Leading the News: German central banker says unemployment could delay a recovery

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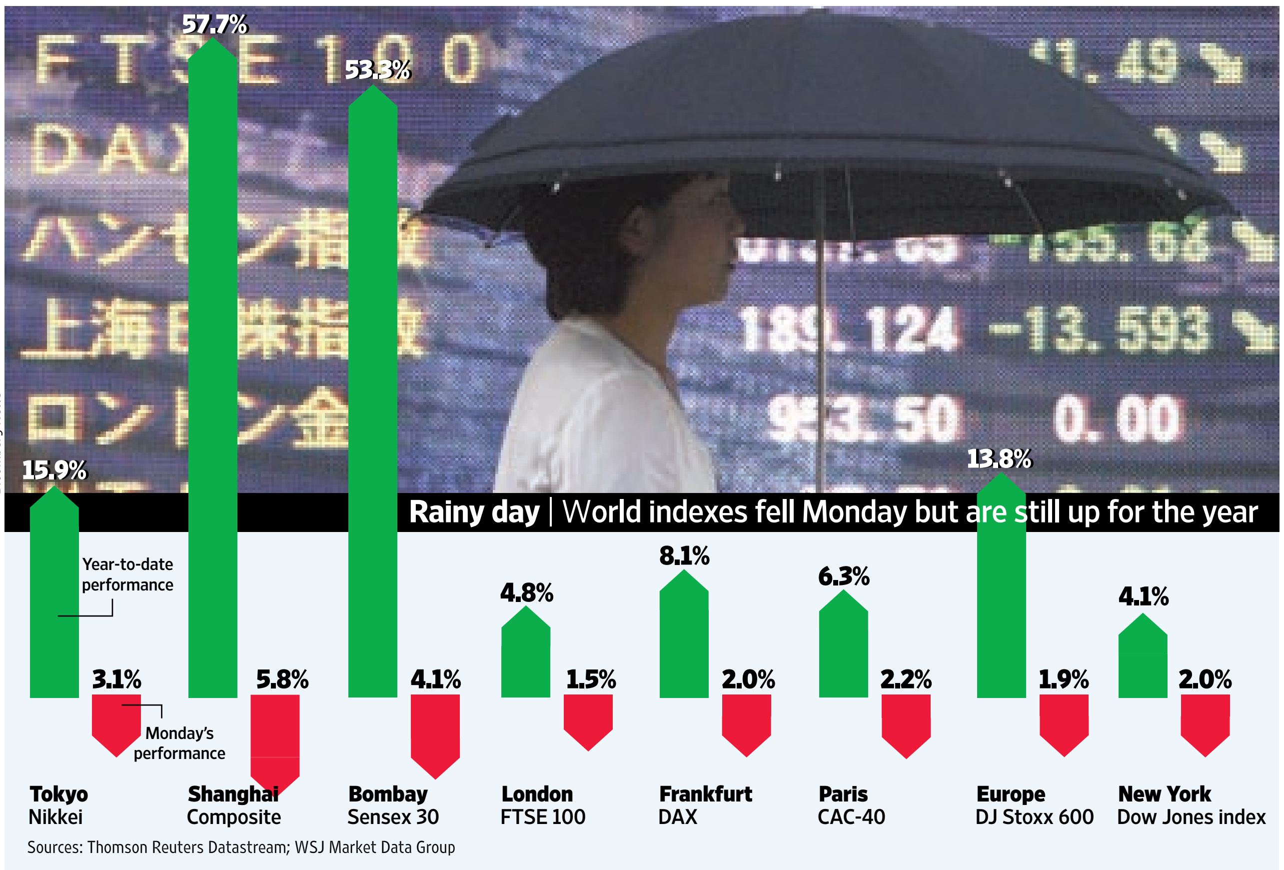

Bloomberg News

Investors rush to safety

With a return to growth looking further off, stocks and sterling decline

BY JAMES T. AREDDY AND KATIE MARTIN

Excitement that an economic recovery might occur sooner than had been expected evaporated on Monday, sending markets down across the globe.

The doubts were sown before the weekend by U.S. consumer-confidence and retail-sales data that ended a run of surprisingly strong economic data. Chinese stocks tumbled on Monday, sparking an Asian-wide selloff that carried over to other regions.

Investors punished anything associated with risk or global economic growth—the pound, the Dow Jones Industrial Average and commodities.

Investors turned to investments associated with lower yields but less risk, such as pharmaceutical stocks and the yen. In Europe, banks and miners were among the worst performers in a 2% fall in the pan-European Dow Jones Stoxx 600 index—the steepest drop in six weeks. Some economic data suggested the declines reflected thin trading volumes and investors' eagerness to lock in the profits, rather than an underlying economic turn for the worse.

The Shanghai stock market's fall was the most dramatic of the day, but driven by the sentiment of retail investors, it has been a poor indicator for the strength of China's economy. Even as its main index fell 5.8%, Citigroup economist Ken Peng on Monday lifted his 2009 forecast for China's gross-domestic-product growth by half a percentage point to 8.7%.

Similarly, the Dow Jones Industrial Average was down 1.9% in midafternoon trading. But the New York Federal Reserve Empire State Survey came in better than expected. It showed conditions for New York manufacturers improved for the first time in more than a year in August.

Many backdate violators uncaught

BY MARK MAREMONT

The majority of U.S. companies that improperly backdated stock options were never caught by regulators or confessed to the practice, according to a new academic study.

Researchers at the University of Houston's C.T. Bauer College of Business used a sophisticated statistical test to sift through more than 4,000 publicly traded companies for those with patterns of granting options at abnormally favorable times, often at low points for their share prices.

The study identified 141 companies with such advantageous options-granting practices that the researchers concluded they were highly likely to have been involved in backdating. Ninety-two of those companies never were publicly linked to investigations or announced earnings restatements related to backdating.

The companies include advertising giant **Omnicom Group** Inc., retailer **Dress Barn** Inc., trucking firm **J.B. Hunt Transport Services** Inc. and equipment-rental concern **United Rentals** Inc. Officials at the companies, which showed some of the strongest signs of likely backdating in the study, had no comment or said they found no evidence of wrongdoing.

The unpublished study is the latest sign since the back-

Please turn to page 31

BBVA positions itself to capitalize in U.S.

BY THOMAS CATAN AND CHRISTOPHER BJORK

MADRID—Earlier this year, U.S. Federal Deposit Insurance Corp. Chairman Sheila C. Bair had a discreet visit from a Spanish banker.

Francisco González, chairman and chief executive of **Banco Bilbao Vizcaya Argentaria** SA, the second-largest bank in Spain by stock-market value, wanted to make sure the FDIC kept him in mind when selling assets the agency is getting from failed U.S. banks, according to people familiar with the meeting. BBVA's energetic 64-year-old boss dropped by the Treasury Department and Federal Reserve with a similar message, these people said.

In a recent interview, Mr. González wouldn't comment on the meetings, but he said BBVA is interested in making "tactical" acquisitions in the southern half of the U.S. that would build on the foothold the Spanish bank has established during the past several years, including the $9.6 billion purchase of Compass Bancshares Inc., of Birmingham, Ala., in 2007.

"It would be logical that at the right moment the bank should grow tactically in the U.S., for it to make an acquisition," Mr. González said. "A player like us should be at the table" when the FDIC is hunting for prospective buyers of bank assets.

Thanks partly to its risk-

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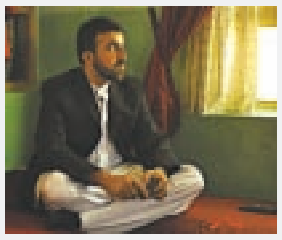

Taliban's threats

Afghan project shows bumps in the road to stability.
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	9135.34	-2.00
Nasdaq	1930.84	-2.75
DJ Stoxx 600	224.23	-1.98
FTSE 100	4645.01	-1.46
DAX	5201.61	-2.02
CAC 40	3419.69	-2.16
Euro	$1.4072	-1.16
Nymex crude	$66.75	-1.13

Weber signals caution

Germany's economy is out of recession, but not out of woods

By Geoffrey T. Smith

Axel Weber addresses a press conference in Frankfurt this year

Agence France-Presse/Getty Images

FRANKFURT—Germany's economy is still not out of the woods, even though the worst of the recession may be over, the head of the country's central bank said Monday.

"I warn against calling an end to the financial crisis too quickly," Axel Weber, the Germany central bank's president told German daily Süddeutsche Zeitung.

Germany, Europe's largest economy, surprised economists when it returned to positive growth in the second quarter. It expanded 0.3%, helped by a rebound in exports and government measures to support domestic demand.

Mr. Weber said the most recent data "remove the downside risk" to the German central bank's forecast of negative 6% growth for 2009, adding that the outlook remains far too murky to allow forecasts of a strong recovery.

Rising unemployment and insolvencies may hurt banks which would weaken and delay any recovery, he said. Mr. Weber said banks should attract extra capital, from the government if necessary, rather than simply reduce their lending.

Mr. Weber, perceived as one of the European Central Bank's hawks, appeared in no hurry to withdraw the massive monetary boost the ECB has used to prop up the banking sector and economy.

"I'm not afraid of the current surplus of liquidity on the financial market turning into inflation," Mr. Weber said. "Central banks have time and are determined to withdraw this liquidity again."

The ECB predicts the 16-nation currency zone will only return to growth in mid-2010. However with both Germany and France returning to positive growth in the second quarter, some consider that forecast too gloomy.

