



September 2, 2009

Manufacturing Grows After 18 Weak Months

By [JACK HEALY](#)

After 18 months of layoffs, plant shutdowns and other declines, the country's manufacturing sector grew in August, offering another piece of evidence that the economy was pulling out of recession.

The [Institute for Supply Management's survey of factories and industry](#) had been edging higher this spring, as the blistering pace of economic declines began to level off. But last month, the group's manufacturing index turned positive, rising to 52.9, from 48.9 in July.

A reading above 50 indicates expansion and growth; a number below 50 means economic contraction.

President Obama called the numbers "a sign that we're on the path to economic recovery."

Companies that make textiles, paper products, computers and electronics, appliances and chemicals were among 11 industry groups that said their business had grown in August. They said new orders were flowing in, production was ticking up and their prices were rising. "It is a big deal," said John E. Silvia, chief economist at [Wells Fargo](#). "It does suggest that manufacturing is recovering."

Bit by bit, the picture is improving for manufacturers like Allied PhotoChemical, a company in eastern Michigan that makes environmentally attuned ink, paint and coatings. Some 40 percent of its business disappeared last year as the economy swooned, but Allied's president, Mike Kelly, said the company had gone after new customers and resisted the reflex to slash its work force.

Mr. Kelly said Allied was now running at about 65 percent capacity, compared with a low of 40 percent early this year.

"You could hear the crickets chirping," he said. "Our suppliers were calling us, giving us automatic price

reductions. They were panicking. Now they're happy. They're even beginning to have some product shortages.”

Many factories slashed their output and idled assembly lines over the last year as demand for their products dried up and the turmoil of the housing market spilled into the broader economy. But now, after cutting their inventories to the quick, some businesses are starting to rebuild their [stocks](#).

The [Ford Motor Company](#) has said that it would increase production by 10,000 vehicles to meet the higher demand generated by the government's cash-for-clunkers program.

“We're at a very early stage of the upturn, and I think it's going to gradually build steam,” said David Huether, chief economist of the [National Association of Manufacturers](#).

Still, most industries were not hiring, an indication that the labor market remained weak. The manufacturing employment index contracted again in August, although at a slower pace than in past months. Four industry groups said their payrolls were growing while nine reported decreases.

Manufacturing jobs have been devastated by the recession, with some two million positions lost since the downturn's official beginning in December 2007.

In all, economists believe the economy lost 225,000 jobs last month, and they are expecting the unemployment rate to rise to 9.5 percent when the government releases its monthly snapshot of the labor market on Friday.

While many economists expect the economy to grow during the summer quarter as businesses stir back to life, they are worried that sluggish consumer spending will weigh down the economy in the year ahead. Consumer spending fell at a rate of 1 percent in the second quarter of the year, even as tax credits from the stimulus began filtering through the economy.

“What's the sustainability going forward?” Mr. Silvia of Wells Fargo said. “So much of that depends on the consumer.”

Also on Tuesday, a report on home sales that are under contract showed that buyers were flocking back to the housing market.

The [National Association of Realtors](#) said its [index of pending home sales](#) surged on a seasonally adjusted basis to its highest levels since 2001, when the group began tracking the numbers. It was the sixth consecutive month of increases.

“The recovery is broad-based across many parts of the country. Housing affordability has been at record highs this year with the added stimulus of a first-time buyer tax credit,” Lawrence Yun, the group’s chief economist, said in a statement.

The government’s tax credit of up to \$8,000 has been helping to entice first-time homebuyers into the market, and mortgage rates are about 5.25 percent nationwide, compared with more than 6 percent last year.

Still, even if buyers are buying again, few builders are building.

In another report, the Commerce Department said that [construction spending fell](#) 0.2 percent in July from a month earlier, and was 10.5 percent lower than it had been in July 2008. Although residential construction spending edged up for the month of July, it was down nearly 27 percent from a year earlier, a sign of the problems still facing builders as they compete with floods of foreclosed homes.

Spending on office buildings, commercial projects and hotels all fell from June.

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