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Breaking news at europe.WSJ.com

Germany shifts to the right

Economic slump improves Merkel's election outlook as support grows for her pro-business allies

By Marcus Walker

BERLIN—German Chancellor Angela Merkel's chances of a decisive win in elections later this year are rising, as the downturn in Europe's biggest economy boosts support for her pro-business allies.

Recent opinion polls suggest Ms. Merkel's conservative Christian Democrats could win the September vote in alliance with the Free Democrats, a small party that stands for lower taxes and smaller government. Such a victory would allow her party to escape the confines of the current coalition with its left-leaning rivals, the Social Democrats. Just months ago, analysts assumed Ms. Merkel would be stuck with the Social Democrats for the long term.

The latest opinion poll by the Forsa Institute in Berlin this week put support for right-leaning parties at 52%, enough to form a government, compared with 44% support for parties on the left.

The shift in Germany appears to confirm a European trend of political conservatives on the rise. In the U.K., the Conservative Party is widely expected to win elections that Labour Prime Minister Gordon Brown must call by May 2010. France and Italy don't face elections soon, but opinion polls suggest the center-right governments of French President Nicolas Sarkozy and Italian Prime Minister Silvio Berlusconi would win easily if votes were held today.

Ms. Merkel won a wafer-thin victory in the last election in 2005, and was forced to form a ruling coalition with the Social Democrats. Since then, she has abandoned campaign pledges to make further market-oriented reforms in Germany and has moved to the political center.

As Ms. Merkel's party has shifted, voters have responded by switching their support. As a result, her in-

Please turn to page 26

Reuters

Angela Merkel with Foreign Minister Frank-Walter Steinmeier, right, and the Social Democrats' Peter Struck.

Stimulus plan energizes high-tech companies

By Amy Schatz And Elizabeth Williamson

WASHINGTON—High technology and diversified tech conglomerates that made efforts to shape the stimulus plan emerged as big winners in the draft bill scheduled for a vote Friday.

General Electric Co., whose chief executive, Jeff Immelt, serves as a White House adviser, will likely benefit from a dozen provisions in the bill, from appliance rebates to water-treatment spending and wind-energy tax breaks. **Google** Inc. and **Microsoft** Corp. stand to benefit from billions of dollars slated for technology infrastructure, environmental and educational projects aimed at improving U.S. competitiveness.

"We always work to have a seat at the table where important projects are being considered," said GE spokesman Peter O'Toole. The sweeping portfolio of GE businesses assembled under Mr. Immelt, he said, "is not focused on short-term nickel-and-dime victories. It's focused on long term, big commitments, big swings."

The bill sets aside $4.4 billion to upgrade the nation's electrical grid, an issue championed by Google CEO Eric Schmidt, GE and other tech companies.

Congress also set aside $19 billion for health information technology that would digitize health records and set privacy and data standards. As the bill was drafted, tech companies worked to beat back concerns among some lawmakers that digitizing patient records could compromise privacy, arguing that the effort would cut medical costs.

"We believe information technology can help create a connected health system that delivers predictive, preventive and personalized

Please turn to page 27

Ice, the final frontier, for Norway oil firm

By Guy Chazan

HAMMERFEST, Norway—A Norwegian oil company has gone to the ends of the earth—almost literally—to get at some of the world's last untapped energy resources.

StatoilHydro ASA operates a pioneering venture deep inside the Arctic Circle, energy's final frontier. The company pumps natural gas from under the freezing waters of the Barents Sea, cools it into a liquid and exports it to Europe and the U.S.

The project, Snoehvit, has taken StatoilHydro and the entire oil and gas industry into uncharted territory. Before, no one had ever produced liquefied natural gas in the Arctic—or in Europe, for that matter. And blazing that trail has been fraught with problems, putting Snoehvit behind schedule and over budget.

Allan Klo

Statoilhydro's pioneering liquefied natural gas plant on an island off Hammerfest in Norway has encountered an array of problems.

"The start-up challenges were more severe than we anticipated," says Knut Henrik Dalland, vice president of Hammerfest LNG, the StatoilHydro-led venture, with Nordic understatement.

But the lure of the Arctic has proved irresistible, and not only for StatoilHydro. The region is thought to contain just over a fifth of the world's undiscovered oil and gas resources. Even conservative estimates put its reserves at 100 billion barrels of oil.

That's made it a huge draw for Western oil companies frozen out of places like the Middle East. Last year, in a record lease sale, **Royal Dutch Shell** PLC paid $2.1 billion for exploration blocks in the Chukchi Sea, off the coast of Alaska. Shell says it's potentially one of the most prolific oil fields left in the world and could replace the Gulf of Mexico as a

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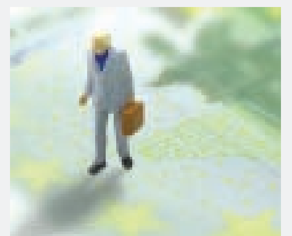

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4 p.m. ET

	CLOSE	PCT CHG
DJIA	7932.76	-0.09
Nasdaq	1541.71	+0.73
DJ Stoxx 600	190.64	-1.29
FTSE 100	4202.24	-0.76
DAX	4407.56	-2.70
CAC 40	2964.34	-2.09
Euro	$1.2773	-0.98
Nymex crude	$33.98	-5.45

LEADING THE NEWS

Renault shifts strategy as net falls

Ghosn, saying autos face profound slump, reduces costs further

BY LEILA ABBOUD AND DAVID PEARSON

Posting a steep decline in 2008 profit, French car maker **Renault** SA unveiled a raft of strategic and operational changes, such as delaying construction of factories in India and scrapping plans to make bigger cars with higher profit margins.

The economic downturn, which has sent global auto sales plummeting, prompted Renault Chief Executive Carlos Ghosn to alter his strategy. Since taking over as CEO in 2005, Mr. Ghosn has been trying to expand sales in promising emerging markets and introduce high-end models to Renault's product lines. Both moves were intended to ensure growth and stronger profits.

Now the economic crisis—which has sent European car sales down and halted rapid growth in markets like Brazil, India and Russia—is forcing Renault to re-evaluate. The company halted development of three large, high-end cars over concerns that they won't sell. The company has put the brakes on a project to build a factory in Morocco to produce Renault's low-cost line of cars until it has a clearer idea of demand.

"The crisis will be long and will profoundly alter the world's auto sector," Mr. Ghosn said at a press conference in Paris. "The future will belong to those who used this crisis as an opportunity to transform themselves and adapt to the new conditions of the market."

Carlos Ghosn

Mr. Ghosn's comments came as Renault reported a six-month loss of €982 million ($1.27 billion), compared with net income of €1.42 billion a year earlier. For the year, Renault posted net income of €571 million, down 79% from €2.67 billion in 2007. Renault's revenue dropped 7% last year to €37.79 billion, with a rapid drop-off in second-half sales.

Renault is deepening its cost-cutting by holding down inventories and trimming capital expenditures and research investments by 20%. It scrapped its dividend and abandoned previous 2009 targets for volumes and margins. Renault hopes to reap an additional €250 million in synergies from its alliance with Japanese partner **Nissan Motor** Co. Mr. Ghosn also reworked his management team, naming a new global sales boss, a new purchasing director and a new head of quality and engineering.

Mr. Ghosn declined to make forecasts on profitability for this year, saying Renault's "first priority" was to try to generate "positive cash flow" in 2009.

Renault didn't announce additional job cuts for 2009, but will continue a plan started last year to trim 6,000 from its global work force through voluntary departures. Mr. Ghosn said the work force would be 120,000 by the end of 2009, compared with 129,000 at the end of 2008.

Renault's approach on job cuts stands in contrast to the one taken by its partner Nissan, which announced job cuts of 20,000 last week. Mr. Ghosn is also CEO of Nissan.

Renault rival PSA **Peugeot-Citroen** unveiled plans on Wednesday to trim about 11,000 from its ranks this year through voluntary departures. Peugeot's move was questioned by French President Nicolas Sarkozy, who on Monday unveiled an aid package, based on low-interest loans, to the auto sector, conditioned on protecting local jobs.

"Firing people in Western Europe is actually very expensive," said Renault Chief Operating Officer Patrick Pelata. Instead, Renault plans to work with governments to try to find ways to put workers on temporary leave during which the state pays a portion of their salaries.

Renault has already done this in Brazil, said Mr. Pelata, where workers at one plant have been furloughed for six months and are being paid by the government, while officially remaining Renault employees. France's auto aid package includes a similar measure.

Renault's net debt at its main automotive division surged by €5.2 billion last year to €7.94 billion. The division burned a total of €3.03 billion in 2008.

Renault's mounting debt could hamstring the firm by causing banks to start demanding higher interest rates on loans to the firm. Car manufacturing is a capital-intensive industry, and companies rely on loans to keep the factories running, buy auto parts and pay staff. Mr. Ghosn said Renault was borrowing last year at around 3.5% interest rates, while today banks were offering rates of around 9%.

The French government alleviated some of that pressure on Monday by giving Renault a five-year €3 billion loan at 6% interest. In exchange, Renault promised not to close any factories in France for the duration of the loan. PSA Peugeot-Citroën also received a €3 billion loan under the same condition.

The aid has come under fire from other car-manufacturing countries in Europe like Germany and Sweden, and European Union authorities have requested clarification on the package to ensure that it doesn't violate the region's strict competition rules.

Renault
Net income
€4.0 billion
3.0
2.0
1.0
0
2005 '06 '07 '08
Source: the company

BOE taps Fisher as new director

BY NATASHA BRERETON

LONDON—The Bank of England said Thursday that it has appointed BOE insider Paul Fisher as its new executive director for markets and as a member of the rate-setting Monetary Policy Committee.

Mr. Fisher, currently head of the bank's foreign-exchange division, will follow Paul Tucker at the start of next month when Mr. Tucker takes on the role of deputy governor for financial stability.

Mr. Fisher has worked for the bank since 1990, and was previously private secretary to former governor Eddie George, head of the conjunctural assessment and projections division and an economist and manager. Before that, he worked at the University of Warwick.

Since the global turmoil broke, U.K. lawmakers have pressed for officials on the financial-stability side of the bank to have greater hands-on experience of the markets. While Mr. Fisher doesn't have Mr. Tucker's direct experience, his role in the foreign-exchange division should ensure he has strong connections with market participants.