The ECB hasn't been proved wrong yet: chronic problems elsewhere in the euro zone ensured that gross domestic product for the bloc continued to fall for the fifth quarter in a row last quarter, albeit only by 0.1%.

Independent economists agreed with Mr. Weber about the uncertainty about the economic outlook. The strong second-quarter data for Germany were due largely to government car-scrapping programs, the effects of which are likely to be temporary.

"We definitely underestimated the effect of the car-scrappage scheme," said Michael Braeuninger of the Hamburg-based HWWI research institute. "It is boosting the economy more this year and will consequently be more of a drag on it next year."

HWWI forecasts that the economy will shrink 5.8% this year and show no growth in 2010.

"The central question is—where is the 'plus' going to come from?" said Kai Carstensen, a senior economist with the Ifo research institute in Munich.

More than 70% of Germany's exports are destined for other European countries as well as the U.S., areas which are still in recession. Exports to Russia, another market on which exporters have pinned high hopes, fell 13% in the first quarter from a year earlier.

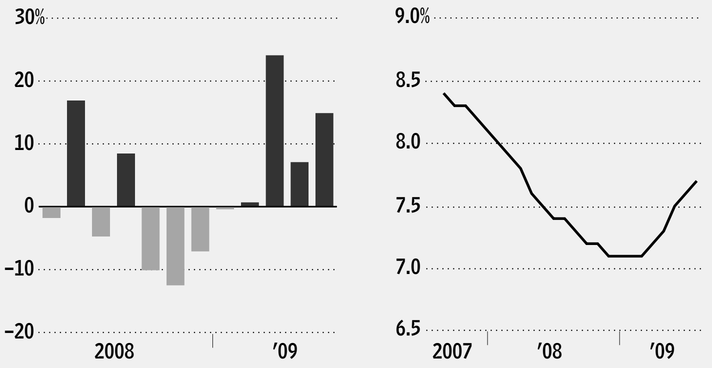
At home, employment remains precariously dependent on an auto sector that will lose the support of the car-scrapping program at the end of the year, economists said. More than 3.46 million Germans are currently out of work, but an additional 1.3 million are working shorter shifts, with the government effectively subsidizing employers to keep them on the payrolls.

Assessing risk

Axel Weber, European Central Bank's governor from Germany, warns of a second-wave financial crisis for the German economy

German corporate insolvencies, change from a year earlier

Germany's unemployment rate, seasonally adjusted data



Sources: German Federal Statistics Office; Eurostat

Euro-zone trade surplus increased in June

By Nicholas Winning

Two-year high

Euro-zone trade surplus: the gap between imports and exports widens

Source: Eurostat

LONDON—The 16 countries that use the euro posted their biggest trade surplus in two years in June, but levels of trade remained low compared with last year.

The euro zone's nonseasonally adjusted trade surplus widened to €4.6 billion ($6.5 billion) in June from a surplus of €2.1 billion in May, according to data released Monday by Eurostat, the European Union's statistics agency. That is the largest surplus since the €6.7 billion trade gap in June 2007.

Economists were expecting a €3.5 billion surplus, according to a survey last week. May's surplus was revised up from the €1.9 billion reported last month.

Ben May of Capital Economics said the data suggested trade may have added a full percentage point to second-quarter gross domestic product. "While the latest trade figures do suggest that the worst of the downturn is over, there is little evidence that exports are set for a robust pickup," he said in a note. "With a significant near-term improvement in domestic demand unlikely, it is too soon to conclude that the region is about to embark on a sustained recovery."

The data showed that trade remains substantially weaker than last year after the credit crisis plunged the economies in the euro zone and many of its trading partners into their deepest recessions since World War II.

Euro-zone exports were €106.1 billion in June, down 22% from June 2008, while imports came to €101.5 billion, a 26% drop. Trade did, however, pick up from May, when the euro zone had €98.6 billion in exports and €96.5 billion in imports.

Trade among the 16 euro-zone member states grew to €111.3 billion in June from €101.2 billion in May, but remained 20% lower than a year earlier.

Seasonally adjusted figures showed euro-zone exports totaled €101.5 billion in June, their lowest level since July 2005, while imports were unchanged from May at €100.5 billion, the weakest level since June 2005.

For the first half, the euro zone posted a trade deficit of €1.6 billion, compared with a deficit of €13.3 billion over the first six months of 2008. Exports were 23% weaker than last year, while imports fell 24%.

The euro zone's trade surplus with the U.K., its biggest export market, was narrower in the first five months of the year than for the year-earlier period, as exports fell 27% and imports dropped 29%. The surplus with the U.S. shrank by more than half, as exports in January to May were 21% weaker than the 2008 period, while imports fell only 9%.

Leading the News

Higher comparisons

Many companies look up to bigger 'peers' to figure out executive pay > **Page 3**

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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

LEADING THE NEWS

Greece looks to clean up 'dirty-jobs' list

In plan, extra pay, quitting early to go the way of bathhouses

By Ayse Ferliel

State television and radio presenters are on the "Arduous and Unhealthy Occupations" list, as are gravediggers and fishmongers.

Agence France-Presse

ATHENS—The Greek government's budget woes could lead to reforming a program that gives special benefits to workers whose jobs it deems dirty and dangerous.

Revising the "Arduous and Unhealthy Occupations" list—which includes about 580 categories and subcategories—will result in many employees' retirement ages rising by five to seven years, as their jobs are stricken from the list. Their wages will also fall, as workers in AUOs receive a special allowance on top of their normal pay.

The move to rationalize and update the list is seen as a test of the government's commitment to structural reform as the global recession has made its national debt unmanageable. Only last year, Athens backed down from overhauling the list in the face of union opposition. Private-sector umbrella union GSEE has warned it is ready to go on strike if the government goes too far.

For the government, the AUOs have become a symbol of the ad hoc and outdated nature of the Greek pension system. Many occupations, such as bath-house attendants from the days when Greece still boasted Turkish hammams, no longer exist. The last Turkish bathhouse in Athens closed in 1965.

While municipal garbage collectors got AUO status just in the spring of 2008, state television and radio presenters are a fixture of the list, alongside hairdressers, grave diggers, refinery workers, shipyard workers, car washers, fishmongers, television-film developers, waiters, cooks and kitchen staff.

According to initial findings of a government working group, jobs that deserve to be added to the AUO list include working in sewage treatment plants or underground, climbing electricity poles and removing asbestos. In addition, Athens plans to set up a standing committee to examine requests to be added to the list.

"We are proceeding with the rationalization and modernization of a status quo that has remained since 1951," said Labor Minister Fanni Palli-Petralia. She said radio presenters, for example, should be excluded from the new list of AUOs.

Kostas Raptis, workers' spokesman for Athens' municipal radio station, Athina 9.84, disagrees. "Our profession has a lot of tension, pressure and stress, so it's not unfair for radio presenters to remain," he said.

Others who are likely to be excluded from the new list, such as bakery employees, are also unhappy.

"We breathe in burnt flour and stand for several hours a day, from 3 in the morning to 2 in the afternoon," said Dimitris Grivas, an Athens-based baker and pastry chef. "Most of us get lung diseases by the age of 50, as well as asthma, skin allergies and problems with our legs, because of poor blood circulation," he said.

Workers in professions classified as an AUO can now retire early on a full pension at age 60 for men and 55 for women. Both are entitled to early retirement on a lower pension at 53, provided they have worked for a minimum number of days in their occupation.

Beginning in 2013, changes passed last year to the pension system will raise the age to 55 at which employees in physically strenuous occupations can take early retirement on reduced pensions.

Greece already spends more than the European Union average on pensions—its outlays as a percentage of gross domestic product are among the highest in the EU after Italy, France and Austria.

The cuts are part of a bigger struggle to narrow the ballooning budget deficit, with the national debt expected to exceed 100% of GDP this year. Greece's credit ratings were cut this year while its cost of borrowing soared. In July, the Organization for Economic Cooperation and Development warned: "The projected surge in pension spending threatens the stability of public finances."

With elections looming by the spring, many analysts question whether the center-right New Democracy government—which controls just a slim, one-seat majority in parliament and is lagging behind in public opinion polls—will be able to push through reforms.

"The government must recognize that there are no popular ways of cutting back on people's pensions," said Chris Pryce, director at credit-rating agency Fitch Ratings. "What Greece needs is a government that puts pension reform before its own success in elections."

Picking big 'peers' to set executive pay

By Cari Tuna

Tootsie Roll Industries Inc. posted $496 million in sales last year. At **Kraft Foods** Inc., sales totaled $42.2 billion, about 85 times as much. Yet Tootsie Roll considers Kraft a "peer" when deciding how much to pay its top executives.

That comparison may be extreme, but new academic studies suggest many companies include bigger and more complex rivals in compensation peer groups used in setting pay, helping to boost executive paychecks.

Critics long have said that directors and compensation consultants skew these comparisons to push pay higher. But the extent of the phenomenon was unknown until the Securities and Exchange Commission in 2006 began requiring companies to disclose the members of such groups.

One study, led by University of Maryland Prof. Michael Faulkender, found that companies tend to select peers with highly paid executives. The study, of 657 companies, suggests "that firms are gaming the selection of peers for the purposes of gaming executive compensation," Mr. Faulkender says.

Companies with what experts consider weak corporate governance—where the CEO is chairman of the board or where directors serve on multiple boards, for example—are more likely to choose highly paid peers, the study found.

