US economy improving, but rising COVID cases a threat

Business activity contraction slows in June

WASHINGTON: Sales of new US single-family homes increased more than expected in May and business activity contracted moderately this month, suggesting the economy was on the cusp of recovering from the recession caused by the COVID-19 crisis.

But a resurgence in confirmed coronavirus cases across the country threatens the nascent signs of improvement evident in Tuesday's economic data. Many states have reported record daily increases in COVID-19 infections, which health experts have blamed on local governments reopening their economies too soon. The economy has stabilized as businesses reopened after closing in mid-March to control the spread of the respiratory illness.

Unemployment remains a major hurdle

"The renewed upsurge in COVID-19 cases across the South and the West poses a clear downside risk over the coming months but, with a second wave of state-wide lockdowns appearing unlikely for now, we are assuming this will act as a modest drag on the economic recovery, rather than resulting in a renewed downturn," said Andrew Hunter, senior US economist at Capital Economics.

New home sales jumped 16.6 percent to a seasonally adjusted annual rate of 676,000 units last month, the Commerce Department said. New home sales are counted at the signing of a contract, making them a leading housing market indicator. Last month's increase left sales just shy of their pre-COVID-19 level.

Sales dropped 5.2 percent in April to a pace of 580,000 units. Economists polled by Reuters had forecast new home sales, which account for about 14.7 percent of housing market sales, rising 2.9 percent to a pace of 640,000 in May.

New home sales are drawn from building permits. Sales surged 12.7 percent from a year ago in May. The report followed on the heels of data last week showing home purchase applications at an 11-year high in mid-June and permits rebounding strongly in May.

The broader economy slipped into recession in February, leaving nearly 20 million people unemployed as of May. In a separate report on Tuesday, data firm IHS Markit said its flash US Composite Output Index, which tracks the manufacturing and services sectors, rose to a reading of 46.8 in June from 37 in May. A reading below 50 indicates contraction in private sector output.

The improvement was led by an ebb in the manufacturing sector downturn, with the flash Purchasing Managers Index climbing to 49.6 from 39.8 in May. The survey's services sector flash PMI rose to 46.7 from 37.5 in May.

Activity is also picking up around the globe. The IHS Markit's euro zone Flash Composite Purchasing Managers' Index recovered to 47.5 from May's 31.9. Stocks on Wall Street extended gains on the data and hopes of more fiscal stimulus. The dollar fell against a basket of currencies. US Treasury prices were lower.

Unemployment hurdle

The market for new homes is being supported by historic low interest rates and a preference among buyers for single-family homes away from city centers as companies allow employees more flexibility to work from home amid the coronavirus crisis. But with record unemployment and companies freezing hiring to deal with weak demand and keep costs under control, a sharp rebound in the housing market is unlikely.

"If the overall economy seems to be slowing, the public may not be quite as confident about putting a down payment on an expensive new home," said Chris Rupkey, chief economist at MUFG in New York. "Many businesses are insolvent and there will be less spending from unemployed Americans as well that could keep this economic recovery in the slow lane for some time."

FRANKFORT, KY: Hundreds of unemployed Kentucky residents wait in long lines outside the Kentucky Career Center for help with their unemployment claims.—AFP

Last month's increase in new home sales did little to offset a plunge in sales of existing homes in April and May, leaving intact economists' expectations for a record tumble in residential investment in the second quarter. Homebuilding also rebounded moderately in May after slumping in April.

Last month, new home sales shot up 45.5 percent in the Northeast and advanced 29 percent in the West. They rose 15.2 percent in the South, which accounts for the bulk of transactions, but fell 6.4 percent in the Midwest.

The median new house price rose 1.7 percent to $317,900 in May from a year ago. New home sales last month were concentrated in the $200,000 to $400,000 price range. New homes priced below $200,000, the most sought after, accounted for about 15 percent of sales.

There were 318,000 new homes on the market in May, down from 325,000 in April. At May's sales pace it would take 5.6 months to clear the supply of houses on the market, down from 6.7 months in April. Nearly two-thirds of the homes sold last month were either under construction or yet to be built. – Reuters

In this file photo the Amazon logo is seen on a podium during a press conference in New York. Amazon on Tuesday pledged to invest $2 billion in projects aimed at combatting climate change, stepping up efforts to reduce the carbon footprint of the tech giant and others. – AFP

Amazon pledges $2bn to fight climate change

WASHINGTON: Amazon on Tuesday pledged to invest $2 billion in projects aimed at combatting climate change, stepping up efforts to reduce the carbon footprint of the tech giant and others.

