# The middling U.S. economy sticks to the center lane

**Growth strong in some areas, weak in others as year winds down**

**By Jeffry Bartash, November 16, 2015**

If the U.S. economy were a car on the highway, it would be cruising in the middle lane.

Most companies are experiencing steady growth, especially large service-oriented firms that provide health care, financial expertise, technology and the like. Builders have ramped up construction to tap into increased demand for housing, and auto companies are making a killing.

Yet the economy has been unable to switch into the fast lane because of weakness in several key areas.

Most manufacturers aside from auto makers have been sideswiped by falling exports, for one thing. And consumers are still budget-conscious, as witnessed by a third straight month of soft retail sales. Several large retailers including Macy's (M) warned last week of potential holiday trouble.

A batch of economic reports this week is likely to reinforce the view of a "middling" economy. Housing construction is expected to remain near an eight-year high, but a pair of manufacturing surveys will show little change in an industry struggling to expand.

"Over this expansion the pattern of growth has not been smooth," Cleveland Fed President Loretta Mester noted in a speech last Friday. "It has varied over time and over sectors, and 2015 [is] no exception."

What about consumers

One of the biggest surprises as the year winds down has been a slower pace of spending at retail stores, a trend that began in mid-2014. Sales in October rose a scant 0.1% and were flat in the prior two months.

Many economists predicted that strong job creation and tumbling gas prices would spur an increase in retail sales (excluding fuel). This year alone the average household has saved about $700 from cheaper gas, according to the Energy Information Administration.

For awhile that appeared to be the case. Sales at restaurants for example, increased to an annual pace of 10.5% in January to mark a 22-year high. Yet spending at restaurants tapered off to a 5.5% growth rate in October.

The modest growth in overall retail sales might be a byproduct of the slowdown in hiring. Although the economy added 271,000 jobs in October -- the biggest gain of the year -- job creation has decelerated to a 206,000 monthly average from 260,000 in 2014.

It's not necessarily a bad thing, however, that people aren't shopping more. The savings from lower gas prices can be used to pay off debt or be put in the bank. That's "much more preferable than being forced to spend" money on gasoline, said **Bernard Baumohl, chief global economist at the Economic Outlook Group.**

More likely a lot of the extra cash -- from gas savings or higher wages -- has ended up being spent on other necessities. That would explain why overall consumer spending is fairly strong even if retail sales are not.

"Some of it is also likely being spent on items not in retail sales like rent and higher medical deductibles and co-pays," said Steve Blitz, chief economist at ITG Investment Research.

Whatever the case, Americans still feel pretty good about the economy. One measure known as consumer sentiment rose in November to a four-month high, and it's back to prerecession levels. That should come as no surprise: The current recovery is almost six and a half years old and has gone on longer than the average economic expansion in the post-World War Two era.

Nor is there much danger of the recovery ending soon, perhaps the unintended benefit of a middling economy. Oxford Economics argue the risk of a recession is low because a wide variety of measures show the U.S. is still falling short of its full potential.

"This signals the economy is far from overheating and there is a lot of room for the expansion to run," economists at the firm assert.

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