S&P cuts Japan outlook, rebuilding may hit $600b

REUTERS, *Tokyo*

Standard and Poor's threatened to cut Japan's sovereign credit rating again, warning the huge cost of last month's devastating earthquake will hurt already weak public finances unless bickering politicians can agree to raise taxes.

It affirmed its long-term sovereign credit rating on Japan at AA minus -- the lowest among the major agencies -- but cut the outlook to negative from stable.

The ratings agency cut Japan's sovereign credit rating in January for the first time since 2002, saying the government had no plan to deal with its mounting debt while adding the administration's loss of an upper house majority had compounded the problem.

Public debt, already twice the size of the $5 trillion economy, is set to swell as the country faces reconstruction costs following the March 11 earthquake and tsunami that could reach 50 trillion yen ($613 billion), S&P said.

"If there are no revenue enhancing measures such as tax increases, we expect the central and local governments to bear most of this cost," the agency said.

However, the country's deepest crisis since World War Two has not healed rifts between the government and the opposition, whose majority in the upper house stands in the way of fiscal reform.

In addition, Prime Minister Naoto Kan's deep unpopularity means that even within his party, he has little room for maneuver to shore up the country's public finances.

REUTERS

A man walks past an insurance company building in Tokyo April 21.

"This will put more pressure on the Japanese government to do something about revenue enhancement," Takuji Okubo, chief economist at Societe Generale, said.

Still, Okubo said the S&P action could help the government's case for fiscal reform, which centres on raising the 5 percent consumption tax -- something acknowledged by Japan's finance minister.

"Fiscal reform is something we cannot avoid," the minister, Yoshihiko Noda, said. "The government at present is doing its utmost for disaster relief and reconstruction. It is important to pursue fiscal reform at the same time. We will try to gain trust in Japan's economy and public finances in and outside Japan."

Japanese sovereign credit default swaps were 1 basis point wider at 77 basis points after the S&P announcement, but they remain well off post-quake peaks near 120 basis points and a few basis points tighter than just before the disaster.

The yen dipped shortly after the announcement with the dollar climbing to an intraday high of 81.781 yen, but analysts said the S&P move was unlikely to have much impact.

"The impact on the forex market is likely to be temporary," said Masafumi Yamamoto, chief currency strategist at Barclays Capital in Tokyo.

Japan is not alone among industrialized countries in confronting a swollen budget deficit.

Just last week S&P slapped a negative outlook on the top-level AAA credit rating of the United States, where lawmakers are also squabbling over how to deal with a massive fiscal deficit.

The European Union is facing a critical test as the region deals with its worst debt crisis since the single euro currency was launched.

Japan's government has estimated that the cost of the damage from the 9.0-magnitude earthquake and tsunami on March 11 could reach just above $300 billion. A nuclear power crisis resulting from the tsunami has further damaged the economy.

However, S&P projected reconstruction costs at between 20 trillion yen and 50 trillion yen ($245 billion to $613 billion).

It said if government revenues are not boosted, these costs would add 2 percent of gross domestic product to the general government fiscal deficit this year and 1 percent next year. Deficits would remain above 8 percent through 2014, it said.

"Much will depend on Japan's political leadership and its ability to forge a political consensus on how to offset fiscal measures in the future," S&P said.

Japan is expected to pass an initial 4 trillion yen ($49 billion) extra budget for disaster relief in early May that won't entail fresh borrowing, but that is just a down payment on the expected cost of rebuilding in Japan's devastated northeast.

"Given the huge damage from the earthquake, everyone knows that government spending will be massive," said Junko Nishioka, chief economist at RBS Securities Tokyo.

"We are not expecting big new government bond issuance for the coming second supplementary budget but political deadlock is likely to heighten the negative risk for sovereign debt."

The Bank of Japan, which reviews policy on Thursday, relaxed its already super-loose policy just days after the disaster and has added its voice to those calling for a more credible plan by the government to fix the country's finances.

