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## **Nightly Business Report for Monday, October 15<sup>th</sup>**

By Darren Gersh

PAUL KANGAS, NIGHTLY BUSINESS REPORT ANCHOR: \$86 a barrel and counting. Oil soared to a fresh record today as tensions mounted in the Middle East. Now investors are wondering if \$100 a barrel oil will soon be a reality.

SUZANNE PRATT, NIGHTLY BUSINESS REPORT ANCHOR: The U.S. Treasury and some of the nation's largest banks are joining forces to shore up the ailing credit market. They're piling into a fund to buy up troubled debt securities.

KANGAS: Then we head to New Hampshire, one of the most important states in the run-up to the presidential election. We'll look at the economic issues most important to that state's voters.

PRATT: Harley-Davidson shares had a rough ride today. Investor concerns are growing that Harley's earnings due out Friday could disappoint.

KANGAS: I'm Paul Kangas.

PRATT: And I'm Suzanne Pratt. Susie Gharib is on assignment tonight. This is NIGHTLY BUSINESS REPORT for Monday, October 15. Good evening everyone. Crude oil prices caught fire today, surging and closing over \$86 a barrel for the first time. November light sweet crude gained \$2.44 to settle at \$86.13 a barrel in New York trading. That's a rise of nearly 3 percent. Experts say two factors fueled today's run-up: continued momentum from Friday's rally and mounting tension between Turkey and Iraq. But AG Edwards' chief global investment strategist Bill O'Grady believes another factor is also behind the move.

BILL O'GRADY, CHIEF GLOBAL INVESTMENT STRATEGIST, AG EDWARDS: I really think the story here -- and it's really been the story since the Fed cut rates last month -- is that the market is saying that look, if you're going to try to support growth regardless of the potential inflationary impacts, we're going to want to own things that do well in that kind of environment and oil is one of them.

PRATT: Oil analysts say it's unclear what crude's next big price move will be. Some say it could head lower on profit taking. Others say it could head into triple digits if geopolitical tensions erupt into military action.

KANGAS: The nation's three largest banks are heading up an effort to try to combat continuing damage from the credit crunch. While the details of the plan are still being worked out, the group hopes it will boost investor confidence. Erika Miller reports. ERIKA MILLER, NIGHTLY BUSINESS REPORT CORRESPONDENT: They say there's safety in numbers. Citigroup, Bank of America, JPMorgan Chase and others are creating a rescue fund that will buy billions of dollars of securities locked up by the credit crunch. Bond trader Tony Crescenzi says the strategy is designed to boost bank profits by shoring up investor confidence in the credit markets.

ANTHONY CRESCENZI, CHIEF BOND MARKET STRATEGIST, MILLER TABAK: It's capitalism that really drove the banks to make the decision. Banks are looking after themselves. And of course what is good for the banks is good for the financial system in general, hence good for Main Street.

MILLER: The group is creating what's called a master liquidity enhancement conduit, M-LEC (ph) for short. The pool will buy troubled asset-backed securities from structured investment vehicles or SIVs. Those SIVs are run by the banks, but handled off balance sheet. S&P analyst Frank Braden says the strategy is a smart one for the banks, especially Citigroup, which has roughly a quarter of the estimated SIV market worldwide.

FRANK BRADEN, BANKING ANALYST, STANDARD & POOR'S: It provides an avenue for them to not only sell these assets, but also if things did get worse, they could possibly end up on the balance sheet and that would affect the bottom line.

MILLER: The Treasury Department brokered the discussions to set up the fund, an effort being compared to the Federal Reserve's role in bailing out hedge fund long term capital in 1998. But many important details of the banks' rescue plan are still unknown, including its size, structure and risk tolerance. Most experts believe the fund will be between \$75 and \$100 billion. The banks hope to have the fund operational in about three months, but industry experts predict an immediate psychological benefit.

BRADEN: I think you're seeing some of the liquidity in the asset-backed commercial paper market. I think some of it is already returning, but this kind of gives it a shot in the arm and we think it's a good idea for the markets in general.

MILLER: If the plan works, experts say there could be a ripple effect throughout the credit market, reducing risk premiums on a wide range of debt securities. Erika Miller, NIGHTLY BUSINESS REPORT, New York.

