US growth slows as state reins in spending

AP, *Washington*

Deep spending cuts by state and local governments pose a growing threat to an economy that is already grappling with high unemployment, depressed home prices and the surging cost of oil.

Lawmakers at state capitols and city halls are slashing jobs and programmes, arguing that some pain now is better than a lot more later. But the cuts are coming at a price - weaker growth at the national level.

The clearest sign to date was a report Friday on US gross domestic product for the final three months of 2010. The government lowered its growth estimate, pointing to larger-than-expected cuts by state and local governments. The report suggested that worsening state budget problems could hold back the recovery by putting more people out of work and reducing consumer spending.

Across the country, governors and lawmakers are proposing broad cutbacks - lowering fees paid to nursing homes in Florida, reducing health insurance subsidies for lower-income Pennsylvanians, closing prisons in New York state and scaling back programs for elderly and disabled Californians.

"The massive financial problems at the state and local levels have and will continue to restrain growth," said economist Joel Naroff of Naroff Economic Advisors.

State and local governments account for 91 percent of all government spending on primary education, according to the Brookings Institution. And they provide 71 percent of higher-education spending. States also account for more than 70 percent of spending on roads, bridges and other infrastructure.

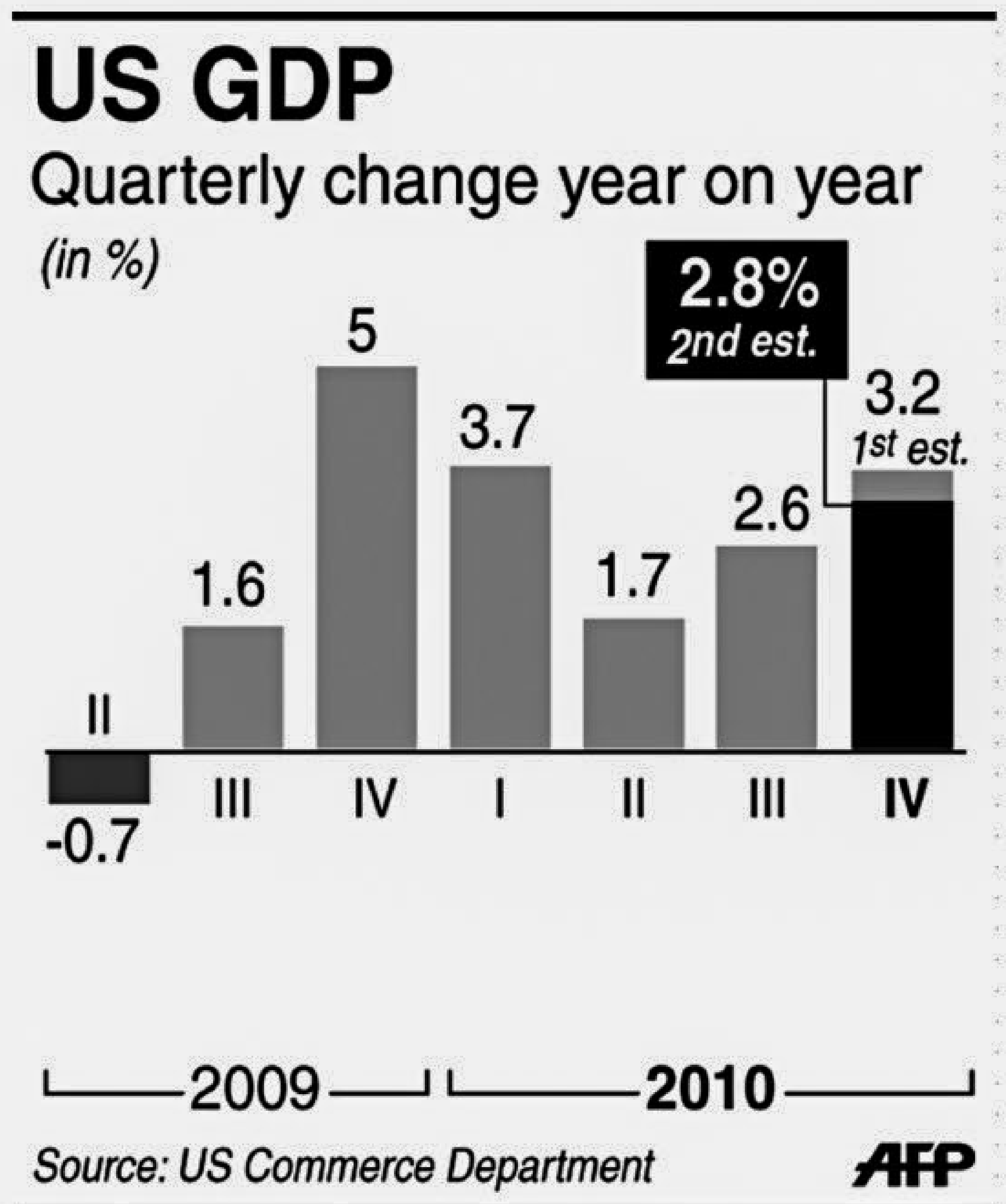
But those same governments cut spending at a 2.4 percent rate at the end of last year. And economists predict they will slash their budgets by up to 2.5 percent this year - potentially the sharpest reduction since 1943. The deepest cuts are expected to occur in the first six months of this year.

