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Economy looks muddled, but outlook still positive

Paul Davidson

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Despite a surprising stumble for the U.S. economy at the end of last year, economists agree steady job growth and an improving housing market will drive the recovery forward this year.

While federal stimulus pulled the economy through the recession, a healthier private sector is carrying the load now — offsetting the drag from reduced federal spending.

A plunge in defense spending helped shrink the economy last quarter by a 0.1% annual rate — the first contraction in more than three years, the government reported Wednesday.

Many economists shrugged off the news. They say the causes of the reversal are temporary.

"It would be a mistake to view this drop in GDP … as a possible harbinger of recession," Nigel Gault, chief U.S. economist of IHS Global Insight, said in a research note.

"The economy is still growing slowly," says Mark Zandi, chief economist of Moody's Analytics.

Zandi and Gault forecast modest economic growth of about 2% this year, roughly the same as last year, and average monthly job gains of 150,000 to 170,000.

The economy has proved surprisingly resilient despite the so-called fiscal cliff of tax increases and spending cuts that Congress partly averted on Jan. 1. Consumer spending and business investment rose solidly last quarter.

Amid such headwinds to growth, the Federal Reserve agreed Wednesday to continue buying $85 billion a month in government bonds to hold down long-term interest rates and spark growth until the job market improves "substantially."

At the same time, a confluence of positive factors is setting the stage for stronger private-sector gains. Among them:

• Rising home sales and building are expected to contribute significantly to economic growth for the first time in several years. Rising home values are making consumers feel wealthier. Rebuilding after Superstorm Sandy will also boost growth.

• Jobs are growing. Payroll processor ADP says private-sector gains totaled a better-than-expected 192,000 in January.

• Disposable personal income, adjusted for inflation, rose at a 6.8% annual rate last quarter, a four-year high. Meanwhile, the share of income that Americans are using to pay off debt fell to a 29-year low of 10.6%.

• The European financial crisis is easing and growth in China is picking up, helping U.S. exports.

Bernard Baumohl, chief global economist of The Economic Outlook Group, thinks a robust private sector will more than make up for them. That, he says, will yield 3.1% economic growth — best since 2005 — and monthly job additions of 224,000.

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