MarketWatch

We’ve seen this movie before: Economy set for spring surge after first-quarter slumber

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The U.S. economy is like the weather forecaster played by Bill Murray In the 1990s movie “Groundhog Day”: It’s caught in a time loop in which the same pattern keeps repeating itself.

The same script is being followed in early 2017.

Over the past several years, the economy has usually started out slowly in the first quarter, only to see a frantic burst of growth in the spring.

The government last week reported that gross domestic product rose just 0.7% from January to March, marking the worst quarterly performance in three years. Yet economists predict the U.S. will speed up to 3% in the second quarter than runs from April to June.
If the turnaround is to take place, the first big pile of clues will reveal themselves this week in a slew of reports on how the economy performed at the start of the second quarter.

The highlight will be the April employment report on Friday that’s expected to show almost 200,000 jobs were created in the month — double the disappointing 98,000 rate in March.

Although the labor market is tight with an unemployment rate at 4.5%, U.S. job openings are near a record high. Many firms trying to hire even complain they can’t find enough talent to go around, a worsening problem that appears to be helping workers earn more pay.

“Wage gains are unambiguously accelerating,” said Jim O’Sullivan, chief U.S. economist at High Frequency Economics.
The strongest labor market in years is virtually certain proof that consumer spending, the 999-pound gorilla of the economy, won’t remain subdued at the first quarter’s recessionary level. And that means households will be the springboard for U.S. growth once again after a brief hiatus.

“You don’t get 0.7% GDP growth when employers are furiously trying to fill 5.74 million job openings,” said **Bernard Baumohl, chief global economist of The Economic Outlook Group.** “Nor is it possible to have confidence among consumers, business leaders, investors, home builders at or near multi-year highs with [an] economy that’s so profoundly weak.”

The newfound optimism of businesses — thrilled by the pro-business policies of the Trump White House — is a case in point.

Business spending roared back to life in the first quarter, led by a resurgent energy industry and an upturn among manufacturers. Companies boosted investment by the most in five years, a good omen for the economy in the months ahead.

Not all or even most of the credit is owed to President Trump, either. The recovery began late last year, reflecting an improved global economy, higher energy prices and a softening U.S. dollar. That’s helped to drum up sales for energy producers and large, export-heavy American firms.

More evidence that businesses are doing well is likely this week in a pair of reports by the Institute for Supply Management that query senior executives on their production, spending and hiring plans.

Auto sales are also forecast to bounce back strongly in April after being a big drag on GDP. That's another reason economists largely dismiss weak first-quarter growth as an exaggeration.

The Federal Reserve, for its part, will reiterate its confidence in the health of the U.S. economy after top officials convene in Washington this week.

Although the Fed is expected to hold off raising interest rates for now, central bankers believe the economy is strong enough to warrant more increases later this year.

To that end they'll pay close attention to the latest inflation readings in the PCE index for March that comes out Monday. Inflation shot up last year and the Fed is monitoring price pressures to make sure they don't get out a hand. Such an outcome could pose grave peril to the economy if it forces the Fed to jack up rates quickly.