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What's News–

Business and Finance

FANNIE MAE could be forced to recognize as much as $2.8 billion in additional derivatives losses because of new accounting concerns raised by its chief regulator. That would bring the potential size of the mortgage firm's restatement to nearly $12 billion, further eroding its regulatory capital.

(Article on Page A3)

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■ **A drop in the dollar** is unlikely to trigger a financial crisis and in fact is more likely to aid economic growth, a new study from the Fed suggests.

(Article on Page A2)

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■ **The Dow industrials finished** down 18.03 points at 10811.97 as crude-oil prices rose $1.37 to a four-month high of $53.05 a barrel.

(Articles on Pages C1 and C5)

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■ **ChevronTexaco is considering** a bid for rival Unocal, following an earlier expression of interest by Chinese oil company Cnooc.

(Article on Page C1)

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■ **Finance chiefs expressed** the lowest level of optimism about the U.S. economy in nearly four years, according to a recent survey.

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World-Wide

■ **SOCIAL SECURITY IS PROVING a tough nut for Republicans to crack.** Congressional leaders are casting about for alternative approaches as they try to stay loyal to Bush's overhaul plan while taking into account colleagues' reluctance to embrace it and risk voters' wrath. DeLay chastised Democrats for refusing to compromise and AARP for opposing private accounts. Greenspan said that changes should be made now so people can adjust planning. (Column 6)

The Senate continued work on the bankruptcy bill, defeating Democratic bids to soften the impact on the elderly and ill of stricter rules on debt.

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■ **Car bombs killed** 10 Iraqi troops. A judge on the tribunal that will try Hussein was killed Tuesday, but not the one who arraigned him. Coalition talks faltered; the U.S. faces friction over Shiite election success. (Page A4)

■ **Bush is poised** to back limited incentives to Iran to further the EU's efforts to get it to halt nuclear work, despite Tehran's denial of access to U.N. inspectors and rising evidence of meddling in Iraqi political affairs.

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■ **Bush demanded** Syria get out of Lebanon as aides expressed skepticism that Assad's promise of eventual withdrawal was worth anything.

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■ **Israel's military is scrapping** plans to build a deep trench on the Gaza-Egypt border to bar arms smuggling, proposing a less-massive alternative.

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Corporate Health-Care Costs Top Worries by Finance Chiefs

By SIMONA COVEL
Dow Jones Newswires

NEW YORK—Optimism among U.S. chief financial officers has waned to its lowest level in nearly four years, according to a recent survey, and a large number of respondents said a weaker dollar will hurt their companies, rather than help.

Issues ranging from rising interest rates to heavy health-care burdens are weighing on the executives' minds, along with concerns about competition, increased regulation and high fuel prices.

In the Duke University/CFO Magazine Business Outlook survey of 293 CFOs, 46% said they are more optimistic this quarter about the economy than they were last quarter, down from 55% in each of the two preceding quarters and a marked slide from last June, when 70% were more optimistic than they had been the quarter before.

"This is the lowest ratio of optimists we've ever seen," said John Graham, professor of finance at Duke's Fuqua School of Business and director of the 3½-year-old survey. The number has never before dropped below 50%, he added.

The biggest cause for concern is high health-care costs, the survey respondents said, with 53% citing it among their top four concerns. Intense competition came in a close second, at 52%.

About a third of the CFOs surveyed put rising interest rates in their top-four list. And 35% said that a federal-funds rate of 3% is the highest the benchmark rate can go without slowing growth—a level that's still on the low end of what's seen as a "neutral" funds rate, or one that will neither stimulate nor hamper growth.

"This is perhaps the most disturbing part of our survey," said Campbell Harvey, professor of finance at Duke and founding director of the survey. "While the federal-funds rate currently stands at 2.5%, the Wall Street consensus calls for a fed-funds rate of 3.75% by the end of the year. CFOs are telling us that a rate that high will damage the economy."

And while a declining dollar is intended to foster growth for U.S. companies, 47% of survey respondents said that a weaker dollar will hurt their companies, compared with 27% who said it will help.

That's partly because of rising costs for raw-material imports. "Many businesses cannot pass on the higher import costs and are being squeezed by the dollar," said Mr. Harvey. "And to make things worse, our exporters are seeing little or no action even after a substantial depreciation."