Shoppers push economy ahead

Retail sales data suggest broader recovery if hiring starts to grow

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WASHINGTON — The economy is showing renewed strength as retail sales surged last month and factory orders also increased. Such gains could lead to more hiring — if they can be sustained.

Retailers said Thursday that store sales rose in February by the largest amount since November 2007.

And orders to U.S. factories in January posted their sharpest rise in four months. It was another sign that manufacturing is helping drive the economic recovery.

The upbeat reports followed other encouraging signs this week: The service sector grew last month at its fastest pace in more than two years, according to a private survey of purchasing executives released Wednesday. And a similar survey Monday found manufacturers are also growing.

"We're going from a narrow recovery" led by manufacturing "to something much broader," said Brian Bethune, chief U.S. financial economist at IHS Global Insight.

Still, jobs are the big unknown. First-time claims for jobless benefits remain elevated, despite a drop last week. The Labor Department said Thursday initial claims for unemployment aid fell by 29,000 to a seasonally adjusted 469,000 last week. But that drop only partly reversed a sharp rise in claims since the year began.

The four-week average of weekly claims, which smooths volatility, fell to 470,750. Yet that's still above the 425,000 level that economists say claims need to fall below to signal hiring.

"This level of claims is still discouragingly high and is not consistent with private-sector job growth," Zach Pandl, an economist at Nomura Securities, wrote in a research note.

One way that companies can raise output without adding jobs is to squeeze more production from their existing staff. The Labor Department said in a separate report Thursday that productivity rose by 6.9 percent in the fourth quarter. And labor costs fell at a 5.9 percent rate.

Output in the manufacturing sector is measured by the value of the goods produced; in the service sector, it's measured by revenue earned. Higher productivity, or output per hour worked, raises living standards in the long run. But it also lets companies get by with fewer employees.

Few economists expect the outsize productivity gains to continue. Productivity typically rises about 2 percent a year. For all of 2009, productivity rose 3.8 percent. If those productivity gains slow and consumer and business demand rises, hiring should follow.

"Businesses cannot meet demand requirements with their current staff levels," Carl Riccadonna, senior U.S. economist at Deutsche Bank, wrote in a research note. "If demand continues to increase, then a surge in hiring is highly likely in the relatively near term."

A still-weak housing market is weighing on the recovery in the meantime.

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RETAIL

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The number of people who agreed to buy a home fell sharply in January. The report Thursday from the National Association of Realtors said demand for housing fell as stormy weather slammed Eastern states.

The weakness, however, was not confined to the wintry Northeast. The biggest month-to-month drop was in the West.

The Realtors' index is considered a gauge of future sales because typically there's a one- to two-month lag between a signed sales contract and a completed deal. The index has declined for two out of the past three months, in part because home shoppers feel less rushed after a deadline for a homebuyer tax credit was extended from Nov. 30 to April 30.

The weather wasn't the only culprit, wrote Jennifer Lee, an economist with BMO Capital Markets. "The impact of government incentives ... appears to be running out of steam, which is, frankly, a scary thought," she wrote.

The strong retail-store sales report reflected solid gains from merchants ranging from luxury retailer Nordstrom to mid-brow Macy's Inc. to discounter Target Corp. reported solid sales gains.

"I am surprised by the broader strength" in the figures, said Mike Niemira, chief economist at the International Council of Shopping Centers. "Everyone is participating in this gain. And that's a good sign for the retail sector and for the economy overall."

The gains came despite weak reports recently on consumer confidence.

Earlier this week, the Federal Reserve said in a report that the economy is growing, but too slowly to persuade companies to ramp up hiring. The jobs market "remained soft throughout the nation," the Fed said Wednesday in a report known as the Beige Book.

The Labor Department will issue the February unemployment report today. Economists predict the unemployment rate rose to 9.8 percent from 9.7 percent and that employers cut a net total of 50,000 jobs. But the snowstorms likely inflated the job losses by up to 100,000, economists say.

The economy has lost 8.4 million jobs since the recession began. The Fed expects unemployment to average 9.5 percent to 9.7 percent this year.

In its report on jobless claims, Labor said the number of people continuing to claim jobless benefits fell more than expected to 4.5 million. But these so-called continuing claims don't include millions of people who have used up their regular 26 weeks of benefits and are receiving extended benefits for up to 73 more weeks.

Nearly 5.9 million people were receiving extended benefits in the week that ended Feb. 13, up from about 5.7 million the previous week.