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HYDERABAD: In this photograph taken on September 11, 2019, a security guard patrols a holding area for new vehicles near a godown on the outskirts of Hyderabad. — AFP

Wheels come off India's auto sector

Ride-hailing apps contributing to a painful slump in car sales

NEW DELHI: When India's Finance Minister Nirmala Sitharaman claimed that a preference by millennials for ride-hailing apps was contributing to a painful slump in car sales, it sparked an online backlash from furious youngsters. They started a campaign using ironic hashtags such as #BoycottMillennials and #SayItLikeNirmalaTai last week to push back against older generations blaming them for today's problems in society.

While data shows firms such as Uber and Ola are popular with younger consumers more comfortable with shared mobility and digital trends, analysts say the auto industry's problems run deeper than that-and it is facing more serious bumps in the road. With a population of 1.3 billion people, India is the world's fourth-largest car market and one where owning a vehicle is as much a status symbol as a means of transport.

But the country's once-booming auto sector-seen as an important barometer of overall economic health-is in the slow lane, with sales slumping for the 10th-straight month in August.

"The minimum (priced) car that you can get nowadays starts from six to seven lakhs ($8,500 - $9,800)," university student Somya Saluja told AFP.

"So it's much easier to pool-in rather than to buy a new car." Even India's richest banker, Uday Kotak, recently said that his son was more comfortable using ride-sharing apps than owning a car.

Uber and Ola reportedly facilitate some 3.65 million daily rides. Still, Avanteum Advisors managing partner VG Ramakrishnan told AFP the key reason for the drop in car purchases was economic.

"I think the slowdown is primarily because consumer confidence is low and income growth has really been impacted in the last couple of years," he told AFP. India's economic growth slowed for the fifth-straight quarter in April-June to reach its weakest pace in five years. Banks are also more reluctant to lend owing to a liquidity crunch caused by the near-collapse a year ago of IL&FS, one of India's biggest shadow banks-finance houses responsible for significant consumer lending.

There are also extra production costs caused by new rules requiring cars to be compliant with emissions and safety standards, while a 28 percent goods and services tax (GST) introduced in 2017 has dampened demand, analysts said. "Cars are increasingly becoming unaffordable now because of so many taxes," Karvy Stock Broking auto analyst Mahesh Bendre told AFP. "To put things in perspective, if you buy a car in India, at least 40-45 percent of costs go to the government in terms of taxes and registration charges and so on."

Calls for tax cut

A year ago, India displaced Germany to become the world's fourth biggest car market, having clocked up annual sales growth above seven percent for several years. But the promising growth ride is screeching to a halt, with passenger car sales tumbling this year, including a 41 percent drop last month-the worst since records began more than 20 years ago.

Aside from passenger cars, sales of commercial vehicles, motorcycles and scooters have also been hammered. With the industry-a major employer in India-contributing more than seven percent to total GDP and almost half of manufacturing GDP, the potential fallout from an extended slowdown is sending shockwaves through the economy.

Manufacturers are reducing production and cutting jobs, which is also affecting related industries such as auto component manufacturing and at dealerships, totalling about seven percent of India's total workforce, Bendre said. "The entire ecosystem is huge-around 20 percent of the population could be dependent on the auto sector," he added.

In a bid to boost sales Sitharaman has lifted a ban on government departments purchasing new vehicles, but automakers say she needs to do much more-such as cutting GST to 18 percent ahead of the festive season, traditionally a bumper sales period. With India home to 22 of the world's 30 most polluted cities, according to Greenpeace, any sales incentives have to factor in the environmental crisis, Ramakrishnan said. — AFP

US Fed to cut rates again as optimism is tested

WASHINGTON: Facing a dauntingly uncertain economic horizon and ceaselessly pelted with insults and demands for stimulus from the US president, the Federal Reserve is set to cut interest rates in the coming week.

Though Chairman Jerome Powell has at times struggled to send markets a clear message, since announcing the first rate cut in a decade over the summer he has sent signals that lower rates are coming. In speeches and public appearances, Powell promised the Fed will "act as appropriate" to preserve the current expansion. While the world's largest economy is in a "good place," he has warned of "significant risks" to a deteriorating outlook, persistently low inflation and a trade war that looks set to drag on-views echoed by influential New York Fed President John Williams.

