Is recession ending?

Economy's small drop in 2nd quarter hints that hard times are shrinking

MARTIN CRUTSINGER
Associated Press

WASHINGTON — The economy shrank at an annual rate of 1 percent in the spring, a better-than-expected showing and more evidence that the recession is drawing to a close.

Many analysts believe the economy is growing in the current quarter, but they caution that any rebound will not be accompanied initially by rising employment. Jobless claims figures released Thursday were better than expected, but remain well above levels associated with a healthy economy.

Americans may see little benefit from a recovery if jobs remain scarce and consumer spending stays too low to fuel a strong economic rebound.

The Commerce Department's new estimate for the gross domestic product was unchanged from the initial figure it released last month. The drop, while representing a record fourth consecutive decline, was far smaller than the previous two quarters. It also was stronger than the 1.5 percent decline that private economists expected.

The report Thursday found that businesses slashed their inventories more than first reported and cut back more sharply on investment in new plants and equipment. But those reductions were offset by revisions that showed smaller dips in consumer spending, exports and housing construction.

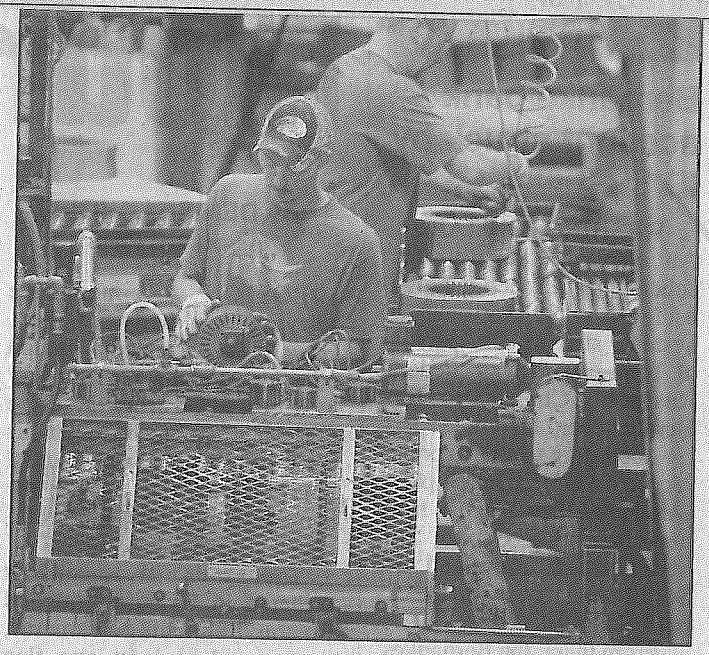
The 1 percent rate of decline in the April-June quarter followed decreases of 6.4 percent in the first quarter and 5.4 percent in the final three months of 2008, the sharpest back-to-back declines in a half-century. The four straight quarterly declines in GDP, which measures the country's total output of goods and services, mark the first time that has occurred on government records that date to 1947.

The recession that began in December 2007 is the longest since World War II, and the deepest in terms of the drop in the GDP, which is down 3.9 percent from its previous peak.

But economists are heartened that the decline slowed to 1 percent in the spring. Many analysts think that the government's $787 billion economic stimulus plan and the Cash for Clunkers program to boost car purchases will lift GDP growth to around 2 percent in the current quarter.

However, the return to economic growth will not mean more jobs, at least at first. Economists believe the unemployment rate, currently at 9.4 percent, will keep rising through the spring of next year.

The Labor Department said Thursday that first-time unemployment claims fell to a seasonally adjusted 570,000.



Associated Press

In this June photo, Baldor Electric Co. employees work inside the company's factory in St. Louis. A new government report shows the economy sank at a pace of just 1 percent in the second quarter of the year. It was a better-than-expected showing that provided the strongest signal yet that recession is winding down.