Compounding the problem, about 40% of companies specify that they aim to pay their CEOs more than the median of their peers. As a result, pay "continuously spirals upwards," says Carol Bowie, director of the Center for Corporate Governance at RiskMetrics Group Inc., a proxy adviser.

A second study, led by Boston University Prof. Ana Albuquerque, compared the peers chosen by more than 1,000 companies against "expected" peer groups chosen by a computer, based on a company's industry, size, performance and other factors.

The study found that companies tend to select peers with better-paid CEOs. On average, the authors estimate that the bias boosts pay about 5%, or $340,000 annually.

The authors say the skewed selections may be justified in some cases, by allowing companies to recruit and retain well-regarded CEOs. "I don't honestly believe that everybody is self-serving," says Rodrigo Verdi, a coauthor who is a professor at Massachusetts Institute of Technology's Sloan School of Management. "But I also don't believe that everybody is doing this purely naively."

Wayne R. Guay, an associate professor of accounting at the University of Pennsylvania's Wharton School of business, says he finds the papers "comforting" because they suggest that peer-group selection is a small factor in CEO pay.

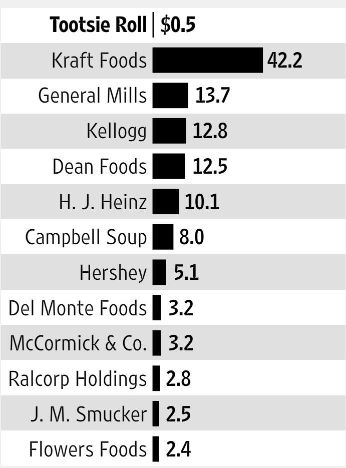
Charles Elson, head of the Weinberg Center for Corporate Governance at the University of Delaware, says the studies could add fuel to debates over two executive-pay issues: the independence of board compensation committees and the role of pay consultants, who often choose peer groups. Peer groups are "easily manipulated," he says.

All 12 of Tootsie Roll's peers in 2007 posted higher revenue than the candy maker, including food giants Kraft, **General Mills** Inc. and **Dean Foods** Co. Median CEO pay at those companies was $5 million the prior year, according to the Albuquerque study.

Sweetening the pot

Tootsie Roll Industries examined executive compensation at these 'peers,' among others, when deciding how much to pay top officers in 2008:

Fiscal year 2008 revenue for each company, in billions



Source: U.S. Securities and Exchange Commission filings

U.K. companies fall in value, but directors' pay holds up

By James Mawson

LONDON—The top directors of the 100 largest U.K.-listed companies earned £312.5 million ($516.6 million) in the past year, despite seeing the value of their companies drop by more than £420 billion in this period.

The study is likely to renew recent calls from shareholder activists, unions and politicians for scrutiny of executives' pay packages. While bonuses weren't as high as they could have been, they typically were valued at 90% of the executives' salaries, according to research by consultants Hewitt New Bridge Street.

The FTSE 100 Index's total market capitalization, meanwhile, fell by £420.8 billion to £1.023 trillion in the 12 months to April 1, the index provider said.

The typical FTSE 100 chief executive's pay package has increased by about 45% over the past six years, while the FTSE 100 has increased by about 7%, Hewitt said. Average maximum total pay possible in the past year was £3.1 million, compared with the median of £2.6 million, for the FTSE 100's top directors.

Hewitt said the most common bonus potential was 150% of the salary in the 2008-to-2009 financial year and so the best-paid directors, which are usually the chief executives, actually on average earned 65% of their maximum last year.

This was a fall from 2007/08 when the FTSE 100 directors earned 110% of their salaries, or 80% of the potential on offer, Hewitt said.

Variable pay, such as bonuses, which can be in the form of deferred stock options, make up about 60% of a typical executive director's remuneration and both the median and average salary was £802,000, Hewitt said, adding about 60% of the FTSE 100 had frozen salaries for the year.

British shareholders have been complaining more vociferously than before about remuneration.

Chiefs' pay

The percentage of the largest possible bonus available to the top directors of companies on the FTSE 100 and the number of directors who earned that percentage

Percentage of bonus earned	Director (Number)
0%	13
1-25%	3
26-50%	17
51-75%	30
76-90%	17
91-100%	20

Source: Hewitt New Bridge Street

Suicide bomber kills 20 in southern Russia

Attack in Caucasus on police station is worst in five years

BY ALAN CULLISON

MOSCOW—A suicide bomber drove a truck laden with explosives into a police station in southern Russia on Monday, killing 20 police officers at their morning roll call and wounding more than 130 others in the most costly rebel attack in Russia's troubled Caucasus region in five years.

The attack in the provincial republic of Ingushetia comes amid fresh signs that Russia's brutal counterinsurgency campaign in the region remains troubled. While the Kremlin has mostly subdued a rebellion during two wars in Chechnya, fighters have lately stepped up a highly effective campaign of killing police and government officials in adjacent Muslim republics.

Russian President Dmitry Medvedev sacked Ingushetia's top law-enforcement official in response to the attack on Monday. In unusually harsh comments, he noted that attacks are reported almost daily in the province, and he blamed the police leadership for incompetence.

"This terrorist attack could have been prevented," Mr. Medvedev said in televised remarks. "Police have to defend people, and they have to be able to defend themselves."

The Kremlin has lately struggled to find leaders to subdue an increasingly fierce rebellion in the region, and the effort has been hampered by the rebel campaign of targeted assassinations. Ingushetia's current president, Yunus-Bek Yevkurov, a decorated war hero, was badly wounded in June when another suicide bomber drove a car laden with explosives into his motorcade.

Associated Press

At least 20 people died Monday in the truck bombing of a police station in Nazran, Ingushetia, in Russia's Caucasus region.

Mr. Yevkurov, still recuperating in Moscow, denounced the bombing through a spokesman Monday, calling it "an attempt to destabilizes the situation and sow panic."

Investigators said the attacker rammed his truck through the main gates of the police station in Nazran, Ingushetia's largest city, as officers were lining up for their morning roll call and inspection. Police fired shots at the truck, but failed to stop it.

The blast, which police estimate was caused by about half a ton of explosives, shattered the two-story police station. Officials said 20 officers were killed instantly, 138 others were wounded, and the death toll was likely to rise. The blast left a smoldering crater about two meters deep in the yard outside the police station.

The bombing was the deadliest in the region since a rebel raid on Nazran in June 2004, when militants took control of the city for an entire night, killing 90 people, many of them police officers or government officials.

Lately rebels have avoided such large-scale attacks, and instead have stuck to bombings and hit-and-run shootings that have taken a steady toll on police and government officials.

The recent attacks have shown greater sophistication and ferocity. Last week a band of gunmen in the nearby republic of Dagestan, which also borders Chechnya, killed four police officers at a checkpoint—then went to a nearby sauna and killed seven women who they suspected were working there as prostitutes, police said.

The killings followed warnings posted on Islamist Web sites to sauna owners in Dagestan to close down their businesses or risk being attacked.

With the toll on police rising, residents in Dagestan fear that police are stepping back from confrontation with the rebels. After a series of sniper attacks in the past few days that killed four officers—Dagestan's top police officer was killed by a sniper in June—residents in Makhachkala said police stopped manning several checkpoints around the city during the weekend.

Police denied the rumor, however, and said that officers were still on duty but were wearing civilian clothes in order to avoid being picked off by rebel gunmen.

Emil Pain, director of the Center for Ethno-Political Studies in Moscow, said that the Kremlin is hard-pressed to find a solution for the rising violence in the regions bordering Chechnya, where it has no experience of fighting a full-scale war with an Islamist insurgency.

Russian troops fought two bloody wars inside Chechnya itself before the Kremlin selected a former rebel, Ramzan Kadyrov, now Chechnya's president, to lead a Chechen militia against the insurgency. Mr. Kadyrov's militia has been accused of human-rights violations by groups such as Helsinki Group and Human Rights Watch, but has proved effective in crushing opposition in the republic.

"Now the problem is to decide what to do outside Chechnya," said Mr. Pain. The Kremlin, he said, has few locals it can trust in Ingushetia and Dagestan. "So it's hard to imagine a way out of this situation."

Russia finds ship, but Kremlin silent on how it vanished

BY ALAN CULLISON

MOSCOW—Russia said Monday it found a ship that went missing after being attacked in the Baltic Sea last month, but the Kremlin released no details that would explain the reasons for the ship's bizarre disappearance as it headed to Algeria with a load of timber.

National television broadcast video of Russia's defense minister telling President Dmitry Medvedev that a Russian warship found the freighter, the Arctic Sea, in the Atlantic about 500 kilometers from the islands of Cape Verde. He said the ship's crew, all unharmed, were being interviewed, and that details of what happened on the ship may be available soon.

While the crew reported that they were the victims of piracy in European waters, the strange itinerary of the ship afterward sparked speculation of a murky commercial dispute or weapons or drug dealing.

The crew reported being attacked on July 24 in the Baltic Sea by masked men who beat them, questioned them about drugs, and then left the vessel about 12 hours later, Swedish police said. In the following days, however, the ship passed through the English Channel on its intended course toward Algeria.

Someone on board apparently shut off on-board tracking system that would have reported the ship's location, and the vessel never arrived in Algeria, where it was due Aug. 4. Last week. Mr. Medvedev ordered Russia's military to take "all necessary measures" to find the freighter.

Russian news outlets reported that a Russian antisubmarine warship, Ladny, was last week trailing the Arctic Sea off the coast of Gibraltar. Experts said the ship must have run out of fuel and it was virtually certain that some maritime authority had located it by then.

