International Business News

Freddie Mac's loss narrows, eschews federal aid

AP, *Washington*

Freddie Mac escaped the second fiscal quarter without asking the government for any new financial aid, but still expects to need more federal help in the future.

The government-controlled mortgage finance company on Friday posted a quarterly loss of $374 million, or 11 cents a share, including $1.1 billion in dividends paid to the government.

Excluding those payments, the company would have earned $768 million. In the year-ago period, Freddie lost $1.05 billion, or $1.63 a share.

The McLean, Va-based company was able to maintain a positive net worth of $8.2 billion in the quarter ended June 30. As a result, it did not need to seek funding from the Treasury Department, which has provided Freddie Mac with $51 billion since the takeover last September.

The government has pledged up to $400 billion in aid for Freddie Mac and its sibling Fannie Mae. The two companies play a vital role in the mortgage market by purchasing loans from banks and selling them to investors. Together, they own or guarantee almost 31 million home loans worth about $5.4 trillion. That's about half of all U.S home mortgages.

"While we are seeing some early signs pointing to a housing recovery - including a modest uptick in house prices in some markets - our outlook remains cautious due to rising foreclosures, growing unemployment, tight lending standards and buyers' reluctance to re-enter the market," John Koskinen, Freddie Mac's interim CEO, said in a statement.

Japan Airlines announces billion-dollar loss

AFP, *Tokyo*

Japan Airlines, Asia's biggest carrier, said Friday that it lost one billion dollars in the previous quarter as the global economic downturn and swine flu fears caused a slump in passenger numbers.

The group announced drastic cuts to its flight services as it braces for a second straight year in the red.

JAL's net loss ballooned to 99.04 billion yen (1.0 billion dollars) in the April-June quarter, from 3.41 billion yen in the same period of 2008.

The carrier swung to an operating loss of 86.11 billion yen from a year-earlier profit of 3.91 billion yen. Revenue slumped 31.7 percent to 334.90 billion yen.

"Our earnings results turned out to be very grim," said JAL senior vice president Yoshimasa Kanayama. "We strived to cut costs. But it was not enough to offset the drop in income."

JAL, which has announced more than 11,000 job cuts since 2005, maintained its forecast for a loss of 63 billion yen in the year to March 2010, after a 63.2-billion-yen deficit last year.

But it said there were some glimmers of a recovery in travel by leisure passengers thanks to receding swine flu fears and lower fares.

AFP

A Ford car dealer in Marina del Rey, California, offers the "Cash for Clunkers" programme to customers on Friday. The hugely popular "Cash for Clunkers" programme aimed at boosting auto sales has the potential to rev up economic activity even though many analysts say the lift will be short-lived.

Bridgestone in red but outlook brighter

AFP, *Tokyo*

Japanese tyremaker Bridgestone said Thursday that it went into the red in the first half of 2009 because of the global economic downturn, but it upgraded its full-year outlook due to cost cuts.

Tyremakers have been hit by a worldwide slump in demand for cars and air travel that has depressed demand for their products.

Bridgestone, which vies with France's Michelin to be the world's top tyremaker, posted a net loss of 38.34 billion yen (402 million dollars) for January-June, a turnaround from a year-earlier profit of 37.24 billion yen.

It reported an operating loss of 19.97 billion yen, compared with a year-earlier profit of 83.66 billion yen, as revenue fell 26.6 percent to 1.21 trillion yen.

"The acute worsening of business conditions had a huge impact on our performance," Bridgestone said.

But it raised its profit forecast for the whole of 2009 thanks to cost cuts and tentative signs of recovery in demand, helped by government economic stimulus measures.

Canada unemployment rose in July

AFP, *Ottawa*

Canada shed 45,000 jobs in July, leaving the unemployment rate unchanged at 8.6 percent, Statistics Canada reported, as the country's finance minister said a recovery in 2010 remained likely.

The drop in employment was higher than expected by analysts, who had eyed loses of around 20,000 jobs.

It is a substantial increase on 7,400 jobs lost in June.

"The unemployment rate remained unchanged at 8.6 percent, as fewer people participated in the labor market," the agency said.

"While most of July's employment losses were in Quebec, there were also losses in Saskatchewan, as well as in Newfoundland and Labrador. Employment was little changed in all other provinces," Statistics Canada said.

