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U.K. ready to take stakes in big banks

Shares in Barclays, RBS, others could cost nearly $80 billion

By Dana Cimilluca, Sara Schaefer Muñoz And Carrick Mollenkamp

LONDON—The U.K. government was putting the finishing touches Tuesday night on what would be one of the broadest bailouts of the global financial crisis, with the U.K. potentially taking stakes in some of the country's largest financial institutions, people familiar with the matter said.

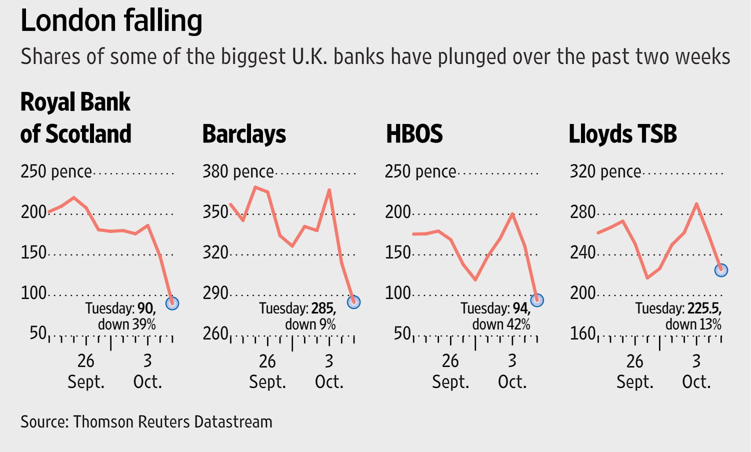
Under terms being discussed at hurried meetings among government officials and bankers, **Royal Bank of Scotland Group** PLC, **Barclays** PLC and others stood to receive government injections totaling as much as £45 billion ($78.59 billion). In return, the government could receive minority stakes in the companies. Plans remained in flux late Tuesday.

Injecting capital would bolster the banks' cushions against losses, something bank regulators see as a critical gauge of a bank's financial health. The aim is to alleviate the global financial crisis by getting banks lending again, something they have been reluctant to do for more than the short term. The U.S. government's $700 billion bailout plan takes a different approach by buying toxic assets from banks. This still could leave U.S. banks with a need to

Please turn to page 35

A Royal Bank of Scotland branch in London

Associated Press



Spain sets aside $41 billion in aid; EU acts on deposits

Spain said it will set aside a €30 billion ($41 billion) fund to help its lenders, as European Union finance ministers continued to struggle to find effective common action to tackle the financial crisis.

Meeting in Luxembourg, the EU's 27 finance ministers raised minimum guarantees for bank deposits to €50,000 ($68,000) and agreed on a set of joint principles to guide bank bailouts. The ministers

By Marcus Walker in Berlin, Thomas Catan in Madrid and Adam Cohen in Luxembourg

also agreed they would continue separate efforts to shore up their domestic financial sectors, while avoiding actions that interfere with other countries' moves.

Analysts, however, warned that the latest EU-wide measures weren't enough, and that a more systemic approach was needed to stop the worsening crisis of confidence in European finance. Most agree that no single measure can solve the crisis in either Europe or the U.S. A growing number of economists are calling for the EU to inject more capital into its banking system across the board, instead of reacting only when individual banks are on the verge of collapse.

In the latest national initiative, Spain said it will set up €30 billion fund to buy illiquid assets from Spanish banks, freeing up their capital so they can continue to lend to companies and households. The fund eventually could be increased to €50 billion. In contrast to the U.S.'s plan to buy banks' distressed assets, Spain plans to buy banks' healthy but illiquid assets that are hard to price amid the current market turbulence, said Spanish Prime Minister José Luis Rodríguez Zapatero.

Mr. Zapatero also said Spain will increase its guarantee on bank deposits to €100,000 from €20,000,

Please turn to page 35

What's News—

Business & Finance

The U.K. government is crafting one of the broadest bailouts, potentially taking minority stakes in some of the country's largest financial institutions. EU finance ministers were struggling with what common action to take on the financial crisis. **Page 1**

■ **European stock markets** have fallen more steeply than the U.S.'s as investors worry the Continent's economies are closer to recession. **Pages 3, 22**

■ **U.S. blue-chip stocks fell 5.1%** as investors focused on the role of central banks in resolving the global financial and economic crisis. **Page 22**

■ **Moscow announced** it would inject $36 billion into Russia's struggling state-run banks, but the news did little to help its falling stock market. **Page 3**

■ **Iceland nationalized** its second-largest bank, said it was negotiating a $5.4 billion loan with Russia and intervened to support the krona. **Page 4**

■ **Auto makers are trimming** production in Europe as fears of a prolonged economic downturn hinder demand. **Page 7**

■ **Luxury-goods makers are** bracing for the fallout from the global financial crisis as slowdowns in Russia and China tug at the sector's safety net. **Page 4**

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	9447.11	-508.39	-5.11
Nasdaq	1754.88	-108.08	-5.80
DJ Stoxx 600	240.72	-0.78	-0.32
FTSE 100	4605.22	16.03	+0.35
DAX	5326.63	-60.38	-1.12
CAC 40	3732.22	+20.24	+0.55
Euro	$1.3651	+0.0152	+1.13
Nymex crude	$90.06	+2.25	+2.56

Money & Investing > **Page 21**

World-Wide

The Fed said it will bypass ailing banks and lend directly to U.S. companies for the first time since the Depression, and Fed chief Bernanke strongly hinted at further rate cuts, playing down inflation risks. Fed officials believe the latest moves could help restore market confidence. **Page 2**

■ **The IMF urged** global policy makers to coordinate a response to the financial crisis, with losses on bad U.S. assets alone forecast to exceed $1.4 trillion. **Page 10**

■ **Russian forces will pull back** from a buffer zone in Georgia Wednesday and be out within 24 hours, a Russian officer said.

■ **Thai police clashed** with protesters who barricaded the Parliament, as a political crisis erupted in violence that left one dead and over 350 hurt. **Page 12**

■ **Turkey's government resisted** calls from the military to broaden emergency measures to combat Kurdish rebels after last week's attack that killed 17 soldiers.

■ **A French prosecutor** recommended that ex-Prime Minister Dominique de Villepin be tried on charges of complicity in a campaign to smear Sarkozy before the president's election.

■ **Japan's Makoto Kobayashi** and Toshihide Maskawa and American Yoichiro Nambu won the Nobel Prize in physics for discoveries in subatomic matter.

■ **China's Sichuan province** is facing a crippling jobs crisis after May's devastating quake. **Page 11**

■ **A U.S. judge ordered** 17 Chinese Muslims released from Guantanamo Bay into the U.S.

Editorial & Opinion

A global response

Banking operates across national borders now. So should its supervisors. **Page 14**

Dublin firm's woes roil global money markets

By Carrick Mollenkamp And Elizabeth Rappaport

The woes of a small Dublin-based financial firm called Depfa Bank PLC are rapidly spreading around the globe, in a chain reaction that highlights the destructive force of a deepening freeze in lending markets.

In a matter of days, the situation at Depfa, a unit of German commercial lender **Hypo Real Estate Holding** AG, has gone from bad to worse as the markets on which it depended to borrow money have refused its business. It has dragged some of Europe's largest banks and Germany's government into a €50 billion ($67.6 billion) bailout of Hypo. And now a downgrade of Depfa is spilling into the U.S. municipal debt market, where Depfa potentially is on the hook to backstop debt used to fund various projects and towns. One borrower that could suffer as a result is the financier of a six-lane bridge across the Fraser River in Vancouver, Canada.

As central bankers and government officials around the world scramble to unclog short-term lending markets, Depfa's troubles demonstrate how little time they have, and how far-reaching the repercussions of failure can be. Around the world, the clock is ticking as other banks and companies face deadlines to pay off hundreds of billions of dollars in short-term debts, with uncertain prospects for borrowing the money they'll need to do so.

"You have a very, very nervous market," said David Williams, a bank analyst at Fox, Pitt-Kelton Cochran Caronia Waller in London, adding that the problem can have a ripple effect. "If banks can't get credit themselves, they are not going to pass credit on to Main Street. And consequently, I think the economy will start to seize up."

On Tuesday, the U.S. Federal Re-

Please turn to back page

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THE WALL STREET JOURNAL.

THE FINANCIAL CRISIS

Fed will lend to companies

Action was last taken in Great Depression; hints of new rate cuts

By Jon Hilsenrath
And Diya Gullapalli

The Federal Reserve said it will bypass ailing banks and lend directly to American corporations for the first time since the Great Depression and strongly hinted at further interest-rate cuts, a cocktail of unconventional and conventional remedies for an economy whose prognosis is deteriorating rapidly.

In an historic and risky step by the central bank, the Fed said it would make loans directly to companies in the $1.6 trillion commercial paper market, which provides lifeblood short-term financing for firms ranging from AT&T Inc. to Coca-Cola Co. to United Parcel Service Inc.

The Fed's foray into this market puts U.S. taxpayers on the hook for greater losses from the crisis, particularly because these loans aren't secured the way Fed loans are traditionally secured. The Fed is asking borrowers to pay upfront fees, but if those and other steps prove insufficient, taxpayers could bear losses. The move also makes the economy more dependent on government lifelines that have already proved difficult to remove.

Meanwhile, by putting interest-rate cuts back on the table, the Fed is setting aside inflation worries that dominated many of its internal discussions earlier this year. The Fed's target interest rate is already low, at 2%.

Rates are already heading lower elsewhere in the world. Australia's central bank surprised investors Tuesday by slashing its key lending rate by a full percentage point. Some effort to coordinate interest-rate cuts among other central banks is a possibility, particularly with annual meetings of the International Monetary Fund approaching this weekend in Washington.

Fed officials believe the latest moves could restore market confidence, which has virtually disappeared since the collapse of Lehman Brothers Holdings Inc. in mid-September. Backstopping commercial paper could send a signal to money-market funds that it is still safe to hold these instruments. And lower interest rates could lower the cost of funding for businesses and individuals at a time of great financial strain.

In a speech to the National Association of Business Economics, Fed Chairman Ben Bernanke noted that history showed that the financial crisis would "take a heavy toll on the broader economy if left unchecked."

The Fed chairman played down the risk of inflation, noting that oil prices and other commodity prices are off their peaks and U.S. import prices show signs of decelerating. Inflation expectations have held steady or eased.

Cutting interest rates further in the U.S. raises new questions. Because they are already at 2%, rates don't have much further to go before they hit zero. The last time the Fed pushed interest rates lower than they are now, after the 2001 recession, the move helped to set off the housing frenzy that is currently unwinding. Another speculative frenzy looks highly unlikely today with so much stress in credit markets. A bigger problem could be that rate cuts could prove ineffective—Japan's interest rates stood near zero for more than a decade without substantially reviving economic growth.

The effort to revive the commercial paper market is even more unchartered territory. Commercial paper is short-term debt issued by businesses to fund their day-to-day operations and is typically purchased by banks or institutional investors like money-market funds.

