THE WALL STREET JOURNAL.

WSJ.com

DOW JONES Newswires

EUROPE

DOW JONES A News Corporation Company

VOL. XXVI NO. 241 — MONDAY, JANUARY 12, 2009

For information or to subscribe, visit www.services.wsje.com or call +44 (0) 207 309 7799 — Albania Lk 370.00 - Austria €3 - Belgium €2.90 - Croatia HRK 22 - Czech Republic Kc 110 - Denmark Dkr 22 - Finland €3.20 - France €2.90 Germany €3 - Greece €2.90 - Hungary Ft 590 - Ireland (Rep.) €2.90 - Italy €2.90 - Lebanon L£ 4000 - Luxembourg €2.90 - Morocco Dh 24 - Netherlands €2.90 - Norway Nkr 27 - Poland Zl 10.50 - Portugal €3 - Slovakia Sk 100/€3.32 - Slovenia €2.70 Spain €2.90 - Sweden kr 27 - Switzerland SF 4.80 - Syria S£ 210 - Turkey YTL 4.25 - U.S. Military (Eur) $2 - United Kingdom £1.40

THE WALL STREET JOURNAL.

U.S. luggage maker fights for life amid debt crisis

NEWS IN DEPTH | PAGES 16-17

Is a new bear market lurking around the corner?

MONEY & INVESTING | PAGE 19

Russia stokes EU anger by keeping gas shut off

Moscow blames Kiev after pipeline deal falls into disarray

The European Union showed signs of growing anger with Moscow as efforts to restore the Continent's supply of Russian natural gas failed again—even after an agreement was signed by all parties.

Moscow said it couldn't restart gas flow because of a Ukrainian declaration Sunday that it would tap

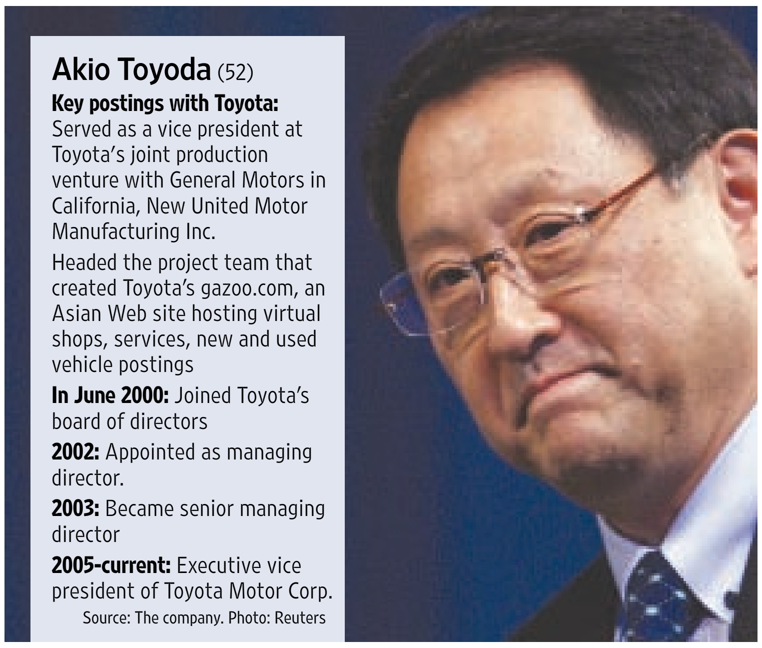
By Andrew Osborn in Moscow and Marc Champion in Brussels

Russia's EU-bound gas exports—paying for what it takes later—in order to maintain pipeline flow. Russia considers that to be theft. The declaration also blamed Russia for the gas cutoff to the EU.

Ukraine's statements were "clearly of a provocational and destructive nature," Russian President Dmitry Medvedev said Sunday night as he ordered the government not to resume gas flows, the Interfax news agency reported.

The latest failure came after two days of intense EU-led shuttle negotiations and as parts of Europe

Please turn to page 31



Akio Toyoda (52)

Key postings with Toyota:

Served as a vice president at Toyota's joint production venture with General Motors in California, New United Motor Manufacturing Inc.

Headed the project team that created Toyota's gazoo.com, an Asian Web site hosting virtual shops, services, new and used vehicle postings

In June 2000: Joined Toyota's board of directors

2002: Appointed as managing director.

2003: Became senior managing director

2005-current: Executive vice president of Toyota Motor Corp.

Source: The company. Photo: Reuters

Toyota family ties prevail in pick of new president

By Norihiko Shirouzu

Toyota Motor Corp.'s senior board members selected as its next president Akio Toyoda, grandson of the company's founder, people familiar with the matter said, putting a member of the founding family in the driver's seat for the first time since 1995.

The 52-year-old Mr. Toyoda, known internally for aggressive management, faces the huge challenge of steering Toyota as plummeting global auto sales are expected to force the company into its first annual operating loss in 70 years. He also must prove to people in and outside the company that the family is competent to run it. Some people, including insiders, have argued that a major public company like Toyota must move past family control, especially when the Toyoda family collectively owns only about a 2% stake.

While a formal decision may be weeks away, Toyota's senior board members have told Mr. Toyoda, grandson of Kiichiro Toyoda, who launched Toyota in 1937, that he has been picked to succeed the company's current president, Katsuaki Watanabe, the people familiar with the matter said.

In many Japanese companies, including Toyota, the president has the top job. Mr. Toyoda is likely to start the job officially in June, after Toyota's annual shareholders' meeting.

Mr. Toyoda was viewed as the top candidate, but there was some concern that he might lack the experience to tackle the deepening global crisis, the people familiar

Please turn to back page

What's News—

Business & Finance

Moscow refused to restore gas shipments to Europe via Ukraine despite intense EU-led negotiations and an agreement signed by all parties. Moscow blamed Kiev's declaration that it would tap Russia's EU-bound gas exports. Page 1

■ **Toyota's board selected** Akio Toyoda as president, putting a member of the founding family in the driver's seat for the first time since 1995. Page 1

■ **A Deutsche Bank star** who lost over $1 billion on trades amid the financial crisis is leaving to start a hedge fund. Page 2

■ **Citigroup took** a step toward breaking up its empire, entering talks about moving Smith Barney into a joint venture with Morgan Stanley. Page 3

■ **Industrial production** in big European economies slumped in November on weaker domestic and foreign demand. Page 10

■ **The worsening economy** in the U.S. resulted in more than 2.5 million job losses last year, the most since 1945, as unemployment rose to 7.2%. Page 9

■ **The U.K. government** and banks are weighing plans for a fund aimed at letting ailing firms unload bad debt to stave off defaults and bankruptcies. Page 19

■ **Renault said** its vehicle sales fell 29% in December and 4.2% in 2008 and urged the French government to do more to jump-start the market. Page 4

■ **Indian authorities named** three people to a new board at Satyam that aims to restore the company's credibility. Page 5

■ **Boeing is cutting** 4,500 jobs through attrition and layoffs but will maintain production rates to deliver a $275 billion backlog. Page 7

■ **Dubai will boost** spending by 11% this year from 2008 to stimulate its economy. Page 11

■ **Last week's swoon** in U.S. equities raised fear that the bear market is returning. Page 19

Markets 4 p.m. ET

MARKET	CLOSE	NET CHG	PCT CHG
DJIA	8599.18	-143.28	-1.64
Nasdaq	1571.59	-45.42	-2.81
DJ Stoxx 600	207.82	-0.95	-0.46
FTSE 100	4448.54	-56.83	-1.26
DAX	4783.89	-96.02	-1.97
CAC 40	3299.50	-24.83	-0.75
Euro	$1.3511	-0.0226	-1.65
Nymex crude	$40.83	-0.87	-2.09

Money & Investing > Page 19

World-Wide

Israeli soldiers fought with Palestinian militants on the southern outskirts of Gaza City as Israeli leaders weighed whether to order soldiers deeper into the territory's densely populated cities. The offensive against Hamas appeared to have stalled somewhat after making quick progress. Meanwhile, tens of thousands rallied in Europe against the operation. Page 2

■ **Pakistani forces killed** 40 insurgents in a battle with hundreds of Taliban fighters who crossed the border from Afghanistan into Pakistan's Mohmand tribal region. Six government soldiers were also killed. Page 12

■ **Vice President-elect Biden** promised U.S. support for Afghanistan's fight against terrorism, drugs and corruption, in a surprise visit to Kandahar.

■ **A Turkish court** formally arrested 12 more people for ties to an alleged plot to bring down the government. Page 11

■ **Five pirates drowned** when their boat capsized after they received a share of a $3 million ransom for releasing a Saudi tanker in the Gulf of Aden. Page 11

■ **A helicopter carrying** Russian officials crashed in southern Siberia, killing seven people, including Medvedev's representative in the lower house.

■ **Russian President Medvedev** issued a veiled criticism of Putin, saying the cabinet has dragged its feet in implementing a financial rescue package.

■ **Iraq's Sunni bloc failed** to agree on the nomination of a Parliament speaker candidate, and the Iraqi military said it captured an insurgent commander.

■ **About 250 people were** feared dead after a ferry capsized in a storm in Indonesia. Eighteen survivors were rescued.

■ **Candidates from Thailand's** coalition government did better than many analysts expected in parliamentary by-elections, preliminary results showed. Page 31

■ **Clashes between** Islamist militias killed at least 29 people in Somalia, the latest sign of divisions within the insurgency.

■ **West Africa's regional** economic body suspended Guinea following the Dec. 23 coup.

Editorial & Opinion

Your U.N. at work

How we've funded a war against Israel and created a new Near Eastern people. Page 15

Protectionist wave may sink global growth

By Bob Davis

A wave of protectionism is swelling around the world that could further damage struggling economies.

Industries are starting to line up in Beijing, Brussels and Washington for import protection. That has happened in past downturns, too, but

THE OUTLOOK

this time the restrictions may bite harder because of the global nature of the problems.

During the 1980s, Japan could afford not to retaliate against U.S. quotas on steel and automobiles because Tokyo's economy was humming. There are no clear economic winners now, making it much harder for any government to turn the other cheek.

The global turn to stimulus spending also may come wrapped in protection, as each country tries to ensure that its industries benefit. In the U.S., congressional Democrats and their allies in steel, textile and organized labor are pushing to include strong "Buy America" provisions in a U.S. stimulus program that would limit spending to firms in the U.S. Already European officials are crying foul.

"There is no such thing as free

Please turn to page 31

LEADING THE NEWS

Israel prepares to push into Gaza cities

Decision is awaited after fierce fighting on edge of Gaza City

By Charles Levinson

JERUSALEM—Israeli soldiers fought a fierce battle with Palestinian militants on the southern outskirts of Gaza City early Sunday morning as Israeli leaders weighed whether to order soldiers deeper into the territory's densely populated cities.

The offensive against Hamas, which controls the Gaza Strip, appears to have stalled somewhat after making quick progress in the early days of the ground invasion, which began Jan. 3, one week after Israel launched its air assault on Dec. 27.

Israel has called up thousands of reservists and put them through a training course for urban combat on an army base in southern Israel with a massive mock-up of a Palestinian city, said Capt. Elie Isaacson, an Israeli military spokesman.

"We have thousands of reservists standing by, all trained up and ready to go in if necessary," said Capt. Isaacson. "It all depends on the government decision whether or not they decide to enlarge the operation."

Reuters

Smoke rises during Israel's offensive in the northern Gaza Strip Sunday. Israel has shown no signs of bowing to international pressure to halt the offensive.

Planes dropped flyers over Gaza City on Saturday, warning Gaza's residents that Israel would be enlarging the operation in coming days.

The longer Israeli forces remain in their current positions, military analysts say, the more vulnerable they become to Palestinian militants who have time to pinpoint soldiers' locations and plot attacks.

"Israel is nearing the goals which it set itself, but more patience, determination and effort is needed," Israeli Prime Minister Ehud Olmert said before his government's weekly cabinet meeting Sunday.

When Israel initiated the offensive, it said its goals were to reduce rocket fire against Israel, weaken Hamas and end its arms-smuggling activities.

