Money & Investing: World sugar futures near 3½-year highs

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Switzerland SF 5 - Syria S£ 210 - Turkey TL 4.5 - U.S. Military (Eur) $2.20 – United Kingdom £1.50

THE WALL STREET JOURNAL.

What's News

Cash incentives to scrap older cars and buy more energy-efficient vehicles supported car sales in France, Italy and Spain last month. U.S. auto sales in July climbed to their highest pace in 11 months, also fueled by a "cash for clunkers" program. Page 5

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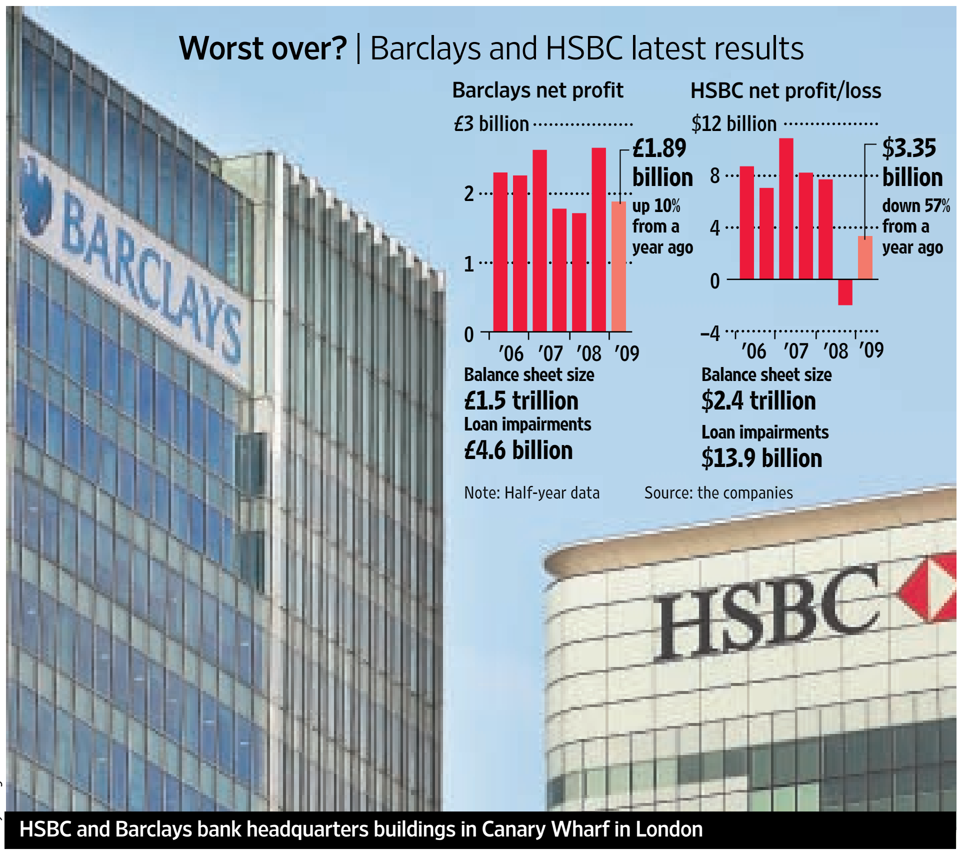

Getty Images

HSBC and Barclays bank headquarters buildings in Canary Wharf in London

HSBC, Barclays post good results

By Sara Schaefer Muñoz
And Stephen Fidler

Strong performances in wholesale and investment banking helped two leading British banks to post profits Monday for the first half of the year and dig them out of troubles caused by ongoing loan-impairments and other difficulties related to the economic downturn.

HSBC Holdings PLC beat analysts' expectations as it reported a profit of $3.35 billion, down 57% from a year earlier. **Barclays** PLC posted a 10% rise in profit to £1.9 billion ($3.17 billion), buoyed by a £1 billion pretax profit in its investment-banking division, Barclays Capital, known as BarCap.

Share prices for both banks rose sharply in London, even as they struck different tones about how the rest of the year may play out.

HSBC Chairman Stephen Green said: "It may be that we have passed, or about to pass, the bottom of the cycle of the financial markets." But he warned that "the timing, shape and scale of any recovery in the wider economy remain highly uncertain."

Barclays, however, indicated it did not foresee improvement in the trend of deterioration in the quality of its loan portfolio heading into the second half of the year.

Both banks escaped the financial turmoil of the last year without requiring U.K. government intervention and have benefited from the travails of their competitors.

Barclays made inroads into investment banking thanks to its takeover of the U.S. operations of Lehman Brothers Holdings Inc., which it acquired last fall. HSBC bankers said operations in Europe, Asia and Latin America were attracting important corporate customers from other banks, which had received government bailout money, such as Citibank and RBS.

BarCap's profit-generat-

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France aims to recoup aid from farmers

By David Gauthier-Villars

PARIS—For weeks, fruit farmer Laurent Ducurtil has worried that customary summer hailstorms would lay ruin to his peach fields. Now, he has a far bigger problem: debts to the French state.

The French government said Monday it would try to reclaim €330 million ($470 million) in state subsidies given to fruit and vegetable producers across France from 1992 to 2002. The European Commission ruled earlier this year that the aid was illegal and gave France until last week to decide whether it would comply and seek the money back from farmers or face a likely legal battle with the EU.

Now it looks like the tussle will be local. French farmers are notorious for hitting the streets in protest when their business is suffering.

"The government had better get ready to tough protests," said Mr. Ducurtil, who farms several kinds of fruits in southern France.

France's spending to support its own farmers are the subject of dismay across the European Union, particularly when France is the biggest recipient of EU farm subsidies—about €9 billion last year. France has long resisted attempts at overhauling the European farm aid system, upsetting some of its neighbors who say Paris is receiving more than it should.

Yet French farmers complain that they are at a disadvantage next to their peers in Spain, where labor is cheaper, or in Belgium and the Netherlands, where farming is often more mechanized.

French farmers say the economic crisis had made the situation worse. They argue that Spain, Belgium and the Netherlands are exporting more of their fruits and vegetables to France as their traditional Eastern European export markets are suffering. Supply has ballooned and prices in France have plunged as a result, the farm-

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Google's Schmidt leaves Apple board

By Jessica E. Vascellaro
And Yukari Iwatani Kane

Google Inc. Chief Executive Eric Schmidt resigned from **Apple** Inc.'s board as the companies face regulatory scrutiny over their board ties and as their businesses increasingly overlap.

Apple announced Monday the resignation of Mr. Schmidt, a board member since August 2006. Apple said it and Mr. Schmidt had reached the decision "mutually."

Apple CEO Steve Jobs said in a statement that as "Google enters more of Apple's core businesses...Eric's effectiveness as an Apple board member will be significantly diminished, since he will have to recuse himself from even larger portions of our meetings due to potential conflicts of interest."

In his own statement, Mr. Schmidt called Apple a "fantastic company," adding, "as Apple explained today, we've agreed it makes sense for me to step down now."

But the measure appeared not to fully placate U.S. regulators, including the Federal Trade Commission, which has been investigating whether the company's shared board members could present opportunities for collusion.

The FTC "will continue to investigate remaining interlocking directorates between the companies," said Richard

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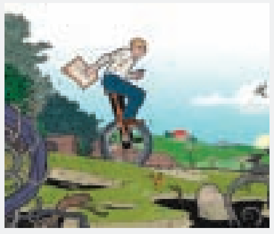

Hedging bets
Mutual funds for average Joes grow in popularity
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Markets
4 p.m. ET

	CLOSE	PCT CHG
DJIA	9286.56	+1.25
Nasdaq	2008.61	+1.52
DJ Stoxx 600	228.46	+1.58
FTSE 100	4682.46	+1.61
DAX	5426.85	+1.78
CAC 40	3477.80	+1.50
Euro	$1.4416	+1.69
Nymex crude	$71.58	+3.07

LEADING THE NEWS

German SDP lashed for jobs vow

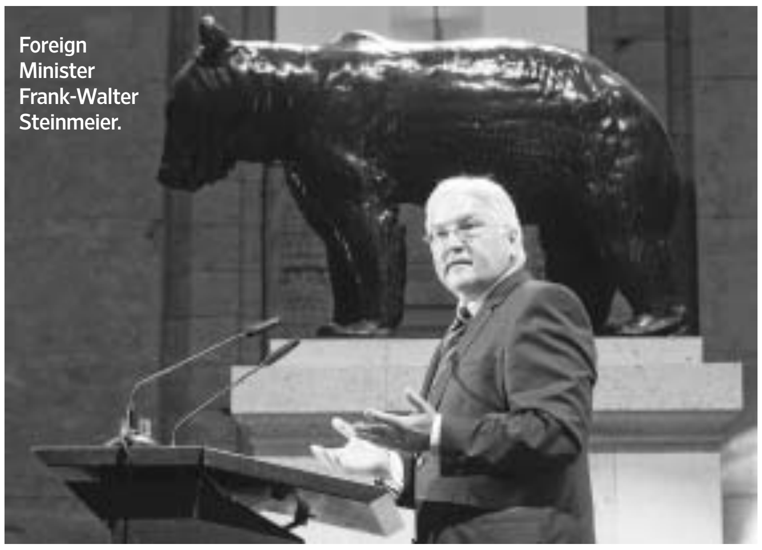
Analysts call pledge unrealistic at a time of serious recession

By Geoffrey T. Smith

FRANKFURT — Germany's Social Democratic Party sought to jump-start its flagging election campaign Monday with a pledge to create four million jobs and return the country to full employment within a decade.

The ambitious goal, outlined by Franz-Walter Steinmeier, leader of the SPD and foreign minister in the current coalition, was criticized by many analysts as unrealistic as Germany faces its worst recession in 60 years. Germany's Federal Labor Office said last week that unemployment is likely to rise by one million or more over the next year.

"This is not credible or serious," said Klaus-Peter Schöppner, managing director of opinion poll firm TNS Emnid in Berlin. "It will do Steinmeier more harm than good."



Foreign Minister Frank-Walter Steinmeier.

Reuters

SPD, now the junior partner in a so-called grand coalition with the center-right parties of Chancellor Angela Merkel, has struggled to find themes that resonate with voters and has at times appeared rudderless since announcing that Mr. Steinmeier would be its candidate for chancellor last year. Partly as a result, the party has seen its working-class base eroded by a stream of defections to left-wing parties.

With less than two months before election day, even many of the SPD's own members are skeptical of Mr. Steinmeier's prospects of unseating Ms. Merkel. Depending on how other smaller parties fare, that could lead to another grand coalition or to a new center-right government led by Ms. Merkel. Recent opinion polls put the CDU and CSU between 11 and 15 percentage points ahead of the center-left SPD, with whom Ms. Merkel has governed in a coalition government since 2005.

