News in Depth: A family's unending quest for a missing Holocaust hero

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

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GM is expected to lay out a proposal this week for selling a stake in its Opel unit in a bid to win aid from Germany. Under the plan, GM would sell 25% or more of Opel and cut $1.2 billion in costs, officials said. Page 5

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■ **Hachette's U.S. unit will** reorganize its women's magazines under a plan to be unveiled Monday by new CEO Alain Lemarchand. Page 4

■ **Switzerland's central bank** said its president will retire at the end of the year.

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No land for bombs
Obama shouldn't bully Israel into deadly territory giveaways. Page 13

Breaking news at europe.WSJ.com

Crisis widens the EU divide

Hard-hit Eastern European countries find aid from their neighbors elusive

By Charles Forelle

BRUSSELS—European Union leaders struggled for a united response to the financial crisis as German Chancellor Angela Merkel rejected calls for a bailout of Eastern Europe while hard-hit Hungary proposed direct aid and fast-track entry to the euro zone.

The tensions at a Sunday summit made clear the difficulty of finding a cohesive approach to a recession that has hit the bloc's 27 members with widely varying force. Even in troubled Central and Eastern Europe, leaders of relatively stronger countries split with their neighbors over the wisdom of bailouts, out of fear of appearing weak.

At the summit, called by Czech Prime Minister Mirek Topolanek, who holds the European Union's rotating presidency, leaders reiterated a commitment to avoid protectionism in national rescue plans but left Brussels with few concrete decisions and no indication that a pan-European plan was forthcoming.

Hungary, Bulgaria, Romania and others in Central and Eastern Europe are facing massive economic contractions as once-booming industrial output executes a U-turn. In the Baltics, Latvia—which financed its expansion by borrowing from abroad—is literally running out of money as those spigots run dry.

The situation is exacerbated in Hungary and other countries outside the 16-nation euro zone where resi-

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Agence France-Presse

French President Nicolas Sarkozy, left, and Belgian Prime Minister Herman Van Rompuy before a group photo on Sunday at the economic summit of European leaders at the EU Council in Brussels.

U.S. adds funding for AIG bailout

American International Group Inc. will receive up to an additional $30 billion in U.S. federal assistance as part of the latest revamp of its government bailout, according to people familiar with the matter.

By Deborah Solomon, Matthew Karnitschnig, and Liam Pleven

The new funding is intended to support AIG as it absorbs $60 billion in quarterly losses and struggles to address operational and competitive upheaval. Under the plan, the insurer will repay much of the $40 billion it owes the Federal Reserve with equity stakes in two AIG units overseas—Asia-based American International Assurance Co. and American Life Insurance Co., which operates in 50 countries.

The changes are intended to be a lasting solution to AIG's parlous financial situation; they eliminate some of the ongoing cash demands necessary to repay government loans. For U.S. taxpayers, however, the new plan means new risks and potential losses. The U.S. government will now be a direct owner of AIG units, whose worth is hard to gauge.

The assets AIG is transferring to the government have been on the block for months, but have failed to receive ac-

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Tesco revamps aisles to handle U.S. slump

By Cecilie Rohwedder

LOS ANGELES—In 2007, as it rolled out ambitious plans to break into the U.S. market, British retailer Tesco PLC emphasized the high-quality foods at its Fresh & Easy supermarkets. Fifteen months, 114 stores and a deep recession later, the company has made big changes to its strategy: steep price cuts, aggressive advertising and a new budget brand.

Tesco—the world's fourth-biggest retailer by sales after Wal-Mart, Carrefour and Home Depot—always expected tough competition in places like Manhattan Beach, a seaside area of Los Angeles, where its Fresh & Easy store sits opposite a Trader Joe's operated by Aldi Group of Germany.

But it didn't foresee that its expansion—one of its biggest and most important projects in years—would dovetail with a deep downturn in consumer spending. "The world is a very different place now," says Tim Mason, president and chief executive of Tesco's U.S. business.

So the supermarket chain now woos customers with 98-cent fruit and vegetable packs and "Everything under $1" displays. A recent flier said, "A financial crisis shouldn't mean a dinner crisis."

How Tesco copes with the American economic crisis is being closely watched by rivals and investors. Competi-

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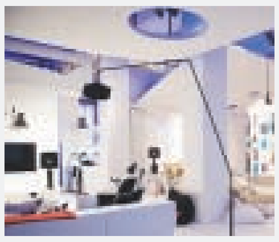

No fanfare

H&M quietly launches home-textile business online
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Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7062.93	-1.66
Nasdaq	1377.84	-0.98
DJ Stoxx 600	172.92	-1.83
FTSE 100	3830.09	-2.18
DAX	3843.74	-2.51
CAC 40	2702.48	-1.54
Euro	$1.2693	-0.54
Nymex crude	$44.76	-1.02

LEADING THE NEWS

Euro-zone joblessness hits 2-year high

Inflation slows down, raising likelihood of further rate cuts

By Joe Parkinson

LONDON—The euro-zone inflation rate fell while unemployment hit a two-year high in January, as 256,000 people joined the jobless ranks across the currency bloc's 16 countries.

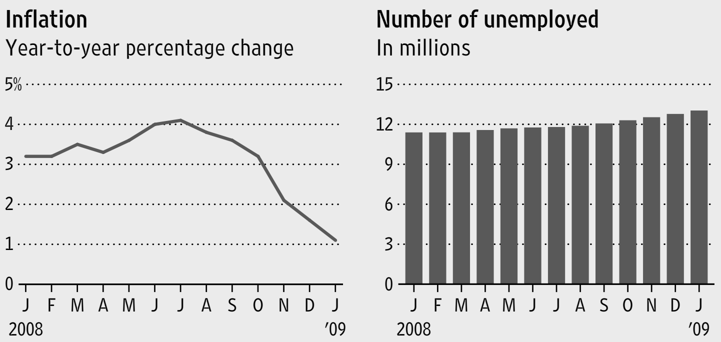
The unemployment rate rose to 8.2% of the work force in January from 8.1% in December, a figure not seen since September 2006, European Union statistics agency Eurostat said.

Meanwhile, the euro zone's annual rate of inflation in January was 1.1%, a slowdown from the 1.6% rate in December. Month-to-month, January prices contracted by 0.8% from December, partly reflecting post-Christmas discounting. That was the sharpest month-to-month drop since records began in 1997.

"Today's numbers vividly underline how the recession is affecting the euro-zone economy," said Jörg Radeke, an economist at the Centre for Economics and Business Research in London. "Rising unemployment will inevitably result in a widening of the demand gap which, in conjunction with the effects of the commodity price decline, is likely to accelerate the decline of inflation further," he said.

Different directions

Euro zone's inflation rate fell to 1.1% in January while the unemployment rate rose to 8.2%



Source: Eurostat

Economists said the drop makes it more likely that European Central Bank will reduce interest rates significantly in the months to come to offset the rapidly weakening economic activity. Members of the central bank's rate-setting governing council have indicated the ECB will cut its key interest rate to 1.5% from 2% when they meet Thursday.

"January's rise in unemployment, and further fall in core inflation, support our view that ECB interest rates have much further to fall," said Jennifer McKeown, an economist at Capital Economics, a consulting group.

Eurostat said the highest rates of unemployment in the euro zone were recorded in Spain, where the jobless rate jumped to 14.8% in January, and in Slovakia, where it rose to 9.8%. In Germany, the biggest euro-zone economy, the jobless rate rose to 7.3% from 7.2% in December—the first rise since July.

"With survey measures of hiring intentions continuing to ebb lower, further job-shedding is in the pipeline," said James Knightley, an economist at ING. "The euro-zone jobless rate could easily end up in double digits next year."

Meanwhile, the Nordic region's export-driven economies displayed the severity of the global economic downturn Friday with the release of abysmal fourth-quarter data. Sweden fell deeper into recession in the fourth quarter, with gross domestic product down a sharp 2.2% from the third quarter and a startling 4.9% from a year earlier, the country's national statistics agency said.

Data released Friday also showed that Finland has entered into recession after posting its worst economic performance since a banking crisis in the early 1990s, while the Danish economy fell back into recession. Denmark was the first EU member to slip into recession after the financial-market turmoil first began to surface in the summer of 2007, but the economy resumed growth in the second quarter of 2008 only to reverse that course in the second half of the year.

All three of the economies are witnessing steep declines in exports, as demand for Scandinavian goods slumps.

—Paul Hannon and Joel Sherwood contributed to this article.

RBS explores selling its Asian assets to ANZ

By Sara Schaefer Muñoz

LONDON—**Royal Bank of Scotland Group** PLC is in talks to sell its retail and commercial assets in Asia to **Australia & New Zealand Banking Group** Ltd. for about £1 billion ($1.43 billion), according to a person close to the situation, part of a new initiative to sell noncore assets and sharply narrow the banking giant's global ambitions.

The assets, which are in India, Taiwan, Indonesia and elsewhere, are a portion of the Asian assets acquired by RBS when it led a consortium to buy part of ABN Amro Holding NV in 2007. At the time, RBS paid £10 billion for its part of ABN, which included the Asian businesses and wholesale-banking operations in Europe.

ANZ couldn't be reached for comment.

The talks indicate that RBS Chief Executive Stephen Hester is moving ahead quickly with plans announced last week to identify and dispose of "noncore" businesses.

Mr. Hester's plan is aimed at trimming some 20% from the bank's £2 trillion balance sheet to help turn the troubled lender around. As a result, many other parts of the bank's global banking and markets division are also expected to be sold off over the next three to five years, as RBS retrenches.

RBS expanded aggressively under former CEO Fred Goodwin, and was hit hard by the freezing of the wholesale funding markets last year. In October, RBS accepted funding from the U.K. government.

Last week, as RBS reported the largest corporate loss in British history, Mr. Hester announced the latest round of moves aimed at righting the bank's course. The planned asset sales are part of that plan.

Another component is the bank's participation in the latest iteration of the U.K.'s bailout effort, an insurance plan for banks' bad assets.

RBS said it would insure £300 billion of assets and would also issue additional shares to the government to shore up its cash reserves, which could bring the government's economic stake to 95%.

The full plan is expected to cover more than £500 billion in souring assets at the country's banks. **Lloyds Banking Group** PLC is expected to announce the details of its participation this week.

Central banks in Europe are set for more rate cuts

By Joellen Perry

The central banks of the euro zone, the U.K. and Canada are expected to cut their policy rates to record lows this week. But with policy rates nearing zero, the cuts are likely to take a back seat to the question of other steps the central banks will take to shore up their struggling economies.

