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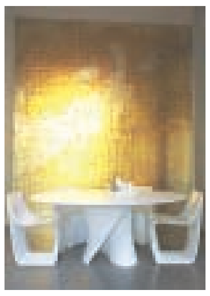


Belgian home design shows cutting edge's softer side
WEEKEND JOURNAL | PAGES W8-W9

Biden's gaffes give opening to the McCain campaign
ECONOMY & POLITICS | PAGE 8

Flight to safety threatens weak euro-zone members

Bond spreads widen, add pressure to plans by Italy and Greece

Investors are upping their bets that as the $12.2 trillion euro-zone economy heads into recession, costly bank-bailout plans could drive some European governments to default on their debt.

In the past month, the cost of insurance protecting against default by euro-zone countries such as Italy and Greece has doubled. For Ireland—which introduced a $400 billion bank-guarantee program last month that is twice the size of its gross domestic product—the cost of insuring against debt default has risen eightfold since the start of the year.

By **Joellen Perry** *in Frankfurt and* **Liz Rappaport** *in New York*

The moves may also suggest that some market participants are simply looking to profit from fears that these nations may default.

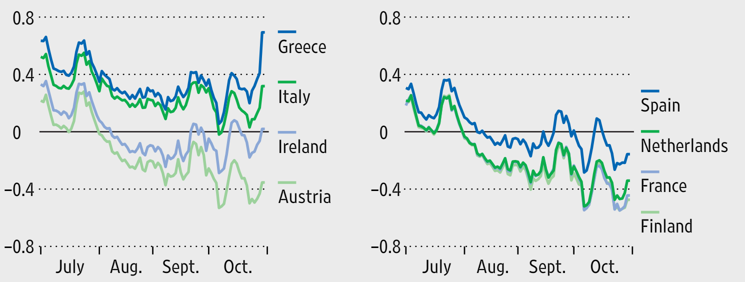
"The fact that the perceived probability of default for any industrialized country could be that high is extraordinary," said Simon Johnson, an economics professor at the Massachusetts Institute of Technology and a former chief economist of the International Monetary Fund. "Emerging markets go through this all the time. But these are rich, prosperous economies."

Another indicator of rising investor concern about default is the gap between the yields on the bonds issued by Germany and countries with marginally lower credit ratings such as Italy and Greece. Those have widened to levels not seen in about a decade. On Thursday, the so-called spread between yield on the 10-year Italian Treasury bond and

Please turn to page 27

For better or for worse

Euro-zone countries share one currency and their monetary policy is set by the European Central Bank. But the markets price their creditworthiness individually. Spreads, or yield premium over Germany's 10-year government bond, in percentage points.



Source: Thomson Reuters Datastream

What's News—

Business & Finance

Shell and Exxon Mobil posted another round of huge profits despite production declines. Shell will delay an important expansion on a Canadian oil-sands project as falling crude prices worry energy-company executives. Page 1

■ **Deutsche Bank** achieved a profit despite the credit crisis, helped by a change in European accounting standards. Page 2

■ **Euro-zone confidence** fell to its lowest level in 15 years in October, compounding fears the currency bloc faces a prolonged recession. Page 8

■ **The U.S. economy** contracted at a 0.3% annual rate in the third quarter as consumer spending declined sharply. Page 10

■ **U.S. stocks rallied,** shrugging off news that the economy contracted. Markets in Europe moved higher as well. Page 18

■ **Motorola delayed** its planned breakup and said it will lay off 3,000 more workers and halt product launches planned for 2009. Page 3

■ **Volkswagen reported** 27% profit growth and said it expects to increase market share next year, distancing itself from some other auto makers. Page 4

■ **Alcatel-Lucent's new chief** launched a strategic review as the company reported another quarterly loss. Page 4

■ **Unilever posted** a 63% earnings rise, lifted by gains from selling some operations. Page 5

■ **Blackstone will spend** $2 billion to hunt for co-investment deals with South Korea's social-security fund. Page 22

■ **WPP reported** slowing revenue growth and said it hired too many staff earlier in the year, hurting profits. Page 5

■ **L'Oreal said** it will miss its target of double-digit earnings growth for the first time in more than 20 years. Page 6

■ **Libya is in talks to invest** in a number of major Italian companies. Page 19

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	9180.69	+189.73	+2.11
Nasdaq	1698.52	+41.31	+2.49
DJ Stoxx 600	216.24	+2.52	+1.18
FTSE 100	4291.70	49.16	+1.16
DAX	4869.30	+60.61	+1.26
CAC 40	3407.82	+5.25	+0.15
Euro	$1.2845	-0.0015	-0.12
Nymex crude	$65.96	-1.54	-2.28

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World-Wide

Germany is preparing a fiscal-stimulus program of around $32 billion aimed at softening the economic slowdown without wrecking efforts to rein in its budget deficits. The government is likely to approve job programs and other measures next week, but has yet to figure out how to finance the extra outlays, given the threat to tax revenues of an impending recession. Page 2

■ **A bomb exploded** in a parking lot at a university in the Spanish city of Pamplona, injuring 17 people and setting a building on fire, in an attack blamed on Basque separatists.

■ **At least 61 people died** in bombings in India's northeast. The scale of the blasts surprised authorities, who struggled to pinpoint the culprits. Page 8

■ **Taliban commandos** stormed an Afghan ministry in Kabul, where one of them blew himself up and killed five people.

■ **The unpopular leader** of Russia's violence-plagued republic of Ingushetia said he resigned.

■ **Syrians turned out** in the tens of thousands to demonstrate their opposition to a U.S. raid near the Iraqi border. Page 8

■ **Thousands of teachers went** on strike in Italy to join students protesting government-backed changes to the school system.

■ **The rebel general besieging** Congo's eastern provincial capital said he wants direct talks with the government. Page 11

■ **Somali authorities arrested** an Islamic cleric suspected of involvement in five suicide attacks that killed over 20 people.

■ **Zambians voted** in a presidential election as the main opposition candidate accused the ruling party of rigging the vote.

■ **A U.S. jury convicted** the son of former Liberian President Charles Taylor of torture under a law allowing prosecution for atrocities committed overseas.

■ **The death toll rose** to 215 from the earthquake that struck southwestern Pakistan.

■ **Local Chinese officials are** taking additional steps to find tainted food products. Page 9

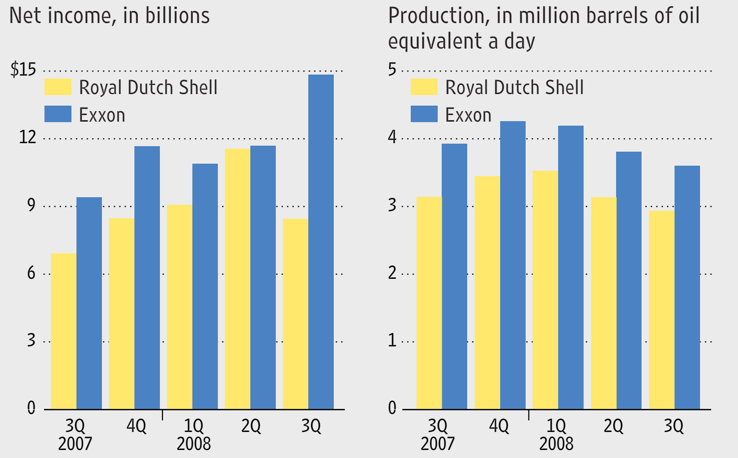
■ **Israel's Parliament speaker** set national elections for Feb. 10.

EDITORIAL & OPINION

Subsidy drive

Europe wants strict new rules for auto emissions. Industry wants a handout. Page 12

Prices pump up net, as production falls



Source: the companies

Oil giants show caution but post record profits

By Russell Gold And Guy Chazan

Even as **Exxon Mobil** Corp. and **Royal Dutch Shell** PLC reported another round of enormous profits Thursday, Shell said it will postpone the expansion of a big energy project, in a sign that plunging crude prices and high costs are raising concerns among executives of the world's largest oil companies.

Shell said Thursday it would defer to an unspecified date a decision on whether to expand its Canadian oil-sands operation. It said the delay will give overheated costs there time to cool off.

Still, Shell said it was confident enough to push ahead on other projects, including several that investors had fretted were no longer viable at today's lower oil and natural-gas prices.

That view was echoed by Exxon Mobil, which said it will maintain a cautious approach to capital spending and isn't planning any reductions. "Our investment plans are unaffected by the current decline in crude-oil prices," said Kenneth Cohen, Exxon's vice president of public affairs. "We don't get excited on the highs or depressed on the lows."

On Thursday, the two global giants—Exxon is the world's largest oil firm by market capitalization, and Shell is the second-largest—both reported huge profits in the

Please turn to back page

Trade skeptics expect to gain after U.S. vote

By Greg Hitt And Brad Haynes

WASHINGTON—The U.S. has led the way in efforts to lower barriers to global trade since World War II, despite opposition from unions and voters hurt by foreign competition. This election could put trade-liberalization on ice for a while.

A slumping economy, years of stagnating wages for many workers and unease about the rise of China as an economic power are fueling popular skepticism toward free trade and buoying Democratic candidates who are seizing on anxieties about globalization.

One Republican free trader feeling the heat is Oregon Sen. Gordon Smith, who likes to remind voters that one in five jobs in the state depends on overseas trade. He has supported the North American Free Trade Agreement and voted for the Central American Free Trade Agreement. "Oregon is probably the most trade-dependent state in America," Sen. Smith said. "Portland is called Portland because it's a port."

Now Sen. Smith is scrambling to hang on to his seat, as his Democratic opponent, Jeff Merkley, hammers on the trade issue.

"They call it free trade," a recent Merkley ad says, "Problem is—there's nothing free about it." Mr. Merkley wants legislation that would put strict workplace-safety, labor and environmental standards

Please turn to page 27

LEADING THE NEWS

German government sets fiscal stimulus measures

By Andrea Thomas

BERLIN—Chancellor Angela Merkel's government is working on a fiscal stimulus program of around €25 billion ($32 billion) aimed at softening the economic slowdown without wrecking Germany's efforts to rein in its budget deficits.

Angela Merkel

The government is likely to approve a package of job programs and other measures Wednesday, but has yet to figure out how to finance the extra outlays, given the threat to tax revenues of an impending recession.

The planned measures include supporting the auto industry by waiving two years' car tax for low-polluting new cars that are bought next year. Other plans include aid for renovating buildings, infrastructure projects, a reintroduction of generous tax-depreciation rules for companies, and an extension of the period that people who have shortened workweeks because of difficulties at their companies can claim benefits, to 18 months from the present 12 months.

