AFP

A huge crane unloads a container from a cargo ship at a wharf in Tokyo yesterday. The pace of Japan's economic growth will halve in fiscal 2011 from this year as a stimulus-driven shopping rush eases and exports fall on a strong yen and softer demand, the government said.

# Japan forecasts GDP growth to slow in 2011

AFP, *Tokyo*

The pace of Japan's economic growth will halve in fiscal 2011 from this year as a stimulus-driven shopping rush eases and exports fall on a strong yen and softer demand, the government said Wednesday.

In its outlook report, the Cabinet Office also said consumer prices will stop falling but will not rise, dealing a blow to Prime Minister Naoto Kan's stated goal of ending deflation in the year.

Recent year-on-year falls in the consumer price index will halt in the middle of next year, the Cabinet Office said, but suggested this would not represent the defeat of chronic deflation in the economy.

Growth is forecast to slow to a real 1.5 percent from 3.1 percent in this year, the report said.

Government stimulus measures helped boost domestic production and consumption in the current year, including subsidy programmes for purchases of environmentally friendly vehicles and appliances.

Japan's economy grew 4.5 percent in the July-September quarter, amplified by a rush by car buyers to use expiring subsidies and smokers who stocked up on cigarettes ahead of a tax hike during the period.

The hottest summer on record also drove sales of items such as air conditioners, helping spur growth in the quarter. Private consumption accounts for around 60 percent of gross domestic product.

However, analysts warn of a contraction in the fourth calendar quarter as the removal of such one-off factors highlights Japan's exposure to a weakening export picture and slow domestic demand.

At a cabinet meeting, Kan noted "concern about declines in the October-December quarter" and said now was "a crucial time to secure economic recovery", Chief Cabinet Secretary Yoshito Sengoku told a news conference Wednesday.

Recent data has shown a slump in industrial output, especially among carmakers, as well as weakening consumer confidence as such incentive programmes come to an end.

The economy remains mired in crippling deflation, as falling prices prompt consumers to hold off on purchase decisions in the expectation of further price drops, clouding future corporate investment.

Consumer spending growth is seen slowing next year, to 0.6 percent from 1.5 percent this year.

However, the government forecast unemployment to slowly improve, with the jobless rate tipped to fall next fiscal year to 4.7 percent from 5.0 percent now.

Japan's export growth accelerated for the first time in nine months in November, other data showed Wednesday, but the reading of a 9.1 percent increase fell short of expectations amid fears of a looming economic slowdown.

"The pick-up in the year-on-year growth rate of exports in November may look encouraging but exports are heading for a big quarterly fall," noted research consultancy Capital Economics.

Analysts said the Japanese economy remains locked in a trend of shrinking exports due to a stronger yen, which makes the nation's products more expensive in overseas markets, and expectations that overseas demand will weaken.

The unit has been relatively stable in recent weeks after hitting a 15-year high of 80.21 against the dollar in November, giving some respite to the export sector and easing pressure on the economy.

But it has stayed at a relatively high level -- it was sitting at 83.82 to the dollar in Wednesday trade.

On Tuesday the Bank of Japan held its key rate at between zero and 0.1 percent after a two-day meeting, warning that a fragile recovery from deep recession was "pausing".

Japan last month passed an extra budget worth 58 billion dollars to cover a new stimulus package aimed at averting the threat of a "double-dip" recession.

# Ernst and Young charged with Lehman fraud

AFP, *New York*

New York's attorney general on Tuesday charged accounting firm Ernst & Young with fraud for allegedly helping Lehman Brothers conceal billions of dollars in debt prior to the bank's collapse.

In a lawsuit, New York attorney general and incoming governor Andrew Cuomo charged Ernst & Young with helping Lehman Brothers remove tens of billions of dollars in securities from its balance sheet "in order to deceive the public about Lehman's true liquidity condition."

The alleged fraud was practiced seven years prior to the 2008 collapse, it said in a statement.

According to Cuomo's office, the securities were sold to European banks in return for cash which was used to pay down debts and improve the balance sheet, "while failing to disclose to the investing public the obligation to repurchase the securities at a higher price."

"This practice was a house-of-cards business model designed to hide billions in liabilities in the years before Lehman collapsed," Cuomo said in a statement.

"Just as troubling, a global accounting firm, tasked with auditing Lehman's financial statements, helped hide this crucial information from the investing public."

