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The global economy has run out of safe havens

NEWS IN DEPTH | PAGES 16-17

It's tough to say whether U.S. stocks are a bargain

MONEY & INVESTING | PAGE 19

Financial pain spreads across the Persian Gulf

Kuwait rescues bank as markets sell off, Saudis aid borrowers

By Margaret Coker And Chip Cummins

ABU DHABI—The global financial storm rolled across the Persian Gulf on Sunday, as Kuwait's central bank guaranteed bank deposits and cobbled together a hasty bailout for one of the country's largest banks.

The Kuwait intervention is the first bank rescue in the oil-rich Gulf, which until now had seemed relatively immune to the current crisis. It came as local markets across the region continued their steep selloffs. With oil prices down more than 50% from their July highs, the explosive, petroleum-fueled growth of the Gulf now looks suddenly vulnerable at the same time as international and local investors are pulling back sharply.

Saudi Arabia, in an apparent bid to ease the fallout of the global credit crisis on its citizens, said it would funnel some $2.3 billion in loans to low-income borrowers. And in Dubai, real-estate brokers in the Mideast boomtown said they are seeing signs of price weakness for the first time in years, as financing dries up and speculators bow out of the once red-hot market.

Property investors "are not finding buyers," says Tanya Vodenicharova, a property consultant at Dubai real-estate broker 9 Properties. A significant property-market correction in Dubai could crimp government finances, slowing or halting the debt-fueled economic expansion.

For months, the Gulf appeared largely immune to some of the worst fallout from the housing, credit and banking crisis that has rippled from the U.S. across Europe and Latin America and into parts of

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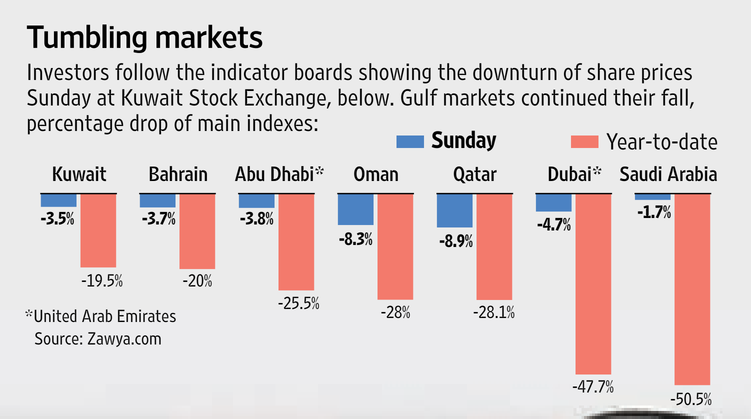

Associated Press

What's News—

Business & Finance

Kuwait's central bank guaranteed bank deposits and cobbled together a bailout for one of the country's largest banks. The first bank rescue in the oil-rich Persian Gulf during the current crisis came as local markets continued recent sell-offs, with oil prices down more than 50% from July highs. Page 1

■ **Aegon is considering** tapping Dutch government funds in a further sign that global financial turmoil is hurting insurers, as well as banks. Page 1

■ **The IMF will offer Ukraine** a $16.5 billion loan, more than expected. The fund also agreed to lend Iceland $2 billion. Page 3

■ **Asia may be closer** to recession, though it has limited exposure to the debt causing havoc in the U.S. and Europe. Page 1

■ **Spanish unemployment** hit a four-year high in the third quarter as tens of thousands of jobs were lost at the end of a decade-long housing boom. Page 2

■ **The U.K. economy shrank** 0.5% in the third quarter, leaving Brown with the big challenge of keeping the country out of a deep recession. Page 4

■ **The U.S. is considering** buying equity stakes in insurers. MetLife and Prudential are interested in exploring a sale of equity stakes. Page 4

■ **Global share markets fell** Friday on fears of a prolonged recession. Stocks look cheap, but a deep recession could send prices even lower. Pages 16, 19

■ **Cerberus plans to cut** 25% of its salaried workers by year end, with further restructuring coming "in the near future." Page 6

■ **European auto makers** plan to slash production as the economic crisis crimps the global appetite for new cars. Page 6

■ **OPEC's decision to slash** oil output by 1.5 million barrels a day didn't stop the decline in crude's price, which fell 5.4% to $64.15 a barrel on Nymex. Page 11

Markets

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8378.95	-312.30	-3.59
Nasdaq	1552.03	-51.88	-3.23
DJ Stoxx 600	198.82	-9.90	-4.74
FTSE 100	3883.36	-204.47	-5.00
DAX	4295.67	-224.03	-4.96
CAC 40	3193.79	-117.08	-3.54
Euro	$1.2711	-0.0163	-1.27
Nymex crude	$64.15	-3.69	-5.44

Money & Investing > Page 19

World-Wide

China seems to have allied itself with Europe in calling for a vigorous system of international financial regulation, after several days of talks between European and Asian leaders. Senior Chinese officials said they would back Europe's effort to overhaul global regulatory systems, European diplomats present at the meetings said. Page 3

■ **Israel's Livni gave up** her bid to form a government and called for new national elections, a move likely to cast the country into months of political and diplomatic uncertainty. Page 4

■ **The IMF's governing board** cleared Strauss-Kahn of charges he had abused his position, easing the way for the IMF to focus more fully on the global economic downturn. Page 3

■ **Iran's Ahmadinejad is** suffering from exhaustion, a close aide said, raising questions about the president's health and political future. Page 2

■ **U.S. military helicopters** attacked an area along Syria's border with Iraq, killing eight people, Damascus said, condemning what it called serious aggression. A U.S. military official in Washington confirmed the raid.

■ **Iraq's cabinet canceled** a meeting to discuss the U.S.-Iraqi security pact, saying proposals for amendments to a draft were still being submitted.

■ **Tribesmen assailed** Taliban militants who beheaded a militiaman in northwest Pakistan and tried to abduct their chief. Pakistan's army said it captured militant stronghold Loi Sam.

■ **Four men were arrested** over last month's suicide attack on the Marriott hotel in Islamabad.

■ **A private security guard** working for DHL in the Afghan capital opened fire and killed the company's country director and his deputy, both foreigners, before shooting himself.

■ **A man jailed** in the ex-Soviet republic of Georgia for the 1993 murder of American spy Freddie Woodruff was unexpectedly released from prison. Page 12

■ **Bomb blasts injured** two government officials in the Russian region of Ingushetia. Also, a policeman was charged with accidentally shooting a journalist.

Editorial & Opinion

More bubble trouble

America's loose monetary policy over the past 14 months comes back to bite. Page 13

Aegon may join ING in tapping Dutch fund

By Dana Cimilluca

LONDON—**Aegon** NV, the Dutch insurance company, is considering tapping a €20 billion ($25.17 billion) fund established by the Netherlands to shore up its financial institutions, in a further sign that global financial turmoil is buffeting insurers.

A decision on whether the company will seek a government capital infusion could come in the next few days, a person familiar with the matter said. It was unclear what the terms would be, but the person said any state aid would be smaller than the €10 billion **ING Groep** NV, the Dutch banking and insurance company, will receive from the fund.

Aegon, owner of the Transamerica life-insurance company in the U.S. and assets in a handful of other countries in the Americas, Europe and Asia, would join a raft of banks around the world in turning to governments for shelter from the global financial storm.

Investor concerns are shifting to insurance companies. While most are financially sound, they have suffered losses as the prices of bonds and other assets they hold have plunged.

MetLife Inc. and **Prudential Fi-**

Please turn to page 31

Asia nears a recession as GDP growth slows

By Patrick Barta

BANGKOK—Asia, the world's last redoubt of fast economic growth, may be closer to recession than people think.

For the U.S. and other developed countries, investors typically define a recession as two consecutive quarters of economic contraction. For Asia, though, economists generally believe a recession occurs when region-wide annual growth slows to between 5% and 6%. For China, which has had multiple years of double-digit growth, the rate at which a recession could effectively begin is likely even higher, possibly up to 8%.

In part, that is because Asian nations' populations are often younger than those in the U.S. and Europe, and in many countries the labor force is growing more quickly, as millions of rural residents move to cities in search of opportunity. As a result, most Asian economies, excluding Japan, need to expand more rapidly than other parts of the world—often at annual rates of 5% or more—so they can absorb all those new workers. If they don't, unemployment will climb and poverty levels will follow.

The heavy reliance on exports that has driven Asia's powerful growth is turning now into its worst enemy. Many companies in Asia have based investment decisions on the assumption that recent stellar growth rates will continue. If they don't, profits will disappoint, new capacity won't be needed and costs will have to be cut—just as in an American recession. As consumer spending in the U.S. and Europe evaporates, Asian manufacturing titans that thrive on sales to the rest of the world are starting to feel the pain and are scaling down capital spending.

Many economists believe Asia is already on the brink of recession. At

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FINANCIAL CRISIS & REPAIR

Iran leader is 'exhausted'

Ahmadinejad skips some events, stirring speculation on health

BY FARNAZ FASSIHI

BEIRUT—A close aide to Iranian President Mahmoud Ahmadinejad said Sunday that Mr. Ahmadinejad is suffering from exhaustion, raising questions about the embattled president's health and political future.

Mahmoud Ahmadinejad

Mr. Ahmadinejad is known for rising early, working long hours and holding meetings over holidays. Speculation about his health started swirling in the local media last week after he failed to appear at several events. In a bid to reassure the public, Mohammed Ismaeel Kousari, a parliamentarian and close ally of Mr. Ahmadinejad, told the state news agency Sunday that the president is simply worn out.

"Anyone can feel tired and weak from working too much, it's normal," Mr. Kousari said, adding: "The president will eventually get better and return to his duties."

The comments appeared aimed at countering speculation that the president's possible health problems are jeopardizing his ability to run for re-election next year. But the vague disclosure instead is raising fresh questions about the real state of the president's health, as well as his standing with Iran's clerical establishment, which has the final stay in all state affairs.

Mr. Ahmadinejad, who is 52 years old, has been canceling public appearances and trips sporadically since May. Local media have reported that the president suffers from fatigue and low blood pressure and that doctors have ordered him to reduce his workload. But the president's office hasn't made any disclosures. That has prompted questions about whether he has a more serious illness or whether he is quietly being pushed aside by the Islamic regime's religious leadership to make room for another presidential candidate.

Mr. Ahmadinejad attended a religious ceremony Saturday in Tehran, and state TV also showed him Sunday receiving credentials of three foreign ambassadors, according to the Associated Press. "Thank God, I do not have an illness. Exhaustion is possible, but no illness," Mr. Ahmadinejad told a reporter on the sidelines of a meeting in Tehran, the AP reported. The footage was shown on state television Sunday night. "Of course, we are also human beings, and sometimes we catch a cold," he said. A representative of the president's office wasn't immediately available to comment Sunday.

The president's possible health problems may hurt his prospects in next year's elections, even if he isn't seriously ill and continues to enjoy the support of the clerical establishment.