In June, the BOE said it would start advertising externally, as well as internally, for executive appointments to the MPC. Mr. Fisher was the first executive director to be appointed under those new arrangements.

"Paul has wide experience of the foreign-exchange markets and also of the monetary-policy process and he will bring a new perspective to the MPC," BOE governor Mervyn King said in a statement. The appointment was made by Mr. King after consultation with Chancellor of the Exchequer Alistair Darling.

South Korea cuts key rate to 2%

BY EVAN RAMSTAD

SEOUL—South Korea's central bank cut its main interest rate by a half percentage point to 2% and signaled more cuts are likely, though private economists are starting to diverge over how much further the cuts can go.

Thursday's cut, decided at the regular monthly meeting of the Bank of Korea's monetary policy committee, was the sixth in four months as policy makers signaled a sharper focus on the country's macroeconomic condition.

Government data from Wednesday showed a sharp plunge in employment in January. That reinforced earlier figures that show South Korea is on the verge of a recession, when using a widely accepted definition of two consecutive quarters of contraction.

CORRECTIONS & AMPLIFICATIONS

Aozora Bank Ltd. has room to cut valuations on some of its investments because the Japanese bank has a high capital-adequacy ratio. An International Investor article Wednesday incorrectly named the bank in that position as **Shinsei Bank** Ltd.

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LEADING THE NEWS

Swiss Re chief goes as stock falls

Choice of successor, a veteran at insurer, signals move to roots

BY NEIL SHAH

Swiss Reinsurance Co.'s new top executive, Stefan Lippe, faces a tough task: backing the reinsurance firm away from the risky, and loss-making, strategies of his predecessor.

Swiss Re on Thursday tapped Mr. Lippe, a 25-year veteran at the company, to succeed Jacques Aigrain, who resigned after his efforts to remake the firm—by moving it into high-risk areas such as the sale of default insurance using derivatives called credit-default swaps—backfired in the form of major losses.

Mr. Lippe's appointment, which comes as Zurich-based Swiss Re prepares to post its 2008 results on Feb. 19, is a sign the company is returning to its roots, a move that reassured investors. Shares of Swiss Re rose 5% on Thursday after news of Mr. Aigrain's departure became public.

But the 53-year-old Mr. Lippe will immediately have to address a host of serious problems, including concerns about how Swiss Re's holdings of more than 55 billion Swiss francs ($47 billion) of corporate bonds and other securities might affect its credit rating, which is vital to its ability to attract business.

John Raymond, an analyst at research firm CreditSights, says the firm needs to prove to investors that its risk-taking days are over. "Swiss Re can't get rid of hurricanes and other disasters that are the calculated risks that a reinsurer has to manage," he said. "But now it needs to demonstrate it has stopped flirting with catastrophe risk on the investment side."

Mr. Lippe wasn't available for comment.

One of the world's biggest sellers of insurance to other insurers, Swiss Re has seen its stock price shrivel by 60% this year as investors fretted about losses on risky investments and the possibility the company would need more capital.

Stefan Lippe

Some observers believe Mr. Aigrain's departure was sparked by shareholder ire regarding the company's tumbling share price, and that the company's board may review its current composition. Swiss Re said there is no change in the responsibilities and roles of the board.

Mr. Aigrain has said that he is leaving for the good of the company. "He made his own decision, and he was not asked to leave," says Steve Dishart, a spokesman for Swiss Re.

His departure also comes just days after the company said it was abandoning its financial-markets activities and raising additional capital from billionaire investor Warren Buffett's Berkshire Hathaway Inc. through a high-yielding bond that can eventually convert into shares. Swiss Re expects to post a net loss of 1 billion francs for 2008 when it reports results on Feb. 19.

Swiss Re's troubles won't go away soon. Like many European insurers, Swiss Re invests its clients' premiums in assets like stocks and bonds, many of which have lost their value as markets have tanked in recent months. Swiss Re, in particular, snapped up riskier credit securities last year, a decision which is coming back to haunt the company.

Another concern is that investors could be diluted by the company's plan to raise an additional 2 billion Swiss francs in capital by issuing new shares, a move also announced recently.

—Liam Pleven and Goran Mijuk contributed to this article.

Economists' outlook for U.S. is more bearish

BY KELLY EVANS AND PHIL IZZO

Economists in the latest Wall Street Journal forecasting survey still mostly project growth in U.S. gross domestic product by the third quarter, but they largely agree that a 2009 "second-half recovery"—a widely shared scenario until now—is looking much less likely.

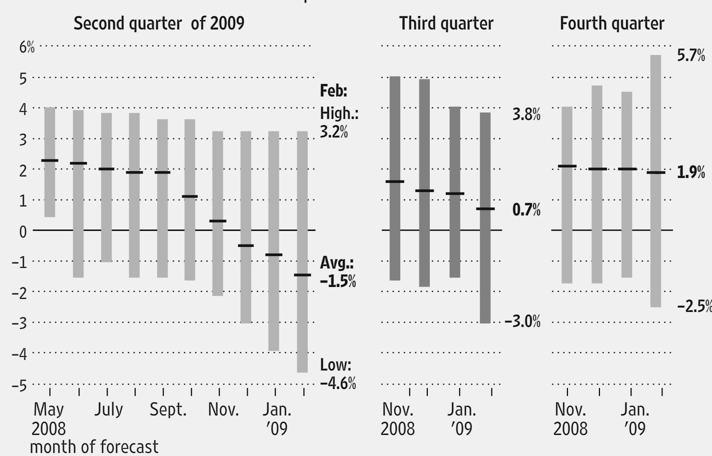
Recent data showing just how sharply growth in the U.S. and elsewhere has declined in the final months of 2008 have cast a deepening shadow over 2009.

As recently as September, economists on average thought the U.S. would see annualized GDP growth of 1.2% in the first three months of this year; now, they see a 4.6% decline. Forecasts for the April-through-June period have seen a similar shift, from a 1.9% growth forecast to now a 1.5% decline, based on the 52 economists who participated in the Journal's February survey.

The average forecast is for growth in the third quarter at 0.7%, less than half the rate expected last fall. The fourth-quarter picture has also darkened, but just slightly, to growth of 1.9% from 2.1% seen in November. Only five economists see growth declining through the fourth quarter of 2009; but they insist the consensus outlook right now, which says the recession will end in August as GDP returns to growth, is far too optimistic.

Catch their drift?

As the second quarter of 2009 draws nearer, the range of forecasts for quarterly change at a seasonally adjusted annual rate in U.S. GDP in Wall Street Journal monthly surveys of economists has been drifting lower. Will forecasts for the next two quarters follow suit?



"The consensus is usually late to the party," said Brian Fabbri, chief economist at BNP Paribas, noting he was one of the few who forecast the current recession two years ago. Now, he is one of the five who sees GDP declining through the end of 2009, along with Joseph Shapiro, chief U.S. economist at forecasting firm MFR Inc.; Paul Ashworth of Capital Economics; Swiss Re chief economist Kurt Karl; and retired Vanderbilt University professor J. Dewey Daane.

"We're in trouble," Mr. Fabbri said. "We don't have sufficient economic plans at present to resolve the banking system or the financial crisis, and the stimulus package seems loaded for 2010." He added that the global nature of the downturn along with U.S. consumers' increased saving and lenders' tightened standards all stand in the way of a quick recovery.

A boost to the economy from the government stimulus package has been a key feature of most forecasts for a rosy finish to 2009, but economists in the February survey largely expressed disappointment with how the package is shaping up. Comments on the package's influence this year say it is "too late," "provides little boost," is "trivial," "too big," "too small" and a "colossal waste of money." Nicholas Perna of Perna Associates cautioned, "We're in danger of repeating Japan's mistakes," referring to that nation's policy errors during its "lost decade" of the 1990s.

But others are standing by their forecasts for a second-half recovery. Joseph Carson, an economist with AllianceBernstein, says uncertainty about government policy is holding back risk-taking behavior—for now. "Once we get clarity on the fiscal and financial packages, those two things together could end up jump-starting the economy," he said. He forecasts GDP will decline at a 3% rate in the current three months, then return to growth by April and surge to a 5.7% annualized pace in the closing months of the year. Other bulls include Brian Wesbury of First Trust Advisors and James Smith, a professor at Western Carolina University, who both see GDP growing at a 4% rate by year end.

Bears top yearly list of best economic forecasters

BY JUSTIN LAHART

Goldman Sachs economist Jan Hatzius was extraordinarily bearish on the U.S. economy last year. That put him far ahead of the competition in The Wall Street Journal's economic-forecast rankings.

The bulk of prognosticators were pessimistic going into 2008, but they weren't pessimistic enough. The economy would slow, they thought, but only Mr. Hatzius believed it would contract. He also foresaw a steep increase in the unemployment rate, moderate inflation and a Federal Reserve that would be busy cutting rates.

Mr. Hatzius was one of the first economists on Wall Street to foresee the overvaluation problems building up in the U.S. housing market during the boom. When home prices began to drop, he became deeply worried about what that would mean for an overstretched U.S. consumer.

In what was at the time a controversial research note, Mr. Hatzius suggested in late 2007 that mortgage losses could have an outsize negative effect on the U.S. economy, leading banks and other lenders to reduce their lending and other assets by $2 trillion.

The economist who ranked lowest was among the most bullish: Mark Nielson of MacroEcon Global Advisors envisioned the economy rebounding, unemployment falling and inflation heating up. Mr. Nielson says the severe drop in the fourth quarter was what stymied his forecast; he thinks growth will recover this year, inflation will reaccelerate and his expectations for the economy will be borne out.

"With the passage of time, we'll be back on track," he says.

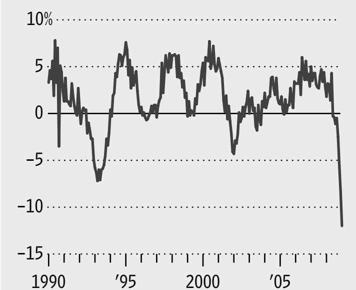
Rounding out the top five spots in the rankings were Ram Bhagavatula of Combinatorics Capital; Richard Berner and David Greenlaw of Morgan Stanley; Paul Kasriel of Northern Trust; and Paul Ashworth of Capital Economics.

