A customer checks fish for sale at Sittwe market, Rakhine state western Myanmar yesterday. — AFP

Japan economy steady ahead of sales tax hike

Recovery still vulnerable to reversal

TOKYO: Japan's recovery is holding steady ahead of a looming sales tax hike, economic indicators showed yesterday though weakness in wages and spending suggest it remains vulnerable to a reversal.

The consumer price index rose 1.3 percent in January and factory production also climbed. Past experience suggests Japan will see a big plunge in demand after the 3 percentage point tax hike to 8 percent on April 1, said economist Masamichi Adachi of JP Morgan in Tokyo. "It is a very difficult time to gauge the underlying strength of the economy," he said. As manufacturers and retailers raise prices to compensate for higher costs they are passing them on to consumers, who already appear to be tightening their belts to compensate. Japanese awoke yesterday to front-page reports of plans for hikes in the prices paid for vending machine soft drinks and plans for further increases in gas and electricity rates.

Contrary to earlier expectations, manufacturers are forecasting that factory output will fall in March, following a 4 percent increase in January to about the level it was at before a massive earthquake and tsunami hit northeastern Japan in March 2011, the Ministry of Economy, Trade and Industry reported.

Japan's financial industry and banks are relatively sound, compared with the 1990s. Its companies have much less debt and there is no reason to expect a major regional crisis similar to the one that slammed the economy in 1997, plunging the economy into recession. By coincidence, that period of economic trauma followed a tax hike in Japan. The government and central bank have unleashed a flood of monetary and fiscal stimulus aimed at breaking Japan free from a long spell of deflation, or falling prices, that is thought to discourage investment and spending.

But the central bank needs to ensure financial markets remain stable and Prime Minister Shinzo Abe needs to deliver on promises for reforms to help make the economy more competitive, Adachi said. "Confidence matters a lot for Abenomics," he said. "More stimulus is necessary and more structural change, so people will believe things will change." In a rare cautionary remark Thursday, a Bank of Japan vice governor, Takehori Sato, emphasized that the central bank must focus on a full and sustainable recovery, rather than just achieving the government's inflation target of 2 percent. "What the price stability target aims to achieve after all is not simply a rise in prices. Rather, it aims to achieve a situation in which a rise in prices is accompanied by a rise in wages, coupled with an improvement in the overall economy," Sato said. Given the expected impact of the tax hike, "we have to avoid leaving an impression that the Bank has been solely pursuing a pick-up in prices without due attention to the economy."

TOKYO: People look around a clothing store in Tokyo. Japan's consumer price index rose 1.3 percent in January and factory production also climbed, suggesting the recovery in the world's third-largest economy is holding steady ahead of an April 1 tax hike. — AP

Jobless rate steady

March is labor negotiation season in Japan, and some of the biggest companies have indicated they are open to raising base wages, rather than just bonuses or other payments, for the first time in years. But such increases are likely to be modest at less than the equivalent of $100 a month and will affect only a fraction of the work force. For most workers, real incomes will continue to fall as prices rise. January's 1.3 percent rise in core inflation marked the eighth straight month of price increases and matched the increase in December. Excluding both food and energy, prices rose 0.7 percent, also on a par with the month before. The "'core' and 'core-core' measures have started to level off at levels well short of the target," Capital Economics said in a commentary. It said that suggests the Bank of Japan needs to do more to hit its eventual inflation target of 2 percent.

The jobless rate remained steady at 3.7 percent, with 104 job offers for every 100 job seekers. Companies generally have stepped up use of overtime and hiring of part-time workers to handle higher demand. —AP

Pearson earnings to fall in year of restructuring

LONDON: Britain's Pearson warned its earnings would fall sharply again in 2014 as the publisher entered the second year of a restructuring sparked by the deterioration in its main US education market.

Pearson, the 170-year-old world leader in education which is under new leadership after years of good growth, suffered a tough 2013 and downgraded its outlook twice. The weaker-than-expected outlook for this year wiped another 700 million pounds off its market value in early Friday trading, to take the fall in the share price since the beginning of the year to more than 25 percent.