"There is an overwhelming feeling that Iran is at a critical crossroad both at home and abroad and we need a strong leader, a president who could tackle all these challenges," said independent political analyst Essah Saharkheez from Tehran. "If Ahmadinejad keeps getting sick, it will undermine his image of a strong, capable leader."

Politicians from Iran's opposition reform movement weren't able to make significant gains against Mr. Ahmadinejad in parliamentary elections earlier this year. But fellow ultraconservatives—who are aligned against his economic policies—did, and they have been battling Mr. Ahmadinejad on several fronts ever since.

So far, Supreme Leader Ayatollah Ali Khamenei appears to be continuing to back Mr. Ahmadinejad. But there have been indications recently of weakening support from the religious establishment.

CORRECTIONS & AMPLIFICATIONS

The combined assets of Iceland's three largest banks were 14.44 trillion kronur ($119.72 billion at current exchange rates) as of June 30. A chart that accompanied an Oct. 17 Page One article incorrectly said the banks' assets were shown in billions of kronur.

Spain's jobless rate soars as housing boom recedes

BY JONATHAN HOUSE

Spanish unemployment hit a four-year high in the third quarter as tens of thousands of jobs were lost at the end of a decadelong housing boom.

National Statistics Institute data showed the country's jobless rate rose to 11.33% in the third quarter from 10.44% in the second quarter.

Until last year, Spain was one of Europe's engines of economic growth and job creation. Largely thanks to a massive home-building boom, the euro zone's fourth-largest economy created over a third of all new jobs in euro zone in the past decade.

Separately, private-sector business activity in the euro-zone economy fell to its weakest level for at least 10 years in October, according to data from Markit.

The preliminary estimate of the composite purchasing managers index for the euro zone—a measure of total private-sector output—fell to 44.6 in October from 46.9 in September, the lowest level since the series began in July 1998.

Along with the regional slowdown, Spain is also contending with a large government deficit. In a statement, the INE said 78,800 jobs were lost in Spain in the three months to Sept. 30. The INE also said 164,300 jobs were lost since September of last year, the first time net jobs declined on an annual basis since 1994.

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.

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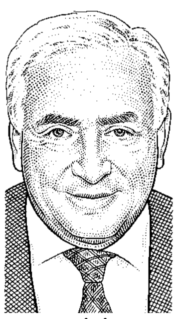
IMF clears Strauss-Kahn

Board finds chief didn't abuse power in affair with staffer

By Bob Davis

WASHINGTON—The International Monetary Fund's governing board cleared IMF chief Dominique Strauss-Kahn of charges that he had abused his position in pursuing an affair with a staffer, easing the way for the IMF to focus more fully on the global economic downturn.

Although the board found on Saturday that Mr. Strauss-Kahn, 59 years old, had committed a "serious error of judgment" by having a sexual relationship with Piroska Nagy, then a senior official in the IMF's Africa department, the board said there was no evidence of "harassment, favoritism or any other abuse of authority" by Mr. Strauss-Kahn. The IMF chief acknowledged the lapse in judgment and apologized to the board and staff. "I am committed, going forward, to uphold the high standards" expected of an IMF managing director, Mr. Strauss-Kahn said.



Dominique Strauss-Kahn

While the IMF was wrestling with Mr. Strauss-Kahn's behavior, it was also starting to play its traditional role of propping up economically troubled countries. Sunday, the IMF said it would make a $16.5 billion loan to Ukraine to help it weather collapsing steel prices and global financial turmoil. Last week, the IMF announced a $2.1 billion loan for Iceland. It is discussing similar programs for Hungary, Belarus and Pakistan.

The IMF also is trying to develop a new loan arrangement for countries that are considered to have sound economic policies but may face liquidity crunches, like Brazil, South Korea and Mexico.

Mr. Strauss-Kahn, a former French finance minister who ran unsuccessfully for the Socialist nomination for French president in 2006, may run again in 2012. His Socialist allies figure Mr. Strauss-Kahn will bounce back from the episode quickly. "His chances are intact, even after this American adventure," said Henri Weber, a member of France's Socialist party.

Mr. Strauss-Kahn took the top IMF job at the end of September 2007 and fairly soon afterward started calling Ms. Nagy about IMF business, according to a report by the law firm of Morgan, Lewis & Bockius, which was commissioned by the IMF. After a "two-week-long exchange of consensual and very personal messages," the report said, the two had a short affair in January 2008. Their liaison began at the Davos conference of global business and government leaders. Both are married.

Soon afterward, Ms. Nagy's husband, former Argentine central banker Mario Blejer, who earlier had worked for the IMF, discovered incriminating emails about the affair, according to people familiar with the incident. The Morgan Lewis report said Mr. Blejer advised his wife and Mr. Strauss-Kahn of the "potential for adverse publicity." Mr. Blejer declined to comment, as did Ms. Nagy's lawyer, Robert Litt of Arnold & Porter.

"Concerned about" the fallout the disclosure would have on him and Ms. Nagy, the report continued, Mr. Strauss-Kahn hired a lawyer and "sought advice from friends at a public relations firm." The existence of the affair was known only to a handful of staffers and IMF board members for months. Morgan Lewis was retained to examine the affair at the end of August.

(The Morgan Lewis report doesn't mention the names of the parties involved, but their identities are well-known.)

Under IMF ethics guidelines, Mr. Strauss-Kahn and Ms. Nagy "should seek confidential ethics advice to prevent actual or apparent conflicts of interest." Mr. Strauss-Kahn didn't follow that rule, the report said. It isn't known if Ms. Nagy did. Still, according to a memo by two IMF lawyers, failure by IMF supervisors to seek such advice "has not been treated as misconduct."

The IMF board ruled that the affair itself didn't constitute abuse and that Mr. Strauss-Kahn didn't either help or punish Ms. Nagy when she left the IMF in August during a period of downsizing. She now works at the European Bank for Reconstruction and Development, a regional development bank in London, where she earlier worked as a senior banker.

The IMF is also starting to play its role of propping up troubled countries.

"Going forward," the report concluded, the IMF should consider whether IMF's managing director should be held to a "higher standard of conduct" than the staff.

A. Shakour Shaalan, the longest-serving member of the IMF board, who led the day-long Saturday session, said a number of female staffers were especially unhappy with Mr. Strauss-Kahn's behavior. "I personally spoke to him after the meeting," Mr. Shaalan said, "and informed him that this should not happen again."

—David Gauthiers-Villars in Paris contributed to this article.

IMF to rescue Ukraine with $16.5 billion loan

By Gren Manuel

LONDON—The International Monetary Fund unveiled Sunday its second national rescue plan in a matter of days, saying it would offer to lend a larger-than-expected $16.5 billion to Ukraine.

The announcement follows Friday's $2.1 billion loan to Iceland and underlines how the IMF, after years in the shadows, has come to the forefront of helping weaker nations hit by the financial crisis. Pakistan and Hungary also are talking to the IMF.

The IMF board will consider final approval of the $16.5 billion, 24-month standby facility once Ukraine passes some financial reform laws, it said.

In a statement, IMF Managing Director Dominique Strauss-Kahn said Ukraine had signed up to a comprehensive policy package designed to shore up its balance-of-payments position, noting that on top of the financial crisis Ukraine had been hit by the fall in the price of steel, a major industry in the country.

But the deal means Ukrainian Prime Minister Yulia Tymoshenko faces having to implement harsh economic austerity measures in the run-up to an election in December amid the continuing political turmoil that has plagued the country since the Orange Revolution in 2004.

Ukraine government officials weren't immediately available to comment.

Ratings agency Standard & Poor's late Friday cut its currency rating on Ukraine even though it believed an IMF loan would be offered, saying a lack of internal political agreement could mean the country wouldn't be able to implement the IMF's program to fix the economy.

Also, the loan—higher than earlier estimates of between $11 billion and $15 billion—is small in comparison to the country's external debt, which analysts at Capital Economics in London estimate at $55 billion due this year.

Last week while talks were under way, Neil Shearing, emerging Europe economist at Capital Economics, warned that "While early intervention by the IMF should avert a full-blown balance-of-payments crisis, macroeconomic fundamentals in Ukraine may remain weak for some time to come."

Mr. Strauss-Kahn said the program to be implemented by Ukraine will aim to restore financial stability, help make the banking sector liquid and solvent and cut inflation, while trying to insulate companies and households as much as possible from a deep output decline.

One additional problem for Ukraine is that its balance of payments is heavily influenced by the price Russia sets for the country's vital imports of natural gas.

—Lidia Kelly in Moscow and Alexander Kolyandr in London contributed to this article.

China seems to join overhaul call

By Ian Johnson

BEIJING—After several days of talks between European and Asian leaders, China apparently has allied itself with Europe in calling for a vigorous system of international regulation.

In closed-door talks with European leaders Friday and Saturday, senior Chinese officials said they would back Europe's effort to overhaul international regulatory systems, European diplomats present at the meetings said. China most strongly stated its position Friday in a talk between Chinese President Hu Jintao and José Manuel Barroso, president of the European Commission.

Mr. Hu, according to diplomats at the meeting, said China would "actively cooperate" with the EU, which has been pushing an ambitious new system of global oversight. Formal talks on the new reforms would begin in mid-November in Washington.

"The Chinese said they'd back more vigorous reforms," a senior European diplomat said in an interview. "They rely on the global economy and are afraid it's become very unstable."

Chinese officials had no comment on the closed-door meeting. In public statements, Chinese leaders issued milder endorsements of reforms. At the close of the seventh Asia-Europe Meeting on Saturday, for example, Chinese leaders backed the 45 nations' statement, which expressed "the need to improve the supervision and regulation of all financial actors, particularly their accountability."

Foreign diplomats have been keen to see how China would come down on the issue of regulation. On one hand, China values stability and thus would seem naturally to support regulation. On the other, it likely doesn't want international institutions that curb its sovereignty or constrain its financial flows.

In Brussels, EU officials said they weren't surprised China agreed to side with the EU in pushing for new rules for financial markets. "They want a seat at the table in whatever is going to happen," said an EU official who attended an Oct. 15-16 summit that drafted the EU's plan.

At that summit, EU leaders and their ministers debated the odds that other countries would support their strategy. China was a question mark for some, said diplomats, because the EU now has the world's biggest trade deficit with China, and there are frequent grumblings in Brussels about lack of cooperation in Beijing. But Mr. Sarkozy, who chaired the gathering, promised to put the hard sell on Washington and Beijing during successive trips, "in order to change the rules of capitalism."

In addition to the summit, EU officials were in Beijing to prepare a coming EU-China dialogue, while senior trade officials were in town to win China's help to conclude the Doha round of trade negotiations.

British Foreign Secretary David Miliband said the meetings showed how economic power is shifting east.

U.S. officials said that the Beijing meetings underscore the importance of President George W. Bush's global economic summit, scheduled for Nov. 15 in Washington after the presidential election. The White House hopes to use the summit to discuss the crisis's underlying causes, analyze responses and develop principles to reform the global financial architecture.

