

Manufacturing To Lift Economy Out Of Slump

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NEW YORK (AP) — A private research group said the economy is rebounding from its spring slump and should grow modestly through the fall.

The Conference Board said Friday that its index of leading economic indicators rose 0.8 percent last month. That's an improvement from April, when the index dropped 0.4 percent — the first decline since June 2010. A string of declines would indicate that a recession was coming.

The May report was the largest increase since February. Eight of the 10 measures the Conference Board uses to calculate the index increased. In April, only four showed improvement. The brighter reading suggests the economy will regain some of the momentum it lost this spring, when high gas prices cut into consumer spending and businesses pulled back on hiring.

Conference Board economist Ken Goldstein cautioned that growth will be "choppy" through summer and fall, a point echoed by other economists. The housing market remains weak. And even though there has been some relief in recent weeks from the high gas and food costs, prices remain elevated.

"We don't think the economy is going to come roaring back and replace all the lost jobs," said Tim Quinlan, a Wells Fargo economist. He predicted "slow growth for the foreseeable future" — about a 2.5 percent quarterly pace for the rest of year. That's an improvement from the 1.8 percent rate he expects for the April-June period.

Helping lift the index in May:

- The Federal Reserve's policies to help support financial markets.
- A jump in building permits, which signal future construction.
- An increase in consumer confidence as gas prices fell.
- Fewer people applying for unemployment benefits.

But even with those improvements, the unemployment rate rose last month to 9.1 percent and the housing market continued to struggle.

The rise in building permits was encouraging. But economists say the pace of home construction last month was far below the 1.2 million homes per year that must be built to sustain a healthy housing market. Many credit-strapped builders are struggling to compete with low-priced foreclosures.

The number of people applying for unemployment benefits fell from an eight-month

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high of 478,000 in April. Still, it has been above 400,000 for 10 straight weeks. Economists say a level below 375,000 suggests sustainable job growth.

Gas prices have come down after peaking at a national average of nearly \$4 a gallon in early May. The national average was nearly \$3.67 per gallon on Friday, but it is still almost a dollar more than consumers paid one year ago.

Higher gas prices have left consumers with less money to spend on discretionary goods, such as appliances, vacations, and furniture, which tend to drive economic growth. As a result, U.S. factories are producing fewer goods. Supply disruptions stemming from the Japan crises have also hampered U.S. manufacturers, leading to a shortage of auto and electronic parts produced overseas.

Weaker data this spring have led many economists to cut their growth expectations for the year. Economists recently surveyed by The Associated Press predicted that the economy would grow at a 2.6 percent annual rate, down from an estimate of 2.9 percent in April. In January, they had forecast 3.2 percent growth for the year.

Still, some economists say the disruption to the manufacturing sector from Japan's earthquake will ease and job creation will pick up again in the second half of the year. A survey of CEOs of the country's biggest companies showed more than 60 percent of them planned to spend more on equipment over the next six months, a sign of confidence. More than half expected their U.S. work forces would grow.

The Conference Board is a private research group based in New York. It uses data that has mostly already been released about real estate, manufacturing, employment, consumer confidence and financial markets in calculating the leading indicator index. The Conference Board also includes its own estimates about manufacturers' new orders and the country's money supply.

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