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A huge London mall opens as U.K. economy slides
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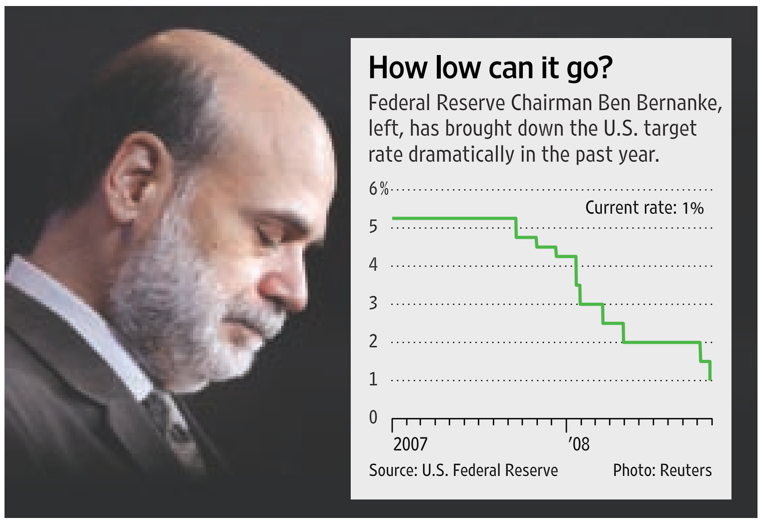
Polls suggest tightening in U.S. battleground states
ECONOMY & POLITICS | PAGE 9

Central banks cut rates; more trims on horizon

U.S., Norway, China make latest moves to battle credit crisis



Central banks around the world have unleashed a new assault on the global economic downturn, with authorities in the U.S., China and Norway announcing interest-rate cuts and several others lining up to follow in the days ahead.

The U.S. Federal Reserve, already more than a year into a rate-cutting campaign that has been more aggressive than any other central bank's, pushed its benchmark federal-funds rate down half a percentage point to 1%. It also signaled that more rate cuts are a possibility, noting that "downside risks to growth remain."

By Jon Hilsenrath, Joellen Perry and Takeshi Takeuchi

The Fed has now pushed rates back to a low last reached more than a year after the 2001 recession ended, when slow growth and fears of deflation, or widespread falling consumer prices, preoccupied policy makers.

With the U.S. economy still deteriorating, lower rates and other actions by the Fed and other U.S. policy makers look like a strong possibility. Should rates go even lower now, they could hit levels not seen

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What's News—

Business & Finance

Three nations' central banks cut interest rates, including the U.S. Fed, which pushed its benchmark down to 1%. China and Norway also made moves, and several others are expected to follow in the days ahead to try to stem the economic downturn. Page 1

■ **The U.K. bailout plan,** used as a global model, is looking increasingly expensive for the British government. Page 2

■ **Hypo Real Estate** became the first publicly traded bank to try to tap a German government bailout package. Page 2

■ **Russia approved** nearly $10 billion in loans, the largest to Rusal, in a move to prevent foreign creditors from seizing Russian assets as collateral. Page 3

■ **European shares jumped** on hopes for another round of global interest-rate cuts. U.S. stocks remained volatile after the Fed cut rates. Pages 19, 20

■ **VW shares fell** 45% as Porsche said it plans to sell up to 5% of its options linked to the car maker's common shares. Page 6

■ **Royal Dutch Shell named** Chief Financial Officer Peter Voser to succeed Jeroen van der Veer as CEO in July. Page 32

■ **Italian Premier Berlusconi** said the government was prepared to commit funds to help the banking sector. Page 3

■ **GM's third-quarter sales fell** 11% as U.S. and Western European business slumped. Page 6

■ **China cut rates** for the third time in six weeks, intensifying efforts to shore up confidence as the global slowdown takes an increasing toll. Page 12

■ **Lazard swung to a loss** as it took a charge related to its purchase of the 23% of its asset-management business it didn't already own. Page 21

■ **Branson's desire** to link up his Virgin Atlantic airline with BMI grew more ambitious as Lufthansa agreed to take a controlling BMI stake. Page 21

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8990.96	-74.16	-0.82
Nasdaq	1657.21	+7.74	+0.47
DJ Stoxx 600	213.72	+14.28	+7.16
FTSE 100	4242.54	+316.16	+8.05
DAX	4808.69	-14.76	-0.31
CAC 40	3402.57	+287.65	+9.23
Euro	$1.2860	+0.0382	+3.06
Nymex crude	$67.50	+4.77	+7.60

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World-Wide

Hungary's $25 billion bailout by the IMF, EU and World Bank lifted many Eastern European currencies and financial markets, as investors grew more confident that emerging markets around Europe's periphery could avoid a financial meltdown. But concerns remain about the economic outlook in Hungary and elsewhere. Page 1

■ **An earthquake struck** in southwestern Pakistan, killing at least 170 people. The toll could rise as rescuers dig for survivors in a remote valley in Baluchistan where the magnitude-6.4 quake struck. Page 9

■ **A wave of suicide bombings** killed over 20 people in northern Somalia, as international leaders held talks on ending decades of turmoil in the nation.

■ **Congolese rebels reached** the outskirts of Goma and declared a cease-fire, as more government soldiers retreated. The EU sent an aid envoy. Page 9

■ **Syria hardened** its stance against the U.S., threatening to cut off cooperation on Iraqi border security and demanding an apology for a cross-border raid.

■ **Iraq said it wants** a security deal with the U.S. to include a ban on American troops launching attacks across its borders.

■ **Pakistan demanded an end** to U.S. missile strikes on Islamic militants along the Afghan border, the latest sign of rising tension between the allies. Page 9

■ **Students clashed** in cities across Italy as lawmakers approved changes to school policy.

■ **A Canadian man was found** guilty of ties to a group that plotted to bomb British buildings and natural-gas lines.

■ **New polling suggests** that Obama's lead against McCain is narrowing in the battleground states of Ohio and Florida, but not in Pennsylvania. Page 9

■ **Beijing said it will organize** a third round of meetings with the Dalai Lama. Page 12

■ **China issued** a policy on climate change and said rich nations should pay poorer countries for clean-up costs. Page 12

■ **Comedian Russell Brand** resigned from his BBC radio show over offensive voicemails.

Editorial & Opinion

Bonus material
Banks must change their incentive structures before government does it for them. Page 14

Reuters

U.S. presidential candidate **Barack Obama**'s campaign and Democratic lawmakers have begun plotting strategy to be prepared if the Illinois senator wins the election.

Democrats move to shape Obama's legislative agenda

By Jonathan Weisman

U.S. Democrats inside Sen. Barack Obama's circle of advisers and in Congress are jockeying even before Tuesday's election to shape an Obama administration's legislative agenda and define "Obamanomics," a concept he himself has left vague over the campaign.

Sen. Obama has been able to win support by convincing voters he could simultaneously be a populist and a fiscal disciplinarian, that he could invest in education, energy and health care and adhere to rules that say additional spending must be more than offset by cuts or tax increases. He attacks greed and excess in Wall Street, yet reaches out to assure financial leaders he is attuned to markets.

But if Sen. Obama wins Tuesday and Democrats expand their congressional majority, the party in power will quickly have to reconcile these seeming contradictions into a legislative strategy.

Sen. John McCain and his camp are also looking toward the transition period and how he would govern with a hostile Congress. But with Sen. Obama ahead in polls and Democrats virtually assured control of the Capitol, likely with expanded majorities, the action is most intense on that side of the aisle.

"It's better to let things evolve than to revolve. Revolutions are dangerous," cautioned Rep. James Clyburn of South Carolina, the House Majority Whip, who advises a prag-

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Hungary's deal with the IMF lifts markets

Hungary's $25 billion bailout by a group of international organizations led by the IMF lifted many Eastern European currencies and financial markets on Wednesday, as investors grew more confident that emerging markets around Europe's periphery could avoid a financial meltdown.

Hungary is the first member of the European Union or its predeces-

By Marcus Walker in Berlin and Charles Forelle in Brussels

sors to need an International Monetary Fund loan since the U.K. turned to the Washington-based fund in 1976 amid a run on the pound. But it's unlikely to be the last, many economists say.

Deep concerns remain about the bleak economic outlook in Hungary and elsewhere in Europe's east. Hun-

Please turn to page 31

Support group

The IMF is discussing assistance with several countries.

- Oct. 22: Belarus requests assistance
- Oct. 22: Pakistan in talks; expected to come to terms on aid package next week
- Oct. 24: IMF pledges $2.1 billion loan to Iceland
- Oct. 26: Pledges $16.5 billion loan to Ukraine
- Oct. 28: Arranges $25.1 billion coordinated loan package for Hungary

THE WALL STREET JOURNAL.

FINANCIAL CRISIS & REPAIR

U.K.'s bank bailout gets pricier

Government to meet with small businesses on funding plans

BY SARA SCHAEFER MUÑOZ AND ALISTAIR MACDONALD

LONDON—The U.K. financial-sector bailout plan, used as a model around the world, is looking increasingly expensive for the government that launched it.

As **HBOS** PLC and **Royal Bank of Scotland Group** PLC prepare to issue new shares in a capital-raising effort underwritten by the government, the latest bout of market turmoil has sent the banks' share prices below the level at which they plan to sell them. That means private investors could be less likely to participate, potentially forcing the government to pony up the full £23.5 billion ($37.4 billion) required to buy the stakes of ordinary shares in the two banks. At Wednesday's prices, that would leave the government sitting on an immediate loss of as much as £2.3 billion. The government has committed a total of £37 billion to buy ordinary and preferred shares to raise banks' capital.

The potential added cost comes as the government already faces intense pressure about its finances. On Wednesday evening, U.K. Treasury chief Alistair Darling effectively dumped the self-imposed rules that have limited the British government's borrowing and spending, setting the stage for the government to borrow more during the economic slowdown. He said that as the country heads into recession, it would be "perverse" to stick rigidly to its so-called golden rules, which call for balancing the books over a single economic cycle.

Almost 25% of the country's corporate tax revenues are generated by the financial-services sector, which has been hit hard by the credit crunch, he added.