Still, Bush administration officials acknowledged their concerns that some countries could seek to use the financial crisis to move against free trade and promote more centralized economic models. "Whatever else we do, the summit needs to enhance our commitment to free markets and free trade—the fundamental policies that have increased standards of living," said a U.S. Treasury Department official.

—John W. Miller in Brussels and Jay Solomon in Washington contributed to this article.

Iceland had tried to avoid tapping IMF for assistance

A WSJ News Roundup

WASHINGTON—Iceland reached a deal for a $2 billion loan from the International Monetary Fund and said it hoped to secure additional support from other countries, as it hurries to rescue a financial system brought down by the credit crisis and an economy teetering on the brink of collapse.

Iceland's turn to the IMF led to a rare loan from the organization to a Western nation. The island nation had scrambled to find a way to avoid turning to the IMF, even sending a delegation to Moscow to negotiate a loan with Russia. But it returned empty-handed. Other Nordic countries indicated that they might help out, but they signaled the IMF would have to take a lead role first.

Iceland had effectively run out of other options for attracting the foreign cash needed to reanimate its currency. The Icelandic krona, under pressure all year, wilted this month when the three banks that make up nearly the entire Icelandic financial system collapsed and were seized by the government.

The krona stopped functioning off the island, throwing trade into chaos and causing a potentially dire situation for an isolated population heavily dependent on imports. The currency crisis has sent inflation soaring.

An appeal to the IMF's help is a significant come-down for Iceland's 300,000 people, who took pride in the riches created by a boom in its banking sector. The country's standard of living rose to among the highest anywhere, and the capital, Reykjavik, became flush with big cars, swank shops, sleek restaurants and other accoutrements of upscale consumer culture.

The Icelandic government said the loan will shore up foreign-currency reserves—just €2 billion ($2.58 billion) when the crisis started—and allow the country to float the krona. Iceland had imposed severe restrictions on foreign exchange—instructing banks, for instance, to demand Icelanders traveling overseas to present an airline ticket before selling them foreign currency.

Iceland said the loan will be voted on by the IMF executive board "as soon as possible." The IMF said the agreement could reach the board in early November. As soon as the package is approved, Iceland could initially draw as much as $830 million. The loan would be for two years.

Accepting assistance from the IMF means tough budgetary strictures. Iceland said it will tighten its fiscal policy, committing "to a sustainable long-term economic policy, and a plan for the recovery of the Icelandic economy."

Iceland's crisis was triggered by its three big banks, who grew rapidly over the past half-dozen years by borrowing and lending abroad. Their swelling size delivered profits, but it also left Iceland exposed: When the credit crunch struck, the Icelandic banks—like others around the world—faced trouble refinancing their borrowings. But unlike banks in larger countries, the Icelandic banks found their small home country simply didn't have the resources to back them up.

The assets of the three largest banks reached some €100 billion—10 times Iceland's annual economic output.

Economy tests Brown

U.K.'s quarterly GDP contracts 0.5%; pound falls sharply

By Alistair MacDonald

LONDON—The U.K. economy turned in its first negative quarter in 16 years, leaving Prime Minister Gordon Brown with a big challenge even after stabilizing the banks with a widely copied bailout plan: how to keep the country from falling into deep recession.

On Friday, the government reported that the economy shrank a wider-than-expected 0.5% in the third quarter. Economists predicted gross domestic product will further contract in the current quarter, putting the country in a recession. Economists expect the slowdown to last into next year, with Ernst & Young predicting GDP will shrink 1% in 2009 and grow just 1% in 2010.

The pound fell sharply Friday, declining to $1.5903 against the dollar, its steepest weekly percentage drop since 1992, when Britain exited the European exchange-rate mechanism, which was a precursor to the euro common currency. The pound is down 20% this year.

Mr. Brown, whose popularity has improved from historic lows after he orchestrated an ambitious bank-bailout plan, will need some short-term fixes as he must stand for election by mid-2010.

Among Mr. Brown's options to spur growth, economists said, are "rebalancing" the economy to make it less dependent on financial services by building up other industries, and spending through the recession, though that would come at the cost of increasing an already large deficit.

In recent years, the U.K. has become increasingly reliant on the financial-services industry, which last year accounted for 10.5% of GDP; for the three years prior, the sector grew at four times the speed of the rest of the economy. Some economists and politicians argue that the government needs to rebalance the economy by, for example, increasing the manufacturing sector, which actually made the largest contribution to the third-quarter slowdown, falling by 1%. Although it hasn't yet, the country's falling currency should help exporters by making their goods cheaper overseas.

The prime minister has little room to spend his way out of recession, a tack previously tried by economies from Spain to the U.S. Instead, the U.K. Treasury will move to increase this year's spending by accelerating large, employment-intensive projects, such as building schools and a new railway line through the center of London that had been part of future years' budgets.

In the text of a speech to be delivered Monday, Mr. Brown plans to that the British government "will and can allow borrowing to rise to help restore demand and to come to the aid of workers, businesses and homeowners."

"The responsible course is to borrow now to maintain growth and output, and to reduce borrowing as a proportion of [gross domestic product] as the economy recovers and tax receipts rise again," he will say.

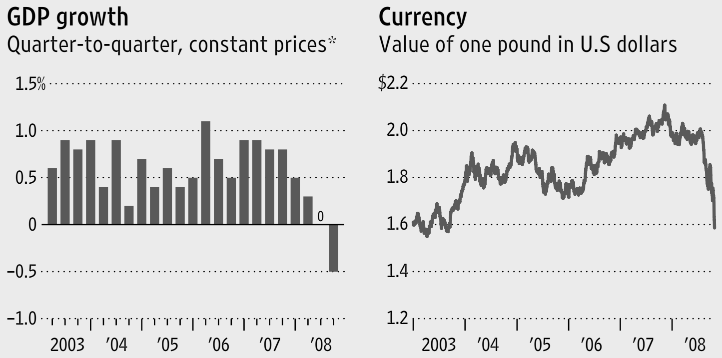

Gordon Brown

Other European economies also are hurting, with data on Friday showing October business activity in the euro zone at its weakest level in at least 10 years. But, opposition politicians and some economists said, policies from Mr. Brown's decade as Treasury chief under his predecessor, Tony Blair, left the U.K. more vulnerable to the credit crunch. The Blair government allowed consumer debt to run up; spent heavily on public services; and changed how banks are regulated, making it harder to gauge their health.

—Laurence Norman contributed to this article.

Dark days ahead for Brown

Sterling continued to fall Friday after hitting a five-year low last week and one of the U.K.'s longest ever economic booms came to a halt when the country suffered its first quarter of negative growth in 16 years. Economists expect further contraction this year putting the country into recession.



*Seasonally adjusted

Sources: U.K. National Statistics Offices (Real GDP); Thomson Reuters Datastream (currency)

Livni calls for new Israeli elections

By Cam Simpson

JERUSALEM—Israeli Prime Minister-designate Tzipi Livni gave up her bid Sunday to form a government and called for new national elections, a move likely to cast Israel into months of political and diplomatic uncertainty.

The turmoil came as Israeli leaders condemned statements from Jewish settlers in the occupied West Bank, calling for fresh violence there. Some Jewish settlers said they wanted to see Israel's own soldiers killed for disbanding an illegal settlement.

Ms. Livni, who heads Israel's centrist Kadima party, gave up her attempt to cobble together a new government following about six weeks of coalition talks sparked by the resignation of scandal-plagued Israeli Prime Minister Ehud Olmert, who is Kadima's former chief.

She told reporters Sunday night she could have formed a government but decided against it because potential coalition partners were making what she portrayed as dangerous demands.

"I was willing to pay a price for forming a government up until the last minute, but I wasn't willing to mortgage the economic and political future of Israel or the hope for a better future and for a different kind of politics," Ms. Livni said.

She was given the chance to form a coalition after winning, by a razor-thin margin, a Sept. 17 Kadima primary to replace Mr. Olmert. But she formally notified President Shimon Peres on Sunday at a meeting in Jerusalem that she was giving up and supports new national elections.

Because Israel doesn't have a constitution, what comes next is unclear. Although his post is largely ceremonial, Mr. Peres, a Kadima member, holds the power to call new elections. Analysts said he is likely to do so in the coming days and that polling will likely be slated for February or March, well ahead of the next scheduled elections set for 2010.

The Israeli parliament, known as the Knesset, also could pass a law setting new elections, or Mr. Peres might still push for the formation of a coalition.

Ms. Livni said the main obstacles to a coalition were what she portrayed as extortionate demands from the Shas party, an ultra-Orthodox religious movement. Shas holds 12 seats needed to maintain the existing ruling coalition assembled by Mr. Olmert in the 120-member Knesset.

Shas leaders were demanding substantial increases in welfare benefits for large families, a staple for religious politicians in Israel, where demographic data show an average of about 8-10 children in religious households. They also wanted Ms. Livni, who is Israel's foreign minister, to pledge that negotiations over Jerusalem's future would be off limits in any current or future peace talks with the Palestinians.

"Anyone willing to sell his principles for a [premier's] seat is not worthy of leadership," Ms. Livni told reporters Sunday night.

Summer and fall polls have shown the right-wing Likud, Israel's largest opposition party, gaining a large number of seats in a new election but still running closely overall with Kadima under Ms. Livni's leadership.

Palestinian leaders said they are watching the developments closely and cautiously. "We have a real concern regarding the future of the peace process," said Salam Fayyad, the Palestinian Authority prime minister. The two sides have been involved in peace talks since President George W. Bush launched a high-profile push almost a year ago at a conference in Annapolis, Md.

—Mohammed Najib in the West Bank contributed to this article.

U.S. considers buying equity stakes in insurers

By Deborah Solomon And Leslie Scism

WASHINGTON—The U.S. Treasury Department is considering buying equity stakes in insurance companies, a sign of how the government's $700 billion rescue program could turn into a piggy bank for a range of beleaguered industries.

The availability of U.S. government cash in the middle of a global credit squeeze is drawing requests from insurance firms, auto makers, state governments and transit agencies. While Treasury intended for the program to apply broadly, the growing requests could put a strain on the $700 billion, a sum that only last month stunned lawmakers.

MetLife Inc. and **Prudential Financial** Inc., two of the nation's largest publicly traded life insurers, are interested in exploring a sale of equity stakes to the government, according to people familiar with the matter.

Sunday, a spokesman for **New York Life Insurance** Co., one of the highest-rated insurers in the U.S., said: "The Treasury has asked the life-insurance industry for help in developing solutions for strengthening the financial system. We agreed to work with other industry leaders and Treasury so we could play a constructive role in helping shape this important discussion." He said the insurer, which is mutually owned, doesn't require additional capital and has "not made any decision to accept capital, if offered."

Broad participation in the rescue program would put more power in the hands of government to reshape the finance industry. Friday, **PNC Financial Services Group** Inc. said Treasury would buy $7.7 billion of preferred stock and warrants. The cash injection will help the bank purchase struggling **National City** Corp., a move pushed by federal regulators. (Please see article on page 8.)