The methodology for the rankings was created by economists at the Federal Reserve Bank of Atlanta.

Forecasters were ranked on five criteria: their estimates for GDP growth from the fourth-quarter 2007 to fourth-quarter 2008; their inflation estimates, as measured by the price index for personal-consumption expenditures including and excluding food and energy prices; their estimates for the fourth-quarter average unemployment rate; and their year-end forecast for the Fed's target rate.

Factories idle

Euro-zone industrial production fell 12% in December, the steepest fall since records started in 1990.
Year-to-year percentage change



Source: Eurostat

Industrial output dives in euro zone as Spain slumps

BY NICHOLAS WINNING

The euro zone experienced its biggest industrial-production drop in at least 18 years in December, suggesting the currency bloc's recession deepened in the fourth quarter and underpinning expectations the European Central Bank will cut its key interest rate further next month.

Meanwhile, Spain—the first major euro-zone member to post national GDP numbers for the fourth quarter—entered its first recession in 15 years in the fourth quarter, reporting a 1% contraction from the third quarter.

Spanish GDP contracted by 0.3% in the third quarter. Two consecutive quarters of contraction is a common definition of recession.

Late Thursday, the French finance ministry said France's GDP contracted 1.2% in the fourth quarter compared with the third quarter, and grew 0.7% in 2008 compared with 2007. The ministry also said that France's GDP should contract this year on average by at least 1.0%.

Euro-zone industrial production fell 2.6% in December from a month earlier and 12% from a year earlier, the biggest declines since comparable records began in 1990, Eurostat, the European Union's statistics agency, said Thursday.

"The gloomy industrial production figures for December complete the picture of the euro-zone economy taking a sharp nosedive by the end of last year," Martin van Vliet, a senior euro-zone economist at ING, said in a note.

The ECB acknowledged the economic weakness in its February monthly bulletin, also out Thursday, saying the euro zone and its major trading partners were undergoing an extended period of significant economic downturn, which was leading to a diminishing of inflationary pressures.

The ECB's Survey of Professional Forecasters showed analysts expected the euro-zone economy to contract by 1.7% this year and grow 0.6% in 2010—"by far the largest" downward revision in growth expectations since the launch of the single currency in 1999, the ECB's monthly bulletin said.

ECB Governing Council member Guy Quaden this week predicted the contraction in euro-zone gross domestic product in the fourth quarter is likely to be "catastrophic" when official data are reported Friday.

—Nina Koeppen, Geraldine Amiel, Jonathan House and Jason Sinclair contributed to this article.

CORPORATE NEWS

Tesco broadens discount line

British grocer responds to increasing competition as its sales growth slows at home

BY CECILIE ROHWEDDER

LONDON—**Tesco** PLC, Britain's biggest retailer by sales, said it is expanding a recently launched line of discount products as part of an effort to drop prices and fend off escalating competition.

The retailer, which also operates in the U.S. and 12 other countries, said it is adding 200 products to a range of 350 discount items that it introduced in its U.K. stores in September.

The push on prices is the latest sign of the intense efforts by food retailers to boost their price credentials with cash-strapped consumers, who are defecting to cheaper grocery stores. In recent months, Tesco's share of the British food market has shrunk, while that of Asda, **Wal-Mart** Inc.'s British business, has risen. Tesco also has faced rising competition from German discounter **Aldi Einkauf** GmbH; it developed its own discount range partly in response to Aldi's growing market share.

Tesco said 25% of its customers had tried the discount products that Tesco sells, in addition to its low-priced Tesco Value line and price promotions on 9,000 other goods in its stores. "If you take Tesco Value and the discount range together, we have an Aldi within Tesco," said Lucy Neville-Rolfe, the retailer's corporate- and legal-affairs director.

Tesco is cutting prices across the board. As a Valentine's Day promotion, for example, the retailer is offering a main course, side dish, dessert and wine for £9 ($13).

Tesco still holds a 30.7% share of the British food market, according to TNS, a market-insight and information company. That is nearly double the market share of Wal-Mart's Asda, Tesco's nearest competitor.

But last month, Tesco posted the slowest year-end sales growth in its home market since the early 1990s. Sales at the retailer's U.K. stores open at least a year increased 2.5% compared with a year earlier in the seven weeks to Jan. 10.

Tesco's renewed emphasis on the discount range also marks an effort to dispel criticism that the line is confusing for customers. The discount items come under a variety of unknown brand names, such as Daisy laundry detergent, Country Bran cereal and Trattoria Verde pasta. They are more expensive than Tesco Value products, but cheaper than Tesco's standard store brand and the Tesco Finest range of premium products.

In a recent research note, J.P. Morgan said the line is complicating Tesco's pricing system rather than focusing on lowering overall prices.

"We wonder whether Tesco, through its relentless focus on customer segmentation...has lost sight of the bigger picture, i.e. the cost of the trolley customers roll out the door with," said analysts Jaime Vasquez, Alastair Johnston and Bianca Brebnor in the report.

Reuters

Tesco's new brand focus

U.K. market share for selected supermarkets*

	U.K. market share	Change from same period a year earlier
Tesco	30.7%	-0.5
Asda	17.2	+0.3
Sainsbury's	16.2	-0.1
Morrisons	11.9	+0.3
Waitrose	3.7	-0.2
Somerfield	3.3	-0.3
Lidl	2.3	+0.1
Aldi	0.5	+0.4

*For 12 weeks ended Jan. 25, 2009. Source: TNS

ABB profit falls on big charges, legal provisions

BY GORAN MIJUK

ZURICH—**ABB** Ltd. on Thursday reported an 88% drop in fourth-quarter net profit on hefty restructuring charges and legal provisions, and warned of a difficult year ahead as orders fall.

The Switzerland-based electrical-engineering company said net profit for the three months ended Dec. 31 fell to $213 million from $1.75 billion a year earlier. The results were weighed down by an $870 million charge related to continuing investigations into alleged anticompetitive practices in the U.S. and Europe, as well as restructuring costs. The company is undergoing a restructuring to trim costs and adapt to lower demand, and has also suspended a $2.2 billion share buyback.

"The outlook for 2009 remains uncertain," said Chief Executive Joe Hogan. "We are taking steps now to ensure that we remain competitive, no matter how the market develops," he said.

Joe Hogan

ABB's business has been growing quickly during the past few years thanks to strong demand for infrastructure projects in Asia and the Middle East. But demand for many of its large projects, such as electricity networks, is waning during the downturn as investors struggle with capital constraints.

As a result, fourth-quarter orders, which reflect future revenue streams, fell 19% to $7.18 billion from $8.87 billion in the year-earlier period—falling slightly short of already subdued analyst estimates.

Analysts viewed the steep drop in orders as a sign of future weakness, even as the company was able to improve sales 4.9% to $9.14 billion in the fourth quarter from $8.71 billion a year earlier, thanks to a still-healthy order backlog.

Although the general market outlook remains dim, ABB was optimistic about its medium-term future, not least because the company's balance sheet is healthy, providing it with ample funds for its revamp.

The company may also benefit from the various government stimulus packages around the globe, analysts say. Many of these programs are expected to boost infrastructure and construction projects, key markets for ABB.

Diageo reduces outlook as drink sales slow

BY MICHAEL CAROLAN

LONDON—**Diageo** PLC on Thursday cut its full-year profit forecast and launched a cost-cutting plan after both sales and profit slowed in its second quarter.

The announcement sent Diageo shares lower. The stock fell 3.3%, despite the company's 14% increase in fiscal first-half net profit. The maker of Guinness stout, Smirnoff vodka and Johnnie Walker scotch said net profit in the six months ended Dec. 31 rose to £1.14 billion ($1.64 billion) from £975 million a year earlier.

Sales rose 18% to £5.07 billion. But stripping out the effect of acquisitions and currency movements, sales rose just 3% in the first half, a slowdown from the 6% growth reported for the first quarter.

Diageo said it was being hit by destocking, or stores and distributors keeping fewer Diageo products in storage than they did in the past. The company also cited a wider drop in consumer confidence, which it expects to keep falling through the second half of the year.

For the full year, which ends June 30, the company forecast operating-profit growth in the range of 4% to 6%—below its previous target of growth between 7% and 9% and down from a 9% rise a year earlier.

Europe, particularly Spain, was the company's weakest market as consumer spending slowed and as wholesalers lowered inventories to conserve cash, Finance Director Nick Rose said. Mr. Rose said he expects further destocking outside of Europe. "Our guidance reflects the fact that we expect it to continue in the second half," he said.

In response to the downturn, Diageo said it would start a restructuring program to cut £100 million from the company's annual cost base, at a cost of £200 million in the second half. Mr. Rose declined to give details on the cost-saving plan but said it would be a global program covering all areas of the business.

"This shouldn't just be seen as potential to cut jobs," he said. "We're going to consider everything."

Reuters

Diageo, the maker of Smirnoff vodka, Guinness stout and Johnnie Walker scotch, expects consumer confidence to continue to fall through the second half of 2009.

Arcandor says retail holds up, but outlook is murky

BY ERIN FINES
AND NATALI SCHWAB

FRANKFURT—**Arcandor** AG said Thursday that its retail operations outperformed the German retail market in December despite an "extremely challenging environment," but declined to give a full-year forecast because of the worsening economic situation.

The German retail and tourism company reported a wider net loss for its fiscal first quarter, ended Dec. 31, hit by restructuring expenses at its Primondo home-shopping business and Thomas Cook travel unit, as well as higher interest charges.

Arcandor said its net loss widened by 54% to €58 million ($74.8 million) from €37.7 million in the year-earlier period. Total first-quarter sales rose 1.1% to €4.8 billion.

The quarter ended Dec. 31 is usually the strongest for the company's Karstadt department-store chain and Primondo, but weak for the travel business. Arcandor has recently booked nearly 60% of sales and over 90% of earnings from its travel operations, through its 52% stake in U.K.-based travel company **Thomas Cook Group** PLC.

Chief Executive Thomas Middelhoff, who will be succeeded on March 1 by former **Deutsche Telekom** AG finance chief Karl-Gerhard Eick, said business in the fiscal second quarter is "on track" and that Arcandor expects fiscal 2009 to benefit from cost savings programs introduced in late 2008.

