U.S. Manufacturing Shrinks To 3-Year Low

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WASHINGTON (AP) — U.S. manufacturing shrank in November to its weakest level since July 2009, the first month after the Great Recession ended. Worries about automatic tax increases in the New Year cut demand for factory orders and manufacturing jobs.

The Institute for Supply Management said Monday that its index of manufacturing conditions fell to a reading of 49.5. That's down from 51.7 in October.

Any reading above 50 signals expansion, while readings below 50 indicate contraction. Manufacturing grew in October for only the second time since May. The ISM is a trade group of purchasing managers.

A measure of new orders fell to its lowest level since August, a sign that production could slow in the coming months.

"Today's report suggests that the manufacturing sector is likely to remain a weak point in the recovery for a few months yet," Jeremy Lawson, an economist at BNP Paribas, said in a note to clients.

Businesses expressed concerns about the "fiscal cliff." That's the name for sharp tax increases and government spending cuts that will take effect in January if Congress and the Obama administration fail to strike a budget deal before then.

Worries about the fiscal cliff have led many companies to pull back this year on purchases of machinery and equipment, which signal investment plans. The decline could slow economic growth and hold back hiring in the October-December quarter.

A measure of hiring in the ISM survey fell to 48.4, the lowest reading since September 2009.

Companies "are just backing off and not making any moves until things clear up a bit," Bradley Holcomb, chairman of the ISM's survey committee, said.

Superstorm Sandy had only a limited impact on factory activity last month, according to the ISM survey. The storm hit the East Coast on Oct. 29 and affected businesses in 24 states.

Two regional manufacturing surveys released in mid-November showed the storm disrupted factories in the Philadelphia and New York regions. On Friday, the government said Sandy contributed to a decline in consumer spending in October.

The economy grew at a 2.7 percent annual rate in the July-September quarter, much better than the 1.3 percent pace in the April-June quarter. But most economists expect growth will slow to below 2 percent in the final three months of the year, mostly because of Sandy and the impact of the fiscal cliff.

U.S. consumers cut back on spending last month while their income remained flat. The decline was partly related to the storm. Still, economists said fear of higher taxes played a role in the diminished spending figure. Consumer spending drives nearly 70 percent of economic activity.

Surveys show consumers remain upbeat about the economy, despite the worries about taxes and spending cuts. A measure of consumer confidence reached a five-year high in November. More consumer spending could boost factory output.

If lawmakers and President Barack Obama can work out a budget deal that averts the tax increases, most economists predict a good year for the economy.