Stocks Fall Sharply in Early Trading

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NEW YORK (AP) -- Wall Street plunged Thursday, pulling the Dow Jones industrial average down more than 360 points as investors found themselves confronted by two uncomfortable prospects: an end to interest rate cuts and a slowing economy.

Mindful of a warning from the Federal Reserve Wednesday about inflation, the market nervously watched the price of oil, which passed $96 a barrel overnight for the first time before dipping on profit-taking. The Fed, which cut interest rates a quarter point, said in a statement that inflation remained a concern, and oil's ascent to another record raised the possibility not only that the Fed might stop cutting rates, but that it might even consider raising them if inflation accelerates.

Meanwhile, Wall Street also had to contend with concerns about a slowing economy. A report from the Commerce Department indicated consumers scaled back their spending in September as worries mounted about a worsening housing market and further credit market turmoil. And a trade group reported that manufacturing in the U.S. grew in October at the weakest pace since March.

The combination of factors led investors to pull back sharply from Wednesday's rally, in which the Dow climbed 137 points after the Fed said the economy had weathered the summer's credit crisis.

"Wall Street is in love with the idea of a rate cut, and realized that the Fed said inflation is still a concern -- that lowered the chances of a cut in December," said Ryan Detrick, a senior technical strategist with Schaeffer's Investment Research. "We're now feeling the pain now that investors have slept on it, and figured out what they said."

Christopher Cordaro, chief investment officer at RegentAtlantic Capital, said Wall Street remains anxious about the possibility of recession. He also believes the market is devoid of enough positive news "to have any type of sustained rally."

Investors were unswayed when the Fed pumped $41 billion into the U.S. financial system, one of its largest cash infusions since the credit crisis began in the summer. This increases the amount of money banks have to lend, and helps improve liquidity. In the past, such an action helped soothe the market, but that was not the case Thursday.

With the market growing pessimistic about the economy, the Labor Department's report on October jobs creation, scheduled to be released Friday morning, will be taking on even more importance than it usually has. The data is expected to show unemployment remained steady in October, with payroll growth of 85,000 new jobs, compared with 110,000 in September.

The Dow fell 362.14, or 2.60 percent, to 13,567.87.

The Standard & Poor's 500 index was off 40.94, or 2.64 percent, at 1,508.44, while the Nasdaq composite index dropped 64.29, or 2.25 percent, to 2,794.83.

Big late-session moves became common on Wall Street during the summer. Investors remain hopeful that a down market will turn around, but tend to launch a late afternoon selloff if that doesn't happen.

"We've been getting all these mixed signals, and this is just a confluence of bad news between the Fed, the financials, and this mixed earnings season," said Chris Johnson, president of Johnson Research Group.

Financial stocks were pummeled after Citigroup Inc. and Bank of America Corp., the two biggest U.S. banks, were downgraded by CIBC World Markets on worries about the credit markets.

Investors pulling money out of stocks turned to the safe haven of the Treasury market. The yield on the 10-year Treasury note dropped to 4.34 percent from 4.47 percent late Wednesday.

Crude prices vaulted above $96 per barrel in overnight trading. A barrel of light sweet crude settled down $1.04 at $93.49 on the New York Mercantile Exchange.

The Commerce Department's report that consumer spending rose by 0.3 percent in September, slightly lower than the 0.4 percent increase that analysts expected, raised concerns about a slowing economy.

In addition, the performance of the manufacturing sector in October suggested that ongoing troubles in the housing and credit markets have seeped into the industrial sector. The Institute for Supply Management, a Tempe, Ariz.-based trade group, reported its manufacturing index registered 50.9, down from 52.0 in September and below expectations for 51.8. A reading above 50 indicates growth; below that spells contraction.

Also Thursday, the Labor Department said the number of people filing for unemployment benefits declined by a larger-than-expected 6,000 last week to total 327,000.

Wall Street was also troubled by the day's corporate news. Exxon Mobil Corp., the world's largest publicly traded oil company, reported third-quarter profit fell 10 percent because of lower refining and chemical margins. Shares of the Dow component dropped $3.49, or 3.8 percent to $88.50.

Bank of America, the No. 2 U.S. bank, dropped $2.57, or 5.3 percent, to $45.71. Citi, the nation's largest financial institution, dropped $2.85, or 6.9 percent to $38.51 -- its lowest level in four years.

Declining issues outnumbered advancers by about 4 to 1 on the New York Stock Exchange, where volume came to 1.74 billion shares, compared to 1.48 billion on Wednesday.

The Russell 2000 index of smaller companies was down 32.84, or 3.97 percent, at 795.18.

The plunge in U.S. stocks caused European bourses to tumble. Britain's FTSE 100 was down 2.17 percent, Germany's DAX index fell 1.77 percent, and France's CAC-40 dropped 2.09 percent. Japan's Nikkei stock average, which closed before U.S. markets opened, rose 0.79 percent.

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