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Trade Gap Narrows as Exports Jump

Upbeat Jobs, Inflation News Offer Additional Evidence Growth Is Strengthening

By MICHAEL SCHROEDER

WASHINGTON—An improved U.S. trade balance likely will lead to an upward revision in second-quarter U.S. domestic economic growth to nearly 3%, as well as stronger growth estimates for the current quarter.

With upbeat reports yesterday on trade exports, inflation and jobs, several economists forecast that the Bureau of Economic Analysis will raise last quarter's growth rate to a range of 2.6% to 3%, up from the 2.4% preliminary estimate two weeks ago.

"The job picture improved in August, inflation is nonexistent and [second-quarter economic] growth looks like its going to be revised up to around a 3.0%," said Gerald Cohen, a Merrill Lynch economist.

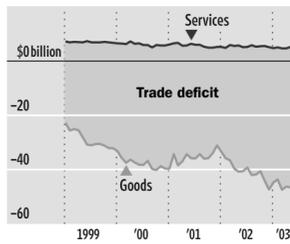
David Greenlaw, a Morgan Stanley economist, said the growing strength of the economic rebound could mean growth of 5% this quarter. That compares with an average growth-rate forecast of 3.6% for the third quarter, according to The Wall Street Journal Online's August survey of 54 economists.

Many analysts were surprised to see the U.S. trade deficit narrow in June, as exports climbed to their highest level in two years and imports remained flat. The Commerce Department said the U.S. deficit in international trade narrowed to \$39.55 billion from \$41.48 billion in May. The May figure was revised downward slightly.

U.S. exports rose 2.4% to \$84.6 billion—the highest level since \$85.2 billion in June 2001. Capital goods such as aircraft and computer accessories accounted for \$818

Trade Gap Narrows

International trade in goods and services



million of the overseas sales increase.

U.S. purchases of big-ticket foreign-made goods fell \$79 million, but imports of foreign automobiles and parts increased \$438 million to a record \$18.2 billion. U.S. consumers bought \$1.21 billion less foreign consumer goods such as clothing and jewelry.

The nation's energy bill climbed to

TRADE

Here are the Commerce Department's monthly trade figures, in billions of dollars.

	June 2003	May 2003
Total exports	\$84.62	\$82.68
Goods.....	59.04	57.76
Services.....	25.58	24.92
Total imports	124.17	124.16
Goods.....	104.01	104.42
Services.....	20.16	19.74
Overall trade balance	-39.55	-41.48
Goods.....	-44.97	-46.65
Services.....	5.42	5.17

r-Revised

\$10.56 billion from \$10.17 billion, in part because of a \$1.39 increase in the average price of a barrel of oil to \$25.50 in June.

The U.S. trade gap with China, its largest deficit with any nation, widened to \$9.99 billion from \$9.86 billion. The deficit with Western Europe narrowed to \$7.96 billion from \$8.26 billion. The gap with Japan expanded to \$5.38 billion from \$4.49 billion.

Despite the narrower trade gap, economists are wary of the U.S.'s big trade deficit at a time when the economy is showing signs of growth but isn't producing many jobs.

Separately, the number of U.S. workers filing first-time applications for unemployment benefits increased 2,000 to 398,000 in the week ended Aug. 9, the Labor Department said. It was the fourth consecutive week in which initial claims remained below the 400,000 level that economists say shows the labor market is stabilizing.

The four-week average, which smooths out weekly fluctuations, declined 4,250 to 394,250—the lowest level in six months.

In other economic news, wholesale prices increased slightly in July, held in check by lower food prices and slowing increases in energy prices.

The producer-price index for finished goods rose 0.1%, compared with a 0.5% rise in June, the Labor Department said.

Economists say the moderate price increases recently suggest there are minimal risks of either deflation or sudden sharp increases in the cost of goods. The core index, which excludes food and energy items, rose 0.2%, a bit above expectations, reversing a 0.1% decline in June.

Energy prices rose a modest 0.3%, compared with June's 3.4% jump.

Journal Link: WSJ.com subscribers can see the latest economic reports, at WSJ.com/JournalLinks.

Fed Missed Mark On Impact of Cut On Bond Market

By GREG IP

WASHINGTON—Federal Reserve policy makers actively debated the merits of a quarter- versus a half-percentage-point rate cut at their June meeting, but they apparently had little inkling their choice of a smaller move would precipitate one of the worst bond-market reactions on record.

