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Stocks drop after sharp fall in July home sales

By Stephen Bernard
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NEW YORK—Stocks fell Tuesday after another disappointing report on the housing market renewed worries about the economy.

The Dow Jones industrial average lost about 80 points in midday trading after news that sales of previously occupied homes fell last month to their lowest level in 15 years.

The Dow briefly dipped below 10,000 for the first time in seven weeks and was down as much as 183 points earlier in the day before paring its losses. Investors seeking refuge from the latest stock swings piled back into Treasuries, sending interest rates lower. The yield on the two-year Treasury note touched another record low.

Global markets fell sharply. Japanese stocks led the way lower, falling more than 1 percent as the yen hit a fresh 15-year high against the dollar. Japan's economy relies heavily on exports, so a stronger yen hurts the profits of major Japanese companies.

Stocks have been sliding in recent days as investors focus on signs that economic growth is slowing. A new wave of corporate dealmaking gave stocks a temporary boost Monday, but those gains quickly faded.

The National Association of Realtors said sales of previously occupied homes plunged 27 percent in July to an annual rate of 3.83 million. That's much worse than the 4.7 million estimate from Thomson Reuters.

It was the largest monthly drop on records dating back to 1968.

"Without a boost in job creation, (buyers) just won't have the confidence to step in and buy a new home," David Katz, principal at Weiser Capital Management said.

Home sales have tumbled since a home buyer tax credit expired at the end of April, despite mortgage rates falling to record lows. Banks have also been selective in giving loans, which could be freezing out many potential buyers.

Stephen Hagenbuckle, president of TerraCap Management Corp., said investors need to see more stable housing data to gain any amount of confidence.

"We need to see consistency in some areas like the Midwest and west where they continue to suffer," Hagenbuckle said.

In midday trading, the Dow Jones industrial average fell 79.09, or 0.8 percent, to 10,095.32. The Standard & Poor's 500 index fell 9.22, or 0.9 percent, to 1,058.14, while Nasdaq composite index fell 20.52, or 1 percent, to 2,139.11.

About five stocks fell for every two that rose on the New York Stock Exchange where volume came to 448 million shares.

Japan's Nikkei stock average fell 1.3 percent after worries about the high yen hit share prices there.

In Europe, Britain's FTSE 100 fell 1.5 percent, Germany's DAX index dropped 1.3 percent, and France's CAC-40 fell 1.8 percent.

The yield on the 10-year Treasury note, which moves opposite to its price, fell to 2.53 percent from 2.60 percent late Monday. That yield helps set interest rates on mortgages and other consumer loans.

The 10-year note's yield continues to hover around levels not reached since March 2009, when the stock market hit a 12-year low and investors were concerned about the deepening recession. The yield on the two-year note went as low as 0.46 percent, another in a series of record lows.

Stock traders are "taking their cues from the bond market," said Lawrence Glazer, a managing partner at Mayflower Advisors. "It really has been a dramatic and frightening shift" in Treasury prices, which has spooked investors and led to worries about another recession, Glazer said.

Reports due out later in the week will also provide insight into the health of the economy. Data on new home sales, durable goods orders, weekly jobless claims and consumer sentiment are scheduled for later in the week.

The government will also release a revised report on second-quarter gross domestic product. The broadest measure of the country's total economic output is expected to be lower than initially thought, adding to concerns about the pace of the domestic recovery.