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Pace of Economic Growth Slowed to 4 Percent at End of 2003

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WASHINGTON, Jan. 30 — The nation's economy expanded at an annual rate of 4 percent in the final quarter of last year, much slower than the torrid pace of last summer but still strong by historical measures, the federal government estimated today.

The new data was weaker than most economists had been predicting, and it amounted to ambiguous political news for President Bush and his bid for re-election in November.

There was no surprise that growth slowed mightily from the third quarter, when the economy soared at a stunning and unsustainable rate of 8.2 percent.

But economists had been ratcheting up their forecasts, predicting that growth would reach 5 percent in the fourth quarter and well above 4 percent for the coming year.

And though a growth rate of 4 percent is usually excellent news, the new data raised doubts about whether the tepid pace of job growth will improve before the elections and whether the surge last summer was just a temporary blip caused by the wave of tax-refund checks.

President Bush, after hosting a meeting with private economists, said the latest numbers showed that the economy was vibrant and had vindicated his case for last year's tax cuts.

"Today we received news that indicates the economy is strong and getting stronger," Mr. Bush said. "These economists are optimistic about our future and so am I."

After scrutinizing the new data, many economists said the underlying components of growth still point to very strong growth for the rest of the year.

The biggest drag on growth in the fourth quarter stemmed from the government's estimate that companies restocked their depleted inventories more slowly than expected.

But inventories are still at very low levels in comparison with sales, and that means this element of growth is likely to either be revised up or climb much more sharply in the months ahead.

Economists said the more important indicators of growth suggested that the economy will keep expanding rapidly. Consumer spending and business investment were still reasonably strong even if they grew much more slowly than last summer.

Exports surged by 19.1 percent in the fourth quarter, compared with 9.9 percent in the third quarter, propelled by stronger growth elsewhere in the world and more importantly by the sharp drop in the value of the dollar, which makes American products cheaper in foreign markets. Imports increased at a slower rate of 11.3 percent, and that made trade a positive contributor to overall growth.

Joel Prakken, president of Macroeconomic Advisors, a forecasting firm in St. Louis, said the new data on growth had not changed his view that the economy would expand at a pace well above 4 percent this year.

"There has been a slowdown, but look at what the number was in the third quarter," Mr. Prakken said. Business investment continues to grow as well as consumer spending, and exports are poised to continue to grow rapidly.

The one big uncertainty is the job market. Economists remain puzzled that job creation has been far slower than economic growth, long after the economy began its big rebound last spring.

Job creation came to a virtual halt in December, and the economy needs to add more than 200,000 jobs a month for a sustained period in order to recover the jobs that have been lost over the past three years.

"We're still growing about twice as fast as Japan and almost three times as fast as Europe," said Nariman Behravash, chief economist at Global Insight, a forecasting firm in Lexington, Mass.

"Nevertheless, 4 percent growth is probably not enough to have a huge impact on the jobs market," he continued. "We are likely to see some gains in employment growth, but they will be modest."