forge a surprising turnaround, with rocketing prices in some large cities sparking concerns of a new bubble.

AFP, *Beijing*

After getting on board China's property boom only three months ago, Beijing property agent Li Zhiwei already has plans to use the profits from his new career to open a karaoke complex.

The 26-year-old is close to making his first pot of gold -- a commission on a luxury new apartment near Beijing's Sanlitun shopping and entertainment district that he is close to selling for two million yuan (293,000 dollars).

"I'm a young man and I love challenges. Sales bring quick money," said Li, who quit a lower-paying government job in his home city in the central province of Henan after six months of "boring work".

While Li will get 10,000 yuan from his first sale, he said top performers at his company could earn more than four times as much each month, a wage that would put him on track to start his karaoke and bar business in a few years.

Such ambitions may have seemed impossible last year when China's property market slumped sharply, hit twice over by government efforts to rein in prices and the global economic crisis.

But China's real estate fever is well and truly back.

Government stimulus measures and speculative investors have helped forge a surprising turnaround, with rocketing prices in some large cities sparking concerns of a new bubble.

"China's residential market has touched rock bottom and is now recovering at a faster pace than expected," said Alan Chiang, residential market head at property consultancy firm DTZ China.

In the Chinese capital, average house prices jumped 27 percent from January to June, according to government data published in the state media.

Property prices across all major cities rose by 0.2 percent in June from a year ago, government figures showed, ending falls since December, when the data posted the first decline since official records were published in mid-2005.

To lift the sector out of its slump, the government last year cut minimum deposits for first-time home buyers and slashed equity capital requirements on property investments.

It also lowered mortgage interest rates, while erasing stamp duty on all private home purchases and value-added tax for land on property sales.

The measures particularly helped average Chinese looking to buy a property as they improved general affordability, according to Hingyin Lee, head of research at Colliers International's China division in Shanghai.

"They gave a lift to... the mass market," he said.

But analysts said speculative money was also fuelling the rebound with the property market attracting hot money as a hedge against inflation.

Fears of inflation are rising, fanned by concerns about excess liquidity due to a record 1.1 trillion dollars of new loans in the first half, as Chinese banks followed government orders to pump-prime the economy.

"Many people have entered the property market to hedge depreciation risks on expectations of inflation, creating investment and even speculation demand," said Yang Hongxu, an analyst at E-House China Research and Development Institute in Shanghai.

The frenzy seen in the Chinese market is in stark contrast with markets in the United States and other Western countries.

Prices of existing homes in the United States -- by far the largest segment of the US housing market -- dropped by 15 percent in June from a year before, the National Association of Realtors said.

House prices in Britain also fell by 15 percent year-on-year last month, according to mortgage giant Halifax.

"China's residential market is very different to its counterparts in the West," said Chiang of DTZ China.

He said China's massive population means there is still a long-term supply shortage. And Chinese buyers have not been as hard hit by the financial crisis as they rely more on savings than mortgages to fund property purchases.

Total, Eni profits drop in bad week

AFP, *Paris*

Total and Eni reported huge profit falls in their second-quarter results on Friday, marking a bad week for the majors hit by slumping prices in the worst global downturn since the 1930s.

Oil prices hit a record 147 dollars per barrel in July 2008 but then plunged as the global financial crisis pushed the United States, Europe and Japan deep into recession.

In recent months they have begun to rise unsteadily on signs, notably from stock markets, that prospects for leading economies are improving.

A rise of economic activity would increase demand for energy and tend to underpin or raise the price of oil and gas.

Data for the US economy in the second quarter showed on Friday that activity fell by 1.0 percent, marking four months of contraction running, the first such run since the data began in 1947.

However this was better than shrinkage of 1.5 percent expected by analysts.

Meanwhile, the main New York crude contract in London dipped by 22 cents to 66.72 dollars per barrel.

The French group Total said that its second-quarter net profit fell 54 percent from the figure 12 months earlier to 1.7 billion euros (2.38 billion dollars), above analysts' forecasts for 1.69 billion euros as polled by Dow Jones Newswires.

In Milan, Eni reported a 75.8-percent profits collapse to 832 million euros.

These results were broadly in line with figures reported by Royal Dutch Shell -- down 67 percent to 3.82 billion dollars -- and British giant BP, down 53 percent to 4.39 billion dollars.

All four said that the main factor was the drop in oil prices as a result of the global economic crisis.

"Energy demand is weak. There is excess capacity in the market and industry costs remain high," Shell Chief Executive Peter Voser said.

Total said its production was down seven percent, reflecting lower output levels agreed by OPEC, and the decline in demand owing to the global economic downturn.

For the six months to June, net profit fell by 45 percent to 3.83 billion euros. In the first quarter, Total's earnings were down 35 percent.

Chief executive Christophe de Margerie said that although oil prices had recovered this year, gas prices had fallen and refinery margins were down sharply as demand slumped.

The company said: "Chemicals are still suffering from reduced demand in the Atlantic basin but is benefiting from positive signals about demand in Asia."

In early afternoon trading, shares in Total, the biggest listed company in France, were down by 3.05 percent to 38.77 euros.

In Milan, Eni said that its quarterly adjusted net profit, which excludes exceptional items, had fallen by 60 percent to 902 million euros.