

# Housing slump hammers U.S. factories

Associated Press – December 4, 2006

NEW YORK — The housing slump took a bite out of the nation's manufacturing sector, which in November contracted for the first time in more than three years, a trade group said Friday.

Industries such as wood, paper, furniture and appliances all were flat or slipped last month, according to the Institute for Supply Management, based in Tempe, Ariz.

In a report that points to a worrisome trend for the economy and for jobs, ISM said its manufacturing index registered 49.5 in November, behind October's reading of 51.2. The last time the sector contracted was in April 2003. A reading below 50 indicates contraction.

The sector had been growing for 41 consecutive months.

November's index came in below the average analyst expectation for a reading of 52.

The index was one of two troublesome economic reports Friday. The Commerce Department said construction activity in October plummeted by the largest amount since 2001, and home building fell for the seventh month in a row.

Both reports raised concerns that the economy may be in for a hard landing. Stock prices fell in early trading Friday on Wall Street. The Dow Jones industrials fell 53.36, or 0.44 per cent, to 12,168.57, while the Nasdaq composite index dropped 23.72, nearly 1 per cent, to 2,408.05. The broader Standard & Poor's 500 index sank 7.11, or 0.51 per cent, to 1,393.52.

Bond prices rose after the two reports, pushing the yield on the 10-year Treasury note down to 4.42 per cent.

The ISM report said that employment in the manufacturing sector shrank in November, with a 49.2 reading compared with 50.8 in October.

The new orders index fell to 48.7 in November, compared with 52.1 in October. The production index also contracted, dropping to 48.5 from 51.9 last month.

The prices paid index rose to 53.5, after falling to 47 in October. The prices paid index reflects raw materials costs to manufacturers. Prices had been falling until recently, after oil prices fell about 20 per cent since the summer but have rebounded in the past few weeks.

Pressure from raw materials prices is nothing new, said Mary Brebard, vice president of investor relations at auto parts supplier BorgWarner Inc.

BorgWarner's operations are protected to some extent from the downturn in the U.S. by significant overseas operations, but in September the company still lowered its outlook and said it would lay off 850 workers due to cuts in North American auto production.

The ISM and construction spending reports could be more pieces of the economic puzzle that would guide the Federal Reserve to either keep interest rates level, or perhaps cut short-term interest rates sooner than analysts were expecting. The Fed raised rates for the 17th consecutive time in June, but have held them at 5.25 per cent since then.

While the overall manufacturing sector contracted, eight industries reported growth in November. They included apparel and leather; plastics and rubber; primary metals; food, beverage and tobacco; computer and electronic products; printing; chemical products and the miscellaneous category.