The worst cuts so far- 3.8 percent - came in the January-to-March period of 2010. That was the sharpest quarterly drop since late 1983, when the US economy was recovering from a severe recession. Most economists think the cutbacks this year will exert an even bigger economic drag than last year.

Newly elected Republican governors are leading the charge. They're acting on campaign pledges to shrink government to meet budget gaps. They favor smaller governments with lower taxes and less regulation, which they say will boost private-sector growth and job creation.

Some Democrats - including Govs. Andrew Cuomo of New York and Jerry Brown of California - have followed suit. They're pushing for cuts to social programmes and concessions from unions.

The governors' push for painful cuts comes just as they gather in Washington this weekend for their winter meeting.



"We have to balance our budgets. We have to address costs. And we also have to move forward at the same time," Maryland Gov. Martin O'Malley, head of the Democratic Governors Association, said after his group met with President Barack Obama and Vice President Joe Biden at the White House.

No state has attracted more attention than Wisconsin. Pointing to the state's projected $3.6 billion gap, Republican Gov. Scott Walker wants to strip state workers of collective bargaining rights. He also wants them to contribute more to their pensions and health insurance costs.

The budget fight has taken center stage in Congress. Democrats are bending to Republican demands for spending cuts to avoid a shutdown of the federal government next week.

The reduction in federal spending has a direct effect on states and municipalities. They depend on money from Washington to keep schools operating, put police officers on the street and subsidise public services like job training. The end of federal stimulus programs is also widening state deficits.

Many governors, including those in Florida, New York and Colorado, are pursuing tighter budgets. Their proposals include laying off public workers and teachers, reducing spending for education and health care, and ending some social services. They're also targeting public pension funds and health insurance plans and seeking larger contributions from public employees.

State and local budget experts fear the cutbacks will intensify this year. States are struggling to close budget gaps of about $125 billion for the upcoming budget year, according to the Center on Budget and Policy Priorities.

That's a smaller gap than states faced in the past two years. But this time, governors won't have federal stimulus funds to help close the deficits. And state governments, in turn, are reducing the aid they send to local governments.

"We suspect that these cutbacks are going to deepen over the next couple of quarters," said Mark Muro, a senior fellow at the Brookings Institution. "It's likely we're only beginning to see the state and local drag."

In Florida, newly elected Republican Gov. Rick Scott wants to reduce the state's budget 5 percent. To get there, he wants to slash 8,600 state jobs and reduce Medicaid costs through a 5 percent cut in fees paid to hospitals and nursing homes, but not doctors.

Health-insurance cuts are popular with many Republican governors. Pennsylvania Gov. Tom Corbett, facing a projected $4 billion-plus deficit, said he can't find the cash to extend a program that subsidises health care for 41,000 lower-income adults and is nearly out of money.

