THE WALL STREET JOURNAL.

WSJ.com

DOW JONES Newswires

EUROPE

DOW JONES A News Corporation Company

VOL. XXVI NO. 182

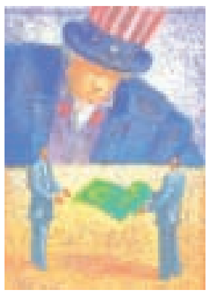
THURSDAY, OCTOBER 16, 2008

For information or to subscribe, visit www.services.wsje.com or call +44 (0) 207 309 7799 - Albania Lk 370.00 - Austria €3 - Belgium €2.90 - Croatia HRK 20 - Czech Republic Kc 110 - Denmark Dkr 22 - Finland €3.20 - France €2.90

Germany €3 - Greece €2.90 - Hungary Ft 530 - Ireland (Rep.) €2.90 - Italy €2.90 - Lebanon L£ 4000 - Luxembourg €2.90 - Morocco Dh 24 - Netherlands €2.90 - Norway Nkr 27 - Poland Zl 10.50 - Portugal €3 - Slovakia Sk 100/€3.32 - Spain €2.90

Sweden kr 27 - Switzerland SF 4.80 - Syria SE 150 - Turkey YTL 4.25 - U.S. Military (Eur) $2 - United Kingdom £1.40

THE WALL STREET JOURNAL.



At moment of truth, U.S. forced big bankers to blink

NEWS IN DEPTH | PAGES 16-17

Georgia tries to recapture international attention

ECONOMY & POLITICS | PAGE 9

Global economic fears slam Europe, U.S. stocks

FTSE-100, DAX, Dow industrials fall; miners get drilled

By Neil Shah

LONDON—U.S. and European stocks plunged Wednesday as investors fretted about a slowing global economy and the risk of recession, shrugging off improvements in the interbank lending market.

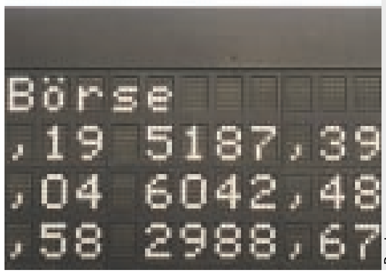
The two days of heady gains seemed like a mirage as the Dow Jones Industrials Average skidded 733.08 points, or 7.9% to 8577.91, one of its biggest drops this year. Investors were spooked by the 1.2% drop in U.S. retail sales during September and a grim report on New York factories.

"I don't just think we're going to test the lows. I think we're going to violate them and break lower in a big way," said Kent Engelke, managing director at the brokerage Capitol Securities Management, in Richmond, Va.

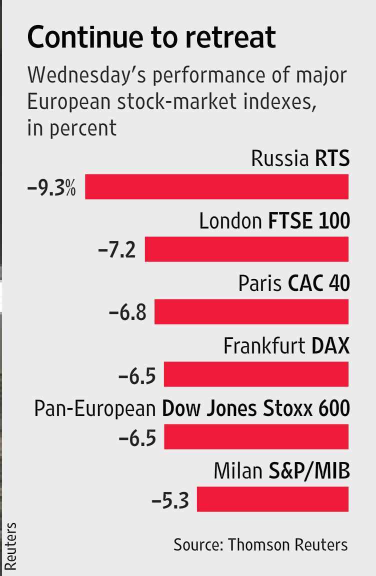
The pan-European Dow Jones Stoxx 600 Index tumbled 6.5% to 217.17, its sixth loss in eight sessions, as those shares most sensitive to the health of the economy bore the brunt of the selloff. Most Asian markets also fell. Credit markets also weakened, though the deep freeze in the market banks use to lend to one another eased some-

Please turn to page 31

Reto Francioni, CEO of Deutsche Börse looks down from a gallery on the trading floor



Reuters



What's News—

Business & Finance

European stocks dropped sharply as investors shifted their focus to the global economy, shrugging off improvements in the interbank lending market. Equities in the U.S. fell as well, and oil slipped to its lowest level this year. Pages 1, 20

■ **The U.K. bailout plan** is starting to show some cracks as banks are complaining about terms they say are too harsh and share prices fall. Page 4

■ **Fed chief Bernanke left** the door open to more U.S. interest-rate cuts, saying a broad recovery won't be speedy. Page 2

■ **U.S. retail sales fell sharply** in September as the credit freeze and job losses heightened fears about the depth and duration of a recession. Page 10

■ **Euro-zone inflation** eased in September as food- and energy-price increases slowed. Page 21

■ **Credit markets thawed** slightly as the U.S. tamped down threats to the financial system by moving to take stakes in big banks, but lending remained tight. Page 20

■ **The latest results** from J.P. Morgan Chase and Wells Fargo make it clear that even strong banks face head winds from souring assets. Page 19

■ **KBC Group said** it will report a large third-quarter loss, sending its shares down 19%. Page 5

■ **Iceland's central bank** slashed its key interest rate to 12% and said a sharp economic contraction lies ahead. Page 5

■ **A Turkmen natural-gas field** is the world's fifth largest, an independent survey said, suggesting the country can move ahead with its plans to increase gas exports. Page 9

■ **BP is exploring** a possible deal to buy natural-gas properties from once highflying Chesapeake Energy. Page 6

■ **Registrations fell** 8.2% last month for new cars in Europe as the financial crisis continued to sap demand. Page 7

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8577.91	-733.08	-7.87
Nasdaq	1628.33	-150.68	-8.47
DJ Stoxx 600	217.17	-15.05	-6.48
FTSE 100	4079.59	-314.62	-7.16
DAX	4861.63	-337.56	-6.49
CAC 40	3381.07	-247.45	-6.82
Euro	$1.3594	-0.0037	-0.27
Nymex crude	$74.54	-4.09	-5.20

Money & Investing > Page 19

World-Wide

EU leaders are expected to call today for the overhaul of the global financial framework that has been in place since 1944. A new plan would create a supervising body to oversee the world's 30-largest financial companies, among other sweeping changes, as the EU expands a rapid-action plan that Britain and 15 euro-zone countries drew up on Sunday. Page 1

■ **Three Hungarian banks** will cut back loans to locals in currencies such as euros, dollars and Swiss francs. If others join them, it could add to a deepening economic downturn in the Central European country. Page 1

■ **Syria and Lebanon** formalized diplomatic ties for the first time since both gained independence from France in the 1940s.

■ **The No. 2 leader** of al Qaeda in Iraq, known as a charismatic recruiter and motivator, was killed, the U.S. military said.

■ **European dignitaries** visiting Iran advocated democratic reform, showing support for Iran's former president Khatami, whom many see as a possible opponent to Ahmadinejad next June.

■ **A Russian lawyer said** she was poisoned, and was unable to attend the opening of the trial of three men accused of slaying journalist Anna Politkovskaya.

■ **Georgia is trying** to recapture world attention in its struggle with Moscow. Saakashvili also dismissed talks in Geneva over disputed territories, although the talks broke down. Page 9

■ **Azerbaijan's President Aliyev** was headed for re-election, with the opposition boycotting the vote and accusing the West of ignoring democratic shortfalls while seeking its energy riches.

■ **McCain is proposing** new tax cuts for investors, including a sharp, temporary reduction of the capital-gains tax. Page 11

■ **Canada's Conservative Party** won national elections but didn't clinch a majority. Harper was the first major world leader to face voters since the financial crisis.

■ **Talks in Zimbabwe** aimed at rescuing a power-sharing deal were to resume Thursday.

■ **Hurricane Omar** was taking aim at the northeastern Caribbean islands.

EDITORIAL & OPINION

The Berlin-Tehran Axis

Germany has approved 1,926 business deals with Iran so far this year. Page 13

French President **Nicolas Sarkozy,** right, greets Poland's Lech Kaczynski.

Reuters

EU to push for overseer of 30 top finance firms

By Geraldine Amiel And Paul Hannon

BRUSSELS—European Union leaders will call Thursday for a supervisory body to oversee the world's 30 largest financial companies, among other proposed sweeping changes to the global economic order, according to an EU diplomat who has seen a draft.

The EU's 27 heads of government Wednesday began a two-day meeting to consider further steps to tame the global financial crisis. They are expected to agree to expand a rapid-action plan, drafted Sunday by the U.K. and 15 euro-zone countries, to include other countries in the bloc, said the diplomat.

According to a draft statement that draws on proposals made earlier in the week by U.K. Prime Minister Gordon Brown, the leaders will call for the overhaul of the Bretton Woods system, a global financial framework that has existed since 1944.

Europeans at the summit here said they want to hold a meeting of leaders from around the globe to get the process under way after the U.S. presidential election.

"I've proposed an international summit by the end of the year, preferably in New York, where it all started," French President Nicolas Sarkozy said in his opening address at the meeting.

Mr. Sarkozy added that he wants to see financial supervision

Please turn to page 31

Credit crunch deepens pain for Hungary

By Marcus Walker And Margit Feher

The risk of the credit crunch inflicting deeper pain in Hungary is increasing, as banks curtail the foreign-currency loans that have kept growth buoyant in recent years.

Three Hungarian banks have said this week that they will cut back their loans to locals in currencies such as euros, dollars and Swiss francs. If other banks join them, it could add to a worsening economic downturn in the Central European country.

Raiffeisen Bank Zrt, owned by Austrian cooperative bank **Raiffeisen Zentralbank Österreich** AG, said on Wednesday it suspended lending in Swiss francs to Hungarian companies and local government.

Magyarorszagi Volksbank Zrt, the Hungarian unit of Austria's **Volksbank** AG, said on Wednesday it suspended retail loans in dollars and Swiss francs. Earlier this week, MKB Zrt, a lender owned by Germany's **Bayerische Landesbank**, said it was suspending foreign-currency loans, citing its concern that recent weakness in Hungary's currency, the forint, could make it harder for local borrowers to repay foreign-currency debts.

"The supply of credit is being choked. This will affect consumer spending and business investment," said Gyula Toth, economist at UniCredit MIB.

Hungary is one of several coun-

Please turn to page 31

FINANCIAL CRISIS & REPAIR

Bernanke remains open to U.S. rate cuts

Federal Reserve chief warns broad recovery won't come quickly

By Brian Blackstone

WASHINGTON—U.S. Federal Reserve Chairman Ben Bernanke kept the door open to further interest-rate cuts, saying policy makers will keep using "all the tools at our disposal" to restore stability in financial markets.

"We will not stand down until we have achieved our goals of repairing and reforming our financial system and restoring prosperity," Mr. Bernanke said Wednesday to the Economic Club of New York.

The remarks came one week after what Mr. Bernanke called an "unprecedented" joint rate cut involving the Fed and other major central banks, including the European Central Bank and Bank of England, to stem the credit crisis. The Fed's half-percentage-point rate reduction brought the target federal-funds rate for interbank loans to 1.5%.

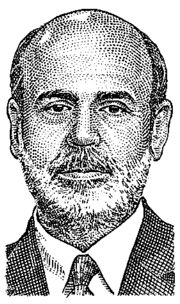
Mr. Bernanke stressed that policy makers now have the tools they need to address the credit crunch. "We will continue to use all the tools at our disposal to improve market functioning and liquidity, to reduce pressures in key credit and funding markets, and to complement the steps the Treasury and foreign governments will be taking to strengthen the financial system," Mr. Bernanke said.

And he expressed confidence that the U.S. "will emerge from this period with renewed vigor."

But it won't be a speedy recovery, he suggested.

"Credit markets will take some time to unfreeze," he said, and "even if they stabilize...broader economic recovery will not happen right away."

Recent economic reports, including one Wednesday showing a sharp drop in September U.S. retail sales, suggest that U.S. gross domestic product contracted in the third quarter. Many economists expect a contraction in the fourth quarter as well. Fed officials including Richmond Fed President Jeffrey Lacker and San Francisco Fed President Janet Yellen have said recently that the economy is likely in a recession.



Ben Bernanke

Economic weakness, combined with steady or lower consumer and investor expectations for future inflation, declines in oil prices and "decelerating" import prices "should lead to rates of inflation more consistent with price stability," Mr. Bernanke said.