The fighting in the south Gaza neighborhood of Sheikh Ajleen in the predawn hours Sunday was some of the fiercest so far. Residents hunkered down in their homes, fearing the threatened offensive against Gaza City had begun. But the Israelis withdrew around 8 a.m. as quickly and unexpectedly as they had advanced.

At least 12 Palestinians died in the fighting, Gaza hospital officials said. Across Gaza, at least 29 Palestinians died Sunday, bringing the 16-day total to 883 Palestinian dead and more than 4,000 wounded. Thirteen Israelis have died, meanwhile, three of them civilians.

Despite a vote by the United Nations Security Council on Friday calling for an immediate cease-fire and tens of thousands of protesters marching this weekend through European capitals, Israel has shown no signs of bowing to international pressure to halt its offensive.

The U.N. resumed aid deliveries in the Gaza Strip on Sunday, two days after it halted them following an incident in which Israeli soldiers fired on U.N. workers in two separate incidents, killing one and injuring two, a spokesman said.

—Ezmi Keshawi in Gaza City contributed to this article.

Deutsche Bank star who lost big to start own fund

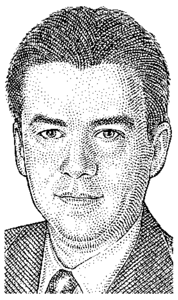
By Scott Patterson

A star credit trader at **Deutsche Bank** AG who lost more than $1 billion on complex trades amid the financial crisis is leaving the company to start his own hedge fund.

Boaz Weinstein, co-head of global credit trading with Colin Fan, will leave the German bank early in the second quarter, according to the bank. The departure was the decision of Mr. Weinstein, who will take 15 colleagues with him to start the fund, it added.

Mr. Fan will become sole head of global credit trading following Mr. Weinstein's departure.

The 2008 loss was triggered by extreme market dislocations that occurred after the bankruptcy filing of Lehman Brothers Holdings Inc. Before that, Mr. Weinstein was having a good year.



Boaz Weinstein

The loss was a setback for the 35-year-old Mr. Weinstein. He helped develop Deutsche Bank's credit-derivatives desk into an operation that generated years of solid returns. His group informally went by the name Saba, both within the bank and among rival trading groups. The word means "grandfather" in Hebrew.

After last year's market turmoil, Deutsche Bank decided to pare back its proprietary trading business. Other banks, including **Morgan Stanley** and **Credit Suisse Group** AG, made similar moves.

In late November, Deutsche Bank Chief Executive Josef Ackermann said the bank would reduce the capital available to its global market trading businesses. Separately, the bank said it would lay off 900 people, including employees in its structured-products and proprietary-trading desks.

Mr. Weinstein joined Deutsche Bank in 1998 and became an innovator in the trading of credit-default swaps, which are essentially insurance policies against the risk that a borrower defaults. Those swaps, relatively new at the time, have become among the world's most heavily traded derivatives.

Mr. Weinstein was appointed co-head of global credit trading in February 2008.

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.

INDEX TO PEOPLE

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

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

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799 Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Editeur responsable: Daniel Hertzberg M-17936-2003

CORRECTIONS & AMPLIFICATIONS

James Nixon is an economist with Société Générale in London. A page-one article Friday incorrectly said Mr. Nixon was an economist with Credit Suisse in London.

The Bank of Japan's new program to make more money available to banks at very low rates runs through April 30. An International Investor article Friday incorrectly said the program runs through April 3.

Activist investors 3G Capital Partners Ltd. and The Children's Investment Fund Management LLP acted to effect boardroom change at U.S. railroad operator CSX Corp. A Financial News article on Thursday said the investors had been The Children's Investment Fund and Atticus Captial.

LEADING THE NEWS

Citigroup moves toward a major shift in strategy

Bank may spin off Smith Barney unit; are 'synergies' real?

BY DAVID ENRICH

Citigroup Inc., under pressure from the U.S. federal government, took a big step toward breaking up the financial supermarket, entering discussions to spin off its Smith Barney brokerage unit into a joint venture with rival **Morgan Stanley**, according to people familiar with the talks.

News of the talks, which could result in an agreement as soon as this week, surfaced Friday afternoon as Robert Rubin, a senior counselor and director at Citigroup, announced his retirement from the New York company.

The former Treasury secretary brought his high profile and respectability to Citigroup, but his reputation was diminished by his role in the financial turmoil at the bank.

The future of Sir Win Bischoff, Citigroup's chairman, is uncertain. Directors have discussed replacing him, according to people familiar with the matter.

A Citigroup spokeswoman declined to comment on Sir Win.

With Mr. Rubin leaving and Smith Barney likely to be hived off, Citigroup Chief Executive Vikram Pandit, his top lieutenants and directors are weighing other possibilities that could result in a radical reshaping of one the world's largest financial-services firms.

Citigroup has also considered the sale of Grupo Financiero Banamex SA, its Mexican banking business, but that option has been shelved, according to people familiar with the situation.

Citigroup officials also are mulling the creation of a new entity that would hold loans and other troubled assets, those people said.

That would improve the appearance of Citigroup's balance sheet, and possibly make it easier to sell the bad assets.

Uniting the brokerage units of Citigroup and Morgan Stanley would represent another dramatic turn in the reshaping of Wall Street since the credit crisis erupted in 2007.

Some experts say such a joint brokerage venture eventually could become a standalone company. That would mark the return of powerful, independent brokerages, which all but disappeared over the past decade as investment banks and commercial banks snapped up those firms, seeking greater diversity.

Behind the dramatic moves at Citigroup is mounting pressure from the federal government, which has pumped at least $45 billion into the company since last September.

The capital infusion is intended to help the company ride out $20 billion in losses over the past year, and the likelihood that the misery could continue as the credit crisis drags on and the economy falls deeper into recession.

Upon being named chief executive in December 2007, Mr. Pandit said he would conduct a "dispassionate review" of Citigroup's businesses, and that no options were off the table.

But by early 2008, Mr. Pandit had started informing senior executives that he planned to keep the financial giant intact, and that his strategy revolved around improving teamwork and execution, not drastic structural changes.

Last May, Mr. Pandit unveiled his vision for the company at an investor meeting that left many observers, including top executives, feeling that he was pursuing the same approach that failed for his predecessor, Charles Prince.

Since Citigroup's shares entered a tailspin in mid-November, pressure has been mounting on Mr. Pandit to take drastic actions to stabilize the company.

In the days before the U.S. government's rescue, Citigroup executives toyed with the idea of selling or spinning off units such as Smith Barney.

But Mr. Pandit was reluctant to take such steps, which he believed should only be used if all other options had been exhausted.

At the time, Mr. Pandit explicitly denied that he would ditch the retail brokerage. "I love that business," he said on a Nov. 21 conference call with employees.

In December, government officials started pressing Mr. Pandit and his deputies to devise and articulate a new strategy to slim down the financial colossus, according to people familiar with the matter.

Within Citigroup, senior executives increasingly felt that Mr. Pandit's commitment to Citigroup's existing model was obsolete.

Some key executives recently have concluded that some of the supposed "synergies" associated with Citigroup's current structure, such as the ability to "cross-sell" financial products to customers of different units of the company, are overstated. That made a sale of a major unit increasingly attractive.

Such a change in direction would represent a partial retreat from the strategy long championed by former chairman and CEO Sanford Weill.

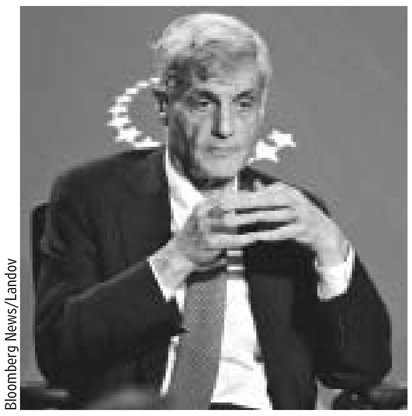
Starting with a small consumer-finance company in Baltimore, Mr. Weill gobbled up dozens of financial companies, culminating with the landmark 1998 merger of Citicorp and Travelers Group. That deal created Citigroup, which has tentacles in financial markets all over the world.

Mr. Rubin, who at the time was Treasury secretary, facilitated the Travelers deal by shepherding legislation through Congress that allowed the combination of commercial and investment banks.

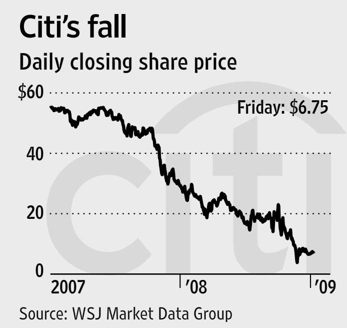
In 2002, Citigroup spun off the Travelers insurance operations.

On Jan. 22, Citigroup is likely to report a fourth-quarter loss, which Wall Street analysts are forecasting to be $4.14 billion.

In recent days, Mr. Pandit's team has started laying plans to announce the company's intention to ditch Smith Barney as a way to ease some pain associated with the fourth-quarter results.



Bloomberg News/Landov



◀ Former U.S. Treasury Secretary Robert Rubin plans to retire from the company

Mr. Pandit has been telling deputies that it is essential that Citigroup notch a profit in this year's first quarter, according to people familiar with the matter.

He believes that is the only way Citigroup can reverse a dangerous decline in morale among employees and investors.

It also would be an important step toward persuading federal officials that he has the company under control.

The recent activity appears intended, at least in part, to defuse mounting pressure on Mr. Pandit, who turns 52 years old next week. Although he inherited a giant mess when he became Citigroup's CEO, an increasingly vocal group of shareholders and Citigroup insiders contends he didn't act quickly enough to prepare Citigroup for the brewing financial trouble.

He may face criticism that he didn't act sooner, when the businesses could have fetched higher prices. Smith Barney has lost some of its luster amid defections of some top brokers and clients, as well as its head, Sallie Krawcheck, who was pushed out in September.

Citigroup executives believe that a joint venture with Morgan Stanley would have multiple benefits.

It would free up precious capital for Citigroup, while allowing the company to continue to reap a portion of the unit's earnings.

Mr. Rubin, 70, decided last month that he was ready to leave the company, according to a person familiar with the matter. That conclusion was driven by the overwhelming amount of time that his role at Citigroup was requiring, the person said. Mr. Rubin declined to comment.

Although speculation has been swirling for months about Mr. Pandit's future, the pool of potential replacements is relatively small. It is the same issue that Citigroup's board grappled with in 2007, following Mr. Prince's departure.

In some ways, the job of replacing Mr. Pandit may be even tougher, now that the government owns a significant stake in Citigroup and is keeping a tight rein on its executive compensation, expenses and other activities.

Under terms of the deal being discussed between Morgan Stanley and Citigroup, Morgan Stanley would pay a multibillion-dollar amount for a 51% stake in the joint venture, with Citigroup retaining a minority stake.

Morgan Stanley would have the opportunity to buy more of the brokerage firm in about three years, eventually getting an opportunity to own the whole thing.

A larger brokerage force would help Morgan Stanley reduce its exposure to trading and other volatile businesses.

—Matthew Karnitschnig, Aaron Lucchetti and Robin Sidel contributed to this article.

His star paler, Rubin leaves Citi

BY DAVID ENRICH

Robert Rubin arrived at **Citigroup** Inc. more than nine years ago as one of the world's savviest and most respected financial executives. After collecting $115 million in pay, he leaves with his star diminished.

The former Treasury secretary was credited with helping control two big financial crises during his time in Washington: the Mexican peso devaluation and the Asian financial meltdown. But he acknowledges that he underestimated the scale of the current financial crisis.

In his resignation letter to Citigroup Chief Executive Vikram Pandit, Mr. Rubin wrote that his "great regret is that I and so many of us who have been involved in this industry for so long did not recognize the serious possibility of the extreme circumstances that the financial system faces today."

Mr. Rubin, who most recently served as a Citigroup director and senior counselor, was also an economic adviser to Barack Obama's campaign. He wrote in his resignation letter that he wants "to intensify my engagement with public policy."

Mr. Rubin has continually emphasized that he had no operating role at Citigroup and that others—including former Fed Chairman Alan Greenspan—also missed the warning signs of the crisis.

