Survey: U.S. Manufacturing Shrinks For Third Month

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WASHINGTON (AP) — U.S. factory activity shrank for the third straight month in August as new orders, production and employment all fell. The report adds to other signs that manufacturing is struggling around the globe.

The Institute for Supply Management, a trade group of purchasing managers, said Tuesday its index of manufacturing activity ticked down to 49.6. That's down from 49.8 in July and the lowest reading in three years. A reading below 50 indicates contraction.

Weak consumer spending and steady declines in business orders for large machinery and other capital goods are slowing factory output.

The report followed other data showing manufacturing has slowed overseas. A measure of factory activity in China fell to its lowest level in more than three years last month. And manufacturing in Europe has also stagnated in the face of the region's financial crisis.

Paul Dales, senior U.S. economist at Capital Economics, said continued uncertainty caused by the recession in Europe, the slowdown in Asia and impending tax increases and spending cuts in the United States "is taking its toll on activity."

"At this level, the index remains consistent with ... growth in the third quarter of between 1.5 percent and 2 percent," Dales said in an email to clients.

The manufacturing index typically needs to fall to about 43 to suggest the broader economy is shrinking, according to the ISM. Still, growth at or below 2 percent is not enough to significantly lower the unemployment rate, which was 8.3 percent in July.

And the slight decline in manufacturing activity also makes it more likely the Federal Reserve will take steps at its meeting next week to boost economic growth, Dales said.

The stock market fell after the ISM data and a separate report on construction spending were released. Construction spending fell sharply in July. The Dow Jones industrial average dropped 96 points in morning trading.

U.S. factories have been a key source of jobs and growth since the recession ended in June 2009. But the sector has shown signs of weakness in recent months.

The ISM survey showed factories kept hiring in July but at a slower pace. And production dropped sharply to 47.2, the first time it has fallen below 50 since May

2009, when the economy was in recession.

New orders, a sign of future production, also dropped. New export orders increased but remained below 50, contracting for the third straight month.

Factories reported less demand in the spring after consumers cut back on spending and businesses invested less in machinery and equipment. Some worried that manufacturing could weaken further in coming months if Europe's financial crisis and slower global growth cut demand for U.S. exports.

Recent data suggest the economy picked up a little in July, which could boost factory production in the second half of the year. Employers added 163,000 jobs, the best hiring since February. And consumers stepped up spending last month after earning a little more.

The government will report on August hiring and unemployment on Friday.

Even with the improvement, the economy continues to struggle.

The economy grew at an annual rate of just 1.7 percent in the April-June quarter, down from growth of 2 percent in the January-March period. Economists are expecting growth for the last half of this year will be around 2 percent.

Most expect the unemployment rate to stay above 8 percent for the rest of this year.

Chairman Ben Bernanke last Friday said the Federal Reserve will do more to help the still-struggling U.S. economy.

He stopped short of committing the Fed to any specific move. But in his speech to an annual Fed conference in Jackson Hole in Wyoming, Bernanke said that even with interest rates already at super-low levels, the Fed can do more.

Some economists predict the Fed will unveil some bold new step as soon as its Sept. 12-13 meeting, possibly a third round of bond purchases meant to lower long-term interest rates and encourage more borrowing and spending.

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