In September, the government extended an $85 billion rescue loan to giant insurer **American International Group** Inc. in exchange for an 80% stake.

Insurers are critical to market stability. Signs of eroding confidence at life insurers could further dent fragile business and consumer confidence. Insurers are among the biggest holders of the nation's corporate debt, with $1.3 trillion on their books. They are long-term investors, holding the securities for years, even decades.

As they have sought to shore up their own balance sheets in recent weeks, insurance companies, like banks, have retreated from this role as lender, instead hoarding cash, according to Robert Riegel, a managing director at ratings firm Moody's Investors Service, which exacerbates the credit crunch.

Most insurance companies are financially sound but have seen their long-term investments and stock prices fall in value. Some have holdings of riskier Alt-A and subprime-mortgage-backed securities. Insurers have suffered losses in bond and preferred-stock holdings from the collapse of companies including Lehman Brothers Holdings Inc. Insurers also have been hit with billions of dollars in unrealized losses as corporate bonds of all stripes suffered big declines. Low interest rates have damped interest income and a prolonged economic slump could dent the variable-annuity business and even hurt sales of core life-insurance policies.

Insurers would normally tap capital markets to raise money. But many are loath to attempt selling common stock because their share prices have been so battered. That is one reason many insurers have been pushing the expansion of Treasury's equity-stake program to raise capital.

Treasury had already envisioned insurance companies using one element of its rescue program: selling bad assets, such as mortgage-backed securities, to the government. But Treasury officials are considering whether to buy equity stakes in certain firms, according to people familiar with the matter.

Under the terms of Treasury's program, eligible insurers must be operated by either a financial institution holding company or a savings and loan holding company. The holding companies must also be regulated by a federal agency.

The investment funds would come from Treasury's recently announced plan to invest $250 billion in U.S. banks. Treasury has already committed $125 billion to nine large banks. More than 20 additional banks are expected to receive equity infusions in coming days.

Treasury Secretary Henry Paulson asked Congress for wide discretion in the program. That is prompting requests from myriad industries. Some want capital injections. Others want to sell troubled assets, such as bad loans, to the government.

The Financial Services Roundtable, a Washington trade group, sent a letter Friday to Treasury asking for expansion of the government's equity injection program to include broker-dealers, insurance companies, auto makers and foreign-controlled firms.

Auto makers in particular are looking for a lifeline. Thursday, members of Michigan's congressional delegation sent a letter to Mr. Paulson and Federal Reserve Chairman Ben Bernanke, urging the administration of President George W. Bush to allow auto companies to participate in the program, a move many in Detroit hope would smooth the way for a merger of **General Motors** Corp. with **Chrysler** LLC.

State and local governments also are angling for help as they struggle to raise money. Members of Congress and several mayors have asked Mr. Paulson to use the rescue funds to buy state and municipal bonds.

For most of this year, the insurance industry seemed to be weathering the credit crisis. The industry has plenty of capital to pay policyholders, according to insurance regulators in two big states and senior executives at credit-ratings firms. But in recent weeks, the stocks of some of these firms have been slammed. More bad news is expected this week, when many of the large publicly traded life insurers report third-quarter earnings.

After **Allstate** Corp. released disappointing third-quarter results, Moody's Investors Service lowered ratings on the company's life-insurance unit to Aa3 from Aa2. The stated reasons included "the weakening of the [life] company's intrinsic credit profile," though it maintained the Aa2 rating for Allstate's core car-insurance business.

CORPORATE NEWS

AIRLINES

Ryanair closes base in Valencia, hitting 750 jobs

Reuters

BUDGET airline **Ryanair Holdings** PLC announced Friday it is closing its base in Valencia in southern Spain.

The closure will eliminate 70 weekly flights carrying about 750,000 passengers annually, the airline said. It expects about 750 jobs in the region to be affected.

Ryanair blamed the move on local tourism officials, who, it said, weren't doing enough to promote the hub. Valencia's regional government denied the claims and said it had attempted to negotiate with the airline over promoting the route.

—Associated Press

OIL

Lawsuit against PwC unit is dismissed in Yukos case


IndexOpen

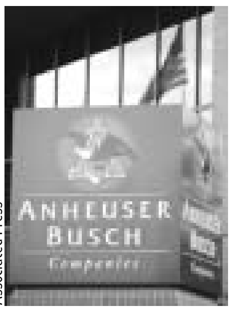
THE RUSSIAN UNIT of **PricewaterhouseCoopers** LLC won the dismissal of a lawsuit by local authorities that had accused PwC of being an active participant in tax evasion by now-bankrupt oil company OAO **Yukos**.

Earlier rulings against PwC in the case threatened its license to operate in Russia. But Friday, the Federal Arbitration Court of the Moscow District overturned two lower-court rulings and threw out the Federal Tax Service's case.

The Federal Tax Service couldn't be reached for comment. Under Russian law, it can appeal Friday's ruling to the Supreme Arbitration Court. *—Gregory White*

BREWING

Anheuser-Busch's stock falls more amid deal fears



Associated Press

ANHEUSER-BUSCH Cos. shares fell further Friday and traded nearly 20% below the proposed price of the **InBev** NV acquisition amid continued jitters about the deal, while InBev said it was committed to the acquisition at the agreed-upon terms.

InBev agreed to buy Anheuser-Busch for $70 a share in July. Friday, Anheuser-Busch shares finished at $56.93, down $1.20, or 2.1%.

"We remain fully on track to close the A-B/InBev combination on the agreed terms by year end," said a spokeswoman for InBev, based in Belgium. An Anheuser-Busch spokeswoman declined to comment.

—Anjali Cordeiro

Falling metals prices burn scrap dealers

High inventories are haunting traders as demand declines

BY ROBERT GUY MATTHEWS

STEVE SARNOFF is caught in a classic recessionary squeeze.

Earlier this year, the owner of scrap metal dealer **General Metals** Corp. paid top dollar for unruly stacks of aluminum cans and copper wires, believing he could sell them for more to metal smelters and manufacturers. Selling scrap was so profitable that he willingly paid more than $10,000 in city fines this year when his excess metal spilled into a street.

Now demand and price are in a freefall. Does the Miami businessman sell his now high-priced inventory at basement prices, or wait for the market to recover?

There are thousands of businessmen around the world in the same bind. Driven by once insatiable demand from China and other developing countries, service center owners and metal dealers built vast stockpiles of scrap steel, aluminum, copper and nickel, expecting prices to continue rising.

But in the last six weeks, scrap steel prices have fallen nearly 60% to about $400 a ton. Prices for aluminum scrap has dropped 33%, copper 25% and nickel about 15%. Peter Marcus, metals analyst for World Steel Dynamics, says, "We aren't near the bottom yet."

Most scrap dealers in the U.S. are small to midsize businesses like General Metals, which employs 30 people at two locations. But some are units of big steelmakers' **Nucor** Corp. and **Steel Dynamics** Inc., which purchased independent scrap operations to guarantee a supply feedstock.

Typically, these dealers scour small manufacturers, businesses and construction sites for recyclable metal. Sometimes they will pay top dollar, not wanting to be caught short when a customer calls. The scrap is separated by type and grade, and shipped to steelmakers or parts manufacturers, who melt and use it to make other metals and products.

For much of the past two years, demand and prices for various scrap metals—steel, aluminum, copper and nickel—were so high that metal thieves prowled the country stealing metal beer kegs, sculptures and manhole covers and reselling them to scrap dealers.

But the rosy picture dimmed as auto makers began cutting production of gas-guzzling SUVs. The bursting of the housing bubble meant less scrap was needed for girders, aluminum for siding and copper for wires. Plummeting consumer confidence chilled sales of refrigerators and other metal appliances.

Then, overseas markets withered. China, a big user of scrap until recently, now limits imports of scrap steel and other metals, analysts say. India, Russia and Eastern Europe, too, are buying less scrap.

Earlier this month, steel scrap buyers in Japan announced two price cuts in a 48-hour period, for a total of 15%. In Europe, scrap purchases have all but stopped in the last two weeks as steel mills, some operating at about 50% capacity, quit buying.

Scrap dealers in Houston, Denver and Cincinnati have closed their doors. Thomas Danjczek, president of the Steel Manufacturers Association, said newer operations, which started in the last few years to cash in on the commodities boom, weren't prepared for such a quick downturn.

Barbara P. Fernandez/WPN for The Wall Street Journal

Steve Sarnoff, owner of Miami scrap dealer General Metals Corp., with a stack of aluminum cans. Prices for scrap metal have tumbled.

Just a few months ago, David Davis says his **Global Scrap & Dismantling** in Houston, was beefing up inventory to hedge against expected price increases. Now that scrap steel is sitting in his warehouses.

"People are not buying," he says.

Some scrap dealers note that while the price of scrap steel has dropped to $400 a ton, it's still double the 2003 selling price. "The last two years have been the best I have ever seen," says General Metals' Mr. Sarnoff, who expanded his work force and took a dream cruise to Alaska with his wife.

Overseas customers, which once consumed about 60% of his 20 million short tons of scrap, "have stopped [buying] completely. I can hardly get a quote out of them," he says.

His domestic customers—small companies that melt metal for or make parts for the automotive industry—are pitting dealers against one another to get lower prices. As a result, Mr. Sarnoff has hundreds of tons of copper, nickel and aluminum scrap piling up in his warehouses.

Last month, he bought about 91,000 kilograms of insulated copper wire for between $6.60 and $7.20 a kilogram. He figures that same copper now is valued at about $4.40 a kilogram.

From a cluttered office near the Miami airport, Mr. Sarnoff pounds the numbers into an old Samsung adding machine sitting on his desk. But he can't bring himself to read the final tally.

"You do the math," he says. The metal has lost between $200,000 and $250,000 in value. Additional losses on aluminum and nickel raise the potential losses to several hundred thousand dollars.

Two strong years helped him build a cushion, which allows him the luxury of splitting the tab. He will hold on to the majority of high priced metal, hoping that prices will rise again, and sell batches of scrap that he was able to get at lower prices.

Airlines' passenger and cargo traffic declines

BY DOUG CAMERON AND ALESSANDRO TORELLO

International airline passenger traffic fell 2.9% last month from a year earlier in what the industry's global trade body called an "alarming" development, with Middle Eastern carriers suffering their first drop in years.

The Geneva-based International Air Transport Association, or IATA, said cargo traffic fell 7.7% in September, the biggest decline since 2001.

IATA said Middle East-based airlines reported a 2.8% decline in passenger traffic for September "after years of double-digit growth." Latin America was the only region to report higher traffic.

A reversal in the strong growth seen by Middle East-based carriers is a worrying signal for big plane makers Airbus, a unit of **European Aeronautic Defence & Space** Co., and **Boeing** Co.

Emirates Airline, **Etihad Airways** and **Qatar Airways** dominate the order books of both aircraft manufacturers, which have recently warned of tougher financing conditions for customers. With small domestic markets, the three Middle East airlines rely heavily on east-west transit traffic to support their networks and expansion plans.