Still, Arcandor didn't confirm its previous forecast that adjusted earnings before interest, tax, depreciation and amortization would grow by 34% to over €1.1 billion for the full fiscal year.

Arcandor's quarterly figures are reported to reflect the merger of Thomas Cook AG of Germany and Britain's MyTravel, which formed Thomas Cook Group in February 2007, creating the Europe's second-largest tourism company by market capitalization after **TUI Travel** PLC.

News in Depth

Suite and sour

Downturn takes a bite out of London's condo kings, the Candys > **Pages 12-13**

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[1] 99,93%

Coke's profit drops 18%

Strengthening dollar counters momentum in non-U.S. markets

By Betsy McKay
And Anjali Cordeiro

Coca-Cola Co.'s better-than-expected fourth-quarter net profit showed the beverage giant is maintaining sales momentum despite the global slump in consumer spending. But a decline in revenue also revealed new challenges posed by the strengthened dollar.

Currency fluctuations shaved seven percentage points from fourth-quarter revenue growth and reduced operating-profit growth by nine percentage points. The company, which derives about 80% of profit from outside North America and has benefited in recent years from a weak dollar, said it is likely to continue to take a hit in the first quarter of this year, with the stronger dollar expected to reduce operating-profit growth by between 10 percentage points and 12 percentage points.

Coke Chief Executive Muhtar Kent acknowledged in an interview that "there may be one or two quarters" in which the company isn't able to achieve its long-term growth targets of 3% to 4% volume growth and earnings-per-share growth in the "high-single digits" on a currency-neutral basis, because of the slumping economy. But he said the company still expects to meet those targets over the long term.

New drinks, marketing and efforts to cut costs and work more efficiently with the company's bottlers are helping to limit the blow of the economic slowdown, he said. Coke is introducing new products, such as a low-calorie version of Glaceau Vitaminwater with a new natural sweetener, to shore up demand. It is launching new bottle and can sizes around the world to offer more affordable portions and encourage consumers to stock more drinks at home. The company has worked with its largest bottler, **Coca-Cola Enterprises** Inc., to set up a joint organization to coordinate supply-chain activity.

Heavy investments the company and its bottlers have made into placing more vending machines, expanding routes and improving the brand portfolio are helping the company now, he said. "We will come out of this stronger than when we went in," he said.

Coke's 18% decrease in fourth-quarter profit included write-downs for restructuring and reflect the company's portion of a charge taken by Coca-Cola Enterprises, in which it owns about a 35% stake. The company reported net income of $995 million, or 43 cents a share, down from $1.21 billion, or 52 cents, a year earlier. Excluding the write-downs, earnings rose to 64 cents from 58 cents.

Revenue fell 2.8% to $7.13 billion, led by a 12% decline in Eurasia and Africa. Analysts polled by Thomson Reuters expected per-share earnings of 61 cents on $7.52 billion in revenue.

While North American volume slid 3%, global volume rose 4%, higher than many analysts had expected. "The company's earnings power is not as impaired by the macro environment as some had feared," said Stifel Nicolaus analyst Mark Swartzberg. "Their business model is in better condition than it was 10 years ago when we saw the last slowdown of this type."

In trading late Thursday afternoon on the New York Stock Exchange, Coke shares were up 5.8%, or $2.41, at $43.68.

Associated Press

Coke expects the stronger dollar to trim operating-profit growth by between 10 and 12 percentage points in this year's first quarter.

Home builder Emaar reports loss

By Stefania Bianchi

DUBAI—**Emaar Properties** PSJC, the Middle East's largest home builder, Thursday posted a fourth-quarter net loss of 1.77 billion United Arab Emirates dirhams ($482 million) because of a U.S. write-down, and the company put new projects in Dubai on hold amid a property slump in the emirate.

Before the write-down, fourth-quarter net profit was 924 million dirhams, compared with a profit of 1.74 billion dirhams a year earlier, the company said in an emailed statement to Zawya Dow Jones.

Full-year profit dropped 54% to 3.06 billion dirhams from 6.58 billion dirhams a year earlier. Revenue declined 10% to 16.02 billion dirhams, Emaar said.

Emaar wrote down 1.77 billion dirhams in goodwill in its John Laing Homes unit amid the financial crisis, and a further 919 million dirhams in properties owned by the company during the quarter. Emaar, which is about 30%-owned by Dubai's ruling Maktoum family, bought John Laing Homes, one of the largest home builders in the U.S., for $1.05 billion in 2006 in an effort to diversify its business from Middle East real estate.

Emaar, which has projects in countries such as India, Turkey, Syria, Saudi Arabia and Morocco, said it is putting future real-estate projects on hold to stem the oversupply of units in Dubai. The company said it will concentrate on completing all construction projects that are under way.

"Revisiting the project pipeline is a natural response to the new economic realities. We have also been negotiating with our partners to rationalize the project cost benefiting our shareholders and customers," said Emaar Chairman Mohamed Ali Alabbar, who also heads an economic task force set up to revive Dubai's financial vitality.

Dubai's once-booming property market has slowed in recent months and home financing has evaporated, affecting Emaar's sales and property prices. Home builders in the U.S., where John Laing Homes is based, also are struggling in the credit crisis, triggered by defaults on subprime mortgages.

Emaar's results fell far below analysts' expectations. Credit Suisse had forecast that Emaar would post a fourth-quarter net profit of 855 million dirhams and a full-year profit of 5.7 billion dirhams, while investment bank Prime Emirates predicted that Emaar's fourth-quarter profit would be 2.1 billion dirhams.

"Investors will not react positively to this, despite the fact that the company has done the right thing by writing down its U.S. assets," said Ayman El Saheb, director of operations at Darahem Financial Brokerage.

Emaar shares closed down 0.5% at two dirhams on the Dubai Financial Market Thursday. Shares in Emaar, the largest publicly traded property company in the Middle East, have plunged more than 80% since the start of last year. Real-estate companies have been among the biggest losers on the region's stock markets in recent months.

In Dubai, Emaar's project portfolio includes the Burj Dubai, planned to be the world's tallest building, which is to open later this year.

—Nikhil Lohade in Dubai contributed to this article.

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Pioneer plans to exit TV business, cut jobs

By Daisuke Wakabayashi

TOKYO—**Pioneer** Corp. said it plans to exit its money-losing television business and cut thousands of jobs, the latest example of Japan's flagship electronics manufacturers trying to cope with stagnant consumer demand and the strong yen.

Crippled by a decline in sales and price competition with larger rivals, Pioneer said Thursday that it would withdraw from the plasma-display business by March 2010. Pioneer already has cut nearly 10,000 full-time and temporary jobs in the first nine months of its business year ending March 31, and said it plans to reduce its staff by an additional 10,000 workers.

Pioneer warned that its net loss for the year will be bigger than previously expected. It now sees a loss of 130 billion yen ($1.44 billion) for the year ending March, compared with an earlier projection for a loss of 78 billion yen. The company also expects to post a loss in the coming fiscal year because of restructuring charges.

After burning through about 40% of its cash and tripling its net borrowings in the October-December quarter, Pioneer said it is considering financial "partnerships."

Pioneer joins a long list of Japanese manufacturers, particularly in the electronics and auto industries, to slash earnings forecasts and announce layoffs and restructuring measures. Japanese exporters are also grappling with a strong yen that eats into overseas sales.

The news from Pioneer comes before Japan is set to announce gross-domestic-product figures for the October-December quarter Monday. Economists expect Japan's GDP to have shrunk by more than 10%, a sharper rate of decline than is expected from other major economies.

While Japan has largely avoided the housing bubble and credit losses weighing on the U.S. and Europe, its economy is paying the price for its reliance on its manufacturing industry.

Pioneer's problems have been exacerbated because it decided to go after the high end of the television market in recent years after failing to keep pace with relentless price cuts from competitors.

It limited its plasma-display televisions to 50-inch and 60-inch models and charged a premium compared to other manufacturers. Meanwhile, it tried to cut costs by not making its own plasma-display panels and opting to buy panels from **Panasonic** Corp.

The company expects plasma-TV shipments to fall to 290,000 units in the current fiscal year, down from 460,000 units last year. In addition, it is shelving a plan to start making LCD televisions using panels procured from **Sharp** Corp.

Pioneer said it is in talks with Sharp, which owns 15% of Pioneer, to create a joint venture for its DVD businesses. It plans to close about 30% of its production companies and will sell idle assets and curb capital spending.

For the third quarter ended Dec. 31, Pioneer swung to a net loss of 26.1 billion yen from a profit of 1.7 billion yen a year earlier. Revenue dropped 38% to 131.2 billion yen.

—John Murphy and Yuka Hayashi contributed to this article.

Trimming down

Number of recent layoffs announced by nonfinancial companies in the Asian-Pacific region:

Company	Layoffs
Nissan	20,000
Sony	16,000
Panasonic	15,000
Pioneer	**10,000**
TDK	8,000
BHP Billiton	6,000
Lenovo	2,500

Source: WSJ reporting

EDF cites French regulations for 39% decline in earnings

By David Gauthier-Villars

PARIS—State-controlled utility **Electricité de France** SA posted a sharp drop in 2008 earnings, blaming French regulations that require it to sell some of its electricity at below-market prices.

EDF, a former monopoly, said Thursday that its net profit fell 39% to €3.4 billion ($4.38 billion) last year, compared with €5.62 billion in 2007, as it booked a provision of €1.2 billion that it said was needed to offset the expected cost of subsidizing competitors and customers. Revenue rose 7.8% to €64.3 billion.

France regulates electricity tariffs as a way to help consumers and boost the competitiveness of French companies. The approach has raised the ire of European regulators, who are seeking to introduce more competition in energy markets.

EDF said it intends to sell at least €5 billion of assets over the next two years to reduce its debt, which rose after the French company bought power companies in the U.K. and the U.S.

EDF's debt rose to €24.5 billion at the end of 2008 from €16.3 billion a year earlier.

EDF went on a buying spree last year to fulfill an ambition of expanding its nuclear operations overseas. The company is already the world's largest operator of nuclear reactors, with a fleet of 58 machines in France. It now aims to build or help build reactors in China, the U.S., the U.K. and possibly Italy.