He resigned from his senior counselor position as of Friday and said he wouldn't stand for re-election to the board at Citigroup's annual meeting this spring.

Inside and outside the bank, Mr. Rubin is blamed by some for pushing Citigroup to rev up risk-taking as the housing and derivatives bubbles expanded—a move that has saddled Citigroup with tens of billions of dollars in write-downs and necessitated a sweeping government bailout of the financial giant. Shareholders are irate that he has pocketed $115 million in pay since 1999. Citigroup's share price is down 70% since he came on board.

In an interview with the Wall Street Journal in late November, Mr. Rubin, 70 years old, defended the board's oversight of the company and his pay packages. "I bet there's not a single year where I couldn't have gone somewhere else and made more," he said. He didn't receive a bonus in the past two years.

Mr. Rubin's stature and influence meant his fortunes were inextricably linked to those of Citigroup and its management team. Last year, he was the primary advocate of naming Mr. Pandit, a newcomer to Citigroup, to be the company's CEO. While other Citigroup directors harbored doubts about Mr. Pandit's qualifications, Mr. Rubin eventually persuaded his colleagues to endorse the former Morgan Stanley executive.

Mr. Rubin was hired at Citigroup after serving as President Clinton's Treasury secretary and immediately added stature to the firm, which had been cobbled together by former CEO Sandy Weill. Some executives at Citigroup prized his thick Rolodex and his deep knowledge of Wall Street.

In his resignation letter, Mr. Rubin noted that he had planned to scale back his involvement with Citigroup six months ago, but Mr. Pandit persuaded him to stay on board. "But now, as you and your team have made the tough decisions...and established yourselves, the time has come for me to reshape the structure of my life," Mr. Rubin wrote.

CORPORATE NEWS

Traffic jam backs up Chrysler inventory

After a slide in sales, dealers aren't ordering new cars despite auto maker's requests; 'We are going to sit tight'

BY KATE LINEBAUGH

DETROIT—After a deep slide in sales in the fourth quarter, **Chrysler** LLC now faces a new obstacle in its battle to survive: Many dealers are loaded with inventory and aren't ordering new vehicles.

Take Bill Rosado, owner of a Chrysler-Dodge-Jeep dealership in Milford, Pa. He says he is resisting the company's requests to add more stock to his already-crowded lot.

"We're not ordering any cars in spite of the pressure they give us. We are going to sit tight with what we have," Mr. Rosado said. "We don't see any peak coming up where all of a sudden Chryslers are going to be desired."

Chrysler's financial troubles only add to his concerns. Four months ago, Mr. Rosado had to close a Dodge store in Wilkes-Barre, Pa., after sales slowed to an unsustainable level, and he is still waiting for payment from Chrysler for parts that he returned.

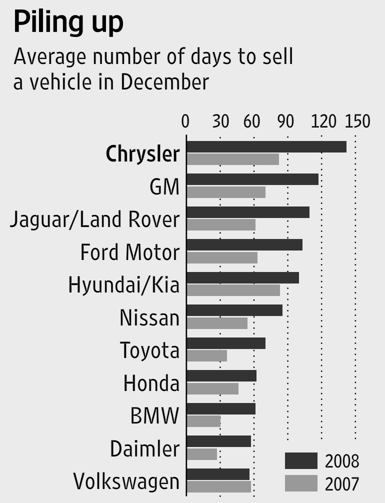
"They are so behind paying us," he said. "We're all very cash-strapped at this point. So to build up additional receivables is certainly not attractive to us."

An auto maker books sales when vehicles are shipped from its plants to its dealers, so a slowdown in orders reduces a car company's revenue.

Chrysler was nearly out of money last month before it got $4 billion in emergency loans from the U.S. government. During the next few months, the company needs to find a way to keep revenue coming in as it scrambles to slash costs. By March, Chrysler has to show the U.S. Treasury Department it is viable as an independent company, or it could be required to pay back the money or be denied further loans.

Associated Press

Unsold 2008 Compasses and Grand Cherokees sit at a Chrysler/Jeep dealership



Note: Original equipment manufacturer data includes data from all brands sold by the manufacturer in the U.S.
Source: J.D. Power and Associates

At the North American International Auto Show in Detroit, Chrysler Chief Executive Robert Nardelli acknowledged the company's cash reserves are dwindling. Chrysler ended 2008 with $2 billion in cash and its holdings will hit a low point this month, he told reporters.

He added that Chrysler is expecting to get an additional $3 billion in government loans, and said Chrysler doesn't expect a rebound in the market during the first quarter. Chrysler, a private company controlled by private-equity group **Cerberus Capital Management** LP, expects an annualized selling rate of 10.6 million vehicles in the quarter, in line with the depressed levels of the past few months.

Chrysler's situation is the most extreme example of an inventory glut plaguing all auto makers as a result of the slide in auto sales in the final quarter of 2008.

The inventory pile-up is likely to add gloom to the Detroit auto show, which opened on Sunday. Normally, the show provides a swell of enthusiasm that helps spur sales in dealer showrooms. But the mood in Detroit is downbeat after sales slowed to their lowest level in 25 years.

AutoNation Inc., the country's largest chain of car dealerships by revenue, estimates that 3.2 million vehicles are now sitting on dealer lots across the country. At the current retail sales pace, that is enough to last more than four months.

On average, vehicles that were sold in December had been on dealer lots 92 days before being purchased, up from 59 days a year earlier, according to J.D. Power & Associates. Chrysler vehicles sold in December had been on dealer lots for 142 days, the most of any manufacturer, compared with 70 last year.

The logjam of vehicles stems from the fourth-quarter slides in U.S. vehicle sales. Total U.S. sales fell 35% from a year earlier in the final three months of 2008. Chrysler's declined 46%, according to Autodata Corp.

In reaction, Chrysler has shut down all of its plants for a month until the middle of January, and won't have any revenue coming in until its plants start up and begin shipping cars and trucks.

Chrysler is "at a high-risk state," said David Cole, chairman of the Center for Automotive Research. "They will probably somehow be absorbed somewhere in the industry," he added. "Whether they are divided into pieces, it all depends on if there is a policy decision."

Other manufacturers also have put the brakes on production to address mounting inventory. **Toyota Motor** Corp. this past week said it will idle plants in Japan for 11 more days than it had previously planned in the fourth quarter. **Ford Motor** Co. is extending its year-end shutdown at 10 North American plants by an additional week. **General Motors** Corp. has idled most of its factories for much of January.

That will have a direct impact on their revenue, said Haig Stoddard, an industry analyst at IHS Global Insight. "At the end of the first quarter we may really find out who is going to make it or not," he said.

Chrysler is offering financial incentives to get dealers to stock up. In the fourth quarter, dealers could earn bonuses if they ordered extra vehicles, dealers said.

But many are balking. Greg Simpson, general manager of York Chrysler Dodge Jeep in Crawfordsville, Ind., saw his inventory double after he closed a sister Dodge dealership. He has only seven vehicles on order for January. "Hopefully they are not going to shove anything down our throat," he said.

In an interview, Michael J. Jackson, chief executive of AutoNation, said he is trimming his company's orders significantly from almost all auto makers, too. Taking on additional inventory might help the auto makers, but it is a big risk for him if sales remain slack and vehicles languish in inventory. Dealers, he said, "could get left holding the bag."

—Jeff Bennett contributed to this article.

Renault, its sales off, bemoans lack of credit

BY DAVID PEARSON

PARIS—French car maker **Renault** SA said Friday that its global vehicle sales fell 29% in December and 4.2% in 2008 from a year earlier because of dwindling demand and urged the French government to do more to jump-start the market.

"What's cruelly lacking today is the availability of credit," said Patrick Blain, Renault's executive vice president for sales, adding that Renault alone requires about €9 billion ($12.35 billion) of fresh financing annually. "We want the state to help us get access to credit," he said.

The finance arms of Renault and local rival **PSA Peugeot-Citroën** SA were each allocated €500 million in low-cost funds as a stopgap measure as part of a French government plan unveiled in December to assist France's battered automobile industry.

Another plan to give the country's car industry a boost is in the works at the request of President Nicolas Sarkozy. "A lot of things are being considered, nothing has been decided yet," a spokesman for the French finance ministry said Friday.

European car makers are struggling to overcome the deepest slump in the automobile market in half a century. Profit margins have either collapsed or disappeared entirely as companies have struggled to slash fixed costs in line with production and sales. Though all auto makers have been slashing investment and inventories, most are expected to post full-year losses for 2008 in the coming weeks.

Germany's **BMW** AG said Friday that its global sales in 2008 were down 4.3% from a year earlier, though its core BMW brand retained its crown as the world's best-selling premium brand even as sales skidded 5.8%.

Meanwhile, **General Motors** Corp. said Friday that its European sales fell 6.5% in 2008 from the previous year, trimming the auto maker's market share to 9.3% from 9.4%. In December, sales were down 14% from a year earlier.

"I consider this a success in difficult times," said GM Europe President Carl-Peter Forster. "We're encouraged with our sales performance as we are facing an unprecedented set of economic challenges due to the global economic crisis," he said.

For Renault, reducing inventories of unsold vehicles is an "absolute priority," Mr. Blain said, noting that the company has fulfilled its goal of cutting its bloated stocks to levels seen at the end of 2007 by slashing production. This effort will be continued, though there is less urgency now than a few months ago, he said.

Associated Press

Patrick Blain, Renault's executive vice president for sales, presented 2008 sales results Friday.

Mr. Blain said the company will continue to adapt output to keep pace with falling demand. The company idled its assembly plants for most of December and has launched a plan to reduce headcount by 4,000 workers. At the end of 2007, Renault had 130,179 employees world-wide.

Renault's sales in Europe, by far the most important region for the company in terms of volumes and profit, fell 7.2% last year in a market that contracted 8.1%, allowing the company to increase its market share to 9% from 8.8%. Outside Europe, Renault's sales rose 1.5%. It maintained its world-wide market share at 3.6%.

Shares in Renault were up 6.6%, while the Paris benchmark CAC40 index was up 0.8%. The company's share price has dropped 74% over the past 12 months.

Mr. Blain said Renault has also frozen its planned production of vehicles at a joint venture being set up at Chennai, India, with alliance partner **Nissan Motor** Co. The €780 million project called for two production lines assembling entry-level and sport-utility vehicles for the two companies. Renault will fulfill its share of the infrastructure investment, he said, but for now the plant will make only Nissan-branded cars.

—Christoph Rauwald in Frankfurt and Nathalie Boschat and A.H. Mooradian in Paris contributed to this article.

Honda in U.S. looks to reduce dealer stockpiles

BY KATE LINEBAUGH

DETROIT—**Honda Motor** Co. aims to reduce its U.S. inventory by about a third over the next three months to better align with sales, after seeing its stockpile of cars and trucks swell in the last quarter.

Honda has 100 days of supply of cars and trucks. But Richard Colliver, executive vice president of sales at American Honda Motor Co., said at the North American International Auto Show that his target is 65 to 70 days' inventory.

Honda, like all manufacturers, has slashed production, cutting U.S. output about 200,000 units to 1.2 million vehicles for its fiscal year ending March 31. Last year, Honda's vehicle sales slumped 7.9% from the year before. But last quarter, Honda sales fell 30%, leading to large stockpiles.

The company doesn't expect it will need further production cuts, though that will be assessed continually, Mr. Colliver said. In the next few weeks, the company will broadcast advertisements marketing its lease business, in hopes of boosting sluggish sales, he said.

CORPORATE NEWS

Investigators to look at Maytas companies

Raju family holdings have gained in boom of Hyderabad market

BY ERIC BELLMAN

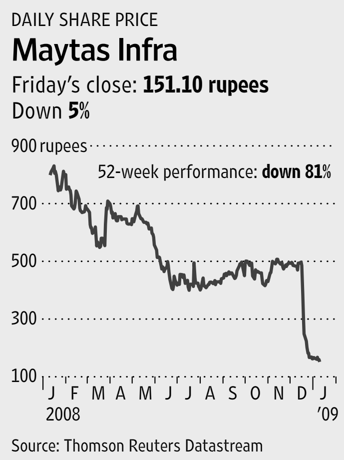
HYDERABAD, India—The investigation of fraud at India's **Satyam Computer Systems** Ltd. is spreading to the property and infrastructure companies connected to Satyam's disgraced former chairman B. Ramalinga Raju, a development that highlights the family's extensive property and other ventures in this southern Indian city.

