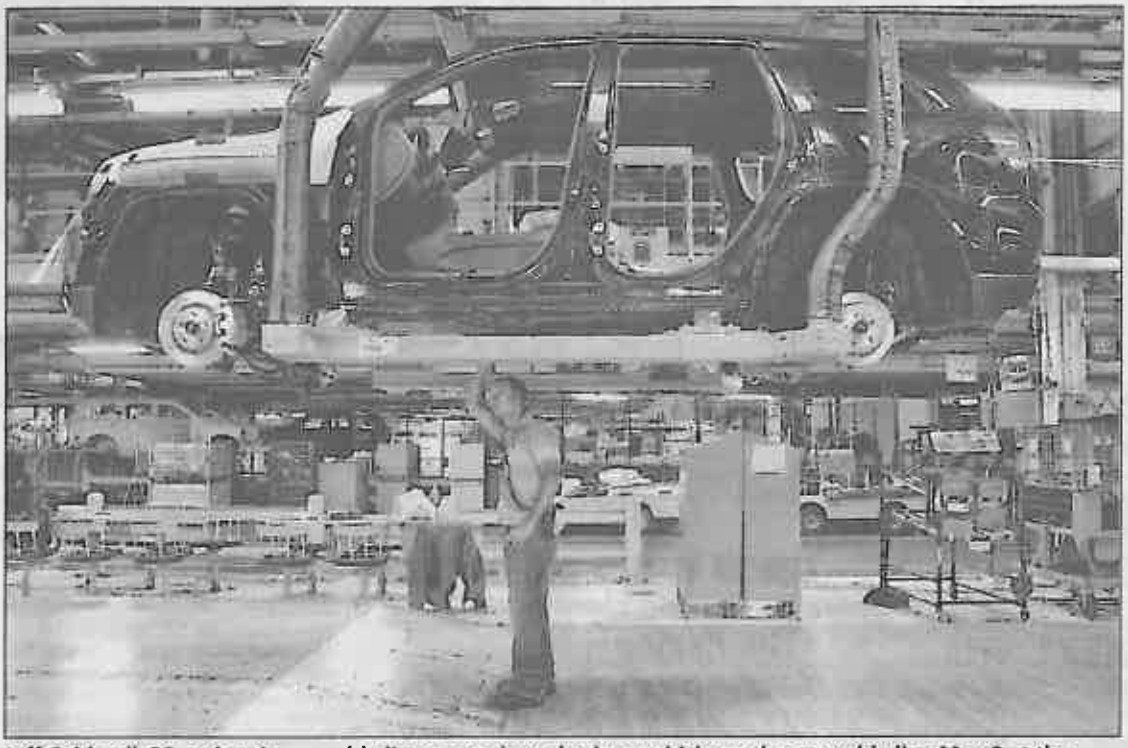
Positive Signs



Jeff Caldwell, 29, a chassis assembly line supervisor, checks a vehicle on the assembly line May 8 at the Chrysler Jefferson North assembly plant in Detroit. PAUL SANCYA/AP

U.S. economy grows at 1.7 percent pace

Modest gains forecast to pick up for rest of year

By Tim Mullaney
USA Today

The U.S. economy's growth picked up in the second quarter, despite the effects of federal budget cuts.

The economy grew at an annual pace of 1.7 percent between April and June, the Commerce Department said. The government revised down its estimate of first-quarter growth to 1.1 percent from 1.8 percent annual rate it had reported.

Consumer spending was held back partly by the increase in payroll taxes at the beginning of the year. The largest part of the economy, it rose at a 1.8 percent annual clip, down from 2.3 percent in the first quarter.

The numbers paint a picture of an economy modestly growing because of the effects of federal budget sequestration, Moody's Analytics economist Ryan Sweet said before the report. Like most economists, Sweet expects growth to re-accelerate in the second half of the year, led by higher spending on residential construction, which rose at a 13.4 percent annual clip during the quarter.

In a sign of the sustained nature of Washington's budget-cutting, federal spending actually shrank less during the second quarter than it had in the two quarters before sequestration took full effect.

Federal spending dropped at an annual pace of 1.5 percent — less than the 8.4 percent drop in the first quarter or the 13.9 percent drop in th fourth quarter of last year. The improvement mostly reflected smaller cuts in defense spending. Sequestration was preceded by another large round of defense cuts mandated by the Budget Control Act, the law that resolved the summer 2011 showdown over raising the debt ceiling.

The government also announced a major revision of its estimates of the size of the economy dating back to 1929, based on a new methodology that specifically accounts for research and development spending for the first time.

The methodological changes added an average of 0.1 percentage point to growth for each year since 1929, with a larger difference in recent years as businesses spent more on intellectual property, the department said. The economy's second-quarter performance beat the 1.4 percent consensus estimate of 42 economists surveyed by USA Today.