Economy grew even faster than we estimated

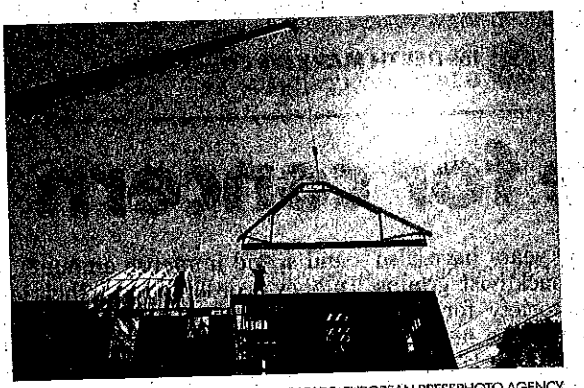
Second quarter revised up to 4.2%

Paul Davidson
USA TODAY

The economy expanded even more rapidly than previously estimated in the second quarter, the government said Thursday.

The nation's gross domestic product grew at a 4.2% annual rate, vs. the surprisingly strong 4% pace initially believed, the Commerce Department said. Economists expected a revision to 3.9%.

The higher growth estimate was due to stronger business investment of 8.4%, up from the 5.5% initially believed. Equipment spending — a measure of core capital spending — increased 10.7%.



MICHAEL REYNOLDS, EUROPEAN PRESSPHOTO AGENCY

Home construction picked up in the second quarter.

U.S. ECONOMIC GROWTH

Percentage change in U.S. gross domestic product, which is the value of all goods and services produced in the United States. Change from previous quarter at annual rate.

2013				2014	
Q1	Q2	Q3	Q4	Q1	Q2
2.7%	1.8%	4.5%	3.5%	-2.1%	4.2%

SOURCE BUREAU OF ECONOMIC ANALYSIS FROM HAVER ANALYTICS

Corporations flush with cash finally appear ready to spend more of it now that a two-year budget deal in Congress has reduced business uncertainty, recent surveys show. After putting off equipment purchases, many manufacturers are running near capacity or are weary of making repairs to aging machines, which hurts productivity, says Dan Meckstroth, chief economist of MAPI, the research arm of the manufacturing industry.

Meckstroth expects equipment spending to increase 5.7% this year and 8.3% in 2015, up from 4.6% last year. "We expect (business) investment to be a major contributor to the acceleration in the economy," he says.

Also driving the stronger second-quarter growth estimate was a 10.1% increase in exports, up from the 9.5% first believed.

However, businesses stockpiled their products at a slower rate than previously believed. Replenishment of inventories added 1.39 percentage points to growth, vs. the 1.66 percentage points first estimated.

Recently, the economy has shifted into a higher gear, with job growth accelerating, consumer confidence hitting a seven-year high, factory output rising and the housing market bouncing back from a weak first quarter.

During the first three months of the year, the economy shrank 2.1% — its worst performance in five years — largely because of temporary factors, such as extreme winter weather.

Although the weak first quarter will likely pull down growth for all of 2014 to about 2%, "a strong second half of the year sets things up nicely for growth of 3.0% next year," Capital Economics said in a research note.