Factories give US economy 'hope'

Demand in China helps fuel growth

By Martin Crutsinger
And Tali Arbel
THE ASSOCIATED PRESS

WASHINGTON — Manufacturing is growing in the United States and abroad, easing fears that the economy might be on the verge of a second recession.

The U.S. sector expanded for a 13th straight month in August, coinciding with gains in Chinese manufacturing and auto sales.

The news gave Wall Street a boost, with investors overlooking dismal reports on U.S. auto sales and construction spending. The Dow Jones industrial average closed 253 points up.

China's robust growth raises expectations that it will step up its consumption of U.S. exports and help sustain the U.S. economic recovery.

"It gives up hope that things may not be as bad as they seem," said Zahid Siddique, an associate portfolio manager at Gabelli Equity Trust Inc.

In the U.S., manufacturing has helped lead the economy out of the worst recession since the 1930s and factories kept churning out goods last month.

The Institute for Supply Management said Wednesday that its manufacturing index rose to 56.3 in August from 55.5 in July. A reading above 50 indicates growth. The trade group's index has surged since late 2009 and hit a six-year high in April.

INSIDE

■ Stocks jump 254 points. Page 3B

U.S. factories have seen rising demand for exports and from businesses that are investing in capital equipment and supplies. That has given the economy a lift at a time of uncertainty for the recovery.

Jobs are scarce, the unemployment rate is near double digits, home sales are at the lowest level in 15 years, and the American consumer is not spending enough to give businesses confidence to hire.

Construction activity dropped 1 percent in July, the third straight monthly decline, the Commerce Department said. Government revisions showed much weaker activity than previously reported for May and June.

The auto industry was bracing for its worst August in 27 years. General Motors Co.'s sales fell 7 percent last month from July. Ford saw sales slip 5 percent from July. Subaru also suffered. August is typically a strong month. Total industry sales could fall below 1 million new vehicles once automakers finish reporting sales on Wednesday.

The government is expected to report Friday that the economy added a net total of only 41,000 private-sector jobs, which would mark the fourth straight disappointing month.

See RALLY on page 5A

RALLY

FROM PAGE 1A

Job gains at industrial companies have made up about 30 percent of net hiring by businesses and other private organizations in 2010. Manufacturing makes up roughly 10 percent of private-sector jobs.

Employers at factories are eager to add jobs. The August survey showed managers' desire to hire increased to 60.4 — the strongest level since December 1983.

Lori Jenks, president of a small San Diego company that makes parts for gas turbines, said she is desperate to add a salesperson. She wants to hire someone to help find new business after lowering her sales expectations for the year.

Wednesday's report suggests that moderate growth in manufacturing will continue, said Norbert Ore, the chair of the survey.

However, a measure of new orders, which are a gauge of future business, dipped to the lowest level since June 2009 after surging earlier this year. That slowdown is consistent with the more moderate pace of growth in the U.S., Europe and China that is expected in the second half of the year, said TD Economics analyst Martin Schwerdtfeger in a research note.

China, the world's second-largest economy, has been growing at a sizzling pace this year. Two surveys of the Chinese economy released Tuesday showed that production, new orders and purchasing prices all rose in August.

Reports out of China also showed hefty gains in auto sales for August. The extension of government subsidies for energy-saving vehicles and stronger demand for imports helped push auto sales nearly 56 percent higher over a year earlier.

Robust growth in China could help boost the struggling U.S. economy, which expanded at a meager 1.6 percent rate in the April-to-June quarter.

As America's third-largest export market, China purchases large quantities of American farm products, such as soybeans, and manufactured goods including commercial airliners, semiconductor chips and industrial machinery.

Apple CEO Steve Jobs said Wednesday at a media event in San Francisco that China represents an important growth market for his company.

But American manufacturers say U.S. exports would be much higher if it were not for China's refusal to allow its currency to rise in value against the dollar. That has made U.S. exports more expensive in China, and Chinese imports cheaper in the U.S.