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Women to watch: Crisis molds new corporate stars

JOURNAL REPORT | PAGES 18-25

With Wachovia deal dead, Citigroup has a new target

MONEY & INVESTING | PAGE 27

What's News—

Business & Finance

U.S. Democratic leaders in Congress appealed to Treasury Secretary Henry Paulson to broaden the $700 billion financial rescue plan to help the nation's auto makers, which have announced steep losses and are burning through cash. Page 4

■ **President-elect Obama** called for extending U.S. jobless benefits as the unemployment rate soared to 6.5% in October, a 14-year high. Page 9

■ **Crestor sharply lowered** risk of heart attacks among apparently healthy patients, according to a study of AstraZeneca's cholesterol drug. Page 6

■ **Citigroup is in talks** to buy a U.S. bank, people familiar with the matter said. The failure to get Wachovia has strained board-management ties at Citi. Page 27

■ **DHL parent Deutsche Post** likely will announce an end to the delivery company's plan to expand within the U.S. Page 6

■ **British Airways posted** a loss for its fiscal first half, but the carrier boosted its full-year revenue outlook. Page 6

■ **Berkshire Hathaway's profit** fell for a fourth consecutive quarter because of investment losses and turmoil in the insurance market. Page 30

■ **Offshore oil workers** are in hot demand as the number of rigs grows, even with the recent drop in oil prices. Page 4

■ **Hedge funds are unloading** billions of dollars of securities to meet cash demands from investors and lenders. Page 32

■ **Ambiguity on key aspects** of the U.S. financial-rescue plan is making a majority of financial firms surveyed hesitant. Page 12

■ **European stocks are up** 12% from 5½-year lows set two weeks ago. But analysts are divided over whether the worst is behind the market. Page 28

■ **Munich Re cut** its outlook again after third-quarter profit was slashed. Page 29

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8943.81	+248.02	+2.85
Nasdaq	1647.40	+38.70	+2.41
DJ Stoxx 600	219.60	+4.14	+1.92
FTSE 100	4364.96	92.55	+2.17
DAX	4938.46	+124.89	+2.59
CAC 40	3469.12	+81.87	+2.42
Euro	$1.2791	+0.0010	+0.08
Nymex crude	$61.04	+0.27	+0.44

Money & Investing > Page 27

World-Wide

China announced a stimulus plan that could exceed half a trillion dollars in a bid to rebuild confidence and boost domestic demand to counter the prospect of global recession. The package of infrastructure investment and other spending means China will enter a G-20 meeting Saturday with a plan that would dwarf stimulus measures by other large economies. Page 1

■ **The fire-safety system** on new Russian nuclear-powered submarine malfunctioned on a test run in the Sea of Japan, spewing chemicals that killed 20 people and injured 21 others.

■ **Moscow will go ahead** with its plan to station missiles near Poland only if the U.S. deploys missile defenses in Europe, a senior Russian diplomat said.

■ **Obama promised** to pass a major U.S. economic-stimulus plan in his first act as president and prepared for a meeting with Bush on Monday. Page 3

■ **A suicide bombing killed** two Spanish troops in Afghanistan. A U.S. official said Taliban fighters held a wedding party captive and fired on U.S. forces last week to draw airstrikes on civilians.

■ **Airstrikes hit** suspected insurgent hideouts in a northwest Pakistan tribal region, killing 13 alleged militants in the latest round of an army offensive.

■ **Three Islamic militants** were executed in Indonesia for the 2002 Bali bombings, and buried before hundreds of supporters. Indonesia increased security, fearing retaliatory attacks.

■ **Britain revoked** an entry visa for deposed Thai Prime Minister Thaksin, preventing him from returning to London where he had been living in exile.

■ **A Labour Party victory** in a local election in Scotland has helped boost the political comeback of the U.K.'s Brown. Page 2

■ **Israel and the Palestinians** pledged to continue U.S.-backed peace talks even though a year-end deadline won't be met.

■ **Doctors struggled** to contain an outbreak of cholera in a refugee camp near Congo's eastern provincial capital of Goma.

■ **A school collapsed** in Haiti, killing at least 88 people.

Editorial & Opinion

Emerging crisis

The economies of Asia and Eastern Europe won't escape the financial crisis. Page 15

How the U.S. rescue plan took form as crisis grew

Bernanke, Paulson overcome questions on extent of powers

By Jon Hilsenrath, Deborah Solomon and Damian Paletta

WASHINGTON—U.S. Federal Reserve Chairman Ben Bernanke reached the end of his rope on Wednesday afternoon, Sept. 17. Lehman Brothers Holdings Inc. had collapsed. **American International Group** Inc. had been effectively nationalized with $85 billion of Fed money. Investors were stampeding out of money-market mutual funds. Credit markets were reeling, stocks were wobbling and bank failures loomed.

Mr. Bernanke called Treasury Secretary Henry Paulson. The Fed chairman leaned toward the speakerphone on his office coffee table and spoke unusually bluntly to Mr. Paulson.

The Fed had been stretched to its limits and couldn't do it anymore, Mr. Bernanke said. Although Mr. Paulson had been resisting such a move for months, Mr. Bernanke said it was time for the Treasury secretary to go to Congress to seek funds and authority for a broader rescue. Mr. Paulson didn't commit, but by the next morning, he had.

In public, Messrs. Bernanke and Paulson marched in lock step. Behind the scenes, the two men and their lieutenants sometimes tussled—over the fate of Lehman Brothers, how to handle Congress and the limits of the Fed's authority. At times, each man felt handcuffed by legal limits on his own power, and consequently pushed the other to move

Please turn to page 38

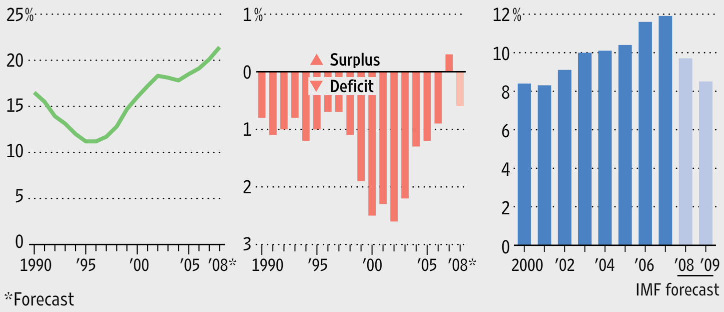
Reuters

U.S. Treasury Secretary **Henry Paulson**, right, talks to Fed Chairman **Ben Bernanke**, left, at the beginning of the G-7 Ministerial meeting in Washington Oct. 10.

Turnaround

China is using government spending to shore up weakening economic growth

Government expenditure As a percentage of GDP | **Budget surplus or deficit** As a percentage of GDP | **GDP** Year-to-year change



*Forecast

Sources: Ministry of Finance (expenditure and budget balance); China's National Bureau of Statistics and International Monetary Fund (GDP)

China stimulus package amounts to $586 billion

By Andrew Batson

BEIJING—China announced a stimulus program that could exceed half a trillion dollars as its leaders seek to rebuild rapidly weakening confidence and unleash domestic demand to counter the prospect of global economic recession.

The two-year package of infrastructure investment and other spending could potentially reach 4 trillion yuan ($586 billion). Though it appears to include some previously known measures, the size of the package was clearly designed to impress Chinese citizens, whose support the ruling Communist Party needs for stability, as well as foreign governments that depend on a healthy Chinese economy.

The sum represents about 16% of China's economic output last year, and is roughly equal to the total of all central and local government spending in 2006. New spending of even half that amount would be considerable next to China's original budget for this year, which had called for about 6 trillion yuan in spending.

With the announcement, China will enter a meeting Saturday of the Group of 20 in Washington with a plan that would dwarf stimulus

Please turn to page 39

Spain provides model in effort to save banks

By Thomas Catan And Jonathan House

MADRID—A layaway plan for hard times that has helped Spanish banks weather the international banking crisis is becoming a model for global policy makers seeking fresh ideas to prevent a repeat of the debacle.

In 2000, Spain's central bank introduced a system of so-called dynamic provisioning that forced banks to build up reserves against future, hypothetical losses. At the time, Spanish banks stiffly resisted the regulation, fearing they would lose ground against competitors.

Now the rules are credited with giving Spanish financial institutions big capital cushions that have helped them ride out the financial turmoil remarkably well, despite the much-publicized collapse of the country's housing bubble.

The Bank of England has pushed for the Spanish example to be discussed at an international level, and the Financial Stability Forum, an group of central banks and regulators that is coordinating the global response to the financial upheavals, has begun studying Spain.

