Economy Grew More Slowly In Summer Than Thought

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WASHINGTON (AP) — The U.S. economy grew more slowly in the summer than previously thought because consumers spent less than the government had first estimated. But economists expect growth in the current October-December quarter to be stronger.

The Commerce Department says the economy grew at an annual rate of 1.8 percent in the July-September quarter. That was the fastest growth this year, up from 1.3 percent in the April-June quarter. But it was down slightly from last month's estimate that the economy was expanding at a 2 percent rate in the summer.

The government now estimates that consumer spending grew at a 1.7 percent annual rate last summer, instead of 2.3 percent. The updated estimate reflects data showing less spending on hospitals.

Economists think the economy is growing at an annual rate of more than 3 percent in the final three months of this year. That would be the fastest pace since a 3.8 percent performance in the spring of 2010.

Among the positive factors are a brightening job market, strong holiday shopping, further gains in factory production and cheaper gas prices, which leave consumers with more money to spend on other items.

Stronger growth would be needed to significantly drive down the unemployment rate. Unemployment did fall to 8.6 percent last month after remaining around 9 percent for 2½ years. The rate is now the lowest since March 2009, two months after President Barack Obama took office. Unemployment passed 9 percent that spring and had stayed there or higher for all but two months since then.

Still, Obama faces a re-election vote in less than a year and a presidential campaign that will turn on the economy. He may face voters next fall with the highest unemployment of a sitting president seeking election since World War II. Unemployment was 7.8 percent when Obama took office in January 2009.

There are also threats that could derail the economy's modest recovery. The biggest is Europe, where the 17 nations that use the common euro currency are struggling to deal with debt problems and keep their currency union together. Many economists are already worried that Europe has entered another recession, which would be bad news for U.S. companies that export to that region.

Another source of uncertainty for 2012 is what Congress will end up doing about extending the Social Security payroll tax cut. The tax cut, which benefits 160 million

Americans, is set to expire Jan. 1. Also expiring on Jan. 1 will be extended unemployment benefits for the long-term unemployed.

If lawmakers don't renew the tax cut and the extended benefits, it could lower economic growth by as much a full percentage point in 2012.

Mark Zandi, chief economist for Moody's Analytics, said that he is forecasting economic growth of 2.6 percent for 2012 if the tax cut and extended benefits are renewed. But if those programs are allowed to lapse, Zandi predicted the economy will only manage to grow by 1.7 percent next year, a lackluster pace that would match what many analysts expect for all of 2011.

The third-quarter pickup in growth came even though incomes after taxes fell at a 1.9 percent rate in the July-September period. It was the sharpest decline in two years, reflecting still-high unemployment and lower pay raises.

The government's last look at economic growth in the third quarter showed that the economy received a boost not only from a pickup in consumer spending but also from a surge in business investment on equipment and software. Such investment grew at an annual rate of 16.2 percent.

Trade was also a positive factor as growth in U.S. exports outpaced imports. But government spending fell at an annual rate of 0.1 percent. The decline reflected sharp cutbacks as state and local governments cope with budget problems.