USA TODAY

Economy's looking up for now as double-dip fears ease

Updated 9/7/2010 8:06 AM

By David J. Lynch, USA TODAY

Never has mediocre looked so good.

A steady flow of not-entirely-terrible economic news has eased worries of renewed recession and shifted the political spotlight from the Federal Reserve to the White House.

"The August data we've been getting has been encouraging. ... It's very likely that the economy continues to move forward in the coming months," said economist Bruce Kasman of J.P. Morgan.

The economic news increasingly has a bipolar cast to it. One day, a downward revision to the second-quarter growth rate makes a double-dip recession look like a real threat. The next, a drop in first-time jobless claims suggests that the wounded U.S. economy may muddle through after all.

"The economy is having a slow and halting recovery, because that's the nature of recessions triggered by financial crises," says Rob Shapiro, chairman of consulting firm Sonecon in Washington, D.C.

JOBS OUTLOOK: Latest data for all states, 384 metros

RECOVERY WATCH: Tracking the economy

Last week saw satisfactory results on private-sector payrolls, manufacturing and even the beleaguered housing sector. Financial markets noticed: The yield on the 10-year Treasury hit 2.71% Friday, up from 2.47% earlier in the week, as investors anticipated that faster growth would make stocks more attractive.

Market fears haven't completely dissipated. Noted bear David Rosenberg, chief economist of Gluskin Sheff, acknowledged that the latest payroll figures don't support his argument that the economy is contracting. But weakness in the fine print — including a drop in manufacturing jobs — does.

Likewise, Nouriel Roubini, among the first to spot the impending credit bubble collapse, said on his Twitter feed that the risk of a double dip is rising.

The brightening economic picture lifts pressure on Federal Reserve Chairman Ben Bernanke to take further extraordinary measures to expand credit. In an Aug. 27 speech, Bernanke said the Fed could step up the fight if the economy got worse.

President Obama, however, is expected to unveil later this week new tax cuts designed to encourage hiring. Though last Friday's private-sector job growth of 67,000 was better than expected, the unemployment rate rose to 9.6% as more discouraged workers re-entered the labor force. The economy remains a gaping Democratic Party vulnerability heading into November's elections.

The next test for the economy comes Thursday with the release of July trade figures. IHS Global Insight forecasts a narrowing of the monthly trade deficit to \$47 billion from June's \$49.9 billion. "This is not going to be a recovery that moves in a straight line. There are going to be bumps along the way," said Alan Krueger, Treasury's chief economist.