

Business

Tesla to cut 7% of workforce amid tough profit outlook

Move to keep the Model 3 affordable for middle-income customers

NEW YORK: Elon Musk's electric car manufacturer Tesla Motors announced Friday it was cutting its workforce by about seven percent in a push to keep the Model 3 affordable for middle-income consumers. Shares plunged following the announcement, which also signaled a tough profit road ahead for Tesla.

The round of job cuts—which follow an earlier downsizing announced in June—comes as the envelope-pushing company faces pressure in its home market on prices from the phasing-out of a tax credit for electric car purchases.

Musk did not release an estimate of the employment hit but the company had 45,000 employees in October, suggesting about 3,150 would be cut.

Musk, who originally conceived of the Model 3 as a reasonably priced option for consumers who could not pay the lofty prices of its first two vehicles, said action was needed if the company was to succeed in its mission of challenging conventional autos. "While we have made great progress, our products are still too expensive for most people," Musk said in a blog post announcing the layoffs.

"We need to continue making progress towards lower priced variants of Model 3."

Loss of US subsidy

Tesla's most affordable offering is currently a less-endowed version of the Model 3 at \$44,000, a car that sells for as much as \$59,000 with more features. Tesla originally discussed a price-tag of \$35,000 for the car. Selling the Model 3 at the higher price has enhanced profitability at the expense of access to the vehicles' intended market.

Complicating matters further is the phasing down from \$7,500 per vehicle of a US tax credit to encourage more sales of the environmentally friendly cars. The need for "lower-priced variants of Model 3 becomes even greater on July 1," when a US tax credit drops by half, making the car \$1,875 more expensive, and again at the end of the year when it goes away

entirely, said the flamboyant Musk, who also heads SpaceX. Rival automakers such as General Motors and Volkswagen are introducing more electric models that are priced competitively, a dynamic made possible by their fleets of conventional autos, including sport utility vehicles and pickup trucks, which have wide profit margins.

Tesla shares sank 13.0 percent to \$302.26. "Tesla probably increased its employee base by more than it needed to last year and is laying off some of those workers to bring down costs," said CFRA Research analyst Garrett Nelson.

"For most auto manufacturers, the cost-cutting would be received positively but in Tesla's case, investors start to second guess whether the real issue is demand."

Grim profit outlook

The job cuts announced Friday follow Tesla's move in June to trim its workforce by about nine percent. Musk described that round of belt-tightening as necessary to enhance profitability, a goal that he said was essential to demonstrate that environmentally friendly autos could be a viable business.

In October, Tesla reported third-quarter profits of \$312 million. In Friday's blog post, Musk said preliminary results indicated that fourth-quarter profits would be smaller than in the prior quarter and that the outlook was tougher still for the first quarter of 2019 as it delivers its first Model 3 sales in Asia and Europe at higher price points.

Musk hopes for a "tiny profit" in the current quarter, something that will require "great difficulty, effort and some luck," he said. "Musk is right to say in the memo that Tesla's products are 'still too expensive for most people,'" said Morningstar analyst David Whiston, who predicted the company would face more "growing pains" and competition.

"If it can stay viable, we think (Tesla) can enjoy strong momentum with the Model 3 for a while because



This file photo shows the US automotive and energy company Tesla showroom and service center in Amsterdam. Elon Musk's electric car manufacturer Tesla announced Friday, it is cutting its workforce by about seven percent as it works to meet its timetable for producing the Model 3. —AFP

the vehicle is just now being sold in foreign markets and the entry-level version is not available anywhere," Whiston said. Tesla last month named two independent directors, Oracle co-founder Larry Ellison and Walgreens Boots Alliance Executive Vice President Kathleen Wilson-Thompson, as part of an agreement with the US Securities and Exchange Commission to settle fraud charges against Musk after his quickly

aborted effort last summer to take Tesla private.

Musk has been a polarizing figure in corporate America over the last couple of years, winning praise from many over his trailblazing entrepreneurship but frequently turning heads over his unconventional and sometimes bizarre behavior, as when he appeared to be smoking marijuana during an interview that was webcast. —AFP

Zimbabwe public workers reject latest wage offer after protests

HARARE: Zimbabwe's public workers have rejected a second offer to raise their salaries and demanded to be paid in dollars, days after at least three people died in violent anti-government protests.

Hundreds of Zimbabweans were detained on public order charges on Friday, as the United Nations urged an end to a security crackdown and an internet blackout.

Zimbabweans, who have seen their purchasing power eroded by soaring inflation despite adopting the dollar in 2009, say President Emmerson Mnangagwa has not delivered on pre-election pledges to kick-start growth after the exit of Robert Mugabe. Mnangagwa has promised a clean break from the 37-year era of Mugabe, who was forced out in a de facto coup in November 2017 but the economy is afflicted by a severe shortage of dollars which has led to shortages of fuel and medicines.

The government has offered to pay 305,000 civil servants, including the security forces, \$300 million for the period between April and December, a monthly average rise of \$109 each. But workers rejected this latest offer, the second in two weeks at a meeting on Friday. Thomas Muzondo, deputy chairman of the Apex Council, a grouping of all civil service unions, said, adding that a third round of talks was scheduled for next week.

