

## Stocks dip, Wall Street skids

By Stan Choe  
AP BUSINESS WRITER

NEW YORK — Another cold reminder that inflation remains hotter than hoped sent Wall Street skidding Friday, and stocks closed out their worst week since early December.

The S&P 500 fell 1.1% to cap its third straight weekly loss. The Dow Jones Industrial Average dropped as many as 510 points before closing down 336 points, or 1%, while the Nasdaq composite lost 1.7%.

Stocks have dropped through February as a stream of reports have shown everything from inflation to the job market to spending by shoppers is staying hotter than expected. That's forced Wall Street to raise its forecasts for how high the Federal Reserve will have to take interest rates and then how long to keep them there.

Higher rates can drive down inflation, but they also raise the risk of a recession because they slow the economy. They likewise hurt prices for stocks and other investments.

The latest reminder came Friday after a report showed that the measure of inflation preferred by the Fed came in higher than expected. It said prices were 4.7% higher in January than a year earlier, after ignoring costs for food and energy because they can swing more quickly than others. That was an acceleration from December's inflation rate, showing the wrong momentum, and it was higher than economists' expectations for 4.3%.

It echoed other reports from earlier in the month that showed inflation at both the consumer and wholesale levels was higher than expected in January.

Other data Friday showed that consumer spending returned to growth in January, rising 1.8% from December. That's pivotal because spending by consumers makes up the largest piece of the economy. A separate reading on sentiment among consumers came in slightly stronger than earlier thought, while sales of new homes improved a bit more than expected.

Such strength paired with the remarkably resilient job market raises hope that the economy can avoid a recession in the near term.

But it can also feed into upward pressure on inflation, and Wall Street worries it could push the Fed to raise rates even higher and keep them there even longer than it otherwise would.

"It puts the final nail in the coffin in the shift we've seen the last several weeks where the market has come around to what the Fed has been saying for a while: rates above 5% and there for longer," said Ross Mayfield, investment strategy analyst at Baird.

After earlier doubting that the Fed would raise its key overnight rate as high as it was saying, and believing that it may even cut rates later this year, traders are increasing bets on the Fed's rate rising to at least 5.25% and staying that high through the end of the year.

It's currently in a range of 4.50% to 4.75%, and it was at virtually zero a year ago.

High rates and inflation increase the risk of a recession down the line, even if the most important part of the economy has been resilient.

"The consumer is hanging in there, but the consensus seems to be there's a lot of trading down" by shoppers to less-expensive items, Mayfield said. "If you're looking out a year and banking on the consumer sector to hang in there, every extra month it becomes a dicier proposition."



Denis Poroy/Associated Press

Speaker of the House Nancy Pelosi walks past the USNS John Lewis after a christening ceremony, July 17, 2021, in San Diego.

## U.S. Navy has learned from costly shipbuilding errors

### Military officials confirm they're slowing down organizational plans

By David Sharp  
ASSOCIATED PRESS

BATH, Maine — The U.S. Navy appears to have learned from its costly lessons after cramming too much new technology onto warships and speeding them into production as it embarks on building new destroyers that are the backbone of the fleet.

Military officials say they're slowing down the design and purchase of its next-generation destroyers to ensure new technology like powerful lasers and hypersonic missiles are mature before pressing ahead on construction.

The Navy has learned "sometimes the hard way, when we move too fast we make big mistakes," said Adm. Michael Gilday, chief of naval operations.

"Let's be deliberate. Let's not have our eyes become bigger than our stomach and get too far ahead of ourselves," Gilday said last week at an event for defense industry officials in San Diego.

The Navy wants to turn the

page on recent shipbuilding blunders.

Several newer combat ships designed for speed are being retired early after being beset by problems. A \$13.3 billion aircraft carrier experienced added costs from new catapults that launch airplanes. Workers completed construction of a stealth destroyer before its advanced gun system, already installed, was scrapped.

