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ECONOMIC DATA

U.S. Economy Notches Solid 3% Growth, Despite Hurricanes

GDP growth remained strong in the face of storms that temporarily shuttered major population centers in Texas and Florida



Employees working on the batteries of an electric bus at the BYD Coach and Bus factory in Lancaster, Calif. PHOTO: PATRICK T. FALLON/BLOOMBERG NEWS

By Josh Mitchell

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WASHINGTON—The U.S. economy posted its best six-month stretch of growth in three years despite two hurricanes, a sign that it might be breaking out of its long-running slow-growth trend, with the help of soaring stock prices and rising business and consumer confidence.

Gross domestic product, the broadest measure of goods and services produced in the U.S., expanded at a 3% annual rate in the third quarter, the Commerce Department said Friday. That followed 3.1% annual growth in the spring.

Though not a boom, that's still the first time since mid-2014 that the economy has strung together two quarters of at least 3% growth. Solid spending by consumers and businesses—along with higher sales of American goods overseas—helped prevent the kind of slowdown some economists expected after hurricanes Harvey and Irma shut down parts of Texas and Florida in August and September.

The third-quarter gain came alongside signals that “animal spirits,” as the economist John Maynard Keynes once described the desire to spend and invest, were helping to boost economic activity. Stock-market gains have accelerated since Donald Trump was elected president last year, and both consumer and small-business confidence have notched higher. The Dow Jones Industrial Average rose another 33 points Friday, putting it up 18.4% so far this year.

In the wake of those sentiment advances, household purchases of durable goods, such as cars and refrigerators, have picked up, as have gains in business investment in equipment. Consumer spending on durable goods rose at an 8.3% annual rate in the third quarter after 7.6% annual growth in the previous quarter. Equipment spending by business rose at an annual 8.6%, following 8.8% in the previous quarter.

Kevin Wilson, chief executive and president of Buzz Franchise Brands, a pest-control and home-cleaning company, said higher stocks have led several people to open franchises under his brands this year.

“Good times are here,” he said. “Their stocks have gone up and they’re taking some of that money and saying now’s the opportunity to start our own business.”

Still, there is ample reason for caution before concluding the gains will be sustained. The economy has produced six-month growth bursts several times during this eight-year

expansion, including a period of near-5% growth in mid-2014. But it hasn't been able to keep up that pace. The growth rate as a whole for the expansion has averaged 2.2%.

A chunk of the third quarter's growth reflected businesses' replenishing of stockpiles, which had fallen earlier this year, rather than higher sales. Stripping out inventory changes, which can be volatile, output grew at a 2.3% rate, closer to the longer-running average. Compared with a year earlier, overall output including inventory changes was just 2.3% higher.

While economists are expecting growth in the current quarter to clock near 3% again, nagging trends, including an aging population and weak worker productivity gains, still might stand in the way of the country achieving sustained robust economic growth.

"We have to be a little bit careful," said Gregory Daco, economist at Oxford Economics. "The underlying pace still remains in that 2% growth environment."

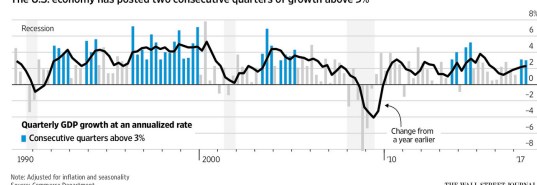
President Donald Trump has promised sustained 3% growth by reducing regulations, revamping trade agreements and passing a broad tax-cut package currently being negotiated in Congress.

Administration officials celebrated the latest numbers. "As the President's tax-cut plan is implemented, our entire economy will continue to come roaring back," Commerce Secretary Wilbur Ross said in a statement Friday.

Democrats weren't prepared to yield any credit to the new administration. "Today's GDP numbers show the resiliency of the economy this administration inherited," Sen. Martin Heinrich (D., N.M.) said in a statement. "Instead of building on this foundation, President Trump has created a climate of uncertainty."

Hurricanes made it challenging to discern the underlying trend in the third quarter. Damage to property led to a spurt of spending on cars in hurricane-damaged areas, but the storms also appear to have depressed spending on services like restaurants, where payrolls sank for the month.

The U.S. economy has posted two consecutive quarters of growth above 3%



The Commerce Department said hurricanes likely suppressed business activity such as oil-and-gas extraction in Texas and agricultural production in Florida. But the storms likely boosted other types of activity, such as emergency services and

repair efforts.

"It is not possible to estimate the overall impact of Hurricanes Harvey and Irma on 2017 third-quarter GDP," the agency said.

Repair efforts could boost economic growth in coming quarters, particularly in building sectors. The Commerce Department estimated that government and private insurance companies' payouts resulting from the storms could total \$102 billion. That's money that could be plowed back into the economy.

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Taken altogether, the report is likely to nudge the Federal Reserve closer to raising its benchmark short-term interest rate—the federal funds rate—at its policy meeting in December. Inflation picked up this summer after weakening earlier in the year, though it remains below the Fed's 2% target. The price index for personal consumption expenditures

—the Fed's preferred measure of inflation—rose at a 1.5% annual rate in the third quarter, up from the second quarter's 0.3% increase.

If the economy is going to sustain faster growth, much will depend on the outlook for business investment, which is central to boosting worker productivity and sustaining robust corporate profit gains.

MBAF, a 600-employee accounting and consulting firm in based in Miami, offered a sign that a sustainable pickup is happening. It has budgeted roughly \$1 million in capital spending in its current fiscal year—triple the amount it spent last year.

Tony Argiz, the firm's chief executive and chairman, said the spending increase reflects two developments: New technology has come on the market recently enabling his company to perform audits much more efficiently, and breaches at firms like Equifax are pushing firms like his to invest in new security software.

He said the company feels the urge to become more efficient to compete with other firms. "We need to keep up with the times, and artificial intelligence is going to be critical in my profession in the next four or five years," Mr. Argiz said.

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Corrections & Amplifications

U.S. GDP, when adjusted for inflation and seasonality, rose 2.3% from a year earlier in the third quarter of 2017. A line on a chart in a previous version of this article misstated the GDP-growth level by about 2 percentage points between 1990 and 2017. (Oct. 28)

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