The Climate Pledge Fund will back efforts by startups and other firms in multiple sectors to "facilitate the transition to a zero carbon economy," Amazon said in a statement. The initiative "will look to invest in the visionary entrepreneurs and innovators who are building products and services to help companies reduce their carbon impact and operate more sustainably," said Amazon founder and chief executive Jeff Bezos.

"Companies from around the world of all sizes and stages will be considered, from pre-product startups to well-established enterprises. Each prospective investment will be judged on its potential to accelerate the path to zero carbon and help protect the planet for future generations."

The move follows an announcement by Bezos last year that Amazon would accelerate its own efforts to cut its carbon footprint while encouraging others to join his "Climate Pledge" aimed at meeting goals of the Paris accord on climate ahead of schedule.

Since then, the pledge has been joined by other companies including US-based telecom giant Verizon, British consumer goods firm Reckitt Benckiser and India-based tech giant Infosys. Amazon has said it is on track to run on 100 percent renewable energy by 2025 and would become carbon neutral by 2040.

It also will deploy more than 100,000 electric delivery vans to replace gasoline-powered vehicles for its logistics operations. The first will hit the road in 2021, with the fleet to be fully operational in 2030. The new fund will invest in companies in multiple industries, including transportation and logistics, energy generation, storage and utilization, manufacturing and materials, circular economy, and food and agriculture.

Amazon will also seek other investors to add to the fund which is aimed at efforts to "decarbonize the economy and protect the planet."

Sense of urgency

The news comes amid growing concerns on climate change and with the US administration on course to withdraw from the global agreement aimed at curbing emissions. Some scientists have warned that climate change is accelerating, making mitigation efforts more urgent. The last five years have been the hottest on record, as has been the last decade, according to the European climate monitoring network.

Amazon has faced criticism, including from some of its own employees, that it has failed to move quickly enough on climate change. The company, which is a major cloud computing service provider, says it has invested in 91 renewable energy projects around the globe.—AFP

Cisco expands portfolio to serve SMEs

KUWAIT: Today, Cisco is accelerating its focus on serving small businesses by announcing new offers tailored to the small business buyer. In November 2019, Cisco introduced the new Cisco 'Designed for Business' portfolio at Partner Summit. Now the portfolio is growing with the addition of Cisco technology that originally powered Fortune 100 organizations and can now bring the same technology innovation to meet the needs of small businesses.

Small business is big business and accounts for 44 percent of all IT spending – as a segment it's faster growing than the enterprises segment[1] Now more than ever, small businesses need to be agile when digitizing their business models. Ultimately, technology is critical to helping them grow their revenue, optimize their customer experiences and differentiate themselves to remain competitive. Small businesses need to connect securely and focus on protecting their users, data and devices at all times.

To help address these needs, and allow small businesses to focus on their core activities, Cisco is announcing brand new updates to the Cisco 'Designed for Business' portfolio bringing together the power of machine learning, AI and cloud-driven solutions, and created to make buying, installation and maintenance simple.

The simplified experience includes:

- New App to manage small business networks: IT systems can be complex and expensive to maintain, especially with the limited IT resources of a small business. The new Cisco Business Wireless Mobile App provides a simple way for an individual or company to configure and manage networks in any location, all from the convenience of their smartphone. Available in the Apple App Store (iOS) or on Google Play (Android).
- New user experience. Simpler to buy: We now have a new button to connect small business customers to a Cisco partner to buy directly on Cisco.com. Plus, faster access to technical and sales specialists is now available, in 24 languages, globally, through live chat or call back in 15 minutes or less.
- New bundles and offers scaled for small businesses: To further reduce cost and complexity while improving operational efficiency, bundled solutions will be available that focus on key technology areas to support rapidly growing businesses.
- Secure connectivity via Meraki: Network downtime and security issues can impact revenue, customer loyalty and data security. Bringing together the high-speed and high-density capabilities of WiFi 6 to the cloud-managed Meraki portfolio of access points, the new Meraki Wi-Fi 6 Access points bring simple network management and help with improved network performance, reliability and security – without the need for more IT staff. Cisco's first WiFI6 access point for Small Businesses brings flexibility to growing businesses looking to digitize quickly. The technology will enable their network to scale to effectively manage more connected device and richer content like video, as well as provide better performance as new applications emerge.
- Meraki Cloud-managed Smart Cameras: Not only can cameras help reduce inventory shrinkage and other risks, they are also powered to deliver valuable business insights on areas ranging from foot traffic to identifying which displays are attracting attention to parking utilization. These new cameras include high-quality video, wireless connectivity, on-appliance storage and built-in advanced analytics, eliminating costs involved in sending traffic to a data center. They offer a 360-degree view through a fisheye camera, and one unit can cover an entire premise efficiently for small businesses.