Using Depression-era powers that allow it to lend to anyone under "unusual and exigent" circumstances, the Fed will set up a facility called a special purpose vehicle that will purchase three-month commercial paper with top ratings of A1/P1.

Issuers will pay the Fed upfront fees and provide private-sector guarantees to help insulate the central bank from losses. But ultimately, if corporate defaults mount, U.S. taxpayers could lose billions since the Fed's gains and losses are turned over to the U.S. Treasury.

Right now, money-market funds hold more than 40% of U.S. commercial paper outstanding, according to some estimates.

—Randall Smith and Serena Ng contributed to this article.

Associated Press

Fed Chairman **Ben Bernanke**, right, and Treasury Secretary Henry Paulson testify on Capitol Hill Thursday. The Fed is taking new steps to help the U.S. economy.

CORRECTIONS & AMPLIFICATIONS

UniCredit CEO Alessandro Profumo said in an interview with Italian state television last Wednesday that UniCredit was "extremely solid and healthy." An article Tuesday on the financial crisis incorrectly reported that Mr. Profumo had denied that the bank's capital was overstretched.

INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal Europe is intended to include all significant references to companies. First reference to these companies appear in boldface type in all articles except those on page one and the editorial pages.

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INDEX TO PEOPLE

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

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

U.S. may be bad, but Europe has it worse

Markets fall further on fears over exports and health of banks

By Neil Shah

Europe's stock markets have seen steeper falls than the U.S. in recent days as investors have worried about the credit crunch's impact on the global economy.

Helping drive the historic selloff is the sense that Europe's economies are closer to a recession than the U.S. economy, or already in one, and that its banks have yet to take their lumps from years of risky investing.

"Europe is becoming more and more uncertain with the word 'recession' coming up more and more," says Peter Braendle, a fund manager at Swisscanto Asset Management AG in Zurich, which has some 58 billion Swiss francs, or about $50 billion, under management.

But some of the pressure on European shares lately may not have to do with economic fears at all.

For one thing, European markets can suffer simply because they tend to follow U.S. ones and end earlier. U.S. stock traders close their books hours after Europe, and that that leaves room for last-minute rallies that can lift closing levels and even affect Europe's trading the next morning.

That's part of what happened Monday.

European stocks saw their biggest drop in 20 years after a wave of emergency measures failed to ease fears about the region's financial system. The Dow Jones Stoxx 600 index tumbled 7.6% to 241.50, the worst percentage-point decline in its two-decade history.

In London, the FTSE-100 index fell 7.9%, while the German DAX Index and French CAC-40 indexes sunk 7.1% and 9%, respectively. By contrast, the U.S. Dow Jones Industrial Average fell only 3.6%, though it did break the psychologically crucial 10000 barrier.

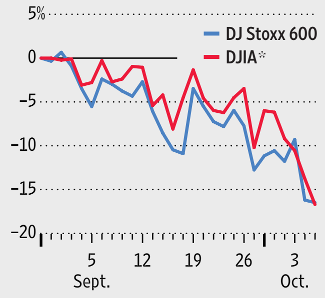
The relatively better performance for U.S. stocks was because of a rally in the last hour of U.S. trading, which helped the market pare losses after being down 800 points.

Traders look grim on the NYSE floor (above) and at the stock market in Frankfurt

Associated Press

Follow the leader

Dow Jones Industrial Average vs. the Dow Jones Stoxx 600 index since end of August



*With Tuesday's 3:30 p.m. price

Source: Thomson Reuters Datastream

"The U.S. will go on for another few hours after the European markets close," says Richard Batty, global investment strategist at Standard Life Investments in Edinburgh, Scotland. "The timing issue does distort closing prices."

But there are deeper reasons why investors are punishing European shares more than their peers," says Mr. Batty.

European stocks are, the thinking goes, likely to be harder hit than U.S. stocks by any global slowdown. That's because companies in France, Italy, Spain and Germany rely more heavily on exports than their U.S. peers. And exports by these countries are now slowing, which puts pressure on corporate profits and scares investors.

For many months, German exporters fared better than those in France and Spain. With global demand for its goods slowing, though, Europe's biggest economy could face tougher times that will hurt share prices there. By contrast, exports are continuing to give life to the U.S. economy as the dollar remains relatively weak, despite its rally over the last few months, making these goods less expensive.

"Europe's markets are more reliant on exports, which are slowing," Mr. Batty says. "That's a key reason European shares are doing worse."

Indeed, the Dow Jones Stoxx 600 had plunged 34% so far this year through the end of trading on Monday. The Dow Jones Industrial Average is down a more modest 25%.

To be sure, investors are also rattled by how close European economies like Germany are to recession. Britain is expected to have its first recession in 15 years. Consumer spending has fallen sharply in France.

Making things worse, Europe's banks are now buckling under the weight of the international crisis as short-term lending markets they rely on have frozen up.

The U.S. Federal Reserve has been proactive in cutting interest rates to pump blood into the U.S. economy by reducing borrowing costs. The European Central Bank, however, which does not have a mandate to promote growth, raised its key lending rate to 4.25% in July to stave off inflation. Those higher rates are weighing on Europe's economy.

By some measures, European shares are now looking cheap by historical standards. The Dow Jones Stoxx 600 is trading around nine times the expected earnings of the next 12 months. That's half the average of 20 over the past 15 years and suggests stocks are undervalued. National indexes in London, Paris and Frankfurt indicate similar things.

However, investors are skeptical about the usefulness of such market indicators amid the international credit crisis.

"The times are so uncertain," says Swisscanto's Mr. Braendle. "You have to be more skeptical about these signals."

Russia promises more cash to help its struggling banks

By Alan Cullison And Guy Chazan

The Kremlin upped the ante on its bailout plan for financial markets and announced Tuesday it would inject about $36 billion into Russian banks, one day after the stock market suffered its worst day of trading.

Investors took little solace in the news, however, and Russia's benchmark RTS stock index fell another 1% on the day's trading, closing at a three-year low. The central bank again defended the ruble, and sold more than $4 billion, on top of dollar sales of around $5 billion the previous day.

The latest measures, announced after a special meeting in the Kremlin, appear to take aim at one of the weakest links in the Russian economy—state-run banks, which even before the financial crisis were slow to lend money. President Dmitry Medvedev said the government would lend the $36 billion to banks over a five-year term. Most of the money will go the country's two largest state-controlled lenders, Sberbank and VTB.

"The whole point of our work is to make decisions as quickly as possible," Mr. Medvedev told reporters after the meeting. "Speed is now priceless."

The move comes as the financial crisis is beginning to bite into Russia's real economy, where steel makers, banks and food retailers are laying off thousands of staff and car makers have reined in production.

Investors have lauded the size of the Russian package to salvage financial markets, but say its effect has been muted by sluggish implementation and bureaucracy. The government initially pledged $120 billion in the bailout last month, and since then, the figure has swelled to more than $200 billion. The government has provided four big state-controlled banks with massive cash infusions, but little of the money has been loaned to businesses.

A key problem, analysts say, is that Russia's big banks never established vibrant lending businesses before the crisis, and now they are unprepared to handle a multibillion-dollar bailout. As foreign and domestic credit has dried up, even Russia's biggest companies are having trouble getting financing. In a measure of the depth of the problem, four of Russia's biggest energy companies confirmed Tuesday that they had appealed directly to the government for loans to get them through the crisis.

Russia's top three oil producers—state-run OAO Rosneft, OAO Lukoil and TNK-BP Ltd.—together with the natural gas monopoly OAO Gazprom, cosigned a letter to Prime Minister Vladimir Putin at the end of September calling on the government to lend them money "on market terms," to refinance debt and to fund "strategic investment projects," Lukoil spokesman Dmitry Dolgov said.

The Russian oil giants have earned bumper profits this year amid soaring commodity prices, but also have relied heavily on foreign banks to fuel growth and to finance acquisitions at home and abroad. Gazprom and Rosneft are Russia's two most indebted companies, and could struggle now that global credit and equity markets have seized up.

"We are quite comfortable now, but interest rates are rising and problems may arise for all of us in the future," said Mr. Dolgov. He said Vagit Alekperov, Lukoil's chief executive, had discussed the idea with President Medvedev last week.

Gazprom said in a statement that it had no need of additional funds. "But with the growing crisis on global financial markets, just having such a lending mechanism in place for force majeure situations is important for Gazprom, its shareholders and investors," it stated.

—Andrew Osborn contributed to this article

THE FINANCIAL CRISIS

Luxury-goods retailers feeling client woes

Christmas prospects at Bulgari, Tiffany weigh on store plans

BY CHRISTINA PASSARIELLO AND RACHEL DODES

PARIS—The luxury goods industry is bracing itself for fallout from the global financial crisis.

Some companies, including jewelers **Tiffany** & Co. and **Bulgari** SpA, are putting a brake on future store openings in an effort to reduce costs ahead of a likely sluggish holiday season. French fashion house **Dior** SA may close some boutiques in smaller U.S. cities.

Until recently, the world of luxury perfumes, leather goods, jewelry and designer clothing seemed impervious to the retail slowdown affecting apparel and home furnishings. Their resilience was due largely to big business in emerging markets, such as China and Russia, which offset a slowdown in the U.S., Europe and Japan.

Now, the Chinese and Russian stock markets are faltering, putting pressure on their wealthy consumers and tugging on the luxury-good sector's safety net.

"I'm not sure [emerging markets] are able to offset the weakness in other markets," Bulgari Chief Executive Francesco Trapani said in an interview. "Everyone is going to be affected." He estimated only 10% of new Bulgari store projects now would be approved, compared to about 50% earlier.

Polo Ralph Lauren Corp. inaugurated its largest women's store, in Paris, last week and is still planning new boutique openings. But Charles Fagan, the executive vice-president of the company's global retail brand, said: "We're being prudent. We're very aware of our inventory and expenses."

High-end fashion houses such as Louis Vuitton, Gucci and Polo Ralph Lauren aggressively expanded into China, Southeast Asia, Russia and India in response to the last downturn, between 2001 and 2003. At the time, they started emphasizing very high-priced products—such as customized bags and jewelry—in order to attract the wealthiest consumers in every area.

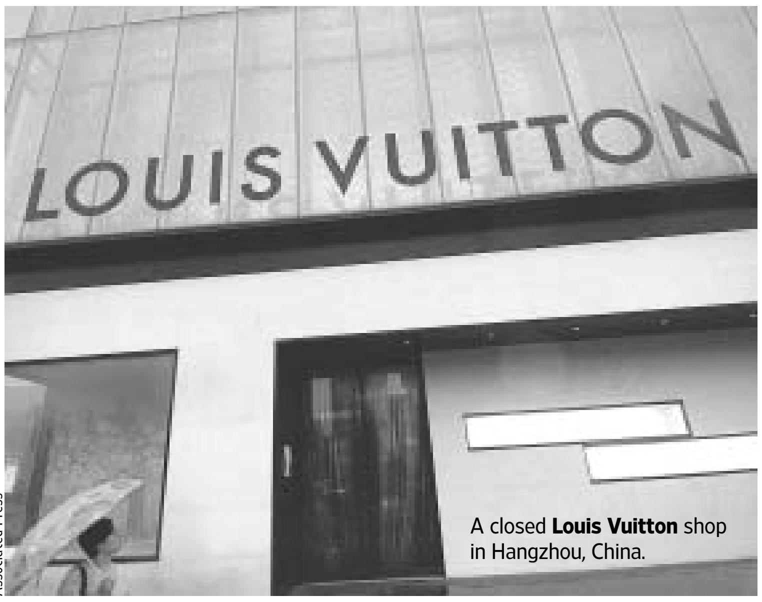
All told, emerging markets make up about 15% of overall luxury goods sales. However, executives had counted on double-digit gains in such markets as China and Russia to provide a buffer for declining or flat business elsewhere.

