U.S. Economy Expands At 4.1 Percent Rate

Martin Crutsinger, AP Economics Writer

WASHINGTON (AP) — The U.S. economy grew at a solid 4.1 percent annual rate from July through September, the fastest pace since late 2011 and significantly higher than previously believed. Much of the upward revision came from stronger consumer spending.

The Commerce Department's final look at growth in the summer was up from a previous estimate of 3.6 percent. Four-fifths of the revision came from stronger consumer spending, primarily in the area of health care.

The 4.1 percent third quarter growth rate came after the economy expanded at a 2.5 percent rate in the second quarter. Much of the acceleration reflected a buildup in business stockpiles.

Economists expect growth has slowed to between 2 percent and 2.5 percent in the current quarter, in part because they believe inventory growth has slowed.

The third quarter rise in the gross domestic product, the economy's total output of goods and services, was the best performance since a 4.9 percent increase in the final three months of 2011.

Still, analysts expect that for the year, the GDP will only expand by around 1.7 percent, down from the 2.8 percent growth of 2012. Much of that drop-off occurred because consumer spending was depressed by higher taxes that took effect last January and the government's across-the-board spending cuts. The Congressional Budget Office has estimated those two factors shaved 1.5 percentage points from growth in 2013.

But the drag from the government is expected to lessen in 2014. The latest outlook for the National Association for Business Economics predicted growth of 2.5 percent in 2014.

Outside the volatility caused by changes in stockpiles, many analysts say the economy has begun to improve in the current quarter. Steady hiring has lowered the unemployment rate to a five-year low of 7 percent. And much of the November data so far have been upbeat.

Consumer spending at retail businesses rose by the most in five months. Factories increased output for the fourth straight month, led by a surge in auto production. Builders broke ground on homes at the fastest pace in more than five years, strong evidence that the housing recovery is accelerating despite higher mortgage rates. Auto sales haven't been better since the recession ended 4½ years ago. And the stock market is at all-time highs.

Analysts will pay close attention to consumer spending in the fourth quarter. It drives 70 percent of economic growth.

The government significantly boosted consumer spending in Friday's revised data, increasing it to a 2 percent growth rate, up from just 1.4 percent in the previous estimate, which has been the slowest pace since late 2009.

Congress gave final approval Wednesday to legislation that reduces federal spending cuts and averts the risk of another government shutdown early next year. The prospect of less fiscal drag next year has led many economists to predict a better year for the economy in 2014.

A stronger outlook for the economy and job market prompted the Federal Reserve this week to begin winding down its bond-buying program, which was intended to lower long-term interest rates and encourage more borrowing and spending.

The Fed said Wednesday that it would begin reducing its $85 billion-a-month in bond purchases by $10 billion in January. Fed Chairman Ben Bernanke said that if the economy keeps improving, the bond purchases will be trimmed by similar amounts at coming meetings next year.