US retail sales, industrial output post modest gains

Progress slowing and recovery is in doubt amid political stalemate

WASHINGTON: The US economy continues to regain ground as the coronavirus crisis drags on, with retailers and manufacturing posting gains, but new data Friday show progress is slowing and the recovery is in doubt amid a political stalemate over a new aid package.

Consumers become more cautious

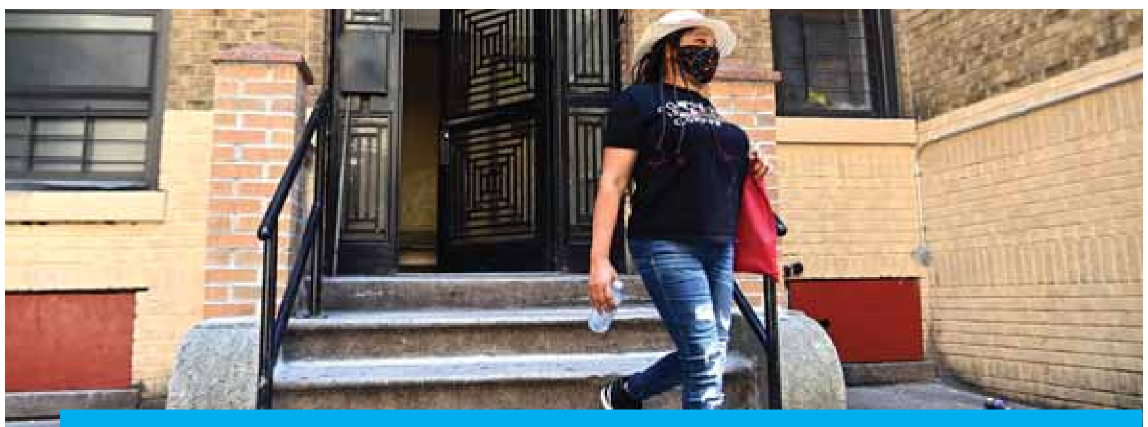
"We're coming back very strong. We should have a very good third quarter" and an "unbelievably good" next year, President Donald Trump told reporters Friday when asked about the industrial production increase in July. But he remained steadfast in opposing a spending package that would include help for ailing cities and states.

"They want $1 trillion to go to their friends doing a bad job running certain cities and states that are doing very badly," Trump said, adding that Democrats are to blame for the impasse. Economists warn that the massive aid deal approved by Congress in late March, including expanded federal unemployment benefits, has supported the economy in recent weeks but that could change if the expiring programs are not replaced.

"Our 'friends' in Washington seem to be doing everything possible to kill the recovery," economist Joel Naroff said in an analysis. He said it was the government's "welfare programs that have supported household and business spending. With the Senate on vacation... the funds flowing to unemployed workers and supporting businesses are disappearing."

US retail sales increased 1.2 percent last month compared to June, a more modest rise than economists had been expecting, held down by a decline in auto sales, according to government data released Friday. It was the third straight increase after the 8.4 percent increase in June, and the gain puts sales 2.7 percent higher than the same month of 2019, the Commerce Department reported. But for the first seven months of the year, a large part of it spent under coronavirus lockdowns, sales were 2.1 percent lower as compared to the same period of last year. While the July data bode well for the third quarter, Diane Swonk, chief economist at Grant Thornton, warned that the final three months of the year could see a slowdown-especially if the fall brings a new wave of COVID-19 infections.

"Our greatest concern is the fourth quarter, the most important time of the year for retailers. Halloween is the second largest holiday next to Christmas for consumer spending," she said. Naroff warned, "Don't be surprised if there is a weakening not only in consumer demand but in hiring as well."



NEW YORK: Yudy Ramirez, 46, who got laid off from her job in March and is unable to pay rent stands outside her apartment complex in the Bronx borough of New York City. — AFP

Confidence in Trump policy low

Consumers are likely to become more cautious in the absence of a deal between Congress and Trump's economic team-and the recent rhetoric does not bode well for an agreement. The University of Michigan consumer sentiment index showed confidence was flat in early August compared to July. But the report said: "The overall confidence in economic policies fell to the lowest level since Trump first entered office. The policy gridlock has acted to increase uncertainty." Industrial production rose 3.0 percent in July, the third monthly increase but a slower gain than in June, the Federal Reserve said Friday. Output rose in all major sectors, including a 3.4 percent increase in manufacturing. However, after dramatic declines in March and April as the coronavirus crisis took hold in the US, total output remains more than eight percent below July 2019, while manufacturing is down by 7.7 percent. The largest gain in July — 28.3 percent- was in motor vehicles and parts. In contrast, the retail sales report showed auto sales fell 1.3 percent compared to June. Excluding that decline, total retail sales rose 1.9 percent, according to the data. — AFP

Coronavirus shrinks Finland, Denmark economies

COPENHAGEN: The global coronavirus pandemic took its economic toll on Nordic countries in the second quarter, but the impact in Finland has been less severe, while Denmark suffered a "historic" contraction, data showed on Friday. Finland's gross domestic product contracted by 3.2 percent in the period from April to June compared with the preceding three months, the national statistics office calculated.