Mr. Steinmeier's plan, which he dubbed "Deutschlandplan," prompted a harsh critique even before its official presentation at a speech in Berlin on Monday. As details of the plan leaked out over the weekend, the SPD's political rivals attacked its goals as pie-in-the-sky campaign promises that could never be realized.

Horst Seehofer, head of the Bavarian Christian Social Union, sister party to the CDU, called it "an act of desperation," and said the numerical targets for individual sectors "reminds me very strongly of the illusions of the socialist planned economy."

Mr. Steinmeier's job-creating ambitions depend on creating new jobs in green technologies, such as fuel-efficient cars, health care and other services.

U.K. proposes points system for citizenship

By Alistair MacDonald And Paul Sonne

The U.K.'s proposals to tighten its citizenship process and make prospective Britons act more British brought renewed criticism from some immigrant and business groups, which accused the government of seeking populist headlines that will make it harder to attract talent.

In what the country's Home Office described as another step in the biggest shake-up of U.K. immigration law in 45 years, ministers announced that foreigners would have to score a certain number of points to become British citizens—a requirement that was also recently put in place for people entering the country to work or study.

Growing unemployment, overstretched public services and the terrorist threat have in recent years prompted the U.K. to restrict the surge in immigration that helped to fuel a decadelong economic boom.

The proposed system laid out Monday spells out how points toward citizenship could be earned through positive contributions to U.K. life. But points would be deducted for bad behavior.

For example, the proposals would mete out rewards based on how much potential citizens earn. Specific "artistic, literary or scientific" talents would earn more points. Points would also be awarded based on English-language proficiency and whether they would live in parts of the U.K. struggling to attract talent. Applicants would also earn more points through "community involvement" such as voluntary work, a move designed to encourage immigrants to integrate.

Yet there were also warnings that anyone breaking the law or being "antisocial" would have points deducted. Similarly, displaying acts of disregard for British values would result in deductions.

"Being British is a privilege—these proposals break the link between coming to work here temporarily and being given the right to citizenship," said Phil Woolas, border and immigration minister.

The period for gaining citizenship has already increased. Today immigrants may apply for citizenship only after five years in the country; under the proposed guidelines, immigrants could apply after five years, but the earliest that full citizenship could be granted would be six years, and possibly be as long as 10 years.

Industry sectors as diverse as catering and banking have complained that recent rounds of tightening have already made it harder to attract staff that aren't available in the U.K.

Still, the government may receive applause from the public.

German lobbyist named in scandal will face charges

Associated Press

MUNICH—Karlheinz Schreiber, a key figure in a political party financing scandal involving former German Chancellor Helmut Kohl, was extradited to Germany from Canada to face criminal charges after losing a decadelong court battle.

The return of the 75-year-old former arms-industry lobbyist wasn't expected to have much impact on the Christian Democratic Union—Mr. Kohl's party, now led by Chancellor Angela Merkel—in September's election. Ms. Merkel became CDU leader in 2000 after strongly distancing herself from the scandal.

On Tuesday, officials will read Mr. Schreiber the arrest warrant against him and then bring him before a judge, who will decide whether to keep him in custody pendng a trial, an Augsburg state court spokesman said.

Prosecutors have accused Mr. Schreiber and others of taking undeclared commissions from a deal in the early 1990s to deliver Fuchs armored vehicles to Saudi Arabia.

Mr. Schreiber, a dual German and Canadian citizen, was arrested in Canada in 1999 under a German warrant. He maintains the charges against him and his extradition from Canada are politically driven.

Mr. Schreiber allegedly gave a cash donation in 1991 to the former treasurer of Mr. Kohl's Christian Democratic Union party, Walther Leisler Kiep. The allegation triggered a scandal that only deepened with Mr. Kohl's 1999 admission that he had personally accepted off-the-books—and therefore illegal—donations from supporters.

CORRECTIONS & AMPLIFICATIONS

BHP Billiton Ltd. reached contracts with some of its iron-ore buyers in which a portion of those customers will buy iron ore on an annual basis and the others will buy iron ore quarterly, or based on the spot market or indexed futures markets. A July 30 Corporate News article incorrectly stated that a portion of the buyers agreed to annual contracts and the remaining agreed to negotiate prices quarterly.

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.

Associated Press

Photos taken from Iranian state TV video show President Mahmoud Ahmadinejad, right, kissing the shoulder of Supreme Leader Ayatollah Ali Khamenei, a more restrained gesture than four years ago.

Iran supreme leader endorses Ahmadinejad

Ceremony is snubbed by prominent critics of June 12 election

Associated Press

TEHRAN, Iran—Iran's supreme leader formally endorsed Mahmoud Ahmadinejad's second term as president Monday in a ceremony that sought to portray unity among the country's leadership but was snubbed by prominent critics of the disputed election.

After Ayatollah Ali Khamenei gave his official seal of approval, he received an awkward kiss on the shoulder from Mr. Ahmadinejad. It cleared the way for Mr. Ahmadinejad to take the oath of office Wednesday in parliament, where many pro-reform lawmakers have echoed the claims of fraud in the June 12 election.

The ceremony with Mr. Khamenei showed the deep political divides confronting Mr. Ahmadinejad and his backers among the ruling clerics. The event was boycotted by two former presidents—Akbar Hashemi Rafsanjani and Mohammad Khatami—as well as defeated pro-reform candidates Mir Hossein Mousavi and Mehdi Karroubi, state media reported.

Iran's main state TV channels didn't offer live coverage of the ceremony in an apparent effort by the country's Islamic rulers to avoid emphasizing the boycotts to domestic audiences. But Iran's state-funded channels in Arabic and English broadcast extensive images of Messrs. Khamenei and Ahmadinejad—possibly seeking to display a sense of high-level solidarity on the international stage.

Mr. Ahmadinejad—who kissed Mr. Khamenei's hand four years ago to show absolute loyalty—had a more tentative exchange this time. He appeared to approach Mr. Khamenei to kiss his hand, but the leader stopped him and took a step back. The two exchanged words, Mr. Ahmadinejad smiled, and then Mr. Khamenei allowed him to kiss his shoulder—not a common gesture in Iran, where men often exchange kisses on the cheeks.

It appeared Mr. Khamenei sought to show a close bond with Mr. Ahmadinejad without the elaborate display of hand-kissing.

Iran faces some important tests in the early months of Mr. Ahmadinejad's second, four-year term.

U.S. President Barack Obama has given Iran a September deadline to show a willingness to open dialogue on its nuclear ambitions and other key issues.

Last month, U.S. Secretary of State Hillary Clinton said the opportunity for talks with Washington "will not remain open indefinitely." The European Union also has signaled that Iran must move quickly to address Western concerns about Tehran's nuclear program—which some fear could lead to atomic weapons. Iran insists it seeks only energy-producing reactors. Iran's leadership is also desperate to show cohesion at home.

Mr. Ahmadinejad opened a brief but potentially disruptive confrontation with Mr. Khamenei's ruling theocracy in late July by refusing to drop his top deputy, Esfandiar Rahim Mashai, who angered conservatives last year when he made friendly comments toward Israelis. But Mr. Ahmadinejad relented and dropped Mr. Mashai and others opposed by Mr. Khamenei.

But even conservatives have turned against the leadership over the elections and the harsh crackdowns that have followed. On Sunday, Mr. Ahmadinejad's main conservative election challenger, Mohsen Rezaei, demanded that authorities hold trials for those accusing of killing protesters.

More than 100 people, including many prominent reformist political figures, are facing trial for allegedly supporting the postelection unrest.

Fatah gathering seeks to put new life in Palestinian party

By Margaret Coker
And Joshua Mitnick

RAMALLAH, West Bank—Fatah, the secular political party that long dominated Palestinian politics, will hold a convention on Tuesday in a bid to restore its flagging political fortunes and to set guidelines for a possible new round of U.S.-brokered peace negotiations with Israel.

Fatah's revitalization is key to restoring the credibility of its leader, Palestinian President Mahmoud Abbas, among the four million Palestinians living in the West Bank and Gaza Strip. The thousands of delegates set to attend the rare party gathering are expected to seek a stronger voice for a new generation of Palestinian leadership as well as debate whether to adopt a deadline for achieving statehood by peaceful means.

Mahmoud Abbas

Lack of progress toward establishing an independent state has undermined Mr. Abbas's insistence that negotiations, not violence, are the path to peace with Israel and has strengthened the hand of the Islamic group Hamas. Hamas, which is labeled a terrorist organization in Washington but has widespread support in the territories, has played spoiler to past peace negotiations, but is now reaching out to the international community to be recognized as a legitimate political force.

The White House supports Mr. Abbas, but he is widely criticized among Palestinians for not curbing corruption within his party ranks or the governing authority he runs.

The three-day convention scheduled for the West Bank town of Bethlehem is aimed at addressing those shortcomings, with intense discussions expected over a list of conditions for continued peace talks with Israel and how Fatah can recoup its electoral losses to Hamas in 2006.

The effort to reform Fatah is being led by a loosely organized group comprised of former fighters and professionals, who were raised under Israeli occupation. Although loyal to Mr. Abbas, they typically deride the old guard, largely made up of former exiles, as corrupt and unsuited for running a modern state. They hope the party convention, the first in two decades, will tip the balance of power in their favor.

Fatah, founded by the late Yasser Arafat in the 1950s, came to dominate the Palestinian political movement through its control over the Palestine Liberation Organization and the Palestinian Authority, which oversees civil affairs in the West Bank and Gaza. Both of those organizations continue to be run by Mr. Arafat's close associates from the days when the PLO was a guerrilla movement, including Mr. Abbas.

Mr. Abbas's position as Fatah leader won't be contested during the convention, despite the fact that public opinion polls show him with weak support within the Palestinian territories. Instead, the party will contest a variety of internal posts.

Associated Press

Palestinian Fatah members check into a hotel ahead of the party's first convention in 20 years, starting Tuesday in Bethlehem.

"This leadership doesn't enjoy much legitimacy; you need new blood," said Mohammed Ishtayeh, a former Palestinian cabinet member.

Fatah member Marwan Barghouti, a militia leader serving consecutive life sentences in an Israeli jail who regularly tops local opinion polls as the most popular Palestinian leader, will be among the reform wing vying for seats on the party's Central Committee and Revolutionary Council.

A shake-up in these party seats could be critical in influencing what Fatah faction holds sway on issues related to the peace process. These include whether the party will formally oppose the use of violence as a method to achieving statehood.

A sizable faction of the estimated 2,000 delegates attending the convention are expected to back a measure aimed at setting a deadline for engaging in renewed talks with Israel. If an agreement to form a state isn't achieved within that time, then Fatah would retain the option of returning to "resistance," according to Nabil Shaath, one of the authors of the draft statement.