North American carriers posted a 0.9% fall last month after months of 5% increases. The major U.S. carriers have been trimming domestic capacity and focusing resources on what had been more profitable destinations.

Airlines in the Asian-Pacific region continued to lag behind their peers, with a 6.8% decline in passenger traffic and an 11% drop in cargo volume.

European governments on Friday formally endorsed an agreement to include all airline flights to and from the European Union in the bloc's plan to trade greenhouse-gas allowances starting in 2012.

The Association of European Airlines has said that the move will cost its 35 European member airlines €5.3 billion ($6.7 billion) a year, more than the members' consolidated 2007 operating profit, which was €3.7 billion.

The airline-emission rules will be part of the EU's program for reducing overall emissions of gases that contribute to global warming. Under the airlines system, the emissions targets will be lowered after 2012.

Separately, **Air France-KLM** SA issued a profit warning Friday, saying that because of the tough economic conditions, it will be "very difficult" for it to meet its operating-profit target of €1 billion for the fiscal year ending March 2009. The company said it expects to be profitable.

—William Horobin and David Pearson contributed to this article.

FOCUS ON AUTOMOBILES

Chrysler cuts work force

Auto maker to drop 5,000 salaried jobs; Toyota presses closer

BY JOHN D. STOLL AND NEAL E. BOUDETTE

DETROIT—**Cerberus Capital Management** LP is continuing its drive to slim **Chrysler** LLC, even as the private-equity firm weighs a potential merger of the auto maker and **General Motors** Corp.

Chrysler, which is 80.1%-owned by Cerberus, on Friday said 25% of its salaried employees will lose their jobs by the end of the year and that further restructuring will come "in the near future."

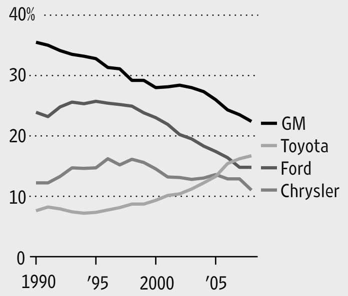
The job cuts, which will affect about 5,000 white-collar employees, come amid new indications **Toyota Motor** Corp. could move past GM in October as the top-selling auto maker in the U.S. It would be the first time Toyota, of Japan, has outsold GM, which has held the No. 1 spot for more than 50 years.

J.D. Power & Associates issued a report Friday showing Toyota's market share among retail buyers—individuals purchasing cars from dealers—was 21.6% in the first 19 days of the month. GM had 15.6%, **Ford Motor** Co. 14.6% and Chrysler 9.5%.

GM could still narrow or erase the gap with a strong finish in October and heavy sales to rental fleets, which it used to pump up sales in September. Toyota has boosted its sales this month with offers of zero-percent loans. GM's sales have been hurt because its financing arm, **GMAC** LLC, is now offering loans only to customers with top credit ratings. Cerberus also owns 51% of GMAC.

Changing lanes

U.S. market share, 12-month rolling average



Note: Excludes foreign affiliates; 2008 figures are through September

Source: Autodata

"We will review October sales numbers on the call Nov. 3," GM spokesman John McDonald said.

J.D. Power estimated auto makers will sell fewer than 900,000 vehicles this month. That would make it one of the worst months for auto sales since the early 1980s.

Chrysler's job cuts and restructuring moves could help pave the way for a merger with GM. Any deal would create significant overlap between the two companies. A Chrysler spokesman, however, said the white-collar job cuts were prompted by the deep downturn in U.S. auto sales and "are not driven by external" discussions with GM. Chrysler declined to comment on any merger discussions and referred questions to Cerberus. GM has consistently declined to comment on speculation related to a merger with Chrysler.

Besides a merger with GM, Cerberus is also considering having Chrysler join the alliance of Japan-based **Nissan Motor** Co. and French car maker **Renault** SA.

In a letter to employees, Chrysler Chief Executive Robert Nardelli said the cuts are necessary because of the economic downturn and the tightening credit situation, which are choking off auto sales.

Mr. Nardelli said the company is facing the "most difficult economic period any of us can remember."

Over the past three years, the Big Three auto makers have racked up billions of dollars in losses and cut about 100,000 jobs while struggling to respond to rising gasoline prices and declining sales. But the deepening of the financial crisis and fears of recession in the past few weeks have pushed Detroit and the state of Michigan to a new level of peril.

The work-force reduction that Chrysler announced Friday follows 1,000 job cuts in September. Chrysler employees said an email announcing the job reductions arrived after they had started work Friday.

Volvo and Scania orders retreat

BY OLA KINNANDER

STOCKHOLM—Truck makers **Volvo** AB and **Scania** AB on Friday reported a sharp slowdown in third-quarter earnings growth and pointed to a gloomy outlook as the global financial crisis sapped demand for heavy vehicles.

Europe, Sweden-based Volvo and Scania's biggest market, showed a steep drop in demand. Volvo's order intake in Europe screeched to a halt, falling to just 115 trucks from 41,970 a year earlier, because it had almost as many cancellations as original orders.

Shares in truck companies fell sharply, with Volvo down 21% and Scania 14%. Shares in **MAN** AG, due to report earnings in the coming week, fell 11%. Shares in the world's biggest truck maker by unit sales, **Daimler** AG, fell 12%.

Volvo, which makes heavy-duty trucks under brands such as Renault and Mack, as well as its own name, said net profit fell 37% to 1.98 billion Swedish kronor ($249.7 million) from 3.12 billion kronor a year earlier, missing analyst expectations.

The earnings were weighed down by significantly higher raw-material costs. Additionally, the company's research-and-development expenses rose 32% to 3.43 billion kronor in preparation for new emissions legislation being introduced over the next few years in several markets.

Volvo's revenue rose 1.8% to 69.6 billion kronor from 68.37 billion kronor. Its order intake for trucks globally dropped 55% to 32,072 vehicles.

The big disappointment was Volvo's construction-equipment unit, said Handelsbanken Capital Markets analyst Hampus Engellau. Volvo's earnings came a day after the construction-equipment division said it will lay off 850 more employees in Sweden because of a global slowdown, on top of the 500 job cuts it announced a few weeks ago. The division has been hurt by a rise in prices for raw materials, such as steel.

Scania

Out of control

52-week share performance of Swedish car and truck makers

Source: Thomson Reuters Datastream

Smaller rival Scania fared better, though its earnings still missed analyst forecasts. It reported a 3.6% rise in third-quarter net profit to 1.82 billion kronor, compared with 1.75 billion kronor a year earlier. Revenue rose 2.6% to 20.43 billion kronor from 19.91 billion kronor.

Order bookings globally fell 38% to 11,356 trucks. Scania said that in response to the falling demand, it will cut production and "use the flexibility it has with employees on temporary contracts," which make up almost 20% of its work force.

Looking ahead, Volvo lowered its full-year forecast for truck demand, saying it expects the European market to grow between 0% and 5% in 2008 compared with 2007, while the North American market is expected to decline about 10%.

Volvo Chief Executive Leif Johansson said the grim picture painted in the third quarter hasn't eased this month. "Nothing good has happened in October. It's more of the same," he said.

Scania's CEO, Leif Oestling, echoed the downbeat sentiment, saying customers in Europe were delaying placing orders. Order bookings fell in Europe, including Russia, but remained strong in Latin America and Asia, he said.

Scania still forecast an increase in earnings in 2008 but Mr. Oestling said the situation beyond that was unclear.

The comments come a day after Daimler said it expects to sell more trucks in 2008 than in 2007, driven by demand in Brazil, Indonesia and the Middle East. However, Daimler warned that growth is slowing in Europe, while U.S. and Japanese sales will be lower.

Porsche has almost 75% of VW, aims for control

BY CHRISTOPH RAUWALD

FRANKFURT—**Porsche Automobil Holding** SE on Sunday said it had a near-75% stake in **Volkswagen** AG, a much larger stake than the market expected, and said it wanted to tighten its grip on Volkswagen with a so-called domination agreement that would give it access to Volkswagen's cash flows.

Porsche announced it had control of 31.5% of Volkswagen through cash-settled options in addition to the 42.6% of shares it currently holds, leaving it just 0.9% short of the 75% level needed to log Volkswagen's revenues and assets in its own books.

Wendelin Wiedeking

Previously, Porsche's Volkswagen stake was known to be 35.14% plus an undisclosed number of options.

"The target is to raise this to 75% in 2009, so long as the economic conditions permit, and pave the way for a domination agreement," Porsche said.

A domination agreement under German law requires the control of at least 75% of a company's voting rights at a shareholder meeting.

A spokesman for Volkswagen said the auto maker expected the move and continues to welcome Porsche's investment.

Porsche said it disclosed the size of its stakeholding after it became clear that there were more short-sellers in the market than it expected, who now get the chance to clear their positions without any major risk.

Investors betting on Volkswagen's share price to fall have triggered huge share-price movements recently. The volatility of Volkswagen's shares was partly because of its small freefloat, as the German state of Lower Saxony still controls slightly more than 20% of the voting rights.

Porsche's announcement Sunday makes it clear that barely 5% of the shares are in free float.

Volkswagen's labor unions said they "fiercely oppose" Porsche efforts to achieve a domination agreement. "It would be a catastrophe for the more than 360,000 employees of Volkswagen if managers who trample on workers' rights take over control at this company," said Volkswagen's top labor representative and supervisory board member, Bernd Osterloh, in a statement.

Meanwhile, Porsche said Friday that the rift between its owners, the Piëch and Porsche families, has been resolved, and both families now fully support Porsche Chief Executive Wendelin Wiedeking's plan to take over Volkswagen.

Last month, Volkswagen Chairman Ferdinand Piëch abstained from a crucial board vote, allowing labor representatives to push through a measure that could have hindered Porsche's takeover plans. Under the measure, Porsche would need approval from Volkswagen's supervisory board for any cooperation deal between it and Volkswagen's Audi AG luxury-car unit.

Mr. Piëch's abstention surprised his cousin Wolfgang Porsche, who is chairman of Porsche's supervisory board and also serves on VW's supervisory board. In addition, it caused confusion about the plans of the Porsche and Piëch families, which control 100% of the voting rights in the sports-car maker.

Mr. Porsche said in a statement Friday that the "committee for special business connections" formed by the board vote could be dissolved at the next meeting of Volkswagen's supervisory board, the equivalent of a U.S. board of directors. Mr. Porsche added that Mr. Piëch backs the move to disband the committee.

"It wasn't in the interest of Ferdinand Piëch if there were uncertainties about the joint goal of the families regarding the stakeholding in VW," Mr. Porsche said.

Mr. Piëch, previously Volkswagen's chief executive, has close ties with the car maker's labor unions. His support is crucial for Porsche's plan to take over at Volkswagen, Europe's biggest auto maker by sales.

—David Pearson and Ola Kinnander contributed to this article.

