

Economists say 2nd half of 2011 will be stronger

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WASHINGTON — Farewell and good riddance to the first half of 2011 — six months that are ending as sour for the economy as they began.

Most analysts say economic growth will perk up in the second half of the year. The reason is that the main causes of the slowdown — high oil prices and manufacturing delays because of the disaster in Japan — have started to fade.

“Some of the headwinds that caused us to slow are turning into tail winds,” said Mark Zandi, chief economist at Moody's Analytics.

For an economy barely inching ahead two years after the Great Recession ended, the first half of 2011 can't end soon enough. Severe storms and rising gasoline prices held growth in January, February and March to a glacial annual rate of 1.9 percent.

The current quarter isn't shaping up much better. The average growth forecast of 38 top economists surveyed by The Associated Press is 2.3 percent.

The economy has to grow 3 percent a year just to hold the unemployment rate steady and keep up with population growth. And it has to average about 5 percent growth for a year to lower the unemployment rate by a full percentage point. It is 9.1 percent today.

As welcome as the stronger growth envisioned in the second half is, the improvement should be modest. For the final six months of the year, the AP economists forecast a growth rate of 3.2 percent.

So far this year, high gas and food prices have discouraged people from spending much on other things — from furniture and appliances to dinners out and vacations. That spending fuels economic growth.

Auto supplies curbed

Some U.S. auto factories had to suspend or trim production after the March earthquake in Japan interrupted supplies of parts and electronics. American dealerships have had fewer cars to sell.

The latest dose of glum news: The government reported Monday that consumer spending was about the same in May as in April, the first time in a year that spending hasn't increased from the previous month.

The report confirmed the toll that high gas prices, Japan-related disruptions and high

unemployment have taken on personal spending in the second quarter.

“Here's to a better third,” says Jennifer Lee, senior economist at BMO Capital Markets.

Relief is in sight, economists say. Oil prices have been falling since Memorial Day. The drop has lowered the price of regular unleaded gasoline by 23 cents in the past month, to a national average of \$3.57 a gallon, according to AAA.

The timing of the drop in gas prices is especially fortunate because they usually rise during summer driving season, says Robert DiClemente, chief U.S. economist at Citigroup.

And the kinks in the global manufacturing chain are starting to be smoothed out as the Japanese factories that make cars and electronics resume production.

Storms boost building

Diane Swonk, chief economist at Mesirov Financial, says auto sales should improve “quite substantially” later this year. because the lost production from the quake is coming back faster than had been expected.

One sign of that rebound came when the Federal Reserve Bank of Chicago reported Monday that manufacturing in the Midwest rebounded in May after falling sharply in April.

Last week, the government said orders for machinery, computers, cars and other durable goods rose slightly in May. Economists attributed the turnaround, in part, to Japanese factories that started to rev up.

The U.S. economy is also expected to get a slight boost from reconstruction in flood-ravaged sections of the South and Midwest. Construction workers will be employed rebuilding homes and businesses. People will replace destroyed cars and other possessions. Analysts predict the losses from the floods in the April-June quarter will be reversed in the July-September quarter.



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