Daily Journal
12/23/09

Recovery Likely Strengthening after weaker 3Q

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WASHINGTON — All signs suggest the economic recovery will end the year on firmer footing despite a report Tuesday that the U.S. economy grew at a 2.2 percent pace in the third quarter, less than previously thought.

The Commerce Department's new reading on gross domestic product for the July-to-September quarter was weaker than the 2.8 percent growth rate estimated a month ago. Economists had predicted this figure would remain the same in the final estimate of the quarter's GDP — the value of all goods and services produced in the United States.

The main factors behind the downgrade were that consumers didn't spend as much, commercial construction was weaker, business investment in equipment and software was softer and companies cut back more on their stockpiles of goods.

Even so, the economy managed to return to growth during the quarter, after a record four straight quarters of decline. That signaled that the deepest and longest recession since the 1930s had ended and the economy had entered a new fragile phase of recovery.



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A worker guides a steel beam into place on a new building construction on Friday in Seaside Heights, NJ. Builders slashed spending on commercial building projects at an annualized pace of 18.4 percent in the third quarter. That was sharper than the 15.1 percent cuts previously estimated and contributed to the GDP downgrade.

And many analysts still think the economy is on track for a better finish in the current quarter. One sign was a separate report Tuesday that home resales surged last month to their highest level in nearly three years, thanks to an extraordinary level of federal support. The report added to evidence that the housing market, which led the country into recession, is on the mend.

The economy is probably growing at nearly 4 percent in the October-to-December quarter, analysts say. A few peg it closer to 5 percent. If they're right, that would mark the strongest showing since 5.4 percent growth in the first quarter of 2006 — well before the recession began. The government will release its first estimate of fourth-quarter economic activity on Jan. 29.

Growth in the final quarter is expected to be driven mainly by companies restocking depleted inventories. Stocks of goods were slashed at a record pace during the recession. So even the smallest pickup in customer demand will force factories to step up production and boost overall economic activity in the final quarter.

Stronger sales of exports to foreign customers, as well as spending by U.S. consumers and businesses, also will help underpin fourth-quarter growth.

"We expect a better performance in the fourth quarter, but the core problems for the economy — bust banks and a massively overleveraged consumer — have not gone away," said Ian Shepherdson, chief economist at High Frequency Economics.