At **LVMH Moët Hennessy Louis Vuitton** SA, the world's largest luxury-goods group and owner of fashion house Louis Vuitton and Hennessy cognac, sales in Asia, excluding Japan, accounted for 21% of sales in the first half of the year. Those sales grew 13%—a much faster rate than the group's 5% average sales growth.

Luxury goods companies now fear those sky-high growth rates could decelerate as stock markets plunge. Stock and property markets have tumbled in China with the country's benchmark stock index off about 65% from its peak in October of 2007.

The effect on consumer spending will be heavy because a large swath of the population plays on the stock market "like in Las Vegas," says François-Henri Pinault, chief executive of **PPR** SA. As in other countries, investors' dwindling portfolios could change their "mindset," says Mr. Pinault, whose PPR group owns the Gucci and Bottega Veneta luxury houses.

Don Hanna, chief emerging markets economist at **Citigroup** Inc., says Chinese sales of big-ticket goods such as automobiles and electronics have decelerated in the second half at a faster rate than sales of mass consumption goods, like food and basic clothing. "There is more pressure on wealthier households because those are the people who hold the assets," says Mr. Hanna.



A closed **Louis Vuitton** shop in Hangzhou, China.

It's a similar story in Russia. Russian retailers' orders for the collections shown on the Milan catwalk two weeks ago were flat compared with last year—the first time in more than five years that orders have tapered off, according to **Sanford Bernstein** luxury goods analyst Luca Solca.

It remains unclear how some of the biggest luxury-goods companies performed over the summer in terms of sales. Third-quarter sales results begin trickling out this week.

Several companies are predicting softer revenue growth. HSBC analyst Antoine Belge expects sales gains at LVMH to have slowed to 1.6% in the third quarter, down from 5% growth in the first half. LVMH is due to report revenue on Thursday.

Compagnie Financière Richemont SA, the parent of jeweler Cartier, said last month that sales through the end of August in the U.S. were "beginning to show some signs of a slowdown." Bulgari's Mr. Trapani said July and August held up well globally, but that September was rockier. The company tracks sales from its boutiques on a daily basis.

The immediate fallout of the credit crisis will be more hesitant store expansion. Italian fashion house **Prada** SpA had been planning a stock market listing to give it more funds, in part to bankroll new stores in emerging markets. But Prada recently postponed its IPO. Tiffany, which has said it would open 12 to 15 stores overseas annually beginning next year, now "would consider modestly adjusting our rate of store expansion" if conditions remain soft, Chief Executive Officer Michael J. Kowalski said.

—Daria Solovieva in Moscow contributed to this article.

Iceland nationalizes bank, seeks lift from Russian cash

A WSJ NEWS ROUNDUP

REYKJAVÍK, Iceland—Iceland nationalized its second-largest bank on Tuesday and said it was negotiating a €4 billion ($5.4 billion) loan from Russia to shore up the nation's finances amid a full-blown financial crisis.

Why Russia, suffering its own financial crisis, might be willing to help Iceland wasn't immediately clear. Russian Finance Minister Alexei Kudrin said Moscow viewed the request positively.

"The result will be announced after negotiations," said Mr. Kudrin. According to Iceland's Prime Minister Geir Haarde, those talks are due to take place Wednesday or Thursday.

In an effort to stabilize the nation's falling currency, which lost a quarter of its value against the euro Monday, Iceland's central bank also on Tuesday intervened to buy kronur in the interbank market.

In a statement, the central bank said it had strengthened the currency to a level of 131 kronur to the euro, and would seek "to further strengthen the exchange rate with the aim of quickly reducing inflation." The Krona had last traded at around 150 to the euro.

Just a day after Iceland's government rushed through emergency legislation giving it sweeping powers to deal with the financial meltdown, its Financial Supervisory Authority took control of **Landsbanki Íslands** hf and put it into receivership to protect it from creditors.

Within hours of the government move, the Samson holding company, which held a 41% stake in Landsbanki, went to the district court seeking temporary protection from its creditors.

Iceland's largest bank, **Kaupthing Bank** hf, said it hadn't been approached by the FSA, but that the central bank had loaned it €500 million to facilitate operations. The FSA also banned short selling of stocks in shares of Landsbanki, Kaupthing, and the country's third-largest bank, **Glitnir Bank** hf, as well as investment companies **Straumur-Burdaras Fjarfestingarbanki** hf and **Exista** hf, and **Reykjavik Savings Bank** hf.

A loan would support the government's efforts to gain control of an increasingly dire financial situation. The government came to the rescue of Glitnir only last week, putting in €600 million for a 75% stake. On Tuesday, Standard & Poor's lowered Glitnir's long-term counterparty credit rating to CCC, from BBB.

Iceland is paying the price for an economic boom of recent years that saw its newly affluent companies go on an acquisition spree across Europe and its banking sector grow to dwarf the rest of the economy. Bank assets are nine times annual gross domestic product of €14 billion.

In a speech Monday night, Mr. Haarde warned that the heavy exposure of the tiny country's banking sector to the global financial turmoil raised the specter of "national bankruptcy."

Investors are now punishing the whole country for the banking sector's heavy exposure to the global credit squeeze—its currency has gone through the floor, imports have fallen and inflation is soaring.

The government also on Monday put 100% guarantees on savers' deposits.

Australia slashes key rate on growth fears

Investors wonder if other governments will be following suit

Australia's central bank slashed its key lending rate Tuesday by a surprise one percentage point, sparking gains in some Asian markets and whetting investor appetite for dramatic rate cuts around the globe.

The cut, which took the Reserve Bank of Australia's official cash rate target to 6% from 7%, marked an acknowledgment by Australian policy makers that global efforts to stem the credit crunch and avoid a recession haven't been enough to restore investor confidence.

*By **James Glynn** and **Lyndal McFarland** in Sydney and **Laura Santini** in Hong Kong*

It also shows that Australian officials worry the commodities boom that has driven the resource-rich nation's brisk economic growth over the past five years could be ebbing. China and other fast-growing Asian nations helped drive up demand and prices for Australia's iron ore, coal, copper and other minerals in recent years. The central bank said in its statement it saw signs of significant moderation in growth among its Asian trading partners.

"Up until the last month or so, there was a feeling that the commodities boom would insulate us from this global turmoil," said Paul Braddick, head of property and financial system analysis at Australia & New Zealand Banking Group Ltd. in Melbourne. "But with declining prices of resources lately, that story is slipping away."

Australia's move came ahead of the U.S. Federal Reserve's announcement Tuesday that it would back up the commercial paper market. It also followed the Indian central bank's move late Monday to boost liquidity, saying it will cut the amount of deposits banks have to set aside with it in cash. The so-called cash-reserve ratio will be lowered by one-half of a percentage point to 8.5%, effective Saturday. The Reserve Bank of India said the move was temporary and would be reviewed on a continual basis.

Investors took Australia's big cut as a sign other governments could follow. Asian stocks, which fell broadly Monday and began Tuesday mostly lower, ended mixed. Australia's benchmark index climbed back to end up 1.7%, with stock markets in South Korea, Singapore and Taiwan posted gains. In currency markets, the yen—often a haven when investors turn risk-averse—fell against the euro and the U.S. dollar.

But Tokyo's benchmark stock index fell 3%, and European stocks drifted lower Tuesday after hopes for other big rate cuts ebbed. The pan-European Dow Jones Stoxx 600 Index edged down 0.3%.

Still, Japan's central bank held fast on rates on Tuesday. Shortly after the Australian cut, Bank of Japan Gov. Masaaki Shirakawa threw cold water on the idea of an internationally coordinated interest-rate cut, saying central banks must set monetary policy according to local conditions.

In Indonesia, policy makers stuck with an expected quarter-point interest rate increase to deal with surging inflation.

Australian officials gave no sign their move was part of a coordinated effort with other central banks. They also played down the possibility of more cuts.

The case for Australia's unusually large rate cut, which was double what many economists had expected, has been building gradually after weeks of turmoil on Wall Street and in Europe that have included the Chapter 11 bankruptcy filing by Lehman Brothers Holdings Inc. and a negative reaction to the U.S. government's US$700 billion banking sector bailout. The cut was the Australian central bank's largest since 1992.

The central bank "realizes what markets have been telling them for some time—that this is a very serious problem," says Gerard Minack, an economist at Morgan Stanley in Sydney.

RBA Gov. Glenn Stevens said in a statement that conditions in global financial markets have taken a "significant turn for the worse" as large-scale financial failures have been accompanied by dislocation in interbank markets. Australian Prime Minister Kevin Rudd described the central bank's action as "decisive" and argued that the country's banks should deliver "maximum pass-through" of the decline in rates to mortgagees.

The cut will put cash in consumers' pockets quickly, because about 90% of Australian homeowners hold floating-rate mortgages, though several banks said Tuesday they won't pass the entire cut on to consumers as they look to preserve margins amid soaring wholesale funding costs. **Westpac Banking** Corp. said it will cut its variable home-loan rate by 80 basis points to 8.56% immediately, and Commonwealth Bank said it will cut by the same amount to 8.53% beginning Oct 13. A basis point is one-hundredth of a percentage point.

Australia aggressively raised rates at the beginning of the year amid inflation worries, and commercial banks added to the pain with their own independent increases. The easing in rates suggests the central bank has grown less concerned about inflation pressures and is now chiefly worried about the rising potential for a recession in the local economy accompanied by a rise in unemployment.

Earlier this year, Australia cut the cash rate by a quarter of a percentage point as consumer spending slowed and sentiment soured. The Westpac-Melbourne Institute Survey of Consumer Sentiment, which rates Australian consumers' assessment of their financial situation for the coming year and the previous year, fell 18% between September and December 2007.

—Tomoyuki Tachikawa and Megumi Fujikawa in Tokyo and Jackie Range in New Delhi contributed to this article.

Investors deal with loss of control

By Jason Zweig

So do you feel like quitting yet?

If Monday's 800-point intraday plunge in the Dow Jones Industrial Average made you want to give up and get out of stocks, you're not alone.

I've written column after column advising investors to buy stocks on the way down, and readers are in pain. "You say not to bail," one reader emailed me over the weekend, "but all funds are down. ... This whole stock market has me so upset, [I feel] like a deer in the headlights." Another wrote: "It's way too early to be buying stocks. ... Or I could be really nasty and ask you which brokerage house paid you to run this stupid column now."

