



This copy is for your personal, noncommercial use only. You can order presentation-ready copies for distribution to your

colleagues, clients or customers [here](#) or use the "Reprints" tool that appears next to any article. Visit www.nytreprints.com for

samples and additional information. [Order a reprint of this article now.](#)

June 1, 2011

Stocks Drop Sharply on Disappointing Reports

By CHRISTINE HAUSER

Gloomy reports on jobs, manufacturing and auto sales sent stocks down by more than 2 percent on Wednesday in their biggest declines since last August. Yields on 10-year [Treasury notes](#) fell below 3 percent for the first time this year as investors looked for the economy to slow.

Stephen J. Carl, head equity trader at the Williams Capital Group, said the latest economic reports suggested that “the economy is running out of steam.”

News that Moody’s cut Greece’s credit rating again because of debt restructuring concerns also contributed to the drop.

All 30 stocks in the Dow Jones industrial average fell. The index closed down 279.65 points, or 2.22 percent, at 12,290.14. The Standard & Poor’s 500-stock index was down 30.65 points, or 2.28 percent, at 1,314.55. Both registered the worst percentage declines since August 11, 2010.

The Nasdaq composite index fell 66.11 points, or 2.33 percent, to 2,769.19.

On Wall Street, financials, materials and industrials all fell more than 3 percent, with financial shares declining by 3.48 percent. Bank of America was down 4.26 percent at \$11.24, while Wells Fargo

tumbled 5 percent to \$26.94.

ADP Employer Services, the payroll processing firm, said Wednesday that **private employers added 38,000 jobs** in May, the smallest increase since September and well below market expectations.

The report came in advance of Friday's monthly employment report for May by the Labor Department. The nonfarm payroll employment numbers are keenly anticipated every month by investors to assess the state of wages, salaries, and ultimately consumer spending.

"We had this accumulation of data pointing to slower economic growth," said Kathy Jones, a strategist at the Schwab Center for Financial Research. "I think today's ADP number probably just tipped everybody over the edge who was hoping we might see a strong employment report on Friday."

Economists said that the ADP survey could have been affected by severe storms in many parts of the country last month, while automobile manufacturers have temporarily laid off workers in response to a disruption in supply chains. Analysts at Capital Economics said in a research note that the dip also reflected a slowdown in the growth in the service sector.

Economists at Goldman Sachs revised their estimate of May nonfarm payrolls to 100,000 from 150,000 after the ADP report.

"While the ADP report has a mixed track record in forecasting payroll growth, our research indicates it should receive some weight," they said in a research note. "Moreover, the weakness in the ADP report follows a streak of weaker-than-expected news on both the labor market and activity as whole."

The slower growth in employment along with fewer new orders were factors in the lower measure of manufacturing last month. In its survey of 18 industries, the Institute for Supply Management said its index fell to a 19-month low of 53.5 last month from 60.4 the previous month. Analysts surveyed by Bloomberg had estimated that the index would decline to 57.1 points.

"Pressures from rising commodity costs, plus supply-chain disruptions from Japan's natural disaster,

and extreme weather domestically, have combined to slow manufacturing's momentum," said Nigel Gault, IHS Global Insight's chief United States economist.

"This is particularly worrying since manufacturing has been the economy's shining star," he added in a research note.

Also weighing on investor sentiment was a report that the steady recovery in auto sales stalled in May, as consumers stayed away from new-car showrooms because of higher prices, shortages of some Japanese models, and concerns over the economy. Automakers said that sales dropped 3.7 percent last month compared with the same period a year earlier. Despite the overall decline, [sales by Detroit's Big Three automakers](#) outpaced imports for the first time in more than five years last month.

Markets were also down in Asia on Thursday morning after the pullback in the United States.

As stocks slumped, investors turned their attention to safer assets, pushing government bond prices higher. The Treasury's 10-year note rose 1 1/32, to 101 18/32. The yield fell below 3 percent for the first time in 2011. It eased to 2.94 percent, from 3.06 percent late Tuesday.

Kevin H. Giddis, the executive managing director and president for fixed-income capital markets at Morgan Keegan & Company, said Treasuries rose in reaction to the latest economic reports. He said the latest statistics suggested "what appears to be a significant slowdown" in the economy in the last month.