Mr. Bernanke also defended the U.S. government's decision to allow Lehman Brothers Holdings Inc. to fail. "A public-sector solution for Lehman proved infeasible, as the firm could not post sufficient collateral to provide reasonable assurance that a loan from the Federal Reserve would be repaid," he said.

The Lehman circumstances were different from those involving American International Group Inc., which the Fed in September agreed to backstop with an $85 billion loan that has since been increased with an additional $37.8 billion credit line.

"In the case of AIG, the Federal Reserve and the Treasury judged that a disorderly failure would have severely threatened global financial stability and the performance of the U.S. economy," Mr. Bernanke said. The Fed determined that its loan to AIG would be "adequately secured by AIG's assets."

The recently enacted $700 billion financial rescue package "will give us better choices," Mr. Bernanke said.

"In the future, the Treasury will have greater resources available to prevent the failure of a financial institution when such a failure would pose unacceptable risks to the financial system as a whole," Mr. Bernanke said.

U.S. Democrats consider a new stimulus package

By Greg Hitt

WASHINGTON—U.S. Democratic leaders in Congress are drawing up plans to toughen oversight of the financial industry and considering introducing another economic-stimulus package in the wake of the government's decision to buy stakes in major U.S. banks.

House Speaker Nancy Pelosi is mulling over recommendations from several economists that Congress act on an economic-recovery package that would cost taxpayers $300 billion, according to congressional aides.

The California Democrat envisions a bill that would include new spending on highways and bridges, extended benefits to unemployed workers, aid to cash-strapped states and a tax cut, congressional aides said. She has asked several House committees to examine details of a possible plan. And as part of the effort, Federal Reserve Chairman Ben Bernanke is expected to testify next week before the House Budget Committee on the state of the economy. Ms. Pelosi is expected to call lawmakers back to Washington in late November to take up the issue.

The chances of a new stimulus package being enacted are likely to depend on what happens in the election and what happens to the economy. The White House and its Republican allies in Congress have resisted a spending-focused stimulus package.

Democratic lawmakers are also looking to tighten regulation of financial services, with hedge funds, private-equity funds and exotic financial instruments such as credit-default swaps likely to come under greater federal scrutiny.

THE WALL STREET JOURNAL. EUROPE
THE/FUTURE LEADERSHIP/INSTITUTE
Bringing Universities and Businesses Together

The Clarendon Lectures in Management Studies 2008
"Corporations, Games and Societies"
by Masahiko Aoki
Said Business School
20 - 22 October, Oxford
All Lectures Are Open To The Public
www.sbs.ox.ac.uk

Win a year-long subscription to The New Palgrave Dictionary of Economics online

To win a subscription email us your full contact details with "Economics" in the subject field.
Reply by noon CET, October 22, '08 to the address below. Winners will be informed by email.

For rules and responses contact: gert.vanmol@dowjones.com

The Wall Street Journal Europe is read every day by 27,000 students at 180 top business schools and university campuses across Europe.
oxford SAID BUSINESS SCHOOL

Online subscription courtesy of
palgrave macmillan

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

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.

FREE daily access to WSJ.com
If you bought today's paper from a retail outlet, simply register at:
wsj.com/reg/coupon
or renew at: **wsj.com**
Today's code is: **EUROPE-4-622**

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.
Trademarks appearing herein are used under license from Dow Jones & Co. © 2008 Dow Jones & Company All rights reserved.
Editeur responsable: Daniel Hertzberg M-17936-2003

ECB acts aggressively to curb interest rates

Three-pronged attack seeks to complement government moves

By Joellen Perry

FRANKFURT—In one of its most aggressive moves yet, the European Central Bank mounted a three-pronged attack aimed at taming interest rates in the markets where cash-strapped euro-zone banks lend to one another.

The ECB's 21-member Governing Council on Wednesday said it will broaden the range of collateral it accepts in return for short-term loans to banks, flood euro-zone money markets with unlimited longer-term funds, and increase the amount of foreign-currency funding it is offering banks. The plan is designed to complement the sweeping financial-rescue plans announced earlier by euro-zone governments.

The ECB's moves marks an abrupt turnaround from last month when the central bank announced a major tightening of its collateral standards amid concern that banks were dumping hard-to-sell assets at the central bank. But ECB policy makers feel that risks to the global and euro-zone economies have accelerated since September, especially after Lehman Brothers' bankruptcy battered short-term funding markets and European governments were forced to prop up several banks.

"Not only is this a very big move from the ECB, it's part of an even bigger process," said Laurence Mutkin, head of European interest rate strategy at Morgan Stanley in London. "It's another demonstration of the seriousness with which the authorities are going after the liquidity problem."

As part of the plan, the ECB widened the range of collateral it takes in return for the short-term loans it extends. The beefed-up list, in effect until the end of next year, includes collateral denominated in U.S. dollars, British pounds and Japanese yen, as well as certificates of deposit that trade on unregulated markets.

The ECB's current collateral list includes more than 25,000 securities whose value totals more than €10 trillion ($13.65 trillion). Wednesday's moves make that universe much bigger. Accepting nonregulated CDs alone could make up to €450 billion in new collateral available, according to Barclays Capital.

The ECB, whose collateral standards were already lower than those of other major central banks, lowered its bar further. Apart from asset-backed securities, the ECB will now take collateral rated as low as BBB-, down from A-. In order to protect itself from losses, the ECB will charge banks a variety of fees for using the new and riskier assets.

Over the past month, ECB policy makers have been puzzling over ways to bring down interbank lending rates. Government and central-bank moves to date—including the ECB's half percentage-point rate cut to 3.75% last week, coordinated with the Federal Reserve and five other central banks—have helped to ease interbank tensions somewhat.

A benchmark for the interest rate at which euro-zone banks lend to one another for three months fell Wednesday to 5.168% from Tuesday's 5.235%, for example. But it remained well above where it was in the weeks before Lehman's collapse.

Looking to bring down longer-term rates, the ECB said it will increase the number of three- and six-month loans it offers and lend banks as much money as they want, at flat interest rates. Last week, the ECB adopted a similar approach for its regular auctions of weekly funds. Now, the ECB is guaranteeing banks they can have as much money as they want for nearly every loan-length in its roster, at interest rates the central bank may set itself.

"What they're doing now is extremely strong and potentially very efficient," said Gilles Moec, economist with Bank of America in London, noting the move could have a big real-economy impact because the interest rates on many euro-zone corporate and mortgage loans are based on three- and six-month interbank lending rates.

The ECB also said it will swap euros for dollars directly with euro-zone banks. Until now, the ECB's efforts to funnel dollars to commercial euro-zone banks were limited to auctions in which banks bid for greenbacks in exchange for collateral. On Monday, the Fed said it will offer European central banks unlimited funding for such auctions of unlimited dollars at fixed rates; at the ECB's such first auction Wednesday, banks soaked up nearly $171 billion.

The ECB's earlier move helped to push the overnight London interbank offered rate, or Libor—meant to be a benchmark for the rate at which banks lend to one another in dollars—down Wednesday to 2.14375% from Tuesday's 2.18125%. The ECB Wednesday also said it will begin lending to euro-zone banks in Swiss franc for the first time, as franc-denominated interbank lending rates have also begun to rise.

AFP

European Central Bank President Jean-Claude Trichet and other ECB policy makers have been **puzzling over ways to spur lending** among banks.

Airbus postpones plan to increase production

By Daniel Michaels

Airbus said it is putting the brakes on a planned production increase in response to turmoil in the global economy and weakness in the airline industry.

Aircraft lessors and bankers, concerned that too much Airbus production could depress jetliner prices and hurt the value of aircraft held as assets, have been pressing the European plane maker to slow manufacturing.

Airbus, a unit of **European Aeronautic Defence & Space** Co., this year expects to deliver about 470 jetliners, more than it ever has. It had planned to raise output by almost 20% over the next two years but will now pause that increase.

"This is clearly the prudent thing to do, given the uncertainty in financial markets at this time," John Leahy, Airbus's chief operating officer for customers and top airplane salesman, said in a phone interview. But Mr. Leahy stressed that Airbus is putting its plans on hold, not canceling them.

"We will re-evaluate the situation in the first half of next year and decide whether to continue the ramp-up," he said.

Boeing Co., the other maker of large commercial jets, has produced no planes since factory workers went on strike on Sept. 6. People familiar with the company's manufacturing plans say it doesn't expect to increase production whenever workers return to their jobs.

Airbus currently delivers about 36 of its single-aisle A320-family planes each month. It will now maintain that rate, rather than increasing to 40 of the planes a month by 2010, as it had previously planned. It will also slow an increase in production of its larger A330 wide-body planes. Airbus had planned to boost the current rate of eight planes monthly to 11 by 2010 but will instead throttle that back to 10 a month.

Airbus's move acknowledges the airline industry's woes amid high fuel prices, declining traffic and the looming threat of recessions in major economies. Air traffic closely tracks economic growth, so most industry officials predict a serious downturn.

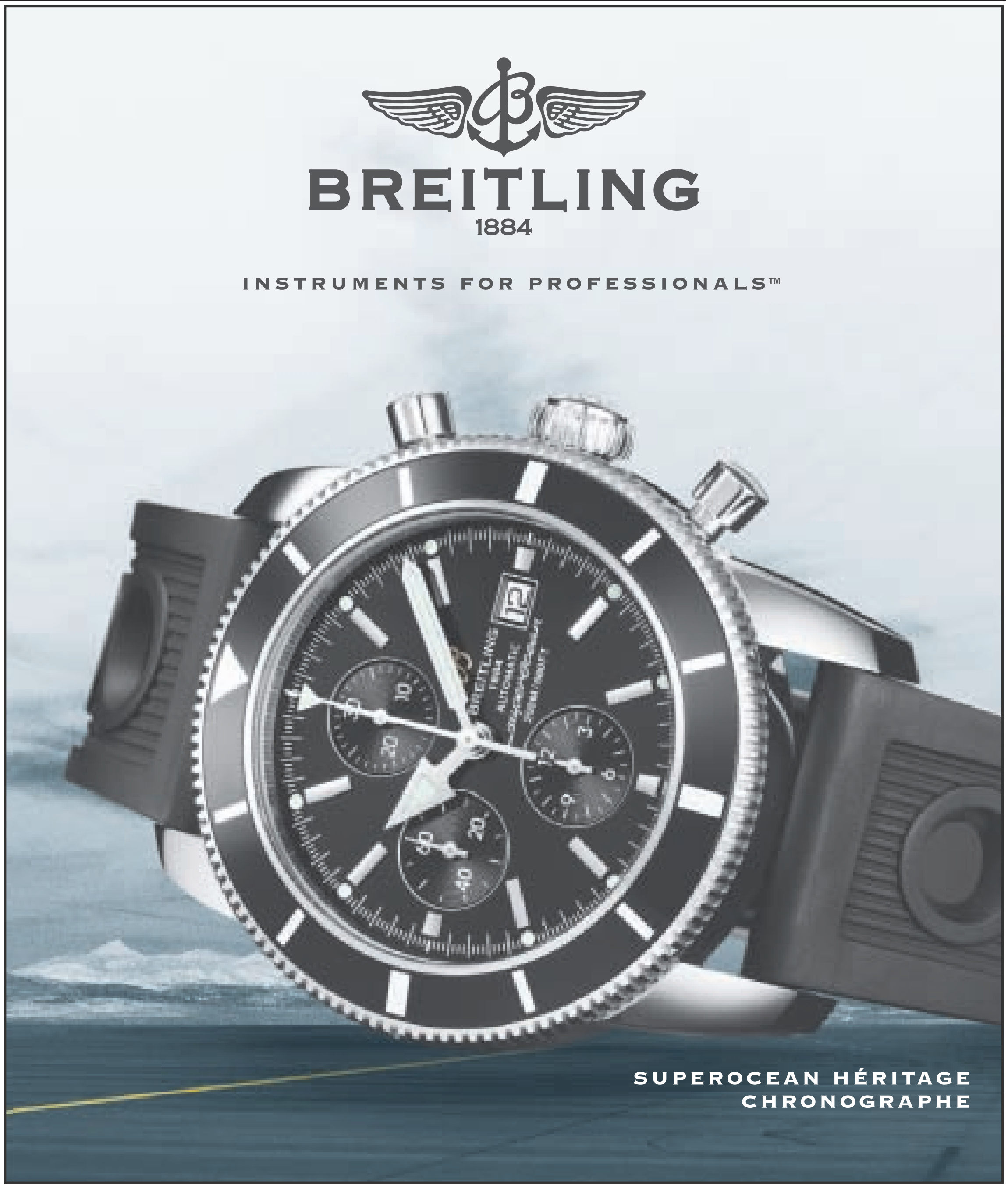
"Airlines are really in a very difficult situation," said Giovanni Bisignani, director general of the International Air Transport Association, a global trade group.

