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Stocks surge with positive jobs outlook, despite oil spike

Economy gets 'momentum'

By Patrice Hill

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Signs of a strengthening job market sent Wall Street stocks soaring Thursday, inspiring hopes that the U.S. economy will see robust growth this year despite surging oil prices.

The number of Americans filing first-time claims for unemployment benefits fell to the lowest level in nearly three years, the Labor Department reported, while other reports showed healthy employment and sales gains in the nation's predominant services and retail sectors.

The news prompted analysts to raise their predictions for the number of jobs created in February to as high as 240,000 in a report expected Friday. That was a rare enough pleasant surprise to erase anxiety on Wall Street about oil prices surging above $100 a barrel — at least temporarily.

The Dow Jones industrial average jumped 191 points, or 1.6 percent, to land at 12,258 in its biggest one-day gain since Dec. 1. The Standard & Poor's 500 index rose 1.7 percent to 1,331.

"The economy does seem to have plenty of momentum, a good sign for its ability to withstand the recent oil price hikes," said Nigel Gault, an analyst at IHS Global Insight.

The leading econometric firm raised its forecast for February job gains to 240,000 — partly reflecting a bounce back after severe weather depressed job growth in January.

Mr. Gault pointed to a string of promising news on jobs, including growth in manufacturing and services jobs reported by the Institute for Supply Management, and a sharp drop in jobless claims to 368,000 last week — the lowest level since May 2008.

"Employment conditions are in a strong uptrend," said David Malpass, president of Encima Global, noting that jobless claims last month "pushed convincingly below 400,000 a week," broaching a critical threshold signaling an expanding job market.

So far, the Labor Department's monthly employment report has failed to show robust job growth, so economists could not be sure what Friday's report would reveal. But Mr.

Malpass said that the monthly report in the past has been slow to pick up turning points in the economy, so it may yet again prove disappointing.

One sure sign that the job market has roared back to life, he said, is withholding taxes were up 7.5 percent year over year from December to February. Rising tax receipts are considered one of the best signs that growth has returned to the economy.

Growth in the current quarter likely is broaching 4 percent, Mr. Malpass said, adding that he is skeptical that rising oil prices will be able to derail the strong momentum seen in the U.S. as well as in emerging market economies.

"Despite the spike in oil prices, the severe turmoil in North Africa and Europes debt crisis, we expect global recovery trends to broaden in 2011," he said.

Mr. Malpass added that "ultra-loose" fiscal and monetary policies in the U.S. are contributing to the strong momentum, although in time those are also likely to spark a rise in inflation.

While optimism prevailed Thursday, economists are quick to point out that much depends on what happens to oil prices, which topped $100 this week after an emerging civil war in Libya cut off oil production there.

Many analysts say oil could soar to $120 — or even $200 or higher depending on what happens in the world's most important oil-producing region spanning from North Africa to the Middle East. Prices that high could impede or snuff out growth.

The stock market lost nearly 5 percent in recent weeks as the unrest unfolded, but it saw a pause from the turmoil on Thursday. A 50-cent drop in premium crude prices to $101.84 in New York trading was spawned by hopes of a peace settlement between the government and rebels in Libya.

But analysts say the unrest is far from over and market concerns are likely to crop up again.

"What has been unleashed in these oil-rich regions is without historical precedent," and poses big uncertainties for the economy, said **Bernard Baumohl,** chief economist at the Economic Outlook Group.

"Of particular concern are the protests beginning to brew in Saudi Arabia, Kuwait and the United Arab Emirates — nations that essentially possess all of the worlds excess capacity" for oil production, he said.

"The unrest foaming in these countries is getting louder and more organized. Protesters are demanding reforms of governments that have a traditional phobia for change. Yet all sides are digging in. It is the ultimate nightmare scenario for oil-consuming nations," he said.

The development "heightens risks to the U.S. recovery," he said. While high oil prices are unlikely to push the U.S. economy back into recession, he said, they likely will slow growth to about 2.5 percent — a level too low to spur job growth.

As a result, unemployment could rise back toward 10 percent from its current level of 9 percent, he said.

Peter Morici, a business professor at the University of Maryland, also advised against unbridled optimism.

"The recent spike in gasoline prices, caused by rebellions in Libya, Egypt and elsewhere, is siphoning off consumer dollars and dampening business interest in adding employees," he said.

Moreover, a depressed housing market and layoffs at all levels of government also promise to keep a lid on job gains.

"Prior to the turmoil in the Middle East, economists were forecasting 3.5 percent growth for 2011, but the surge in oil prices will likely shave half a point — perhaps more — from this less-than-rosy outlook," he said.