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Economists looking past GDP's 1.7% gain

Economists expect the second-quarter GDP report Wednesday to show weak growth, but many forecast improvement by year's end.

By **Tim Mullaney**

The first estimate of second-quarter economic growth proved to be better than expected, coming in at 1.7% Wednesday. But economists say things should improve as the year goes on.

The economy probably grew at an annual pace of 1.4%, according to a survey of 42 economists by USA TODAY.

The culprits are led by lower government spending in the wake of federal budget cuts that kicked in March 1, with some effect from the January increase in payroll taxes. But the stronger outlook for the second half of the year is still intact, they say.

"There's going to be some hyperventilation when the second-quarter numbers come out," said **Bernard Baumohl, chief global economist at the Economic Outlook Group** in Princeton, N.J. "It's hopefully not going to mislead people into thinking the economy is on the verge of another recession. The economic fundamentals of the U.S. are better than they've been in more than half a decade."

The economy will grow faster in the second half of the year, the survey says. And most economists think the growth will be faster in the fourth quarter than in the third, rising to an annual rate of 2.6% by the end of 2013 and accelerating past 3% by mid-2014.

"We always expected a weak second quarter because of the sequestration, and the lagged effect of the tax increase," Moody's Analytics economist Ryan Sweet said. "But conditions are in place for a stronger second half."

Some of those include:

- **Better-than-expected corporate profits.** Through July 29, companies in the Standard & Poor's 500 index had reported an average 6% gain in second-quarter earnings, according to Thomson Reuters. More than 200 of the 304 companies that had reported earnings topped analysts' estimates, a higher-than-usual percentage, according to S&P Capital IQ.
- **Rising incomes, as the job market improves.** Personal income rose 0.5% in June and has risen steadily after a January dip driven by the tax increase, as well as people pushing income into December 2012 to avoid higher taxes. Coupled with rising consumer wealth from higher stock and housing prices, that's enough to offset tax hikes, **Baumohl** said.
- **The pickup in housing.** New home sales in June were much better than expected. Every extra home built generates another 4.6 jobs for a year, Sweet said. Housing's gain will allow the construction industry to add 15,000 jobs a month in the last half of the year, up from about 4,000 in the second quarter, he said.
- **Gains in senior-level hiring.** Executive recruiter DHR International has seen its listings jump 20%, CEO Geoff Hoffmann said.

Both Bank of America Merrill Lynch and the McKinsey Global Institute have released major reports in the last month touting the improved U.S. medium-term economic position.

They emphasized the rise of new and cheaper sources of natural gas, the rise of more-efficient "big data" computing and the improved buying power of less-indebted consumers.