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Weak consumer, business demand may slow US growth

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WASHINGTON — U.S. consumers and businesses spent cautiously last month, a sign that strong growth during the spring and summer may decelerate in the final three months of the year.

The figures released Wednesday were a mild disappointment after data the previous day showed the economy had expanded at the fastest pace in over a decade in the second and third quarters.

"The economy is poised to slow again as we move into the fourth quarter, after a stellar catch-up from last year's horrific winter weather," Diane Swonk, an economist at Mesirow Financial, said in a note to clients.

Consumers opened their wallets a bit in October, boosting their spending by a lukewarm 0.2 percent. That was only slightly better than September's flat reading.

Yet incomes also rose just 0.2 percent, matching September's increase. Because hiring has been healthy this year, many economists have been expecting a stronger pickup in income. Limited increases in pay could restrain future spending by consumers, which accounts for 70 percent of the U.S. economy.

Businesses also cut back on orders for industrial machinery, computers and other equipment, a sign that business investment spending may slow in the October-December quarter. Factories received fewer orders for the second straight month in a key category that tracks business investment plans.

Paul Ashworth, an economist at Capital Economics, said he now expects the economy will expand at a 2.5 percent annual rate in the fourth quarter, down from an earlier forecast of 3 percent. Macroeconomic Advisers, a forecasting firm, projects growth of just 2 percent.

While those figures would represent modest progress, they are much lower than the third quarter's 3.9 percent expansion and the second quarter's 4.6 percent growth. The two quarters represent the best six-month pace since 2003.

Other data on Wednesday painted a mixed picture of the U.S. economy, adding to the year-end uncertainty.

In a positive sign, a measure of consumer sentiment by the University of Michigan rose to a seven-year high, suggesting consumers could ramp up their spending during the holiday shopping season.