India rate cut tempts shoppers to buy major appliances

REUTERS/FILE

Customers inspect Ford's new Figo Aspire car on display at a showroom in New Delhi, India.

REUTERS, *Mumbai*

The way car salesman Ashish Bhavsar tells it, in India, men come first on their own to eye up a potential purchase. Then they bring their wives. Then - if it's serious - the whole family.

On this weekday, almost two weeks after the Reserve Bank of India (RBI) cut interest rates, a young boy and his elderly grandmother inspect a sports utility vehicle at a busy Hyundai Motor dealership in downtown Mumbai, while his parents speak to a sales agent nearby. That's good news for branch manager Bhavsar.

He estimates that cheaper borrowing could mean sales growth of 12 to 15 percent this year, above his 10 percent target.

"Many customers were waiting for rate cuts. They didn't want to make a decision," he says with a grin, surrounded by gleaming new cars. "They will definitely come now."

India kicks off its two-month religious festive period on Monday, a time considered auspicious to buy big-ticket items such as cars, and when promotions abound. Company executives say they see the RBI's unexpectedly sharp 50 basis points cut last month as a lifeline.

Consumers have already been showing an eagerness to spend more on small luxuries, like movie tickets and fancy hair cuts, even as the overall economy struggles to take off after a period of cooler growth.

Yet with retail spending accounting for 50 to 60 percent of the economy, India needs households to splurge on more expensive, higher-margin items like washing machines, TVs and cars.

To date, a combination of slow consumer spending and a dearth of corporate investments has delivered a double punch to the economy, which grew a slower-than-expected 7 percent in the April-June quarter, well below the government's 8 to 8.5 percent target.

With inflation around record lows and central-bank rate cuts totalling 125 basis points so far this year, retail executives believe a consumer recovery is now in the offing.

Firms selling discretionary items such as cars and electronics are desperate for such a recovery. They have reported double digit annualised falls in earnings for the past four quarters.

Banks have not passed on all of the RBI's latest cut. In the last two weeks, auto loans are down only 25 basis points, and home loans by 30 basis points. But retailers expect traditional festival-season discounts to help pull shoppers in.

Added to that, Indian consumers often prefer instalment plans to finance bigger purchases. Known as equated monthly instalments (EMI), they are typically provided on a floating-rate basis, so consumers benefit from falling loan rates.

Sunita Pednekar, a 35-year old nurse, at one downtown electronics store, said she planned to buy a washing machine for now, and a TV next month during Diwali, the Hindu holiday that marks the peak of the festive period.

"We can afford the washing machine now since EMI will be cheaper after interest rate have come down, and there are discount offers before festive season," she said, speaking as she headed into the store with her husband and young son.

"I can spread out the expenditure, rather than pay a lump-sum amount upfront."

Optimism about consumer demand is being given a further boost as India gears up to raise the wages of 10 million government employees and pensions from next year.

Abheek Barua, chief economist at HDFC Bank in New Delhi, says last month's official rate cut and the expected pick-up in consumer demand would help boost economic growth. He has forecast 7.5 percent growth for the year ending in March.

"Earlier we were banking on investment demand to push up growth," he said. "Now we are expecting a better consumption phenomenon to drive growth."

RANGS MOTORS

Zakia Rouf Chowdhury, executive vice chairperson of Rangs Motors; Sohana Rouf Chowdhury, managing director; Sanjay Jadhav, vice president of Mahindra and Mahindra, India; Sagar Badkamkar, general manager; and Pankaj Singh, country manager for international operation, attend the launch of the Mahindra Jeeto pick-up van at Rangs Bhaban in Dhaka on Thursday.

China to set new plan for troubled economy

AFP, *Beijing*

China's Communist rulers will gather later this month, state media said Monday, to set the world's second-largest economy course over the next five years, as slowing growth raises global concerns.

The Communist Party meeting, known as the Fifth Plenum, is expected to focus on structural reform, with a focus on easing state control -- although such moves have been repeatedly promised before.