Nokia axes 7,000 jobs to slash costs

REUTERS, *Helsinki*

Nokia will axe 7,000 jobs and outsource its legacy Symbian activities to slash 1 billion euros ($1.46 billion) of costs as it struggles to compete in the fierce smartphone market.

Nokia, the world's largest phone maker by volume, on Wednesday detailed an overhaul of its business that will include laying off 4,000 staff and transferring another 3,000 to technology services firm Accenture - a total 12 percent of its phone unit workforce.

Accenture will take over Nokia's legacy Symbian software activities and support future smartphones, including those running on Microsoft's Windows platform.

The deal enables Nokia to cut annual business research and development costs by 1 billion euros, or 18 percent, by 2013 from 5.65 billion in 2010.

To turn around its fortunes, Nokia unveiled a deal in February to start using Microsoft software instead of its own Symbian platform. Its market share in smartphones has fallen sharply over the past few years as it loses out to Apple and other manufacturers of high-end handsets.

"Restructuring had been widely expected but Nokia will be hoping that the transfer of 3,000 of jobs to Accenture will help cushion the blow as it ramps down its Symbian investments," said Ben Wood, head of research at CCS Insight.

Nokia said most of the 4,000 layoffs will take place in Finland, Denmark and Britain, with all workers staying on the payroll through 2011.

In its native Finland, Nokia will cut 1,400 jobs.

"This went slightly better than expected, because Nokia transfers Symbian development. These 1,400 people to be laid off are mainly MeeGo coders and they should have quite good chances to find new jobs," said Pertti Porokari, chairman of the Union of Professional Engineers in Finland.

Nokia's telecom gear arm Nokia Siemens Networks cut around 9,000 jobs after it started operations in 2007.

Microsoft wrestles slack PC sales and wilting stock

REUTERS, *Seattle*

Microsoft might be about to report its earnings grew more than 20 percent on climbing revenue but the results will fail to rouse the software company's shares from a decade-long slumber or douse fears its dominance of personal computing is waning.

The second-largest U.S. technology company is expected to post on Thursday yet another solid gain in earnings and sales for its fiscal third quarter, as its stalwart Windows and Office franchises rumble on.

Although the venerable software suites remain clear market leaders, investors fear people are getting used to new ways of computing -- using Apple Inc and Google Inc tablets and smartphones -- and that will erode Microsoft's dominance in a work and consumer space that relies on personal computers and installed software.

"What people are going to be focused on is what's happening with their core PC business," said Michael Yoshikami, Chief Executive of fund manager YCMNET Advisors. "Is that slowing down? That's really going to dictate what Microsoft's future earnings power is going to look like."

"In the long term, their core cash flow business is going to be impacted, particularly if we start to see an ASP (application service provider) model where companies are essentially renting software."

That is precisely what companies like Google and Salesforce.com Inc offer with their online programs. Microsoft is countering with online versions of its own, but it has not yet done enough to persuade investors it will carry its dominance of the desktop into the age of "cloud" computing.

In the past six quarters, the world's largest software company has beaten Wall Street estimates -- hitting a few records along the way - only to see its stock fall in subsequent days. Its shares are now down 17 percent from a year ago, compared with a 14 percent gain in the tech-heavy Nasdaq index, and stuck at the same level as in 2001.

REUTERS

People play a Kinect boxing game on an XBox 360 gaming console at the Microsoft booth on the first day of the 2011 International Consumer Electronics Show in Las Vegas, Nevada January 6.

PC sales -- the most reliable indicator of Microsoft's financial success -- fell 1 percent in the first three months of the year, according to one research firm, as the iPad and tablets ate away at the fringes of the market.

Long term, some see the new devices as unleashing a genie that Microsoft may never be able to put back in the bottle.

The new tablets "are making a sea of Microsoft customers comfortable using an operating system different than Microsoft's," said Yoshikami. "You're going to see a migration away from the monopolistic dominance that Microsoft had, and that's worrisome for them."

