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Stocks dip after drop in consumer confidence

By Madlen Read,

NEW YORK — Stocks declined in erratic trading Tuesday as concerns grew about the impact of high fuel costs on consumers and corporate profits.

The Conference Board said its June consumer confidence index came in at 50.4, far below economists' expectation of 56.5 and May's reading of 58.1. The disappointing news arrived after shipper UPS warned late Monday that high oil prices are dampening its profits and after a dismal reading on U.S. home prices.

Crude oil rose in a volatile session on the New York Mercantile Exchange.The Dow Jones industrial average fell 34.93, or 0.29%, to 11,807.43, after falling more than 100 points at one point and later moving in and out of positive territory. The Dow dropped as low as 11,725.52 — beneath the levels it sank to in March when Bear Stearns appeared to be on the verge of collapse.

Broader stock indicators also fell. The Standard & Poor's 500 index declined 3.71, or 0.28%, to 1,314.29, and the Nasdaq composite index fell 17.46, or 0.73%, to 2,368.28. Wall Street's overriding concern is that expensive energy will prevent the economy from growing and aggravate inflation at the same time. Given the anemic economy — not to mention the additional debt losses expected at the nation's biggest banks — the Federal Reserve has little wiggle room to combat inflation with higher interest rates. Policymakers, whose rate-setting meeting began today and concludes Wednesday, are expected to hold a key rate at 2%.

"The market has priced in no action from the Fed," said Jim Herrick, manager of equity trading at Baird & Co. "With the housing market the way it is, and the financial system feeling fragile ... I'd really be surprised if the Fed in this environment would consider raising rates in the near future."

In addition to the Fed's rate decision, the market is waiting to see what policymakers will say about the economy. "The Fed certainly has done some great things," said Dan Alpert, managing director at the investment bank Westwood Capital, pointing to the central bank's expanded lending practices and its role in getting JPMorgan Chase & Co. to buy Bear Stearns.

"But interest rate cuts themselves have gotten them nowhere," he said. "Home mortgage rates have not gone down. The economy's growth has not improved. The dollar has tanked further, and that's cost us a ton on imports. I don't think they're going to do a turnaround tomorrow, but I think they're going to include some inflation language in there."

The S&P/Case-Shiller reported Tuesday that its index of home prices fell in April at fastest pace since 2000. For the first time, all 20 metropolitan areas measured by the index posted annual declines."It's another milepost in the overall collapse of the real estate economy," Alpert said. He added that until the housing market bottoms out, there's likely going to be continued erosion in the financial services sector.

Today did bring some positive news. Grocery chain Kroger (KR) said its fiscal first-quarter profit rose 15% thanks to gasoline and food sales offered at a discount, and Eastman Kodak (EK) surged after saying it will buy back up to $1 billion, or about a quarter, of its outstanding stock. Meanwhile, rumors that UBS (UBS) could get bought boosted the Swiss bank's shares.

And Yahoo's (YHOO) depressed stock also jumped on reports that the Internet pioneer is once again exploring a possible deal with Microsoft (MSFT) after ending talks earlier this month.

Overseas, Japan's Nikkei stock average fell 0.61%. Britain's FTSE 100 fell 0.57%, Germany's DAX index fell 0.81%, and France's CAC-40 fell 0.83%.