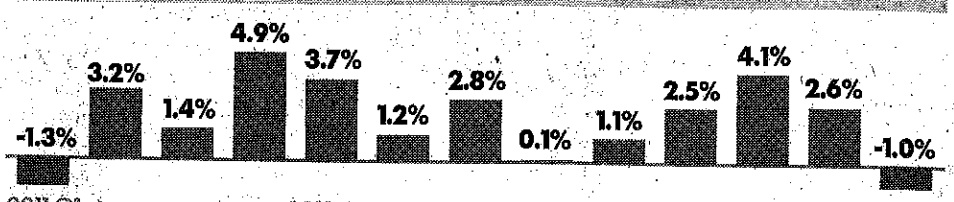
U.S. ECONOMIC GROWTH

Percentage change in U.S. gross domestic product from previous quarter at seasonally adjusted annual rate:



Source Bureau of Economic Analysis from Haver Analytics

KRIS KINKADE, USA TODAY

ECONOMY SINKS, 1ST TIME SINCE '11

But contraction could set groundwork for growth

Paul Davidson
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USA TODAY

Far from heralding another recession, the economy's first contraction in three years last quarter sets the stage for stronger growth ahead, economists say.

Fueling the optimism is that the first-quarter decline was almost entirely due to slower stockpiling by businesses, a volatile measure, and harsh weather.

"A sharp reversal is in the offing," says economist Tom Porcelli of RBC Capital Markets.

In the first three months of 2014, the nation's gross domestic product fell at a 1% annual rate, vs. the 0.1% increase first estimated, the Commerce Department said Thursday. Economists expected the report to show a half-percentage-point drop compared with the fourth quarter.

The weak showing marked the economy's first contraction since the first quarter of 2011.

But if not for the unusually slow inventory-building by firms, the economy would have grown 0.6%.

Companies aggressively replenished stocks late last year, and some decline in the first quarter was expected. But Jim O'Sullivan, chief U.S. economist of High Frequency Economics, believes adverse weather halted factory production even more than it crimped sales, further limiting additions to inventories.

Economists, in turn, expect manufacturers and retailers to catch up in the current quarter and replenish inventories more than previously estimated as sales pick up. Porcelli has raised his second-quarter growth estimate to 3.5% from 2.8%.

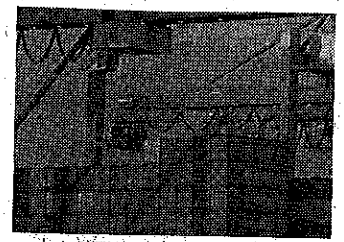
Adverse winter weather also contributed to the contracting economy. Non-residential construction plunged 7.5%, vs. the 0.2% gain initially estimated. And state and local government spending fell 1.8%, vs. an initial estimate of 1.3%. Snow likely pushed some activity to the current quarter.

On the bright side, consumer spending rose 3.1%. And while business equipment spending fell 3.1%, the initial report showed a 5.5% drop.

Paul Ashworth of Capital Economics wrote off the weak quarter as a bump in the road to a faster recovery, citing 288,000 job gains last month. "Those numbers point to a recovery gathering some real momentum at last."

WHERE ECONOMY FELL — AND ROSE

The U.S. economy shrank 1% in the first quarter, largely because of declines in these categories. How much each contributed in percentage points at annual rates:

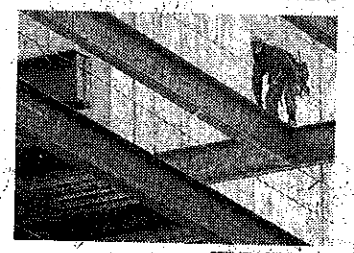


PATRICK T. FALLON, BLOOMBERG NEWS

GROSS PRIVATE INVESTMENT

-1.98

▶ Business investment fell.



STEVEN SENNE, AP

NET EXPORTS

-0.95

▶ The value of exports minus imports.



JOSHUA POLSON, AP

NON-RESIDENTIAL FIXED INVESTMENT

-0.20

▶ Business spending on buildings and equipment fell.



ERIC CONOVER, AP

RESIDENTIAL FIXED INVESTMENT

-0.16

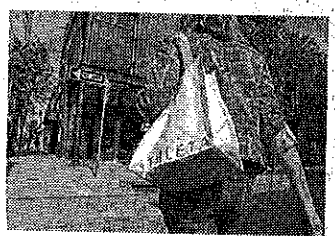
▶ Home construction was flat.

GOVERNMENT SPENDING AND INVESTMENT

-0.15

▶ Federal and state both fell.

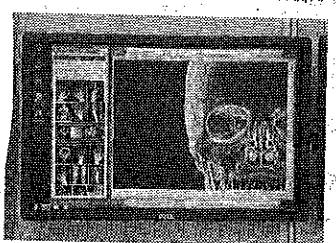
Without healthy growth in consumer spending, the economy would have shrunk even more last quarter. How much overall consumer spending and these subcategories contributed in percentage points at annual rates:



GENE J. PUSKAR, AP

PERSONAL CONSUMPTION SPENDING

+2.09



AL GOLDIS, AP

HOUSING AND UTILITIES

+0.77

HEALTH CARE

+1.01

SOURCE BUREAU OF ECONOMIC ANALYSIS FROM HAVER ANALYTICS