U.S. economic growth picks up in the third quarter as consumers spend more, federal government spending accelerates and the housing industry improves. The 2.0% increase is more than the 1.8% increase economists had been expecting.

WASHINGTON--U.S. economic growth picked up in the third quarter as consumers spent more, federal government spending accelerated and the housing industry improved in the months leading up to November's presidential election.

The nation's gross domestic product--the broadest measure of goods and services produced by the economy--grew at an annual rate of 2.0% between July and September, the Commerce Department said Friday. Economists surveyed by Dow Jones Newswires had expected 1.8% annualized growth.

Friday's figures are the final GDP reading ahead of next month's election.

The economy is a key issue with voters and has been central to President Barack Obama and Republican challenger Mitt Romney's campaigns. Monday's presidential debate, focused on foreign policy, more than once turned to domestic economic matters as the candidates promised stronger growth and more jobs.

Economic output has expanded for 13 consecutive quarters, covering all but the first months of the president's administration. But the pace has been lackluster--GDP grew only 1.3% in the second quarter. As a result, unemployment has remained stubbornly high and payrolls have expanded only slowly. So far this year, employment growth has averaged just 146,000 per month, down from 153,000 in 2011.

Despite the slow recovery and uncertain prospects, Americans opened up their wallets in the third quarter. Consumer spending accounted for most of the increase in GDP--real personal consumption expenditures climbed 2.0%, compared with only 1.5% in the second quarter. Purchases of long-lasting goods posted an especially strong 8.5% gain.

Government spending contributed to economic growth for the first time in more than two years, led by federal outlays on national defense. Overall federal government spending jumped 9.6%, versus a 0.2% fall in the second quarter. State and local government spending was down slightly.

And an improving housing market helped boost residential fixed investment by 14.4%, continuing a string of solid gains for the category.

Not all the data was good.

Weaker business investment held back growth in the third quarter, a sign that companies are hesitant to spend amid broad uncertainty over policies in Washington and slowing demand from abroad. Nonresidential fixed investment, a category that includes business spending on structures and equipment, fell 1.3% during the third quarter, compared with a 3.6% gain the prior period.

A drought in the Midwest also hit the economy, chopping about $29 billion from farm inventories and lowering the rate of growth. Nonfarm inventories rose but not enough to offset the drought's effect.

Real final sales--GDP less changes in private inventories--increased 2.1% in the third quarter, compared with a 1.7% gain in the prior period.

Trade also was a drag on overall figures. Exports shrank for the first time in three-and-a-half years, weakening demand from overseas is hurting sales. Imports also shrank, though at a slower pace than exports.

Data from the latest quarter is consistent with the recovery as a whole, the second-weakest rebound of the post World War II era.

Anemic growth spurred the Federal Reserve to launch an open-ended program of bond purchases last month in an effort to spur demand. Earlier this week, the Fed held steady its easy-money policies, saying that without very low interest rates "economic growth might not be strong enough to generate sustained improvement in labor market conditions."

Friday's report showed that the central bank's latest actions comes amid moderate inflation. The price index for personal consumer expenditures--the Fed's preferred gauge for inflation--grew 1.8% in the third quarter. The core inflation rate—which excludes volatile moves in food and energy prices—was up 1.3%.

The Commerce Department's release on GDP can be found at:

Write to Jeffrey Sparshott at jeffrey.sparshott@dowjones.com and Eric Morath at eric.morath@dowjones.com.

(END) Dow Jones Newswires

October 26, 2012 08:40 ET (12:40 GMT)

Copyright (c) 2012 Dow Jones & Company, Inc.