US manufacturing shrinks for first time in 3 years

BY CHRISTOPHER S. RUGABER
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WASHINGTON — U.S. manufacturing shrank in June for the first time in nearly three years, adding to signs that economic growth is weakening.

Production declined, and the number of new orders plunged, according to a monthly report released Monday by the Institute for Supply Management.

The slowdown comes as U.S. employers have scaled back hiring, consumers have turned more cautious, Europe faces a recession and manufacturing has slowed in big countries such as China.

"This is not good," said Dan Greenhaus, chief economic strategist at BTIG, an institutional brokerage. Though the report "does not mean recession for the broader economy, it is still a terribly weak number."

The trade group of purchasing managers said its index of manufacturing activity fell to 49.7. That's down from 53.5 in May. And it's the lowest reading since July 2009, a month after the Great Recession officially ended. Readings below 50 indicate contraction.

Stocks fell after the report was released. The Dow Jones industrial average dropped more than 40 points in midday trading.

Economists said the manufacturing figures were consistent with growth at an annual rate of 1.5 percent or less. That would be down from the January-March quarter's already tepid annual pace of 1.9 percent.

"Our forecast that the U.S. will grow by around 2 percent this year is now looking a bit optimistic," said Paul Dales, an economist at Capital Economics.

Despite the discouraging data, most economists aren't predicting another recession. Though the ISM report suggests manufacturing is contracting, it typically takes a sustained reading below 43 to signal the economy isn't growing.



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In this Friday photo, Tesla Model S frames are shown in the assembly area at the Tesla factory in Fremont, Calif. The Institute for Supply Management, a trade group of purchasing managers, reported Monday that U.S. manufacturing is declining for the first time in nearly three years.