In September, EDF agreed to acquire smaller U.K. nuclear-power company British Energy PLC for £12.5 billion ($18 billion) and, in December, the French company said it would spend $4.5 billion to acquire half of the nuclear operations of U.S. utility **Constellation Energy Group** Inc.

The company said it would recommend that shareholders approve a dividend of €1.28 a share against 2008 earnings, unchanged from last year's payout.

Thursday, EDF shares fell 7.5% to end at €32.89 on the Paris bourse.

CORPORATE NEWS

Total keeps spending plan

Despite latest loss, French oil company won't shelve projects

BY DAVID GAUTHIER-VILLARS

French oil company **Total** SA posted a net loss but said it would still keep investment at about last year's level and not shelve any large projects.

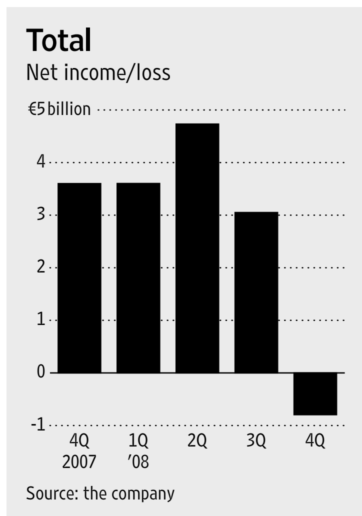
Total reported a net loss of €794 million ($1.02 billion) for the fourth quarter, compared with a net profit of €3.60 billion a year earlier, because of a sharp drop in the value of its oil inventories.

The company plans to use the drop in raw-material prices as an opportunity to renegotiate procurement costs with equipment suppliers, Chief Executive Christophe de Margerie said Thursday. He said investment would remain about the same as last year—when it was €13.6 billion—in order to prepare for a global economic upturn. "If we stopped investing, it would not only be stupid, it would be a mistake," Mr. de Margerie told reporters.

Christophe de Margerie

Total's decision to keep investing in new oil and natural-gas projects may help it fend off pressure from governments for oil companies to contribute more of their profits to stimulus plans. Already, Total has been forced by the French government to finance the bulk of a €200 million program aimed at subsidizing heating oil this winter for lower-income households.

Yet, the company may find it difficult to continue all its projects when many oil-rich nations are freezing field development over concerns that energy prices have fallen below production costs.



Total's daily output fell 4% to 2.35 million barrels of oil equivalent last year, in part because of technical problems in Libya and social unrest in Nigeria.

Stripping out inventories and other items, Total posted adjusted net profit of €2.87 billion for the quarter, down 8% from a year earlier.

Revenue fell 10% to €38.7 billion.

As an example of Total's willingness to renegotiate prices with suppliers, Mr. de Margerie cited the example of Jubail, Total's €10 billion refinery project in Saudi Arabia. The company and its partners have decided to push back signature on some procurement contracts for the project by at least six months, he said.

Total said it was pursuing discussions with Iran on the South Pars liquefied-natural-gas project, a plan for which it may enlist support from **China National Petroleum** Corp. Last year, Total said the project was in jeopardy because, in addition to diplomatic hurdles stemming from Tehran's nuclear ambitions, estimated costs were rising sharply.

Closer to home, the Total CEO said his company remained keen on expanding in the nuclear-power business and was planning to take a 10% stake in a nuclear reactor project in the French region of Normandy.

Mr. de Margerie declined to say whether Total might sweeten its bid for Canadian tar-sand company **UTS Energy** Corp., after UTS said recently that Total's bid was too low.

Ryanair plans Dublin airport cuts

BY QUENTIN FOTTRELL

DUBLIN—Irish budget airline **Ryanair Holdings** PLC said Thursday that it plans to cut aircraft and jobs based at Dublin airport, blaming a new air-passenger tax from the Irish government. Meanwhile, U.K. airline **Virgin Atlantic Airways** Ltd. said it is considering cutting as many as 600 jobs because of the downturn in the industry.

Ryanair, which partly keeps costs down by using airports with the lowest charges, said it will cut Dublin-based aircraft this summer to 18 from 22, moving the extra aircraft to Europe. The move will result in 200 job cuts, mainly among pilots, cabin crew and engineers.

Ryanair, Europe's largest low-cost airline by passengers carried, employs around 6,000 in total. It said it will also cut its winter 2009 schedule at a later date. The airline's move is a response to the government's plan to introduce a €10 ($12.89) per-passenger tax at all Irish airports starting March 30.

Chief Executive Michael O'Leary said he would reverse the decision to cut aircraft and jobs in Dublin if the Irish government withdraws the tax.

Virgin Atlantic, meanwhile, said it is consulting with staff about 600 possible job losses and is talking to labor unions about ways to protect as many jobs as possible and avoid compulsory layoffs. Virgin Atlantic employs some 8,500 people world-wide.

Airlines have been hit over the past year, jolted first as fuel prices soared to record levels in the first half of 2008 and then, just as fuel prices began to retreat, by plummeting passenger numbers and cargo volumes due to the economic downturn.

"With falling demand for travel, airlines have to reduce their costs through a variety of measures including cutting capacity, freezing pay, unpaid leave and, regrettably, adjusting staff numbers," Virgin Atlantic Chief Executive Steve Ridgway said in a statement.

—Steve McGrath in London contributed to this article.

Indian retailer succumbs to credit crisis

BY ERIC BELLMAN

MUMBAI—One of India's largest grocery-store chains, **Subhiksha Trading Services** Ltd., has shuttered its 1,600 stores and laid off most its workers, its founder said in an interview, in another sign of how the financial crisis is striking even industries that have little exposure to the global economy.

Even though demand among Indian consumers remains strong, Subhiksha and other major Indian retailers are paying the price of over-expansion. Some are struggling to stay in business now that financial backing has dried up, a sharp swing in a matter of months from an era when they were viewed as perfectly poised to ride the wave of consumption among India's rising middle class.

Until late last year, Subhiksha was opening stores at a rate of 50 a month. But plans for an initial public offering to raise funds fell through at the end of 2007 as the stock market slid. Then, in September, just as the company was about to bring in an international investor to finance further expansion, Lehman Brothers Holdings Inc. collapsed and the investor walked.

"The credit market completely froze up" after Lehman, said R. Subramanian, Subhiksha's founder and managing director. "Money is like blood. If the blood flow stops, the entire brain stops working."

Subhiksha had to stop paying salary, rents and suppliers as it looked for cash but no interested parties emerged. Last month it closed all its 1,600 stores and asked 14,200 of its 15,000 employees to take "unpaid leave." It is now in the process of restructuring its 7.5 billion rupees ($153.7 million) in debt with the government and its 13 lenders.

Mr. Subramanian said he hopes to be back in business in May. The company will have to resupply most if its stores, though, as looting and spoiling of its products mean there will be little marketable left on its shelves. More than 600 of its stores, left unprotected by unpaid employees and security guards, have been looted. Wednesday, its distribution center in New Delhi was attacked and police are enforcing a curfew around its center in Mumbai.

"It is unlikely that one is going to go into the stores and find a lot of stock when we go back into business in May," said Mr. Subramanian. "We are getting completely choked."

Subhiksha isn't publicly traded but its woes are echoed among bigger, listed retailers in India.

GLOBAL BUSINESS BRIEFS

Rolls-Royce Group PLC

Jet-engine maker reports loss despite revenue gains

Rolls-Royce Group PLC swung to a net loss for 2008 as exchange-rate losses more than offset a rise in revenue, but offered a cautiously optimistic outlook for 2009. The world's second-largest maker of commercial and military jet engines after General Electric Co. posted a full-year net loss of £1.34 billion ($1.93 billion) compared with a net profit of £606 million in 2007. The U.K.-based company attributed the loss to last year's 28% decline in the value of the pound against the dollar. Rolls-Royce generates net dollar receipts of between $3.5 billion and $4 billion a year and takes hedging positions to cover that amount, which, at the end of the year, were at a higher rate than the actual exchange rate. Revenue, meanwhile, increased 22% to £9.08 billion.

Capgemini SA

Capgemini SA, Europe's largest computer-services company, Thursday posted a 19% drop in second-half net profit and warned that revenue and margins may decline in the first half of 2009, sending its shares down 9% in Paris. Net profit fell to €220 million ($284 million) from €272 million a year earlier, hit by restructuring costs and income-tax increases, while revenue edged up to €4.34 billion from €4.31 billion. Like-for-like revenue, which strips out the effect of acquisitions, disposals and currency movements, may decline by as much as 2% in the first half of 2009, said Chief Executive Paul Hermelin. At the start of the year, many customers are taking a "wait-and-see" approach to adjustable spending, he said.

Square Enix Holdings Co.

Videogames maker **Square Enix Holdings** Co. of Japan agreed to buy **Eidos** PLC, the British company behind titles such as "Tomb Raider" and "Championship Manager," for £84.3 million ($121.3 million) to extend its reach in Europe. Eidos, formerly known as SCi Entertainment Group PLC, has been hit by weaker-than-expected U.S. sales of "Tomb Raider: Underworld," starring Lara Croft. Square Enix, which also makes "Final Fantasy" role-playing games, said it would pay 32 pence a share in cash for Eidos. That is more than three times Eidos's closing share price of nine pence on Jan. 14, the day before the bid approach was announced. Square Enix said operating profit fell 29% from a year earlier to 12.77 billion yen ($141.3 million) for the nine months ended Dec. 31.

Marriott International Inc.

Marriott International Inc. swung to a fourth-quarter loss on restructuring charges and lower revenue, and the hotel company projected continued weakness as the economic downturn restricts travel. At its hotels in North America, Marriott said revenue per available room—or revpar, a key financial measure in the industry—is expected to fall 17% in the first quarter. Outside North America, it expects a 15% drop. Marriott, Bethesda, Md., reported a net loss of $10 million, or three cents a share, for the fourth quarter, compared with year-earlier net income of $176 million, or 46 cents a share. Excluding restructuring charges and other items, earnings fell 45% to 34 cents. Revenue declined 7.5% to $3.78 billion.