Fatah's party platform from 1989, its last party convention, backs "armed resistance" to Israel's military occupation of the two Palestinian territories. Mr. Arafat renounced that policy when he signed a peace deal with Israel in 1993. When running for president in 2005, Mr. Abbas also renounced violence. Mr. Abbas's supporters say the convention will make that policy official.

LEADING THE NEWS

Reuters

A woman picks through the ruins of her apartment in the northern city of Maiduguri on Monday.

Nigeria death toll swells

Questions remain on how Islamic group was able to operate

By Will Connors

LAGOS, Nigeria—As the death toll from a week of violence in northern Nigeria swelled into the hundreds, questions arose over how a group that security officials admit was under surveillance for months was able to cause such destruction.

More than 800 people were killed last week during fighting between a Islamic fundamentalist group, Boko Haram, and Nigerian security forces that spread across several northern states. Rights groups say many civilians were among those killed, though exact figures remain unknown. Police say most of the dead were militants.

While there is a long history of religious violence in Nigeria, mostly between Christians and Muslims, last week's clashes and Boko Haram's targeting of its government surprised many observers, and many within Nigeria as well.A Red Cross worker in the northern city of Maiduguri, where most of the fighting occurred, said that 780 bodies had been collected in the past few days, and that at least 3,600 Maiduguri residents had been displaced. Officials in Bauchi, where the violence began, had earlier confirmed more than 50 deaths.

Boko Haram, which means "education is prohibited" in the Hausa language spoken in northern Nigeria, had been advocating for a withdrawal from Western education and ideals, and for a stricter adoption of Shariah law, already practiced in 12 northern states. The group had convinced followers to drop out of school, quit their jobs and become more focused on living according to its strict guidelines. Exact membership figures for the group aren't known.

Boko Haram's leader, Muhammed Yusuf, had earlier told an interview that members didn't believe in Darwinism or that the earth was round. The views of most Nigerian Muslims don't coincide with those of Boko Haram followers.

Residents of major northern towns and Muslim leaders knew of the group for years.

"The group's teachings are not new," said Hassan Karofi, operations manager of the Daily Trust newspaper for the northern region of Nigeria.

Security forces have been criticized in the days following the violence for ignoring signs that the group was planning attacks. Police spokesmen in Bauchi and in Abuja, the capital, confirmed that the group had been under surveillance for months for "preaching fundamentalism."

The group's leader, Mohammed Yusuf, had been arrested twice for "inciting public disturbances and subversive activities," according to police, most recently in January, when he was released on bail.

In June, eight Boko Haram followers were killed by police during a funeral procession for two group members. After the killings Boko Haram members publicly threatened to attack police and said they would have their revenge, according to press reports at the time.

Three weeks ago a member of Boko Haram was killed in an explosion in his home. Police said the man had been attempting to build a bomb.

"Many people were surprised that the police did not take the threats seriously until they attacked the police station last week," Mr. Karofi said. "That security forces are not able to nip such crises in the bud is of great concern."

The local Guardian newspaper cited senior security officials Sunday as saying that nearly a dozen confidential reports detailing the "imminent threat" of Boko Haram had been presented to the Inspector General of Police over the last year, but nothing was done.

Federal Police spokesman Emmanuel Ojukwu confirmed the police had received several security reports concerning the group, and though they had arrested Mr. Yusuf twice, didn't have enough evidence to keep him in jail. "This is a democracy, you can't arrest somebody [again] without evidence," Mr. Ojukwu said by phone from Abuja. "We'd been keeping tabs on them."

President Umaru Yar'Adua also has been criticized for leaving the country just as the crisis escalated. The president returned from a diplomatic trip to Brazil on Saturday, after the fighting had subsided.

The circumstance surrounding Yusuf's death remain murky. Rights groups have suggested Yusuf was executed while in police custody.

So far several rights groups, international and local, have urged investigations into the killing.

A photo obtained by the BBC shows Mr. Yusuf alive, with only an arm wound, being escorted to jail by army officials. Hours later police officials invited journalists to come to the police station and photograph his bullet-ridden body. Gory photographs of his bloody corpse ran in the following day's newspapers.

Police say that Mr. Yusuf died while trying to escape custody.

"We're investigation the circumstances that led to his death and the death of other Nigerians," Mr. Ojukwu said.

Many feel that by killing Mr. Yusuf, whether by extrajudicial means or while attempting to prevent his escape, critical information about his group is now lost.

"Some things might have come out if he had gone to trial," said Zacarys Anger Gundu, a professor at Ahmadu Bello University in Zaria, a northern city who has been following the incidents. "There are a lot of things we don't know about the group, and killing the leader removes the issue from public scrutiny."

More than 10,000 people have been killed in sectarian violence in Nigeria since 1999, often in the so-called Middle Belt, where the Muslim north meets the Christian south.

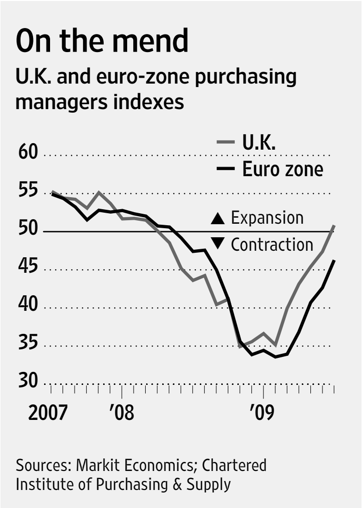
But where religious tensions have most often involved young Muslim and Christian youths fighting each other, Boko Haram focused on police and government buildings. Analysts believe the group gained traction because northern Nigeria has suffered economically over the years. The emergence of the oil industry in the southern delta region took the government's focus away from agriculture. Growing cities such as Lagos, the economic hub of West Africa, lured the north's residents.

Once the agricultural center of a country that was a net exporter of foodstuffs, most of the northern farms now lay fallow. Hundreds of once-humming textile mills are silent. Only five mills remain.

Residents in Maiduguri told reporters many Boko Haram members have shaved their beards and slipped back into daily life, according to reports. "We know it is not finished yet," Mr. Karofi, of the Daily Trust newspaper, said.

U.K., euro zone report gains in manufacturing

By Nicholas Winning



LONDON—A stronger-than-expected recovery in British and euro-zone manufacturing in July is fueling hopes that Europe may emerge from recession by the end of the year, but contracting German retail sales in June suggest consumers remain cautious.

Britain's manufacturing purchasing managers' index—a key gauge of conditions in the sector—rose to a 16-month high of 50.8 in July from 47.4 in June, Markit Economics and the Chartered Institute of Purchasing and Supply said.

The reading above the "neutral" 50 level suggests output is expanding in the sector for the first time since March 2008.

Revised data for the 16-country euro zone, also published Monday, was much stronger than expected, ticking up to an 11-month high of 46.3 in July from 42.6 in June, with support from a record jump in Germany. In the euro zone, there were strong gains in German and French manufacturing. But unemployment continued to be the principal weak point.

In the U.K., manufacturing employment fell for the 15th consecutive month, although the rate of reduction was the least severe since June 2008. In the euro zone, the rate of job losses eased for the fourth consecutive month to the lowest level since November, Markit said. Also, German data suggested the rise in the number of people out of work may be hurting consumer spending.

—Ilona Billington in London and Nina Koeppen in Frankfurt contributed to this article.

Dubai's home values drop, but rate of decline is slowing

By Stefania Bianchi

DUBAI—Home values in Dubai have fallen by about half from the peak in the third quarter of last year in the wake of the global real-estate slowdown, a widely watched index of Dubai property prices showed.

But the decline showed signs of slowing in the second quarter, with prices falling 9% from the first quarter, after much steeper drops in previous quarters, U.K. real-estate consultancy Colliers International said in its quarterly price index. The measure, which collates mortgage transactions on properties open to foreign ownership since the start of 2007, is compiled using data from financial institutions accounting for 60% of the mortgage market in Dubai.

Property prices in the emirate, which had been driven sharply higher in past years as foreign investors snapped up real estate, have been sliding since the third quarter of 2008.

Like other places around the world, the emirate has been hit by a property slump as a result of the credit crunch. Colliers said continuing concerns over the availability of financing, job-security worries for the emirate's many expatriates and a lack of transparency about project delays and postponements continued to hamper the market's recovery.

Property prices in Dubai were rising sharply as recently as the first half of last year. But since the third quarter of 2008, as the impact of the global crisis has hit the emirate, real-estate agents have reported softening prices and a dearth of buyers, especially those buying investment properties that had earlier helped drive steep price increases.

The average price of property declined to 949 U.A.E. dirhams ($258) a square foot in the second quarter, Colliers said. Prices are now at the same level as in the second quarter of 2007. In the quarter, the prices of villas and townhouses were hit hardest, falling 18% and 11%, respectively.

Agence France-Presse

Concerns about a lack of transparency regarding project delays and postponements hamper the Dubai property market's recovery.

CORPORATE NEWS

Car sales in Europe get a lift

Buying incentives spur gains in France and Italy, while Spain shows signs of recovery

Cash incentives to scrap older cars and buy more energy-efficient vehicles supported car sales in France, Italy and Spain last month.

By ***David Pearson, Jason Sinclair*** *and* ***Gilles Castonguay***

Registrations of new cars in France rose 3.1% in July from a year earlier to 188,635, as a scrapping incentive introduced at the end of last year benefitted makers of small cars such as **Renault** SA and **PSA Peugeot-Citroën** SA. French registrations of imported cars fell 5.6%.

Renault's French registrations were up 18% from a year earlier at 43,673 cars, while Peugeot-Citroën registrations were 11% higher at 61,655 cars. Sales for the Renault brand were up 14%, while those for low-budget Logan cars made by Romanian subsidiary Dacia surged 58%.

July's 3.1% increase in the overall French market lags behind the 7% rise seen in June, but the trend is still ahead of the 0.6% growth over the first seven months of the year.

France kicked off its scrapping program at the end of last year, before other European governments followed suit. The plan awards up to €1,000 ($1,425) to car owners who scrap vehicles that are at least 10 years old and buy new models that are more efficient and pollute less. France's incentives are among the least generous in Europe. Germany, for example, gives up to €2,500 for every car sent to the scrapyard.

In Spain, one of the European countries hit hardest by the global recession, July car sales were down 10.9% from a year earlier but showed signs of recovery following a 16% drop in June, Spanish car manufacturers' association Anfac said Monday.

Car sales to rental agencies, which were down 53% from a year earlier, were largely responsible for the decline to the 108,222 newly registered cars last month.

