Economy's 3.2% growth best in 2 years

Consumer spending also revised up in Q3

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The economy grew more rapidly than initially thought in the third quarter as stronger consumer spending juiced activity and more than offset weaker business investment.

The nation's gross domestic product increased at a seasonally adjusted annual rate of 3.2%, up from the 2.9% first estimated, the Commerce Department said Tuesday. That's the largest gain in two years. Economists surveyed by Bloomberg had forecast a revision to 3% growth.

The Federal Reserve is expected to scrutinize the report as it weighs tentative plans to raise interest rates in December for the first time this year.

Consumer spending — which accounts for about 70% of economic activity — increased 2.8%, more than the 2.1% estimated. Consumers are benefiting from steady job and income growth, cheap gasoline and reduced debt.

Housing construction, meanwhile, was not as big a negative as first estimated, falling 4.4%.

Exports surged 10.1% on a spike in soybean shipments following a poor harvest in South America, while imports grew just 2.1%, narrowing the nation's trade gap. A strong dollar stabilized until a recent rally, making U.S. exports slightly less expensive for foreign buyers.

But business investment virtually stalled, increasing just 0.1%, below the 1.2% gain initially estimated. Equipment spending fell 4.8%, more than previously thought. A weak global economy and the oil sector downturn curtailed business capital spending for most of the year. But oil prices have partly rebounded, coaxing crude producers to revive shuttered wells.

Some economists speculated that uncertainty surrounding tax and regulatory policy ahead of the divisive presidential election might have prompted some companies to rein in hiring and investment.

Business stockpiling added about a half-percentage point to growth after being a drag for five consecutive quarters, but that was less than first thought. And government spending grew just 0.2%, below previous estimates, as state and local governments cut back more aggressively.

Overall, last quarter's solid growth marked a nice rebound after the economy limped along the previous nine months, posting an average growth rate of about 1%, largely as a result of anemic business spending.

Economic growth is expected to slow in the fourth quarter to 2% to 2.5%, in line with the pace through most of the 7-year-old recovery, economist Paul Ashworth of Capital Economics notes. But he says "the prospect of a sizeable fiscal stimulus in the first half of next year means that we think GDP growth will be 2.7% in 2017." President-elect Donald Trump has proposed a $1 trillion infrastructure upgrade that's likely to launch next year.



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U.S. consumers are seeing steady job and income growth, cheap gas and reduced debt.