

As jobs vanish, factory towns slow to see stimulus

LAMAR, Mo. (AP) — This southwest Missouri city, tucked amid endless fields of winter wheat and soybeans, felt the recession ahead of the rest of the country, when furniture-maker O'Sullivan Industries closed in mid-2007. That threw 700 employees out of work and turned an economic cornerstone into a million-square-foot vacancy.

Thus began what city manager Lynn Calton calls a "slow death." Stores folded. A 50-year-old car dealership went under. One in 10 jobs disappeared last year. Everyone suffered, from the downtown florist to the dentist who cleaned the factory workers' teeth.

Even Mayor Keith Divine filed for unemployment when his furniture store went out of business. He now sells carpet and mattresses and says he hasn't seen evidence of the 640,000 jobs saved or created nationwide thanks to the President Barack Obama's stimulus plan.

Lamar and communities like it, built around dying factories and mills, have been slowest to see relief from the \$787 billion stimulus, underscoring how hard it is for Washington policymakers to create lasting work in areas that need it most.

For the Obama administration, cities such as Lamar are as much a problem of expectations as it is of policy. For all the items contained in the stimulus, from tax cuts to road work to new schools, nothing could quickly replace what factory towns lost during a recession that shed hundreds of thousands of manufacturing jobs.

That's why the White House says it's unfair to judge the stimulus by the unemployment rate because no amount of stimulus was going to keep Lamar's unemployment rate from approaching 12 percent.

Nationwide, only 2,500 of the 640,000 stimulus jobs announced Friday were in the manufacturing industry, and many of those appear to be mislabeled.

British bank RBS signals new asset sales

LONDON (AFP) — Britain's Royal Bank of Scotland said Monday it will consider selling more assets than initially planned to win EU support for the state aid received by the group, sending its shares plunging.

The embattled company, which is 70-percent owned by the taxpayer after a huge bailout last year, added it was close to an agreement over the terms of its participation in a government scheme to insure toxic or high-risk assets.

RBS shares were down 5.80 percent at 39.49 pence in morning trading.

Media reports had suggested on Sunday that RBS could be forced to sell its Churchill and Direct Line insurance division and part of its investment banking arm, to allay European Commission (EC) concerns about state aid.

"With respect to the EC, negotiations between HM Treasury and the EC are in their final stages and will include some divestments not initially contemplated," RBS said in a statement.

"It remains RBS's goal that any required divestments do not threaten its recovery plan which is already underway."

Retail faces uncertainty as CIT enters bankruptcy

WASHINGTON (AP) — The bankruptcy of a key lender that helps retailers stock their shelves is adding to the industry's worries ahead of the critical holiday shopping season.

CIT Group Inc. filed for Chapter 11 bankruptcy protection Sunday in New York after months of struggling to avoid collapse. The company provides badly needed credit to thousands of small and mid-sized businesses, and is a critical part of the flow of capital in the retail sector.

CIT stressed that its lending operations will continue to operate as it proceeds through bankruptcy with the hope of shedding \$10 billion in debt. Chairman and CEO Jeffrey M. Peek said the company's prepackaged reorganization plan "will allow CIT to continue to provide funding to our small business and middle market customers, two sectors that remain vitally important to the U.S. economy."

But retail groups and analysts warn that the case will likely add to the instability in the retail sector. CIT is an important source of capital, working with 2,000 vendors that supply merchandise to more than 300,000 stores. About 60 percent of the apparel industry depends on CIT for financing.

In the last few weeks, the nation's stores have begun filling their floors with holiday merchandise, but they still need a reliable source of lending to prevent shipping disruptions and to restock after the holidays. Even one day that vendors are cut off from much-needed financing could create a bottleneck, resulting in shipments of merchandise left on docks or in vendors' warehouses.

CIT expects to emerge from bankruptcy



by the end of the year, but a dragged-out case or any glitches could further disrupt the already tight credit markets for retailers, said Joe Alouf, a partner with Eaglepoint Advisors, a crisis management company that is partly owned by Kurt Salmon Associates.

Craig Sherman, vice-president of government affairs at the National Retail Federation, thinks the industry "dodged a bullet on the holiday season" for the most part, because most merchandise is in stores' distribution centers. However, he said CIT's woes could throw a wrench in ordering for the important 2010 spring season. NRF officials say that as stores prepare for a rebound in consumer spending next year, access to credit is very important.

Harold Reichwald, co-chair of law firm Manatt, Phelps & Phillips' banking group, said that CIT's case will likely force the company's customers to look elsewhere for financing.

"If I was a small businessman, I would say to myself, 'I have to find alternatives,'" Reichwald said. "In this marketplace, there isn't a lot of alternatives."

