Behind rapid growth, US GDP figures reveal bleak economic situation

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The US economy grew at an annualized rate of 5.7 percent in the fourth quarter of 2009. The preliminary GDP figures, released Friday by the Commerce Department, are the fastest rate of economic growth in six years.

But triumphalism quickly gave way to dread as economists warned that the US is in a far worse state than the latest numbers appear to show.

"The GDP report looks shiny and new on the surface," Alan Gayle of RidgeWorth Investments told the *New York Times*. "But once you open up the hood, you start to see it's not as great as on the outside."

The GDP growth rate was a full percentage point over the figure of 4.7 percent expected by economists. Yet, by the time that markets closed on Friday, The Dow Jones Industrial Average was down by 0.5 percent, and the NASDAQ composite was down by 1.5 percent.

The majority of the GDP increase was attributed to "inventory bounce," resulting from companies slowing down the rate at which they reduce the amount of goods they keep in warehouses. Such growth is a one-time event after a downturn, and only presages a recovery if consumer spending picks up alongside it, which was not the case.

Businesses slashed their inventories by $33.5 billion in the fourth quarter, following a fall of $139.2 billion in the third quarter.

This change accounted for the majority of the economic "growth," or 3.4 percentage points out of the total of 5.7. Commentators noted that, considering the fact that the contraction in nominal GDP lasted for six consecutive quarters, the most since 1946, the latest "inventory bounce" is weak by historical standards.

Absent the change in inventory, the upturn was largely negligible, as consumer spending actually worsened. This is not a recovery driven by consumers, but rather one at their expense. Wages have continued to fall, while companies have extracted ever-more work out of the staff they have retained.

Consumer spending grew at an annualized rate of 2 percent, down from 2.8 percent in the third quarter. Consumer prices, meanwhile, grew at an annualized rate of 3.2 percent in the last three months, meaning that consumer spending actually fell in real terms.

The speedups have been imposed on both private- and public-sector workers. "I have had carpal tunnel for years," said one Detroit city worker at a union meeting last week, "but the latest furloughs and speedups have made me need surgery. You're going to see a lot of people out on medical leave; these speedups are wearing us down."

The most recent productivity figures confirm this experience; productivity grew at a rate of 8.1 percent in the third quarter, the last for which statistics are available.

The latest wage data, released by the Labor Department the same day as the GDP figures, show a significant fall in wages. In the 12-month period up to December, wages grew by 1.5 percent, compared to 2.6 percent in the year before.

However, wages actually declined by 1.2 percent after taking into account inflation.

Speedups and wage cuts have been compounded by ongoing job losses. The US economy lost 208,000 jobs in the fourth quarter of 2009, while the unemployment rate climbed from 9.7 to 10.0 percent. The dire employment situation has translated directly into low consumer spending.

The fourth-quarter recovery caps the largest yearly contraction of the US economy in 63 years.

The latest numbers are still subject to substantial

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revision, and definitive figures will only be available in March. The government first estimated the third quarter's growth rate at 3.5 percent, but the figure was later revised down to 2.2 percent.

Most surveys are predicting economic growth below 3 percent for 2010, but others, including the widely cited High Frequency Economics, say growth could be as low as 1 percent. "This sort of growth rate [seen in the fourth quarter] is unsustainable given the ongoing hangover from the credit crunch," James Knightley of ING told the *Financial Times*.

One of the gloomiest assessments of the latest figures came from Kevin Hassett of Bloomberg.com, who asked: "When is quarterly gross domestic product growth of almost 6 percent bad news? When it looks like what was reported last week."

Hassett noted that the upsurge in inventories has "terrible implications for 2010," because "spikes also produce hangovers." In reviewing previous recoveries, "The average growth rate in the quarter after a spike was 0.9 percent, a whopping 5.7 percent lower. In the second quarter following a spike, the average growth rate is just 1.6 percent."

He added,"Given those factors, we might consider ourselves lucky if we experience only the typical decline in growth that follows an inventory spike. In that case, first-quarter growth in 2010 will be right around zero. If that happens, talk of a double-dip recession will ignite. Such talk probably should begin now."

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