Manufacturing unexpectedly accelerated in November at the fastest pace in more than two years, pointing to a pickup in business spending that will help propel the U.S. economy in early 2014.

The Institute for Supply Management’s index increased to 57.3, the highest since April 2011, from 56.4 a month earlier, the Tempe, Arizona-based group’s report showed today. Readings above 50 indicate growth. The median forecast in a Bloomberg survey of economists was 55.1. Orders, production and employment strengthened.

Gains in home sales this year have led to more orders for home-related merchandise and construction equipment, benefiting companies such as Deere & Co. (DE) Further improvement in consumer demand and a rebound in business investment would provide an even bigger push for manufacturers, which are contending with government spending cutbacks and limited progress in the global economy.

“Things are becoming a little more constructive,” Millan Mulraine, director of U.S. rates research at TD Securities USA LLC in New York, said before the report. “If I’m a business, and I see consumer spending climbing even in the face of all these headwinds, then when the economy turns around, which we’ll probably see as we move into next year, then I’m going to pick up capital spending.”

Six Straight

The ISM measure has increased six straight months, the longest such stretch since the first 10 months of 2009, when the economy was emerging from recession.

Stocks were little changed as investors assessed reports on holiday sales and the manufacturing data. The Standard & Poor’s 500 Index climbed less than 0.1 percent to 1,806.24 at 10:24 a.m. in New York.

Estimates for the factory index from 77 economists in the Bloomberg survey ranged from 53.5 to 57.5. Manufacturing accounts for about 12 percent of the economy. Of the 18 industries covered, 15 reported expansion in November, led by plastics, textiles and furniture, the ISM said.

The ISM’s gauge of U.S. new orders rose to 63.6 last month, the highest since April 2011, from 60.6 in October. The measure has exceeded 60 for four straight months.

An index of production climbed to 62.8 from 60.8. The group’s factory employment measure
increased in November to 56.5, the highest since April 2012, from 53.2, while the index of orders waiting to be filled rose to 54 from 51.5.

The report also showed gauges of factory inventories and customer stockpiles slowed in November from the prior month.

**Global Rebound**

Manufacturing across the globe is showing signs of picking up. In China, factory growth was stronger than projected. The Purchasing Managers Index held at 51.4 in November, the highest since April 2012, the National Bureau of Statistics and China Federation of Logistics and Purchasing said yesterday.

Euro-area manufacturing output expanded more than initially estimated last month, led by Germany. Markit said today its index rose to a more than two-year high of 51.6 from 51.3 in October. That compares with an initial estimate of 51.5 for November. In the U.K., the expansion at factories was the strongest since February 2011, according to Markit.

American manufacturers have been benefiting from the housing recovery, which has boosted demand for everything from heavy equipment to appliances.

Moline, Illinois-based Deere, the second-largest maker of construction equipment in the U.S. behind Caterpillar Inc., forecast better-than-expected earnings for its 2014 fiscal year as a stronger residential real-estate market spurs demand for its loaders and excavators.

‘Moving Forward’

“The economy continues slowly moving forward,” Susan Karlix, manager of investor relations, said on a Nov. 20 call with analysts and investors. “Although government construction continues to fall and the situation in Washington remains uncertain, we are beginning to see some positive indicators. Home sales and prices are improving and residential construction is growing.”

The housing recovery has also generated more demand for big-ticket goods such as furniture and appliances. New-home purchases averaged about 436,000 at an annual rate in the first eight months of this year, up from 368,000 for all of 2012, according to Commerce Department data.

“Every new home equates to about four new appliances and every existing-home sale equates to about two new appliances,” Larry Venturelli, chief financial officer at Benton Harbor, Michigan-based Whirlpool Corp. (WHR), said at a conference in New York on Nov. 20. “We are really in the third inning of growth within housing and this is a big demand driver for us going forward.”

At the same time, the pace of progress in the auto industry has shown signs of cooling since the summer. Motor vehicle makers cut back production in October for the first time in three months, Federal Reserve figures showed on Nov. 15.
Cars and light trucks sold at a 15.2 million annualized pace in both October and September, according to Ward's Automotive Group. In August, purchases were running at a 16 million rate, the strongest since November 2007.

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