Aircraft-leasing companies have been among the most outspoken critics of Airbus's planned increase, because a large inflow of new planes to a weak market depresses the value of planes that lessors hold on their balance sheets.

John Plueger, president and chief operating officer of International Lease Finance Corp., a unit of insurer **American International Group** Inc., recently called on Airbus and Boeing to consider slowing production. ILFC's management is trying to orchestrate a buyout of the unit from AIG, which is now almost 80%-owned by the U.S. government. ILFC is focused on the value of more than 900 planes it holds on its books.

"As one of Airbus's largest customers, we are glad that Airbus has listened to the industry's mounting concerns about production rates, especially as we now seem to be entering a new world economic order," Mr. Plueger said.

Leasing companies account for roughly 30% of all orders at Airbus and Boeing.



Banks haggle over U.K.'s rescue plan

Pricey guarantees and dividend policy spark complaints

BY SARA SCHAEFER MUÑOZ AND DANA CIMILLUCA

LONDON—The U.K.'s £400 billion ($697 billion) financial rescue plan—at first hailed as a model for other countries trying to stem the banking crisis—is starting to show some cracks.

Some banks are pushing back with complaints that the conditions are too harsh after seeing the more generous terms of the U.S. bailout. Banks are also nervous after watching their share prices fall since Monday, when the U.K. government said it would buy up to £37 billion in stakes in some of the country's largest banks. While some expected the plan to change as details were worked out, both the banks and the government have a big incentive to wrap up any alterations quickly, before the arguments over details balloon and threaten the tenuous confidence that the bailout aims to foster.

At issue: the government condition that banks in line to receive its funding—**Royal Bank of Scotland Group** PLC, and the soon-to-be-combined **HBOS** PLC and **Lloyds TSB Group** PLC—can't pay shareholders dividends until they have bought back the preferred shares sold to the government. Analysts also say the cost for them to access the government's £250 billion guarantee of bank debt is high.

Also among the variables, the Bank of England will outline on Thursday how it plans to change the conditions it sets on its everyday lending to banks. The central bank has said that it is likely to incorporate some of the emergency measures from the credit crunch into its rules for everyday bank lending. And European Union leaders are meeting in Brussels on Wednesday and Thursday to discuss bailout plans and overhauling global financial supervision.

Some banks, under pressure from their shareholders, are pushing the government to allow dividends sooner, according to people close to the matter. Banks that sell preferred shares to the government likely won't be able to pay a dividend until 2012 at the earliest, according to estimates Wednesday by investment firm Collins Stewart.

By contrast, under terms of the U.S. plan to inject capital into banks, the U.S. government will buy preferred shares with a lower dividend, and the banks will be able to pay dividends to other shareholders.

While the U.K. government may not want to appear to backpedal on the terms, people close to the matter said it would make sense to allow dividends sooner to help attract more private investors to the banks so the government doesn't have to invest as much. The dividend issue could be resolved before the end of the month, these people said.

A U.K. Treasury spokesman said the terms of the agreement remain unchanged and that they were "set out clearly by both the Government and the individual banks in detailed statements on Monday."

Still, the Treasury would be open to hearing banks' suggestions for changes, a person familiar with the matter said.

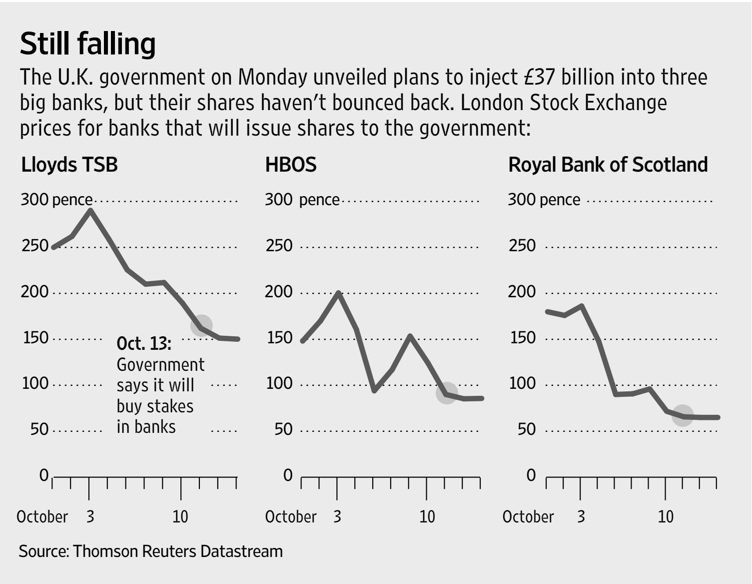
Because they need the government aid, the banks don't have a lot of negotiating power. The three banks declined to comment on possible changes to Monday's plan or why they signed off on it.

After two days of gains, U.K. stocks slumped Wednesday, adding urgency to the need to remove uncertainty from the plan. The FTSE 100 slid 7.16%. RBS shares closed at 65 pence, down 28% from a week ago. Lloyds closed down less than 1% at 150.20 pence, also down 28% from a week earlier, and HBOS shares rose less than 1%, to 85.70 pence, down 18% from last week.

That means the stocks are trading near or below the price the banks are offering existing shareholders in an attempt to raise some funding, making it less attractive for shareholders to buy in. The less stock shareholders buy, the more money the government will need to put in.

In a slight improvement, the London interbank offered rate, which is supposed to reflect the short-term rates at which banks lend to one another, fell for overnight dollar loans to 2.14375% from 2.18125% Tuesday, but it still remains high, reflecting banks' unwillingness to lend to each other except for very short terms.

Barclays PLC plans to raise capital from private investors instead of taking government funding, to avoid the stigma as well as the conditions.



Details of an important feature—the UK's guarantee of bank debt—are becoming clearer, and so is the price. The program began Monday and is open to all banks that meet capital and other requirements.

The debt guarantee is aimed at jump-starting bank lending and covers instruments including certificates of deposits and commercial paper issued to parties anywhere in the world, with maturities of up to three years. But the Treasury, the Bank of England and the U.K.'s Debt Management Office haven't precisely defined all the types of lending it will cover.

The U.K. will charge banks 0.50% plus the historical cost of default insurance on the bank's debt, meaning new debt could cost more than the banks earn on some of their existing loans. "It's going to become another hit on earnings," says Citigroup analyst Tom Rayner. He estimates that the fees for using the guarantee could reduce earning across the sector by 10% to 15%.

Another investor concern is the government's role in the banks once it owns stakes in them. Depending on the size of the government's stake, for example, RBS could have as many three board members appointed with guidance from the government, and Lloyds, two.

Further fueling investor jitters: Unemployment in the country posted its biggest rise since 1991 in the three months to August, according to data from the Office for National Statistics.

—Alistair MacDonald contributed to this article.

Limits on executive compensation could cost Wall Street

BY JOANN S. LUBLIN AND AARON LUCCHETTI

U.S. government investments in financial institutions could crimp executive pay on Wall Street as well as in financial centers in Europe and Asia, at least for a while, and hinder firms' ability to attract and retain top talent.

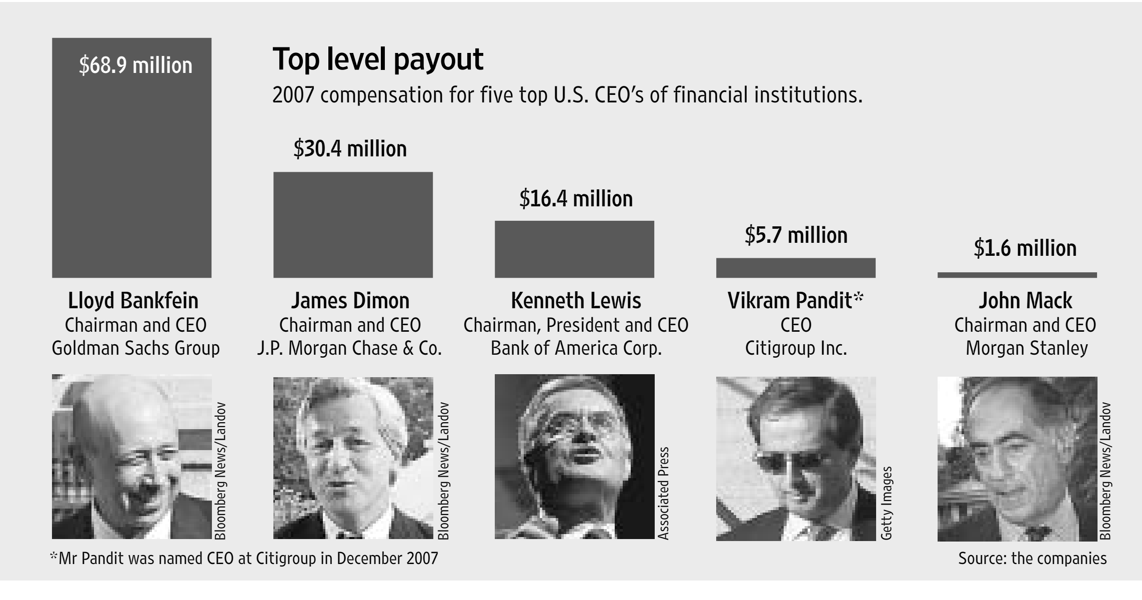
The executive-pay restrictions outlined Tuesday by the Treasury Department widen some provisions in the financial-rescue law enacted earlier this month. They will limit corporate-tax deductions on executive pay and "golden parachute" payments for departing executives, require certain companies to recover awards based on inaccurate results and bar incentives for "unnecessary and excessive risks."

The rules cover the chief executive, chief financial officer and the three other highest paid officers at participating institutions. But they could affect others on Wall Street and beyond.

The nine firms that agreed to government investments Tuesday are among the nation's top-paying employers. Collectively, they paid their CEOs $289 million last year, including stock-option grants, according to the Institute for Policy Studies, a liberal Washington think tank.

Mark Borges, a principal for Compensia Inc., a compensation consultancy in San Jose, Calif., predicted that the curbs will be applied to other managers at participating firms.

Steven Eckhaus, an executive-employment lawyer at Katten Muchin Rosenman LLP in New York, disagreed, saying firms are unlikely to curb the pay of employees not specified in the rules.



In weighing that decision, bank and Wall Street executives will have to consider whether they may drive some top performers to employers not covered by the rules. "The hedge funds and the private-equity firms will go after some of the other talent that doesn't fall under these restrictions," said Irving S. Becker, head of the executive compensation practice at Hay Group, a management consultancy.

Mr. Becker also predicted the limits on golden parachutes will push financial firms to give some new executives bigger cash deals with higher salaries and guaranteed bonuses. There will be "less pay for performance," he said. "That's counter to what we'd like to see."

Stephen E. Zweig, head of the employee benefits group at Ford & Harrison LLP in New York, said some executives may seek deals that promise to add a severance package once a company exits the government plan and is no longer covered by the pay limits.

The pay issues could affect how quickly executives at participating institutions seek to repay the government, and whether other financial firms will accept the government's money. Firms' capital-raising costs would also play a large part in that decision.

The impact of the new compensation limits may be blunted by the fact that the declining stock market will depress executive-pay packages, said Alan Johnson, managing director of Johnson Associates Inc., a financial-industry pay consultant in New York. "It was going to drop like a stone anyway, probably 75% or more, so I don't know if it makes a huge difference in the next year or two," he said.

Mr. Johnson said firms may accept the limits on tax deductions because they will be saving billions of dollars by accepting the government's cash infusion. A company that sold $20 billion in preferred securities paying a 5% dividend to the government, when it otherwise would have had to pay 10% to a private investor, would save $1 billion annually, far more than it will lose in tax deductions, he said.