"Our lawsuit seeks to recover the fees collected by Ernst & Young while it was supposed to be using accountable, honest measures to protect the public," Cuomo said.

New York-based Lehman Brothers was one of the leading international banks before it was forced to declare bankruptcy in September 2008 due an acute lack of cash, which accelerated the meltdown of the US economy.

# Canadian invasion

REUTERS, *Toronto*

Toronto-Dominion Bank and Bank of Montreal could take a breather from big US buys after two deals in the last week, but Canadian banks will still troll for assets in a recovering US economy.

After emerging from the financial crisis largely unbruised, Canadian lenders have used large capital positions to snap up bargain-price players.

BMO said last week it would buy troubled Wisconsin lender Marshall & Ilsley for $4.1 billion, fast-tracking a US growth plan that had been stuck in neutral.

TD said on Tuesday it would buy Chrysler Financial for $6.3 billion, betting that the recovering US auto sector will boost loan demand for its US branch network.

"This latest move by TD shows that the Canadian banks are very well positioned," said Anthony Michael Sabino, a law and business professor at St John's University in New York.

"I think they realise that eventually we will come out of the great recession, and doing so... consumers will start spending money again."

Before BMO's move, the largest recent deals were Royal Bank of Canada's $1.5 billion bid for British fund manager BlueBay Asset Management in October and Bank of Nova Scotia's C$2.3 billion purchase of DundeeWealth.

After stockpiling capital during the financial crisis, the banks now need to put it to work, said John Kinsey, a portfolio manager and Caldwell Securities in Toronto.

BMO

TD

"They're still in good shape and they have the money and there's not a lot of room to expand in Canada," he said.

"They have to really go outside if they want to grow."

The Canadian banks have now carved out three distinct areas of retail banking influence south of the border: BMO in the Illinois-Wisconsin area, TD on the east coast, and Royal Bank of Canada in the southeast.

The housing crisis hammered Royal's North Carolina-based retail bank, and the bank recently suggested it is no longer focused on growing the bank.

But Royal and BMO could make small moves to expand its capital markets or wealth management presence, analysts said.

TD expects strong growth from its new auto lending platform, although Chief Executive Ed Clark said further acquisitions on the auto front were unlikely

"I don't think you have to do any more acquisitions to do this," he said in an interview. Within 2 or 3 years, this will be originating $1 billion in loans a month, so you wouldn't spend any money buying something.

Observers also said BMO will have its hands full integrating its acquisition for the next months.

# Australia-China trade get boost from iron ore, coal

AFP, *Sydney*

Booming iron ore and coal exports boosted commerce between Australia and top trading partner China by 8.8 percent this year and more than trebled it over the past decade, data showed Wednesday.

The trade department said China remained Australia's largest export market with total shipments growing to 90.3 billion dollars (89.7 billion US) -- 17.6 percent of total trade -- over the 12 months to June.

"Over the last decade, the share of Australia's two-way trade in goods and services with China (has) increased rapidly, from just 5.1 percent in 1999-00 to 17.6 percent in 2009-10," the office said.

Emerging powerhouse China accounted for 20.6 percent of total exports and 14.7 percent of Australia's imports.

It also became Australia's top export market for services for the first time, growing by 13.4 percent to 5.8 billion dollars in 2009-10.

Iron ore, the key ingredient of steel, accounted for nearly half of exports to China in 2009-2010, worth 25 billion dollars out of a total of 52.3 billion. Other important exports included animal products and wheat.

Asian demand for its raw materials helped Australia become the only advanced Western nation to weather the global downturn without going into recession, and is driving a once-in-a-century mining boom.

Australia's export volumes grew 5.3 percent but their value fell 10.6 percent to 254.2 billion dollars due to a "sharp drop in prices in the first half of 2009-10 as demand from our key Asian markets softened," the office said.

"However commodity prices rebounded strongly in the last quarter of 2009-10," it added.

The value of two-way trade with all countries fell 8.7 percent to 512.2 billion dollars in 2009-10.

Japan was Australia's second-largest trading partner, accounting for 11.5 percent of total trade worth 58.9 billion dollars, followed by the United States, valued at 48.9 billion dollars and 9.6 percent.

Japan was also Australia's second-largest export market, though its share dropped 29.1 percent to 39.0 billion, dominated by coal, iron ore, aluminium and beef.

India ranked third in exports with a 5.3 percent increase to 19.8 billion, led by gold, coal copper and other metals. It was Australia's fifth-largest trading partner overall.