PRATT: Speaking of Citigroup, its third quarter profits slipped 57 percent on massive write-downs for bad loans. The nation's largest bank earned \$0.47 a share in the quarter, down from \$1.10 a year ago. The results were slightly better than what Citi forecast at the beginning of this month, when it saw profits falling 60 percent. Citi took \$6.5 billion in pre-tax losses and write-downs on sub-prime and leveraged loans

during the quarter. Embattled CEO Chuck Prince said the performance was quote, well below our expectations and frankly surprising, end quote.

KANGAS: That sharp drop in Citigroup's results led to a weak opening on Wall Street. Adding to the selling, investor concern over those surging oil prices. Just before noontime, the Dow posted a 140 point loss and the NASDAQ Composite was down 23 points. A further rise in oil, then an earnings warning from Eaton Corporation and a downgrade on Boeing kept pressure on stocks this afternoon, but some late tech buying also cut the losses in the final hour. The Dow Industrial Average went on to close down 108.28 at 13,984.80. The NASDAQ of 29.63 ending at 2780.05. Standard & Poor's 500 Index fell 13.09 points to 1548.71. Over in the bond market, the 10-year note rose 2/32 to par and 17/32, putting the yield at 4.68 percent.

PRATT: Joining me now with more about the bank rescue fund that was set up at the urging of the Treasury Department is Robert Steel, Treasury undersecretary for domestic finance. Welcome to NIGHTLY BUSINESS REPORT. ROBERT STEEL, UNDER SECRETARY FOR DOMESTIC FINANCE, US TREASURY: Hi, Suzanne, thank you for having me.

PRATT: Mr. Undersecretary, you were Treasury's point man on this plan. Why did Treasury feel it was necessary to see this fund set up, particularly when we're hearing that conditions in the credit markets are improving.

STEEL: Well Suzanne, you're right that when the markets were acting poorly late this summer, different parts have started to improve at different rates of speed. And one of the areas that seemed to be returning to normal trading conditions more slowly was asset backed commercial paper. And the Treasury secretary, Secretary Paulson, is constantly monitoring the markets and also speaking to people involved in the markets. It became clear to us that the asset-backed commercial paper market was an area that we wanted to understand better and so we convened a group of people. This idea developed really from the market participants themselves as to a way to help the transition and maybe encourage the return to more normal conditions in asset-backed commercial paper.

PRATT: So without this plan, what do you think would have happened to U.S. financial markets and to the U.S. economy?

STEEL: Well, the financial markets have been improving in all kinds of ways. This was just one area, specific area of the credit market that was returning to a more normal trading conditions a bit more slowly. In terms of the economy itself, Secretary Paulson has said continually that there has been a penalty to growth from the challenges in the credit markets and in housing over the course of this year. But despite that penalty to growth, the economy we're comfortable is still growing. It's strong in lots of other ways and so hopefully the growth will continue later this year. And so that's our expectation.

PRATT: Can you explain for viewers what Treasury's role in all of this is actually?

STEEL: Perfect. Well, as I said Suzanne, our goal all along is to be in contact with the markets and be discussing conditions with the market participants. The area of asset-backed commercial paper seem to be recovering more slowly so we brought people together at Treasury, both bankers and also investors that invest in asset-backed commercial paper and brought them to Treasury to discuss what was going on in the market and what might be some of the ways that they could think about encouraging the market to return to more normal conditions. This is really a market-generated idea, managed by the market participants so as to help the market improve in a normal way.

PRATT: What do you say to critics who are already saying that it's inappropriate for Treasury to step in in this role and perhaps you're in a way rewarding bad behavior by some of the biggest banks, in particular Citigroup.

STEEL: I don't see how we're rewarding any behavior at all. This is a market organized effort. And basically the market participants have brought these ideas together. And the three banks that are involved, Bank America, Citibank, JPMorgan in the lead positions, have all come to this view that this would be helpful for the market. And also too it helps the securitized aspects of the market which will certainly have a positive effect on the mortgage market. And I think that's something that's good for all the markets and we want to be pulling for.

PRATT: So who do you see as likely investors into this fund? Who is going to be a buyer of this debt? Is it going to be professional investors, individuals?