CIT's Chapter 11 filing is one of the biggest in U.S. corporate history, following Lehman Brothers, Washington Mutual, WorldCom and General Motors. The bankruptcy filing shows \$71 billion in finance and leasing assets against total debt of \$64.9 billion. The move wipes out current holders of its common and preferred stock, meaning the U.S. government will likely lose the \$2.3

billion in taxpayer funds it sunk into CIT last year to prop up the company.

The government could have lost billions more, however, had it not declined to hand over more aid to the company earlier this year. Treasury Department spokesman Andrew Williams said Sunday that the government will be closely monitoring the bankruptcy proceedings, but acknowledged that "recovery to preferred and common equityholders will be minimal."

CIT had been trying to fend off disaster for several months and narrowly avoided collapse in July. It had struggled to find funding as sources it previously relied on, such as short-term debt, evaporated during the credit crisis. The company pulled back sharply on lending to businesses as it tried to preserve cash. According to its most recent quarterly earnings report, the company originated just \$4.4 billion worth of new business during the first six months of 2009, compared with \$11.3 billion in the first half of 2008.

The company received \$4.5 billion in credit from its own lenders and bondholders last week, reportedly made a deal with Goldman Sachs to lower debt payments and negotiated a \$1 billion line of credit from billionaire investor and bondholder Carl Icahn. But the company failed to persuade bondholders to support a debt-exchange offer, a step that would have trimmed at least \$5.7 billion from its debt burden and given CIT more time to pay off what it owes.

Ever since CIT's troubles flared up last summer, the retail industry has carefully monitored the lender, with many vendors scrambling to find alternative financing at rivals like Rosenthal & Rosenthal. But finding a replacement hasn't been easy because competitors can only take on so many more clients. Moreover, while large publicly traded companies with sales of more than \$2 billion have found the credit market loosening up in recent months, small and medium-based companies have largely found themselves shut out, Alouf said.

European stocks up on manufacturing optimism

LONDON (AP) — European stock markets rose modestly Monday despite earlier big losses in Asia, as solid manufacturing data helped ease concerns that the global economic recovery is faltering.

Britain's FTSE 100 index of leading British shares was up 16.63 points, or 0.3 percent, at 5,061.18 while Germany's DAX rose 7.78 points, or 0.1 percent, to 5,422.74. The CAC-40 in France was 4.36 points, or 0.1 percent, higher at 3,612.05.

Early jitters in Europe were eased by a survey showing that the manufacturing sector in the 16 countries that use the euro expanded in October for the first time in a year and a half.

The monthly purchasing managers index — a broad gauge of business activity — for the euro area rose to 50.7 from September's 49.3. Any reading above 50 indicates that the sector is growing.

A similarly encouraging picture emerged with equivalent British data. The PMI for October spiked to 53.7 from 49.9 in September. October's reading represented the fastest pace of growth since November 2007.

Though the manufacturing data helped stem the selling pressure in the markets that arose after Asia's big retreat in the wake of Friday's losses on Wall Street, investors will be looking to see if an equivalent survey from the Institute for Supply Management is equally rosy.

"With Wall Street eyeing a positive start, the onus will be on the likes of the U.S. ISM manufacturing data to impress this afternoon if we're to avoid another turn around in sentiment," said Anthony Grech, market strategist at IG Index.

At the moment, there are hopes that the data will not disappoint and that U.S. stocks will claw back some of the losses recorded on Friday when investors were spooked by government figures showing U.S. personal spending in September fell 0.5 percent from the previous month.

Dow futures were up 58 points, or 0.6 percent, at 9,722 while the broader Standard & Poor's 500 futures rose 6.6 points, or 0.6 percent, to 1,039.60. On Friday, U.S. stocks suffered their worst day since July.

The expected gains on Wall Street come despite news that



commercial lender CIT Group has filed for Chapter 11 protection after struggling for months to avert bankruptcy. It was one of the biggest filings in U.S. corporate history, following Lehman Brothers, Washington Mutual, WorldCom and General Motors. Economic matters will be at the forefront of traders' attention this week. In particular, they will be looking to see what the U.S. Federal Reserve, the European Central Bank and the Bank of England say about the world economy when they announce their latest interest rate decisions.

Though all three banks are expected to keep their benchmark rates at historic lows, investors will be focusing on what they say about economic prospects and when extraordinary measures to boost the world economy will start to be unwound. The Bank of England is the only one that may well change current policy, with most analysts now predicting that it will increase the amount of money it pumps into the economy.

And the week ends with the closely-watched U.S. nonfarm payrolls report for October, which often sets the stock market tone for a week or two.

With all these big economic events ahead, Keith Bowman, an equities strategist at Hargreaves Lansdown in London, reckons that it could well end up being an "exceptionally volatile" week in stock markets.