Kellogg, Brown & Root

Kellogg, Brown & Root LLC pleaded guilty to U.S. bribery charges in Houston on Wednesday and, with its current and former parent companies, agreed to a larger-than-expected $579 million in fines and penalties arising from a plan to bribe Nigerian government officials. The deal, which also involves **KBR** Inc. and **Halliburton** Co., the former parent of Kellogg, Brown & Root, was set at $559 million when it was announced last month. KBR is paying $402 million in criminal fines, and the companies are jointly paying $177 million to settle the U.S. Securities and Exchange Commission's civil complaint, which accused them of accounting and internal-controls violations.

Gas Natural SDG SA

Spain's competition authority has allowed **Gas Natural SDG** SA to hold onto the gas unit of **Union Fenosa** SA if Gas Natural sells some assets, clearing the takeover. Gas Natural last year agreed to buy 45.3% of Union Fenosa from Spanish construction company **Actividades de Construccion y Servicios** SA and launch a bid for the rest. Antitrust clearance was required for the takeover, valued at about €18.26 billion ($23.54 billion). The antitrust agency said Thursday that Gas Natural will dispose of assets representing 2,000 megawatts of gas-fired power generation. Italy's Eni SpA owns 50% of Union Fenosa Gas and has rights to purchase the other half if the unit is up for sale. Gas Natural agreed to let Union Fenosa continue to supply third parties.

Nissan Motor Co.

Nissan Motor Co. Thursday joined other major Japanese auto makers in targeting increased sales in China this year, hoping that high sales in the huge market will help it get through the global slowdown in car demand. Nissan said it aims to increase China sales volume by 4.6% to 570,000 vehicles in 2009. Japan's third-biggest car maker by volume seeks to increase passenger-vehicle sales by 6.7% to 415,000 vehicles to offset an expected 0.6% fall for light commercial vehicles, to 115,000 units. But the forecasts come as the Chinese market also shows signs of succumbing to the world slump. For the third straight month, year-on-year passenger-vehicle sales in China fell in January. In 2008, sales in the world's second-biggest auto market posted the slowest growth in at least five years.

Yamaha Motor Co.

Yamaha Motor Co. fell into the red in the fourth quarter and said it expects to be unprofitable this year, demonstrating how the yen's strength and a downturn in demand are hurting the company's bottom line. The Japan-based motorcycle maker posted a net loss of 41.3 billion yen ($456.9 million) in the quarter, a reversal from the year-earlier profit of 3.73 billion yen. It also posted an operating loss of 15.7 billion yen, compared with a year-earlier profit of 29.15 billion yen. Sales dropped to 321.31 billion yen from 421.71 billion yen. The poor results underscore how demand for motorcycles and leisure boats has taken a turn for the worse amid a slide in personal consumption. For the current year, Yamaha Motor expects to post a net loss of 42 billion yen.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Pakistan accepts partial Mumbai role

Official offers fullest accounting yet of investigation into November attacks, says most key plotters are in custody

Pakistan publicly acknowledged for the first time Thursday that last year's terrorist attacks on Mumbai were partly planned on its soil and said it had arrested most of the key plotters, the clearest sign to date that Pakistan intends to cooperate with international efforts to prosecute those behind the attacks.

*By **Zahid Hussain** in Islamabad and **Matthew Rosenberg** in New Delhi*

Reuters

Rehman Malik, Pakistan's interior ministry chief, said, 'The boats that were used by the terrorists...are under our possession.'

Detailing a strong Pakistani link to the three-day rampage in November, Interior Ministry chief Rehman Malik said his investigators had tracked down safe houses and hideouts used by the conspirators, traced the boats that carried the attackers from a seaside Pakistani town to the waters outside Mumbai, and found the store in the Arabian Sea port of Karachi that sold the engines used to power the dinghies that carried the 10 gunmen ashore.

"The boats that were used by the terrorists to reach Mumbai are under our possession," he said. He added that authorities have also taken into custody the crews that sailed them.

Mr. Malik's announcement appeared to mark a clear break from Pakistan's equivocation over the role of its people in the attacks. While India and the U.S. have urged Islamabad to take responsibility and action, some Pakistani officials had suggested the plot was hatched elsewhere and Pakistanis were only incidental players.

"Some part of the conspiracy has taken place in Pakistan," Mr. Malik said. "I want to assure our nation, I want to assure the international community, that we mean business."

India's Foreign Ministry called Pakistan's statement "a positive development" and said it would share whatever additional information it could. That was a marked change from the accusatory tone New Delhi has taken with Islamabad since the attacks on luxury hotels, a Jewish center and other targets left 171 people dead, including nine assailants.

State Department spokesman Robert Wood described reports of the arrests as "a very positive step."

Officials in Washington have pushed Pakistan to conduct a thorough investigation and offer a complete, public accounting of what they found.

"Pakistan knows the entire international community is watching and wants to see justice," Mr. Wood said.

Mr. Malik said six people have been charged in Pakistan with "abetting, conspiracy and facilitation" of a terrorist act, and several other suspected plotters are currently in Pakistani custody or under investigation. The suspects being held include at least one Pakistani who was living Barcelona, Spain, he said.

"Don't ask how I brought him to Pakistan," Mr. Malik said. "He was lured to come here."

Spain's Interior Ministry said it had no information about the arrest, and that it has made a request to Pakistan for information.

Mr. Malik's accounting of what Pakistani investigators have so far found offered a glimpse of a plot that used the global communications network to mask its origins. Some of the mobile-phone SIM cards were from Austria and India, Internet phone calls were made on an account paid for in Barcelona, and a Thuraya satellite phone was bought in the Middle East.

In Pakistan, Mr. Malik said authorities were able to trace and arrest "one of the main operators"—a man he said was named Hamman Sadiq—by sifting through records of bank transfers and telephone calls.

Mr. Malik said some of the plotters were linked to the banned Pakistani Islamic militant group Lashkar-e-Taiba, the outfit that U.S. and Indian officials say was behind the attacks.

Among those "under investigation," according to Mr. Malik, is Zaki ur-Rehman Lakhvi, the group's operational commander and the alleged mastermind of the attacks. Mr. Lakhvi was detained in a crackdown on Lashkar in December along with Zarar Shah, Lashkar's communications chief.

Mr. Malik said Pakistani investigators, who have been studying evidence provided by India in early January, are now seeking more information from New Delhi to help ensure they have enough evidence to convict the suspects.

Among the information being sought are DNA samples from the sole surviving attacker, who was captured by India, Mohammed Ajmal Kasab, and the nine others slain by Indian security forces. Mr. Malik said Pakistan needs the samples to confirm their identities.

One issue not directly addressed by Mr. Malik was Indian accusations that elements of Pakistan's Inter-Services Intelligence agency, which once had close ties to Lashkar, played a role in plotting the attack.

New Delhi, in its reaction, said it expects a complete crackdown on Lashkar and other Pakistani groups that have targeted India. "We would also expect that the government of Pakistan take credible steps to dismantle the infrastructure of terrorism in Pakistan," the foreign ministry said.

Pakistan has arrested much of Lashkar's top and mid-level leadership, but officials say the organization continues to operate.

Meanwhile, the International Monetary Fund will begin a 10-day review of Pakistan's economic performance Sunday.

Pakistan recieved the first $3.1 billion of a $7.6 billion IMF rescue packaged in November, and is expecting a $750 million installment upon completion of the review, a Pakistani official said.

—Haris Zamir, Thomas Catan and Louise Radnofsky contributed to this article.

Eastern Europe reels as demand for exports dwindles

By Marcus Walker

BERLIN—Eastern Europe, which narrowly survived the global financial crisis with help from the International Monetary Fund, now faces a second shock wave: Industry is slumping along with exports to Europe's wealthier West.

Economic data for 2008's fourth quarter, due Friday, are expected to show growth collapsing in countries such as Poland, the Czech Republic and Slovakia, which had coped relatively well with the crisis.

Thus far, the downturn's toll has been worst in countries that have large trade deficits and relied on foreign borrowing to pay for their consumption, such as Baltic nations Estonia and Latvia.

Many analysts expect that other countries that rely on foreign credit, such as Bulgaria and Romania, will follow the Baltics into recession now that cheap credit has dried up and investors are fleeing emerging markets.

Even the region's strongest economies are caught in the downward spiral, because of trade links with Germany and other euro-zone nations.

"Almost every country in central and eastern Europe will have a recession in 2009," says Neil Shearing, an economist at London consultancy Capital Economics. "The collapse in industrial production that we're seeing will spread and engulf these entire economies."

Growth in Poland and Slovakia could fall to around zero this year, while Hungary and the Czech Republic will have sharp economic contractions, Mr. Shearing predicts.

Friday's data are expected to confirm that Hungary's economy is shrinking. The country is suffering from falling exports and financial strains because of its citizens' excessive borrowing in foreign currencies in recent years.

Analysts expect data for Slovakia—which joined the euro zone in January—and the Czech Republic to show that a slowdown began in the fourth quarter, driven by the collapse in Western European demand for cars.

The two countries have turned themselves into the Detroit of Europe in recent years, luring carmakers from around the world to build factories there. Now their car sales are performing like Detroit's.

The Czech Republic's biggest exporter, carmaker Skoda, announced in December that it would operate its factories only four days a week for the first half of 2009, because of crumbling car sales around Europe. Sales in Western Europe of cars made in the Czech Republic, Slovakia and Hungary are currently down about 30% from a year ago, says Gyula Toth, Central Europe economist at Unicredit in Vienna.

"Car production in January and February will be terrible—you might see a 50% decline" from a year ago, Mr. Toth says. Many car factories stopped production because of both a lack of sales and a lack of energy last month, when a dispute between Russia and Ukraine cut much of Eastern Europe's gas supply.

Economists say prospects for a recovery depend heavily on Germany, which buys roughly a third of its eastern neighbors' exports.

Germany's economy is set to shrink by about 2.5% this year, the IMF predicts. Some business surveys suggest Germany might stabilize in the second half, however.

Even in Poland, which has a larger domestic market than other countries in the region, falling exports are hurting industrial production and employment, which is spilling over into weak consumer spending.

Polish trade data published by the country's central bank on Thursday showed that exports fell 16% in December from a year earlier. That followed a steep fall in November, when Western Europe's slowdown first made itself felt in the European Union's newer member states.