European Central Bank policy makers have hinted they will lop a half percentage point off their key rate at their Thursday meeting, taking short-term interest rates in the 16-nation euro zone to 1.5%. The cut would be the bank's fifth since October and bring the policy rate to its lowest level in the ECB's 10-year history. Further cuts are likely to follow, as the countries that share the euro struggle with their worst slowdown since World War II.

As the ECB's key rate falls closer to zero, attention is shifting to other tools the central bank has in its kit. The U.S. Federal Reserve, which cut its short-term rate to just above zero in December, last year began purchasing some short-term corporate debt, among other measures, to try to unclog credit markets.

Although the ECB had resisted such moves, policy makers have hinted the bank's resistance is waning. Options include expanding the range of collateral the ECB accepts for the short-term loans it makes to banks, purchasing euro-zone corporate bonds directly or buying government debt.

Also Thursday, the Bank of England is likely to announce plans to boost the supply of money in the U.K. economy by buying government debt. Britain's economy shrank at its fastest pace sine 1980 between October and December. The U.K. central bank began buying short-term corporate debt last month, and most economists expect it to cut its key rate—already at the lowest level in the bank's 315-year history—by a further half percentage point to 0.5%.

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INDEX TO PEOPLE

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

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

LEADING THE NEWS

HSBC will curtail U.S. consumer lending

Expected rights issue of at least $17 billion; dividend cut planned

By Carrick Mollenkamp And Sara Schaefer Muñoz

HSBC Holdings PLC plans to curtail its disastrous foray into U.S. consumer lending by pulling back from key businesses, according to people familiar with the matter, a move that comes as the British bank prepares to raise billions of pounds to shore up capital and possibly hunt for acquisitions.

HSBC may announce the moves as soon as Monday, when it announces 2008 results that were hurt by a dismal fourth quarter and slowdowns in the U.S., Asia and Latin America. The bank is expected to raise at least £12 billion ($17.2 billion) by issuing new shares to existing shareholders via a so-called rights issue. It also plans to announce a dividend cut.

At the same time, however, HSBC is largely throwing in the towel on the 2003 purchase of Household International Inc., a $14 billion deal that saddled it with a U.S. subprime lender whose results have worsened amid the housing downturn. HSBC had already ceased originating new U.S. auto loans; now, people familiar with the bank's plans say, it will stop providing personal loans, while continuing to offer credit cards. HSBC's move comes as U.S. banks are under pressure to lend more money to consumers, and it could signal that HSBC believes the downturn in the U.S. has a long way to go.

HSBC, whose U.S consumer-lending business is called HSBC Finance Corp., plans to shut the unit's roughly 800 branches, these people said.

The move to raise capital via a rights issue is a sign that the survivors of the financial crisis may be angling, over the next 12 to 24 months, to buy discounted assets from weakened competitors. The moves also highlight a big shift in how banks globally are retrenching in certain markets and expanding in others in what is creating a shift in how money will be deployed in the coming years.

> **Keefe, Bruyette expects HSBC to report an 11% drop in 2008 pretax profit.**

The immense fallout in the global banking business is widening the gap between those who have recorded massive losses and received state aid, and those who haven't and who may be aiming to make acquisitions if asset pricing stabilizes. Potential buyers are trying to gauge how much turmoil is left and whether that could further reduce asset prices.

HSBC, along with J.P. Morgan Chase & Co., has an increasing lead on other banks, with a market value of around $85 billion. That is far ahead of banks such as **Wells Fargo** & Co. of the U.S. and **Banco Santander** SA of Spain, both of which have market values of about $50 billion. The turmoil of the past year has sent bank values plummeting. A little more than a year ago, HSBC had a market value of some $200 billion.

HSBC shares fell 35.75 pence, or 6.8%, to 491.83 pence Friday in London.

HSBC plans to use the money to shore up its cushion against losses by increasing its Tier 1 capital ratio to just under 10% from 8.9% as of Sept. 30, according to people familiar with the situation. The ratio is a key measure of financial resilience.

On Monday, HSBC is expected to report a pretax profit of about $21 billion for 2008, down 11% from 2007, according to investment firm Keefe, Bruyette & Woods. That result could vary depending on one-time gains and losses, including exposure to the Bernard Madoff scandal as well as gains related to the cost of its credit insurance.

For HSBC, founded in Hong Kong to finance trade between Europe, China and India, Asia is shaping up as a drag on results but also a region where the bank sees opportunities to grow. In Hong Kong, HSBC is expected to post pretax profit of $6.3 billion, down 14% from 2007, according to Keefe, Bruyette.

But HSBC also is focused on buying available assets in the region if prices turn attractive in the next two years, according to a person familiar with the situation. The bank, for example, is interested in Asian assets that **Citigroup** Inc. might sell if the big New York bank exits the region to preserve capital. A spokeswoman for Citi declined to comment. Another potential target could be the Asian operations of struggling insurance company **American International Group** Inc. A prime AIG asset is a unit called American International Assurance Co., which operates a life-insurance operation.

An AIG spokeswoman declined to comment.

Reuters

Lloyds is trying to get a lenient deal on insuring assets like RBS did, but government officials are pushing for tougher terms. Talks are expected to continue on Monday.

Lloyds fails to clinch U.K. deal

By Sara Schaefer Muñoz

LONDON—The U.K.'s largest mortgage lender, **Lloyds Banking Group** PLC, is expected to reach an agreement with the government on the details of its partipation in a state asset-insurance plan early this week, a person familiar with the matter said.

The announcement would follow the bank's report of heavy 2008 losses and a bleak outlook for the coming year.

Lloyds shares fell 22% in London on Friday after the bank announced it was still locked in negotiations with the U.K. Treasury on a deal that could see it insure as much as £250 billion, or roughly $358 billion, in assets, part of a broader government plan aimed at restoring confidence in the country's banking system.

Lloyds is trying to get a lenient deal like that of **Royal Bank of Scotland Group** PLC, which on Thursday insured £300 billion in assets with lower-than-expected penalties. But government officials are pushing Lloyds for tougher terms, according to a person familiar with the matter. The talks are expected to continue on Monday, said another person familiar with the matter.

Lloyds Chairman Victor Blank said the bank is "optimistic" about the talks. He said the Treasury team had been up three consecutive nights to finish the RBS deal and needed sleep.

A Treasury spokesman would say only that the discussions are complex and take time.

News of the delay came as the bank reported sobering 2008 results for Lloyds TSB Group PLC and HBOS PLC, the two banks that merged recently to create Lloyds Banking Group. Mortgage lender HBOS posted a loss of £7.58 billion after taxes, compared with a net profit of £3.97 billion a year earlier, driven largely by souring property-related investments in its corporate-lending division. Lloyds TSB posted a profit of £819 million, down 75% from a year earlier, amid market dislocation and bad loans.

Lloyds said it expects the combined group to post more losses in 2009 amid rising U.K. unemployment and falling house prices.

The results, together with the uncertainty about Lloyds's participation in the asset-insurance plan, took a toll on U.K. banking stocks on Friday. Lloyds tumbled to 58.30 pence on the London Stock Exchange. RBS fell 20% to 23.20 pence.

Lloyds, which agreed to purchase HBOS last year in a veritable rescue of the lender, now faces a heavy burden from HBOS's large portfolio of troubled corporate loans. In one stark sign of the pace of deterioration, Friday's results showed that the share of problem loans in HBOS's £116 billion corporate-loan book reached 12% in 2008, up sharply from 3% in 2007. The bank also took £1 billion in impairment charges on souring loans to home builders.

Lloyds executives said HBOS's losses were only slightly worse than anticipated, pointing out that Lloyds's estimation of the losses at the time of the merger was off by £1.6 billion.

Chief Executive Eric Daniels said that the acquisition would bring cost savings and market growth for Lloyds and that Lloyds had already identified and isolated the riskiest of HBOS's assets. "We have our arms around the problems," he said. "This acquisition is about creating value in the medium and long term."

The weight of HBOS's bad loans puts added pressure on Lloyds to reach an agreement with the government on an asset-insurance deal, widely seen as a crucial move to shore up the bank's finances.

—Carrick Mollenkamp, Alistair MacDonald and Dana Cimilluca contributed to this article.

Goodwin on giveback at RBS: Forget about it

LONDON—Since leaving **Royal Bank of Scotland** Group PLC last fall amid a government bailout, Fred Goodwin has mostly taken his medicine in steely silence—even as the banker known as "Fred the Shred" was scolded before angry British lawmakers and saw his knighthood called into question.

*By **Carrick Mollenkamp, Alistair MacDonald** and **Jennifer Martinez***

But when the U.K. government asked the executive to hand back some of the RBS pension he walked away with, that was another matter. Sir Fred—he is still a knight—responded: Forget it.

His insistence on keeping a £693,000 ($991,000) annual pension, part of an exit package agreed to on the way out of RBS last October when the bank was on the brink of collapse, has caused an outcry here. By refusing to cave in to public sentiment, Sir Fred has emerged virtually alone among former and current bank chiefs in defending compensation that is now deemed tawdry.

Fred Goodwin

In question: Page 109 of the 2007 RBS annual report, which appears to say that if an executive is asked to leave the bank early, his pension can't be discounted. At the end of 2007, Sir Fred's pension was set to pay him £579,000 a year. But when he was forced out last October, Sir Fred, 50 years old, was given credit for 10 years more work, increasing the payout to £693,000 a year.

All of that took a back seat to multibillion-pound bailout plans—until this past week, when senior Treasury official Paul Myners on Wednesday asked Sir Fred to take a cut in the pension. The pension details leaked and by Thursday, Sir Fred and Mr. Myners were engaged in a heated back and forth.

"I simply put it to Sir Fred that the scale of his pension was something which people would find extraordinary in the circumstances of a company that had just reported such losses," Mr. Myners said, a nod to the fact that RBS had just reported the largest annual loss in British corporate history, at £24.05 billion.

After Mr. Myners requested that Mr. Goodwin accept a decreased pension, Sir Fred replied by letter, suggesting that Mr. Myners had engaged in a nasty government game of leaks. Sir Fred expressed "surprise" that the details of his payout, and the contents of his personal conversation, had been "placed in the public domain a few hours after we spoke."

A spokesman for Sir Fred declined to comment.

Mr. Myners responded in his own letter that Sir Fred's refusal to give up some of the pension was "unfortunate and unacceptable."

By Friday, Prime Minister Gordon Brown, the man whose government recommended Mr. Goodwin for the knighthood back when times were good, said he was seeking legal advice to try and claw back the pension. A person familiar with those deliberations said that Sir Fred's contract looked "pretty watertight."

