DESPITE CHILLY START, U.S. ECONOMY IS HEATING UP



Motorists are at a standstill on Interstate 85 southbound near the Dinwiddie, Va., exit on March 3. Winter weather kept consumers at home.

PATRICK KANE, AP

WORSE THAN EXPECTED

1st-quarter GDP

The economy grew at a seasonally adjusted annual rate of 0.1%, the weakest since the end of 2012, the government said. Economists had forecast a 1.1% growth rate.

BETTER THAN EXPECTED

Business hiring in April

Private employers added 220,000 jobs, the most since November, ADP reported. "After a tough winter, employers are expanding payrolls," said Moody's Analytics chief economist Mark Zandi.



LM OTERO, AP

Valera Kulow, left, speaks with job seeker Monic Spencer at a Dallas career fair. Hiring was an economic bright spot.



A monitor on the floor of the New York Stock Exchange shows the decision of the Federal Reserve on Wednesday. It was widely expected.

March data signal a stronger 2Q

Paul Davidson
USA TODAY

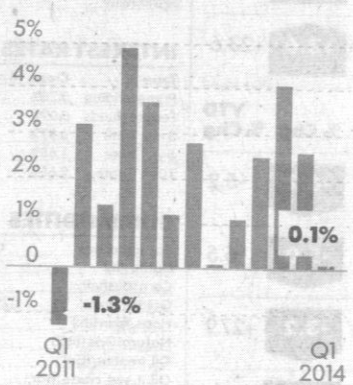
The Federal Reserve sent a clear message Wednesday about the day's seemingly contradictory economic news: Stay focused on the better economy that lies ahead, not the dismal one in the rearview mirror.

The Commerce Department said the economy barely grew in the first quarter, with the nation's gross domestic product rising at a 0.1% annual pace. That's down from 2.6% growth in the fourth quarter and the weakest since late 2012.

Striking a more positive note, payroll processor ADP said businesses added 220,000 jobs in April, more than the median estimate of 200,000 in a survey by Action Economics. The economists surveyed also estimate that Friday's more closely

DROP IN GDP

U.S. economic growth, percentage change from previous quarter, seasonally adjusted annual rate:



Source Bureau of Economic Analysis from Haver Analytics

KRIS KINKADE, USA TODAY

WHAT WAS EXPECTED

More Fed tapering

The Fed said it will cut its monthly bond purchases by $10 billion. "Growth in economic activity has picked up recently, after having slowed sharply ... in part because of adverse weather conditions," the Fed said.

watched employment report will show that the public and private sectors added a total of 210,000 jobs last month, the most since last fall.

The solid ADP report added to a string of recent data — on employment, retail sales and industrial output — indicating that the economy bounced back in March after cold and snowy weather hampered activity in January and February.

"For the most part, (the weak fourth quarter) is old news," says economist Scott Hoyt of Moody's Analytics.

In a statement after a two-day meeting, the Fed said: "Economic activity has picked up recently after having slowed sharply during the winter in part because of adverse weather conditions."

Partly as a result, Fed policymakers agreed to continue to reduce — from $55 billion to

▶ STORY CONTINUES ON 6B

For the most part,

▶ CONTINUED FROM 5B

$45 billion — monthly bond purchases that are intended to hold down long-term interest rates and spur growth. The central bank reiterated that it will keep its benchmark short-term interest rate near zero "for a considerable time" after it halts the purchases, stressing that it will wean the economy slowly from Fed support. Many Fed policymakers forecast the first rate hike in 2015, according to their March projections.

The economy's frailty in the first quarter was broad-based.

A measure of business capital spending that's critical to economic growth tumbled 5.5%, far more than economists anticipated.

Government spending fell 0.5% after declining 5.2% in the fourth quarter. Many economists expected a sharper rebound from October's federal government shutdown and increased state and local government outlays, rather than a 1.3% decline.

Weakness in other sectors was largely expected. Inventories were a drag on growth as busi-

the weak 4th Q 'is old news'

nesses reduced stockpiling after aggressively replenishing shelves in the fourth quarter. Exports fell 7.6% as the economy slowed in China and limped along in Europe. Housing construction decreased 5.7%.

Several economists said the surprisingly weak first quarter portends even stronger growth ahead.

"As the weather has returned to seasonal norms, we have already seen a marked improvement (in March), which suggests that there will be a big rebound in second-quarter GDP growth," Capital Economics said in a research note.

Consumer spending was a surprising bright spot, rising at a 3% annual rate in the first quarter. Hoyt, however, noted that spending on services such as utilities and health care fueled the gain, while purchase of goods were weak, largely because of the weather.

Increased consumer spending and more business stockpiling should lead to a snap-back effect in the months ahead, he says. Hoyt expects growth to exceed 3.5% the rest of the year.

Barclays Capital economist Michael Gapen is more uncertain that the particularly weak first quarter will yield a stronger second quarter. He says the drop in business and government spending may have stemmed from factors other than the weather. Still, Gapen expects the economy to grow at a 3% annual rate in the current quarter.

Many analysts say growth will accelerate on rising household wealth and lower debt, along with easier bank lending standards and stronger business investment.