Government incentives, meanwhile, helped push sales to individuals and other, nonrental, companies up 17%. Sales of low-emission vehicles, the segment with the highest government rebate, rose nearly 15% in July, Anfac added.

For the first seven months, total car sales in Spain were 34% below their year-earlier level, as the global financial crisis sparked a sharp increase in unemployment and a dramatic drop in household consumption.

In Italy, new car registrations rose 6.2% in July from a year earlier to 204,905 vehicles, also thanks to scrapping incentives introduced earlier this year, according to government figures released Monday. The rise was nevertheless half of what was recorded in June, when registrations climbed 12.4%. For the first seven months of the year, they fell 8.3% to 1.33 million vehicles.

Fiat SpA, the country's biggest car maker, saw sales rise 11.1% in July to a combined 68,811 units for its three brands, including Fiat, Lancia and Alfa Romeo. Fiat, known for its small, environmentally friendly cars such as the Cinquecento, had a 33.6% share of the total number of registrations for the month, comfortably above its 30% benchmark.

Bloomberg News

New-car registrations in France increased 3.1% last month from a year earlier. Above, a Peugeot showroom in Paris

U.S. auto sales get help from 'clunkers' rebate

By Andrew Grossman And Matt Dolan

DETROIT—U.S. auto sales in July climbed to their highest pace in 11 months, boosted by a rush of customers lured into showrooms by the federal government's "cash for clunkers" rebate program.

Auto makers sold 997,824 cars and light trucks in July, according to Autodata Corp. That was the highest monthly total since August 2008.

The closely watched annualized selling rate rose to 11.24 million vehicles as a result of the surge in buying after the clunkers program kicked off in the last eight days of the month. Though that's down from the year-ago selling pace of 12.5 million, and well off the pace of 16 million the industry maintained earlier in the decade, it was a significant jump from June's annualized rate of 9.69 million.

Without the clunkers program, "we would likely be talking about a 10 million" sales rate, George Pipas, **Ford Motor** Co.'s top sales analyst, said in a conference call.

General Motors Co. estimated it sold 118,000 vehicles in July with clunker rebates; that alone was enough to increase the annualized selling rate by about one million, the company said.

Ford and Korea's **Hyundai Motor** Co. in particular benefited from the higher sales rate. Ford reported sales of 164,795 vehicles, up 2.4% from a year ago. Hyundai said sales rose 22%. Hyundai encouraged dealers to begin agreeing to clunker sales early in July, even before the federal government spelled out all of the program's guidelines.

With bankruptcy now behind them, GM and **Chrysler Group** LLC suffered their smallest sales declines of the year. GM's sales fell 19.4% to 188,156 vehicles, while Chrysler's dropped 9.4% to 88,900.

Toyota Motor Corp. said sales slipped 11% to 174,872 vehicles, and estimated the government program boosted sales by between 30,000 and 32,000 vehicles. Its Corolla compact and Prius hybrid accounted for 40% of the vehicles sold through the clunker program.

Honda Motor Co. said it sold 114,690 vehicles in July. That's a decline of 17.3% from July 2008, when the Japanese auto maker posted strong sales as high gas prices drove customers to its lineup of small cars.

Despite July's rebound, auto sales remain weak by historical standards. For the first half of the decade, car makers routinely sold nearly 17 million vehicles a year in the U.S.

Moreover, the future of the clunkers program is unclear. The $1 billion appropriated for it has likely been used up already, and Republicans in Congress have signaled they are opposed to Democratic efforts to put $2 billion more into the rebates. "This is still a very fragile situation," Mr. Pipas said.

How much of an impact the program will have on the broader economy is also uncertain. In one positive sign, Hyundai said Monday that its plant in Alabama is returning to a five-day work week after being on a shortened schedule since mid-October. Ford had previously planned to increase production in the third quarter, but said it will reassess whether a further boost is needed at the end of August.

Toyota said in June it would increase production in the third quarter by 65,000 vehicles. The company's total North American production in June reached its highest level since October at 108,261 vehicles, nearly double the level in January.

One overlooked factor that made the clunkers program such a hit is the grass-roots marketing that many dealers did to draw consumers out.

In Sioux Falls, S.D., the incentive program coincided with the summer clearance sale that Billion Automotive holds at a fairgrounds nearby. Owner David Billion said he took out a 12-page insert in the local newspaper, ran radio ads and offered up to $3,000 in incentives of his own on used cars.

Working under a tent with new cars parked around it, the dealership group sold about 100 cars a day, 35 more than it usually sells through the event, Mr. Billion said.

At Moore Buick-Pontiac-GMC Truck in Los Gatos, Calif., new-vehicle sales had been down 10% to 15% before the clunker program was launched, but were up about 50% as of last Friday.

"It's up as much as we can handle," said Bret Moore, general sales manager. "All of us car dealers had scaled back on personnel but now we're looking for more bodies. It's a lot busier than it was."

Chrysler said Monday it is changing an incentive plan that offered to double the clunkers rebates amid complaints from dealers that their inventory is running short.

Effective Tuesday, Chrysler will offer its full $4,500 rebate on fewer models than in the first weeks of the program. For some vehicles the rebate is now under $3,500, according to a Chrysler spokeswoman.

—Yukari Iwatani Kane and Kate Linebaugh contributed to this article.

Minicars help Suzuki, Daihatsu eke out profits

By Yoshio Takahashi

TOKYO—**Suzuki Motor** Corp. and **Toyota Motor** Corp. subsidiary **Daihatsu Motor** Co. reported plunging profits for the fiscal first quarter, as cautious consumers drove down sales of their compact cars and the strong yen reduced their overseas income.

But their much smaller exposure to the flagging U.S. market and lineups that focus mostly on minicars helped Japan's top two small-car makers eke out profits during the quarter, in stark contrast to the net losses reported by many of their bigger rivals.

Meanwhile, an industry association said the decline in Japan's auto sales for July was the smallest since the world's third biggest auto market started shrinking last August.

Auto sales, excluding those of minivehicles with engine displacement of 660 cubic centimeters or less, dropped 4.2% from a year earlier to 289,927 vehicles in July, according to the Japan Automobile Dealers Association. This was the 12th straight month of decline, but it was much smaller than the 13.5% drop in June.

Suzuki's sluggish sales in Japan, North America and Europe offset solid growth in India.

The developments coincide with a positive sign from one of Detroit's car makers—**Ford Motor** Co. posted an increase in its July sales, marking its first year-to-year jump for the auto maker in almost two years.

Daihatsu, Japan's No. 1 seller of minivehicles, said its net profit sagged 69% to 3.55 billion yen ($37.5 million) in the quarter ended June from a year earlier. Sales dropped 20% to 355.7 billion yen in the three months.

The Osaka-based car maker lifted its earnings forecast for the fiscal first half to 4 billion yen from 1 billion yen previously, as its cost-cutting efforts are paying off more quickly than expected and sales at home and abroad remained relatively firm in the fiscal first quarter. The company raised its sales projection for the half to 660 billion yen from 650 billion yen.

Daihatsu left unchanged its full-year net profit outlook at eight billion yen and sales forecast at 1.4 trillion yen.

Suzuki, the country's second-biggest seller of minivehicles, said its net profit fell 92% to 2.14 billion yen in the quarter ended June. Sales tumbled 37% to 577.14 billion yen as sluggish sales in Japan, North America and Europe offset solid growth in India, where it boasts a market share of about 50%.

Suzuki reiterated its forecast for the fiscal year ending March, projecting a net profit of 5 billion yen, an operating profit of 10 billion yen and sales of 2.3 trillion yen.

Daihatsu's and Suzuki's earnings are based on Japanese accounting standards.

DAILY SHARE PRICE

Metro AG

On the Frankfurt Stock Exchange
Monday: €40.24, up 40.8% year to date

Source: Thomson Reuters Datastream

Reuters

Clients push a shopping cart at a Metro cash and carry market in Berlin.

Metro reports a profit

Sales drop at retailer on currency effect, falling food prices

By Erin Fines

Metro AG Monday swung to a net profit in the second quarter but posted lower sales because of weaker Eastern European currencies and declining food prices.

Germany's largest retailer said it expects a tougher retail environment in coming months as rising unemployment hampers consumer spending.

Net profit in the three months ended June 30 came in at €48 million ($68.4 million), compared with a year-earlier net loss of €453 million. The year-earlier results were restated to take into account charges relating to the disposal of Metro's Adler chain last year.

Metro, which owns the Kaufhof department-store chain and electronics retailers Media Markt and Saturn, said sales fell 3.8% to €15.34 billion. Measured in local currencies, sales were steady, Metro said.

The drop came despite a positive calendar effect from Easter falling in the second quarter this year. After an "overall satisfactory" performance during the key Easter season, business in May and June couldn't reach the positive development seen in April, the company said.

Looking ahead, Metro said it expects a less dynamic development in 2009 than last year, but without any significant changes in sales and earnings trends in the second half of 2009.

Chief Executive Eckhard Cordes said that in view of the economic crisis, "Metro Group stood its ground well." But the company said that while it sees some signs indicating an economic recovery, there are no "clear signs for a fast economic upswing after the severe downfall," and rising unemployment in the second half of 2009 is expected to put a further burden on the retail sector.

German retail-sector statistics released Monday showed an unexpected 1.8% drop in June sales compared with May, indicating that falling prices and economic stimulus measures have failed to get consumers spending again.

Metro's sales in its German home market, which accounts for about 40% of total sales, were down 0.3% in the second quarter.

Metro will continue to focus on its expansion plans, seeking to gain an "excellent starting position for the next upturn," Mr. Cordes said. The company is still open to talks about acquiring some of the Karstadt department stores from insolvent retail and travel company **Arcandor** AG, but the ball is now in Arcandor's court, Mr. Cordes said in a conference call with analysts.

Mr. Cordes has proposed acquiring about 60 of the Karstadt stores to combine with Metro's Kaufhof chain, but Arcandor halted preliminary talks with Metro after it filed to open insolvency proceedings in June.

Metro's second-quarter results include charges of €68 million relating to the company's "Shape 2012" restructuring program. Total charges relating to the program will be about €650 million between 2009 and 2011, with most of the amount falling in the first two of these fiscal years, Metro said. The program, introduced in January, aims to improve annual earnings before interest and tax, or EBIT, by about €1.5 billion by 2012.

The company previously said the program would involve the elimination of around 15,000 positions, but Mr. Cordes said Monday the figure "may be 17,000."

—Natali Schwab contributed to this article.

MGM Mirage swings to a loss

By Kerry Grace Benn

MGM Mirage, which pulled itself back from a financial abyss in May, posted a second-quarter loss as revenue sank 20% and the debt-laden casino company took write-downs. The Las Vegas company added that while demand is still down it has seen signs of a pickup in bookings.

