ECONOMY FLIES PAST GROWTH FORECASTS

GDP expands healthier than expected 3.5% in 3rd Q

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The U.S. economy grew more rapidly than expected in the third quarter, foreshadowing a projected pickup in the recovery next year.

Gross domestic product expanded at a seasonally adjusted annual rate of 3.5% in the three months ended Sept. 30, the Commerce Department said Thursday. Economists expected 3% growth, according to the median forecast from Action Economics' survey.

Federal government spending, exports and business capital outlays drove growth.

The showing marks a slowdown from the second quarter's 4.6% growth pace, but that period was aided by a strong rebound in activity after harsh winter weather caused the economy to shrink 2.1% in the first quarter.

Together, the second and third quarters produced the best six-month stretch for the economy since 2013. And growth has now exceeded 3% in four of the past five quarters. But after including the disappointing first quarter, the economy has expanded just 2% so far this year, in line with its performance for most of the 5-year-old recovery.

Business investment increased at a 5.5% rate, though it slowed from the second quarter's 9.7%. Equipment spending increased a solid 7.2%.

Federal government outlays surged 10%, including a 16% jump for defense, after falling 0.9% in the second quarter.

"After being such a massive drag on the economy in recent years, the public sector is now a big positive," economist Paul Ashworth of Capital Economics wrote in a note to clients.

Exports rose 7.8%, compared with an 11.1% increase in the second quarter. Falling imports narrowed the U.S. trade deficit, which supports growth.

Consumer spending, which accounts for more than two-thirds of the economy, increased 1.8%, slowing from 2.5% in the previous quarter. Many economists expect falling gasoline prices to bolster consumption in the current quarter.

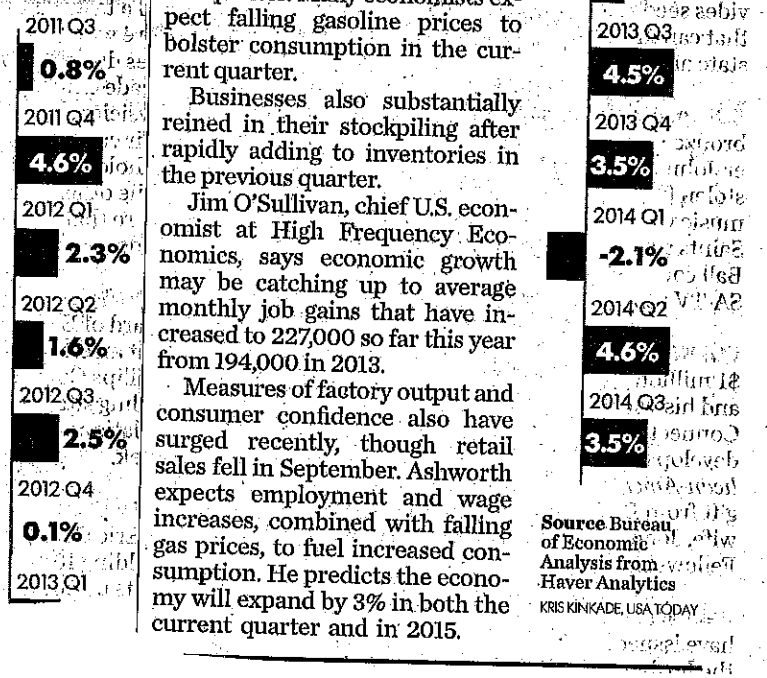
Businesses also substantially reined in their stockpiling after rapidly adding to inventories in the previous quarter.

Jim O'Sullivan, chief U.S. economist at High Frequency Economics, says economic growth may be catching up to average monthly job gains that have increased to 227,000 so far this year from 194,000 in 2013.

Measures of factory output and consumer confidence also have surged recently, though retail sales fell in September. Ashworth expects employment and wage increases, combined with falling gas prices, to fuel increased consumption. He predicts the economy will expand by 3% in both the current quarter and in 2015.

U.S. ECONOMIC GROWTH

Change in U.S. gross domestic product from previous quarter, seasonally adjusted annual rate



Source Bureau of Economic Analysis from Haver Analytics

KRIS KINKADE, USA TODAY