Arizona Gov. Jan Brewer is suggesting that the state drop Medicaid coverage for 250,000 low-income people to make up about half of the state's projected shortfall of about $1 billion.

It's not just Republicans demanding tough fiscal medicine. In New York, Gov. Cuomo has said up to 9,800 state employees could be laid off if public-employee unions don't agree to millions of dollars in concessions.

The newly elected Democrat has also proposed $1 billion in cuts to New York's Medicaid programme, with its 4.7 million recipients. He also wants to close some prisons, freeze wages for nearly 200,000 state workers, cut $1.5 billion in aid to public schools and chop 10 percent from the state's operating budget.

In California, Brown has imposed a state hiring freeze and is proposing cuts to a host of social programs that serve the poor, elderly and disabled. He is also seeking more than $12 billion in tax extensions and fees. The state is grappling with a $26.6 billion fiscal crisis.

State spending represents just a fraction of the nation's economic activity. Consumers typically spend roughly six times more than state and local governments do. So a big increase in consumer spending can offset public-sector cuts.

Volvo to invest $11b

AFP, *Beijing*

Chinese-owned car maker Volvo said Friday it hopes to become a global luxury brand and turn China into a major manufacturing base by investing $11 billion over the next five years.

The Sweden-based firm, which was bought by China's Geely last year, plans to build a new assembly plant in the southwestern city of Chengdu and possibly another in northeastern Daqing as it expands its China operations, chief executive Stefan Jacoby told reporters.

Volvo wants to boost annual sales to 800,000 cars globally by 2020 -- more than double the 373,000 sold last year -- with half of that growth coming from China, the world's biggest auto market, Jacoby said.

The company said it also aims to have 20 percent of the Chinese luxury car market by 2015 but did not provide a figure for its current share.

"We are committed to make a success here in China," Jacoby told reporters.

"We're in the middle of a big transition -- a big transformation. We are redefining the brand," he said in an earlier interview with the Wall Street Journal.

Geely, which bought Volvo from Ford in August for $1.5 billion, said in September it planned to increase Volvo sales to 300,000 cars a year in China alone.

Tanker victory spells risks for Boeing

AFP, *New York*

Boeing's triumph over European rival EADS for a major US Air Force tanker contract poses risks amid defense spending cutbacks and multiple delays to its commercial projects.

The Defense Department declared Thursday Boeing the "clear winner" of a $30-plus billion contract to supply up to 179 refueling tankers to the Air Force.

It is undoubtedly a major prize for the firm, but industry analysts highlighted the challenges that come with submitting what the Chicago-based firm itself called an "aggressive" bid.

"Since the KC-46A is a very competitively bid fixed-price contract for both development and production phases, it carries some execution risks for Boeing," Standard & Poor's analysts said in a client note.

Particularly, they said, "given the company's substantial cost overruns on some of its commercial and military programs in recent years."

Moody's Investors Service said that the difficulties could start early for Boeing, in the initial development phase.

"The development could distract engineering resources from other key programs including the near-term ramp-up of the B787 Dreamliner," said Robert Jankowitz, senior vice president at Moody's.

The tanker contract comes as Boeing is under pressure from its new 787 Dreamliner program that is now running three years behind the original schedule.

"Given Boeing's headaches getting its new passenger planes out the door, there should be concern about the company's ability to deliver the new tanker on time and on budget," said Paul Ausick of 24/7WallSt.com.

And budget will be at the forefront of policymakers' minds, as the Pentagon, like other US government bodies, struggles to cut the country's massive budget deficit.

"If Boeing misses deadlines and busts budgets, it's reasonable to expect that the Congress and the Pentagon will be reluctant to go ahead with the full complement of tankers," he said.

But there are definite rewards for the company, despite the risks.

Jefferies analysts said the contract spells benefits of "a few pennies per share" in the short term, and in the long-term a healthier business.

