Kuwait Times
BUSINESS
WEDNESDAY, MARCH 16, 2016

GCC needs $151bn worth of financing needs: Markaz
Page 22

China considers tax on currency trades: Report
Page 23

ZAIN OFFERS NEW GALAXY S7 AND GALAXY S7 EDGE
Page 26

The winning four - the new-generation Audi A4
Page 25

BOWIE: A shopper at Safeway in Bowie, Maryland. US retail sales dipped in February and were revised sharply lower in January, the Commerce Department said yesterday. — AFP

Weak retail sales highlight risks to US economy

January retail sales drop 0.4%, producer prices fall 0.2% in Feb

WASHINGTON: US retail sales fell less than expected in February, but a sharp downward revision to January's sales could reignite concerns about the economy's growth prospects. Yesterday's weak report from the Commerce Department bucked the trend of recent labor market data that had suggested the economy remained on solid ground despite some concerns that a recession was looming. "The economy's engines are not going into reverse ... but at the moment, it is hard to see GDP with a 2 percent handle," said Chris Rupkey, chief economist at MUFG Union Bank in New York.

Retail sales dipped 0.1 percent last month as automobile purchases fell and cheaper gasoline undercut receipts at service stations. January's retail sales were revised down to show a 0.4 percent decline instead of the previously reported 0.2 percent increase. Retail sales excluding automobiles, gasoline, building materials and food services were unchanged after a downwardly revised 0.2 percent increase in January. These so-called core retail sales correspond most closely with the consumer spending component of gross domestic product and were previously reported to have risen 0.6 percent in January. Economists polled by Reuters had forecast retail sales slipping 0.2 percent and core retail sales rising 0.2 percent in February.

Prices for US government debt rose after the data, while US stocks were trading lower. The dollar was largely unchanged against a basket of currencies. Last month's weak core retail sales reading, together with January's modest gain, suggest that consumer spending will probably remain tepid in the first quarter after growing at a 2.0 percent annualized rate in the fourth quarter.

Economists at Barclays slashed their first-quarter GDP growth estimate by five-tenths of a percentage point to a 1.9 percent rate after the data. The economy grew at a 1 percent pace in the fourth quarter. Economic growth prospects were also dented by another report from the Commerce Department showing business inventories edging up 0.1 percent in January as sales continued to decline. That pushed the inventory-to-sales ratio to its highest level since May 2009, suggesting inventories could remain a drag on growth in the near-term.

FED ON HOLD

The reports came as Federal Reserve officials prepared to gather for a two-day policy meeting. The US central bank is expected to leave interest rates unchanged as policymakers monitor developments on global financial markets, domestic inflation and the labor market. The Fed hiked its benchmark overnight interest rate in December for the first time in nearly a decade.

"Market turbulence will keep the Fed from hiking in the near-term while a softer economy will keep the Fed from going later this year. This (retail sales) report suggests that the softer economy may be coming sooner than we thought," said Bricklin Dwyer, an economist at BNP Paribas in New York.

In a separate report, the Labor Department said its producer price index dropped 0.2 percent last month on lower energy and food costs, after edging up 0.1 percent in January.

In the 12 months through February, the PPI was unchanged after falling 0.2 percent in the year through January. It was the first time since January 2015 that the year-on-year PPI did not decline.

With the dollar losing some momentum after gaining 20 percent against the currencies of the United States' main trading partners between June 2014 and December 2015, imported deflation is starting to wane. That could curb further declines in producer prices. But oil prices, which tumbled by as much as 4 percent on Monday on concerns that a six-week market recovery has gone beyond the fundamentals, remain a wild card. So far this year, the dollar has gained about 0.9 percent on a trade-weighted basis.

A 4.4 percent drop in the value of sales at service stations weighed on retail sales last month. Gasoline prices dropped 9 percent in February, according to the US Energy Information Administration, as oil prices fell further. Retail sales were also hurt by a 0.2 percent fall in sales at auto dealerships and a 0.5 percent drop in receipts at furniture stores. Auto sales declined 0.2 percent in January.