To make matters worse, it was acknowledged that Mr. Myners knew of Sir Fred's contract and, according to Sir Fred, approved of it. Mr. Myners denied that he approved the deal and said he thought it was a contract that couldn't be changed.

Sir Fred's act of self-defense isn't playing well in one important place: RBS's hometown of Edinburgh.

"There is a sense of fury that the government seems impotent, unable to act when the man chiefly responsible for the bank's collapse is able to walk away with a pension that others can only dream of—and at the ripe old age of 50!" said Dave Pickering, a spokesman for the Edinburgh Association of Community Councils, in an email. "And what makes it worse is that we, the British taxpayers, are actually paying for it!"

CORPORATE NEWS

H&M quietly launches home textile line

Forgoing usual fanfare in rollout, fashion retailer aims to offset decline in clothing unit with decor sales online

By Ola Kinnander

STOCKHOLM—Fashion giant **Hennes & Mauritz** AB aims to offset slowing sales at its mainstream stores with its new online home-textile business, but in a sign of retailers' caution, the effort started without the usual fanfare of H&M's launches.

Delayed from its originally planned autumn 2007 launch, H&M Home's range of pillows, towels, curtains and other home-textile products has been quietly rolled out over the past couple of weeks to customers in Scandinavia, Germany, Finland, Austria and the Netherlands, sold through established catalog and online sales channels.

"It's a little surprising they're not blowing their horns more about this," said Anders Wiklund, who analyzes retailers for Evli Bank in Stockholm.

At a time when consumers are tightening their belts and most companies are scaling back their ambitions, the lack of fanfare accompanying H&M Home's launch highlights the economic uncertainty in retail markets. It is in stark contrast to the store's festive annual launches of new collections by designers, such as Karl Lagerfeld and Stella McCartney, which can attract thousands of customers who line up for several blocks outside H&M stores.

"For a new range [the quiet rollout] minimizes the fashion risk," said Société Générale SA analyst Anne Critchlow. "When you're launching a completely new concept, which Home is, you're not sure immediately what's going to work... This is a way of testing the range and build it up over time."

Stockholm-based H&M is playing catch-up with Spanish rival **Inditex** SA, owner of the Zara clothing chain, which launched Zara Home interior furnishing stores in 2003. Clothing still generates the vast majority of Inditex's sales, which totaled €7.35 billion ($9.32 billion) in the company's fiscal third quarter ended Oct. 31, but Zara Home now has 241 stores in 14 countries, as well as an online store launched in 2007.

H&M

H&M Home's quiet launch highlights the uncertainty in retail markets. Above, home-textile products at a press event in November.

Zara Home's results have been dented by the economic downturn. The company didn't break out the division's sales in its third-quarter earnings report in November, but said the brand performed "below average."

Meanwhile, **Hemtex** AB, the largest home-textile chain in the Nordic region by sales with about 220 stores, posted an 18% drop in sales to 309 million Swedish kronor ($34.3 million) for the three months ended Oct. 31, the latest figures available. Sales in comparable stores plunged 25%.

"Consumers are holding so tight onto their wallets that even price reductions aren't helping," said Hemtex Chairman Mats Olsson. "We've had almost this whole decade a growing interest for home design, but now it feels much more [like] wait-and-see."

H&M has already seen a slowdown in its fashion business, recording a drop in sales each month since August at stores open longer than a year. In its biggest market, Germany, where H&M generates a quarter of its revenue, unemployment has steadily risen to 7.9%, while retail sales have slowed; in December, home-furnishing sales fell 5.2% from a year earlier, according to data from the German central bank.

In H&M's home market of Sweden, retail sales fell for five consecutive months until January, when lower interest rates and fuel charges helped generate 2.2% growth in sales from the a year earlier. Swedish unemployment stood at 7.3% in January.

H&M, which has more than 1,700 boutiques around the world and reported annual revenue last year of 88.53 billion Swedish kronor ($9.83 billion), said it has no immediate plans to open H&M Home stores but said it is sticking to its expansion program for 225 new clothing stores this financial year.

"Generally H&M has done well in downturns compared with others," said Maria Lindblom, the H&M official in charge of the new Home unit. "We're investing in this long term."

Jyske Bank analyst Christian Nagstrup said the economic climate has changed since the Home launch was first mentioned but said H&M is taking the long-term view. "They have now built up the organization, and it would've been strange if they postponed it once again," Mr. Nagstrup said.

Analysts say that despite the timing and potential competition, H&M's move will fit with its strategy of diversification away from low-cost, and low margin, clothing. H&M Home will also be able to take advantage of the company's well-established supply chain, which will likely mean volume discounts and other benefits.

H&M Home is using some of the same suppliers in Asia as the parent company uses for the clothes, tailoring its logistics network to ensure fast and reliable delivery of new collections.

"They know our quality requirements and so forth, so we see a benefit working with some of the same suppliers," Ms. Lindblom said. She said H&M doesn't plan to disclose the earnings or sales from the business, consistent with its usual practice of not separating out its different business areas in its financial reports.

—Ian Edmondson in Stockholm and Christopher Bjork in Madrid contributed to this article.

Hachette reorganizes in the U.S.

By Russell Adams

Over the past decade, Hachette Filipacchi Media U.S. has closed titles, cut staff and developed a mounting sense that its French parent has little regard for the U.S. operation's management or its brands, which include Elle and Woman's Day magazines.

This week, the New York publisher will take what it says is a big step toward fortifying itself, reorganizing its women's magazines, which make up the bulk of its business. Under a plan to be unveiled Monday by new Chief Executive Alain Lemarchand, oversight of the women's titles will be divided up under one of three chief brand officers. Those executives, in turn, will be responsible for ensuring that everyone across departments, from editorial to event marketing, has an eye on the top and bottom lines.

"We have to make sure every dollar we spend is unavoidable, is strictly critical to the business," Mr. Lemarchand says in his first interview since taking over Hachette's U.S. operation in September.

Mr. Lemarchand says he was struck by the extent to which many U.S. magazines operate in "silos," with independent editorial, ad sales and business development staffs for each title. In the new structure, the Elle group will be led by Elle group publishing director Carol Smith. The Woman's Day group will be run by Carlos Lamadrid, of Woman's Day. And the Luxury Design group, which includes Metropolitan Home and Elle Décor magazines, falls to Metropolitan Home's Deborah Burns.

It is an effort to redefine the company in the eyes of ad buyers, some of whom say Hachette has become a group of incompatible parts that make it difficult to buy across titles and media. Under the new structure, if, for example, Elle is planning a music issue, Hachette wants the ad sales, event marketing and digital staffs in the loop so they don't miss an opportunity to package and sell it, Ms. Smith says.

Mr. Lemarchand is likely to bring sorely needed comfort to Hachette's U.S. employees in an industrywide ad slump that threatens many titles. After a decade of growth in the 1990s—when the company became the third-largest U.S. magazine publisher by ad pages, behind **Time** Inc. and **Condé Nast Publications** Inc.—Hachette has endured a lean stretch. The publisher's parent, European media company **Lagardère** SCA, had grown increasingly impatient with the U.S. operation's performance, leading in recent years to the closing of such titles as Mirabella, Shock, Home and the print editions of Premiere and Elle Girl.

Last summer, when longtime Hachette Chief Executive Jack Kliger resigned and Lagardère installed Mr. Lemarchand, a Lagardère lifer with no U.S. publishing experience, staffers began to believe rumors of a sale. Mr. Lemarchand flew to Hachette's midtown-Manhattan offices in mid-July to address the staff for the first time. He assembled about two dozen top executives in the 45th-floor conference room and opened the meeting by telling the staff that he "represented the parent company" and that it "saw the value of these assets."

Attendees say the brief address convinced staffers the company wasn't for sale and that they no longer had to guess what the French were thinking. "We had one of them now," an attendee says.

In January, Mr. Lemarchand held a two-day off-site meeting in which he instructed senior managers to "think disruptively," outlining what they would do if they could completely rebuild the company. It was partly out of this months-long reevaluation that the new structure for the woman's titles was created.

Deutsche Telekom cuts loss; Telecom Italia's net doubles

By Archibald Preuschat

Two big European telecommunications companies posted improved results Friday. **Deutsche Telekom** AG reported a narrower fourth-quarter net loss and raised its 2009 outlook. **Telecom Italia** SpA, meanwhile, said fourth-quarter net profit almost doubled, despite continued pressure on revenue, after the year-earlier figure was hurt by restructuring costs.

Analysts said Deutsche Telekom's results highlighted the relative resilience of the sector after a solid set of figures from Spain's **Telefónica** SA Thursday.

Deutsche Telekom reported a net loss of €730 million ($929.9 million) for the three months ended Dec. 31, slightly better than the €750 million net loss posted a year earlier. Even though charges for staff-related measures fell to €600 million from €1.1 billion a year earlier, net profit was hit by a €500 million impairment loss related to **Hellenic Telecommunications Organization** SA. Deutsche Telekom last year bought a 25% stake in the Greek operator for €3.2 billion.

The impairment was due to higher interest rates in Greece's capital markets, which lowered the company's book value, and isn't linked to its operational performance, said Chief Financial Officer Karl-Gerhard Eick.

Revenue rose 2% to €16.11 billion from €15.8 billion, while earnings before interest, taxes, depreciation and amortization, or Ebitda, adjusted for items such as restructuring charges, rose 1.3% to €4.67 billion. Adjusted Ebitda for the full year was €19.46 billion.

The company said that for 2009, it expects adjusted Ebitda to be level with 2008, slightly higher than its previous target to meet or slightly exceed adjusted Ebitda of €19.3 billion. Deutsche Telekom's 2009 outlook excludes contributions from Hellenic Telecommunications Organization.

Telecom Italia, Italy's largest telecommunications operator, said fourth-quarter net profit soared to €444 million from €228 million a year earlier, when it was dragged down by restructuring costs estimated by analysts at €300 million. Revenue slipped 0.3% to €7.76 billion.

—Giada Zampano contributed to this article.

FOCUS ON AUTOMOBILES

Getty Images

A forklift sets the body of a scrapped car in its place in Berlin. German auto production fell 17% in the fourth quarter.

'Scrap' bonus takes off

Incentive to replace old vehicles triggers a run in Germany

By Almut Schoenfeld And Marcus Walker

BERLIN—Around the world, some economists and governments have their doubts about whether costly fiscal-stimulus measures will work. But in Germany, one measure already is a roaring success.

Germany's €2,500 ($3,200) subsidy for people who scrap an old car and buy a new one has triggered a stampede to dealerships and a run on small cars. It's also inspiring retailers of other products, from electronics to false teeth, to copy the idea.

