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Business

FRANKFORT, KY: Hundreds of unemployed Kentucky residents wait in long lines outside the Kentucky Career Center for help with their unemployment claims on Friday in Frankfort, Kentucky. – AFP

Virus layoffs in US top 45.7 million

Economy faces a halting recovery from downturn

WASHINGTON: Layoffs caused by the coronavirus pandemic in the United States have passed 45.7 million, raising fears that despite some positive signs, the economy faces a halting recovery from the downturn.

Another 1.5 million US workers filed new claims for unemployment benefits last week, the Labor Department said Thursday, a decrease of only 58,000 from the prior week and higher overall than analysts expected.

An additional 760,526 filed claims under a program for those who would not normally be eligible for benefits, while the insured unemployment rate showing people still receiving aid was unchanged as of the week ended June 6 at 14.1 percent, with 20.5 million people getting benefits.

"Based on this side of the firing and hiring equation, labor market improvement is muted," tweeted Mohamed El-Erian, chief economic adviser at Allianz. The world's largest economy has seen a protracted downturn since businesses began closing in mid-March to stop the spread of the coronavirus, with the unemployment rate climbing to 13.3 percent in May and millions of layoffs reported each week. In an interview with The Wall Street Journal, President Donald Trump reiterated his expectation that the economy would recover by the time voters decide whether to give him a second term.

"We will have created a lot of jobs prior to November 3," Trump told the newspaper on Wednesday. "I expect a tremendous increase in GDP. And we'll be heading for the top. We'll be back."

CA deficit down; virus curbs trade

Claims 'still so high'

The wave of jobless claims peaked in late March and has been decreasing ever since. Yet it remains well above any single week reported during the global financial crisis in 2008, even as states move to reopen businesses and get consumers spending again.

Those efforts have paid off in sectors such as retail sales, which the Commerce Department said spiked 17.7 percent in May, nearly double the gain analysts expected, while other data has shown growing optimism among consumers and businesses. Wall Street has also recovered much of its losses for the year after plunging as the virus arrived, though markets had an uneventful session Thursday, with traders holding back as they weighed the claims data.

"It's not clear why claims are still so high; is it the initial shock still working its way up through businesses away from the consumer-facing jobs lost in the first wave, or is it businesses which thought they could survive now throwing in the towel, or both?" said Ian Shepherdson of Pantheon Macroeconomics. "Either way, these are disappointing numbers and serve to emphasize that a full recovery is going to take a long time."

In congressional testimony earlier in the week, Federal Reserve Chair Jerome Powell said that unless consumers feel confident COVID-19 has been defeated, "a full recovery is unlikely." "The levels of output and employment remain far below their pre-pandemic levels, and significant uncertainty remains about the timing and strength of the recovery," Powell told the Senate Banking Committee.

The central bank chief has predicted the contraction of GDP in the April-June quarter "is likely to be the most severe on record," and called for more support to the economy. But the Fed can only lend, not spend, and it will be up to Congress to decide whether to act ahead of the expiration of parts of the $2.2 trillion CARES Act stimulus package in the coming weeks.

The United States has seen the world's worst coronavirus outbreak with more than 117,000 deaths and 2.1 million cases diagnosed.

The epicenter has shifted from New York and states in the northeast to the south and west of the country.

Meanwhile, the US current account deficit dipped to a near two-year low in the first quarter as the COVID-19 pandemic restricted the flow of goods and services, while companies continued to repatriate profits back home. The Commerce Department said on Friday the current account deficit, which measures the flow of goods, services and investments into and out of the country, slipped 0.1 percent to $104.2 billion, the smallest since the second quarter of 2018. A drop in imports and income payments narrowly outpaced a decline in exports and income receipts.

Data for the fourth quarter was revised to show the gap narrowing to $104.3 billion, instead of $109.8 billion as previously reported. Economists polled by Reuters had forecast the current account gap shrinking to $103 billion in the January-March quarter.

