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Global downturn adds Germany to victims list

Data confirming recession show drop at alarming speed

By Marcus Walker

BERLIN—Germany, a country that didn't have a housing bubble and whose consumers didn't overspend on credit, is now one of the major victims of the global downturn.

The German economy, the world's fourth largest, contracted a sharper-than-expected 0.5% in the third quarter, official data showed on Thursday, following a 0.4% contraction in the second. Industrial orders are in free fall, and business surveys show the trouble has barely begun: Germany is facing what could be its longest recession since the Federal Republic's foundation in 1949.

The slowdown unfolding in Germany is substantially different from the declines in the U.S. and the U.K., economies that are deleveraging after a decadelong credit-fueled boom, economists say. Instead, Germany's troubles show the pitfalls of relying too much on exports and consuming too little at home.

"Germany profited hugely from the global boom in demand for capital goods, but this is not an economy which has developed a domestic engine for growth," says Jacques Cailloux, European economist at Royal Bank of Scotland in London.

The Organization for Economic Cooperation and Development published bleak GDP forecasts for industrialized countries on Thursday.

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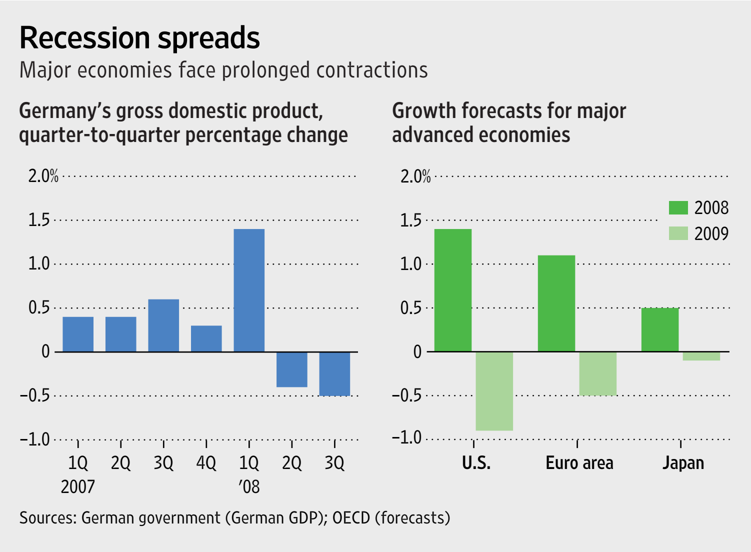


What's News—

Business & Finance

The German economy shrank 0.5% in the third quarter, following a 0.4% contraction in the second, confirming a technical recession. Germany's troubles show the pitfalls of relying too much on exports and consuming too little at home. Page 1

■ **U.S. stocks launched** a huge rebound as investors decided they didn't want to miss out on buying shares at low prices. The Dow Jones industrials surged 6.7%. European stock indexes were mixed. Pages 17, 18

■ **Iceland's prime minister** said he expects the IMF to approve $2.1 billion in aid next week. Frozen deposits in Icelandic banks are a stumbling block. Page 2

■ **Telenor fears** that a Siberian court could threaten the Norwegian firm's stake in Russia's No. 2 cellphone company. Page 3

■ **The U.S. trade deficit** narrowed, but the figures underscore the fragile state of the global economy. America's labor market worsened. Page 9

■ **OPEC members will meet** later this month, and are expected to cut production again. U.S. benchmark crude closed up 3.7% at $58.24. Page 17

■ **Wal-Mart's profit rose** 9.8% in its fiscal third quarter as the discount retailer benefited from consumer thriftiness. Page 4

■ **Siemens posted** a wider loss for the fiscal fourth quarter, weighed down by charges. Page 6

■ **Vivendi said profit** more than tripled on a gain related to the videogames division. Page 6

■ **SABMiller reported** a 49% jump in its fiscal first-half profit but said it would review its spending amid slowing demand for beer world-wide. Page 8

■ **LSE reported strong** first-half results but its chief warned that the U.K. could enter "a major recession." Page 19

■ **China agreed to repeal** a rule requiring foreign financial-news services to share data with a state-run competitor. Page 22

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8835.25	+552.59	+6.67
Nasdaq	1596.70	+97.49	+6.50
DJ Stoxx 600	204.08	-1.14	-0.56
FTSE 100	4169.21	-12.81	-0.31
DAX	4649.52	+28.72	+0.62
CAC 40	3269.46	+35.50	+1.10
Euro	$1.2559	+0.0051	+0.41
Nymex crude	$58.24	+2.08	+3.70

Money & Investing > Page 17

World-Wide

Lukashenko is talking to Russia about placing advanced missiles in Belarus that could hit targets deep inside Europe. The talks raise the ante in the debate over a U.S. plan to deploy missile defenses in Europe and complicate Western hopes for closer ties with Belarus, which some in the U.S. and Europe hope could help counterbalance an increasingly hostile Kremlin. Page 1

■ **NATO defense ministers** reaffirmed the alliance's commitment to assisting Ukraine in its goal of joining the bloc, but said the nation still faces numerous obstacles to membership.

■ **U.S. and Afghan forces** have begun working with Pakistan's military to take on militants in border areas. Meanwhile, a suicide bomber struck a U.S. convoy in Afghanistan, killing civilians and a U.S. soldier. Page 11

■ **Sweden said it will send** 110 more troops to Afghanistan and increase development aid.

■ **Suspected Islamic gunmen** kidnapped an Iranian diplomat after killing his guard in northwestern Pakistan. Tehran summoned Pakistan's envoy.

■ **Pakistan said** China will provide it with $500 million in financial assistance, in a breakthrough for Islamabad. Page 10

■ **ECB Vice President** Lucas Papademos said pan-European measures for managing financial crises must be strengthened.

■ **The U.S. blocked** all products containing milk from China from entering the country on concerns they might be contaminated with industrial chemical melamine.

■ **A Russian court sentenced** banker Alexei Frenkel to 19 years in jail for organizing the murder of a central bank official.

■ **The European Commission** opened an antitrust investigation into French biomedical analysis firms, raiding the offices of an association and a company.

■ **Gaza militants fired** a new barrage of rockets at Israeli border areas, prompting Israel to bar planned food and fuel shipments to Palestinian civilians.

■ **A Russian-made cargo plane** chartered by FedEx crashed in Iraq after reporting a malfunction. The crew was presumed dead.

Editorial & Opinion

The gall of the Irish

Dublin criticizes a European leader for siding with Ireland's voters. Come again? Page 12

Agence France-Presse

President Alexander Lukashenko said that even if Russia and Belarus don't reach a deal on placing missiles in Belarus, he would like to acquire and deploy some anyway.

Belarus president seeks to deploy Russia missiles

By Alan Cullison

MINSK, Belarus—President Alexander Lukashenko is in talks with Moscow about placing in Belarus advanced Iskander missiles that could hit targets deep inside Europe.

The talks raise the ante in the debate over a U.S. plan to deploy missile defense in Europe. They also complicate Western hopes for warmer ties with Belarus, which some in the U.S. and Europe hope could help to counterbalance an increasingly hostile Kremlin.

In an interview with The Wall Street Journal, Mr. Lukashenko said that he would like to see closer relations with the West but that he sympathizes with Russia on two flashpoints that have rocked relations—the conflict in Georgia and controversial U.S. plans to place antimissile systems in Europe to counter a potential threat from Iran.

As a response, he said, he "absolutely supports" Russia's plans to place Iskander missiles in Kaliningrad that would target the U.S. missile system. Kaliningrad is a Russian enclave in Europe that borders North Atlantic Treaty Organization members Poland and Lithuania, and missiles there could reach the proposed U.S. missile sites in Poland.

Mr. Lukashenko said that Russia also had proposed putting Iskander missiles inside Belarus, which is situated between Russia and Poland. And if an agreement on the issue isn't reached, Belarus would like to

Please turn to page 27

Economists offer support for Bernanke

By Jon Hilsenrath

Federal Reserve Chairman Ben Bernanke has come under some criticism for his handling of the financial crisis, but economists have an early message for President-elect Barack Obama: Don't dump him.

By a ratio of 3 to 1, private economists surveyed by The Wall Street Journal said Mr. Obama should reappoint Mr. Bernanke when the Fed chairman's term comes up in January 2010.

Any decision about Mr. Bernanke is still months away, with Mr. Obama now putting together his own economic team. But the question about whether Mr. Bernanke stays on at the Fed for another six-year term—and a debate about Mr. Bernanke's legacy—could hang over the economic-policy scene in 2009.

Mr. Bernanke has rewritten the book on central banking in the past year, aggressively cutting interest rates, dramatically expanding the Fed's balance sheet and creating many lending programs to fight a worsening financial crisis. His inventiveness could prove in the long run to have helped to stabilize the system at a critical moment.

"Bernanke has done a good job in

Please turn to back page

Trough is now?

Forecasters believe U.S. is in the worst part of recession 9

THE WALL STREET JOURNAL.

LEADING THE NEWS

Congo mining in limbo

Unrest is distracting officials from efforts to improve contracts

BY CASSANDRA VINOGRAD

As rebel fighting rages in eastern Congo—threatening to escalate into a regional conflict—government officials in Kinshasa have put on hold important decisions affecting the mining industry, a delay that likely pushes back international investment plans and undercuts the country's efforts rebuild its economy.

International companies have scrambled to secure mining rights in Congo. The country has vast reserves of cobalt, copper, tin and diamonds, but it has been racked by years of civil war and cross-border fighting. Elections in 2006, the country's first in 40 years, appeared to ease some of the instability.

Congo's mining ministry recently completed a review of the state's contracts with international companies. It was one of a series of moves by African countries to seek better terms amid booming commodity prices. The ministry renegotiated some 60 concession agreements.

But Congo's lawmakers, preoccupied by the recent fighting and humanitarian crisis in North Kivu province near Congo's eastern border with Rwanda, have failed to sign off on the new deals. Renegade Gen. Laurent Nkunda has surrounded the provincial capital of Goma and has threatened United Nations peacekeepers and government troops. This week, Angola said it will send troops to the country, raising fears the fighting could draw in other countries.