Michael Nagle for The Wall Street Journal

When our sense of control is threatened, we feel the natural urge to pretend that whatever information we do have **is more complete and reliable than it is**.

Right or wrong, I work only for The Wall Street Journal. But what all of us are feeling is the loss of control that not only makes us feel powerless; it changes the way we view the world. Very small amounts of information can suddenly seem to be fraught with meaning: Did something move on "the grassy knoll" the day John F. Kennedy was assassinated? Will one down day in the stock market lead to another and another?

Even the greatest investors have felt the same kind of fear and pain you are probably feeling. For proof, look no further than "Security Analysis," the classic textbook by Benjamin Graham and David Dodd, which has just been reissued in a commemorative edition. Mr. Graham was one of the best money managers of the 20th century, a brilliant analyst and market historian, and Warren Buffett's most influential teacher and mentor.

The new book reprints the text of the 1940 printing, in which Graham addressed the market devastation of the previous decade. Just as the roughly 90% fall between 1929 and 1932 had seemed to be fading, the stock market dropped sharply again in the late 1930s. As market historian James Grant puts it, by the time Mr. Graham was ready to finish the 1940 edition, "He had had it."

That helps explain one of the great ironies of market commentary. Mr. Graham himself stuck largely with stocks in his investment fund. But at the conclusion of his book, he advised the institutional investors among his readers to shun the stock market entirely and invest in bonds. Mr. Graham doubted they could stomach "the heavy responsibilities and the recurring uncertainties" stirred up by stocks.

How does the feeling of being overwhelmed affect investors? Research conducted by psychologists Jennifer Whitson of the University of Texas and Adam Galinsky of Northwestern University shows how it changes our perceptions. In one of their experiments, people were first rattled by a computer that gave them unpredictable feedback on their performance at a trivial task, stripping them of their sense of control. These people became much more likely to perceive shapes in a swarm of random dots.

"When you sense that you have a lack of control," says Prof. Whitson, "you're much more likely to try twisting and pretzeling explanations and seeing patterns that aren't even there." In a related experiment, investors who had lost their sense of control due to market volatility were convinced they had read more negative evidence about a company than they actually had.

In other words, when our sense of control is threatened, we feel the natural urge to pretend that whatever information we do have is more complete and reliable than it is. Imagining that we know what's coming next (even if we think it will be bad) gives us a slight feeling of comfort.

As an investor, however, it's absolutely vital to separate what you can truly control from what is beyond your control. The only thing you can know for sure is that stocks are steadily getting cheaper. You cannot control whether or not the market will continue to trash stocks, but you can control how you respond.

Even during the Great Depression, the best investment results were earned not by the people who fled stocks for the safety of bonds and cash, but by those who stepped up and bought stocks and kept buying on the way down. Floyd Odlum made millions of dollars putting his cash into battered stocks. His motto throughout the market nightmare of 1929 to 1932 never changed: "There's a better chance to make money now than ever before."

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CORPORATE NEWS

OIL

Joint venture TNK-BP is to lose two executives

Associated Press

TWO EXECUTIVES at **TNK-BP Holding** OAO are leaving the company, a person close to the matter said, marking the latest in a line of management changes at the oil joint venture between **BP** PLC and a group of Russian billionaires.

Tom Wright, executive vice president for planning and performance management, and Steve Riddlington, vice president for finance and treasury, will leave this month, the person said. Their exits were described as a consequence of the departure of TNK-BP's former chief financial officer, James Owen, who quit Aug. 4, citing a struggle among the venture's shareholders. *—Jacob Gronholt-Pedersen*

BANKS

Commonwealth pursues Australian unit of HBOS

Reuters

COMMONWEALTH Bank of Australia Ltd. is in exclusive talks to buy **HBOS** PLC's BankWest unit in Australia, which analysts say could fetch about two billion Australian dollars, or approximately US$1.4 billion.

Commonwealth Bank said negotiations are continuing. HBOS in Australia confirmed the exclusive talks, which come amid the continued fallout from the global credit crunch. A sale would free up capital for Britain-based HBOS, which is being taken over by **Lloyds TSB Group** PLC. HBOS Australia, which took control of BankWest in 2003, employs about 6,000 staff. *—Lyndal McFarland*

AVIATION

Low-cost airlines to get new Copenhagen terminal

Associated Press

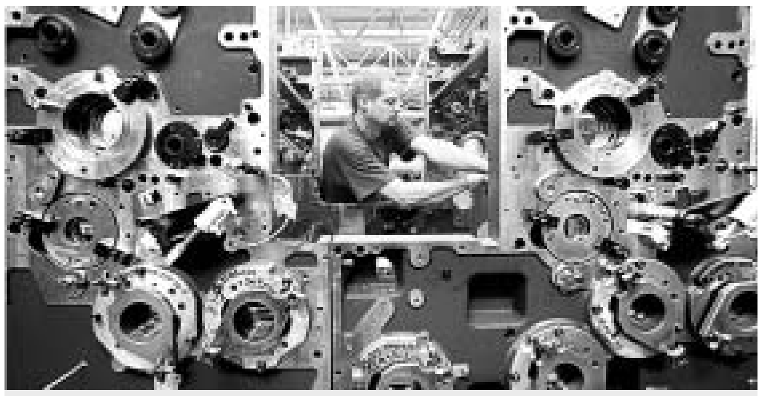
COPENHAGEN AIRPORTS AS will build a terminal for low-cost airlines. The terminal, valued at 200 million Danish kroner ($36.2 million) and dubbed CPH Swift, is to be ready by 2010. It will have an annual capacity of six million passengers, said the operator of Copenhagen's international airport.

Airlines must have a 30-minute turnaround at the new terminal and at least 90% of the passengers must check in online, through their cellphones or at self-service kiosks. Transfers to other flights won't be possible. Copenhagen's airport is the hub for **SAS** AB. It is the Nordic region's largest airport, with 21.4 million passengers last year. *—Associated Press*

Heidelberger will press forward

Printer anticipates upturn despite move online by advertisers

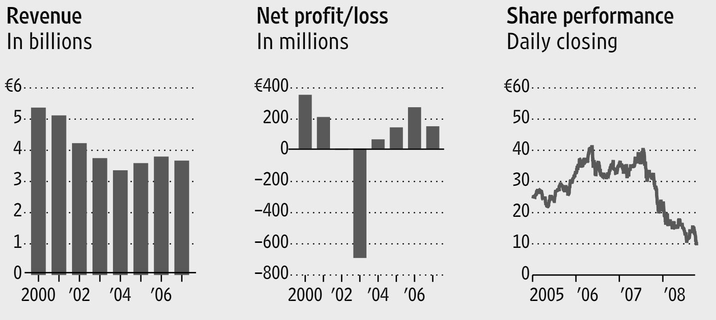
BY MIKE ESTERL
Heidelberg, Germany



Zuma Press

Pressing Times

German printing-press giant Heidelberger Druck is wobbling



Sources: the company (revenue and profit/loss); Thomson Reuters Datastream (share price)

HALF A MILLENNIUM after Johannes Gutenberg invented the mechanical printing press on the banks of the Rhine, Germany's dominance in spreading the written word is in danger of fading.

The immediate problem: A global economic slowdown is causing customers to put off capital investments. A strong euro, meanwhile, has given a competitive edge to rivals in Japan and the U.S. in recent years.

The longer-term threat: Demand for its storied mechanical presses may never fully recover as advertisers move online and digital pioneers such as **Hewlett-Packard** Co. offer more flexible printers.

Heidelberger Druckmaschinen AG is the world's largest manufacturer of machines that print everything from business cards and brochures to magazines and books. The company and its German peers boast a global market share of about 70% in sheet-fed offset presses, long the prevalent technology for print runs that stretch into the thousands.

Since January, however, Heidelberger's share price has more than halved, and it has issued three profit warnings, most recently last week.

Heidelberger acknowledges the challenges but says the current slowdown is cyclical and that it will grow again, partly by expanding its products and services. It believes digital printers will continue to be too slow and costly for longer print runs and that print growth in developing countries will offset more mature markets.

"The upturn will come, as it came [after] the last five crises I've lived [through] in this company," says Chief Executive Bernhard Schreier, a third-generation Heidelberger employee who began as an apprentice in 1975.

Heidelberger is one of the long-running success stories that have made Germany the world's largest exporter. The company generates more than 80% of its revenue abroad and enjoys a global market share of more than 40% in sheet-fed offset presses. It booked €3.67 billion ($4.96 billion) in revenue in its latest fiscal year.

Other big German printing-press manufacturers, such as Koenig & Bauer AG and Manroland AG, also are clustered near the river Rhine and the city of Mainz, Gutenberg's birthplace. The 15th-century German goldsmith is widely credited with developing the movable-type press that allowed text to be reproduced on a grand scale and helped spawn Europe's Renaissance.

Heidelberger's modern-day printing machines can stretch for about 45 meters, weigh 180,000 kilograms, house 100,000 components and cost as much as €5 million.

Last week, though, the company estimated that sales for its fiscal second quarter ended Sept. 30 fell roughly 10% from the year-earlier quarter to between €800 million and €820 million. It expects to book an operating loss of as much as €20 million for the quarter, not including restructuring charges. Management, which also is grappling with soaring German wage demands, expects sales and operating profit to drop in the fiscal year ending March 31.

Heidelberger unveiled a restructuring drive in July to cut costs by €100 million. It plans to reduce spending on research and development, expand production sites abroad, buy more materials outside the euro-currency zone and cut 500 jobs from its 20,000-strong work force.

Those efforts follow on the heels of a big overhaul earlier this decade when it slashed 2,000 jobs and sold some of its businesses. Heidelberger says it boosted productivity by 16% between 2004 and 2007.

Nevertheless, Heidelberger remains under pressure from its main competitors outside Germany—**Komori** Corp., **Mitsubishi Heavy Industries** Ltd. and **Ryobi** Ltd.

Goss International Corp., of Illinois, became a larger competitor in 2004 after Heidelberger sold a majority stake in its Web-offset unit to Goss. Web-offset printing presses are larger than sheet-fed ones and can print large runs more economically and five times more quickly. Employing giant rolls of paper instead of individual sheets, they are widely used in the newspaper industry.

Goss now is targeting the smaller print runs that Heidelberger specializes in through a new fleet of machines. "Dominance is a tricky thing. It comes and goes, and America is learning," says Bob Brown, Goss's chief executive and a former Heidelberger employee.

Heidelberger sold its digital-printer division to Eastman Kodak Co. in 2004 after concluding it wasn't large enough to shoulder the research-and-development costs needed to compete in that emerging market. Now, other big companies, such as H-P and **Xerox** Corp., also are seeking to swipe Heidelberger customers with increasingly fast and powerful inkjet printers.

While digital printers aren't as cost-efficient as Heidelberger presses for print runs in the thousands, the newest versions are closing the gap. Unlike Heidelberger's machines, which transfer images from printing plates, digital printers also can more easily modify print runs to help advertisers deliver personalized sales pitches.

