MarketWatch

The U.S. economy hasn't yet gone over to the dark side

By Jeffry Bartash
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Jobs report expected to show payrolls growth below 200,000

The U.S. economy deteriorated in the fourth quarter. Stock markets have gotten smacked around in early 2016. And the latest snapshot of the labor market is likely to show a steep pullback in hiring in January.

That's the Darth Vader view of the economy.

And the Luke Skywalker perspective? Most economists believe the U.S. has hit another soft patch but that underlying growth remains sound, fueled by the creation of 12.5 million jobs in the past five years. Wages are creeping higher, gas is cheap, home sales are rising, auto sales are at record highs and Americans are going out to eat a lot more.

"The improvement in jobs markets is trumping the weakness in stock markets," said Ryan Sweet, a senior economist at Moody's Analytics.

The importance of what consumers do cannot be understated — their spending drives more than two-thirds of all U.S. economic activity. Last year consumers boosted spending at the fastest pace since 2005.

The improved well-being of households is the key behind the prevailing assumption that the economy will pick up in the months ahead and resume growing around 2% or a touch faster. Consumer spending has more than offset the weakness in manufacturing, business investment and exports, other major cogs in the U.S. economy.

"Consumers remain in charge and they now have the resources and confidence to ramp up spending this year," contends **Bernard Baumohl, chief global economist at The Economic Outlook Group**.

That might be the case for now, but some analysts also warn any further deterioration in U.S. stock markets or the global economy could put the nation's six-and-a-half-year-old recovery at risk.

In a worst-case scenario, a bear market could depress the confidence of consumers and businesses, trigger a credit crunch and push the economy back into recession, said Kathy Bostjancic head of U.S. investor services at Oxford Economics. She doesn't expect that to happen, however.

Just don't expect a light at the end of the proverbial tunnel anytime soon. Economists polled by MarketWatch predict the number of new jobs created in January will fall below 200,000 after a large 292,000 gain in December. The monthly employment report comes out Friday.

Investors are unlikely to react well to diminished job creation in the wake of a poor fourth-quarter GDP report and other indicators pointing to slower U.S. growth. So it may require several months of improved economic signs to offer reassurance that the economy is back on track.

Yet even if the optimists are right, the U.S. is unlikely to speed up all that much.

The economy has averaged 2.1% growth since exiting recession in mid-2009, far below the historic 3.3% average. Struggling industries such as energy, manufacturing and retailing might see some relief, but not enough to spur the economy to prerecession peaks.

"Up and down, start and stop, we always seem to end up in the same place: 2% growth," noted Richard Moody, chief economist at Regions Financial.

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