USA TODAY MONEY

ECONOMY TAKES OFF AS SPENDING

3Q saw fastest growth in 11 years, Commerce Department says

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USA TODAY

Consumers finally look ready to drive a surging U.S. economy.

Stronger consumer spending helped power the economy in the third quarter to its fastest expansion in 11 years, the Commerce Department said Tuesday.

Gross domestic product — which measures goods and services produced in the U.S. — grew at a 5% annual rate in the July-September period. That soundly beat last month's estimate of 3.9% and economists' forecasts.

Consumer spending rose 3.2% instead of 2.2% as estimated before.

Americans spent significantly more than previously believed on health care as the Affordable Care Act increased coverage. They also splurged on big-ticket items such as cars, reflecting growing confidence in their prospects for jobs and raises, says economist Michael Gapen of Barclays Capital.

With consumption rising, "The broader economy is going to follow," he says.

Pay growth is picking up from its meager pace through most of the 5½-year-old recovery as payrolls swell. And tumbling gasoline prices have left Americans with more discretionary cash.

The GDP report also showed defense spending surged and business investment leaped 8.9% as firms replaced worn equipment and expanded capacity to meet rising demand.

Economists predict slower growth this quarter as defense spending falls, businesses stockpile less and a strong dollar cuts into exports.

But IHS Global Insight's Doug Handler says he lifted his estimate for fourth-quarter growth to 2.5% to 3% mainly because of consumers' bullishness.

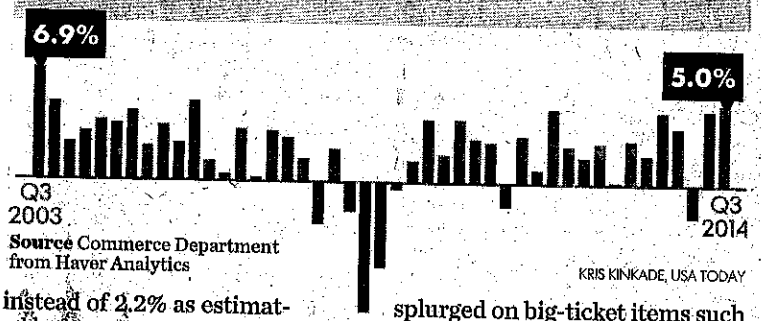
Other reports Tuesday showed consumer spending jumped a better-than-expected 0.6% in November and the Thomson Reuters/University of Michigan's consumer sentiment index hit an eight-year high this month.

Freer-spending consumers could turbocharge growth because their consumption is two-thirds of the economy. Consumer spending rose an average of 2% a year since mid-2009, but it's expected to grow 4% this quarter and average 3% in 2015, says Greg Daco of Oxford Economics.

Speed bumps are possible. Business capital spending flattened last month, a sign that a stronger dollar could slow factory output. And new home sales fell 1.6% in November.

ECONOMY CATCHES FIRE

The U.S. economy grew at its fastest annual rate since 2003 in the third quarter. Percentage change in U.S. gross domestic product from the previous quarter.



Source Commerce Department from Haver Analytics

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