Sandy, Budget Worries Hold Back U.S. Factory Output

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WASHINGTON (AP) — U.S. factory production of machinery and equipment fell sharply last month, held back by temporary disruptions caused by Superstorm Sandy and companies' fears that a federal budget crisis could trigger a recession next year.

The Federal Reserve said Friday that factory output, the most important component of industrial production, fell 0.9 percent in October from September. It would have been unchanged without the storm, the Fed said.

Overall industrial production fell 0.4 percent last month. Utility output dipped 0.1 percent, while mining, which includes oil and gas production, rose 1.5 percent.

"Even excluding the impact of Sandy, manufacturing output was no better than stagnant, so there is nothing to be encouraged about in this report," said Paul Ashworth, chief U.S. economist at Capital Economics.

Manufacturing has weakened since spring, in part because companies have scaled back purchases of long-lasting goods that signal investment plans. That trend continued in October: Machinery production fell 1.9 percent, while production of electrical equipment, appliances and components declined 1.4 percent.

"The report suggests the economy still lacks momentum, partly because of the uncertain fiscal outlook," said Sal Guatieri, an economist at BMO Capital Markets.

Many businesses are worried about tax increases and federal spending cuts — known as the "fiscal cliff" — that will take effect in January unless Congress reaches a budget deal before then. Most economists predict the economy will suffer a recession in the first half of 2013 if lawmakers and President Barack Obama can't avoid the fiscal cliff.

Superstorm Sandy has also hurt the economy, although most economists expect the storm's impact to fade in the coming weeks.

The storm hit the Northeast on Oct. 29 and disrupted businesses from North Carolina to Maine. Two regional manufacturing surveys released Thursday also showed Sandy depressed manufacturing activity this month in the Philadelphia region and New York.

Sandy dampened retail sales in October and pushed applications for unemployment benefits last week to the highest level in 18 months, according to government reports released this week.

Still, consumers may have also cut back on retail spending last month because of anxiety over the fiscal cliff. Consumer spending drives roughly 70 percent of economic activity.

Many economists say the economy is growing in the current October-December quarter at a weak annual rate below 2 percent.

There have been hopeful signs that the job market is improving. Employers added 171,000 jobs in October and hiring in August and September was stronger than first estimated. The economy has gained an average of 173,000 jobs a month since July. That's up from an average of 67,000 a month in April through June.

The economy appears to have grown faster over the summer than first thought, based on a handful of positive September reports on inventory growth and trade released this month. Many economists now predict growth at an annual rate of roughly 3 percent in the July-September quarter, up from the initial estimate of 2 percent reported last month.

The government releases its second estimate for third-quarter growth on Nov. 29.

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