The current account gap represented 1.9 percent of gross domestic product in the first quarter, the smallest share since the third quarter of 2017. —Agencies

CEO of scandal-hit Wirecard resigns

FRANKFURT: The founder and chief executive of scandal-hit Wirecard resigned on Friday after the German payments provider was hit with fresh fraud allegations that have left it struggling for survival.

Markus Braun "resigned today with immediate effect", the firm said in a statement, adding that the decision was made "in mutual consent with the supervisory board". The 51-year-old Austrian will be replaced on an interim basis by US manager James Freis.

The bombshell comes a day after auditors from Ernst & Young said 1.9 billion euros ($2.1 billion) were missing from Wirecard's accounts, intensifying a months-long crisis in the company.

The news prompted investors to abandon the once popular fintech company in droves, sending Wirecard's share price into a tailspin. The stock, which had plunged more than 60 percent in Frankfurt on Thursday, lost another 35.3 percent Friday to close at 25.82 euros.

It marks a stunning fall from grace for the Bavarian start-up, set up in 1999 and once seen as a darling of the fintech scene thanks to the global increase in electronic payments. The firm entered Germany's prestigious DAX 30 index with great fanfare in 2018 after nudging out traditional lender Commerzbank.

But since then Wirecard has been dogged by a series of articles in the Financial Times alleging accounting irregularities in its Asian operations. The company's four board members—including Braun—have been under investigation since early June by Munich prosecutors for "market manipulation", and Wirecard's headquarters were searched as part of the probe.

The scandal deepened on Thursday when the firm was forced to delay the publication of its 2019 results for a fourth time. Instead, Wirecard said in a statement that auditors Ernst & Young had identified "spurious balance confirmations" relating to "cash balances on trust accounts".

Ticking clock

The auditors' red flag was raised over escrow accounts at two Asian banks, which were supposed to hold 1.9 billion euros to manage risk for merchants using Wirecard's payment services. Wirecard said there were "indications" that the balances had been falsified "in order to deceive the auditor".

The two Philippine banks that were supposed to hold the cash denied having a relationship with Wirecard. "The document claiming the existence of a Wirecard account with BDO is a falsified document and carries forged signatures of bank officers," the Philippines' largest bank told AFP.

Wirecard's board responded by filing a legal complaint against "unknown persons", saying they could have fallen victim to a vast fraud. "It is currently unclear whether fraudulent transactions to the detriment of Wirecard AG have occurred," Braun said on Thursday.

Meanwhile German financial markets watchdog BaFin said the latest information would flow into its probe that prompted prosecutors' investigation of the board.

Ticking clock

But the clock is ticking for Wirecard, as two billion euros of credit could be withdrawn if it is unable to publish its results for last year by Friday. Wirecard said Friday it was in "constructive talks with its creditor banks" to avoid that scenario. This week had brought "the worst-case scenario" for the company, CMC Markets analyst Jochen Stanzl said.

"Customers have to do their own due diligence processes, and if this kind of 'red flag' and doubts show up, Wirecard could lose a lot of them." According to preliminary figures, the group said it had processed 173 billion euros of transactions in 2019, up 38.5 percent. Revenues grew 37.5 percent to 2.8 billion euros, while net profits climbed 39 percent to 482 million, Wirecard said. –AFP

Markus Braun, CEO of the technology and financial services company Wirecard, posing at the company's headquarters in Aschheim near Munich.—AFP

Apple reverses course, closes some US stores

SAN FRANCISCO: Apple said Friday it was closing some stores in US states experiencing a surge in coronavirus infections, reversing course after reopening many of its retail locations.

The iPhone maker said it was closing six of its retail stores in Arizona, along with two each in North Carolina and Florida and one in South Carolina. The stores are in states where COVID-19 infections are on the rise despite a decline in most regions of the United States.

"Due to current COVID-19 conditions in some of the communities we serve, we are temporarily closing stores in these areas," an Apple spokesperson said in a statement. "We take this step with an abundance of caution as we closely monitor the situation and we look forward to having our teams and customers back as soon as possible." Apple closed its US stores as the pandemic hit the country, and last month began gradually reopening the locations as lockdowns and restrictions were relaxed. —AFP