

U.S. Economy Growth Better Than Expected

Martin Crutsinger, AP Economics Writer

WASHINGTON (AP) — The U.S. economy grew at a 2.7 percent annual rate from July through September, much faster than first thought. The strength is expected to fade in the final months of the year because of the impact of Superstorm Sandy and uncertainty about looming tax increases and government spending cuts.

The Commerce Department said Thursday that growth in the third quarter was significantly better than the 2 percent rate estimated a month ago. And it was more than twice the 1.3 percent rate reported for the April-June quarter.

The main reason for the upward revision to the gross domestic product was businesses restocked at a faster pace than previously estimated. That offset weaker consumer spending growth.

GDP measures the nation's total output of goods and services — from restaurant meals and haircuts to airplanes, appliances and highways.

Most economists say economic growth is slowing to below 2 percent in the current October-December quarter. That's generally considered too weak to rapidly lower the unemployment rate.

Paul Ashworth, chief U.S. economist at Capital Economics, said companies are likely restocking more slowly now. Businesses typically cut back on restocking when they think consumers will spend less. Consumer spending drives roughly 70 percent of economic activity.

Economists cite two reasons for the anticipated weakness in consumer and business spending.

Superstorm Sandy halted business activity along the East Coast in late October and November. And spending may weaken in the final weeks of the year, if lawmakers and Obama fail to reach a deal to avoid the "fiscal cliff." That's the name for sharp tax increases and spending cuts that would occur in January without a deal.

Companies are "likely thinning inventories just in case Congress fails to do its job, which is always a possibility," said Joel Naroff, chief economist at Naroff Economic Advisors.

A separate report Thursday showed the negative impact of Superstorm Sandy is starting to fade. The number of Americans seeking unemployment benefits fell 23,000 to a seasonally adjusted 393,000 last week, the Labor Department said. It was the second straight drop after Superstorm Sandy had driven applications to 451,000 three weeks ago.

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Still, consumers and businesses appeared to be more cautious over the summer, according to the GDP report.

Consumer spending grew at a weaker 1.4 percent rate in the third quarter, down from the 2 percent rate estimated a month ago and nearly in line with the 1.5 percent rate in the second quarter.

Businesses spending on equipment and software fell at an annual rate of 2.7 percent in the third quarter, the first decline since the depths of the recession in April-June 2009.

The report showed continued strength in homebuilding, which rose at an annual rate of 14.2 percent. And government spending expanded at an annual rate 3.5 percent, marking its first positive contribution to overall economic growth in two years. The increase was driven by a big jump in defense spending.

While economists predict slower growth in the final months of the year, several reports suggest economic activity picked up in October and early November. And if Congress and the White House reach agreement and avoid the fiscal cliff, economic growth could accelerate next year, many economists say.

A Federal Reserve survey released Tuesday showed improved consumer spending and steady home sales helped lift growth from October through early November in most parts of the United States. The one exception was the Northeast, where the storm led to widespread disruptions.

The Labor Department said employers added 171,000 jobs last month and hiring in September and August was stronger than previously thought.

Rising home values, more hiring and lower gas prices pushed consumer confidence in November to the highest level in nearly five years, according to the Conference Board.

A better mood among consumers appears to have encouraged businesses to invest more in October after pulling back over the summer.

There are already signs that consumer optimism is leading to more spending. A record number of Americans visited stores and shopping websites over the four-day Thanksgiving weekend, according to a survey by the National Retail Federation.

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