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Business Index in U.S. Increases to Two-Decade High (Update2) 2010-12-30 15:21:39.108 GMT

(Updates with economist comment in fourth paragraph and pending home sales in seventh.)

By Bob Willis

Dec. 30 (Bloomberg) -- Businesses in the U.S. expanded in December at the fastest pace in two decades, adding to evidence the world's largest economy is accelerating heading into 2011.

The Institute for Supply Management-Chicago Inc. said today its business barometer rose to 68.6 this month, exceeded the most optimistic forecast of economists surveyed by Bloomberg News and the highest level since July 1988. Figures greater than 50 signal expansion.

Gains in business investment on new equipment and growing exports to emerging economies will keep factories churning out goods in the coming year, contributing to the recovery. Reports showing consumer spending is also picking up mean retailers will need to restock shelves, giving manufacturing a further lift.

"The economy is gathering momentum," John Silvia, chief economist at Wells Fargo Securities Inc. in Charlotte, North Carolina, said in an interview on Bloomberg Television. "New orders will follow the better business confidence that is showing up. Once the American consumer starts kicking in, we will see stronger orders data."

The median forecast of 49 economists surveyed by Bloomberg News projected the gauge would fall to 61. Estimates ranged from 59 to 63.7.

Fewer Firings

A report today from the Labor Department showed claims for jobless benefits fell last week to the lowest level since July 2008, showing the labor market is improving heading into 2011.

Filings decreased by 34,000 to 388,000 in the week ended Dec. 25, fewer than the lowest estimate of economists surveyed.

The number of contracts to buy previously owned homes rose more than forecast in November, a sign sales are recovering following a post-tax credit plunge, figures from the National Association of Realtors also showed today. The index of pending resales increased 3.5 percent after jumping a record 10 percent in October.

Stocks fluctuated between gains and losses after the reports as optimism over the economy offset concern share valuations were too high. The Standard & Poor's 500 Index fell 0.2 percent to 1,257.36 at 10:18 a.m. in New York. The benchmark 10-year Treasury note declined, pushing the yield up to 3.38 percent from 3.35 percent late yesterday.

The world's largest economy expanded at a 2.6 percent annual pace from July through September, almost a percentage point more than in the prior quarter, Commerce Department said last week. Gains in consumer

spending, investments in equipment and software and inventories helped offset a growing trade gap spearheaded the pickup.

Broad-Based Gains

The Chicago group's production gauge rose to 74, the highest level since October 2004, from 71.3 in November. The gauge of new orders climbed to 73.6 from 67.2. The employment measure increased to 60.2, last exceeded in April 2005, from 56.3 the prior month.

Retailers' 2010 holiday sales jumped 5.5 percent for the best performance since 2005, MasterCard Advisors' SpendingPulse, which measures retail sales by all payment forms, said this week. That compared with a 4.1 percent gain a year earlier. The numbers include Internet sales and exclude automobile purchases.

Automakers are also seeing sales increase. Vehicles sold at an annualized 12.3 million rate in November for a second month, the fastest pace since the U.S. government's "cash for clunkers" program in 2009, said Autodata Corp.

National Manufacturing

Economists watch the Chicago index and other regional manufacturing reports for an early reading on the outlook nationally. The Chicago group says its membership includes both manufacturers and service providers, making the gauge of measure of overall growth. Its members have operations across the U.S. and abroad.

Other measures of manufacturing so far showed strength this month. One regional survey showed New York-region factories rebounded more than forecast in December while another Fed survey showed those in the Philadelphia area expanded at the fastest pace since April 2005.

The ISM's monthly national factory index, due Jan. 3, may rise to 56.9 in December from 56.6 in November, according to economists surveyed.

Foreign sales are a bright spot for factories as exports in October rose to the highest level in more than two years, according to Commerce Department data released Dec. 10. Some businesses are responding to greater demand from the U.S. and abroad by replacing aging equipment with more innovative, fuel-efficient machinery.

Reaching Target

DuPont Co., the third-biggest U.S. chemical maker, this month said earnings will rise to its 2012 target a year earlier than it forecast in 2009, led by sales to farmers and electronics makers.

"We have attractive growth opportunities supported by market-driven innovation," Chief Executive Officer Ellen Kullman told a Dec. 9 teleconference. "Those opportunities are fueled by the megatrends of agricultural productivity, of reducing our dependence of fossil fuels and upon protecting people and the environment."

Economists this month have boosted projections for fourth-quarter growth, reflecting a pickup in consumer spending and passage of an \$858 billion bill extending all Bush-era tax cuts for two years. The legislation also continues expanded unemployment insurance benefits through 2011, cuts payroll taxes by 2 percentage points next year and includes accelerated tax depreciation for purchases of equipment.

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