Japan's exports fall as Trump's trade policy threatens outlook

Global slowdown, trade war hit exports

TOKYO: Japanese exports contracted for the fifth month in April due to a slump in shipments of chip-making equipment to China, underlining the growing threat to the world's third-biggest economy from a bruising Sino-US trade war.

Data also showed Japan's trade surplus with the United States rose for a second month as auto exports accelerated, which could draw US President Donald Trump's ire before US-Japan trade negotiations begin this week followed by a leaders' summit a few days later. Trump's government is trying to renegotiate trade agreements with major economies to lower the US trade deficit and address what it considers to be unfair trade practices.

That approach has set-off an intensifying tariff dispute between the United States and China - two major trading partners of Japan - in a blow to global businesses, trade and overall growth.

Washington's stance is doubly harmful to Japan because it has slammed the breaks on exports to neighboring China and exposes the trade-reliant economy to curbs on its shipments of cars to the United States. "Some Japanese companies are still optimistic about a resolution to recent trade friction, but the implications are quite serious," said Hiroshi Miyazaki, senior economist at Mitsubishi UFJ Morgan Stanley Securities.

"On one hand, we may reach a point where Japanese companies shift production from China or other places. On the other hand, Japanese policymakers need to make sure US-Japan trade stays out of the spotlight." Ministry of Finance (MOF) data showed on Wednesday Japan's exports fell 2.4 percent in April from a year earlier, down for a fifth straight month. That compared with a 1.8 percent drop seen by analysts in a Reuters poll, and a similar 2.4 percent decline in March.

Exports to China fell 6.3 percent in April from a year earlier, down for the second consecutive month.

The data also showed Japan's trade surplus with the United States rose 17.7 percent in April from a year earlier to 723.2 billion yen ($6.55 billion), partly led by an 8.3 percent increase in auto exports.

US Trade Representative Robert Lighthizer will visit Japan on May 24 to meet Economy Minister Toshimitsu Motegi to accelerate trade talks ahead of a leaders' summit a few days later, according to two sources with direct knowledge of the plan.

