Asian manufacturing slows

AFP, *Shanghai*

Manufacturing activity in Asia's emerging economies slowed further in June, data showed Friday, suggesting measures designed to cool explosive growth were taking hold in the region.

Export-dependent nations were also hurt by a continued weakness in demand from crisis-hit Europe and the United States while Japanese suppliers were still recovering from the impact of the March 11 earthquake and tsunami.

Growth in Chinese production almost stalled while India's figures hit a nine-month low as monetary tightening measures firmly put the brakes on two of the region's biggest and fastest-growing economies.

Taiwan data showed manufacturing activity actually contracted while South Korea was also crimped by inflation-fighting measures.

Beijing has been clamping down on bank lending to tame inflation, which hit a three-year high of 5.5 percent in May, and avoid the economy blowing out of control as it has been expanding at nearly 10 percent a year.

China's manufacturing activity fell to an 11-month low of 50.1 in June from 51.6 in May, according to figures from British banking giant HSBC, confirming preliminary data released last week, as Beijing tries to tame soaring costs.

The country's official purchasing managers index fell to a 28-month low of 50.9 in June from 52.0 in May -- marking the third straight monthly decline -- the China Federation of Logistics and Purchasing said.

A reading above 50 indicates the sector is expanding while a reading below 50 suggests a contraction.

AFP

The photo taken on June 25 shows a worker walking past a giant cauldron at a steel mill in Hefei, in eastern China's Anhui province. Manufacturing activity in Asia's emerging economies slowed further in June.

"This implies that policy tightening is working, pointing to a peak of inflation in the coming months," HSBC chief economist Qu Hongbin said in a statement.

The figures will likely fuel concerns that the world's second-largest economy is heading for a hard landing as Beijing -- anxious about inflation's potential to spark social unrest -- tries to rein in food and housing prices.

"The continued easing in June PMI figures, mainly due to inventory adjustments, suggests economic growth is likely to continue to slow," Zhang Liqun, a government analyst, said in the CFLP statement.

The reaction on Asian markets was mixed, with Shanghai shares erasing early gains to close down 0.10 percent. Sydney ended down 0.36 percent while Seoul and Tokyo rose 1.19 percent and 0.53 percent respectively.

Both surveys for China also show inflationary pressures -- a bugbear for policymakers -- eased last month. The official input prices sub-index, which measures the cost of raw materials, fell to 56.7 in June from 60.3 in May.

India's PMI fell to 55.3 in June -- from May's 57.5 -- marking its slowest pace so far this year while input costs rose.

The easing follows several interest rate hikes in the country, where the Congress-led government has vowed to tackle inflation -- even at the cost of slower growth -- to help the hundreds of millions of poverty-stricken.

The central bank raised its key interest rates last month after inflation hit a higher-than-expected 9.06 percent in May, from 8.66 percent the previous month, with food prices rising even faster.

"These numbers confirm that tight capacity and monetary tightening is constraining growth," Leif Eskesen, chief economist for India and Asean at HSBC, told Dow Jones Newswires.

Compounding problems for companies was Japan's March 11 twin disaster, which wrecked supply lines while the stuttering recovery in Europe and the United States from the global downturn also hit demand.

The earthquake and tsunami has "hurt a lot of manufacturers, they are trying to stretch out their inventories", Moody's Economy.com associate economist Alaistair Chan told AFP.

"Also in the medium term you have got a downturn in the global economy."

South Korea's PMI slowed to 51.13 in June from 51.24 in May as Seoul treads a fine line between fighting inflation with interest rate hikes and trying to cap foreign inflows of cash it fears could destabilise the economy.

Manufacturing activity in Taiwan shrank to 49.9 in June from 54.9 in May.

China eases tax burden on wage earners

AFP, *Shanghai*

China said Friday it has raised the threshold at which people must pay income tax, as Beijing moves to ease the burden on low-income earners struggling with soaring food and housing costs.

The change follows growing official concerned about inflation and the widening wealth gap in China, which have become major sources of resentment and have fuelled social unrest.

The minimum tax level will now be 3,500 yuan a month ($543) up from 2,000 yuan, the National People's Congress said in a statement, after taxpayers slammed the previously proposed threshold of 3,000 yuan as too low.

The measure, which takes effect in September, will slash the number of income taxpayers to 24 million from 84 million, the parliament said, citing Wang Jianfan, vice director of the finance ministry's tax department.

The announcement confirmed reports published by the official Xinhua news agency on Thursday.

That means only 7.7 percent of wage earners will have to pay income tax, compared with the current 28 percent, Xinhua said, citing Wang.

"It reflects the compensation provided by the nation for rising living costs driven by factors such as price rises," Wang was quoted as saying at a news conference.

