Construction, manufacturing dip less than expected

The Institute for Supply Management revealed a better than expected manufacturing index for February, suggesting contraction may be nearing an end.

WASHINGTON (AP) — Construction spending fell for a fifth straight month in February, but the results were better than expected and along with other economic reports, suggested contraction may be nearing an end.

The Commerce Department said Wednesday that February construction activity dropped 0.9 percent, less than the 1.5 percent decline economists had forecast. Total construction has been falling since October. The level of activity is at the slowest pace in nearly five years.

Meanwhile a trade group's measure of the health of the manufacturing sector contracted for the 14th straight month in March, but at a slower pace than expected. The Institute for Supply Management said its manufacturing index rose to 36.3 last month from 35.8 in February. Economists expected the index to rise to 36.

A reading below 50 signals contraction and the index hit a 28-year low of 32.9 in December.

A 4.3 percent drop in housing construction, pushing it to the lowest level in 11 years, dragged down the overall construction data in February.

Home builders have cut back sharply, but face a rising glut of unsold homes as record mortgage foreclosures dump more properties on the market. Lennar Corp. said Monday that its fiscal first-quarter losses surged 77 percent due to charges to adjust land and inventory values, and plunging home deliveries and new orders.

On Wall Street, stocks moved slightly higher after the construction and manufacturing reports were better than expected, and the National Association of Realtors said pending home sales rebounded in February from a record low. The Dow Jones industrial average added about 80 points in midday trading after dropping more than 100 points earlier in the day.

The manufacturing report, based on a poll of the Tempe, Ariz.-based trade group of purchasing executives, covers indicators including new orders, production, employment, inventories, prices, and export and import orders.

None of the 18 manufacturing industries grew in March, but the report did say that five of the industries surveyed — including electrical equipment, primary metals and machinery — expect to gain from the government's economic stimulus measures.

"The rapid decline in manufacturing appears to have moderated somewhat," said Norbert Ore, chair of the ISM manufacturing survey committee.

The Commerce Department report showed nonresidential construction rose 0.3 percent in February, a slight rebound following a 4.3 percent drop in January that had been the biggest decline in 15 years.

With the financial sector facing its worst crisis in seven decades, banks have tightened their loan standards, making it harder to get financing for shopping centers and other commercial projects.

More bad news on the housing front came Tuesday when the Standard & Poor's/Case-Shiller index of home prices in 20 major cities showed a record decline of 19 percent for the three months ending in January compared to the same period a year ago. The biggest declines were in cities already hardest hit by the housing bust including Phoenix and San Francisco.

Still, the Realtors last week said sales of previously occupied homes unexpectedly jumped in February by the largest amount in nearly six years as first-time buyers took advantage of deep discounts on foreclosures and other distressed properties. Some economists say that could help moderate declines.

Analysts are forecasting that the commercial real estate industry is poised to fall into the worst crisis since the last great property bust of the early 1990s. Delinquency rates on loans for hotels, offices, retail and industrial buildings have risen sharply in recent months and are likely to soar through the end of 2010 as companies lay off workers, downsize or shut their doors.

Construction spending by the government showed a 0.8 percent increase in February following two months of declines. The strength came in a 0.8 percent increase in spending on federal building projects, and the same rise in spending on state and local government projects.

All the changes left total construction spending at a seasonally adjusted annual rate of $967.5 billion in February, the slowest pace since March 2004.