Fiat Chrysler makes $6.8bn Italy-backed loan request

Fiat Chrysler Automobiles has confirmed a request for an Italian state-backed loan to help the automotive sector relaunch from the coronavirus shutdown, a move that set off debate in Italy over whether such money should be made available to companies with legal headquarters overseas.

FCA said in a statement late Saturday that it was seeking 6.3 billion euros ($6.8 billion) in financing through Intesa SanPaolo, or one-quarter of its industrial revenue in Italy.

The money would be "dedicated exclusively to financing FCA's activities in Italy and intended to provide further support to some 10,000 small and medium enterprises in the automotive supply chain," the statement said. It noted that the automotive sector generates 6.2% of Italy's gross domestic product and represents 7% of all manufacturing jobs.

Some politicians in the governing coalition questioned the loan to the carmaker, which moved its legal headquarters to the Netherlands and fiscal headquarters to Britain in 2014 after completing the merger between Italy's Fiat and U.S. carmaker Chrysler.

But Premier Giuseppe Conte told reporters Saturday night that the better question is why big companies find it more attractive to move their legal or fiscal headquarters abroad.

Conte said that the issue would be addressed in an upcoming decree aimed at simplifying bureaucracy.

"We don't need pose the problem who goes and why to Britain, the Netherlands or other countries. We simply need to make our country more attractive. We need to ask ourselves why they go abroad,'' he said, underscoring that FCA is a major Italian employer. (AP)

In this file photo, a plastic sheet is laid between two workers needing to face each other to perform their task, as a safety measure for coronavirus contamination, at the Fiat Chrysler Automobiles plant in Atessa, central Italy. (AP)

Business Plus

Industry one of the hardest-hit by virus outbreak

Unforgivable? Restaurants fear loans won't bring relief

People exit a reopened restaurant Friday, May 15, 2020 in downtown Kansas City, Mo. Restaurants were allowed to serve dine-in customers today for the first time since mid-March when the city issued stay-at-home orders to stream the spread of COVID-19. (AP)

By Joyce M. Rosenberg

> 'The terms are not realistic for us. I think this is going to leave us in a worse position than before'

Restaurants owners across the U.S. are worried that a loan from the government's coronavirus relief program could wind up being a burden instead of a blessing.

The Paycheck Protection Program has disbursed more than 4.3 million loans worth more than half a trillion dollars to small businesses in about six weeks. A PPP loan can be forgiven if owners spend the money within eight weeks of receiving it and put at least 75% of it toward employees' pay and the rest toward rent, mortgage interest and utilities.

For those who own and run restaurants, however, those terms can seem out of sync with the realities of their business. Many restaurants either remain closed or are doing just a fraction of their former business as cities and states only begin to lift stay-at-home orders. Instead of essentially paying workers not to work, owners might want to hold onto the loan money or use it for more pressing needs; but doing so carries a risk.

Sarah Trubnick's restaurant in San Francisco has been closed since mid-March. She recently got a relief loan - but she's hardly celebrating.

Trubnick hopes to reopen The Barrel Room within the next eight weeks, but it will cost thousands of dollars to buy food and equipment needed to be operational again. She needs to use some of the loan money to pay those expenses. But that portion of the loan might not be forgiven, leaving her with a big debt to pay off in two years.

"The terms are not realistic for us," says Trubnick. "I think this is going to leave us in a worse position than before."

The restaurant industry has been one of the hardest-hit by the virus outbreak. Thousands have been shut down completely, which means no revenue coming in but bills like rent, utilities and insurance still to be paid. Many others have been restricted by state and local governments to serving customers with takeout and delivery, but that is only a small fraction of their usual business. And reopening doesn't mean a return of the lunch and dinner crowds - social distancing requirements means restaurants can't serve the usual number of diners.

All these obstacles have stymied an industry that operates on the thinnest of margins. The shutdowns and curtailed revenue led to the layoffs of 6 million workers during March and April.