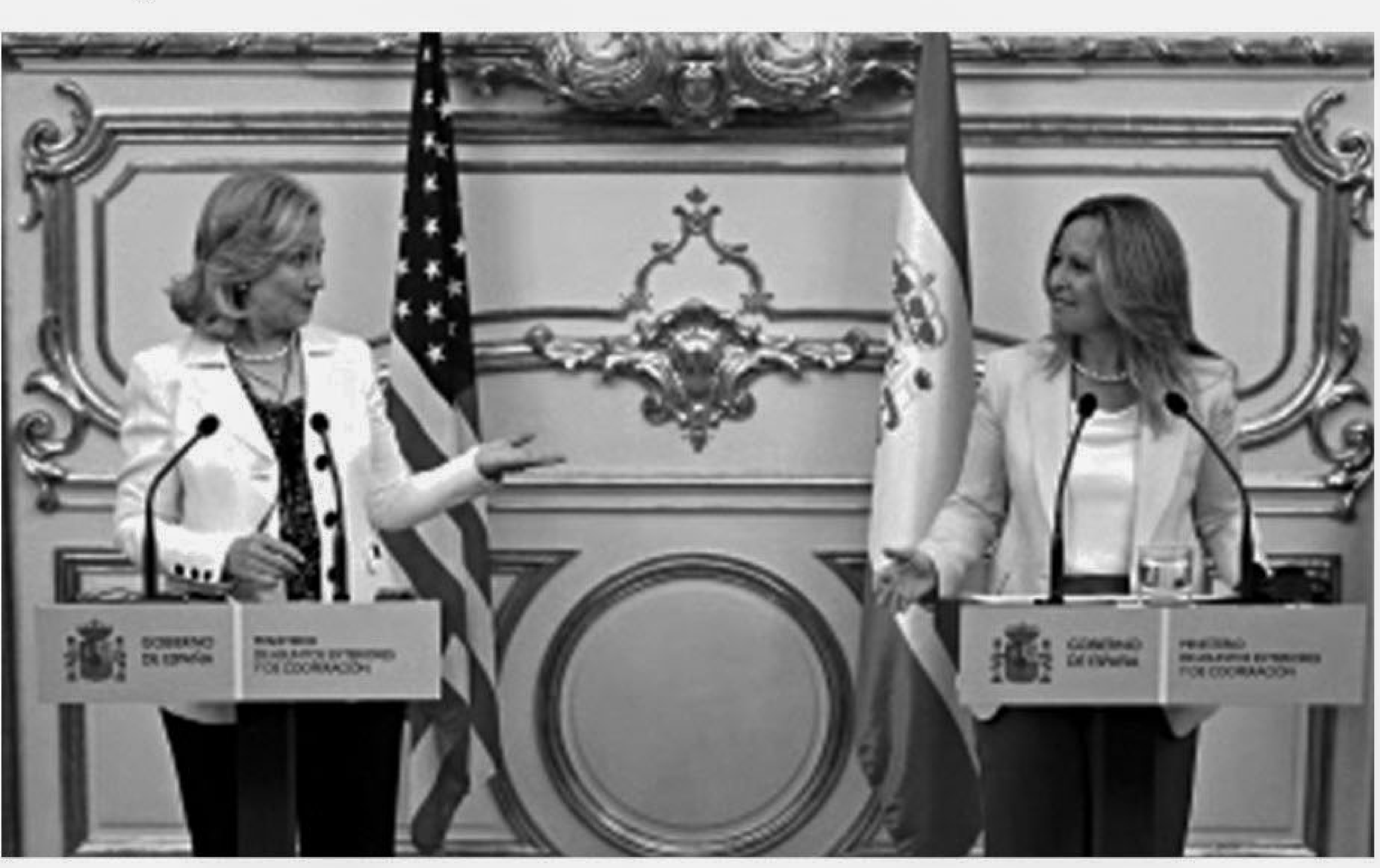
The overhaul of the personal income tax regime will reduce the number of tax brackets to seven from nine, with the tax rate for the lowest bracket lowered to three percent from five percent, the parliament said.

Two brackets carrying rates of 15 percent and 40 percent will be eliminated, which is expected to increase the tax burden on high-income earners.

The highest tax of 45 percent will be left unchanged but will apply to a larger group of people.

The move is also in line with official efforts to boost domestic consumption as the government tries to reduce its reliance on exports and investment to drive the world's second largest economy.

Clinton urges strong European response to debt crisis



AFP

Spanish Foreign Minister Trinidad Jimenez (R) and US Secretary of State Hillary Clinton (L) give a press conference after their meeting at the Ministry of Foreign Affairs in Madrid on Saturday.

AFP, *Madrid*

US Secretary of State Hillary Clinton on Saturday called on European leaders to make a powerful response to economic crises rippling across Europe.

