THE WALL STREET JOURNAL.

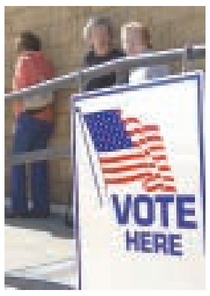
DOWJONES Newswires

WSJ.com

EUROPE

DOWJONES A News Corporation Company

VOL. XXVI NO. 195 — TUESDAY, NOVEMBER 4, 2008



Where the U.S. election might be won or lost

NEWS IN DEPTH | PAGES 16-17

In China, tainted milk has long been an open secret

ECONOMY & POLITICS | PAGE 11

EU calls for fiscal boosts as recession data emerge

Growth to total 0.1% in '09 after quarters of contraction in '08

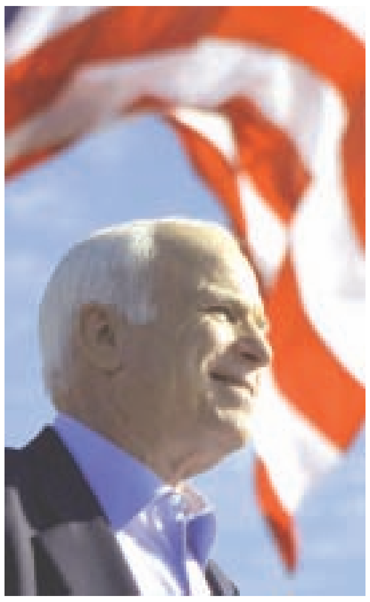
By **Joellen Perry** *in Frankfurt and* **Marcus Walker** *in Berlin*

Financial-sector turmoil tipped the $12.2 trillion euro-zone economy into recession and will bring growth to a near-standstill next year, according to new forecasts that prompted the European Union to call for a coordinated fiscal boost across the bloc.

In a twice-yearly report that detailed the toll the financial crisis and global slowdown are likely to take on euro-zone growth, the European Commission said Monday that growth in the 15-nation currency bloc will slump to 0.1% next year. That is down from an April forecast of 1.5% growth and would be the worst showing since 1993, when output in the countries now sharing the euro currency shrank by 0.7%.

The EU's executive arm also put the official stamp of recession on the bloc's economy, noting that euro-area output is "now expected to have declined in the third quarter." Two consecutive quarters of contraction is one definition of recession. The euro-zone economy, second in size only to the U.S.'s, contracted by 0.2% in the second quarter. Monday's report forecasts annual growth this year at 1.2%, down from April's 1.7% prediction, and sees a slight pickup

Please turn to page 27



Associated Press; Agence France-Presse

Some U.S. voters will have a greater impact than others in the election to decide whether Sen. John McCain or Sen. Barack Obama **wins the White House**.

With U.S. election here, these voters have clout

By Gerald F. Seib

CAPITAL JOURNAL

The most exhilarating U.S. campaign of our time has come to an end, and some 130 million Americans now will put the exclamation point at the end of that sentence by casting votes. Each of those votes is equal, of course, but some are more equal than others.

That is, some votes have more strategic significance. They will determine whether Sen. John McCain can pull off a surprise, or whether Sen. Barack Obama wins with a small or large mandate.

Equally important, some will decide how big the Democratic majority in the Senate will be—and whether Democrats reach the magic level of 60 seats needed to secure, at least on paper, a Senate where the party's members can band together to prevent filibusters.

So, with that in mind, here is a quick look at the voters with the most strategic impact Tuesday:

■ Young and Hispanic voters. One way of looking at Sen. Obama's lead in the final Wall Street Journal/NBC News poll taken over the weekend is to say that he is leading 51% to 43%. Another way is to say that his lead is built largely on the votes of the young and the Hispanic.

Among white voters, Sen. McCain leads, 51% to 44%. But among voters ages 18 to 34, Sen. Obama has an overwhelming 59% to 38% lead. And among Hispanics, his lead is even more daunting: 68% to

Please turn to page 27

Tight lending by U.S. banks adds to gloom

By Kelly Evans

Banks continue to tighten lending terms for U.S. consumers and businesses, hamstringing the economy and raising the risk of a protracted recession.

The Federal Reserve's latest survey of banks' senior loan officers, conducted in October, showed a large majority of the 76 respondents clamped down on lending in the past three months amid mounting losses and concern about the U.S. economy.

"It means the downturn is likely to be deep and will last longer than anything we've seen in a long time," said Michael Darda, chief economist at Stamford, Conn.-based MKM Partners. "There's still a lot of pain in front of us."

Some 95% of banks in the U.S. said they tightened price terms on commercial and industrial loans to large and midsize firms during the

Please turn to page 27

What's News—

Business & Finance

The euro-zone economy has fallen into recession and financial-sector turmoil will bring growth to a near-standstill next year, according to new forecasts that prompted the EU to call for a coordinated fiscal boost across the bloc. That will mean finding economic policies that work across the region. Page 1

■ **A Fed survey showed** banks continue to tighten lending terms, hobbling the U.S. economy and raising the risk of a protracted recession. Page 1

■ **Commerzbank** is the first of Germany's top banks to accept state funds. It and Société Générale reported results hurt by the credit crisis. Page 3

■ **Lloyds will proceed** with its government-backed takeover of HBOS, as both banks published third-quarter earnings revealing steep declines in profit. Page 3

■ **Iron-ore miners expect** to cut prices in talks with steelmakers as demand for items like autos and appliances wanes. Page 3

■ **U.S. vehicle sales plunged** an estimated 31% last month amid tightening credit. Meanwhile, new-car registrations fell in France, Italy and Spain. Page 4

■ **StatoilHydro's profit fell** 55%, hurt by the weakness of the Norwegian krone against the U.S. dollar. Page 6

■ **Pepsi plans to spend** $1 billion in China over the next four years, its largest investment so far in a fast-growing market, as U.S. sales stumble. Page 6

■ **KKR won't complete** its initial public offering until 2009, again delaying its plans amid the financial crisis, and announced deep quarterly losses. Page 19

■ **GM's drop** in vehicle sales weighed on U.S. stocks. European shares continued their advance as investors anticipated interest-rate cuts. Page 20

■ **The ECB advocates** creating central counterparties, or clearinghouses, to reduce the risks in credit-default swaps. Page 21

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	9319.83	-5.18	-0.06
Nasdaq	1726.33	+5.38	+0.31
DJ Stoxx 600	223.38	+1.31	+0.59
FTSE 100	4443.28	+65.94	+1.51
DAX	5026.84	+38.87	+0.78
CAC 40	3527.97	+40.90	+1.17
Euro	$1.2757	+0.0041	+0.32
Nymex crude	$63.91	-3.90	-5.75

Money & Investing > Page 19

World-Wide

The long race for the U.S. presidency entered its final hours, with polls showing Obama holding a solid lead in his quest to become the nation's first black president. McCain meanwhile was pushing through seven states in a bid to persuade voters that he is better qualified to lead the country. Pages 1, 12, 16

■ **Gunmen kidnapped** a French aid worker in Kabul and killed an intelligence agency employee who tried to intervene. Coalition troops destroyed over 40 tons of hashish in Afghanistan's south.

■ **Pakistani officials warned** U.S. Gen. Petraeus that frequent missile strikes on militant targets in Pakistan fan anti-American sentiment in the country, an ally in the war on terror. Page 9

■ **A string of bombings** in and around Baghdad killed 10 people and wounded at least 40, including a deputy oil minister.

■ **Iraq's Parliament approved** legislation restoring guaranteed seats on provincial councils to Christians and other small religious communities.

■ **A bin Laden aide** who refused to defend himself at his Guantanamo war-crimes trial was convicted of terror-related charges.

■ **Germany's Social Democrats** failed in their quest to form an alliance with a far-left party at the regional level. Page 9

■ **A U.N. convoy crossed** rebel lines in Congo, carrying medical supplies for clinics looted by retreating government troops.

■ **The Dalai Lama said** he will invite foreign supporters to discuss solutions to the impasse over Tibet's demand for greater autonomy from China. Page 11

■ **Scotland's government gave** Donald Trump permission to build a golf resort in a coastal area that is home to rare birds.

■ **Aid workers said** they found the bodies of 60 African migrants on a Yemen beach after smugglers forced many overboard.

■ **Taxi drivers** in the Chinese city of Chongqing staged a strike that turned violent. Page 10

■ **A U.S. jury convicted** a Venezuelan of acting as an illegal foreign agent to cover up a scandal involving a cash-stuffed suitcase smuggled into Argentina.

Editorial & Opinion

Pick me!

Barack Obama and John McCain make their respective cases for the U.S. presidency. Page 15

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THE WALL STREET JOURNAL.

LEADING THE NEWS

Washington's managerial role to be in flux

Charting a course for financial stakes falls to new president

By Sudeep Reddy

Among the U.S. president-elect's first tasks will be defining the government's new role as overseer or shareholder of large financial companies.

Since September, the U.S. has placed mortgage giants **Fannie Mae** and **Freddie Mac** under conservatorship, taken a majority stake in failing insurer **American International Group** Inc. and passed a $700 billion financial-sector rescue plan, which now includes $250 billion for shares in large and small U.S. banks.

THE OUTLOOK

The government's emergency action helped prevent a financial meltdown and cushioned the economy from the credit crisis. Stewardship of the ownership stakes falls to the next administration; the presidential candidates haven't detailed all their plans.

Critics are urging the government to exert more influence over the private companies in which taxpayers now have an interest. Some lawmakers want to block lobbying activity, bonuses and perks among some companies that received public money. Others say the government should use its stakes to ease strains on the economy, such as the faltering mortgage market.