However, Mr. Johnson and others said they are concerned by the vagueness of the "unnecessary and excessive risks" section. "I've read the language 20 times and I don't know what it means," said Mr. Johnson. "Would a stock option encourage excessive risk?" A Treasury spokeswoman said compensation committees on participating companies' boards of directors would be involved in defining the proper level of risk.

In its rules, the Treasury applied pay limits more broadly than Congress had in the financial bailout bill approved earlier this month. It applied the limits on corporate tax deductions for annual compensation above $500,000 to all participating firms, not just firms that sell troubled assets to the government through auctions.

It also applied the "unnecessary and excessive risk" provision to "systematically significant failing institutions" where the Treasury provides direct aid. Those failing institutions also face a ban on any exit payments for departing senior executives, broadening a portion of the law that curbed golden parachutes somewhat.

But Sarah Anderson, pay specialist at the Institute for Policy Studies, said Congress and the Treasury missed an opportunity to put a monetary limit on pay at bailed-out companies. "The public wanted clear limits on how much money these executives could make," she said.

To attract and keep key people, Wall Street firms may put greater emphasis on their corporate values and teamwork, said Jay Gaines, CEO and founder of Jay Gaines & Co., a small New York search firm that which specializes in financial services. But "no one expects Wall Street to become a slouch from the pay perspective," he said.

KBC Group warns of quarterly loss, shares drop 19%

By Peppi Kiviniemi And Carolyn Henson

BRUSSELS—**KBC Group** NV, the only major Belgian bank that hasn't sought a government rescue, warned it will post a hefty third-quarter loss because of write-downs on its investment portfolio, sending its share price down sharply.

KBC said it is taking a €1.6 billion ($2.18 billion) write-down on collateralized debt obligations—a type of asset-backed security—in which it invested, and expects to report a third-quarter net loss of €880 million to €930 million. In the year-ago period, KBC had net profit of €639 million.

Moody's Investors Service said late Tuesday it is downgrading the ratings on five KBC CDOs exposed to Icelandic banks, adding that some were also exposed to U.S. banks Lehman Brothers Holdings Inc. and Washington Mutual Inc.

KBC shares were down €9.02, or 19%, at €37.98. The stock has lost 61% of its value since the beginning of the year.

However, KBC said Wednesday that its financial position remains strong, with its Tier 1 ratio—a key measure of financial strength—well above 8.5%, taking the write-downs into account. Core operations are also performing satisfactorily, KBC said, with robust operating results in Eastern Europe in particular.

Analysts said they expected KBC would have to take write-downs on its investment portfolio sooner or later. The fact that it did so now is a "sign of relative strength," said Bank Degroof analyst Ivan Lathouders.

KBC Chief Executive André Bergen said the bank had decided to move swiftly to factor in the effects of the ratings downgrades and to reduce further volatility in its earnings. "This is a kind of provision ... which should reduce customers' and shareholders' uncertainty regarding future results," he said.

KBC, which moved early to invest in Central and Eastern Europe, has fast-growing subsidiaries in Poland, Hungary, the Czech Republic, Slovakia and Russia. The bank said its liquidity is strong because it borrows only small amounts from other banks, has more deposits than loans, and doesn't need to raise capital or seek guarantees from the Belgian government. It is scheduled to publish full earnings Nov. 6.

KBC has fared relatively well compared with Belgian rivals. Belgian-Dutch bank Fortis NV was recently carved up and the bulk sold to French bank BNP Paribas SA. Belgian-French lender Dexia SA has been bailed out twice.

52-WEEK SHARE PERFORMANCE

KBC Group

On the Brussels Stock Exchange

Wednesday's close: **€37.98, down 19%**

52-week change: **down 61%**

Source: Thomson Reuters Datastream

Iceland cuts key interest rate to 12%

Central bank cites a sharp contraction; Russia talks go on

By Joel Sherwood

Iceland's central bank slashed its key interest rate to 12% from 15.5% and said a sharp economic contraction lies ahead after a tumultuous two weeks during which the country's three biggest banks were nationalized and its currency plummeted on worries of national bankruptcy.

"The Icelandic economy has been subjected to unprecedented turbulence in the past few weeks," the central bank said in a statement. "The impact of the collapse of the banking system will be extremely burdensome and the accompanying economic contraction very sharp." In addition, the central bank said it will hold a daily foreign currency auction to determine the value of the krona to facilitate foreign trade.

Iceland's Financial Supervisory Authority, meanwhile, transferred the domestic operations of nationalized **Glitnir** Banki hf into a new bank, and Reykjavik exchange operator Nasdaq OMX Group Inc. approved the bank's request to delist its shares.

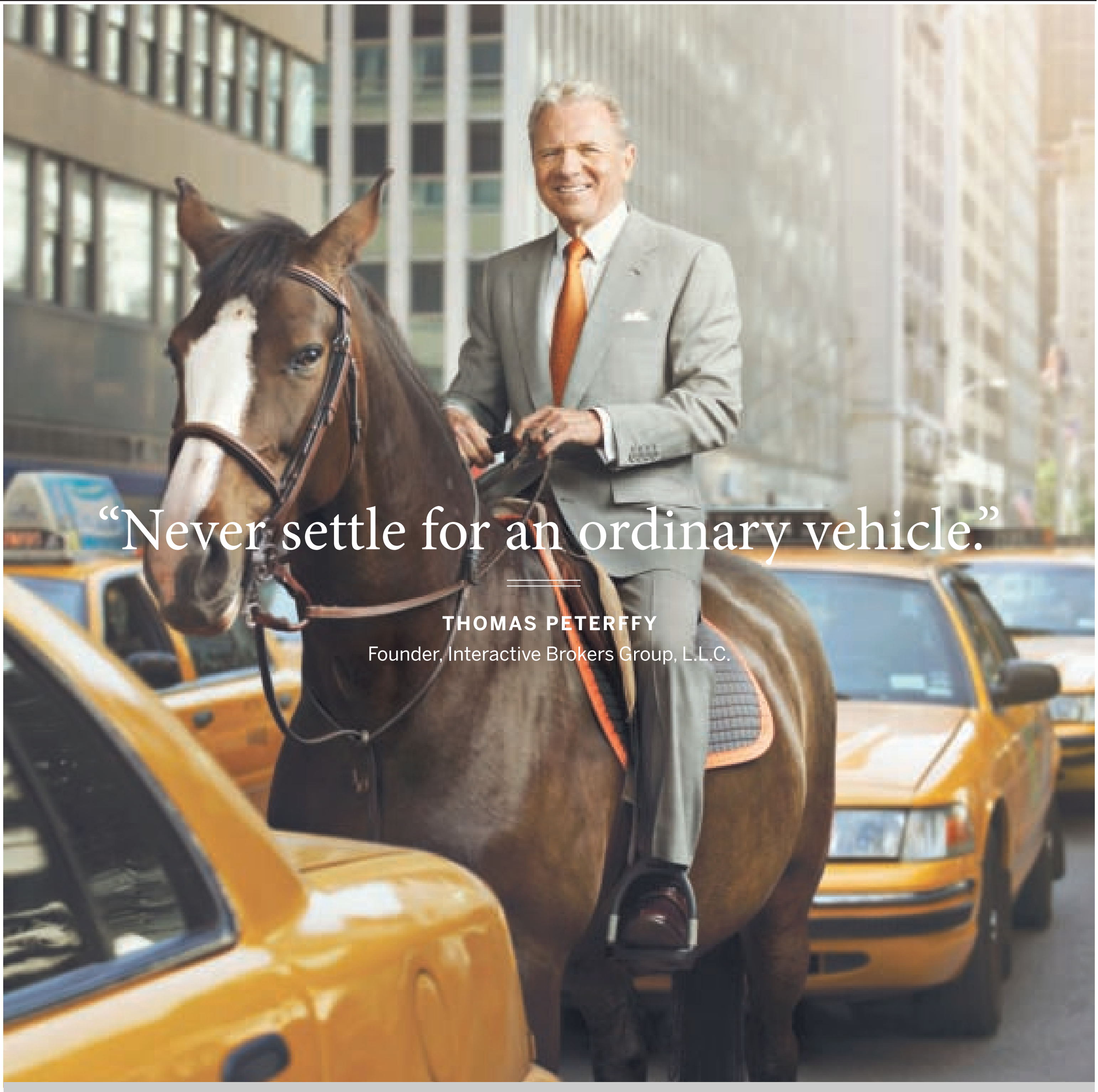
The new bank is the second to be created in less than a week by the regulator restructuring the North Atlantic island's financial landscape.

International trading in the krona remained frozen on Wednesday as Iceland officials continued their hunt for foreign aid to shore up backing and confidence in the krona and economy.

Iceland's central bank has been negotiating possible loan facilities with Russia. In a joint statement, Russia and Iceland said Wednesday further negotiations on a potential loan from Russia were needed. The talks in Moscow centered on exchange of information between the parties, the analysis of the current situation in the financial markets and the Icelandic situation in particular, the statement said.

Inflation is likely to surge well above current levels on sharp currency weakening. But economists welcomed the surprise cut because economic prospects are bleak and any inflation spike will likely be short.

—Anna Molin in Stockholm contributed to this article.



A pioneer in the options and electronic trading market like Thomas Peterffy knows the importance of providing his clients with exceptional financial vehicles for managing risk. As one of the world's largest traders of exchange-traded derivatives, executing more than 700,000 trades per day, Peterffy and his team at Interactive Brokers Group deliver direct access to CME Group's benchmark futures and options products – enabling their network of professional traders and investors to manage best what matters most.

By improving the way markets work, CME Group is a vital force in the global economy, offering futures and options products on interest rates, equity indexes, foreign exchange, energy, agricultural commodities, metals and alternative investments. Learn how CME Group can change your world by visiting www.cmegroup.com/info.

CME Group
A CME/Chicago Board of Trade/NYMEX Company
IDEAS THAT CHANGE THE WORLD®

The Globe logo, CME®, Chicago Mercantile Exchange® and CME Group™ are trademarks of Chicago Mercantile Exchange Inc. CBOT® and Chicago Board of Trade® are trademarks of the Board of Trade of the City of Chicago. New York Mercantile Exchange® and NYMEX® are registered trademarks of the New York Mercantile Exchange, Inc. Copyright © 2008 CME Group. All rights reserved.

CORPORATE NEWS

PHARMACEUTICALS

GlaxoSmithKline to buy rival's assets in Egypt


Associated Press

BRITISH DRUG maker **Glaxo-SmithKline** PLC said it is buying New York-based Bristol Myers Squibb Co.'s portfolio of mature medicines in Egypt for $210 million as it continues to expand its footprint in emerging markets. The acquisition, expected to close by the end of the month, makes GlaxoSmithKline the dominant pharmaceutical company in Egypt, selling 20 older drugs such as antibiotics and blood-pressure treatments, and lifts its market share by 9%. Large drug makers are raising their presence in emerging markets to buffer pricing pressures and competition from generic medicines in their key U.S. market. *—Elena Berton*

FOOD

EU fines Dole, Weichert for running banana cartel


ImageForum/AFP

THE EUROPEAN Commission fined banana suppliers **Dole Food** Co. and German company **Weichert** €60.3 million ($82.3 million) for running a price-fixing cartel in Northern Europe between 2000 and 2002. Dole will have to pay €45.6 million, while Weichert, owned by Irish company **Fyffes** PLC, was fined €14.7 million.

The commission, the European Union's executive branch, said **Del Monte** Foods Co. is liable for part of Weichert's fine, as it owned the company when the cartel operated. Del Monte said it had a noncontrolling stake in Weichert and couldn't comment further until it had seen the commission's decision. *—Peppi Kiviniemi*

MEDIA

Private-equity firms are in talks with Spain's Prisa

Prisa

PRIVATE-EQUITY firms **Kohlberg Kravis Roberts** & Co., **Apax Partners**, **Blackstone Group** LP and **TPG** are in talks to buy a minority stake in Spanish media company **Promotora de Informaciones** SA, known as Prisa, said people familiar with the matter Wednesday. Prisa declined to comment.

The publisher of Spain's leading daily El País has been considering a raft of options to raise cash and pay down the €4.8 billion ($6.6 billion) in debt it accumulated in an expansion drive in Spain and abroad.

