International Business News

Obama unveils plan to encourage savings

AFP, *Washington*

With the country still reeling from a severe recession, US President Barack Obama unveiled Saturday new incentives to encourage individual savings to secure the future of the country's retirees.

"If you work hard and meet your responsibilities, this country is going to honor our collective responsibility to you: to ensure that you can save and secure your retirement," Obama said in his weekly radio address.

The collapse of the real estate market and a steep drop in stock market values have resulted in a loss by Americans of about two trillion dollars in retirement savings in just over the past two years, according to US government data.

Obama also pointed out that half of the country's workforce did not have access to a retirement plan at work, and fewer than 10 percent of those without workplace retirement plans had one of their own.

"We cannot continue on this course," said the president. "And we certainly cannot go back to an economy based on inflated profits and maxed-out credit cards; the cycles of speculative booms and painful busts; a system that put the interests of the short-term ahead of the needs of long-term."

ECB warns of complacency over recovery

AFP, *Frankfurt*

The European Central Bank's head stressed Friday that the global financial crisis was not over and said the ECB would maintain special support measures, despite growing optimism for a recovery.

Amid talk of "exit strategies" to roll back the crisis measures taken by many authorities, the ECB's president Jean-Claude Trichet said the bank had its own such plan, but warned it was "too soon to call the crisis over."

"The ECB has an exit strategy, and we stand ready to put it into action when the appropriate time comes," he said, adding that "financial institutions ultimately need to stand on their own two feet."

Exit strategies involve ways for central banks and governments to unwind policies taken since mid 2007 to fight the worst global economic downturn since World War II. Recent indicators have suggested that these and other measures taken worldwide are beginning to help restore economic health.

As they prepare for a Group of 20 summit in the US city of Pittsburgh, many capitals are breathing easier and anticipating renewed economic growth, but ECB officials warned authorities and market players not to become complacent.

AFP

Guests stand in front of an illustration of an upscale condominium development in Singapore during a preview on Friday by developer CapitaLand. Despite a lingering recession, analysts expect sales of private homes to hit all-time highs in the city-state this year as local sentiment and global economic prospects improve.

WTO rules European subsidies to Airbus illegal

AFP, *Brussels*

The World Trade Organisation has judged European subsidies paid to Airbus illegal, the Wall Street Journal reported on Friday, citing a source "familiar with the matter".

But European sources who declined to be named told AFP that the interim ruling released by the WTO indicated that the US complaint was only partially upheld.

The Journal reported from Brussels that the WTO concluded that every launch-aid package given to Airbus for the development of its A380 double-decker long-range airliner was an illegal subsidy.

The conclusion was contained in a report of around 1,000 pages, with hard copies only going to EU governments and the US government, the business newspaper said on its website.

A European source confirmed to AFP in Brussels that "some elements" of the original US complaint to the WTO on the matter were upheld by the Geneva-based global trade body.

But, rebutting part of the Journal report, the source added that funds extended to Airbus for the A380 "were not considered illegal in their totality".

Suzuki Motor to build new auto plant in India

AFP, *Tokyo*

Japan's Suzuki Motor Corp. plans to build a new plant in India in 2011 in a bid to meet growing demand for cars in the country, a newspaper reported on Saturday.

The manufacturer of small cars and motorcycles plans to invest about 30 billion yen (323 million dollars) in construction of a plant with annual production capacity of 300,000 vehicles, the Nikkei business daily said.

The firm will build the plant near its production base in Manesar near New Delhi, where Suzuki has already been producing some 300,000 units a year with its Indian partner, according to the daily's evening edition.

Vehicle manufacturers see huge potential in countries such as India and China, with their billion-plus populations. In July, Indian car sales jumped for a sixth straight month, climbing an annual 31 percent.

India is one of the world's least penetrated car markets with just seven autos per 1,000 people compared with 850 cars per 1,000 people in the United States.