"We insisted on US dollar salaries but the government totally rejected this, saying they do not manufacture dollars. We are now consulting our membership but we told the government that their offer is nowhere near our expectations," he said.

Civil servants, who gave Mnangagwa's government a 14-day notice to strike on January 8, want to be paid in dollars or have the monthly salary of the lowest paid worker increased from \$414 to \$1,700, Muzondo said. Supplies of dollars have dried up and Zimbabweans have seen their deposits in the electronic banking system losing value, raising fears that the southern African nation might be heading for its second financial collapse in a decade. —Reuters

Tunisian union calls new nationwide strike to press wage demands

TUNIS: Tunisia's powerful UGTT union called yesterday for another national strike for two days next

Global stocks surge on China-US trade breakthrough hopes

NEW YORK: Stock markets across the globe powered higher Friday, buoyed by hopes of a breakthrough in efforts to defuse a US-China trade war. European and Asian indices bounced back strongly on Thursday after The Wall Street Journal reported Washington was considering lifting tariffs on China as officials look to hammer out a trade deal.

Wall Street joined the party later Friday, with major indices rising one percent or more to close out the fourth day in a row of gains. The Dow has risen more than 13 percent since December 24.

Bloomberg also reported Friday that Beijing had offered to eliminate its soaring trade surplus with the United States in five years. "Global markets are enjoying an overwhelmingly bullish end to the week, with hopes of a potential breakthrough in US-China trade talks helping drive optimism," said Joshua Mahony, senior market analyst at traders IG.

There's "definitely rising optimism" of a trade deal, said LBBW's Karl Haeling. "There are kind of smoke signals and when there is smoke there is fire," Haeling said. "It seems that Trump sees the weakening of the economy and the shutdown situation. He seems to be doing something to get a win here."

However, there was also skepticism among some analysts, with the two sides still far apart on a number of issues, particularly regarding intellectual property. On currency markets the pound edged lower, giving up earlier gains seen as dealers bet that Britain would not leave the European Union without a deal. After her grand Brexit plan was soundly rebuffed by MPs this week, British Prime Minister Theresa May has called cross-party talks to put

Barcelona taxis go on strike, block key street

BARCELONA: Dozens of taxis in Barcelona went on indefinite strike on Friday, blocking a major thoroughfare in protest against online ride-hailing services like Uber. The protest comes ahead of a similar work stoppage due on Monday in Madrid just two days before the Fitur international tourism fair, one of the world's largest, in the Spanish capital.

The strike follows new regulations unveiled Friday by Catalonia's regional government forcing clients to book VTCs (Tourism Vehicles with Chauffeur) like Uber or Cabify at least 15 minutes before the actual time they are needed - a measure criticized as unfair by taxi drivers.

month to press its demand for higher wages for 670,000 public servants, the UGTT chief said.

Rail, bus and air traffic and all services stopped in Tunisia and street protests threw thousands on Thursday in a one-day nationwide strike to challenge the government's refusal to raise salaries.

"As negotiations with the government failed and the purchasing power has deteriorated significantly, UGTT decided to approve a nationwide strike on Feb. 20 and 21," UGTT chief Nourredine Taboubi told reporters. The decision will raise the pressure on



NEW YORK: Traders work on the floor of the New York Stock Exchange (NYSE) at the closing bell in New York City. —AFP

together a "Plan B" by Monday.

If that does not work, there is a growing expectation that the March 29 exit deadline will be pushed back to give May more time to reach another deal or possibly call another referendum.

Oil prices rise

Oil prices meanwhile rose on the China-US tariffs report and after OPEC said it had cut output in December before a new agreement to limit supply took effect. Both main contracts are up around a fifth since the end of December, thanks to an agreement to cut

output by OPEC and other key producers including Russia. That followed almost three months of losses that wiped around 40 percent off prices amid concerns supply was running ahead of demand.

Shares of US companies with significant China operations gained, including Dow member Boeing, Caterpillar and Nike. But Tesla Motors dived 13 percent after the electric car maker announced plans to cut seven percent of its workforce and forecast lean profits.

Netflix fell 4.0 percent as its profits topped analyst expectations but analysts worried that subscriber growth was slowing. —AFP



BARCELONA: Taxi drivers block a roundabout by the Gran Via street during a strike in Barcelona on Friday to protest against regulations proposed by the authorities for VTCs (Tourism Vehicles with Chauffeur). —AFP

the government which is struggling to revive the faltering economy.

The government is also under pressure from the International Monetary Fund to freeze public sector wages, the bill for which doubled to about 16 billion dinars (\$5.5 billion) in 2018 from 7.6 billion in 2010, as part of measures to reduce its budget deficit.

But the UGTT says the monthly average wage of about \$250 is one of the lowest in the world, while the state Institute of Strategic Studies says real purchasing power has fallen by 40 percent since 2014.

The government had said it does not have the money to pay for the increases strikers want, worth about \$850 million in total. Government spokesman Iyad Dahmani said that increase would lift annual inflation to 10 percent from 7.4 percent.

An economic crisis has eroded living standards for Tunisians and unemployment is high as political turmoil and lack of reforms have deterred investment needed to create jobs. That has forced the government to launch austerity measures to please donors and lenders including the IMF. —Reuters