MGM Mirage has been struggling to remain in compliance with its debt covenants and has been considering selling off properties to meet looming obligations. In May, it said it would pay back $825.6 million in debt under its senior credit facility after a stock and bond offering. Those offerings led the company to remove a bankruptcy-concern statement from a filing in June, saying there is no longer "substantial doubt" about its ability to remain operational.

Dilution from the stock offering means the company is no longer controlled by billionaire investor Kirk Kerkorian.

As of June 30, MGM Mirage had about $4.1 billion of borrowings outstanding and its cash balance was about $411 million.

Chairman and Chief Executive Jim Murren on Monday called the quarter "monumental," citing the capital-markets deals and saying the company saw a more stabilized, though still tough, operating environment.

MGM Mirage, which has a big presence on the Las Vegas Strip, posted a loss of $212.6 million, or 60 cents a share, compared with year-earlier earnings of $113.1 million, or 40 cents a share.

Revenue declined 20% to $1.66 billion.

MGM Mirage, which has 16 casinos and 50% stakes in four others, said casino revenue fell 12%.

MillerCoors profit advances 75%

By Mike Barris

MillerCoors LLC posted a 75% surge in second-quarter profit on prior-year charges, but the company said soft sales of premium brands such as Miller Lite helped drive down profit margins.

The joint venture has finished its first year of operations and had core earnings growth by a double-digit percentage each quarter, said Chief Executive Leo Kiely. The operations are made up of the U.S. businesses of **Molson Coors Brewing** Co. and **SABMiller** PLC.

MillerCoors' profit rose to $304.9 million from $174.6 million a year earlier. The prior-year figure assumes the joint venture was already in effect. Excluding items such as integration costs, earnings rose 16% to $325.3 million. Net sales rose 1.6% to $2.14 billion despite a 1.7% volume drop.

Meanwhile, Molson Coors reported its second-quarter profit more than doubled on benefits from the joint venture and a 3% growth in Coors Light volume.

Enel, EDF to develop nuclear power in Italy

By Selina Williams and Liam Moloney

Enel SpA and **Electricité de France** SA on Monday finalized a deal valued at as much as €16 billion ($22.8 billion) to form a joint venture that will develop nuclear power stations in Italy.

The joint venture, Sviluppo Nucleare Italia Srl, will study the feasibility of building at least four reactors using **Areva** SA's advanced third-generation EPR nuclear-reactor technology, at a cost of about €4 billion for each 1,600-megawatt unit. EDF has said that economies of scale should allow it to improve the cost-effectiveness of EPRs as it builds more of them.

The deal, originally agreed to in February by Italy-based Enel and French nuclear giant EDF at a summit between Italian Prime Minister Silvio Berlusconi and French President Nicolas Sarkozy, is part of the Italian government's drive to reverse a decades-old ban on nuclear-power generation in Italy. The country banned nuclear-generating facilities in a 1987 referendum after the Chernobyl disaster in the former Soviet Union.

The move in Italy is part of a trend world-wide to build nuclear power stations as governments try to shore up energy security and take action on greenhouse-gas emissions to meet climate-change commitments. Nuclear power plants can provide low-carbon electricity for as long as 60 years.

In the best-case scenario, the amount of electricity generated from nuclear power could almost double to 619 gigawatts by 2030 from 370 gigawatts now, according to forecasts in the Organization for Economic Cooperation and Development's Nuclear Energy Outlook, published last year.

According to the International Atomic Energy Authority, 52 nuclear power stations are currently under construction, with most of these in China and other countries outside the OECD.

In Europe, fears about overdependence on Russian gas to generate electricity, tough European Union climate-change targets and the closure over the next 15 years of many aging nuclear power stations have driven countries such as the U.K. to support the construction of new plants. Sweden, meanwhile, has begun the legislative process to overturn a ban on nuclear energy and Germany is also reconsidering its nuclear phase-out.

In Spain, the government has granted an operating extension to a nuclear power plant that was originally designed to run only until 2011. This could set a precedent for four large plants.

Merck & Co. official leaves, signaling possible shake-up

By Peter Loftus

A top **Merck** & Co. executive once viewed as a candidate to become chief executive of the drug maker has retired, possibly signaling a management shake-up ahead of Merck's planned purchase of **Schering-Plough** Corp.

Margaret McGlynn announced internally last week that she would retire as president of Merck's vaccine and infectious diseases unit, effective Nov. 1.

Merck spokeswoman Amy Rose said Ms. McGlynn decided it "was a good time to pursue many personal and professional aspirations." No successor has been named.

Ms. McGlynn, 49 years old, had been head of vaccines since 2005, and had occupied other leadership roles in her 26-year Merck career. She oversaw the launch of new shots including cervical-cancer vaccine Gardasil, which helped generate sharp sales growth for the vaccines unit in 2006 and 2007.

Her star was rising in early 2007 when BusinessWeek quoted Merck Chief Executive Richard Clark as saying Ms. McGlynn was "definitely CEO material." She was believed to be one of the internal candidates to succeed Mr. Clark, who hits Merck's mandatory retirement age of 65 in 2011.

But Ms. McGlynn's tenure also was tarnished by problems in the vaccines business, including a slowdown in Gardasil sales and manufacturing snafus that limited supplies of certain vaccines.

Ms. Rose said Ms. McGlynn wasn't asked to leave; Ms. McGlynn wasn't available for an interview.

Sanford C. Bernstein analyst Tim Anderson said Ms. McGlynn's departure was unexpected.

"Our understanding is that over the coming weeks there could be a significant shake-up in the most senior ranks of the company, some of which could come as a surprise to investors," Mr. Anderson wrote in a research note. He added that while the moves may present a near-term distraction, they could enhance the long-term value of the postmerger Merck.

It is already known that Mr. Clark, the CEO, plans to continue in the top spot when the Schering-Plough deal closes, which is expected by year end. Merck has told employees that Mr. Clark expects to announce a new structure and leadership team by late August.

Mr. Clark said that from a CEO succession-planning standpoint, the addition of Schering executives "makes the senior leadership pool much stronger."

Separately, the company disclosed Monday that it expects to pay $80 million to settle litigation in which drug-benefit plans sought to recover their costs in paying for the former pain drug Vioxx.

About 190 claims by private, third-party payers are pending in New Jersey and federal courts. Merck said in a regulatory filing Monday it has reached an agreement in principle with the plaintiffs to settle the claims for $80 million.

Merck booked a charge in this amount for the second quarter.

The claims were brought by union health plans and other entities that paid for their members' Vioxx use in the years before Merck pulled it from the market because a study showed it increased the risk for heart attacks and related events.

GLOBAL BUSINESS BRIEFS

Roche Holding AG

U.S. regulators clear Avastin as kidney-cancer treatment

Roche Holding AG said it won U.S. approval to sell Avastin as a treatment for kidney cancer, a field in which it will compete against established drugs from **Pfizer** Inc., **Wyeth** and **Bayer** AG. The Basel-based drug maker won approval after showing that patients with kidney cancer lived nearly twice as long without the cancer growing when they took Avastin in combination with interferon alpha. Established kidney-cancer drugs, including Nexavar, made by Bayer and **Onyx Pharmaceuticals** Inc.; Pfizer's Sutent; and Wyeth's Torisel, have carved out a large share of the market, without the use of interferon. Avastin, which already has been approved to treat advanced breast, lung, brain and colorectal cancer, has been approved to treat kidney cancer in Europe since 2007.

Bharti Airtel Ltd.

Bharti Airtel Ltd. of India said it has extended the deadline for its exclusive merger talks with **MTN Group** Ltd. of South Africa by one month to Aug. 31. Bharti Airtel, India's largest mobile-phone operator by subscribers, and MTN in May revived talks over a $23 billion combination. Last year, merger talks failed as the two companies couldn't reach an agreement. Under the terms of the deal being discussed, MTN and its shareholders would buy 36% of Bharti Airtel, while the Indian company would take a 49% stake in MTN. A merger would create a telecommunications giant with combined annual revenue of more than $20 billion.

Linde AG

German industrial-gases and engineering company **Linde** AG on Monday reported a 38% decline in second-quarter net profit and said it now expects its full-year sales and earnings will fall below last year's. Net profit fell to €133 million ($190 million) from €215 million a year earlier, when growth in Linde's engineering and gases divisions and lower taxes after asset sales boosted the bottom line. Sales dropped 17% to €2.78 billion. Linde said sales at its gas business, the company's strongest earnings and sales contributor, declined 9.1% to €2.19 billion. "Future global economic developments are beset with uncertainty, and the crisis is not yet over," the company said. "Against this background, we will be unable to achieve in the 2009 financial year the same level of sales and earnings achieved in 2008, a record year." For 2008, Linde had posted €2.56 billion in operating profit and €12.66 billion in sales.

Panasonic Corp.

Panasonic Corp. of Japan posted a fiscal-first-quarter loss as weak sales and restructuring costs weighed on its bottom line, even as its aggressive cost-reduction measures showed signs of progress and helped it narrow its first-half-loss forecast. The Osaka-based consumer-electronics company on Monday reported a net loss of 52.98 billion yen, or about $560 million, for the April-June period, compared with a net profit of 73.03 billion yen in the first quarter of last year. Weak sales of the company's digital cameras and other products reduced revenue by about a quarter. Panasonic said cost-cutting efforts will help it regain momentum in the second quarter. The company revised down its net-loss estimate to 100 billion yen for the first half ending in September from a projection of 195 billion yen. It now expects an operating loss of 20 billion yen.

General Motors Co.

General Motors Co. said its July sales in China rose 78% from a year earlier to 144,593 vehicles, a record for the month in the company's second-largest market. China, which overtook the U.S. in January as the world's largest auto market by sales volume, is playing a key role in GM's recovery after it emerged from bankruptcy protection last month. The company's sales in China during the January-to-July period rose 43% from a year earlier to 959,035 vehicles. It sold 143,294 vehicles in China in June. Sales in China have been strong this year on the country's buoyant economy as well as government measures to boost sales of small cars, including favorable tax policies and subsidies for purchases in rural areas. GM makes vehicles in China with two joint-venture partners, **SAIC Motor** Corp. and **Wuling Automobile** Co.

Hang Seng Bank Ltd.

Hang Seng Bank Ltd. reported a 29% decline in first-half net profit and said it expects the business environment to remain challenging until next year. The bank, which is 62%-owned by **HSBC Holdings** PLC, said its net profit fell to 6.45 billion Hong Kong dollars (US$832.3 million) in the six months ended June 30 from HK$9.06 billion a year earlier, as higher trading income was outweighed by declines in net interest and fee income. Chief Executive Margaret Leung said the global financial crisis continues to pose challenges for business. Hang Seng Bank's net fee income dropped 36% from a year earlier to HK$1.93 billion. Net interest income from core lending operations fell 12% to HK$7.28 billion. The bank said its net interest income fell due to the near-zero interest-rate environment. Its net interest margin in the first half narrowed to 2.06%, down from 2.43% a year earlier.

