Kuwait Times 55 Anniversary
BUSINESS
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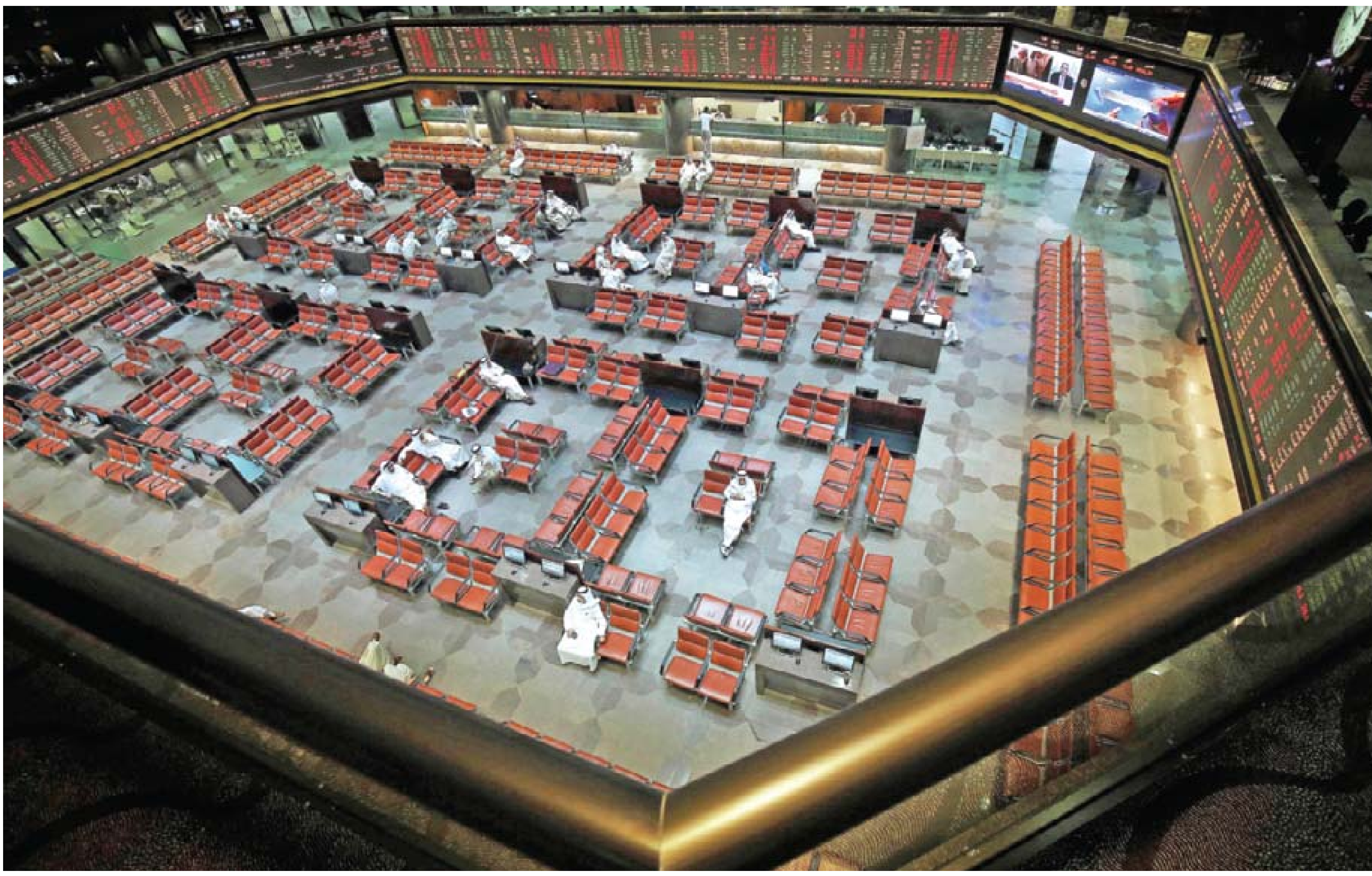
Global markets remain upbeat, GCC flat
Page 22

