Global deleveraging still a challenge

REUTERS, *New Delhi*

Global deleveraging remains a challenge as economies are still recovering from the financial crisis, the chiefs of Citigroup and Reliance Industries said on Friday, agreeing that emerging markets will drive growth.

"The imbalances that caused the financial crisis still need to be worked out," Citigroup CEO Vikram Pandit said at a panel discussion at a meeting of the Institute of International Finance in New Delhi.

"There is high debt in developed markets, high deficit, trade imbalances. And the migration towards emerging markets is clear," he said.

Pandit, who was named CEO in late 2007, presided over two full years of losses before the bank reported its fourth consecutive quarterly profit in January.

Billionaire Mukesh Ambani, chairman of India's largest listed firm Reliance Industries, said he would not celebrate a recovery yet.

"We still have to see a roadmap to deleveraging," said Ambani, ranked Asia's richest man by Forbes with a net worth of $29 billion. He was speaking on the same panel as Pandit.

"The debt has not gone away, we have got some breathing time. We have to have a path and it has to be transparent to all of us," Ambani said. "That is still not seen and that is why the lack of confidence and the high amount of money on corporate balance sheets."

Ambani said India and other emerging markets were insulated from the global financial crisis that started in the United States and sent rippling effects through the world in 2008.

Last year, India rolled back about $10 billion of a $40 billion stimulus package implemented during the financial crisis.

India has been growing at nearly 9 percent a year but stubbornly sticky inflation in Asia's third largest economy, driven by food and other commodity prices, and a high fiscal deficit has prompted repeated calls from the central bank for fiscal consolidation.

Ambani said he expected India's economy to reach $5 trillion by 2022 or 2025, from its current level of $1.3 trillion. In comparison, China's economy has already hit $5 trillion.

Ambani last week struck a deal with BP that will have the British energy giant pump at least $7.2 billion into gas projects, bringing in one of the largest foreign investments into India.

"The emerging market story is only going to become stronger and I clearly see India leading the way," Ambani said. He also predicted that India will be the fastest growing economy in the world in five years.

"Our challenge within India is this growth has to be inclusive. It is very important that benefits of growth go to all sections of society," he said.

In the annual budget announced this week, India's government boosted spending on its poor, gambling on brisk economic growth to cover the cost of appeasing voters angered by corruption scandals and high inflation.

"The debt has not gone away, we have got some breathing time. We have to have a path and it has to be transparent to all of us," said Reliance Industries Chairman Mukesh Ambani. "That is still not seen and that is why the lack of confidence and the high amount of money on corporate balance sheets"

REUTERS

Vikram Pandit (L) chief executive officer of Citigroup, speaks as Mukesh Ambani, chairman and managing director of Reliance Industries, watches during the 2011 spring membership meeting organised by the Institute of International Finance (IIF) in New Delhi on Friday.

SHARING THE PAIN

Pandit was cautious about Europe, where a debt crisis has reduced confidence in many economies, particularly Greece, Ireland, Spain and Portugal, widening deficits and increasing public debt.

He said the euro is crucial to European countries, who engage in substantial trade among themselves.

"There is some amount of pain that has to be shared in the restructuring," Pandit said. "I am very confident that the euro debt situation will get resolved in due course."

In 2009, Pandit pledged to receive an annual salary of $1 until Citigroup returned to sustained profitability. The company in January said Pandit would receive a base salary of $1.75 million in 2011, after the bank reported its first full-year profit since 2007.

The U.S. economy has been slowly recovering. Chairman of the U.S. Federal Reserve Ben Bernanke this week told the U.S. Senate Banking Committee he saw increasing evidence that the economic recovery has enough momentum to become self-supporting.

But job growth remains far too anemic, he said, indicating the Fed was unlikely to cut short its $600 billion bond-buying stimulus.

"The U.S. economy is starting to grow. They cannot cut back on spending," Pandit said.

When oil prices soar, Americans buy pick-ups

REUTERS, *Washington/New York*

As gasoline prices soared in February, Americans bought big pick-up trucks.

For all the talk about $100-a-barrel oil snuffing out the economic recovery like similar spikes did in decades past, it has so far inspired only modest changes in US consumer behavior and attitudes.