"Our mission at Stratus Information Systems is to find the right networking solutions for our SMB customers that can free them up to focus on their core businesses rather than the complexity of a pieced together network and security products. Whether it's the cloud-managed Meraki portfolio or the zero-config Cisco Business Products or the new wireless mobile application it makes it simpler for us and our customers to install, manage and expand," said Jason Lacey, Regional Sales Director Stratus Information Systems.

"Small businesses have tremendous opportunity to thrive; to do so, it is important that they remain agile, adaptable and innovative. At Cisco, one of our key focus points is to provide small businesses with the right tools and solutions so they can harness the power of technology to establish secure, reliable and robust businesses" said Hani Raad, General Manager of Small Business at Cisco MEA.

Availability:

All new small business products have been available globally from March 2020.

Russia plans to hike taxes on high earners

MOSCOW: President Vladimir Putin said Tuesday that Russia will from next year increase taxes on high earners, the first hike in decades, as he laid out measures to tackle the economic fallout of the coronavirus.

Addressing Russians in a lengthy televised speech, Putin said the country is facing huge economic challenges after the coronavirus epidemic and associated restrictions on business. A week before Russia votes for constitutional changes that give him the possibility to run for president two more times, Putin praised Russians for coming through "the most dangerous stage of the epidemic".

"In all, we have forced the epidemic to retreat... but the virus is still dangerous," he said. "The fight against the epidemic is ongoing." Russia is currently ranked third in the world for the total number of cases with nearly 600,000 people having tested positive for the coronavirus.

The country has however reported a considerably lower number of deaths associated with the infection than other countries where the epidemic was severe, with the total toll at 8,359. Announcing an extension of the government's financial aid to families and healthcare workers, Putin suddenly suggested that the country's income tax policy be changed in order to finance treatment of children with rare diseases.

He said that from January 1, 2021 the tax rate will rise from 13 percent to 15 percent on income over five million rubles ($73,000), in Russia's first move away from a flat tax rate introduced in 2001. "Since 2001 we have had a flat tax. —AFP

Fed was right on US economic outlook: Poll

BENGALURU: The Federal Reserve struck the right tone in its first pandemic-era economic outlook, suggesting years of extraordinary policy support for an economy facing a slow and long slog back, according to a majority of economists in a Reuters poll.

While the June 15-22 poll of over 100 economists showed a recovery from the steepest economic downturn was underway as commerce reopens, the loss of output in the first half of this year was not expected to be recouped by the end of next year.

The central bank at its policy meeting on June 10 pledged to keep monetary policy loose for years to help an economy that has buckled under the shutdowns, restrictions and other measures to battle the coronavirus pandemic, which has infected around 9 million people worldwide and killed nearly 120,000 in the United States. While unprecedented fiscal and economic stimulus sparked a rally in stock markets after a trough in late-March, three-quarters of economists polled, or 45 of 60, said the Fed's somber economic projections and its ultra-easy policy stance was "about right."

Ten respondents said the Fed's projections were "too pessimistic" and only five said "too optimistic."

Economic data appear to back up the Fed's economic projections, with jobless claims still more than double their peak during the Great Recession. Fed Chair Jerome Powell has acknowledged it could take years for all the people left unemployed during the pandemic to reacquire jobs. "I think the Fed is trying to convey a realistic assessment," said Steven Englander, global head of G10 FX Research and North America macro strategy at Standard Chartered.

"We have 20.1 million more unemployed people and in the next couple of months a lot of those people are likely to come back to work. So, if that doesn't happen, it's a disaster. Because, it means that even with all the stimulus, nothing's working." The May employment report showing a gain of 2.5 million jobs was unexpectedly strong, wrongfooting every forecaster who expected many millions more people out of work.

The Federal Reserve building is seen in Washington, DC. —AFP

Asked what best describes that report, over 60 percent of 58 economists who responded said it "overstates the strength of the job market recovery," while the other 40 percent said it was "about right." None said it understated job market strength.

"The May numbers are a reopening bounce with an unemployment rate that understates the true level of labor market dislocation due to misclassification errors," said Scott Anderson, chief economist at Bank of the West in San Francisco. The unemployment rate was forecast to fall gradually over the next two years, but still remain well above pre-COVID levels, averaging 9.8 percent this year and 8.0 percent next year, meaning the Fed would not meet its dual mandate - 2 percent inflation and full employment - until at least 2022. The central bank was expected to keep rates near zero over the forecast horizon and expand its balance sheet, at a little over $7 trillion currently, to $9 trillion by end-2020 and to $10 trillion by end-2021.—Reuters