Earlier, Japan's key Nikkei 225 stock average led Asian declines, down 231.79, or 2.3 percent, at 9,802.95. Hong Kong's Hang Seng index lost 132.68, or 0.6 percent, to 21,620.19 while Australia's S&P/ASX 200 was down 2.2 percent. South Korea's market dropped 1.4 percent.

Benchmarks in New Zealand, Taiwan and Singapore also fell, though the region recovered some early losses on strength in mainland China. The Shanghai Composite index was the only major market in positive territory, up 2.7 percent on stronger manufacturing figures and higher bank earnings.

Oil prices bounced back, with benchmark crude for December delivery up 91 cents to \$77.91 a barrel. The contract dropped \$2.87 to settle at \$77.00 on Friday. The dollar rose 0.6 percent to 90.20 yen while the euro firmed 0.4 percent to \$1.4767.

Ryanair profits surge on lower fuel costs

DUBLIN (AFP) — Irish low-cost airline Ryanair on Monday reported surging profits in the first half of its financial year due to lower fuel costs, but warned that falling fares would mean losses in the second half.

Net profits rocketed 80 percent to 387.0 million euros (570.8 million dollars) between April and the end of September, compared to the same period last year, Ryanair said in a results statement.

"Ryanair's ability to grow both traffic and profits during the half year is a testament to the strength of Ryanair's lowest fare model, and our relentless cost discipline," chief executive Michael O'Leary said in a statement.

"However these results are heavily distorted by a 42 percent fall in fuel costs, which has masked a significant 17 percent decline in average fares.

"We expect average fares to decline by up to 20 percent during

quarters three and four, which will result in both these quarters being loss-making."

Despite the expected losses, O'Leary said the forecast for the full year was "substantially profitable, at a time when many of our competitors are losing money, consolidating or going bust".

The group had posted an annual net loss of 169 million euros for its last financial year, blaming a 59-percent surge in fuel costs because of record high oil prices as well as a large writedown on its stake in Aer Lingus.

Revenues dipped two percent to 1.8 billion euros in the first half of the 2009/2010 fiscal year.

However, Ryanair added that it was "well positioned" to benefit from global economic recovery as a result of its growth strategy.

"Ryanair remains ideally positioned to return to substantial profit growth as Europe emerges from this economic downturn," O'Leary said.



Automakers gird for "new normal"

PARIS/DETROIT (Reuters) — As automakers, parts suppliers and car retailers ready business plans for next year and beyond, the experience of the industry's 2009 crash has made caution the new byword.

For perspective, consider that AutoNation Chief Executive Mike Jackson now counts as an optimist in an auto industry still reeling from a collapse few saw coming.

The U.S. auto industry's "depression" will continue in 2010 but with sales showing a modest gain to more than 11 million vehicles — still below levels of 26 years ago.

"We're looking at five to six years of growth," Jackson told Reuters. "We can probably get back to a good old recession in 2011."

Jackson sees opportunity amid the turmoil for AutoNation, the top U.S. auto retailer by sales.

In his view, the bankruptcies of GM and Chrysler and restructuring across the industry have set the stage for a grudging but certain recovery without the destabilizing boom and bust cycle of the recent past.

Fast growth in China and government stimulus measures in Europe and the United States have started to pull the industry out of its deep slump. That has left analysts, investors and industry executives to handicap the strength of a still-uncertain recovery.

Among the key issues: How long will the road back to "normal" be in developed markets? How will the competitive landscape shake out? And what will be the role for the raft of ambitious start-ups raising funding — and expectations — for an electric car revolution?

Those are some of the questions that Reuters reporters will put to top auto industry executives and analysts and labor leaders at the Reuters Autos Summit beginning on Monday.

The event comes at crucial time for government policy and for General Motors Co and Chrysler as the Detroit automakers set out to demonstrate that their fast-track restructuring in bankruptcies have set them up for success. GM's board is set to meet next week in Detroit to make a final call on the fate of its European unit Opel. The question before the automaker's 13-member board is whether to proceed with a deal to sell Opel to a group led by Canada's Magna International or whether to try to raise financing to keep the unit.

GM emerged from a bankruptcy in July with \$50 billion in U.S. taxpayer funding and a new board vetted by the U.S. Treasury that has pushed management to reverse the long-running slide in sales in its home market.

Meanwhile, Fiat SpA Chief Executive Sergio Marchionne is scheduled to deliver the five-year plan for Chrysler's turnaround at the automaker's Detroit area headquarters on Wednesday.

The Italian carmaker has been developing a plan to restart Chrysler's stalled product development since taking management control of the U.S. automaker in June.