

# TIME

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## U.S. Economy Ends 2011 on Upswing

By PAUL WISEMAN

The economy is ending 2011 on a roll.

The job market is healthier. Americans are spending lustily on holiday gifts. A long-awaited turnaround for the depressed housing industry may be under way. Gas is cheaper. Factories are busier. Stocks are higher.

Not bad for an economy faced with a debt crisis in Europe and, as recently as last summer, scattered predictions of a second recession at home. Instead, the economy has grown faster each quarter this year, and the last three months should be the best.

"Things are looking up," says Chris Rupkey, chief financial economist at the Bank of Tokyo-Mitsubishi UFJ.

When The Associated Press surveyed 43 economists in August, they pegged the likelihood of another recession at roughly one in four. The Dow Jones industrial average was lurching up or down by 400 points or more some days.

There was plenty of reason for gloom. A political standoff over the federal borrowing limit brought the United States to the brink of default and cost the nation its top-drawer credit rating.

Most analysts now rule out another recession. They think the economy will grow at an annual rate of more than 3 percent from October through December, the fastest pace since a 3.8 percent performance in the spring of last year.

Many economists still worry that the year-end surge isn't sustainable, in part because the average worker's pay is barely rising. And Europe may already be sliding into a recession that will infect the United States.

The outlook could darken further if Congress can't break the impasse blocking an extension of a Social Security tax cut for 160 million Americans and emergency unemployment benefits.

Yet for now, the economy is on an upswing that few had predicted:

— **JOB**S: The number of people applying for unemployment benefits came in at 366,000 last week, down from a peak of 659,000 in March 2009. Even in good economic times, the figure would be between 280,000 and 350,000.

Employers have added at least 100,000 jobs five months in a row, the longest streak since 2006. And the unemployment rate fell from 9 percent in October to 8.6 percent last month, the lowest since March 2009.

Small businesses are hiring again, too, according to the National Federation of Independent Business.

Business is up at AG Salesworks in Norwood, Mass., which helps technology companies like Motorola find new customers. The firm has hired 26 workers to restore its staff to 56, erasing the job cuts from the recession. CEO Paul Alves plans to add an employee or two a month as long as growth continues.

"I do see more confidence than I saw 12 months ago," Alves says. "But it's good, not great. Robust isn't the word I'd use."

— **SPENDING**: The holiday shopping season has turned out better than anyone expected. Sales from November through Saturday were up 2.5 percent from last year. Americans have spent \$32 billion online, 15 percent more than a year ago. Retail sales were up in November for the sixth month in a row. People are spending, in particular, on clothes, cars, electronics and furniture.

— **CONSUMER CONFIDENCE**: Americans felt better about the economy in November than they had since July, according to the Conference Board, a business group that tracks the mood of consumers.

The board's consumer confidence index climbed 15 points to 56 in November, the biggest one-month jump since April 2003. During the Great Recession, the index fell as low as 25.

"It seems like the confidence of the traditional American consumer is higher right now," says Jim Newman, executive vice president of operations at the digital marketing company Acquity Group, which has added 100 jobs since summer.

— **GAS**: Falling prices at the pump have freed more money for consumers to spend on appliances, furniture, vacations and other things that help drive the economy. The national average for regular unleaded has sunk to \$3.21 a gallon since peaking at \$3.98 in May, according to the AAA Daily Fuel Gauge.

— **INVENTORIES**: Businesses are restocking shelves and warehouses, more confident that customers will buy their products. In October, their inventories were up 8.7 percent from a year earlier. An increase in inventories is expected to account for perhaps a third of growth this quarter.

The battered housing market might be showing signs of recovery. Home construction rose more than 9 percent in November from October, driven by apartment building. And the National Association of Realtors said Wednesday that sales of previously occupied homes rose 4 percent in November.

But housing is climbing out of a deep hole: The existing homes sold at an annual rate of 4.4 million — well below the 6 million that would signal a healthy housing market. And the real-estate agents' trade group revealed Wednesday that it overstated sales by 3.5 million during and after the Great Recession.

Once they peer into 2012, economists turn cautious. **Bernard Baumohl, chief economist with the Economic Outlook Group**, says that stronger consumer spending "is absolutely unsustainable. .... Wages have not kept pace with inflation all year."

The government says that once you adjust for inflation, weekly earnings dropped 1.8 percent from November 2010 to last month. Consumers have used savings or credit cards to finance their purchases. Once bills come due in early 2012, **Baumohl** foresees a cutback in spending.

**Baumohl** is so pessimistic that he expects the economy to shrink at a 0.2 percent annual rate in the first three months of 2012 and to end the year with no more than 1.8 percent growth.

Europe is almost sure to slide into recession, even if its policymakers find a solution to the continent's debt crisis. In the worst case, a chaotic breakup of the euro currency could ignite a worldwide financial panic.

Joe Echevarria, CEO of the accounting and consulting firm Deloitte LLP, says his company's clients are delaying hiring or expansion decisions to see if Europe's crisis will be resolved.

Another worry — again — is Washington. President Barack Obama and Republicans in Congress still had not broken their impasse Wednesday on how to extend a Social Security tax cut. Without an extension, taxes will go up \$1,000 in 2012 for someone making \$50,000. A couple making \$100,000 each would pay \$4,000 more.

Failing to extend the tax cut, combined with the end of long-term unemployment benefits and other federal budget cuts, could shave 1.7 percentage points from growth in 2012, warns Mark Zandi, chief economist at Moody's Analytics.

Forecasters are also chastened by the past two years. Since the Great Recession officially ended in June 2009, the economy has stalled twice just when it appeared to be gaining momentum.

In mid-2010, businesses slowed spending sharply. This year, the damage came from protests in the Middle East that drove oil prices higher at the start of the year, the earthquake in Japan in March, budget cuts by state and local governments and the stalemate in Washington.

But Joel Naroff of Naroff Economic Advisors says he thinks the fears about next year are overblown and the economy will grow 3 percent in 2012. Next year will be all about jobs. If job growth keeps accelerating, the economy is much more likely to meet Naroff's predictions than the pessimists'.

In addition, Naroff says, that's because consumers and businesses have grown more confident. If Europe averts disaster — a crackup of the eurozone — and endures only a mild recession, as Naroff expects, the impact on the United States will be minimal, he says.

"If you stopped the average person on the street and asked, 'Are you slowing your spending because of what's happening in Europe?' they'd ask, 'What planet are you from?'"

(AP)