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Uncertainty Over Economy Clouds Obama Speech

By MOTOKO RICH

A year ago, the economy looked as if it were speeding down the runway, only to stall out in the spring.

Now tentative signs of a pickup are emerging across the country again. Factory production, retail sales and existing-home sales are rising, while unemployment claims are trending down. Companies like [General Motors](#) and [Macy's](#) have recently announced hiring plans, and bank lending to businesses is starting to expand. Investor sentiment is strengthening, as major stock market indexes climb to their highest levels since mid-2008.

This time, though, economists and business leaders are more measured in their optimism about the recovery. Growth is real, they say, though they remain unconvinced it will accelerate all that much.

As [President Obama](#) prepares to tackle the economy in his [State of the Union address](#) Tuesday night, economists and industry executives are likewise sifting through the data.

The darkest clouds that marred the economic landscape last summer and fall have indeed lifted, but expectations have also been reined in. Many of the factors that have restrained growth, including heavy household debt and strained state and local budgets, remain. Parts of Europe are still unstable, and higher food and energy prices could crimp household spending. The construction industry has not yet

staged a comeback.

The unemployment rate, stubbornly high at 9.4 percent, could climb higher as more people who stopped looking for work return to the job search. And few see enough jobs being created over the next year to help more than a small portion of the eight million people who lost work during the [recession](#).

So even if the economy is picking up steam, and the president is hoping to ride its momentum, making a significant dent in joblessness will probably remain frustratingly difficult for him and his new economic advisers.

“It’s really a muddle-through economy,” said David Rosenberg, chief economist and strategist for the investment firm Gluskin Sheff & Associates.

Part of what has changed is simply a growing belief that unlike in previous recoveries, the economy will not suddenly ignite.

“After a normal recession, once the economy starts growing again, within six months, you’re back to where you started,” said Kenneth S. Rogoff, a professor at Harvard and co-author, with Carmen M. Reinhart, of “This Time Is Different,” a history of financial crises. “We’re still just crawling back to where we started.” He added, “It’s going to take a few more years, really, before we’re back at whatever normal is.”

One reason that hope was crushed last spring was that debt crises in Europe’s weak countries destabilized the stock markets, in turn unnerving consumers. And when fiscal stimulus measures expired, like the tax credit for first-time homebuyers, the housing market sagged.

Unlike last year, hardly anyone is expecting skyrocketing growth in coming months. Industry leaders instead talk of stable improvement.

“We don’t expect a big upswing in sales,” said Tom Henderson, a spokesman for General Motors. “It’s just slow and steady, which is tracking along what we’re seeing in the economy.”

The automaker announced on Monday that it was beginning a third shift at its pickup truck assembly plant in Flint, adding 750 jobs. Most of those slots will be filled by people who were laid off in recent years.

Overall sales are starting to improve, and bank lending to businesses rose in the fourth quarter of last year for the first time since the end of 2008, according to an analysis of Federal Reserve data by Mark Zandi of [Moody's Analytics](#).

Small businesses — which represented about two-thirds of job growth in the last recovery — are still cautious.

“It’s not that sales haven’t been improving, but it’s improving from a really horrible level of a year ago,” said William C. Dunkelberg, chief economist for the National Federation of Independent Business.

“We still haven’t got Main Street firing on many pistons.”

Some small businesses are having trouble getting bank loans because they do not have the collateral. Ami Kassar, chief executive of MultiFunding, a small-business lending broker in Plymouth Meeting, Pa., said that many of his clients had seen the values of their homes, office buildings and warehouses fall so much that banks would not accept them as security.

Mr. Kassar said that when his clients did procure loans, they often used the money to cover payrolls rather than to hire new workers, in part because many of their largest customers were taking longer to pay their bills.

Other small businesses are concerned about what they view as onerous regulation. Jason W. Speer, vice president of Quality Float Works, a small manufacturer of parts that are used in valves and pumps in the agricultural and oil industries, said the company hired six people last year, after letting four workers go during the recession. Mr. Speer said the company, in Schaumburg, Ill., northwest of Chicago, was ready to hire two more people, but was hesitating in part because of fear of new regulations and the burden of increased corporate taxes in Illinois.

“Every little bit helps or hurts in a small company,” said Mr. Speer. “There’s a lot of agencies now that are coming out with new rulings and regulations, and it’s hard to keep up with that. So instead of hiring or giving bonuses or buying new equipment, we’re paying to cover us for regulation issues.”

President Obama recently announced plans to initiate a governmentwide review of corporate regulation, vowing to “remove outdated regulations that stifle job creation.”

That measure, along with the one-year cut in the payroll tax, could spur consumer and business spending, said Mr. Dunkelberg. Time, too, tends to generate spending, as washing machines, boilers, industrial machinery and cars eventually wear out.

Mr. Henderson of G.M. said that part of the reason the company was adding a shift in Flint was that it had seen a surge in demand from small businesses like heating and air-conditioning companies, plumbers and carpenters who were buying trucks and vans. “In the fourth quarter, our sales to this segment were up 36 percent,” he said.

Another sign of hope is in the jobs data. Last year, job growth was relatively strong in the first quarter as measured by the government, but other indicators — like the number of people filing for unemployment insurance each week and surveys of business hiring intentions — were still weak. Now, the average weekly jobless claims have fallen and several key surveys have indicated that companies are planning to hire this year.

“There is supporting evidence that the market has turned decisively,” said Joshua Shapiro, chief United States economist at MFR Inc. “If you look at all the evidence that surrounds the labor market, it’s pretty compelling that we’re on the cusp of further improvements here.”

Another encouraging sign is that federally withheld employment taxes have been rising, according to an analysis of [Treasury Department](#) data by James F. O’Sullivan, chief economist at [MF Global](#).

Once hiring picks up, it feeds many corners of the economy, including housing. As people get jobs, Mr.

O'Sullivan said, they move out of their parents' homes or split with roommates and rent new apartments. Eventually, some of them will start buying homes.

At **Toll Brothers**, a higher-end home builder, the chief executive, Douglas C. Yearley Jr., hesitates to predict robust growth after disappointment last year. "I think we're just more guarded," he said.

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