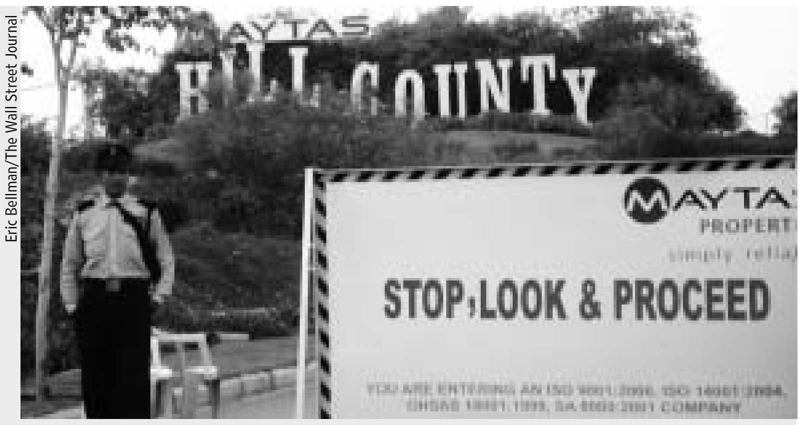
As investigators try to figure out the full extent of the fraud that Mr. Raju confessed to last week, authorities are looking at **Maytas Properties** Ltd. and **Maytas Infra** Ltd., among other companies, according to an Indian government official in New Delhi. The two companies are controlled by the Raju family.

Investigators said it is too early to tell if there is any fraud related to the Maytas companies. A Maytas Properties spokesman said the company wasn't connected to Satyam's problems. A spokesman for Maytas Infra said "We are confident that we will be found to have sound and honest business practices."

Mr. Raju resigned and was arrested last week after admitting he exaggerated the company's financial health and created a fictitious cash balance of more than $1 billion. He and his brother, Satyam's former managing director, have been arrested on charges including cheating and forgery and are in jail. A lawyer for Mr. Raju couldn't be reached for comment Sunday.

The company's chief financial officer, Srinivas Vadlamani, was arrested late Saturday night. Efforts to reach him were unsuccessful.





The under construction, gated community of Maytas Hill County is one of the first projects of Maytas Properties in Hyderabad

A former Satyam director said that in recent years Mr. Raju had watched as some Indian property companies soared in stock-market value because of their land holdings. He saw them "becoming bigger than Satyam and all they had was a land bank," the director said. "He thought that the information-technology business was running out of steam so he wanted to become big in infrastructure" and property.

Satyam, founded in 1987, is one of India's largest technology-outsourcing companies. But the industry's profit growth has slowed in recent years as employee salaries rose and the global economic slump hit key clients. Indian property prices, in contrast, have been on a tear. Hyderabad, the big southern Indian city where Satyam and the Raju family are based, has been one of the frothiest national markets. Mr. Raju himself has extensive property holdings in the city, according to another person who knows him.

Maytas Properties is run by Mr. Raju's son B. Rama Raju. Though the company is only four years old, it has quickly become one of Hyderabad's largest real-estate players. It isn't listed but was valued by Satyam last month at $1.3 billion.

Hyderabad, as with other of India's biggest cities, experienced an explosion in property prices in the last four years as companies expanded their offices and developers built thousands of new malls and apartment blocks to profit from the surge in spending by India's increasingly affluent middle class.

Maytas Properties' flagship project is Maytas Hill County, a sprawling gated community on the rocky outskirts of Hyderabad, 10 minutes' drive from High Tech City, the home of many of Hyderabad's technology businesses, including Satyam. The yet-to-be finished development will have office, shopping and residential space as well as tennis courts, a pool and a yoga hall. **Wells Fargo** & Co., the U.S. bank, is one of the first tenants.

"Property prices over the last three years have been mind boggling," and the Raju family, like many others, were profiting from the rise, said Vishnu Raju, chairman of Exciga Corp., a Hyderabad-based investment firm. "Maytas [Properties] was building using top class architects and quality. It was something that Hyderabad hadn't seen before.

Growth started to slow last year, though, as rising interest rates made it tougher for consumers to borrow just as falling earnings at software companies weighed on company expansions. Prices and rents in Hyderabad flattened and then fell last year, in some cases by as much as 30%, local property brokers say.

Another of Mr. Raju's sons, B. Teja Raju, is vice chairman of Maytas Infra.

The company is more than 20 years old but started to expand rapidly in the last five years. It has a portfolio of more than $2 billion in government construction projects, such as ports, airports, roads and railways. The company listed last year on the Bombay Stock Exchange. The Raju family owns a 36% stake.

Both of the Maytas companies—Maytas is Satyam spelled backward—were the subject of controversy last month when Mr. Raju persuaded Satyam's board to purchase them for a total of $1.6 billion. The decision was reversed after an uproar from Satyam shareholders. Mr. Raju said in his confession last week that the purchases were designed to fill the hole he had created in Satyam's books over several years.

"The aborted Maytas acquisition deal was the last attempt to fill fictitious assets with real ones," Mr. Raju said in his confession letter.

Maytas Infra shares have plunged more than 60% in the past month and closed Friday at 151.10 rupees ($3.14), down 5%.

In his confession letter, Mr. Raju said neither he nor his brother profited from the scheme and that other family members weren't aware of his actions.

In response to the Satyam scandal, the state of Andhra Pradesh is now reconsidering the projects it has planned with Maytas Infra, including a $325 million port and a $2 billion power plant as well as the Hyderabad railway, according to local news reports. If the scandal affects government orders or financing, Maytas Infra could be in trouble, analysts said. A company spokesman said the company had heard the state government is reconsidering projects but it remains unclear what the result will be. "We are well poised to take on and complete the projects that we have been awarded," said the Maytas Infra spokesman.

India names new Satyam board in bid to restore credibility

BY MUKESH JAGOTA AND ROMIT GUHA

NEW DELHI—Indian authorities, continuing a series of unprecedented moves to contain fallout from the fraud at **Satyam Computer Services** Ltd., on Sunday named three people to a new board that will aim to restore the technology company's credibility.

At a news conference Sunday, Indian Corporate Affairs Minister P.C. Gupta said the new board plans to meet Monday. The federal government's appointees are Deepak Parekh, chairman of Housing Development Finance Corporation; Kiran Karnik, former president of the National Association of Software and Service Companies, an industry group known as Nasscom; and C. Achutan, a former member of the Securities and Exchange Board of India.

The creation of a new board—whose three initial appointees will decide on a chairman and name more members—comes after Satyam's founder, B. Ramalinga Raju, and his brother, co-founder B. Rama Raju, were arrested Friday and taken into judicial custody until Jan. 23.

Late Saturday, chief financial officer Srinivas Vadlamani was arrested and will also be kept in judicial custody until Jan. 23, V.S.K. Kaumudi, inspector general of police for the economic offenses wing of the criminal investigation department, said Sunday. The inspector general said a petition for the police custody is set for hearing Monday.

The three men face charges of criminal conspiracy, cheating and falsification of records. Efforts to contact them or their lawyers weren't successful.

The government's moves to fire the existing Satyam board, which had been scheduled to meet Saturday, and then appoint a new board were unprecedented.

In a statement, Satyam welcomed Sunday's appointments, saying they will ensure continuity of company operations. Satyam "has complete confidence in them, and pledges to work closely and in full cooperation with the new board," it said.

B. Ramalinga Raju

Mr. Gupta, the corporate affairs minister, said the new board's first priority "will be to restore the company's credibility, customer confidence and employees' morale and to safeguard the interest of investors and other stakeholders."

Mr. Parekh said on Sunday the appointees were planning to meet with the Registrar Of Companies, which has access to company records in Hyderabad, where Satyam is based.

"We will assess the situation when we meet tomorrow. I haven't seen a Satyam balance sheet in my life," he said, declining to comment on the agenda of Monday's meeting.

Ramalinga Raju resigned as Satyam chairman Wednesday after he admitted overstating profits and creating a fictitious cash balance of more than $1 billion over several years by inflating the debt owed to the company and understating liabilities. The news sent shock waves across corporate India and put a question mark on the survival of Satyam, India's fourth-largest technology company by revenue.

When the corporate affairs minister was asked whether representatives of financial institutions with stakes in Satyam may be given a seat on its board, he replied: "All options are open."

On Saturday, the Indian Ministry of Corporate Affairs said it received a letter from Lazard Ltd. seeking representation on the new board.

But in a statement Sunday, Lazard Asset Management LLC, a financial and asset management arm of Lazard Ltd., said that reports saying it is seeking a seat are "incorrect."

Lazard has a 7.4% stake in Satyam. Lazard spokeswoman Judi Mackey said her firm had only communicated to the Securities and Exchange Board of India, the country's chief markets regulator, and the Ministry of Corporate Affairs, a request "to be informed on all matters being considered regarding Satyam."

Satyam's survival as a going concern will depend almost entirely on its ability to retain customers, even as it attempts damage control after admission of a massive fraud perpetrated by its top executive.

Keeping its business intact will be Satyam's focus in coming months. The company's clients include several Fortune 500 companies, such as **General Electric** Co., **General Motors** Corp. and **Nissan Motor** Co. None have said they have pulled any business from Satyam.

When asked whether his company had talks with some existing Satyam clients on a possible change of vendor, **Wipro** Ltd. Chief Financial Officer Suresh Senapaty said: "I can't say no."

On Friday, India's stock market continued to suffer from the aftereffects of Satyam's fall. After a market holiday Thursday, Satyam's shares—which lost more than 75% on Wednesday—fell another 40% to 23.85 rupees (49 U.S. cents); the benchmark Sensex index on the Bombay Stock Exchange fell 1.9% to 9406.47.

The Securities and Exchange Board of India said Friday it will review auditors' working papers relating to companies in the Sensex and the National Stock Exchange Nifty 50-share index in a bid to boost investor confidence in financial disclosures.

"It is possible for people to think, or imagine, that there is a problem everywhere so we need to assure investors that Satyam is a one-off phenomenon and we don't have problems everywhere, that accounting is not lax in all companies," said C.B. Bhave, SEBI's chairman. He said recent results for big companies would be subject to peer review by another auditor; other company results will be subject to peer review by accounting firms on a random basis.

When the government sacked the existing Satyam board, it had far fewer members than usual. Four independent directors resigned last month and co-founders Mr. Raju and his brother quit last week, leaving three members of the original nine.

One remaining director was Rammohan Rao Mynampati, a senior Satyam executive who took over as interim chief executive after Mr. Raju's admission of fraud. Mr. Raju has said that, apart from his brother and him, no board member past or present was aware of his scheme.

Mr. Mynampati said at a press conference Thursday that Satyam's cash position was dire and that it needed new funds. There are no indications the government will provide money but that might change with a government-appointed board in place. Satyam has 53,000 employees.

—Eric Bellman and John Satish Kumar contributed to this article.

FOCUS ON ENERGY

Low prices snag oil sector

Chevron stumbles; Schlumberger to cut North America jobs

By Russell Gold And Ben Casselman

Sharply lower energy prices are rippling through the oil industry, with **Chevron** Corp. warning of a decline in profit and oil-field services giant **Schlumberger** Ltd. laying off workers around the world.

Chevron said its earnings for the fourth quarter would be "significantly lower" than the previous period. The San Ramon, Calif., company said on Jan. 8 it will take "well above" $300 million in after-tax charges for the quarter and forecast a $625 million gain on an "asset-exchange transaction" but didn't provide further details.

Schlumberger, meanwhile, said it plans to lay off about 1,000 workers in North America, or about 5% of its work force in the region. The company also is cutting some of its 65,000 overseas workers but said it doesn't yet have exact figures. **Halliburton** Corp., Schlumberger's largest rival, also said Thursday that it will cut jobs but provided no details.

