

Manufacturing Expands At Best Pace In 2-1/2 Years

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U.S. factory activity expanded last month at the fastest pace in 2-½ years, an encouraging sign that manufacturing could lift economic growth and hiring in the coming months. The Institute for Supply Management saw its manufacturing index rise to 56.2 in September, the highest since April 2011. That's up from 55.7 in August and the fourth straight increase in the index. A reading above 50 indicates growth.

For the month, manufacturers also added jobs at the fastest pace in more than a year and ramped up production. They received new orders at a healthy pace, though slower than in August. U.S. factories are showing signs of picking up after slumping earlier this year. A modest recovery in housing and strong auto sales are pushing up demand for steel and other metals, auto parts, furniture and appliances. Factories had been hampered by weak growth overseas that lowered demand for U.S. goods. But exports grew last month, though at a slower pace than August. Europe's economy is slowly recovering after an 18-month recession and Japan is also growing faster after two decades of stagnation.

The economy expanded at a 2.5 percent annual pace in the April-June quarter, up from a 1.1 percent annual rate from January through March. Many economists believe growth slowed in the July-September quarter to a two percent pace or below, but the gains in manufacturing could set the stage for stronger growth in the October-December quarter. Earlier this month, the Federal Reserve said manufacturers boosted their output in August by the most in eight years. The gains were driven by a robust month at auto plants.

Still, companies placed only slightly more orders for long-lasting manufactured goods in August after a sharp fall in July. Demand was held back by fewer orders for defense aircraft and other military goods, the Commerce Department said last week. That could be related to steep government spending cuts that took effect in March. Excluding defense spending, orders rose 0.5 percent. Demand for so-called core capital goods rose 1.5 percent, after falling 3.3 percent the previous month. Core capital goods are a good measure of businesses' confidence in the economy and include items that point to expansion, such as machinery and computers.

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