WORLD ECONOMY

G20 close to bonus deal

AFP, *London*

G20 finance ministers are close to agreeing new rules on bankers' bonuses, a source said Saturday, after splits between the US, Britain and the rest of Europe threatened to cloud a key meeting in London.

If sealed, the deal would see bankers rewarded for long-term not short-term success and mean lucrative bonus payouts could be clawed back in the event of subsequent poor performance, a G7 source told AFP.

"We are close to agreeing a set of global rules," the source said, speaking anonymously, adding there had been "some movement overnight".

As ministers arrived late Friday, the battlelines were drawn for a clash between the United States and Britain on one side and France, Germany and other European countries on the other.

Leading the way, French Finance Minister Christine Lagarde, who wants a mandatory cap, warned of an "onslaught" against bonuses and tried to pressure the US and Britain to change their position with a string of interviews.

But now it seems an agreement which accommodates all sides could be struck in London to take to a Group of 20 leaders' summit in the US city of Pittsburgh on September 24-25.

"France has not forgotten the issue of caps, but they have shown flexibility," said the G7 source.

The deal could see bonuses partly paid in stock options, which can go down relative to a bank's performance, the source added.

Separately, politicians are set to force greater transparency over how much senior bank executives are paid.

Experts say bankers' bonuses contributed to causing the near-meltdown in the world economy which erupted a year ago because they encouraged bankers to behave recklessly in the hope of earning massive windfalls.

Voters' anger over bankers' bonuses has been growing in recent months as some banks signal they are resuming the practice as the economic outlook brightens.

But the US and Britain want to protect the status of Wall Street and the City of London as the world's leading financial centres and are strongly opposed to capping bonuses.

British finance minister Alistair Darling has dismissed the idea as "unenforceable" because top bankers would simply find other ways to reward themselves.

"A cap is easy to get round. It is more important to stop the practices that caused the problems in the first place," Darling said in an interview with the Times newspaper Saturday.

As the worst financial crisis since the 1930s eases with France, Germany and Japan all returning to positive growth, the G20 ministers are also debating when to withdraw the emergency support pumped in to shore up economies.

British Prime Minister Gordon Brown said in his opening remarks it was too early to scale back the massive taxpayer-funded fiscal stimulus packages agreed at April's London summit which are credited with preventing a deeper crisis.

Such a move would be a "serious mistake" and now was "clearly not the time for economic complacency," he said.

"It's clear in my view that too early a withdrawal of vital support could undermine the tentative signs of recovery we are now seeing and lead to a further downward lurch in business and consumer confidence," he added.

More than half of the five trillion dollar expansion pledged by world leaders to boost economies has yet to be delivered, Brown said, adding this should be put in place before any winding down.

His view has been echoed by leaders including Anders Borg, finance minister of Sweden, which holds the rotating EU presidency.

The meeting is also likely to consider greater regulation, with the US pushing for stronger capital and liquidity standards for banks so they can absorb any future losses without needing state help.

AFP

G20 finance ministers gather for a family picture photocall yesterday at the G20 finance ministers meeting in London. Finance ministers from the world's largest and fastest-emerging economies were meeting here Saturday to map out post-crisis exit strategies and tackle sharp differences over bankers' bonuses.

US ECONOMY

Mortgage giants struggle a year after takeover

AP, *Washington*

A year after the near-collapse of Fannie Mae and Freddie Mac, the mortgage giants remain dependent on the government for survival and there is no end in sight.

The companies, created by the government to ensure the availability of home loans, have tapped about $96 billion in government aid since they were seized a year ago this weekend. Without that money, the firms could have gone broke, leaving millions of people unable to get a mortgage.

Many questions remain about Fannie and Freddie's future, but several things are clear: The companies are unlikely to return to their former power and influence, the bailout is sure to cost taxpayers even more money and the government will have a big role in the US mortgage market for years to come.

Fannie Mae was created in 1938 in the aftermath of the Great Depression. It was privatised 30 years later to limit budget deficits during the Vietnam War. In 1970, the government formed its sibling and competitor Freddie Mac.