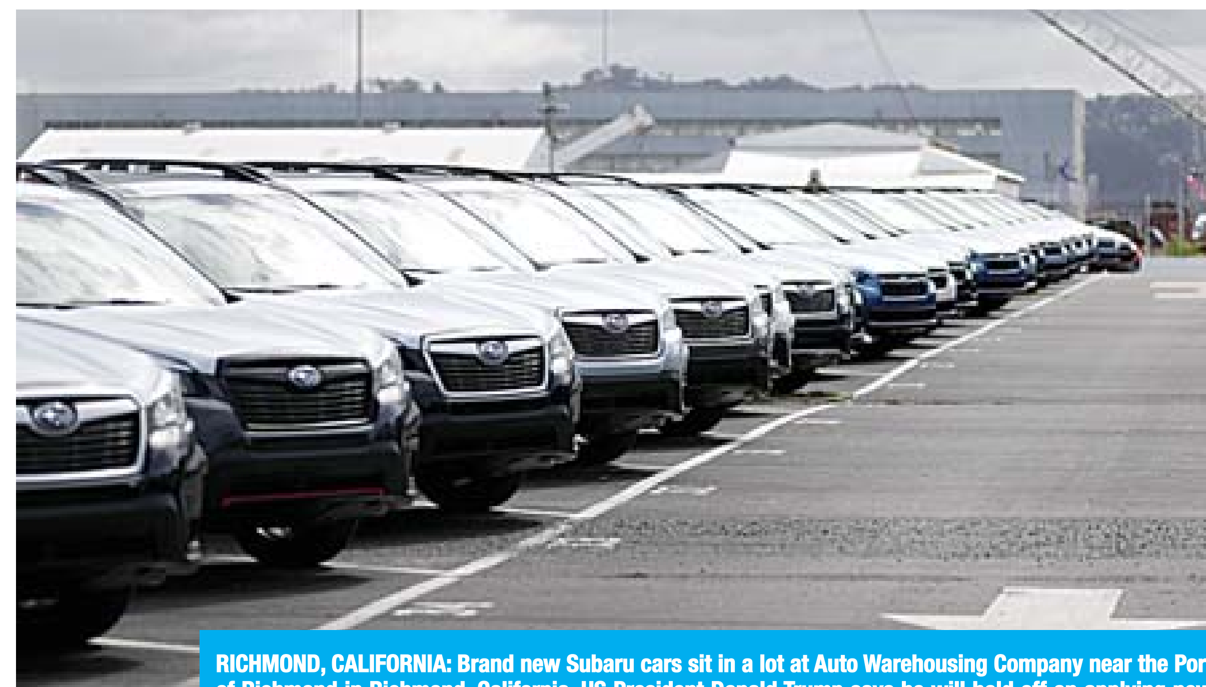
Trump threat

Trump angered foreign automakers by declaring that some imported vehicles and parts posed a national security threat, and Tokyo fears the US government could attempt to set a quota on Japanese car imports. The specter of a drawn-out trade war comes at a delicate time for Japan's economy.

Gross domestic product (GDP) data out Monday showed Japan's growth unexpectedly accelerated in January-March because imports fell more than exports, suggesting domestic consumption was weakening at the same time external demand had turned down. Indeed, the GDP data showed declines in consumer and business spending, a bigger source of concern as companies worried about the future. Last month, imports rose 6.4 percent on-year from a 1.2 percent gain in March, thanks to increases in oil and related purchases. Faltering overseas demand and weak consumer spending could keep policymakers under pressure to forego a twice-delayed tax hike in October, although a rebound in manufacturers' confidence may ease some fears of a recession in the world's third-largest economy.

Japanese manufacturers' morale improved in May for the first time in seven months, a Reuters poll showed yesterday.

However, two-thirds of companies surveyed expect economic growth to remain flat in the second quarter, while 82 percent of firms believe Japan's economy is not fully prepared for a planned tax hike, a Reuters monthly poll showed. Investors are closely watching the government's monthly report due later this week for a possible downgrading of its view that the economy is in a gradual recovery, which would rekindle speculation about a tax hike delay. To be sure, there are some positive signs for Japan's economy. —Reuters



RICHMOND, CALIFORNIA: Brand new Subaru cars sit in a lot at Auto Warehousing Company near the Port of Richmond in Richmond, California. US President Donald Trump says he will hold off on applying new tariffs on cars and auto parts for up to six months as negotiations on trade deals continue with Japan and the European Union. —AFP

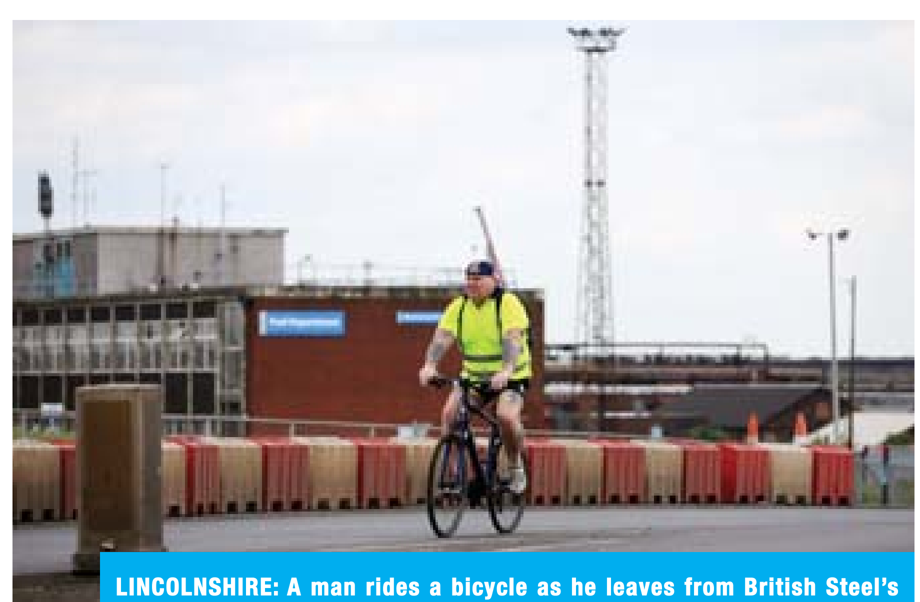
British Steel collapses, costing thousands of jobs

