Recession eases; GDP dip smaller than

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Associated Press

WASHINGTON — The economy sank at a pace of just 1 percent in the second quarter of the year, a new government report shows. It was a better-than-expected showing that provided the strongest signal yet that the longest recession since World War II is finally winding down.

The dip in gross domestic product for the April-to-June period, reported by the Commerce Department on Friday, comes after the economy was in a free fall, tumbling at an annual rate of 6.4 percent in the first three months of this year. That was the sharpest downhill slide in nearly three decades.



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

The economy has now contracted for a record four straight quarters for the first time on records dating to 1947. That underscores the grim toll of the recession on consumers and companies.

Many economists were predicting a slightly bigger 1.5 percent annualized contraction in second-quarter GDP. It's the total value of all goods and services — such as cars and clothes and makeup and machinery — produced within the United States and is the best barometer of the country's economic health.

"The recession looks to have largely bottomed in the spring," said Joel Naroff, president of Naroff Economic Advisors. "Businesses have made most of the adjustments they needed to make, and that will set up the economy to resume growing in the summer," he predicted.

Less drastic spending cuts by businesses, a resumption of spending by federal and local governments and an improved trade picture were key forces behind the better performance. Consumers, though, pulled back. Rising unemployment, shrunken nest eggs and lower home values have weighed down their spending.

A key area where businesses ended up cutting more deeply in the spring was inventories. They slashed spending at a record pace of $141.1 billion. There was a silver lining to that, though: With inventories at rock-bottom, businesses may need to ramp up production to satisfy customer demand. That would give a boost to the economy in the current quarter.

The Commerce Department also reported Friday that the recession inflicted even more damage on the economy last year than the government had previously thought. In revisions that date back to the Great Depression, it now estimates that the economy grew just 0.4 percent in 2008. That's much weaker than the 1.1 percent growth the government had earlier calculated.

Also Friday, the government reported that employment compensation for U.S. workers has grown over the past 12 months by the lowest amount on record, reflecting the severe recession that has gripped the country.

Stocks traded in a narrow range Friday morning after the reports were issued. The Dow Jones industrial average fell about 6 points, and broader stock indexes also dipped.

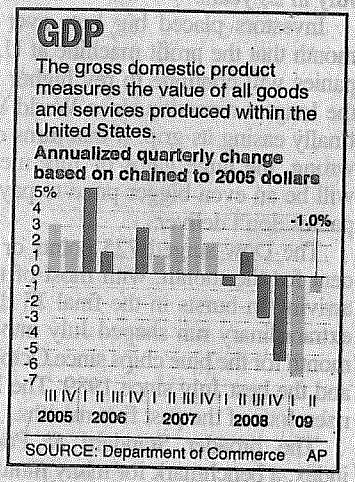
Federal Reserve Chairman Ben Bernanke has said he thinks the recession will end later this year. And many analysts think the economy will start to grow again — perhaps at around a 1.5 percent pace — in the July-to-September quarter. That would be anemic growth by historical measures, but it would signal that the downturn has ended.

Naroff said he now thinks growth in the third quarter could turn out to be much stronger because companies will need to replenish bare-bone stockpiles of goods.

"You could get a huge swing in inventories that could create a much bigger growth rate than anybody expects," he said.

If that were to happen, it's possible the economy's growth could clock in around 4 percent in the current quarter, he said.

expected



Obama's stimulus package of tax cuts and increased government spending provided some support to second-quarter economic activity. But it will have more impact through the second half of this year and will carry a bigger punch in 2010, economists said.

"Our first mission in coming to office was to rescue the economy, to stop the slippage, to prevent it from going over the edge," White House press secretary Robert Gibbs said of the new GDP figures.

Even if the recession ends later this year, the job market will remain weak. Companies are expected to keep cutting payroll through the rest of this year, but analysts say monthly job losses likely will continue to narrow.

Still, unemployment — now at a 26-year high of 9.5 percent — will keep rising. The Fed says it will top 10 percent at the end of this year. Businesses will be unlikely to boost hiring until they're certain the recovery has staying power.

In the second quarter, businesses continued to cut all kinds of spending, but not nearly as much as they had been, one of the reasons the economy didn't contract as much.