

The unemployment rate dropped to 7.7 percent in February, the lowest level in four years. AP

RECOVERY 1, AUSTERITY 0

Despite government cutbacks, consumers are feeling better and they're spending

By Tim Mullaney
USA Today

Two months after taxes went up, here's the score after the first inning of the U.S. fiscal crackdown: Recovery 1, Austerity 0.

That's the upshot of Friday's report that private-company employers added 246,000 jobs in February, with the unemployment rate dropping to 7.7 percent, the lowest since December 2008. Even with losses of 10,000 government jobs, the overall gain of 236,000 crushed consensus estimates of 160,000 new jobs, and confirmed what other data have suggested. Despite the tax increases that resolved the fiscal cliff, business investment is again rising and consumers, for the most part, are spending.

Austerity has so far mostly rolled off the economy's back, leaving job growth stronger than it was in the fall even after the government revised up its initial estimate for late-2012 growth.

One reason: Households have now recovered all of the wealth they lost in the financial crisis and housing bust, thanks to rising stock prices and the start of a housing recovery, the Federal Reserve said. That has kept businesses buying equipment, consumers buying houses and cars, and now employers stepping to the plate.

Friday's report points to job strength emerging in construction, services and to some degree in manufacturing. Construction added 48,000 jobs, mostly in residential building; personal services added 179,000 and manufacturing added 14,000, perhaps because the most-recent report on core capital goods orders, economists at RBS note, was the best monthly gain in nine years. If there's a concern, it's that state and local governments shed 10,000 jobs.

"This (is) a win for the recovery," Moody's Analytics chief economist Mark Zandi said. "Anything less than 125,000 (jobs gains in February) would have been a win for austerity. Of course, the script has a long way to run before we know for sure who wins."

Joel Naroff, who runs a consulting firm catering to regional banks, has taken to joking that the only thing the economy has to fear is Washington itself.

More seriously, he has also pointed to decent jobs growth — an average of 205,000 since November — and solid growth in consumer buying for durable goods. When consumers begin buying services, the economy will accelerate, he says. With 23,700 new retailing jobs and more than 18,000 jobs in restaurants, that seemed to happen in February.

What we are seeing is the collision of relatively modest tax increases and years of delayed consumption, lower household formation and consumers getting their balance sheets in order. In this case, the sheer amount of economic activity that has been bottled up is so large that, for now, it's more important than the damage Washington may be doing. And the Federal Reserve is still buying bonds, a stimulus offsetting fiscal tightening.

Car sales fell by more than 40 percent in the downturn — and the average car is still 11 years old. Household formation dropped by half and is rebounding — and that's where new-home demand comes from. The demand is there, waiting for consumers to feel good enough to take the plunge. If they do, jobs will show up by the second half of the year.