Prisa has said it would like to raise as much as €2 billion. The company's share price has fallen 76% from a year earlier, cutting its market capitalization to €764 million.

New remedies to treat blood clots are near

Big drug makers aim to reduce drawbacks of existing medicines

BY RICHARD BREUM
Düsseldorf, Germany

SEVERAL BIG drug makers are in a neck-and-neck race to introduce new drugs for treating blood clots, which can lead to heart attacks and strokes, killing as many as a million people a year.

The prize is a chance at a piece of the blood-clot treatment market, which analysts estimate could be worth as much as €15 billion, or about $20 billion, by 2016.

Drugs currently used to prevent blood clots, also known as thrombosis, are effective and sell well but have problems. One popular treatment is difficult to dose and introduces risks when taken with other medicines and some foods. Another is an injectable, making long-term therapy difficult.

Five pharmaceutical companies are working on new treatments for blood clots. Three drugs—developed by **Bayer** AG in partnerships with **Johnson & Johnson, Boehringer Ingelheim** GmbH, and **Pfizer** Inc. in partnership with **Bristol Myers-Squibb** Co.—are now in the late phases of clinical testing.

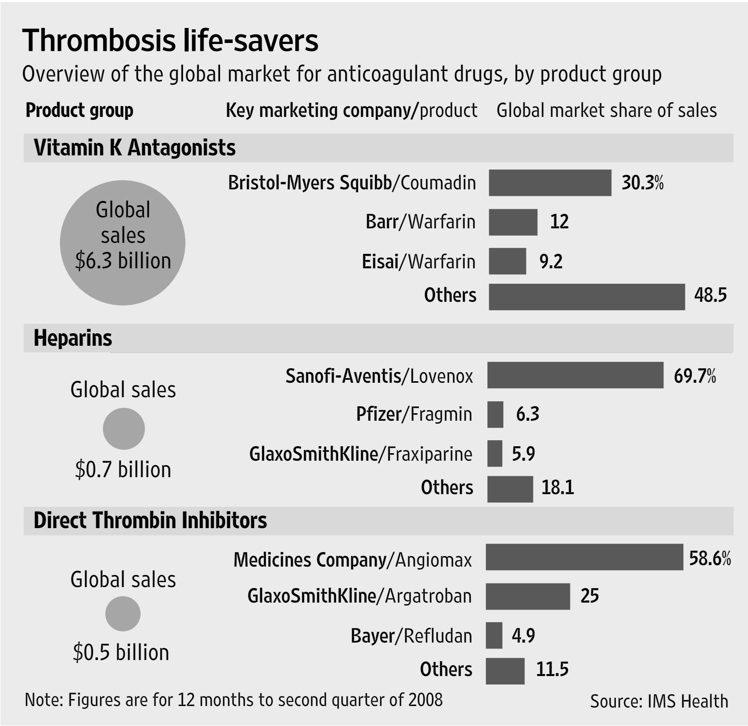
The new drugs are taken by mouth, which makes them easier to use, their dosing is less troublesome, and they need no laboratory monitoring. They are also potentially more effective than existing treatments. The drug developed by Bayer and J&J has shown superior efficacy compared with standard therapy in a recent study.

Still, it remains to be seen whether any of these drugs can be established as the new standard treatment for blood clots.

Two of the drugs, Bayer's Xarelto and Boehringer's Pradaxa, already have been approved for short-term use in the European Union to prevent blood clots in patients recovering from hip- or knee-replacement surgery. However, their commercial success depends on whether they are approved for long-term use.

Pfizer and Bristol's Apixaban isn't yet on the market. Bayer and J&J's Xarelto is approved in Canada and is awaiting approval in the U.S., the world's biggest drug market.

About 6.5 million people worldwide are affected by blood clots each year. In Europe alone, it is estimated that 544,000 people die annually from blood clots—more than from breast cancer, prostate cancer, AIDS and traffic accidents combined. Around the world, the number of deaths caused by blood clots each year is estimated to be one million.



The global market for thrombosis medication is estimated at €6 billion a year, but could reach about €15 billion, analysts say, because the serious side effects of current treatments have meant that not all potential patients could be treated.

"Whilst older treatments have long been the mainstays of prevention and treatment, and are effective if managed properly, they have significant drawbacks," said Alexander Turpie, a professor at McMaster University in Hamilton, Ontario, who specializes in thrombosis research.

Vitamin K antagonists—like warfarin—and heparin are currently the two principal treatments for thrombosis, with world-wide annual sales of $700 million and $6.2 billion, respectively. Drugs like warfarin are used more often than heparin, but because the treatment has been generic for a long time, sales are much lower.

Heparin has to be injected, making long-term therapy difficult. The current standard heparin therapy is **Sanofi-Aventis** SA's Lovenox.

Warfarin is a pill, but assessing the correct dosage is difficult, and the drug can be rendered more effective or less effective if taken with certain foods, such as cranberry juice and alcohol, or with many other medications. Patients need to undergo regular laboratory tests to take the medication.

For Bayer and Boehringer, the new blood-clot treatments "are far and away the most important pharmaceutical projects" in development, said M.M. Warburg analyst Ulrich Huwald.

Bayer's Xarelto could bring in sales of more than €2 billion a year, said Frank Misselwitz, head of cardiovascular drugs in clinical development at Bayer's health-care unit. Boehringer Ingelheim also sees its treatment, Pradaxa, as a potential blockbuster. "The coming years could bring a revolution in the prevention of strokes, deep vein thrombosis, lung embolisms and other thrombosis-related illnesses," said Boehringer Vice Chairman Andreas Barner.

BP explores a natural-gas deal with Chesapeake Energy

BY RUSSELL GOLD AND GUY CHAZAN

Oil giant **BP** PLC is exploring a potential deal to buy natural-gas properties from once high-flying **Chesapeake Energy** Corp., according to people close to the British company's thinking.

A deal would be an early sign that cash-rich global oil companies are prepared to embark on a spending spree as smaller natural gas producers scramble to raise cash amid declining energy prices and tight capital markets.

What's not clear is if BP is willing to pay close to what these properties were fetching in September, before the credit crunch and a 13% drop in gas prices, or whether Chesapeake, of Oklahoma City, Okla., is willing to accept less.

BP has already done two deals with Chesapeake this year, spending a combined $3.65 billion to acquire fields in Oklahoma and a 25% stake in another field in Arkansas. A Chesapeake spokesman said the company wants to sell a stake in a Pennsylvania gas-field similar to the Arkansas deal. The spokesman declined to discuss BP's interest in acquiring additional assets. A BP spokesman also declined comment.

BP is under pressure to expand its portfolio of energy projects as concerns mount about its ability to expand production. The company has relied heavily on its Russian operations for future growth. But conflicts with the billionaire co-owners of TNK-BP, its Russian subsidiary, have put that strategy in question.

While growth is an issue, BP's balance sheet isn't. The company reported $3.6 billion in cash and short-term liquid investments at the end of June, according to energy research firm John S. Herold. That hoard gives it the financial strength to pursue deals even in the current climate.

Following its Russian troubles, BP is focusing on North American natural gas markets, where small, independent companies have pioneered new techniques to extract gas from shale, long considered a lost cause.

Chesapeake was a leader in this shale-gas exploration effort, leasing thousands of acres over the past few years. But the strategy required frequent access to debt and equity markets, both of which are now effectively closed due to the global credit freeze. It has cut $4.7 billion from its capital budget over the next two years and is seeking buyers for assets to raise cash. Chesapeake said it hopes to raise between $2.5 billion and $3 billion by the end of the year through asset sales and other financial deals.

A person close to BP indicated the company was interested in acquiring some of Chesapeake's natural gas assets, though not the whole company. Chesapeake, the largest producer of natural gas in the U.S., has said it is in talks to sell a minority stake in its Marcellus Shale gas field, located mostly in Pennsylvania, as well as other assets.

It isn't clear whether BP is interested in the Marcellus assets or prefers other assets that Chesapeake has assembled over the years. The company is one of the top two leaseholders in four of the largest emerging gas fields in the U.S.

FOCUS ON AUTOMOBILES

Europe car sales fall 8.2%

Registrations slide as tight credit weighs on consumer demand

By Christoph Rauwald

FRANKFURT—Registrations for new passenger cars in Europe fell 8.2% last month from a year earlier as the financial crisis continued to sap demand.

Wednesday's report from the European Automobile Manufacturers Association showed how hard the credit crunch is hitting the auto industry. September is usually a strong month for car sales as business picks up after the summer, according to the group, known as the ACEA. Registrations for last month stalled at 1.3 million units, despite two extra working days across the region. It was the lowest September level since 1998, the ACEA said. In Western Europe, a crucial source of earnings for auto makers, registrations fell 9.3% to 1.2 million vehicles.

Auto makers have been hit hard by soaring raw-material costs and lackluster demand for new cars in major markets, such as the U.S. and Western Europe. Growth in recent dynamic markets, such as Russia and China, has shown signs of slowing.

"The credit crunch weighs on the sector's ability to finance daily operations and sustain the high level of investments needed to support the market transition to low-emission vehicles," the ACEA said. "At the same time, demand for new cars is weakening because of the deteriorating economic circumstances. Customers are increasingly hesitant to make large expenditures and find it more difficult to get their purchase financed," it said.

With car makers pressured by rising costs and squeezed profit margins, the ACEA has called on European governments to provide the industry with €40 billion, or about $55 billion, in lending to accelerate the transition to environmentally friendly vehicles.

Volkswagen AG, Europe's biggest car maker by sales, was the continent's only major auto maker to post a rise in new registrations last month, reporting a 1.4% increase. Stronger sales at its Audi premium brand and Czech brand Skoda helped offset a 21% declined at the Spanish Seat unit.

Registrations for U.S. car makers **General Motors** Corp. and **Ford Motor** Co. fell 18% and 11%, respectively. Japan's **Toyota Motor** Corp. posted a 6.8% drop.

French auto maker **PSA Peugeot-Citroën** SA saw registrations fall 9%. France's **Renault** SA recorded a 2.1% drop. Renault said its world-wide vehicle sales for the full year should be up slightly from last year, provided the slide in demand in Europe doesn't accelerate.

—David Pearson in Paris contributed to this article.

Weak demand

Europe's new-vehicle registrations in September

Company	Units	Change from year earlier
Volkswagen	263,435	+1.4%
PSA Group	153,533	–9.0
Ford	136,003	–11.4
GM	129,746	–18.1
Renault	102,917	–2.1
Fiat	97,553	–1.4
Daimler	75,604	–6.3
BMW	74,367	–15.4
Toyota	73,748	–6.8
Nissan	32,762	–5.2

Source: European Automobile Manufacturers Association

Johnson Controls warns of profit drop

By Jeff Bennett

Johnson Controls Inc., a major manufacturer of automotive batteries and seats, expects its earnings to decline as much as 16% during its next fiscal year as the slump in global automotive production continues into 2009.

The Milwaukee-based company joins a growing list of suppliers warning of tough times ahead as auto sales in the U.S. slump to their lowest level in at least 15 years, while sales in international markets also start showing significant weakness. The deteriorating economic conditions and a tighter credit environment have weighed on consumer confidence, causing a dramatic drop in sales that has added to the financial pressures already facing companies in the automotive sector.

Johnson Controls said earnings for fiscal 2009, which runs through next September, will be $1.95 to $2.10 a share, while sales will slip 3% to $37 billion. The new forecast contrasts with the average expectation of analysts, who had seen earnings of $2.49 a share and revenue of $39.2 billion.

Chief Executive Stephen Roell says he plans to leverage Johnson Controls' strong financial footing to wrestle away contracts from weaker suppliers. The company already has secured $4.5 billion of new orders for 2009 through 2011, a 14% increase over the previous three-year period.

In an interview, Mr. Roell also said the company plans to make $950 million in capital investments during 2009 while bolstering the company's building services division. The division, which sells and operates features such as heating and air conditioning, accounts for about 35% of the company's revenue.

The car-parts maker expects earnings to fall as much as 16% next fiscal year.

"We are going to remain committed to the long term by making capital investments and hiring more sales staff," Mr. Roell said. "I don't want to come out of this downturn and be caught flat. We have a great balance sheet and we have opportunities where we can gain from our competitors."