At the same time, Danish GDP shrank by 7.4 percent on a quarterly basis, "the steepest fall since the start of national quarterly accounts in the early 1990s," Statistics Denmark said.

The shutdown of societies and economic activity across the globe, as governments scrambled to rein in the spread of COVID-19, has pushed many countries into deep recession. Britain, for example, saw its economy contract by a staggering 20.4 percent. But Nordic countries, where the lockdowns were less strict, appear to be faring better than many of their European neighbours.

Finland's headline number was better than many analysts had predicted.

Danske Bank economist Jukka Appelqvist said Finland's modest lockdown, as well as its reliance on exports of goods such as heavy machinery or cruise ships, helped shield it from the worst of the economic fallout. Allan Sorensen, chief economist at the Confederation of Danish Industry, said the deep contraction of Denmark's economy was "not surprising".

"Fortunately, the crisis is not due to fundamental problems in the Danish economy, so we can hopefully get it back on track quickly," he said. Netherlands economy sees unprecedented drop due to coronavirus

Meanwhile, the Dutch economy took its biggest-ever hit from the global coronavirus pandemic as lockdowns brought activity in the country to a standstill, data showed on Friday. The EU's fifth-biggest economy shrank by 8.5 percent in the period from April to June compared with the preceding three months, the central statistics office CBS said. "Never before has such a shrinkage been measured," CBS said in a statement.

More than half of the contraction was due to a sharp fall in household consumption, the statisticians explained.

But falling investment and a sharp decline in the trade balance also played a role. The Dutch government has taken measures to cushion the impact of the coronavirus pandemic with almost three million people receiving income support. — AFP

Pandemic to hit Japan's economy more than expected

TOKYO: Japan's economy will contract more than previously expected and suffer mild deflation during the current fiscal year, analysts predict, underscoring the fragile nature of the recovery from the devastating coronavirus pandemic. Analysts also see renewed, escalating tensions between the United States and China as an additional source of concern for the world's third-largest economy, which is heavily reliant on exports, a Reuters poll showed on Friday.

"Economic activity will continue to face restrictions from social distancing measures" needed to prevent the spread of the virus, said Taro Saito, executive research fellow at NLI Research Institute.

"Japan's economy will likely rebound next fiscal year but won't recoup the huge losses incurred this year," he said. The economy is forecast to shrink 5.6 percent in the current fiscal year to next March, the poll of 32 economists showed, more than a 5.3 percent contraction projected last month. In a worst case scenario it will shrink 8.0 percent. The downgrade came as many analysts revised their forecasts for April-June gross domestic product (GDP) to a 27 percent contraction - last month's worst case forecast - from a nearly 24 percent drop projected in July.

The government will publish April-June GDP data tomorrow. Japan's economy will grow just 3.3 percent in the following year beginning in April 2021, the Aug. 4-13 poll showed, unchanged from the previous poll in July. Core consumer prices, which exclude volatile fresh food but includes energy costs, will fall 0.3 percent this fiscal year and rebound just 0.2 percent next year, according to the poll.

With the economy in deflation and its 2 percent inflation target proving increasingly elusive, the Bank of Japan's next move will be an expansion of stimulus, said a majority of those polled.

