ECONOMY

Business-Spending Rebound Boosts U.S. Economic Growth

The U.S. economy was a bit stronger in the fourth quarter than earlier projected as businesses boosted spending and inventories. Exports saw their largest increase since late 1996.

Gross domestic product, a measure of all the goods and services produced in the nation, increased at a 4.1% annual rate, the Commerce Department reported Friday. That was half its blistering 8.2% pace of the third quarter, but a solid performance nonetheless. In its original estimate a month ago, the government said GDP grew 4% during the fourth quarter.

Economists had expected the revision to show 3.7% growth, according to a survey by Dow Jones and CNBC.

"The capital-spending rebound is in high gear," said Ken Mayland, president of ClearView Economics.

That trend could bode well for job creation, said John Lonski, an economist for Moody's Investors Service. "The same forces that give direction to capital spending give direction to employment," he said, adding that it wouldn't be surprising if nonfarm payrolls were growing by 225,000 jobs a month by the end of 2004.

Business spending shot up 9.6%, a sharp increase from the previous estimate of 6.9%. In an especially encouraging sign that companies are feeling more confident in the staying power of the recovery, spending on equipment and software shot up 15.1%. But spending on nonresidential structures dropped 7.1%.

Another indication of optimism in the board room: companies
enlarged their inventories by $14.9 billion, more than double the original estimate of a $6.1 billion increase. The change in inventories added 0.92 of a percentage point to GDP growth.

Real final sales of domestic product -- that is, GDP less the change in private inventories -- rose at a 3.2% annual rate. That figure was revised down from the originally reported 3.4% advance.

A sustained turnaround in capital spending by business is a key ingredient of an economic recovery. It was deep cuts to such spending that thrust the economy into a recession in 2001. The economy struggledmightily to achieve firmer footing and finally in the second half of 2003 managed to cast off its lethargy.

Exports jumped 21%, which was the largest increase since the fourth quarter of 1996. Imports advanced by 16.4%. The government originally reported those figures as increases of 19.1% and 11.3%, respectively.

Another key factor in the recovery is spending by consumers, which accounts for about two-thirds of economic activity. Such spending rose at a 2.7% annual rate, slightly higher than the first estimate of 2.6%.

Consumers' spending on durable goods, those meant to last at least three years such as cars, slipped 0.1%, revised down from a previously reported 0.9% rise. Spending on nondurables rose 5.2%, revised up from a previously estimated 4.4% increase.

Federal-government spending increased 1.6%, more than double the initial estimate of 0.7%. State and local government spending climbed 0.4% in the fourth quarter, less than half the previously reported 0.9% increase.

Inflation rose slightly more than previously thought. The price index for gross domestic purchases rose at a 1.1% rate; it was first estimated as climbing 1%. The price index for personal consumption went up at a 0.7% rate.

In all of 2003, the economy grew 3.1%, its best rate since 2000's 3.7%. Analysts expect solid growth in 2004. The National Association for Business Economics last week said its forecasters raised their estimate on the economy and predicted 4.6% expansion this year, up from a prior 4.5% projection. The panel also feels the outlook will improve for the job market, which has been sluggish with the economy's climb.

**Will Consumers' Moods Improve?**

A separate report showed consumer sentiment fell sharply in February. The University of Michigan reported Friday its gauge of consumer sentiment dropped to 94.4 from 103.8 at the end of January. The drop in the final reading for February was presaged by the unexpectedly weak 93.1 recorded midmonth, so economists weren't really caught off guard. Measures of both current conditions and expectations for the future both declined, with the latter tumbling nearly 12 points to 88.5.

Several economists speculated that perhaps the January surge was simply an anomaly, and that it is now back in a more reasonable range. Most forecast a rebound, particularly as tax refunds start flowing in. However, some worry that consumers may grow more cautious if the labor market
doesn't begin to show more of an improvement in the coming months.

**Chicago Factory Activity Slows**

A third report, on manufacturing in the Chicago region, showed that overall activity declined in February. The Chicago branch of the National Association of Purchasing Managers reported its business barometer slipped to 63.6 from 65.9 in January. Readings above 50 indicate expansion, while those below that mark point to contraction.

Measures of production, new orders, and prices paid declined, as inventories accumulated. However, a gauge of employment in the sector climbed to 54.8, its highest level since April 1998, from 48.3. The manufacturing sector has been among the hardest hit by layoffs and the slowest to resume hiring.

The Chicago barometer is among the regional readings that are closely watched ahead of the national report on manufacturing from the Institute for Supply Management, which is due out on Monday.

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*Updated February 27, 2004 12:25 p.m.*