In the case of Fannie and Freddie, the government rushed in after the two firms lost investor confidence and threatened to crater amid battered mortgage and housing markets. Having placed them into conservatorship under the oversight of the Federal Housing Finance Agency, the government can decide whether the firms should be reconstituted as government agencies, fully private entities or some combination of both.

Friday, Federal Reserve Chairman Ben Bernanke set out options—from strong public involvement to having Fannie and Freddie operate as private companies—and came down in support of a federal hand in some form. "Government likely has a role to play in supporting mortgage securitization, at least during periods of high financial stress," he said.

The housing market is only one area where the government's new influence will be directed. The $700 billion bailout plan allows the government to direct credit to particular sectors, shaping the response to the economic troubles in a more focused way.

Alternatively, letting financial firms operate without the government would return key decisions to markets. "The Republicans have been focused on the big-picture manifestations of this problem—the credit freeze, problem assets and large insolvent institutions," said John Douglas, a former general counsel at the Federal Deposit Insurance Corp. and a partner at law firm Paul, Hastings, Janofsky & Walker LLP. "The Democrats may start from a slightly different perspective—what it's doing to the individual for his or her mortgage and the family remaining in a home."

Republican presidential candidate Sen. John McCain has supported breaking up and privatizing Fannie and Freddie. He proposes using $300 billion of the bailout package to buy and restructure troubled loans to homeowners. Such a step would help banks by taking distressed assets off their books largely at face value. Democratic presidential candidate Sen. Barack Obama hasn't been explicit on the fate of the two firms but called for a moratorium on home foreclosures and a stronger federal role in keeping Americans in their homes.

The government's capital injection into banks presents another dilemma for the next president. Getting banks to resume lending is critical to the economy's recovery. But the $250 billion of preferred shares the government is purchasing provide no voting rights, leaving the next administration and Congress little leverage in forcing banks to lend. Banks remain free to spend the money to acquire weaker institutions or otherwise expand. Pressure from lawmakers to curb dividends, executive pay and bonuses may spur banks to cash out their federal shareholder.

"Every bank that is getting a government injection will want the government off their backs," said Robert E. Litan, a senior fellow at the Brookings Institution and vice president of research and policy at the Kauffman Foundation. "This program has been structured deliberately to give maximum incentive to the banks to buy the government out at the earliest possible date. The ball is in the banks' court, not the government's court."

In addition to capital injections intended to spur bank lending, the government plans to use part of its $700 billion pool to buy distressed mortgage assets from financial institutions. Treasury is engaging money-management firms and other experts to oversee the assets-an arrangement that brings outside expertise to managing complex holdings but raises potential conflicts of interest.

For AIG, the government acted lest one of the world's largest insurers stumble and trigger world-wide repercussions. The government structured its initial loan aiming to end AIG's borrowing within two years. So far, the Federal Reserve has extended nearly $123 billion in credit lines to the insurer.

The Fed is overseeing the AIG loans directly to ensure the public doesn't lose money. The central bank is effectively excluding government officials from ownership decisions by hiring outside businesspeople to manage a trust overseeing the government's nearly 80% stake in the insurer. Still, the government hand is leading to calls for greater transparency on how the insurer is using the money, as well as criticism over executive bonuses and perks.

The Fed is also holding onto $30 billion in hard-to-trade Bear Stearns Cos. assets it took on in March to facilitate the investment bank's sale to J.P. Morgan Chase & Co., which will cover the first $1 billion in losses on the assets. It quickly hired BlackRock Inc., which manages more than $1 trillion, to oversee a new company created to manage the Fed's assets. The central bank put a 10-year horizon on its holdings, designed to give it time to dispose of the assets—which lost more than 10% of their value through September—at the least loss to taxpayers.

Getting the public out of the firms seized by the government will be "a long process," said Susan Phillips, dean of George Washington University's business school and a former Federal Reserve governor. (Ms. Phillips is also a member of the Special Committee to ensure editorial independence at The Wall Street Journal.) "History tells us that generally that's the case. But they are clearly taking steps to protect the taxpayer interests and put in place protections to make sure there is not undue intervention in the markets or in the banking sector," she said.

One goal of the Bush administration's bailout approach has been to limit interference in markets, so firms don't have to compete against the government. The next administration may want to preserve the public's new stakes until the economy is on the mend. Determining when it's safe to move on—and how much to loosen the reins—will be a difficult call after a destructive year that's only begun to affect the nation's economy.

CORRECTIONS & AMPLIFICATIONS

Consumers on a tight budget can get by with two gigabytes of memory when buying new PCs running Microsoft Vista. The Oct. 30 Personal Technology column erroneously stated this amount as two megabytes.

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.

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 FAX: Business: 32 2 732 1102
News: 32 2 741 1600 Editorial Page: 32 2 735 7562
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799 Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

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

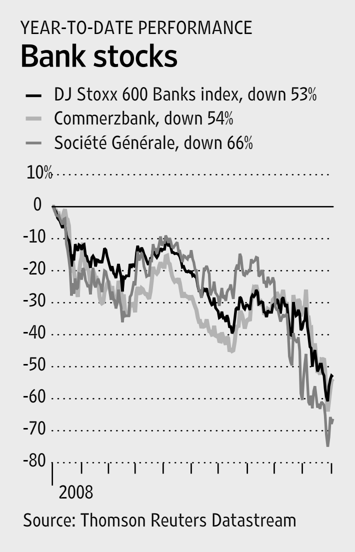
For more people in the news, visit CareerJournal.com/WhosNews

LEADING THE NEWS

Crisis hits bank earnings

Commerzbank gets cash from Germany; SocGen net falls 84%

By Ulrike Dauer and Nicolas Parasie



Two big European banks, Germany's **Commerzbank** AG and France's **Société Générale** SA, posted third-quarter earnings weighed down by write-downs due to the global credit crisis. Commerzbank became the first of Germany's top banks to tap government funds, taking €8.2 billion ($10.4 billion) to strengthen its capital base.

Also Monday, **Westdeutsche Landesbank** AG, a big state-controlled lender, said it will make use of guarantees from Germany's financial-stabilization fund and is considering ways of bolstering its capital base.

Commerzbank, Germany's second-largest bank by market value after **Deutsche Bank** AG, swung to a net loss of €285 million in the third quarter from a profit of €339 million a year earlier.

The broadening financial crisis in September resulted in a trading loss, higher loan-loss provisions and write-downs related to the collapse of U.S. investment bank Lehman Brothers and Icelandic banks. The total crisis-related impact in the third quarter was €1.1 billion, bringing the total damage to Commmerzbank to €2.1 billion since the second quarter of 2007.

As part of an agreement with Germany's rescue fund, the bank won't pay dividends or bonuses to management board members for 2008 and 2009. It also will cap executive pay.

The bank, which is in the process of buying Dresdner Bank AG from **Allianz** SE, said it struck a deal involving "silent participation" by the German financial-markets stabilization fund that will boost Commerzbank's Tier 1 capital.

Silent participation doesn't grant shareholder rights but includes a share of future profit. The parties must agree on whether the stabilization fund also would share future losses. The stabilization fund also will grant Commerzbank guaranteed funding of €15 billion to increase its financing options.

"The dramatic upheavals in recent weeks have shown again that reliable full-year forecasts for 2008 aren't possible," said Chief Financial Officer Eric Stutz.

SocGen, one of France's biggest banks, said net profit tumbled 84% in the three months ended Sept. 30, as it increased its provisions for loan losses and reduced its exposure to risky assets. SocGen brought forward the publication of its results by three days to calm fears about its performance.

SocGen said net profit fell to €183 million from €1.12 billion in the year-earlier period, hit by €1.2 billion in write-downs and other losses, including write-downs tied to Lehman's collapse. Third-quarter revenue slid 5% to €5.11 billion from €5.38 billion.

Separately, Germany's **HSH Nordbank** AG said Monday that it will take as much as €30 billion in guarantees from the government's financial-stabilization fund.

The state-controlled lender said it had €1.3 billion in write-downs for the first nine months of 2008 and can't rule out more in the remainder of the year. *—William Launder and Flemming E. Hansen contributed to this article.*

Lloyds sees dividends as soon as '09

By Sara Schaefer Muñoz

LONDON—British bank **Lloyds TSB Group** PLC sidestepped a big downside to receiving government aid Monday by saying it can resume paying shareholders dividends earlier than anticipated, as the U.K. government spelled out how it would manage its investments in banks.

Lloyds said it could start paying shareholders dividends again as early as next year. Bank executives and shareholders had objected to a condition set by the U.K. government as part of its rescue package that could have blocked banks receiving government funds from paying dividends for five years. People close to the matter said Lloyds pressed the government to be allowed to pay a dividend sooner. A representative for the U.K. Treasury said Monday that the government hadn't changed its position on dividends since the bailout plan was announced.

Lloyds said Monday that it will be able to repurchase government shares using money from areas such as retained earnings, proceeds of asset disposals and reductions in risk-weighted assets, and plans to do so by as early as 2009. This would allow Lloyds to begin paying out dividends to shareholders far earlier than anticipated.

Lloyds, which is in the process of buying mortgage-lender **HBOS** PLC, in a government-prodded deal to rescue HBOS, said the deal is proceeding as planned even as both banks reported Monday more write-downs tied to falling property values and market turmoil.

Both banks agreed to raise a combined £17 billion ($27 billion) to bolster their capital cushion against losses under the U.K. government rescue plan unveiled last month. Lloyds plans to raise £4.5 billion in ordinary shares and sell a £1 billion stake in preferred shares to the government.