But European and Russian authorities refused to confirm the reports, and the first official word of the ship's discovery came late Monday in Moscow.

Mikhail Voitenko, editor of the Russian trade publication Marine Bulletin, said the whole incident was "extremely strange" not only because of the crew's behavior, but also as various maritime authorities in Russia and Europe appeared to be covering up what they knew.

"It was clear they knew where this ship was before, but they didn't want to say so," said Mr. Voitenko. "They needed time to agree on something" before they could announce it had been found, he said.

The defense minister, Anatoly Serdyukov, told Mr. Medvedev on national television that the crew members were "safe and sound, and had not been under armed guard."

Russian hydropower accident threatens aluminum production

BY ANDREA HOTTER AND ALEXANDER KOLYANDR

A serious accident at Russia's largest hydropower station, which killed at least 11 people and left more than missing, could threaten output at Russian aluminum giant United Co. Rusal, one of the country's largest industrial-power consumers.

Damage at the Sayano-Shushenskaya hydropower plant in Khakassia will take years to repair and could seriously disrupt electricity supplies to Siberia, Rusal said Monday. Sayano-Shushenskaya, Siberia's oldest hydropower station, sells 70% of the electricity it produces to Rusal's two local smelters.

Rusal described the accident, which also injured at least 14 workers, as a "disaster of a major scale." Its cause is still unknown, and the company said late Monday that "around 32" workers were unaccounted for.

The accident means that the Sayanogorsk and Khakas smelters, which have a combined annual production of 832,000 metric tons of aluminum and directly employ almost 3,000 people, are relying on energy being redirected from other parts of Siberia.

However, this is just a temporary solution, said Artem Volynets, Rusal's director of strategy. The company's two smelters "will be under considerable threat of production shutdown, especially as we move into the autumn and winter months with the traditional increase in electricity usage," Mr. Volynets said.

"The whole electricity system in Siberia will be under significant stress as we move into the winter," he added.

Rusal's top management flew to the site Monday, joining government officials including Energy Minister Sergei Shmatko and Emergency Situations Minister Sergei Shoigu. Officials of Russian state-controlled hydropower monopoly RusHydro, which owns the hydropower station, were also on site.

Mr. Shoigu appeared on state television to calm local concerns that the hydropower-station dam was about to burst, stating that there was no threat to villages around Sayano-Shushenskaya. Other local industries were also initially affected, including steel producer Evraz Group SA, which said it temporarily shut down some of its downstream capacities.

Sayano-Shushenskaya is the fourth-largest hydropower plant in the world by average power generation, with an effective capacity of 3.5 gigawatts and installed capacity of about 6.7 gigawatts. It accounts for roughly a quarter of RusHydro's total capacity, and damages could cost the company about $350 million, analysts estimate.

This is the first serious accident since Russia's state electricity monopoly RAO UES was broken up in 2008. "The event once again points to the poor condition of the equipment and lack of investment in the sector," said Dmitry Skryabin, analyst at VTB Bank in Moscow.

Global depositary receipts in RusHydro fell 15% in London following the accident.

—Andrew Langley in Moscow contributed to this article.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CORPORATE NEWS

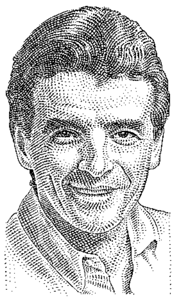
Ryanair continues push to lower fees

Budget carrier will cancel 90% of its Manchester Airport routes because of costs as it wrestles with downturn

By Kaveri Niththyananthan

LONDON—**Ryanair Holdings** PLC on Monday said it would scrap 90% of its Manchester routes from Oct. 1 because the airport charges there are too high—reflecting a continued push by the airline to force down airport fees in Europe in response to the economic downturn.

Dublin-based Ryanair, Europe's largest low-cost airline by passengers carried, said it will close or switch to other locations nine of its 10 routes at Manchester Airport, a move that will cost 600 local jobs. It will change some routes to Manchester's sister airport, East Midlands—both are owned by **Manchester Airports Group** PLC—as well as Leeds Bradford and Liverpool airports, where charges are lower.



Michael O'Leary

Charges are higher at Manchester Airport because it has three terminals and two runways, while its sister airport, East Midlands, has just one terminal and one runway.

Ryanair has built its business model around keeping costs to a minimum and then keeping fares very low. A key part of the low cost base is Ryanair's constant pressure on airports to lower charges to gain or keep its custom.

That's on top of Ryanair's other moves to cut costs. Earlier this summer, Ryanair Chief Executive Michael O'Leary announced a plan to ban checked luggage, eliminate airport check-in and offer online gambling on its planes in a move to lower costs and boost profit. Mr. O'Leary said Ryanair is also moving forward with plans to charge passengers for using onboard toilets.

Associated Press

Ryanair has said it wants to ban checked luggage and offer gambling. The airline also is advancing a plan to charge for toilet use.

Despite its penny-pinching ways, Ryanair hasn't been immune to the severe downturn affecting the sector—last month it warned that average revenue per passenger is set to fall by at least 20% in the 12 months ending March 31, 2010. Stepped-up efforts to force airports to lower charges is one way the airline can further put the lid on costs.

In July, Ryanair blamed high charges for its move to cut capacity at London's Stansted Airport as well as Dublin Airport. Meanwhile, it has been adding routes in continental European countries where taxes have been scrapped or where it doesn't face airport charges, for example in Spain.

The move away from Manchester will result in 44 fewer weekly flights from the airport and 600,000 fewer passengers a year, Ryanair said.

Manchester Airport, a regional hub in the Northwest of England, handled two million passengers in July, down 10% from a year earlier as the recession hit demand for air travel.

The airport Monday hit back at Ryanair, saying its charges are reasonable.

"Notwithstanding all of our investment in Manchester Airport including during the current recession, we don't believe that charges as low as £3 per passenger are unreasonable. Clearly, Ryanair do and that's regrettable," a spokesman for the airport said. "We've consistently cut our charges for the last 15 years, even when faced with increased costs such as security," he added.

A person familiar with the situation at Manchester Airport said the airline approached the airport two weeks ago asking it to lower charges to "virtually nothing," which the airport couldn't see as sustainable as it would also need to offer the same deal to other airlines.

Those potential reductions would mean it wouldn't be able to cover costs such as security, safety and air traffic control charges, the person said.

Ryanair's Manchester routes to and from Barcelona in Spain; Bremen, Düsseldorf and Frankfurt in Germany; Marseilles in France; Brussels; Cagliari and Milan in Italy; and Ireland's Shannon airport will cease from Oct. 1. Passengers affected will be offered a refund or the alternative of flying from East Midlands, Leeds Bradford or Liverpool.

3-D viewing heads for home TVs

By Paul Sonne
And Sam Schechner

With 3-D movies popping up more frequently at the cinema, several companies are working through significant challenges to make 3-D viewing available in the home too.

Satellite-TV operator **British Sky Broadcasting** PLC is preparing to debut a 3-D television channel in the U.K. next year that will require specially equipped TV sets. The venture may be the most ambitious yet toward a large-scale 3-D television rollout, which remains absent from most big markets outside of Japan.

In the U.S., satellite-TV provider **DirecTV Group** Inc. and cable network owner **Discovery Communications** Inc., among others, are working on or exploring 3-D offerings, spokesmen said. Though 3-D TV programs have appeared sporadically for several decades, the media companies are hoping new 3-D technology can transform the medium from its gimmicky past into a viable experience for the home.

David Naranjo, director of product development for Mitsubishi Digital Electronics America, predicted the U.S. could see its first high-definition 3-D channel as early as next year.

But bringing 3-D programming into the living room comes with several obstacles. Some programming, including Sky's, will require expensive 3-D-ready television sets. There is still no agreement on a standard format for broadcasting or storing movies and TV shows on discs. And 3-D glasses are needed in most versions under development. Some media companies aren't eager to invest in 3-D technology so soon after upgrading to high-definition production, while others, such as Sky, have used their investments in digital HD to move forward with 3-D.

High-definition 3-D-ready TVs currently fetch between $1,000 and $5,000 in the U.S. Mitsubishi, **Samsung Electronics** Co., and **Hyundai** IT Corp. already offer 3-D-ready HDTVs, which require separate stereo glasses and infrared emitters. Mr. Naranjo estimates there are five million sets now installed in the U.S. that can display 3-D programming. Sky executives say they expect to see the first 3-D-equipped TVs in the British market next year.

Like theater owners who see 3-D films such as this month's "Final Destination" and James Cameron's forthcoming sci-fi epic "Avatar" as a way to lure more customers to their big-screen cinemas, TV operators see the format as a way to strengthen their hold on consumers. Wendy Aylsworth, senior vice president of technology at **Time Warner** Inc.'s Warner Bros. Technical Operations, predicts 3-D will be the "next big thing in television" despite the seven or so formats vying for industry support.

"Everybody has an interest in getting it there," she said. "Studios see more content being sold, TV manufacturers see more television sets being sold, and distributors see more viewers." Ms. Aylsworth said she expected 3-D TV programming to be widely accessible in the U.S. by 2011.

Sky executives so far haven't specified what programs will be offered in 3-D or the cost of the subscription service. In the U.K., the company's most important content comes from a deal to air soccer matches in England's Premier League. Sky has already filmed soccer, boxing, and rugby matches in 3-D trials, as well as a performance of "Swan Lake" by the English National Ballet.