Chevron's warning notwithstanding, the company still is expected to report sizable earnings. Chevron, the second-largest U.S.-based oil company by market value, behind **Exxon Mobil** Corp., reported a $7.9 billion profit in the third quarter, a period in which oil prices reached a record close of $145.29 a barrel.

But since then, a severe slowdown in the global economy sapped demand for fossil fuels, causing oil and gas prices to plummet. Chevron said it sold crude in the U.S. for an average of $112.22 a barrel in the third quarter, but only $61.70 a barrel in October and November. December prices were even lower.

The company also said worldwide margins in its refineries, where crude oil is turned into gasoline, diesel and other fuels, "declined significantly."

Wall Street analysts have expressed concern, not only that decreased oil prices will hurt oil-industry earnings, but that companies also will be forced to write off the value of investments that have become unprofitable.

"History says we are in for some negative surprises," Deutsche Bank energy analyst Paul Sankey said in a recent note. He highlighted **ConocoPhillips**'s 20% stake in Russian oil firm OAO **Lukoil** as a potential write-down. Conoco declined to comment.

Schlumberger's layoffs, meanwhile, could portend a wave of job cuts in the energy industry, especially in oil services. The company, the world's largest oil-field services firm by market capitalization, said its cuts are in response to a global slowdown in oil and gas drilling amid slumping energy prices.

"It's the result of reduced levels of activity," Schlumberger spokesman Stephen Harris said. The cuts, which began Wednesday, affect contractors, field workers and support positions at the company's Houston headquarters.

Stephen Gengaro, an analyst with Jefferies & Co. in Houston, said Schlumberger's cuts are a sign that the oil-services industry now anticipates a longer slump. "You try not to cut staff until you're sure this is either a deeper decline or a longer decline than you'd previously expected," he said.

Falling oil prices have cut deeply into revenue for big oil companies, such as Exxon and Chevron, as well as smaller producers such as **Apache** Corp. and **Devon Energy** Corp. Oil producers so far have avoided large-scale layoffs but analysts said that could change if oil prices remain low.

Services firms—a broad category that includes companies that drill wells, provide equipment and shoot the seismic images that show where to look for oil—aren't directly affected by falling oil prices because they don't actually produce or sell oil.

But as the downturn has deepened, producers have slashed spending and drilled fewer wells, meaning less business for services firms like Schlumberger, Halliburton and **Weatherford International** Ltd. Weatherford couldn't be reached.

The fall in drilling activity has been especially sharp in the U.S., where the number of rigs operating has tumbled 20% since a September peak, according to a report by oil-field services company **Baker Hughes International** Inc.

Wells in the U.S. tend to be smaller and faster to drill than in other countries, making it easier for companies to start and stop projects quickly in response to changes in commodities prices.

In recent months, however, the slowdown has spread globally, where Schlumberger does about 75% of its business. The rig count outside of North America has dropped 3% since September, according to Baker Hughes.

The decline in drilling has been predicted for months, as oil prices plummeted from more than $145 a barrel in July. Crude oil settled at $40.83 Friday.

Services companies, wary of being short on workers if prices rebounded quickly, have until now been hesitant to cut staff.

"The tough part had been finding enough skilled labor, so making the decision to reverse course and lay folks off is a tough one," said Byron Pope, an analyst with energy-focused investment bank Tudor Pickering Holt & Co. in Houston.

Exxon chief calls for tax on greenhouse emissions

By Russell Gold And Ian Talley

The chief executive of **Exxon Mobil** Corp. for the first time called on the U.S. Congress to enact a tax on greenhouse-gas emissions in order to fight global warming.

In a speech in Washington, Rex Tillerson said that a tax was a "more direct, a more transparent and a more effective approach" to curtailing greenhouse gases than other plans popular in Congress and with the incoming Obama administration.


Rex Tillerson

"My greatest concern is that policy makers will attempt to mandate or ordain solutions that are doomed to fail," Mr. Tillerson said.

The policy he is advocating is often called a carbon tax because it would be imposed on emissions of carbon dioxide, the most common man-made greenhouse gas. By backing it, Mr. Tillerson has become an unlikely member of a club that includes former Vice President Al Gore, consumer advocate Ralph Nader and President-elect Barack Obama's designated head of the National Economic Council, Larry Summers.

Carbon taxes have been politically unpopular. "Calling for a carbon tax could be a ploy because few observers believe such a tax is politically feasible in our Congress," says Daniel J. Weiss, a fellow at the Center for American Progress, a left-of-center think tank in Washington.

The leadership of the Democratic-led Congress and other major oil companies prefer using a cap-and-trade approach. Under this system, the government would establish economy-wide emission limits as well as limits for individual companies. There would be a market for firms to buy and sell pollution allowances based on whether they were above or below their caps.

ConocoPhillips and the U.S. divisions of **BP** PLC and **Royal Dutch Shell** PLC have supported a cap-and-trade solution.

Mr. Tillerson said a cap-and-trade system would be costly, bureaucratic and create a "Wall Street of emissions brokers."

The speech signals an evolution in the thinking of Mr. Tillerson, who became chief executive and chairman of Texas-based Exxon, the world's largest Western oil company, in 2006. He took over from Lee R. Raymond, on whose watch Exxon funded research that questioned whether human activity was contributing to global warming.

Mr. Tillerson calls the issue complex and challenging, but—in contrast to Exxon's previous party line—he doesn't question whether fossil fuel use has contributed to rising global temperatures.

In 2007, when he gave his last big speech on climate change, he said he didn't support any particular policy for curbing carbon-dioxide emissions.

Observers say Mr. Tillerson's endorsement of a carbon tax could have widespread ramifications. "When the biggest company in the world says this is OK, that is giving permission for a whole lot of people who have resisted carbon policy on the grounds it is bad for business to soften their resistance," says Michael Webber, associate director of the University of Texas Center for International Energy and Environmental Policy.

—Stephen Power contributed to this article.

Yahoo nears finish line in search for new CEO

Autodesk's Bartz remains 'on the list'; outsiders have edge

BY JESSICA E. VASCELLARO AND JOANN S. LUBLIN

Yahoo Inc. is in the final stretch of its search for a chief executive, and a decision could come as soon as this week, said people close to the Internet company.

Among candidates still under consideration is Carol Bartz, the former CEO of **Autodesk** Inc., a publicly traded company that builds design software used in engineering. She's "on the list," said a person familiar with the matter, adding that she has impressed the Yahoo directors she has met so far.

Carol Bartz

A Yahoo spokesman declined to comment. An Autodesk spokeswoman said Ms. Bartz was traveling Thursday and couldn't be reached for comment. Her candidacy was first reported by the Web site AllThingsD.com, which is owned by Dow Jones & Co., publisher of The Wall Street Journal.

Whether Ms. Bartz is a backup candidate or a front-runner remains unclear. People familiar with the matter said the board is leaning toward an external pick at this phase, as it winds down a search it formally announced on Nov. 17. Former Vodafone Group PLC Chief Executive Arun Sarin, whom the Yahoo board had been seriously considering, has withdrawn his name, according to people familiar with the matter. Mr. Sarin didn't return requests for comment.

The board has yet to make an offer and is unlikely to before this week, said people close to the company. At the latest, Yahoo is hoping to announce a new leader before it reports fourth-quarter earnings at the end of the month, they said. Once Yahoo board members agree on a candidate, the company also will have to negotiate an employment agreement. That sometimes takes a few weeks.

Choosing Ms. Bartz, 60 years old, would indicate that Yahoo is looking for a steady hand who has run a public company over someone with Internet and online advertising experience. If the board heads in that direction, the company could also seek to hire another senior executive with more extensive consumer-product experience, which analysts and investors argue Yahoo needs to better compete with **Google** Inc. and other rivals.

Ms. Bartz still serves as executive chairman of Autodesk, of San Rafael, Calif., which she ran as chief executive from 1992 to 2006. Autodesk is around half the size of Yahoo, with approximately 7,000 employees world-wide. In its fiscal year ended January 31, 2008, Autodesk reported $2.2 billion in revenue. Yahoo's revenue in its fiscal year ending December 2007 was $6.97 billion.

Ms. Bartz was also an executive at Sun Microsystems Inc. and she sits on the board of Cisco Systems Inc., with Yahoo's Chief Executive and co-founder Jerry Yang. She is also a member of the Intel Corp. board with Yahoo President Susan Decker.

J&J adds university drug alliance

BY SHIRLEY S. WANG

In an unusually extensive collaboration between an academic institution and a drug maker, Vanderbilt University will partner with **Johnson & Johnson** to develop new drugs to treat schizophrenia.

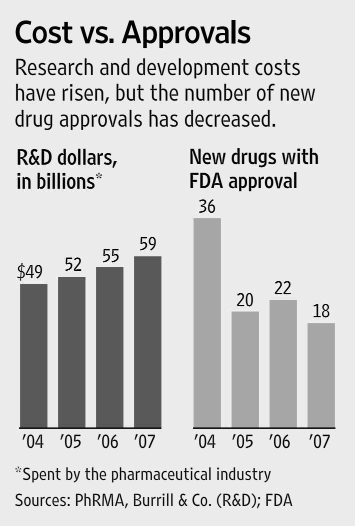
The Tennessee university will receive about $10 million from J&J over the next three years, plus as much as $100 million in additional payments if it meets certain research milestones. The deal was announced Friday.

Universities have worked on research projects with pharmaceutical companies for years. A typical setup involves a drug maker funding a university's basic scientific research in exchange for first rights to buy any commercially promising compounds that result.

Companies have also bought or licensed compounds from academics even if they didn't fund the initial research, as was the case with Remicade, now a blockbuster J&J biologic treatment for rheumatoid arthritis whose initial discovery was made by scientists at Imperial College London.

But researchers unconnected with the project said the Vanderbilt-J&J partnership appears to be more extensive than historical university-industry collaborations.

Under the agreement, Vanderbilt's researchers won't just identify promising molecules. Instead, they will develop drugs to the stage where they are ready for human testing, working, for example, to make a prospective medicine less toxic.



This process, known as drug optimization, is usually performed by the biotechnology or pharmaceutical companies themselves.

Jeffrey Conn, a pharmacology professor who heads Vanderbilt's drug-discovery program and will lead the J&J-funded research effort, said he and his colleagues have identified hundreds of molecules that show promise of developing into a new class of drugs for treating schizophrenia, a serious mental illness in which individuals suffer from detachment from reality and other severe symptoms.

The partnership, which represents a small outlay for J&J, comes amid growing interest among drug companies and some universities in working together more closely. The pharmaceutical industry is being battered by generic competition as it struggles to develop new drugs, while academic researchers have been competing for stagnant U.S. research funding.

But the J&J-Vanderbilt partnership also conincides with worries that universities are becoming too motivated by money. Dr. Conn said he is mindful of the potential for conflicts of interest. He pledged to publish his scientific findings whether or not they benefit J&J.

Academia and the drug industry can both benefit from working together, proponents say. As Big Pharma struggles to refill its product pipeline and biotech companies face financing challenges, fostering more extensive collaboration with universities may be a more efficient way for drug makers to usher new medicines to market.

For their part, academic institutions want more of their research to have a real public-health benefit.

A government-funded, so-called molecule library established in 2004 has allowed academic researchers to comb through thousands of potential compounds to discover research leads, says Thomas Insel, director of the federal National Institute of Mental Health.

Increasingly, universities are considering, or have already established, centers specifically geared toward drug development. Vanderbilt's Dr. Conn left **Merck** & Co. to head Vanderbilt's Center for Drug Discovery five years ago. He now has a staff of about 30 chemists and biologists, many of them hired from industry.

Boeing to drop 4,500 jobs but keep production on pace

BY ANN KEETON

Boeing Co. on Friday said it will reduce its commercial-aircraft work force by about 4,500 employees but will maintain production rates to deliver a $275 billion backlog.

The cuts will reduce the division's employees by 6.6% to 63,500 by the end of the year, level with employment at the start of 2008. The reduction will involve a mix of attrition and layoffs focused in the second quarter.