Some economists say income-tax cuts would be more effective.

But some economists say income-tax cuts would be more effective than fiscal stimulus packages that eye only specific areas.

The combination of slowing economic growth and a new fiscal boost of as much as €25 billion effectively sidetracks the government's ambition to balance the budget. Finance Minister Peer Steinbrück said this week that the government's goal for a balanced budget in 2011 is no longer a top priority.

"The fact that the German government, which is generally more fiscally prudent than other European counterparts, is considering fiscal action emphasizes how bad the downturn is," said Dominic Bryant, an economist with BNP Paribas. "Of the larger euro-zone economies, Germany is in the best state to take such action given its budget position was more or less in balance in 2007, whereas the likes of France and Italy run large deficits," he said.

Germany's rescue plan for its financial sector, which involves €500 billion in debt guarantees and funds for capital injections and purchases of illiquid assets, won't have a direct impact on the government's budget, but could add substantially to the national debt.

"Without cuts on the spending side, it's no longer as easy to bring new borrowing requirements to zero by 2011 as it was a few months ago," said Alfred Boss, a tax expert with the IfW economic research institute.

Deutsche achieves profit

Shift in accounting reduces write-downs; in-house bets weigh

By Carrick Mollenkamp

Deutsche Bank AG, helped by a change in the way European banks book souring assets, posted a profit in the third quarter even as in-house trading bets in the equity and credit markets led to third-quarter losses totalling €1.3 billion ($1.68 billion).

The Frankfurt bank, which has navigated around write-downs tied to loans for homes and acquisitions, reported third-quarter net income of €414 million, far below net income of €1.6 billion in the same period a year ago.

A change earlier this month by European accounting policy makers allowed banks to move souring loans to their hold-to-maturity books, limiting write-downs that would have resulted from valuing the assets at market prices. Deutsche Bank was one of the first banks to take advantage of the change in International Accounting Standard 39, recategorizing €24.9 billion of loan exposure.

For the third quarter, Deutsche Bank avoided €845 million in write-downs, but still reported total write-downs of €1.2 billion. The accounting change meant the bank essentially was able to report the profit of €414 million instead of a €122 million loss.

Deutsche Bank's shares rose 18% to €29.20 in Frankfurt. Jon Peace, a bank analyst at Nomura International PLC in London, said the increase reflected relief that Deutsche Bank didn't lay out plans to sell stock on the market like many of its peers have. The bank raised €2.2 billion in capital in September to finance the acquisition of a minority stake in Deutsche Postbank AG.

"People were fearful of an announcement of a big, dilutive recapitalization, and it's not come through," Mr. Peace said.

The next test of the new rules will be when Switzerland's **UBS** AG reports results Tuesday. France's **BNP Paribas** SA reports Wednesday, and its French rival **Société Générale** SA follows on Thursday.

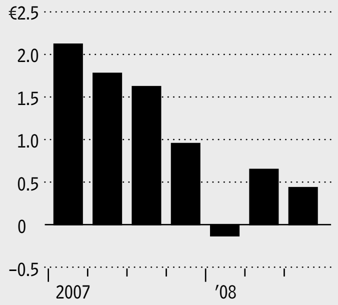
The outlook from the German bank is seen as a barometer both for the European banking system and for financial firms dependent on the sales and trading of securities tied to stocks and bonds.

Chief Executive Josef Ackermann said he expected the broader economy would hurt the global financial system, saying in a note to investors, "The credit environment is already becoming tougher. Corporate default rates are rising, as are delinquencies in consumer and credit card lending."

Mr. Ackermann's comments underscore the difficult months ahead that banks globally face even after a period of 45 days that saw coordinated interest-rate cuts, capital infusions in banks, and governments agreeing to back the issuance of bank debt. Banks globally also are trying to identify how they will generate revenue in the wake of the credit crunch while also trying to sidestep money-losing in-house bets.

Deutsche Bank

Net income, in billions



Source: the company

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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.

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

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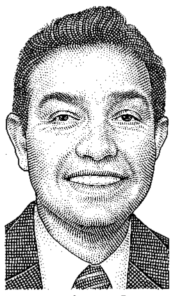
Motorola delays spinoff, slashes more jobs

Handset maker posts hefty loss, plans major cost-cutting

BY SARA SILVER

Motorola Inc. said it would shelve plans to split off its troubled cellphone division next year and plans to lay off another 3,000 workers, raising fresh questions about the company's future.

The telecom equipment maker, which swung to a loss for the quarter and slipped to No. 4 among global handset suppliers, cited the deteriorating economy and financial markets for its decision to postpone its spinoff plans for an indefinite period.



Sanjay Jha

Such a break-up, as advocated by investor Carl Icahn, would require a significant cash outlay and co-Chief Executive Greg Brown said now was not the time "to spend that cash."

"The spinoff was never a panacea for Motorola's problems and it's unlikely it will follow through until mobile devices becomes sustainably profitable," said David Hamburger, an analyst at Citi Investment Research.

Mr. Brown and co-CEO Sanjay Jha, who heads up the handset business, said they remained committed to carrying out the separation.

Motorola announced plans to cut $800 million in costs. Mr. Brown said that would translate into 2,000 layoffs from mobile devices, and another 1,000 elsewhere. Motorola has laid off more than 3,000 of its 66,000 employees so far this year.

Mr. Jha said Motorola would focus on regions of strength in the Americas and parts of Asia. He also confirmed the company would halt the rollout of many phones designed on software platforms it plans to discard. It will instead focus on building advanced phones on systems made by **Google** Inc. and **Microsoft** Corp.

This means Motorola will miss out on the crucial upcoming holiday season, as Mr. Jha predicted that fourth-quarter sales would decline from the third quarter. Cellphones it will scrap include the Ruby, the centerpiece of a trio of jewel-named products promised to carriers for this spring.

"I understand the challenges and changes we need to address them," Mr. Jha said during an investor call. "There is no quick fix here."

The latest announcements did not calm those worried about Motorola's future as a cellphone maker. Motorola shares fell 5.2% to $5.17 on the New York Stock Exchange.

The Schaumburg, Ill., company posted a loss of $397 million, or 18 cents a share in the quarter ended Sept. 27, reversing a year-earlier profit of $60 million, or three cents a share. The company took $770 million in special charges to cover restructuring, write-downs of its multiple software and silicon platforms, and costs of the now-postponed separation.

In the third quarter, Motorola's revenue fell to $7.48 billion from $8.81 billion a year ago. Mobile devices saw sales slide 31%Motorola shipped 25.4 million handset units in the quarter, down 32%.

—Roger Cheng contributed to this article.

U.S. has new plan to help millions keep their homes

BY MICHAEL R. CRITTENDEN AND JESSICA HOLZER

WASHINGTON—The U.S. government's latest plan to aid struggling homeowners could move as many as three million people into more-affordable mortgages, according to people familiar with the effort.

The proposal, which has been designed by the Treasury Department and Federal Deposit Insurance Corp., is close to being finalized. Estimated to cost between $40 billion and $50 billion, the plan would have the government agree to share a portion of any losses on a modified mortgage offered by lenders.

Funding for the plan could potentially come out of the $700 billion financial-rescue program authorized by Congress earlier this month. The plan, which was previewed during congressional testimony last week, would represent one of the most aggressive and sweeping moves to address the U.S.'s foreclosure mess, among the last elements of the crisis yet to be addressed by concerted government intervention.

Corinne Hirsch, a spokeswoman with the White House's Office of Management and Budget, said the program "is currently in a White House policy process," suggesting it is in the final stages of being reviewed. Treasury spokeswoman Jennifer Zuccarelli said "the administration is looking at ways to reduce foreclosures."

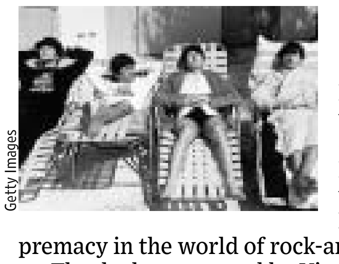
FDIC spokesman Andrew Gray said: "While we have had productive conversations with Treasury and the administration about options for the use of credit enhancements and loan guarantees, it would be premature to speculate about any final framework or parameters of a potential program."

The program is one of a series of ideas under consideration designed to address the root causes of the financial crisis.

CORPORATE NEWS

VIDEOGAMES

MTV's Rock Band game will feature Beatles songs


Getty Images

THE BEATLES have licensed songs to MTV Networks' Rock Band videogame series, a coup for the **Viacom** Inc. unit in its battle with rival **Activision Blizzard** Inc. for supremacy in the world of rock-and-roll videogames.

The deal, announced by Viacom's MTV and the band's Apple Corps Ltd., makes the Beatles the biggest band to license its songs to a music-oriented videogame, joining Aerosmith, AC/DC and others. Rock Band and Activision's Guitar Hero have engaged in heated competition over exclusive rights to use music by major acts, entering multimillion-dollar licensing agreements with a handful of the biggest names in the business.

CREDIT CARDS

American Express to cut 10% of staff, freeze hiring

Associated Press

IN AN acknowledgment of the tough times facing the credit-card industry, **American Express** Co. plans to cut 7,000 jobs, or about 10% of its work force, in an effort to slash costs by $1.8 billion in 2009.

The New York credit-card issuer said it is suspending management-level salary increases next year and freezing hiring. The job cuts will focus on management. It also will scale back investments in technology and marketing.

The announcement came 10 days after dour third-quarter results. It said it plans to take a restructuring charge of between $240 million and $290 million in the fourth quarter. *—WSJ Roundup*

TELECOMMUNICATIONS

U.K.'s Vodafone teams up with Mobile TeleSystems

Associated Press

VODAFONE Group of Britain said it entered a partnership with OAO **Mobile TeleSystems**—a move that extends its footprint to Russia and bolsters the Moscow-based mobile provider's product range.

Vodafone Group and Mobile TeleSystems signed a strategic, non-equity partnership that will allow the Russian company to draw on Vodafone's expertise in building and developing 3G networks and mobile-broadband products. Vodafone, meanwhile, will extend its roaming capabilities to Russia and other parts of the former Soviet Union where Mobile TeleSystems has more than 90 million subscribers. World-wide Vodafone has around 40 such partner deals. *—Andrew Langley*

VW earnings buck auto-industry trend

Profit increases 27%, and '09 market share is expected to rise

BY CHRISTOPH RAUWALD
Frankfurt

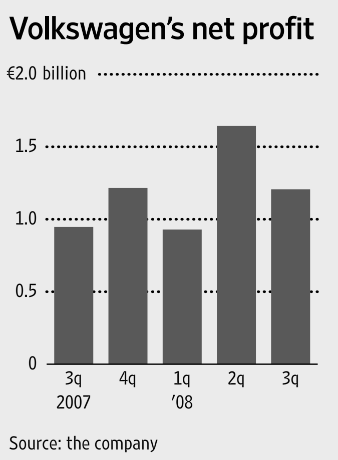
IN CONTRAST TO many rivals, **Volkswagen** AG posted solid earnings Thursday, stuck to its full-year outlook and said it expects to boost its market share next year.