The companies boomed over the past decade, buying mortgages from lenders, pooling them into bonds and selling them to investors. But critics called them unnecessary, arguing that Wall Street could support the mortgage market itself.

That argument has faded in the wreckage of the failed loans that led to the housing bust. Investors have fled any mortgage investment that doesn't have the government standing behind it.

"No longer is anyone arguing that the private sector can handle this on its own," said Jaret Seiberg, an analyst at Washington Research Group.

The government stepped in to take control of the two companies on the weekend of Sept 6, after they were unable to raise money to cover soaring losses and their stock prices plunged.

A year later, the government controls nearly 80 percent of each company, and their problems are growing as defaults and foreclosures continue to skyrocket.

The percentage of homeowners who have missed at least three months of payments is normally under 1 percent for both companies. Now it's nearly 4 percent for Fannie and 3 percent for Freddie.

Fannie had nearly $171 billion in troubled loans as of June and had set aside $55 billion to cover those losses, while Freddie had nearly $78 billion in troubled loans and reserves of only $25 billion.

"It's much worse than anybody thought," said Paul Miller, an analyst with FBR Capital Markets.

It could be another year before the final taxpayer tab for Fannie and Freddie is known, and that outcome will depend on when delinquencies and foreclosures finally crest.

Barclays Capital predicts the companies will need anywhere from $160 billion to $200 billion out of a potential $400 billion lifeline, which the Obama administration expanded from the original $200 billion set last fall. Most analysts don't expect the money to be returned anytime soon, if at all.

"What will ultimately end up happening," said Barclays analyst Ajay Rajadhyaksha, "is that the US taxpayer swallows the bill."

Despite federal control, Fannie and Freddie have recently surged on Wall Street. The companies said Friday that they now comply with New York Stock Exchange requirement for an average closing price of $1 a share or more. But most analysts still say the companies' stocks will be worthless in the long term.

The Obama administration doesn't expect to announce its plans for the two companies until early next year, but powerful interest groups aren't waiting until then. The Mortgage Bankers Association on Wednesday offered a detailed plan to replace Fannie and Freddie with several federally-regulated private companies.

That proposal still retained a big government role, giving those companies the ability to issue mortgage bonds formally guaranteed by the federal government.