Pira International Ltd., a U.K. research group that tracks the industry, is forecasting global printing revenue from digital presses will more than double to €110.53 billion between 2007 and 2012. Printing from offset presses, it estimates, will edge down to €232.49 billion from €246.4 billion over the same period.

Heidelberger recently introduced a smaller line of printers designed to be cost-competitive with digital rivals for shorter printing runs. It also has rolled out a series of larger machines to tackle longer print runs currently handled by Web offset.

Still, Heidelberger's Mr. Schreier acknowledges his company will have to do more than build printing machines to grow again in a meaningful way. He hopes to boost Heidelberger's revenue from its packaging business—which manufactures such things as cereal boxes—and its services and accessories businesses to half of overall sales from about one-third today.

P&G to resurrect Rochas fashions in deal with Gibo

BY ELLEN BYRON

Procter & Gamble Co. has found a way to reopen the Rochas fashion house.

Upscale Italian manufacturer **Gibo** Co. and consumer-products titan P&G on Tuesday announced a licensing agreement for Gibo to produce a ready-to-wear apparel line under the Rochas brand.

P&G enraged the fashion world two years ago when it announced that it would close the Rochas fashion house, then led by critically acclaimed designer Olivier Theyskens.

"We want to maintain the position of the brand in the luxury area," says Franco Pene, chairman and chief executive of Gibo. Still, he doesn't expect the new line will follow the look Mr. Theyskens created. "We're not obliged to give continuity—we'll try to respond to the needs of the market."

P&G acquired Rochas in 2003 when it bought Wella AG as a way to gain a major presence in the fast-growing professional hair-care market. The Cincinnati-based company planned to continue producing Rochas fragrances but decided to close down the Rochas fashion business because it wasn't a core strength. P&G had said at the time that the closing of Rochas had nothing to do with the abilities of Mr. Theyskens. Mr. Theyskens moved on to Nina Ricci.

Gibo is owned by Japanese apparel maker **Onward Holdings** Co., has produced clothes for a number of fashion labels, from Marc Jacobs to Michael Kors and Paul Smith. Onward has recently made a number of acquisitions in the luxury-goods market in Europe, including Jil Sander and fashion retailer Joseph.

In recent years, P&G has added to its stable of designer scents, producing fragrances under brands including Gucci, Valentino and Dolce & Gabbana.

Today, P&G's fine-fragrance business exceeds $2.5 billion in annual sales, according to company reports, and remains one of the fastest-growing segments of its beauty division, which also includes Olay skin care and Pantene shampoo.

CORPORATE NEWS

Drug makers see opening

Europe is set to relax its rules against ads, allow flow of facts

BY JEANNE WHALEN

Europe is poised to relax restrictions preventing drug companies from reaching out to consumers.

Unlike in the U.S., drug companies operating in Europe are prohibited from advertising prescription drugs to consumers, which helps make Europe a far less profitable drug market.

The new rules would let companies provide "objective and unbiased" information about drugs in print and online but would prohibit outright advertising, in a sign that Europe is concerned about protecting consumers from drug companies' messages.

Consumer groups are worried that the changes will crack open the door to stealth advertising.

The European Commission is planning to propose the changes later this month, according to an early draft of the legislation. The changes would need to be approved by the European Parliament and Council of Ministers before becoming law, a process that could take several years.

A Commission spokesman said the legislation could still change. He declined to comment further.

On its Web site, the Commission says European patients have become more involved in their treatment and more demanding of information, and that drug makers should be allowed to supply information in a nonpromotional way.

Drug companies, which have lobbied hard for the changes, say the new rules would allow them to set up Web sites about their drugs and possibly circulate brochures at pharmacies, activities that aren't allowed today. They say they won't start U.S.-style advertising.

"We're not interested in advertising to patients. We will accept any reasonable oversight of the information we provide to ensure it's unbiased and to ensure it achieves its objective, which is to really improve patients' ability to manage their own health care," said Arthur Higgins, chief executive of **Bayer** AG's health-care unit and head of the European Federation of Pharmaceutical Industries and Associations, the drug industry's main lobbying body in Europe.

Consumer-protection groups say it will be hard to police the line between factual information and advertising. Companies "have a responsibility toward their shareholders, so the money they spend will have to be aimed at making a profit," says Ilaria Passarani, health-policy officer for the European Consumers' Organization in Brussels. "We think all of this will inevitably increase sales of medicines that are unnecessary for patients."

If consumers need more information about drugs, the European Medicines Agency, Europe's main drug regulator, should provide it, she added.

Under the current rules, some companies have used advertising campaigns to raise awareness about particular diseases. Even disease-awareness campaigns that aren't allowed to mention a company or a particular drug can lead to stronger sales of a pharmaceutical product, says Barbara Mintzes, a researcher at Health Action International in Amsterdam.

She pointed to a television campaign **Novartis** AG began in the Netherlands in 2000 advising people with toenail or fingernail fungus to visit a doctor. Novartis makes a drug called Lamisil for nail fungus, though this wasn't mentioned in the campaign.

Still, doctors started prescribing Lamisil at much higher rates after the ads began, according to a study of the campaign published in the British Medical Journal. When the ads stopped in 2002, Lamisil prescriptions dropped again, according to the study.

A Novartis spokeswoman declined to comment.

Setting standards

A draft copy of legislation being prepared by the European Commission says drug companies should be allowed to provide the following information on prescription drugs to consumers

Information availability:
- Written information in printed media
- Internet sites on medicinal products
- Correspondence to answer requests for information from the general public

Information drug companies provide should be:
- Objective and unbiased
- Take into account the general needs and expectations of patients
- Evidence-based and verifiable
- Reliable, factually correct and not misleading

Auto production in Europe is curbed as demand wanes

BY CHRISTOPH RAUWALD

FRANKFURT—Auto makers are reducing production in Europe, as fears of a prolonged economic downturn hinder demand for new cars.

General Motors Corp.'s Opel unit said Tuesday that it will cut production by 40,000 cars in Europe this year to adjust production to shrinking demand and avoid a buildup of inventory, which would hurt prices for new cars.

The European divisions of **BMW** AG, **Daimler** AG, **Volkswagen** AG and **Ford Motor** Co. also are planning production cuts.

The reductions come at a delicate time for auto makers. Sales are falling sharply in both the U.S. and Europe, while growth in key developing markets like China and Russia is moderating. At the same time, prices of raw materials like steel are rising and eroding profit margins. In recent weeks, the global financial crisis has added further trouble by shaking consumer confidence and clouding the economic outlook.

For GM, a production halt in Europe will further slow its growth and could force the auto maker to lose money at its European operations at a time when it is already posting billions of dollars in losses in North America. GM's European sales were up 2.8% for the first half of 2008, as growth in Eastern European nations offset declining sales in more mature Western European countries. The company's Opel and Vauxhall brands together sold 1.63 million vehicles in Europe last year.

Ford laid off 204 temporary workers at its plant in Saarlouis, Germany, as part of a move to cut output. A Ford spokesman described the production cut as "modest" and declined to give further details. The Saarlouis plant employs about 6,500 people and produces its European line of Focus, C-Max and Kuga vehicles.

Ford said production levels will remain the same at its Cologne plant, which just started manufacturing the new Fiesta, the auto maker's latest attempt at a global car. The plant is expected to eventually make 1,800 Fiesta and European Fusions a day.

BMW plans to cut production by between 20,000 and 25,000 cars in 2008, but Chief Executive Norbert Reithofer said last week at the Paris Motor Show that a further cutback would be considered if market conditions continue to deteriorate.

At that auto show, Daimler CEO Dieter Zetsche declined to give an update on the company's planned production cut of 45,000 cars. German trade magazine Automobilwoche reported that the maker of Mercedes-Benz cars was to lower production by as many as 80,000 cars in total.

Spanair bookings dropped sharply following crash

BY OLA KINNANDER

STOCKHOLM—Spanair's deadly accident in August at the Madrid-Barajas airport will cost parent company **SAS** AB 500 million Swedish kronor ($69.4 million) in lost revenue because of a drop in bookings, the Scandinavian airline said Tuesday.

As part of its September traffic report, SAS said Spanair carried 680,000 passengers last month, down 25% from the previous September. The Aug. 20 accident, which killed 154 people, had a significant initial impact on passenger traffic, but SAS said bookings are improving and are almost back to normal.

Total passenger numbers at SAS fell 8.4% in September to 3.3 million, while passenger traffic—which measures how far passengers are flown—was down 6.7%.

In Stockholm, SAS shares were down 3.50 kronor, or 7.9%, to 40.60 kronor.

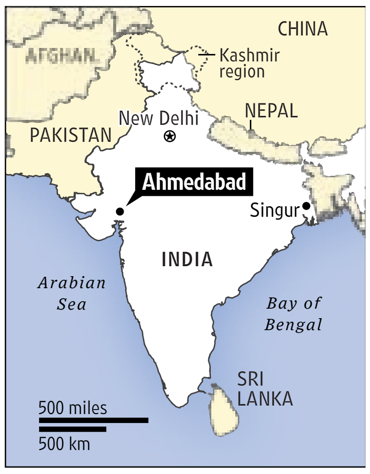
Sture Stolen, SAS's head of investor relations, said that most of the 500 million kronor in lost revenue likely will affect third-quarter results.

Air France-KLM SA also issued a lackluster traffic report for September. Passenger traffic at Air France-KLM rose 0.5% from a year earlier, with capacity up 2.2%. Load factor fell 1.4 percentage points to 80.9%.

—Geraldine Amiel in Paris, Jan Hromadko in Frankfurt, Valeria Santoro in Rome and Kaveri Niththyananthan in London contributed to this article.

India protests push Tata to relocate new car plant

BY ERIC BELLMAN



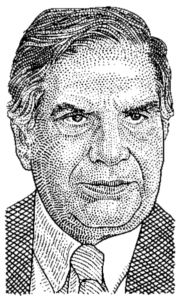
NEW DELHI — **Tata Motors** Ltd. is shifting production of the world's cheapest car to the western state of Gujarat, in a move that shows how Indian states are vying for investment despite facing grassroots resistance to some big industrial projects.

Tata Chairman Ratan Tata said Tuesday that the company had acquired 1,100 acres of land near Gujarat's business capital, Ahmedabad and would relocate equipment from a failed West Bengal project to build the main production plant for its 623cc Nano minicar.

The auto maker, India's largest, said last week it was pulling out of its nearly completed facility in the eastern state following opposition by dispossessed farmers and political activists, who demanded nearly a third of the land be returned to the farmers.

"We now have a new home," Mr. Tata told a televised news conference in Gujarat. "We lost a lot of time, unfortunately, but I think we can set out to do what we need to do on Guajarati soil."

The Tata Group and other big Indian conglomerates, such as **Reliance Industries** Ltd., as well as international giants such as Korean steelmaker **Posco**, often have faced difficulty acquiring land for their factories and special economic zones. Yet Tata's move to Gujarat underlines how some local governments are positioning themselves to capitalize on the turbulence. They are looking for big investors to bring capital and jobs to their regions, at a time when both increasingly are in short supply.


