

Quake knocks Japan into recession

REUTERS, Tokyo

Japan's economy shrank much more than expected in the first quarter and slipped into recession after the triple blow of the March earthquake, tsunami and nuclear crisis hit business and consumer spending and tore apart supply chains.

The Bank of Japan (BOJ) expects the economy to resume growing in the second half of the year, but some economists say the surprisingly grim gross domestic product figures in the first quarter increase the risk that the pace of recovery will be slower than anticipated. Manufacturers are moving to repair supply chains, but fears of power shortages in the summer and an ongoing nuclear crisis also pose risks, economists say.

The negative surprise came as inventories fell and imports jumped following losses in factory output. Still, economists expect the BOJ to keep monetary policy steady when it ends a two-day meeting on Friday while declaring readiness to ease further if the quake's impact proves more lasting than thought.

Gross domestic product fell 0.9 percent in January-March, nearly double the 0.5 percent forecast by analysts, translating into an annualised 3.7 percent decline compared with a 2.0 percent forecast, government data showed on Thursday.

The economy shrank a revised 0.8 percent in the fourth quarter of last year, so a second consecutive quarter of contraction puts Japan in recession. Analysts also project the economy will shrink again in April-June as supply bottlenecks triggered by the March catastrophe continue to weigh on output and exports.



A tsunami carries boats across waters in Kamaishi city port in this still image taken from video footage March 11, 2011.

Most economists still see growth resuming in the second half of the year as supplies are gradually restored and reconstruction spending kicks in, though there are still risks to such a scenario, including the possible power shortages.

Economics Minister Kaoru Yosano sought to reinforce that view, saying the economy was going through a temporary rough patch.

"The economy has the strength to bounce back," Yosano told a news conference after the data release, saying the economy should grow nearly 1 percent in the current fiscal year to March 2012.

Yosano also sided with the central bank, which said it had done enough to support the economy when it eased policy just days after the quake, doubled its asset-buying scheme and pumped record amounts of cash into the banking system.

"The Bank of Japan is taking utmost measures allowed under the BOJ law. I have nothing to request from them," Yosano said. **DEMAND STILL THERE**

Yosano stressed that in contrast with the deep and severe recession during the global financial crisis, the post-quake slump in output was caused by supply concerns and there was still demand for Japanese goods and services.

Currency and government bond markets showed little reaction to Thursday's data as the negative surprise did not shift investors' expectations.

Economists said, however, that the data highlighted how difficult will it be for the world's third-largest economy to recover from a tsunami so powerful that it turned entire villages into piles of timber and left large fishing vessels strewn atop buildings like children's toys.

The 0.9 percent contraction in the first quarter of this year was

the largest since a record 4.9 percent plunge in the first quarter of 2009 as the financial crisis raged. It will be a challenge for the economy to return to where it was before the natural disaster, with many economists predicting only a sluggish and gradual recovery later this year.

"The effect of the disaster was very significant and it will take a long time to get back to previous levels," said Yoshikiyo Shimamine, chief economist at Dai-ichi Life Research Institute.

Shimamine said growth should resume in July-September, but there was a risk any recovery could come even later, though there was no need for further monetary easing.

"The Bank of Japan has done what it needs to do in terms of emergency action, so I don't think these figures will prompt any further action."

Some economists said, however, the initial damage to the

economy was so severe that it might still need extra help.

"The size of the downturn highlights the need for much more fiscal and monetary support than has been forthcoming," said George Worthington, chief Asia-Pacific economist with IFR Markets in Sydney.

Among the biggest damper to growth was inventories, which shaved 0.5 percentage point from GDP, the largest negative contribution since the second quarter of last year.

Private consumption, which accounts for about 60 percent of the economy, also fell 0.6 percent, hit by a slump in automobile sales and worsening of sentiment.

Corporate capital spending fell 0.9 percent against a market forecast of a 1.2 percent decline.

Separate data showed capacity utilisation in March fell 21.5 percent in March, declining at a record pace, as the quake crippled manufacturing activity.

Europe demands that next IMF chief comes from EU

AP, Brussels

The European Commission insisted Thursday that next leader of the International Monetary Fund must come from the 27-nation European Union, a stance backed by the Germany, the continent's economic heavyweight.

Frenchman Dominique Strauss-Kahn resigned as IMF chief Wednesday, saying he wants to devote "all his energy" to fighting sexual assault charges in New York.

The move heated up cross-border debate over his successor, with Europe aggressively staking its traditional claim to the job to ensure that Europe's debt crisis is given priority. Fast-growing nations such as China, Brazil and South Africa are trying to break Europe's grip on an organization empowered to direct billions of dollars to stabilize the global economy.

EU Commission spokeswoman Pia Ahrenkilde Hansen said the EU wants continuity at the helm of the IMF and said its members can "identify strong candidates in the midst of the European Union."

In Berlin, German Chancellor Angela Merkel pushed for a quick decision on a successor to Strauss-Kahn and underlined her hopes that a European will get the job.

"It is of great significance, of course, that we find a quick solution," she said in Berlin Thursday, without naming specific candidates.

The IMF's executive board released a letter from Strauss-Kahn on Wednesday in which he denied the allegations lodged against him but said with "sadness" he felt he must resign, to protect his family and the IMF.