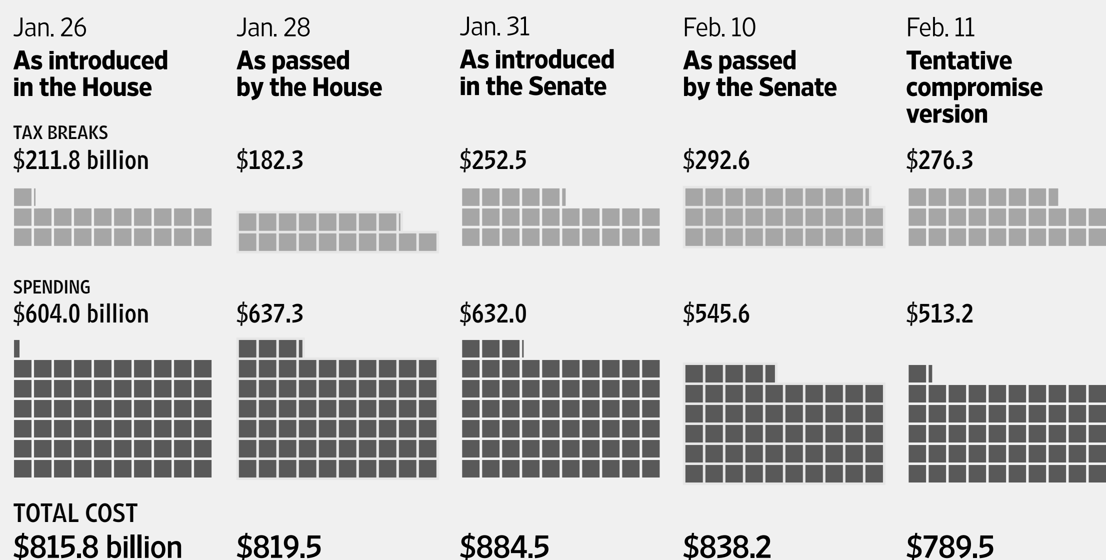
Export data for the Czech Republic, Hungary and Slovakia show the same pattern: Demand for the region's goods started to collapse at the end of last year. In December, Czech exports fell 13% from a year earlier, while Slovak exports fell 10% and Hungarian exports fell 16%, according to national statistics.

Polish furniture maker Profim Ltd. first felt its customers' falling demand at a trade fair in Cologne, Germany, in October. The company expects weak exports in the first half of this year, says marketing manager Katarzyna Bukowiecka. But Poland's weakening currency, the zloty, will help the company compete, she says.

The weak zloty is giving many other Polish companies a severe headache, however: Before the financial crisis, they invested in currency options to protect their export earnings against the zloty's seemingly inexorable rise.

The zloty's 30% fall against the euro since last summer means these companies now face financial losses, which Poland's financial regulator estimates could amount to more than 1% of Poland's gross domestic product.

Poland's government, which fears losses on currency options could bankrupt many domestic companies, wants banks that sold companies such instruments to help their clients pay for their losses.



Break on debt buybacks

Measure letting firms defer taxes survives in stimulus package

By Jesse Drucker
And John D. McKinnon

Companies and private-equity firms that want to buy back their own troubled debt at a discount could get a windfall from the economic-stimulus package headed for final votes in Congress.

A measure to allow companies to defer income taxes when they repurchase their own debt at a discount made it into the final deal with the help of Sen. Max Baucus (D., Mont.), chairman of the Senate Finance Committee. Sen. Baucus is a large recipient of campaign contributions from Wall Street, which would likely help structure and finance such deals. Sen. John Ensign (R., Nev.), who sponsored the original, more generous measure, is a major recipient of contributions from several companies that are owned by private-equity firms, such as MGM and Harrah's Entertainment Inc. The tax break will allow those companies to defer their taxes for up to five years and then pay the taxes over the next five years.

A spokeswoman for Sen. Baucus had no immediate comment.

A spokesman for Sen. Ensign said that the bill is supported by an array of companies that "employ millions of workers."

It is unclear how much this measure will cost.

The debt-buyback break survived even as other business tax breaks were scaled back. The overall balance in the final package appeared to shift toward individuals, at the expense of businesses. Tax lobbyists cited estimates that as much as $230 billion of the $275 billion in tax cuts primarily benefit individuals.

One other major business-tax break was left intact, allowing businesses to take larger tax deductions on capital spending in 2009 and 2010, rather than spread over several years, essentially a two-year extension of a break passed early last year. But many experts question its potential impact.

The final proposal scales back the single biggest corporate tax break passed earlier by both the House and Senate: a provision that would allow companies to use their so-called tax losses to offset five years of taxable U.S. profits, instead of the usual two. That would have entitled many companies to tax refunds. Now, that benefit will only be available to small businesses. Unprofitable businesses also won't be able to get cash for a range of unused tax credits as they had hoped.

A big new homebuyer tax credit, which critics argued would have reinflated the housing bubble and cost $35 billion, was ditched in favor of a more modest expansion of an existing tax credit. A break for new-car sales also was significantly scaled back.

For individuals, the stimulus bill, as overhauled by House and Senate negotiators, now promises a credit of up to $400 per person for 95% of wage earners, according to lawmakers.

That break—making good on President Barack Obama's campaign pledge—would start showing up in paychecks within weeks, through withholding adjustments. Supporters hope recipients will spend more of it, compared with past rounds of rebate checks.

The new credit, known as "Making Work Pay," diminishes for individuals earning $75,000 or more ($150,000 or more for couples), and disappears for people making about $100,000 (about $200,000 for couples). Millions who earn too little to have income tax withheld also could miss out unless they file returns—many don't. The bill offers a parallel $250 payment to retirees and disabled people.

Lower-income families would benefit from expansions of the earned-income credit and child credit. About four million college students—including many from higher-income families—will get an expanded break on tuition and related expenses.

For 26 million mostly middle- and higher-income households, there is also a one-year extension of relief from the Alternative Minimum Tax. Designed years ago to keep very wealthy people from avoiding tax, the AMT would hit millions more middle-class families each year because it was never indexed for inflation. Congress has been passing annual "patches" to fix the problem.

The tax breaks are mostly temporary. Congress and the Obama administration will have to decide whether to let them expire or make them permanent.

More money woven into safety net

By Laura Meckler

WASHINGTON—The U.S. economic-stimulus agreement reached Wednesday expands federal aid to an array of programs aimed at the poor and jobless, with billions of dollars for health care, unemployment insurance, food stamps and other programs.

Final negotiations between the House and Senate stripped away some of the more aggressive expansions that had been on the table, including an option to let states open their Medicaid programs to the unemployed. But the final deal still represents a larger federal contribution to nearly every major aid program the government administers.

In the final bill, the unemployed will see fresh aid on two fronts: an extension of unemployment benefits and help paying health-insurance premiums.

States typically offer 26 weeks of unemployment benefits, and the federal government had extended that by 20 weeks, with an additional 13 weeks for jobless in states with particularly high unemployment. The stimulus package keeps those extensions in place through 2009, meaning that many people will qualify for just over a year of unemployment checks.

The package also increases weekly payments by $25.

In addition, the package offers states big payments if they agree to expand their programs to more people, including people laid off from low-wage, part-time jobs who often do not qualify for aid today.

For instance, many states won't count recent earnings toward calculating benefits, a rule that hurts low-wage workers who often change jobs. States that change this provision will be rewarded by the bill.

"The unemployment provisions go a long way to fill the gaps in the program," said Maurice Emsellem, policy co-director of National Employment Law Project, an advocacy group.

CAPITAL ▪ David Wessel

Obama tries to contain exuberance without chilling confidence

TO COMMANDER-IN-CHIEF and economist-in-chief, U.S. President Barack Obama now has a chance to add this title to his portfolio: psychologist-in-chief.

In the story of the Obama administration, this week will go down as the one in which the president's team succeeded in getting the deal it had to have with Congress on an economic-stimulus package. The process wasn't always pretty, but by historical standards the speed in passing a signature economic measure is impressive.

This also is the week in which the administration flatly failed in its effort to sell Wall Street on a parallel plan to stabilize financial markets.

On both fronts, though, the psychological strain has been significant. Put bluntly, average Americans as well as the financial markets look more than a little scared right now. While that fear actually has been useful for Mr. Obama in pushing through the stimulus plan, it now may be time to engage in a little Franklin Roosevelt-style, all-we-have-to-fear-is-fear-itself soothing.

Handling public expectations is a balancing act for any president, and anxiety can be both an advantage and a disadvantage to a White House. Consider the landscape the Obama administration already has traversed in its still-short life.

Mr. Obama, whose campaign message was summarized in the title of his book, "The Audacity of Hope," prepared to take over amid what can fairly be described as a surplus of hope. Americans shocked by the rapid deterioration of the economy around them, and fearing for their jobs and their homes, seemed to be looking for something—anything—to make them feel better. Many of their hopes and aspirations were poured into a vessel named Barack Obama.

The phenomenon could be seen in polling numbers. After Mr. Obama secured the Democratic presidential nomination last summer, 46% of those surveyed by The Wall Street Journal and NBC News found him to have strong leadership qualities. Just before he was inaugurated, that number had risen to 70%.

JUST BEFORE November's election, 12% said the country was headed in the right direction. By Inauguration Day, that had more than doubled, to 26%. Only two things had really changed: The economy actually had gotten a lot worse, and Mr. Obama was about to become president.

If anything, the problem for the Obama team was that there was too much optimism, considering the circumstances. Excessive optimism could translate into excessive expectations that the new president could turn things around quickly. Excessive expectations become dashed expectations, which are politically fatal.

So the new president began throwing some cold water. His inaugural address was long on somber warnings of tough days ahead, short on pretty pictures of paradise awaiting. Mr. Obama began talking of an economic slump that could last years, and using words such as "catastrophe" to describe what might unfold. This week, he talked of potentially irreversible damage to the economy.

If the goal was to head off irrational exuberance, it worked. More than half the country now says it expects the recession to last as long as three years.

The grim language served another purpose: It was designed to create a sense of urgency in Congress to get the stimulus bill passed quickly. If Rome is burning, nobody would want to be seen doing too much fiddling.

