US economy stalls as growth rate drops to 1.3 percent

Andre Damon
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The US economy stalled in the first half of the year, according to figures released by the commerce department Friday.

The economy grew just 0.32 percent, or 1.3 percent on an annualized rate, in the second quarter, far lower than the annual figure of 1.8 percent that economists had predicted, according to statistics released Friday by the Commerce Department.

The figures come against the background of the negotiations over the slashing of trillions of dollars in government spending, which will further reduce consumer spending and result in hundreds of thousands of additional layoffs.

Barack Obama responded to the latest figures only by calling for the passage of the $3-4 trillion in cuts to social spending currently under discussion in Congress. In remarks early Friday morning, Obama said that the latest figures are a reminder of “how fragile the economy already is,” and urged an end to the “gridlock” in the debt negotiations.

Stock markets responded negatively to the news, with the Dow closing Friday down by 0.79 percent, dropping nearly 100 points, and the S&P 500 index down by 8 points or 0.65 percent.

The Commerce Department's figures followed the announcement by the British government that the UK economy grew by only 0.2 percent in the second quarter, after a gain of 0.5 percent in the first quarter.

Perhaps even more significant than the second-quarter GDP estimate, the figure for growth in the first quarter was revised down to an annualized rate of 0.4 percent, from the earlier estimate of 1.9 percent.

The annual growth rate was likewise revised down for 2008, from an increase of 0.1 percent, to a contraction of 0.3 percent. The annual estimate for 2009 was also revised downward from a decline of 2.6 percent to a decline of 3.5 percent.

This means that the US economy contracted 5.1 percent between 2007 and 2009, significantly worse than the 4.1 percent previously reported.

If the latest second-quarter figure is revised in similar fashion, then that means that US economic growth was essentially zero in the first half of the year. The US economy grew at a rate of 3.9 percent in the first quarter of 2010, 3.8 percent in the second quarter, 2.5 percent in the third quarter and 2 percent in the fourth.

Whatever the real level of growth may be in the second quarter of this year, it is clearly far less than the 2.5 percent rate necessary to create jobs and lower the unemployment rate.

The same day the growth figures were released, Merck, the pharmaceuticals company, said it would eliminate 13 percent of its workforce, cutting 12,000-13,000 jobs by 2015. This week, the US Postal Service said it plans to close 3,600 post offices, resulting in thousands of additional layoffs.

Earlier this month, the bookseller Borders said it would close all of its stores, laying off over 10,000 workers. That same day, Cisco, the telecom and network equipment maker, said it would cut its workforce by 11,500. The aerospace giant Lockheed Martin also announced this month that it would eliminate 6,500 jobs.

These disastrous mass layoffs are in line with the quarter's unemployment figures. Between March and June, the unemployment rate has grown every month, rising from 8.8 percent to 9.2 percent. The number of unemployed, meanwhile, grew by 545,000, from 13.54 million to 14.08 million.

The latest figures on durable goods orders show a similar trend. The Commerce Department said

Wednesday that durable goods orders fell 2.1 percent, to $192 billion, in June. This was significantly less than the increase of 0.3 percent predicted by economists.

The Commerce Department figures also showed that auto sales fell 5.3 percent between March and April, followed by a 0.2 increase in April-May, and a 1.5 percent drop in May-June. Motor vehicle production fell at an annual rate of 16.4 percent for the second quarter as a whole, compared with a 29.2 percent increase in the first quarter, according to earlier data from the Federal Reserve.

These results correspond with the findings of the latest Federal Reserve “beige book” survey of regional economies, with most of the districts under survey reporting a slowdown in economic activity.

These calamitous figures make it impossible to characterize the present state of the US economy as a “recovery.” The rate of growth of the US economy has slowed in five of the last six quarters. There is no indication of improvement: rather, every indicator points to decline and stagnation.

Amid these disastrous economic conditions, official politics in the United States is dominated not by discussions of how to address unemployment, or even secure an economic recovery, but a struggle to determine the exact form of the trillions of dollars in social cuts declared necessary by both the Democratic and Republican parties.

Yet it is becoming increasingly clear that the passage of the cuts will be the prelude to an economic catastrophe. With the US economy stagnant, the firing of hundreds of thousands of government workers as a result of the proposed cuts—on top of the half million laid off in the first half of this year—would push the US economy into even deeper slump.