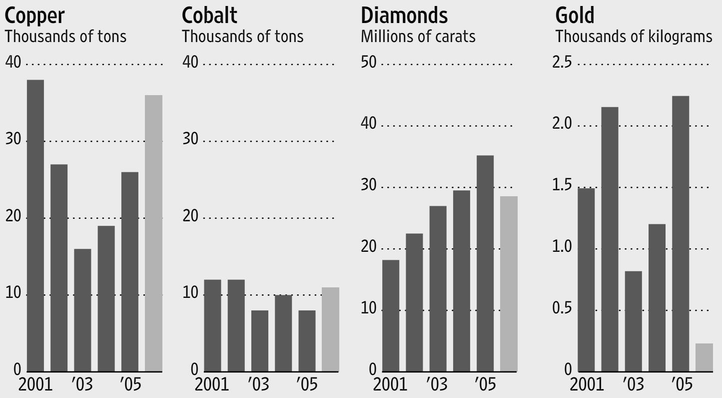
"This war in the east is taking all of the government's attention," said Deputy Minister of Mines Victor Kasango in a telephone interview. "We are waiting for things to calm down."

The revised mining contracts were seen as crucial to President Joseph Kabila's plans to replenish state coffers and repair infrastructure.

Mr. Kasango didn't provide details, but said the new contracts would provide "good income opportunity in terms of taxation." Some companies have signed off on the new deals already, while others have said they will contest any renegotiation. But the government must formally approve them first.

Digging in

Congo's attempts to renegotiate mining contracts have hit delays amid fighting in the east of the country. Mining is a crucial source of government funds. Selected annual production of minerals:



Note: 2006 annual figures are estimates

Source: International Monetary Fund

CORRECTIONS & AMPLIFICATIONS

Pure Digital Technologies' Flip Mino records video at 640x480 pixels. The Mossberg Solution column in Wednesday's Marketplace section incorrectly said the hand-held camcorder records at 680x480 pixels.

Eisner & Lubin LLP is an accounting firm in New York. A Career Journal article Tuesday incorrectly said it is a law firm.

A television commercial for Nestlé Pure Life is narrated by talk-show host Cristina Saralegui. The Advertising column Thursday incorrectly spelled her first name as Christina.

Iceland's prime minister says he expects aid soon

BY CHARLES FORELLE

REYKJAVIK, Iceland—Iceland's Prime Minister Geir Haarde says he expects the International Monetary Fund to approve a stalled $2.1 billion loan package for the crisis-hit island early next week.

In an interview at his office, Mr. Haarde said he believed the Washington-based fund was waiting for the countries that Iceland has turned to for help to approve their own packages first.

"We understand that the fund needs to have assurances that it will not be acting alone," said Mr. Haarde. He added that "pieces are gradually falling into place."

Geir Haarde

Iceland and the IMF staff reached a deal for the package on Oct. 24. Board approval was expected in early November. IMF loans to Ukraine and Hungary that were agreed to in the days following Iceland's deal were both approved last week by the IMF's board.

An IMF spokeswoman said the fund was "still in the process of ensuring that we have the needed financing," and that a meeting of the fund's board would take place "in due course."

The collapse last month of Iceland's banking system has upended the economy, routed the currency and sent a nation once proud of its outsize economic ambition and high standard of living on the path to a dark depression.

Mr. Haarde and other Icelandic leaders had expected approval of the aid package earlier this month. The package would be primarily devoted to building the Icelandic central bank's small foreign-currency reserves, so that the bank is able to support the country's currency and enable the island's badly damaged economy to recover.

"Then we have what we need here domestically to reopen the foreign-exchange market and get things going again," Mr. Haarde said.

Iceland needs outside donors, since its small size limits the amount of money the IMF can grant. Iceland says it needs a total of $6 billion in aid. But getting others to help isn't easy, since many foreign countries took hits when Iceland's globally extended banks collapsed last month.

Also, potential donor countries are leery of extending a hand without ensuring that Iceland compensates foreign depositors who have money tied up in its banks, a person familiar with the discussions said.

An IMF spokesman said the rescue package faces outstanding issues "raised by potential creditors, including the process for determining Iceland's obligations with regard to foreign deposits." Iceland has commitments, some with qualifications, for over $800 million.

—Tom Barkley contributed to this article.

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Telenor fears for stake in Russian telecom

Siberian court is key as dispute continues over cellphone firm

BY GREGORY L. WHITE

MOSCOW—Norway's **Telenor** ASA fears that a Siberian court next week could threaten its hold on a big stake in Russia's No. 2 mobile-phone company amid growing complaints by foreign investors that Russian companies are abusing their power.

The investors' alarm comes as Russia's stock market has gone from being one of the world's best performers to one of the worst, falling 66% this year. Russian shares fell again Thursday. The MICEX index dropped 7.6% after prices for Russian crude oil, a vital export, fell below the $50 a barrel for the first time in more than a year. That added to fears about the government's ability to meet its generous spending pledges and avoid a devaluation of the ruble. Regulators' frequent suspensions of trading amid sharp price declines have only deepened investor concerns.

"The perfect storm keeps getting more perfect," said Peter Halloran, head of Pharos Capital, a Moscow investment fund.

Investors say Russian tycoons who control two electricity companies are taking advantage of court rulings to avoid making good on promises made before the financial crisis to buy out minority shareholders. Investors' lawyers question the legality of the court decisions.

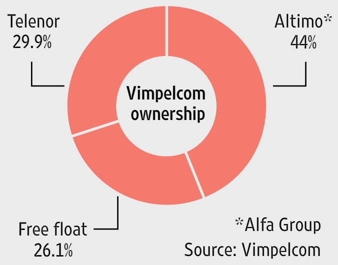
Meanwhile, a takeover battle at **OAO Norilsk Nickel** has led minority shareholders to accuse management of favoring the interests of the miner's largest shareholder, a billionaire who bankers say is squeezed for cash. Norilsk denies any favoritism.

Some foreign investors say the conflicts will undermine the government's efforts to shore up the markets with a $200 billion bailout.

"They're trying to put out the fire on the second floor, but this is taking the foundation out from under them," said Alexander Branis, chief investment officer at Prosperity Capital Management, a longtime investor in Russia. "These precedents will be in people's minds for a long time."

Telecom tension

Telenor has been at odds with its Russian partners in Vimpelcom for several years.



Source: Vimpelcom

In the Telenor case, lawyers for the Oslo-based telecommunications company said they fear that the Eighth Arbitrage Appellate Court in Omsk on Tuesday could rule against Telenor in a case involving Telenor's 29.9% stake in Russia's OAO **Vimpel Communications.** If Telenor loses, a $2.8 billion judgment against the company would come into effect, likely leading to the seizure of Telenor's stake as security, lawyers said.

Telenor has been engaged in a long-running fight with Russian partner Altimo, the telecom unit of **Alfa Group**, over the direction of Vimpelcom, Russia's second-biggest cellphone company by subscribers, after OAO **Mobile Telesystems.** The sides have traded accusations of bad faith and dirty tricks and filed suits in courts from Russia to the U.S.

Telenor has said Alfa is behind the Omsk suit. Alfa, which is controlled by billionaire Mikhail Fridman, denies the allegation. The suit was brought by **Farimex Products** Ltd., an offshore company in the British Virgin Islands that owns a small stake in Vimpelcom and accused Alfa and Telenor of harming the company with their dispute over an acquisition in Ukraine two years ago. A lower court dropped the claim against Alfa, but found Telenor liable.

The Omsk court late last month froze Alfa's and Telenor's Vimpelcom stakes. The order appeared to prevent Western creditors from seizing Alfa's shares, which they claimed as collateral for a loan on which Alfa had defaulted. But within two days, Alfa got a government loan to pay off the foreign lenders. The court lifted the freeze on Alfa's shares shortly thereafter.

"That makes us very worried about the outcome" next week, said Telenor spokesman Dag Melgaard.

Alfa executives say they worked to have the freeze lifted as soon as it was issued.

This week, Alfa released what it said appeared to be evidence of eavesdropping on Altimo, calling on Telenor to investigate. Telenor dismissed the allegations, saying they were largely falsified.

Alfa has a history of tensions with some of its foreign partners. The latest flare-up came with BP PLC this summer over their TNK-BP Ltd. joint venture, where the BP-backed chief executive was forced out of Russia under pressure by regulators.

CORPORATE NEWS

Bright side of the downturn: bargains

As consumers pull back in U.S., more deals on designer duds, other luxuries crop up in off-price or online outlets

BY JENNIFER SARANOW
AND CHRISTOPHER LAWTON

Financial markets are in the tank, and major economies are grinding to halt—a great time, it turns out, to shop.

In the U.S., shoppers can find a bonanza of deals on everything from Prada shoes to premium jeans and smart phones. Discounters like T.J. Maxx and **Overstock.com** and outlet stores like Saks Fifth Avenue Off Fifth are all stocking some of the best selections of apparel, accessories and electronic goods—at some of the best prices—due to the sharp falloff in consumer spending that has forced full-price stores to unload excess inventory.

Shoppers like Kristle Bonfield, a 23-year-old nurse technician and regular T.J. Maxx customer, have noticed the difference. The store she frequents in New York has lately been stocking a wider selection of high-end jeans from labels such as True Religion, Joe's Jeans and Paper Denim & Cloth, she says. Ms. Bonfield says she was able to pick up a pair of 7 for All Mankind jeans for about $80 that she later saw at Bloomingdale's for more than $200.

Kimberly Greenberger, an analyst at Citigroup Inc., expects the deals to only get better into next year if consumer spending stays weak, as industry watchers are expecting. In a survey of 1,000 people earlier this month by America's Research Group, nearly half of the respondents who said they have shopped at luxury stores in past Christmas seasons say they won't be shopping at those stores this year—meaning more merchandise could be headed to off-price stores, online discounters and outlet stores.