Volkswagen, Europe's biggest auto maker by sales, has managed to weather the global economic storm relatively well, thanks to strong sales in emerging markets such as China and Brazil. It is the only major European auto maker that hasn't issued a profit warning for the year or revised its sales targets.

In the three months ended Sept. 30, Volkswagen said its net profit rose 27% to €1.21 billion ($1.57 billion) from €947 million a year earlier. Sales were up 11% to €28.93 billion from €26.11 billion.

In the first nine months of the year, VW's net increased 30% to €3.78 billion from €2.91 billion, partly boosted by a gain of €231 million related to currency hedging transactions, compared with a loss of €264 million in the year-earlier nine months. Revenue rose 5.5% to €85.43 billion from €80.96 billion.


Associated Press



A woman looks at cars at a **Volkswagen** car dealer in Gelsenkirchen, Germany

Chief Financial Officer Hans Dieter Pötsch said Volkswagen expects to take market share from rivals as the weak trends in the global auto market continue in the fourth quarter and through next year.

The company's market share in Western Europe rose to 20% in September from 17.9% a year earlier, according to the European Automobile Manufacturers Association.

Speaking in a conference call with reporters, Mr. Pötsch confirmed that **Porsche Automobil Holding** SE—which has built up a 42.6% stake in VW shares and secured options to control a further 31.5%—won't be able to enforce a "domination agreement" that would give it full access to VW's cash flows as long as Germany's so-called Volkswagen law is in place and as long as the German federal state of Lower Saxony opposes such a move.

The VW law sets the threshold for enforcing a so-called domination agreement at 80% control, rather than 75%, which is common for German companies. Lower Saxony has a stake of just over 20% in Volkswagen, giving it the power to veto any domination agreement.

VW's share price has fluctuated wildly this week after short sellers, who had bet the stock would fall, exited from their positions in the wake of Porsche's announcement that it was raising its stake in VW, sending the shares up 348% over Monday and Tuesday.

Shrinking demand for new cars in major markets along with high raw-material costs and unfavorable exchange rates have eaten into earnings of European auto makers, and industry executives have been reluctant to make concrete forecasts for 2009.

VW said its cost management, together with its expected growth in unit sales, "will help lift our operating profit for 2008 above the previous year's figure." In 2007, operating profit after items came in at €6.15 billion and revenue totaled €108.9 billion. The targets for 2008 exclude effects from the acquisition of a stake in Swedish truck maker **Scania** AB.

Meanwhile, German truck maker and engineering company **MAN** AG, in which VW is the biggest single shareholder, with a 29.9% stake, said Thursday its third-quarter profit jumped 34%, lifted by strong sales of trucks, diesel engines and turbo machinery. However, the company cut its full-year sales and order-intake outlook, as demand for trucks is slowing.

Truck demand in Western Europe and the U.S. is shrinking after several years of strong growth. European truck makers Scania and Volvo AB last week reported sharp slowdowns in earnings growth and gave gloomy outlooks.

—Hilde Arends contributed to this article.

Alcatel narrows loss as new CEO urges a nimbler culture

BY LEILA ABBOUD

Ben Verwaayen, the new chief executive of **Alcatel-Lucent**, is shaking things up at the telecom-equipment maker in a bid to restore profitability to a company deeply shaken by its merger two years ago.

The company released its third-quarter results Thursday, reporting a narrower net loss.

Since taking over Alcatel-Lucent in September, Mr. Verwaayen has traveled to China, the U.S. and Japan to meet with the telecommunications operators that are the Paris-based company's biggest clients. He held town-hall meetings at Alcatel-Lucent sites in France, Belgium and Asia to talk with employees about how to turn the company around. He also gave his personal email address to all employees, encouraging them to ask him questions or send suggestions for how to improve things at the company. "I've gotten truckloads of email," he said in an interview.

His mission: change the culture at Alcatel-Lucent to make its 77,000 employees more reactive and responsive to telecom operators' needs. "We have to be closer and more relevant to our customers," he said. "We have to be working on technologies for tomorrow, not today."

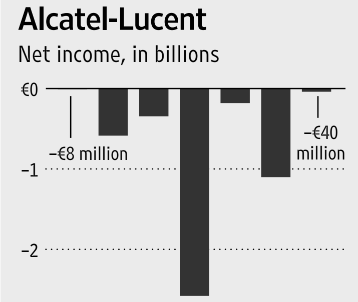
Mr. Verwaayen, who used to run BT Group, one of the largest telecom operators in the U.K., said such an approach is the only way for Alcatel-Lucent to prosper in the long term given tough competition from low-cost Asian manufacturers of telecom gear. Alcatel-Lucent, he said, must come up with products and applications that will help telecom operators succeed and profit at a time when people's Internet, telephone and television habits are changing quickly.

To that end, Mr. Verwaayen has started a strategic review of operations. He plans to appoint a new leadership team and introduce "a simpler business model" in mid-November. In early December, Mr. Verwaayen intends to present a "fully-fledged strategic plan."

Mr. Verwaayen has a tough road ahead of him: Alcatel-Lucent has been unprofitable since it was created in a merger between Paris-based Alcatel SA and Lucent Technologies Corp., based in Murray Hill, N.J., in December 2006. It was forced to cut prices on some technologies in key markets such as China to keep from losing contracts. Planned cost savings from the merger were slow to materialize.

Investors fled the stock. Alcatel-Lucent's market capitalization has shriveled to about $6 billion from a premerger level of $35.6 billion. The shares are trading near record lows. The company on Thursday posted a net loss of €40 million ($51.8 million), compared with a loss of €345 million a year earlier. Revenue shrank 6.6% to €4.07 billion as operators spent less on new gear. Investors reacted positively, bidding up the stock 20% to €2.02 a share at the close of trading in Paris.

Alcatel-Lucent also indicated it is considering selling its 20.8% stake in defense-electronics company **Thales** SA of France. Mr. Verwaayen acknowledged that Alcatel-Lucent is in a tough spot. "On profitability, we are not where we should be," he said. "We need to transform the way we do things because if we stay on the road we're on, we just won't get there."



—Jethro Mullen contributed to this article.

CORPORATE NEWS

Unilever profit leaps 63%

Higher prices, sales of assets help boost results in quarter

By Martin Gelnar

Unilever reported a 63% jump in third-quarter earnings, lifted by gains from selling some operations and benefits from its long-term restructuring.

The maker of Ben & Jerry's ice cream and household products such as Dove soap and Sunsilk shampoo said its strategy of raising prices continued to work well in the quarter, with sales volumes holding up.

In the three months ended Sept. 30, the Anglo-Dutch company said net profit rose to €1.64 billion ($2.12 billion) from €1.01 billion in the year-earlier period. The latest earnings were boosted by gains of €487 million, mostly related to the sale of the Lawry's seasoning brand to McCormick & Co.

Sales rose 1.8% to €10.43 billion, curbed by currency fluctuations. With exchange rates held constant, sales would have grown 7%, the company said.

Underlying sales growth, which strips out currency swings as well as acquisitions and disposals, was 8.3%.

Unilever said it is benefiting from its restructuring plan, which includes job cuts and a streamlining of its portfolio of products. The company has recently sold brands such as Bertolli olive oil and Snuggle fabric softener to focus on its biggest brands, which also include Hellmann's mayonnaise, Axe deodorants and Knorr soups.

The overhaul strategy is the mark of outgoing Chief Executive Patrick Cescau, who will hand over the reins to Paul Polman, a former Nestlé and Procter & Gamble Co. executive, at year end. The company said it is on track to save more than €1 billion in costs this year and expects to post 2008 underlying sales growth above its long-term target range of 3% to 5%.

Unilever, however, said it sees more shoppers buying less-expensive generic products in some segments such as shampoo, a development that's putting pressure on its brands. But its food lines are holding up well, particularly in markets such as Russia, Unilever Chief Financial Officer Jim Lawrence said in a conference call with reporters.

Associated Press

Unilever credits its **restructuring plan** for its rise in third-quarter earnings.

WPP falls short of expectations for bumper year

Aaron O. Patrick

LONDON—Advertising giant **WPP Group** PLC reported slowing revenue growth and said it hired too many employees earlier in the year, hurting profits.

Sir Martin Sorrell, the marketing giant's chief executive, said his prediction that the Summer Olympics, U.S. election and European soccer championship would make 2008 a bumper year for the ad industry didn't come true.

Sir Martin's views are closely followed in the ad world, and he has been predicting for several years that this year would deliver big earnings for ad agencies, which include Ogilvy & Mather, JWT, Young & Rubicam, Grey Worldwide and United. Instead, WPP's growth is slowing.

The financial crisis overwhelmed the expected lift from the election, Olympics and soccer in the third quarter, Sir Martin said. "The financial crisis had an impact on the real world ... sooner than we thought. It is not nice to see 10 years' work wiped out," by declines in WPP's share price, he said in an interview.There was "no Beijing bounce," he added.

The financial crisis has hit marketing companies particularly hard. WPP's shares this week traded at £2.99 ($4.90 their lowest price since the 1990s. But they jumped 9% Thursday to £3.62 after Sir Martin said at a presentation for analysts that investors are being too pessimistic about prospects for the ad market next year.

Third-quarter revenue at the London-based company rose 16% to £1.72 billion ($1.05 billion) from the year-earlier period, mainly because the British pound fell against the euro and U.S. dollar. Removing the effect of currency shifts and acquisitions, revenue rose 3%.

Distant goal

Premiere AG hopes to win broadcast rights for German football's top national league, featuring clubs such as Karlsruher SC and FC Bayern München (shown below on Oct. 8), but the auction for the Bundesliga games may go higher than Premiere is worth.

Premiere AG daily market capitalization

Source: Thomson Reuters Datastream

DFL

Premiere's tough goal

Football-broadcast rights may cost more than its market cap

By Archibald Preuschat

FRANKFURT—As its losses accumulate and its share price falls, **News Corp.**'s latest pay-TV investment, **Premiere** AG, has another challenge: retaining the broadcast rights for German football's top national league.

The auction for the rights to air the national Bundesliga games has been scheduled for Friday, just as Premiere suffers a crisis that began earlier this month when it restated its subscriber base, reducing the figure by almost one million. Its market capitalization was halved within 24 hours as a result and it is renegotiating its financing.