Its decision to move forward with 3-D programming came as the company found a way to use existing HD cameras and delivery systems to create a high-quality three-dimensional feed, said Gerry O'Sullivan, director of strategic product development at Sky.

Sky plans to film and deliver its own exclusive 3-D content using existing HD set-top boxes used by more than 1.3 million of its pay-TV customers in the U.K.

News Corp., which owns The Wall Street Journal, holds a 39% stake in BSkyB.

To film the 3-D footage, Sky will use a special rig with two normal HD cameras, one capturing video for the right eye and the other for the left. Producers will then package the two feeds together so that home set-top boxes think they're playing normal HD video. With the glasses and a special TV, however, the images will appear in 3-D.

Getty Images

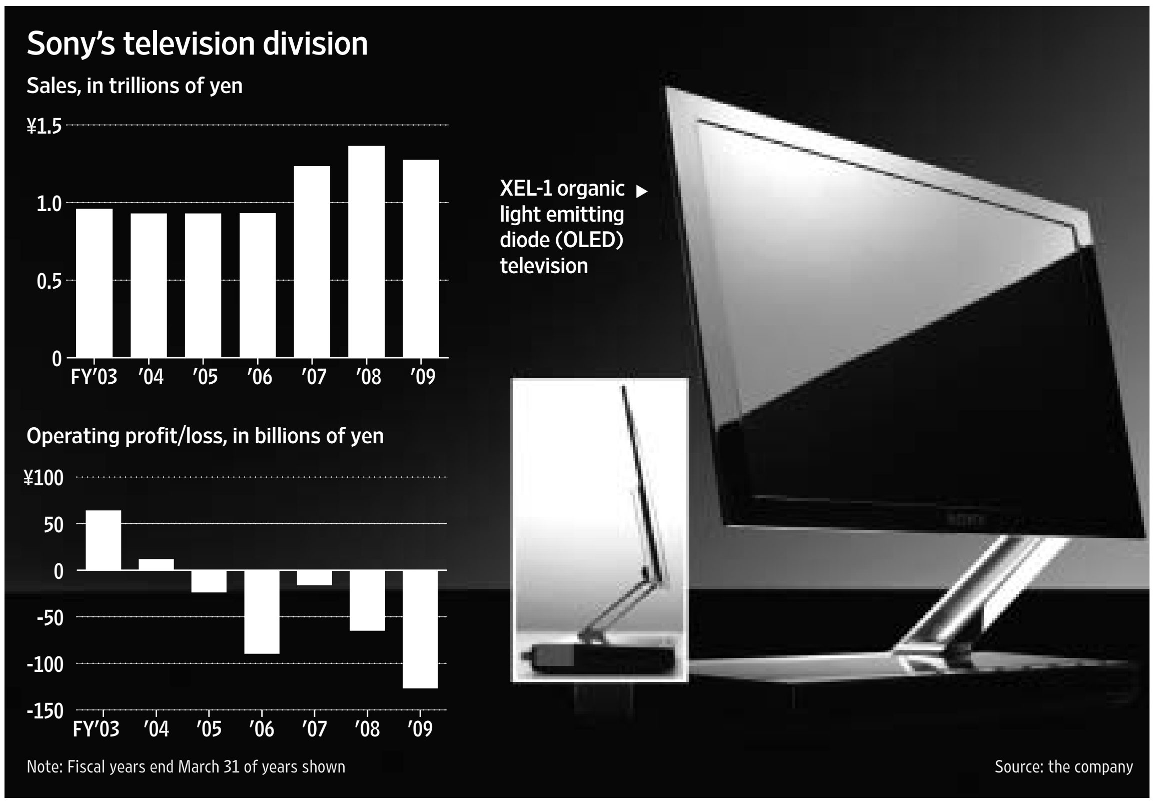
British Sky Broadcasting has filmed some sports matches in 3-D trials, as well as a performance of 'Swan Lake,' above. It is preparing a U.K. 3-D channel for 2010.

Sky's transmission format, which requires bandwidth capable of handling the equivalent of two hefty HD feeds, is likely too large for competing cable providers to offer. Some British rivals fear that Sky will set a de facto standard for 3-D formatting that will be impossible for others to match, said Richard Lindsay-Davies, director general of Digital TV Group, an industry association for digital television in the U.K.

In the U.S., the Society for Motion Picture and Television Engineers is working on a standard for 3-D TV broadcasts, as individual companies explore their own options. Discovery, for instance, said it is working with manufacturers including Panasonic and **Sony** Corp. to refine technologies for shooting in 3-D. It is considering making a 3-D test episode of one of its series, such as slow-motion photography showcase "Time Warp," executives said.

Discovery executives are also considering what it would take for viewers to adopt the technology. "It's something that intuitively everyone would like," said David Zaslav, Discovery's chief executive. "But the question is will it be exciting enough that people will go through the trouble of wearing TV glasses at home?"

CORPORATE NEWS



Sony may delay new TV

Costs raise concerns about bigger version of OLED television

By Daisuke Wakabayashi

TOKYO—**Sony** Corp.'s next-generation OLED television, once hailed by executives as a symbol of the company's technological comeback, is now a symbol of another kind: the dilemma facing its troubled TV business.

Sony will likely delay the launch of its next organic light emitting diode, or OLED, television because mass producing the new ultrathin displays would exacerbate losses at its TV division, according to people familiar with the matter.

The company had been targeting a 2009 release for a larger successor to a model with an 11-inch screen released in late 2007, which is the first and only OLED TV to reach stores so far. But Sony has decided to push back the new model until at least next year, these people said.

The decision sends a message to Sony's engineers that returning its TV business to profitability is a top priority. The business is on track to lose money for the sixth straight year. In the past, Sony's influential engineers could push the company to roll out products that were technological marvels but struggled to turn a profit.

The postponement opens the door to competitors such as **LG Electronics** Inc. and **Samsung Electronics** Co. to assume leadership in a promising technology, touted as a potential replacement to liquid-crystal displays.

Already found on smaller devices like mobile phones and digital media players, OLED displays are thinner, offer better color contrasts, respond faster to moving images and consume less power than LCDs.

However, as is often the case with new display technology, producing an OLED television is expensive and the product can cause sticker shock. For example, Sony's first model, the 11-inch XEL-1, sells for $2,500—a price reserved for the latest TVs with screens of 50 inches and above. Sony declined to say how many OLED units it has sold so far.

In May 2008, Sony Chief Executive Howard Stringer said a 27-inch OLED television would be available within 12 months. But six months later, Sony's electronics business was awash in losses and Mr. Stringer was crafting a restructuring plan to stop the bleeding.

Sony's TV division lost 127 billion yen ($1.34 billion) last fiscal year, representing more than half of the company's operating losses for the year, which ended March 31. Televisions accounted for 16.5% of Sony's 7.73 trillion yen in revenue.

In an interview earlier this year, Mr. Stringer sounded less gung-ho on the idea of a larger and more expensive OLED. "We got great praise for [OLED], but then you don't sell any. So then, all of a sudden, you have a different problem," said Mr. Stringer.

The challenge thus far has been driving down manufacturing costs, because materials are hard to procure and production systems remain a work in progress.

Research firm DisplaySearch estimates Sony's production yield for its 11-inch OLED panel is below 60%, meaning at least four of every 10 panels its factories produce aren't up to par and can't be sold. Larger panels would likely introduce more difficulties. Sony declined to comment on its production yields.

The company needs to hit it big with OLED. It was slow to embrace the shift from cathode-ray-tube televisions to LCDs. Once the world's top TV maker, Sony now trails both Samsung and LG in terms of revenue, according to DisplaySearch.

Fixing the TV business is at the core of revamping Sony's electronics division, a task now overseen by Mr. Stringer. He replaced Ryoji Chubachi as Sony's president and electronics head in April.

Mr. Chubachi, a respected engineer who helped develop Sony's successful eight-millimeter video camera, was a vocal cheerleader for OLED and declared in 2007 that the XEL-1 was a "symbol of Sony's comeback."

Mr. Stringer has tapped Yoshihisa Ishida, an executive from its Vaio computer business who, in the CEO's words, "understands a cost-conscious world," to run the television business.

As part of Sony's restructuring measures, the company closed a TV-production facility in Japan, started to focus on cheaper LCD TVs for emerging markets and increased outsourcing of production.

Eric Lee, an analyst at Barclays Capital, said delaying a new OLED TV would be the latest indication of a more disciplined approach to the business. "It's probably better for Sony to hold off for now," said Mr. Lee. "I don't know who would be buying it."

Meanwhile, Sony's rivals are closing the gap. Later this year, LG plans to one-up Sony with a 15-inch OLED TV for the Korean and overseas markets. Pricing hasn't yet been determined. Samsung showcased a 31-inch OLED model in January but said it is a few years away from release. **Panasonic** Corp. has also said it is developing an OLED TV.

The biggest threat to OLED's future could be LCDs. Prices are falling rapidly even as LCD quality improves. Newer LCD models are thinner, use less energy and can offer brighter colors.

"It's always going to be a race for a new display technology to reach an acceptable price point before LCD or plasma reaches the new technology's performance levels," said DisplaySearch analyst Paul Gagnon.

VW's sales climbed 6.7% in July

Associated Press

German car maker **Volkswagen** AG on Monday said its world-wide sales increased 6.7% in July.

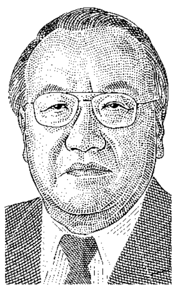
The company said sales of all brands rose to 556,900 vehicles in July from 521,100 a year earlier. The year-earlier results don't include those of truck maker Scania, which VW recently started including. Global sales for the first seven months, however, fell 3.5% to 3.65 million vehicles.