On Thursday, Mr. Darling will meet with the U.K.'s largest banks and with representatives of small and midsize enterprises. They will discuss £4 billion in credit that the European Investment Bank will provide banks to then lend out to such businesses. The government, which has pushed commitments for banks to lend to small businesses into the bailout plan, wants to ensure as many banks as possible will participate in the plan, and that the "funding is more flexible and easier to access than in the past," Mr. Darling said.

Under its ambitious plan to shore up the finances of the banking sector, the government aims to inject capital into the country's biggest banks alongside private investors. **Lloyds TSB Group** PLC, in which the government plans to take a stake, aims to raise £4.5 billion in the private sector, and its offer price of 173.3 pence a share is still a discount for investors compared with its Wednesday close of 179.2.

At RBS and HBOS, the outlook is more complicated. HBOS's shares closed Wednesday at 88 pence, well below 113.6, the price at which the government said it would buy them. A spokesman for HBOS said the bank doesn't yet have an immediate timetable for its £8.5 billion share sale.

Shares of RBS, which is expected to unveil a prospectus for its £15 billion capital-raising efforts in the next few days, closed at 64 pence, below its offer price of 65.5.

"Falling share prices makes the prospect of raising capital independently of government more difficult to achieve and potentially more dilutive to existing shareholders," says Tom Rayner, an analyst at Citigroup.

Analysts and some investors have said concerns about the effect of government involvement on the banks' management, combined with the recent market turmoil and the bleak outlook for the U.K. economy, are making them increasingly unattractive investments right now.

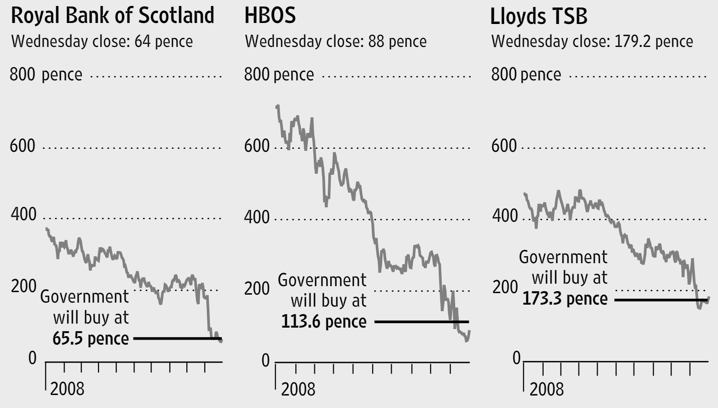
The government isn't worried about what it sees as short-term fluctuations and is taking a longer-term view on the share-price movements, a person familiar with the matter said. The shares won't be sold for a number of weeks. If the share prices rebound by then, and markets in Europe closed higher Wednesday, investor demand could be greater.

Some investors haven't ruled out the banks as possible buys. "When you look at RBS' long-term valuation, even allowing for some government control of the company, the shares are very cheap," says Dale Robertson, an investment partner at Edinburgh Partners.

—Dana Cimilluca contributed to this article.

Expensive safety nets

The U.K. has already agreed to the prices at which it will buy stock from three major banks. But if shares of HBOS and RBS' remain below that level, the government is unlikely to attract private buyers to take part in the bailout.



Source: Thomson Reuters Datastream

Hypo RE stakes an early claim on German aid

BY ULRIKE DAUER AND WILLIAM LAUNDER

FRANKFURT—German lender **Hypo Real Estate Holding** AG applied for a guarantee for a €15 billion ($19 billion) credit line, becoming the first publicly traded bank to seek to take advantage of a government rescue package, and indicated it might also ask for a capital injection.

The bank said Wednesday that it asked the government to guarantee a short-term liquidity line provided by the German central bank, to tide it over it until a previously arranged €50 billion rescue package becomes available in mid-November.

Hypo RE also said it will request "additional comprehensive support, including potential capitalization measures" from the €500 billion rescue fund, to provide for its "medium-term repositioning." The bank didn't elaborate on what the measures could include.

Hypo RE is Germany's first publicly traded bank to say it will tap the government's rescue fund. State-controlled **Bayerische Landesbank** had said it would seek €5.4 billion in aid from the fund and **Westdeutsche Landesbank**, also state-controlled, has signaled it also plans to use the fund. Management at **HSH Nordbank**, a third state lender, has also decided that it will tap the fund, but it is unclear whether it will require only guarantees, or capital, too.

A spokesman for the German government's bailout fund said Wednesday that it had received an application for a guarantee from Hypo RE. Spokesmen for the rescue fund and Hypo RE declined to comment on the terms of the guarantee.

Analysts said they were surprised by the early timing of Hypo RE's guarantee request, which marks the third time in recent weeks that the bank has gone to the government for assistance.

—Rüdiger Schoss and Andrea Thomas contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Nomura Holdings Inc. said its positions in Icelandic banks total about $425 million and their value, though not finalized, has fallen significantly. An International Investor page article in Wednesday's edition incorrectly attributed the entire value to **Kaupthing Bank**.

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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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

Russia approves $10 billion in bailout loans

VEB head says deals aim to protect assets; Rusal is a recipient

By Gregory L. White

MOSCOW—The Russian government's bailout facility for financially strapped tycoons and companies has shifted into high gear, approving nearly $10 billion in loans, said Vladimir Dmitriev, the head of the Vneshekonombank, the state bank administering the program.

The biggest of the loans—$4.5 billion—is going to **United Co. Rusal**, the aluminum giant controlled by billionaire Oleg Deripaska, according to people familiar with the deal. That money will go to pay off a group of Western creditors led by **BNP Paribas** SA that was threatening as early as the end of this week to seize Rusal's 25% stake in metals giant OAO **Norilsk Nickel** that they held as collateral, the people said.

The 40-year-old Mr. Deripaska, who made his fortune in the aluminum industry in the 1990s, owns 57% of Rusal. The rest belongs to other billionaires and **Glencore International** AG. In recent years, he has sought to turn Rusal into a global titan, which is what led him to push for the acquisition of the Norilsk stake earlier this year.

Beyond releasing the total figure, neither Mr. Dmitriev nor Vneshekonombank (VEB) would provide details on who the loans have been granted to.

In the interview on state-run news channel Vesti-24, Mr. Dmitriev said VEB is giving priority in the refinancing deals to protect "Russian assets," the loss of which would have "serious economic or social consequences."

"These are first-class borrowers who have wound up facing the loss of their assets because of the unfavorable situation on world markets," he said.

People familiar with the transaction say another recipient was the **Alfa Group** , controlled by Mikhail Fridman, which received $2 billion to stave off the loss of its 44% stake in OAO **Vimpel Communications**, Russia's no. 2 cellphone company, to a group of creditors led by **Deutsche Bank**. Alfa declined to comment.

Oleg Deripaska

The Kremlin announced the bailout program last month, setting aside at least $50 billion from its foreign-exchange reserves. Many of Russia's wealthiest industrialists and companies had borrowed heavily in the past few years to expand their empires or invest in new projects. Often those loans were secured with stock. The global market crisis has knocked more than 70% off the Russian stock market, meaning many of those borrowers have to come up with more collateral or face losing their shares.

The bailout loans have been criticized for the secretive way in which they are being awarded. Some bankers and industrialists have warned the process could be used to conduct a covert nationalization of prime assets.

"We need to differentiate between nationalizing a business and the temporary intervention of the state. We'd like the government support to be provided on transparent terms," said Alexander Shokhin, the head of Russia's largest business lobby, according to the Interfax news agency.

Russian officials deny any plans to take over private assets. "The expansion of the government's presence in the economy is a forced measure that is of a temporary nature," Prime Minister Vladimir Putin told government ministers Wednesday, speaking about Russia's overall financial measures to address the crisis.

—Alexander Kolyandr and Dana Cimilluca contributed to this article.

Italy is ready to commit funds to banking sector

By Luca Di Leo And Christopher Emsden

ROME—Italian Premier Silvio Berlusconi said Wednesday the government was prepared to buy bank bonds and savings shares to help lenders cope with the global financial crisis.

Of the four big European economies, Italy is the only country yet to give state money to help its banks. The government maintains its banks are more solid than their European peers, and that it will only step in if needed, a line Mr. Berlusconi reiterated Wednesday.

"If banks want to increase their liquidity or their capital, the state is ready to intervene by underwriting bonds and savings shares," he told a seminar of the retailers' association Confcommercio. The Italian premier added that the government would step in without penalizing the management of a bank seeking help.

Rome has readied an injection of up to €20 billion ($25 billion) in Italian banks, a person familiar with the matter said, using a plan resembling one that France announced last week.

Separately, a study released Wednesday showed that Italy's building industry is already in recession and that investments will drop sharply through 2010.

Investments in the construction sector are projected to fall 4.4% this year, 5.7% next year and 2.5% in 2010, according to the report by Cresme, a research institute covering real-estate trends. The figures are adjusted to take inflation into account.

While Italy's projected decline isn't as dramatic as in Spain or in the U.S., it will prove harsh in an economy that didn't have much of a real-estate boom and is regularly the euro zone's growth laggard.

The construction sector accounts for about 6% of Italian gross domestic product, up from 4.5% in 1997. Nomisma, a liberal think tank, had projected that share to grow to 7.5% by 2015, creating 330,000 new jobs.

Cyclical forces already were leading to weaker demand, but the global credit squeeze has aggravated the trend, said Lorenzo Bellicini, director of Cresme. Cresme's report is much more pessimistic than the government's forecast of a mere 0.2% drop in construction investment next year.

CORPORATE NEWS

AIRLINES

Icelandic budget carrier folds amid financial crisis

Agence France-Presse

STERLING Airlines A/S, an Icelandic-owned budget carrier, said it will file for bankruptcy because and won't be able to refund passengers who bought tickets online.

The airline, based in Denmark but owned by Iceland's **Northern Travel Holding**, said it was unable to raise financial support for a restructuring program amid the collapse of the Icelandic financial system. "During the last few weeks the management, board of directors, and the shareholder of **Sterling Airlines** A/S have been fighting a battle to keep the company alive," the carrier said on its Web site. "Sadly, this has not had a positive outcome."

—Associated Press

BANKING

French police detain Caisse d'Epargne trader


Reuters

FRENCH police detained a trader suspected of losing more than €600 million ($760 million) in derivative trades at French mutual bank **Caisse d'Epargne**, a judicial official said.