Since a peak in October 2008, employment has fallen 414,000, mostly among young people (-205,000) and men aged 25 to 54 (-201,000), it added.

RECESSION

Gloom over India's outsourcing

AFP, *New Delhi*

AFP

This file photo shows Indian staff working at a call centre in Gurgaon on the outskirts of New Delhi. These are tough times for India's flagship outsourcing industry whose skilled, low-cost work force helped plant the country on the global business map. With the world in the grip of the worst economic slump since the 1930s, outsourcing revenue growth is slowing sharply after years of posting scorching double-digit increases.

These are tough times for India's flagship outsourcing industry whose skilled, low-cost workforce helped plant the country on the global business map.

With the world in the grip of the worst economic slump since the 1930s, revenue growth from outsourcing -- subcontracting work to a third-party company -- is slowing sharply after years of posting scorching double-digit increases.

"IT budgets are still being cut and consumers will need a lot more persuading before they can feel confident enough to loosen purse strings," Richard Gordon, head of global forecasting at Gartner consultancy, said.

"The full impact of the global recession on the IT services and telecommunications sectors is still emerging," he added in a recent outlook.

Now, the National Association of Software and Service Companies, or Nasscom, India's top outsourcing body, projects the sector's export revenues will rise by just four to seven percent this year to at most 50 billion dollars.

That's down sharply from the 16 percent logged in the last financial year to March and the 30 percent rise the industry clocked annually for most of the decade as the country became a back office to the world.

Nasscom says global companies are showing reluctance to authorise new spending -- even cash that reduce costs by taking advantage of India's cheaper English-speaking educated labour force.

"Worldwide information technology spending growth is expected to come down further in 2009 and 2010," Som Mittal, head of Nasscom, said.

The outsourcing sector has been particularly hard hit by the recession in the United States, which accounts for 60 percent of the Indian industry's revenues.

The industry has made India a top business destination by offering software development and information technology, engineering and design, and business process outsourcing (BPO).

But with the global slump hitting spending, there are fewer credit card transactions and airline tickets to process and lower demand for software design, sales calls, help desks, accounting and legal services.

India's largest software exporter, Tata Consultancy Services (TCS), and other companies forecast a difficult business climate despite announcing better-than-expected quarterly profits. Their profits increased, helped by tight cost management, even though revenue growth slowed.

"Global conditions are weak," TCS chief executive S. Ramadorai said after the results. "Recovery isn't something that's going to happen very soon."

And Amitabh Chaudhry, chief executive of Infosys BPO, in a recent interview admitted the business environment was "much tougher" than in past years.

Technology Partners International, a global sourcing advisory firm, said the international banking, oil and gas, food and drink and other sectors have all slowed their outsourcing.

According to Nasscom, the industry is also facing other challenges such as rising protectionist sentiment -- especially in the United States.

Indian outsourcing companies have already started focusing on the home market to drive growth.

The domestic market is still dwarfed by the export market but it is growing at a much faster pace as India's relatively closed economy has been less hard hit by the global slowdown.

In the last financial year, the outsourcing industry racked up exports of 47 million dollars while the domestic business added another 11.8 billion dollars in revenue.

Domestic outsourcing industry revenues are expected to grow by up to 18 percent this year to reach 14 billion dollars.

The focus "is definitely on the domestic segment and unexplored markets like South America, West Asia and blocks of Europe", said Nasscom's Mittal.