The world's most populous country has enjoyed a decades-long boom since the ruling party embraced market economics and opened up to the rest of the world from the late 1970s.

The process has transformed the livelihoods of hundreds of millions of people and propelled the country to global prominence.

But growth has been slowing for several years, and analysts say the party needs to embrace further liberalisation to avoid falling into the stagnation of the "middle income trap", when developing countries fail to fulfil their full potential.

The Communist Party continues to issue regular economic guidance, including Five Year Plans and annual targets for the country's growth.

The Fifth Plenum will be held from October 26 to 29, the official Xinhua news agency reported Monday, citing a statement from the Central Committee.

It will finalise the 13th Five Year Plan, which will start next year.

Under President Xi Jinping, who took power in 2012, the Communist Party has pledged to give markets a decisive role in the economy.

But large-scale interventions into the country's falling stock market this summer have called into question the government's willingness and ability to follow through.

Beijing has poured hundreds of billions of dollars into the market and cut interest rates, among other measures, following a rout that saw the Shanghai Composite Index plunge from a high of over 5,000 in mid-June to a low of just under 3,000 in August.

The ruling party has committed to making China a "moderately prosperous society" by 2020, when the plan will complete, a goal that includes doubling per capita income for urban and rural residents from 2010 levels.

Continually rising prosperity is a key element of the Communist Party's claim to legitimacy, but the target has seemed less and less achievable as China's economy has slowed in recent years, weighed down by overcapacity and falling exports.

Leaders have regularly promised a "new normal" of slower but more sustainable growth, led by domestic consumer demand, but the transition is proving bumpy and global markets have been spooked by recent economic figures.

At the meeting in October, leaders are expected to discuss reform of state-owned enterprises that continue to drag on expansion, and their conclusions will be formally approved by the rubber stamp legislature next year.

PRIME BANK

Ahmed Kamal Khan Chowdhury, managing director of Prime Bank, and Janina Jaruzelski, mission director of USAID Bangladesh, attend the signing of a risk-sharing guarantee agreement for garment factory remediation finance.

China plans stricter regulation of Uber-like services

AFP, *Shanghai*

China plans to more strictly regulate online ride-booking services, according to draft rules and state media, in what analysts said Monday could be a "devastating blow" to an industry pioneered by US firm Uber.

The Ministry of Transport unveiled proposed regulations which bar private cars from participating in such services, the rules posted on its website at the weekend showed.

Such a move would force vehicles and drivers to be registered with the government, the China Daily newspaper reported on Monday. Ride-booking services, which can connect customers directly with drivers through smartphones, have threatened the traditional taxi industry and contributed to protests by cab drivers in China.

The Chinese market is currently dominated by domestic firm Didi Kuaidi, which was formed through the merger of companies backed by Internet giants Tencent and Alibaba.

But Uber, in which Chinese search giant Baidu has invested, is trying to make greater inroads into the potentially vast market and has announced plans to invest around $1.0 billion in China and expand into 100 cities within a year.

Gold hits 7-week high

REUTERS, *London*

Gold rose to 7-week highs on Monday as expectations that the Federal Reserve will postpone an expected US interest rate hike beyond year-end pressured the dollar to three-week lows against a currency basket.

The dollar index was down 0.1 percent on the day, stung by doubts that US rates will rise this year.

Spot gold reached a peak of $1,166.60 an ounce and was up 0.7 percent at $1,164.60 an ounce at 0925 GMT, while US gold futures for December delivery were up $8.70 an ounce at $1,164.60.

Bets that US rates would rise this year, boosting the opportunity cost of holding gold while lifting the dollar, pushed gold prices to 5-1/2 year lows in July.

However, mixed US economic data and fears that a broader global economic slowdown would affect US growth have since dampened those expectations.

Prices are now little changed in the year to date, though they have struggled to rise significantly.

Japan Inc sounds alarm on consumer spending

REUTERS, *Tokyo*

REUTERS/FILE

A staff member works at the Uniqlo flagship store in Tokyo, Japan.