"We are going to be doing some work on provisioning issues," said Svein Andresen, secretary general of the Financial Stability Forum. "In

Please turn to page 39

THE WALL STREET JOURNAL.

LEADING THE NEWS

EU approves finance wish list for G-20 summit

By Marc Champion And Adam Cohen

BRUSSELS—The European Union approved a wish list to take to the coming Washington summit on reordering the global financial system, including international supervisory boards for major banks and a more "central" role for the International Monetary Fund.

At a meeting Friday in Brussels for the special summit, EU leaders such as Britain's Prime Minister Gordon Brown stressed the urgency of reconstructing "the institutions of 1945 to deal with the problems of 2008."

In a final communiqué, the EU leaders approved principles that should drive the broad effort to overhaul the current international financial architecture, as well as some specific "approaches" for the Saturday meeting of the Group of 20 large economies in Washington to adopt.

The EU's proposals, however, were less dramatic than the sweeping demands Mr. Brown and others made a month ago. In an acknowledgement that this is likely to prove a long process, the EU leaders proposed a second global summit for 100 days after Nov. 15, to follow up on the Washington meeting.

Still, an early proposal to set up an international "college of supervisors" to help coordinate regulation of some of the world's biggest cross-border banks and other financial institutions survived. Mr. Brown predicted the first of the companies could come under supervision by year end.

Also on the EU wish list is that the IMF should get a stronger role in addressing financial crises. Mr. Brown's call a month ago for the IMF to act as a form of global central bank has been considerably watered down, however, an apparent recognition of U.S. resistance to any significant expansion of the IMF's powers.

Scottish win lifts Brown

Crisis response gives prime minister edge; timing the election

By Alistair MacDonald

LONDON—A Labour Party victory in a local election in Scotland once seen as a lost cause has boosted the political comeback of British Prime Minister Gordon Brown, whose response to the financial crisis has put him in the spotlight on the global stage and begun to reverse his sliding popularity at home.

After Labour surprised even itself by comfortably holding onto the parliamentary seat in Glenrothes, adjacent to Mr. Brown's own, more political observers now are betting that the prime minister will call an election next year, believing the crisis gives him an advantage.

Meanwhile, on Monday in a speech on foreign policy to be delivered in the City, Mr. Brown will call for a "new multilateralism" that includes closer international coordination of fiscal and monetary policy, according to Downing Street.

He is to say that as part of "a new multilateralism that is both hard headed and progressive," leaders from the Group of 20 major economies meeting in Washington, D.C., on Nov. 15 should reach "a global consensus on a new, decisive and systemic approach to strengthening the global economy."

On Friday, in the sort of activist move that has gone down well with the British public, Mr. Brown publicly called on the chief executives of the country's banks to pass Thursday's one and a half percentage-point central-bank interest-rate cut to their customers. The bank heads met with Treasury Chief Alistair Darling to hear the message in person, and some promised fast cuts.

But Mr. Brown is still far from a comfort zone. Though his popularity ratings increased by 11 percentage points through mid-October from the month before, that brought his favorable rating only up to 35%, while 59% of Britons say they are dissatisfied with him, according to pollster Ipsos MORI. He still polls behind the opposition Conservative Party.

The British economy continues to worsen. The IMF on Thursday forecast that Britain would suffer a deeper downturn than leading industrial rivals next year. Continuing the drumbeat of bad news, government data on Friday showed the number of company bankruptcies increased by 26.3% in the third quarter to 4,001 from a year earlier.

"Nobody thought they would win so well [in Scotland] and this is partly down to Gordon Brown's handling of the crisis," said Rodney Barker, professor of government at the London School of Economics. "The problem is, once the crisis is over, he has to go back to being prime minister."

After the Scottish win, bookmaker Paddy Power said the chance Mr. Brown would call a general election in 2009—he is not obliged to do so until mid-2010—had risen sixteen percentage points, to 52%.

Mr. Brown's popularity has recovered since falling sharply not too long after he succeeded Tony Blair as prime minister in June 2007, partly as he appeared to dither over how to react to the early stages of the credit crunch. He was also hurt as Labour was beaten badly in a raft of local elections, with support for the rival Conservative Party soared, prompting some members of his party to push for him to go.

—Joe Parkinson, Sara Schaefer Muñoz and Paul Hannon contributed to this article.

Getty Images

EU leaders back **Gordon Brown's** call for the IMF to have a stronger role.

INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal Europe is intended to include all significant references to companies. First reference to these companies appear in boldface type in all articles except those on page one and the editorial pages.

INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.

For more people in the news, visit CareerJournal.com/WhosNews

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Obama vows to pass stimulus plan

U.S. president-elect suggests he will move to aid auto makers

BY JONATHAN WEISMAN

CHICAGO—U.S. President-elect Barack Obama, flanked by a team of advisers, promised Friday to pass a major economic-stimulus plan in his first act as president.

Three days after his electoral triumph, Mr. Obama broke his silence amid news of soaring unemployment, plunging payrolls and weak earnings reports from **General Motors** Corp. and **Ford Motor** Co. He called the flagging auto industry "the backbone of American manufacturing" and suggested he would be more aggressive in rescuing Detroit than the administration of President George W. Bush.

"I have said before and I will repeat again: It is not going to be quick and it is not going to be easy for us to dig ourselves out of the hole that we are in, but America is a strong and resilient country," he told the news conference, which lasted a little less than 20 minutes. "And I know we will succeed if we put aside partisanship and politics and work together as one nation."

Americans learned Friday that the U.S. economy this year had lost 1.2 million jobs, with the unemployment rate reaching 6.5% in October, the worst since 1994.

The president-elect appeared open, given economic conditions, to re-examining his proposal to raise taxes on families earning more than $250,000 to offset his proposed tax cuts and credits for families earning less than $200,000.

"My priority is going to be, how do we grow the economy? How do we create more jobs?" he said. "I think that the plan that we've put forward is the right one. But obviously over the next several weeks and months, we are going to be continuing to take a look at the data and see what's taking place in the economy as a whole."

GM announced before the meeting that without a Washington rescue, it could be broke within six months. Ford said its predicament is only mildly less dire.

Michigan Gov. Jennifer Granholm said the looming crisis in Detroit was discussed during a meeting of Mr. Obama's economic advisers that preceded the news conference. "There needs to be immediate relief," Gov. Granholm said in an interview, adding that Mr. Obama had called it a priority of his economic transition team.

Mr. Obama called on the Bush administration to speed up assistance to Detroit to retool auto lines to manufacture more fuel-efficient vehicles, and he made clear any assistance should "help the auto industry adjust, weather the financial crisis, and succeed in producing fuel-efficient cars here in the United States of America."

Mr. Obama campaigned on a 10-year plan to wean the nation of Middle Eastern oil, and aides said Friday that assistance to Detroit should be in concert with that energy plan. That implies that the next administration doesn't want assistance to Detroit to merely help it maintain its fleets of sport-utility vehicles and gas-guzzling trucks.

The array of advisers behind him also served a symbolic purpose. Stretched behind the president-elect were power brokers of the past: former Treasury Secretaries Lawrence Summers and Robert Rubin, former Federal Reserve Chairman Paul Volcker, the chairmen and chief executives of **Xerox** Corp., **Google** Inc. and **Time Warner** Inc. Gov. Granholm and former Michigan Rep. David Bonior—both close to the United Auto Workers and the auto industry—were there. Mr. Rubin, a free-market advocate, was sandwiched between them.

Aides said the names of Mr. Obama's Treasury secretary and other senior members of his economic team could be announced this week. One of the leading contenders for the Treasury post, Mr. Summers, participated in the closed-door economic-advisory session. The man widely cited as the other top prospect—New York Federal Reserve Bank President Timothy Geithner—didn't attend. (Please see article on page 11.)

Two participants of the session said Mr. Obama was pressed to announce the appointments soon, to smooth the transition and send calming signals to jittery markets. "There is no doubt that I think people want to know who's going to make up our team, and I want to move with all deliberate haste, but I want to emphasize deliberate as well as haste," Mr. Obama said at the news conference.

Mr. Obama approached the news conference cautiously, expressing some wonderment when the usually unruly press corps that covered his campaign stood respectfully as the president-elect entered a ballroom in the Chicago Hilton.

The president-elect had spent the morning at parent-teacher conferences for his daughters, and said his wife, Michelle, was already scouting schools in Washington. He will make his Washington debut as president-elect on Monday when he and his wife meet Mr. Bush and first lady Laura Bush at the White House.