HBOS plans to raise £8.5 billion and sell the government a £3 billion stake. The government will purchase any shares that aren't sold to private investors, potentially giving it a 43.5% stake in the combined entity.

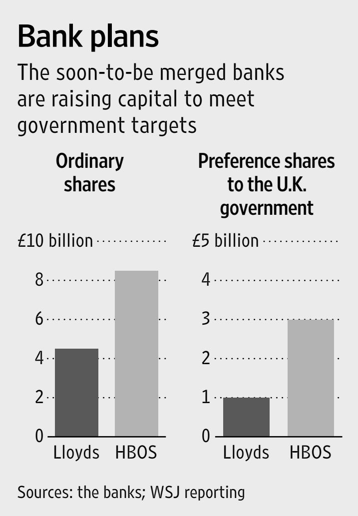
"The only alternative to the merger would have been a full-scale nationalization [of HBOS] and that would have had dramatic repercussions for the U.K. banking sector," Bank of England Gov. Mervyn King said Monday in testimony before the Treasury Select Committee, an influential parliamentary panel.

Both Mr. King and Adair Turner, head of the U.K. markets regulator, the Financial Services Authority, said that, going forward, banks will likely have to carry larger capital buffers to protect against losses.

In a move that shows how the credit crunch is redrawing cross-border relationships, in his testimony Monday Treasury Chief Alistair Darling said Britain will have to assess its relationship with the Isle of Man, a tax haven off the U.K. coast. The U.K. and the Isle of Man, which is a British crown dependency and is represented by Britain on the world stage, have clashed over the U.K. freezing the assets of Icelandic banks.

The U.K. Treasury on Monday said it had created an "arm's-length" company to manage its shareholdings in the country's banks that will be acquired as part of its rescue plan. The government said the body will also manage its investments in Northern Rock, the troubled lender it nationalized earlier this year.

It named Philip Hampton, a former chief of grocer **J Sainsbury** PLC, as its chairman and a Treasury official as its chief executive. The Lloyds-HBOS deal was announced in September, but questions arose after the terms were revised last month and speculation surfaced over a possible counterbid. Monday the government said it hadn't received any other firm bids.



In its third-quarter update, Lloyds didn't release specific profit figures. It said the bank had been profitable in the first nine months of 2008, though it had taken a hit from market volatility and deteriorating asset quality, including write-downs of about £270 million in its wholesale and international-banking unit. The bank said it was likely to see an impairment charge of £120 million in the second half of the year as house prices continue to fall.

HBOS said its total write-downs for the first nine months were £5.2 billion. It said £450 million in losses were tied to the corporate debt of Lehman Brothers Holdings Inc. and Washington Mutual Inc., through items such as floating-rate notes, and that it expects to take £150 million more tied to Icelandic banks. *—Alistair MacDonald contributed to this article.*

Miners expect price cuts as steel demand weakens

By Robert Guy Matthews

Big iron-ore miners, in a swift reversal of fortune, are privately bracing for significant price cuts in upcoming contract negotiations with the world's steelmakers as demand for autos, construction, infrastructure and appliances weakens.

Although contracts won't be signed until next year, there are indications that steelmakers will be seeking prices 20% to 40% less than this year's levels from **BHP Billiton**, **Rio Tinto** and **Companhia Vale do Rio Doce**, popularly known as Vale. Together, these companies control about 75% of the world's iron-ore production. Reductions would be a sharp turn from this year, when iron-ore makers won an about 85% price increase and spot prices more than tripled to $200 a metric ton.

In an effort to keep prices from a free fall, miners are moving quickly to cut production. This weekend, Vale, the world's largest iron-ore producer, began to mothball about 20% of its production, or about 30 million tons, resulting in shuttered mines and layoffs. Uncertain how long the downturn will last, Vale wouldn't say when, or if, the production would come back on line.

"We strongly believe this decision, made at this point of time, will contribute to minimizing risks of much larger future costs to our shareholders, employees and the communities where we operate," Vale said in a statement.

As of now, both BHP and Rio have said they will continue at current production levels, but it is unclear if they will be able to hold out for much longer if the steelmakers continue to see both sales and prices plummet.

"There are no plans to make cutbacks," said Alberto Calderon, BHP's chief commercial officer. "Up to today, we are delivering on our contracts."

Rio Tinto Chief Executive Officer Tom Albanese said last month that the company was reviewing its capital expenditures, in light of the economic slowdown. Iron-ore production, among other things, could be readjusted.

The weakening demand for iron ore could factor into BHP's bid to buy Rio Tinto, which has resisted the move. This week, the European Union's regulatory body is expected to give an indication of conditions that must be met before approving a merger, which could include BHP selling as much as 50 million tons of iron-ore production. Regulators around the world have been concerned that a combined BHP-Rio Tinto would control too much of the iron-ore market and insist on high prices. Given the decline in iron-ore prices and demand, it isn't clear how easily BHP would be able to sell so much production capacity.

Spot prices for iron ore recently have dipped below contract prices, reversing a trend from recent years. Iron ore is selling for about $70 a metric ton on the spot market. Long-term contract prices are about $80 to $90 a metric ton. A key reason for the decline is weakening demand for steel, which has seen prices drop by about one third for benchmark hot rolled steel.

China's steel association said production is going to be cut by 20%. **ArcelorMittal**, the world's largest steelmaker by production, has already begun a 15% production cut at some of its operations. On Wednesday, during its earnings release, the steelmaker is expected to announce even more cuts as the automotive, construction and other sectors continue to soften world-wide.

Before the credit crisis, steelmakers pushed for early negotiations with iron-ore producers, hoping to lock in a lower price and a guaranteed supply for iron ore. Contracts are usually signed in April. Now, producers want to hold off, in case demand for steel picks up. However, steel analysts don't expect prices or demand to recover before mid-2009, which gives steelmakers more negotiating power and better chances of getting lower prices.

"Our view is that iron-ore prices will fall 20% next year," says Alex Hacking, an analyst for Citigroup Investment Research.

U.K. insurers may lift stakes in their Indian joint ventures

By Vladimir Guevarra

LONDON—Three top U.K. insurers—**Aviva** PLC, **Prudential** PLC and Old Mutual PLC—are considering raising their stakes in their Indian joint ventures if changes in foreign-investment laws are approved by the Indian Parliament.

"We will keep our options open and consider the opportunity carefully should it arise," Prudential spokesman Ed Brewster said Monday. The company recently called India "one of the cornerstones of our Asian growth strategy."

Aviva, which has partnered with the **Dabur Group**, welcomes the proposed changes, said spokeswoman Hayley Stimpson. She added that Aviva's "arrangements with Dabur Group provide for us to increase our stake when the law changes."

Old Mutual spokesman Matthew Gregorowski said that the company's life-insurance venture with the **Kotak Mahindra Group** "is doing well and we welcome any easing of restrictions on India's underserved life insurance market."

Prudential holds 26% in ICICI Prudential Life Insurance Co., its joint venture with India's **ICICI Bank**. Aviva also owns 26%, the current legal limit, of its business with Dabur.

Old Mutual has a 26% stake in Kotak Mahindra Old Mutual Life Insurance, "with an option to increase our stake to 49%," Mr. Gregorowski said.

On Friday, Indian Finance Minister P. Chidambaram said India's Cabinet had approved a proposal to change the laws governing the insurance sector. One clause proposes that foreign direct investment may be increased to 49% from 26%.

CORPORATE NEWS

Associated Press

GM's auto sales fell 45% to 168,719 vehicles in the U.S., hurt by its financing arm's increased selectiveness in offering loans only to customers with top credit scores. GM is contemplating a merger with Chrysler as a result of slumping sales.

U.S. vehicle sales tumble

GM, Ford, Toyota report big declines; a 'severe recession'

BY KATE LINEBAUGH AND MATTHEW DOLAN

DETROIT—U.S. vehicle sales plunged an estimated 31% last month to about 850,000 vehicles as the financial crisis and tightening credit kept buyers away from showrooms.

It was the first time since February 1993 that auto makers sold fewer than 900,000 cars and light trucks in a month. After adjusting for increases in the U.S. population, October was "the worst month in the post-World War II era," Michael DiGiovanni, the top sales analyst at **General Motors** Corp., said in a conference call. "This is clearly a severe, severe recession."

Auto executives warned that the market could deteriorate further, raising the question as to when the auto industry—a key driver of the U.S. economy—will hit bottom.

The modest decline in U.S. economic output in the third quarter "is not likely to be the worst we will see in this cycle," **Ford Motor** Co. economist Emily Kolinski Morris said in a company conference call. A precise total for October vehicle sales wasn't available late Monday afternoon because some companies were still reporting their sales figures. Auto makers estimated the closely watched seasonally adjusted annualized selling rate was about 11 million vehicles, compared with 16 million a year earlier.

Ford sales analyst George Pipas said the current sales trend could pull total sales for this year below 14 million cars and trucks. At the beginning of the year, many car companies had expected sales of more than 15 million this year. An annual sales tally of 16 million vehicles is considered healthy.

Slumping auto sales are among the factors that have prompted GM to contemplate a merger with **Chrysler** LLC and spurred calls for federal help for the industry. The National Auto Dealers Association last week urged President George W. Bush to offer tax credits to boost new-car purchases.

October's declines were led by GM, where sales fell 45% to 168,719 vehicles. The company was hurt when its financing arm, **GMAC** LLC, began offering loans only to customers with top credit scores. In many areas of the country, only a third or so of all customers would qualify for loans, Mr. DiGiovanni said. GM augmented its total with sales to fleet customers, like rental companies. Fleet sales made up a third of its total, meaning its "retail" sales to individual consumers totaled only about 113,000 vehicles.