Ratan Tata

Thanks to its probusiness state government, Gujarat has become a magnet for investment. Companies, including **General Motors** Corp, **Royal Dutch/Shell** Group and Reliance, India's largest private company, have set up production there. The local government has built better roads and other infrastructure than other Indian states. It also enjoys higher-than-average economic growth.

"The initial decision went wrong, so the Tatas have been extra careful," choosing a new site, said Joseph George, auto analyst at BNP Paribas in Mumbai. "If you look at Gujarat's record, it has been very good as far as investments are concerned."

Mr. Tata said the Gujarat plant would create as many as 10,000 jobs and would eventually produce up to 500,000 cars a year. He declined to estimate the costs of moving the plant, or when it would be up and running.

The struggles to start production of Tata's so-called people's car doesn't appear to have deterred other big automobile companies from moving to India. **Volkswagen** AG said Tuesday it plans to manufacture two new cars in India in about two years, based on its existing Polo hatchback model, as it aims to capture a tenth of Asia's third-biggest automobile market.

Volkswagen, Europe's biggest automaker by sales, will produce the cars at a new factory at Chakan, near Pune city, in the western state of Maharashtra. The plant, built with an investment of 580 million euros ($784.1 million), will have an annual capacity of 110,000 vehicles.

Indian business leaders applauded Tata's quick rebound from its failure to set up shop in West Bengal. Some feared Tata's problems could hurt the country's chances of attracting international investment.

"Gujarat is one of the most investor-friendly states, with an impeccable record of industrial relations," Chandrajit Banerjee, director general of the Confederation of Indian Industry, one of India's largest corporate lobbying groups, said in a statement following the Tata announcement. "CII is, therefore, delighted that Nano has found a home in such a state."

—Tariq Engineer in Mumbai and Santanu Choudhury in New Delhi contributed to this article.

CORPORATE NEWS

AMD to spin off factories

Chip maker sets deal with Abu Dhabi firm amid bid to cut costs

By Don Clark
And William M. Bulkeley

Advanced Micro Devices Inc. Tuesday announced a broad plan to cut costs by spinning off its manufacturing operations to a new joint venture, which will receive as much as $6 billion in funding from an investment company from Abu Dhabi.

AMD said the new venture, called Foundry Co., will make chips for AMD and other companies and take over facilities that include large AMD factories in Germany. Most of the money to operate the venture will come from **Advanced Technology Investment** Co., a firm based in Abu Dhabi that will make a $700 million payment to AMD for its interest in the new company.

Another firm from the same country that already holds an 8% stake in AMD, **Mubadala Development** Co., will pay $314 million for shares in AMD that will boost its stake to 19.4%. Under the deal, about $1.2 billion in AMD's debt will be transferred from AMD's balance sheet to Foundry.

Among other things, Foundry will have the wherewithal to restart a stalled upgrade of an AMD factory in Dresden and also pursue a plan to build another advanced factory and research center in upstate New York. AMD said those operations will directly employ 1,400 people and lead to the creation of more than 5,000 jobs in the region.

AMD Chief Executive Dirk Meyer, speaking in a conference call, said the deal "will go down as the most important transaction in the history of AMD."

Investors have been waiting for a restructuring that could dramatically change the financial condition of AMD, a perennial underdog competitor of **Intel** Corp. that has been struggling with stiffer competition, heavy losses and debts associated with its $5.4 billion acquisition of ATI Technologies in 2006.

AMD said the transaction represented a positive "swing" to AMD's balance sheet totaling more than $2 billion.

> **A new venture, called Foundry, will make chips for AMD and other companies.**

Hector Ruiz, AMD's chairman, has been vowing for more than a year to transform the company to reduce the cost of running factories and developing new production processes, which largely determine the performance and cost of chips.

The strategy—variously called "asset light" or "asset smart" by AMD officials—mirrors strategy changes that many companies have gone through to cope with rising costs and fierce price competition in the industry. **Texas Instruments** Inc., for example, has given up developing new processes for creating digital chips, though it still runs factories based on older, analog technology.

Instead of owning their own plants, most companies that design chips now rely on companies known as foundries that operate chip manufacturing services. The new AMD venture is expected to join the ranks of such foundries.

AMD has long relied on **International Business Machines** Corp. as its main partner in developing new production processes. IBM is expected to continue cooperating with the new venture company.

Advanced Technology Investment has agreed to provide the new manufacturing company a minimum of $3.6 billion and a maximum of $6 billion for Foundry. Among other chores the new venture faces is converting some of its manufacturing capacity to a production process known as bulk silicon that is favored by most chip makers. At the moment, its factories exclusively make chips using a process called silicon-on-insulator that was pioneered by IBM.

Another issue will be whether the spinoff plan could violate terms of patent licensing arrangements between AMD and Intel. AMD said it believes its plan is permissible under all the company's licensing agreements.

Doug Grose, who has served as senior vice president of AMD's manufacturing operations, will become chief executive of the new company.

In late trading Tuesday, AMD's stock was up 11%, or 46 cents, at $4.69 a share on the New York Stock Exchange, but still well below its 52-week high of $14.73 last October.

Roche finds a new use for drug

By Anita Greil

Roche Holding AG said its drug MabThera delayed the time until leukemia got worse in patients suffering from the blood cancer.

A late-stage study found that MabThera, in combination with chemotherapy, significantly improved progression-free survival in patients with relapsed or refractory chronic lymphocytic leukemia, the most common form of adult leukemia, the company said. Roche, based in Basel, Switzerland, said Tuesday it will use the data to ask health authorities to approve the use of MabThera for that form of leukemia.

The drug has been on the market around a decade for treatment of non-Hodgkin's lymphoma and other types of blood cancer. MabThera recently gained approval for treatment of rheumatoid arthritis.

MabThera, sold in the U.S. by **Genentech** Inc. under the brand name Rituxan and generically known as rituximab, is Roche's best-selling drug. Roche owns a majority stake in Genentech and in July launched a takeover bid for the company's remaining shares. U.S.-based **Biogen Idec** Inc. also shares U.S. revenue from the drug.

World-wide sales of MabThera in the first half amounted to 2.87 billion Swiss francs ($2.5 billion). Analysts said that in Europe, where Roche will sell the drug, additional annual sales could range between 500 million Swiss francs and two billion francs.

MAN plans to sell 70% stake in unit

By Christoph Rauwald

FRANKFURT—Germany's **MAN** AG said it signed a letter of intent to sell a 70% stake in its Ferrostaal division to state-owned **International Petroleum Investment** Co., of Abu Dhabi.

Financial terms weren't disclosed. Ferrostaal, which posted sales of €1.45 billion ($1.96 billion) last year, builds large-scale plants.

"The proposed partnership with IPIC will open up new opportunities for growth for MAN Ferrostaal in plant construction and important markets of the future, such as solar energy and biofuels," MAN Chief Executive Hakan Samuelsson said Tuesday.

Ferrostaal will be run as an independent company, keeping its present structure and management.

MAN, a truck maker and engineering company, said the Abu Dhabi company "intends to award contracts for large industrial projects to MAN Ferrostaal." IPIC operates mainly in the areas of oil processing, petrochemicals, pipelines and power stations.

The sale is the latest step in further streamlining the former German industrial conglomerate's portfolio. Over the years, MAN has spun off several operations, such as its former printing-systems division, to concentrate on what it calls "transport-related engineering."

"With this step, the focusing process of the MAN group, initiated in 2005, has been finalized," Mr. Samuelsson said.

The deal allows MAN to be more focused on its truck operations, simplifying the company's structure for a possible three-way alliance with the truck-making operations of **Volkswagen** AG and **Scania** AB. Volkswagen, MAN's biggest single shareholder, with a stake of about 29%, is also Scania's majority shareholder, with a 69% stake, and has pushed for closer cooperation between the companies.

GLOBAL BUSINESS BRIEFS

Banco Español de Crédito SA

Stronger lending profits lift quarterly net by 5.6%

Banco Español de Crédito SA said third-quarter net profit rose 5.6% as stronger lending profitability offset slowing loan growth. Spain's fourth-largest bank by market capitalization said net profit rose to €204.4 million ($276.3 million) from €193.6 million a year earlier. Net interest income rose 13% to €420.9 million. Banesto, which is 88.5%-owned by Spain-based banking giant **Banco Santander** SA, is the first Spanish bank to report third-quarter results. Its numbers are closely watched by investors for hints on how a slowing local economy and the unfolding global financial crisis might affect local banks. The results were broadly in line with market expectations.

Erste Group Bank AG

Austria's **Erste Group Bank** AG warned its profit growth would fall well short of previous expectations this year, as financial market turbulence hits its trading result and some of the securities in its portfolio. The second-biggest lender in emerging European markets after Italy's **UniCredit** SpA expects a "slight rise" in full-year profit, excluding the sale of its insurance unit, a spokesman said. The bank had originally said profit growth would be around 20%. Shares in Erste fell 8.1% to €30.15 on the Austrian stock market Tuesday. The profit warning "will weigh on the credibility of the group and is likely to put a cap on the upside potential for the share price," Sal Oppenheim analyst Thomas Stoegner said. **Raiffeisen International Holdings** AG, another Austrian lender, confirmed its full-year and midterm outlook, but its shares slumped 7.7% to €41.76.

Airbus

Airbus said it delivered 34 jets in September, up from 29 in August. In addition, the wholly owned unit of **European Aeronautic Defence & Space** Co. said it booked 31 new orders for aircraft last month. Airbus didn't take in any orders in August, mainly because airlines had made their bookings at the Farnborough International Airshow in July. Over the first nine months of 2008, Airbus delivered 349 aircraft, including 51 wide-bodied A330s, seven A340s and seven double-decker A380s. Excluding cancellations—including five for A310s—the company had 737 new orders between January and September. Airbus has said it is confident that it will book at least 850 orders in all of 2008.

Temasek Holdings Pte. Ltd.

Singapore state investment fund **Temasek Holdings** Pte. Ltd. said it has begun the process of selling PowerSeraya Ltd., the last of three power companies to be divested under a plan announced last year. Potential bidders have already expressed interest in PowerSeraya, Temasek said. A consortium led by Japan-based **Marubeni** Corp. agreed to buy Senoko Power Ltd. for four billion Singapore dollars (US$2.7 billion) in September, and China Huaneng Group bought Tuas Power Ltd. for S$4.2 billion in March. PowerSeraya sold 28% of Singapore's electricity in 2007. It has a total generation capacity of 3,100 megawatts and posted S$2.8 billion in revenue for the year ended March 31. Morgan Stanley and Credit Suisse are advising Temasek.