Alibaba.com Ltd.

Alibaba.com Ltd. is considering establishing a joint venture in India to provide business-to-business e-commerce services, Chief Executive David Wei said Monday. Mr. Wei said the new Indian company will be similar to the joint venture Alibaba.com set up with Japanese mobile-phone and Internet company **Softbank** Corp. The Japanese joint venture caters to local small and midsize businesses. "The most likely partners to be involved in the Indian JV are those that we are now cooperating with," Mr. Wei said. "I also don't want to pursue a majority stake in the JV." Separately, Mr. Wei said an assistance program launched in 2007 by Alibaba.com parent Alibaba Group has helped about 1,400 small and midsize enterprises in China's Zhejiang province obtain loans in excess of 2.6 billion yuan, or about $381 million, as of June 30.

Tata Motors Ltd.

Tata Motors Ltd., India's largest auto maker by sales, said Monday total sales including exports rose 18% in July from a year earlier. The company said it sold 48,054 vehicles last month compared with 40,729 units a year earlier. Sales of Tata-branded passenger cars rose 17% to 17,191. The company said it dispatched 2,475 units of the Nano, the world's cheapest car, during the month. Commercial-vehicle sales in the local market grew 27% to 28,408 units. It said sales of medium and heavy trucks, which were up 6% at 10,658 units in July, grew for the first time in 10 months.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

American psyche bedevils health effort

U.S. public complains about cost and complexity of current system—but can't quite seem to let it go

By Gerald F. Seib

CAPITAL JOURNAL

I hate the health-care system—but don't you dare mess with it.

That's a pretty apt summary of the American mind-set about health care—and not just now, but for decades. Something about health care calls forth from the national psyche a deep, almost inexplicable schizophrenia, as the latest, delayed effort to "reform" health care is showing President Barack Obama and the rest of Washington.

Indeed, the quest to fix health care has bedeviled every president since Harry Truman. Arguably, only one—Lyndon Johnson, when he oversaw the birth of Medicare—succeeded in making a real dent. Mr. Obama and Congress have, of course, spent much of the summer agonizing over how to alter the system, but this week lawmakers will head home for an August recess without having passed anything in either the House or Senate, largely because of public anxieties.

This seems counterintuitive. People know the system is creaking, frustrating and way too expensive. They complain about it all the time. Yet they can't quite let it go.

Why? Like health care itself, the answer is complicated. But there are five big reasons:

■ The Marcus Welby factor. Americans maintain a gauzy, almost dreamy image of doctors and nurses. The image of the preternaturally soothing hometown doctor portrayed on television's "Marcus Welby, M.D." is the ideal to which Americans cling.

The clinical discussions of cost-effectiveness, reimbursement rates, insurance exchanges and "best practices" that go along with the health debate are wholly at odds with this image of tailored medical care. Even though today's cost pressures already are slowly strangling Dr. Welby, Americans fear that changes to the system that created him might hasten the process. "Health care is intensely personal," says Bill McInturff, a Republican pollster who co-directs the Wall Street Journal/NBC News poll and has long studied attitudes about health care. "It's not like welfare. It's about me."

■ The Rube Goldberg Factor. The very fact that the current system is like one of those overly complicated machines means Americans have no earthly idea how much they're paying for health care, which is even more costly than most realize. Thus, they are stunned when confronted with reform plans that lay out the costs—not just the new ones, but the existing ones. They get sticker shock.

"So much of the cost of health care is submerged, is invisible, that merely raising it to the surface creates opposition," says Paul Starr, a Princeton University sociologist who advised the Clinton administration's health-overhaul effort. "It's very hard for people to evaluate the alternatives being discussed because they don't understand how expensive it [already] is."

■ The Company-Town Factor. It's mostly an accident of history that America has a health-care system in which employers pay most of the cost of insurance. It does so in large measure because the government decided to exempt health insurance from wage and price controls during World War II. That meant companies couldn't give raises to attract workers but could offer health benefits to do so. Then Uncle Sam decided that neither employers nor employees had to pay payroll taxes on the money spent on health benefits, thereby enshrining health insurance as the leading employee benefit.

That, in turn, has fostered a view of employers as either paternalistic guardians who look after our health for mutual benefit, or as powerful overlords with an obligation to do so. Either way, there now is a deep fear of both the notion that individuals would be better off fending for themselves (the conservative impulse) or that government ought to take over the job (the liberal impulse). Those are the two starkest alternatives to the status quo, and both scare people.

■ The Post Office Factor. Americans are deeply cynical about government's ability to do anything right. Putting a man on the moon, building an interstate-highway system, fielding history's most lethal army—nothing has changed that. Even Mr. Obama makes jokes about how standing in line at the post office has convinced him he doesn't want the government running private firms.

Yet a health overhaul inevitably involves a bigger role for government. And that's where lots of Americans fall off the reform bandwagon. A survey this summer by the Gallup polling organization, which regularly tests confidence in American institutions, illustrates the problem. Some 36% expressed confidence in the medical system, ranking it in the middle of the broad range of American institutions that were tested. But a mere 17% said they have confidence in Congress, which is where any health overhaul would be created, putting lawmakers second from the bottom on Gallup's list (just a whisker above big business).

■ The Job-Machine Factor. This is a vastly underappreciated element of the national psyche. The health system isn't just something that provides medical care; it's now also the largest industry in the land. It provides more than 14 million jobs, the Bureau of Labor Statistics tells us, and seven of the 20 fastest-growing occupations are health-related. More than that, health care will generate a staggering three million new wage and salaried jobs in the next decade or so, more than any other industry.

Health firms, drug companies, hospitals and others within the current health-care system "have such a big stake in it that they can afford a whole hell of a lot of money defending that stake," says Bill Frenzel, a Republican who represented Minnesota in the House for 20 years. In short, lousy as the system may be, lots of people have a direct economic stake in it. Any wonder they don't like the idea of a leap into the unknown?

Reuters

Rosalinda Galvan checks the blood pressure of 3-year-old Donaji Cruz, who is uninsured, at a clinic in Venice, Calif., in June.

Drop in U.S. manufacturing sector continues to level off

By Sara Murray

The decline in the U.S. manufacturing sector continued to ease in July as factories boosted output, an early sign that manufacturers and the overall economy are likely to grow in the third quarter.

An increase in new orders and production—and a slight improvement in employment—propelled the Institute for Supply Management's manufacturing index to 48.9 last month, up from 44.8 in June. It's the seventh straight monthly increase, but still short of the 50 level that indicates growth in the sector.

"We're getting very near the end of the recession as far as manufacturing is concerned," said Norbert Ore, chairman of the ISM's manufacturing survey of purchase managers, on Monday. But he said U.S. gross domestic product needs to expand at a rate of more than 2% for manufacturing to grow at all.

Last week's GDP figures, showing the economy contracted at a 1% rate in the second quarter, prompted analysts to revise their third-quarter projections upward. Deutsche Bank AG raised its third-quarter GDP forecast to 2% from zero growth in response to the new data on GDP, which measures output. UBS AG's forecast rose to 2.5% from 2%, and J.P. Morgan Chase & Co. predicted a heftier 3% growth.

Some analysts viewed the report as the latest sign that the economy has turned around. "The July ISM report is the clearest indication yet that the recession ended in either May or June," RDQ Economics' John Ryding wrote in a note to clients.

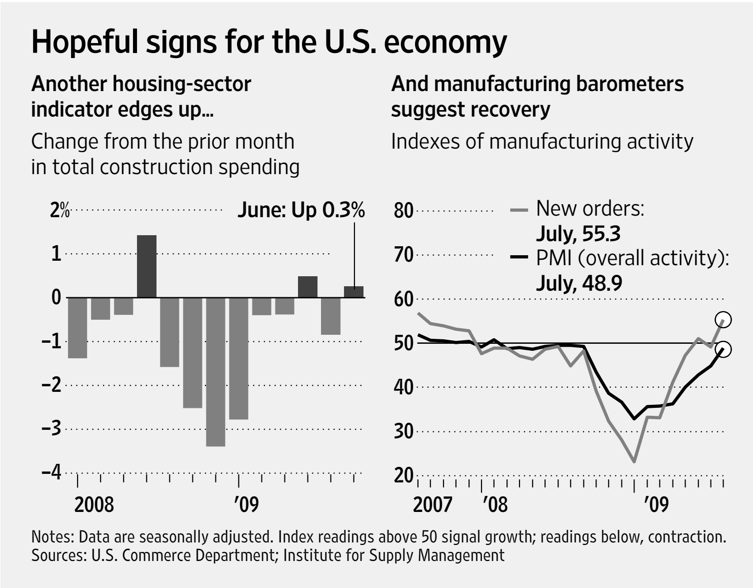
Still, the industries that tend to be leaders in recession recovery—housing and automobiles—are struggling and could continue to weigh on demand, Mr. Ore said. Although the manufacturing sector is now expected to show growth as early as the report for August, he said its members are bracing for a slow recovery.

"We're not looking at a strong GDP growth [rate] for a long period of time, which is what it really takes to replace manufacturing jobs," Mr. Ore said.

The employment component of the index rose to 45.6 from 40.7 last month, but some members cautioned that more layoffs were on the horizon. More optimistic manufacturers said they were adding temporary workers to respond to the increase in new orders, which would be the first sign of a turnaround in hiring.

An ISM subindex for new orders rose to 55.3, its highest point since July 2007, and the production gauge climbed more than five points to 57.9.

In another positive sign for third-quarter growth, construction spending improved in June, climbing 0.3% to nearly $966 billion at a seasonally adjusted annual rate, the Commerce Department said Monday. Residential spending grew 0.7%, and nonresidential, primarily boosted by spending on public projects, rose 0.1%.



Notes: Data are seasonally adjusted. Index readings above 50 signal growth; readings below, contraction.
Sources: U.S. Commerce Department; Institute for Supply Management

High-end homes in U.S. mired in the lows

They are frozen out of budding recovery; a tale of two markets

By Nick Timiraos
And James R. Hagerty

KENILWORTH, Ill.—Housing in the U.S. is fast dividing into two markets: Sales of low- and moderately priced homes are picking up and values have stopped falling in some parts of the nation. But on the upper end, sales remain mired in a deep slump and price declines are expected to accelerate.

