U.S. economy collapses in first quarter, but growing again

reuters.com/article/2014/06/25/us-usa-economy-growth-idUSKBN0F01CD20140625

By Lucia Mutikani

By Lucia Mutikani

WASHINGTON Wed Jun 25, 2014 12:44pm EDT

Robotic arms spot welds on the chassis of a Ford Transit Van under assembly at the Ford Claycomo Assembly Plant in Claycomo, Missouri April 30, 2014.

Credit: Reuters/Dave Kaup

WASHINGTON (Reuters) - The U.S. economy contracted at a much steeper pace in the first quarter than previously estimated, turning in one of its worst-ever non-recession performances, but growth already appears to have rebounded strongly.

The Commerce Department said on Wednesday gross domestic product fell at a 2.9 percent annual rate, the sharpest decline in five years, instead of the 1.0 percent pace it had reported last month.

"It's a scary report. It sounds worrisome, but keep in mind job growth is running 200,000 each of the last four months, so we aren't just whistling in the dark in our optimism over the outlook," said Chris Rupkey, chief financial economist at Bank of Tokyo-Mitsubishi UFJ in New York.

The economy was held back by an unusually cold winter, the expiration of long-term unemployment benefits and cuts to food stamps, which curbed consumer spending. It was also weighed down by a slowdown in the pace of restocking by businesses.

All these temporary factors have since faded, lifting growth early in the second quarter.

The government's gauge of first-quarter growth has been lowered by 3.0 percentage points since the first estimate in April showed the economy expanded at a 0.1 percent rate, and revision between the May and June release was the largest on records going back to 1976.

Economists had expected the revision to show the economy shrinking at a rate of only 1.7 percent. Given the sharp downgrade, growth this year could struggle to reach 2 percent.

Investors shrugged off the weak data and bought U.S. stocks. Prices for U.S. Treasury debt were up at mid-day, while the dollar was marginally weaker against a basket of currencies.

The latest GDP revision reflected a weaker pace of healthcare spending than previously assumed, which led to a cut in the figure for consumer spending to show the slowest rise since the fourth quarter of 2009. Trade was also a bigger drag on the economy than previously thought.

ACTIVITY PICKING UP

The economy grew at a 2.6 percent pace in the final three months of 2013, and second-quarter growth estimates range as high as a 4.0 percent rate. The lofty growth expectations were supported by other data on Wednesday showing activity in the services sector hitting a 4-1/2 year high in June.

While a decline in bookings for defense capital goods and civilian aircraft sank orders for long-lasting U.S. manufactured goods in May, according to a third report, businesses spending plans rebounded from April's slump. That suggested a steady pick-up in business investment, a crucial ingredient for sustained economic growth.

There were also increases in order backlogs and inventories.

"Outside the defense realm, orders are moving up, shipments are moving up, and inventory gains are returning. That is the precise recipe for production and job gains," said Michael Montgomery, a U.S. economist at IHS Global Insight in Lexington, Massachusetts.

In the first quarter, growth in consumer spending, which accounts for more than two-thirds of U.S. economic activity, was lowered to a 1.0 percent rate from a 3.1 percent pace.

Exports fell at a 8.9 percent rate, the biggest drop in five years, instead of a 6.0 percent pace. That resulted in a trade deficit that sliced off 1.53 percentage points from GDP growth.

Other drags to first-quarter growth included a slow pace of inventory accumulation, a sharp drop in investment in non-residential structures such as gas drilling, and weak government spending on defense.

Businesses accumulated $45.9 billion worth of inventories, a bit less than the $49.0 billion estimated last month and well below the fourth quarter pace. Inventories subtracted 1.70 percentage points from first-quarter growth, but should be a boost to second-quarter growth

A measure of domestic demand that strips out exports and inventories expanded at a 0.3 percent rate, the weakest pace in three years, rather than 1.6 percent as reported a month ago.

(Reporting by Lucia Mutikani; Editing by Andrea Ricci)