

Stocks drop as jobless claims rise unexpectedly

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Stocks are falling after the Labor Department said claims for unemployment benefits rose unexpectedly last week, renewing concerns about the pace of the economic recovery.

The disappointing news about the jobs market Thursday came minutes after news that Intel Corp. was acquiring McAfee Inc. The acquisition, valued at \$7.68 billion, is helping to cushion the blow from the jump in unemployment benefit claims.

The two announcements are the latest to provide a conflicting picture of the recovery.

The Dow Jones industrial average is down 39.66, or 0.4 percent, at 10,378.61. The Standard & Poor's 500 index is down 3.99, or 0.4 percent, at 1,090.17, while the Nasdaq composite index is down 9.05, or 0.4 percent, at 2,206.65.

THIS IS A BREAKING NEWS UPDATE. Check back soon for further information. AP's earlier story is below.

NEW YORK (AP) - Stock futures retreated Thursday after the Labor Department said claims for unemployment benefits rose unexpectedly, renewing concerns about the pace of a recovery.

The disappointing news about the jobs market came minutes after futures got a lift from news that Intel Corp. was acquiring McAfee Inc. The acquisition, valued at \$7.68 billion, helped cushion the fall from the jump in unemployment benefit claims.

The two announcements are the latest to provide a conflicting picture of the recovery. Economic reports have regularly shown the pace of a rebound is slowing and companies are skittish about adding new workers. That has hurt stocks on some days in recent weeks. It has also stoked fears about the economy falling back into recession.

At the same time, corporate announcements, including earnings reports for the past six weeks, have largely showed companies are doing well. Mergers and acquisitions activity is often considered a positive sign because it means companies are willing to spend money to grow their businesses and are confident that business prospects are improving.

The Labor Department said initial claims for unemployment benefits rose by 12,000 to 500,000 last week from an upwardly revised 488,000 a week earlier. Economists polled by Thomson Reuters forecast claims would fall slightly.

High unemployment is considered the biggest hurdle to a stronger recovery

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Published on Chem.Info (<http://www.chem.info>)

because people worried about jobs have scaled back their spending. Consumer spending accounts for the bulk of the country's economic activity.

Ahead of the opening bell, Dow Jones industrial average futures fell 11, or 0.1 percent, to 10,341. Standard & Poor's 500 index futures fell 1.00, or 0.1 percent, to 1,085.70, while Nasdaq 100 index futures fell 2.25, or 0.1 percent, to 1,834.50.

The Dow has risen the past two days, climbing 1.1 percent during that stretch.

Volume has been particularly light in recent weeks, even by summer standards, meaning many investors are still uncertain about the direction of the economy. If economic reports over the coming months continues to show the economy is growing, even slowly, it could alleviate fears of a second recession. That, in turn, could bring many investors back into the stock market.

Investors will get two other readings on the economy later in the morning when the Federal Reserve Bank of Philadelphia reports on regional manufacturing activity and the Conference Board releases its index on leading economic indicators. Both are expected to show modest improvements.

The Philly Fed index is expected to report an increase in activity, following a similar report from the New York Fed last week. Economists expect the Philly Fed survey to rise to 7 in August from 5.1 last month. Any reading above 0 indicates growth in the sector.

Manufacturing activity had shown consistent growth earlier this year as the recovery took hold. But over the summer, activity has waned a bit. So signs of new growth would add further reassurances that the economy is still growing.

The Conference Board's index of leading economic indicators likely rose 0.2 percent last month after falling a month earlier. The index tries to predict economic activity over the next three to six months, so a rise in the index would indicate the economy is likely to grow during the second half of the year.

Both reports are due out at 10 a.m. EDT.

Chip maker Intel is buying computer-security software maker McAfee in an all-cash deal for \$48 per share. McAfee shares surged \$17.37, or 58 percent, to \$47.30 in pre-opening trading. Intel shares fell 46 cents, or 2.4 percent, to \$19.13 after the deal was announced.

In other corporate news, Sears Holdings Corp. reported its second-quarter loss was cut in half as profit margins improved at its Kmart chain. But revenue at stores open at least a year, a key measure of strength in the retail industry, fell during the quarter. Sears shares dipped 8 cents to \$67.17.

Bond prices erased most of their losses after the weak jobs report. Investors often move into the safety of government bonds when there are signs the economy is not strong. The yield on the 10-year Treasury note, which moves opposite its price, rose

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to 2.66 percent from 2.64 percent late Wednesday. Its yield is often used to help set interest rates on mortgages and other consumer loans.

Overseas, Britain's FTSE 100 fell 0.5 percent, Germany's DAX index fell 0.5 percent, and France's CAC-40 dropped 0.5 percent. Japan's Nikkei stock average rose 1.3 percent.

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