Johnson Controls now expects North American production of cars and trucks to drop to 12.3 million next year, down 12% from the expected output of 13.9 million for 2008. The 2009 estimate is a 19% decrease from the 15.1 million autos produced last year.

Other auto-parts suppliers have warned of weaker earnings, including **Lear** Corp. and **TRW Automotive Holdings** Corp. Some suppliers, such as **Blue Water Automotive Systems** Inc. and **Plastech Engineered Products** Inc., have filed for bankruptcy protection or have liquidated. At the behest of its customers, Johnson Controls bought most of Plastech's plants.

Last month, Johnson Controls announced it would take up to a $500 million charge during its fiscal fourth quarter to rid itself of excess manufacturing capacity next year by cutting jobs and closing plants.

The company, which will release its fiscal fourth-quarter results later this month, is sticking to its previously announced forecast for the period of 73 cents a share, or $2.33 for the year.

U.S. car-union chief opposes mergers

By Jeff Bennett

DETROIT—United Auto Workers President Ron Gettelfinger said he is against any merger between Detroit auto makers.

"I would not want to see anything that would result in a consolidation," Mr. Gettelfinger said in a Webcast interview posted by Detroit radio station WWJ-AM. "That would mean the elimination of additional jobs."

Reports surfaced last week that **General Motors** Corp. had held merger talks with **Chrysler** LLC and **Ford Motor** Co. Ford ended the GM talks. Chrysler owner **Cerberus Capital Management** LP was interested in a deal but GM's board was cool to the notion.

The UAW, which represents about 640,000 workers in North America, has had no formal discussions with any of the companies about the merger, Mr. Gettelfinger said. "Until we get into actual discussions, we can't speculate on what will happen," he said.

Mr. Gettelfinger said the union has already done a lot to help GM, Chrysler and Ford survive by giving health-care concessions in 2005 and reaching a contract last year that cut the auto makers' production costs.

GM announced Monday it would close a metal-stamping plant near Grand Rapids, Mich., by the end of next year and move up to Dec. 23 the end of production of sport-utility vehicles in Janesville, Wis. The shutdowns affect more than 2,500 hourly workers.

"Any time we see a facility go down, we suffer with the people because we know the impact that it's going to have on their lives," Mr. Gettelfinger said. "I am devastated any time we lose jobs."

Bloomberg News /Landov

General Motors is the **second biggest** foreign car maker in China, behind Volkswagen, selling lines like the Buick, above .

GM's sales drop in China puts forecast in doubt

By Patricia Jiayi Ho And Norihiko Shirouzu

BEIJING—**General Motors** Corp. Asia Pacific President Nick Reilly said the company's vehicle sales in China fell in August and September from a year earlier, as overall demand for autos cooled in the world's second largest auto market.

The decline for two consecutive months is rare for GM in China, where the auto maker has taken advantage of explosive growth over the past several years to become a top brand. It comes at a particularly bad time for the Detroit auto maker, which needs strong sales in emerging markets like China to shore up its weak outlook in North America.

GM has argued that the company's rapid growth in China, among other emerging markets, would help offset U.S. market share losses, even though China remains a small portion of GM's total sales.

Mr. Reilly declined to provide any figures for those two months, and GM hasn't released third-quarter sales data for China.

Still, his acknowledgement of sluggish GM sales in China raises questions about the optimism GM has maintained for its business outlook here.

"We remain optimistic about growth here, we do expect vehicle sales in China to pick up in the fourth quarter of the year and to continue to outpace global growth as a whole," Mr. Reilly said via email late Tuesday in response to questions from Dow Jones Newswires.

When asked about GM's previous forecast of 11% to 12% overall sales growth in the Chinese auto market for 2008, Mr. Reilly said, "The market is too unpredictable to forecast with any credibility."

GM has been a top brand in China since it began producing vehicles here in 1999. But this year, the U.S. auto maker is being outsold in the passenger car market, a critical subset of China's overall market that excludes commercial vehicles, by **Toyota Motor** Corp.

U.S. consulting firm J.D. Power predicts Toyota this year will become the country's No. 2 marketer of passenger cars, supplanting GM, as the American auto maker's China sales contract as much as 5.5% this year, its first decline since 1999. The leading seller of passenger cars in China is **Volkswagen** AG.

Michael Dunne, J.D. Power and Associates' Asia managing director, said the the firm expects China's overall vehicle market to grow 7.5% this year from 2007. earlier but "flat sales" in the fourth quarter.

Overall auto sales in China, including both passenger cars and commercial vehicles, fell 6.3% in August and 2.7% in September, compared with the same months a year earlier, according to data from the China Association of Automobile Manufacturers.

Toyota iQ offers new option in tiny, fuel-efficient cars

By John Murphy

CHIBA, Japan—Looking to prove that small cars can still offer style, safety and spaciousness, **Toyota Motor** Corp. on Wednesday launched the compact iQ, its tiniest, most fuel-efficient nonhybrid vehicle.

Measuring fewer than three meters long and delivering 54 miles per gallon, the four-seat, bubble-like iQ is Toyota's answer to Germany-based Daimler AG's super-mini Smart car, which has been a hit in Europe and the U.S. as drivers shift to smaller vehicles amid higher fuel prices.

In developing the iQ, Toyota says it had to rethink the way it designs small cars to make them roomier. To squeeze in four seats, it flattened the fuel tank and placed it below the floor, made the seats thinner, reduced the size of the air-conditioning system and adjusted the shape of the dashboard to allow more legroom for the front-seat passenger. Engineers also eliminated the jack and spare tire to free up extra room for storage.

Hiroki Nakajima, Toyota's chief engineer of the vehicle, said the iQ is the first car to show off Toyota's space-saving design concepts, which will appear in new Toyota models in the years ahead. "When it comes to cars, traditionally, big has always meant good. The iQ radically dispels that notion," he said.

The iQ will go on sale in Japan on Nov. 20 with a starting price of 1.4 million yen ($13,720). Sales will begin in Europe in 2009. Toyota expects to sell 2,500 a month in Japan and 6,000 a month in Europe. It is still considering whether to introduce the car to the U.S. market, though it would need to make design changes to meet America's more stringent safety standards.

CORPORATE NEWS

Fuel costs hurt carriers

Delta, AMR warn of weaker bookings as economy slows

BY KERRY E. GRACE

Delta Air Lines Inc. swung to a third-quarter net loss as high fuel prices continued to hurt the carrier, while **AMR** Corp. posted a profit on proceeds from an asset sale.

AMR, the parent of American Airlines, also said it has placed an order with **Boeing** Inc. for as many as 100 of the aircraft maker's 787 passenger jetliners for delivery beginning in 2012. Terms weren't disclosed.

Associated Press

Delta Air Lines, which has proposed an acquisition of Northwest Airlines, reported a $50 million net loss in the third quarter, even as revenue rose 9%.

The world's largest carrier by number of passengers posted net income of $45 million, or 17 cents a share, down 74% from $175 million, or 61 cents a share, a year earlier. The latest results included a $432 million gain from AMR's sale of asset manager American Beacon Advisors Inc. Excluding items, AMR, which is based in Fort Worth, Texas, reported a loss of $360 million, or $1.39 a share.

Revenue rose 8% to $6.42 billion.

AMR's fuel bill surged $1.1 billion from a year earlier as per-gallon prices rose 65%.

With the economy slowing and weighing on oil prices, AMR Chief Executive Gerard Arpey said travel demand "is a serious concern." But he said it would be "short-sighted to conclude that fuel prices, which remain volatile, are no longer a challenge."

American's revenue passenger miles, or one paying passenger flown one mile, fell 5%, while capacity declined 3%. AMR and other U.S. airlines have been cutting flying schedules due to high fuel costs.

Atlanta-based Delta, which would displace American Airlines as the world's largest airline with its proposed acquisition of **Northwest Airlines** Corp., reported a net loss of $50 million, or 13 cents a share, compared with net income of $220 million, or 56 cents a share, a year earlier.

Revenue rose 9% to $5.72 billion.

Delta, which hedged 51% of its fuel consumption in the quarter, paid on average $3.45 a gallon, up 56% from a year earlier. The company projects fuel costs averaging $3.21 a gallon for the current quarter.

"In some respects, having fuel dropping like a rock is a big offset to what's happening in the economy," Chief Executive Officer Richard Anderson said during a conference call with analysts Wednesday.

During the third quarter, revenue passenger miles rose 1.7%, as Delta's mainline capacity decreased 1%.

Delta expects to give financial forecasts for the merged Delta-Northwest entity in December, Mr. Anderson said.

The proposed combination is expected to help the airlines cope better with high oil prices and falling demand—and avoid a possible return to bankruptcy protection. Both companies emerged from bankruptcy in the past year after filing for Chapter 11 protection on the same day in September 2005.

—Ann Keeton contributed to this article.

Coke's profit rises on overseas sales

BY BETSY MCKAY AND ANJALI CORDEIRO

Coca-Cola Co. shares rebounded Wednesday after the beverage giant posted better-than-expected third-quarter profits, as strong growth from international markets helped offset anemic U.S. beverage sales.

Coke's results assuaged investors who were unsettled by a gloomy report from **PepsiCo** Inc., which showed economic turmoil denting U.S. beverage demand. Pepsi's lowered forecast for full-year profits Tuesday also prompted worries about the strengthening dollar.

Coke's more optimistic news highlighted one big difference between the two rivals: the Atlanta-based company does a heftier portion of its business outside North America than does Pepsi. About 81% of Coke's profit and 73% of revenue came from beyond its home market in 2007, while Pepsi got about 30% of profit and 40% of revenue from international businesses.

Like Pepsi, Coke acknowledged that the rebounding dollar will likely damp the benefit it has been enjoying from favorable currency exchange rates.Coke continued to face major headwinds in its showcase U.S. market, where volume sank 2% and operating profit slid 12% in the third quarter, and where Pepsi is mounting a formidable challenge. Coke leads Pepsi in overall share of the market for sodas and other nonalcoholic bottled drinks. But Pepsi is preparing to unleash numerous new products, new packaging and new ingredients, including natural zero-calorie sweeteners.

On a conference call with investors, Chief Executive Muhtar Kent acknowledged that the macroeconomic environment is volatile, but said emerging markets should continue to see solid growth.

Coke posted net income of $1.89 billion, or 81 cents a share, up from $1.65 billion, or 71 cents a share, in last year's third quarter. Excluding items, earnings were 83 cents a share in the latest quarter.

Revenue rose 9.1% to $8.39 billion, as revenue jumped 17% in Eurasia and Africa, 10% in Europe and 24% in Latin America.

Analysts polled by Thomson Reuters expected earnings of 77 cents a share. Global volume rose 5%, ahead of most analysts' expectations.

Auditors to probe 3D-Gold accounts

BY YVONNE LEE AND ARIES POON

HONG KONG—**3D-Gold Jewellery Holdings** Ltd. said it has called in auditors to investigate a financial shortfall that came to light after the death of its founding chairman.

3D-Gold, formerly known as Hang Fung Gold Technology Ltd. and locally famous for installing a solid gold toilet in a sales facility, said its inventory "might be substantially less than previously reported."

3D-Gold has been suspended from trading since Sept. 30, four days after the death of Chairman Lam Sai Wing. Mr. Lam created the company's "Hall of Gold" that became a top attraction for mainland Chinese tour groups fascinated by the collection of object.

3D-Gold said it has hired accounting firm **Deloitte Touche Tohmatsu** to investigate its accounts, including issues with "significant trade receivables." The company's statement didn't elaborate on problems or provide any monetary figures, and a spokeswoman didn't return calls seeking comment.

No reason has been given for Mr. Lam's death, which has been described as unexpected. His widow Jane Chan, who was deputy chairman, took over as chairman.

The company said in its annual report it had total borrowings of about two billion Hong Kong dollars (US$257.8 million) as of March 31, with trade receivables of HK$909.6 million.

