European business slump eased in May, long road to recovery

ECB to ramp up its bond-buying as virus threat persists

LONDON: Eurozone businesses suffered another devastating contraction in activity in May and while there are signs the worst is over, it could be months before there is a return to growth, a survey showed on Wednesday.

Governments across the 19 countries that use the euro have gradually started to lift tough lockdown measures imposed to contain the spread of the novel coronavirus which has infected nearly 6.4 million people and killed over 379,000.

But with citizens—many of whom are facing threats to their incomes as well as their health—encouraged to stay at home, and swathes of businesses still shuttered, IHS Markit's May Final Composite Purchasing Managers' Index (PMI) painted a gloomy picture. Although the headline index jumped to 31.9 from April's 13.6 — by far the lowest reading since the survey began in mid-1998 — it was a long way from the 50 mark separating growth from contraction. The flash estimate was 30.5.

"The final Composite PMIs add to the evidence that economic activity picked up in May, but it remains well below normal," said Jack Allen-Reynolds at Capital Economics. World shares nevertheless hit new three-month highs on Wednesday and the dollar fell for the sixth day running as hopes for more monetary stimulus and easing of lockdowns gave the market confidence, despite the civil unrest in the United States and the continuing impact of the pandemic.

The European Central Bank will ramp up its bond-buying again through its Pandemic Emergency Purchase Program today, a Reuters poll predicted last month.

"Our central case is that the ECB will announce a 500 billion euro increase in the size of its PEPP to 1.25 trillion euros, with the risks skewed toward a larger increase to 1.5 trillion euros," said Luigi Speranza at BNP Paribas. Last month's Reuters poll predicted the bloc's economy would contract 11.3 percent this quarter and unemployment would be around 10 percent each quarter for the rest of this year.

An index in the PMI covering employment showed firms were cutting jobs at a near-record pace, registering 37.8 compared to April's survey low of 33.4.

Even though restaurants, hotels, fitness studios and some entertainment venues have been allowed to reopen under restrictions in Germany, economists say a return to pre-crisis levels of business will be slow and job losses are mounting. Germany's unemployment rate jumped to 6.3 percent last month and the labor market remains under immense pressure due to the coronavirus pandemic, official data showed.

Activity in the German services sector declined at a slower pace after a record contraction the previous month as restrictions to contain the coronavirus in Europe's largest economy were lifted, earlier data showed. It was a similar story in France, where service sector activity improved more than initially thought as the country began emerging from its lockdown, although it remained at depressed levels.

Britain, outside the currency union, remained in a severe economic downturn although the pace of the slump moderated from April's crash as some companies benefited from the easing of lockdowns around the world. A headline PMI for the euro zone's dominant service industry recovered to 30.5 from April's record low of 12.0 but held firmly below the breakeven mark. The flash reading was 28.7.

Demand fell again, and backlogs of work were run down rapidly, yet services firms were far less pessimistic about the outlook for the next 12 months. Their business expectations index jumped to 47.6 from 34.3. —Reuters

PARIS: Union members gather at the plant of French carmaker Renault in Choisy-le-Roi, near Paris, on Wednesday to protest against the company's cost-cutting plan at its core French operations. —AFP

Global smartphone shipments to fall 12%: IDC

WASHINGTON, DC: Global smartphone shipments will fall nearly 12 percent to 1.2 billion units in 2020, market research firm IDC said on Wednesday, citing lower consumer spending due to the economic impact of the coronavirus crisis.

The COVID-19 pandemic has not only disrupted business supply chains, with major smartphone makers such as Apple Inc and Samsung Electronics Co Ltd flagging financial hits, but also squeezed consumer spending worldwide.

"Nationwide lockdowns and rising unemployment have reduced consumer confidence and reprioritized spending towards essential goods, directly impacting the uptake of smartphones in the short term", said Sangeetika Srivastava, senior research analyst with IDC. —Reuters

Virus will reset state role in UK economy: Investor

LONDON: The coronavirus pandemic will reset the balance between private companies and the state in Britain and could in time produce a more productive economy, according to the man leading a 15 billion pound ($19 billion) drive to support smaller firms.

Stephen Welton, head of Business Growth Fund (BGF), the most active investor in fast-growing British companies, is talking to the government, insurance companies, pension schemes and other investors to recapitalize businesses and prevent more permanent scarring.

Central to any recovery, he believes, is the need to identify which companies can still grow in a post-COVID world. Unsustainable debt built up during this period then needs to be restructured and possibly turned into equity, before capital can be invested to drive future growth, according to Welton.

Such an intervention across every sector and region of the British isles also provides the opportunity to direct support at the most productive companies, those with a greener footprint, those in the life sciences sector and those led by women, to address some faultlines in the UK.

"We don't want to end up with a series of businesses that are effectively just trading and living from month to month on a zombie-like basis," he told Reuters, adding that the right combination of public-private partnerships were now needed. "I don't think (the economy) is fundamentally going to turn in a different direction but is the balance going to change? Yes I think it will," he added in a telephone interview.

With COVID-19 upending the economy, the British government has paid the salaries of more than 10 million people, offered tax breaks worth 20 billion pounds and provided more than 30 billion pounds' worth of state guarantees for loans and grants.

Any recapitalization will need to be launched before those schemes end, Welton said. BGF was established in the wake of the 2008 financial crash by major banks and has invested around 2.3 billion pounds as a long-term partner into restaurant chains, engineers, software and digital groups, generally outside London.

With financial backing from Barclays, HSBC, Lloyds, RBS and Standard Chartered, it made operating profit of 133 million pounds in 2019. Its support could in time double and Welton is now working to "crowd in" funds from private investors.

"(This is) unprecedented, which is why we're going to have to come up with solutions that are unprecedented," he said. "If we wait for the government to come up with solutions in every single sector, I just think that is from a practical standpoint unrealistic and from a time standpoint too slow." —AFP