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Tuesday Newspaper Review - Irish Business News and International Stories - - April 21, 2009

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By Finfacts Team
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Irish Independent
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A Good day out in sunshine

The Irish Independent reports that three out of four people intend to keep up the savings habit despite their incomes being hit hard by tax hikes, pay cuts and job losses, a new survey shows.

The survey results emerged yesterday after Anglo Irish bank slashed the interest rates it pays its savers.

The nationalised bank said its regular saver rate has dropped from 7.3pc to 6.5pc, while its demand deposit rate is down from 4.75pc to 4.25pc.

But financial experts said that even after the cuts Anglo Irish Bank was still paying the highest rates on deposits in the market.

Other banks that have reduced their rates in the past few days include AIB, Investec and RaboDirect.

Deposit takers are responding to the decision of the European Central Bank to cut its interest rates for the sixth time earlier this month.

Savers were also hit earlier this month when Finance Minister Brian Lenihan increased the retention tax on deposits to 25pc.

But despite falling rates for savers and higher deposit interest retention tax (DIRT), consumers plan to step up their saving.

A survey carried out for Halifax Bank shows that 73pc of people plan to save over the next two to three years.

And more than half of those surveyed said they intend to save as much as €200 a month.

When asked what piece of advice they wished they had been given 10 years ago, almost a third of respondents said they wish they had been advised to save.

Almost two-thirds of people claim to save on a regular basis, with just 14pc of respondents opting for once off, lump-sum saving.

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Two-thirds claim to be saving on a monthly basis and, of those, they are savings on average 14pc of their income.

Of those saving on a monthly basis, 63pc of survey respondents are opting for demand accounts with just less than one in three choosing longer, fixed term savings options.

There are a number of factors that influence what institution consumers choose when opening a savings account.

Just a third of consumers said they made a decision on what type of savings account on the basis of the interest rate. But a quarter said they chose a deposit taker on the basis of the security of the institution.

The fact that a majority of people opt for demand deposit accounts, where you get instant access to your money, means they are likely to be losing money.

This is because many demand deposit accounts have interest rates below 1pc at the moment. But rates of 4.9pc are available to those who lock money away for a fixed period.

The Irish Independent also reports that five junior ministers will be sacked tomorrow and walk away with a *"golden parachute"* payment worth up to €53,000 each.

The axed ministers will get severance payments for two years to *"compensate"* them for loss of earnings as their salary drops back to the €100,000 or so of a backbencher.

The lucrative payoff was revealed as the government backed off on several Budget promises designed to make sure that politicians *"share the pain"*.

It emerged that TDs already receiving long-service payments will retain them, despite Finance Minister Brian Lenihan telling the Dail on Budget Day that deputies would no longer receive the payments.

And just three of Mr Cowen's Fianna Fail colleagues are willing to voluntarily hand over pensions they receive as former ministers, while still serving as TDs or senators. That is despite Mr Lenihan's announcement in the Budget that ministerial pensions would no longer be paid to sitting Oireachtas members.

The cabinet will meet tomorrow to plot a course following the Easter recess.

Mr Cowen will also announce which 15 of the 20 resigning junior ministers will be re-hired.

The Taoiseach yesterday insisted there had been *"no intention"* to give the *"wrong impression"* during Mr Lenihan's Budget speech about the withdrawal of long service increments.

The Irish Times reports that already battling an unwelcome takeover approach from its former management, Eircom came under further pressure yesterday when ratings agency Moody's placed €3.65 billion of its debt under review for a possible downgrade.


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Moody's said the review reflected the unsolicited approach for Eircom's immediate parent Babcock Brown Capital (BCM) from the TaemasBridge consortium, a group involving former Eircom chief executive Rex Comb and former BCM director Rob Topfer.

Mr Topfer orchestrated the takeover of Eircom by the now-bankrupt investment bank Babcock Brown, which set up BCM to manage the business and listed it on the

Sydney stock market.