VW said sales in Germany rose 27% in July to 113,700 vehicles, largely thanks to the government's car-scrapping program, which pays consumers to trade in their old cars for more-efficient ones.

Sony Ericsson appoints successor to retiring CEO

By Gustav Sandstrom

STOCKHOLM—The head of mobile-phone maker Sony Ericsson, which has been losing market share, is retiring and will be succeeded by the head of co-parent **Telefon AB L.M. Ericsson**'s U.S. technology division.


Dick Komiyama

Sony Ericsson, a joint venture between Sweden's Ericsson and Japan's **Sony** Corp., said Monday that Bert Nordberg, the head of Ericsson's Silicon Valley-based broadband and Internet protocol unit, will take over from President and Chief Executive Dick Komiyama.

The company has missed key trends such as full keyboards and Internet browsing, analysts say, and has seen its global market share fall to just 4.7% in the second quarter from 7.5% a year earlier, according to research firm Gartner Inc. The handset maker posted a €213 million ($302.2 million) net loss in the second quarter.

Analysts say Sony Ericsson needs to come up with a new range of attractive phones, in addition to reducing costs.

Mr. Nordberg will take the helm of the company on Oct. 15.

Mr. Komiyama's decision to retire comes partway through the restructuring program he put in place.

"I believe it is the right time for me to begin transferring the leadership of the company to a person who is able to complete the transformation program," Mr. Komiyama, who turns 67 later this year, said in a statement.

Air China raises stake in Cathay

Chinese airline aims to expand expertise and global presence

By Jonathan Cheng And Jeffrey Ng

HONG KONG—**Air China** Ltd., mainland China's biggest airline, raised its stake in **Cathay Pacific Airways** Ltd., another step in China's strategic aim of upgrading its fast-growing aviation industry.

The state-owned Air China paid HK$6.3 billion (US$812.8 million) to buy a 12.5% stake in Cathay from **Citic Pacific** Ltd., a Chinese state-controlled conglomerate based in Hong Kong, raising Air China's stake to just under 30% from its current position of 17.5%.

Swire Pacific Ltd., a Hong Kong-based conglomerate with British roots and Cathay's biggest shareholder, will spend about HK$1.01 billion to increase its stake to just under 42%, from the current 40%.

The added shareholding in Cathay is a step forward for Air China's global ambitions, given Cathay's dominant position in Hong Kong, one of the world's busiest international transport hubs.

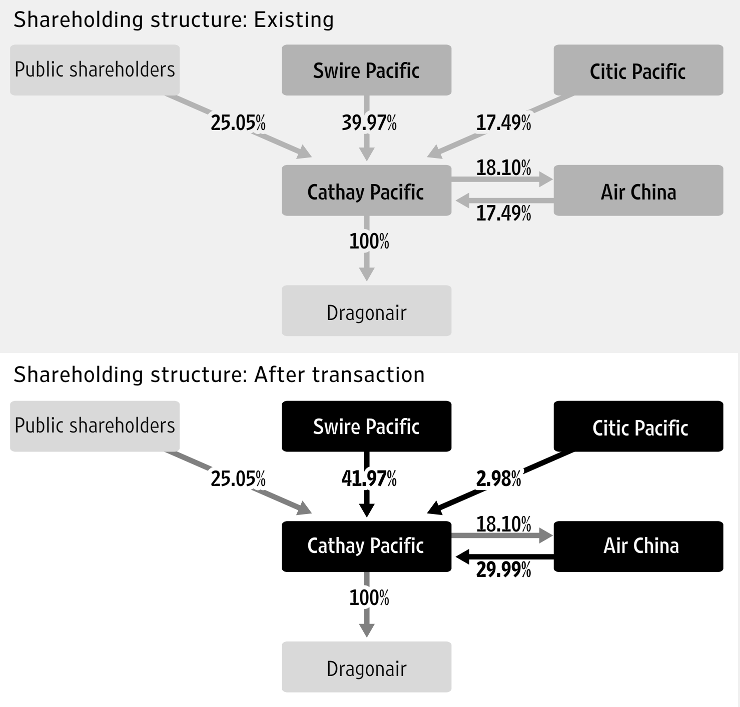
In 2006, Air China took a 17.5% stake in Cathay as part of a complex HK$12.29 billion airline transaction that resulted in Cathay taking full control of Dragonair, a smaller Hong Kong-based airline that had been controlled by Air China's parent. Dragonair has a strong network of routes in mainland China, a key growth market for Cathay.

Since then, Cathay, Dragonair and Air China have cooperated closely on flights between Hong Kong and China, marketing seats on each other's flights through a code-sharing arrangement, while sharing costs and revenues by operating single sales offices in certain cities.

Air China's increased stake in Cathay comes after a bid last year to develop a hub in Shanghai was thwarted by a merger between **China Eastern Airlines** Corp. and **Shanghai Airlines** Co., both of which have their hubs there.

Selling down

After the pair of deals Monday, Air China will hold a 30% stake in Hong Kong's flagship Cathay Pacific, while principal shareholder Swire Pacific will continue to control the largest stake, at 42%.



Source: the companies; Photo: Reuters

A Cathay jet (at top) near an Air China jet at the Hong Kong airport.

The scale of the move surprised some observers. "I didn't expect Air China would be willing to commit so much capital at this point," UBS AG analyst Damien Horth said. In the long run, Mr. Horth said, a merger between Air China and Cathay is possible, though in the short term Air China is more concerned with promoting its base in Beijing as a major travel hub. "Anything it can do to reinforce the position of that hub is critical, by limiting competition from Hong Kong," Mr. Horst said.

The share purchases by Swire and Air China on Monday are the maximum stakes that the two companies could purchase without triggering a requirement under Hong Kong law to bid for the whole of Cathay, according to Christopher Pratt, chairman of Swire and Cathay. Mr. Pratt said Monday that the new shareholding wouldn't affect strategy and management at Cathay, and underscored Swire's commitment to remain the single largest shareholder in the airline.

He also said Air China's enlarged stake was an outgrowth of the 2006 deal. "We considered the likelihood then that Air China subsequently might wish to increase its stake, and we were comfortable with that possibility," he said.

For Cathay, which owns 18.1% of Air China, the deal strengthens its ties with the dominant airline in the critical mainland Chinese market at a time when its premium passenger and cargo traffic is sharply down as a result of the global recession.

Founded in Hong Kong in 1946, Cathay was for many years one of Asia's biggest and most profitable airlines, and was one of the first airlines to operate commercial flights into China. It lost those rights years ago and only regained them after acquiring Dragonair in the 2006 deal.

Citic Pacific, meanwhile, had already deemed its 22-year-old stake in Cathay a noncore asset at a time when the company is going through major changes. Chairman Chang Zhenming said Monday the disposal was "in keeping with Citic Pacific's plan to focus on its major businesses."

Last fall, Citic Pacific disclosed massive positions on the Australian dollar that had since soured, forcing its Beijing-backed parent to bail out the company. The foreign-exchange scandal caused the blue-chip firm to post a net loss of HK$12.66 billion for the year ended Dec. 31.

Both Swire and Air China paid HK$12.88 per share, a 10.8% premium to Cathay's stock close last Friday of HK$11.62. Trading in Cathay, Air China and Citic Pacific shares was suspended Monday.

U.K. recruiter says net fell 52% as job moves slow

By Anita Likus

LONDON—**Michael Page International** PLC, one of the U.K.'s largest recruiters, said Monday that its first-half net profit fell 52% as weak economic confidence continued to hurt its business.

As a recruiter that specializes in white-collar jobs, Michael Page isn't directly affected by unemployment. Its business depends on how many people switch jobs more than on how many people have jobs. But "as long as the bad news is out there, people don't have the confidence to change jobs," Chief Executive Steve Ingham said.

"If professionally qualified people are not resigning we are not creating vacancies," Mr. Ingham said, adding that there is still a candidate shortage for engineers and lawyers.

Michael Page said that market conditions remain weak with a seasonally challenging quarter ahead, both in Continental Europe and in the U.K.

The recruiting sector as a whole has been suffering in the recession, as weakening economic confidence has stopped people from changing jobs and employers from hiring, which in turn stifled demand for staffing specialists. Companies cutting headcount to reduce their cost base are also tightening the pool of opportunities for employees.

The recruiting sector as a whole has been suffering in the recession.

Michael Page said net profit in the first six months of the year fell to £28.3 million ($46.8 million) from £58.9 million a year earlier. The figure also shows the impact of a £10.4 million tax charge on a £26.5 million value-added-tax refund and £10.5 million of interest accumulated on the amount.

Revenue declined 27%, or 33% at constant exchange rates, to £364.7 million from £500 million.

Pretax profit fell 49% to £43.2 million from £84.1 million.

Numis Securities analyst Steve Wolf said the results provided little to suggest a demand-led recovery is on the horizon.

The company turned in a strong balance sheet, with net cash at £99.2 million, which enabled it to keep its dividend at 2.88 pence a share.

To counter the downturn, Michael Page has been reducing headcount in areas with less demand. It has cut a third of its staff in the past year, largely through natural attrition.

Michael Page also is consolidating some of its smaller offices, which reduced the number of its offices to 142 from 163 in December.

The company said that it is hiring selectively in a number of locations including financial sectors in the U.K. and the Asian-Pacific region, where markets have stabilized and where competitors are cutting staff, closing offices or exiting markets.