Mr. Obama said Friday that he would respond to a letter of congratulations from the president of Iran, the first such letter since the Iranian Revolution. It seemed to be consistent with his campaign pledge to deepen diplomatic engagement with the Islamic Republic.

And it suggested a sharp contrast with Mr. Bush. The current president dismissed out of hand an 18-page letter Mahmoud Ahmadinejad sent to the White House in 2006, which expounded on religion, history and the state of international relations. Mr. Bush's office never responded to the Iranian leader, according to U.S. officials.

—Greg Hitt, Jay Solomon and Gabriel Kahn contributed to this article.

Getty Images

U.S. President-elect **Barack Obama** at his first post-election news conference.

CORPORATE NEWS

Oil sector grapples with labor shortage

Industry dangles high pay, bonuses, training to fill demanding jobs as number of offshore rigs multiplies

By John W. Miller

STAVANGER, Norway—Industries world-wide are slashing costs and laying off workers. But one sector continues to recruit employees aggressively, dangling before them six-figure salaries, signing bonuses and job-training programs.

Multinational oil companies are grappling with a shortage of specialized labor for offshore rigs that promises to get worse. Drillers plan to erect 180 new offshore rigs over the next three years—adding to the current total of 640—spanning from the Vietnamese coast and the Caspian Sea to the Gulf of Mexico and Brazil. Every new offshore drilling operation requires an average of 200 workers, some offshore and some onshore.

It will take more than the recent drop in oil prices to $65 or $75 a barrel to derail these rig projects, companies say, even if the price downturn since the summer has led to postponements elsewhere, such as in oil sands and refineries. Oil development projects "take an average of 10 years to complete and operate for more than 30 years," said Susan Houghton, a human-resources official at **Chevron** Corp. "In 2008, we hired approximately 6,000 new employees and will continue that rate in 2009," she said.

Salaries for the most sought-after categories of oil workers have risen about a third over the past four years, according to Stephen Whittaker of **Schlumberger** Ltd., the world's biggest oil-services company by revenue. An experienced "roughneck," the nickname for rig workers, can make $100,000 a year, and top white-collar engineers can make as much as $500,000 a year, industry analysts and officials said.

But it's not easy money. Offshore rig work involves round-the-clock shifts of manual labor in whatever weather Mother Nature dishes out.

Exxon Mobil Corp., Chevron, **BP** PLC and others are increasing budgets for training and recruitment, and are spending more time on college campuses. "Kids are getting summer internships that pay $5,000 to $7,000 a month, and signing bonuses of $10,000 and $20,000," said David S. Schechter, a professor of petroleum engineering at Texas A&M University in College Station, Texas.

A hundred students a year are graduating from his department, four times the number just five years ago. "Historically, enrollment has always tracked the oil price pretty closely," he said.

Shawn Dawsey, one of Dr. Schechter's undergraduate students, switched his major to petroleum from electrical engineering last year. It's paid off. He will graduate in May and already has received eight job offers of around $80,000 a year. He said some of his peers worry about how declining oil prices could affect their prospects, "but the job offers keep coming," he said.

Oil companies, in large part, are playing catch-up from the early 1990s, when they sharply curbed hiring due to the slump then in oil prices. Labor shortages ensued, leading to widespread recruitment and training efforts, and a determination to hold onto workers even through downturns.

"Companies hired so few people when oil was $10 a barrel in the 1990s, so at $75 a barrel, there's still a huge personnel deficit," said Doug Wearley, a recruiting manager at CSI Recruiting, a Denver-based placement service. "It's a business with a lot of 25-year veterans and a lot of five-year veterans and not much in between."

The hiring extends beyond Western college graduates. BP is investing $50 million in engineering schools in Libya. The company also runs an apprenticeship program in Angola.

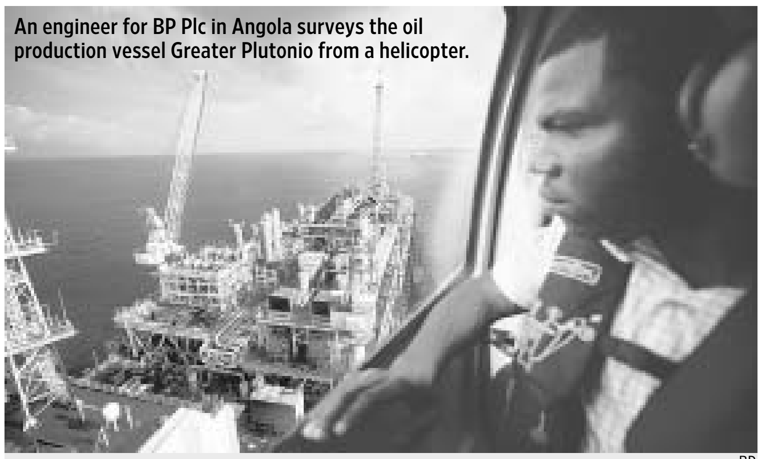
The oil workers' status is evident in Stavanger, the home of Norway's offshore oil industry. Though North Sea output is down, the region is teeming with companies looking to extract some 7.3 billion barrels lying deep under the ocean.

Workers enjoy salaries starting at $100,000 and a month off between two-week shifts. The month off is a point of contention. Companies need workers to put in more hours, said Kjetil Hjertvik, a spokesman for Norwegian Oil Industry Association. Employers plan to use the next bargaining session with the country's three big oil unions in 2010 to lobby for a reduction in time off to three weeks. Mr. Hjertvik conceded, though, that "in a tight labor market, workers have the leverage."

"Our time off is pretty much non-negotiable," said Dog Unnar, a 54-year-old union representative at **StatoilHydro** ASA.

Looking to control labor costs, oil companies are relying more on unmanned rigs and wells. At the new Ormen Lange field in the North Sea, six companies pump natural gas with 24 underwater wells. Engineers sitting in offices on the coast run the rigs. For oil companies, "that's the new model," said Mr. Hjertvik.

In the Gulf of Mexico, BP runs several oil-rig power-generator turbines from an office in California to save on costs. "In the past, one individual was able to monitor 40 engines; today that person can monitor 4,000," Andy Inglis, BP's chief executive for exploration and production, said during a speech at Houston's Rice University in October.



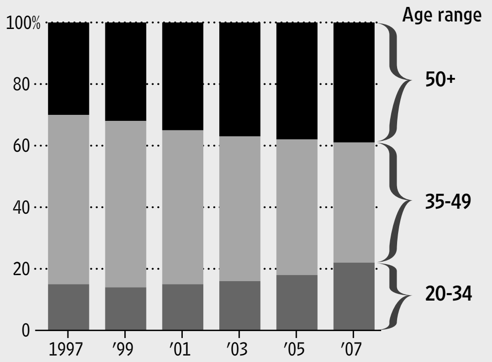
An engineer for BP Plc in Angola surveys the oil production vessel Greater Plutonio from a helicopter.

BP

Need new blood

Oil companies slowed down hiring in the 1980s and 1990s. The result: too many workers over 50, and too few in their 30s and 40s.

Age range for oil engineers, globally



Source: Society of Petroleum Engineers

Detroit's woes will test Obama

Democratic leaders in the U.S. Congress have urged Treasury Secretary Henry Paulson to consider broadening the $700 billion Troubled Asset Relief Program to help the troubled American auto industry.

The appeal was in a letter sent by House Speaker Nancy Pelosi and Senate Majority Leader Harry Reid on Saturday, a day after **General Motors** Corp. and **Ford Motor** Co. announced steep third-quarter losses in their core operations and other woes.

*By **Greg Hitt** in Washington, and **Matthew Dolan** and **John D. Stoll** in Detroit*

President-elect Barack Obama is generally supportive of the appeal, but is moving on his own track to assist the auto industry, individuals familiar with the matter said.

The White House has been reluctant to broaden use of the $700 billion program, which was created by Congress to improve credit flows and calm turmoil in financial markets. "It was not set up for anything else," said White House spokesman Tony Fratto, noting the only assistance authorized by Congress for the auto industry is a $25 billion loan package meant to help the industry retool to meet higher fuel economy standards.

GM and Ford together burned through $14.6 billion in cash in the third quarter, raising the possibility that Washington may have to step in to finance a downsizing of the U.S. auto industry.

In a reflection of how dire the situation is, GM acknowledged its cash reserves could approach the minimum levels it needs to keep its operations going later this year if it doesn't get government help or see a dramatic turnaround in vehicle sales. The company also said it has ended talks about a merger with **Chrysler** LLC.

