

United States economy

US growth revised down for third quarter, but uplift expected for year-end

- **Annualised GDP growth revised down to 1.8% in Q3**
- **Stronger growth expected for Q4, but doubts persist as to sustainability of the upturn**

US economic growth for the third quarter has been revised down from an annualised rate of 2.0% to 1.8% (or 0.45% on a quarterly basis). The rate still picked up from 1.3% in the second quarter, but growth in the three months to June had been temporarily hit by the Japanese earthquake and tsunami, which disrupted global supply chains. The lack of a significant bounce-back from that weakness is disappointing.

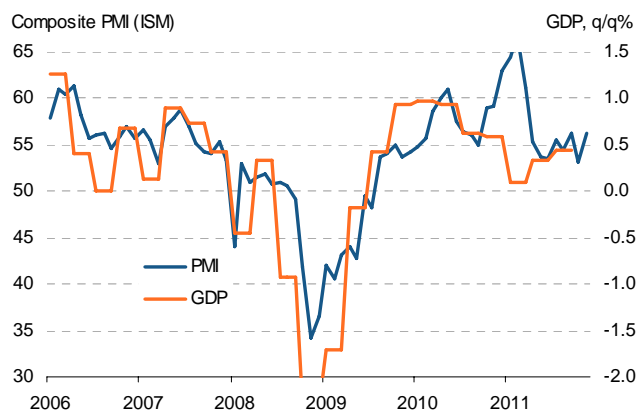
However, there are growing signs of the US economy showing some resilience in the face of the Eurozone's financial crisis and evidence of weakness in many other developed and emerging countries.

Most encouraging was an upward revision to consumer spending on durable goods from an already respectable 5.5% to 5.7%. Durable goods spending is a key indicator of the underlying trend in consumer sentiment, and raises hopes that better than expected consumer confidence surveys in the fourth quarter will translate into further household spending gains.

The third quarter also saw an increase in business investment, which rose at an annualised rate of some 15.7%, suggesting that companies have confidence in future growth. Furthermore, a drop in inventories in the third quarter could mean that some lift to economic growth may be supplied in the fourth quarter by a return to inventory building.

While ongoing stimulus measures have undoubtedly lifted domestic demand, it was also encouraging to see export growth revised up from 4.3% to 4.7%, indicating that US producers have been able to compete in a subdued global economic environment.

US GDP and the PMI



Source: Ecwin.

Stronger growth expected for Q4, but uncertainty clouds the outlook for 2012

The business surveys have shown surprising strength in the fourth quarter so far (see chart), and the labour market has also shown better than expected growth. The unemployment rate has fallen, non-farm payrolls continue to rise at a reasonable (though not particularly exciting) clip, and jobless claims appear to be on a falling trend. However, given the historically low levels of many indicators and the still-high unemployment rate of 8.6%, annualised GDP growth is unlikely to exceed 3% in the fourth quarter.

Moreover, whether robust growth can be sustained in 2012 is highly uncertain. Ongoing growth will rely on the administration agreeing on stimulus measures while at the same time outlining a road-map for long-term deficit reduction. At the same time, the Eurozone's financial crisis threatens to subdue growth in key export markets and adds uncertainty to financial markets and the banking system. Among other effects, the latter could of course further destabilise the US housing market.

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