Falling car production has become a significant economic drag in Germany, Japan, the U.S. and other major car-producing nations. The sector's sales crisis knocked about 0.6% off Germany's gross domestic product in the 2008 fourth quarter, according to a report by Credit Suisse, contributing to the 2.1% overall contraction in Europe's biggest economy last quarter.

Germany's auto industry made 17% fewer cars in the fourth quarter than a year earlier as the global recession hit exports at **BMW** AG, **Daimler** AG and other car makers.

Sputtering engine

Monthly auto-production index for the euro zone, seasonally adjusted

Sources: Eurostat; Credit Suisse

The industry's importance to Germany—where the government estimates that around one in seven jobs depends directly or indirectly on autos—led Chancellor Angela Merkel's government to introduce the old-for-new car subsidy. It took effect Jan. 27.

To get the €2,500 government check, people must scrap an existing car that's at least nine years old and buy a new car that meets the latest emissions standards. So far, 134,000 people have applied the so-called scrap bonus, a number rising by 7,000 a day.

Other European countries including France, Italy and Spain have introduced "scrap bonuses" and in some cases, subsidized loans for buying cars. Some analysts argue the programs will have little lasting effect, because people will simply use the subsidy to buy a new car now rather than later.

The early signs are that the scrap bonus is luring some Germans. "It's a real sales boom," says Ceyhun Tan, a Volkswagen dealer in Berlin. He says his February sales are two to three times as high as a year ago, thanks to the scrap bonus. Most of his new wave of customers, says Mr. Tan, are elderly people whose ancient autos are worth less on the used-car market than the scrap bonus.

Other consumer sectors are trying to capitalize on scrap-bonus fever, even without any government money. Electronics retailer Media Markt offered computer buyers €100 for their old PC for a limited time in February. Upscale tailors Herr von Eden is offering clients up to €300 for their old suits if they order a new one. And dentists in Germany's northeast are offering patients €100 for their old false teeth if their buy new ones—but only if the switch is medically necessary, says Dietmar Österreich, head of the regional dentists' association.

The auto bonuses are lifting makers of small cars most, including VW, **General Motors** Corp.'s struggling German unit Opel, and foreign brands such as Dacia and **Fiat** SpA.

Daimler expects small sales rise in '10

By Christoph Rauwald

Daimler AG signaled Friday that its vehicle sales and earnings might see a recovery next year following a bleak 2009, after the German auto maker reported that 2008 inventories rose 19%.

In its annual report, Daimler said a decline in sales, which was only partially offset by production adjustments in the second half the year, pushed its inventory to €16.8 billion ($21.4 billion) last year.

The auto maker reiterated that it expects vehicle sales to fall significantly in 2009, but said it projects a "slight increase" for 2010. Revenue is likely to shrink this year in all of the company's automotive divisions.

"In the year 2010, we then expect at least slight growth in our business volumes, provided that the projected revival of automotive markets actually occurs," Daimler said. Driven by better efficiency and new products, "we should be able to increase our earnings again in 2010," the company added.

Last week, Daimler, which is based in Stuttgart, said it sank into the red in the fourth quarter due to a slump at its core Mercedes-Benz unit and a loss on its stake in **Chrysler** LLC. Daimler Chief Executive Dieter Zetsche said at the time that earnings before interest and tax, or Ebit, would be negative in the first quarter.

According to Daimler's annual report, the company slashed the pay of its executive board members to a total of €16.6 million last year from €37.7 million a year earlier. The 2007 figure includes payments made to board members who departed as a result of Daimler's sale of the bulk of its Chrysler stake to Cerberus Capital Management LP. Their bonuses and severance payments were €18.5 million.

Excluding those board members, Daimler's executive board members' pay in 2007 totaled €30.2 million.

The auto maker said the main reason for the sharp decrease in 2008 payments was the decline in Ebit to €2.73 billion last year from €8.71 billion in the prior year, which led to significantly lower bonus payments.

Daimler warned global demand for autos could fall by a further 10% in 2009 from 2008. "The decline in the Western European car market is likely to be more severe than in 2008," it said, adding that the drop might be cushioned somewhat by the industry support measures initiated in some countries. Demand for cars is also expected to decrease in Japan this year.

GM would sell Opel stake to gain aid from Germany

By John D. Stoll And Christoph Rauwald

General Motors Corp. will lay out a proposal this week for selling off a stake in its Opel unit, the core of its European operations, in a bid to win €3.3 billion ($4.18 billion) in aid from the German government.

Under the plan, which could be presented as soon as Monday, GM would sell 25% or more of Opel, and cut $1.2 billion in costs, company officials said.

People familiar with the auto maker's plans said GM may try to close or sell as many as four plants in Europe, including two in Germany. One plant being targeted is part of Saab, the Swedish brand that GM is also trying to spin off completely with the help of aid from the Swedish government, these people said.

In offering to separate its sprawling Opel unit in order to win German support, GM is staging is a distinct reversal from the strategy Chief Executive Rick Wagoner had pursued in recent years and demonstrates how the company's deepening liquidity problems are forcing the company into once-unthinkable changes.

In an interview in Detroit on Friday, GM Chief Operating Officer Frederick "Fritz" Henderson said the company has been "working furiously" on its plan for European operations, and said he isn't "foreclosing any options" when it comes to fixing the business.

German politicians are under pressure from labor unions to bail out Opel.

"We need support. We need to be open to options," he said.

GM has asked for as much as $44 billion in support from the U.S. and other governments in order to stay afloat, and is committed to making major changes to Mr. Wagoner's strategy to get the financing.

The German government has raised concerns that aid from Germany could be used to slash rather than preserve jobs in the country, and that GM could use German aid to restructure its operations in the U.S.

At the same time, German politicians are under pressure from labor unions to bail out Opel, GM's largest European brand by far, to help save the company's 25,000 jobs—a number that more than doubles when including parts suppliers.

GM Europe has been losing money for a decade and lost $2.88 billion in 2008. GM's past attempts to recover have mostly been based on expanding operations and regaining market share.

Opel, which GM acquired in 1929, accounts for about three-quarters of GM Europe's sales and operates under the Vauxhall brand name in Britain. It has emerged as a key developer of passenger cars for GM's far-flung global operations as Mr. Wagoner and his management team have tried to consolidate the company's previously separate European, Asian, North American and Latin American units.

In addition to developing vehicle like the Opel Insignia, the unit has developed high-volume Buick products for China, Saturn products for the U.S., and had been engineering much of the next-generation Chevrolet Malibu. Several top GM officials will gather in Switzerland this week to participate in the Geneva motor show.

GM may struggle to find investors for Opel given the state of the credit markets and persistent weakness in the automotive industry. A glut of production capacity and a collapse in revenue in Western Europe and North America have scared investors and banks away from the sector, and led to a severe decline in interest for alliances and other ventures.

Cerberus Capital Management, for instance, was only able to lure Fiat SpA into taking a stake in Chrysler LLC by essentially giving it to the Italian auto maker for free. GM has itself had a tough time selling Hummer despite some interest among private investors due to a lack of financing.

At the show, GM plans to show off a new variant of the Saab 9-3 and an entirely new subcompact car called the Chevrolet Spark. Both cars were meant to further GM's push to become more fuel efficient and were to be sold in most of the markets GM participates in, including North America.

In discussing options with European officials, Mr. Henderson said the auto maker plans to reiterate the importance of maintaining "global leveraging" as a part of Opel's strategy.

Meetings are expected with German officials are expected to take place over the course of the first week of March. In its viability plan submitted to Treasury officials in February, GM said that it expects to resolve solvency issues in Europe by March 31. GM executives expect to meet strong opposition from labor representatives as it attempts to close or sell some of these plants.

In addition, there could be a concerted push by both Mr. Franz and government officials to desire far less decision making by Detroit-based executives. German economics minister Karl-Theodor zu Guttenberg said Saturday that government assistance for Opel is far from certain, given "many open questions."

He said a key issue to resolve is how independent Opel would be from its parent company in the U.S. His comments followed a conference call with governors of the German states of North Rhine-Westphalia, Rhineland Pfalz and Hesse, where Opel factories are located.

Instead, GM will present a framework under which Opel, based in Germany, and the British Vauxhaul unit, will be legally separated from GM and prepared for outside investment.

GM Europe President Carl-Peter Forster told reporters Friday that investors could take between 25% and almost 50% in Opel. Under this scenario, GM Europe would be treated much like GM's Daewoo operation in Korea. GM controls the unit and uses the operation to feed its Chevrolet brand with fuel-efficient cars and crossovers around the world, but technically owns 50%.

GM has said it needs about $4.2 billion in loans from various government entities to prop up its sagging operation there. About two-thirds of that money would need to come from the German government. In addition to meeting with German officials in Berlin, executives also plan to submit a plan to state officials in Hesse, where Opel has headquarters.

German policy makers so far have been divided over the state taking a stake in the car maker, with Chancellor Angela Merkel saying that possible liquidity guarantees would be the right tool to help companies like Opel.

CORPORATE NEWS

Russia shelves metals merger

Kremlin is averse to nationalizations amid economic crisis

The Kremlin and Russia's debt-burdened metals tycoons shelved a plan to merge several of the country's biggest industry players into a conglomerate that would have been partly state-owned, according to people familiar with the discussion.

*By **Gregory L. White** in Moscow and **Alexander Kolyandr** in London*

The decision suggests the Kremlin for now is following through in its rhetoric opposing broad nationalization as a response to the economic crisis. The move leaves the industrialists looking for other ways to reduce debt burdens. Among them is one of Russia's richest men, Oleg Deripaska, the CEO and main shareholder of aluminum giant UC **Rusal**.

Government officials were cool to the executives' offers to swap billions in debt they owe to state banks for a minority stake in a merged company, say the people familiar with the talks. The executives, meanwhile, couldn't agree on how to value their holdings for any deal.

"Unfortunately, there's a widespread feeling in business—and in the state, for that matter—that one should take advantage of the situation to take something from somebody," Kremlin economic adviser Arkady Dvorkovich told a business forum in Siberia on Friday. "We want both government and business not to act to the detriment of their neighbors."

The decision came at a meeting late Thursday between President Dmitry Medvedev, Mr. Deripaska and Vladimir Potanin, the main shareholder of OAO **Norilsk Nickel**. The men, together with Norilsk's CEO, discussed other steps to support the metals sector, including possible government purchases of nickel and other products. A major employer, the Russian metals industry has been hit by plunging demand and prices globally. Heavy borrowing before the crisis by many of the companies' owners has made the situation worse.

