Growth slowed at 2012's start

Despite lackluster 1Q report, some analysts still see rebound this year

By Paul Wiseman
The Associated Press

WASHINGTON — Don't panic yet. The government reported Friday that the economy got off to a tepid start this year, but that doesn't foreshadow a repeat of the near-standstill that happened in 2011.

"The economy is firmly on a growth trajectory," said economics professor Sung Won Sohn, of California State University's Smith School of Business. "The first-quarter slowdown will be temporary."

Still, the 2012 January-March report was discouraging. Economists had expected gross domestic product — the broadest gauge of economic output — to expand at a 2.5 percent annual rate for the first three months of the year. Instead, the Commerce Department said it was 2.2 percent, mainly because of government budget-cutting and slowing business investment.

And some of the January-March growth, meager as it was, probably came at the expense of the current quarter. An unusually warm winter pulled car buyers into showrooms earlier than usual. The same was true in housing construction. That's one reason it jumped at a 19 percent pace from January through March.

Economists doubt consumers can keep spending as freely as they did in the first three months of this year: an annual pace that was 2.9 percent faster than in the previous quarter and the fastest in more than a year. They probably can't afford to. Americans' after-tax income rose just 0.6 percent in the first quarter compared with 2011. That was the puniest pay increase in two years.

People spent more in part because they socked away less. The savings rate fell to 3.9 percent of after-tax income. That was down from 4.5 percent.

Economists worry that people won't keep spending more unless their income grows.

Stock prices rose Friday despite the report of weaker growth. David Rosenberg, chief economist at Gluskin Sheff, said investors may have bid up stocks because they think the Federal Reserve is more likely to pursue another round of bond buying to stimulate the economy. Fed Chairman Ben Bernanke "has created the impression that if the economy stumbles, he'll be there to hold your hand," Rosenberg said.

The lackluster first-quarter growth follows government reports that hiring slowed sharply in March and the number of people seeking unemployment benefits reached a three-month high.

With 12.7 million people unemployed, today's economy needs much faster growth to boost hiring.

Growth would have to be roughly 4 percent for a full year to lower the unemployment rate, now 8.2 percent, by 1 percentage point.