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## ECONOMY

## GDP Expanded 4% in 4th Period, Dividing Opinions on Economy

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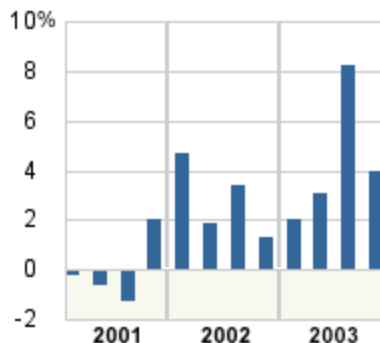
Is the economic recovery starting to fizzle again? Or is the recovery moving to a slower but more sustainable level strong enough to support an eventual pickup in hiring?

These are the questions that economists started to debate late last week after the Commerce Department reported that gross domestic product -- a broad measure of U.S. output of goods and services -- grew at a 4% annual rate for the fourth quarter of 2003. While that level of growth normally would be viewed as good news, it represented a marked slowing from the third quarter's booming 8.2% rate, which was fueled by tax cuts and mortgage refinancing. Fourth-quarter growth also was below the expectations of many economists, who had been nudging up their estimates in recent weeks after reports showed relatively healthy holiday-season sales and strong home-construction activity late in the year.

For now, many economists and business executives remain optimistic and believe the economy can keep growing this year at a healthy enough pace to create new jobs. But the next few months represent an important test. "Even though the quarters were a little lopsided, I still think the economy has a lot of forward momentum," said Joseph Carson, an economist with Alliance Capital Management LP in New York. In recent weeks, forecasters' projections for first-quarter GDP growth have risen to a 4.6% rate from 4.4% estimated at the beginning of the year, according to a weekly survey of 10 economists by Macroeconomic Advisers LLC, a St. Louis economic-consulting firm.

Other economic indicators suggest the expansion continued in January. The number of Americans filing first-time unemployment claims dropped to 342,000 for the week ended Jan. 24, compared with an average of 368,000 claimants per week during the fourth quarter. Meanwhile, the International Council of Shopping Centers last week raised its estimate of January chain-store sales after seeing stronger-than-expected weekly sales gains during the month.

Change from previous quarter at annual rate, seasonally adjusted



Source: Department of Commerce

Other reports Friday also hinted at an improving economy. Consumer confidence rose in January to its highest level since November 2000, according to the University of Michigan, which said its consumer-sentiment index moved to 103.8 points at the end of January from 92.6 points in December. The Purchasing Management Association of Chicago said its January index of business activity in the Midwest rose to its highest level since July 1994.

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See the full text of Friday's report and analysis from Briefing.com:

- GDP – [Commerce Department](#)<sup>1</sup>, [Briefing.com](#)<sup>2</sup>
- Consumer sentiment – [Univ. of Michigan](#)<sup>3</sup>, [Briefing.com](#)<sup>4</sup>
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Thomson First Call estimates that profits, excluding one-time items, among the companies that comprise the Standard & Poor's 500-stock index were up 26% in the fourth quarter while revenues were up more than 9%. Mr. Carson of Alliance said this is providing companies with the cash flow they will need to invest and hire.

Yet there is reason for caution. The government reported last week that manufacturers' orders for durable goods were flat in December after falling in November. Sales of new homes declined in December, and wage and salary growth is slowing. Moreover, there still hasn't been a convincing increase in employment.

Friday's GDP report showed that U.S. consumer spending slowed to a growth rate of 2.6% in the fourth quarter after surging 6.9% during the third quarter. A sharp slowdown in spending for automobiles was an important factor.

Economists are betting another wave of tax cuts will give a jolt to consumer spending in the months ahead. Thanks to last year's fiscal stimulus, U.S. households are likely to receive \$30 billion more in income-tax refunds this year than they received during 2003, according to Louis Crandall, chief economist at Wrightson ICAP, a research firm in Jersey City, N.J. When other tax cuts are factored in, like lower dividend and capital-gains taxes and business breaks, Mr. Crandall says the total stimulus in the coming months will be close to \$100 billion.

Mr. Crandall says many wealthier households factored these cuts into their higher spending months ago. But the coming boost to cash flows still will be noticed by many, he said.

While consumer spending slowed in the fourth quarter, the inflation rate also slowed sharply. The Commerce Department's price index of personal-consumption expenditures rose at a 0.6% annual rate, compared with a 1.8% annualized increase for the third quarter.

Another price index, the core personal-consumption expenditures index, which excludes food and energy prices, rose at a 0.7% rate, the smallest increase since 1962. Officials at the Federal Reserve watch these price indexes closely. As a result, the sharp slowdown in the fourth quarter adds weight to the Fed's argument that it can remain patient before it needs to start raising interest rates to combat inflation. The price indexes are below the preferred minimum of 1% of some Fed officials.

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