The football rights, which Premiere has held since last season, are the German company's juiciest offering to subscribers. But they are also expensive. Bundesliga football pay-TV rights go for around €200 million ($259 million) in the current season of 2008-2009, a hefty payment for a company with a total market cap of around €192 million, down from €1.5 billion a year earlier, and with net debt of €223.7 million at the end of the second quarter.

A Premiere spokesman said the company is a reliable partner for the German football league association and that he is confident the partnership with the league would continue. However, he declined to comment on details of how Premiere could finance a bid.

News Corp., for its part, has invested around €500 million in building up its 25.01% stake in Premiere, according to J.P. Morgan estimates. News Corp. has a record of using football to turn around unprofitable pay-TV companies in Europe, including **Sky Italia** and the U.K.'s **British Sky Broadcasting Group** PLC, which it partly owns. But News Corp.'s last big investment in Germany, with KirchMedia, fell flat when the media company filed for insolvency in 2002.

"News Corp. won't allow any other bidder to get the Bundesliga football rights than Premiere," said Sal. Oppenheim analyst Sonia Rabussier. News Corp., which owns Dow Jones & Co., publisher of The Wall Street Journal, declined to comment on whether it will support Premiere's bid for the Bundesliga football rights or if it plans a bid of its own.

A total of 32 companies are interested in Germany's Bundesliga football rights, football league association Chief Executive Christian Seifert said Thursday. **Walt Disney** Co. and its ESPN channel has expressed interest in the rights, according to people familiar with the matter. An ESPN spokesman in London declined to comment on the auction, other than to say it continues "to explore sports rights around the world."

It will take some weeks until Germany's football league association, known as the DFL, which represents all German professional football clubs, decides about the bids entered. Besides the price, editorial competence and strategic perspectives are criteria for the successful bid, said Mr. Seifert.

Analysts see a few ways News Corp. could use its financial strength to secure the rights for Premiere. It could bid directly for the rights and pass them on to Premiere. Taking advantage of the low price, News Corp. could bid for the portion of Premiere that it doesn't already own.If Premiere wins the auction, it has until May to deliver a guarantee from a bank. The DFL is considering softening this rule in light of the current financial crisis.

News Corp. has effectively had operational control of Premiere since September when Premiere appointed the new CEO, Mark Williams, a former high-ranking News Corp. manager. It has also brought in three senior appointments from Sky Italia.

Mr. Williams said this month that the company has started talks with banks regarding debt restructuring. Premiere is rapidly using up the money shareholders invested in the company by subscribing to a €176 million capital raising 13 months ago. By June 30, about €100 million remained and it is likely third-quarter results Nov. 13 will show the negative cash-flow trend has continued. Analysts widely expect Premiere to disclose that it has breached its debt covenants when it unveils its full-year results, likely in February.

Sun Microsystems posts loss on big write-down

By Katherine Wegert
And Lauren Pollock

Sun Microsystems Inc. swung to a quarterly loss as the maker of software and server systems took a $1.45 billion write-down to account for the declining market value of the company.

Sun posted a net loss of $1.68 billion, or $2.24 a share, for its fiscal first quarter ended Sept. 28. That compares with year-earlier net income of $89 million, or 10 cents a share.

Excluding the write-downs and other items, Sun had a loss of nine cents a share.

Revenue fell 7.1% to $2.99 billion. Last week, while cutting its earnings outlook, Sun estimated revenue would be between $2.95 billion and $3.05 billion.

Sun said last week it was conducting an internal impairment analysis and warned Thursday that additional charges may be booked this quarter. Chief Executive Jonathan Schwartz said the economic downturn continued to weigh on customers during the quarter, especially those that contribute to Sun's "traditional high-end businesses."

Gross margin decreased 8.3 percentage points from last year to 40.2%; Sun had projected gross margin of 39% to 41%.

Sun, which faces stiff competition from **International Business Machines** Corp., **Hewlett-Packard** Co. and **Dell** Inc. in the server-systems market, gets more of its sales from U.S. customers—particularly those in the hard-hit financial sector—than its rivals.

Shares slipped 1.4% to $5.21 in after-hours trading following the report. The stock closed at $5.29, up 9.5%, on the Nasdaq Stock Market Thursday.

AstraZeneca profit jumps 29%, and full-year forecast is raised

By Elena Berton

LONDON—**AstraZeneca** PLC lifted its full-year outlook as it reported a 29% rise in third-quarter net profit, driven by strong sales of cholesterol drug Crestor and favorable currency movements.

In the three months ended Sept. 30, British-based AstraZeneca's net profit rose to $1.73 billion from $1.34 billion a year earlier.

Its total sales increased 8.7% to $7.78 billion from $7.15 billion on strong sales of Crestor, a robust performance in emerging markets and the weakening of the British pound compared with the U.S. dollar—helping offset a slowdown of its top seller, heartburn treatment Nexium. That drug showed a modest 1.7% sales increase to $1.31 billion, as U.S. sales declined against a backdrop of intense price competition.

Sales of Crestor rose 33% to $922 million, as more doctors prescribed the drug as a treatment for plaque buildup inside arteries, as well as a cholesterol therapy. Crestor is expected to get a boost after data are released next month from a key study that was stopped early because the drug proved effective at reducing the risk of death and heart problems in less ill patients.

The company raised its 2008 forecast for core earnings per share to a range of $4.90 to $5.05. Its previous outlook for core earnings, which exclude restructuring costs and charges related to last year's purchase of U.S. biotech company MedImmune, was $4.60 to $4.90.

AstraZeneca said it doesn't plan further share buybacks this year—echoing comments made last week by rival GlaxoSmithKline PLC.

Chief Financial Officer Simon Lowth said the buyback suspension will give AstraZeneca flexibility to acquire further assets, such as experimental drugs, should opportunities arise. Small biotech companies are becoming increasingly vulnerable amid the looming economic downturn, creating acquisition opportunities for larger, cash-rich pharmaceutical companies.

—Ishaq Siddiqi contributed to this article.

BASF posts earnings increase, trims outlook

By Natascha Divac
And Heide Oberhauser-Aslan

The world's biggest chemical company, **BASF** SE, posted a 37% drop in third-quarter net profit, and lowered its full-year outlook, citing a more challenging economic environment.

The company said it now "wants to make every effort to match" last year's earnings before interest and taxes, a key figure for measuring a company's operating efficiency. Previously, it was aiming for a slight improvement.

BASF still expects an increase in sales, but said its outlook is based on the assumption that "there will be no further adverse developments that cannot be foreseen at present."

Unlike many other chemical companies, BASF also produces oil. It has been able to offset weakness in its chemicals business by strong performance in its oil and gas unit. But this year, a sharpening recession is likely to intensify the decline in demand for chemical products.

"The impact of the financial crisis on the real economy is speeding up and hitting harder," Chief Executive Jürgen Hambrecht warned. "The decline in demand in important markets, stockpiling by our customers and the fall in oil prices are all signs of a recessionary trend that is likely to sharpen in 2009."

The company's cautious tone resembles some of its rivals. **Dow Chemical** Co. recently said it expects demand for the company's products to be weak at least until the second half of next year while **Akzo Nobel** NV of the Netherlands on Wednesday postponed the planned sale of its National Starch business.

In the three months ended September 30, BASF's net profit fell to €758 million ($981 million) from €1.21 billion last year, even though sales rose 13% to €15.77 billion from €13.96 billion. Earnings before interest and taxes were down 11% to €1.51 billion from €1.69 billion.

BASF said it will suspend its current share-buyback program until goods and financial markets have stabilized, adding, however, that it still plans to buy back shares valued at €3 billion by mid-2010.

In an effort to reduce costs, the company said it will cut 1,000 jobs world-wide. , which should contribute more than €1 billion to its earnings from 2012 onward. Most of the cuts will come in 2009 and 2010.

However, the chemical giant also sees an upside to the current market conditions, saying that its healthy balance sheet would allow it to make acquisitions. "We will now closely look at what the market has to offer," said Mr. Hambrecht.

L'Oréal cuts sales, profit forecasts

By Christina Passariello

PARIS—**L'Oréal** SA, the world's largest cosmetics group, said Thursday the consumer-spending slowdown will cause it to miss its target of double-digit earnings growth for the first time in more than 20 years.

L'Oréal cut its full-year sales growth target to about 4%, and said per-share earnings would rise 7% to 8%, stripping out exchange-rate fluctuations. In August, the company said it expected earnings-per-share growth of at least 10% this year.

Since then, consumers around the world—and especially in the key markets of Western Europe and the U.S.—have cut back on purchases of items such as the company's L'Oréal makeup, Kérastase hair products and Giorgio Armani perfumes. L'Oréal a few weeks ago announced the closing of two factories in Europe.

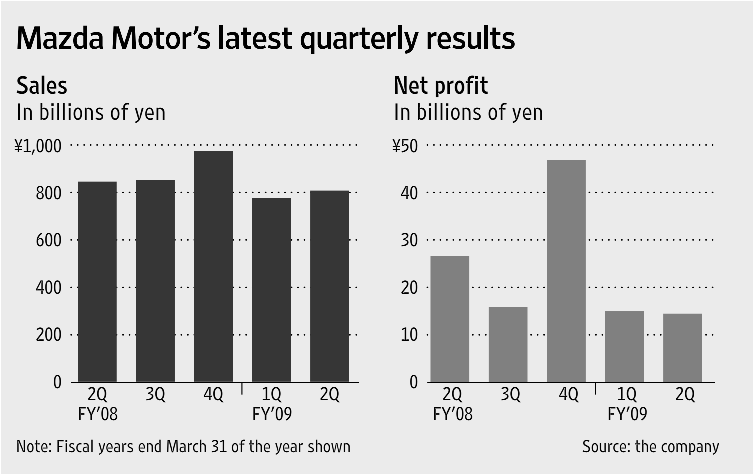
L'Oréal said Thursday its third-quarter sales rose 3.4% to €4.27 billion ($5.53 billion). The results, boosted by the acquisition of Yves Saint Laurent Beauté this year, fell far short of market expectations.

L'Oréal's news caps a dismal week for cosmetics companies. **Procter & Gamble** Co. and **Estée Lauder** Cos. each cut their full-year earnings forecast, and **Avon Products** Inc.'s quarterly earnings missed expectations.

L'Oréal has often boasted about its long record of double-digit profit growth. The company in recent years changed the metric from pretax profit to earnings per share. Large share buybacks have helped L'Oréal reach the latter goal.

L'Oréal's sales fell in its two biggest markets, Western Europe and North America, where consumer-confidence levels have fallen to record lows on the back of the financial crisis.