Other auto makers suffered major declines, too. Ford's sales fell 30% to 132,248 cars and light trucks. **Toyota Motor** Corp.'s sales fell 23% to 152,101, and **Honda Motor** Co.'s slid 28% to 85,864.

The sharp contractions came as U.S. consumer confidence fell in October to its lowest level since the Conference Board, a New York research group, began keeping records in 1967. The stock market fell 14% last month. Unemployment is expected to rise from its current level of about 6%—the auto industry alone has announced 10,000 job cuts in the last two weeks as production reductions continue.

With the economy contracting, auto makers are pushing forward year-end sales. GM's "Red Tag" sale will start on Tuesday rather than in mid-November, as is customary. GM will offer as much as $8,500 off select 2008 and 2009 models, according to a dealer who listened to a GM broadcast outlining the sale.

Ford said it is likely to cut its production of cars and crossover vehicles even as it plans to ramp up the number of pickup trucks it builds. "There are no hot segments or hot products," Mr. Pipas said. Even the red-hot Ford Focus, the small car that saw sales rocket this summer, has taken a detour. Its sales fell 18% in October.

"In my 27 years, I have never seen a month like this," said GM sales executive Mark LaNeve. "It was like somebody turned off the lights in the month of October."

–Sharon Terlep contributed to this article.

New-car sales in Spain, Italy plunge

BY DAVID PEARSON AND JASON SINCLAIR

New-car registrations in France, Italy and Spain dropped last month as consumers postponed purchases of big-ticket items amid worry about the global economic outlook.

Spanish car sales fell 40% to 77,660 vehicles in October—the lowest level since 1995—while new-car registrations in France were down 7.3% from a year earlier to 82,091 vehicles, French and Spanish car-manufacturers' associations said Monday. In Italy, meanwhile, new-car registrations dropped 19% to 167,940 vehicles, according to that country's infrastructure ministry.

Although less drastic than the drops in Spain and Italy, the decline in the French automobile market comes after months of outperforming most other markets in Western Europe. Underpinned by the introduction of a bonus-and-penalty system aimed at dissuading consumers from buying fuel-guzzling vehicles, France had seen sales rise for most of the year.

For the period between January and October, new-car registrations in France are 1.2% higher than last year and September sales increased 8.4% from a year earlier. New-car registrations in Spain plummeted 32% in September, hurt by trouble in the real-estate sector and a tightening credit market, while September sales in Italy were down 5.5%.

Registrations of PSA **Peugeot-Citroën** in its home market, France, fell 4.7% in October, pulled down by an 8.6% slump in sales of its Peugeot brand. At rival **Renault** SA, the picture was even bleaker, with registrations down 9.8% as an increase in sales of low-budget cars made by its Romanian subsidiary Dacia failed to offset a 13% drop at its Renault brand.

Last month, both Peugeot-Citroën and Renault warned that their full-year profits will suffer from the sharp contraction in demand, especially in Europe.

Toyota's global problems start to hit home in Japan

BY JOHN MURPHY

TOYOTA CITY, Japan—During **Toyota Motor** Corp.'s rapid global expansion this decade, residents of the auto giant's hometown saw their fortunes soar.

Those days are quickly ending. Sales of Japan's biggest company—widely seen as Japan's final bulwark against an economic slowdown—are sputtering because of the global financial crisis. The auto maker has slashed production and cut its temporary work force—a bellwether for how a company is doing—by more than 20%, from 8,800 in March to 6,800 in September.

That has sent a chill across the Toyota City region, from its 400 car-related businesses to its real-estate market, department stores and noodle shops.

Toyota City's plight shows just how deep the financial crisis is cutting into the world's second-largest economy. Until recently, Japan appeared largely unscathed by the financial crisis because of its banks' limited exposure to subprime loans. But in the past few weeks, the country has been engulfed in bad economic news. The Nikkei tumbled to a 26-year low last week and the yen strengthened to its highest levels in 13 years, leaving major exporters and investors reeling.

To be sure, Toyota City isn't Detroit. There are no auto plants shutting down and no fears of Toyota going bankrupt. With 76,000 jobs in Toyota City connected to the auto business, however, there are plenty of reasons for residents here to worry about the future.

"If Toyota is down, the whole region is down," says Masahiro Ido, director of **Kohwa Industry** Co., a Toyota-parts maker.

This industrial heartland, also home to other top exporters such as **Brother Industries** Ltd. and **Yamaha** Corp., was instrumental in snapping Japan out of its economic slumber of the 1990s and early 2000s, and has experienced robust growth. Flush with tax revenues from the car maker, Toyota City, population 410,000, boasts Japan's second-largest stadium and a renowned classical-music hall.

But Japan's prized economic engine is stalling. Toyota, which posted $262 billion in revenue for the fiscal year ended March 31, announced its first quarterly sales drop in seven years, down 4% for the July-September quarter, as auto demand in the U.S.—which accounts for half of Toyota's profits—has plummeted.

Sales to emerging markets are also slowing, making it more difficult to offset U.S. losses. The auto maker has slashed global sales projections for this year and 2009, and many residents here are expecting grim figures when Toyota announces its financial results for the July-September quarter on Thursday.

Toyota isn't alone in its challenges. **Honda Motor** Co. posted a 41% drop in second quarter profit and cut its full-year profit outlook. **Nissan Motor** Co.'s profit slid 39% for the quarter and it slashed its profit forecast by more than half for the full fiscal year.

Japan's finance ministry on Oct. 29 downgraded the economic assessments for all regions of Japan for the first time in 10 years, including the region around Toyota City, where industrial production is slowing and consumers are spending less on clothing and everyday goods. Hiromichi Shirakawa, an economist for Credit Suisse and UBS in Tokyo, said Japan's economy could shrink by as much as one percentage point next year.

John Murphy/The Wall Street Journal

A worker at Kohwa Industry, a Toyota Motor supplier that makes body panels and parts in Toyota City. **Cutbacks by Toyota** could hurt many businesses in the region.

In Nagoya, a nearby city that is also largely dependent on Toyota, there's been a fivefold increase in distressed businesses seeking emergency government loans to stay afloat, according to a new report by the local chamber of commerce. Sales at the major department stores in Nagoya dropped 8.7% in September, the largest decline among 10 major cities in Japan, the report said.

The Aichi Prefectural government, which depends on Toyota for about one-quarter of all its corporate taxes, is projecting a 100 billion yen ($1.05 billion) shortfall in tax revenue, its first in 15 years.

"Everyone is concerned," said Yoshiyuki Takahashi, 51 years old, manager of ERA Realty in Toyota City. Property sales are down and vacancies are rising in weekly apartments for temporary workers as Toyota and its suppliers scale back.

—Miho Inada contributed to this article.

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DAVID J. O'REILLY
CHAIRMAN & CEO
CHEVRON CORPORATION

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We can wait until a crisis forces us to do something. Or we can commit to working together, and start by asking the tough questions: How do we meet the energy needs of the developing world and those of industrialized nations? What role will renewables and alternative energies play? What is the best way to protect our environment? How do we accelerate our conservation efforts? Whatever actions we take, we must look not just to next year, but to the next 50 years.

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Dave

CORPORATE NEWS

Tainted toys get another turn

After recalls, firms bet on new names, looks for comeback

By Nicholas Casey

Pixos, a toy marketed by **Spin Master** Ltd. of Toronto, lets children arrange small beads into designs, then add water to make them stick together permanently.

The toy is similar to Aqua Dots, a product recalled last November after several children swallowed beads and slipped into temporary comas. In fact, Pixos is a new version of the same toy, marketed under a different name.

More than 25 million toys were recalled last year because of problems ranging from toxic lead paint to magnets that were lethal when swallowed. The toy industry has since spent an estimated $200 million to enhance safety procedures. The U.S. congress overhauled the Consumer Product Safety Commission, increasing its budget by almost a third.

But what couldn't be repaired were the reputations of the tainted brands. That left toy makers with a difficult choice: abandon the products and start new lines from scratch, or relaunch the toys with new names.

Hit toys are rare in the industry and companies—operating under tight margins—are under pressure to keep a trendy product alive. But the stigma of a large recall can potentially sink both a toy and its manufacturer. "When a brand gets tainted, you have to either aggressively fight it or pull the plug," says Sid Kaufman, a licensing executive at Los Angeles-based consulting firm Brand Sense Partners who has also worked in the toy industry.

Last year's recalls were part of a cascade of defective consumer products made in China. The toy that was marketed under the names Aqua Dots and Bindeez contained a substance that when digested became GHB, an acid more colloquially known as a date-rape drug for its use in sexual assaults. The company recalled 4.2 million units sold in the U.S., along with those marketed abroad, and destroyed remaining products.

Spin Master used the name **Pixos** after Aqua Dots were recalled last year.

Spin Master President and Co-Chief Executive Anton Rabie says the recalls were swift and that his company worked around the clock to warn consumers and retailers of the problems.

But some damage was already done. "It was one of the worst recalls of the year," says Gerald L. Storch, chairman and chief executive of Toys "R" Us Inc., which sold Aqua Dots. "When you find out a product has the date-rape drug, that's not a good day."

Spin Master considered retiring the toy, says Mark Sullivan, who heads the company's marketing and design. But Spin Master "had invested millions of dollars in product development, manufacturing and TV commercials" for Aqua Dots and "customers were saying they love the toy."

