U.S.: Factories mired in worst slump in 28 years

By Burton Frierson
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NEW YORK (Reuters) – U.S. factory activity fell to a 28-year low in December as the deepening year-old recession hammered the manufacturing sector, producing a bleak outlook at the start of 2009.

The Institute for Supply Management said on Friday its index of national factory activity fell to 32.4 — a figure indicating contraction and the lowest reading since 1980 — from 36.2 in November. Its jobs gauge also hit the lowest level since 1982 and prices were the weakest since 1949.

The report on U.S. manufacturing echoed the dour tone set in factory surveys around the globe and indicated rough times ahead, with a gauge of new orders hitting its lowest level ever.

"Overall this is a very weak report, suggesting no sign of stabilization yet," said Ian Lyngen, interest rate strategist at RBS Greenwich Capital in Greenwich, Connecticut.

December's result represents a significant slump, since any reading below 50 in the overall ISM index indicates contraction.

Stocks briefly turned negative after the unexpectedly weak report but then resumed their New Year rally.

U.S. government bonds, generally sought after by investors during troubled economic times such as these, briefly added to gains but then fell, giving way to strength in stocks.

The dollar pared its gains versus the yen.

None of the manufacturing industries in the index reported growth and only two — leather and allied products, and petroleum and coal products — reported no change in activity compared to November.

"Manufacturing activity continued to decline at a rapid rate during the month of December," the report said. "Manufacturers are reducing inventories and shutting down capacity to offset the slower rate of activity."

Economists had expected a reading of 35.5, according to the median of their forecasts in a Reuters poll. Their 69 forecasts ranged from 32.0 to 40.0.

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Earlier, a similar report showed manufacturing activity in the euro zone sank to a record low for the survey in December, and the outlook remained grim as new orders also sank to new lows.

Factories in China and India also slashed output and jobs at a record pace in December.

Global manufacturing activity contracted for the seventh consecutive month in December to a record low, with price pressures tumbling, a survey showed on Friday.

The JP Morgan Global Manufacturing PMI, compiled with research and supply management organizations, fell to 33.2 in December, the lowest level since the survey began 11 years ago, from 36.5 in November.

There was also little sign that the United States was poised to break out of the current recession, which many economists expect to last through the first half of 2009.

A measure of future economic growth in the United States and its annualized growth rate rose in the latest week but were still near all-time lows, a sign that an end to the recession is still out of sight, a research group said on Friday.

The Economic Cycle Research Institute, a New York-based independent forecasting group, said its Weekly Leading Index rose in the week ended December 26, to 108.0 from 106.8 in the previous week, which was revised from 106.6.

The index’s annualized growth rate ticked up to negative 28.7 percent from minus 29.2 percent.

“Despite a three-week uptick, WLI growth remains close to its all-time low seen in early December, which tells us that the recession will persist for the time being,” said Lakshman Achuthan, managing director at ECRI.

(Additional Reporting by Jonathan Cable in London, Rodrigo Campos in New York; Editing by Leslie Adler)

Articles by: Burton Frierson