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Economy grows at 5.7% pace; fastest since 2003

BY CHRISTOPHER S. RUGABER
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WASHINGTON — The economy's faster-than-expected growth at the end of last year, fueled by companies boosting output to keep stockpiles up, is likely to weaken as consumers keep a lid on spending.

The 5.7 percent annual growth rate in the fourth quarter was the fastest pace since 2003. It marked two straight quarters of growth after four quarters of decline. Growth exceeded expectations mainly because business spending on equipment and software jumped much more than forecast.

Still, economists expect growth to slow this year as companies finish restocking inventories and as government stimulus efforts fade. Many estimate the nation's gross domestic product will grow 2.5 percent to 3 percent in the current quarter and about 2.5 percent or less for the full year.

That won't be fast enough to significantly reduce the unemployment rate, now 10 percent. Most analysts expect the rate to keep rising for several months and remain close to 10 percent through the end of the year.

High unemployment and stagnant wage growth will likely keep consumers cautious about spending. Wages and benefits paid to U.S. workers posted a scant gain in the fourth quarter. And for all of last year, workers' compensation rose by the smallest amount on records going back more than a quarter-century.



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Rick Westover bends neon tubing for a sign at Glavin Industries in Solon, Ohio. Glavin Industries is an international full-service sign and industrial identification company which creates and manufactures electrical, neon, screen printed, vinyl and digital signage.

The economic recovery could falter if consumers, who account for 70 percent of economic activity, lack the income to ramp up spending.

"That's why there's so much hand-wringing right now," said Brian Bethune, chief U.S. financial economist for IHS Global Insight. "Can the economy really sustain this? That's the big question mark sitting out there."

With hiring still weak, President Barack Obama has stepped up his focus on job creation. On Friday, he urged Congress to embrace his call for tax incentives to create jobs.