BCM, which has lost more than 55 per cent of its value in the past year, currently has a market capitalisation of A$167.9 (€90.6 million). The TaemasBridge approach values the fund at €95 million. BCM owns 57 per cent of Eircom, Babcock Brown affiliates own 8 per cent and the Eircom employee share ownership trust owns 35 per cent.

In addition to its concern about the TaemasBridge approach, Moody's questioned BCM's own strategic direction, Eircom's weakening trading performance and looming costs arising from a restructuring package and its pension deficit.

"The TaemasBridge offer incorporates elements which could result in a debt restructuring of the restricted group," the agency said.*"In this regard, Moody's notes that any restructuring involving a discounted offer on debt components of the capital structure could be considered a distressed exchange and, by implication, a default under Moody's methodologies."*

On BCM's strategic direction, Moody's said the fund was believed to be considering alternatives for maximising the value of its investments.

It was also concerned about Eircom's ability to meet future commitments set out in its current lending agreements.

In addition, Moody's cited*"the impact from pension deficits and cost restructuring measures on future cash outflows putting further pressure on free cash flow generation and credit metrics".*

Eircom is seeking 1,250 redundancies from its 7,500 staff. Its pension deficit exceeds €430 million.

The Irish Times also reports that the admission by the Government and Allied Irish Bank (AIB) that the State's €3.5 billion investment into the bank will not be enough to absorb possible extreme losses is hardly a surprise. The bank has continuously raised its bad debt forecasts since last summer, and claimed not to have foreseen such a collapse in the economy and property market.

The Government has over recent weeks been carrying out due diligence at AIB ahead of concluding its €3.5 billion investment by the middle of next month. *"This due diligence has shown that in certain extreme stress-test scenarios AIB's core Tier One capital [a measure of its reserves to protect against losses] could need to be further strengthened,"* the Government said yesterday. The Department of Finance concluded that a total of €5 billion would be "appropriate" to provide sufficient strength to AIB's capital.

Minister for Finance Brian Lenihan said that he had *"no reason to anticipate any further problems will emerge"* over the remainder of the due diligence.

He said the decision by AIB to seek a further €1.5 billion was taken after lengthy discussions with him over the weekend.

AIB has €7 billion more in developers' loans than Bank of Ireland. The Government clearly feels AIB's own extreme stress-test, the results of which were outlined last month, was not severe enough.

The bank said last month that it would write off bad debts of up to €8.5 billion in a *"severe"* stress scenario over the three years to 2010, and that with the Government's €3.5 billion capital it was *"adequately capitalised"* to cope. However, the bank hasn't exactly inspired confidence in its bad debt forecasting. Last month the bank said the bad debt charge for 2008 was €1.8 billion, almost double the forecast provided five months earlier.

AIB chief executive Eugene Sheehy said last October that AIB would *"rather die than raise equity".* The bank said it would raise the required €1.5 billion itself and that this could involve asset sales.

AIB said this *"commitment"* was *"a reappraisal of our previous view in relation to asset disposal"*. In other words, this is a U-turn.

This would suggest the bank is considering the sale of its Polish subsidiary, Bank Zachodni WBK, a previously undesirable move. No asset is now sacrosanct in the bank's bid to raise extra capital.

The bank could sell its 24 per cent stake in US bank MT, which would add about €500 million to €660 million to its capital.

Selling the Polish bank is unlikely to generate much cash, given the collapse in its market value, but a sale would remove the risk-weighted assets or loans against which AIB must set aside higher levels of capital to cover.

Analysts said the bank could also boost capital by buying back debt from investors at a discount.

Investors responded positively at first yesterday as AIB's shares climbed 16 per cent, although they fell back later and closed just 2.3 per cent higher.

Analysts believe the capital raising by AIB is a move to stop the slide towards nationalisation.

However, investors clearly fear their shareholdings will be diluted and that the Government will eventually acquire ordinary shares rather than preference shares, the route chosen so far where the State's capital is used as a buffer only in the event of a winding up.

This may be inevitable as AIB agreed yesterday to sell bad assets, including €21 billion in development loans, to the State's bad bank, the National Asset Management Agency.