BP PLC

Kazakh state oil and gas company **KazMunaiGas** and Russian oil company OAO **Lukoil** said they were interested in buying **BP** PLC's stake in the Caspian pipeline that pumps Kazakh crude to the Black Sea. BP said last month it may sell its stake in the Caspian Pipeline Consortium if it fails to agree with Russia on terms for expanding the line. "There is certainly interest in these assets. We have told BP about that," KazMunaiGas head Kairgeldy Kabyldin said at a news conference. "We are starting talks now." A BP spokesman in Moscow said in September that BP may sell its stakes in Lukarco, a unit of Lukoil, and Kazakhstan Pipeline Ventures, which are members of the consortium. Through its holdings in consortium members, BP has a 6.6% share in the CPC, a spokesman said in September.Separately on Tuesday, Lukoil President Vagit Alekperov said Lukoil has the right of first refusal because Lukarco is a joint venture between his company and BP.

Veolia Environnement

Abu Dhabi's state investment arm, Mubadala Development, and Veolia Water said they are forming a joint venture focused on water production and waste-water collection and treatment. The companies said they will work together on municipal projects and other partnerships in the Middle East and North Africa. Veolia Water, a division of **Veolia Environnement** of France, will own 51% of the company. Mubadala will own the remainder. Tuesday's deal came the same day Mubadala more than doubled its stake in chip maker **Advanced Micro Devices** Inc.

Eli Lilly & Co.

Eli Lilly & Co. said it will take a charge equal to four cents a share against its third-quarter earnings after settling an investigation by 32 U.S. states and the District of Columbia into improper marketing of antipsychotic drug Zyprexa. The Indianapolis-based pharmaceutical company will pay the states $62 million and agreed to change its promotion practices for the drug, report payments to doctors and disclose Zyprexa clinical trial results. Zyprexa is Lilly's top-selling drug, recording $4.8 billion in sales last year. It is approved to treat schizophrenia and bipolar disorder. State attorneys general, among others, contended that Lilly was promoting it for other uses not approved by regulators.

China Medical Technologies Inc.

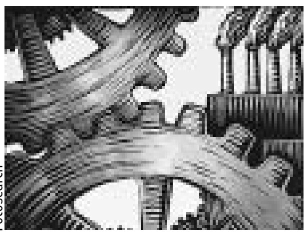
China Medical Technologies Inc. agreed to acquire a system for detecting human papillomavirus from Molecular Diagnostics Technologies Ltd. for $345 million, a deal expected to immediately add to China Medical's profits. The provider of advanced in-vitro diagnostic products and ultrasound tumor-therapy systems said the purchase should help make revenue from its in-vitro diagnostics 80% of the company's total next year. China Medical will make payment in installments, with the final amount due one year after the acquisition's closing at the end of this year or early 2009. The company makes products used to detect diseases and disorders through testing of blood, urine or other body fluids, as well as ultrasound systems used to treat solid cancers and benign tumors.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.K.

Output continues decline, sparking call for rate cut


Fotosearch

BRITISH manufacturing output fell for the sixth-straight month in August, its worst declining streak since 1980, increasing the pressure on the Bank of England to cut interest rates on Thursday.

The Office for National Statistics said output fell 0.4% from July and 1.9% from the year-earlier month. The figures were worse than expected. The data reinforce views that the economy "contracted in the third quarter and is well on its way into recession," said Howard Archer, an economist at Global Insight, London. He said the BOE should respond with a half-point rate cut, from the current 5%.

—Joe Parkinson

GERMANY

Cabinet votes to extend mission in Afghanistan


Associated Press

CHANCELLOR Angela Merkel's Cabinet voted to extend Germany's military mission in Afghanistan 14 months—until after next year's parliamentary elections, government spokesman Thomas Steg said.

With the new mandate, the ceiling for the number of German soldiers serving with the NATO-led international force is expected to increase by 1,000 to 4,500. There are about 3,300 German troops in Afghanistan, most in the relatively calm north, Mr. Steg said. The extension needs approval by the lower house of Parliament, where Ms. Merkel's coalition holds a commanding majority.

—Associated Press

UNITED NATIONS

Trade barriers, subsidies on biofuels hurt food crisis


Associated Press

A UNITED Nations agency called for an urgent review of agriculture and biofuel subsidies and trade barriers, saying their removal would increase opportunities for developing countries to take advantage of rising biofuel demand. The Food and Agriculture Organization said keeping trade barriers may deepen the food crisis. "Current policies tend to favor producers in some developed countries over producers in most developing countries," FAO Director-General Jacques Diouf said. "The challenge is to reduce or manage the risks while sharing the opportunities more widely."

—The Associated Press

Shipping lines sail a sea of red ink

Weak demand forces container rates down as new vessels launch

BY JOHN W. MILLER
Brussels

LAST YEAR, the basic price of shipping a large container of goods from Asia to Europe, the world's busiest route, was $2,800. This week, with demand plunging, that price was an unprofitable $700.

That rate is "unsustainable," says Eivind Kolding, chief executive of Copenhagen-based **A.P. Moller Maersk** AS, the world's biggest shipping company by sales. The industry would be crippled if that price doesn't rise soon, he says.

Hit by the global economic downturn and a financial meltdown that promises an even sharper drop in once-red-hot trade flows, container-shipping companies are cutting routes and capacity to stem a sudden flow of red ink.

Making their plight worse, the container shippers ordered fleets of new vessels during boom times that only now are getting delivered—just as business dries up. Companies likely will have to convert some container ships to tankers or cruise vessels, then sell them at a loss, analysts say.

Transportation accounts for only a small percentage of a product's final price. But the plight of the annual $150 billion container-shipping industry shows how the speed of the credit crunch and global downturn have caught up to companies that have to make investment decisions years in advance.

Other shipping routes, including Asia-U.S. lanes, also are suffering from declining demand. But the U.S. has tighter harbor space than Europe. Prices for the smaller ships docking in California, Texas and the East Coast have settled around a barely profitable $1,500 a container, analysts say.

The past 10 years were a gold rush for shippers. China joined the World Trade Organization and sold hundreds of billions of dollar of goods to European and American consumers, who were enjoying low interest rates and steady economic growth. Factories relocated to Asia, stretching supply chains around the globe. Oil was cheap, ships were relatively scarce and shipping prices soared.

Container-shipping traffic on the Asia-Europe route rose at roughly 15% a year through the period. This year it will increase just 5%, says Philip Damas, of London-based maritime consultant Drewry Shipping Consultants Ltd. Capacity, however, is growing much faster. "There's a glut of new large container ships entering the market," Mr. Damas says. "It is scary."

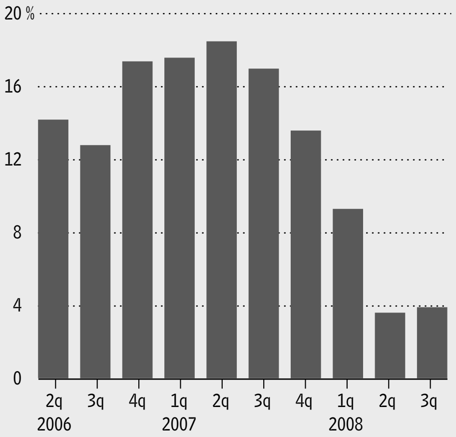
Freight-shipping prices are notoriously volatile, depending on weather, ever-changing capacity and shifting trade flows. But the recent slide is unprecedented, analysts and shipping-company executives say.

Maersk, the world's No. 1 shipper with sales of $51.2 billion last year, waited until Thursday to cut container rates to their present low. Mr. Kolding, the Maersk CEO, told trade publication Lloyd's List that he hadn't seen the collapse coming. He promised "changes" later this month. That means running fewer vessels in a bid to run up prices, and maybe dropping an Asia-Europe route, a Maersk official said.

Rates for ships heading from Europe to Asia are even more depressed than the reverse trip—about $200 per 40-foot container.

Shipping contained

The recent collapse of freight shipping rates on the Asia-Europe route was presaged by a slowdown this year in container shipping.
Right, year-to-year growth in container shipments



Source: Drewry Shipping Consultants

Loading terminal in the harbor of Hamburg, northern Germany
Associated Press

These days, 60% of containers making that trip are empty, reflecting Europe's trade deficit with China, which stood at $223 billion last year.

Zim Integrated Shipping Services Ltd. on Saturday canceled its new Asia-Europe route, which it started in January with nine ships. Zim, based in Haifa, Israel, says it is betting that rates will pick up in time for the arrival late next year of two mammoth container ships being built.

Eager to cash in on the trade boom, companies such as Zim a few years ago put in a wave of orders to South Korean and Chinese shipyards. Those boats are being launched now. Marseille-based **CMA CGM** SA, for example, has placed orders for 80 ships, at a total cost of roughly $1 billion, to complement the some 400 it already runs. Geneva-based **Mediterranean Shipping Company** SA is scheduled to receive 57 ships, adding to the 427 already in its fleet.

Maersk received 15 vessels in the first half and has 48 ships on order for delivery by 2012. "Given the present market conditions we're quite pleased that we don't have the largest order book in the industry," says spokesman Michael Christian Storgaard.

Maersk officials decline to disclose their plans for the new ships, but there are few options, says Dirk Visser, an analyst with Dynamar BV, a consulting firm based in Alkmaar, the Netherlands. "They can try to cancel their orders, but that's a tough sell in the present environment," he says. "The best option is to convert the ship to a tanker or a cruise ship, then sell it at a loss."

The Property Report

Hypo's needle

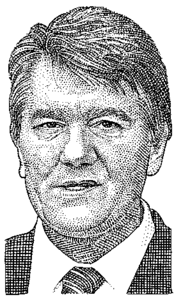
German lender's bailout pains European financing market > **Page 32**

Yushchenko moves Ukraine closer to vote

ASSOCIATED PRESS

KIEV, Ukraine—Ukraine's president edged closer to calling an early parliamentary election, and he traded accusations with the nation's prime minister over the collapse of their coalition.

President Viktor Yushchenko gave the Ukrainian parliament until the end of Tuesday to form a coalition or face a third parliamentary election in as many years.



Viktor Yushchenko

During a meeting with members of his parliamentary faction, Mr. Yushchenko blamed Prime Minister Yulia Tymoshenko for putting the country "on the brink of an abyss" and suggested their alliance was ineffective.

Mr. Yushchenko signaled coalition talks should continue, but several lawmakers who were in attendance said the president was bent on calling the early vote.

These lawmakers predicted he could make that announcement by the end of Tuesday or on Wednesday.

Ms. Tymoshenko, on the other hand, accused Mr. Yushchenko of seeking to sideline her before the 2010 presidential election.

She also said he was sabotaging her efforts to revive the coalition, even though another election would further damage the country's economy, which is being battered by the global financial crisis.

The two leaders of the 2004 Orange Revolution, which propelled Mr. Yushchenko to the presidency and put Ukraine on a pro-Western course, have turned into bitter political rivals.

Mr. Yushchenko pulled out of the nine-month-old coalition with Ms. Tymoshenko last month, after she allied with the opposition to adopt laws trimming presidential powers.

IMF urges global action

Citing U.S. losses, spreading pain, fund calls for coordination

By Tom Barkley

WASHINGTON—With losses on bad U.S. assets alone expected to top $1.4 trillion, the International Monetary Fund urged global policy makers to coordinate a response to the spreading financial crisis.

