Economy healing, but slowly

By Martin Crutsinger
The Associated Press

WASHINGTON — The U.S. economy may not be truly healthy yet, but it's healing.

The 2.8 percent annual growth rate reported Friday for the fourth quarter was the fastest since spring 2010. It also marked the third straight quarter that growth has accelerated.

But experts said the pace isn't likely to last and that it isn't enough to drive down the unemployment rate.

Unemployment stands at 8.5 percent — its lowest level in nearly three years after a sixth straight month of solid hiring. And Friday's Commerce Department report suggests more hiring gains ahead.

For the final three months of 2011, Americans spent more on vehicles and companies restocked their supplies at a robust pace.

But overall growth last quarter — and for all of last year — was slowed by the sharpest cuts in annual government spending in four decades. Many people are reluctant to spend more or buy homes, and many employers remain hesitant to hire, even though job growth has strengthened.

The outlook for 2012 is slightly better. The Federal Reserve has estimated economic growth of about 2.5 percent for the year, despite abundant risk factors: federal spending cuts, weak pay increases, cautious consumers and the risk of a European recession.

Economists noted that most of the growth in the October-December quarter was because of companies restocking their supplies at the fastest rate in nearly two years. That pace is expected to slow.

"The pickup in growth doesn't look half as good when you realize that most of it was due to inventory accumulation," said Paul Ashworth, an economist at Capital Economics.

Ashworth expects annualized growth to slip below 2 percent in the current January-March quarter. Other economists have

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similar estimates.

Stocks opened lower after the government reported the growth figures. The Dow Jones industrial average closed down about 74 points. Broader indexes were mixed.

In a normal economy, about 3 percent growth is a healthy figure. It's enough to keep unemployment down — but not so much growth as to ignite inflation.

But coming out of a recession, much stronger growth is needed. By some estimates, the economy would have to expand at least 5 percent for a full year to drive down the unemployment rate by 1 percentage point.

In many ways, the economy did end 2011 on a strong note. Companies invested more in equipment and machinery in December.

People are buying more cars, and consumer confidence has risen. Even the depressed housing market has shown enough incremental gains to lead some economists to detect the start of a turnaround.

In the final three months of 2011, consumer spending grew at a 2 percent annual rate. That was up modestly from the July-September quarter. Consumer spending is critical because it fuels about 70 percent of the economy.

Much of the growth was powered by a 15 percent surge in sales of autos and other long-lasting manufactured goods.

Incomes, which have been weak because of still-high unemployment, grew ever so slightly, at a tepid 0.8 percent annual rate, after two straight quarterly declines. Unless pay picks up, consumers who have dipped into savings in recent months may pull back.

"Consumers don't have much income growth, and to even achieve a 2 percent growth rate in spending in the fourth quarter, they had to run down their saving rate," said Nigel Gault, chief economist at IHS Global Insight.

And government spending at all levels fell at an annual rate of 4.6 percent in the fourth quarter and 2.1 percent for the year — the sharpest drop since 1971. Defense cuts at the start and end of the year were a key factor. With Congress aiming to shrink budget deficits, the likelihood of further federal spending cuts could weigh on the economy.

Economic growth is measured by the change in the gross domestic product, or GDP. The GDP reflects the value of all goods and services — from machinery to manicures to hotel bookings to jet fighters — produced in the U.S. Friday's estimate of GDP growth was the first of three for the October-December quarter. The figure will be revised twice, in February and then in March.

Ian Shepherdson, an economist at High Frequency Economics, is among the more optimistic analysts. He said he thought business investment in capital goods would be stronger and consumer spending higher this year.

Many fear that a likely recession in Europe could cool demand for U.S. manufactured goods. Growth would slow. Without many more jobs and better pay, consumer spending could weaken.

AT A GLANCE

S&P 500 companies that have reported stronger fourth-quarter EARNINGS than analysts expected: **61 PERCENT**

Over the last 2 1/2 years, the average has been: **76 PERCENT**

Companies that have reported stronger fourth-quarter REVENUE than analysis expected: **53 PERCENT**

Over the last 2 1/2 years, the average has been: **62 PERCENT**

Source: The Associated Press