STEEL: Well, I think it really affects the whole constituency of investors. So the new master conduit will be funded by banks, but then they'll issue securities that will be bought by money market funds and other investors, both institutions and individuals, directly and indirectly. So I think it has the potential to be helpful to all the marketplace and all the investors. But again, a market-organized effort to participate by participants to benefit the market overall.

PRATT: OK. Let's leave it there. Thank you for joining us.

STEEL: Thank you for having me Suzanne.

PRATT: My guest this evening, Robert Steel, undersecretary at Treasury.

KANGAS: Three Americans were awarded the Nobel Prize in economics today. They were honored for figuring out how buyers and sellers can maximize gains from a transaction. Roger Myerson is a professor at the University of Chicago. His win marks the 80th Nobel Prize for that school and that the highest number for any institution worldwide. Also winning, Eric Maskin, a professor at the Institute for Advanced Study in Princeton and Leonid Hurwicz from the University of Minnesota. His work, begun

in 1960 on game theory, set the stage for today's award. Hurwitz is 90 years old, the oldest Nobel winner ever.

KANGAS: No fun and games for Mattel today, as the toy maker's latest earnings slipped on charges related to its massive recall of Chinese-made toys. Mattel earned \$0.61 a share in the third quarter, a penny less than a year ago. Excluding recall charges of about \$0.08 a share, Mattel still missed analyst estimates, which called for earnings of \$0.70. The maker of Barbie dolls, TMX Elmo and Matchbox cars says it slowed toy shipments during the quarter so it could conduct extra product safety testing and that it now has tested nearly everything it expects to ship to retailers for the holiday season.

PRATT: Time Warner is trimming down its AOL unit, again. The company today said it was cutting its workforce by another 2,000 jobs or 20 percent, with most of those cuts coming in the U.S. Last fall, AOL slashed 5,000 jobs as it began a transition from a web access provider to an online advertising firm. And Paul, AOL is counting on growing its ad revenues now that it no longer charges customers for service.

KANGAS: There are rumblings in the marketplace, Suzanne that Time Warner may sell or spin off AOL altogether. Now let's take a look at our stocks in the news tonight. Most active big board issue trading 23.1 million shares, Citigroup (C) losing \$1.63, traded as low as \$45.69 on those sharply lower third quarter earnings.

Then Pfizer (PFE) \$0.26 drop there.

Ford Motor Co (F) lost \$0.21.

And so did General Electric (GE).

Medtronic (MDT) a major casualty, down \$6.33, traded as low as \$48.69 today. The company suspended its worldwide distribution of wire leads for its defibrillators because of their potential to fracture. The company also recommended against making any new implants of those leads.

ExxonMobil (XOM), I guess we know why that's up \$1.34, record high oil prices.

EMC Corp (EMC) \$0.25 loss there.

General Motors (GM), which had a good run up last week, down \$1.53 on profit taking.

AT&T (T) dropped a dime.

And then Bank of America (BAC) a \$0.65 loss there.

Boeing (BA) down \$1.86. The Bernstein research says that the assembly problems delaying the Dreamliner deliveries could keep the stock price of Boeing bound in a narrow range for 12 months. Bernstein also downgraded the stock from "outperform" to just a "market perform" rating.

Chevron (CVX) edging up \$0.92. The company plans a major processing unit at its Pascagoula, Mississippi refinery and that'll boost gasoline output there by 10 percent.

China Petroleum (SNP) up \$16.62. Citigroup really reversed itself and upgraded its "sell" recommendation to a "buy" recommendation today.

Harley-Davidson (HOG) down \$0.91. The company is warning third quarter earnings due out this Friday won't be pretty and it also slashed its 2008 earnings estimates as well.

Eaton (ETN) down \$3.36. Third quarter earnings higher than last year, \$1.71 versus \$1.62, but the company sees fourth quarter results around \$1.60 to \$1.70. The Street estimate is up there at \$1.85 a share.

Big winner of the day, Tektronix (TEK) up \$9.51. Danaher Corp. will acquire the company for \$38 a share in cash. Danaher was down \$0.95 at \$81.52.

Medco Health Solution (MHS) down \$2.23. Wachovia Securities downgraded it from "out perform" to "market perform" mainly on valuation. You can see by that chart it's had quite a run up.

