The economy expanded at the fastest rate since 1984 during the three months ended in September, the government reported yesterday, offering hope that the long economic malaise has finally ended.

Consumer spending soared, foreigners bought American-made goods at a surprising clip and companies increased their investments in equipment and technology at a pace reminiscent of the 1990's boom.

Economists welcomed the report as a sign of strength not seen since 2000 but cautioned that growth was almost certain to slow in the months ahead as the effects of a recent tax rebate and a surge in mortgage refinancing wear off.

"It looks like the economy isshrugging off its lethargy," said Richard D. Rippe, chief economist of the Prudential Equity Group. "But there are some parts of this that are not sustainable."

In all, the nation's gross domestic product grew at an annual rate of 7.2 percent in the third quarter, according to the Commerce Department, which adjusts its numbers to take into account inflation and normal seasonal fluctuations.

In two other quarters since 2001, the economy expanded at least 4 percent, only to fall back into a slump that made companies reluctant to hire new workers and helped create the worst loss of jobs in 20 years.

The possibility that growth was finally fast enough, and broad enough, to create jobs offered a salve to the White House.

President Bush and his aides have repeatedly said the series of tax cuts passed since he took office would eventually revive growth.

"The tax relief we passed is working," Mr. Bush said, while visiting an aluminum company in Columbus, Ohio. "We cannot expect economic growth numbers like these every quarter," he added, but "we're on the right track."

Democrats said that they, too, had favored stimulating the economy this year but that the large tax cut signed by Mr. Bush in May condemned the country to budget deficits and higher interest rates, which would eventually drag down growth.

"The president's plan props up economic growth in the short term," Senator Kent Conrad, Democrat of North Dakota, said, "and undermines economic growth in the long term."

Senator Conrad added: "There are consequences to spending more money than you take in."

The Commerce Department's report — the latest in a line of encouraging signs — is likely to allay fears among
some at the Federal Reserve that three years of weak growth have left the economy vulnerable to deflation, a
sustained period of falling prices like the one Japan has experienced recently.

Prices for consumer goods rose at an annual rate of 2.4 percent during the quarter, up from an increase of 0.8
percent during the second quarter.

For more than four months now, the Fed has left its benchmark short-term interest rate at 1 percent, the lowest level
since the 1950's, partly to ward off deflation. On Tuesday, the Fed announced that it planned to keep rates low for a
"considerable" period. But investors became more confident yesterday that interest rates would rise by this spring,
as gauged by futures contracts whose prices are based on Fed policy.

"There are a thousand problems that remain," said Robert J. Barbera, chief economist of ITG/Hoenig, an investment
firm. "But the No. 1 problem — would we end up like Japan because no amount of stimulus could get us out of
this? — has been resolved."

Stocks closed largely unchanged, with the Standard & Poor's 500-stock index dipping 1.17 points, to 1,046.94. The
interest rate on 10-year Treasury notes rose to 4.35 percent from 4.30 percent, a sign that investors expected the
economy to keep expanding, albeit at a more languid pace.

In the short term, the largest problem still afflicting the economy appears to be the lack of job growth. After falling
by 2.8 million jobs since early 2001, employment rose during September for the first time in eight months, but the
increase was not large enough to keep pace with the growth of the population. The Labor Department reported
yesterday that new claims for jobless benefits fell slightly last week.

In part, the economies of the United States and other important countries have simply grown too slowly and
unevenly for employers to commit themselves to hiring new workers. But companies have also used new
technologies and business strategies to become more efficient, able to make more goods with fewer hands.

Many analysts say the economy must now grow faster than it once did, about 4 percent a year, to create jobs. That
is roughly the level that forecasters expect over the next year, though they have been overly optimistic since 2000.

The expansion "will translate into jobs very soon," said Bill Cheney, chief economist of John Hancock Financial
Services. "But until we actually see real and sustained jobs growth, the fear will linger."

A small number of forecasters remain concerned that the economy will slip into a torpor again next year. They say
that household spending on long-lasting expensive items, known as durable goods, will weaken as interest rates rise
and that companies, still suffering from their binge in the late 90's, will not continue to invest in new factories and
equipment at a healthy pace.

In the most recent quarter, consumers played the starring role, with the help of the refinancings, the tax cut and
hourly wages that have continued to rise faster than inflation. Household purchases of durable goods, like cars,
which continue to be heavily discounted, rose at an annual rate of 26.9 percent in the quarter.

This summer, the Treasury Department mailed $400 one-time rebate checks to millions of families with children.
Income taxes also fell for many families, and that could continue to aid the recovery.

Businesses helped the economy last quarter as well, suggesting that executives have become more confident about
the economy's path or at least have decided they can wait no longer to replace dated computers and other machines.
Corporate spending on equipment and software increased 15.4 percent in the quarter, the biggest jump since early
2000.
Exports also rose more quickly than imports, reducing the trade deficit, but few economists viewed the change as a turning point. With military spending flat, government agencies made only a slight contribution to growth.

Perhaps the most encouraging sign for the coming months, economists said, was the $36 billion decline in the value of inventories — goods piled up in company warehouses — during the third quarter. The drop suggested that the level of consumer spending caught executives by surprise and that they might need to increase production soon to restock their shelves.

The ratio of inventories to final business sales was at its lowest level on record during the quarter, according to Prudential.