

U.S. Factory Activity Expands In June, Jobs Decline

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WASHINGTON (AP) — U.S. manufacturing activity grew in June behind a pickup in new orders, exports and production. Better economic growth overseas is boosting U.S. exports and could help American factories rebound in the second half of the year.

The Institute for Supply Management said Monday that its index of factory activity increased to 50.9 in June. That's up from 49 in May, which was the lowest reading in four years.

A reading above 50 suggests growth, while those below indicate contraction.

A measure of export orders jumped to 54.5 from 51. That may be a response to growth in Japan and some European countries, economists said.

Still, a measure of manufacturing employment fell in June to 48.7, its lowest level since September 2009. That suggests Friday's June employment report will show factories cut jobs for the fourth straight month.

The mostly positive manufacturing survey contributed to strong gains on Wall Street and followed a pair of upbeat reports of factory growth overseas. The Dow Jones industrial average rose 155 points in midday trading, while broader stock indexes also gained.

U.S. manufacturing had slowed this year after providing crucial support to the economy for the first three years after the recession ended in June 2009. Europe's slump has weighed heavily on U.S. exports. And businesses cut back on their investment in machinery and equipment in the first quarter.

"The ISM rebound suggested the worst may be past for the global trade slowdown that has contributed to a significant recent soft patch in U.S. manufacturing," Ted Wieseman, an economist at Morgan Stanley, said in a note to clients.

A report in Europe showed improvement in manufacturing activity in Britain, France and Italy and stabilization in Spain.

And large manufacturers in Japan reported a positive outlook for the first time in nearly two years. The quarterly "tankan" survey showed that the outlook for services firms also increased. The stronger readings indicate that businesses are pleased with Prime Minister Shinzo Abe's efforts to revive the nation's stagnant economy.

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Still, China's manufacturing sector weakened in June, according to two separate surveys. Factories there were hurt by falling orders from the U.S. and Europe and by Chinese regulators' efforts to slow lending.

Paul Dales, an economist at Capital Economics, says the growth at American factories suggests the U.S. economy is improving enough for the Federal Reserve to slow its monthly bond purchases as soon as September.

A bigger test will come Friday when the June jobs report is released, Dales added.

Chairman Ben Bernanke said on June 19 that the Fed could scale back its bond buying later this year and end it next year if the economy continued to strengthen. His comments sent stocks falling and the yield on the 10-year Treasury bond jumped. That has also pushed up mortgage rates.

But stocks have since rebounded and the yield on the 10-year note has dipped since the middle of last week. Favorable reports on the U.S. economy have helped. And several Fed members have clarified that any tapering would hinge on economic improvement, not a specific calendar date.

There have been other signs recently that U.S. manufacturers could be starting to recover.

U.S. businesses stepped up their orders for factory goods in April and May. And a category of orders that's viewed as a proxy for business investment plans — which excludes the volatile areas of transportation and defense — rose 1.1 percent in May, the third straight gain.

Consumers also spent more in May on cars and trucks, which should keep auto factories humming. Sales at auto dealers rose in May by the most in six months, according to the Commerce Department.

The U.S. economy expanded at only a 1.8 percent annual rate in the first three months of the year, the Commerce Department said this week. That was much slower than its previous estimate of a 2.4 percent rate.

The main reason for the downgrade was consumers spent less on services than initially thought. Spending on long-lasting factory goods, such as cars and appliances, was stronger.

Economists expect growth remained tepid in the April-June quarter. Most estimates range between a rate of 1.5 percent and 2 percent.

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