Automakers Rebound In July, Boost Factory Output

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WASHINGTON (AP) — U.S. automakers rebounded in July to boost factory production by the most since the Japan crisis. But builders broke ground on fewer single-family houses, leaving home construction at depressed levels.

The mixed data suggest that the economy remains fragile but is not on the cusp of another recession.

Overall industrial production, which includes output by utilities, mines and factories, rose 0.9 percent last month, the Federal Reserve said Tuesday. That's the largest gain this year.

Factory output, the biggest component of industrial production, climbed 0.6 percent. It was the greatest increase since the March 11 earthquake in Japan disrupted supply chains and slowed production at some U.S. auto plants.

The auto industry accounted for nearly all of the factory production gains. Motor vehicles and parts jumped 5.2 percent. Excluding that category, factory output grew only 0.2 percent.

Also driving industrial production higher was an unseasonably hot summer. That led more people to leave their air conditioners running. Utility output jumped 2.8 percent, the most since December. Mining output also increased.

The strong rise in output "suggests that the U.S. economy is not in a recession now, and it's a fairly encouraging sign that it won't slip into one, either," said Paul Dales, senior U.S. economist with Capital Economics.

Still, growth is likely to stay weak in the second half of the year. High unemployment and a dismal housing market will weigh on consumer spending, Dales said.

The Commerce Department said builders began work on a seasonally adjusted 604,000 homes last month, a 1.5 percent decrease from June. That's half the 1.2 million homes per year that economists say must be built to sustain a healthy housing market.

Single-family homes, which represent 70 percent of home construction, fell 5 percent. Apartment building rose more than 6 percent.

Stocks traded lower after three days of gains. The Dow Jones industrial average fell roughly 127 points in midday trading. Investors seemed to focus on Germany's economy, which stalled in the second quarter. A weaker Germany could slow growth in Europe as it struggles to contain its debt crisis there.

The industrial production report confirmed other data that show the U.S. economy strengthened at the start of the July-September quarter, after growing at a feeble annual rate of just 0.8 percent in the first half of the year.

Employers added more than twice the number of jobs in July than in the previous two months. The number of people applying for unemployment benefits earlier this month fell below 400,000 for the first time since early April. And consumers spent more on retail goods in July than in any month since March.

Manufacturing had been one of the strongest sectors of the U.S. economy in the two years since the recession officially ended. It has weakened in recent months.

Economists had blamed the decline in part on temporary factors. The crisis in Japan caused a parts shortage for some U.S. automakers and other manufacturers. High fuel prices left consumers with less money to spend on discretionary goods, such as appliances and furniture.

"The increase in manufacturing production suggests the economy is finally emerging from distortions posed by the Japanese production shutdowns, which wreaked havoc on the global manufacturing supply chain," said Joseph LaVorgna, chief U.S. economist with Deutsche Bank Securities.

Auto production will likely stay high this year. Manufacturers are racing to replace inventories depleted by the Japan disruptions. That should also contribute to overall economic growth, said Michael Robinet, an auto industry analyst with IHS automotive.

But housing is likely to keep dragging on the economy.

The number of homes under construction in July was the fewest in 40 years. Just 413,000 homes are under construction, after accounting for seasonal factors. A decade ago, roughly 1.6 million homes were built.

Building permits, a gauge of future construction, declined 3.2 percent in July. Jill Brown, vice president of economics at Credit Suisse, said that decline suggests "very little forward momentum."

After previous recessions, housing accounted for 15 percent to 20 percent of overall economic growth. But between 2009 and 2010, housing contributed just 4 percent to the economy.

Though new homes represent just 20 percent of the overall housing market, they have an outsize impact on the economy. Each home built creates an average of three jobs for a year and about $90,000 in taxes, according to the National Association of Home Builders.

New-home sales fell in June to a seasonally adjusted pace of 312,000 homes per year. That's less than half the 700,000 per year that economists consider to be healthy.

One reason for the slow pace is that previously occupied homes are a better deal than new homes. The median price of a new home is more than 30 percent higher than the median price for a re-sale. That's more than twice the markup in healthy housing market.

Still, all home sales are weak. Even historically low mortgage rates haven't been enough to boost demand.

"The now-extended period of ultra-low interest rates is not squeezing any new demand out of the rock," said Pierre Ellis, an analyst at Decision Economics.