

S&P Cuts Credit Ratings In Europe

BY JAMEY KEATEN
Associated Press

PARIS — Standard & Poor's swept the debt-ridden European continent with punishing credit downgrades Friday, stripping France of its coveted AAA status and dropping Italy even lower. Germany retained its top-notch rating, but Portugal's debt was consigned to junk.

In all, S&P, which took away the United States' AAA rating last summer, lowered the ratings of nine countries, complicating Europe's efforts to find a way out of a debt crisis that still threatens to cause worldwide economic harm.

Austria also lost its AAA status, Italy and Spain fell by two notches, and S&P also cut ratings on Malta, Cyprus, Slovakia and Slovenia.

The downgrades on more half of the countries that use the euro could drive up yields on European government debt as investors demand more compensation for holding bonds deemed to be riskier. Higher borrowing costs would put more financial pressure on countries already contending with heavy debt burdens.

"In our view, the policy initiatives taken by European policymakers in recent weeks may

be insufficient to fully address ongoing systemic stresses in the eurozone," S&P said in a statement.

Stocks fell Friday as downgrade rumors reached the trading floors of Europe and the United States. But the declines were nothing like the wrenching swings of last summer and fall, when the debt crisis threw the markets into turmoil.

The Dow Jones industrial average in New York was down 0.5 percent. Stocks fell 0.6 percent in Germany, 0.5 percent in Britain and 0.1 in France, but each of those markets closed before French Finance Minister Francois Baroin gave first word of the country's downgrade on French television.

Earlier Friday, the euro hit its lowest level in more than a year and borrowing costs for European nations rose.

Some analysts downplayed the impact of the downgrades.

"It's going to create bad headlines for a day or two," said Jacob Funk Kirkegaard, research fellow at the Peterson Institute for International Economics. But "there's no underlying new information ... This will be quickly forgotten."

Still, the cut in the French credit rating may lead bond traders to raise borrowing costs for

the financial rescue fund, said Guy LeBas, chief fixed income strategist at Janney Montgomery Scott, a financial firm.

"There's a legitimate reason to be concerned," he said. "A weaker France means a weaker bailout fund."

France's downgrade to AA+ lowers it to the level of U.S. long-term debt, which S&P downgraded last summer. S&P had warned 15 European nations in December that they were at risk for a downgrade.

France is the second-largest contributor behind Germany to Europe's financial rescue fund. The fund still has a rating of AAA. That means that it can borrow on the bond market at low rates.

Borrowing costs for the French government rose before the announcement. The yield on France's 10-year government bond rose to 3.1 percent from 3 percent earlier. That is still less than the 3.36 percent rate on the same bond last week and far below the 6.6 percent that Italy has to pay to borrow money from bond investors for 10 years.

Germany, the strongest economy in Europe, pays a yield of just 1.76 percent. The United States 10-year Treasury note paid 1.85 percent Friday, down 0.08 percentage points — a sign that investors were seeking safety in U.S. debt.

Perry Steps Lightly On Republican Rivals

BY CHARLES BABINGTON
Associated Press

CHARLESTON, S.C. — Texas Gov. Rick Perry aimed his sharpest criticism at President Barack Obama rather than his GOP rivals as he campaigned Friday in coastal South Carolina, eight days ahead of the state's primary.

Perry, using a light touch as he spoke to people in crowded restaurants in Bluffton and Charleston, mostly stuck with the campaign speech he used in Iowa and elsewhere. He mentioned front-runner Mitt Romney by name only when a Charleston man said he feared Perry has a poorer chance of beating Obama this fall.

Perry cited Texas' record of job creation during his 11 years as governor, and said it is far better than Obama's national record. "Romney cannot make that contrast," he said.

In one of his rare light-hearted moments, Perry said anyone seeking higher taxes and mandated health insurance coverage "can move to Massachusetts." It was another jab at Romney's four-year record as Massachusetts governor.

In Bluffton, Perry said his GOP opponents are "all either Wall Street insiders or Washington insiders" and called himself the genuine outsider who can change Washington.

Of the president, he said: "Our country is in trouble, and Obama is mortgaging our children's future" by running up a huge debt.

Perry made no mention of Romney's



JAY KARR/THE ISLAND PACKET/MCT
Republican presidential candidate Rick Perry greets customers at Hilton Head Diner as he makes his entrance, Friday, January 13, 2012, during a campaign appearance on Hilton Head Island, South Carolina.

record at the private equity firm Bain Capital. Several party officials and conservative spokesmen chastised him earlier this week for tying Romney to instances in which Bain investments worked out badly and resulted in job losses.

Perry has gotten off fairly easy thus far in

the political ads swamping South Carolina TV stations, especially during local news hours. The main targets of the harshest ads have been former House Speaker Newt Gingrich, former Sen. Rick Santorum and Romney. Perry, like the others, is airing positive ads about himself.

Europe Losing Appetite For U.S. Goods

BY MARTIN CRUTSINGER
AP Economics Writer

WASHINGTON — A sign that Europe's crisis has begun to weigh on the U.S. economy emerged Friday from a report that exports to the continent sank in November — far more than overall U.S. exports did.

