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U.S. Economy Slogs Through Global Woes, So Far

Consumers step up as job market stays strong and gas prices sag, but the outlook remains murky

By JOSH MITCHELL   August 14, 2015

The U.S. economy is plodding along amid turbulence around the globe, a sign of its relative strength despite mounting questions about its long-term vitality.

In recent months, Europe skidded toward a Greece-induced disaster, China's growth worries whacked its stock market and global oil prices resumed their plunge. But the world's largest economy has, so far, regained some traction coming out of a winter slowdown.

The latest sign of resilience came Thursday when the government reported sales at U.S. retailers shot up 0.6% in July as Americans shelled out more for cars, sofas, clothing and bar tabs. A separate report showed the four-week moving average of unemployment claims, a proxy for layoffs, touched a 15-year low, underscoring the labor market's recent run of stability.

"The July retail sales report should help allay any remaining concerns as to the state, and psyche, of U.S. consumers," said economist Richard Moody of Regions Financial Corp. "U.S. consumers are just fine."

Still, no one is predicting a growth breakout soon. On the contrary, the outlook is getting murkier by the day as worries over China's economic slowdown mount. The U.S. is hardly the engine for global economic growth it once was.

That tension—a stabilizing U.S. economy that is still vulnerable to a deteriorating global outlook—will feature in the debate at the Federal Reserve's Sept. 16-17 meeting. The central bank will have to decide whether the economy is strong enough to withstand its first increase in short-term interest rates since 2006, or if officials should hold off a bit longer to assess the gathering headwinds.

"The U.S. is the biggest single player, but it's not dominant" in the world economy, said Ian Shepherdson, chief economist at Pantheon Macroeconomics. "At the margin a strong U.S. is good for everybody else. Does it have the ability to turn around China's declining growth? Definitely not."

He and other economists still expect the U.S. economy to continue on its steady, though subpar, pace of growth. In a Wall Street Journal survey released Thursday, the average projection of economists polled pegged growth in gross domestic product coming in at 2.2% for all of 2015. Many now think GDP grew at around a 3% rate in the second quarter, higher than government's initial estimate of 2.3% last month. Third-quarter growth is expected to clock in between 2% and 3% once the period ends. More than 4 out of 5 polled also said they expected the central bank to start raising rates in September.

The relatively upbeat outlook has factors working both for and against it. On the negative side, mounting worries over China—stoked by its central bank's move to devalue its currency this week—could spur contagion that rattles markets, businesses and consumers in the U.S. and globally. Demand is already weak globally, one factor putting downward pressure on inflation. Europe also remains fragile. The drop in global oil prices has hurt the U.S. oil industry, which has slashed jobs and cut investment. Budget battles in Congress also could lead to another debt showdown this fall.

More broadly within the U.S., a slowdown in worker productivity has heightened questions about the economy's long-term dynamism and ability to raise living standards.

On the plus side, a drop in oil prices has translated into sharply lower prices at the gas pump and more money for consumers, whose spending accounts for about 70% of economic activity in the U.S.. Consumers, with healthier balance sheets since the recession, are gaining enough confidence to step up home purchases after years of renting or living with others.

And the economy has so far managed to withstand global tremors that have pushed up the dollar. Exports represent just over a tenth of U.S. economic output.

The economy has for decades seen the factory sector wither and service providers—from tax preparers to specialized gyms to wine bars—grow. That long-term trend, which reversed itself early in the recovery, is starting to resume amid weak global demand, said **Bernard Baumohl, chief global economist at the Economic Outlook Group.**

The upshot is the economy is less and less dependent on foreign buyers, making it more insulated from global shocks.

“You already see a significant divergence within the U.S. economy between the service sector and manufacturing,” **Mr. Baumohl** said. “The U.S. economy is service-oriented, and therefore it is less exposed to the weakness in foreign economies.”

Thursday’s retail-sales report showed that consumer spending at service stations has fallen 15% over the past year. Spending at all other retailers climbed 4.5%, and the biggest beneficiaries have been restaurants and bars, furniture stores and online outlets like Amazon. “As the Fed keeps telling anybody who listens, the net effect of the drop in oil prices is, in the U.S., a positive,” Mr. Shepherdson said.

The experience of Troy Leslie, from Hudson, Fla., outside of Tampa, shows how Americans are benefiting from a strong labor market and, in turn, kicking up economic activity.

Mr. Leslie, 35 years old, left his decade-old job at a printing company last year to become a sales representative for a company that makes signs. Sales have been brisk this year as restaurants and other stores open in the area.

He’s now making 25% more than he was at his last job. Earlier this summer, he and his fiancée closed on a house, using the equity he built up from a condo he bought in 2009, so they could have more space for their three young children.

“There are a lot more signs going up,” Mr. Leslie said. “Businesses are opening. That would tell me the economy was doing better.”

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