

Poll: Economy Robust Despite

By KATHLEEN MADIGAN

China and its swooning stock market pose a growing risk to the global economy, say economists surveyed this month by The Wall Street Journal. But healthier U.S. consumer spending and a stronger housing market will provide enough domestic power to offset any drag coming from the world's No. 2 economy.

The market pullback in China could curtail optimism and restrain business investment, weighing on the rest of the world, economists said.

"The risk is the hit to confidence about the economy" in China, said Nariman Behraves, executive vice president of IHS

Global Insight.

In general, the panel of 63 economists, not all of whom answered every question, sees stronger supports at home, allowing the U.S. economy to withstand China's turmoil, barring an unexpected meltdown there.

"The ducks are all lined up in a row," said Michael Gregory, deputy chief economist at BMO Capital Markets, referring to the U.S. consumer outlook. He noted steady hiring, better credit availability, rising household wealth and still-low interest rates, and played down the latest drop in U.S. retail sales in June as "consumers taking a breather."

In addition to stronger consumer spending, many forecast-

ers see the housing sector improving. Continued job growth and an expected acceleration in wages is allowing more young adults to move out on their own. On average, the forecasters expect housing starts to increase 12% this year. The consumer revival and increased building activity are expected to offset the drags coming from a wider trade deficit, partly due to the stronger dollar and continued troubles in the energy sector.

On average, the economists forecast inflation-adjusted gross domestic product grew at an annual rate of 2.7% in the second quarter and will expand at a pace just above 3% in the second half of the year. The U.S. economy

shrank slightly in the first quarter.

The private economists' upbeat view of consumers echoed remarks Wednesday by Federal Reserve Chairwoman Janet Yellen. "Consumer spending has picked up, and sales of motor vehicles in May and June were strong, suggesting that many households have both the wherewithal and the confidence to purchase big-ticket items," she told the House Financial Services Committee.

The economic outlook bolsters the expectation, held by 82% of the economists, that the Fed will make its first interest-rate increase at its September meeting. "The Fed is itching to get that first rate hike out of the way," Mr. Behraves said.

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Speaking to the Senate Banking Committee on Thursday, Ms. Yellen said the labor market had moved "demonstrably closer" to a more normal state, a reason why the Fed is likely to raise interest rates later this year.

The U.S. economy, however, still faces headwinds.

Many economists contend that the strong dollar and lackluster global growth are hindering export activity. Weak business spending on equipment and low productivity also are holding back the economy's potential growth rate, some forecasters said.

Those concerns generally are factored into the forecasts.

If an unexpected event were to hurt U.S. growth, most econo-

mists say the shock is likely to come from overseas. In addition to the China risk, economists say the unresolved crisis in Greece or tensions in the Middle East could rattle financial markets and fall back on the U.S.

Still, one sign of how confident the economists are in their short-run outlook is the low recession odds in the survey. The economists give only a 10% chance of a recession in 2015. The economy has "a greater probability of growth over 3.5%" than a recession, said Stuart Hoffman, senior vice president and chief economist at PNC Financial Services.

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