LONDON: British Steel collapsed yesterday after the government said last-ditch talks with its owners failed to secure a financial rescue. The High Court in London ordered British Steel Limited into compulsory liquidation, a statement said. "British Steel Limited was wound-up in the High Court" yesterday, meaning its assets would be sold to help pay debts. "The government has worked tirelessly with British Steel, its owner Greybull Capital, and lenders to explore all potential options to secure a solution for British Steel," said Business Secretary Greg Clark. "We have shown our willingness to act, having already provided the company" recently with funds.

Tim Roache, general secretary of the GMB union, described the collapse of Britain's second-biggest steelmaker as "devastating news for the thousands of workers" in the UK. Some 5,000 people are employed by British Steel and an estimated 20,000 more have links to the firm's supply chain. Greybull has blamed Brexit strains for its financial collapse, while the steel sector faces other uncertainties. "While Greybull cannot be allowed to walk away scot-free and must be held to account for its stewardship of Britain's second largest steelmaker, ministers cannot wash their hands of the Brexit farce and ongoing uncertainty that has placed the company in difficulty," Steve Turner, assistant general secretary of the Unite union, said yesterday.

"To do so would be a betrayal of a loyal workforce that has made great sacrifices to make British Steel a success and send economic shockwaves throughout the steel industry, UK manufacturing and the households of 20,000 workers in the supply chain who rely on the steelmaker for their livelihoods." There are clouds also over the future of Tata Steel's main European operations based in the UK after German industrial conglomerate Thyssenkrupp recently scrapped merger plans with the Indian giant.

A deal was seen as positive for Tata's Port Talbot plant in Wales that employs more than 4,000 staff. Following the merger collapse, Thyssenkrupp said it would slash 6,000 jobs worldwide in a structural shakeup. British Steel is owned by investment firm Greybull Capital, who founded the long steel products maker in 2016 after snapping up assets from Tata Steel. Long steel products include plates, rails for railways, sections used in construction, and wire rod. The latter can be used as steel rope for infrastructure like suspension bridges or filaments for car tyres to give rigidity. —AFP



LINCOLNSHIRE: A man rides a bicycle as he leaves from British Steel's Scunthorpe plant, at the time of a shift-change, in north Lincolnshire, north east England yesterday. —AFP

SAS, Airbus to research electric aircraft infrastructure

STOCKHOLM: Scandinavian airline SAS and aircraft maker Airbus said yesterday they were partnering to research eco-system and infrastructure requirements for hybrid and electric aircrafts. The partnership would involve a joint research project where the two companies work together to investigate challenges "regarding operations and infrastructure linked to large scale introduction of hybrid and electric aircraft in commercial traffic," according to a statement published by SAS. "We are proud of our ambitious sustainability work and are now pleased that Airbus has chosen SAS to partner up with us for this future project. If this becomes a reality, it will revolutionize emissions," Rickard Gustafson, CEO of SAS, said in a statement.