The bank's top three executives quit after the losses came to light on Oct. 17. A Caisse d'Epargne spokesman said the bank calculates the loss was larger than the €600 million it initially announced. He declined to provide a new estimate, although the prosecutor's office has mentioned that the loss would amount to €751 million.

Paris prosecutors are investigating if there are grounds for a possible legal case of breach of trust.

—Associated Press

ELECTRONICS

Woori picks Ripplewood to buy stake in Daewoo


Daewoo Electronics

PRIVATE-EQUITY firm **Ripplewood Holdings** LLC has been chosen as the preferred bidder to buy a controlling stake in South Korea's **Daewoo Electronics** Corp., **Woori Bank** said. Ripplewood is expected to sign a memorandum of understanding to buy the stake soon, with a view to signing a formal contract by year end, the main creditor of Daewoo said.

Daewoo Electronics creditors have sought to sell their 97.6% stake in the unlisted company. Ripplewood Holdings and **Digilent** Inc., a U.S.-based electronics parts maker, submitted bids for the stake. Woori Bank didn't disclose the value of Ripplewood's offer. The creditors already have twice put Daewoo up for sale, but failed to complete a transaction either time.

London mall opens as spending boom ends

Westfield Group says other retail centers scored after slumps

By Cecilie Rohwedder
London

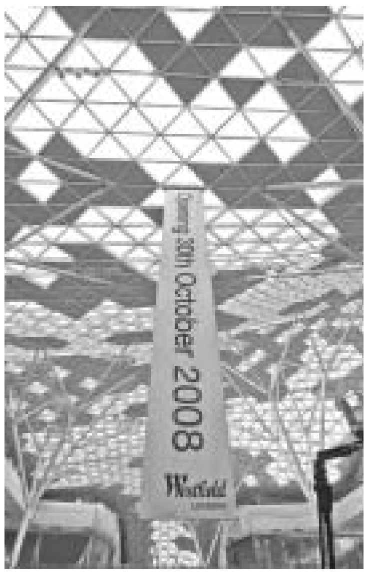
WHEN THE Westfield mall opens Thursday in London, it will be the largest mall in a European city. The American-style retail center has 265 stores, including Tiffany and Gucci, as well as 50 restaurants, fountains and gleaming palm trees.

And its timing couldn't be worse. Britain's economy is sliding into recession, and its decade-long consumption boom has come to an end.

"The exact environment isn't of our choosing," concedes Michael Gutman, managing director for the U.K. and Europe at Australia's **Westfield Group**, the mall's owner. "But," he says, "we have opened malls in difficult times before. This is a long-term project."

Around the globe, despite forecasts that some retailers will go bankrupt and the Christmas shopping season will be the worst in years, new malls continue to open. Japanese retailer **Aeon** Co. unveiled a shopping mall in Beijing earlier this month. The largest mall in the Middle East opens next week in Dubai with more than 1,200 shops, an Olympic-size ice rink and an aquarium with more than 400 sharks. But even in the oil-rich Middle East, consumers are confronting falling stock markets and economic uncertainty. And some developers in the U.S. are postponing or canceling projects.


Westfield Group



The **Westfield mall**, which opens in London Thursday, features 265 stores and 50 restaurants. The mall opens just as Britain's economy is sliding into a recession and its decade-long consumption boom has come to an end.

Westfield Group, which owns Garden State Plaza in New Jersey and Century City in Los Angeles among other malls, teamed up with German real-estate asset manager Commerz Real, a unit of **Commerzbank** AG, to spend £1.7 billion ($2.7 billion) on the new shopping mall in an affluent neighborhood in west London. It expects 60,000 shoppers a day.

Shopping malls like Westfield London take years to plan, and it's impossible to predict what economic conditions will prevail when they are done. Fluctuations occur with every economic cycle and are a normal part of its business, Westfield says. The company declined to disclose sales targets for its London mall or say how long it would tolerate potential losses.

Sydney-based Westfield, the world's largest shopping-mall owner by market capitalization, has opened shopping centers in tough times before. Its Miranda mall in Sydney opened during the economic downturn of the early 1990s and now generates 13.9 million visitors and 685 million Australian dollars (US$440 million) in sales a year, it says.

Mall owners aren't necessarily affected when retail sales start to slide because they derive their revenue from renting space to retailers. But over time, sales declines weaken retailers and lead to more vacancies and more problems for landlords. In both the U.S. and the U.K., mall vacancies are now on the rise.

Westfield says it has filled 99% of the store space at its London mall. But to open the mall in the current downturn, it had to offer stores longer-than-usual rent-free periods—18 months in some cases—and cover some decorating costs. "The last few deals over the line for the center were probably more costly than the first few deals," says Westfield's Mr. Gutman.

The developer's strategy of including both high-end and mass-market stores may be a plus. The wing reserved for luxury brands has a champagne bar and shimmering chandeliers, and it was designed by New York architect Michael Gabellini, who also created the Top of The Rock observation area atop Rockefeller Center and stores for brands like Giorgio Armani. The mass-market section, with stores for British retail brands like Marks & Spencer and Debenhams and international chains like Zara, H&M and **Abercrombie & Fitch** Co.'s Hollister, offers larger-than-usual window space.

Few shopping streets and malls in Europe and the U.S.—New York's Fifth Avenue is a prominent exception—mix high-end and mass-market stores. Luxury shoppers, conventional retail wisdom holds, prefer not to mix with lower-end shoppers, and the latter are intimidated by plush designer stores. But as luxury shoppers who are watching their spending show more flexibility in choosing brands, they can wander over to the cheaper stores that they increasingly frequent.

"It is very much the way we're shopping," says British fashion designer Amanda Wakeley, who will have her second London store in the new mall and also sells her elegant apparel at Barneys New York. "I would have felt differently about it three years ago."

Like New York, London doesn't really have malls, so the developers will try to introduce a new habit to London residents: going to the mall for an entire afternoon. It will offer a gym, luxury spa and movie theater, as well as services rare in Europe, such as valet parking and concierges to carry shoppers' bags and arrange deliveries.

Britain does have some shopping malls, mostly outside town centers. But unlike the U.S., where shoppers also go to the mall for entertainment and to spend time with friends, British malls are mostly just stores, says Jonathan De Mello, director of the retail and property consultancy at market-researcher Experian PLC in London.

Retailers opening in the Westfield mall hope London's rainy weather, crowded city center and lack of parking will also entice locals to shop and linger. "You're not going to have to suffer on Oxford Street in December in the rain," says Bill Amberg, whose luxury leather-goods brand bears his name, referring to a shopping street in central London.

Mr. Amberg already has a boutique in nearby Notting Hill and sells his goods at Bergdorf Goodman in New York. He negotiated a rent-free period—he declines to specify how long—and received financing from Westfield to decorate his mall store, which features leather floors.

—Stefania Bianchi contributed to this article.

MGM Mirage net drops 67%

By Tamara Audi

In the latest sign of sharper declines in the casino industry, gambling giant **MGM Mirage** posted a 67% drop in third-quarter net income and said it expects global economic trouble to continue to affect the company into 2009 or beyond.

"We fully expect the [gambling] market will recover as the broader market recovers," said MGM Mirage Chief Executive Terry Lanni during a conference call Wednesday morning. "But its extremely difficult to forecast when that will be."

Officials said a "stay-at-home mentality" had a particularly strong impact on revenue in September.

Las Vegas-based MGM Mirage reported net income of $61.3 million, compared with $183.9 million a year ago. The sharp drop mirrored the downturn seen across the industry, as Las Vegas revenue declines amid a significant decline in consumer spending and the cancellation of conventions and business meetings. MGM Mirage also has been hurt by new visa restrictions in Macau, China's gambling enclave. The gambling industry had hoped strong growth in Macau would offset the drop-off in domestic revenue.

Associated Press

A Lufthansa jet prepares to **land in Duesseldorf**. Despite a travel slowdown, the German carrier is moving ahead with plans to acquire smaller European airlines.

Lufthansa set to acquire stakes in several airlines

BY JAN HROMADKO

FRANKFURT—German airline **Deutsche Lufthansa** AG on Wednesday stepped up moves to buy smaller European rivals even as it scaled back capacity expansion plans and cut profit targets in response to the shrinking market.

Lufthansa is set to acquire **British Midland Airways** Ltd. next year after it said Wednesday that BMI founder Michael Bishop had exercised a put option that requires Lufthansa to purchase his 50% plus one share stake in BMI.

The German airline has earmarked about €400 million ($508 million) for the acquisition of Mr. Bishop's stake. That would value BMI at €800 million. But a shareholder agreement dating back to 1999 includes a minimum price, which means BMI's value could vary.

Late Tuesday, Lufthansa reduced its 2008 operating profit target to €1.1 billion from about €1.4 billion previously, citing an increasingly difficult market environment and high fuel costs. Seat-capacity plans are being pared to a gain of about 5.2%, the company said.

Any acquisition of BMI by Lufthansa may not be straightforward. Virgin Atlantic also proposed combining its short-haul and long-haul networks with BMI in a bid to create a major European carrier and better compete with the U.K.'s leading airline, **British Airways** PLC.

Lufthansa already holds a 30% stake in BMI. The remaining 20% is owned by **SAS** AB. The Scandinavian airline is in talks with Lufthansa about selling its stake in BMI, an SAS representative said Wednesday. BMI controls 11% of the takeoff and landing slots at London's Heathrow, the world's busiest international airport.

The German flag carrier Wednesday also said it will acquire the remaining shares in its regional carrier Eurowings from **AK Industriebeteiligung** GmbH. The shares will be transferred Dec. 31, the company said without providing further details.

Lufthansa is also one of two bidders for struggling **Austrian Airlines** AG and has stated an interest in **Alitalia** SpA, the Italian airline that is being bailed out by a group of Italian investors after it was crippled by debts.

Air France-KLM SA is also interested in Alitalia, while British Airways remains in merger talks with Spain's Iberia Líneas Aéreas de España SA.

—Anita Likus in London contributed to this article.

Euro's fall against the yen catches Sony by surprise

BY HIROKO TABUCHI

TOKYO—**Sony** Corp. has worked for years to protect itself against a fluctuating dollar. But it's the weaker euro that has dealt an unexpected blow to the Japanese electronics company.

