US consumer spending rises; producer prices up

WASHINGTON: A gauge of US consumer spending rose solidly in November, suggesting enough momentum in the economy for the Federal Reserve to raise interest rates next week for the first time in nearly a decade. Other data yesterday showed producer prices increased last month as services cost more, but the underlying trend continued to point to weak inflation pressures.

Retail sales excluding automobiles, gasoline, building materials and food services increased 0.6 percent after gaining 0.2 percent in October, the Commerce Department said. These so-called core retail sales correspond most closely with the consumer spending component of gross domestic product. Consumer spending, which accounts for more than two-thirds of US economic activity, surprisingly slowed in September and October. The moderation came despite a tightening labor market, which has started to lift household income.

The latest signs of strength in consumption could see economists bumping up their fourth-quarter growth estimates. Solid domestic demand supports expectations that the Fed will raise its benchmark overnight interest rate from near zero when policymakers conclude a two-day meeting next Wednesday, despite weak inflation.

The US central bank has not raised rates since June 2006. In a separate report, the Labor Department said its producer price index advanced 0.3 percent last month after falling 0.4 percent in October. But the PPI declined 1.1 percent in the 12 months through November after sliding 1.6 percent in October.

November marked the 10th straight 12-month decrease in the index. Dollar strength and continued declines in oil prices amid a glut and slowing global growth have dampened price pressures, leaving inflation running persistently below the Fed's 2 percent target. US Treasury debt prices slipped on the data and the dollar weakened against the euro and the yen. Last month, overall retail sales increased only 0.2 percent as automobile sales fell and cheaper gasoline weighed on receipts at service stations. Retail sales edged up 0.1 percent in October.

Auto sales slipped 0.4 percent last month, the largest decline since June, after falling 0.3 percent in October. Though automakers reported strong sales in November, the units sold were slightly below October's levels. Receipts at service stations fell 0.8 percent after decreasing 1.0 percent in October.

PITTSBURG: Chuck Barrett helps a customer load 2x4's at the Allegheny Millwork and Lumberyard in Pittsburgh. Economists forecast that the producer price index, which measures price changes before they reach the consumer, were unchanged last November, according to a survey by data firm FactSet yesterday. — AP

Elsewhere, sales at clothing stores shot up 0.8 percent, the largest increase since May. Sales at online retailers rose 0.6 percent and receipts at sporting goods and hobby stores increased 0.8 percent. Sales at electronics and appliance outlets advanced 0.6 percent. The increase last month in discretionary spending suggested a fairly busy start to the holiday shopping season. However, receipts at building materials and garden equipment stores slipped 0.3 percent as did sales at furniture stores. — Reuters

India proposes budget hike for social sectors

Critics warn spending shakeup could hurt the poor

NEW DELHI: Indian Prime Minister Narendra Modi's federal government yesterday proposed to raise its budget for sanitation and the fight against malnutrition and HIV/AIDS, months after New Delhi faced criticism that spending cuts were crippling welfare programs.

The budget increases for social sectors will come as a relief for the largely poor population in India, where many people, especially in remote towns and villages, lack access to basic healthcare and clean water. Almost two-thirds of India's 1.2 billion people have no safe and private toilets, according to international charity WaterAid. More than 1 million children die annually before reaching the age of five.

The federal government plans to raise its sanitation and drinking water budget by 60 percent to $2.15 billion, while the child welfare budget will rise by a quarter to $2.68 billion.

The budget for fighting HIV/AIDS will rise by nearly a fifth but the main health department's funding will rise by just 2 percent, according to a government document presented to parliament.

"The government seems to have realised that cutting social sector funds is actually resulting in lower health outcomes," said Amir Ullah Khan, an economist at health research company Aequitas. "This was the need of the hour." Modi in February irked many of his own officials by slashing social spending to free up funds to build roads and highways, hoping states would fill the gap from the additional share of taxes they receive from New Delhi.