So the company abandoned the Aqua Dots name but not the toy. "We're not trying to fool anyone," says Mr. Sullivan. By calling the toy Pixos, he says, the company isn't just rebranding it, but also allowing parents to distinguish the new product from the old, dangerous one.

Not all brands can be so easily retooled. Thomas & Friends, the toy train line made by Oak Brook, Ill., company **RC2** Corp., was recalled for containing lead paint last year. But the Thomas brand, which is owned by Hit Entertainment Ltd., appears not just in toys but branded books, puzzles and its namesake television show. The brand was largely unchanged this year.

Likewise, toys using cartoon characters Dora the Explorer and Sarge, the animated military jeep from the Walt Disney Co. movie "Cars," both involved in lead recalls from **Mattel** Inc., haven't been given a facelift by their license owners.

However, some smaller toy companies with lesser-known brands are trying to reinvent themselves. On many toy aisles this fall is a new construction toy called MagNext—a close relative of a product called Magnetix, manufactured by **Mega Brands** Inc. of Toronto.

Magnetix was recalled in 2006 after a child died and others were seriously injured after swallowing its high-powered magnets. Mega Brands redesigned the toy in 2007 so the magnets couldn't be swallowed.

But when Mattel recalled 18 million toys last year for a similar problem, the company was thrust back in the spotlight, Mr. Chizick said. Sales plummeted in the fall and the company posted a loss.

Mega Brands had already been working on a newer, sturdier version of the toy, and so it decided to release it under a new name, Mr. Chizick said.

"We needed to rebrand," he said. "Obviously, with the recalls and what was happening in the marketplace, we changed the name to MagNext."

The new toys contain no reference to the original. Instead, the company opted to mark their packaging with the brand Mega Bloks, the company's building-blocks brand that had no previous association with its magnet toys.

The new Magnetix toy now "is getting the halo of the entire Mega Bloks portfolio," says Kathleen Campisano, the company's head of marketing. Also new on the toys' packaging is a logo for Intertek, a third-party testing agency that reviewed the design of the toys for safety before they were manufactured.

StatoilHydro's net profit slides 55%

By Elizabeth Cowley

OSLO—Oil and gas company **StatoilHydro** ASA reported a 55% drop in third-quarter net profit Monday, weighed down by the weakness of the Norwegian krone against the U.S. dollar.

For the three months ended Sept. 30, the state-controlled Norwegian company said its net profit fell to 6.5 billion Norwegian kroner ($965.9 million) from 14.46 billion kroner a year earlier.

StatoilHydro was created after Statoil bought Norsk Hydro ASA's oil and gas assets in late 2007 and this is the first time the new company has reported third-quarter results.

The latest earnings were hit by foreign-exchange losses of 13.77 billion kroner, compared with a gain of 6.33 billion kroner in the year-earlier three months, as well as financial losses of 9.74 billion kroner, compared with a gain of 6.52 billion kroner a year earlier.

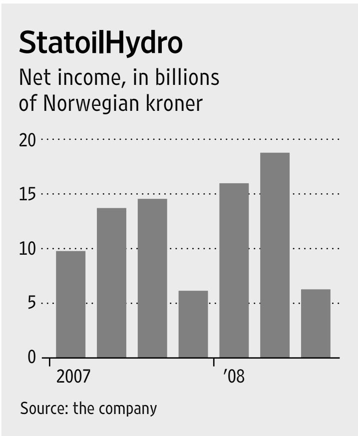
Revenue rose 34% to 173.84 billion kroner from 129.41 billion kroner, reflecting increased prices for crude oil, condensate and natural-gas liquids.

The company said production fell 2.9% to 1.55 million barrels of oil equivalent in the third quarter, hurt by shutdowns and lower production from maturing fields.

Chief Financial Officer Eldar Saetre said in a conference call that the company is "continuously evaluating merger and acquisition activity" and that the sharp drop in oil prices since this summer's records could make takeovers less expensive.

In its outlook, StatoilHydro said strong production during the first nine months of 2008 support its equity-production target of 1.9 million barrels of oil equivalent a day, with gas output expected to increase in the fourth quarter with rising seasonal demand.

StatoilHydro said oil prices are expected to remain "relatively lower than earlier in the year and volatile at least in the near term," while natural-gas prices are expected to rise into the winter.



The company said that if the exchange rate between the Norwegian krone and the U.S. dollar remains at the current level, it will positively affect its income measured in kroner, but adversely affect net financial items, leading to increases in dollar-denominated costs and capital expenditures, as well as the reported tax rate.

Pepsi slates $1 billion toward China expansion

By Betsy McKay

PepsiCo Inc. plans to spend $1 billion in China over the next four years, extending its investment in one of its fastest-growing markets as the troubled economy cuts into sales and profit in the U.S.

The Purchase, N.Y., maker of Pepsi-Cola, Lay's potato chips and other snacks and drinks said it will use the money to build more plants, specifically in western and interior areas of China; expand local research and development; and build a bigger sales force to expand distribution. Pepsi also will use the funds for marketing and to develop products tailored to Chinese consumers.

The investment, announced by Pepsi Chairman and Chief Executive Indra Nooyi on a visit to the country, steps up an already heated competition between Pepsi and **Coca-Cola** Co. in China's fast-growing beverage market. It is also part of a larger strategy by Pepsi to strengthen its presence in emerging markets around the world, where growth is much faster than in the U.S. China is Pepsi's second-largest beverage market by volume, after the U.S. Pepsi also has a large snack-food business in China.

Atlanta-based Coke is the global leader in the soft-drink wars with roughly half the market—more than double Pepsi's share. Coke also dominates Pepsi in the broad carbonated-soft-drink sector in China and conducted a big marketing blitz for Coca-Cola during the Summer Olympics. But PepsiCo is trying to maintain a lead that its cola has held over the Coca-Cola brand in recent years. Pepsi also has a large snack-food business in China, where its lineup includes Lay's potato chips with Beijing Duck flavor.

The two companies also are racing to grab a share of China's fast-growing market for juices and other nonsoda drinks, a market Pepsi has dominated in the U.S. Coke in September offered $2.4 billion to buy large fruit-juice maker China Huiyuan Juice Group Ltd. The deal awaits approval by Chinese regulators.

A Coke spokesman declined to comment on Pepsi's new investment.

While growth in emerging markets is cooling and a strengthening dollar is trimming profit from international operations, Ms. Nooyi has said, growth remains "robust" compared with the U.S. "In the Middle East and parts of Asia, where we are strong, we want to remain very, very strong," she said in an interview earlier this year. "Where the market growth is spectacular, like China, India and Russia, we are going to keep investing so that when the music stops, we have a great shot at being up there as the leader."

Pepsi in September announced a $500 million investment in India over the next three years to expand manufacturing, improve research and development and introduce new products. In Russia, the company announced last year it would build a second snack plant and earlier this year spent $1.4 billion with its largest bottler to acquire that country's largest juice company, OAO Lebedyansky.

Pepsi's announcement about China comes as sales have soured at home. The company's third-quarter profits were dragged down by weak U.S. beverage sales, forcing the company to fall short of a consensus Wall Street estimate for the first time since 1999. Uncertainty over exchange rates caused PepsiCo to trim its full-year earnings forecast. The company also disclosed plans to cut costs by more than $1.2 billion over the next three years.

Pepsi shares were up 30 cents at $57.31 in late-afternoon trading Monday on the New York Stock Exchange.

APN's stock leaps amid interest in Irish shareholder's 39% stake

By Susan Murdoch

APN News & Media Ltd. stock rose 24% Monday after the company's largest shareholder, **Independent News & Media** PLC of Ireland, said it had received a number of unsolicited expressions of interest in its 39% stake.

The potential sale follows a rejected bid of 3.8 billion Australian dollars (US$2.53 billion) by Independent Chief Executive Tony O'Reilly to take the company private last year. The rejected bid valued APN shares at A$6.20 each.

Shares in APN have fallen since the failed sale amid a deteriorating outlook for the advertising market and the company's exposure to the weakening New Zealand economy. Last week, the stock hit a nine-year low of A$2.16, but Monday the shares increased 24% to A$2.98.

The Australia-based publisher and broadcaster said it has appointed **ABN Amro** as an adviser.

APN publishes 23 regional daily newspapers and more than 100 non-daily titles across Australia and New Zealand. It also owns 50% of the Australian Radio Network, which operates 12 metropolitan radio stations in Australia and 162 AM and FM licenses in New Zealand.

The company said it welcomed the approach and added that its board intends to provide shareholders with a full trading update within the next week.

Independent's group debt is currently €1.4 billion (US$1.78 billion), but the company said last week that group debt would fall to €600 million if its 39% stake in APN was sold.

Marketplace

A puncher's chance

A British boxer known for losing aims to end career with a bang > **Page 30**

CORPORATE NEWS

China scores plane deal with GE

Regional jets mark first foreign order for big aviation firm

By Norihiko Shirouzu

ZHUHAI, China—China's main aircraft maker won its first order from overseas, with **General Electric** Co. expected to finalize a deal for five Chinese-designed regional jets and an option to buy 20 more, people familiar with the situation said.

The deal, which could be valued at as much as $750 million if all the jets are purchased, is seen as a significant step by China to try to cut into the global aerospace market dominated by **Boeing** Co., **European Aeronautic Defence & Space** Co.'s Airbus and a handful of other aircraft makers.

Mike Wilking, head of GE's aviation sales for China, said leasing unit GE Commercial Aviation Services plans to sign a contract Tuesday with **Commercial Aircraft Corp. of China** Ltd. for five 70-seat ARJ21-700s. The deal, coming together at the Zhuhai air show in southern China, will include an option to buy an unspecified additional number of the aircraft, Mr. Wilking said in a telephone interview. "There will be a number of options," he said.

