Experts see no market bubble

Say corporate profits support high stock prices

By Christopher S. Rugaber
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WASHINGTON—Has the Federal Reserve inflated a stock market bubble by driving interest rates to record lows?

The answer, according to economists surveyed by the Associated Press: No.

Three-quarters of the economists say stocks, which are at their lowest point in a month but are up 19 percent since November, aren't overvalued. Many point to strong corporate profits as justifying the surge in stock prices, which have more than doubled since bottoming in 2009.

The economists expect many consumers to respond to their increased stock wealth by spending more in coming months. Higher spending would help sustain and perhaps accelerate growth.

The economists think growth is slowing to about a 2 percent annual rate in the April-June quarter from a 2.4 percent rate last quarter. The key reasons: federal spending cuts, higher taxes, and economic weakness in Europe and elsewhere.

But they say U.S. economic growth should increase in the second half of this year and speed up next year. Besides the stock market gains, steady job growth and surging home prices will likely fuel more spending.

They forecast that growth will reach 2.8 percent in 2014 as hiring accelerates and as consumer confidence — now at a five-year high — improves further. If they're accurate, that would be the fastest growth since 2005.

"A bubble is an extreme thing, when the market loses all contact with reality," said Bill Cheney, chief economist at John Hancock Financial Services. "I don't think we're near anything like that."