But many individual states complained of a funding crunch to run vital social schemes and, as a result, thousands of health workers received delayed salaries and a key scheme to fight child malnutrition suffered.

Critics had warned the spending shakeup could endanger the most vulnerable.

With the latest announcements, Modi has now proposed to hike social budgets twice since imposing cuts in February. Modi's minister for child welfare, Maneka Gandhi, told Reuters in October the budget cuts had hit her plans to strengthen the fight against malnutrition and made it difficult to pay wages of millions of health workers.

Overall, the government sought parliamentary approval to spend a gross additional $8.42 billion in the fiscal year to end-March 2016. But the extra net outlays will be $2.7 billion and the balance will be funded through savings in other schemes. — Reuters

Russia keeps rates high in fight against inflation

MOSCOW: The Russian central bank, worried about inflation even more than the ailing economy yesterday held leading interest rates at current high levels. At its regular monetary policy meeting, the bank kept its key interest rate at 11 percent, citing inflationary risks as its main motivation against easing credit.

The Russian economy is in deep recession, dogged by weak oil prices, a sliding ruble and Western sanctions over Ukraine and will continue to see negative growth into 2016, the central bank warned.

The bank promised that it would ease credit at "one of its upcoming meetings" but "only if inflationary risks diminish". The Russian economy shrank by 4.1 percent in the third quarter and the government predicts that growth measure gross domestic product (GDP) will decline by around 3.9 percent in 2015 as a whole, before recovering slightly next year.

But the World Bank has cautioned that the full-year downturn could reach 4.3 percent, depending on the price of oil, and that Russia is likely to remain in recession for all of 2016. The Bank of Russia has gradually reduced rates from a 17-percent peak a year ago, which it deemed necessary at the time to defend the spectacular slide in the ruble.

But stubbornly high inflation has stopped it from doing more. Consumer prices were up 14.8 percent year-on-year in early December, dangerously above the government's full-year inflation target of 12.2 percent. Worse news could be coming on the inflation front as the ruble has come under renewed attack in the wake of even weaker oil prices, which this week dipped below $40 per barrel. Currency weakness stimulates inflation as more rubles are needed to pay for imports, pushing up prices. Other factors likely to push inflation higher are a trade war with Ankara after Turkey downed a Russian warplane for allegedly violating its airspace, and a new tax on road transport. — AFP

After rescuing banks, Italy moves to bail out savers

MILAN: Italy was working yesterday to set up a solidarity fund to help small investors hit by the rescue last month of four regional banks, following the suicide of a man whose life savings were wiped out, government sources said.

Finance Minister Pier Carlo Padoan is expected to address parliament's budget committee later Friday on the issue. "We are studying an intervention to reduce and mitigate the burden on savers" who lost money following the rescue of the small banks, Prime Minister Matteo Renzi said Thursday. Italy's financial daily, Il Sole 24 Ore, said the government was thinking of creating a 100 million euros ($109 million) solidarity fund, with contributions from both the state and the banking sector.

The four banks-Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio di Ferrara and Cassa di Risparmio della Provincia di Chieti-had all been put under special administration over the past two years.

A 3.6 billion euros ($3.83 billion) rescue plan was launched by the government last month using a newly-formed National Resolution Fund, which is fed by the country's healthy banks.

But there have still be heavy losses for some investors and the government has drawn fire for the suicide of a retired man after he lost 110,000 euros which he had invested in bonds issued by Banca Etruria.

Some 130,000 shareholders and junior bond holders lost money in the rescue. Under mounting pressure from consumer associations and political opponents, Renzi said he supported a parliamentary decision to hold an inquiry into "what has happened" in the banking system over the past decade.

After the European Commission criticized the sale of "unsuitable products" to small investors, the Bank of Italy's director general Salvatore Rossi said in an interview yesterday that the bank had called in the past for the sale of subordinated bonds to ordinary savers to be banned. The problem, he told Corriere della Sera, is that Bank of Italy does not have the "authority" to intervene in the matter. — AFP