Boeing and rival Airbus have bulging order books after a three-year boom from 2005 to 2007, though Boeing said this past week that new contracts fell 53% in 2008.

Boeing executives indicated last year that employment was likely to shrink, suggesting in an internal memo that reductions would go beyond its traditional attrition rate of 4% to 5%. The company said Friday that many of its job losses will be in areas not directly associated with aircraft production.

"This will enable us to continue our high production rates and successfully execute our key development programs," Scott Carson, president and chief executive of Boeing Commercial Airplanes, said in a message to employees.

The company's costs have been inflated amid problems with new aircraft programs, notably the 787 Dreamliner, which is two years behind schedule.

Airbus, a unit of Franco-German aerospace group **European Aeronautic Defence & Space** Co., is in the midst of its Power8 restructuring program, which aims to cut costs by €2.1 billion ($2.8 billion) a year by 2010 and will shed 10,000 jobs concentrated in overhead and administrative staff.

Chicago-based Boeing said it had been prudent in hiring in recent years to avoid a "boom and bust" cycle, according to spokesman Tim Healy.

In the most recent airline-industry downturn, after the Sept. 11, 2001, terrorist attacks, Boeing was forced to fire half of its commercial-airplane workers.

Around the globe, Boeing's commercial-airline customers are facing a decline in passenger traffic and tough lending conditions that make it more difficult to buy or lease aircraft.

Attrition and reduced contract labor will account for some of the lost jobs, but layoffs will also be necessary. Mr. Healy said layoffs, mostly in Washington state, will begin in April.

—Kerry E. Grace contributed to this article.

Glaxo to cut U.S. TV advertising

BY JEANNE WHALEN

Drug giant **GlaxoSmithKline** PLC is cutting back on its U.S. television advertising as it tries to spend its money more wisely and avoid some of the criticism aimed at heavy drug advertising, Chief Executive Andrew Witty said.

Glaxo is the world's second-biggest drug maker by sales and one of the biggest advertisers in an industry that spent more than $5.2 billion on U.S. consumer ads in 2007. Television advertising has been an especially important marketing weapon for pharmaceutical companies in promoting drug brands, even as it attracts criticism for sometimes exaggerating the benefits and soft-pedaling the risks of drugs.

Bloomberg News/Landov

Glaxo CEO Andrew Witty said some drug ads alienated viewers.

In an interview, Glaxo's Mr. Witty declined to say how much the company would pull back. He said he believes consumer advertising still helps the public in many cases.

"I do, however, think there is too much," he said. He added: "This year, you will see us do less on TV than you have in the past."

Glaxo's pledge comes as the drug industry makes a public-relations push aimed at blunting its worst critics before Democrats take control of the White House and Congress. Hoping to head off some Democrats' desire to more closely regulate drug advertising, the industry's main lobbying group recently announced new marketing restrictions for its members. Some companies, including Glaxo and **Eli Lilly** & Co., have also promised to start disclosing the fees they pay doctors for consulting services or for giving speeches to other doctors about drugs.

Glaxo spent $279.1 million on consumer advertising in the U.S. in the first half of 2008, ranking it second behind **Pfizer** Inc., which spent $462.5 million, according to The Nielsen Co. Glaxo's spending was 23% lower than in the first half of 2007, largely because it halted advertising of the diabetes drug Avandia. Mr. Witty said he wasn't sure how much Glaxo spent in total in 2008 but that it was "probably less" than in 2007. A Glaxo spokeswoman said the company doesn't disclose its advertising spending.

Television advertising for prescription drugs is banned in most countries, save the U.S. and New Zealand. Mr. Witty said some of the industry's ad spending is a waste of money. Some of it also offends consumers and irritates doctors, he said.

Glaxo, like most drug companies, is attempting to tighten its belt and cut costs to cope with a worsening pharmaceutical market and the global economic downturn.

Glaxo will continue to advertise where "appropriate," he said, such as promoting drugs for sexually transmitted diseases. Such ads have reminded patients and doctors to talk about STDs, an embarrassing topic that often goes undiscussed, he said. Executives from other drug companies, including Roche Holding AG and Schering-Plough Corp., have either criticized drug advertising recently or promised to cut back on it. Many in the industry acknowledge that ads have contributed to a public backlash against the industry, and undermined its argument that it needs high drug prices to pay for research into new treatments.

Marketplace

Pushing buttons

Ford is working on a new generation of dashboard electronics > **Page 30**

CORPORATE NEWS

Panasonic cuts spending on flat-panel operations

Electronics maker to exit weak areas as consumers retreat

By Yuzo Yamaguchi
And Yoshio Takahashi

TOKYO—Hurt by sliding consumer spending around the world, electronics company **Panasonic** Corp. said it will slash spending on flat-panel-television operations and pull out of unspecified, unprofitable businesses.

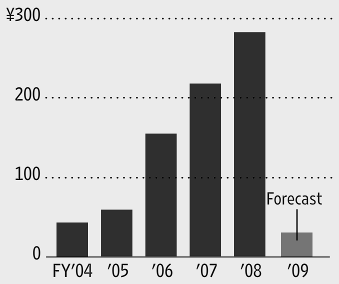
President Fumio Ohtsubo said Friday the company will reduce planned investments in two Japanese factories making flat panels for TV sets by 23%, or about $1.5 billion, in the fiscal year starting April 1. Panasonic warned it may fall short of some financial targets for the current fiscal year, ending March 31.

Panasonic now will spend 445 billion yen ($4.93 billion) on the plants through 2012, rather than 580 billion yen budgeted earlier. It still hopes to increase unit TV sales by 50% in the 12 months ending March 2010 by expanding its range of entry-level models, the company said.

The company, based in Osaka, Japan, said it expects to withdraw from unprofitable businesses. It didn't identify which operations would be axed or how much restructuring might cost.

Japanese consumer-electronics companies including Panasonic and **Sony** Corp. already have cut profit forecasts for the 12 months ending in March 2009. Besides recessions in key markets including Japan, these big exporters have been hurt by the strong yen, which crimps the value of overseas earnings when repatriated back into yen.

Panasonic
Net income, in billions of yen



Note: Fiscal years end March 31 of year shown
Source: the company

On Friday, six weeks after slashing its profit forecast for the fiscal year by 90% to 30 billion yen, Panasonic warned that it may not be able to achieve its goal of double-digit growth in overseas sales. Some businesses, including digital audiovisual operations, automotive electronics and semiconductors, may not achieve their targets in the current economic conditions, it said.

"It will be hard to meet all the numerical goals," Mr. Ohtsubo said. Still, he is sticking to some targets for the fiscal year ending March 2010: global revenue of 10 trillion yen, compared with the 8.5 trillion yen expected in the current year, and a return on equity of 10%.

A factor that will help Panasonic in that ambition is the pending acquisition of Osaka-based **Sanyo Electric** Co. For close to $9 billion, Panasonic is buying a company with expertise in the lucrative fields of solar- and rechargeable-battery technology, with annual revenue of close to two trillion yen. A tender offer is expected next month.

AMD plans supercomputer to put gaming on 'clouds'

By Don Clark

LAS VEGAS—**Advanced Micro Devices** Inc. plans to build a massive supercomputer to process and electronically distribute games and other complex content to users—avoiding the need for specialized hardware and software that adds to the cost of computers and other devices.

The supercomputer, assembled using AMD chips, will be operated by **Otoy**, a closely held company that develops software and special effects for movie studios and game developers, the companies said.

AMD's announcement, at the Consumer Electronics Show in Las Vegas, is the latest extension of two hot trends in the computer industry. One involves the extension of graphics chips to take over general-purpose calculating tasks that are more typically done on microprocessor chips. AMD, Sunnyvale, Calif., is the only company that makes both graphics chips and microprocessors using the technology called x86 that is the standard in most personal computers.

The other trend is called cloud computing, which refers to using centralized servers and the Internet to handle chores that were once done on personal computers.

But most gaming software typically must be handled on PCs that come along with chips known as GPUs, for graphics processing units.

Executives of the two companies demonstrated that servers equipped with Otoy's software and AMD microprocessors and graphics chips can render game images and compress them to be sent over the Internet to users—and allow a user to play the game in a Web browser.

"If we can put a game like this in the cloud, we can put any application in the cloud," said Jules Urbach, Otoy's chief executive.

Financial details of the partnership weren't disclosed.

GLOBAL BUSINESS BRIEFS

ASM International NV

Some Dutch operations will transfer to Singapore

Semiconductor-equipment maker **ASM International** NV said it will transfer some of its Dutch operations to Singapore, affecting 200 jobs in the Netherlands. The company said it will take a charge of €25 million to €30 million ($34 million to $40 million) this year to fund the restructuring. ASMI's front-end wafer-processing division has lost money the past several years and is subsidized with profit from the back-end division, which comprises assembly and packaging operations. The company has a global work force of around 12,500, most of them in the U.S., Japan, Malaysia and Singapore, said a spokesman. The remaining staff in Europe of about 350 people will concentrate on research and development, product management and regional sales and service.

Natixis SA

French investment bank **Natixis** SA could receive new funding from its parent banks, which are both eligible to tap the additional €10.5 billion ($14.4 billion) in funds available from the French government, a spokeswoman for the bank said Friday. French savings banks **Banque Fédérale des Banques Populaires** and **Caisse Nationale des Caisses d'Epargne** together own more than 70% of Natixis.

Randstad NV

Dutch staffing company **Randstad** NV said Friday it will cut 489 full-time jobs in France because of difficult market conditions, adding to job cuts from British peers Hays PLC and Michael Page International PLC. Randstad said it will close 85 branches and merge them with other locations. This adds to the closure of 72 French branches triggered by the takeover of Vedior last year. The job cuts, planned for mid-2009, represent about 1.5% of the 34,000 Randstad employees world-wide. "A number of our clients have taken drastic measures to face the current difficult market circumstances," Chief Executive Ben Noteboom said in a statement. Randstad said that it expects the cuts to save €25 million ($34 million) in costs per year and that it will take a €25 million charge for the restructuring. British peers Hays and Michael Page have jointly cut more than 1,000 jobs in the past few months to reduce costs.

Eidos PLC

British games publisher **Eidos** PLC, the maker of the "Tomb Raider" series, cut its revenue forecast as the economic downturn hurt sales, especially in the U.S. Shares in Eidos tumbled 28% as the company, formerly known as SCi Entertainment, also warned it could breach its debt covenants in the next six months. Eidos said it had sold 1.5 million copies of the latest Lara Croft adventure, "Tomb Raider: Underworld," between the game's U.S. release on Nov. 18 and Christmas. That was well below forecast, despite the game reaching the top 10 in European sales, because of a weak start in sales in North America. Retailers have been cutting inventories and discounting prices more than expected, Eidos said. The company cut its full-year revenue estimate to between £160 million and £180 million, or about $240 million to $275 million, down from its previous forecast of £180 million to £200 million.

Merisant Worldwide Inc.

Merisant Worldwide Inc., the maker of Equal and other sweeteners, filed for Chapter 11 bankruptcy protection Friday,. But the privately held company said it is still pushing ahead with plans with **PepsiCo** Inc. to market a zero-calorie natural sweetener derived from the stevia plant that was cleared for use in food and drinks by the U.S. Food and Drug Administration last month. The Chicago-based company, whose subsidiaries include Equal maker Merisant Co., has struggled as Equal has lost market share to other sweeteners, including Splenda, marketed by the McNeil Nutritionals unit of **Johnson & Johnson**. Merisant said it had $137.1 million of debt as of Nov. 30, 2008, while the Merisant Co. unit had $331.1 million of assets and $560.7 million of debt on that date.

Deutsche Postbank AG

Deutsche Postbank AG said Friday it has moved to reduce its risk exposure, which will hit fourth-quarter results but "clearly improve" its risk profile for the full year. The bank, majority owned by **Deutsche Post** AG, also reiterated that its 2008 results would be "significantly" negative. Equity holdings were eliminated from its portfolio in December "so that no future burdens can exist on the bank's core capital," Postbank said.

