

# Manufacturing Growth Hits Lowest Level In 2 Years

Daniel Wagner, AP Business Writer

WASHINGTON (AP) — Manufacturers had their weakest growth in two years in July, a sign that the economy could weaken this summer.

The Institute for Supply Management, a trade group of purchasing executives, said Monday that its index of manufacturing activity fell to 50.9 percent in July from 55.3 percent in June. The reading was the lowest since July 2009 — one month after the recession officially ended.

Any level above 50 indicates growth. The manufacturing sector has expanded for 23 straight months.

Still, new orders shrank for the first time since the recession ended. Companies slashed their inventories after building them up in June. Output, employment, and prices paid my manufacturers all grew more slowly in July.

The disappointing report on manufacturing is the first major reading on how economy performed in July. It suggests the dismal economic growth in the first half of the year could extend into the July-September quarter.

"The ISM manufacturing report for July is a shocker and strongly suggests that the disappointing performance of the economy in the first half of the year was not just temporary," said Paul Dales, a senior U.S. economist for Capital Economics.

Stocks fell after the report was released. They had risen ahead of the report on the expectation that Congress will approve a deal Monday to increase the nation's borrowing limit. The Dow Jones industrial average fell 117 points in midday trading. Broader indexes also declined.

In a separate report, the Commerce Department said builders began work on more projects in June, pushing construction spending higher for a third straight month.

Construction spending rose 0.2 percent in June, to a seasonally adjusted annual rate of \$772.3 billion, the government said. But even with the gains, spending remains slightly above an 11-year low hit in March and is just half of the \$1.5 trillion pace considered healthy by most economists.

The economy expanded at a dismal 1.3 percent annual rate in the April-June period after an even worse 0.4 percent increase in the first three months of the year, the government said Friday.

The factory sector has expanded in every month but one since the recession ended

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Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

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in June 2009. The ISM's index topped 60 for four straight months at the start of the year.

But manufacturing has stumbled in recent months. A parts shortage stemming from Japan's March 11 earthquake disrupted automakers' supply chains, cutting into the output of new cars. And high gas prices left Americans with less money to spend on discretionary items, such as vacations, furniture and appliances.

The index fell in May to 53.5 from April's reading of 60.4. That was the sharpest one-month drop since 1984.

Employers have responded by pulling back on hiring. The economy added just 18,000 net jobs in June, the fewest in nine months, and the unemployment rate rose to 9.2 percent. Hiring by manufacturers was nearly flat in the April-June period.

The government issues its July employment report on Friday.

Several regional manufacturing surveys for the month of July have been mixed. The Philadelphia Federal Reserve Bank said its manufacturing index rose to 3.2, signaling that the sector is growing again in that region. It had contracted in June for the first time in nine months.

And a private survey in Chicago showed that manufacturing expanded in July, but at a slower pace than in June.

Meanwhile, a survey by the New York Federal Reserve Bank found regional manufacturing activity shrank in July.

Manufacturing represents only about 11 percent of U.S. economic activity and can contribute only so much to the broader economic recovery. For unemployment to fall significantly, consumer income and spending also must pick up.

The ISM, a trade group of purchasing executives based in Tempe, Ariz., compiles its manufacturing index by surveying about 300 purchasing executives across the country.

**Source URL (retrieved on 07/28/2014 - 9:14pm):**

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