Factory Orders Up 1.1 Percent In December

Martin Crutsinger, AP Economics Writer

WASHINGTON (AP) — Orders to U.S. factories rose in December, supported by a rebound in business investment in capital goods such as heavy machinery.

The results cap off another strong year for U.S. manufacturing. Combined with strong figures released Thursday on job growth in January, they signal the economic recovery is gathering strength.

Factory orders rose 1.1 percent following a 2.2 percent gain in November, the Commerce Department reported Friday. For the year, total orders were up 12.1 percent following a gain of 12.9 percent in 2010. Orders had plunged 22.1 percent in the 2009, the year the deep recession ended.

For December, orders for so-called core capital goods, which are viewed as a good measure of business investment plans, rose 3.1 percent to an all-time high. That gain was driven in part by a rush by businesses to take advantage of expiring tax breaks.

The advances in 2011 pushed orders for the year up to $5.36 trillion, still slightly below the peak of $5.44 trillion set in 2008.

For December, orders for durable goods, items expected to last at least three years, rose 3 percent, a figure that was unchanged from a preliminary report last week. Orders for nondurable goods slipped 0.4 percent, reflecting declines in petroleum products.

The orders category that signals business investment plans, non-defense capital goods excluding aircraft, climbed to an all-time high of $68.9 billion in December.

While some of that surge likely reflected a rush to make orders before investment tax breaks expired at the end of last year, many economists believe the boom in spending on new equipment will continue even with the tax breaks gone because there is a large amount of pent-up demand on the part of businesses to modernize their operations.

Companies are hiring more, factories are making more goods and more people are buying cars. Those positive signs for the economy have to be balanced against the threat that Europe's prolonged debt crisis is acting as a drag on global growth. That would hurt sales of U.S. exports.

In December, orders for commercial aircraft were up 18.9 percent, orders for autos increased 1.7 percent and demand for heavy machinery rose 6.7 percent, reflecting strong demand for oil field equipment and construction machinery.

Manufacturing has been a bright spot in the recovery, although there was a slowdown in the middle of last year as factories dealt with supply shortages caused by the Japanese natural disasters that occurred in March.

The Institute of Supply Management reported this week that its gauge of manufacturing activity expanded in January at the fastest pace in seven months. The index rose to 54.1, up from 53.1 in December. Readings above 50 indicate expansion and the index has been in expansion territory for 30 straight months.