CONSUMERS BOOST ECONOMY

4Q spending, strongest in three years, invigorates tepid growth

Associated Press

WASHINGTON — The U.S. economy grew at a 3.2 percent annual rate in the October-December quarter on the strength of the strongest consumer spending in three years, an encouraging sign for 2014.

The fourth-quarter increase followed a 4.1 percent growth rate in the July-September quarter, when the economy benefited from a buildup in business stockpiles.

For 2013 as a whole, the economy grew a tepid 1.9 percent, weaker than the 2.8 percent increase in 2012, the Commerce Department said Thursday. Growth was held back last year by higher taxes and federal spending cuts.

With that drag diminished, many economists think growth could top 3 percent in 2014. That would be the best performance since the recession ended in mid-2009.

The expansion in the final three months of 2013 was fueled by a 3.3 percent growth rate in consumer spending, a significant acceleration from 2 percent spending growth in the third quarter. It was the best spending pace since the fourth quarter of 2010. Consumer spending is particularly important because it accounts for about 70 percent of the economy.

Government spending fell at a rate of 4.9 percent last quarter. State and local government activity rose at a scant 0.5 percent rate, but federal government spending tumbled at a 12.6 percent rate. The 16-day partial government shutdown in October cut fourth-quarter growth by about 0.3 percentage point, the government said.

The strength in consumer spending reflected gains in purchases of durable goods such as autos and nondurable goods such as clothing. Spending on services also rose strongly.

Businesses invested in more equipment last quarter. There was also strength from a shrinking trade deficit, but housing construction declined.

Paul Ashworth, chief U.S. economist at Capital Economics, said he thinks growth will slow to an annual rate of around 2.5 percent in the first half of this year, in part because businesses will slow their stockpiling. But Ashworth said even this reduced growth rate should help further lower the unemployment rate and ensure that the Federal Reserve will keep reducing its stimulus this year. The unemployment rate is now 6.7 percent.

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