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Global stock markets get a double boost

European leaders reach a debt relief deal while a new report shows the U.S. economy growing.

By Tom Petruno and Jim Puzzanghera
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By early September some economists warned that the U.S. probably was skirting dangerously close to recession.

But the talk of double-dip recession proved overwrought. Buoyed by continued consumer spending and by strong business investment in equipment and software, the economy grew at a 2.5% real annualized pace in the three months ended Sept. 30, up from 1.3% in the second quarter, the government reported Thursday.

The new data from the Commerce Department showed slow but steady improvement in the economy throughout this year.

"This should almost eliminate people's concerns about a double-dip recession," said Gregory Hess, an economist and dean of the faculty at Claremont McKenna College. "It's going to be slow growth, which means that we're still susceptible to economic shocks, but with building momentum we should be gaining speed."

Consumer spending, particularly on automobiles, helped boost growth. Personal consumption increased at an annual rate of 2.4% in the third quarter, compared with an increase of just 0.7% in the second quarter.

Also, the third quarter benefited in part from revived manufacturing that had been crimped by bottlenecks related to Japan's earthquake and tsunami in March.

Many analysts worry that growth will fall off in the last three months of the year.

With income growth weak, the jobless rate at 9.1% and the housing market still severely depressed, "consumers face too many head winds at this point to keep up this type of spending. It's unsustainable," said **Bernard Baumohl, chief economist at the Economic Outlook Group** in Princeton, N.J.

A key measure of U.S. consumer confidence plunged this month to its lowest level since March 2009, the depths of the last recession. That has economists nervous about holiday spending.

Meanwhile, the nation's credit rating could be at risk of another downgrade if the so-called super committee of congressional negotiators fails to identify $1.5 trillion in future budget deficit cuts by Nov. 23.

The global economy faces its own head winds: Europe may already be in recession, and it now faces more austerity as strapped governments further trim spending. And China, a huge engine of global growth, is continuing to tighten credit to slow its economy as it fights rising inflation.

Growth for the U.S. in the near term may depend in part on whether stock markets continue to recover, experts said.

Rebounding share prices could give a psychological lift to businesses and to high-income earners, keeping them spending, said Gary Schlossberg, senior economist at Wells Capital Management in San Francisco.

But the market's resurgence also could encourage selling by individual investors who are tired of being whipsawed by extreme volatility. In August and September, investors pulled a net $41 billion from U.S. stock mutual funds, industry data show.

After diving 16% from July 21 to Oct. 3, the Dow index has rocketed 14.6% since. The Dow is on track to post its biggest one-month gain since January 1987.

Broader market indexes have suffered even wilder swings. The Russell 2,000 index of small-company stocks has rebounded a stunning 25.6% since Oct. 3.

"Unfortunately, too many investors were scared out of this market and missed the move up," said Jeffrey Yale Rubin, director of research at market data firm Birinyi Associates in Westport, Conn.

Regulators have left markets at the mercy of short-term, computer-driven trading, Rubin said, echoing a common complaint.

"They don't understand how that plays on the psychology of the individual investor," he said. "People think, 'This is just gambling.'"