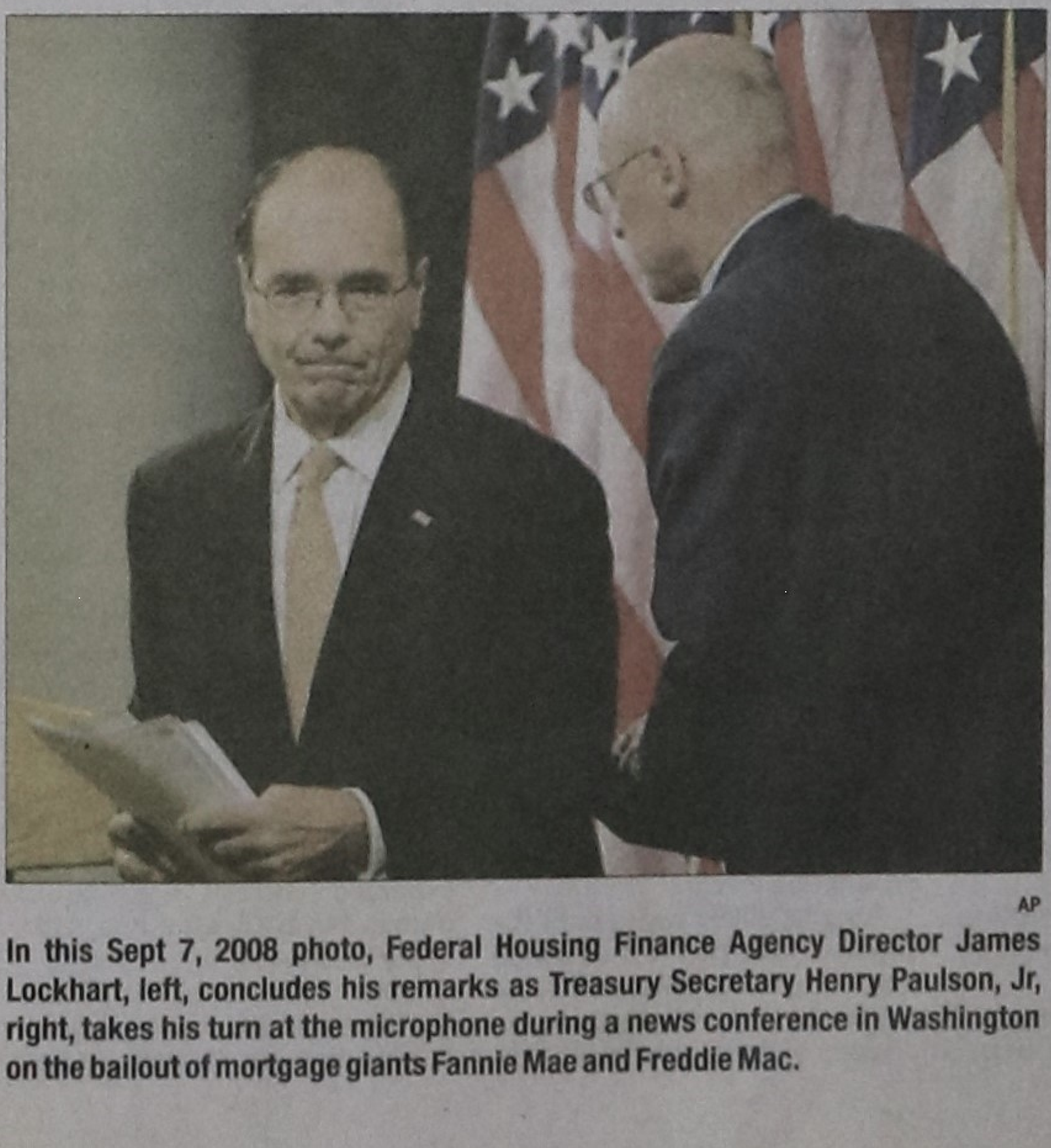
In the meantime, both Fannie and Freddie have been drafted to implement the Obama administration's effort to attack the foreclosure crisis. Freddie Mac now has about 600 workers either modifying loans or monitoring compliance with the program's rules. Fannie Mae said it has added hundreds of employees to work on foreclosure prevention efforts.

The early results have been disappointing. For example, while Fannie or Freddie refinanced 2.9 million loans from January through July, only about 60,000 were taking advantage of an Obama administration plan to help "underwater" borrowers who owe more than their homes are worth.

At the same time, nearly 70 percent of US mortgages made in the first half of this year went through Fannie or Freddie, up from 62 percent last year, according to Inside Mortgage Finance, a trade publication. That's a big change from three years ago, when the risky lending market was still alive and Fannie and Freddie's share was down to 33 percent.

"We've been the mortgage market," said John Koskinen, Freddie Mac's chairman. "Without that financing availability, people would not have been able to get a mortgage."