Receipts at electronics and appliance stores slipped 0.1 percent. But there were pockets of strength, with clothing store sales rising 0.9 percent last month and receipts at building materials and garden equipment stores gaining 1.6 percent.

Sales at sporting goods and hobby stores rose 1.2 percent and sales at restaurants and bars increased 1.0 percent. Online store sales dropped 0.2 percent. — Reuters

How Egypt is struggling to end corruption in wheat

CAIRO: When Egyptian lawyer Ahmed Gad stepped out of a cafe on the outskirts of Cairo to take a call last October, a gunman on the back of a motorcycle trained a semi-automatic rifle on him and opened fire. Three bullets ripped into Gad's right side before his attackers sped off. Gad, who survived, said the men were trying to silence him for his attempts to expose corruption in one of Egypt's most important commodity markets: wheat.

Wheat can be a matter of life and death in Egypt. The country is the world's biggest importer of the grain, in large part because Cairo runs a bread subsidy program that feeds tens of millions of poor Egyptians. Wheat shortages have triggered riots in the past, and when Egyptians rose up against autocrat Hosni Mubarak in 2011 one of their signature chants was "Bread, freedom and social justice."

The pressures have returned over the past few months as Egypt has faced potential wheat shortages because of its strict ban on imports of wheat infected with ergot, a common fungus.

The hardest blight to eradicate, though, has been corruption. President Abdel Fattah Al-Sisi has made ending corruption - including graft in the wheat industry - one of his government's priorities. In 2014, his government rolled out a system of smart cards designed to stop unscrupulous bakeries selling government-subsidised flour on the black market. Cairo says the system has been a big success, saving millions of dollars in bread subsidies, reducing imports, and ending shortages that once prompted long queues outside bakeries across the country. Supplies Minister Khaled Hanafi told Egyptian reporters in late 2014 that roughly 50 percent of the country's flour supply was stolen. In December last year he told Reuters that the new system had saved more than 6 billion Egyptian pounds ($766 million) worth of flour.

But industry officials, traders and bakers say those reforms have failed - and even made abuse of the system worse. Eight sources in the wheat industry said the smart card system could be hacked, allowing some bakers to falsify receipts and request far more subsidised flour than they officially sold. Instead of reducing the amount of flour the state paid for, the critics said, the smart card system actually increased it. That triggered a wave of fraud higher up the supply chain that the sources say cost the country hundreds of millions of dollars last year. Internal statistics produced by the Supplies Ministry and reviewed by Reuters suggest the problems with the smart card system were considerable. The data show that consumption of state-subsidised flour rose in early 2015 in 12 of the 19 provinces where the smart card system had been introduced. In February 2015, consumption of subsidized flour was 955,000 tons, the data show, up from 750,000 tons the previous February. The government concedes there were teething problems in the smart card system that temporarily drove up consumption. But it said the problem was limited and was dealt with.

Whatever the case, the extra consumption early last year drained government grain reserves. By last May, ministry data show, wheat reserves had fallen to just 435,000 tons, enough for about two weeks' supply and far below the stock of three to four months normally held by the state. Four traders said that the government tried to paper over the shortage by declaring a bumper domestic harvest last year and then quietly filling the gap by buying extra imported wheat. In fact, the traders and one former adviser to the Supplies Minister said, the harvest was no bigger than normal. It was not possible to verify the size of the harvest. Nader Nour El-Din, a former adviser to the supplies minister and now a professor of agriculture at Cairo University, said it was inconceivable for the harvest to have been as big as the government said because the area under wheat had not increased in size, production methods had not changed and fertilizer use had not increased.

The Egyptian government denied that it faced a wheat shortage. In his December interview with Reuters, Supplies Minister Hanafi said that wheat levels were deliberately reduced in the first five months of 2015 to clear space in silos for the bumper crop the state was expecting. "We never, (and) we are not facing at all, a shortage in the reserves," he told Reuters. "The opposite is true."

SMART SYSTEM HACKED

The smart card system was designed to end corruption. The scheme provides each family with a plastic card allowing them to buy five small flat loaves of bread per family member a day. A family member must swipe their card through a machine every time they visit a bakery - so the Ministry of Supplies can track exactly how much bread each bakery sells. The government then pays each bakery a subsidy per loaf. Until the smart card system, the ministry relied on bakeries to report how much bread they sold. But many bakeries overstated the amount and then sold the extra on the black market. The government has said the new system stopped that over-reporting.