"It's fair to say liquidity is the top priority for the company and the industry right now," GM's chairman and chief executive, Rick Wagoner, told reporters and analysts in a conference call. "Car makers can't get credit to complete their restructurings."

Detroit's deepening crisis has led analysts to predict that one or more of the auto makers may have to seek bankruptcy protection. But Mr. Wagoner said a bankruptcy filing by GM wasn't being discussed, in large part because it would scare off car buyers.

Analysts said GM's situation appeared to be increasingly desperate. "If you look at the burn rates [of cash] they absolutely must have an infusion of capital and it appears the only option on the table for them is government support," said Craig Fitzgerald, a partner with Plante & Moran, an accounting and consulting firm.

Thursday, the chief executives of GM, Ford and Chrysler went to Washington to appeal to Rep. Pelosi for aid. Among things discussed was $25 billion in loans on top of the $25 billion to be provided through the Department of Energy for fuel-efficiency improvements. The department said last week it is unlikely any of the $25 billion would be disbursed this year.

Ford and GM said they expect market conditions to remain anemic throughout 2009—a stark contrast to the expected turnaround in sales they predicted at the beginning of this year.

GM reported a third-quarter net loss of $2.5 billion, or $4.45 a share. That compares with a net loss of $42.5 billion, or $75.12 a share, a year earlier, when the vast majority of the loss stemmed from a charge related to the write-down of tax credits.

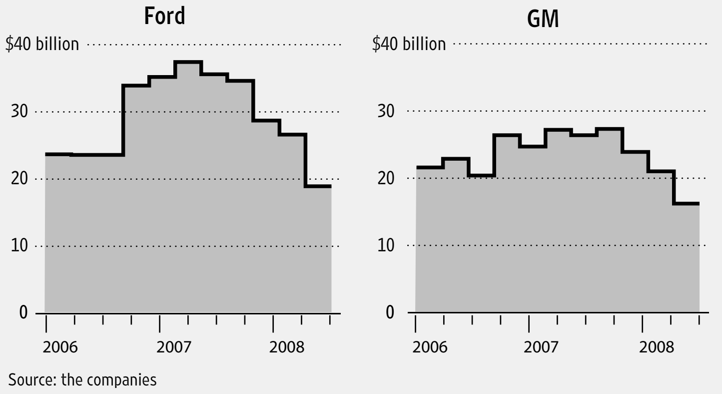
GM said it used up $6.9 billion in cash in the quarter, leaving its cash reserves at $16.2 billion. GM says it needs $11 billion to $14 billion to fund its operations, and Mr. Wagoner said GM plans to keep its cash on hand above that level.

Third-quarter revenue at GM was $37.9 billion, down from $43.7 billion, reflecting sales declines across the industry.

In order to stay alive, GM is deepening its cost-cutting drive. On Friday, it laid out $5 billion in additional expense reductions. These include a steep cut in 2009 capital expenditures and additional reductions to its white-collar work force. These cuts come on top of $10 billion in reductions announced in July.

Cash crunch

Ford and GM are burning through their available cash.



Source: the companies

GM's liquidity is under more pressure than Ford's. Had the company not drawn $3.5 billion from a secured revolving credit facility, the auto maker could have sunk alarmingly close to its minimum funding requirement during the quarter.

GM said it expects its cash-burn rate to improve in the fourth quarter.

Ford said it lost $129 million, or six cents a share, in the third quarter. Without a gain related to retiree health-care costs, Ford's pretax operating loss was $2.75 billion. That compares with a net loss of $380 million, or 19 cents a share, a year earlier, when items reduced pretax results by $350 million.

Ford's third-quarter revenue was $32.1 billion, down $9 billion. Revenue in its automotive business fell 23% to $27.8 billion.

Ford burned through $7.7 billion in cash in the third quarter, which left it with $18.9 billion. Ford said its cash outflow has been greater than anticipated, but Chief Financial Officer Lewis Booth told reporters the company is "comfortable with its liquidity position." Ford said it hopes to improve its cash position by $14 billion to $17 billion by the end of 2010.

At the current rate Ford is using up cash, however, the company would have enough money to last only until April. Ford also has $10.7 billion in available credit lines, which could give it another four months of breathing room. But the auto maker said it doesn't expect to continue to burn cash at the same rate in the fourth quarter.

—Joshua Mitchell, Jeff Bennett, Damian Paletta and Sharon Terlep contributed to this article.

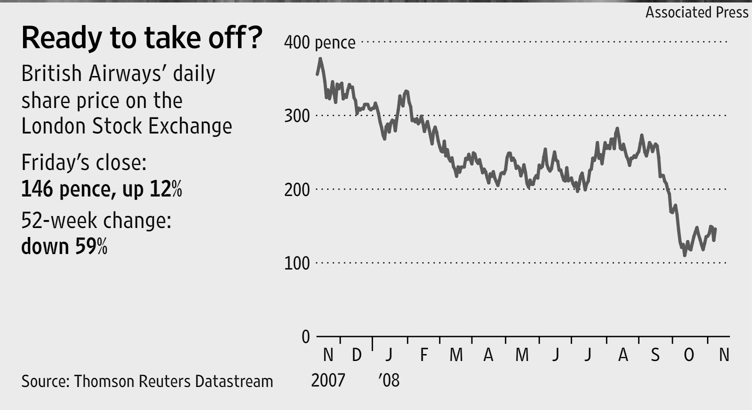
CORPORATE NEWS

British Airways posts loss

Revenue forecast is adjusted higher; capacity cuts remain

By Daniel Michaels
And Monica Mark

Associated Press



British Airways PLC swung to a net loss for its fiscal first half and extended recent capacity cuts into next summer in response to falling passenger traffic.

But the carrier boosted its full-year revenue outlook to an increase of at least 4% from its previous forecast for a 3% rise, and said it expects to report a small operating profit for the year.

BA said rising average ticket revenue, driven by both currency fluctuations and higher fares, more than offset volume reductions.

The six-month results and full-year earnings forecast were better than investors and analysts had expected, and the airline's shares, which had fallen some 40% since September, rose 28% on Friday on the London Stock Exchange.

BA, which didn't break out quarterly earnings figures, posted a net loss of £49 million ($76.8 million) for the six months ended Sept. 30, compared with a £493 million profit a year earlier. Revenue rose 6.4% to £4.75 billion from £4.47 billion on the back of higher ticket prices.

The earnings were again hit by high oil prices, with fuel costs up £511 million from a year earlier at £1.49 billion.

For year through March, BA expects a 50% rise in its fuel bill from the previous year, to about £3 billion. The company said it won't get all the benefit of the recent sharp fall in oil prices because the pound has weakened against the dollar and because of fuel hedges put in place while oil prices were near record highs.

The results come as airlines world-wide face dropping demand amid global economic upheaval.

BA, like many carriers in the U.S., has cut planes, routes and frequencies, aiming to shrink its operations and remain profitable.

BA said it plans to cut costs further and has reduced capital expenditures. It said overall costs, which rose £711 million in the first half, are proving a challenge because of the recent weakening of the pound.

"We said we would increase prices and we wouldn't chase volume, as some of our competitors have," Chief Executive Willie Walsh said in an interview. Mr. Walsh said gauging demand over coming months remains difficult.

Mirroring recent months' statistics showing that demand is waning, the airline reported a 4.4% drop in October passenger traffic, measured in revenue passenger kilometers, which factor in how far passengers are flown.

Meanwhile, Scandinavian airline **SAS** AB said Friday that it carried 3.2 million passengers in October, down 12% from a year earlier, hit by lower demand due to weaker macroeconomic development in Scandinavia and the rest of Europe. Traffic measured in revenue passenger kilometers was down 8.8%. Total passenger load factor, a measure of how full its planes were, was down by 3.7 percentage points to 69%.

Irish flagship carrier **Aer Lingus** PLC fared better, reporting that passenger numbers grew 3.8% in October to 904,000 from a year earlier, while passenger traffic was up 1.9%. Still, both its short-haul and long-haul load factors fell, amid a rise in capacity.

DHL to pare back U.S. expansion as losses mount

A WSJ News Roundup

Deutsche Post AG, the German parent of delivery company DHL, is expected to announce Monday that it is pulling the plug on much of its effort to expand in the U.S. and break the delivery-market dominance of **FedEx** Corp. and **United Parcel Service** Inc., according to people familiar with the situation.

DHL has sustained billions of dollars in U.S. losses since it bought Airborne Inc. in 2003 for $1.05 billion.

