Economic Rebound Stuck in First Gear

By Eric Morath

Six years into the recovery, the U.S. economy remains in a rut.

Growth has failed to achieve much more than a 2% pace since the recession ended in June 2009. Each time the economy revs up, it is upended by a significant slowdown. That happened again in the first quarter, when the economy contracted at a 0.2% annual pace, according to revised Commerce Department data released Wednesday.

Many economists project a second-quarter rebound, with the economy growing at between a 2% and 3% annual rate, to be followed by a second-half pickup. But even that acceleration would put 2015 on a pace that looks a lot like the previous three years.

It remains to be seen whether improved fundamentals—steady job gains, early signs of stronger wage growth, a healthier housing market—could position the recovery's seventh year for a long-awaited, sustained acceleration.

Though growth stalled in the first quarter, "activity is bubbling beneath the surface," said Gregory Daco, an economist at Oxford Economics. He expects an improved labor market to support consumption, while drags from an uneven global economy and a retrenching U.S. energy industry "dissipate gradually."

Like many economists, Mr. Daco projects gross domestic product to advance 2.3% in 2015—nearly matching last year's 2.4% growth, the high-water mark during the current recovery. Earlier this month, Federal Reserve officials projected the expansion would slow to a rate of 1.8% to 2% in 2015.

Ellyn Davidson, a managing partner at Birmingham, Mich., advertising firm Brogan & Partners, said clients are maintaining a mixed view of the economy. They still have tight marketing budgets, but are facing less pressure than earlier in the recovery. "They aren't under such a crunch to meet immediate expectations," she said. "They can think more long-term about what's going to grow their business."

Fed officials are assessing whether the economy is gathering enough strength over the summer as they decide whether to raise short-term interest rates from near zero. Stronger job growth could support a first increase in September, but inflation remains weak and overall growth has been choppy.

Economists say a breakout in growth must be supported by stronger consumer spending, which represents more than two-thirds of economic output.

In the first quarter, consumer outlays grew at a 2.1% rate, an upward revision from the prior estimate a month ago. Separate data showed that spending at retailers this spring improved from the winter, a sign that consumers might finally be spending savings at the gas pump elsewhere.

Business at Schaeffer's Corner Market in Ruffs Dale, Pa., slowed sharply during a bitter winter, but perked up again this spring. Increased traffic from roofers, cable installers and other contractors is boosting sales of takeaway pizzas, wings and hoagies, owner Kristen Ranker said.

"A lot of folks who were struggling to get jobs are out working again," she said.

But the latest GDP figures highlighted several areas of concern. Business investment—spending on construction, machinery, and research and development—fell at a 2% pace last quarter, still the worst reading for the category since 2009.

A slowdown in the previously booming energy sector is weighing on output. "The broader story in the first quarter remains severe drags from plummeting oil and gas drilling...and no offsetting boost from consumers spending gas savings," said Morgan Stanley economist Ted Wieseman.

Other recent data show manufacturers have struggled through the first half of the year. Factories are facing headwinds from a strong dollar that makes U.S.-made goods relatively more expensive overseas. Exports fell at a 5.9% pace from January through March, led by a 11.6% decline in goods exports. Imports, which subtract from GDP, rose at a 7.1% pace last quarter.

—Kate Davidson contributed to this article.