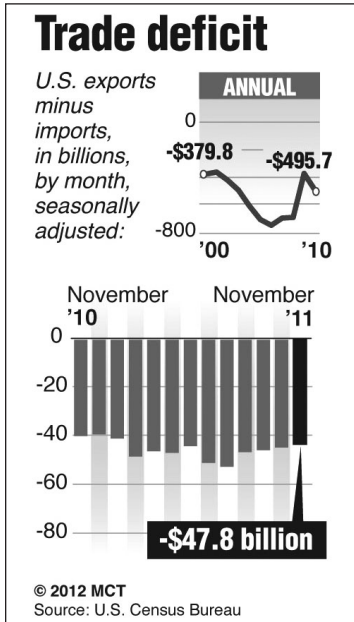
Europe, which consumes nearly one-fifth of America's exports, may already be in a recession. A weakening Europe could further shrink demand for American goods and slow the U.S. economy just as the job market has started to strengthen.

"The decline in our sales to Europe was fairly large and may be the start of a longer-term trend in declining exports to the continent," said Joel Naroff, chief economist at Naroff Economic Advisors.

The U.S. trade deficit rose 10.4 percent in November to \$47.8 billion, the Commerce Department said.

Higher oil prices were the main reason the deficit widened. Oil rose above \$100 per barrel in November. It had been as low as \$75 a barrel the previous month. More expensive oil drove the value of imports up 1.3 percent, to a record \$225.6 billion.

Overall exports dropped 0.9



percent to \$177.8 billion. American exports to Europe fell much more sharply — nearly 6 percent.

Economic growth weakens when exports decline because factories tend to produce fewer goods. And U.S. companies earn less. Friday's trade report led some economists to cut their growth estimates for the October-December quarter.

Many economists had expected growth to be stronger after

seeing more hiring, an increase in company stockpiles and faster production at U.S. factories. Most had been predicting that the economy would grow this quarter at an annual rate of roughly 3 percent.

But Paul Dales, senior U.S. economist for Capital Economists, said he now expects growth to be closer to 2 percent, in part because of the weaker trade report and also because of December's disappointing retail sales.

"The widening in the U.S. trade deficit in November ... is perhaps the first real sign that the crisis in Europe and the more general global slowdown is starting to take its toll on the U.S.," Dales said.

The trade figures for individual countries are not seasonally adjusted. After adjusting for such fluctuations, Dales says annual export growth to the 17 nations that use the euro slowed sharply from the summer, from 15 percent in August to a mere 2.5 percent in November.

Until recently, growth in exports to Europe had been a bright spot for American manufacturers.

"If the euro-zone is on the verge of as deep a recession as we think it is, then it makes sense that U.S. exports would be falling," Dales said.

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Obama Seeks Power To Merge Agencies

WASHINGTON (AP) — Seeking more power to shrink the government, President Barack Obama on Friday suggested smashing six economic agencies into one, an election-year idea intended to halt bureaucratic nightmares and force Republicans to back him on one of their own favorite issues.

"The government we have is not the government we need," Obama told business owners he'd gathered at the White House. Lawmakers seemed willing to at least consider his ideas.

Sounding like a manager of a disorganized company, and looking like one by pointing to slides as he spoke, Obama asked Congress to give him a kind of reorganization power no president has had since Ronald Reagan.

It would guarantee Obama a vote, within 90 days, on any idea he offers to consolidate agencies, provided it saves money and cuts the government.

His first potential target: Merging six major trade and commerce agencies into a one-stop-shopping department for American businesses. The Commerce Department would be among those that would cease to exist.

Attacking senseless duplication across the executive branch he runs, Obama said: "Why is it OK for our government? It's not. It has to change."

John Edwards Has Serious Heart Condition

GREENSBORO, N.C. (AP) — Ex-presidential candidate John Edwards has a serious heart condition that will require a medical procedure next month and his illness limits his travel including for an upcoming court case over possible campaign violations, his doctor told a judge, who delayed the trial.

Federal Judge Catherine Eagles did not disclose the exact nature of Edwards' illness Friday or what procedure he needed. However, she said the two-time presidential candidate had "three episodes" and indicated his condition could be life-threatening if left untreated.

A cardiologist for the 58-year-old ex-North Carolina senator wrote two letters about his condition to Eagles, who talked about them during a hearing to consider whether the trial on six felony and misdemeanor counts should begin this month. Eagles said jury selection will now start March 26, at the earliest.

Edwards is taking medication and is scheduled to undergo a procedure in February from which it will take several days to recover, Eagles said.

She did not describe what the episodes involved or if the procedure would require unclogging arteries or other common treatments. The doctor's letters and other medical records have been kept under seal by the court.

"The public has an interest in a speedy trial," Eagles said from the bench. "Ordinarily, I would try to manage something like this. But clearly there are some limitations on Mr. Edwards due to real and serious health issues."

Judges Sentence Van Der Sloot To 28 Years

LIMA, Peru (AP) — Joran van der Sloot knew his guilty plea in the strangulation death of a young woman he met at a Lima casino was a big gamble as he tried to get a reduced sentence. On Friday, the poker-loving Dutchman lost.

A three-judge panel sentenced him to 28 years in prison, discarding his claims of contrition in a killing his lawyer said was triggered by trauma from being the prime suspect in the unsolved 2005 disappearance of U.S. teen Natalee Holloway.

Asked if he accepted the sentence, Van der Sloot, standing in a green T-shirt and faded jeans in a hot Lima courtroom, said he would appeal.

The sentencing marked the latest chapter in the tabloid-sustaining saga and came a day after a judge in Alabama declared Holloway legally dead as her parents try to bring Van der Sloot, 24, to the U.S. for a related crime.

"I believe he is beyond rehabilitation," Dave Holloway in Birmingham, Ala., after that hearing.

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