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## Hard-hit sectors rebound

Growth indicators in manufacturing and housing could aid other areas

Neil Irwin / Washington Post

WASHINGTON – Two sectors of the economy that have suffered the longest, deepest decline in the recession – manufacturing and housing – are now expanding, according to new data offering fresh evidence that the economy has begun to grow.

The Institute for Supply Management reported Tuesday that manufacturing expanded in August for the first time since January 2008. The institute's index of business activity rose to 52.9, from 48.9. Any number below 50 signals a contraction.

President Barack Obama cited the data as evidence that the economy is improving. "It means these companies are starting to invest more and produce more," he said Tuesday in the Rose Garden. "It is a sign that we're on the path to economic recovery."

Separate reports showed that construction spending on residential real estate rose 4.5 percent and that pending home sales increased for the sixth consecutive month, supporting other recent indications that the decline in the housing market is leveling off.

Taken together, the reports show that two of the hardest-hit sectors have, at the very least, ceased to be a drag on growth. The new indicators, in fact, suggest that manufacturing and housing could drive the incipient recovery, accounting for an unusually large share of growth and stimulating a rebound in more sluggish areas, such as consumer spending.

"The key we're looking for is consistency," said Bernard Baumohl, chief global economist at the Economic Outlook Group. "The more we see of these types of indicators all sending the same message, the more confident we are that the worst is over and the economy is on track to recover."

Stronger demand for automobiles, spurred by the federal government's cash for clunkers program, has helped fuel the expansion. Manufacturers are also revving up production to compensate for inventory levels that were allowed to dwindle in recent months, and exports of manufactured goods have risen as the global economy has stabilized. Eleven of 18 industries included in the ISM survey expanded in August.

And manufacturing conditions look set to improve further. An ISM index of new orders rose to 64.9, sending a promising signal. The institute's index of current production rose to its highest level since 2004.

“While some of the rise in today’s headline number was probably related to the auto sector, the improvement was much more broad than that,” said Michael Feroli, an economist at J.P. Morgan Chase. “Overall, today’s report was a strong signal that industrial output will contribute significantly to overall economic growth in the second half of the year.”

The Commerce Department, meanwhile, reported that construction spending was down 0.2 percent in July. While the drop largely reflected a 1.2 percent drop in commercial real estate, home construction rose after a long period of decline. Construction spending on housing rose 4.5 percent in July. If that pattern holds up, residential investment, though still at low levels by historical standards, could add to overall economic activity.

Also pointing to a continued improvement in housing in coming months was a report by the National Association of Realtors showing that pending home sales rose 3.2 percent in July. That was the sixth monthly increase and suggests that momentum in housing sales will continue.

Improvements in the housing market would have benefits that extend well beyond the sector. People buying new homes tend to also spend money on furniture and other accessories. And a more stable housing market would put a brake on the decline in home prices, in turn improving Americans’ perceptions of their own wealth and reducing the losses financial firms face from bad mortgages.