Factories aid bumpy recovery, housing still weak

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New government data offered a mixed picture of the economic recovery Tuesday, as U.S. manufacturing activity grew in July at the fastest pace in nearly a year while the outlook for the housing market remained dim.

Auto plants stayed open when they normally close for summer renovations and businesses replaced worn-out equipment. That helped boost factory output 1.1 percent - the biggest increase since August 2009.

Overall output at the nation's factories, mines and utilities rose 1.0 percent last month, the Federal Reserve reported. That followed a decline of 0.1 percent in June, the first drop in more than a year.

Construction of new homes and apartments rose 1.7 percent last month, the Commerce Department said. But the gains were driven by a 32.6 percent surge in apartment and condominium construction, a small fraction of the market.

Single-family home construction, which represented nearly 80 percent of the market, fell 4.2 percent. And requests for building permits, considered a good sign of future activity, slid 3.1 percent.

Separately, the Labor Department said wholesale prices rose last month on higher costs of food, cars and light trucks. Excluding volatile food and energy costs, so-called "core" producer prices rose 0.3 percent in July, the ninth straight increase. Core prices have risen 1.5 percent in the past year, a sign that inflation remains tame.

The recovery has weakened in recent months. Consumers are spending less and saving more. Businesses are hiring fewer workers. The unemployment rate for July was 9.5 percent and economists expect that to stay at that level for the rest of the year.

Manufacturing has been the strongest sector since the recession ended, growing in 11 of the past 12 months.

Joshua Shapiro, chief U.S. economist at MFR Inc. in New York, cautioned that the numbers for June and July appeared more volatile because of "statistical quirks" such as the unexpected auto production.

"Things are nowhere near as bad as they appeared in June and nowhere near as good as the headline number in July would indicate," Shapiro said. He said averaging the two months would present a more accurate picture of manufacturing.

A rebound in housing is considered critical for a sustained economic recovery. But builders continue to struggle with weak demand for new homes caused by high unemployment and a glut of foreclosed homes on the market.

Builders say consumers remain worried about the weak economic recovery and the sluggish jobs market. Among those who are buying, many are opting for deeply discounted foreclosed properties.

The July increase in housing construction pushed total activity to a seasonally adjusted annual rate of 546,000 units. Building activity in June was weaker than first reported. It fell 8.7 percent to an annual rate of 537,000 units, the slowest pace since October of last year.

"The bad news is that activity is likely to remain depressed for several years," said Paul Ashworth, senior U.S. economist at Capital Economics. "The good news, however, is that housing is so depressed it is hard to see activity falling much further from such a severely depressed level."

Housing construction got a boost earlier in the year when the government offered buyers up to $8,000 in federal tax credits. But after the incentives expired at the end of April, sales and constructions activity slumped.

Construction of apartments and condominiums jumped to an annual rate of 114,000 units. The bigger single-family sector fell to an annual rate of 432,000 units.

The drop in building permits left applications for new construction at a seasonally adjusted annual rate of 565,000, the slowest pace since May 2009.

Construction activity surged 30.5 percent in the Northeast and was up 10.7 percent in the Midwest. However, construction fell 6.3 percent in the South and was flat in the West.

In advance of the report on housing starts, the National Association of Home Builders reported Monday that its monthly index of builder sentiment dropped to 13 in August. That was the lowest reading in 17 months. Readings below 50 indicate negative sentiment about the housing market. The last time builders' index was above 50 was in April 2006.

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AP Economics Writer Christopher S. Rugaber contributed to this report.

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