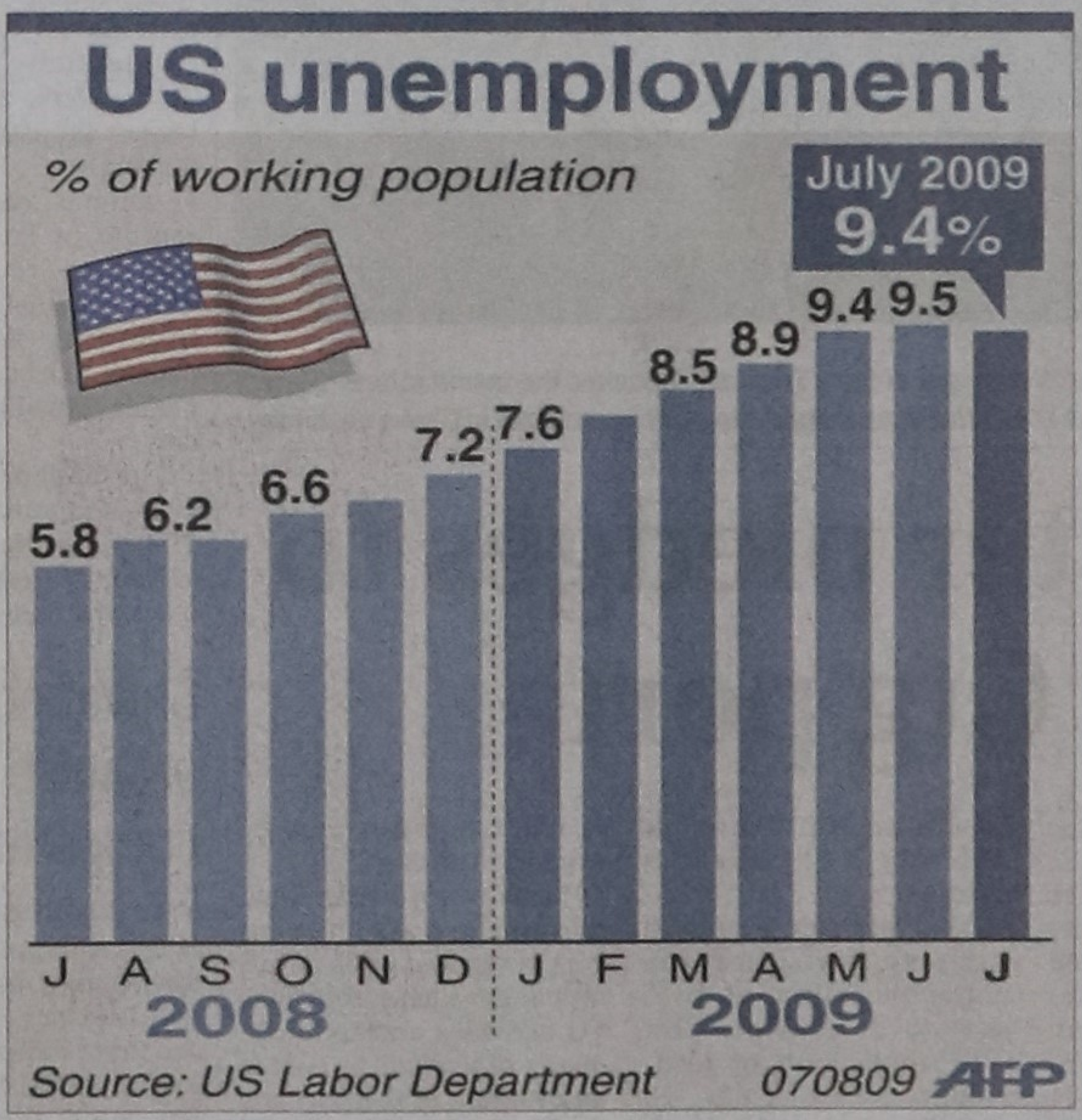
The sector, which accounts for nearly six percent of India's GDP, has played a key role in fuelling the country's new middle class affluence, employing two million people directly and eight million indirectly.

Longer term, the industry is still upbeat about its prospects.

Nasscom and management consultancy firm McKinsey said in a joint report the outsourcing industry could quadruple its revenues to 225 billion dollars by 2020 with the majority coming from exports.

Turn in US jobs data boosts recovery hopes

AFP, *Washington*



A surprise improvement in the US unemployment rate amid narrowing job losses has boosted hopes that the world's biggest economy is emerging from the grip of recession, analysts say.

The jobless rate fell one-tenth of a point to 9.4 percent in July as job losses narrowed to 247,000 from 443,000 in June, a Labor Department report showed.

The report provides a clear signal that the labor market and the economy have likely turned the corner after a brutal recession that began in December 2007, said analysts.

"With the fall-off in the pace of job losses appearing to be gaining some traction and the improved tone of other economic reports, it appears that the US recession may well be in its last throes," said Millan Mulraine, economic strategist at TD Securities.

"In fact, given the recent flow of economic reports, it is now conceivable that the US economy may post its first quarterly growth for some time in the third quarter."

This report and other upbeat data "reinforce our view that the US recession ended in June," said Dean Maki, economist at Barclays Capital, which is calling for growth at a 3.5 percent pace in the third quarter.