And that worked as well. The House and Senate are marching ahead on precisely the timetable Mr. Obama wanted, one that could get the package done by Presidents Day. Remarkably, working out differences between the House and Senate versions—and they were considerable, measuring in the tens of billions of dollars—took a rump group of congressional leaders just 24 hours. They got the deal done by cutting some $50 billion out of the package, a move the White House embraced but its party's liberals will bemoan.

YET PART of the cost also can be measured in psychological terms. The flip side of containing exuberance is the risk of chilling confidence. And that's not a good thing when the biggest economic danger lying ahead is a vicious downward spiral in which Americans stop spending, prompting more layoffs, depressing spending further, producing more layoffs, with no obvious end in sight.

Indeed, the latest report from the Commerce Department shows December was the fifth-consecutive month of declining consumer spending, and it's hard to imagine anything has happened since to change that trend. In fact, a new poll from the Pew Research Center for the People and the Press shows that 30% of Americans now say the country is in a depression, up from 20% as recently as December.

Meantime, it took Treasury Secretary Timothy Geithner only about an hour Tuesday to take the financial markets to their own parallel state of declining confidence. The lack of convincing detail in the announcement of his plan to spend remaining funds to rescue financial markets left Wall Street with more a paucity than an audacity of hope.

It's worth remembering that the country survived some pretty horrific economic problems in 1974 and 1975, and again from 1980 to 1982. False hope isn't useful, but neither is a lack of hope. Somewhere in between lies a healthy psychological place, toward which Mr. Obama now can try to steer the nation. Actually, he'll soon get a golden opportunity, when he addresses a joint session of Congress, and the nation beyond, on Feb. 24.

Mr. Wessel responds to reader comments at WSJ.com/CapitalExchange. Or email him at capital@wsj.com.

REVIEW & OUTLOOK

The Real Stimulus Burden

In 2003, amid debate about the Bush tax cuts and a budget deficit of merely $400 billion, Maine Senator Olympia Snowe demanded that any tax cuts be capped at $350 billion. "At a time of growing federal deficits," the Republican declared to much media praise, "it is especially important that this plan be right-sized without putting our future at risk."

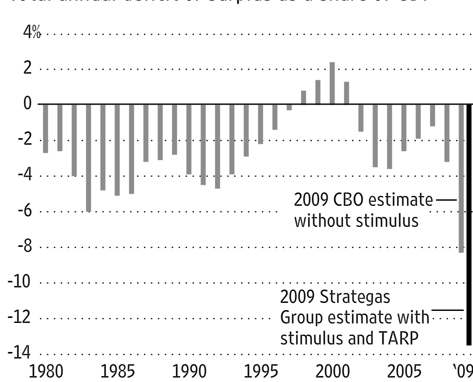
Flash forward to Tuesday: Ms. Snowe provided one of three crucial GOP votes that helped Democrats pass $838 billion in new spending and "tax cuts"—often for people who pay no taxes. The deficit for 2009 even before this stimulus? $1.2 trillion.

If nothing else good comes from this exercise, at least Senators Snowe, Susan Collins and Arlen Specter should be laughed out of town if they ever fret about a budget deficit again.

* * *

As we went to press, the details of the final House-Senate stimulus bill weren't available. But this much we do know: The bill will mark the largest single-year increase in domestic federal spending since World War II; it will send the budget deficit to heights not seen in 60 years; and it will establish a new and much higher spending baseline for years to come. Combine this new spending, and the borrowing it will require, with the trillions of dollars still needed for the banking system, and we are about to test the outer limits of our national balance sheet.

The three Republican amigos are praising themselves for cutting spending in the House bill by some $100 billion, but this is tinkering around the Beltway edges. The total price tag is still just under $800 billion, and the Senate version even increased spending from the House bill for more than 120 programs—such as $750 million for farm subsidies. Late Wednesday we were hearing that to add back more House spending, the conferees were cutting the size of the tax cuts that Barack Obama campaigned on.



Sources: Congressional Budget Office; Strategas Group

The original economic theory behind this bill was to spend the money quickly to create jobs fast. But even the most talented spenders on Capitol Hill couldn't find enough projects to fund in such a rush. So they spread out the largesse over several years—long after everyone hopes the recession is over. Some of these "timely" stimulus payments won't hit the economy until after the 2016 Olympics.

Even under CBO's conservative estimate, the Senate bill increases outlays by $546 billion over 10 years. But to get this low a figure, CBO assumes that the half-trillion in spending will be a one-time wonder. We are thus expected to believe that Democrats will let these additions to their favorite programs vanish after two or three years. To believe this, you have to ignore the last half-century of budget politics. Spending never declines; at best it merely fails to grow as fast as the economy.

Far more plausibly, Democrats will take the stimulus increases and make them part of a new, higher baseline for future spending growth. Anyone who proposes to cut from that amount will be denounced as "heartless" and Draconian.

The Republican staff of the House Budget Committee has calculated what happens to future spending if Congress continues to fund 19 of the most politically untouchable programs at their new stimulus levels. The list of 19 includes Pell Grants, Head Start money for poor kids, nutrition programs for seniors, Medicaid, special education, food stamps and cancer research at the National Institutes of Health, among others. Across a 10-year period through 2019, these 19 programs alone would increase federal outlays and tax entitlements by $1.59 trillion.

The nearby chart shows how the bill will increase the 2009 budget deficit, which is already the largest in modern history. Perhaps you recall the deficit wails from the Reagan years, but the peak deficit was only 6% of GDP in 1983. In the Clinton years we were told taxes had to rise to reduce a deficit of merely 3.9% of GDP. CBO estimates the 2009 deficit will reach 8.3% of the economy, not including the stimulus or bank bailout cash. Toss in those, and analysts at the Strategas Group estimate the deficit could hit nearly $2 trillion, or 13.5% of the U.S. economy.

We aren't deficit scolds, but these levels are uncharted territory, especially if any economic recovery is weak because the spending doesn't stimulate. The new spending means new federal debt in the trillions of dollars over the next few years, which will test the limits of America's credit-worthiness. To the extent that taxes rise to pay for it all, the U.S. will become less desirable as a destination for the world's capital. Perhaps the Federal Reserve will try to inflate away this growing debt, but the world's bond vigilantes will get a vote on that.

Americans need to understand the vast expansion of government they are getting—and who voted to pass it.

Lending Lesson

Wednesday members of the House Financial Services committee hauled in CEOs of banks receiving TARP funds to explain why they aren't lending the money. The CEOs largely rejected the premise. J.P. Morgan's Jamie Dimon said, "Our consumer loan balances increased by 2.1% in the fourth quarter, while overall personal consumption expenditure in the country decreased by 2.3% over the same period. That is to say, we lent more even as consumers cut back on their spending during the quarter."

Wells Fargo CEO John Stumpf noted that in the fourth quarter his bank increased loans to students, businesses, farms, and commercial real estate by double-digit rates.

Wednesday's testimony tracks the numbers reported by the Federal Reserve, which show that lending by U.S. banks and other depository institutions increased in the fourth quarter, despite accusations that banks aren't putting TARP money "on the street." What the politicians don't seem to realize is that commercial banks provide little more than 20% of credit in the economy, as Bert Ely recently noted in these pages. Nonbank lending, including investor purchases of asset-backed securities, is still the missing ingredient in our markets. Alas for Congress, those investors don't make ripe targets for the TV cameras at the witness table.

Held at Heathrow

Geert Wilders is an unlikely free-speech symbol, as the Dutch lawmaker wants to ban the Quran. And Britain is an unlikely country to suppress free speech, but police yesterday detained Mr. Wilders at Heathrow Airport to stop him from speaking at the Mother of Parliaments.

Lord Malcolm Pearson had invited the leader of the Dutch Freedom Party—who was indicted last month in his home country for "inciting hatred and discrimination" against Muslims—to discuss his anti-Islam film "Fitna." The 15-minute video juxtaposes Quranic verses that call for jihad with clips of terror attacks.

But the British Home Office said his presence would pose a "serious threat to one of the fundamental interests of society," arguing that his statements on Islam "would threaten community harmony and therefore public security in the U.K." A Home Office spokesman further explained: "The government opposes extremism in all its forms."

> By detaining Wilders, Britain undermines its own values.

In truth, the government is selective in opposing extremism, allowing last May, for example, Ibrahim Moussawi, a chief spokesman for the Iran-financed Islamist terror group Hezbollah, to enter the country and address meetings organized by the "Stop the War Coalition." In recent weeks, protesters against the Israeli Gaza offensive could freely express their support for Hamas, another Islamist terror group.

Barring Mr. Wilders from entering the country is not about opposing extremism but giving in to it. As insulting or offensive as Mr. Wilders's likening Islam to Nazism is, he doesn't call for violence, let alone terror. Nobody really thinks his presence will incite attacks on Muslims. Rather, the unspoken fear is that his visit will spark riots by Muslims.

Either the government is exaggerating the dangers, in which case his detention will only reinforce whatever prejudices people may have about Muslims. Or the threat analysis is correct and the free expression of Mr. Wilders's views really could have led to Muslim violence. In that case, the question is what sort of "community" would so easily turn violent, and where is the "harmony" that supposedly needs to be preserved?

Giving in to mob rule, real or imagined, is the abdication of democracy and the rule of law.

On Taste

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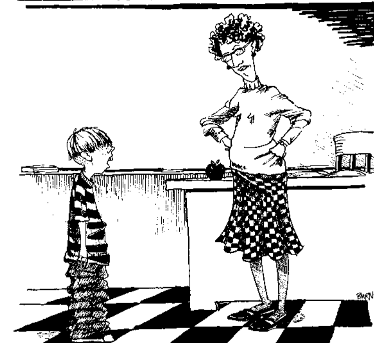
■ **The Jew as** scapegoat is the underlying moral of "The Brothers Ashkenazi," I.J. Singer's masterpiece novel, writes Joseph Epstein.

■ **There's increasing grumbling** about Valentine's Day, a holiday which forces people, at arrow-point, to declare their love, says Jennifer Graham.

Pepper . . . and Salt

THE WALL STREET JOURNAL



"I'd appreciate it if you'd go easy on me today because my Idol got voted off last night."