Depending on the discount sought by Government buying the loans, this may lead to higher, up-front losses for AIB, a need for yet more capital and the State taking a majority stake.

The Irish Examiner reports that the minimum salary needed to secure a mortgage from a bank has plunged by as much as 50% over the last two years, according to a new report.

In north Dublin the salary needed by a single buyer for a three-bed semi based on a 90% mortgage has dropped from €83,000 in 2007 to €41,000 today.

Figures compiled by wealth advisor Financial Engineering show repayments, when factoring in mortgage interest relief, are €now €947 a month, whereas the cost of renting the same property is €1,300. In 2007 monthly repayments on this house would have been just under €2,000.

In Blackrock, Co Dublin, the salary required for the same property has fallen from €168,000 in 2007 to €85,000 while in Montenotte, Cork the salary needed has halved from €80,000 to €40,000.

Over the last few months the cost of a mortgage for first-time buyers has fallen an average of 35%, with many lenders offering one-year fixed-rate mortgages at 2.35% up to 92% loan-to-value.

Also interest rates have dropped sharply since September last year, with the European Central Bank dropping rates by 3% to 1.25%. A further rate drop is expected next month.

Associate director at Financial Engineering James Maguire said: *"We are delighted to finally be able to unveil some good news for people in the midst of the shroud of doom and gloom that has recently covered our property market.*

"The income requirements for mortgage applicants have reduced significantly, which means that now you don't have to be earning a fortune to buy your dream home."

Record market conditions are creating the most favourable buying conditions in a generation, according to the director of the Irish Mortgage Corporation, Frank Conway.

He said, however, that although affordability has improved the latest findings fail to take into account the significant reductions to personal incomes in the private sector as well as the introduction of, and increase to, various government levies and tax bands.

He said this means first-time buyers are the big winners given that they can avail of up to €416 in mortgage interest relief in the first two years.

According to the index property prices in north Dublin are down by about €130,000 over the last two years and by about €277,000 in Blackrock, Co Dublin. Property prices in Cork city are down about €140,000 since 2007 and by about €110,000 in Oranmore, Galway.

Prices at the Parkview development at Stepaside, South Dublin, have dropped by up to €180,000 on apartments and by more than €200,000 on penthouses, according to Mr Maguire.

The Financial Times reports that Germany's export figures may be dire but the mood at the Hanover fair – the world's biggest showcase of capital goods – is far from cataclysmic.

Managers of Germany's mainly small and medium industrial companies have spotted tender signs that the economy could have hit the road to recovery.

*"If you say the crisis ends when the downturn bottoms out, than the crisis is over now,"*according to Karl Haeusgen, family owner of Hawe Hydraulik, a German engineering company employing about 2,000 people.

Germany in 2008 lost its crown of being the largest producer of engineering goods to China, according to figures released on Monday. The Asian country produced €271bn ($350bn, £241bn) in engineering goods and thus €38bn more than Germany, where more than 950,000 are employed in the sector.

Yet Mr Haeusgen said this month he had seen a significant upturn in demand from China as well as positive signs from the US. Order income fell 20 per cent this month, half the rate than in the months before.

Frank Stührenberg, head of sales at Phoenix Contact, a producer of electronic components, said: *"If this trend continues, we will make it (through the recession) without redundancies."*

About 6,150 companies are present in Hanover, a similar number to last year, and the fair's 225,000 sq m are fully booked, as companies jockey for the best positions in the trade fair halls.

Achim Henke, analyst at WestLB, is more sceptical about the positive mood at the fair.*"There is a certain euphoria beforehand, but in the end there could be lots of disenchantment as the number of actual contracts signed is likely to be low."*

Mr Stührenberg said many of his rivals did not show up this year to save costs.

The same could happen to the number of visitors, which dropped by 30,000 to 170,000 last year. *"Many overseas customers ... will not attend as they are cutting on travel expenses,"* Mr Henke predicted.

Turck, a family-owned automation company employing 2,800, increased the size of its booth only when a more central position in the hall became free.

