Manufacturing makes gains



CHARLIE RIEDEL / The Associated Press

Chris Wasmer works on an engine for a 2010 Ford Escape at Ford's Kansas City assembly plant in Claycomo, Mo.

Reports show signs of strong recovery

By Paul Wiseman
USA TODAY

WASHINGTON — Manufacturing grew in August for the first time in more than a year and a half, suggesting a broad, stronger-than-expected recovery from the worst recession since the 1930s.

The Institute for Supply Management reported Tuesday that its much-watched manufacturing index pointed to growth in August for the first time in 19 months, rising 4 points to 52.9, highest level since August 2007. Anything above 50 signals that manufacturing is expanding. The institute says the figure corresponds to an overall economy growing at an annual pace of 3.7 percent, about twice as fast as economists have been predicting.

"The year-and-a-half decline in manufacturing output has come to an end," declared Norbert Ore, chair of the institute's Manufacturing Business Survey Committee.

"It's very good news," says John Canally Jr., investment strategist at LPL Financial in Boston. "And it wasn't just autos." Economists had worried that recent signs of life in manufacturing may have been warped by the government's cash-for-clunkers program, which ignited car sales in August. But 11 of 18 manufacturing industries reported growth last month.

"Investors should smile at this number," says Joel Naroff of Naroff Economics Advisors. But he cautions that the Federal Reserve may read the upbeat manufacturing report as a sign it should reverse course and start raising interest rates to contain inflation as the recovery gains speed. He expects the Fed to raise rates in December or January.

Factory inventories have fallen for 40 straight months, suggesting that manufacturers will have to crank up production to meet rising demand for their goods.

"You're hearing anecdotal evidence of people walking into stores and not finding what they need," Canally says.

The only sour note in the report: Manufacturing employment was still shrinking in August, though at a slower pace. Even so, "employment is a lagging indicator," Canally says.