

REUTERS

US STOCKS-Market falls on manufacturing data, dollar drop

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* Stocks fall, erasing some of Friday's rally

* Declining dollar sends oil to new high, hurting stocks

* GE, AT&T downgrades weigh on Dow

By Jennifer Coogan

NEW YORK, June 16 (Reuters) - U.S. stocks fell on Monday, giving back some of Friday's gains, after a sharper-than-expected contraction in New York state manufacturing and a decline in the dollar cast doubts about the health of the U.S. economy.

Declines were offset by a rebound of more than 7 percent in shares of investment bank Lehman Brothers Holdings Inc, which posted a quarterly loss that matched forecast earnings and gave reassuring comments on its conference call.

Before the opening bell, the New York Federal Reserve's "Empire State" report showed that manufacturing in New York state contracted in June for the fourth time in five months.

Further weighing on the manufacturing sector, crude oil touched a new high above \$139 as a decline in the dollar spurred demand.

"Empire (State) started us off, and before you knew it the dollar started to sink, said **Joe Saluzzi**, co-manager of trading at brokerage **Themis Trading** in Chatham, New Jersey." Stocks are reactionary right now; dollar being down and oil being up, that's certainly hurting the market."

The Dow Jones industrial average was down 56.43 points, or 0.46 percent, at 12,250.92. The Standard & Poor's 500 Index was down 3.93 points, or 0.29 percent, at 1,356.10. The Nasdaq Composite Index was down 1.29 points, or 0.05 percent, at 2,453.21.

Brokerage downgrades of blue chips General Electric and AT&T Inc contributed to the Dow's decline.

General Electric shares fell to more than a 4-1/2-year low in pre-market trade after J.P. Morgan Securities downgraded the industrial conglomerate to "neutral" from "overweight" and cut its 2009 earnings forecast.

AT&T shares dropped 2.4 percent after UBS cut the telephone company to "neutral" from "buy." RBC lowered its price target on AT&T shares.

Lehman Brothers shares were up 7.1 percent at \$27.63. The investment bank's stock had dropped about 30 percent this month amid concerns about write-downs, declining confidence in the bank's management and the demotion of its chief financial officer and chief operating officer. (Reporting by Jennifer Coogan; Editing by Jonathan Oatis)