*"Without our rival cancelling the appearance, we would not have been in our right mind if we had enlarged our booth in the middle of this crisis,"*said Christian Wolf, managing director of Turck.

The FT also reports that the Philippines' government on Monday said it was banning its seafarers from sailing through the pirate-infested waters off Somalia, threatening a serious disruption of world shipping.

President Gloria Arroyo's spokesman announced a *"deployment ban of Filipino sailors on ships passing through the Gulf of Aden",* where pirates have attacked scores of ships in recent months. Seafarers' safety was the government's main concern, he added.

The Philippines is the world's largest supplier of maritime labour, providing at least 10 per cent of the world's 1.5m ocean-going seafarers. The Somali piracy epidemic has hit the country particularly hard. The Philippines' government said 105 of about 320 crew held hostage off Somalia were Filipinos.

However, it remains unclear how wide-ranging the ban is and how the Philippines plans to enforce it.

The Gulf of Aden leads to the Red Sea and Suez Canal, a vital route for trade between Asia and the Middle East, and Europe and North America.

Guy Morel, secretary general of Intermanager, the trade organisation for the managers who employ many ships' crews, said the Philippines was a very important country for the shipping industry.

"If the Philippines were to suspend the sending of, or limit the travel of, seafarers to the pirate area, that would definitely disrupt world shipping," he said.

The Philippines' government spokesman's announcement suggested a presidential decree had banned all Filipino seafarers from Somali waters. However, the country's Department of Labour and Employment last week issued more limited directives to manning agencies. They said ships with Filipino crew should stay at least 200 nautical miles off Somalia's east coast. In the Gulf of Aden, they should stay within the designated transit corridor in the middle of the area, which is watched carefully by international naval forces.

The foreign affairs department said the Philippines navy would send a liaison officer to the US navy headquarters in Bahrain which is controlling many anti-piracy operations off Somalia.

The announcements illustrate the pressure on the Philippines' government to take action over Somali piracy. Seafarers may not co-operate with any ban, however. Mr Morel said crews received double-pay and other improved benefits whenever they were in the piracy area.


The New York Times

OBAMA TAKES OATH, AND NATION IN CRISIS EMBRACES THE MOMENT

MILESTONE FOR AMERICA

Nation's Many Faces in Extended First Family

Rejecting Bush Era, Reclaiming Older Values

The New York Times reports that Wall Street's nagging fears about the financial system resurfaced on Monday, pushing [stocks](#)sharply lower. Even as the banking giant [Bank of America](#)posted big profits, investors fretted about losses and other write-downs that could be lurking.

And as the focus of earnings season shifts from banks to non-financial institutions, investors were bracing for lower profits and falling revenues that would reflect how the toll of the recession and last fall's financial crisis had spread to industrial companies, retailers and others.

Stock markets dropped in the opening minutes of trading and ground lower throughout the day, blunting the spirit of cautious optimism that lifted the major indexes off their worst levels in a dozen years.

At the close, the Dow Jones industrial average was down 289.60 points or 3.5 percent at 7,841.73 in a sell-off that cut across all sectors. The broader Standard & Poor's 500-stock index was down 4.2 percent or 37.21 points at 832.39, led by losses in financial stocks. The technology heavy Nasdaq dropped 3.8 percent, or 64.86 points, at 1,608.21.

Investors even offered a negative response to a more upbeat earnings report from Bank of America saying that its revenue had doubled from a year earlier and its first-quarter profit had risen to $4.2 billion. Shares of Bank of America fell nearly 20 percent, and Citigroup, JPMorgan Chase and other big banks were all down sharply, reflecting skepticism about the one-time gains and accounting maneuvers financial companies have used to declare big quarterly profits.

As the recession drags on and unemployment rises, analysts fear that mounting losses in credit cards and commercial and residential real estate will pose new problems for financial companies. As the government prepares to release the results of its "stress tests" of big banks, investors are worried that some institutions will need to raise additional capital, potentially diluting shareholders.