"Tomorrow's benefit is that the award adds balance to Boeing's business base, and continues a successful product line into the foreseeable future," they said, referring to the 767 commercial aircraft that will serve as the basis for the KC-46A tanker.

India plans tougher anti-inflation measures

AFP, *New Delhi*

India will need to keep monetary policy tight to fight inflation as economic growth rebounds to pre-crisis levels of around 9.0 percent, the finance ministry said on Friday.

The warning came ahead of the annual budget Monday and with pressure mounting on the Congress-led government, which has been buffeted by corruption scandals and protests over price rises.

"Inflationary pressure persists both from domestic demand and higher global commodity prices," warranting "persistence with an anti-inflationary monetary stance," the finance ministry said in its yearly economic survey.

On Thursday, Prime Minister Manmohan Singh vowed to rein in inflation but stressed it would not be at the expense of the country's economic "growth story".

Singh's political position has been weakened by opposition charges that he has failed to keep a check on price rises and corruption and deliver on pledges of "inclusive growth" for India's poor.

Even after seven interest rate hikes in less than a year, general inflation remains stubbornly above eight percent, while food inflation is running at 11.49 percent, causing hardship and resentment in poorer households.

However growth, boosted by a rebound in agriculture, manufacturing and services and a recovering global economy, should reach 8.6 percent in the current fiscal year to March 2011 and 8.75-9.25 percent next year, the survey said.

"The economy is expected to revert to pre-crisis growth levels next year," the survey said.

The buoyant growth forecast contrasts with predictions by some private economists who say growth could slow to as low as 7.7 percent next year as resurgent oil prices and further rate rises take their toll.

Signs of a slowdown emerged from data earlier this month that showed that industrial output growth in December slackened to 1.6 percent from 19 percent the same month a year earlier -- its weakest pace in 20 months.

The economic survey cited risks of overheating as the economy picks up pace and demand builds in the country of 1.2 billion people.

Gaps between supply and demand "still remain large," the survey noted.

At the same time, it said that "inclusive development" to ensure that India's poorest share in the country's accelerating growth "is an act of faith for the government".

The government's populist agenda makes Mukherjee's task in presenting the budget a tightrope, as he seeks to maintain high growth while cutting the fiscal deficit and curbing inflation, analysts say.

"Inflation is a matter of great concern," said Mukherjee after tabling the survey in parliament.

The fiscal deficit for the current fiscal year will be 4.8 percent, comfortably beating a 5.5 percent target thanks to windfall revenues from the sale of third-generation (3G) telecom licences, the document said.

The strong growth figures come despite an unwinding of massive stimulus measures put in place in the aftermath of the global financial crisis.

AFP

Activists of Indian trade unions Centre of Indian Trade Unions, Indian National Trade Union Congress and labourers rally near the parliament house in New Delhi on February 23 to protest against inflation.


AFP

Customers play portable video games as they wait to buy the Nintendo 3DS, the Japanese game giant's new 3-D video game console, on the first day of release in Tokyo yesterday. Thousands of video game freaks queued up to buy the world's first video game console with a 3-D screen that works without special glasses.

Malaysia Airlines profits slide in fourth quarter

AFP, *Kuala Lumpur*

National carrier Malaysia Airlines said Friday its net profits had fallen in the fourth quarter as a result of fuel hedging losses, despite improving passenger numbers.

In a filing with the local bourse, the airline said its net profit for the period fell to 226 million ringgit (74.05 million dollars) from a restated 640 million ringgit for the same period last year.

The carrier said it had made an operating profit of 137 million ringgit during the quarter, a 108 million ringgit improvement on the same period last year, due in part to a five percent rise in ticket sales.

It said load factors -- what percentage of seats are occupied on each flight -- had also risen.

For the full year, the national carrier said its net profit fell to 234 million compared to 520 million the previous year.

Chief executive officer Azmil Zahruddin told Dow Jones Newswires the airline is in the midst of an expansion in line with the upturn in the industry.

However, he warned that higher fuel prices, intensifying competition and unrest in the Middle East were challenges.