Mr. Deripaska's Rusal is one of the most heavily indebted, with obligations of more than $15 billion. Rusal is in talks with Western lenders to restructure about $7.5 billion of that total, seeking to stretch payments out over as much as five years and peg them to aluminum prices. Mr. Deripaska said last weekend that he hopes to reach a deal in early March on suspending payments, followed a few months later by a full restructuring.

Rusal also has to renegotiate terms of about $7 billion in debt to Russian state-owned banks, including a $4.5 billion bailout loan that comes due in the fall.

—Dana Cimilluca in London contributed to this article.

ZUMA Press

Oleg Deripaska, CEO and main shareholder of aluminum giant Rusal

Iberia reports loss as fuel costs increase 46%

By Jason Sinclair

MADRID—**Iberia Líneas Aéreas de España** SA, which is in merger talks with **British Airways** PLC, Friday said it swung to a net loss in the fourth quarter, hit by higher fuel costs and plummeting demand.

Spain's largest airline by sales posted a net loss of €19 million ($24 million) for the three months ended Dec. 31, compared with a net profit of €105 million a year earlier. Fuel costs soared 46% to €464 million from a year earlier as operating costs rose 5% to €1.39 billion. Like many airlines, Iberia has in place a complex system of fuel-cost hedges that prevented it from benefiting from the fall in fuel prices at the end of 2008.

Iberia's revenue was down 4.8% at €1.33 billion from €1.4 billion. The airline had already warned in January at its investors day that full-year 2008 net profit would plunge 90% to €32 million.

At the time, Iberia's Chairman Fernando Conte said the airline was bracing for a difficult 2009 with deteriorating economic conditions in most of its markets and stiffer competition.

Iberia said airlines have been reducing capacity since 2007, but not quick enough to compensate for an even faster drop in demand amid the global financial crisis. Iberia has been cutting costs and said it reduced staff by 5.1% in 2008.

In coming quarters, the Spanish flag carrier said its biggest risks will be the evolution of the price of oil and the dollar-euro exchange rate. Iberia said a strengthening of the dollar would boost its revenue but also its costs. About a fourth of Iberia's revenue is tied to the dollar, as are 45% of its costs.

Iberia and British Airways, who have maintained a long-standing code sharing agreement, last year agreed to merge in a planned all-share transaction. However, the U.K. carrier's £1.74 billion ($2.49 billion) pension-fund deficit and a recent drop in its share price have emerged as sticking points in discussions about the relative valuation of the two airlines. Iberia has no debt and roughly €2 billion in cash, a position that could allow it to leverage a larger stake in the merged entity.

Mr. Conte reiterated Friday that talks between the two airlines are likely to conclude in March.

Dow Chemical unit spurs interest

Dow Chemical Co. is in talks with a group of private-equity firms about an investment in its agricultural-sciences unit, which would give it cash to complete the purchase of **Rohm & Haas** Co., people familiar with the matter said.

Dow is in discussions with a group of private-equity firms including **Blackstone Group** Inc. and **Kohlberg Kravis Roberts** & Co. about a multibillion-dollar minority stake in the division, which makes products that combat insects and plant diseases, said people familiar with the matter. The business also has received attention from Swiss crop-sciences company **Syngenta** AG.

Ferrovial posts $1.1 billion loss amid tax charge

By Santiago Perez

MADRID—**Grupo Ferrovial** SA said Friday that it swung to a net loss in 2008, weighed down by hefty tax provisions and a deep economic downturn in its core U.K. and Spanish markets.

The Spanish construction and infrastructure company—owner of U.K.-based airport operator BAA—posted a net loss of €838 million ($1.1 billion) for last year, compared with a net profit of €734 million in 2007.

Revenue fell 3.4% to €14.13 billion from €14.63 billion. Earnings before interest, taxes, depreciation and amortization sank 10% to €2.74 billion.

"There's no doubt that it has been a difficult year," Chairman Rafael del Pino told analysts at a presentation.

The results were weighed down by a charge of €871 million linked to the elimination of some tax deductions in the U.K. Profitability was also hurt by lower activity at BAA, a deteriorating construction market in Spain and higher financing costs.

Ferrovial said financing costs rose 17% to €2.23 billion. The company, which led a group of investors in 2006 in the leveraged £10.3 billion ($14.7 billion) takeover of BAA, recently refinanced debt linked to the acquisition and divested itself of some assets to lower financing costs.

The company said that after the completion of several asset sales in coming months, its debt is expected to narrow to €24.11 billion, compared with €30.26 billion in 2007.

Ferrovial could soon be forced by U.K. regulators to sell some of its London airports and either its Edinburgh or Glasgow airports in Scotland. It is now seeking to sell London's Gatwick airport but wants to retain ownership of London's Heathrow and Stansted.

Ferrovial Chief Executive Joaquín Ayuso said Friday that three bidders remain in the running to buy Gatwick, adding that the company hopes to close the sale of the airport by the end of the first half of this year, aiming for late April or early May.

Shares in Ferrovial fell 2.4% in Madrid Friday. The company's shares declined about 60% last year, pressured by concerns about its debt-servicing capabilities after it expanded aggressively abroad, buying infrastructure assets through leveraged transactions.

Meanwhile, smaller Spanish construction company **Sacyr-Vallehermoso** SA said Friday that it swung to a net loss last year, pressured by a weak economy and a charge related to the sale of its 33% stake in **Eiffage** SA of France.

Madrid-based Sacyr posted a net loss of €176.8 million for 2008, compared with a net profit of €946.4 million in 2007.

Sacyr pulled out from a hostile takeover bid for Eiffage, selling the stake at a loss. The company said its failed incursion into France resulted in an accounting charge of €477.3 million for 2008, because it had to undo an earlier consolidation of profit from Eiffage in its 2006 and 2007 earnings.

The construction company said revenue rose 2.7% to €5.38 billion in 2008 from €5.24 billion in 2007.

—Christopher Bjork contributed to this article.

CORPORATE NEWS

Stringer widens role atop Sony

In turnaround bid, CEO shuffles duties of senior executives

BY DAISUKE WAKABAYASHI

TOKYO—**Sony** Corp. Chief Executive Howard Stringer is taking fuller control of the company as it struggles with lower demand and a lack of hit products.

Nearly four years after becoming the first non-Japanese chairman and CEO of Sony, Mr. Stringer added the title of president on Friday. And in a generational shift, he wrested control of Sony's flagship electronics operations from his two highest-ranking subordinates and gave the duties to younger executives.

The 67-year-old Mr. Stringer said some senior executives at Sony were too focused on the Japanese market, where consumers are more willing to pay high prices for the latest technology.

"I am more aware of how far we are behind than maybe Japanese executives," Mr. Stringer said. The Welsh-born executive added he will increase the time he spends at Sony's Tokyo headquarters to three weeks a month from two, with the rest of his time spent in Britain.

The executive shuffle is the most aggressive move yet by Mr. Stringer, who has proceeded cautiously since he took the top job in June 2005 despite Sony's series of troubles. Sony reiterated it likely will report its first net loss in 14 years for its fiscal year ending March 31.

Widely credited with creating the portable music-player market with the Walkman, Sony has yet to field a strong challenger to **Apple** Inc.'s smash-hit iPod. Sony's PlayStation videogame console has been losing out to models from **Nintendo** Co. and **Microsoft** Corp., and it faces stiff competition in the television and personal-computer markets.

Sony still makes many of its products in Japan, putting it at a disadvantage on production costs, especially when the yen strengthens against other currencies.

Some analysts questioned whether expanding Mr. Stringer's responsibilities would help turn around the company. "It's uncertain if Stringer can now do what he hasn't been able to do as a CEO," said Nobuo Kurahashi, an analyst with Mizuho Investors Securities.

Under the reorganization, Sony President Ryoji Chubachi, 61 years old, who also heads the company's electronics business, will step down in April and become a vice chairman. Katsumi Ihara, 58, will be removed as head of Sony's consumer-products group, home to its TV, digital-camera and other businesses. He will become an executive director at Sony Financial Holdings.

Mr. Stringer is dividing the videogame and electronics businesses into two divisions: the networked-products and -services group, which will house Sony's PlayStation offerings, PCs, mobile products and software; and a new consumer-products group, which will include TV sets and digital cameras.

Kazuo Hirai, 48, who runs Sony's videogame division, will head the networked-products and -services group. Kunimasa Suzuki, 48, who works at Sony's U.S. electronics arm, will oversee the VAIO computer team and be in charge of developing home and mobile products.

New beginning?

CEO Howard Stringer will take direct control of Sony in a bid to rebuild the company's reputation

Daily share price

Sources: Thomson Reuters Datastream

Hiroshi Yoshioka, 56, will move from overseeing the TV business to running the consumer-products group. Yoshihisa Ishida, 49, who works on the VAIO team, will head the TV business.

"We are all like-minded about how to attack the problem," said Mr. Stringer in an interview after a news conference announcing the personnel changes.

While Mr. Stringer has managed to improve Sony's profit, he met resistance from some Japanese executives accustomed to doing things the traditional way, said a person familiar with the situation.

The personnel change hoists the responsibility for Sony's earnings turnaround squarely on the shoulders of Mr. Stringer, a former journalist. Like the rest of Japan's consumer-electronics industry, Sony is grappling with a severe downturn in demand in all of its key markets and a stronger yen that has inflated its production costs at home while eating into its sales abroad.

Sony said its restructuring plan is proceeding and the company now expects it will be able to take out $3 billion in annual fixed costs, compared with an earlier estimate of $2.5 billion.

Mr. Stringer said the company will examine unprofitable businesses and determine if it should be focusing its energy and resources elsewhere.

He said he discussed reorganizing the electronics division last year with Mr. Ihara, but the issue "went away." When Sony's electronics sales began slowing drastically last September, Mr. Stringer decided it was time to revisit the idea.

On the weekend of Feb. 21-22, Mr. Stringer huddled in his New York apartment with three of the four "musketeers" to discuss how the group would work together. He also plans to bring the young turks to conferences in Silicon Valley and the annual gathering of media executives in Sun Valley, Idaho. "This is about as excited as I have been in some months," he said.

Mr. Stringer said Sony needs to realize that innovative products must also be affordable.

For example, in late 2007, Sony introduced the industry's first ultra-thin organic light emitting diode, or OLED, television, which creates crisper pictures on thinner screens that use less energy. Mr. Chubachi, Sony's president, hailed the product as the "symbol of Sony's comeback." But the TV cost 200,000 yen, or about $2,000, for an 11-inch model and failed to win over consumers.

—Kazuhiro Shimamura and Kenneth McCallum contributed to this article.

