Economic Signals Suggest
A Recovery Is in Full Swing

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Factory orders soared in December and an index of nonmanufacturing index jumped last month, signaling an economic recovery in full swing.

The 1.1% jump in factory orders was well above economists' average prediction of 0.2%. Patrick Fearon, economist with A.G. Edwards & Sons in St. Louis, noted that the surge included an upward revision in nondefense capital-goods orders, a proxy for corporate capital spending, which until recently had lagged the broader recovery. Mr. Fearon cited productivity gains, healthy profits and the lower dollar as contributing factors to increased business confidence. "Taken all together, it's a very positive report," he said. Meanwhile, Lakshman Achuthan, managing director of the Economic Cycle Research Institute in New York, said economists' forecasts simply are trailing the recovery, much as many were slow to anticipate the recent downturn. Mr. Achuthan said recent strong growth in his institute's manufacturing index suggests "there is a very healthy, strong recovery going on in the manufacturing sector, and it's not about to peter out."

The big question -- especially for unemployed workers and for a presidential campaign in which job losses are a crucial issue -- is whether the strong factory orders presage a pickup in hiring. Mr. Fearon said both manufacturers and the companies investing in capital goods might be inclined to hire. "I don't think we're going to have actual manufacturing job growth ... but what we should be prepared for is less job losses," Mr. Acuthan said. He forecasts that the service sector, which represents the bulk of the economy, will more than pick up the employment slack in coming months. One positive sign: The Institute for Supply Management reported today that its nonmanufacturing business index, which gauges activity in the service sector, grew in January at its fastest pace since it the ISM began tracking the sector six and a half years ago.