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US Recession Shows Signs of Easing
Consumer and Housing Data Encouraging

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Call off Depression 2.0.

While still far from healthy, the U.S. economy is showing some encouraging signs of life as consumers tiptoe back to the shopping mall, home builders pick up their hammers and manufacturers clear inventory.

That suggests the soon-to-be-completed first quarter will be as bad as it gets, and apocalyptic fears of another lengthy, painful Great Depression look unwarranted.

But it does not mean the recession is over.

A return to growth is still several months away, and it will probably be far longer before the economy is strong enough to create jobs. That means unemployment will continue to rise, and more people will fall behind on bill payments, keeping the pressure on banks at the epicentre of the financial crisis.

"I don't think that this is the beginning of a recovery. It's the beginning of a much slower pace of decline," said Ethan Harris, an economist with Barclays in New York.

A recent round of less-dire economic data has raised hopes the economy is at least beginning to crawl, if not walk. The latest evidence came on yesterday when the government said housing starts and building permits rebounded in February.

Work began on 583,000 homes at an annualized rate in February, a 22% rise from January and well above analysts expectations. While the jump was likely spurred by warmer weather, which boosted condominium construction, permits also increased 3% to a 547,000 annual pace.

This followed last week's figures on retail sales, which showed consumers were starting to buy more than just basics. Discretionary categories, such as electronics and furniture, showed strength.

"We get a sense that consumers are not necessarily cowering in their fox holes like they were in the fourth quarter, right after Lehman Brothers blew up," said Jay Bryson, global economist at Charlotte, N. C.-based Wachovia Corp..

"Some of the shock is over. Granted, consumer confidence isn't high at all, but the shock is over," he added.

Businesses that were caught off guard by the steep drop in consumer spending over the final months of 2008 have been paring inventories aggressively to start the year. That means if the bounce in spending holds up, manufacturers will soon need to boost production.

Sensing that the worst may soon be over, investors have begun putting a bit more money into some of the hardest-hit sectors, including retailers and home builders.

The Standard & Poor's retailing index was up 3% yesterday and has tacked on 18% since a March 6 trough. The Dow Jones home-construction index has risen 25% over that time.

Economists think the policy response from Washington offers the best hope that these tentative signs of life will translate into economic growth before the year is out. Unfortunately, policy missteps pose the biggest risk to recovery.

The US$787-billion stimulus package approved last month is putting more money into consumers' pockets, but officials have struggled to convince investors and voters that they have a handle on the financial mess and are moving quickly to fix it.

Wall Street's ups and downs in recent weeks seem to be tracking investors' confidence in the government's response rather than prospects for the economy, Mr. Harris said.

"Whether the economy recovers or not is still very much a policy question. This little mini-improvement in the consumer won't have much life if policy doesn't work."

It becomes a bit of a chicken-and-egg problem, but if consumers keep spending, the pace of job losses should slow, and that would bring welcome relief to the banks. But if banks keep wobbling, the flow of credit to companies and consumers will remain disrupted, and that will put a chill on spending.

The most likely outcome is that the economy contracts at a slower rate in the second quarter than in the first, and Washington's deep pockets eventually provide a kick.

"At some point, presumably by the end of the year, we'll just kind of crawl our way out of recession and into some kind of low-growth picture," Mr. Harris said.