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First quarter growth is 2.5-percent pace

Consumer buying helps GDP withstand drop in government spending in quarter

By Paul Davidson
USA Today

The nation's economy perked up in the first quarter, expanding at a 2.5-percent annual pace, the government said.

The pickup was fueled by stronger consumer spending and increased business stockpiling that was partly offset by a drop in government spending.

Growth is expected to slow in coming months as the federal budget cuts ripple through the economy.

Economists' consensus forecast was for 3 percent annualized growth in gross domestic product in the first quarter. The economy grew at an anemic 0.4-percent pace in the final quarter last year.

The government reported that:

» **Consumer spending** increased at a 3.2-percent annual rate in the first quarter, the fastest pace in two years.

» **Business investment** also picked up, but at **a slower pace** than in the fourth quarter.

» **Government spending** fell 4.1 percent, largely because of an 8.4-percent decline in federal outlays.

The disappointing report will likely push back estimates for when the Federal Reserve will scale back its bond-buying,

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MID-YEAR SLOWDOWN

Stuart Hoffman, chief economist of the PNC Financial Services Group, is among many economists who expect a mid-year slowdown as policies in Washington partly offset a strengthening private sector.

» The New Year's Day decision by the White House and Congress not to renew a payroll tax cut is leaving less money in consumer' pockets. And $85 billion in across-the-board federal spending cuts is dampening growth.

Together, the two developments are expected to shave more than a percentage point off economic growth this year, leaving the economy expanding at about the same 2-percent pace that has characterized most of the nearly four-year-old recovery.

GDP

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says Chris Williamson, chief economist of Markit, a financial information services company.

The bond purchases are aimed at holding down interest rates and stimulating the economy.

The first-quarter showing was partly buoyed by a recovering housing market, brisk economic activity and job growth early in the period. Industrial output increased at a 5-percent annual rate in the quarter.

But recent disappointing reports have signaled an economy that appears to be slumping for a fourth straight spring. In March, employers added just 88,000 jobs compared with an average of 208,000 the previous two months.

Manufacturing and service sector activity expanded at a slower pace last month. And retail sales and orders for durable goods such as airplanes and appliances fell unexpectedly.