A spokesman for DHL declined to comment.

The announcement won't mean DHL and its trademark yellow brand will disappear from the U.S., according to several people briefed on the plans. DHL is expected to maintain its freight-forwarding operation in the U.S., which employs thousands of workers. DHL also will continue to handle international deliveries in the U.S. and maintain its own operations in major metropolitan areas.

U.S. losses and the weakened global economy prompted Deutsche Post recently to cut its earnings forecast for 2008 to adjusted earnings before interest and taxes of €2.4 billion ($3.06 billion), down roughly 10% from a year earlier.

AstraZeneca's Crestor is said to cut heart risks

By Ron Winslow

NEW ORLEANS—**AstraZeneca** PLC's cholesterol drug Crestor sharply lowered risk of heart attacks among apparently healthy patients in a major study that challenges longstanding heart-disease prevention strategies and could substantially broaden the market for statins, the world's best-selling class of medicines.

Heart experts said the findings, presented Sunday at the annual scientific meeting of the American Heart Association, could reshape cholesterol-treatment guidelines used for more than a decade to fight cardiovascular disease, the world's leading killer. They also could help AstraZeneca boost its 9% share of the global cholesterol-drug market, which exceeds $15 billion and is now dominated by generic statins and by **Pfizer** Inc.'s Lipitor.

The study, called Jupiter, found that Crestor reduced the risk of heart-related death, heart attacks and other serious cardiac problems by 44% compared with those given placebos. The 17,802 participants were entering prime heart-attack ages—over 50 years for men and over 60 for women—but none had evidence of serious heart disease or cholesterol levels high enough to call for treatment under current guidelines.

All participants did have elevated levels in their blood of C-reactive protein, or CRP, an inflammatory marker that in previous studies has been shown to identify patients at heart risk independent of their cholesterol levels. Half of heart attacks occur in people with normal cholesterol. As a result, some experts say the study supports broad use of a high-sensitivity CRP test to find people who may be falsely assured by low cholesterol levels that they are protected from trouble and determine if they might be candidates for treatment.

"This takes prevention to a new level," said Douglas Weaver, head of cardiology at Henry Ford Hospital, Detroit, who wasn't involved with the Jupiter study. "It defines a new population" of patients at risk.

But others urged caution. "Before we expand treatment indications in any drastic way, we need to do due diligence," said Mark Hlatky, a cardiologist at Stanford University. "The idea that everybody should get CRP measured is premature and not backed up by good data."

Moreover, despite large relative benefits, the actual number of patients helped was small. Those on the drug suffered 142 major cardiovascular events compared with 251 on placebo, a difference of 109. Dr. Hlatky said that raises questions about the cost-effectiveness of CRP screening and the value of putting millions of low-risk patients on medication for the rest of their lives.

Doctors and investors have been awaiting the Jupiter results since last March, when the trial was halted after an interim check found overwhelming benefit for the drug. That was after patients had been followed for an average of just 1.9 years, two years earlier than planned.

The findings will stir new debate in a field already divided over the role of high-sensitivity CRP testing in clinical practice. They are certain to figure in deliberations of U.S. cholesterol experts who plan a major update of prevention and cholesterol guidelines next year. Jupiter researchers estimate some six million people in the U.S. meet the criteria of those participating in the study and thus might benefit from statin therapy; some analysts put the number above 10 million.

The study comes after the uproar early this year when the cholesterol drug Vytorin failed to show a benefit in a trial involving a controversial surrogate for heart risk. The episode involving the **Merck** & Co. and **Schering-Plough** Corp. drug triggered skepticism about the value of statin therapy and the benefit of lowering LDL, or bad cholesterol. Researchers said the new data should dispel those concerns.

"This is very reassuring for statins as a class and for the public at large", said Paul Ridker, a cardiologist at Harvard Medical School and Brigham and Women's Hospital who led the Jupiter study. The drugs "are highly effective at doing what really matters," preventing heart attack, stroke and other serious heart-related events.

In the study, which randomized patients to 20 milligrams of Crestor or placebo, LDL cholesterol among patients taking the drug plunged 50% to an average of 55, the lowest achieved to date in a major statin study. CRP fell 37% and wasn't associated with how much LDL was reduced. Deaths from any cause were reduced by 20%, the first time that has been shown in people without diagnosed heart disease. Among women, the drug lowered risk of major events 46%, with a similar reduction for blacks and Hispanics. Risk of a first heart attack, stroke and the need for procedures to clear or bypass clogged arteries declined at rates from 46% to 54%.

"Those benefits are approximately twice as large as what doctors expect when you use statins in patients with [high cholesterol]," Dr. Ridker said. "And they didn't have [high cholesterol]. What they had was high CRP."

Dr. Ridker, who along with co-authors has received grants and other fees from AstraZeneca, presented the data at the heart meeting. The study was published online Sunday by the New England Journal of Medicine.

Dr. Ridker said an analysis by study statistician Robert Glynn of Brigham estimated that applying the Jupiter findings to medical practice for six million Americans for five years would prevent 250,000 major cardiovascular events. The study suggests 25 patients would need to be treated for five years to prevent one major event, a number Dr. Ridker says appears at least as cost effective as strategies screening for high LDL.

Reports of serious adverse events were evenly divided—1,352 on the drug and 1,377 on placebo—as were reports of muscle weakness—1,421 on the drug and 1,375 on placebo. Muscle side effects cause some patients to go off statins. There were 270 cases of diabetes among Crestor patients, compared with 216 on placebo.

For London-based AstraZeneca, which sponsored the study, Jupiter fills a big void. Crestor, which had sales of $2.6 billion in the first nine months of this year, up 24% over the same period in 2007, is the most potent statin for reducing LDL cholesterol. Now the company has the kind of hard evidence on preventing serious events that its rivals have had.

—Jeanne Whalen in London contributed to this article.

CORPORATE NEWS

Telecom Italia net sinks

Regulatory pressure, tougher competition hold down revenue

By Giada Zampano

ROME—**Telecom Italia** SpA on Friday posted a 13% drop in third-quarter net profit, as its domestic operations remained under pressure, but the company confirmed its full-year targets on improving margins.

Net profit at Italy's largest telecommunications operator fell to €630 million ($804.1 million) from €720 million a year earlier. Revenue was down 1.4% at €7.56 billion from €7.67 billion, hurt by stiffening competition and regulatory pressures on mobile and fixed-line services in Italy.

However, Telecom Italia's operating margin in the third quarter was 41%, up from 40.8% a year earlier and the first increase since 2007. Its closely-watched net debt fell to €35.77 billion as of Sept. 30 from €37.17 billion at the end of the second quarter.

"At a time when the world has become a different place and the financial crisis is beginning to impact the real economy, we posted an impressive quarter," Chief Executive Franco Bernabe said in a statement, citing strong performances in Germany and Brazil. "Telecom Italia's revenue and margins picked up again, which will allow us to hit our 2008 targets," he added.

The Italian phone company expects full-year revenue to come in between €30.4 billion and €30.5 billion, with an operating margin of 38%. This is slightly lower than the 38.5% operating margin it had forecast before it cut its outlook in August.

Analysts noted that Telecom Italia, despite the drop in net profit, delivered a safe set of results for the third quarter, signaling that the company remains solid.

In March, Italy's former monopoly disappointed with a business plan that analysts said was lacking "fireworks." The company plans to unveil its future strategy in early December, which is bound to be closely scrutinized by investors and analysts.

Investors are also bracing for news on a possible entry of new shareholders, which would boost Telecom Italia's financial flexibility. Sayf al-Islam Gadhafi, the son of Libyan leader Col. Moammar Gadhafi, recently confirmed that the Libyan government is in talks with Telecom Italia for a possible investment.

Shares in the company have lost more than 50% of their value in the past year, sparking criticism among some of its major shareholders over the lack of a clear industrial strategy.

One of the companies suffering from the sharp drop in Telecom Italia's stock is former owner **Pirelli** & C. SpA. The tires-to-real estate company said Friday it swung to a net loss in the first nine months of the year, mainly because of a €155 million write-down on its remaining 1.36% stake in the phone company. Pirelli sold its indirect controlling stake in Telecom Italia to Telco, a consortium including Spain's Telefonica SA, Italian heavyweights Intesa Sanpaolo SA, Mediobanca Group, Assicurazioni Generali SpA and Benetton Group SpA for €3.3 billion in May 2007.