Do not believe in official statistics, Japanese retailers seem to be saying, as they cut earnings forecasts and warn of lacklustre consumer spending, a key growth engine for Japan at a time when exports and factory output are stalling.

If you go by the larger-than-expected 2.9 percent gain in household spending in August - the first year-on-year rise in three months - then consumption looks like it is finally alive and well again, after a sales tax hike last year stifled the economy.

But profits of retailers suggest the spending data, which has a small sample size, has not captured the full picture. Restrained household consumption raises the stakes for a central bank policy meeting on Oct. 30, and for the government's plan to flesh out new economic policies before the year-end.

"Consumer spending has ground to a halt," said Noritoshi Murata, president of Seven & i Holdings. "There are a lot of concerns about the global economy and not many positives for consumption. Weak spending could continue into the second half of the fiscal year."

Seven & i, which operates Japan's ubiquitous 7-Eleven convenience stores, on Oct. 8 trimmed its full-year profit forecast by 1.6 percent to 367 billion yen ($3.05 billion) and cut its revenue forecast by 3.9 percent to 6.15 trillion yen, triggering a fall in its shares in Tokyo.

The main problem is wages are not rising fast enough to keep pace with rising food prices, and consumers are starting to cut back on other goods.

Real wages, adjusted for inflation, rose 0.5 percent in July from a year earlier. That was the first gain in 27 months. But wage growth subsequently slowed to 0.2 percent in August, and summer bonuses fell from last year, government data shows.

Another problem is more and more workers are getting stuck in jobs with low pay. Part-time and irregular workers comprised a record 37.4 percent of the workforce last year, according to the National Tax Bureau.

Irregular workers earn on average less than half of what regular full-time workers earn, tax data show.

The third problem is the government plans to raise the nationwide sales tax again, to 10 percent in 2017 from 8 percent, and households are already changing their behaviour.

"Shoppers are tightening their purse strings," said Masaaki Yoshizawa, senior managing director at apparel maker Onward Holdings.

"There is a lot of uncertainty about consumer spending, and another sales tax hike is on the way. Women are cutting back on clothes."

Onward Holdings had expected to make a 2.4 billion yen profit in the six months ended September. But when it closed its books, operating profit was only 200 million yen.

Some economists worry consumer spending is now stuck in a prolonged period of very low growth.

In June and July, same-store sales at Fast Retailing's Uniqlo clothing outlets in Japan fell from a year earlier before notching modest gains of 2.5 percent and 2.6 percent in August and September, respectively.

Earnings from Japan's retailers show consumer spending has undergone a reversal from the early days of Prime Minister Shinzo Abe's administration.

Shortly after Abe took office late in 2012, the wealthy cashed in on a stock rally and went shopping. Unions got the pay increases they asked for, and companies started raising retail prices.

Since then, the monetary and fiscal measures taken by Abe to rekindle Japan's economy have delivered uneven results.

A sales tax hike last year to 8 percent from 5 percent helped tip the economy into a brief recession.

Now, the world's third-largest economy is at risk of falling into its fourth recession in the past five years as exports, factory output and consumer spending stumble.

Abe had a bold agenda of ending deflation and knocking down the barriers to growth, but many economists say the requisite policies never really materialised.

Now the retail sector is adapting to a return to more subdued household spending.

"Some companies are starting to realise they've actually driven away some customers by raising retail prices," said Norio Miyagawa, senior economist at Mizuho Securities.

"The government's initial growth strategy did not really expand the pie. Now the government is simply left trying to redistribute wealth."

MIDLAND BANK

Md Ridwanul Hoque, head of retail distribution at Midland Bank, and Afra Ilham Binyta, manager for sales and marketing at the Peninsula Chittagong, attend the signing of a deal at the bank's head office in Dhaka. The bank's Visa cardholders will get exclusive year-long discounts on accommodation, venue facilities and dining at the hotel.