"It is with infinite sadness that I feel compelled today to present to the executive board my resignation from my post of managing director of the IMF," the five-paragraph letter said. "I think at this time first of my wife - whom I love more than anything - of my children, of my family, of my friends. I think also of my colleagues at the Fund. Together we have accomplished such great things over the last three years and more."

"I deny with the greatest possible firmness all of the allegations that have been made against me."



REUTERS

iPhone 4 models are displayed in San Francisco, California. Microsoft and some smaller software vendors still have a shot in the fast-changing smartphone race even though Google and Apple are pulling rapidly ahead, industry executives said.

Death of PC exaggerated, sales look OK

REUTERS, New York

Talk of the death of the desktop personal computer is premature, and the 'post-PC' era is not here just yet, according to industry executives at Reuters Global Technology Summit.

Sales of PCs this year may not match growth rates for smartphones and tablets, but key manufacturers believe businesses and emerging markets will keep the PC at the center of the computing experience, at least for the next few years.

"As wonderful as tablets are, it doesn't replace a workstation or a high-resolution display," Jen-Hsun Huang, co-founder and chief executive of chip designer Nvidia Corp, told the summit in New York.

have not stopped growth in high-end digital cameras, Huang said tablets will not replace powerful PCs.

"Even as we build these mobile devices -- and clearly it is consuming some parts of the PC market -- it feels like it is consuming the lower-performance part of the PC marketplace, for browsing content, content consumption."

It is not yet clear how much tablets are contributing to waning PC sales, which are estimated to have fallen about 1 percent in the first three months of this year, the first decline in almost two years.

Industry watchers are still unsure whether that was a temporary slip or an early sign that other devices -- such as Apple Inc's iPad -- have become more important.

"We're in this new world where instead of being PC-centric,

there's no single device that dominates," said Rob Glaser, founder and chairman of digital media firm RealNetworks Inc, who now also works at venture capital firm Accel Partners.

"In terms of importance to media creation, delivery and consumption, 'superphones' like the iPhone or the Android phones are -- plus or minus -- as important as the PC is today, and in the ascendant," Glaser told the summit in New York. "You can say without hesitation that three years from now, while the PC will still be important, it will be the second-most important device for content creation and consumption."

PC SALES REBOUND
With this sort of theory in mind, sales of tablets and smartphones are expected to grow much faster than PCs over the next few years.

Glencore's record IPO makes muted debut

REUTERS, London

Glencore made a steady market debut on Thursday, with shares trading just above the widely expected launch price of 530 pence, giving the commodities trader the platform it wants to make acquisitions.

Initial grey market, or conditional, trade showed the shares changing hands at more than three percent above the offer price, indicating appetite for the stock after many investors were left out after Glencore was flooded with orders for its shares.

But the stock pared those gains, changing hands at 538 pence by around 4:53 a.m. EDT, up just over one percent.

Glencore, the world's largest diversified commodities trader, has said there was strong demand for its stock and had enough buyers to cover its offering of up to \$11 billion within hours of starting the sale process earlier this month.

By the time order books closed a day early on Tuesday, it had enough orders to cover its offer more than four times, according to one source close to the deal, meaning it received orders totalling more than \$40 billion.

But some investors have said strong demand in London's largest ever public offering was largely due to the relatively small amount of shares being sold, to the presence of cornerstone investors and to substantial sales to tracker funds who are forced to own companies in the main index.

India not getting "bang for rupee" from poverty schemes

REUTERS, New Delhi

India's key social development programmes, which have formed the core election promises of the ruling Congress party at a cost of over 2 percent of its GDP, are failing to effectively tackle widespread poverty, a World Bank report said on Wednesday.

The government's schemes to distribute food and guarantee work in rural areas suffer from poor implementation, red tape and corruption, the report said, common ailments that worry investors in Asia's third-largest economy.

Congress has trumpeted costly welfare schemes to lift hundreds of millions of Indians out of poverty and share the spoils of years of economic boom, propelling it to two successive victories in federal elections.

Though home to 69 billionaires, the country has more people living in poverty than the whole of sub-Saharan Africa.

While the Bank commended specific innovations and the impact of schemes in some states, it warned that welfare schemes were yet to make significant

progress in helping up to 500 million people living below the poverty line in India.

"While India devotes over 2 percent of GDP to her social protection programmes... the poor are not able to reap the full benefits of such large investments," the report stated.

"India is not getting the 'bang for the rupee' that its significant expenditure would seem to warrant."

Costly social sector spending will likely make it difficult for the government to meet its fiscal deficit target of 4.6 percent of GDP in the fiscal year ending March 2012.

A decade of booming economic growth has pulled millions of Indians out of poverty, but its failure to provide for its 1.2 billion population means it lags other developing nations, such as China, in key development indicators.

The programmes assessed by the report have been praised for driving growth in rural areas, which rely heavily on agriculture and were largely bypassed by the mostly urban-centric economic boom that has swollen the middle class.



REUTERS

Three-year-old Babu, a child of a migrant labourer, holds a glass filled with tea outside a makeshift tent along a road at Noida in Uttar Pradesh.