The company posted a nine-month net loss of €51.3 million, compared with net profit of €129.8 million a year earlier, while revenue was flat at €3.9 billion. Pirelli also warned that its full-year earnings before interest, taxes and charges will be lower than previously expected.

—Gordon Sorlini contributed to this article.

Sodexo net rises, but outlook falls

By Mimosa Spencer

PARIS—French catering and services company **Sodexo** SA on Friday reported an 8.4% rise in fiscal-year net profit, as business at its vouchers, facilities-management and health-care operations remained brisk in all regions except North America, where the weak dollar weighed on its performance.

Net profit for the year ended Aug. 31 rose to €376 million ($479.9 million) from €347 million the previous year. Revenue was up 1.7% to €13.61 billion from €13.39 billion.

However, the company said its organic-revenue-growth forecast for next year would be lower than in fiscal 2008. A severe economic downturn is likely to continue in 2009 and 2010 in the majority of countries in which Sodexo operates, with some already in recession and others experiencing lower growth, the company said.

"We're beginning to see a decline in consumption, and our targets take this into account," said Chief Executive Michel Landel.

Sodexo said it now expects organic revenue growth for the next fiscal year in a range of 2% to 5%, below its target of over 7% for fiscal 2008. Organic revenue growth strips out the impact of currency fluctuations, acquisitions and disposals.

Mr. Landel cited Sodexo's position as a provider of services to companies seeking to cut costs by outsourcing activities as a reason for his confidence in its business model in the difficult economic context.

Sodexo is seen as fairly resilient in an economic downturn: Its inexpensive cafeteria food, for example, tends to fare well in penny-pinching times. Also, a good part of its revenue comes from the health care, education and defense sectors, which are less affected by economic troubles.

The company is also implementing a €50 million cost-savings plan to keep expenses next year flat with the fiscal-2008 level. Measures will include limiting hires and capping overhead expenses, but not cutting costs associated with business development, it said.

Sodexo said it plans to pay a dividend for fiscal 2008 of €1.27 a share, up 10% from the previous year. The company's shares were up 3.6% in Paris to €36.97.

EU tempers plan for telecom agency

By Peppi Kiviniemi

BRUSSELS—European Union regulators on Friday unveiled a compromise on a controversial telecommunications overhaul.

The European Commission, the EU's executive arm, agreed to create a pan-European telecommunications regulator that is far smaller and less powerful than initially proposed. The body would have competence over only telecom regulation, with no oversight of spectrum or network security.

The telecom package, which is aimed at unifying the patchwork of individual European regulations and boosting competition, has faced resistance from both the European Parliament and the European telecommunications council, made up of EU telecom ministers.

As a result, the commission, which originally wanted broader powers for the new body, is now pushing for a compromise, incorporating the main points of contention flagged by the parliament and the telecom council.

The commission said it will give national regulators a major role in the management of the newly created body: They will appoint its managing director and half of its staff.

The commission also proposes that any new measures put forth by national regulators with regard to their national markets should be vetted both by the commission and the new body to ensure that they don't hamper Europe-wide competition.

The commission has agreed it should be left to the national regulators to decide whether they want to force their national incumbents to separate telephone networks from services operations to enhance competition.

In the area of radio-spectrum allocation, the commission can continue to propose policy changes, but those will still have to be approved by EU ministers and the parliament.

EU ministers will discuss the new proposal later this month, the commission said.

GLOBAL BUSINESS BRIEFS

Deutsche Post AG

Former chief executive is charged in tax probe

German prosecutors said they have charged the former chief executive of **Deutsche Post** AG, Klaus Zumwinkel, in a tax-invasion investigation. A statement Friday from the prosecutor's office in Bochum, Germany, didn't specify the charges and said no further details would be disclosed. Mr. Zumwinkel is the suspect with the highest profile in an investigation of tax evasion by German citizens using banks in the tax haven of Liechtenstein. The probe was sparked by the alleged theft of client data from LGT Group, Liechtenstein's largest bank, by a former employee. It has targeted more than 350 suspects and yielded at least €110 million ($140 million) in back taxes, Bochum prosecutors said in September.

BMW AG

Auto maker **BMW** AG said Friday that it no longer expects to post record sales for 2008 because of consumers' growing reluctance to spend on new cars amid fears of a recession. Last year BMW sold 1.5 million cars—its highest sales number so far and Ian Robertson, who oversees the Munich-based company's sales and marketing, provided no estimate for 2008 sales. Sagging sales had already pushed the company's third-quarter profit down 63% to €298 million ($378.8 million), and on Friday, BMW said October sales dropped 8.4%. The car maker sold just 113,005 vehicles last month, down from 123,304 a year earlier. Sales were down in most Western European markets, Japan and the U.S., said Mr. Robertson.

EADS

Airbus said Friday that Spanish tourism company **Grupo Marsans** signed a firm order for 61 aircraft. The order includes four superjumbo A380s, 10 of the long-range A350-900s, five wide-body A330-200s and 42 single-aisle planes from the A320 family. Airbus, a unit of **European Aeronautic Defence and Space** Co., didn't say how much Marsans will be paying for the aircraft. The official list price for the 61 jets is $8.99 billion, but airlines usually negotiate discounts to the catalog price. The confirmation of the order, which was first announced in October, is good news for the European plane maker at a tough time for the industry. Airbus's customer airlines are battling volatile fuel prices and tighter credit conditions.

Lafarge SA

French building-materials company **Lafarge** SA reported a 7.8% rise in third-quarter net profit but said it couldn't confirm its medium-term targets amid economic weakness and troubles at its Orascom unit. Net profit increased to €647 million from €600 million ($822 million) a year earlier, as sales were up 8.6% to €5.32 billion from €4.89 billion, helped by the acquisition of Egypt's Orascom Construction Industries' cement unit in January. The company had previously aimed to achieve earnings per share of more than €15 in 2010. Because technical issues delayed activities at two Orascom plants, the company also lowered its forecast for full-year earnings before interest, taxes, depreciation and amortization, or Ebitda, at Orascom to between $1 billion and $1.1 billion from $1.3 billion.

Belgacom SA

Belgium's biggest telecommunications company, **Belgacom** SA, Friday posted a 7.3% drop in third-quarter net profit—hit by new pricing regulations and the economic slowdown—and warned that full-year revenue is likely to be lower than last year. Net profit fell to €215 million ($273 million) from €232 million a year earlier as revenue was down 2.6% at €1.47 billion from €1.51 billion. The company said it expects full-year revenue to drop about 2%. Belgacom is the only telecommunications company in Belgium that provides nationwide fixed and mobile phone-services. Since market saturation and pricing regulations are hurting traditional revenue, the company hopes to reap gains from the gradual convergence of phone, Internet and television services.

Friends Provident PLC

British insurer **Friends Provident** PLC said Friday it has appointed Evelyn Bourke as its new finance chief. Ms. Bourke will succeed interim Chief Financial Officer Charles Bellringer once the six-month notice period for her current position as finance chief at **Standard Life** PLC's U.K. Financial Services has passed. "I am delighted that Evelyn has chosen to join Friends Provident," said Friends Provident Chairman Adrian Montague. Mr. Bellringer became interim finance chief after Jim Smart announced his intention to step down in March and left the company in August. Neither Ms. Bourke nor Messrs. Bellringer and Smart were available for comment.

Novo Nordisk AS

Danish pharmaceutical company **Novo Nordisk** AS said Friday it is investing $400 million in a new insulin-production plant in Tianjin, China—its biggest project so far outside its home market. The plant is to become the company's primary production base in the Asian-Pacific region and will supply both China and export markets. It is expected to be operational in 2012 and employ about 500 people. The new factory will help the company achieve its goal of becoming a key player in China, said Chief Operating Officer Kare Schultz. Novo Nordisk's sales in China have increased by an average of 37% annually over the past five years and now make up 5% of total sales, he added. Nearly 40 million people in China have diabetes.