Translation: the Fed is cutting

Futures markets as of Friday overwhelmingly forecast the Fed will lower rates on Wednesday at the conclusion of the two-day meeting of the policy committee. And another cut before the end of the year is more likely than not.

Indeed, Kathy Bostjancic, chief US financial economist at Oxford Economics, told AFP her firm expects three more cuts this year, meaning the central bank will cut at every policy meeting left in 2019. "It's good that the economy is not crumbling right now," she said, "and that's a good time to take out some stimulus." Which of course raises the question: why cut rates again?

The sky is not falling. The jobless rate has been at or near historic lows for a year and a half. Consumer spending is resilient. Inflation is firming. Wages are up. Job creation is healthy. GDP growth seems to be holding up. Business and consumer confidence are softening but still high. So why the pit-of-the-stomach feeling among so many?

'Boneheads'

For starters, the only thing sustaining the US economy at the moment is consumer spending, which accounts for two-thirds of GDP. But by the time that starts to weaken, it will be too late-the recession will have begun already. Hiring, while strong, has slowed. Business investment is moribund. Exports are weakening. And manufacturing-always a vital economic weather vane-is in recession.

Meanwhile, the global economy is slowing. To top it off, Trump may not know how to end the trade fight he picked 18 months ago with China, the world's second-largest economy. Higher tariffs and uncertainty have moved from posing a risk to actually hurting the economy, including job losses-about 11,000 in August alone, according to one estimate.

Beijing and Washington in recent days have made olive-branch gestures, lifting market hopes of a resolution, or at the very least a truce in a conflict that deteriorated badly following the Fed's rate cut in July. But there is a risk the good feelings may not endure. After all, truces reached in December and June did not last long.

"We've been let down before," Bostjancic said. Policymakers face the added burden of trying to be heard over the din of Trump's unprecedented public assaults on the central bank, she said. Before addressing solemn commemorative ceremonies at the Pentagon on the morning of September 11, Trump took to Twitter to lambast policymakers as "boneheads."

Since the central bank's last policy meeting at the end of July, he has tweeted out complaints and attacks on Fed once every 22 hours on average, descending ever further into name calling and personal denigration, according to an AFP analysis of Trump's tweets.

Despite hailing the American economy's vigor, Trump has demanded immediate stimulus of the kind reserved for dire economic crises, calling for benchmark rates of "ZERO or less." —AFP

KAPP to launch Shamal AzZour Al-Oula public offering Oct 1

KUWAIT: The Kuwait Authority for Partnership Projects (KAPP) yesterday announced October 1, 2019, as the date for the launch of the public offering of its 50 percent equity stake in Shamal AzZour Al-Oula KSC, the owner and operator of the AzZour North One Power and Water Plant. The company is the first to be established under Kuwait's Public-Private Partnership (PPP) Law framework. The public subscription period will end on November 29, 2019.

The PPP laws constitute an integral part of an overarching governmental effort to include citizens in the ownership of megaprojects that are offered to private-sector institutional investors. In addition to providing attractive investment opportunities to citizens, PPP projects empower the private sector to take the lead in growing the national non-oil economy. Shamal AzZour Al-Oula is Kuwait's first privately-owned gas-fired combined cycle power and water desalination plant. The facility commenced commercial operations in November 2016 and currently supplies about 10 percent of Kuwait's installed power generation capacity and about 20 percent of the country's installed water desalination capacity.

Power and water produced by the company are entirely supplied to the national power and water grid, owned and operated by the Kuwait Ministry of Electricity and Water (MEW) under a 40-year long-term Energy Conversion and Water Purchase Agreement (ECWPA). Shamal AzZour Al-Oula KSC is the first phase of Kuwait's Independent Water and Power Project (IWPP), which is a part of MEW's masterplan to increase the country's capacity to meet electrical and water demand over the coming years.

Once the transaction concludes, and depending on the final level of demand, up to 50 percent of Shamal AzZour Al-Oula will be owned by Kuwaiti citizens.

The remaining 50 percent will continue to be owned by current shareholders (40 percent by a private consortium comprising ENGIE, Sumitomo Corporation, A.H. Al Sagar & Brothers, 5 percent by Kuwait Investment Authority, and 5 percent by the Public Institution for Social Security).