U.S. says recovery has been weaker than it thought

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The U.S. economy's rebound was more tepid than originally believed, the government said as it lowered its third-quarter growth estimate to reflect a wider trade deficit and less consumer spending.

The nation's gross domestic product—the sum of the output of goods and services—grew at an estimated 2.8% inflation-adjusted annual rate in the quarter, less than the 3.5% rate calculated by the Commerce Department last month.

With an anemic recovery settling in, Federal Reserve officials wrestled in early November with concerns that have grown out of their efforts to revive the economy.

Minutes from the Nov. 3-4 meeting showed officials worried that the Fed's simulative policies "could lead to excessive risk-taking in financial markets or an unanchoring of inflation expectations," events that might be associated with new asset bubbles or a sharp weakening of the dollar.

Fed officials also squabbled, the minutes showed, over whether the central bank should someday sell portions of its vast portfolio of mortgage-backed securities and Treasury bonds.

Top White House officials and Senate Budget Committee Chairman Kent Conrad (D., N.D.) met Tuesday to discuss establishing a bipartisan commission on the U.S.'s swelling debt. White House aides stressed that no decision has been made on such a commission, which would deliver recommendations on controlling the growth of Social Security and Medicare and on taxes. The fiscal 2009 deficit has swelled to a post-World War II record of $1.4 trillion.

Consumer spending, which accounts for 70% of demand in the U.S. economy, increased at a 2.9% annual rate during the third quarter—less than the 3.4% estimated last month by the Commerce Department—even after a boost from government stimulus, such as the cash for clunkers auto-rebate program.

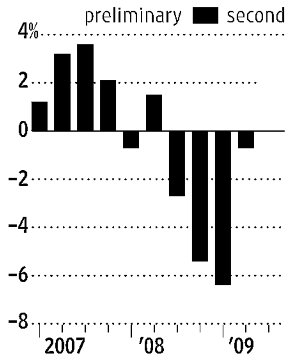
That suggests consumption could be on a weak trajectory heading into the holidays, underscoring the economy's reliance on business and government spending to produce enough growth to improve the labor market.

The Federal Reserve's preferred inflation gauge remained tame, giving the central bank latitude to keep interest rates low for an extended period.

—Sudeep Reddy, Jonathan Weisman and John D. McKinnon contributed to this article.

Fragile growth

Quarterly change in U.S. GDP, at a seasonally adjusted annual rate



Source: U.S. Department of Commerce