

Business Briefs

United States

Industries 'Bottom Line' to the Bottom

American manufacturing industries are gutting themselves in an attempt to "return to profitability," according to an article in the Oct. 16 *Wall Street Journal*. The feature, "A Cloud Over the Recovery: Businesses' New Frugal Ways," details how corporations have axed their physical plant and equipment expenditures over the recent years to meet the bottom line. Capital investment, in 2001, was 5% below the level of 2000, nationwide, and "It's on track for a similar-size decrease this year."

The *Journal* story claims that the streamlining, redesigning, and high-tech upgrading of manufacturing plants will be a "boon to productivity"; i.e., "doing more with less," as GM's CEO Rick Wagoner bragged, while announcing a 10% (\$1 billion) cut in GM's capital spending for 2003.

But it is the depression reality which is dictating the slashing of expenditures on plant and equipment. For example, as of September, 41.7% of U.S. manufacturing companies were operating at less than 75% capacity. Aerospace and oil- and gas-drilling production were down more than 30% from early 2001, and production in communications equipment, metalworking machinery, and general industrial machinery was down 20-29%, according to a survey by the Manufacturers Alliance, a research group in Virginia. Non-residential building construction was down 3.1% in August, but for the year-over-year it is down 40%, as companies re-trench in the face of blown-out markets and collapsed demand.

Automakers

GM, Ford Problems Roil Bond Markets

Debt problems of General Motors and Ford "sent shock waves" through global bond markets, said the German daily *Frankfurter Allgemeine Zeitung* on Oct. 8. The two

largest issuers of corporate bonds in the world, GM and Ford saw their bond prices sinking toward junk-bond levels. After a downgrading by Standard & Poor's on Oct. 2, General Motors bond prices fell sharply, corresponding to a dramatic rise of the bond yield from 8.14% to 8.59% within 24 hours. Yields on Ford Motor bonds jumped up even further, to 9.44%, a level normally restricted to the bonds of "junk"-rated corporations.

Fears are spreading on international bond markets, over whether the world's two largest automobile producers will be able to meet their debt obligations, and whether an overall liquidity crisis could emerge for those corporations which depend on issuing debt in the bond markets. General Motors alone has outstanding corporate bonds amounting to \$187 billion, while Ford Motor runs another \$162 billion—each comparable in dimension to the foreign debt of Argentina.

The recent debt worries have been triggered by losses of on General Motors and Ford corporate pension funds, which are now underfunded by billions; and also by expectations of a severe downturn in global car output next year, in spite of all the discounts and 0% financing schemes being offered by leading U.S. producers.

Thailand

Study 'Asian Bond' Alternative to IMF

A working group, led by former Siam Commercial Bank President Olarn Chaiprawat and Hong Kong's Monetary Authority, is conducting a feasibility study into creating an Asian Bond market, which was proposed by Thailand's Prime Minister Thaksin Shinawatra at an international economic forum in Malaysia. A Thai Finance Ministry source told *Business Day* on Oct. 21 that the working group has agreed in principle that Asian central banks set aside at least 1% of their international reserves for the Asian Bond.

The idea of the Asian Bond is to give Asian countries access to financial resources other than those of the International Monetary Fund and the World Bank. Included in

the Thai working group were former Bank of Thailand Governor Chaipayat Wi-boonsawasdi and high-ranking officials from the Fiscal Policy Office. Thailand, which currently has \$37.1 billion in total internal reserves, would contribute \$371 million to the fund. Malaysia is also a supporter of the idea.

The Thai Electricity Generating Authority (EGAT) is also pushing for an integrated ASEAN power grid. Its Governor, Sithiporn Ratanopas, told reporters that EGAT was preparing to persuade the government to establish an electricity transmission system connecting all countries in the Association of Southeast Asian Nations (ASEAN). According to Sithiporn, the eight countries that will participate are Thailand, Myanmar, Laos, Cambodia, Vietnam, Malaysia, Indonesia and Singapore. "In 2000, these eight nations had a combined demand of 44,000 megawatts in energy consumption, about 710 billion baht (\$16.9 billion). These figures are projected to increase to 91,000 megawatts by 2010, valued at Bt1.4 trillion (\$33.3 billion)," Sithiporn said.

Unemployment

Official U.S. Figures Belied by All Reports

The U.S. Bureau of Labor Statistics (BLS) official reports that unemployment declined slightly in each of the last two months, look more and more insupportable, short of statistical manipulations. Actual new unemployment claims, after averaging 411,000 per week in August—historically a very high level—rose to an average 422,000 per week in September, and have not fallen below 400,000 per week through mid-October.

Moreover, the early October report of unemployment claims continuing beyond 13 weeks—as opposed to new claims—reached nearly 3.8 million, a record for the years in which this statistic has been kept.

