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U.S. economic growth gained traction in 3rd quarter

By Kevin G. Hall, October 27, 2011

WASHINGTON — The threat of a double-dip recession eased Thursday with new government data that showed the U.S. economy grew at a 2.5 percent annual rate from June through September. While that's welcome news, the growth was still too weak to knock down the 9.1 percent unemployment rate.

While 2.5 percent growth is well short of a boom, coming after the dismal rates in the year's first two quarters_ 0.3 percent and 1.3 percent — Thursday's numbers eased anxiety over the near-term economic future. From September 2010 through September 2011, the U.S. gross domestic product, the broadest measure of the economy, grew at a rate of only 1.6 percent overall, so the third-quarter numbers show the pace quickening.

"Q3 GDP: Sigh of relief," read the headline of an investor note from Bank of America Merrill Lynch. Economist Michelle Meyer noted in it that business investment and consumer spending were strong and firms have worked down their inventories, suggesting that the final three months of this year probably will be solid, too.

Still, she hedged.

"Before we break out the Champagne glasses, there are still reasons to be cautious about growth next year," Meyer wrote. "Disposable income fell in Q3, bringing (down) the savings rate, showing a weak consumer backdrop. In addition, the economy likely will be hit with fiscal tightening and policy uncertainty next year, which we believe will undercut growth."

That's a polite way of saying that the partisan stalemate in Washington and the drive to cut government spending are likely to act as drags on job creation and the economy.

"I wouldn't say we're out of the woods yet," said Beth Ann Bovino, the top economist at Standard & Poor's in New York. Debt issues in the United States and Europe also pose risks to the recovery, she noted.

However, for one day at least, the GDP report and Europe's latest plan for coping with its debt crisis sent stocks soaring. The Dow Jones industrial average rose 339.51 points, closing at 12,208.55.

Manufactured goods — those for export and big-ticket durable goods — were a particular bright spot in the GDP report from the Commerce Department's Bureau of Economic Analysis.

"While much of the focus lately has been on falling business and consumer sentiment, there have been pockets of strength ... which give us reason for cautious optimism moving forward," Chad Moutray, the chief economist for the National Association of Manufacturers, said on his blog Shopfloor.org. "For instance, even as consumers express extreme pessimism in surveys, they are continuing to spend overall."

Brian Hamilton, the CEO of the research firm Sageworks, which tracks trends at privately held companies, was also upbeat. Private companies, he said in a statement, have seen strong revenue growth over the past 12 months.

"We don't know what will happen in the future, but we do know that revenue quality in the overall economy and in privately held companies is the most important metric to watch over time when assessing the true strength of the U.S. economy, since revenue drives most other major metrics," he said.

The third-quarter numbers marked an important milestone as the GDP finally surpassed its pre-recession peak of late 2007.

"Since quarterly data began being tracked in 1947, the U.S. economy has never taken this long to regain pre-recession output levels," noted Josh Bivens, an economist with the liberal Economic Policy Institute.

The Obama administration welcomed the new data with subdued optimism.

"In spite of head winds hitting the U.S. economy, today's GDP report — the ninth straight positive quarter — reflects strong consumer spending and export growth and continued investment by American businesses," John Bryson, the recently confirmed commerce secretary, said in a statement.

For the full article featuring Sageworks' private company data, please visit [McClatchy Washington Bureau - U.S. economic growth gained traction in 3rd quarter.]