Primedia (PRM) down \$2.26, big percentage loss. The company estimates its 2007 revenue growth will be flat or up just single digits.

And Dril-Quip (DRQ), which provides oil drilling equipment logically enough, down \$3.97. UBS financial downgraded it from "neutral" to "sell."

And as you might expect, the airlines weak today on those record high oil prices. That included Us Airways Group (LCC) down \$1.95.

NASDAQ's most active, Apple (AAPL) losing only \$0.27.

Google (GOOG) got hit a little bit harder, down \$17.28.

Baidu.com (BIDU) losing \$8.03.

And then Biogen Idec (BIIB) up \$13.08. After the close Friday as we reported, the company has in essence put itself up for sale.

Research in Motion (RIMM) lost \$4.20.

Intel (INTC) \$0.20 gainer.

Microsoft (MSFT) \$0.13 loss.

Same story with Cisco Systems (CSCO).

Bea Systems (BEAS) fell \$0.38.

And then Dryships (DRYS) gaining \$4.93. Sutron (STRN) up \$1.56. This company provides hydrological services and it tripled its third quarter earnings from last year, \$0.27, versus \$0.09 then and sales shot up 38 percent.

And those are the stocks in the news tonight. Suzanne.

PRATT: Thanks Paul. In tonight's program, we have reported on the mortgage meltdown, the soaring price of oil and the volatile stock market. But that's not just tonight's business and economic news. Those stories are also setting the backdrop to the 2008 election campaign. As our "Economic Choices '08" coverage continues, Darren Gersh looks at why many voters in New Hampshire feel their financial future is insecure and what they want the candidates to do about it.

DARREN GERSH, NIGHTLY BUSINESS REPORT CORRESPONDENT:

Eventually, all the presidential candidates find their way here to the Puritan backroom. And for nine years, Mary Casey has worked at this Manchester institution, almost as well known for politics as it is for the chicken tenders. If the senators, mayors and governors running for president spend a few minutes talking with Casey, they'll learn a lot about where the economy is now and also about where it's headed.

MARY CASEY, WAITRESS: My concern is for my kids' future. What's it going to be like for them to buy a house 10 years from now, if they decide to do that? I'm worried about how health care is adversely affecting the economy, because health care has already jumped up I think like it's another 12 percent from what it was last year and that's eating away at peoples' budgets.

GERSH: For many voters like Mary Casey, there is a disconnect in this economy. Jobs are easy to find, but making economic progress is another story.

CASEY: I just feel like things are getting harder as far as making a dollar. Just a dollar compared to, say, five years ago.

GERSH: In many ways the economy here in New Hampshire looks pretty good. The high-tech sector continues to expand and the unemployment rate and poverty rate are both well below the national average. But if you look behind the numbers, you'll find many people here have a sense of economic unease. They're worried that it's harder to make a living and they're concerned that they're at risk of being left behind.

New Hampshire used to have the most even income distribution in the country. But over the last 15 years, that has changed. The income gap between the top and bottom earners has increased here faster than the national average. Professor Ross Gittel adds that inequality is growing just as home prices are falling and gas prices are rising. He says voters are looking for answers.

ROSS GITTELL, MANAGEMENT PROF., UNIVERSITY OF NEW HAMPSHIRE: Now you have a period that's threatened by economic decline and a certain segment that was left behind during the boom period that is now feeling, not only that they were left behind during the boom period, but their basic security, their home, their health care is threatened by the current conditions.

GERSH: Even where the economy is thriving, rapid change creates tension. At defense contractor BAE Systems, Rich Ashooh wants to hear what Republicans have to say about opportunities and competition from India and China. As vice president for government relations, Ashooh is wired into the local economy. He says presidential candidates need to understand international competition is a pressing issue for almost every business in New Hampshire.

RICHARD ASHOOH, VP GOVERNMENT RELATIONS, BAE SYSTEMS: We're used to not having much competition economically and that is going to change. And it's going to change from quarters that we don't normally expect it.

GERSH: Ashooh firmly believes trade and open borders, if managed correctly, can be opportunities. But recent national polls show another disconnect. Most traditionally free-market Republicans now believe trade is bad for America. Former Bush administration economist Matthew Slaughter says trade anxiety is understandable given that wages have been mostly flat over the last six years.