"After a period of massive wealth destruction, consumers are building savings and reducing borrowing. As the labor market begins to heal and financial wealth recovers, we believe this will support a subdued recovery in consumer spending."

The report "confirms that the recession is certainly diminishing in intensity if it hasn't ended already," said Peter Kretzmer, senior economist at Bank of America.

"It appears unemployment may have hit its peak. We are starting to see the signs of a turning point, but it will take some time for job losses to diminish."

Robert Brusca at FAO Economics went further.

"The jobs turnaround is actually about as rapid as you could hope to see," he said. "The transition from job losses to gains could come as soon as August."

Other analysts warned against celebrating too quickly for an economy in which payroll employment has fallen by 6.7 million since the recession began.

Eugenio Aleman, a senior economist at Wells Fargo, explained the shock figures by saying that a significant number of disenchanted workers had left the labor force and were not therefore listed as unemployed. Those in the labor force fell by 422,000.

"I was surprised about the unemployment number coming down to 9.4 percent, but that was because of people dropping out of the labor force, so that is probably not going to be repeated in the future," Aleman said.

He argued that the jobless rate will likely rise in the coming months, "because all those people who have been out of the labor force are going to come in because of better job prospects."

Unemployment could still hit as high as 10 percent, even with an improving economy, he warned.

Joseph LaVorgna, economist at Deutsche Bank said the report suggests a fragile recovery is underway. One key is that aggregate hours worked -- sometimes seen as a proxy for economic activity -- edged higher overall and in the factory sector.

"The rise in the workweek, small gain in earnings and smaller than expected decline in payrolls suggest personal income may be on the cusp of flattening out," he said.

"We are still targeting 10 percent unemployment by year end, but we are beginning to wonder whether the unemployment rate has peaked ...the general tone of the labor market indicators became considerably less negative last month."

LaVorgna is forecasting second-half growth of 2.25 percent and a likely acceleration in 2010, helped by the Federal Reserve's easy money policies.

"As long as the Fed does not preemptively raise interest rates, a self-sustaining economic recovery should soon be underway," he said.

President Barack Obama jumped on the data to suggest his administration had saved the US economy from catastrophe and that the worst of the recession may be over.

"While we have rescued our economy from catastrophe, we have also begun to build a new foundation for growth," he said.

IMF boosts loan to Pakistan by $3.2b

AFP, *Washington*

The International Monetary Fund on Friday said it had approved an additional 3.2 billion dollar loan to Pakistan after the country asked for more help to weather the global economic crisis.

The IMF said the extra funds for the loan program to Pakistan would "help the country address increased balance of payment needs" and increase the total loan to 11.3 billion dollars.

The IMF executive board also approved an extension of the loan to the end of 2010, an additional three months, and the payment of a third installment of the loan of 1.2 billion dollars, the multilateral institution said in a statement.

Four billion dollars had already been disbursed from the 7.6 billion dollar Stand-By Arrangement agreed in November to bolster the South Asian nation amid the worst global contraction since the Great Depression.

Pakistan approached the IMF last year for a rescue package as it grappled with a 30-year high inflation rate and fast-depleting reserves that were barely enough to cover nine weeks of import bills.

The board decisions were made after IMF completed its second review of the country's progress in addressing its heightened balance of payments needs.

"The macroeconomic outlook for 2009/10 remains difficult, and the external position is subject to considerable downside risks," said Murilo Portugal, IMF deputy managing director, in the statement.

The extra IMF aid "will help mitigate these risks and enable the implementation of the government's fiscal program; however, this financing is temporary and should be used as a bridge until the revenue reforms bear fruit."

The board also agreed that part of the additional funding "could be used to finance priority spending until the disbursements of donor support pledged for 2009-2010 are received."

IMF mission chief to Pakistan, Adnan Mazarei, told reporters in a conference call that the funds would help the government build the social safety net and provide assistance to internally displaced persons in the violence-riddled country.

Mazarei said the funds were intended as "bridge financing" until the Friends of Pakistan donors honor their pledges from a Tokyo meeting in April, which he said was roughly 5.7 billion dollars over two to three years.

"Here I must stress that because IMF financing for the budget is temporary, it is very critical that donors deliver their pledged support without any delay," he added.

The IMF said the board had approved Pakistan's request for waivers for failing to meet certain criteria, including a budget deficit that is 0.9 percent of economic output and continued weakness in banking supervision and tax policy.