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U.S. Economy Still Expanding at Rapid Pace

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Gas prices are rising, as are mortgage rates. House prices in many once-hot markets have started slipping. The American automobile industry shows no sign of recovery. And the paychecks of most workers have not even kept up with inflation over the last four years.

Yet the national economy continues to speed ahead, with families and businesses spending money at an impressive pace. Forecasters expect the Commerce Department to report this morning that the economy grew at a rate of around 5 percent in the first quarter, the biggest increase since 2003.

The industries leading the way are ones that have been receiving far less attention than cars or real estate, though they have been adding thousands of new workers each month. In the last year, hospitals, doctors' offices and other health care employers have created almost 300,000 jobs; restaurants have added 230,000; and local governments — including schools — have added 170,000.

"The good news for the U.S. is that growth has diversified," said Nariman Behraves, chief economist at Global Insight, an economic research firm. "We aren't just relying on the consumer and housing."

Testifying before Congress yesterday, **[Ben S. Bernanke](#)**, the chairman of the Federal Reserve, suggested that the Fed would soon take time out from steadily raising its benchmark short-term interest rate to weigh the impact of its two-year money-tightening campaign.

While he is counting on growth to slow to a more moderate rate, Mr. Bernanke said, "The economy has been performing well and the near-term prospects look good."

Even building contractors and real estate agencies have been hiring more workers, a sign that higher interest rates are not yet really hurting the construction industry. "Our biggest challenge is managing cost increases that are sweeping the industry, and labor shortages," said Alan Torvie, a senior director at Opus West Construction who oversees projects in the West and Southwest.

Americans seem to have noticed the boom, too. Although polling suggests that they are deeply unhappy with the war in Iraq and worried about the price of gas, they report being generally pleased with the state of the economy.

A well-known index of consumer confidence has risen to its highest level in four years, according to the Conference Board, a research company in New York. In the most recent CBS News poll, conducted last month, 55 percent of respondents rated the economy as good, even though 66 percent of Americans said the country was on the wrong track.

In 23 years of polling by [CBS](#), only once — in late 2005 — did a higher percentage of people say the country was on the wrong track.

R. Michael Welborn, the chief administrative officer of P. F. Chang's China Bistro, a fast-growing restaurant chain based in Scottsdale, Ariz., said he could sense the gap between economic growth and overall unease. "All of the indicators look pretty positive, with the exception of gas prices," he said. "But there seems to be a level of discomfort."

Like Mr. Bernanke, many professional economists and ordinary Americans expect economic growth to slow in the rest of the year, surveys show. Higher oil prices will effectively shift some money from the United States to the Middle East and elsewhere, and higher interest rates will make it more expensive for businesses and households to borrow. But for now, the economy is on a fast track. The fact that interest rates remain low, despite the Fed's rate increases of the last two years, is a big reason. The average rate on a 30-year conventional mortgage was 6.3 percent last month, lower than at any point in the 1970's, 1980's or 1990's, according to the Fed.

In parts of California, Florida and the Northeast — places where home prices soared in recent years — houses are no longer being snapped up, and many appeared to be selling for less than they would have last summer. But the housing market is still healthy in much of the country.

In two new high-end developments built by [Toll Brothers](#) in Chicago and Phoenix, lotteries were used to allocate homes because demand exceeded supply. "If you had an overall depressed market, you could not have that kind of phenomenon," said Robert I. Toll, chief executive of the company, which is the nation's biggest builder of luxury homes.

Spending by upper-income families appears to be driving much of the economy's growth. The average hourly wage for rank-and-file workers — who make up roughly 80 percent of the work force — has fallen by 5 cents in the last four years, to \$16.49, after inflation is taken into account. Yet most well-paid workers have continued to receive raises.

Somerset Collection, an upscale mall near Detroit, will be undergoing renovations in coming months to make room for more stores, including a [Barneys](#) Co-Op, an outlet store for Barneys New York, the high-end clothing retailer, and for Stuart Weitzman, which sells designer shoes and handbags. Restaurants around the country are also benefiting as Americans spend an ever-larger portion of their food budgets on prepared meals.

P. F. Chang's now owns 230 restaurants — including about 100 Pei Wei Asian Diners, which are less expensive than the chain's main restaurant — up from 208 at the start of the year. It employs 21,000 workers; Mr. Welborn said the company had recently had to raise wages to attract workers.

"It's becoming increasingly challenging for us to find talent in the markets we're opening up in," he said.

Healthy economic growth in other countries, including China and India, is also playing a role. Although this country buys far more from those countries than it sells to them, strong global growth is lifting American exports, economists say.

Last week, the [International Monetary Fund](#) predicted that the world economy would grow at 4.9 percent this year, up from 4.8 percent in 2005.

The [Boeing](#) Corporation, for instance, plans to deliver 395 commercial planes in 2006, up 36 percent from a year ago, many of them to foreign airlines. The company has already sold all the planes it will build this year and 98 percent of the planes it will build in 2007.

In his testimony yesterday, Mr. Bernanke emphasized that the economy still faced serious long-term issues, chiefly the budget deficit and the trade deficit. Logic suggests that both will have to shrink at some point, curtailing economic growth when they do. But there seems to be little chance that taxes will rise, that government spending will be cut or that the trade deficit will close anytime soon.

In the short term, the bigger economic risks may be that interest rates or gas prices reach a tipping point that damages growth.

James W. Paulsen, chief investment strategist for Wells Capital Management, noted that in past decades the economy often continued to flourish even as interest rates were increasing — until long-term borrowing costs jumped above 6 percent. At that level, companies often struggle to make a large enough profit to cover their costs, so they stop expanding.

"There's no magic number," Mr. Paulsen. "But it does seem like the relationship changes around that 5½ or 6½ area."

The rate on 10-year Treasury notes closed at 5.07 percent yesterday, up from 4.55 percent at the end of February.

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