Net profit for the July-September quarter slumped 72% to 20.8 billion yen ($213 million) from a year earlier, hurt by the strong yen and a slowing world economy, the company said.

If the yen stays at current high levels, Sony may book less than half of its operating profit forecast of 150 billion yen for the year ending March 2009, Chief Financial Officer Nobuyuki Oneda said.

"Year-end sales will be extremely tough for us," Mr. Oneda said, adding he expected tough conditions to continue into next fiscal year.

A strong yen hurts exporters like Sony because it undermines overseas earnings. In the past three months, the yen has risen 26% against the euro and 10% against the dollar. Late Wednesday in Tokyo, the dollar was trading at 97.51 yen. The euro was trading at 126.57 yen.

Sony's troubles come just as the Welsh-born American Chief Executive Howard Stringer appeared to be turning around the company's core electronics business. Under Mr. Stringer, the first non-Japanese to head the Tokyo-based company, Sony climbed back to a record profit for the fiscal year ended March 31.

Sony has been successful in reducing its sensitivity to fluctuations in the yen-dollar exchange rate by moves such as sourcing liquid-crystal display panels in dollars from Taiwanese manufacturers. But similar efforts are just beginning against the euro.

Mr. Oneda said that procuring parts in Europe remained particularly difficult. Although Sony plants in Slovakia, Spain, Hungary and Wales already supply the European market, many of the parts they use come from outside the region, leaving production costs exposed to exchange-rate swings.

—Kenneth Maxwell contributed to this report.

Wal-Mart plans to expand

As U.S. growth ebbs, retail giant to focus on overseas markets

BY MIGUEL BUSTILLO AND ANN ZIMMERMAN

Wal-Mart Stores Inc. said it will continue emphasizing international expansion, particularly in emerging markets such as Brazil, as it trims U.S. growth.

During the second part of a two-day conference with investment analysts, the retailer laid out a vision for growth. Over the next five years, Wal-Mart said it will devote 53% of its international spending to emerging markets such as Brazil and India, up from 33% in the previous five years, with the remainder going to mature markets such as Canada and the U.K.

Wal-Mart also said it remains committed to succeeding in Japan, a plan that was criticized by analysts a year ago. The retailer said it is on pace to post its first operating profit in Japan this fiscal year.

On the first day of the conference, Wal-Mart said it would curtail openings of its traditional U.S. stores and focus more on remodeling existing locations.

Wal-Mart officials forecast that they will add approximately 19% less square footage in the coming year compared with a year earlier, with much of the reduction coming from the U.S. In all, Wal-Mart expects to add 34 to 36 million square feet of retail space in the fiscal year starting in February, compared with 42 to 43 million square feet of retail space globally in the current fiscal year, ending Jan. 31.

Wal-Mart, which has benefited from the global downturn thanks to its economies of scale and lower prices, reiterated it felt well-positioned to prosper in the current economy.

"This company will emerge from this time a tougher competitor," Chief Executive Lee Scott said.

Company officials detailed plans to transform into a different kind of discount retailer by focusing more on smaller stores than in the past. Wal-Mart has been executing that shift for the past three years, officials noted, well before the economy soured.

Wal-Mart's Sam's Club division is also slowing new store growth and focusing on remodeling existing locations. It is also testing several new store formats, including an outlet catering to business customers that has already opened in Houston and a smaller store model that has opened in Kansas, and a new store catering to Hispanics with Latin brand-name products that is set to open in Houston next year.

Some analysts predicted that by sprucing up older locations, Wal-Mart may be poised to hold on to some of the new customers it has attracted during the downturn.

"The strained consumer environment has driven sustained traffic from core customers and new traffic from affluent shoppers, which could prove sticky if executives are able to maintain and enhance the customer experience," Goldman Sachs analyst Adrianne Shapira wrote in a note to investors.

"I am very much positive about the direction we are going" in Japan, Mr. Scott said.

Though Wal-Mart said it remains bullish on international expansion, overall capital spending, including adding new stores and remodeling existing ones, was projected to rise only slightly, to $4.8 to 5.3 billion in the year ending January 2010, from the current year's $4.5 billion to $4.8 billion.

Technology Journal

E for everyone

Videogame makers aim to attract new players with nonviolent fare > **Page 30**

FOCUS ON AUTOMOBILES

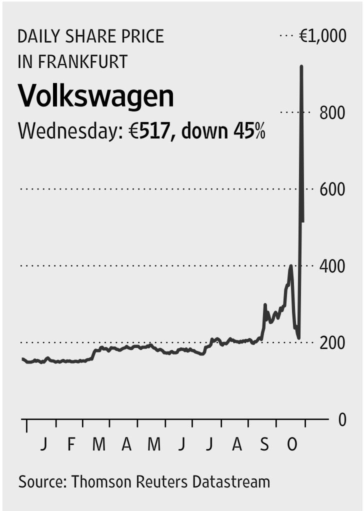
VW's stock hits a curb

Porsche aims to calm volatility with plan to sell some options

In a move to put the brakes on **Volkswagen** AG's share-price volatility, **Porsche Automobil Holding** SE said it plans to sell as much as 5% of its options linked to common shares in the auto maker.

Shares in Volkswagen fell 45% to end at €517 ($657) Wednesday, following two days of huge gains amid a wave of short-selling.

By Gregory Zuckerman, Jenny Strasburg and Mike Esterl



Prior to Porsche's move Wednesday, VW shares had been up 348% over Monday and Tuesday and 267% in the past month, as short sellers rushed to pay ever-higher prices for shares they need to exit from positions. Germany's securities regulator, Bafin, said Wednesday it had begun a formal investigation into VW's dramatic price swings for signs of market manipulation.

The partial option sale is designed "to avoid further market distortions and the resulting consequences for those involved," Porsche said.

"Porsche denies all responsibility for these market distortions and for the resulting risks to which the short sellers have exposed themselves," the company said.

The surge in VW shares created one of the biggest losses from a single short-selling bet in recent memory, dealing a punishing blow to hedge funds around the world.

The funds are expected to face billions of dollars in losses, according to prime brokers familiar with the positions, because they were wagering that VW shares would fall. Instead, shares of the big German auto maker soared after Porsche said it had boosted its VW stake.

Those affected by the moves include **Greenlight Capital**, **SAC Capital**, **Glenview Capital**, **Marshall Wace**, **Tiger Asia**, **Perry Capital** and **Highside Capital**, according to people familiar with the funds.

In short squeezes, investors who borrowed and sold stock expecting its value to fall exit from the trades by buying those shares, or "covering" their positions. That can send a stock up if shares are hard to come by. When shares are scarce, that can push a company's market capitalization well beyond reason.

The recent stock gains left Volkswagen's market value at about $346 billion Tuesday, just below that of the world's largest publicly traded corporation, Exxon Mobil Corp. Late Tuesday, stock market **Deutsche Börse** AG said it would cap Volkswagen's weighting in the DAX index at 10% as of next Monday. After Tuesday's surge, Volkswagen's weighting in the DAX had soared to 27%, up from 6.8% at this past Friday's close.

With VW shares pushing astronomical levels, some hedge funds are calling foul. They are accusing Porsche, already a 42.6% VW holder, of misleading them about its intent to gain full control of VW.

On Sunday, Porsche disclosed it held so-called cash-settled options to potentially acquire another 31.5% of VW, which could give it a near-75% stake in the auto giant. Many funds had been focused on Porsche's previous statements, which they say suggested Porsche wouldn't make such a move.

The panic buying was in part because the Porsche announcement suggested there were relatively few shares freely traded in the market, since the German state of Lower Saxony controls slightly more than 20% of the voting rights.

—Christoph Rauwald and Edward Taylor contributed to this article.

Sales abroad no longer buoy GM

By Mike Barris

General Motors Corp. said its third-quarter vehicle sales dropped 11% world-wide, the latest indication that growth overseas has ceased to offset slumping sales in North America.

GM, marking its third straight quarterly sales decline, sold 2.11 million vehicles during the quarter. That pushed the company, until recently the world's largest auto maker by sales, further behind **Toyota Motor** Corp., which last week reported global third-quarter sales of 2.24 million vehicles, down 4% from a year earlier.

A depressed U.S. market and a consumer shift toward smaller cars and away from trucks, which account for much of the auto maker's revenue, are hurting GM in North America. Until this year, overseas growth had kept GM's total vehicle sales rising, but sales in Western Europe have slid, and key emerging markets are showing signs of weakness as economic and credit turmoil sap consumer confidence.

The global sales data underscore the challenges GM faces. Investors worry the company could face a cash shortfall as soon as next year. GM is scrambling to cut costs and sell assets, as part of a plan to add $15 billion in liquidity by the end of 2009, and talks continue on a possible merger with **Chrysler** LLC.

GM's third-quarter sales in North America fell 19% to 977,804 vehicles, while sales in Western Europe fell 12% to 459,219 vehicles. Weakness in the two regions, accounting for about 68% of GM's overall sales in the period, more than offset growth in other regions. Sales in GM's Latin America, Africa and Middle East business rose 3.4%, while Asian-Pacific sales were up 2.6%.

The sales weakness in Europe stems from housing-market problems, tight credit and waning consumer sentiment—many of the same factors that have weighed on U.S. sales. In the past week, several European auto makers have lowered their sales and earnings projections, owing to the sharp downturn in the region.

Analysts predict the U.S. auto industry is in for a bruising October, following a September that saw auto sales hit lows not seen since the early 1990s.

—Sharon Terlep and Yoshio Takahashi contributed to this article.

U.S. auto brands lose franchise value

By Kate Linebaugh And Neal E. Boudette

DETROIT—Two big auto dealership chains delivered more bad news for domestic car makers: Many Detroit auto franchises have become practically worthless.

In third-quarter earnings reports Tuesday, **Group 1 Automotive** Inc. and **Sonic Automotive** Inc. announced charges of a combined $51 million reflecting declining "franchise value" for stores that sell brands from **General Motors** Corp., **Ford Motor** Co., and **Chrysler** LLC. Franchise value is a measure of the potential profit a company can make from holding the right to sell new vehicles and to provide warranty repairs for a certain make of automobiles.