Mr. Ingham said he is confident of continuing to gain market share and said the group is well positioned for growth when economic conditions improve.

H&M sales continue to slide as consumers cut back

By Ola Kinnander

STOCKHOLM—**Hennes & Mauritz** AB on Monday said sales at stores open at least a year fell 3% in July as it continued to suffer from a consumer spending slowdown.

The decline, which also strips out currency fluctuations, compares with year-over-year drops of 5% and 9% for June and May, respectively, said H&M, the world's third-largest fashion chain by revenue behind U.S.-based Gap Inc. and Spain's Inditex SA.

Total sales, which include sales in new stores, rose 7%, compared with a 4% increase in June and flat sales in May. H&M reports only percentage changes for its monthly sales.

"The negative trend continues," said Erik Sandstedt, a Stockholm-based analyst at Alandsbanken, noting that July marked the 11th time in the past 12 months that H&M reported a drop in comparable sales.

The July sales figures "were a little disappointing," said Mr. Sandstedt, partly because of recent positive sales statistics for the clothing market in Germany and Sweden. In Sweden, H&M's home market and fifth-biggest source of revenue, clothing sales for the industry rose 11% in July, according to the Swedish Retail Institute.

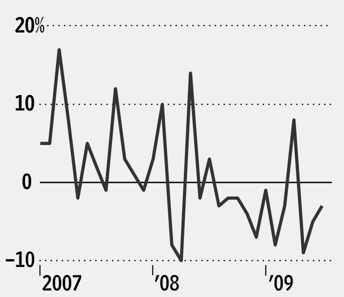
In Germany—H&M's biggest market, generating about a quarter of its revenue—overall clothing sales were up 2% for July, according to industry journal Textilwirtschaft.

"At the same time, one has to put this into perspective," said Mr. Sandstedt. "There are companies that report double-digit drops in comparable sales, so considering that, [H&M's numbers are] no catastrophe."

Many clothing stores have offered large discounts lately, putting pressure on H&M, said Mr. Sandstedt. However, the retailer has repeatedly said that it is winning market share and that the downturn has made it easier to secure attractive store locations. In the U.K., for instance, H&M has taken over a handful of stores from insolvent retailer Woolworths Group PLC. At the end of July, H&M had 1,828 stores, up 13% from 1,601 stores a year earlier.

Falling short

H&M same-store sales, change from a year earlier



Note: Sales are in local currencies and include VAT
Source: the company

Shoppers leave an H&M store in China

ECONOMY & POLITICS

Promise of U.S. post-partisan era fades

More voters turn against Obama amid disappointment over president's handling of economy, health care

By Jonathan Weisman

WASHINGTON—U.S. President Barack Obama's hoped-for era of post-partisan politics is receding amid fiery town-hall meetings, protests and poll numbers that show the rise of a small but virulent core of Obama opponents.

Mr. Obama campaigned for the White House as the leader who would bring the U.S. beyond the partisan warfare of the Clinton and Bush years. The appeal won over independents and even secured the president a toehold among Republicans.

Six months into his presidency, however, a clear divide has re-emerged.

For some Obama critics, it was brought on by the failing economy. "I thought he would've turned it around by now," said Louis Thornton, 44 years old, from Lancing, Tenn., who identified himself late last month to Wall Street Journal/NBC News pollsters as a strong Democrat who feels "very negative" about the president.

The promise of change and the appeal of a post-partisanship era may have allowed voters to project the programs they wanted on Mr. Obama, the candidate. Now that he is president, some are disappointed.

"We didn't understand his agenda," said Leah Wolczko, a 42-year-old high-school biology teacher from Manchester, N.H., who described herself as a political independent who had supported Mr. Obama but failed to vote in November. "He said change, hope, change—beautiful ideas, but when they start talking specifics, well, now we've got some problems." She was among the protesters outside a Portsmouth town-hall meeting last week.

Agence France-Presse/Getty Images

U.S. President Barack Obama speaks Monday at the annual Veterans of Foreign Wars National Convention in Phoenix. His campaign won over many independent voters, but some are now disappointed in his performance in office.

Republicans say Mr. Obama drew ill will with an ambitious, ideologically tinged agenda that he has pushed with haste.

Democratic officials blame Republicans for seeking to sow dissent from the start. From the beginning of the Obama administration, such popular conservative talkers as Rush Limbaugh declared they wanted the president's agenda to fail.

White House spokesman Robert Gibbs said Mr. Obama hasn't given up his goal of bridging the partisan divide but is realistic. "I don't think the president ever believed that all of the people were going to agree with him all of the time, or certainly that all the people would even agree with him a majority of the time," he said.

When Mr. Obama was inaugurated in January, only 6% of the country felt "very negative" about him, while 43% felt "very positive." Even some ardent opponents of his positions on such issues as abortion said they wanted to give him a chance.

In the Wall Street Journal/NBC News poll of 1,011 adults taken from July 24 through July 27, the president's base of support remained relatively high and still firm—37% still felt "very positive" about him. His overall approval rating stood at 53%. But that "very negative" set has more than tripled since the beginning of the year, hitting 20% nationally, 25% in the South, 23% among those 65 and over, and 24% among men 50 and over.

Although a minority, the anti-Obama core has grown since April's anti-Obama "tea parties" protesting federal government spending. Anti-Obama paraphernalia has hit stores in competition with the still-hot-selling pro-Obama accoutrement: "Don't Blame Me. I voted for McCain" on bumper stickers and "So...How's That Whole 'Hopey Changey' Thing Working Out For Ya?" on T-shirts.

Road to midterm elections looks rough for Democrats

By Gerald F. Seib

In a normal political cycle, Democrats would look at the electoral indicators right now and say: Get out the Tylenol, because we're going to have a big headache next year.

Here's how they can console themselves: This isn't a normal political cycle.

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Indeed, we're in a period now in which down turns to up, and up to down, at about twice the normal speed. Hence, the next few months may well be more important than were the past few in setting the tone for next year's crucial midterm elections. The outcome of the pitched battle over health care, which right now is ruining many a Democrat's summer vacation, will help determine that tone, of course. But the X factor in this equation is the shape and pace of the economic recovery.

Certainly Democrats have to hope that trend lines are subject to change, because they point distinctly downward for the party right now. That's a particular problem for them, because the coming midterm is going to be an exceptionally important one, determining whether the 2008 victory by Barack Obama was the start of a long-term Democratic wave, or whether that wave will quickly hit the rocks.

The first sobering thought for Democrats is that they will be fighting history in next year's midterms. The first congressional election after a new president takes office normally is a tough one for his party, whichever party that happens to be.

Over the past century, a new president's party has lost an average of 28 seats in the House in his first midterm. Only twice during that century has the president's party managed to gain seats, most recently when George W. Bush and his Republican Party picked up eight seats in 2002, in the wake of the 2001 terrorist attacks.

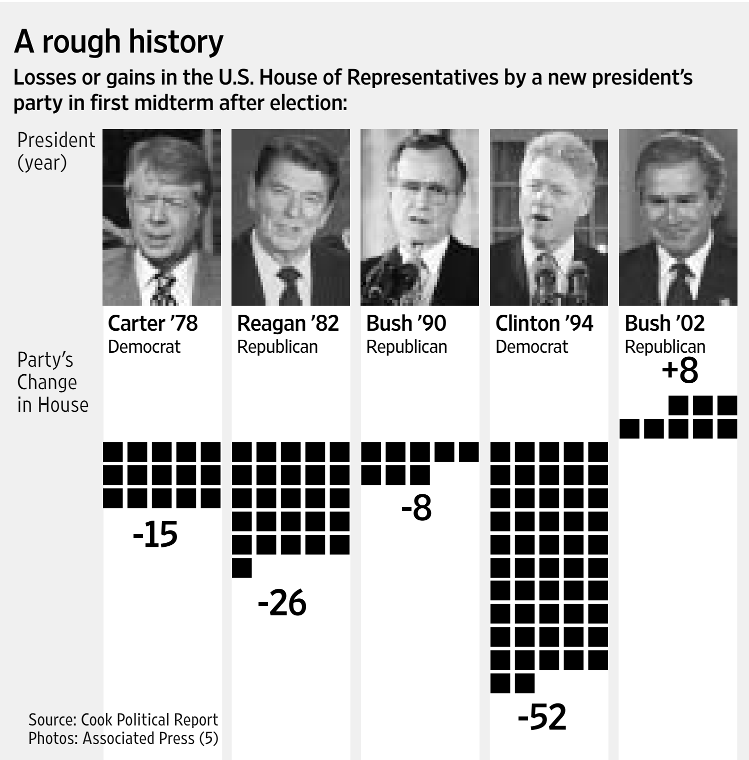
More common are substantial losses; Bill Clinton's Democrats lost a whopping 52 seats in 1994.

So the potential for a substantial erosion of the Democrats' current comfortable majorities in Congress is very real, if history is any guide. At the moment, Democrats have a 79-seat majority in the House, 256 to 177, with two vacancies. In the Senate, if you count independents who tend to vote with the Democrats, they have a 60-40 majority.

Yet it isn't just history working against Democrats, but the current political climate. The latest Wall Street Journal/NBC News poll is a pretty good barometer.

The readings there start out reasonably well for Democrats. When Americans were asked whether they would prefer next year's election to produce a Congress controlled by Democrats or Republicans, Democrats still are preferred, by a 46% to 39% margin.

