

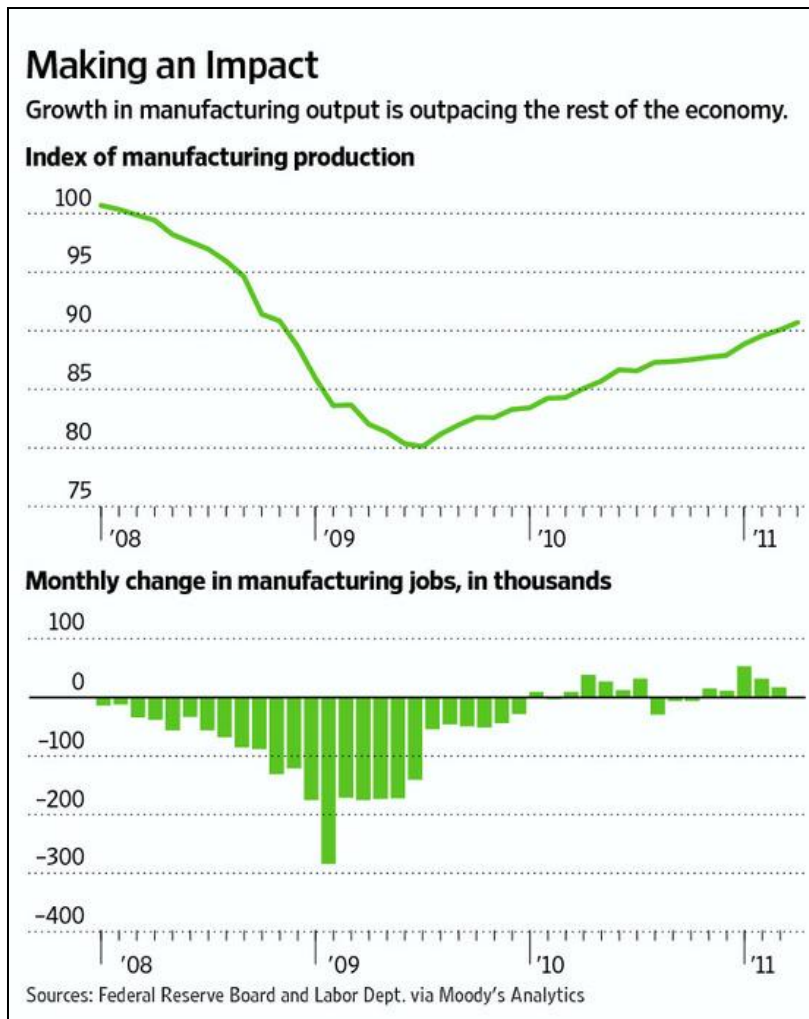
Wall Street Journal (April 21, 2011)

## **World Revs up U.S. Profits --Manufacturers Boom on Global Demand**

By JAMES R. HAGERTY and BOB TITA

**Global demand is revving up profits at big U.S. manufacturers**, and investors are jumping on for the ride, shrugging off high oil prices and concerns about Japan.

Manufacturing output, which has bounced back much faster than consumer demand over the past year, grew more than four times as fast in the first quarter as the estimated rate for the overall U.S. economy. A series of surprisingly strong earnings reports this week have underscored that momentum.



**"The economy would be limping along, at best, without the strong manufacturing sector,"** said Robert A. Dye, a senior economist at PNC Financial Services Group Inc. in Pittsburgh, who thinks the broader economy grew at only about a 2% pace in the first quarter.

The stock market has taken notice. On Wednesday, the Dow Jones Industrial Average rose 186.79 points, or 1.5%, to 12453.54, its highest close since June 2008. Manufacturing stocks were among the day's biggest gainers, with **United Technologies Corp.** rising 4.3%, **Caterpillar Inc.** up 2.5% and **Boeing Co.** adding 2.6%.

The Nasdaq Composite enjoyed its biggest one-day point gain since September, rising 57.54 points, or 2.1%, to 2802.51. **Apple Inc.** shares jumped 2.7% in after-hours trading, adding to their 1.4% advance in 4 p.m. trading, and **Intel Corp.**'s shares surged 7.8%.

"Manufacturing has been growing gangbusters," said Joseph LaVorgna, chief U.S. economist at Deutsche Bank in New York. He said the sector's first-quarter growth rate, the strongest since 1997, suggests improvement is likely this year for the rest of the

economy, including the housing market. "When the manufacturing sector does well, the rest of the economy generally follows," he said.

The sector's growth is being fueled in part by spending on **computers, machinery and other equipment** by companies flush with cash. Robust sales of chips used in server systems and other hardware for computer data centers have helped to buoy Intel, which Tuesday reported a 34% jump in quarterly profit.

Other forces driving manufacturing are stronger sales of cars and heavy-duty trucks, as well as **exports of goods like building, farming and mining equipment to fast-growing markets in China, India and Latin America. A weaker dollar is helping to propel U.S. exports by making American products cheaper abroad.** ....

**Infrastructure projects in China, Latin America, India and Africa are ratcheting up demand for construction equipment.** Partly as a result, sales to emerging markets accounted for 26% of Eaton's total in the latest quarter.

Globally, rising metal and oil prices have encouraged spending on mines and oil and minerals exploration, requiring more equipment.

In the U.S., demand for heavy-duty trucks has begun bouncing back rapidly as freight traffic grows and owners of trucking fleets invest in vehicles with better fuel efficiency. Similarly, owners of computer data centers, used for storing financial information, online videos and other data files, are buying new equipment to reduce their electricity costs.

All this activity has provided a *small boost* to the U.S. job market. After shrinking by six million jobs, or about a third of its total, between 1997 and 2009, manufacturing employment in the U.S. edged up 1% last year to about 11.6 million and has continued to rise gradually this year. In March, it stood at 11.7 million, or about 9% of total American employment excluding farm jobs.

Manufacturing output has been rebounding since mid-2009 from a deep slump. During the first quarter it increased at an annual rate of 9.1%, according to data released Friday by the Federal Reserve. That compares with an estimated first-quarter growth rate of around 2% for the U.S. economy.....

United Technologies said its first-quarter profit climbed 17% to \$1.01 billion, or \$1.11 per share, from \$866 million, or 93 cents per share, a year earlier. Revenue was up 11% at \$13.34 billion. The company raised its earnings forecast for the year to between \$5.25 and \$5.40 a share from between \$5.20 and \$5.35 a share.

Textron Inc., a maker of aircraft, golf carts and tools used for installing cables, reported net income of \$29 million for the first quarter, compared with a year-earlier loss of \$8 million. Sales rose 12% to \$2.48 billion. Textron said it expects a "slight increase" in deliveries of its Bell helicopters and Cessna jets this year, but left its overall forecast for the year unchanged.