Alitalia SpA

Unions for **Alitalia** SpA pilots and flight attendants have called a strike for Nov. 25. The unions say it will be the first in a series of one-day strikes to protest a plan by Italian investors to rescue the airline by laying off workers and cutting routes. Alitalia's bankruptcy administrator has warned against strikes, but the unions said Sunday that they also plan a total of 14 days of walkouts between December and May. The investors have made a binding offer to acquire Alitalia, and are hoping a foreign airline will come aboard as a partner. Some unions have agreed to the deal. But unions for pilots and flight attendants are unhappy about criteria for who gets laid off and for part-time workers.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

European Pressphoto Agency

THE OBAMA BRAIN TRUST in Chicago, Friday, left to right: **Roel Campos**, ex-SEC commissioner; **Daniel Tarullo**, professor at Georgetown; **Eric Schmidt**, CEO of Google; **Antonio Villaraigosa**, Los Angeles mayor; **William Donaldson**, ex-SEC chairman; **Laura Tyson**, ex-chairman, National Economic Council; **David Bonior**, former Michigan Congressman; **Robert Rubin**, ex-Treasury secretary; Vice President-elect **Joe Biden**; **Jennifer Granholm**, governor of Michigan; **Barack Obama**; **Paul Volcker**, ex-Fed chairman; **Rahm Emanuel**, incoming White House chief of staff; **Richard Parsons**, chairman, Time Warner; **Anne Mulcahy**, CEO of Xerox; **Lawrence Summers**, ex-Treasury secretary; **Roger Ferguson**, CEO of TIAA-CREF; **Penny Pritzker**, CEO, Classic Residence by Hyatt; **John Podesta**, head of the transition team; **Robert Reich**, ex-Labor secretary; **William Daley**, ex-Commerce secretary

U.S. jobs data show pain across economy

Unemployment hits 14-year high as companies cut back on workers; Obama calls for extended benefits, rescue plan

U.S. President-elect Barack Obama, in his first major remarks since Election Day, called Friday for extended unemployment benefits and a "rescue plan for the middle class" as new employment figures signaled that the economic crunch is worsening.

Mr. Obama spoke hours after the Labor Department reported that the U.S. unemployment rate soared

By Sudeep Reddy, Kris Maher and Ilan Brat

to a 14-year high in October, buttressing economists' warnings that the current downturn will rival the worst recessions since the end of World War II.

Mr. Obama said a fiscal-stimulus plan to support the economy was "long overdue" and said he wants a package "sooner rather than later." Lawmakers are considering a package of measures worth as much as $100 billion when Congress reconvenes later this month. "If it does not get done in the lame-duck session, it will be the first thing I get done as president of the United States," he said.

The unemployment rate spiked to 6.5% in October from 6.1%, the Labor Department said. Many forecasters expect joblessness to top 8% by the end of 2009. In a separate survey, nonfarm payrolls declined 240,000 in October. The earlier two months were revised down significantly, indicating the economy was well in decline before the credit crisis hit its worst point in September and October. The country has lost about 1.2 million jobs so far this year, notching more than half those losses in the past three months.

The jobs report showed pervasive weakness in the economy, with few sectors spared layoffs. The construction and manufacturing industries, which were hit early on in the downturn, saw job losses increase in October, while the retail, hospitality and professional-services sectors all announced sharp job cuts. The grim jobs data were followed by reports of quarterly losses at Ford Motor Co. and General Motors Corp.

"Problems are now broad based," Federal Reserve Bank of Atlanta President Dennis Lockhart said in a speech Friday. The U.S. economy "appeared to weaken dramatically" in September and October as "forces of contraction took hold in consumer spending, business investment, industrial production and foreign demand for U.S.-made goods."

The Dow Jones Industrial Average rose 2.9% Friday as investors largely shrugged off the surge in the U.S. jobless rate, anticipation of which had helped spark the market's 9.7% selloff on Wednesday and Thursday. That slide was essentially factored into the market when the unemployment figures were released.

Education, health services and energy-production-related mining were among the few major areas that added jobs. Government, traditionally a resilient sector, posted a job decline in the revised September figures and only modest growth in October. State and municipal governments are expected to cut more jobs in the coming year as tax revenue declines.

In hard-hit Detroit, Donita Mapp lost her job last week along with about 40 other bus attendants who helped students with disabilities at the Detroit Public Schools. Ms. Mapp, 53 years old, earned about $10 an hour and is now hunting for other jobs. She said she is concerned about paying her $600-a-month rent. "I try not to worry, but in reality you know you're going to worry," she said. A representative for the Detroit Public Schools didn't return phone messages requesting comment.

The economy contracted in the third quarter and is expected to shrink at an annual rate of up to 4% in the fourth. Many forecasters also are penciling in a 2% annualized decline in the first three months of next year.

"This economy is in some ways convulsing as we go through the fourth quarter," with businesses cutting back sharply and households under increasing pressure as their homes and savings lose value, said Bruce Kasman, chief economist at J.P. Morgan Chase.

Some economists aren't predicting a recovery until the second half of next year at the earliest. Goldman Sachs economists on Friday downgraded their prospects for the job market, projecting an unemployment rate of 8.5% by the end of 2009, up from an earlier estimate of 8%. In the 1981-82 recession, the worst since World War II, the unemployment rate peaked at 10.8%. It rose as high as 7.8% after the 1990-91 recession and topped out at 6.3% in the aftermath of the 2001 downturn.

Firms are increasingly cutting back on full-time workers as they brace for a deeper downturn. An alternative Labor Department measure of total unemployment, including part-time workers who want full-time work but can't get it, hit 11.8% in October, up from 11% a month earlier.

On Oct. 14, Elisa Fritz lost her job as a general manager at an upscale restaurant overlooking the Hudson River north of New York City. With fewer people willing to pay $30 to $40 per entrée, business was down at least 50% from the prior year, she said.

"In the fine-dining world everyone is hurting real bad right now," said Ms. Fritz, 50 years old, of Goshen, N.Y. "People are picking and choosing when they go out."

While she is looking for a new job, Ms. Fritz and her husband are cutting back. They already have let their housekeeper go, saving $75 every other week. "It's not a lot, but it's money that could be used for groceries and gas in the car," Ms. Fritz said.

With sales continuing to sag heading into the holiday season, some retailers already are laying off workers, closing stores, reducing seasonal help and, in some cases, going out of business altogether. The contraction is expected to accelerate in coming months.

Circuit City Stores Inc., the nation's second-largest electronics chain, laid off hundreds of workers from its corporate headquarters on Thursday and Friday. The cuts came on top of reductions the company announced earlier last week—closing 155 stores and laying off about 6,800 store employees, or 17% of its U.S. work force. Its healthier rival, Best Buy Co., cut seasonal hiring to 16,000 to 20,000 employees, compared to 26,000 last year.

The credit crunch and decline in consumer spending has already knocked out several retailers. Home furnishings retailer Linens 'n Things trimmed about a third of its 589 stores after trying a bankruptcy reorganization, but last month was forced to liquidate. Department store chain Mervyns LLC said it closed its 149 remaining stores after 60 years in business.

The weakening job market, from layoffs to little or no wage gains, is expected to eat further into consumers' incomes, despite a modest cushion from the recent decline in gasoline prices. Most economists forecast that consumer spending, which accounts for two-thirds of economic activity, will contract sharply in the fourth quarter.

In Brisbane, Calif., Tom Tantillo saw an ad for a Compaq computer that will be on sale for $300 at 8 a.m. Saturday at a nearby Wal-Mart. He was tempted to get in line early, but instead decided to use the money to attend a workshop about job prospects in the clean-technology industry. Mr. Tantillo was laid off last month from a Silicon Valley firm that conducts quality testing for the electronics industry.

He says many recruiters tell him employers are freezing job openings. One recruiter he had been working with got laid off herself. "That was a bit of a sad irony," he says.

Cirrus Design Corp., a Duluth, Minn., maker of small airplanes, cut about 10% of its work force in September and October, laying off 175 people. The company's chief executive, Alan Klapmeier, said he thought he wouldn't have to begin laying people off until early 2009 because incentives in the government's first stimulus package would encourage businesses to buy his planes, keeping his workers busy until the end of 2008.

