



U.S. economy is sluggish, but recession worries are fading

By Paul Davidson, USA TODAY

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Economists have significantly raised their estimates of third-quarter economic growth ahead of the government's official report Thursday, easing near-term fears of another recession.

A consensus of economists surveyed by Bloomberg News estimates the economy grew at a still-modest 2.5% annual pace last quarter, up from their 1.8% projection less than two weeks ago. The brighter picture follows better-than-expected data on retail sales, manufacturing, jobs and business investment.

"We should take some comfort that the economy isn't hurtling into recession," says Capital Economics' Paul Ashworth. Ashworth estimates third-quarter growth was 3.2%.

That's not robust, but it beats the anemic expansion of less than 1% the first half of 2011. Amid last summer's debt battle in Congress, the downgrade of the U.S. credit rating and financial turmoil in Europe, many analysts thought the U.S. was on the verge of another downturn.

Since Oct. 3, 10-year Treasury yields have risen nearly half a percentage point, indicating growth prospects are prompting a shift of money to higher-risk assets, says market strategist Anthony Valeri of LPL Financial.

Many experts say the third-quarter upturn was due to temporary factors,

particularly the end of supply disruptions after the Japanese earthquake, and the decline in oil prices. The Commerce Department said last week that retail sales jumped 1.1% in September, partly because of a 3.6% rise in auto sales as Japanese bottlenecks eased.

Meanwhile, manufacturing grew at a 4.3% annualized rate in the third quarter. And business investment in equipment and software has rebounded. Both measures were buoyed by the unclogging of Japanese supply channels and lower oil prices.

Many economists say growth will slow to a sluggish 2% rate over the next year. Unemployment, at 9.1%, is high and consumer confidence is shaken. Yet a recession appears less likely. New jobless claims have been falling since summer. "You would be seeing claims shooting up" if a downturn were imminent, says chief economist James O'Sullivan of MF Global.

Some say growth could beat estimates. Excluding autos, retail sales rose 0.6% last month. Consumer stock prices, often a leading job indicator, are at a record premium relative to stocks overall, says economist James Paulsen of Wells Capital Management.

But Bernard Baumohl of the **Economic Outlook Group** notes consumers have been borrowing more and saving less to finance their increased spending - which he says can't continue.