According to a separate statement the collaboration between the two companies would start in June 2019 and continue until the end of 2020 and would "focus on analysing the impact of ground infrastructure and charging on range, resources, time and availability at airports". The project also included a plan to involve a renewable energy supplier and aimed "to address the entire aircraft operations ecosystem in order to better support the aviation industry's transition to sustainable energy". —AFP

Fed may cut rates if inflation keeps disappointing, says Bullard

HONG KONG: Further weakness in inflation could prompt the U.S. Federal Reserve to cut interest rates, even if economic growth maintains its momentum, James Bullard, President of the Federal Reserve Bank of St. Louis, said yesterday.

The risk of the Fed missing its 2 percent inflation target and the trade war were two key macroeconomic challenges to the policy-setting Federal Open Market Committee (FOMC), he said in a presentation prepared for an audience at the Foreign Correspondents' Club (FCC) in Hong Kong. The Fed held interest rates steady earlier in May, when Chairman Jerome Powell said there was "no strong case" for either a cut or hike in interest rates. But Bullard said yesterday "a downward policy rate adjustment even with relatively good real economic performance may help maintain the credibility of the FOMC's inflation target going forward." "A policy rate move of this sort may become a more attractive option if inflation data continue to disappoint," he said.

Bullard and Chicago Fed's Charles Evans, both voting members of the FOMC, have in recent days expressed concerns over the Fed's failure to meet its target. Bullard said on Wednesday that another 'low-side miss' is on the horizon in 2019. Bullard said any policy adjustment going forward would be in response to incoming data, and not a continuation of the rate normalization process which has stopped earlier this year after 225 basis points worth of hikes from near zero levels.

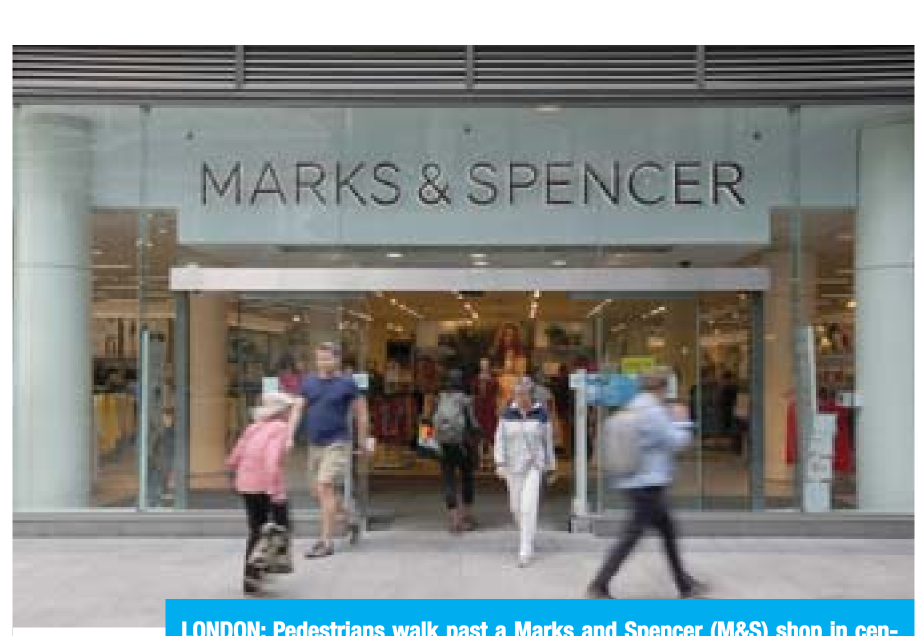
He remained upbeat about growth prospects. Bullard drew comparisons with 2-1/2 decades ago-when rates were increased by 300 basis points between early 1994 and early 1995, and the economy still boomed during the second half of the 1990s-to stress that rate normalization can be accomplished without damaging prospects for an extended period of growth. —Reuters

M&S logs mixed annual profits amid overhaul

LONDON: British clothing-to-food retailer Marks & Spencer posted mixed annual profits and sagging sales yesterday, weighed down by challenging market conditions and an ongoing overhaul. Bottom-line profit after taxation jumped by almost a third to £33.5 million in the group's financial year to March 31, M&S said in a statement. However, pre-tax profit before exceptional items sank almost 10 percent to £523.2 million, while total sales slid three percent to almost £10.4 billion. Marks and Spencer is in the process of shutting more than 100 underperforming stores by 2022, in a restructuring launched a year ago.