During a visit to Madrid she also praised reforms by Spanish Prime Minister Jose Luis Rodriguez Zapatero to revive the economy and rein in debt aimed at calming market fears that Spain will follow in the footsteps of Greece, Ireland and Portugal in seeking a financial bailout.

"It is our hope that European leaders continue to make sure that Europe's response to the crisis is strong, flexible and effective," Clinton told a joint news conference with Spanish Foreign Minister Trinidad Jiminez.

"Under Zapatero's leadership the Spanish government has taken important steps to strengthen its finances, restore the banking sector and improve its competitiveness. We understand how difficult these steps are.

"And we know that Spain still faces significant challenges as it works to consolidate its finances, bring down unemployment and overcome the legacy of the global economic crisis," Clinton added.

Zapatero's government has raised taxes and slashed spending to bring down the public deficit and has reformed the labour law to make it easer to fire workers to encourage hiring and bring down a jobless rate of just over 21 percent, the highest in the developed world.

The reforms have fueled demonstrations and hurt the government's popularity but Clinton said she was confident that Madrid "will continue the process of reform.

"I want to say publicly how much we understand it takes time and patience to make these changes and see them through," she added.

Her comments echoed those of US Treasury Secretary Timothy Geithner, who earlier this month warned that ambitious fiscal reform plans put in place in several European nations will take years, not months, to bear fruit.

Last week US Federal Reserve chief Ben Bernanke warned that failure to resolve the European sovereign debt crisis could threaten the stability of the global financial system if a solution is not found.

"We are mostly just following the situation closely and making sure as best as we can that our own institutions are well-positioned relative to sovereign debt in the so-called peripheral countries," he said, referring to the smaller, ailing eurozone economies such as Greece, Ireland and Portugal.

"A disorderly default in one of those countries would no doubt roil financial markets globally. It would have a big impact on credit spreads, on stock prices, and so on. And so in that respect, I think the effects in the United States would be quite significant," he added.

Standard and Poor's warns of Italy 'risks' despite austerity

AFP, *Rome, Italy*

Ratings agency Standard and Poor's on Friday warned that moves by Italy to correct its public finances faced "risks", a day after the government's adoption of a 47-billion-euro austerity plan.

"Despite these measures, however, we believe substantial downside risks to the government's debt-reduction plan remain, primarily due to Italy's weak growth prospects," the agency said after the plan was unveiled on Thursday.

In its statement, the agency added there was "a one-in-three likelihood" that it could lower Italy's credit rating within the next 24 months.

Standard and Poor's said some of the measures, which still have to be approved by parliament, could increase competitiveness including through an overhaul of the tax system and cuts to higher-bracket public sector wages.

It also welcomed planned reforms to the pension system starting in 2014.

But it added that due to Italy's low growth "far more substantial microeconomic and macroeconomic reforms will be required to incentivise private investment and match wage levels with productivity."

Economic growth in the first quarter in Italy came to just 0.1 percent.

"Without such measures, we believe Italy's economic potential will not be realised. This will imply insufficient wealth creation to deliver meaningful declines in the general government's debt-to-

Spain to help struggling mortgage holders

AFP, *Madrid*

Spain's government approved measures Friday to help the soaring number of homeowners, many jobless, who cannot pay their mortgages.

The government has since mid-May faced demonstrations across the country from "indignant" protesters who have won broad public support in decrying the state of the economy and corruption.

Among their demands are changes to Spain's strict mortgage foreclosure laws.

Under Spanish law, banks have the right to auction houses in a foreclosure. If no buyers appear, as is often the case, the bank can take ownership of the house for 50 percent of its value.

Deputy Prime Minister Alfredo Perez Rubalcaba said this percentage would be raised to 60 percent, which will leave a defaulter with a smaller debt to pay off.

"Nobody will be able to take hold of the house of anyone for less than 60 percent of its value," he told a news conference after a weekly cabinet meeting where the measure was approved.

The government will also raise the amount of a borrower's monthly income that can not be seized by a bank in case of default on a home loan to 961 euros ($1,390) from 641 euros, Rubalcaba said.

If the defaulter has dependents, a further 30 percent per family member will remain untouchable.

"These are measures aimed essentially at protecting those who can not continue to pay their mortgages," said Rubalcaba.

The number of foreclosed properties in Spain has climbed 10-fold over the past three years, according to Idealista.com, the country's largest property website.

During the first quarter of the year there were nearly 22,000 foreclosures in Spain, according to government statistics. There were 93,000 during all of last year.

Shoppers walk in front of a large sale sign at a shopping mall in Urayasu city, suburban Tokyo on Friday. Japanese business confidence plunged in the months after the March 11 earthquake, turning negative for the first time in over a year, the Bank of Japan said in its quarterly Tankan survey.

AFP