

Economic Commentary

October 30, 2003

US Third Quarter Growth Surpasses Expectations: Real GDP up 7.2%

The US Department of Commerce announced this morning that US growth in the third quarter reached 7.2% (up from 3.3% in the second quarter). This is well above analysts best expectations of a 6-6.25% rate. Consumer demand was up 6.6%, fuelled by the tax rebates, government spending was up 1.4% and most importantly, business capital investment spending increased by 11.1%, the best showing since 2000.

Growth in the fourth quarter is expected to moderate substantially as the one-time factors of increased defence spending and tax rebates will not recur in subsequent quarters. The US economy is expected to post an annual growth rate of 4.1% for the whole year.

Although this spike in growth was better than expected, it was not a surprise. Analysts expect the rate of growth to continue moderating as we move into 2004. Since growth in the US has been so low the last three years, a lot of slack has been created in the economy, which means that it can go on growing at a fast pace for at least two years before it starts rekindling inflation. This is why the Fed has let it be known that it doesn't plan to raise rates any time soon.

On the other hand in the face of an already over-extended consumer, large budget and trade deficits, a lasting sustainable expansion in the US continues to remain in doubt. So, lets not get carried away from the good news because the odds are still not in the US's favour.

Kenneth Matziorinis, Ph.D.

Canbek Economic Consultants Inc.