Électricité de France SA

EDF Energy, the U.K. arm of Électricité de France SA, said Friday that Bill Coley would stay on as chief executive of British Energy Group PLC following the French utility's £12.5 billion ($19.1 billion) acquisition of the U.K. nuclear power-station operator. The new combined company will have four business units led by managing directors. Mr. Coley will head Existing Nuclear; EDF Energy CFO Humphrey Cadoux-Hudson will head Nuclear New Build; EDF Energy's Martin Lawrence will run Energy Sourcing and Customer Supply; and Laurent Ferrari will stay on at Networks. The combination of EDF Energy and British Energy will create the U.K.'s largest producer of electricity, with a current installed capacity of around 16.5 gigawatts—enough power to supply a quarter of the country's power, mainly generated by nuclear, coal and gas plants. EDF Energy said the integration meant it could move forward with its plans to build four nuclear power reactors, by 2025.

BP PLC

British oil company **BP** PLC said Friday that it has finalized the agreement reached in September with its partners in Russian joint venture TNK-BP Holdings to overhaul the structure and corporate governance of the company after a long-running and bitter dispute. The finalized deal paves the way for the announcement of a new chief executive to succeed former TNK-BP Chief Robert Dudley and new board members within the coming weeks, the company said. The agreement gives equal control of the board to BP and its Russian partners Alfa-Access-Renova, or AAR. A BP spokesman said senior TNK-BP executives and AAR shareholders German Khan and Viktor Vekselberg will both remain in their positions. BP had demanded Messrs. Khan's and Vekselberg's resignations at the height of the dispute last summer and had hoped they wouldn't hold senior management positions in the restructured company, people familiar said previously.

GlaxoSmithKline PLC

Drug maker **GlaxoSmithKline** PLC said Friday it has resubmitted a new application to U.S. authorities for Solzira, the restless legs syndrome drug it has developed with **XenoPort** Inc and Japan's **Astellas Pharma** Inc. XenoPort, based in Santa Clara, Calif., and London-based Glaxo withdrew their original application in November after the U.S. Food and Drug Administration requested some of the study data be reformatted. Glaxo said the earlier withdrawal wasn't related to the content of the filing. Solzira Extended Release Tablets would be used for the treatment of moderate-to-severe restless legs syndrome, a neurological disorder characterized by sensations in the legs and an urge to move them for relief. The drug is also being tested as a treatment for post-shingles pain and as a preventive treatment for migraines.

Merck & Co.

Merck & Co. hit another setback in its effort to widen the use of the Gardasil cervical-cancer vaccine to older women as regulators requested more data on the proposed expansion. The Whitehouse Station, N.J., drug maker said Friday the U.S. Food and Drug Administration wants to wait for the completion of a continuing trial of the vaccine in women 27 through 45 years old before deciding whether to approve its use by older women. Merck said it expects to submit the results by year end, which means approval won't come before 2010. Gardasil is currently approved to prevent cervical, vulvar and vaginal cancers, as well as genital warts, in females aged 9 to 26.

EADS

Defense and aerospace giant EADS called Friday for a "new approach" for its embattled A400M program, indicating that the first delivery of the military transport plane would come no sooner than 2012. The military transport plane has been hit by delays in building its massive turbo-prop engines. EADS has in turn been unable to meet its obligations to seven European NATO countries that ordered the plane. **European Aeronautic Defence & Space** Co. and its Airbus Military unit said they are working with engine developers "to firm up a date for the first flight." So far 192 A400Ms have been ordered from NATO nations including Germany, France, Britain, Spain, Belgium, Luxembourg and Turkey, among others.

LG Electronics Inc.

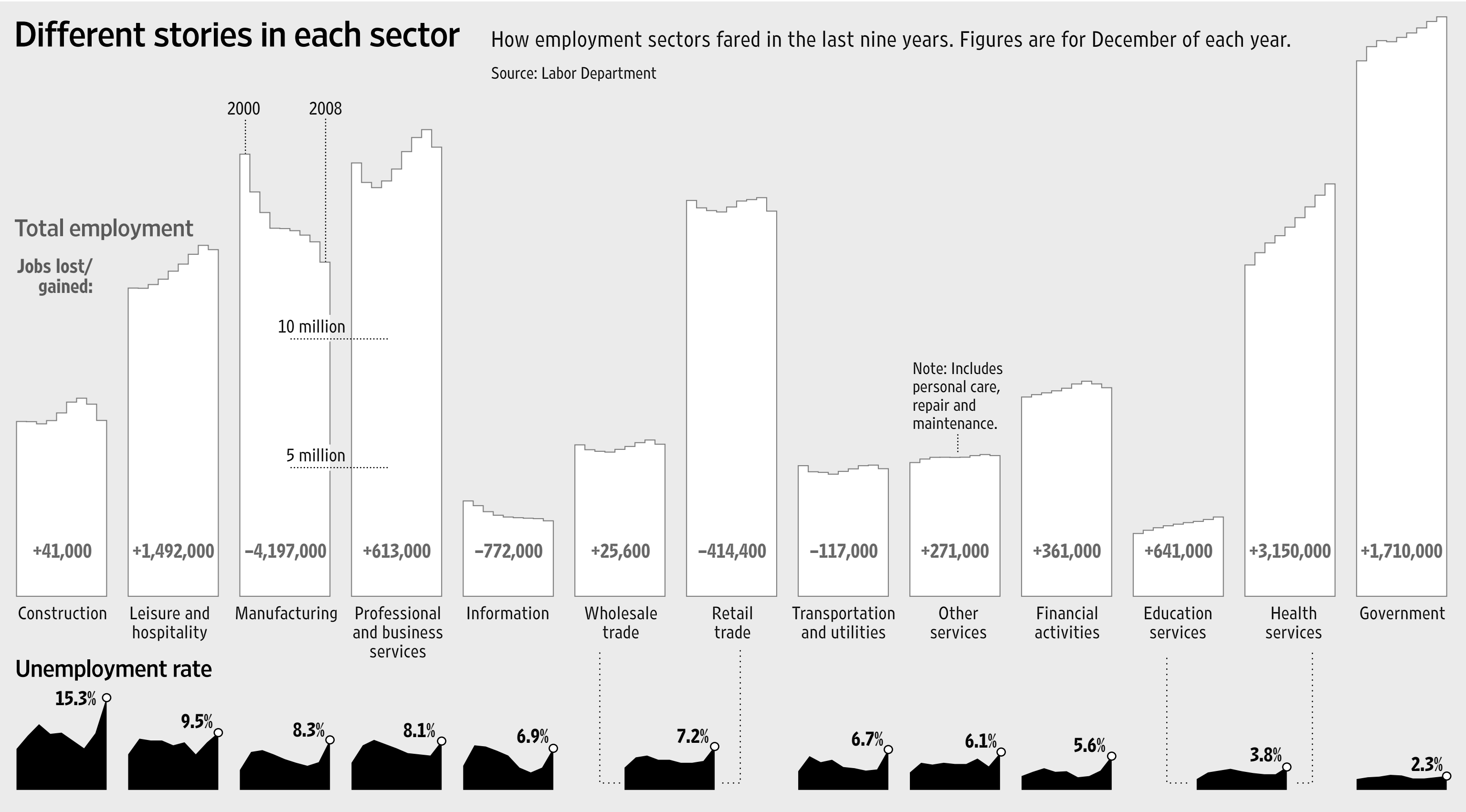
LG Electronics Inc. said it aims to raise its sales of flat-screen television sets by 40% this year to garner 16% of the global TV market, despite souring economic conditions and falling demand. South Korea's second-largest electronics maker by revenue, after **Samsung Electronics** Co., said it plans to sell 21 million flat-screen sets this year. The company aims to sell 18 million liquid-crystal-display sets and three million plasma-display sets. LG Electronics aims to increase its market share for global flat screen TV sets from around 11% at the end of last year's third quarter. Simon Kang, president of LG's home entertainment division, said the company plans to spend more on marketing and research-and-development projects to ride out the current difficulties.

—Compiled from staff and wire service reports.

Yearly job loss in U.S. is worst since '45

As unemployment rate hits 7.2%, Obama team outlines how $775 billion stimulus plan will affect labor market

BY KELLY EVANS
AND KRIS MAHER



The worsening U.S. economy hit the nation's work force hard in December, as the unemployment rate climbed to 7.2% and brought the total number of jobs lost last year to just over 2.5 million—the most since 1945.

Of those, 1.9 million vanished in the final four months of the year.

Job losses spared no region or sector, except for small increases in education and health-care services and government employment. The U.S. lost 524,000 jobs in December, the Labor Department said Friday. Financial markets sank on the news, with the Dow Jones Industrial Average falling 143.28 points, or 1.6%, to close at 8599.18 on Friday.

The numbers drew alarm from President-elect Barack Obama, who cited the report to rev up support for his stimulus program. The Obama economic team has begun to worry that opposition in Congress to parts of his plan could cause delays. "Clearly, the situation is dire," Mr. Obama said. "What we can't do is drag this out when we just saw a half-million jobs lost."

Saturday, Mr. Obama made public a detailed analysis by his economic advisers that estimates his $775 billion plan of tax cuts and new spending would create 3.5 million jobs during the next two years.

With an eye on Mr. Obama having immediate access to bailout money already approved by Congress when he becomes president next week, his economic team and the Bush administration have discussed having Treasury Secretary Henry Paulson ask lawmakers for access to the $350 billion remaining in the fund.

White House spokeswoman Dana Perino said the administration hasn't decided whether to make such a request, which would be made within the next week. Under the terms of the legislation creating the fund, Congress would have 15 days to reject the request.

The 14-page analysis of Mr. Obama's $775 billion plan, which was posted on the Internet, concedes that the estimates are "subject to significant margins of error," both because of the assumptions that went into their economic models and because no one knows the final outlines of the package that will emerge from Congress.

Many Americans, meanwhile, have been out of work for months and are resorting to lower-wage or part-time jobs to make ends meet. Long-term unemployment is a worsening problem; the Labor Department reported that the number of workers out of a job for more than 27 weeks doubled last year.

Dana Stevens, 32, of West Deptford, N.J., lost her position as a human-resources supervisor at an insurance brokerage in July after just a year on the job. Despite applying for hundreds of positions in recent months, she is still looking. Most companies lose interest when they learn she earned $60,000 a year, Ms. Stevens said, with one company telling her its maximum salary for a job requiring similar experience is now $40,000.

"I came home and cried," said Ms. Stevens, who is struggling to pay a $2,400 monthly mortgage with her husband. "My savings is gone. This has probably been the worst experience of my life."

While the official unemployment rate is 7.2%, a different figure that includes discouraged workers who have dropped out of the labor force and those working part-time because they can't find full-time work hit 13.5% in December. That was nearly a full percentage point higher than in the previous month and up from 8.7% at the end of 2007. Meanwhile, the number of Americans collecting unemployment benefits has risen since the employment survey was conducted in the second week of December, hitting a fresh 26-year high in the closing days of 2008.

The U.S. economy appears to have contracted at the sharpest pace in a quarter-century during the October-through-December period, which most economists predict will be the trough of the current recession. J.P. Morgan chief economist Bruce Kasman on Friday estimated that U.S. gross domestic product declined at a 6% annualized rate in the fourth quarter, following a 0.5% drop in the July-September quarter.

"What I think is most striking about the jobs lost in the U.S. is its breadth," he said in a conference call. "Businesses are pulling back hard."

Manufacturing, often a bellwether for the U.S. economy, shed 149,000 jobs in December, the most since 2001. The long-resilient service sector also showed considerable weakness, in retail, hospitality and professional services.

The U.S. hasn't shed so many jobs in a year since the nation was shifting from a wartime to a peacetime economy after World War II. The population then was less than half its current size.

A key gauge of future employment also looked grim in December as the average workweek fell to 33.3 hours, the lowest since the government began tracking the data in 1964. "At 33.3 hours, we're expecting several more months of at least half a million cuts in payrolls," said Bernard Baumohl, managing director of Economic Outlook Group in Princeton, N.J.