Group 1, the fourth-largest dealership chain in the U.S., took a write-down of $30 million related to its Detroit-brand dealerships. Sonic, the third-largest chain, reported a write-down of $21 million.

In a telephone interview, Group 1 Chief Executive Earl Hesterburg said Group 1's charge means the company has essentially written off the value of its GM, Ford and Chrysler stores.

The charges pushed both dealership chains into the red. Group 1 reported a net loss of $20.6 million, compared with a profit of $20.8 million a year ago, while Sonic lost $25.3 million in the third quarter, compared to a profit of $26.1 million a year ago.

More similar write-downs could be coming from other dealership chains in the next week or so. **AutoNation** Inc., the largest U.S. chain of auto dealerships, reports its third quarter earnings early next month. The company declined to comment ahead of its announcement.

The company reported third-quarter revenue fell 12% to $1.4 billion, due to the impact of the financial crisis and hurricanes that hit the Houston and New Orleans areas. The National Automobile Dealers Association expects 700 new-car dealerships to close this year, up from 430 in 2007.

—Sharon Terlep contributed to this article.

Associated Press

Peugeot cars on a lot in Germany. Sluggish sales have given Europe's auto makers less money to invest in the **environmentally friendly vehicles** that the EU wants.

EU lender may provide $50 billion for auto firms

By Carolyn Henson And Alessandro Torello

BRUSSELS–European car makers should be able to get financial help from the European Investment Bank to help them meet the cost of developing more environmentally-friendly cars, the European Union said Wednesday.

The investment bank, the European Union's long-term lending institution, could make €40 billion (about $50 billion) in low-interest loans available to auto makers, said Günther Verheugen, EU Commissioner for Industry. The package would help them meet low-emission targets despite the harsh economic slowdown.

The matter will have to be put to the investment bank for consideration, Mr. Verheugen said after meeting with representatives from European car makers in Brussels to discuss the challenges facing the industry.

"We don't have loans from the banks and we don't have clients," said Christian Streiff, president of the European Automobile Manufacturers' Association and also chief executive of France's PSA Peugeot-Citroën.

New car sales in Europe slumped 10% in the third quarter and are likely to drop even more in the fourth, said Mr. Streiff. He added that he expects further developments on the loan package by Christmas.

Sluggish demand for new cars, along with higher prices for raw materials, have led many auto makers—including Peugeot and Daimler AG—to cut their profit forecasts and revise sales targets for the year.

At the same time, the EU is negotiating ambitious targets to limit greenhouse-gas emissions for new cars from 2012, which car makers say will require massive investments.

The European auto industry has said it needs the €40 billion in aid to match a similar move by the U.S. government. Last month, Congress approved $25 billion in loans to help General Motors Corp., Ford Motor Co. and Chrysler LLC to develop more fuel-efficient vehicles.

German union may hold strikes over pay demands

By Roman Kessler

FRANKFURT—German engineering union IG Metall is planning a weeklong series of concentrated warning strikes at all major automobile and engineering companies to press for real wage increases, a high-ranking union negotiator said.

Employers and union delegates are set to meet for talks Thursday in southern Baden-Württemberg, the heartland of Germany's auto industry. But those talks are likely to end unresolved, with IG Metall expected to walk away in order to raise the pressure on employers.

IG Metall has scheduled an internal meeting for Nov. 10, when it will discuss whether further talks should be pursued or whether a full strike is the union's better option, said Armin Schild, IG Metall's top negotiator for the central German region.

The strikes would come as companies struggle to fill their order books and Germany's economic outlook looks increasingly gloomy. Auto makers including **Daimler** AG, **BMW** AG and their suppliers such as **Continental** AG have said they will close factory gates to save costs.

Germany's federal government recently slashed its forecast for economic growth in 2009 by a full percentage point to 0.2%. But some economists still deem it overly optimistic.

"Bargaining power has quite clearly shifted to the employer side as a hard stance from the union could cost a lot of jobs," said economist Jacques Cailloux at RBS in London.

Employers organized in the Gesamtmetall association said they are likely to make an initial wage offer Thursday. It will likely be much lower than the 8% wage demand IG Metall is calling for, officials said. The union decided to up this year's wage demand from the 6.5% it claimed in spring 2007, to compensate for higher inflation and get a fair share of fat company profits.

At this point, "concentrated warning strikes make a lot of sense. We want to create a climate for a rather swift solution," Mr. Schild said. "We will launch a massive wave of warning strikes and hit all the big names."

Telenor buys into India

Norwegian company to acquire big stake in Unitech start-up

*By **Santanu Choudhury, Nitin Luthra** and **Romit Guha** in New Delhi*

Norway's **Telenor** ASA said it will spend more than 61.2 billion rupees ($1.23 billion) to buy as much as a 60% stake in a start-up telecommunications unit of India's **Unitech** Ltd., becoming the latest foreign company to enter the world's second-biggest mobile-phone market.

Under the pact, Telenor will subscribe to new shares in Unitech Wireless, resulting in an enterprise value of 116.20 billion rupees for the telecom unit, Unitech said.

Unitech Wireless will compete with companies such as **Bharti Airtel** Ltd., the largest by number of mobile users, and **Reliance Communications** Ltd., the second largest, along with **Vodafone Group** PLC for a share of India's telecom market.

"The competitors that we will meet are very professional already. However, with Unitech together, we feel that there is room for another entrant," said Sigve Brekke, executive vice president and head of Telenor Asia.

The deal is subject to Indian regulatory approval.

Unitech, based in New Delhi, is one of India's leading realty companies. Unitech and other realty companies in India are diversifying into sectors such as telecommunications and insurance as six-year-high loan rates and higher property prices damp real-estate demand.

Oslo-based Telenor is 54%-owned by Norway's Ministry of Industry and Trade. The partnership with Unitech will help Telenor move into India's mobile-phone market, where more than eight million users are added each month.

Unitech Wireless plans to start operations in the first half. Unitech said it will invest more than $3 billion.

The country's mobile-phone user base is expected to exceed 737 million by 2012, growing 21% a year, IT research and advisory firm Gartner Inc. said in a recent report. India had more than 315 million users at the end of last month, according to government data.

Telenor on Wednesday posted a 33% drop in third-quarter net profit, though it reiterated its full 2008 revenue growth target of 3%.

Net profit fell to three billion Norwegian kroner ($440.7 million) from 4.45 billion kroner a year earlier, hit in part by a fall in the fair value of some financial instruments. Revenue rose 2.8% to 23.79 billion kroner, lifted by subscriber growth in Asia.

—Adam Ewing in Stockholm contributed to this article.

STMicro posts loss, offers bleak chip-industry outlook

By Jethro Mullen

PARIS—**STMicroelectronics** NV posted a third-quarter loss, hit by charges, and scaled back its forecast for growth in the overall semiconductor market in 2008 as the effects of the financial crisis spill into the broader economy.

Europe's largest semiconductor company by revenue reported a net loss of $289 million, compared with a net profit of $187 million a year earlier. The latest results were weighed down by a $344 million charge related to the spin-off of the company's flash-memory segment into a joint venture with **Intel** Corp. called Numonyx. Revenue rose 5.1% to $2.7 billion from $2.57 billion.

STMicro said it now expects the overall chip market to grow "slightly below 3%" in 2008, down from a previous forecast of 4% to 5%, Chief Executive Carlo Bozotti said in a conference call. Mr. Bozotti said it would be premature to give a forecast for 2009, considering the limited visibility.

STMicro's own organic revenue growth—which strips out acquisitions and disposals—will be "close to 8%" in 2008, Mr. Bozotti said. The company previously forecast double-digit revenue growth.

Still, STMicro's outlook is "significantly better" than forecasts from Texas Instruments Inc. and other rivals, JPMorgan analysts said in a note to investors. The company's gross-margin forecast of around 39% is also strong, but "likely mainly due to the weakening of the euro," the analysts said.

UMC posts loss, but keeps eye out for acquisitions

By Jessie Ho

TAIPEI—**United Microelectronics** Corp. posted its first quarterly loss in almost seven years due to an asset-impairment charge. In a sign of tough times ahead, the chip maker warned that profit margins will deteriorate in the fourth quarter.

The company, one of the world's largest made-to-order chip companies, also cut its capital spending budget for this year by as much as 43% to US$400 million to $500 million, joining other Asian technology companies in recent weeks to cut back on facility investments. It had originally earmarked US$500 million to $700 million on capital spending in 2008.

"We will be more conservative in capacity expansion for the next year because of the industry trough," Chief Executive Shih-Wei Sun said.

Still, Mr. Sun said, UMC will continue to consider any merger and acquisition opportunities, because it has sufficient funds. As of Sept. 30, UMC had cash and cash equivalents totaling 25.19 billion New Taiwan dollars (US$752.9 million).

UMC's chief financial officer, Chitung Liu, said it is a good time for bargain hunting and the company is keeping its eyes open for potential acquisition targets. Mr. Liu declined to disclose possible buying targets.

For the three months ended Sept. 30, UMC swung to a net loss of NT$1.41 billion from a net profit of NT$9.23 billion a year earlier, while revenue fell 20% to NT$24.75 billion from NT$31.03 billion a year earlier.

The loss, UMC's first quarterly loss since the fourth quarter of 2001, reflected in part the company's stake in Silicon Integrated Systems Corp., Mr. Liu said. UMC owns at least 16.2% of Silicon Integrated, a chip designer, whose share price dropped 37% in the third quarter amid the general market weakness.

CORPORATE NEWS

Grocers balk on prices

Food makers face resistance as they fatten up their profit

By Julie Jargon
And Cecilie Rohwedder

The days of rapidly rising grocery prices may be nearing an end as supermarkets push back against food companies that are reporting profit increases.

With corn, wheat and other commodity costs coming off their summer peaks and the economy continuing its slide, grocery chains in the U.S. and abroad have begun to resist food makers' efforts to raise prices.

Some retailers are using food companies' earnings reports as leverage not to accept price increases, according to some industry analysts. Others are pushing for more promotional allowances—such as buy-one-get-one-free offers—to help move higher volumes.