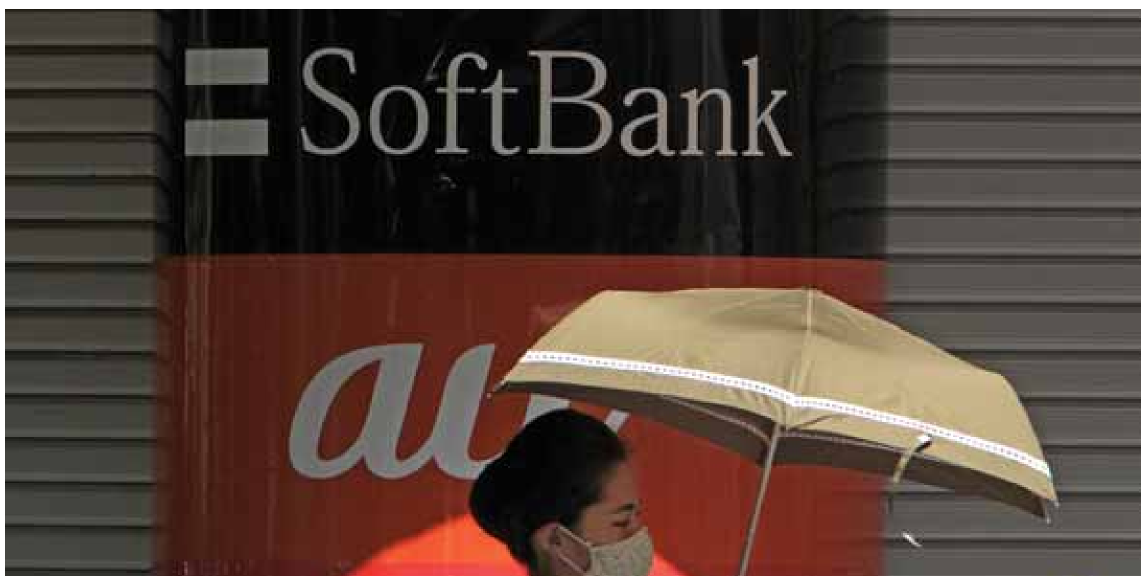
"The battle against the coronavirus will be a long one. Governments and central banks can't end steps to combat the pandemic until an effective vaccine becomes available," said Mari Iwashita, chief market economist at Daiwa securities.

Japan facing US-China feud

A recent sharp deterioration in US-China relations could complicate the outlook, as the world's two largest economies disagree on issues such as trade, technology and the pandemic.

Asked how the conflict between the two nations will affect Japan's economy, about 90 percent of economists surveyed said it would have a negative impact. Over 80 percent of respondents also said Japanese companies would face adverse effects if Washington and Beijing move toward creating their own economic zones, which would mark a retreat of globalisation.

"Economic blocs led by those two countries, or de-globalization, would lower global productivity growth. That would have a negative impact on Japan's potential growth and Japanese firms' productivity growth," said Hiroshi Ugai, chief economist at JPMorgan Securities Japan. — Reuters



TOKYO: A woman walks past the logo of Japanese telecommunication companies, including SoftBank (top), in Tokyo. — AFP

AUB reports net profit of $293.4m for H1 2020

KUWAIT: Ahli United Bank B.S.C. (AUB) reported a net profit attributable to its equity shareholders of $293.4 million for the six months ended 30 June 2020, a decrease of 22.3 percent as compared to $377.5 million achieved in H1/2019. Basic Earnings per Share in H1/2020 fell to US 2.9 cents as compared to US 3.7 cents in H1/2019.

The first half of 2020 was defined by the onset of the Covid-19 outbreak and by the collapse in oil prices. These events triggered global recessionary conditions which have hit energy producing countries hard due to the close correlation of their economic cycles to oil prices which fell sharply in the second quarter of the year. Health imposed lockdowns of extended durations exacerbated the economic fallout as retail and corporate activities were deeply impacted.

Meshal Al-Othman

As a result, Net Interest Income (NII) was lower by 17.0 percent to $406.7 million in H1/2020 as compared to $490.2 million in H1/2019. The drop in NII and Fees & Commission income resulted in a drop in Operating Income to US$ 575.6 million during the first six months of 2020 as compared to $630.1 million in H1/2019. The cost to income ratio stood at 27.4 percent (H1/2019: 26.5 percent) reflecting AUB's structured cost discipline.

To adjust for the heightened levels of macro-economic and sectoral risks, total provision charges (net) for H1/2020 increased by 140.0 percent from $34.3 million to $ 82.4 million. As a result, Net Operating Income decreased by 17.2 percent from $595.8 million in H1/2019 to $493.2 million in H1/2020. Comprehensive income attributable to the owners of the bank for H1/2020 reduced by 60.5 percent to $157.3 million as compared to $398.0 million for H1/2019 due to unrealized financial adjustments related to market fluctuations.