A wave of layoff announcements in the first full week of 2009 portends as much. Last week alone brought layoff announcements from retailers **Walgreen** Co. and **Macy's** Inc., health insurer **Cigna** Corp., aluminum maker **Alcoa** Inc. and airplane manufacturer **Boeing** Co.

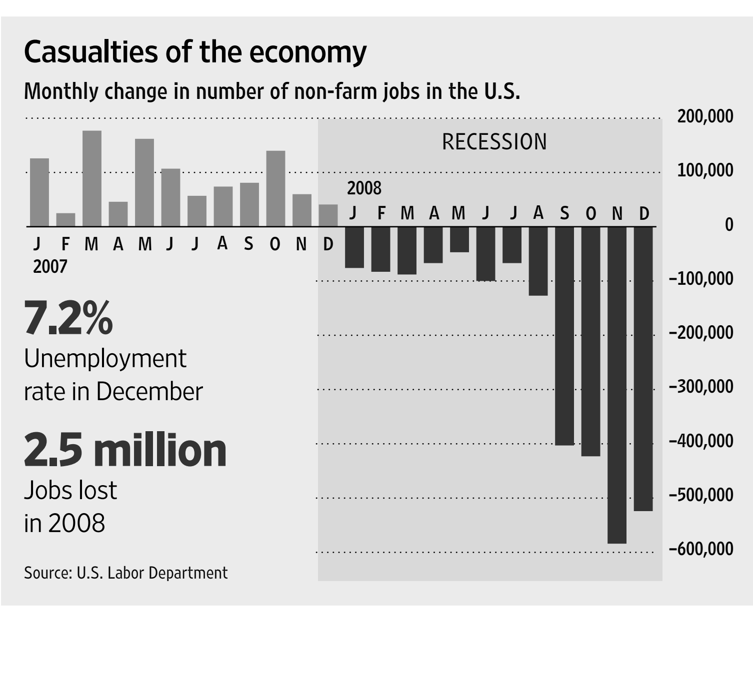
On Jan. 5 Linda Balogh, 42, was laid off from a **General Motors** Corp. plant in Lordstown, Ohio. Ms. Balogh, who worked as a data response technician checking cars as they came off the assembly line, started sending out résumés last month.

"The economy here is really slouched right now. Everyone is cutting jobs. There's no 'help wanted' signs," she said.

How to provide short-term relief to people like Ms. Balogh and stimulate long-term economic activity form the heart of Congress's debate over Mr. Obama's proposed $775 billion stimulus program. About 40% of it would be in the form of tax cuts, with the rest directed at infrastructure and other spending projects aimed at job creation.

Congressional committee action on the stimulus package is expected to begin next week. House leaders are hoping for a floor vote in that chamber before the end of the month.

On Capitol Hill, House Speaker Nancy Pelosi seized on the jobs report to reiterate her commitment to passing stimulus legislation by mid-February, when Congress is scheduled to leave town at President's Day. "We need action now," the California Democrat said.



Layoffs continue in the new year

BY ERIN WHITE
AND SCOTT THURM

The new year has brought no letup on layoffs, as employers have already announced more than 30,000 cuts while tapping multiple strategies to deal with a deepening recession.

Friday, **Boeing** Co., the world's largest airplane maker, said it would eliminate 4,500 jobs this year, and **World Wrestling Entertainment** Inc. said it would cut 60 jobs, or 10% of its work force. Those cuts were the latest in a grim week that included plans for 15,000 layoffs at **Alcoa** Inc. and more than 2,000 each at **EMC** Corp., **Lenovo Group** Ltd. and Daimler Trucks North America.

As their businesses weaken, some employers are beginning a second round of layoffs, while others are cutting hours, pay and benefits in addition to shedding workers. Small-airplane maker **Hawker Beechcraft** Corp. told employees Thursday it would lay off an unspecified number of workers in response to sharply falling orders and cancellations. In October, the company laid off nearly 500 of its then-10,000 workers. **AK Steel Holding** Corp. said Thursday it would lay off some salaried employees after cutting pay 5% a month earlier.

Andersen Corp. has offered voluntary early-retirement programs, temporary layoffs and shortened workweeks. Nonetheless, the maker of windows and doors said Thursday that it was eliminating 50 jobs and temporarily laying off 400 other workers to reduce its excess manufacturing capacity.

"You've got companies taking five or six different actions all targeted at reducing costs," said Laura Sejen, director of the strategic-rewards practice at consultant Watson Wyatt Worldwide. In a December survey by Watson Wyatt of 117 U.S.-based employers, 23% expected to lay off workers in the next 12 months. More than 15% of respondents also said they expected to freeze salaries or hiring, cut spending on travel or training, or increase employees' contributions to health-care premiums.

Industrial output slumps

Data from Germany, France, U.K., Spain show pain spreading

By Marcus Walker And Nicholas Winning

Industrial production in major European economies slumped in November as domestic and foreign demand weakened, showing how Europe's manufacturing is turning into a big victim of the global downturn.

Factory output fell in Germany, France, the U.K. and Spain as companies scaled back production, according to national data released Friday.

The pace of economic contraction is accelerating in much of Europe, with the troubles that battered the real-estate and financial-services sectors spreading to industry in recent months.

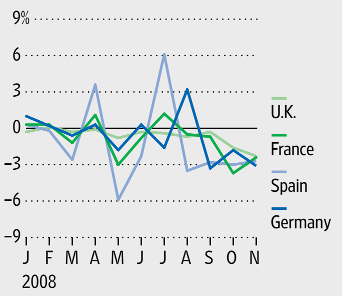
The large capital-goods and automotive industries in Germany and other European countries are reeling from a drop-off in global demand as customers from factories in China to car buyers in the U.S. pare spending.

Business surveys that reflect plummeting industrial orders in Europe suggest conditions will get worse. Many forecasters now project that the euro zone's overall economy could shrink by around 1% this year. The factory-output data suggest the contraction could be much worse, economists said.

"The numbers are really disastrous," said Martin van Vliet, a senior euro-zone economist at ING.

Weak demand

Industrial production prices in major European countries.
Month-to-month percentage change



Sources: Office for National Statistics, U.K.; Insee; National Statistics Institute, Spain; Federal Statistical Office, Germany

Gross domestic product for the 15 countries that share the euro contracted last year by 0.2% for the second consecutive quarter in July to September, marking the euro zone's first recession since it was formed in 1999. Slovakia adopted the euro Jan. 1, expanding the euro zone to 16 countries.

Overall economic output in the euro zone may well have fallen by as much as 1% in the fourth quarter, Mr. van Vliet said.

In Germany, the zone's biggest economy, official figures showed that industrial production slumped 3.1% in November from October in seasonally adjusted terms. The decline surpassed the market consensus estimate of a 2% drop, as well as October's 1.8% drop. Compared with a year earlier, output fell 6.4% in workday-adjusted terms and 10% in unadjusted terms. "Due to persisting weak orders activities, this development will likely continue in the coming months," the German Economics Ministry said.

Car makers **BMW** AG and **Daimler** AG's Mercedes-Benz unit have scaled back output, as have chemical companies like **BASF** SE. **Merck** KGaA has cut back workers' shifts.

In France, the euro zone's second-largest economy, November data showed industrial output slumped 2.4% from October, more than double the market consensus estimate for a 1.1% decline. Insee, the national statistics agency, revised the previous month's data lower to show output dropped 3.7% rather than the initial 2.7% estimate.

According to Insee, French industrial production was 6.5% weaker in the September-to-November period from the year-earlier period. The data showed car production slumped 8.1% in November following October's 22% plunge the month before.

In Spain, November industrial production fell at a 15% annual rate in calendar-adjusted terms, after a 13% decline in October and 9% fall in September, according to the National Statistics Institute.

The U.K. Office for National Statistics said industrial production fell 2.3% in November from the previous month and manufacturing output dropped 2.9%.

Inflation in November was lower, OECD says

By Paul Hannon

LONDON—Annual rates of inflation were sharply lower across the developed world in November as energy prices fell, the Organization for Economic Cooperation and Development said Friday.

The Paris-based research organization said the annual rate of inflation for its 30 members tumbled to 2.3% in November from 3.7% in October. As recently as July, it stood at an 11-year high of 4.8%.

Prices fell 0.9% in November from October, having fallen by 0.3% in that month from September.

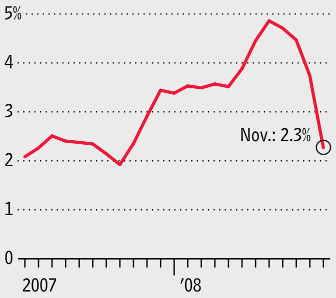
The rapid decline in annual rates of inflation will likely encourage leading central banks to cut their key interest rates again.

The Bank of England cut its key interest rate Jan. 8 to 1.5% from 2%, bringing the rate down to the lowest level in the central bank's 315-year history. The European Central Bank's governing council is expected to lower its key interest rate when it meets Thursday.

The fall in the headline rate of inflation was due to a decline in energy prices, which fell 2.4% from November 2007, after rising 12% in the 12 months ended October.

OECD's inflation rate

Percentage change on the same period of the previous year



Source: OECD

Food prices also made a contribution to the decline in the overall inflation rate, albeit a much smaller one. Food prices rose 6.2% in the 12 months ended November, down from the 6.5% rise recorded in the 12 months to October.

But there were few signs that inflation was easing quickly across a broader range of goods and services. The OECD said that excluding energy and food, the annual rate of inflation fell to 2.2% in ovember from 2.3% in October.

Iceland continued to have by the highest annual inflation rate at 17%, while Japan had the lowest at 1%.

Trade data expected to show falling demand for U.S. goods

By Brenda Cronin

Trade data out Tuesday from the U.S. Commerce Department are expected to reflect continued belt-tightening around the globe as 2008 neared its end.

In October, the U.S. trade deficit widened to $57.2 billion from $56.6 billion in September, with imports and exports both declining. Low oil prices and reduced demand were factors in shrinking the imports tab and are likely to sway the November figures to be released this week.

Amid the downturn, America's major trading partners, such as Europe, are curbing their appetites for U.S. goods. Demand from developing countries and emerging markets for capital goods, including U.S.-made farming and industrial equipment, has collapsed.

U.S. consumers also are learning to do without—a habit likely to remain while the recession lingers. If President-elect Barack Obama's stimulus program includes adjustments to the payroll tax, consumption could kick back into gear by the third quarter of 2009, said Brian Bethune, chief U.S. financial economist at IHS Global Insight. Imports will pick up long before exports will, Mr. Bethune said, because the U.S. is likely to dig itself out of the recession at least six months before Europe or Japan.

Stimulus programs in other nations might provide a short-term lift to U.S. exports, said Diane C. Swonk, chief economist and senior managing director of Mesirow Financial in Chicago. China's nearly $600 billion plan, which includes significant infrastructure spending, could be a boon for the U.S., Ms. Swonk said, because Beijing may turn to American manufacturers for cranes, construction equipment and other capital goods.

Obama spy team a shift from Bush

By Siobhan Gorman

WASHINGTON—U.S. President-elect Barack Obama introduced his intelligence team Friday, choosing respected managers over career professionals in a sharp break from the Bush administration.

Mr. Obama said retired Adm. Dennis C. Blair, nominated to be director of national intelligence, and former Clinton chief of staff Leon Panetta, named to lead the Central Intelligence Agency, have the "core pragmatism we need in dangerous times."

This shift at the top U.S. spy posts has caused some anxiety among intelligence officers. "It's a high-risk team," said Amy Zegart, a professor specializing in intelligence at the University of California at Los Angeles.

Mr. Obama described them as "public servants with unquestioned integrity, broad experience" and "strong management skills" and said he expected unvarnished intelligence assessments, an implicit critique of the Bush administration's use of intelligence in the lead-up to the Iraq war.

Mr. Blair spent 34 years in the Navy, retiring in 2002 as the commander of U.S. forces in the Pacific. Earlier, he held posts at the National Security Council and the Joint Chiefs of Staff.

Mr. Panetta is a onetime civil-rights aide in the Nixon administration. He served 16 years as a Democratic representative from California.