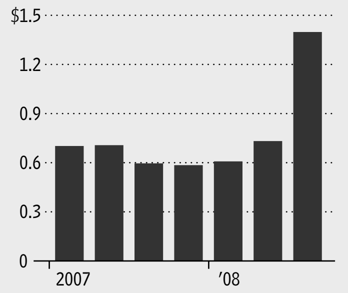
Kraft Foods Inc. and **Kellogg** Co. both reported higher-than-expected earnings Wednesday—thanks, in part, to price increases. In an interview, Kraft Chief Executive Irene Rosenfeld declined to comment on the company's relationship with retailers but hinted that the company might have to ease off price increases.

"As we look ahead, we're assuming our margin growth will come from volume growth and higher-margin products in the portfolio and not pricing," Ms. Rosenfeld said.

U.S. retail grocery-store prices in September rose 7.6% from a year earlier, according to the Bureau of Labor Statistics. U.S. grocery chains **Supervalu** Inc. and **Safeway** Inc. and Belgium's **Delhaize Group** recently cut profit or sales forecasts due to food inflation and the weak economy.

Kraft Foods

Net income, in billions



Source: the company

Traditional supermarkets are under more pressure lately to compete on price with the likes of low-cost grocers **Wal-Mart Stores** Inc. and Germany-based **Aldi Einkauf** GmbH. Some retailers have suffered as consumers trade down to discount stores and cheaper store-brand goods.

But grain and soybean prices have fallen by about 50% from their summer highs. While food companies are typically slower to reduce prices as commodity costs fall than they are to raise prices as costs increase, they are facing increased pressure to slow or halt recent inflation.

"It's going to be difficult for food companies to maintain price let alone take price," said Jim Hertel, managing partner at retail consulting firm Willard Bishop LLC. "The prospect of a prolonged economic slowdown has made retailers' price competitiveness top of mind."

Supermarkets are reluctant to publicly discuss supplier relations, but they have been telling financial analysts that they are taking a tougher stance with food manufacturers.

"There isn't a retailer who doesn't tell us that they're going to put more pressure on suppliers," said Volker Bosse, a retail analyst with UniCredit Markets & Investment Banking in Munich. "Retailers face a strong headwind from falling consumer confidence, and that transpires in their conversations with the food industry."

This pressure, Mr. Bosse noted, isn't limited to price cuts. Some retailers also demand concessions such as more service,or special promotions.

In a recent research note, Credit Suisse analyst Robert Moskow said U.K. retailers are becoming increasingly resistant to price increases as they engage in a price war. "Whereas retailers last year would accept price increases if they were accompanied by new product innovation, the market conditions are tougher now."

In a meeting with analysts earlier this week, Eduardo Castro-Wright, chief executive of the Wal-Mart Stores division, said declining oil prices should impact the prices of store items. "We will aggressively look for opportunities" to give cost savings to customers, he said.

"We're always having discussions with our major suppliers about cost prices—either because they've approached us about an increase or we've approached them asking them to review their prices," said Dominic Burch, a spokesman for Asda, the U.K. unit of Wal-Mart. Kellogg Chief Executive David Mackay said in an interview that he hasn't seen a dramatic shift in the way retailers are negotiating with the cereal maker on pricing and promotions, but that, "certainly there's a heightened sensibility to the pressure that consumers are under. Naturally that's going to lead to very full discussions on all these topics."

—Ann Zimmerman contributed to this article.

PetroChina profit outruns Sinopec

By Aries Poon

PetroChina Co. posted a 30% increase in third-quarter earnings, beating out its smaller rival **China Petroleum & Chemical** Corp., known as Sinopec, whose profit for the quarter fell 39%.

PetroChina's net profit totaled 39.89 billion yuan ($5.83 billion), up from 30.7 billion yuan a year earlier, under international accounting standards.

Net profit at Sinopec fell to 8.17 billion yuan from 13.41 billion yuan, under the same standards.

Sinopec, the largest refiner in Asia by capacity, imports more than 70% of the oil its refineries need, leaving it vulnerable to the sharply higher oil prices seen during the third quarter. PetroChina, China's largest listed oil company by capacity, imports no more than about 30% of its oil needs.

A larger oil-production business also helps PetroChina to outrun Sinopec in terms of earnings, although part of the benefit is offset by a windfall tax on oil sales.

PetroChina's oil output in the first nine months of the year rose 2.8% to 652.6 million barrels, or 89 million metric tons, while Sinopec only produced 31.3 million tons of oil, or 2.1% more than a year earlier.

Government subsidies and tax rebates, which are meant to compensate for China's artificially low retail fuel prices, played a crucial role in helping the earnings of its two biggest oil companies. PetroChina said it received a total of 13.23 billion yuan of state subsidies in the first nine months of the year. Sinopec said it got a total of 45.1 billion yuan over the same period.

Neither company gave any forecast on about their operations in the fourth quarter or beyond.

Some analysts said lower oil prices—crude prices have fallen by more than half since July—will benefit Sinopec more than PetroChina, as the Chinese government is still keeping a tight control over domestic fuel prices. China's system of price controls on fuel are hurting state refiners because they can't pass on the full cost of higher crude-oil prices to consumers.

In the first nine months this year, Sinopec refined 128.8 million tons of oil, or 7.3% more than a year earlier. PetroChina, whose refining operation is smaller than Sinopec's, processed 642.5 million barrels of oil, or 87.7 million tons, which was 5.1% more than a year earlier.

Jiang Jiemin, chairman of PetroChina, said last week an oil price around $80 a barrel was best for the company. Crude oil traded at $67.80 a barrel, up $5.07, at noon Wednesday on the New York Mercantile Exchange. Mr. Jiang also said Beijing is still waiting for the right time before loosening state controls on domestic fuel prices of gasoline, diesel and jet fuel.

Sinopec Shanghai Petrochemical Co., which is 55.56%-owned by Sinopec, said in a separate statement that it expects to incur a "substantial loss" for this year. For the third quarter, it posted a net loss of 2.31 billion yuan.

High oil costs and weak chemical prices in China are a double-edged sword for the Sinopec unit, which produces fuel but is also China's largest ethylene producer by capacity. Products derived from oil or natural gas are used to make ethylene. Sinopec Shanghai imports about 90% of its oil needs.

GLOBAL BUSINESS BRIEFS

Bayer AG

Profit falls 76% in absence of a year-earlier tax gain

Drug and chemical company **Bayer** AG posted a 76% drop in third-quarter profit as the year-earlier figure was boosted by a tax gain, but confirmed its outlook for the rest of the year in spite of a difficult market. Net profits plummeted to €277 million ($352 million) from €1.18 billion a year earlier, when German tax reforms brought a €911 million tax gain. The maker of aspirin, pesticides and One-A-Day vitamins also blamed higher costs for energy and raw materials as well as currency effects for the decline. Sales rose 2% to €7.95 billion, lifted in part by rising demand drugs including the contraceptive Yasmin and multiple-sclerosis treatment Betaseron. The crop-science business saw sales jump 8%.

Shire PLC

Shire PLC posted a 67% drop in third-quarter net profit because of charges, but said revenue leapt 28%–lifted by strong sales of hyperactivity treatment Vyvanse as well as robust growth from new drugs. In the three months to Sept. 30, net profit dropped to $11.8 million from $34.7 million a year earlier, while total sales rose to $778.6 million, partly thanks to a 19% increase in sales of Vyvanse to $96 million. However, reacting to sales trends, the U.K.-based drug maker cut its full-year target for sales of Vyvanse to between $310 million and $330 million, down from a previous estimate of up to $400 million. The company hopes to switch patients to Vyvanse from its blockbuster hyperactivity-drug Adderall XR, which is set to fall to generic competition on April 1, 2009. Shire still anticipates full year revenue to grow at least 20%.

Suez Environnement

Suez Environnement said revenue for the first nine months of the year rose 3.6%, helped by higher prices and new services in France and Spain. The Paris-based water and waste utility—spun off by Suez before it became part of GDF Suez SA—said revenue rose to €9.12 billion ($11.58 billion) from €8.8 billion a year earlier. Earnings before interest, taxes, depreciation and amortization, or Ebitda, were up 2.6% to €1.55 billion from €1.51 billion. The company didn't provide net profit for the period, but said it still expects full-year Ebitda to come in between €2.1 billion and €2.15 billion. Chief Executive Jean-Louis Chaussade said 75% of the company's overall revenue is "not, or little, exposed" to the macroeconomic environment because it is linked to local authorities.

Rio Tinto

Mining giant **Rio Tinto** said Wednesday that Chairman Paul Skinner would step down after his current term expires in December 2009. "Having served six years as chairman and made a significant contribution to the company Mr. Skinner does not intend to seek a further term," Rio Tinto said, adding that the search for a successor is under way. Mr. Skinner is the preferred candidate to succeed **BP** PLC Chairman Peter Sutherland, a person familiar with the matter said Sunday. A BP spokesman said Sunday that "no final decision has been made." Mr. Skinner is seeing Rio Tinto through its defense against a hostile bid from BHP Billiton. That process is expected to be completed early in 2009.

Ferrexpo PLC

Ferrexpo PLC, a U.K.-listed, iron-ore miner with operations in Ukraine, said Wednesday its main shareholder Kostyantin Zhevago will succeed Mike Oppenheimer as chief executive. It added it has halted strategic initiatives because of the meltdown in commodity markets. Mr. Oppenheimer and Dennis McShane, the executive director for business development, "have informed the board that they believe their roles to have changed from the form envisaged previously, and have tendered their resignations," the Swiss-registered company said in a statement. Ferrexpo, which has suffered a nearly 90% drop in its share price since May, said the board has decided to halt talks with a potential strategic partner until stability returns to global commodity markets.

Vodafone Group PLC

Vodafone Group PLC has bought an additional 4.8% stake in Polish telecommunications operator **Polkomtel** SA for €176 million ($223 million) from **TDC** AS of Denmark, raising its stake to 24.4%. Vodafone and Polkomtel's other shareholders—several Polish state-owned companies—exercised their pre-emptive rights to buy TDC's 19.6% stake on a pro-rata basis, the world's biggest mobile-phone company by revenue said. Vodafone, based in the United Kingdom, wants to increase its presence in emerging economies to offset slowing growth in more-mature economies. The sale of TDC's stake in Polkomtel has been tied up in a Vienna arbitration court since 2006.