Trump to push for $1tn overhaul of roads and bridges
Page 23

'Al-Tijaria' launches new initiative under Rafad campaign
Page 26

A new range of irresistible accessories
Page 25



KUWAIT: Kuwaiti traders follow the stock market at the Boursa Kuwait in Kuwait City yesterday. Boursa Kuwait ended yesterday's trading in the red zone. The benchmark fell by 26.82 points to settle at 6,803 points while the Weighted Index and KSX 15 indices went down by 3.22 and 9.55 points respectively. — Photo by Yasser Al-Zayyat

US factory orders slipped in April

Investment weak, Q1 productivity unchanged

WASHINGTON: Orders to US factories fell in April for the first time in five months amid declining demand for heavy machinery, iron and steel, and commercial airplanes. A key category that tracks business investment was weak for a third month. Factory orders edged down 0.2 percent in April after a 1 percent increase in March, the Commerce Department said yesterday. It was the first decline since a 2.3 percent drop last November. A category that serves as a proxy for business investment posted a tiny 0.1 percent gain. Orders in this closely watched category had been flat in March.

The weakness in April was expected to be temporary, given hopes that manufacturing has started to bounce back in recent months from a prolonged slump last year. Orders for durable goods - items ranging from bicycles to battleships that are expected to last at least three years - dropped 0.8 percent in April. Demand for nondurable goods, a category that covers such things as paper, chemicals and food, rose 0.4 percent in April. Orders for transportation equipment in April fell 1.4 percent, as a 0.6 percent rise in demand for motor vehicles was offset by a 9.1 percent drop in orders for commercial aircraft, a volatile category. Demand for machinery contracted 0.7 percent, reflecting a 16 percent plunge in demand for construction machinery. Orders for primary metals fell 0.7 percent, with demand for iron and steel down 2 percent.

Despite the April drop, American manufacturing has bounced back in recent months from a slump early last year. American manufacturing was hurt early last year and in late 2015 by cutbacks in the energy industry and a strong dollar that makes US products pricier overseas.

Labor costs down

US worker productivity was not as weak as initially thought in the first quarter, but the persistently soft trend is an obstacle to faster economic growth. The Labor Department said on Monday nonfarm productivity, which measures hourly output per worker, was unchanged in the last quarter. It was previously reported to have declined at a 0.6 percent annualized pace.

The government also reported that the growth in labor costs at the start of the year was not as strong as reported in May, which could cast doubts on the tightening labor market's ability to unleash robust wage growth. The revision to first-quarter productivity was in line with economists' expectations. Productivity increased at an unrevised 1.8 percent pace in the fourth quarter.

US financial markets were little moved by the report. Compared to the first quarter of 2016, productivity grew at a 1.2 percent rate, pointing to some improvement.

Productivity has increased at an average annual rate of 0.6 percent over the last five years, below its long-term rate of 2.1 percent from 1947 to 2016, indicating that the economy's potential rate of growth has declined.

That suggests the Trump administration could struggle to achieve its 3 percent annual gross domestic product growth target. The economy grew at a 1.2 percent pace in the first quarter. It grew 1.6 percent in 2016 and annual GDP growth has not exceeded 2.6 percent since the 2007-09 recession ended.

Economists blame low capital expenditure, which they say has resulted in a sharp drop in the capital-to-labor ratio, for the weakness in productivity. There are also perceptions that productivity is being inaccurately measured, especially on the information technology side. Companies have been hiring more workers to maintain output. First-quarter output per worker was revised up to a 1.7 percent growth rate from the previously reported 1.0 percent pace. The increase in output came as total hours worked increased at an upwardly revised 1.7 percent rate. Hours worked were previously reported to have risen at a 1.6 percent rate in the first quarter. Unit labor costs, the price of labor per single unit of output, increased at a 2.2 percent pace in the first quarter instead of the previously reported 3.0 percent rate. Compared to the first quarter of 2016, unit labor costs rose at a 1.1 percent rate.