Signs of the divide are visible across the country, including in suburban Chicago. In middle-class Schaumburg, Ill., which had a median income of $65,000 in 2007, sales rose 41% in June from the depressed level of a year earlier and bidding wars have broken out on some properties. "I can't even tell you how many I've been in over the last two months," says Joe Stacy, a local real-estate agent.

But 40 kilometers away in the affluent town of Kenilworth, with a median income of $230,000, home sales have stalled. While there are 65 homes on the market, just 13 have sold this year. "We're extremely oversupplied," says Sherry Molitor, a local real-estate agent. "Sellers are struggling to realize that we're back to 2001-02 prices."

The divide between the mass market and the high-end—generally defined as homes that cost above $750,000—partly reflects the effects of Washington's housing-rescue plan, which is producing winners and losers.

Policy makers have helped spur sales of lower-priced homes by offering first-time buyers a federal tax credit of as much as $8,000, by driving mortgage rates to near 50-year lows and by expanding the mission of the Federal Housing Administration, which will guarantee mortgages for consumers buying homes with down payments as low as 3.5%.

Sales at the lower end are also helped by the large number of foreclosed homes that banks have dumped at fire-sale prices, which has pulled down values of neighboring houses and sparked bargain hunting. Prices in both Las Vegas and Phoenix are down more than 50% from their peaks of several years ago, according to the S&P/Case-Shiller index.

Home prices tracked by that index rose 0.5% for the three-month period ending in May versus the three-month period ending in April, the first monthly gain in nearly three years. Prices have shown signs of stabilizing in recent months as the share of distressed homes, including those that sell out of foreclosure, falls from highs reached earlier this year.

Low prices have ignited a home-buying boom in some markets. In June, sales of single-family homes in the Las Vegas area were up about 70% from a year earlier.

For affluent buyers, it's a different story.

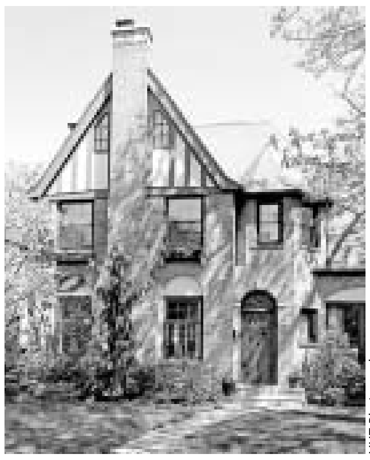
The $8,000 tax credit for first-time homeowners phases out for single buyers whose incomes exceed $75,000, or married couples earning more than $150,000. Low-interest-rate mortgages backed by the FHA and government-controlled mortgage companies Fannie Mae and Freddie Mac are only available on loans below limits set by Congress. Last year, Congress increased those limits to $417,000 in most markets, and to as high as $729,750 in certain high-cost markets, including parts of Hawaii, California, New York and Washington, D.C.

Mortgages for amounts that exceed those limits are called "jumbo" mortgages, and face higher interest rates. Last week, the average rate on a 30-year mortgage below the limits was 5.42% compared with 6.33% for jumbos, according to HSH Associates, a financial publisher.

Extremely wealthy people may not need a mortgage. But buyers who take mortgages for expensive homes generally face higher rates and tighter lending standards. Most banks that offer jumbo mortgages are generally requiring down payments of 20% to 30% or more, knocking out potential buyers who don't have much equity in their homes and have seen retirement savings fall.

While subprime mortgages sparked the first round of housing problems two years ago, now "troubles are lurking further up the food chain," says Joshua Shapiro, chief U.S. economist at MFR Inc. White-collar job losses have accelerated while more adjustable-rate loans to prime borrowers are resetting to higher payments. "You put all that together, it leads me to believe that the next leg down on home prices is going to come from the top," he says.

To be sure, the affluent housing market is substantially smaller than the mass market. Sales of existing homes priced over $750,000 accounted for 2.3% of all sales in the first quarter of this year, compared to 4.4% of the housing market in 2007, according to the National Association of Realtors.



VHT Photography

Brad Davis dropped the price of his home by $100,000 to around $1.4 million.

Still, the distress in high-end market has implications for consumer spending: the top 10% of U.S. households in terms of income accounted for 23% of consumer spending in 2007, according to government statistics. As those households watch their home equity evaporate, they are more reluctant to spend on housing upgrades or other items.

Inventory of expensive homes is rising. Overall, the inventory of unsold homes in June was enough to last 9.4 months at the current selling pace, down from 11 months a year ago, according to the NAR. But the supply of unsold homes priced above $750,000 swelled to around 17 months in June, up from a 14.5-month backlog one year ago. A recent forecast by analysts at J.P. Morgan Chase & Co. said it would take until at least 2012 for the expensive-home market to recover and that peak-to-trough declines could surpass 60%, compared to 40% for the rest of the market.

Defaults are rising, too. Among prime mortgages, jumbo mortgages are now leading delinquencies and defaults and are the fastest-rising category for defaults of all types of mortgages. The rate of 60-day delinquencies on prime-jumbo mortgages jumped to 7.4% in May, from 4.5% in November, according to First American CoreLogic. By comparison, 60-day delinquencies on prime-conforming loans reached 4.9% in May, from 3.6% in November.

A recent survey by the NAR found nearly three-quarters of real-estate agents said buyers were purchasing smaller houses due to tighter credit requirements. "We're in a 'trade-down' environment for the first time since the 1930s," says Kenneth Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley.

High-end homes are also being hurt by changing perceptions about how much home one should own. For years, people were encouraged to buy the most expensive home they could afford because there would be a payoff when it was time to sell. But buyers can't count on that any longer.

Having lost large amounts in the stock market and on real estate, "a lot of people are licking their wounds and hoarding their cash," says Sally Daley, a real-estate broker who sells luxury homes in Vero Beach, Fla. She says many customers are asking, "Do I really need this big a house?"

Even families who can come up with the hefty down payments are buying more conservatively. Gabi Marks, an attorney, and her husband Don, an engineer, recently sold their condo and bought a five-bedroom Victorian house in San Francisco to accommodate their growing family.

They paid about $1.58 million, staying below their self-imposed ceiling of $1.8 million. "We made sure we had a sufficient [financial] cushion," Ms. Marks says. They made a down payment of about 30%, partly to qualify for a lower-cost loan, and plan to pay down a big chunk of debt as soon as the sale of their condo is completed.

When the foreclosure crisis began two years ago, there were few signs the high-end market would suffer. "It's God's country," Leslie Appleton-Young, chief economist for the California Association of Realtors, told an audience of real-estate agents in 2007. "When is the 30% decline in Marin County's market going to happen? Not in my lifetime."

Home prices there have fallen by 21% from their 2006 peak, according to Zillow.com, a real-estate Web site. Ms. Appleton-Young now says there's "no doubt that the high-end housing prices have adjusted and will continue to adjust."

Few in Kenilworth ever expected the price declines that began in markets decimated by subprime loans and house-flippers would ever reach their streets, which are lined with Tudor mansions, manicured lawns and for-sale signs.

The community, which has a bowling league and a sailing club and is consistently named as one of America's wealthiest towns, was developed as a planned community 100 years ago on land purchased by Chicago retailer Joseph Sears, son of the founder of Sears, Roebuck & Co.

Today, the neighborhood is a microcosm of other high-end housing markets across the U.S., where homeowners are frozen in their homes, postponing relocations or a planned downsizing because they aren't willing to cut prices.

Those who do drop their prices risk raising the ire of the neighbors. Peter Cummins, a local real-estate agent who lives in Kenilworth, caught some flak from residents in June after chopping the asking price of a six-bedroom home to about $1.6 million from nearly $2 million. To draw attention to the cut, he produced a flier reading: "Hey Chicken Little, is that the sky falling in Kenilworth?"

Some residents are angry because policy makers in Washington specifically excluded jumbo mortgages in housing-rescue plans. "We're considered either rich people who don't deserve help or deadbeats who bought too much house," says Kelli Kobor, a 42-year-old substitute high-school teacher. "I don't see Washington prepared to deal with us."

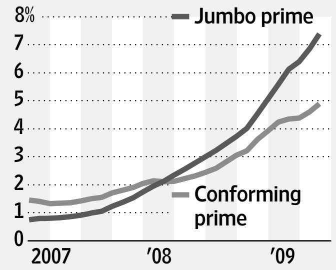
Five years ago, she and her husband bought their five-bedroom Dutch colonial in Kenilworth for $1.3 million with a 25% down payment using equity they had built up from two previous homes. Her husband lost his job in December and took a new one that pays much less, making it harder to make mortgage payments. Ms. Kobor says she missed her first mortgage payment in the spring but is now current.

In July, her mortgage servicer agreed to temporarily lower her interest rate for six months, and the unpaid balance will go into a balloon payment due when the loan is paid off.

Like many young families that move to Kenilworth, Ms. Kobor and her husband were drawn by the town's top-rated public elementary school, which is just a few steps from their home, and the tight-knit community of 800 households.

Hefty problem

Borrowers with bigger prime mortgages are falling behind on their payments by 60 days or more at a more rapid pace



Note: Jumbo loans are those too large to be purchased by Fannie Mae or Freddie Mac. Data exclude option ARMs, which allow borrowers to make minimal payments at first and face sharply higher ones later.
Source: First American CoreLogic

Local real-estate agents have told her she would be lucky to sell the house for the $960,000 that is owed on their jumbo adjustable-rate mortgage. Her lender, Thornburg Mortgage, specialized in prime jumbo loans and filed for protection from creditors under bankruptcy law in March.

Unable to sell his home in nearby Winnetka, Ill., Brad Davis, a 43-year-old attorney, has commuted to Washington, D.C., for the past year after taking a new job there.

He recently cut the asking price on his four-bedroom brick Tudor by $100,000 to around $1.4 million after it didn't draw any offers in eight months on the market. Most potential buyers have a big obstacle: They would first have to find buyers for their own homes.

"You're not sure if it's a price issue or if there just aren't any buyers," says Mr. Davis, a father of two young children. While he says he doesn't mind the long commute, "not being able to come home every night is the hard part."

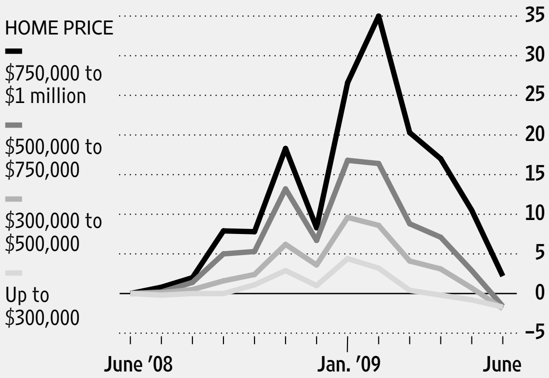
Others have pulled their million-dollar homes off the market and are offering them as rentals. Susan Forney rented her six-bedroom Georgian colonial in Northfield, Ill., for $7,500 a month after it didn't sell.