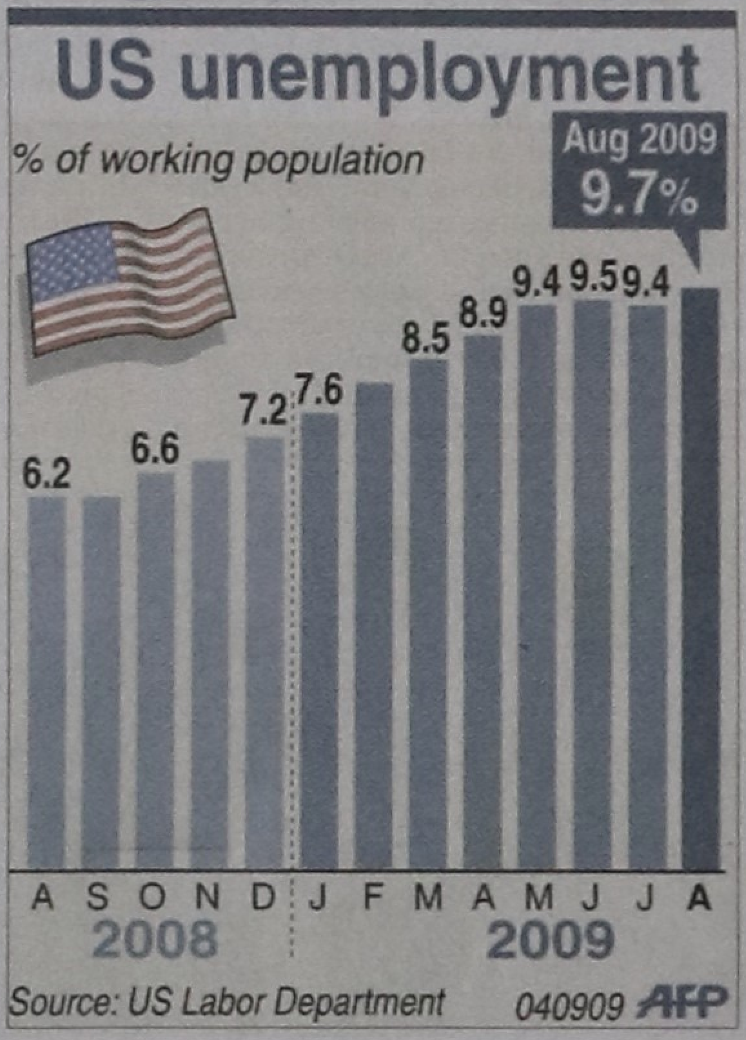
Fannie and Freddie don't directly make loans, but they exert enormous influence over the industry by issuing detailed standards for the loans they will purchase. Lenders must feed their borrowers into Fannie and Freddie's computer systems, which evaluate borrowers based on their credit scores and the size of their down payment.



AP

In this Sept 7, 2008 photo, Federal Housing Finance Agency Director James Lockhart, left, concludes his remarks as Treasury Secretary Henry Paulson, Jr, right, takes his turn at the microphone during a news conference in Washington on the bailout of mortgage giants Fannie Mae and Freddie Mac.

US unemployment rate 9.7pc



AFP, *Washington*

The US unemployment rate jumped to 9.7 percent in August as 216,000 jobs were lost, the government said Friday in a report showing improving labour market conditions.

The jobless rate rose three-tenths of a point to the highest since June 1983, but the data nonetheless showed an easing of the massive pace of job losses in an economy struggling to emerge from recession.

The Labour Department report, seen as one of the best indicators of economic momentum, showed job losses narrowed considerably. Revised rate showed 276,000 jobs lost in July and 463,000 in June, higher than prior estimates of 247,00 and 443,000, respectively.

The consensus expectation was for 230,000 job losses and an unemployment rate of 9.5 percent in August.

The civilian labour force rose by 73,000 in August, suggesting more people are returning to the workforce to seek employment in anticipation of better conditions.

The US economy shrank at a 1.0 percent annual pace in the second quarter, reflecting an easing of the deep recession that led to a 6.4 percent pace of decline in the first quarter.

Many economists expect the world's biggest economy to show growth in the current quarter although difficult labour market conditions could crimp consumer spending and dampen any recovery.

The Labour Departm-ent's August data showed a loss of 136,000 jobs in the goods-producing sectors including 63,000 in manufacturing and 65,000 in construction.

The services sector shed 80,000 jobs including 10,000 in retail.

The only segment showing growth was education and health care, with 52,000 jobs added.

The average workweek in the private sector, sometimes seen as a proxy for economic activity, was unchanged at 33.1 hours.

Average hourly earnings of private production and nonsupervisory workers rose 0.3 percent.