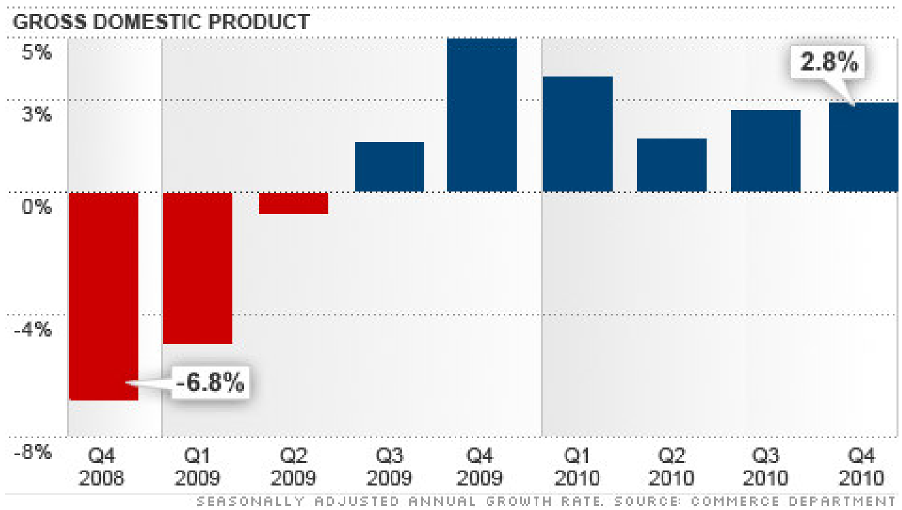
US Economic growth revised sharply lower



NEW YORK -- Budget cuts by state and local governments hurt the economy more than originally thought, according to a government release Friday.

Gross domestic product, the broadest measure of economic activity, was revised lower to an annual growth rate of 2.8% in the three months ending in December. The initial reading had been for a **3.2% growth rate in the period**.That's a surprising dip, given that economists were expecting the rate to be revised upward to 3.3%.

Lower state and local government spending was the main drag, falling 2.4% during the quarter, compared to a 0.9% drop originally reported.

Consumer spending was also weaker than initially reported, and was revised down to a 4.1% growth rate, from 4.4%. The lower GDP number isn't a reason to be alarmed, economists say.

"It's kind of ancient history, given we're now two-thirds into the first quarter," said Paul Ashworth, chief U.S. economist with Capital Economics. "If anything, we still expect growth to be stronger in the first quarter." Despite its weaker points, the report still contained a robust reading on domestic demand, and that's encouraging, said David Resler, chief economist with Nomura Securities.

Real final sales of domestic product grew at a rate of 6.7% during the quarter. While that's slightly lower than the 7.1% previously estimated, it's still strong, especially given that the rate stood at a mere 0.9% in the third quarter.

"It's a sign to me that demand has turned a corner in the fourth quarter," Resler said. "The private sector seems to be on a roll here, and we're seeing evidence of that through most other economic indicators."

The government calculates GDP as a measure of goods and services produced in the United States. The number is backward looking and is often revised multiple times. This is the second reading for the fourth quarter.