The U.S. economy in the second half of this year is expected to grow at its strongest pace in almost four years.

The nation's gross domestic product -- the broadest measure of the total output of goods and services -- is expected to grow at a seasonally adjusted annual rate of 4.7% during the current quarter and 4.0% in the fourth quarter, according to a monthly survey of 53 economists conducted by The Wall Street Journal Online.

The growth rates taken together would be the fastest since the economy expanded at an annual pace of more than 6% in the second half of 1999. And those projected quarterly growth rates mark a sharp upward revision from August estimates of 3.6% and 3.8% respectively.

Economists have forecasted turning points in the past that haven't materialized, and any estimate needs to be viewed with caution. Still, economists say there is mounting evidence that consumer and business spending has accelerated, boosting economic growth. New car and light truck sales, for instance, totaled 1,631,755 vehicles for August, an annualized selling rate of nearly 19 million vehicles and among the strongest monthly rates in the past two years. Among retailers, Wal-Mart Stores Inc. beat its own sales estimate for last month and back-to-school sales were generally considered robust. Meanwhile, manufacturers' orders for durable goods are rising and recent reports suggest the manufacturing sector is boosting output again.

"It has all of the earmarks of a major turning point," says Allen Sinai, chief economist at Decision Economics Inc., a forecasting firm.

One potential factor in the unusually large upward revisions: President Bush's tax-cut package, which was enacted by Congress in the spring. Economists weren't sure how aggressively consumers would spend the cash they received from rebate checks and lower withholding rates that kicked in over the summer. Now, "it seems that we've gotten more sustained spending out of tax cuts than I had expected," said John Silvia, chief economist at Wachovia Corp. He upped his third-quarter growth estimate to 5.5% from a projection of 3.4% in August.

Other factors appear to be at play in the growth spurt as well, including stronger-than-expected increases in corporate profits, the lingering benefits of a spring-time mortgage-refinancing boom and relief from the end of major combat in Iraq.
After this initial burst of growth this year, forecasters believe the pace of activity will slow to a more sustainable, though still respectable, rate of 3.85% in the first half of 2004.

Yet several important risks to the outlook remain, and still could jeopardize the sustainability of the expansion that seems to have taken hold in recent months. First on the radar screen of most economists is the job market. Despite a recent pickup in economic growth, employers don't seem to be adding workers.

This point was underscored in a Labor Department report Thursday, which showed that the number of people filing first-time claims for unemployment benefits rose in the week ending Sept. 6 to 422,000, from an upwardly revised 419,000 the week before. Economists generally believe a figure below 400,000 implies a stable-to-improving job market. But claims have now risen for three consecutive weeks after dipping below 400,000 in July and August.

Nearly half of the economists surveyed said a lack of job creation posed the biggest threat to the nascent expansion. Yet most economists now expect payrolls to start rising by the end of the year. Thirty-seven of the 53 economic forecasters surveyed expected payrolls to expand by one million or more over the 12-month period. On average, the group expected the economy to produce almost 1.4 million new jobs between this month and September 2004. This averages to about 115,000 a month, though still not enough to bring down the unemployment rate by much. The jobless rate is expected to remain at 6.1% through November and then to decline slightly to 5.9% by May 2004.

"The improvement in economic activity hasn't reached critical mass," said John Lonski, chief economist at Moody's Investors Service Inc. "It has not stayed around long enough to compel many companies to increase employment." The risk, he said, is that if employment doesn't begin growing soon, that will weigh on incomes and could restrain consumers.

Another risk exists on the trade front. While consumer spending has clearly been on the rise, U.S. producers might not feel the full benefit from that added spending if consumers ramp up purchases of imported products. Wachovia's Mr. Silvia said he expected America's trade position to stabilize in the months ahead, meaning that exports will grow as fast as imports in dollar terms. But he notes, "that is an assumption that might easily fall apart."

A Commerce Department report Thursday showed some signs of trade stabilizing. The trade deficit widened slightly to $40.3 billion in July from $40 billion the month before as purchases of foreign goods and services climbed to their second-highest level on record. Analysts were expecting a larger deficit of $41 billion, according to a Dow Jones Newswires/CNBC poll of 21 economists.

The July report showed imports advanced 1.6% from the month earlier to $126.47 billion, the highest level since September 2000. U.S. purchases of foreign-made capital goods rose by $25 million while Americans bought $745 million more foreign consumer goods, such as toys, games and apparel. The nation's energy bill climbed to $11.67 billion in July from $10.56 billion in the prior month.

But the rise in imports was partially offset by exports, which rose 2% from June to $86.15 billion, the highest level since May 2001. According to a J.P. Morgan analysis, exports of goods and services are up at a 26% annualized rate over the past three months. That could be a sign that a recovery is starting to
take hold overseas, which has the potential to provide critical support to a U.S. expansion.

The U.S. registered a $65.3 billion trade deficit with China during the first seven months of the year, up sharply from $52.5 billion a year ago. That trade gap is larger than the deficit with all of Western Europe. But some of China's gains appear to be coming at the expense of other trading partners in Asia. While the trade gap with China widened, the trade deficit with the rest of the Pacific Rim narrowed slightly for the first seven months of the year to $60.9 billion, from $61 billion last year. The trade deficit with Japan, for example, has narrowed to $38.1 billion, from $38.9 billion during the same period last year.

The other wild card for the economy is the fiscal picture. Economists at Goldman Sachs are projecting that the upturn in growth will fizzle by the second half of next year, after the wave of tax cuts now hitting the economy have run their course. Bill Dudley, Goldman's chief U.S. economist, projects that growth will slow from a 4.5% rate in the second half of this year to a 2.7% rate in the second half of next year because the tax cuts are so heavily weighted to the current period.

One in five economists said the tax cuts, many of which expire after next year, should be allowed to sunset. Two in five said they should be made permanent. The others suggested various alternatives.

For the most part, economists don't see mounting U.S. deficits as an immediate problem for the economy. In the short-term, they boost growth by adding to government expenditures and expanding consumer spending. Half of those surveyed said the higher deficits are pushing interest rates higher but not high enough to jeopardize growth.

Write to Jon E. Hilsenrath at jon.hilsenrath@wsj.com4

URL for this article:
http://online.wsj.com/article/0,,SB106330385434813200,00.html

Hyperlinks in this Article:
(1) javascript: window.open('http://online.wsj.com/public/resources/documents/info-fore0903_frameset.html','fore0903','toolbar=no,scrollbars=no,location=no,width=750,height=510,left=20,top=30'); void(');
(2) javascript: window.open('http://online.wsj.com/public/resources/documents/info-fore0903_frameset.html','fore0903','toolbar=no,scrollbars=no,location=no,width=750,height=510,left=20,top=30'); void(');
(3) http://online.wsj.com/article/0,,SB106328317180701400,00.html
(4) mailto:jon.hilsenrath@wsj.com
(5) http://wsj.com/Economists
(6) http://online.wsj.com/documents/bbjobs-20030911.htm
(7) http://online.wsj.com/documents/bcom-fuectrade.htm
(9) http://online.wsj.com/documents/bcom-fuecemp.htm
(10) http://online.wsj.com/documents/bbimp-20030911.htm
(11) http://online.wsj.com/documents/bcom-fuecemp.htm

Updated September 11, 2003 11:59 p.m.