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Markit Economic Research

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United States

Economy grows faster than expected, but consumer spending disappoints

- **GDP rises at annualised rate of 2.8% in Q3, up from 2.5% in Q2, but growth boosted by stock-piling**
- **PMI and inventory build-up suggest growth could weaken in Q4**

The US economy continued to expand at a solid pace in the third quarter, though the faster than expected increase was due to stock-building. A more modest underlying pace of expansion adds to evidence to suggest that policymakers at the Fed will be in no rush to wind-down the current stimulus.

Growth buoyed by inventories

[Gross domestic product](#) rose 0.7% in the third quarter, up from 0.6% in the second quarter and registering the strongest pace of expansion for a year. In annualised terms, growth accelerated form 2.5% to 2.8%.

The detail behind the headline number draws some cause for concern, however, with underlying demand growing at a more modest pace and inventory building providing a major boost. Total final sales, which strip out inventories, rose at an annualised rate of 2.0%, down from 2.1% in the second quarter.

Consumer spending rose at an annualised rate of just 1.5%, down from 1.8% in the second quarter and 2.3% in the first three months of the year. The increase was the smallest for just over three years and considerably below the 3.6% average seen in the 15 years prior to the financial crisis.

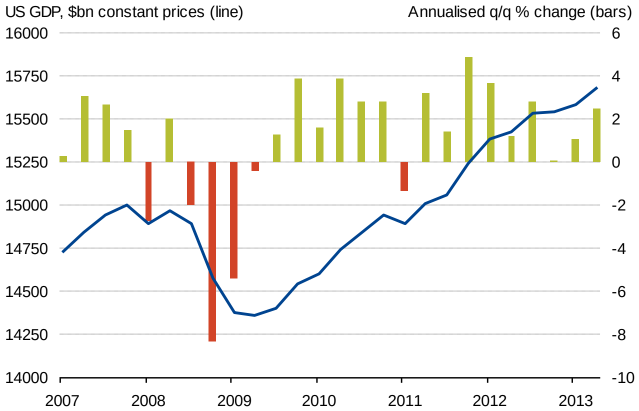
Non-residential investment growth fell from 4.7% in the second quarter to 1.6%, while export growth slipped from 8.0% to 4.5%. Imports, which detract from GDP, showed a 1.9% annualised rise, down from 6.9%.

Residential fixed investment rose strongly, however, up at a 14.6% rate compared to 14.1% in the second quarter, adding to signs that the housing sector continued to revive.

Fourth quarter slowdown?

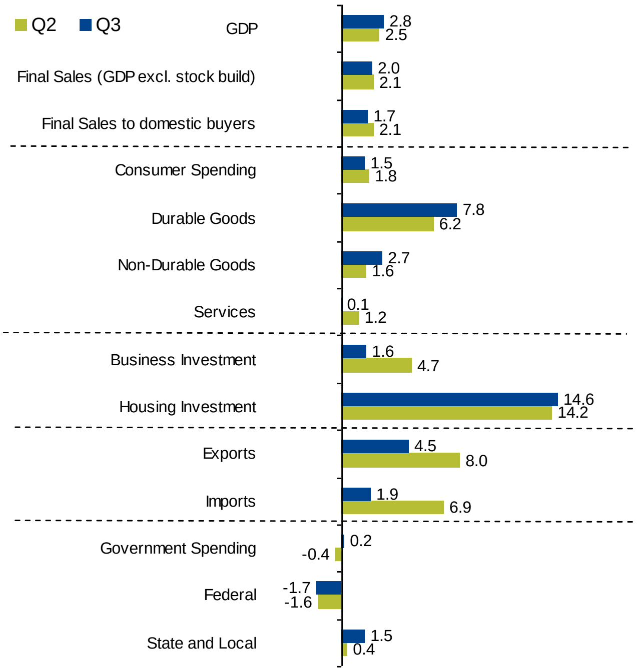
The worry is that companies will start to unwind the stock pile that the GDP data suggest was built up in

US gross domestic product



Source: Commerce Department (via Ecowin).

GDP breakdown: annualised growth rates



Source: Commerce Department.

the third quarter, acting to dampen further growth. At the same time, the government shutdown appears to have caused growth to weaken in October. Markit's Manufacturing PMI signalled a near stagnation of output growth in what was the weakest monthly expansion for just over a year.

On the other hand, both the inventory correction and the government shutdown should only have a temporary impact on the US economic data.

Policy on hold

The mixed picture therefore adds to the sense that Fed policymakers will need to wait some time, possibly until after the health of the economy in the first quarter is ascertained, before making any firm decisions on any tapering of the current $85bn per month asset purchases.

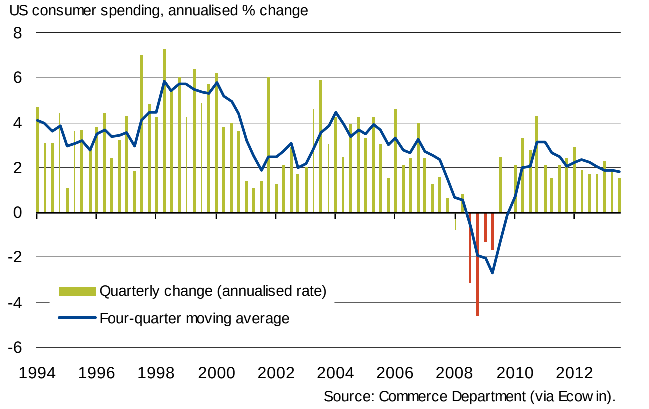
New services PMI survey

Better advance indication of the health of the US economy will become available as Markit launches a new monthly indicator of service sector business conditions on 25 November.

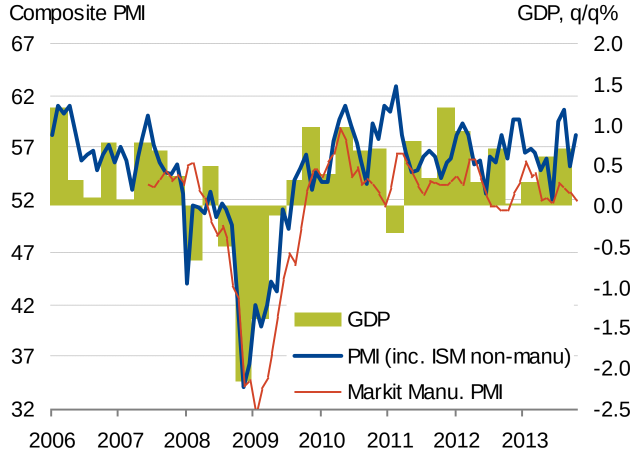
The Services PMI will cover business conditions across all private service sectors, encompassing a huge 55% of GDP. The survey accompanies the Markit manufacturing PMI, which has acted as a very reliable advance indicator of economic activity in the goods-producing industries. Combined, the two surveys cover two-third of all economic activity in the US, and 77% of all private sector economic activity. More information on the new survey is available from economics@markit.com.

The second estimate for the third quarter, based on more complete data, will be released on 5 December.

Consumer spending



PMI surveys and GDP



Sources: Markit, ISM, Commerce Department (via Ecowin)

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