U.S. Factory Output Falls In April

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WASHINGTON (AP) — U.S. factories cut back sharply on production in April, as auto companies cranked out fewer cars and most other industries reduced output.

The Federal Reserve said Wednesday that manufacturing output dropped 0.4 percent in April from March. It was the third decline in four months and the biggest since October.

Production of autos and auto parts fell 1.3 percent in April. The decline is likely temporary because automakers are reporting stronger sales.

Overall industrial production, which also includes output at utilities and mines, dropped 0.5 percent in April. That's the biggest decline since August. Utility production plunged 3.7 percent, as power output returned to more normal levels after an unusually cold March.

Factory output, the largest component of industrial production, may be falling because businesses are concerned about the impact of across-the-board government spending cuts on economic growth.

Many companies may also be worried that their sales could slow this year because of higher Social Security taxes, which have reduced take-home pay for most Americans.

And U.S. exports to Europe are likely to stay weak now that the economy of the 17 European Union countries that use the euro has extended into its sixth quarter.

One area of strength for the economy has been auto sales. Ford, GM, Chrysler and Nissan all reported double-digit U.S. sales increases, signaling the best April for car and truck sales in six years. Car sales have risen steadily this year after reaching a five-year high in 2012.

Still, other data on U.S. manufacturing have been disappointing. The Institute for Supply Management said that its index of manufacturing activity slowed to a reading of 50.7 in April — lowest reading this year. Any reading above 50 indicates expansion.

So far, the consumer has remained resilient in the face of higher taxes.

The overall economy grew at an annual rate of 2.5 percent in the January-March quarter, buoyed by the fastest rise in consumer spending in more than two years.

And lower-priced gas helped Americans boost spending at retailers in April, from cars and clothes to electronics and appliances. That raised hopes that the April-June quarter is off to a good start.

Steady job growth and cheaper gasoline has helped offset some of the pinch from higher taxes. And a surging stock market and increases in home prices may be making consumers feel wealthier and more inclined to spend.

Most economists still expect growth to weaken slightly in the April-June quarter. But after seeing the more upbeat retail sales figures for April, some analysts raised their forecasts. Analysts at JPMorgan now predict growth will slow to a 2 percent rate, up from their previous forecast of 1.5 percent.