GE plans to lease the aircraft to China's domestic airline companies for use within China, Mr. Wilking said. GE supplies engines for the ARJ21.

An official at an aircraft design-and-research company affiliated with Commercial Aircraft Corp. of China said the option calls for GE buying an additional 20 ARJ21 aircraft. The official said each of the planes will likely cost between $20 million and $30 million.

A memorandum of understanding for the five ARJ21s was signed by GE Commercial Aviation Services earlier this year. China still faces the bigger test of finding foreign customers who aren't involved in the jet project.

A spokeswoman for Commercial Aircraft Corp. of China said the company is going to sign a contract with a "U.S. company" for ARJ sales Tuesday. She declined to disclose the company's name and other details.

The ARJ21 is a key step in China's bid to develop an aerospace industry able to compete world-wide. The country intends to produce larger airliners, including a 150-seat jetliner, to compete directly with Boeing and Airbus by 2020.

Regional jets are smaller commercial planes, with a range of around 2,000 miles aimed at midsize markets. By choosing to start with a smaller jet, China will stay out of the competitive sights of Boeing and Airbus for now but will enter a market that is crowded with established players such as Canada's **Bombardier** Inc. and Brazil's **Empresa Brasileira de Aeronáutica** SA.

Airlines in recent years have rushed to buy smaller regional jets, often with around 70 seats. As fuel prices have climbed, a number of operators have turned to more fuel-efficient turboprop planes. But many in the industry believe planes with around 100 seats, like the ARJ21, could fill an important niche.

The Chinese plane is expected to enter service next year.

—Ellen Zhu in Shanghai and Paul Glader in New York contributed to this article.

GE is expected to finalize a deal to purchase five Chinese-designed **ARJ21-700 jets**.

Reuters/China Daily

Ryanair is upbeat about full year

By Quentin Fottrell

DUBLIN—**Ryanair Holdings** PLC posted a 31% decline in its fiscal second-quarter net profit, hit by soaring fuel prices, but said it expects to break-even for the full year.

The Ireland-based budget carrier previously warned it might post a loss for the year ending March 31, but has become more optimistic as oil prices have fallen sharply from this summer's record highs.

Next fiscal year, if oil prices stay at about $80 a barrel, Ryanair's earnings will rebound strongly, said Chief Executive Michael O'Leary.

For the three months ended Sept. 30, Ryanair posted a net profit of €185.8 million ($236.8 million), compared with €268.7 million a year earlier. Revenue jumped 20% to €1.03 billion from €861.3 million.

Ryanair expects fare cuts to lead to losses for the second half.

However, "we remain confident that we will break even for the full year," Mr. O'Leary said, adding that the outlook is dependent on fares and fuel prices.

GLOBAL BUSINESS BRIEFS

Linde AG

Earnings increase by 32%; productivity targets are set

Linde AG, an industrial-gases and engineering company, posted a 32% jump in a third-quarter earnings, thanks to lower costs and taxes, and said it hasn't yet felt the impact of the global economic crisis. However, the German company described its midterm targets as "ambitious" in the current market environment and announced the launch of a new productivity improvement program to help it reach those goals. Net profit rose to €177 million ($226 million) from €134 million a year earlier as sales grew 2.3% to €3.14 billion. Linde's earnings before interest, taxes, depreciation and amortization, or Ebitda, increased 6.5% to €652 million.

Virgin Media Inc.

Lenders to **Virgin Media** Inc. voted to allow the U.K. cable-TV operator to delay repayment of £1.66 billion ($2.67 billion) in loans, Virgin Media said. The senior secured debt was due to be repaid in 2010 and 2011. Under the new agreement, Virgin Media will have until 2012 to pay. The company has said in regulatory filings that it wouldn't have enough money to meet the original payment schedule. British entrepreneur Sir Richard Branson owns 10.4% of the company, according to regulatory filings. In afternoon Nasdaq Stock Market trading Monday, Virgin Media shares were up 12% to $6.42.

Scottish and Southern Energy

Scottish and Southern Energy PLC announced that it agreed to sell half of the Greater Gabbard offshore wind farm it is planning to build in the Thames Estuary to Npower Renewables, a U.K. subsidiary of German utility **RWE** AG, for £308 million ($496 million). RWE's payment will give it 50% of the equity in the wind-farm holding company and reimburse SSE for half the costs incurred in the development of the project so far. Greater Gabbard will be the world's largest offshore wind farm with a capacity of 500 megawatts. Part of the wind farm, which Scottish and Southern Energy will operate, will start generating electricity in 2010 and the entire construction is scheduled to be completed in 2011. The full development is expected to cost £1.3 billion.

UCBH Holdings Inc.

UCBH Holdings Inc. Craig On was named executive vice president and chief financial officer of this bank holding company. Mr. On, 56 years old, was senior vice president and had been interim chief financial officer since Jonathan Downing, 56, died in May. UCBH specializes in providing retail banking and small business services to Chinese communities in the U.S.

Stora Enso Oyj

Finnish-Swedish paper maker **Stora Enso** Oyj said it will build a €137 million ($175 million) power plant to provide electricity for its mill in Poland, part of the company's focus on the Polish and Russian markets. The plant will be located at the site of the Ostroleka mill and is scheduled to be online in 2010, the company said. "This investment supports Stora Enso's strategy of maintaining profitable growth in the rapidly growing Central and Eastern European market, especially in the corrugated-packaging business in Poland and Russia," said Veli-Jussi Potka, vice president of the company's industrial-packaging unit. Stora Enso is one of the world's largest forest-product companies . It operates in more than 40 countries and employs 34,000 people.

Goodyear Tire & Rubber Co.

Goodyear Tire & Rubber Co.'s third-quarter net income fell but sales rose as overseas demand and higher selling prices offset weak North American volume. Goodyear, North America's largest tire maker by sales, reported net income of $31 million, or 13 cents a share, compared with $668 million, or $2.75 a share, a year earlier. The year-earlier profit included a gain of $517 million, or $2.12 a share, from the sale of the company's engineering-products division. Sales increased 2.1% to $5.17 billion, while revenue per tire increased about 8%. In North America, the number of tires sold dropped 13% to 18.1 million, while revenue slipped 4.3% to $2.19 billion. Asia-Pacific sales jumped 11% to $470 million.

Royal Dutch Shell PLC

Abu Dhabi National Oil Co. and a division of **Royal Dutch Shell** PLC said they have signed a deal to explore the possibility of developing deep natural-gas fields off the emirate's coast. The memorandum of understanding calls for the companies to evaluate the joint exploration, development and production of the fields. Shell says that once the evaluation is complete, it "hopes to move forward rapidly with final agreements in order to quickly begin joint exploration and development activities." Shell already holds a 9.5% stake in the **Abu Dhabi Onshore** Co. and a 15% share of **Abu Dhabi Gas Industries** Ltd. Financial terms weren't disclosed.

Robert Bosch GmbH

Auto-parts supplier **Robert Bosch** GmbH said it plans to reduce working hours for some employees at a German plant later this week as the auto industry cuts costs and braces for an economic recession. Some 3,500 workers at the Bamberg plant in southern Germany will start working reduced hours on Friday, spokesman Andreas Kempf said. The measure is set to last for six months, he added. The affected workers produce diesel-engine components. Bosch's move comes as the global financial crisis weighs heavily on the auto industry. In recent weeks, auto makers such as BMW AG, Daimler AG and General Motors Corp.'s subsidiary Adam Opel AG have announced production cuts.

News Corp.

News Corp. agreed on Monday to sell its indirect 35% stake in small Polish television broadcaster Puls TV to the remaining shareholders for an undisclosed sum. The media company had hoped to establish a foothold on the quickly expanding Polish market, but Puls TV, which now controls less than 1% of the market, has failed to gain ground on the established public television and private broadcasters TVN and Polsat. The remaining holdings in Puls TV are owned by the Franciscan religious order and Chief Executive Dariusz Dabski, who replaced a News Corp.-appointed head earlier this year. The order will now own a 51% stake, with Mr. Dabski getting the rest. News Corp. owns Dow Jones & Co., the publisher of the Wall Street Journal.

Olympic Airlines SA

Greece's transport minister said "at least" 10 companies expressed interest in each separate sale of state-owned **Olympic Airlines** SA's flight operations, technical maintenance and ground handling. Costis Hadzidakis said the companies will be named this week and that six potential bidders were interested in all three. The deadline for potential buyers for the troubled carrier expired Friday, with only **Qatar Airways** stating interest publicly so far.

—Compiled from staff and wire service reports.

German party fails tie-up

Social Democrats can't agree on links with far-left group

By Marcus Walker

BERLIN—Germany's center-left Social Democrats failed in their quest to form an alliance with a far-left party at the regional level, increasing the chance that the country will be stuck with its fractious bipartisan government after elections in 2009.

The Social Democrats, junior partners in Chancellor Angela Merkel's conservative-led national coalition, tried to form a regional alliance with a hard-line leftist party that some Social Democrats saw as blazing a trail to a left-wing federal coalition.

But the planned Hesse alliance collapsed Monday after Social Democrats split over cooperating with Die Linke, a party that grew out of East Germany's former ruling Communist Party.

The failure underlines the lack of alternatives for Germany's two major parties—the Social Democrats and Ms. Merkel's conservatives—to the squabbling coalition with each other.