Associated Press

Discounters like **T.J. Maxx** in the U.S. are stocking some of the best selections of apparel, accessories and electronic goods—at some of the best prices.

Overstock.com, an online discounter based in Salt Lake City, will be selling items at 15% to 45% off full retail price for the holidays. Even now a gray crocodile-embossed tote bag from Yves Saint Laurent sells for $1,300 on the site, a discount of 31% from the retail price of about $1,900. Since mid-September, the company has been snapping up high-end apparel, boots, shoes and handbags from brands such as Prada, Gucci and Jimmy Choo that it has never carried before. Its inventory of shoes alone has swelled to 55,000 pairs from fewer than 2,000 before September.

Retail Ventures Inc.'s DSW stores are offering up to 75% off designer shoes from brands like Ralph Lauren and Sergio Rossi, compared with discounts of up to 50% last year, while Loehmann's recently advertised a "big fashion event," with discounts of up to 70% off on apparel from designers, including Nanette Lepore and Marc by Marc Jacobs.

"We are really seeing more and better brands across the board, in all categories of apparel, accessories, footwear, bath and body, and home fashions," says Sherry Lang, spokeswoman for **TJX** Cos., which owns T.J. Maxx and Marshalls stores, two of the largest off-price retailers.

Rival Ross Stores Inc. has also "been able to take advantage of an increased supply of better merchandise, including getting some new brands in our stores," says spokeswoman Bobbi Chaville. And **Stein Mart** Inc., which recently rolled out a premium jeans section in all its stores, says it now carries at least half a dozen premium jeans brands, up from one or two last year.

Many of the stores generally won't name the new brands for fear of being cut off by the labels, which face a delicate balancing act in times like these. The ability of designer brands to command high prices depends on their image as luxury items sold exclusively at high-end stores. But if orders are canceled or the goods don't sell once they hit a store, the labels often show up in "off-price" stores.

Shopping at off-price retailers, of course, isn't easy. Most of the stores try to create a treasure-hunt atmosphere that requires sorting through racks crammed with a jumble of brand names. And some of the merchandise is so picked over that it is damaged, like a Vince cashmere cardigan with a hole near the collar that was being offered recently by T.J. Maxx for $149.99.

Maria Elena Friskel, a retiree from Kansas City, Kansas, and a regular shopper at **B&H Factory Outlet** Inc. on **eBay** Inc., likes the fact that the site starts bidding on all dresses at just 99 cents. Last month, she purchased a Calvin Klein velvet evening dress that was originally priced at $198 for just $25, a price that included shipping.

Today's deals aren't limited to fashion. **Dyscern** LLC, an **Amazon.com** and eBay seller of handheld electronics, says it is now getting good prices on MP3 players, smart phones and portable DVD players that have been returned to big-box electronics stores. Dyscern then passes along the savings to consumers. For example, a **Palm** Inc. Treo smart phone, which retails normally for $579, is selling for $189 on the site, a discount of 67%.

And TigerDirect.com, a unit of **Systemax** Inc., has been snapping up TVs, laptops and LCD monitors from manufacturers in the past three to four weeks, in part because of big box retailers canceling orders, says Chief Executive Gilbert Fiorentino. Such deals, at savings of up to 20% off retail prices, can be found near the bottom of the Web site under the "e-deals" section .

Thrifty consumers help push Wal-Mart's profit up 9.8%

BY MIGUEL BUSTILLO
AND ANN ZIMMERMAN

The U.S. economy couldn't have tanked at a better time for **Wal-Mart Stores** Inc., which on Thursday reported a 9.8% rise in quarterly earnings, underscoring the benefits the discount king is reaping from bargain-hunting consumers.

The nation's economic misery plays into Wal-Mart's strengths: unmatched market clout that allows it to drive down prices and undercut competitors. For every $1 spent in the U.S. in the past year on goods other than cars, 8.2 cents was forked over to a cashier at Wal-Mart or its Sam's Club unit, according to Mike Neimira, chief economist at the International Council of Shopping Centers.

Arguably, the world's largest retailer wields more power than ever as it seizes the chance to grab an even greater share of consumer spending, boosting its stature as a customer without equal in the global marketplace.

But even Wal-Mart isn't immune to the chaos in the world economy, with signs emerging Thursday that the volatility is taking a toll on the Wal-Mart juggernaut. The company warned that currency fluctuations were beginning to blunt progress in its international business, and it slightly lowered its fourth-quarter profit estimate by six cents a share, to between $1.03 and $1.07. It also tweaked its annual earnings forecast, which it had raised in August, to a range of $3.42 to $3.46, down from $3.43 to $3.49.

Still, in a period of economic upheaval, Wal-Mart was able to claim a net sales increase of 7.5% to $97.63 billion during the fiscal third quarter ended Oct. 31. At stores open at least a year, sales rose 3%—twice as much as a year before, and far better than nearly every other American retailer. Earnings for the quarter rose to $3.14 billion, or 80 cents a diluted share, up from $2.86 billion, or 70 cents a share, a year earlier.

Amid rising U.S. unemployment, Wal-Mart boasted that it had hired 33,000 new employees in the 12 months prior to October, bringing its U.S. work force to roughly 1.5 million.

"Our balance sheet is actually stronger today than a year ago. If you think of the environment we are in, there are very few people who can say that," said Thomas Schoewe, Wal-Mart's chief financial officer.

Wal-Mart is using its advantage to accelerate what it hopes will be a permanent turnaround in a tarnished image and a slowing business. The goal: to hold onto its gains even when the economy improves and its customers begin trading back up to trendier rivals like **Target** Corp. and **Whole Foods Market** Inc.

That's no sure thing. A big part of Wal-Mart's improvement in sales this year came from the transitory impact of government stimulus checks and higher food prices, both of which have begun to fade.

The Bentonville, Ark., retailer has gained share by beefing up its electronics section and adding exclusive teen apparel brands like LEI jeans. But it remains vulnerable to the same slump in sales of big-ticket items that led **Best Buy** Co., the nation's No.1 electronics retailer, to warn of steeply lower profits in the coming months.

And when the economy eventually improves, lifting its rivals, Wal-Mart will still be facing one of its biggest problems: the lack of a growth engine that can propel expansion the way its enormous U.S. supercenters did through the last decade and a half.

With limited growth prospects in the U.S., which comprises 70% of the company's revenues, Wal-Mart is shifting attention internationally. Over the next five years, it plans to move two-thirds of capital expenditures to high-growth markets such as Brazil and China.

Wal-Mart's has had a checkered history with its foreign forays, making the move a riskier bet. That was evident again on Thursday when the company reported that while it was notching strong same-store sales in the U.S., including a 4.5% quarterly boost in its Sam's Club warehouse business, its Japanese store sales were down 3% from a year earlier.

All told, though, the economic slowdown has proved a lucky break for Wal-Mart, which managed to beat analysts' estimates with its fiscal-third-quarter earnings.

Just two years ago, the discount retailer appeared to have lost its way after some disastrous efforts to attract more upscale customers, and a long string of bad publicity. Labor unions accused Wal-Mart of providing sub-par wages and benefits to its workers. Lawsuits accused Wal-Mart of unfair and discriminatory work practices, such as forcing employees to work through lunch breaks without pay.

Associated Press

Wal-Mart has benefited from its low-price position as households trim budgets and **shoppers seek bargains**.

Wal-Mart also began experiencing slowing U.S. sales after reaching what analysts viewed as a saturation point with its supercenters. Overseas, Wal-Mart admitted defeat after years of struggles in South Korea and Germany, but continued pushing ahead in Japan, though profits in the second-largest market behind the U.S. continued to elude it.

About 18 months ago, Wal-Mart forged a plan to turn things around. It slowed new store growth in the U.S. and returned to its low-cost roots with a vengeance. It began doggedly executing a turnaround plan featuring a sunny new logo, a focus on environmental correctness, an emphasis on tidier stores, and a measured mix of free-trade Argentine wines and high-definition videogames to go along with the diapers and dog food.

"We have always been the price leader, that's not new," Eduardo Castro-Wright, the head of Wal-Mart's U.S. operations, said in an interview. "But the products we now carry, the way we present them, the in-store experience—that is changing dramatically."

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CORPORATE NEWS

Honda plays up the Jazz

Expanded capacity is considered for car produced in China

By Norihiko Shirouzu

Associated Press

The **Honda factory in Guangzhou** has 1,100 workers and exports 43,000 Jazz subcompact cars a year to 21 European countries.

GUANGZHOU, China—**Honda Motor** Co. is considering expanding the capacity of a Chinese factory that exports some 43,000 Jazz subcompact cars a year to Europe.

Masaya Nagai, head of the Guangzhou plant, said Honda is "actively considering" the expansion. He said the company wants to ship fuel-efficient subcompact cars it builds here—the Honda Jazz, called the Fit in the U.S. and Japan—beyond Europe.

A decision hasn't been made, in part, because of uncertainty caused by the global economic crisis. "In the end, the decision will hinge on demand," he said. The plant, which has 1,100 workers, now exports the Jazz to 21 European countries.

The cars are produced by Honda Automobile China Co., which is owned 65% by Honda, 25% by **Guangzhou Automobile Group** Co. and 10% by **Dongfeng Motor Group** Co.

The Honda executive said that despite the global economic turmoil since September, demand for the Jazz has remained "fairly brisk," and that European buyers are overcoming their concerns about the quality of Chinese-made cars.

Speaking at a ceremony to mark the shipment of more than 100,000 Jazz cars to Europe since 2005, he said Honda is on track to sell 45,000 Jazz cars this year, up from 43,000 in 2007. The plant has the capacity to produce 50,000 cars a year.

Mr. Nagai said Honda could boost its capacity to 60,000 a year "fairly easily" without much investment, by increasing the speed of its assembly line and hiring a couple of dozen of more workers.Raising it to 100,000 cars would call for a "significant investment," he said.

"One big concern is what impact an accelerated expansion of the plant might have on product quality," Mr. Nagai said. "That's what makes this move a complicated one."

