Tax cuts raise expectations

Factors may indicate uptick in 2011

BY JEANNINE AVERSA
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WASHINGTON — Expectations for economic growth next year are turning more optimistic now that Americans will have a little more cash in their pockets.

A cut in workers' Social Security taxes and rising consumer spending have led economists to predict a strong start for 2011.

Still, most people won't feel much better until employers ramp up hiring and people buy more homes.

Analysts are predicting economic growth next year will come in next year close to 4 percent. It would mark an improvement from the 2.8 percent growth expected for this year and would be the strongest showing since 2000.



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Dock clerk Charles Salvi labels boxes as they arrive at an Amazon.com fulfillment center, in Phoenix. Recent barometers suggest the economy is gaining momentum in the final months of the year.

"Looking ahead, circumstances are ripe for the economy to develop additional traction," said Joshua Shapiro, chief U.S. economist at MFR Inc. in New York. He is estimating growth for 2011 to be above 3.5 percent.

The economy grew at a moderate pace last summer, reflecting stronger spending by businesses to replenish stockpiles, the Commerce Department reported Wednesday. Gross domestic product increased at a 2.6 percent annual rate in the July-September quarter. That's up from the 2.5 percent pace estimated a month ago. While businesses spent more to build inventories, consumers spent a bit less.

Many analysts predict the economy strengthened in the October-December quarter. They think the economy is growing at a 3.5 percent pace or better mainly because consumers are spending more freely again.

Still, the housing market remains a drag on the slowly improving economy.

The National Association of Realtors reported Wednesday that more people bought previously owned homes rose in November. The sales pace rose 5.6 percent to a seasonally adjusted annual rate of 4.68 million units. Even with the gain, sales are still well below what analysts consider a healthy pace.

Even if analysts are right about 2011 being a better year for the economy, growth still wouldn't be strong enough to dramatically lower the 9.8 percent unemployment rate.

By some estimates, the economy would need to grow by 5 percent for a full year to push down the unemployment rate by a full percentage point. Even with growth at around 4 percent, as many analysts predict, the unemployment rate is still expected to hover around 9 percent.

The third-quarter's performance marks an improvement from the feeble 1.7 percent growth logged in the April-June quarter. The economy's growth slowed sharply then. Fears about the European debt crisis roiled Wall Street and prompted businesses to limit their spending.

"It sure looks like the 'soft patch' is over," said Nariman Behravesh, chief economist at IHS Global Insight.