CORPORATE NEWS



Mazda and Mitsubishi record lower profits

Auto makers reduce full-year forecasts; yen gains strength

By Yoshio Takahashi

TOKYO—**MAZDA MOTOR** Corp. and **Mitsubishi Motors** Corp. both announced lower fiscal second-quarter profits and cut their forecasts for the full fiscal year, making them the latest victims of the global economic turmoil.

Mazda, which is 33.4%-owned by **Ford Motor** Co., reported a 45% drop in net profit for the quarter ended Sept. 30 as the yen's strength and higher material costs offset growth in global sales volume.

The earnings report comes as Ford's board, exploring ways to bolster its finances amid a global downturn, is aiming to sell at least part of its stake in Mazda, according to people familiar with the matter. Mazda Chief Executive Hisakazu Imaki reiterated at a news conference that the company has nothing to disclose on the matter.

Mazda, Japan's fifth-largest auto maker by sales volume, cut its net profit projection for the full year ending in March. Mitsubishi Motors, the country's sixth-largest auto maker, reduced its operating profit forecast. Both companies also trimmed their auto sales projections for the full year.

The two auto makers join **Honda Motor** Co. in posting sluggish earnings for the July-September quarter and issuing profit warnings. Honda on Tuesday posted a 41% drop in its second-quarter profit and cut its full-year profit outlook. Analysts expect **Toyota Motor** Corp., which releases earnings next week, and **Nissan Motor** Co., which reports Friday, to also report steep profit drops for the three months ended September.

Mazda, whose lineup includes the Mazda3 subcompact and the MX-5 Miata convertible, said quarterly net profit came to 14.5 billion yen ($149 million), compared with 26.6 billion yen a year earlier. Sales fell 5% to 803.7 billion yen. Operating profit declined 20% to 32.4 billion yen.

Mitsubishi Motors said its quarterly net profit fell 4% to 2.5 billion yen from 2.6 billion yen a year earlier. Sales dropped 12% to 603.9 billion yen.

Mazda and Mitsubishi Motors report earnings under Japanese accounting standards.

Hitachi, Nikon and Pioneer slash their profit forecasts

By Juro Osawa And Yuzo Yamaguchi

Hitachi Ltd., **Nikon** Corp. and **Pioneer** Corp. joined the list of Japan's technology companies slashing their full-year forecasts in light of flagging global demand and deteriorating asset values.

At Pioneer, ballooning losses cost a top executive his job: President Tamihiko Sudo, assuming responsibility for the company's reduced outlook, announced his resignation Thursday, effective Nov. 15.

Hitachi, Japan's biggest electronics conglomerate by sales, lowered its net profit forecast for the fiscal year ending March 31, 2009, to 15 billion yen ($152 million) from 40 billion yen. Its new revenue forecast of 10.90 trillion yen, was down from a previously expected 11.1 trillion yen.

Hitachi said the financial-market crisis is a major factor behind the reduced forecast, with the company expecting losses on its shareholdings and a rise in related taxes.

Pioneer, meanwhile, warned of a drastically wider full-year net loss, reflecting bleaker market conditions. The maker of consumer and car electronics now expects a loss of 78 billion yen for the fiscal year ending March 31, compared with an earlier forecast of a 19-billion-yen loss.

For the July-September quarter, Pioneer posted a net loss of 45.23 billion yen, compared with a loss of 2.4 billion yen a year earlier. Revenue fell 17% to 166.1 billion yen.

Nikon cut its group net profit outlook for the fiscal year ending March to 47 billion yen from 78 billion yen due to weakening demand for its digital cameras and precision equipment.

Elsewhere, **Sharp** Corp. said its fiscal first-half profit skidded 35%, dragged down by weakness in its mobile phone hand-set business. Sharp's profit for the April-September half fell to 28.01 billion yen ($288.2 million) from 43.31 billion yen in the year-earlier period. Sharp stuck to its recently lowered net profit forecast of 60 billion yen for the fiscal full year, down from net profit of 101.92 billion yen in the previous year.

GLOBAL BUSINESS BRIEFS

Novo Nordisk AS

Net profit increases 22% amid exchange-rate benefits

Boosted by strong demand for its products and favorable exchange rates, insulin maker **Novo Nordisk** AS posted a 22% increase in third-quarter net profit and raised its full-year outlook. Net profit rose to 2.66 billion Danish kroner ($462 million) from 2.18 billion kroner a year earlier while sales increased 7.1% to 11.25 billion kroner from 10.5 billion kroner. The Danish pharmaceutical company said it now expects full-year operating profit to grow between 32% and 35%—an increase of 10 percentage points from its previous forecast. The company's plans for next year reflect intense competition in the insulin and biopharmaceutical markets, according to Novo Nordisk.

Erste Group Bank AG

Austrian lender **Erste Group Bank** AG saw its third-quarter net profit more than triple, boosted by a large gain, and said it will dip into Austria's financial support-package to strengthen its capital base by €2.7 billion ($3.5 billion). Erste said it asked the government for a €2.7 billion capital-increase before the end of year, which will raise its Tier 1 ratio—a key measure of a bank's capital strength—to above 10% from 7% at the end of 2007. The lender is the first major bank in Austria to seek aid. Erste said net profit leaped to €826.4 million from €271.9 million a year earlier thanks to a €601.8 million gain from the sale of its insurance business. The bank said it still expects full-year net profit to rise around 15%.

Nintendo Co.

Nintendo Co. said its net profit climbed 9.4% in its fiscal first half on robust sales of its smash-hit Wii consoles in the U.S. and Europe. But the videogame powerhouse warned it won't make its profit target for the fiscal year through March, becoming the latest in a series of Japanese consumer goods exporters to buckle under the strong yen as they brace for shoppers feeling the pinch of the global economic slowdown on year-end holiday spending. The Kyoto-based company said net profit for April to September rose to 144.8 billion yen ($1.49 billion) from 132.4 billion yen a year earlier as Wii hardware sales jumped 38% to 10.1 million consoles. Revenue rose 17% to 836.9 billion yen for the first half, from 694.8 billion yen a year earlier.

Pernod Ricard SA

French wine and spirits company **Pernod Ricard** SA reported a 13% rise in revenue for its fiscal first quarter thanks to the purchase of Absolut Vodka and double-digit growth at premium brands such as Perrier-Jouët Champagne. Despite the economic slowdown, sales in the three months through September rose to €1.76 billion ($2.28 billion). Stripping out the gains from acquisitions, revenue growth was 7%. Pernod Ricard said all regions contributed to the increase in revenue, with even "slight growth" in the U.S., where the economy has been hard-hit by the financial crisis. Looking ahead to June, the company said it expects "strong growth" from Absolut Vodka to help it achieve its goal of more than 10% growth in full-year net profit from recurring operations.

France Télécom SA

France Télécom SA said third-quarter revenue grew slightly from a year earlier and stuck to its 2008 outlook, despite the deteriorating economic situation. For the quarter ended Sept. 30, revenue rose to €13.55 billion ($17.54 billion) from €13.51 billion a year earlier. The French telecommunications operator cited a solid performance across markets, with the exception of Spain and some African countries, where it felt some negative impact from the financial crisis. "Our business is proving more resilient than the rest of the economy in this quarter at least," Chief Financial Officer Gervais Pellissier said in a conference call. Earnings before interest, taxes, depreciation and amortization were flat in the quarter at €5.09 billion. The company didn't break out quarterly net-profit figures.

Metro AG

Metro AG, Germany's largest retailer by sales, swung to a third-quarter net profit Thursday, helped by a lower tax bill, but cautioned that the global economic slowdown could hurt its business. The company reported a net profit of €183 million ($236.8 million) for the three months ended Sept. 30, compared with a year-earlier net loss of €68 million. Revenue grew 6.7% to €16.34 billion from €15.31 billion. Metro confirmed its 2008 outlook but said the market environment is getting "more and more difficult" as customer demand has weakened in the third quarter, particularly in Spain and Italy. Chief Executive Officer Eckhard Cordes said in a conference call that the company's 2008 targets remain achievable based on a "reasonable" holiday shopping season.

British American Tobacco PLC

Cigarette maker **British American Tobacco** PLC on Thursday said third-quarter net profit rose 9.5%, boosted by better sales of global brands—particularly in emerging markets—and a gain from changes in currency values. Net profit increased to £657 million ($1.08 billion) from £600 million a year earlier, said the maker of Dunhill, Pall Mall and Lucky Strike cigarettes. Revenue rose 26% to £3.25 billion. The company attributed the revenue gain to its expansion into emerging markets, where smoking rates are higher than in many developed countries. In June, BAT took over the cigarette assets of Tekel, a Turkish state-owned tobacco business, giving BAT greater access to markets in the Middle East and Africa. The next month, BAT bought most of Denmark's Skandinavisk Tobakskompagni.

Eastman Kodak Co.

Eastman Kodak Co. said its third-quarter profit more than doubled, reflecting restructuring charges booked in the year-earlier period, but revenue fell and the company lowered its financial outlook. The camera and film supplier reported net income of $96 million, or 34 cents a share, up from $37 million, or 13 cents a share, a year earlier. Excluding items, per-share earnings from continuing operations fell to 22 cents from 46 cents. Revenue decreased 5.1% to $2.41 billion. Sales from the company's consumer digital business, which includes cameras and inkjet printers, rose 7%. For the full year, Kodak had projected sales as flat or up 2%. It now expects revenue to fall by 3% to 5%. The company also cut its earnings forecast heading into the holiday sales season.

Eni SpA

Eni SpA and **Enel** SpA signed an agreement with OAO **Gazprom** to develop the Russian Arctic Gas and Urengoil assets, seeking to tap Russia's hydrocarbon fields. Eni and Enel said further agreements were signed for Gazprom to take an equity stake in Severenergia, as established in a 2006 deal. Severenergia is a Russian venture in which Enel owns a 40% stake and Eni the remaining 60%. Separately, Eni said it completed an asset-swap deal with French utility **GDF Suez** SA. Under the terms of the deal, Eni is buying 57.3% stake in Belgian gas supplier **Distrigas** SA for about €2.7 billion ($3.49 billion). In return, Eni is selling a portfolio of assets to GDF Suez, including the gas distribution networks in and around Rome for €1.02 billion. The EU forced Suez to sell Distrigas for antitrust reasons.

Intel Corp.