"This is the biggest restructuring in Pearson's history and we're doing it at a time when our biggest business, North America, is facing the most difficult trading conditions it has in a decade," Chief Executive John Fallon said yesterday. "It is going to pay off and we will start to see it pay off in 2015."

Pearson shares were down 7.1 percent, the biggest faller on the FTSE 100 index of blue-chip shares. "Results from Pearson have kicked investor hopes of quick recovery into the long grass," said Jonathan Helliwell, analyst at Edison Investment Research.

Pearson, which also owns the Financial Times and a 47 percent stake in the Random House Penguin book group, for years beat market expectations as it rolled out its education and testing business around the world. But it was hit by a string of managerial changes and slowing growth in 2013. Fallon took over from the 16-year veteran Marjorie Scardino last year and, faced with stalling earnings growth, embarked on a 150 million pound restructuring program to boost margins and counter tighter educational budgets. It has been hit particularly in the United States where fewer people are enrolling in college courses as the economy recovers, and where states have put off spending on school books as they wait for a new Common Core education program to roll out.

The British group warned in January that its 2013 earnings would be lower than expected due to higher restructuring costs and poor demand for its North America education business in its key selling period, the fourth quarter.

Prior to Pearson's 2013 results published yesterday, Reuters data showed that of 25 analysts covering the company, 18 recommend investors to either hold or sell its shares.

Pearson's restructuring program is designed to accelerate the move from print to digital services, and increase its presence in fast-growing emerging markets such as China, Brazil and India to tap into the rise in spending by a burgeoning and aspirational middle class.

The 2013 results showed that North American education made up more than 53 percent of the 5.2 billion pounds of group sales, while international education made up 30 percent.

Adjusted earnings per share fell to 70.1 pence, after restructuring charges, from 82.6 pence in 2012. The company said at current exchange rates, adjusted EPS should be between 62 pence and 67 pence this year. The only bright spot in the numbers was a 7 percent rise in the dividend, which the group said reflected its confidence that it would return to growth in 2015. — Reuters

Oil slips below $109 on demand concerns

LONDON: Oil eased below $109 a barrel yesterday as tension in Ukraine dampened risk appetite and easing winter weather raised expectations of weaker demand. A severe winter in the United States supported oil prices in the early part of the year, helping oil avoid the weakness of other risk assets such as base metals, as have supply losses in Libya and South Sudan.

Brent crude fell 55 cents to $108.41 a barrel by 0955 GMT, after dropping 56 cents in the previous session. US oil declined 42 cents to $101.98. "Oil is not reacting like other risk markets because of the winter and geopolitical tensions in the Middle East," said Jonathan Barratt, chief executive of commodity research firm Barratt's Bulletin in Sydney.

"As the weather improves, some shine on that will come off. China's slowdown will compound it even more. The markets shouldn't be here." Brent is set to end the week down 1 percent, the biggest drop in four weeks. US crude is set to end the week slightly lower, snapping six straight weeks of gains - the longest period of weekly rises in a year.

Rising tension in Ukraine was also in focus. Armed men took control of two airports in the Crimea region yesterday in what Ukraine's government described as an invasion and occupation by Russian forces. "The current situation is more bearish than bullish for oil prices as oil supply has not been affected so far and the dollar is strengthening against the Ukrainian currency and the euro as risk appetite is hit," said oil brokers PVM in a report.

Concern about the demand outlook for the US and China, the world's largest and second-largest oil consumers, also weighed on prices. China's yuan looked set for its biggest daily loss on record yesterday. The US government is set to cut its estimate of fourth-quarter growth as exports and restocking by businesses were less robust than previously thought. The Commerce Department will release its fresh estimate of fourth-quarter GDP at 1330 GMT. Oil supplies appear to be more plentiful. Iranian exports have increased so far this year. Global spare production capacity inched higher in January and February the US government's Energy Information Administration said on Thursday. — Reuters