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U.S. Economy Started to Grow Again in the Third Quarter

By [CATHERINE RAMPELL](#)

Ending a year of contraction, the United States economy grew in the third quarter, the Commerce Department said on Thursday. But even if a recovery is technically in the offing, job seekers likely will not begin to feel the benefits for months to come.

The nation's [gross domestic product](#) expanded at an annual rate of 3.5 percent in the three months ending in September, a significant spike from a somewhat shrunken base. The economy had contracted at annual rates of 0.7 percent and 6.4 percent in the second and first quarters of this year, respectively.

Much of the growth can be attributed to the billions in federal aid devoted to economic renewal, including policies that encouraged consumer spending on cars and housing.

"That alters the dynamic of a [recession](#) and a recovery, and what you're left with, to some degree, is an artificial recovery," said Dan Greenhaus, chief economic strategist at Miller Tabak, an investment research firm. "Over the next several quarters, the support for the economy on the part of the government wanes and the economy has to find its own footing."

The cash-for-clunkers program helped boost consumer spending on durable goods, which grew by an annual rate of 22.3 percent in the third quarter compared to a decline of 5.6 percent in the previous quarter. Similarly, economists say the \$8,000 federal tax credit for first-time homebuyers helped revive spending on housing, which increased 23.4 percent in the third quarter, in contrast to a decrease of 23.3 percent in the second quarter. [The economic growth](#) came without a major surge in inflation. The price index for gross domestic purchases, a broad measure of prices that Americans pay for goods and services, increased at an annual rate of 1.6 percent in the third quarter, compared with an increase of 0.5 percent in the second, the department said. Excluding food and energy prices, the inflation index rose 0.5 percent in the third quarter, compared with an increase of 0.8 percent in the second.

The stock market surged in reaction to the news, with major indexes up about 1 percent in mid-morning trading.

Thursday's report will likely provide ammunition to both advocates and opponents of additional federal spending to stimulate certain parts of the economy, as mutually reinforcing pessimism among consumers and employers continues to fester.

On the one hand, the poor job market is discouraging Americans from increasing their spending by too much. Consumer spending on nondurable goods like food and clothing, for example, increased 2 percent in the third quarter, compared to a decline of 1.9 percent in the second.

Likewise, stagnant consumer demand and withering consumer confidence have left companies wary of hiring more employees — or, for that matter, taking any expensive risks. The jobless rate reached 9.8 percent in September, its highest rate in 26 years. According to Thursday's report, business investment in buildings and other structures fell at an annual rate of 9 percent in the third quarter.

“At some point firms will have to begin to bring some of their workers back, but it may not be anytime soon,” said Joseph Brusuelas, director of [Moody's Economy.com](#). “That means 2010 may be a year of growth in the economy, but it's likely to be characterized as jobless growth.” Initial jobless claims fell 1,000 in the week ending Oct. 24 to 530,000, according to a Labor Department report also released Thursday. The number has been trending downward, but is still “well above the level of claims that is historically associated with net job creation,” according to a report by RDQ Economics.

Such forces may pressure Washington to look for targeted interventions into the labor market, in addition to last winter's broader \$787 billion [stimulus package](#), which continues to work its way through the economy. Proposals on the table include another extension in unemployment benefits and various job creation programs.

A slower drawdown in inventories was one bright spot in Thursday's report, as it indicated that businesses have largely sold out their current stock and may rev up orders in the coming months to replenish supplies.

“Everybody had been dealing with a just-in-time status quo,” said Sandra Westlund-Deenihan, president and design engineer for Quality Float Works, a plant in Schaumburg, Ill., that manufactures metal float balls and valve assemblies. “They were living off inventories they'd built up over the last several years. Now they've drawn that down and reached a point where they may have to have it ready and back on the shelf again.”

Like many American manufacturers, Ms. Westlund-Deenihan says that international business has helped keep her company afloat. United States exports overall grew at an annual rate of 14.7 percent in the third quarter, while imports grew 16.4 percent.

“We're seeing a strong rebound in trade simply because global trade had collapsed before,” said Robert Barbera, the chief economist at ITG.

Javier C. Hernandez contributed reporting.

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