But the party's weaknesses show up quickly thereafter. That's the smallest margin Democrats have held on the party-control question since April 2006. White males now say by a double-digit margin that they want a Republican-controlled Congress. And white women, who in previous polls said by a comfortable margin that they preferred a Democratic Congress, now are split evenly on the question.



Though Americans still say they think Democrats can do a better job managing the economy than Republicans can, that margin has narrowed to just six percentage points. Meanwhile, those polled gave Republicans the advantage on reducing the deficit, controlling government spending and dealing with taxes—all areas where Democrats were preferred previously.

Moreover, just one in four Americans say they approve of the job the (Democrat-controlled) Congress is doing, and House Speaker Nancy Pelosi is viewed positively by only 25% of those surveyed. Want to guess who Republicans will try to make the face of the Democrats next year?

Finally, Democrats face some structural problems. As the majority party, they have more House seats to defend than do the Republicans. The ones with the toughest road ahead are the 48 House Democrats who won last year in districts carried by Republican presidential nominee John McCain. All told, the Cook Political Report, the bible for those tracking congressional races, lists 23 Democrats as vulnerable, compared with 13 Republicans.

Still...

The picture isn't as bad in Senate races for Democrats. More important, the election is being held in the fall of 2010, not the fall of 2009. The political climate figures to be quite different if Democrats manage to pull something resembling a victory from the current health debate—or if, as Democratic strategist James Carville suggests, they manage to paint Republicans as intransigents who stood in the way of progress.

Perhaps more important is whether most Americans start to feel by early next year that the economy really is recovering from the worst recession in seven decades. That will determine whether Democrats can claim that their economic stimulus, financial-sector rescue packages and housing recovery plans worked. The real statistics to watch are economic growth and unemployment in next year's second and third quarters.

When does the cement start to harden on public attitudes? Charlie Cook, editor of the Cook Report, guesses next summer. But he also notes that the only question is the amount of difficulty Democrats face. "We don't know how bad for Democrats this is going to be," he says, "but the debate is over the degree, not the direction."

Seoul backs off new pact

South Korea says move on tourism needs official talks

By Gordon Fairclough

SEOUL—The South Korean government distanced itself Monday from an agreement struck between a South Korean company and North Korea to restart tourism projects, saying it is a private deal and calling for official state-to-state negotiations.

Seoul sees the agreement, which also covers reunions for families with members split between the North and South, "positively," said Chun Hae-sung, a spokesman for the South's unification ministry, which oversees relations with the North.

But, he said, "the governments of South and North Korea need to work out a concrete agreement through dialogue" before visits by South Koreans to tourist sites in the North can begin again. A resumption of reunions would require talks between the Red Cross organizations of the two sides, he said.

Trips by South Koreans to the Mount Kumgang resort on North Korea's east coast were halted after a North Korean soldier shot and killed a female South Korean tourist visiting the area last year. The North refused to participate in a joint investigation of the incident.

Since last year, North Korea has engaged in a series of increasingly provocative acts, culminating in its second nuclear test in May. But in recent weeks, Pyongyang has softened its stance toward the outside world.

This month, the North, after a visit by former U.S. President Bill Clinton to Pyongyang, freed two American journalists who had been sentenced to 12 years of hard labor for illegally entering the country. Last week, it released a South Korean worker who had been detained for more than four months.

North Korean leader Kim Jong Il told Mr. Clinton he wanted better relations with the U.S. and called for talks between the two countries, U.S. officials have said.

So far, however, Washington and Seoul have reacted cautiously to the North's moves and pushed for Pyongyang to return to six-nation talks—which include China, Japan and Russia, as well as the U.S. and the two Koreas—aimed at ending the North's nuclear-weapons programs.

On Monday, South Korean President Lee Myung-bak said Seoul should maintain a "consistent, comprehensive and flexible" policy toward the North, according to a statement issued by his office. When Mr. Lee took office in 2008, he ended a policy of nearly unconditional aid to the North, and linked help to progress on disarmament.

That switch has angered the North. On Monday, the Rodong Sinmun daily ran a commentary criticizing Mr. Lee's approach and blaming him for torpedoing dialogue between the two Koreas. It called on Seoul to change its "antireunification and confrontational policy."

Seoul is looking for a sign that the North is "ready to move along the path of denuclearization," said a senior South Korean official. "Symbolic gestures aren't enough. It has to be substantive."

The official said the North's interest in restarting the tour programs and recent efforts by Pyongyang to extract more benefits from a South Korean-developed industrial park in Kaesong, North Korea, are a sign of the country's economic difficulties.

"I believe they are feeling some pressure financially and in other areas, too" and are intent on cutting deals with the South that will boost income for Pyongyang, the senior official said.

The chairwoman of **Hyundai Group**, Hyun Jung-eun, traveled to North Korea last week in part to secure the release of the detained South Korean worker, an employee of the company's Hyundai Asan unit, which manages the Kaesong industrial park and handled the tourist activities.

She met with Kim Jong Il and discussed cross-border projects. Early Monday, the North's official Korean Central News Agency reported Hyundai and Pyongyang had agreed to restart tours to Mount Kumgang and the historic city of Kaesong and to resume reunions in time for Korea's annual harvest holiday on Oct. 3.

Kaesong Industrial Complex

*2009 figures through June
Source: Kaesong Industrial District Management Committee

Distressed property sales are seen rising globally

By Ilona Billington

LONDON—The number of countries experiencing an increase in distressed sales of commercial property rose between April and June this year, and the trend looks set to continue into 2010, a survey showed Monday.

In a quarterly survey of 27 countries by the U.K.'s Royal Institution of Chartered Surveyors, more than three-quarters reported an increase in the number of sales of commercial properties that are under a foreclosure order or are advertised for sale by the mortgage provider.

The RICS survey showed that South Africa reported the biggest increase in distressed sales, followed by the U.S., New Zealand, Malaysia and Hungary.

"The number of distressed properties coming to market rose across every global region in the second quarter although record-low interest rates may be limiting the pain for some landlords," said Oliver Gilmartin, the group's senior economist.

Mr. Gilmartin said that because refinancing costs remain high, the number of distressed sales in the global commercial property market is set to continue rising.

"Transaction activity in distressed properties is certainly set to rise in 2010 as interest from specialist funds gains traction," he said.

RICS also found there was an increase in the number of specialist funds inquiring about and purchasing distressed properties.

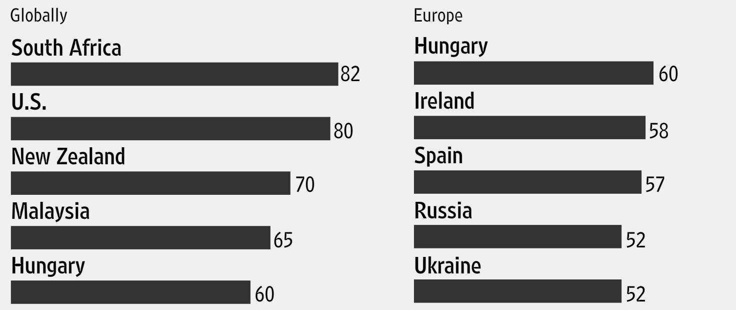
Italy, the U.K., Germany and the U.S. reported a significant increase in the number of specialist funds purchasing commercial properties under these circumstances.

One reason for the interest shown in these countries was the sharp decline in property prices since the beginning of the credit crunch in 2007.

The surveying group said that over the long term, property yields are beginning to "offer value in some markets when compared to historical averages" and this is attracting the interest of longer-term investors, such as life and pension funds.

Worst performers

The net balance of the number of surveyors reporting a rise in the sale of distressed commercial properties in second quarter



Source: U.K. Royal Institution of Chartered Surveyors

Japan returns to growth on an increase in exports

By Megumi Fujikawa

TOKYO—Japan's economy grew for the first time since early last year, providing evidence that the world's second-largest economy may be pulling out of its longest recession since World War II and offering the latest sign that the world is pulling out of its economic slump.

But the data released Monday showed Japan benefited from inventory adjustments and a rise in exports and government spending—not natural domestic demand—suggesting lingering structural problems that could undermine any Japanese recovery.

The nation's real gross domestic product grew 0.9% in the second quarter from the prior quarter, an annual pace of expansion of 3.7%, Cabinet Office data showed. That was slightly worse than the 1% quarter-to-quarter growth and 3.9% annualized expansion forecast by Tokyo-based economists polled by Dow Jones Newswires. It was Japan's first quarter of GDP growth since the quarter ended in March 2008.

A positive growth rate could help the ruling Liberal Democratic Party mitigate what political analysts expect to be a sharp defeat in Lower House general elections on Aug. 30 after more than 50 years of almost uninterrupted rule.

The results offered the latest sign that the world, with a big push from Asia, is shrugging off its economic malaise. Strong exports, particularly to China and other parts of Asia, were a driver of Japan's growth. China's $585 billion stimulus package of new and already-planned spending and loosened bank lending has accelerated slowing growth, giving the region a boost. Hong Kong last week said it pulled out of its recession in the most recent quarter.

Europe is also pulling out of recession, with positive growth reported in the most recent quarters in Germany and France. That is in contrast to the U.S., where the recession has eased in severity but where domestic consumption remains weak.

While surging domestic demand has been a key part of Asia's recovery, Japan's data highlighted long-term hindrances to growth at home that set the nation apart from faster-growing Asian economies. Much of Japan's economic performance in the second quarter came from exports and government spending rather than improving conditions at home.

—Michael S. Arnold contributed to this article.