Economists Weigh In On Sizzling GDP Report

Economists had expected gross domestic product to soar at more than a 6% annual rate in the third quarter, but the 7.2% rate released Thursday was out of the ballpark. (See related article.) Below is analysis from select economists:

"There is no way to make this [GDP] number bad, even if you want to."

-- Steven Poser, president, Poser Global Market Strategies

"To date, strong growth has not added many new jobs. We may be on the verge of change. Businesses are adding new equipment, indicating expectations for production gains in the US. … So far, productivity gains have managed to fill the gap on weak employment trends, but 6%-7% productivity gains are not viable longer-term."

-- Stephen Gallagher, U.S. chief economist, Société Générale Group

"This is a gangbuster number. Everything came together for the economy in the third quarter. … The key challenge now is jobs."

-- Mark Zandi, chief economist, Economy.com

"What most people, I think, are forecasting is that growth will stabilize somewhere around 4% going forward. Our estimate is for 4% growth in Q4 and an average growth rate of 3.9% in 2004. … The GDP number is not enough to change the Fed story because the output gap[, a measure of excess capacity in the economy] is still wide enough to keep inflation down for some time."

-- Drew Matus, senior economist, Lehman Brothers
"The biggest upside surprise was a larger-than-expected narrowing of the net export deficit, which was the product of a 9.3% rate of gain in exports and a scant 0.1% increase in imports. … Looking ahead, it is probable that consumer-spending growth is going to cool off as the benefits of tax refunds and mortgage refinancings fade. … However, capital spending growth is likely to remain firm on the back of much improved corporate profits and stronger domestic output. Most important from the short-term standpoint, however, will be a need to boost inventories in order to replenish depleted stocks and to satisfy final demand. … it is likely that real GDP growth will be solid in Q4, albeit probably not as robust as in Q3."

-- Joshua Shapiro, chief U.S. economist, MFR Inc.

"The stars aligned right and the economy sizzled. … If it weren't for the inventory runoff due to unexpectedly strong sales, economic growth would have been 7.8%. … For the first time in this recovery, consumers and businesses are joining forces. However, economic growth during the October-December quarter and beyond won't be as robust. … We expect 4.5%" GDP growth in the fourth quarter.

-- Sung Won Sohn, chief economic officer, Wells Fargo Banks

"The Q3 outcome does not really alter our forward-looking assessment of the economy. There were no significant inventory or trade quirks that would borrow from future growth. … So, we continue to see Q4 GDP tracking near +4.2% with inventory rebuilding accounting for much of the growth."

-- David Greenlaw and Ted Wieseman, economists, Morgan Stanley

"This report provides further confirmation that the real recovery has begun. The economy was firing on all cylinders from the demand side in the third quarter. Importantly, business-equipment spending continues to strengthen while the strength of nominal GDP growth and productivity gains points to even stronger gains in corporate profits. … My forecast prior to the release of GDP was 4.2% for Q4 and I have not made any material changes to it following today's number. … We see growth remaining significantly above trend in the fourth quarter and we continue to believe that the Fed can raise rates" at its March meeting.

-- John Ryding, chief market economist, Bear Stearns

"I'm floored. This really tells us that all the pieces are now falling into place." The GDP report made "the equity market a little nervous -- nervous that the 'considerable period' [the Fed said rates would remain low] is going to be shorter than expected."

-- Anthony Chan, chief economist, Banc One Investment Advisors

"The key takeaway from the GDP report is that a sustainable demand-led expansion is taking hold. Another key point is that there was an enormous increase in productivity last quarter, that drove a strong
rise in corporate profits."

-- Dana Johnson, head of research, Banc One Capital Markets

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