

Maria Contrero, of Boston, removes a running shoe from a sole press at the New Balance Athletic Shoe Inc. factory in Boston. A decline in spending has squeezed the U.S. economy. STEVEN SENNE/AP

US growth slows to 1.5%

Drastic spending drop hurts expansion

By Martin Crutsinger
Associated Press

WASHINGTON — The U.S. economy grew at an annual rate of just 1.5 percent from April through June, as Americans cut spending sharply. The slowdown in growth adds to worries that the economy could be stalling three years after the recession ended.

The Commerce Department also said Friday that the economy grew a little better than previously thought in the January-March quarter. It raised its estimate to a 2 percent rate, up from 1.9 percent.

Growth at or below 2 percent isn't enough to lower the unemployment rate, which was 8.2 percent last month. And most economists don't expect growth to pick up much in the second half of the year.

"The main takeaway from today's report, the specifics aside, is that the U.S. economy is barely growing," said Dan Greenhaus, chief economic strategist at BTIG LLC. "Along with a reduction in the actual amount of money companies were able to make, it's no wonder the unemployment rate cannot move lower."

Some economic data improved over the course of the April-June quarter, while others worsened. Hiring, for example, rose slightly from April to May to June. But home sales weakened. The lackluster economy is raising pressure on President Barack Obama in his re-election fight with Mitt Romney, the presumptive Republican presidential nominee.

But few think the Fed, the White House or Congress can or will do anything soon that might rejuvenate the economy quickly. Many lawmakers, for example, refuse to increase federal spending in light of historically large budget deficits.

Paul Dales, senior U.S. economist at Capital Economics, said the sluggish second-quarter growth rate is probably not weak enough to trigger more action by the Federal Reserve when it meets next week.

But many economists believe the Fed will launch a new round of bond buying at its September policy meeting to drive long-term interest rates lower and encourage more borrowing and spending.

The 1.5 percent growth rate in the second quarter was the weakest since the economy, as measured by the gross domestic product, expanded at a 1.3 percent rate in the July-September quarter last year. GDP measures the country's total output of goods and services.

Current-dollar GDP increased at an annual rate of $117.6 billion in the second quarter to $15.6 trillion.

Growth was weaker mostly because consumer spending slowed to a growth rate of just 1.5 percent.

That's down from 2.4 percent in the first quarter. Americans bought fewer autos, computers and other long-lasting manufactured goods. Spending on services increased.

They also saved more. The savings rate increased to 4 percent, up from 3.6 percent in the first quarter.