Michelin SA

French tire maker **Michelin** SA issued a full-year profit warning, blaming the sharp deterioration in the automobile industry. The company said it now anticipates full-year operating profit as a percentage of revenue of 7%-7.5% before non-recurring items, compared with 9.8% in 2007. It was Michelin's third profit warning this year, reflecting falling car production and slowing economic activity. Third-quarter revenue rose 0.7% slightly to €4.21 billion ($5.35 billion). Michelin confirmed that it still expects the increase in raw materials costs to add about €750 million to its expenses this year, excluding the impact of currency movements. Some of that is being passed along to consumers through price increases.

Akzo Nobel NV

Coating and chemicals company **Akzo Nobel** NV reported a 23% fall in third-quarter net profit as charges hit the bottom line but maintained its full-year outlook. The Dutch company also said it is postponing the sale of its National Starch business, which was expected to take place this year, "in view of current market conditions." Net profit dropped to €157 million ($199 million) from €203 million a year earlier, dragged down by €151 million in charges. Revenue meanwhile increased 3% to €3.82 billion. Last month, Akzo canceled a €1.6 billion share buyback and said it will cut 3,500 jobs by 2011, representing about 12% of its work force.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

CONGO

EU sends envoy to talk with President Kabila


Reuters

THE EUROPEAN Union sent a top aid envoy to Congo to assess humanitarian needs amid increased fighting in the country's volatile east.

Louis Michel, left, the EU's development-aid commissioner, was to fly to Kinshasa to talk with Congo President Joseph Kabila and other top officials. The United Nations says at least 30,000 people have fled their homes as the fighting between government forces and rebels led by Gen. Laurent Nkunda intensifies.

Javier Solana, the EU's foreign-policy chief urged all parties involved in the fighting "to show utmost restraint."
—*Associated Press*

PAKISTAN

Quake kills at least 170, leaves 15,000 homeless


Associated Press

A STRONG earthquake struck before dawn Wednesday in southwestern Pakistan, killing at least 170 people, injuring hundreds more and leaving an estimated 15,000 homeless, officials said.

The toll could rise as rescuers dig for survivors in a remote valley in Baluchistan, an impoverished province bordering Afghanistan where the magnitude 6.4 quake struck. Worst-hit was the former British hilltop resort of Ziarat and about eight surrounding villages, where hundreds of mud-brick and timber houses were destroyed, officials said.

Ziarat Mayor Dilawar Kakar said: "Not a single house is intact."
—*Associated Press*

U.S.

Orders for durable goods rose 0.8% in September


Fotosearch

DESPITE the weakening economy and global credit crunch, demand for expensive goods was propelled higher in September by orders for autos and aircraft.

Durable-goods orders rose 0.8% last month to a seasonally adjusted $207.81 billion, the U.S. Commerce Department said Wednesday. Orders for durable goods, which are designed to last at least three years, fell 5.5% in August, revised from a previously estimated 4.8% decrease.

A key barometer of business-equipment spending—orders for nondefense capital goods excluding aircraft—declined by 1.4%. Year over year, orders were up 3.2%.
—*Jeff Bater and Brenda J. Cronin*

Obama lead narrows in 2 of 3 battlegrounds

McCain improves in Florida, Ohio, but not Pennsylvania

BY SARA MURRAY

NEW POLLING suggests the presidential race is tightening in the battleground states of Ohio and Florida, though not in Pennsylvania, where Sen. John McCain is fighting to flip a big swing state into his column.

Sen. McCain now is within striking distance in Florida, where Sen. Barack Obama leads 47% to 45%, a new poll by the Quinnipiac University Polling Institute finds. Less than a week ago, Sen. Obama led by five percentage points there.

In Ohio, considered a Republican must-win, Sen. Obama still has a comfortable lead of 51% to 42%, Quinnipiac found. The good news for Sen. McCain is that he appears to be closing the gap there; last week, Sen. Obama led by 14 points.

In Pennsylvania, though, the news for Sen. McCain is gloomier. There, a new Quinnipiac survey finds that the race stands at 53% to 41% for Sen. Obama, almost unchanged from last week. Sen. McCain has been pushing hard for the state's 21 electoral votes with both campaign stops and advertising dollars.

The polls, conducted Oct. 22-26 have a margin of error of plus or minus 2.6 to 2.7 percentage points.

In Florida, "McCain is rolling up a large margin...among non-college-educated whites," said Peter Brown, the assistant director of Quinnipiac's polling institute. "If McCain is going to make a comeback, he has to basically drive up margins in Ohio and Pennsylvania, as he has in Florida, among those voters."

With less than a week left until Election Day, the new surveys suggest a possible tightening of the race. For its part, the McCain campaign says it is optimistic about its swing-state performance. In a memo to the campaign Tuesday, lead pollster Bill McInturff wrote, "The campaign is functionally tied across the battleground states... with our numbers IMPROVING sharply."

Still, the surveys also show how daunting the task remains for Sen. McCain. Other polling in crucial states also points to Obama advantages. New polls from the Associated Press, for example, show Sen. Obama leading by two points in Florida, seven points in Ohio and 12 points in Pennsylvania. Those polls have a four-point margin of error.


Associated Press

U.S. Republican presidential candidate **John McCain** at a campaign rally in Miami on Wednesday. A new poll shows him two points behind Barack Obama in Florida.

A Marist College Institute for Public Opinion poll shows a closer race in Ohio, with Sen. Obama leading 48% to 45% among likely voters—within the 3.5-percentage-point margin of error.

Sen. McCain also has a problem on his hands in other hard-fought states, most notably Virginia. The AP's survey shows Sen. Obama leading 49% to 42% in the commonwealth, a traditional Republican stronghold in presidential elections.

It would be difficult for Sen. McCain to win without both Florida and Ohio. He also may need to pick up either Pennsylvania or Virginia to offset losses in smaller, traditionally Republican states. If Sen. Obama turns some of those smaller states to his favor, victories in Ohio and Florida by Sen. McCain probably won't be enough to get him to the 270 electoral votes needed to win.

That's why the Republican senator and his running mate, Alaska Gov. Sarah Palin, have been making an intense push in the Keystone State in recent weeks. They also have increased their television ads in Florida, Ohio and Pennsylvania. The McCain campaign was directing roughly 78% of its TV ads to those three states as of Monday, according to Nielsen Co.

For Sen. Obama, one cautionary note comes from analysts who say he can't consider states safe unless he's above the 50% mark in pre-election polling, because it's unclear how many undecided voters will break his way on Nov. 4.

"Historically, the undecided break against the party in power," Mr. Brown said, but "Sen. Obama is relatively new to the political landscape. There are people who question his experience."

Pakistan demands U.S. discontinue its missile strikes

BY MATTHEW ROSENBERG

Pakistan demanded an end to U.S. missile strikes against Islamic militants holed up in the rugged tribal areas along the country's border with Afghanistan, the latest sign of growing tension between the allies as both struggle to combat the Taliban and al Qaeda.

The U.S. has launched at least 16 airstrikes inside Pakistan since August, and Pakistani officials told U.S. Ambassador Anne Patterson that "such attacks were a violation of Pakistan's sovereignty and should be stopped immediately," the foreign ministry said in a statement Wednesday.

Ms. Patterson was summoned to the Foreign Ministry after a strike Monday by a U.S. pilotless drone killed as many as 20 people, including a low-level Taliban commander. The commander, Mohammed Omar, was believed to have been tied to attacks on U.S. forces in Afghanistan, precisely the kind of activity that American officials have used to justify the airstrikes.

U.S. officials in Islamabad weren't available to comment after Wednesday's meeting.

The strikes are deeply resented in Pakistan, where many blame the escalation in air raids for a spate of suicide attacks that have shaken the country's major cities, such as the Sept. 20 truck bombing that gutted Islamabad's Marriott hotel.

Wednesday's statement looked to be aimed in part at mollifying those domestic critics who are pressing the new government of President Asif Ali Zardari to pull back from the alliance that his predecessor, former President Pervez Musharraf, forged with Washington in the aftermath of the Sept. 11, 2001, terrorist attacks on the U.S.

But Pakistan's formal complaint over the airstrikes also reflects the increasingly divergent paths being taken by strategists in Washington and Islamabad as they seek to neutralize the threat posed by the militants.

Pakistan clearly prefers trying to reach an accommodation with the Taliban in Pakistan through talks, hoping it can undercut support for al Qaeda's foreign fighters and eventually drive them out.

Pakistan's parliament passed a resolution Oct. 23 that called for the Pakistani army to withdraw from the northwestern Bajur region, where 1,500 militants are reported to have been killed in a two-month army offensive, and for officials to open talks with militants who renounce violence.

The call for talks was repeated Tuesday after Pakistani representatives met their Afghan counterparts to discuss ways to end militant violence. Both sides said the Taliban should be part of the talks if they agree to lay down their weapons.

The Americans, too, are moving toward opening some sort of dialogue with moderate elements of the Taliban. But U.S. officials have been critical of earlier Pakistani truces with Islamic militants, saying the fighters used the time to regroup.

U.S. airstrikes by Predator drones have become a regular occurrence since mid-August, targeting everything from a Taliban-linked religious school to a militant arms depot.

American Special Operations forces on Sept. 3 also launched a ground raid into Pakistan's South Waziristan region, believed to be a possible hiding place of Osama bin Laden and other top al Qaeda members. The attack drew sharp protests from Pakistan, which said women and children were killed in the assault. Ambassador Patterson was last summoned to the Foreign Ministry following that raid.

Tribes' funds go to Obama

McCain has refused to accept donations by American Indians

By T.W. Farnam

WASHINGTON—Sen. John McCain burnished his reformist image two years ago by investigating lobbyists who took advantage of American Indian tribes. But now, tribes are throwing their financial weight behind his rival, Barack Obama, donating more than $1 million to support the Democratic presidential candidate's campaign.

For his part, Sen. McCain has refused to take contributions from Indian tribes since 2006, when he was chairman of the Senate Indian Affairs Committee. The Republican presidential nominee maintains the tribes have better uses for their money, given the poverty of some reservations.

Many of the tribes that have given the most to help Sen. Obama are rich with gambling revenue. They have used a loophole in campaign-finance law that allows one tribe to donate more than $200,000, unlike corporations or trade groups, which can't give any money.