The Group's equity attributable to owners at 30 June 2020 decreased by 9.5 percent to $3.9 billion (31 December 2019: $4.3 billion). The AUB Group's total assets at 30 June 2020 marginally decreased (-0.5 percent) to $40.1 billion (31 December 2019: $40.3 billion) due to tighter asset-liability cost management. Return on Average Assets was at 1.6 percent for H1/2020 (H1/2019: 2.2 percent). Return on Average Equity for H1/2020 was 13.6 percent (H1/2019: 18.4 percent). AUB reported a non-performing loans ratio of 2.1 percent (31 December 2019: 1.9 percent) with specific provision coverage of 81.8 percent (31 December 2019: 85.9 percent). Provision coverage levels are calculated on a cash provision basis excluding the value of the additional significant non-cash (real estate and securities) collaterals available against non-performing loans.

AUB Chairman Meshal Al-Othman commented "The first half of 2020 was an unprecedented experience of two halves. An excellent start in January and February was followed by the Covid-19 pandemic and oil prices meltdown, extreme market volatility and a transformed operating and business reality imposed by lockdown conditions." He added "AUB's response was rapid and adaptive to this new and evolving situation which we expect to continue into the future. Our priorities were and will continue to be ensuring a safe operating environment for all staff, clients and counterparties, a seamless remote capability to transact business and support our clients in a very difficult and challenging environment and maintaining our earnings capacity in a prudent manner to be able to meet shareholders' expectations".

China's economic recovery underwhelms

BEIJING: China's retail sales slipped in July, dashing expectations for a modest rise, as consumers in the world's second-largest economy failed to shake off wariness about the coronavirus, while the factory sector's recovery struggled to pick up pace. Asian markets pulled back on Friday following the disappointing set of economic indicators, which raised concerns about the fragility of China's emergence from coronavirus.

China's recovery had been gaining momentum after the pandemic paralyzed huge swathes of the economy as pent-up demand, government stimulus and surprisingly resilient exports revived activity. However, July data from the National Bureau of Statistics on Friday showed weaker-than-expected year-on-year industrial output growth and retail sales extending declines into a seventh straight month. That was slightly offset by firmer property investment, which showed recent stimulus was supporting construction.

Some analysts attributed the loss of momentum in the economy to the torrential rains that have flooded Southern China since June and several fresh COVID-19 outbreaks that led to partial lockdowns.

"Although there could be a modest rebound in some investment activities if the floods subside in coming months, we expect sequential recovery momentum to get weaker in H2," Nomura analysts said in a note, citing factors such as receding pent-up demand, diminished chances of more policy easing and rising US-China tensions. Industrial output grew 4.8 percent in July from a year earlier, in line with June's growth but less than a forecast 5.1 percent rise.

Retail sales dropped 1.1 percent on year, missing predictions for a 0.1 percent rise and following June's 1.8 percent fall. The decline in retail sales was broad based with garments, cosmetics, home appliances and furniture all worsening from June.

A key exception was auto sales, which surged 12.3 percent, turning around from a 8.2 percent fall in June. "Despite narrowing declines in investment, consumption remained weak, highlighting the lasting economic shock from the coronavirus pandemic," said Zhang Yi, chief economist at Zhonghai Shengrong Capital Management.

"Given we are likely to see a resurgence of COVID in the autumn and winter, it is not recommended that monetary policy be tightened too prematurely and fiscal policy stay insufficient."

China's July nationwide survey-based jobless rate remained elevated at 5.7 percent, the same as June.

Investment bright spot

Helping carry the recovery, however, was investment, which was driven by the fast expansion in the property sector, with analysts expecting infrastructure spending to accelerate in coming months on the back of government support. China's economy returned to growth in the second quarter after a deep slump at the start of the year, but unexpected weakness in domestic consumption has slowed the momentum.

Fixed-asset investment fell 1.6 percent in January-July from the same period last year, in line with expectations but slower than a 3.1 percent decline in the first half of the year. July property investment grew at the quickest clip since April last year, underpinned by solid construction activity and easier lending. New home prices rose at a slightly slower pace in July from a month earlier. Infrastructure investment, a powerful driver of growth, fell 1.0 percent year-on-year, easing from a decline of 2.7 percent in the first half.

"After the floods are over, I believe the reconstruction work for affected areas will boost fixed-asset investment and industrial production," said Iris Pang, chief economist for Greater China at ING.

Another major risk is the increasingly tense US-China relationship ahead of the US presidential elections in November, which analysts say has prompted Beijing to focus on domestically driven growth. "Changes in US-China relations definitely have an impact on China, as well as the United States," statistics bureau spokesman Fu Linghui told a press conference. "We still hope to maintain the equal and mutually beneficial development (in relations)." — Reuters