BUSINESS

Recovery beating expectations

Survey of economists offers little hope for quick turnaround in jobs

By Paul Davidson and Barbara Hansen
USA TODAY

The recovery is shaping up to be stronger than expected and there is little risk the economy will slip back into a recession, according to *USA Today*'s quarterly survey of 46 leading economists.

Yet most still say the rebound will fall short of the sharp, V-shaped upturns that often follow severe slumps, and the 9.7% jobless rate will fall slowly.

As the Fed meets to assess the economy this week, seven in 10 economists say they're more optimistic than they were three months ago.

"I think we've gotten to a point where it's a self-sustaining recovery," says Standard & Poor's chief economist David Wyss.

The experts predict growth of 3% this year, up from forecasts of 2.8% in January. In V-shaped upswings, growth is often 7% or more.

None see a return to recession by next year, and those who see some risk say it's lessened markedly.

"I feel more confident ... there'll be no relapse," says Stuart Hoffman, chief economist of PNC Financial Services Group.

Yet while the economists say unemployment will fall steadily this year, their median estimates are for a 9.4 percent jobless rate at year's end and 8.5 percent at the end of 2011. More than 80 percent say the U.S. won't regain all jobs lost in the recession until 2013 or later.

Why the brighter outlook? Consumers are opening their wallets more widely than expected. Retail sales climbed at a 10.1 percent annualized rate the past three months, highest in four years. Economists cite rising incomes, a stock market rally that makes shoppers feel wealthier and abating fears of layoffs.

Also, manufacturers are feverishly replenishing stocks to meet growing demand. And exports are swelling company earnings.

Wyss, though, cites "big headwinds." Consumers, he says, are too burdened by high debt to continue their spending sprees. The expiration of a home buyers' tax credit Friday will dampen housing sales. And the government's $787 billion economic stimulus package will be gone by late 2010.

Dean Maki, chief U.S. economist of Barclays Capital, is more bullish. He says the stock rally and growing incomes will let consumers pay off debts while increasing spending. And homes are cheap enough to goose sales even after the tax credit expires, he says. He predicts 3.8% growth this year.

Some economists worry mortgage rates will drift higher now that the Fed has ended its purchases of mortgage-backed securities. But 67 percent say rates will rise less than half a percentage point this year.