THE WALL STREET JOURNAL. EUROPE
Executive Travel Program
Guests and clients of 320 leading hotels and car rental agencies receive The Wall Street Journal Europe daily, courtesy of
addictlab.com
global creative think tank

GLOBAL BUSINESS BRIEFS

Société Genérále

Paris prosecutor commissions probe into money transfers

The Paris prosecutor's office said Wednesday it has commissioned a preliminary probe into suspicious money transfers that passed through a series of bank accounts at **Société Générale** SA. Judicial authorities where alerted last month by a unit of the French Finance Ministry in charge of tracking down fraudulent fund transfers, the prosecutor's office said. French police will now have to determine the amount and reasons for the transfers—and the prosecutor will subsequently determine whether or not to launch a full-fledged probe. A spokeswoman for Société Générale declined to comment.

BAE Systems PLC

U.K. defense contractor **BAE Systems** PLC said third-quarter business was meeting its previous forecasts, partly thanks to a high demand for armored-wheeled vehicles. BAE said the combination of its warship-construction and naval-support operations in a joint venture with **VT Group** PLC, which came into effect July 1 and is known as BVT Surface fleet, generated an accounting gain of £132 million ($230 million). A further gain of £56 million resulted from the sale of the company's interest in Flagship Training Ltd. to VT. While earnings before interest, taxes and amortization, or Ebita, benefited from the recent strengthening of the dollar, since the company makes a significant part of its profit in U.S. currency, the rise made BAE's dollar-denominated borrowings more expensive.

Pearson PLC

Boosted by the strengthening dollar and a rising readership for its financial publications amid the credit crisis, U.K. publisher **Pearson** PLC posted an 8% increase in sales for the first nine months of the year and said it expects full-year earnings to be toward the top end of current market estimates. Full-year earnings per share are expected to be between 46.50 pence and 53 pence (81 cents and 92 cents), said a company spokesman. The publisher of the Financial Times, Penguin books and U.S. school textbooks makes about 60% of its sales in the U.S. Pearson's FT Group division posted an 11% jump in sales, as people trying to understand the current financial crisis turned to the Financial Times and Mergermarket. However, advertising revenue was up just 1%.

ASML Holding NV

Semiconductor equipment maker **ASML Holding** NV reported a 56% decline in third-quarter net profit amid a downturn in the market and challenging credit conditions for its customers. Profit fell to €73 million ($99.7 million) from €166 million a year earlier, while sales dropped 25% to €696.5 million from €934.4 million. The Netherlands-based company said it expects bookings to deteriorate in the fourth quarter, reiterating that full-year sales will fall 20%. It also forecast lower sales for 2009. Prices of memory chips have plunged this year amid a supply glut exacerbated by weaker-than-usual demand. ASML, a supplier of the systems that map out electronic circuits on silicon wafers, counts Intel Corp., Samsung Electronics Co. and Taiwan Semiconductor Manufacturing Co. among its customers.

Hennes & Mauritz AB

Hennes & Mauritz AB posted a 10% increase in September sales, even though sales in stores open longer than a year were down 2% from a year earlier. Europe's second-largest fashion retailer by revenue behind Spain's Inditex SA had said in an earlier earnings report that total sales had risen 9% through Sept. 28. Evli Bank analyst Anders Wiklund said the numbers indicate H&M's business model of low-cost fashion is holding up fairly well, but cautioned there's a lot of uncertainty about how H&M will fare this winter if the economy continues to slow. In Germany and Sweden—two key H&M markets—clothing sales dropped 3% and 5.7% respectively last month, according to industry bodies.

BlueBay Asset Management

BlueBay Asset Management PLC said assets under management fell 2.3% in its fiscal first quarter as tough conditions in global markets offset fresh funds from institutional investors. As of Sept. 30, the company had $20.5 billion in assets under management, down from $21 billion reported on June 30. The company warned that extreme market conditions are making it harder to generate performance fees and are likely to disrupt inflows of new investments to the asset-management industry as a whole in the short term. "It is probable that such extreme conditions will have the effect of accelerating the point at which the credit cycle turns," said Chief Executive Hugh Willis, adding he expects the turn in the market to happen this financial year. Analysts say the relatively small decline posted by BlueBay was a sign of resilience.

Electricité de France SA

Electricité de France SA said it isn't launching a new offer for **Constellation Energy Group** Inc., of the U.S.. "After discussions with several potential American partners, EDF has determined that current conditions aren't conducive to presenting a new offer for Constellation Energy Group," the French state-controlled electricity company said. Earlier in October, EDF said it was studying with private-equity firm **Kohlberg Kravis Roberts** & Co. its options regarding Constellation, in which EDF holds a 9.5% stake. EDF's interest came after a unit of **Berkshire Hathaway** Inc. reached a deal to buy Constellation for $26.50 a share, or $4.7 billion. Berkshire Hathaway swept in after Constellation's shares plunged on liquidity concerns.

Finmeccanica SpA

Italy's **Finmeccanica** SpA received final U.S. government approval for its $4 billion acquisition of **DRS Technologies** Inc., a maker of military engineering and electronics products. Finmeccanica in May agreed to buy DRS for $81 a share, or nearly $4 billion, and assume about $1.27 billion in debt. The companies on Wednesday said they received the last government approval they needed, from the Committee on Foreign Investment in the U.S., a federal interagency led by Treasury Department officials that reviews foreign investment in U.S. companies. The Federal Trade Commission wrapped up its antitrust review of the deal in August. Italian authorities have also given their approval. DRS shareholders approved the transaction on Sept. 25.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

SPAIN

Post-boom housing prices continue their descent

Inmagine

SPANISH third-quarter housing prices fell for the second consecutive quarter. Spain's Housing Ministry said prices fell at a 1.3% quarterly rate in the third quarter after a 0.1% fall in the second quarter. On an annual basis, however, prices posted a 0.7% increase. Spain's home-building boom, one of Europe's largest, started to deflate last year and was hastened by tougher financing conditions in the aftermath of the U.S. subprime-mortgage crisis.

"We think that further substantial house-price falls are in prospect and that a decline of around a third from peak to trough is likely," said Ben May of Capital Economics.

—*Jonathan House*

UNITED KINGDOM

Number of jobless makes biggest gain in 17 years

Peter Siu

THE NUMBER of jobless people in Britain grew at its fastest rate in 17 years in the three months to August, the Office for National Statistics said, increasing the prospect of a protracted slowdown.

"We may have avoided financial Armageddon, but the U.K. is heading into a severe recession and most of the economic pain still lies ahead," said Michael Saunders, chief U.K. economist at Citigroup.

The number of jobless rose by 164,000, the biggest rise since the period ending June 1991. The unemployment rate rose 0.5 percentage point to 5.7% for the same period, compared with the previous three months.

—*Nicholas Winning*

NORWAY

Central bank reduces key interest rate to 5.25%

Inmagine

NORWAY'S CENTRAL bank cut its key interest rate for the first time since March 2004, to 5.25% from 5.75%, and said the financial-market crisis has had greater effect in Norway than previously assumed.

The move comes a week after coordinated cuts by central banks, including the Federal Reserve, the Bank of England and the Swedish Riksbank. "The outlook for global growth has considerably worsened," Gov. Svein Gjedrem said.

Credit channels in Norway have dried up, he said. And while inflation remains high in Norway, "the forces that have fueled inflation have now diminished," he added.

—*Elizabeth Cowley*

Georgian leader warns of Moscow's aims

Saakashvili seeks signs of EU support to rebuild economy

BY MARC CHAMPION
Brussels

GEORGIA IS TRYING to recapture international attention and ensure continued support in its struggle with Moscow, after the global financial crisis overshadowed the ex-Soviet nation's troubles.

On a visit to Brussels ahead of a European Union summit that will deal with the financial crisis and Georgia, President Mikheil Saakashvili warned in an interview against complacency. He said Russia is likely to use what he described as a power vacuum until a new administration takes charge in Washington to conduct further adventures in the region.

Mr. Saakashvili also dismissed talks in Geneva Wednesday on the status of Georgia's disputed separatist territories as an attempt by Russia to legitimize its continuing "occupation" of parts of Georgia. The talks quickly broke down over the inclusion of representatives from Georgia's two separatist territories, Abkhazia and South Ossetia, which Russia has recognized as independent but Georgia and the rest of the world—except Nicaragua—haven't.

For now, Mr. Saakashvili said, his focus is to restore his country's battered economy. "I'm afraid this kind of Russia is going to go on the rampage in different forms...they are going to mess around on a much wider scale," he said.

Thousands of Russian troops and hundreds of tanks entered Georgia after Aug. 7 in what Moscow said was an effort to prevent the slaughter of Ossetian civilians in a Georgian assault on separatist South Ossetia. Dozens of South Ossetians died in the conflict. The Russian attack quickly went beyond the immediate conflict area, however, causing significant economic damage and loss of lives in Georgia and triggering a backlash in the West.

Mr. Saakashvili, a U.S.-educated lawyer, said he was pleased with the European response to Russia's actions so far and wasn't concerned with whether the EU decides to end its suspension of talks on a new partnership agreement with Russia.

The EU suspended those talks after the conflict to protest Russia's occupation of undisputed Georgian territory, from which Russian troops have now largely withdrawn.

What counts, said Mr. Saakashvili, is that the West continues to insist that Russia withdraws its troops to positions they held on Aug. 7, before its military intervention, and that it holds firm against Russia's decision to recognize the two territories as independent.

"If you accept what the Russians have done as a fait accompli it's not the end of the trouble, it's the beginning," he said.

Real progress is likely to have to wait until a new administration in Washington can reenergize weakened U.S. global leadership, he said. He said Georgia's experience had shown that even with energetic action from French President Nicolas Sarkozy, "still the only real leader at this stage is the United States, in terms of global power."

Reuters

Georgian President Mikheil Saakashvili campaigned in Brussels this week for signs of support from the European Union in his country's conflict with Moscow.

Russia, meanwhile, has sought to reach out to traditional friends in Europe such as France, Germany and Italy and in recent weeks has had some success. "I feel that Russia is a Western nation. My project is that, in the coming years, the Russian Federation can become a member of the EU," Italian Prime Minister Silvio Berlusconi said Wednesday—though Russia has expressed no interest in joining the EU.

"Relations are changing," said Konstantin Kosachev, chairman of the international affairs committee in Russia's parliament. "Europe is realizing that its blind faith in the U.S. ... isn't justified," he said in an interview. Mr. Kosachev denied Russia seeks a Cold War-style sphere of influence around its borders.

Mr. Saakashvili said his main message to the EU is to continue giving clear signals to foreign investors that Georgia is on a path to integration with the EU, through trade and visa agreements, as well as financial aid. He said his government plans to lower business taxes and further deregulate the economy—despite the global financial crisis—to attract investment.

The EU is set to hold a donor conference to provide Georgia with reconstruction aid this month. The U.S. has pledged $1 billion. Georgia has asked the International Monetary Fund for a $750 million emergency standby loan.

—Gregory L. White in Moscow contributed to this article.

Survey confirms sizable Turkmen gas reserves

BY GUY CHAZAN

A long-awaited study of a big natural-gas field in Turkmenistan identified it as the fifth largest in the world, independently confirming for the first time the Caspian state's status as one of the world's great hydrocarbon provinces.

Gaffney Cline & Associates, an oil advisory firm, said the South Yolotan-Osman field in the southeast of Turkmenistan contained between 4 trillion and 14 trillion cubic meters of gas in place. The upper end of that estimate is three times the European Union's annual consumption of the fuel.

Turkmen state media quoted Jim Gillett, Gaffney Cline's manager for business development, as saying the field could ultimately produce 70 billion cubic meters a year—roughly equivalent to Turkmenistan's current total annual production of gas. Gaffney Cline declined to comment.

Turkmenistan has long been on the radar screens of the world's big oil companies. But for years, its reclusive and eccentric dictator Saparmurat Niyazov closed it off to the outside world, steering a fiercely isolationist course and shunning investors. After he died in December 2006, western oil majors including **BP** PLC, **Chevron** Corp and **Total** SA flocked to the Turkmen capital Ashgabad hoping for deals.

But there was always lingering uncertainty about the real size of the country's reserves. That fueled fears that Turkmenistan, which had signed major deals with China, Russia, Iran and Europe, had overcommitted its gas, and might struggle to fulfil its export commitments.