*"There's a valid argument out there that the first quarter of the year is going to be the best quarter of the year,"*said William Fitzpatrick, equity analyst at Optique Capital Management.

Shares of Sun Microsystems bounded up 35 percent on news that the high-technology firm was being acquired by the technology information company Oracle in a $7.4 billion deal.

The losses on Monday — the worst since March — trimmed some of Wall Street's gains after a rally that has lifted the major indexes 25 percent over the last six weeks. After thudding to their lowest points in 12 years last month, the markets rallied on talk of profits at major banks and sparks of economic hope.

Many investors have been bracing for the stock markets to slip back, and they said that concerns about corporate earnings provided an opportunity for people to cash recent gains and crawl back into more defensive positions as they look for cues about the direction of the economy.

"I think these type of markets scare people," said Doreen Mogavero, president of the

floor-brokerage firm Mogavero, Lee & Company.*"When you get a day like this with a lot of negative talk, it gives them reason to pause and take a look and really see what's going on in the economy."*

A report on forward-looking economic indicators fell slightly more than expected, clouding some hopes that had built up around some better-than-expected economic data. The private Conference Board reported that its index of leading economic indicators fell 0.3 percent in March, reflecting weakness in building permits, manufacturing orders for capital goods and higher unemployment claims.

Concerns about reduced demand chipped away at commodity prices. Crude oil fell $4.09 to $46.24 a barrel, and prices of copper, cocoa and wheat drifted lower.

With many bank earnings out of the way, investors are shifting their focus to companies like I.B.M, Coca-Cola, Texas Instruments, the heavy-equipment maker Caterpillar and the search engine Yahoo, which are all scheduled to report earnings this week.

Although research firms like Thomson Reuters expect a 37 percent decline in earnings growth compared with last year, so far this earnings season, companies have been leaping over the bar of lowered expectations. Of the 52 companies on the S.&P. 500 that have reported earnings so far, 62 percent have beat estimates while 33 percent have been lower than predictions.

"Nobody's expecting big earnings," said Don Bright, partner at the proprietary trading firm Bright Trading. *"People are more or less settling in, going back to a buyer's strike. I just think people are going to back off. We've had a pretty good run."*

European shares finished the day substantially lower with the FTSE 100 in London down 2.4 percent and the DAX in Frankfurt off 4 percent.

The NYT also reports that faced with plunging orders, merchants across this recession-wracked country are starting to do something that many of them have never done: cut retail prices.

Prices dipped everywhere, from restaurants and fashion retailers to pharmacies and supermarkets in March. Hoping to increase sales, Fernando Maestre reduced prices by a third on the video intercoms his company makes for homes and apartment buildings. But that has not helped, so, along with many other Spanish employers, he is continuing to fire workers.

The nation's jobless rate, already a painful 15.5 percent, could soon reach 20 percent, a troubling number for a major industrialized country.

With the combination of rising unemployment and falling prices, economists fear Spain may be in the early grip of deflation, a hallmark of both the Great Depression and Japan's lost decade of the 1990s, and a major concern since the financial crisis went global last year.

Deflation can result in a downward spiral that can be difficult to reverse. As unemployment rises sharply and consumers cut spending, companies cut prices. But if sales do not pick up, then revenue can decline further, forcing more cuts in workers or wages. Mr. Maestre is already contemplating additional job and wage cuts for his 250 employees.

Nowhere is this cycle more evident than in Spain. Last month, it became the first of the 16 nations that use the euro to record a negative inflation rate. The drop, though just 0.1 percent, had not happened since the government began tracking inflation in 1961, and Spanish officials have said prices could keep dropping through the summer.

Some of the decline came as volatile food prices sank; the cost of fish fell 6.2 percent, and sugar was down 5.7 percent. But even prices in normally stable sectors like drugs and medical treatments fell 0.7 percent in March, and there were slight declines in footwear, clothing and prices for household electronics.