Many restaurants fear for their survival, according to a study released in April by the National Bureau of Economic Research. The study found that restaurateurs believed they had a 72% chance of survival if the crisis caused by the virus outbreak lasted a month, but if it lasted four months, they believed they had only a 30% chance of survival. And at six months, a 15% chance.

A PPP loan could be expected to improve to odds - under the right conditions.

A report by the Small Business Administration's inspector general's office released Friday, while not mentioning the restaurant industry, found fault with the rules and predicted they would force tens of thousands of businesses to have to repay part of their loans.

According to the report released Friday, the law that created the loan program didn't specify the amount of loan money that must be used for employees' pay; the SBA added the restriction. The SBA responded in the report that "75% is an appropriate percentage" given the law's focus on keeping workers paid and employed.

The report also noted that while the law allowed for loan terms to be as long as 10 years, the SBA imposed the requirement that loans be repaid within two years, making payments substantially larger.

"The Paycheck Protection Program is a great program, but it's not working for restaurants," says Sean Kennedy, an executive vice president at the National Restaurant Association, an industry group.

Restaurant owners may be getting some help from Congress. A bill introduced by House Democrats Tuesday would give small businesses including restaurants more options and breathing room in using their loan proceeds.

The House bill would allow business owners to use their loan money for whatever bills they need to cover. The bill would also give businesses 24 weeks or until Dec. 31, whichever is earlier, to spend the money.

Currently, the eight-week window for spending the money poses a dilemma. If, for example, restaurants recalled all their workers after receiving a loan in mid-April, they'd use up the money before government officials allow them to be fully operational. At the end of the eight weeks, many wouldn't be able to afford all their staffers and they'd have to lay them off again.

"It would be wiser to use those funds in a few months as restrictions lessen and we have more income from the dining room," says Michelle Courtright, owner of Fig & Farro, a restaurant in Minneapolis. She has struggled to meet the time and payroll requirements because key staffers decided not to return to work out of health concerns.

"I spent several weeks of valuable PPP time just hiring and trying to get a new staff together," Courtright says. Her restaurant is doing only takeout and delivery service while she waits to be able to reopen for sit-down dining; in the meantime, her revenue is down 90 percent.

Treasury Secretary Steven Mnuchin acknowledged Monday that many restaurants wanted to hold on to their money and use it when it's most beneficial for them.

"We'll look at a technical fix," he said, speaking in an interview on CNBC.

The Democratic bill would also give business owners more time to repay their loan amounts that aren't forgiven, a minimum of five years.

Kennedy called the House proposal "a strong step toward making the PPP more suitable for the unique business conditions of the nation's restaurants."

The industry group is seeking a separate $240 billion recovery fund for the restaurant and food service industries.

Dave Orenstein already knows his restaurant chain won't get full forgiveness for its loan, and he can't even estimate at this point how much Fish City Grill will end up owing. The Dallas-based chain began reopening May 1, and while the majority of his company's 450 employees are back, he doesn't have enough business to rehire all of them.

"If the loan is not forgiven, it would be virtually impossible to pay the funds back in two years," says Orenstein, president of the 20-restaurant company. (AP)

'Aggressive Fed actions can help prevent deflation from taking hold'

Why prospect of deflation could pose a threat to US

> 'If deflation becomes embedded in the economy, it can be difficult to uproot'

WASHINGTON, May 18, (AP): The economic paralysis caused by the coronavirus led in April to the steepest month-to-month fall in U.S. consumer prices since the 2008 financial crisis - a 0.8% drop that was driven by a plunge in gasoline prices.

And excluding the normally volatile categories of food and energy, so-called core prices tumbled 0.4%, the government said last week in its monthly report on consumer inflation. That was the sharpest such drop on records dating to 1957.

The business shutdowns, reduced travel and shrunken consumer spending that the virus has caused have likely sent the U.S. economy into a severe recession. The resulting drop in economic activity is exerting a powerful downward force on prices throughout the economy.