Enel considers capital increase to shrink its debt

BY STACY MEICHTRY

ROME—Italian utility **Enel** SpA is considering a capital increase as an option to reduce debt, after its takeover of Spanish utility Endesa SA.

The company didn't disclose how much Enel could try to raise in a potential capital increase.

As the financial crisis deepens, Enel's debt load has come under scrutiny from investors who worry that the utility has no clear plan for reducing its net debt, which stood at €50 billion ($63 billion) at the end of 2008.

Enel racked up a large chunk of that debt during its drawn-out takeover of Endesa. In 2007, Enel and Spanish construction conglomerate **Acciona** SA jointly took over Endesa in a deal that valued the Spanish utility at €44 billion. Under the terms of the takeover, Enel agreed to grant Acciona a put option that could have forced Enel to buy Acciona's 25% stake in Endesa for about €11 billion as early as March 2010.

Last week, Enel agreed to buy Acciona's 25% stake in Endesa for €11.1 billion after the Spanish construction conglomerate came under pressure from banks to pay down its own debt load.

Although the acquisition allowed Enel to assume full control over Endesa, the Italian company had to line up an additional €8 billion in financing from Italian and Spanish banks. The loan, combined with Enel's consolidation of Endesa debt, will add €11.7 billion to Enel's debt load, according to a company spokesman. Enel faces €13.4 billion in maturing debt in 2010, including a €2.2 billion revolving credit facility that can be extended to 2012.

Over the past year, Enel has put noncore assets up for sale. In December it agreed to sell its high-voltage power lines to Italian power company **Terna** SpA for about €1.15 billion. However, Enel's efforts to sell or spin off other assets, such as its renewable-power operations, have been slowed by swings in the price of oil and disarray in the financial markets.

Acciona profit is hurt by cost of Endesa deal

BY BERND RADOWITZ

MADRID—**Acciona** SA's net profit dropped 51% last year, reflecting increased debt-servicing costs related to its acquisition of a stake in Spanish utility Endesa SA.

Net profit for the Spanish energy and infrastructure company fell to €464.5 million ($588.8 million) from €950.4 million the previous year. Revenue surged 59% to €12.67 billion from €7.95 billion. The company didn't break out fourth-quarter results.

Net financial expenses of €896 million—mostly tied to Acciona's 25% stake in Endesa—dragged down earnings. But the consolidation of the Endesa stake boosted earnings before interest, taxes, depreciation and amortization to €2.83 billion from €1.41 billion. Acciona agreed Feb. 21 to sell its stake in Endesa to Italy's **Enel** SpA for €11.11 billion in cash and energy assets.

Enel and Acciona teamed up in 2007 to take over Endesa in a deal that valued the utility at about €44 billion, but later struggled to jointly operate the company.

Acciona's results were weaker than expected because of provisions for real-estate asset impairments and weaker transport and logistics results, Fernando Garciá, an analyst at Espírito Santo Research, said Friday.

The important infrastructure unit also performed badly. Ebitda from Acciona's infrastructure unit fell 12% to €243 million last year, while Ebitda from the real-estate unit plunged 32%. Ebitda from the energy unit surged 50% last year to €589 million.

Acciona this year expects investments excluding Endesa of about €2.2 billion, Juan Muro-Lara, managing director for corporate development, said in a conference call. The forecast is in line with last year's €2.18 billion in spending.

Acciona expects to spend €1.5 billion to expand its renewable energy business. The company this year plans to add between 600 megawatts and 650 megawatts of electricity-generating capacity, Mr. Muro-Lara said. At the end of last year, Acciona's power-generating capacity without Endesa reached 4,871 megawatts. As part of the deal with Enel, the company will receive 2,105 megawatts in electricity-generating capacity from Endesa.

GLOBAL BUSINESS BRIEFS

Erste Group Bank AG

Austria offers state aid as firm swings to a loss

Austrian lender **Erste Group Bank** AG on Friday said it has finalized a state-aid deal allowing for a capital boost of as much as €2.7 billion, or $3.4 billion, after write-downs and provisions pushed it into a fourth-quarter net loss. Erste Bank swung to a net loss of €603.4 million in the fourth quarter, compared with net profit of €336.8 million a year earlier, hit by higher risk provisions, large goodwill write-downs on its Eastern European units and revaluation losses. Net interest income rose 22% to €1.34 billion from €1.1 billion. Erste Bank said it will issue a maximum of €1.89 billion in participation capital to the Austrian state. In addition, it said it intends to place as much as possible and at least €400 million with private and institutional investors. The gap between these placements and the total planned capital injection of €2.7 billion will be closed by the issuance of hybrid tier-one capital to the Austrian state, the bank said.

Fortis SA

Negotiations over the future of stricken bank **Fortis** SA have been extended until March 6, the bank said Friday. Rescue plans were thrown into disarray in early February, when shareholders narrowly blocked a sale of Fortis's Belgian banking assets to French lender BNP Paribas, a deal masterminded by the Belgian government. Talks to break the impasse initially faced a deadline of Feb. 28. BNP said the talks have been extended but declined to comment further.

Piraeus Bank SA

Piraeus Bank SA said 2008 net profit dropped 49% because of higher provisions for bad loans and a year-earlier gain from a stake sale. Net profit fell to €315 million ($401 million) from €622 million a year earlier, when the sale of Piraeus's stake in Bank of Cyprus PCL inflated the bottom line by €119 million. The Greek bank also booked €215 million in provisions for souring loans in the fourth quarter. Net interest income was up 26% at €1.16 billion. "Without any doubt, the period 2009-2010 won't be easy. Despite this, we are prepared," Chairman Michalis Sallas said in a statement. He added that the bank will focus on asset quality, high liquidity, drastic cost containment and capital adequacy for the next two years. Managing director Alex Manos said that cost growth would be flat this year.

Tata Steel Ltd.

Tata Steel Ltd. of India posted a 39% fall in fiscal third-quarter consolidated net profit, but its shares rose as the market had expected a loss. Profit at Tata Steel, which controls European steelmaker Corus, took a hit because of inventory write-downs at some units and a foreign-exchange loss. Profit in the three months to Dec. 31 slid to 8.14 billion rupees ($159.6 million) from 13.25 billion rupees a year earlier, the Mumbai-based company said. Sales rose 4% to 331.91 billion rupees. Shares of Tata Steel rose 5.6% to 172.35 rupees on the Bombay Stock Exchange. Tata Steel also said a change in accounting norms relating to pension plans for Corus added 42.56 billion rupees to profit.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

Clinton off to Israel promising new path

Obama's envoy leads team with rare depth of regional experience, but conflicts seem to be as unrelenting as ever

By Charles Levinson

JERUSALEM—U.S. Secretary of State Hillary Clinton arrives in Israel Tuesday, vowing to pursue a "new path" in the region and leading a team of Mideast peacemakers with a rare depth of first-hand experience in the area.

But she lands at a time when the region's enduring conflict, between Israel and the Palestinians, seems as intractable and complex as at any point in its century-long history. Complicating the effort, conservative parties opposed to Palestinian statehood dominated parliamentary elections here last month.

Israel's likely next prime minister, Benjamin Netanyahu, hasn't made progress luring centrist and dovish politicians into a new government. That makes it more likely he will have to fill out his coalition by relying on parties traditionally opposed to compromise with the Palestinians over peace.

The Palestinian leadership, meanwhile, is split between the moderate, but unpopular, Fatah Party of President Mahmoud Abbas in the West Bank and the militant Islamist Hamas movement that rules in Gaza. Hamas appears to have emerged from Israel's month-long assault on Gaza more popular at home and across the Arab world.

Late last week in Cairo, Hamas and Fatah conducted their first serious reconciliation talks since Hamas overran Gaza in 2007. Any agreement still appears to be a ways off, but both sides pledged to release political prisoners and said they are convinced of the need to reunite.

Associated Press

U.S. Secretary of State Hillary Clinton on Wednesday in Washington, has pledged to take a new approach in the Middle East.

Mrs. Clinton arrived Sunday night in the Egyptian resort city of Sharm El-Sheikh, where she will participate in a one-day international conference aimed at raising reconstruction money for Gaza. U.S. officials have said the U.S. will pledge as much as $900 million. But Washington's refusal to engage directly with Hamas is seen as limiting the Obama administration's ability to distribute funds into the territory.

"I think everyone recognizes why, in theory, having a unified authority for the Palestinians ... would be a positive step toward statehood with certain conditions," said a senior U.S. official traveling with Mrs. Clinton.

Despite the pessimism, Western diplomats and peace advocates in Israel are pinning their hopes on Mrs. Clinton and what one Western official in Jerusalem called Mr. Obama's "Mideast peace dream team."

The U.S.'s Mideast peace envoy, George Mitchell, who wrapped up his second trip to the region last week, led a fact-finding committee on the peace process here after violence erupted in 2001. His report was widely praised for its evenhandedness but also sparked controversy among some Israelis and Israel supporters because it blamed both parties equally for the violence. A former senator who helped mediate an end to the conflict in Northern Ireland, Mr. Mitchell has said he will take the unprecedented step of setting up his own office in Jerusalem.

Mr. Obama's national security adviser, James Jones, also brings regional experience and a reputation for evenhandedness. A retired Marine general, he led the U.S. European Command, whose area includes Israel. He worked with Israeli and Palestinian security establishments as the point man for U.S.-backed efforts to improve security in the West Bank.

On the home front, Mr. Obama's chief of staff, Rahm Emanuel, also has ties to the region. He is the son of a former fighter in Israel's prestatehood underground militia. That background may reassure American Jews, whose support Mr. Obama will need if he decides to press Israel to make painful concessions for peace, according to Morton Klein, president of the Zionist Organization of America, a pro-Israel lobbying group based in New York.

—Jay Solomon contributed to this article.

Iceland lists homes in U.S., London and Oslo

Iceland's government is trying to sell ambassadorial residences in Washington, New York, London and Oslo for a total of more than $25 million in order to raise money.

In Washington, Iceland is asking $5.65 million for a 1928 mansion, the home of its ambassador, which it has held for nearly half a century. The 10,000-square-foot mansion has 10 bedrooms, five bathrooms and a pool.

Iceland is planning modest replacements. "We are looking at nice, smaller residences," says Iceland's ambassador to the U.S., Hjálmar Hannesson.

In London, a Georgian-style 1921 town house on Mayfair's Park Street, is priced at £10 million (about $14.3 million). The 6,900-square-foot house has an elevator and access to an enclosed communal garden, according to listing agents Amanda Craig and James Wardle, of Hamptons International.

In New York, Reykjavik is asking $5.6 million for the home of its United Nations ambassador. The four-bedroom apartment comes with separate staff or guest quarters on the penthouse level. The Oslo residence hasn't yet been appraised for sale.