Mr. Nagai insisted the quality of Guangzhou-produced Jazz cars is on par with that of the same car made in Japan. That accomplishment, he said, is the primary factor that is now spurring Honda to mull exporting the China-made Jazz to markets beyond Europe.

While sales of the China-made Jazz are on the rise in Europe, it was still tough to convince some consumers in that region to accept Chinese-produced cars, Mr. Nagai said. "That's a big if as well in the U.S." Mr. Nagai said.

Vivendi net profit climbs sharply

By Jethro Mullen

PARIS —Entertainment and telecom group **Vivendi** SA Thursday said third-quarter net profit more than quadrupled, boosted by a €2.32 billion ($2.9 billion) financial gain related to its videogames division, and it maintained its 2008 target for its preferred measure of profit growth.

Vivendi, the majority of whose revenues are based on subscriptions, is yet to take a blow from the economic slowdown, according to Chief Financial Officer Philippe Capron.

"So far we're not seeing anything," he said, adding that while the environment isn't "very buoyant," Vivendi isn't planning "for a global slowdown of our activities."

Net profit for the three months ended Sept. 30 increased to €2.76 billion from €578 million a year earlier, the company said. The figure was driven higher due to the €2.32 billion gain stemming from the way in which Vivendi's stake in its games division was accounted for after a merger with Activision Inc. to create **Activision Blizzard** Inc.

The creation of Activision Blizzard, in which Vivendi holds a 52% stake, was treated as if Vivendi had sold a 44% stake in its games division, generating a "paper profit" due to the low book value that Vivendi's games division previously had, Mr. Capron said.

Adjusted profit, which strips out most nonrecurring gains and charges, dropped 13% to €625 million from €721 million. But Vivendi still confirmed its 2008 guidance of adjusted profit growth similar to the 8.3% increase in 2007. The guidance excludes the impact of the acquisitions of telecom operator Neuf Cegetel and Activision.

Adjusted earnings before interest and tax, or Ebit, the figure analysts follow to gauge Vivendi's operating performance, fell 4% to €1.28 billion from €1.34 billion. Profit was dented by restructuring charges at Activision Blizzard and at French telecom division SFR, which amounted to €189 million.

Revenue increased 20% to €6.5 billion from €5.42 billion, boosted by the acquisitions of Neuf and Activision.

Vivendi shares Thursday closed at €20 and have lost about 36% of their value since the start of the year.

BT Group announces 10,000 job cuts

By Erica Herrero-Martinez

BT Group PLC said it would cut 10,000 jobs, or 6.3% of its global work force, by March in an effort to rein in costs. The U.K. telecommunications company, meanwhile, posted an 18% rise in its fiscal second-quarter profit.

"We need to carry on delivering cost savings," said BT Chief Executive Ian Livingston.

BT, which employs 160,000 globally, said the cuts affect 4,000 direct BT staff positions and 6,000 agency, contract and offshore workers. It already has made 4,000 cuts, leaving an additional 6,000 to go by March. Most of the job losses will be in the U.K. The job cuts are part of the company's previously announced goal to reduce costs by as much as £800 million ($1.2 billion) this year.

The company said the job cuts would reduce reliance on consultants and contractors, and that a large number of cuts would be made by not replacing people who leave.

Mr. Livingston said that while three of the companies four divisions were performing well, "profits in BT Global Services are simply not good enough and we are taking decisive action to put matters right." The global-services division manages communications systems for businesses.

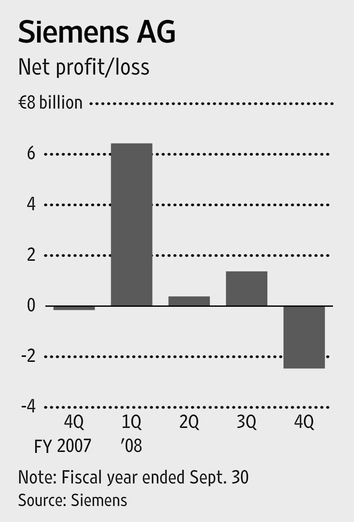
Cost-control issues at the division have worried investors, and news of the latest cutbacks helped BT Group shares, which rose 9% to end at 122.50 pence Thursday in London.

BT also proposed changes to its pension plan, such as increasing the retirement age to 65 and the rate of member contributions. Mr. Livingston said the proposed changes would lead to annual savings of about £100 million a year.

BT said net profit for the quarter ended Sept. 30 rose to £400 million, mainly because the year-earlier figure was weighed down by restructuring costs. Revenue rose 4.1% to £5.3 billion.

Siemens posts wider loss but outlook still upbeat

By Archibald Preuschat



MUNICH— **Siemens** AG reported a sharply wider net loss for the fiscal fourth quarter, weighed down by about €4 billion ($5 billion) in charges, including funds set aside for expenses related to a bribery investigation.

However, the German industrial conglomerate said Thursday that its order book remains strong, and it stuck with its operating-profit forecast for the current fiscal year, saying it is well-positioned for the economic downturn.

For the quarter ended Sept. 30, Siemens posted a net loss of €2.47 billion, compared with a year-earlier loss of €155 million. The latest results include about €3 billion in restructuring charges and a €1 billion provision for an expected settlement with U.S. and German authorities over an investigation into alleged bribery at the company.

Sales rose 7.2% to €21.65 billion from €20.2 billion in the year-earlier quarter. Order intake was €22.21 billion, up from €21.33 billion.

Siemens reiterated that for the current fiscal year, it expects operating profit at its three main sectors—industry, energy and health care—in a range of €8 billion to €8.5 billion, up from €6.52 billion the previous year. The outlook excludes restructuring, legal and regulatory effects.

"It has become clearly more ambitious to reach our income guidance for fiscal 2009. But we are sticking to our goal," said Chief Executive Peter Löscher.

Mr. Löscher said he remains confident for the current fiscal year, citing the company's order backlog of €85 billion as of Sept. 30, €15 billion above the previous year's level, though he predicted declining growth rates in order intake and sales.

Siemens shares rose 4.7% to €41.95 in trading Thursday.

M.M. Warburg analysts said it is "most important" that Siemens reiterated the outlook, and that new orders are holding up. However, in a note to clients, Morgan Stanley analysts said volatility in end markets for Siemens' wide variety of businesses will likely weigh on the stock.

The company plans to pay a dividend of €1.60 a share for fiscal 2008, level with the prior year.

Munich-based Siemens said last year it had flagged €1.3 billion in suspicious transactions in 2000 through 2006. U.S. authorities have been investigating Siemens under the Foreign Corrupt Practices Act. The case began two years ago when German police raided Siemens's offices on suspicion of corruption.

Fallout from the November 2006 raid has triggered criminal probes in more than 10 countries amid growing evidence that Siemens bribed customers to win big infrastructure projects abroad. The company is also in discussions with Munich prosecutors in relation to a similar probe.

Crédit Agricole net falls 62% on higher risk-related costs

By Nicolas Parasie

PARIS—**Crédit Agricole** SA posted a 62% drop in third-quarter net profit, hurt by an increase in risk-related costs across its divisions.

A large part of those costs were borne by the French bank's investment-banking unit Calyon, which has been hit hard by the credit crisis. In July, Crédit Agricole raised €5.9 billion ($7.3 billion) to cover more than €6 billion in write-downs and provisions related to its exposure to toxic assets and monoline insurers. The collapse of Lehman Brothers also translated into a third-quarter pretax hit of €220 million for Crédit Agricole.

The bank's shares have lost nearly half their value in the past six months, giving it a market capitalization of just over €20 billion. Shares Thursday closed at €9.40.

"I consider this [third-quarter] result as satisfying given the current context in which we operate," Chief Executive Georges Pauget said on a conference a call. The bank, which operates large retail-bank operations in France, Italy and Greece, said net profit for the quarter fell to €365 million from €954 million in the year-ago period, while revenue fell 2% to €4 billion from €4.08 billion.

Crédit Agricole said its Tier 1 ratio, a measure of the strength of a bank's balance sheet, stood at 8.5% at the end of September. This excludes the impact of the French government aid package, which foresees buying €10.5 billion in subordinated debt from France's biggest banks, including Crédit Agricole.

Crédit Agricole's international retail banking result was dented by Greek unit Emporiki, which posted a €73 million loss for the quarter. Calyon swung to a €226 million net loss as it is stopping its credit and exotic derivatives activities.

Separately, French investment bank **Natixis** SA late Wednesday posted a net loss of €234 million compared with a net profit of €437 million a year earlier, as €342 million in fresh write-downs battered the bottom line. A positive value-adjustment of €186 million on issuer spreads failed to offset the €263 million write-down on monolines and a €216 million write-down on structured products.

CORPORATE NEWS

Inflating the credentials

A U.S. survey finds a few executives are lying about degrees

By Keith J. Winstein

Inflated academic credentials in the U.S.'s executive suites may be more common than generally thought.

A survey of 358 senior executives and directors at 53 publicly traded companies has turned up at least seven instances of claims that individuals had academic degrees they don't have. In some cases, the slip-ups don't appear to have been intentional and may have been caused by misunderstandings.

Among the executives whose credentials don't check out: Dennis Workman, chief technical officer at **Trimble Navigation** Ltd., a big maker of global-positioning-system devices; and James DeHoniesto, until Wednesday the chief information officer at **Cabot Microelectronics** Corp., a supplier of chemicals and pads used to polish microchips.


Barry Minkow

Misstatements have cost top corporate officials or directors their jobs in the past few years at companies including retailer **RadioShack** Corp., vitamin maker **Herbalife** Ltd. and **Usana Health Sciences** Inc. The discrepancies at the latter two companies were unearthed by corporate sleuth and sometimes short-seller Barry Minkow.

Mr. Minkow also conducted the latest survey, which doesn't profess to be a scientifically valid sampling of corporate America. Mr. Minkow examined only certain companies or industries he already suspected of being prone to hype.