European auto makers slice output amid financial crisis

BY LEILA ABBOUD, STACY MEICHTRY AND MIKE ESTERL

PARIS—As the economic crisis crimps global appetite for new cars, European auto makers announced plans to slash production through year end lest they remain saddled with too much inventory.

The expected slowdown in output—a clear sign of consumers' and businesses' grim outlook amid the financial crisis—is likely to reverberate throughout the continent's auto-supplies and -services sector.

Italian tire maker **Pirelli** SpA is planning to accelerate efforts to shift the bulk of its production to the Middle East and Eastern Europe, where labor is cheaper than in the West, as slumping car sales force the company to cut costs faster than expected. "What you would have done over 24 months, now has to be done in six," Pirelli Chairman Marco Tronchetti Provera said in a telephone interview.

Renault SA and PSA **Peugeot-Citroën** Friday announced factory stoppages to ratchet down production by 20% and 30%, respectively. Renault plans to halt two assembly plants in France for two weeks starting Monday, and scheduled week-long closures at four other plants as well. PSA scheduled work stoppages across its factories in France, Spain and Romania, including a 15-day break at its Madrid plant and a 13-day break in Sochaux, France.

"We have reacted very swiftly to this market collapse with exceptional measures to cut production, even though this is obviously detrimental to our 2008 operating margin," PSA Chief Executive Christian Streiff in a statement.

CORPORATE NEWS

Refineries plan to pare output as profits pinch

By Ana Campoy

As falling gasoline prices squeeze refining profits, there are signs that refiners are ratcheting back production to pare losses.

Gasoline output, which had been expanding as U.S. refineries came back online after hurricane-related shutdowns, dropped for the first time in weeks, according to data reported last week from the U.S. Department of Energy. Philadelphia refiner **Sunoco** Inc. said last week that it is shutting down a unit used in gasoline production at one of its refineries, though it declined to say why.

"It makes no sense to be running [equipment] if they're not making any money," said Daniel Katzenberg, an analyst at Oppenheimer & Co.

Following oil prices down, the cost of gasoline tumbled to a national average of $2.699 for a regular gallon (about 71 cents per liter) Sunday, far from its high of $4.114 in July, according to the auto club AAA. That has brought relief to consumers and businesses nationwide—but not refiners.

The business of processing crude oil into gasoline suffered earlier this year as oil prices skyrocketed to $145 a barrel in July. Refiners were unable to pass on the higher cost to consumers who balked at paying record-high prices at the pump. Refining profit margins collapsed, and many companies resorted to production cutbacks, making for some of the lowest operating rates at U.S. refineries in years.

But the refining business isn't faring much better now that oil prices are lower, because gasoline prices have dropped at a faster pace. Over the past three weeks in the U.S. Gulf Coast spot market, gasoline cost an average $1.86 a barrel less than crude oil, according to data compiled by Muse, Stancil & Co., a consulting firm specializing in the energy industry. With prices at those levels, refiners lose money with each barrel of crude oil they process into gasoline.

If that continues, gasoline inventories likely will shrink, which could eventually pressure gasoline prices higher, say analysts. So far, though, slacking production hasn't put the brake on falling prices. Since Wednesday, gasoline prices have dropped 16 cents a gallon, and by Sunday were 14 cents less than what they were at this time last year, according to AAA.

The auto club expects prices to keep falling in coming weeks, reaching $2.50 before the end of November and possibly dipping lower by the end of the year.

A spike in oil prices or a surge in gasoline demand could throw off that forecast. But crude-oil prices continue to fall, dropping nearly $4 to $64.15 a barrel Friday despite a decision by the world's major oil exporters to slash oil production. Although demand for gasoline has ticked up in the past couple of weeks, it remains well below last year's levels.

"We're certainly looking at further weakness," said Stephen Schork, president of the oil-and-gas firm Schork Group. He expects gasoline prices to go up, but not until the first quarter of next year.

GE will reduce expenses and jobs

Focus will be placed on manufacturing amid economic crisis

By Paul Glader

General Electric Co. is cutting costs, preparing for a new wave of regulation from Washington and embracing manufacturing over financial services as ways out of the economic crisis, its chief executive said Friday.

"Costs will be lower in 2009 than in 2008," Chairman and CEO Jeffrey Immelt said in an interview. Employment also will be lower, he said, declining to provide numbers or percentages.

GE's NBC Universal business group recently announced cuts totaling $500 million, including curbs on travel and other expenses. Mr. Immelt said he hasn't issued company-wide edicts for hiring freezes and travel restrictions but has identified these measures as possible cost-saving tools for business heads.

In a separate interview Friday, Charlene Begley, the company's president and CEO of enterprise solutions, said her unit, with $5 billion in revenue and 17,000 employees, has imposed a hiring freeze and is limiting travel to customer visits and closing deals.

Meanwhile, GE Money said Friday that it plans to exit some of its operations in Australia and New Zealand as the fallout from the global credit crunch continues to weigh on the GE unit.

GE Money said it will stop offering home loans through third parties, such as mortgage brokers, and will exit its motor-finance and small-business-finance operations in Australia and New Zealand. The move won't affect its retail-store-finance, credit-card, personal-loan and insurance businesses in the two countries, it said.

"This is a result of the extreme volatility and greatly increasing cost of funds on the global and local wholesale markets," GE Money said.

The decision will result in about 335 positions being made redundant over the coming 12 months. GE Money employs about 4,500 staff in the two countries.

GE, based in Fairfield, Conn., has been hit hard by the financial crisis, particularly in the company's finance unit, which last year generated more than 40% of corporate profit. Last month, it announced plans to trim the finance unit, but Mr. Immelt said Friday that GE would remain active in areas such as loans to restaurant franchisees and companies under bankruptcy protection. He said new loans in those areas would decline this quarter, but not to zero.

"We're the only competitor here. Many banks have disappeared," he said in the interview at a social-enterprise conference at Columbia Business School in New York.

Mr. Immelt played down the fear of an economic slowdown in China, which recently saw its gross-domestic-product growth slip to 9% from 11%. "I think growth in China is going to slow because it's an export (driven) market," he said, adding the slowing won't be catastrophic.

CORPORATE NEWS

PNC buys National City

Deal illustrates push by U.S. to rid nation of its weakest lenders

BY DAN FITZPATRICK, DAVID ENRICH AND DAMIAN PALETTA

In a sign that the federal government wants to rid the U.S. banking industry of some of its weakest players, regulators pushed **National City** Corp. into a $5.08 billion sale to **PNC Financial Services Group** Inc., people familiar with the situation said.

Friday's announcement came a week after National City was told by its primary banking regulator, the Office of the Comptroller of the Currency, that the Cleveland bank shouldn't expect to get any of the $250 billion in capital being pumped into U.S. banks by the government.

"An M&A deal is your only alternative," John Dugan, head of the OCC, said to National City Chief Executive Peter Raskind, according to people familiar with their discussions. Over the next several days, Mr. Dugan was heavily involved in the sale process.


John Dugan

The deal shows the federal government is using the taxpayer-funded rescue plan as ammunition to force weak banks into the arms of stronger ones. While government officials previously said they hoped the Troubled Asset Relief Program would encourage banking consolidation, the National City deal reflects a wider regulatory triage of the banking industry.

Underscoring the potential fallout for banks that are shut out of the federal money, the government reversed course on a plan to announce Friday that more than 20 additional banks would receive infusions as part of the rescue plan, people familiar with the matter said. Now, the Treasury Department has decided to let banks individually announce that the government will invest in each.

The about-face will give financial institutions not on the list more time to try to raise capital from outside investors or line up a buyer, these people said. Among the banks that were going to be included on the list were **Capital One Financial** Corp. and **SunTrust Banks** Inc.

Analysts and bankers have been drawing up their own inventories of institutions that could be destabilized even further once it is clear that they will get no federal aid. Especially vulnerable are dozens of regional banks that were badly wounded when the housing bubble burst and have little appeal to healthier banks.

The government's list "will underscore the differentiation between the 'haves' and 'have-nots,'" said Morgan Keegan & Co. banking analyst Robert Patten.

Pushed to the altar

The U.S. government has facilitated the takeovers of several financial institutions this year.

Date	Seller	Buyer	Government role
March 16	Bear Stearns	J.P. Morgan Chase	Fed provided loan, backstopped some Bear losses
Sept. 25	Washington Mutual	J.P. Morgan Chase	Regulators closed thrift, sold parts to J.P. Morgan
Sept. 29	Wachovia	Citigroup*	FDIC agreed to backstop certain Wachovia losses
Oct. 24	National City	PNC	Treasury provided $7.7 billion in capital to PNC

*Wells Fargo subsequently offered to buy Wachovia without FDIC assistance, and Wachovia accepted the offer

The strong-arm sale of National City also suggests that the federal government's $700 billion bailout plan is having a much greater immediate impact on acquisition activity than it is on loan volume. The primary purpose of the aid package when it was unveiled earlier this month was to make banks more confident about lending. And Treasury Secretary Henry Paulson has told banks repeatedly that they will be expected to deploy any capital received from the government.

PNC made its formal offer for National City on Thursday night, once it was clear that the Pittsburgh bank would get government assistance. PNC will sell $7.7 billion of preferred shares and warrants to the Treasury Department to finance the stock-and-cash transaction, which is valued at roughly $7 billion less than National City's tangible book value.

Once the deal closes by year end, PNC will rank fifth-largest in the U.S. in deposits and will have 2,747 branches. Mr. Raskind will become a PNC vice chairman, while PNC CEO James Rohr will remain in that post.

National City was long viewed as a stalwart lender in the Midwest. But its gamble to become a major U.S. mortgage lender by revving up in subprime mortgages, in home-equity loans and in Florida backfired. It suffered $2.66 billion in net losses during the past nine months.

The day after the government announced its plan to invest directly in U.S. banks on Oct. 13, Mr. Raskind called Mr. Dugan, the OCC chief, and asked to set up a meeting to discuss the possibility of selling assets through TARP. "I'm happy to do that," Mr. Dugan replied, "but first I want you to explore all M&A avenues."

Though he has kept a relatively low profile in the response to the financial crisis, Mr. Dugan has said the government needs to move swiftly because of the turbulent environment.

Behind the scenes, Mr. Dugan had reached out to U.S. Bancorp CEO Richard Davis and assured him that the government would provide U.S. Bancorp with capital to finance a takeover.

On Oct. 15, Messrs. Raskind and Davis talked on the phone, and Mr. Davis expressed interest in bidding. Later that day, U.S. Bancorp made an offer that valued National City at less than half its stock-market capitalization. National City didn't like it. Two days later, Mr. Dugan warned National City that it might get no access to government capital.

Mr. Raskind was stunned, people familiar with the matter said. National City directors were furious, but Mr. Dugan reiterated his position in an email last Sunday.

U.S. Bancorp raised its offer, to about $1.30 a share from $1.10, but then Mr. Rohr called Wednesday night to say that PNC was interested. On Thursday, Messrs. Rohr and Raskind sat down in a Cleveland hotel room around 8 p.m., agreeing an hour later on a price of about $2.25 a share.

