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Economy grew less than thought in third quarter

By Martin Crutsinger
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WASHINGTON — The U.S. economy grew more slowly over the summer than the government had earlier estimated because businesses cut back more sharply on restocking.

The Commerce Department said Tuesday that the economy grew at an annual rate of 2 percent in the July-September quarter, rather than the 2.5 percent estimate made last month. The government also said after-tax incomes fell by the largest amount in two years, reflecting high unemployment and lower pay raises.

The downward revision was largely because of a lower estimate for inventory rebuilding. Economists believe this could lead to stronger growth in the current quarter, if businesses foresee more demand and restock.

Business investment in equipment and consumer spending were also lower than initially estimated.

Economists predict growth will strengthen to around 3 percent in the October-December quarter. Many raised their estimates after seeing encouraging October reports on retail sales and factory output.

While the July-September report is disappointing, "it is a look back in time," said Jennifer Lee, senior economist at BMO Capital Markets. "It is encouraging, to say the least, to see the October data coming in stronger, which is good news for the current quarter.

But growth could be slowed if Americans continue to earn less. After-tax, inflation-adjusted incomes fell at a 2.1 percent rate. That's steeper than the government's initial 1.7 percent estimate and the biggest drop since the third quarter of 2009, just as the recession was ending. It also marked the second straight quarterly decline.