Despite the chancellor's high personal approval ratings and strong standing abroad, Ms. Merkel's uneasy bipartisan coalition has struggled to move forward with much-needed overhauls to Germany's economy and its welfare state since she took office in 2005.

Ms. Merkel hopes to break free of the Social Democrats in the September 2009 elections and form a coalition with a small pro-business party. But her conservatives currently aren't popular enough to achieve that.

Social Democrats are also casting around for an alternative to their conservative partners and rivals. But they are split over whether to ally with Die Linke—German for

Reuters

Social Democrat **Andrea Ypsilanti**, center, favors alliances with Die Linke.

"The Left." Die Linke includes both former Communists and disgruntled former Social Democrats who want to roll back the market-oriented economic changes Germany has made in the past decade.

Left-leaning Social Democrats such as the party's leader in Hesse, Andrea Ypsilanti, favor alliances with Die Linke, but centrist Social Democrats view the hard-left party as irresponsible populists.

Die Linke has "a divided, negative attitude towards democracy and the rule of law," said Carmen Everts, a centrist Social Democrat who on Monday joined a rebellion against cooperating with Die Linke. That rebellion leaves Ms. Yspilanti with too few votes to become state governor of Hesse on Tuesday.

Centrist Social Democrats will take heart from their colleague Ms. Ypsilanti's failure, says Manfred Güllner, head of opinion-polling institute Forsa. An alliance with Die Linke could further alienate centrist voters, whom the Social Democrats need to win back to challenge Ms. Merkel next year, says Mr. Güllner. More than 65% of Social Democrat voters nationally are against pacts with Die Linke, he says.

Mr. Güllner says the most likely election outcome is a second term for the current bipartisan coalition, for lack of workable alternatives.

The Social Democrats led Germany's government from 1998 to 2005, pushing through changes to the welfare state and labor market that analysts credit with reviving growth and employment in Europe's biggest economy. In the 2005 election, neither conservatives nor Social Democrats won enough votes to govern alone or with a small ally, forcing them to govern together—though they soon ran out of initiatives they could agree on.

The pace of economic change in Germany has slowed sharply under Ms. Merkel's coalition, despite the chancellor's personal support for further market-friendly reforms.

Meanwhile, voter discontent with earlier welfare cuts has fueled the rise of Die Linke, which wants to restore generous welfare policies, bring business to heel, and pull German troops out of Afghanistan.

The failure shows the lack of alternatives for the two major parties.

Die Linke is trying to capitalize on the global financial crisis by stepping up its anticapitalist rhetoric. Its candidate for the largely ceremonial post of German president, Peter Sodann, is a former TV detective who recently said he would like to arrest Germany's top banker, Deutsche Bank AG Chief Executive Josef Ackermann, and other financiers who had engaged in "speculation."

New head of U.S. Central Command **Gen. David Petraeus**, left, met with Pakistan's Defense Minister **Chaudhry Ahmed Mukhtar** in Rawalpindi on Monday.

Pakistan again warns U.S. on missile strikes

Associated Press

ISLAMABAD—Pakistani officials warned U.S. Gen. David Petraeus that frequent missile strikes on militant targets in Pakistan fan anti-American sentiment in the country, an ally in the fight against terrorism.

The new U.S. commander of America's wars in Afghanistan and Iraq met Pakistani officials, including Defense Minister Chaudhry Ahmed Mukhtar and army chief Gen. Ashfaq Kayani, as part of his first international trip since taking over U.S. Central Command three days earlier.

It was unclear if Gen. Petraeus addressed vows from Pakistani and Afghan leaders to seek talks with elements of the Taliban. Gen. Petraeus, previously the top U.S. commander in Baghdad, has indicated support for efforts to reach out to members of the Taliban considered moderate enough to cooperate with the Afghan government.

There is U.S. concern about Islamist militants using Pakistan's northwest region for sanctuary from which to support the insurgency in neighboring Afghanistan.

Complaints from U.S. commanders about Pakistan's efforts to counter the insurgents have been accompanied by a surge of U.S. attacks, despite condemnation from Islamabad.

A Defense Ministry statement said Mr. Mukhtar told Gen. Petraeus and Assistant Secretary of State Richard Boucher that the missile strikes from drones "generate anti-America sentiments as well as create outrage and uproar among the people."

The U.S. is suspected to have carried out at least 17 missile strikes in Pakistan since August.

In September, a U.S. ground assault in a tribal region in Pakistan's northwest spurred particular outrage in Pakistan, whose pro-Western government must be mindful of widespread resentment of U.S. policy in the region. There have been no reports of ground assaults since.

Gen. Petraeus is also expected to meet with Prime Minister Yousuf Raza Gilani and President Asif Ali Zardari.

At the Defense Ministry, officials briefed Gen. Petraeus on Pakistani military operations against insurgents in its border regions. According to a statement, both sides "stressed the need for enhanced cooperation to eliminate the scourge of terrorism."

The statement said Gen. Petraeus met with Gen. Kayani and the chairman of Pakistan's joint chiefs of staff, Gen. Tariq Majid.

Gen. Majid told the U.S. delegation the two countries needed a "consensus strategy to deal with violent extremism" that "keeps in view the local perspective," the statement said.

Iran strives to expand refineries

By Roshanak Taghavi

TEHRAN—As Western powers talk of targeting Iranian gasoline imports in fresh economic sanctions, the Islamic republic is scrambling to boost its refining capacity and tamp down domestic demand.

But U.S. and United Nations sanctions aimed at curbing Iran's nuclear program have pushed up costs and slowed down some projects in Tehran's $16 billion effort to double domestic refining capacity, said Mohammad Reza Nematzadeh, a top adviser to the oil minister.

Despite the sanctions, Mr. Nematzadeh said Iran can still achieve its goal of becoming a net exporter of refined oil products in the next six years.

Tehran's efforts stem from a longstanding shortfall between its gasoline consumption and its refining capacity. The initiative has taken on added urgency amid Western diplomats' talks of more sanctions, including targeting Iran's gasoline imports, against which there are currently no sanctions. In September, Washington imposed unilateral sanctions against Iran's state-owned shipping line. Iran spent roughly $6.5 billion on gasoline and diesel imports in the year ended March 2008. In June 2007, Iran started tightly rationing gasoline, a plan the government credits with cutting consumption by about 28% this year.

The first new Iranian refinery is slated to come online in 2011, but Seyed Gholamhossein Hassantash, an former oil ministry official and energy analyst in Tehran, said he doubts it will be finished by then.

Sanctions have scared off many foreign investors from the West who might otherwise be willing to sink the billions of dollars necessary to help build new refineries. Sanctions have also made it difficult to import specialized equipment and raise money to finance big projects.

That has Iran relying on domestic contractors for some 80% to 90% of the engineering work on six new refineries it wants to build, Mr. Nematzadeh said. All the construction will be done by Iranian companies and as much as 60% of the plants' equipment will be manufactured inside the country. Domestic capacity constraints for that work mean some projects "will take a little more" time, he said.

And there are new concerns about the expansion program amid plummeting oil prices. Iran's budget is based on global oil prices of about $55 a barrel, according to Akbar Torkan, Iran's deputy oil minister for planning.

Ramping up

Expected crude-oil product capacity at the six new refineries Iran is building; in barrels a day

*Joint venture with Malaysian Co.
Source: WSJ reporting

If prices continue to tumble, government financing for the refinery program could be in jeopardy.

"This fall in oil prices could have a negative impact on refinery projects," Mr. Hassantash said.

Pakistan advances IMF talks

A WSJ News Roundup

ISLAMABAD—Pakistan will wrap up talks with the International Monetary Fund by Nov. 10 and shortly afterwards sign a letter of intent allowing for the release of financial aid, the economic adviser to Prime Minister Yousuf Raza Gilani said Monday.

"We will finalize all matters with the IMF after holding the second round of talks by Nov. 10," said Shaukat Tarin.

Mr. Tarin, who was in Saudi Arabia seeking financial aid for Pakistan, said the country has "finalized certain issues at the technical level of talks with the IMF."

Last week, a finance ministry official said that the Pakistan team, during talks with the IMF in Dubai that concluded on Oct. 30, got a consent from the fund for $9.6 billion in aid for two years.

Pakistan is urgently seeking funds to help it weather a fast-deteriorating balance of payments situation. It hopes an agreement with the IMF on lending could unlock funds from governments friendly to Pakistan such as the U.S., Britain and the United Arab Emirates.

ECONOMY & POLITICS

No promotions, please

Japan's 'hodo-hodo' bow out of rat race as recession looms

BY HIROKO TABUCHI

TOKYO—Hidekazu Nishikido, a 24-year-old agent at a staffing company, recently got promoted to help manage a small group of employees. He gets a higher salary and a better title.

But he isn't happy. Now he often works past 10 p.m., leaving him less time with his girlfriend. So Mr. Nishikido flatly told his bosses at R-live Inc. he isn't interested in further promotions. "My job is important, but it's not what makes me tick," Mr. Nishikido says.

In a country once proud of its success-driven "salarymen," managers grapple with a new phenomenon: Many young workers are shunning choice promotions—even forgoing raises—in favor of humdrum jobs.

Even as Japan faces a sharp recession, civil servants are opting out of career-advancing exams and information-technology workers flock to headhunters to switch to less-demanding careers. A study this year by consulting firm Towers Perrin found just 3% of Japanese workers say they're putting their full effort into their jobs—the lowest of 18 countries surveyed.

Some companies delicately nudge young workers up the corporate ladder. "I tell them to break news of promotions gently," says Makoto Iwade, a lawyer who advises companies on labor relations. "They should feel employees out first to see if they're ready. Don't shock them."

