Some declare recession over



Traders work on the floor of the New York Stock Exchange on Friday.

MARK LENNIHAN / The Associated Press

Economic healing benefits markets

By Adam Shell
USA TODAY

NEW YORK—The recession is over. So say a growing number of prognosticators ranging from stock strategists at Merrill Lynch to magazines such as Newsweek to many data-tracking economists.

While not all forecasters are willing to declare the so-called Great Recession dead, stocks are firmly back in rally mode, thanks to a growing consensus on Wall Street that the economy has hit bottom and that growth will resume in this quarter or in the final three months of the year.

Friday's better-than-expected July jobs report fanned hopes for a recovery, as did a report a week earlier showing the economy shrank less than expected in the second quarter.

And that bodes well for stocks, if history is any guide. Following recessions in the post-World War II era, stocks have posted positive returns in nine of the 10 cases both six months and 12 months after the end of the recession, says Ned Davis Research (NDR).

The Standard & Poor's 500 has gained an average 9 percent six months after recessions and 14 percent a year after them, NDR says.

If the recession ended now, the average 9 percent and 14 percent gains would put the S&P, at 1010 on Friday, at roughly 1100 in six months and 1150 in a year. Of course, stocks have already posted big gains as optimism about the economy has grown.

Stocks shoot higher post-recession as investors begin to price in better, sustainable economic growth. Typically, as economies heal, consumers feel more confident and spend more, businesses sell more, and that means fatter corporate profits.

However, some Wall Street pros say the current economic recovery may be far weaker than past rebounds because of the severe hit to consumers' wealth caused by the housing bust, earlier stock plunge and weak job market.