Intel Corp.'s venture-capital arm will invest 386 million New Taiwan dollars (US$11.6 million) for a 20% stake in unlisted Taiwanese mobile operator VMAX Telecom Co., the companies said. Intel also signed a deal with Taiwan's Ministry of Economic Affairs to establish a software-development center on the island that will focus on technologies for mobile devices. VMAX, with capital of NT$1 billion, is a joint venture between telecommunications-gear maker **Tecom** Co. and mobile-phone operator VIBO Telecom Inc. "Intel Capital's intended investment and Intel's accompanying business engagement will enable VMAX to deploy Taiwan's first mobile WiMax network, intended to be commercially available within the first half of next year," Intel said.

Japan Tobacco Inc.

Japan Tobacco Inc. posted a 24% decline in fiscal second-quarter net profit because of amortization related to its acquisition of British tobacco maker Gallaher Group PLC. JT, as it is known, the world's third-largest tobacco company by sales volume after **Altria Group** Inc. and **British American Tobacco** PLC, had a net profit of 52.5 billion yen ($540.2 million) in the quarter ended in September, compared with 69.2 billion yen a year earlier. But JT said revenue rose 4.9% to 1.777 trillion yen, partly because of a strong performance by its overseas tobacco business. Operating profit fell 25% to 94.1 billion yen. For its fiscal year ending in March, JT raised its net-profit outlook to 160 billion yen from 148 billion yen; the revised figure represents a 33% year-to-year decline.

Westpac Banking Corp.

Westpac Banking Corp. said its annual net profit rose 12% year-to-year, driven by strong deposit and lending growth, but the group warned that loan growth is likely to slow and bad debts will climb as economic conditions soften. Net profit for the year ended Sept. 30 rose to 3.86 billion Australian dollars (US$2.59 billion) from A$3.45 billion the previous year, the Sydney-based lender said. Westpac, which has made an A$18 billion bid for Australia-based lender **St. George Bank** Ltd., said cash profit, a measure closely watched by investors, rose 6% to A$3.73 billion, at the bottom end of guidance for a 6%-to-8% improvement. Revenue rose 12% to A$11.4 billion, with net-interest income up 14% and noninterest income up 3%.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

SYRIA

Massive protest targets U.S. over deadly raid

Reuters

TENS of thousands of Syrians turned out for a government-orchestrated protest against a deadly U.S. raid near the Iraqi border.

Hundreds of Syrian riot police formed a protective ring around the closed U.S. Embassy, but the flag-waving crowds dispersed peacefully after a couple of hours later, as students headed to schools and employees to work.

The troops took up positions around the embassy and the adjacent U.S. residence building. The embassy was closed because of security concerns related to the protest, and the American school in Damascus was also shut for the day.

COLOMBIA

Uribe ousts army officers implicated in killings

Associated Press

COLOMBIAN President Álvaro Uribe, left, ousted 20 army officers, including three generals, after the soldiers were implicated in a scheme in which they allegedly killed impoverished civilians in order to dress them up as guerrillas and pretend they were killed in combat—thus inflating the army's body count.

The scandal is a blow to Colombia's military, which had gained in prestige following its aggressive campaign against the Communist guerrillas known as the Revolutionary Armed Forces of Colombia. The guerrilla army has suffered thousands of desertions and the loss of many of its most experienced leaders. *—José de Córdoba*

INDIA

Series of bombings kills at least 61 in northeast

Agence France-Presse

A SERIES of bombs planted in cars and rickshaws ripped through markets crowded with shoppers in India's volatile northeast Thursday, killing at least 61 people and wounding more than 300.

The scale of the 13 coordinated blasts surprised authorities, who struggled to pinpoint the culprits. The attacks were among the worst ever to hit the region, which is plagued by separatism, ethnic violence and Islamic militancy.

Some officials blamed the region's largest separatist group, the United Liberation Front of Asom.

An ULFA spokesman denied his organization had any role in the attacks. I *—Associated Press*

McCain seizes on gaffes

Candidate utilizes Biden's comments on taxes, security

JOHN MCCAIN'S campaign believes it has been handed two winning arguments in the closing days of the U.S. presidential race, both courtesy of Democratic vice-presidential nominee Joe Biden.

Unscripted comments by Sen. Biden—one on taxes, the other on in-

*By **Laura Meckler, Christopher Cooper** and **Elizabeth Holmes***

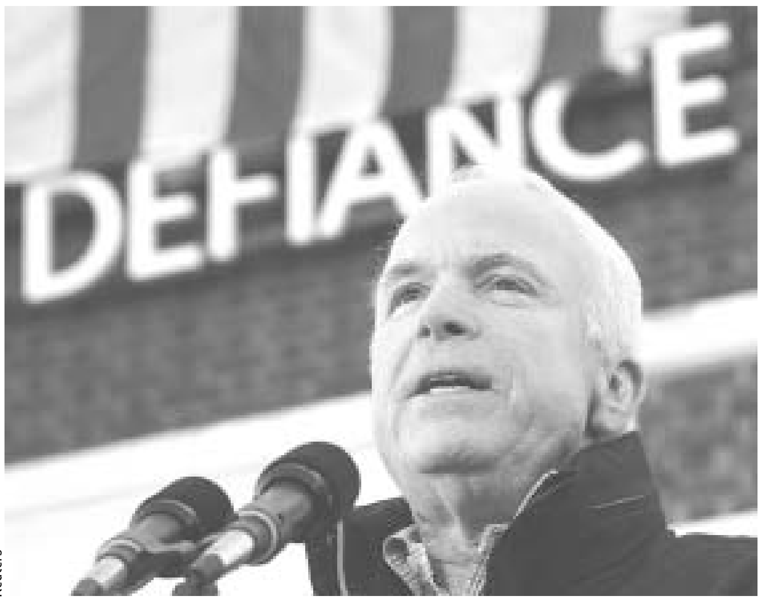
ternational affairs—have given the Republican presidential nominee a new way to contend that Barack Obama, the Democratic presidential candidate, is a risk to voters' wallets and to national security.

"You know, he's the gift that keeps on giving," Sen. McCain told a crowd gathered in the town square here Thursday. The Arizona senator was on a two-day bus trip across Ohio, a pivotal battleground state.

On Oct. 19, Sen. Biden predicted that within the first months of his presidency, Sen. Obama would be "tested" with an international crisis, just as President John F. Kennedy was by crises involving Cuba. Sen. McCain used the incident to remind voters that he was a Navy pilot in the cockpit of a fighter jet at the height of the Cuban missile crisis in 1962.

"I know how close we came to a nuclear war," he said at a rally Thursday in Defiance, Ohio. "I will not be a president who needs to be tested."

Monday, Sen. Biden implied that only those earning less than $150,000 a year would qualify for a tax break under an Obama administration. The Obama campaign has said no one earning less than



Reuters

U.S. Republican presidential candidate **John McCain** at a rally in Defiance, Ohio, on Thursday. He is on a two-day bus trip across the battleground state.

$250,000 would see their taxes rise, and it promises a tax cut for those earning less than $200,000.

"It's interesting how their definition of rich has a way of creeping down," Sen. McCain said in Defiance.

Sen. Biden has long been known for his verbosity and imprecision in public statements. Obama campaign officials say they still consider him a net positive in the race, helping win votes in Florida, Ohio and Pennsylvania. He is expected to campaign in those states this week.

David Axelrod, the Obama campaign's senior political strategist, said Sen. Biden has "been more than a net positive—he's been an absolute plus. There isn't a candidate out there who doesn't make mistakes now and then. We don't want to change Joe Biden—he's tremendously appealing out there."

The Democrats, meanwhile, have turned to Republican vice-presidential nominee Gov. Sarah Palin in their attacks. Polls suggest that many Americans feel she isn't qualified to be president. Wednesday, the Obama campaign released a television ad quoting Sen. McCain as saying he may need to rely on his vice president when it comes to economic issues. The screen says: "His choice?"—then cuts to Gov. Palin winking at the camera, a moment from the vice-presidential debate.

The McCain campaign has also seized on a seemingly off-the-cuff statement Sen. Biden made in Pennsylvania in September while walking a rope line. Sen. Biden said the Obama campaign didn't support "clean coal technology," a theoretical process in which the dirty fuel is rendered cleaner than alternatives through a process that traps carbon emissions.

"We are not supporting clean coal," Sen. Biden said, in comments that were likely videotaped without his realizing it. "No coal plants here in America."

Republicans were quick to convert the statements to attack ads, which have been in heavy rotation in Coal Country parts of battleground states, including Ohio and Pennsylvania. For these states, finding clean applications for the fuel is crucial in the age of global warming.

The Obama campaign has said repeatedly that Sen. Biden was misunderstood. The Delaware senator, during the vice-presidential debate, said his comments were taken out of context.

—Stephen Power contributed to this article.

Euro-zone confidence slumped during October

BY EMMA CHARLTON

Lost confidence

Euro-zone confidence stands at the lowest level in 15 years, posting its largest ever monthly drop

Source: European Commission

The worsening economic outlook and financial-market turmoil provoked a big drop in the confidence of the euro zone's businesses and consumers in October, compounding fears that the currency bloc faces a prolonged recession.

With the European Central Bank also forecasting lower inflation ahead, economists expect it to focus on averting a painful downturn with a rapid series of rate cuts.

The European Commission's measure of economic sentiment, encompassing both consumer and business outlooks for the 15 countries sharing the euro, posted its largest month-on-month decline yet. The composite sentiment meter fell to 80.4 in October, its lowest level in 15 years, from 87.5 in September. At the start of the year the reading was at 101.7.

The crisis has yet to affect the job market in Europe's largest economy, Germany. The number of unemployed people there fell to 2.997 million from 3.081 million in September, translating into a fall in the jobless rate to 7.2% from 7.4%, data from Germany's labor office showed. But German labor-office think tank IAB said it expects the first signs of adverse economic effects to feed into the work force in the second half of 2009. Some economists say those signs could emerge earlier.

"Unfortunately, this is probably just [Germany's] last hurrah. With the economy slipping into a serious recession, unemployment looks set to shoot up significantly next year," said Holger Schmieding, an economist at Bank of America in London.

The consumer gloom is dragging down retail sales in the region and is likely to feed through to weaker output. Spanish retail sales in September fell 5.6% on the year in calendar-adjusted terms after falling 5.9% in August and 6% in July, data from Spain's National Statistics Institute showed.

"October's terrible European Commission survey confirms that the euro-zone economy is weakening at an alarming rate," said Jennifer McKeown, an economist at Capital Economics in London. "We now expect the economy to contract by 1% in 2009."

Manufacturers' selling-price expectations fell for a third consecutive month in October. The indicator that measures consumers' price expectations over the next 12 months edged up to plus 19 from plus 17, indicating more people expected prices to rise over the coming year in October than a month earlier. But October's figure was well below June's plus 31, indicating consumers think the inflation peak has passed.