But the misrepresentations he uncovered may be enough to raise investor concerns about executive credibility as well as company procedures for vetting key management and board members and compiling their official biographies.

At the companies concerned, "You have to ask yourself, as any good investigator would say, what else might be there?" says Mr. Minkow, who heads the San Diego-based Fraud Discovery Institute. Mr. Minkow, who served prison time for the ZZZZ Best stock swindle in the 1980s, has won kudos from the Federal Bureau of Investigation since his release for his role in uncovering frauds on the Internet, in the real-estate field and elsewhere.

After choosing the companies to survey, Mr. Minkow says he cross-checked their top officials' biographies—usually included in filings with the Securities and Exchange Commission—against a database of college degrees open to private investigators.

The Wall Street Journal confirmed each case of an inaccurate degree claim with the university involved.

Mr. Minkow says he doesn't have any investment position in the companies where he found problematic credentials, but one of his employees has bought put options betting against some of their stocks.

One of the discrepancies Mr. Minkow turned up in SEC filings involves Mr. Workman, Trimble's chief technical officer. According to his biography in the Sunnyvale, Calif., company's annual report, Mr. Workman holds a master's degree in electrical engineering from the Massachusetts Institute of Technology. M.I.T. says Mr. Workman attended the school, studying physics for two semesters, but never earned a degree.

A spokeswoman for Trimble, LeaAnn McNabb, says Mr. Workman thought he had received a master's degree when he left M.I.T.'s doctoral program in the late 1960s.

"The professor gave his assurance to Dennis that he would submit the necessary paperwork," Ms. McNabb says. "Dennis is working with M.I.T. to work out the situation." She declined to comment on whether Trimble had previously checked Mr. Workman's credentials or would update its annual report.

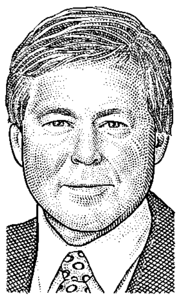
"I don't remember receiving the degree," Mr. Workman said in an interview. "It's my position that I earned it, that's for sure. I'm unequivocal about that." Mr. Workman says he had planned to earn a Ph.D. but had to leave school because of the Vietnam War.

A corporate biography claimed Mr. DeHoniesto, the Cabot Microelectronics chief information officer, had a bachelor's degree in computer science from the University of Pittsburgh. Although he did attend Pitt's school of engineering in the 1980s, the senior manager didn't earn a degree, the school says.

After Cabot received inquiries from the Journal about the matter Wednesday, Mr. DeHoniesto announced his resignation from the Aurora, Ill., company. He couldn't be reached for comment.

A biography of Sam Box, until recently the president of **Tetra Tech** Inc., appears repeatedly in the company's SEC filings identifying him as the holder of a bachelor's degree in civil engineering from the University of California. After receiving inquiries from the Journal last month prompted by Mr. Minkow's work, the Pasadena, Calif. environmental-engineering company said Mr. Box "admitted that he does not have a college degree," and that it would demote him to vice president.

A spokesman for Tetra Tech, Michael Bieber, says Mr. Box came to Tetra Tech after it acquired his past employer, and Mr. Box's academic credentials weren't verified at the time. "It was a loophole in our system," Mr. Bieber says, adding that the company had tightened its process in response.


Kenneth Keiser

Tetra Tech declined to make Mr. Box available for comment.

Maurice Schweitzer, who studies business ethics at the University of Pennsylvania's Wharton School, urges companies to take a hard line on misrepresented academic credentials "If you say, 'Look, the CEO has been doing a great job, we otherwise have no complaints about this person, so we're going to let it go,' my concern is that you're sending a message throughout the organization that you don't want to be sending," he says.

"I'm very concerned that if people believe you can lie and get away with it, then down the line people will start cheating on their expense reports, they'll start misrepresenting their billable hours, they'll start misusing their corporate funds," Mr. Schweitzer adds.

Further down the corporate pecking order, inflated credentials are fairly common, according to Jenifer DeLoach, who supervises background checks for corporate clients at Kroll Inc., the investigative arm of **Marsh & McLennan** Cos.

Kroll issues an annual report of its "hit ratio" that says about 20% of job seekers and rank-and-file employees undergoing background checks by their companies are found to have inflated their educational credentials. Those seeking jobs usually get turned down when discrepancies appear, Ms. DeLoach says.

But as executives climb the ladder and vie for posts at different companies, they are vetted by search firms and director-level search committees that often conduct extensive background checks.

Others with degree discrepancies discovered by Mr. Minkow in SEC filings and verified by the Journal with the applicable schools include:

■ Robert Lazarowitz, a director of **Knight Capital Group** Inc. The New Jersey brokerage firm had said Mr. Lazarowitz earned a bachelor's degree in accounting from the University of South Florida. The school says Mr. Lazarowitz attended USF for only two semesters—in 1975 and 1976—and never earned a degree.

In a statement, Mr. Lazarowitz said, "I regret and take full responsibility for this mistake." Knight Capital says it will take "appropriate steps to update our corporate materials."

■ Owen Kratz, the chief executive of Texas-based **Helix Energy Solutions Group** Inc. A corporate biography of Mr. Kratz claims he has a bachelor's degree in biology and chemistry from the State University of New York at Stony Brook. Not so, says Stony Brook's registrar's office. Mr. Kratz does have a biology degree from the College at Brockport, a less-prestigious SUNY campus where Mr. Kratz transferred in 1974, according to that school's registrar.

A Helix Energy spokeswoman, Sheralyn Miller, acknowledges the mistake, and calls it "an internal error." She says Mr. Kratz had never claimed a Stony Brook degree, but "our proxy is off a little bit." Ms. Miller says the company will revise its filings.

■ Kenneth Keiser, the president and chief operating officer of **PepsiAmericas** Inc., one of the country's biggest Pepsi bottlers. Mr. Keiser has been identified for three years in annual reports and proxy statements filed with the SEC by shipping concern **C.H. Robinson Worldwide** Inc., where he is a director, as having a bachelor of arts degree from Michigan State University. The university says that isn't so. It says Mr. Keiser attended from 1973 to 1976, but never graduated.

A PepsiAmericas spokeswoman, Mary Viola, says the company was aware Mr. Keiser stopped attending college "10 or 20 hours short of a degree." She says C.H. Robinson had mistakenly imputed a bachelor's degree to Mr. Keiser in its past several proxy statements.

"I'm sure [Mr. Keiser] does read their proxy, but he doesn't read his own bio," Ms. Viola says. "It's unfortunate that a communication error of another company is drawing attention to this for Ken."

Angie Freeman, a spokeswoman for C.H. Robinson, says her company was responsible for the error and had "mistakenly assumed that he earned a degree." But Ms. Freeman says she believes Mr. Keiser signed off on his own mistaken biography.

CORPORATE NEWS

Bulgari chief sees crisis affecting rich consumers

Jeweler trims forecast, labels the slowdown partly 'psychological'

By Davide Berretta And Sofia Celeste

ROME—The chief executive of **Bulgari** SpA, expressing pessimism about holiday sales, said the Italian jewelry company's full-year sales and profit would be lower than expected, the latest sign that the global financial crisis has spread to the highest echelons of the luxury goods industry.

Francesco Trapani

"It's very clear that the events in September and October are having an effect on the luxury consumer," Bulgari Chief Executive Francesco Trapani said in an interview, referring to the financial crisis.

Mr. Trapani said his outlook for the holiday shopping season was "pessimistic," describing the spending slowdown as "both material but also psychological."

Bulgari didn't say by how much it was cutting full-year sales and profit targets. The company had previously said that it expected net profit, sales and operating profit to grow between 8%-10%. In 2007, Bulgari posted €150.9 million in net profit on sales of €1.09 billion.

October has been the worst month to date this year, Bulgari said, particularly in the U.S. and Europe. Sales in the America's dropped 14.7%. Sales in Japan, Bulgari's biggest single market, fell 2.2%, though the rest of Asia, excluding Japan, rose 3.1%.

Damage is apparent in the latest quarter's results, posted Thursday. Bulgari reported a 44% drop in net profit to €23 million for the three months to Sept. 30.

Revenue inched down to €256.2 million from €257.4 million a year earlier, while earnings before income and taxes fell 38% to €29.2 million from €47.2 million. The company said it had also been affected by an increase in the price of gold in dollars.

In the third quarter, Bulgari's jewelery sales rose by 1% from a year earlier, and sales of perfumes and fragrances rose by 11.4%. The watch business declined, posting a 7.4% drop in sales.

Mr. Trapani blamed a shortage in components for flagging watch sales, which "stops us from delivering all of the watches we could deliver."

Over the past couple of months, the financial crisis has cut deeply into consumer spending on some of the world's priciest wares—a segment once considered less vulnerable to the economic downturn than other consumer goods. Earlier this month, French luxury-goods maker Hermes also cut its full-year sales targets, citing a slowdown in October sales.

SABMiller's net jumps 49%, aided by a gain, weak dollar

By Michael Carolan

LONDON—Brewing giant **SABMiller** PLC on Thursday posted a 49% rise in fiscal first-half net profit but said it was scaling back investment in the face of continued cost pressures and slowing demand for beer world-wide.

For the six months ended Sept. 30, the London-based company—which counts Miller Lite, Peroni and Pilsner Urquell among its brands—reported net profit of $1.42 billion, while sales were up 3.6% at $11.17 billion. The company didn't break out quarterly figures.

The big jump in net profit was due to a $437 million gain related to the sale in June of SABMiller's North American operations to MillerCoors, the company's joint venture with **Molson Coors Brewing** Co.

The earnings were also boosted by the weakness of the U.S. dollar relative to a number of currencies in which SABMiller sells beer—a trend that's expected to reverse sharply in the fiscal second half.

The company said it would review its spending and investment plans in light of the current uncertain environment.

"The deterioration in global economic conditions is causing weakening consumer demand in many of our markets," said Chief Executive Graham Mackay. Mr. Mackay said in a conference call that the company would re-examine its cost base around the world, applying cost constraints "more or less everywhere." However, investment to raise capacity in growth markets such as Africa and Peru would continue, he added.