"We are deep into the first phase of our transformation program and continue to make good progress," said chief executive Steve Rowe in the earnings release yesterday. "We remain on track with our transformation and are now well on the road to making M&S special again," he added. The group also announced yesterday a £601-million rights issue, or sale of new shares, to fund its new joint venture with online supermarket Ocado to deliver M&S food direct to homes. M&S, which already sells its clothing online, revealed in February that it will buy 50 percent of Ocado's UK retail business.

The company's branded food products will be sold online by September 2020 following the termination of Ocado's current such deal with UK supermarket group Waitrose. In early morning deals, M&S shares sank 3.6 percent to 261.40 pence on London's benchmark FTSE 100 index, which was 0.41 percent higher overall. "The results give proof, if it were needed, that M&S required a significant shot in the arm to give it relevance in the modern day," noted analyst Richard Hunter at online brokerage Interactive Investor. "Unappealing and older stores have long been a drag on both revenues and indeed the company's image." —AFP



LONDON: Pedestrians walk past a Marks and Spencer (M&S) shop in central London. —AFP

US firms rethink China presence because of trade war: Survey

BEIJING: Most US businesses in China are hurting from the tariffs war between the two countries, forcing some companies to relocate abroad or refocus their business, a survey showed yesterday. The recent poll by the American Chamber of Commerce in China and its sister organization in Shanghai paints a gloomy picture of the business environment for American companies. Three-quarters of the 250 respondents said increases in US and Chinese tariffs are having a "negative impact" on their business as orders were drying up owing to rising manufacturing costs and prices.

Nearly half said they have experienced non-tariff retaliatory measures in China since last year, with one in five reporting increased inspections and a similar amount enduring slower customs clearance. And 14 percent complained of other complications from increased bureaucratic oversight and regulatory scrutiny.

The United States and China have so far exchanged tariffs on more than $360 billion in two-way trade. The poll was conducted from May 16 to May 20, days after the United States more than doubled duties on $200 billion in Chinese goods and Beijing retaliated with higher duties on $60 billion in American products. The poll showed that 35 percent of companies would adopt an "in China for China" strategy-sourcing within China and targeting the domestic market-as a result of tariffs. But more than 40 percent said they were "considering or have relocated" production facilities outside China, with Mexico and Southeast Asia the preferred alternatives for manufacturing.

Fewer than six percent said they have moved or are considering moving their factories to the United States, undercutting President Donald Trump's hopes of seeing American companies move production back home. Trump launched the trade war last year to extract profound economic reforms from Beijing, accusing China of seeking to forge global industrial dominance through massive state intervention in markets and the theft of US technology.

'Structural issues'

Despite the pain, more than half of respondents said they favor protracted trade talks to continue in order to address "structural issues allowing them to operate on a more level playing field". Others wanted a quick deal and a return to the "pre-tariff predictability and stability" that existed before the world's two biggest economies locked horns. After talks ended in Washington this month China's top trade negotiator Liu He said another round would take place in Beijing, but neither side has announced a date. Trump has left open the door for reconciliation, saying he expected a "fruitful" meeting next month with his Chinese counterpart Xi Jinping at a Group of 20 summit in Japan.

Chinese foreign ministry spokesman Lu Kang said at a regular press briefing that he had not seen the survey. But, Lu added, "even when the US threatens to impose tariffs on China, the enthusiasm for foreign investment in China has not diminished and continues to increase." Lu said China has "no intention" to take retaliatory action against US companies because of the trade war. "We are still committed to providing a fair, reasonable, transparent, non-discriminatory and predictable business environment for enterprises investing in China," he said. —AFP