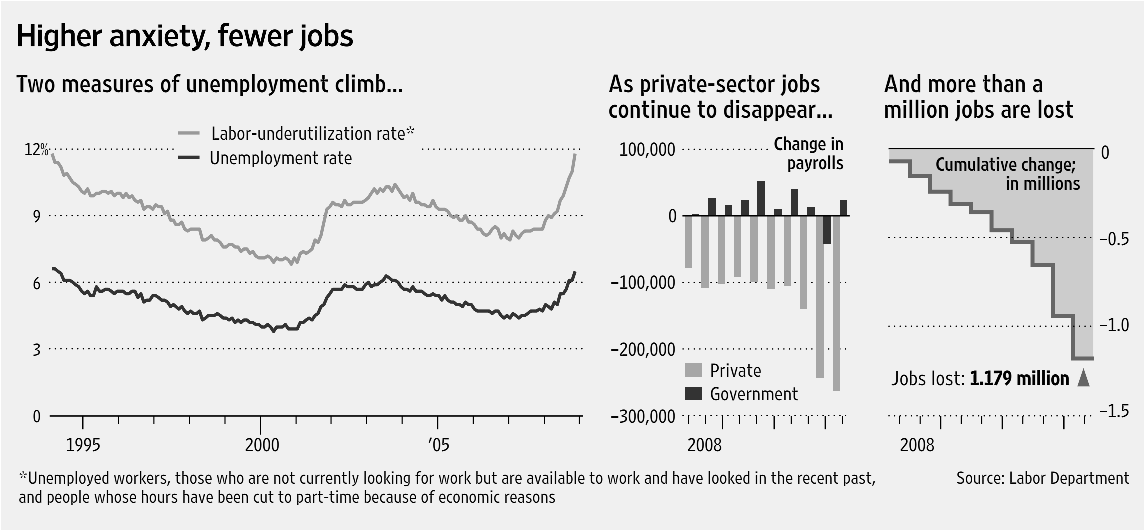
But sales dipped about 60% in October compared with a typical month, he said. "It really was turbulence in the financial markets causing people to postpone their purchases" that contributed to the layoffs decision, he said. "We expect it all to come back as soon as this settles down."

The manufacturing sector, which had been buoyed by sales outside the U.S. from a weaker dollar and strength in emerging economies, is now being hit. The credit crisis hurt companies such as construction machinery makers that relied on financing to sell their equipment. The dollar began to strengthen and the European, Japanese and other economies began to weaken, depleting export demand and hurting profits.

In early October, Brunswick Corp., a Lake Forest, Ill., maker of boats, bowling balls, exercise equipment and pool tables, said it would begin laying off 1,450 workers while closing three plants and idling one. Sharply slowing sales have forced the company to focus on cutting costs to conserve cash, Chief Executive Dusty McCoy told investors in late October. In all, in 2007 and 2008 the company has said it would close 12 boat factories, 40% of the company's boat facilities.

Mr. McCoy predicted that the weakness in its sales would continue at least until early 2009. "We see nothing on the horizon to indicate that the extremely sluggish demand we experienced in the third quarter won't continue unabated," he said.

—Miguel Bustillo contributed to this article.



Emanuel reflects climate

Democrats to retool financial industry that supported them

By Brody Mullins
And Siobhan Hughes

Associated Press

Rep. **Rahm Emanuel** of Illinois, U.S. President-elect Barack Obama's pick for chief of staff, worked for a Chicago investment-banking firm for two years.

U.S. President-elect Barack Obama's new chief of staff, Rep. Rahm Emanuel of Illinois, will be working on overhauling the same financial industry that brought him millions of dollars as an investment banker.

Mr. Obama's choice of Mr. Emanuel to lead his White House staff through the economic crisis symbolizes the awkward balancing act Democrats will face as they reshape the financial industry that they have also cultivated for political support.

Mr. Emanuel earned $16.2 million in a two-year stint working in Chicago for investment-banking firm **Wasserstein Perella** & Co. He also served on the board of **Freddie Mac**, the mortgage giant nationalized this year in the financial crisis.

Since he came to Congress, Mr. Emanuel has been a top recipient of campaign donations from Wall Street firms. Mr. Obama also was a favorite of financial executives during his campaign.

Nick Papas, a spokesman for Mr. Emanuel, said Mr. Emanuel has "consistently stood with taxpayers and investors and against Wall Street." He said that Mr. Emanuel's experience in government and the private sector will be "a tremendous asset as he works with President-elect Obama to help get our economy back on track."

Since being elected to Congress six years ago, Mr. Emanuel has raised $1.5 million in campaign donations from Wall Street employees.

Mr. Emanuel worked as a White House adviser during the Clinton administration. After leaving in 1998, Mr. Emanuel served on corporate boards including Freddie Mac; the Chicago Mercantile Exchange, now owned by **CME Group** Inc.; and public relations firm BSMG Worldwide Inc., now part of **Interpublic Group.**

When he was elected to Congress in 2002, Mr. Emanuel took seats on committees that oversee Wall Street. He started on the House Financial Services Committee and later moved to the coveted tax-writing Ways and Means Committee. He currently serves as the fourth-ranking leader of House Democrats.

"There's going to be a huge desire by some elements in the White House and some in the Congress to move sharply to the left," said John Feehery, a Republican strategist. "I think Emanuel's natural instinct would be much more moderate, especially on business issues."

CAPITAL JOURNAL ▪ Gerald F. Seib

Hidden fissures in party could trip up Democrats

Tuesday's election results underscored what already had become obvious: 2008 has been a very good year for Democrats.

What's less obvious is that the party's progress will bring growing pains from the burden of economic expectations and the fleeting nature of political support, as well as expose fissures on trade, immigration and spending that were neatly papered over during the campaign.

The country's dark mood also poses a particular challenge. Skillful politicians in the past have taken advantage of bleak times to rally the country—but others have been devoured by the kind of gloom and anger now afoot.

Those are the cautionary notes for President-elect Barack Obama and congressional Democrats as they prepare to assume control of Washington. It was easy to see reality already settling in as Mr. Obama faced reporters Friday: The stock market's roller-coaster ride had resumed, the prospects of America's auto makers looked bleaker than ever, and new numbers showed unemployment reaching its highest level in 14 years.

Voters hired Democrats to handle these problems—yet the length of that contract is uncertain. As the party's leaders well know, voters are less rooted in party identification these days, and especially at a time of great national ferment. Democrats rented many voters this year that they don't yet own.

"Everybody should have learned that it's dangerous to talk about permanent majorities, because things can change quickly," said Rep. Chris Van Hollen, just before the election. The Maryland Democrat led the Democrats' House campaign committee.

Indeed, the detached nature of American voters is illustrated by this fact: Even as millions of new voters registered as Democrats this year, an unusually high number also registered as independents or third-party members. A new Wall Street Journal analysis of registrations, for example, shows that 31% of new Florida voters registered with no party or a third party; in North Carolina, the figure was 31%.

For this year, these independents helped give Democrats bigger majorities in the House and Senate; that's the good news for the party. The less-good news: With larger majorities come greater responsibility—and greater political penalty if voters don't see an economic turnaround.

As a result, one early imperative for party leaders is to "manage expectations" for economic progress, says Rep. Van Hollen. Similarly, Rep. Steny Hoyer, the second-ranking Democrat in the House, warns: "This isn't going to be done overnight."

Democrats will start by trying to pass a quickie stimulus package later this month, and persuade a departing Republican president to sign it. Then, next year, larger majorities in the House and the Senate will make it easier for them to move on from there.

Yet larger majorities also create some quandaries. Democratic leaders sit atop a party with some natural fissures that are temporarily obscured by the triage under way to fix the economy. But these splits actually may be harder to contain after the party's growth.

Some of the new Democrats in Congress aren't prototypical liberals but moderates who won by knocking off Republicans in middle-of-the-road congressional districts. Their presence may aggravate an existing split about how much to worry about the federal budget deficit. The party's progressive wing sees a mandate for new programs in health care and alternative energy that trumps deficit worries. More conservative Blue Dog Democrats loathe the idea that such spending could add to an already-growing tide of red ink.

The deficit argument is now hidden by a consensus on spending to stimulate the economy. Over time, though, it will reappear, and in more stark form because of the billions already committed to rescue financial firms.

Similar tensions are likely on trade. In the campaign, Democrats drifted away from the free-trade moorings created by former President Bill Clinton in the 1990s. They have done so at a time when most analysts would agree that pulling out of a world-wide economic slump calls for greater, not more restricted, movement of goods and capital around the globe.

The question now is whether Democrats will adjust. "I'm worried about it," says Alice Rivlin, former director of the Congressional Budget Office and now a scholar at the Brookings Institution. Of this year's campaign rhetoric, she says: "For good ol' free traders like me, it was truly scary stuff."

The economic crunch also has obscured splits on immigration. In this year's voting, Democrats did better than in the past among working-class whites—many of whom have turned against open immigration policies in these tough economic times—while also doing extremely well among Hispanic voters. That sets up a potential conflict between those who simply want to crack down on immigration and those who favor a policy that gives illegal immigrants a path to citizenship.

Hanging over all those problems is a dark national mood that has settled in amid two wars and the economy's slide. Some leaders—Franklin Roosevelt, most notably—have turned such unhappy moods to their advantage. But another former Democratic president, Jimmy Carter, was dragged down by a mood of economic pessimism in the late 1970s.

Which is the model for Barack Obama? That question is as important as any he faces—and the ultimate test of his ability to inspire.