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Manufacturing Data Helps Invigorate

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On the first day of trading for the year, new reports showed that manufacturing gained steam in China and Europe, and a closely watched index of the manufacturing sector in the United States hit its highest levels since April 2006. Businesses reported that production was growing as new orders streamed in, and said they were hiring more people to meet rising demand.

For investors, that spelled a rosy start to the year — and one that stoked hopes of more market gains in the months ahead. Despite lingering jitters about the housing sector, the broad stock market rose more than 1.5 percent, to its highest level since the nation's financial system nearly collapsed in the autumn of 2008.

The technology-heavy Nasdaq composite index, which paced the market's strong rally in 2009, led the way once again, jumping 39.27 points, or 1.73 percent, to 2,308.42.

The Dow Jones industrial average rose 155.91 points or 1.5 percent, to 10,583.96, and the broader Standard & Poor's 500-stock index was up 1.6 percent, or 17.89 points, to 1,132.99.

An increase in commodity prices lifted shares of oil and gas producers and companies that make industrial materials like plastic and chemicals. Oil futures climbed $2.15 to settle at $81.51 a barrel in New York trading on concerns about an energy dispute between Russia and its neighbor Belarus.

"Our forecast has the private economy gaining enough momentum during the year to finally stand on its own by year end," **Bernard Baumohl**, chief global economist for the Economic Outlook Group in Princeton, N.J., wrote in a report released Monday. "The combination of greater consumer and business spending, along with rising exports, should keep growth firmly in positive territory throughout this year and next."

Many market watchers view January as a bellwether for the year, but the so-called January effect does not always hold up. January 2009 began with a stomach-churning 6 percent drop on the S.& P. 500, dashing many investors' hopes, until a blistering rally began on Wall Street and propelled the Dow some 20 percent higher for the year.

“A lot of investors are thinking maybe our economic recovery will end up being stronger than anticipated,” said Sam Stovall, chief investment strategist at Standard & Poor’s. “Investors are like dieters, and they look to January as a new beginning.”

The Nasdaq got a lift from an analyst’s report that upgraded shares of Intel, which ended the day up 2.4 percent. The Nasdaq soared 44 percent last year.

Yet it was the manufacturing data that pushed the broader market higher. Investors embraced a report from the Institute for Supply Management showing that manufacturing activity rose in December, bolstered by increases in new orders, inventories and employment.

The group’s manufacturing index rose to 55.9 from 53.6 in November, the highest reading since April 2006.

“This was a complete package of good news,” said Marc Pado, a market analyst at Cantor Fitzgerald. “They’re going to have to increase production more. They will need to hire people in order to meet that production. Demand is growing, not contracting.”

Some economists warned, however, that the recovery in manufacturing could wane as businesses finish restocking their depleted inventories.

Yet companies that have slashed their inventories and pared their payrolls are seeing new orders, a sign that activity is perking up even as offices and factories operate at reduced levels. After so many months of contraction and stagnation, some businesses will soon feel pressure to expand, analysts said.

And that is likely to presage more growth in the first quarter, and an eventual end to some two years of job losses.

“Much will depend on the consumer,” Joshua Shapiro, chief United States economist at MFR, wrote in a research note, “and we feel that the headwinds for consumer spending (the foremost of which are ravaged balance sheets and lingering labor market weakness) remain too brisk to expect much help on this front.”

Another report on Monday somewhat offset the upbeat manufacturing data and offered a reminder of the weakness in the housing market. A Commerce Department report showed a slump in construction spending, which fell a seasonally adjusted 0.6 percent in November to its lowest levels in six years. The agency said that construction spending in November was 13.2 percent lower than November 2008.

Spending on home building fell 1.6 percent, accounting for much of the weakness.

The numbers could foreshadow more trouble for construction companies, which are struggling with tight credit and a drought of business, as interest rates begin to tick back up.

But even before the opening bell, Monday looked to be a good day for Wall Street. European shares were buoyed by a report showing that manufacturing output in the euro zone rose in December at the fastest pace since September 2007.

And in China, the latest survey showed that manufacturing activity expanded at the fastest rate on record in December. The dollar was mixed against other currencies. The euro rose to $1.4412 from its previous close of $1.4326, while the British pound fell to $1.6094 from $1.6149. The yen rose to 92.60 yen from 92.34.

The Treasury's 10-year note rose 6/32, to 96 13/32. The yield fell to 3.82 percent, from 3.83 percent on Thursday.