Employment experts call these workers *hodo-hodo zoku*, or the "so-so folks." They say these workers, mostly in their 20s and early 30s, are sapping Japan's international competitiveness at a time the aging country must raise productivity.

"They'll ruin Japan with their lax work ethic," says labor consultant Yukiko Takita. "They're supposed to be leaders of the next generation."

When lifetime employment was widespread, loyal workers were unlikely to reject promotions. In the 1990s, the country began to see job-hoppers. The so-so folks are of more concern as they're at the heart of corporate Japan, Ms. Takita says.

Signs of hodo-hodo are widespread. The Tokyo Metropolitan Government, a destination for the city's elite, says only 14% of eligible employees took higher-level exams for management positions in 2007—down from 40% three decades ago. **Sanyo Electric** Co. says it's having an increasingly hard time filling positions like supervisors for overseas factories.

Hiroko Tabuchi/The Wall Street Journal

Hidekazu Nishikido shuns promotions.

Information-technology job consultants at **Intelligence** Ltd., one of Japan's top recruitment agencies, report a recent rise in people looking to switch jobs not to get ahead, but to get out of too-demanding positions. "They find responsibilities a chore," says consultant Yoshihiko Fujita.

In a sign of the times, "Otaryman," a comic-book series about a less-than-driven salaryman, is a surprise hit. The protagonist passes his days worrying about his colleagues' files spilling onto his desk rather than trying to impress bosses. "He just plods along (in) life, and has very small ambitions," says Makoto Yoshitani, the28-year-old author. "I think people my age find that comforting."

Some authors even have started condone this laid-back approach. "Slow Career: Job Survival for People Not Rushing Career Advancement" is one popular tome, with chapters like "Forget goals, just stay true to yourself" and "Not everybody needs to become a leader."

Chiaki Arai, who's written about the hodo-hodo phenomenon, blames Japan's long slump in the 1990s. He says young workers saw older ones throw themselves into work, only to face job and pay cuts as companies restructured. Now, young employees are cautious about giving too much of themselves—even if it means less money or prestige, Dr. Arai says.

Also, getting a promotion no longer means a big raise. The wage difference between managerial and rank-and-file positions has shrunk over the past decade as companies cut compensation amid restructuring. In 2005, division managers were paid about 2.2 times the rank-and-file worker, down from about 2.7 times in 1985.

Sanyo has begun compulsory career-training retreats for workers turning 30. Executives give pep talks "to remind them their best years are still ahead," says Jun Nakamura, Sanyo's head of human resources. "We want to tell this generation that though it's been tough, they shouldn't give up yet."

Dai-ichi Mutual Life Insurance Co. is finding it so hard to identify managerial candidates that it has turned to the clerical workers it calls office ladies to fill positions. Promoting these women—most of whom are in their 40s and joined the company in a non-career track—would have been unthinkable 10 years ago, employment experts say. "I never imagined I'd be called on for a management post," says Saori Kakegawa, a participant in the program.

Law firms say the trend has companies scrambling to seek legal counsel on whether they can fire employees who refuse promotions. **CyberAgent** Inc., a Tokyo-based Internet advertising agency, is offering the unambitious a different way out. The company puts these workers on a "specialist" track where they can remain rank-and-file employees but have similar salaries as managers. This ensures the company "doesn't lose qualified employees by pressuring them to accept promotions," says Tetsuhito Soyama, general manager for personnel at the company.

Tsugumi Uemura, a public-relations worker at the company, opted out of the management track in April in part because she didn't feel ready. "I want to be a different kind of role model," says Ms. Uemura, who is 30.

Even for some younger managers, the hodo-hodo mentality is hard to understand.

Miya Matsumoto, manager of the laid-back Mr. Nishikido, has tried everything—from showing success-themed films like "The Devil Wears Prada" to throwing after-work drinking parties—to push her subordinates to be more ambitious. But her team members rarely show interest in bigger responsibilities, she says. She recently caught one of them napping on a train during work.

The 31-year-old Ms. Matsumoto says she threw herself into her job, often staying overnight in the office to get work done. "Don't you want to get ahead? Don't you want to get rich and drive a nice car?" she prodded Mr. Nishikido recently.

But Mr. Nishikido finds her enthusiasm off-putting. He says he was especially turned off that Ms. Matsumoto left her sick baby at home with her husband to come to the office (She says work emergencies sometimes must come first.)

"That's definitely not the life I want," Mr. Nishikido says. "No way."

Chinese city's taxi drivers strike to air grievances

BY SKY CANAVES

Thousands of taxi drivers in the southwestern Chinese city of Chongqing participated in a rare strike on Monday that included some violence, state news agency Xinhua reported.

Morning rush-hour commuters were stranded as most of the 9,000 cabbies in the urban areas of Chongqing, China's fourth-largest city, stopped work to protest a range of grievances, including fuel shortages, heavy fines for traffic violations and competition from unlicensed cabs, Xinhua said.

Strikers occasionally turned violent, smashing the windows of taxis that continued to operate and pulling their drivers from the vehicles. Xinhua said about 20 vehicles were smashed, including three police cars.

Municipal transportation officials called on city cab drivers to resume work and police were dispatched to ensure the smooth flow of traffic. By Monday afternoon about 800 drivers had returned to work, some with escort from transport officials.

The large-scale strike represents a rare example of wildcat work action in China, where the only legal trade union is affiliated with the ruling Communist party.

Earlier this year, a group of **China Eastern Airlines** Corp. pilots staged a work action by disrupting 21 flights to protest their working conditions.

The pilots turned back midway through their flights instead of continuing to their scheduled destinations.

Stimulating South Korea

The government's 14 trillion won plan for boosting the economy:

11 trillion won in new spending includes...

- 4.6 trillion won to infrastructure, other projects
- 3.4 trillion won assistance to small businesses
- 1 trillion won for low-income households
- 1.1 trillion won for local-government spending

...and 3 trillion won in tax cuts.

Source: Ministry of Strategy and Finance

Reuters

Seoul expands its effort to boost slowing growth

BY EVAN RAMSTAD

SEOUL—The South Korean government on Monday expanded its efforts to cope with the likelihood of slower growth by revealing the size and some details of a fiscal stimulus package that officials have been considering for several weeks.

Economists expect South Korea to grow at a slower rate next year but their forecasts are becoming more wide-ranging, with one on the low side now saying the country will slide into recession in the first half of 2009.

The package's combination of new government spending and tax cuts amounts to 14 trillion won, or \$11 billion. About two-thirds of the spending will occur in the first half of the year, officials said, due to growing pressure on the economy.

But just how much South Korea's economy is slowing has become the topic of a widening debate. As private economists in recent months adjusted forecasts for 2009 to account for the global financial crisis, they had settled into a range of 2.5% to 3.5%. Government officials offered rosier projections of around 4%.

Then on Friday, Samsung Economic Research Institute, one of the nation's largest economic think tanks, went above the range by projecting 3.6% growth for next year. That same day, economist Duncan Wooldridge of UBS in Hong Kong moved far below the range by estimating growth of just 1.1% for full-year 2009 and a 0.5% contraction in the first six months, a development that would be South Korea's first recession since 1997.

Mr. Wooldridge's forecast is rooted in a belief that South Korea is now experiencing a burst of a credit bubble that grew over the past three years. The bubble, shaped by high levels of household debt financed by banks and nonbank institutions like life-insurance firms and credit co-ops, showed signs of bursting this year as the Bank of Korea raised interest rates to slow lending, he says.

The high level of household debt is a common concern among economists who look at South Korea. But it has gained less attention than the nation's broader external debt and the high level of foreign currency borrowing by banks, issues that became problems for South Korea as liquidity tightened around the world during the past two months.

But with the added pressure that the global financial crisis is placing on South Korea's exports, Mr. Wooldridge expects income growth to slow and unemployment to rise, leading to a more rapid unwinding of debt along with drops in consumption and fixed investments.

In an interview Monday, he said the government's fiscal stimulus will help to counter the effects but is unlikely to prevent a short recession. "Once a credit bubble starts to unwind, the sheer size of the fund flows is difficult for policy to compensate for," Mr. Wooldridge said. "Sure you can limit the fallout, but a bubble means you've borrowed from future growth to sustain current growth and it's going to average out over time."

In its report, Samsung Economic Research Institute, or SERI, sees many of the same forces at work in South Korea but expects them to be less damaging. "We do not think that credit bubble will burst because the government has controlled consumer loans" through regulations, said Kwon Soon-woo, economist at SERI.

He added the institute's forecasts take into account the likely effect of fiscal stimulus by the government.

Of the 14 trillion won in stimulus measures announced Monday, 11 trillion won will be spending for infrastructure projects, local governments and small businesses. The government also plans three trillion won in tax cuts and incentives, though it provided few details and left unclear if these would be temporary or permanent.

Until recently, South Korea felt little pain from the economic crisis that began last year with the collapse of the U.S. housing market. But after the crisis spread to credit markets and consumers in recent months, South Korea became more vulnerable because of high household and external debt as well as its reliance on exports like TVs, cellphones, cars and steel.

Over the past month, South Korean government officials focused on shoring up banks' access to foreign currency, which small and midsize businesses engaged in trade rely on for financing. The government agreed to guarantee foreign-currency borrowing and arranged a currency swap with the U.S. Federal Reserve.

The stimulus measures represent a broader attempt to keep the country's economy from an abrupt slowdown or recession. For this year, the government is forecasting growth just below 4%, a reduction from earlier projections of 4.5% to 5% because of the impact of the global slowdown.