Recession Fears Eased: Economy Grows at 2.5 Percent in Third Quarter

Posted By susanne On October 29, 2011 @ 12:03 am In Consumer News and Advice,Finance and Economy,Today's Marketplace,Today's Top Story,Today's Top Story - Consumer | No Comments

[1](MCT)—The economy grew at an annual rate of 2.5 percent in the three months ending Sept. 30, the government reported, easing fears that the nation would fall into a second recession but still too slow a pace to cut significantly into the high unemployment rate.

“We’re inching our way forward,” says Diane Swonk, chief economist at Mesirow Financial.

The new data from the Commerce Department on Thursday showed slow but steady improvement in the economy throughout 2011. The third-quarter data was in line with economists’ projections.

Consumer spending, particularly on automobiles, helped boost growth. Personal consumption increased by 2.4 percent, compared with just a 0.7 percent increase in the second quarter.

Much of that increase, as well as other economic activity, was consumers and businesses catching up after the extremely slow growth of early this year, caused in part by the supply-chain disruptions of the Japanese earthquake and tsunami, Swonk said.

But even trying to make up for the slow growth in early 2011, the “re-acceleration” of the economy in the third quarter was not at breakneck speed, Swonk said.

“Given the weakness we saw earlier in the year, this is catch-up with not a lot of catch-up,” she says. “Two steps forward with one step back.”

Kathy Bostjancic, director for macroeconomic analysis at the Conference Board, called the third-quarter growth “an unsustainable spurt.” She noted the group’s closely watched index of consumer confidence plunged this month to levels not seen since the recession ended in 2009.

“Continued woes in the housing market are overshadowed by consumer concern over the anemic labor market, as highlighted by the decline in consumer sentiment back to 2008-09 levels,” Bostjancic says in a statement. “Sustained economic growth above 2.0 percent is simply unlikely.”

Still, the threat of a double-dip recession is on hold for now, although the economy is “still muddling along, not cruising along,” Swonk said.

Fears of a second recession were stoked when the economy barely grew in the first three months of the year, expanding at an annual rate of just 0.4 percent. A recession is two consecutive quarters of economic contraction.

Things were looking only slightly better in the summer, when the government estimated that the economy grew at an anemic 1 percent rate in the second quarter.

That reading in August, combined with continued poor job creation and the historic downgrade of the U.S. credit rating by Standard&Poor’s after the bitter debt-ceiling debate, led economists to warn the nation was in danger of slipping into a second recession a little more than two years after the last one ended.

But last month the government revised second-quarter economic growth up to 1.3 percent. And increased consumer spending and other data began pointing away from another downturn.

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