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Good News: Rise in GDP Growth Shows Long-Term Trends

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On the surface, it seems surprising that the U.S. economy nearly doubled its growth in the third quarter.

July brought tense debt-ceiling negotiations and threat of a government default. In August, a top credit ratings agency cut the United States' top AAA rating. Concerns over European sovereign debt seeped into the U.S. and grew in September as the situation across the Atlantic appeared to be rapidly unraveling. Congress announced no major steps to fix the economy and the weak housing and labor markets treaded water.

But on Thursday, the Commerce Department announced that gross domestic product grew by 2.5 percent during that time, up from just 0.9 percent in the first half of the year.

While 2.5 percent GDP growth hardly signals boom times, it seems to fly in the face of those major headwinds. But economists say it reflects a gradual climb out of recession rather than a rapid shift in the country's fortune.

An increase in consumer spending — despite consistently low consumer confidence readings — helped boost economic growth. People are beginning to feel more secure in their personal situations even if they still consider the overall economy to be weak, said Mark Calabria, director of financial regulation studies at the Cato Institute. While there are still a core group of people in really bad shape, most are becoming less fearful of mass layoffs, slowly paying off their debt, and patching up their personal confidence. Those are the people beginning to spend.

That tiny shift in household confidence makes it easier to make expenditures that were postponed when the economic situation began to tank in 2007. "If you need to replace your refrigerator or you need to replace appliances in your house, you can ride that out for only so long," Calabria said.

Josh Feinman, global chief economist for DB Advisors, expects the economy to continue on a moderate growth path. Increasing progress has been made on working off the housing overhang, repairing consumer balance sheets, and reducing personal indebtedness. The recovery will get stronger as those factors dissipate. There are policies that can help around the margins, but only time can heal the recession's deep wounds, Feinman said. "There's no magic wand you can wave."

But there are wild cards going forward, Feinman warned. Over the last two days, European leaders hashed out a rough deal to prevent the euro zone from falling apart after weeks of negotiations and Greece nearing the brink of default. The deal bolstered the European Financial Stability Facility, the euro zone's bailout fund, required European banks to raise additional capital to protect themselves from sovereign defaults, and had banks take a 50 percent haircut in their holdings of Greek debt.

The plan calmed markets on Thursday. But world leaders, including President Obama, hope European officials reach a more comprehensive, long-term solution.

How Congress will deal with the United States' debt problem is another unknown. The Nov. 18 deadline for passing a new continuing resolution to fund the government is unlikely to pass without infighting. The bipartisan Joint Select Committee on Deficit Reduction must come up with recommendations for $1.2 trillion in spending cuts by Nov. 23. The committee has been tight-lipped on its progress and there is plenty of uncertainty surrounding how Congress will deal with the country's large deficit.

And Thursday's GDP number will be revised two more times. While Center for American Progress senior economist Heather Boushey warned not to make too much of a single data point, Nomura Global Economics senior U.S. economist Ellen Zentner said it is unlikely to be revised in a significant way. The Bureau of Economic Analysis tends to revise GDP numbers up or down by a half percent, and 2 or 3 percent GDP growth wouldn't say anything different about the economy, Zentner said.

Economists agree that while 2.5 percent growth is good news, it's won't pull the economy back to its prerecession status. If the economy sustains a GDP increase of 2.5 percent in the coming quarters, "that's treadmill-like growth," Feinman said.

The good news is that the third quarter shared many of the same uncertainties that are likely to shape the fourth: uncertainty over the budget and deficit, threat of a downgrade, and the European debt crisis. The economy, while hardly in fighting shape, pulled through the third quarter to eke out 2.5 percent GDP growth — which is not too shabby.