Part of that reflects psychology. Although gasoline prices in late February recorded their biggest weekly gain since Hurricane Katrina disrupted petroleum supplies in 2005, they are still well below the $4-a-gallon levels hit during a 2008 price spike.

"We've been at $4 before -- it wasn't for very long, but we have hit that number," said Nigel Gault, chief US economist with IHS Global Insight in Lexington, Massachusetts. "Round numbers do still matter, $4 does still have shock value. Does it have the same shock value this time around as it did in 2008? It probably doesn't."

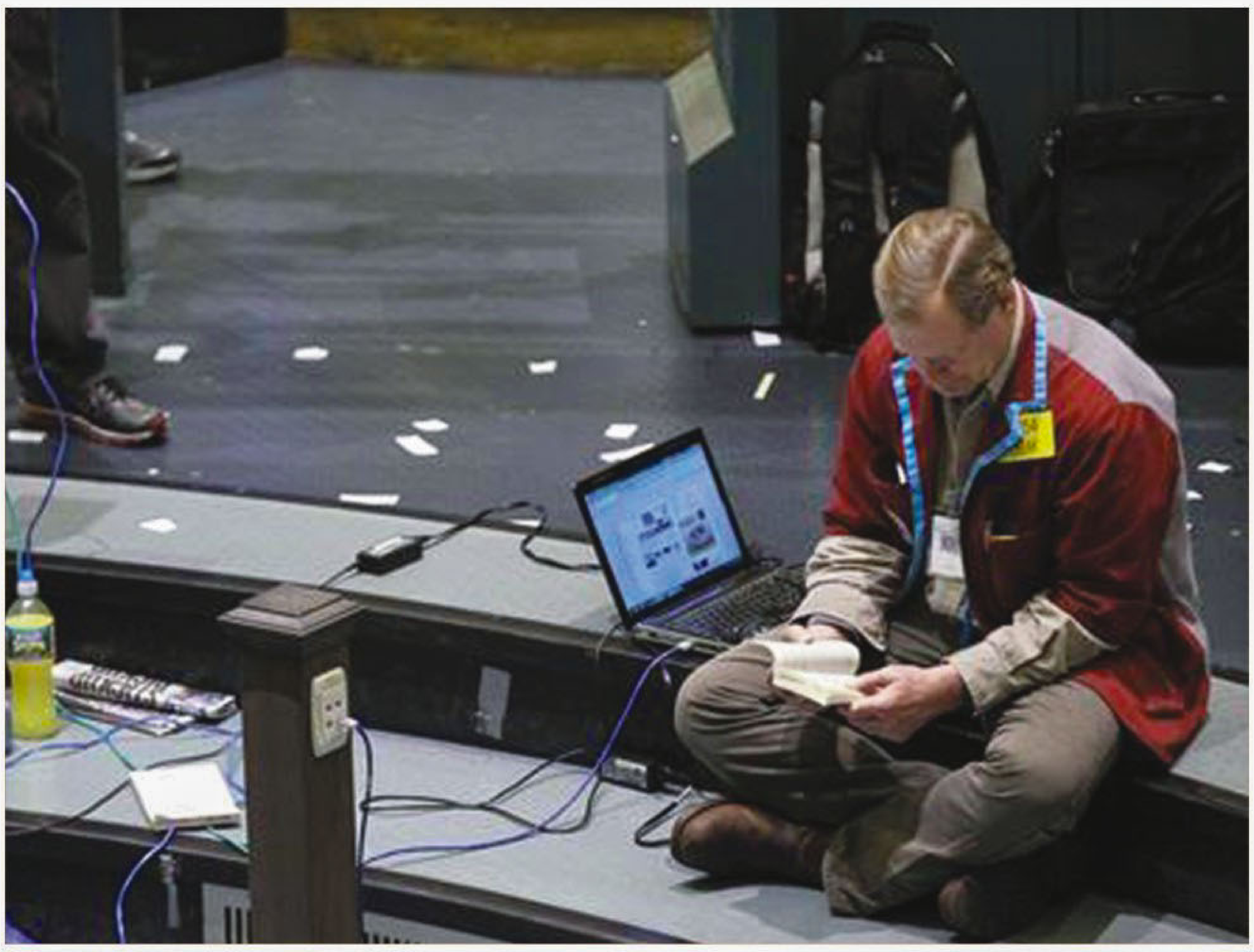
The broader economy is less oil-dependent than it was in the 1970s and 1980s, when expensive oil triggered recessions. Even those big Ford F-series pick-up trucks -- far and away the best-selling vehicles so far this year -- are more fuel efficient than earlier models.