With the credit crunch feeding into the so-called real economy, the ECB is widely expected to cut interest rates by a half percentage point next week, taking the refinancing rate to 3.25%.

"The situation is serious and requires a prompt and strong response," said Aurelio Maccario, an economist at UniCredit in Milan, who forecasts the ECB will follow a half-point cut next Thursday with another one in December.

Spanish Finance Minister Pedro Solbes has become the latest European leader to urge the ECB to lower credit costs. "The central bank has more room to reduce interest rates, which in turn will generate more economic activity," Mr. Solbes said in an interview with Spanish public radio RNE broadcast on Thursday.

IMF loans without strings

New program will let stronger nations get short-term crisis aid

The International Monetary Fund will offer as much as $100 billion in a new kind of loan to countries that are battered by the financial crisis, making available new cash to help ease the world credit crisis.

The new three-month loans, aimed at economies the IMF judges to be troubled but basically sound, wouldn't require countries to make the often severe changes in their policies that the IMF has demanded for decades.

*By **Bob Davis, Marcus Walker** and **John Lyons***

That makes it potentially easier for crisis-hammered countries such as Mexico, Brazil and Korea to shore up cash reserves, their currency, and their ability to help ailing companies as shaken foreign investors withdraw.

Those countries have shunned the IMF because of the strings attached to the loans, which often force big budget cuts or interest-rate increases. The conditions are designed to help governments save money and pay for necessary imports, but they also often deepen an economic downturn, making the IMF deeply unpopular around the world.

Now it essentially is dividing developing countries into an A-list of nations that qualify for loans without strings, and a B-list of everyone else.

Late Tuesday, the IMF unveiled a $25 billion package of loans organized for Hungary. That package and a $16.5 billion loan for Ukraine require painful belt-tightening in exchange for help. Hungary must cut its budget deficit further and will cut bonus payments to retirees and public-sector workers.

The new program, which will use up to about half of the IMF's resources, represents a big break from such requirements. "Exceptional times call for an exceptional response," said IMF Managing Director Dominique Strauss-Kahn.

The Fed also took new steps to flood dollars into markets outside the U.S., where banks' unwillingness to lend has left foreign firms without dollars they need. In recent weeks, the Fed has created arrangements with central banks in Europe, Australia, Canada and other developed economies to make dollars available overseas. On Wednesday, it extended those lines, for up to $30 billion each, to Brazil, Mexico, Korea and Singapore.

The two moves underscore deepening problems in developing nations, which have sent currencies plunging and blown holes in the balance sheets of healthy companies. In recent days, Brazil's financial capital of São Paulo has been awash in speculation that the plunging currency and lack of dollar financing could spur a wave of corporate defaults that might even bring down key parts of the financial system. After their stocks plunged, major banks Banco Itaú and Unibanco reported their earnings early this week in a bid to assure investors that they are healthy.

Even healthy companies are finding it difficult to obtain dollar-denominated financing they need to do business. In Brazil, the total stock outstanding of trade finance has dropped in half to $18 billion since the crisis deepened.

Central banks in Mexico and Brazil deployed billions of dollars of international reserves in recent days to try to fill the dollar void. The U.S. Fed move suggests the problem may have grown above their weight classes. Even countries that don't take the money immediately could benefit if market confidence increases.

The IMF's new program, called the Short Term Liquidity Facility, would be used largely to pad a country's reserves, which could help the recipient defend its currency. But the funds could also be used to help recapitalize banks or cover import bills.

The IMF plan is its clearest recognition that its insistence on tough conditions is driving away potential borrowers that might need its help. But the new plan also puts the IMF in the position of deciding who can have money with few strings attached, and who can't.

"The more you send reassuring signals" by approving some countries for the loans with fewer strings, said former IMF chief economist Simon Johnson, "the more you send warnings about others."

The IMF said it won't disclose the names of countries that it rejects for condition-free loans to try to make sure its decision doesn't worsen the applicant's problems. But Mr. Strauss-Kahn said in a news conference that Argentina wouldn't qualify because it hasn't had an IMF review of its finances for more than a year.

Argentina is also on the outs with many lenders because it defaulted on its loans in 2001 and offered only partial repayment, which many borrowers considered inadequate.

Romania, Bulgaria and other Eastern European countries may also need IMF help, but haven't decided whether to take the unpopular steps that would still be required for them by the IMF.

Belarus, which wants a $2 billion IMF loan, is indicating it would open its economy more to foreign investors and loosen the state's tight control to get the money. Pakistan is likely to do the same, after weeks of searching for alternatives to IMF funding. IMF and Pakistani officials say Pakistan is looking to get IMF approval of a loan as early as next week, though it probably would require Pakistan to cut budget expenses and popular subsidies for food and oil.

To qualify for loans under the no-strings program, countries must show that their public and external debt are at sustainable levels and must have a "good track record" at the IMF, said a senior IMF official. "Borrowers are expected to go on with strong policies," said Mr. Strauss-Kahn.

The program would offer three-month loans of as much as five times a country's so-called quota, meaning its financial stake in the IMF. Mexico, for instance, has a quota of $4.75 billion, so it could borrow as much as $23.6 billion. Borrowers can renew their loans twice during a year.

The IMF is funded by contributions from its members and its large holdings of gold, among other sources. By itself, IMF money might be enough for the needs of Mexico or other countries. IMF funding also can often unlock other lending. The World Bank, for instance, chipped in $1.3 billion for the Hungary package. The World Bank has said it may double its lending to countries that might be affected by the financial crisis to $27 billion from $13.5 billion in 2007.

In many ways, the new plan is a reprise of a proposal by President Bill Clinton in late 1998 to have the IMF lend to preapproved countries. That was in response to criticism of the IMF by countries caught up in the 1997-98 Asian financial crisis. The IMF pushed them to make deep economic changes. Tough IMF requirements in Indonesia, for instance, played a role in violent riots that led to President Suharto's resignation.

The IMF adopted a version of the Clinton plan in 1999, but no developing country asked for a loan before the IMF killed the program in 2003. The countries worried that signing up would be interpreted by the markets as a sign of worry that the country would face turmoil later on.

This time, the IMF plans to streamline the approval process and keep the results quiet as a way to induce countries to participate. Prospective borrowers are also far less picky now in looking for funding.

Mexico's Finance Ministry said it is keeping the door open to tapping the new fund. "Mexico approves any moves by the IMF to actively generate new products that are attractive for its clients," said a ministry spokesman. He said the country would have to evaluate the design of the new loan program "and the convenience of taking it," before making a decision. Mexico now is rounding up $5 billion in alternative financing from the World Bank and Inter-American Development Bank.

—Charles Forelle contributed to this article.

Reuters

The IMF's Strauss-Kahn discusses the fund's approval of emergency short-term financing to help emerging-market economies weather the credit crisis.

Reuters

A truck heads toward **North Korea** from Dandong, China. North Korea is feeling the pinch from lower commodity prices paid by China, its biggest trading partner.

Decline in China trade has hurt North Korea

By Evan Ramstad And SungHa Park

SEOUL—In another sign of the scope of the global financial crisis, even North Korea—one of the world's most closed economies—may be feeling the pinch.

North Korea does hardly any trade with the rest of the world—about $2 billion annually—and now it's being hurt by lower prices paid by its biggest trading partner, China, according to report from a South Korean institute that specializes in North Korea research.

In recent weeks, the Chinese companies that buy North Korean ores and minerals like zinc, which are some of its biggest exports, have slashed the prices they're willing to pay. That's forced some North Korean mining firms to halt production and even produced a drop in the smuggling of ore and scrap, trade that's illegal in the North but is believed to play an important role in supporting the impoverished country.

Lim Eul-chul, a professor at the Seoul-based Institute for Far Eastern Studies who wrote the report issued Thursday, said he learned about the commodity-trade problems from North Koreans doing business in China—a small group, because North Korea restricts travel by its citizens—and North Korean defectors in South Korea. Many defectors maintain communication with people back home, often through elaborate means to avoid detection by the North's authorities.

"Chinese companies that are affected by global trends don't want to pay as much as they used to for North Korean raw materials or resources," Mr. Lim said.

The price pressure exerted by Chinese traders on North Korean companies is in line with the broader drop in commodity prices in recent months. But it has imposed new burdens on North Korea.

The country is experiencing its worst food shortages since the famine of the late 1990s, international aid agencies say. Civil unrest has grown as people lash out over reduced food rations and government crackdowns on market activities, according to Good Friends, a Buddhist-affiliated relief organization.

Since mid-August, the country's authoritarian leader, Kim Jong Il, has been out of view. Intelligence officials in the U.S. and elsewhere say they believe he is unable to govern because of a debilitating illness.

Hong Kong steps up inspections amid fears of melamine in food

By Sky Canaves

HONG KONG—Amid the lack of a centralized response from Beijing, Hong Kong regulators and Chinese officials are taking additional steps to find food products tainted with the industrial chemical melamine.

Hong Kong's secretary for food and health, York Chow, said Thursday that his office asked the central government to consider certifying that mainland egg exports are free of melamine. Hong Kong has expanded its testing in recent days to include an array of raw-food materials, including eggs, flour, meat and vegetables.

Melamine, typically used to make plastics, was at the center of a tainted-milk scandal that was blamed for the deaths of as many as four infants in China and the sickening of thousands more. Experts believe the eggs may have been tainted because of melamine in animal feed, raising the possibility of melamine in other food products.

Local Chinese authorities also appear to be taking matters into their own hands. China's product-safety authority has said no nationwide testing is planned.

In the south China province of Guangdong, which borders Hong Kong, authorities have stepped up random inspections at poultry farms.

No illnesses have been reported because of tainted eggs, and the amounts of melamine found in eggs so far are only slightly above the level permitted by a number of countries.

Foreign companies with operations in China also plan to continue extra inspections. Food giant **Nestlé** SA has been testing all its raw materials and finished products for melamine since mid-September and will continue doing so "for as long as it takes," said spokesman Robin Tickle.

More than 90% of China's exports of egg products went to Asian countries in the first eight months.

—Juliet Ye in Hong Kong and Kersten Zhang in Beijing contributed to this article.

U.S. economy contracts

Consumers hit brakes with more layoffs, credit woes expected

By Sudeep Reddy

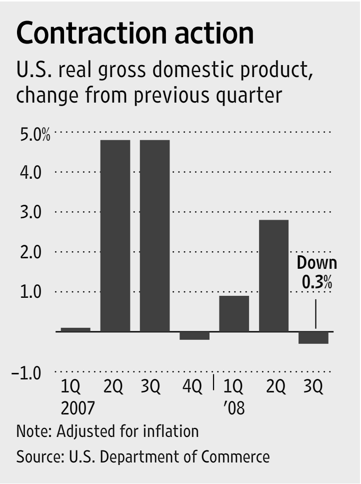
The U.S. economy contracted in the third quarter as consumer spending declined sharply, setting the stage for a deepening recession as the credit freeze saps growth around the world.

