

US jobs data dash recovery hopes

UNEMPLOYMENT in the US rose in March to its highest level in four years, banishing hopes of a quick recovery after the Gulf war and raising expectations of an early cut in interest rates.

With fears of a prolonged US recession abruptly revived, there were predictions yesterday that an economic recovery in Europe might take longer than hitherto assumed.

Partly as a result, a number of analysts said they no longer expect another increase in German interest rates and predicted the Bank of England would soon be able to cut UK base rates.

The Bank failed to protest about a fall in yields at yesterday's Treasury Bill tender which bolstered hopes of an early cut in base rates, now 12.5 per cent. Confidence over lower UK rates helped to lift share prices and the FT-SE 100 Index ended 20.8

points up at 2,545.3. The US employment report disclosed a steep slump in non-farm employment of 206,000, far above expectations. This followed an upward revision of the decline in employment in February. The total was lifted to 291,000 from an originally reported 184,000.

The unemployment rate, meanwhile, rose 0.3 percentage points to 6.8 per cent - the fifth increase in as many months.

Until Thursday, there had been hopes that the first major economic indicator since the end of the Gulf War would lend credibility to reports of increased confidence in summer and business confidence in the US.

But several leading economists said the data suggested the Amer-

ican economy declined at an annual rate of around 3 per cent in the first quarter, and this implied an extension of the recession into the second quarter.

Jim O'Neill, international economist at Swiss Bank Corp, said: "It has been a full four weeks since the war ended and still there are no signs of recovery." Malcolm Roberts, of UBS-Phillips and Drew, added: "Far from there being a deceleration in the rate of recession, it now looks like a deepening of the recession."

In the financial markets, there were expectations that the US Federal Reserve would soon ease

its key Federal Funds rate, now 6 per cent, by a quarter of a percentage point. A cut in the key Discount Rate, also 6 per cent, might follow late next week once official US figures, on Thursday and Friday, confirm expectations that underlying US inflation has stabilised.

A dispute between Alan Greenspan, the Fed chairman, and several hawkish regional Fed presidents, is said to have delayed a discount rate reduction at least until the inflation figures are released. After a volatile day, the dollar ended little changed at DM1.6735 against the mark and \$1.7795 against the pound.

Gerard Lyons, chief economist of DKB International, commented: "Concern about inflation is misplaced, there is no inflation in the States whatsoever."

The employment report disclosed that the steepest fall came in manufacturing, where employment fell by 92,000 following a 150,000 decline in February. In the construction industry employment tumbled by 72,000. Service employment fell 40,000 after a 161,000 decline in February.

The broader implications of the employment report, regarded as a

reliable indicator of US gross national product, suggest that US consumers will not be able to translate their revival in confidence in the wake of the Gulf War into spending power.

Some analysts warn the upturn will be sluggish when it comes. The most pessimistic on Wall Street think the recession will continue to deepen throughout the year. American economists at DKB International, for instance, believe the US Discount Rate could slide to 4 per cent by the end of the year without risking a revival of inflation.

European exporters hoping for a quick upturn in the US are now likely to be disappointed.

Economists argue that because Germany accounts for a large share of European exports to the US, a prolonged US recession will further depress the German economy and end fears of higher rates.

Bank to tender £800m long-dated stock

The Bank of England announced yesterday that it would tender its first long-dated stock since January 1988 to finance the Government's first Budget deficit in four years.

The Bank said it would invite bids for £800m of an existing stock, the 9 per cent Treasury Loan dated 2008, until 10am on Wednesday morning. Dealings will begin on Thursday morning.

The issue may be well received if the Bank follows up its tender with another cut in base rates, now 12.5 per cent, to coincide with the release of March inflation figures next Friday. Market estimates put March inflation at between 8.4 per cent and 8.7 per

cent, down from the 8.9 per cent rate recorded in February.

The bank's new tender brings the quantity of Bank issues to £3.1bn so far this year. The Bank's return to the gilt-edged market is needed to finance some £6bn of gilts maturing this year as well as an expected Budget deficit of £8bn, announced by Norman Lamont, the Chancellor, in his Budget last month.

Although the gilt borrowing programme is being supplemented by the issue of national savings bonds, City fears that the Government has underestimated the deficit may mean an even larger borrowing programme than currently envisaged.

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Legal battle looms over gas prices

A LEGAL battle is looming between British Gas and the industry regulator, Ofgas, over prices charged for gas sold to the electricity supply industry.

British Gas recently increased the price of gas supplied to power stations by 35 per cent at 24 hours' notice in an attempt to stem soaring demand.

However, on 1 March Ofgas ordered British Gas to sign contracts at the old prices with two power station projects - Thames Power and a project led by Mobil.

In the High Court yesterday, British Gas lodged legal proceedings against the orders. In spite of increasingly acrimonious relations between British Gas and the regulator, this is the first time that either has resorted to court action.

British Gas said it was still negotiating with Ofgas and the companies involved. A spokesman commented: "We believe that all concerned want to settle this without recourse to litigation. But we intend proceedings to protect our

By Mary Fagan
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for the power industry could become one of the most bitter to date.

British Gas argues that it faces a deficit of up to 3 billion therm in the middle of the decade if it has to meet all the demands of power stations.