Minutes of the policy makers' meeting, released yesterday, disclose no concern that long-term interest rates would rise much as a result of the quarter-point cut to 1% and a decision not to offer specific plans to employ "unconventional" tools to boost the U.S. economy, such as direct purchases of Treasury bonds. Such a move would push down long-term interest rates, which move in the opposite direction of prices.

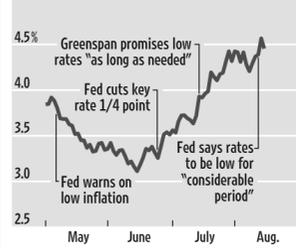
Long-term rates had declined sharply during the preceding weeks to the lowest levels since the 1950s, but Fed officials attributed that to their May 6 warning that inflation could go too low and the markets' assumption that this meant short-term rates would stay low a long time. The minutes suggest Fed officials may not have understood how much of the decline also reflected investor expectations that the Fed, worried about deflation, would cut by half a point and soon purchase bonds. When neither expectation was fulfilled, investors dumped bonds.

The 10-year Treasury bond yield has jumped from 3.25% just before the June rate cut to as high as 4.6% yesterday before dropping to 4.5% on news of a power outage in the Northeast. That is the steepest climb in at least 20 years following a Fed rate cut, which normally has the opposite effect, according to Banc of America Securities.

The June 24-25 meeting is turning out to be a black eye for the Fed under the leadership of Chairman Alan Greenspan. Many economists believe the Fed hasn't done a good job communicating its options on unconventional

Deaf to the Fed?

Long-term rates have continued to rise despite repeated messages from the Fed that it won't raise short-term rates for a long time. Below, the yield on the benchmark 10-year Treasury:



Cooled Natural Gas Heats Up Interest

By RUSSELL GOLD

Faced with higher natural-gas prices and declining production in the U.S., some industrial companies are seeking to guarantee long-term supplies of the fuel by helping to finance new terminals that will accept liquefied natural gas from overseas.

Liquefied natural gas is cooled to minus-260 degrees Fahrenheit so it can be loaded on tankers and transported. LNG use is growing, though the U.S. has only a handful of terminals that can accept it.

Earlier this summer, Sherwin Alumina, a bauxite refiner, purchased a one-third interest in a planned LNG receiving terminal adjacent to its Corpus Christi, Texas, facility. In exchange, Sherwin gave 200 acres of land on the ship channel and \$6 million to Cheniere Energy Inc. of Houston. Energy constitutes 60% of Sherwin's cost of producing alumina, an ingredient in aluminum smelting, up from 20% to 30% in 2000.

Dow Chemical Co., a large consumer of natural gas as both a fuel and ingredient, has agreed to take one-third of the capacity at a \$450 million terminal planned up the coast, in Freeport, Texas. The agreement is contingent on Dow securing a foreign supply of natural gas.

"We are accustomed to shopping for feedstock globally; now we'll be shopping for fuel globally," says Bill Jewell, vice president of energy for the Midland, Mich., chemicals concern. "It's a natural step."

Dow Chemical's 20-year agreement would supply it with about two-thirds of the 700 million cubic feet of natural gas per day consumed by Dow Chemical's plants in and near Freeport.

Other industrial consumers could follow. Occidental Petroleum Corp., Los Angeles, has told analysts it would be interested in such an investment. The company's chemical division is one of the Gulf Coast's largest consumers of natural-gas-

powered electricity.

Cheniere Chief Executive Charif Souki says a half-dozen companies have sought to become equity partners in proposed LNG receiving terminals. The exploration-and-production company is developing three LNG receiving terminals along the Gulf Coast, in the Texas cities of Freeport, Sabine Pass and Corpus Christi. All three terminals are scheduled to open in 2007, pending federal permits.

Backing from industrial companies will likely boost the efforts of small companies such as Cheniere to open terminals, even as Exxon Mobil Corp., Irving, Texas, and ChevronTexaco Corp., San Ramon, Calif., eye similar projects.

Traditionally, North American natural gas has been supplied by pipeline. But as domestic supply fails to keep pace with demand, interest in importing LNG has grown. For the first six months of the year, the U.S. imported 204 billion cubic feet of LNG, up from 108 billion cubic feet during the year-earlier period.

With Hussein Out of Picture, Painters Change Subject

Continued From First Page

their businesses selling carpets, silver jewelry and paintings of Arabic landscapes at the hotel's lobby shops.

American soldiers began wandering into his store telling him how much they missed their families and showing him pictures of their loved ones. "I said to them, 'Why don't you turn their picture into a portrait? We have many good artists in Iraq and now they have no business,'" says the 42-year-old Mr. Andros. This has been a good business for him too, since he charges soldiers \$100 to \$150 for the portraits, with \$50 going to the artist.