Gross domestic product—the total output of goods and services—contracted at a 0.3% annual rate in the July-September period, the government said. The performance, the worst since the 2001 recession, came as consumers retrenched. Consumer spending, which makes up about 70% of total economic activity, declined 3.1% during the quarter, the first drop in 17 years and the worst since 1980.

The weak results show that a U.S. recession probably began before the mid-September credit freeze. In the coming months, employers are expected to cut payrolls sharply and consumers are likely to pull back spending as credit constraints weigh on borrowing capacity.

A sharp retreat in gasoline prices since the summer should ease pressure on consumers heading into the holiday shopping season. But the effects of the credit crisis may take a deeper toll as consumers are hit by tightening terms for credit cards, auto loans and home mortgages.

Economists forecast a GDP decline of as much as 4% in the final three months of the year. "The outlook for the fourth quarter and beyond is grim, dominated by a tapped-out consumer, ongoing weakness in housing, and an incipient downturn in capital spending that promises to gain momentum," said Joshua Shapiro, chief economist at MFR Inc.



The GDP report showed weakness across numerous areas. Housing-related investment tumbled at a 19% pace. Business investment declined about 1% but is expected to drop substantially in the current quarter as tighter credit, falling profits and weak demand hit firms. Government spending rose 5.8%, and net exports continue to increase, but both areas are expected to come under increasing pressure as the economy weakens.

"As the slowdown in U.S. growth spreads around the world, growth in U.S. exports will decelerate further, which will slow the pace of decline in the net trade deficit," said BNP Paribas economist Brian Fabbri.

Pinpointing the start of the U.S. recession may take months. The popular definition—two straight quarters of declining economic output—is likely to be met, given the sharp drop expected in the fourth quarter.

The generally accepted arbiter of recession dates, the National Bureau of Economic Research's Business Cycle Dating Committee, considers a range of economic data—focused on employment and GDP—and doesn't require two straight quarters of output declines. The group generally waits many months after a recession began before making a determination for historical purposes. It hasn't yet weighed in formally on the current downturn.

Employment declines started in January, accelerated in September and are expected to worsen substantially in coming months. The overall economy contracted slightly in the fourth quarter of 2007, and some economists say the recession probably began in that period. That would make this recession the longest since the 1981-82 downturn, which lasted 16 months. The 2001 recession and 1990-91 recessions each ran eight months, though their effects on the economy lingered for years.

"It's too early to talk about the depth of the downturn," said Conference Board economist Victor Zarnowitz, who serves on the National Bureau of Economic Research committee. Mr. Zarnowitz said he believes a recession is under way, but the downturns of the 1970s and 1980s "were more severe than what we see now."

"Some further credit tightening would tip us over into a more severe recession, but it is too early to tell," he said.

Japan unveils stimulus package

By Hiroko Tabuchi

TOKYO—Japanese Prime Minister Taro Aso unveiled a stimulus package Thursday with five trillion yen ($51.5 billion) in new government spending to buttress Japan's economy against the fallout from the global financial crisis.

Mr. Aso also ruled out snap elections, saying steps to address the weakening economy should take precedence over politics. He had previously been expected to call a vote as early as October.

"The economy is experiencing a once-in-a-century storm," Mr. Aso said at a nationally televised news conference. "Protecting livelihoods should come first."

Mr. Aso spoke as investors were cheered by a rally that sent the Nikkei stock index up 10% to 9029.76 for the third straight day of gains, buoyed by a respite in the soaring yen that hurts the nation's flagship exporters. Still, the index has lost 30% in the past month, hitting a 26-year low just days ago.

The stimulus package is the country's second in two months, and follows similar moves by governments world-wide. Japan, which economists say faces a steep recession, announced a set of stimulus steps in August with about 1.8 trillion yen in new spending to tackle high energy and material costs. The Bank of Japan is also considering a cut in Japan's already low interest rates for the first time in seven years.

Economists question whether Japan will be able to spend its way out of the economic slowdown. Many predict that the latest measures will lift Japan's gross domestic product by only 0.2 to 0.3 percentage point. They also said the government will need to follow up with more stimulus measures to carry Japan through a period of economic contraction.

Highlights of Japan's economic stimulus package

Financial system amd stock market

- Legislation to allow government to inject funds into banks
- Looser rules on banks' capital adequacy ratios
- Government purchase of shares held by banks
- Extended tax breaks for dividend income from stocks

Households & small businesses

- Two trillion yen in payouts
- Tax relief on housing loans
- Cheaper highway tolls
- Corporate tax cuts
- Expanded government guarantees on loans

Source: Thomson Reuters

"Mr. Aso is putting the shutters down, but the storm is so strong it could blow the windows out," said Masaaki Kanno, chief economist at J.P. Morgan Chase & Co. in Tokyo.

Mr. Kanno said a proposed two trillion yen payout to families, a centerpiece of the package, wouldn't significantly spur consumption because Japan's thrifty consumers will only save that money. A similar scheme in the U.S. earlier didn't significantly lift spending.

Mr. Aso, whose two predecessors resigned after just a year each in office, attempted Thursday to assert strong leadership. He brushed off questions about when he would call elections.

He called the stimulus measures speedy and targeted. On top of the payouts, the package includes expanded tax relief on housing loans, tax reductions for small businesses, and a reduction in highway tolls.

Mr. Aso said he will seek to revive legislation allowing the government to inject funds into banks, a move that facilitates loans to small firms. The package calls for the purchase of shares held by the country's banks to bolster their balance sheets.

Japan's banks, which had escaped relatively unscathed by the global turmoil, have been hurt in the recent market selloff, leading to profit warnings and efforts to raise capital. In a comment published Thursday, Moody's Investors Service warned that Japan's banks had "now been drawn fully into the global credit crunch" amid the domestic economic slowdown and market slump.

Issue of trade with China is thrust into U.S. races

By Greg Hitt

WASHINGTON—Trade with China is re-emerging as an issue in the final days of the 2008 campaign, as politicians on both sides of the aisle push for a toughened U.S. policy toward the Asian economic titan.

Democratic Sen. Barack Obama is the latest candidate to ratchet up the China rhetoric. In a letter released Wednesday by the National Council on Textile Organizations, a trade group, the Illinois senator vowed to address industry complaints that China is manipulating its currency to gain a competitive advantage in the global marketplace.

Sen. Obama said China's massive trade surplus with the U.S. is a direct result of "manipulation of its currency's value," and stressed "China must change its policies, including its foreign-exchange policies." Sen. Obama said China's economy must rely less on exports and more on domestic demand for growth. He said he "will use all diplomatic means at my disposal to induce China to make these changes."


Barack Obama

For years, the administration of President George W. Bush has refused to formally declare China a currency manipulator. Nevertheless, the administration, with modest success, has nudged Beijing to raise the value of its currency.

In the campaign of John McCain, senior economic adviser Doug Holtz-Eakin said the Arizona senator "is experienced enough to recognize that the relationship with China should not be reduced solely to the value of its currency." Mr. Holtz-Eakin said Sen. McCain favors engagement with China across a range of issues, including international economic agreements.

Sen. Obama's commitment comes as he makes a strong play for North Carolina, where the textile industry is a big part of the local economy, and concerns about competition posed by China run high among local voters.

Among other things, the senator also promised to closely monitor textile shipments from China, once import limits on a wide range of Chinese-made apparel expire at the end of the year. And he promised to make use of trade-remedy laws to protect industries, like textile producers, if they are threatened by unfair competition from abroad. "I am especially aware of the trade challenges faced by those working in our textile industries," he said.

Sen. Obama's comments follow efforts by North Carolina Sen. Elizabeth Dole, a Republican, to burnish her trade credentials ahead of Election Day.

In mid-September, Sen. Dole, who is facing an unexpectedly difficult battle for re-election, wrote the White House urging steps be taken to ensure U.S. textile producers and workers "not be put in harm's way" once the limits on Chinese imports expire. She complained China has increased its subsidies for textile producers.

In response, Mr. Bush's trade ambassador, Susan Schwab, said the administration intensified its study of the issue. In a letter sent last week to Sen. Dole, Ms. Schwab said China has been put on notice about U.S. concerns that Chinese textile producers are receiving unfair subsidies. Ms. Schwab said she wrote China's commerce minister "expressing concern about potential WTO-illegal subsidies," and warning the U.S. would consider filing a complaint at the World Trade Organization "if China does not act promptly to eliminate them."

As Taiwan faces slowdown, its central bank cuts rates

By Perris Lee Choon Siong

TAIPEI—A spate of job losses, hiring freezes and salary cuts by Taiwanese employers ranging from **China Airlines** Ltd. to **Chi Mei Optoelectronics** threaten to push the island into its first recession since 2001.

The sharp deterioration in the labor market has prompted the central bank to ease policy aggressively. Taiwan's central bank cut interest rates by a quarter-point Thursday to bring the benchmark discount rate to 3%, the fourth easing in the past month and a half, to combat the economic slowdown.

The global financial crisis is hurting demand for Taiwan's exports—mostly technology products such as computers and handsets—throwing many out of jobs and darkening an already gloomy outlook for personal spending.

"We are seeing a job recession that's far more severe and widespread than what happened in the 2000-2001 cycle," said Rocky Yang, chairman of 104 Corp., Taiwan's largest job agent by market share. "The labor market has gone downhill straight since October with jobs disappearing fast. ... This affects not only the blue-collar jobs, but also white-collar ones."

Taiwan's jobless rate hit a three-year high of 4.27% in September, while the seasonally adjusted rate rose to a three-year high of 4.12%—straying from the historical pattern, as this number usually comes down after the summer break, said Jiann-Jong Huang, deputy director at the Bureau of Census.

Taiwan's economic leading indicators in September posted the sixth straight month of decline, with the monitoring indicator signaling a retreat. Export orders, meanwhile, rose 2.8% in September, the weakest monthly growth since March 2002.

Taiwan's Central Bank Governor Perng Fai-nan said the unusual increases in the jobless rate since August signal a slowdown is clearly under way.

The latest easing by the Central Bank of the Republic of China (Taiwan) follows a Sept. 16 reduction in the reserve requirement ratio that marked the end of four years of rate tightening, and rate cuts on Sept. 26 and Oct. 9.

—Alex Pevzner, Wei Yi Lim, and Jessie Ho contributed to this article.