# Economy grew faster but business investment fell in Q3 2012: Prudential

By Editor Test *Tue, Oct 30, 2012*

*"Business investment spending is likely to remain weak in Q4 despite healthy corporate cash levels due to concerns about the 'fiscal cliff' and how it will be resolved once the U.S. Presidential election is over," according to Prudential's report.*

The latest economics assessment from Prudential global equity strategist John Praveen shows that:

Although the rate of GDP growth remains below trend, a recovery in consumer and government spending helped the U.S. economy improve in Q3 2012. U.S. GDP grew at an annualized rate of 2% in Q3 after growing at a rate of 1.3% in Q2 and 2% in Q1. GDP growth in Q3 was slightly better than market expectations of 1.8% growth. On an annual basis, GDP rose 2.3% YoY after 2.1% in Q2.

Consumer spending (1.4%), government spending (0.7%) and housing (0.3%) drove Q3 GDP growth. Government spending had declined in the previous eight quarters. Residential construction remained "solid."

Inventories (-0.4%), trade (-0.2%) and business investment spending (-0.1%) all receded in Q3. A drought-related decline in farm inventories subtracted -0.4% from Q3 GDP.

Other details included:

- **Consumer spending** rose 2% QoQ annualized in Q3, improving from 1.5% in Q2, and added 1.4% to Q3 growth after a 1.1% contribution in Q2. There was a strong recovery in durable goods (8.5% after -0.2%) and non-durable goods (2.4% after 0.6%) spending. However, services spending, the largest component of consumer spending, growth slowed to 0.8% from 2.1%.
- **Government spending** reversed several quarters of declines, rising 3.7% in Q3 after -0.7% in Q2 and added 0.7% to Q3 growth**.** The reversal in government spending was primarily driven by an increase in federal national defense consumption spending which jumped 15.2% after falling -2.1% in Q2. While there was also a modest increase in non-defense spending, the increase in defense spending was the primary driver of the sharp increase in federal spending in Q3. By contrast, state and local spending edged down modestly.
- **Housing** added 0.3% to Q3 growth with residential investment surging 14.4% in Q3 after 8.4%, albeit from a low base. The strength in residential investment is consistent with the upward trend in housing starts in recent months.
- **Business investment** spending remained weak for the fourth consecutive quarter, suggesting that more businesses are putting projects on hold ahead of the fiscal cliff. Business investment spending declined -1.3% in Q3 after growing 3.6% in Q2 and 7.5% in Q1, and reduced -0.1% from Q3 GDP growth. Spending on equipment and software was flat, while investment in structures fell -4.4%.
- **Trade** was a drag on growth with net exports reducing -0.2% from Q3 GDP growth. Exports declined -1.6% after rising 5.2% in Q3, while imports edged down -0.2% after rising 2.8% in Q2.

Looking ahead, Praveen expected U.S. GDP growth to slow to around 1.8% in Q4.

On the plus side, “Consumption spending is likely to remain solid due to support from lower energy prices and the recent gains from equity markets,” the report said. “GDP growth is also likely to get a boost from a rebound in farm inventories which were on drag on Q2 and Q3 GDP.  Housing is also likely to remain solid with interest rates lower and housing activity remaining solid.”

On the negative side, “business investment spending is likely to remain weak in Q4 despite healthy corporate cash levels due to concerns about the ‘fiscal cliff’ and how it will be resolved once the U.S. Presidential election is over. Trade is likely to remain a drag with slower global growth and Europe in recession.”