Mr. Niyazov never tried to dispel those fears by allowing a full, independent audit of Turkmenistan's energy riches by a reputable Western firm. That omission was quickly rectified by his successor as president—his former dentist—Kurbanguly Berdymukhamedov. One of Mr. Berdymukhamedov's first acts in power was to commission an audit by Gaffney Cline.

The first results of the survey indicate previous assessments have severely underestimated Turkmenistan's gas reserves. The BP Statistical Review of World Energy, an industry bible, sets the country's reserves at 2.67 trillion cubic meters. Analysts expect that to be upgraded in light of the information on South Yolotan.

The findings suggest Turkmenistan should be able to confidently move ahead with plans to boost its exports of gas. At the moment, it sells most of its gas to Russia—about 50 billion cubic meters a year, which is mostly resold to Ukraine—and a little to Iran. But it has plans to export to China and Europe too, as well as significantly boost sales to Russia. China is currently building a pipeline from Turkmenistan that will have the capacity to bring 30 billion cubic meters a year, and Ashgabad has also agreed to sell 10 billion cubic meters to Europe. The European Union hopes that a gas pipeline will one day be built across the Caspian Sea, which would enable direct imports of Turkmen gas, bypassing Russia.

Many observers wondered whether Turkmenistan really had enough resources to realize those expansion plans. But the Gaffney Cline figures showed it "clearly does have enough gas to supply Russia and China," said Ian Thom, a Caspian analyst with consultancy Wood Mackenzie. "All the same, the existing export infrastructure is insufficient, so they'll clearly need additional capacity and new pipelines," he said.

—Alexander Kolyandr contributed to this article.

U.S. consumers pull back

Retail sales declined in month as fears rise amid more job losses

By Sudeep Reddy

U.S. retail sales tumbled in September as the credit freeze and job losses heightened fears about the depth of the recession.

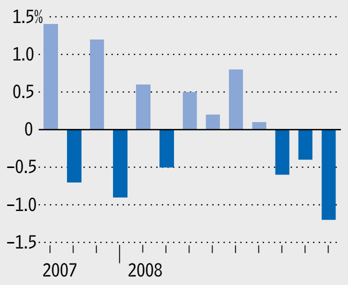
The Commerce Department said retail sales dropped 1.2% last month, a sharper decline than the 0.6% drop in July and 0.4% fall in August. The figures confirm that the economy was weakening before market turmoil surged this month.

The report sent stocks sliding and returned attention to the economy's deepening troubles despite the government's $700 billion rescue plan. Economists forecast that credit markets will take at least several months to unfreeze, limiting growth while government officials execute plans to ease market conditions.

The economy's performance over the past few months and its current course are raising the prospect of the longest recession since the 16-month slump between 1981 and 1982. The 2001 recession hit the job market hard but lasted just eight months, with relatively small declines in economic output. The 1990-1991 recession, the most recent contraction in consumer spending, also ran for eight months, but its effects, particularly on banks, lingered for years.

Declining sales

Retail and food services sales, change from the previous month



Note: Seasonally adjusted

Source: U.S. Census Bureau

"Stabilization of the financial markets is a critical first step, but even if they stabilize as we hope they will, broader economic recovery will not happen right away," Federal Reserve Chairman Ben Bernanke said in a speech Wednesday. "Ultimately, the trajectory of economic activity beyond the next few quarters will depend greatly on the extent to which financial and credit markets return to more normal functioning."

Consumer spending is likely to show declines in the third and fourth quarters, hammering retailers during the critical holiday shopping season. Job losses, which started at the beginning of this year, are deepening as businesses struggle with the market turmoil.

After Wednesday's retail sales report, many economists changed their third-quarter estimates to show a decline in overall economic output. The consulting firm Macroeconomic Advisers lowered its estimate to show a 0.3% decline in gross domestic product during the third quarter.

"The U.S. consumer is in major trouble, with wage and salary income growth evaporating, credit extremely tight or unavailable, home prices continuing to decline, household balance sheets stressed, and food and energy costs consuming a large share of budgets," said Joshua Shapiro, chief economist at consulting firm MFR Inc. "Whatever the government does to try to bail out the financial system, a consumer-led recession is upon us, and it promises to be a serious one."

Retail sales slipped in almost every sector. Auto sales fell 4.2%, while furniture, electronics, clothing and food sales also declined. One flicker of good news was health care, which has remained relatively stable amid the broader economic downturn.

Perhaps the only positive for the economy is the recent drop in crude oil to below $80 a barrel. High gasoline prices had been eating into consumer spending, and the jump above $4 a gallon this summer worsened some of the retail sector's troubles. The recent decline "will be a big positive for consumer spending, but not until job losses subside by the middle of 2009," PNC Bank economists said.

FCC may open unused TV airwaves

By Amy Schatz

WASHINGTON—U.S. regulators took a major step in clearing the path for next-generation wireless devices and high-speed Internet services, and are preparing to release a report that says using vacant TV airwaves creates no major interference problems.

Federal Communications Commission engineers are expected to say in the report, which could be released Wednesday, that interference problems proved to be minimal in a series of tests this summer of prototype "white spaces" devices, which run on vacant TV airwaves.

FCC Chairman Kevin Martin circulated a proposal Tuesday night to the other FCC commissioners to set rules for using the airwaves. They could vote on the issue as soon as next month.

The proposal comes just a few days after the FCC dismissed interference concerns involving another chunk of airwaves, which the commission wants to auction off to a company that would promise to build a free, national wireless Internet network.

The FCC's finding on white spaces is a victory for high-tech companies including **Intel** Corp., **Microsoft** Corp. and **Google** Inc., which have lobbied heavily to persuade the FCC to allow them to use the unlicensed, vacant TV airwaves. Tech companies say that allowing anyone to use those airwaves will spark a revolution in new wireless services similar to what happened when the FCC set aside different airwaves that are now used for Wi-Fi Internet.

The wireless industry and broadcasters have argued the airwaves shouldn't be given away free, and instead should be auctioned off instead.

Mr. Martin has pushed to open up airwaves and encourage more wireless Internet competition before a new administration takes over.

His campaign puts the agency in position to act, as soon as November, on new rules that would open up the TV airwaves for unlicensed use. Those airwaves would become available in February, when the U.S. switches to digital-only television broadcasts.

India injects more money into system

By Jackie Range, Abhrajit Gangopadhyay And Subhadip Sircar

NEW DELHI—India's central bank and government moved to inject more capital into the financial system, joining other nations that have taken steps to try to boost confidence in their markets.

As part of Wednesday's moves, the Reserve Bank of India cut in the amount of cash banks must leave on hand with it by one percentage point to 6.5%. This cut to the so-called cash reserve ratio will be retroactive to Oct. 11 and will release some $8.2 billion into the banking system, according to the central bank.

"The Reserve Bank of India is committed to maintaining financial stability, and active liquidity management using all policy instruments is an integral part of this objective," the central bank said in a statement.

In another move targeting liquidity, India's government lifted a ceiling on foreign investment in Indian corporate bonds, doubling it to $6 billion.

Indian Finance Minister P. Chidambaram said Wednesday the government had asked the central bank to immediately provide around $5.1 billion to lending institutions, which wouldn't be required to provide collateral for it.

The funds that are released to lenders will come under a loan waiver plan which the government unveiled earlier this year to help impoverished farmers. Commercial banks will get about $1.54 billion and a state-run lender to the farm sector, the National Bank for Agriculture and Rural Development, will receive around $3.6 billion.

Indian banks have remained reluctant to lend to each other, despite recent steps to boost liquidity. The Reserve Bank of India has already reduced the cash reserve ratio for commercial banks, among other measures. However, those measures haven't helped stabilize share prices, and analysts said Wednesday's moves aren't likely to rally stocks.

On Wednesday, India's benchmark index, the Bombay Stock Exchange's 30-stock index down 674.28 points, or 5.9%, to end at 10,809.12.

Ukraine says it may tap standby credit from IMF

A WSJ News Roundup

KIEV, Ukraine—Ukraine may seek support from the International Monetary Fund through a standby credit program, a central-bank official said Wednesday, as the global financial crisis tightened its grip on the country's economy.

The government is struggling to support its currency, the hryvnia, as investor money flees emerging markets and orders fall for the country's chief export commodity, steel. Ukraine is also dealing with a political crisis, and an election has been called for December after efforts to revive the country's fractured pro-Western coalition collapsed.

Ukraine was the fourth country in a matter of days to turn to the IMF, following Hungary, Serbia and Iceland. IMF officials were set to arrive in Kiev late Wednesday.

"At the end of the mission, if it proves necessary, we will discuss the possibility of extending a standby [loan] to Ukraine, an amount appropriate to Ukraine's needs at this time," said Serhiy Kruglyk director at the Ukrainian central bank's international relations office.

"We are not sure we would use the funds, but we need to calm down the market and to calm down the population," Mr. Kruglyk said. Ukraine's standby credit of $605 million, established in 2004, has never been exercised.

Ukraine's gaping current-account deficit may not be covered in future by inflows of foreign investment as the European and U.S. economies slow. That has contributed to unease among analysts about the hryvnia's weakness.

The hryvnia dipped to a record low of 5.9 to the dollar last week, and rose following central-bank intervention. It now trades within a newly widened band of 4.554 to 5.346 per dollar, and was quoted late Wednesday at 5.06 to 5.145 per dollar. It remains down about 12% from September.

International ratings agency Fitch has already cut its outlook on Ukraine to negative, warning of a higher risk of a currency crisis. Moody's Investors Service said it was monitoring the situation.

The central bank has a difficult balancing act. Letting the hryvnia weaken under the weight of the current-account gap would take away one of the few constants in a country gripped by political turbulence. But propping up the currency could deplete reserves.

India, Brazil, South Africa in plea for emerging nations

Associated Press

India, Brazil and South Africa asked the rich countries to consider their input on how to manage the current global financial crisis without jeopardizing the development of emerging economies. Most emerging market stocks have fallen harder in Asia, Russia and Latin America in recent weeks than they have in the United States and Western Europe.

A big reason for that, analysts say, is that foreign investors who over the past four years fueled the emerging markets boom have lost their appetite for risk amid the global credit crunch and are yanking money out to meet liquidity needs at home.

"We are the victims of a crisis generated by the rich countries," Brazilian President Luiz Inácio Lula da Silva said in New Delhi at the third summit of leaders of three of the world's major emerging economies.

President Kgalema Motlanthe of South Africa said the hope for future economic recovery potentially lay in developing countries, "if we continue to prioritize both growth and redistribution of wealth to the poor."

Top officials of the three nations will meet soon to develop a common strategy to deal with effects of the global financial crisis, said Indian Prime Minister Manmohan Singh.

Aliyev claims Azerbaijan victory

Reuters News Service

BAKU, Azerbaijan—Azerbaijan's ruling party claimed victory for incumbent President Ilham Aliyev in an election Wednesday that was condemned by the country's opposition as a charade. Official results were expected early Thursday.

"Ilham Aliyev has won," Ali Akhmedov, executive secretary of Mr. Aliyev's New Azerbaijan Party, told supporters rallying in downtown Baku Wednesday. "His victory is the victory of the Azeri people."

Mr. Akhmedov didn't specify by how much the party believed Mr. Aliyev had won. The main opposition leaders boycotted the poll, but figures released by the state electoral commission said turnout was 65% by 5 p.m.

Polls closed two hours later, to the sound of the national anthem. Three exit polls conducted by groupings of Azeri nongovernmental organizations each gave Mr. Aliyev above 80%, and put turnout at between 68% and 73%.

"What's the point in voting when the result is known in advance?" Gasan Mamedov, 48 years old, asked in the afternoon as he strolled past workers erecting the stage for Mr. Aliyev's victory rally.

The opposition said curbs on democracy and media freedom made participation pointless. Rights groups back their complaints and have said a personality cult around Mr. Aliyev's late father, long-serving leader Heydar Aliyev, makes dissent dangerous.

The country of 8.3 million people lies at a strategic crossroads between East and West, sandwiched between Russia and Iran and straddling a region emerging as a major energy transit route from Central Asia to Europe.

Opposition politicians say Western governments have toned down their criticism of Azeri democracy for fear of losing a strategic ally also courted by Russia and access to its oil reserves in the Caspian Sea.

The government insists Mr. Aliyev is genuinely popular.