



U.S. Economy: Profit Surge May Help Broaden Expansion (Update1)

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By Timothy R. Homan



March 26 (Bloomberg) -- The fastest pace of economic growth in six years during the final three months of 2009 fueled a surge in **corporate profits** that may set the stage for job gains and a broadening of the U.S. recovery.

Company earnings increased 8 percent in the fourth quarter, capping the biggest **year-over-year gain** in 25 years, figures from the Commerce Department showed today in Washington. The economy expanded at a 5.6 percent annual rate.

"The fact that you see a sustained recovery in profits over the last four quarters, that's a vote of confidence that the next phase of the recovery could be upon us," said Jonathan Basile, an economist at Credit Suisse in New York. "And that phase is when companies begin to spend those profits, with more investment and more hiring."

Caterpillar Inc. and **Boeing Co.** are among manufacturers seeing stronger demand as business investment, consumer purchases and exports keep climbing, indicating the recovery is being maintained this year. **Americans' optimism** was higher than anticipated in March as companies slowed the pace of job cuts, a separate report showed.

The Reuters/University of Michigan final consumer sentiment index for this month held at 73.6. The preliminary reading of the measure, released two weeks ago, was 72.5. Economists forecast the final gauge would fall to 73, according to the median estimate in a Bloomberg News survey.

Gains in sentiment that may lead to a pickup in consumer spending, which accounts for about 70 percent of the economy, hinge on employment growth that has yet to materialize.

Stocks Advance

Stocks rose on analyst upgrades, takeover speculation and a European plan to help Greece avoid default before erasing most of the gain amid concern about tension between North and South Korea. The **Standard & Poor's 500 Index** advanced less than 0.1 percent to 1,166.59 at 4:04 p.m. in New York.

Fourth-quarter corporate profits, reported by the Commerce Department today for the first time, increased by \$108.7 billion to \$1.47 trillion. Earnings jumped 31 percent from the same period in 2008, the biggest increase since 1984.

The economy was forecast to grow at a 5.9 percent annual pace, the same as the government estimated in February, according to the median estimate of 76 economists in a Bloomberg survey.

The downward revision reflected larger decreases in commercial construction and stockpiles, and a smaller gain in consumer spending than estimated last month.

Inventories and Growth

Efforts to stabilize inventories provided the biggest boost to growth last quarter, contributing 3.8 percentage points to GDP.

Business investment in new equipment advanced at a 19 percent pace last quarter, the biggest gain since 1998.

A Commerce Department report this week showed companies ordered more **long-lasting goods** from factories in February, driven primarily by bookings for commercial aircraft, machinery and metals. The gains suggest the manufacturing rebound will keep propelling the recovery even as commercial construction continues to slump.

Boeing, seeking to reclaim its title as the world's biggest commercial-plane maker, said this month it will boost production of its largest jets to meet increasing demand. There has been a "dramatic pickup" in air-freight shipments and passenger travel in the past four to five months, marketing chief Randy Tinseth said in a March 19 interview.

Hiring Plans

Caterpillar, the world's largest maker of construction equipment, also said this month it plans to hire 500 workers starting this year to expand a generator plant in Newberry, South Carolina. Caterpillar has started recalling some workers in Indiana and other states after cutting more than 19,000 jobs last year amid the recession.

Consumer spending rose at a 1.6 percent pace last quarter after a 2.8 percent gain in the prior three months. Spending added 1.2 percentage points to GDP. Household purchases dropped 0.6 percent last year, the biggest decrease since 1974.

The **job market** is one part of the economy where a recovery has yet to take hold. Payrolls fell by 36,000 last month after a 26,000 drop in January. The U.S. has lost 8.4 million since the start of the recession in December 2007, the most of any slowdown in the post-World War II era.

Payrolls probably increased this month, according to the median estimate of economists surveyed before a Labor Department report due April 2.

Bernanke on Labor Market

Federal Reserve Chairman **Ben S. Bernanke** said yesterday in testimony to the House Financial Services Committee that the "unemployment situation is very weak," with 40 percent of the jobless being out of work for a long time, and the housing market is "still quite weak." Policy makers this month reiterated a pledge to keep the target interest rate on overnight loans between banks low for "an extended period."

According to the University of Michigan's survey, one in four consumers reported hearing news of job gains this month, compared with one in 20 a year ago. Americans still said they expect some economic setbacks over the next five years, growth will be slow and the unemployment rate will have "only marginal declines in the year ahead."

"Consumers anticipated the economy to improve but nonetheless expected their own personal financial situation to remain unfavorable," Richard Curtin, the survey's chief economist, said in a statement.

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March 25 (Bloomberg) -- Hugh Johnson, chairman and chief investment officer at Johnson Illington, talks with Bloomberg's Carol Massar and Matt Miller about the outlook for the U.S. economy and stocks. Johnson says the country's recovery is not strong enough for the Federal Reserve to raise interest rates. Larry Levin of Trading Advantage also speaks.



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March 25 (Bloomberg) -- U.S. Federal Reserve Chairman Ben S. Bernanke speaks about the outlook for monetary policy and the central bank's exit from liquidity programs initiated in response to the financial crisis. Bernanke, testifying to the House Financial Services Committee, says the U.S. economy still needs low interest rates and that the central bank will be ready to tighten credit "at the appropriate time." (This report contains excerpts of Bernanke's testimony. Source: Bloomberg)