The Seneca Nation of New York, which operates casinos, gave $213,000 to Sen. Obama's committees, according to campaign-finance data compiled by CQ MoneyLine. Three other tribes have each given more than $100,000 to his campaign or to party coffers he is using to get out the vote: the Mississippi Band of Choctaw Indians and two California tribes, the San Manuel Band of Mission Indians and the Viejas Band.

The Indian vote, which has traditionally been overwhelmingly Democratic, could be pivotal in a number of swing states, notably New Mexico. It could also help Sen. Obama pick up a number of traditionally Republican states, such as Montana. New Mexico and other swing states—including Nevada, North Carolina, Minnesota and Colorado—have a higher percentage of Indians than the U.S. average.

Associated Press

Supporters of U.S. presidential candidate Barack Obama at a rally Saturday in New Mexico, a swing state where the **American Indian vote** could be pivotal.

Sen. Obama and the Democratic Party have been making concerted efforts to reach native communities and address their issues. The long primary contest drew them into many states with large native populations.

Bob Scheid, a spokesman for the Viejas Band, said the tribe's contribution to Sen. Obama was not solicited by the party, but "bubbled up" from tribe members. "The tribal council, in general, is more aligned with Democratic policies as they relate to Indian country," he said.

Jacob Coin, a spokesman for the San Manuel Band, said that tribe gave a similar amount to the Republican Party's convention committee. "I think tribes would be better served if their issues were treated in a bipartisan or nonpartisan way," Mr. Coin said.

The Republican Party's three national committees have taken in a total of $1.2 million from all Indian tribes, compared with $2.7 million for the Democrats.

Sen. McCain started to refuse the tribes' money in 2006, just before he led a series of Senate committee hearings on Jack Abramoff, the lobbyist who later went to jail for defrauding Indian tribes and using them to funnel millions of dollars to Republican candidates and groups.

Some tribal representatives say Sen. McCain let the scandal take priority over health care, education and other issues they wanted to see addressed. Some tribes also opposed legislation he wrote to increase regulation of Indian gambling, including the practice of "reservation shopping," which allows tribes to set up casinos closer to population centers.

Campaign spokesman Brian Rogers said that "Sen. McCain has been a longtime defender of Indian tribes and a strong supporter of them in Washington."

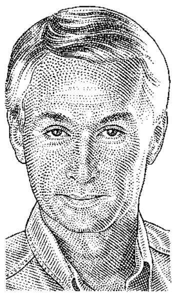
The tribes are allowed to give so much money to Sen. Obama because of how they are defined under campaign-finance law. In 1978, the Federal Election Commission decided tribes are "persons" who can donate to campaigns, but later it decided they are not "individuals," who would be subject to an overall biennial limit on their contributions of $108,200.

Univision spurs on Latino voters

By Miriam Jordan

Jorge Ramos, one of Univision network's biggest stars, devoted his Sunday news program to the rather mundane topic of how to cast a ballot.

Mr. Ramos addressed such basic questions as "What if your name doesn't appear on the list?" while viewers of the Spanish-language network were reminded to call a bilingual toll-free hotline with questions or concerns about the voting process. His involvement reflects the importance Univision assigns to increasing the electoral clout of its Hispanic audience.



Jorge Ramos

If the path to the White House this election passes through the Hispanic community, then it also passes through Univision. The dominant Spanish-language broadcaster is a powerful influence on its audience—and in this election cycle, it has been engaged in an aggressive two-year campaign to turn the fast-growing Hispanic constituency into a potent voting bloc.

The network—whose ratings during prime time often surpass those of major English-language networks ABC, CBS, Fox and NBC—has used public-service announcements as well as local and national news broadcasts to motivate Latinos to become politically engaged. With other Latino media and grass-roots groups, Univision began by spurring more than a million eligible legal U.S. residents to apply for U.S. citizenship; it then goaded them to register to vote.

Now, less than two weeks before the election, it is guiding them right to the voting booth.

"You will not find this on any other network," said Mr. Ramos last week after recording "Al Punto" (To the Point).

Spanish-language television is often associated with spicy soap operas, or telenovelas, and abundant soccer coverage. But campaigns are awakening to the audience's political clout. Sen. Barack Obama's campaign was slated to air a 30-minute infomercial on national networks Wednesday evening—including Univision.

The network, part of **Univision Communications** Inc., is likely to attract record political ad money, possibly doubling the $16.2 million in campaign dollars it took in during the 2004 presidential contest. However, that would still be a tiny fraction of the record $2 billion the candidates are expected to spend this season on TV ads.

Regardless, the network's audience has responded strongly to the civics lessons. "My mother became a citizen because of Univision; she's going to vote because of Univision's influence," said Jorge Aceituna, the son of a Mexican immigrant, as he poured fruit, ice and yogurt into a blender at a juice store in Los Angeles.

Recent polls show Republican nominee Sen. John McCain behind Sen. Obama, the Democratic nominee, among Hispanics nationwide. Hispanic voter registration has reached about 12 million, up from nine million in 2004. Latinos are poised to shape the result in four battleground states where they are concentrated and the total number of registered Hispanics has soared since 2004: by 144% in Nevada, 35% in Colorado, 34% in Florida and 30% in New Mexico.

House Republican leader strives to avert big losses

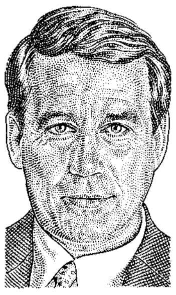
By Greg Hitt

SOCORRO, N.M.—House Republican Leader John Boehner of Ohio came here to fight in the uphill battle his party faces in the 2008 campaign.

At a campaign event, Ed Tinsley, the Republican candidate in a close race to keep control of a long-held GOP district, distanced himself from Rep. Boehner's recent accomplishment: helping pass the financial-rescue package through Congress.

"Mr. Leader, I'd vote no on the bailout," Mr. Tinsley told the crowd of party activists at K-Bob's Steakhouse, just off the highway in this southern New Mexico town, drawing applause. Mr. Boehner joked that his job these days is a lot like being caretaker at a cemetery: "Everybody's under you, but nobody's listening."

The episode underscores the difficulties confronting Mr. Boehner as he tries to champion his party.



John Boehner

The headwinds are made more difficult by the disparity in resources between the parties, which is forcing Republicans to make difficult choices. In the final days, the Republican National Committee is borrowing $5 million to shore up some Republican Senate candidates. Republican House candidates elsewhere around the country won't benefit from the RNC borrowing.

Analysts say Republicans are at risk of losing 20 to 25 House seats in Tuesday's U.S. elections, and perhaps more. That would reduce Republican ranks in that chamber to levels not seen since the early 1990s, when Mr. Boehner first arrived on Capitol Hill. Beyond fighting to preserve numbers, Mr. Boehner is seeking a new, winning message for a party trying to hew to its small-government, free-market principles at a time when Washington—led by Republican President George W. Bush—is significantly ramping up its role in the private sector.

After conferring with former Republican House Speaker Newt Gingrich this past weekend, Mr. Boehner urged Republicans to embrace a sharpened economic message. In a strategy memo forwarded across the country, he advised candidates to tout tax relief for small businesses and the middle class, as well as a zero capital-gains tax. That, the memo says, is "the fastest way to rebuild Americans' 401(k)s."

Mr. Boehner adds that Democratic plans to boost the economy with spending are ill-advised, and have created an opportunity for Republicans to offer voters a "clear choice" on Tuesday. "We have an unprecedented opportunity to connect with these anxious Americans and shift the economic debate onto winning ground."

Since rising to minority leader in 2007, Mr. Boehner has tried to recast the image of House Republicans. He pushed Republicans to take a stand against increased spending, opposing earmarks even though many Republicans support them. And he helped drive debate on energy, pushing for expanded production at home as gas prices soared. The energy issue was embraced by Sen. John McCain, and briefly raised hopes for a Republican revival. But those hopes were dashed in mid-September by the economic turmoil.

The crisis inserted the unpopular President Bush into the 2008 campaign. Mr. Boehner, who supported the administration's $700 billion rescue of financial markets, says it was needed to "save the free-enterprise system." But it was controversial. Taken together with the broader turmoil in the economy, it has shifted the election-year debate onto territory favorable for Democrats. "We had big momentum, and then this economic crisis hits," Mr. Boehner says. "Rightly or wrongly, Americans blame Republicans."

In 1998, Mr. Gingrich was forced to step down as speaker after House Republicans suffered what then seemed a big disappointment—a loss of eight seats. Post-election unrest claimed Mr. Boehner as well, and he was forced to give up his perch as chairman of the House Republican Conference, a senior leadership post.

The rejection cast Mr. Boehner adrift. He gained a committee chairmanship and plotted a comeback. In 2006, he won election as House majority leader, after Rep. Tom DeLay stepped aside in disgrace. Mr. Boehner became minority leader after the 2006 election, when Democrats took back control of the House.

If Republicans suffer big losses again, there could well be another day of reckoning for party leaders, including Mr. Boehner.

Who ultimately leads the party in the House matters. Historically, the chamber is an incubator of political creativity, as was the case in the years preceding the 1994 Republican takeover. Back then, Mr. Boehner, as part of a group of rabble-rousing young Republicans, helped bring a more combative attitude to the halls of Congress, pursuing a clear agenda of smaller government, lower taxes and less spending.

That message has blurred in recent years. Refurbishing the party's image, if not charting a new direction entirely, will be a major priority after Nov. 4.

Meantime, Mr. Boehner is doing what he can to forestall losses, despite a back injury that required surgery last Friday. He hit the road the day after Congress adjourned in early October, raising money and campaigning for Republicans in tough districts. In all, he has landed in 17 districts in 10 states, not counting the time he has spent in his home state of Ohio, also a campaign battleground.

This sprawling district in southern New Mexico has been reliably Republican for years. Mr. Bush won here with 58% of the vote in 2004. The House seat was left open by an incumbent running for the U.S. Senate.

Democrats are pouring money into the race. The campaign arm of House Democrats, the Democratic Congressional Campaign Committee, is spending more than $1 million to reach local voters, much of it on television ads. The cash-strapped House Republican Congressional Committee, the campaign arm of House Republicans, has put $42,000 into the race, according to campaign records and officials.