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Economy stronger than first estimated in Q3

By Tim Mullaney – November 30, 2012

The nation's economy grew at a 2.7% annual rate in the third quarter, faster than originally estimated, because of greater strength in exports and inventories and a surge in housing-related investment, the government reported.

The growth rate is revised from the government's initial estimate of 2.0%, the Bureau of Economic Analysis reported. In the second quarter, GDP grew at a 1.3% rate.

But the details of the report worried economists, who said it seemed to set the stage for very slow growth in the fourth quarter. Consumer spending grew less than the government had reported last month. Investment by businesses in software and equipment is apparently dropping sharply, posting the first quarterly decline since 2009, as companies hold on to their money and wait out Washington's deliberations about tax increases and spending cuts scheduled in January.

"The improvement we saw during the summer quarter is a hollow one,'' said **Bernard Baumohl, chief economist at the Economic Outlook Group in Princeton**, N.J. "A key factor for the increase in growth from 2.0% to 2.7% is due to the federal government ramping up spending in advance of forced cuts next year should we go over the fiscal cliff. Indeed, every sector of the economy has had to recalibrate their strategy and brace themselves for the worst.''

The change in gross domestic product came in slightly lower than the 2.8% annual rate economists had predicted.

The boost from the initial estimate published last month suggests that the housing recovery is taking root, and the European financial crisis is having less impact on exports than initially feared. But consumers are spending less than the government first estimated, as third-quarter growth in consumer spending was revised down to 1.4% from an initial estimate of 2%. Consumers are buying more durable goods like cars and furniture, but not spending more on day-to-day services, the report said.

``It is hard to have a strong economy when households are not hitting the malls hard and businesses have assumed the turtle position, fearful of a crash due to the fiscal cliff,'' said Joel Naroff, head of Naroff Economic Advisors, a consulting firm.

More than half of third-quarter growth came from inventory accumulation and a spike in defense spending by the federal government, said IHS Global Insight economist Nigel Gault. "Neither of these will be repeated,'' he said.

The weak consumer spending and the defense buildup are signs that fourth-quarter growth of the whole economy could slow to an annual pace of 1%, Gault said.

Housing investment climbed at an annual pace of 14.2%, the government reported. The gain was the second-biggest quarterly jump in spending for new homes and remodeling since before the housing bust.

Exports of goods and services grew 1.1% in the third quarter. The government previously estimated they fell 1.6%. In the second quarter, they grew 5.3%. ###