Over the past two years, she reduced the price by $1 million to $2.25 million, but her only offer came in at $1.6 million, about $100,000 less than she paid for the house in 1999.

The bigger they are, the slower they sell | Inventories of single-family homes

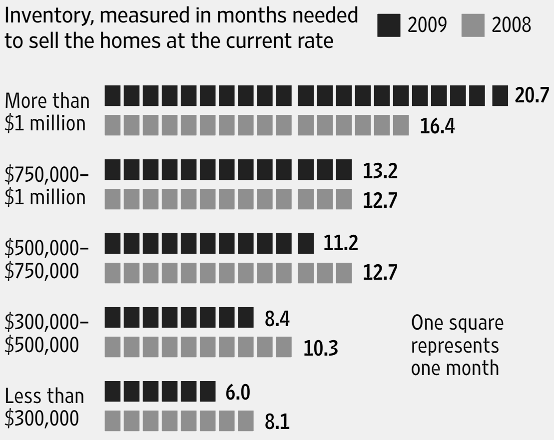
Overall, the supply of unsold homes is shrinking...

Change since June 2008 in the number of months that it would take to sell through the inventory in each price range



But the supply of higher priced homes is shrinking the most slowly

Inventory, measured in months needed to sell the homes at the current rate



Note: Supply data don't include all properties in foreclosure

Source: National Association of Realtors

Israeli official is facing pressure

Police recommend foreign minister be indicted for fraud

BY JOSHUA MITNICK

Associated Press

Foreign Minister Avigdor Lieberman, left, and Prime Minister Benjamin Netanyahu, second from right, at a cabinet meeting Sunday.

TEL AVIV—Israeli police recommended indicting Foreign Minister Avigdor Lieberman on charges of fraud, bribery, money-laundering and obstruction of justice.

The police made their recommendation Sunday, following a three-year investigation into the business and political life of Mr. Lieberman, leader of the Yisrael Beitenu party.

The party is the largest coalition partner in the government of Prime Minister Benjamin Netanyahu. In a statement, Mr. Lieberman denied any wrongdoing and accused the police of waging a political witch hunt against him during various investigations lasting more than a decade.

"As my political power and that of 'Yisrael Beitenu' have risen, the efforts to expel me from the political activity have risen," Mr. Lieberman said. "There is no basis for the recommendation of the police."

On Monday, Mr. Lieberman said that if he is charged with corruption, he will resign, the Associated Press reported.

Mr. Lieberman, 51 years old, was named foreign minister in March. For the past 10 years, he has served as a member of parliament or held top cabinet posts.

In the statement recommending indictment, the police said that over the past nine years, associates of Mr. Lieberman transferred millions of shekels through a chain of companies and front companies on his behalf. The companies and front companies were headed by associates of Mr. Lieberman to obscure his participation in the businesses, the police said.

The police didn't elaborate further on the companies, the sources of the money or the amount they claim was transferred.

The police recommendation now goes to Attorney General Menachem Mazuz, who will decide with State Prosecutor Moshe Lador whether to indict Mr. Lieberman. The decision is expected at the latest by early 2010, before Mr. Mazuz's term in office ends.

In Israeli parliamentary elections this year, Mr. Lieberman came in third, with a campaign that suggested that the Arab minority take a loyalty oath to Israel.

In April, Israeli police said they questioned Mr. Lieberman for 7½ hours, in connection with their investigation. At the time, a spokeswoman for Mr. Lieberman said he had cooperated with police.

Mr. Lieberman, who was born in Moldova, came up through the ranks of the Likud party, serving as chief of staff in Mr. Netanyahu's first term as prime minister. Mr. Lieberman struck out on his own after the 1999 elections, founding the nationalist Yisrael Beitenu party, whose name translates into "Israel our home."

As foreign minister, Mr. Lieberman has rankled some in diplomatic circles with a statements such as, "If you want peace, prepare for war." Mr. Lieberman's remarks sparked protests among some left-wing Israelis that he is hurting Israel's international ties.

Mr. Netanyahu has limited Mr. Lieberman's role on sensitive talks on Iran and in negotiations with the U.S. on demands by the Obama administration for a settlement freeze.

The foreign minister's recent trip abroad coincided with the visit to Israel of U.S. Defense Secretary Robert Gates, National Security Adviser James Jones, and Middle East Envoy George Mitchell.

Inflation slows across Asia due to lower oil prices

*By **Farida Husna** and **I Made Sentana** in Jakarta, **Piyarat Setthasiriphaiboon** in Bangkok and **Kanga Kong** in Seoul*

Several Asian economies reported slowing annual inflation in July, largely because of a high base comparison caused by last summer's oil-price surge.

Indonesia's annual inflation rate eased sharply to a nine-year low in July, fanning expectations the central bank will cut its key interest rate 0.25 percentage point to 6.5% this week to boost economic growth.

The consumer-price index rose 2.71% from a year earlier, compared with 3.65% in June, the Central Statistics Agency said, steeper than the 2.66% median forecast of 10 regional economists polled recently by Dow Jones Newswires.

Month-to-month, the index rose 0.45%, accelerating from June's 0.11% increase largely due to higher basic food prices and education costs, which in July climbed 1.1% and 1.21%, respectively. The month-to-month reading was also higher than the 0.38% forecast by the nine economists polled who responded for that category.

The agency said annual core inflation, which strips out energy and food costs, slowed to 4.91% from 5.56% in June.

Inflation has been easing in recent months as the high-base effects of the Indonesian government's fuel price increases in May 2008 wear off, giving the central bank room to trim its policy rate.

Consumer prices in Thailand fell for a seventh straight month in July, hitting their lowest level since the 1997-98 Asian economic crisis. The consumer-price index fell 4.4% from a year earlier after declining 4% in June, but was unchanged from a month earlier, a Commerce Ministry official said.

The ministry also revised its 2009 inflation target to between a 1% contraction and zero, which would also be the lowest since the aftermath of the Asian economic crisis, when prices shrank 1.1%. The ministry last month forecast this year's inflation to be in a range of zero to 0.5%.

Core inflation fell 1.2% from a year earlier, below the central bank's target range for an increase of up to 3.5%. Core CPI was unchanged month-to-month.

HSBC economist Prakriti Sofat said that although consumer prices remain negative, with manufacturing production improving and exports showing more positive signs, "inflation will flip into the positive towards the end of the year."

Economists expect the Bank of Thailand to keep its benchmark interest rate unchanged at 1.25% at its Aug. 26 meeting, and many predict it won't start raising the rate until 2010.

The central bank slashed its policy rate by 2.5 percentage points to 1.25% over four meetings from December to April. It kept rates unchanged at its last two meetings, saying the current level is supporting Thailand's economic recovery.

South Korea's annual inflation, meanwhile, sank to a nine-year low in July, mainly due to the high base effect last year and cheaper oil prices recently, the National Statistical Office said.

South Korean consumer prices rose 1.6% in July from the year-earlier month, when a spike in oil prices caused inflation to shoot up to 5.9%. July's rate was also milder than June's 2% rate.

Government stimulus drives Indian factory output

BY NEELABH CHATURVEDI

NEW DELHI—India posted robust manufacturing activity for the second straight month despite indications of continued weakness in exports, suggesting government efforts to spur the economy have helped demand at home.

The seasonally adjusted Markit India purchasing managers' index for July was unchanged at 55.3 from June, but remained well above a reading of 50, which indicates an expansion in manufacturing.

Meanwhile, merchandise exports slipped 27.7% from a year earlier in June to $12.81 billion, after falling 29.2% in the previous month, the commerce ministry said. India's exports have now fallen for the ninth successive month.

India has fared better than some other Asian nations during the global downturn because it is less dependent on exports to the U.S. and other Western nations that have been hit hard by falling real-estate prices and the credit crisis. Still, India's economic growth has slackened from its once rapid pace.

The government has loosened its pursestrings in response. Government spending in the March quarter grew 12.5%, leading GDP growth. The federal government has cut factory levies, more than doubled the foreign investment limit in corporate bonds, and committed an additional spending of 200 billion rupees (about $4.2 billion) to improve the country's creaky infrastructure.

China economy appears to regain a surer footing

BY TERENCE POON

BEIJING—Two gauges of China's manufacturing activity showed further expansion in July, as the recovery in the world's third-largest economy appears to gain a surer footing, supported by domestic demand.

Economists said the pace of China's industrial production will likely pick up in coming months because there was a low comparison base last year and companies have likely finished running down inventories.

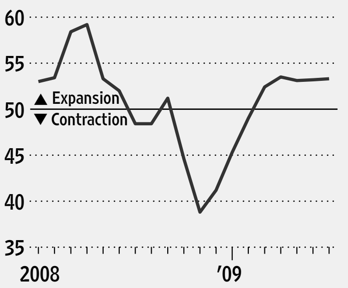
"Manufacturing activity continues to accelerate and, importantly, orders growth is being driven by the domestic economy," said CLSA Head of Economic Research Eric Fishwick.

The CLSA china purchasing managers index rose to a 12-month high of 52.8 in July from 51.8 in June, CLSA Asia-Pacific Markets said. July was the fourth consecutive month the CLSA PMI was above 50 after hovering below the key level for eight months. A reading above 50 indicates an expansion in manufacturing, while a reading below 50 indicates contraction. The data sent the Shanghai Composite Index up 1.5% at 3462.59, the highest closing level since May 23, 2008.

Some analysts said policy makers should now examine the structure of the country's economic growth.

Road to recovery

Purchasing managers' index



Source: National Bureau of Statistics of China via Thomson Reuters

"We believe China is in the early stages of what will be a very big asset-price inflation cycle, and this cycle has quite a way to run before it gets to the stage where Beijing will feel compelled to intervene in a dramatic way," said Andy Rothman, CLSA China macro strategist.

China's official PMI, issued by the China Federation of Logistics and Purchasing on Saturday, inched up to 53.3 in July, from 53.2 in June. It has now been above the expansion-contraction threshold for five months in a row.

The July purchasing managers index for Hong Kong rose to just below the threshold that separates growth from contraction, signaling the city's recession may be nearing an end, index compiler Markit Group Ltd. said Monday.

July's PMI reading was 49.9, up from 47.1 in June, the compiler said.

Markit said new orders increased in July for the first time in 13 months, mainly due to robust growth in orders from mainland China. Production rose by the highest rate in 18 months as a result of the increase in orders, it said.

The PMI is derived from indexes that measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased.

—Liu Li, Wynne Wang and Chester Yung contributed to this article.