Economic recovery: Are we there yet?

Economy starting to show promising signs, but obstacles still loom ahead

By Paul Davidson
USA TODAY

Nurse Next Door, a Canadian home health care provider, is fielding 100 inquiries a month from prospective franchisees in the USA, up from 20 in spring.

Jacobs Realty Group of Radnor, Pa., has seen two dithering clients lose out on office building purchases to other buyers in the past two weeks — a phenomenon that hadn't occurred in about four years.

And in the last month, six customers of Maykus Custom Homes have signed letters of intent to buy newly built houses in the Fort Worth area. The previous average: one a month — maybe.

Four years after the recession officially began in December 2007, economists, businesses and consumers alike have expressed a growing optimism about the recovery in recent weeks. The more confident, if still tempered, outlook is taking shape as the nation seems to be navigating past some big stumbling blocks — such as high gas prices — that have impeded growth most of this year. Some recent encouraging signs:

» Vehicle sales in November rose 14 percent from a year ago to an annual rate of 13.6 million — their best showing since cash-for-clunker incentives drove purchases in August 2009. Economists cite, in part, the recent easing of auto shipment disruptions that followed the Japanese earthquake early this year, as well as a less diffident consumer.

"We're getting some pent-up demand kicking in where people who have not replaced for a long, long time, particularly if they're still working ... are deciding it's time," says Nigel Gault, chief U.S. economist at IHS Global Insight.

» The jobless rate last month fell 0.4 points to 8.6 percent, the lowest since March 2009. Although the decline was partly because of a 315,000 drop in the labor force as discouraged job seekers simply gave up, employment is up an average 321,000 a month since August, according to the Labor Department's household survey. Most encouraging: Much of the hiring appears to be by small businesses, which typically fuel job growth in a recovery.

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» The housing market, though still anemic and weighed down by foreclosures, is showing small signs of life. In October, pending home sales rose 10.4 percent from September, and permits for new single-family homes were highest since May 2010. Builder sentiment also has edged up the last two months and is at an 18-month high.

Even so, the recovery remains relatively tepid amid lackluster household income growth and still lacks sufficient momentum to generate enough jobs to significantly lower unemployment next year.

And financial turmoil in Europe could still derail the upswing. Stocks have fallen more than 3 percent this week after Fitch Ratings and Moody's said an agreement at a European summit last week does little to alleviate the massive debt burdens of some countries.

Many economists consider a European recession almost certain. That would hobble U.S. exports and cut economic growth slightly, but only a meltdown that paralyzes global credit markets would push the U.S. back into recession, Gault says.

On the plus side, Democrats and Republicans in Congress now seem committed to continuing this year's Social Security payroll tax cut and extended jobless benefits for the long-term unemployed through 2012. Failure to extend the tax break would shave about half a point off economic growth next year and cut employment by 450,000, says Mark Zandi, chief economist of Moody's Analytics.

The more buoyant outlook has lifted stocks. The Standard & Poor's 500 index is up 10.2 percent since hitting a recent low Oct. 3.

After expanding at an annual rate of just 1 percent in the first half of this year, the economy grew 2 percent in the third quarter and is on pace for 3 percent growth in the fourth quarter.

Most economists expect uninspiring growth of about 2 percent next year — far short of the 3 percent-plus needed to make a dent in unemployment. Zandi says many businesses will not ramp up hiring significantly because they'll remain uncertain about taxes, federal spending and regulatory reform until after next year's election shuffles a politically divided government.

Some are more bullish. Dean Maki, chief U.S. economist of Barclays Capital, expects the economy to grow about 2.75 percent next year as it hits a 3 percent pace by the second half on stronger income growth, higher stocks since 2009 and lower inflation. That should be enough, he says, to generate about 215,000 jobs a month in the last six months of 2012 — more than the 150,000 or so that many economists expect — and cut unemployment to 8 percent by year's end.

A big reason for the fresh optimism is a pickup in small-business hiring.

In November, small-firm owners increased employment slightly for the first time in five months, according to a survey by the National Federation of Independent Business.

Small businesses also accounted for more than half of the 206,000 jump in private employment last month reported by payroll processor ADP. Many of those firms are startups, says Diane Swonk, chief economist of Mesirow Financial.

"It smells like things are getting better," says Bill Dunkelberg, NFIB's chief economist.