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Consumers, not business, prime economy

Decreased commercial activity causes unexpected drop in GDP

By Barbara Hagenbaugh
USA TODAY

WASHINGTON — The U.S. economy contracted at a swift pace in the beginning of 2009 as sharp drops in business spending, inventories and exports more than offset the biggest increase in consumer spending in two years.

Gross domestic product, the broadest gauge of U.S. economic activity, fell at a seasonally adjusted annual rate of 6.1 percent in the January-March quarter after dropping at a 6.3 percent rate in the fourth quarter and 0.5 percent in the third quarter, the Commerce Department said. It was the first time GDP contracted for three consecutive quarters since 1974-1975.

The first-quarter decline was worse than estimated by economists. But some said there are positives in the report that suggest the news for the second quarter will be better.

"Overall, horrible," High Frequency Economics' chief economist Ian Shepherdson said in a note to clients. "Q2 will be less bad."

Contributing to the positive outlook was consumer spending, which rose at a 2.2 percent annual rate in the January-March quarter, biggest increase since the first quarter 2007.

Insight Economics President Steven Wood said in addition to another rise in consumer spending, the second quarter will likely see increased government spending as stimulus money is spent.

"Although there have been large back-to-back declines in economic activity, the composition of the most recent decline is actually favorable for economic activity" in the second and third quarters, he said.

Still, the gain in consumer spending follows two consecutive quarters of large drops. And consumers are continuing to show caution — the personal saving rate was 4.2 percent in the first quarter, up from 3.2 percent at the end of 2008 and the highest in more than a decade.

GDP in the first quarter was down 2.6 percent from the prior year, biggest drop since 1982, the department said.