

Stocks Edge Up on Economic News

M&A deals continue, while data shows the economy grew slower than expected in the first quarter

by Ben Steverman

May 31, 2007--Stocks, unfazed by a host of economic data, stayed close to record-breaking levels for a second day on Thursday.

Markets weren't disturbed by news that the economy barely grew in the first quarter. The 0.6% growth rate was slower than expected, but traders found reasons to hope that the economy would rebound next quarter and the news would keep interest rates down later this year. M&A deals continued to lift stocks, with A.G. Edwards and Ceridian the latest buyout targets.

On Thursday, the Dow Jones industrial average edged down 0.04%, or 5.44 points, to 13,627.64. The broader S&P 500 index, was up 0.02%, or 0.34 points, to 1,530.57. The S&P 500 broke its March 2000 closing record of 1,527.46 on Wednesday.

The tech-heavy Nasdaq Composite index moved up 11.88 points, or 0.46%, to 2,604.47.

U.S. gross domestic product growth was 0.6% in the first quarter, revised down from 1.3% previously and slightly weaker than many expected. Though consumer spending was relatively strong, growth seemed to be held back by trade and inventory. So, says Keith Hembre, chief economist at FAF Advisors, the broad consensus is that the second quarter will see a strong recovery.

"The balance of the year is going to be more positive," says Richard Hoyt, market strategist at KDV Wealth Management. Growth in demand has lifted profits since the market's bottom in 2002, Hoyt says. Data on capital spending, consumer confidence, capital spending and inventory levels all suggest demand is growing steadily despite the first quarter slowdown.

Hembre, however, believes consumer spending could slow later this year, pushed down by a weaker job market and a drop in home equity. That could cause slower growth and a Federal Reserve rate cut, he says.

Fed policy might be a reason investors weren't spooked by the first-quarter slowdown. Standard & Poor's says the GDP figure reduces the chances the Federal Reserve might even consider a hike in interest rates and puts some pressure on the Fed to ease rates.

Investors pored over other data. May's Chicago Purchasing Manager's Index rose to an unexpectedly high 61.7, from 52.9. Construction spending increased a less-than-expected 0.1%, but March's figure was revised upward to a 0.6% increase, from 0.2%.

Nonresidential construction and new construction figures were stronger than expected, pushing up expectations for growth in the second quarter, Action Economics says. In the first quarter home prices rose more slowly, at a 0.5% rate, vs. 1.3% last quarter. U.S. jobless claims met expectations in the week ended May 26, falling to 310,000 from a revised 314,000. Claims remain at relatively low levels, Action Economics says.

Still more data arrive on Friday. On tap are reports on manufacturing (the May ISM report), personal income and spending, non-farm payrolls, the unemployment rate and the University of Michigan Consumer Sentiment reading.

In the energy markets, July crude oil futures on the NYMEX was up 52 cents to \$64.01 a barrel.

Among stocks moving on Thursday, A.G. Edwards (AGE) agreed to be acquired by Wachovia (WB). The terms are 0.9844 Wachovia shares and \$35.80 in cash for each A.G. Edwards share. Based on Wednesday's closing price, the deal values A.G. Edwards at \$89.50 per share, a 16% premium.

A.G. Edwards' rivals Raymond James Financial (RJF) and Stifel Financial Corp. (SF) were also trading higher after the deal was announced.

Big Lots (BIG) was trading lower despite beating estimates with earnings of 26 cents per share, vs. 12 cents a year ago on a 4.9% rise in same-store sales. The firm also raised earnings guidance for 2008.

Northwest Airlines (NWA) emerged from bankruptcy and began trading on the New York Stock Exchange.

Ceridian Corp. (CEN) agreed to be acquired by Thomas H. Lee Partners and Fidelity National Financial in a \$5.3 billion deal. Many had already assumed the firm would be sold, so the \$36-per-share offer is a relatively small premium on Wednesday's closing price of \$34.19.

Payless Shoesource (PSS) was up 3% after it reported earnings of 59 cents in the first quarter, vs. 53 cents a year ago. Same-store sales were up 5%, total sales were 4.9% higher and the firm says a pending acquisition of Stride Rite (SRR) should add to earnings in fiscal 2008.

Yahoo Inc. (YHOO) announced that its chief technology officer Farzad Nazem was resigning effective June 8. Also, JP Morgan reportedly upgraded Yahoo's stock from neutral to overweight. Yahoo shares rose.

Mohawk Industries (MHK) was up 3.5% after Stifel Nicolaus upgraded the stock to buy from hold.

European stock markets were moving higher on Thursday. In London, the FTSE 100 index was up 0.29% to 6,621.40. Germany's DAX index jumped 1.52% to 7,883.04. In Paris, the CAC 40 index moved 1.02% higher to 6,104.

Asian markets finished higher after Wednesday's downturn in China's markets. In Japan, the Nikkei index was up 1.63% to 17,875.75. In Hong Kong, the Hang Seng Index rose 1.68% to 20,634.47. After a 6.5% sell-off on Wednesday, China's Shanghai Composite index gained 1.4% to 4,109.65.

Treasury Market

Economic data pushed treasury notes down on Thursday. The 10-year note fell 07/32 to 97-30/32 for a yield of 4.89%, and the 30-year bond fell 06/32 to 95-31/32 for a yield of 5.01%.

Standard & Poor's says treasuries fell because the unexpectedly strong May Chicago PMI numbers overshadowed the poor GDP figures. Also, S&P says, the 10-year note seemed to be testing resistance at the 4.9% yield level before it fell back.