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U.S. ECONOMY

Economic growth falls to 1.6%

The slowdown in the housing market has dealt a blow to the U.S. economy, but other factors are fending off recession.

By Jeannine Aversa

Associated Press

WASHINGTON - The economy grew at the slowest rate in more than three years in the past quarter, stirring fresh debate about the country's financial health heading into the elections.

The Commerce Department reported Friday that economic growth from the July-to-September period clocked in at an annual rate of just 1.6 percent, reflecting the deepening housing slump. Investment in home building was cut by the largest amount in 15 years.

That "packed a wicked punch for the U.S. economy . . . but it was not a knockout blow," said Stuart Hoffman, chief economist at PNC Financial Services Group.

The fresh reading on the economy, which fell short of the 2.1 percent pace analysts were forecasting, disappointed economists, rattled investors and gave Republicans and Democrats plenty to argue about just before the Nov. 7 elections.

The third-quarter's performance was the weakest since a 1.2 percent growth rate in the first quarter of 2003, when a nervous nation hunkered down for the start of the Iraq war.

Consumers and businesses did their part to keep the economy going. Businesses increased spending on equipment and software at a 6.4 percent pace in the third quarter, a turnaround from the 1.4 percent rate of decline in the second quarter. And investment in new plants, office buildings and other commercial construction rose at a brisk rate of 14 percent, following a 20.3 percent growth rate in the second quarter.

That helped cushion the big hit to the economy from the housing cool down.

Spending on home building dropped at a rate of 17.4 percent in the third quarter, the most since the first quarter of 1991. The housing slump shaved 1.12 percentage points from the third quarter's overall economic growth, the most in almost 25 years.

Treasury Secretary Henry Paulson said the housing boom over the last five years was "clearly unsustainable" and that the housing market "needed to have a correction" by slowing to a more sustainable pace.

The bloated trade deficit and sluggish inventory building by businesses also weighed down economic activity in the third quarter.

Even with the feeble third-quarter showing, analysts don't believe the economy is in danger of sliding into recession. "This should prove to be a mid-course breather in a longer expansion, not the end to the expansion," said Ken Mayland of ClearView Economics.

Many predict the economy will pick up a bit in the October-to-December period, with some estimates for a growth rate of 2.5 percent and higher. Falling energy prices should help bolster consumer and business spending and thus overall economic activity.