"Alarm bells are going off," said Lorenzo Amor, president of the Association of Autonomous Workers, which represents small businesses and self-employed people. *"Economies can recover from deceleration, but it's harder to recover from a deflationary situation. This could be a catastrophe for the Spanish economy."*

Deflation is not just a Spanish concern. Luxembourg, Portugal and Ireland have reported price drops, too. While the declines have been slight — and prices rose modestly after factoring out food and energy prices, which can fluctuate widely — other figures released this month suggest the risk of deflation is growing.

In Germany, wholesale prices dropped 8 percent in March from a year ago, the steepest fall since 1987. In Japan, wholesale prices fell 2.2 percent on an annual basis. In the United States, the Consumer Price Index fell 0.1 percent in March, year over year, the first decline of its kind since 1955, though prices rose 0.2 percent excluding food and energy.

*"It doesn't mean it will spread here to the U.S., but we need to look closely at Spain and other places to understand the dynamic,"*says Simon Johnson, a professor at the Sloan School of Management at the Massachusetts Institute of Technology and a former chief economist for the International Monetary Fund. *"It's like the front line of a new virus outbreak."*

The trends have unnerved even well-established businesses. *"There is such a huge lack of confidence in the politicians, in the European Union and in the banks,"* said Arturo Virosque, 79, president of Valencia's chamber of commerce and the owner of a local logistics company. Ticking off crises going back to the Spanish Civil War in his youth, he said, *"this is different. It's like an illness."*

After price cuts by competitors, Mr. Virosque's company reduced charges for storage and transportation, and slashed its work force to about 170, from 250. *"The worst thing is that we have to cut the young people,"* he said, because higher severance makes it too expensive to fire older workers.

While unemployment traditionally is higher in Spain than in much of Europe, the sharp increase has many here nervous. The jobless rate for those under 25 is at a Depression-like level of 31.8 percent, the highest among the 27 nations of the European Union.

Before cutting prices in early 2009, Mr. Maestre ordered several rounds of job cuts at his company, Fermax, as sales of the intercoms collapsed with Spain's housing bubble.

"It's a question of survival for everybody," he said. Still, the lower prices have not translated into higher sales. Fermax's orders fell 25 percent in the first quarter. Prices for some intercom parts that he buys, like video screens, have also come down, but it is not enough to make up for the sales drought. *"Prices have to come down more and we will have to spend less,"* he said.

The effects of this downward spiral are evident at Valencia's principal soup kitchen, in an imposing stone building constructed a century ago as an alms house. Each day, a line forms around the block by noon. The Casa de la Caridad, or House of Charity, is helping three times as many people as it did a year ago. More than 11,000 meals were served in March, and it expects to top 12,000 this month.

As the economic decline has broadened, so has the range of people seeking help. In the past, most were out-of-work immigrants or the homeless, said the center's director, Guadalupe Ferrer. Today,*"it's more and more people like us who had a house, a respectable job, but are now unemployed."*

The employed worry that falling prices will endanger their jobs as well.

Yolanda Garcia has worked as a butcher under the arches of Valencia's soaring Art Nouveau central market for a decade, but she's troubled that a drop in the price of chicken, to 5.99 euros a kilo, from 6.99, has not attracted more customers to her stall.

"Of course, we're worried the boss will have to reduce staff," said Ms. Garcia, 38, whose husband, a construction worker, was laid off two months ago.

All this has made deflation, once a subject largely reserved for economists who studied the Great Depression, into front-page news here.

The American economy is less vulnerable to deflation, in part because of the Federal Reserve's decision to cut interest rates to near zero and increase lending by $2 trillion. The European Central Bank has also cut rates, though more slowly, and it has resisted the lending measures adopted by the Fed and the Bank of England to prop up spending.

When Spain had its own currency, the peseta, the central bank could have simply devalued it, or cut interest rates to zero. But that is not an option in the era of the euro, when monetary policy is controlled from the European Central Bank's headquarters in Frankfurt, said Santiago Carbó, a professor of economics at the University of Granada.

*"If we enter into a deflationary period, we won't have the monetary tools to sort it out,"*Mr. Carbó said.

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