The latest estimate of losses in the Global Financial Stability Report is well above the IMF's April prediction of $945 billion, which some economists considered high at the time. It also tops the $1.3 trillion forecast given by Managing Director Dominique Strauss-Kahn two weeks ago.

"With financial markets worldwide facing growing turmoil, internationally coherent and decisive policy measures will be required to restore confidence in the global financial system," the IMF said. "Failure to do so could usher in a period in which the ongoing deleveraging process becomes increasingly disorderly and costly for the real economy."

In its assessment, the IMF said "threats to systemic stability became manifest" last month, with the failure or near-collapse of major U.S. institutions.

The fund estimates write-downs on U.S. assets totaled $760 billion through September, suggesting the period of financial pain is only around the halfway mark a little over a year after the blowout in the U.S. subprime-mortgage sector turned into a global credit crunch.

While European institutions are getting hit mostly by exposure to toxic U.S. assets, mortgage markets in the U.K. and Spain also are coming under increasing pressure.

"Global losses could be higher should credit quality worsen and write-downs mount on non-U.S. loans," the report said.

Emerging markets, which have so far proven resilient to the crisis, are now feeling the heat, as well.

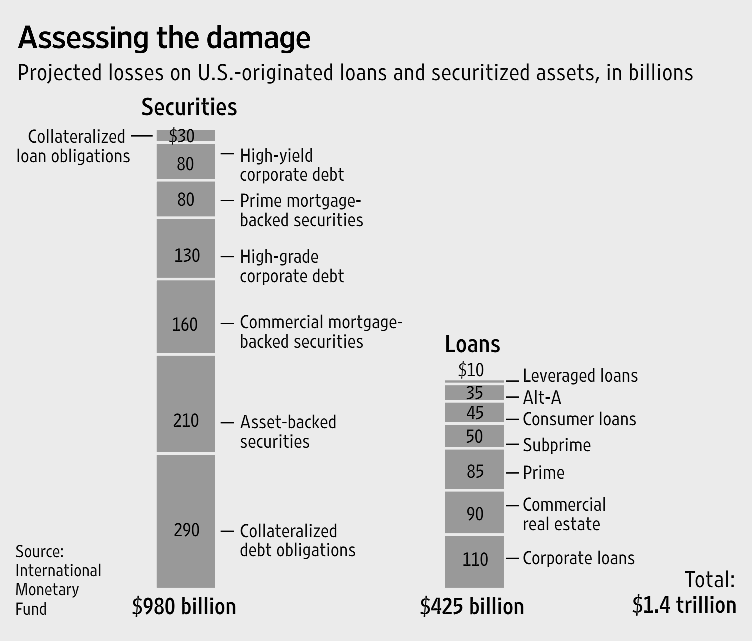
Some developing countries "face challenges as global growth slows and the lagged pass-through of domestic inflationary pressures continues—and all this against the backdrop of lower confidence and the reversal of earlier flows into these markets," the report said. That raises the risk of a credit cycle downturn in their domestic markets.

The world economy is already hurting as its lifeblood of financial market liquidity dries up, and the IMF is poised once again to ratchet down its economic forecasts. On Wednesday, the fund will release its latest global economic estimates, and is expected to reverse at least part of July's upward revision in its 2008 forecast to 4.1% growth.

The biggest concern is that the "adverse feedback loop" between the economy and financial system could accelerate, according to the IMF.

Noting that the private sector is unlikely to be able to address the problems alone and that "piecemeal interventions" haven't eased market jitters, the IMF welcomed broader efforts to tackle the root causes.

Laying out an extensive menu of policy prescriptions, the fund recommended ways to make the necessary deleveraging process already underway more orderly by focusing on "insufficient capital, falling and uncertain asset valuations, and dysfunctional funding markets."



U.S. export picture dims further

By Timothy Aeppel

Long viewed as one of the few bright spots for a sputtering U.S. economy, export growth is now expected to fall sharply in coming months.

Many U.S. producers are already seeing a slump in new orders and growing hesitation on the part of foreign buyers to move forward on previously negotiated deals. The outlook has dimmed so quickly that economists are having a hard time keeping their projections current.

Global Insight, an economic forecasting and consulting firm, announced on Friday that it was nearly halving its projection for fourth-quarter real export growth to 0.73% from 1.34%. "But what we've seen in the last few days suggests we'll see even more trade deterioration," says Paul Bingham, the group's trade economist. Mr. Bingham says a global recession is now all but certain, which will take a bite out of all types of trade.

U.S. export growth was already slowing before financial markets went into a tailspin, as a result of more-modest economic growth in many regions of the world and an upswing in the value of the dollar. A stronger dollar makes U.S. products less competitive in foreign markets.

Much of this year's export boom was driven by surging prices for commodities such as iron ore and soybeans, fueled in part by a wave of infrastructure spending world-wide by countries rushing to expand rail networks, mines and power plants. This benefited U.S. producers of mining machines, cranes, tractors and conveyor belts. U.S. coal exports surged, as did shipments of diesel engines, computers and scrap metal.

But the events of recent weeks have pushed down commodity prices and raised doubts about the strength of these markets going forward.

Exporters are also getting burned by slumping U.S. consumer spending. A slice of U.S. exports feed a circular dynamic in global trade, with foreigners snapping up U.S.-made machines, chemicals and parts to make products that are ultimately sold in U.S. stores.

Consider guitar strings. D'Addario & Co., based in Farmingdale, N.Y., is a major producer, selling strings both in retail stores across the U.S. and overseas, as well as to factories, mostly in Asia, which make guitars sold by U.S. retailers. James D'Addario, the company's chief executive, says string exports to Asian factories surged 40% earlier this year, in part, he believes, to ramp up for the Christmas season, which had been expected to be strong for guitars, thanks to the latest version of the Guitar Hero video game.

But as U.S. consumers, nervous about their jobs and savings accounts, slash spending, the chances of strong holiday sales have dimmed. "I'm expecting there'll be warehouses full of guitars at the end of this year," says Mr. D'Addario.

Paul Block feels the same way. His company, Galkin Automated Products Corp. in West Babylon, N.Y., makes machines that produce mattresses. He says some people are still buying, but mostly those who see this as an opportunity to press for better prices. "There are people all over the world who know how to wheel and deal," he says.

The upshot is that exports will no longer serve as the counterweight to weakness in the domestic economy. Over the past year, real goods exports surged by $114 billion, or 12%, up across every major category. They now make up nearly 13.5% of gross domestic product, the highest percentage since World War II.

"Export-oriented manufacturers are going from being a real source of growth to just barely hanging on," says Mark Zandi, chief economist at Moody's Economy.com, an economic research and consulting firm in West Chester, Pa., adding that each day the credit markets remain in serious distress increases chances that the outlook for exporters will darken even further.

Cyril Bath Co. is among those already seeing trouble signs. The Monroe, N.C., maker of aerospace parts and machinery estimates that incoming orders have fallen 25% in the last month. It saw sales nearly double last year to $23 million, with exports accounting for all the growth.

Associated Press

Republican vice-presidential candidate **Gov. Sarah Palin** greets supporters during a campaign stop in Florida on Monday.

Palin meets resistance among Clinton backers

By Amy Chozick

Sen. John McCain may share the Republican ticket with the party's first female vice presidential nominee, but Gov. Sarah Palin hasn't widely won over disaffected Hillary Clinton supporters. Some say the Alaska governor is having the opposite effect: driving them to back Democratic nominee Barack Obama.

Such voters cite a variety of reasons, from policy differences to speaking style. Sarah Nightingale, a 56-year-old wellness coach, said she liked Sen. Clinton because of her detailed policy speeches. She says she hasn't heard that level of specificity from Gov. Palin, which has solidified her support for Sen. Obama. "If McCain was trying to win me over as a Hillary supporter, he picked the wrong woman," Ms. Nightingale said.

Sen. McCain named Gov. Palin as his running mate in August. He hoped in part that her nomination would help him woo the millions of mostly white, middle-class women who had voted for Sen. Clinton in the Democratic primaries and who may have felt a lingering resentment of Sen. Obama.

At her first joint rally with Sen. McCain, Gov. Palin stood at the podium with her family behind her and alluded to the speech Sen. Clinton delivered in Washington when she suspended her campaign.

"Hillary left 18 million cracks in the highest, hardest glass ceiling in America. But it turns out the women of America aren't finished yet and we can shatter that glass ceiling once and for all," she told a crowd of 15,000 in Ohio, a state Sen. Clinton won in the Democratic primary.

For a while, it seemed like Gov. Palin's compelling personal story—a working mother of five and a self-proclaimed "hockey mom"—would attract many of the 18 million voters who had supported Sen. Clinton. But recent surveys of women voters and interviews with Clinton supporters suggest that the Alaska governor has not attracted an outpouring of support among female voters.

According to a Wall Street Journal/NBC News poll this week, 51% of women said they plan to vote for Sen. Obama and his vice presidential nominee, Sen. Joseph Biden, compared with 41% for Sen. McCain and Gov. Palin.

Democratic pollster Celinda Lake said women tend to vote Democratic and to base their decision on shared issues over shared experiences. "Gender may have gotten their attention but it's agenda that gets their vote," Ms. Lake said, adding that there are major policy differences between Sen. Clinton and Gov. Palin.

Many of Sen. Clinton's backers support abortion rights and the former first lady's pledge to introduce universal health care. Gov. Palin opposes abortion in most cases, including rape and incest, and opposes a federally run health-care system.

Retired teacher Carolyn Hill, 68, said she finds the implication that women would vote for a candidate because of her gender insulting. "Does McCain think we're just a bunch of airheads?" she said. "I'm looking for some substance and someone who agrees with me on issues."

The McCain campaign said Gov. Palin has excited millions of women across the country, including many of those who had supported Sen. Clinton during the primaries. Campaign spokesman Tucker Bounds points to former top Clinton fundraiser Lynn Forester de Rothschild, a member of the Democratic National Committee, who is now supporting Sen. McCain.

Ms. Rothschild told reporters last month that she supports Gov. Palin partly because she is a woman. "I love Sarah Palin," she said. "I think she's pretty cool. Of course, we disagree on some issues."

While some supporters see Gov. Palin's nomination as an advance for the women's movement, some older women who voted for Sen. Clinton say Gov. Palin's speaking style and her past as a beauty queen run counter to their idea of a feminist.

"They made a big mistake with women," Nancy Wilson, a retired, 70-year-old nurse from South Carolina, said of the McCain campaign. The way Gov. Palin "flirts and winks and licks her lips—women don't like that."

Sen. Clinton has largely avoided discussing Gov. Palin. But at a luncheon honoring Eleanor Roosevelt in New York on Monday, the New York senator asked women to get behind Sen. Obama.

"As a woman, as a lifelong advocate for women, children and families...this is not even a close choice," Sen. Clinton said. "We cannot afford the same failed policies for the next four years that we have endured for the last eight."