—Deborah Solomon, Peter Lattman and Robin Sidel contributed to this article.

CORPORATE NEWS

Samsung's net falls 44%

Electronics maker gives gloomy forecast for holiday quarter

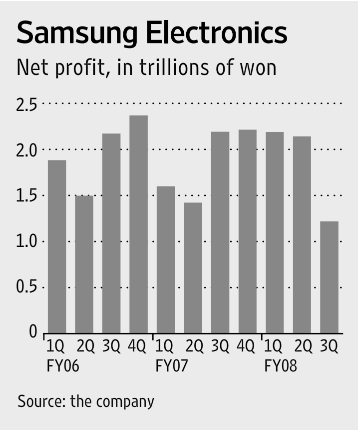
BY EVAN RAMSTAD

SEOUL—**Samsung Electronics** Co., after disclosing a 44% decline in third-quarter net profit, warned that the usual year-end boost won't be coming this year for the electronics industry.

The global economic slowdown has reduced orders for the components Samsung makes for other companies and forced it to lower prices and margins on its consumer products.

"It's become increasingly difficult to expect the high seasonality effect that's typical for the fourth quarter," said Chu Woo-sik, Samsung's chief of investor relations. The last quarter of the year usually brings the biggest revenue and fattest profit margins as demand for electronics goods is driven by year-end holidays in Western countries and retail orders ahead of new-year holidays in Asia.

Mr. Chu said Samsung may have to reduce capital spending next year. The company's gloomy outlook contributed to a 14% drop in Samsung's share price on Friday, outpacing the 11% drop on South Korea's broad-market Kospi index.



Source: the company

For the third quarter, Samsung said Friday that it earned 1.22 trillion won ($914 million), down from 2.19 trillion won a year earlier. Revenue rose 15% to 19.3 trillion won from 16.7 trillion won.

The quarter was the first since mid-2005 in which all of Samsung's four big divisions simultaneously experienced weaker operating profits.

The company's quarterly results are based on Korean accounting standards, which require only the impact of operations based in South Korea. But the company has changed the reporting of its operating divisions to consolidated accounting to reflect their global operations.

Samsung reported the biggest profit pressure in its chip division, where the industry price squeeze has been driven by factory building and production-equipment upgrades that have boosted memory-chip output.

On a consolidated basis, the division reported an operating-profit margin of 3.5%, amounting to 190 billion won. That is down from a margin of 16.3% a year earlier and 5.7% in the second quarter.

Samsung's cellphone business, its largest by revenue, reported an operating-profit margin of 9.5%, down from 12.8% a year earlier and 11.3% in the second quarter.

The flat-panel division, which makes liquid-crystal displays, reported an operating-profit margin of 12%, down from 20.3% a year earlier and 26.6% in the second quarter.

Samsung's consumer-electronics-products division recorded an operating loss of 50 billion won, compared with an operating profit of 270 billion won a year earlier.

Suzlon is facing more questions

BY TOM WRIGHT

India's **Suzlon Energy** Ltd., the world's fifth-largest wind-turbine maker by unit sales, is facing additional questions about its technology after a 43-meter-long blade broke off a tower in Illinois.

News of the blade detachment, at a project financed by **Deere** & Co., drove Suzlon's shares down 39% to 47.25 rupees, or 97 U.S. cents, Friday in Mumbai trading.

The accident is the latest in a series of cracking windmill blades and other technical problems in the U.S. and India that have hurt Suzlon's image. The share-price decline Friday also reflected investor concerns that Suzlon will be unable to raise the money it needs in coming months to fund an ambitious global expansion plan and may be forced to sell assets, analysts said.

In a statement, Suzlon said the Illinois incident was "extremely rare and unusual." The company added, "Other turbines owned by that customer and our other customers at various locations in the U.S. are operating without interruption." It gave no further details.

Richard Schertz, a farmer from near Wyanet, Ill., said he found the blade in one of his cornfields Tuesday. **Stewardship Energy** LLC, an Illinois-based wind-farm developer, began operating four 2.1-megawatt Suzlon turbines on Mr. Schertz's and a neighbor's farmland in mid-2007. The project was financed by John Deere Wind Energy, a unit of Deere, according to Stewardship Energy's Web site. A spokesman for Deere didn't respond to requests for comment.

Earlier this year, Suzlon, of Pune, India, said it would strengthen or replace 1,251 blades—almost the entire number it has sold to date in the U.S.—after cracks were found on more than 60 blades on turbines run by Deere and Edison International's Edison Mission Energy.

To overcome its technology problems, Suzlon has moved to take over big European wind-turbine and component producers. But investors are increasingly worried about Suzlon's plans to raise $390 million by mid-December to complete its $1.7 billion takeover of **REpower Systems** AG, a German wind-turbine producer, analysts said. Suzlon had lined up euro-denominated bank loans for the purchase before the credit crisis but late last month said it was instead planning a rights issue to raise the cash, sparking a major drop in its share price.

Hanwha wins Daewoo bidding rights

BY KYONG-AE CHOI

SEOUL—State-run **Korea Development Bank** said Friday it has selected **Hanwha Group** as the preferred bidder for a stake in **Daewoo Shipbuilding & Marine Engineering** Co., as Hanwha was expected to have little difficulty securing funding.

KDB didn't disclose the bid price offered by Hanwha, a conglomerate based in South Korea with interests including finance, travel and explosives. But a person familiar with the matter said the price is more than six trillion won ($4.2 billion).

A controlling 50.4% stake in Daewoo Shipbuilding has been for sale for the past seven months. Hanwha's sole competitor was **Hyundai Heavy Industries** Co.

A consortium of steelmaker **Posco** and oil company **GS Holdings** Corp.—both of South Korea—submitted a bid on Oct. 13, but GS dropped out a few hours later, saying it found Posco's bid price to be "too aggressive." Posco tried to continue with the bid alone but KDB blocked it.

After signing a memorandum of understanding with KDB within a week or 10 days, Hanwha will conduct due diligence on the shipbuilder for three to four weeks in November, said Chung In-sung, KDB's senior executive director.

"Hanwha will make an initial payment of 5% of its bid price when it signs the MOU and makes a second payment of 10% of the possibly revised price in December," said Kim Yoon-tae, general manager of KDB's Mergers-and-Acquisitions Department. He said the remaining contract money will be fully paid in December after a final contract is signed.

Shares in **Hanwha** Corp. and **Hanwha Chemical** Corp. plummeted by the daily limit of 15% to 52-week lows of 17,000 won and 5,200 won, respectively, because of investor funding concerns. Daewoo Shipbuilding also sank by the daily limit of 15% to a 52-week low of 11,000 won, in line with the benchmark Kospi's 11% loss.

KDB said it will "positively consider" National Pension Service's participation in the Hanwha consortium as a financial investor if Hanwha teams up with NPS and it doesn't cause any legal problems. NPS said it currently has no plans to join the Hanwha consortium.

Hanwha said it will raise the funds through an injection of about two trillion won in cash, asset sales and foreign investment, without elaborating.

Currently, Hanwha spokesman Ju Cheol-beom said, "two foreign financial investors are part of the Hanwha consortium and three others have recently contacted us to invest in the shipbuilder." Hanwha's consortium also includes three group affiliates: Hanwha Chemical, Hanwha Corp. and unlisted Hanwha Engineering & Construction.

Daewoo Shipbuilding declined to comment.

GLOBAL BUSINESS BRIEFS

Ahold NV

Food retailer's sales climb amid Netherlands strength

Dutch food retailer **Ahold** NV on Friday posted a 3.9% increase in third-quarter sales thanks to a strong performance in its home market. Sales rose to €5.81 billion ($7.79 billion) from €5.59 billion a year earlier. At the retailer's Stop & Shop and Giant-Landover chains in the U.S., sales increased 6.4% to $5 billion from $4.7 billion. When converted into euros, however, U.S. sales fell 1.7%, because of a weak dollar for much of the period. At Albert Heijn, Ahold's supermarket chain in the Netherlands, sales rose 12% to €2.03 billion. Two years ago, Ahold started a major overhaul of its U.S. operations in an effort to lure back customers to its stores in the Northeast by permanently lowering prices and ditching temporary product promotions.

Kia Motors Corp.

Kia Motors Corp.'s net loss narrowed for the third quarter, helped by a weaker won and new models. The auto maker reported a net loss of 22.1 billion won ($15.5 million), compared with a loss of 55.1 billion won in the year-earlier quarter, as "the weak won pushed up foreign-currency denominated debts in the third quarter." Kia, 39%-owned by **Hyundai Motor** Co., reported an operating profit of 53.7 billion won in the latest quarter, compared with a year-earlier operating loss of 116.5 billion won. Sales rose 4.9% to 3.427 trillion won from 3.268 trillion won. The company posted an operating profit for a fourth consecutive quarter, helped by sales of the Morning mini car and the Lotze midsize sedan.

Banco Popular Español SA

Banco Popular Español SA Friday said that third-quarter net profit fell 11%, weighed down by a sharp rise in loan-loss provisioning because of souring loans. Net profit fell to €281.7 million ($354.5 million) from €316.1 million a year earlier even though net interest income rose 8.9% to €640.7 million from €588.5 million. However, the Madrid-based bank said its nonperforming loans rose to 2.19% of total loans at the end of the third quarter, up from 1.42% in the second quarter and 0.77% a year earlier. Loan-loss provisions meanwhile more than doubled to €144.4 million from €60.8 million. Popular—burned earlier this year by big exposures to bankruptcies in the real-estate sector—said it had become much more cautious about lending.

Hindustan Unilever Ltd.

Hindustan Unilever Ltd. said Friday its fiscal third-quarter net profit rose 34% from a year earlier, helped by robust demand for its personal-care products, soaps and detergents, and a one-time gain from the sale of properties. The company, India's largest consumer-goods maker by sales, said net profit for the July-September period was 5.47 billion rupees ($109.9 million) compared with 4.08 billion rupees a year earlier. Sales rose 20% to 40.28 billion rupees from 33.65 billion rupees. Input-cost inflation, especially crude-oil-based, peaked during the quarter. An aggressive cost-savings program and an increase in prices helped fully offset the impact, the company said. The company has faced cost pressures from high vegetable and crude-oil prices.

Hitachi Ltd.

Hitachi Ltd. raised its group operating-profit estimate for the fiscal first half ended in September, supported by its system-integration system and hard-disk-drive businesses. The upward revision Friday contrasts with other electronics companies, which cut their earnings forecasts amid a global economic slump. Hitachi wouldn't discuss prospects for the fiscal full year ending in March, saying it is assessing the impact of the financial crisis and the strengthening yen on the latter half of the fiscal year. The electronics maker said its operating profit for the April-September period likely rose 62% from a year earlier to 197 billion yen ($2.08 billion).

Nissin Food Products Co.