The report raises the prospect of deflation, a prolonged drop in prices and wages that typically makes people and companies reluctant to spend and can prolong a recession. Not since the Great Depression of the 1930s has deflation posed a serious economic threat in the United States.

"If deflation becomes embedded in the economy, it can be difficult to uproot," said Gus Faucher, chief economist at PNC Financial Services. "Aggressive Fed actions can help prevent deflation from taking hold, supporting a stronger economy over the longer run."

Over the past 12 months, overall prices have now risen a scant 0.3%, the smallest year-over-year increase since 2015. Core inflation has increased 1.4%, the lowest pace since 2011.

With consumer prices falling, concerns have arisen that the United States might succumb to a debilitating bout of deflation for the first time in decades.

The fact that falling prices tend to cause worry among economists and policymakers probably strikes many people as puzzling. Here are some questions and answers:

What exactly is deflation?

Deflation is a broad and prolonged decline in prices and wages and often in the value of homes or other assets. During deflationary periods, broad barometers like the Consumer Price Index that the government issued Tuesday will show consistent price changes below zero. And for two months now, that is what the CPI has shown: The index fell 0.4% in March and 0.8% in April. And the trend is likely to persist as the virus depresses economic growth and consumer spending and thereby exerts downward pressure on prices.

Aren't falling prices good? People can buy more things with less money, right?

It's true that households can make their paychecks go further when prices are flat or falling. And with tens of millions of people suddenly out of work, this means that at least their unemployment benefits will stretch further. The 20% drop in gasoline prices in April, for example, will provide a welcome benefit to motorists. All that said, economists fear that sustained price declines would hinder, not help, economic growth.

How?

The main reason is that falling prices typically make consumers and businesses delay spending. Why buy now, after all, if you can purchase the products you want - from furniture and appliances to cars, boats and computer equipment - at even lower prices three or six months from now? Collectively, such delays slow consumer spending, which drives about 70% of U.S. economic activity. Consider the economy's 4.8% annual contraction during the January-March quarter. That quarterly decline, the worst since the 2008 financial crisis, was led by a broad pullback in consumer spending.

Deflation also tends to hold down wages and to make the inflation-adjusted cost of a loan more expensive for borrowers. And in keeping borrowing and spending persistently weak, deflation can prolong a recession.

Has the US Ever endured a period of deflation?

Yes, but not for nearly nine decades, since the Great Depression. During the Depression, falling prices meant that farmers couldn't receive sufficient payments for their crops. This caused millions of families to lose their farms to banks after they failed to make their mortgage payments. More recently, some other economies, notably Japan's, have been bedeviled by deflation. Beginning in the 1990s, Japan struggled, often in vain, to keep inflation from falling. As a consequence, Japan suffered through more than two decades of anemic economic growth.

What can Us policymakers do to avoid that fate?

The Federal Reserve has responded aggressively and on multiple fronts to try to counter the economic damage inflicted by the coronavirus shutdowns. The Fed has cut its benchmark interest rate to a record low near zero, where it had stood for seven years after the financial crisis. The central bank is also spending trillions of dollars - more than it ever has, by far - to buy Treasury and mortgage bonds to try to keep short and longer-term rates as low as possible to support borrowing and sustain the economy. The Fed has also unveiled numerous programs that are intended to facilitate a smooth and continual flow of credit, which is essential to the financial system.

Will all those efforts be enough?

No one knows for sure. The Fed's broad efforts, which in a normal economy would likely accelerate inflation, may or may not be enough to keep prices from falling. Yet if consumers and businesses avoid spending at anything near normal levels for many more months in light of continued shutdowns, persistent unemployment and fears about the virus, a bout of deflation would become more likely. Most analysts have said they believe that sustained economic growth won't resume until sometime next year, perhaps after a vaccine or an effective drug therapy is available and can be widely distributed.