Since its listing a month ago, both countries and individuals have expressed interest in the D.C. manse, says Coldwell Banker Previews' Chris Wisner, who shares the listing with his partner Cindi Williams.

Iceland names central-bank chief

By Joel Sherwood

Iceland's new prime minister, Johanna Sigurdardottir, named a caretaker central-bank governor Friday, marking a victory in her battle against former bank chief David Oddsson as she works to rebuild the strife-ridden island's financial credibility.

Svein Harald Oygard, a Norwegian national, was appointed interim governor of the Central Bank of Iceland, as a law restructuring the bank came into effect Friday.

Johanna Sigurdardottir

The law—Ms. Sigurdardottir's major initiative since coming to power a month ago after the previous government collapsed—reorganizes management at the central bank. It also requires the bank chief to hold a master's degree in economics—a credential that Mr. Oddsson, a lawyer, doesn't hold.

While the measures, which include cutting the number of governors to one from three and creating a committee to determine monetary policy, are noteworthy, their immediate impact was to force out Mr. Oddsson, governor since 2005. Mr. Oddsson, a long-serving prime minister before taking over at the central bank, is regarded by many as the Icelander most responsible for the economic tumult that erupted in October from the country's banking-sector failure.

Ms. Sigurdardottir asked him to step down in her first full day in office, Feb. 2, but he refused, despite flaring public ire over his leadership. Since by law Mr. Oddsson couldn't be removed during his seven-year term, the prime minister, serving on an interim basis until elections at the end of April, changed the laws.

Mr. Oygard has previously worked at Norway's central bank and finance ministry, where he helped the country deal with its financial crisis.

The prime minister also tapped Arnor Sighvatsson, chief economist at the central bank, as provisional deputy governor.

"We view these appointments as a strongly positive sign that the new government is moving forward with the commitment to strengthen the credibility of the central bank and tackle various structural shortcomings in the financial sector," said Raffaella Tenconi, chief economist at Iceland-based investment bank Straumur.

The appointments are only temporary and were made the same day a mission from the International Monetary Fund was in Reykjavik to review its rescue program for the country. Iceland accepted $2.1 billion in emergency aid last year to stave off bankruptcy.

Separately, Switzerland's central bank Friday said its president Jean-Pierre Roth will retire at the end of December 2009 at his own request after nine years in office and a 30-year career at the central bank.

A central-bank spokesman said it was common practice for central-bank governors to step down before the usual retirement age of 65. Mr. Roth turns 63 in April. Economists said his departure shouldn't affect operations at the central bank and its ability to guide the country's economy through the current crisis.

"One might argue it's not exactly the best time to step down," said Jan-Egbert Sturm, the head of think tank KOF, referring to the loss of the executive's expertise. "This is a time of crisis management anyway and it will continue with or without Mr. Roth," he added.

Swiss central-bank President Jean-Pierre Roth retires in December.

The Swiss National Bank hasn't named a successor yet but will likely do so by the end of the year, the central-bank spokesman said. The Swiss government will have the final say on who will become the next governor, the spokesman added. Vice President Philipp Hildebrand is widely expected to be one of the candidates for the post.

Mr. Roth also chairs the board of directors of the Bank for International Settlements in Basel. He retires from that position this month.

—Martin Gelnar contributed to this article.

Clinton to meet Russian diplomat in Europe trip

By Louise Radnofsky

Hillary Clinton, making her first trip to Europe as U.S. secretary of state, is set to meet Russia's top diplomat after a flurry of commentary on the Obama administration's plan to "reset" ties with Moscow.

Mrs. Clinton will visit Brussels and Geneva after a stop in Israel, where she'll encounter a hawkish prime minister-designate, Benjamin Netanyahu, and an Israel-Palestinian conflict that seems as intractable as ever.

In Brussels, the North Atlantic Treaty Organization is holding a meeting of its members' foreign ministers, who will also be attending a dinner with foreign ministers from other European Union states and Switzerland. Mrs. Clinton is also meeting European Union leaders while she is there.

Russia is likely to feature prominently in discussions in Brussels, where the gathered officials share tense relations with Moscow. Friday, Mrs. Clinton will travel to Geneva to meet Russian Foreign Minister Sergei Lavrov.

U.S. Vice President Joe Biden talked of pressing the reset button with Moscow at a speech in Germany in early February. The U.S. has suggested it hopes to get more Russian cooperation in the war in Afghanistan and make progress on nuclear-arms control.

U.S. economy in worst fall since '82

Output sank 6.2% last quarter as trade, investment plunge

BY CONOR DOUGHERTY AND KELLY EVANS

The U.S. economy deteriorated far more than previously thought in the fourth quarter, according to new revisions of government data, casting fresh doubt about the chances of a recovery this year.

With falloffs in consumer spending and exports, gross domestic product declined at a 6.2% annual rate in the fourth quarter of 2008, according to a Commerce Department report Friday. The agency's first estimate for GDP, reported in January, was for a 3.8% decline.

The more recent figure—which represents the steepest dropoff since the depths of the 1982 recession—raises pessimism among economists. Until recently, many had been hoping for a rebound in 2009 and now sound downbeat about the remainder of this year.

Besides the revised GDP, economic indicators for the first two months of the year point to a deepening recession—and the prospect of a dismal first quarter, too. Every week in February, more than 600,000 people filed new claims for unemployment insurance, and the unemployment rate rose to 7.6% in January, from 7.2% in December.

"The first quarter is going to be bad," said Christina Romer, chairwoman of the Council of Economic Advisers, at an economics gathering Friday sponsored by the University of Chicago and Brandeis University. She told the audience that Obama administration officials have been watching with deepening concern what has been going on around the world.

The U.S. has been hurt by the synchronized nature of the current global downturn. Exports declined at a 24% annual rate, compared with the 20% rate previously reported. Meanwhile, it appears the world's other economies truly fell apart in the fourth quarter. India reported on Friday its fourth-quarter GDP growth was lower than expected, while Japan said last month its GDP had contracted more than 12%. Growth in both Europe and the U.K. fell at an identical 5.9% annual rate. These numbers mean the U.S. can't lean on its trading partners to buy goods and help buoy business activity.

Private investment, which encompasses everything from business spending to home building, fell at a 21% annual rate in the fourth quarter. That portends poorly for the first quarter of this year because one company's cutbacks in spending can lead another to do the same.

In Essex Junction, Vt., Bradley Aldrich, the president of an engineering firm, says he is putting off big purchases until he gets a clearer idea of where the economy is headed. His company, Forcier Aldrich & Associates Inc., spends as much as $40,000 a year on various equipment. Mr. Aldrich has particular interest in a $30,000 software system that would allow the firm to hold a vast database of blueprints and other documents. He guesses it would save as much as $5,000 a year in paper costs.

"It makes sense to do it, but with the economy the way it is right now, we're reluctant to make the investment," Mr. Aldrich says.

Still, Ms. Romer strikes an optimistic tone about the prospects for a turnaround in the economy later this year. The Obama administration Thursday offered economic projections in its budget that were rosier than most private-sector forecasts. Defending the projections, Ms. Romer said a turnaround is likely this year as the federal fiscal stimulus package works its way through the economy.

Some economists have a much dimmer view, arguing the best the stimulus can do is prevent a recession from turning into depression. "There's no way we are going to be able to avert a deep and long recession," says Joshua Shapiro, chief U.S. economist at research firm MFR Inc. Conrad DeQuadros, senior economist at RDQ Economics in New York, forecasts "a fairly lackluster recovery in 2010," and projects that unemployment will graze double digits from its current 7.6%.

U.S. Federal Reserve officials in recent days have tempered their call for an economic rebound this year, saying they still expect one but that it depends critically on the success of officials in repairing the damaged financial system. "Below-potential growth is likely to persist until financial markets and financial institutions can resume more normal functioning," Eric Rosengren, president of the Federal Reserve Bank of Boston, said at the Friday economics conference.

Nearly half of the revision was due to inventory levels that turned out to be lower than originally thought—meaning companies ordered fewer goods in anticipation of weak customer demand. Inventory levels were first reported to add about 1.3 percentage points to growth in the fourth quarter, but that was revised down to a 0.16 percentage-point boost. The silver lining, however, is that companies may rebuild stocks sometime in the first part of this year, possibly giving a bigger boost than anticipated to growth.

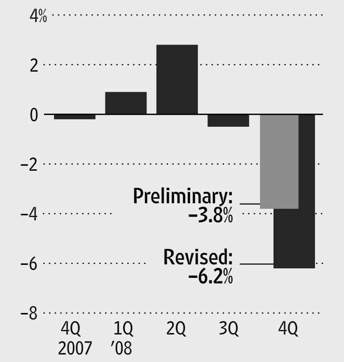
Retailers in particular weathered a brutal fourth quarter, as the loss of consumer spending hit right during their crucial holiday season. The Commerce Department's GDP report showed that consumer spending on nondurable goods, such as food and clothing, declined at a 9.2% annual rate.

Federal spending helped blunt the U.S. GDP decline but was offset by a fall in state and local spending. Falling sales, income and property taxes have saddled cities and states with the worst budget gaps in a generation, forcing them to lay off employees and make cuts in normally untouchable programs like schools and police forces.

—Jon Hilsenrath contributed to this article.

Sharper contraction

GDP, quarterly change at a seasonally adjusted annual rate



Source: Commerce Department

ECONOMY & POLITICS

Stocks would signal wider recovery

A rebound in indexes can boost sentiment; an issue of 'when'

BY JUSTIN LAHART

During the 1990s, the U.S. stock market's ability to predict the economy was believed to trump all other forecasts. Representing the collective wisdom of millions of investors, it was seen as a near-perfect crystal ball.