The Government has hailed new gas-fired power stations based on Combined Cycle Gas Turbine Technology as one of the greatest opportunities for competition in the electricity market. They are cheaper to build and run, and more efficient, than coal-fired and oil-fired plants.

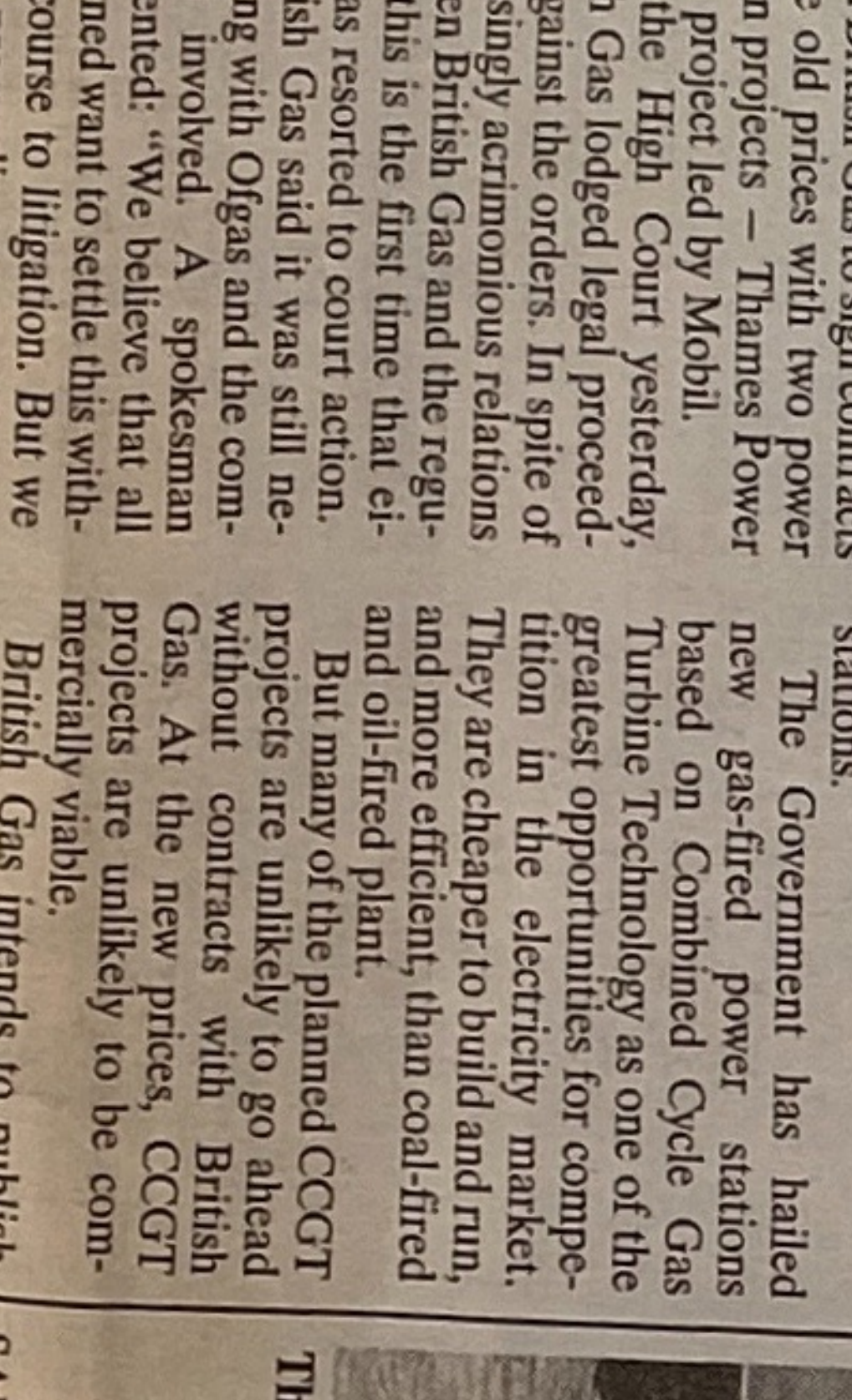
But many of the planned CCGT projects are unlikely to go ahead without contracts with British Gas. At the new prices, CCGT projects are unlikely to be commercially viable.

British Gas intends to publish

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US Unemployment



German jobs: About 1.3 million east Germans have found new jobs since German unification last October and 300,000 of them commute to the west to work, the Treuhand privatisation agency said. This page

Receivers in: Circuprint Holdings, the circuit board maker, has asked its bankers to appoint an administrative receiver after failing to obtain sufficient debt to carry out a refinancing plan.

Tied up: The Rack has taken on the operation of 19 shops from eight franchisees which had breached contracts relating to debt payments. The company said it would make "minimal" exceptional provisions in its annual results to cover the debts.

American jobs up: The US unemployment rate rose 0.3 per cent to 6.8 per cent in



The outlook is bleak for car manufacturers and dealers. Sales of new cars have fallen 21.6 per cent in the first three months of this year and the underlying trend is worse

New car sales plummet in first quarter

SALES of new cars dropped by 21.6 per cent in the first three months of this year and the underlying trend is worse