Expansion will be curtailed in lackluster markets such as Central and Eastern Europe and even in China. "Where markets have turned down we will be postponing and canceling investment," Mr. Mackay said. He said the Eastern European countries in which SABMiller operates had been particularly affected by the recent financial crisis, hurting the company's operations there.

SABMiller is the world's largest brewer by volume, but will cede that position when **InBev** SA completes its $52 billion acquisition of **Anheuser-Busch** Cos. The deal is expected to be completed later this year, after Anheuser's shareholders approved the deal on Wednesday.

GLOBAL BUSINESS BRIEFS

Air France-KLM SA

Airline says pilots' strike will cost $125 million

Air France Chief Executive Jean-Cyril Spinetta, said a four-day pilots' strike will cost the airline €100 million ($125 million) if air crew follow. Labor unions representing pilots have called the strike, starting Friday, to protest a plan to raise the retirement age for pilots to 65 from the current 60. In a conference call, Mr. Spinetta called the strike "absurd" and said it will have a negative impact on Air France's image at a time when passenger traffic is weakening and competition is mounting among European airlines. The airline expects it will be forced to cancel half of its medium- and long-haul flights from Paris when the strike starts at midnight local time. There could be more cancellations and longer-lasting disruptions to traffic if cabin staff join the protest.

Premiere AG

Premiere AG swung to a third-quarter net loss because of higher operating costs and narrowed its full-year earnings outlook. The German pay-TV operator posted a quarterly net loss of €89.1 million ($111.2 million), compared with a profit of €100,000 a year earlier. Revenue slipped 1.2% to €244.6 million from €247.5 million. Premiere said operating costs jumped 21% to €271.8 million, as expenses for transmission, hardware and selling increased. At the end of the quarter, Premiere had 2.41 million direct subscribers. The company said it now expects a full-year loss before interest, taxes, depreciation and amortization of between €40 million and €60 million, narrowing its previous forecast for a loss of €40 million to €70 million.

Zurich Financial Services AG

Zurich Financial Services AG posted a 90% drop in third-quarter net profit and has temporarily halted its share-buyback program. Net fell to $154 million from $1.51 billion a year earlier, as the insurer suffered from investment losses of $1.1 billion and hurricane claims of $595 million. Net earned premiums and policy fees rose 4% to $10.5 billion. Chef Executive James Schiro said the company gained market share and would seek growth opportunities. The insurer has spent about $2 billion on small and medium-sized buys in the past few months, and analysts expect it will bid for some of the businesses that **American International Group** Inc. is putting on the block.

Repsol YPF

Oil giant **Repsol** YPF Thursday reported a 13% increase in third-quarter net profit, citing higher petroleum prices and strong performances in its core businesses. Net profit for the three months ended Sept. 30 rose to €723 million ($902.3 million), compared with €638 million the year before. The company said that in the first nine months of 2008—including a first half marked by high oil prices—its net profit rose 15% to €2.8 billion. For the third quarter, operating income from upstream operations rose 27%. The earnings report came a day after Russian Vice President Viktor Zhukov, on a visit to Madrid, announced that the Russian state-owned energy giant OAO Gazprom is considering buying a 20% stake in Repsol. The stake was put up for sale by debt-laden Spanish construction company Sacyr-Vallehermoso.

Finmeccanica SpA

Italian aerospace and defense company **Finmeccanica** SpA Thursday said its nine-month net profit increased 35% from a year earlier, reflecting higher revenue, reduced taxes and one-time gains from the sale of a stake in STMicroelectronics. The company also confirmed its 2008 guidance that organic revenue will increase between 6% and 11%. The order backlog as of Sept. 30 "is sufficient to cover around 92% of the production foreseen for this year," the company said. The Rome-based company said net profit in the period rose to €365 million ($455.5 million) from €269 million. Revenue rose 6% to €9.69 billion on strong orders from the company's aerospace and defense sector as well as from its energy and transport units, the company said.

Aéroports de Paris SA

French airports operator **Aéroports de Paris** SA said its third-quarter revenue rose 9.3% to €671.3 million ($837.8 million), driven by expanding airport-services activities such as retailing. For the first nine months of the year, revenue was up 11% to €1.89 billion from a year earlier, far outstripping the 1.5% rise in both passenger traffic and aircraft movements at the airports that ADP operates. Overall traffic growth in the first nine months had topped that of its European peers. Airline traffic between ADP's airports and destinations outside the European Union rose 3.9%, while traffic inside France was down 3.9%. ADP's airport-services activities grew 8.7% to €1.43 billion, fueled by a 9.5% increase in revenue from retailing, as sales in duty-free shops jumped 13%.

GDF Suez SA

French gas and electric utility **GDF Suez** SA said Thursday that its sales rose 18% in the first nine months of the year, helped by higher energy prices in its key domestic and Benelux markets. The Paris-based company reported sales of €58.83 billion ($73.42 billion) for the January to September period, up from €50.03 billion a year earlier. The year-earlier figures are calculated as if the merger of Gaz de France SA and Suez SA, which was finalized earlier this year, had already taken place. GDF Suez also said its earnings before interest, tax, depreciation and amortization rose 19% to €10.35 billion. The company didn't report net-profit figures. It confirmed its target for Ebitda growth of more than 10% over the full year.

Benetton Group SpA

Italian apparel retailer **Benetton Group** SpA said its third-quarter net profit rose 12%, lifted by rising sales in emerging markets like South America and India. The family-controlled company, best known for its colorful knitwear, said net profit increased to €37 million ($46.2 million) from €33 million a year earlier, while revenue rose 7% to €538 million from €503 million. Benetton reiterated its full-year forecast of around 6% revenue growth and said it expects net profit to be around 7% higher than last year. It also confirmed its net-debt target of €650 million by the end of 2008 and said its full-year investments should be around €250 million. "It is now essential for the group to act with even more rapidity in view of the economic situation the markets will be facing," said Benetton Chief Executive Gerolamo Caccia Dominioni.

AstraZeneca PLC

AstraZeneca PLC Thursday said its antipsychotic drug Seroquel, already marketed as a schizophrenia treatment, has been approved to treat bipolar disorder in the European Union, potentially bringing in new sales for one of the company's best-selling products. Both Seroquel and Seroquel XR, the once-daily formulation of the drug, have been approved for the treatment of this serious mental illness, which causes severe mood swings. The move follows last month's approval of Seroquel XR for bipolar disorder in the U.S. Seroquel XR is the slow-release version of Seroquel, which was launched in 1997 for the treatment of schizophrenia and has become one of the Anglo-Swedish drug maker's best-selling products, with sales of $4.03 billion last year.

OAO Mobile TeleSystems

Russia's most widely used cellular operator, OAO **Mobile TeleSystems**, said Thursday its third-quarter net profit slipped for the first time in two years and the company reduced its capital spending outlook for this year. However, it reiterated its revenue-growth forecast for 2008 of more than 25% from $8.25 billion last year. New York-listed MTS said third-quarter net profit fell 21%, to $515.6 million from $654.7 million, as the weakening of the ruble against the dollar made its foreign debt more expensive. Revenue rose 27% to $2.81 billion. Chief Executive Mikhail Shamolin said the company sees signs of a weakening macroeconomic environment but is "well-positioned to meet whatever challenges may lie ahead."

SNS Reaal NV

SNS Reaal NV, a Dutch financial services company, said Thursday it will receive a €750 million ($936 million) lifeline from the Dutch government to shore up its capital position. SNS will be the third Dutch company to take government money in a month, following the larger ING Groep NV and Aegon NV. SNS said terms are similar to those other deals: it will issue new shares to the state, paying 8.5% interest, and has an option to repurchase them at 150% of the issue price. In addition, the Utrecht-based company will issue €500 million worth of new shares to a major investor: the Stichting Beheer SNS Reaal, a foundation that exists solely to protect the company's interests.

Austrian Airlines AG

The Austrian state's privatization and holding company Österreichische Industrieholding AG, or ÖIAG, said **Deutsche Lufthansa** AG was now the only bidder for the government's stake in **Austrian Airlines** AG. A bid by Russia's S7 didn't comply with the rules of the tender, it said in a statement. French-Dutch carrier **Air France-KLM** dropped out of the race last month. ÖIAG Chief Executive Peter Michaelis said he expects the deal to be decided upon at the holding company's supervisory board meeting on Dec. 5, and signed within a month. In late October, ÖIAG extended the tender for the state's 41.6% stake until Dec. 31 after Lufthansa offered to pay only a nominal amount for carrier and demanded that the government take on at least some of the carrier's €900 million ($1.12 billion) debt.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Fight for bank deposits brings price war

Competition among U.S. lenders may prompt some to restrict credit; juicy interest rates are becoming available

Banks across the U.S. are locked in an escalating war for deposits that is putting additional stress on the battered industry and causing some banks to make fewer loans or charge higher interest rates.

Many banks, for example, are offering short-term CDs that pay interest rates of 4% or more. A year ago,

*By **David Enrich** in New York and **Damian Paletta** in Washington*

such juicy rates were primarily the province of Internet-only banks.

The result is "a national price war," said Michael Poulos, a partner at financial-services consulting firm Oliver Wyman. "The level of competitive intensity is unprecedented right now."

That is a boon to consumers but it is adding to pressure on many banks and may prompt them to further curtail lending, which could weaken the ailing U.S. economy.

The feverish competition for deposits reflects the new premium that bankers—as well as regulators and investors—are placing on low-cost funding amid the worst banking crisis since the Depression.

Deposits are the lifeblood of banks. They tend to provide cheaper and more stable funding than other borrowing sources such as bonds. Banks use deposits to make loans. They earn money by charging steeper interest rates on loans than they pay for deposits and other borrowings.