Fourth-quarter unit labor costs were revised down to show them declining at a 4.6 percent rate from the previously reported 1.3 percent pace of increase. Wage growth remains sluggish despite the unemployment rate being at a 16-year low of 4.3 percent. Hourly compensation increased at a 2.2 percent rate in the first quarter rather than the 2.4 percent pace reported in May.

Hourly compensation rose at a 2.3 percent rate from a year ago, down from the 3.9 percent pace estimated last month. — AP

Silk Road hub or tax haven?

China's new border trade zone may be less than it seems

HORGOS, China/KHORGOS, Kazakhstan: On the border of China and Kazakhstan, an international free trade zone has become a showpiece of Chinese President Xi Jinping's signature "Belt and Road" Initiative to boost global trade and commerce by improving infrastructure and connectivity.

Chinese state media are filled with stories about the stunning success of Horgos, the youngest city of China's new Silk Road. Last month at China's Belt and Road Summit - its biggest diplomatic event of the year - promotional videos about Horgos' booming economy ran on a loop at the press centre.

But Chinese business owners and prospective investors who had recently visited the China-Kazakhstan Horgos International Border Cooperation Center (ICBC), told Reuters they were disappointed by the disconnect between the hype and reality. Rather than the vibrant 21st Century trading post of Beijing's grand vision, Horgos is instead developing a reputation as China's very own tax haven.

"We were so unimpressed by what we saw that after looking around for three hours, we turned around and drove eight hours straight back to Urumqi," said a businessman from the capital of China's far western region of Xianjiang, who only wanted to give his surname, Ma, due to the sensitivity of the topic. Several business owners echoed complaints about poor design and low visitor numbers made by Ma, who visited Horgos to investigate the viability of opening a high-end clubhouse. "You've got Kazakh farmers walking around with plastic bags full of cheap Chinese t-shirts and you want me to open a club for government officials and businessmen to meet inside the zone - which, by the way, you can't drive your car into and doesn't have any five-star hotels?" Ma said.

BEIJING: Restaurant workers carry a big pot out from a restaurant on the outskirts of Beijing yesterday. Recent indicators have pointed to slowing growth in the Asian economic giant as it grapples with weaker global demand, excess industrial capacity and a burgeoning debt problem. — AFP

On the Chinese side of the border there are five malls selling cheap consumer goods, though traders complain there are not enough visitors. "Sometimes I'll sit here for a whole day and not make a single sale," said Ma Yinggui, 56, who has a market stall selling clothes. "Some Kazakhs are rich but most are poor. They come and haggle over a 20 yuan ($2.93) t-shirt."

More than five years after the 5.3 sq km trade zone opened, much of the Kazakh side remains empty.

Only 25 of the 63 projects on the Kazakh side have investors, according to Ravil Budukov, ICBC press secretary on the Kazakh side. About 3-4,000 people enter from Kazakhstan each day and around 10,000 from China, he added.

The Xinjiang and Horgos governments declined to make officials available for comment to Reuters for this article. — Reuters

Kuwait picks EY to value stock exchange for potential listing

KUWAIT: Kuwait has picked accounting firm EY to do a valuation of its stock exchange, sources familiar with the matter told Reuters on Sunday.

The country has been considering an initial public offering of its stock market for years, but political infighting and entrenched bureaucracy have held up the process. The Capital Markets Authority (CMA) has asked EY to complete a valuation of Boursa Kuwait's assets and prepare a timetable for a listing, the sources said.

The CMA declined to comment when contacted by Reuters on Sunday. EY did not immediately respond to a request to comment. One of the sources said a committee that is awarding contract for the valuation of the exchange will meet this week.

Kuwait's stock market is one of the oldest in the Middle East region. Established officially in the early 1980s, it has shrunk in the past few years as dozens of companies have been delisted.

Under a law passed in 2010, the CMA is supposed to offer 50 percent of the shares to Kuwaiti citizens and 50 percent to ten companies already listed on the stock exchange. The exchange may, however, offer up to 44 percent of its shares to a company that has experience in operating bourses when it goes public, a senior government official told Reuters in 2015. Such a move would open the way for an international exchange operator such as Nasdaq OMX or Euronext to take a stake in one of the Middle East's oldest stock markets. — Reuters