

Fewer Layoffs, Lower Inflation Give Economy A Lift

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WASHINGTON (AP) — The economy is off to a fast start in 2012.

The outlook for hiring has brightened as applications for unemployment benefits near a four-year low.

Adding to the optimism, inflation remains low, business travel is up and the home market is showing slight gains after three dismal years.

That's the picture sketched by a flurry of data Thursday. It followed other reports that show the economy began the year with vitality: Companies are hiring more, consumer confidence is up, more people are buying cars and factories are making more goods.

Even bank lending, which all but froze during the depths of the financial crisis, is on the rise.

Many economists caution that it's too early to conclude that the recovery is accelerating.

"There's no doubt that the economy is getting better; we just shouldn't get carried away," Mark Vitner, an economist at Wells Fargo, said. "We haven't shifted into a higher gear."

Despite six months of solid job growth, unemployment remains painfully high at 8.5 percent. And inflation-adjusted wages fell over the past year.

Housing is still slowing the economic recovery. And a recession in Europe would weaken growth in the United States and elsewhere.

Still, Thursday's reports were encouraging:

— Fewer people sought unemployment benefits last week than at any time in nearly four years. The seasonally adjusted drop was the steepest in more than six years. It reduced the week's total to just 352,000. The four-week average dropped to 379,000. When applications fall consistently below 375,000, it usually signals that hiring is strong enough to lower the unemployment rate.

— Manufacturing expanded in the Northeast in January, according to surveys by the Federal Reserve banks of New York and Philadelphia. That followed a report from the Fed that factory output across the country surged in December by the most in a year.

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— Inflation appears to be peaking after surging last year. Consumer prices were unchanged in December, in part because gas is cheaper. Lower inflation gives consumers more spending power. It also gives the Fed leeway to keep interest rates low to help the economy.

— Spending on business travel rose 7.6 percent last year, the Global Business Travel Association said last week. More business travel benefits companies like Southwest Airlines, which reported higher fourth-quarter net income and revenue.

— Union Pacific Corp., the nation's largest rail operator, says it transported more cars, oil, industrial parts and chemicals in the final quarter of 2011. CEO Jim Young says he expects the railroad's revenue to continue growing in 2012

— JPMorgan Chase, the nation's largest bank, said its lending to businesses rose 12 percent in the October-December quarter compared with the same period a year earlier. Its lending to mid-size companies picked up. And at Bank of America, average loans to mid-size businesses grew 4 percent in the last three months of 2011. Tight credit has been a major reason why smaller businesses have been unable to expand and hire more.

The stock market has rallied in response to the news. The Dow Jones industrial average has reached its highest point since July.

A recovery hinges on strong job growth. Hiring was solid in the final six months of last year, capped by December's net increase of 200,000 jobs.

The job market still has a long way to go before it fully recovers from the damage of the Great Recession, which wiped out 8.7 million jobs. More than 13 million people remain unemployed. Millions more have given up looking for work and so are no longer counted as unemployed.

And wages aren't keeping up with inflation. Average inflation-adjusted hourly earnings dropped 0.9 percent last year.

Without more jobs and higher pay, consumers might have to cut back on spending. That would weigh down growth next year. Consumer spending accounts for about 70 percent of the economy.

In December, home builders ended their third straight year of dismal home construction. And 2011 was the worst on record for single-family home building.

Signs of improvement surfaced toward the end of the year, when builders started more single-family homes in each of the final three months of 2011.

And the average rate on the 30-year mortgage fell to a record low of 3.88 percent this week, according to Freddie Mac.

So far, low rates have done little to boost home sales. But a survey of homebuilders

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this week showed that builders are growing more optimistic about this year after seeing a rise in the number of people looking to buy.

"We expect further sustained gains in starts and permits over the next few months; a real recovery is getting started," said Ian Shepherdson, chief U.S. economist at High Frequency Economics.

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