THE OUTLOOK

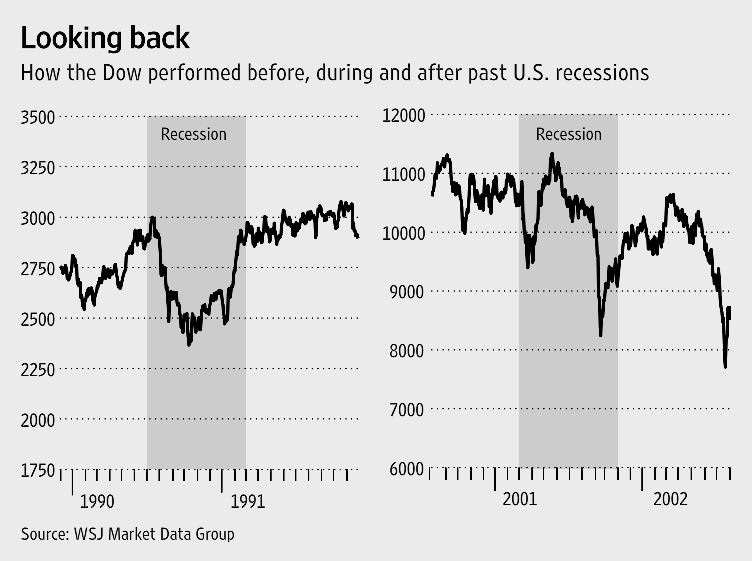
After the dot-com bubble—where shares of online travel agent Priceline.com soared to a higher value than those of all major U.S. airlines combined—the market didn't seem much of an oracle. And more recently, stocks' wild swings appear more muddle than message. During the '90s, the Dow Jones Industrial Average rose or fell by 2% or more on 91 trading days. In the past year alone, there have been 80 such swings.

But in the midst of the worst economic downturn in at least a generation, a recovery in stocks would be an especially good sign.

Stocks are more than just a measure of investor expectations; they're a measure of confidence. At a time when much of what ails the economy is a crisis of confidence, when both households and businesses are so unsure of the future that they've cut spending down to the bare bones, rising stocks would be an important signal that the tide had turned. What's more, rising stocks can, in themselves, also be an important confidence booster.

The traditional view of stocks as an indicator of where the economy is going rests with the idea that investors are relentless in trying to gauge firms' profitability. "To the extent that business profitability tells you something about the economy, the stock market can provide a signal," said Columbia Business School economist Frederic Mishkin.

During nearly all 11 U.S. economic downturns since World War II, the Dow industrials have hit their recession low and begun climbing in the six months before the economy began to recover. (The big exception was the 2001 recession, where a scandal-wracked stock market didn't hit its low until nearly a year after the recovery began.) Investors are typically anxious to get into stocks ahead of the economic recovery because when stocks rally out of recessions, the gains are large.



Now, of course, many investors are just plain anxious. Since cresting in October 2007, the Dow has been halved, closing Friday at 7062.93. Current stock values no longer seem to reflect long-term profitability, Federal Reserve Chairman Ben Bernanke told the House Financial Services Committee last week, but rather "investor attitudes about risk and uncertainty, which right now are at very high levels."

Much of that is related to uncertainty about banks. Investors still don't know precisely which banks will fail or, alternatively, be taken over by the government or placed in the hands of its creditors—any of which would wipe out shareholders. As a result, bank shares no longer reflect investors' expectations of future profits so much as bets on whether this or that bank will survive. That has made bank shares fluctuate widely, as investors struggle to figure out just what the government's approach to banks will be, and whether that approach will work. And because financial firms are at the root of the credit crisis, when they shake, the rest of the market reacts.

Last month, when U.S. Treasury Secretary Timothy Geithner offered a plan to deal with banks that investors found slim on details, the Dow industrials tumbled 4.6% in its worst day so far this year. It was an example, said Barclays Capital economist Ethan Harris, of how the stock market is becoming a barometer of how effectively policy makers are dealing with the credit crisis. Because policy is central to a recovery in the economy, a thumbs up from the stock market would be a very good sign.

A recovery in stocks could also be an important confidence builder at a time when low confidence levels are sapping the economy. "The stock market, for the average American, is the simplest way to think about the economy," Mr. Harris said. "If you see the stock market going up, you have more faith in a recovery."

Further declines, on the other hand, could endanger the economy even more. As an academic, Christina Romer, the chair of President Barack Obama's Council of Economic Advisers, argued that the stock-market collapse that began in October 1929 led uncertain consumers to sharply cut back on spending, helping to precipitate the Great Depression.

Indeed, movements in share prices tend to lead changes in consumer confidence. The conventional view has been that this happens because rising stock values make stock owners feel wealthier, or at least less poor, giving them a rosier view of the future. And at a time when many portfolios have been decimated, the effect of rising stocks on shareholders' confidence levels could be profound.

John Bollinger, head of Manhattan Beach, Calif., investment manager Bollinger Capital, says that in the office building he shares with about 50 other businesses, much of the elevator talk has been dedicated to shrinking retirement funds. "If people's 401(k)s started going up instead of down, the collective sigh of relief in this building would be huge," he said.

Even for American families who don't have any skin in the stock market—that's about half the country—stocks matter. A 1999 paper by Federal Reserve economist Maria Ward Otoo found that changes in stock prices affected the confidence of households surveyed for the University of Michigan's consumer-sentiment index whether or not they owned stocks. She concluded that consumers use the stock market as an indicator of where their wages are headed.

The stock market also influences corporate behavior. In a speech last month, former Fed Chairman Alan Greenspan related how in the late 1950s he found that changes in stock prices led to changes in companies' machinery orders. He recently updated the analysis and found that the relationship between stocks and corporate spending on equipment continues to hold.

"A recovery of the equity market driven largely by a receding of fear may well be a seminal turning point of the current crisis," he said. "The key issue, of course, is when."

In August 1982, during what so far ranks as the deepest downturn since the Great Depression, Mr. Greenspan's "when" came, as the Fed interest-rate cuts signaled its fight against inflation was over. Stocks rallied, and then they kept on rallying, even as bad economic news continued to pile up and some economists carped that the advance didn't make sense. That November, the recession ended.

U.S. criticizes move for early Afghan election

BY MATTHEW ROSENBERG

KABUL, Afghanistan—President Hamid Karzai's move to advance elections to early spring from late summer drew a sharp response from the U.S. and potential political challengers, who said an early vote would undermine the poll's credibility amid Afghanistan's struggle with a resurgent Taliban.

Mr. Karzai, who has declared his intention run for re-election, proposed no new date in a brief statement Saturday night, saying only that the country's election commission should respect the Afghan constitution, which calls for national elections 30 to 60 days before the end of his five-year term on May 21.

That means the poll, which election officials had set for Aug. 20, would instead have to be held in the next two months, posing huge logistical and security challenges, with Afghanistan just emerging from winter and still awaiting thousands of additional U.S. soldiers and Marines.

An early election also would leave little time to raise the tens of millions of dollars needed to print ballots, set up polling stations in far-flung corners of this mountainous nation and conduct the vote.

Washington signaled its displeasure at the prospect of a spring vote, with the State Department saying it believes August elections are "the best means to assure every Afghan citizen would be able to express his or her political preference in a secure environment."

Only a handful of challengers have so declared their candidacies, and it is unlikely that any of the major contenders seeking to unseat Mr. Karzai—who is deeply unpopular among Afghan citizens—would have time to organize proper campaigns if the election were held in the next two months.

"Do we want a major crisis that is going to rob us of a credible election and throw us at a time, in March, when everyone expects an offensive from the Taliban, into possible debates and demonstrations and political uncertainty," said Ashraf Ghani, a former finance minister and World Bank official who hasn't yet officially declared his candidacy but is widely considered a potential frontrunner.

In an interview hours before Mr. Karzai's announcement, Mr. Ghani said he wouldn't run in an early election because he needs time to set up his campaign organization.

Other opposition politicians were more critical. One declared candidate, lawmaker Abdul Qadar Emami Ghori, accused Mr. Karzai of trying to "cheat" his opponents. "We don't have enough time to campaign, and some areas are still covered in snow," he said, according to the Associated Press.

Mr. Ghori and other lawmakers are pushing for Mr. Karzai to resign in May and appoint a caretaker president to run the country until the elections.

An early election could also foil a notably effective voter-registration effort that has seen some local Taliban leaders in the south urge people to sign up, including women. Most Afghan and foreign officials in Kabul believe that those lower-level commanders are seeking only to see their own tribesman get elected to provincial councils and that the moves aren't part of any broader Taliban effort to take part in the elections.

But "that still results in more people voting, and that's a positive," said a Western diplomat in Kabul. An election before the process is complete would be "huge missed opportunity to show people that democracy can work," the diplomat added.

Citing weather and security concerns, Afghanistan's Independent Election Commission announced in January that elections would be held in August. The delay was supported by U.N. and U.S. officials, who said they needed time to secure many districts in southern Afghanistan where the Taliban hold sway.

Obama is poised to increase funds for regulators

BY ELIZABETH WILLIAMSON AND MELANIE TROTTMAN

WASHINGTON—The U.S. administration's budget blueprint is sending a strong message to business: Regulation is back in style.

President Barack Obama's budget outline last week spends more on the agencies that enforce environmental and workplace-safety rules, more for food and drug regulators and more on consumer protection. The budget plan's figures are accompanied by policy statements backing various moves to put industry under closer government monitoring.

Some business interests are expressing concern that a deep recession isn't the time to demand that employers spend more time and money complying with federal regulatory demands.

The budget blueprint "is the first step in a long process," said John Engler, president and chief executive of the National Association of Manufacturers. If the plan were enacted, he said, "The manufacturing economy and our 12 million-plus workers and their families have much to lose." Mr. Obama's budget outline is just a starting point for lengthy congressional debates where business interests have opportunities to influence the final outcome.

But the Obama administration's plans reflect the views of many consumer, environmental and labor groups, as well as many members of Congress, that deregulation went too far during the Bush administration.

The Food and Drug Administration, for example, has been struggling during the past several years to keep pace with a barrage of food- and drug-safety scares. In 2007, the Health and Human Services budget was cut by $4 billion, despite a wave of food-safety crises plaguing the FDA. Mr. Obama's budget would give the FDA $1 billion more than the estimated fiscal 2009 budget for stepped up enforcement of safety rules.

In a move that promises a major fight with drug makers, the plan backs development of an FDA plan enabling Americans to buy less-expensive medicines abroad.

The Pharmaceutical Manufacturers of America, an industry lobbying group, declined to comment.

The budget suggests a sea change at the Department of Labor, where Mr. Obama is proposing a 4.7% increase in funding to reverse "years of erosion in funding for labor law enforcement agencies," the proposed budget says. One of the funding highlights: a plan to establish automatic workplace retirement accounts in a country where roughly half of workers lack employer-based retirement plans. The mandate would require employers that don't offer a retirement plan to enroll their employees in a direct-deposit Individual Retirement Account that is compatible with existing direct-deposit payroll systems. The Obama administration says experts estimate this will increase the savings participation rate for low- and middle-income workers to about 80% from 15%.

The Environmental Protection Agency's budget would rise by 34%, to $10.5 billion, money that would empower the agency to crack down on industrial polluters. Included is $3.9 billion—the most money ever—for the EPA's operating budget, "which is at the heart of EPA's environmental protection function and includes funds for research, regulation and enforcement," the proposed budget says.