For the new ship, the Navy is reducing risk by conducting more land tests and borrowing the radar and targeting system from the latest destroyers that'll soon join the fleet, said Lt. Cmdr. Javan Rasnake, spokesman for the assistant secretary of the Navy for research, development and acquisition.

It's also working with shipbuilders and designers to refine the ship's blueprint, cost estimates, and workforce and supply forecasts, Rasnake said.

The Navy still plans to field some new technologies on the destroyer.

Last week, it awarded Lock-

heed Martin a \$1.2 billion contract for hypersonic missiles that travel at five times the speed of sound, and can be fired from destroyers. Last summer, it awarded the first design contract for the new ship outfitted with those missiles and lasers powerful enough to shoot down aircraft.

Matt Caris, a defense analyst with Avascent, said it's important that the Navy gets it right by balancing the best technology that's reliable, affordable and attainable.

"The Navy is trying to thread the needle with some potentially revolutionary capabilities in as low risk and evolutionary process as possible. This was a lesson learned by the Navy's laundry list of shameful acquisition programs," he said.

Some worry about history repeating itself.

There are new Navy leaders overseeing many programs and "it's easy to imagine them making similar mistakes again with a new cast of characters," said Loren Thompson from the Lexington Institute,

a security think tank.

The Navy is in the midst of juggling its priorities as it seeks not just a new destroyer but also a new attack submarine and a replacement for the F/A-18 Super Hornet fighter jet.

The Navy is in a difficult spot because the Biden administration is not interested in dramatically increasing the military budget, said Bryan Clark, a defense analyst at the Hudson Institute. Research and development alone would cost an extra \$10 billion to \$20 billion for the destroyer, submarine and jet, he said, representing a big chunk of the \$220 billion Navy budget.

A series of speedy, coast-hugging warships embodied shipbuilding mistakes that the Navy is trying to avoid. Critics said early versions were too lightly armored to survive combat. One version of the craft, known as a littoral combat ship, had propulsion problems. Some of the ships broke down and had to be towed. Plans for a submarine detection system were scrapped.

## Tobacco unit criticized; changes course

By Matthew Perrone  
AP HEALTH WRITER

WASHINGTON — Food and Drug Administration officials on Friday pledged a reset in the agency's tobacco program, responding to criticisms that a lack of direction has hampered efforts to regulate cigarettes, vaping devices and related products.

The head of the agency's tobacco center promised to deliver a five-year strategic plan by year's end outlining priorities, including efforts to clean up a sprawling market of largely unauthorized electronic cigarettes. The agency also said it would provide more transparency to companies about its decisions, following the rejection of more than 1 million applications from e-cigarette makers seeking to market their products as alternatives for adult smokers.

The announcement comes as the tobacco center is besieged by criticism from all sides — including lawmakers,



Manuel Balce Ceneta/Associated Press

The FDA's tobacco unit is facing strong criticism about its program. The agency is presently reviewing it.

anti-smoking advocates and tobacco companies.

FDA chief Dr. Robert Califf commissioned separate, external reviews of the agency's tobacco and food programs last summer, amid controversies in

both units.

The blistering report on the tobacco program, issued in December, described the FDA as "reactive and overwhelmed," with a demoralized workforce that struggles to oversee both

traditional tobacco products and a freewheeling e-cigarette market.

The report mainly channeled long-standing grievances from groups on opposing sides of the tobacco issue. Public health groups want the FDA to more aggressively police regular cigarettes and flavored e-cigarettes that appeal to teenagers. Tobacco companies complain that the FDA is unwilling to approve new alternative products — including e-cigarettes — that might help adults quit smoking.

FDA's tobacco chief, Brian King, said Friday that regulators are looking at ways to "better communicate" with companies about how the FDA makes decisions. The agency is also working to streamline the review process, when possible.

"Some things will take longer than others, but we're committed to getting everything done that we've outlined as expeditiously as possible," King said in an interview.