But four bakers, three wheat traders and a miller told Reuters that the system was possible to cheat. The smart cards and the machine that reads them were produced by SMART, a private company based in Cairo. According to the traders and bakers, employees at SMART secretly produced cards that resemble the ordinary smart card but act as a "master" that overrides the system. By swiping a master card through their machine, bakers were able to reset the system and then swipe ordinary smart cards multiple times. SMART employees sold the cheat devices to bakeries for several thousand dollars, according to rival bakers. One grocer in the industrial suburb of Helwan, outside Cairo, described how merchants in his neighborhood cheated the system: "The card is entered into the machine and the ration spent but the device can then reset the card allowing more spending. So instead of spending once or twice a month you can spend 1,000 times," said the grocer. —Reuters

Commodity and currency slump expose frailties of African economies

JOHANNESBURG: Slumping commodity prices have taken African currencies down with them, exposing the fundamental economic frailties of the world's poorest continent by driving up inflation in countries that import most of their manufactured goods. Regional economies are in no position to use their weakening currencies to their trade advantage because they have few exports beyond their natural resources. The hardship for households has been compounded by rising prices for food - one commodity that has defied the price fall due to drought in southern Africa

The economic problems are growing in countries from South Africa, a major producer of minerals and precious metals, to nascent natural gas producer Mozambique and Nigeria, the continent's top exporter of crude oil. They highlight the need for African economies to diversify and adopt strategies for industrialisation to reduce their reliance on imports, say economists. But they acknowledge this will be difficult in the current environment as investment is hindered by rising inflation and interest rates, as well as the power shortages that plague many areas.

"For commodities producers the situation is very clear and very negative," said Francois Conradie, head of research at NKC African Economics. Inflation, which many African economies had contained in recent years, is picking up pace as currencies crumble, driving up the prices of the goods they don't produce and so need to import - the vast majority of manufactured products. Even where central banks have introduced additional measures in an attempt to maintain stability, such as in Africa's biggest economy Nigeria, which has introduced capital controls, inflation is picking up. "In Nigeria's case, a lot of importers cannot get dollars from official channels, so they get their dollars at the black-market rate which can be almost double the official rate. Their sales price reflects that," said Conradie.

INFLATION ACCELERATES

Inflation in Nigeria, which fell from close to 14 percent in 2010 to below 8 percent in 2014, has been gathering pace and hit 9.6 percent in January. Even South Africa, the continent's most industrialised economy which saw its rand currency lose over 30 percent in 2015, has failed to translate currency weakness into an export boon.

A fall in the value of its exports pushed its current account deficit to 5.1 percent of gross domestic product in the fourth quarter of 2015, from 4.3 percent in the third. In Mozambique - which has vast natural gas deposits - inflation was 12.18 percent in January, the third straight month of double-digit price increases, fuelled by a 30 percent depreciation in its metical currency the past 12 months.

Angola, Africa's third-largest economy and second-biggest crude producer, is almost completely dependent on oil, which accounts for over 90 percent of foreign exchange revenues.

It saw inflation rise to 17.34 percent in January from 14.27 percent in December. Its kwanza currency fell more than 30 percent last year. President Jose Eduardo dos Santos last week urged "entrepreneurs" to lift domestic production of goods and food.

But it may be a case of too little, too late in a country where analysts say there has been no serious attempt at industrialisation, with billions of dollars squandered on "industrial parks" where almost nothing is produced.

FOOD PRICES RISE

During the commodities boom - fuelled by top consumer China's rapid growth and industrialisation - the value of Africa's exports soared to $420 billion from $100 billion between 2000 and 2011, according to World Bank data. Virtually all of those exports were commodities; the value of Africa's manufactured goods in that period rose only to $33 billion from $13 billion.

The commodities boom financed an African consumption binge on imported goods - domestic demand accounted for two-thirds of African growth in that period - that the continent can now ill afford as commodity revenues and currencies sink.—Reuters