That fear has chilled Microsoft's stock. Despite quarter after quarter of strong results -- racking up record sales and profit in the last three months of last year -- investors are unwilling to grant Microsoft the valuation they used to.

The stock is now trading at 9.4 times expected earnings for the next 12 months. That is half the stock's 10-year average and below the 13 times average for major tech companies.

Even Microsoft's 2.5 percent dividend yield, which lags only Intel Corp's among big tech, is not enough to persuade investors to change their outlook.

But that presents an opportunity to some who feel the share price does not reflect Microsoft's true worth.

"We view it as undervalued," said Kevin Walkush, business analyst at Jensen Investment Management, talking about the stock. "The climate really is negative toward Microsoft, and negativity overshadows a lot of the good things."

While he acknowledges Microsoft has been slow to adapt to the explosion of smartphones and tablets in the consumer market, he thinks the reality of Apple and Google's threat to Microsoft's core business has been overblown.

The software giant last year began selling Windows Phone 7 for smartphones, and is now working with leading handset maker Nokia.

Australia inflation above expectations

AFP, *Sydney*

Australian inflation rose more than expected in the first quarter due to natural disasters and higher petrol prices, data showed Wednesday, fuelling speculation of an interest rate rise.

The consumer price index hit 1.6 percent quarter-on-quarter in March, above estimates of a 1.2 percent spike, and rose 3.3 percent from a year earlier to be well beyond the central bank's two to three percent target range.

It was the biggest quarterly move in five years and sent the Australian dollar soaring to a record $1.0851 against the greenback.

Core inflation, which is crucial to policy making at the Reserve Bank of Australia, rose by an average of 0.9 percent in the first quarter, easily beating an expected rise of 0.6 percent.

Treasurer Wayne Swan played down the figures, saying it was not surprising given the devastating floods and cyclones in Queensland in January that wiped out crops and sent the price of fruit up 15.3 percent in the quarter to March.

The cost of vegetables rose 16 percent.

"We can take some comfort that in coming quarters we will see some of these price increases unwind as crops regrow and production returns," he said.

As well as a jump in fruit and vegetable prices, fuel rose 8.8 percent, contributing about 0.3 percentage points to the quarterly CPI increase.

Despite the effect on Australian pockets, Swan said economic fundamen-

Eurozone banks set to tighten loan terms

AFP, *Frankfurt*

Eurozone banks intend to tighten credit slightly for both companies and households, the European Central Bank said on Wednesday when it published its latest bank lending survey.

Eurozone credit conditions had already become somewhat more restrictive in the first quarter of 2011, though they eased markedly in Germany, the biggest economy in the 17-nation bloc, a separate poll showed.

The results were published a few weeks after the ECB raised its benchmark interest rate to 1.25 percent, the first increase since July 2008.

After raising the bar for loans in the first three months of the year, "euro area banks expect a further moderate tightening of credit standards for both NFCs (non-financial corporations) and households in the second quarter," an ECB statement said.

The bank commented after polling 124 eurozone banks as part of a quarterly exercise aimed at giving an overview of credit conditions within the 17-nation bloc.

Credit is crucial to funding companies' operations and the data also gives an idea of whether households will be likely to buy big ticket items, giving the economy a boost through consumption.

Looking at credit to companies, the ECB survey found that a net four percent of the banks questioned said that lending criteria had become slightly more strict in the first three months of the year.

That was in part owing to the banks' own ability to access market financing and the amount of cash they had on hand.

Perceptions of corporate risks and "the overall economic situation" were also cited as reasons for increased prudence.

As for lending to households, a net 13 percent of banks said their credit conditions had already become more strict, for much the same reasons along with concerns over housing market developments and creditworthiness of borrowers.

A small plot of land on a residential site in Hong Kong's Kowloon district which sold at auction for HK$1.52 billion, ($96 million) yesterday. Hong Kong's latest land auction smashed pre-sale estimates, defying government efforts to rein in soaring prices and cool public anger at the city's overheated property market.

AFP