# Fear rises on jobs, housing reports

By Paul Davidson, USA TODAY

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A batch of disappointing economic reports and worries that the European debt crisis may be spreading deepened recession fears on Thursday.

By Stan Honda, AFP/Getty Images

The New York Stock Exchange amid lower Manhattan's skyscrapers.



Reports on jobless claims, home sales and manufacturing in the Mid-Atlantic all fell short of economists' estimates, while inflation was higher than forecast, raising the ugly specter of stagflation — or slow growth and rising prices.

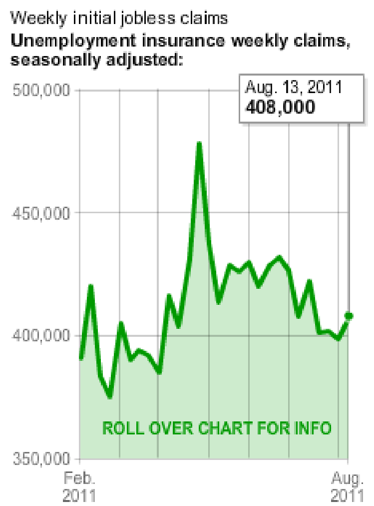
Economists say that's unlikely, noting inflation should ease soon as energy prices fall and those of cotton and other commodities stabilize. Still, a 0.2% rise in core inflation, which excludes volatile food and energy costs, could make it tougher for the Federal Reserve to stimulate growth in the short term by pumping more money into the economy, says Chris Christopher of IHS Global Insight.

**STORY:** 'Big uncertainty' about banking industry as stocks hammered

Some of the reports may have been skewed at least in part by recent gloom created by the standoff in Congress about raising the debt ceiling and the downgrade of the U.S. credit rating. "I think they show that economic growth is still very weak," says Paul Dales, senior U.S. economist for Capital Economics. "However, we believe a recession will be avoided."

The number of Americans applying for jobless benefits jumped 9,000 to 408,000 last week, the Labor Department said. The four-week average fell 4,000 to 403,000 — "consistent with job growth of 100,000 to 150,000 a month," says Diane Swonk, chief economist of Mesirow Financial. That's enough to keep unemployment, now 9.1%, stable, she says.

**Weekly unemployment claims**




Source: Labor Department
By Juan Thomassie, USA TODAY

Meanwhile, existing-home sales slipped 3.5% in July to a seasonally adjusted annual rate of 4.7 million, the National Association of Realtors said. The group partly blamed numerous cancellations — 16% of NAR members reported at least one last month — caused by rejected mortgage applications or low property appraisals. Dales says recent market turmoil also may have spooked buyers.

In Europe, stocks plunged on fears that a debt crisis in countries such as Greece, Spain and Italy could spread as lending dries up and banks struggle to get access to capital.

The crisis could cause U.S. banks holding European debt to conserve capital and pull back on lending.

There's concern on "whether Europe can get it together in time to prevent" a spread of the crisis, says Cornell University economist Eswar Prasad.



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