Banks covet deposits now more than ever because they have witnessed the struggles this year of major lenders such as **IndyMac** Bank, **Washington Mutual** Inc., **Wachovia** Corp. and **National City** Corp. Those companies ran into trouble, and in some cases collapsed, in part due to panicky customers yanking their money. The depleted deposit levels threatened the banks' ability to make loans or fulfill withdrawal requests. Regulators swooped in.

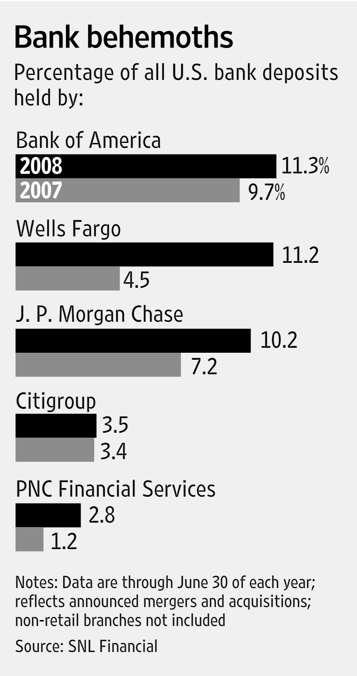
Looking to fend off additional failures, federal regulators have intensified their scrutiny of banks' deposits. They are examining the amounts banks are paying to attract deposits, according to people familiar with the matter. The regulators are treating rising rates as a possible sign that a bank is facing problems.

So is Wall Street.

"This is a potential red flag," said Ken Zerbe, a Morgan Stanley banking analyst, although he noted that not all lenders with high rates are having problems.

Last month, following requests from clients, Mr. Zerbe started publishing periodic reports flagging banks that are paying hefty rates on deposits. Topping his most recent list is **Colonial BancGroup** Inc., a Montgomery, Ala., lender that is offering 4.25% interest on 12-month CDs. Colonial has been struggling with ballooning losses on real-estate loans in the southeastern U.S.

The frenetic competition is likely to fuel a continuing industry shakeout.



Meanwhile, small and midsize banks that can't retain deposits likely won't survive. They will either sell themselves to stronger rivals or risk being shuttered by regulators.

While many consumers will welcome the soaring deposit rates, they aren't necessarily good for the economy. The trend is prompting some banks to make fewer loans. Others are trying to eke out narrow profits by charging higher rates on loans, which makes them unaffordable to some borrowers.

The deposit shortage "means less money for lending," said Chris Holmes, the head of retail banking at South Financial Group Inc., a Greenville, S.C., banking company with $13.7 billion in assets and 180 branches. "You can have capital, but where you can really get hurt is on the liquidity side."

Efforts by the Federal Deposit Insurance Corp. to reassure nervous bank customers aren't leading banks to boost their deposit rates, bankers say. And the scarcity of deposits will complicate the government's attempts to coax banks to start lending again, including a Treasury Department plan to pump $250 billion in new capital into financial institutions.

"They have this new capital, but they have to raise deposits to be able to substantially grow their loan portfolios," said Morgan Stanley's Mr. Zerbe.

Nor is the Federal Reserve's rate-chopping campaign relieving the pressure. Previous Fed rate-cutting cycles like 2000 and 2001 eased the upward pressure on interest rates on CDs and savings accounts, according to Market Rates Insight Inc., which tracks pricing trends for financial institutions. Today, though, the intense competition for deposits has overwhelmed the relief provided by the Fed rate cuts.

In one sign of the feverish competition, a growing number of banks have started paying Market Rates Insight for real-time data on their rivals' pricing patterns, instead of relying on the traditional weekly reports.

"They want to be notified immediately via email if a significant competitor changes its rates" by as little as 0.1 percentage points, Dr. Geller said. "We are seeing this cat-and-mouse game constantly. Up and down, up and down, based on what the competition is doing."

Banks that don't keep up risk losing deposits. That's what happened with regional lenders like **SunTrust** Banks Inc. and **Regions Financial** Corp., whose deposit levels declined in the third quarter. Both southeastern banks said their deposit levels started to rebound in October.

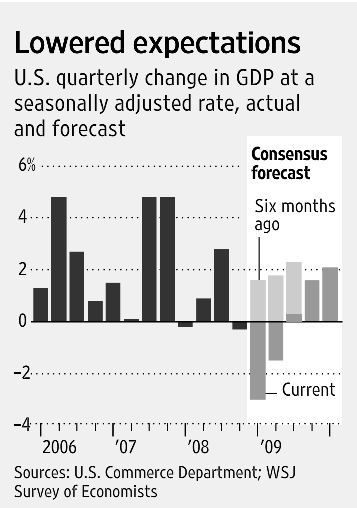
In the third quarter, **Citigroup** Inc. saw its U.S. consumer-deposit levels fall slightly. It was the first time that has happened since the company started disclosing such data in 2005. The decline in part reflected Citigroup's sale of a handful of branches.

To grab new deposits, Citigroup has been deploying a double-barreled pitch of safety, and hefty 4% rates on six-month CDs. Executives describe Citigroup's rates as "dynamic," and Citigroup recently lowered its six-month CD rate to 3.5%.

Citigroup's offer has drawn the ire of small rivals like **Virginia Commerce Bancorp** Inc., which has 26 branches and about $2.6 billion in assets. Its finance chief last month blamed Citigroup for inflating deposit rates in northern Virginia. Striving to keep pace, Virginia Commerce is now offering CDs with interest rates as high as 4.5%.


Job seekers line up at a job fair at a hotel in Newark, New Jersey

Associated Press



Forecasters believe trough is now

By Phil Izzo

The U.S. economy is in the midst of the worst part of the recession, but growth may return by the second half of next year, according to economists in the latest Wall Street Journal forecasting survey.

"The intensity of decline will wane," said Stephen Stanley of RBS Greenwich Capital. "We've cut out a lot of the low-hanging fruit, and it gets progressively tougher to see such rapid rates of decline."

On average, the 54 economists surveyed expect gross domestic product—the broadest measure of economic activity—to decline 3% at an annualized rate in this year's fourth quarter. That comes after the Commerce Department reported a 0.3% drop for the third quarter. Another negative reading is forecast for the first three months of next year, with an essentially flat reading for the second quarter. Slow growth is seen for the second half of 2009, reaching 2.1% by the fourth quarter.

"By the third quarter of next year, a recovery will be under way," said John Lonski of Moody's Investors Service, but he said expansion won't return to pre-crisis levels until 2010.

A number of economists surveyed gave a much more pessimistic forecast, due in part to pressure on consumers. "We're not only in an economic downturn, but a serious banking crisis. The idea that you can just have a couple of quarters of negative growth and then we're off to the races is just too optimistic," said Paul Ashworth of Capital Economics, who is predicting GDP contractions throughout next year.

Government action is one reason why some economists see the landscape eventually improving. Nearly two-thirds of respondents say the Treasury Department's Troubled Asset Relief Program, which has taken stakes in major financial institutions, is helping markets.

Economists were supportive of more government stimulus. More than 80% say that even if a stimulus package is passed before the end of 2008, another would be welcome in January. Some 34% of respondents said the top priority in such a package should be permanent tax cuts. On average, economists said the total size of government stimulus this year and early next should be more than $250 billion.

Weak U.S. trade, jobs data underscore global troubles

By Kelly Evans

The U.S. trade deficit narrowed in September, but the improvement was driven by a combination of large declines in imports and exports, underscoring the fragile state of the global economy. The U.S. labor market, meanwhile, is worsening at a rapid clip, which could further undermine growth.

The Commerce Department said the U.S. trade deficit shrank to $56.5 billion in September from $59.1 billion the previous month, driven by sagging demand and lower prices for imported petroleum as the U.S. economy slows.

"It is clear that the combination of global recession and the global credit crunch is causing world-wide trade to dry up," said Wachovia Corp. economist Jay Bryson, adding that the narrowing likely will continue thanks to the "marked decline" in oil prices.

Imports fell by $12.5 billion to $224.4 billion in September, as total demand for imported crude oil fell to about 253 million barrels—the lowest in five years—from about 308 million barrels in August. The average cost of crude fell by a record $12.41 to $107.58 a barrel. Imports of autos, consumer goods, food, industrial supplies and business capital goods also declined.

Consumers and businesses in other nations also are pulling back, leading to a sizable drop in exports of U.S. goods and services in September. Total exports fell by $9.9 billion, or 6%, to $155.4 billion, the biggest monthly decline since September 2001, when the economy was last in a recession.

About half the decline reflected a drop in aircraft shipments related to the now-resolved strike at **Boeing** Co. But the rapid slowing of the global economy will likely offset much of any boost from its settlement.

For years, U.S. businesses have relied on strong foreign demand for their goods as a key driver of growth. With demand faltering not only in the U.S. but world-wide, it is increasingly leading to layoffs as companies seek to cut costs.

The Labor Department reported Thursday that new claims for unemployment benefits jumped by 32,000 last week to a seasonally adjusted level of 516,000, the highest level since September 2001. The four-week average, which economists use to smooth out weekly volatility, rose to 491,000, the highest level in 17 years.

The total number of people on jobless rolls rose to just less than 3.9 million—a sign the unemployed are having difficulty finding work. The 3.9 million figure is the highest since January 1983, when the economy was in a deep, prolonged recession.

ECONOMY & POLITICS

China is powering down

Decline in production may mean slowdown will be even greater

SHANGHAI—China reported its first decline in monthly electricity output in four years, one of the strongest signs so far that the country's economic slowdown may be worse than thought.

The 4% decline in power generation in October from a year earlier, announced Thursday by the National Bureau of Statistics, deepens what has become the most severe falloff in electricity output in a decade. And analysts expect further falls in the months ahead as manufacturers cut back on power use in the wake of slowing orders from the U.S., Europe and other major export markets.

