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Economy takes off — but will it last?

By Bonnie Pfister

The U.S. economy roared to life in the third quarter, as tax-relieved consumers pried open their wallets and businesses, too, began spending money again.

The estimated gross domestic product — the value of all goods and services produced in the United States — grew 7.2 percent during July, August and September, the Commerce Department said Thursday.

In a period in which tax credits, rebates and lower withholding rates all were in effect, personal spending increased 6.6 percent as Americans bought pricey durable goods like appliances and automobiles. With mortgage and other interest rates at historic lows, income from home sales rose 20 percent.

But while the Bush administration championed the biggest growth spurt in 19 years — more than double the growth of the previous quarter, in which defense spending moved the GDP upward — Thursday's good news is unlikely to be sustained for long.

The consumer spending increase is mostly attributable to one-time tax rebates and wave of home refinancing that has probably reached its crest, economists said.

"This is a tax-cut spike. Everything piled up in the right direction," said John Rutledge, chairman of private equity investment firm Rutledge Capital and an independent White House economic adviser. "The question mark is sustainability."

Still worrisome, too, is the continued lack of new jobs and stagnating income for those who have them.

Employment fell by 146,000 from the second to the third quarters, and real wages are flatlining, according to the Economic Policy Institute in Washington.

"This quarter's (GDP) figures are remarkable, and all sectors improved," institute economist Christian Weller said. "But you can't cut taxes every single quarter. At some point, consumption (must be) driven by something else, rather than more debt or more tax cuts. The more sustainable thing has to be income growth." Since World War II, jobs typically have recovered about 15 months after the beginning of a recession, according to Labor and Commerce department data compiled by Democratic members of the Joint Economic Committee. That changed after the 1990 recession, when job creation remained sluggish longer.

Since the downturn of mid-2001, employment has continued to be scarce, leading some to theorize that "jobless recovery" is the new economic model.

Bill Sirakos, chief economist at San Antonio's Cullen/Frost Bankers, disagreed, although he said productivity improvements have somewhat decoupled job gains from economic growth.

"In this country there are ample opportunities for job training, for education and for the ability to move along with the gains in productivity, instead of trying to fight them," Sirakos said.

Because the most recent downturn was gradual, he added, the recovery of jobs would follow suit.

One positive signal for the job market is in the 11 percent increase in capital spending by businesses. Corporate spending on computer equipment and software alone grew by 15.4 percent.

"Recently we saw the best performance in corporate profits in the third quarter in three years," Sirakos said. "As companies put on sustained profitability, they begin to expand. That expansion takes the form of capital investment and new jobs."

Additionally, private inventories fell $36 billion in the third quarter, which could mean companies will have to add workers to start replenishing.

Such hiring would cement the notion that economic recovery is here to stay, said Wells Fargo & Co economist Sung Won Sohn.

"For the corporate sector, demand is up, the balance sheet has been repaired and liquidity has improved," Sohn said. "With rising revenues and much less financial stress, businesses should rebuild inventories and increase employment."