Mr. Andros knew where to find the artists because he'd bought their work under the old regime. All public venues were required to display images of Mr. Hussein, and in the case of hotel gift shops, the rule was no fewer than five at any time, he says. The proliferation of Saddam pictures was part of Mr. Hussein's personality cult. The government even sponsored an annual contest to see which artist could produce the best likeness, including a giant exhibition of all the entrants held each year in Baghdad.

The sudden demise of the Saddam-image industry left Mr. Khazaali and his colleagues jobless. They couldn't have been happier when Mr. Andros showed up. He now makes weekly visits to the art district to deliver stacks of snapshots and collect the finished portraits.

Jercoba Williams, a 20-year-old U.S. Army private who cooks for the soldiers and officers staying at the former Republican Palace, recently ordered a picture of his fiancée. "I'd never had a portrait made of anyone," says Mr. Williams, who paid

\$150 for the work. "They've got a lot of talent ... and it's a good way for us to help the local economy." Mr. Williams says he knows at least 15 other GIs who have commissioned portraits.

Mr. Khazaali grew up in working-class family in Baghdad that included no artists. He remembers spending hours as a child sketching figures in his schoolbooks, and in high school an art teacher encouraged him to pursue his talent professionally. He didn't have enough money for Baghdad's College of Fine Arts, though, and enrolled in the Iraqi military.

When a commander who noticed him drawing asked for a picture of Mr. Hussein to decorate the wall of a newly renovated hall, Mr. Khazaali learned that his artistic talents could be exchanged for favors from the authorities. He was afraid to refuse, but got a week off for the trouble. Mr. Khazaali, a member of a Shiite Muslim population often discriminated against in Iraq, bought more canvases and made more paintings of Mr. Hussein for the Army. He never got paid, but received additional time off and "wasn't treated like a Shiite," he says.

When he left the Army, he worked in Baghdad's art district, eventually buying his own studio. He found time to paint some works with Arabic themes, a few of which he says he once smuggled into Syria in a taxi to sell. But most of his days were spent painting images of Mr. Hussein: small and large, in varying outfits—from ethnic Kurdish to military—and in multiple poses, including drinking tea, praying, holding a gun. One constant: Mr. Hussein's likeness must always be smiling.

"I hated Saddam," he says. Members of his family were routinely interrogated, he says, and his cousin disappeared 10 years ago. The family eventually learned he had been executed. "I felt angry and guilty for drawing a criminal. Sometimes when I was alone I would spit at my own paintings," he says. But if he stopped doing the portraits, he would have lost income, and risked becoming vulnerable to the regime's wrath.

To help alleviate their guilt over painting pictures of Mr. Hussein, Mr. Khazaali and two other painters recently completed a huge portrait of the Ayatollah Seyed Muhammad Sadiq al-Sadr, a prominent Shiite cleric killed by Saddam. They donated it for display in the main square of Sadr City, a poor Shiite neighborhood of Baghdad.

Sitting on a small stool before the door of his studio, Mr. Khazaali regrets he has never had the freedom "to explore my own style or ideas" due to the repression under Mr. Hussein's regime. For now, though, political restraints have given way to economic ones. "I was always under pressure to draw Saddam, and now I have no money and I must draw Americans, otherwise I can't feed my four children," he says.

Still, he can't help but empathize with the subjects he paints, and with his new patrons. "Politically, I don't want the Americans to stay in Iraq for a long time. They should let us rule our own country," he says. "But as a person, when I paint the picture of their children I get worried for them and don't want them to get killed."

CORRECTIONS & AMPLIFICATIONS

DEALOGIC was the source for the IPO Scorecard graphic on yesterday's Deals & Deal Makers page, and provided all data on deal flow and investment-bank revenue. The graphic incorrectly cited Thomson Financial as the source.

A HEADLINE on an article Tuesday about Fannie Mae securities should have said Asian investors appear to be holding on to their Fannie Mae debt. The headline incorrectly said Asian investors were keeping their Fannie Mae stock.

MUSIC from the Rolling Stones is available in the super audio compact-disc format. An article yesterday incorrectly said the Rolling Stones are available on DVD-Audio, a different high-resolution format.

THE NAME of the bass viol, a large string instrument, was incorrectly given as bass viola in a Personal Journal article Tuesday on problems musicians have when traveling with instruments.

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NET FOREIGN direct investment in Thailand fell 74% to \$970 million in 2002. A July 25 International page article incorrectly said net foreign direct investment fell 40% that year.

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