One of Japan's largest instant-noodle makers issued a nationwide recall after a woman grew sick eating a cup of noodles later found to be tainted with an insecticide. **Nissin Food Products** Co. advised customers not to eat noodles that had an odd smell or damaged packaging. The recall only applies to the Cup Noodle brand of instant noodles in Japan. Nissin President Susumu Nakagawa said the noodles couldn't have been contaminated at his company's factories. "We have confirmed that the chemical is not and has not ever been used in this product," he said Thursday. This year, Japan has been hit by several incidents involving tainted food.

Tata Steel Ltd.

India-based **Tata Steel** Ltd. said unconsolidated net profit for its fiscal second quarter rose 50% from a year earlier driven by higher sales and boosted by an increase in other income. Unconsolidated net profit for the July-September quarter was 17.88 billion rupees ($359.2 million), against 11.91 billion rupees a year earlier, while sales rose 41% to 67.44 billion rupees from 47.85 billion rupees a year earlier. The results don't include the financial performance of Tata Steel's other units, such as Corus. The company's other income nearly tripled to 2.38 billion rupees for the quarter. Total costs, however, rose to 39.17 billion rupees from 30.21 billion rupees.

China Minsheng Banking

China Minsheng Banking Corp. said Friday its third-quarter net profit rose 74% from a year earlier amid steady loan growth. The bank reported a net profit for the three months ended Sept. 30 of 2.6 billion yuan ($379.9 million), up from 1.49 billion yuan a year earlier. Its net interest income was 22.81 billion yuan. The lender didn't provide the year-earlier figure. Total deposits rose 18% to 789.22 billion yuan at the end of September from 671.22 billion yuan at the end of 2007. Total outstanding loans rose 14% to 631.42 billion yuan from 554.96 billion yuan. As of Sept. 30, the bank's nonperforming-loan ratio was 1.22%, up from 1.21% at the end of June.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

DENMARK

Central bank increases rate to defend currency

Imagine

DENMARK'S central bank Friday raised its key policy rate for the second time this month, increasing its key lending rate to 5.5% from 5% in a move to support the Danish krone, which is pegged to the euro.

While many countries cut rates to help their economy, Denmark's rate rise could aggravate economic weakness stemming from a falling property market. Denmark has typically moved interest rates in line with the European Central Bank to defend the exchange rate for the Danish currency, which has been pegged to the euro since 1999. But Friday's move marks the third time this month and fourth this year that the pattern has been broken. *—Joel Sherwood*

CROATIA

Prime minister pledges to catch journalist's killer

Associated Press

CROATIA'S prime minister pledged Friday to relentlessly pursue the killers of a journalist slain in a bombing, promising that no criminal would sleep calmly until the case was solved.

Prime Minister Ivo Sanader, above, convened an emergency session of the national security council to discuss the death of 47-year-old Ivo Pukanic, who owned and edited Nacional, an influential publication known for its investigative journalism. Nacional's marketing director, Niko Franjic, also died when an explosive device was placed near their car in the capital, Zagreb. The killing came just two weeks after the daughter of a prominent lawyer was shot twice in the head in the capital. *—Associated Press*

TIBET

Dalai Lama has 'given up' on dialogue with Beijing

Associated Press

THE DALAI LAMA said Saturday he has given up on efforts to convince Beijing to allow greater autonomy for Tibet under Chinese rule. The spiritual leader said he would ask the Tibetan people to decide how to proceed on the dialogue.

China has repeatedly accused the Dalai Lama, above, of leading a campaign to split Tibet from the rest of the country. The Dalai Lama has denied the allegations, saying he is seeking greater autonomy for the region to protect its unique Buddhist culture.

"There hasn't been any positive response from the Chinese side," he said. "As far as I'm concerned I have given up." *—Associated Press*

Focus is on income gap, even as it narrows

Inequality a hot topic for U.S. candidates; stocks' fall hits rich

By Robert Frank

ECONOMIC INEQUALITY has become a hot-button issue on the presidential-campaign trail, with Sens. John McCain and Barack Obama sparring about spreading the wealth in America. Yet even as the rhetoric about inequality is rising, inequality itself is falling, economists say.

The reason: The financial crisis is draining the rich of some of their riches.

THE OUTLOOK

Over the past week, the McCain campaign attacked Sen. Obama as "the wealth spreader" for his now-famous remark to "Joe the Plumber" that, "I think when you spread the wealth around, it's good for everybody." Sen. McCain also likened his Democratic rival's tax plan to socialism, because it would raise taxes on those making more than $250,000 and lower taxes, or keep them level, for the middle class.

"You see," Sen. McCain said in a recent radio address, "he believes in redistributing wealth, not in policies that help us all make more of it."

Sen. Obama, who made the growing U.S. wealth chasm a pillar of his campaign from the start, argues for more-progressive tax policies that would shrink that gap and allow more Americans to share in the country's economic gains. Campaigning in Florida last week, he said Sen. McCain's tax plans—like President George W. Bush's—would "give more and more to those with the most, and hope prosperity trickles down to everyone else."

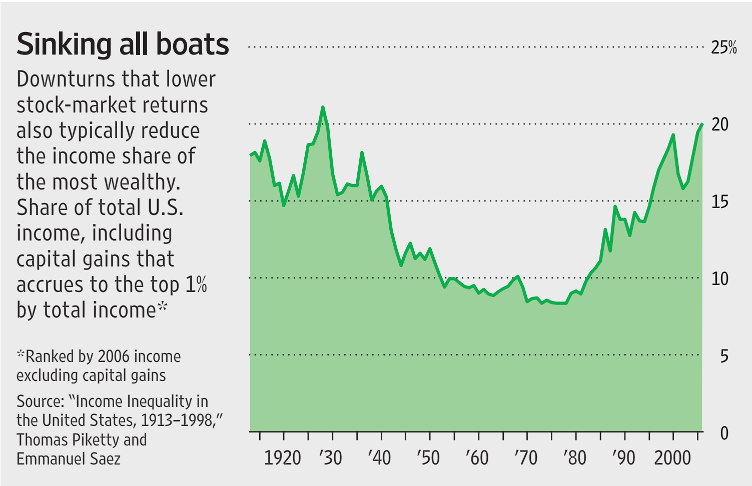
But the debate over rich-versus-poor ignores the sudden changes likely to result from the financial crisis. If history is any guide, the upheaval already is shrinking inequality and could continue to narrow the wealth gap.

The share of income held by the richest 1% of Americans has declined during each of the past three downturns. Between 2000 and 2002, their share fell to 16.9% from 21.5%, according to Internal Revenue Service income data compiled by economists Emmanuel Saez and Thomas Piketty.

Their share also fell during the 1990 recession, hitting 13.4% in 1992 compared with 15.5% in 1988. The steepest decline was during the Great Depression, when the richest 1% saw their share of income plunge to 15.5% in 1931 from 23.9% in 1928.

"The Depression may be the best analogy for today when it comes to what will happen with income shares," said Mr. Saez, an economics professor at the University of California, Berkeley. He predicts the share of income held by the top 1% will probably fall to 18% or 19% in the next year or two—down from an estimated 23% or 24% in 2007.

During the Depression, the assets of the wealthy declined along with their incomes. In 1928 the richest 1% held 36.5% of the nation's wealth: by 1932 it shrank to 28%.



Studies by other economists and researchers show similar declines.

The main reason for the declines: Falling stock values. The wealthiest Americans have a greater share of their wealth concentrated in stocks and financial assets. When stocks plunge, as they have lately, the rich are hit disproportionately.

The wealthiest 1% of Americans held more than half the nation's direct holdings of publicly traded stocks in 2004, according to the Federal Reserve. Stocks accounted for 11% of their wealth, compared with less than 3% for Americans in the 50th to 90th percentiles. The rich also earn more of their incomes from stock options.

Of course, the rest of America also is losing wealth and income—from falling home prices, rising unemployment and declining 401(k) accounts. But rising inequality has largely been fueled by surges at the top, and without capital gains or soaring business profits, those gains will reverse.

Robert J. Gordon, an economist at Northwestern University, says job losses in finance—which accounts for an outsize share of wealthy income earners relative to other industries—also will shrink the income and wealth share of the rich. Government limits on compensation imposed by the federal economic-bailout plan also could have a mild impact, he said.

So could a narrower wealth gap become the silver lining of the crisis? "Only if you don't like rich people," says Len Burman of the Tax Policy Center. "It's not like their share decline brings improvements for the middle class or the rest of America."

The bigger question is whether the falling fortunes of the rich and the coming decline in inequality will alter plans to tax the wealthy more. Some Democrats in Congress are urging Sen. Obama to go even further with his plan to raise taxes on the wealthy if he becomes president. That will become harder if the wealthy have diminished assets.

U.S. could add to downbeat data with GDP report

By Brenda J. Cronin

The U.S. government releases its first estimate of third-quarter economic output Thursday, and it is likely to fit in with the dismal landscape.

After a raft of dispiriting data earlier this month, many economists lowered their forecasts for the nation's gross domestic product, predicting contractions in the second half of the year as well as flat or contracting GDP for the first half of 2009.

Even before the most recent bad news, a host of conditions, including declining household wealth and tightening credit, "conspired to bring consumer spending and GDP growth to right around zero," said Ben Herzon, of Macroeconomic Advisers. "That's how we started the month." The firm's predictions moved negative after grim updates on retail sales, business inventories and industrial production.

Macroeconomic Advisers estimates third-quarter GDP declined at an annual rate of 0.6% and forecasts that fourth-quarter GDP will decline at an annual rate of 2.2%. Mr. Herzon noted that deteriorating financial conditions could send the fourth-quarter forecast lower still.

Other economists see GDP contracting or flat through the first half of 2009. This year, GDP rose at a 0.9% annual rate in the first quarter and 2.8% in the second, on brisk exports and consumer spending.

Many economists peg the beleaguered consumer as the source of the weakness. Personal consumption is the largest GDP component, accounting for more than 70% of the total.

"There are so many strains against consumers," said Michelle Meyer, of Barclays Capital, citing declining home prices and equity as well as a weakening labor market. "One thing helping the consumer is a reduction in commodity costs. That's some offset, but we don't think it's enough."

Barclays Capital forecasts the U.S. economy will contract for three consecutive quarters, starting in the third quarter of 2008.

According to the Commerce Department, the U.S. last posted real negative GDP for an entire year in 1991, when it contracted at an annual rate of 0.2%. In 2007, GDP rose 2% from the previous year. The slightest annual real GDP gain this decade was 2001's 0.8% increase from 2000.

Two consecutive quarters of declining output would place the economy squarely in what many consider a recession. However, the official designation must come from the National Bureau of Economic Research. The group tracks five key gauges, including GDP—a volatile and frequently revised figure—as well as industrial output, employment, income and sales, to identify a recession.

Domestic and international action such as making capital injections into financial institutions may have a salutary—but far from immediate—effect. Even if the measures succeed in getting banks lending and consumers spending, considerable downside risks persist. A stimulus package—following the one during the first half of 2008—may help, but a draft palatable to lawmakers and the White House will take time. Until mid-2009 at the earliest, there is little relief in sight.