Ask people how they are coping with costlier energy and you get a wide range of responses.

Take Jackie Dooley, an Internet marketing consultant in Eddyville, New York. Two years ago, she installed a super high-efficient pellet stove to heat her home, and she raises chickens and grows vegetables to offset rising food costs.

"We definitely couldn't manage it if we were still paying so much for oil," she said, adding that the money she saves goes to "luxury items" like paying health insurance premiums.

Then there is Stephen Mielach, a social worker in Toms River, New Jersey, who said he was annoyed by "all the global warming, energy crisis garbage" and did not want to be told what to buy.



REUTERS

Traders work in the crude oil and natural gas options trading pit on the floor at the New York Mercantile Exchange on Thursday.

"I buy what I like, especially when it comes to cars," he said.

For Stephen Taddie, managing member of investment advisory firm Stellar Capital Management in Phoenix, steep energy prices drove him to install solar panels on his home, buy energy efficient appliances and replace fancy European cars with pump-friendlier Hondas.

He already sees signs of oil feeding into consumer costs and worries about how spending will hold up if prices stay too high for too long.

"Price any airline tickets lately?" he asked, referring to a recent rash of fare increases.

TRUCK OR PRIUS?

Economic data suggests few consumers are making the sort of dramatic lifestyle changes that Dooley has, which means $100 oil will have little immediate or noticeable impact in a $14 trillion economy.

Retail chains reported surprisingly strong sales for February, although there was some evidence that oil was subtly affecting shopping behavior. Warehouse club chains Costco Wholesale Corp and BJ's Wholesale Club Inc, lured more shoppers with cheaper gas prices.

As for those Ford trucks, sales are up 21 percent so far this year, and overall truck sales far outpaced car sales in February.

Some of that reflects pent-up demand after two years of recession-sapped sales. Those big trucks are popular among small-business owners such as contractors, who simply cannot run a roofing business out of a small Toyota Prius.

Judging from futures markets, investors see little risk that oil will spike as sharply as it did in 2008, when it briefly approached $150 a barrel. On the New York Mercantile Exchange, the price for August delivery was just $2.60 above the April contract, suggesting investors think oil won't move much above $100 in the next five months.

To be sure, $100 oil is not completely painless. The average gasoline price rose by nearly 20 cents a gallon to $3.38 in late February, and that undercuts other consumer spending.

Deutsche Bank economist Peter Hooper said most of the rise in oil prices in the past six months reflects growing global demand. Roughly $10 to $15 a barrel can be tied to concerns about possible oil supply disruptions from unrest in Libya and the Middle East.

If prices stay around $110 per barrel, Hooper estimated it would trim 0.35 percentage point off of U.S. economic output, a moderate hit considering economists expect growth in the 3.4 percent range this year.

Hooper put only a 10 to 15 percent probability on oil hitting $150 a barrel, but if that does happen it would take 1.75 percentage points off U.S. growth -- enough to push the economy back toward stall speed.

The economy's ability to withstand $100 oil at all speaks volumes about how it has evolved in the past 30 years. In 2010, energy accounted for about 5.6 percent of total consumer spending. In 1981, it ate up 9.1 percent of spending, according to Commerce Department data.

Gasoline makes up about 55 percent of that energy spending, with the rest going primarily to utilities.

Gault, the Global Insight economist, said back in 1973 when a series of oil shocks caused catastrophic economic damage, the United States consumed 17 million barrels of oil per day. Today, that figure is 19 million barrels.

"Over that period, real GDP has almost trebled, and we're barely using more oil than we did back then," Gault said.

One big reason why oil consumption has not grown nearly as fast as the economy is that many businesses have switched to other fuel sources. In 1973, some 17 percent of electricity was generated from petroleum products, Gault said. Today, that figure is less than 1 percent.

That explains why $100 oil "hurts, but doesn't have the devastating impact that it did" in prior decades, Gault said.

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