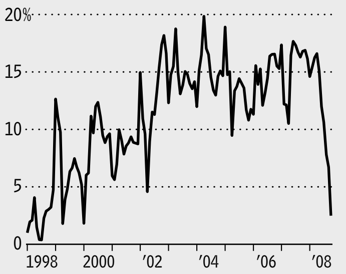
Also Thursday, China's government reported the weakest growth in manufacturing output in four years, saying that value-added industrial production rose 8.2% in October from a year earlier. That number was far slower than September's 11.4% gain and well below the median 10.8% rise forecast by 13 economists surveyed by Dow Jones Newswires. The growth rate for last month was less than half that of October 2007, when it grew nearly 18%.

Powering down

China's electricity output has entered its steepest slump in a decade

Electricity production

Three-month moving average, change from a year earlier



Sources: Rhodium Group, National Bureau of Statistics

The slowdown was driven by a falloff in activity in heavy industry, including a 17% plunge in production of pig iron and crude steel in October, and a 0.7% fall in output in the automobile sector—until recently one of China's fastest-growing industries.

Analysts expect the slowdown in power production to continue despite a package of government and expected private-sector spending valued at as much as four trillion yuan ($586 billion) that Beijing announced Sunday to stimulate the economy. Although some infrastructure projects will accelerate as a result of the injection of government cash and incentives, which could boost power demand, the pickup is likely to take time.

"Many factories have closed down in various parts of China, and demand for electricity will, of course, decline as well. That's the key" reason, said Simon Wong, an analyst at credit-ratings agency Fitch Ratings.

Reflecting the government's emphasis on its stimulus package—as well as its continued control over the nation's banking system despite years of liberalization—four of China's biggest banks disclosed plans Thursday to increase lending as part of the effort to bolster the economy. **China Development Bank**, **China Construction Bank** Corp., and **Agricultural Bank of China** pledged new loans of as much as $28 billion, while **Bank of China** Ltd. said it would also boost lending but didn't specify the amount. The loans will be mainly for agriculture, infrastructure, small and midsize companies and affordable housing.

The size of October's decline in power production appeared to have surprised some Chinese officials. The 4% decline was much larger than the 0.46% drop forecast earlier in the week by Shan Baoguo, an official with State Grid Corp., the Chinese government-run power distributor.

—Jing Yang

Obama team starts taking shape

By Laura Meckler And Jonathan Weisman

WASHINGTON—U.S. President-elect Barack Obama's first extensive roster of transition advisers sheds light on the types of people his administration will lean on and what institutions may claim clout in the new Washington.

The Obama transition team released the names of 13 people Wednesday who will direct a top-to-bottom review of federal agencies and six who will lead teams that will review Treasury, State and Defense department policy, budget and personnel issues.

The group is filled with second-tier veterans of the Clinton administration and workers in the technology and financial sectors. It includes four former lobbyists, three top campaign fund-raisers and two former employees of troubled mortgage giant Fannie Mae, with some overlap among them. Four people in the group have ties to the consultant McKinsey & Co. and two have experience leading high-tech start-ups.

The teams will also gather information needed to help the new administration win Senate confirmation for its appointees and begin implementing policy initiatives after Mr. Obama is sworn in Jan. 20. The names of the team leaders for other federal agencies are expected to be released by week's end.

Sen. Obama has pledged to curtail the influence of lobbyists in his administration. The 19 people named Wednesday include four who have been registered lobbyists and two others who have worked in the lobbying business as recently as this year. The appointments don't appear to violate Mr. Obama's rules barring people who have lobbied in the past year from working on those issues during the transition.

Mr. Obama's transition advisors include Tom Donilon, a lobbyist for Fannie Mae, the government-sponsored mortgage giant that helped precipitate the current financial crisis. Mr. Donilon will co-lead a team reviewing the State Department.

Co-leading the State Department audit will be Wendy Sherman, a principal of Albright Group, a firm founded by former Secretary of State Madeleine Albright. Ms. Sherman headed Fannie Mae's charitable foundation between 1996 and 1997. She also serves on the new congressional commission on curtailing the threat of weapons of mass destruction. Both Mr. Donilon and Ms. Sherman worked for the State Department during the Clinton administration.

China offers aid package to Pakistan

By C.R. Jayachandran

ISLAMABAD—China agreed to extend $500 million in financial aid to Pakistan, according to a senior Pakistani official, a breakthrough for the beleaguered South Asian nation and a rare move by China to take a leadership role in an international crisis.

Shaukat Tarin, economic adviser to Pakistan's prime minister and the nation's de facto finance minister, said late Thursday that China agreed to provide the assistance following the recent visit to Beijing of Pakistan President Asif Ali Zardari.

No comment from China was available and it remains unclear whether the aid was part of a broader effort by China to help shore up the global economy.

The announcement of the Chinese aid package comes at a time when Pakistan is finalizing its negotiations with the International Monetary Fund for a financial stabilization program. Pakistan is struggling with an acute balance-of-payments crisis and the government estimates the country needs about $4 billion to pay for its imports and help repay its debt.

"This gesture by China bears testimony to the brotherly relations between the two countries," Mr. Tarin said.

A Finance Ministry official said the country is likely to receive the financial package from China in the next two or three days.

"The financial assistance of $500 million is in addition to the deposit of $500 million already placed by the Chinese government with the State Bank of Pakistan in June 2008," said the finance ministry in a statement.

Pakistan's foreign reserves have been dwindling from a high of $16.39 billion in November 2007 as foreign investors pull out funds and the country's oil-import bill balloons. According to the latest data available, the country's foreign-exchange reserves plunged to $6.76 billion for the week ended Nov. 1. Investors have been spooked by the country's political volatility and by the Islamist insurgency.

The country is seeking financial support from friendly countries and other donors, including the IMF, to help avert a possible default on its debt. Pakistan and the IMF are discussing a $9.6 billion, two-year standby arrangement that Pakistani officials expect to be concluded in the next week.

CAPITAL JOURNAL ▪ Gerald F. Seib

Pakistan security, economic woes will pose an early test for Obama

A SENIOR AMERICAN official was asked a few days ago whether there were places where the global economic mess could aggravate security problems. He answered without hesitation: "Pakistan."

That is the concern to keep in mind as President-elect Obama's transition to power unfolds in coming weeks. The new president's advisers worry that if there's an unpleasant foreign-policy surprise that will divert their attention from enormous economic challenges, it could well come in Pakistan.

It's a well-founded fear. Pakistan was a tense and worrisome place for America before the world-wide financial mess arrived. The country is, after all, a nuclear-armed Islamic giant run by an unproven new government, beset by internal political rifts, conducting a fitful struggle with Taliban and al Qaeda insurgents along its border with Afghanistan, and threatened by Islamic radicals angry over American military strikes along that same Afghan border. That's plenty to keep a new president awake at night.

Now those problems are overlaid by new economic woes rippling in from the global financial markets. Inflation is running at 25%. Pakistan's central bank just raised its key interest rate to 15%, at a time when other central banks are lowering theirs. Pakistan is at risk of defaulting on its national debt and badly in need of a bailout from the International Monetary Fund.

All those woes mean that, troublesome as the war in Iraq and the nuclear threat from Iran may be, chances for an immediate crisis for Mr. Obama are indeed highest in Pakistan.

Pakistan, in fact, serves as a cautionary reminder of how the world has a nasty way of intruding on the best-laid Washington agendas. It's instructive to recall that, eight years ago, George W. Bush also was talking and acting like a newly elected president who expected to focus on domestic policy, not foreign matters.

IN HIS FIRST remarks after his victory in that year's disputed election, in fact, Mr. Bush tallied the issues at the top of his agenda this way: "During the fall campaign, we differed about details of these proposals, but there was remarkable consensus about the important issues before us—excellent schools, retirement and health security, tax relief, a strong military, a more civil society."

Note the absence of the words Osama bin Laden, terrorism, Afghanistan and Iraq.

Today, the need to focus on economic and domestic problems is far greater, yet the dangers of a foreign crisis intruding are no less. And for Mr. Obama, Pakistan is an especially tricky problem, because it was at the center of so much of the limited campaign debate on national-security policy.

Specifically, Mr. Obama made it clear that he worried Pakistan wasn't doing enough to hunt down Taliban and al Qaeda groups on its side of the border with Afghanistan—and he declared that, as president, he would reserve the right to launch unilateral military strikes against their strongholds if Pakistan wouldn't or couldn't.

As it happens, of course, the U.S. military already is doing exactly that, simply without much fanfare. Just last Friday, an apparent American missile hit a Taliban target just inside Pakistan. And in a rare public acknowledgment of the campaign, Gen. David Petraeus, the head of the U.S. Central Command, said a few days ago that strikes along the Pakistan border have killed "extremist leaders."

But the American strikes create political problems at home for the Pakistani government of President Asif Ali Zardari, providing ammunition to Islamic militants trying to escalate already high anti-American sentiment. Just this week, Mr. Zardari pleaded for a stop to the strikes, arguing they complicate the Pakistani military's own efforts to hit al Qaeda and Taliban targets along the border.

"We feel that the strikes are an intrusion on our sovereignty, which are not appreciated by the people at large, and the first aspect of this war is to win the hearts and mind of the people," Mr. Zardari said in an interview with the Associated Press.

THE MIX of forces Mr. Zardari confronts inside Pakistan is combustible: The U.S. isn't popular. There's little support for Pakistani military moves against Taliban and al Qaeda targets. American strikes inside Pakistani territory arouse far more public anger. Yet U.S. military leaders trying to stabilize Afghanistan next door can't simply let Islamic militants cross into Pakistan and find safe haven, from which to plan attacks on American forces in Afghanistan or more terrorist attacks in the West.

Now all those problems are exacerbated by an economic crisis hitting the Pakistani street, and hard.

At its root, the issue facing the new American president—and it is an extraordinarily difficult one—is deciding how vigorously the Pakistani military really is pursuing extremists along the border on its own, and how much to trust that it will continue to do so.

All that makes Pakistan the leading international problem facing Mr. Obama as he enters office. He already has reached out to President Zardari once, placing a phone call to him just three days after the election.

Mr. Obama has no great options, but there might be both real and symbolic value in one quick stop: offering some new economic assistance to Pakistan. The idea was discussed in the presidential campaign; it has even more merit now.