Nation's economy picking up steam

Fed expected to continue tapering

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The economic outlook is brightening, with consumer confidence soaring to nearly a seven-year high this month and a report today that's expected to show a solid rebound in growth after a weather-battered first quarter.

Amid the encouraging news, the Federal Reserve today is expected to continue to wind down bond purchases aimed at holding down long-term interest rates and stimulating the economy. Analysts expect monthly purchases will drop to $25 billion from $35 billion. The program is scheduled to end in October.

"I think we're making steady progress in getting to the point where the economy is going to take off," says Joel Naroff of Naroff Economic Advisors.

The Conference Board said its index of consumer confidence rose to 90.9 in July from 86.4 in June. The reading, the highest since October 2007, was largely fueled by strengthening job gains and a stock rally, says economist Chris Christopher of IHS Global Insight. Also, he says, gas and food prices stabilized after rising sharply in the spring. Christopher says the growing optimism should help bolster the critical back-to-school sales season.

Economists estimate the government will report today that gross domestic product increased at a 3% annual rate in the quarter ended June 30 after falling 2.9% in the first quarter. That was its worst showing in five years.

Consumer spending and business investment both likely accelerated as the winter weather faded, says Paul Dales of Capital Economics. And, he says, recent data indicate that businesses restocked at a faster rate after a sharp slowdown early this year.

The economy isn't booming. Early this year, many economists projected second-quarter growth closer to 4%, citing catch-up effects from weather and households splurging amid reduced debt levels and increased wealth.

Surging auto sales aside, Christopher says many middle-income Americans continue to spend cautiously because average annual wage gains remain stuck at 2%, barely enough to keep pace with inflation. Like many economists, he expects wage growth and consumer spending to pick up in the second half of the year.

Also holding back more robust growth is a housing recovery that slowed in part because of higher home prices and mortgage rates.

The Standard & Poor's Case Shiller index on Tuesday showed average home prices in 20 large cities were up 9.3% in May from a year ago. Analysts say the moderating housing costs help pull in more buyers.