Major U.S. corporations, as of the third week in October, were keeping up steady announcements of large-scale layoffs. During that week, the most prominent announcements came from the airlines—Delta Air-

UNITED AIRLINES may file for bankruptcy in mid-November, when it faces a large debt payment, although its five unions agreed on Oct. 8 to seek \$5.8 billion in labor cost savings by 2007. United said on Oct. 19 that it would file a new business plan with the Federal government as part of its bid to secure \$1.8 billion in loan guarantees. Meanwhile, United's parent company, UAL, reported a third quarter loss of \$889 million, or \$15.57 per share.

NUCLEAR capacity installed in China will rise to 8.7 million kilowatts—3% of total power output—in three years, said Li Dingfan, general manager of the China Nuclear Industry Group Co., in Shenzhen Oct. 22. China now has three nuclear power stations, at Qinshan in Zhejiang Province, Daya Bay in Guangdong Province—both now in operation—and Tianwan in Jiangsu Province. During the next three years, five more nuclear power generating units will come into use, Li said.

THE U.S. TRADE deficit on goods and services rose to a record \$38.46 billion in August, up from \$35.07 billion in July, an increase of 9.7%, the Department of Commerce reported. For the first eight months of 2002, the U.S. trade deficit on goods and services reached \$279.46 billion, heading towards an annual deficit of nearly \$419.19 billion. The U.S. has never had an annual goods and services trade deficit of greater than \$400 billion. On the account of merchandise (physical goods) alone, the August trade deficit climbed to \$42.27 billion, an all-time record.

SOUTH KOREAN total investment in China has already surpassed the total level of 2002, Seoul reported Oct. 18. Korean investment was \$970.54 million by August, compared to \$960.4 million in all of 2001. The Korean Trade Agency announced that Korean investment is expected to reach \$1.5 billion this year. It had reached \$1.95 billion (approved) in 1996, but this was slashed by the "Asia Crisis" to just \$480.67 in 1999.

lines, 8,000, and United Airlines, 1,250 layoffs announced; and the big telecom companies—Sun Microsystems 4,400, Honeywell 3,000-5,000, IBM 2,000, Texas Instruments 500 new layoffs announced. Houston-based energy trader Dynegy added 780.

As opposed to the unemployment claims and surveys of businesses, the BLS' official monthly unemployment rate announcement reflects a survey of 65,000 households—less than 0.5% of the total—and is being reduced to 50,000 in order to save BLS budget money.

Mortgage Debt

Columnist Suggests Derivatives Problem

A U.S. mortgage debt derivatives disaster may be threatening, states John Crudele in an Oct. 22 *New York Post* column on the bubble in the U.S. housing market. Crudele notes that "something happened last week that should start to make everyone concerned: mortgage rates suddenly spiked higher for the flimsiest of reasons. The average cost of a 30-year mortgage last week rose to 6.23% from 6.02%. A 15-year home loan went up to an average of 5.63% from 5.45%. Why's that happening?"

In particular in a situation in which the economy is not improving and the official inflation rate is not going up, the usual textbook explanations for such a rate increase don't work. In part, it could be "the result of that mini-rally enjoyed by the stock market," causing some investors to sell bonds and buy stocks, "but there is a more ominous possibility—one that shows the fragility of the nation's financial system. Interest rates seem to have spiked because of a rumor that a medium-sized hedge fund called Beacon Hill Asset Management was in some kind of trouble. The fear was that the fund, which specialized in bonds, would have to dump loads of bonds onto the market. Beacon, in fact, announced late last week that it was closing some of its funds and reporting huge losses."

Beacon Hill Asset Management sent a letter to its investors on Oct. 18, informing

them about the closing of its Bristol Fund hedge fund, which had lost 54% of its assets due to failed gambling with mortgage-linked derivatives. Crudele notes that it's quite "scary" to see that such a strong effect on mortgage rates and the U.S. housing market could be triggered by problems at a medium-sized hedge fund. Fannie Mae has admitted problems with its mortgage-linked derivatives.

New Economy

Singapore Chip Sector Still Worse

The semiconductor industry in Singapore is getting worse with each quarter. The shares of chip maker Chartered Semiconductor Manufacturing slumped 6% to S\$0.91 Oct. 21—hit by a poor earnings outlook, made worse by weaker-than-expected third quarter figures from industry leader Taiwan Semiconductor Manufacturing Company (TSMC).

TSMC announced a third quarter profit of \$80 million, which had been expected to be twice as much. TSMC chairman Morris Chang said the company expects wafer shipments and factory use to fall further in the fourth quarter, with capacity utilization to be in the 50% range. This impending slump at TSMC has "heightened the earnings risk," on which Chartered declined to comment.

Netresearch-Asia.com analyst Russell Tan told *Singapore Business Daily* on Oct. 22 that major semiconductor firms have been wildly optimistic with their projections. "Most of the industry's top management have been incredibly wrong in the past two years. Most of these technology people are treating this as a typical cyclical downturn, when it is not. It's basically massive overcapitalization of the economy. We're now in the post-bubble rationalization process.

"It's industry fundamentals turned on its head," Tan said, noting that Chartered has reported six consecutive quarters of losses. "As an investor, you should take a few steps back and look at the whole world in terms of how money was created during the bubble, and how it has just been vaporized," he said.