MATTHEW SLAUGHTER, TUCK SCHOOL OF BUSINESS AT DARTMOUTH: So people understand that, as consumers, they do benefit from lower prices and greater variety when they go to the stores. But people understand that their well being economically doesn't just depend on low prices. It depends on what's happening with their W-2 and their earnings power.

GERSH: Even in well-to do suburbs, trade fears spark broader concerns about the economic impact of open borders and immigration. Just ask Republican Jonathan Picard.

JONATHAN PICARD, REPUBLICAN VOTER: Everywhere you turn, there is somebody from another country running the convenience stores or the gas stations and taking our jobs away.

GERSH: As residents of the nation's first primary state, voters here feel it's their duty to pin down the presidential candidates. They've done it for decades and this year, many are determined to understand what the next president will do to make their

economic lives more secure. Darren Gersh, NIGHTLY BUSINESS REPORT, Manchester, New Hampshire.

KANGAS: Tomorrow, how the party faithful on both sides are defining the election's economic choices.

PRATT: The U.S. Supreme Court today rejected an appeal from Microsoft and Best Buy. The move reinstates a lawsuit from Best Buy customers who claimed they were improperly charged for Microsoft's Internet service. The lawsuit alleges Best Buy employees activated trial accounts for the service without customers' consent. At issue, whether Microsoft and Best Buy can be sued under racketeering laws, meaning triple damages if they lose.

KANGAS: Nortel Networks will pay the Securities and Exchange Commission \$35 million to settle accounting fraud charges. The regulator sued the Canadian telecom equipment maker today. It alleged Nortel used accounting tricks to boost earnings from 2000 to 2003, then tried to cover up the scheme by restating results in 2003. Nortel neither admits nor denies wrongdoing in the case.

PRATT: Here's a look at what's happening tomorrow. September's industrial production numbers are released, along with weekly retail sales and earnings from Delta Airlines, IBM, Intel, Johnson & Johnson and Yahoo!

Tonight's commentator says now is not the time to let the Bush tax cuts expire. He's Glenn Hubbard, dean of economics and finance at Columbia's graduate school of business and former chairman of the White House Council of Economic Advisors.

GLENN HUBBARD, GRADUATE SCHOOL OF BUSINESS, COLUMBIA UNIV.: To hear the major presidential candidates talk, the big tax question is whether the 2001 and 2003 tax cuts should be extended. While that turns out to be a bigger issue than many candidates let on, there are other questions. Failure to extend the tax cuts will raise income tax burdens substantially, in fact, a 25 percent increase in the average tax burden by the end of the next president's first term.

Yes, high-income taxpayers will experience a 20 percent tax hike, but middle-income taxpayers will face a larger 30 percent tax hike. And the increases in the capital gains tax rate and the dividend tax will hit saving and capital formation hard. Even if the tax cuts are extended, personal income taxes as a percentage of GDP will rise by 15 percent by 2012 -- a \$200 billion annual tax increase. To avoid this tax increase, additional cuts to corporate and individual income taxes would promote growth and incomes. Or the funds could be set aside as individual savings to pre-fund our entitlement obligations.

We need straighter tax talk from our presidential candidates. Those who advocate letting the Bush tax cuts expire should tell us about the large tax increases to come. Those candidates who argue that we need to keep tax burdens from rising should tell

us specifically how they would reform the tax code to raise living standards. And we should ask. I'm Glenn Hubbard.

KANGAS: Recapping today's market action, surging oil prices pushed stocks lower. The Dow lost 108 points while the NASDAQ Composite dropped 25. To learn more about the stories in tonight's broadcast, to watch our streaming video and to take part in our daily blog, go to NIGHTLY BUSINESS REPORT on [pbs.org](http://pbs.org) or you can also e-mail us at [nbr@pbs.org](mailto:nbr@pbs.org).

PRATT: That's NIGHTLY BUSINESS REPORT for Monday, October 15. I'm Suzanne Pratt. Good night everyone and good night to you, Paul.

KANGAS: Good night, Suzanne. I'm Paul Kangas, wishing all of you the best of good buys.

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