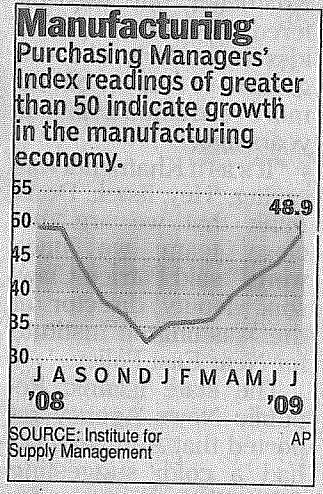
Manufacturing contraction slowest since August

By Tali Arbel
THE ASSOCIATED PRESS

NEW YORK — U.S. manufacturing activity should grow next month for the first time since January 2008 as industrial companies work to restock customers' bare shelves, a trade group said Monday.

The Institute for Supply Management's better-than-expected report, improving manufacturing data overseas and a surprise jump in U.S. construction spending in June, helped push stock markets higher. Following last week's report that the U.S. economy shrank less than expected in the second quarter, many economists believe the longest recession since World War II may be over, though any recovery will be subdued.

The ISM, a trade group of purchasing executives, said its index measuring U.S. manufacturing activity in July showed the slowest pace of decline since last August. The 48.9 reading was up from 44.8 in June. Production and new orders jumped to their highest level in two years, while new export orders grew after shrinking for nine months.



"If we stay on trend ... we would expect to be above 50 next month," said Norbert Ore, chair of ISM's manufacturing survey committee. A reading above that threshold would indicate growth in manufacturing, something that hasn't happened in 18 months.

Meanwhile, the Commerce Department said construction spending rose by a seasonally adjusted annual rate of 0.3 percent in June led by gains in government and residential housing projects. Analysts expected a 0.5 percent drop. The data follow earlier reports of growing home sales and construction in June, fresh evidence that the housing sector may be recovering.

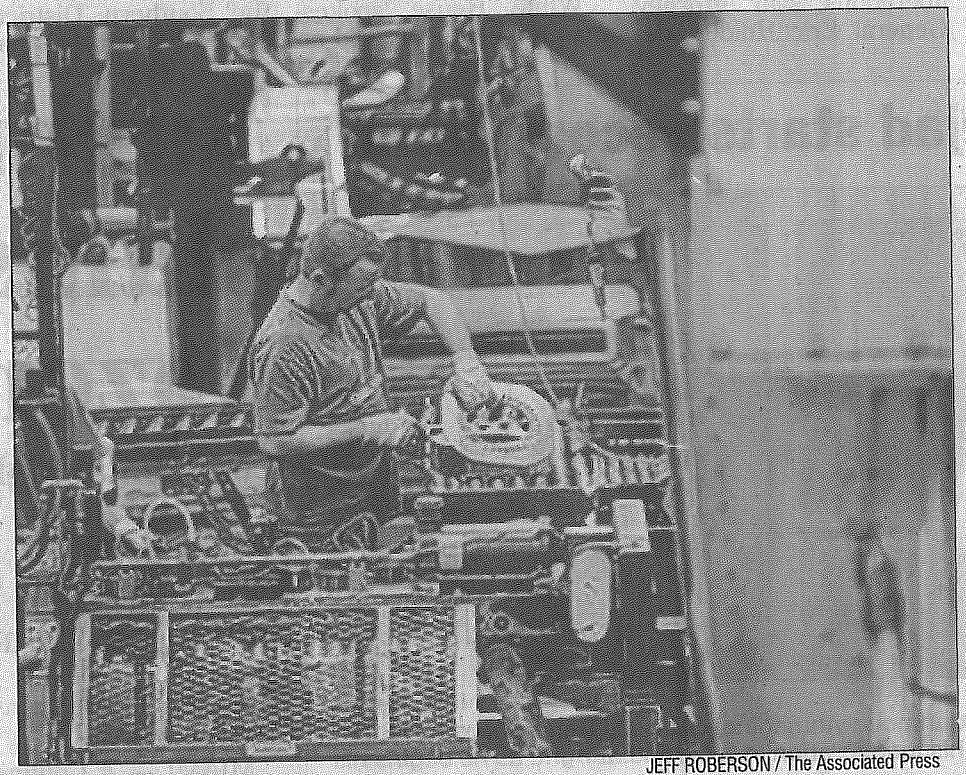
The ISM report mirrored improving readings on the industrial sectors in China and Europe, boosting stocks globally.

The pace of decline in manufacturing has been slowing since the index hit a 28-year low of 32.9 in December. And it was the third straight monthly reading above 41.2, which tends to indicate expansion in the overall economy, if sustained at such levels, according to the ISM.

"This adds to the growing evidence that the recession ended around the middle of the year," Capital Economics U.S. economist Paul Ashworth wrote in a research note.

The Commerce Department said last week that the nation's gross domestic product shrank at an annual rate of 1 percent in the second quarter. That's a drastic improvement from the 6.4 percent decline in the first quarter and a 5.4 percent decline in the fourth quarter, of 2008.

Factory data show improvement



JEFF ROBERSON / The Associated Press

Steve Davis works in the Baldor Electric Co. factory in St. Louis. U.S. manufacturing activity should grow next month, a trade group said Monday.