Rise In U.S. Exports Brightens Outlook For Economy

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WASHINGTON (AP) — The outlook for U.S. economic growth is looking slightly better.

American businesses sold a record number of goods and services in Europe, China and other foreign markets in February, while imports declined.

Many economists began raising their forecasts for January-March growth after seeing Thursday's government report on the lowest trade deficit since the fall.

And the jump in exports helped drive stocks higher for a second straight day. The Dow Jones industrial average rose more than 160 points, while broader indexes also increased.

The economy still has a long way back to full health. More people applied for unemployment benefits last week, the government said in separate report. That followed last week's report that hiring slowed sharply in March after three months of strong job growth.

The mixed economic picture, along with tame inflation cited in a third report, gives the Federal Reserve more ammunition to stick with its plan to hold interest rates near record lows when it meets later this month.

"The underlying message is actually a good one," said Paul Dales, senior U.S. economist at Capital Economics, after the trio of reports was released. "It suggests that growth is a bit stronger."

The U.S. trade deficit narrowed more than 12 percent in February to $46 billion. That's down from $52.5 billion in January, the widest deficit in three and a half years.

Exports rose to a record $181.2 billion, while imports dropped to $227.2 billion.

A smaller trade deficit reduces the drag on growth. More exports help the economy grow because they typically boost factory production, which can fuel more hiring and lead to greater consumer spending.

And fewer imports subtract less from growth, largely because consumers are spending less on overseas goods and services.

Most economists were encouraged by the trade report, as well as a report earlier this week that said wholesale businesses restocked at a faster pace in February.

That also meant factories were busier because businesses anticipated more consumer spending in the months ahead.

Dales said he expects growth only slowed in the January-March quarter to an annual rate of 2.5 percent. While that's down from 3 percent annual rate at the end of last year, it's better than the 2 percent rate he had initially projected.

Craig Alexander, chief economist with TD Bank Financial Group, also raised his forecast, although he's slightly more bearish. He now expects first-quarter growth at an annual rate of 2.3 percent, up from his initial 1.9 percent forecast.

"The basic story hasn't changed," Alexander said. "The story is continued modest economic growth and a gradual improvement in the labor market."

The jobs pictured dimmed a little last week after the government said hiring slowed in March to half the pace of the previous three months.

The Labor Department offered more disappointing news Thursday: The number of people seeking weekly unemployment benefits jumped last week by 13,000 to a seasonally adjusted 380,000 — a 10-week high.

The four-week average, which smooths week-to-week fluctuations, rose to 368,500. After steadily declining since last fall, applications have leveled off in recent weeks. The four-week average is essentially unchanged over the past two months.

Last week's jobless claims may have been thrown off by the difficulty of adjusting the figures for the Easter and Passover holidays.

"It's an absolute nightmare trying to adjust weekly numbers," Dales cautioned.

Most economists are waiting to see April's hiring figures before declaring the job market has weakened.

The unemployment rate has fallen from 9.1 percent in August to 8.2 percent last month. That's the lowest level since January 2009, President Barack Obama's first month in office.

Stronger job growth from December through February has helped lower the rate. But part of the decline has been because more people gave up looking for work. People who are out of work but not looking for jobs aren't counted among the unemployed.

A third report showed that modest growth hasn't really spurred inflation. U.S. wholesale prices were flat in March after a drop in energy prices offset rising costs for food and pickup trucks.

Mild inflation leaves the Fed with leeway to help stimulate the economy.

Most economists expect the Fed will hold interest rates low at its April 24-25 meeting. But policymakers appear less inclined to take further steps to boost growth. Minutes from their March 13 meeting showed only a couple members expressed support for purchasing more bonds as a way to drive down long-term interest rates and promote more borrowing and spending.

Still, Janet Yellen, vice chair of the Federal Reserve, said the economy remained weak. She signaled in a speech Wednesday that members could change their mind, if conditions worsened.

"I anticipate that the U.S. economy will continue to recover only gradually and that labor market slack will remain substantial for a number of years to come," she said.